# ITALIAN INSURANCE

2015 - 2016

Ania

Associazione Nazionale
fra le Imprese Assicuratrici

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# SUMMARY

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## ADDITIONAL COMMENT SECTIONS

# EXECUTIVE SUMMARY

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## THE RESULTS FOR THE YEAR

*Gross premium income increases by 2.6%…*

Total premium income (life and non-life insurance) rose to €150 billion, up 2.6% after the 19.9% growth recorded in 2014.

*…+4.0% in life, -1.8% in non-life…*

The life insurance sector accounted for the growth with premium volume expanding to €116 billion, up 4.0% following the exceptional growth of 29.0% registered in 2014, while non-life premiums came in at €34 billion, down 1.8% after the contraction of 2.5% in 2014.

*…overall technical account: life +€2.8 billion, non-life +€3.8 billion…*

The overall technical account in life insurance was positive by €2.8 billion, down from €2.9 billion the previous year. Its ratio to premiums thus slipped from 2.6% to 2.4%. In the non-life sector the result was positive by €3.8 billion, the same as in 2014, and its ratio to premiums rose from 12.1% to 12.3%.

*…result on ordinary and extraordinary operations: +€8.1 billion…*

In 2015 the result on ordinary operations, life and non-life combined, was €7.1 billion (€7.4 billion in 2014). The result on extraordinary operations was about €1 billion, as in 2014; summing the two, gross pre-tax profits came to €8.1 billion.

*…profit for the year: €5.7 billion*

After taxes of €2.4 billion, the overall result for the insurance industry was profits of €5.7 billion in 2015: €3.8 billion for the life sector (€3.5 billion in 2014) and €1.9 billion in the non-life sector (€2.4 billion in 2014).

*Solvency II is in effect as of 1 January 2016…*

At the start of this year the new Solvency II supervisory regime went into effect. Starting in May, insurers began sending their first reports under the new rules to IVASS, with data on solvency for 2015 and the first quarter of 2016.

*…the Solvency II Capital Ratio for the entire industry is 2.32 in 2015, against a Solvency I ratio of 1.81…*

For the entire market, the Solvency Capital Ratio (the ratio of the undertakings' solvency margin to the margin requirement under the rules) came to 2.32 under Solvency II, compared with 1.81 if calculated by the old Solvency I rules.

*…for non-life companies: 1.63 under Solvency II, 2.83 under Solvency I…*

For non-life companies alone, the average ratio by the Solvency II criteria was 1.63, against 2.83 under Solvency I.

*…for life companies: 2.55 under Solvency II, 1.32 under Solvency I…*

For life companies alone, the average ratio by the Solvency II criteria was 2.55, against 1.32 under Solvency I.

*…for mixed companies: 2.33 under Solvency II, 2.20 under Solvency I*

For mixed companies, those doing both life and non-life business, the average ratio by the Solvency II criteria was 2.33, against 2.20 under Solvency I.

*This year's Report has special sections on: …taxation of insurance premiums in Europe…*

Again last year Italy was among the European countries with the highest tax rates on insurance policy premiums for motor liability, general liability, and goods in transit, confirming a long-standing pattern.

# EXECUTIVE SUMMARY

*…the economic results of insurance undertakings…*

The Report compares the economic results of insurers in the main European countries (Italy, France, Germany, UK) and in Europe as a whole in the period 2010-2014.

*…and the profitability of listed insurance companies*

For listed companies alone, we can compare insurance profitability in the main European countries in 2015. In the UK, the median ROE was 15%, practically the same as in 2014 (15.1%); the median ROE for German insurers was 13.3%, down slightly from 13.7%; that of French insurers was 9.8%, up from 9.6%; and the ROE of the median Italian insurance undertaking was 12.4%, unchanged from the year before.

## THE FORECAST FOR 2016

The forecasts set forth below were made before the British referendum for exiting the European Union. The estimates thus rely on normal assumptions concerning market volatility.

*Premiums will decline 7.1% in 2016 to €136 billion…*

Total written premiums for direct Italian life and non-life insurance business are expected to be just over €136 billion this year, down 7.1% from 2015, after an increase of 2.5% last year and an exceptional 21% in 2014. This is expected to result from a decline in life premiums estimated at 9% and a further marginal contraction in non-life premiums (-0.5%).

The ratio of total premiums to GDP would thus fall from 9.0% in 2015 to 8.2% this year.

*…motor and marine liability premiums will go down 4.5%, those in other non-life classes will gain 2.7%…*

Written premiums for direct Italian non-life insurance business in 2016 should come in at just under €32 billion, falling (by 0.5%) for the fifth straight year. But this is due solely to the fall in motor and marine liability business, as all the other non-life classes are expected to expand.

In motor liability insurance, even though the technical margins are narrowing, insurers are operating in an increasingly competitive environment, and premium income is accordingly estimated to diminish by 4.5%. This would be the fifth consecutive year of contraction and would bring the total decrease since 2012 to nearly 25%, lowering the total to its 1999 level (not adjusted for inflation).

The other non-life branches will continue to grow, benefiting from the general economic recovery. We estimate an increase of 2.7% in 2016, following last year's slower growth of 1.1%. The branch that will contribute the most to growth is land vehicle insurance, with premium growth of 5.0% on the heels of last year's 2.9% expansion, thanks to a substantial increase in the number of new car registrations (up 15% in 2015 and 5.4% in 2014); this upswing was confirmed for the first five months of 2016 as well, with even stronger growth of 21%. The premiums of the other branches should also gain, in particular sickness insurance (4.0%), fire (3.0%) and other property damage (2.0%).

The ratio of non-life insurance premiums to GDP will slip from 2.0% to 1.9% this year.

*…life premiums will decrease by 9.0%…*

For life insurance, 2016 is expected to see an inversion: after the record growth of 2014 (+30.0%) and the more modest expansion of 2015 (+4.0%), written premiums should diminish by 9.0% this year to just about €105 billion.

*…owing in part to a different product mix: growth of 2.5% in Class I and a drop of 35% in Class III*

Unit-linked life policies recorded strong growth in 2015, by themselves accounting for the total growth of life premiums, but 2016 will see a sharp downturn: a fall of 35% in written premiums is forecast, to a total of about €21 billion. Traditional life policies (Class I), by contrast, should grow somewhat (2.5%) to premium volume of nearly €80 billion. These policies consist mainly of obligations with guaranteed yield (albeit very low, sometimes near zero), and as such will have trouble recording much growth in the persistent low interest rate environment.

The changing pattern in the marketing of life policies is clear in the analysis of new life insurance production, which came to €33.7 billion in the first four months of 2016 compared with €38.2 billion in the year-earlier period, a drop of 10.7%. The decline involved chiefly Class III policies, new business in which fell by almost 45%, while sales of traditional Class I products scored growth of 6.7%.

Overall, the ratio of life insurance premiums to GDP is expected to come down from 7.0% to 6.3% this year.

## LIFE INSURANCE – DIRECT ITALIAN BUSINESS

*Italian households' purchasing power increased for the first time since 2008…*

In 2015 Italian households' nominal disposable income increased by 0.9% (+0.3% in 2014), and for the first time since 2008 real disposable income also grew, after holding constant in 2014, with an increase of 0.8%, practically the same as the nominal increase, as inflation was virtually nil.

*…the propensity to save held constant…*

The saving rate, or propensity to save – the percentage ratio of gross saving excluding the change in pension fund entitlements to disposable income – remained stable at 8.3%, as in 2014.

*…while the flow of net financial saving edged up…*

Net financial saving by Italian households (including non-profit institutions serving households) came to €22.8 billion in 2015, marginally higher than the €22.3 billion of the previous year. Gross inflows into household investment portfolios continued to increase (€23.7 billion, up from €18.4 billion), while new debt turned upward, growing by €0.9 billion after declining by €3.9 billion in 2014.

*…net inflows to investment funds and life insurance reserves continued to grow…*

The massive disinvestment in fixed-income securities continued in 2015, embracing both Italian government paper (-€32.0 billion, -€31.0 billion in 2014) and bank bonds (-€71.5 billion, -€74.2 billion in 2014). Disposals of foreign bonds also increased (-€6.3 billion, compared with -€4.8 billion the previous year). With the

exception of Italian non-sight deposits (-€20.4 billion; -€14.1 billion in 2014), all other instruments reported positive net flows, in particular: investment funds (+€42.7 billion; +€57.7 billion in 2014) and life insurance reserves (+€43.9 billion; +€45.8 billion in 2014).

*…the stock of financial assets tops €4 trillion…*

At the end of 2015 the stock of financial assets held by Italian households amounted to €4,117 billion. The largest share of Italian household financial wealth continues to be in liquid instruments, i.e. bank deposits (26.7%; 26.9% in 2014), followed by shares and other equity (23.3%, 22.6%) and in insurance, pension funds and provisions for employee severance pay (21.0%, 19.9%), which include life insurance provisions (13.9%, 12.9%); the share invested in investment funds amounted to 11.1% (9.8% in 2014).

*Life insurance premiums amounted to €115 billion…*

In 2015 premiums from direct domestic business of the 55 insurance companies operating in the life classes increased by 4.0% to €115 billion (they had gone up by 29.9% in 2014 and 22.1% in 2013). Life premiums accounted for 78.2% of total premiums (life and non-life), up from 77.1% in 2014 and even more sharply from 71.6% in 2013.

*…net cash flow was €43.8 billion…*

Overall, net cash flow, i.e. premiums less claims costs, came to €43.8 billion in 2015, down from €45.9 billion in 2014 but far more than in 2013 (€18.3 billion), to say nothing of the negative income of 2012 (-€5.3 billion).

*…mathematical reserves increased by 10.3%…*

Total technical provisions, amounting to €568 billion, gained 10.3% (+13.6% in 2014) to produce average annual growth of 8.2% over the five-year period 2011-2015.

*…claims costs rose by about 10%…*

Incurred claims, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled €71.2 billion in 2015; they increased by 10.2% from 2014, essentially because of an increase in policy surrenders, which accounted for some 60% of total disbursements.

*…operating expenses increased by 4.1%…*

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 €4.0 billion, an increase of 4.1% from the 2014.

*…investment income came to €16 billion…*

Investment income amounted to €16.0 billion in 2015, 22.4% lower than in 2014 and also lower than in 2013 and especially 2012, when it exceeded €25 billion.

*…the technical account for direct business was positive by €2.3 billion*

The final result of the technical account was again amply positive at €2.3 billion, about the same as in 2014 but 20% lower than in 2013 and less than half the amount recorded in 2012.

The result of reinsurance cessions and net indirect business was positive by €0.3 billion (€3.8 billion in 2014).

# EXECUTIVE SUMMARY

*Membership in supplementary retirement plans topped 7.2 million, nearly 30% of the work force*

The membership of supplementary retirement plans increased, continuing the trend of recent years, with growth of 12.1% compared with 2014. Overall, the number of members exceeded 7.2 million, or 28.3% of the work force.

## NON-LIFE INSURANCE – DIRECT ITALIAN BUSINESS

*Non-life premium income was €32.0 billion…*

In 2015 non-life premium income amounted to €32.0 billion, down 2.4% from 2014. The sector's share of total premiums fell from 22.9% to 21.8%, in part because life sector premiums rose.

*…the combined ratio improved slightly and the technical account result for direct business was €4.1 billion*

The combined ratio improved marginally, from 90.1% to 89.4%, as a slight increase in the expense ratio was offset by an improvement in the loss ratio. Considering investment income of €1.2 billion, the direct technical account result was positive by €4.1 billion, about the same as in 2014.

*The Report presents the findings of a survey on terrorism risk insurance in Italy*

At the start of 2016 ANIA circulated a questionnaire to its member companies on non-life insurance coverage, including accident and motor liability insurance, bearing on possible coverage for "terrorism" risk and the way in which such insurance is supplied. The special inquiry found that insurance coverage of terrorism risk is fairly well developed in Italy, with the obvious differences between branches.

*The Report examines developments in medical malpractice insurance…*

There is a study of medical malpractice insurance for healthcare institutions and individual practitioners. Claims against institutions declined by 7.3% and those against individual physicians by 4.7%. The decline in claims is likely to depend, at least in part, on the contraction in the number of policies.

*…and other matters*

The chapter also examines a series of additional themes:

- the insurance industry's position on supplementary healthcare as set out in ANIA's position paper;
- ANIA's position on the protection of dwellings against flood risk;
- natural disasters in Italy in 2015 and the insurance industry's forecast exposure to flood and earthquake damage in 2016.

## MOTOR LIABILITY INSURANCE

*Premium volume shrank by 6.5% and accrued premiums by 7.1%…*

In 2015 motor insurance premiums again registered a decrease of 6.5%, as in 2014, and accrued premiums fell by 7.1%. The cost of claims also fell, but less sharply, by 3.7%, resulting in a worsening of the combined ratio from 90.5% to 93.6%. The positive contribution of the financial component in connection with returns on investment, which was down slightly on the year, and the particularly positive liquidation of excess claims reserves for previous years helped produce a positive overall technical balance, though smaller than in 2014. The overall technical results for land vehicles

remained positive, with an increase in premiums of 2.9% after seven consecutive years of decline.

*…and as the number of vehicles insured held broadly constant…*

The number of vehicles insured was practically unchanged in 2015 at 38.3 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, that is approximately 40 million, rose by 0.5%.

*…the average motor liability premium diminished by 6.7%, narrowing the gap between Italy and the other main European countries*

Although the average price for motor liability insurance still registered an increase in 2011, equal to 5.8%, owing to the particularly negative results of this insurance class (a trend that began in 2008 and intensified in 2009 and 2010), in 2012 the average premium held practically stable (an increase of just 0.7%), as the improvement in the technical indicators (claims frequency in particular) helped bring the branch's accounts back into balance. In 2013, and especially in 2014 and 2015, this effect was considerably more evident; in fact, in the last three years the average motor liability premium fell by 17.2% (-4.6% in 2013, -7.0% in 2014 and -6.7% in 2015). The price reduction in 2015 is also confirmed by the survey of actual motor liability insurance prices begun by IVASS at the start of 2014, which found that in the fourth quarter of 2015 the average premium for passenger car insurance was 7.6% lower than a year earlier. As a result of the sharp price reductions in the three years the average liability insurance price index has come back down to the level of the late 1990s. Accordingly, the gap between Italian prices and those in the other main countries has narrowed. 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 and shrank further in the early months of 2016.

*The number of claims crept up last year, so claims frequency rose by 1.2%…*

The claims incurred and reported during the year that have given or will give rise to compensation totaled 2.1 million in 2015, an increase of 0.5%. Claims frequency, defined as the ratio of this number to that of the vehicles exposed to the risk of claim-generating accident (measured on the basis of days of exposure during the year, converted into "vehicle-years"), rose from 5.48% in 2014 to 5.55% in 2015, an increase of 1.2%. Factoring in an estimate of claims incurred but not reported, claims frequency in 2015 comes to 6.11% (6.05% in 2014), an increase of 1.0 percent.

*…owing to cyclical factors…*

In order to gather statistical data to help determine the extent to which the change in claims frequency depends on cyclical or on structural factors, ANIA has run a multiple linear regression analysis to express a functional correlation between different economic factors – such as households' economic situation, fuel consumption and the use of private cars to travel to work (taken as independent variables) – and claims frequency as dependent variable.

*…the rise in claims frequency is associated with a slight decline (-1.6%) in average claims cost…*

The cost of claims accrued, defined as the sum of the amounts paid and reserved for accidents occurring in 2015, was €11.0 billion, down 1.3% compared with 2014. Taking account of the total number of claims (including an estimate of those incurred but not yet reported, IBNR), the average claims cost for the year was €4,720, down 1.6% from €4,796 in 2014. Excluding IBNR claims and contributions to the road

accident victims fund and other residual items, the average claims cost in 2015 was €4,466, down 1.5% from €4,532 the previous year.

*…incurred claims costs diminished by 3.7%, less than the decline in accrued premiums…*

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 €10.4 billion (€10.8 billion in 2014) with a decline of 3.7%, due to the release of excess reserves for previous years (€611 million). The excess of previous year reserves came to 4% of accrued premium income.

*…so the loss ratio worsened…*

Since premiums declined more than claims costs, the loss ratio worsened from 69.5% in 2014 to 72.1% in 2015.

*…and the ratio of operating expenses to premiums rose…*

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 €3.1 billion (€3.2 billion in 2014). Owing to the decline in premium income, the ratio of expenses to premiums rose from 21.0% in 2014 to 21.5% last year. The incidence of other administration costs rose from 5.0% to 5.3%, and the ratio of commissions, which ordinarily represent a percentage of premiums, also rose, from 10.7% to 11.1%. Other acquisition costs were broadly unchanged in proportion to premiums.

*…but the overall technical result remained positive*

Since the fall of nearly €1 billion in premiums was far greater than the €400 million decline in incurred claims costs, the technical balance shrank by some €600 million, from €1.4 billion to €0.8 billion. With profits from investments amounting to €567 million, down from €654 million in 2014, the result of the technical account for direct business showed a profit of €1.4 billion, down from €2.1 billion in 2014. Taking the balance for reinsurance into account (positive by €45 million), the overall technical account result was positive by €1.5 billion, down from €2.1 billion in 2014).

*The Report has special sections on: car theft and the results of ANIA's new statistics on land vehicle insurance…*

A section of the Report is given over to the Interior Ministry's data on thefts of passenger cars and SUVs in Italy in 2015 (still provisional), comparing them with those for 2013 and 2014. We also present the initial findings of ANIA's new annual statistics on the technical performance and the diffusion of the various kinds of land vehicle insurance.

*…technical indicators for motor liability coverage in the main European countries…*

On the basis of Insurance Europe's November 2015 report "European Motor Insurance Markets", a section looks into cross-country differences in the technical indicators – claims frequency and average claim cost – for motor liability insurance, which are naturally reflected in the level of policy premiums paid by consumers in the various EU member states.

*…a geographical analysis of the technical margin on policy underwriting…*

ANIA conducted a geographical analysis, for the year 2015, of the technical profit margin for policy underwriting in some major cities. That is, we compared the premiums actually paid by policyholders with the insurance companies' expenses for claims, administration and distribution costs, net of the financial profit margin.

# EXECUTIVE SUMMARY

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

The Report contains an ample section on the costs of personal injury claims, which account for over two-thirds of total motor liability claims costs, or some €7.3 billion in 2015. Of this, €2.6 billion was in compensation for permanent disability of less than 9 percent and €4.8 billion for more severe injury or death. The percentage of all motor liability claims involving personal injury was 19.5% last year, about the same as in 2014. The dynamics of the various components of personal injury claims were examined over the period 2009-2015. The data indicate that the diminution produced by the "liberalization" decree (Law 27/2012) has now faded out. The law altered the requisites for demonstrating minor personal injury. The frequency of claims for more serious personal injury or death increased marginally in 2015.

*…the diffusion of claims likely to involve fraud and an estimate of the number of uninsured vehicles…*

The Report sets out the results of IVASS's report for 2014 and 2015 on accident claims exposed to risk of fraud. The nationwide average in 2015 was 21.4% of all claims, up from 19.3% in 2014, but there is considerable provincial variability. Based on provincial data from the Highway Police, municipalities and municipal police, we also made an estimate of the number of uninsured vehicles on the roads, equal to 3.4 million, or 7.6% of all vehicles in Italy.

*…the calculation of the single compensation amounts for direct indemnity…*

A section is dedicated to the method of calculating the single compensation amounts for 2016 for the direct indemnity system. For geographical areas with a coefficient of 1, the CARD-CID amount for motorcycles and scooters is €3,175, for other vehicles €1,805.

*…the diffusion of black boxes…*

A section covers the increasing use of black boxes mounted on passenger cars in Italy and their impact on risk underwriting.

*…some implementing measures*

We also report on the publication of Regulation (EU) 2015/758 on the requirements for type-approval of ecall devices to be mounted on new vehicles; the entry into effect of the digital insurance "sticker" and the use of distance monitoring devices to check insurance coverage; IVASS measure 41/2015 on the digitization of transmission of motor liability insurance certificates; the entry into effect of the digital bonus-malus class attestation; and the motor vehicle bureau's dematerialization of vehicle ownership certificates.

*There is also a separate section on:*

A special chapter reports on the numerous initiatives of the ANIA Foundation for Road Safety and the ANIA-Consumers Forum.

*the activities of the Foundation for Road Safety…*

ISTAT data on road accidents in Italy show that they numbered 177,031 in 2014, down 2.6% from 2013, resulting in 3,381 fatalities (down a scant 0.6%) and 251,147 severe injuries, down 2.7%.

On 2 March this year Parliament passed a law instituting the crime of "vehicular homicide", whose introduction the ANIA Foundation for Road Safety had lobbied for over the years in all the relevant institutional forums.

ANIA carried out a survey on Italian motorists' use of seat belts. The inquiry found that 21% of Italians do not fasten their seat belts. For rear-seat passengers the percentage of violators is higher, almost 50%; and in urban areas, 60%.

*…and the ANIA-Consumers Forum*

The ANIA-Consumers Forum dealt with a number of issues in the course of 2015.

The latest "Balance sheet on Italian welfare and its sustainability" (2015), part of a years-long continuing research project designed with the scientific collaboration of Censis, examines the system's sustainability – not only in the traditional sense of sustainability for the public finances but in the more innovative sense of social sustainability for households.

The series of volumes on welfare published by the ANIA-Consumers Forum in collaboration with the publisher Franco Angeli, "Welfare Scenarios", lengthened in 2015 with the release of "New protections beyond the crisis." The volume contains the survey "A balance sheet on Italian welfare and its sustainability", the research on welfare conducted by the consumer associations, and the Forum's proposals for an equitable and sustainable welfare system.

Italy's National Retirement Savings Day was celebrated in Naples in May 2016. The event, dedicated to pensions and welfare, is designed to heighten citizens' awareness of their own retirement position and is of special interest to young people who are embarking on their work life. ANIA sponsored the initiative, and the Forum played an active part in it, promoting its activities for insurance education and diffusion.

## THE REGULATORY FRAMEWORK

*The Report has pieces: on Italian implementation of Solvency II…*

The Solvency II Directive went into effect on 1 January 2016. IVASS is proceeding with the transposition of the EIOPA Guidelines for Solvency II through a series of instruments, including the updating of IVASS's internal supervisory procedures, the adaptation of existing market letters and the transmission of new ones, and above all the revision of present regulations and the issue of new ones. In October 2015 ANIA formed a working group with insurance company representatives to consider matters relating to the implementation of the Solvency II Directive in Italy under the principle of proportionality. The proposals are being examined jointly with IVASS.

*…on possible regulatory developments: treatment of government securities…*

Further regulatory changes are now being examined by international forums, first and foremost the prudential treatment of the sovereign exposures of banks and insurance companies. On 14 April 2015 EIOPA released an opinion according to which national supervisors should make sure that the risks of government securities holdings are duly taken account of in internal models. EIOPA said it intended to collect information on how national supervisors are complying with the opinion and to weigh the need for further intervention. In March 2015 the European Systemic Risk Board released a report stressing the systemic risks stemming from the special prudential treatment of sovereign exposures but recommending a prudent and gradual approach to avert future instability on the financial markets. On 19 January 2016 the European Parliament approved a report by the Economic and Monetary Affairs Committee on stocktaking and challenges of EU financial services regulation, calling for overcoming the close linkage between government securities and intermediaries' balance

sheets. The informal meeting of the EU council of finance ministers (Ecofin) in Amsterdam on 22 April 2016 decided to defer decision on the issue.

*…on the prudential treatment of infrastructure investment…*

The regulatory treatment of investments in infrastructure under Solvency II, whether equity-type or type-2, has been evolving rapidly. The initial text had no specific provision on their calibration, but the measure has been progressively refined on the basis of the technical opinions furnished by EIOPA at the Commission's request. The key element in this rethinking is the notion of "qualifying infrastructure investment", which applies to investments that have a lower risk profile than other types of infrastructure investment by reason of predictable cash flow, stability in stressful conditions, a contractual framework offering a high degree of investor protection, and a sound business plan. In April 2016 EIOPA called a new consultation on a draft opinion. EIOPA's final opinion was scheduled for transmission to the Commission by the end of June.

*…on the EIOPA stress test…*

EIOPA uses stress testing to check the resilience of the insurance industry to adverse market developments. Following the 2014 exercise, at the conclusion of which IVASS announced that the Italian insurance sector was "adequately capitalized from the standpoint of Solvency II", on 24 May 2016 EIOPA launched a new stress test. The data must be transmitted to the national supervisory authority by 15 July and the results disclosed in December by EIOPA in anonymous and/or aggregate form.

*…on accounting rules…*

The IASB has long since started work on a single accounting standard for the valuation and entry of all types of contract, intended to supersede the IFRS 4 Insurance Contracts standard, which allows reference, in valuing technical provisions, to local standards. However, there is reason for concern over the possible non-alignment between the entry into force of IFRS 4 and that of the new IFRS 9 Financial Instruments, the latter to apply as of 1 January 2018. In response to the fears voiced by the European insurance industry, on 9 December 2015 the IASB released an exposure draft suggesting two alternative solutions to the time gap.

*…on the Transparency Directive…*

Italy's decree-law of 15 February 2016 implements Directive 2013/50/EU harmonizing information obligations on the issuers of securities listed on regulated markets (the Transparency Directive). The Directive allows member states to require publication of financial information more frequently than the half-yearly and yearly financial statements or of additional financial information only if that obligation does not amount to a substantial financial cost and if the supplementary information is of clear benefit to investors. The Companies and Stock Exchange Commission (CONSOB) is weighing the desirability of exercising the derogation.

*…on obligations in connection with pre-compiled tax returns…*

With the introduction of the pre-compiled 730 Form (Legislative Decree 175/2014), the deadline for electronic transmission of data on insurance policies and premiums was brought forward to 28 February each year. Starting with 2016 the report must also show contributions to supplementary retirement plans and reimbursements of medical expenses by healthcare entities or funds. As a result of the discovery by the Revenue Agency of a substantial number of cases of invalid or non-existent tax numbers transmitted by insurers, ANIA persuaded the Agency to develop a special procedure for mass, prior checking of the tax numbers in the companies' possession. Legislative Decree 158 of 24 September 2015 then amended the sanctions for omit-

ted, late or erroneous communication, setting a maximum fine for entities subject to the data transmission requirement.

*…on the new rules for deductibility of loan loss provisions*

Decree Law 83 of 27 June 2015, converted into Law 132 of 6 August, significantly modifies the terms of deductibility, for purposes of the company income tax (IRES) and the regional tax on productive activities (IRAP), of value adjustments to balance-sheet credit assets. Writedowns of credit claims on policyholders for unpaid premiums are now fully deductible for both taxes in the year in which they are entered in the profit-and-loss account, regardless of whether they consist in "estimated" or "effective" adjustments. However, a transitional regime to safeguard the public accounts greatly reduced the tax benefit for 2015, spreading part of it over the next ten years.

# 1

# THE ITALIAN INSURANCE MARKET: KEY FIGURES 2015

Insurance companies' net profit for 2015 was €5.7 billion, slightly down from the €6 billion of the previous year. Consequently, the industry's ROE went down to 9.6%, from 10.1% in 2014. This positive result was chiefly due to the technical account which was again positive by more than €6.5 billion. In particular, in spite of a reduction of over 20 percent in the return on investment, the technical account result for life business was positive by €2.8 billion, in line with the previous year. In non-life business, the loss in written premiums was more than compensated by a further reduction of claims costs, keeping the technical balance about the same as in 2014. In 2015 the number of Italian insurance companies operating in the domestic market diminished as a result of mergers and acquisitions, while the number of branch offices of foreign companies operating in Italy has increased.

## OPERATING INSURANCE COMPANIES

Insurance companies operating in Italy numbered 220 at the end of 2015, compared with 222 at the end of 2014. They counted 114 companies with registered offices in Italy (122 a year earlier) and 106 branches of foreign insurance companies (100 in 2014), the bulk of which are based in other EU countries (103). In addition, a thousand insurance companies, mostly in the non-life business (75%) with registered offices in other EU countries (or other countries belonging to the European Economic Area) were operating in Italy at the end of 2015 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 | 2014 | 61 | – | 2 | 63 | 2 | 56 | 121 |
| | 2015 | 56 | – | 2 | 58 | 3 | 60 | 121 |
| Life | 2014 | 47 | – | – | 47 | – | 22 | 69 |
| | 2015 | 44 | – | – | 44 | – | 23 | 67 |
| Professional reinsurers | 2014 | – | – | – | – | – | *7* | *7* |
| | 2015 | – | – | – | – | – | *7* | *7* |
| Multi sector | 2014 | 10 | 1 | 1 | 12 | – | 13 | 25 |
| | 2015 | 10 | 1 | 1 | 12 | – | 13 | 25 |
| TOTAL | 2014 | 118 | 1 | 3 | 122 | 2 | 98 | 222 |
| | 2015 | 110 | 1 | 3 | 114 | 3 | 103 | 220 |

At 31 December 2015, 67 insurance companies (of which 23 branch offices) engaged exclusively in life business (69 in 2014) and 121 (of which 63 branch offices) exclusively in non-life business. A total of 25 (of which 13 branch offices) did business in both the life and non-life sectors, accounting for more than 33% of total premium income. Seven undertakings, all of them branches of foreign companies, engaged only in reinsurance. At the same date, ANIA counted 160 member companies (of which 28 correspondent members).

The 114 insurers with registered offices in Italy comprised, by legal form, 110 limited share companies, three mutual companies and one cooperative society.

# THE ITALIAN INSURANCE MARKET: KEY FIGURES 2015

## INCOME STATEMENT

***Income statement***
*Euro million*

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Technical account of non-life and life classes (*) | | | | | | | | |
| Written premiums | 89,157 | 115,199 | 123,546 | 108,420 | 103,139 | 117,374 | 142,035 | 146,136 |
| Changes in reserves (-) | -22,241 | 40,953 | 32,825 | 3,106 | 9,631 | 29,520 | 60,006 | 53,317 |
| Investment income | -9,813 | 26,845 | 14,109 | 3,978 | 27,480 | 20,068 | 22,511 | 17,787 |
| Other technical income | 1,527 | 1,448 | 1,484 | 1,429 | 1,560 | 1,641 | 1,781 | 2,338 |
| Incurred claims (-) | 91,087 | 84,207 | 92,105 | 99,376 | 98,776 | 88,322 | 84,838 | 90,638 |
| Operating expenses (-) | 12,573 | 12,633 | 12,540 | 12,283 | 11,539 | 11,725 | 12,126 | 12,447 |
| Other technical costs (-) | 2,035 | 2,230 | 2,311 | 2,272 | 2,537 | 2,625 | 2,744 | 3,338 |
| **Balance** | **-2,583** | **3,470** | **-642** | **-3,210** | **9,696** | **6,891** | **6,613** | **6,521** |
| Technical account non-life (*) | | | | | | | | |
| Written premiums | 34,328 | 33,791 | 32,954 | 34,052 | 32,763 | 31,618 | 31,071 | 30,632 |
| Changes in premium reserves (-) | 265 | -21 | 496 | 462 | -494 | -623 | -282 | -188 |
| Investment income | 829 | 2,439 | 1,095 | 640 | 1,660 | 1,262 | 1,346 | 1,305 |
| Other technical income | 423 | 472 | 440 | 451 | 469 | 429 | 393 | 388 |
| Incurred claims (-) | 25,403 | 26,865 | 25,106 | 25,199 | 23,480 | 21,323 | 20,187 | 19,390 |
| Operating expenses (-) | 8,462 | 8,465 | 8,141 | 8,322 | 8,018 | 8,041 | 8,243 | 8,385 |
| Other technical costs (-) | 1,085 | 1,165 | 1,121 | 1,054 | 1,124 | 1,021 | 913 | 985 |
| **Balance** | **365** | **228** | **-375** | **106** | **2,765** | **3,546** | **3,749** | **3,753** |
| Technical account life (*) | | | | | | | | |
| Written premiums | 54,829 | 81,409 | 90,592 | 74,368 | 70,376 | 85,756 | 110,963 | 115,504 |
| Changes in technical provisions (-) | -22,506 | 40,974 | 32,329 | 2,644 | 10,125 | 30,143 | 60,288 | 53,505 |
| Investment income | -10,642 | 24,406 | 13,014 | 3,338 | 25,820 | 18,806 | 21,166 | 16,482 |
| Other technical income | 1,104 | 976 | 1,044 | 978 | 1,091 | 1,212 | 1,388 | 1,950 |
| Incurred claims (-) | 65,684 | 57,342 | 66,999 | 74,177 | 75,296 | 66,999 | 64,651 | 71,248 |
| Operating expenses (-) | 4,111 | 4,169 | 4,399 | 3,961 | 3,521 | 3,684 | 3,884 | 4,062 |
| Other technical costs (-) | 950 | 1,064 | 1,190 | 1,218 | 1,413 | 1,604 | 1,831 | 2,353 |
| **Balance** | **-2,948** | **3,242** | **-267** | **-3,316** | **6,931** | **3,344** | **2,864** | **2,768** |
| Non-technical account (*) | | | | | | | | |
| Other non-life income | -416 | 939 | 201 | -734 | 94 | 825 | 925 | 844 |
| Other life income | 462 | 1,177 | 839 | 265 | 1,626 | 1,444 | 1,917 | 1,823 |
| Balance of other income and expenses | -1,601 | -1,244 | -1,763 | -1,551 | -1,922 | -2,182 | -2,064 | -2,110 |
| **Balance of ordinary activities** | **-4,138** | **4,342** | **-1,365** | **-5,230** | **9,494** | **6,978** | **7,391** | **7,078** |
| **Balance of extraordinary activities** | **751** | **840** | **614** | **478** | **-28** | **1,314** | **961** | **1,027** |
| Taxes (-) | -1,407 | 1,312 | -48 | -1,099 | 3,696 | 3,062 | 2,405 | 2,380 |
| **Result for the financial year** | **-1,980** | **3,870** | **-703** | **-3,653** | **5,770** | **5,231** | **5,947** | **5,726** |
| *Profit/loss for the financial year, non-life sector*** | *-167* | *63* | *-998* | *-1,016* | *641* | *2,125* | *2,448* | *1,943* |
| *Profit/loss for the financial year, life sector*** | *-1,813* | *3,807* | *295* | *-2,637* | *5,129* | *3,105* | *3,498* | *3,783* |
| Return on Equity | -4.7% | 8.5% | -1.4% | -7.1% | 11.5% | 9.7% | 10.1% | 9.6% |
| Return on Equity (non-life)** | -0.9% | 0.3% | -4.6% | -4.7% | 3.1% | 9.8% | 10.2% | 7.9% |
| Return on Equity (life)** | -7.8% | 15.2% | 1.1% | -8.8% | 17.3% | 9.8% | 10.1% | 10.9% |

*(*) Net of cessions and back-cessions*
*(**) Excluding professional reinsurers*

## THE TECHNICAL ACCOUNT

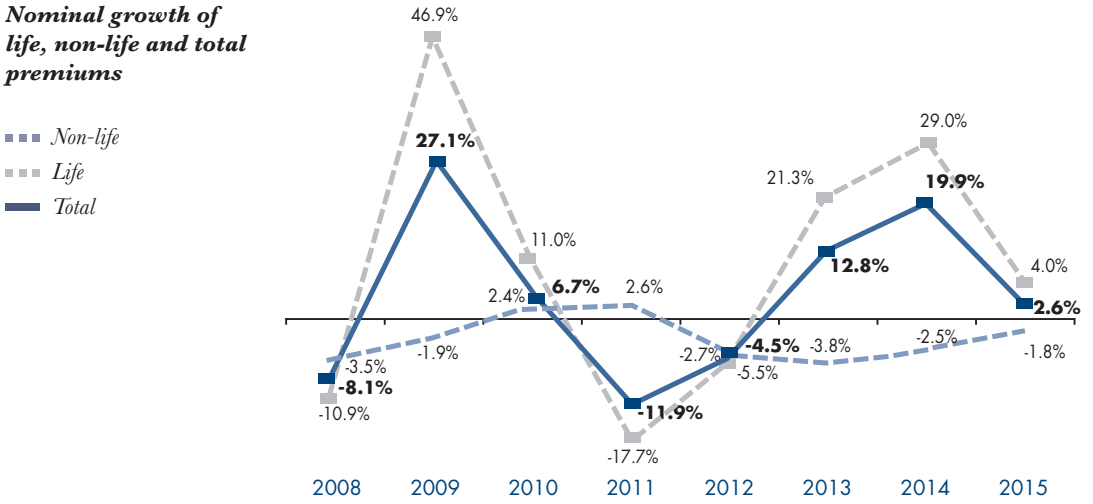
### Premiums

**Premiums from domestic and foreign business**, direct and indirect, gross of reinsurance, collected by the companies having their registered office in Italy and by the Italian branches of non-EU companies totaled €150,396 million in 2015, of which €33,823 million from non-life policies and €116,573 million from life policies. Overall, premiums increased again by 2.6% in 2015, following the 20 and 13 percentage points gained in 2014 and in 2013 respectively, after a two-year period in 2011-12 in which written premiums in the insurance industry had decreased by a total of 16%. The expansion was the result of a further rise of 4.0% in premiums in the life sector (after the increase of 30% in 2014), while there was a contraction of 1.8% in non-life insurance premiums after that of 2.5% in 2014.

As a result of these developments, life premiums' share of total premium income increased from 76.5% to 77.5% year on year.

***Total premiums***
*Euro million*


***Nominal growth of life, non-life and total premiums***



In 2015, **premiums ceded** in reinsurance amounted to €4,260 million, of which €3,191 million from non-life classes and €1,069 million from life classes (in 2014 they totaled €4,490 million, of which €3,389 million non-life and €1,101 million life). Total ceded premiums' share (life and non-life) of total gross premiums slipped from 3.1% in 2014 to 2.8% in 2015.

This translates into **total premiums**, net of those ceded, amounting to €146,136 million: of which €30,632 million from non-life policies and €115,504 million from life policies.

## Claims and benefits paid

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

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

Benefits and claims paid decreased by 0.7% in 2014 to total €146,595 million: €20,887 million in non-life classes (down 3.6%) and €125,708 million in life classes (down 0.2%).

**The share borne by reinsurance** fell by 7% to a total of €2,640 million, of which €1,686 million referring to non-life policies and €954 million to life policies.

**On a net basis, benefits and claims paid** decreased by 0.6% to €143.955 million: €19,202 million in non-life classes and €124,754 million in life classes.

***Total claims and benefits paid***
*Euro million*

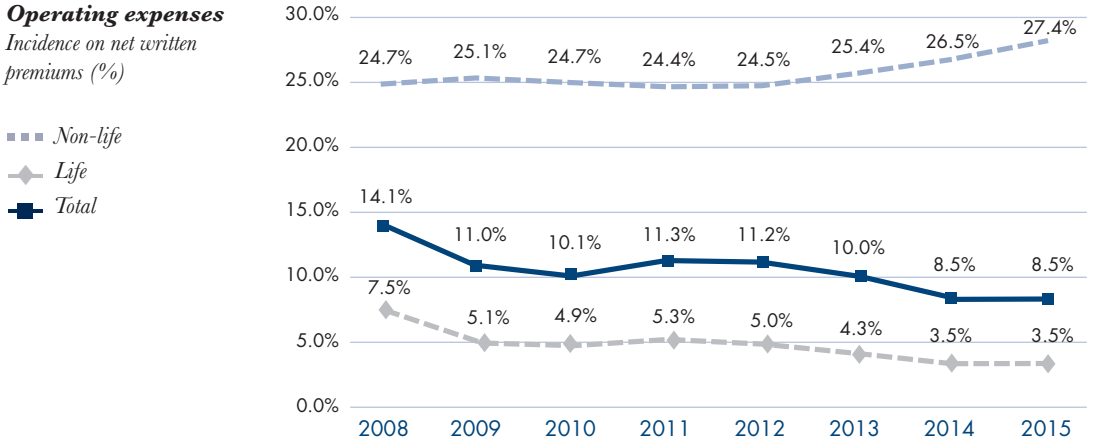

## Operating expenses

**Operating expenses** relating to direct and indirect business, net of reinsurance cessions, which comprise contract acquisition, premium collection, distribution net-

work organizational and operating costs and the administration expenses relating to technical management of insurance business, totaled €12,447 million, 2.6% more than in 2014. Given the analogous increment in premiums, the ratio of total operating expenses to written premiums remained stable at 8.5%.

The ratios for the life and non-life sectors separately have shown opposite trends, with a sharp increase in life business and a downturn in non-life business. In particular, for non-life business operating expenses in 2015 totaled €8,385 million (they were €8,243 million in 2014), and amounted to 27.4% of premiums (up from 26.5% in 2014); for life business, they amounted to €4,062 million (€3,884 million in 2014) and 3.5% of premiums (as in the previous year).

***Operating expenses***
*Incidence on net written premiums (%)*




## Technical account result

**The overall (non-life plus life) technical account result**, net of reinsurance, was positive to the tune of €6,521 million, equal to 4.5% of net direct and indirect premiums; the latter indicator had been higher in the previous three years, amounting to 9.4% of premiums in 2012, 5.9% in 2013 and 4.7% in 2014. For non-life business the technical account result was positive by €3.7 billion as in 2014 and its ratio to premiums went from 11.2% in 2013 to 12.1% in 2014 and 12.3% in 2015. In the life sector the result was positive by €2.8 billion (slightly down from the 2.9 billion a year earlier); the ratio to premiums declined from 3.9% in 2013 to 2.6% in 2014 and 2.4% in 2015.

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

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Non-life and Life | -2.9% | 3.0% | -0.5% | -3.0% | 9.4% | 5.9% | 4.7% | 4.5% |
| Non-life | 1.1% | 0.7% | -1.1% | 0.3% | 8.4% | 11.2% | 12.1% | 12.3% |
| Life | -5.4% | 4.0% | -0.3% | -4.5% | 9.8% | 3.9% | 2.6% | 2.4% |

# RESULT ON INVESTMENT ACTIVITY

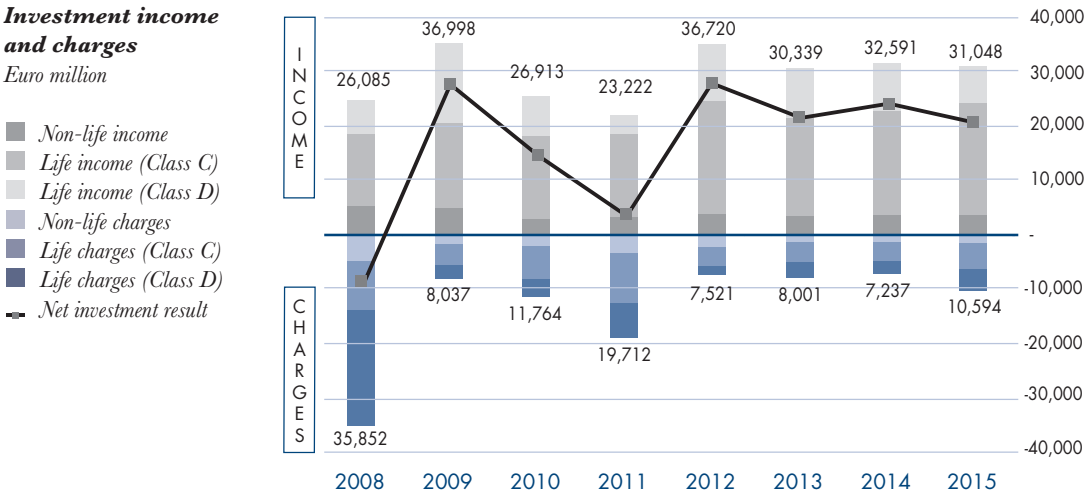
In 2015, the **return on investment** amounted to €31,048 million (€32,591 million in 2014), down by 4.7%. In particular:

– non-life investment income rose by 0.9% to €3,855 million:
– life investment income (Class C) increased by 5.4% to €21,314 million;
– life investment income (Class D) fell by over 30% to €5,879 million;

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

– *income from securities, bonds and other investments*, amounting to €17,605 million (+1.8% on 2014): 56.7% 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 €5,879 million (down 31.2% from 2014): 18.9% of the total;
– *revaluation gains and realized profits on investment*, amounting to €4,665 million (+24.5%): 15.0% of the total;
– *income from shares and other equity*, amounting to €2,695 million (-4.3% compared with 2014): 8.7% of the total;
– *income from land and buildings*, amounting to €204 million (+4.8%): 0.7% of the total.

***Investment income and charges***
*Euro million*




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

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Shares | 13.3% | 5.5% | 6.4% | 6.8% | 4.5% | 6.3% | 8.6% | 8.7% |
| Land and buildings | 0.9% | 0.6% | 0.8% | 1.0% | 0.6% | 0.7% | 0.6% | 0.7% |
| Securities. bonds etc. | 47.9% | 32.9% | 48.8% | 63.7% | 43.2% | 53.3% | 53.0% | 56.7% |
| Revaluations and capital | 13.1% | 19.4% | 15.3% | 12.3% | 22.3% | 14.8% | 11.5% | 15.0% |
| Linked policies and pension funds | 24.7% | 41.6% | 28.6% | 16.2% | 29.4% | 24.9% | 26.2% | 18.9% |
| TOTAL | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Net investment income also suffered from the increase of 46.4% in **investment charges**, which rose from €7,237 million in 2014 to €10,594 million in 2015. In particular:

– in the non-life sector investment charges rose by around 10% to €1,706 million. This translates into a net investment profit for this sector amounting to €2,149 million (against €2,270 million in 2014);

– in the life sector (Class C), investment charges increased by 35% to €4,756 million, with net investment profit down to €16,558 million from €16,717 million in 2014;
– in the life sector (Class D), investment charges nearly doubled from €2,177 million in 2014 to €4,132 million a year later. This hike, together with a considerable drop in income, led net investment profit to plummet by over 70% from €6,367 million in 2014 to €1,747 million in 2015.

The insurance industry's overall **net result on investment** activity amounted to €20,454 million, compared with €25,354 million in 2014, of which €17,787 million (87%) came from the technical account (down from €22,513 million in 2014) and €2,667 million (13%) from the non-technical account (down from €2,841 million in 2014).

**Extraordinary income**, gross of charges, amounted to €1,461 million (€1,707 million in 2014), set against corresponding charges of €434 million (€747 million in 2014).

## THE RESULT FOR THE FINANCIAL YEAR

In 2015, the **result of the ordinary activity** of the life and non-life sectors decreased to €7,078 million from the nearly €7,400 million a year earlier. **Extraordinary income** (which is added to the ordinary activity) showed a profit of €1,027 million (it was €961 million in 2014). Overall, **profit for the year before tax** thus amounted to €8,105 million (€8,352 million in 2014).

After taxes totaling €2,380 million, the industry showed an overall **net profit of €5,726** million: €1,943 million for the non-life sector and €3,783 million for the life sector.

Given the net profit of €5.7 billion, the sector's profitability for 2015 (expressed in terms of ROE) was 9.6%, slightly in decline from 10.1% in 2014; the life and non-life sectors separately registered a ROE of 7.9% (10.2% in 2014) and 10.9% (10.1% in 2014) respectively.

In particular, the net profit for the non-life sector dropped by 21% from €2,448 million in 2014 to €1,943 million in 2015, due to:

***Profit-and-loss account by sector (*)***
*Euro million*

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Non-life | | | | | | | | |
| Technical account result | 365 | 228 | -375 | 106 | 2,765 | 3,546 | 3,749 | 3,753 |
| Net investment income | -416 | 939 | 201 | -734 | 94 | 825 | 925 | 844 |
| Intermediate operating result | -51 | 1,167 | -174 | -628 | 2,859 | 4,371 | 4,674 | 4,598 |
| Other net income | -688 | -1,161 | -1,185 | -948 | -1,295 | -1,354 | -1,502 | -1,470 |
| Net extraordinary income | 324 | 33 | 218 | 386 | 1 | 473 | 450 | 84 |
| Income tax for year (-) | -248 | -24 | -143 | -174 | 924 | 1,365 | 1,173 | 1,269 |
| Profit/loss for the year | -167 | 63 | -998 | -1,016 | 641 | 2,125 | 2,448 | 1,943 |
| Life | | | | | | | | |
| Technical account result | -2,948 | 3,242 | -266 | -3,316 | 6,931 | 3,344 | 2,864 | 2,768 |
| Net investment income | 462 | 1,177 | 839 | 265 | 1,626 | 1,444 | 1,917 | 1,823 |
| Intermediate operating result | -2,486 | 4,419 | 573 | -3,051 | 8,557 | 4,788 | 4,781 | 4,591 |
| Other net income | -913 | -83 | -578 | -603 | -627 | -828 | -563 | -640 |
| Net extraordinary income | 427 | 807 | 396 | 93 | -29 | 841 | 511 | 943 |
| Income tax for year (-) | -1,160 | 1,336 | 96 | -925 | 2,772 | 1,696 | 1,231 | 1,111 |
| Profit/loss for the year | -1,813 | 3,807 | 295 | -2,637 | 5,129 | 3,105 | 3,498 | 3,783 |

*(*) Excluding professional reinsurers*

- an **intermediate operating result** (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €4,598 million (€4,674 million in 2014);
- a negative balance of €1,470 million on **other income less other charges** (-€1,502 million in 2014);
- a positive balance of €84 million on other **net extraordinary income** (down sharply from €450 million in 2014);
- **income taxes** amounting to €1,269 million (up from €1,173 million in 2014).

In the life sector, the net profit grew by 8.1% from €3,498 million in 2014 to €3,783 million in 2015; this can be attributed to:

- an **intermediate operating result** (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €4,591 million (down by 4% from €4,781 million in 2014);
- a negative balance of €640 million on **other income less other charges** (-€563 million in 2014);
- a positive balance of €943 million on other **net extraordinary income** (nearly doubled from €511 million in 2014);
- **income taxes** amounting to €1,111 million (down from €1,231 million in 2014).

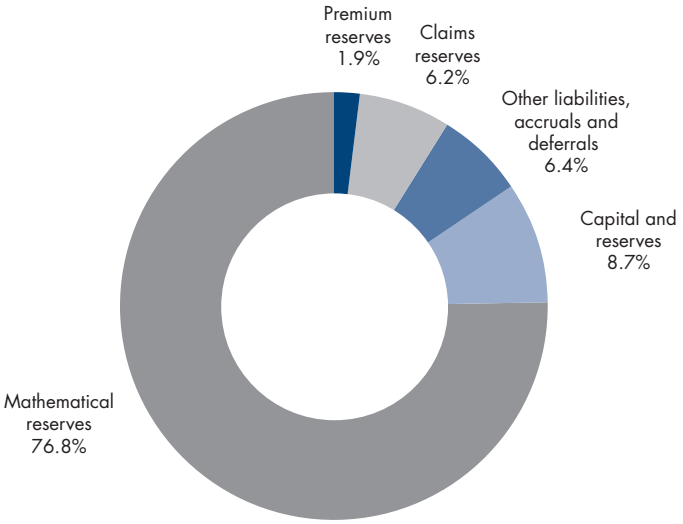
## BALANCE SHEET

***Balance sheet***
*Euro million*

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| LIABILITIES | 505,362 | 560,780 | 586,815 | 585,665 | 603,706 | 641,230 | 703,134 | 762,316 |
| CAPITAL AND RESERVES | 40,932 | 51,803 | 50,260 | 48,252 | 54,299 | 63,906 | 64,403 | 66,148 |
| *Subscribed capital* | *11,472* | *11,925* | *11,985* | *12,463* | *13,345* | *14,828* | *14,562* | *15,269* |
| *Equity reserves* | *31,440* | *36,351* | *38,977* | *39,441* | *35,365* | *43,907* | *43,894* | *45,153* |
| *Profit for the financial year* | *-1,980* | *3,527* | *-703* | *-3,653* | *5,589* | *5,171* | *5,947* | *5,726* |
| TECHNICAL PROVISIONS | 419,947 | 461,762 | 492,151 | 494,448 | 504,067 | 530,905 | 591,746 | 647,313 |
| *Non-life classes* | *68,194* | *68,701* | *65,859* | *66,697* | *66,838* | *64,764* | *63,368* | *61,573* |
| *Life classes* | *351,753* | *393,061* | *426,292* | *427,751* | *437,229* | *466,141* | *528,378* | *585,740* |
| OTHER LIABILITIES | 43,820 | 46,436 | 43,703 | 42,238 | 44,601 | 45,739 | 46,301 | 48,239 |
| *Subordinated liabilities* | *6,924* | *8,374* | *8,753* | *8,751* | *10,070* | *10,475* | *12,709* | *14,847* |
| *Provisions for risks and charges* | *2,117* | *1,711* | *1,771* | *1,613* | *1,847* | *2,295* | *2,251* | *2,260* |
| *Deposits received from reinsurers* | *12,660* | *12,398* | *11,999* | *11,279* | *10,692* | *9,927* | *9,177* | *8,312* |
| *Debts and other liabilities* | *22,119* | *23,954* | *21,180* | *20,594* | *21,992* | *23,042* | *22,164* | *22,820* |
| ACCRUALS AND DEFERRALS | 663 | 779 | 701 | 728 | 739 | 680 | 684 | 616 |
| ASSETS | 505,362 | 560,780 | 586,815 | 585,665 | 603,706 | 641,230 | 703,134 | 762,316 |
| AMOUNTS OWED BY SHAREHOLDERS | 6 | 41 | 15 | 3 | 7 | 0 | 0 | 0 |
| INTANGIBLE ASSETS | 3,021 | 6,891 | 6,310 | 6,001 | 5,747 | 6,194 | 6,907 | 6,662 |
| INVESTMENTS: | 434,676 | 489,479 | 517,014 | 511,384 | 526,975 | 562,960 | 629,566 | 692,613 |
| *Land and buildings* | *6,265* | *6,526* | *6,513* | *6,902* | *6,780* | *6,459* | *6,041* | *6,645* |
| *Shares and other equity* | *54,976* | *59,635* | *56,751* | *54,347* | *50,129* | *57,297* | *56,387* | *57,067* |
| *Bonds and other fixed income securities* | *226,866* | *273,755* | *306,898* | *316,029* | *335,627* | *363,826* | *410,269* | *437,517* |
| *Loans and deposits* | *29,590* | *32,351* | *34,708* | *35,195* | *36,918* | *38,565* | *48,098* | *63,031* |
| *Investments for the benefit of life insurance policyholders and deriving from the management of pension funds* | *116,980* | *117,211* | *112,144* | *98,911* | *97,521* | *96,814* | *108,771* | *128,353* |
| TECHNICAL PROVISIONS BORNE BY REINSURERS | 19,411 | 19,283 | 18,737 | 17,546 | 17,768 | 16,533 | 15,109 | 13,978 |
| AMOUNTS OWED BY DEBTORS | 25,706 | 25,563 | 26,576 | 26,875 | 26,497 | 28,192 | 28,612 | 26,359 |
| OTHER ASSETS | 18,131 | 14,617 | 13,068 | 18,619 | 21,428 | 21,868 | 17,164 | 16,895 |
| ACCRUALS AND DEFERRALS | 4,411 | 4,907 | 5,093 | 5,238 | 5,284 | 5,483 | 5,777 | 5,810 |

## Liabilities

***Breakdown of liabilities (%) – 2015***




***€ 762,316 million***

In 2015, balance-sheet liabilities totaled €762,316 million, an increase of more than 8% compared with 2014.

In particular:

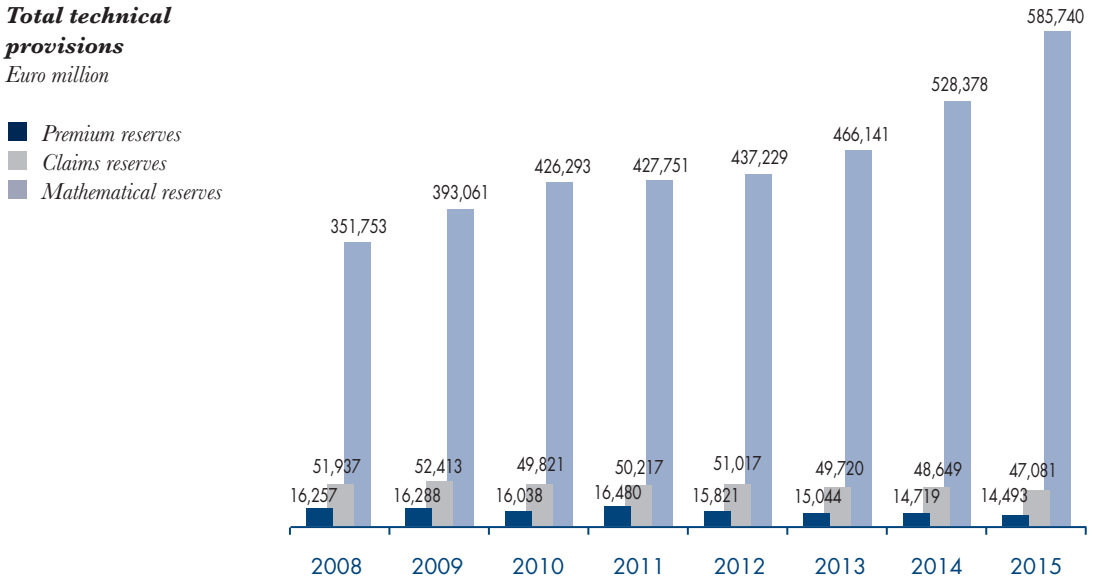
- *shareholders' equity* grew by 2.7% to €66,148 million; it is equal to 8.7% of total shareholders' funds and liabilities. For the other components, share capital and equity reserves increased by 4.9% (to €15,269 million) and 2.9% (to €45,153 million) respectively, while the operating profit decreased;
- *technical provisions*, which represent the commitments undertaken vis-à-vis the insured, rose by 9.4% to €647,313 million; they made up 84.9% of the total. Life provisions (mathematical reserves) which accounted for 76.8% of the total, grew by 10.9%, while non-life provisions (for claims and unearned premiums) amounted to €61,573 million, down by approximately 3%;
- *other liabilities*, amounting to €48,239 million (6.3% of the total), were up 4.2% from a year earlier. Among the components, subordinated liabilities increased by 16.8%, claims due to creditors and other liabilities by 3% and provisions for other risks and charges by 0.4%, while deposits received from reinsurers decreased;
- accrued expenses and deferred income amounted to €616 million (0.1% of the total).

## Assets

On the asset side the main items composing the total of €762,316 million are investments, the reinsurance share of technical provisions, other asset items, debtors, accrued income and prepayments.

# THE ITALIAN INSURANCE MARKET: KEY FIGURES 2015

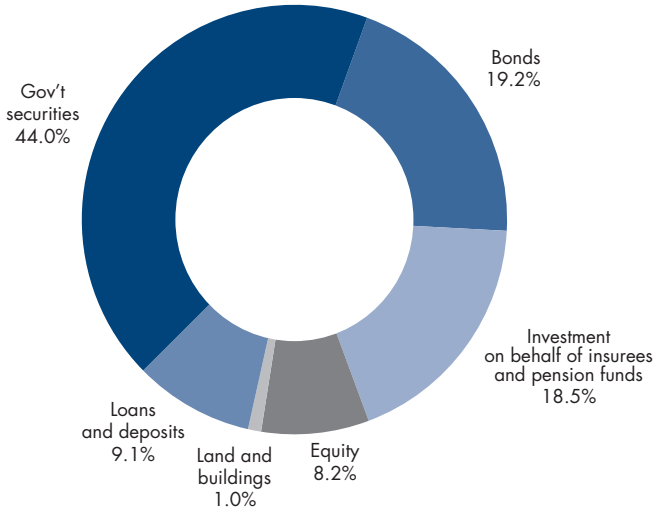
***Total technical provisions***
*Euro million*




In particular:

– *investments* totaled €692,613 million, an increase of 10.0% from a year earlier, and made up nearly 90% of total assets. Investments grew in the non-life sector by 5.8% to €84,253 million and in the life sector by 10.6% to €608,360 million.

***Breakdown of investments (%) – 2015***



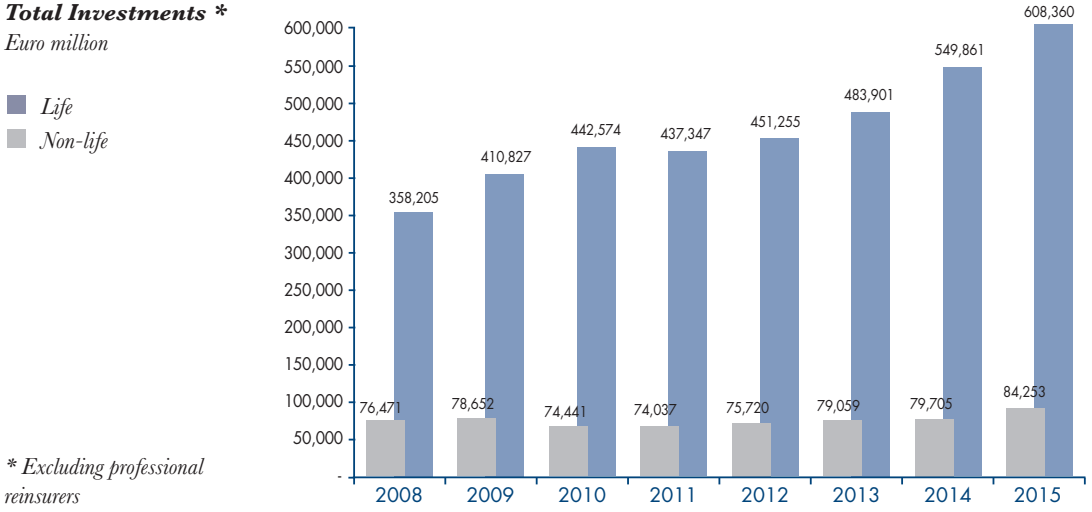

***Euro 692.613 million***

In detail, total investments were distributed as follows:

- government securities: €304,750 million, up 3.3% (44.0% of the total); of these, over 90% (around €280,000 million) were issued by Italy;
- bonds: €132,768 million, up 15% (19.2% of the total);
- investments pertaining to Class D: €128,353 million, up 18.0% (18.5% of the total);
- loans and deposits: €63,031 million, up 31.0% (9.1% of the total);

# THE ITALIAN INSURANCE MARKET: KEY FIGURES 2015

***Total Investments ****
*Euro million*




** Excluding professional reinsurers*

- shares and other equity: €57,067 million, up 1.2% (8.2% of the total);
- land and buildings: €6,645 million, up10.0% (1.0% of the total).

– the *technical provisions borne by reinsurers* came to €13,978 million, down 7.5% from a year earlier, and made up 1.8% of total assets;
– claims due from *debtors* totaled €26,359 million, down 7.9% (3.5% of the total). They include claims produced from direct insurance operations (€8,489 million), claims arising from reinsurance operations (€1,248 million) and other claims (€16,622 million);
– *claims on shareholders* (equal to zero), *intangible assets* (€6,662 million of commissions and other expenses) and *other assets* (€16,895 million) amounted to €23,556 million, down 2.1% (3.1% of the total);
– *accruals and deferrals* were equal to €5,810 million, up 0.6% (0.8% of the total).

## THE IMPACT OF TAXATION ON INSURANCE COMPANIES' FINANCIAL STATEMENTS

Over the past few years, a series of specific fiscal measures have been adopted, which have burdened insurance companies exclusively. In particular, the measures reported below have consisted, according to the circumstances, in "special" levies or increases in tax rates affecting all taxpayers.

On a preliminary basis, in 2015 the industry paid a significant amount of direct taxes (nearly €2.5 billion, about the same as in 2014, compared to over €3.0 billion in 2013 and nearly €3.7 billion in 2012).

| Year | Total direct taxes (€ million) |
|---|---|
| 2012 | 3,696 |
| 2013 | 3,062 |
| 2014 | 2,405 |
| 2015 | 2,380 |

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

## IRAP tax rate surcharge

Since 2011 insurance companies are subject to IRAP with a surcharge of 2 percentage points over the tax rate applied to businesses of other industries (5.90% compared with 3.90%). The surcharge is 1.25 points over the tax rate applied to bank operators (4.65%).

In addition, under article 16(3) of Legislative Decree 446/1997, the majority of regions (including Emilia Romagna, Lazio, Liguria, Piedmont, Tuscany and Veneto) have instituted a further 0.92% surcharge on insurance companies, bringing the overall IRAP tax rate to a total 6.82%.

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

In 2015 the industry paid €350 million for IRAP (€418 million in 2014 and nearly €700 million for the previous two-year period 2012-2013).

***IRAP***
*€ million and %*

| Year | IRAP | of which: surcharge over other industries | Total tax rate | of which: national "base" rate | of which: regional surcharge |
|---|---|---|---|---|---|
| 2012 | 666 | 195 | 6.82% | 5.90% | 0.92% |
| 2013 | 678 | 199 | 6.82% | 5.90% | 0.92% |
| 2014 | 418 | 123 | 6.82% | 5.90% | 0.92% |
| 2015 | 342 | 100 | 6.82% | 5.90% | 0.92% |

## Tax on the mathematical provisions of life policies

Starting in 2003, insurance companies are subject to a tax on the stock of life insurance mathematical provisions entered in the accounts for the year.

This tax is, in fact, a form of tax payment on account of that which will be levied on the eventual return to the policyholder. The relevant regulation (Article 1 of Legislative Decree

209/2002), in fact, states that it gives rise to a tax credit to be used as an advance payment on the withholding taxes and substitute tax that shall be applied once the policy benefits begin to be paid.

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

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

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

The Stability Law for 2013 (Law 228/2012) introduced an automatic cap mechanism in order to limit the taxes due when tax credits yet to be offset (or advanced) exceed a given percentage of the mathematical provisions (2.3% in 2015). Nonetheless, the industry's tax credits still not offset at the end of 2015 amounted to nearly €4.5 billion.

***Advance payment of tax on mathematical provisions***
***Life***

| Year | Tax advance (*) at 31 December (€ million) | Change on year |
|---|---|---|
| 2011 | 2,737 | – |
| 2012 | 3,149 | 411 |
| 2013 | 3,594 | 446 |
| 2014 | 4,124 | 530 |
| 2015 | 4,549 | 425 |

*(*) Estimate for entire market*

## THE CURRENT VALUE OF THE SECURITIES PORTFOLIO

To obtain detailed information on the current value of the insurance industry's investments and assess the effects of unrealized capital gains or losses on the overall portfolio, several years ago ANIA began to conduct a sample survey using a methodology consistent with the one specified in ISVAP Regulation 36/2011. The latest survey, which takes 30 April 2016 as the valuation date, covers practically the totality of Class C investments for the non-life and life sectors except for loans and deposits with credit institutions and ceding undertakings, which account on average for 2-3%; it does not cover investments relating to linked policies and pension funds (Class D). The current value of assets was calculated by summing their book value (the value stated in the

accounts before balance-sheet valuations) and the balance between unrealized capital gains and losses.

The current value of the Class C investments monitored on 30 April 2016, estimated on a sample of firms accounting for about 90% of the market in terms of investments, was €634 billion, compared with end-2015 figures of €614 billion for the sample companies (Table 1) and €564 billion for all insurance companies. The difference between the value in 2015 and the current value monitored is due to the fact that the balance-sheet value does not incorporate:

– unrealized capital gains and losses for securities held on a durable basis;
– unrealized capital gains for the portfolio held on a non-durable basis and unrealized capital losses in the case of insurance companies that used the option provided by the Anti-Crisis Decree (Decree Law 185/2008 as amended).

***Table 1 – Total insurance market – Life and non-life sectors***
*Euro million*

| Investments | Current value of investment | | | % composition of investments 30 April 2016 | Current value of investment | | |
|---|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | | Memo: total investments (durable and non-durable) | | |
| | 30 April 2016 | | | | December 2013 | December 2014 | December 2015 |
| Total non-life | 50,442 | 38,819 | 89,261 | 14,1% | 85,365 | 87,687 | 91,256 |
| Total life | 265,171 | 279,271 | 544,442 | 85,9% | 392,084 | 480,767 | 523,071 |
| Total overall | 315,613 | 318,090 | 633,704 | 100,0% | 477,450 | 568,454 | 614,326 |

| Investments | Balance of valuation gains/losses | | | Balance of valuation gains/losses | | |
|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | Memo: total investments (durable and non-durable) | | |
| | 30 April 2016 | | | December 2013 | December 2014 | December 2015 |
| Total non-life | 4,887 | 1,748 | 6,634 | 4,528 | 6,980 | 6,731 |
| Total life | 36,128 | 21,027 | 57,155 | 16,264 | 52,315 | 52,898 |
| Total overall (Life and non-life) | 41,015 | 22,775 | 63,790 | 20,792 | 59,295 | 59,628 |

Of the Italian insurance industry's **€634 billion of Class C investments** at current value at end-April, €89 billion (15%) referred to non-life business and €545 billion (85%) to life business (Table 1). In the life and non-life sectors combined, investments held both on a durable and non-durable basis are distributed evenly between the two categories (around €320 billion each). Overall, **the balance between unrealized capital gains and losses was positive by €63.8 billion** (compared with €59.6 billion at the end of 2015). The improvement came mainly from the fall in the yields on debt securities, particularly Italian government securities. Both businesses contributed positively to the overall result: the non-life sector's positive balance amounted to €6.6 billion, the life sector's to €57.2 billion.

***Table 2 – Life and Non-life classes – Total investments***
*Euro million*

| Investments | Current value of investment | | | % composition of investments 30 April 2015 | Current value of investment | | |
|---|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | | Memo: total investments (durable and non-durable) | | |
| | 30 April 2016 | | | | December 2013 | December 2014 | December 2015 |
| C.I Land and buildings (A) | 7,583 | 1 | 7,584 | 1.2% | 7,952 | 7,109 | 7,996 |
| C.II.1 Shares and other equity in affiliated undertakings | 52,975 | 775 | 53,749 | 8.5% | 55,447 | 52,999 | 56,066 |
| C.II.2 Debt securities issued by affiliated undertakings | 1,271 | 4,770 | 6,041 | 1.0% | 5,711 | 6,108 | 6,323 |
| Total C.II.1 and C.II.2 (B) | 54,245 | 5,545 | 59,790 | 9.4% | 61,158 | 59,106 | 62,389 |
| C.III.1 Shares and other equity: | 1,037 | 8,626 | 9,664 | 1.5% | 9,058 | 9,450 | 9,146 |
| C.III.2 Investment fund units | 14,604 | 40,676 | 55,280 | 8.7% | 26,953 | 37,544 | 52,075 |
| C.III.3 Bonds and other fixed income securities | 238,143 | 263,060 | 501,204 | 79.1% | 372,185 | 454,850 | 482,358 |
| *– of which: listed and unlisted gov't securities* | *188,874* | *167,394* | *356,268* | *56.2%* | *278,101* | *335,698* | *349,990* |
| C.III.5 Participation in investment pools | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 |
| C.III.7 Sundry financial investments | 0 | 182 | 182 | 0.0% | 144 | 394 | 362 |
| Total C.III.1, 2, 3, 5, 7 (C) | 253,785 | 312,544 | 566,329 | 89.4% | 408,340 | 502,239 | 543,941 |
| Overall total (A + B + C) | 315,613 | 318,090 | 633,704 | 100.0% | 477,450 | 568,454 | 614,326 |

| Investments | Balance of valuation gains/losses | | | Balance of valuation gains/losses | | |
|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | Memo: total investments (durable and non-durable) | | |
| | 30 April 2016 | | | December 2013 | December 2014 | December 2015 |
| C.I Land and buildings (A) | 1,058 | 0 | 1,058 | 1,353 | 884 | 1,208 |
| C.II.1 Shares and other equity in affiliated undertakings | 3,847 | 148 | 3,995 | 2,708 | 3,392 | 4,194 |
| C.II.2 Debt securities issued by affiliated undertakings | 88 | 304 | 392 | 268 | 491 | 382 |
| Total C.II.1 e C.II.2 (B) | 3,935 | 453 | 4,387 | 2,976 | 3,883 | 4,577 |
| C.III.1 Shares and other equity: | -52 | 402 | 350 | 171 | 107 | 387 |
| C.III.2 Investment fund units | 176 | 1,403 | 1,579 | 793 | 1,166 | 960 |
| C.III.3 Bonds and other fixed income securities | 35,898 | 20,552 | 56,450 | 15,502 | 53,318 | 52,475 |
| *– of which: listed and unlisted gov't securities* | *32,718* | *15,767* | *48,484* | *12,205* | *44,440* | *47,327* |
| C.III.5 Participation in investment pools | 0 | 0 | 0 | 0 | 0 | 0 |
| C.III.7 Sundry financial investments | 0 | -34 | -34 | -4 | -63 | 22 |
| Total C.III.1, 2, 3, 5, 7 (C) | 36,023 | 22,322 | 58,344 | 16,463 | 54,528 | 53,844 |
| Overall total (A + B + C) | 41,015 | 22,775 | 63,790 | 20,792 | 59,295 | 59,628 |

## Life and Non-life business

On 30 April 2016, in the life insurance industry, debt securities and other fixed-income securities were the top investments, with a current value of €500 billion, up €20 billion from the end of 2015 (Table 2). Shares and other equity in affiliated undertakings came to €53.7 billion (8.5% of the total) and investment fund units to €55.3 billion (8.7%).

At the end of April 2016 **the balance between unrealized capital gains and losses was positive by approximately €64 billion** (it had been positive by €20.8 billion, €59.3 billion and €59.6 billion at the end of 2013, 2014 and 2015 respectively). In particular, for government securities the positive balance grew by more than €1 billion between the end of 2015 and April 2016, from €47.3 billion to €48.5 billion. The change in the balance since the end of 2013 was even larger, exceeding €36 billion.

It is worth looking more closely at investments in government securities (Figure 1), and in particular at those held on a durable basis, which grew from €79 billion (at current value) at end-2009 to €189 billion based on the latest survey in April this year. The amount invested has not shown any signs of downturn during the period examined; indeed, there has been an average increase by €15 billion yearly. Investments in government securities held on a durable basis went from €100 billion in 2009 to €167 billion at end-April 2016. Investment in this class has also been ever-growing, except for the year 2011 when it decreased by €6 billion.

The last data show overall stability between December 2014 and April 2016.

The portions invested in government securities declined slightly from 57% in December 2015 to 56% in April 2016, after the steady growth recorded in 2009-2014 (from 48% to nearly 60%).

***Figure 1***
***Trend of durable and non-durable government securities (at current value)***
*Euro billion*

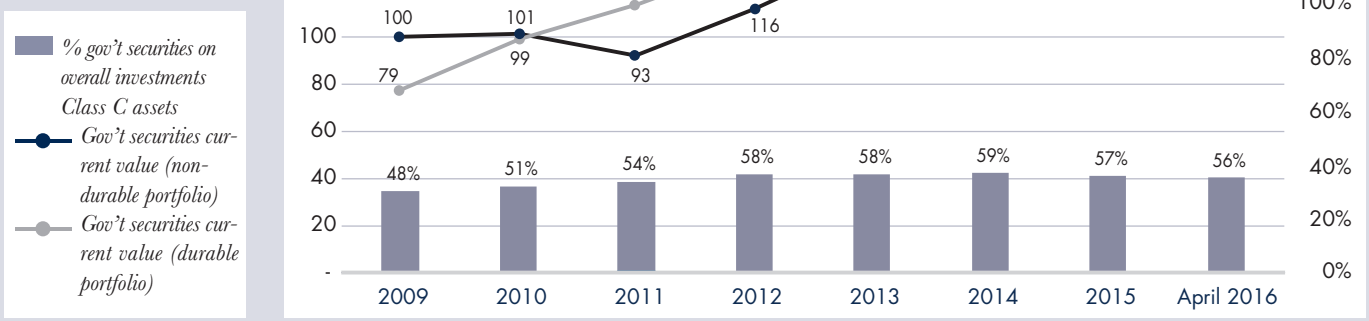
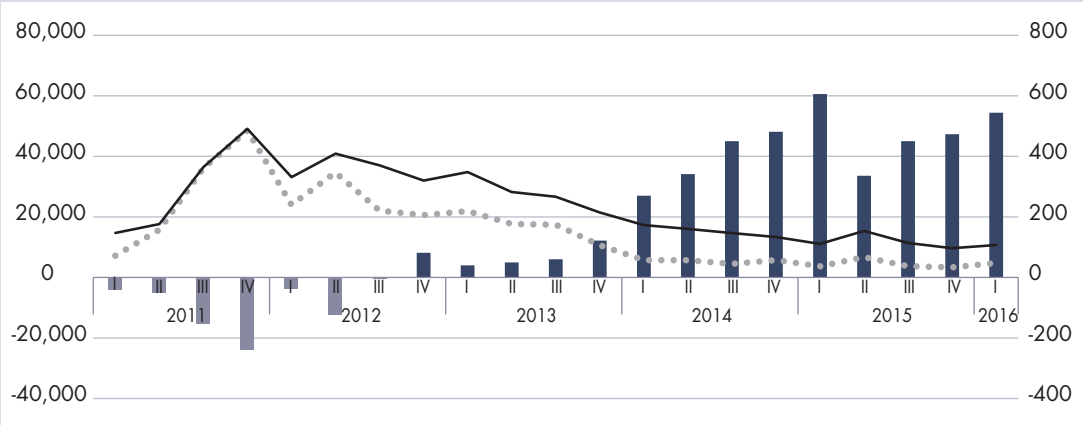


Figure 2 plots the quarterly performance of the balance between unrealized capital gains and losses of Class C investments in government securities against the spread between Italian and German government securities (two- and ten-year securities). The trend observed highlights the predictable inverse correlation between balance and spread trends. When the spread goes down, the balance between capital gains and losses tends to increase. In particular, the when the spread between Italian and German securities went below 400 base points, the balance between capital gains and loses started to become positive, exceeding €60 billion in the first quarter of 2015.

***Figure 2***
***Balance unrealized capital gains/losses on gov't securities and spread Italy/Germany***
*Euro million*




## INSURANCE UNDERTAKINGS AND THE NEW INVESTMENT INSTRUMENTS LINKED TO CREDIT RISK

Based on the outcomes of a survey by ANIA on investments used by insurance companies to cover their technical provisions, a focus study was elaborated concerning the instruments – both traditional and recently introduced ([1]) – exposed to credit risk.

Companies were asked to report:

1) The amount of investments covering the technical provisions (by asset class) as of 31 December 2015 and 31 March 2016;
2) The amount, as of the same dates, of the instruments exposed to credit risk covering the reserves as detailed below:
   *a*) Direct loans
   *b*) private placement ([2])
   *c*) minibonds

([1]) Reference is to the measures taken by the government in recent years with the "Competitiveness" and "Destination Italy" decrees to sustain credit, which allow insurance companies to use as cover for technical provisions also minibonds, commercial bills, securitized assets, direct unsecured loans to borrowers other than natural persons and microfirms, and which raise the ceiling on investment in some types of funds.
([2]) Unrated government bonds subscribed in negotiations one or just a few investors with public or private issuers.

*d)* mortgage backed securities (MBS)
*e)* covered bonds ([3])
*f)* Loan/debit funds
*g)* c), d), e) or f) funds

3) monitoring and management arrangements for investments.

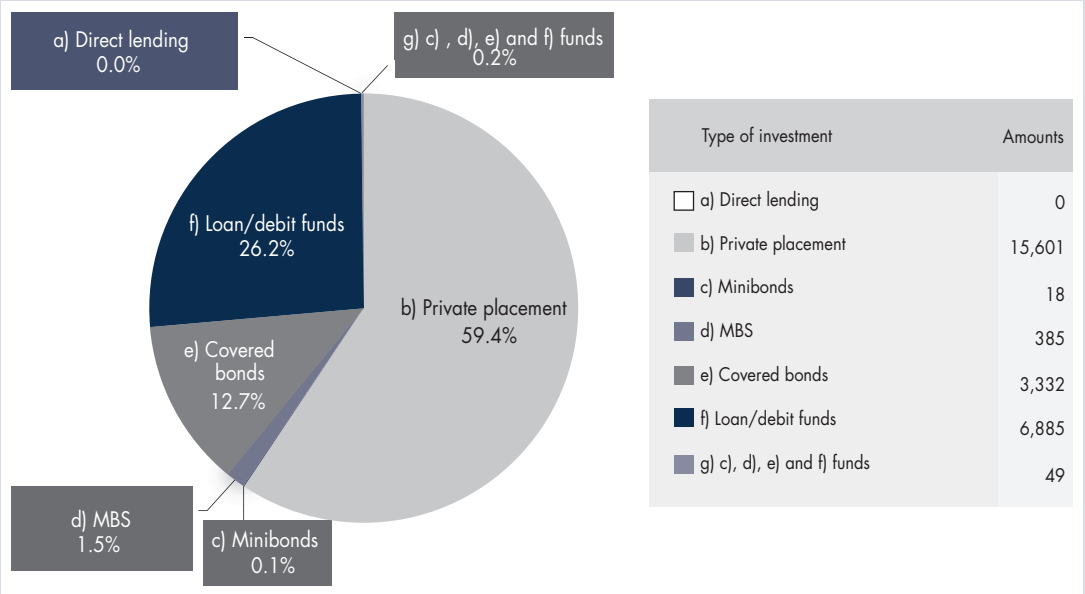
The respondents to the survey represent approximately 72.5% of the undertakings on the market (in terms of total investments) ([4]). The data suggest that also in 2015 and in the first three months of 2016 only a minimum part of the sample, although more than in the last survey, started to make use of the new measures introduced.

As of 31 March 2016 the sample's share of investments exposed to credit risk amounted to nearly €26.3 billion (it was €20 billion in March 2015), 7% of total covering assets of the respondents (just over 6% in March 2015). In addition, among the instruments falling within this category:

- Undertakings invested mainly in private placement (€15.6 billion of which €11.6 billion from Italian issuers) in line with data from the previous survey; as for bonds subscribed with private issuers, around 60% are from Italian issuers, the remaining 40% from foreign issuers, mainly euro-denominated bonds);
- Investments in debit/loan funds equalled €6.9 billion mostly from non-Italian funds as in 2015 (up from €4.1 billion of the previous survey);
- Securitizations and minibonds are still little used (€385 million and €18 million respectively);
- None of the undertakings in the sample made use of direct lending (the new asset class added to the list of eligible instruments).

The survey also revealed that companies make use mainly of third-party assessments, as well as investment committees and internal procedures, to monitor this type of investment. None of the companies seems to operate through agreements with banks.

***Investments exposed to credit risk as of 31 March 2016***
*Euro million*




| Type of investment | Amounts |
|---|---|
| a) Direct lending | 0 |
| b) Private placement | 15,601 |
| c) Minibonds | 18 |
| d) MBS | 385 |
| e) Covered bonds | 3,332 |
| f) Loan/debit funds | 6,885 |
| g) c), d), e) and f) funds | 49 |

*Source: ANIA*

([3]) Not surveyed in previous editions of the inquiry.
([4]) In the previous survey, 60%.

## FOCUS: MINIBONDS AND PRIVATE PLACEMENT

Based on the results of the survey, ANIA decided to study more in depth the types of instruments surveyed, with a special focus on minibonds and private placement, to investigate their main problems.

### Minibonds

The term "minibonds" refers to debt securities (bonds and financial paper with a maturity of up to 36 months issued by listed or unlisted companies). More specifically, minibonds are issued by limited companies or cooperatives (excluding banks and insurance undertakings) with a business volume not exceeding €500 million, not listed on markets open to retail investors. Minibonds do not require the issuing of a rating to be placed; however, a significant number of companies use ratings to meet the investors' information needs. With the regulatory measures of 2014, the pool of investors, which used to be mainly limited to UCITS, was extended to include insurance companies as well.

In Italy, the minibond market is still modest, especially compared to the American market, but it has shown steady growth since 2012, as a reaction to the aftermath of the financial crisis and of the credit crunch. Since the launch of the new market segment ExtraMOT ([5]) dedicated to debt instruments for SMEs (February 2013) – called "ExtrMOT Pro" – the overall volume of listed bonds is approximately €7.1 billion. On 31 May, the number of bonds listed was 135 for an overall volume of €5 billion, with an average coupon of 5.36% and an average maturity of 6.72 years.

If we classify the bonds listed by issuer's business sector, the leading sector is industry excluding construction, followed by consumer goods and energy materials. The sectors represented are highly diversified: trade, public services, financial and healthcare services, IT, telecommunications, and commodities.

***Table 1***
***Classification of minibonds by issuer sector***
*At 31 May 2016*

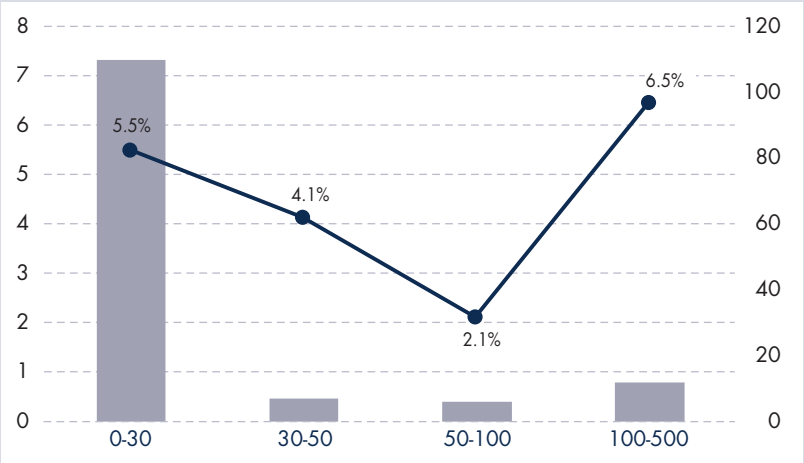
| | Volume (€ million) | No. issues | Average maturity | Average coupon (*) (%) |
|---|---|---|---|---|
| Energy | 703.70 | 17 | 7.35 | 4.85 |
| Commodities | 64.00 | 7 | 5.86 | 5.76 |
| Industry | 1,832.21 | 32 | 5.74 | 6.13 |
| Consumer goods | 1,025.35 | 24 | 5.11 | 5.64 |
| Healthcare | 27.35 | 4 | 5.24 | 6.55 |
| Consumer services | 565.87 | 11 | 5.13 | 5.55 |
| Telecommunications | - | - | - | - |
| Public services | 227.00 | 13 | 19.39 | 4.08 |
| Finance | 554.10 | 19 | 4.04 | 4.21 |
| IT | 44.46 | 8 | 3.60 | 6.06 |
| TOTAL | 5,044.04 | 135 | 6.72 | 5.36 |

*(*) On an annual basis*
*Source: Borsa Italiana, ExtraMOT Pro Statistics*

([5]) The Italian stock exchange's multilateral bond trading system.

If we analyze the issue volumes, over 80% of the 110 issues were for less than €30 million, with an average coupon of 5.5%. The remaining 20% of issues were equally divided among the other sizes, with average coupons of between 2% and 6.5%.

***Figure 1***
***Classification of minibonds by issue volume***
*At 31 May 2016*




*Source: Borsa Italiana, ExtraMOT Pro Statistics*

The main problems in investing in minibonds are, for the investors, uncertainty concerning the riskiness of the undertaking and the "quality" of the assets underlying the investment; for the issuer, the problems are the high costs and the complexity – for small and medium-sized enterprises – of gaining access to the market. These are the main factors behind the the development of indirect financing (through funds) rather than direct financing and the modest listing of minibonds on stock exchanges. A survey by the Politecnico of Milan in collaboration with Borsa Italiana shows, in fact, that the main investors in 2015 were private debt funds, on the rise compared to 2014, followed by banks (both Italian and foreign) and foreign investment funds ([6]).

## Private Placement

The term "private placement" lacks a commonly accepted definition ([7]), but it can be considered, both for issuers and investments, as a financing instrument mid-way between a bank loan and a public bond issue. The term normally refers to unrated bonds placed through private offers presented to a small group of qualified investors without any obligation of transparency (the exchange of information is negotiated directly with the investor and communicated privately), in the medium term (5-7 years), unsecured and with a fixed interest rate.

Private placement generally has lower issue costs than public bond placements, greater flexibility and stronger contractual protections for investors; compared with bank loans, it can

([6]) Osservatorio Mini-bond – Il Report italiano sui Mini-Bond.
([7]) In the US, a private placement is defined as "any debt security non registered with the Securities and Exchange Commission". In Europe, there is no harmonized regulation, but private placement can be defined as "any debt instrument other than a bank loan that is exempt from the prospectus requirement under the Community directive on public placements". Going by international practice (in line with SEC principles), a memorandum should be drafted giving information on the financial situation of the issuer and the risk factors of the investment, to serve investors as an offering document.

offer larger volumes of finance. However, the lack of an official rating necessitates the support of financial intermediaries, higher credit analysis skills and higher costs for the investor in managing the loan over its entire life; the non-standard features and limited amounts of private placement also diminish the liquidity of these assets, making them especially suitable for buy-and-hold strategies.

The first edition of the survey showed that the investment share of private placement, although limited to only a few insurance companies, was rather high in comparison with other assets. At the end of last year, ANIA accordingly decided to launch a joint working group with the Italian Banking Association (ABI) in order study recent market trends and developments more in depth and explore the specific problems and *desiderata* of the insurance industry, with a view to assessing the actual interest of insurance companies in private placement.

The working group found that the insurance companies that take part in private placements are mostly medium-sized or large companies, unrated (but with low credit risk) and unlisted, which intend to diversify their sources of bank finance. But the market is also open to rated and listed issuers and companies with listed debt securities. The survey also found that the most interesting type of PP for the international insurance industry is private placement of assets rated, implicitly if not explicitly, of BB or better; and as regards the type of borrower, utilities, infrastructure operators and industrial companies.

The main problems for the insurance industry brought out by the working group were: the need for broader disclosure, for platforms that give an incentive to issuers to provide more complete information, and for independent credit scoring systems with ample coverage in terms of number of companies, accessible data and low cost; the lack of adequate guarantees as to product structure; the severe information asymmetries in the relationship between the parties; and high costs of due diligence costs, both credit-wise and legally.

## THE SOLVENCY MARGIN IN INSURANCE: THE CHANGEOVER FROM SOLVENCY I TO SOLVENCY II

The new Solvency II supervisory system went into effect on 1 January 2016, and in May insurance companies sent their first Solvency II reports (dubbed "Day One") to IVASS, the Italian insurance supervisor, with data on solvency in 2015 and the first quarter of 2016.

In view of the overlapping of the two supervisory systems (insurers had to present the tables showing their solvency margin as per the old Solvency I rules as well), ANIA conducted a statistical survey into changes in the solvency capital ratio – the indicator that gauges whether an undertaking's capital is adequate to cope with the special technical and financial risks of the insurance business – in the changeover from the old to the new regime.

Practically all Italian insurers took part in the survey (102 firms, with a market share of 96.8%). They were asked for the data needed to calculate the solvency indicators:

- for Solvency I: solvency margin held/margin required;
- for Solvency II: Eligible own funds /Solvency Capital Requirement.

For Solvency II, insurers were asked to state the method used to calculate the SCR, with the following results:

- 90 insurance undertakings adopted the Standard Formula;
- 3 used the Standard Formula but also undertaking-specific parameters;
- 4 applied a partial internal model;
- 5 applied a full internal model.

The study was conducted separately for non-life, life, and multi-branch (or mixed) companies.

Going by the data supplied (still provisional), the median Solvency II Capital Ratio was 1.98, slightly higher than the ratio of 1.87 under Solvency I. The difference between the two mean ratios is somewhat larger: 2.32 and 1.81 (the latter very close to the median). This difference stems mainly from the increase in the undertakings' eligible capital, which rose by 65 percent in the changeover between the two regimes, more than offsetting the 29 percent increase in the capital requirement under the new Solvency II rules.

***Solvency I and Solvency II capital ratio, year 2015 (*)***

| | Solvency Capital Ratio (percentiles) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-life companies | | | Life companies | | | Multi-branch companies | | | Total | | |
| | Solvency I | Solvency II | Diff. in pts. | Solvency I | Solvency II | Diff. in pts. | Solvency I | Solvency II | Diff. in pts. | Solvency I | Solvency II | Diff. in pts. |
| 25th percentile | 1.91 | 1.36 | -0.55 | 1.20 | 1.89 | 0.69 | 1.33 | 1.94 | 0.61 | 1.32 | 1.45 | 0.13 |
| Median | 2.65 | 1.67 | -0.99 | 1.31 | 2.47 | 1.16 | 1.45 | 2.20 | 0.75 | 1.87 | 1.98 | 0.11 |
| 75th percentile | 3.85 | 2.16 | -1.68 | 1.73 | 3.09 | 1.36 | 2.90 | 3.23 | 0.33 | 3.18 | 2.69 | -0.48 |
| Interquartile range | 1.93 | 0.80 | -1.13 | 0.54 | 1.21 | 0.67 | 1.57 | 1.29 | -0.28 | 1.85 | 1.24 | -0.61 |
| | **Solvency Capital Ratio (mean)** | | | | | | | | | | | |
| | **Non-life companies** | | | **Life companies** | | | **Multi-branch companies** | | | **Total** | | |
| | **Margin held (€ mn)** | **Eligible capital (€ mn)** | **% change** | **Margin held (€ mn)** | **Eligible capital (€ mn)** | **% change** | **Margin held (€ mn)** | **Eligible capital (€ mn)** | **% change** | **Margin held (€ mn)** | **Eligible capital (€ mn)** | **% change** |
| | 3,956 | 5,323 | 34.5% | 16,292 | 24,718 | 51.7% | 25,742 | 45,846 | 78.1% | 45,991 | 75,887 | 65.0% |
| | **Margin req't (€ mn)** | **SCR (€ mn)** | **% change** | **Margin req't (mln)** | **SCR (€ mn)** | **% change** | **Margin req't (mln)** | **SCR (€ mn)** | **% change** | **Margin req't (mln)** | **SCR (€ mn)** | **% change** |
| | 1,395 | 3,275 | 134.7% | 12,326 | 9,709 | -21.2% | 11,690 | 19,700 | 68.5% | 25,412 | 32,684 | 28.6% |
| | **Solvency capital ratio (weighted average)** | | **Diff. in pts.** | **Solvency capital ratio (weighted average)** | | **Diff. in pts.** | **Solvency capital ratio (weighted average)** | | **Diff. in pts.** | **Solvency capital ratio (weighted average)** | | **Diff. in pts.** |
| | 2.83 | 1.63 | -1.21 | 1.32 | 2.55 | 1.22 | 2.20 | 2.33 | 0.13 | 1.81 | 2.32 | 0.51 |

*(*) N.B. The absolute numbers refer to the sample of companies taking part in the ANIA survey*
*Source: ANIA*

Breaking the data down according to insurance branch, the results are as follows:

- The median insurance undertaking operating in the **non-life sector** has a Solvency II capital ratio of 1.67, about 1 point lower than under Solvency I (2.65). This decrease marks practically the entire range of firms: 1.36 against 1.91 at the 25$^{th}$ percentile and an even wider gap at the 75$^{th}$ percentile (2.16 under Solvency II against 3.85 under Solvency I). Taking average values, the two supervisory regimes show ratios of 1.63 and

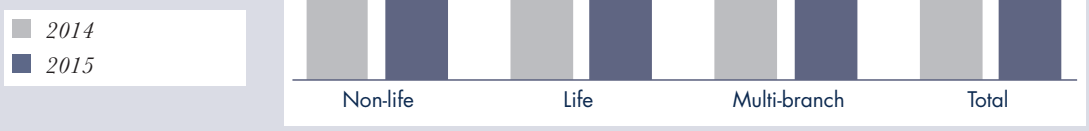
2.83, respectively. In this sector, the decisive factor was the increase in the capital requirement: against the margin requirement of €1.4 billion under Solvency I, the new Solvency Capital Requirement came to €3.3 billion (an increase of 134.7%).

- The median company in the **life sector** had a Solvency II capital ratio of 2.47, practically twice the 1.31 observed for Solvency I. The increase runs throughout the distribution, as the percentile data in the table show. And the mean follows the same pattern: Solvency II own funds are more than 50% greater, while the capital requirement decreases by over 20% with the changeover to Solvency II. The ratio thus comes to 2.55 under the new regime, compared with 1.32 under Solvency I.
- Among **mixed (multi-branch) insurers** too – those authorized to do both kinds of business – the median solvency capital ratio increased, by 0.75 points, with the changeover. However, there was no comparable increase for the average (mean) firm: 2.20 under Solvency I and 2.33 under Solvency II. For these undertakings, the transition to Solvency II increased both available own funds and the capital requirement by between 70% and 80%.

The variability of the solvency capital ratio (measured by the interquartile range) diminishes with the changeover in the non-life sector (from 1.93 to 0.80 points) but increases in the life sector (from 0.54 to 1.21) and holds stable for multi-branch insurers.

Lastly, the respondent firms were also asked for their Solvency II ratios for the previous year, even though this was still a preliminary stage of the new regime. The results (in the figure below) show that overall between 2014 and 2015 the average ratio rose. Specifically, for non-life and mixed insurers there was an increase of about 0.25-0.30 points, while the ratio for life companies was practically unchanged.

***Solvency II capital ratios: from preliminary phase to Day One***



# 2

# THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

## THE INTERNATIONAL SETTING

In 2015 world total premium income continued to grow, albeit modestly, up to $4,554 billion, with a real growth of 3.8% compared to 3.5% in 2014. However, annual growth is still lower than pre-crisis levels (2003-2007) in advanced markets and only slightly higher in emerging markets.

More specifically, in Europe, whose volume accounts for 32% of the world total, premiums increased by 1.2%. In North America, with 31% of the global market, the growth was stronger at 3.5%. In Asia, with a market share of 30% (nearly 10% of premiums are claimed in Japan alone and over 8% in China), the increase was more marked at 8.2%. While still accounting only for a minor share of the global market, Latin America and Africa (respectively 3% and 1%) have registered an increase in premium income. Oceania, with a market share of only 2%, experienced a downward trend in the volume of premiums (-4.5%).

In 2015, life premiums increased by 4% in real terms (to $2,534 billion) compared to 2014 when the volume had grown by 4.3%. In detail, North America resumed growing (+3.8%) after two years of stagnation; premium collection increased also in Asia (+7.8%), especially thanks to Japanese premiums. In Western Europe, the increase (+1.3%) was smaller than a year earlier (+5.8%). An improvement was observed also in Latin America (+7.5%) and Africa (+2.8%), although the latter was less pronounced. In Eastern Europe and Oceania premiums decreased.

***Premium volume 2015***
*$ million*

| | LIFE | NON-LIFE | TOTAL | Share % Total |
|---|---|---|---|---|
| North America | 601,837 | 829,402 | 1,431,239 | 31.4 |
| Latin America | 66,201 | 91,945 | 158,146 | 3.5 |
| Europe | 872,115 | 596,763 | 1,468,878 | 32.3 |
| *of which: West. Europe* | *856,624* | *558,561* | *1,415,185* | *31.1* |
| *of which: C&E Europe* | *15,491* | *38,202* | *53,693* | *1.2* |
| Asia | 904,569 | 446,405 | 1,350,974 | 29.7 |
| *of which: Japan* | *343,816* | *105,891* | *449,707* | *9.9* |
| *of which: China* | *210,763* | *175,737* | *386,500* | *8.5* |
| Africa | 43,704 | 20,419 | 64,123 | 1.4 |
| Oceania | 45,393 | 35,033 | 80,426 | 1.8 |
| TOTAL | 2,533,819 | 2,019,967 | 4,553,786 | 100 |

*Source: Swiss Re – SIGMA No. 3, 2016*

***Real Growth 2015***
*%*

| | LIFE | NON-LIFE | TOTAL |
|---|---|---|---|
| North America | 3.8 | 3.2 | 3.5 |
| Latin America | *7.5* | 2.3 | 4.6 |
| Europe | 1.2 | 1.1 | 1.2 |
| *of which: West. Europe* | *1.3* | *1.5* | *1.4* |
| *of which: C&E Europe* | *-3.5* | *-4.9* | *-4.5* |
| Asia | *7.8* | 9.2 | 8.2 |
| *of which: Japan* | *2.8* | *3.1* | *2.9* |
| *of which: China* | *19.7* | *16.6* | *18.3* |
| Africa | 2.8 | 1.3 | 2.4 |
| Oceania | *-7.8* | 0.1 | -4.5 |
| TOTAL | 4.0 | 3.6 | 3.8 |

*Source: Swiss Re – SIGMA No. 3, 2016*

Non-life premiums were $2,020 billion in 2015, up 3.6% from 2014 when they registered a 2.4% increase on 2013.

Overall, the non-life sector has led the expansion, with the exception of Oceania, whose growth is nearly at a standstill. In particular, North America and Japan showed the stronger growth, 3.2% and 3.1% respectively. Also in Western Europe, premium income improved (+1.5%) after a period of stagnation in 2014.

In the emerging countries there was a noticeable growth in premium income in China (+16.6%) and a contraction in the volume of premiums in Eastern Europe (-4.9%), mainly reflecting the decrease in Russia.

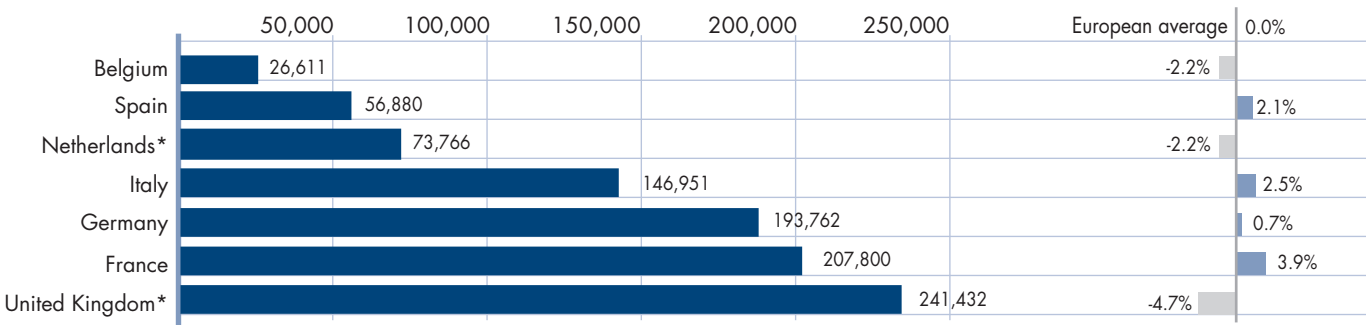
Overall profitability in the two sectors has remained below its pre-crisis levels. The life sector was positively affected by the mild growth of premiums in most markets, although its profits diminished due to prolonged low interest rates. In the non-life sector, instead, both the technical results and investments performed worse. In this context, the life insurance sector will continue to face a scenario of low interest rates, high market volatility and further regulatory changes, while the non-life sector will benefit from prospects of an improved world economy and from a period in which there were no major natural disasters. In both sectors, the major contribution to the acceleration of the development of the global insurance industry will continue to come from emerging economies for many years, due to increasing urbanization and GDP growth and the introduction of new technologies.

## THE IMPORTANCE OF INSURANCE IN THE MAIN EU NATIONAL MARKETS

In 2015, overall premium income in the main EU countries (Belgium, France, Germany, Italy, the Netherlands, Spain and the United Kingdom) amounted to €947 billion, broadly steady compared to 2014. In detail, positive changes were recorded in four countries: France (+3.9%), Italy (+2.5%), Spain (+2.1%) and Germany (+0.7%). Premiums collected in the United Kingdom and the Netherlands were, instead, in decline (-4.7% and -2.2% respectively; for these two countries the figures refer to 2014 and 2013, as data for 2015 are not yet available). Premiums in Belgium also slipped by 2.2%.

***Direct premiums in the main EU countries in 2015 – Total***
*€ million*

***% change in direct premiums 2015/2014 – Total***

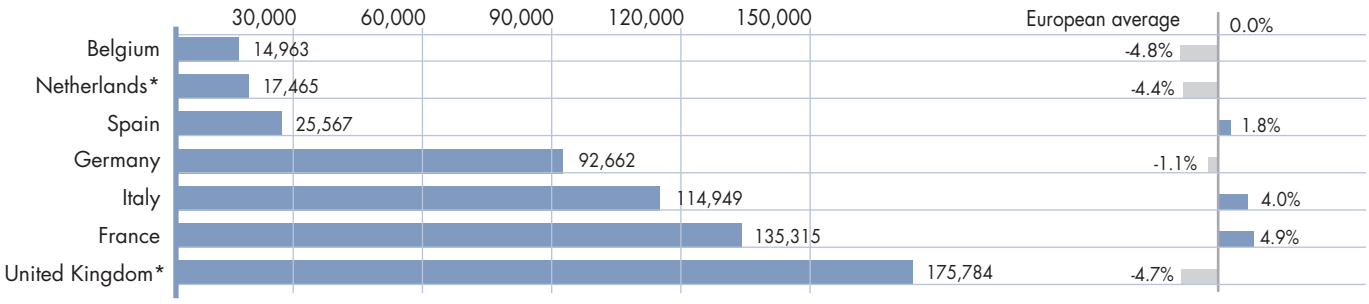



*(*) 2014 and change 2014/2013*
*Source: Insurance Europe*

A detailed analysis of the two sectors reveals that life premium income in 2015 was in line with the previous year, at €577 billion. However, different trends were recorded in the various countries. In particular, premiums increased in France (+4.9%), Italy (+4.0%) and Spain (+1.8%), while they shrank in Belgium (-4.8%), the UK and the Netherlands (-4.7% and -4.4% respectively; changes for 2014 on 2013) and finally Germany (-1.1%).

***Direct premiums in the main EU countries in 2015 – Life*** ***% change in direct premiums 2015/2014 – Life***

*€ million*

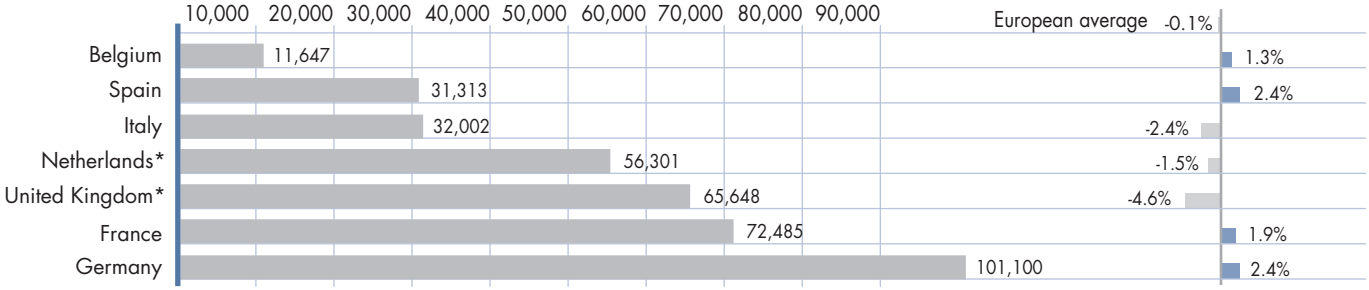



*(*) 2014 and change 2014/2013*

*Source: Insurance Europe*

***Direct premiums in the main EU countries in 2015 – Non-life*** ***% change in direct premiums 2015/2014 – Non-life***

*€ million*




*(*) 2014 and change 2014/2013*

*Source: Insurance Europe*

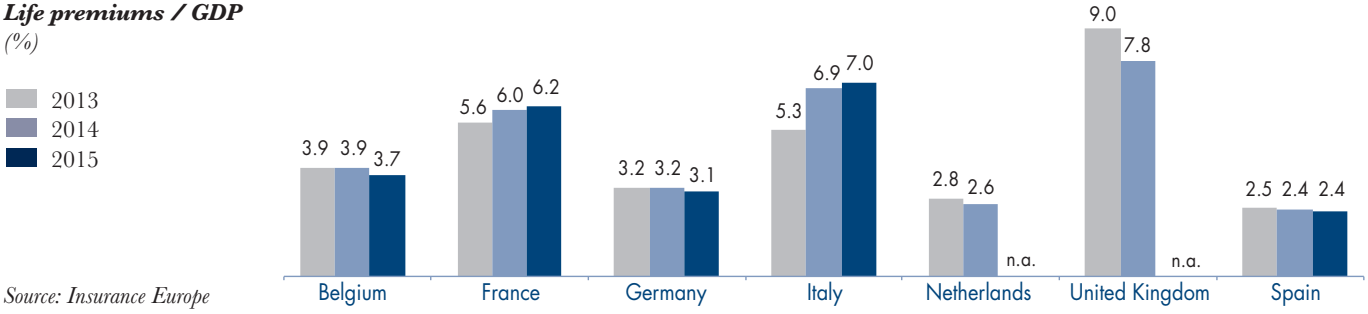
For non-life insurance, in the sample of countries under review 2015 was characterized by a slight decline in premium income (-0.1%) to €370 billion. The change was positive in Germany and Spain (both +2.4%), France (+1.9%) and Belgium (+1.3%). Negative trends were observed in the UK and the Netherlands (-4.6% and -1.5% respectively; 2014 changes compared to 2013) and Italy (-2.4%).

Between 2013 and 2015 the ratio of the volume of premiums to GDP – the so-called insurance penetration index – performed differently in the life and non-life sectors. Note that the data for 2015 provided by Insurance Europe are still provisional and, in some cases, they are estimates made by national insurance associations.

In the life sector, the indicator was unchanged between 2013 and 2014, showing a downward trend in 2015 both in Belgium, from 3.9% in 2013-2014 to 3.7%, and in Germany, from 3.2% in the two-year period to 3.1%. Also in Spain, the ratio remained the same in 2015, after diminishing from 2.5% in 2013 to 2.4% in 2014. The same down-trend was registered in 2013 and 2014 in the Netherlands, where the index went from 2.8% in 2013 to 2.6% in 2014, and in the United Kingdom, where it went from 9.0% in 2013 to 7.8% in 2014 (nevertheless the highest value among all the countries examined).

France and Italy reported increases, going from 5.6% and 5.3% in 2013 to 6.2% and 7.0% in 2015 respectively. Italy thus maintained its second place in Europe, after the UK, in the life business.

***Life premiums / GDP***
*(%)*

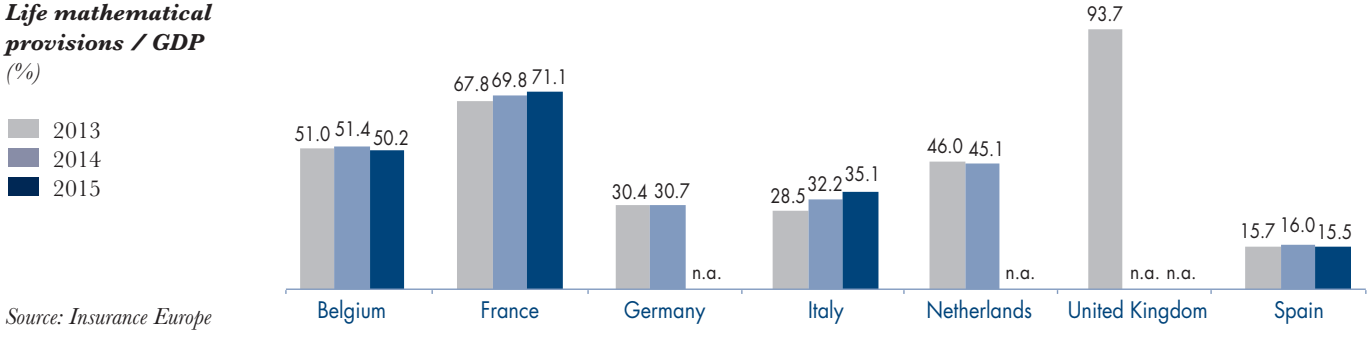



*Source: Insurance Europe*

As regards mathematical provisions, the 2015 data for Germany and the Netherlands (and 2014 and 2015 data for the United Kingdom) 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 28.5% in 2013 to 32.2% in 2014 and 35.1% in 2015. However, this is still lower than in the other European countries, except Spain, where the ratio fell to 15.5% in 2015 from 16.0% in 2014 (it was 15.7% in 2013). The ratio also rose in Germany where, although referred to 2014, values reached 30.7% from 30.4% a year earlier. Similarly to Italy, also in France the indicator showed an upward trend from 67.8% in 2013 to 69.8% in 2014 and 71.1% in 2015. A decline was observed in Belgium (from 51.4% in 2014 to 50.2% in 2015) and in the Netherlands (from 46.0% in 2013 to 45.1% in 2014). The highest value for this indicator, although referred only to 2013, was recorded in the United Kingdom, with over 90%.

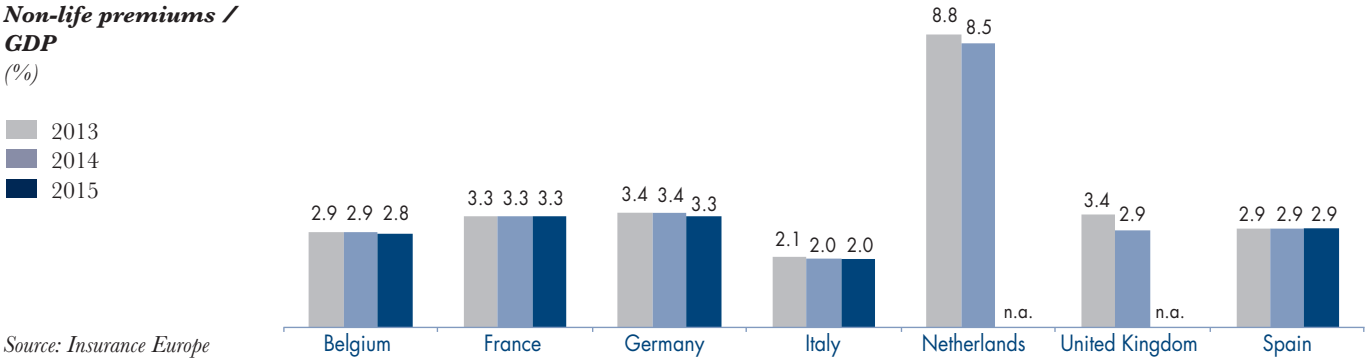
***Life mathematical provisions / GDP***
*(%)*




*Source: Insurance Europe*

In the non-life sector, in 2015 Italy again had the lowest ratio of premiums to GDP. Over the past two years, the Italian index has been stable but, at 2.0%, lower than in 2013 (2.1%). With the exception of France and Spain, whose indicators remained constant for the past three years at 3.3% and 2.9% respectively, a downturn was recorded also in the other countries. In particular, the indicator diminished in Germany and in Belgium in 2015, compared to the two previous years, going from 3.4% and 2.9% in 2013-2014 to 3.3% and 2.8% in 2015 respectively. Also decreasing is the indicator for the UK, where the ratio went from 3.4% in 2013 to 2.9% in 2014. The Netherlands' high non-life insurance penetration index – the highest in Europe at 8.5% in 2014, despite the slight decline compared to 2013 (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.

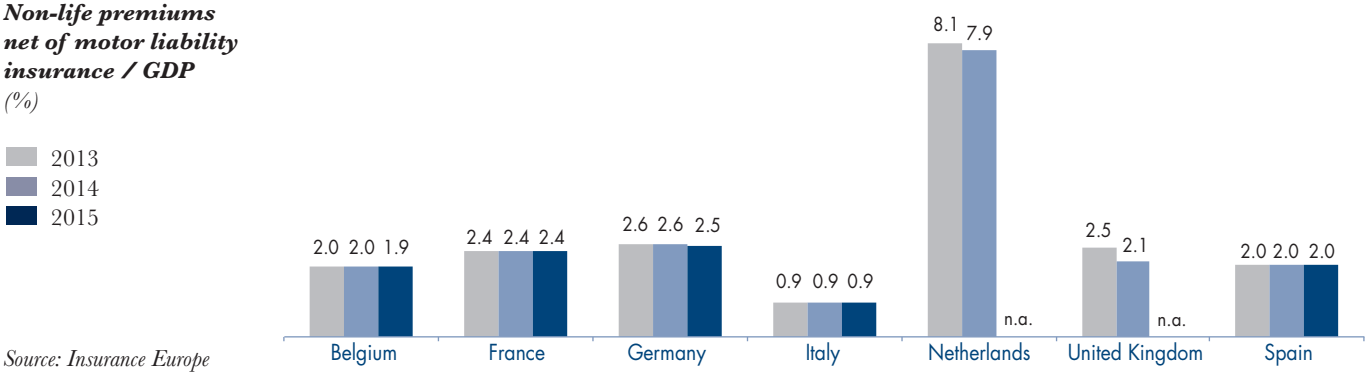
***Non-life premiums / GDP***
*(%)*




*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 2015 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. In France the indicator remained stable at 2.4% over the three-year observation period, while it decreased slightly in Germany from 2.6% in 2013-2014 to 2.5% in 2015. Also decreasing, although referred to 2013 and 2014, were the indicators in the UK and in the Netherlands, from 2.5% and 8.1% to 2.1% and 7.9% respectively.

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




*Source: Insurance Europe*

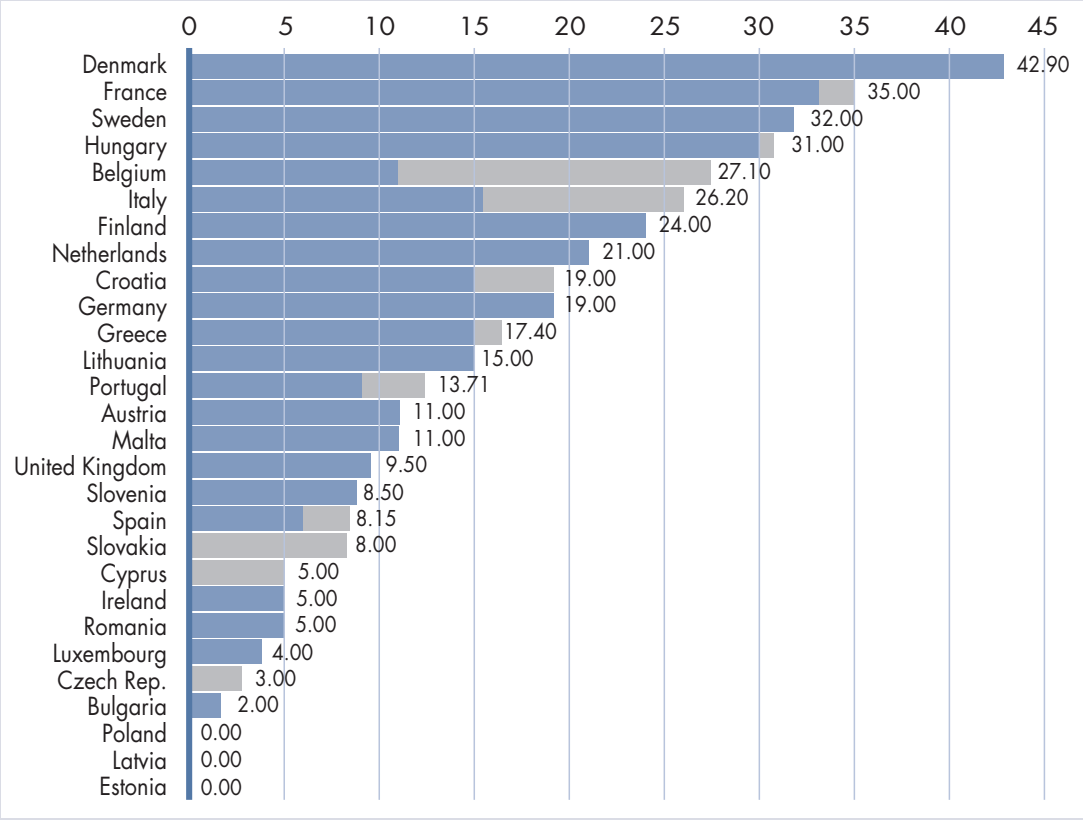
## TAXATION OF PREMIUMS IN THE EUROPEAN UNION

As in past years, 2016 confirms an unchanging pattern, with Italy being among the countries in Europe with the highest tax burden on insurance premiums.

In the following discussion we supply details on the tax rates applied to insurance premiums in the EU member 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 tax-related charges equal to 10.5% brings the overall rate on motor liability insurance to 26.2%. The 15.7% value is the result of local increases decided in 2011 by Italian provinces, which have raised the tax rate from 12.5% to 16%.

***Motor liability***
*(%)*




*Source: Insurance Europe*

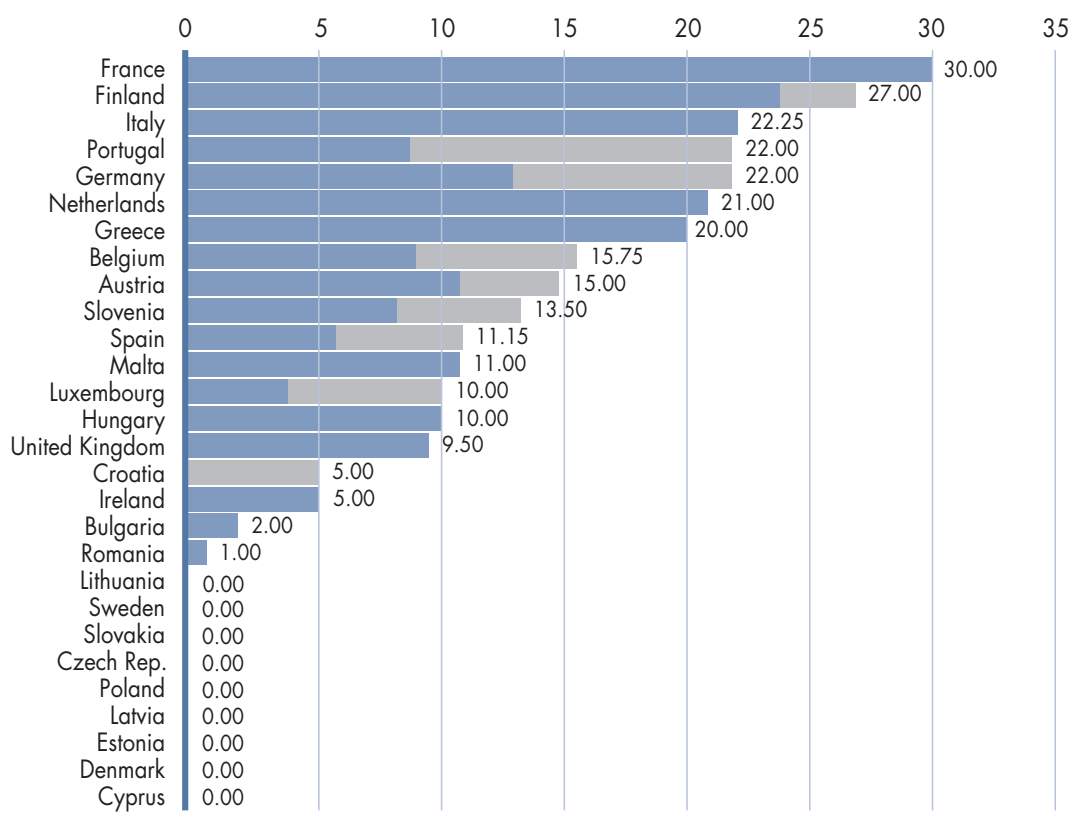
The latest data from the Fiscal Federalism Bureau of the Finance Department show that, in fact, only three Italian provinces have kept the tax rate below the 12.5% basic rate; all the others have implemented rises, bringing the tax rate to the highest value allowed (16%), with a few isolated exceptions.

The incidence of taxes and parafiscal charges on motor liability insurance in Europe averages 20%. Italy is still well above the average and the values applied in other important countries, such as the United Kingdom (9.5%), Spain (8.15%) and Austria (11%). In the Netherlands

the tax rate is confirmed to be slightly above average (21%), while in France the overall charge has reached 35%.

The tax on fire insurance premiums in Italy (22.25%) is sharply higher than in the United Kingdom, Spain and Austria (9.5%, 11.15% and 15% respectively) but continues to be lower than in France (30%) and Finland (27%).

***Fire***
*(%)*



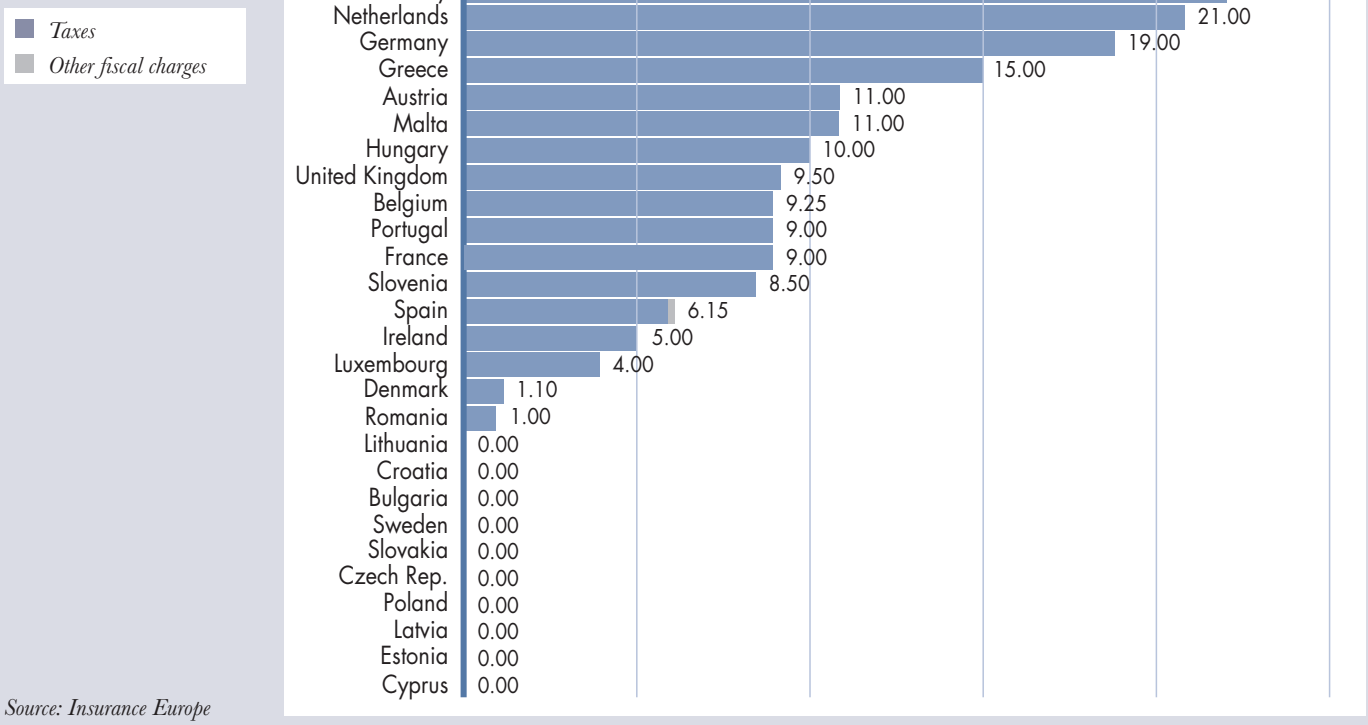

*Source: Insurance Europe*

As in the past, Italy and Finland share the unenviable record of the most onerous tax burden in Europe for general third-party liability (22.25% and 24% respectively) with values regularly higher than in Germany (19%), the United Kingdom (9.5%), France (9%) and Spain (6.15%).

There were no changes last year in Italy in the indirect taxation of shipping insurance premiums, taxed at 7.5% for goods transported by sea or air and at 12.5% for those transported by land. The European countries with the highest tax rates are, once again, Finland (24%), Germany (19%), Greece (15%) and Austria (11%). The United Kingdom applies a 9.5% rate. In France and most of the other countries such premiums are either exempt or taxed at a very low rate.

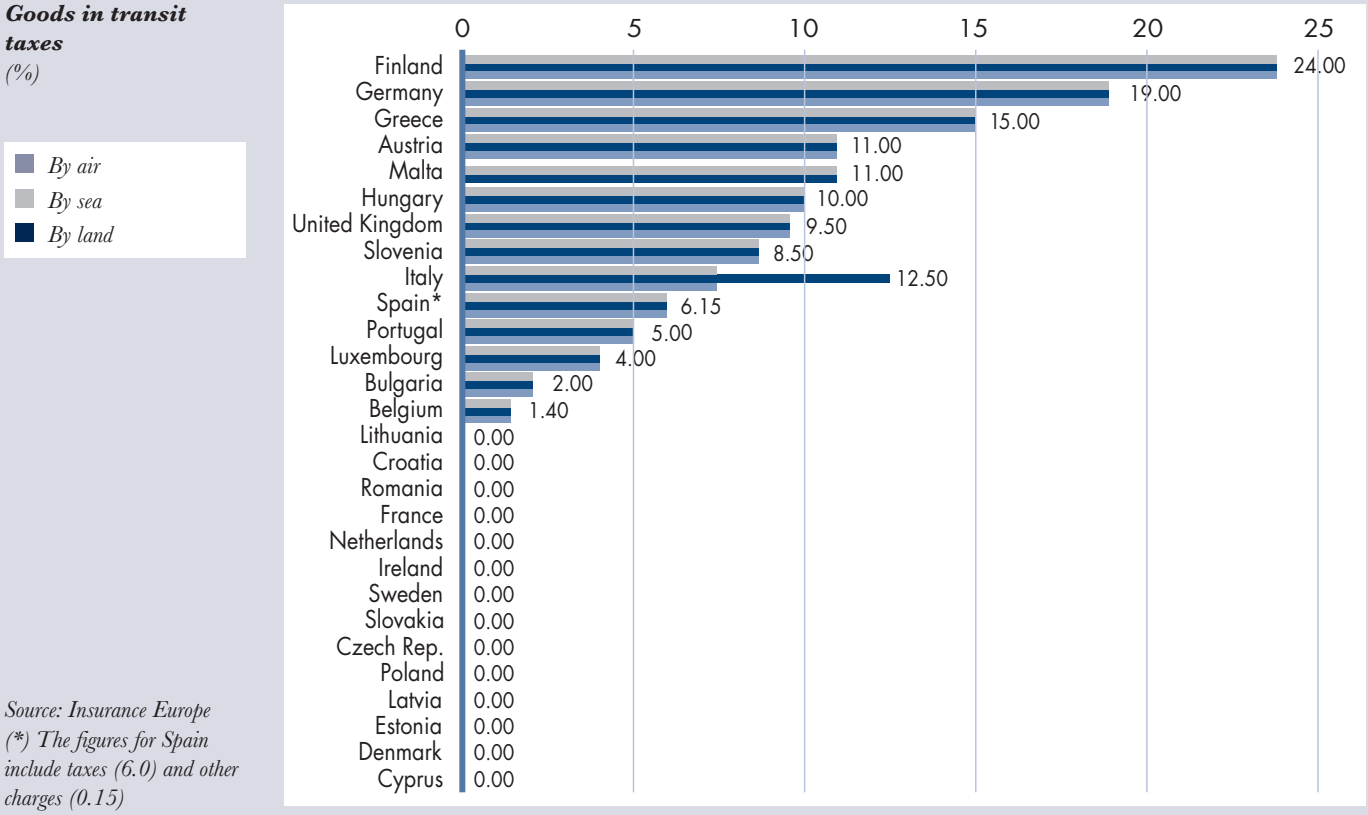
The following charts show, separately by type of insurance cover, detailed data on the tax rates applied to premiums in the 28 member states of the European Union.

***General liability***
*(%)*




*Source: Insurance Europe*

***Goods in transit taxes***
*(%)*




*Source: Insurance Europe*
*(*) The figures for Spain include taxes (6.0) and other charges (0.15)*

# 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, in addition to those analyzed individually, include Austria, Belgium, the Netherlands, Sweden and Switzerland ([1]). The database collects information made available by a sample of companies representing over 90% of the insurance market. The observation period goes from 2010 to 2014.

## Insurance companies operating in non-life business

In the observation period (2010-2014), the companies of the European sample surveyed by Fitch Connect and operating in non-life business exclusively (multi-branch companies have been excluded from the analysis) were 856, of which 233 in Germany, 132 in the United Kingdom, 125 in France and 69 in Italy.

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.

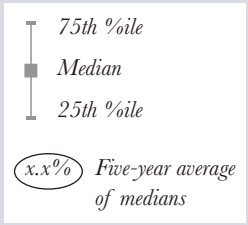
The profitability trend of the average company for the European sample analyzed has showed an upturn from 4.3% in 2013 to 7.0% in 2014 (Figure 1). The Italian indicator, after the minor drop registered the previous year (from 8.8% in 2012 to 7.8% in 2013), improved to 11.4%. The same trend was recorded in the United Kingdom and Germany. In detail: profitability of the average British company increased from 4.7% in 2013 to 6.5% in 2014, while that of German companies reached 4.6% from 1.6% in 2013. France is the only country among the four examined to show a slight downturn in the indicator, from 7.9% in 2013 to 7.4% in 2014. The five-year average shows a value for Italy of 6.2%, in line with the United Kingdom (5.6%), lower than France (7.9%) and higher by approximately one percentage point than the European average (4.9%).

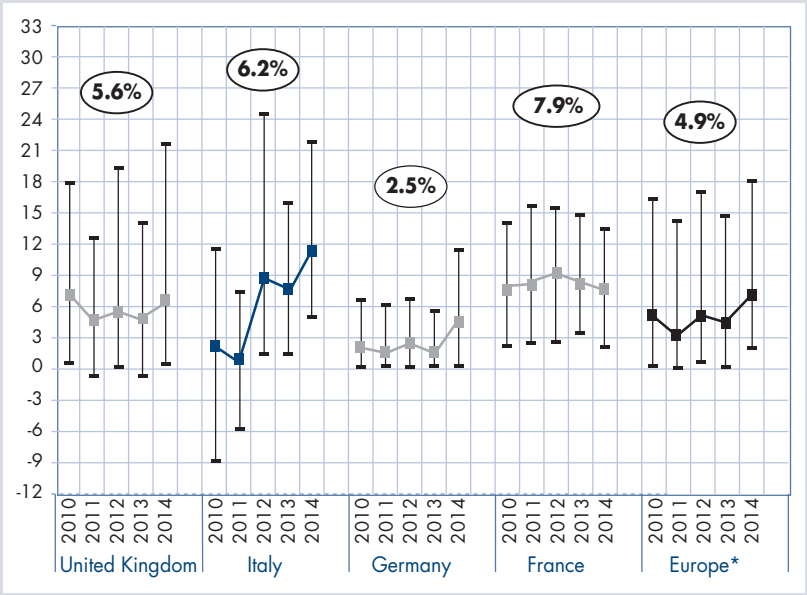
The data on dispersion of undertakings around the median value can be obtained by calculating the interquartile range, which is the difference between the values of the indicators referred to the companies which represent, respectively, the first and third quartile of companies ordered by increasing profitability.

In 2014, the dispersion of undertakings in Italy was somewhat higher than a year earlier, at 17 percentage points instead of 15, but lower than in the United Kingdom where it topped 21 percentage points. The other countries observed recorded lower values. In detail, the median of the European sample was 13 percentage points, followed by the 11 points of France and 10 of Germany.

([1]) Spain is excluded, because it has instituted a financial statement model that does not allow comparison with previous years.

***Figure 1***
***Return on equity (%)***
***Non-life***



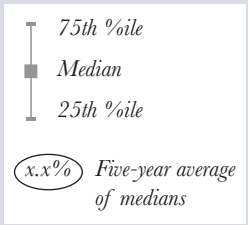



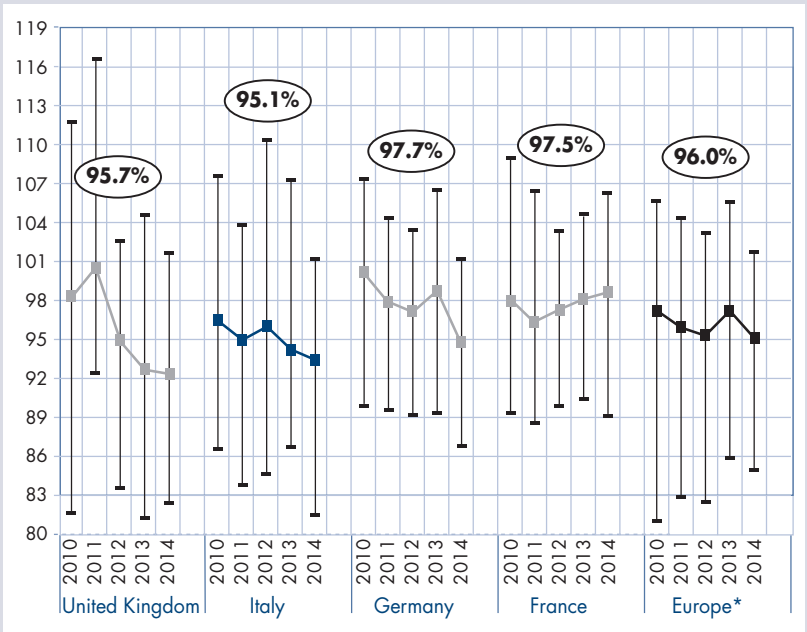

*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

In 2014 the **combined ratio**, defined as the sum of the loss ratio and the expense ratio of companies, recorded a European median of 95.1%, better than 2013 when it was 97.0% (Figure 2). The median Italian company as well showed steady improvement, going from 96.2% in 2012 to 94.3% in 2013 and down to 93.5% in 2014. In the five-year average observed, the value for Italy is approximately one percentage point lower than the European average. The same trend was observed in Germany and the United Kingdom, which went from 98.6% and 92.6% in 2013 to 94.8% and 92.4% respectively in 2014. In France the indicator performed worse, rising progressively from 96.2% in 2011 to 98.6%.

In 2014, the difference between the first and third quartile of the sample of companies was 20 percentage points in the United Kingdom, 19 in Italy, 17 in France (same value of the European sample) and 14 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***



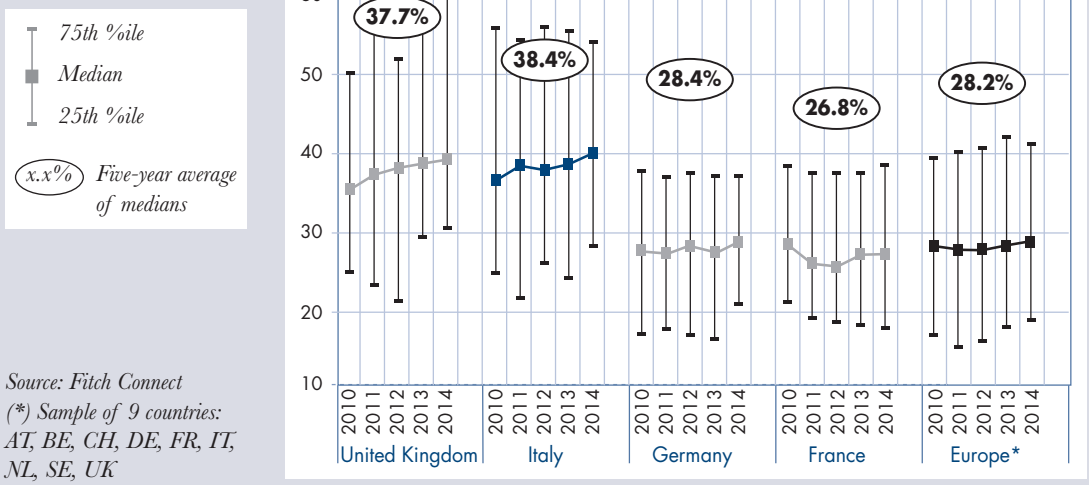




*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

In the same year, the performance of the **expense ratio** worsened slightly from 28.6% in 2013 to 29.0% in 2014, due to the general increase in the indicator recorded in all the countries examined (Figure 3). More precisely: values increased in Italy from 38.8% in 2013 to 40.2% in 2014, in the United Kingdom from 38.8% to 39.3% and in Germany from 28.2% to 29.0%; France was the only country to show virtually unchanged values at 27.1%.

In 2014 the difference between the first and third quartile of the sample of companies was highest in the United Kingdom at 31 percentage points, followed by Italy at 26 points, and lowest in Germany at 16 points.

***Figure 3***
***Expense ratio (%)***
***Non-life***



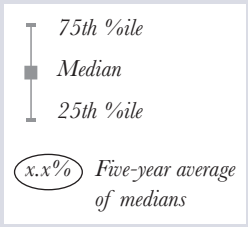

*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

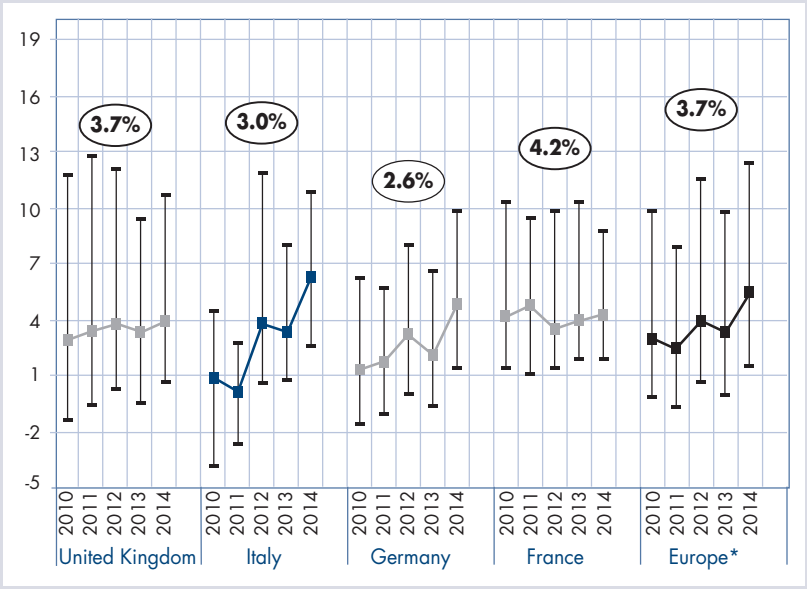
The **net profit** in non-life insurance business as a ratio **to the volume of written premiums** showed a significant increase at European level, from 3.4% in 2013 to 5.4% in 2014 (Figure 4). Italy reached 6.3% in 2014 from 3.5% in 2013, with the highest indicator among the countries observed. The German indicator also performed very well (from 1.9% in 2013 to 5.1% in 2014), followed by France at 4.2% (it was 4.1% a year earlier) and the United Kingdom at 4.1% (up from 3.5% in 2013). It should be noted, however, that the five-year average shows a value for Italy (3.0%) lower than that of France (4.2%) and the United Kingdom (3.7%) and, in general, lower than the European average (3.7%).

The interquartile range of companies was largest in the United Kingdom and in the European sample, at 10 percentage points, immediately followed by Germany at 9, Italy at 8 and France at 7 points.

With respect to the previous year, in 2014 the ratio of **total technical provisions to the volume of written premiums** increased at European level, to 144.7% from 143.7% in 2013 (Figure 5); the same trend, although more pronounced, was observed in the United Kingdom which attained 182.0% in 2014, over 10 percentage points more than in 2013, while the smallest increase, around 3 percentage points, was in Italy and Germany with values in 2014 of 169.5% and 123.4% respectively. France was the only country to show a decrease in the indicator, going from 144.4% in 2013 down to 133.5% in 2014. In the five-year period of observation, Italy's average value (161.5%) was higher than the European sample (143.3%) and all other countries except the United Kingdom, which had a value of 173.2%.

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

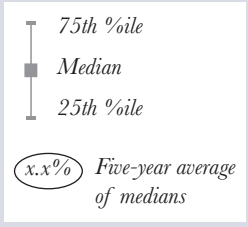


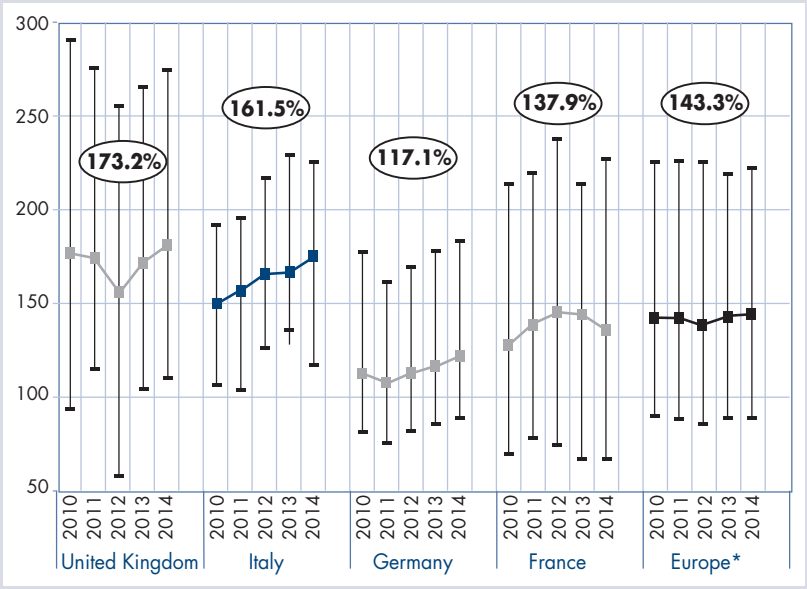




*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

In the last year of observation, the difference between the first and third quartiles of the distribution of companies was greatest in the United Kingdom at 163 percentage points, followed by France at 160 points, Italy at 106 points and Germany at 99 points (the average dispersion of undertakings of the European sample examined was 139 percentage points).

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




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

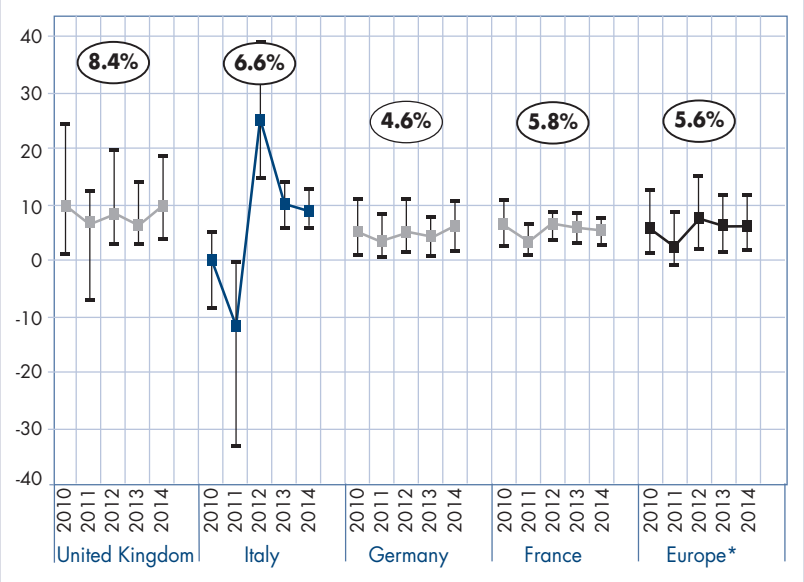
## Insurance companies operating in life business

In the period 2010-2014, the companies surveyed by Fitch Connect included in the European sample examined and operating exclusively in life business (multi-branch companies have been excluded from the analysis) were 462, of which 283 in Germany, 66 in France, 57 in Italy and 56 in the United Kingdom (the low representativeness of the British sample may compromise the analysis of trends for this country).

**The return on equity (ROE** – the ratio between net income and the average of shareholder's equity over the past two years) of the median Italian company slipped from 10.4% in 2013 to 9.1% in 2014, showing in any event a five-year average of 6.6%, one percentage point better than the European sample (5.6%), which also diminished in 2014 (Figure 6). A similar trend was observed in France, with a value of 5.9% in 2014, down from 6.1% in 2013. By contrast, the indicator rose in the United Kingdom and Germany to 9.8% and 5.3% from 6.3% and 4.5% in 2013 respectively.

As for the dispersion of company profitability around the median value, in 2014 the highest value was registered in the United Kingdom, with a difference between the first and third quartiles of the distribution equal to 15 percentage points, followed by Germany and by the European sample with 9 percentage points, then Italy with 7 points and finally France with 5 points.

***Figure 6***
***Return on equity (%)***
***Life***



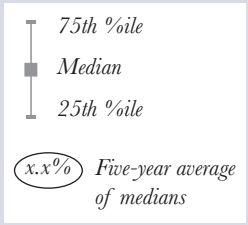

*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

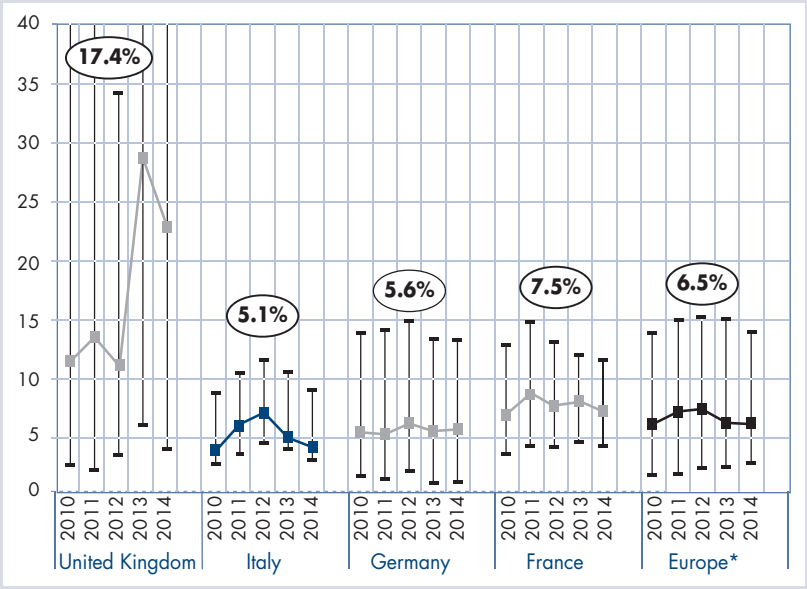
In 2014 the **expense ratio** of the median life insurance company averaged 6.2% in Europe, unchanged from a year earlier (Figure 7). Among the countries examined, there was a general improvement in this indicator, most notably in the United Kingdom where it went down to 22.9% from 28.3% in 2013, in France to 6.9% from 8.0% and finally in Italy, where it showed a steady improvement over the past two years, reaching 4.0%.

The median and dispersion may vary substantially between countries, also in view of the incidence of the linked policies, which generally have a lower expense ratio than the other life classes. In 2014 the difference between the first and third quartiles of the distribution of companies was 56 percentage points in the United Kingdom, 13 in Germany, 12 in the European sample, 7 in France and 6 in Italy.

In the same year the **return on investment** of the European sample (excluding the United Kingdom because of lack of data) diminished slightly from 4.0% in 2013 to 3.9% in 2014 (Figure 8). Italy showed a steady drop in the indicator over the past two years, coming down to 3.5% in 2014 from 5.4% in 2012 and 4.0% in 2013. Investment earnings also came down slightly in France, from 3.9% in 2013 to 3.8% in 2014, while in Germany it remained stable at 3.9%. The five-year average was 3.9% for the European sample, in line with France and Germany but higher than Italy (3.3%).

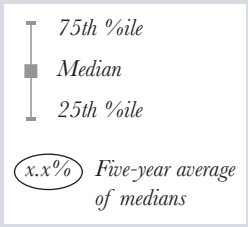
***Figure 7***
***Expense ratio (%)***
***Life***

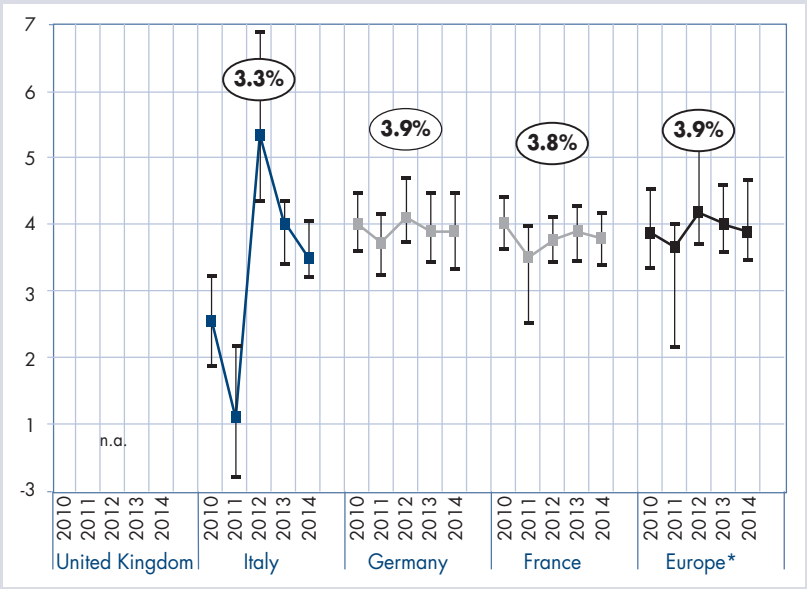



*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

***Figure 8***
***Return on investments (%)***
***Life***



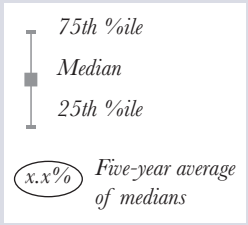

*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

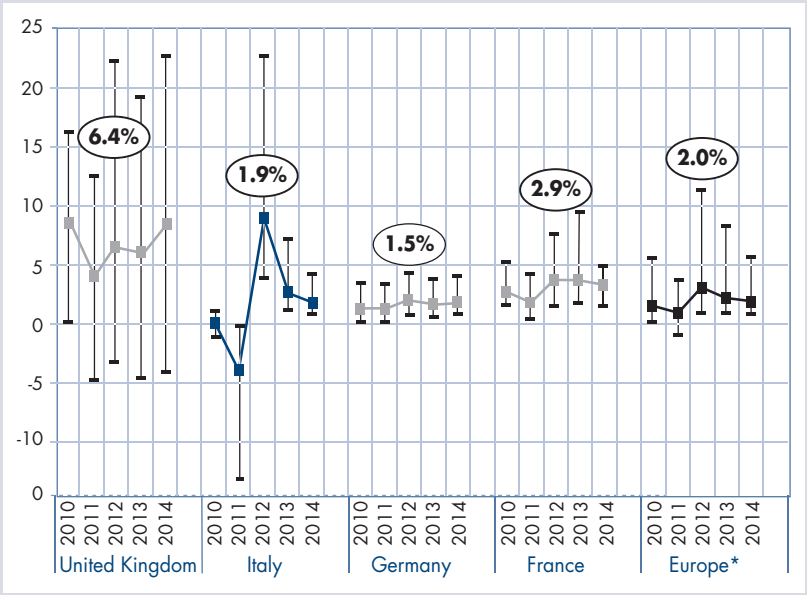
As for the interquartile range, in all the countries examined in 2014 there was a distance between the first and third quartile of the distribution of less than one percentage point, while for the European sample the value was 1.3 percentage points.

In 2014 **net income** from life business as a ratio **to the volume of written premiums** declined again in 2014 at European level, to 1.9% compared with 3.0% in 2012 and 2.3% in 2013 (Figure 9). Italy and France reflect this trend in 2014, with an incidence of 1.9% and 3.1%, down from 2.6% and 3.6% in 2013 respectively. The opposite trend was recorded by the indicator in Germany and in the United Kingdom: the former going from 1.5% to 1.6% and the latter from 6.1% to 8.1%.

These two countries recorded an increase in the range between the first and third quartiles of the distribution compared to the previous year as well, unlike all the other countries (including the European sample) where a non-marginal decrease in the interquartile range was observed.

***Figure 9***
***Net profit/Premiums (%)***
***Life***

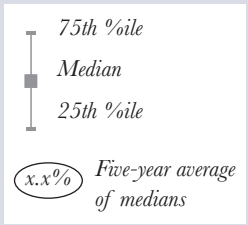


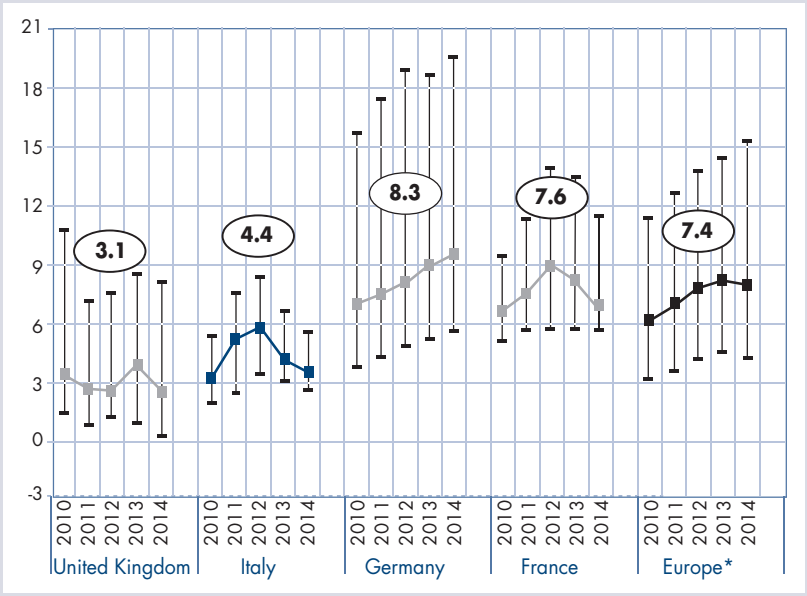




*Source: Fitch Connect*
*(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK*

Compared to 2013, in 2014 the ratio of **technical provisions to written premiums** of the median company at European level was lower than in 2013, at 7.9:1, with an average value of 7.4 for the five-year period of observation (Figure 10). With the exception of Germany, this trend is common to all the countries analyzed: France showed a ratio of 7.0:1, down from 7.9 in 2013, Italy went from 4.4:1 to 3.6 and the United Kingdom from 4.1:1 to 2.6. Germany was the only country to show an increase in the indicator, from 9.0:1 in 2013 to 9.5:1 in 2014. In 2014 the greatest difference between the first and third quartiles of the distribution was recorded in Germany (14), while Italy is the country with the lowest dispersion (3).

***Figure 10***
***Technical provisions/ Premiums***
***Life***




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

## PROFITABILITY OF EUROPEAN LISTED INSURANCE COMPANIES IN 2015

With regard to listed companies only, it is possible to compare the profitability of the insurance industry in European countries in 2015. 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 were written based on IAS principles, which allow the recognition of some capital losses in the net equity without being entered in the income statement.

In 2015 profitability (median ROE net of taxes and dividends of preferred shares) of the insurance companies listed in the main European countries remained virtually unchanged compared to a year earlier. In the United Kingdom the ROE of the median company was 15%, in line with the value of 2014 (15.1%); the median ROE of German companies was 13.3%, slightly lower than in 2013 (13.7%); in France, it was 9.8% (9.6% in 2014).

The ROE of the median Italian company was 12.4%, steady compared to 2014.

As for the distribution of the performances of individual companies, dispersion was greatest in the United Kingdom with an interquartile range of over 41 percentage points, followed by Italy (13.9 points), Germany (6.5) and France (3.9).

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

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | IV-I quartile |
|---|---|---|---|---|---|---|---|
| France | 11.0 | 9.5 | 9.7 | 9.6 | 9.6 | 9.8 | 3.9 |
| Italy | 8.0 | 4.9 | 6.2 | 11.3 | 12.4 | 12.4 | 13.9 |
| United Kingdom | 11.7 | 11.4 | 15.6 | 16.1 | 15.1 | 15.0 | 41.9 |
| Germany | 12.3 | 11.0 | 12.4 | 14.0 | 13.7 | 13.3 | 6.5 |

*Source: Based on Thomson Reuters Datastream data*

# 3

# LIFE INSURANCE

# LIFE INSURANCE

Life insurance premiums increased by 4% in 2015 to €115 billion, the highest volume on record, powered by the growth in unit-linked policies, which more than made up for the marginal decline in traditional policy premiums. The increase in premiums was accompanied by an increase in benefits, however, generating a positive net cash flow for the year nearly €2 billion smaller than in 2014 at €44 billion. Mathematical reserves fell by 12% after having more than doubled in 2014, and financial technical income also fell, by 22%. The net effect of all these developments, together with the slight decline in net premiums, produced an overall technical result only slightly worse than the previous year's.

## DOMESTIC BUSINESS

In 2015 **premiums from direct domestic business** of the 55 insurance companies operating in the life classes increased by 4.0% to €114,949 million (they had gone up by 29.9% in 2014 and 22.1% in 2013 after decreasing in the two previous years: -5.5% in 2012 and -18.0% in 2011). Life premiums made up 78.2% of total premiums (life and non-life), up from 77.1% in 2014 and even more sharply from 71.6% in 2013.

***Life technical account***
*Euro million*

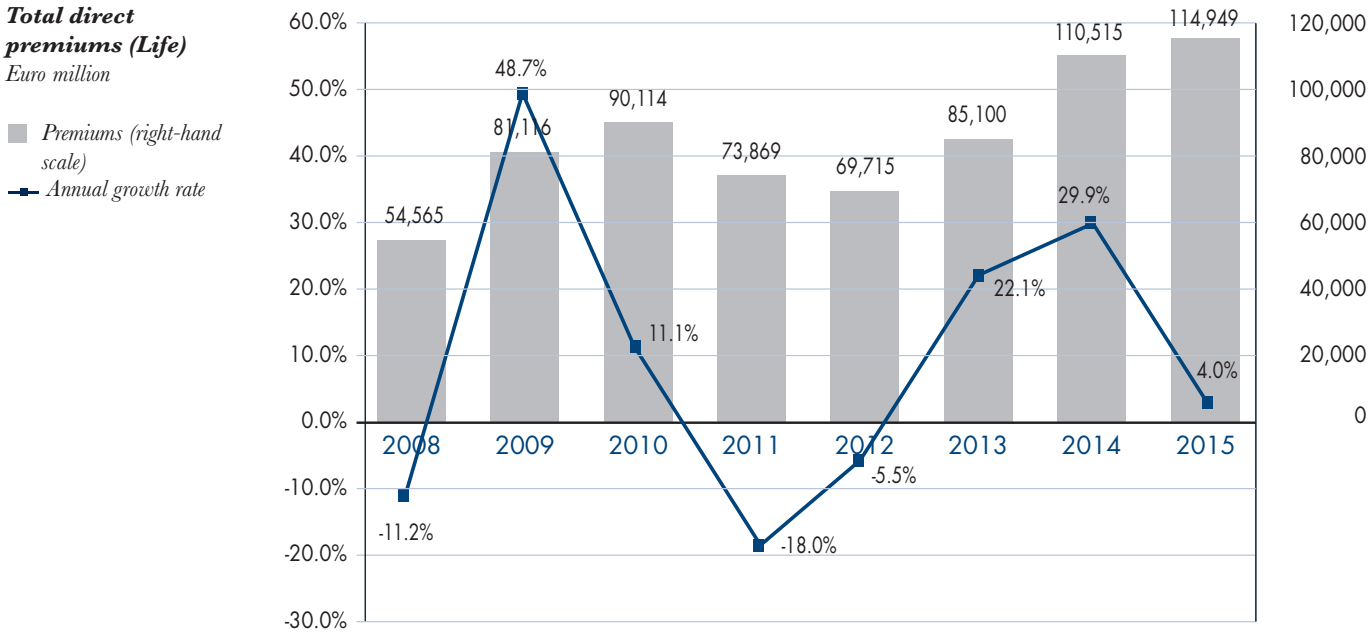
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 54,565 | 81,116 | 90,114 | 73,869 | 69,715 | 85,100 | 110,518 | 114,949 |
| Incurred claims (-) | 65,547 | 57,198 | 66,801 | 73,971 | 75,022 | 66,788 | 64,577 | 71,196 |
| Changes in mathematical and technical provisions (-) | -22,636 | 41,114 | 32,184 | 2,547 | 10,013 | 29,928 | 59,967 | 53,024 |
| Balance of other technical items | 104 | 19 | -126 | -177 | -222 | -325 | -381 | -388 |
| Operating expenses (-) | 4,056 | 4,090 | 4,300 | 3,832 | 3,367 | 3,538 | 3,812 | 3,970 |
| - commissions | 2,478 | 2,559 | 2,696 | 2,205 | 1,788 | 1,982 | 2,206 | 2,349 |
| - other acquisition costs | 661 | 640 | 675 | 709 | 681 | 683 | 686 | 696 |
| - other administration costs | 918 | 891 | 929 | 918 | 898 | 874 | 921 | 926 |
| Investment income | -11,030 | 23,996 | 12,617 | 3,019 | 25,382 | 18,409 | 20,588 | 15,976 |
| **Direct technical account result** | **-3,328** | **2,730** | **-680** | **-3,639** | **6,473** | **2,929** | **2,369** | **2,347** |
| Reinsurance results and other items | 320 | 442 | 366 | 268 | 388 | 369 | 383 | 312 |
| **Overall technical account result** | **-3,008** | **3,172** | **-314** | **-3,371** | **6,861** | **3,298** | **2,752** | **2,659** |
| **Net cash flow** | **-10,982** | **23,918** | **23,313** | **-102** | **-5,306** | **18,312** | **45,941** | **43,753** |
| Annual % change in premiums | -11.2% | 48.7% | 11.1% | -18.0% | -5.5% | 22.1% | 29.9% | 4.0% |
| Expense ratio | 7.4% | 5.0% | 4.8% | 5.2% | 4.8% | 4.2% | 3.4% | 3.5% |
| – Commissions/Gross written premiums | 4.5% | 3.2% | 3.0% | 3.0% | 2.6% | 2.3% | 2.0% | 2.0% |
| – Other acquisition costs/Gross written premiums | 1.2% | 0.8% | 0.7% | 1.0% | 1.0% | 0.8% | 0.6% | 0.6% |
| – Other administration costs/Gross written premiums | 1.7% | 1.1% | 1.0% | 1.2% | 1.2% | 1.0% | 0.8% | 0.8% |
| Investment income/Technical provisions | -3.2% | 6.7% | 3.2% | 0.7% | 6.1% | 4.2% | 4.3% | 3.0% |
| **Technical account result/Gross written premiums** | **-6.1%** | **3.4%** | **-0.8%** | **-4.9%** | **9.3%** | **3.4%** | **2.1%** | **2.0%** |
| **Overall technical account result/Gross written premiums** | **-5.5%** | **3.9%** | **-0.3%** | **-4.6%** | **9.8%** | **3.9%** | **2.5%** | **2.3%** |
| **Overall technical account result/Technical provisions** | **-0.86%** | **0.89%** | **-0.08%** | **-0.82%** | **1.64%** | **0.75%** | **0.57%** | **0.49%** |
| *Premiums to total life and non-life premiums ratio (%)* | *59.3%* | *68.9%* | *71.7%* | *67.0%* | *66.3%* | *71.6%* | *77.1%* | *78.2%* |

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

# LIFE INSURANCE

The slowdown in the growth of life insurance business, mainly in the second half of the year, has been confirmed by the performance of premium income in the early months of 2016. The slowdown was the product of a series of factors involving the competitiveness of the yields on traditional life policies, which have been affected by the low interest rates on government securities and other savings instruments, the persistent volatility of the equity markets, and the natural fallback following the exceptionally fast growth registered in 2014 and the first few months of 2015. All these factors led insurers to seek out dynamic products with diversified asset allocation that can reap the benefits from positive developments in the equity market while nevertheless limiting the investment risk for policyholders. The growth of multi-class products continued and indeed accelerated in 2015; these premiums are invested partly in segregated funds and partly in unit-linked funds (which have a significant financial component). In just one year these products' share of the entire market jumped from 11.8% to 20.0%, with positive net premiums (i.e. premium income less costs) accounting for over 40% of the total in 2015. In volume terms, the total premiums for multi-class policies marketed by Italian and non-EU insurance companies were estimated at €23 billion (up from €13 billion in 2014).

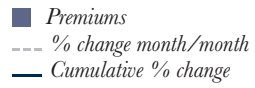
***Total direct premiums (Life)***
*Euro million*

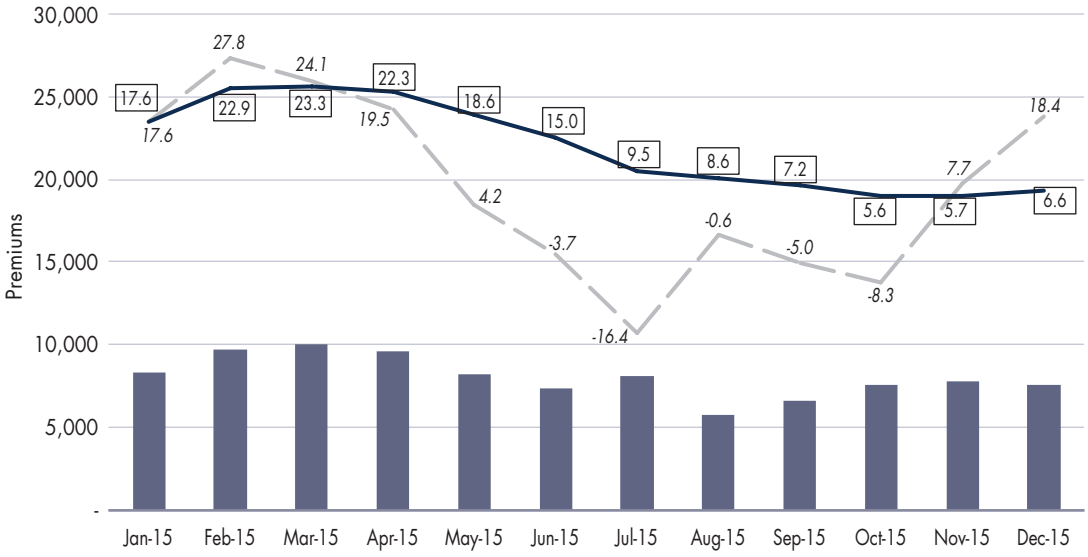



The increase in written life premiums in 2015 can be attributed mainly to the trend of new business, especially Class III policies, which registered very rapid growth in the first part of the year, with record highs in March both for amount and for cumulative annual growth. Over the year new life business was €97 billion, 6.6% more than 2014. However, the monthly growth rates show the abrupt slowdown in May, which continued almost through the rest of the year, turning back upward only in the last two months.

# LIFE INSURANCE

***Life premiums from new business***
***Year 2015***
*Euro million*

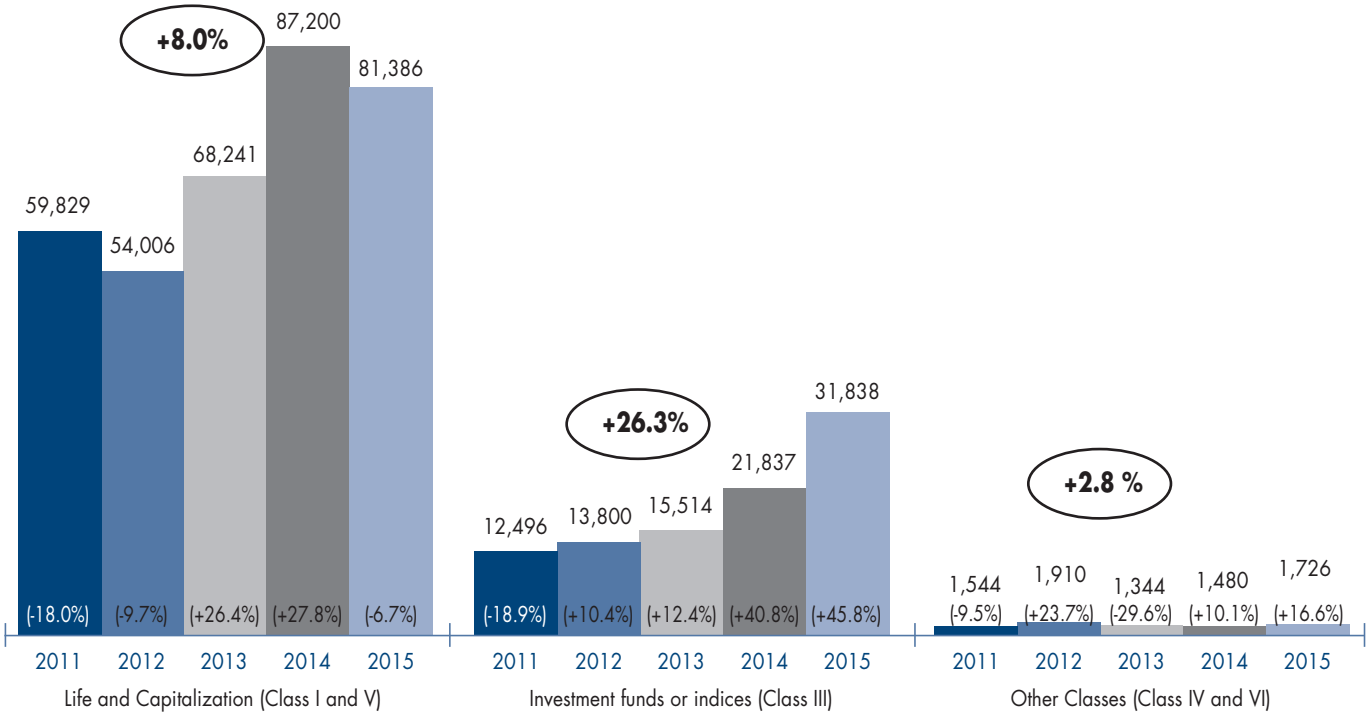



Looking at the insurance classes separately, in 2015 Class I (straight life) and Class V (capitalization) written premiums turned down sharply, falling by 6.7% to €81,386 million, whereas in 2014 they had gained 27.8%. Even so, over the past 5 years, the average annual increase in these classes was still positive at 8.0%. It is worth noting that the decline in traditional policies depended chiefly on the 6.5% fall in business done by bank and post office branches, which nevertheless accounted for 67% of these policies in 2015, when traditional policy premiums constituted over 70% of the entire life portfolio (in 2014 their share had been 80%), of which 68% in Class I (down 5.7% on the year) and the remaining 3% in Class V (down 24.1%).

***Premiums from direct domestic business by insurance class***
*Euro million*

*(x,x%) % change five-year geometric mean (x.x%) annual % change*






Ania

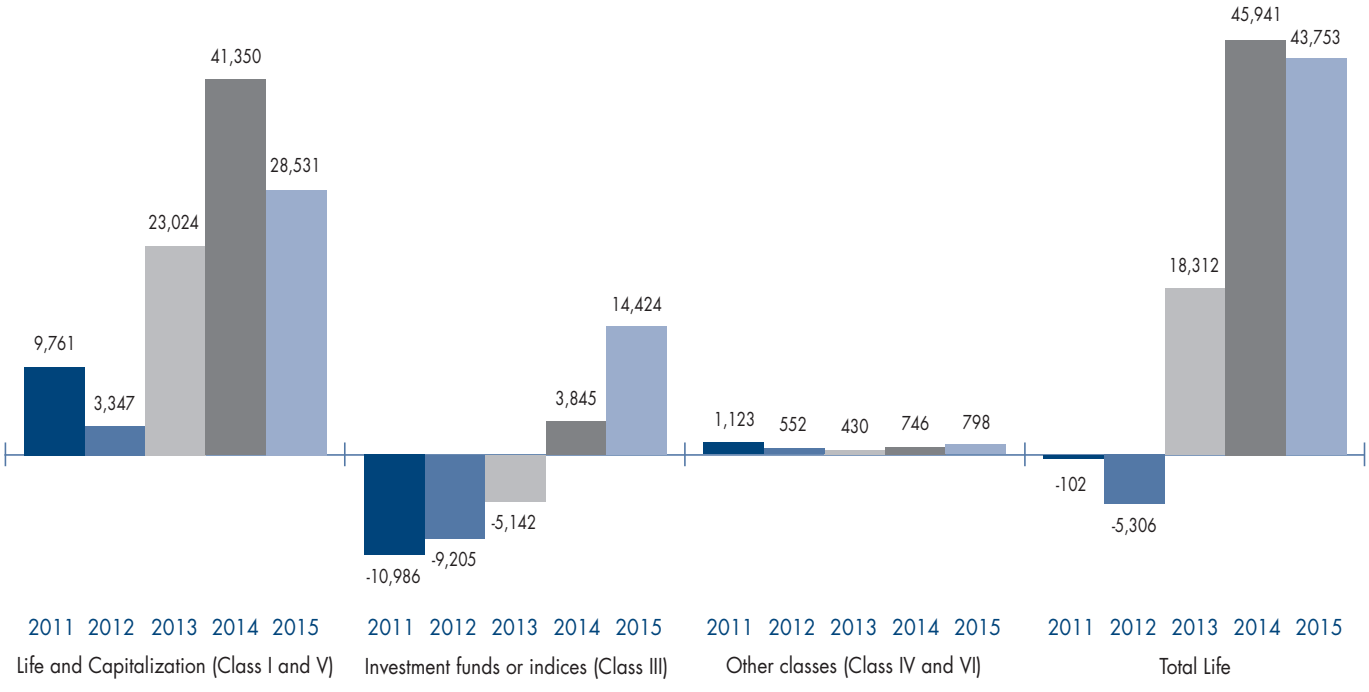
Class III premiums (investment or index funds), by contrast, grew by an exceptional 45.8% in 2015 to €31,838 million, following the 40.8% expansion recorded in 2014. These products accounted for 28% of the entire life portfolio, 8 percentage points more than the previous year. Over the past 5 years, the average annual increase was 26.3%, compared with 9.1% in 2010-2014. The increase in 2015 was mainly due to premiums marketed through bank and post office branches, which became the leading distribution channel for these products, passing financial salesmen and increasing their market share from 46% to 55% and scoring an expansion of 74.8% for the year. Almost the entire remaining share of linked policies (40%) was distributed via financial salesmen, who registered a 15.2% hike in collected premiums.

Also growing in 2015 (+16.6%), were policies of other life classes (Classes IV and VI), amounting to €1,726 million, 2% of total life premium income. Thanks to last year's performance, these classes' annual average growth over five years swung from -3.5% in 2010-2014 to +2.8% in 2011-2015. More specifically, of the total life premiums €74 million came from long-term care and protracted illness insurance policies (Class IV) with an increase of 9.7% compared to 2014 (thanks above all to sales through banks and post offices and agencies), while the remaining €1,652 million refer to pension funds (Class VI), 16.9% more than a year earlier (with bank and postal branches nearly doubling their premium earnings and bringing their market share from 19% to 31%).

**Incurred claims**, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled €71,196 million in 2015; they increased by 10.2% from 2014, essentially because of an increase in policy surrenders, which accounted for some 60% of total disbursements.

**Net cash flow**, defined as the difference between premiums and incurred claims, was positive by €43,753 million in 2015, down slightly from €45,941 million but far more than in 2013 (€18,312 million); in 2012 cash flow had actually been negative (-€5,306 million).

***Net cash flow***
*Euro million*

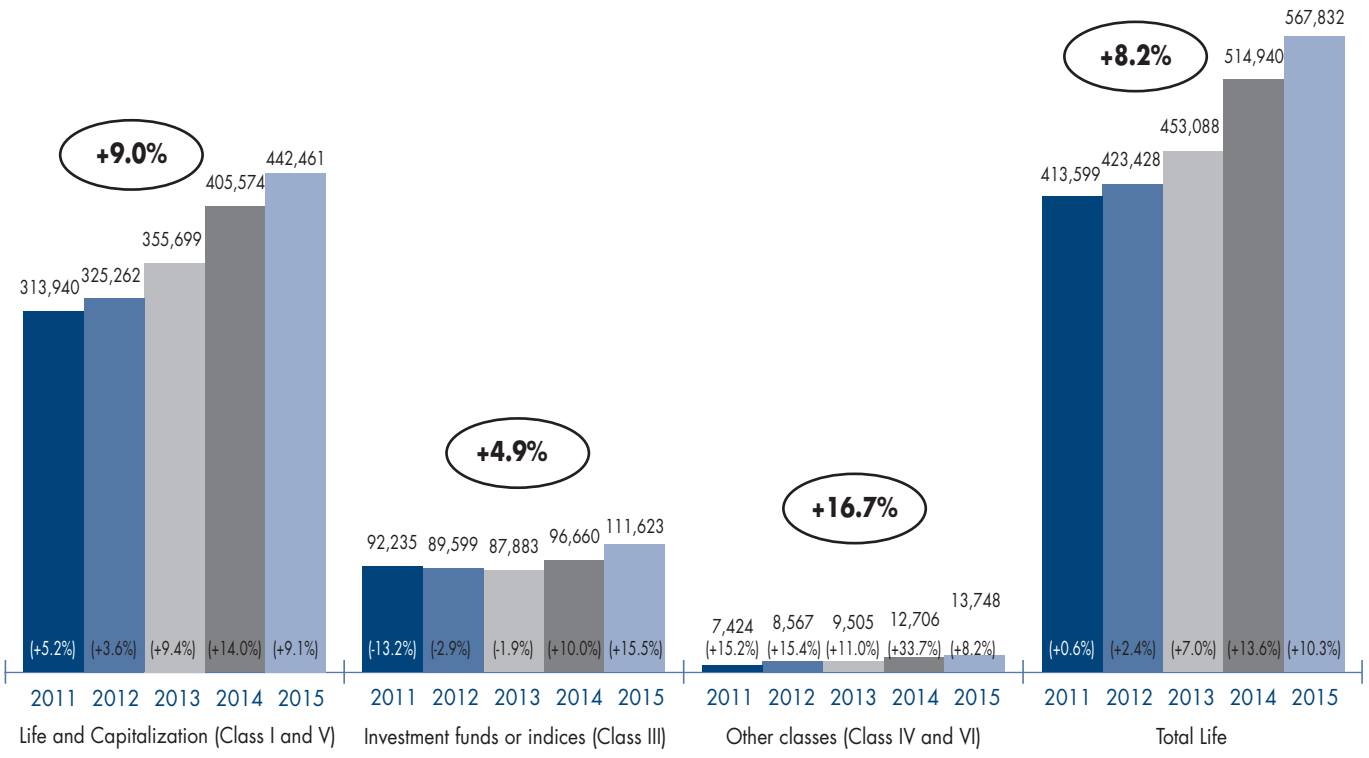


In particular, net cash flow of Class I and V premiums amounted to €28,531 million, down 31.0% from 2014 but still €5 million higher than in 2013 and far more than in 2012, when the net cash flow was a mere €3,347 million. After a series of negative results, the net cash flow for Class III premiums was positive for the second straight year at €14,424 million, the highest figure on record. This was nearly four times as much as in 2014 (and incomparably better than the all-time worst of 2011, when it was negative by almost €11,000 million). Also growing, but with a much smaller volume, was the net cash flow for other life classes (IV and VI) which increased slightly last year to €798 million.

**Mathematical provisions and other technical provisions** increased by €53,024 million in 2015, 11.6% less than in 2014 but still more than €20 billion better than in 2013. **Total technical provisions**, amounting to €567,832 million, gained 10.3% (+13.6% in 2014) to produce average annual growth of 8.2% over the five-year period 2011-2015. More in detail, the amounts set aside in traditional classes amounted to €442,461 million (€415,246 million for Class I), up 9.1% compared to 2014. These reserves account for 77.9% 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 €111,623 million (almost 20% of total reserves), the largest amount in the last five years, with an increase of 15.5% for the year and average annual growth of 4.9% over five years. Reserves set aside in 2015 for the remaining classes (IV and VI) increased by 8.2% to €13,748 million, confirming the steady growth which started in 2011 when those reserves were scarcely half the current amount.

***Total technical provisions***
*Euro million*

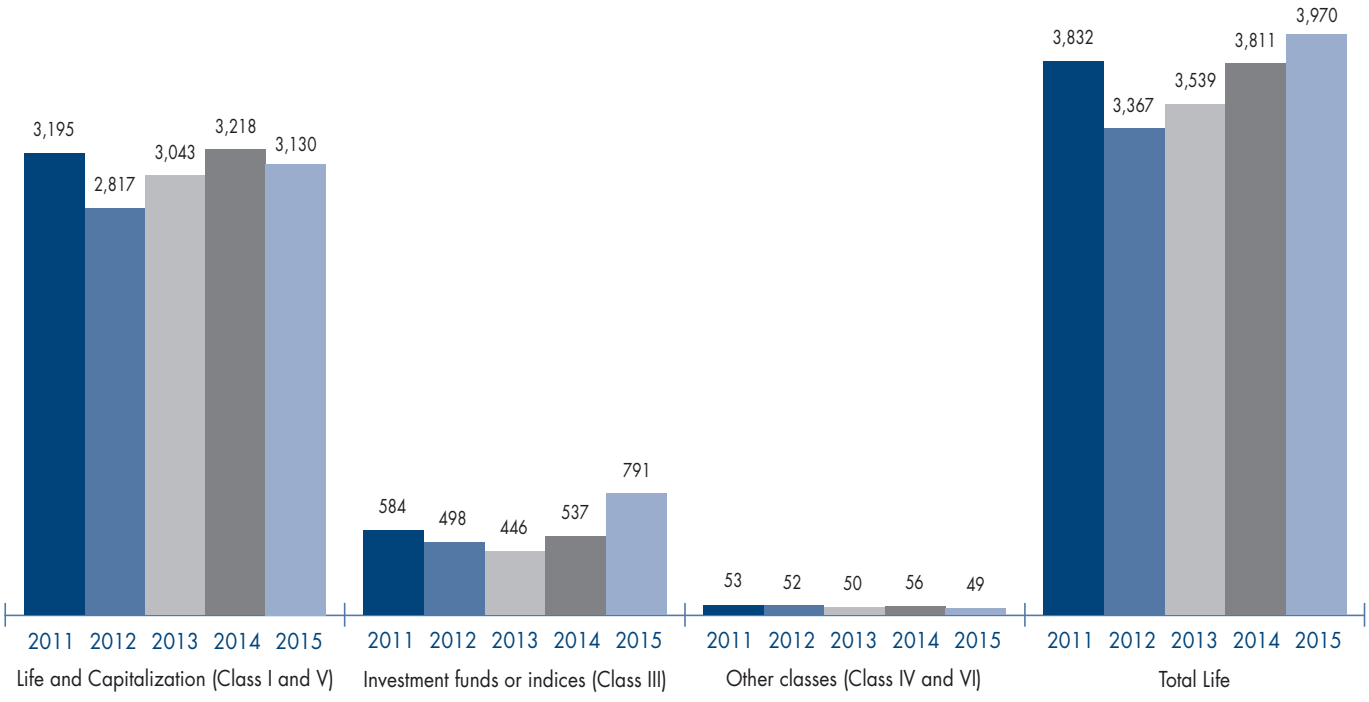
*x,x% % change five-year geometric average*
*(x.x%) annual % change*



**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 €3,970 million (of which 79% for Classes I and V, 20% for Class III and 1% for other life classes), an increase of 4.1 percent from the previous year.

**Investment income** amounted to €15,976 in 2015, 22.4% lower than in 2014 and also lower than in 2013 and especially 2012, when it exceeded €25 billion. As a ratio to mathematical reserves, investment income was lower than in 2014 in all classes. In traditional life business (Classes I and V) in particular, the ratio has come down steadily, from 5.0% in 2012 to 3.3% in 2015, while for linked policies (Class III) it dropped to 1.6% from 6.5% in 2014. In the other life classes the ratio fell from around 6% in 2013-2014 to 3.0% in 2015.

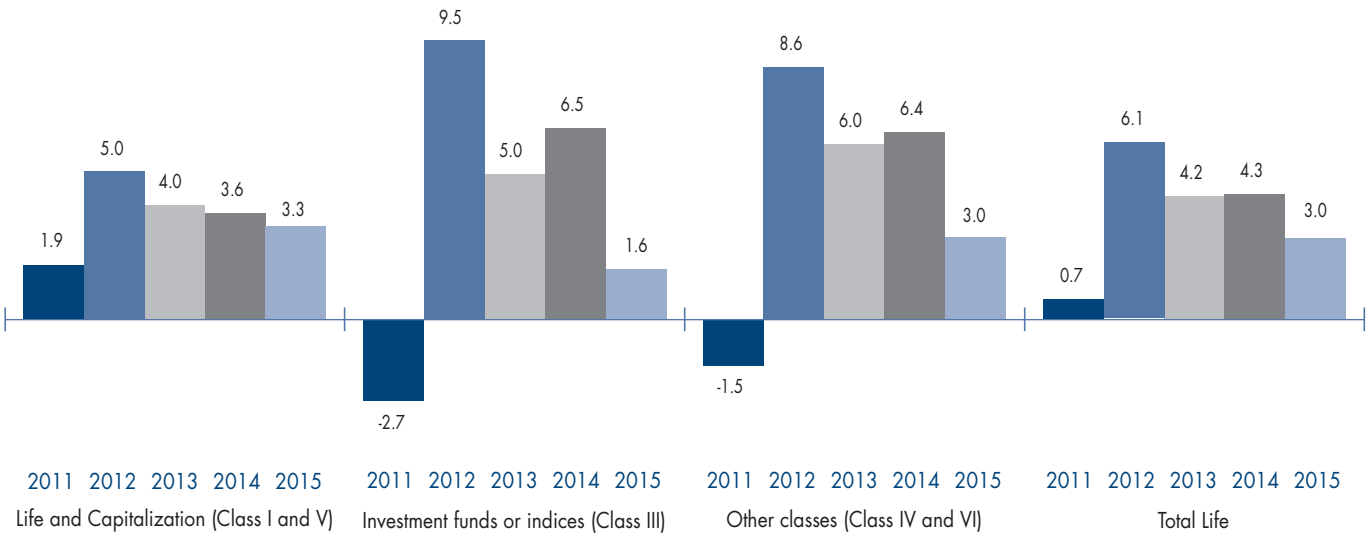
***Operating expenses***
*Euro million*




The final **result of the technical account** was again amply positive at €2,347 million, about the same as in 2014 but 20% lower than in 2013 and just half the amount recorded in 2012.

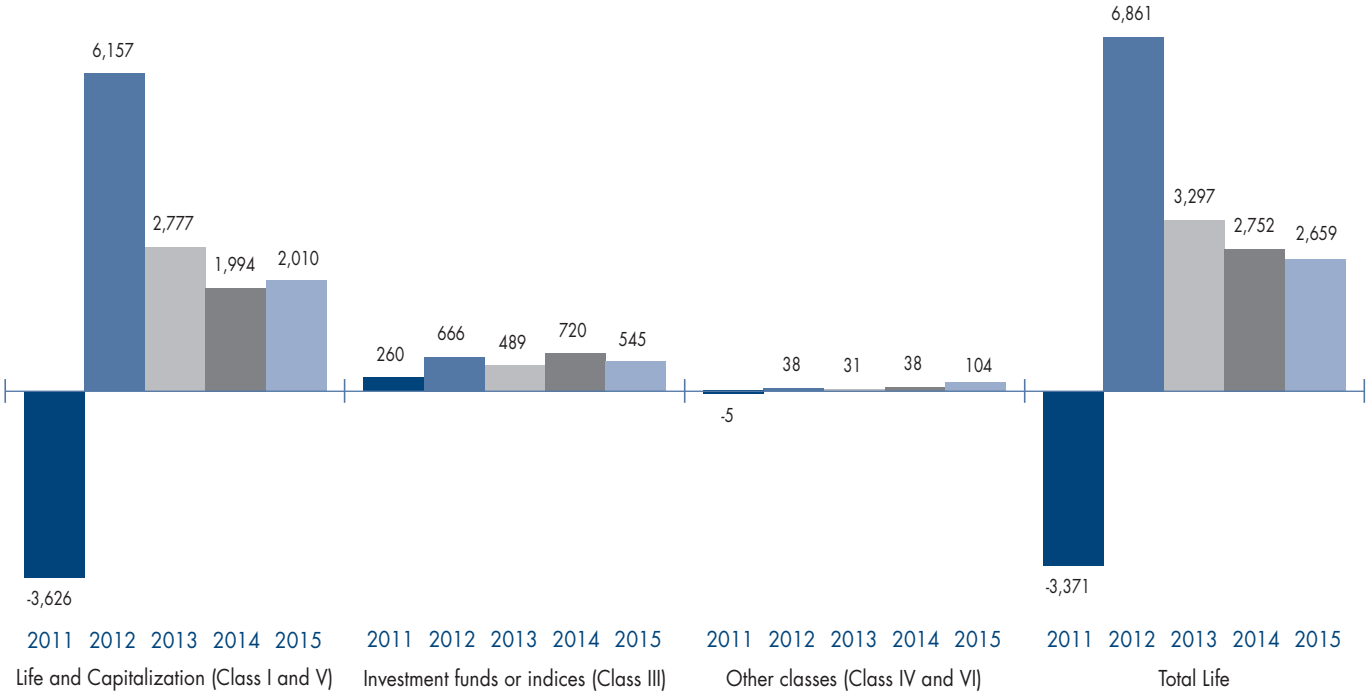
The result of reinsurance cessions and net indirect business was positive by €312 million (€383 million in 2014).

***Profits from investments on mathematical provisions***
*%*




The **overall technical account result** was positive by €2,659 million, a decrease of 3.4% for the year that brought its ratio to premiums and to technical provisions down, respectively from 2.5% to 2.3% and from 0.57% to 0.49%: in particular, there was a small increase in the traditional branches (Classes I and V), from €1,994 million in 2014 to €2,010 in 2015, while the technical balance for linked policies (Class III) amounted to €545 million, a drop of 24.3% owing mainly to the poor performance of investment income. By contrast, the balance for the remaining classes rose from €38 million to €104 million.

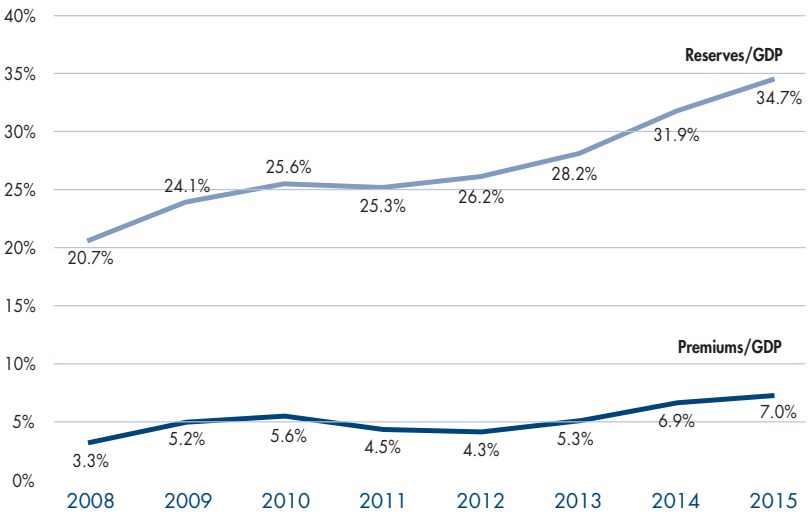
***Overall technical balance***
*Euro million*



## LIFE INSURANCE AND GDP

The 10.3% growth of life insurance technical provisions in 2015 resulted in a rise in their ratio to GDP from 31.9% to 34.7% (the highest on record for Italian insurance business). The ratio of life premiums to GDP also increased, though more modestly, from 6.9% in 2014 to 7.0% in 2015.

***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 insurance assets that are invested to cover life policies whose end-of-contract value is guaranteed by the insurance companies ([1]).

For 2015 the share is estimated at 82.5% of the provisions managed by insurance companies (Figure 1). In particular, profit-sharing policies account for approximately for 80 percentage points of this total and linked products and pension funds (Class VI), featuring the insurer's guarantee, for an additional 2.5 points.

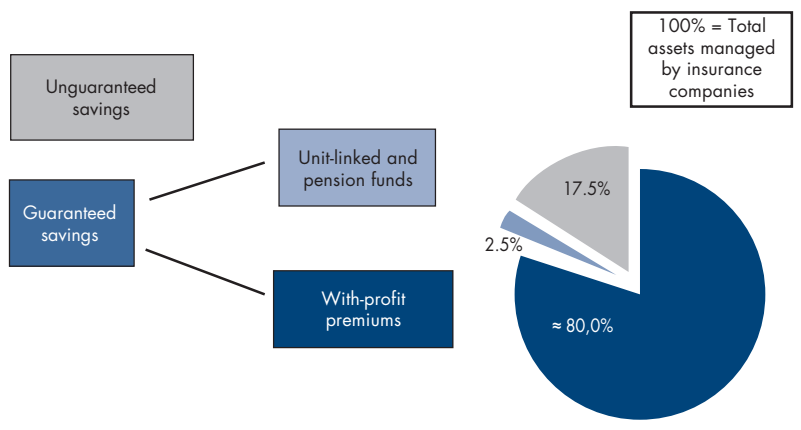
However, the share of resources invested in coverage of products explicitly or implicitly featuring financial protection mechanisms ("protected" unit-linked policies or index-linked products tied to financial portfolios that provide for at least the premium to be repaid to the pol-

([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).

icyholder at the contract's maturity, with guaranteed yield near zero) was reduced in 2015. The remaining 17.5% was invested in unit-linked policies and pension funds in which the risk is borne by the insured.

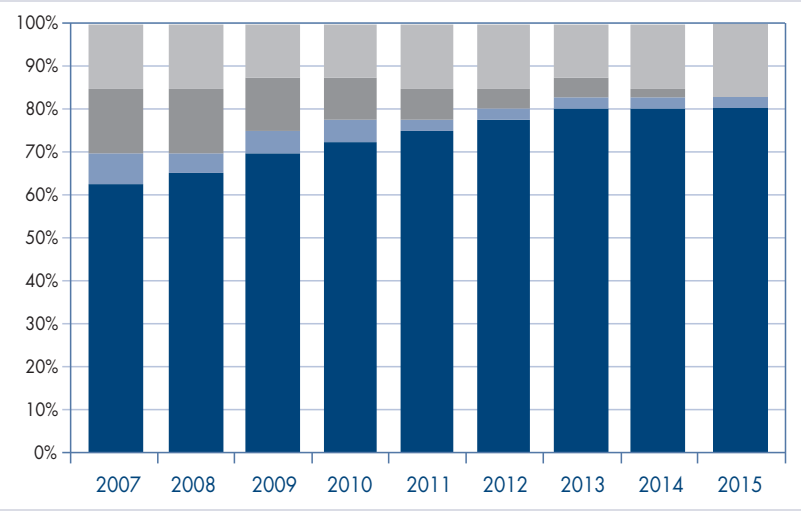
***Figure 1***
***% composition of the guaranteed assets managed by insurance companies: estimates for 2015***




*Source: Based on IVASS and COVIP data*

Over the years, the share of life premiums whose end-of-contract value is guaranteed by companies has progressively grown 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).

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




*Source: Based on IVASS and COVIP data*

The share of policies in which the risks are borne entirely by the insured has remained fairly low during the observation period, but rose to a high of 17.5% in 2015.

## Asset allocation corresponding to life products

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

([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 in UCITS.

At the end of 2015 government securities made up about 57% of the assets covering the commitments deriving from life products (Table 1). Private-sector bonds increased to almost 30% and equities accounted for nearly 10% of the overall portfolio.

***Table 1***
***Asset allocation of life products at the end of 2015***
*(%)*

| 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 | 56.9% | 66.1% | 22.2% | 20.7% |
| Bonds | 29.4% | 26.4% | 39.4% | 39.6% |
| Shares and other equity | 9.9% | 3.3% | 33.5% | 34.6% |
| Liquidity | 2.0% | 1.2% | 4.9% | 5.2% |
| Property and other | 1.8% | 3.0% | 0.0% | 0.0% |
| TOTAL | 100.0% | 100.0% | 100.0% | 100.0% |

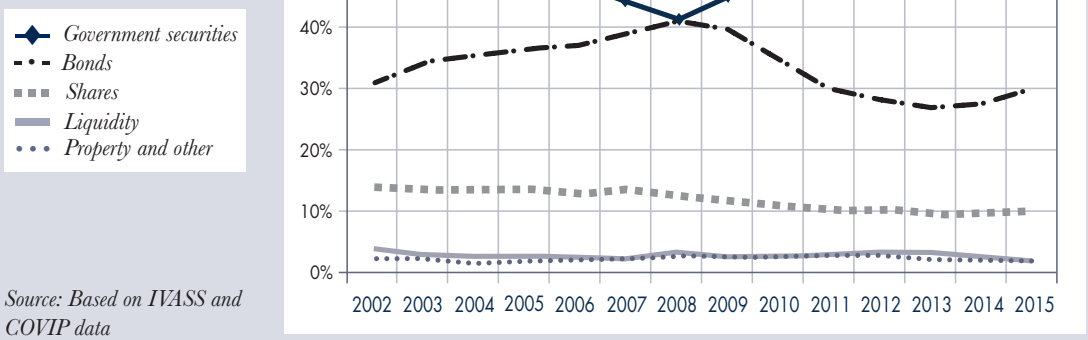
*Source: Based on IVASS and COVIP data*

For with-profit and profit-sharing products offering guaranteed minimum returns, the portion of government securities exceeded two-thirds, while that of bonds was less than one-fourth and shares accounted for just a few percentage points.

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 higher combination of risk and return. Indeed, bonds made up almost 40% of the total portfolio, while investments in equity securities accounted for approximately one-third.

Examining the evolution of the asset allocation corresponding to all life products since 2002 (Figure 3), we find a stabilization in recent years of the shares of government and corporate bonds, whereas the portions invested in these two asset classes were about the same in 2008 but then diverged until 2013 before re-converging. Over these years there was a gradual fall in investment in equities (to less than 10% in 2015), while the percentage invested in liquid assets, real estate and other assets remained very low and roughly unchanged.

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

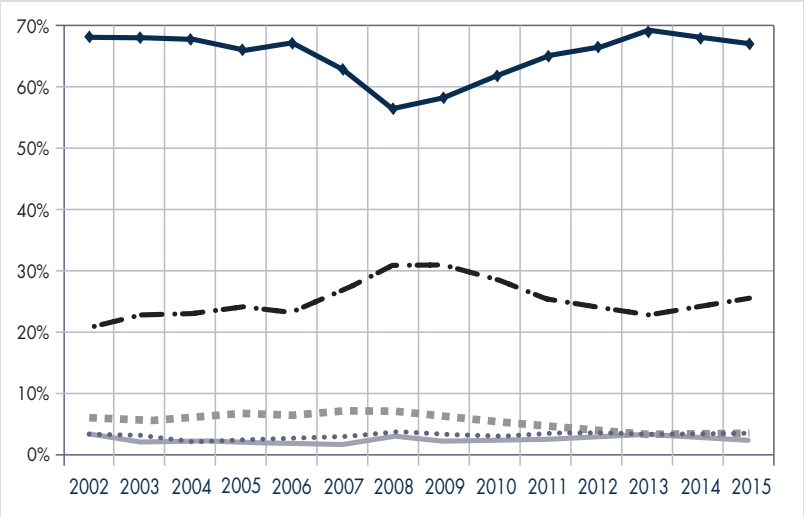



*Source: Based on IVASS and COVIP data*

Restricting our discussion to profit-sharing life products with a return guaranteed by the company (Figure 4), we see a slight decrease of government securities in the composition of the financial portfolio over the past two years, although they still represent the preponderant investment product. The portion invested in corporate bonds – which after topping 30% in 2008-09, fell back to just above 20% – turned modestly back up in 2014. By contrast, the portion invested in shares has been fairly stable if lower, and diminished in the last years.

In any case, it should be borne in mind that for life products carrying a guaranteed minimum yield 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 and to the specific method of determining the return, which significantly reduce the volatility of the results.

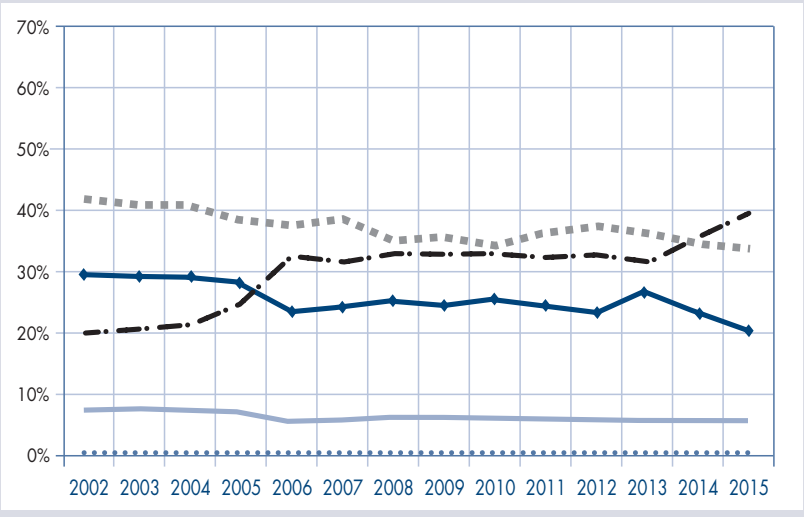
***Figure 4***
***Evolution of asset allocation of profit-sharing life products***
*(%)*




*Source: Based on IVASS and COVIP data*

Among the assets corresponding to unit-linked policies, at the end of 2015 for the first time the largest class was corporate bonds, heightening the preponderance of fixed-income securities among total assets (Figure 5).

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




*Source: Based on IVASS and COVIP data*

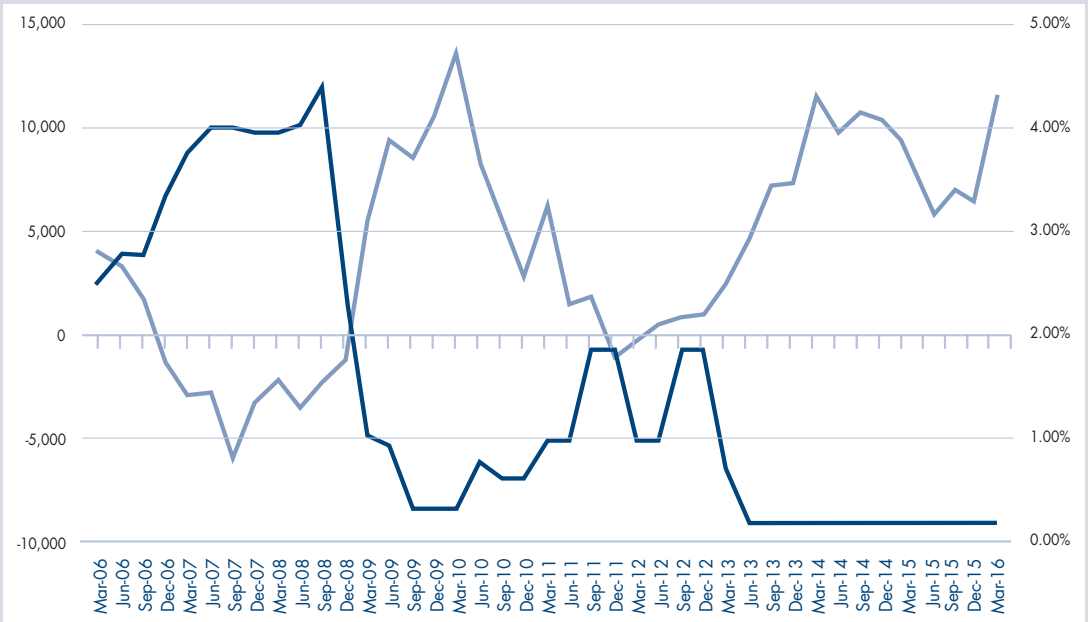
Finally, in 2015 shares made up just over 35% of the total investments, whereas they had exceeded 40% in the early 2000s; private-sector bonds grew further, outweighing equity securities for the first time since 2000.

## The evolution of net premium income in the life sector

From 2006 to the first quarter of 2016 the performance of net life premium income in each quarter – the difference between premiums and amounts paid for surrenders, policies maturing, claims and annuities – has fluctuated between positive and negative periods. The positive periods came in 2006, 2009-2010 and then more recently, beginning in 2013.

For profit-sharing life policies, which account for the bulk of life products in Classes I and V, in the period examined we find a marked negative correlation between net premium income and the nominal rates on Italian government securities (Figure 6). Partly because of the specific features of the separate asset portfolios to which these policies are normally linked, they become especially attractive for customers when government securities yields are falling.

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

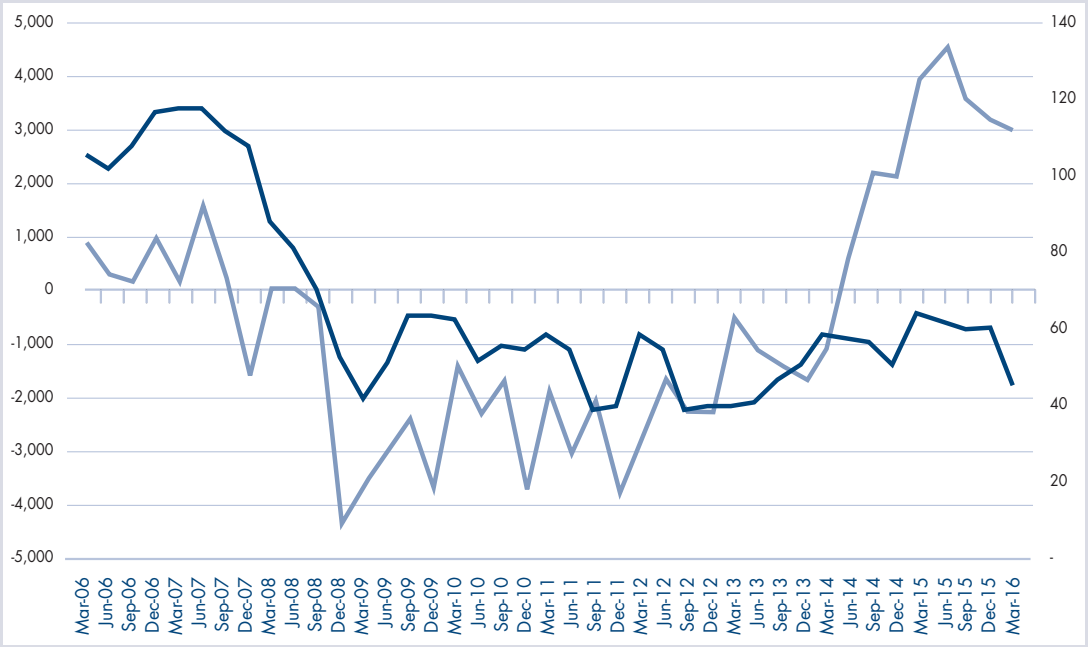



*Net life premium income (Class I and V) - € million (left-hand scale)*
*Gross yield on 3-month BOTs (right-hand scale)*

*Source: ANIA, Thomson Reuters, Datastream*

For linked policies – following the negative net premium income recorded starting in 2008, with a positive correlation with the performance of Italy's FTSE-MIB stock exchange index (Figure 7) – the quarterly series of net premium income in the period examined has shown a reversal of trend starting in 2014, with positive net cash flows (despite the uncertain trend of the stock market), which have contracted in the last few quarters, however.

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




*Source: ANIA, Thomson Reuters, Datastream*

## MULTI-CLASS LIFE PRODUCTS

The prolonged low interest-rate environment has spurred a diversification of investment products, not only in Italy, in addition or as an alternative to traditional forms of guaranteed savings, both demand- and supply-side. Alternatively to the "safe harbor" represented by investment in fixed income securities, fixed-term deposits or insurance products with a return guaranteed by the company, there has inevitably been growing interest in other instruments and products with higher risk/return profiles, with a view to achieving positive financial outcomes.

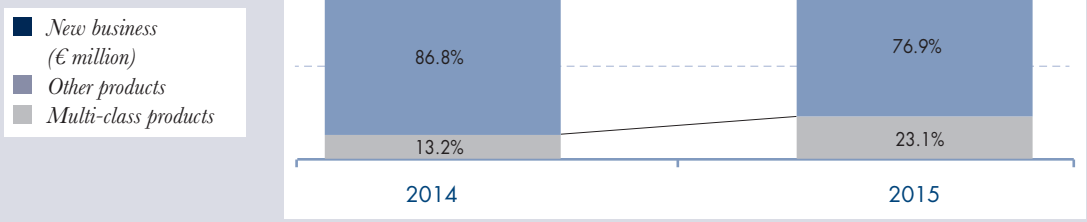
In France, for instance, a new type of fund has been introduced in the insurance industry which is linked to insurance products. These funds, known as "euro-croissance", include a significant share of asset allocation dedicated to fixed income and repayment of the invested capital at a fixed date, and a more dynamic remaining share aimed at achieving positive results in the longer term. This new generation of funds represents a "hybrid" solution, halfway between traditional assets, mainly fixed-income, and funds with a significant portion of assets allocated to equities.

A similar item in Italy is represented by multi-class products, namely unit-linked life insurance policies which consist in the combination of traditional segregated assets (Class I) with a unit-linked investment fund (Class III). Introduced on the market some years ago, they are now offered by a large number of insurers.

## New retail multi-class life business

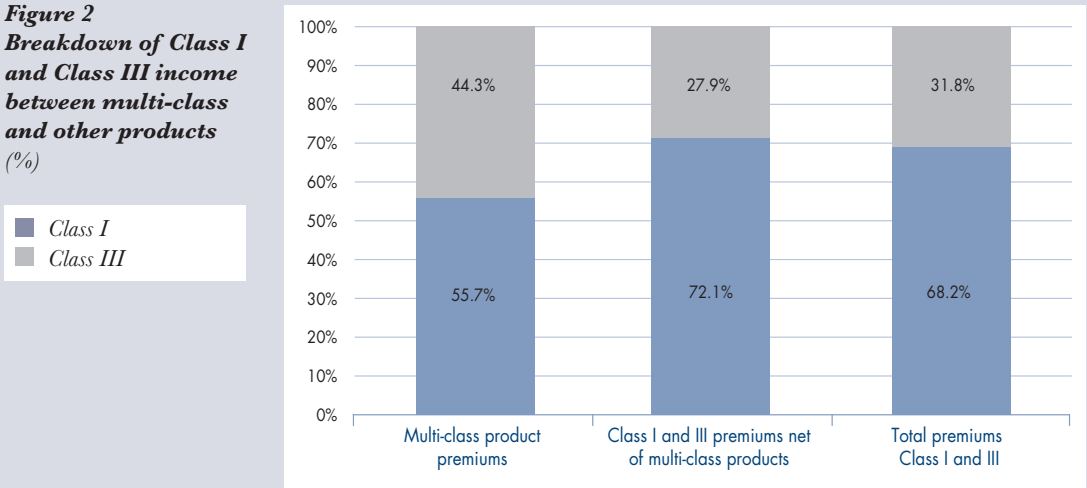
Multi-class products target mainly "retail" customers with individual policies. In 2015, roughly 710,000 new multi-class policies were subscribed, for a volume of premiums of over €22 billion (or 23.1% of the total new life business of €97 billion). Premiums thus increased by 88%.

***Figure 1***
***Volumes and shares of premiums: multi-class and other products, 2014-15***



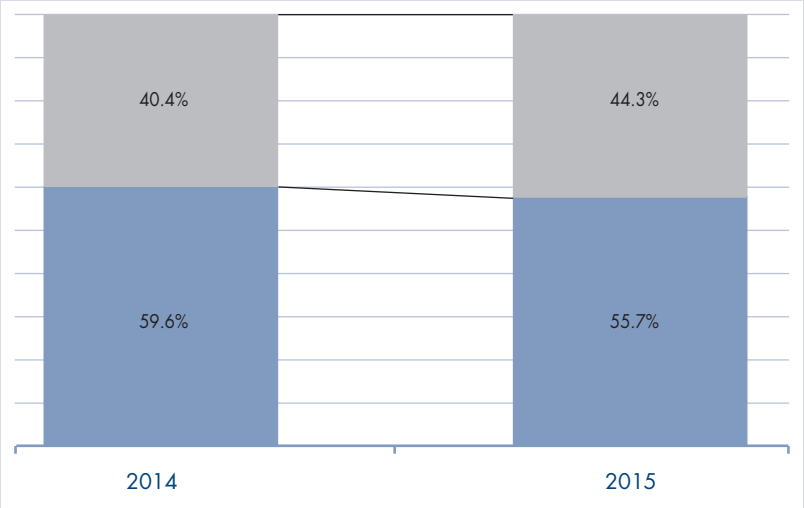

Focusing on the composition of Class I and Class III, multi-class products accounted for a portion of Class III premiums equal to over 44% of total premiums for the two components, more than the new business of Classes I and III combined, even counting exclusively Class I or Class III policies. Restricting our analysis to the latter alone, the share going to Class III products was just under 28%.

***Figure 2***
***Breakdown of Class I and Class III income between multi-class and other products***
*(%)*



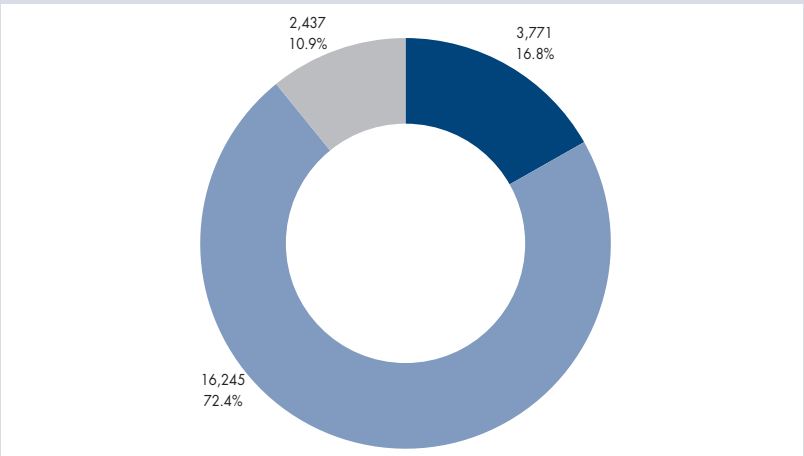

By comparison with 2014 (Figure 3), there was an increase in the share of multi-class product premiums going to Class III, which rose to about 44%, accompanied naturally by a decline in the share going to separate funds, which nevertheless remains larger.

***Figure 3***
***Change, 2014-2015, in breakdown of multi-class premiums between Class I and Class III***
*%*




In terms of distribution channels (Figure 4), the breakdown has shown similarities between multi-class products and the overall data. In particular, bank and post office branches collected roughly €16 billion, 72% of premiums, greater than their share of total new business including other life policies. By contrast, financial salesmen wrote 11% of new premiums for multi-class products, compared to 17% of total new business. The share of multi-class products sold by insurance agency networks and other channels was higher than their share of overall life products distributed (about 13%).

***Figure 4***
***Breakdown of multi-class premiums by distribution channel***
*€ million and %*




The breakdown of total new business income shows that multi-class products accounted for nearly a quarter of all bank and post office sales (Figure 5), over 14% for financial salesmen and more than 30% for insurance agency networks and other channels.

Moreover, multi-class policies also display a different allocation of investments by channel. Class I products are the main component in policies sold by insurance agency networks and bank and post office branches, whereas for financial salesmen Class III products account for over three quarters of the total new policies.

***Figure 5***
***Breakdown of multi-class premiums by distribution channel***
*%*

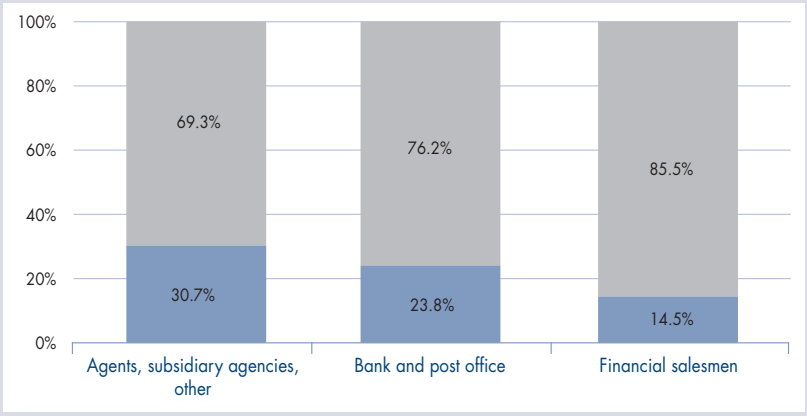
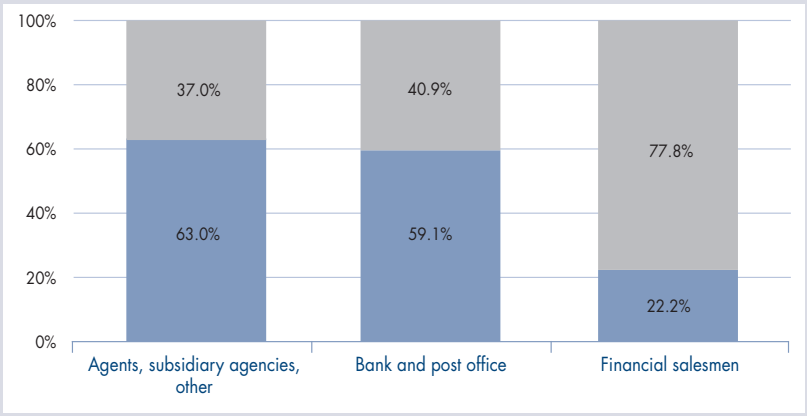


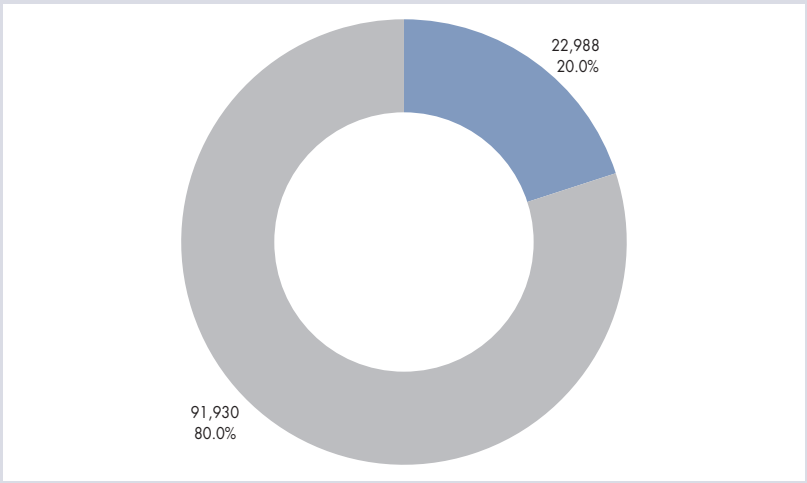

***Figure 6***
***Multi-class premium income distinguished into Class I and Class III, by distribution channel***
*%*




## Cash-flow and technical provisions in multi-class policies in 2015

Overall premiums received in 2015, including yearly premiums other than the first year for multi-class policies with periodic premiums, amounted to nearly €23 billion, or 20% of all life business and 21% if we restrict the calculation only to Class I and Class III premiums (Figure 7).

***Figure 7***
***Premium volumes and shares of multi-class and other products***
*€ million and %*

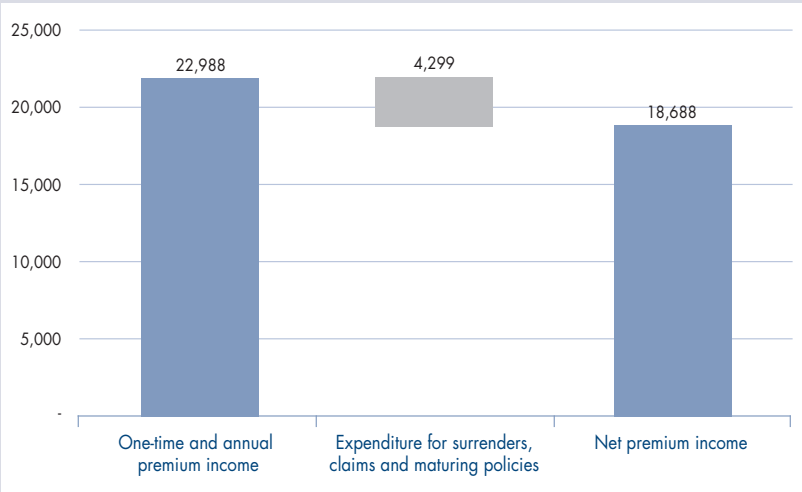


As with overall premiums, it appears that although Class I products were predominant in multi-class policies as well, the Class III component for these policies, which accounted for over 44%, exceeded this class's share of Class I and Class III premiums combined, where it was 29% (Figure 8).

***Figure 8***
***Class I and III premium income from multi-class and other products***
*%*


Overall claim costs amounted to €4.3 billion, 87% of which for surrenders and other reimbursements. The balance between income (premiums) and expenditures (payments for surrenders, policies maturing, annuities and claims) was therefore very substantially positive at €18.7 billion, accounting for 42.6% of the total net cash flow for the year's life business (€43.9 billion)(Figure 9).

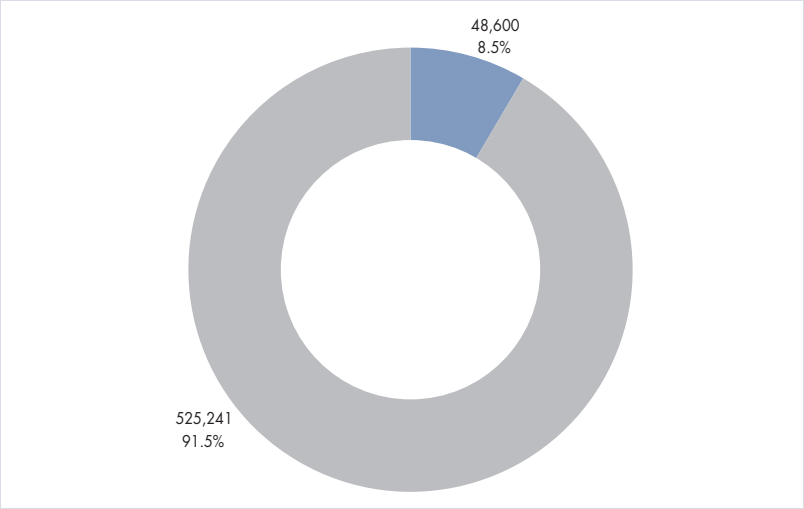
***Figure 9***
***Premium income and claims cost (net premium income) for multi-class products***
*€ million*




Class I products produce a positive cash flow of €9.8 billion, compared to €8.9 billion for Class III products (investment funds). It is worth noting that the balance for the Class III component of multi-class policies accounted for over 60% of the overall balance for Class III income in 2015.

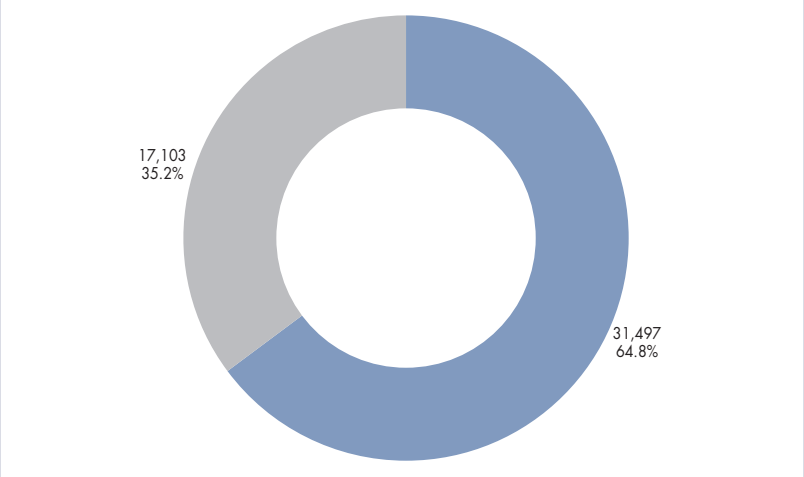
At the end of 2015, life technical provisions serving as cover for multi-class contracts amounted to €48.6 billion, 8.5% of the overall life provisions in the Italian market of nearly €574 billion (Figure 10).

***Figure 10***
***Provisions against multi-class policies and other provisions***
*€ million and %*




Some 64.8% of multi-class policy provisions, or €31.5 billion, were in reference to the Class I component, the remaining 35.2%, or €17.1 billion, to Class III (Figure 11).

***Figure 11***
***Provisions vis-à-vis multi-class products, Class I and Class III components***
*€ million and %*



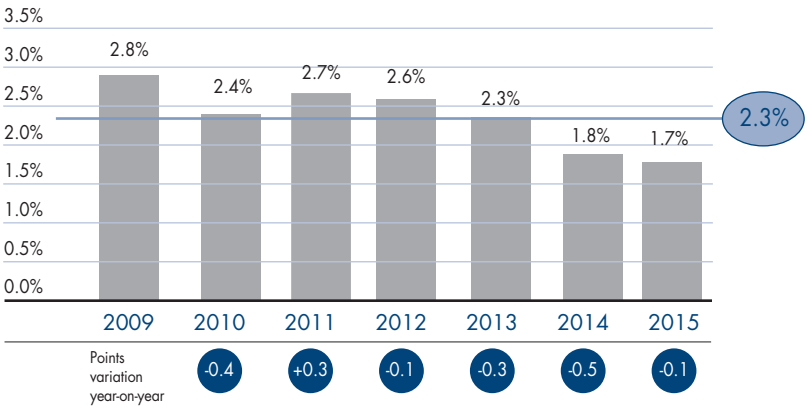

## THE COMPOSITION OF LIFE INSURANCE EXPENSES

The income statements of insurance companies distinguish between the costs of distribution (themselves separated into acquisition and collection costs) and overhead or administration costs.

## Acquisition costs

Acquisition costs consist mainly in commissions on new contracts paid to the distribution channels. It may be useful to calculate their ratio to standardized premiums (i.e. SPE, single premium equivalent), which is equal to the sum of single premiums, for 100% of their value, and annual premiums multiplied by the average duration of contracts, here conventionally established at 10 years. This standard measure allows us to include subsequent as well as first payments and take into account the differences in the composition and commission structure between single and periodic premiums. The ratio of acquisition costs to standard premiums was 1.7% in 2015, down for the third consecutive year and less than the average value of 2.3% (Figure 1).

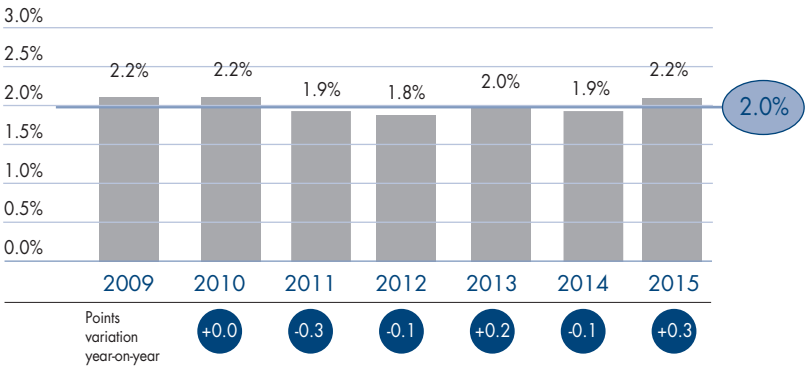
***Figure 1 Acquisition costs/Single Premium Equivalent***




## Collection costs

Collection costs consist mainly in recurring commissions paid by insurance companies to dealers on the renewal premiums (excluding first year premiums) for policies with multi-year payment plans. Therefore, collection costs are calculated only based on expenses for years other than the first year or, in other words, net of new business. After a downward trend in the 2010-12 period, this indicator held broadly stable in 2013 and 2014 and staged a modest upturn last year, to 2.2%. The average over the period was 2.0% (Figure 2).

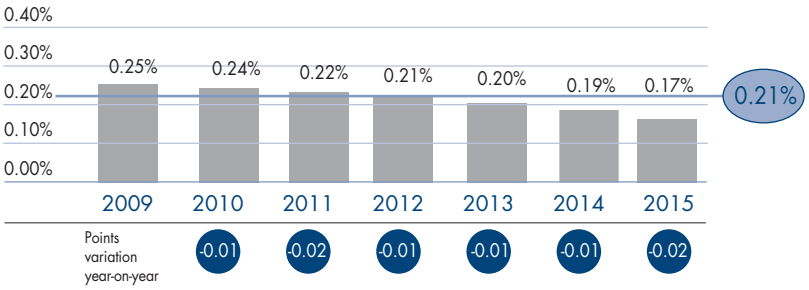
***Figure 2 Acquisition costs/renewal premiums***



### Overhead and administration costs

Overhead 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 allows us to calculate the incidence of insurance companies' expenditures for contract administration and asset management on total assets under management – standard practice in the asset management industry and in life insurance markets like Italy's with a prevailing component of saving contracts. The trend in this ratio is downward, with a five-year average of 21 basis points and 17 points for the last year (Figure 3).

***Figure 3 Overhead and administration costs/Technical provisions***

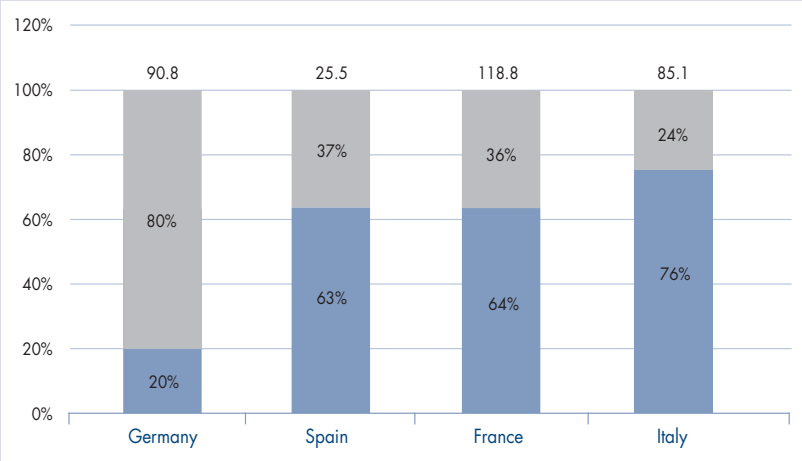



## THE DEVELOPMENT OF BANCASSURANCE IN THE LIFE SECTOR

First introduced in Europe in the early 1980s, bancassurance is now the main distribution channel used by insurance companies to collect premiums for life products ([1]). However, the diffusion of bancassurance in the life business presents differences at European level, depending on the national markets and types of products. In some countries, such as France, Spain and Italy, the bancassurance model started to develop when insurance companies had a relatively low penetration rate in the asset management market, compared with a massive banking presence. As a consequence, in these countries premium collection through bank and post office branches immediately conquered a significant share of the market and is now a well-established presence (Figure 1). In other European countries – even of primary importance such as Germany and the UK – where traditional insurance distribution channels and brokers in the life business were already well-established, the phenomenon had a lower impact, with premiums distributed through bank and post office branches still a minority share compared to insurance agency networks for the former and brokers (independent financial salesmen) for the latter.

([1]) Source: Based on Insurance Europe data on life premiums in 2013.

***Figure 1***
***2013 Life income through bancassurance (*) and other channels (€ billion, %)***

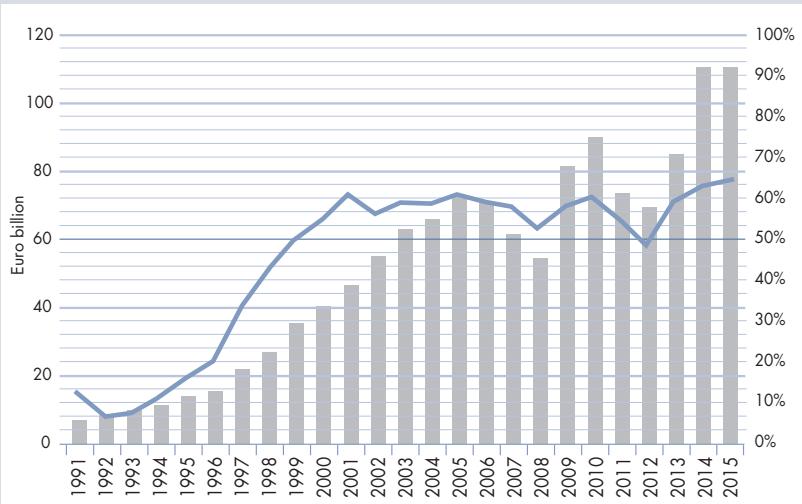



*Source: Based on Insurance Europe data*

*(*) The bancassurance channel includes premiums collected by financial salesmen. The share of bancassurance income for the UK is zero.*

In Italy, the share of life premiums collected through bank and post office branches has come to be important within the last twenty years, going from around 10% in the early 1990s to over 50% since 2000 (Figure 2). The significant growth in life premiums registered over the past few years is closely connected to the development of bancassurance, despite the volume of premiums in life insurance having increased considerably also in other channels.

***Figure 2***
***Life premiums (€ billion, left-hand scale) and share distributed through bank and post office branches (%, right-hand scale)***




## The development of life bancassurance by type of distribution agreement

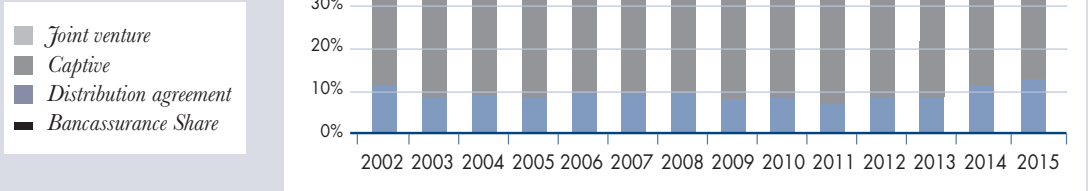
There are several models of bancassurance distribution agreements on the market, which differ in the duration, the shareholding relations between the parties involved, the way in which the distribution network is remunerated, the insurance products involved, exclusive or non-exclusive partnership, any existing collaborations to offer new products or fine-tune exist-

ing ones. Therefore, associating the different types partnership with the homogeneous classes might prove difficult. However, with a number of approximations, a first analysis of existing agreements was carried out, on the basis of which they were classified into three macro-types: joint venture, captive, and other.

- *Joint venture*. In bancassurance these are companies controlled jointly by an insurance company and a partner bank, where the controlling shareholder can be either one or the other. In theory, there can be joint ventures of insurance undertakings with multiple bank partners, and individual bank groups can form joint ventures with multiple insurance partners. With this type of agreement the insurance company is fundamentally a provider of capital in the joint venture and of technical-operative services.
- *Captive.* The "captive" model consists in total or partial control by the banking partner, for which the insurance company acts as "manufacturer" of the insurance products distributed and as one of the business units of the group. This model is based on strong integration between distributor and producer and can involve forms of transfer pricing among different units within the group.
- *Other distribution arrangements.* For our purposes, this means a trade agreement between the bank and the insurance company valid for a fixed number of years and under certain terms, with which the insurance company makes available to a banking or other intermediary one or more insurance products to be distributed. The agreement can envisage also other forms of collaboration for aspects other than network remuneration. Finally, the agreement can be implemented non-exclusively or without any collection targets, while including a contribution from the bank to the insurance undertaking.

As is shown in Figure 3, the absolute market leader in Italy has been the captive model, at least in the past few years, chosen not by the greatest number of operators but by some of the top bank and post office players in terms of market share. The captive model accounted for 38% of premium income from all bank and post office branches in 2002 (first year of the observation period); its volume has grown over time, despite some fluctuation, to €44.6 billion, or 61% of the €73 billion in life premiums collected by bank and post office branches in 2015.

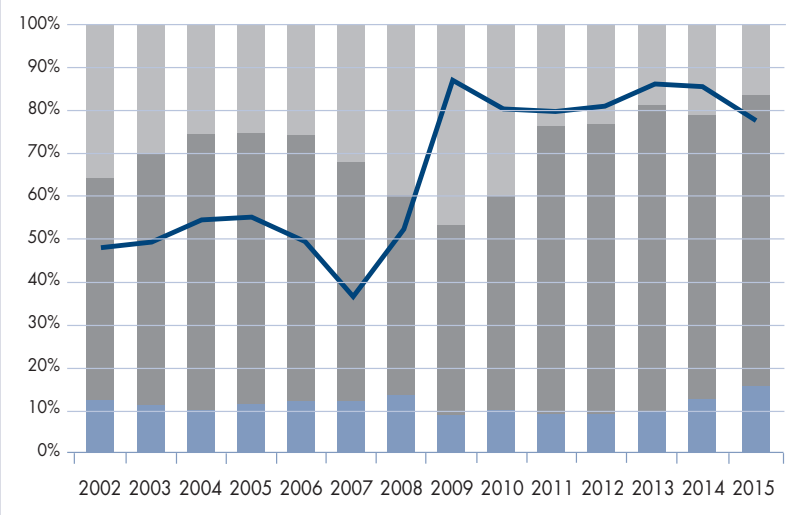
***Figure 3***
***Share of life premiums distributed via bank and post office branches (line graph), divided by type of distribution agreement (bar chart)***



The joint venture distribution model, which until a few years ago rivaled the captive model in market share, has come down to just 25% of premiums collected through bancassurance in 2015, equal to a volume of €18.5 billion.

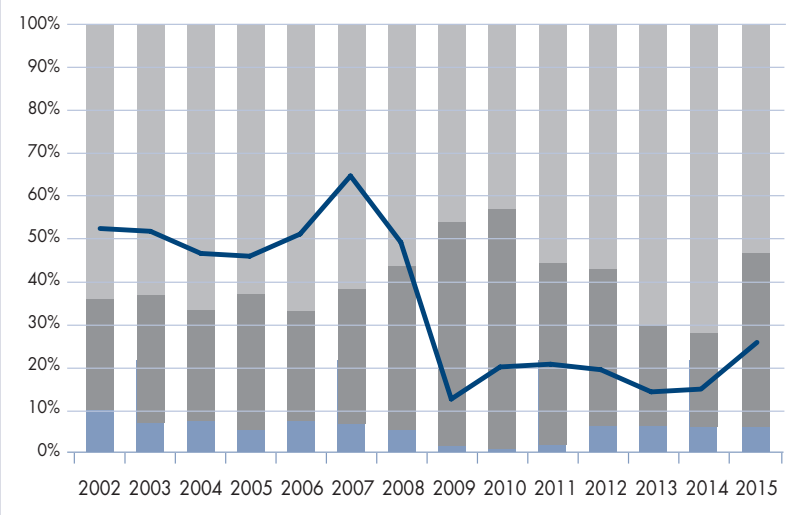
Other, non-captive trade agreements, although quite common in terms of absolute numbers in the insurance industry, have always accounted for a small share of the bancassurance market, fluctuating around 10% over the years, reaching its maximum impact in 2015 at 13.5% of premiums collected by bank and post office branches (amounting to a volume of €9.8 billion). Looking into the same time series, but restricting the analysis to the sum of Class I and V products, which are composed for the most part of profit-sharing life policies, the breakdown of premium collection by type of agreement shows a strong prevalence of captive undertakings, whose share went from about half of premiums collected in the early 2000s to two-thirds in 2015 (Figure 4).

***Figure 4***
***Share of Class I and Class V premiums in total life premiums distributed via bank and post office branches (line graph), by type of distribution agreement (bar chart)***




By contrast, for Class III products alone (Figure 5) the analysis indicates that, apart from some specific years characterized by the crisis of the financial markets in which savers have stayed away from products where the risk is borne by the policyholder, joint ventures have accounted for the majority of premiums over time; however, in 2015 this share fell to 52% from the record high of over 70% of the income from linked products registered in 2014.

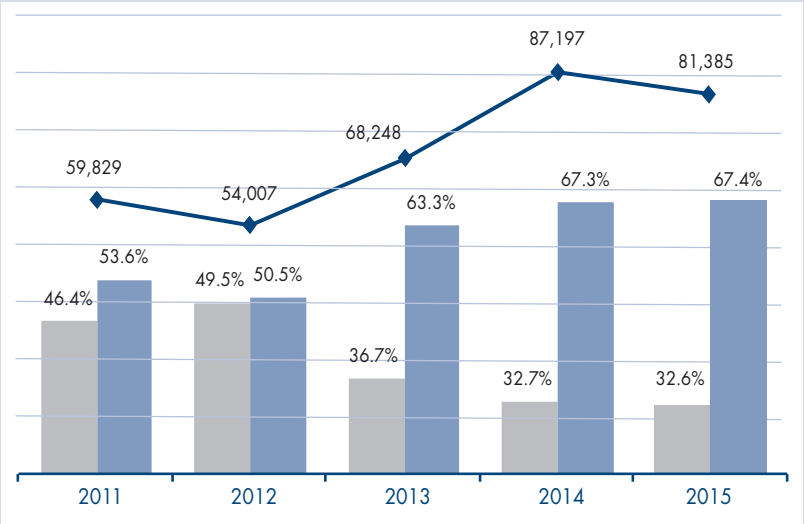
***Figure 5***
***Share of Class III premiums on total life premiums distributed via bank and post office branches (line graph), divided by type of distribution agreement (bar chart)***



## Recent developments in life bancassurance

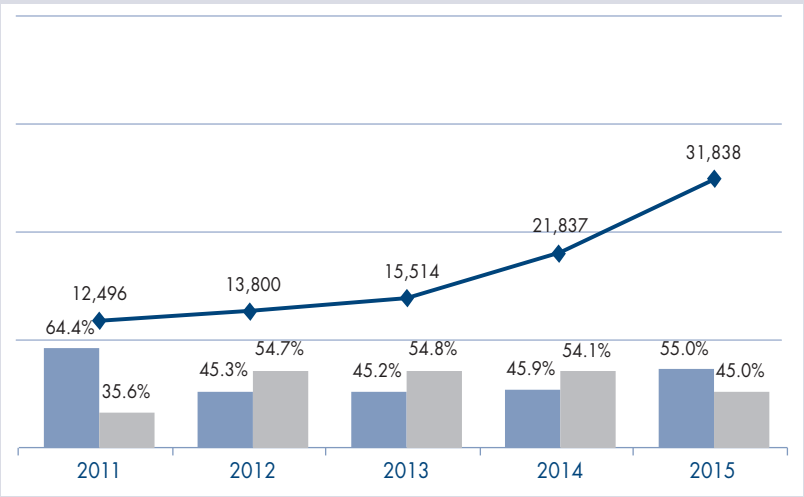
Looking at the past five years, and especially the most recent years, bank and post office branches have played an ever more important role as opposed to other distributors of traditional insurance products (Classes I and V) (Figure 6), exceeding two-thirds of total premiums collected in 2015 for those products.

***Figure 6***
***Evolution of Class I and Class V life premiums into 2011-15 broken down in bank and post office branches and other channels***
*€ million*




As for Class III products, while total premiums have grown, the share written by bank and post office branches declined at first and was surpassed by financial and insurance networks, but then regained ground to around 55% (Figure 7).

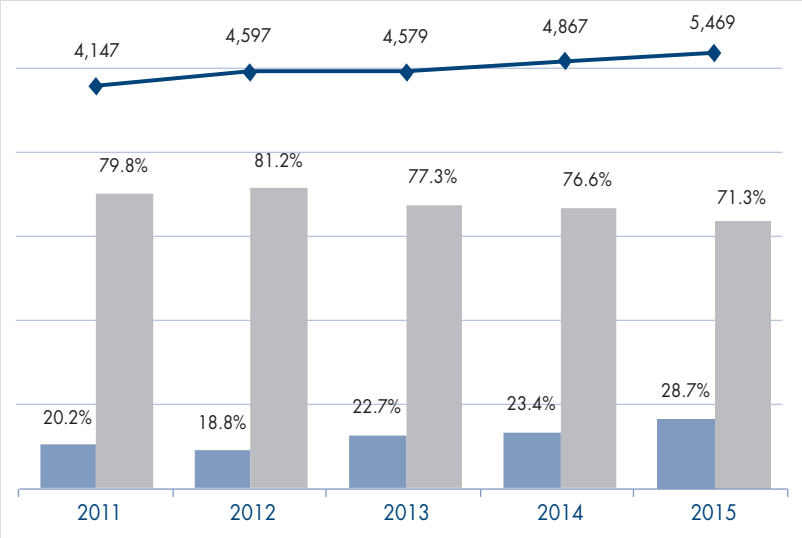
***Figure 7***
***Evolution of Class III life premiums in 2011-2015 broken down into bank and post office branches and other channels***
*€ million*




Restricting the analysis to individual pension products (Individual Retirement Plans and open pension funds), which account for a small percentage of total income, the share of premiums

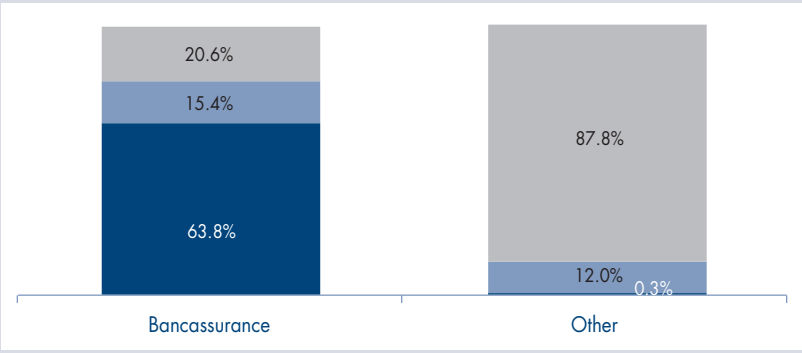
marketed through bank and post office branches, although gradually growing over the five-year observation period, is significantly lower than that of other channels, which account for more than two-thirds of total income, mainly thanks to premiums distributed through agency networks (Figure 8).

***Figure 8***
***Evolution of life premiums relating to IRPs and open pension funds in 2011-15 broken down into bank and post office branches and other channels***
*€ million*



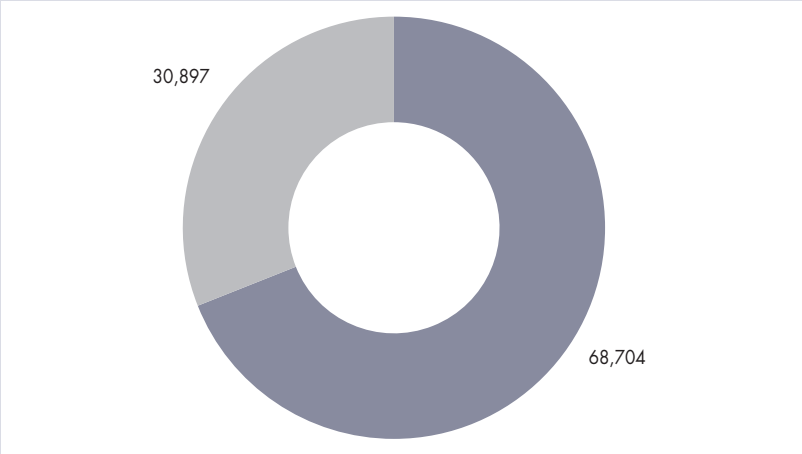

For 2015 alone, the analysis of the degree of concentration of life business – restricted to undertakings classified based on premiums collected through bank and post office branches – shows that the top five companies in the industry account for 63.8% of total income; companies ranking from 6th to 10th account for 15.4%, the rest for 20.6% (Figure 9). According to premiums collected through other channels, the respective shares of the three groups of firms came to 0.3%, 12.0% and 87.8%.

***Figure 9***
***2015 Market share comparison of companies based on life premiums collected through bancassurance and other channels***



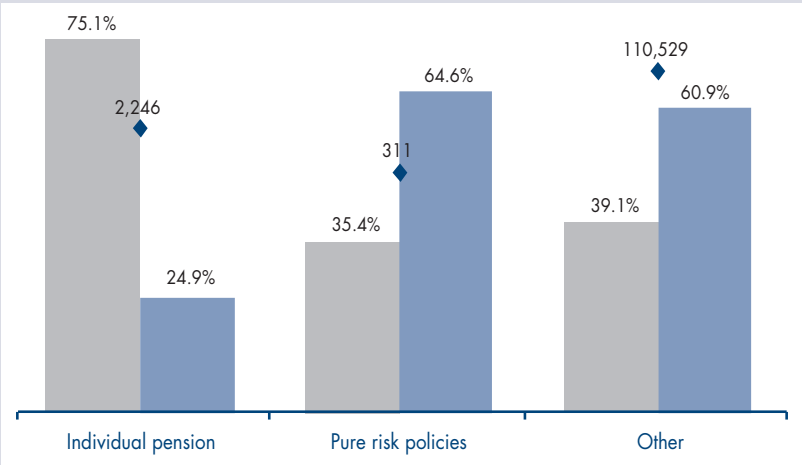

Looking at new life business in 2015 (Figures 10-12), we see that products distributed through bank and post office branches accounted for €68.7 billion of new premiums collected for life classes, 69% of all new business (€99.6 billion) (Figure 10).

***Figure 10***
***New business for individual and group life policies in 2015 broken down into bank and post office branches and other channels***
*€ millions*



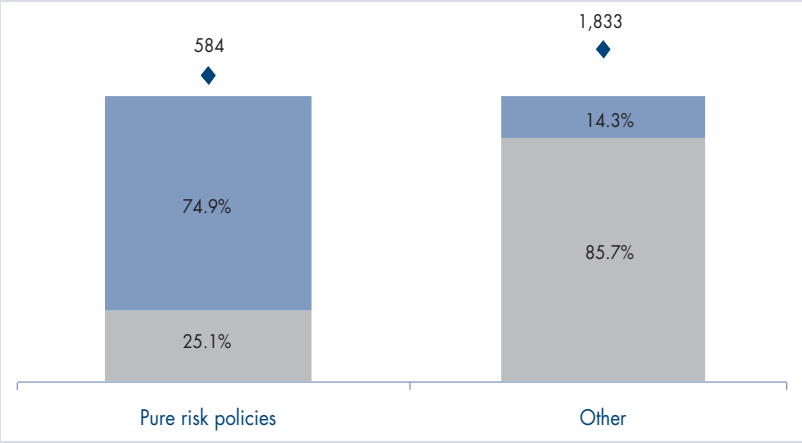

The very large role of bancassurance is observed for insurance investment products and pure risk policies, whereas – as mentioned earlier – this channel only accounts for a minority share in the distribution of individual retirement products (Figure 11, where premium income is reported on a logarithmic scale).

***Figure 11***
***New life business 2015 for individual products broken down into pure risk, pension and other products and into bank and post office branches and other channels***
*€ million*



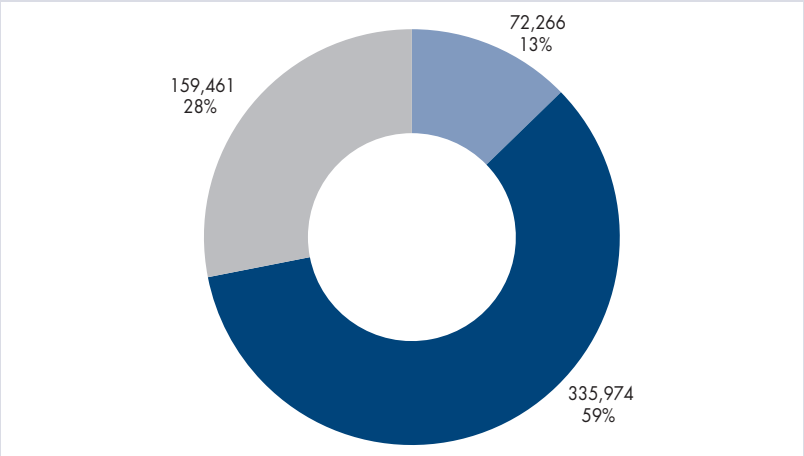

With regard to corporate clients and group policies, the data highlight that distribution through bank and post office branches mainly involves pure risk products, which account for nearly three fourths of total premiums. By contrast, for other products the levels are again significantly lower, with a share stable at 15% of the total (Figure 12).

***Figure 12***
***New life business 2015 for group products broken down into pure risk and other products and into bank and post office branches and other channels***
*€ million*



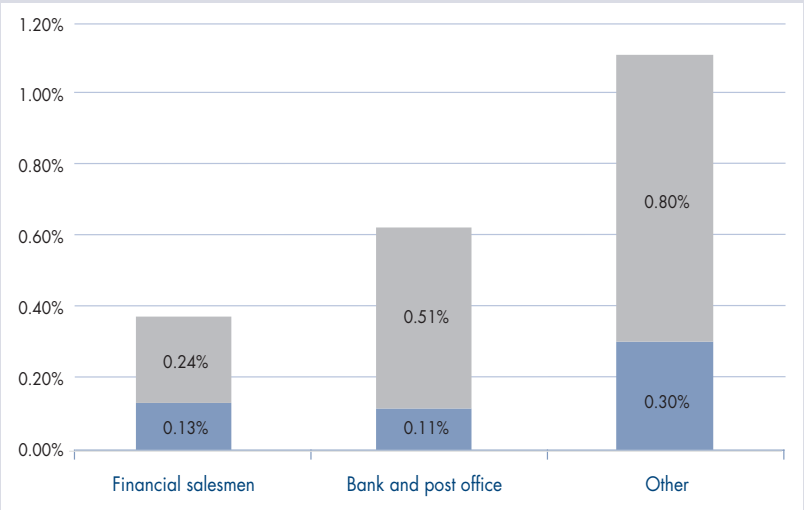
In terms of technical provisions, contracts sold via bank and post office branches are decidedly the major share, with almost €340 billion of the €560 billion of overall life insurance reserves (Figure 13). Agency networks, which constitute practically all the rest, account for 28% of total provisions, scarcely half the provisions for life policies distributed through bancassurance channels.

***Figure 13 Mathematical and technical reserves 2015 by channel***
*€ million*




Relating administration expenses borne by insurance companies in 2015 to the reserves, to calculate the incidence of operational expenditures on an approximation of the assets covering the reserves (standard practice in the asset management industry), it appears that the average value of the index is distributed in a diversified manner: bank and post office branches have the smallest share, financial salesmen or brokers a middling one, and traditional insurance channels the most, nearly as much as the other channels put together (Figure 14).

***Figure 14 Administration and distribution costs on mathematical reserves for 2015 broken down by channel***




However, it should be noted that these data are of an accounting nature and can be influenced by the involvement of insurance companies with the different channels, as well as by the different organizational policies, type and quantity of products sold, investment policies and the companies' accounting choices.

The ratio of distribution costs to reserves shows minimum values for the network of financial salesmen, intermediate values for bank and post office branches and, once again, the highest values for other channels of distribution, mainly consisting in traditional insurance channels.

As a ratio to total administration and distribution costs, the volume of business through financial salesmen is smallest, bancassurance channels somewhat more, and the volumes for other channels far greater.

## LIFE INSURANCE AND ITALIAN HOUSEHOLDS' SAVINGS

In 2015 the nominal growth of the disposable income of Italian households was 0.9% (+0.3% in 2014). And for the first time since 2008 real disposable income also increased (gaining 0.8% after holding unchanged in 2014), by about as much as nominal income, given practically zero inflation (Table 1).

***Table 1***
***Formation, distribution and uses of consumer households' disposable income***
*(% changes on previous year unless otherwise specified)*

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Gross operating result (a) (+) | 2.0 | 4.1 | -3.2 | 5.3 | -1.6 | 1.3 |
| Compensation of employees (+) | 1.4 | 1.5 | -1.1 | -1.0 | 0.4 | 2.0 |
| Self-employment income (b) (+) | 0.4 | 0.8 | -5.1 | -0.3 | -0.7 | 0.5 |
| Investment income (c) (+) | -16.8 | 10.0 | 1.1 | -5.3 | -3.1 | -1.4 |
| Gross primary income (d) | -0.1 | 2.1 | -2.3 | -0.4 | -0.3 | 1.3 |
| Net social contributions (e) (-) | 1.2 | 1.1 | -0.1 | -0.7 | 0.0 | 2.1 |
| Social benefits and net transfers (f) (+) | 2.6 | 1.7 | 2.3 | 2.4 | 2.2 | 1.7 |
| Current income and capital taxes (-) | 2.9 | 0.2 | 5.0 | -0.7 | 0.4 | 3.2 |
| Gross disposable income (g) | -0.1 | 2.5 | -2.7 | 0.6 | 0.3 | 0.9 |
| Final consumption expenditure (-) | 2.7 | 2.9 | -1.3 | -1.3 | 0.8 | 1.0 |
| Gross saving (h) | -22.3 | -2.1 | -18.0 | 25.1 | -4.0 | 0.6 |
| Real disposable income (i) | -1.5 | -0.4 | -5.3 | -0.6 | 0.0 | 0.8 |
| Current and capital tax burden (j) | 15.1 | 14.8 | 15.8 | 15.7 | 15.6 | 16.0 |
| Total fiscal burden (k) | 15.2 | 14.9 | 16.4 | 16.0 | 16.3 | 16.5 |
| Propensity to save (%) (l) | 8.7 | 8.3 | 7.0 | 8.7 | 8.3 | 8.3 |

*Source: ISTAT, National Economic Accounts*

*(a) Net proceeds from activities connected with production for self-consumption. The largest component is the value of imputed rents (owner-occupied dwellings and ordinary maintenance). (b) The share of mixed income transferred by producer to consumer households, net property income and other profits distributed by corporations and quasi-corporations. (c) Net interest, dividends, rentals of land and property income attributed to the insured in respect of the yields of insurance technical reserves. (d) Remuneration of productive factors supplied by consumer households: gross operating result, compensation of employees, and self-employment income and the net balance of investment income. (e) Contributions of employers, employees and self-employed workers net of those received by households as employers. (f) Net social benefits and other net social transfers (insurance premiums and claims of payments for non-life insurance, net transfers to/from general government, non-profit institutions serving households and rest of the world). (g) Primary income minus current taxes and net social contributions, plus net social benefits and net current transfers. (h) Gross disposable income minus final consumption expenditure, plus adjustment for change in net equity of households in pension funds. (i) Gross disposable income of consumer households in real terms, calculated using the households' final consumption expenditure deflator. (j) Current and capital taxes as percentage of consumer households' gross disposable income recalculated gross of current taxes. (k) Production taxes, current and capital taxes as percentage of households' gross disposable income, recalculated gross of current and production taxes. (l) Gross saving over gross disposable income, plus adjustment for change in net equity of households in pension funds*

All components contributed to the formation of disposable income in 2015, notably compensation of employees (+2.0%; +0.4% in 2014), self-employment earnings (+0.5%, -0.7% in 2014), and social benefits (+1.7%, +2.2% in 2014). The persistence of very low interest rates held down the growth in investment income, which was the only component to decline (-1.4%, -3.1% in 2014). A negative impact was exerted by net social contributions (+2.1%, 0.0% in 2014) and by current taxes (+3.2%, +0.4% in 2014).

In 2015 the propensity to save, defined as gross saving (net of changes in pension fund reserves) over disposable income, held steady at 8.3%.

## Financial saving

In 2015 net financial saving by Italian households and non-profit institutions (for brevity, simply "households") came to €22.8 billion, up slightly from €22.3 billion in 2014. This reflected increasingly strong inflows into household portfolios (€23.7 billion, up from €18.4 billion in 2014) but also an upturn in debt (+€0.9 billion, compared with -€3.9 billion in 2014) (Table 2).

***Table 2 – Financial assets of Italian households***

| INSTRUMENTS | YEAR-END STOCKS (euro million) 2015 | YEAR-END STOCKS/TOTAL ASSETS (%) | | FLOWS (euro million) | |
|---|---|---|---|---|---|
| | | 2014 | 2015 | 2014 | 2015 |
| ASSETS | | | | | |
| Bank instruments (*) | 1,099,126 | 26.9 | 26.7 | 21,859 | 13,237 |
| Italian | 1,067,197 | 26.0 | 25.9 | 27,916 | 19,787 |
| sight deposits | 585,226 | 13.5 | 14.2 | 42,063 | 40,170 |
| other deposits | 481,971 | 12.5 | 11.7 | -14,147 | -20,383 |
| Foreign | 31,929 | 1.0 | 0.8 | -6,057 | -6,550 |
| Bonds | 442,010 | 13.7 | 10.7 | -109,593 | -114,256 |
| Italian | 326,626 | 10.6 | 7.9 | -104,803 | -107,912 |
| of which: *Government* | 131,574 | 4.0 | 3.2 | -30,985 | -32,037 |
| *bank* | 187,162 | 6.3 | 4.5 | -74,162 | -71,463 |
| Foreign | 115,384 | 3.1 | 2.8 | -4,790 | -6,343 |
| Investment fund units | 456,832 | 9.8 | 11.1 | 57,687 | 42,684 |
| Italian | 238,031 | 4.8 | 5.8 | 32,010 | 23,387 |
| Foreign | 218,801 | 4.9 | 5.3 | 25,677 | 19,297 |
| Shares and other equity | 957,361 | 22.6 | 23.3 | -13,622 | 17,671 |
| Italian | 891,625 | 21.1 | 21.7 | -14,829 | 14,956 |
| Foreign | 65,736 | 1.5 | 1.6 | 1,207 | 2,715 |
| Insurance, pension fund reserves and severance pay entitlements | 864,520 | 19.9 | 21.0 | 52,693 | 49,990 |
| of which: *reserves of the life sector* | 573,841 | 12.9 | 13.9 | 45,843 | 43,859 |
| Other assets (*) | 297,300 | 7.1 | 7.2 | 9,359 | 14,400 |
| **Total assets** | **4,117,150** | **100.0** | **100.0** | **18,383** | **23,726** |
| LIABILITIES | | | | | |
| Short-term debt | 57,682 | 6.4 | 6.3 | 1,080 | -129 |
| of which: *bank* | 56,701 | 6.3 | 6.2 | 1,526 | -155 |
| Medium- and long-term debt | 634,827 | 69.1 | 69.1 | -6,530 | 196 |
| of which: *bank* | 563,344 | 58.7 | 61.3 | -7,003 | 10,225 |
| Other liabilities (*) | 225,940 | 24.5 | 24.6 | 1,577 | 875 |
| **Total liabilities** | **918,450** | **100.0** | **100.0** | **-3,872** | **942** |
| BALANCE | 3,198,700 | | | 22,255 | 22,783 |

*(*) Includes Cassa Depositi e Prestiti*
*Source: Based on Banca d'Italia, Conti finanziari*

A look at the figures clearly reveals the impact of the low interest rate environment on investment strategies. Italian households continued to make further net disposals of fixed-income securities in favor of riskier, higher-yield assets. Last year the massive disinvestment in fixed-rate bonds continued, both government (-€32.0 billion; -€31.0 billion in 2014) and bank bonds (-€71.5 billion; -€74.2 billion in 2014) and disposals of bonds of foreign issuers increased (-€6.3 billion; -€4.8 billion in 2014). With the exception of Italian non-sight deposits (-€20.4 billion; -€14.1 billion in 2014), all other instruments reported positive net flows, in particular: investment funds (+€42.7 billion; +€57.7 billion in 2014) and life insurance reserves (+€43.9 billion; +€45.8 billion in 2014).

At the end of 2015 the stock of financial assets held by Italian households amounted to €4,117 billion. The search for higher yields is now clearly perceptible in portfolio flows. The largest share of Italian household financial wealth continues to be in liquid instruments, i.e. bank deposits (26.7%; 26.9% in 2014), followed by shares and other equity (23.3%, 22.6%) and in insurance, pension funds and provisions for employee severance pay (21.0%, 19.9%), which include life insurance provisions (13.9%, 12.9%); the share invested in investment funds amounted to 11.1% (9.8% in 2014).

## PAYMENT PROTECTION INSURANCE: THE IVASS-BANK OF ITALY MEASURES

After a preliminary meeting to describe the measures planned, and following the industry's observations, IVASS and the Bank of Italy transmitted, on 25 August 2015, a letter to the insurance market specifying measures of customer protection for holders of payment protection insurance policies. The letter confirmed the existence of problems in both production and distribution and called on boards of directors to develop, within 90 days, a plan to be submitted to the supervisory authorities, and in any case to implement the plan by 22 February 2016. ANIA, in view of the considerable adaptation effort that would be required, asked for an extension of the deadline. However, additional flexibility was granted only for the first deadline, i.e. the submission of the plan to the authorities.

The main points laid down by the authorities include:

- revision of "rotating coverage" products ([1]), for better calibration with the characteristics and needs of the target customers and elimination of excessive limits on coverage;
- recognition of right of rescission also for non-life coverage;
- internal controls that can verify that the sales network markets the new products only to the customer target defined;
- a series of controls to verify the insurability of the risks and the adequacy of the product to the customer's specific needs.

([1]) "Rotating coverage" policies provide, against a single premium, coverage of various risks, but on a rotating basis as a function of the conditions of the policyholder.

In addition, the authorities called on insurers to develop a questionnaire for customers to observe their state of health, except only for very small loans and in any case excluding state of health from conditions for insurability and eliminating previous health conditions from the exclusions.

For contracts already signed, in cases in which the policyholder was not in a position to fully disclose previous health conditions and disputes arise, the authorities called on insurers to automatically refund the portion of the premium paid and not exploited, and also to update contracts already in being on the obligation to refund the premium and revise the criteria and method for calculating the refundable portion, to be set out in comprehensible terms.

The authorities also pointed out the need to distinguish between the two relationships (the loan and the insurance cover) both in the pre-contractual documentation and in terms of costs (repayment installments and insurance premiums).

For distributors, the authorities recommended that timing and procedures be designed in such a way as not to condition the negotiations over the loan itself. Finally, the rules provide for timely transmission to the customer of a notice summarizing the characteristics of the insurance policy he has subscribed and reminding him of the option of rescission.

## SUPPLEMENTARY PENSION PLANS: ENROLLMENTS AND NEW REGULATIONS

### Enrollments, contributions and resources allocated to benefits

In 2015 enrollments in supplementary pension plans continued the gradual growth of recent years, with an increase of 12.1% in the number of members. Overall, the number enrolled now exceeds 7.2 million, or 28.3% of the labor force (Table 1).

***Table 1 Evolution of enrollments by pension plan***

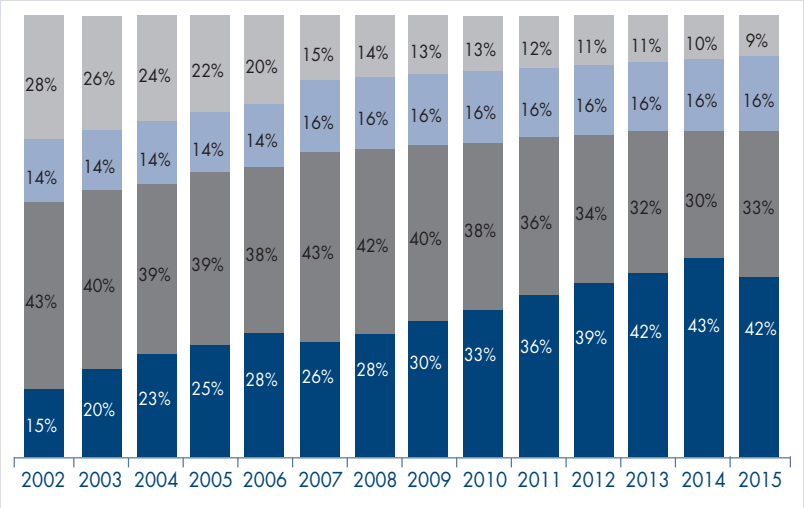
| Pension plans | Number of participants 2014 | 2015 | Change % |
|---|---|---|---|
| Occupational pension funds | 1,944,276 | 2,419,103 | 24.4% |
| Open funds | 1,057,038 | 1,150,096 | 8.8% |
| Individual retirement plans | 2,763,974 | 2,976,202 | 7.7% |
| Pre-existing funds | 645,371 | 644,797 | -0.1% |
| Total | 6,447,186 | 7,226,907 | 12.1% |
| of whom: private-sector employees | 4,538,963 | 5,173,830 | 14.0% |
| Share of labor force | 25.6% | 28.3% | 2.7% |

*Source: Based on IVASS and COVIP data*

Enrollments in occupational pension funds increased sharply (+24.4%), owing essentially to the broad-based enrollment, through collective bargaining, of construction workers to their occupational fund, albeit with only employers' contributions. Open pension funds also

increased their membership significantly (+8.8%), outpacing the growth of individual retirement plans (+7.7%) in relative terms but not in absolute numbers. Since 2002, individual retirement plans (IRPs) have regularly been the form of retirement saving with the highest number of participants (Figure 1).

***Figure 1***
***Time series on pension plans' participants***




*Source: Based on COVIP data*

However, the number of enrolled persons who have stopped contributing has continued to rise, reaching nearly 1.8 million last year. This is most common for self-employed workers and individual retirement plans, for which more than 800,000 failed to make their payments in 2015.

Nevertheless, the overall volume of contributions to supplementary pension schemes expanded by 4.1% last year (Table 2). The flow exceeded €13.5 billion. In terms of individual types of pension fund, the fastest growth was recorded by open pension funds (+12%) and individual retirement plans (+11.6%), surpassing contributions to "pre-existing" funds, i.e. those created prior to 1993.

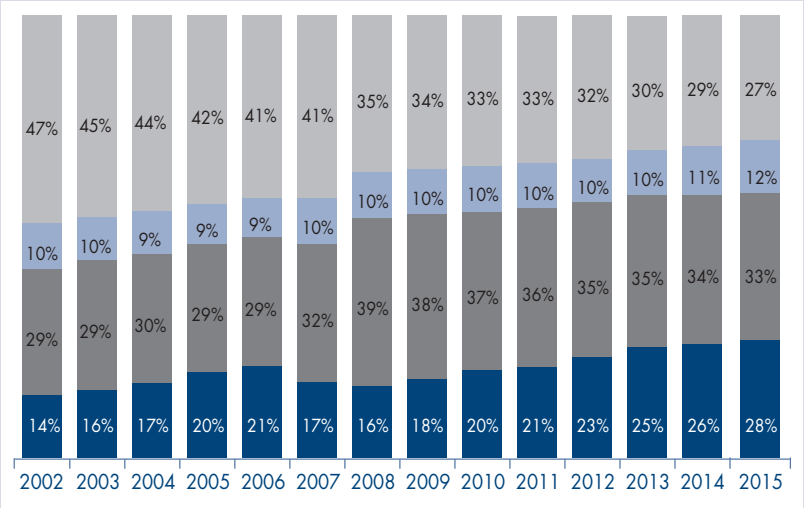
***Table 2***
***Evolution of pension fund contributions***
*Euro million*

| Pension plans | Contributions | | Change % |
|---|---|---|---|
| | 2014 | 2015 | |
| Occupational pension funds and Fondinps | 4,406 | 4,477 | 1,6% |
| Open funds | 1,428 | 1,599 | 12,0% |
| Individual retirement plans | 3,377 | 3,769 | 11,6% |
| Pre-existing funds | 3,797 | 3,702 | -2,5% |
| Total | 13,008 | 13,547 | 4,1% |

*Source: Based on COVIP data*

Since 2002, contributions paid in to occupational funds have grown steadily and have accounted for the largest share in overall cash flows for some years now (Figure 2). Contributions to IRPs have also increased constantly, while those to open pension funds have maintained about the same share over the years, with some increase in recent years.

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




*Source: Based on COVIP data*

The average return on supplementary pensions, although different depending on the various sub-funds, was on average higher than the revaluation of severance pay funds in 2015, which came to 1.2% for the year. More specifically, the average return on occupational funds was 2.7%, that on open pension funds 3.0%, that on unit-linked IRP funds 3.2% and that on segregated IRP asset portfolios 2.5%.

The expansion of contributions and positive returns, on average, produced an increase of 7.1% in the resources set aside for benefits, which went above €140 billion, or 8.6% of Italy's nominal GDP and 4.4% of Italian households' net financial assets at the end of 2015 (Table 3).

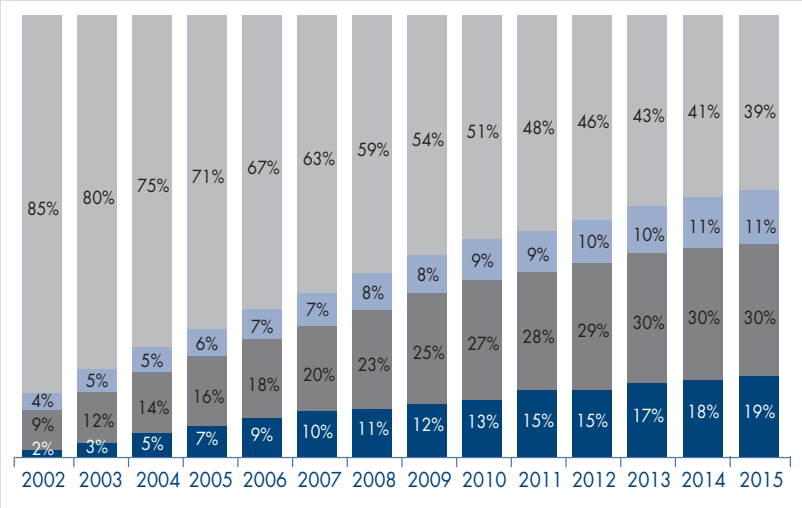
***Table 3***
***Resources set aside for benefits by type of supplementary pension***
*Euro million*

| Pension plans | Resources managed 2014 | 2015 | Change % |
|---|---|---|---|
| Occupational pension funds and Fondinps | 39,709 | 42,616 | 7.3% |
| Open funds | 13,980 | 15,430 | 10.4% |
| Individual retirement plans | 23,219 | 26,835 | 15.6% |
| Pre-existing funds | 54,033 | 55,299 | 2.3% |
| Total | 130,941 | 140,180 | 7.1% |
| Share of GDP | 8.1% | 8.6% | 0.5% |
| Share of households' financial savings | 4.3% | 4.4% | 0.0% |

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

Funds instituted prior to 1993 ("pre-existing" funds), despite progressive decline over the years, still account for the largest share (39%) of benefit provisions, but since 2002 all the other types 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*

## New regulations

### Changes to the IRP information note and yield calculation

By a resolution dated 25 May 2016, the pension supervisory authority COVIP modified the information requirements with respect to members of individual retirement plans (IRPs), laying down that the only information document that must be delivered is the section of the Information Note relating to the summary sheet, which has been renamed as "Key information for members". Thus the other sections of the Note, the rule (for open pension funds and IRPs) and the general terms of contract (for IRPs) have to be furnished only to members expressly so requesting; the obligation to make these documents available on the website remains.

As to the information contents, one of the main innovations as regards investment proposals is the requirement to specify that the choice among various options must be preceded by an assessment, by the investor, of his own personal situation and his expectations. Another new feature is the requirement that the description of the investment segments (internal funds, UCITS, segregated internal funds) specify the category to which the fund belongs, based on its investment policy, among the following: guaranteed, pure bond, mixed bond, balanced (including "flexible" segments) or equity.

For each segment, the rules require a graph of the average compound yield over the last 3, 5, and 10 years, compared with the benchmark yield (where a yield indicator other than the benchmark is specified, that indicator must be shown). This information, for each segment, is to be supplemented by summary indications, in the form of graphs, on the portfolio composition at the end of the year.

An especially important change concerns the reporting of costs, which must now be shown in a dedicated section within the "key information" sheet. As in the past, the sheet reports information on the individual cost items, both direct and indirect, for members during the

contribution stage when pension benefit entitlement is accumulated, as well as the summary cost indicator. A new requirement, however, is a graph illustrating the cost burden of each pension form by comparison with the others, comparing the summary indicator at ten years for the single segment with the average indicators of segments in the same investment category offered by occupational funds, open funds and IRPs, as well as the minimum and maximum summary cost indicator within all these segments. The sheet must be accessible on its own and downloadable from the website pages dedicated to supplementary retirement plans.

Finally, the Information Note summary sheet is now required to give summary information on supplementary pension benefits and other benefits during the accumulation phase. It must advise the member of the usefulness of consulting the document entitled "My supplementary pension" (the new name for the old document called "Exemplification project: estimating the supplementary pension") so as to get an estimate of one's possible position at the end of the accumulation phase and the size of the initial benefit installment; the member must also be referred to the Annuity Document to learn what sort of annuities the fund offers.

The COVIP resolution also revised the membership application form. The new form calls for the acquisition of information on whether the member is already enrolled in another supplementary pension plan. The form is supplemented with a self-assessment questionnaire, for the member's completion, on his personal situation and pension benefit expectations. The questionnaire is in two parts:

- one concerns "knowledge about retirement plans" and consists of questions to elicit the respondent's knowledge about pension funds and his expectations concerning the basic, public pension;
- the second part bears on the "consistency of the retirement choice" with questions on personal saving capacity, the time horizon, i.e. how far the member is from retirement, and personal risk appetite.

The answers produce a score that serves to "guide" the member in choosing between the various investment options, although this must not constitute a constraint or preclusion of alternative choices. The questionnaire takes the form of self-assessment and must be adopted by all occupational pension funds, open funds, IRPs and independent pre-1993 defined-contribution funds, which are subject to the other innovations concerning the Information Note.

Lastly, COVIP provided for the inclusion in the Information Note of a "methodological note for standardized calculation of the taxation of the yield on insurance-type individual retirement plans". The fiscal rules governing IRPs, in fact, provide for taxation of the individual positions and not of the managed assets, as is the case for all other types of defined-contribution supplementary retirement plans.

For comparability with other retirement plans, the yield of IRPs must be shown net of taxes. A simplified, standardized method has been developed, providing for the application of a netting factor to the gross yield of IRPs, which insurance companies use to revalue the individual positions. Again for comparability, the standardized methodology, uniform for all the retirement plans required to produce the Information Note, is also envisaged for calculating the after-tax benchmark yield (the "methodological note for standardized calculation of the benchmark yield net of taxation"); this too now forms part of the Information Note.

In both cases (for IRPs and benchmark yields), in order to permit consistent representation of the results to report in the pension fund documents, pre-2015 yields must also be shown net of taxes, with an adjustment factor equal to the relevant tax rate each year.

However, the netting obligation does not apply where the IRP or benchmark yield is used as a contractual element governing obligatory aspects of the participation (e.g., to calculate over-performance fees, to determine Class I insurance costs, to determine result guarantees). In these cases, the insurer must in any event state whether the parameters are gross or net of taxes.

The obligation to produce the reformulated Information Note is also extended to supplementary pension funds existing prior to 1993 with legal personality if they:

- operate wholly or partly as defined-contribution plans;
- are open to new membership;
- had more than 5,000 active members at the end of the previous year.

These pre-existing pension plans must comply with the new Information Note schema, following as far as they are compatible the indications given for occupational pension funds.

The COVIP resolution goes into effect on 1 January 2017, and the supplementary retirement plans must adapt their information documents by 31 March.

## Changes to membership procedures

COVIP, in a resolution dated 25 May 2016, has revised the regulations governing membership procedures for pension funds, abrogating the previous rules. The changes take account of the modifications to the schema for the Information Note. Article 7 of the resolution provides that prior to membership the fund must furnish the prospective member only with the "Key information for members" section of the Note, instead of the entire Note as under the old rules. The same article refers to membership of persons who according to their membership form statement are already members of some supplementary retirement plan. For them, the persons responsible for recruiting new members must also furnish the "summary cost indicator" from the "key information for members" of the plan to which they already belong. This indicator, duly signed by the prospective new member, must be acquired by the recruiters.

Another significant change is in Article 9(1) of the resolution, which, in respect of the placement of open funds and IRPs, abolishes the requirement to apply not only the specific provisions laid down by COVIP but also the general rules for the marketing of financial and insurance products. The new wording only recalls other rules that may apply to the intermediary under the rules governing its particular industry. The amendment also takes account of the inclusion in the membership form of the specific self-assessment questionnaire.

The rules of conduct in recruiting members (Article 11) have also been revised, specifying that they apply to pension funds and the institutions that institute open funds and IRPs, both for direct recruitment and for recruitment via agents. The article also requires that recruiters be given special instructions in order to ensure observance of the rules of conduct.

Article 10 now has specific provisions concerning "silent" members – those who are not paying in – including rules on compulsory membership under law or collective bargaining agreements.

A final innovation is the rules for joining via the fund website in Title III, introduced in order to improve the safeguards for correct conduct in the use of this instrument. The Title

institutes specific protections for members, including the requirement for express consent for the use of the online instrument and the right of rescission within 30 days of joining at no cost and with no need to specify the reason.

The resolution further specifies that in obtaining membership via the website both the supplementary retirement fund and the persons assigned to recruit members must observe the rules of conduct laid down in Title II. Here too the scope of the measures is extended to pre-existing funds with legal personality that operate on a defined-contribution basis, that are open to new membership, and that had over 5,000 active members at the end of the previous year. The measures go into effect as of 1 April 2017.

# 4

# NON-LIFE INSURANCE

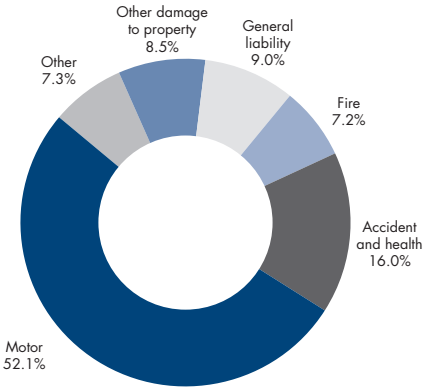
# NON-LIFE INSURANCE

In 2015 non-life premium income amounted to €32,002 million, down 2.4% from 2014. The sector's share of total premiums fell from 22.9% to 21.8%, in part because life sector premiums rose. The combined ratio improved marginally, from 90.1% to 89.4%, as the slight increase in the expense ratio was offset by an improvement in the loss ratio. Although the contribution of investment income diminished slightly, the overall technical account result held steady at €3.6 billion, thanks to the release of excess claims reserves for previous years.

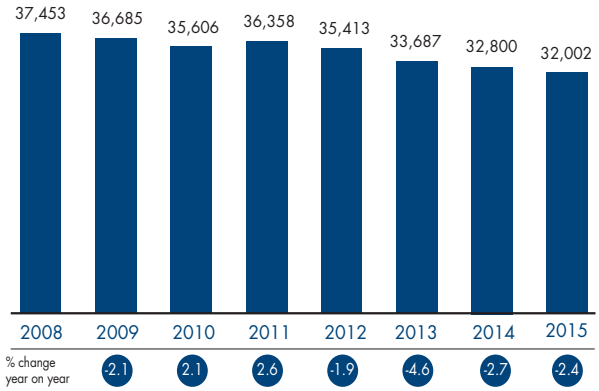
## DOMESTIC BUSINESS

**Premiums from direct domestic business** for the 74 Italian and 3 non-EU insurance companies operating in non-life classes were equal to €32,002 million in 2015, down 2.4% (calculated in homogeneous terms). This drop was due essentially to the decrease of 5.3% in motor insurance business (motor third party liability insurance, third party liability insurance for watercraft, and land vehicle insurance), which by itself accounts for 52.1% of overall non-life income; this was only partly offset by the 0.8% gain in other non-life premiums. The non-life share of the industry's total premiums (non-life plus life) thus slipped from 22.9% to 21.8%, as life premiums increased.

***Breakdown of main non-life classes 2015***




***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 €32,183 million, down 3.0% compared with 2014.

The **incurred claims cost for the current accident year**, defined as the sum of the amounts paid and reserved for claims incurred during the year, came to €21,656 million, representing a decrease of 2.9% on 2014. Since the fall in claims costs was about the same as that in earned premiums, the ratio of claims to premiums was practically unchanged (67.2% in 2014, 67.3% in 2015).

# NON-LIFE INSURANCE

***Non-life technical account***
*Euro million*

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 37,453 | 36,685 | 35,606 | 36,358 | 35,413 | 33,687 | 32,800 | 32,002 |
| Changes in premium reserves and other items (-) | 351 | 34 | 524 | 522 | -473 | -754 | -388 | -180 |
| Incurred claims (-): | 27,538 | 28,973 | 26,601 | 26,462 | 25,793 | 22,400 | 21,201 | 20,023 |
| – incurred claims cost for the current accident year (-) | 27,917 | 28,873 | 26,255 | 25,328 | 24,813 | 22,891 | 22,301 | 21,656 |
| – excess/shortfall for claims in previous years | 379 | -100 | -345 | -1,134 | -981 | 491 | 1,100 | 1,633 |
| Balance of other technical items | -747 | -716 | -687 | -591 | -663 | -605 | -527 | -599 |
| Operating expenses (-) | 9,158 | 9,053 | 8,696 | 8,761 | 8,504 | 8,433 | 8,599 | 8,702 |
| – commissions | 6,008 | 5,898 | 5,724 | 5,776 | 5,509 | 5,361 | 5,350 | 5,433 |
| – other acquisition costs | 1,327 | 1,370 | 1,374 | 1,356 | 1,422 | 1,478 | 1,629 | 1,621 |
| – other administration costs | 1,823 | 1,785 | 1,598 | 1,629 | 1,573 | 1,594 | 1,621 | 1,648 |
| **Direct technical balance** | **-341** | **-2,091** | **-902** | **22** | **926** | **3,004** | **2,860** | **2,859** |
| Investment income | 774 | 2,368 | 1,038 | 604 | 1,607 | 1,202 | 1,278 | 1,196 |
| **Direct technical account result** | **433** | **277** | **137** | **626** | **2,533** | **4,205** | **4,138** | **4,055** |
| Reinsurance results | -142 | -344 | -577 | -554 | 537 | -772 | -600 | -410 |
| **Overall technical account result** | **291** | **-67** | **-441** | **72** | **3,070** | **3,434** | **3,538** | **3,646** |
| Annual % change in premiums | -0.5% | -2.1% | 2.1% | 2.6% | -1.9% | -4.6% | -2.7% | -2.4% |
| **Combined ratio** | **98.7%** | **103.7%** | **100.2%** | **97.9%** | **95.9%** | **90.1%** | **90.1%** | **89.4%** |
| – Expense ratio | 24.5% | 24.7% | 24.4% | 24.1% | 24.0% | 25.0% | 26.2% | 27.2% |
| – Commissions/Gross written premiums | 16.0% | 16.1% | 16.1% | 15.9% | 15.6% | 15.9% | 16.3% | 17.0% |
| – Other acquisition costs/Gross written premiums | 3.5% | 3.7% | 3.9% | 3.7% | 4.0% | 4.4% | 5.0% | 5.1% |
| – Other administration costs/Gross written premiums | 4.9% | 4.9% | 4.5% | 4.5% | 4.4% | 4.7% | 4.9% | 5.2% |
| – Loss ratio: | 74.2% | 79.1% | 75.8% | 73.8% | 71.9% | 65.0% | 63.9% | 62.2% |
| – Loss ratio for the current accident year | 75.2% | 78.8% | 74.8% | 70.7% | 69.1% | 66.5% | 67.2% | 67.3% |
| – Excess/shortfall of claim reserves for previous years/ Earned premiums | 1.0% | -0.3% | -1.0% | -3.2% | -2.7% | 1.4% | 3.3% | 5.1% |
| **Technical balance/Earned premiums** | **-0.9%** | **-5.7%** | **-2.6%** | **0.1%** | **2.6%** | **8.7%** | **8.6%** | **8.9%** |
| **Technical account result/Earned premiums** | **1.2%** | **0.8%** | **0.4%** | **1.7%** | **7.1%** | **12.2%** | **12.5%** | **12.6%** |
| **Overall technical account result/Earned premiums** | **0.8%** | **-0.2%** | **-1.3%** | **0.2%** | **8.6%** | **10.0%** | **10.7%** | **11.3%** |
| *Premiums to total life and non-life premiums ratio (%)* | *40.7%* | *31.1%* | *28.3%* | *33.0%* | *33.7%* | *28.4%* | *22.9%* | *21.8%* |

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

The **incurred claims cost for the financial year**, which in addition to the incurred cost for the current year also includes the excess or shortfall of provisions for claims incurred in previous accident years, amounted to €20,023 million, down 5.6% on the year. Nearly half of this improvement in the incurred claims cost was due to the release of provisions set aside in previous years. In fact, these excess reserves increased from €1,100 million in 2014 to €1,633 in 2015. It was thanks to this effect that the ratio of incurred costs to earned premiums improved by 1.7 percentage points from 63.9% to 62.2%.

**Operating expenses** – that is, administration expenses relating to technical management plus costs of contract acquisition, premium collection and the organization and management of the distribution network – amounted to €8,702 million in 2015, an increase of 1.2% from the previous year. The incidence on direct premiums increased to 27.2%. The ratio of commission expenses to premiums also rose (from 16.3% to 17.0%), as did that of other administration expenses (from 4.9% to 5.2%). The incidence of other acquisition costs also rose, from 5.0% to 5.1%.

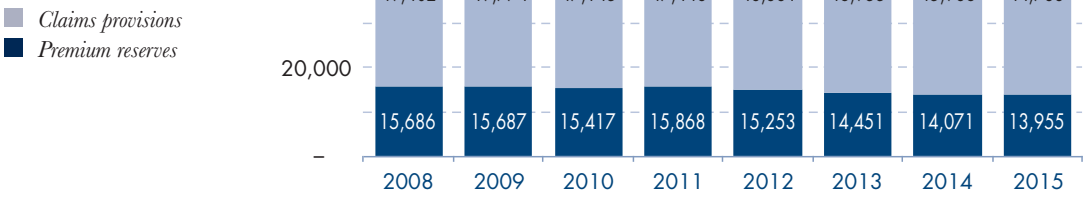
The **technical balance for direct business** was positive at €2,859 million, little changed from 2014.

Counting investment income, which came to €1,196 million (compared with €1,278 in 2014), the **direct technical account result** was positive by €4,055 million, against €4,138 million in 2014. The ratio to premium income edged up from 12.5% to 12.6%.

The result on reinsurance cessions and net indirect business was negative by €410 million in 2015, compared with a negative balance of €600 million in 2014. This improvement contributed to a positive **overall technical account result** of €3,646 million (slightly up from a year earlier). The ratio to premium income in 2015 came to 11.3% (10.7% in 2014).

**Direct technical reserves**, net of amounts to be recovered from policyholders and third parties, amounted to €58,688 million at the end of 2015, of which €13,955 million consisted in premium reserves and €44,733 million in claims provisions for the current and previous accident years.

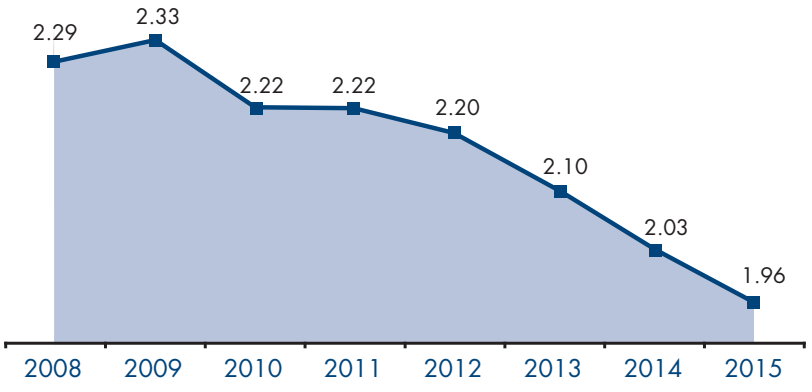
***Premium reserves and claims provisions***
*Euro million*




## NON-LIFE INSURANCE AND GDP

Given last year's contraction in written non-life premiums, their ratio to GDP slipped from 2.03% in 2014 to 1.96% in 2015.

***Non-life premiums/GDP (%)***



## THE IVASS "SIMPLIFICATION" OF THE INFORMATION NOTE ON NON-LIFE INSURANCE CONTRACTS. THE PUBLIC CONSULTATION AND ANIA'S PARTICIPATION IN THE TECHNICAL TALKS

The technical talks at IVASS to develop shared principles for the new Regulation to simplify non-life insurance information notes for consumers were concluded in April 2016. Thus the old IVASS Regulation 35/2010 on the notes on non-life policies, including motor liability policies and land vehicle insurance (fire, theft, collision) was superseded.

On 25 May IVASS posted on its website the proposed regulatory modifications (consultation document 10/2016). The consultation on the new Regulation was concluded on 20 June.

One of the main improvements instituted is that, as ANIA and the other participants in the technical talks had urged, insurers will draft the information note for potential policyholders according to standard criteria and in a simpler language than at present, with content that can be adapted by the insurance undertaking in relation to the key information on each insurance product, and must no longer refer the reader to provisions of law or policy terms and conditions.

More generally, in the consultation draft IVASS incorporated most of the proposals made by the insurance industry and the other participants in the talks (associations of insurance intermediaries and of consumers). Specifically, the talks overcame a number of problems with IVASS's initial draft. The original version, in fact, called for recasting the information note for non-life insurance as a document that could be modulated according to coverage sections (among those envisaged by multi-risk products) of interest to the consumer and the personalization of pre-contractual information, with the indication of the premium to be paid. This would have introduced, indirectly, obligatory premium estimates for all non-life products, like that already in being for motor liability policies.

These difficulties were resolved thanks to the technical talks, which showed that personalizing the notes would have eliminated their specific function, namely to provide pre-contractual information to facilitate consumers' comparison of the various products available on the basis of their main content and distinguishing features. In consideration of the outcome of the talks, the supervisory authority agreed on a series of points: that the information note must be a stand-alone document with a fixed structure and content to be supplied by each insurer; that the language and graphics must be as user friendly as possible in order to facilitate reading and comprehension, avoiding opaque references to laws and regulations.

So revised, the information note will give consumers ready pre-contractual knowledge of the insurance product they are interested in, even though the note itself does not have contractual validity, for which reference will be made to the general terms of contract.

In the course of the technical talks, in the vein of constructive criticism ANIA made several proposals to IVASS concerning the presentation of the pre-contractual documentation:

– to abrogate the requirement to deliver the information note, in the case of tailor-made policies, also in respect of individuals (natural persons) and not just companies (legal persons), as IVASS maintained;

– to limit the pre-contractual obligation to the information note alone, deferring presentation of the terms and conditions of insurance to the negotiating phase.

Another issue was IVASS's orientation, confirmed during the consultation, that the information note list in their entirety all the exclusions laid down in the policy contract. ANIA holds that this requirement is counterproductive for consumers themselves. It would not only weigh down the information note to the detriment of clarity and effective information but would also create a misleading disproportion between what the policy does cover (described only in summary) and what it does not (to be described in detail and with examples). On this point, ANIA also observed that the description of the product information document called for by the EU Insurance Distribution Directive, soon to go into force, refers expressly to a "summary of the excluded risks" (Article 20.8b) and the "main exclusions where claims cannot be made" (Article 20.8d).

However, the IVASS consultation draft of the regulation accepted these proposals only in part, so ANIA and the insurance industry felt it necessary to repeat their comments and submit them again to IVASS for consideration, strengthening their case with additional arguments.

As for the deadline for application of the Regulation, in the course of the consultation ANIA confirmed the position taken in the preparatory work, namely that insurers must be given a term of 12 months from the entry into force of the new rules to put them into effect, given the many important changes that have to be made to forms, modules, and business processes.

The publication of the definitive text of Regulation 35/2010 as amended was scheduled for mid-July 2016.

## ANIA STUDY ON TERRORISM RISK AND INSURANCE COVER IN ITALY AND OTHER COUNTRIES

At the start of 2016 ANIA began a comparative study on the position of the insurance industry in Italy and internationally as regards the risk and possible impact of terrorist attacks, especially in the wake of the tragic events in Brussels and Paris. The study emphasized first of all that in the past few years the phenomenon of "terrorism" has grown increasingly complex, greatly complicating its effective management.

European and non-European insurance companies have devoted special attention to the intensification of terrorist episodes and to the ways in which the related risks are covered. In some significant cases pools between government and insurers have been created.

For the Italian insurance market in particular, ANIA described and analyzed the diffusion of insurance cover against damage to property and persons due to terrorist attacks in the various insurance classes involved. ANIA developed a questionnaire for member companies on non-life insurance coverage, including accident and motor liability insurance, bearing on: possible coverage for "terrorism" risk, the way in which such insurance is supplied (base cov-

erage or accessory clauses extending the base coverage), any differences between retail and corporate policies, and finally the expected evolution of the market on both demand and supply sides. There was also special investigation of the risk profiles for each branch of activity. The data provided by insurers, processed in anonymous, aggregate form, were then used to produce an overall picture of the insurance market for this particular type of risk.

All in all, the inquiry found that insurance coverage of terrorism risk is fairly well developed in Italy, with the obvious differences between branches. Where it is envisaged, the coverage of "terrorism risk" ordinarily forms part of the base coverage in policies for accident insurance (100% of the cases), assistance (100%), legal expenses (100%) and motor liability (88%); for air and transport policies, however, terrorism falls under supplementary coverage (100% and 93% of the cases, respectively). For land vehicle insurance, i.e. "accessory risks" in the motor liability sector, coverage is mainly supplementary, as part of insurance against "socio-political events and acts of vandalism" (90%). In the other branches, there is not such a clear distinction, in terrorism insurance, between base coverage and accessory clauses.

With the major exception of property damage policies, on which 92% of Italian insurers differentiate between retail and corporate customers, as a rule there is no difference in supply mode between individual and corporate policies. What may distinguish the two is the level of maximum compensation and deductibles. For general third-party liability policies, coverage also differs in the exclusions provided for.

Further, the examination of contracts revealed some variations in limitations and exclusions, owing among other things to the fact that insurers cannot estimate the potential damages to which they are exposed with any degree of precision. This factor is especially significant in the field of terrorism risk, given the very large number of potential variables.

ANIA's inquiry forms an integral part of a more thorough study, for publication, of terrorism risk as it is now emerging in so many countries, in urgent and highly complex fashion. The analysis serves to forge a useful instrument of reflection for the insurance market. For this broader study, see "Terrorismo e assicurazioni, la sfida del nuovo millennio" (Terrorism and insurance, a challenge for the new millennium), soon to be available on ANIA's website.

# 5

# MOTOR INSURANCE

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In 2015 motor insurance premiums again registered a decrease of 6.5%, as in 2014. The cost of claims also fell, but less sharply, by 3.7%, resulting in a worsening of the combined ratio from 90.5% to 93.6%. The positive contribution of the financial component in connection with returns on investment, which was down slightly on the year, and the particularly positive liquidation of excess claims reserves for previous years helped produce a positive overall technical balance, though smaller than in 2014. The overall technical results for land vehicles remained positive, with an increase in premiums after seven consecutive years of decline.

## 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 46 companies operating in this class, totaled €14,218 million in 2015, down 6.5%, following decreases of 6.5% in 2014, 7.0% in 2013 and 1.2% in 2012. Over the four years, that is, total premiums fell by over 20%. These premiums represented 44.4% of the total for non-life classes (46.4% in 2014). In addition, a significant share of premiums (5.0% of the total, amounting to some €760 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 5.4% in 2014, comparable to the decrease sustained by Italian companies. Overall, Italian, EU and non-EU insurers collected total premium income of €14,980 million in 2015, a decline of 6.5% on the year. No information about the technical results is available for the non-Italian 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 €14,450 million, down 7.1% with respect to 2014.

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 €11,032 million, down 1.3%. This is consistent with the 1.0% increase in claims frequency in 2015, the reduction of 1.6% in average claim size, and the decrease of 0.7% in the number of vehicles insured. In addition to vehicles circulating in Italy, the number insured includes those insured at secondary units of Italian insurers established in other EU countries and circulating there. Counting only the vehicles on the roads in Italy, the number insured was practically unchanged last year (+0.1%). As claims costs declined by just 1.3% and earned premiums by 7.1%, the ratio of costs to premiums for the 2015 accident year worsened by 4.5 percentage points, from 71.8% to 76.3%.

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 €10,421 million (€10,818 million in 2014) with a decline of 3.7%. This was due

to the utilization of excess reserves for previous years (€611 million). The excess of previous year reserves came to 4% of accrued premium income. Since premiums declined more than claims costs, the loss ratio worsened from 69.5% in 2014 to 72.1% in 2015.

***Motor and marine liability insurance***
*Euro million*

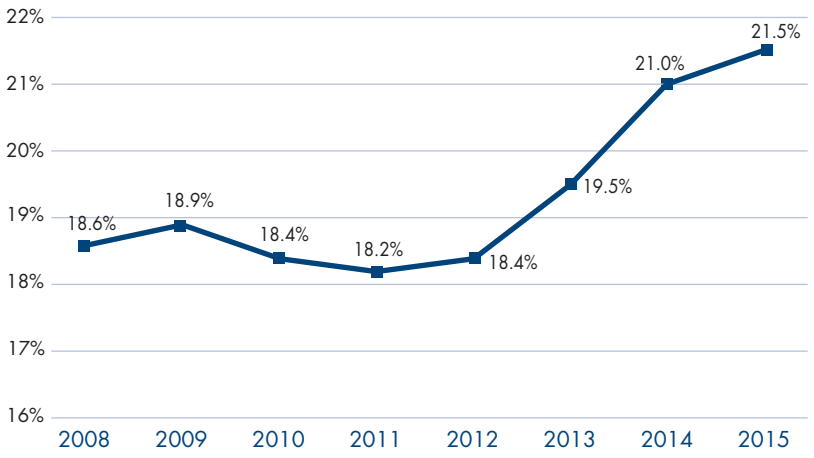
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 17,637 | 16,994 | 16,913 | 17,794 | 17,576 | 16,263 | 15,211 | 14,218 |
| Changes in premium reserves and other items (-) | -167 | -5 | 306 | 299 | -121 | -572 | -347 | -232 |
| Incurred claims (-): | 14,672 | 15,106 | 14,467 | 14,791 | 13,110 | 11,563 | 10,818 | 10,421 |
| – incurred claims cost for the current accident year (-) | 14,761 | 14,912 | 13,865 | 13,444 | 12,108 | 11,539 | 11,176 | 11,032 |
| – excess/shortfall for claims in previous years | 89 | -194 | -602 | -1,347 | -1,002 | -24 | 358 | 611 |
| Balance of other technical items | -290 | -267 | -244 | -203 | -272 | -248 | -143 | -127 |
| Operating expenses (-) | 3,275 | 3,208 | 3,116 | 3,236 | 3,233 | 3,167 | 3,187 | 3,060 |
| – commissions | 1,882 | 1,808 | 1,787 | 1,868 | 1,840 | 1,732 | 1,634 | 1,577 |
| – other acquisition costs | 559 | 574 | 585 | 595 | 638 | 690 | 789 | 730 |
| – other administration costs | 834 | 826 | 745 | 773 | 755 | 746 | 765 | 753 |
| **Direct technical balance** | **-433** | **-1,583** | **-1,221** | **-735** | **1,084** | **1,857** | **1,410** | **842** |
| Investment income | 344 | 1,217 | 496 | 272 | 799 | 613 | 654 | 567 |
| **Direct technical account result** | **-89** | **-366** | **-725** | **-463** | **1,883** | **2,469** | **2,064** | **1,409** |
| Reinsurance results | -2 | -15 | -19 | -19 | 1 | -47 | -1 | 45 |
| **Overall technical account result** | **-91** | **-381** | **-744** | **-482** | **1,883** | **2,423** | **2,063** | **1,454** |
| Annual % changes in premiums | -3.3% | -3.6% | 4.4% | 5.2% | -1.2% | -7.0% | -6.5% | -6.5% |
| **Combined ratio** | **101.0%** | **107.7%** | **105.5%** | **102.7%** | **92.5%** | **88.2%** | **90.5%** | **93.6%** |
| – Expense ratio | 18.6% | 18.9% | 18.4% | 18.2% | 18.4% | 19.5% | 21.0% | 21.5% |
| – Commissions/Gross written premiums | 10.7% | 10.6% | 10.6% | 10.5% | 10.5% | 10.6% | 10.7% | 11.1% |
| – Other acquisition costs/Gross written premiums | 3.2% | 3.4% | 3.5% | 3.3% | 3.6% | 4.2% | 5.2% | 5.1% |
| – Other administration costs/Gross written premiums | 4.7% | 4.9% | 4.4% | 4.3% | 4.3% | 4.6% | 5.0% | 5.3% |
| – Loss ratio: | 82.4% | 88.9% | 87.1% | 84.5% | 74.1% | 68.7% | 69.5% | 72.1% |
| – Loss ratio for the current accident year | 82.9% | 87.7% | 83.5% | 76.8% | 68.4% | 68.5% | 71.8% | 76.3% |
| – Excess/shortfall of claims reserves for previous years/ Earned premiums | 0.5% | -1.1% | -3.6% | -7.7% | -5.7% | -0.1% | 2.3% | 4.2% |
| **Technical balance/Earned premiums** | **-2.4%** | **-9.3%** | **-7.4%** | **-4.2%** | **6.1%** | **11.0%** | **9.1%** | **5.8%** |
| **Technical account result/Earned premiums** | **-0.5%** | **-2.2%** | **-4.4%** | **-2.6%** | **10.6%** | **14.7%** | **13.3%** | **9.8%** |
| **Overall technical account result/Earned premiums** | **-0.5%** | **-2.2%** | **-4.5%** | **-2.8%** | **10.6%** | **14.4%** | **13.3%** | **10.1%** |
| *Premiums to total non-life premiums ratio (%)* | *47.1%* | *46.3%* | *47.5%* | *48.9%* | *49.6%* | *48.3%* | *46.4%* | *44.4%* |
| **Premiums of EU branches** | **212** | **200** | **917** | **960** | **954** | **956** | **805** | **762** |
| Annual % changes in premiums | 2.8% | -5.8% | -1.5% | 4.8% | -0.6% | -11.8% | -15.8% | -5.4% |
| **Premiums of Italian, EU and non-EU insurers** | **17.849** | **17.194** | **17.830** | **18.754** | **18.530** | **17.219** | **16.016** | **14.980** |
| Annual % changes in premiums | -3.2% | -3.4% | 4.2% | 5.2% | -1.2% | -7.3% | -7.0% | -6.5% |

*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 €3,060 million (€3,187 million in 2014). Owing to the decline in premium income, the ratio of expenses to premiums rose from 21.0% in 2014 to 21.5% last year. The incidence of other administration costs rose from 5.0% to 5.3%, and the ratio of commissions,

which ordinarily represent a percentage of premiums, also rose, from 10.7% to 11.1%. Other acquisition costs were broadly unchanged in proportion to premiums.

***Operating expenses***
*(%) of premiums*

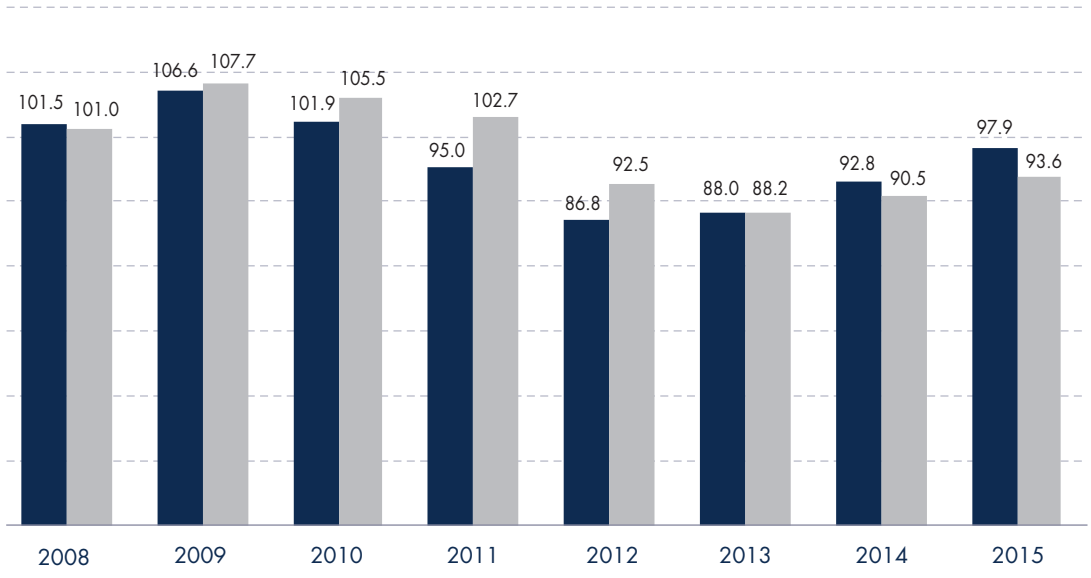



Adding the loss ratio (for the current year or the entire policy year) to the expense ratio gives the combined ratio (for the current year or the entire policy year, including the excess/shortfall of reserves set aside against claims incurred in previous accident years). The figure below plots the combined ratio from 2008 to 2015:

1) the combined ratio for the accident generation of 2015 was 97.9%, about 5 percentage points worse than the 2014 generation (92.8%) and 11 points worse than in 2012, when the ratio stood at 86.8%, the best technical result on record.
2) for all the years from 2008 to 2013 the balance-sheet (policy year) combined ratio was higher or equal to 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 2015, were excess reserves sufficient to push the combined ratio for the policy year below that for the current year.

***Combined ratio (%)***

*Current year*
*Policy year*



# MOTOR INSURANCE

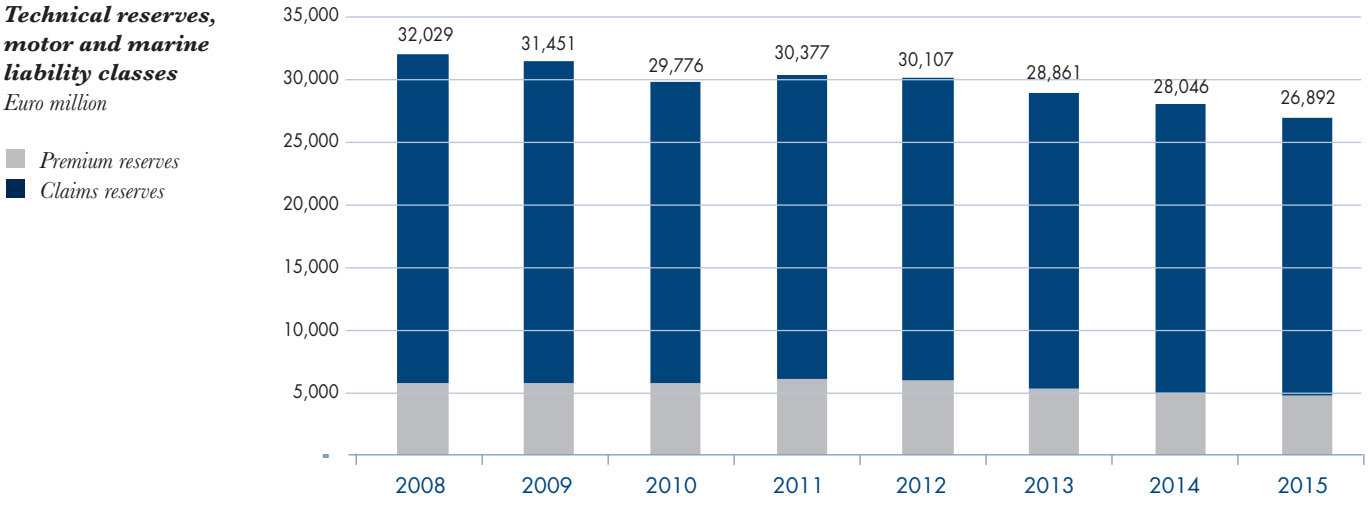
Since the fall of nearly €1 billion in premiums was far greater than the €400 million decline in incurred claims costs, the **technical balance** shrank by some €600 million, from €1,410 million to €842 million.

With profits from investments amounting to €567 million, down from €654 million in 2014, the **result of the technical account for direct business** showed a profit of €1,409 million, down from 2,064 million in 2013.

Taking the balance for reinsurance into account (positive by €45 million), the **overall technical account result** was positive by €1,454 million (compared with €2,063 million in 2013).

The **technical reserves** of the motor and marine liability sector, net of recoverable sums, amounted to €26,892 million in 2015, with a 4% decrease compared with 2014. Among these, the premium reserve was about €4,700 million, while the claims reserve for current and previous accident years was about €22,200 million.

***Technical reserves, motor and marine liability classes***
*Euro million*




## LAND VEHICLES 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 51 insurance companies operating in this class amounted to €2,455 million in 2015, accounting for 7.7% of total

non-life insurance premiums. This represented a gain in premiums of 2.9%, ending a seven-year contraction that began in 2008 and had brought a total premium reduction of about 30%. The sale of these policies is closely correlated with new car sales, which according to ACI data had plunged 40% in 2009-2013. In 2015, however, ACI reports a rise of nearly 15% in new vehicle registrations, following the previous year's modest gain of 5.5%.

**Earned premiums**, i.e. total premiums net of the change in premium reserves and some other balance items, came to €2,402 million, more or less the same as in 2014.

***Land vehicle insurance***
*Euro million*

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 3,208 | 3,132 | 2,950 | 2,891 | 2,648 | 2,413 | 2,387 | 2,455 |
| Changes in premium reserves (-) | -13 | -12 | -17 | -14 | -72 | -76 | -13 | 53 |
| Incurred claims (-): | 1,933 | 2,131 | 1,857 | 1,812 | 1,630 | 1,654 | 1,459 | 1,396 |
| – incurred claims cost for the current accident year (-) | 1,990 | 2,157 | 1,891 | 1,884 | 1,701 | 1,695 | 1,512 | 1,461 |
| – excess/shortfall for claims in previous years | 57 | 27 | 34 | 72 | 71 | 41 | 53 | 65 |
| Balance of other technical items | -38 | -34 | -34 | -31 | -28 | -21 | -10 | -11 |
| Operating expenses (-) | 824 | 830 | 781 | 763 | 703 | 660 | 692 | 733 |
| – commissions | 559 | 562 | 530 | 521 | 477 | 447 | 460 | 492 |
| – other acquisition costs | 108 | 114 | 119 | 119 | 109 | 102 | 117 | 120 |
| – other administration costs | 157 | 154 | 131 | 123 | 117 | 111 | 115 | 121 |
| **Direct technical balance** | **426** | **149** | **296** | **299** | **360** | **154** | **238** | **263** |
| Investment income | 27 | 79 | 31 | 18 | 48 | 35 | 38 | 36 |
| **Direct technical account result** | **453** | **228** | **327** | **317** | **408** | **189** | **276** | **299** |
| Reinsurance results | -5 | 30 | -20 | -22 | -18 | 1 | -27 | -37 |
| **Overall technical account result** | **448** | **258** | **307** | **295** | **390** | **191** | **249** | **262** |
| Annual % changes in premiums | -2.3% | -2.4% | -1.3% | -2.0% | -8.4% | -8.6% | -1.1% | 2.9% |
| **Combined ratio** | **85.7%** | **94.3%** | **89.0%** | **88.8%** | **86.4%** | **93.8%** | **89.8%** | **87.9%** |
| – Expense ratio | 25.7% | 26.5% | 26.5% | 26.4% | 26.5% | 27.4% | 29.0% | 29.9% |
| – Commissions/Gross written premiums | 17.4% | 17.9% | 18.0% | 18.0% | 18.0% | 18.5% | 19.3% | 20.1% |
| – Other acquisition costs/Gross written premiums | 3.4% | 3.6% | 4.0% | 4.1% | 4.1% | 4.2% | 4.9% | 4.9% |
| – Other administration costs/Gross written premiums | 4.9% | 4.9% | 4.4% | 4.3% | 4.4% | 4.6% | 4.8% | 4.9% |
| – Loss ratio: | 60.0% | 67.8% | 62.6% | 62.4% | 59.9% | 66.4% | 60.8% | 58.1% |
| – Loss ratio for the current accident year | 61.8% | 68.6% | 63.7% | 64.9% | 62.5% | 68.1% | 63.0% | 60.8% |
| – Excess/shortfall of claims reserves for previous years/ Earned premiums | 1.8% | 0.8% | 1.2% | 2.5% | 2.6% | 1.7% | 2.2% | 2.7% |
| **Technical balance/Earned premiums** | **13.2%** | **4.7%** | **10.0%** | **10.3%** | **13.2%** | **6.2%** | **9.9%** | **10.9%** |
| **Technical account result/Earned premiums** | **14.1%** | **7.3%** | **11.0%** | **10.9%** | **15.0%** | **7.6%** | **11.5%** | **12.5%** |
| **Overall technical account result/Earned premiums** | **13.9%** | **8.2%** | **10.4%** | **10.1%** | **14.3%** | **7.7%** | **10.4%** | **10.9%** |
| *Premiums to total life premiums ratio (%)* | *8.6%* | *8.5%* | *8.3%* | *8.0%* | *7.5%* | *7.2%* | *7.3%* | *7.7%* |

*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 €1,461 million, with a decrease of 3.4% compared with 2014. Thanks to the decline in claims costs while premium income held steady, the loss ratio for the year improved from 63.0% to 60.8%.

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 €1,396 million, a reduction of 4.4% compared with €1,459 million in 2014. The loss ratio to earned premiums thus improved to 58.1%, from 60.8% in 2014.

**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 €733 million (€692 million in 2014). The ratio to premium income in 2015 was 29.9% (29.0 % in 2014). In spite of the rise in premium income, the expense ratio reached the highest value since 1998, owing above all to acquisition costs and distribution commissions.

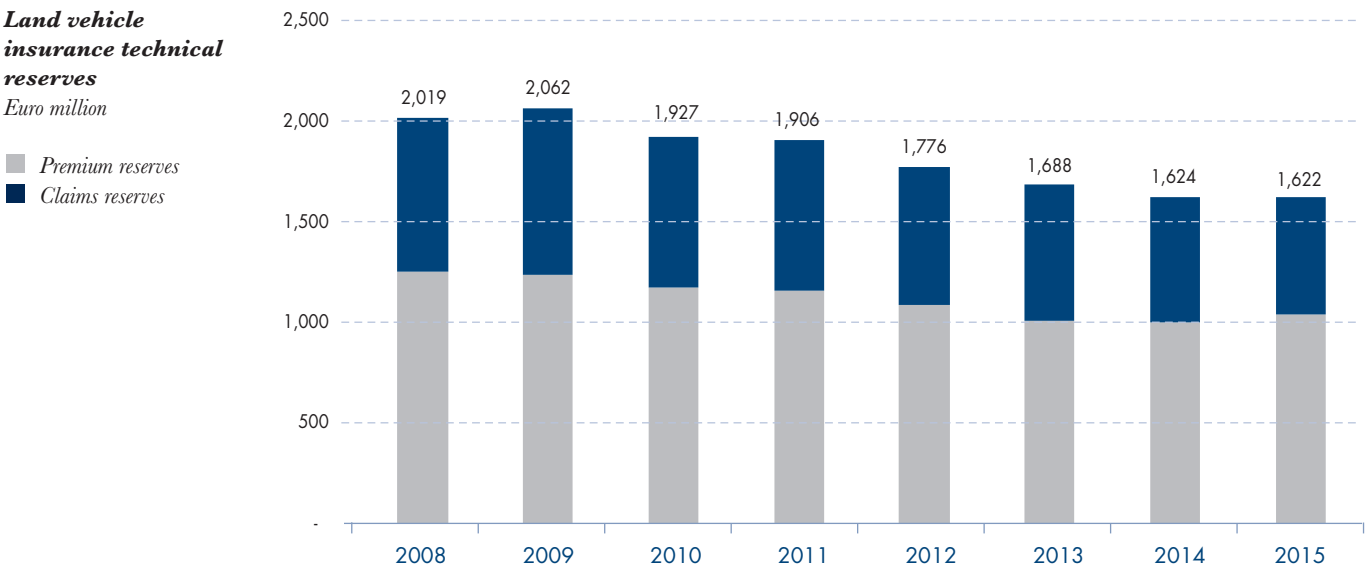
The **technical balance for direct business** was positive in 2015 by €263 million, up from €238 million.

Considering investment income, the **technical account result** was positive by €299 million (€276 million in 2014).

Taking the balance for reinsurance into account, the **overall technical account result** was positive by €262 million, up from €249 million in 2014. Its ratio to premiums also rose, from 10.4% to 10.9%.

**Technical reserves for direct business**, net of recoverable sums, amounted to €1,622 million in the land vehicles class in 2015, about the same as the previous year. Among these, claims reserves (for the current and previous accident years) amounted to some €600 million, while premium reserves came to about €1,000 million.

***Land vehicle insurance technical reserves***
*Euro million*



## 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 2015. We have compared them with the data for 2013 and 2014 (Table 1).

***Table 1 – Thefts of passenger cars and SUVs in Italy, 2013-2015***

| Region | Auto thefts** | | | Change % | | | % of cars regist.* | Car thefts per 1,000 registered | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | year 2015 | year 2014 | year 2013 | 2015/ 2014 | 2014/ 2013 | 2013/ 2012 | 2015 | 2015 | 2014 | 2013 |
| PIEDMONT | 5,438 | 5,914 | 6,189 | -8.0% | -4.4% | -4.3% | 7.6% | 1.91 | 2.09 | 2.19 |
| VALLE D'AOSTA | 32 | 27 | 24 | 18.5% | 12.5% | -11.1% | 0.4% | 0.22 | 0.18 | 0.18 |
| LOMBARDY | 12,846 | 14,299 | 16,180 | -10.2% | -11.6% | 0.5% | 15.9% | 2.17 | 2.43 | 2.76 |
| LIGURIA | 681 | 795 | 840 | -14.3% | -5.4% | -20.1% | 2.2% | 0.82 | 0.96 | 1.01 |
| FRIULI-VENEZIA GIULIA | 321 | 404 | 310 | -20.5% | 30.3% | -21.1% | 2.1% | 0.41 | 0.52 | 0.40 |
| TRENTINO-ALTO ADIGE | 179 | 139 | 130 | 28.8% | 6.9% | -25.3% | 2.4% | 0.20 | 0.17 | 0.17 |
| VENETO | 1,644 | 2,009 | 1,962 | -18.2% | 2.4% | -1.6% | 8.1% | 0.55 | 0.67 | 0.66 |
| EMILIA-ROMAGNA | 2,776 | 3,031 | 3,022 | -8.4% | 0.3% | -2.5% | 7.4% | 1.00 | 1.10 | 1.10 |
| *NORTH* | *23,917* | *26,618* | *28,657* | *-10.1%* | *-7.1%* | *-2.2%* | *46.0%* | *1.39* | *1.56* | *1.70* |
| TUSCANY | 1,795 | 1,882 | 1,903 | -4.6% | -1.1% | -6.9% | 6.4% | 0.75 | 0.79 | 0.80 |
| UMBRIA | 438 | 451 | 542 | -2.9% | -16.8% | 4.8% | 1.7% | 0.71 | 0.73 | 0.89 |
| MARCHE | 787 | 781 | 704 | 0.8% | 10.9% | 0.9% | 2.7% | 0.79 | 0.79 | 0.71 |
| LAZIO | 17,278 | 18,404 | 19,863 | -6.1% | -7.3% | -3.8% | 9.9% | 4.67 | 4.96 | 5.31 |
| *CENTRE* | *20,298* | *21,518* | *23,012* | *-5.7%* | *-6.5%* | *-3.7%* | *20.7%* | *2.63* | *2.80* | *2.98* |
| ABRUZZO | 1,715 | 1,623 | 1,310 | 5.7% | 23.9% | -11.4% | 2.3% | 2.02 | 1.92 | 1.55 |
| MOLISE | 314 | 305 | 328 | 3.0% | -7.0% | 1.2% | 0.5% | 1.54 | 1.50 | 1.62 |
| CAMPANIA | 22,136 | 21,084 | 20,828 | 5.0% | 1.2% | -7.7% | 9.0% | 6.61 | 6.32 | 6.23 |
| CALABRIA | 3,659 | 4,036 | 3,926 | -9.3% | 2.8% | -10.1% | 3.3% | 2.99 | 3.32 | 3.24 |
| PUGLIA | 15,829 | 15,623 | 15,291 | 1.3% | 2.2% | -0.4% | 6.1% | 7.00 | 6.95 | 6.80 |
| BASILICATA | 397 | 338 | 256 | 17.5% | 32.0% | -26.9% | 1.0% | 1.10 | 0.95 | 0.72 |
| *SOUTH* | *44,050* | *43,010* | *41,939* | *2.4%* | *2.6%* | *-5.6%* | *22.1%* | *5.34* | *5.24* | *5.11* |
| SICILY | 13,190 | 15,481 | 16,936 | -14.8% | -8.6% | 0.5% | 8.5% | 4.16 | 4.92 | 5.40 |
| SARDINIA | 1,205 | 1,486 | 1,611 | -18.9% | -7.8% | -9.1% | 2.7% | 1.19 | 1.48 | 1.60 |
| *ISLANDS* | *14,395* | *16,967* | *18,547* | *-15.2%* | *-8.5%* | *-0.4%* | *11.2%* | *3.44* | *4.09* | *4.48* |
| TOTAL ITALY | 102,660 | 108,113 | 112,155 | -5.0% | -3.6% | -3.5% | 100.0% | 2.75 | 2.92 | 3.04 |

*Source: (*) ACI - No. vehicles registered at 31 December each year*
*(**) Ministry of Interior - The data for 2015 are subject to rectification*

The number of vehicle thefts fell again last year, from 108,113 to 102,660, a decrease of 5%. Except for 2012, when thefts rose by a marginal 1.5%, auto theft has fallen steadily in recent years: since 2012 the reduction comes to 11.7%, over 13,600 fewer vehicles stolen. This downtrend has not involved the number of stolen vehicles recovered by the law enforcement forces (Table 2). Where 41.7% of all stolen vehicles were recovered in 2013, in 2014 the percentage rose to 43.4%, or about 47,000 vehicles. However, there was a downturn in 2015 to 44,000 vehicles recovered, or 42.8% of those stolen.

***Table 2***
***Stolen cars and SUVs recovered by the law enforcement forces***

| Region | Stolen vehicles recovered | | | % stolen vehicles recovered | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| PIEDMONT | 3,003 | 3,569 | 3,436 | 55.2% | 60.3% | 55.5% |
| VALLE D'AOSTA | 10 | 18 | 15 | 31.3% | 66.7% | 62.5% |
| LOMBARDY | 5,795 | 6,685 | 6,709 | 45.1% | 46.8% | 41.5% |
| LIGURIA | 589 | 663 | 717 | 86.5% | 83.4% | 85.4% |
| FRIULI-VENEZIA GIULIA | 226 | 273 | 233 | 70.4% | 67.6% | 75.2% |
| TRENTINO-ALTO ADIGE | 141 | 105 | 88 | 78.8% | 75.5% | 67.7% |
| VENETO | 1,344 | 1,708 | 1,621 | 81.8% | 85.0% | 82.6% |
| EMILIA-ROMAGNA | 2,406 | 2,430 | 2,418 | 86.7% | 80.2% | 80.0% |
| *NORTH* | *13,514* | *15,451* | *15,237* | *56.5%* | *58.0%* | *53.2%* |
| TUSCANY | 1,381 | 1,470 | 1,437 | 76.9% | 78.1% | 75.5% |
| UMBRIA | 325 | 357 | 460 | 74.2% | 79.2% | 84.9% |
| MARCHE | 497 | 536 | 491 | 63.2% | 68.6% | 69.7% |
| LAZIO | 4,928 | 4,904 | 5,455 | 28.5% | 26.6% | 27.5% |
| *CENTRE* | *7,131* | *7,267* | *7,843* | *35.1%* | *33.8%* | *34.1%* |
| ABRUZZO | 672 | 652 | 589 | 39.2% | 40.2% | 45.0% |
| MOLISE | 78 | 74 | 76 | 24.8% | 24.3% | 23.2% |
| CAMPANIA | 7,776 | 7,040 | 6,310 | 35.1% | 33.4% | 30.3% |
| CALABRIA | 1,821 | 2,167 | 1,942 | 49.8% | 53.7% | 49.5% |
| PUGLIA | 7,099 | 6,972 | 6,915 | 44.8% | 44.6% | 45.2% |
| BASILICATA | 77 | 113 | 70 | 19.4% | 33.4% | 27.3% |
| *SOUTH* | *17,523* | *17,038* | *15,902* | *39.8%* | *39.6%* | *37.9%* |
| SICILY | 5,227 | 6,419 | 6,962 | 39.6% | 41.5% | 41.1% |
| SARDINIA | 568 | 745 | 841 | 47.1% | 50.1% | 52.2% |
| *ISLANDS* | *5,795* | *7,164* | *7,803* | *40.3%* | *42.2%* | *42.1%* |
| TOTAL ITALY | 43,963 | 46,920 | 46,785 | 42.8% | 43.4% | 41.7% |

*Source: Ministry of Interior - The data for 2015 are subject to rectification*

Using ACI's data on the provincial distribution of cars in circulation in 2015 as a base, we can make an approximate calculation of the theft rates. In 2015, 2.75 vehicles per thousand were stolen, down from 3.04 in 2013 and 2.92 in 2014.

In regional terms, as in 2014 the South was the only part of Italy where car thefts increased last year (+2.4%). Except for Calabria, where thefts went down by 9.3%, all southern regions experienced an increase. The sharpest rise was in Basilicata (+17.5%). Abruzzo and Campania showed more modest increases of 5.7% and 5.0% respectively, Molise and Puglia still smaller rises of 3.0% and 1.3%. Even so, again in 2015 the regions with the highest theft rates in proportion to the number of cars on the roads were again Puglia at 7.00‰ and Campania at 6.61‰, both slightly higher than in the previous two years.

By contrast, in the North the number of thefts diminished by 10.1%. By region, the sharpest fall was in Friuli Venezia Giulia, with a 20.5% decrease by comparison with 2014, followed by Veneto (down 18.2%), Liguria (down 14.3%), Lombardy (down 10.2%), Emilia Romagna (down 8.4%), and Piedmont (down 8.0%). The other northern regions showed increases. Trentino-Alto Adige and Valle d'Aosta recorded rises of 19% and 30%, respectively, but these small regions are also those where the incidence of theft is lowest, scarcely 0.2‰. The North has nearly half of all Italy's passenger cars (46.0% in 2015).

In the regions of the Centre the number of car thefts came down by 5.7%. Except for Marche, the sole central region where this crime increased, albeit very marginally

(up 0.8%), there was a decrease across the board. In Lazio the number of cars stolen fell by 6.1%, in Tuscany by 4.6% and in Umbria by 2.9%. In the regions of the Centre the incidence of theft to cars on the road is less than 1.00‰, if we exclude Lazio, where it stood at 5.31‰ in 2013 and 4.96‰ in 2014. The Centre regions account for some 21% of passenger cars on the roads.

The island regions registered the sharpest decline in auto theft in all of Italy (down 15.2%), with substantial decreases both in Sardinia (18.9%) and in Sicily (14.8%). Consequently the theft rate also improved, to 1.19‰ in Sardinia and 4.16‰ 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 under 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 thefts of insured vehicles are most numerous.

## PASSENGER CAR FIRE AND THEFT COVERAGE IN ITALY

ANIA has now begun to gather 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 windshield, damage from weather, vandalism, or political events. This section reports the results for 2014 and 2015 of the most common type of coverage, namely fire and theft. The observation is for a sample of companies that account for 85% 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. For our sample, we estimate that there were nearly 9 million passenger car fire and theft policies in Italy last year, about the same as in 2014.

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 Centre and North: over 50% in Lombardy, 38% in Lazio, 36% in Piedmont, just over 30% in Emilia Romagna. Very low diffusion of under 15% (less than half the national average) is registered (apart from Marche, with 13.5) only in the regions of the South): Campania, 13.8%; Basilicata, 14.1%; and Puglia, 14.4%. Calabria and Sicily, at 17.6% and 18.7% respectively, are also well below the national average.

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 (10 to 11 claims per 1,000 vehicles) than for fire (0.33 per 1,000). Claims frequency declined marginally last year both for theft (a decrease of 6%) and for fire (3%) (Table 1).

# MOTOR INSURANCE

***Table 1***
***Technical indicators, car fire and theft insurance***

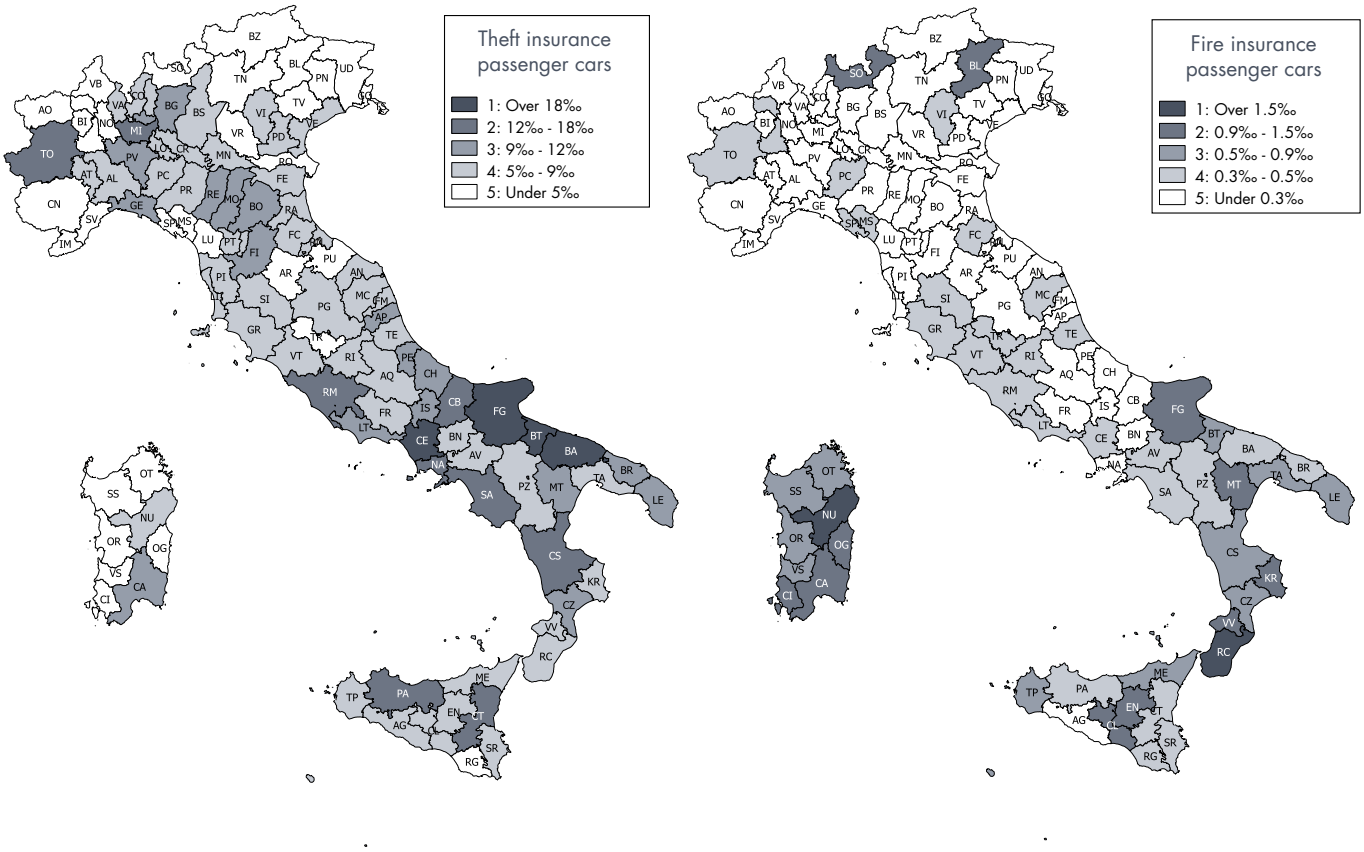
| | Composition of coverage (% of total) | | Claims frequency (‰) | | Average degree of damage (%) | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **THEFT - PASSENGER CARS** | | | | | | |
| Friuli-Venezia Giulia | 1.4 | 1.4 | 2.63 | 2.51 | 27.2 | 24.1 |
| Veneto | 7.1 | 7.0 | 5.49 | 6.24 | 18.4 | 19.8 |
| Trentino-Alto Adige | 1.0 | 1.0 | 3.82 | 3.24 | 19.4 | 21.7 |
| Emilia-Romagna | 8.2 | 7.9 | 8.97 | 8.94 | 16.3 | 18.3 |
| *NORTH EAST* | *17.7* | *17.4* | *6.77* | *6.98* | *17.3* | *19.0* |
| Piedmont | 10.5 | 10.6 | 10.43 | 11.53 | 30.8 | 31.4 |
| Lombardy | 31.9 | 32.2 | 10.34 | 10.87 | 35.4 | 35.6 |
| Liguria | 2.7 | 2.7 | 9.15 | 7.93 | 24.4 | 25.5 |
| Valle d'Aosta | 0.2 | 0.2 | 3.75 | 4.33 | 57.0 | 43.9 |
| *NORTH WEST* | *45.2* | *45.7* | *10.27* | *10.82* | *33.8* | *34.2* |
| Tuscany | 4.4 | 4.2 | 6.97 | 7.51 | 21.4 | 21.2 |
| Marche | 1.5 | 1.4 | 6.53 | 6.95 | 26.1 | 24.1 |
| Umbria | 1.1 | 1.1 | 7.07 | 8.51 | 26.4 | 24.1 |
| Lazio | 12.3 | 12.7 | 14.57 | 15.67 | 57.2 | 56.7 |
| *CENTRE* | *19.3* | *19.4* | *11.80* | *12.85* | *45.1* | *44.9* |
| Molise | 0.4 | 0.4 | 11.72 | 11.03 | 57.8 | 42.8 |
| Campania | 3.6 | 3.5 | 14.39 | 14.50 | 49.8 | 48.0 |
| Basilicata | 0.5 | 0.5 | 8.51 | 8.23 | 60.4 | 54.7 |
| Abruzzo | 1.7 | 1.8 | 9.52 | 9.66 | 47.5 | 44.4 |
| Calabria | 1.9 | 1.9 | 9.94 | 12.70 | 36.6 | 39.2 |
| Puglia | 3.1 | 3.0 | 18.55 | 18.78 | 82.5 | 74.7 |
| *SOUTH* | *11.3* | *11.0* | *13.68* | *14.18* | *59.3* | *55.0* |
| Sardinia | 1.8 | 1.8 | 6.60 | 7.18 | 32.1 | 38.1 |
| Sicily | 4.7 | 4.7 | 10.07 | 11.87 | 38.6 | 37.5 |
| *ISLANDS* | *6.5* | *6.5* | *9.12* | *10.57* | *37.2* | *37.5* |
| TOTAL ITALY | 100.0 | 100.0 | 10.26 | 10.90 | 37.6 | 37.3 |
| **FIRE - PASSENGER CARS** | | | | | | |
| Friuli-Venezia Giulia | 1.7 | 1.7 | 0.17 | 0.14 | 20.1 | 72.4 |
| Veneto | 7.9 | 7.9 | 0.25 | 0.23 | 55.7 | 41.8 |
| Trentino-Alto Adige | 1.1 | 1.1 | 0.16 | 0.09 | 53.3 | 72.1 |
| Emilia-Romagna | 8.3 | 8.0 | 0.19 | 0.21 | 60.2 | 73.0 |
| *NORTH EAST* | *18.9* | *18.8* | *0.21* | *0.20* | *55.2* | *58.0* |
| Piedmont | 10.6 | 10.7 | 0.36 | 0.42 | 59.5 | 69.6 |
| Lombardy | 31.6 | 31.9 | 0.26 | 0.27 | 65.7 | 62.1 |
| Liguria | 2.7 | 2.7 | 0.28 | 0.34 | 74.4 | 54.8 |
| Valle d'Aosta | 0.2 | 0.2 | 0.26 | 0.27 | 123.5 | 64.1 |
| *NORTH WEST* | *45.0* | *45.4* | *0.29* | *0.31* | *64.5* | *63.6* |
| Tuscany | 4.3 | 4.2 | 0.19 | 0.26 | 55.5 | 63.7 |
| Marche | 1.5 | 1.5 | 0.24 | 0.18 | 61.5 | 67.3 |
| Umbria | 1.1 | 1.1 | 0.25 | 0.18 | 67.2 | 24.7 |
| Lazio | 11.8 | 12.0 | 0.45 | 0.35 | 80.8 | 86.1 |
| *CENTRE* | *18.7* | *18.8* | *0.36* | *0.31* | *70.3* | *74.3* |
| Molise | 0.4 | 0.4 | 0.19 | 0.30 | 61.6 | 76.4 |
| Campania | 3.5 | 3.3 | 0.30 | 0.47 | 67.2 | 97.9 |
| Basilicata | 0.5 | 0.5 | 0.63 | 0.39 | 72.9 | 60.0 |
| Abruzzo | 1.7 | 1.7 | 0.24 | 0.33 | 74.5 | 78.9 |
| Calabria | 1.8 | 1.7 | 1.02 | 0.90 | 94.1 | 107.8 |
| Puglia | 3.1 | 3.0 | 0.56 | 0.71 | 104.7 | 95.9 |
| *SOUTH* | *11.0* | *10.7* | *0.49* | *0.57* | *85.1* | *93.3* |
| Sardinia | 1.7 | 1.8 | 1.02 | 1.02 | 80.7 | 82.1 |
| Sicily | 4.6 | 4.6 | 0.49 | 0.55 | 84.3 | 81.3 |
| *ISLANDS* | *6.4* | *6.4* | *0.63* | *0.68* | *83.7* | *82.3* |
| TOTAL ITALY | 100.0 | 100.0 | 0.33 | 0.34 | 68.3 | 70.3 |

This indicator too displays very considerable geographical variability (Figure 1). The region with the greatest frequency of theft claims in 2015 was Puglia, with close to 19 cars stolen for every thousand insured, followed by Lazio (nearly 15), Campania (over 14) and Molise (nearly 12). By province, the greatest frequency was registered in Foggia (31 claims for auto theft for every thousand vehicles insured), Barletta-Andria-Trani (24), Bari (20), Caserta (19) and Naples (17).

The most "virtuous" regions are nearly all found in the North-East: Friuli Venezia Giulia scored less than 3 thefts per thousand vehicles in 2015, Trentino-Alto Adige under 4, and Veneto 5.5. The cities with the lowest rates were Trieste and Belluno, both at less than 2 thefts per thousand insured vehicles.

Fire insurance claims too were particularly uncommon in the regions of the North-East, while their frequency was above average in many regions of the South and Islands. Calabria and Sardinia registered fire insurance claims frequencies of more than 1‰ (three times the national average), followed by Basilicata and Puglia, with about twice the average. The riskiest provinces for fire insurance claims were Nuoro in Sardinia and Reggio Calabria, both at over 2‰, followed by Crotone, Sondrio, Caltanisetta and Cagliari, all just above 1‰.

***Figure 1 – Claims frequency for car theft and fire insurance – 2015***




Average degree of damage. Another 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

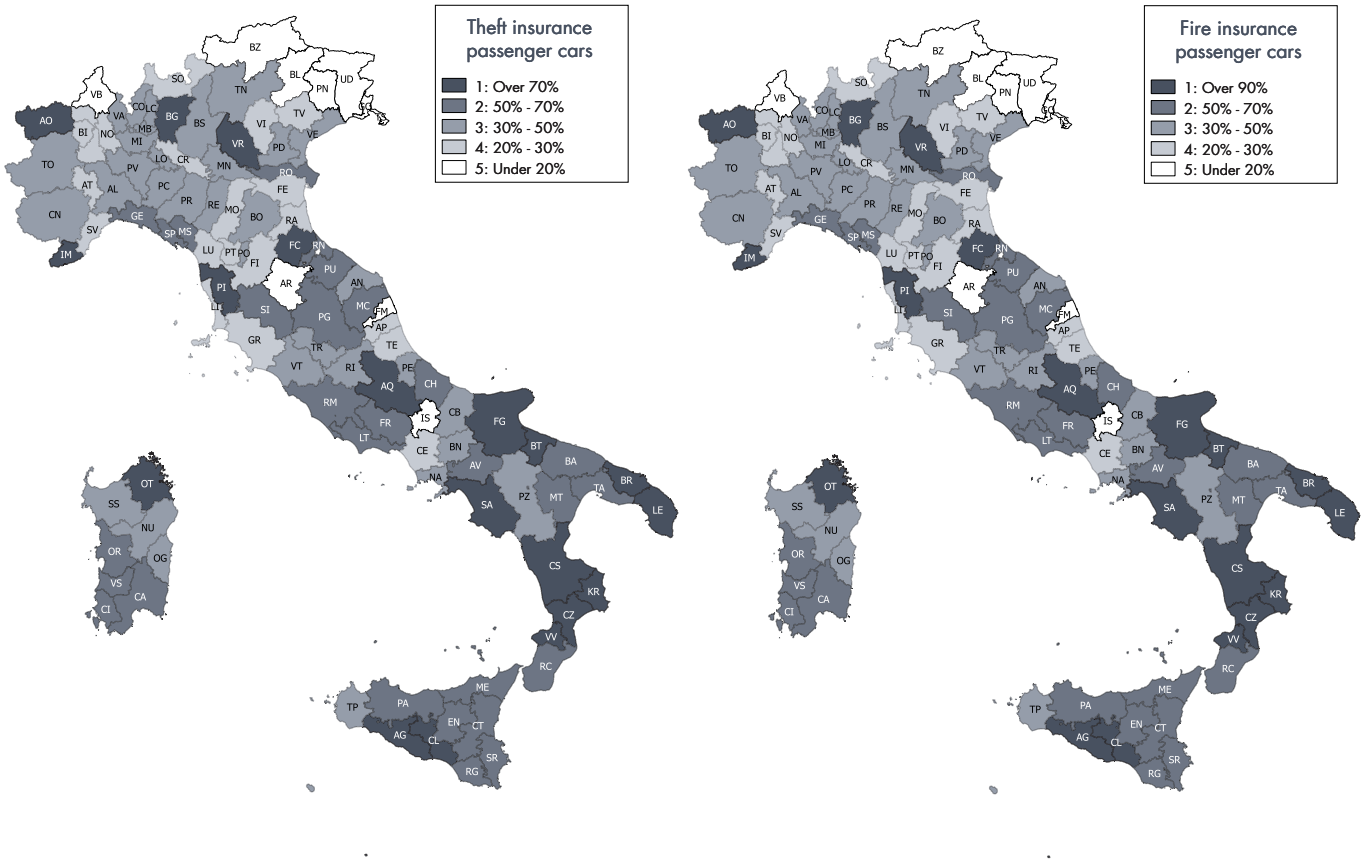
what portion of damage is indemnified in relation to the value insured. This indicator is normally less than 100%; a value greater than 100% can arise only due to an accounting effect in quantifying the insured value exposed to risk during the year.

For theft insurance, the degree of damage averaged scarcely 37% nationwide both in 2014 and in 2015, which means that partial auto theft is quite a significant phenomenon: the average incidence of damages does not even come to two-fifths of the value insured. For fire insurance, the rate is nearly twice as high (70%). 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: more than twice the average in Puglia (82.5%) in 2015, and high also in Basilicata (60.4%), Molise (57.8%), and Campania and Abruzzo (almost 50%). Among the regions of the Center and North, a high degree of damage was recorded in Lazio (57.2%). The provinces with the highest figures were Barletta-Andria-Trani and Bari (more than 90% of the value of the insured vehicle), Brindisi (78%), Taranto (73%) and Matera (66%).

For fire insurance, the results are similar, with degree of damage of around 100% (i.e., the total destruction of the vehicle) in Puglia and Calabria; between 70% and 85% in Basilicata, Abruzzo and both island regions, Sicily and Sardinia. Elsewhere, above-average values were registered in Lazio (81%) and Liguria (74%). More in detail, values of 100% were found in many provinces of Puglia and Calabria, but also in such central and northern provinces as L'Aquila, Imperia, and Forlì-Cesena.

***Figure 2 – Average degree of damage, car theft and fire insurance – 2015***



## 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 2015 but that will be reported in future years. By this count, the number of claims lodged with Italian or non-EU insurance companies totaled 2,122,634 in 2015, up 0.5% from 2,112,626 in 2014.

**Claims frequency (excluding IBNR, Panel A Table 1)**. Claims frequency as shown in Panel A of Table 1 is defined as the ratio between the number of claims incurred and reported during the accident year that have given or will give rise to compensation and 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 rose from 5.48% in 2014 to 5.55% in 2015, an increase of 1.2 percent, an upturn after five years of decline (2010 through 2014) that had produced an overall reduction of nearly 30 percent. The reversal could depend on the fall in average fuel prices in 2015 (gasoline came down by 10.4%, diesel fuel by 12.7% and LPG by 20.3%), presumably a factor for greater vehicle use and, hence, accidents. Further confirmation comes from fuel consumption, which according to provisional data expanded slightly (1.2%), after holding stable in 2014 following contractions of 2.6% and nearly 10% in 2013 and 2012. The number of vehicles insured was practically unchanged in 2015 at 38.3 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 0.5%.

In order to gather statistical data to help determine the extent to which the change in claims frequency depends on cyclical or structural factors, ANIA has run a multiple linear regression analysis of the phenomenon. Specifically, we designed a statistical model that can express a functional correlation between different economic factors – such as households' economic situation, fuel consumption and the use of public transport (taken as independent variables) – and claims frequency as dependent variable.

The input data were claims frequency quarterly reports for the past eight years (from the 1st quarter of 2008 to the 4th quarter of 2015); the observation period was begun in 2008 because this coincides with the start of the economic recession, in order to study its effects on claims frequency in the motor liability insurance sector. The factors analyzed, as independent variables, for each quarter were:

***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% | 15,400 | -3.7% | 4,532 | -0.7% | 6.05% | 4,796 |
| 2015* | 5.55% | 1.2% | 1,897 | 0.2% | 15,070 | -2.1% | 4,466 | -1.5% | 6.11% | 4,720 |

** ANIA estimates based on advance information on 2015 financial statements*
*** Source: IVASS; for 2015, data from reporting forms*

- fuel consumption calculated in tons of gasoline and diesel fuel used in each quarter based on data from the *Unione Petrolifera Italiana* (Italian Oil Association); the hypothesis being that due to the recession fuel consumption – and consequently the use of motor vehicles – had dropped, helping to explain the decline in claims frequency; and the very modest signs of a rise in fuel consumption in 2015 could be correlated with the observed increase in claims frequency;
- fuel price in euros (calculated as the weighted average of the price of gasoline and diesel fuel) based on the energy statistics elaborated by the Ministry for Economic Development; the hypothesis being that higher fuel prices (as in 2011-2012 with pronounced increases and, to a lesser extent, in 2013) result in less use of private transportation, helping to explain the decline in claims frequency for the observation period; conversely, when fuel prices are declining, as in 2015, this favors greater private vehicle use;
- persons older than 15 who ordinarily drive to work every day, a factor expressed in thousands, derived from ISTAT's general survey of households' daily life, "*Multiscopo sulle famiglie: aspetti della vita quotidiana*"; the hypothesis being that claims frequency is correlated with the number of people who drive to work or school regularly;
- GDP (in absolute terms), as an indicator of households' general economic situation.

We analyzed a number of models. The best fit (with a multiple correlation coefficient of 0.92; Figure 1) was that utilizing three variables (fuel price, fuel consumption,

use of private cars for commuting), which are linked to general economic conditions and the situation of households. In all the models analyzed, GDP itself can be "explained" by the other variables. For this reason, GDP was excluded from the final regression model.

***Figure 1***
***Regression model results***

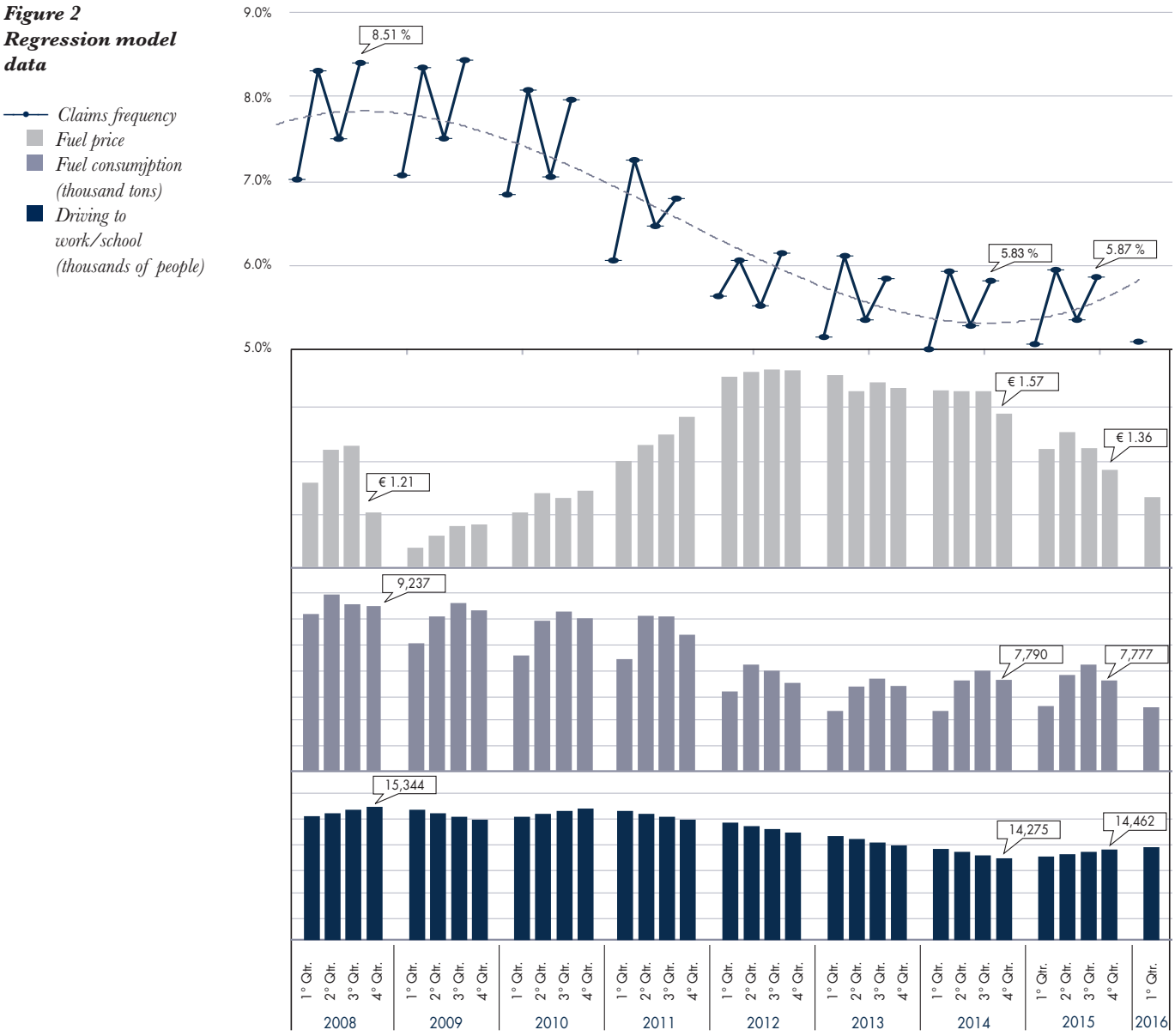
| Linear regression model | | | | |
|---|---|---|---|---|
| *Regression statistics* | | | | |
| R multiple | 0.92 | | | |
| R squared | 0.85 | | | |
| R squared corrected | 0.83 | | | |
| Standard error | 0.47 | | | |
| Observations | 33 | | | |
| | *Coefficients* | *Standard error* | *T Stat* | *Significance* |
| Intercept | -9.1081 | 4.8536 | -1.88 | 0.07 |
| Fuel price | -1.0857 | 0.5017 | -2.16 | 0.04 |
| Fuel consumption | 0.0010 | 0.0002 | 4.91 | 0.00 |
| Private car use | 0.0006 | 0.0004 | 1.59 | 0.12 |

The results produced by this model show that:

- all other factors equal, a 10-eurocent decrease in the price of fuel produces a 0.11-percentage-point reduction in claims frequency;
- a 100,000-ton increase in fuel consumption (equivalent to 1.5% of the average fuel consumption of 7.3 million tons recorded in the first quarter of 2016), produces a 0.10-percentage-point increase in claims frequency;
- an increase of 100,000 in the number of people who drive to work or school (0.7% of the 14.5 million commuters according to the latest average available for 2015) produces a 0.06-percentage-point increase in claims frequency. The years of recession favored a shift from private to public transportation to work or school. The early signs of economic recovery in 2015 and continuing in the first quarter of 2016 together with the increase in the number of persons employed resulted in increased passenger car use, hence also in driving to work (although ISTAT's survey found that this did not come at the expense of public transportation). The increase in cars on the roads naturally implies an increase in motor liability claims frequency.

Quarterly data (Figure 2) show that, overall, claims frequency came down by about 2.7 percentage points between the fourth quarter of 2008 and the fourth quarter of 2014 (from 8.51% to 5.83%), but then rose by 0.4 points to 5.87% in the fourth quarter of 2015. The price of fuel came down by about €0.21 per liter in 2015, which by itself, according to our model, explains an increase in claims frequency of 0.23 points. Over the same period, the number of people driving to work or school rose by some 190,000, producing a further rise of 0.11 points. Given that fuel consumption was constant over the year, we conclude that these two factors alone account for nearly the entire claims increase in 2015.

***Figure 2***
***Regression model data***




The data for the first quarter of 2016 show a further fall in fuel prices by comparison with the same quarter in 2015 (in just a year, the price of gasoline and diesel fuel fell by €0.18 a liter). As the first data on fuel consumption still indicate stability with respect to the first quarter of 2015, if the increase in the use of private cars to get to work or school continued in 2016, according to the model this would result in a further rise in claims frequency. In fact this is confirmed by the preliminary data from a sample of insurers in March, which show a rise of about 3 percent in claims frequency compared with the first quarter of 2015.

**Average cost of claims (excluding IBNR, Panel A Table 1)**. 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 incurred but non-reported claims (IBNR reserves), contributions to the Road Accident Victims Guarantee Fund and other residual items. These items have been excluded from the 2015 data in order to allow uniform comparison with the data for previous years, derived from IVASS analyses using this methodology. Based on these calculations, the average claim cost in 2015 was €4,466, down 1.5% from €4,532, in 2014. In detail, the average cost of claims involving only material damage was practically unchanged at €1,897, while that of claims involving personal injury (including the material damage component) declined by 2.1% from €15,400 to €15,070. The diminution registered 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 accident may have helped in measuring the claims, avoiding possible overestimates of damages. And in fact the marginal upturn in claims frequency did not result in any rise in the percentage of claims involving personal injury last year, which was estimated to be constant at 19.5%.

**Number of claims and average cost** (including IBNR, Panel B, Table 1). The total number of claims, including the IBNR estimate, came to 2,337,391 in 2015, an increase of 0.3%, and claims frequency rose by 1.0 percent, from 6.05% in 2014 to 6.11% last year. 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 other residual items, the average cost of claims for the period came down by 1.6% to €4,720.

The 1.0 percent rise in claims frequency was thus accompanied by a 1.6% decline in average cost. Consequently, given the contemporaneous decrease of 0.7% in number of vehicles insured ([1]), the total cost of claims for the year (item 18 of Supervisory Form 17) came down by 1.3%.

A breakdown of claims frequency by province (Figure 3, left-hand map) revealed Prato and Naples to be the provinces with the highest rates in 2015 (9.2% and 9.0% respectively), with a frequency more than 50 percent higher than the national average of 6.11%.

Claims frequency was higher than the national average also in some Tuscan provinces other than Prato, such as Florence (7.24%), Massa Carrara (6.93%) and Pistoia (6.87%). On a more general note, most of Italy's largest cities (Genoa, Rome, Turin, Cagliari, Milan and Palermo), regardless of the geographical area, show higher-than-average claims frequency, owing of course to greater exposure to the risk of accidents due to heavier traffic flows.

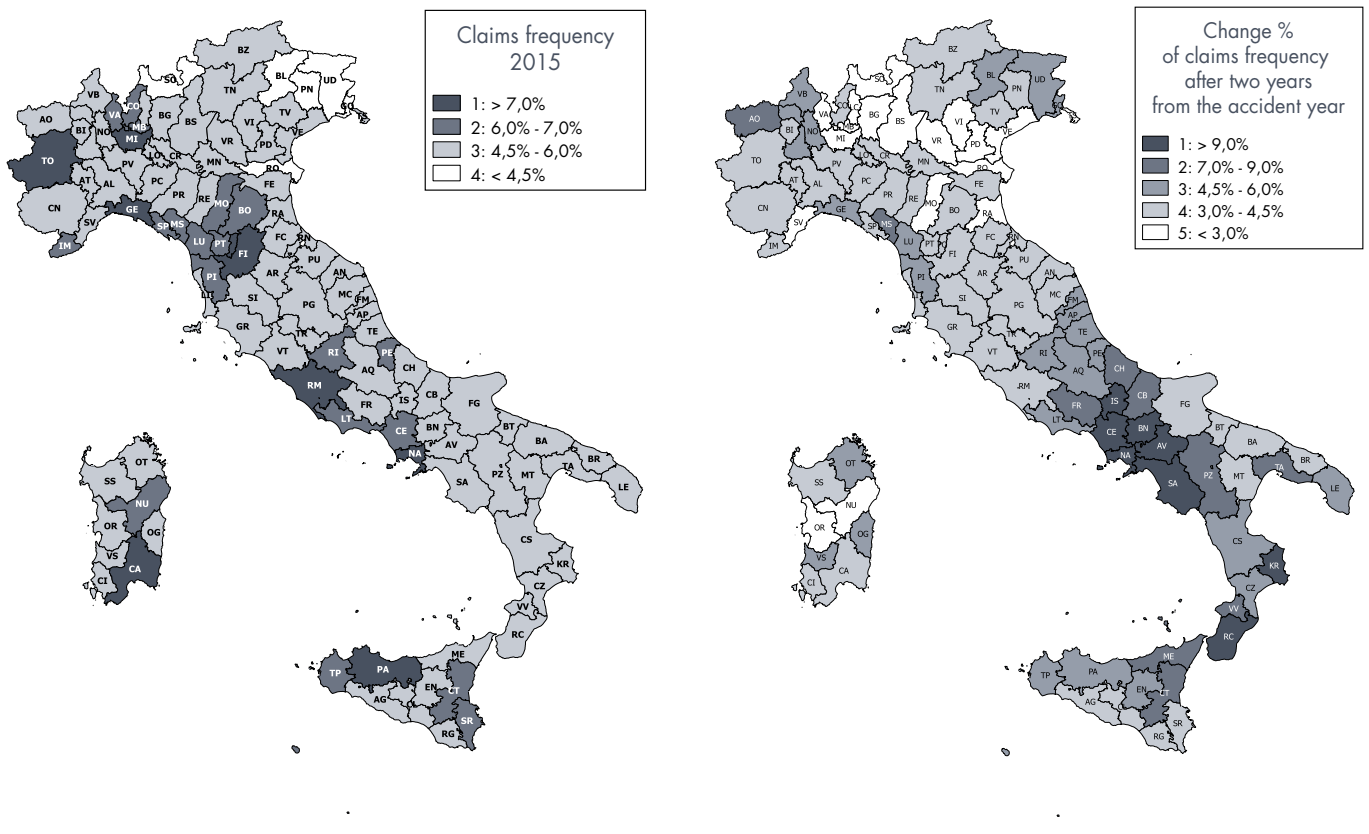
([1]) In addition to vehicles circulating in Italy, the number includes those insured at secondary units of Italian insurers established in other EU countries and circulating there. Counting only the vehicles on the roads in Italy, the number insured was practically unchanged last year (+0.1%).

Once again, the lowest claims frequency was recorded in the North-Eastern provinces, with Rovigo recording the national low (4.08%). 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 Lecce and Matera (4.85%), Enna (4.84%), Foggia (4.83%), Cosenza (4.81%), Catanzaro (4.72%) and Potenza and Oristano (4.63%).

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 3 shows, province by province, the increase in number of claims two years later by comparison with those reported in the year the accident occurred.

Nationwide, on average, for all vehicles, the number of claims after two years is higher by 5.3%. However, a closer inspection reveals that the percentage is well above 10% in some parts of the country, with extreme peaks of 21% in the province of Caserta and 27.5% 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 Centre and North this indicator is at or below the national average; in Venice and Trieste it is no more than 2%.

***Figure 3 – Claims frequency by province, 2015, and late accident reports***

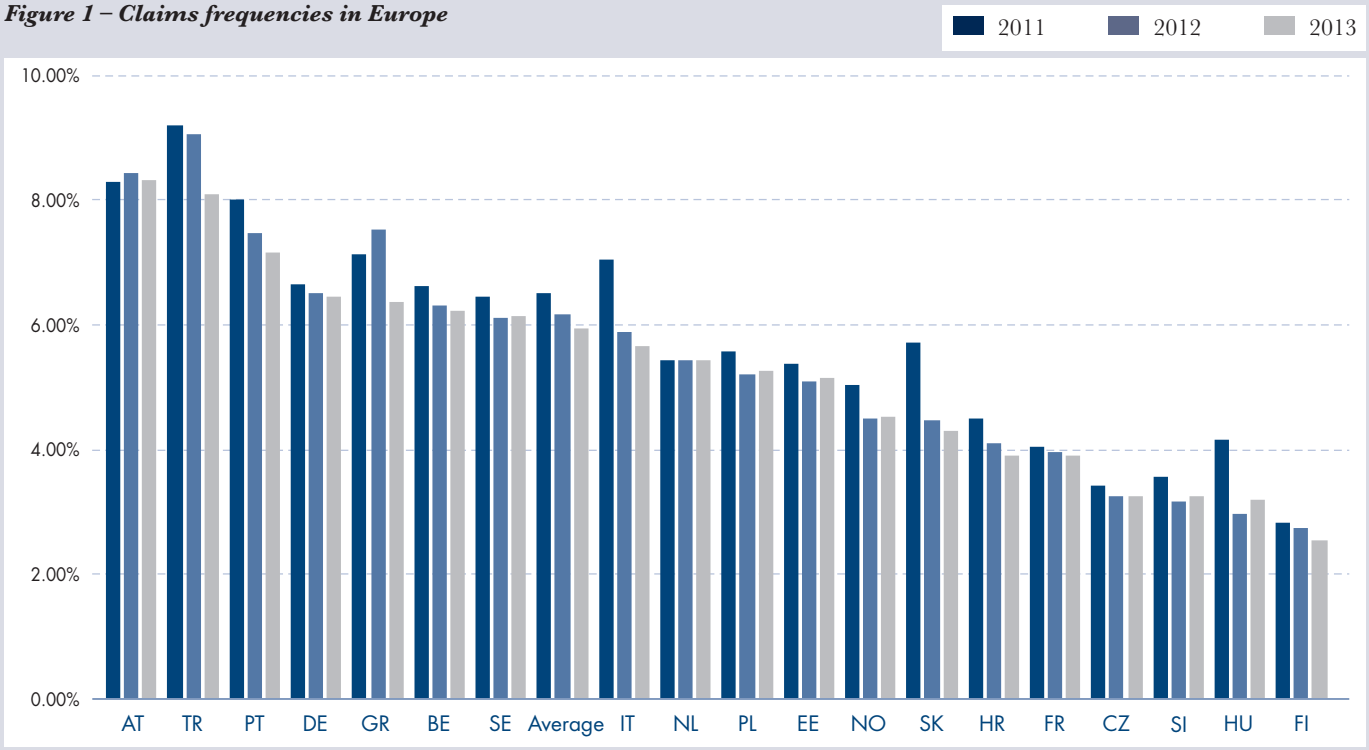


## CLAIMS FREQUENCY AND COST – THE EUROPEAN PICTURE

Insurance Europe published its report "European Motor Insurance Markets" in November 2015, analyzing data and technical trends in motor insurance in the countries of Europe. The latest year covered is 2013.

The report concentrates mainly on cross-country differences in the technical indicators – claims frequency and average claim cost – which are naturally reflected in the level of policy premiums paid by consumers in the various EU member states. In particular, the frequency of claims – i.e. the ratio of the number of compensable claims (including those reported late) to the number of insured vehicle-years – came down significantly between 2005 and 2013, falling 21 percent from 7.6% to 6.0%. Over the same years, claims frequency in Italy dropped even more sharply, by 32 percent. In Italy, in any case, the downturn came only in 2010; and whereas in 2011 the country's claims frequency was one of the highest in Europe, by 2014, at 5.6%, it was actually below the European average of 5.9% (national frequencies weighted by number of vehicles in circulation).

***Figure 1 – Claims frequencies in Europe***




*Source: Insurance Europe*

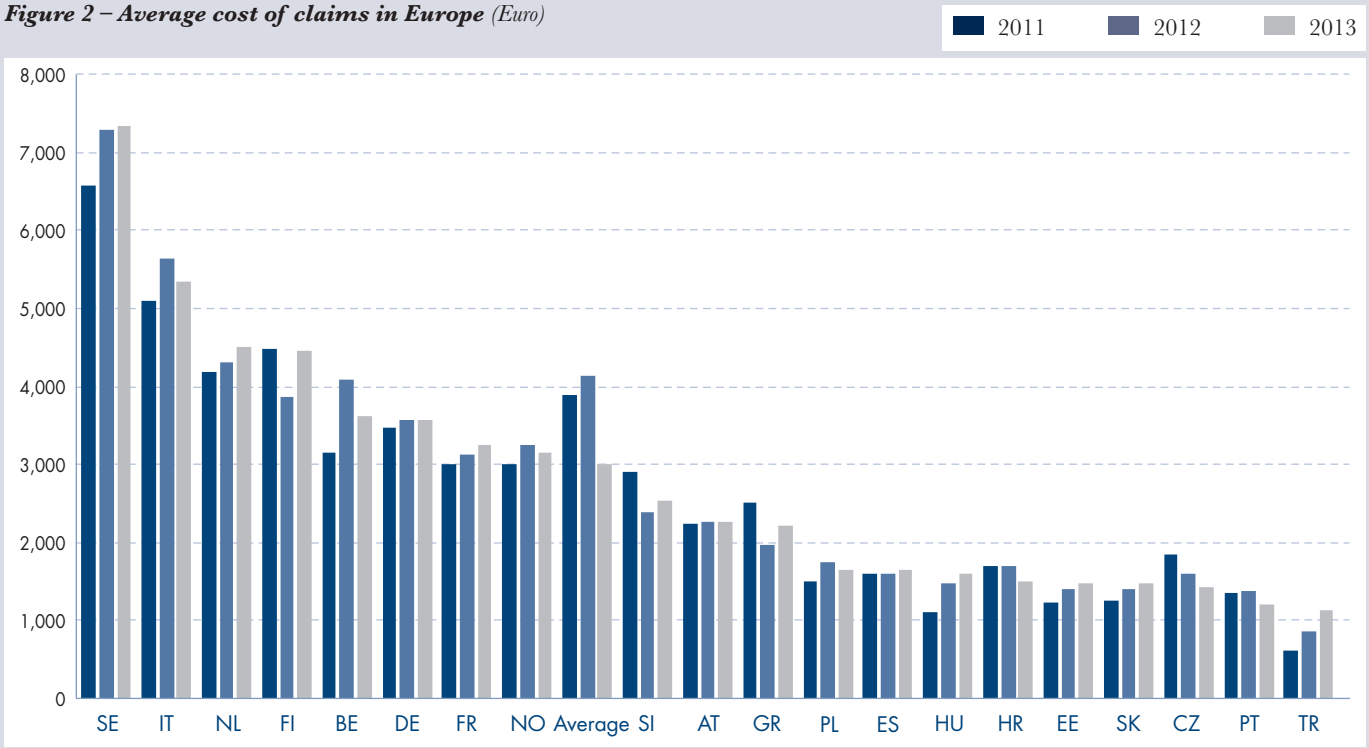
As to the average cost of claims, i.e. total cost of claims in the year divided by the number of compensated claims, the European average rose from €2,883 to €3,200 between 2005 and 2013, an increase of 10%. Italy witnessed a considerably sharper increase over those years of 34%; for the last three years for which data are available (2011-2013), Italy was second only to Sweden, with an average cost per claim of €5,341 against the European average of €3,200.

The divergences among the various technical indicators are more evident if one considers the "pure premium," i.e. the policy premium that would be technically necessary to cover the expected cost of claims per unit of policy risk, obtained by multiplying the frequency of claims by their average cost. This is the basic indicator, which after adding diverse charges – operating expenses, commissions, reinsurance, fiscal and parafiscal costs – gives the final premium paid by policyholders.

The average pure premium in Europe was €201 in 2013, compared with €189 in 2012 and €204 in 2008. That is, over the entire five-year period the indicator was broadly unchanged. At the same time, the pure premium for personal injury claims alone (i.e. the frequency of personal injury claims multiplied by the average amount indemnified) rose by 2.3%, and in 2013 accounted for 52.8% of the overall pure premium.

The national breakdown shows that Italy is the country where the pure premium for personal injury claims weighs most heavily on the total (nearly 60%, or €177 out of about €300). This explains the overall pure premium gap between our country and the rest of Europe.

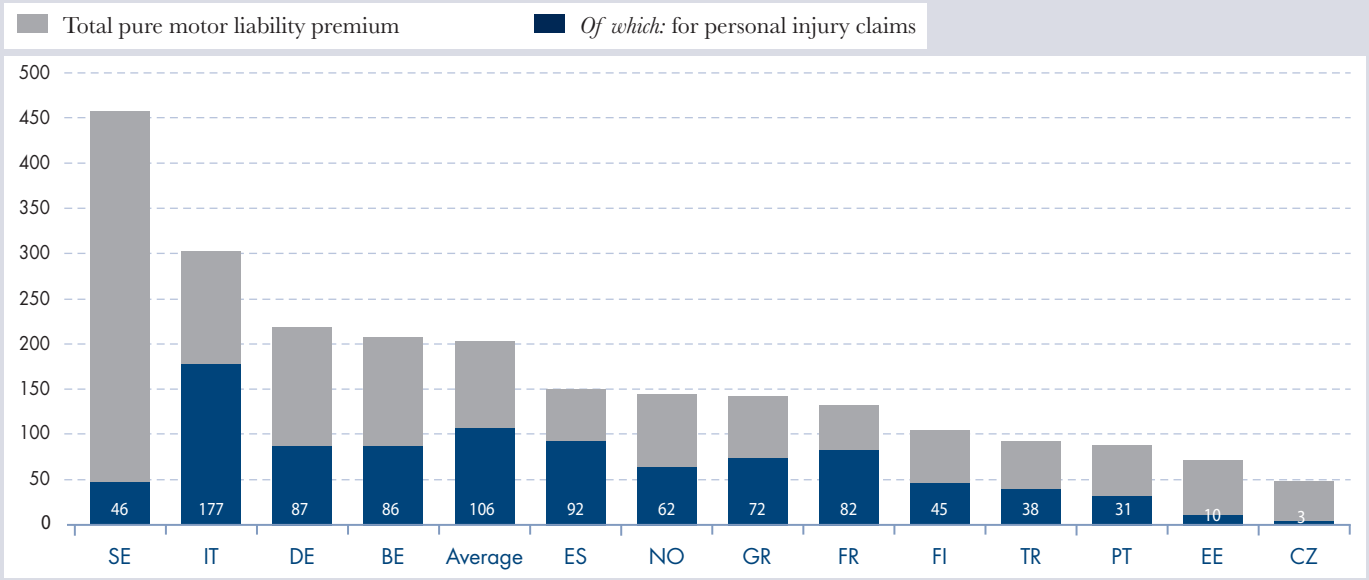
***Figure 2 – Average cost of claims in Europe*** *(Euro)*




*Source: Insurance Europe*

And apart from Sweden, Italy had the highest total pure premium in Europe in 2013 (€300 as noted, compared with the continent-wide average of €201). Specifically, the pure premium in Italy was 30% higher than in Germany and Belgium, twice as high as in Spain, and a full 120% more than in France. These differences are reflected directly in the average final premium paid by policyholders, which in Italy is higher than the European average but in line with the technical indications provided by the calculation of the pure premium.

***Figure 3 – Total pure premium and pure premium for personal injury claims in Europe, 2013*** *(Euro)*




*Source: Insurance Europe*

## PROVINCIAL ANALYSIS OF THE TECHNICAL MARGIN FOR MOTOR LIABILITY INSURANCE

We have used the data on claims frequency observed by ANIA quarterly and yearly to conduct a geographical analysis, for the year 2015, of the technical profit margin for risk underwriting. 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 costs, 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 27% of those reported within the year of occurrence, in Reggio Calabria 10%, in Genoa and Rome 5%, but in Venice and Trieste less than 2%; the national average is 10.1%.

Column 2 shows the average cost of claims, i.e. the total of IBNR claims and the costs of compensation actually paid, 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 pure premiums, to which we add administration and distribution costs (column 3). These latter costs, which amount to 21.6% of

***Provincial analysis of the technical margin for motor liability - 2015 - All type of vehicle***

| PROVINCE | 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 | Pure premium paid net of taxes and parafiscal charges | Expected technical margin |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) = (4) / (3) - 1 |
| ANCONA | 5.6% | 5,494 | 375 | 340 | -9.3% |
| AOSTA | 6.0% | 4,191 | 304 | 255 | -16.1% |
| BARI | 6.1% | 5,533 | 412 | 383 | -7.2% |
| BOLOGNA | 6.4% | 5,260 | 407 | 377 | -7.3% |
| CAGLIARI | 7.0% | 3,955 | 339 | 341 | 0.7% |
| CAMPOBASSO | 5.3% | 5,178 | 331 | 258 | -22.1% |
| FLORENCE | 7.7% | 4,334 | 407 | 428 | 5.0% |
| GENOA | 8.8% | 3,828 | 412 | 376 | -8.6% |
| L'AQUILA | 5.7% | 5,086 | 353 | 310 | -12.1% |
| MILAN | 7.3% | 3,840 | 339 | 332 | -2.1% |
| NAPLES | 10.3% | 4,661 | 581 | 534 | -8.2% |
| PALERMO | 6.8% | 4,339 | 360 | 357 | -0.9% |
| PERUGIA | 5.6% | 4,961 | 336 | 305 | -9.5% |
| POTENZA | 4.6% | 4,691 | 265 | 280 | 5.8% |
| REGGIO CALABRIA | 5.3% | 6,866 | 444 | 462 | 4.0% |
| ROME | 8.2% | 4,418 | 441 | 398 | -9.7% |
| TURIN | 7.3% | 4,028 | 356 | 343 | -3.7% |
| TRENTO | 5.3% | 3,895 | 253 | 288 | 13.7% |
| TRIESTE | 4.7% | 4,347 | 250 | 301 | 20.4% |
| VENICE | 4.7% | 6,238 | 356 | 339 | -4.8% |
| TOTAL ITALY | 6.1% | 4,720 | 351 | 371 | 5.7% |

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 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, in most other cities they now come to 16%.

Comparing columns 3 and 4, we can calculate the estimated technical margin on underwriting (column 5). Overall, in 2015 this margin came to 5.7% of premium payments (not counting financial income). However, in some cities the technical margin is negative, offset by the positive margins in others. The city with the worst performance (-22.1% of premium payments) is Campobasso, followed by Aosta (-16.1%) and L'Aquila (-12.1%). Large cities such as Rome, Bologna, Naples and Genoa also show negative margins, averaging nearly 10%. The cities with the largest positive margins are Trieste (+20.4%), Trento (+13.7%), Potenza, Florence and Reggio Calabria (averaging +5%).

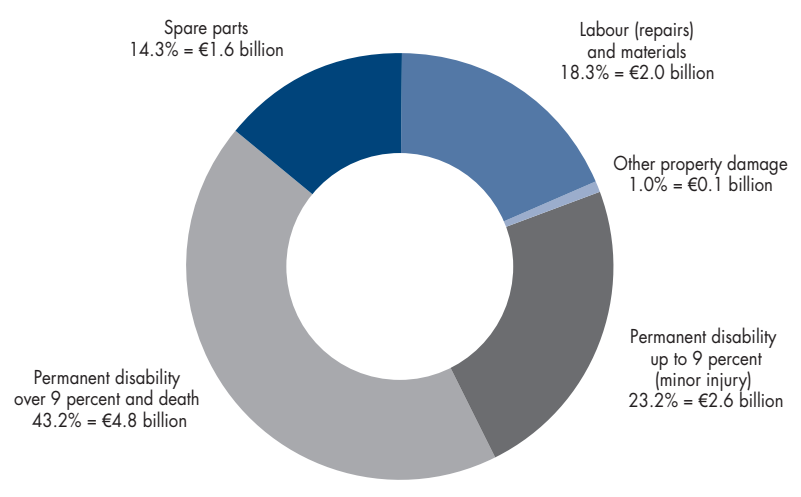
## COMPENSATION FOR PERSONAL INJURY

The total damages paid (for both property damage and personal injury) came to €11.0 billion in 2015 ([1]). Of this, more than two thirds (**€7.3 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 (Figure 1):

- compensation for mild injury involving permanent disability of 1 to 9 percent amounted to €2.6 billion (23.2% of the total claims cost);
- serious injuries involving more than 9 percent permanent disability or death generated outlays of €4.8 billion (43.2% of total claims cost).

***Figure 1***
***Distribution of total cost of liability compensation, 2015***




*Compensation for property damage (€3.7 billion, 33.6% of total claims cost)*
*Compensation for personal injury (€7.3 billion, 66.4% of total claims cost). Includes the property component of mixed claims*

The percentage of all motor liability claims involving personal injury was 19.5% last year, about the same as in 2014 (Table 1). After peaking in 2010 at 22.7%, this share had registered a first, modest downturn in 2011 and more significant declines in 2012 and especially 2013. The main factor in the improvement was the reduction in the number of minor injury claims, especially those involving less than 3 percent disability. The incidence of personal injury claims turned marginally back up in 2014.

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 in 2012 and 2013 (from 1.401% in 2011 to 1.016% in 2013, down 27 percent); over the same period, property damage claims fell by 10 percent. In 2014 the figure was 1.017%,

([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 2015. The total cost of claims for the year, including any excess or shortfall of reserves against claims from previous years, was €10.4 billion.

and in 2015 it rose to 1.026%, which can be ascribed to the overall rise in claims frequency, although injury claims did rise slightly less than claims in general, 1.0 as against 1.2 percent.

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

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| Total claims frequency | 7.77% | 7.36% | 6.53% | 5.87% | 5.65% | 5.48% | 5.55% |
| *% claims with only property damage* | *78.2%* | *77.3%* | *77.6%* | *79.9%* | *81.0%* | *80.5%* | *80.5%* |
| Frequency of claims with only property damage | 6.07% | 5.70% | 5.07% | 4.69% | 4.57% | 4.41% | 4.47% |
| *% claims involving personal injury* | *21.8%* | *22.7%* | *22.4%* | *20.1%* | *19.0%* | *19.5%* | *19.5%* |
| Frequency of claims involving personal injury | 1.70% | 1.67% | 1.46% | 1.18% | 1.07% | 1.07% | 1.08% |
| Frequency of claims with up to 9 percent permanent disability | 1.627% | 1.602% | 1.401% | 1.121% | 1.016% | 1.017% | 1.026% |
| 1% permanent disability | 0.708% | 0.689% | 0.617% | 0.506% | 0.477% | 0.452% | 0.456% |
| 2% permanent disability | 0.563% | 0.552% | 0.469% | 0.294% | 0.243% | 0.247% | 0.245% |
| 3% permanent disability | 0.186% | 0.190% | 0.163% | 0.137% | 0.128% | 0.122% | 0.126% |
| 4% permanent disability | 0.077% | 0.078% | 0.069% | 0.071% | 0.065% | 0.075% | 0.072% |
| 5% permanent disability | 0.042% | 0.040% | 0.036% | 0.043% | 0.042% | 0.044% | 0.050% |
| 6% permanent disability | 0.021% | 0.021% | 0.019% | 0.027% | 0.025% | 0.029% | 0.030% |
| 7% permanent disability | 0.014% | 0.013% | 0.012% | 0.019% | 0.017% | 0.021% | 0.020% |
| 8% permanent disability | 0.010% | 0.010% | 0.010% | 0.014% | 0.012% | 0.016% | 0.017% |
| 9% permanent disability | 0.007% | 0.007% | 0.007% | 0.010% | 0.007% | 0.012% | 0.010% |
| Frequency of claims with over 9 percent permanent disability | 0.070% | 0.067% | 0.062% | 0.059% | 0.057% | 0.055% | 0.056% |

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

The average cost of mild personal injury claims, however, declined further. Since 2011 it has come down by over 10%, from €6,135 to €5,508.

*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 2014, claims frequency for these injuries diminished significantly (by 21.5 percent), but actually by less than the frequency of property damage claims (down 27.3 percent), and in any case much less sharply than claims for mild injuries (which decreased by 37.5 percent). In 2015, moreover, there was a marginal rise in the frequency of the latter claims, from 0.055% to 0.056%.

Turning to the cost of these more serious injury claims (including damages for deaths), the average claim cost rose constantly through 2013: from €155,000 in 2009 to nearly €200,000 in 2013 (Table 2). It then turned down modestly and in 2015 was about the same as in 2012 at just over €190,000.

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

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| Total average claim cost | 3,903 | 4,057 | 4,345 | 4,495 | 4,564 | 4,532 | 4,466 |
| *% of claims with only property damage* | *34.5%* | *32.0%* | *31.7%* | *33.3%* | *33.2%* | *33.6%* | *34.2%* |
| Average cost of claims with only property damage | 1,725 | 1,716 | 1,803 | 1,899 | 1,883 | 1,894 | 1,897 |
| *% incidence of personal injury claims (value)* | *65.5%* | *68.0%* | *68.3%* | *66.7%* | *66.8%* | *66.38%* | *65.80%* |
| Average cost of claims with personal injury | 11,694 | 12,052 | 13,155 | 14,804 | 15,986 | 15,400 | 15,070 |
| 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 |
| Average cost of claims with personal injury over 9 pct. permanent disability | 155,487 | 166,750 | 179,891 | 191,379 | 198,045 | 195,436 | 191,186 |

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

***Table 3 – Incidence of claims with personal injury, by province, 2011-2014 (°)*** *(percent)*

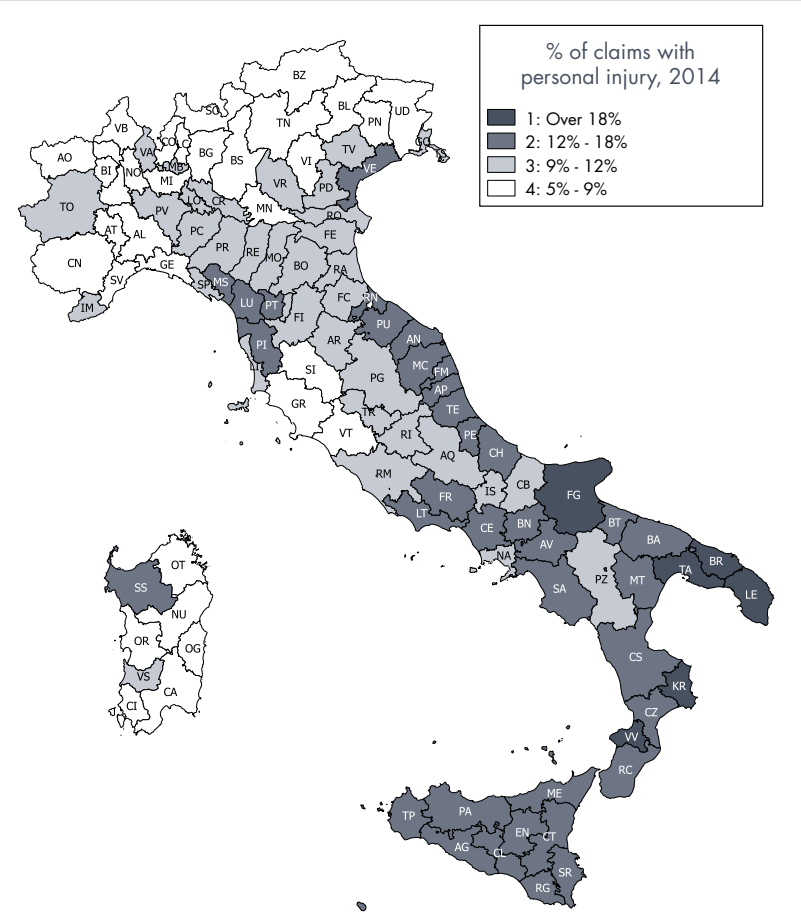
| Province | 2014 | 2013 | 2012 | Change 2014/2013 |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| TARANTO | 34.7% | 34.7% | 34.3% | -0.2% |
| CROTONE | 33.0% | 34.4% | 34.4% | -4.2% |
| BRINDISI | 32.4% | 33.7% | 33.6% | -3.7% |
| FOGGIA | 31.4% | 30.7% | 32.7% | 2.3% |
| LECCE | 30.8% | 31.8% | 32.6% | -3.1% |
| VIBO VALENTIA | 30.7% | 31.3% | 35.3% | -1.9% |
| BARLETTA-ANDRIA-TRANI | 29.4% | 29.6% | 27.9% | -0.7% |
| BARI | 28.9% | 29.2% | 29.4% | -1.1% |
| CATANZARO | 28.9% | 29.8% | 32.1% | -3.2% |
| LATINA | 28.7% | 29.1% | 32.4% | -1.4% |
| MESSINA | 28.0% | 30.2% | 29.5% | -7.1% |
| REGGIO CALABRIA | 27.6% | 28.1% | 29.8% | -1.6% |
| SALERNO | 27.6% | 28.6% | 29.9% | -3.7% |
| AVELLINO | 27.4% | 29.8% | 29.1% | -8.0% |
| CATANIA | 26.3% | 27.1% | 27.6% | -3.0% |
| COSENZA | 25.7% | 25.6% | 27.5% | 0.5% |
| PESCARA | 25.5% | 27.6% | 28.4% | -7.6% |
| CHIETI | 23.8% | 25.9% | 27.3% | -8.2% |
| MASSA-CARRARA | 23.7% | 24.9% | 26.4% | -4.8% |
| RIMINI | 23.7% | 25.4% | 26.2% | -6.8% |
| CALTANISSETTA | 23.5% | 25.3% | 26.8% | -7.1% |
| FROSINONE | 23.2% | 23.8% | 25.6% | -2.6% |
| ANCONA | 23.0% | 21.7% | 22.5% | 6.1% |
| TERAMO | 22.5% | 23.4% | 23.4% | -4.1% |
| ENNA | 22.4% | 20.9% | 21.5% | 7.0% |
| CASERTA | 22.4% | 23.8% | 26.3% | -5.9% |
| BENEVENTO | 21.9% | 22.3% | 22.3% | -1.8% |
| PALERMO | 21.8% | 22.3% | 21.0% | -1.9% |
| SIRACUSA | 21.5% | 21.5% | 22.9% | -0.3% |
| FERMO | 21.3% | 21.3% | 20.4% | 0.0% |
| RAGUSA | 21.2% | 22.2% | 21.8% | -4.4% |
| AGRIGENTO | 21.1% | 21.9% | 23.7% | -3.3% |
| MATERA | 21.0% | 21.9% | 22.1% | -3.8% |
| LUCCA | 21.0% | 21.2% | 23.1% | -1.2% |
| MACERATA | 21.0% | 21.5% | 22.0% | -2.6% |
| PISA | 20.9% | 21.5% | 23.4% | -2.6% |
| TRAPANI | 20.9% | 21.4% | 21.6% | -2.5% |
| VENICE | 20.8% | 21.1% | 21.7% | -1.1% |
| SASSARI | 20.6% | 20.1% | 21.1% | 2.6% |
| PESARO-URBINO | 20.5% | 21.3% | 21.1% | -3.8% |
| PISTOIA | 20.1% | 20.5% | 22.9% | -2.2% |
| ASCOLI PICENO | 20.0% | 22.2% | 21.4% | -9.6% |
| TERNI | 19.5% | 19.8% | 21.0% | -1.2% |
| POTENZA | 19.5% | 20.2% | 21.3% | -3.6% |
| LA SPEZIA | 19.4% | 20.7% | 21.6% | -6.0% |
| NAPLES | 19.2% | 19.5% | 19.9% | -1.5% |
| RIETI | 19.2% | 18.4% | 19.5% | 4.2% |
| RAVENNA | 18.9% | 18.8% | 20.4% | 0.1% |
| L'AQUILA | 18.4% | 18.7% | 18.9% | -1.3% |
| BOLOGNA | 18.2% | 19.0% | 18.6% | -4.5% |
| CAMPOBASSO | 18.1% | 17.7% | 18.0% | 2.4% |
| ROME | 17.9% | 17.6% | 17.8% | 1.6% |
| ROVIGO | 17.8% | 18.2% | 19.0% | -2.4% |
| FORLÌ-CESENA | 17.7% | 17.4% | 17.9% | 2.1% |
| AREZZO | 17.3% | 18.0% | 19.0% | -3.8% |
| PERUGIA | 17.2% | 18.5% | 19.5% | -7.4% |

| Province | 2014 | 2013 | 2012 | Change 2014/2013 |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| PADUA | 17.1% | 18.4% | 19.2% | -6.7% |
| TREVISO | 16.9% | 17.5% | 18.4% | -3.1% |
| ISERNIA | 16.9% | 18.7% | 18.7% | -9.8% |
| LIVORNO | 16.8% | 17.0% | 17.3% | -1.3% |
| LODI | 16.5% | 17.0% | 17.9% | -3.1% |
| GORIZIA | 16.4% | 16.9% | 16.7% | -3.0% |
| VARESE | 16.1% | 15.6% | 15.9% | 3.4% |
| VERONA | 15.8% | 15.6% | 17.1% | 1.9% |
| PRATO | 15.7% | 15.9% | 17.0% | -1.3% |
| PAVIA | 15.7% | 15.9% | 16.4% | -1.3% |
| PIACENZA | 15.6% | 15.2% | 17.4% | 2.3% |
| FERRARA | 15.5% | 15.9% | 18.9% | -2.0% |
| TURIN | 15.5% | 15.8% | 16.7% | -1.7% |
| FLORENCE | 15.5% | 15.8% | 16.5% | -1.8% |
| TRIESTE | 15.4% | 14.5% | 16.1% | 6.8% |
| REGGIO EMILIA | 15.4% | 16.3% | 17.0% | -5.1% |
| CREMONA | 15.3% | 15.3% | 16.1% | 0.4% |
| MONZA-BRIANZA | 15.3% | 15.8% | 16.8% | -3.3% |
| PARMA | 15.2% | 14.6% | 15.4% | 4.2% |
| MODENA | 15.2% | 15.7% | 15.4% | -2.7% |
| IMPERIA | 15.2% | 14.4% | 15.0% | 5.4% |
| MEDIO CAMPIDANO | 15.0% | 13.2% | 17.5% | 13.4% |
| MILAN | 14.7% | 15.4% | 16.0% | -4.3% |
| VICENZA | 14.4% | 14.2% | 15.5% | 1.5% |
| CARBONIA-IGLESIAS | 14.4% | 14.4% | 15.9% | -0.4% |
| GROSSETO | 14.2% | 15.6% | 14.3% | -8.4% |
| CAGLIARI | 14.2% | 15.1% | 15.7% | -5.9% |
| OGLIASTRA | 14.2% | 15.4% | 19.4% | -8.2% |
| OLBIA-TEMPIO | 14.1% | 15.4% | 15.4% | -8.7% |
| MANTUA | 14.1% | 14.2% | 15.1% | -1.0% |
| SAVONA | 14.0% | 14.3% | 15.1% | -1.7% |
| SIENA | 14.0% | 14.0% | 15.0% | -0.2% |
| COMO | 13.8% | 14.0% | 14.9% | -1.6% |
| VITERBO | 13.8% | 14.2% | 14.3% | -2.9% |
| PORDENONE | 13.8% | 14.2% | 14.2% | -3.4% |
| BERGAMO | 13.7% | 13.8% | 14.1% | -0.6% |
| UDINE | 13.5% | 14.0% | 13.7% | -3.8% |
| LECCO | 13.4% | 12.9% | 13.7% | 3.9% |
| ORISTANO | 13.1% | 13.1% | 13.4% | -0.1% |
| NOVARA | 13.0% | 13.9% | 14.5% | -6.4% |
| GENOA | 12.9% | 12.3% | 12.6% | 4.8% |
| VERCELLI | 12.7% | 12.4% | 12.8% | 2.3% |
| ALESSANDRIA | 12.5% | 12.9% | 13.4% | -2.4% |
| BRESCIA | 12.3% | 12.2% | 12.6% | 1.2% |
| SONDRIO | 12.1% | 12.4% | 13.0% | -2.5% |
| CUNEO | 12.1% | 11.9% | 12.7% | 1.3% |
| ASTI | 11.6% | 11.1% | 12.2% | 5.0% |
| VERBANIA | 11.3% | 10.3% | 12.1% | 9.8% |
| NUORO | 11.1% | 11.5% | 12.4% | -3.2% |
| AOSTA | 10.8% | 10.6% | 11.1% | 1.7% |
| TRENTO | 10.6% | 10.6% | 10.7% | -0.3% |
| BIELLA | 10.4% | 9.7% | 9.6% | 6.9% |
| BELLUNO | 10.3% | 10.8% | 11.6% | -4.6% |
| BOLZANO | 9.9% | 10.0% | 10.6% | -1.6% |
| TOTAL | 18.2% | 18.5% | 19.2% | -1.6% |

*(°) The provincial incidence of personal injury claims is drawn from ANIA's annual statistics; this accounts for the slight difference in the total for 2014 (18.2%) from the IVASS data (19.5%), which lack the provincial breakdown*

*The geography of personal injury claims.* The percentage of claims involving personal injury reached record highs in some Italian provinces in 2014, as high as 35%. Figure 2 and Table 3 show that in 2014 (the year of the most recent available data at province level) the provinces of the South are far out of line with the national average of 19.5%; the highest proportions are found in the regions of Puglia, Calabria, and parts of Campania.

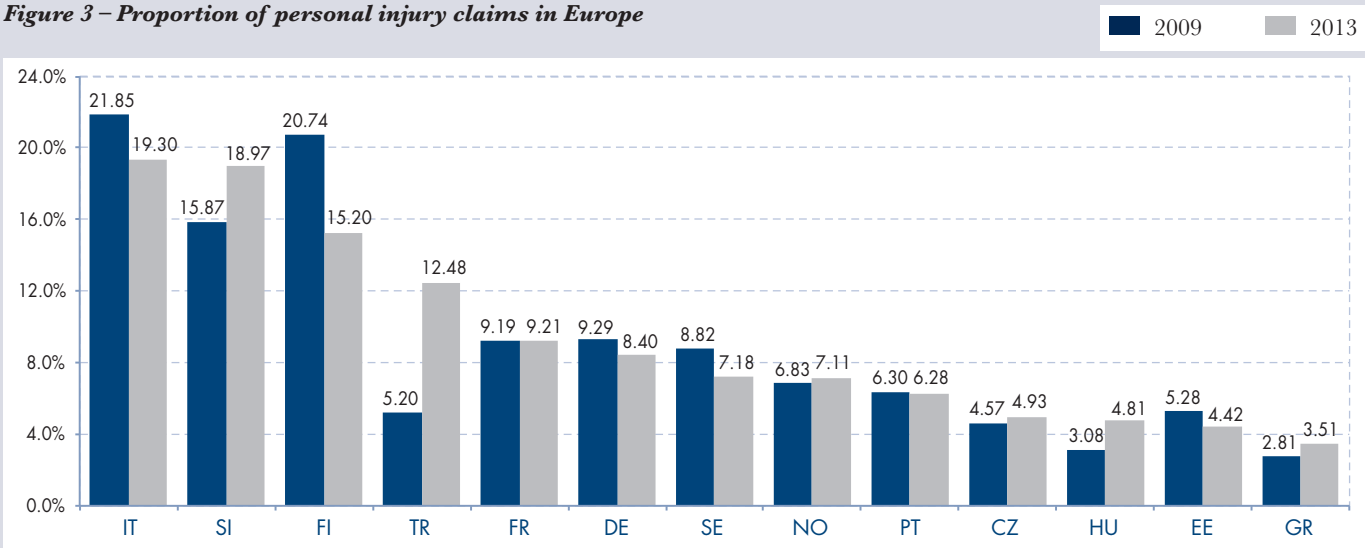
***Figure 2***
***Proportion of claims involving personal injury, by province, 2014***




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 19% in 2013, Italy continues to display one of the highest shares in Europe. Excluding Slovenia, Finland and Turkey, all the other countries had incidences of less than 10%, around half the Italian rate.

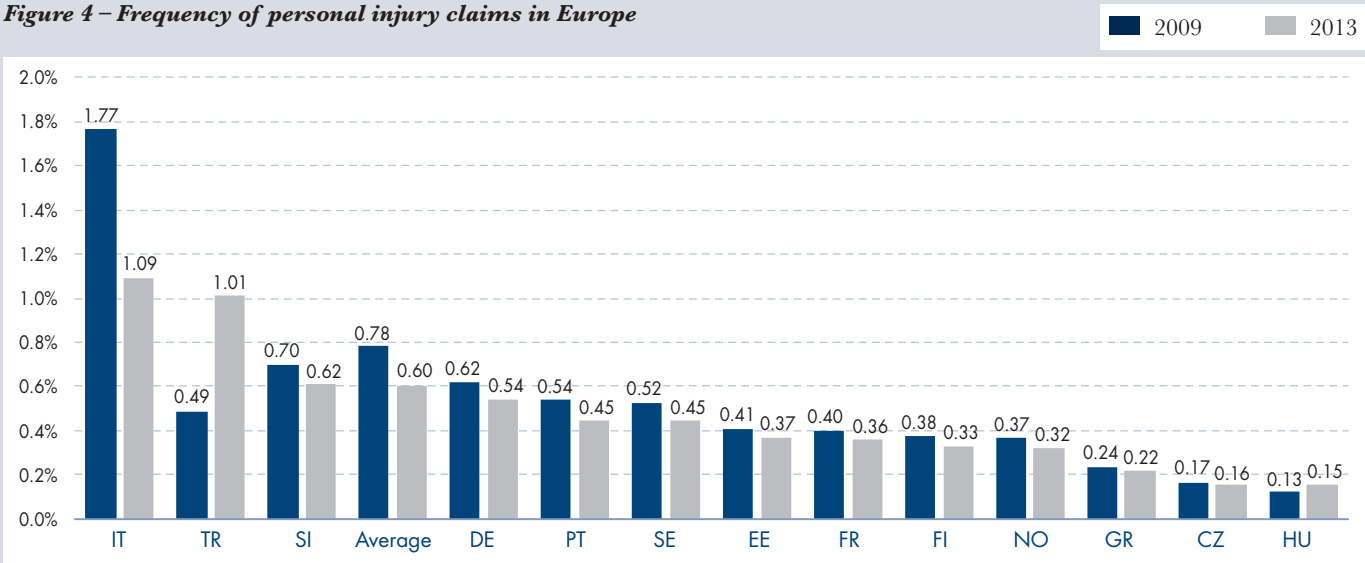
Turning to the frequency of personal injury claims (i.e. the number of such claims per policyholder), Italy's exceptionally high rate stands out all the more sharply (Figures 3 and 4). Whereas this frequency was 1.8% in 2009 (more than twice the European average of 0.8%), by 2013, in keeping with the general downtrend in claims, it was practically down to 1%; however, the European average too had come down, to 0.6%, maintaining the substantial gap.

***Figure 3 – Proportion of personal injury claims in Europe***




*Source : Insurance Europe*

***Figure 4 – Frequency of personal injury claims in Europe***




*Source : Insurance Europe*

## MOTOR INSURANCE FRAUD

The first recorded trial for insurance fraud dates to 2700 BCE, in ancient Egypt, where a man had faked his own death in order to collect the indemnity disbursed by an early form of mutual aid society, to cover funeral expenses for stonecutters.

Essentially, insurance fraud came into being concomitantly with the spread of insurance policies themselves. From then on, every type of insurance coverage has always

been accompanied by attempts, of varying degrees of success, to defraud insurers. In fact, Italian law dedicates a specific article of the Penal Code (Article 642) to insurance fraud, which is punishable by 1 to 5 years in prison.

In times of recession and economic crisis, insurance fraud tends to increase, especially in countries like Italy where most people fail to perceive insurance fraud as a crime against the rights and interests of citizens. Actually, however, insurance fraud damages first and foremost the honest policyholder, who just as in cases of tax evasion must sustain the economic costs of illicit conduct on the part of others.

In this kind of economic situation insurance fraud spreads beyond organized crime, which uses the proceeds to finance other illegal activities (trafficking in drugs, arms and human beings, and terrorism), and recurrent offenders who make illegitimate requests for insurance damages into a source of regular income; it may involve even ordinary consumers who hope to overcome their economic difficulties, exploiting their insurance policy as a sort of welfare scheme.

While insurance fraud is generally associated with motor liability and accident policies, which certainly account for the bulk of these violations, the illicit use of policy benefits can affect all insurance branches. In particular, the highest-value frauds are in elementary branches of insurance: for example, arson at industrial facilities or the theft of machinery.

In boating, there has been a steady increase in claims for sinkings of boats leased just months before. In a number of cases it was discovered that the craft had actually been sold abroad.

Simulation of auto theft is also recurrent, owing to the increased simplicity of vehicle sales abroad, thanks to Internet.

Lastly, some kinds of commercial insurance too are exposed to the risk of fraud, such as policies for credit, surety and pecuniary loss, which in times of economic difficulty can give rise to illicit claims. In this connection, a significant episode in the Veneto region involved employees of a trucking company who deliberately committed highway code violations that led to the suspension of their drivers' licenses – subsequently indemnified by a daily allowance to cover the lost income due to inability to work.

Nevertheless, it is the motor liability branch where insurance fraud becomes numerically significant, even if the official statistics often fail to truly measure the extent of a criminal phenomenon that weighs heavily in insurers' total costs.

Using IVASS's definitive data for 2014 and preliminary data for 2015, 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 (2012-2015) 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, 2014-2015***

| 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| EMILIA ROMAGNA | 193,474 | 208,355 | 16.1% | 20.0% | 7.4% | 9.7% | 14.0% | 12.9% | 1.6% | 1.4% |
| FRIULI-VENEZIA GIULIA | 44,179 | 45,022 | 15.7% | 17.4% | 6.5% | 7.8% | 15.0% | 14.9% | 2.6% | 2.0% |
| LIGURIA | 92,115 | 100,245 | 18.2% | 19.0% | 9.2% | 8.4% | 13.2% | 14.9% | 1.7% | 3.0% |
| LOMBARDY | 476,218 | 485,746 | 13.7% | 16.2% | 5.5% | 6.2% | 14.9% | 14.9% | 0.9% | 1.2% |
| PIEDMONT | 217,687 | 224,341 | 14.3% | 18.2% | 6.1% | 7.1% | 14.3% | 13.6% | 1.6% | 1.6% |
| TRENTINO ALTO ADIGE | 49,278 | 50,750 | 15.8% | 18.7% | 4.8% | 5.3% | 8.1% | 11.2% | 0.6% | 1.8% |
| VALLE D'AOSTA | 8,346 | 8,611 | 12.7% | 14.6% | 6.6% | 6.4% | 17.1% | 27.2% | 4.0% | 6.8% |
| VENETO | 195,252 | 199,603 | 12.8% | 15.2% | 5.1% | 6.7% | 13.4% | 11.3% | 1.4% | 1.1% |
| NORTH | 1,276,549 | 1,322,673 | 14.5% | 17.3% | 6.1% | 7.2% | 14.1% | 13.7% | 1.4% | 1.5% |
| LAZIO | 368,238 | 380,244 | 19.0% | 20.5% | 9.7% | 10.0% | 16.2% | 16.4% | 1.4% | 1.7% |
| MARCHE | 65,030 | 67,940 | 17.3% | 19.7% | 7.8% | 9.9% | 13.2% | 11.4% | 2.2% | 1.3% |
| TUSCANY | 194,066 | 201,100 | 15.8% | 18.6% | 7.5% | 8.8% | 12.8% | 12.0% | 1.2% | 1.6% |
| UMBRIA | 40,246 | 42,073 | 16.7% | 17.8% | 8.0% | 8.7% | 12.8% | 12.0% | 1.0% | 2.5% |
| CENTRE | 667,580 | 691,357 | 17.8% | 19.7% | 8.8% | 9.6% | 14.9% | 14.4% | 1.4% | 1.7% |
| ABRUZZO | 54,013 | 55,235 | 19.6% | 22.0% | 8.8% | 10.1% | 14.9% | 13.9% | 2.1% | 1.2% |
| BASILICATA | 17,904 | 18,250 | 22.2% | 23.5% | 12.2% | 12.7% | 14.4% | 14.1% | 1.3% | 3.7% |
| CALABRIA | 52,840 | 55,731 | 26.6% | 28.1% | 16.4% | 17.0% | 14.5% | 14.6% | 3.3% | 3.7% |
| CAMPANIA | 228,822 | 244,430 | 43.5% | 42.9% | 27.2% | 26.9% | 14.9% | 15.4% | 2.7% | 3.5% |
| MOLISE | 12,922 | 13,202 | 23.1% | 29.5% | 13.3% | 17.2% | 13.8% | 19.5% | 2.2% | 1.4% |
| PUGLIA | 122,486 | 128,503 | 26.1% | 28.0% | 16.1% | 16.5% | 13.9% | 12.8% | 1.3% | 1.9% |
| SOUTH | 488,987 | 515,351 | 33.4% | 34.3% | 20.3% | 20.7% | 14.6% | 14.8% | 2.4% | 3.0% |
| SARDINIA | 65,114 | 66,353 | 15.1% | 17.2% | 7.2% | 7.8% | 16.1% | 21.5% | 3.1% | 1.9% |
| SICILY | 185,497 | 194,517 | 22.1% | 22.8% | 13.3% | 12.8% | 12.9% | 14.6% | 1.1% | 1.1% |
| ISLANDS | 250,611 | 260,870 | 20.3% | 21.3% | 11.7% | 11.5% | 13.4% | 15.8% | 1.4% | 1.2% |
| TOTAL ITALY | 2,683,727 | 2,790,251 | 19.3% | 21.4% | 9.9% | 10.7% | 14.4% | 14.5% | 1.8% | 2.1% |
| **MEMO:** | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| TOTAL ITALY | 2,998,564 | 2,891,442 | 13.4% | 16.5% | 7.7% | 8.7% | 14.6% | 12.1% | 2.3% | 2.8% |

*(*) 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 2015, which numbered 2.8 million, up 4% from 2.7 million in 2014 but down from 3.0 million in 2012 and 2.9 million in 2013. The largest rise in the absolute number of potentially fraudulent claims came in the South (where they rose by 5.4%), and in particular in Campania (6.8%) and Calabria (5.5%). But the sharpest rises in percentage terms were in Liguria and Emilia Romagna (8.8% and 7.7% respectively). The other northern regions recorded modest increases not exceeding 2%.

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 2015 was 21.4% nationwide, up from 19.3% in 2014, 16.5% in 2013 and just 13.4% in 2012.

The lowest rate of fraud risk in 2015 was again registered in the North at 17.3%, although this represented a rise from 14.5% the previous year and was nearly twice the rate recorded in 2012 (9.8%). However, the share of claims subjected to further investigation was only 7.2% (higher than in 2014). Ultimately 13.7% of the claims subjected to further investigation were closed without settlement (14.1% in 2014); in 1.5% of the cases, about the same as the previous year, the insurer lodged a civil or criminal complaint. The northern regions with the highest incidence of suspect claims were Liguria, at 20%, and Emilia Romagna, at 19%, both higher than the previous year. Those with the lowest incidence were Veneto and Valle d'Aosta at around 15%. As to further investigations concluded without compensation – that is, cases of successful anti-fraud action by insurers – the highest rates were in Liguria, Lombardy and Piedmont (around 15% of the cases investigated, ignoring Valle d'Aosta given its great volatility owing to the very small number of claims overall). The overall figure for the North was 13.7%. The region showing the highest percentages of civil and penal complaints was Liguria at 3.0%, twice the average of 1.5% for the northern regions.

Fraud risk in central Italy was found in 19.7% of all claims in 2015, up from 17.8% (and from 12.1% in 2012 and 15.0% in 2013). Insurers conducted more than the ordinary inquiry in respect of 9.6% of total claims (up from 8.8%), terminating 14.4% of these without compensation (down from 14.9% in 2014) but lodging a civil or penal complaint in just 1.7% (1.4% in 2014). The highest incidence of suspect cases was in the Lazio region (20.5%), which was also the region where settlement without compensation was most common (16.4% of the suspect cases). The central region with the lowest exposure to fraud risk was Umbria (17.8%), but it was also the region showing the highest rate of criminal or civil complaints (2.5%).

The highest incidence of fraud risk in 2015 was found once again in the South: nearly 35% of all claims were suspect, up sharply from 23.3% in 2012 and 29.9% in 2013; in 2014 it was 33.4%. The claims subjected to additional inquiry came to 20.7% of all claims, about the same as in 2014. Of these, 14.8% were terminated without compensation. Insurance companies lodged civil or penal complaints in respect of 3.0% of the claims (2.4% in 2014). By region, the percentage of complaints

was highest in Basilicata, Calabria and Campania, at between 3.5% and 3.7%; Abruzzo had the lowest incidence of complaints at 1.2%.

In the island regions the incidence of claims with risk of fraud was near the national average of 21.4%. Sicily showed higher-than-average percentages both for suspect claims (22.8%) and for further inquiry (12.8%), with complaints lodged in 1.1% of the cases. In Sardinia the percentage of criminal or civil complaints dropped from 3.1% to 1.9%.

As to instances of fraud during the claims settlement process, insurers lodged 3407 complaints in 2014 (the latest available data); this represented a decline of 20 percent from 2013.

The absurdly low number of civil and criminal complaints of alleged insurance fraud depends on a series of specific reasons:

- Law 67 of 28 April 2014, which precludes punishment for especially insignificant offenses; unless the amount is not insubstantial and the accused is a habitual offender, this law also covers insurance fraud. It follows that many penal actions conclude with a ruling of non-punishability;
- many public prosecutors offices, clogged with the numerous complaints lodged by insurers, are unable to bring trials to an end before the statute of limitations expires. On the average, four years elapse between the initiation of penal action and the lower-court verdict;
- even in the few cases in which insurance companies succeed in winning a definitive conviction of the fraud perpetrator, they are very unlikely to get any economic compensation. The legal costs are generally charged to the insurer, and where the fraud is for a modest amount, they may actually be larger than the fraud damage itself.

For these reasons many insurers consider that the objective has been attained as soon as the claimant withdraws the claim, not with the presentation of a civil or criminal complaint.

Other causes of motor insurance fraud include a series of rules designed to speed up the damage settlement process and accordingly incompatible with thorough antifraud action.

1. The long time allowed for claims (2 years, and up to 5 in the case of personal injury) allows the perpetrator to eliminate a good part of the evidence that could otherwise enable insurers to detect and demonstrate the fraud. In the province of Naples, for instance, a full 27.5% of claims are lodged more than a year after the event. The national average of these so-called "late claims" is 5.3%.
2. The deadline of 5 days for ascertaining vehicle damage is too short; in some regions in particular, it is virtually impossible to inspect the damage to the vehicle before the repairs are made.
3. The deadline for presenting a settlement offer is incompatible with the investigative activity necessary to ascertain fraud. Even the derogation allowed by the Private Insurance Code, which allows insurers to suspend the term for making the offer for purposes of "antifraud" inquiry, is insufficient, given that at the end of the inquiry the insurer is required either to settle the claim or to lodge a complaint. The rule, in fact, does not envisage the possibility of withdrawal of the claim by the injured party.

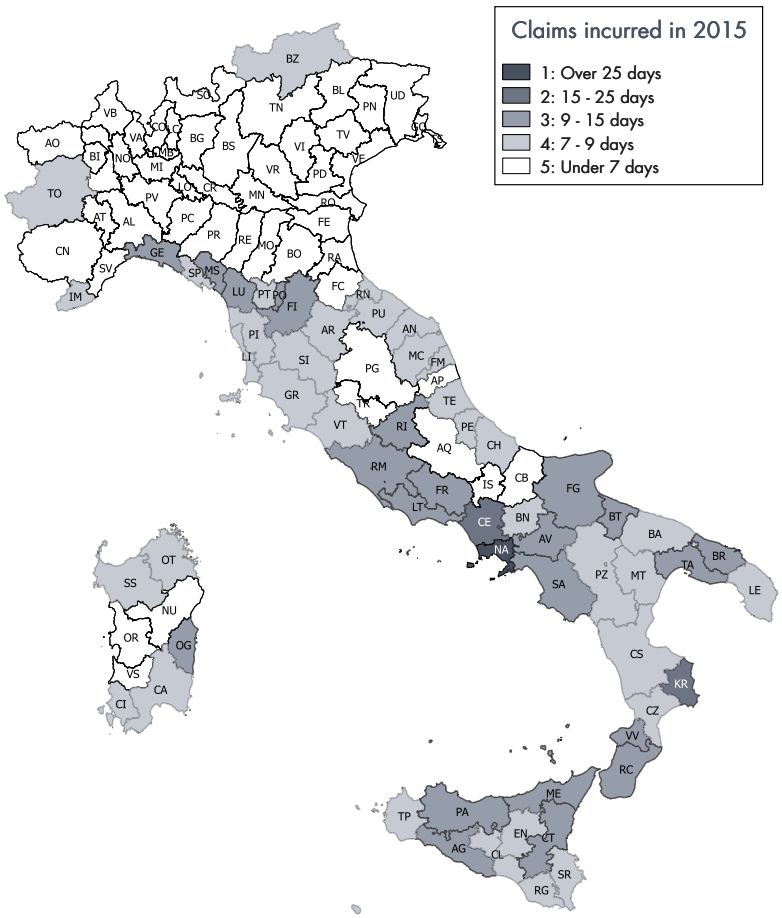
We have conducted an analysis restricted to claims for material damage to vehicles for accidents that occurred in 2015, covered by the direct indemnity procedure and signed by both the damaged and the liable party (CID claims). Specifically, we calculated the number of days that elapsed between the date of the accident and that of the presentation of the claim to the insurers. For this type of damage, which is that for which settlement is fastest (around 35 days), an average of 8 days pass between the date of the accident and the date when the insurer learns of it. But in some provinces, we found, this process takes more than two weeks; and in Naples, 27 days (Figure 1).

In addition to these procedural limitations, another factor is that there is no obligation to actually repair the damage, permitting a fraudulent party to utilize the same damage for additional, future fraudulent claims.

With respect to personal injury claims as well, it is increasingly common for doctor's certificates to be issued facilely; and more and more often these documents are issued by "ghost" physicians' offices.

In this context, insurers' attempts not to settle what appears to be a fraudulent claim risk triggering civil suits, which in most cases the insurer loses, with a much increased claim cost.

***Figure 1***
***Lateness of CID claims (vehicle damage, signed by both parties)***



This pattern is well established in the Campania and Puglia regions, where 72% of all legal disputes over motor liability are concentrated and where justices of the peace often exercise the profession of lawyer in road accidents involving personal injury (albeit in different Appeals Court districts).

Lastly, the privacy laws place significant limits on investigations to discover and document fraud. To be sure, in some social contexts privacy law represents a proper protection for reserved personal data, but in the framework of the battle against fraud it can be a serious obstacle, especially where it places limits on communications between insurance companies and on the sharing of the evidence necessary for penal action.

Whereas other European countries have special police units assigned exclusively to insurance fraud, in Italy insurance fraud is discovered accidentally as part of police investigations of much more extensive criminal phenomena or comes solely thanks to the good will and tenacity of individual officers who, despite the scarcity of resources, manage to bring significant cases of insurance fraud to light.

The Italian insurance industry looks forward with confidence to the potential of the integrated electronic database (Archivio Integrato Antifrode, AIA), managed by IVASS, to prevent and combat motor liability fraud; the database is provided for by Article 21 of Decree Law 179/2012, converted into Law 221/2012.

Following a thorough stage of project design, the AIA went operational in mid-June 2016, so insurers now have access to a series of data from IVASS's claims database (data on the persons involved in the accident directly – the liable party, the damaged party, and witnesses – and also indirectly – lawyers, repairmen, doctors), as well as the files of the motor vehicles bureau, the public automobile registry, Consap, and ANIA.

Simultaneous consultation of all these databases will enable insurers to acquire information mainly about the vehicles involved in accidents. These data are then used to calculate over 20 indicators of anomaly, which, on the basis of their relevance for antifraud purposes, help to determine the overall degree of anomaly of the claim, summed up in a composite score. The results of this process are available to all the insurance companies involved with the accident. The degree of detail of the data transmitted to insurers is greater where the score is high; where it is low or nil, data are provided in more summary form.

Unfortunately, this important tool for the prevention of insurance fraud is subject to a serious legal limitation, namely that the database may be consulted only during the motor liability settlement phase. But full access to the AIA would also be of fundamental importance for the risk assumption phase and above all for antifraud activity on other types of insurance that the legislation neglects.

As in other areas of civic life, in the battle against fraud the insurance industry could prove to be an invaluable ally for government, in that it can supplement the limited public resources with its own support activities.

In this spirit ANIA, in collaboration with some companies and the insurance supervisor, has initiated a series of institutional relations to provide incentives for antifraud cooperation:

- with the prosecutor general in Turin, we are working on shared guidelines to enable courts to conduct criminal trials rapidly and avoid defense objections concerning improper acquisition of evidence of the damage sustained by the insurer;
- with Interpol we are studying a convention for information exchange among police forces, auto manufacturers and insurers for quicker identification of stolen vehicles.

The costs of the initiative, which calls for an IT platform for collection and distribution of data on stolen cars, are to be shared among the various participating stakeholders.

Finally, ANIA has joined an agreement for the institution of a national observatory on theft and robbery against trucking firms and drivers, designed to:

- monitor, assess and analyse thefts and robberies, investigating among other things possible links with national and international organized crime;
- develop a suitable strategy to prevent and combat this phenomenon, including models of local intervention adapted to the local situation and involving the relevant national and local institutions;
- propose initiatives for appropriate legislation.

The observatory will comprise the Interior Ministry, AISCAT, ANAS, and the committee for a national registry of truckers.

Motor insurance fraud is also strictly correlated, geographically, with the circulation of uninsured vehicles. Province-level data gathered by the Highway Police, municipalities and municipal police have been matched against the insured vehicles in the ANIA database to produce a statistical inference of the total number of uninsured vehicles on the roads (Table 2).

In 2013 and even more so in 2014, we witnessed an alarming increase in the number of uninsured vehicles, but this process appears to have been halted last year; indeed, non-insurance seems to have been reduced. Specifically, it is estimated that 3.4 million vehicles, or 7.6% of all those on the roads, had no insurance coverage in 2015, down from an estimated 3.9 million in 2014; the figures for 2013 and 2012 were 3.5 million and 3.1 million. In the provinces of the South, the figure was 11.1% overall1 (13.5% in 2014, 13.1% in 2013 and 11.9% in 2012). In the Centre the average was 8.2% (8.5% in 2014, 8.1% in 2013 and 6.4% in 2012), and in the North 5.2% (6.2% in 2014, 5.3% in 2013 and 4.6% in 2012).

***Table 2 – Estimate of uninsured vehicles, 2015*** *(millions)*

| Region | Total insured vehicles | Estimate uninsured vehicles | *Memo: Est. uninsured vehicles* | | | Total vehicles on road | Percentage uninsured vehicles | *Memo: Percentage uninsured vehicles* | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2015 | *2014* | *2013* | *2012* | 2015 | 2015 | *2014* | *2013* | *2012* |
| North | 20.5 | 1.1 | *1.4* | *1.2* | *1.0* | 21.6 | 5.2% | *6.2%* | *5.3%* | *4.6%* |
| Centre | 9.6 | 0.9 | *0.9* | *0.8* | *0.7* | 10.4 | 8.2% | *8.5%* | *8.1%* | *6.4%* |
| South | 10.9 | 1.4 | *1.6* | *1.5* | *1.5* | 12.3 | 11.1% | *13.5%* | *13.1%* | *11.9%* |
| TOTAL ITALY | 41.0 | 3.4 | *3.9* | *3.5* | *3.1* | 44.3 | *7.6%* | *8.7%* | *8.0%* | *7.0%* |

*Source: ANIA, based on Highway Police data*

This reduction in the number of uninsured vehicles does not necessarily mean a corresponding increase in the number insured, in that the new system of automated controls could simply have discouraged uninsured drivers. Some contribution to the reduction may have come from the dematerialization of motor vehicle insurance stickers, which began to be effective in October 2015. This allows automatic checks of compliance with the compulsory insurance requirement (through video reading of the license plates of vehicles on the roads) or verification by law enforcement officers through immediate consultation of the computer database of all insured vehicles.

Provisional data for the first four months of 2016 confirm the downward trend in non-insurance. The percentage of uninsured vehicles would appear to have fallen by over a full percentage point, from 7.6% to 6.5%. This underscores the positive effect of dematerialization, which clearly helps to reduce fraud by preventing motorists from evading the insurance obligation by resort to counterfeit stickers.

## 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 2015. The results for the last five years (2011-15) can be summarized as follows:

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([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 motorist's actual merit class, so that if in the reporting year he is 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 listed 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.

– the average price for motor liability insurance still registered an increase, equal to 5.8%, owing to the particularly negative results of this insurance class (a trend that began in 2008 and intensified in 2009 and 2010); in 2012 the average premium held practically stable (an increase of just 0.7%), as the improvement in the technical indicators (claims frequency in particular) helped bring the branch's accounts back into balance;
– in 2013, and especially in 2014 and 2015, this effect was considerably more evident; in fact, in the last three years the average motor liability premium fell by 17.2% (4.6% in 2013, 7.0% in 2014 and 6.7% in 2015). That is, the premium decrease that began in November 2012, as Istat's data also attest, has not halted, continuing throughout last year. The price reduction in 2015 is also confirmed by the survey of actual motor liability insurance prices begun by IVASS at the start of 2014, which found that in the fourth quarter of 2015 the average premium for passenger car insurance was 7.6% lower than a year earlier. Note that as a result of the sharp price reductions in the three years the average liability insurance price index has come back down to the level of the late 1990s (Table 1, column 3).

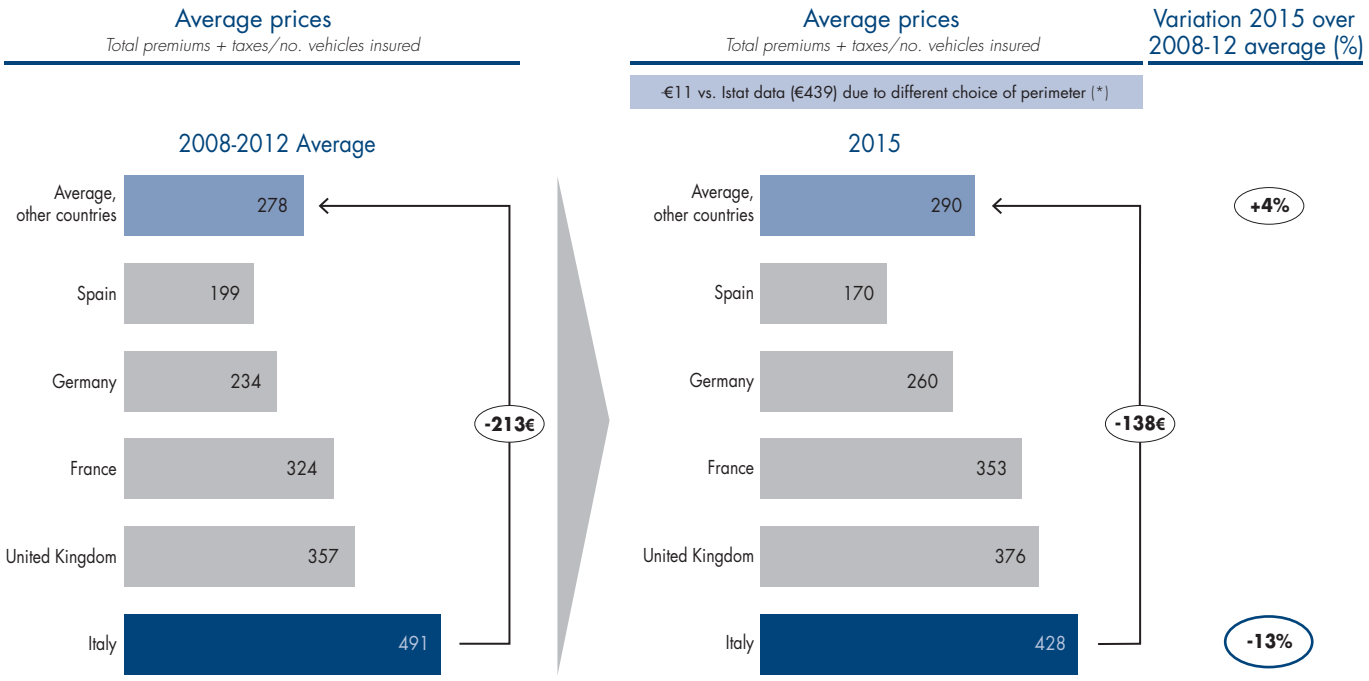
***Table 1 – Motor liability insurance premiums, 1994-2015***

| 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 |

*(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 put the number of insured vehicle/years in 2015 at 38.3 million, the same as in 2014. 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, the number of insured vehicles rose by 0.5%.*
*(3) The percentage change in premiums in 2010 and in 2013 is calculated in uniform terms.*

Accordingly, the gap between Italian prices and those in the other main countries narrowed (Figure 1). 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 and shrank further in the early months of 2016. The decline in premiums in Italy is the consequence both of the protracted recession (which has curbed car use and thus reduced claim frequency) and of sharper competition between insurers, which has enabled consumers to switch to more economical coverage. A positive contribution has also come from the stiffening of standards for compensation for minor personal injury, which by decreasing insurers' cost component in connection with micro-injuries allowed substantial price cuts starting in 2013.

***Figure 1 – Average motor liability insurance prices in Europe***




*(*) IVASS statistics for 4th quarter 2015 based on "sample of private passenger cars" – the Boston Consulting Group study includes motorcycles and scooters*
*Source: BCG – Confronto sul mercato RCA in Europa – Aggiornamento 2016*

In parallel with the foregoing breakdown of the change in average premiums derived from insurance company accounts, starting in 2013 ANIA has also utilized a quarterly monitoring program (covering 85% of the market in terms of premium income) to estimate the actual price paid for a renewed motor liability insurance policy. The survey excludes fleet policies. For comparability, only annual policies expiring in the reference month are considered; temporary policies are consequently excluded. The premiums are calculated net of taxes and National Health Service contributions (Table 2).

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

| Month | Average (pre-tax) premium (euros) | 12-month % change |
|---|---|---|
| March 2012 | 449 | *n.a.* |
| June 2012 | 435 | *n.a.* |
| September 2012 | 448 | *n.a.* |
| December 2012 | 496 | *n.a.* |
| Average 2012 – All policies | 456 | *n.a.* |
| March 2013 | 437 | *-2.6* |
| June 2013 | 420 | *-3.4* |
| September 2013 | 428 | *-4.4* |
| December 2013 | 463 | *-6.5* |
| Average 2013 – All policies | 437 | *-4.5* |
| March 2014 | 409 | *-6.6* |
| June 2014 | 399 | *-5.0* |
| September 2014 | 401 | *-6.2* |
| December 2014 | 434 | *-6.3* |
| Average 2014 – All policies | 411 | *-6.0* |
| March 2015 | 382 | *-6.5* |
| June 2015 | 372 | *-6.9* |
| September 2015 | 378 | *-5.9* |
| December 2015 | 409 | *-5.7* |
| Average 2015 - All policies | 386 | *-6.1* |
| March 2016 – All policies | 362 | -5.2 |
| *of which*: | | |
| private passenger cars | 367 | -5.6 |
| private motorcycles | 238 | -1.7 |
| private motorscooters | 151 | -1.4 |

Taking the average of the four surveys done in 2015, we can estimate the premium paid during the year and compare it with 2014. On average in 2015, net of taxes the cost of motor liability coverage came to €386, down 6.1% from €411 in 2014 (and from €437 in 2013 and €456 in 2012). It should be noted that the survey covers only policies that are renewed within the insurers' portfolio, for which the previous year's premiums are known. This excludes all new contracts during the year, some of which involve consumers who have changed insurer in order to get a cheaper policy and who accordingly enjoy a larger price cut, on average, than those who stay with their insurer. This is why the average premium decrease of 6.1% found by this survey in 2015 is smaller than the 6.7% reduction recorded for all policyholders as calculated on the basis of total premium income (Table 1).

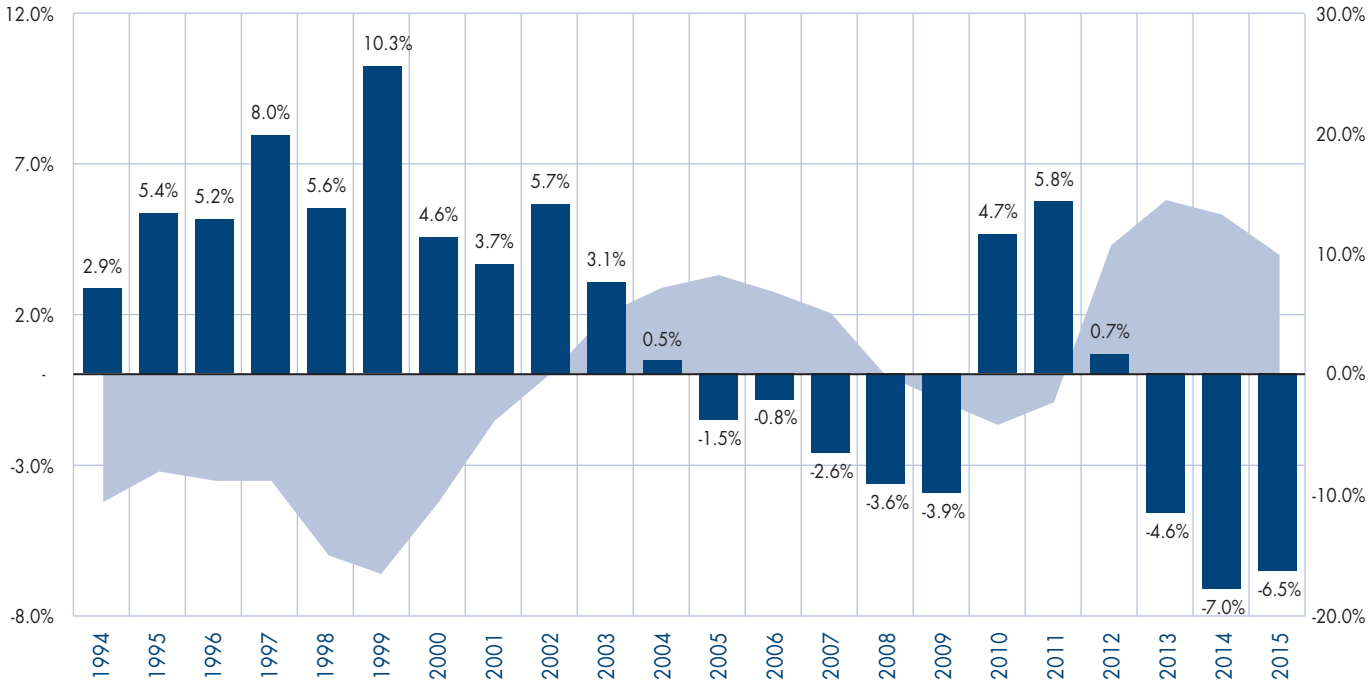
The latest data, for **March 2016**, indicate that the average price of motor liability insurance, net of taxes, came **down by a further 5.2%** compared with March 2015 to **€362**, or €87 less than the €449 recorded in March 2012 – a fall of 20% in four years. In detail, premiums on cars fell by 5.6% in the year to March 2016, those on motorcycles and scooters by 1.7% and 1.4% respectively.

To estimate the overall impact on the amount actually spent by policyholders, one must also take account of the taxation of liability premiums. In addition to the National Health Service contribution (10.5%), there is a tax set independently, since 2011, by the provinces, which may increase it above the base rate of 12.5% up to a

maximum of 16%. The average effective rate in March 2012 was 14.6%, and by April 2016 it was 15.7%, with an additional cost to policyholders. Factoring in these tax and parafiscal costs, the average actual premium cost comes to €457 in March 2016, down 18.7% from €562 in March 2012.

Policy premiums (or prices) are strictly correlated with insurers' technical results. Profits or losses obviously depend on the adequacy of prices with respect to the risks underwritten. Comparing motor liability technical results with average premium variations over the long run, we can track the "insurance underwriting cycle". Up until 2003, following price liberalization, 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, in the past, have not been available immediately, and their processing can take quite a considerable time. 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 (nearly 20% in the three years from 2013 through 2015) since the 1994 liberalization.

***Figure 2 – 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 lower quality policy risks. Profits do not return to growth until insurers adjust their prices and begin to be 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.

## Istat's motor liability index

Changes in the cost of insurance coverage can also be derived from the price index constructed by the national statistical institute, Istat, which surveys the premiums for some typical policyholder profiles monthly throughout Italy. In doing so, however, one must consider that Istat's values can be likened chiefly to insurers' "list prices" and do not correspond to the actual prices paid for new or renewed motor liability policies; rather, they represent the maximum reference price for each type of risk coverage. Accordingly, variations in them are not a reliable indicator of the change in actual spending by consumers. List prices, that is, may be misleading in that:

1) They ignore the bonus for drivers who do not cause accidents (more than 95 percent of the total, since only those who have primary or equal responsibility for accidents are ineligible for the bonus).
2) They take no account of discounts, caps on which are barred by Law 248/2006, known as the Bersani decree.
3) They do not consider the growing number of motorists who change insurer every year to get a better price.
4) They do not take account of the second Bersani decree's provision for the "household" bonus-malus clause.

Even taking all this into account, Istat's motor liability price index shows a decline for the third consecutive year in 2015, amounting to 1.8%, and a further decline of 0.2% to May 2016. The difference with respect to ANIA's survey is explained by insurance companies' more frequent use of discounts from list prices, thanks to the improved performance of the motor liability sector.

Table 3 compares Istat's list price index with the actual cost of liability insurance, from financial statements, over the past ten years; it also gives the Istat data for May 2016. Between 2006 and 2009 the gap between the change in the Istat index and that in the average premium cost widened steadily, reaching between 6 and 7 percentage points, since by construction the Istat index can reflect neither the impact of the new bonus-malus rules, which accentuated the natural tendency for policyholders to move into the better merit classes, nor the upward trend in discounts. In 2010 and 2011, by contrast, the gap narrowed, essentially because the scope for discounts offered by insurance agents was limited by reason of the deterioration in the

insurers' technical accounts. The difference began to increase again in 2012, thanks to better conditions, which permitted a reduction in the premiums actually paid by policyholders.

***Table 3***
***Motor liability insurance prices***

| Year | Istat price (% change) (a) | ANIA price (% change) (b) | Difference (% points) (b-a) |
|---|---|---|---|
| 2006 | 2.3 | -0.8 | -3.1 |
| 2007 | 1.5 | -2.7 | -4.2 |
| 2008 | 2.4 | -3.6 | -6.0 |
| 2009 | 2.9 | -3.9 | -6.8 |
| 2010 | 7.2 | 4.7 | -2.5 |
| 2011 | 5.4 | 5.8 | 0.4 |
| 2012 | 4.4 | 0.7 | -3.7 |
| 2013 | -0.2 | -4.6 | -4.4 |
| 2014 | -2.7 | -7.0 | -4.3 |
| 2015 | -1.8 | -6.7 (*) | -4.9 |
| May-2016 (**) | -0.2 | | |

*(*) Estimated*
*(**) Twelve-month change*

Eurostat data (which are essentially those of Istat for Italy and of the other national statistics institutes for the other countries) confirm the trend found by the Boston Consulting Group study cited above. In particular, as Table 4 shows, Italy registered the sharpest price decline in all of Europe (except Greece) in 2015, with a decrease of 1.8%; the only other country registering a decline was Germany (down 1.6%); everywhere else premiums rose, sometimes quite sharply (by 19.6% in Ireland, 3.4% in the Netherlands, 3.0% in the United Kingdom, 1.8% in Spain, and 1.7% in France).

***Table 4***
***Change in transport equipment insurance price index (%)***

| | AVERAGE FOR YEAR | | | | | TOTAL | 12-MONTH CHANGE |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011-2015 | May 2016-2015 |
| Italy | 5.4% | 4.5% | -0.2% | -2.6% | -1.8% | 4.9% | -0.2% |
| Austria | 2.7% | 2.5% | 2.5% | 1.9% | 1.7% | 11.8% | 1.7% |
| Belgium | 0.4% | 1.3% | 1.2% | 1.3% | 0.5% | 5.3% | 0.1% |
| Denmark | 1.4% | 1.6% | -17.4% | 12.3% | 1.9% | -2.5% | 0.8% |
| Finland | 3.0% | 3.2% | 4.0% | 3.9% | 6.0% | 21.8% | 2.9% |
| France | 1.0% | 2.1% | -1.5% | -0.2% | 1.7% | 3.1% | 1.6% |
| Germany | 1.5% | -2.7% | 4.1% | 1.7% | -1.6% | 2.9% | 1.9% |
| Greece | 8.1% | 1.4% | -7.7% | -8.9% | -9.1% | -16.2% | -2.3% |
| Ireland | 5.0% | 3.6% | -7.5% | 6.0% | 19.6% | 27.6% | 33.4% |
| Luxembourg | 2.6% | 6.6% | 0.8% | 1.8% | 0.1% | 12.4% | 2.0% |
| Norway | 4.3% | 3.4% | 2.3% | 1.1% | 0.2% | 11.6% | -0.5% |
| Netherlands | 3.5% | 2.1% | 12.1% | 0.2% | 3.4% | 22.8% | 2.4% |
| United Kingdom | 23.3% | 0.7% | -1.6% | 2.1% | 3.0% | 28.5% | 13.2% |
| Spain | 2.8% | 0.5% | -0.3% | 0.7% | 1.8% | 5.7% | 2.2% |
| Sweden | -1.2% | 1.0% | 0.4% | 1.2% | 1.9% | 3.3% | 0.9% |
| EU 28 | 5.2% | 1.4% | 0.5% | 0.5% | 0.4% | 7.2% | 2.8% |

*Source: Eurostat*

## DIRECT INDEMNITY – THE CALCULATION OF THE CARD SINGLE COMPENSATION AMOUNT FOR 2016

For 2016 the average cost of claims (the single compensation amount for payments between insurance companies) is calculated on the basis of the current rules, and in particular Article 29 of Decree Law 1/2012 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 2016, no deductible was deemed necessary).

The study to determine the single compensation amount was based only on CONSAP's statistics, which refer to settlements of claims admitted to the clearing house between 1 February 2009 and 31 October 2015, 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 confirmed the downtrend for the macrosector of "motorcycles/scooters" both for damage to vehicles and property transported, while the cost of settlements for injury to drivers was more or less unchanged. For the macrosector of "vehicles other than motorcycles/scooters", the time series shows broad stability both for average costs of property damage and of driver injury.

Accordingly the reference values for 2016 were set on the basis of the average costs of definitive settlement of claims of the last three generations (2012, 2013, 2014) in such a way as to factor in the effects of Law 27/2012, which introduced stricter, objective standards for valuing mild injuries.

The method adopted for calculating the ultimate cost of claims 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 then inflated for one additional year (given that they are to apply to 2016) based on the inflation forecast of 1.0% set in the 2015 Economic and Financial Document Update.

The base value for **average cost of property damage** is:

– €1,403 for "motorcycles/scooters"
– €1,569 for the broader class of "other vehicles".

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

– €4,460 for "motorcycles/scooters"
– €2,277 for the broader class of "other vehicles".

## Determination of geographical adjustments

CONSAP statistics on settlements of claims incurred from 1 January 2011 to 31 October 2015 were also 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 (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).

***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 30/06/2016 | 1,403 | 1,403 | 1,403 | 1,569 | 1,569 | 1,569 |
| *Adjustment coefficient by area* | *1.28* | *1.00* | *0.83* | *1.19* | *1.00* | *0.84* |
| Average cost of claims by macro-area | 1,795 | 1,403 | 1,164 | 1,867 | 1,569 | 1,318 |

***MEMO:***

| | 2009 | 2010* | 2011* | 2012* | 2013* | 2014* | 2015* | 2016* |
|---|---|---|---|---|---|---|---|---|
| Average cost of damage to vehicle and property transported (€) | 1,450 | 1,520 | 1,565 | 1,613 | 1,598 | 1,651 | 1,556 | 1,550 |
| *Change %* | *2.5%* | *4.8%* | *3.0%* | *3.1%* | *-0.9%* | *3.3%* | *-5.8%* | *-0.4%* |

*(*) Average cost for all sectors*

For "motorcycles/scooters", provinces with fewer than 500 claims were excluded, given the high volatility of costs there. These provinces were then all classed in the central group. For both classes of vehicle, the assignment of the provinces among the three groups for 2016 was practically unchanged with respect to 2015.

The single CARD-CID compensation amount, divided into the two vehicle classes, was 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 amount 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 | 1,795 | 1,403 | 1,164 | 99.2% | 1,867 | 1,569 | 1,318 | 99.9% |
| Average cost of personal injury to driver with permanent disability of less than 9% | 4,460 | 4,460 | 4,460 | 40.0% | 2,277 | 2,277 | 2,277 | 10.4% |
| Average cost of claims by macro-area | 3,565 | 3,176 | 2,939 | | 2,102 | 1,804 | 1,553 | |
| **SINGLE CARD-CID AMOUNT (*)** | **3,565** | **3,175** | **2,938** | | **2,103** | **1,805** | **1,554** | |

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

## TECHNOLOGICAL INNOVATION IN MOTOR LIABILITY INSURANCE

### The spread of black boxes and their impact on risk underwriting

Italy is the world leader in the installation of the electronic devices known as "black boxes" for monitoring habitual driving styles and giving precise data in the event of an accident or insurance claim. The progressive increase in the number of these devices has been fostered first because the consumers/policyholders who accept them can obtain significant price discounts and second because they enable insurers to reduce the danger of moral hazard on the part of customers both in developing motorist risk profiles and in the subsequent phase of accident assessment and claims adjustment.

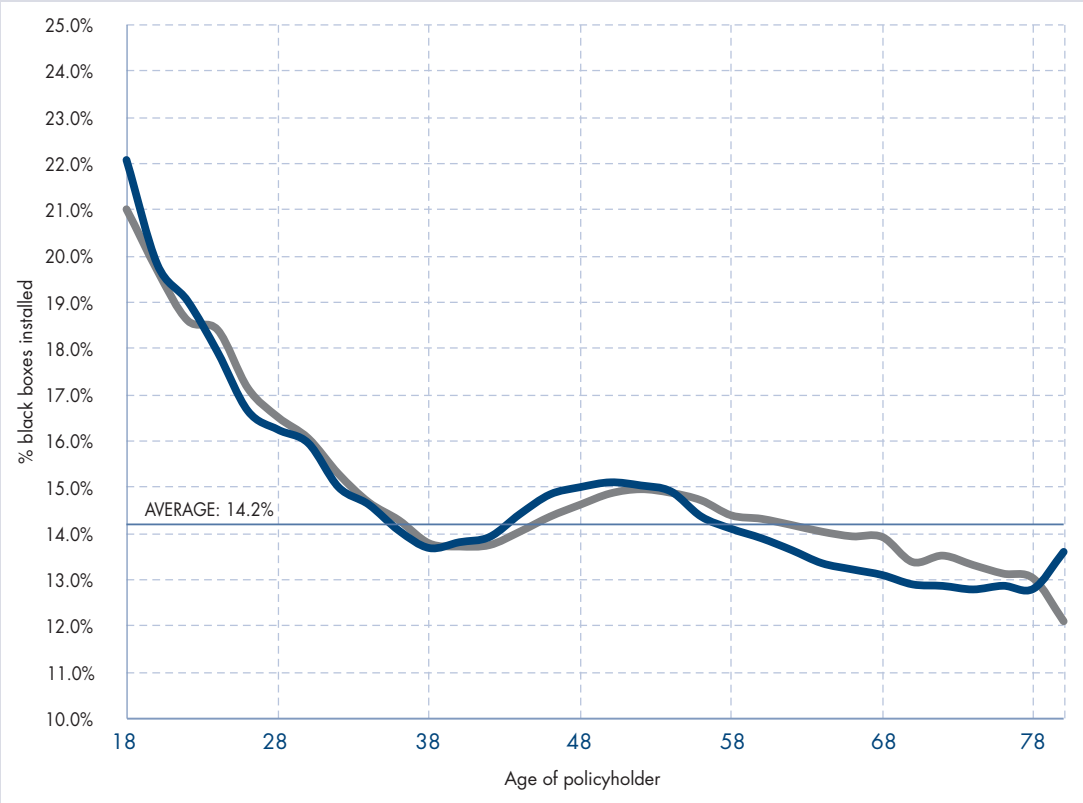
The data for 2015 are not yet available, but at the end of 2014, for a sample of insurance companies covering 86% of the motor liability market, of 27.3 million vehicles insured, 3.6 million (12%) had the devices mounted. Two years earlier, only 1.2 million had had them. This very rapid growth was fostered, as noted, by the offer of more and more advanced insurance products and services. ANIA's data show, unsurprisingly, that proportionally the installation of the devices is greater for private passenger cars (over 14% in 2014), less for other vehicles (taxis, motorcycles/scooters, trucks), for which it ranges from 5% to 8%.

Detailed analysis of the profile of motorists who have had the devices installed is instructive. Restricting the field to individual private passenger cars only (excluding fleet policies), we observe that while the average is 14%, the propensity for black boxes is greater among young drivers; about 1 in 5 of those under 25 have them. The incidence then diminishes gradually

to reach the average at around age 35. Obviously, young people are more willing to install the devices in order to get larger discounts. Interestingly, though, in the 35-45 age group – people who should be used to the use of electronic technology – there is a low degree of engagement on the part of insurers. The use of the black boxes is a bit higher (1 point above the average) in the 46-56 age group, presumably parents buying cars (and insurance policies) for their children; it then falls progressively beyond age 60.

The geographical differences are also marked: black box penetration exceeded 20% in the South but was considerably below average (9.5%) in the North-East. Incidence was especially high in certain southern provinces. For instance, in Caserta over a third of vehicles mounted the devices, and in Reggio Calabria and Crotone the rate was 31.3% and 28.4% respectively; in Naples, 28% of passenger cars mounted a black box.

***Figure 1***
***Diffusion of black boxes by policyholder age and gender, 2014***



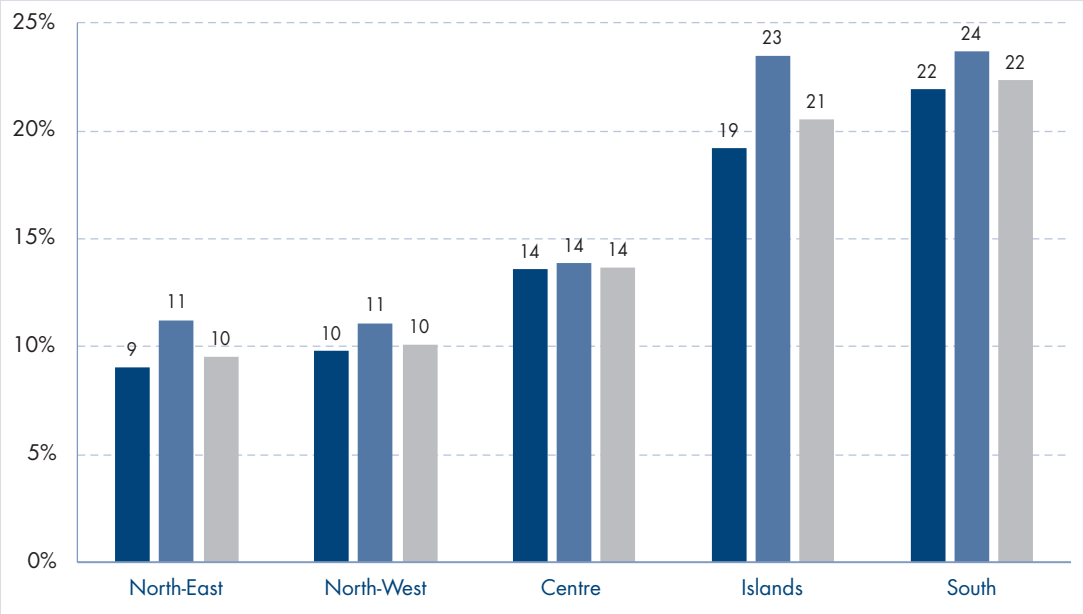

Another interesting observation is that in each of the five macro-regions, black boxes were more common in outlying areas than in city centers.

The success of these devices in certain areas and provinces is correlated with the higher risk of insurance fraud there. This kind of policy formula benefits honest, prudent motorists and at the same time is in the interest of insurers, giving them an effective tool to combat moral hazard.

Lastly, the policy renewal rate is slightly higher for cars with black boxes (92%) than for those without (89%). The electronic devices thus appear to be an additional instrument of customer retention, which is important in a highly competitive phase like the present, where policyholder turnover has been increasing significantly in recent years.

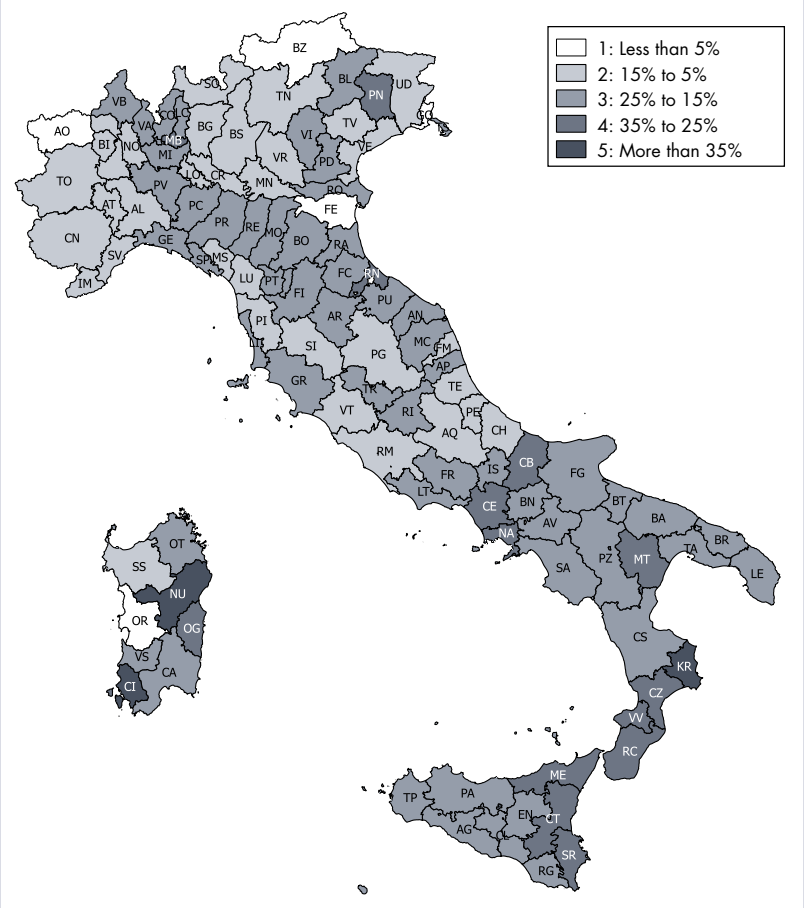
Using the 2014 data on claims generated by policies with and without black boxes, we have measured claims frequency in the two cases. However, as the distribution of the motorists who do and do not accept the devices at the time of risk profiling is uneven – and it could

***Figure 2***
***Diffusion of black boxes by geographical area, 2014***




well be precisely those most exposed to risk who want them – an analysis of the "raw" data on claims frequency (which are affected by a whole series of other risk factors, such as age, province of residence, and engine size) would indicate very little difference between those with and without the boxes (4.5% against 4.8%).

***Figure 3***
***% reduction in claims frequency for vehicles with black boxes by province, 2014***



At national level, then, the benefit of the "black box" factor would appear to be a modest 5%. In order to neutralize the other risk factors, we accordingly ran a multivariate analysis of claims frequency for private passenger cars only, in order to bring out the pure risk difference between cars with and without the devices. And this analysis shows that holding the effects of all the other parameters constant, the claims frequency for the cars mounting them averages 20% lower than for those without. And like all the national averages, this one too conceals very significant provincial variability. The greatest potential benefits in terms of accident reduction are found precisely in some of the notoriously risky provinces, where as we have seen the presence of electronic monitoring devices is already substantial.

In fact, the Italian provinces with the greatest differentials in claims frequency are located in the South (Figure 3). Reductions of more than 35% are found in Crotone, Nuoro and Carbonia-Iglesias (in the latter two, however, the diffusion of the devices was less than 6%, while in Crotone it was 23%, which makes the finding more significant). Claims frequency reductions of between 30% and 35% were observed in Naples, Reggio Calabria and Caserta, which also displayed the highest percentage diffusion of black boxes, between 25% and 30% of all insured motorists. Reductions of about 25% were recorded in many of the provinces of Calabria, Sicily, Puglia, and Basilicata. Reductions on the order to 20% were found in Emilia Romagna and Marche.

## Regulation (EU) 2015/758 on type-approval requirements for the deployment of the eCall in-vehicle system

Regulation EU 2015/758 of the European Parliament and the Council, dated 29 April, was published on 19 May 2015. The Regulation sets standards for approval of the deployment on new motor vehicles of eCall devices that can automatically make S.O.S. calls to the single EU emergency number (the 112 service), in case of serious accident (a crash of a given intensity). The eCall alerts public safety answering points (PSAPs) operated by means of adequate infrastructures by EU member state public entities, possibly in partnership with private organizations.

The Regulation forms part of a package of EU measures for the diffusion of the eCall service to the emergency number 112 throughout the Union. By shortening intervention times in case of accidents, the service should decrease the number of road fatalities and injuries.

Starting in April 2018 car manufacturers must equip all new models (N1 type vehicles) and light trucks (M1 type vehicles) with in-vehicle equipment that communicates with the interoperable eCall 112-based service. The infrastructure for the system should be operational by 1 October 2017, and accessible to all consumers free of charge. As for personal data protection, the Regulation lays down:

- that there must be no permanent tracking of the vehicles, and data on previous positions must be regularly deleted;
- that the data cannot be passed on to third parties without the consent of the vehicle owner.

In principle, then, the Regulation establishes that the tracking of vehicle positions for purposes of eCall assistance cannot be constantly recorded. Nevertheless, in response to the reasoned requests of the insurance industry and other stakeholders, the measure provides for derogation from the general rule. That is, for the provision of value-added services based on recording of vehicle positions and activities, such as pay-how-you-drive liability insurance

prices and infomobility services, the service provider may also – with the owner's prior consent – observe and record the vehicles' geoposition.

The protection of personal data will also be ensured by detailed technical standards that will prevent the interchange of personal data between the in-vehicle eCall system and third party systems.

In any event, for the system to be effectively operational, additional, more specific implementing measures will be needed. In this regard, the first implementing acts were scheduled to be adopted by the Commission by the end of June 2016. Among other things, they will bear on the technical requirements for the system, the emergency message, the possible exemption of some types of vehicle, and data protection, in particular the tracking of vehicle positions.

ANIA is closely following the implementation phase for the eCall service, which is of prime interest to companies active in the assistance branch, both at Community level in cooperation with Insurance Europe and at national level with the relevant ministries.

## DEMATERIALIZATION

### Application of digital insurance stickers and use of distance monitoring equipment (2016 Stability Law)

Since 2012 ANIA has been engaged with insurers and governmental institutions (IVASS, the Transport Ministry and the Ministry for Economic Development) for the full dematerialization of motor insurance stickers in order to combat the counterfeiting of the old paper stickers and the alarming circulation of uninsured vehicles, which ANIA estimates at 3.4 million in 2015. This objective has now been attained, with the elimination of the paper-based sticker attesting insurance as of 18 October 2015 and its replacement with unfalsifiable data on liability coverage recorded in electronic databases, pursuant to ministerial decree 110/2013 implementing Article 31 of Decree Law 1/2012, the "liberalization" decree. Starting in October 2015, in fact, insurance companies must transmit, in real time, all data on motor liability coverage to ANIA's insured license plate information system (Sistema Informativo Targhe Assicurate, SITA), which then passes them on to the motor vehicle bureau's integrated database of registered and insured vehicles.

For high standards of quality and speed in entering data into the SITA database (essential to the successful dematerialization of the stickers), the competent divisions of ANIA are constantly monitoring compliance with the decree and the state of data flows, for individual companies and for the market overall. To this end, ANIA's technical assistance to insurers has been enhanced, with the support of the so-called "Auto Counter" service. If policyholders report to this service errors or incompleteness of the motor vehicle bureau's data on liability coverage (available on the "motorist's counter" section of the bureau's website), which is fed by the SITA database, the ANIA "Counter" checks out the situation and where necessary calls on the insurance company to effect the necessary additions or corrections to the SITA databases, for which the companies alone are competent.

Thanks to a series of actions by ANIA and insurers, the completeness and quality of the SITA data have improved steadily. This is crucial, because since 18 October 2015 the verification of compulsory motor liability insurance coverage (Article 193 of the Highway Code) is performed by the law enforcement forces by checking, through the license plate number, whether the motor vehicle bureau's database, fed by SITA, shows the vehicle as insured.

Thanks among other things to ANIA's action on this institutional front, as of 1 January 2016 these controls are further enhanced by another instrument to combat non-insurance, introduced by Law 208/2015 (the 2016 Stability Law), namely the provision for automatic remote verification of insurance compliance by electronic devices to read license plate numbers. This should supplement the checks that can be performed by law enforcement units on the roads.

In order to make these checks more effective, however, a legislative void had to be filled, and this was done by the Stability Law (Article 1, para. 597), which amended the Highway Code to allow the use of distance monitoring equipment – speed-limit cameras ("autovelox" machines), restricted-area cameras, safety tutor, and electronic toll collection – to check insurance violations *regardless* of any other violations (e.g. speeding), and with no need for the physical presence of law enforcement officers to ascertain the violation, as had previously been required. The ascertainment of compliance with the compulsory insurance requirement (Article 193 of the Highway Code) will be performed automatically by these devices, which will interrogate the motor vehicle bureau's database on the license plate numbers scanned.

Considering the powerful impact that this provision will have on insured motorists and on the insurance industry, ANIA is regularly following developments in distance controls, monitoring the advancement of the regulations and the procedures for the checks and promptly informing insurance companies. At present, the situation is as follows:

A. For the use of the electronic license plate reading devices in practice – possible, in theory, since the start of the year under Article 1, para. 999, of the Stability Law, several specific regulatory provisions appear to be necessary to adapt the devices' IT linking procedures with the motor vehicles bureau and the technical requirements for approval, in order to utilize them also for checking insurance coverage;
B. As regards the consequences of checking via speed cams and safety tutor, the interpretation of Article 193 itself is not without difficulty (paras. 4-*ter*, 4-*quarter* and 4-*quinquies*). Nevertheless, the most reasonable reading would appear to be that the finding of a lack of insurance coverage by these electronic systems does not entail the imposition of the sanction laid down by Article 193 but only the obligation upon the owner of the vehicle to report to the relevant authorities and show the insurance certificate, testifying to compliance with the requirement at the time of the distance control.

## Partial digitization of the insurance certificate

Following the dematerialization of the windshield sticker attesting to insurance coverage, the insurance supervisor has now intervened with another helpful simplification measure, applying new technology to improve administrative relations between insurers, brokers and policyholders. Specifically, IVASS has agreed to the recent proposal of ANIA and the insurance companies to allow the latter, with the policyholder's consent, to transmit the insurance certificate in electronic format rather than paper, enabling its acquisition on a durable support

(pursuant to Article 11 of ISVAP Regulation 13/2008) – for instance, via email and subsequent printing by the user.

To "digitize" the transmission of the motor liability insurance certificate, IVASS considered it to be necessary and sufficient simply to amend the text of Article 10.5 of ISVAP Regulation 34/2010 on the promotion and distance marketing of insurance contracts, which instead allowed the transmission of the certificate solely in paper-based format. This change was made by IVASS Measure 41/2015 (published in *Gazzetta Ufficiale* No. 3, 5 January 2016). In IVASS's view, this provision – with its express requirement for paper-based delivery of the certificate – was the sole explicit obstacle to the use of other modalities, specifically vis-à-vis "direct" insurers. Instead, Regulation 35 of 26 May 2010 and Measure 8 of 3 March 2015, addressed to "traditional" (not distance) insurance companies, contained no express rules barring electronic rather than paper-based delivery of the certificate. As a consequence, no amendment to those provisions was made.

Accordingly, the option of delivering certificates via email now applies both to "direct" insurers (those doing business online) and those who market policies traditionally, through their network of brokers and agencies. The essential pre-requisite for this procedure, in any case, remains the policyholder's explicit consent.

The certificate so requested must then be printed; the copy thus produced has the same legal value as a paper certificate sent by ordinary post. In any case the certificate of motor liability coverage (whether received from a broker, by ordinary post, or printed from an email) must be kept in the vehicle and shown to law enforcement officers on request in the case of controls, as the Highway Code (Article 180) now provides. For the time being, only the insurance sticker has been totally digitized.

Finally, Measure 41/2015 confirmed that the "green card" must still be in paper-based format and conform to the standard characteristics (e.g., it must be green) laid down by the "inter-bureaux" agreement on international insurance certificates; in order for these certificates to be digitized, that agreement must be modified.

## Entry into force of the digital risk attestation and the resumption of IVASS technical talks

IVASS Regulation 9/2015 made the electronic attestation of risk status obligatory as of 1 July 2015. The objective is to counter falsifications and enhance the efficiency of policy estimates and stipulation. From that date the paper risk certificate is done away with, entirely replaced by risk status data that it is compulsory for motor insurers to transmit to ANIA's risk attestation database (Attestati di Rischio, ATRC) under IVASS's supervision.

This measure concludes the first stage of the technical talks convened by IVASS for the progressive implementation of the digitization process, as laid down in Decree Law 1/2012 (the "liberalization" decree) amending Article 134 of the Private Insurance Code. Over the past four years the ANIA departments assigned to this area have worked effectively, through a series of actions to sensitize and involve insurers, to attain optimal standards of quality in the risk attestations transmitted to the ATRC database. In this case too, technical assistance to insurance companies was strengthened by new and more effective activities by ANIA's "Auto Counter" service.

In the meantime, ANIA has resumed its contacts with IVASS to start the second stage of institutional technical talks. Specifically, ANIA informed the Institute of the urgent need to begin the complicated feasibility study for "dynamic" electronic risk attestation, which will certainly be more effective than the present "static" attestations in countering fraud and speculation. Where the current system updates accident and claims data only once a year, in the run-up to the expiry of the policy, the "dynamic" attestation will be updated constantly throughout the year whenever new data on claims are recorded by the insurer. The prime objective of the feasibility study will be to develop, if possible within the present regulatory framework, a "single risk code" tracing the insurance history of each vehicle as a function of changes in the legal affairs of the vehicle and/or its owner.

# 6

# OTHER NON-LIFE INSURANCE CLASSES

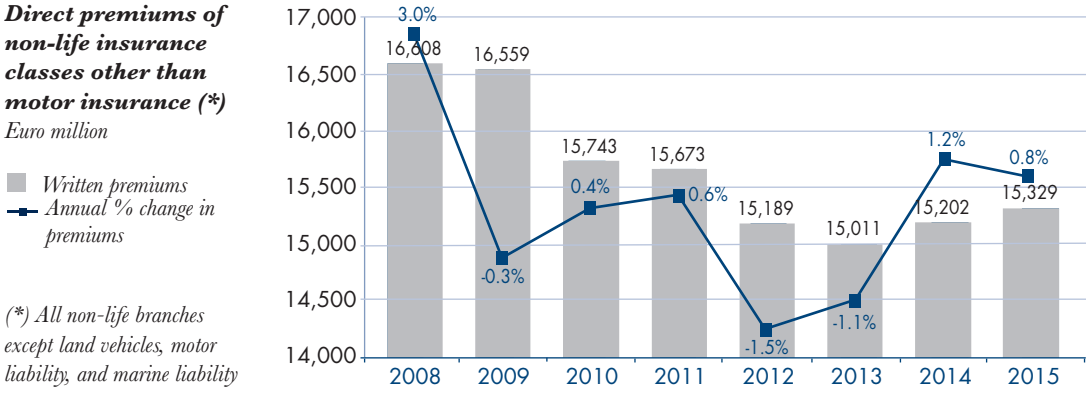
# OTHER NON-LIFE INSURANCE CLASSES

Written premium income of non-life business other than motor vehicle insurance increased by 0.8% last year. The combined ratio for 2015 improved by 4 percentage points, coming down to 85.6%, thanks to an 8 percent decrease in the cost of claims, due in part to the freeing-up of reserves against claims in respect of previous years and in part to an actual decline in claims frequency in the last year. The positive contribution of the fall in claims cost was the main factor in the increase in the overall technical result from profit of €1.2 billion to €1.9 billion.

## 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 vehicle and marine third party liability) totaled €15,329 million in 2015, up by 0.8% for a homogeneous set of companies. Premiums increased for policies on assistance (+10.2%), miscellaneous financial loss (+7.5%), legal expenses (+6.3%), sickness (+4.2%), aircraft (+2.4%), and general liability (+1.4%) They decreased in the other classes of business: aircraft liability (-28.5%), credit (-14.8%), suretyship (-5.6%), ships (-3.9%), goods in transit (-3.2%), other property (-1.7%), accidents (-0.4%), railway rolling stock (-0.3%), and fire (-0.2%) Non-motor insurance premiums' share of total non-life premiums increased from 46.3% in 2014 to 47.9% in 2015.

***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*

**Accrued premiums**, i.e. written premiums less the change in premium reserves and some other balance items, came to €15,331 million, up 0.7% from 2014.

The **incurred claims cost for the current accident year**, defined as the amounts paid and reserved, totaled €9,163 million, down €450 million or 4.7%. Given the modest increase in written premium income, the loss ratio for the current accident year improved, falling from 63.1% to 59.8% in 2015.

# 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 €8,206 million, 8% less than in 2014. The improvement was due not only to the decline in incurred claims cost but to the freeing-up of reserves against claims incurred in previous years; these funds were equal to €957 million in 2015, up from €689 million, and amounted to 6 additional percentage points with respect to accrued premiums. Accordingly, the loss ratio to earned premiums thus improved, falling from 58.6% to 53.5%. The business segments most responsible for the improvement of the loss ratio and with the highest shares of total premiums were sickness, whose loss ratio came down from 67.9% to 65.5%, other damage to property (from 69.7% to 60.4%), general liability (67.4% to 54.7%), and accident insurance (43.8% to 41.4%). The only segment in which the ratio worsened – also that with the highest share of premiums – was fire and natural forces (where the loss ratio rose from 54.2% to 56.2%).

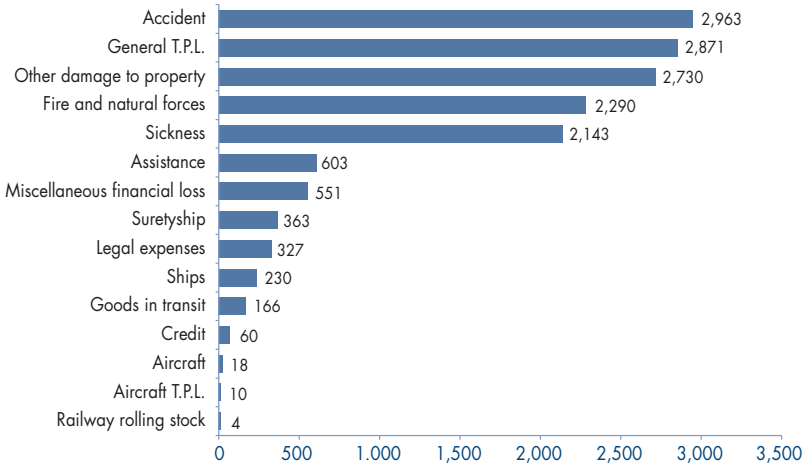
***Non-life insurance classes other than motor insurance (excluding land vehicles insurance and motor and maritime liability)***
*Euro million*

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 16,608 | 16,559 | 15,743 | 15,673 | 15,189 | 15,011 | 15,202 | 15,329 |
| Changes in premium reserves (-) | 531 | 51 | 235 | 237 | -280 | -105 | -28 | -2 |
| Incurred claims (-): | 10,933 | 11,736 | 10,276 | 9,859 | 11,054 | 9,183 | 8,924 | 8,206 |
| – incurred claims cost for the current accident year (-) | 11,166 | 11,804 | 10,499 | 10,000 | 11,004 | 9,657 | 9,613 | 9,163 |
| – excess/shortfall of reserves for those claims incurred in previous accident years | 233 | 68 | 223 | 141 | -50 | 474 | 689 | 957 |
| Balance of other technical items | -419 | -414 | -408 | -357 | -363 | -335 | -375 | -461 |
| Operating expenses (-) | 5,059 | 5,015 | 4,799 | 4,762 | 4,568 | 4,605 | 4,720 | 4,910 |
| – commissions | 3,567 | 3,528 | 3,407 | 3,387 | 3,192 | 3,182 | 3,256 | 3,363 |
| – other acquisition costs | 660 | 682 | 670 | 642 | 675 | 686 | 723 | 771 |
| – other administration costs | 832 | 805 | 722 | 733 | 701 | 737 | 741 | 775 |
| **Direct technical balance** | **-334** | **-657** | **24** | **458** | **-517** | **993** | **1,211** | **1,754** |
| Investment income | 403 | 1,072 | 510 | 314 | 760 | 554 | 587 | 593 |
| **Direct technical account result** | **69** | **415** | **534** | **772** | **243** | **1,546** | **1,798** | **2,347** |
| Reinsurance results | -135 | -359 | -539 | -513 | 554 | -726 | -572 | -419 |
| **Overall technical account result** | **-66** | **56** | **-5** | **259** | **796** | **820** | **1,226** | **1,929** |
| Annual % changes in premiums | 3.0% | -0.3% | 0.4% | 0.6% | -1.5% | -1.1% | 1.2% | 0.8% |
| **Combined ratio** | **98.5%** | **101.4%** | **96.7%** | **94.2%** | **101.5%** | **91.4%** | **89.6%** | **85.6%** |
| – Expense ratio | 30.5% | 30.3% | 30.5% | 30.4% | 30.1% | 30.7% | 31.0% | 32.0% |
| – Commissions/Gross written premiums | 21.5% | 21.3% | 21.6% | 21.6% | 21.0% | 21.2% | 21.4% | 21.9% |
| – Other acquisition costs/Gross written premiums | 4.0% | 4.1% | 4.3% | 4.1% | 4.4% | 4.6% | 4.8% | 5.0% |
| – Other administration costs/Gross written premiums | 5.0% | 4.9% | 4.6% | 4.7% | 4.6% | 4.9% | 4.9% | 5.1% |
| – Loss ratio: | 68.0% | 71.1% | 66.3% | 63.9% | 71.5% | 60.7% | 58.6% | 53.5% |
| – Loss ratio for the current accident year | 69.4% | 71.5% | 67.7% | 64.8% | 71.1% | 63.9% | 63.1% | 59.8% |
| – Excess/shortfall of reserves for previous years claims/ Earned premiums | 1.4% | 0.4% | 1.4% | 0.9% | -0.3% | 3.1% | 4.5% | 6.2% |
| **Technical balance/Earned premiums** | **-2.1%** | **-4.0%** | **0.2%** | **3.0%** | **-3.3%** | **6.6%** | **8.0%** | **11.4%** |
| **Technical account result/Earned premiums** | **0.4%** | **2.5%** | **3.4%** | **5.0%** | **1.6%** | **10.2%** | **11.8%** | **15.3%** |
| **Overall technical account result/Earned premiums** | **-0.4%** | **0.3%** | **0.0%** | **1.7%** | **5.1%** | **5.4%** | **8.0%** | **12.6%** |
| *Ratio of premiums to total non-life premiums (%)* | *44.3%* | *45.1%* | *44.2%* | *43.1%* | *42.9%* | *44.6%* | *46.3%* | *47.9%* |

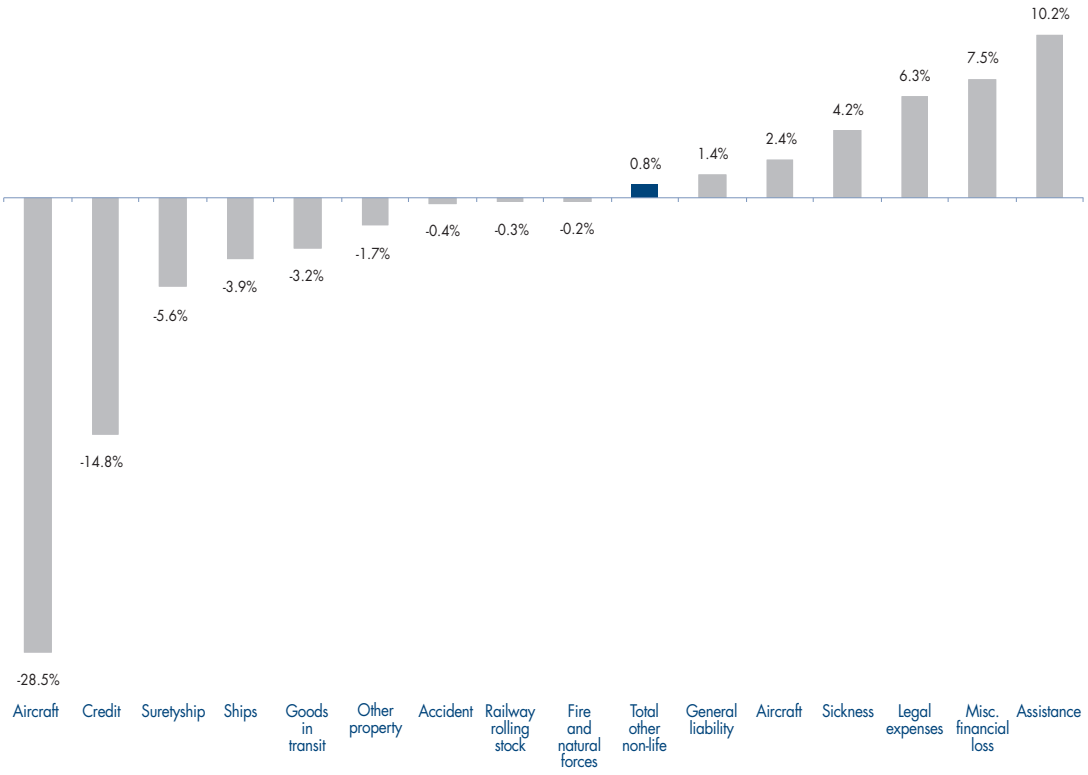
*Indexes and changes (%) are calculated on data in € thousand*
*Change calculated in homogeneous terms*

# OTHER NON-LIFE INSURANCE CLASSES

***Direct premiums by insurance class – 2015***
*Euro million*




***Growth rate of direct premiums by insurance class – 2015 (*)***
*Average 2015: 0.8%*

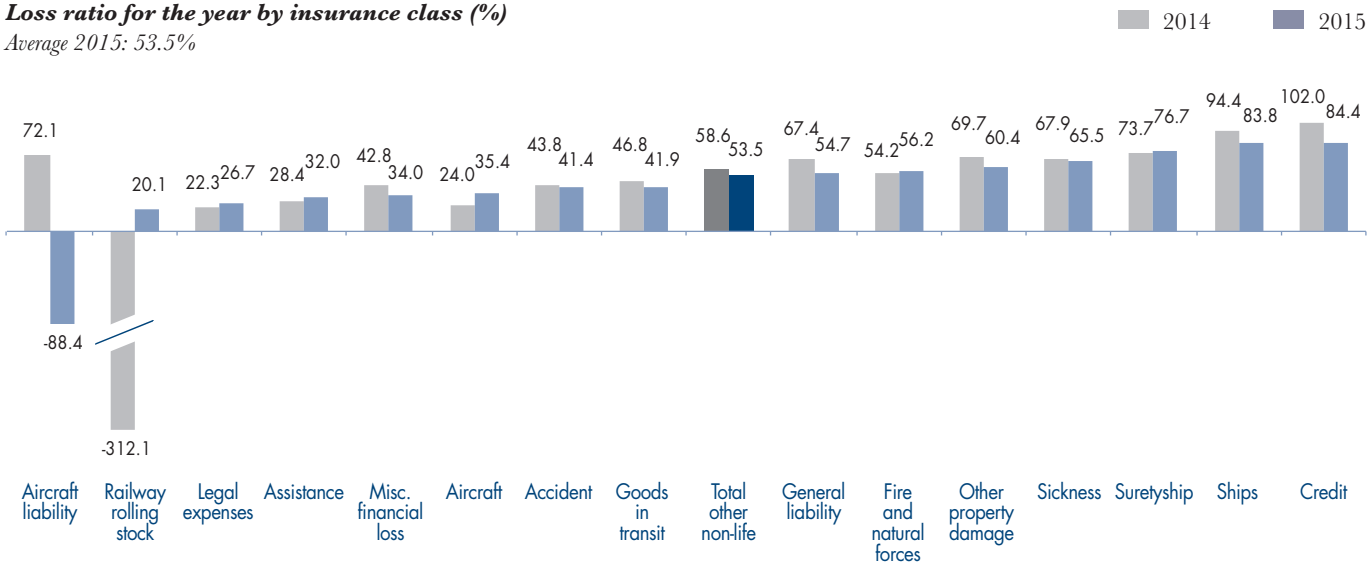



*(*) Change calculated in homogeneous terms*

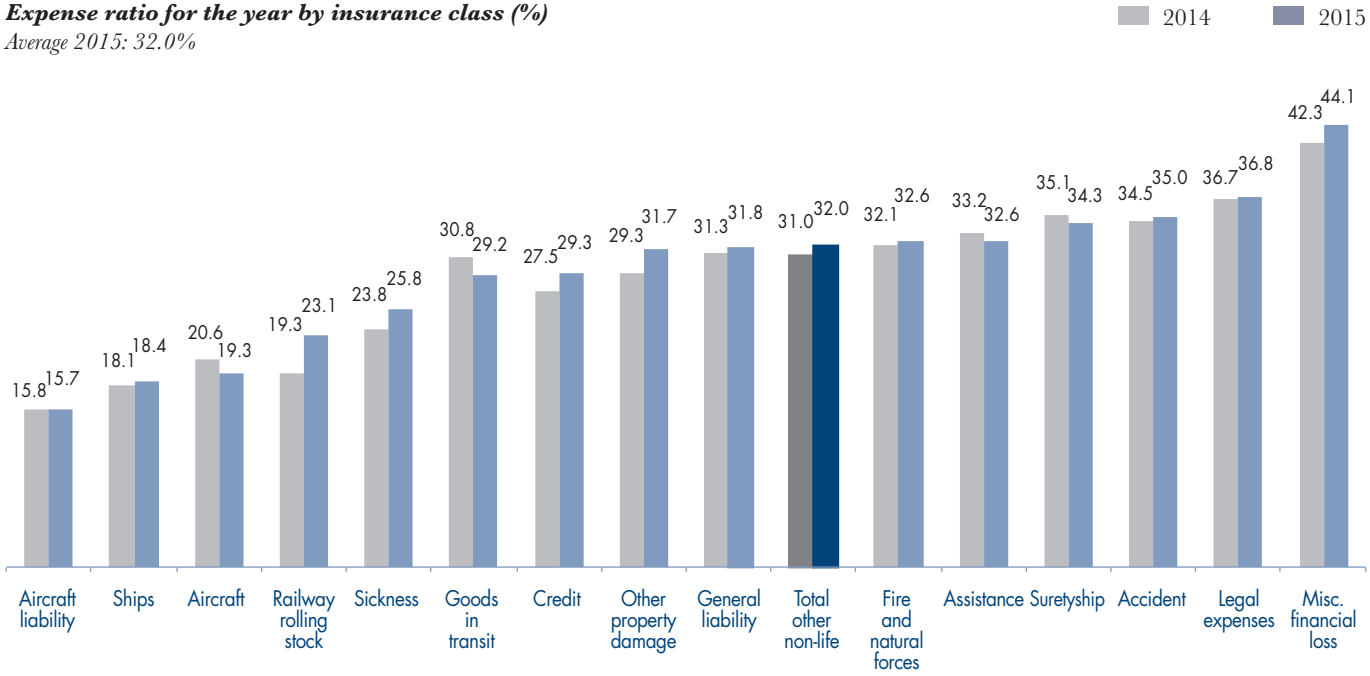
**Operating expenses** amounted to €4,910 million (€4,720 million in 2014) and include administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network. The ratio of expenses to premiums was 32.0%, up slightly from 31.0% in 2014. The ratio of agent commissions to premiums edged up from 21.4% to 21.9%, that of other acquisition costs from 4.8% to 5.0%, and that of administration expenses from 4.9% to 5.1%. The business segments with the highest ratios were miscellaneous financial loss (44.1%), legal expenses (36.8%), accident (35.0%), and surety insurance (34.3%). The most moderate ratios, under 20%, were recorded for aircraft (19.3%), ships (18.4%), and aircraft liability (15.7%).

# OTHER NON-LIFE INSURANCE CLASSES

***Loss ratio for the year by insurance class (%)***
*Average 2015: 53.5%*



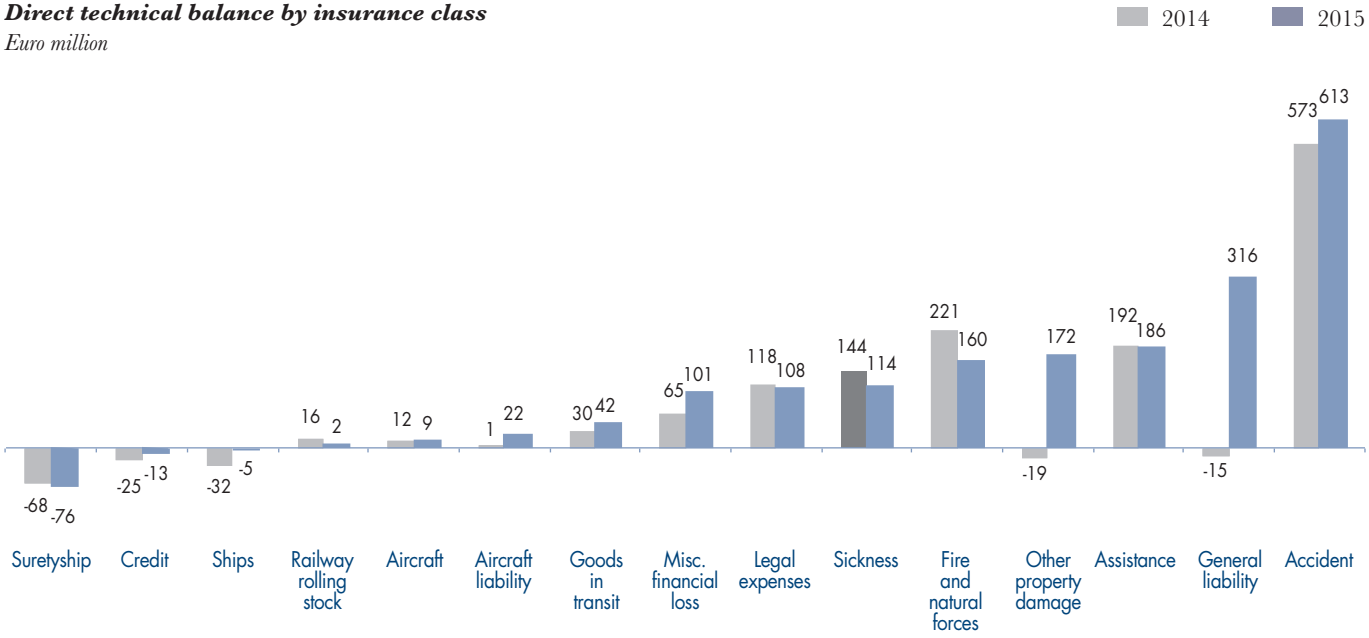

***Expense ratio for the year by insurance class (%)***
*Average 2015: 32.0%*




The **technical balance** for direct business was positive by €1,754 million, up sharply from €1,211 million in 2014. The improvement was due to the lower incurred claims costs described above and the gain in premium income. Positive balances were scored by insurance for miscellaneous financial losses (€101 million, up from €65 million in 2014), legal expenses (€108 million, down from €118 million), sickness (€114 million, down from €144 million), fire (€160 million, down from €221 million), other property damage (€172 million, compared with a negative balance of €19 million in 2014), assistance (€186 million, down from €192 million), general third party liability (€316 million, compared with a negative balance of €15 million

# OTHER NON-LIFE INSURANCE CLASSES

***Direct technical balance by insurance class***
*Euro million*




in 2014), and accident (€613 million, up from €573 million). Small negative balances were registered by insurance for suretyship (-€76 million), credit (-€13 million) and ships (-€5 million).

With **investment profits** totaling €593 million (€587 million in 2014), the **direct technical account result** was positive by €2,347 million (€1,798 million in 2014), and the ratio to premiums rose from 11.8% to 15.3%. The following branches of business registered better than average ratios: general liability (20.9%), miscellaneous financial losses (21.5%), accident (23.2%), goods in transit (27.1%), assistance (32.4%), legal expenses (36.9%), aircraft (46.6%), railway rolling stock (59.0%), and aircraft liability (177.1%). Negative ratios were recorded for credit (-20.9%), suretyship (-15.7%), and ships (-0.1%).

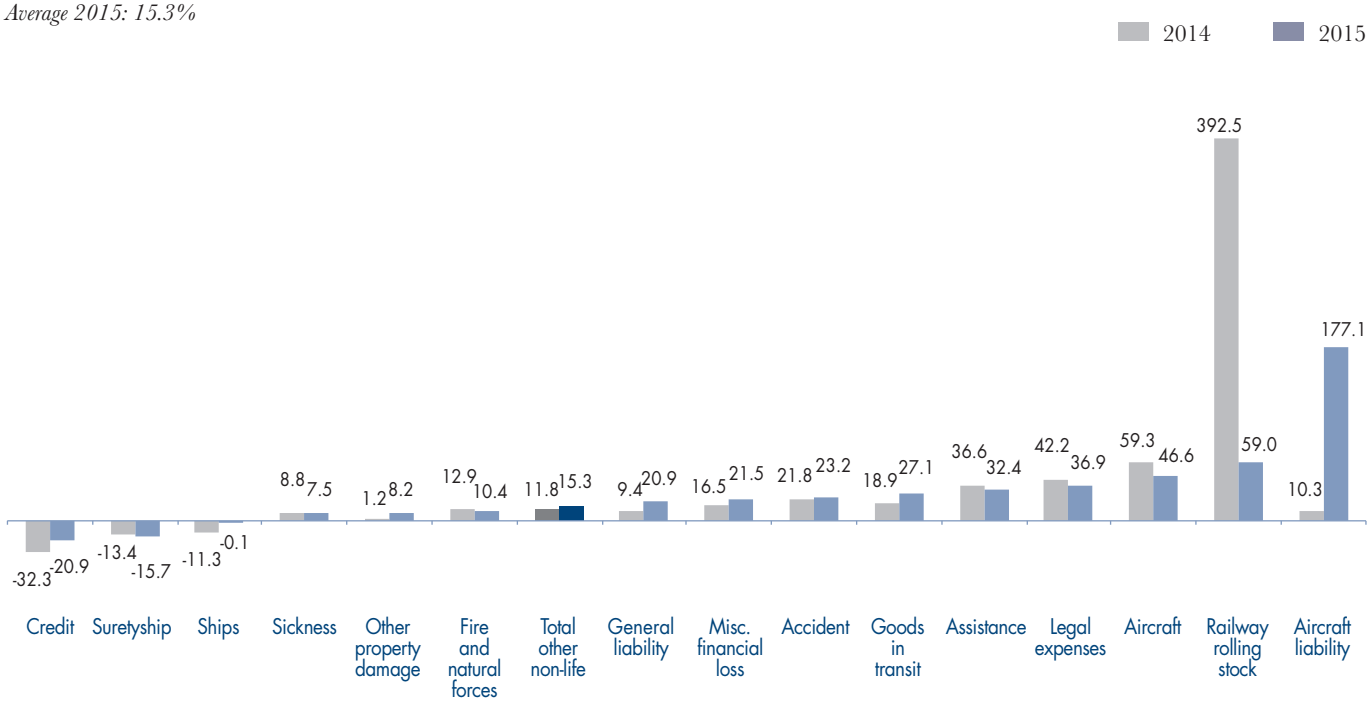
Taking into account the reinsurance balance (negative by €419 million, but an improvement compared with -€572 million in 2014), the **overall technical account result** showed a profit of €1,929 million, up from €1,226 million, rising from 8.0% to 12.6% of premiums.

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 €30,174 million in 2015; premium reserves totaled €8,186 million and claims reserves €21,988 million. General liability was the business segment with the highest technical provisions (€13,852 million counting claims and premium reserves for 2015); total provisions top €3 billion also for other damage to property (€3,000 million), accident insurance (€3,327 million) and fire insurance (€3,493 million).

# OTHER NON-LIFE INSURANCE CLASSES

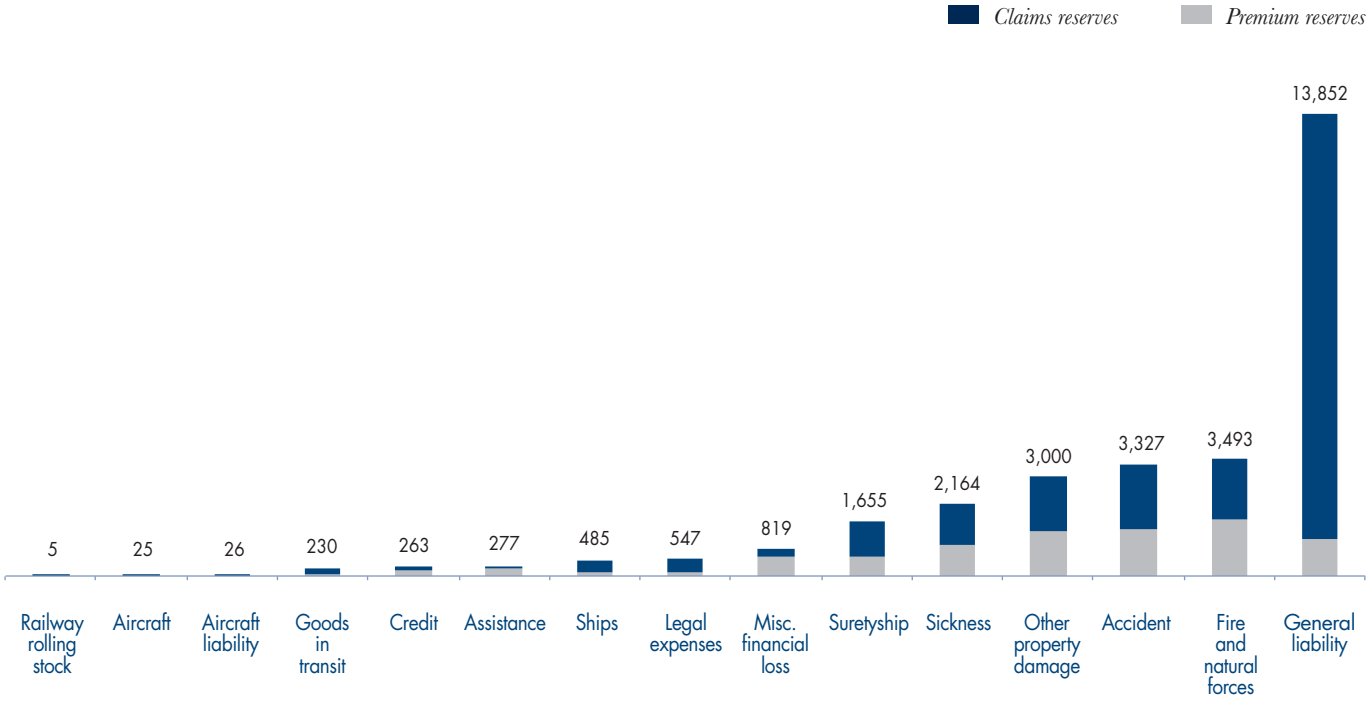
***Incidence of overall technical account result on earned premiums by insurance class (%)***

*Average 2015: 15.3%*




***Technical reserves for non-life insurance classes other than motor insurance – 2015***

*Euro million*



## ANIA'S POSITION PAPER ON SUPPLEMENTARY HEALTHCARE

Italy's healthcare system is complex. The foundation is universal public healthcare, with responsibility shared among several levels of government. The system certainly has positive features – Italy remains one of the countries with the least inequality in the general health status of the population – but there are still areas requiring action, such as shortening waiting times and avoiding inequitable rationing of healthcare services. Considering the now well-established large amount of direct health spending by patients, the overall situation reflects a system in which the principle of universal care is not respected in practice and in which households, both those in a position to sustain additional expenses and those in economic difficulty, must turn to private healthcare facilities.

There is good reason, then, to expect that the system can be made more efficient. In a position paper entitled *Fondi sanitari, la necessità di un riordino* ("Health funds, the need for revision"), released in May 2015, ANIA set forth a series of reform proposals. Policy choices in other countries, such as France and Germany, show that this objective is attainable.

First of all, with a view to a new, selective universality, there is a need to redirect the co-payment mechanism towards a system in which the patient pays a fixed proportion of the cost, but taking the economic situation of the patient's household into account. This would introduce a sort of means testing, differentiating between patients to whom healthcare must be provided unconditionally and promptly, making co-payment exemptions (which would continue to be granted according to the present criteria) and the more affluent, who are guaranteed care on condition of co-payments that increase with income.

This co-payment structure would heighten the incentive for people to take out insurance for their co-payment liabilities, thus more fully encouraging the development of supplementary healthcare, along the lines of the existing framework for supplementary pension coverage, especially if the reform were accompanied by the following measures:

- extension of the scope of supplementary healthcare from the practically "mandatory" areas now covered mainly by private providers (dental care, rehabilitation, long-term care for the non-self-sufficient) to other areas where, in practice, public care is limited and patients must frequently bear "out of pocket" expenses (preventive care, specialist examinations and advanced diagnostics, hospitalization);
- raising of the rate of reimbursement of "mandatory" health expenses by supplementary care from 20% to 50%, of which at least half should continue to be allocated to coverage of this "mandatory" care;
- assignment of a greater role to collective bargaining in diffusing group plans for long-term care and extension of coverage to the employee's dependents;
- institution of individual healthcare plans, which like individual retirement plans constitute an additional optional available to all Italians, even when they are not eligible for group plans;
- greater involvement of supplementary care in resource planning and management and in the selection of services, including through conventions with public structures;
- sensitization of the population to the importance of preventive care and the risks of longevity and loss of self-sufficiency, including public information campaigns.

The more important role of supplementary healthcare that would result would necessarily imply a corresponding legislative code governing these forms of care, like that which now

governs supplementary private retirement arrangements. The new rules would serve to define a uniform "playing field" which, while considering existing specificities, would also lay down common rules and provide for equal tax treatment for all the instruments directed to the same purposes. This would overcome the existing disparities of fiscal treatment and ensure security and equity of treatment of plan members, encouraging the diffusion, transparency and reliability of supplementary healthcare.

The scope should embrace various kinds of instruments (healthcare funds and insurance plans, both collectively bargained and "open" plans, both group and individual) that have comparable purposes and should therefore satisfy consistent requirements. The principle of equal treatment should mean that in general supplementary private healthcare institutions cannot apply measures that exclude or discriminate against persons on the basis of health conditions, age or gender.

The new healthcare system with "two pillars" – public and supplementary – that would stem from these reforms would enhance efficiency and have other beneficial side effects, such as less variability in compensation and expected costs of mutual or insurance coverage, more investment in healthcare, increased tax compliance as regards the payment for the health services provided, and enhanced protection of the population, with the economic and social benefits of stepped-up preventive care.

## ANIA'S STUDY ON HEALTH INSURANCE

Within the foreseeable future, the provision of healthcare to serve the needs of a growing elderly population while complying with the constraints on public spending will constitute a crucial challenge for Italy. The insurance industry has a leading role to play and is proposing solutions, backed by technical analysis, to stimulate discussion by stakeholders and attention from decision makers.

In fact, ANIA has carried out a research project, in collaboration with Sapienza University of Rome, producing a volume entitled *Assicurazioni sulla salute: caratteristiche, modelli attuariali e basi tecniche* ("Health insurance: characteristics, actuarial models and technical basis"). The study represents an overview of health insurance, the development of some forms of insurance in Italy, and the actuarial models that can best estimate future biometric trends.

The models with the best fit to the available databases, gathered by national public institutes and Association statistics, were then used for applications generating the technical bases for insurance against the loss of self-sufficiency, against severe illnesses and some forms of invalidity. These new technical bases are set apart from those most commonly used today by their exclusive reliance on Italian data. Hopefully they will initiate a research program leading to the collection of data on the experience of the insurance industry for the construction of technical bases that offer a better fit with the characteristics of the population groups to which the coverage is directed.

## MEDICAL MALPRACTICE INSURANCE

For many years ANIA has conducted an annual statistical survey to identify technical trends in the field of medical malpractice insurance by means of indices of claims occurrences starting from 1994 ([1]). However, this statistical survey was strongly influenced, over time, by the progressive increase in the number of Italian companies having left the market sector under examination in favor of other European companies operating in Italy under the freedom of establishment or freedom to provide services. This also had a negative impact on the representativeness of the statistical sample, as EU companies do not provide ANIA with any data other than premiums, and even this only in part. Consequently, while it is easy to calculate the volume of total premiums, the technical indicators deriving from the sample might not be fully representative of the market.

### Estimating premium volume

Direct Italian medical liability insurance business was estimated at €552 million in 2014, 50% of it accounted for by institutional policies and 50% by individual policies ([2]). The statistics do not include the premiums of European insurance companies that operate in Italy under the freedom to provide services. Premiums declined by 2.2% compared with the previous year, owing to decreases of 3% in the volume of premiums from individual practitioners and 1.3% from healthcare institutions. Lacking data on the number of policies subscribed, it is impossible to determine whether this decrease depended on a contraction in the number of policyholders or a reduction in prices.

Over the period from 2004 through 2014, total premiums in the medical malpractice insurance sector recorded average annual growth of 5.2% (2.4% for healthcare institutions and 9.4% for individual practitioners).

### Number and average cost of claims

As shown in Table 1, the number of claims registered by Italian insurance companies in 2014 was estimated at 28,500, 17,000 of them accounted for by institutional policies. The number of claims diminished by 6.3% overall; claims by institutions decreased by 7.3% and those by individual practitioners by 4.7%.

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([1]) Two insurance categories are considered:
- institutional liability for healthcare organizations: comprises all policies covering healthcare facilities' liability for medical damages, be they public or private (the survey does not cover nursing homes, medical analysis laboratories, diagnostic centers or universities);
- individual malpractice insurance for physicians: comprises all policies covering doctors' liability, regardless of whether they belong to a healthcare organization.

([2]) ANIA's estimate for the entire market (including the premiums of Italian representatives of insurers with registered offices in the European Economic Area) is based on a sample survey of companies that accounted for 47% of the premium income from general third-party liability insurance in 2014.

***Table 1***
***Number of claims filed (*)***

| Year of registration | Institutional liability | Δ% | Individual malpractice | Δ% | Total medical liability | Δ% |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1994 | 6,345 | | 3,222 | | 9,567 | |
| 1995 | 11,411 | 79.9% | 5,892 | 82.9% | 17,303 | 80.9% |
| 1996 | 13,028 | 14.2% | 4,028 | -31.6% | 17,057 | -1.4% |
| 1997 | 18,672 | 43.3% | 4,829 | 19.9% | 23,501 | 37.8% |
| 1998 | 21,678 | 16.1% | 6,036 | 25.0% | 27,714 | 17.9% |
| 1999 | 23,261 | 7.3% | 9,073 | 50.3% | 32,334 | 16.7% |
| 2000 | 23,249 | 0.0% | 10,078 | 11.1% | 33,327 | 3.1% |
| 2001 | 21,911 | -5.8% | 11,238 | 11.5% | 33,149 | -0.5% |
| 2002 | 19,028 | -13.2% | 11,443 | 1.8% | 30,471 | -8.1% |
| 2003 | 16,566 | -12.9% | 10,874 | -5.0% | 27,440 | -9.9% |
| 2004 | 16,356 | -1.3% | 11,988 | 10.2% | 28,344 | 3.3% |
| 2005 | 16,343 | -0.1% | 12,290 | 2.5% | 28,633 | 1.0% |
| 2006 | 16,424 | 0.5% | 11,959 | -2.7% | 28,383 | -0.9% |
| 2007 | 16,128 | -1.8% | 13,415 | 12.2% | 29,543 | 4.1% |
| 2008 | 17,746 | 10.0% | 11,851 | -11.7% | 29,597 | 0.2% |
| 2009 | 21,476 | 21.0% | 12,559 | 6.0% | 34,035 | 15.0% |
| 2010 | 21,353 | -0.6% | 12,329 | -1.8% | 33,682 | -1.0% |
| 2011 | 19,627 | -8.1% | 11,782 | -4.4% | 31,409 | -6.7% |
| 2012 | 19,436 | -1.0% | 11,759 | -0.2% | 31,195 | -0.7% |
| 2013 | 18,376 | -5.5% | 12,036 | 2.4% | 30,412 | -2.5% |
| 2014 | 17,037 | -7.3% | 11,467 | -4.7% | 28,504 | -6.3% |

*(*) Estimate by ANIA of the claims for the whole market on a sample of companies included in the survey with total premiums (in 2014) equaling 47% of general third party liability premiums*

Table 2 shows the medical malpractice claims that the companies closed without compensation, according to their year of registration. Looking at the oldest claims (registered between 1994 and 2003), we see that on average two-thirds of all malpractice claims were closed with no compensation. In particular, this percentage is higher for claims by institutions (around 70% on average). This could be due to duplication of charges of malpractice (for instance against both the institution and the individual practitioner), with claims being closed by the company without payment, given that for the insurance company they correspond to a single claim. As for individual malpractice claims, around 60% are closed without payment.

Table 3 gives the breakdown of total claims (institutional liability and individual malpractice) into those settled and those reserved, both by number and by amount, according to their year of registration. The percentages 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. With the passage of time the percentage of settled claims rises, to over 90% for those older than ten years. After 20 years, 1.6% of the claims registered (in 1994) were still unsettled, accounting for 2.5% of the amount of that claim generation, showing just how long it can take to settle this type of claim.

Table 4 reports the average cost of settlements for the two types of policy and by year of registration, showing that the average claim cost tends to increase as the percentage settled rises, which is to say as the data are consolidated. At first, in fact, insurers often underestimate the cost of claims, because the evaluation of physical impairment is complex and

*Table 2 – Number of claims closed without payment*

| Year of registration | Number of claims closed without payment: institutional | Incidence of claims closed without payment on total claims (%) | Number of claims closed without payment: individual | Incidence of claims closed without payment on total claims (%) | Total number of claims closed without payment | Incidence of claims closed without payment on total claims (%) |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1994 | 4,244 | 66.9% | 1,854 | 57.5% | 6,098 | 63.7% |
| 1995 | 9,051 | 79.3% | 4,057 | 68.8% | 13,108 | 75.8% |
| 1996 | 9,997 | 76.7% | 2,259 | 56.1% | 12,256 | 71.9% |
| 1997 | 13,991 | 74.9% | 2,846 | 58.9% | 16,837 | 71.6% |
| 1998 | 15,353 | 70.8% | 3,674 | 60.9% | 19,027 | 68.7% |
| 1999 | 15,764 | 67.8% | 5,610 | 61.8% | 21,374 | 66.1% |
| 2000 | 15,601 | 67.1% | 6,496 | 64.5% | 22,097 | 66.3% |
| 2001 | 15,661 | 71.5% | 6,587 | 58.6% | 22,248 | 67.1% |
| 2002 | 12,376 | 65.0% | 6,880 | 60.1% | 19,256 | 63.2% |
| 2003 | 10,431 | 63.0% | 6,371 | 58.6% | 16,801 | 61.2% |
| 2004 | 10,190 | 62.3% | 6,962 | 58.1% | 17,151 | 60.5% |
| 2005 | 9,564 | 58.5% | 7,283 | 59.3% | 16,847 | 58.8% |
| 2006 | 8,935 | 54.4% | 6,964 | 58.2% | 15,899 | 56.0% |
| 2007 | 9,038 | 56.0% | 7,928 | 59.1% | 16,966 | 57.4% |
| 2008 | 10,046 | 56.6% | 6,873 | 58.0% | 16,919 | 57.2% |
| 2009 | 11,447 | 53.3% | 7,066 | 56.3% | 18,513 | 54.4% |
| 2010 | 10,448 | 48.9% | 6,177 | 50.1% | 16,625 | 49.4% |
| 2011 | 9,201 | 46.9% | 5,288 | 44.9% | 14,488 | 46.1% |
| 2012 | 8,354 | 43.0% | 4,795 | 40.8% | 13,150 | 42.2% |
| 2013 | 6,699 | 36.5% | 3,562 | 29.6% | 10,262 | 33.7% |
| 2014 | 3,587 | 21.1% | 2,271 | 19.8% | 5,857 | 20.5% |

***Table 3***
***Incidence of the number and amount of claims filed (%) at 31/12/2014***
***Total malpractice claims***

| Year | Number of claims settled (%) | Number of claims reserved (%) | Amounts settled (%) | Amounts reserved (%) |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| 1994 | 98.4% | 1.6% | 97.5% | 2.5% |
| 1995 | 99.0% | 1.0% | 96.5% | 3.5% |
| 1996 | 98.4% | 1.6% | 98.0% | 2.0% |
| 1997 | 98.1% | 1.9% | 95.0% | 5.0% |
| 1998 | 97.6% | 2.4% | 97.0% | 3.0% |
| 1999 | 97.5% | 2.5% | 94.8% | 5.2% |
| 2000 | 95.5% | 4.5% | 91.9% | 8.1% |
| 2001 | 95.5% | 4.5% | 88.1% | 11.9% |
| 2002 | 92.9% | 7.1% | 85.1% | 14.9% |
| 2003 | 91.4% | 8.6% | 83.0% | 17.0% |
| 2004 | 89.0% | 11.0% | 76.4% | 23.6% |
| 2005 | 87.6% | 12.4% | 78.1% | 21.9% |
| 2006 | 84.8% | 15.2% | 67.2% | 32.8% |
| 2007 | 80.0% | 20.0% | 64.5% | 35.5% |
| 2008 | 76.1% | 23.9% | 62.3% | 37.7% |
| 2009 | 70.1% | 29.9% | 59.4% | 40.6% |
| 2010 | 58.2% | 41.8% | 43.9% | 56.1% |
| 2011 | 47.5% | 52.5% | 28.3% | 71.7% |
| 2012 | 37.9% | 62.1% | 20.6% | 79.4% |
| 2013 | 22.9% | 77.1% | 10.5% | 89.5% |
| 2014 | 11.9% | 88.1% | 6.4% | 93.6% |

***Table 4 – Average cost of claims at 31/12/2014 – Total malpractice claims***
*Amounts (Euro)*

| Year of registration | at 31.12.2002 | at 31.12.2004 | at 31.12.2005 | at 31.12.2006 | at 31.12.2007 | at 31.12.2008 | at 31.12.2009 | at 31.12.2010 | at 31.12.2011 | at 31.12.2012 | at 31.12.2013 | at 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
| 1994 | 16,410 | 30,212 | 28,898 | 29,833 | 28,421 | 28,904 | 29,012 | 28,023 | 27,983 | 27,782 | 27,826 | 26,951 |
| 1995 | 14,418 | 21,464 | 21,406 | 22,976 | 22,488 | 22,687 | 22,676 | 22,190 | 21,887 | 21,829 | 21,856 | 21,555 |
| 1996 | 16,961 | 23,253 | 22,000 | 21,789 | 21,622 | 23,819 | 23,493 | 23,028 | 23,091 | 23,044 | 22,960 | 22,599 |
| 1997 | 25,331 | 31,082 | 29,594 | 29,214 | 28,961 | 32,948 | 31,940 | 31,950 | 31,768 | 31,342 | 31,453 | 31,822 |
| 1998 | 17,939 | 24,517 | 22,474 | 30,152 | 29,966 | 34,271 | 33,924 | 33,184 | 33,049 | 32,495 | 32,562 | 32,055 |
| 1999 | 22,820 | 28,144 | 28,556 | 32,063 | 32,571 | 37,281 | 36,511 | 36,584 | 36,157 | 36,106 | 36,568 | 36,470 |
| 2000 | 22,254 | 32,298 | 33,887 | 37,600 | 37,634 | 39,968 | 40,605 | 40,134 | 38,929 | 39,688 | 40,139 | 39,915 |
| 2001 | 21,843 | 31,675 | 33,152 | 36,757 | 35,974 | 40,042 | 40,159 | 37,457 | 45,865 | 47,214 | 47,734 | 47,211 |
| 2002 | 20,157 | 33,026 | 35,298 | 39,903 | 38,490 | 42,732 | 43,196 | 42,371 | 46,835 | 47,111 | 47,030 | 48,120 |
| 2003 | | 30,306 | 34,379 | 39,475 | 39,080 | 44,521 | 47,241 | 46,169 | 50,577 | 49,492 | 49,740 | 52,079 |
| 2004 | | 22,706 | 29,755 | 36,545 | 38,349 | 44,083 | 43,304 | 43,653 | 49,951 | 50,504 | 52,238 | 53,644 |
| 2005 | | | 26,670 | 33,174 | 35,471 | 42,383 | 42,245 | 41,277 | 46,330 | 46,473 | 46,447 | 48,329 |
| 2006 | | | | 30,659 | 33,408 | 41,476 | 42,019 | 41,779 | 50,330 | 53,385 | 54,571 | 57,032 |
| 2007 | | | | | 26,670 | 38,266 | 38,816 | 39,537 | 47,798 | 51,466 | 52,435 | 55,963 |
| 2008 | | | | | | 29,505 | 34,067 | 39,427 | 49,581 | 52,176 | 56,479 | 56,618 |
| 2009 | | | | | | | 25,083 | 33,225 | 43,852 | 44,244 | 49,440 | 51,090 |
| 2010 | | | | | | | | 27,689 | 38,538 | 41,313 | 46,459 | 45,981 |
| 2011 | | | | | | | | | 30,789 | 35,576 | 49,503 | 51,198 |
| 2012 | | | | | | | | | | 29,422 | 40,672 | 45,227 |
| 2013 | | | | | | | | | | | 35,871 | 48,846 |
| 2014 | | | | | | | | | | | | 39,154 |

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 filed in 2002, at the end of that year insurers estimated the average settlement cost at €20,157, but four years later the estimate had doubled to nearly €40,000; it kept rising to what now appears to be the "final" average cost of claims of that generation (over €48,000). The same pattern can be observed, sometimes with an acceleration, for all the generations of claims.

## Loss ratios

These rapidly rising cost trends, together with the large number of claims registered each year, have produced extremely negative results for the sector's technical accounts, hence very 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 year by year.

Table 5 gives medical malpractice insurance loss ratios for the various claims generations and their evolution over the years.

At 31 December 2014 the average loss ratio for all generations was 165.3% (the previous year it had been 174%). For the most recent generation the ratio came to 120%, down from 139% for new claims registered in 2013.

***Table 5 – Loss ratios at 31/12/2014 – Total medical malpractice insurance***
*Average 2014: 165.3%*

| Year of registration | at 31.12.2002 | at 31.12.2004 | at 31.12.2005 | at 31.12.2006 | at 31.12.2007 | at 31.12.2008 | at 31.12.2009 | at 31.12.2010 | at 31.12.2011 | at 31.12.2012 | at 31.12.2013 | at 31.12.2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
| 1994 | 199% | 251% | 241% | 251% | 238% | 240% | 241% | 237% | 236% | 235% | 235% | 227% |
| 1995 | 182% | 212% | 216% | 206% | 202% | 201% | 201% | 203% | 200% | 200% | 200% | 197% |
| 1996 | 187% | 198% | 195% | 191% | 187% | 199% | 198% | 195% | 189% | 194% | 193% | 189% |
| 1997 | 223% | 320% | 300% | 293% | 286% | 336% | 323% | 323% | 311% | 315% | 316% | 320% |
| 1998 | 168% | 340% | 313% | 288% | 284% | 341% | 331% | 323% | 312% | 316% | 316% | 310% |
| 1999 | 179% | 262% | 266% | 249% | 246% | 330% | 321% | 321% | 308% | 314% | 318% | 317% |
| 2000 | 151% | 216% | 219% | 208% | 206% | 233% | 217% | 214% | 203% | 210% | 211% | 210% |
| 2001 | 154% | 218% | 218% | 200% | 192% | 215% | 204% | 187% | 251% | 260% | 261% | 257% |
| 2002 | 149% | 232% | 229% | 199% | 192% | 207% | 199% | 275% | 287% | 296% | 295% | 283% |
| 2003 | | 196% | 199% | 171% | 162% | 173% | 177% | 215% | 223% | 225% | 225% | 220% |
| 2004 | | 145% | 170% | 154% | 150% | 144% | 140% | 162% | 174% | 180% | 184% | 176% |
| 2005 | | | 173% | 162% | 155% | 133% | 131% | 118% | 123% | 125% | 123% | 129% |
| 2006 | | | | 158% | 157% | 150% | 141% | 128% | 142% | 150% | 150% | 160% |
| 2007 | | | | | 140% | 130% | 123% | 109% | 117% | 123% | 122% | 129% |
| 2008 | | | | | | 111% | 147% | 138% | 148% | 151% | 153% | 150% |
| 2009 | | | | | | | 153% | 155% | 169% | 163% | 164% | 163% |
| 2010 | | | | | | | | 153% | 177% | 153% | 152% | 136% |
| 2011 | | | | | | | | | 147% | 151% | 174% | 154% |
| 2012 | | | | | | | | | | 122% | 137% | 123% |
| 2013 | | | | | | | | | | | 139% | 146% |
| 2014 | | | | | | | | | | | | 120% |

As for the evolution of the loss ratio over time, as the percentage settled rises and the data are consolidated, we find two distinct patterns:

- for the generations of claims registered from 1994 to 2004, the loss ratio estimated at 31 December 2014 was particularly high (ranging from 176% for claims registered in 2004 to over 310% for those of 1997-1999);
- for the 2005-2013 generation the loss ratio tends to be lower, though it is still clearly at levels that make this business unprofitable, with year-to-year fluctuations. In 2005, 2007 and 2012, in fact, the loss ratio showed signs of improvement, only to return to higher levels the next year (averaging around 150%).

## MEDICAL MALPRACTICE LIABILITY

Recent years have seen considerable legislative activity concerning medical malpractice liability, an issue that involves ordinary citizens, professional practitioners, healthcare structures and insurers. A series of bills have been presented, two of the most significant

being A.S. 2224 (the Gelli bill) and A.S. 2085 (the annual market and competition bill), as well as the mandated Presidential Decree, in course of issue, which implements the Balduzzi Law establishing uniform minimum standards for insurance policies for health practitioners. The decree now awaits scheduling for final approval by the Council of Ministers.

Let us specify the key provisions of the Gelli bill, which the Chamber of Deputies has approved on first reading:

- special treatment for preventive work and risk management;
- redefinition of liability for healthcare practitioners;
- compulsory insurance for public and private healthcare institutions and individual practitioners;
- direct legal action by the injured party;
- provision that private structures and entities that provide healthcare services may be self-insured;
- compulsory provision, in insurance coverage for malpractice liability, for extended validity of five years ahead from the period of active coverage, optional provision of five-year retroactive insurance, and extended validity of ten years ahead in the case of cessation of practice.

As for the Competition bill, Article 13 deals with extended coverage for malpractice liability; at present, without prejudice to the parties' freedom of contract, the provision is for a period of ten years of extended coverage for events giving rise to malpractice claims during the period of active coverage. At this writing, the bill is before Parliament.

The legislative measures discussed here differ in scope, in that:

- the Gelli bill relates to healthcare structures, their employees and independent healthcare professionals who act within those structures;
- the Presidential Decree relates to independent healthcare professionals;
- the "Competition" bill relates to all independent professionals.

Lastly, on 6 May 2016 the combined sections of the Court of Cassation delivered sentence 9140 on "claims made" clauses. However, while ruling that such clauses are neither null and void nor vexatious, the Court raised a question that affects the claims made model of compulsory liability insurance policies. In particular, the sentence observes:

- that compulsory coverage for professionals was instituted in order to protect third parties against the risk of insolvency of the professional in the face of suits for compensation and that the "claims made" model is not compliant with the insurance requirement, in that it exposes the policyholder to "coverage gaps";
- that the "claims made" clause may nevertheless, under certain circumstances, be deemed null and void for lack of merit; that is, where Legislative Decree 206/2005 is applicable, such a clause burdens the consumer with a significant imbalance between the rights and obligations deriving from the contract. The sentence leaves it to the lower court judge to rule on the merit of the interests involved and hence on the legitimacy of the clause case by case;
- that due account must be taken, in drafting the presidential decree implementing the Balduzzi Law, of the observations made by the Court of Cassation.

## NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2015 AND AN INITIAL ESTIMATE OF THE INSURANCE MARKET'S CURRENT EXPOSURE

Worldwide, 2015 was the year with the greatest number of natural disasters on record: 198 events. The economic damage, due mostly to earthquakes, cyclones and tropical storms in Asia, North America and Europe, came to nearly €70 billion. The greatest single disaster, economically, was the earthquake in Nepal, estimated to have caused €5 billion in damage.

The damage insured came to €24 billion, the lowest amount since 2009 and less than the average for the last ten years (€48 billion). Of the damage covered last year, 47% was due to events in North America; the single most costly disaster was the winter storm in the United States in February.

It is worth noting that while the number of disasters has been rising in recent years, the economic damage, and consequently the damage insured, has been practically cut in half by comparison with the ten-year average, presumably thanks to increased action for prevention and the enhancement of the security of the territory.

In 2015, Italy suffered a number of hydrogeological disasters: torrential rains and catastrophic landslides causing not only property damage but also some loss of life. The most serious episodes were the heavy rains in the province of Cosenza (the towns of Corigliano Calabro and Rossano Calabro) on 11 and 12 August, which caused damage estimated at €100 million, and in the regions of Campania, Lazio and Abruzzo from 13 to 19 October, which caused 4 deaths and a total of €150 million worth of damage.

Another disaster was the major storm accompanied by extremely large hailstones in the regions of Piedmont and Lombardy on 15 May, which caused a total of €100 million, €10 million of it insured, in damage to agriculture and the Malpensa airport of Milan. On 8 July the town of Dolo in the Venice metropolitan area was struck by a tornado, causing 3 deaths and €25 million in damage, of which €10 million was covered by private insurance. Another disastrous event in 2015 was the hailstorm of 5 September in Campania, which caused damage of €90 million to crops and automobiles.

According to the survey by PERILS A.G. on exposure to earthquake and flooding risk throughout Italy for 2016 (covering 77% of the insurance industry in terms of fire and natural forces insurance premium volume, the same as last year), the total exposure of businesses (industry, crafts, commerce) to these risks (embracing buildings, property within buildings, and indirect damage) amounts to €470 billion, taking account of the contractual limits, or 6% more than in 2015 and over 20% more than in 2014. The regions in which risk exposure increased most sharply were Lazio and Lombardy. However, the apparent increase may also be due in part to better data collection or to a reclassification of risk between businesses and households.

For dwellings insured against natural disasters, the exposure is estimated at nearly €90 billion for 2016, 20% more than in 2015. The regions that contributed most heavily to the increase in insurance exposure for residential housing were Lazio, Lombardy and Emilia Romagna.

Geographically, as in 2015 insurance exposure to natural disaster risk both for businesses and for dwellings is concentrated (some 65% of the total) in the North of Italy. There is significant exposure in the regions of the Center as well, however – about 25% for residential housing. These data, however, are subject to variations and will be recalculated at the end of 2016.

# 7

# HUMAN RESOURCES AND LABOR

## STAFF AND LABOR COSTS

### Statistical survey on staff composition and costs

At the end of 2015 the Italian insurance industry's managerial and non-managerial staff numbered 46,754, down 1.5% or 698 workers from the total staff of 47,452 in 2014. This followed the decline of 1.0% registered in 2014 and reflected several major corporate restructurings and reorganizations during the year, which among other things had recourse to the special benefits of the solidarity fund of ANIA/AISA (the Italian association of mutual assistance societies), with procedures for accompanying older workers towards retirement.

ANIA produced this estimate for the entire industry, which includes some 4,000 employees of subsidiaries covered by the insurance industry labor contract, using data from a sample of companies accounting for about 85% of total insurance employment.

Staff comprises administration personnel (37,970 employees), dealers and organization staff (5,218 employees), call center staff (2,323) ([1]) and managers (1,243). Administrative staff shrank by 636 (-1.6%) in 2015 and call center staff by 18 (-0.8%). Managerial personnel declined at about the same rate (-0.7%), decreasing by 9 employees, and dealers and organizational personnel diminished by 35.

For the entire industry, the number of women employed came down by 1.7% and the number of men by 1.3%. At the end of the year female personnel accounted for 46.4% of the total, essentially the same as a year earlier. About 45% of all insurance employees are now university graduates; another 49% have upper secondary school diplomas.

The total cost of staff (including managers but net of dealers and their organization staff) amounted to €3,735 million in 2015, a marginal decline of 0.2% for the year, as the contraction in employment was practically offset by insurers' compensation policies. Per employee costs, in fact, rose 1.3% to €89,220 ([2]).

However, the cost for dealers and related staff, at €292 million, rose by 6.6%, owing above all to commissions, which increased by 20%; per capita costs rose 6.3% to €55,740 in 2015.

For the entire industry, the companies' labor costs rose by a mere 0.3% in 2015 to €4,027 million, while per capita costs rose 1.5% to €85,500.

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([1]) Call center employees are subdivided into claims and back office staff (first section) of 1,367 and sales staff (second section) of 956.

([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 | Administration (*) | 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 |

***Total staff costs***
*Euro million*

| Year | Administration (*) | 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 |

***Annual change in total staff costs (%)***

| Year | Administration (*) | 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% |

***Annual change in staff costs per employee (%)***

| Year | Administration (*) | 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% |

*(*) Administration, call center and managerial staff*
*(**) In 2007 for the first time the total included 4,554 employees of subsidiaries of insurance companies and roughly 2,000 additional dealers as a consequence of a major corporate restructuring*

## LABOR REGULATION AND THE SECTOR FUNDS

### The Jobs Act and implementing decrees – Ministerial ruling on insurance intermediaries

In the area of labor relations, ANIA was especially active last year with respect to the legislative decree implementing the provisions of Enabling Law 183/2014 (known as the Jobs Act), participating, among other things, in hearings before the labor com-

mittees of the Chamber of Deputies and the Senate. The Association offered suggestions and made observations on the many provisions concerning labor and labor relations and in particular those most relevant to the insurance industry.

Generally speaking, for insurance as for other industries, the key provisions of the Act are those reordering employment contracts, the new rules on job descriptions, and the reform of unemployment insurance and related benefits. On these issues and others specified below, ANIA constantly monitored legislative initiatives and reported on them to its member insurance companies.

Let us briefly summarize the provisions with an account of the main innovations worked by the implementing decrees for the Jobs Act.

### Maternity and the reconciliation of work and personal life (Legislative Decree 80, 15 June 2015)

Maternity benefits were substantially improved. The law lengthened the period and enhanced the flexibility of both compulsory and voluntary maternity leave. For purposes of parental leave, it made adoptive and foster parents fully equivalent to biological parents. Measures were also passed strengthening the protection for women workers subjected to gender abuse or violence, with special "protection paths" and earnings guarantees during the periods of absence from work provided for.

### New job descriptions and reordering of employment contracts (Legislative Decree 81, 15 June 2015)

This decree instituted substantial new rules governing job descriptions and tasks and types of employment contract (fixed-term, part-time, fixed-term and open-ended "temporary" employment through employment agencies, and the various forms of apprenticeship).

As for job descriptions and duties, the decree significantly amends Article 2103 of the Civil Code, allowing greater organizational flexibility for employers, extending the scope (until now very narrow) for unilateral modification of an employee's activities by the employer. Specifically, it provides that a worker may be assigned to any task whatever at his or her own grade envisaged by the industry-wide collective bargaining agreement, as long as it is part of the same legal category. In other words, it is no longer required that the new tasks be equivalent to the old (that is, that they call for the use of the same skills). It is now enough that the new, different tasks are within the same level or grade defined by the relevant bargaining agreement.

Another significant change is authorization – in the case of a corporate reorganization affecting a worker's position and in other cases specified in the applicable bargaining agreement – for the firm to assign the employee to tasks at the next lower grade, as long as they form part of the same legal category. In this case, the worker nevertheless keeps his original grade and salary level.

In the case of assignment to higher tasks, however, the legislative decree extends the period that the worker can perform these new tasks before acquiring the right to automatic promotion. Specifically, for purposes of a mandatory rise in grade or category, the time requirement is now at least six consecutive months, instead of three months as previously.

As to the reordering of employment contracts, the legislative decree makes a number of provisions:

- For fixed-term contracts – without prejudice to the "no-cause" nature of the contract and the maximum duration of 36 months, either in the case of a single fixed-term contract or that of a succession of contracts with the same worker for performance of tasks at the same grade and legal category – the law allows the stipulation, one time only, of an additional fixed-term contract between the same two parties, of a duration of at most 12 months (bringing the total to 48 months); however, the supplementary contract has to be signed at the Territorial Labor Directorate.
- For fixed-term employment through employment agencies, the existing rules were retained and, as for fixed-term contracts in general, the "no-cause" nature of the contract is retained; however, these "temporary jobs" are not subject to limitations on duration or renewals.
- For collaboration contracts, where they take the form of exclusively personal, continuous labor whose mode of performance is organized by the employer also as regards work times and work place, starting 1 January 2016 they are subject to the rules governing employee relationships.
  This measure – which also covers collaboration by persons with VAT accounts and which modifies the previous regulatory framework for the exercise of professions requiring membership in a professional order or registration in special professional registers, rolls or lists – could have caused some problems for insurance companies, whose distribution systems obviously involve various types of intermediary (agents, sub-agents, brokers, etc.) who are entered in IVASS's Single Register of Intermediaries and who work under collaboration contracts (with or without VAT accounts).
  At a series of meetings between ANIA, the ministerial authorities and IVASS to clear up the scope of the new provisions, it was agreed that the special features of insurance business need to be framed in a formal legal context, deriving from EU law, consisting in a diversified, incisive set of rules of conduct with which the intermediary must comply on the basis of his status. The insurance industry also maintained that the specific measures of the Insurance Code and the rules of the Corporative Collective Contract of 25 May 1939 (still in force today, *erga omnes*) exclude employee status both for so-called direct dealers entered in section (c) of the Single Register and for agents entered in section (e); consequently, the rules laid down in the legislative decree implementing the Jobs Act do not apply to them.
  The question was cleared up and resolved in ruling 5/2016, dated 20 January, of the Labor and Social Policy Ministry. In keeping with ANIA's argument, the Ministry ruling specified that the activities of insurance brokers and intermediaries conducted by procedures compliant with the dictates of the relevant laws and labor contracts are not hetero-organized for the purposes of application of the labor rules governing employee relationships.

Legislative Decree 148, 14 September 2015, reformed the rules on income support benefits paid without terminating the employment relationship. The purpose was to bring together in a single code the various provisions for income support while maintaining the employment relationship.

Aside from the measures concerning wage supplementation (a program that does not include workers in the insurance industry), the decree introduces significant innovations in regard to joint employer-union industry solidarity funds, essentially incorporating the observations made by ANIA in the course of the process for issuing the decree, consisting in the need to retain the system of joint solidarity funds for selected industries pursuant to the Fornero law (including, therefore, the ANIA/AISA Intersectoral Solidarity Fund). On this point the decree made minor changes to the previous rules. ANIA concentrated on verification, together with the competent ministerial units, that the Fund was fully compliant with the new rules.

Among other things, the decree lengthens, from 12 months over 2 years to 24 months over 5 years, the ordinary benefit period for these funds, i.e. benefits paid to workers in the case of temporary reductions or suspensions of activity by the employer. The decree also lays down comprehensive rules on "expansive solidarity", with social security relief for employers who institute permanent reductions of working hours (and of pay) while hiring new staff on open-ended contracts.

In addition, in order to facilitate staff turnover, the decree provides that workers less than 24 months away from retirement age and having accrued the minimum contributions for pension eligibility can opt to work part-time while also being credited with the pension contributions corresponding to the hours not worked. As in the provision mentioned above, the employer must proceed to proportional hiring of new permanent employees.

Another significant implementing measure for the Jobs Act is Legislative Decree 151, 14 September 2015, on the rationalization and simplification of procedures and obligations for firms and the public in the matter of employment relationships and equal treatment. The decree institutes new regulations on distance controls on workers, modifying those laid down in Article 4 of the Labor Rights Charter (Law 300/1970). The decree confirms that devices for distance controls on workers can only be installed if they are functional to the performance of work activity (that is, if they serve organizational or production needs or workplace safety), but it expressly allows employers to use such devices to protect company assets. In all the cases envisaged, the installation of the devices can only be with the agreement of the union representatives within the company or, in the absence of such agreement, with the authorization of the Territorial Labor Directorate. The principal innovation is that union agreement or administrative authorization is no longer necessary for the assignment to workers of work equipment (such as personal computers, cell phones, tablets and smartphones) or of devices needed to record workers' access and presence in company premises (such as badges).

Another major innovation introduced by the decree concerns the utilization of the information obtained through such equipment or devices. The information can now be used "for all purposes connected with the employment relationship, and therefore

also for disciplinary purposes", but on condition that the employer has fully informed workers in advance, specifying also the way in which controls will be carried out; the laws protecting privacy must in any case be complied with.

Finally, the decree introduces new procedures for resignations and consensual terminations of employment relationships, laying down that workers who intend to resign or agree to a consensual termination may do so by exclusively electronic means, using special forms made available by the Ministry of Labor. However, the new procedures will not apply where the resignation or termination takes place in so-called "protected forums", including arbitration before the committees instituted by industry associations and unions.

### The 2016 Stability Law – Measures on labor

At the government-convened meetings preceding the passage of the 2016 Stability Law (budget), ANIA stressed the importance of making permanent the contribution relief instituted by the 2015 Stability Law for new open-ended hires and underscored the need for legislation permitting generational turnover, favoring the hiring of young people while also reducing the cost of labor for firms.

On the former question, the Stability Law extends the provision for contribution relief while reducing its amount (to 40% of the total contributions charged to private sector employers, with a ceiling of €3,250 a year) and shortening its duration (to a maximum of 24 months).

On generational turnover, the law provides that permanent, full-time workers who meet the old age pension eligibility requirements by 31 December 2018 may – on certain conditions – agree with the employer on a reduction of between 40% and 60% in working hours without losing the pension contributions corresponding to the pay lost through part-time work. In addition, the worker's pay packet will include the amount that the employer would have had to pay for the hours not worked. Seen properly, this is a measure intended to "accompany" older workers towards retirement and could, if only indirectly, foster the hiring of young people.

## THE SECTOR FUNDS

### The Intersectoral Solidarity Fund for income support, jobs, occupational reconversion and requalification for employees in insurance and social assistance (ANIA/AISA Fund)

As noted above, thanks in part to the institution of the ANIA/AISA Intersectoral Solidarity Fund, some insurance companies and groups have been able to manage major corporate reorganizations and restructurings with an impact on jobs smoothly and non-traumatically.

Following special agreements with the trade unions concluded in the course of 2015, some insurance companies resorted to the Fund's "extraordinary" benefits, which "accompany" towards retirement employees lacking less than five years for social security pension eligibility.

The Fund's management committee has monitored the administration of these operations, conducted by the relevant divisions of INPS. In the course of the year the committee passed resolutions concerning the benefits paid by the companies involved.

### Solidarity Fund for former employees of companies subjected to compulsory administrative liquidation

ANIA continued its support to INPS with a view to the latter's payment to the insurance industry's supplementary pension funds of the second and final tranche of the residual amounts held by the LCA Fund (compulsory administrative liquidation), completed with the reimbursement, in the second half of 2015, of €9 million.

## COLLECTIVE BARGAINING

### Negotiations on the insurance industry contract for non-managerial employees

Following the trade unions' presentation of the salary and work rule bargaining platform for the insurance industry with a view to renewal of the industry's collective bargaining agreement, the relevant divisions of ANIA set out the guidelines for the employers' bargaining position, on the basis of the analysis and indications of the Standing Committee on Industrial Relations and ANIA's Negotiating Delegation.

In the bargaining sessions held last year, the ANIA Delegation and the trade unions set out their positions, and in response to the unions' demands, after describing the economic and financial context, which continues to display grounds for concern at present and all the more so looking ahead, ANIA stressed the need to revise the contractual provisions, first of all in order to facilitate reorganization and productivity gains for insurers, with a view to safeguarding the industry's employment level, thanks in part to the rationalization of costs.

ANIA called the union delegation's attention to a series of issues:

– revision of the job descriptions and grades of administrative staff (from grade 1 to grade 7), to simplify the contract framework as regards the fungibility of tasks (both horizontal and vertical);

- redistribution of the weekly work hours to include Friday afternoon;
- redefinition of the regulations governing call centers, with provision for total fungibility among the various tasks performed by these workers;
- revision of automatic contractual mechanisms, remodulating seniority-based pay increases.

The employer side confirmed the industry's willingness to examine the union demands but made it clear that concrete negotiations on them are subordinate to the unions' attitude to the demands raised by employers. The talks – complex and diversified, given the sharply contrasting approaches of the two sides – are still under way in the effort to find compromise solutions that can reconcile the needs of insurance companies and workers.

# 8

# INSURANCE DISTRIBUTION

# INSURANCE DISTRIBUTION

The share of life premiums written through bank and post office branches rose somewhat in 2015, as their premium income grew faster than the overall average. The market shares of financial salesmen and insurance agents held more or less steady. In the non-life sector, agents continued to be the main form of insurance distribution, although their share declined again, while that written through bank and post office branches increased. 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 2015 life premiums continued to grow, though not as fast as in the previous two years. Most of the growth was accounted for by policies distributed through bank and post office branches, which outperformed the market as a whole. Premium income produced by agents and financial salesmen also increased, but at a slower pace than the rest of the market. The premiums generated by direct sales and brokers diminished.

In particular, the volume of written premiums at bank and post office branches grew by 5.7%, outpacing the overall market's growth of 4.0% but far below the extraordinary increases of 49.3% in 2013 and 36.7% in 2014. This affected overall market growth, which had been decidedly faster over those two years (Table 1). Average annual premium growth through banks and post offices over the past five years thus came to nearly 12.5%, compared with overall life market growth of 9.2%. This consolidated the channel's market share, which rose from 59.3% in 2013 to 62.4% in 2014 and 63.4% last year.

Financial salesmen, the second-leading distribution channel for life insurance policies, also increased their premium generation, but by just 1.3%, less than the overall market and considerably less than the 29.0% growth of 2014. This brought their market share down to 15.9%, from 16.5% in 2013 and 16.3% in 2014.

***Table 1 – Breakdown of distribution channels for the 2011-2015 observation period – Life classes***

| CHANNEL | Gross written premiums (Euro million) | | | | | Market share (%) | | | | | Average | Average Annual growth (%) | | | | | Change % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | (2011-2015) | 2011 | 2012 | 2013 | 2014 | 2015 | (2011-2015) |
| Bank branches (1) | 40,419 | 33,808 | 50,469 | 68,997 | 72,931 | 54.7 | 48.5 | 59.3 | 62.4 | 63.4 | ***57.7*** | -25.6 | -16.4 | 49.3 | 36.7 | 5.7 | ***12.5*** |
| Financial salesmen | 13,582 | 16,272 | 14,008 | 18,066 | 18,307 | 18.4 | 23.3 | 16.5 | 16.3 | 15.9 | ***18.1*** | -5.5 | 19.8 | -13.9 | 29.0 | 1.3 | ***6.2*** |
| Agents | 12,103 | 11,386 | 12,274 | 14,121 | 14,684 | 16.4 | 16.3 | 14.4 | 12.8 | 12.8 | ***14.5*** | -12.4 | -5.9 | 7.8 | 15.0 | 4.0 | ***3.9*** |
| Direct sales | 6,994 | 7,458 | 7,552 | 8,709 | 8,434 | 9.5 | 10.7 | 8.9 | 7.9 | 7.3 | ***8.9*** | 4.6 | 6.6 | 1.3 | 15.3 | -3.1 | ***3.8*** |
| Brokers | 771 | 791 | 797 | 626 | 594 | 1.0 | 1.1 | 0.9 | 0.6 | 0.5 | ***0.8*** | -17.6 | 16.4 | 0.8 | -21.5 | -5.0 | ***-5.1*** |
| TOTAL | 73,869 | 69,715 | 85,100 | 110,518 | 114,949 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | ***100.0*** | -18.0 | -5.5 | 22.1 | 29.9 | 4.0 | ***9.2*** |

*(1) Data for this channel includes premiums distributed by post office branches*

Written premiums sold through agents increased at the same rate as total premiums (+4.0%), so their share held at 12.8% of the domestic market, less than the average of 14.5% over the past five years.

Direct sales, which include policies marketed through subsidiary agencies, contracted by 3.1% in 2015, following steady growth over the previous four years. The decline was due specifically to the fall in sales via subsidiary agencies, as sales through insurance companies themselves increased. The direct sales channel thus saw a further decline in market share, from 7.9% to 7.3%; in 2012, by contrast, it had been nearly 11%.

With marginal premium income of just €594 in 2015, policies marketed through brokers fell again, with a further decline of 5.0% after the 21.5% drop registered in 2014. In the five years from 2011 through 2015, brokers' market share was halved from 1.0% to 0.5%.

By type of product (Tables 2 and 3), Class I products (traditional life insurance policies) declined by 5.7% in 2015, but premiums marketed through agents gained 1.7%, so the latter's share rose from 14.2% to 15.3%. Direct sales also increased (+5.0%) and their market share gained from 7.3% to 8.1%. As sales of Class I products through bank and post office branches declined by 6.6%, their share of sales of these products slipped from 69.1% to 68.5% last year. Financial salesmen lost more than a percentage point in market share (7.6% in 2015), as their Class I premium sales fell by 19.0%.

In Class III (linked policies), financial salesmen lost their leadership last year, their share of the total dropping by over 10 points, from 48.8% to 38.5%, and they were overtaken by bank and post office branches, which now account for 55% of sales of these products. The increase in the latter's share stemmed from very sharp premium growth of 75%, far outpacing the overall market growth of 45.8% in this class.

As for capital redemption policies (Class V), there was a contraction for all distribution channels in 2015, with a 24.1% fall in total premiums generated. The sharpest fall, 41.9%, was in direct sales, whose market share thus declined from 37.5% to 28.7% last year. Together with the less pronounced decline in the share accounted for by agents (from 24.1% in 2014 to 22.5% last year), this produced a rise in the share accounted for by bank and postal branches, which thus became the leading distribution channel for Class V policies, with a market share that rose from 34.4% to 43.9%.

A similar pattern characterized Class VI products (pension funds), where the volume of premiums/contributions generated through direct sales fell by 10.5%, with a consequent loss of market share from 53.7% to 41.1%; this favored bank/post office branches, which thanks to volume growth of an exceptional 95.9% nearly doubled their market share from 18.5% to 31.0%. Direct sales nevertheless continues to be the leading channel for these products.

The main distribution channel for individual retirement plans continued to be agents in 2015, but their market share slipped from 39.8% to 39.2%, even though the premiums/contributions they generated expanded by 8.9%. The market shares of all the other channels declined, except for bank and postal branches, which gained from 25.4% to 27.7%, thanks to an expansion of premium volume of 20.6%, nearly twice the overall market growth of 10.5%.

***Table 2***
***Breakdown of life market by class and distribution channel (%)***

| Class | Agents | Brokers | Bank branches (1) | Financial salesmen | Direct sales | Total |
|---|---|---|---|---|---|---|
| **YEAR 2015** | | | | | | |
| I - Life | 15.3 | 0.5 | 68.5 | 7.6 | 8.1 | 100.0 |
| III - Investment funds | 5.1 | 0.0 | 55.0 | 38.5 | 1.3 | 100.0 |
| IV - Sickness | 24.5 | 35.5 | 27.7 | 0.2 | 12.1 | 100.0 |
| V - Capitalization | 22.5 | 4.6 | 43.9 | 0.4 | 28.7 | 100.0 |
| VI - Pension funds | 19.5 | 1.8 | 31.0 | 6.5 | 41.1 | 100.0 |
| Individual retirement policies (2) | 39.2 | 0.1 | 27.7 | 19.5 | 13.4 | 100.0 |
| TOTAL LIFE | 12.8 | 0.5 | 63.4 | 15.9 | 7.3 | 100.0 |
| **YEAR 2014** | | | | | | |
| I - Life | 14.2 | 0.5 | 69.1 | 8.8 | 7.3 | 100.0 |
| III - Investment funds | 4.4 | 0.0 | 45.9 | 48.8 | 0.9 | 100.0 |
| IV - Sickness | 24.7 | 43.9 | 27.1 | 0.2 | 4.0 | 100.0 |
| V - Capitalization | 24.1 | 3.5 | 34.4 | 0.5 | 37.5 | 100.0 |
| VI - Pension funds | 20.2 | 0.8 | 18.5 | 6.7 | 53.7 | 100.0 |
| Individual retirement policies (2) | 39.8 | 0.1 | 25.4 | 21.2 | 13.6 | 100.0 |
| TOTAL LIFE | 12.8 | 0.6 | 62.4 | 16.3 | 7.9 | 100.0 |

***Table 3***
***Change (%) in life premium volume by class and distribution channel 2015/2014***

| Class | Agents | Brokers | Bank branches (1) | Financial salesmen | Direct sales | Total |
|---|---|---|---|---|---|---|
| I - Life | 1.7 | -12.2 | -6.6 | -19.0 | 5.0 | -5.7 |
| III - Investment funds | 67.1 | 762.5 | 74.8 | 15.2 | 117.4 | 45.8 |
| IV - Sickness | 8.7 | -11.2 | 11.8 | 2.2 | 227.8 | 9.7 |
| V - Capitalization | -29.4 | -1.6 | -3.2 | -35.3 | -41.9 | -24.1 |
| VI - Pension funds | 13.1 | 151.2 | 95.9 | 13.4 | -10.5 | 16.9 |
| Individual retirement policies (2) | 8.9 | 41.0 | 20.6 | 2.0 | 9.3 | 10.5 |
| TOTAL LIFE | 4.0 | -5.0 | 5.7 | 1.3 | -3.1 | 4.0 |

*(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

The agency network, which is the main channel for the collection of premiums in the non-life sector, recorded its fourth consecutive decrease in premiums in 2015 with a decline of 3.3%, sharper than the 2.4% contraction of the overall market (Table 4). Over the last five years the agents' overall market share has decreased constantly, from 81.8% in 2011 to 78.6% in 2015.

The second-leading distribution channel in the non-life sector, insurance brokers, also registered a premium decline (-6.0%), which was sharper than the overall market decline. Their share accordingly slipped to 8.4%, after three straight years of growth (from 7.6% in 2012 to 7.9% in 2013 and 8.7% in 2014).

However, this share is underestimated, insofar as a significant portion of the premium income they generate (estimated at 24.9% of the entire market) is presented to the insurance companies not directly by the brokers but via agencies. Taking this into account, the non-life premiums intermediated by brokers amounted to €10.7 billion (€2.7 billion in the official statistics) or to 33.3% of all non-life premiums (8.4% in the official statistics). As a consequence, the share effectively accounted for by agents should be adjusted downward to €17.2 billion (and not €25.1 billion, as in the official statistics) and their market share from 78.6% to 53.7%. For motor liability insurance, brokers' share in 2015 would thus come to almost 11%, against 3.7% in the insurance company figures, while agents' share would come down from 85.3% to 78.1%. But this anomaly is especially significant in the other non-life classes, where brokers' share would rise from 13.6% in the official statistics to 57.7% on this more appropriate basis, while that of agents would fall from 71.3% to 27.2%.

***Table 4 – Breakdown of distribution channel for the 2011-2015 observation period – Non-life classes***

| CHANNEL | Gross written premiums (Euro million) | | | | | Market share (%) | | | | | Average | Average Annual growth (%) | | | | | Average % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | (2011-2015) | 2011 | 2012 | 2013 (4) | 2014 (4) | 2015 | (2011-2015) |
| Agents | 29,748 | 28,692 | 27,120 | 26,004 | 25,143 | 81.8 | 81.0 | 80.5 | 79.3 | 78.6 | ***80.2*** | 1.4 | -3.0 | -5.4 | -4.2 | -3.3 | **-3.3** |
| Brokers (1) | 2,768 | 2,692 | 2,648 | 2,867 | 2,693 | 7.6 | 7.6 | 7.9 | 8.7 | 8.4 | ***8.1*** | 1.4 | -1.8 | -1.6 | 8.2 | -6.0 | **-0.5** |
| Direct sales | 2,549 | 2,858 | 2,663 | 2,596 | 2,593 | 7.0 | 8.1 | 7.9 (3) | 7.9 | 8.1 | ***7.8*** | 8.1 | 12.3 | -3.3 | -2.6 | -0.1 | **0.3** |
| *of which: Internet and telephone sales* | *1,491* | *1,670* | *1,603* | *1,586* | *1,504* | *4.1* | *4.7* | *4.8 (3)* | *4.8* | *4.7* | ***4.6*** | *16.9* | *12.1* | *2.3* | *-1.1* | *-5.2* | **0.2** |
| Bank branches (2) | 1,247 | 1,123 | 1,202 | 1,269 | 1,497 | 3.4 | 3.2 | 3.6 | 3.9 | 4.7 | ***3.8*** | 9.2 | -5.5 | 7.1 | 5.5 | 17.9 | **3.7** |
| Financial salesmen | 47 | 49 | 53 | 64 | 76 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | ***0.2*** | -0.4 | 2.7 | 8.5 | 21.5 | 18.3 | **10.1** |
| TOTAL | 36,358 | 35,413 | 33,687 | 32,800 | 32,002 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | ***100.0*** | 2.1 | -1.9 | -4.6 | -2.7 | -2.4 | **-2.5** |

*(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 24.9 percent in 2015)*
*(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. 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 €14 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 non-life market shares of agents and brokers from 2007 on, as estimated above. Note that in these nine years the share of total

non-life business accounted from by brokers gained nearly 10 points, from 25.8% to 33.3%, whereas in the official statistics, the gain was scarcely 1 percentage point. The gap between the figures derived from the insurance companies and those estimated by ANIA (on AIBA data) thus widened constantly; in recent years it has amounted to nearly 25 percentage points.

***Table 5 – Estimated market shares of agents and brokers***

| Year | MOTOR | | | | NON MOTOR | | | | TOTAL | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Brokers | | Agents | | Brokers | | Agents | | Brokers | | Agents | |
| | Share: insurance company data (%) | ANIA estimate (%) | Share: insurance company data (%) | ANIA estimate (%) | Share: insurance company data (%) | ANIA estimate (%) | Share: insurance company data (%) | ANIA estimate (%) | Share: insurance company data (%) | ANIA estimate (%) | Share: 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 |

Direct sales (which in addition to telephone and Internet sales include premiums generated at the insurance company head offices) were practically unchanged in 2015, and their market share rose from 7.9% to 8.1%. Internet and telephone sales were also virtually constant, and their market share continued to be at the 2012 level of 4.7%.

The marketing of non-life policies through bank and post office branches increased sharply in 2015, with premiums rising by 17.9%; the growth in their market share that began in 2013 thus accelerated; it now stands at 4.7% and appears likely to cut into the business done through the traditional channel.

Financial salesmen continue to have an extremely marginal market share (0.2% in 2015).

As for motor insurance (motor third party liability and land vehicles) insurance agents are still the main sales channel, accounting for over 85% of the entire market in 2015. Nevertheless their premium volume decreased by 5.8% for the year (Tables 6 and 7). The second-leading channel for motor insurance business is Internet and telephone sales, whose share held constant at 7.9%. Next come brokers, who despite a 3.6% contraction in premium volume (better than the overall market decline of 5.3%) kept their market share roughly unchanged at 3.7%. The only motor insurance channel that registered growth in 2015 was bank and post office branches, with a gain of 16.8%, increasing their modest market share from 1.9% to 2.4%.

***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 | | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Telephone | Internet | |
| **YEAR 2015** | | | | | | | | |
| Motor liability | 86.5 | 2.5 | 2.4 | 0.0 | 0.5 | 2.4 | 5.7 | 100.0 |
| Land vehicle insurance | 78.3 | 10.5 | 2.5 | 0.0 | 2.3 | 2.1 | 4.4 | 100.0 |
| Total motor | 85.3 | 3.7 | 2.4 | 0.0 | 0.8 | 2.4 | 5.5 | 100.0 |
| Health and accident | 63.2 | 12.9 | 7.9 | 1.2 | 13.1 | 0.7 | 0.9 | 100.0 |
| Transport (3) | 30.1 | 65.1 | 0.0 | 0.0 | 4.5 | 0.1 | 0.1 | 100.0 |
| Property (4) | 62.6 | 8.2 | 20.7 | 0.3 | 2.3 | 2.1 | 3.8 | 100.0 |
| General Liability | 83.0 | 9.2 | 3.5 | 0.1 | 4.0 | 0.1 | 0.1 | 100.0 |
| Credit and suretyship | 72.9 | 15.3 | 6.6 | 0.0 | 5.2 | 0.0 | 0.0 | 100.0 |
| Total non-motor | 71.3 | 13.6 | 7.2 | 0.5 | 6.2 | 0.5 | 0.7 | 100.0 |
| TOTAL NON-LIFE | 78.6 | 8.4 | 4.7 | 0.2 | 3.4 | 1.5 | 3.2 | 100.0 |
| **YEAR 2014** | | | | | | | | |
| Motor liability | 86.6 | 2.8 | 1.9 | 0.0 | 0.6 | 2.6 | 5.4 | 100.0 |
| Land vehicle insurance | 80.4 | 8.8 | 1.9 | 0.0 | 2.5 | 2.2 | 4.2 | 100.0 |
| Total motor | 85.7 | 3.6 | 1.9 | 0.0 | 0.9 | 2.6 | 5.3 | 100.0 |
| Health and accident | 64.6 | 14.0 | 6.9 | 1.0 | 11.4 | 1.1 | 1.0 | 100.0 |
| Transport (3) | 30.7 | 67.0 | 0.0 | 0.0 | 2.0 | 0.1 | 0.1 | 100.0 |
| Property (4) | 75.6 | 13.3 | 7.3 | 0.2 | 2.2 | 0.5 | 0.9 | 100.0 |
| General Liability | 83.1 | 9.7 | 2.9 | 0.1 | 4.0 | 0.2 | 0.1 | 100.0 |
| Credit and suretyship | 71.6 | 16.4 | 6.9 | 0.0 | 5.0 | 0.0 | 0.0 | 100.0 |
| Total non-motor | 71.8 | 14.7 | 6.1 | 0.4 | 5.6 | 0.6 | 0.7 | 100.0 |
| TOTAL NON-LIFE | 79.3 | 8.7 | 3.9 | 0.2 | 3.1 | 1.7 | 3.2 | 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 24.9% in 2015)*
*(2) Data for this channel includes premiums distributed by post office branches*
*(3) The class of transport insurance includes: railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability*
*(4) The Property class includes: fire and natural forces, other damage to property, miscellaneous financial loss, legal expenses and assistance*

***Table 7***
***Change (%) in non-life premium volume by class and distribution channel 2015/2014***

| Class | Agents | Brokers (1) | Bank branches (2) | Financial salesmen/ Inv't firms | Subsidiary agencies | OTHER DIRECT SALES | | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Telephone | Internet | |
| **YEAR 2015/2014** | | | | | | | | |
| Motor liability | -6.7 | -16.7 | 14.2 | -85.3 | -15.9 | -14.3 | -1.6 | -6.5 |
| Land vehicle insurance | 0.2 | 22.8 | 33.5 | -51.0 | -6.5 | -1.9 | 6.5 | 2.9 |
| Total motor | -5.8 | -3.6 | 16.8 | -83.6 | -12.2 | -12.9 | -0.7 | -5.3 |
| Health and accident | -0.7 | -6.7 | 15.7 | 22.4 | 16.8 | -33.9 | -0.7 | 1.5 |
| Transport (3) | -5.6 | -6.6 | -26.5 | 533.3 | 114.5 | 0.6 | -11.7 | -3.9 |
| Property (4) | 6.4 | 9.3 | 17.7 | 10.8 | -3.3 | -0.2 | 4.8 | 8.3 |
| General Liability | 1.3 | -2.9 | 21.6 | 68.5 | 1.1 | -42.6 | 5.0 | 1.4 |
| Credit and suretyship | -5.4 | -13.4 | -11.1 | 0 | -4.0 | -100.0 | 0 | -7.0 |
| Total non-motor | 0.1 | -6.7 | 18.3 | 21.5 | 12.1 | -21.2 | 2.7 | 0.8 |
| TOTAL NON-LIFE | -3.3 | -6.0 | 17.0 | 18.3 | 7.1 | -14.3 | -0.3 | -2.4 |

*(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 24.9% in 2015)*
*(2) Data for this channel includes premiums distributed by post office branches*
*(3) The class of transport insurance includes: railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability*
*(4) The Property class comprises: fire and natural forces, other damage to property, miscellaneous financial loss, legal expenses and assistance*

# 9

# THE ANIA FOUNDATION FOR ROAD SAFETY AND THE ANIA-CONSUMERS FORUM

THE ANIA FOUNDATION FOR ROAD SAFETY

## ROAD ACCIDENTS IN ITALY AND EUROPE: THE FIGURES FOR 2014

ISTAT data on road accidents in Italy show that they numbered 177,031 in 2014, down 2.6% for the year, resulting in 3,381 fatalities (down a scant 0.6%) and 251,147 severe injuries, down 2.7% (Table 1).

***Table 1 Fatalities and injuries caused by road accidents in Italy from 2001 to 2014***

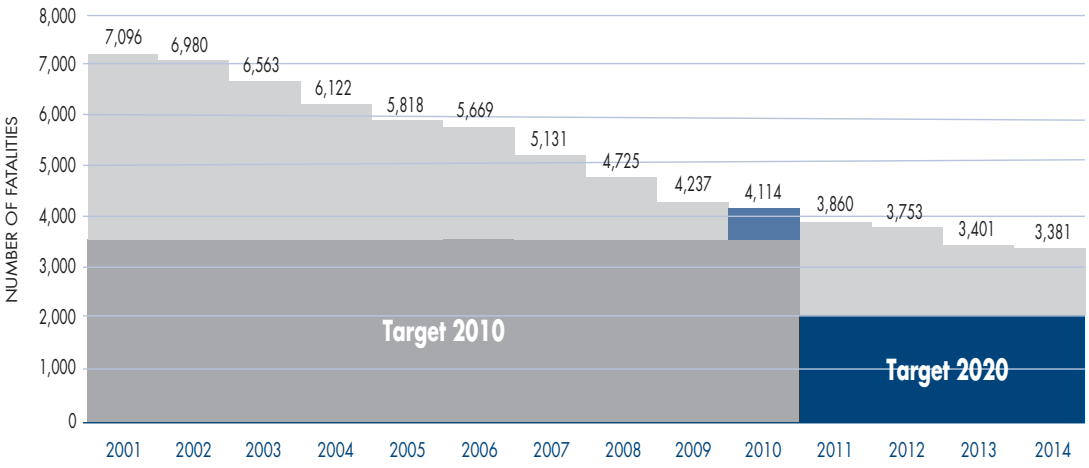
| Year | Fatalities | | Injuries | |
|---|---|---|---|---|
| | Number | Annual change (%) | Number | Annual change (%) |
| 2001 | 7,096 | 0.5 | 373,286 | 3.7 |
| 2002 | 6,980 | -1.6 | 378,492 | 1.4 |
| 2003 | 6,563 | -6.0 | 356,475 | -5.8 |
| 2004 | 6,122 | -6.7 | 343,179 | -3.7 |
| 2005 | 5,818 | -5.0 | 334,858 | -2.4 |
| 2006 | 5,669 | -2.6 | 332,955 | -0.6 |
| 2007 | 5,131 | -9.5 | 325,850 | -2.1 |
| 2008 | 4,725 | -7.9 | 310,745 | -4.6 |
| 2009 | 4,237 | -10.3 | 307,258 | -1.1 |
| 2010 | 4,114 | -2.9 | 304,720 | -0.8 |
| 2011 | 3,860 | -6.2 | 292,019 | -4.2 |
| 2012 | 3,753 | -2.8 | 266,864 | -8.6 |
| 2013 | 3,401 | -9.4 | 258,093 | -3.3 |
| 2014 | 3,381 | -0.6 | 251,147 | -2.7 |

*Source: ACI, ISTAT*

While the table shows a reduction in both the number and the severity of accidents, a closer look at the change in traffic deaths reveals some problems. In 2014 the number of fatalities diminished marginally with respect to 2013, and the downtrend slowed sharply, putting Italy far from the target set for 2020 of cutting the number of deaths to 2,000 (Figure 1).

This aspect of the question is especially worrying. For if the objective for 2001-2010 was not fully attained, Italy nevertheless succeeded in lowering the number of road

***Figure 1 Italian traffic fatalities, 2001-2014***




*Source: ANIA Foundation for Road Safety, based on Istat data*

fatalities constantly over the years, for a total decrease during the decade of 42% (against the target of -50%).

But the decade beginning with 2011 shows a different situation. Indeed, a first inspection appears to reveal a reversal in 2015, with an increase in traffic fatalities owing not only to the further decline in investment in road safety but also to a broader decline in attention to the issue.

The stall in the reduction in deaths due to road accidents is part of a general trend throughout the EU28, where there were nearly 26,000 fatalities in 2014, down 17.6% with respect to 2010 but basically unchanged from 2013 (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 exactly in the middle among the 28 EU member states, with 55.6 deaths per million inhabitants, which is higher than the EU average of 51.0 and also higher than the figures for the countries with which Italy is generally compared:

- France: 51.0 deaths per million inhabitants (equal to the EU average and 8 percent lower than Italy;
- Germany: 41.6 per million (25 percent lower than Italy);
- Spain: 36.3 per million (35 percent lower);
- UK: 28.6 per million (practically half the Italian rate).

***Table 2***
***Traffic deaths in EU28 countries***

| COUNTRY | Number | | | Percentage change | | Deaths per million inhabitants 2014 | Rank (1st = country with highest rate, 28th = lowest rate) |
|---|---|---|---|---|---|---|---|
| | 2010 | 2013 | 2014 | 2014/2010 | 2014/2013 | | |
| Austria | 552 | 455 | 430 | -22.1 | -5.5 | 50.1 | 18° |
| Belgium | 840 | 723 | 727 | -13.5 | 0.6 | 64.6 | 9° |
| Bulgaria | 776 | 601 | 660 | -14.9 | 9.8 | 91.6 | 2° |
| Croatia | 426 | 368 | 308 | -27.7 | -16.3 | 72.9 | 7° |
| Cyprus | 60 | 44 | 45 | -25.0 | 2.3 | 53.1 | 15° |
| Czech Republic | 802 | 655 | 688 | -14.2 | 5.0 | 65.3 | 8° |
| Denmark | 255 | 191 | 182 | -28.6 | -4.7 | 32.2 | 24° |
| Estonia | 79 | 81 | 78 | -1.3 | -3.7 | 59.4 | 13° |
| Finland | 272 | 258 | 229 | -15.8 | -11.2 | 41.9 | 20° |
| France | 3,992 | 3,268 | 3,384 | -15.2 | 3.5 | 51.0 | 17° |
| Germany | 3,648 | 3,339 | 3,377 | -7.4 | 1.1 | 41.6 | 22° |
| Greece | 1,258 | 879 | 793 | -37.0 | -9.8 | 73.3 | 6° |
| Hungary | 740 | 591 | 626 | -15.4 | 5.9 | 63.6 | 10° |
| Ireland | 212 | 190 | 193 | -9.0 | 1.6 | 41.7 | 21° |
| **Italy** | **4,114** | **3,401** | **3,381** | **-17.8** | **-0.6** | **55.6** | **14°** |
| Latvia | 218 | 179 | 212 | -2.8 | 18.4 | 106.7 | 1° |
| Lithuania | 299 | 256 | 267 | -10.7 | 4.3 | 91.4 | 4° |
| Luxembourg | 32 | 45 | 35 | 9,4 | -22.2 | 62.2 | 11° |
| Malta | 15 | 18 | 10 | -33.3 | -44.4 | 23.3 | 28° |
| Netherlands | 537 | 476 | 477 | -11.2 | 0.2 | 28.2 | 26° |
| Poland | 3,908 | 3,357 | 3,202 | -18.1 | -4.6 | 84.3 | 5° |
| Portugal | 937 | 637 | 638 | -31.9 | 0.2 | 61.5 | 12° |
| Romania | 2,377 | 1,861 | 1,818 | -23.5 | -2.3 | 91.5 | 3° |
| Slovakia | 353 | 251 | 259 | -26.6 | 3.2 | 47.8 | 19° |
| Slovenia | 138 | 125 | 108 | -21.7 | -13.6 | 52.4 | 16° |
| Spain | 2,479 | 1,680 | 1,688 | -31.9 | 0.5 | 36.3 | 23° |
| Sweden | 266 | 260 | 270 | 1.5 | 3.8 | 27.7 | 27° |
| United Kingdom | 1,905 | 1,770 | 1,854 | -2.7 | 4.7 | 28.6 | 25° |
| EU28 | 31,490 | 25,959 | 25,939 | -17.6 | -0.1 | 51.0 | |

*Source: Community Road Accident Data Base (CARE)*

## 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 death or personal injury. The data come from forms filled out by the police – 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 claims with only property damage, accidents in which police intervention is not required, and 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 roads; accidents that take place on city streets are excluded.

The Highway Police data show that the number of fatalities continued to fall in 2014, but only half as fast as in 2013 (-5.5% as against -11.4%). 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 (177,031 in 2014) represents barely 7% of the 2,455,104 accidents for which insured parties filed claims with insurers.

Examining the insurance data in detail, most of the two-and-a-half million motor liability claims filed in 2014 were for accidents involving damage to vehicles or property, but a

***Table 3 Fatalities and injuries caused by road accidents in Italy from 2001 to 2014***

| Year | PANEL A: HIGHWAY POLICE | | | | PANEL B | |
|---|---|---|---|---|---|---|
| | Deaths | | Injuries | | ISTAT Data | |
| | Number | Annual change (%) | Number | Annual 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 | 852 | -5.5 | 38,188 | -4.3 | 3,381 | 251,547 |

*Source: Highway Police, ISTAT*

significant portion (nearly 480,000, or 19.5%) 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 615,000 persons received compensation for the 480,000 personal injury claims filed with insurance companies in 2014, since some injury claims involved 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 personal injury. This allows us to make a more precise estimate of the average number of persons involved in a claim: 1.28 in 2013 and 2014 alike.

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 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 rarely called in. To quantify the phenomenon, consider that of the 480,000 motor vehicle personal injury claims recorded by insurance companies in 2014, some 455,000 (95%) involved temporary or permanent disability of less than 9 percentage points. And of the latter, over 313,000 (68%) were for a permanent disability of between 1 percentage points and 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 around 400,000 persons injured, which may help explain the wide gap between the two sources.

***Table 4 – Deaths and injuries in road accidents in Italy, 2000-2014 – 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) |
| 2000 | 4,521,607 | 17.7% | 801,250 | n.a. | n.a. | n.a. |
| 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 | 19.5% | 479,635 | 0.5 | 1.28 | 614,018 |

*(*) 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*

### The introduction of the crime of vehicular homicide

On 2 March this year Parliament passed a law instituting the crime of "vehicular homicide", whose introduction the ANIA Foundation for Road Safety had lobbied for over the years in all the relevant institutional forums; the prime minister himself, in his inaugural address to Parliament, had called specifically for its passage to end the situation of practical impunity for those causing deaths by reckless driving.

Law 4/2016, published in the *Gazzetta Ufficiale*, No. 70, 23 March 2016, introduces important new provisions:

- creation of a new, independent crime, "vehicular homicide";
- stiffening penalties, up to a maximum of 18 years in prison, for persons who cause death or severe injury by reckless driving;
- authorization for arrest on the spot for those causing the death of third parties while driving with high blood alcohol rates or under the influence of drugs;
- immediate revocation of the driver's license in the case of conviction or plea bargaining for vehicular homicide (for 15 years) or vehicular injury (for 5 years); and revocation for 30 years if the perpetrator flees the scene of the accident;
- doubling the statute of limitations and possibility for public prosecutors to petition for extension of the period for preliminary investigation;
- possibility of compulsory tests on biological samples.

This law, while subject to improvement, will constitute a major deterrent to conduct (such as "driving under the influence") whose true gravity is not generally recognized; perhaps even more important, it will give relatives mourning a traffic death a sense of justice, which had been lost.

## THE FOUNDATION'S INQUIRIES

### Survey of seat belt use in Italy

ANIA has carried out a survey on Italian motorists' use of seat belts. The survey has been extended to the use of retention systems for children and, partially, to the most common infractions. The survey was performed by Ipsos using Computer Assisted Web Interviewing on a representative sample (1,250 persons) of the Italian population, who responded to the questionnaire developed by the Foundation.

The Ipsos survey found that 21% of Italians do not fasten their seat belts. For rear-seat passengers the percentage is higher, almost 50%; and in urban areas, 60%.

For children, 16% of the survey respondents do not possess any of the legally approved systems of retention. This may well be related to the very low degree of familiarity with the sanctions for this infraction: 61% of respondents did not know what the fine was for the failure to use a proper retention system, compared with 38% for failure to use seat belts.

Geographically, the highest rate of violation of the seat belt rule (31%) is in the South (Figure 2). The three provinces with Italy's largest cities (Milan, Rome, and Naples) were the subject of a specific survey: the violation rate was 31% in Naples, 17% in Milan and 21% in Rome. For rear-seat passengers, the highest rate of failure to fasten seat belts was in the Center, at 60%; the city with the highest rate was Rome, again at 60%.

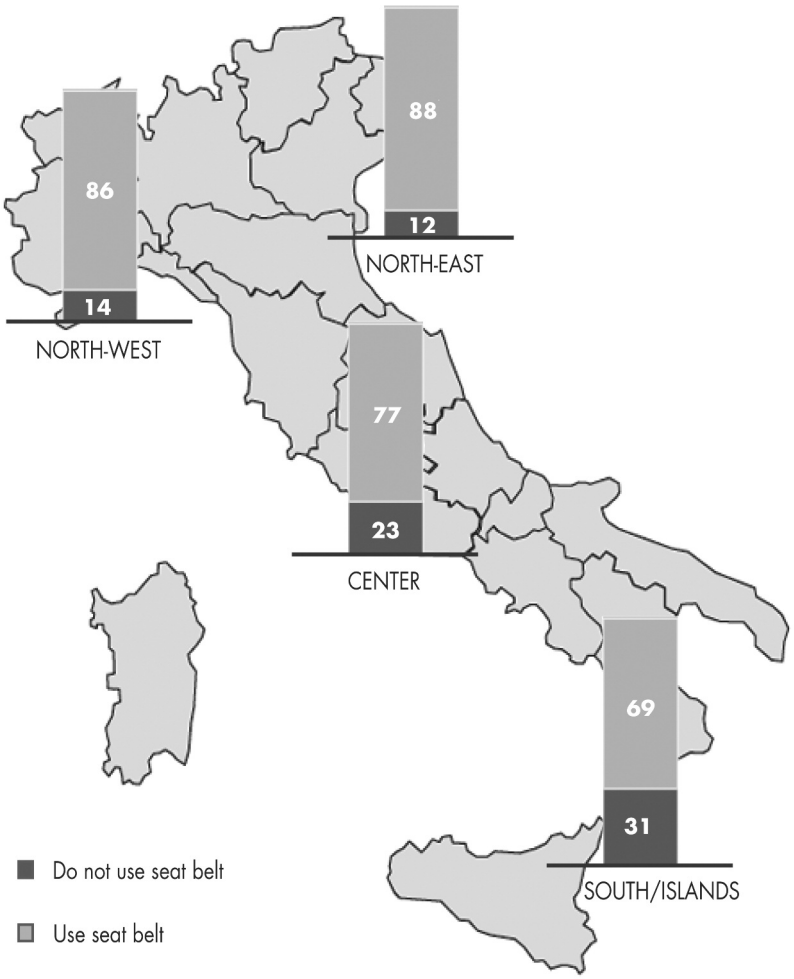
A major finding of the survey was that one driver in five does not use the seat belt properly, especially for short trips and city driving, where one must get in and out of the car frequently.

In general, Italians do appear to be aware of the importance of seat belts as a life-saving device, but those who do not use them tend to think they are of little use in cities – and above all, they view seat belts as an imposition, just another obligation.

As for safety retention systems for children, a sixth of the motorists interviewed had none. In addition, the survey revealed little awareness of the fact that the systems are compulsory, especially for older children. Here again, as in the case of seat belts generally, the highest rates of non-use are in city areas.

Finally, although seat belts and child retention systems are compulsory, the majority of those polled did not know what the fine is for non-compliance.

***Figure 2***
***Geographical distribution of seat belt use, %***




*(Source: Based on Ipsos data)*

## "Adopt a highway" 2015 – The results

The fourth edition of the "Adopt a highway – Child safety" project of the ANIA Foundation in cooperation with the Carabinieri was conducted from July 2015 to mid-January 2016.

The project is directed to reinforcing prevention and controls on the main national highways that the official statistics (ACI and Istat data) pinpoint as the most dangerous in the country. Eight highways were selected as having among the highest accident rates: the SS36 "Lago di Como e dello Spluga", SS309 "Romeo", SS131 "Carlo Felice", SS114 "Orientale Sicula", SS53 "Postumia", SS148 "Pontina", SS675 "Umbro-Laziale", and SS407 "Basentana".

The project was carried out in two distinct periods: 26 June to 31 August and 11 November 2015 to 10 January 2016. At these times the Carabinieri stepped up the controls made by their operational and radio units and the local stations, using all their available technological devices and equipment. For this fourth edition, the ANIA Foundation supplied the Carabinieri with 80,000 single-use alcohol testers. In conjunction with the checks, officers gave motorists 40,000 informational brochures on procedures for transporting children and 40,000 cards on the importance of responsible driving. In addition, for highway checks, the Foundation supplied 10 blood alcohol test devices together with 10 preliminary test devices, for a total investment of €60,000.

In the course of the initiative the Carabinieri checked a total of 15,900 vehicles and identified 20,064 persons; 1,160 drivers were sanctioned for infractions of the Highway Code.

## Experimental testing of controls on driving under the influence of drugs

The statistics indicate that the number of on-road checks for driving under the influence of drugs is very low. This is due chiefly to the fact that until recently no fast, simple, reliable system for conducting such checks on the spot, as in checks for drunk driving, was available.

In view of this serious problem, in 2015 the Interior Ministry stepped up its efforts to combat driving under the influence of drugs, testing new devices that will finally permit on-road checks for this infraction. The ANIA Foundation supported the Highway Police action with an investment of over €100,000, for the purchase of the instruments needed for taking saliva samples, diagnostic kits for laboratory tests, and the logistical support for transporting the samples to the toxicology laboratory and research center in Rome, where the tests are conducted.

Between June and December 2015, experiments were conducted in 35 provinces, with 260 road blocks employing 1,630 policemen and 349 State Police doctors and other health personnel.

A total of 14,767 drivers were stopped and, following the behavioral test envisaged by the operational protocol, 930 were subjected to drug screening; 268 (nearly 30%) tested positive for at least one illegal substance; of these, 80 percent were confirmed positive by the subsequent laboratory test.

## 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 eight national consumer organizations: Adiconsum, Adoc, Cittadinanzattiva, Codacons, Federconsumatori, Lega 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. Through the Foundation they have organized a series of activities focusing on three specific areas of interest: welfare, insurance education, and mutual agreements to improve the service provided to policyholders.

## FOCUS ON WELFARE

The debate continued within the Forum on the current welfare model, on the new organization that is taking shape and the social role of insurance companies within this changing scenario, based on the shared belief of insurers and consumers that the current system is static and can no longer meet citizens' needs. 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. This activity lays the groundwork for the development and presentation of joint proposals by consumer and insurance organizations on an issue of key concern to all citizens.

Last year saw the development of a number of specific initiatives. First was a study together with Censis on "A balance sheet on Italian welfare and its sustainability", analyzing welfare scenarios and sustainability for households and the national community as a whole. The Forum also took part in drafting a "Report on Second Welfare in Italy" as part of the "Second Welfare Path" project bringing together businesses, foundations, trade unions and local government bodies.

In 2016 the Forum took part in Italy's "National Retirement Savings Day", sponsored by "Retirement Paths", and developed its "Welfare Scenarios" program, with a series of in-depth studies by Censis and consumer associations aimed at promoting shared proposals on welfare.

### The sustainability of the Italian welfare system

The ANIA-Consumers Forum has carried out an in-depth analysis of the Italian welfare system and its prospects, a diversified course of research over the years, with the scientific involvement of Censis, designed to bring out and highlight the areas of

convergence between consumers and insurance companies in this field. The latest report, "Balance sheet on Italian welfare and its sustainability" (2015), examines the system's sustainability – not only in the traditional sense of sustainability for the public finances but in the more innovative sense of social sustainability for households.

With these findings as point of departure, insurers and consumers developed mutual proposals published in a paper entitled "Proposals for an equitable and sustainable welfare system" ([1]), to enhance the transparency, equity, efficiency and reliability of Italy's welfare system and interest public opinion in preventive measures and the repercussions of demographic developments, such as non-self-sufficiency risk for the elderly, who form an ever larger share of the Italian population.

Perhaps the most significant finding of the "Balance sheet" report is that 53.6% of Italians say that welfare system coverage has diminished and that they themselves are paying many of the expenses that used to be covered by public benefits.

Italians are covering "out of pocket" 18% of total national health care spending – over €500 per capita yearly – compared with 7% in France and 9% in Britain. This is an inefficient and socially regressive form of spending: first, because it aggravates the health disparity between rich and poor, as the more indigent increasingly forgo health care; and second, because the entire amount of such costs is charged to the single household, which may be faced with a substantial outlay, often unexpected but unavoidable, heightening its financial vulnerability.

What is more, the survey found that owing to long waiting lists for public health care and the prohibitive costs of private care, 41.7% of households had at least one member who had had to forgo some treatment in the course of the year.

***Table 1 Households forgoing or postponing heath care treatment for economic reasons during the year, by region (%)***

| | North-West | North-East | Center | South/Islands | Total |
|---|---|---|---|---|---|
| Yes | 40.2 | 36.9 | 39.2 | 47.6 | 41.7 |
| No | 59.8 | 63.1 | 60.8 | 52.4 | 58.3 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source: Survey by Censis and ANIA-Consumers Forum, 2014*

Lastly, it is worth highlighting the survey's findings concerning non-self-sufficiency and the way Italian households cope with it. There are 3 million persons in need of assistance, and over 1.3 million individual care-givers who provide it, at a cost to Italian households of some €10 billion a year.

([1]) http://www.forumaniaconsumatori.it/images/pdf/proposte%20welfare_convegno%20forum%2020%20ottobre%202015.pdf.

## NEW PUBLICATION: "NEW PROTECTIONS BEYOND THE CRISIS"

The series of volumes on welfare published by the ANIA-Consumers Forum in collaboration with the publisher Franco Angeli, "Welfare Scenarios", lengthened in 2015 with the release of "New protections beyond the crisis." The volume contains the survey "A balance sheet on Italian welfare and its sustainability", the research on welfare conducted by the consumer associations, and the Forum's proposals for an equitable and sustainable welfare system.

Previous volumes in the series have covered the surveys carried out together with Censis, entitled "New needs and the desire for a future" ("Tra nuovi bisogni e voglia di future", Franco Angeli Editore, 2011) and "New protections beyond the crisis" ("Le nuove tutele oltre la crisi", Franco Angeli Editore, 2012).

### Participation in the "Second welfare paths" project

The project called "Second welfare paths" was launched in April 2011 at the initiative of the Luigi Einaudi research center in Turin. It is a research workshop directed by the University of Milan and involving, in addition to the ANIA-Consumers Forum, a series of leading bank foundations, institutions, trade union organizations and corporations: Compagnia di San Paolo Foundation, Fondazione Cariplo, Corriere della Sera, KME, Luxottica, Fondazione con il Sud, Fondazione Cariparo, Fondazione Cassa di Risparmio di Cuneo, CISL Piemonte, CISL Lombardia and the City of Turin.

Last year the Forum took part in the planning and development of a series of activities by the Second Welfare Observatory and the drafting of the Observatory's second report, presented in Turin at the National Library on 27 November 2015 ([2]).

### National Retirement Savings Day

Italy's National Retirement Savings Day was celebrated in Naples from 10 to 12 May 2016. The event, dedicated to pensions and welfare, is designed to heighten citizens' awareness of their own retirement position and is of special interest to young people who are embarking on their work life.

ANIA sponsored the initiative, and the Forum played an active part in it, promoting its activities for insurance education and diffusion. In the course of the three days, the Forum's educational activities were promoted – in particular the "Me and risks" program – with presentations of educational materials for schools and households. Copies of the Forum's "Insurance made plain" publications – which explain the insurance issues of greatest interest to consumers in plain and simple language for a mass readership – were distributed.

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([2]) http://www.forumaniaconsumatori.it/images/pdf/secondo_rapporto_secondo_welfare_in_italia_2015.pdf.

## 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. 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 "Prize for Applied Mathematics" and the educational project "Io e i rischi" ("Me and risks"), a course on risk awareness, prevention and mutuality for Italian students and households.

### "Me and risks": Insurance at school

The Forum has developed an educational program called "Me and risks" that is intended to give young people greater awareness of risk and instill a culture of risk prevention and management throughout life. 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.

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. And Insurance Europe has mentioned "Me and risks" as among the best practices of financial education instituted by European insurers.

In practical terms, the programme is a course for middle and high school students, with classroom lessons given by their own teachers. During the 2015-16 school year "Me and risks" saw the participation of 224 schools, 338 teachers and a total of 401 classes. Over five years the program has reached over 900 schools, 1,500 classes and 40,000 students throughout the country.

#### - Middle school

Teachers are given a handbook and operative cards that they can use to plan the lessons. Students can test their abilities with work sheets and a magazine with a series of games, tests and educational nuggets. The students then take some final tests based on the OECD-PISA problem-solving model. This project design was developed with the consultation of Università Cattolica del Sacro Cuore in Milan.

### - High school

"Me and risk" was also conceived and designed for high school students. The course, developed with the scientific consultancy of the Center for Applied Research in International Markets, Banking, Finance and Regulation at Bocconi University in Milan, serves to inculcate basic knowledge of life-cycle risk management issues, retirement and resource planning, including financial planning, for a secure future. Like the middle school program, it has specific didactic materials for teachers and students.

### - Conferences in schools

The program is also diffused through conferences given by the Forum in collaboration with AEEE-Italia for students in the participating high school classes. The aim is to supplement the instructional materials with further inquiry into the issues of risk in its various aspects and dimensions. In a context of back-and-forth dialogue, experts help students to analyze life situations close to their own experience of reality, moving from theory to practice through concrete examples.

### - Theater

Risk, risk prevention and mutuality are the ingredients of the "Me and risk" theatrical production. This is an interactive show taking students and teachers on a "journey through the history of risk" from the merchant adventurers of Venice to Facebook. The show gives students a chance to think and to see that risk is an integral component of everyday life, and that risks can be rationally managed by precaution and mutuality.

### - For families

The "Me and risk" program is addressed directly also to families with pre-adolescent children, with the production of a complete kit of texts, images and games on insurance themes, offering family members the chance to share, on a day-by-day basis, their knowledge about risk and possible ways of dealing with it through prevention and insurance protection. The material is made available by the participating consumer organizations and insurance companies.

## Applied mathematics prize

The "Grand Prix for Applied Mathematics" is an initiative connected with the "Me and risk" program for high schools. Reserved to students in the last two years, 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 sciences) of the Università Cattolica del Sacro Cuore in Milan.

During the 2015-16 school year, the prize competition involved over 7,500 students – up 22% from 6,200 in the previous year – at schools in seven regions: Lombardy, Piedmont, Liguria, Emilia-Romagna, Veneto, Puglia, and Sicily.

### Training for consumer association staff

The Forum also engages in adult information and education activities, with initiatives addressed to consumer movement activists. The aim is to help consumer organizations to advise and assist their users in the insurance field, based on a specific agreement between ANIA and 14 consumer associations.

A series of training seminars for local consumer organization officers and staffers were held in 2015. In addition, a working group has developed an e-learning platform (www.formazioneaniaconsumatori.it) for continuing training of consumer association staff. The platform at present provides teaching modules, tests, FAQs, and documents on two subjects: motor liability insurance and insurance brokerage. In agreement with the working group, which brings together representatives of all the participating consumer groups, by the end of 2016 the platform will be enriched with additional content, bearing on life insurance.

## AGREEMENTS WITH CONSUMER GROUPS TO IMPROVE INSURANCE SERVICES

### New website for the conciliation procedure

Activity continued towards the development of the conciliation procedure envisaged by a specific agreement between ANIA and 16 consumer associations: Acu, Adiconsum, Adoc, Altroconsumo, Assoutenti, Casa del Consumatore, Centro Tutela Consumatori Utenti, Cittadinanzattiva, Codacons, Codici, Confconsumatori, Federconsumatori, Lega Consumatori, Movimento Consumatori, Movimento Difesa del Cittadino, and Unione Nazionale Consumatori.

Conciliation is a procedure whereby the consumer, acting through one of the participating consumer groups, can settle a dispute with the insurer for damages up to €15,000 out of court. The agreement provides that consumer associations can discuss and settle the terms of disputes involving motor liability insurance directly with the single insurance company.

Last year the implementation of the new website (www.conciliazioneaniaconsumatori.it) was completed, giving all consumers direct access to the conciliation procedure. The operational activities were undertaken together with the joint committee established by the agreement between ANIA and the consumer associations, made up of four representatives of insurance companies and four of consumer organizations. The site provides preliminary information on the procedure, how it works, and the conditions and procedures for activating it. It also has a reserved-access area for filling out the actual application for conciliation, entering the documentation required and transmitting it to the consumer organization chosen, which then handles the case according to procedures already in place. Consumers can also track the state of advancement of their case right through to conclusion.

# 10

# CONDUCT OF INSURANCE BUSINESS

## SOLVENCY II

### National implementation of Solvency II: public consultations and the new IVASS regulations

The Solvency II Directive went into effect on 1 January. To apply the new regulatory framework to the Italian market, the supervisory authorities are proceeding with the transposition of the EIOPA Guidelines for Solvency II through a series of instruments, including the updating of IVASS's internal supervisory procedures, the adaptation of existing market letters and the transmission of new ones, and above all the revision of present regulations and the issue of new ones.

The following table lists the consultations begun or concluded and the regulations published through 31 May 2016.

| IVASS regulation | Matter covered | Consultation reference document |
|---|---|---|
| Reg. 10, 22/12/2015 | Treatment of participations (Insurance Code, Art. 79) | Document 20/2015 |
| Reg. 11, 22/12/2015 | Use of USP and GSP in determining SCR calculated by the standard formula | Document 11/2015 |
| Reg. 12, 22/12/2015 | Use of internal models in determining SCR | Document 21/2015 |
| Reg. 13, 22/12/2015 | Accessory capital elements | Document 12/2015 |
| Reg. 14, 22/12/2015 | Base risk for determining the SCR by standard formula | Document 13/2015 |
| Reg. 15, 22/12/2015 | Application of life insurance risk underwriting module for purposes of determining SCR by standard formula | Document 14/2015 |
| Reg. 16, 22/12/2015 | Application of market risk and counterparty default module for purposes of determining SCR by standard formula | Document 15/2015 |
| Reg. 17, 19/01/2016 | Calculation of group solvency | Document 16/2015 |
| Reg. 18, 15/03/2016 | Application rules for determination of technical provisions | Document 19/2015 |
| Reg. 20, 03/05/2016 | Regulation on use of outside experts for inspections of insurance companies bearing on internal models | |
| Reg. 21, 10/05/2016 | Quantitative data to be transmitted periodically to IVASS for purposes of financial stability and macroprudential supervision and the deadlines and procedures for such data transmission, pursuant to Articles 190 and 191 of Leg. Decree 209/2005 (the Insurance Code) consequent to national implementation of the EIOPA guidelines on information and disclosure requirements (third pillar) | Document 04/2016 |

*(continued)*

# CONDUCT OF INSURANCE BUSINESS

*(continued)*

| IVASS regulation | Matter covered | Consultation reference document |
|---|---|---|
| | Public consultations concluded | |
| Consultation concluded, pending Regulation | Identification of segregated funds and calculation of SCR in presence of segregated funds | Document 10/2015 |
| Consultation concluded, pending Regulation | Adjustment for loss absorption capacity of technical provisions and deferred taxes in determining SCR | Document 17/2015 |
| Consultation concluded, pending Regulation | Classification of components of base own funds | Document 18/2015 |
| Consultation concluded, pending Regulation | Sub-module for catastrophic risk in sickness insurance for purposes of determining the SCR | Document 22/2015 |
| Consultation concluded, pending Regulation | Application of look-through method for purposes of determining the SCR | Document 23/2015 |
| Consultation concluded, pending Regulation | Investments and coverage assets | Document 26/2015 |
| Consultation concluded, pending Regulation | Group supervision | Document 27/2015 |
| Consultation concluded, pending Regulation | Own risk and solvency assessment (ORSA) | Document 01/2016 |
| Consultation concluded, pending Regulation | Application of long-term guarantee measures and transitory measures on risk-free interest rates and technical provisions | Document 02/2016 |
| Consultation concluded, pending Regulation | Valuation of assets and liabilities other than technical provisions | Document 03/2016 |
| Consultation concluded, pending Regulation | Measures relating to local companies | Document 05/2016 |
| Consultation concluded, pending Regulation | Information and disclosure to the public and to IVASS | Document 06/2016 |
| | Public consultations under way | |
| Consultation not yet concluded | Intragroup transactions and risk concentration | Document 08/2016 |
| Consultation not yet concluded | Passive reinsurance agreements in the sub-module for non-life insurance risk underwriting | Document 09/2016 |

IVASS also issued the following Market Letters:

- 28 July 2015 – Solvency II – Application of EIOPA guidelines on use of internal models and in particular on the pre-application procedure;
- 28 July 2015 – Solvency II – Further indications on actuarial functions;
- 3 August 2015 – _Solvency II – Request for information on adjustment for loss absorption capacity of deferred taxes;
- 20 January 2016 – Financial statements for 2015 – Dividend distribution and executive compensation policies;
- 31 March 2016 – Instructions on transmission to IVASS of the information provided for in Directive 2009/138/EC (Solvency II) and ECB Regulations 1374/2014 and 730/2015 on statistical reporting obligations of insurance companies. Instructions on transmission to IVASS of information for Financial Stability.

### Working group on "Proportionality and simplification in Solvency II"

In October ANIA formed a working group with insurance company representatives on "Proportionality and simplification in Solvency II" to consider matters relating to the implementation of the Solvency II Directive in Italy under the principle of proportionality and to begin a dialogue with the supervisory authority concerning the effective implementation of the principle and possible spheres of application.

The Group set the final objective of drafting a report containing proposed guidelines for this matter to be used as the Association's position in discussions with the authorities. The finished proposal presents (i) a suggested methodological approach and (ii) a list of concrete examples of application.

In the first stage of the Group's work, all ANIA member companies were asked to submit contributions and proposals both on general criteria relating to the proportionality principle and on its possible applications in single regulations. In the second stage, the contributions were discussed and worked up by the Group members, for the draft of the definitive report.

The Working Group proceeded in a series of steps:

- reconnaissance on the proportionality principle for the financial sector in general and in the various European situations;
- reconnaissance on spheres of application of the Solvency II regulatory approach at national level;
- specification of the possible proposals in terms of areas and modes of application of the principle;
- definition of the key elements of the methodology proposed;
- formulation of practical examples of application.

The methodological approach is thus characterized by a four-part logical structure:

i. self-evaluation and identification by single companies of the drivers on which application of the proportionality principle is to be based (e.g.: the nature and complexity of risks; the scope and materiality of the risks; the size of the company in absolute and relative terms);
ii. definition of a set of possible indicators to "quantify" and "weigh" the driver of proportionality so identified (e.g.: the number of classes of insurance business conducted and the risk of investments; the size of the SCR; the concentration/diversification of risks by geographical area; premium income; net capital; market share);
iii. determination of threshold values and classification of specific modes of application of the principle ("simplification", "different timing", "exemption") in the three pillars – namely, risk analysis, governance, and reporting – on the basis of the company's score;
iv. submission to the supervisory authority of appropriate documentation explaining the choices and valuations.

On 27 May the first of a series of meetings with IVASS was held. The report was presented and a number of key points of the proposal were evaluated and discussed.

## The regulatory treatment of the government securities exposures of banks and insurance companies

The regulatory treatment of financial institutions' sovereign debt positions has become a highly topical issue in European and international forums. In particular, following the euro-area debt crisis of 2011-12, the favorable treatment of the government securities assets of banks and insurance companies under current rules has been called into question in a number of quarters.

### The current rules

a) Banking regulation.
The regulatory framework laid down by the Basel agreements envisages two methods for calculating banks' capital requirements vis-à-vis credit risk: the standardized and the internal ratings based approaches. Both methodologies provide for relatively low capital requirements in respect of government securities. The European regulation transposing the Basel rules, in fact, sets the ratio for EU government securities at zero under the standard approach, while banks using internal ratings can be authorized by the supervisory authorities to apply the standard method (i.e. a capital ratio of zero) to government securities exposures while continuing to use the IRB method for their other exposures. Investment in sovereign debt is also exempted from the provisions limiting large exposures.

b) Insurance regulation (Solvency II).
In the framework of Solvency II, the securities issued by EU member governments are exempt from the capital requirements vis-à-vis spread and concentration risks laid down by the standard formula for the solvency capital requirement (Articles 180 and 187 of Delegated Regulation (EU) 2015/35 of 10 October 2014). But they are subject to the requirement against interest-rate risk pursuant to Article 165 et seqq. In addition, Solvency II imposes that all balance-sheet items, including sovereign debt, be consistently marked to market.

The European insurance supervisor, EIOPA, in its opinion dated 14 April 2015, held that national supervisors should make sure that the risks of government securities holdings are duly taken account of in internal models. EIOPA said it intended to collect information on how national supervisors are complying with the opinion and to weigh the need for further intervention.

### Further developments

In March 2015 the European Systemic Risk Board (ESRB) released a report on the European prudential supervisory treatment of government securities held by banks and insurance companies. The report stresses the shortcomings of current rules and the potential systemic risks of the zero risk-weighting of these assets, their exemption from all capital requirements, and sets out several policy options for overcoming the present situation. In any case the Board recommends a prudent and gradual approach to avert future instability on the financial markets.

On 19 January 2016 the European Parliament approved a report by the Economic and Monetary Affairs Committee on stocktaking and challenges of EU financial services regulation. The report mentions the treatment of government securities in banking regulations, calling for a reduction in regulatory arbitrage and for overcoming the close linkage between government securities and bank balance sheets.

At the informal meeting of the EU council of finance ministers (Ecofin) in Amsterdam on 22 April 2016, the Dutch presidency presented a paper on the regulatory treatment of banks' sovereign exposures, essentially resuming the various policy options set forth in the ESRB report. The meeting decided to defer any decisions on the issue.

### EIOPA stress test 2016

The EIOPA uses stress testing to check the resilience of the insurance industry to adverse market developments and, more generally, to support decision-making for financial stability.

In 2014 the Authority initiated a stress test under the Solvency II framework. The test was divided into two modules: a core module with an adverse market scenario plus shocks specific to the insurance industry and a low-yield module characterized by a protracted period of low interest rates.

The Italian companies taking part in the test accounted for 60% of the national market. At the conclusion of the test IVASS announced that the Italian insurance sector was "adequately capitalized from the standpoint of Solvency II".

On 24 May 2016 EIOPA began a new stress test. The exercise is designed to gauge the soundness of the insurance industry under two new scenarios: the low yield scenario described above and a "double hit" scenario of a downward shift in the yield curve and price shocks to the companies' main financial assets. The test also includes a qualitative section in both modules.

The sample tested consists of insurers that offer guaranteed-yield life policies, with the aim of assessing the sustainability of such guarantees over time. The sample covered at least 75% of the Italian market in terms of gross technical provisions at the end of 2015.

The specific techniques used are those of Solvency II. The reference date for the test was 1 January 2016. The companies may use not only the standard formula but also the internal ratings based method, either full or partial, and undertaking-specific parameters, as well as the long-term and transitory measures allowed by the Directive.

The calendar for the test is as follows:

- 24 May 2016 – Launch of stress test at European level;
- June 2016 – Q&A period with EIOPA;
- 15 July 2016 – Deadline for transmission of the results to national supervisory authorities (NSAs);

- August 2016 – Data collection and validation by NSAs;
- September 2016 – Data validation by EIOPA;
- December 2016 – Disclosure of results.

### Infrastructure investment under Solvency II

In the light of the intensifying debate on infrastructural investment and its role in supporting economic growth, in the second half of 2015 the European Commission asked EIOPA for a technical opinion on the treatment of such investment under Solvency II. The initial text of Regulation EU 35 (the "Delegated Regulation") provided for no specific treatment of infrastructural investment in terms of calibration but simply treated equity-type infrastructural investment as equivalent to type-2 equity investment (hence subject to a capital requirement of 49% net of a symmetric adjustment, negative or positive, of between 0 and 10%) and debt infrastructural investment as equivalent to debt investment in general (with a capital charge, therefore, that is a function of duration, rating, and characteristics of the issue and the issuer).

As a result of the public consultation held in order to respond to the Commission's request – designed to identify and calibrate the categories of risk for infrastructural investment – the Regulation was modified to introduce: i) a new class within the equity risk sub-module, namely "qualifying infrastructure equity", which comprises equity investment in "eligible infrastructure projects", with a capital charge of 30% net of a symmetric adjustment; and ii) a new type of debt investment, the "qualifying infrastructure bond", which provides for a reduction of about 30% in the capital charge parameters in the spread risk sub-module.

The key element in these changes is the notion of "qualifying infrastructure investment", which applies to investments, either equity or debt, that are deemed "safer" in that they have a lower risk profile than other types of infrastructure investment and would be unduly penalized by the current calibrations. These are investments that fulfill a series of conditions set by the Commission, including: predictable cash flow; stability in stressful conditions; a contractual framework offering a high degree of investor protection; the insurer's demonstrated ability to hold the debt investment to term; and a sound business plan.

The scope of the changes, in any event, was restricted to investments in vehicle subsidiaries that hold, finance and develop the infrastructure or that operate in the infrastructure sector either supplying or supporting essential public services – the investment model of "infrastructural projects" – which therefore excludes investments in corporate infrastructure.

On 14 October the Commission, in completing its work on this issue, asked EIOPA for a second technical opinion on the treatment, under Solvency II, of investments in companies active in the management of infrastructures. Accordingly, on 19 November EIOPA issued a call for evidence to stakeholders, and in April 2016 a new consultation was called on the draft opinion worked up by the Authority; the consultation was concluded on 16 May. EIOPA's final opinion was scheduled for transmission to the Commission by the end of June.

Following an initial analysis of the risk profile of infrastructure investments and the differences, on this score, between corporate infrastructure and infrastructure projects, the consultation document covers a series of points:

- identification of criteria to define a class of "safe" investments in debt and equity securities issued by infrastructure management companies;
- the development of a rigorous framework with which it is possible for insurance companies to design a due diligence procedure for these investments;
- analysis of the most suitable calibration for these investments within the Solvency II standard formula;
- the possible revision of the criteria for infrastructure project finance investments (the subject of the previous consultation and of the recent changes to the delegated secondary legislation);
- risk management requirements for both classes of infrastructure investment.

## SOLO AND CONSOLIDATED ACCOUNTS

### The "Insurance contracts" project

On 4 March 2004 the International Accounting Standards Board issued IFRS Standard 4 on "Insurance contracts"; the standard is still in force. It is an interim standard that allows the use of local standards as normative referent for the valuation of technical provisions. Years ago the Board initiated a new project (Phase 2 of the "Insurance contracts" project), which will eventually set a single accounting standard for the valuation and accounting entry of all types of contract.

At first the Board carried the project on jointly with the US Financial Accounting Standards Board. At the meeting of 19 February 2014, however, the FASB abandoned the effort at convergence with the IASB, opting instead to improve the accounting model laid down in the existing US Generally Accepted Accounting Principles (GAAP).

ON 20 June 2013 the IASB released its "re-Exposure Draft Insurance Contracts" (ED/2013/7, which partially confirmed the building blocks approach to the valuation of insurance contracts laid down in the 2010 "Exposure Draft 'Insurance Contracts'". However, it introduced some new features: the contractual service margin (CSM) and the requirement to account for insurance contracts in the profit-and-loss account or in the "other comprehensive income" statement. The Board also set out another valuation model for participating insurance contracts, namely the mirroring approach, where the contract requires the entity to hold underlying items and specifies a link to returns on those items.

In the light of the 194 comments received and the results of field tests conducted by EFRAG on the 2013 Exposure Draft proposals, the IASB decided to review some of the draft's provisions, including those on the CSM, on participating contracts and on accounting of insurance revenues.

In particular, at a meeting in June 2015 the Board decided to modify the general model for insurance contract recognition to include the estimate of the fees an insurer expects to collect on a contract with the CSM. Specifically, the Board set out the features that a contract must have to qualify as a direct participating contract and thus be within the scope of the "variable fee approach".

Direct participating contracts are those whose terms specify that the policyholder participates in a clearly identified pool of underlying assets, and the insurer expects to pay to the policyholder an amount equal to a substantial portion of the return on those assets. It is foreseeable that a substantial part of the cash flow the insurer expects to pay to the insuree will vary with the cash flow generated by the underlying assets.

At present, therefore, the IASB provides for two accounting models: a general one for non-participating contracts and for so-called indirect participating contracts and the variable fee approach. The latter approach posits that the insurer's obligation to the policyholder can be split into two components: the obligation to pay an amount corresponding to the fair value of the underlying assets and the variable fee that the insurer retains as remuneration for services rendered. The variations in the former component should be recognized in the profit-and-loss account or in the "other comprehensive income" statement, just as changes in the fair value of the underlying are recognized. Changes to the estimate of the cash flow generated by variable fees for future services should be recognized in the same way as changes to the estimates of those future services, i.e. entered in the CSM.

Regardless of the model used, the CSM represents expected profit from the contract and contains the difference between the present value of future cash flows from the premiums and the sum of the fulfillment cash flows and the risk adjustment recognized initially. Under the variable fee approach, however, the CSM can be recalculated, and the rate utilized is also used as the CSM capitalization rate and the discount rate for future cash flows recognized in rectification of the CSM.

In the general model, by contrast, the rate utilized is that locked in at the starting date of the contract.

Technical discussions were concluded in January 2016 and the IASB, in meetings in February, specified that it will begin the vote counting process. Subsequently the Board will discuss the date for entry into effect and any sweep issues that may have emerged during the process. The IASB plans to publish the new accounting standard at the end of the year. The date for its entry into force is still not certain, although the Board has hypothesized 2020.

### Exposure Draft 11/2015: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The schedule for the publication of the new IFRS 4 (now slated for 2016) and its effective date are of special importance given the unavoidable interaction with the new IFRS 9 on financial instruments, published in July 2014 and with a compulsory effective date of 1 January 2018. For in the case of non-alignment of the two stan-

dards, the financial assets forming part of insurance liabilities would be valued according to the new IFRS 9 model, no longer IAS 39, while the insurance liabilities themselves would be valued according to the present version of IFRS 4.

The European insurance industry has repeatedly voiced its concern, calling for deferral of the initial application of IFRS 9 to insurance companies so as to avoiding subjecting them to two sets of major accounting changes in such a brief period of time. EFRAG shared these concerns in its "Endorsement Advice on IFRS 9 Financial Instruments", submitted to the Commission in September 2015. The Advice stated that IFRS 9 "is conducive to the public good, except for the impact on the insurance industry." EFRAG thus concluded that for insurance companies, the application of IFRS 9 in 2018 should be optional.

In response to the industry's requests relating to the problems caused by the time gap between effective dates of IFRS 9 and IFRS 4 Phase II, on 9 December 2015 the IASB released "Exposure Draft: Applying IFRS 9 Financial instruments with IFRS Insurance contracts" (ED/2015/11). Comments had to be submitted by 8 February 2016. In the draft, the Board aired two possible solutions to the time gap: the overlay approach and the deferral approach. The former, optional for all entities issuing insurance contracts, calls for reclassifying – from profit or loss to other comprehensive income – of the difference between:

- the amount recognized in the profit-and-loss account with reference to the financial assets subject to this approach and entered at fair value through profit or loss (FVTPL) under IFRS 9; and
- the amount that would have been recognized as profit or loss if IAS 39 were applied to the financial assets subject.

The overlay approach is envisaged for the financial assets that relate to insurance activities and that should be entered at FVTPL under IFRS 9 but would not be so entered under IAS 39.

The deferral approach, by contrast, lays down that a reporting entity whose "predominant activity" is issuing insurance contracts within the scope of IFRS 4 may apply IAS 39 rather than IFRS 9 to all or none of its financial assets until 2021 – the so-called "sunset clause". As the draft's "Basis for conclusion" states, the predominance of insurance activity must be determined by the ratio between the entity's insurance liabilities (as defined by IFRS 4) and its total liabilities. Although no quantitative threshold was set, the "Basis" specifies that if three fourths of liabilities are insurance liabilities and one fourth other liabilities, the entity would not qualify as having insurance as its "predominant activity".

Finally, the Exposure Draft excludes first time adopters from applying either of these approaches.

ANIA took part in the consultation, sending its own letter of comments and calling for the optional use of both the overlay approach, although its implementation was considered costly, and the deferral approach, in whose regard we called for the recalibration of the predominance test in more holistic terms. ANIA also highlighted the

need to allow first time adopters too to apply the solutions provided for by the IASB, especially when an entity is a member of a group that has decided to take this approach for its consolidated accounts.

In response to the comments it received, the Board has decided to calibrate the predominance test differently: the numerator of the ratio is now the accounting value of the liabilities arising in activities related to insurance plus other liabilities in connection with those activities, while the denominator is now equal to the accounting value of the entire amount of the entity's liabilities (including those counted in the numerator). An entity's business will be deemed "predominantly related to insurance" only if the ratio is above 90% or – where it is over 80% but under 90% – the entity can demonstrate that it does not carry on any significant activity unrelated to insurance.

## The Transparency Directive

On 6 November 2013 the *Official Journal of the European Union* published Directive 2013/50/EU, amending Directive 2004/109/EC (the "Transparency Directive") on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

Among other changes, the proposal would prohibit member states from requiring publication of financial information more frequently than the half-yearly and yearly financial statements, save for some special derogations. At present member states can require issuers to publish additional financial information, possibly retaining the requirement for quarterly statements if that obligation does not amount to a substantial financial cost and if the supplementary information is proportional to the factors contributing to investment decisions. The requirement for quarterly reports is conditional upon the results of a cost-benefit impact analysis.

A survey conducted in May 2015 found a wide variety of positions among the member states:

- the competent authorities of 15 states (Belgium, Czech Republic, Denmark, Estonia, France, Germany, Iceland, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Sweden and the United Kingdom) reported that parliament did not intend to use the option provided for in the Directive of requiring quarterly financial information;
- 2 states (Poland and Spain) reported that they would exercise the power to require quarterly reports;
- 11 states (Austria, Croatia, Cyprus, Finland, Greece, Hungary, Norway, Portugal, Romania, Slovakia and Slovenia) had not taken a decision as of that date.

Italy, in transposing the Directive, empowered the Companies and Stock Exchange Commission (CONSOB) to regulate quarterly reporting requirements according to the real information needs of the market. Consequently, CONSOB initiated a public consultation, preparatory to an impact analysis, to determine the presence or absence of the conditions laid down by the legislation for exercising the derogation.

## TAX DATABASE

### Communication of data on supplementary pensions and reimbursement of health expenses

Pursuant to Legislative Decree 175/2014 on fiscal simplification, in the course of 2015 the plan for the pre-compilation of income tax return form 730 took shape. At the outset, i.e. for fiscal year 2014, under the rules then current the Revenue Agency had a fairly limited set of data to which to refer, but it nevertheless involved insurance companies, moving forward from 30 April to 28 February each year the deadline for electronic transmission of the companies' data on insurance contracts and premiums. These data enable the Agency not only to prepare the income tax returns of employees and equivalent but also to carry out controls on actual entitlement to tax-deductible expenses and tax credits.

For fiscal year 2015, which is the subject of a specific communication this year (2016), the Decree supplemented the data on deductible expenses and credits with data on contributions paid to supplementary retirement plans and the reimbursement of health expenses by entities or health care funds whose purpose is exclusively assistance, as an effect of health care assistance contributions paid by employers or workers. The communication applies only to contributions paid directly and independently – i.e. not through a withholding tax agent – by employees and contributions paid by retired employees who have retained their membership of the funds and elected to keep on making contributions beyond retirement age.

As for the communication of data on reimbursement of medical expenses by entities or health care funds whose purpose is exclusively assistance and by funds supplementing the National Health Service, the Revenue Agency specified that although these entities and funds are subject to the communication requirement, for purposes of the transmission they may act through the insurance companies active in the administrative management of relationships under specific contractual agreement, as long as they are specifically delegated to do so.

### Procedure for rectification of tax numbers

The insurance industry contributed decisively to the initiation of the project for the pre-compilation of income tax form 730 laid down in Legislative Decree 175/2014. Among the wealth of data supplied to the tax database, special importance attaches to the communication of insurance premium payments in order to determine the deductions to which taxpayers are entitled. However, consequent to the necessarily closer data checking carried out during the year by the Revenue Agency in the reception of the electronic transmissions, insurers found a substantial number of cases of invalid or non-existent tax numbers reported for policyholders.

ANIA accordingly intervened with the Agency's central directorates for taxpayer services and administration, planning and control to organize a series of talks concerning the willingness of the Agency to supply technical instruments allowing mass, prior

checking of the tax numbers that were in the companies' possession at 31 December 2014 and thus rectifying the data that were inconsistent with the tax agency's data, by the procedures already instituted successfully for the banking system.

The Agency complied with ANIA's requests, designing for insurance companies a dedicated procedure within the framework of the "Service for verification of existence of tax codes and correspondence with taxpayer identifying data and the acquisition of correct data where they are lacking". The procedure was put at the companies' disposal from 21 September to 30 November 2015.

As for newly acquired tax numbers, the Agency suggested the possibility of making available, for a fee, a service of advance validation, with a ceiling on the number of accesses available to each company. ANIA will continue to follow events in this area.

### Ceiling on sanctions for late, erroneous or absent data communications

As to sanctions for possible violations of the communication requirements relating to the data required for the pre-compilation of tax form 730, the provisions of Legislative Decree 175/2014 are vexatious, to say the least. The Decree, in fact, institutes a fine of €100 for every late, erroneous, or missing communication. So if this rule were applied to the letter – i.e. to every single instance of inexact data (say, a single wrong digit in the tax number of someone who paid an insurance premium or interest on a home mortgage loan) – the sanction could be multiplied by hundreds, with an unreasonable impact on insurers or other enterprises required to report the payments made by extremely large numbers of taxpayers.

Last year, in order to avert such unreasonable consequences, ANIA repeatedly called on both the Ministry for Economy and Finance and the Revenue Agency to act, advocating measures to set a cap on sanctions in the case of repeated error or omission. Finally, the situation was redressed by Legislative Decree 158 of 24 September 2015, implementing the fiscal enabling act (Legislative Decree 23/2014) as regards sanctions. Article 22 of Legislative Decree 158 sets a maximum fine of €50,000 for any enterprise required to make these data communications. The sanction is further mitigated by the provision for a reduction to one third of the original amount, with a ceiling of €20,000, where the data are then correctly transmitted with the term of 60 days after the original deadline.

## FULL TAX DEDUCTIBILITY OF LOAN LOSS PROVISIONS OF BANKS AND INSURANCE COMPANIES

Decree Law 83 of 27 June 2015, converted into Law 132 of 6 August, significantly modifies the terms of deductibility, for purposes of the company income tax (IRES) and the regional tax on productive activities (IRAP), of value adjustments to the balance-sheet credit assets (write-downs or losses other than those due to transfer of the claim) of credit and financial institutions and insurance companies.

The rules had already been revised very substantially by Law 147/2013 (the 2014 Stability Law). Starting with fiscal year 2013, value adjustments to the "typical" credit assets of banks and insurers (for the latter, claims on policyholders for unpaid premiums) other than transfers of title for a fee were made deductible over five years rather than eighteen for income tax purposes; and transfer of title in exchange for payment was made fully deductible in the year when the transfer was entered in the accounts.

Article 16 of Decree Law 83 modified, as of the tax year in course at 31 December 2015, the period for IRES and IRAP deductibility of writedowns of insurers' credit claims on policyholders, now making them fully deductible in the year they are entered in the accounts.

The new rules on IRES and IRAP deductibility of value adjustments to claims on policyholders thus make them fully deductible in the year in which they are charged to the profit-and-loss account, whether they consist in "estimated" adjustments (i.e., in connection with a judgment concerning their collectability) or in "effective" adjustments (i.e., as a result of the transfer of the claim to another institution).

However, the scope of this change was significantly restricted by the transitional regime laid down in Article 16, whereby the new measures come into effect gradually for reasons relating to the public budget balance. That is, the new rules limit (to 75%) the deductibility of loss provisions entered in the accounts in 2015, while also revising the schedule for deduction of the residual installments of previous value adjustments.

The deduction of 25% of the loss provisions charged to the profit-and-loss account in 2015 was deferred to the successive ten tax years as follows:

- 5% in the tax year under way at 31 December 2016;
- 8% in the tax year under way at 31 December 2017;
- 10% in the tax year under way at 31 December 2018;
- 12% in each tax year under way between 31 December 2019 and 31 December 2024;
- 5% in the tax year under way at 31 December 2025.

As for the installments of previous value adjustments taxed prior to 2015 (because they exceeded the limit in force at the time), their deductibility was suspended for 2015; the installments are made deductible in the ten-year period from 2016 to 2025, using the same percentages as for the 25% of the credit claim value adjustments in the accounts for 2015.

Given this complicated mechanism, therefore, the installment share (one eighteenth or one fifth) assigned to 2015 goes to create a basket made up, first, of the residual installments on provisions charged to the profit-and-loss account in the tax years through 2014 and, second, of the 25% portion of the provisions charged to the accounts in 2015.

The transitory deductibility regime as regards IRAP, laid down in Article 16, paragraphs 8 and 9, is essentially the same. The sole difference is the schedule for deduc-

tion of previous loss provisions, limited solely to those "entered in the accounts since the tax year under way at 31 December 2013 and not yet deducted". The different schedule is due to the fact that prior to the changes introduced by the 2014 Stability Law, for IRAP the value adjustments to insurance company claims (including those against policyholders for unpaid premiums) were not deductible at all. Consequently, for IRAP the deductible basket as from 2016 will comprise: *i*) the residual installments on provisions charged to the profit-and-loss account in the tax years 2013 and 2014; *ii*) the 2015 installment on previous adjustments whose deduction is suspended for that year; and *iii*) the 25% portion of the provisions charged to the accounts in 2015, but not including the portion referring to the residual eighteenths, which remain in any case non-deductible.

# 11

# FORECASTS FOR 2016

## THE ITALIAN INSURANCE INDUSTRY IN 2016

**The total premium** income of the Italian insurance industry's direct policy portfolio (**life and non-life combined**) should come to just over €136 billion in 2016, down 7.1% from 2015. This follows the very substantial growth registered in 2014 (+21%) and the more modest growth of 2.5% recorded in 2015. The decline will result from a decrease in life premiums (estimated at 9% this year) and a further contraction of 0.5% in non-life premiuims. Total premium income will thus decline from 9.0% to 8.2% of GDP (Table 1).

Total direct premiums of Italian insurance companies in the **non-life** sector are expected to diminish slightly for the fifth year running, to a total of €32 billion, owing exclusively to the decline in the motor liability and marine liability classes, while the other non-life classes are expected to grow.

***Table 1***
***Insurance premiums in Italy: forecasts***
*Amounts in millions of euros*

| CLASS | PREMIUMS 2015 | PREMIUMS 2016 | CHANGE 2016-2015 | Memo: CHANGE 2015-2014 | Memo: CHANGE 2014-2013 |
|---|---|---|---|---|---|
| Motor and marine liability | 14,218 | 13,578 | -4.5% | -6.5% | -6.5% |
| Accident | 2,963 | 2,992 | 1.0% | -0.4% | 0.6% |
| General liability | 2,871 | 2,900 | 1.0% | 1.4% | -0.6% |
| Other property | 2,730 | 2,784 | 2.0% | -1.7% | 4.3% |
| Land vehicles | 2,455 | 2,578 | 5.0% | 2.9% | -1.1% |
| Fire and natural forces | 2,290 | 2,358 | 3.0% | -0.2% | 0.5% |
| Sickness | 2,143 | 2,228 | 4.0% | 4.2% | -0.8% |
| Other non-life | 2,333 | 2,426 | 4.0% | 2.8% | 3.2% |
| TOTAL OTHER NON-LIFE (excluding motor and marine liability) | 17,784 | 18,268 | 2.7% | 1.1% | 0.9% |
| **TOTAL NON-LIFE** | **32,002** | **31,846** | **-0.5%** | **-2.4%** | **-2.7%** |
| *As a % of GDP* | *2.0%* | *1.9%* | | | |
| Class I – Life insurance | 77,878 | 79,786 | 2.5% | -5.7% | 27.1% |
| Class III – Investment funds | 31,838 | 20,679 | -35.0% | 45.8% | 40.8% |
| Other life classes | 5,233 | 4,188 | -20.0% | -14.2% | 31.8% |
| **TOTAL LIFE** | **114,949** | **104,653** | **-9.0%** | **4.0%** | **29.9%** |
| *As a % of GDP* | *7.0%* | *6.3%* | | | |
| **ALL CLASSES** | **146,952** | **136,499** | **-7.1%** | **2.5%** | **20.6%** |
| *As a % of GDP* | *9.0%* | *8.2%* | | | |

*Changes (%) were calculated in homogeneous terms*

For motor liability, although the technical margins are narrowing, insurers are operating in an increasingly competitive market. Accordingly, we estimate a further decline of 4.5% in premiums this year. This would mark the fifth consecutive decline, bringing the shrinkage in total premium volume from 2012 through 2016 to nearly 25%. This brings the amount back to the level registered in 1999 (without adjusting for inflation).

The expansion of business in the other non-life sectors is expected to continue, thanks in part to the overall economic recovery. We estimate a gain of 2.7% this

year following the smaller rise of 1.1% registered in 2015. One of the major contributions to the expansion will come from land vehicle insurance, with a gain of 5.0% following that of 2.9% last year. This reflects the appreciable increase in the number of new car registrations, which increased by a full 15% last year following the 5.4% rise of 2014. The upswing proceeded in the first five months of 2016 and indeed accelerated (+21%). Premiums in the other non-life classes should also increase. In particular, growth is expected for sickness insurance (+4.0%), fire (+3.0%) and other property damage (+2.0%).

Total non-life premium income is expected to slip from 2.0% to 1.9% of GDP.

In the **life sector**, we expect a trend reversal. Following the record growth of 30% recorded in 2014 and last year's more modest gain of 4.0%, written premiums should fall by 9% this year to about €105 billion. Whereas 2015 saw rapid growth in unit-linked life policies (which by themselves drove total life premium income up), in 2016 there is likely to be a sharp slowdown in the marketing of these policies: a contraction of 35% in premium volume, to under €21 billion. However, traditional Class I life policy premiums are expected to grow somewhat, by 2.5%, to nearly €80 billion. As these products are covered mainly by bond assets and carry guaranteed yields (albeit very low ones, in some cases near zero), they are unlikely to expand greatly owing to the persistent scenario of low yields.

The changing pattern in the marketing of life insurance policies emerges in an analysis of new life production, which through April 2016 came to €33.7 billion, down from €38.2 billion in the first four months of 2015 – a fall of 10.7%. The decline came mainly in Class III products, premiums on which dropped by 45%. Traditional Class I products were more resilient, with growth of 6.7%.

Total written life insurance premiums should decline from 7.0% of GDP in 2015 to 6.3% in 2016.

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.

2015/2016 figures are provisional

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