

Italian insurance in 2008/2009

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THE RESULTS FOR THE YEAR

<i>Total premium income fell by 7.2% in 2008</i>	Premium income from direct Italian business diminished by 7.2% compared with 7.0% in 2007.
<i>The decline was concentrated in the life sector (-11.2%) ...</i>	The contraction was concentrated in the life sector, whose premiums fell by 11.2%. This was due in part to the strong preference demonstrated by Italian savers for investment in bank instruments, solicited by a supply of instruments issued by banks in order to compensate for the drying up of the international capital markets, and in part to households' diminished appetite for financial insurance products, especially in the final part of the year. Nevertheless, there was growth in premiums from traditional policies, which guarantee repayment of capital plus a contractually set minimum return.
<i>... which also registered a reduction in claims costs ...</i>	The fall in life premiums was accompanied by a decline of 11.7% in the cost of claims, which was partly the result of a decrease of some 15% in surrenders.
<i>... and a decrease in the mathematical reserves owing to the negative performance of the financial markets</i>	However, the mathematical reserves (Euro 352 billion) fell for the second consecutive year (-6.8% in 2008, -2.3% in 2007). This was due mainly to the poor performance of the financial markets but also to the result for net premium income, defined as the difference between premiums and the costs of claims, which was negative by Euro 10.9 billion (it had been negative by Euro 12.8 billion in 2007).
<i>The losses booked on investments led to a negative technical result ...</i>	The technical result of total life business was negative by Euro 2.9 billion, whereas it had been positive by Euro 1.7 billion in 2007. This outcome depended primarily on the losses booked on financial investments. For linked policies, the losses on financial investments are sustained by the insured. Changes in the value of securities are reflected in the amount of the insured's reserve. For Class I and Class V policies, instead, unrealized losses on the securities portfolio are sustained by the insurance company. Only realized losses (or gains) count towards determining the return for the policyholder, who in any case is awarded at least the contractually guaranteed minimum yield.
<i>... concentrated in Classes I and V</i>	This explains why the technical result of Class I and Class V was negative (by Euro 2.4 and Euro 0.9 billion respectively), while that of Class III was positive (by Euro 0.4 billion).
<i>Non-life premiums diminished by 0.5% ...</i>	Premiums from direct non-life business fell by 0.5% last year after growing by 1.3% in 2007.
<i>... and an increase in claims costs pushed down the technical result</i>	The technical result of total non-life business was positive by Euro 375 million and amounted to 1.1% of premiums, compared with Euro 2.8 billion and 8.0% in 2007. The sharp decrease was due to an increase of 3.1% in claims costs and a drop of 61% in profits on investments. Operating costs were equal to 24.7%



of premiums, as in 2007; the ratio had been 23.6% in 2006, before the so-called Bersani decrees on insurance distribution.

The insurance industry's overall result shows a loss of nearly Euro 2 billion, ascribable in no small part to the halving of the net result on extraordinary operations (Euro 0.8 billion, compared with Euro 1.5 billion in 2007).

The industry's overall ROE was negative (-4.7%, against +12.3% in 2007). It would have been even worse if 29 companies had not opted to use a different criterion from the ordinary one with which to value "not-held-for-investment" securities (for an amount totaling some Euro 3 billion). This option for all companies that do not use IAS was introduced by Law 185/2008 as a countercyclical measure in a situation of extreme turmoil on the financial markets; it reduced the incentive to sell securities, which would have aggravated the downward spiral. For the insurance sector alone, the law requires that the unrealized capital losses subject to the temporary waiver be allocated to an unavailable reserve.

At the end of 2008 Italian insurance companies held a solvency margin of Euro 36.8 billion, against a capital requirement of Euro 18.1 billion. In particular, the margin held for life policies amounted to Euro 19.8 billion, or 1.71 times the legal minimum (Euro 11.6 billion). For non-life insurance, the margin held was Euro 17.0 billion, or 2.63 times the required minimum (Euro 6.5 billion).

THE FORECASTS FOR 2009

The difficult economic situation will curb demand for non-life insurance, premiums from which are forecast to fall by 0.8% overall. Motor liability insurance premiums, down by 5.2% in the first quarter of 2009 from the same period a year earlier, are expected to contract by between 1% and 2% over the year as whole. Land-vehicle insurance premiums are forecast to drop by 4%, owing to lower sales of new vehicles. The volume of premiums in the property sector (fire and other property insurance) is likely to diminish by 1%, again owing to the economic downturn. Gains in premium income are forecast instead for accident and sickness insurance and general liability insurance.

In the life sector, the difficult economic and financial situation could induce households to increase their propensity to save and to diversify their flow of saving, which in 2008 went almost entirely to bank instruments. In the first four months of 2009 new life business topped Euro 17 billion, up by more than 25% from a year earlier. In particular, premiums written in Class III (linked policies) were 80% lower than in the corresponding period of 2008, but this collapse was offset by new business for traditional Class I products, which in the same period grew by 145%.

Overall, the insurance industry made a loss ...

... and had negative ROE

The Report presents their solvency margin, which is more than double the required minimum

The difficult economic situation will curb non-life premium income ...

... while the increase in households' propensity to save and a reallocation of their new investment flows could push up life premium income



Assuming a gradual restoration of orderly conditions in the financial markets in 2009, life insurance premiums should return to growth on an annual basis, but not at the pace seen in the first four months of the year. The forecast is for life premium income to expand by 10% to nearly Euro 60 billion, rising from 3.5% to 4.0% of GDP. This overall growth would be the net result of a sharp increase in premiums on traditional Class I policies (+45%) and a fall in premiums on financial insurance products, which are expected to decline by 60% this year after contracting by nearly 40% in 2008.

Total premium income will grow by 5.4%, increasing to 6.5% of GDP

Total premiums from direct Italian insurance business should return to growth in 2009, increasing by 5.4% to Euro 97 billion and from 5.9% to 6.5% in relation to GDP.

LIFE INSURANCE – DIRECT ITALIAN BUSINESS

Italian households' disposable income fell slightly in 2008 but the saving rate rose ...

Italian households' disposable income grew by 2.7% in nominal terms but fell by 0.5% in real terms in 2008. The slight increase in the household saving rate, from 11.8% to 12.2%, can probably be ascribed to households' losses on financial investments and the deterioration in the outlook for the economy and for employment, which prompted households to make prudential alterations to their consumption plans.

... while the flow of both investment and borrowing diminished

In 2008 the annual flow of households' financial investment fell from Euro 103 billion to Euro 70 billion, while that of household debt shrank from Euro 60.5 billion to Euro 26 billion. Households' financial saving, defined as the difference between the gross flow of assets and that of liabilities, came to Euro 43.7 billion, about the same as in 2007, and was equal to 2.8% of GDP.

Italian households' purchases consisted largely of bank instruments ...

The bulk of purchases by households involved instruments issued by Italian banks, which were forced to compensate for the difficulty of raising funds in international markets drained by the liquidity crisis. Net purchases of these instruments totaled Euro 92.5 billion, including Euro 16.7 billion of current account deposits and Euro 48.7 billion of bonds.

By contrast, households made disposals of investment fund units (Euro 66 billion, compared with Euro 35.5 billion in 2007), life insurance products (Euro 10.5 billion, compared with Euro 9 billion in 2007) and government securities (Euro 3 billion, against purchases of Euro 39 billion in 2007).

... and the value of their financial portfolios diminished because of the collapse of stock markets

Plunging equity prices reduced the overall value of households' financial portfolios. Shares and other equity made up 21% of the overall portfolio at the end of 2008, down from 27.2% a year earlier. Some 30% of households' portfolio is invested in instruments issued by Italian banks (almost half in the form of current accounts); 17.1% in life insurance products, employee severance pay funds and pension funds (for life insurance policies alone, 10.0%, compared



with 9.8% at the end of 2007); and 8.6% in postal savings products. Investment funds, Italian government securities and foreign securities each make up about 5% of the aggregate portfolio.

At the end of 2008 the total portfolio of financial assets stood at Euro 3,428 billion, equal to little more than three times disposable income, as against 3.5 times a year earlier; the reduction in the ratio to income was comparable to that recorded in the euro area (from 3.1 to 2.8). Subtracting liabilities, net financial wealth amounted to Euro 2,592 billion, or 2.5 times disposable income.

Life premiums totaled Euro 54.6 billion, down by 11.2% compared with 2007, when they had already fallen at about the same pace (11.4%). The decline was the net result of a sharp decrease in financial insurance products and an increase in premiums from traditional policies offering a guaranteed minimum yield.

Premiums from Class V capitalization policies diminished by 30%, after falling by 50% in 2007. Premiums earned on linked policies, whose purchasers bear the financial risk of the investment, fell by 36.1%, compared with an increase of 6.1% in 2007. A similar performance was also recorded for premiums collected in Italy by companies operating under the freedom to provide services, which mainly offer linked policies. According to our estimates, in 2008 these companies booked premiums of about Euro 6 billion, some 40% less than in 2007.

By contrast, premiums from traditional Class I policies grew by 15.7% and rose from 44.2% to 57.6% of total life premiums.

The ratio of operating costs to premiums declined from 7.6% to 7.4%, despite the greater share of premiums from Class I policies, which involve higher expenses. In particular, for Class I policies the costs-premiums ratio fell from 10.3% to 9.1%.

The accounting losses on financial investments gave rise to a negative technical result (Euro -3.0 billion), concentrated in Class I (Euro -2.4 billion). ROE was -7.8%, compared with +10.6% in 2007.

The ratio of profit to technical reserves (analogous to the indicator commonly used in the asset management industry, in which the denominator is assets invested on behalf of the insured) was negative and equal to 87 basis points, against a positive ratio of 46 basis points in 2007.

In October COVIP approved the regulation on enrolment procedures for supplementary pension plans. The Report describes the changes regarding the information document and the new rules for enrolling members. ANIA, together with the other associations operating in the sector of supplementary

Direct life premiums diminished by 11.2% ...

... owing mainly to the contraction in linked and capitalization policies ...

... although traditional life policies grew

Operating expenses fell in relation to premiums ...

... but the losses booked on investments led to a negative technical result

The Report also devotes specific attention to new developments in supplementary pension provision



retirement provision (ABI, Assofondipensione, Assogestioni and Assoprevi-denza), COVIP, Mefop and some administrative service providers have sub-scribed to guidelines for managing transfers of members' individual positions from one type of supplementary pension plan to another. The guidelines specify rules of conduct and minimum efficiency standards.

NON-LIFE INSURANCE – DIRECT BUSINESS IN ITALY

In 2008 non-life premiums from direct business slipped by 0.5%

In 2008 premium income from direct Italian business in the non-life sector amounted to Euro 37.5 billion, 0.5% less than in 2007. The ratio of premiums to GDP declined to 2.4% owing to the fall of 3.2% in motor insurance premiums; premium income in the other non-life classes rose by 2.9%, the lowest growth rate recorded in this decade.

*The Report offers detailed discussion of:
... underinsurance in Italy ...*

The Report also gives the CEA data on other European countries for 2008. The ratio of non-life premium income to GDP was 2.4% in Italy, compared with 3.1% in France and 3.4% in the United Kingdom and Germany. Excluding motor vehicle insurance, the gap with respect to the other countries is even more striking, with a ratio of 1.1% in Italy, against 2.6% in Germany, 2.5% in the United Kingdom and 2.2% in France.

Underinsurance is a factor of vulnerability for the Italian economy. It cannot be ascribed to the quality of insurance supply, which is comparable to that in the other countries in part because all the leading European insurance companies operate in Italy and have substantial market shares.

Rather, it is the product of a system which, unlike the situation in the other advanced countries, does not promote efficient public-private partnership in such essential fields as health, supplementary retirement provision and the management of natural catastrophes.

... claims frequency in sickness insurance

The Report presents an analysis of a sample of companies providing sickness insurance and gives detailed results of the cost of claims according to sex. In particular, setting the pure premium (the amount given by the product of the frequency of claims and the average cost of claims) for males equal to 1, the pure premium for women is 1.25. Even excluding the cost of pregnancies and all the associated events (natural child-birth, cesarean birth, therapeutic abortion, miscarriage, extrauterine pregnancy), the cost of insuring females is still 15% higher on average than for males.

MOTOR LIABILITY INSURANCE

Motor liability premiums fell by 3.3% in 2008 ...

Total premium income in this sector came to Euro 17.6 billion in 2008, a fall of 3.3% following the decline of 1.0% in 2007. Premiums had never declined for two years running since liberalization of the sector in 1994.



A survey conducted by ANIA using a methodology consistent with what the supervisory authority ISVAP requires of insurers indicates that the number of vehicles insured increased slightly (by 0.3%). Consequently, the average cost of liability coverage fell by 3.6%, owing to intense competition.

... and the average cost of coverage fell 3.6%

Over the last four years the average price of motor liability insurance policies has come down by 8.3%, with reductions of 1.5% in 2005, 0.8% in 2006, 2.7% in 2007 and 3.6% in 2008.

In four years, the average price has come down 8.3%

ISTAT's index of motor liability prices is less and less representative of consumers' actual spending on this item; it rose 2.4% in 2008, while the overall CPI increased by 3.3%. ISTAT's index is based on a series of motorist profiles that are fixed in time (a fixed-weights, Laspeyres index). That is, it fails to take account of:

ISTAT's index shows liability policy prices rising 2.4% but fails to take account of:

- bonuses for drivers not at fault for any accident during the previous year (92% of all drivers);
- customer discounts, which are increasingly common owing to competition and for which no cap can be set (Law 248/2006, the so-called Bersani I decree);
- the fact that more and more policyholders are changing insurer in the search for lower prices. Some surveys have found that every year between 9 and 12% change insurers;
- the effects of the new rules on bonus/malus clauses under the Bersani decree. These measures impose improper "discounts" for certain classes of insured: in particular, family members purchasing another vehicle and motorists held to be jointly responsible for an accident but who are not the "principal" driver at fault.

... higher merit classes ...

... discounts ...

... policyholders changing insurer for better terms ...

... and changes to bonus/malus rules ...

The result was a significant worsening, in 2008, of the discrepancy between the ISTAT index for motor liability insurance and the actual average cost of coverage: the gap between the two indexes widened to 6 percentage points (the former rising 2.4% and the latter falling 3.6%), compared with 4.2 points in 2007 and an average of 2.5 in 2003-06. In a competitive market, this has been due essentially to the increasingly common practice of offering price discounts and to the measures entitling a large number of policyholders to an unwarranted, more favorable bonus/malus class.

This year's Report has a special box on the effects of the new bonus/malus rules. The data show the rapid emptying out of the formal entry-level class (class 14). Between 2004 and 2006, this class accounted for about 5.5% of all policyholders. Already in 2007, with only partial application of the Bersani decree, this percentage fell to 4.6%; and in 2008 it plunged to 2.0%, as the new rules were fully in effect. At the same time, the number in the top merit class (class 1) increased significantly. Taking the "scale of coefficients of the administered tariff" (Interministerial Committee on Prices regulation of 1993), we can estimate that holding the other relevant characteristics constant, the change in the distribution according to merit class has reduced the weighted

... which were particularly important in 2008



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average cost of liability coverage by 3.3%. And using the scale of coefficients that insurance companies themselves actually use would produce an even sharper decline.

Thus it is possible that the imposition of these discounts, already in 2007, came at the expense of other categories of insured. In any event, in the medium term technical imbalances stemming from the cut in premiums will require super-premiums from other policyholders to make up for the lost income.

Claims frequency rose slightly (1.4%) ...

Claims frequency – 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 accident (measured on the basis of days of exposure during the year, or “vehicle-years”) – rose from 7.61% in 2007 to 7.72% last year, an increase of 1.4%. Counting an estimate for accidents incurred but not yet reported (IBNR), the claims frequency was unchanged in 2008 at 8.52%.

... while the average claim cost edged down (-0.6%) ...

The total cost of claims incurred in 2008 was Euro 14,752 million, virtually the same as in 2007 (Euro 14,794 million). As the number of claims (including the IBNR estimate) rose very slightly (by 0.3% to 3,697,975), the average claim cost fell by 0.6% from Euro 4,014 to Euro 3,989. Net of IBNR claims and contributions to the Road Accident Victims Guarantee Fund and other residual items, the average cost of claims worked out at Euro 3,903 in 2008, down 1.6%.

... total claim costs held stable ...

The total cost of claims settlement during the year, which includes not only the current generation of claims but also those of years past, diminished by 0.5% compared with 2007, as the reserves set aside for previous years' claims exceeded outlays by Euro 92 million, compared with Euro 62 million in 2007.

... but owing to the sharp decline in premium income, the loss ratio for the year rose

Nevertheless, the very slight decline in claim costs was much more than offset by the decline in premium income. This explains the worsening of the loss ratio, which rose from 80.7% in 2007 to 82.3% in 2008.

The ratio of operating expenses to premiums rose

Operating expenses came to Euro 3,275 million in 2008, down from Euro 3,346 million in 2007. These expenses comprise administrative costs for technical management and the cost of acquiring new contracts, collecting premiums, and organizing and running the distribution network. The ratio of operating expenses to premiums rose from 18.3% to 18.6% despite the reduction in the incidence of administrative costs (from 4.9% to 4.7%). It was an increase in the ratio of policy distribution costs to premiums (from 13.4% in 2007 to 13.9% in 2008) – a consequence of the ban on tied agency – that forced insurance companies in many cases to increase the levels of compensation to agents, in order to ensure their loyalty.



The technical balance on direct business was negative by Euro 421 million, compared with a negative balance of Euro 55 million in 2007. Even factoring in earnings on investments (Euro 341 million), which were more than halved, the technical result was still negative by Euro 80 million, compared with a positive balance of Euro 908 million in 2007. Including reinsurance business, the overall technical account result was negative by Euro 84 million, compared with a positive balance of Euro 957 million the previous year. As a ratio to premiums, it plunged from 5.2% to -0.5%.

The Report examines the procedures for calculating the fixed compensation amounts for 2009. The procedures were the same as for 2008, as they were only modified by Presidential Decree 28 of 18 February 2009, which admitted the possibility – previously excluded – that compensation between insurance companies could be differentiated according to average costs by type of vehicle. The new standards will resolve, in particular, the problem of motorcycles and scooters, whose average claim cost is higher than that of other vehicles. Hopefully, the new rules for calculating compensation amounts will go into effect soon, and in any case by 1 January 2010. Another box, finally, describes how the technical and computer procedures for direct indemnity work in practice.

A section is given over to insurance policies containing specified repair clauses. These increasingly common clauses are now envisaged in the contracts offered by companies that collect about 60% of all motor liability premiums in Italy. The direct indemnity system is also prompting increased popularity of “kasko” policies with a predetermined indemnity ceiling (generally, Euro 15,000), which are cheaper than the traditional kasko policy.

Starting in the middle of June 2009, the website of ISVAP offers the “One-Stop Estimator” for motor liability. The purpose is to spur competition by enabling the consumer, with just one query, to learn the estimates of all insurers for the policy he is interested in. ISVAP puts top priority on the user-friendliness of the Estimator, laying down that the filling in of the various data fields by the consumer is optional. Thus the number of estimates that the user gets depends on the data he elects to supply on his risk profile (e.g. personal data on the owner, driver and other household members, technical specifications on the vehicle, type of use, and so on). The greater the number of fields filled in, the higher the number of responses.

On the legislative plane, the Report describes the new compulsory minimum liability coverage for motor insurance. Beginning on 11 December 2009, motor liability insurance policies on all types of vehicle or watercraft must conform to the following standards:

- for personal injuries they must cover at least Euro 2.5 million per accident, whatever the number of victims;

The overall technical result was negative, owing partly to a sharp decline in investment income

The Report provides information on:

... the calculation of the fixed compensation amounts ...

... the specified repair clauses, now envisaged by 60% of the market ...

... and the on-line “One-Stop Estimator” for motor liability policies ...

... new compulsory minimum liability cover starting December 2009 ...



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... EU Court of Justice decision confirming the obligation to provide motor liability insurance

- for damage to property, they must provide minimum cover of at least Euro 500,000 per accident, whatever the number of owners involved.

Finally, there is a report on the European Court of Justice decision on the question of the obligation upon insurers to provide motor liability coverage. The Court ruled in favor of Italy, which had defended its imposition of the obligation on the grounds that it had guaranteed ample social protection for the victims of road accidents and at the same time ensured that in certain parts of the country motor liability insurance was provided on terms acceptable for both insured and insurer.



The Italian insurance market: key figures 2008

The number of companies operating in Italy increased, because of the presence of new foreign units in non-life classes.

OPERATING INSURANCE COMPANIES

As at 31 December 2008, 246 insurance companies were operating in Italy (241 as at 31 December 2007), of which 163 were insurance companies with registered office in Italy (as at 31 December 2007) and 83 were branch offices of foreign insurance companies (78 as at 31 December 2007), mainly from European Union member States (79). Moreover, as at 31 December 2008, 904 insurance companies with registered office in the EU (or in other States belonging to the EEA) were operating in freedom of services.

82 insurance companies write only life insurance business (of which 18 are foreign branch offices) and 136 companies write only non-life business (of which 55 are foreign branch offices); 21 companies (of which 4 are foreign branch offices) write both life and non-life business, accounting for 53.4% of the total premium collection in terms of market share; 7 companies write only reinsurance business (of which 6 are foreign branch offices). Now, following corporate operations, all 7 reinsurance companies are foreign branch offices.

179 insurance companies are ANIA members (of which 22 are corresponding members): these insurance companies represent more than 90% of the premiums of the entire market.

Considering the legal status of the 163 companies that have legal offices in Italy, 159 are joint stock companies, 3 are mutual companies and one is a cooperative company.

NUMBER OF COMPANIES BY LEGAL STATUS

BUSINESS SECTOR	(situation as at 31 December)	DOMESTIC COMPANIES				FOREIGN BRANCHES		TOTAL
		Limited companies	Cooperatives	Mutuals	Total	with legal status in EXTRA-EU countries	with legal status in EU countries	
Non-life	2007	75	-	2	77	3	50	130
	2008	79	-	2	81	3	52	136
Life	2007	67	-	-	67	-	15	82
	2008	64	-	-	64	-	18	82
Professional reinsurers	2007	1	-	-	1	1	5	7
	2008	1	-	-	1	1	5	7
Multi branches	2007	16	1	1	18	-	4	22
	2008	15	1	1	17	-	4	21
Total	2007	159	1	3	163	4	74	241
	2008	159	1	3	163	4	79	246

NUMBER OF COMPANIES IN EU (15) COUNTRIES

Data as at 31 December

	2003	2004	2005	2006	2007
Austria	72	71	73	72	71
Belgium	189	181	171	161	158
Denmark	216	213	206	201	201
Finland	68	68	67	66	65
France	486	475	486	477	480
Germany	677	662	663	647	642
Greece	100	99	95	90	87
Ireland	224	217	226	226	226
Italy	249	245	239	244	241
Luxembourg	95	95	95	95	95
Netherlands	379	363	352	368	352
Portugal	74	70	70	76	80
Spain	393	379	362	354	354
Sweden	440	428	415	392	392
United Kingdom*	772	1,167	1,118	1,050	1,050
Total	4,434	4,733	4,638	4,519	4,494

Source: CEA

(*) Change of definition since 2004

PREMIUMS PER COMPANY IN EU (15) COUNTRIES

Euro million

	2003	2004	2005	2006	2007
Austria	182	197	210	217	224
Belgium	136	157	198	185	199
Denmark	70	75	82	93	100
Finland	186	194	213	226	231
France	292	333	362	413	405
Germany	218	230	238	250	254
Greece	32	37	41	48	54
Ireland	53	55	60	71	78
Italy	390	412	459	436	411
Luxembourg	77	94	118	135	129
Netherlands	122	133	136	198	216
Portugal	128	150	192	173	172
Spain	103	120	135	149	154
Sweden	44	45	54	59	64
United Kingdom*	274	190	214	255	281
Total	181	192	209	227	234

Source: CEA

(*) Change of definition since 2004



The Italian insurance market: key figures 2008

In 2008 Italian insurance companies' economic results were seriously undermined by the financial crisis, which affected the whole world economy in the second half of the year. The non-life technical balance was still positive (Euro 0.4 billion), while the life sector showed a large negative balance of about Euro 3 billion. In total, the technical account result was negative by Euro 2 billion and was equal to -4.7%.

INCOME STATEMENT

INCOME STATEMENT
Euro million

	2002	2003	2004	2005	2006	2007	2008
Technical account of non-life and life classes (*)							
Written premiums	86,350	95,646	100,098	108,451	106,273	96,765	89,156
Changes in reserves (-)	32,645	43,720	40,427	41,999	19,189	-9,495	-22,249
Investment income	3,939	13,090	16,316	20,064	15,132	10,835	-9,792
Other technical income	980	1,135	1,215	1,321	1,337	1,433	1,528
Incurred claims (-)	44,459	48,994	58,826	68,236	83,971	99,010	91,082
Operating expenses (-)	10,648	11,346	11,927	12,567	13,345	13,390	12,579
Other technical costs (-)	1,088	1,656	1,430	1,241	1,434	1,631	2,029
Balance	2,429	4,155	5,019	5,792	4,803	4,497	-2,549
Technical account - non-life (*)							
Written premiums	30,958	32,729	34,208	34,663	35,458	35,211	34,327
Changes in premiums reserves (-)	825	656	599	638	629	602	260
Investment income	1,483	2,012	2,234	2,318	2,115	2,131	826
Other technical income	321	371	371	319	371	365	424
Incurred claims (-)	22,736	23,633	24,269	24,294	25,058	24,634	25,395
Operating expenses (-)	7,178	7,522	7,949	8,184	8,366	8,646	8,462
Other technical costs (-)	760	874	1,045	883	1,082	1,000	1,085
Balance	1,263	2,427	2,951	3,302	2,808	2,825	375
Technical account - life (*)							
Written premiums	55,392	62,917	65,890	73,788	70,815	61,554	54,829
Changes in technical provisions (-)	31,820	43,064	39,828	41,361	18,561	-10,097	-22,509
Investment income	2,456	11,078	14,082	17,745	13,017	8,704	-10,618
Other technical income	659	764	844	1,001	967	1,068	1,104
Incurred claims (-)	21,723	25,361	34,557	43,942	58,913	74,376	65,687
Operating expenses (-)	3,470	3,824	3,978	4,383	4,979	4,744	4,117
Other technical costs (-)	328	782	385	358	352	631	944
Balance	1,166	1,728	2,068	2,490	1,995	1,672	-2,924
Non-technical account							
Other non-life income	401	518	810	894	777	911	-406
Other life income	726	868	1,127	1,179	1,238	980	438
Balance of other income and expenses	-872	-951	-1,016	-862	-1,062	-957	-1,609
Balance of ordinary activities	2,684	4,590	5,940	7,003	5,757	5,431	-4,126
Balance of extraordinary activities	2,262	1,132	1,027	691	941	1,476	750
Taxes on income (-)	1,436	1,929	1,731	1,837	1,537	1,558	-1,407
Result for the financial year	3,510	3,793	5,236	5,857	5,161	5,349	-1,969
Return on Equity	10.6%	10.6%	13.6%	13.8%	11.4%	12.3%	-4.7%

(*) Technical items net of cessions and retrocessions

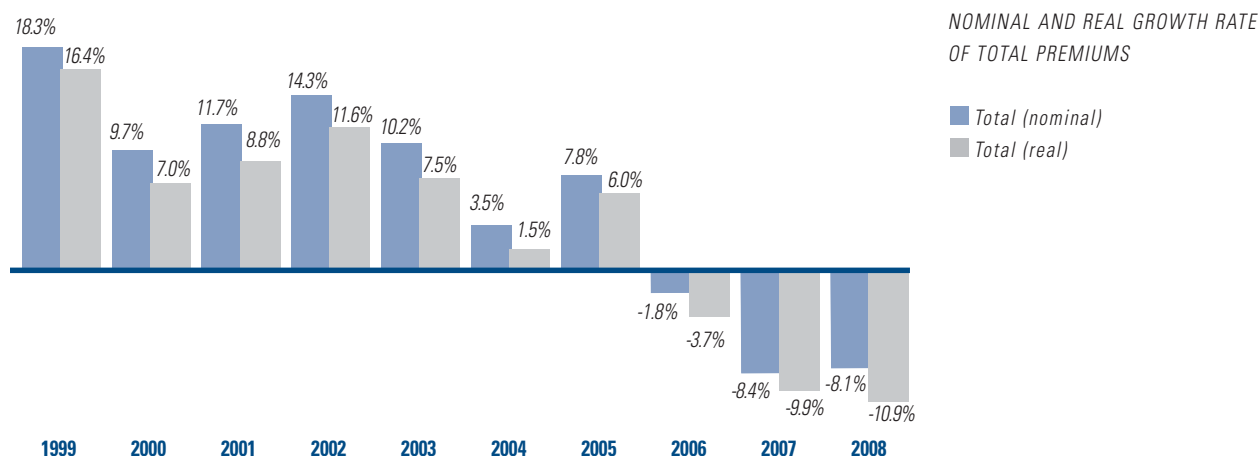
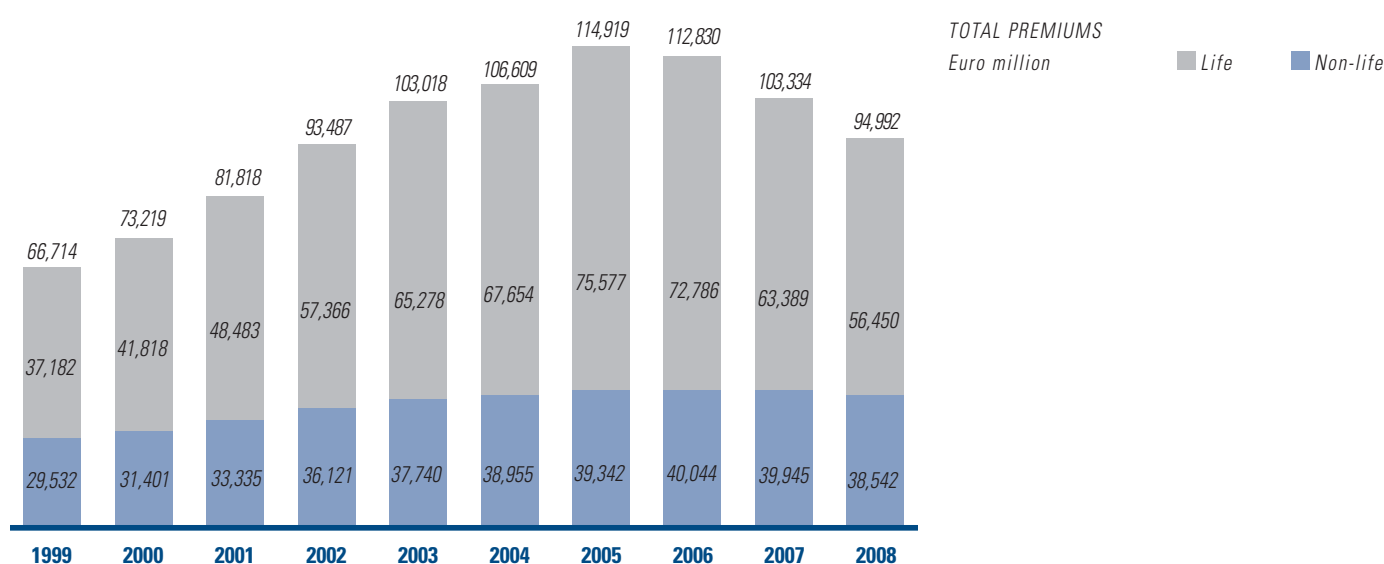


The Italian insurance market: key figures 2008

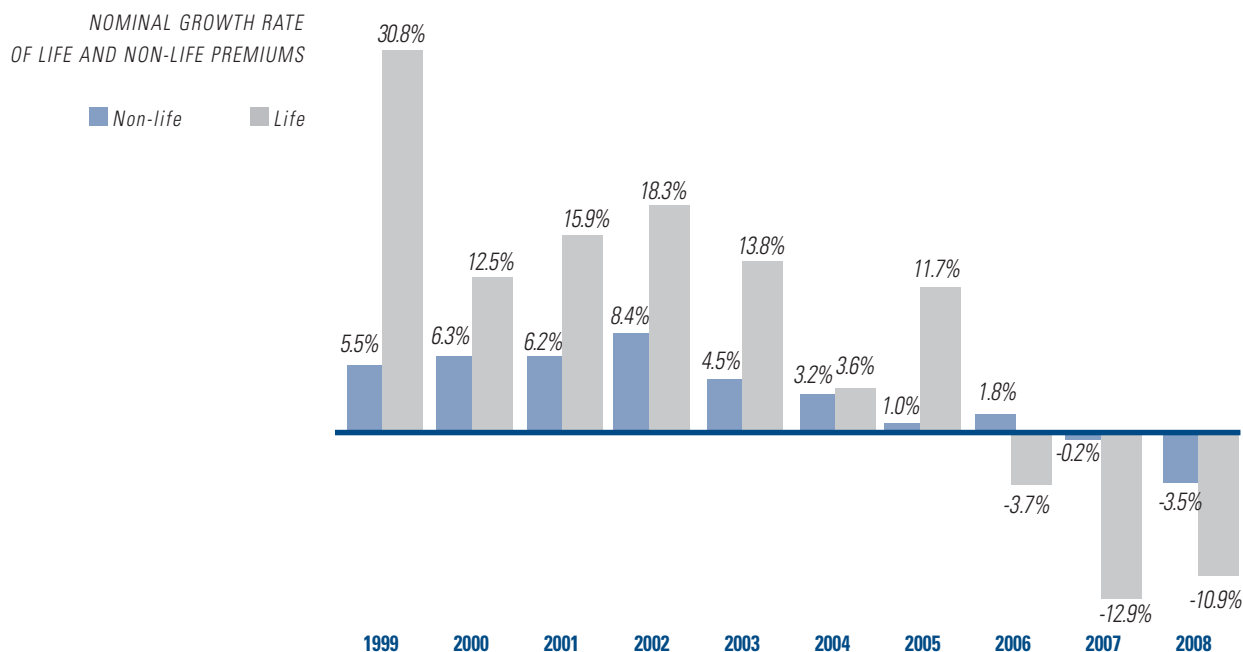
TECHNICAL ACCOUNT

Premium income

The total gross premiums for domestic and foreign business, direct and indirect, gross of reinsurance, collected by the companies with registered offices in Italy and by the branches of foreign non-European Union companies totaled Euro 94,992 million in 2008. In particular, Euro 38,542 million was collected in non-life classes and Euro 56,450 million in life classes.



The Italian insurance market: key figures 2008



After the reduction recorded in 2007 (-8.4%), overall premiums recorded another similar decrease in 2008, equal to -8.1%. This result was determined by the life sector, whose premiums decreased in 2008 by 10.9% (they had decreased by 12.9% in 2007).

Premiums in non-life classes decreased by 3.5% compared to 2007. As a result of these trends, the share of life premiums on the total decreased compared to the previous year (from 61.3% to 59.4%).

The percentage of **premiums ceded to reinsurance** decreased slightly (from 6.4% in 2007 to 6.1% in 2008). The overall amount of these premiums was equal to Euro 5,836 million, of which Euro 4,215 million in non-life classes and Euro 1,621 million in life classes.

Overall premiums, net of the share of ceded premiums, came to Euro 89,156 million (with a 7.9% decrease compared to the previous year): Euro 34,327 million in non-life classes and Euro 54,829 million in life classes.

Claims, benefits and provisions

Benefits to insured and other beneficiaries, **gross of reinsurance**, are obtained as a sum of the following components:

- incurred claims cost and changes in premium reserves for the non-life classes;



The Italian insurance market: key figures 2008

- incurred claims cost and changes in mathematical reserves and the other technical reserves for the life classes.

The amount of these benefits was Euro 73,219 million (-22.0% compared to 2007): Euro 28,624 million in non-life classes (+2.3%) and Euro 44,595 million in life classes (-32.4%). The **reinsurance contribution** was equal to Euro 4,386 million (-0.5%), of which Euro 2,969 million for non-life classes and Euro 1,417 million for life classes.

The **amount of benefits** was therefore Euro 68,833 million (-23.1%): Euro 25,655 million in non-life classes and Euro 43,178 million in life classes.

Operating expenses

Operating expenses for direct and indirect business, net of reinsurance, including acquisition costs, costs arising from premium collection, costs relating to the organisation and management of the distribution network and the administration expenses relating to technical management of insurance business, totalled Euro 12,579 million with a decrease of 6.1% compared to 2007.

Due to a reduction in the overall written premiums and to a change in the mix between life and non-life business, the incidence of operating expenses on written premiums rose from 13.8% of 2007 to 14.1% of 2008. In particular, the operating expenses for non-life business were equal to Euro 8,462 million, with an incidence on premiums of 24.7% (24.6% in 2007); for life business, they were equal to Euro 4,117 million, with an incidence on premiums of 7.5% (7.7% in 2007).

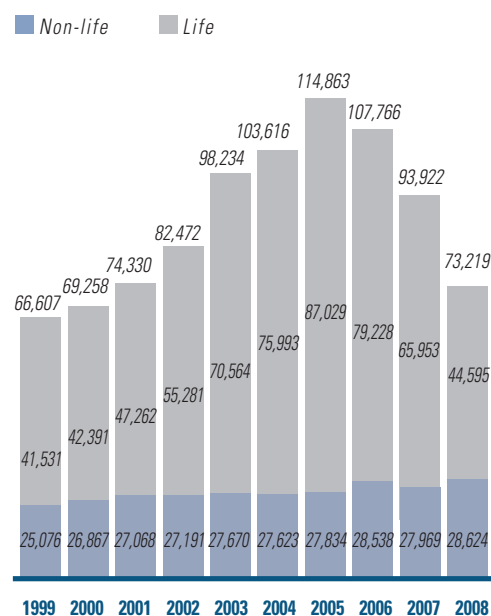
Technical account result

The **technical account result**, net of reinsurance, was negative by Euro 2.5 billion, equal to -2.9% of direct and indirect premiums (it was positive and equal to 4.6% in 2007). There was a positive result for non-life classes totalling Euro 375 million (Euro 2,825 million in 2007); the incidence of this result on premiums decreased from 8.0% in 2007 to 1.1% in 2008.

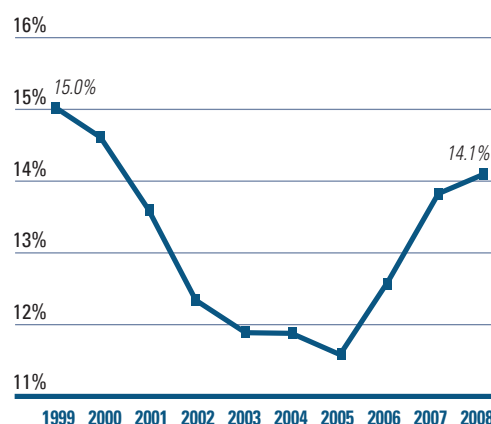
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	-0.1	1.8	2.7	2.8	4.3	5.0	5.3	4.5	4.6	-2.9
Non-life	-3.5	-1.1	2.2	4.1	7.4	8.6	9.5	7.9	8.0	1.1
Life	2.3	3.7	3.1	2.1	2.7	3.1	3.4	2.8	2.7	-5.3

There was a negative result for life classes of Euro 2.9 billion (Euro 1.7 billion in 2007); the ratio to premiums thus fell from 2.7% in 2007 to -5.3% in 2008.

CLAIMS, BENEFITS AND PROVISIONS
Euro million



RATIO OF OPERATING EXPENSES TO PREMIUMS
Incidence on net written premiums (%)



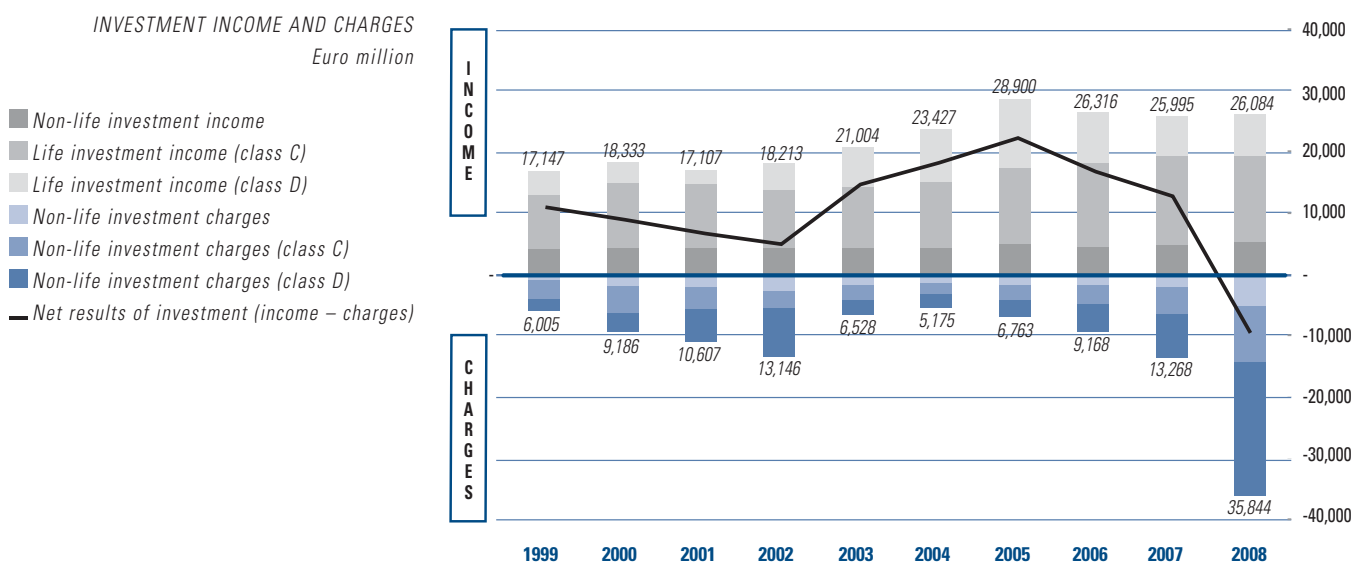
TECHNICAL ACCOUNT RESULT
Incidence on net written premiums (%)



The Italian insurance market: key figures 2008

INVESTMENT INCOME

In 2008 the insurance sector suffered the effects of the international financial crisis. In particular, the value of share portfolios shrank; the sudden drop in interest rates had a negative impact on profits deriving from fixed income securities and the increase in default risk, involving important issuers as well, implied a reduction in the value of corporate bonds held in the companies' portfolios. All these factors explain why, for the first time, the overall result of investment net of charges was negative at about Euro 9 billion (it was positive and equal to Euro 14 billion in 2007): extraordinary net investment income halved, remaining nevertheless positive and equal to Euro 750 million.



In 2008 **investment income**, equal to Euro 26,084 million, remained substantially stable compared to 2007. In particular:

- non-life investment income, equal to Euro 5,468 million, increased by 7.5% compared to 2007;
- life investment income (C class), equal to Euro 14,164 million, decreased by 2.5% compared to 2007;
- life investment income (D class), equal to Euro 6,451 million, increased by 1.0% compared to 2007.

More in detail, as highlighted in the chart, the **ordinary gross investment income for life and non-life classes**, equal to Euro 26,084 million (Euro 25,995 million in 2007) was divided as follows:

- *shares and holdings*, for an amount of Euro 3,472 million (-3.5% compared to 2007), representing 13.3% of the total;
- *investments for the benefit of insured and investment income deriving from pension fund management*, for an amount of Euro 6,451 million (+1.0% compared to 2007), representing 24.7% of the total;



The Italian insurance market: key figures 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Shares	6.1	7.1	11.9	13.7	12.0	9.5	10.8	11.1	13.8	13.3
Land and buildings	4.1	3.8	4.1	2.6	1.5	1.1	0.8	0.9	0.9	0.9
Other investments	43.5	44.9	49.7	46.8	41.9	42.7	37.5	44.6	47.2	47.9
Revaluations	22.2	25.8	17.5	12.9	12.9	11.7	11.1	12.3	13.5	13.1
Income from linked and pension funds	24.1	18.4	16.8	24.0	31.7	35.0	39.8	31.1	24.6	24.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

BREAKDOWN OF GROSS ORDINARY INVESTMENT
INCOME – LIFE AND NON-LIFE (%)

- *land and buildings*, for an amount of Euro 237 million (+0.1% compared to 2007), representing 0.9% of the total;
- *revaluations and realised investments*, for an amount of Euro 3,429 million (-2.5% compared to 2007), representing 13.1% of the total;
- *securities, bonds and other investments*, for an amount of Euro 12,496 million (+1.9% compared to 2007), representing 47.9% of the total.

Investment charges increased from Euro 13,268 million in 2007 to Euro 35,844 million in 2008, with a 170% increase. In particular:

- non-life investment charges, equal to Euro 5,049 million, increased by 147%. The result of investment net of such charges remained negative for Euro 420 million (Euro 3,043 million in 2007);
- life investment charges (C class), equal to Euro 9,380 million, increased by 109%. The result of investment net of such charges was positive and equal to Euro 4,785 million (Euro 10,031 million in 2007);
- life investment charges (D class) equal to Euro 21,416 million, increased by 218%; as a consequence, the result of investment net of charges was negative and equal to Euro 14,965 million (negative by just Euro 346 million in 2007).

Overall, the net result of investment for the whole insurance sector was negative and equal to Euro 9,760 million (positive and equal to Euro 12,727 million in 2007).

Extraordinary income, gross of charges, was equal to Euro 1,376 million (Euro 2,300 million in 2007) and the relative charges were equal to Euro 627 million (Euro 823 million in 2007).

RESULT FOR THE FINANCIAL YEAR

The **result for ordinary activity, non-life and life**, amounted to Euro -4,126 million (it was positive and equal to Euro 5,431 million in 2007). The **result for extraordinary activity** was positive and equal to Euro 750 million, that is about half compared to 2007. Overall, the result before taxes was negative by Euro 3,376 million.

Considering the (positive) effect of **taxes** equal to Euro -1,407 million, the **overall result** of the sector highlights losses equal to Euro -1,969 million. In par-



The Italian insurance market: key figures 2008

ticular, the trend of taxes was determined by the recognition of deferred taxes for over Euro 1,600 million, which can be attributed to the recognition of the tax savings deriving from the tax losses which can be carried forward for a maximum time not exceeding the fifth tax period.

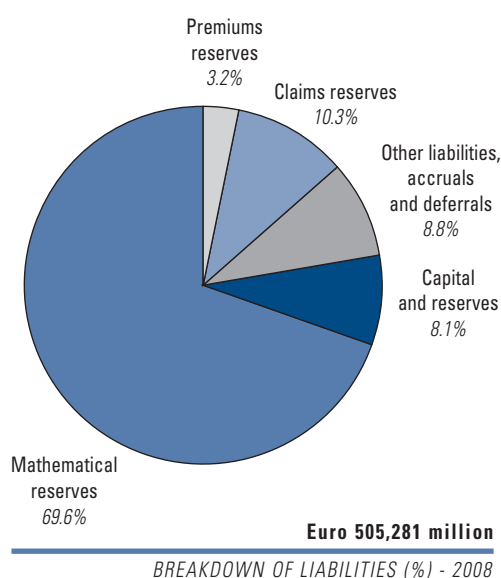
BALANCE SHEET

Liabilities

Total liabilities carried in the balance sheet amounted to Euro 505,281 million (-5.9% compared to 2007).

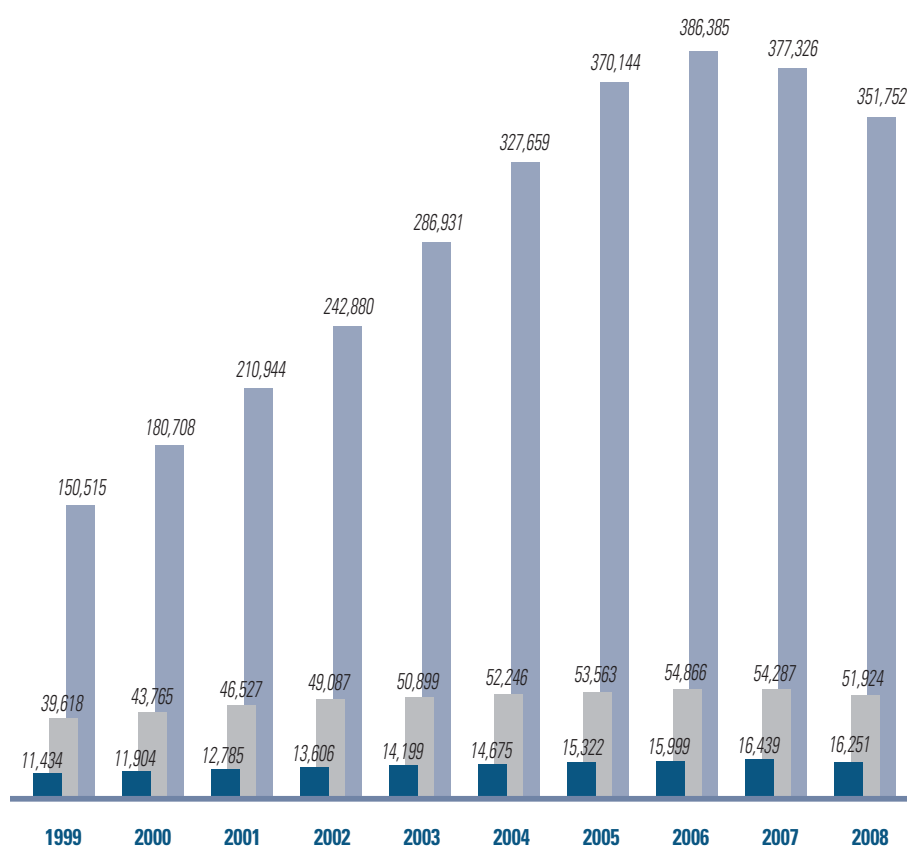
In particular:

- *capital and reserves*, equal to Euro 40,934 million (8.1% of total liabilities) decreased by 11.1% compared to 2007; for the different components, an invariance of the subscribed capital was recorded compared to 2007, equal to Euro 11,476 million, while equity reserves, equal to Euro 31,427 million, increased by 7.0% compared to 2007. The reduction of capital and reserves recorded in 2008 was influenced by the absence of income,



TOTAL TECHNICAL PROVISIONS
Euro million

- Premiums reserves
- Claims reserves
- Mathematical reserves



The Italian insurance market: key figures 2008

which in 2007 had been equal to over Euro 5 billion, whereas in 2008 the nearly Euro 2 billion loss determined an impairment of the overall capital;

- *technical provisions*, representing commitments undertaken on behalf of the insured, were equal to Euro 419,928 million and recorded a decrease of 6.3% compared to 2007; they represented 83.1% of the total. Life reserves, weighing for 69.6% on the total, decreased by 6.8%, while non-life reserves (claims and premiums) decreased by 3.6%
- *other liabilities*, equal to Euro 43,752 million (8.7% of the total), increased by 3.0% compared to the previous year, and the breakdown for this item was as follows: subordinated liabilities increased by 13.8% (from Euro 6,085 million to Euro 6,924 million) and debts and other liabilities increased by 4.3% (from Euro 21,139 million to Euro 22,043 million). Funds for risks and charges (Euro 2,125 million) decreased by 0.4%, whereas deposits received from reinsurers decreased by 3.4%, from Euro 13,109 million to Euro 12,660 million;
- *accruals and deferrals* totalled Euro 667 million (0.1% of the total).

Assets

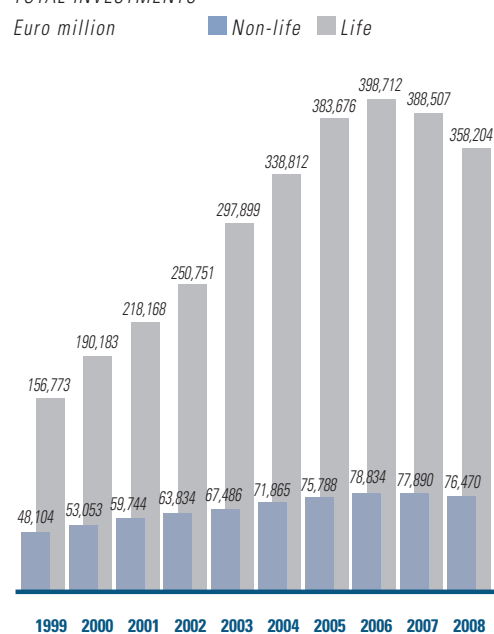
Investments, the reinsurance share of technical provisions, amounts owed by debtors, other assets, accruals and deferred income amounted to Euro 505,281 million, equalling the total amount of liabilities.

In particular:

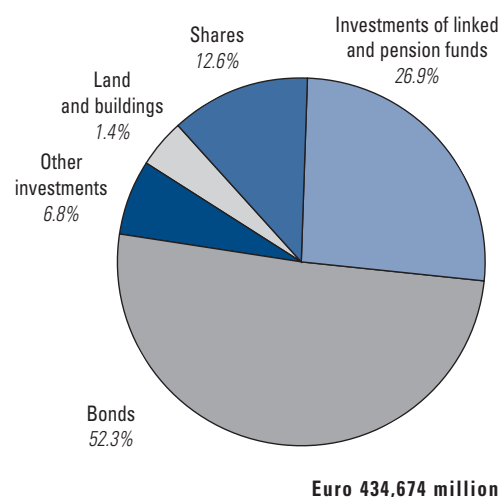
- *investments* reached Euro 434,674 million, representing 86.0% of total assets. Investments in non-life classes were equal to Euro 76,470 million (-1.8% compared to 2007) and investments in life classes were equal to Euro 358,204 million (-7.8% compared to 2007). The only increase (+7.8%) was recorded by investments in land and buildings with Euro 6,259 million. All the other forms of investment decreased as follows: investments in shares and holdings (-2.3%) to Euro 54,983 million; investments in loans and deposits (-9.0%) to Euro 29,587 million; investments in bonds and other fixed income securities that, at Euro 226,866 million, registered a contraction (-5.1%) compared to 2007; investments for the benefit of life insurance policyholders, equal to Euro 116,979 million, decreased by 14.8%;
- the *technical provisions borne by reinsurers* amounted to Euro 19,408 million, decreased by 6.0% and represent 3.8% of the total assets;
- *amounts owed by debtors* were equal to Euro 25,659 million (5.1% of the total), with an increase of 9.7%. These refer to amounts owed deriving from direct insurance activities (Euro 12,096 million), amounts owed deriving from reinsurance activities (Euro 1,830 million), and other amounts owed (Euro 11,733 million);
- *amounts owed by shareholders* (Euro 9 million), intangible assets (Euro 3,021 million consisting of commissions and other expenses) and other

TOTAL INVESTMENTS*

Euro million



(*) Net of professional reinsurers



BREAKDOWN OF INVESTMENTS (%) - 2008



The Italian insurance market: key figures 2008

BALANCE SHEET
Euro million

	2002	2003	2004	2005	2006	2007	2008
LIABILITIES	378,192	429,890	475,716	526,899	547,569	537,180	505,281
CAPITAL AND RESERVES	37,401	41,342	44,780	51,301	50,297	46,042	40,934
<i>Subscribed capital</i>	9,961	10,529	10,991	12,982	13,402	11,399	11,476
<i>Equity reserves</i>	23,930	27,033	28,621	32,463	31,837	29,370	31,427
<i>Profit for the financial year</i>	3,510	3,780	5,169	5,857	5,058	5,273	-1,969
TECHNICAL PROVISIONS	305,573	352,029	394,581	439,029	457,250	448,052	419,928
<i>Non-life classes</i>	62,693	65,098	66,921	68,885	70,865	70,726	68,176
<i>Life classes</i>	242,880	286,931	327,659	370,144	386,385	377,326	351,752
OTHER LIABILITIES	34,920	36,203	35,989	36,141	39,352	42,465	43,752
<i>Subordinated liabilities</i>	1,990	2,666	2,862	3,295	4,725	6,085	6,924
<i>Provisions for risks and charges</i>	2,045	2,189	2,105	2,219	2,206	2,133	2,125
<i>Deposits received from reinsurers</i>	13,011	13,231	12,876	12,994	12,999	13,109	12,660
<i>Debts and other liabilities</i>	17,874	18,117	18,146	17,632	19,423	21,139	22,043
ACCRUALS AND DEFERRALS	298	316	366	428	670	621	667
ASSETS	378,192	429,890	475,716	526,899	547,569	537,180	505,281
AMOUNTS OWED BY SHAREHOLDERS	84	45	15	3	25	30	9
INTANGIBLE ASSETS	2,792	3,707	4,262	3,947	3,839	3,441	3,021
INVESTMENTS:	320,069	370,814	416,322	465,109	483,143	470,989	434,674
<i>Land and buildings</i>	5,484	4,534	4,842	5,805	5,933	5,808	6,259
<i>Shares and holdings</i>	40,145	43,763	48,793	54,096	55,532	56,249	54,983
<i>Bonds and other fixed income securities</i>	161,343	186,564	208,051	235,036	252,727	239,081	226,866
<i>Loans and deposits</i>	28,342	28,837	30,460	33,603	29,100	32,529	29,587
<i>Investments for the benefit of life insurance policyholders and the investments deriving from the management of pension funds</i>	84,755	107,116	124,176	136,569	139,852	137,322	116,979
TECHNICAL PROVISIONS BORNE BY THE REINSURERS	22,003	21,789	20,753	21,072	20,770	20,658	19,408
AMOUNTS OWED BY DEBTORS	19,915	20,333	21,020	21,529	22,381	23,400	25,659
OTHER ASSETS	10,585	10,198	10,149	11,652	13,168	14,342	18,099
ACCRUALS AND DEFERRED INCOME	2,744	3,004	3,194	3,587	4,242	4,321	4,411

- assets (Euro 18,099 million) reached a total of Euro 21,129 million (4.2% of the overall amount), thus recording an 18.6% increase;
- *accruals and deferred income* amounted to Euro 4,411 million (0.9% of the total), increased by 2.1%.



The Italian insurance market: key figures 2008

THE SOLVENCY MARGIN

At the end of 2008 insurance companies with registered office in Italy, excluding reinsurers, had a solvency margin of Euro 36.8 billion for their total assets in the life and non-life sectors, a decrease compared to the previous year.

	2002	2003	2004	2005	2006	2007	2008
LIFE							
Solvency margin	18,418	20,000	20,954	23,999	24,435	22,533	19,753
Solvency margin required by law	7,986	9,132	10,266	11,544	12,041	11,796	11,583
Cover ratio	2.31	2.19	2.04	2.08	2.03	1.91	1.71
NON-LIFE							
Solvency margin	14,792	15,615	17,308	20,826	20,382	17,384	17,036
Solvency margin required by law	5,138	5,356	5,825	6,095	6,263	6,341	6,474
Cover ratio	2.88	2.92	2.97	3.42	3.25	2.74	2.63

SOLVENCY MARGIN 2002-2008
(EXCLUDING REINSURERS)

Euro million

Source: ISVAP

For life business, the margin (Euro 19.8 billion) was equal to 1.71 times the minimum requirement (Euro 11.6 billion), determined in terms of mathematical provisions and capital at risk. The ratio had been 1.91 in 2007. For non-life business the margin (Euro 17.0 billion) was 2.63 times the minimum requirement (Euro 6.5 billion), determined in terms of the amount of premiums written and the average cost of claims in the last three years (taking the higher of the two criteria). The ratio had been 2.74 in 2007 and 3.42 in 2005 (the highest level of the decade).





The Italian insurance industry in the international setting

THE INTERNATIONAL SETTING

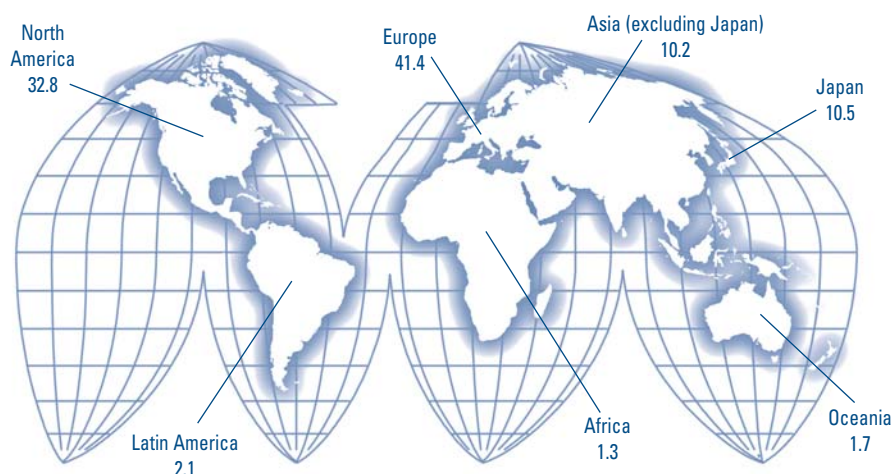
In 2007 premiums written worldwide totalled USD 4,061 billion reflecting an increase of 3.3% in real terms compared to the previous year (in 2006 there was a 4.0% increase).

Life insurance premiums totalled USD 2,393 billion, up by 5.4% in real terms (+4.1% in 2006); non-life premium volume registered an increase even though in a limited way, barely 0.7% compared to the previous year (+3.9% in 2006), to USD 1,668 billion.

In 2007 life premium collection continued to record a strong expansion in the industrial countries and in the emerging countries, with the exception of Japan.

The non-life market was still characterized by different trends between the industrial countries and the emerging countries: among the former premium collection remained steady or slightly decreasing, whereas the emerging countries increased their premium volume, even though at a lower rate than that registered in the previous years.

WORLDWIDE DIRECT INSURANCE IN 2007 - MARKET SHARES



Source: Swiss Re - SIGMA

THE IMPORTANCE OF INSURANCE BY COUNTRY

Between 2006 and 2008 the ratio of premium volume to GDP – the insurance “penetration” index – moved differently in the life and non-life sectors. It is necessary to point out that data relative to 2008 provided by CEA are still provisional and, in some cases, they are estimates made by insurance associations of the respective countries.

With regard to the life sector, the ratio increased slightly only in Spain passing from 2.2% in 2007 to 2.4% in 2008. In Germany it remained almost steady and

PREMIUMS IN 2007
Dollar million

	LIFE	NON-LIFE	TOTAL
North America	623,950	706,116	1,330,066
Latin America	35,809	51,588	87,397
Europe	1,035,942	644,751	1,680,693
Asia	623,469	217,132	840,601
of which: Japan	330,651	94,182	424,833
Africa	38,111	15,183	53,294
Oceania	35,807	33,011	68,818
Total	2,393,088	1,667,781	4,060,869

Source: Swiss Re - SIGMA

REAL GROWTH RATE IN 2007 (%)

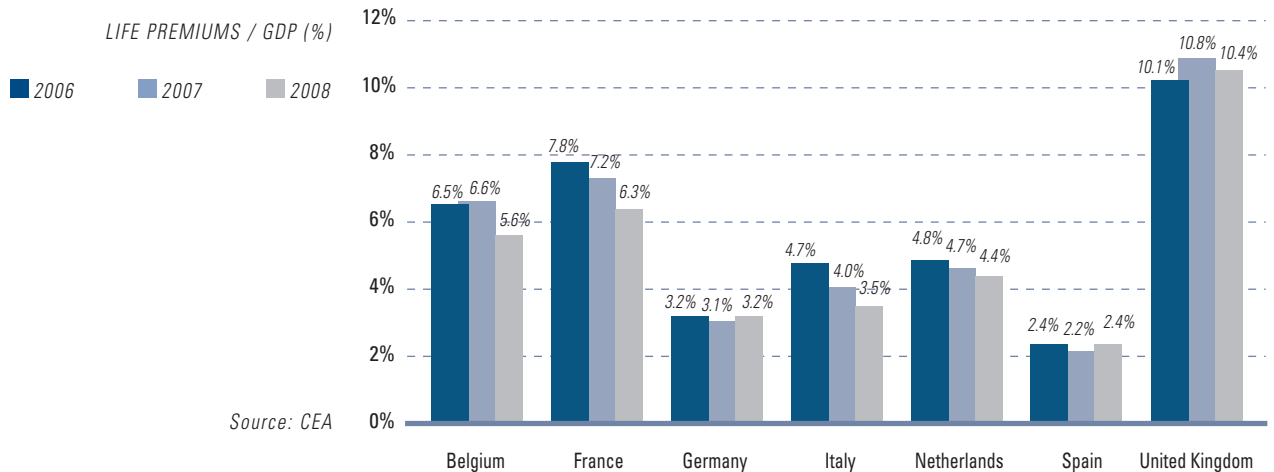
	LIFE	NON-LIFE	TOTAL
North America	5.8	-1.0	2.1
Latin America	11.4	8.3	9.6
Europe	5.6	0.7	3.4
Asia	4.3	5.1	4.5
of which: Japan	-3.6	-1.6	-3.2
Africa	3.4	0.6	2.8
Oceania	7.9	-0.2	3.9
Total	5.4	0.7	3.3

Source: Swiss Re - SIGMA



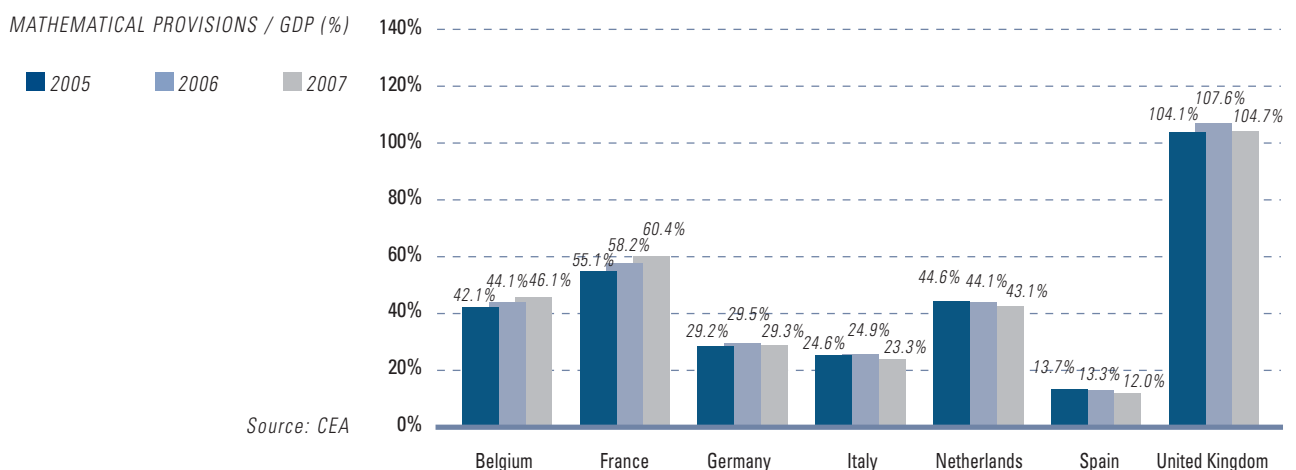
The Italian insurance industry in the international setting

equal to 3.2% in 2008 whereas in all other countries there was a reduction of the indicator. In particular, in 2008 the worst result was registered in Belgium (5.6%) and in France (6.3%) with a one percentage point decrease compared to 2007, followed by Italy, which passed from 4.0% in 2007 to 3.5% in 2008, while the United Kingdom (10.4%) and the Netherlands (4.4%) saw their indicators reduced less than half a percentage point compared to the previous year.



As regards life insurance provisions, because of the lack of data relative to 2008, the analysis was restricted to the three-year period 2005-2007.

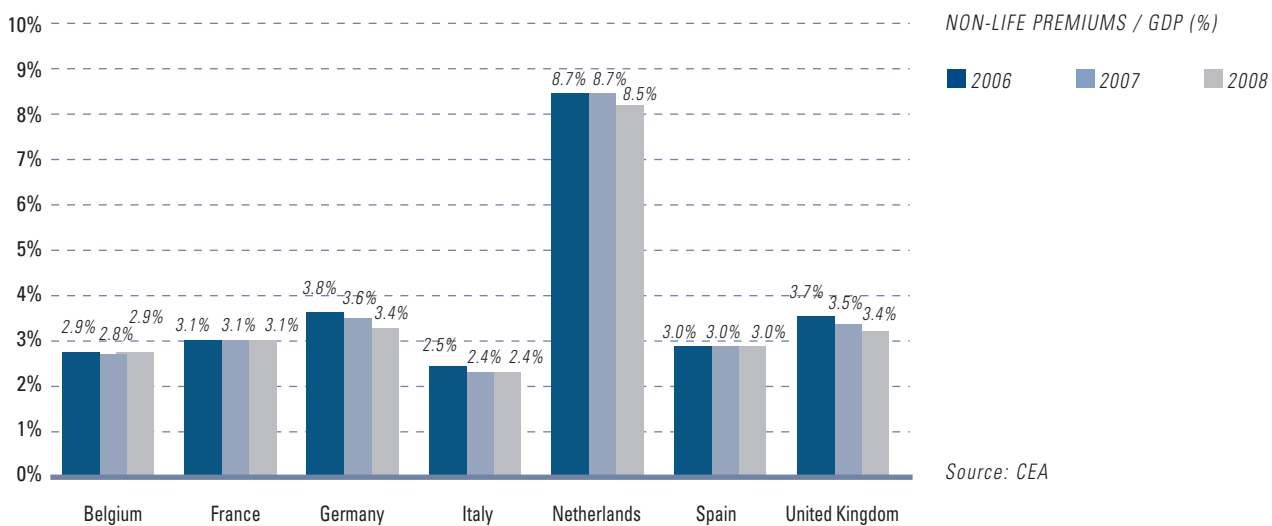
In Italy the ratio of life insurance provisions to GDP, an indicator that proxies for the degree of maturity of the life insurance market, fell to 23.3% in 2007, after a slight increase registered in 2006 reaching a value equal to 24.9% (24.6% in 2005); in Italy the ratio remained lower than in the other European countries except Spain, where it decreased gradually in the three-year period observed. In 2007 the United Kingdom continued to register the highest indicator equal to 104.7% (107.6% in 2006), followed by France (60.4%) and by Belgium (46.1%), where figures increased gradually in the three-year period; the



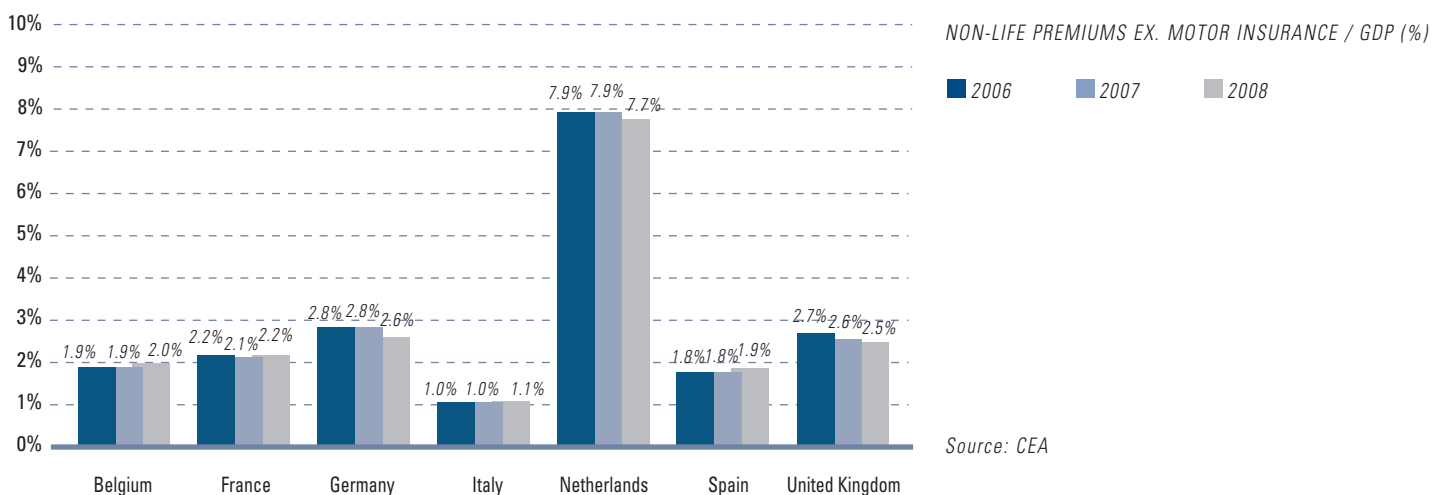
The Italian insurance industry in the international setting

Netherlands went from 44.1% in 2006 to 43.1% in 2007, whereas Germany was equal to 29.3% in 2007 (29.5% in 2006).

In the non-life sector Italy was still characterised by the lowest ratio of premiums to GDP. In the three-year period observed (2006-2008) the indicator decreased slightly to 2.4% in 2008, witnessing a large “gap” with the other countries. In particular the gap was: half a percentage point vis-à-vis Belgium, Spain and France, where figures were substantially steady at 3.0% over the three-year period; one percentage point vis-à-vis the United Kingdom, equal to 3.4% in 2008 (3.5% in 2007); the Netherlands still registered a gap with Italy equal to six percentage points as a result of the reform of the health system started in 2006.



The gap between Italy and the other European countries increased, concerning the non-life insurance “penetration” index, excluding motor premiums. This allows a clear comparison of propensity to take out insurance, as motor



The Italian insurance industry in the international setting

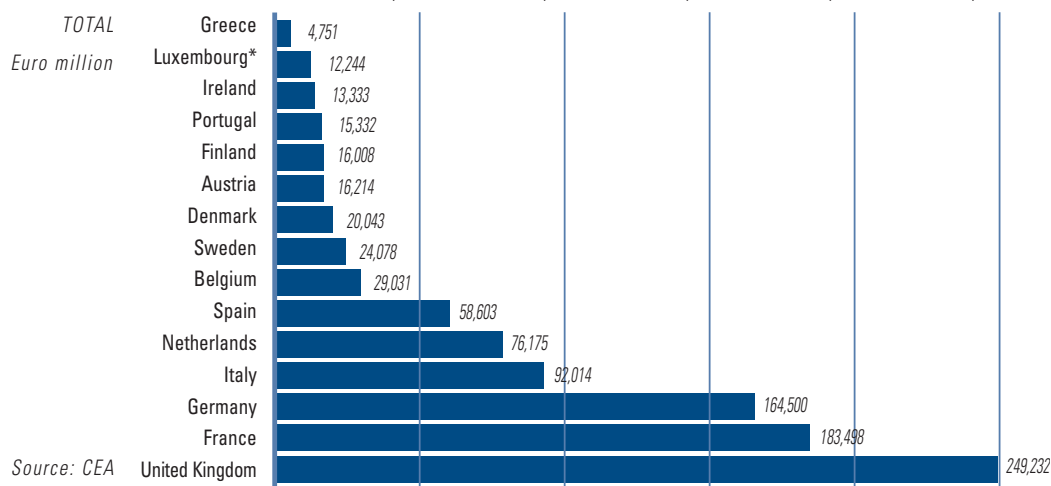
insurance is mandatory by law everywhere. In 2008 the ratio was equal to 1.1% in Italy (1.0% in the two previous years), while other countries registered values on average two times higher (as in France, Belgium and Spain) or more, as in the United Kingdom, Germany and the Netherlands.

THE MAIN MARKETS IN THE EUROPEAN UNION

Insurance companies in the first 15 EU member states wrote premiums for Euro 975,056 million in 2008, registering a decrease of 6.1% compared to the previous year (+3.0% in 2007). This result is strongly influenced by the reduction of the United Kingdom's premiums (-15.5% compared to 2007), a figure that needs to be interpreted not as a real decrease of the British insurance market but as the effect of the depreciation of sterling compared to euro of about 15.0% using annual average exchange rates; therefore, the decline of the United Kingdom was marginal and equal to only -0.6% considering premiums in national currency. The sharpest reductions were recorded by Belgium (-7.7%), Italy (-7.1%) and France (-5.6%), which annulled the increase of premiums collected by Spain (+7.5%), Finland (+6.4%) and Portugal (+11.5%).

Life insurance premiums totalled Euro 601,652 million in 2008 with a decrease of 8.1% compared to the previous year (+3.5% in 2007). Aside from the United Kingdom which, because of the effect of the above-mentioned exchange rate depreciation, decreased by 15.4% (barely -0.5% considering premiums in national currency), the sharpest reductions were registered by Belgium (-12.8%),

DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2008



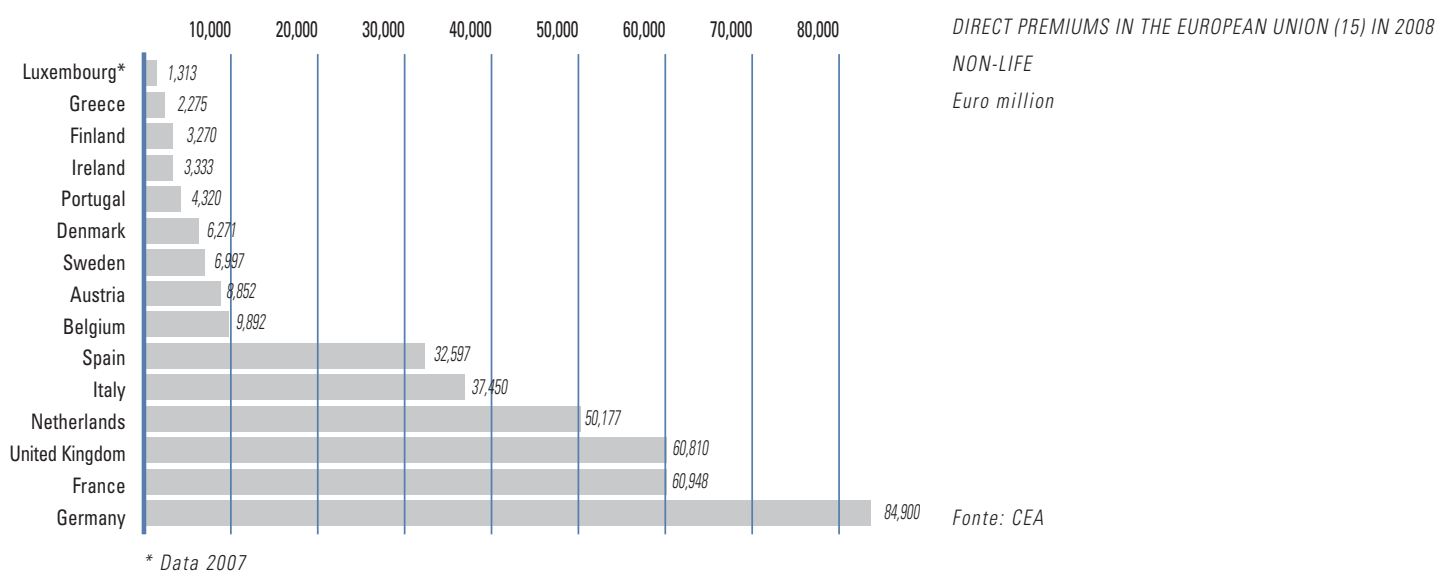
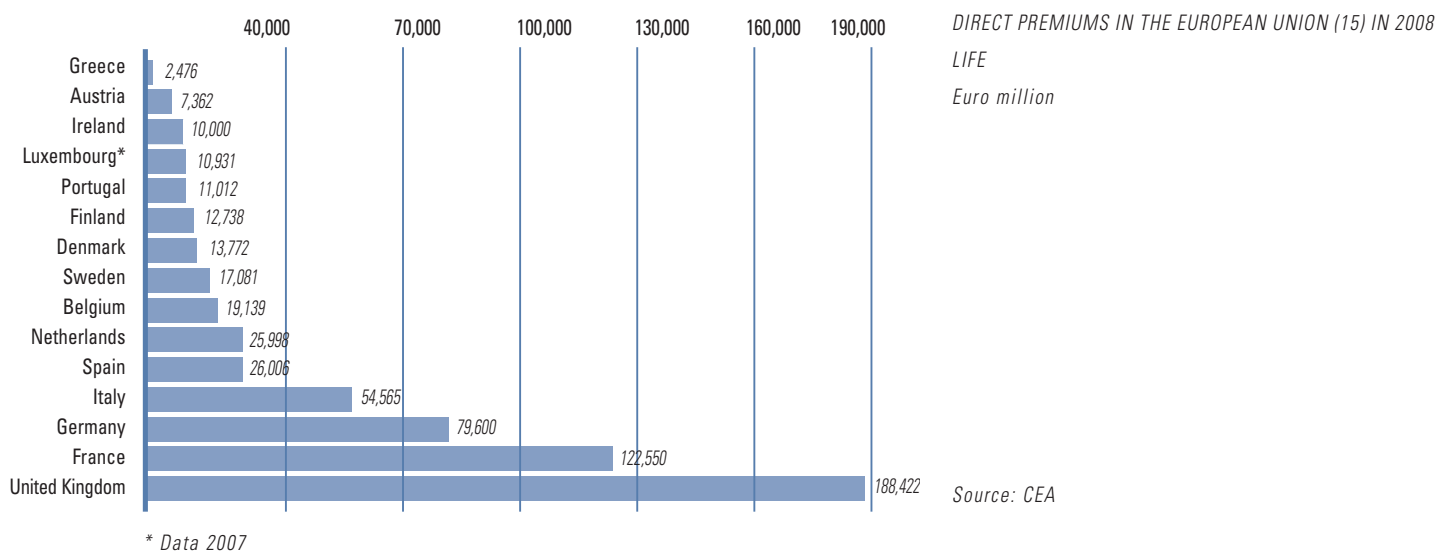
* Data 2007



The Italian insurance industry in the international setting

Italy (-11.2%) and France (-9.9%). By contrast, there was an increase in Germany (+5.6%), in Spain (+10.9%) and in Portugal (+17.5%).

In 2008 non-life premiums totalled Euro 373,405 million with a decrease of 2.6% compared to the previous year (+2.2% in 2007). This result was mainly determined by Germany (-3.3%), Italy (-0.5%) and the United Kingdom (-15.8%) because of the effect of exchange rate (barely -0.9% considering premiums in national currency). Growth rates were positive in France (+4.5%), the Netherlands (+1.6%) and Spain (+4.9%).



The Italian insurance industry in the international setting

TAXATION OF PREMIUMS IN THE EUROPEAN UNION

This year as well, the incidence of indirect taxation on insurance premiums in Italy is one of the highest registered in the EU.

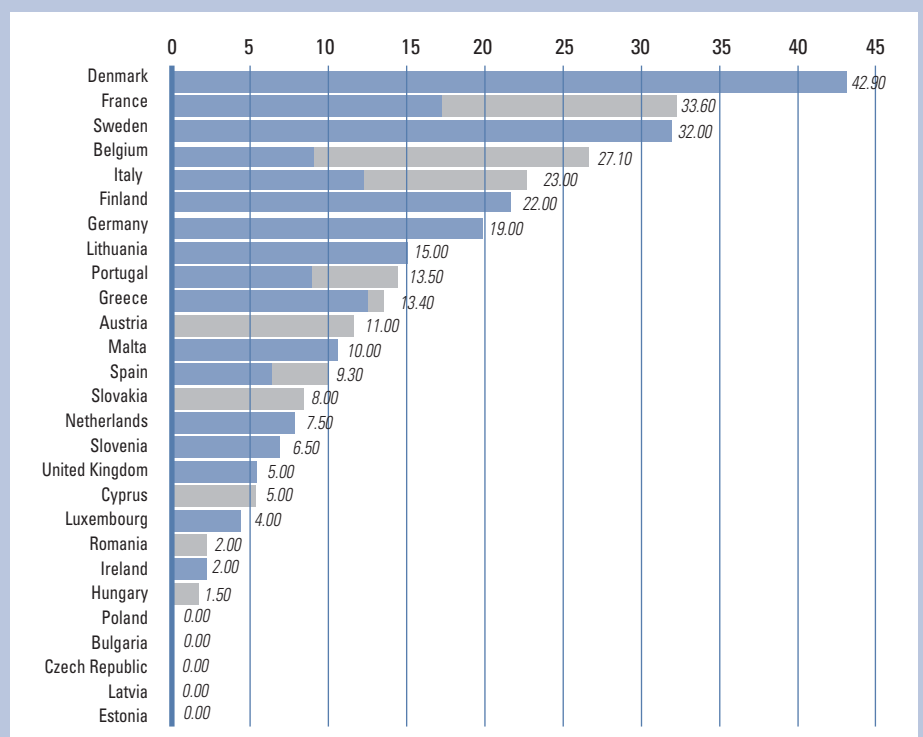
In particular, in motor insurance, taxes and other charges amount to 23% of premiums, a value well above the European average of 17%. In particular, taxation is lower in the United Kingdom (5%), the Netherlands (7.5%) and Spain (9.30%). Germany applies slightly higher taxes on average (19%), while in France the incidence on premiums reaches 33.6%.

The tax rate on Italian fire insurance premiums, at 22.25%, is higher than in Germany and the United Kingdom (14% and 5% respectively), but lower than in France (30%).

In Italy the tax rate on general liability insurance premiums is the highest in Europe (22.25%), in particular exceeding the tax rates applied in Germany (19%), France (9%), Spain (6.3%) and the United Kingdom (5%).

Shipping insurance premiums are still taxed at 7.5% for goods transported via sea and air and at 12.5% for those transported via land. Finland is the country

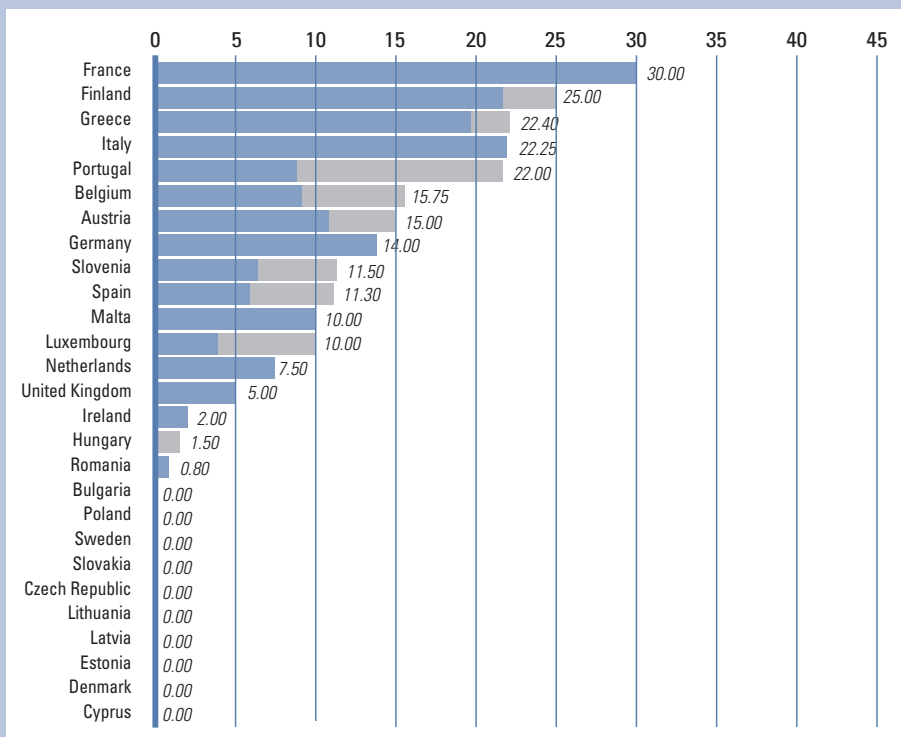
MOTOR (%)



Source: CEA



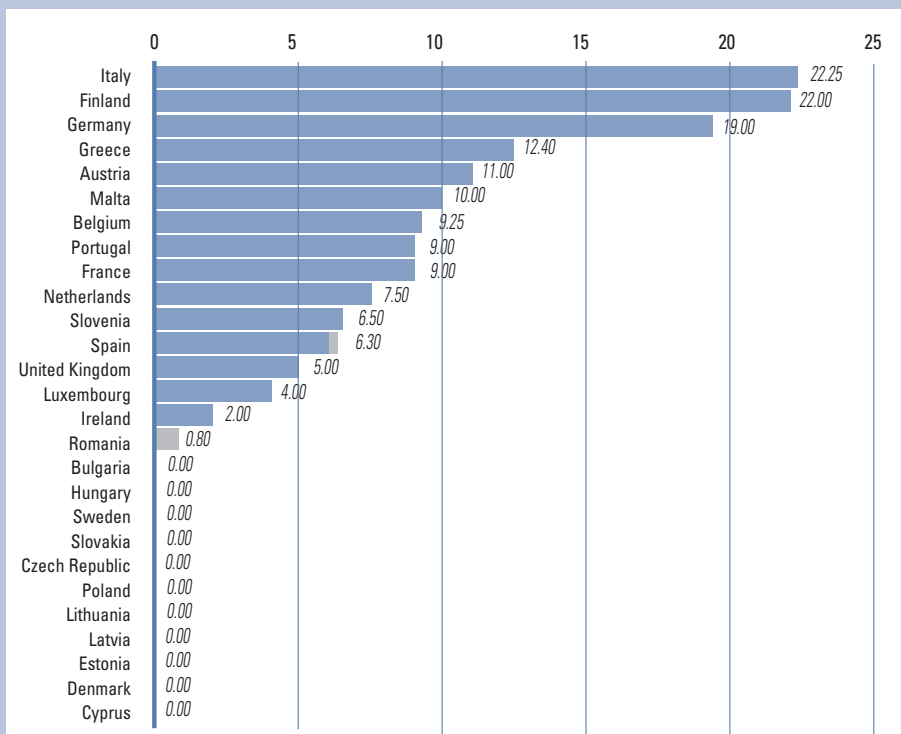
The Italian insurance industry in the international setting



FIRE (%)

■ Taxes ■ Other charges

Source: CEA



GENERAL LIABILITY (%)

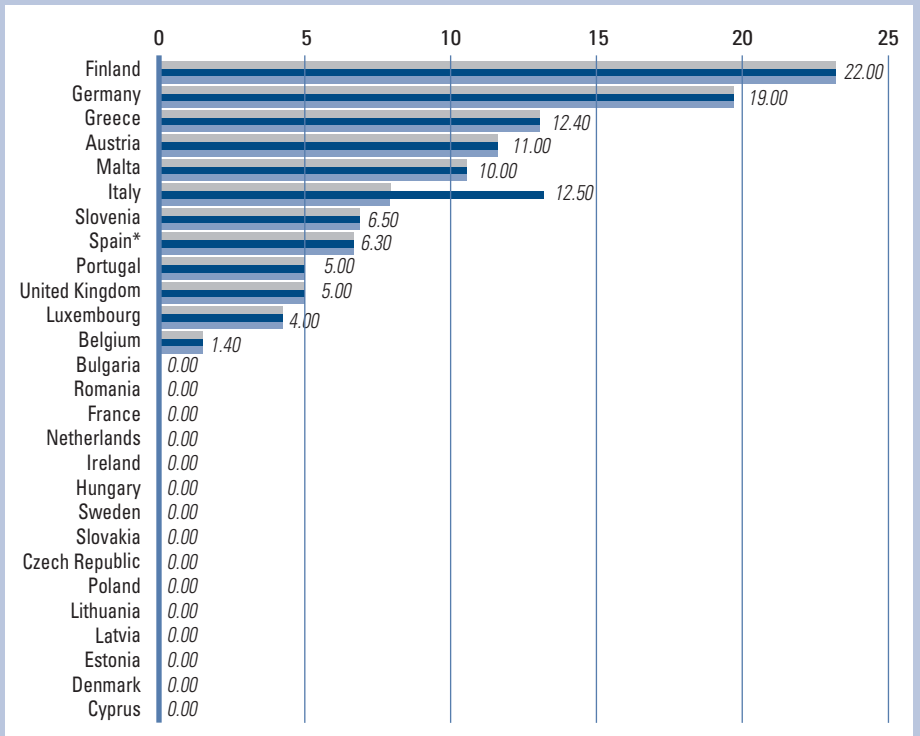
■ Taxes ■ Other charges

Source: CEA



The Italian insurance industry in the international setting

GOODS IN TRANSIT – TAXES



Source: CEA

(*) Spain's data include taxes (6.00) and other charges (0.30)

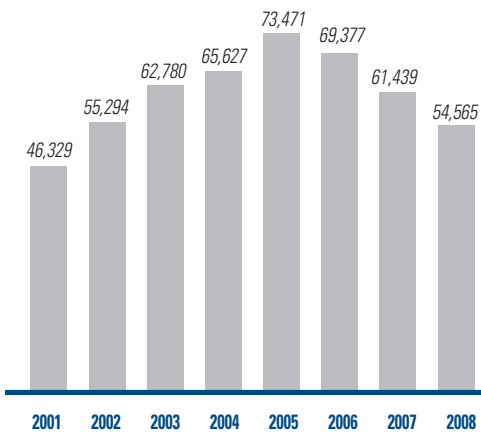
showing the most burdensome tax regime for this line of business (22%), followed by Germany (19%) and Greece (12.4%); a 5% tax rate is applied in the United Kingdom, whereas in France and in most other countries no such provision is established for these lines of business.





Life insurance

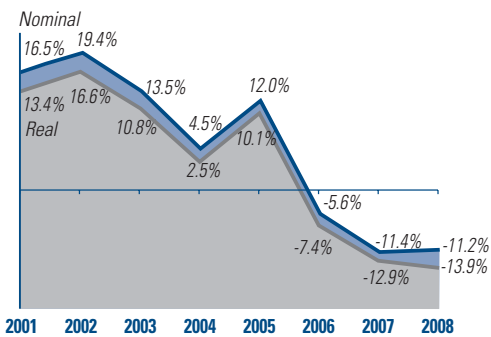
DIRECT PREMIUMS
Euro million



In 2008 premiums in life insurance business declined by 11.2% compared with the previous year, substantially in line with the result recorded in 2007 (-11.4%). The premium level observed in 2008 was due to the substantial decrease in linked policies (-36.1%) and the pick-up in Class I product premiums (+15.7%). The decline in premiums, combined with the negative investment result, produced a negative result in the overall technical account.

DOMESTIC BUSINESS

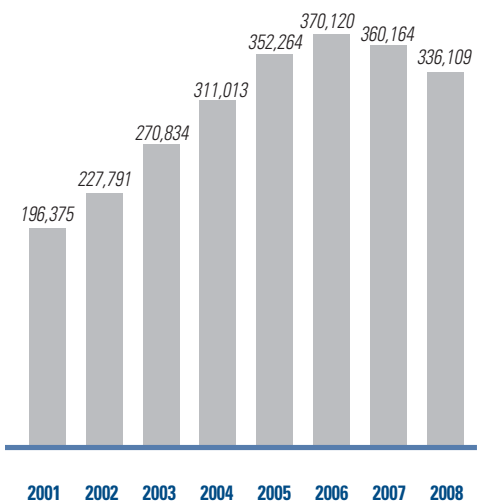
DIRECT PREMIUMS
Annual growth rate



Premiums for direct domestic business for the 82 insurance companies operating in life classes amounted to Euro 54,565 million, with an 11.2% decrease in nominal terms (-11.4% in 2007) and -13.9% in real terms (-12.9% in 2007). In percentage, life premiums represent 59% of the total (life and non-life), reflecting a 3 percentage point reduction compared to 2007. A similar trend was also observed for the premiums collected in Italy by companies operating under the freedom to provide services and essentially Class III products (Linked). ANIA estimated that in 2008 the premiums written by these companies approximately amounted to Euro 6 billion, a 40% decrease compared to 2007.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 65,552 million, a 11.8% decrease.

TOTAL LIFE TECHNICAL RESERVES
Euro million



Mathematical provisions were equal to Euro 336,109 million, a 6.7% decrease compared to 2007; this result is mainly due to the devaluation of the stock induced by the poor performance of the stock market, combined with a result of net cash flow collection that was negative for second year in a row. In 2008 ANIA estimated that mathematical provisions of the insurance companies operating in Italy under the freedom to provide services regime amounted to Euro 55 billion.

The change in mathematical and other technical provisions was negative at Euro 22,643 million (Euro -10,245 million in 2007). For the second year in a row the stock of the mathematical provisions declined, after 18 consecutive increases.

In 2008 the net cash flow, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was negative at Euro 10,987 million (Euro -12,877 million in 2007). This result reflected the reduction of surrenders, which decreased from Euro 48,7 billion in 2007 to Euro 41,7 billion in 2008.



LIFE TECHNICAL ACCOUNT

Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	46,329	55,294	62,780	65,627	73,471	69,377	61,439	54,565
Incurred claims (-)	16,100	21,783	25,453	34,313	43,710	57,804	74,316	65,552
Changes in technical provisions (-)	28,981	31,504	43,257	39,666	41,196	18,303	-10,245	-22,643
Balance of other technical items	175	284	427	476	697	633	468	109
Operating expenses (-)	3,323	3,379	3,745	3,864	4,308	4,589	4,681	4,062
Investment income	2,812	1,845	10,661	13,523	17,062	12,126	8,176	-11,019
Direct technical account result	912	757	1,413	1,783	2,016	1,440	1,331	-3,316
Reinsurance result and other items	480	279	293	249	327	471	292	321
Overall technical account result	1,392	1,036	1,706	2,032	2,343	1,911	1,623	-2,995
Annual % changes in premiums	16.5%	19.4%	13.5%	4.5%	12.0%	-5.6%	-11.4%	-11.2%
Expense ratio	7.2%	6.1%	6.0%	5.9%	5.9%	6.6%	7.6%	7.4%
Investment income/Technical provisions	1.5%	0.9%	4.3%	4.6%	5.1%	3.5%	2.3%	-3.2%
Technical account result/Gross written premiums	2.0%	1.4%	2.3%	2.7%	2.7%	2.1%	2.2%	-6.1%
Overall technical account result/Gross written premiums	3.0%	1.9%	2.7%	3.1%	3.2%	2.8%	2.6%	-5.5%
Overall technical account result/Technical provisions	0.77%	0.49%	0.68%	0.70%	0.71%	0.54%	0.46%	-0.87%

Indexes and changes (%) are calculated on data in Euro thousand

Operating expenses were equal to Euro 4,062 million (Euro 4,681 million in 2007); they also include the administration expenses relating to the technical management of insurance business, in addition to acquisition costs, costs arising from premium collection and costs relating to the organization and operation of the distribution network. The ratio of these operating expenses to premiums amounted to 7.4% (7.6% in 2007).

For the first time in the last twenty years the result of investment income too was negative and equal to Euro 11,019 million. This issue weighed on **the result of the technical account for direct business** and reflected a loss of Euro 3,316 million (it was positive and equal to Euro 1,331 million in 2007). In 2008 the ratio to premiums fell to -6.1% from 2.2% in 2007.

The net result for reinsurance activities and indirect insurance business was positive at Euro 321 million (Euro 292 million in 2007).

The overall technical account result was negative by Euro 2,995 million (compared to a positive result of Euro 1,623 million in 2007). Consequently there was a reduction both in the ratio to premiums (from 2.6% in 2007 to -5.5% in 2008) and in the ratio to the centred average of technical reserves (from 0.46% in 2007 to -0.87% in 2008).



INDIVIDUAL LIFE CLASS

Life insurance

Premiums for direct domestic business collected by the 82 companies operating in this class amounted to Euro 31,429 million; the increase was equal to 15.7% compared to 2007. The ratio of premiums for the class to total life premiums rose from 44.2% in 2007 to 57.6% in 2008.

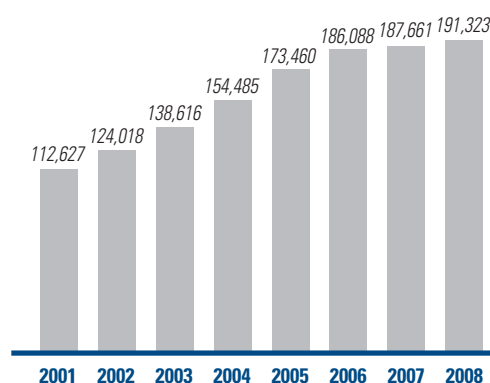
CLASS I - LIFE

Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	19,413	23,991	27,788	30,101	33,871	32,746	27,166	31,429
Incurred claims (-)	11,254	13,660	14,839	16,761	18,253	23,064	28,995	29,717
Changes in technical provisions (-)	9,806	12,233	14,737	15,692	18,610	12,796	1,531	4,711
Balance of other technical items	-81	-109	-96	-88	-41	-113	-192	-356
Operating expenses (-)	1,791	1,770	1,941	2,048	2,365	2,634	2,811	2,850
Investment income	4,801	4,399	5,350	5,950	6,458	6,610	7,025	3,430
Direct technical account result	1,282	618	1,525	1,462	1,060	749	662	-2,775
Reinsurance result and other items	407	293	292	247	371	459	335	332
Overall technical account result	1,689	911	1,817	1,709	1,431	1,208	997	-2,443
Annual % changes in premiums	21.6%	23.6%	15.8%	8.3%	12.5%	-3.3%	-17.0%	15.7%
Expense ratio	9.2%	7.4%	7.0%	6.8%	7.0%	8.0%	10.3%	9.1%
Investment income/Technical provisions	4.5%	3.7%	4.1%	4.1%	3.9%	3.8%	3.9%	1.8%
Technical account result/Gross written premiums	6.6%	2.6%	5.5%	4.9%	3.1%	2.3%	2.4%	-8.8%
Overall technical account result/Gross written premiums	8.7%	3.8%	6.5%	5.7%	4.2%	3.7%	3.7%	-7.8%
Overall technical account result/Technical provisions	1.57%	0.77%	1.38%	1.17%	0.87%	0.69%	0.55%	-1.31%
Premiums to total life premiums ratio (%)	41.9%	43.4%	44.3%	45.9%	46.1%	47.2%	44.2%	57.6%

Indexes and changes (%) are calculated on data in Euro thousand

TECHNICAL PROVISIONS - CLASS I - LIFE
Euro million



Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 29,717 million (+2.5% compared to 2007).

In line with the premium growth, a sudden **change in mathematical** and other technical provisions was recorded that was equal to Euro 4,711 million with a more than three-fold increase compared to 2007.

On the whole the **net cash flow**, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was positive at Euro 1,712 million, whereas it had been negative by Euro 1,829 million in 2007.

Operating expenses were equal to Euro 2,850 million (Euro 2,811 million in 2007). The ratio to premiums decreased from 10.3% in 2007 to 9.1% in 2008.



Considering investment income (Euro 3,430 million), which was halved compared to 2007, **the result of the technical account for direct business** reflected a loss of Euro 2,775 million (it was positive at Euro 662 million in 2007). The ratio to premiums thus fell from 2.4% in 2007 to -8.8% in 2008.

The net result for reinsurance activities and indirect insurance business was positive at Euro 332 million.

The overall technical account result was negative at Euro 2,443 million. The ratio to premiums was -7.8% in 2008; the incidence on the centred average of technical reserves went from 0.55% in 2007 to -1.31% in 2008.

Life insurance linked to investment funds or index-linked insurance

The global turmoil in the financial markets, that began in the second half of 2008, affected the premium collection for linked policies which are mostly distributed by banks or post offices. For this reason **premiums for direct domestic business** collected by the 74 insurance companies operating in this class amounted to Euro 18,558 million with a 36.1% decrease compared to 2007. Consequently the percentage in relation to overall direct life premiums fell from 47.3% in 2007 to 34.0% in 2008.

CLASS III - INVESTMENT FUNDS

Euro million

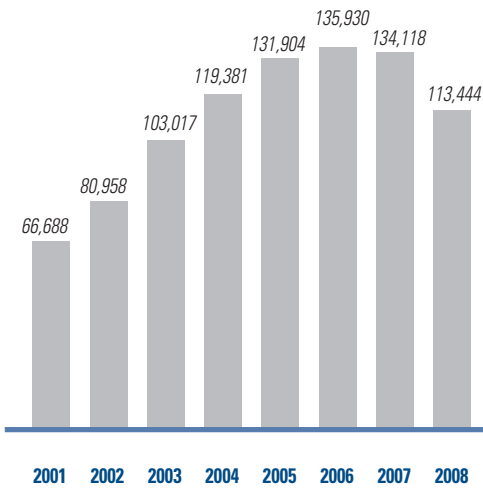
	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	23,613	24,559	26,488	24,756	26,389	27,385	29,053	18,558
Incurred claims (-)	3,098	5,562	7,590	13,370	20,797	25,192	28,821	23,159
Changes in technical provisions (-)	16,670	14,233	22,145	16,146	12,634	4,220	-1,862	-20,218
Balance of other technical items	267	341	548	589	757	759	671	471
Operating expenses (-)	1,394	1,378	1,578	1,614	1,706	1,747	1,661	1,073
Investment income	-2,576	-3,318	4,156	5,993	8,781	3,723	-418	-14,594
Direct technical account result	142	409	-121	207	790	708	686	421
Reinsurance result and other items	61	-19	-5	5	-45	16	-33	-9
Overall technical account result	203	390	-126	212	745	724	653	412
Annual % changes in premiums	6.3%	4.0%	7.9%	-6.5%	6.6%	3.8%	6.1%	-36.1%
Expense ratio	5.9%	5.6%	6.0%	6.5%	6.5%	6.4%	5.7%	5.8%
Investment income/Technical provisions	-4.4%	-4.5%	4.5%	5.4%	7.0%	2.8%	-0.3%	-11.9%
Technical account result/Gross written premiums	0.6%	1.7%	-0.5%	0.8%	3.0%	2.6%	2.4%	2.3%
Overall technical account result/Gross written premiums	0.9%	1.6%	-0.5%	0.9%	2.8%	2.6%	2.2%	2.2%
Overall technical account result/Technical provisions	0.35%	0.53%	-0.14%	0.19%	0.59%	0.55%	0.49%	0.33%
Premiums to total life premiums ratio (%)	51.0%	44.4%	42.2%	37.7%	35.9%	39.5%	47.3%	34.0%

Indexes and changes (%) are calculated on data in Euro thousand



Life insurance

TECHNICAL PROVISIONS - CLASS III - INVESTMENT FUNDS
Euro million



Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 23,159 million and registered a substantial decrease compared to 2007 (-19.6%).

The negative **change in mathematical** and other technical provisions accelerated from a decline of Euro 1,862 million in 2007 to one of Euro 20,218 million in 2008. The stock of the mathematical provisions was equal to Euro 113 billion with a 15.0% decline compared to 2007.

On the whole the **net cash flow**, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was for the first time negative and equal to Euro -4,601 million, a decrease of Euro 232 million compared to 2007.

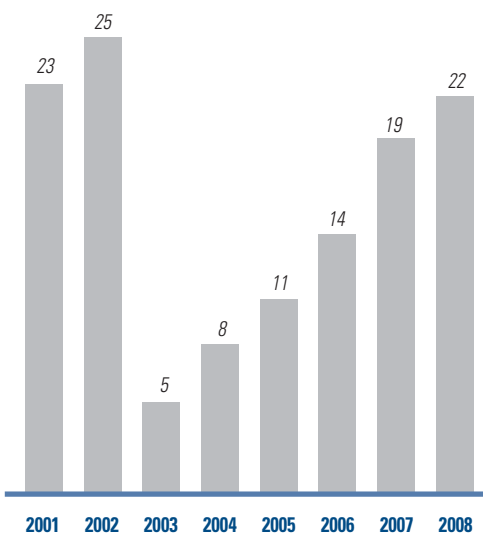
Operating expenses were equal to Euro 1,073 million (Euro 1,661 million in 2007). The ratio to premiums was 5.8%, with a slight improvement compared to 2007.

Despite the sharp increase in investment losses (equal to Euro 14,594 million from Euro 418 million in 2007), the **result of the technical account for direct business** was positive at Euro 421 million, decreasing with respect to 2007. The ratio to premiums was equal to 2.3%, substantially in line with 2007.

The net result for reinsurance activities and indirect insurance business was negative at Euro 9 million.

The **overall technical account result** was positive at Euro 412 million (Euro 653 million in 2007). Both the ratio to premiums (equal to 2.2%) and the ratio to the centred average of technical reserves (equal to 0.33%) were steady with respect to 2007.

TECHNICAL PROVISIONS - CLASS IV - HEALTHCARE
Euro million



Long-term healthcare insurance

Premiums for direct domestic business for the 33 insurance companies operating in this class amounted to Euro 25 million (-17.1% compared to 2007).

The **overall technical account result** was positive at Euro 4 million (Euro 3 million in 2007). The ratio to premiums was 17.3% (9.8% in 2007) whereas the ratio to the centred average of technical reserves was about 24%.

Capitalization operations

Premiums for direct domestic business for the 75 insurance companies operating in this class amounted to Euro 3,196 million with a 30% decrease compared to 2007. The percentage of overall direct life premiums consequently decreased from 7.3% in 2007 to 5.9% in 2008.



CLASS IV - HEALTHCARE

Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	12	10	17	18	24	23	30	25
Incurred claims (-)	3	3	7	9	12	7	7	8
Changes in technical provisions (-)	8	4	2	2	2	3	6	3
Balance of other technical items	0	1	0	0	-2	0	1	-1
Operating expenses (-)	0	0	4	2	3	3	3	3
Investment income	1	1	0	0	1	0	0	0
Direct technical account result	2	5	4	5	6	10	15	10
Reinsurance result and other items	0	-2	-5	-4	-5	-9	-12	-6
Overall technical account result	2	3	-1	1	1	1	3	4
Annual % changes in premiums	46.8%	-10.3%	61.3%	9.2%	28.9%	-2.4%	32.8%	-17.1%
Expense ratio	3.3%	2.3%	21.8%	11.6%	12.5%	12.3%	9.9%	12.9%
Investment income/Technical provisions	6.0%	5.9%	1.4%	3.9%	5.6%	2.7%	3.2%	2.5%
Technical account result/Gross written premiums	14.8%	44.2%	24.2%	27.7%	23.6%	42.7%	49.9%	40.8%
Overall technical account result/Gross written premiums	20.6%	28.9%	-6.2%	3.5%	6.0%	2.3%	9.8%	17.3%
Overall technical account result/Technical provisions	12.71%	12.48%	-6.93%	9.67%	14.93%	4.58%	19.60%	23.62%
Premiums to total life premiums ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Indexes and changes (%) are calculated on data in Euro thousand

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 12,523 million (Euro 16,380 million in 2007).

The **change in mathematical** and other technical provisions was negative at Euro 8,079 million (Euro -10,562 million in 2007).

Operating expenses were equal to Euro 100 million (Euro 177 million in 2007). The ratio to premiums thus came down from 4.0% in 2007 to 3.1% in 2008.

Considering the investment income equal to Euro 418 million, the **result of the technical account for direct business** reflected a negative result of Euro 953 million (Euro -3 million in 2007).

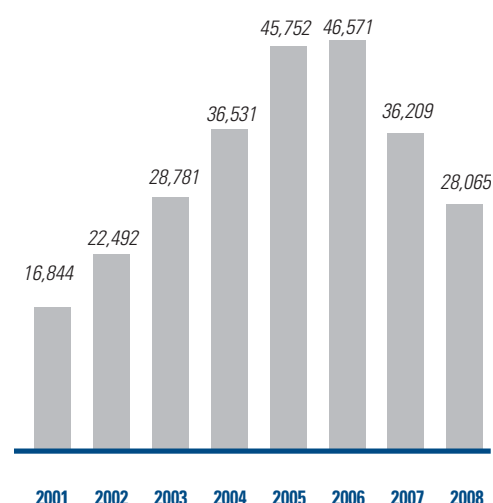
The net result for reinsurance activities and indirect insurance business was negative at Euro 4 million.

The **overall technical account result** was negative at Euro 949 million (it was nil in 2007).

Pension fund management

Premiums for direct domestic business for the 45 insurance companies operating in this class amounted to Euro 1,356 million, nearly twice as much as in

TECHNICAL PROVISIONS - CLASS V - CAPITALIZATION
Euro million



Life insurance

CLASS V - CAPITALIZATION

Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	3,201	6,610	8,360	10,554	12,692	8,938	4,469	3,196
Incurred claims (-)	1,739	2,551	3,003	4,149	4,615	9,478	16,380	12,523
Changes in technical provisions (-)	2,421	4,951	6,243	7,631	9,418	1,017	-10,562	-8,079
Balance of other technical items	-13	52	-26	-29	-20	-19	-19	-23
Operating expenses (-)	131	224	215	190	223	188	177	100
Investment income	594	792	1,136	1,558	1,751	1,747	1,542	418
Direct technical account result	-509	-272	9	113	167	-17	-3	-953
Reinsurance result and other items	11	7	11	1	5	5	3	4
Overall technical account result	-498	-265	20	114	172	-12	0	-949
Annual % changes in premiums	113.0%	106.5%	26.5%	26.2%	20.3%	-29.6%	-50.0%	-28.5%
Expense ratio	4.1%	3.4%	2.6%	1.8%	1.8%	2.1%	4.0%	3.1%
Investment income/Technical provisions	3.8%	4.0%	4.4%	4.8%	4.3%	4.0%	3.8%	1.2%
Technical account result/Gross written premiums	-15.9%	-4.1%	0.1%	1.1%	1.3%	-0.2%	-0.1%	-29.8%
Overall technical account result/Gross written premiums	-15.6%	-4.0%	0.2%	1.1%	1.4%	-1.0%	0.0%	-29.7%
Overall technical account result/Technical provisions	-3.18%	-1.35%	0.08%	0.35%	0.42%	-0.03%	0.00%	-2.79%
Premiums to total life premiums ratio (%)	6.9%	12.0%	13.3%	16.1%	17.3%	12.9%	7.3%	5.9%

Indexes and changes (%) are calculated on data in Euro thousand

2007 (Euro 720 million). The development of this class is mainly due to the allocation of severance pay resources to pension schemes managed by insurance companies, as established by the entry into force of the new provisions on supplementary pension funds.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 145 million (Euro 113 million in 2007).

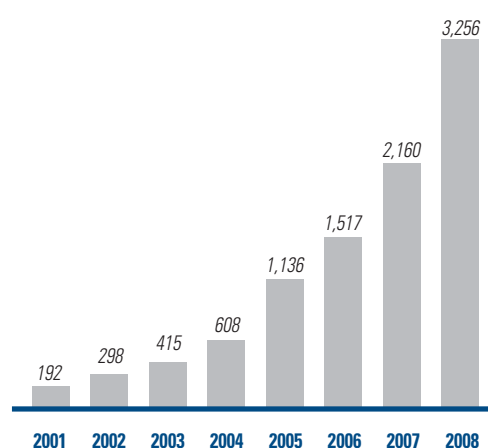
The **change in mathematical** and other technical provisions was equal to Euro 939 million with a 46% increase compared to 2007.

Operating expenses were equal to Euro 35 million (Euro 29 million in 2007). The ratio to premiums was 2.6% (4.0% in 2007).

Considering investment losses of Euro 273 million, the **result of the technical account for direct business** reflected a loss of Euro 19 million (Euro -30 million in 2007).

The **overall technical account result** was negative by the same amount, since the net result for reinsurance activities and indirect insurance business was nil in 2008.

TECHNICAL PROVISIONS - CLASS VI - PENSION FUNDS
Euro million



CLASS VI - PENSION FUNDS

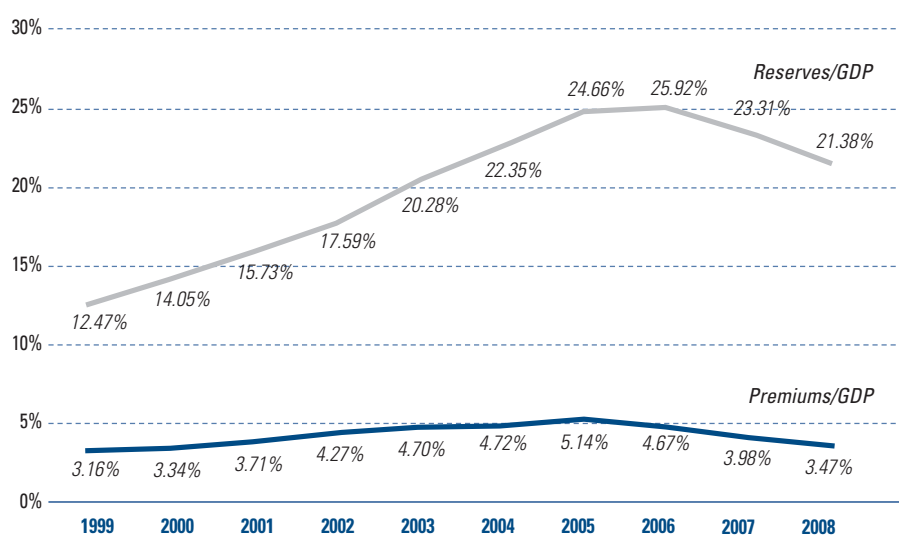
Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	91	124	128	198	495	285	720	1,356
Incurred claims (-)	7	8	15	24	33	64	113	145
Changes in technical provisions (-)	76	85	131	194	532	267	643	939
Balance of other technical items	1	2	3	3	4	7	9	17
Operating expenses (-)	6	7	8	10	11	17	29	35
Investment income	-7	-30	19	23	71	46	26	-273
Direct technical account result	-4	-4	-4	-4	-6	-10	-30	-19
Reinsurance result and other items	0	0	0	0	0	0	0	0
Overall technical account result	-4	-4	-4	-4	-6	-10	-30	-19
Annual % changes in premiums	-2.6%	36.6%	3.4%	54.4%	150.4%	-42.4%	152.5%	88.3%
Expense ratio	7.0%	5.8%	6.4%	5.0%	2.3%	6.0%	4.0%	2.6%
Investment income/Technical provisions	-4.5%	-12.1%	5.2%	4.4%	8.2%	3.9%	1.5%	-11.1%
Technical account result/Gross written premiums	-4.7%	-3.1%	-3.3%	-2.0%	-1.2%	-3.4%	-4.1%	-1.4%
Overall technical account result/Gross written premiums	-4.9%	-3.2%	-3.3%	-2.0%	-1.2%	-3.4%	-4.1%	-1.4%
Overall technical account result/Technical provisions	-2.72%	-1.60%	-1.20%	-0.79%	-0.66%	-0.82%	-1.77%	-0.77%
Premiums to total life premiums ratio (%)	0.2%	0.2%	0.2%	0.3%	0.7%	0.4%	1.2%	2.5%

Indexes and changes (%) are calculated on data in Euro thousand

LIFE INSURANCE AND GDP

Since 2007, after years of steady growth, the ratio of mathematical reserves to GDP decreased from 23.31% in 2007 to 21.38% in 2008. The decline was due both to the nominal reduction in provisions and to the decrease in premium volume, whose incidence on GDP slipped from 3.98% to 3.47%.



PREMIUMS AND RESERVES AS A % OF GDP*

(*) The ratios indicated take account of the revision of the Gross Domestic Product data recently carried out by ISTAT.

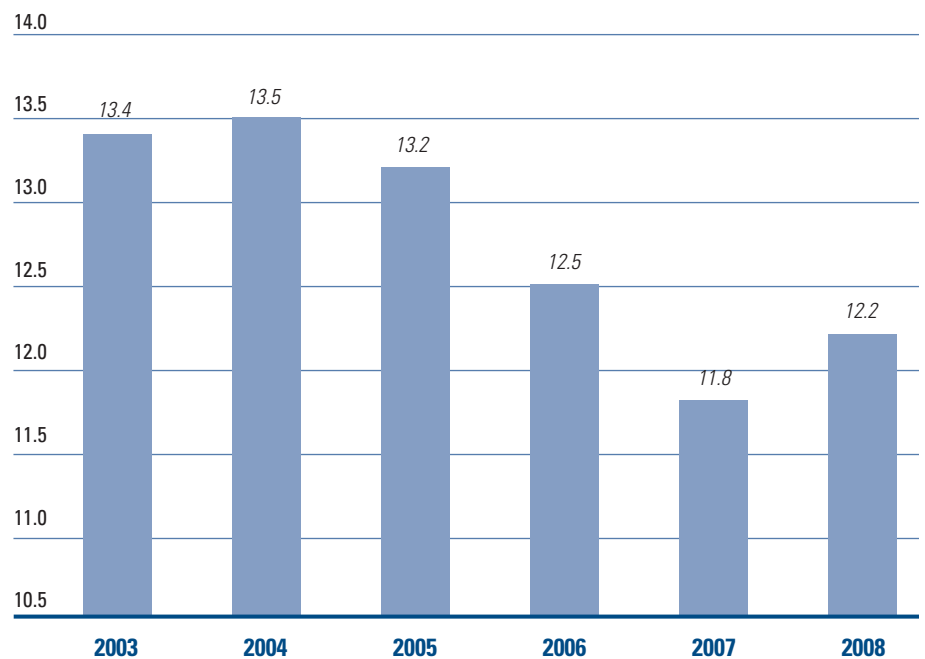


LIFE INSURANCE AND ITALIAN HOUSEHOLD SAVING

Italian households' disposable income grew by 2.7% in nominal terms in 2008, down from 3.2% in 2007. In real terms disposable income fell by 0.5%, the first contraction in nearly a decade.

The household saving rate – saving gross of amortizations and net of the change in pension and severance pay funds as a percentage of gross disposable income – rose from 11.8% in 2007 to 12.2% (Figure 1). The increase, the first since 2004, can probably be ascribed to households' losses on financial investment and the worsening outlook for the economy and employment, which prompted households to cut back on their consumption plans.

FIGURE 1
HOUSEHOLD SAVING RATE
(% of disposable income)



Source: ISTAT. The saving rate is defined as the ratio of saving (gross of amortizations and net of changes in pension fund reserves) to gross disposable income

In 2008 the flow of households' financial investment fell sharply to Euro 70 billion, from Euro 103 billion in 2007, while that of financial liabilities plummeted to Euro 26 billion, from Euro 60.5 billion in 2007 (Table 1).

Overall, households' financial saving, i.e. the difference between the gross flow of assets and that of liabilities, amounted to Euro 43.7 billion, about the same as in 2007, and was equal to 2.8% of GDP.

The bulk of purchases by households involved instruments issued by Italian banks, which were forced to compensate for the difficulty of raising funds in international markets drained by the liquidity crisis. Net purchases of these instruments totaled Euro 92.5 billion, including Euro 16.7 billion of current account deposits and Euro 48.7 billion of bonds. Households also made net purchases of postal securities (Euro 9.6 billion, as in 2007) and of shares and other equity and foreign securities, although only half as much as in 2007.



TABLE 1 - FINANCIAL ASSETS OF ITALIAN HOUSEHOLDS

	FLOWS				STOCKS			
	Euro million		% of total		Euro million		% of total	
	2007	2008	2007	2008	2007	2008	2007	2008
Notes and coin	5,012	14,298	4.9	20.5	89,449	103,324	2.4	3.0
Instruments issued by banks	44,881	92,508	43.5	132.5	946,671	1,044,820	25.4	30.5
<i>of which: sight deposits</i>	385	16,736	0.4	24.0	477,063	493,286	12.8	14.4
<i>other deposits</i>	21,497	27,068	20.8	38.8	115,539	143,956	3.1	4.2
<i>medium and long-term securities</i>	23,000	48,704	22.3	69.8	354,070	407,578	9.5	11.9
Deposits and other post-office funding (*)	9,888	9,584	9.6	13.7	286,983	295,936	7.7	8.6
Government securities	39,048	-3,222	37.8	-4.6	204,988	186,094	5.5	5.4
<i>of which: short-term</i>	12,578	-1,021	12.2	-1.5	26,089	20,390	0.7	0.6
<i>medium/long-term</i>	26,470	-2,202	25.7	-3.2	178,898	165,704	4.8	4.8
Other securities issued by enterprises	10,439	8,388	10.1	12.0	48,452	48,622	1.3	1.4
Investment fund units	-35,468	-66,024	-34.4	-94.6	268,348	165,303	7.2	4.8
<i>of which: Italian</i>	-31,937	-43,350	-31.0	-62.1	186,353	128,899	5.0	3.8
<i>foreign</i>	-3,531	-22,674	-3.4	-32.5	81,995	36,404	2.2	1.1
Shares and other equity	22,579	10,231	21.9	14.7	1,013,758	721,355	27.2	21.0
<i>of which: Italian</i>	26,109	12,208	25.3	17.5	916,855	652,316	24.6	19.0
<i>foreign</i>	-3,530	-1,976	-3.4	-2.8	100,630	69,039	2.7	2.0
Other external assets	7,298	4,529	7.1	6.5	145,355	154,226	3.9	4.5
Insurance premium reserves (*)	-4,181	-5,134	-4.1	-7.4	607,509	586,818	16.3	17.1
<i>of which: reserves of the life sector</i>	-9,091	-10,548	-8.8	-15.1	365,251	342,262	9.8	10.0
Other assets	3,691	4,664	3.6	6.7	115,539	121,419	3.1	3.5
Total assets	103,188	69,821	100.0	100.0	3,727,052	3,427,917	100.0	100.0
Total liabilities	60,562	26,080			811,968	836,216	100.0	100.0
BALANCE	42,626	43,741			2,915,084	2,591,701		

Source: Based on Bank of Italy data (financial accounts)

(*) The item includes employee severance pay funds and pension funds as well as the reserves of the life and non-life sectors

By contrast, households made disposals of investment fund units (Euro 66 billion, compared with Euro 35.5 billion in 2007), insurance products (Euro 10.5 billion, compared with Euro 9 billion in 2007) and government securities (Euro 3 billion, against purchases of Euro 39 billion in 2007).

Plunging equity prices reduced the overall value of households' financial portfolios. Shares and other equity made up 21.0% of the overall portfolio at the end of 2008, down from 27.2% a year earlier. Some 30% of households' portfolio is invested in instruments issued by Italian banks (almost half in the form of current accounts); 17.1% in life and non-life insurance products, employee severance pay funds and pension funds (for life insurance policies alone, 10.0%, compared with 9.8% at the end of 2007); and about 9% in postal savings products. Investment funds, Italian government securities and foreign securities each make up about 5% of the portfolio.

At the end of 2008 the portfolio of financial assets stood at Euro 3,428 billion, equal to three times disposable income, as against 3.5 times a year earlier; the



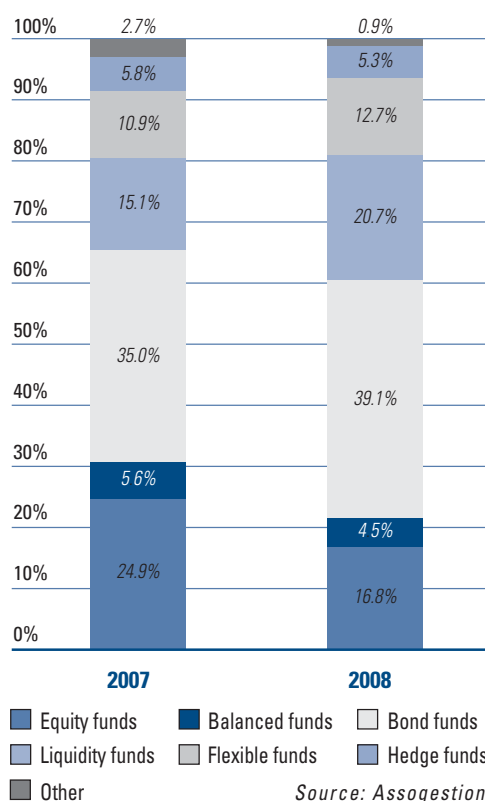
Life insurance

TABLE 2
RATIO OF HOUSEHOLDS' FINANCIAL ASSETS
TO DISPOSABLE INCOME

	Financial assets			Net financial wealth		
	2006	2007	2008 (Sept.)	2006	2007	2008 (Sept.)
Italy	3.61	3.54	3.23	2.87	2.77	2.46
Belgium	4.62	4.53	4.04	3.82	3.70	3.20
France	2.85	2.83	2.69	1.94	1.89	1.73
Germany	2.77	2.83	2.72	1.79	1.88	1.80
Spain	2.87	2.86	2.44	1.55	1.46	1.08
Euro area	3.10	3.08	2.81	2.07	2.03	1.77
United Kingdom	4.60	4.65	4.14	2.94	2.90	2.39
United States	4.82	4.81	4.24	3.45	3.42	2.88
Japan	4.97	4.84	—	3.69	3.62	—

Source: Bank of Italy

FIGURE 2
CAPITAL MANAGED BY INVESTMENT FUNDS
ACCORDING TO SECTOR



Source: Assogestioni

TABLE 3
NET FUND-RAISING BY ITALIAN AND FOREIGN
INVESTMENT FUNDS CONTROLLED BY
ITALIAN AND FOREIGN GROUPS
Euro million

Type of fund	2007	2008	2008 (Jan.-May) (*)	2009 (Jan.-May) (*)
Equity	-24,323	-29,632	-20,217	273
Balanced	-7,230	-8,812	-5,064	-1,269
Bond	-47,205	-67,831	-23,528	-7,086
Liquidity	7,902	-11,519	-435	180
Flexible	12,571	-17,418	-7,807	-902
Hedge	5,864	-8,440	-690	-4,272
Total	-52,422	-143,651	-57,742	-13,076

Source: Assogestioni

(*) The monthly data are derived from a smaller sample of firms than the annual data

reduction in the ratio to income was comparable to that recorded in the euro area (from 3.1 to 2.8). Subtracting liabilities, net financial wealth amounted to Euro 2,592 billion, or 2.5 times disposable income (Table 2).

Investment funds established in Italy and abroad by Italian and foreign groups recorded net outflows of Euro 144 billion in 2008. Bond funds turned in the most negative performance, with outflows of nearly Euro 68 billion, followed by equity funds with nearly Euro 30 billion. The combined effect of substantial redemptions and the decline in share prices caused the total value of assets under management to fall from Euro 616 billion in December 2007 to Euro 398 billion at the end of 2008.

The sectoral distribution of assets under management did not change substantially in 2008. Compared with 2007, bond funds' share grew from 35% to 39%; the shares of liquidity and flexible funds also expanded, from 15% to 21% and from 11% to 13%. All the remaining sectors saw a contraction: from 25% to 17% for equity funds and from 6% to 5% for hedge funds and balanced funds (Figure 2).

The data for the first five months of 2009 show a significant slowdown in the outflow of resources from funds. During the period net fund-raising was negative by Euro 13 billion, compared with almost Euro 58 billion in the same period of 2008 (Table 3).

As a result of the slower pace of outflows and the recovery of the equity markets, the value of assets under management was basically stable in the first five months of 2009.



NEW DEVELOPMENTS IN SUPPLEMENTARY PENSION PROVISION

The COVIP regulation on enrolment procedures for supplementary pension plans

A two-part regulation issued by COVIP, the pension fund oversight authority, took effect on 1 October 2008. The first part consists of several new provisions on the information document, while the second lays down new rules on the procedures for enrolling new members and on the conduct of persons charged with this task.

The main new developments regarding the information document have to do with the filing of the document with COVIP and the procedures to be followed in the event of changes to the contents of the document.

The information document must be deposited with COVIP before a pension plan can begin to enrol participants. The document must be transmitted to COVIP with a special communication specifying that the document is drawn up in conformity with the model prepared by COVIP and is consistent with the bylaws or rules approved for the plan. The filing date is the day on which the communication is transmitted electronically according to procedures to be established by COVIP. Every time the information contained in the document deposited with COVIP needs to be changed, the document must be updated promptly. Ordinarily, this is done by modifying the relevant section of the document. A supplement may be added to the document where the changes pertain to the persons involved in the activity of the pension plan and the places where new participants are signed up. A supplement may also be used for other particular cases and for limited periods at the request of the interested parties. If the change concerns the membership form, a new version of the entire form must be prepared. Changes to the information document must always be communicated promptly to COVIP and only after such notification can the new section of the document be used. The information contained in the different sections of the document and in any supplements must be updated completely each year by the end of March, when the data on operations are updated, by filing a new information document.

Concerning the enrolment of members, COVIP has specified the places where this activity can be performed. In particular, the regulation lays down that occupational pension funds and the entities instituting open pension funds and individual retirement plans must ensure that the persons who enrol participants comply with a series of provisions deemed adequate to ensure that in those places the prospective members are given information that permits them to make informed decisions in the light of their needs.

Potential participants must receive a careful explanation of the information contained in the document and, in particular, of the data in the summary fact sheet (specifically as regards costs, investment options and the related risks). With regard to costs, stress must be laid on the importance of acquiring infor-



mation concerning the composite cost indicator for the other types of supplementary pension scheme, an overview of which is available on COVIP's website.

Detailed information must also be provided concerning the contents of the standardized projection and on the possibility to run a personal simulation with a program on the pension scheme's website.

Where a person eligible to join in a collective pension plan receives a proposal to join a different type of plan, it is necessary to draw his attention to the fact that he may not be able to benefit from employer contributions if he does join that plan.

Concerning the signing up of participants in open pension funds and individual retirement plans, the regulation states that the provisions for marketing already established by the respective supervisory authorities must be complied with: the "provisions for marketing financial products in the case of pension funds instituted by banks, asset management companies or investment firms, or insurance products in the case of open pension funds and individual retirement plans set up by insurance companies."

Lastly, with reference to collective enrolment in open pension funds instituted under a collective instrument, the enrolment of participants can take place in the same places appointed for the enrolment of participants in occupational pension funds, by the same persons responsible for taking such enrolments and under the same rules of conduct.

The guidelines on transfers between supplementary pension schemes and the standard contribution form

ANIA, together with the other associations operating in the sector of supplementary retirement provision (ABI, Assofondipensione, Assogestioni and Assoprevidenza), COVIP, Mefop and some administrative service providers have signed the document "Guidelines – Best practice for managing transfers". The signing ceremony took place on 24 April 2008 at the Ministry for Labor and Social Security in the presence of the Minister. The document specifies rules of conduct, minimum efficiency standards and the information needed to manage the transfer of the individual positions of participants from one supplementary pension scheme to another.

Adherence to the guidelines by pension plans is voluntary and constitutes a form of self-regulation serving to raise the service standards of those that do adhere. The plans that adopt the guidelines make the fact known on their own websites and are included in a list published on the Ministry's dedicated website (www.tfr.gov.it) and Mefop's website (www.mefop.it).

Subsequently, ANIA, together with the CBI Consortium (an organization of the Italian Banking Association for interbank services), Assogestioni and Assosoft-



ware (the association of providers of management applications for companies' business offices) finalized a project for a standard contribution form for use in data flows and payments between supplementary pension plans and the administrative offices of the companies where the members of those plans work. The project is designed to rationalize operational formalities through standardization of processes, for instance in the case in which a company with workers or groups of workers enrolled in different pension plans has to send diversified flows to plans of different types or, to cite a reverse example, when the same open pension fund receives diversified flows of contributions from different companies.

An initial version of the standard contribution form was presented at an event organized by the associations involved at the end of March and has been made available to all their members and brought to the attention of other operators in the sector.

ISVAP measure on the maximum guaranteed return on supplementary pension plans

ISVAP Measure 2696, which amends ISVAP Regulation 21, introduces new provisions on the maximum return that may be guaranteed on supplementary pension plans (occupational pension funds, open pension funds, pre-existing pension funds and individual retirement plans).

The new rules allow insurance companies to guarantee a return not higher than the staff severance provision revaluation rate both on the portions of severance pay tacitly or voluntarily allocated to supplementary pension plans and on any contributions paid into those plans by workers and employers. The yield guarantee can be established contractually for periods of not more than three years, at the expiration of which the insurer will decide whether to continue to provide the same guarantee, taking into account the new conditions of the market and the profitability of its assets.

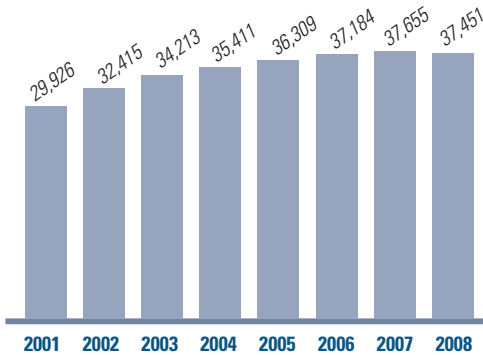
In relation to this option, the ISVAP measure calls insurance companies' attention to the need to verify that the guaranteed return is never "... higher than the return on the assets covering the technical reserves, taking prudential margins into account, compatibly with the average maturity of commitments, with the prospective flows of the portions of severance pay contributed and of the expected benefit payments and with the current and prospective conditions of the financial market".

The insurer must give an account of such verification in a detailed report signed by a corporate manager and sent to ISVAP within fifteen days of the date of the agreement for the management of the resources with the pension fund or of the issue of the guarantee by the open pension fund or individual retirement plan. It must also be sent to ISVAP at any subsequent expiry date or when new market conditions require a substantial revision of the initial financial strategies.



Non-life insurance

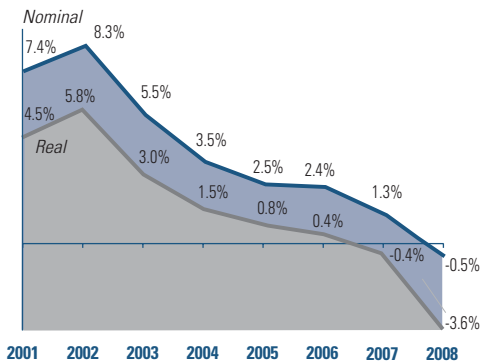
DIRECT PREMIUMS
Euro million



Non-life premium income was broadly unchanged in 2008 at Euro 37,451 million (-0.5% compared to 2007). The incidence of non-life premiums on the total market (life plus non-life) rose from 38% to 41% because of the decline in the life sector. In the presence of a stable expense ratio, the worsening of the loss ratio led to a deterioration in the combined ratio; the overall technical account remained positive but it plunged from 6.9% of premiums in 2007 to 0.7% in 2008.

DOMESTIC BUSINESS

GROWTH RATE OF DIRECT PREMIUMS



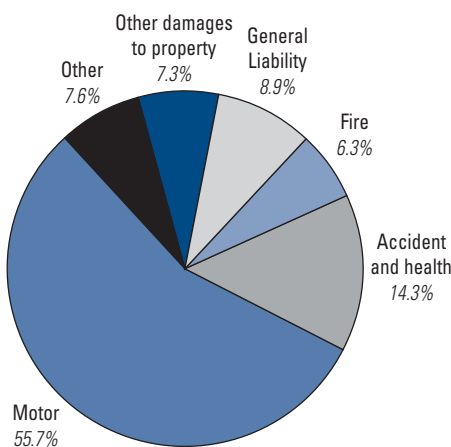
Premiums for direct domestic business for the 113 insurance companies operating in non-life classes were equal to Euro 37,451 million, with a 0.5% decrease in nominal terms and a 3.6% decrease in real terms. This trend was determined above all by the decrease (-3.2%) in the motor insurance business (motor third party liability insurance, third party liability insurance for watercraft and land vehicles insurance), which represents about 56% of the overall non-life income. The percentage incidence of non-life business on total premiums was equal to 40.7%, increasing from 38.0% in 2007.

The incurred claims cost for the current accident year, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 27,917 million (Euro 26,597 million in 2007), with a 5.0% increase compared to the previous year; the ratio to premiums earned was 75.2%, increasing from 71.7% in 2007.

The incurred claims cost for the financial year, which includes, in addition to the incurred cost of the current year, the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 27,530 million (Euro 26,079 million in 2007), with a 5.6% increase. The ratio to premiums earned was 74.2%, increasing from 70.3% in 2007.

Operating expenses, which include administration expenses relating to technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network, were equal to Euro 9,155 million (Euro 9,191 million in 2007) with a 0.4% decrease and an incidence on direct premiums equal to 24.4%, in line with the previous year. The ratio of administration expenses to premiums written decreased from 5.2% in 2007 to 4.9% in 2008.

The technical balance for direct business was negative at Euro 322 million (positive at Euro 1,162 million in 2007).



Euro 37,451 million

BREAKDOWN OF MAIN NON-LIFE CLASSES



NON-LIFE TECHNICAL ACCOUNT

Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	29,926	32,415	34,213	35,411	36,309	37,184	37,655	37,451
Changes in premiums reserves (-)	776	764	734	610	627	622	570	349
Incurred claims (-):	23,024	23,654	24,306	24,549	24,841	25,861	26,079	27,530
- incurred claims cost for the current accident year (-)	22,397	23,407	24,456	24,928	25,709	26,509	26,597	27,917
- excess/shortfall of reserves for those claims incurred in previous accident years	-627	-247	150	379	868	648	518	387
Balance of other technical items	-326	-460	-503	-591	-561	-717	-653	-739
Operating expenses (-)	6,891	7,331	7,703	8,058	8,392	8,660	9,191	9,155
- commissions	4,497	4,843	5,138	5,338	5,546	5,755	6,011	5,991
- other acquisition costs	921	953	1,004	1,046	1,105	1,170	1,238	1,335
- other administration costs	1,473	1,535	1,561	1,674	1,741	1,735	1,942	1,829
Direct technical balance	-1,091	206	967	1,603	1,888	1,324	1,162	-322
Investment income	1,632	1,211	1,629	1,917	1,991	1,854	1,924	771
Direct technical account result	541	1,417	2,596	3,520	3,879	3,178	3,086	449
Reinsurance results and other items	281	-124	-407	-864	-845	-661	-515	-193
Overall technical account result	822	1,293	2,189	2,656	3,034	2,516	2,571	256
Annual % changes in premiums	7.4%	8.3%	5.5%	3.5%	2.5%	2.4%	1.3%	-0.5%
Combined ratio	102.0%	97.3%	95.1%	93.3%	92.7%	94.0%	94.7%	98.6%
- Expense ratio	23.0%	22.6%	22.5%	22.8%	23.1%	23.3%	24.4%	24.4%
- Commissions/Gross written premiums	15.0%	14.9%	15.0%	15.1%	15.3%	15.5%	16.0%	16.0%
- Other acquisition costs/Gross written premiums	3.1%	2.9%	2.9%	3.0%	3.0%	3.1%	3.3%	3.6%
- Other administration costs/Gross written premiums	4.9%	4.7%	4.6%	4.7%	4.8%	4.7%	5.2%	4.9%
- Loss ratio:	79.0%	74.7%	72.6%	70.5%	69.6%	70.7%	70.3%	74.2%
- Loss ratio for the current accident year	76.8%	74.0%	73.1%	71.6%	72.1%	72.5%	71.7%	75.2%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-2.2%	-0.8%	0.4%	1.1%	2.4%	1.8%	1.4%	1.0%
Technical balance/Earned premiums	-3.7%	0.7%	2.9%	4.6%	5.3%	3.6%	3.1%	-0.9%
Technical account result/Earned premiums	1.9%	4.5%	7.8%	10.1%	10.9%	8.7%	8.3%	1.2%
Overall technical account result/Earned premiums	2.8%	4.1%	6.5%	7.6%	8.5%	6.9%	6.9%	0.7%

Indexes and changes (%) are calculated on data in Euro thousand

Including investment income of Euro 771 million, the **direct technical account result** was positive at Euro 449 million (Euro 3,086 million in 2007). This result represented 1.2% of premiums (8.3% in 2007).

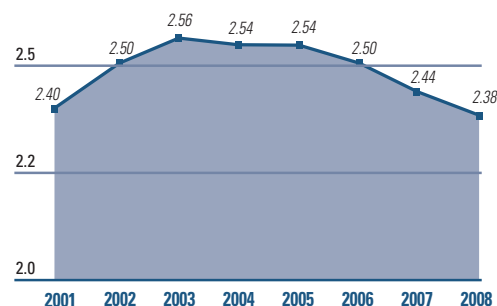
The passive reinsurance and net indirect business result was negative at Euro 193 million compared with a negative result of 515 million in 2007.

The **overall technical account result** was positive at Euro 256 million (Euro 2,571 million in 2007). The ratio to premiums earned was 0.7% (6.9% in 2007).

NON-LIFE INSURANCE AND GDP

The incidence of non-life premium income on GDP decreased; in 2008 this ratio was equal to 2.38% (2.56% in 2007). The decrease is basically explained by the decline in motor insurance premiums, which diminished by more than 3.0%.

NON-LIFE PREMIUMS / GDP (%)



The ratios indicated take account of the revision of the Gross Domestic Product data recently carried out by ISTAT.





Motor insurance premiums registered a decrease (-3.3%) that, with claim costs substantially unchanged, caused the combined ratio to deteriorate from 99.1% in 2007 to 100.9% in 2008. There was also a reduction in investment income, thus determining a negative overall technical account balance. The overall technical results for land vehicles remained positive, though down sharply.

MOTOR LIABILITY MANAGEMENT

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

Premiums for direct domestic business, collected by the 68 companies operating in this class, totalled Euro 17,637 million in 2008, reflecting a reduction of 3.3% compared to the previous year; they represent 47.1% of the overall premiums for non-life classes (48.4% in 2007). For the second consecutive year the overall premiums for this class registered a decrease. This was due to more frequent use of price flexibility by companies and to the effects of two rules contained in Decree Law 7/2007, converted into Law 40/2007 (known as "Bersani II"), that allow many policyholders to have a more favourable merit class than the one they would have had otherwise.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 14,752 million, in line with the previous year (Euro 14,794 million). In the second year of application of the direct indemnity system, the main technical indicators (claims frequency and average claims cost) held substantially stable compared to 2007; this explains why the claims cost for the current accident year also remained at the same level of the previous year.

The **incurred claims cost for the financial year**, which also includes the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 14,660 million (Euro 14,732 million in 2007) with a 0.5% decrease compared to 2007. The excess for the reserves for claims incurred in previous years was slightly positive in 2008 and equal to Euro 92 million. This explains why the incurred claims cost for the financial year was less than the incurred claims cost for the current accident year. The decrease in written premiums, larger than that in the incurred claims cost for the financial year, explains the worsening of the loss ratio, which rose from 80.7% in 2007 to 82.3% in 2008.

Operating expenses amounted to Euro 3,275 million (Euro 3,346 million in 2007) and include administration expenses relating to technical management of insur-



Motor insurance

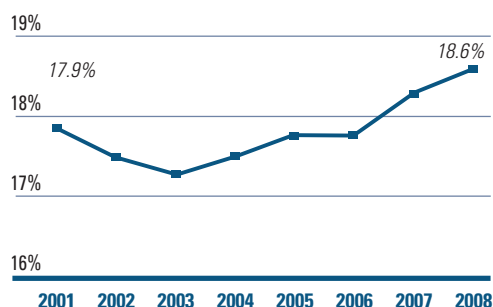
MOTOR LIABILITY

Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	15,344	16,653	17,646	18,087	18,198	18,416	18,239	17,637
Changes in premiums reserves (-)	333	341	280	91	82	64	-10	-167
Incurred claims (-):	13,734	13,735	14,177	14,375	14,284	14,588	14,732	14,660
- incurred claims cost for the current accident year (-)	13,043	13,438	13,982	14,561	14,756	14,940	14,794	14,752
- excess/shortfall of reserves for those claims incurred in previous accident years	-691	-297	-195	186	472	352	62	92
Balance of other technical items	-98	-166	-178	-228	-211	-232	-226	-290
Operating expenses (-)	2,741	2,921	3,047	3,169	3,235	3,276	3,346	3,275
- commissions	1,681	1,804	1,900	1,949	1,944	1,962	1,936	1,882
- other acquisition costs	369	399	418	437	468	498	514	559
- other administration costs	691	718	729	783	823	816	896	834
Direct technical balance	-1,562	-510	-36	224	386	256	-55	-421
Investment income	899	648	888	1,077	1,104	992	963	341
Direct technical account result	-663	138	852	1,301	1,490	1,248	908	-80
Reinsurance results and other items	178	36	-12	-61	-16	9	49	-4
Overall technical account result	-485	174	840	1,240	1,474	1,257	957	-84
Annual % changes in premiums	7.9%	8.5%	6.0%	2.5%	0.6%	1.2%	-1.0%	-3.3%
Combined ratio	109.3%	101.7%	98.9%	97.4%	96.6%	97.3%	99.1%	100.9%
- Expense ratio	17.9%	17.5%	17.3%	17.5%	17.8%	17.8%	18.3%	18.6%
- Commissions/Gross written premiums	10.9%	10.8%	10.8%	10.8%	10.7%	10.7%	10.6%	10.7%
- Other acquisition costs/Gross written premiums	2.4%	2.4%	2.4%	2.4%	2.6%	2.7%	2.8%	3.2%
- Other administration costs/Gross written premiums	4.5%	4.3%	4.1%	4.3%	4.5%	4.4%	4.9%	4.7%
- Loss ratio:	91.5%	84.2%	81.6%	79.9%	78.8%	79.5%	80.7%	82.3%
- Loss ratio for the current accident year	86.9%	82.4%	80.5%	80.9%	81.5%	81.4%	81.1%	82.9%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-4.6%	-1.8%	-1.1%	1.0%	2.6%	1.9%	0.3%	0.5%
Technical balance/Earned premiums	-10.4%	-3.1%	-0.2%	1.2%	2.1%	1.4%	-0.3%	-2.4%
Technical account result/Earned premiums	-4.4%	0.8%	4.9%	7.2%	8.2%	6.8%	5.0%	-0.4%
Overall technical account result/Earned premiums	-3.2%	1.1%	4.8%	6.9%	8.1%	6.8%	5.2%	-0.5%
Premiums to total non-life premiums ratio (%)	51.3%	51.4%	51.6%	51.1%	50.1%	49.5%	48.4%	47.1%

Indexes and changes (%) are calculated on data in Euro thousand

OPERATING EXPENSES TO PREMIUMS RATIO (%)



ance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio of the expenses to premiums (18.6%) increased compared to 2007 mainly due to the increase in the distribution costs (from 13.4% in 2007 to 13.9% in 2008). This increase can be traced to the ban on tied agency clauses between agents and insurers, which led companies to review commissions paid to the distribution networks to guarantee their fidelity. The ratio of the other administration costs to written premiums decreased from 4.9% in 2007 to 4.7% in 2008.

The **technical balance for direct business** was negative at Euro 421 million (it was negative at Euro 55 million in 2007). Considering investment income (Euro 341 million in 2008), which was halved compared to 2007, the **technical**



account result for direct business was negative at Euro 80 million (positive at Euro 908 million in 2007).

Taking the balance for reinsurance into account (practically zero in 2008), the **overall technical account result** was negative at Euro 84 million (positive at Euro 957 million in 2007), equal to -0.5% of earned premiums, compared to +5.2% in 2007.

LAND VEHICLES INSURANCE MANAGEMENT

This class, defined by law as “land vehicle hulls”, includes insurance against all forms of damage to or loss of land motor vehicles.

LAND VEHICLES

Euro million

	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	2,811	2,955	3,062	3,145	3,154	3,205	3,284	3,208
Changes in premiums reserves (-)	40	70	52	45	61	61	104	-13
Incurred claims (-):	1,160	1,205	1,257	1,260	1,417	1,485	1,579	1,933
- incurred claims cost for the current accident year (-)	1,278	1,306	1,361	1,388	1,514	1,569	1,666	1,989
- excess/shortfall of reserves for those claims incurred in previous accident years	118	101	104	128	97	84	87	56
Balance of other technical items	-18	-32	-40	-46	-36	-51	-39	-38
Operating expenses (-)	692	709	738	759	748	765	827	824
- commissions	477	494	517	531	518	534	569	559
- other acquisition costs	84	83	88	88	89	92	100	108
- other administration costs	131	132	133	140	141	139	158	157
Direct technical balance	901	939	975	1,035	892	843	735	426
Investment income	50	34	47	57	59	56	58	26
Direct technical account result	951	973	1,022	1,092	951	899	793	452
Reinsurance results and other items	-33	-30	-50	-46	-19	-38	-27	-4
Overall technical account result	918	943	972	1,046	932	861	766	448
Annual % changes in premiums	5.0%	5.1%	3.6%	2.7%	0.3%	1.6%	2.5%	-2.3%
Combined ratio	66.5%	65.7%	65.8%	64.8%	69.5%	71.1%	74.8%	85.7%
- Expense ratio	24.6%	24.0%	24.1%	24.1%	23.7%	23.9%	25.2%	25.7%
- Commissions/Gross written premiums	17.0%	16.7%	16.9%	16.9%	16.4%	16.7%	17.3%	17.4%
- Other acquisition costs/Gross written premiums	3.0%	2.8%	2.9%	2.8%	2.8%	2.9%	3.1%	3.4%
- Other administration costs/Gross written premiums	4.7%	4.5%	4.4%	4.4%	4.5%	4.3%	4.8%	4.9%
- Loss ratio:	41.9%	41.8%	41.7%	40.7%	45.8%	47.2%	49.7%	60.0%
- Loss ratio for the current accident year	46.1%	45.3%	45.2%	44.8%	48.9%	49.9%	52.4%	61.8%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	4.2%	3.5%	3.5%	4.1%	3.1%	2.7%	2.7%	1.7%
Technical balance/Earned premiums	32.5%	32.5%	32.4%	33.4%	28.8%	26.8%	23.1%	13.2%
Technical account result/Earned premiums	34.3%	33.7%	33.9%	35.2%	30.7%	28.6%	24.9%	14.0%
Overall technical account result/Earned premiums	33.1%	32.7%	32.3%	33.7%	30.1%	27.4%	24.1%	13.9%
Premiums to total non-life premiums ratio (%)	9.4%	9.1%	9.0%	8.9%	8.7%	8.6%	8.7%	8.6%

Indexes and changes (%) are calculated on data in Euro thousand



Premiums for direct domestic business for the 75 insurance companies operating in this class amounted to Euro 3,208 million in 2008 (-2.3% compared to 2007), accounting for 8.6% of the overall non-life insurance premiums. The reduction was mainly due to a decline in new vehicles registered.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 1,989 million, with a 19.4% increase compared to Euro 1,666 million in 2007; this may be attributed both to a larger number of claims related to natural events that characterized the past year and to an increase in motor vehicle thefts. The ratio to earned premiums was equal to 61.8%, about 10 percentage points higher than in 2007.

The **incurred claims cost for the financial year**, which also includes the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 1,933 million (Euro 1,579 million in 2007). The ratio to earned premiums was equal to 60.0%, up from 49.7% in 2007.

Operating expenses amounted to Euro 824 million (Euro 827 million in 2007) and include administration expenses relating to the technical management of insurance business and acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio of the operating expenses to premiums was 25.7% (25.2% in 2007).

The **technical balance for direct business** was positive at Euro 426 million (Euro 735 million in 2007).

Considering investment income, the **technical account result for direct business** was positive at Euro 452 million (Euro 793 million in 2007). Taking the balance for reinsurance into account, the **overall technical account result** was positive at Euro 448 million (Euro 766 million in 2007), equal to 13.9% of premiums (24.1% in 2007).



THE AVERAGE COST OF CLAIMS AND CLAIMS FREQUENCY: A EUROPEAN COMPARISON

Analysis of the overall loss ratio of the motor liability insurance sector 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 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 during the year but not reported (IBNR). By this count, the number of claims totaled **3,351,115** in 2008, up 1.8% from 2007.

Claims frequency (excluding IBNR, Panel A of 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 accident (measured on the basis of days of exposure during the year, or "vehicle-years"). Considering that the number of vehicle-years increased by

TABLE 1 - AVERAGE COST OF CLAIMS AND CLAIMS FREQUENCY IN THE MOTOR AND MARINE LIABILITY INSURANCE SECTORS
Euro

YEAR	PANEL A: Excludes claims IBNR, the contribution to the Road Accident Victims Guarantee Fund and other residual items								MEMORANDUM PANEL B: Includes claims IBNR, the contribution to the Road Accident Victims Guarantee Fund and other residual items	
	CLAIMS FREQUENCY	% CHANGE	AVERAGE CLAIM COST - PROPERTY DAMAGE	% CHANGE	AVERAGE CLAIM COST - PERSONAL INJURY	% CHANGE	AVERAGE TOTAL CLAIM COST**	% CHANGE	CLAIMS FREQUENCY	AVERAGE CLAIM COST
2000	9.82	-1.26	1,278	2.93	9,920	14.91	2,809	13.07	10.95	2,825
2001	8.54	-13.08	1,431	12.02	11,175	12.65	3,186	13.41	9.55	3,207
2002	7.82	-8.42	1,535	7.26	12,686	13.53	3,532	10.87	8.78	3,503
2003	7.66	-2.09	1,634	6.44	13,542	6.75	3,805	7.74	8.63	3,771
2004	7.61	-0.63	1,701	4.10	13,206	-2.48	3,982	4.65	8.58	3,964
2005	7.55	-0.75	1,644	-3.33	13,106	-0.76	4,047	1.62	8.51	4,038
2006	7.47	-1.09	1,674	1.83	13,233	0.97	4,100	1.31	8.47	4,080
2007	7.61	1.89	1,764	5.35	11,958	-9.64	3,967	-3.24	8.52	4,014
2008*	7.72	1.45	n.a.	n.a.	n.a.	n.a.	3,903	-1.61	8.52	3,989

** ANIA estimates based on ANIA quarterly statistics and advance information on 2008 financial statements

** Source: ISVAP, for 2007, see circular of 12 December 2008



0.3% (from Euro 43,269 million to Euro 43,385 million) ⁽¹⁾, the claims frequency rose from 7.61% in 2007 to **7.72%** in 2008, an increase of 1.4%. Thus there was a further slight deterioration in 2008 after the upturn in claims frequency in 2007 (+ 1.9%). This marks a reversal of the downward trend recorded from 2000 to 2006.

Average cost of claims (excluding IBNR, Panel A of 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 compensation payments 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, in order to obtain a figure for 2008 comparable with the prior-year data calculated by ISVAP according to this method. On this basis, the average claim cost in 2008 was **Euro 3,903**, down 1.6% from Euro 3,967 in 2007.

Thus the 1.4% increase in claims frequency was accompanied by a fall of 1.6% in average claim cost, resulting in a reduction in the **overall cost of claims for the year (item 18, ISVAP form 17) of 0.3%**. The data on the cost of personal injury claims in 2008 are not yet available. In 2007 the overall decline in the total average claim cost was due to the significant decrease of 9.6% in this component.

Number of claims and average cost (including IBNR, Panel B of Table 1). The total number of claims, including the IBNR estimate, came to **3,697,975** in 2008, practically unchanged from 2007 (up just 0.3%). Since the number of vehicles insured rose by the same amount, the claims rate held unchanged at 8.52%. Counting all the components included in the definition of the costs of claims for the period (**item 18 of ISVAP 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 fell by 0.6% from Euro 4,014 to **Euro 3,989**.

The data gathered by the insurance associations of other European countries permit a comparative analysis of claims frequency. It must be premised that the comparison is influenced by a large number of factors, such as differing legislation, economic and social conditions, vehicle density, degrees of observance of the law and efficiency of the judicial apparatus.

⁽¹⁾ According to estimates based on ACI data, the number of vehicles circulating grew by 1.8% in the twelve months to December 2008. This figure may be overestimated owing to the still incomplete registration of the balance between new vehicles registered and cancellations from the registry.



Italy's claim frequency, calculated on the basis of accident year and excluding accidents without consequences, was one of the highest in Europe in 2007, exceeded only by the United Kingdom (10.6%) and Spain (11.5%), where, however, claims without consequences are included. Countries with claim rates lower than the 8.5% recorded in Italy were Belgium (7.0%), Germany (6.2%), France (4.4%), and Finland, with a remarkable 2.5% (Figure 1).

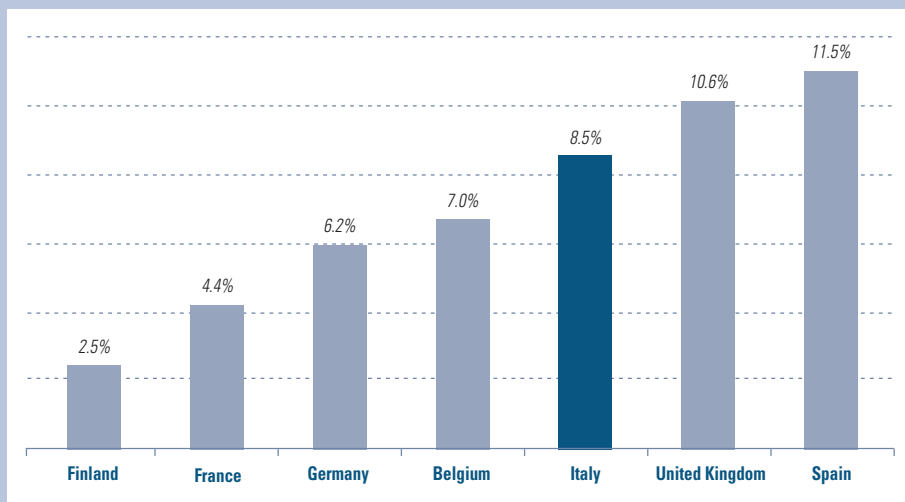


FIGURE 1
MOTOR LIABILITY CLAIMS FREQUENCY IN 2007

The same data also permit comparison of the average cost of the claims registered, dividing the total cost of claims reported in 2007 (settled and reserved) by their number. In Italy in 2007 this average cost was more than Euro 4,000, the highest anywhere except Finland, which as we have seen is also the country with the lowest claim frequency (Figure 2). The average claim cost in France was about Euro 100 lower than in Italy; the disparity was more substantial for other countries: Euro 450 for Germany, Euro 650 for Belgium, Euro 700 for the United Kingdom.

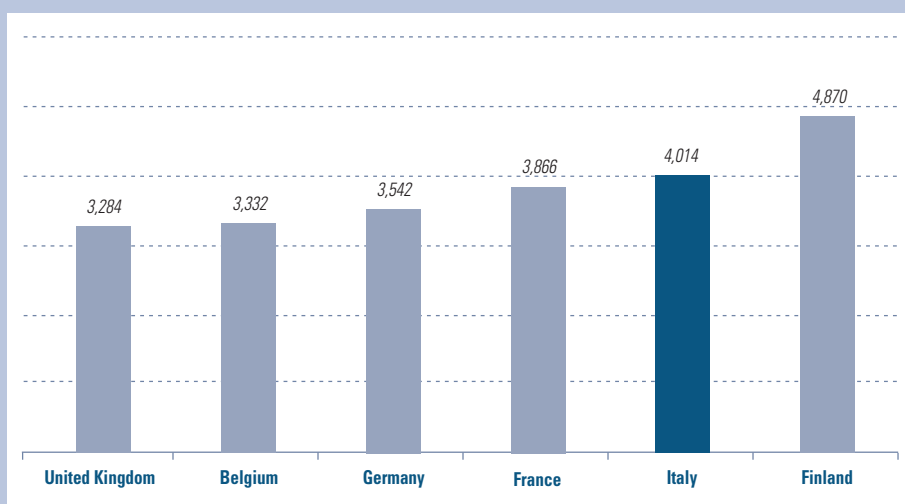


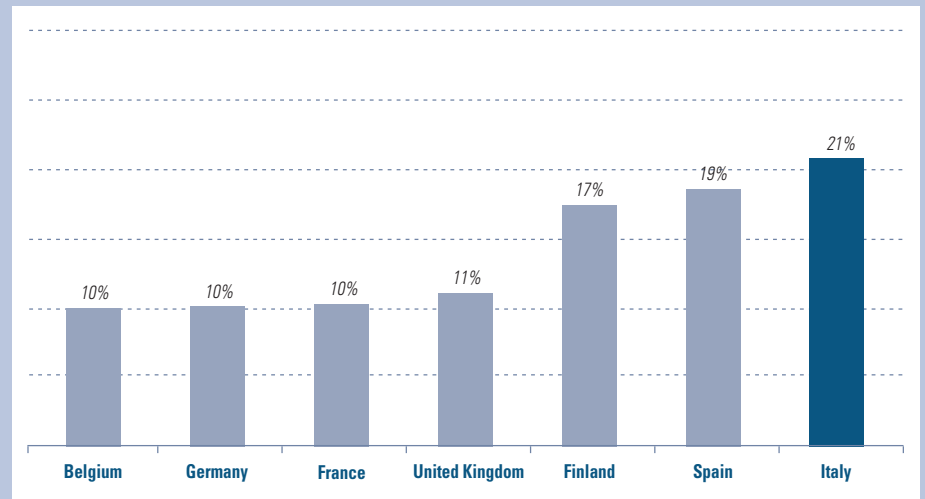
FIGURE 2
AVERAGE COST OF CLAIMS IN 2007*
Euro

* For France, estimate based on the data for 2005 adjusted for inflation. For the UK, only the value for 2008 is available. For Spain, data not available



The high average cost of claims in Italy compared with the other countries is largely due to the higher proportion of claims involving personal injury (21% in 2007), approximately double the European average (Figure 3).

FIGURE 3
RATIO OF NUMBER OF CLAIMS WITH PERSONAL INJURY
TO TOTAL CLAIMS, 2007*



* For France, data for 2005

MOTOR LIABILITY INSURANCE PRICES IN THE LONG TERM

From the very beginning – since it was introduced in June 1971 – the cost of compulsory motor liability insurance has been the source of polemics and irritation, always criticized as too high. This stems from essentially two problematic factors:

- the compulsory nature of the insurance coverage, so that premiums are perceived as a sort of motor vehicle tax;
- the public's stolid indifference to the costs of providing insurance coverage, i.e. damage settlements, which largely determine the size of premiums.

For these reasons, paradoxically, insurance companies' premium prices were criticized even during the period, stretching over a quarter-century, during which they were set by the Interministerial Committee for Prices and were the same for all insurers.

After price liberalization in 1994, the critics' attention to motor liability premium costs intensified, but their basic approach to compulsory insurance issues did not change. That is, the focus was on price levels, which tended to be gauged by listed prices and not the premiums actually paid by policyholders, and which tended to be treated as a variable independent of the costs sustained by insurers.



The foregoing is an important premise to the analysis of the prices paid by Italians for motor liability insurance over the years.

The standard practice – the legacy of the era of administered prices, when tariffs were equal for all companies – is to base official price observations (ISTAT, ISVAP) of the cost of motor liability policies on an average of list prices (still improperly called “tariffs”) for a small number (now seven) of risk profiles. The actual population, however, comprises millions of profiles, in that each insurance company uses a large number of personalizing factors, including: age, sex, place of residence, number of accidents caused in recent years and vehicle characteristics such as type of engine, year of registration, and weight/power ratio. Further, the data taken from single companies in the different cities have to be weighted. The crucial importance of the selection of profiles and of weighting between profiles, companies, and cities is accordingly self-evident. The problem is not specific to auto insurance, but it is much more important in this sector because the law requires the setting of prices for all possible profiles in the entire national territory, even in areas or price sectors where the company has no policies in being.

The main problem, however, as noted, is that these indexes do not observe the actual prices paid by policyholders. That is:

- 1) They ignore the bonus for drivers who do not cause accidents.** Because they use fixed weights, these indexes cannot take account of the fact that the distribution of policyholders will drift towards the better merit classes, as a consequence of the rules for movement from class to class. Every year over 92% of the insured cause no accidents and thus move down one class, while generally those liable for accidents are moved up two classes. In other countries drivers at fault are penalized much more severely. In the United Kingdom, for instance, when you are responsible for an accident you revert to the entry class. If this system were adopted in Italy, the variations in the merit class distribution of the insured would be less significant, and holding compensation costs equal to the average price of insurance per vehicle would differ less from the fixed-weights index.
- 2) They take no account of discounts.** These indexes go by the insurance companies’ published price lists. Insurers have always offered discounts to some customers, but in recent years this practice has become more common in connection with motor liability insurance’s return to profitability in 2002-03 after more than a decade of substantial losses. In particular, insurers very commonly allow their agents to offer discounts up to a preset amount or “discount allowance” ⁽²⁾. The frequency of discounts, to which

⁽²⁾ Clearly the problem of price discounts is not specific to the insurance industry, but it is probably more important here. ISTAT’s price checker, at a supermarket, can determine the existence and size of a discount simply from the posted price. This is not the case with motor liability insurance, as the discount only arises in the course of negotiations between the agent and the policyholder.



Motor insurance

no cap can be applied (Law 248/2006, known as the Bersani I decree), has increased owing to intensifying competition.

- 3) **They do not consider the growing number of motorists who change insurer every year** to get a better price. Sample surveys put this portion at between 9% and 12% of all policyholders.
- 4) **They do not take account of the second Bersani decree's impact on bonus-malus clauses.** In practice, the measure improperly imposes "discounts" for certain classes of policyholders: specifically, members of households acquiring an additional vehicle and motorists held to be jointly responsible for an accident but not the "principal" driver at fault.

Measurement based on listed prices may be misleading, not reflecting the prices actually paid by motorists. These list prices are the maximum reference price for each type of risk. Accordingly, changes in these prices are not a reliable indicator of real changes in costs to consumers.

Considering effective prices – i.e. **total premium income divided by the number of vehicles insured** – we see that in the last four years the average price of motor liability insurance has fallen 8.3%: 1.5% in 2005, 0.8% in 2006, 2.7% in 2007 and 3.6% in 2008 (Table 1, column 3).

TABLE 1 - MOTOR LIABILITY INSURANCE PREMIUMS, 1994-2008

YEAR	1. Premiums (Source: ISVAP)			2. No. vehicles in circulation (Source: ACI*)		3. Premiums "deflated" by col. 2		4. Memo. item: ISTAT motor liability index		5. Memo. item: ISTAT consumer price index	
	Mn. euro	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Average annual % change	Index	Average 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	17,605	203.2	-3.3	133.9	0.3	151.8	-3.6	270.2	2.4	143.8	3.3

* The index is calculated for 2008 on the basis of the change in the number of vehicles insured derived from an ANIA survey, using a methodology consistent with that which ISVAP has specifically requested of insurance companies. According to preliminary data, the number of vehicle-years insured, about 43 million, increased by just 0.3% with respect to 2007



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. ISTAT's data on consumer prices (like ISVAP's observation of risk profiles) therefore differs in methodological terms from the consumption deflator in that its weights are fixed in time (it is a Laspeyres index).

This phenomenon is found in other sectors as well, but it is justified by the different purposes of the fixed- and variable-weights indexes. The fixed-weights index measures the incremental expense that the consumer would sustain in order to purchase the same basket of products as in the previous period, and accordingly it rightly does not take account of the fact that if the price of a good is increased the consumer may shift to substitute products. The variable-weights index does take the consumer's possible reaction into account. In the case of insurance, however, in general the product is the same from one year to the next and the price falls (or rises less), save in case of accident, merely owing to the passage of time. To illustrate, let us note that ISTAT compares the price of insurance for a 40-year-old policyholder during the year with the price charged in the previous year. Thus by definition it does not measure the actual change in the price paid by a given policyholder – no driver can ever be charged the price observed for the same profile in two successive years.

That the problem is serious is demonstrated by the fact that the rise in the ISTAT index outpaces not only the average cost of coverage but even total premium income, even though every year the volume (number of policies) itself rises or remains steady but, at least until 2008, it has never decreased. The gap is very substantial in recent years and even more so over the long run ⁽³⁾. Table 1 shows that since 1994 the ISTAT index has risen by 270.2%, far more than total premiums earned (203.2%), not to mention the average cost of coverage (151.8%).

Table 1 – which takes ISTAT's data for list prices – shows further that since 2004 the price of motor liability insurance has risen less than the overall consumer price index. This means that for the last five years motor liability insurance has had a "cooling" effect on overall inflation. The gap between the ISTAT index and the average price has widened sharply in the last two years; from an average of 2.5 percentage points in the four years from 2003 to 2006, it increased to 4.2 points in 2007 (-2.7% against +1.5%) and a full 6 points in 2008 (-3.6% against +2.4%). This can be ascribed essentially to the measures imposing discounts and modifying the bonus-malus rules.

⁽³⁾ Prior to 2003 ISTAT calculated a simple and not a weighted average of the various profiles. This engendered a further severe distortion, which helps explain the very sharp discordance from the annual change in the average cost of coverage (Table 1).



IMPLEMENTATION OF THE “ONE-STOP ESTIMATOR” FOR MOTOR LIABILITY (INSURANCE CODE, ARTICLE 136)

Starting in the middle of June 2009, the websites of ISVAP and of the Ministry for Economic Development have been posting the “One-Stop Estimator” for motor liability. The purpose is to enable the consumer, with just one inquiry, to learn the estimates of all insurers for the policy he is interested in, with enormous savings in time and energy for making price comparisons. ISVAP puts top priority on the user-friendliness of the Estimator, laying down that:

- a) the system must supply motor liability premium estimates – for new business and not considering any discounts (which must be requested directly from the insurer) – on the basis of all the main price parameters notified by the insurance companies themselves; supplying the data for the parameters is at the discretion of the user. The estimation service notifies the consumer that the number of estimates supplied depends on the number of data fields filled in;
- b) the main price parameters are assigned fixed values: the Estimator gives only the costs of premiums that follow the most common formula, i.e. bonus-malus; the coverage ceiling specified is the compulsory legal minimum. Consumers are advised that by consulting the estimate systems available on the individual insurers’ websites they can get estimates for policies using different pricing formulas, such as those with a fixed deductible amount, or bonus-malus with deductible; they can also take out liability policies with a higher indemnity ceiling, or with specified forms of indemnification (permitting a lower premium in exchange for agreement to have the vehicle repaired by a mechanic under convention to the insurer). Consumers are further advised that they can apply directly to the insurance company or its agents for discounts with respect to the price cited by the Estimator.

This is why it is essential to underscore that the number of estimates obtained depends directly on the information supplied by the consumer on his own risk profile – e.g. the personal data of the car owner (age, residence, etc.), of other members of the household, use to be made of the vehicle, technical characteristics of the car, and so on.

Initially, the estimate service is restricted to passenger cars, scooters and motorcycles. Later it will be extended to other vehicles.

The Estimator gathers the responses received and draws up a list of all the insurance companies, the expiration date of each price and premium. The estimates are listed in increasing order of premium.

In this initial phase the Estimator responds to consumers via e-mail, within a short time sending a message to the address specified.



In its own informative section, the site describes the Estimator as a “guide” for consumers – to help them compare motor liability insurance prices for all insurers – and not as a means of purchasing policies. It specifies: i) that the estimates given are binding upon the insurer for at least 60 days from the date on which they are first issued, save when liability premium prices are changed; ii) that in the purchase of a policy the consumer has the right to receive from the insurance company or its intermediaries the informational material for the purchaser and the terms of contract, available for motor liability policies also on the insurers’ websites and at their points of sale.

In view of the Estimator’s intended function of initial orientation, for a fuller assessment it is advisable to extend one’s investigation by consulting the estimate engines of the individual insurers directly. The operational simplifications required to make the Estimator work prevent the inclusion of some of the more detailed elements of personalization that may give rise to discounts, such as special formulas for “family member drivers” or vehicles mounting devices such as “clear box” and particular limitations (e.g. “pay as you drive” and other special formulas).

For a clearer comparison of all the offers, the prospective policyholder should consider not only “price” but also the terms of the policy. In particular, the motorist should consider what is excluded from coverage and right of recourse, as well as possible options for the extension of “basic” liability coverage, limiting or totally avoiding contractual recourse, or for additional coverage beyond what is legally compulsory.

INSURANCE FRAUD: THE NEW RULES FOR ISVAP’S MOTOR LIABILITY CLAIM DATABASE

In February 2009 ISVAP posted on its website, for public consultation, its draft “new regulations for the motor liability claims database” instituted by law in 2000 for the purpose of preventing and suppressing insurance fraud. After examining the comments and observations of the stakeholders, the insurance supervisory authority produced its definitive version and published it on the website on 1 June (Regulation 31/2009). In view of the very substantial impact that the new rules will have on insurers’ organization and data flows, it has been decided that the provisions on the transmission of information and on consulting of the database will go into effect within eighteen months from their publication in the *Gazzetta Ufficiale*.

In the course of the consultation, ANIA submitted its own observations and proposed changes. In particular, the Association pointed out the unrealized



potential of ISVAP's database and described the requisite conditions for its more effective utilization by insurers.

The Association also voiced the willingness of the insurance industry to sustain the significant cost of revising the database, on the assumption that the new structure will prove to be an invaluable asset in reorganizing the industry's anti-fraud activities. In particular, ANIA made a series of proposals to transform the database from a mere historical file of motor liability claims into an active anti-fraud tool, a system capable of alerting insurers promptly to indications of anomaly in the claims incurred and recorded, thanks to data-mining techniques that can pinpoint suspicious situations using predetermined indicators of fraud risk.

However, ISVAP did not consider that it could adopt ANIA's proposals for the new model, in that in its judgment they diverged from the guidelines of the relevant framing legislation (Article 135 of the Insurance Code and Article 120 of the Privacy Code) and would be inconsistent with the position of the Privacy Authority.

As a consequence, like its predecessor the new regulation conforms to the organizational and functional model of the claims database essentially as a historical file. It seeks only to rationalize the transmission of data by insurance companies and to improve consultability on the part of those authorized (insurers and the competent authorities). The main changes with respect to the current rules consist, on the reporting side, in a review of the type of data requested, the timing of the reports, and a limitation of the reporting requirement for the insurance company handling the claim.

As for consultation of the database, the two existing levels of access are combined into one, and consultation is now possible either on-line (instant display and printing) or in batch mode (deferred response via file transfer). Both modes give authorized persons access to all the data on the accidents stored in the files either under licence plate number or name of driver.

In addition to the opportunity for comments and proposals relating specifically to the claim database, the publication of the draft regulation also offered ANIA the opportunity to suggest to ISVAP a complete model that would be truly efficient in combating insurance fraud and to specify the conditions that should obtain system-wide in order to get effective results.

Apart from the rules on the operation of the database, ANIA observed that the organizational structure required for effective anti-fraud activity necessarily involves two interconnected planes of action: i) coordination of the various databases with information on policies and claims and rules governing access by authorized institutions and insurance companies that truly serve to detect



illicit actions; ii) institution of a body which, thanks to unrestricted access to these databases and analysis of their contents, can identify cases of suspected fraud and alert insurers, law enforcement bodies and the magistracy so that appropriate penal proceedings can be initiated. Any approach that failed to include the two-level structure (broader, two-way access to data for insurance companies and a central analytical institution) would be a “non-solution” that would only raise expectations but in all likelihood produce no practical effects.

With respect to these general considerations, ISVAP’s report on the outcome of the consultation – while reiterating its different reading of the rules now in place – offered a positive judgment on ANIA’s proposals for the creation of a specific anti-fraud body for the insurance industry. The fact is that the development of effective anti-fraud tools is essential in Italy. For one thing, ISVAP’s official yearly statistics based on insurers’ reports of detected fraud *significantly underestimate the extent of the phenomenon*.

With reference to motor liability insurance in particular, which is universal and therefore especially vulnerable to large-scale exploitation by organized crime, the existence of substantial “underground” (undetected) fraud in Italy can be inferred simply by comparing the national figures with the considerably higher ones reported for United Kingdom and France, where active anti-fraud units are in place. According to the official reports (see table), Italy – implausibly – is one of the countries where insurance fraud is least common; despite extremely high rates in some regions, nationwide no more than 2.5% to 3% of all motor liability claims are fraudulent. In 2007, claims that were fraudulent and those with overstated damages came to 2.54% of the total, down from 2.77% in 2006 and 2.81% in 2005.

For the last three years fraudulent claims have been least common in northern Italy, with an incidence of just 0.78% in 2007, down from 0.93% in 2006 and 0.97% in 2005. The incidence of fraud has always been higher in the South: 7.74% in 2007. Here too, however, there was a slight improvement from 8.11% in 2006 and 8.31% in 2005.

Internationally, the incidence of claims involving fraud averages 10% in United Kingdom and 5% in France. In this light, the official figure for Italy is simply too good to be true. In fact, the considerable difference between Italy and other countries depends mainly on whether or not the country has an effective, operational anti-fraud unit. Where intelligence methods can be applied to identify and combat fraudulent behaviour, fraud can be more readily detected, and the evidence needed for conviction can be supplied to the law enforcement authorities. Where instead, in the name of guaranteed rights that are objectively disproportionate to the necessities of law enforcement, strict limits are set on intelligence activity, antifraud action is both more costly and less effective.



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MOTOR LIABILITY INSURANCE FRAUD IN ITALY BY REGION, 2005-2007

Region	YEAR 2005		YEAR 2006		YEAR 2007	
	% fraudulent claims (no.)	% fraudulent claims (value)	% fraudulent claims (no.)	% fraudulent claims (value)	% fraudulent claims (no.)	% fraudulent claims (value)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
PIEDMONT	1.10%	1.03%	0.99%	0.87%	0.88%	0.90%
VALLE D'AOSTA	0.15%	0.13%	0.13%	0.10%	0.19%	0.16%
LOMBARDY	0.94%	0.82%	0.91%	0.78%	0.78%	0.73%
TRENTINO ALTO ADIGE	0.44%	0.32%	0.42%	0.29%	0.42%	0.35%
VENETO	0.74%	0.68%	0.80%	0.74%	0.61%	0.57%
FRIULI VENEZIA GIULIA	0.48%	0.44%	0.52%	0.42%	0.30%	0.30%
LIGURIA	2.32%	2.42%	2.25%	2.08%	1.75%	1.62%
EMILIA ROMAGNA	0.76%	0.70%	0.71%	0.66%	0.55%	0.51%
NORTH	0.97%	0.86%	0.93%	0.81%	0.78%	0.72%
TUSCANY	0.97%	0.92%	0.86%	0.77%	0.80%	0.73%
UMBRIA	0.58%	0.58%	0.55%	0.87%	0.39%	0.37%
MARCHE	0.69%	0.59%	0.71%	0.60%	0.78%	0.67%
LAZIO	2.15%	1.82%	2.14%	1.79%	1.77%	1.56%
CENTRE	1.54%	1.30%	1.48%	1.24%	1.26%	1.09%
ABRUZZO	1.15%	1.12%	1.07%	0.86%	0.95%	0.83%
MOLISE	1.29%	1.05%	1.03%	0.85%	1.09%	0.81%
CAMPANIA	13.11%	10.69%	12.90%	10.54%	11.91%	9.85%
PUGLIA	7.25%	6.42%	6.92%	6.08%	7.40%	5.72%
BASILICATA	2.01%	1.73%	2.15%	1.87%	2.38%	1.78%
CALABRIA	4.48%	4.04%	4.50%	4.08%	4.05%	3.94%
SOUTH	8.31%	7.01%	8.11%	6.78%	7.74%	6.34%
SICILY	3.82%	3.49%	3.75%	3.25%	3.55%	3.38%
SARDINIA	2.14%	1.45%	2.24%	2.23%	1.89%	2.05%
ISLANDS	3.41%	2.95%	3.40%	3.00%	3.15%	3.05%
TOTAL ITALY	2.81%	2.44%	2.77%	2.40%	2.54%	2.27%

Source: ISVAP - Indagine ISVAP – Indagine sul fenomeno della criminalità nel settore assicurativo

THE EFFECT OF THE BERSANI DECREE ON THE BONUS-MALUS SCALE

The bonus-malus system, as Article 133 of the Insurance Code underscores, is a mechanism (at first covering only cars, later extended to scooters and motorcycles) for relating the size of the premium to the motorist's demonstrated performance. The premium upon initial stipulation or renewal of a contract will be raised or lowered depending on whether or not the motorist has been responsible for an accident claim in the previous year.



The simple, basic principle is: the more accidents a policyholder has caused over the years, the higher his premium. Empirical studies have shown that this mechanism has a preventive, deterrent effect, fostering more prudent conduct by the insured.

Law 40/2007 (the “Bersani-bis” decree), which went into effect on 3 April 2007, made important direct and indirect changes to the bonus-malus system.

Retention of merit class for policyholders insuring more than one vehicle

Before the new law, when a car owner bought a second car the insurance policy on it was set at the bonus-malus entry class (class 14). In some cases the insurer would give deserving motorists a more favourable class, as ISVAP’s Circular 420 of 7 November 2000 had urged, but they subjected this practice to a series of limitations to make sure that the advantages did not go to motorists who lacked an accident-free “track record.”

The Bersani decree laid down that a motorist with one vehicle already insured is entitled to apply the same merit class earned over the years to any motor liability policies for additional vehicles he may acquire. More important, the decree provides that that merit class applies also to vehicles purchased by another member of the policyholder’s household.

Risk certificate

The risk certificate summarizes the policyholder’s track record over the last five years and specifies the merit class in being and that to be assigned on the basis of the universal conversion system. Law 40 extends the validity of the existing merit class for five years in the event of a suspension or failure to renew the policy by reason of temporary non-utilization of the vehicle.

Restriction of circumstances in which merit class is downgraded following an accident

With the entry into force of the decree on 3 April 2007, insurers cannot change a policyholder’s merit class before ascertaining that he is effectively at fault for the accident. Essentially, the insurance company can downgrade a motorist’s merit class only if he is the “principal” driver at fault, as shown by the settlement paid to the counterparty.

When it is impossible to determine “principal” liability, then for purposes of downgrading a policyholder’s merit class after more than one accident, the liability is pro-rated between the drivers involved. Thus when two vehicles are



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involved and each is 50% at fault, neither of the two can suffer a downgrade. In this case the percentage of liability is noted on the attestation of risk so that if the vehicle is involved in another accident, again 50% at fault, the percentages are summed and the downgrade can be effected. But lower degrees of liability – say 40% – are not noted on the attestation and so are not cumulative even if, absurdly, a motorist were involved in five separate accidents with 40% responsibility in each case.

The provisions of the law, in particular the application of the present merit class to new vehicles insured by other household members and the restriction of merit downgrading to the “principal” driver at fault, have altered the penalty mechanism implicit in the bonus-malus system. This is apparent from an examination of the trend in vehicle-years insured in each of the 18 merit classes in the five years from 2004 through 2008. The table below shows, first of all, the rapid emptying of the entry class (class 14). This level had accounted for around 5.5% of all insured vehicles from 2004 through 2006; this share fell significantly already in 2007, to 4.6%, and then drastically to 2.0% in 2008, when the full effects of the measure were felt.

ECONOMIC EFFECT OF SLIPPAGE IN BONUS-MALUS RATINGS

Universal conversion class	Bonus-malus tariff coefficient	Percentage composition of insured vehicles by year				
		2008	2007	2006	2005	2004
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	0.50	55.2%	51.1%	48.8%	48.1%	46.0%
2	0.53	5.1%	5.2%	4.9%	5.5%	5.1%
3	0.56	5.1%	5.6%	5.6%	5.4%	5.5%
4	0.59	3.2%	3.2%	3.6%	3.8%	3.7%
5	0.62	3.1%	3.2%	3.1%	3.7%	3.9%
6	0.66	2.9%	3.1%	3.0%	3.1%	3.8%
7	0.70	2.8%	2.9%	3.1%	3.1%	3.4%
8	0.74	2.8%	2.9%	2.9%	3.2%	3.6%
9	0.78	2.8%	3.0%	3.0%	3.1%	4.0%
10	0.82	3.2%	3.1%	3.7%	3.2%	3.3%
11	0.88	3.5%	3.4%	3.3%	3.4%	3.5%
12	0.94	4.1%	3.8%	4.0%	3.7%	3.9%
13	1.00	3.4%	4.6%	4.6%	4.5%	4.3%
14	1.15	2.0%	4.6%	5.8%	5.5%	5.4%
15	1.30	0.4%	0.3%	0.4%	0.4%	0.4%
16	1.50	0.2%	0.2%	0.2%	0.2%	0.2%
17	1.75	0.1%	0.0%	0.0%	0.0%	0.0%
18	2.00	0.1%	0.1%	0.1%	0.1%	0.1%
Weighted avg. coeff.		0.6148	0.6356	0.6471	0.6444	0.6495
% change		<i>2008 vs 2007</i> -3.3%	<i>2007 vs 2006</i> -1.8%	<i>2006 vs 2005</i> 0.4%	<i>2005 vs 2004</i> -0.8%	



At the same time, there has been a very sharp increase in the percentage in the best merit class (class 1). It is normal, of course, for the merit distribution to “creep” towards the top class, since each year more than 92% of the insured cause no accident. But the sharp acceleration in this “creep” in 2007 and 2008, in the presence of a virtually constant if not increasing accident frequency, is certainly not normal. It is self-evident that this increase was due to a flow of new policies directly into class 1 instead of the class 14 entry level.

For a rough gauge of the economic effect of this shift in merit class distribution, let us look at the “scale of coefficients of the administered tariff” (Inter-ministerial Committee on Prices regulation of 1993), given in column 2. Under this scale, the premium paid by a policyholder in class 1 is equal to half that of class 13 and one quarter of class 18. And the scale of coefficients now in use by insurers is more variable (with a larger reduction: in some instances, the best class shows a coefficient as low as 0.35 with respect to class 13).

The average coefficient, weighting the scale by the distribution according to class, was 0.636 in 2007, down from 0.647 in 2006. This means that, other characteristics of policyholders being equal, the shift in the distribution by class resulted in a 1.8% fall in the weighted average cost of motor liability coverage, and for 2008 the effect was much greater (-3.3%). Further, on the basis of the companies’ own scales the difference could be even more pronounced.

So far the class redistribution effect has been attenuated and has gone relatively unnoticed, thanks to the downward trend in insurance prices in recent years owing to heightened competition. But given the worsening accounts of the motor liability insurance branch for the market as a whole, the problem will inevitably arise in the future in all its severity, further sharpening the downtrend in prices.

INCIDENCE OF CLAIMS INVOLVING JOINT LIABILITY

The new yearly statistics show the percentage of accident claims in which both policyholders are at fault, i.e. those in which there is joint liability.

As this set of statistics is new – there are no data before 2007 – it is impossible to determine whether there has been an increase in the portion of claims involving joint liability. A survey conducted by ANIA of a sample of

TABLE 1 - DIRECT INDEMNITY ACCIDENTS WITH JOINT LIABILITY – 2007

TYPE OF VEHICLE	Percentage claims w. joint liability
Passenger car	6.0%
Taxi	5.5%
Bus	12.5%
Truck	8.2%
Motorcycle	8.6%
Operating cars	10.6%
Total	6.4%



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TABLE 2 - DIRECT INDEMNITY CLAIMS WITH JOINT LIABILITY BY REGION - 2007

REGION	Percentage claims w. joint liability
Abruzzo	6.8%
Basilicata	5.3%
Calabria	4.5%
Campania	6.5%
Emilia Romagna	6.6%
Friuli Venezia Giulia	6.0%
Lazio	6.2%
Liguria	6.2%
Lombardy	6.9%
Marche	5.8%
Molise	5.1%
Piedmont	6.8%
Puglia	7.5%
Sardinia	4.8%
Sicily	6.6%
Tuscany	5.8%
Trentino	5.6%
Umbria	6.0%
Valle d'Aosta	6.3%
Veneto	6.5%
Total	6.4%

insurance companies representing 65% of total motor liability premiums in 2007 and limited to accidents covered by the CARD direct indemnity procedure (i.e. with submission of CID or CTT forms) found that 6.4% of all claims entailed joint liability.

It is worth noting the distribution of joint liability claims by type of vehicle. Buses have nearly twice the average incidence (12.5%), probably because it is difficult, especially for city buses, to demonstrate that the driver was not at fault. The vehicles with lower than average incidence are passenger cars and taxicabs (Table 1).

Joint liability displays no particular regional variations (Table 2). The portion of claims with joint liability ranges from 4.5% in Calabria to 7.5% in Puglia. Aside from the Republic of San Marino, with its percentage of 9.1% (but with a very small number of claims in any case), the cities with the highest proportions of joint liability claims are Bari (8.0%) and Lecce (7.8%). Those with the lowest proportions are Crotone, Reggio Calabria and Oristano (3.6%).

DIRECT INDEMNITY: SETTING THE FIXED COMPENSATION AMOUNTS FOR 2009 AND UNRESOLVED PROBLEMS

In its first two years of operation the direct indemnity system has certainly had positive effects, shortening settlement time and containing the average cost of claims settled and reserved. However, there has not been any significant reduction in the cost of accident claims. What is more, the rigid rules for calculating the fixed compensation amounts due to the mandatory insurer make it impossible to classify accidents according to type of vehicle, which has caused serious disequilibria in the pricing requirements of different sectors.

Motorcycles and scooters, for example, have a high incidence of accidents involving personal injury, and consequently higher average damages. This results in a disparity between the settlements made by the insurer handling the claim and the reimbursement according to the fixed compensation amounts.

When it came time to calculate those amounts for 2009, the problems were still under study by the Ministry for Economic Development, which had concurred with the objections and expressed its intention to revise the rules. The decision was taken by Presidential Decree 28 of 18 February 2009, published in the *Gazzetta Ufficiale* of 2 April. The change consisted in introducing the hitherto precluded possibility of basing compensation between insurers on aver-



age claims costs differentiated also by class of vehicle and not only, as previously, by geographical area or by claims with and without personal injury.

The rule establishes that these criteria for differentiation, whether applied separately or jointly, must not result in excessive fragmentation of the predetermined amounts. To avoid problems, the new provision also lays down that the revision of reimbursement amounts must not cause frequent changes, never more than once a year. The new rules were introduced in April, after the fixed compensation amounts had been determined under the previous rules. The new rules will presumably go into effect as from 1 January 2010.

As for 2008, so for 2009 two distinct compensation amounts for the CARD-CID (no personal injury to passengers) component were calculated: one for damage to vehicles and objects transported, differentiated by three geographical areas, and one for minor personal injury to the driver, with a fixed deductible and also a proportional deductible.

Fixed compensation for damage to vehicle and objects transported (CID)

Studies with a view to setting the amount considered the statistics supplied by the claims clearing house operator CONSAP on settlements of claims arising out of accidents occurring between 1 February 2007 and 31 October 2008. But these data were supplemented by those from ISVAP's two-vehicle accident database, because Consap's data comprise only accidents going back no more than one year and nine months and so cannot take into account the normally much higher costs of settlements made years later.

Starting with ISVAP's database, the claims settled in 2007 were then revalued for one year according to the consumer price index for clerical and production worker households assuming uniform distribution of payments over the year. The average cost of claims was further revalued to 30 June 2009 on the basis of that price index for changes through October 2008; for the last two months of the year and for 2009, the target inflation rates of the two years of 1.7% and 1.5% respectively were used. The value thus calculated, deemed representative of the average cost of claims settled during the year in which the accident occurred, came to Euro 1,303; this figure was then increased by 13.39% to include the overall cost of that year's generation of claims. This coefficient was based on ISVAP's data, since by law the CARD Convention lays down that the fixed compensation amount for any given year applies to all claims lodged during that year, regardless of when they are settled. The final compensation amount thus calculated came to Euro 1,477.

This figure was then compared with the average settlement recorded by CONSAP for claims lodged in 2007 and settled definitively, revalued by the procedure just now described. The average claim cost thus came to Euro 1,397. Note that this figure takes account of the fact that more than 92.5% of claims



are paid outright and that with direct indemnity settlement is faster because large claims are settled earlier.

On the basis of its analysis, the Technical Committee has determined a reference value for the average cost of damage to vehicles and objects transported of **Euro 1,450** for Italy as a whole.

Determination of geographical adjustment coefficients

The three geographical areas were defined using CONSAP's data on payments for physical damage to vehicles and objects transported, both in partial and in full settlement of claims arising out of accidents occurring between 1 February 2007 and 31 October 2008.

The indices used to set the fixed compensation amounts differentiated by geographical area were constructed by the same method used for the amounts for 2007. The provinces were placed in three sets (geographical areas), such that the ratio between the average claim cost for the set (the weighted average of average costs for each province in the set, weights equal to the number of claims paid) and that for the most "virtuous" province in the set is approximately equal for all three sets. This ratio proved to be around 10%.

GEOGRAPHICAL DIFFERENTIATION OF FIXED COMPENSATION AMOUNTS

Euro

	Set 1	Set 2	Set 3
Average cost of physical damage claims, 30/6/2008	1,450	1,450	1,450
Coefficient for geographical areas	1.14	0.98	0.80
Fixed compensation amount for area	1,658	1,419	1,162

Fixed compensation amount for minor personal injury to driver

Studies here were based on CONSAP's statistics on definitive claims settlements between 1 February and 31 October 2008, the processing of sample data from the motor liability claims database for accidents involving two vehicles with settlements in 2007 for minor personal injury (permanent disability of no more than 9 per cent), and ANIA's statistics drawn from its own database for a sample of CARD accidents that occurred in 2007. The amounts used in the ANIA data include both partial and definitive settlements in 2007 and reserves against future payments.

The CONSAP data are marked by high volatility due to an observation period too short, as regards personal injury, to pick up complex claims settlements, with their higher degrees of disability, which as a rule take more time to ascertain actual damages.



The average cost of claims for minor personal injury to the driver was defined as the simple average between average settlement cost drawn from the motor liability database, updated to 2009 by the methodology used for physical damage to vehicles and objects transported, and the average drawn from ANIA's statistics. The latter amount was not revalued, because it includes reserves against payments in future years, calculated at the definitive settlement cost. The average so computed comes to Euro 3,251.

The fixed compensation amount for minor personal injury to driver for accidents occurring in 2009 was thus set at **Euro 3,250**.

No change was made to the absolute deductible (still set at **Euro 500**) or the proportional deductible (equal to **10%** of the settlement but capped at **Euro 20,000**).

Fixed compensation amount for third-party passengers (CTT)

Again in setting the fixed compensation for the convention covering third-party passengers (CTT), the CONSAP statistics could not be used, as the data on claims settlements still cover too short a period. Instead, pending the availability of more meaningful statistical data from the clearing house, it was decided to rely on the data specially drawn from ISVAP's motor liability claims database for claims settled in 2007 for indemnification of personal injury to third-party passengers and from ANIA's statistics drawn from the Association's own database for a sample of CARD-CTT accidents in 2007. Again, ANIA's figures include not only partial and definitive settlements in 2007 but also reserves against future payments.

The average between the two values so calculated came to Euro 3,628. On this basis, the fixed compensation amount due to the mandatory insurer for 2009 was left at the 2008 level of **Euro 3,300**. Nor was there any change to the absolute deductible (still set at **Euro 500**) or the proportional deductible (equal to **10%** of the settlement capped at **Euro 20,000**).

DIRECT INDEMNITY AND NEW LIABILITY CLAUSES

The rules governing direct indemnity expressly allow for policies which in return for a lower premium engage the policyholder to have accident damage repaired at a shop under convention with the insurer. ISVAP has ruled that the websites of motor liability insurers, "when there are contract clauses for specified forms of indemnification, must include a link to the current list of repair shops for the direct repair of the vehicle in case of accident."



In the two years in which direct indemnity has been in effect, such specified repair clauses have become increasingly common. At present they are envisaged in the contracts offered by a significant number of insurance companies whose market share is equal to about half of all motor liability premium receipts in Italy.

An examination of the insurance companies' websites shows that the clauses differ in scope (vehicle make and model) and territorial coverage, and also in the provisions that apply in the event of repair work by a shop not under convention to the insurer. The premium reduction varies with the amount of savings for the insurer through conventions with repair shops. However, repair costs would appear to be relatively inflexible, given the rigidity of labour costs and the standard use of original spare parts. The amount of cost savings thus depends on the number of vehicles involved.

Direct repair work is a competitive tool for the insurer. Policyholders are interested in quality of service, fewer bureaucratic obligations (the transmission of the "blue form" by the repair shop, "on-site" estimates), and shorter time to regain the repaired vehicle.

The direct indemnity system is also prompting increased popularity of "kasko" policies with a predetermined indemnity ceiling (generally, Euro 15,000), which are cheaper than the traditional kasko policy. Kasko policies offer collision coverage, i.e. indemnification of damage to the policyholder's vehicle even when the policyholder is at fault or jointly at fault, provided that the other vehicle involved in the collision is identified. Unlike "maxi-kasko" policies, this limited kasko insurance does not cover damage from collision with a fixed obstacle, overturning or going off road. Generally, the kasko package includes specific repair clauses.

THE EUROPEAN COURT JUDGMENT ON COMPULSORY COVERAGE

In April 2009, after a lengthy judicial proceeding, the European Court of Justice handed down a judgment favourable to Italy on the well known question of the obligation upon insurers to provide motor liability coverage.

The EU Commission had argued that Italy was in violation of Articles 43 and 49 of the EC Treaty in placing an obligation upon all insurance companies, including those with head office in another member state and doing business in Italy under the freedom to provide services, to set prices and conclude third-party motor liability policies for any and all applicants for insurance and any and all types of vehicle.



Italy countered that this restriction on freedom of enterprise is admissible where: a) it serves an overriding public interest; and b) it attains the aim and is not disproportionate to its intended objective.

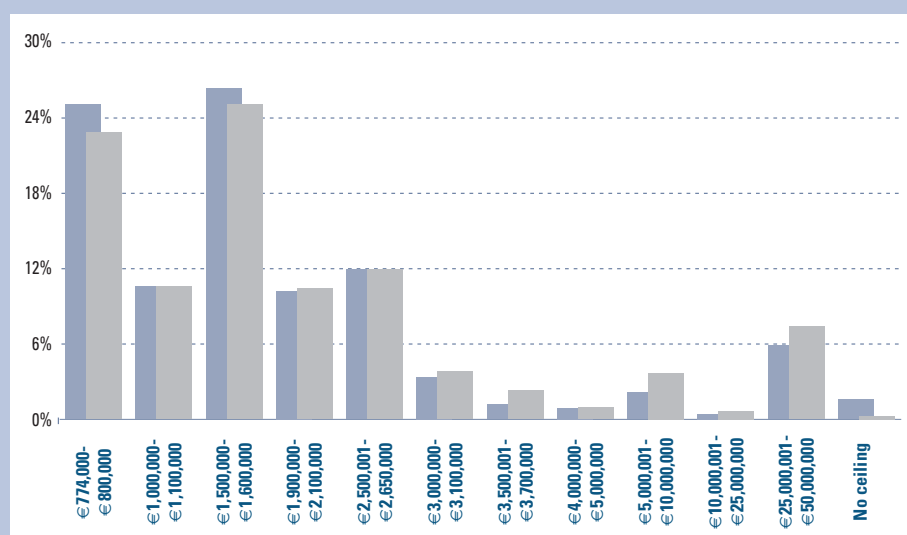
On these principles Italy defended its imposition of the obligation to contract insurance coverage, underscoring that the existence of this requirement had guaranteed ample social protection for the victims of road accidents and at the same time ensured that in certain parts of the country motor liability insurance was provided on terms acceptable for both insured and insurer.

The Court of Justice essentially endorsed Italy's position.

THE ENTRY INTO FORCE OF THE NEW COMPULSORY MINIMUM COVER AMOUNT

Italy's new minimum amount of insurance cover for motor liability insurance policies go into effect on 11 December 2009. The Commission had judged that higher amounts were needed to strengthen the protection of the victims of automobile accidents (Directive 2005/14/EC, the Fifth Auto Directive, transposed into Italian law by Legislative Decree 198/2007), in view among other things of the soaring costs of personal injuries.

The change to the minimum legal cover requirement is substantial. The old minimum indemnity ceiling of Euro 774,685.35 per accident – currently in force for passenger cars, motorcycles and scooters – is far lower than the new minimum set by the Directive. The distribution of policies by indemnity ceiling shows that 23% of all policies in being in 2007 still offered only the minimum legal cover.



MOTOR LIABILITY RISKS INSURED ACCORDING TO INDEMNITY CEILING

■ 2006 ■ 2007



Beginning on 11 December 2009, motor liability insurance policies on all types of vehicle or water craft must conform to the following standards:

- for personal injuries they must have a minimum amount of cover of at least Euro 2.5 million per accident, whatever the number of victims;
- for physical damage to property, they must provide minimum cover of at least Euro 500,000 per accident, whatever the number of persons damaged.

When the new rules are fully phased in on 11 June 2012, liability policies covering any type of vehicle or water craft must conform to the following standards:

- for personal injuries they must have a minimum amount of cover of at least Euro 5 million per accident, whatever the number of victims;
- for physical damage to property, they must provide minimum cover of at least Euro 1,000,000 per accident, whatever the number of persons damaged.

After 11 June 2012, every five years the Minister for Economic Development will issue a measure adjusting the new minimum coverage requirement by the percentage change in the European index of consumer prices.

As no exceptions or derogations are provided for, the new minimum cover in effect as of 11 December 2009 will apply both to new contracts and to policies already in being.

With a view to the new European requirements, insurers have moved well in advance with progressive increases in their policy indemnity caps, so as to permit the gradual adaptation of motor liability premiums to the additional risk coverage required.

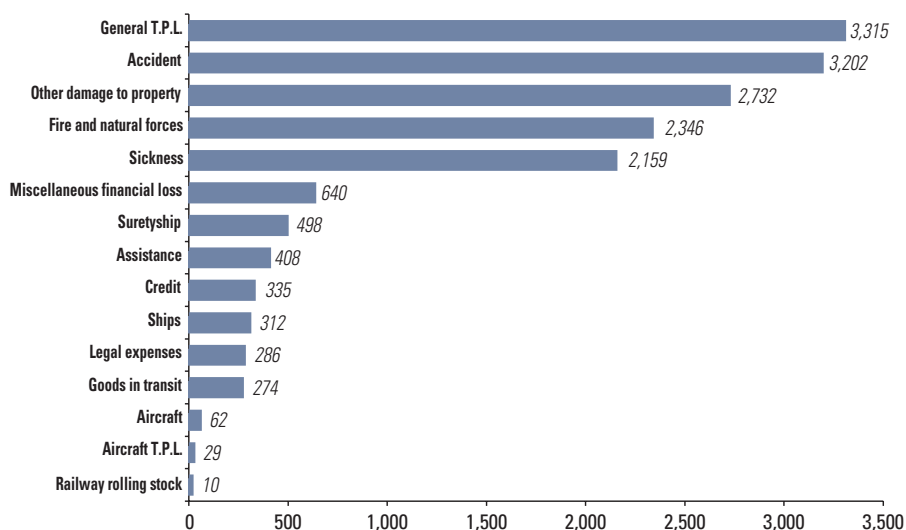


Other non-life insurance classes

In 2008 premiums collected in non-life classes other than motor classes increased by about 3%. All the classes contributed to this growth with the exception of aircraft third party liability. The worsening of the loss ratio for the current accident year (about 5 percentage points) led to a negative direct technical balance, pushing down the ratio of the overall technical account result to premiums.

NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR CLASSES

Premiums for direct domestic business collected in non-life insurance classes other than motor classes (that is excluding land vehicles, motor third party liability and marine vehicle third party liability) were equal to Euro 16,606 million in 2008, up by 2.9% compared to 2007, the lowest growth rate in this decade. Unlike the previous year all the classes (with the exception of aircraft third party liability) registered an increase in written premiums, although this was modest for the majority. In particular, the classes that registered growth rates above average were aircraft (+18.9%), miscellaneous financial loss (+12.1%), assistance (+8.3%), other damage to property (+6.2%), railway rolling stock (+6.2%) and sickness (+5.3). Premium incidence of other non-life insurance classes on the total non-life premiums increased from 42.8% in 2007 to 44.3% in 2008, mainly because of the decrease in motor insurance premiums. The only class that registered a strong decrease was aircraft third party liability (-24.8%).

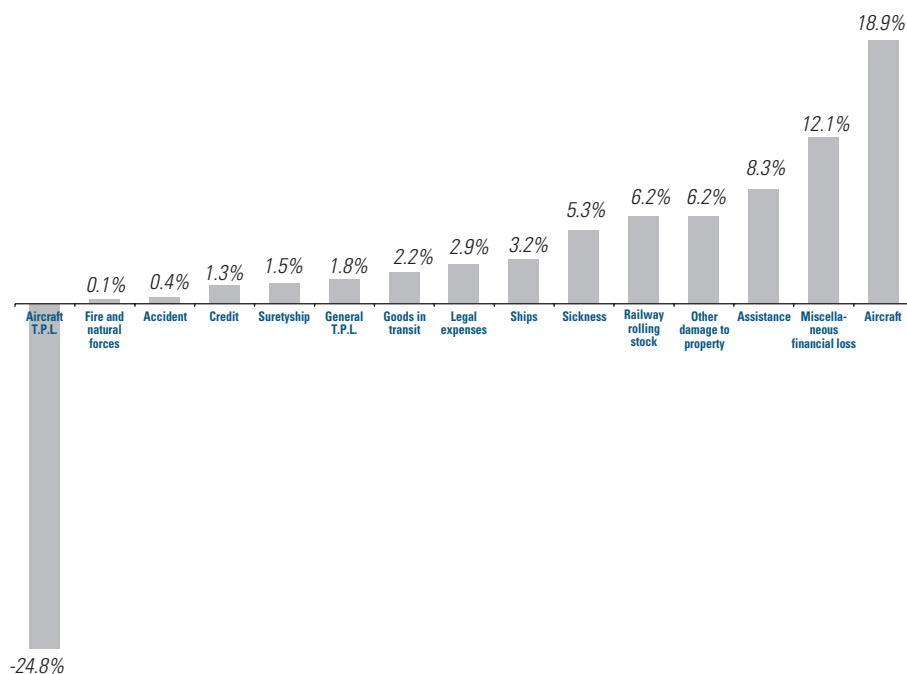


DIRECT PREMIUMS BY INSURANCE CLASS – 2008
Euro million



Other non-life insurance classes

GROWTH RATE OF DIRECT PREMIUMS
BY INSURANCE CLASS – 2008



NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR CLASSES (*)

Euro million

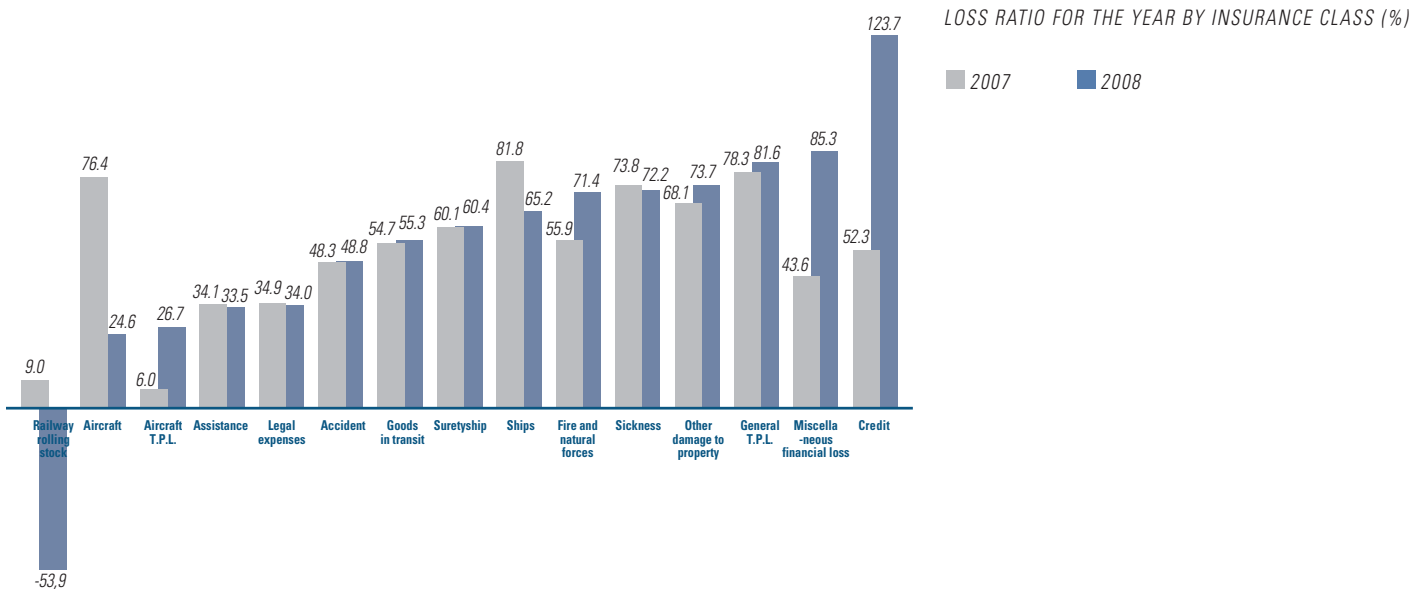
	2001	2002	2003	2004	2005	2006	2007	2008
Gross written premiums	11,771	12,807	13,505	14,180	14,957	15,563	16,132	16,606
Changes in premiums reserves (-)	404	353	402	474	484	497	476	529
Incurred claims (-):	8,130	8,714	8,872	8,914	9,140	9,788	9,768	10,937
- incurred claims cost for the current accident year (-)	8,076	8,663	9,114	8,979	9,439	10,000	10,137	11,176
- excess/shortfall of reserves for those claims incurred in previous accident years	-54	-51	242	64	298	212	369	239
Balance of other technical items	-209	-263	-283	-318	-314	-434	-388	-411
Operating expenses (-)	3,458	3,701	3,919	4,130	4,409	4,619	5,018	5,056
- commissions	2,340	2,545	2,723	2,858	3,084	3,259	3,506	3,550
- other acquisition costs	468	471	497	521	548	580	624	668
- other administration costs	650	685	699	751	777	780	888	838
Direct technical balance	-430	-223	28	343	610	225	482	-327
Investment income	683	529	695	784	829	806	903	404
Direct technical account result	253	305	723	1,128	1,439	1,031	1,385	77
Reinsurance results and other items	135	-130	-346	-758	-811	-632	-537	-185
Overall technical account result	388	175	377	370	628	398	848	-108
Annual % changes in premiums	7.2%	8.8%	5.4%	5.0%	5.5%	4.1%	3.7%	2.9%
Combined ratio	100.9%	98.9%	96.7%	94.2%	92.6%	94.6%	93.5%	98.5%
- Expense ratio	29.4%	28.9%	29.0%	29.1%	29.5%	29.7%	31.1%	30.4%
- Commissions/Gross written premiums	19.9%	19.9%	20.2%	20.2%	20.6%	20.9%	21.7%	21.4%
- Other acquisition costs/Gross written premiums	4.0%	3.7%	3.7%	3.7%	3.7%	3.7%	3.9%	4.0%
- Other administration costs/Gross written premiums	5.5%	5.3%	5.2%	5.3%	5.2%	5.0%	5.5%	5.0%
- Loss ratio:	71.5%	70.0%	67.7%	65.0%	63.2%	65.0%	62.4%	68.0%
- Loss ratio for the current accident year	71.0%	69.6%	69.6%	65.5%	65.2%	66.4%	64.8%	69.5%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-0.5%	-0.4%	1.8%	0.5%	2.1%	1.4%	2.4%	1.5%
Technical balance/Earned premiums	-3.8%	-1.8%	0.2%	2.5%	4.2%	1.5%	3.1%	-2.0%
Technical account result/Earned premiums	2.2%	2.5%	5.5%	8.2%	9.9%	6.8%	8.8%	0.5%
Overall technical account result/Earned premiums	3.4%	1.4%	2.9%	2.7%	4.3%	2.6%	5.4%	-0.7%
Premiums to total non-life premiums ratio (%)	39.3%	39.5%	39.5%	40.0%	41.2%	41.9%	42.8%	44.3%

Indexes and changes (%) are calculated on data in Euro thousand

(*) Excluding land vehicles, motor and marine vehicles third party liability



Other non-life insurance classes



The **incurred claims cost for the financial year**, defined as the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 11,176 million (Euro 10,137 million in 2007), with an increase of 10.2% compared to the previous year. Considering that claims cost growth was three times that of the premiums, the loss ratio for the current accident year worsened, going from 64.8% in 2007 to 69.5% in 2008.

The **incurred claims cost**, which also includes the possible excess/shortfall for claims incurred in previous accident years, totalled Euro 10,937 million, 12.0% more than in 2007. The ratio between this incurred claims cost and earned premiums was equal to 68.0%, in increase of 62.4%. The insurance classes that contributed most to the worsening of this indicator were fire and natural forces, whose loss ratio passed from 55.9% in 2007 to 71.4% in 2008, and other damage to property (from 68.1% to 73.7%), mainly because of the higher number of claims related to violent atmospheric events that hit the North and the Center of Italy during the last quarter of 2008. Among the non-life insurance classes other than motor classes, the following should be noted:

- the worsening of the loss ratio (from 78.3% in 2007 to 81.6% in 2008) for general third party liability;
- a higher number of claims for credit and miscellaneous financial loss, which led to a worsening of the ratio of claim costs to premiums as a result of the economic and financial downturn. The credit loss ratio rose from 52.3% in 2007 to 123.7% in 2008 and that for miscellaneous financial loss from 43.6% to 85.3%;
- an anomaly of railway rolling stock insurance, which registered a negative loss ratio as a result of the excess of reserves for claims incurred in previous accident years for the leading companies.



Other non-life insurance classes

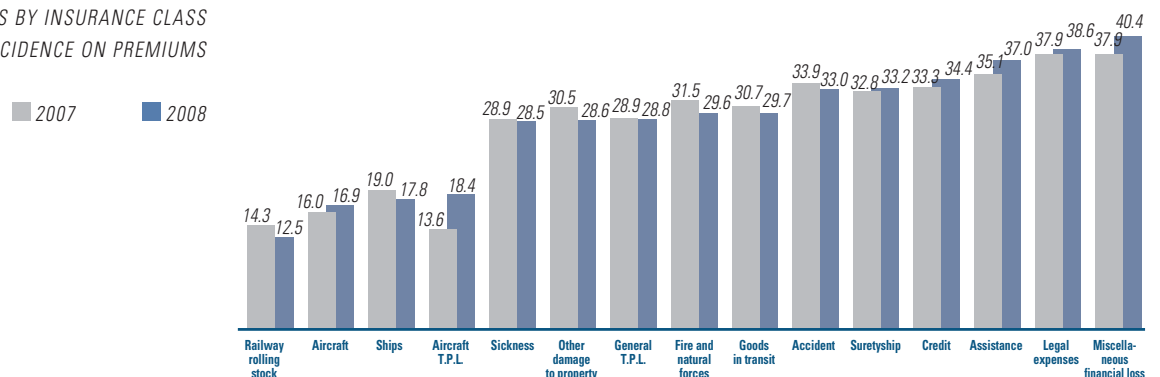
Operating expenses were equal to Euro 5,056 million (Euro 5,018 million in 2007) and include administration expenses relating to the technical management of the insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The incidence of these operating expenses on premiums was equal to 30.4%, down from 31.1% in 2007; in particular administration expenses fell more sharply than other items of operating expenses, passing from an incidence of 5.5% in 2007 to 5.0% in 2008. The classes presenting the highest expense ratio were miscellaneous financial loss (40.4%) and legal expenses (38.6%); ratios lower than 20% were observed in aircraft third party liability (18.4%), ships (17.8%), aircraft (16.9%) and railway rolling stock (12.5%).

The **technical balance for direct business** was negative at Euro 327 million (positive at Euro 482 million in 2007). This deterioration was due to the increase in the incurred claims cost; in particular a positive technical balance was recorded by the following classes: accident (Euro 511 million against Euro 462 million in 2007); assistance (Euro 111 million against Euro 105 million in 2007); legal expenses (Euro 71 million against Euro 65 million in 2007). The largest negative balances were registered for general third party liability (Euro -413 million), miscellaneous financial loss (Euro -194 million) and credit (Euro -178 million). Fire and natural forces, which in 2007 registered a positive technical balance of Euro 194 million, showed a loss equal to Euro 152 million.

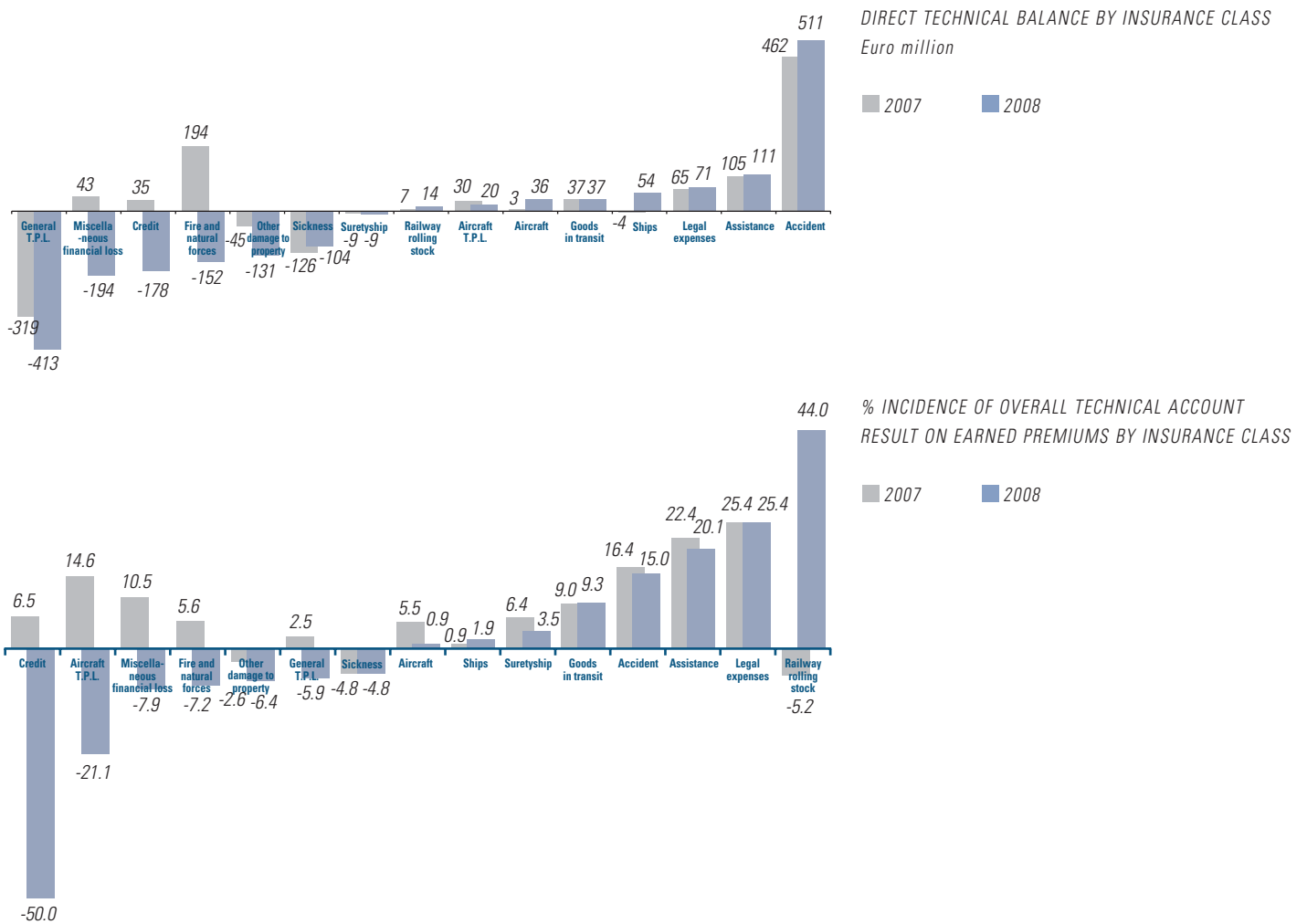
Considering the sharp decrease in **investment income**, from Euro 903 million in 2007 to Euro 404 million in 2008, the **direct technical account result** was positive by Euro 77 million (Euro 1,385 million in 2007).

Taking the insurance balance into account, the **overall technical account result** was negative by Euro 108 million (positive by Euro 848 million in 2007), with an incidence on premiums of -0.7% (5.4% in 2007). In particular, ratios higher than 10% were registered for the following branches: accident (15.0%), assistance (20.1%), legal expenses (25.4%) and railway rolling stock (44.0%).

OPERATING EXPENSES BY INSURANCE CLASS
% INCIDENCE ON PREMIUMS



Other non-life insurance classes



Negative values were registered for sickness (-4.8%), general third party liability (-5.9%), other damage to property (-6.4%) and fire and natural forces (-7.2%).

MEDICAL MALPRACTICE INSURANCE

Italy has one of the highest frequencies in Europe of legal action against physicians and hospitals in cases of error or negligence in delivering care, in both private and public structures. Patients' ever-higher expectations and the increasing rate of litigation in the case of negative outcomes make doctors' role delicate in the extreme and help induce the practice of "defensive medicine" – prescribing extra tests, treatments and examinations that are not strictly necessary, or perhaps avoiding treatments with high patient risk in favor of others that minimize the uncertainty of outcome – with added costs to the National Health Service.



Other non-life insurance classes

Between 1994 and 2007, according to ANIA's annual statistical survey, the number of malpractice claims filed with insurance companies for the two types of policy available (institutional liability for healthcare structures and individual coverage for professionals) more than tripled, from 9,500 to nearly 30,000 (Table 1). While the number of claims filed by institutional structures has held more or less unchanged in the past four years, those involving individual physicians have risen constantly throughout the period, and with a leap of 12.2% in 2007, the last year for which data are available.

TABLE 1 – NUMBER OF CLAIMS FILED*

Year of registration	Institutional liability	% change over previous year	Individual malpractice	% change over previous year	Total medical liability	% change over previous year
(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%

(*) ANIA estimate of total number of claims filed based on a sample of insurance companies whose premium income in 2007 accounted for 39% of the entire general third party liability

In evaluating the cost of claims, it must be remembered that full settlement of a claim takes a very long time indeed, owing to the frequency of litigation and the necessarily long-drawn-out process of reaching a full, definitive assessment of any biological damage. In order to encompass trends in the settlements of at least 90% of the claims lodged, therefore, we must go back to claims generated from 1994 to 1998. In other words, at least ten years must have elapsed from the year in which the claim was registered, i.e., when the insurer learns of the case (Table 2). If we look only at the most recent generation of claims (2007), we find that no more than 10% were settled within the year (and just 6% by value). In the first few years the company generally underestimates the damages; truly understanding and evaluating biological damage, in fact, is complicated owing to the common lack of information immediately after the occurrence of the incident.



Other non-life insurance classes

Year of registration	No. of claims settled (%)	No. of claims reserved (%)	Amount of claims settled (%)	Amount of claims reserved (%)
(1)	(2)	(3)	(4)	(5)
1994	95.2%	4.8%	87.6%	12.4%
1995	95.4%	4.6%	88.9%	11.1%
1996	93.5%	6.5%	85.1%	14.9%
1997	93.0%	7.0%	85.2%	14.8%
1998	90.3%	9.7%	80.3%	19.7%
1999	86.1%	13.9%	69.3%	30.7%
2000	82.4%	17.6%	63.2%	36.8%
2001	76.5%	23.5%	54.2%	45.8%
2002	65.7%	34.3%	43.4%	56.6%
2003	59.1%	40.9%	39.2%	60.8%
2004	50.0%	50.0%	28.7%	71.3%
2005	41.1%	58.9%	22.7%	77.3%
2006	29.3%	70.7%	14.7%	85.3%
2007	10.3%	89.7%	5.9%	94.1%

TABLE 2

CLAIMS SETTLED AT 31/12/2007: NUMBER AND AMOUNT, BY YEAR OF REGISTRATION %

The cost of claims tends to rise as the case proceeds. A good idea of this process can be gained from Table 3, which tracks the average cost of medical liability claims over time. For instance, after eight years (in 2002), insurers put the average settlement cost of claims registered in 1994 at under Euro 16,500, but just two years later, at the end of 2004, the estimate had nearly doubled to over Euro 30,000. If instead we examine registrations in 2002, at the end of that year claims were estimated at an average of Euro 20,000; but five years later, at the end of 2007, as insurers progressively filled their gaps in information, again the average cost had nearly doubled.

Year of registration	At 31/12/2002	At 31/12/2004	At 31/12/2005	At 31/12/2006	At 31/12/2007
(1)	(2)	(3)	(4)	(5)	(6)
1994	16,410	30,212	28,898	29,833	28,421
1995	14,418	21,464	21,406	22,976	22,488
1996	16,961	23,253	22,000	21,789	21,622
1997	25,331	31,082	29,594	29,214	28,961
1998	17,939	24,517	22,474	30,152	29,966
1999	22,820	28,144	28,556	32,063	32,571
2000	22,254	32,298	33,887	37,600	37,634
2001	21,843	31,675	33,152	36,757	35,974
2002	20,157	33,026	35,298	39,903	38,490
2003		30,306	34,379	39,475	39,080
2004		22,706	29,755	36,545	38,349
2005			26,670	33,174	35,471
2006				30,659	33,408
2007					26,670

TABLE 3

AVERAGE TOTAL COST OF MEDICAL LIABILITY CLAIMS Euro



Other non-life insurance classes

The data on average claim cost alone, however, will not suffice to assess trends in this segment. We must also consider the number of claims, which as we have seen has been on the increase, and the number of claims without consequence (that is, those not indemnified). These two factors are summarized in Table 4, which tracks the loss ratio by year of registration.

TABLE 4
LOSS RATIO (CLAIMS/PREMIUMS),
TOTAL MEDICAL LIABILITY SEGMENT

Year of registration	At 31/12/2002	At 31/12/2004	At 31/12/2005	At 31/12/2006	At 31/12/2007
(1)	(2)	(3)	(4)	(5)	(6)
1994	199%	251%	241%	251%	238%
1995	182%	212%	216%	206%	202%
1996	187%	198%	195%	191%	187%
1997	223%	320%	300%	293%	286%
1998	168%	340%	313%	288%	284%
1999	179%	262%	266%	249%	246%
2000	151%	216%	219%	208%	206%
2001	154%	218%	218%	200%	192%
2002	149%	232%	229%	199%	192%
2003		196%	199%	171%	162%
2004		145%	170%	154%	150%
2005			173%	162%	155%
2006				158%	157%
2007					140%

Take the 2002 generation year, for instance. For every 100 euros in premiums earned that year, the claims settled or reserved during the year amounted to 149 euros at the end of the year. At the end of 2007, this indicator stood at 192. Interestingly, the rise in the loss ratio is not necessarily a monotonic increasing function, even though the average cost of claims (Table 3) does tend to rise with the years. This may be because in the end some claims that the insurer assumed would have to be paid were not liquidated.

For the more recent claim generations, by contrast, the estimates made in the year of origin have tended to hold relatively stable. For the 2004 generation, for example, after three years the indicator stood at 150%, about the same as had been estimated at the end of 2004. In this case, however, the number of years of observations is still too small to give a definitive judgment on the current profitability of this segment.

One must consider, in any case, that in recent years insurers have necessarily had to adjust their premiums in an effort to return to profitable operation; and at the same time they have been more selective in taking on new business, with incentives for risk management on the part of healthcare institutions. All these factors helped bring an improvement in the technical indicators, especially since 2004.



ANALYSIS OF RISK ACCORDING TO THE SEX OF THE INSURED IN SICKNESS INSURANCE

A study conducted by ANIA provides a detailed view of the differences in the technical results of sickness insurance in relation to the sex of the insured. The study is based on the information contained in a new ANIA database for the years 2004-06, gathered from a sample of firms that account for more than 50% of total sickness insurance premium income.

The data only permit analysis of claims histories for individual and household policies, so it is not possible to evaluate group policies, which make up a sizable share of sickness insurance business.

The type of insurance analyzed is "reimbursement-based", the most common type of cover in the sickness insurance market, which reimburses the policyholder or the health-care provider for the expenses incurred for *hospitalization and/or surgery* and for *outpatient events*; the analysis does not consider policies that disburse sums of money without regard to the medical expenses directly sustained by the policy-holder or health-care provider, except in the case of a *daily allowance* paid in lieu of reimbursement.

In the period 2004-06 the statistical sample comprised about one million insured persons covered for hospitalization and/or surgery, of whom 55.7% were male and 44.3% female (Table 1).

Examining the claims history for the three years, we can calculate the so-called pure premium, i.e. the amount given by the product of the frequency of claims and the average cost of claims. The higher the total cost for the insurer and the higher the pure premium, the higher will be the premium stipulated by the company.

Setting the pure premium coefficient for males equal to 1, the coefficient for women is 1.25 (Table 1, column 3). Even excluding the cost of pregnancies and all the associated events (natural child-birth, cesarean birth, therapeutic abortion, miscarriage, extrauterine pregnancy), the pure premium coefficient for females is still 1.15, or 15% higher than for males (Table 1, column 4).

Sex	Risks/year	Distribution risks/year (%)	Pure premium index (males = 1)	Pure premium index adjusted for pregnancy (males = 1)
	(1)	(2)	(3)	(4)
Females	437.998	44.3	1.25	1.15
Males	550.151	55.7	1.00	1.00
Total	988.149	100.0		

TABLE 1
ANALYSIS OF THE GUARANTEE
Hospitalization and/or surgery



Other non-life insurance classes

In particular, we can analyze the difference between the pure premium coefficients of the two sexes according to age (Figure 1).

The difference is greatest for the age group 30-34, when the pure premium for women is 3.5 times as high as that for men (2.1 excluding the cost of pregnancy).

FIGURE 1
ANALYSIS OF THE GUARANTEE
Hospitalization and/or surgery
as a function of age

— Pure premium index with respect to males
- - - Pure premium index with respect to males
(adjusted for pregnancy)

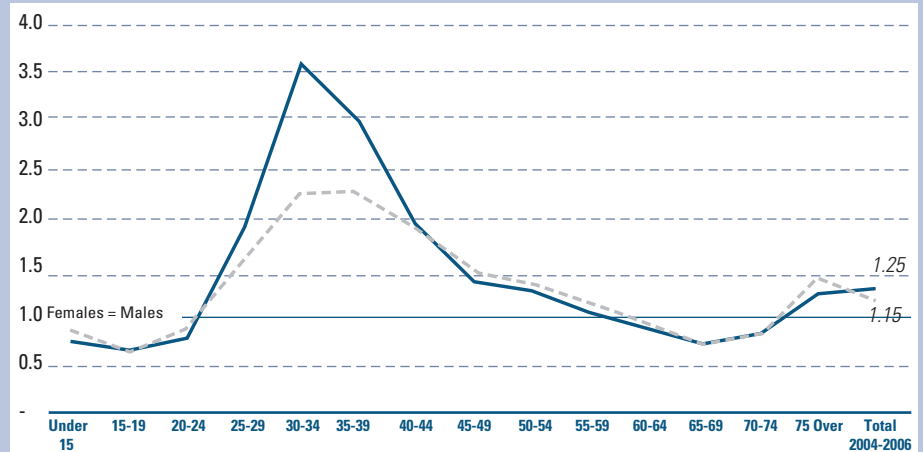


TABLE 2 – ANALYSIS OF THE GUARANTEE
Outpatient medical expense

Sex	Risks/year	Distribution risks/year (%)	Pure premium index (males = 1)
	(1)	(2)	(3)
Females	210,597	47.1	1.22
Males	236,254	52.9	1.00
Total	446,851	100.0	

The differences diminish in the age group 40-50, and between the ages of 60 and 74 women actually are relatively “less costly” than men.

For coverage of *outpatient events*, the sample of policies shrinks to about 450,000 insured persons, of whom 52.9% male and 47.1% female. As with hospitalization/surgery cover, setting the pure premium coefficient for males equal to 1, the relative pure premium coefficient for females is 2.2 (Table 2).





Human resources and the operational area

STAFF AND LABOUR COSTS

NUMBER OF STAFF

YEAR	ADMIN.	DEALERS	TOTAL
2002	36,987	2,993	39,980
2003	36,429	2,862	39,291
2004	37,275	2,830	40,105
2005	37,016	2,908	39,924
2006	36,665	3,130	39,795
2007	36,567	3,156	39,723
2007 (*)	41,121	5,157	46,278
2008	41,479	5,352	46,831

(*) For the first time in 2007 the total includes 4,554 employees of other entities controlled by insurance companies and roughly 2,000 additional dealers as a consequence of a large corporate restructuring

At the end of 2008 the Italian insurance industry employed a total of 46,831 individuals, 1.2% more than the previous year.

Included among the 41,479 administrative employees were 6,852 employees of entities controlled by insurance companies, to whom the national labour contract of the insurance sector applied. Overall, administrative staff increased in 2008 by 358 units (+0.9%), despite a mild decline in executives (-1.6%) to a year-end figure of 1,187. The number of dealers was 5,352, 195 more than the previous year (+3.8%).

TOTAL STAFF COSTS Euro million

YEAR	ADMIN.	DEALERS	TOTAL
2002	2,119	117	2,236
2003	2,268	115	2,383
2004	2,379	129	2,508
2005	2,457	142	2,599
2006	2,533	154	2,687
2007	2,711	169	2,880
2007 (*)	2,972	277	3,249
2008	3,118	273	3,391

(*) For the first time in 2007 total costs relating to staff include 4,554 employees of other entities controlled by insurance companies and roughly 2,000 additional dealers as a consequence of a large corporate restructuring

Male employees in the insurance sector diminished slightly (-50, that is -0.2%), whereas female ones increased by 3% (+603). Overall, female employees accounted for 44.7% of the employment of the whole sector; 34.8% of employees of the insurance industry hold a university degree and 52.6% a high school degree.

At the end of 2008 total labour costs of the industry amounted to Euro 3,391 million, of which Euro 3,118 million related to administrative staff.

In 2008 labour costs of administrative staff increased by 4.9% in absolute terms. In per capita terms the increase was slightly smaller (+4.6%) also owing to the increase in the number of employees (+0.3%). Average cost per administrative employee increased from Euro 74,000 to Euro 75,500.

ANNUAL CHANGE IN TOTAL STAFF COSTS (%)

YEAR	ADMIN.	DEALERS	TOTAL
2003	7.0	-1.7	6.6
2004	4.9	12.2	5.2
2005	3.3	10.1	3.6
2006	3.1	8.5	3.4
2007	7.0	9.7	7.2
2008	4.9	-1.6	4.3

It must be clarified that staff costs per employee are obtained by dividing the overall cost by the yearly average number of employees. Moreover, through adequate estimation methods, it was necessary to make the data previous to 2007 compatible, as, for the first time in 2007, about 4,500 employees of entities controlled by insurance companies and roughly 2,000 dealers were included in the total following a large corporate restructuring.

Total labour costs of dealers decreased by 1.6% and their number increased by 2.3%. As a result, average cost per dealer decreased by 3.8%.

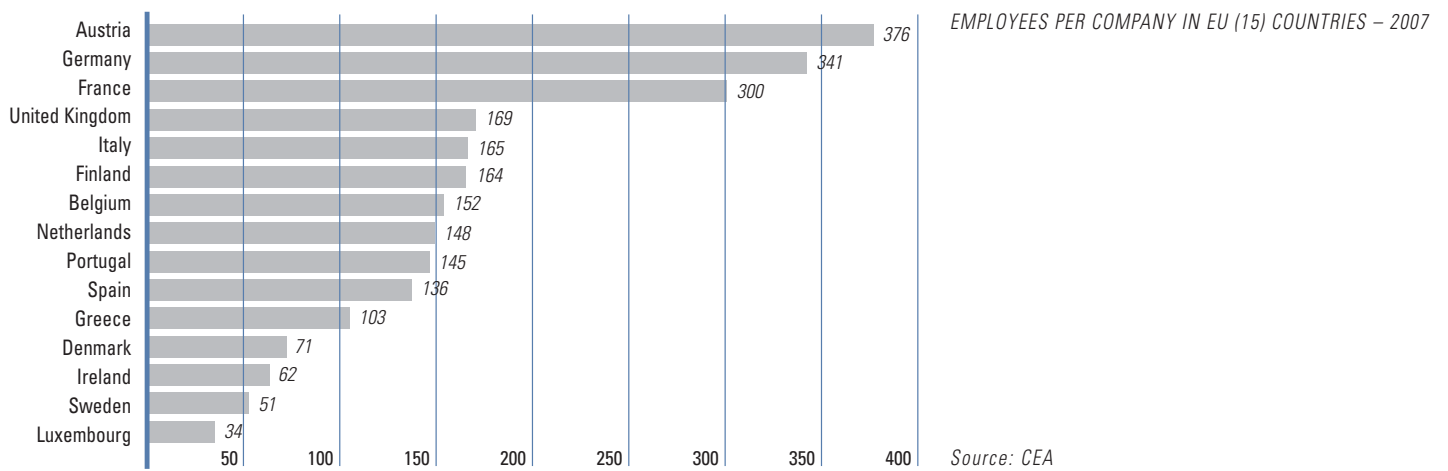
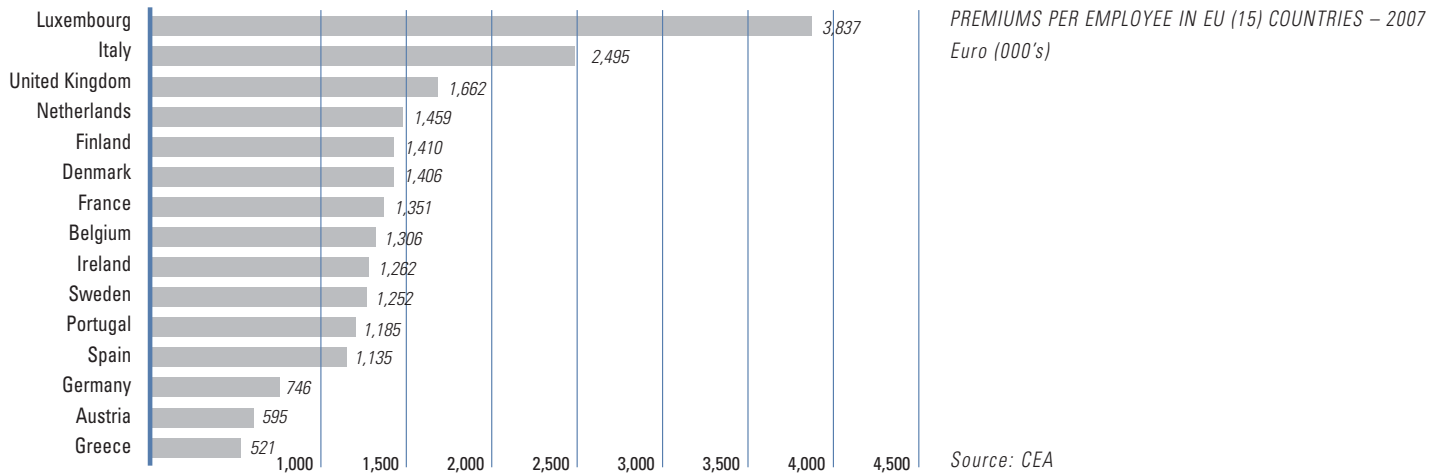
Total staff costs increased by 4.3%, per capita costs by 3.8%.

ANNUAL CHANGE IN STAFF COSTS PER EMPLOYEE (%)

YEAR	ADMIN.	DEALERS	TOTAL
2004	4.5	15.3	5.2
2005	2.3	9.3	2.8
2006	4.1	3.0	3.7
2007	7.6	5.5	7.4
2008	4.6	-3.8	3.8



Human resources and the operational area





In 2008 the total volume of life premiums written through bank branches contracted for the third consecutive year. With respect to 2007, premiums collected by agents and by direct sales remained stable, whereas those written through brokers increased. The agents' channel, the main intermediation form in the non-life business, as well as direct sales, slightly underperformed. The results of a study by ANIA based on data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) shows that the figures reported by insurance companies underestimate the importance of brokers in the non-life sector.

LIFE BUSINESS

In 2008 all distribution channels of life insurance products, with the exception of financial advisors, registered a reduction in the premiums collected.

Although they still represent more than half of the life business, bank branches sustained the largest decline in 2008 (19.2%), after the reductions of 13.3% and 8.0% registered, respectively, in 2007 and 2006. Between 2004 and 2008 the average contraction was 5% per year.

By contrast, agents' percentage of life business increased from 18.6% in 2004 to 23.6% in 2008, although their premium volume edged down by 0.9% last year. In 2008 only financial advisors increased their market share (+3.3%); in the last 5 years the average annual variation for this channel was negative by 5% per year.

TABLE 1 - DISTRIBUTION CHANNEL ANALYSIS – 2004-2008

LIFE BUSINESS

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean (2004-2008)	Annual change (%)					Mean change (%) (2004-2008)
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008		2004	2005	2006	2007	2008	
Bank branches (*)	38,479	44,523	40,957	35,496	28,688	58.6	60.6	59.0	57.8	52.5	57.7	4.1	15.7	-8.0	-13.3	-19.2	-5.0
Agents	12,176	13,372	13,830	12,969	12,852	18.6	18.2	19.9	21.1	23.6	20.3	5.6	9.8	3.4	-6.2	-0.9	2.2
Direct sales	8,248	9,110	8,086	6,862	6,811	12.6	12.4	11.7	11.2	12.5	12.1	21.0	10.5	-11.2	-15.1	-0.8	0.0
Financial advisers	6,250	5,584	5,907	5,237	5,409	9.5	7.6	8.5	8.5	9.9	8.8	-10.4	-10.7	5.8	-11.3	3.3	-5.0
Brokers	474	882	598	875	805	0.7	1.2	0.9	1.4	1.5	1.1	-0.9	85.8	-32.2	46.5	-8.0	10.9
Total	65,627	73,471	69,377	61,439	54,565	100.0	100.0	100.0	100.0	100.0	100.0	4.5	12.0	-5.6	-11.4	-11.2	-2.8

(*) Figures include also premiums collected by post offices



Insurance distribution

Premiums written by direct sales continued to decrease, although at a slower pace with respect to 2006 and 2007: the rate of change went from -11.2% in 2006 to -0.8% in 2008; consequently, this channel's share of total business increased from 11.7% in 2006 to 12.5% in 2008.

Premiums collected by brokers, which in the last 5 years accounted for an average of 1% of total premiums, contracted by 8.0% in 2008.

The analysis of the composition of life business according to product type (Table 2) shows that Class I products (insurance of human life length) are distributed mainly by the bank channel, accounting for 44.6% in 2008, one percentage point more than in 2007. On the other hand, the share of business written through agents decreased (32.3% in 2008 from 34.5% in 2007).

In 2008 the growth of Class III (linked) policies booked by financial advisors determined a growth of the share of this class of intermediary from 13.5% in 2007 to 16.1% in 2008. As a consequence the market share of the bank distribution channel declined to 74.8% from 78.1% in 2007; for this class of products, agents' market share remained stable at around 8%.

TABLE 2
BREAKDOWN OF LIFE MARKET BY DISTRIBUTION
CHANNEL AND CLASS (%) - YEAR 2008

CLASSES	AGENTS	BROKERS	BANK BRANCHES (*)	FINANCIAL ADVISERS	DIRECT SALES	TOTAL
INDIVIDUAL POLICIES						
I - Life	33.0	0.2	47.2	8.3	11.3	100.0
III - Linked	7.9	0.0	75.0	16.1	1.0	100.0
IV - Healthcare	91.3	1.4	3.3	2.3	1.6	100.0
V - Capitalization	35.1	1.2	39.7	0.7	23.3	100.0
VI - Pension funds	34.5	0.0	21.2	7.6	36.7	100.0
TOTAL INDIVIDUAL	23.6	0.2	57.1	11.0	8.1	100.0
GROUP POLICIES						
I - Life	25.8	21.0	19.3	0.3	33.6	100.0
III - Linked	0.0	0.0	0.0	0.0	100.0	100.0
IV - Healthcare	26.6	61.1	3.2	0.0	9.1	100.0
V - Capitalization	26.5	4.6	1.8	0.1	66.9	100.0
VI - Pension funds	5.9	0.1	5.5	0.5	88.1	100.0
TOTAL GROUP	23.1	13.0	11.7	0.3	51.9	100.0
TOTAL POLICIES						
I - Life	32.3	2.2	44.6	7.5	13.4	100.0
III - Linked	7.9	0.0	74.8	16.1	1.3	100.0
IV - Healthcare	32.2	56.0	3.2	0.2	8.5	100.0
V - Capitalization	30.5	3.1	19.3	0.4	46.8	100.0
VI - Pension funds	19.1	0.1	12.8	3.7	64.4	100.0
Ind. pens. schemes (**)	38.4	0.1	9.4	43.4	8.7	100.0
TOTAL LIFE CLASSES	23.6	1.5	52.6	9.9	12.5	100.0

(*) Figures include also premiums collected by post offices

(**) The premiums relative to the Individual pension schemes are distributed in Class I - life or Class III - linked, depending on the contract



The weight of direct sales for Class V (capitalization) products decreased from 53.2% in 2007 to 46.8% in 2008. The market share of the bank channel did not change (lower than 20%) whereas that of agents grew to more than 30%.

For the first time since the entry of the individual retirement products in the life market in 2001, financial advisors were the main intermediation channel with a share of 43.4%. Agents, the second distribution channel for these products, witnessed a nearly 6% drop in their market share (from 44.5% in 2007 to 38.4%).

Direct sales of Class VI (pensions funds) products increased, leading to a share of premiums intermediated of 64.4%.

NON-LIFE BUSINESS

Agents, who represent the main distribution channel in the non-life sector, saw their market share decrease by 1.2% in 2008, the first contraction in the last five years; however, the average annual growth in the same period increased slightly (+1.5%, Table 3).

After the moderate contraction of 2006 and 2007, the business written by brokers started increasing again in 2008 (+3.0%); their market share was stable at around 7.6% of premiums collected, second to the agents' channel in the non-life sector. This share is likely to be underestimated, as it does not include a substantial proportion of premiums (estimated at around 20 percentage points) originated by this channel but submitted to agents rather than directly to companies. Factoring this in, it is estimated that brokers

TABLE 3 - DISTRIBUTION CHANNEL ANALYSIS – 2004-2008

NON-LIFE CLASSES

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean (2004-2008)	Annual change (%)					Mean change (%) (2004-2008)
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008		2004	2005	2006	2007	2008	
Agents	30,235	30,681	31,315	31,751	31,381	85.3	84.5	84.1	84.3	83.9	84.4	3.7	1.5	2.1	1.4	-1.2	1.5
Brokers (*)	2,674	2,796	2,779	2,771	2,854	7.6	7.7	7.5	7.4	7.6	7.6	4.9	4.5	-0.6	-0.3	3.0	2.3
Direct sales	2,113	2,251	2,438	2,427	2,359	6.0	6.2	6.6	6.4	6.3	6.3	3.2	6.5	8.3	-0.4	-2.8	2.9
<i>of which: internet and phone sales</i>	<i>856</i>	<i>944</i>	<i>994</i>	<i>1,054</i>	<i>1,042</i>	<i>2.4</i>	<i>2.6</i>	<i>2.7</i>	<i>2.8</i>	<i>2.8</i>	<i>2.7</i>	<i>16.2</i>	<i>10.3</i>	<i>5.3</i>	<i>6.1</i>	<i>-1.1</i>	<i>7.2</i>
Bank branches (**)	360	545	624	677	804	1.0	1.5	1.7	1.8	2.1	1.6	-14.7	51.4	14.5	8.6	18.6	13.8
Financial advisers	29	36	28	29	54	0.1	0.1	0.1	0.1	0.1	0.1	-1.6	27.2	-22.4	2.7	86.9	13.3
Total	35,411	36,309	37,184	37,655	37,451	100.0	100.0	100.0	100.0	100.0	100.0	3.5	2.5	2.4	1.3	-0.5	1.8

(*) Does not include premiums originated by brokers but submitted to agents rather than directly to companies, estimated at about 20% of total premiums in 2008

(**) Figures include also premiums collected by post offices



Insurance distribution

intermediated in 2008 premium volumes for Euro 10.3 billion, against Euro 2.8 billion in the official statistics (27.5% of total premiums, against 7.6% in the official statistics).

Consequently the premium volume collected by agents would be lower and equal to Euro 24 billion (instead of Euro 31.4 billion in the official statistics) with an incidence on total non-life premiums of 63.8% (instead of 83.9% in the official statistics).

To estimate brokers' actual share of business ANIA uses the data available at the Italian Association of Insurance and Reinsurance Brokers (AIBA) together with information from the main brokers operating in the Italian market. Although actual data on collected premiums are not available to AIBA either, it can obtain an estimate of the volume of premiums managed by brokers on the basis of their payments to the compulsory Guarantee Fund and from (non compulsory) premiums calculated on fees. The gap between AIBA's and ANIA's estimations (for the non-life sector this almost reaches Euro 20 billion) is large owing to their substantially different estimations of premiums calculated from fees.

TABLE 4
BREAKDOWN OF NON-LIFE MARKET BY DISTRIBUTION
CHANNEL AND CLASS (%) - YEAR 2008

CLASSES	AGENTS	BROKERS (*)	BANK BRANCHES (**)	FINANCIAL ADVISERS	OWN AGENCIES	OTHER TYPES OF DIRECT SALES			TOTAL
						TELEPHONE	INTERNET	OTHER	
Motor liability	90.7	2.2	1.2	-	1.2	2.9	1.9	-	100.0
Land vehicles	87.0	4.8	1.5	-	2.7	2.3	1.6	-	100.0
Total motor	90.1	2.6	1.3	-	1.4	2.8	1.8	-	100.0
Accident	82.9	7.3	3.2	0.8	4.2	0.6	0.5	0.6	100.0
Sickness	60.1	19.0	6.1	0.9	11.4	0.1	0.1	2.3	100.0
Railway rolling stock	46.9	9.4	-	-	43.7	-	-	-	100.0
Aircraft	46.9	41.9	-	0.1	11.1	-	-	-	100.0
Ships	20.6	75.1	0.1	-	4.1	-	-	0.1	100.0
Goods in transit	45.6	47.2	-	-	5.8	0.1	0.1	1.2	100.0
Fire and natural forces	79.0	11.7	4.9	0.1	4.2	-	0.1	-	100.0
Other damage to property	79.4	14.9	1.5	0.1	3.9	-	0.1	0.2	100.0
Aircraft third party liability	36.9	45.3	-	-	17.8	-	-	-	100.0
Ships third party liability	91.0	5.5	0.2	-	2.1	0.5	0.7	-	100.0
General third party liability	83.0	11.4	0.9	0.1	4.6	-	-	0.1	100.0
Credit	75.7	16.2	0.8	-	7.3	-	-	-	100.0
Suretyship	82.2	11.8	0.4	-	5.5	-	-	0.1	100.0
Miscellaneous financial loss	62.1	10.7	15.3	-	4.5	0.2	0.3	6.9	100.0
Legal expenses	88.1	4.6	2.1	-	1.4	2.4	1.1	0.3	100.0
Assistance	81.2	4.1	3.0	0.3	2.6	3.4	2.2	3.2	100.0
Total non-motor	75.9	13.9	3.2	0.3	5.3	0.3	0.2	0.8	100.0
Total non-life classes	83.9	7.6	2.1	0.1	3.1	1.7	1.1	0.4	100.0

(*) Does not include premiums originated by brokers but submitted to agents rather than directly to companies, estimated at about 20% of total premiums in 2008

(**) Figures include also premiums collected by post offices



After years of strong growth, for the second consecutive year premiums collected through direct sales registered a decrease (-2.8%); besides the contraction in the volume handled by own agencies, the result was affected by a decline in the Internet and telephone channel, which decreased by 1.1% in 2008. In the last five years this channel has grown on average by 3% per year, with a market share always above 6%.

In 2008 banks again had a strong growth in premium collection; their market share doubled compared to 2004, from 1.0% to 2.1%. Financial advisors' importance in the non-life sector remained almost negligible (0.1%).

With a share of over 90%, agents represent the main distribution channel in the motor insurance sector (third party liability and land vehicles). Brokers showed a slight increase in their share of intermediated premiums (2.6%), while the share of the direct sales channel remained stable (4.6%).

Distribution in other non-life insurance classes is dominated by agents, with the exception of ships, goods in transit and aircraft third party liability, where brokers are prevalent. According to estimates by ANIA, brokers' share in the general third party liability, property, credit and suretyship lines is between 55% and 70%, reaching almost 80% in transport insurance.





THE ITALIAN INSURANCE INDUSTRY IN 2009

The difficult economic situation will curb demand for non-life insurance, premiums on which are forecast to fall by 0.8% overall this year. Motor liability insurance premiums, down by 5.2% in the first quarter of 2009 from the same period a year earlier, are expected to contract by between 1% and 2% over the year as whole. Land-vehicle insurance premiums are forecast to drop by 4%, owing to lower sales of new vehicles. The volume of premiums in the property sector (fire and other property insurance) is likely to diminish by 1%, again owing to the economic downturn. Gains in premium income are forecast instead for accident and sickness insurance, general liability insurance and the remaining non-life classes.

In the life sector, the difficult economic and financial situation could induce households to increase their propensity to save and to diversify their flow of saving, which in 2008 was channeled almost entirely into bank instruments. In the first four months of 2009 new life business topped Euro 17 billion, up by more than 25% from a year earlier. In particular, premiums written in Class III (linked policies) were 80% lower than in the same period of 2008, but this collapse was offset by new business for Class I products, which more than doubled. The strong comeback by traditional policies reflected savers' interest in the guarantees that these products ordinarily feature (full repayment of capital, minimum guaranteed yield, or both).

CLASS	PREMIUMS 2008	PREMIUMS 2009	% CHANGE 2008-2007 (*)	% CHANGE 2009-2008 (*)
Motor liability	17,606	17,342	-3.3%	-1.5%
Land vehicles	3,208	3,079	-2.3%	-4.0%
Accident	3,202	3,234	0.4%	1.0%
Sickness	2,159	2,180	5.3%	1.0%
Fire and natural forces	2,346	2,322	0.1%	-1.0%
General liability	3,315	3,348	1.8%	1.0%
Other property	2,732	2,705	6.2%	-1.0%
Other non-life	2,885	2,942	4.9%	2.0%
TOTAL NON-LIFE	37,451	37,153	-0.5%	-0.8%
<i>% of GDP</i>	<i>2.4%</i>	<i>2.5%</i>		
Class I - Life insurance	31,429	45,572	15.7%	45.0%
Class III - Investment funds	18,558	7,423	-36.1%	-60.0%
Other life classes	4,578	6,867	-12.3%	50.0%
TOTAL LIFE	54,565	59,862	-11.2%	9.7%
<i>% of GDP</i>	<i>3.5%</i>	<i>4.0%</i>		
TOTAL	92,016	97,015	-7.1%	5.4%
<i>% of GDP</i>	<i>5.9%</i>	<i>6.5%</i>		

LIFE INSURANCE PREMIUMS IN ITALY: FORECASTS
Euro million

Source: ANIA estimates

(*) 2008 data are final, 2009 data are estimates



Forecasts for 2009

Assuming a gradual restoration of orderly conditions in the financial markets in 2009, life insurance premiums could return to growth on an annual basis, but not at the pace seen in the first four months of the year. The forecast is for life premium incomes to expand by 10% to nearly Euro 60 billion, rising from 3.5% to 4.0% of GDP.

This overall growth would come as the net result of a sharp increase in premiums on traditional Class I policies (+45%) and a fall in premiums on financial insurance products (Class III, linked policies), which are expected to decline by a further 60% after contracting by nearly 40% in 2008.

Total premiums on direct Italian insurance business should return to growth in 2009, increasing by 5.4% to Euro 97 billion and from 5.9% to 6.5% in relation to GDP.



The data published cover all insurance companies registered in Italy, branch offices of foreign companies registered in extra-EU countries and branch offices of foreign companies that write reinsurance business only.

2008/2009 figures are provisional

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