ITALIAN INSURANCE

2018 - 2019

Ania

Associazione Nazionale
fra le Imprese Assicuratrici

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THE RESULTS FOR THE YEAR

Total premiums gain 3.0%…

Total premium income of Italian and foreign insurers operating in Italy, direct and indirect, and gross of reinsurance, increased by 3.0%, the first gain after two years of contraction that had reduced premiums by over €15 billion compared with 2015.

…3.3% in life and 2.3% in non-life…

The growth in 2018 involved both life insurance, where premium income rose by 3.3% (after plunging 10.6% in 2016 and shrinking by a further 3.8% in 2017), and non-life insurance, which scored an increase of 2.3% for the year.

…the overall technical account result: life €800 million, non-life €2.9 billion…

In life insurance, the technical account was positive by €800 million, but down 75 percent from €3.4 billion in 2017; its ratio to premiums thus dropped from 3.4% to 0.8%. In non-life insurance the technical result was €2.9 billion, down from €3.2 billion in 2017, and its ratio to premiums slipped from 10.5% to 9.5%.

…profit on ordinary and extraordinary business: €4.5 billion…

In 2018, the result from the ordinary activity of the life and non-life sectors was €4.0 billion (down from €7.3 billion in 2017); extraordinary income (which is added to that from ordinary activity) remained positive at about €540 million, up from €460 million in 2017. Summing ordinary and extraordinary activity, pre-tax profit for the year thus amounted to €4.5 billion, a decrease of more than 70% from the previous year.

…net profit: €4.2 billion

After taxes totaling some €340 million, the industry showed an overall net profit of €4.2 billion in 2018 (€6.0 billion in 2017): €2.2 billion for the non-life sector (€2.4 billion in 2017) and €2.0 billion for the life sector (€3.5 billion in 2017).

Balance-sheet liabilities were practically unchanged (-0.2%), while assets declined by 1%

At the end of 2018 total Solvency II balance-sheet liabilities came to €802 billion, practically unchanged (-0.2% for the year). Life insurance technical provisions (net of linked policies), at €538 billion, also remained unchanged. Technical provisions in the non-life sector diminished by over 2% to €52 billion.

At the end of the year Italian insurers had assets of €911 billion, down about 1% for the year. Investments of €690 billion (net of linked policies) accounted for 75.7% of total assets, with a decrease of 1.0% in the twelve months.

The consequent excess of assets over liabilities was €109 billion (€117 billion in 2017). The incidence of the excess on total balance-sheet assets thus declined from 12.7% in 2017 to 12.0% in 2018.

The Report presents a study on insurance companies' investments

This year's Report offers an examination of the insurance industry's investments in corporate bonds, shares, and infrastructures.

The solvency ratio for the entire industry was 2.23 in 2018…

In 2018, the solvency ratio (for a substantial sample of companies) was 2.23, down from 2.43 in 2017 and barely higher than in 2016 (2.17). This value is the ratio of eligible own funds (nearly €122 billion) to the Solvency Capital Requirement of €54 billion.

…for non-life insurance, 1.88…

For companies operating in non-life insurance only, the solvency ratio rose from 1.79 to 1.88.

…for life insurance, 2.00…

For companies in the life sector, the ratio fell from 2.33 to 2.00.

…mixed-insurance companies, 2.37

For insurers doing both life and non-life business, the average solvency ratio came down from 2.53 to 2.37.

The insurance industry paid €340 million in direct taxes in 2018

The Italian insurance industry paid €340 million in direct taxes in 2018, representing a decrease with respect to 2017 as a consequence of declining profits; over the past five years, in any case, direct tax liabilities have averaged €1.8 billion.

European comparison of taxation of insurance premiums…

Again last year Italy was among the European countries with the heaviest tax burden on insurance premiums for motor liability, fire, general liability, and goods in transit, reconfirming the established tendency.

…and of insurers' profit performance

The Report compares the economic results (ROE) of insurance companies in the main European countries (France, Germany, Italy, United Kingdom, and a broader set of European countries) from 2013 through 2017, based on the Fitch Connect database of income statements.

THE FORECAST FOR 2019

For 2019, premium growth of 2.6% to nearly €140 billion is forecast…

The total premium income of the direct policy portfolio (life and non-life combined) of companies with legal offices in Italy should come to nearly €140 billion in 2019, with growth of 2.6% for the year. Overall insurance business, that is, is expected to continue its moderate expansion, in line with the 3.2% growth recorded in 2018.

The growth in 2019 will result from positive contributions of both non-life premiums (+3.2%) and life premiums (+2.5%).

In proportion to Italian GDP, total premium income will thus edge up from 7.7% to 7.8%.

…motor liability premiums stable, other non-life up 5.3%…

Total written direct premiums of Italian insurance companies in the non-life sector are expected to come to €34 billion, up 3.2% compared with 2018, consolidating the uptrend of 2017 (+1.2%) and 2018 (+2.3%), following the decline of over 12% recorded in 2012-2016. This will result from the stability of motor liability premiums and the further growth of 5.3% in premium income in all the other non-life classes.

For motor liability, 2018 saw only a marginal rise in premium income (+0.1%), thanks to an increase in the number of vehicles insured (+0.9%) that barely offset the decline in the average premium (-0.8%). It is estimated that this trend, with similar values, is likely to continue in 2019, producing a second consecutive year of stability in total premium income for this branch. Thus the portion of total non-life premiums accounted for by motor liability will come down further to 39%, from 41% in 2017 and 40% in 2018.

The expansion of business in the other non-life sectors is expected to continue, with growth averaging more than 5% to nearly €21 billion in premiums, although Italy remains underinsured in this segment. The growth should be fueled by continuing technological innovation, with the creation of new, more attractive, more useful insurance products.

In particular, the expansion should be connected with an increased propensity on the part of individuals and households to acquire voluntary coverage – especially in the area of health (accident and sickness) and increased demand from professionals (e.g., in the general liability class). Land vehicle premiums (fire, theft, and collision insurance) should grow less in 2019 than in the previous years: 4.5% compared with gains of about 6% in the three previous years, as a result of the decline in new car registrations in 2019 (down 2.9% between January and May compared with a rise of 1.1% in the same period of 2018). Premium volume should nevertheless exceed €3.0 billion, returning to the level of ten years ago.

Total non-life premium income is expected to hold unchanged in proportion to GDP at 1.9% in 2019.

…life premiums will rise 2.5%…

In the life sector, we forecast a continuation of the trend registered in 2018: premium growth of about 2.5% once again, for a total volume of nearly €105 billion for 2019.

…resulting from rapid expansion of variable yield policies (12.5%) and an even sharper fall (20%) in unit-linked policies

This is the expected resultant of two distinct trends:

- continued growth in variable yield policy premium income (Class I), with a gain of 12.5% to almost €75 billion, following the more modest growth of 5.4% last year. One factor is the maintenance of the interest rates on Italian government securities at levels that are not too low, enabling insurance companies to offer life policies with more competitive guaranteed yields, as in the case of hybrid (multi-class) policies, which recorded sharp growth in the early months of 2019;
- another sharp decline in the marketing of prevalently financial products (Class III, unit-linked policies), which are projected to contract by 20% for the year to a volume of under €24 billion (from nearly €30 billion in 2018). Uncertainty on the performance of the equity markets should direct policyholders' demand toward products with stronger yield guarantees.

The positive trend in the market for life insurance policies is confirmed by an analysis of new individual life insurance policies, sales of which came to €37.1 billion through May 2019, up from €36.4 billion in the first five months of 2018 – a rise of nearly 2.0%. The expansion is due exclusively to variable-yield Class I life policies (with a gain of 17.1% in the five months to over €27 billion), while Class III unit-linked policies contracted by almost 26% to premium volume of €9 billion.

Total written life insurance premiums should rise from 5.8% to 5.9% of GDP in 2019.

EXECUTIVE SUMMARY

LIFE INSURANCE – THE DIRECT ITALIAN PORTFOLIO

Italian households' disposable income increases in both nominal and real terms…

In 2018 the disposable income of Italian consumer households accelerated as compared to 2017 thanks to 1.9% nominal growth (+1.7% in 2017). The purchasing power of Italian households also increased, benefitting from the gain in real disposable income, which improved sharply from the previous year (+0.9%, +0.6% in 2017).

…and the saving rate turns back up…

The propensity to save of consumer households, measured as the ratio of saving, gross of depreciation and net of changes in provisions, to gross disposable income, returned to growth (+7.5%), after the drop of nearly 1 percentage point in 2017.

…but the decline in net financial saving continues

In 2018, the net financial saving of Italian households and non-profit institutions serving households amounted to €17.4 billion, further shrinking from €26.5 billion in 2017. While the change in gross liabilities was practically stationary (+€19.7 billion, from +€20.0 billion in 2017), there was a significant decline in gross inflows to household assets (+€37.1 billion, down from +€46.5 billion in 2017).

Investment in bank bonds, equity and investment funds declines. Positive flows into government securities and life insurance policies

In 2018, there was another drop in investment in domestic assets in several instrument classes: net disposals of Italian bank bonds (-€21.1 billion, -€42.6 billion in 2017), of Italian shares and other equities (-€20.9 billion, -€28.9 billion) and Italian mutual funds (-€9.8 billion, +€9 billion). The flows of the foreign components of these asset classes were all positive. Conversely, Italian bank deposits maintained positive flows (+€22.9 billion, compared with +€26.0 billion 2017), as did Italian government securities (+€13.5 billion, +€4.7 billion) and life insurance provisions (+€23.7 billion, +€24.1billion).

Household financial assets come to €4,218 billion

At the end of 2018, the stock of financial assets held by Italian households amounted to €4,218 billion. The largest share of Italian households' financial wealth still consists in liquid instruments, i.e. bank deposits (29.1%, 27.6% in 2017), followed by insurance, pension funds and employee severance pay provisions (23.7%, 22.7% in 2017) - including life insurance provisions (17.0%, 16.3% in 2017) - and by the amount invested in shares and other equity (21.3%, 23.7% in 2017). At the end of 2018, investments in mutual fund units accounted for 11.5% of the assets held by Italian households (12.0% in 2017).

Life premiums amount to €102 billion…

Premiums from direct domestic life insurance business totaled €102 billion in 2018, up 3.5% from 2017 when they had fallen by 3.6%. Percentage-wise, in 2018, life premiums amounted to three quarters of total premiums (life and non-life), about the same as in the previous year.

…and net cash flow to €28.8 billion…

Due to the slower growth in claims costs than written premiums, the net cash flow, defined as the difference between these two items, grew by 5.0% last year to €28.8 billion, lower than the 2014-2016 period, when the net cash flow was always at least €40 billion.

…mathematical provisions are nearly €680 billion…

Overall technical provisions, amounting to €678.7 billion, rose by 3.9% on 2017, confirming the five-year tendency of slower growth (the average annual increase in 2014-2018 amounted to 7.1%).

…claims costs rise by 2.9%…

Incurred claims, defined as amounts paid and the changes in provisions against payable amounts net of recoveries, amounting to €73.2 billion, rose by 2.9% from 2017, basically due to an increase in surrenders or disinvestments, which came to 62% of total expenses.

…operating expenses decline by 0.5%…

Operating expenses – contract acquisition costs and costs relating to the organization and management of the distribution network, and administration expenses – amounted to €3.9 billion (74% of which related to Class I and V, 25% to Class III and 1% to other life classes), down marginally (-0.5%) from the previous year.

…investment profits of €0.8 billion…

The investment balance amounted to €0.8 billion in 2018, down drastically from previous years (since 2012, the lowest value until 2018 had been €16 billion), due to the huge depreciation of the assets underlying Class III policies.

…a technical account balance of €0.5 billion…

The technical account balance was positive and amounted to nearly €0.5 billion, the lowest since 2012, dropping by around €2.5 billion on 2017 and almost €6 billion compared with 2012.

The balance on reinsurance cessions and net indirect business amounted to €0.3 billion, as in 2017.

…and the overall technical account is positive at €0.7 billion

Taking the balance of outward reinsurance into account, the overall balance of the technical account was positive by €0.7 billion, down sharply from over €3 billion in the previous two years. The ratio to premiums thus shrank (from 3.3% in 2017 to 0.7% in 2018) as did that to technical provisions (from 0.51% to 0.11%).

Return on segregated funds: 3.3% over the last five years

Over the last five years, in particular, the average return to segregated life insurance funds has been 3.3% (3.0% in 2018) against 1.5% for government securities, 1.8% for severance pay entitlements, and inflation of 0.5%.

Supplementary retirement plans enroll 8.7 million workers, 30% of the work force

The trend of enrollments to supplementary pension plans confirms the steady growth of recent years. The number of members reached 8.7 million in 2018, with growth of 5.3% from the previous year.

Report on fundraising by Individual Retirement Plans…

The total volume of fundraising by financial and insurance IRPs in 2018 came to €5.9 billion in 2018, a sharp drop from 2017, the starting year, when it was in excess of €12 billion. Of this fund-raising, two thirds was via financial products and the remaining third from insurance products, while the amounts collected through other types of Plan (e.g. managed asset portfolios) were negligible.

…and new multiclass policies

In 2018, more than 820,000 new multi-class policies were subscribed (810,000 in 2017), for a volume of new premiums of €28.6 billion (+10.1% from 2017), more than one third of the total new life business of €82.3 billion, an even higher share than in 2017 and more than 20 points higher than in 2014.

The Report describes the legislative decree transposing the EU Directive on occupational retirement provisions

On 17 January 2019, Legislative Decree 147/2018 was published in the *Gazzetta Ufficiale*, transposing EU Directive 2016/2341 on the activities and supervision of institutions for occupational retirement provisions (IORP II). The Decree introduces a set of amendments to Legislative Decree 252/2005 regulating supplementary pension plans.

EXECUTIVE SUMMARY

NON-LIFE INSURANCE – THE DIRECT ITALIAN PORTFOLIO

Non-life premiums come to €33.1 billion…

In 2018, non-life classes' premium income amounted to €33.1 billion, up 2.3% from 2017. Their share of total premiums fell slightly from 24.7% to 24.5% as a result of the sharper increase in life premiums.

…the combined ratio improves slightly and the overall technical account is €2.8 billion

The combined ratio showed a slight improvement (90.2% against 91.1% in 2017), as the moderate rise in the expense ratio was more than offset by the improvement in the loss ratio for this accident year. The overall technical account result was €2.8 billion, down slightly from €3 billion in 2017.

Report on medical malpractice insurance…

The Report examines liability insurance coverage for healthcare structures and individual practitioners. At 31 December 2018 the average ratio of claims to premiums for the various claims generations was at or near 100% (it peaked in 2013 at 134%). The highest ratios were registered by healthcare institutions (public and private), dominating the trend for the sector as a whole.

…fire insurance, and extension to natural disasters…

The Report details ANIA's statistics on Italian homeowner insurance policies and exposure to risk of fire, focusing on the extension of such coverage to natural catastrophes. At the end of March 2019, the number of active policies (for the whole market) was 9.7 million, up by 7.1% from the survey of March 2018 and up by 12.1% from the survey of September 2016. The total value of amounts insured was €3,640 billion.

Taking account of comprehensive building policies as well, 46.0% of dwellings had insurance coverage, compared with 42.8% in March 2018 and 42.2% in 2016.

The survey (for all active policies as at 31 March 2019) shows that 8.5% of policies have an extension of coverage to natural disasters, up from March 2018 (when it was 6.8%) and September 2016 (5.1%). Considering only the policies with nat-cat extension subscribed in 2018 and in the first quarter of 2019, this type of policy accounted for 45% of the 826,000 active policies. The tax incentives now in place would therefore seem to have started to have an effect, even if still quite limited.

A survey by the Bank of Italy has found that 43.7% of Italian industrial and non-financial service firms with at least 20 workers have coverage against hydrogeological risk (landslides and floods), and a sixth of the uninsured said they intended to take out a policy.

…and other special sections

The Report offers special sections on a series of issues:

- Diffusion of non-motor non-life insurance among Italian households
- Comparison of sources of funding for health spending in Italy with other countries
- Guarantees offered in sickness and accident insurance
- Natural catastrophes: events in 2018 and preliminary estimate of current exposure of the Italian insurance industry
- Financial liability insurance of public officials in tender award procedures
- New provisions on purchasers of properties to be built
- New rules on customs policies and certification entities

MOTOR LIABILITY INSURANCE

Written motor liability premiums are stable in 2018, as is the cost of claims…

In 2018 written motor insurance premiums firmed up after the reduction of over 25% registered in the previous six years to hold practically stable (+ 0.1%). The cost of claims too was unchanged, so the combined ratio was also unchanged from 2017. The financial component of returns on investment, though down slightly on the year, contributed to the positive overall technical balance, this too slightly down from the previous year. The overall technical result for land vehicle insurance remained positive at over €200 million.

…the number of vehicles insured is up 0.9%…

The number of vehicles insured increased by 0.9% in 2018 to 39.3 million, for Italian insurance companies and units of non-EEA insurance companies only. Counting all the other types of insurer doing business in Italy, the number rose by 1.6% to about 42 million.

…the average premium declines by 0.8%, and the gap between premiums in Italy and the rest of Europe narrows to €70

Apart from forecasts and estimates, 2018 saw a further decline of 0.8% in the average motor liability premium, although certainly not as sharp as in the five previous years (4.6% in 2013, 7.0% in 2014, 6.7% in 2015, 5.9% in 2016, and 2.5% in 2017). The price reduction in 2018 is confirmed by IVASS's quarterly survey of actual motor liability insurance prices (the average of prices in the four quarters of the year), which found a decline of 0.4% for the year. The survey shows that the average yearly price of passenger car insurance fell from €558 in 2012 to €414 in 2018, or by 26%. Accordingly, the gap between Italian prices and those in the other main countries narrowed once again. The Boston Consulting Group study conducted in 2014 found that between 2008 and 2012 motor liability coverage cost €213 more in Italy than in Germany, France, Spain and the United Kingdom, on average, while an update of this study found that the gap diminished to €138 in 2015. Using the trends in motor liability price indices released by Eurostat, ANIA has estimated that the gap narrowed further in 2018 to just €70.

The number of claims falls by 2.3% and claims frequency by 3.2%…

The total number of claims incurred and reported that are being paid or will give rise to a payment in the future totaled 2.1 million in 2018, down 2.3%. Claims frequency, defined as the ratio of claims to the number of vehicles exposed to the risk of claim-generating accidents (measured on the basis of days of exposure during the year, converted into "vehicle-years"), dropped from 5.61% in 2017 to 5.43% in 2018, a decrease of 3.2 percent. Including the estimate of late claims (incurred but not reported), claims frequency was 5.95% in 2018 (6.13% in 2017).

…owing to contingent factors…

To gather statistics on the factors that have helped to determine claims frequency in recent years, ANIA has compared quarterly data from 2008 through the first quarter of 2019 on the average cost and consumption of vehicle fuel with claims frequency. From 2008 to 2014 fuel prices were stable or rising, which presumably reduced consumption and discouraged vehicle use, with a consequent decline in accidents. Since 2015, however, average fuel prices have fallen sharply, with the opposite impact on vehicle use, which increased, and with it the number of accidents. And in fact this period also saw an increase in claims frequency. The same trend, albeit less marked, is found in fuel consumption, which averaged 1 percent more in 2015 and 2016 than in 2014. There was an upturn in the average cost of fuel in 2017, the rise continuing in 2018 by 7 percent compared with 2017, while claims frequency edged downward, a trend confirmed in the first quarter of 2019 as well.

…the decline in claims is coupled with a modest rise of 0.7% in average claims cost…

The cost of claims for the accident year – amounts paid or reserved for the financial year – came to €10.6 billion in 2018, down 1.4%. Given the total number of claims (including those incurred but not reported), the average cost of claims for the year came to €4,537, or 0.7% more than the €4,507 recorded in 2017. Excluding IBNR claims and the contribution to the Road Accident Victims Guarantee Fund, the average cost of claims came to €4,361 in 2018, compared with €4,326 the year before.

…the incurred claims cost for 2018 is stable…

The incurred claims cost for the financial year, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was €10.0 billion, as in 2017. The difference with respect to the incurred claims cost depends precisely on the utilization of excess reserves for previous years (€574 million).

…the loss ratio improves slightly thanks to the decline in claims costs while premiums hold steady…

Owing to the 1.4% decline in the total cost of claims and the stability of accrued premiums, the loss ratio improved by 1.1 percentage points from 81.3% in 2017 to 80.2% last year.

…the expense ratio comes down slightly…

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €2,795 million (€2,805 million in 2017). The ratio of expenses to premium income edged down from 21.2% to 21.1%. In particular, the incidence of "other administration costs" on income rose from 5.5% to 5.7%, while that of commissions diminished from 11.0% to 10.9% and that of other acquisition costs came down from 4.6% to 4.5%.

…while the overall technical account remains positive…

The variations in the relevant components produced an offset between income and expenses, resulting in a positive technical balance of €213 million, up marginally from €208 million in 2017. Owing to the 41% fall in profits from investments to €313 million last year, the result of the technical account for direct business, while remaining positive by €525 million, was down 30% from the €738 million registered in 2017. Taking the negative balance of €27 million on reinsurance into account, the overall technical account result was positive by €498 million, down from €702 million the previous year.

Special sections on:

car theft and ANIA's statistics on land vehicle insurance…

A section of the Report is given over to the Interior Ministry's preliminary data on car theft in Italy in 2018 and a comparison with 2017 and 2016. It also presents the updated ANIA statistics on the technical indicators and fire and theft insurance for land vehicles.

…provincial breakdown of technical margin for motor liability insurance…

The Report details the technical margin on motor liability insurance in 2018 on a provincial basis, with a comparison comparing, for the main Italian cities, the average premium actually paid by policyholders with the insurance companies' expenses for claims, administration and distribution, net of the financial profit margin.

…the incidence of number and costs of personal injury compensation to total claims…

There is a substantial section on the cost of personal injury compensation, which accounts for 62.6% of total compensation paid or €6.6 billion in 2018. Specifically, €2.1 billion represented compensation for mild bodily harm entailing 1-9 percent permanent disability and €4.6 billion for more serious injury. In 2018 the proportion of accidents with at least one injury declined slightly to 16.4%. To trace the dynamics of the various components over time, we analyzed changes in these items from 2009 to 2018. This inquiry revealed that due to Law 27/2012, which modified the conditions for compensation for minor injuries, in seven years the frequency of claims for mild injury dropped from 1.401% in 2011 (prior to the law) to 0.847% in 2018, a reduction of 40 percent.

…the diffusion of fraud risk and estimate of uninsured vehicles…

A special section reports the findings of the IVASS report on 2017-2018 concerning accident claims exposed to risk of fraud. The average ratio of potentially fraudulent to total claims was broadly stable at 22.3% in 2018 nationwide, but with very substantial geographical variability. On the basis of the open access data of the Motor Vehicles Bureau, which holds the data of the Public Automobile Registry, after refining and cleaning the data ANIA has also estimated the total number of uninsured vehicles on the roads at 2.7 million, or 6.0% of all circulating vehicles.

…technical indicators for motor insurance in the main European countries…

Based on the data in Insurance Europe's report "European Motor Insurance Markets" (February 2019), a section of the report offers an international comparison of the technical insurance indicators of claims frequency and average claims cost in the main European countries, which are clearly reflected in the premiums paid by policyholders in the various Member States.

…calculation of CARD amounts for 2019…

The Report describes the method of calculating the single compensation amounts for 2019. For the middle provincial grouping (with coefficient 1) the CARD-CID compensation amount for motorcycles and scooters is €3,270, that for other vehicles €1,810.

…the diffusion of black boxes…

The increasing use of black boxes on motor vehicles in Italy is closely intertwined with the general development of technology. It has had a significant impact on insurance products. Where at first (towards the end of the 1990s) these devices served essentially as anti-theft protection, perfectly tracking the position of the vehicle, by the start of the current decade black boxes were used increasingly to monitor driving styles, prompting ever more sophisticated pricing techniques, exploiting the data on motorists' habits behind the wheel and introducing "pay as you drive" practices.

…ANIA's national and international action on projects for cars and technology…

The Report describes ANIA's action in Italy and internationally in the sphere of cars and technology, as well as national initiatives to foster connected and automatically driven vehicles through effective regulation.

…regulatory and judicial changes relating to motor liability

The Report describes the regulatory and judicial changes relating to motor liability in the law for markets and competition and the provisions of the "Security Law" on the circulation of vehicles registered abroad; it also goes into the consequences of the new sanction regime instituted by the Private Insurance Code.

THE ANIA FOUNDATION, ANIA-CONSUMERS FORUM, ANIA-SAFE, INNOVATION BY ANIA

A special chapter on:

A chapter is dedicated to the range of activities undertaken by the ANIA Foundation and the ANIA-Consumers Forum

…initiatives of the ANIA Foundation…

Last year was one of consolidation for the ANIA Foundation's new mission, no longer limited to road safety but extended to a broader concept of protection, safety and security. This strategic option serves to conduct activities in all areas of insurance business.

Among the road safety activities undertaken last year, training for young drivers was among the most important. A number of projects worked to disseminate a culture of compliance with the rules of the road. This approach has permitted the provision of direct training to over 12,000 young people.

Last year the ANIA Cares project for psychological support to accident victims and their relatives went fully operational. In the four pilot areas the project provided assistance to 334 people with 851 sessions. In the light of the project's success, extension to four more cities is planned.

In the area of health, in order to disseminate the idea of healthy lifestyles, ANIA's Street Health Tour continued in 2018, providing over 6,000 free check-ups to people who cannot access the National Health Service, while also sensitizing people to the advantages of supplementary health care insurance.

…the ANIA-Consumers Forum…

Last year the Forum commissioned Censis to conduct a survey on household savings and how to direct them to instruments of protection. The findings, in a report entitled "From precautionary cash to protection," were released in a volume published by Franco Angeli.

In the area of insurance education, in 2018 the Forum participated in the first annual "Financial Education Month" sponsored by the Committee for the planning and coordination of the activities of financial education. The Forum also continued to develop its "Me and risks" program for familiarity with insurance among school students and households. In its few years of existence the program has involved over 130,000 students at schools in every part of Italy.

Last year also saw the launch of the "Better informed, better protected" program, with the involvement of nine consumer organizations in developing projects to inform consumers and make the most of possible shared proposals on issues of special interest: health care, savings, natural disasters, innovation.

…ANIA SAFE…

The merger of ANIA Servizi and ED.ASS. into IRSA Servizi e Formazione was completed at the end of 2018. The new organization was then renamed ANIA Servizi e Formazione: ANIA SAFE.

ANIA SAFE is structured into three areas: Services, Training, and Publishing. Each obviously focuses primarily on devising solutions and proposals for the insurance market, but not neglecting possible opportunities for extension to other markets.

…and the Innovation by ANIA observatory…

The Report also recounts the activities of the "Innovation by ANIA" observatory, intended to make the new impetus of innovation, involving all economic sectors, available in practice. It is a permanent workshop designed to confer additional concreteness on the modernization that insurance companies are already experiencing in their production processes and the development of new solutions for customers.

THE REGULATORY FRAMEWORK

The Solvency II Review: publication of the delegated regulation and launch of LTG review…

The new delegated regulation amending Delegated Regulation (EU) 2015/35 was published on 18 June 2019 in the *Official Journal of the European Union*, going into effect as of the third quarter of 2019.

On 11 February 2019 the Commission formally launched the second phase of the review, which bears in particular on the measures relating to insurance products carrying long-term guarantees and to equity risk.

…a focus piece on volatility adjustment…

In Italy, from the entry into force of Solvency II the volatility adjustment has never worked in proper or timely fashion. The second phase of the review of the Directive will address the problems comprehensively.

…the IVASS regulation on outside auditing of the public disclosure requirement under Solvency II…

On 2 August 2018 IVASS released its Regulation 42 on the auditing of the yearly Solvency and Financial Condition Report that insurance companies publish and transmit to the supervisory authority as required by the Solvency II prudential regime.

…ANIA's initiative on insurance companies' financial reports under Solvency II…

Last year ANIA conducted its second annual analysis of all the Solvency II financial reports published in Italy. By comparison with the first exercise, the analysis has now been extended in order to reflect the interventions of EIOPA and IVASS during the year, which clarified the expectations of the authorities on certain matters of content and on the overall structure of the reports.

The publication of the second annual SFCRs reveals trends in organizational choices and in the information provided. Generally, the second year's reports were more detailed and more in line with the authorities' expectations.

…IVASS clarification on application of the transitional measure of technical provisions…

On 31 October 2018 IVASS clarified its provisions on the application of the transitional measure of technical provisions, confirming its applicability.

Specifically, IVASS offered indications concerning application for authorization, corporate governance and risk control safeguards, calculation of the transitional measure of technical provisions, and the documentation to include in the application for authorization.

EXECUTIVE SUMMARY

…the IVASS regulation on corporate governance and the market letter on application of the proportionality principle…

IVASS issued Regulation 38 (3 July 2018) on corporate governance of insurance undertakings and groups together with a market letter dated 5 July presenting guidelines for the application of the proportionality principle.

The new regulatory framework rationalizes the rules on this matter, ensuring that the Italian rules are in compliance with the Solvency II Directive, Delegated Regulation EU 2015/35 and the EIOPA guidelines.

…the main results of Solvency II stress testing in 2018…

On 14 December EIOPA released the results of the stress test conducted starting on 14 May to assess the vulnerability of the insurance industry to selected adverse scenarios.

The exercise referred to the situation at 31 December 2017. It involved 42 insurance groups in 12 European countries, accounting for about 75% of European insurance assets.

The results indicate that European insurance companies overall are sufficiently well capitalized.

…the IVASS regulation on suspension of capital losses on trading securities…

Decree Law 119/2018 (urgent fiscal and financial measures) allows companies not applying international accounting standards, including insurance companies, in situations of exceptional financial market turmoil, to value securities not to be held to maturity at the cost entered in the accounts for 2017 rather than at market price, thus avoiding volatility due to changes in the spread. On 12 February 2019 IVASS issued the implementing regulation for the law, Regulation 43/2019.

…the state of the art on the IFRS 17 framework…

Following the publication of the IFRS 17 standard in May 2017, with a view to its endorsement advice, the European Financial Reporting Advisory Group carried out a detailed case study on a sample of European insurance groups to assess the effects and model the IFRS 17 requirements.

On the basis of these exercises, on 3 September 2018 EFRAG sent a letter to the IASB calling attention to six features of the standard in whose regard EFRAG considered further examination to be necessary.

…Italian and ANIA activities on sustainable finance…

On 13 December Directive EU 2016/2341 on governance, risks and investment choices of pension funds, in relation among other matters to financial sustainability (the IORP II Directive) was transposed into Italian law. In January 2019 the Italian Banking Association (ABI) and ANIA issued a joint declaration on improvement of private residential dwellings, to improve their energy efficiency and attenuate the economic impact of earthquake risk. In March a report on "Climate risk for finance in Italy" was released, drafted by a working group, including ANIA representatives, at the Italian Observatory on Sustainable Finance (OIFS).

…on the tax benefits of the 2019 budget law…

The 2019 budget law enacts measures with a significant impact on the taxation of insurance business, albeit acting chiefly on time profiles, hence with mainly financial effects.

This refers in particular to provisions for redetermination of the payments on account of the tax on insurance, increasing the amount due to 85% of the yearly tax liability in 2019, 90% in 2020 and 100% from 2021 on.

…on the rules governing class actions…

The *Gazzetta Ufficiale* of 18 April 2019 published Law 31 of 12 April 2019, provisions concerning class actions. The new rules apply only as of 18 April 2020, and exclusively to illicit conduct subsequent to that date.

…the IVASS regulation on administrative sanctions…

IVASS Regulation 39/2018, going into effect as of 1 October, lays down the procedure for levying administrative sanctions, both for insurance companies and for intermediaries, in application of the Private Insurance Code.

…the new IVASS regulation on money laundering and terrorist financing…

On 12 February 2019 IVASS issued Regulation/2019, implementing the Legislative Decree of 21 November 2017 on organization, procedures, internal controls and customer due diligence to prevent the use of the financial system for the purpose of money laundering and terrorist financing.

The Regulation takes account of the joint guidelines of the European Supervisory Authorities on simplified and enhanced due diligence and on the factors to consider in assessing the risk of money laundering or terrorist financing in connection with business relationships or occasional transactions in the life insurance sector.

…developments in blockchain and smart contracts…

Decree Law 135/2018 (urgent measures for support and simplification for firms and general government) includes a provision concerning distributed ledger and smart contract technology. This is the first Italian legislation on this matter.

Testing of the use of blockchain technology for alternative dispute resolution (ADR) involved experimentation, in real-world cases, with a digital platform for out-of-court settlement of insurance disputes.

…application of the guidelines for "clear and simple contracts" to simplify the language and structure of insurance contracts…

In October 2016, at the request of IVASS, a technical panel for "Clear and simple contracts" was formed to simplify the language and structure of insurance contracts. The panel concluded its work early in 2018 with the release of a set of guidelines for drafting contracts.

The guidelines were annexed to IVASS's market letter of 14 March 2018, which also set out a calendar for insurance companies' redrafting and revision of contracts: for new insurance products, at the latest starting 1 January 2019; for the "main" products being marketed, by the end of 2019.

…and Italian transposition of the GDPR.

Legislative Decree 101 of 10 August 2018 has several purposes: to adapt Italian law to the new Community data protection framework laid down by the GDPR; to provide, where appropriate, for specific implementing and supplementary measures to be adopted by the Italian Data Protection Authority pursuant to the GDPR; and, lastly, to adapt the regime of penal and administrative sanctions.

1

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2018

Insurance companies' net profit for 2018 came to €4,2 billion, 30% less than the previous year. Consequently the ROE for the insurance business also dropped, falling below 7%. This downturn is chiefly attributable to the life sector, whose technical balance went from €3.4 billion in 2017 to just over €800 million in 2018. Non-life insurance, while still slightly in decline, remained amply positive at nearly €2.9 billion (it was €3.2 billion in 2017). The non-technical account was positive at €500 million. In 2018 the number of Italian insurance companies operating in the domestic market diminished slightly as a result of mergers and acquisitions, while the number of branch offices of foreign companies operating in Italy increased.

OPERATING INSURANCE COMPANIES

Insurance companies operating in Italy numbered 218 at the end of 2018, compared with 213 at the end of the previous year. In fact, while the number of companies with registered head offices in Italy diminished from 100 to 97 between 2018 and 2017, the number of branch offices of foreign companies in Italy rose from 113 to 121, most of which are EU companies (118). In addition, roughly 1,000 insurance companies with registered offices in other EU countries (or other countries belonging to the European Economic Area) were operating in Italy at the end of 2018 under the freedom to provide services.

Number of companies by legal status

BUSINESS SECTOR	YEAR	DOMESTIC COMPANIES				FOREIGN BRANCHES		TOTAL
	Situation as at 31 December	Limited companies	Cooperatives	Mutual	Total	with head office in non-EU countries	with head office in EU countries	
Non-life	2017	50	–	2	52	3	69	124
	2018	49	–	2	51	3	76	130
Life	2017	35			35	–	22	57
	2018	33			33	–	22	55
Professional reinsurers	2017	–	–	–	–	–	7	7
	2018	–	–	–	–	–	7	7
Multi branches	2017	11	1	1	13	–	12	25
	2018	11	1	1	13	–	13	26
TOTAL	**2017**	**96**	**1**	**3**	**100**	**3**	**110**	**213**
	2018	**93**	**1**	**3**	**97**	**3**	**118**	**218**

At the end of 2018, 55 insurance companies (57 in 2017) engaged exclusively in life business (of which 22 branch offices) and 130 (124 in 2017) exclusively in non-life business (of which 76 branch offices). A total of 26 companies (of which 13 branch offices) did business in both the life and non-life sectors, accounting for more than 35% of total premium income. Seven undertakings, all of them branches of foreign companies, engaged only in reinsurance. At 31 December 2018 ANIA counted 127 member companies (of which 20 correspondent members). The 97 insurers with registered offices in Italy comprised, by legal form, 93 limited share companies, three mutual companies and one cooperative society.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2018

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

INCOME STATEMENT – STATUTORY FINANCIAL STATEMENTS

Income statement
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
Technical account of non-life and life classes (*)								
Written premiums	108,420	103,139	117,374	142,035	146,005	132,954	129,276	133,067
Changes in reserves (-)	3,106	9,631	29,520	60,006	53,343	49,039	38,945	26,034
Investment income	3,978	27,480	20,068	22,511	17,770	18,291	20,053	2,044
Other technical income	1,429	1,560	1,641	1,781	2,325	2,624	2,821	3,070
Incurred claims (-)	99,376	98,776	88,322	84,838	90,530	82,209	90,502	91,899
Operating expenses (-)	12,283	11,539	11,725	12,126	12,382	12,213	12,342	12,503
Other technical costs (-)	2,272	2,537	2,625	2,744	3,330	3,619	3,840	4,026
Balance	**-3,210**	**9,696**	**6,891**	**6,613**	**6,516**	**6,789**	**6,521**	**3,719**
Technical account non-life (*)								
Written premiums	34,052	32,763	31,618	31,071	30,501	29,777	29,996	30,474
Changes in premium reserves (-)	462	-494	-623	-282	-173	190	442	604
Investment income	640	1,660	1,262	1,346	1,288	1,161	1,278	825
Other technical income	451	469	429	393	382	401	400	378
Incurred claims (-)	25,199	23,480	21,323	20,187	19,291	18,826	18,753	18,713
Operating expenses (-)	8,322	8,018	8,041	8,243	8,318	8,219	8,309	8,502
Other technical costs (-)	1,054	1,124	1,021	913	984	1,015	1,012	965
Balance	**-106**	**2,765**	**3,546**	**3,749**	**3,751**	**3,089**	**3,158**	**2,893**
Technical account life (*)								
Written premiums	74,368	70,376	85,756	110,963	115,504	103,177	99,280	102,593
Changes in technical provisions (-)	2,644	10,125	30,143	60,288	53,516	48,849	38,503	25,430
Investment income	3,338	25,820	18,806	21,166	16,482	17,130	18,775	1,219
Other technical income	978	1,091	1,212	1,388	1,943	2,223	2,421	2,692
Incurred claims (-)	74,177	75,296	66,999	64,651	71,239	63,383	71,749	73,186
Operating expenses (-)	3,961	3,521	3,684	3,884	4,064	3,994	4,033	4,001
Other technical costs (-)	1,218	1,413	1,604	1,831	2,346	2,604	2,828	3,061
Balance	**-3,316**	**6,931**	**3,344**	**2,864**	**2,765**	**3,700**	**3,363**	**826**
Non-technical account (*)								
Other non-life income	-734	94	825	925	860	1,121	1,395	1,319
Other life income	265	1,626	1,444	1,917	1,821	1,824	1,773	1,445
Balance of other income and expenses	-1,551	-1,922	-2,182	-2,064	-2,104	-2,251	-2,361	-2,482
Balance of ordinary activities	**-5,230**	**9,494**	**6,978**	**7,391**	**7,093**	**7,483**	**7,328**	**4,001**
Balance of extraordinary activities	**478**	**-28**	**1,314**	**961**	**1,010**	**223**	**459**	**542**
Taxes (-)	-1,099	3,696	3,062	2,405	2,395	2,006	1,803	338
Result for the financial year	**-3,653**	**5,770**	**5,231**	**5,947**	**5,709**	**5,700**	**5,984**	**4,205**
Profit/loss for the financial year, non-life sector	*-1,016*	*641*	*2,125*	*2,448*	*1,956*	*2,114*	*2,448*	*2,214*
Profit/loss for the financial year, life sector	*-2,637*	*5,129*	*3,105*	*3,498*	*3,753*	*3,586*	*3,536*	*1,991*
Return on Equity	-7.1%	11.5%	9.7%	10.1%	9.6%	9.4%	9.9%	6.9%
Return on Equity (non-life)	-4.7%	3.1%	9.7%	10.2%	7.9%	8.4%	9.6%	8.6%
Return on Equity (life)	-8.8%	17.3%	9.8%	10.1%	10.8%	10.2%	10.0%	5.6%

(*) Net of cessions and back-cessions

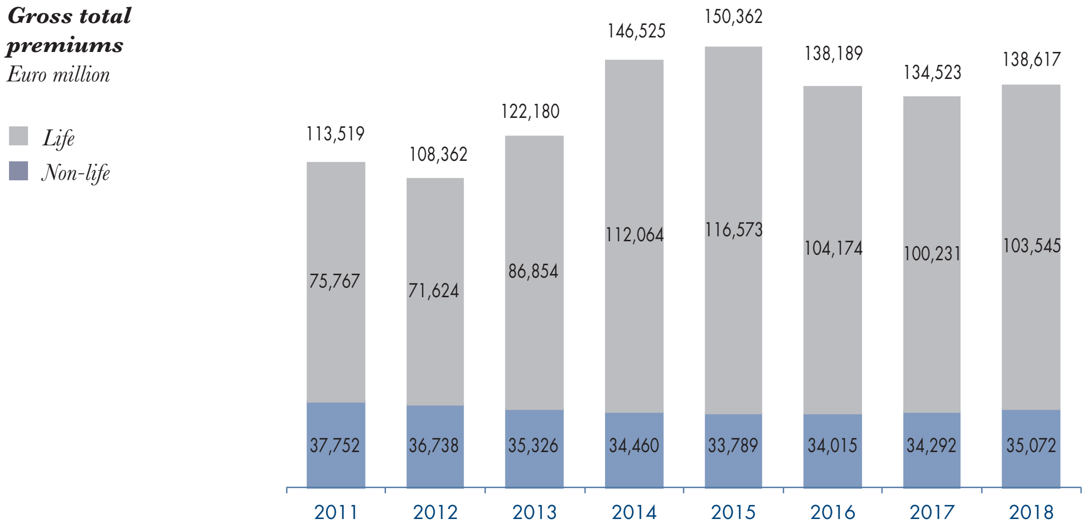
TECHNICAL ACCOUNT – STATUTORY FINANCIAL STATEMENTS

Premiums

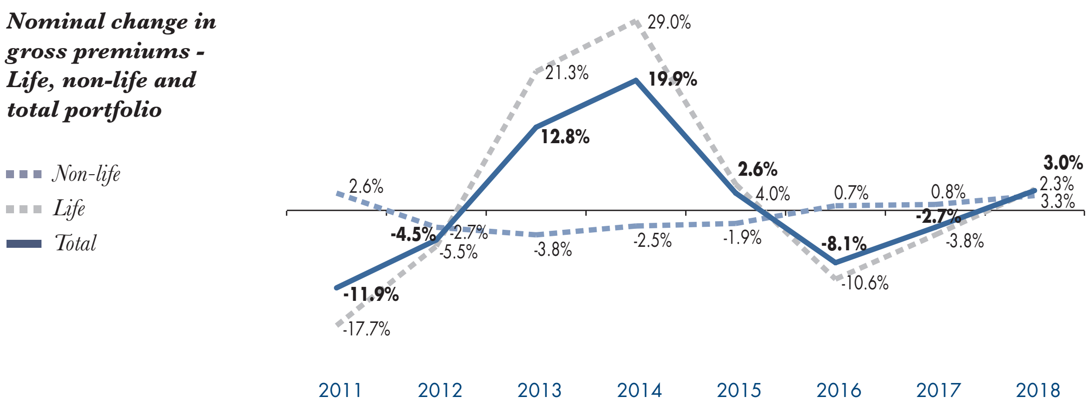
Total premiums from domestic and foreign business, direct and indirect, gross of reinsurance, collected by the companies having their registered office in Italy and by the Italian branches of non-EU companies totaled €138,617 million in 2018, of which €35,072 million from non-life policies and €103,545 million from life policies. Overall, the business grew by 3.0%: this is the first increase registered after two years of decline which, since 2015, had led to a contraction in premiums of more than €15 billion. The 2018 expansion reflects the trend of both the life sector, whose premiums went up by 3.3% (after dropping by 10.6% in 2016 and by 3.8% in 2017), and the non-life sector, where premiums increased further by 2.3% in the last year.

As a result of these developments, the share of life and non-life premiums in total income remained virtually unchanged at 74.7% and 25.3% respectively.

Gross total premiums
Euro million



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



Total premiums, net of those ceded (€5,551 million or 4% of the total), amounted to €133,067 million, of which €30,474 million from non-life policies (+1.6%) and €102,593 million from life policies (+3.3%).

Claims and benefits paid

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

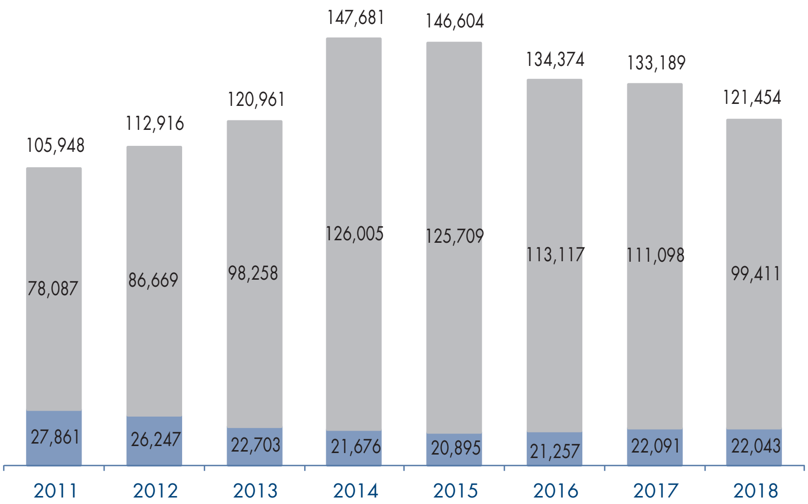
– cost of claims and change in premium reserves for non-life classes;
– incurred claims cost plus the change in the mathematical provisions and other technical provisions for life classes.

Benefits and claims paid totaled €121,454 million (-8.8% from 2017): €22,043 million in non-life classes (-0.2%) and €99,411 million in life classes (-10.5%).

The share borne by reinsurance was €3,521 million, and as a result benefits and claims paid, on a net basis, went down to €117,933 million (-8.9%): €19,317 million in non-life classes and €98,616 million in life classes.

Gross total premiums
Euro million

Life
Non-life

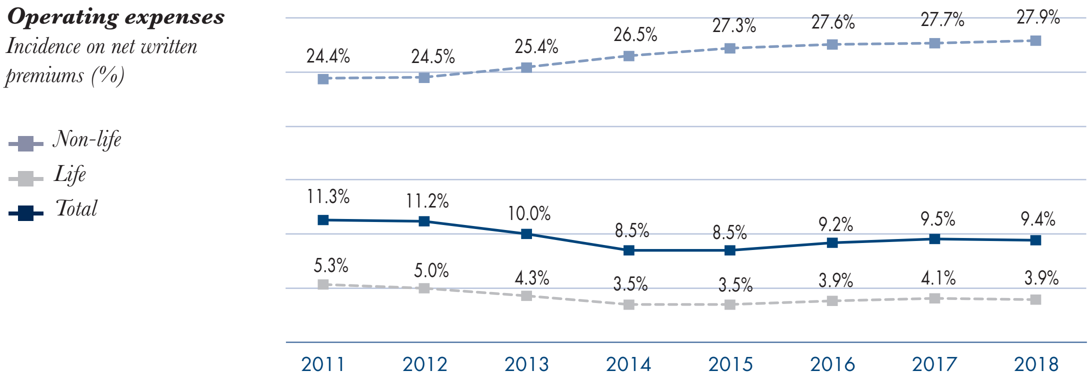


Operating expenses

Operating expenses relating to direct and indirect business, net of reinsurance cessions, which comprise contract acquisition, premium collection, distribution network organizational and operating costs and the administration expenses relating to technical management of insurance business, totaled €12,503 million, 1.3% more than in 2017. Given the larger increase in premiums, the ratio of total operating expenses to written premiums diminished slightly (9.4%, compared with 9.5% in 2017).

The ratio, net of ceded reinsurance, was different for the life and non-life sector considered separately, due to a different variation of premiums and different growth rates for the operating expenses in the two sectors. In particular, operating expenses for the non-life sector grew from €8,309 million in 2017 to €8,502 million in 2018, or 2.3% more than the increase in premiums, thus leading to an increase in the ratio from 27.7% to 27.9% over the same period. In the life sector, instead, operating expenses remained stable in 2018 at €4,001 million, while premiums grew by 3.3%, thus determining a decline in the ratio to 3.9% from 4.1% a year earlier.

Operating expenses
Incidence on net written premiums (%)



Technical account result

The overall (non-life plus life) technical account result, net of reinsurance, was positive by €3,719 million, equal to 2.8% of net direct and indirect premiums, the lowest since 2012. For non-life business the technical account result was positive by €2,839 million (€3,168 million in 2017) and its ratio to premiums shrank to 9.5% (10.5% in 2017). In the life sector the result was positive by €826 million but steeply in decline (-75%) from €3,363 million in 2017; the ratio to premiums thus plunged from 3.4% in 2017 to 0.8% in 2018.

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

	2011	2012	2013	2014	2015	2016	2017	2018
Non-life and life	-3.0%	9.4%	5.9%	4.7%	4.5%	5.1%	5.0%	2.8%
Non-life	0.3%	8.4%	11.2%	12.1%	12.3%	10.4%	10.5%	9.5%
Life	-4.5%	9.8%	3.9%	2.6%	2.4%	3.6%	3.4%	0.8%

RESULT ON INVESTMENT ACTIVITY

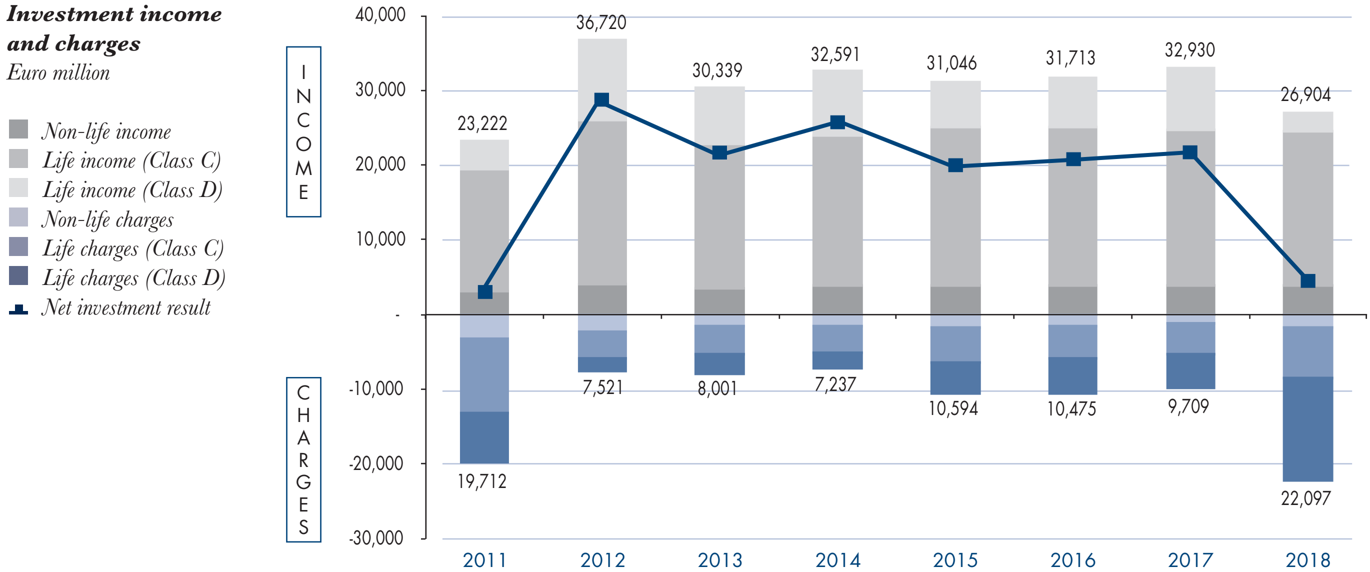
In 2018 net investment income was €26,904 million, or 18.3% less than in 2017 when it was €32,930 million. In particular:

- non-life investment income remained virtually unchanged (+0.5%) at €3,865 million;
- Class C life investment income decreased slightly by 1.2% to €20,582 million;
- Class D life investment income plunged by 70% to €2,457 million.

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

- *income from securities, bonds and other investments*, amounting to €18,019 million (+0.2% on 2017): 67.0% of the total;
- *income from investments held for the benefit of life insurance policyholders and from the management of pension funds (Class D)*, amounting to €2,457 million (-70.2%): 9.1% of the total;
- *revaluation gains and realized profits on investment*, amounting to €2,763 million (-18.9%): 10.3% of the total;
- *income from shares and investment fund units*, amounting to €3,489 million (+12.4%): 13.0% of the total;
- *income from land and buildings*, amounting to €177 million (-3.1%): 0.7% of the total.

Investment income and charges
Euro million



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

	2011	2012	2013	2014	2015	2016	2017	2018
Shares	6.8%	4.5%	6.3%	8.6%	8.7%	9.3%	9.4%	13.0%
Land and buildings	1.0%	0.6%	0.7%	0.6%	0.7%	0.6%	0.6%	0.7%
Securities, bonds and other inv.	63.7%	43.2%	53.3%	53.0%	56.7%	56.4%	54.6%	67.0%
Revaluations	12.3%	22.3%	14.8%	11.5%	15.0%	12.5%	10.3%	10.3%
Inv. benefiting policyholders	16.2%	29.4%	24.9%	26.2%	18.9%	21.2%	25.0%	9.1%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The cost of investment increased considerably from €9,709 million in 2017 to €22,097 in 2018. In particular:

- in the non-life sector investment charges went up by 47% to €1,721 million; therefore the sector recorded a reduction of 20% in net investment profit to €2,144 million from €2,673 in 2017;

- in the Class C life sector, investment charges decreased by 64.0% to €6,819 million, with net investment profit down by 17.5% to €13,763 million from €16,681 million in 2017;
- in the Class D life sector, investment charges more than tripled to €13,557 million; this was a factor in the net investment loss of €11,100 million (against a net profit of €3,867 million in 2017).

The insurance industry's overall **net profit on investment** amounted to €4,807 million, thus nearly 80% less than in 2017, of which €2,043 million (43%) came from the technical account (down from €20,167 in 2017) and €2,764 million (57%) from the non-technical account (down from €3,054 million in 2017).

Extraordinary income, gross of charges, amounted to €1,031 million, up from €856 million a year earlier. The relevant charges totaled €489 million (they were €397 million in 2017).

THE RESULT FOR THE FINANCIAL YEAR

In 2018, the result from the ordinary activity of the life and non-life sectors was €4,001 million (down from €7,328 million in 2017); extraordinary income (which is added to that from ordinary activity) remained positive at €542 million, up from €459 million in 2017. Overall, pre-tax profit for the year, calculated as the sum of ordinary and extraordinary activity, thus amounted to €4,543 million, a decrease of more than 70%.

After taxes totaling €338 million, the industry showed an **overall net profit of €4,205 million** in 2018 (€5,984 in 2017): €2,214 million for the non-life sector and €1,991 million for the life sector (compared with net profit of €2,448 million and €3,536 million respectively in 2017).

Given the overall net profit reduced by nearly €2 billion, the sector's profitability, expressed in terms of ROE, came down to 6.9% from 10.0% in 2017; both sectors (life and non-life) contributed to this negative result, although with different percentages: the ROE of the non-life sector went from 9.6% in 2017 to 8.6% in 2018, while that of the life sector went from 10.0% to 5.6%.

In particular, the profit of the non-life sector for 2018 was €2,214 million, with a 10% deterioration on the €2,448 million in 2017; this was the result of different trends shown by the following items:

- an intermediate operating result (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €4,212 million (-7.5%);

Profit-and-loss account by sector
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
Non-life								
Technical account result	106	2,765	3,546	3,749	3,751	3,089	3,158	2,893
Net investment income	-734	94	825	925	860	1,122	1,395	1,319
Intermediate operating result	-628	2,859	4,371	4,674	4,612	4,211	4,553	4,212
Other net income	-948	-1,295	-1,354	-1,502	-1,469	-1,438	-1,470	-1,570
Net extraordinary income	386	1	473	450	72	137	208	176
Income tax for year (-)	-174	924	1,365	1,173	1,259	795	844	604
Profit/loss for the year	-1,016	641	2,125	2,448	1,956	2,114	2,448	2,214
Life								
Technical account result	-3,316	6,931	3,344	2,864	2,765	3,700	3,363	826
Net investment income	265	1,626	1,444	1,917	1,821	1,824	1,773	1,445
Intermediate operating result	-3,051	8,557	4,788	4,781	4,586	5,525	5,136	2,271
Other net income	-603	-627	-828	-563	-636	-814	-891	-913
Net extraordinary income	93	-29	841	511	939	86	250	365
Income tax for year (-)	-925	2,772	1,696	1,231	1,136	1,211	959	-268
Profit/loss for the year	-2,637	5,129	3,105	3,498	3,753	3,586	3,536	1,991

– a negative balance of €1,570 million on other income less other charges, virtually unchanged from 2017 (-€1,470);
– a positive balance of €176 million on other net extraordinary income, in line with 2017 (€208 million);
– income taxes decreased by nearly €250 million from €844 million in 2017 to €604 million in 2018.

The profit of the life sector for 2018 amounted to €1,991 million, down by more than 40% from €3,536 million a year earlier; this result was due to different trends registered by the following items:

– an intermediate operating result (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €2,271 million, less than half the amount of 2017 (€5,136);
– a negative balance of €913 million on other income less other charges, in line with 2017;
– a positive balance of €365 million on net extraordinary income, up €115 million from the €250 million of 2017;
– a volume of income taxes for the overall life business of €268 million, significantly decreased compared to the €959 million of 2017.

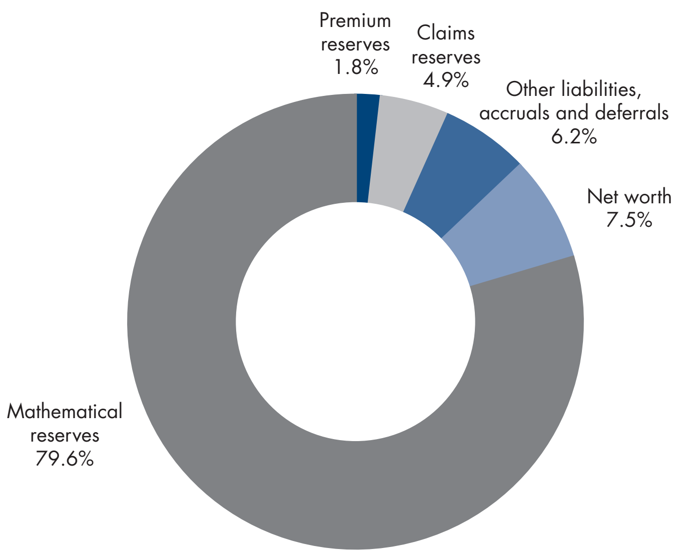
BALANCE SHEET — STATUTORY FINANCIAL STATEMENTS

Balance sheet
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
LIABILITIES	585,665	603,706	641,230	703,134	762,742	810,241	848,570	867,868
NET WORTH	48,252	54,299	63,906	64,403	66,223	66,361	66,785	65,503
TECHNICAL PROVISIONS	494,448	504,067	530,905	591,746	647,523	693,910	729,441	749,183
Non-life classes	*66,697*	*66,838*	*64,764*	*63,368*	*62,005*	*61,384*	*59,914*	*58,864*
Life classes	*427,751*	*437,229*	*466,141*	*528,378*	*585,518*	*632,525*	*669,527*	*690,319*
OTHER LIABILITIES	42,238	44,601	45,739	46,301	48,380	49,353	51,825	52,605
ACCRUALS AND DEFERRALS	728	739	680	684	616	617	518	577
ASSETS	585,665	603,706	641,230	703,134	762,742	810,241	848,570	867,868
AMOUNTS OWED BY SHAREHOLDERS	3	7	0	0	0	0	0	0
INTANGIBLE ASSETS	6,001	5,747	6,194	6,907	6,664	6,521	6,373	6,091
INVESTMENTS:	511,384	526,975	562,960	629,566	692,645	741,207	778,966	798,890
Land and buildings	*6,902*	*6,780*	*6,459*	*6,041*	*6,645*	*6,251*	*6,187*	*5,537*
Shares and other equity	*54,347*	*50,129*	*57,297*	*56,387*	*57,022*	*56,808*	*59,899*	*61,323*
Bonds and other fixed income securities	*316,029*	*335,627*	*363,826*	*410,269*	*437,571*	*464,578*	*473,476*	*484,703*
Shares of mutual funds and other investments	*35,195*	*36,918*	*38,565*	*48,098*	*63,156*	*74,049*	*85,160*	*95,075*
Investments benefiting policyholders and proceeds from management of pension funds	*98,911*	*97,521*	*96,814*	*108,771*	*128,252*	*139,521*	*154,243*	*152,252*
TECHNICAL PROVISIONS BORNE BY REINSURERS	17,546	17,768	16,533	15,109	14,104	13,734	13,601	12,788
AMOUNTS OWED BY DEBTORS	26,875	26,497	28,192	28,612	26,559	28,200	29,739	31,210
OTHER ASSETS	18,619	21,428	21,868	17,164	16,954	14,664	14,165	13,227
ACCRUALS AND DEFERRALS	5,238	5,284	5,483	5,777	5,814	5,914	5,725	5,663

Liabilities

Breakdown of liabilities (%) – 2018



Euro 867,868 million

In 2018, balance-sheet liabilities totaled €867,868 million, an increase of 2.3% compared with 2017.

In particular:

– *shareholders' equity*, or net worth, grew by 1.9% to €65,503 million; it is equal to 7.5% of total liabilities.
– *technical provisions,* or mathematical reserves, which represent the commitments undertaken vis-à-vis the insured, rose by 2.7% to €749,183 million; they made up 86% of the total. Life provisions, which accounted for 79.5% of the total, grew by 3.1%, while non-life provisions (for claims and premiums) shrank by nearly 2%;
– *other liabilities*, amounting to €52,605 million (6.1% of the total), were up 1.5% from a year earlier;
– *accrued expenses and deferred income* amounted to €577 million (0.1% of the total).

Assets

On the asset side the main items composing the total of €867,868 million are investments, the reinsurance share of technical provisions, other asset items, debtors, accrued income and prepayments.

In particular:

– *investments* totaled €798,890 million, an increase of 2.6% from a year earlier, and made up 90% of total assets. Investments in the non-life and life sectors amounted respectively to €85,238 million and €713,652 million (respectively 11% and 89% of the total).

In detail, total investments were distributed as follows:

• debt securities and other fixed-income securities: €484,703 million, up 2.4% (60.7% of the total);
• investments pertaining to Class D: €152,252 million, down 1.3% (19.1% of the total);
• shares of mutual funds and other investments: €95,075 million, up 11.6% (11.9% of the total);
• shares and investment fund units: €61,323 million, up 2.4% (7.7% of the total);
• land and buildings: €5,537 million, down 10.5% (0.7% of the total);

– the *technical provisions borne by reinsurers* came to €12,788 million, down 6.0% from a year earlier, and made up 1.5% of total assets;
– claims due from *debtors* totaled €31,210 million, up 4.9% (3.6% of the total).
– *claims on shareholders* (equal to zero), *other intangible assets* (€6,091 million) and *other assets* (€13,227 million) came down by 5.9% to €19,318 million (2.2% of the total);
– *accrued income and prepaid expenses* were equal to €5,663 million, down 1.1% (0.7% of the total).

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

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

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

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

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

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

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

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

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

Total life and non-life – The industry's overall result (life plus non-life) for the profitability of the insurance market (Table 1) in 2018 was 6.9%, the lowest since 2012.

The return on assets (ROA) was barely positive in 2018 (+0.3%), in sharp decline from 2017 (+3.1%), and lower even than in 2011 (+0.7%), the year of the Italian sovereign debt crisis. The result for insurance business was positive (+0.3%), if just barely, after nearly a decade of negative results. The combined effect of these two elements, associated with slightly higher results of extraordinary operations at 0.9% (up from 0.8% in 2017), contributed to positive profitability. The financial-insurance leverage ratio was 11.9 (it was 11.5 in 2017).

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL (Life and Non-life)											
Return on investment (ROI)	-2.2%	6.2%	3.0%	0.7%	5.5%	4.0%	4.2%	3.1%	3.0%	3.1%	0.3%
Profitability of insurance business (IB/nTP)	1.4%	-5.8%	-3.6%	-1.8%	-4.1%	-3.1%	-3.3%	-2.2%	-2.1%	-2.3%	0.3%
Profitability of extraordinary operations (EO/NW)	1.8%	1.8%	1.2%	0.9%	-0.1%	2.5%	1.6%	1.7%	0.4%	0.8%	0.9%
Financial-insurance leverage (L)	9.9	9.3	9.3	9.2	9.6	9.3	9.3	10.2	10.8	11.5	11.9
Indicator of taxation (T)	41.5%	25.3%	6.3%	23.1%	39.0%	36.9%	28.8%	29.6%	26.0%	23.2%	7.4%
ROE	-4.7%	8.5%	-1.4%	-7.1%	11.5%	9.7%	10.1%	9.6%	9.4%	9.9%	6.9%

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

Table 2 – Breakdown of ROE in non-life classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NON-LIFE											
Return on investment (ROI)	0.5%	4.1%	1.6%	-0.1%	2.2%	2.6%	2.8%	2.6%	2.8%	3.3%	2.7%
Profitability of insurance business (IB/nTP)	-1.9%	-5.5%	-4.4%	-2.5%	-0.3%	1.6%	1.6%	1.7%	0.9%	0.8%	0.9%
Profitability of extraordinary operations (EO/NW)	1.8%	0.2%	1.0%	1.8%	0.0%	2.2%	1.9%	0.3%	0.5%	0.8%	0.7%
Financial-insurance lever (L)	3.3	3.0	2.8	2.8	2.9	2.7	2.4	2.3	2.2	2.1	2.1
Indicator of taxation (T)	59.7%	-62.4%	12.5%	14.6%	59.1%	39.1%	32.4%	39.2%	27.3%	25.6%	21.5%
ROE	-0.9%	0.3%	-4.6%	-4.7%	3.1%	9.7%	10.2%	7.9%	8.4%	9.6%	8.6%

The non-life ROE for 2018 was positive at 8.6%, lower than the 9.6% of 2017. This is partly attributable to the deterioration in the gain on financial operations (which declined from 3.3% to 2.7%), despite the mild improvement of the results registered by insurance business, which came to 0.9% in 2018 from 0.8% a year earlier. Another key factor was an easing of the tax burden, which dropped from 25.6% to 21.5%.

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

The result of ordinary operations (ROI plus insurance business) was 3.7% in 2018 (lower than the previous year). The two factors of the overall operating result had opposite effects on the final ratio: the decrease in the ROI was only partly offset by the slight increase in earnings from insurance business.

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

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

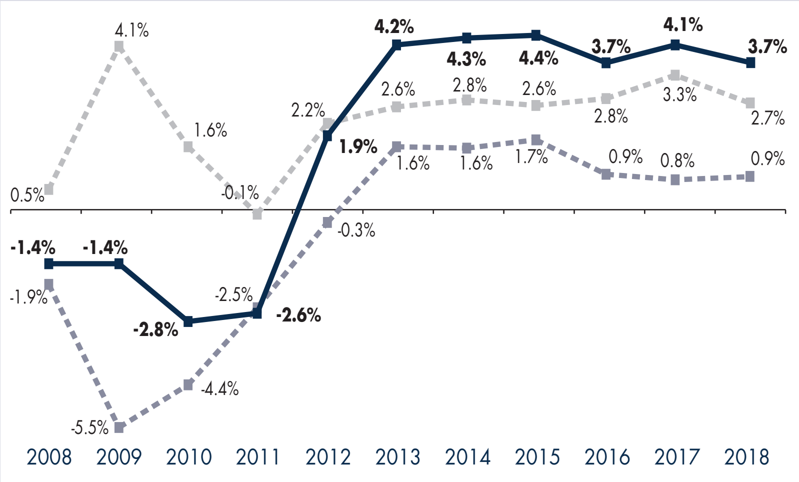
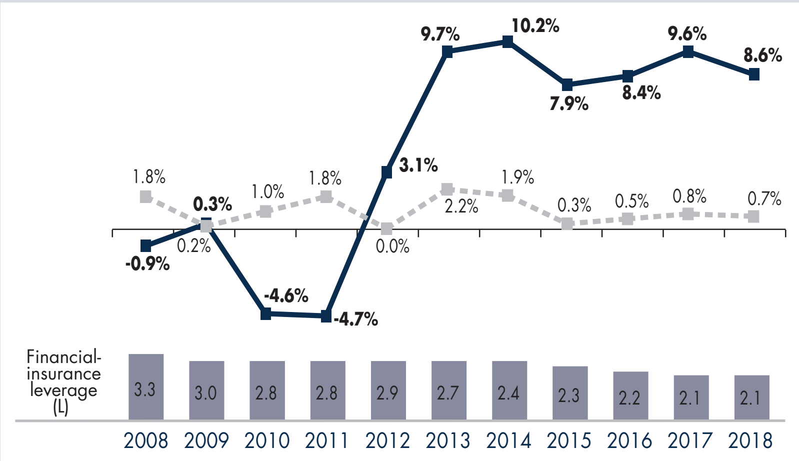


Figure 2 analyzes the other two fundamental components in the calculation of the profitability of the industry's insurance segment: financial-insurance leverage and extraordinary operations. Leverage, i.e. the ratio of net technical provisions to net worth, has diminished steadily over the past few years,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

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

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



The result of extraordinary operations was 0.7% in 2018, in line with the previous year. Last year, ROE came to 8.6% (down from 9.6% in 2017).

Life sector – In 2018 life insurers registered a profitability of 5.6%, nearly halved by comparison with the previous five-year period in which values were stable around 10%.

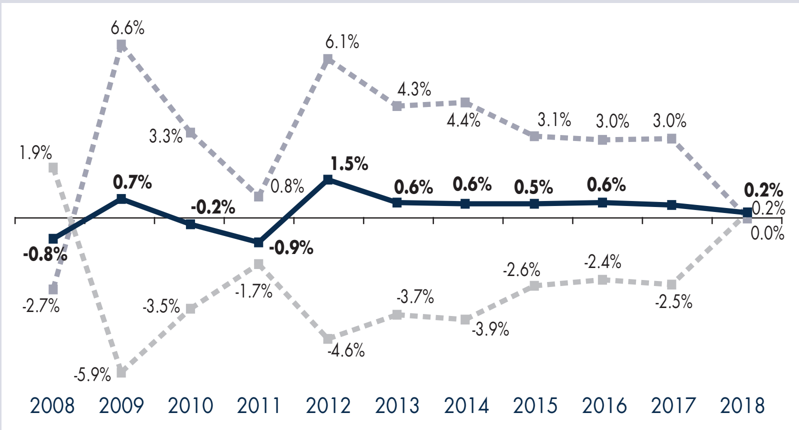
Figure 3 provides a more detailed analysis of the complementarity between the return to ordinary financial operations (ROI) and insurance business (used to calculate the result of ordinary operations as a sum of the two components). Overall, since 2012 the negative technical balance of the insurance business has always been more than offset (with the exception of 2008) by a positive ROI; this allowed ordinary operations to maintain moderately positive values between 0.5% and 1.5%. However, in contrast with the past, the slightly positive value recorded by the insurance business in 2018 (+0.2%), was set against null return on ordinary financial operations. This still produced a barely positive value of ordinary operations (+0.2%).

Table 3 – Breakdown of ROE in life classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
LIFE											
Return on investment (ROI)	-2.7%	6.6%	3.3%	0.8%	6.1%	4.3%	4.4%	3.1%	3.0%	3.0%	0.0%
Profitability of insurance business (IB/nTP)	1.9%	-5.9%	-3.5%	-1.7%	-4.6%	-3.7%	-3.9%	-2.6%	-2.4%	-2.5%	0.2%
Profitability of extraordinary operations (EO/NW)	1.8%	3.2%	1.4%	0.3%	-0.1%	2.7%	1.5%	2.7%	0.2%	0.7%	1.0%
Financial-insurance leverage (L)	15.1	14.4	14.4	13.9	14.2	13.9	14.1	15.8	17.0	18.2	19.1
Indicator of taxation (T)	39.0%	26.0%	24.4%	26.0%	35.1%	35.3%	26.0%	23.2%	25.2%	21.3%	-15.6%
ROE	-7.8%	15.2%	1.1%	-8.8%	17.3%	9.8%	10.1%	10.8%	10.2%	10.0%	5.6%

Figure 3
Financial and Insurance business in the life sector

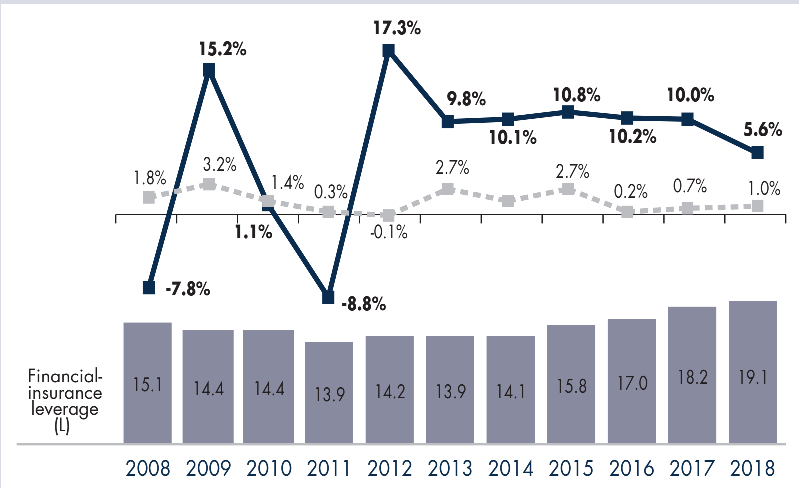
A= Return on investment (ROI)
B= Profitability of insurance business (BI/nTP)
A+B = Ordinary operations



The ROE was positively affected by the multiplier effect of financial-insurance leverage, which has increased steadily to 19.1 in 2018 (Figure 4), and by the increase in extraordinary income, which was 1% in the last year observed.

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

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



SOLVENCY II BALANCE SHEET

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

BALANCE SHEET – SOLVENCY II DATA

Solvency II – Balance sheet of Italian Companies
Euro million

	2015 (Day one)	2016	2017	%	2018	%	Change % 18/17
Total assets	841,455	883,181	920,838	100.0%	910,866	100.0%	-1.1%
Buildings, plant and equipment for own use	2,845	2,738	2,071	0.2%	2,027	0.2%	-2.1%
Investments (net of linked policies)	636,890	671,580	696,659	75.7%	689,915	75.7%	-1.0%
Assets held in respect of linked policies	127,983	139,464	154,217	16.7%	152,120	16.7%	-1.4%
Mortgages and loans	6,025	4,117	5,301	0.6%	7,314	0.8%	38.0%
Amounts recoverable from reinsurance	12,953	12,778	12,134	1.3%	11,426	1.3%	-5.8%
Deposits with ceding undertakings	9,127	9,032	7,984	0.9%	5,735	0.6%	-28.2%
Receivables in insurance and from intermediaries	6,935	8,316	8,751	1.0%	8,815	1.0%	0.7%
Receivables from reinsurance	1,183	1,329	1,082	0.1%	849	0.1%	-21.5%
Trade credits	10,122	10,662	11,383	1.2%	12,461	1.4%	9.5%
Cash and cash equivalents	14,422	10,209	9,332	1.0%	8,750	1.0%	-6.2%
Deferred tax assets	6,490	6,254	4,503	0.5%	3,720	0.4%	-17.4%
Own shares (directly owned)	37	52	81	0.0%	64	0.0%	-20.8%
Other assets	6,442	6,649	7,341	0.8%	7,671	0.8%	4.5%
Total liabilities	733,715	778,450	803,562	100.0%	801,639	100.0%	-0.2%
Non-life technical provisions	57,556	55,809	52,860	6.6%	51,670	6.4%	-2.3%
Life technical provisions (net of linked policies)	488,464	525,282	538,822	67.1%	538,356	67.2%	-0.1%
Technical provisions for linked policies	122,652	133,438	146,073	18.2%	147,263	18.4%	0.8%
Deposits from reinsurers	6,825	6,906	6,464	0.8%	6,005	0.7%	-7.1%
Derivatives	989	1,275	953	0.1%	986	0.1%	3.4%
Financial liabilities	12,630	11,786	12,269	1.5%	13,437	1.7%	9.5%
Payables in insurance and from intermediaries	3,525	3,648	3,894	0.5%	4,690	0.6%	20.4%
Payables from reinsurance	715	862	823	0.1%	607	0.1%	-26.2%
Trade payables	7,128	5,497	5,694	0.7%	5,123	0.6%	-10.0%
Subordinated liabilities	16,512	17,062	18,068	2.2%	19,025	2.4%	5.3%
Other non-technical provisions	1,442	1,510	1,373	0.2%	1,500	0.2%	9.2%
Deferred tax liabilities	12,186	10,135	10,697	1.3%	7,740	1.0%	-27.6%
Other liabilities	3,090	5,240	5,571	0.7%	5,238	0.7%	-6.0%
Excess assets over liabilities	107,740	104,731	117,276		109,227		-6.9%
Excess over total assets (%)	*12.8%*	*11.9%*	*12.7%*		*12.0%*		

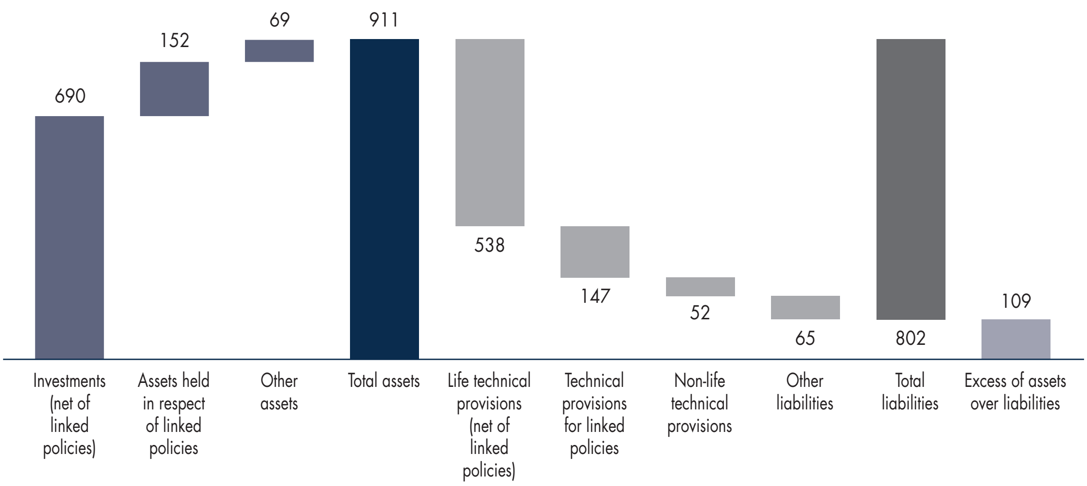
Liabilities (Solvency II)

At the end of 2018, balance-sheet liabilities totaled €801,639 million, virtually unchanged (-0.2%).

In particular:

- life insurance technical provisions (net of linked policies) totaled €538,356 million, the same as in 2017, accounting for 67% of total liabilities; the risk margin, i.e. the component of the technical provisions that serves to ensure that, in the event that the policy portfolio is transferred to another company, the technical provisions are sufficient and equivalent to the price the company would pay in a regulated market for said liabilities, was 0.9% (€4,750 million);
- technical provisions for linked policies, amounting to €147,263 million, increased by 0.8%, thus accounting for over 18% of total liabilities; the risk margin for these provisions was 0.6% (nearly €900 million);
- non-life insurance technical provisions were down by more than 2% at €51,670 million, accounting for 6.4% of total liabilities; the risk margin was 4.5% (nearly €2,340 million);
- subordinated liabilities grew by 5% to €19,025 million over the last year, accounting for 2.4% of total liabilities;
- other liability items in the balance sheet include financial liabilities (€13,437 million, 1.7% of the total, +9.5% compared with 2017) and deferred tax liabilities (€7,740 million, 1.0% of the total, -27.6% compared with 2017).

The balance sheets of Italian companies in 2018
Euro million



Assets (Solvency II)

At the end of 2018, Italian insurers had assets worth €910,866 million, roughly 1% less than a year earlier.

The consequent excess of assets over liabilities was €109,227 million (it was €117,276 million in 2017). The incidence of the excess on the balance-sheet assets went from 12.7% in 2017 to 12.0% in 2018.

More in detail:

- investments (net of linked policies) diminished by 1.0% to €689,915 million over the last year, accounting for 75.7% of total assets;
- assets held in respect of linked policies went down by 1.4% to €152,120 million, accounting for 16.7% of total assets;
- other asset items in the balance sheet include trade credits (€12,461 million, 1.4% of the total, +9.5% compared with 2017) and amounts recoverable from reinsurance (€11,426 million, 1.3% of the total, -5.8% compared with 2017).

INVESTMENTS (SOLVENCY II)

As described in the previous section specifying the different balance sheet assets, the investments of the insurance industry amounted to €842 billion, with a mild contraction of 1.0% compared with the previous year. Of these, nearly €690 billion (-1.0% on 2017) refer to insurance contracts net of linked policies, the remaining €150 billion (-1.4% on 2017) to linked policies in the life sector.

Type of investment
Euro million

	2015 (Day one)	2016	2017	%	2018	%	Change % 18/17
Investments (net of assets in respect of linked contracts)	**636,890**	**671,580**	**696,659**	**100.0%**	**689,915**	**100.0%**	**-1.0%**
Italian government securities	319,762	320,835	310,752	44.6%	297,103	43.1%	-4.4%
Bonds	105,916	133,113	140,438	20.2%	138,092	20.0%	-1.7%
Shares of affiliated undertakings, including holdings	77,530	77,641	84,646	12.2%	83,170	12.1%	-1.7%
UCITS	47,131	59,569	73,514	10.6%	80,053	11.6%	8.9%
Foreign government securities	41,330	39,237	51,547	7.4%	62,396	9.0%	21.0%
Structured securities	26,432	23,173	15,204	2.2%	10,132	1.5%	-33.4%
Listed equity instruments	8,636	7,600	8,855	1.3%	8,055	1.2%	-9.0%
Unlisted equity instruments	1,966	2,328	2,595	0.4%	2,846	0.4%	9.7%
Buildings (other than for own use)	4,876	4,536	5,262	0.8%	4,688	0.7%	-10.9%
Covered securities	2,108	2,145	2,415	0.3%	2,535	0.4%	5.0%
Deposits other than cash-equivalent	891	1,009	996	0.1%	361	0.1%	-63.8%
Derivatives	272	344	416	0.1%	469	0.1%	12.7%
Other investments	40	50	19	0.0%	15	0.0%	-21.1%
Assets held in respect of linked policies	**127,983**	**139,464**	**154,217**	**100.0%**	**152,120**	**100.0%**	**-1.4%**
UCITS funds	99,223	109,210	128,137	83.1%	125,002	82.2%	-2.4%
Italian government securities	16,345	15,726	11,072	7.2%	10,862	7.1%	-1.9%
Foreign government securities	3,798	3,366	3,171	2.1%	4,609	3.0%	45.4%
Cash and deposits	5,900	5,627	5,608	3.6%	3,570	2.3%	-36.3%
Equity	1,223	3,576	4,239	2.7%	5,074	3.3%	19.7%
Bonds	1,193	1,410	1,536	1.0%	2,970	2.0%	93.4%
Other investments	301	549	455	0.3%	33	0.0%	-92.7%
Total investments	**764,873**	**811,044**	**850,876**		**842,035**		**-1.0%**

A more specific analysis of the nearly €690 billion of insurance-based investments (net of linked policies) at the end of 2018 shows that companies made the following investment choices:

– €297 billion in Italian government securities (43.1% of the total), roughly 4.5% less than in 2017; of the €14 billion in absolute value lost from the previous year, nearly €9 billion is estimated to have come from changes in the value of securities recorded during 2018, whereas actual net sales are estimated to amount to €5 billion ([1]);
– €138 billion in corporate bonds (20.0% the total) 1.7% less than in 2017;
– €83 billion in shares of affiliated undertakings (12.1% of the total) down by 1.7% compared with 2017;
– €80 billion in UCITS (11.6% of the total), roughly 9% more than in 2017;
– €62 billion (9.0% of the total) in foreign government securities, up by more than 20% from 2017;
– €10 billion in structured securities (1.5% of the total), down by nearly 35% compared with 2017;
– nearly €11 billion in equity, of which €8.1 billion (-9.0%) in listed instruments and €2.8 billion (+9.7%) in unlisted instruments.

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

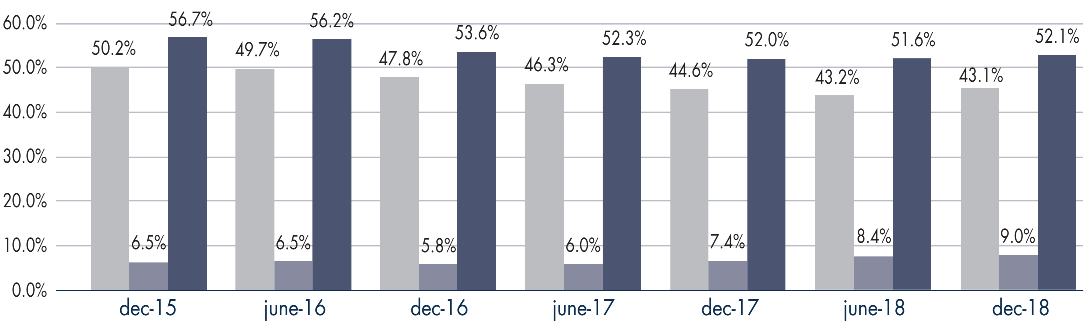
– €125 billion (82% of the total) in UCITS, down by 2.4% from 2017;
– €11 billion in Italian government securities (7.1% of the total), down by almost 2%;
– over €5 billion in cash and deposits (3.3% of the total), up by roughly 20%.

With regard to insurance-based investments, net of linked policy assets, the figure below shows the six-month trend of government securities from 2015 to 2018.

Government securities over total investments (%)

Italian
Foreign
Total

Net of assets in respect of linked contracts
Source: ANIA



In the three years observed, from the end of 2015 to the end of 2018, while investments in government securities remained virtually unchanged at around €360 billion,

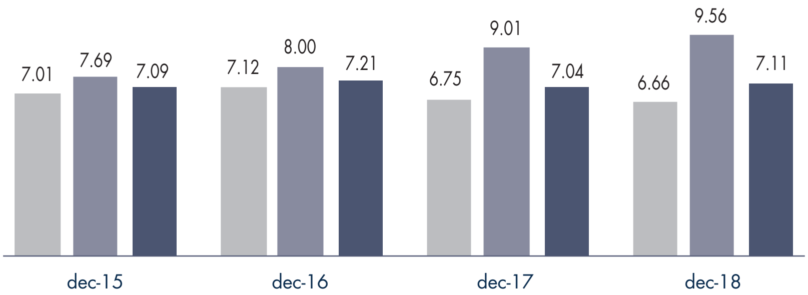
([1]) ANIA calculation based on Bank of Italy "Financial Accounts", June 2019.

their share in total investments decreased steadily from 56.7% in 2015 to 52.1% at the end of 2018. In particular, over these three years:

- Italian government securities, taking into account both changes in value and net sales/purchases, went from €320 billion to €300 billion and the incidence on total investments from 50.2% to 43.1%;
- foreign government securities grew substantially, from just over €41 billion to €62.4 billion (+52%) and their incidence on total investments grew from 6.5% to 9.0%.

Average duration of government securities portfolio

Italian
Foreign
Total



Finally, an analysis of the duration, namely the average residual maturity, of the insurance portfolio invested in government securities shows that maturity is steady over time, with an average 7-year maturity over the past four years observed. However, while the average financial duration of Italian securities purchased by insurers contracted from 7 to 6.6 years, that of foreign government securities extended from 7.7 years in 2015 to 9.5 years in 2018.

INVESTMENTS OF THE INSURANCE INDUSTRY IN BONDS AND SHARES

Corporate bonds

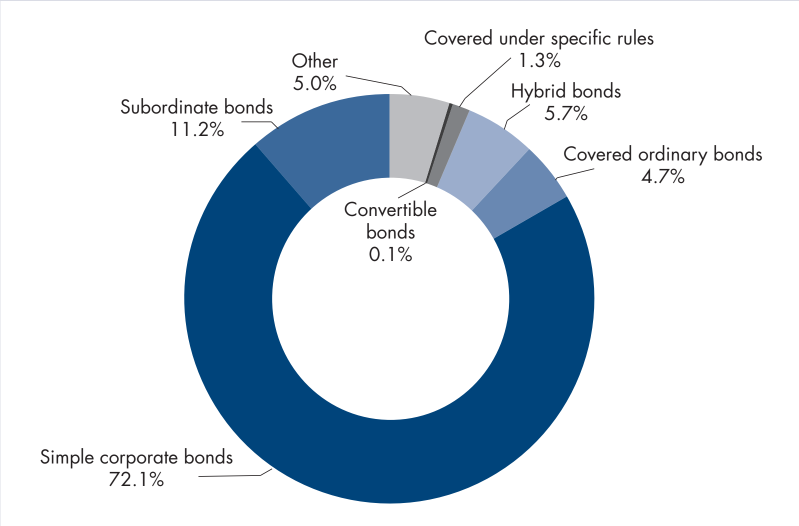
At the end of 2018, the insurance companies had €170 billion (20% of the total) invested in direct and indirect private-sector bonds (net of assets in respect of linked policies), virtually unchanged from 2017; of this, €138 billion was in direct private-sector bonds (-1.7% on 2017) and €30 billion in debt funds (+0.7%).

With regard to private-sector bonds specifically, more than three quarters were simple corporate bonds (-5 percentage points compared with December 2017), 11% were subordinated bonds (in line with 2017), just over 5% covered hybrid bonds (also in line with 2017) and the remainder consisted in commercial paper and money market instruments. As for issuing country, 24% consisted in securities of Italian issuers (3 percentage points less than in 2017).

The average duration of the bonds in the portfolio was 5 years; 57% of the bonds were CQS3 instruments (equivalent to a BBB rating), 23% CQS2 (A), 8% CQS1 (AA) and 9% CQS4 (BB) respectively; unrated bonds (2) accounted for approximately 1% of the total.

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

Figure 1
Private-sector bonds
Data as of 31/12/2018



Source: ANIA elaborations on InfoQRT data

Shares

With regard to the stock component of the portfolio of insurance companies (net of investments in respect of linked policies), the overall investments amounted to €100 billion (14% of the total, -2.1% compared with December 2017), of which 80% was in shares of affiliates and the rest in direct listed and unlisted shares, equity funds and private equity funds.

As for the sectors to which these resources were allocated, 87% went for financial and insurance-related business, 5% real estate, 3% manufacturing industry.

INVESTMENTS IN INFRASTRUCTURES

As of 31 December 2018, infrastructure investment on the balance sheets of insurance companies was still moderate at €7 billion, 1% of total investments, in line with 2017; of this, nearly one third consisted in infrastructure investments with Italian issuers.

(2) To interpret the data correctly, note that 7% of the assets are unrated.

Also in 2018, the main forms of investment by the insurers for this type of asset were: straight corporate bonds (40%; -2 p.p. on 2017), infrastructure investment funds (30%; +16 p.p.), hybrid corporate bonds (11%; -2 p.p.), ordinary shares (4%; -4 p.p.), equity funds (4%; +2 p.p.) and debt funds (3%; -2 p.p.).

As for the allocation of resources, the main target sectors in 2018 were: financial and insurance business (35%), energy (24%), activity of extra-territorial organizations and bodies (10%), construction (9%), information and communication (9%), manufacturing (6%), transport and storage (5%).

The amount of qualifying infrastructure investments ([3]) – that is investments that can benefit from ad hoc regulatory treatment and from facilitations in terms of capital requirements – went from less than €500 million in 2017 to roughly €1.5 billion, mainly achieved through recourse to funds.

INVESTMENTS IN FUNDS

At the end of 2018, insurance companies' investments in funds amounted to a total of €205 billion, of which €80 billion covering traditional contracts (+8.9% compared with 2017) and €125 billion for linked policies (-2.4%).

With regard to investments for traditional contracts, among the funds – representing 12% of total investments – insurers favored debt funds (35%; -3 p.p. compared with 2017), asset allocation funds (18%; share in line with 2017), real estate funds (14%; +1 p.p.) and equity funds (14%).

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

THE SOLVENCY OF THE ITALIAN INSURANCE INDUSTRY

Composition of the Solvency Capital Requirement (SCR)

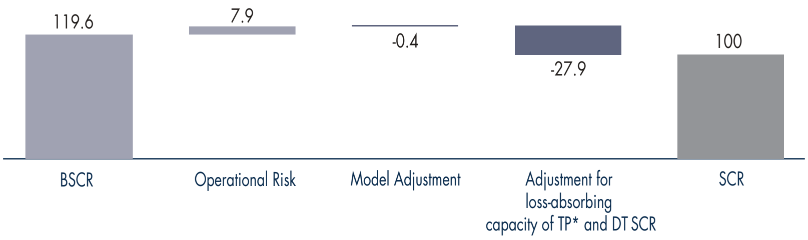
In accordance with the current legislation, each insurance undertaking must calculate its Solvency Capital Requirement (SCR) either by adopting the standard formula or

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

by using a partial or total internal model. For application, the internal models must be validated and authorized by the Supervisory Authority, whereas companies adopting the standard formula may, upon authorization of the Authority, add to the calculation of the underwriting risk modules their own Undertaking Specific Parameters – USP (more details in the chapter "Non-life Insurance") instead of the pre-set parameters of the formula. Based on an estimate calculated on annual data received by ANIA (roughly 90% of companies in terms of premiums), the SCR for the industry was over €54.4 billion at the end of 2018 (+3% compared with 2017). Of this, nearly €37 billion (67%) relates to the 14 undertakings that have adopted internal models (partial or total), and the remaining €17 billion to companies using the standard formula.

Figure 1 shows the composition of the Solvency Capital Requirements (SCR), in percentage values and for the whole insurance market, calculated as the sum of the Basic Solvency Capital Requirement (BSCR) plus the operational risk and adjustment components for 2018.

Figure 1
SCR % composition – Year 2018
Standard Formula and Internal Model



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

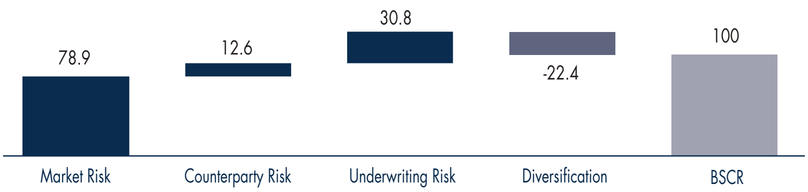
Source: InfoQRT ANIA

Operational risk – defined as the risk of loss due to the inefficiency of individuals, processes and systems or to events such as fraud or service suppliers' activities – accounts for 8% of SCR, as clearly highlighted in the chart. While the benefit from finetuning of methods and processes is marginal (0.4%), the adjustment for the loss-absorbing capacity of technical provisions (TP) and deferred taxes (DT) has a considerable impact on the SCR (27.9%). In particular, the loss-absorbing capacity accounts for 11% of SCR for companies using the internal model and for 65% for those using the standard formula. This divergence reflects the fact that most companies adopting the internal model report the impact of the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes in each risk module, without explicitly so stating. The adjustment component for these companies is therefore understated.

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

Figure 2
BSCR % composition – Year 2018
Standard Formula and Internal Model

Source: InfoQRT ANIA



The main risk factor for the insurance industry is market risk (78.9%): 80.4% for companies using the internal model and 76.7% for those using the standard formula.

Counterparty risk measures the vulnerability of different types of assets held by insurers to default by issuers and other counterparties. This risk accounts for nearly 13% of the overall risk: 18% for companies using the internal model and 5% for those using the standard formula.

Underwriting risks (life, non-life and health) represent overall nearly 31% of the BSCR: 23.7% for companies using the internal model and over 40% (27% life, 12% non-life and 3% sickness) for those using the standard formula.

The benefit of diversification consists in the fact that companies with a portfolio composed of different types of policies and assets geographically distributed across different markets can exploit the negative correlation of risks, thus reducing, by offsets, the solvency requirement. For the insurance market as a whole, the impact of diversification was on average 22.4%: 21.6% for companies using the internal model and 23.7% for those using the standard formula.

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

Figure 3
Market Risk % composition – Year 2018
Standard Formula

Source: InfoQRT ANIA

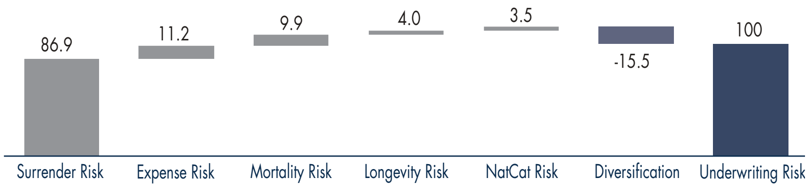
The results show that the greatest source of risk for the industry is the evolution of the spread (52.5%). This share is considerably higher than that of equity risk (29.1%), even though the latter is intrinsically volatile. The interest rate risk weighs for over 14% and currency risk for 11%.

Also in this case, there is a diversification effect, counting for about 18%.

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

Figure 4
Underwriting Risk % composition (Life Policies) – Year 2018
Standard Formula

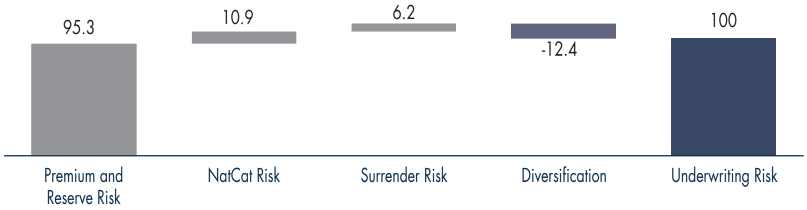
Source: InfoQRT ANIA



A major component in the composition of the underwriting risk for life policies is the surrender risk, which accounts for 87% of the overall risk for average companies. The diversification effect exceeds 15%.

Figure 5
Underwriting Risk % composition (Non-life Policies) – Year 2018
Standard Formula

Source: InfoQRT ANIA



A major component in the composition of the underwriting risk for non-life policies is the premium and reserve risk, which accounts for 95% of the overall risk for average companies. The diversification effect exceeds 12%.

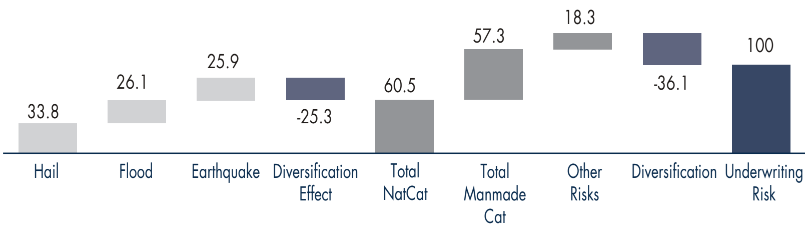
A detailed analysis of the natural catastrophe risk for non-life insurance (Figure 6) shows that natural disasters and manmade catastrophe risks have a very similar incidence (roughly 60%).

More specifically, among natural catastrophes, the greatest risk is hail (33.8%), followed by floods and earthquakes (both at around 25%).

The overall diversification effect is around 36%.

Figure 6
Natural Catastrophe Risk % composition (Non-life Policies) – Year 2018
Standard Formula

Source: InfoQRT ANIA

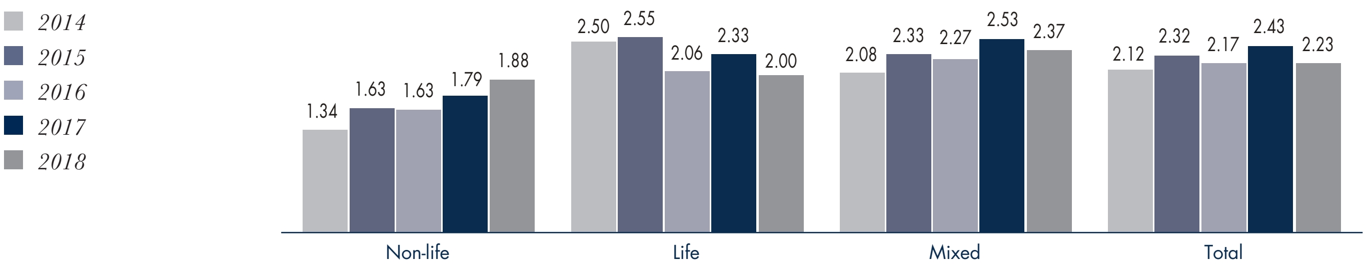


Solvency II ratio

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

Figure 1 shows the evolution of the indicator for Italian insurance companies in the period 2014-2018 by business sector. In 2018, the Solvency II ratio (for the sample analyzed) was 2.23, down from 2017 (2.43) and barely higher than in 2016 (2.17). By business sector the decline was limited to life and mixed companies (2017-2018). In particular, the Solvency II ratio went from 1.79 to 1.88 for non-life companies, from 2.33 to 2.00 for life companies and from 2.53 to 2.37 for mixed companies. The Solvency II ratio for the total market (2.23) is calculated as the industry's €122 billion of eligible own funds over the Solvency Capital Requirement of approximately €54 billion.

Figure 1 – Solvency II ratio*



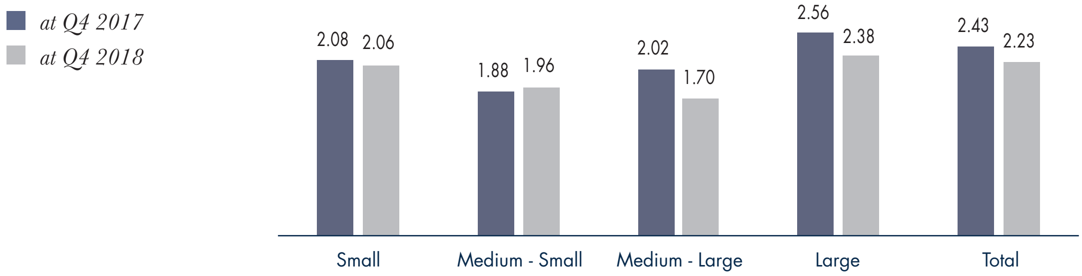
(*) The 2014 and 2015 data refer to the preliminary phase and to Day-one. They are drawn from a sample survey carried out by ANIA; 2016, 2017 and 2018 refer to a sample of companies constituting over 90% of the market, elaborated through the InfoQRT portal

Source: InfoQRT ANIA

The indicator was also analyzed according to firm size (Figure 2). The results (comparing annual data for 2017 and 2018) highlight a positive correlation between size (premium volume) and solvency index. The deterioration affected medium-large companies (whose index values dropped from 2.02 in 2017 to 1.70 in 2018) and large companies (from 2.56 in 2017 to 2.38 in 2018).

The Solvency ratio for small companies (total premiums of less than €0.3 billion) remained stable at 2. The only category which showed an improvement is that of companies with total premiums between €0.3 and €1 billion, whose ratio rose from 1.88 in 2017 to 1.96 in 2018.

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



(*) Company size is calculated based on written premiums in the direct portfolio for 2018, with the following criteria: small: premiums< €0.3 bln; medium-small: €0.3 bln<=premiums<€1.0 bln; mediuim-large: €1.0 bln<=premiums€<4.5 bln; large: premiums>=€4.5 bln

Source: InfoQRT ANIA

The excess of assets over liabilities

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

One Key Performance Indicator (KPI) is based on this element, namely the ratio of excess assets to total assets. In particular, the two figures below provide an analysis of the ratio by sector and by company size (Figures 3 and 4). In 2018 the indicator was 12% (13% in 2017) on average, but with distribution differing according to business sector. The excess was between 20% and 30% both for non-life and mixed companies, but for the life sector it was far lower (6%). And mixed companies recorded a contraction in the ratio. Only the non-life sector showed an uptrend in asset excess at 30%.

Figure 3
excess asset ratio (%) by company type

2017
2018

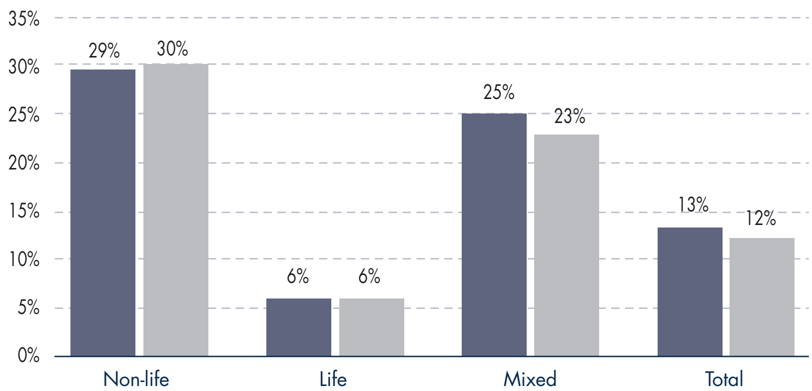
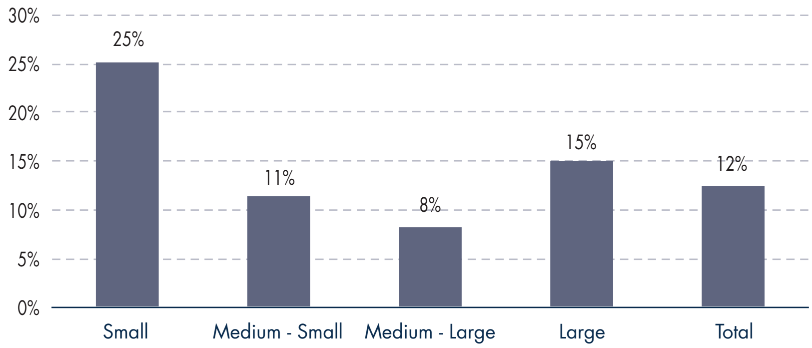


Figure 4
excess asset ratio (%) by company size - 2018



Source: InfoQRT ANIA

The distribution by company size also painted a varied picture: at the end of 2018 for small insurers (with less than €300 million in premiums) the excess was 25% of total assets, while for all other companies it was significantly lower at between 8% and 15%.

Own Funds

Own funds allocated to cover the capital requirement consist of the excess of assets over liabilities, minus the amount of own shares held by the company and of subordinated liabilities; at the end of 2018, own funds amounted to €122 billion.

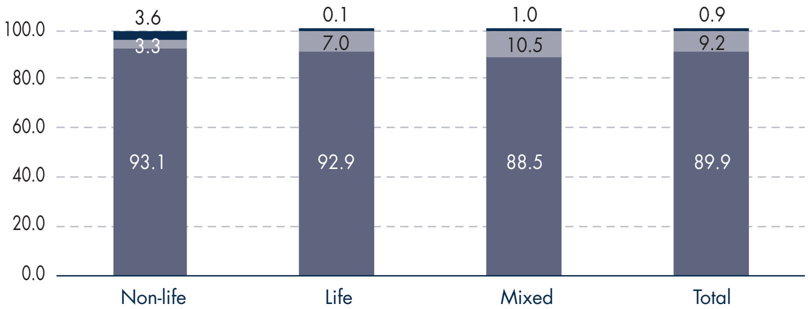
They are classified in three tiers defined on the basis of quality, i.e. their ability to absorb losses over time. In particular, the characteristics considered for the classification into tiers include the level of subordination, the absence of incentives for redemption, the absence of mandatory service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

Table 1 and Figure 5 show the percentage composition of eligible own funds by tier and insurance sector. At the end of 2018 the incidence of Tier 1 own funds was nearly 90%; Tier 2 accounted for 9.2% and the remaining 0.9% consisted of Tier 3 elements. The tier composition showed a greater incidence of Tier 3 elements in the non-life sector, while Tier 2 elements were mostly present in mixed companies.

Table 1
Composition (%) of eligible funds by Tier – 2018

	T1 limited	T1 unlimited	Total Tier 1	Tier 1	Tier 2	Tier 3	Total
Non-life	0.4	99.6	100.0	93.1	3.3	3.6	100.0
Life	3.8	96.2	100.0	92.9	7.0	0.1	100.0
Mixed	8.0	92.0	100.0	88.5	10.5	1.0	100.0
TOTAL	6.5	93.5	100.0	89.9	9.2	0.9	100.0

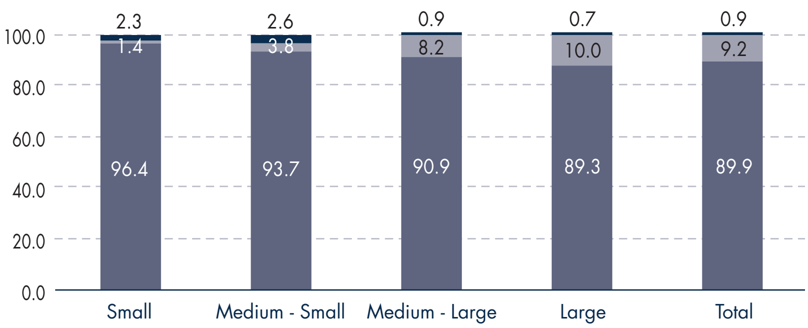
Figure 5
Composition of eligible own funds by Tier – 2018



Source: InfoQRT ANIA

The distribution by company size (Figure 6) shows that for large and medium-large companies (with over €1 billion in premiums), Tier 1 own funds account for approximately 90% of the total. For these companies, Tier 2 elements are still significant

Figure 6
Composition of eligible funds by Tier and company size – 2018



Source: InfoQRT ANIA

(8%-10%), while Tier 3 is residual (1%). The other companies show a greater incidence of Tier 1 (nearly 95%) and a much smaller incidence of Tier 2.

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

Reconciliation reserve over SCR

The reconciliation reserve is part of the basic own funds and equals the excess of assets over liabilities, minus own shares (directly and indirectly owned), expected dividends, distributions and charges and other elements of basic own funds; the indicator in Figure 7 measures the percentage incidence of the reconciliation reserve on the SCR. At the end of 2018, the indicator was 126.5%, down from the end of 2017 when it was 144.4%. In all the sectors analyzed (non-life, life and mixed), the overall reconciliation reserve was higher than the SCR, with a resulting indicator always above 100%. In particular, at the end of 2018 the indicator for mixed companies was 134.9%, more than that registered for companies operating exclusively in the non-life and life sectors (120.8% and 109.3% respectively).

Figure 7 Reconciliation Reserve on SCR (%)

2017
2018

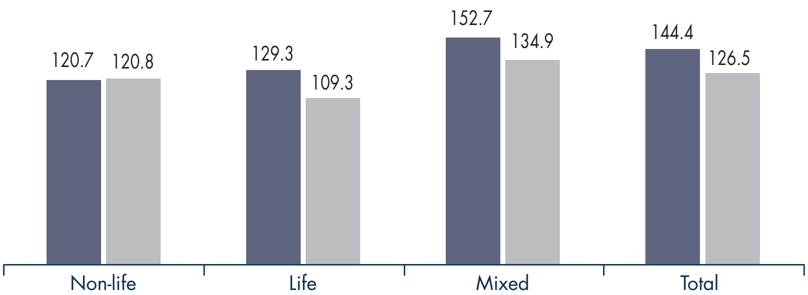
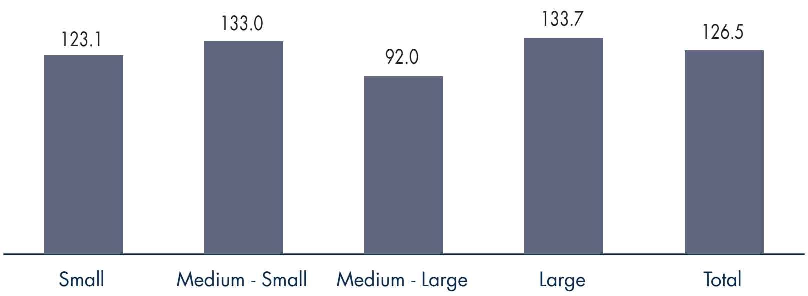


Figure 8 Reconciliation Reserve on SCR at Q4 2018 (%)



Source: InfoQRT ANIA

The analysis for end-2018 by company size shows that large companies (with premiums higher than €4.5 billion) have an indicator of 133.7%, higher, on average, than that of the other insurance companies.

Reconciliation reserve over eligible own funds

Figure 9 shows that at the end of 2018 the incidence of the reconciliation reserve on total eligible funds amounted to 56.7% overall, the highest incidence being for non-life businesses (64.4%), followed by mixed companies (56.9%) and finally life businesses (54.8%). The results for the end of 2017 were similar. The distribution of the indicator by company size was essentially homogeneous, with the exception of medium-small companies (those with premiums between €300 million and €1 billion), which registered a value of 67.9% at the end of 2017.

Figure 9
Reconciliation reserve over eligible own funds 2018 (%)

2017
2018

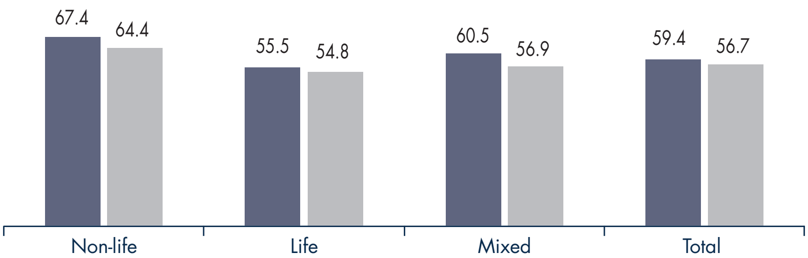
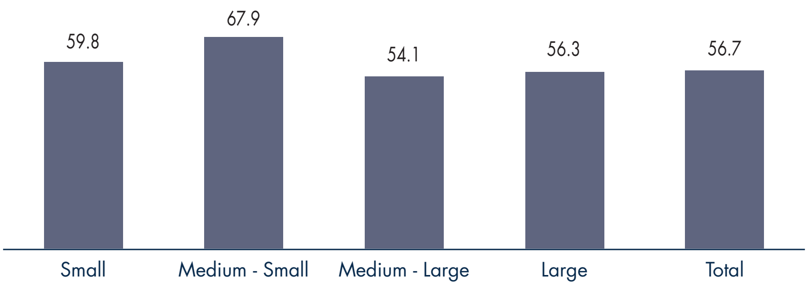


Figure 10
Reconciliation reserve over eligible own funds 2018 (%)



Source: InfoQRT ANIA

MCR/SCR

This indicator measures the ratio of the Minimum Capital Requirement (MCR) to the Solvency Capital Requirement (SCR). Without prejudice to the minimum levels set for MCR, this cannot be less than 25% or more than 45% of the company's solvency capital requirement. The end-year results for 2018 are very similar to those registered a year earlier, showing that, especially for companies operating exclusively in the life or non-life sector, the ratio is close to the ceiling; on the contrary, for mixed companies the value is 33.2%, essentially mid-way between the lower and upper limits. The analysis by size shows that for large companies the value of the indicator (34.7%) is lower than for other insurance companies.

Figure 11
MCR/SCR (%)

2017
2018

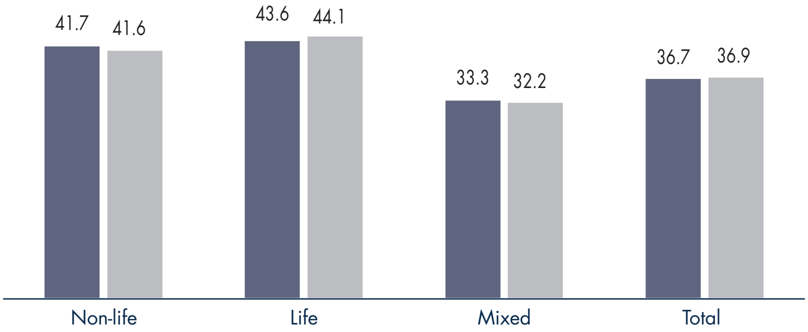
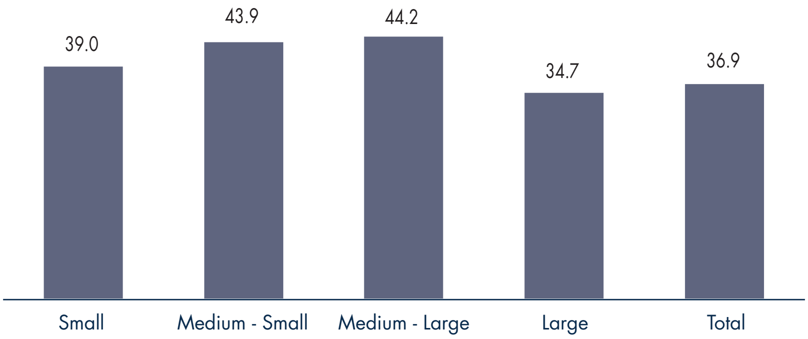


Figure 12
MCR/SCR (%) – 2018



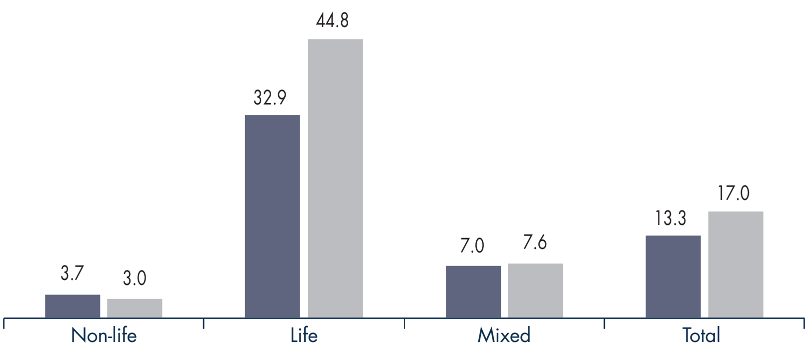
Source: InfoQRT ANIA

EPIFP/*Reconciliation reserve*

The ratio of expected profits included in future premiums (EPIFP) to reconciliation reserves is much more diversified. This was approximately 17% at the end of 2018 on average, but the ratio varied from 3.6% for non-life businesses to 44.8% for life businesses; for companies operating in both the life and non-life classes it was 7.6%. The analysis by size highlights a positive correlation between company size and EPIFP.

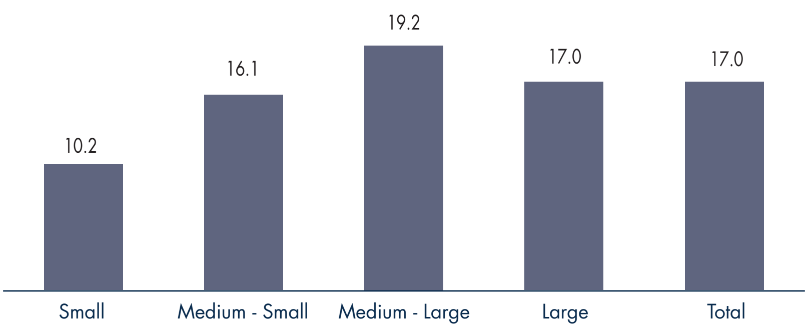
Figure 13
EPIFP/reconciliation reserve (%)

2017
2018



Source: InfoQRT ANIA

Figure 14
EPIFP/reconciliation reserve (%) – 2018



Source: InfoQRT ANIA

IMPACT OF TAXATION ON INSURANCE COMPANIES' FINANCIAL STATEMENTS

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

On a preliminary basis, in 2018 the industry paid €388 million in direct taxes, less than in 2017 as a result of lower earnings in the insurance industry. In the past five years the business paid taxes averaging €1.8 billion.

Direct taxes

Tax period	Total taxes (Euro million)
2014	2,405
2015	2,395
2016	2,014
2017	1,806
2018	338
Average 2014/2018	1,792

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

IRAP surcharge

Since 2011 insurance companies are subject to the regional tax on productive activity (IRAP) with a surcharge of 2 percentage points over the rate applied to other industries (5.90% compared with 3.90%). The rate for insurance companies is also considerably higher than the special rate for banks (4.65%).

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

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

The amount of IRAP paid by insurance companies was nearly €325 million in 2018, in line with the previous two years (€345 million on average).

IRAP

Tax period	Estimated IRAP (Euro million)	of which, amount corresponding to tax surcharge (2%) on insurance companies (Euro million)	"Total" tax rate (%)	of which: "standard" nat'l govt. tax rate (%)	of which: reg. govt. surcharge (%)
2014	429	126	6.82%	5.90%	0.92%
2015	384	113	6.82%	5.90%	0.92%
2016	344	101	6.82%	5.90%	0.92%
2017	348	102	6.82%	5.90%	0.92%
2018	325	95	6.82%	5.90%	0.92%

Tax on life insurance mathematical provisions

Since 2003 insurance companies have been subject to a tax on the stock of mathematical provisions against written life premiums, abbreviated as the "IRM" ([1]).

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

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

The tax rate has changed numerous times over the years (mostly increasing), and specifically:

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

Over the years, as a consequence of the increase in the tax rate on the one hand and the practically systematic increase in mathematical provisions on the other, insurance companies have been confronted with the material impossibility of recovering in full the amounts prepaid to the Treasury as IRM tax. In an attempt to solve this problem, an automatic tax credit recovery system was implemented, triggered whenever the taxes paid on policy yields for the year were lower than the taxes paid in the fifth-previous year. In this case, the difference may be offset, with no cap on the amount, by other tax or social security liabilities or, alternatively, ceded to other group companies.

This system, however, has proven incapable of ensuring full recovery of the IRM advanced to the Treasury.

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

Accordingly Law 228/2012 (the finance law for 2013, dubbed the "stability law") introduced an automatic cap mechanism in order to limit the IRM amount due when tax credits yet to be paid (or advanced) exceed a certain percentage of the mathematical provisions (2% in 2018). Notwithstanding this corrective, at the end of 2018 the industry's unused tax credit amounted to over €9 billion, showing a steady increase over the years. More specifically, this is a credit for less than five years' worth of taxes, since for tax credits older than five years there is a mechanism in place for offset against other tax or social security liabilities (or for their transfer to other companies in the same group).

Credits on advance payment of tax on life insurance reserves

Tax period	Estimated tax credit not recovered as at 31 December (Euro million)	Annual change (Euro million)
2014	6,282	1,072
2015	6,940	658
2016	7,917	977
2017	8,274	357
2018	9,086	813

2

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

THE INTERNATIONAL SETTING

In 2018 world total premium income continued to grow, up to $5,193 billion, with real growth of 1.5% compared with 3.2% in 2017. The moderate growth reflects a standstill in life premiums, which showed a downtrend especially in the emerging markets.

More specifically, North America accounted for 31% of total world premiums in 2018 (+2.6%), whereas Asia, with a share barely smaller than that of North America, grew by 2.3%. The shares of China and Japan remained unchanged from 2017, despite the growth in real terms registered by both countries (+1.8% and +2.6% respectively). The "advanced EMEA" countries – essentially Western Europe plus Israel, going by the new Swiss RE classification – accounted for 30% of the world market in 2018, with total life premiums in line with the previous year. The total premium income of "Emerging Europe" (previously classified as Central and Eastern Europe) increased by 3.9%, although its market share is only 1.5%. The new group of Middle Eastern and African countries exceeded 2% of total premium income. Premium income decreased both in Latin America (-1.7%) and Oceania (-0.7%), accounting for 3.1% and 1.7% of total world premiums respectively.

Premium volume 2018
$ million

	LIFE	NON-LIFE	TOTAL	Share % Total
North America	647,461	949,817	1,597,278	30.8
Latin America	70,542	91,979	162,521	3.1
Europe, the Middle East and Africa (EMEA)	1,009,326	741,589	1,750,915	33.7
of which: advanced EMEA	*934,036*	*626,900*	*1,560,937*	*30.1*
of which: emerging Europe	*21,686*	*58,575*	*80,261*	*1.5*
of which: Middle East and Africa	*53,604*	*56,114*	*109,718*	*2.1*
Asia	1,060,953	532,053	1,593,007	30.7
of which: Japan	*334,243*	*106,405*	*440,648*	*8.5*
of which: China	*313,365*	*261,512*	*574,877*	*11.1*
Oceania	31,892	57,611	89,504	1.7
TOTAL	2,820,175	2,373,050	5,193,225	100.0

Source: Swiss Re - Sigma n. 3/2019

Real Growth 2018
(%)

	LIFE	NON-LIFE	TOTAL
North America	2.3	2.7	2.6
Latin America	-4.2	0.5	-1.7
Europe, the Middle East and Africa (EMEA)	-0.4	1.1	0.2
of which: advanced EMEA	*-0.6*	*1.1*	*0.1*
of which: emerging Europe	*3.4*	*4.2*	*3.9*
of which: Middle East and Africa	*1.5*	*-1.3*	*0.0*
Asia	0.0	7.0	2.3
of which: Japan	*3.6*	*-0.3*	*2.6*
of which: China	*-5.4*	*12.0*	*1.8*
Oceania	-5.4	2.1	-0.7
TOTAL	0.2	3.0	1.5

Source: Swiss Re - Sigma n. 3/2019

In 2018, life premiums amounted to $2,820 billion, showing only marginal growth in real terms of 0.2%, a sharp slowdown compared with +3.4% in 2017. This reflects the contraction in premiums registered by China (-5.4%), Latin America (-4.2%) and Western Europe (-0.6%). Life premium income decreased also in Oceania (-5.4%). Despite the decline in China, the overall volume of premiums in Asian countries remained unchanged from 2017, as China's fall was offset by an increase in premiums on the Japanese market (+3.6%). Among the emerging markets, premium income expanded in Central and Eastern Europe (+3.4%) and in the Middle East and Africa, with positive growth of 1.5%. In the advanced markets, besides Japan, life income increased in North America, where it grew by 2.3% in 2018.

In 2018, non-life premiums amounted to $2,373 billion, up by 3.0% in real terms (+2.9% in 2017).The expansion was worldwide, with the exception of Africa and the Middle East, where premium income dropped by 1.3%. Asia, mainly driven by the Chinese market, which gained 12%, saw total non-life income rise by 7.0%, despite a marginal contraction in Japan (-0.3%) Among the emerging markets, positive trends were shown by Emerging European countries (+4.2%), Oceania (+2.1%) and, to a lesser extent, Latin America (+0.5%). In the advanced markets, the strongest growth in premium income was recorded in North America (+2.7%), followed by advanced EMEA countries (+1.1%).

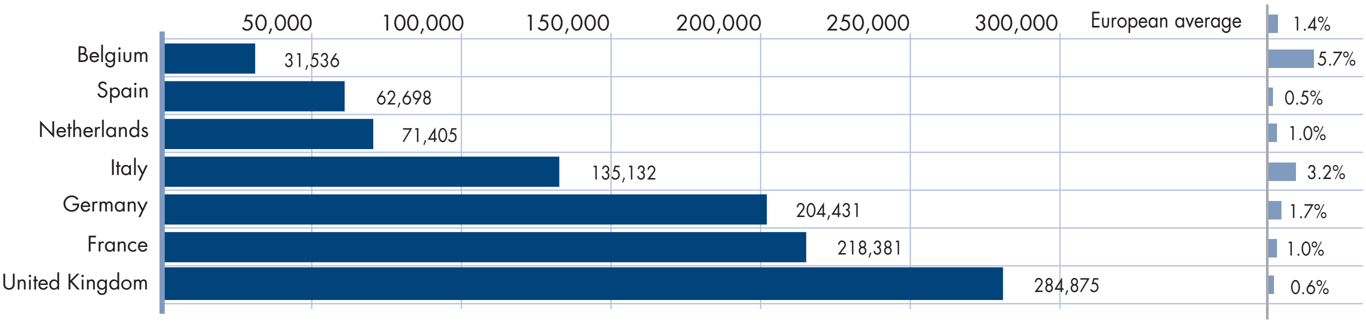
World economic growth, driven by China, has contributed to the development of the global insurance industry. However, while life policies are less attractive, especially as a savings instrument, due to persistent low interest rates, in the non-life segment premiums have continued to grow, thanks to the strong expansion of motor insurance, accounting for a third of the volume of world premiums. The volume of life premiums dropped for savings instruments, but it increased for mortality risk policies, although the latter has a smaller premium volume than the former. In the non-life segment, instead, premiums have continued to grow, driven by the emerging markets.

A boost is expected in the life sector, after a decade of marginal growth, driven especially by China and the advanced countries, whose growth rates, while lower than China's, will be more robust than those recorded in the past few years. Non-life classes should grow at a faster pace than life classes. Among the advanced markets, the fastest growth will be recorded by the United States, Canada and Asia, while advanced EMEA will show more moderate growth in this sector. At the same time, growth in the emerging markets will decelerate, as a result of a slowdown in the Chinese market, partly offset by improving performance in other emerging countries, where, especially in the middle-income class, the demand for non-life products (motor and homeowners insurance in particular) outweighs that of life products, which usually expand in a second phase of economic development, when, in addition to the primary needs associated with urbanization, employment and trade, citizens start to consider the security and investment of savings and health issues. Major changes are expected in the advanced markets, especially in the medium and long term, as a result of the spread of advanced driver assist systems and self-driving cars. This fundamental passage, whose impact on the insurance industry is difficult to predict, may result, as was the case of previous technological innovations, in a drop in claims and, hence, in lower average premiums and volumes.

THE IMPORTANCE OF INSURANCE IN THE MAIN EU MARKETS

In 2018, overall premium income in the main EU countries (Belgium, France, Germany, Italy, the Netherlands, the United Kingdom and Spain) was €1,008 billion, up by 1.4% on 2017. Premium income increased across the board: Belgium (+5.7%), Italy (+3.2%), Germany (+1.7%), France and the Netherlands (+1.0%), with United Kingdom and Spain bringing up the rear with barely positive growth (+0.6% and +0.5% respectively).

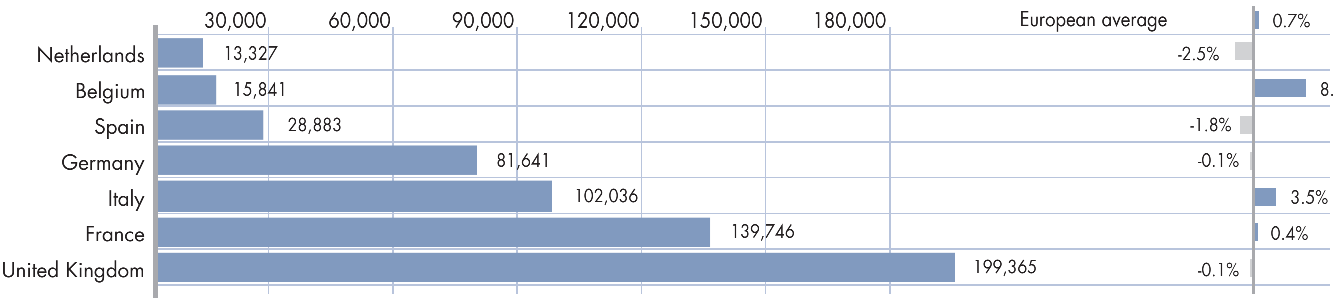
Direct premiums in the main EU countries in 2018 – Total ***% change in direct premiums 2018/2017 – Total***
€ million



Source: Swiss Re - Sigma n. 3/2019

The volume of life premiums in the countries of the sample, amounting to €581 billion in 2018, rose slightly by 0.7%. In particular, the growth was driven by the volume of premiums in Belgium (+0.8%) and Italy (+3.5%), while premium income was virtually unchanged in France (+0.4%), Germany (-0.1%) and the UK (-0.1%). On the contrary, the Netherlands and Spain showed declines of 2.5% and 1.8% respectively.

Direct premiums in the main EU countries in 2018 – Life ***% change in direct premiums 2018/2017 – Life***
€ million

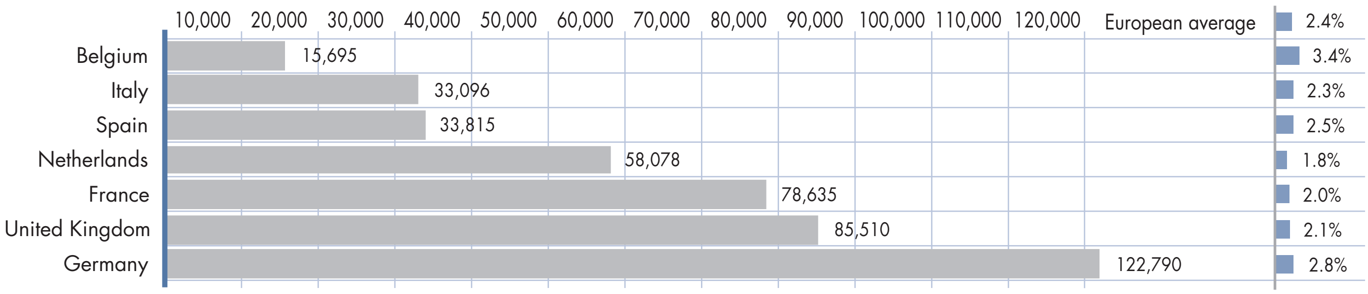


Fonte: Swiss Re - Sigma n. 3/2019

The volume of premiums increased also in the non-life sector, to €428 billion (+2.4%), thanks to an increase in premium income across all EU markets in the sample. In detail, the increase came to 3.4% in Belgium, 2.8% in Germany, 2.5% in Spain, 2.3% in Italy, 2.1% in the UK, 2.0% in France and 1.8% in the Netherlands.

Direct premiums in the main EU countries in 2018 – Non-life
€ million

% change in direct premiums 2018/2017 – Non-life



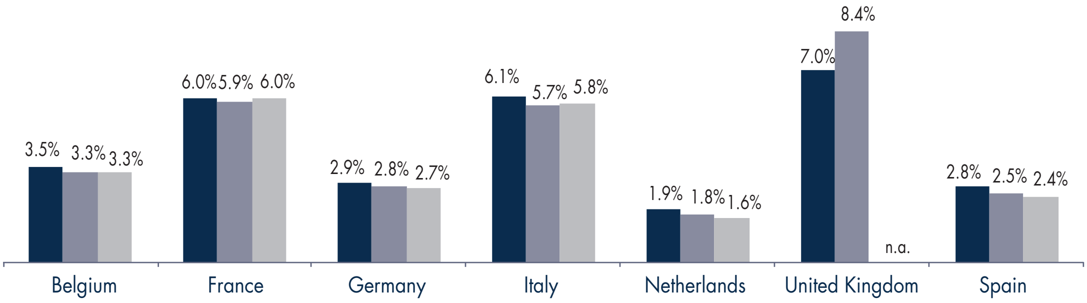
Fonte: Swiss Re - Sigma n. 3/2019

In the three years from 2016 through 2018 the ratio of the volume of premiums to GDP – the so-called insurance penetration index – performed differently in the life and non-life sectors. It is to be noted that the data for 2018 provided by Insurance Europe are still provisional and, in some cases, they are estimates made by national insurance associations.

As for life classes, the indicator in 2018 increased slightly in France, from 5.9% in 2017 to 6.0%, and in Italy, from 5.7% to 5.8% (it was 6.1% in 2016). In Belgium, the indicator remained stable at 3.3% in 2017 and 2018, but lower than 2016, when it was 3.5%. In all the other sample countries the ratio showed a steady downtrend. In detail, it fell from 2.9% in 2016 to 2.7% in 2018 in Germany, from 2.8% to 2.4% in Spain, and from 1.9% to 1.6% in the Netherlands. The United Kingdom showed an opposite trend between 2016 and 2017 (the last two years available), going up from 7.0% to 8.4%, showing once again the highest index among the countries analyzed.

Life premiums/GDP
(%)

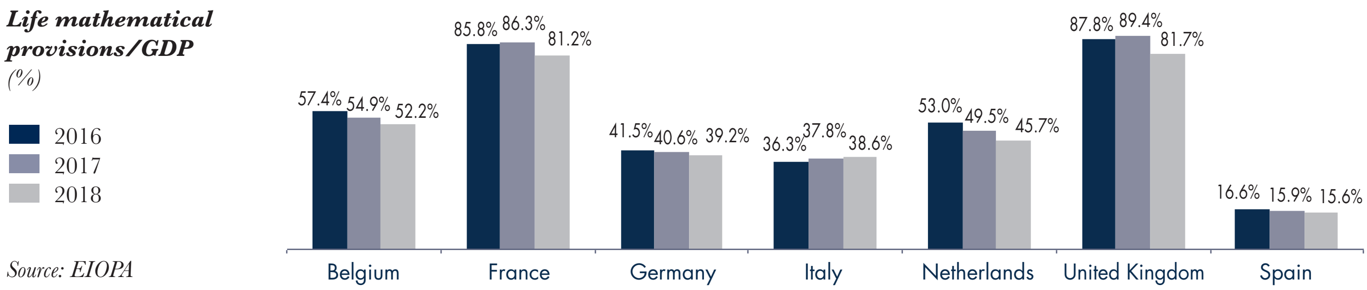
2016
2017
2018



Source: Insurance Europe

In Italy the ratio of mathematical provisions to GDP – an indicator that can proxy for the degree of maturity of the life insurance market – showed a steady increase in the three-year observation period (the only country in the sample to do so) from 36.3% in 2016 to 37.8% in 2017 and 38.6%. However, Italy's value is still lower than those of most of the other European countries, although more than twice that of Spain (which decreased steadily from 16.6% in 2016 to 15.6% in 2018). The indicator dropped also in the other countries analyzed: from 41.5% to 39.2% in Germany, from 57.4% to 52.2% in Belgium, and from 53.0% to 45.7% in the Netherlands. In France and in the United Kingdom, after growth between 2016 and 2017, the ratio resumed its downtrend in 2018, slipping from 86.3% to 81.2% in the former and from 89.4% to 81.7% in the latter.

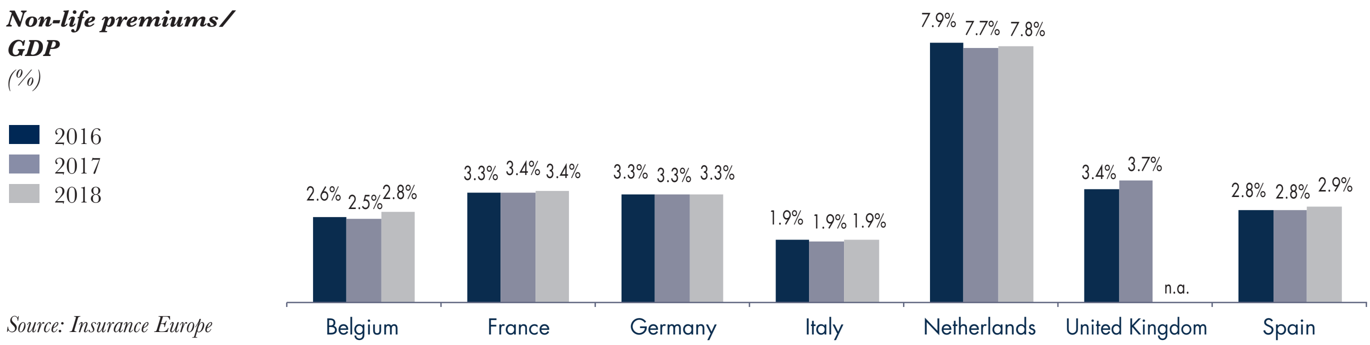
Life mathematical provisions/GDP
(%)



Source: EIOPA

In the non-life sector, again in 2018 Italy had the lowest ratio of premiums to GDP, with a stable value of 1.9% for the three-year period. The index remained unchanged in Germany (3.3%) and virtually stable also in France, where it edged up from 3.3% in 2016 to 3.4% in 2017-2018, and in Spain, from 2.8% in 2016-2017 to 2.9% in 2018. The ratio improved in Belgium from 2.5% to 2.8% (it was 2.6% in 2016) and in the UK from 3.4% in 2016 to 3.7% in 2017 (the last years available). The Netherlands' non-life insurance penetration index – already the highest in Europe and 6 percentage points above the Italian indicator – rose even higher to 7.8% in 2018, reflecting the positive impact on premium collection of the privatization of the health system in 2006.

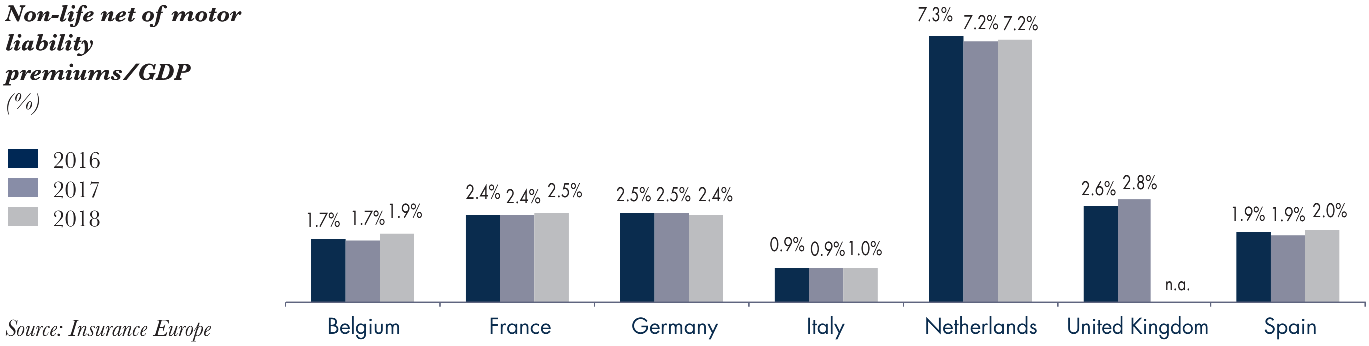
Non-life premiums/ GDP
(%)



Source: Insurance Europe

If motor liability insurance (compulsory everywhere) is excluded, the gap in non-life premiums between Italy and the other European countries is even wider. In 2018 the ratio of these premiums to GDP came to 1.0% in Italy, from 0.9% in the two previous years, while in Belgium and Spain the ratio was double Italy's (1.9% and 2.0% respectively). The indicator performed slightly better in Germany (2.4%), although it was down from the 2.5% registered in the previous two-year period, in France (where it grew from 2.4% in 2016-2017 to 2.5% in 2018), and the United Kingdom (from 2.6% in 2016 to 2.8% in 2017 – the last two years available). The highest value of the index was registered in the Netherlands (7.2% in 2018).

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



Source: Insurance Europe

THE TAXATION OF PREMIUMS IN THE EUROPEAN UNION

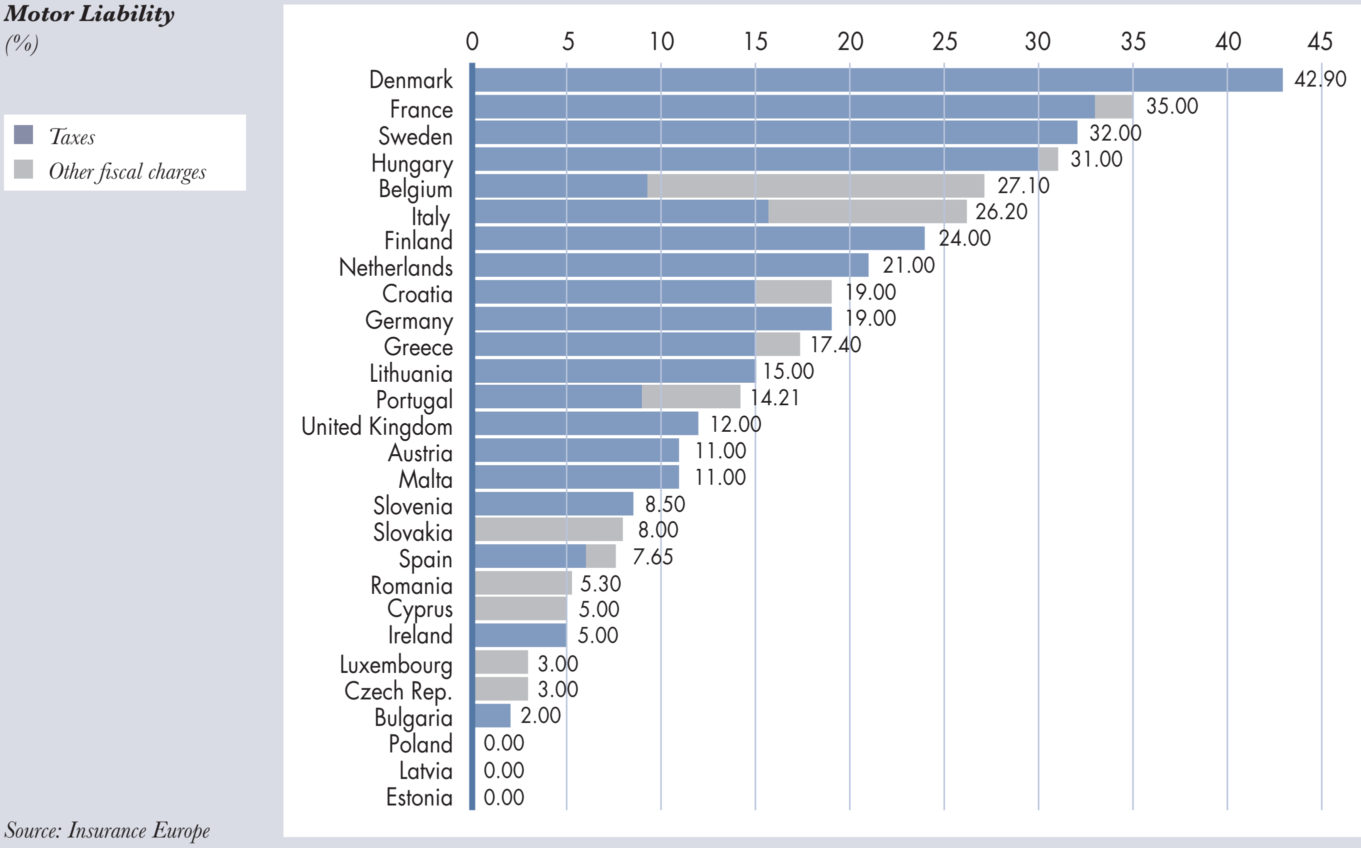
The year 2018 confirms an unchanged pattern of premium taxation in the EU countries, with Italy again standing out for its significantly higher tax rate.

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

In the motor liability branch the average tax rate on premiums in Italy is 15.7%. Adding social contribution charges of 10.5% brings the overall rate on motor liability insurance to 26.2%. The 15.7% value is the average de facto rate applied at local level throughout Italy inclusive of the local increases up to a ceiling of 16%, decided by almost all Italian provinces, to which the tax revenue is allocated.

The latest data from the Fiscal Federalism Bureau of the Finance Department confirms that, indeed, only three Italian provinces – the three special statute provinces – kept the tax rate below the 12.5% basic rate in 2018; all the other provinces have raised the rate, most of them up to the ceiling value of 16%.

Motor Liability
(%)



Source: Insurance Europe

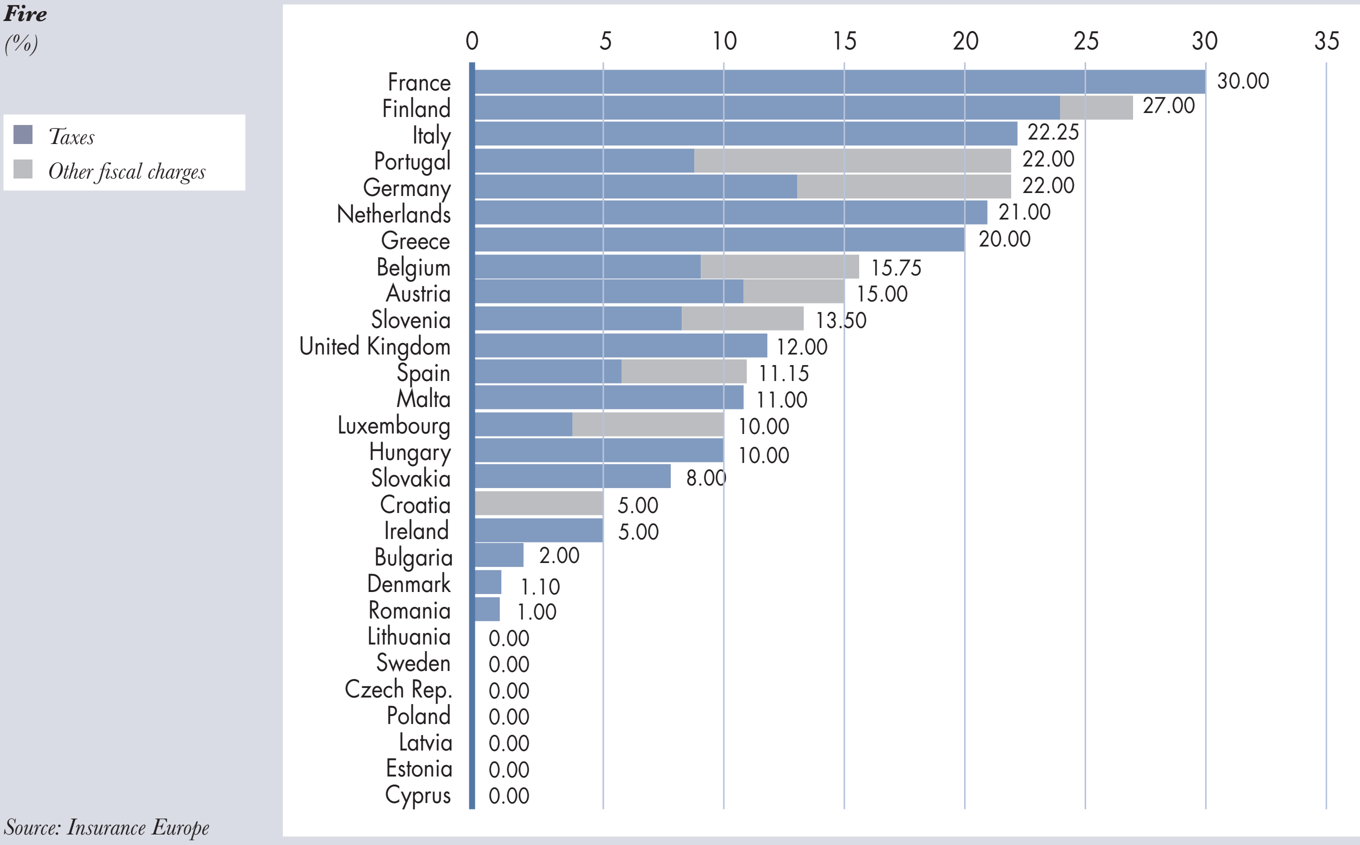
The average tax rate on motor liability premiums in the EU was 19.6%. The tax burden in Italy was thus higher than the average and higher than in the United Kingdom (12%), Spain (7.65%) and Austria (11%). In the Netherlands the tax rate is confirmed to be slightly above average (21%), while in France the overall charge is unchanged at 35%.

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

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

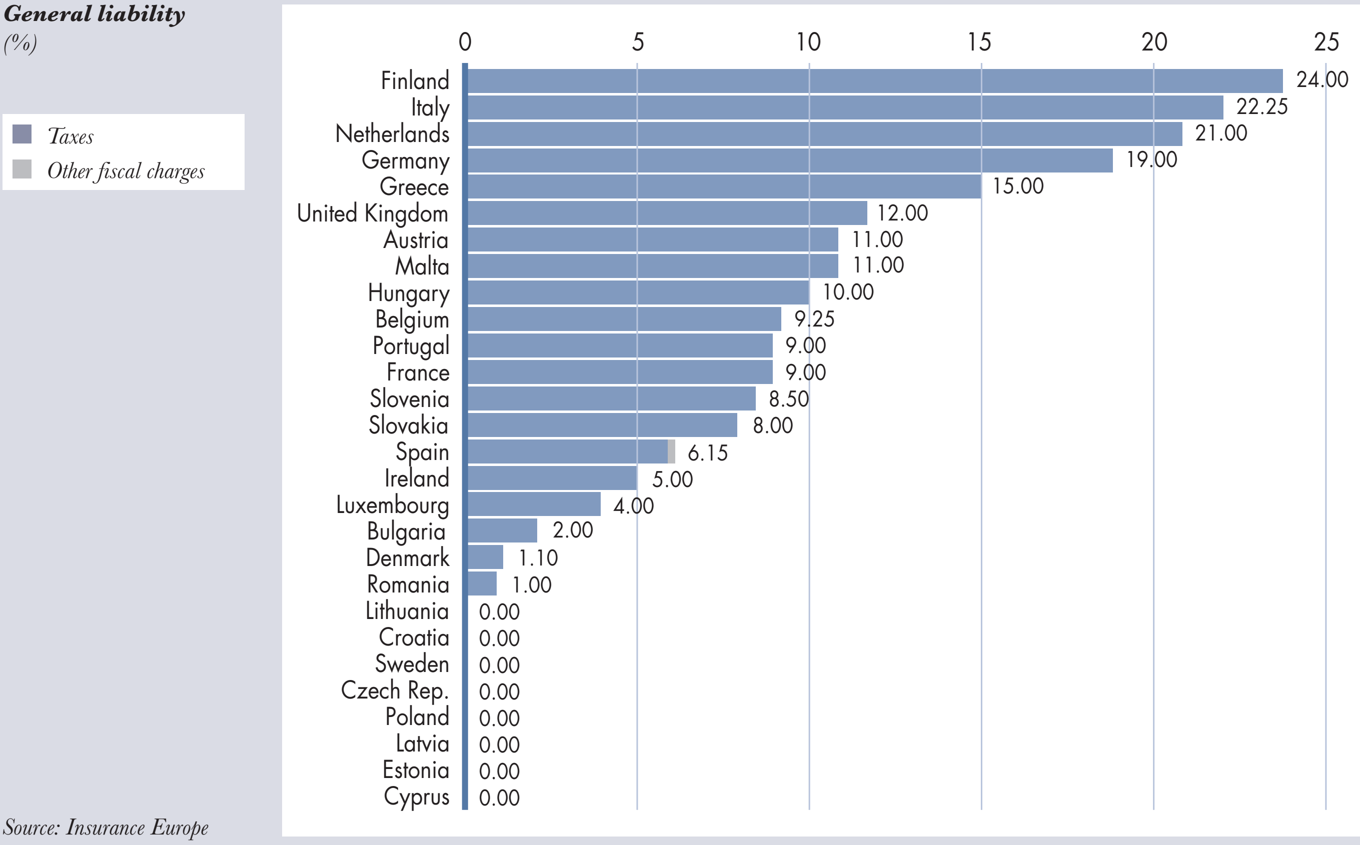
There were no changes last year in Italy in the indirect taxation of shipping insurance premiums, taxed at 7.5% for goods transported by sea or air and at 12.5% for those shipped overland. The European countries with the highest tax rates are, once again, Finland (24%), Germany (19%) and Austria (11%).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

Fire
(%)



Source: Insurance Europe

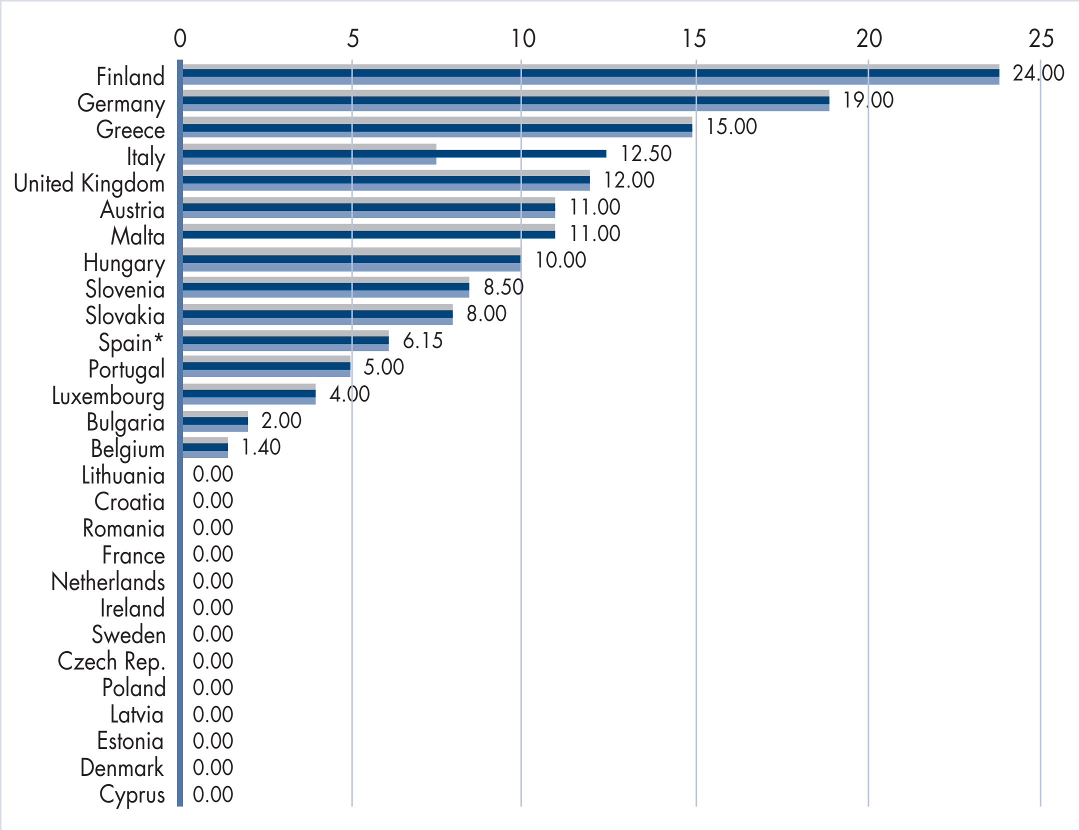
General liability
(%)



Source: Insurance Europe

Goods in transit
Taxes
(%)

By air
By land
By sea



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

AN INTERNATIONAL OVERVIEW OF INSURANCE COMPANIES' INCOME STATEMENTS

The detailed data on the income statements and balance sheets of insurance companies in Europe reported in the Fitch Connect database allows a comparative analysis of the trends of some important indicators of profitability and portfolio management of the insurance industry in the main European countries (France, Germany, Italy and the United Kingdom), compared with the average value in a sample of nine European countries which comprises, in addition to those mentioned, Austria, Belgium, the Netherlands, Sweden and Switzerland ([1]). The database collects information on the statutory financial statements of a sample of companies (accounting for 90% of the insurance market) compiled according to local GAAP accounting standards. The observation period goes from 2013 to 2017 (2018 data are not yet available).

Insurance companies operating in non-life business

In the observation period from 2013 through 2017, the companies of the European sample surveyed by Fitch Ratings through the Fitch Connect platform and operating in non-life

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

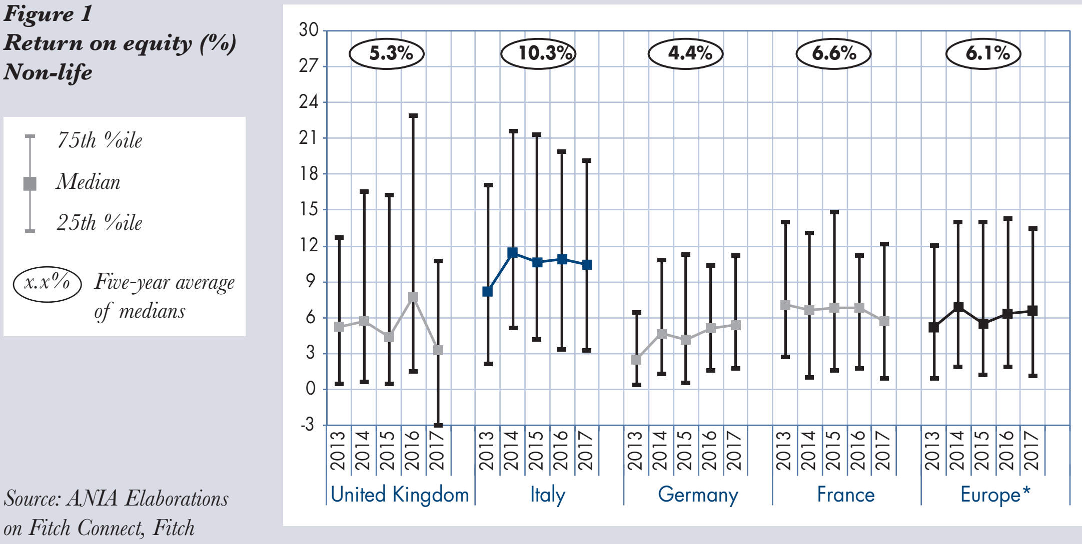
business numbered 901, of which 243 in Germany, 127 in the United Kingdom, 135 in France and 84 in Italy.

The first indicator of companies' profitability is **return on equity (ROE)**, defined as the ratio of net income to average shareholder's equity over the past two years.

The profitability of the median company for the European sample in 2017 rose to 6.6% from 6.4% a year earlier, but was still slightly lower than the 6.9% recorded in 2014 (Figure 1). And the only country of the four examined to show an increase in ROE was Germany, from 5.1% in 2016 to 5.4% in 2017. The median Italian company index, after the gain registered the previous year (from 10.7% in 2015 to 10.9% in 2016), dropped to 10.4%; also decreasing were the indicators of France and the United Kingdom, which came to 5.7% and 3.3% respectively. The five-year average shows an ROE for Italy of 10.3%, higher than the average of the European sample (6.1%) and the values of the other countries in the analysis.

The data on dispersion of undertakings around the median can be obtained by calculating the interquartile range, i.e. the difference between the values for the companies at the first and third quartiles of the distribution. In 2017, the dispersion of undertakings in Italy was slightly lower than a year earlier, at 16 percentage points instead of 17. The other countries observed recorded lower values. In detail, dispersion was 14 percentage points for the United Kingdom, 12 points for the European sample, 11 for France and 9 for Germany.

Figure 1
Return on equity (%)
Non-life



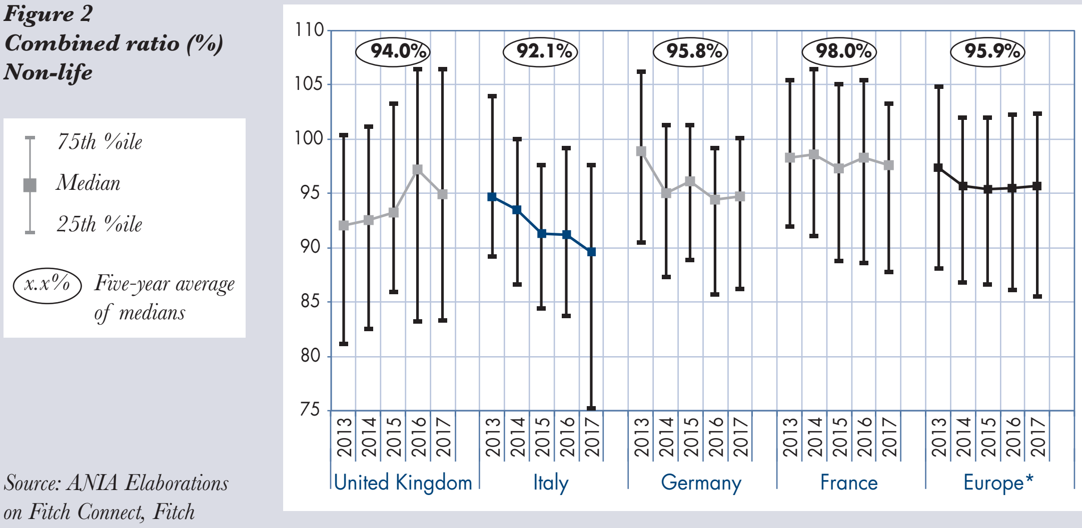
Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

In 2017 the **combined ratio**, defined as the sum of the loss ratio and the expense ratio of the median company, recorded a European average of 95.7%, slightly up from 2016, when it was 95.5% (Figure 2). Germany is, once again, the only country in the sample whose indicator reflects the European trend, rising to 94.7% from 94.4% in 2016. The median British company indicator moved down from 97.2% in 2016 to 94.9%, the French from 98.3% to 97.6%. In 2017, Italy confirmed its improving trend, coming down to 89.6% from 94.7% in 2013 (the national average in the five-year observation period was lower than the European average by nearly 4 percentage points).

In 2017, the interquartile range between the first and third quartiles of the sample of companies was 22 percentage points in Italy, lower than the United Kingdom but 5 points higher than the European sample; the dispersion of undertakings around the median has increased in virtually all the countries analyzed.

Figure 2
Combined ratio (%)
Non-life



Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

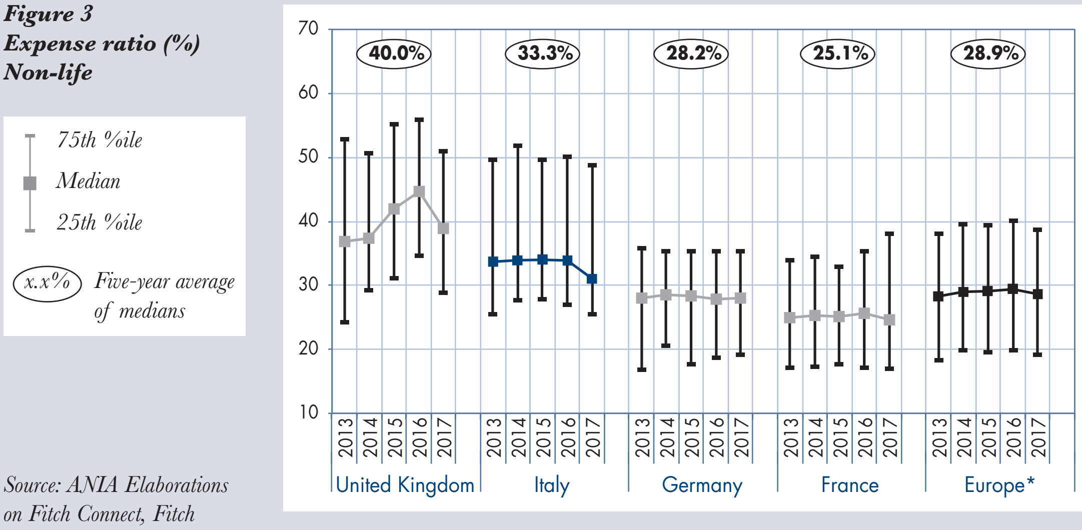
(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

In the same year, at European level the **expense ratio** improved to 28.7% from 29.4% (Figure 3). As for the individual countries, Italy's ratio was 31.1%, lower than in 2016 (33.9%). The expense ratio has improved also for the median company in Britain (down to 38.9%) and France (down to 24.7%). Germany is the only country to show a deterioration of the index in 2017 (to 28.1% from 27.9% in 2016).

In 2017 the interquartile range for the sample was greatest in Italy at 23 percentage points (three points higher than the European sample) and lowest in Germany at 16 points.

The **net profit** in non-life insurance business **as a ratio to the volume of written premiums** showed a downturn at European level, from 5.2% in 2016 to 4.7% in 2017 (Figure 4). With the exception of Italy, where the ratio rose from 5.2% in 2016 to 5.5% in 2017, all the other countries are in line with the European sample. In detail, the ratio was 4.8% in Germany, followed by France at 3.6% and the United Kingdom at 1.3%. The five-year average was 5.3% in Italy, the highest of all the countries considered; the average value for the European sample was 4.8%.

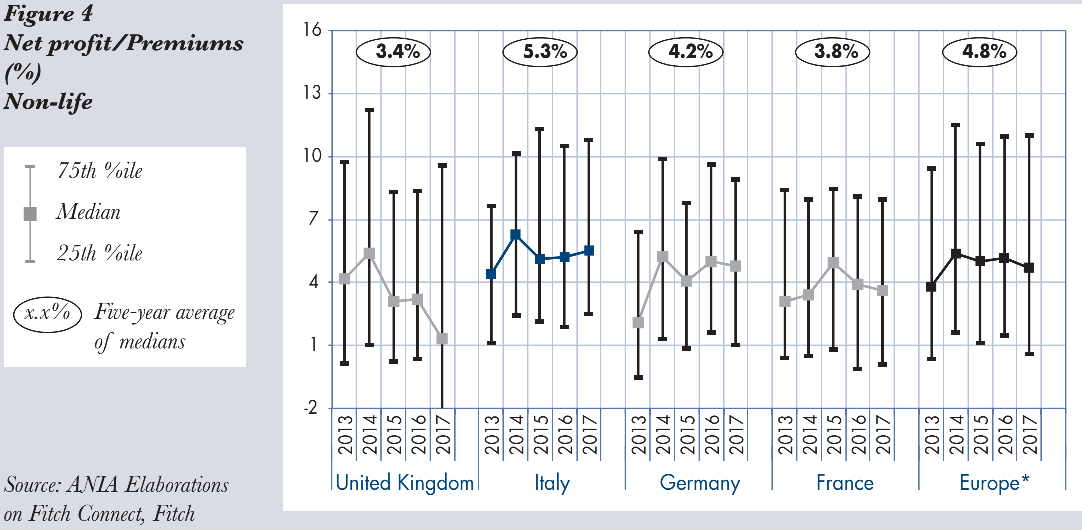
Figure 3
Expense ratio (%)
Non-life



Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

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



Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

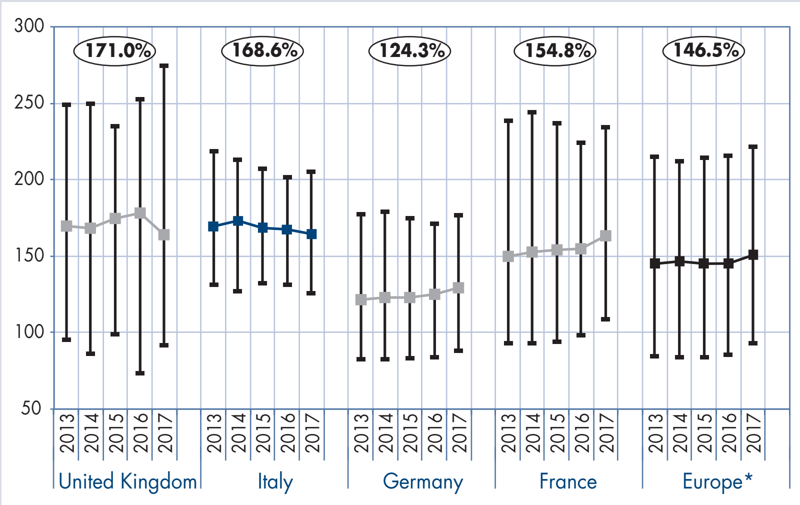
The interquartile range of companies was widest in the United Kingdom, at 13 percentage points, higher than the European sample (10 p.p.), and of all the other countries analyzed individually (8 p.p.).

With respect to the previous year, in 2017 the **ratio of total technical provisions to the volume of written premiums** increased at European level to 150.7% from 145.2% in 2016 (Figure 5); the upward trend was driven by the median companies of France and Germany, where the ratio moved up to 163.2% and 129.2% respectively. In Italy and the United Kingdom, instead, the indicator dropped to 164%. In the five-year period of observation, Italy's average value was 168.6%, slightly lower than the United Kingdom but much higher than the European sample (146.5%).

In 2017, the interquartile range was greatest in the United Kingdom at 183 percentage points, while Germany and Italy recorded dispersion of less than 100 points.

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

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



Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

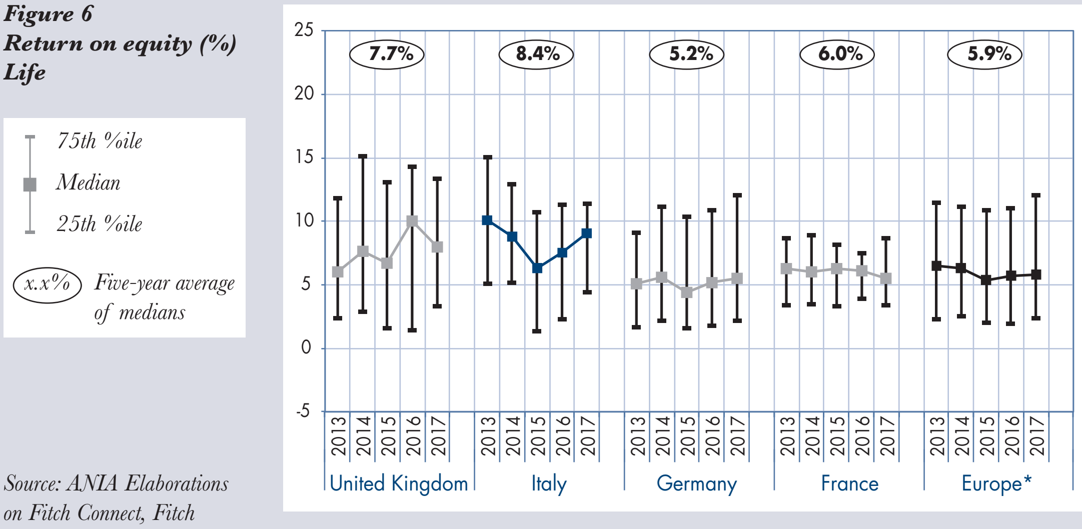
Insurance companies operating in life business

In the five-year period 2013-2017, the sample of European companies surveyed by Fitch Ratings through the Fitch Connect platform operating in the life business numbered 627, of which 305 in Germany, 79 in France, 64 in Italy and 45 in the United Kingdom (the low representativeness of the British sample may compromise the analysis of the time trends for this country).

The **Return on Equity** (**ROE** – the ratio of net profit to average shareholder's equity over the past two years) of the median Italian company recorded an increase to 9.1% from 7.6% in 2016, with a five-year average of 8.4% (Figure 6). The ROE rose slightly in 2017 also for the European sample (from 5.7% to 5.8%), with the greatest growth recorded by the median German company (up from 5.2% to 5.5%). The indicator registered the opposite trend in the United Kingdom and France, where it dropped to 8.0% and 5.5% respectively.

As for the dispersion of company profitability around the median, in 2017 the highest value was registered in the United Kingdom, Germany and the European sample with an interquartile range of 10 percentage points, followed by Italy with 7 points and France with 5 points.

Figure 6
Return on equity (%)
Life



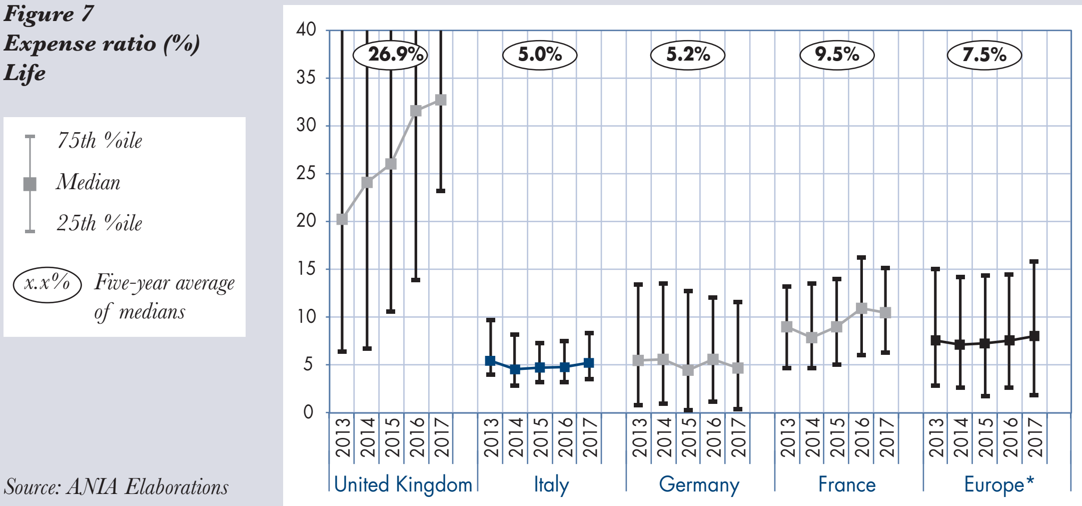
Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

In 2017 the **expense ratio** of the median life insurance company averaged 8.0% in Europe, up from 7.6% the previous year (Figure 7). The increase characterized Italy and the United Kingdom, while the indicator instead improved in France (where it dropped to 10.5% from 10.9% in 2016) and Germany (4.7% from 5.6%).

The interquartile range of companies may vary notably between countries, also in view of the incidence of unit-linked business, which generally shows a lower expense ratio than the other life classes. In 2017 the difference between the first and third quartiles of the distribution of companies was 22 percentage points in the United Kingdom, 11 points in Germany (3 points less than the European sample), and 5 in Italy.

Figure 7
Expense ratio (%)
Life



Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

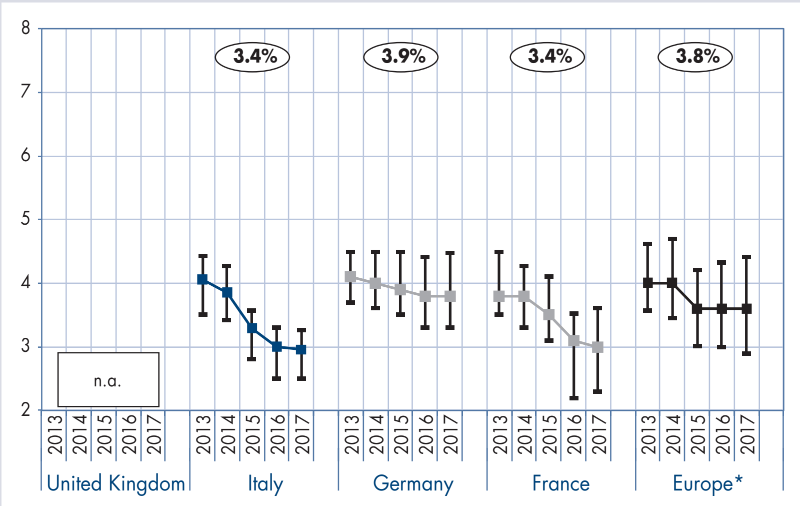
(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

The **return on investment** of the European sample in 2017 (excluding the United Kingdom because of lack of data) was unchanged at 3.6% for the third consecutive year (Figure 8). The indicator was stable for the median German company (3.8%) and for the median Italian company (3.0%), while in France it slipped to 3.0% from 3.1%. The average over the five years 2013-2017 shows a value for the European sample of 3.8%, slightly lower than Germany (3.9%) but higher than France and Italy (3.4%).

As for the interquartile range, in 2017 there was a distance of 1.5 percentage points in the European sample, with the lowest value registered by Italy at less than 1 point.

Figure 8
Return on investments (%)
Life

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



Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

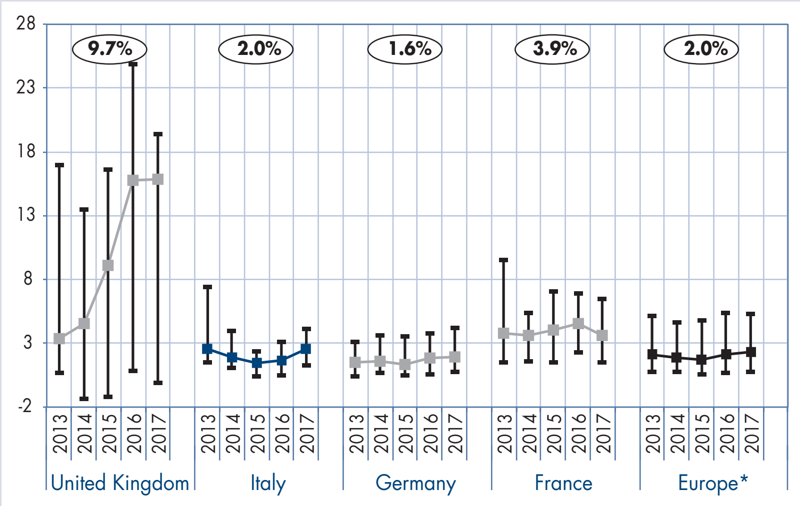
In 2017, the **net profit** in life insurance business **as a ratio to the volume of written premiums** was 2.3% for the entire European sample, up from the levels of the previous four years, when the highest value recorded was 2.1% in 2016 and 2013 (Figure 9). A steeper improvement was achieved in 2017 by the median Italian company, the indicator jumping from 1.7% to 2.6%; in Germany the indicator edged up from 1.8% to 1.9%. The indicator remained stable at 15.8% for the median British company, while it decreased to 3.6% in France. In the five-year period of observation, the European sample average was 2.0%, in line with Italy and higher only than Germany (1.6%).

In 2017 the median **ratio of technical provisions to written premiums** in the European sample rose again to 11.5 from 10.8 in 2016 (Figure 10). This trend is observed across the sample, with the exception of France, where the indicator dropped marginally to 11.3 from 11.6 in 2016. As for the other countries individually, the ratio came to 12.9 in Germany, 7.3 in the United Kingdom and 6.6 in Italy.

In 2017 the greatest interquartile range was recorded in Germany (14 percentage points), while Italy was the country with the lowest dispersion (3 percentage points).

Figure 9
Net profit/Premiums (%)
Life

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

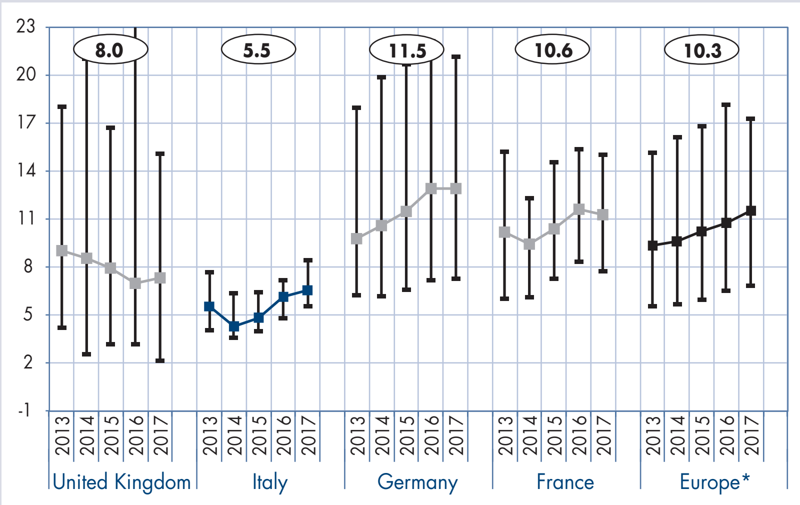


Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

Figure 10
Technical provisions/ Premiums
Life

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



Source: ANIA Elaborations on Fitch Connect, Fitch Ratings data

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

INVESTMENTS AND SOLVENCY IN EUROPE

Investments

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

The analysis, based on data published by EIOPA in May 2019 on the Quantitative Reporting Templates (QRTs) for the fourth quarter of 2018, focused on Italy, France, Germany, Spain, the Netherlands and the United Kingdom. Fixed income securities are the main investment instrument across all markets, albeit with different levels of exposure between corporate and government bonds.

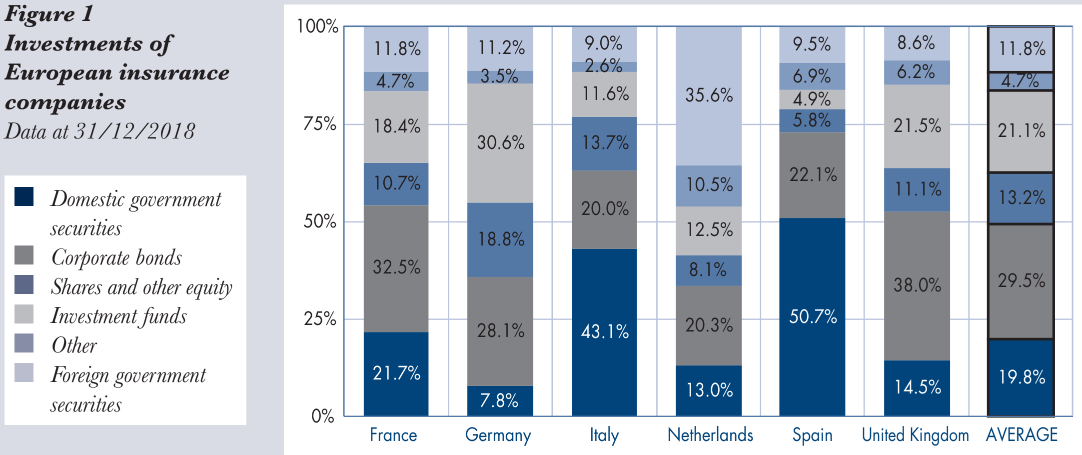
The concentration of government securities in the six countries averaged 20% on 31 December 2018. In Italy, the concentration of the portfolio on government securities, despite the progressive disinvestment of the past few years, is still higher than in the other countries of the sample, lower only than Spain (43.1% and 50.7% respectively). The investment share of this category of assets was 21.7% in France, 14.5% in the United Kingdom, 13.0% in the Netherlands, and only 7.8% in Germany. The share of foreign government securities was 35.6% in the Netherlands, 11.8% in France, 11.2% in Germany, 9.5% in Spain, 9.0% in Italy and 8.6% in the United Kingdom.

The average exposure of the European sample to corporate bonds was around 30%. British companies were the leading investors in this asset class (38.0%), followed by French and German companies (32.5% and 28.1% respectively). The share of this asset class in the portfolio of Italian, Dutch and Spanish insurers was lower, at around 20%.

The main asset class in the portfolio of German undertakings, higher than the average of the six countries, was investment funds (30.6%, mainly in bond funds); the share was rather high also in the United Kingdom (21.5%) and France (18.4%), in both cases distributed among money market, bond, and equity funds. The share in Italy was 11.6%, significantly higher than in the last few years.

As for equity instruments, which averaged 13% of total investments including the shares of affiliates, the largest portion was that of German insurers (18.8%), followed by Italian (13.7%), British (11.1%), French (10.7%), Dutch (8.1%) and Spanish (5.8%).

Figure 1
Investments of European insurance companies
Data at 31/12/2018



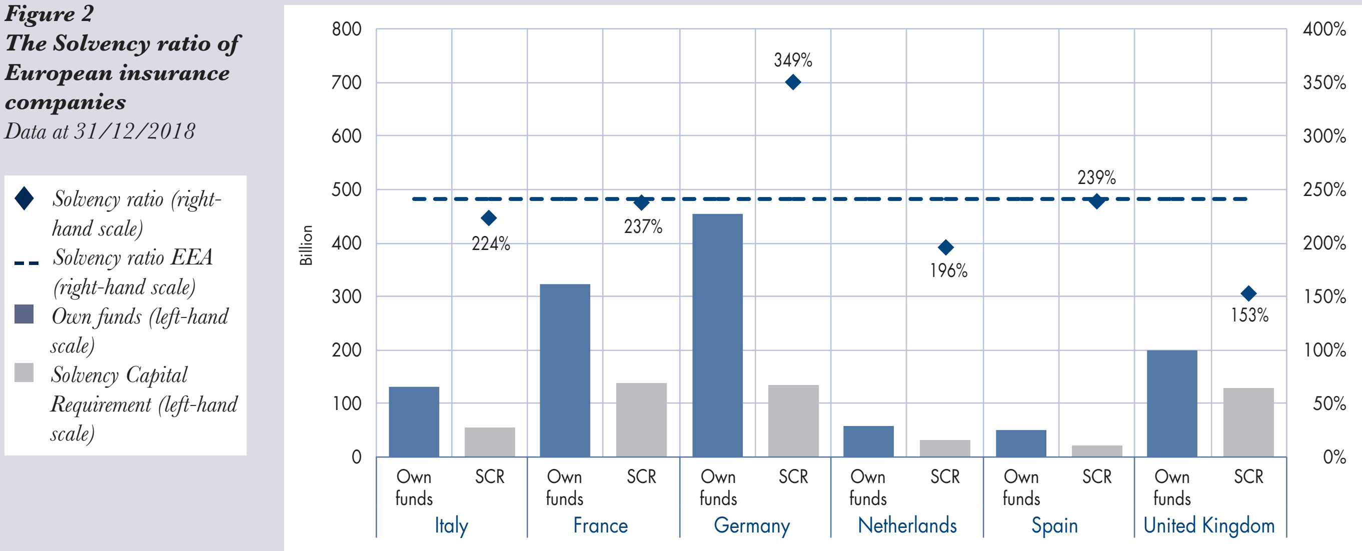
Note: Other investment comprises Structured bonds, Guaranteed securities, Cash and deposits, Mortgages and loans, Real estate
Source: ANIA Elaborations based on data from EIOPA, Insurance statistics

Solvency

At the end of December 2018, the Solvency ratio of companies in the European Economic Area (EEA) averaged 241%.

As for the individual countries, the indicator was in line with the European average in Italy, France and Spain, where the share of own funds was respectively 2.24, 2.37 and 2.39 times the solvency capital requirement. Dutch and British companies showed values below the EEA average (at 1.96 and 1.53 respectively), while German companies registered significantly higher values (3.49).

Figure 2
The Solvency ratio of European insurance companies
Data at 31/12/2018



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

3

LIFE INSURANCE

LIFE INSURANCE

In 2018, the volume of premiums in life business amounted to €102.0 billion Euro, up by 3.5% on the previous year after a two-year downtrend. This figure was achieved due to the growth of profit-sharing products (Class I and V) offsetting the drop in unit-linked policies (Class III). The growth in premiums went along with a smaller increase in benefits, leading to an upturn in net cash flow after three years of decline, to around €29 billion in 2018. The upward change in mathematical and technical provisions diminished by 35.1% against 2017, with investment income plummeting to scarcely €800 million, compared with €18 billion in 2017 (due to the sharp depreciation of the assets underlying Class III policies); these two factors combined caused a huge drop in the overall technical balance, which came to €739 million, a reduction of around €2.5 billion as compared with 2017.

DOMESTIC BUSINESS

Premiums from direct domestic business of the 46 insurance companies operating in the life sector totaled €102,036 million in 2018, up 3.5% from a year earlier when they had fallen by 3.6%. 84% of premium income was generated by the issuance of new contracts or by additional single premiums on existing policies. Percentage-wise, in 2018, life premiums amounted to three quarters of total premiums (life and non-life), about the same as in the previous year.

Life technical account
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
Gross written premiums	73,869	69,715	85,100	110,518	114,947	102,252	98,611	102,036
Incurred claims (-)	73,971	75,022	66,788	64,577	71,196	62,932	71,155	73,212
Changes in mathematical and technical provisions (-)	2,547	10,013	29,928	59,967	53,023	48,448	38,428	24,934
Balance of other technical items	-177	-222	-325	-381	-378	-328	-370	-330
Operating expenses (-)	3,832	3,367	3,538	3,812	3,974	3,842	3,920	3,902
- commissions	2,205	1,788	1,982	2,206	2,349	2,181	2,240	2,203
- other acquisition costs	709	681	683	686	701	686	671	667
- other administration costs	918	898	874	921	924	975	1,009	1,032
Investment income	3,019	25,382	18,409	20,588	15,976	16,611	18,181	823
Direct technical account result	**-3,639**	**6,473**	**2,929**	**2,369**	**2,352**	**3,313**	**2,919**	**482**
Reinsurance results and other items	268	388	369	383	315	289	294	257
Overall technical account result	**-3,371**	**6,861**	**3,298**	**2,752**	**2,667**	**3,602**	**3,213**	**739**
Net cash flow	**-102**	**-5,306**	**18,312**	**45,941**	**43,751**	**39,320**	**27,456**	**28,824**
Annual % change in premiums	-18.0%	-5.5%	22.1%	29.9%	4.0%	-11.0%	-3.6%	3.5%
Expense ratio	5.2%	4.8%	4.2%	3.4%	3.5%	3.8%	4.0%	3.8%
– Commissions/Gross written premiums	3.0%	2.6%	2.3%	2.0%	2.0%	2.1%	2.3%	2.2%
– Other acquisition costs/Gross written premiums	1.0%	1.0%	0.8%	0.6%	0.6%	0.7%	0.7%	0.7%
– Other administration costs/Gross written premiums	1.2%	1.2%	1.0%	0.8%	0.8%	1.0%	1.0%	1.0%
Investment income/Technical provisions	0.7%	6.1%	4.2%	4.3%	3.0%	2.8%	2.9%	0.1%
Technical account result/Gross written premiums	**-4.9%**	**9.3%**	**3.4%**	**2.1%**	**2.0%**	**3.2%**	**3.0%**	**0.5%**
Overall technical account result/Gross written premiums	**-4.6%**	**9.8%**	**3.9%**	**2.5%**	**2.3%**	**3.5%**	**3.3%**	**0.7%**
Overall technical account result/Technical provisions	**-0.82%**	**1.64%**	**0.75%**	**0.57%**	**0.49%**	**0.61%**	**0.51%**	**0.11%**
Premiums to total life and non-life premiums ratio (%)	*67.0%*	*66.3%*	*71.6%*	*77.1%*	*78.2%*	*76.2%*	*75.3%*	*75.5%*

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

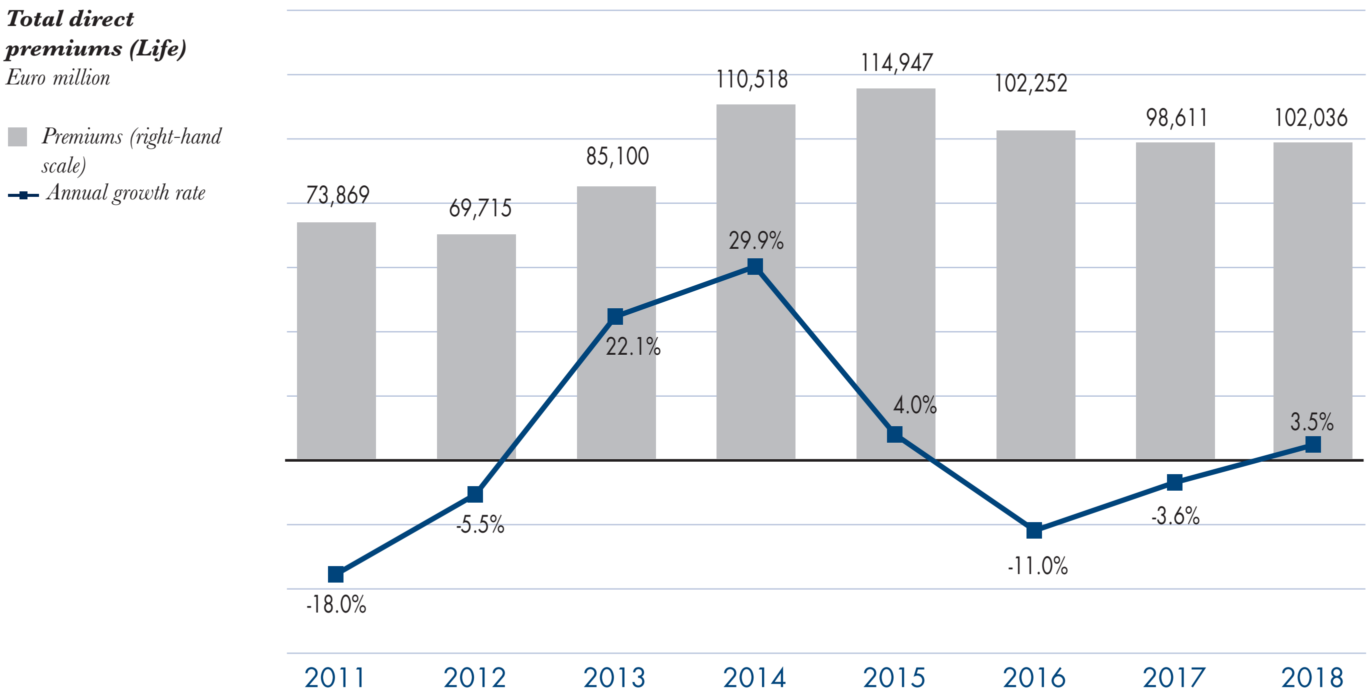
LIFE INSURANCE

The growth of the life business in 2018 reversed the previous two-year negative trend, when overall premiums shrank by 14%, and brought total premium income back over the €100 billion threshold. This gain was driven by profit-sharing products (Class I and V) offsetting the drop in Class III policies. This may have been caused by the disappointing stock market performance of 2018, pushing policyholders towards products with a more guaranteed yield.

Moreover, the strong development of multi-class products continued in 2018. Their premiums are partly invested in segregated funds and partly in unit-linked products, which are marked by diversified asset allocation. These products increased their share of the overall life business to 30.7% in 2018 (28% in 2017 and just 20% in 2015-2016), against a volume of written premiums amounting to €31 billion (+12.1% from 2017), 57% of which is represented by Class I premiums, six percentage points more than the previous year.

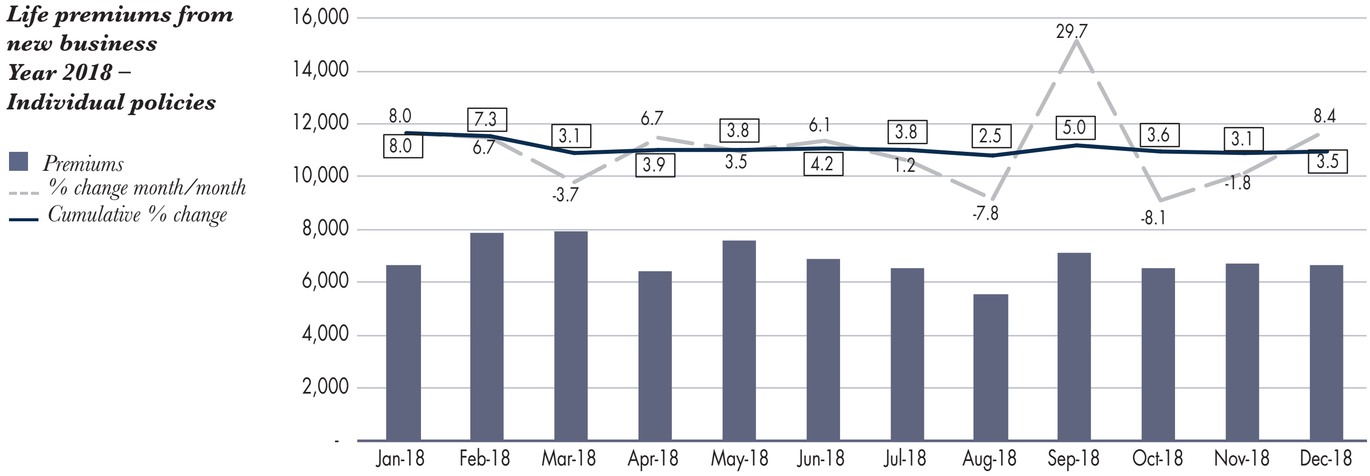
In order to optimize the financial savings of Italian households, new long-term Individual Savings Plans (Piani Individuali di Risparmio, PIR: instituted by Law 232/2016, the 2017 budget law) continued to be issued especially in the first half of 2018. These products are characterized by the tax exemption of yields when they meet specified conditions for investment in the real economy. Unfortunately, the 2019 budget law regulating new generation PIRs has some shortcomings; pending clarification with implementing decrees, these brought the market for these products to a halt already by the final months of 2018, a year in which the premium collection amounted to €2.0 billion (against €1.7 billion in the second half of 2017 alone), 2.0% of the overall life premium income. The most prevalent contract form (81% of PIRs) is the stand-alone unit-linked type, while the remainder is underwritten through multi-class products.

Total direct premiums (Life)
Euro million



The trend in life product sales in 2018 is also seen in the monthly trend of new business premiums (individual policies) issued by Italian and non-EU companies. In detail, Class I premiums went up through almost every month of the year, with more significant growth in the final three months (in response to the increasingly uncertain equity market), consolidating end-year growth of 8.6%. On the other hand, the Class V premium collection trend was negative, closing the year with a drop of 14.8%, similar to the previous year, after a set of positive and negative changes as compared to the same month in 2017. Conversely, Class III premiums, after recording significant growth in the first half of 2018 (aggregate growth of 6.4% through June compared with the same period in 2017), changed their trend in the following months with progressive drops, and recorded an overall contraction of 4.5% for the year. Total new life business, also including group policies, amounted in 2018 to around €85 billion, growth of 3.8% against 2017. Among the distribution channels, the growth of new premiums is mostly due to the bank and post office channel (+4.1%) and insurance company agencies (+15.5%), offsetting the drops registered by agents (-1.0%) and authorized financial salesmen (-2.4%).

Life premiums from new business Year 2018 – Individual policies



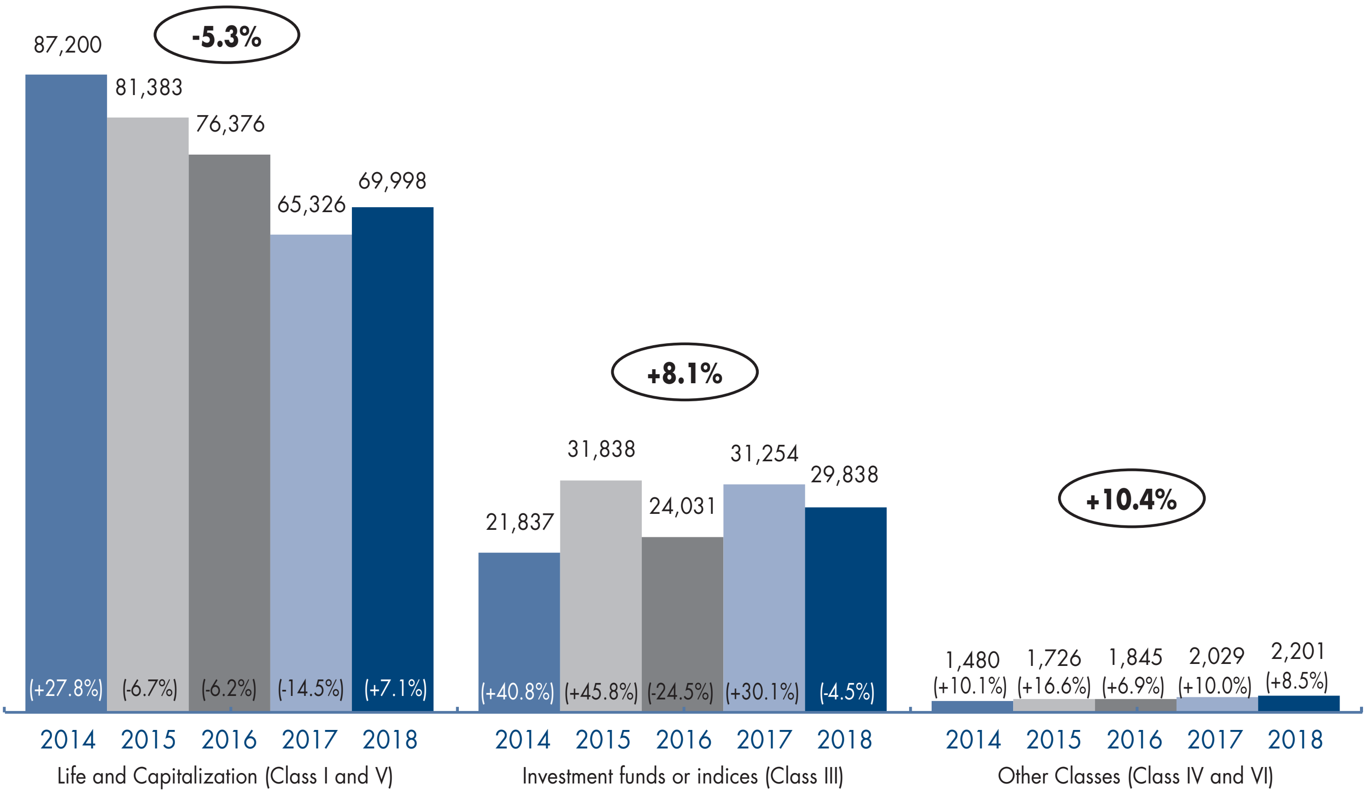
Analyzing the trends of **written premiums** of each class, in 2018 there was a surge of 7.1% in Class I (straight life insurance) and V (capitalization), after three years of decline (the sharpest drop, -14.5%, being in 2017); in 2018, premium collection rose to almost €70 billion (the average change in the last five-year period in the same classes is, however, negative by 5.3%). Moreover, it should be stressed that the rise in traditional policies is mostly ascribable to the bank and post office branches, which placed around 62% of those policies, an increase of 3.3% over the previous year. In 2018, traditional policy premiums accounted for 69% of the entire life portfolio (66% in the previous year), 95% of which consists in Class I policies (a 5.4% rise as compared with 2017) and the other 5% related to Class V policies (rising by 49.3%, exclusively due to group policies).

However, the trend in Class III premiums (investment funds or index-linked) was negative, collecting a total of around €30 billion in 2018, a 4.5% shrinkage after growth of 30.1% in 2017.

LIFE INSURANCE

Premiums from direct domestic business by insurance class
Euro million

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



In 2018, those products represented 29% of the total life business, three percentage points less than in 2017. The average annual change over the last five years is still positive at +8.1%, even if much lower than the 19.1% annual growth of the previous five-year period. Premium collection in 2018 was mostly due to the work of bank and post office branches, which achieved a market share of 61% of the whole Class III portfolio, growing by 3.0% as compared to 2017. Almost all the rest of linked policies (27%) was marketed by financial salesmen, whose premium income declined by 21.9%.

On the other hand, the trend of the premiums related to other life policies (Class IV and VI) is the opposite. In 2018, for the fifth year in a row, the two classes recorded an expansion (+8.5%), and their total premium volume rose to €2,201 million, 2% of all life insurance premium income. The average annual change of the last five years amounted to +10.4%, in line with the previous five-year period. In detail, €109 million related to LTC and protracted illness policies (Class IV), up 22.5% as compared to 2017 (mostly thanks to the premiums marketed by brokers and agents), while the remaining €2,092 million refers to the management of pension funds (Class VI), with a 7.8% increase as compared to the previous year (thanks to direct sales and marketing through bank and post office branches).

Incurred claims, defined as amounts paid and the changes in provisions against payable amounts net of recoveries, amounting to €73,212 million, rose by 2.9% from 2017, basically due to an increase in surrenders or divestments, which came to 62% of total expenses.

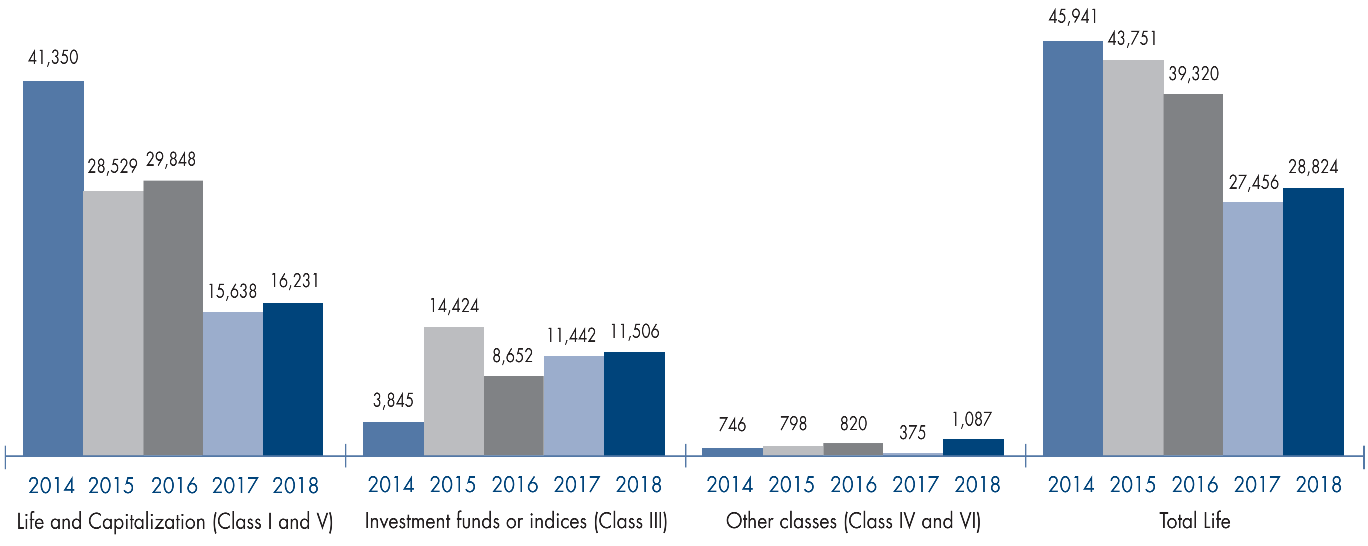
Due to the slower growth in claims costs than written premiums, the **net cash flow**, defined as the difference between these two items, grew by 5.0% last year to €28,824 million, even if it is lower than the 2014-2016 period, when the net cash flow was always at least €40 billion.

Class I and V cash flow in 2018 reached €16,231 million, up slightly (+3.8%) compared with 2017, but down by almost half compared with the previous two-year period and even more sharply with respect to 2014, when the balance was in excess of €40 billion. As for Class III, in spite of the shrinkage in premiums, the net cash flow was slightly higher (+0.6%) compared with 2017, for an amount of €11,506 million. Even though the volumes are still fairly small, the net cash flow achieved in the other life classes (Class IV and Class VI) topped the €1 million threshold, the highest amount in this five-year period.

The **change in the various mathematical and technical provisions** was positive in 2018, amounting to €24,934 million, but sharply down by 35.1% from 2017 and by 48.5% from 2016. **Overall technical provisions**, amounting to €678,680 million, rose by 3.9% on 2017, confirming the five-year tendency of slower growth (the average annual increase in 2014-2018 amounted to 7.1%). In detail, in 2018 the provisions set aside in traditional classes amounted to €525,541 million (€497,723 million of which belonging to Class I), rising by 4.8% as compared with 2017. Those provisions account for 77% of the overall life provisions and have recorded average annual growth of 6.7% over the last five years. The technical provisions related to linked policies reached €136,810 million (20% of overall provisions), a 0.5% rise on 2017 and 9.1% average annual growth over the last five years. The provisions set aside in other classes (Classes IV and VI) amounted in 2018 to €16.329 million, rising by 4.0% against the previous year and, on average, by 6.5% over the five years 2014-2018.

Operating expenses, which consist in contract acquisition costs and costs relating to the organization and management of the distribution network, and administration expenses, amounted to €3,902 million (74% of which related to Class I and V, 25% to Class III and 1% to other life classes), down marginally (-0.5%) from the previous year.

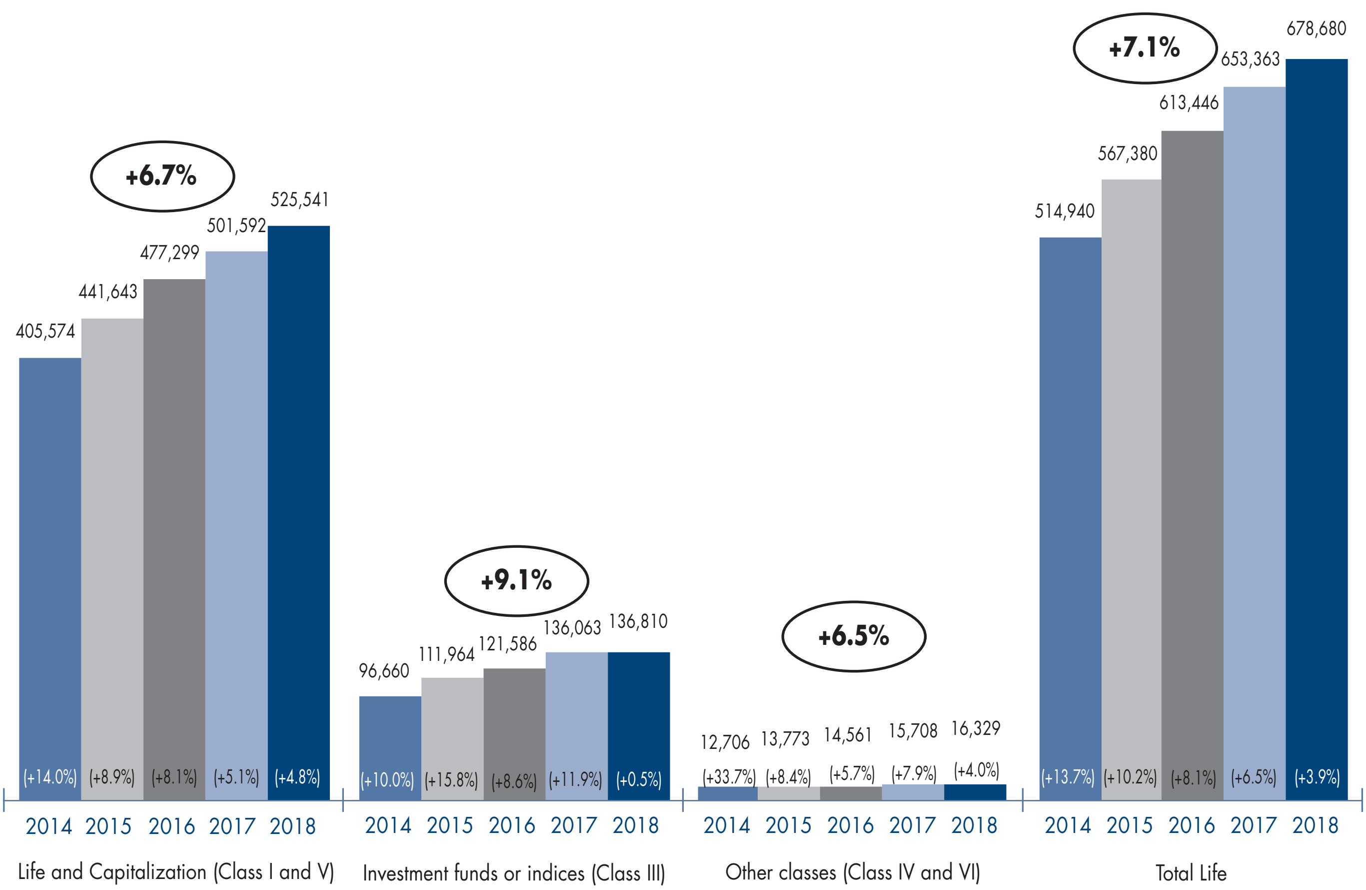
Net cash flow
Euro million



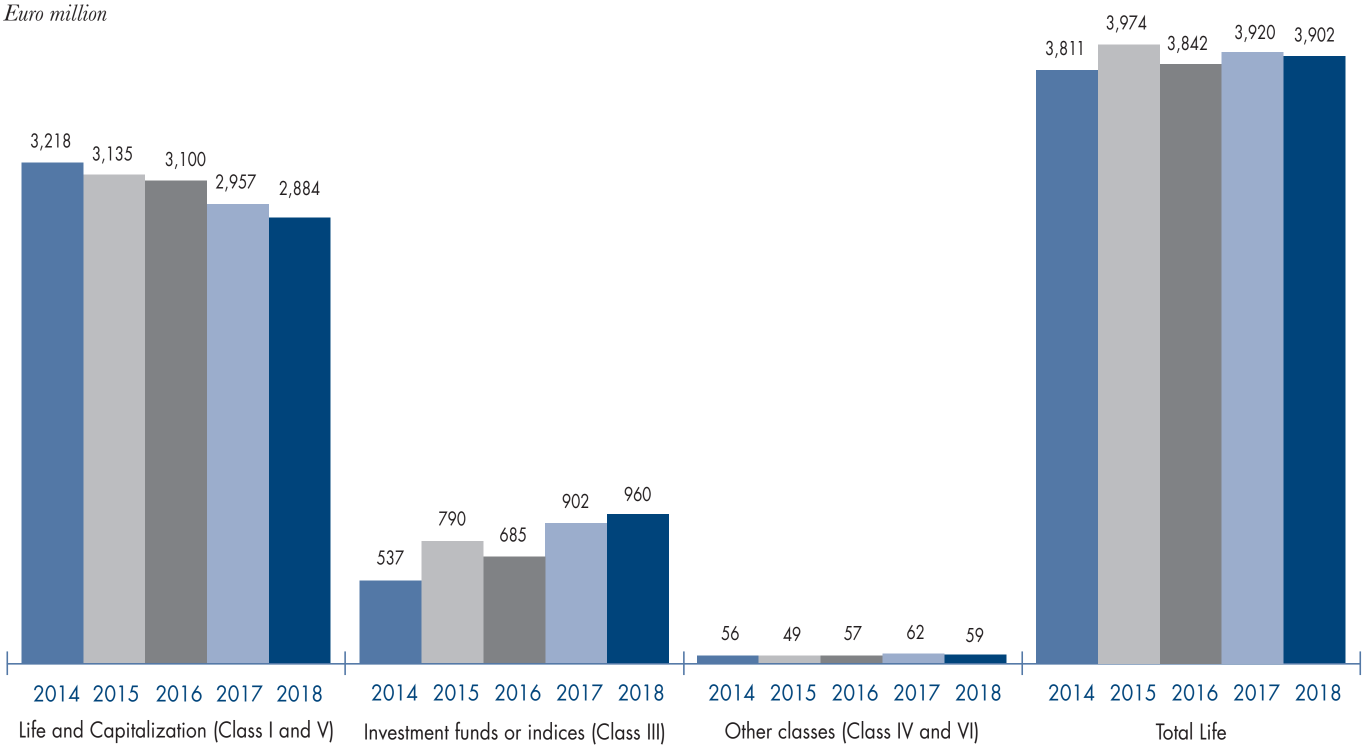
LIFE INSURANCE

Total technical provisions
Euro million

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



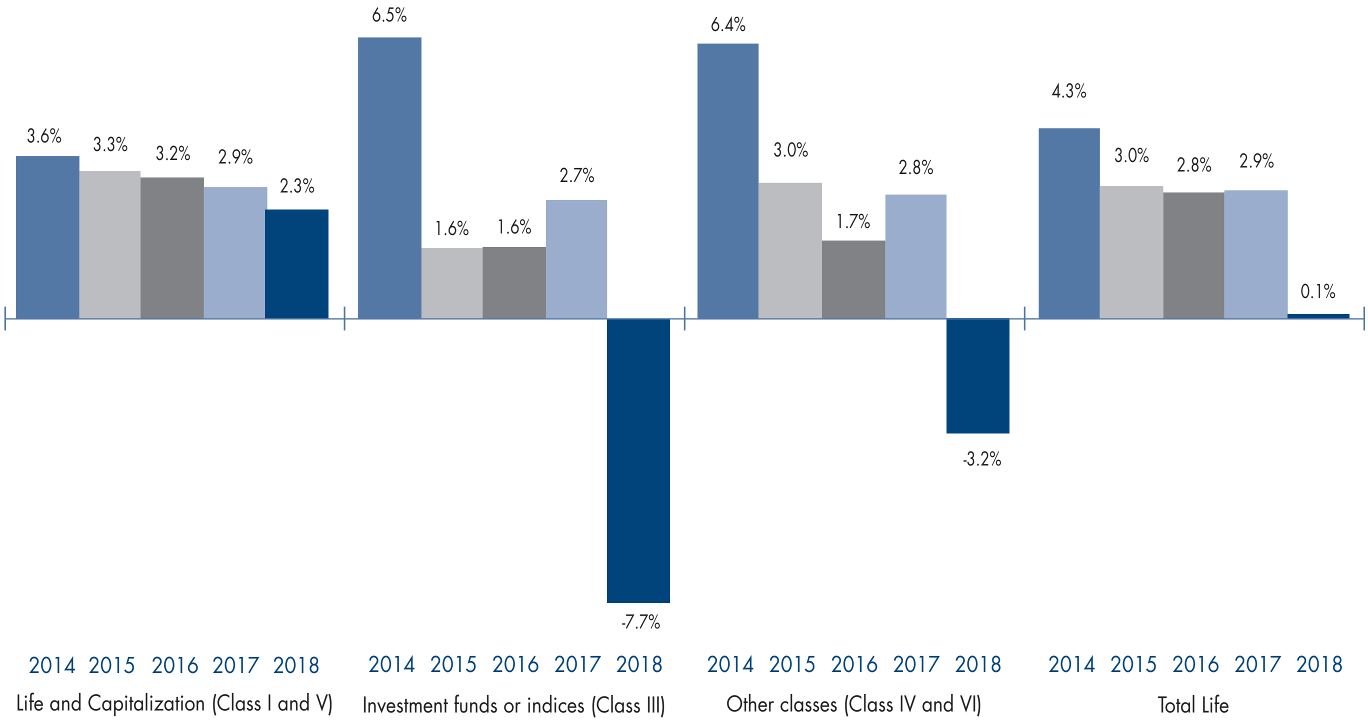
Operating expenses
Euro million



The **investment balance** amounted to €823 million in 2018, down drastically from previous years (since 2012, the lowest value until 2018 had been €16 billion), due to the huge depreciation of the assets underlying Class III policies. In detail, over the five-year period, investment income, measured against average technical provision stocks, registered:

- in traditional classes (Class I and Class V), progressively shrinking values, from 3.6% in 2014 to 2.3% in 2018, but nevertheless higher than in the years of deep financial crisis (when they dropped below 2.0% as in 2008 and 2011);
- in Class III (investment funds or index-linked), the figure plummeted, turning negative with a contraction of 7.7%, after the modest recovery registered in 2017 with a return of 2.7%; the only year with a worse performance was 2008, with the all-time low of -11.8%;
- in other life classes, the trend has been mostly similar to that of Class III, with the indicator switching from profit of 2.8% in 2017 to a loss of 3.2% in 2018.

Profits from investments on mathematical provisions
(%)



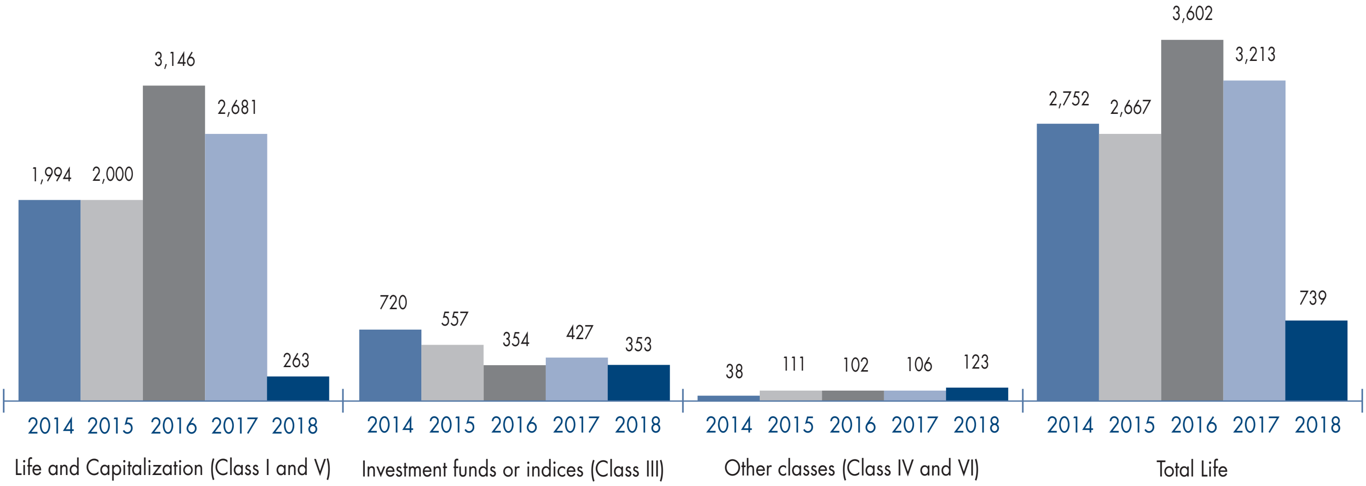
The **technical account balance** was positive and amounted to €482 million, the lowest since 2012, dropping by around €2.5 billion on 2017 and almost €6 billion compared with 2012.

The balance on reinsurance cessions and net indirect business amounted to €257 million (€294 million in 2017).

Taking the balance of outward reinsurance into account, the **overall balance of the technical account** was positive by €739 million, down sharply from over €3 billion in the previous two years.

LIFE INSURANCE

Overall technical balance
Euro million

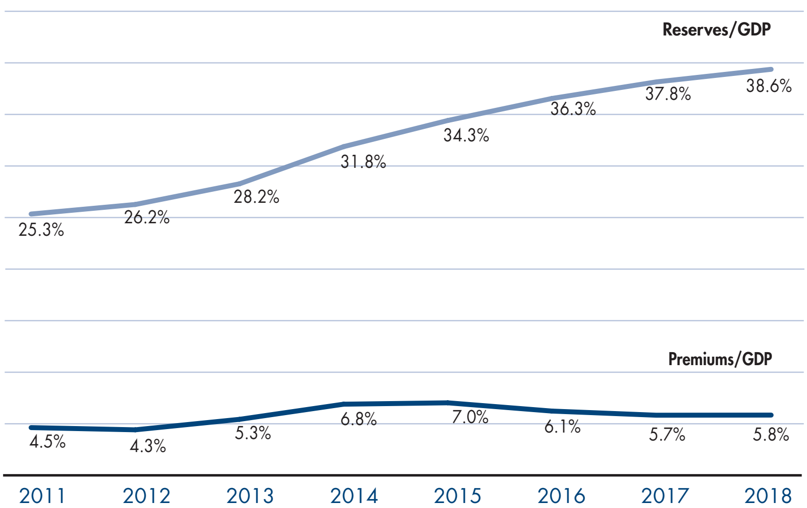


Therefore, the ratio to premiums shrank (from 3.3% in 2017 to 0.7% in 2018) as did that to technical provisions (from 0.51% to 0.11%). In detail, the balance for the traditional classes (I and V) dropped from €2,681 in 2017 to €263 in 2018, while Class III (investment funds or index-linked) showed a technical balance amounting to €353 million, 17% less than in 2017. Conversely, the balance of the other life classes improved slightly, to €123 million (€106 million in 2017).

LIFE INSURANCE AND GDP

In 2018 life insurance technical provisions grew by 3.9% from 2017, implying a growth of their ratio to GDP from 37.8% in 2017 to 38.6% in 2018 and confirming, albeit at a slower rate, the progressive growth that started in 2012. The ratio of life premiums to GDP also picked up, moving from 5.7% in 2017 to 5.8% in 2018.

Premiums and reserves as a % of GDP



EVOLUTION OF THE SUPPLY OF LIFE PRODUCTS

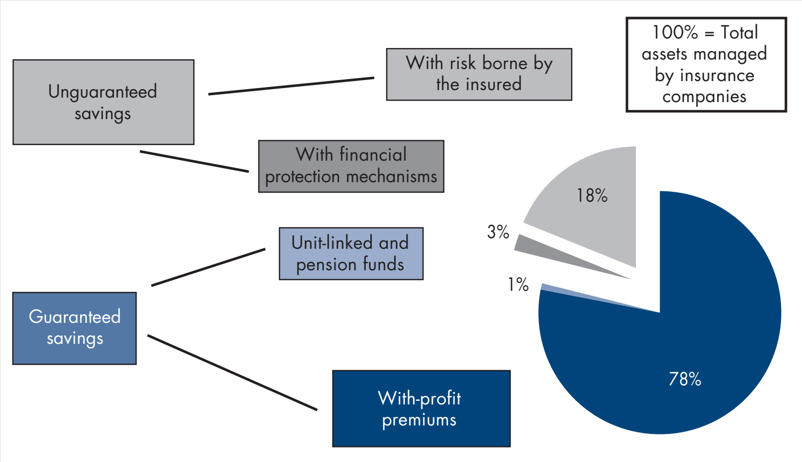
Estimate of asset shares covering guaranteed yields

According to industry statistics, and with some approximation and assumptions, an estimate of asset shares covering guaranteed yields by insurance companies is possible ([1]).

It is estimated that at the end of 2018 that share represented 79% of the assets covering life provisions (Figure 1), the same as a year earlier. That share is almost exclusively covered by invested resources against commitments guaranteed by profit-sharing contracts, amounting to 78%, while the incidence of the guaranteed components in linked contracts (Class III) and pension funds (Class VI) account for the other 1%.

Around 3% of the assets has been invested in contracts envisaging explicit or implicit financial protection mechanisms, mostly "protected" unit or index-linked funds envisaging, at the least, the repayment at contract maturity of the premiums paid. The remaining share, amounting to around 18%, belongs to unit-linked and pension funds where the investment risk is borne by policyholders.

Figure 1
% composition of the guaranteed assets managed by insurance companies: estimates for 2018



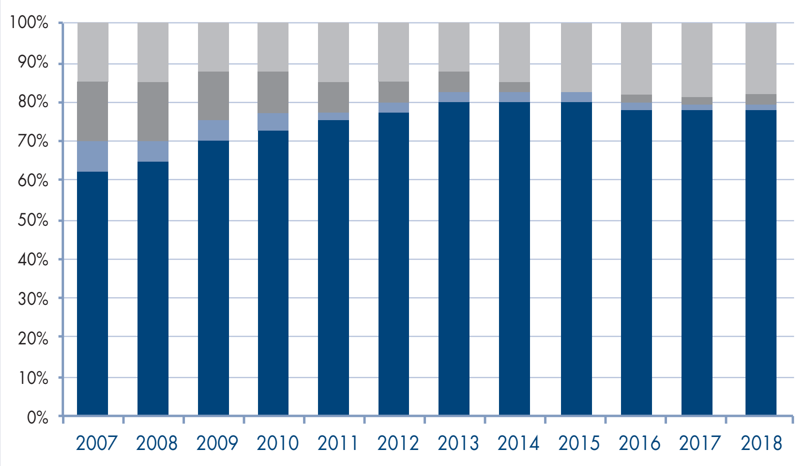
Source: Based on IVASS and COVIP data

Over the years, the resources allocated to the coverage of guaranteed yields have increased – they amounted to slightly more than 60% in 2007 – due to the increasing incidence of Class I and V contracts. Moreover, the shares related to "protected" or guaranteed contracts in Class III and VI (Figure 2) have dropped while the share of contracts in which the risk is borne by policyholders has increased, reaching its all-time high at 18% in 2018.

([1]) The share of guaranteed life premiums comprises the provisions held by insurance companies for:
- Class I and Class V profit-sharing products, including with-profit products;
- unit-linked products, invested in internal funds or UCITS classified as "guaranteed";
- index-linked products featuring the insurance company's guarantee;
- guaranteed sub-funds of pension funds (Class VI).

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

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



Source: Based on IVASS and COVIP data

Asset allocation for life products

Using industry statistics, the balance-sheet data on provision-covering assets, with some approximations (2) and assumptions, we can estimate the *asset allocation* related to life insurance contracts.

At the end of 2018, government securities represented slightly more than 55% of the assets covering the commitments deriving from life products (Table 1). The share of corporate bonds amounted to just over 31%, while equities accounted for 10% of the portfolio.

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

Macro-asset class	Asset allocation corresponding to life products			
	Total life market	Sub-total profit-sharing products	Sub-total Class III and VI	
			All Class III and VI products	of which *unit-linked*
Government securities	55.3%	65.7%	18.5%	15.0%
Bonds	31.4%	28.5%	40.8%	45.2%
Shares and other equity	10.0%	2.8%	35.1%	34.7%
Liquidity	1.5%	0.6%	4.5%	5.2%
Property and other	1.8%	2.4%	1.1%	0.0%
TOTAL	100.0%	100.0%	100.0%	100.0%

Source: Based on IVASS and COVIP data

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

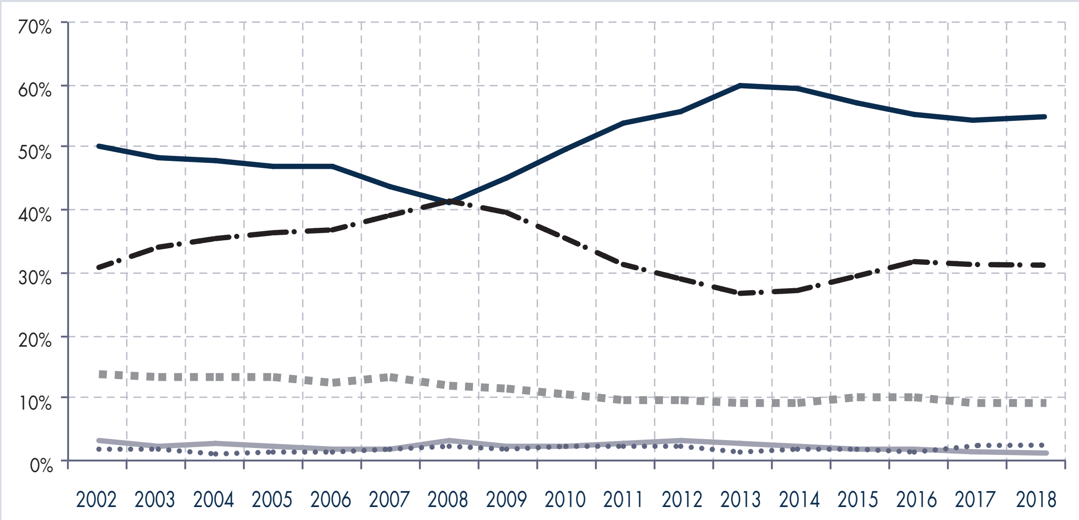
(2) In particular, the effective composition of investments in UCITS is estimated with a look-through approach to obtain the elementary assets (government securities, bonds, etc.) composing the investment.

As for Class III and VI products, whose results are commonly related to financial market trends, there is more intensive search for a higher risk-yield profile. In particular, the share invested in corporate bonds accounted for slightly more than 40%, while that invested in equities came to over a third of the portfolio.

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

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

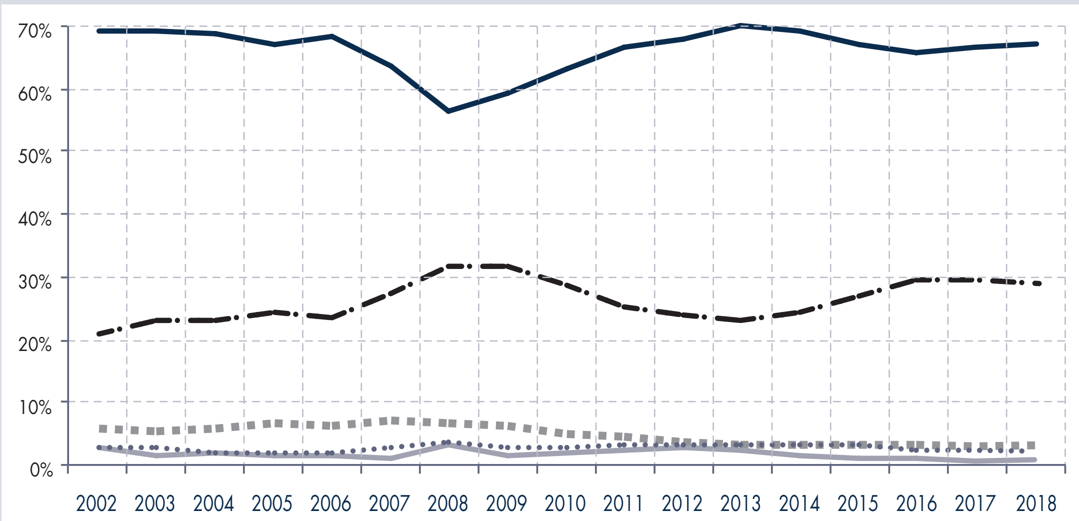
Figure 3
Evolution of asset allocation of life products
(%)



Source: Based on IVASS and COVIP data

Referring just to profit-sharing and guaranteed minimum yield contracts of the life business (Figure 4), the ratio of investments in government securities, still accounting for the biggest share, has not changed in recent years.

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

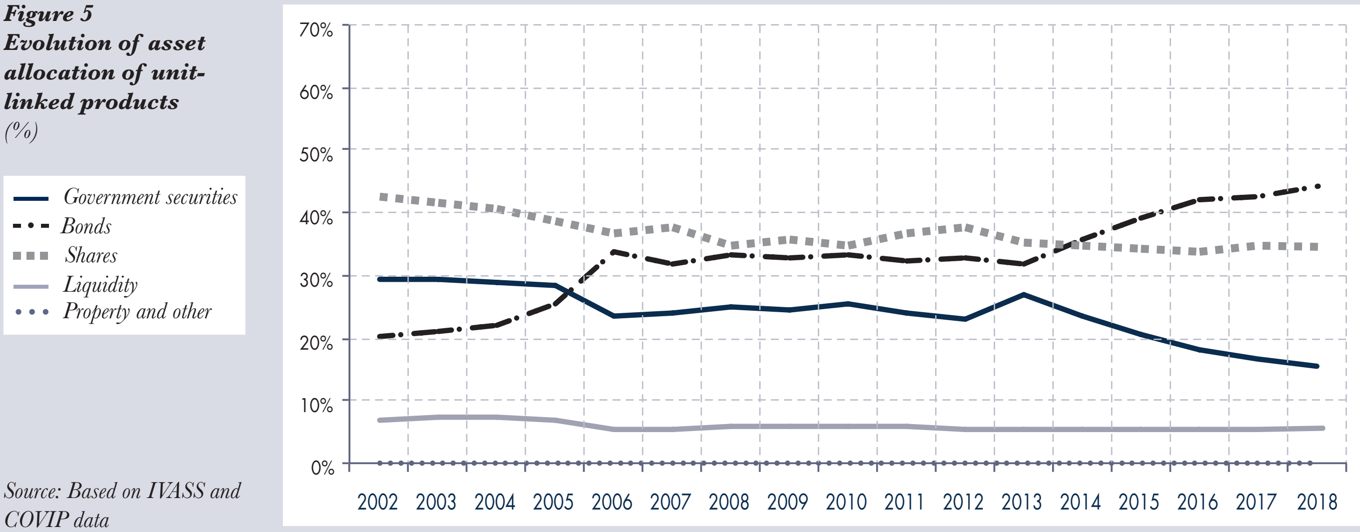


Source: Based on IVASS and COVIP data

Likewise, the share invested in corporate bonds has not changed, accounting for around 30%, while that in equities is very limited, just 3%.

Finally, as far as the investment allocation in unit-linked funds is concerned, at the end of 2018 more than 30% of the investment consisted in equities, but even so, given the overall investment in government securities and corporate bonds, fixed income securities still account for the majority. In this case too, in recent years there has been a shift from government securities to corporate bonds (Figure 5).

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



Source: Based on IVASS and COVIP data

In 2018 in particular, investment in government securities dropped further, to 15%, while the presence of corporate bonds increased as compared to the other asset classes.

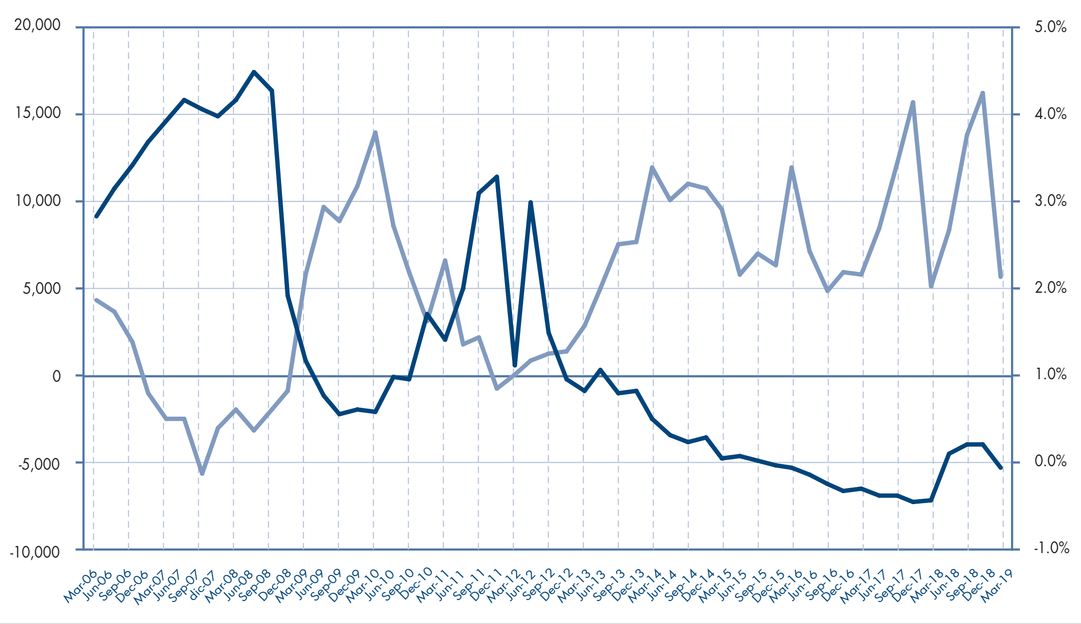
Historic evolution of net premium income

Over the period from 2006 to the first quarter of 2019, the quarterly performance of net premium income in life insurance – meaning, the difference for the life classes between paid premiums and amounts paid for surrenders, policies maturing, claims and annuities – has gone up and down, alternating negative and positive periods; the latter comprised all four quarters of 2006, the entire two-year period 2009-2010 and the most recent years, starting from 2012.

In particular, the performance of profit-sharing policies, which account for the bulk of Class I and V life products, show a clear negative correlation during the period with the nominal rates on Italian government securities (Figure 6).

As a matter of facts those policies, considering the features of the separate asset portfolios to which they are usually linked, are especially competitive when government securities yields are low, as in the current phase, owing among other things to European monetary policies.

Figure 6
Net premium income of traditional policies in each quarter and yield on Italian Treasury bills, 2007-Q1 2019

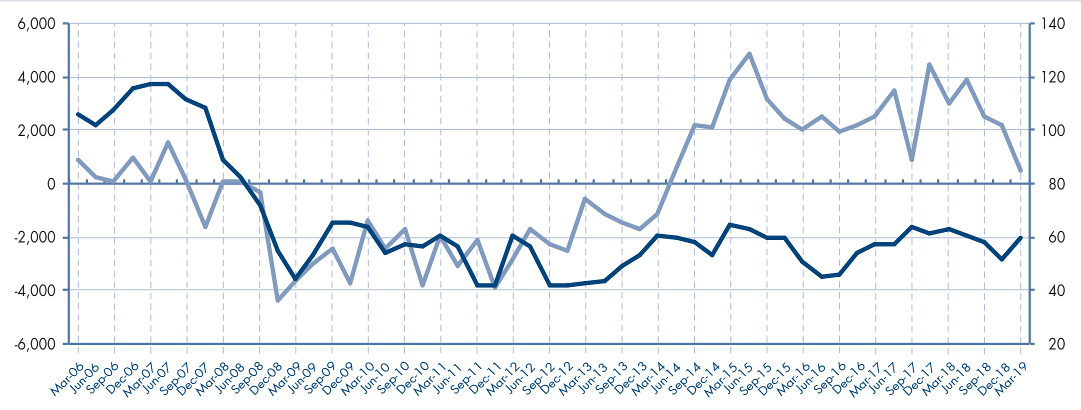


Net life premium income (Class I and V) - € million (left-hand scale)
Gross yield on 6-month T-bills (right-hand scale)

Source: ANIA, Thomson Reuters, Refinitiv

As for the net premium income of "linked" policies, the quarterly series shows that after the negative values recorded starting in 2008, with a close correlation with the Italian FTSE MIB share index (Figure 7), an uptrend has marked the more recent years, with positive net cash flows, if only just barely in the last few quarters.

Figure 7
Net premium income of linked policies in each quarter and index FTSE MIB, 2006-Q1 2019



Net life premium income (Class III) - € million (left-hand scale)
Survey index base 1.1.2006 = 100 (right-hand scale)

Source: ANIA, Thomson Reuters, Refinitiv

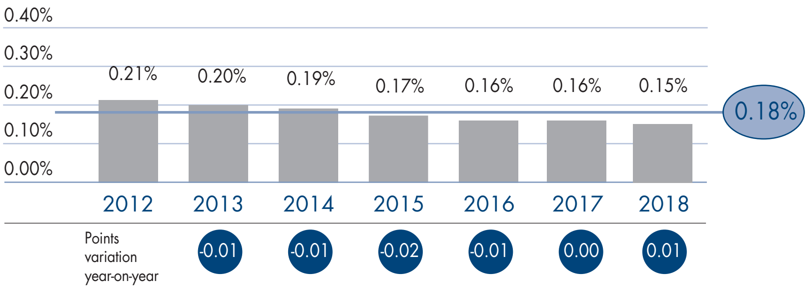
THE EXPENDITURE STRUCTURE OF LIFE INSURANCE COMPANIES

The expenditures incurred by life insurance companies are broken down, in income statements, into overhead, or administration costs, and expenditures incurred in the distribution of insurance products, which are, in turn, broken down into contact acquisition and premium collection costs.

Overhead and administration costs

Considering that the Italian life insurance market is mostly characterized by investment insurance products, the overhead and administration costs incurred by companies for contracts and the management of assets covering benefits are in proportion to technical provisions, which can proxy for the capital resources managed on account of policyholders, according to the practice of the asset management industry. This ratio, whose trend is shown in the chart, has been declining, with an average value amounting to 18 basis points and 15 points last year (Figure 1).

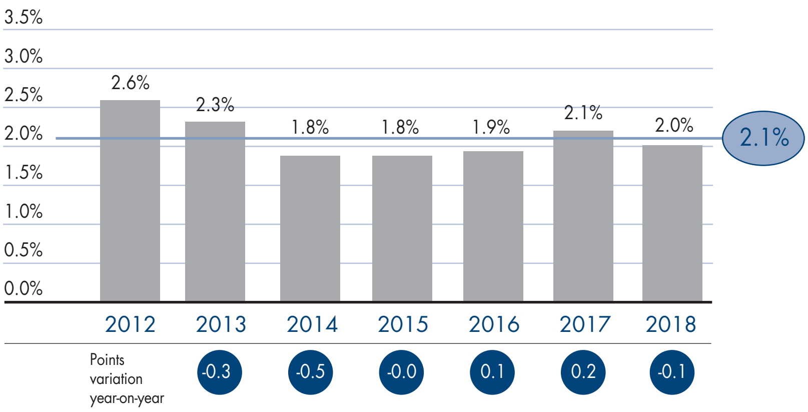
Figure 1 Overhead on administration costs/Technical provisions



Acquisition costs

These costs represent a large part of the remuneration granted to distribution channels for contract brokering activity. Their incidence is calculated as the ratio to the Single Premium Equivalent (SPE). This standard measure is equal to the sum of single premiums and annual premiums, the latter multiplied by the average duration of contracts, conventionally set at ten years. This standard measure also includes subsequent payments in order to take into account the different composition and structure of costs between single and periodic premiums. The ratio last year came to 2.0%, a bit less than in 2017 and lower than the average value of the overall period, 2.1%, as shown in the following chart (Figure 2).

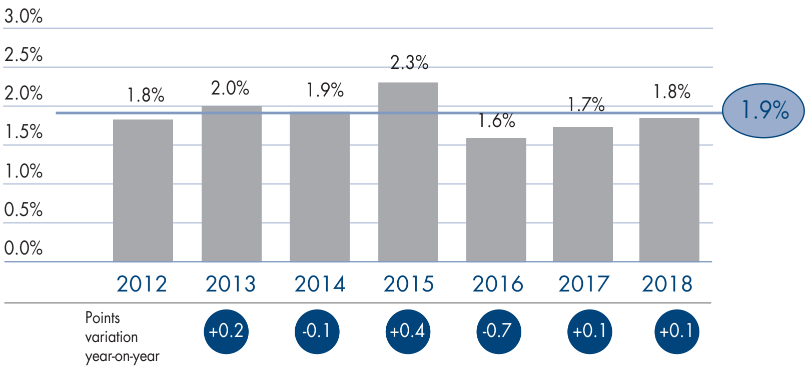
Figure 2 Acquisition costs/Single Premium Equivalent



Collection costs

Collection costs consist mainly in recurring commissions paid by insurance companies to dealers on the subsequent annual premium installments (excluding first year premiums) for policies with multi-year payment plans and are calculated only based on expenses for years other than the first year or, in other words, net of new business. Over the last three years this value has been growing marginally again, reaching 1.8% in 2018. The average value of the period is 1.9% (Figure 3).

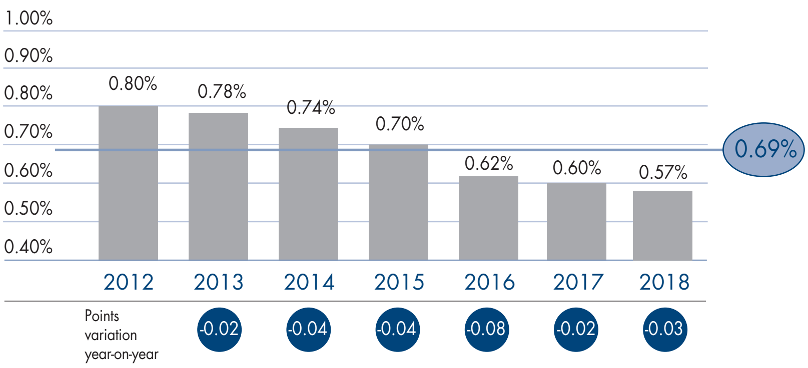
Figure 3 Collection costs/Renewal premiums (excluding first year premiums)



Total costs

The total costs (overhead on administration costs, contract acquisition and collection costs) were reduced in proportion to technical provisions over the period, to a low of 57 basis points in 2018. The average value of the period is 69 basis points (Figure 4).

Figure 4 Total costs/Technical provisions



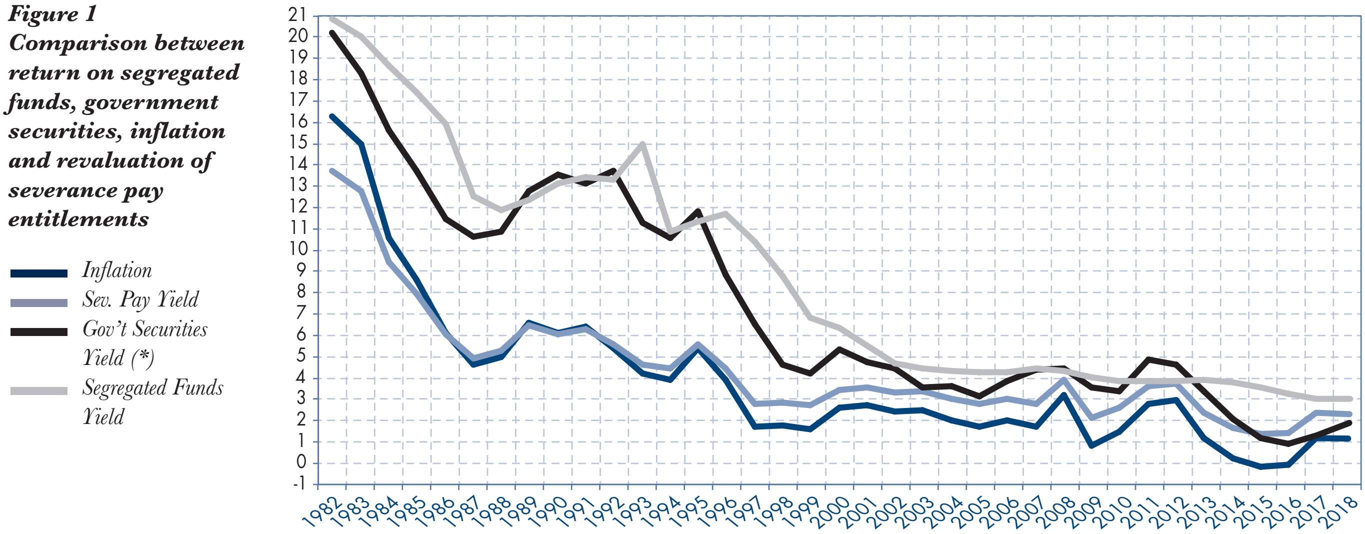
THE HISTORICAL PERFORMANCE OF WITH-PROFIT POLICIES AND THE ANALYSIS OF SEGREGATED FUNDS

The return on with-profit policies

The capital or the annuities generated by with-profit policies grow according to the returns on the segregated funds, special insurance funds mostly invested in fixed-income securities, entering the assets at purchase or book value, a method also defined as “historical cost”. Once assigned to the fund, assets can only be removed through sales. The return of the segregated fund is specified as the ratio between the sum of coupons, dividends and realized capital gains or losses and the average amount of assets held over the period which is, in general, one year. The return is distributed among the assets in a certain percentage or net of a fixed amount, without prejudice to the guaranteed minimum yield envisaged by the insurance contract.

The return on segregated funds has usually been higher than government securities yields, the rate of revaluation of severance pay entitlements and the inflation rate (Figure 1). Over the last five years, in particular, the average amounted to 3.3% (3.0% in 2018) against 1.5% for government securities, 1.8% for severance pay entitlements, and 0.5% for inflation.

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

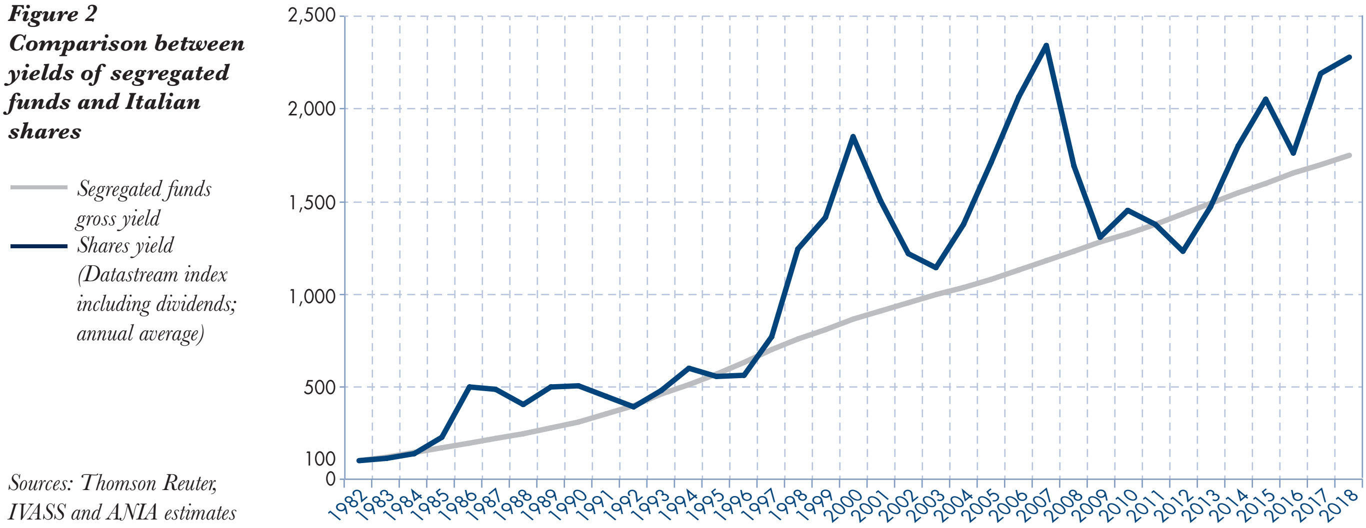


Sources: IVASS, and ISTAT, Bank of Italy and ANIA estimates
(*) Weighted average yield of a basket of government securities with residual maturity over one year

Investing 100 in 1982 in a segregated fund, according to the gross average annual returns of those funds, at the end of last year, the investment value would have amounted to 1,756 (Figure 2), with an average annual return of 8.3% – 4.8% in real terms – and a 5.5% annualized volatility (standard deviation).

The same investment in Italian equities, assuming full re-investment of dividends, would have reached over the same time frame the value of 2,303, with a 9.1% average annual return and a 28.4% annualized volatility.

Figure 2
Comparison between yields of segregated funds and Italian shares



Sources: Thomson Reuter, IVASS and ANIA estimates

The Sharpe ratio, which considers the return at standard deviation in order to measure the performance adjusted for its financial risk, amounted, in the period, to 1.52 for segregated funds and 0.32 for investment in Italian equities. Even if the figures refer to the gross returns of segregated funds, their advantages are confirmed: positive and stable returns, as well as neutralization of volatility and investment value oscillations.

Analysis of segregated funds composition and returns in 2018

ANIA is gathering data on the investment composition and returns of the segregated funds of insurance companies. The data include around 300 segregated funds of 43 companies. In 2018 the assets managed amounted to €526.7 billion. Those assets cover the commitments undertaken by the companies for with-profit contracts, amounting to around €517.1 billion, with a coverage ratio of 101.8%.

Analyzing the composition of assets, 82% was invested in bonds and other fixed-income securities in 2018 (of which 43.6% in BTPs), slightly less than in 2017 (44.9%). The investment in equity securities (1.8%) is still marginal. Within the category of "other assets", the investment in UCITS rose from 12.9% in 2017 to 14% in 2018.

The average return of segregated funds in 2018 came to 3.03%, slightly less than the previous year (3.13%).

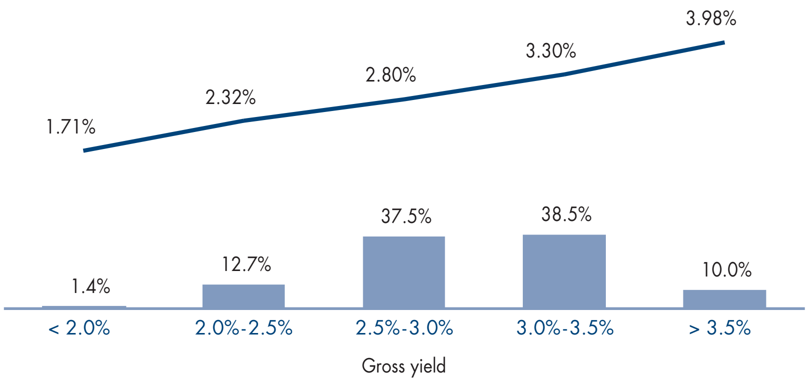
Table 1
Breakdown of investments of segregated funds
In million Euro

	2017		2018	
	Items	Amounts %	Items	Amounts %
Bonds and other fixed-income securities	419,017,869	83.5%	433,492,130	82.3%
BTPs	225,452,466	44.9%	229,727,418	43.6%
Listed bonds in Euro	115,413,770	23.0%	115,985,934	22.0%
Equity securities	8,411,869	1.7%	9,268,097	1.8%
Listed shares in Euro	6,309,776	1.3%	7,100,228	1.3%
Other assets	74,287,599	14.8%	83,953,889	15.9%
UCITS	64,589,958	12.9%	73,970,795	14.0%
Liabilities	-1,159	0.0%	-884	0.0%
Balance of assets in segregated funds	501,716,178	100.0%	526,713,232	100.0%
Mathematical provisions	494,122,425		517,129,530	
Average rate of return in period	*3.13%*		*3.03%*	
Coverage rate of assets vs mathematical provisions	*101.54%*		*101.85%*	

Hereunder is the breakdown of segregated funds by gross return in 2018 (Figure 3). Over three quarters of the funds (76%) achieved returns on assets of between 2.5% and 3.5%; only 10% managed to achieve gross returns in excess of 3.5% and fewer than 1.4% had a return below 2.0%.

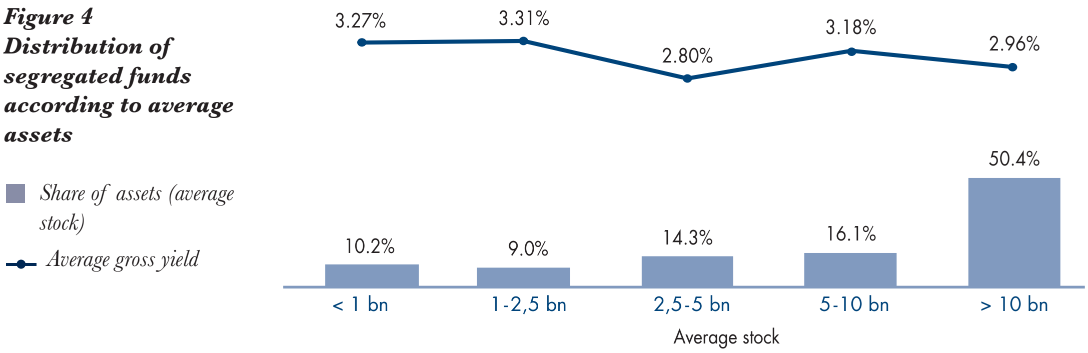
Figure 3
Composition of segregated funds by return

Share of assets (average stock)
Average gross yield



Moreover, analyzing gross average returns by average stock of assets, we find that when assets increase, the average return shrinks, from 3.3% for the smaller funds (average stock below €1 billion, 10% of the total) to around 3.0% for the funds with average assets over €10 billion, which represent more than half of the total average asset stock of segregated funds (Figure 4).

Figure 4
Distribution of segregated funds according to average assets



LIFE INSURANCE AND ITALIAN HOUSEHOLDS' SAVINGS

In 2018, the disposable income of Italian consumer households grew as compared to 2017 thanks to 1.9% nominal growth (+1.7% in 2017). The purchasing power of Italian households also increased, benefitting from the gain in real disposable income, which improved sharply from the previous year (+0.9%, +0.6% in 2017) (Table 1).

Table 1
Gross disposable income and households' propensity to save (1)
(current prices, except where indicated)

	% composition	2016	2017	2018
Compensation of employees	62.2	2.5	2.3	3.2
Income from self-employment (2)	25.6	0.2	1.4	0.5
Net income from property (3)	22.0	0.1	1.2	1.1
Social benefits and other net transfers	32.1	1.3	1.5	1.9
Net social contributions (-)	23.6	1.6	2.2	3.9
Current taxes on income and property (-)	18.3	1.3	1.2	0.6
Gross disposable income	**100.0**	**1.4**	**1.7**	**1.9**
in real terms (4)		1.2	0.6	0.9
Average propensity to save (5)		**8.1**	**7.3**	**7.5**

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

The aggregate figure was positively affected by the compensation of employees (+3.2%, +2.3% in 2017), which accounted for over 60% of the total, while growth in self-employment income plummeted from 1.4% to 0.5%. The further slowdown in current taxes (+0.6%, from +1.2%) could not completely offset the large increase in the negative impact of net social security contributions (+3.9%; +2.2% in 2017), affecting the aggregate figure by around 24%.

The propensity to save of consumer households, measured as the ratio of savings, gross of depreciation and net of changes in provisions, to gross disposable income, returned to growth (+7.5%), after the drop of nearly 1 percentage point in 2017.

Financial saving

In 2018, the net financial saving of Italian households and non-profit institutions serving households (for brevity, simply "Households") amounted to +€17.4 billion, further shrinking from +€26.5 billion in 2017. While the change in gross liabilities was practically stationary (+€19.7 billion, from +€20.0 billion in 2017), there was a significant decline in gross inflows to household assets (+€37.1 billion, down from +€46.5 billion in 2017) (Table 2).

In 2018, there was another drop in investment in domestic assets in several instrument classes: net disposals of Italian bank bonds (-€21.1 billion, -€42.6 billion in 2017), of Italian shares and other equities (-€20.9 billion, -€28.9 billion) and Italian mutual funds (-€9.8 billion, +€9 billion). The flows of the foreign components of these asset classes were all positive.

Conversely, Italian bank deposits maintained positive flows (+€22.9 billion, compared with +€26.0 billion 2017), as did Italian government securities (+€13.5 billion, +€4.7 billion) and life insurance provisions (+€23.7 billion, +€24.1billion).

At the end of 2018, the stock of financial assets held by Italian households amounted to €4,218 billion. The largest share of Italian households' financial wealth still consists in liquid instruments, i.e. bank deposits (29.1%, 27.6% in 2017), followed by insurance, pension funds and employee severance pay provisions (23.7%, 22.7% in 2017) – including life insurance provisions (17.0%, 16.3% in 2017) – and by the amount invested in shares and other equity (21.3%, 23.7% in 2017). At the end of 2018, investments in mutual fund units accounted for 11.5% of the assets held by Italian households (12.0% in 2017).

Table 2 – Financial assets of Italian households (1)

INSTRUMENTS	YEAR-END STOCKS (millions of euro)	YEAR-END STOCKS/TOTAL ASSETS (%)		FLOWS (millions of euro)	
	2018	2017	2018	2017	2018
ASSETS (2)					
Bank instruments	162,421	3.5	3.9	5,724	8,146
Deposits (3)	1,227,640	27.6	29.1	25,287	20,968
Italian	1,198,877	26.9	28.4	25,955	22,895
sight deposits	760,798	16.6	18.0	38,874	35,206
other deposits	438,079	10.3	10.4	-12,919	-12,311
Foreign	28,763	0.7	0.7	-668	-1,927
Bonds	292,682	7.2	6.9	-38,966	-8,654
Italian	209,188	5.3	5.0	-35,506	-10,900
of which: Government	137,567	3.0	3.3	4,754	13,525
bank	64,074	2.0	1.5	-42,599	-21,063
Foreign	83,494	1.9	2.0	-3,460	2,247
Investment fund units	486,514	12.0	11.5	48,891	1,362
Italian	221,381	5.7	5.2	8,837	-9,824
Foreign	265,133	6.3	6.3	40,054	11,186
Shares and other equity	900,271	23.7	21.3	-28,430	-17,092
Italian	828,135	22.1	19.6	-28,897	-20,909
Foreign	72,137	1.6	1.7	467	3,816
Insurance, pension fund reserves and severance pay entitlements	1,000,728	22.7	23.7	31,805	26,489
of which: reserves of the life sector	717,166	16.3	17.0	24,139	23,725
Other assets (4)	147,639	3.2	3.5	2,187	5,859
Total assets	4,217,895	100.0	100.0	46,498	37,078
LIABILITIES					
Short-term debt	49,005	5.5	5.2	-736	-1,036
of which: bank	44,621	5.3	4.7	-1,830	-3,240
Medium- and long-term debt	671,443	70.9	71.3	17,675	18,013
of which: bank	581,720	62.6	61.8	12,136	5,622
Other liabilities (5)	220,614	23.6	23.4	3,081	2,719
Total liabilities	941,062	100.0	100.0	20,020	19,696
BALANCE	3,276,833			26,478	17,382

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

SUPPLEMENTARY PENSION FUNDS: TRENDS AND MAIN REGULATORY CHANGES

Trend of enrollments, contributions and resources allocated to benefits

The trend of enrollments to supplementary pension plans confirms the steady growth of recent years. The number of members reached 8.7 million in 2018, with growth of 5.3% from the previous year.

Taking multiple enrollments into account (some 728,000 workers belonged to more than one pension plan in 2018), the effective number of enrollees is around 8.0 million, 30.2% of the labor force (Table 1). However, a growing number of enrollees quit paying contributions, numbering around 1.9 million last year.

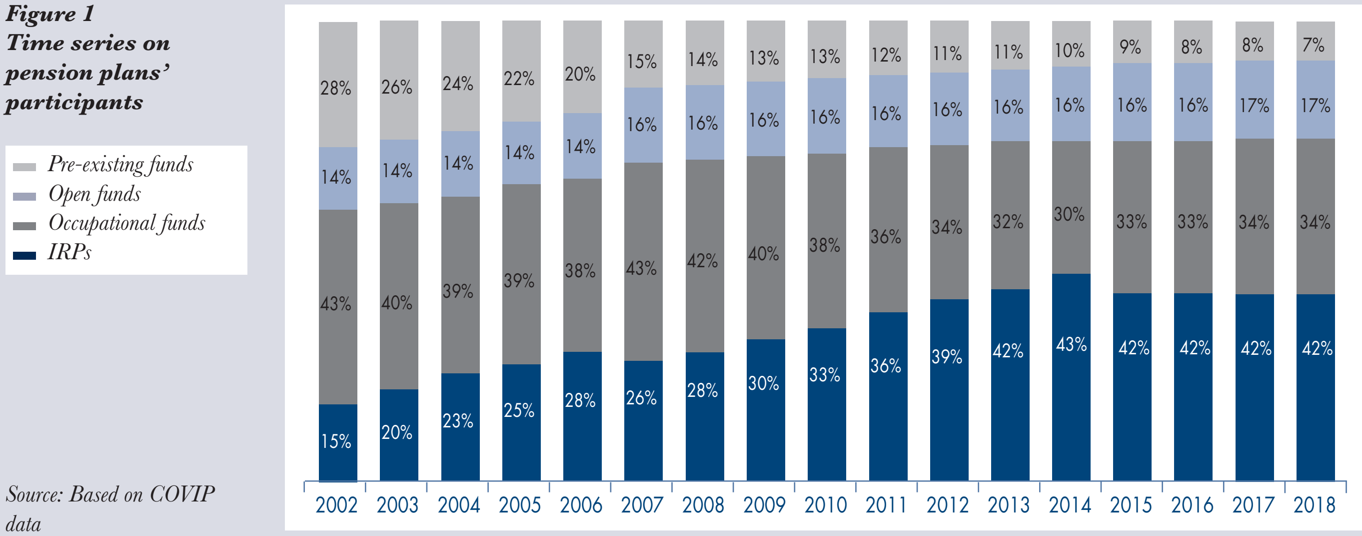
Table 1
Evolution of enrollments by pension plan

Pension plans	Number of participants 2017	2018	Change %
Occupational pension funds	2,804,633	3,002,321	7.0%
Open funds	1,374,205	1,462,072	6.4%
Individual retirement plans	3,494,520	3,645,873	4.3%
Pre-existing funds	643,341	650,309	1.1%
Total	**8,298,969**	**8,740,279**	**5.3%**
of whom:			
private-sector employees (million)	7.6	8.0	5.3%
Labor force (million)	25.9	26.5	2.2%
Share of labor force	29.3%	30.2%	0.9%

Source: Based on COVIP data

Enrollments in occupational pension funds grew significantly (+7.0%) thanks to "contractual" enrollments, which produced the largest increase in the number of enrollees (around 198,000) among the various types of pension plan. Enrollees in open pension funds also increased more than the average (+6.4%). Individual Retirement Plans (IRPs) grew the least but nevertheless remain the type of plan with the most enrollees (Figure 1), even if there is a significant number of non-contributing enrollees in this class, around one-third of all IRP subscribers in 2018.

Figure 1
Time series on pension plans' participants



Source: Based on COVIP data

The overall contributions paid to pension funds exceeded €16 billion, 9.6% growth over 2017 (Table 2). The sharpest increase was recorded by pre-existing pension funds, whose inflows went back above those to IRPs again, while the contributions to occupational pension plans still have the highest absolute values.

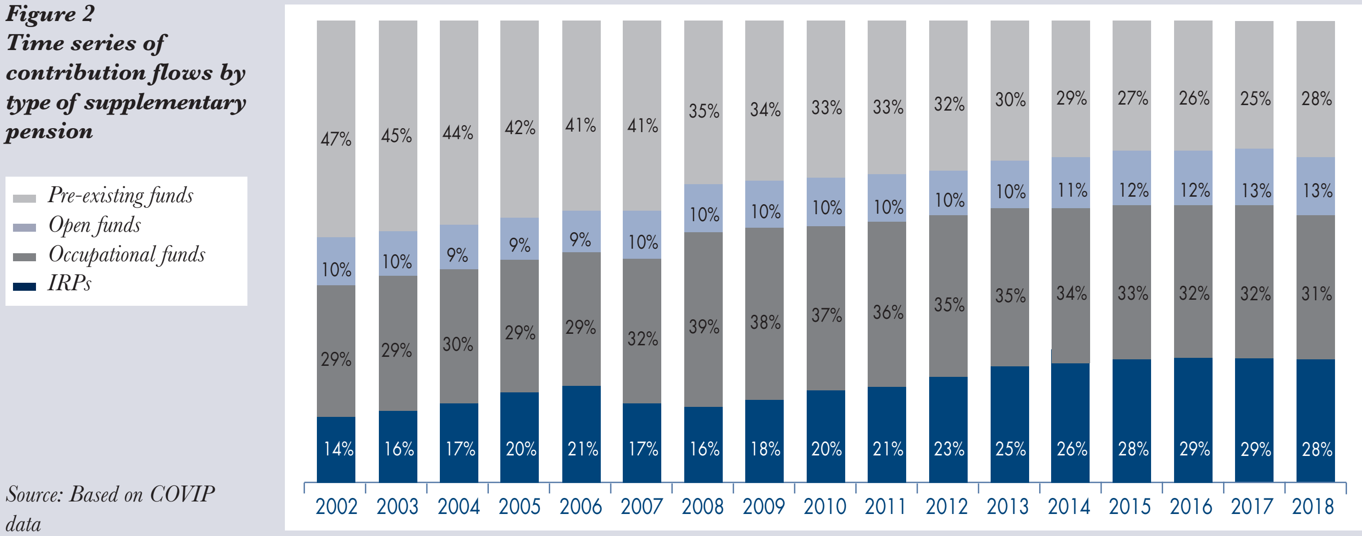
Table 2
Evolution of pension fund contributions
Euro million

Pension plans	Contributions 2017	Contributions 2018	Change %
Occupational pension funds and Fondinps	4,787	5,062	5.7%
Open funds	1,912	2,044	6.9%
Individual retirement plans	4,387	4,574	4.3%
Pre-existing funds	3,779	4,618	22.2%
Total	**14,873**	**16,306**	**9.6%**

Source: Based on COVIP data

Therefore, compared with the last few years, the share of payments to pre-existing funds has turned back up, after a continuous decline that started in 2002 (Figure 2), to the detriment of occupational plans and IRPs, which, conversely, had shown continuous growth.

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



Source: Based on COVIP data

The average return to pension plans in 2018 was affected by the negative market trend, while the revaluation of severance pay entitlements was positive at 1.9%. In particular, the average yield of the various occupational pension plan lines was negative at -2.5%, open funds -4.5%, IRP unit-linked funds -6.5%. By contrast, the average return to IRP segregated funds was positive, amounting to +1.2%.

Contributions, net of the negative average yields, nevertheless recorded 3.0% growth in resources allocated to benefits, with a volume of €167 billion, equal to 9.5% of nominal GDP, the same as the previous year, and 4.0% growth in the financial assets held by Italian households (Table 3).

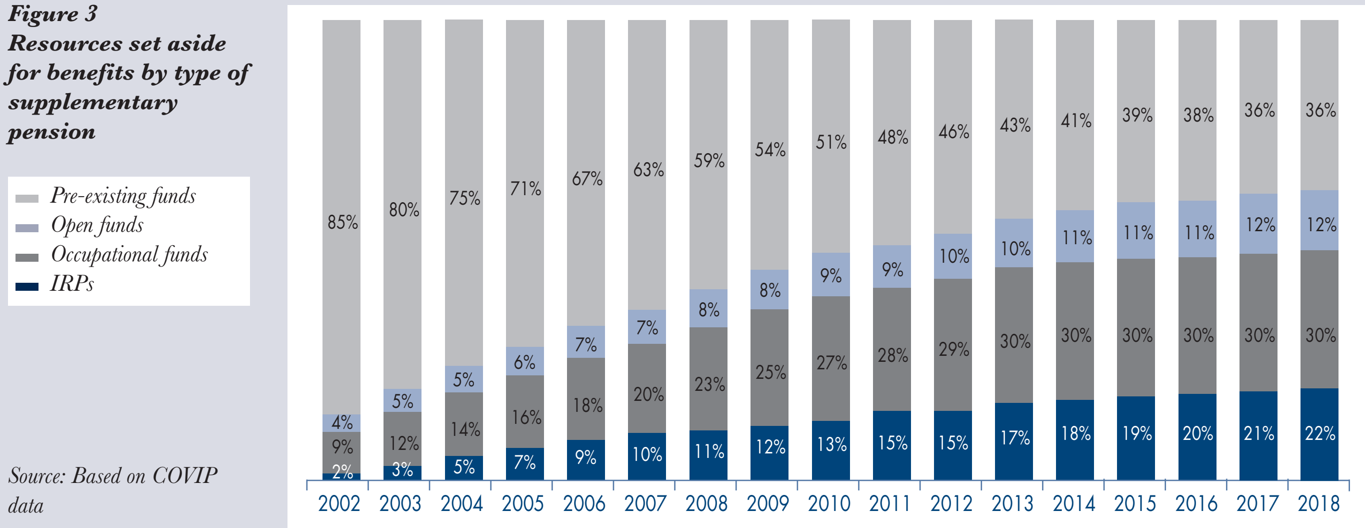
Table 3
Resources set aside for benefits by type of supplementary pension
Euro million

Pension plans	Resources managed 2017	Resources managed 2018	Change %
Occupational pension funds and Fondinps	49,456	50,410	1.9%
Open funds	19,145	19,624	2.5%
Individual retirement plans	34,622	37,330	7.8%
Pre-existing funds	58,996	59,699	1.2%
Total	**162,299**	**167,145**	**3.0%**
Share of GDP	9.5%	9.5%	0.0%
Share of households' financial savings	3.7%	4.0%	0.3%

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

Pre-existing funds still hold the largest share of resources destined to benefits (Figure 3).

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



Source: Based on COVIP data

Main regulatory changes

On 17 January 2019, Legislative Decree 147/2018 was published in the *Gazzetta Ufficiale*, transposing EU Directive 2016/2341 on the activities and supervision of institutions for occupational retirement provisions (IORP II). The Decree introduces a set of amendments to Legislative Decree 252/2005 regulating supplementary pension plans.

The new regulations affect, as far as the insurance sector in particular is concerned, open pension funds and pre-existing pension funds. In detail, open pension funds and pre-existing pension funds (those with legal personality) must, in "a proportionate manner in relation to the size, nature, scope and complexity" of their activities:

– institute an effective system of governance and provide for the key functions of risk management, internal audit and actuarial control; with the exception of the audit function, the others may be assigned to a single person or organizational unit; those functions should not be assigned to people or units carrying out the same function for the promoting company, unless authorized by COVIP after demonstrating how it can prevent or manage conflicts of interest;
– make sure that the management body drafts an annual document describing the governance system, which shall take account, in its investment decisions, of environmental, social and corporate governance factors;
– draft written policies on risk management, internal audit, actuarial activities and outsourced functions;
– adopt an effective control system also covering administrative and accounting procedures;
– be managed by at least two persons; for management by a single person, COVIP authorization must be sought in a properly motivated request;

- appoint a director – possibly from among the members of the management body – to execute the decisions of the management body and supporting that body;
- institute a sound remuneration policy for all the persons who effectively manage the fund.

Open pension funds, in particular, must:

- in case of group enrollments entailing subscription by at least 500 employees of a single company or corporate group, create a representative body (representatives of employers and employees), which shall replace the supervisory board;
- ensure compliance with the new obligations on governance, outsourcing, remuneration and risk assessment consistent with sectoral arrangements.

For this reason, COVIP has deferred definition of the detailed implementing regulations on open pension funds to an ad hoc set of regulations to be issued after consulting the other competent supervisory authorities, which for the insurance industry means IVASS.

After the transposition of the Directive, COVIP initiated two public consultations; a first, more general one on 28 March 2019 concerning several directives on contractual pension funds on the implementation of the new regulations; and a second, launched on 10 May, concerning the amendments required by the new regulations to the bylaws of contractual pension funds, the rules of open pension funds, and the rules of individual retirement plans.

IVASS INITIATIVES AND NEW REGULATIONS ON DORMANT POLICIES

In 2018 and 2019, IVASS continued its analytical initiatives to detect policies at risk of dormancy and reduce their number. In particular, in 2018 further cross-checks of data were carried out between the tax code of life policyholders and those of deceased persons, entered in the tax register of the Italian Revenue Agency.

In particular, the analysis covered 900,000 at risk of dormancy for which insurers' initial assessment had been unable to determine policyholder status. This further assessment detected 21,370 policies for a total amount of €335 million that insurers paid to the legitimate beneficiaries once this legitimacy was ascertained.

As far as the other policies are concerned, the companies concluded that the conditions for payment to beneficiaries did not obtain, since the policyholder was still alive or had ceased paying premiums before maturity, with the consequent termination of contract in case of term life insurance policies.

In total, thanks to the initiative launched in 2017 and the action plans that IVASS had asked insurance companies to prepare, 209,000 deaths unknown to insurance companies were detected. IVASS also extended the inquiry to other policies more remote in time (policies that matured between 2001 and 2006) and to the most recent (maturing in 2017) as well as life policies subscribed by foreign companies.

The increased attention to this issue resulted in a new regulation that, as of 2019, requires both Italian and foreign insurance companies, by the end of each year and with the digital cooperation service of the Revenue Agency for crosschecking tax register data, to verify that the policyholders of their life and accident policies are still alive. In the case of a positive match, the law provides that the companies shall actively search for the beneficiary and, by 31 March of the following year, report to IVASS on the results of their actions.

THE DEVELOPMENT OF "HYBRID" LIFE PRODUCTS ("MULTI-CLASS")

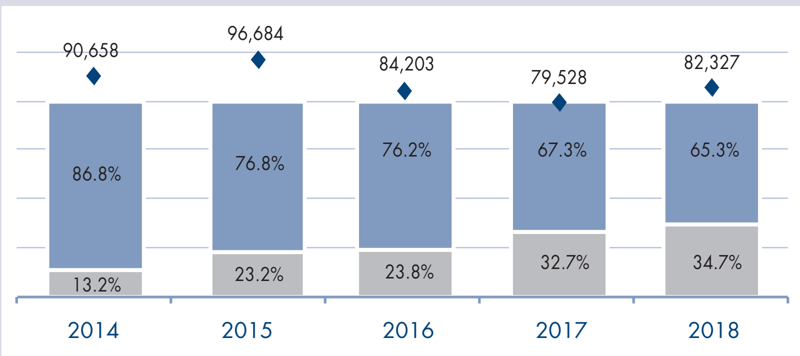
"Hybrid" or "multi-class" products resulting from the combination of traditional insurance products with guaranteed minimum return (Class I) and multiple unit-linked investment options (Class III), are increasing their share in the offer of almost every insurer.

"Multi-class" products in new individual life business

"Multi-class" products target mainly retail customers with individual policies. In 2018, more than 820,000 new multi-class policies were subscribed (810,000 in 2017), for a volume of new premiums of €28.6 billion (+10.1% from 2017), more than one third of the total new life business of €82.3 billion (Figure 1), an even higher share than in 2017 and more than 20 points higher than in 2014.

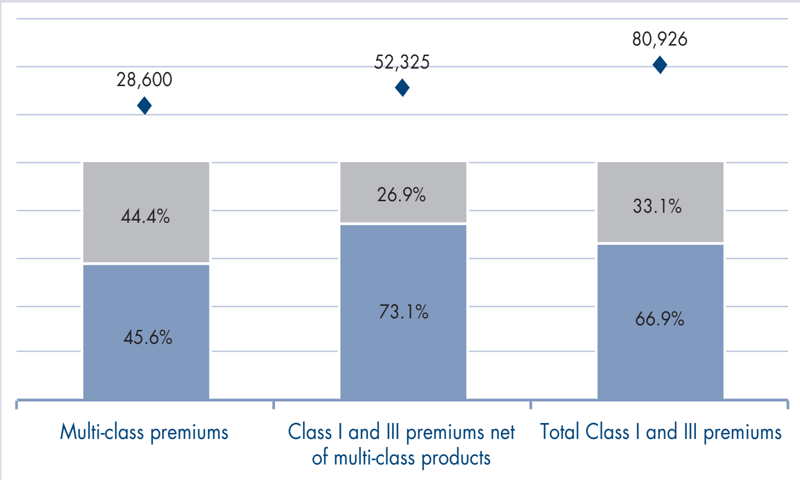
Figure 1
New life business broken down by multi-class premiums and other life insurance products, 2014-2018
Euro million

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



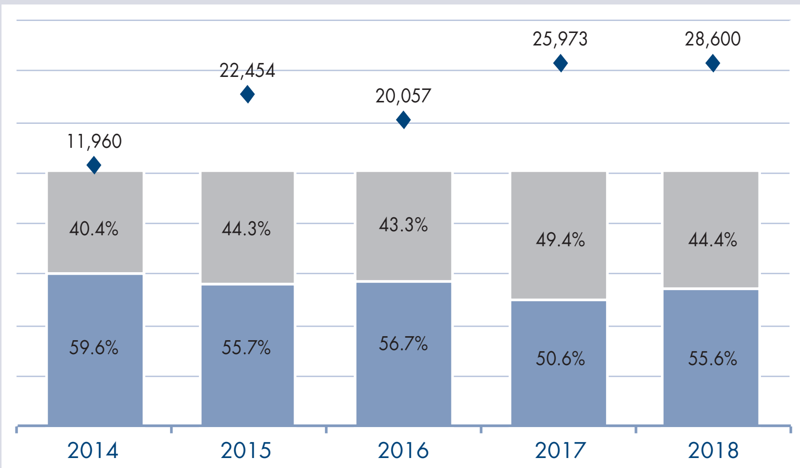
In particular, focusing on the composition of Class I and III, in 2018 "multi-class" products accounted for 44.4% of Class III premiums (Figure 2). This percentage is higher than the share of Class III premiums in total life new business (33.1% in 2018 and 35.9% in 2017) which as we know includes stand-alone Class I and Class III products, whose share of premiums in Class III was just 26.9% (29.2% in 2017). This figure highlights the slowdown in growth of this class, regardless of the development of multi-class products.

Figure 2
Composition (%) of new life business (Class I and Class III) in 2018 by type of product
Euro million



Limiting our analysis to multi-class products, in 2018 the Class III share came down by 5 percentage points from 2017, back to the same levels of 2015 and 2016 (Figure 3).

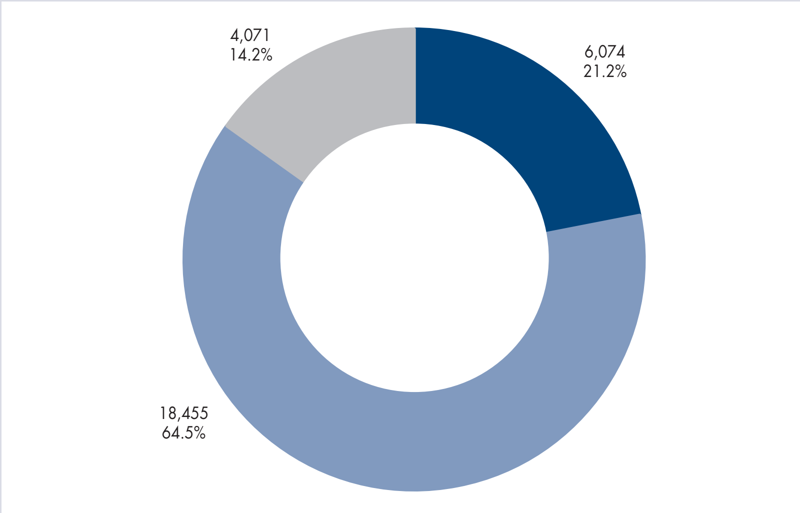
Figure 3
Composition (%) of new multi-class premiums (Class I and Class III), 2014-2018
Euro million



Breaking written premiums down according to distribution channel (Figure 4), bank and post office branches distributed €18.5 billion worth of multi-class products in 2018 (+12.6% on the previous year) accounting for 64.5% of total premiums, higher than in 2017 (63.1%) but lower than in previous years (69.2% in 2016 and 72.4% in 2015) and less than the share of total new life business sold through that channel (69.6%). Financial salesmen distributed 14.2% of multi-class products, for a total of €4.1 billion, down from 15.3% in 2017 but higher than in 2015-2016 and about the same as their share of overall new business (15.2%). Insurance agencies and other channels placed a share of multi-class products equal to 21.2%, higher than the 15.2% of total life insurance premiums, 15% of which was accounted for by mandated agencies.

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

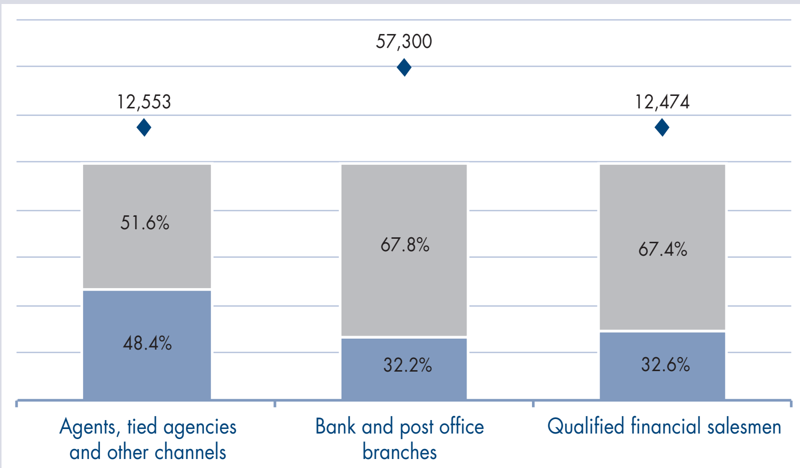
Agents, tied agencies, other
Bank and post office branches
Qualified financial salesmen



As regards the composition of total new life business according to distribution channel, multi-class products accounted for 32.6% of financial salesmen's premiums, 1.5 percentage points more than in 2017; 32.2% of the premiums collected by bank and post office branches consisted in multi-class products (29.8% in 2017), and 48.4% of insurance agencies' and other channels' premiums, compared with 49.5% a year earlier (Figure 5).

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

Multi-class
Other
New life business (individual policies)



Further, while for policies distributed by insurance agencies and other channels the share invested in Class I products was still preponderant (59.3%), for bank and post office branches it was a bit smaller (57.2%); and for policies distributed by financial salesmen the predominant share was Class III also in 2018 with 57.1% of the total (Figure 6).

Figure 6
Composition (%) of multi-class premiums (Class I and Class III) by distribution channel
Euro million

Class I
Class III
New life business (individual policies)

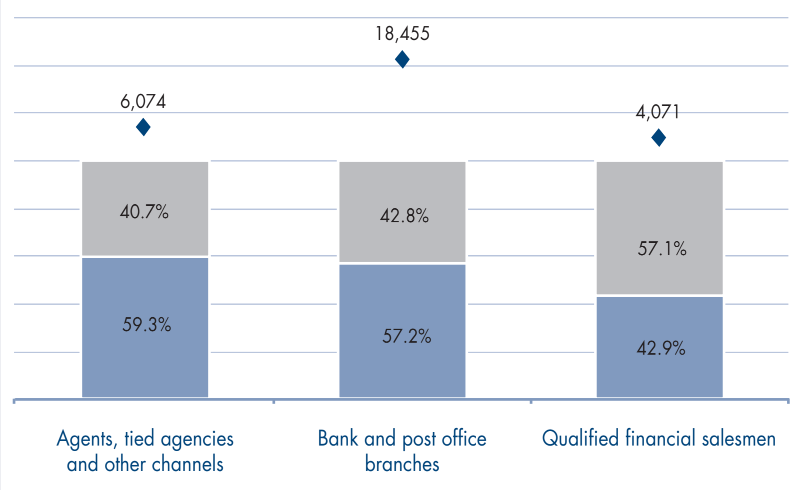
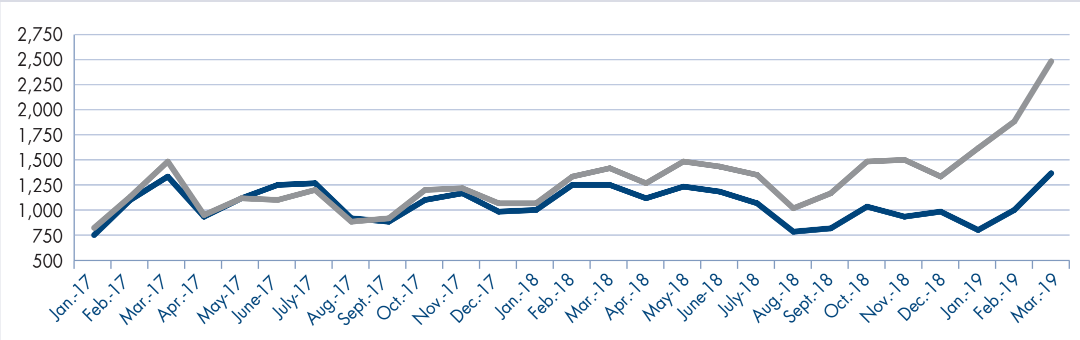


Figure 7 – Monthly change in new Class I and III premiums in multi-class products
Euro million

Class I - multi-class products
Class III - multi-class products

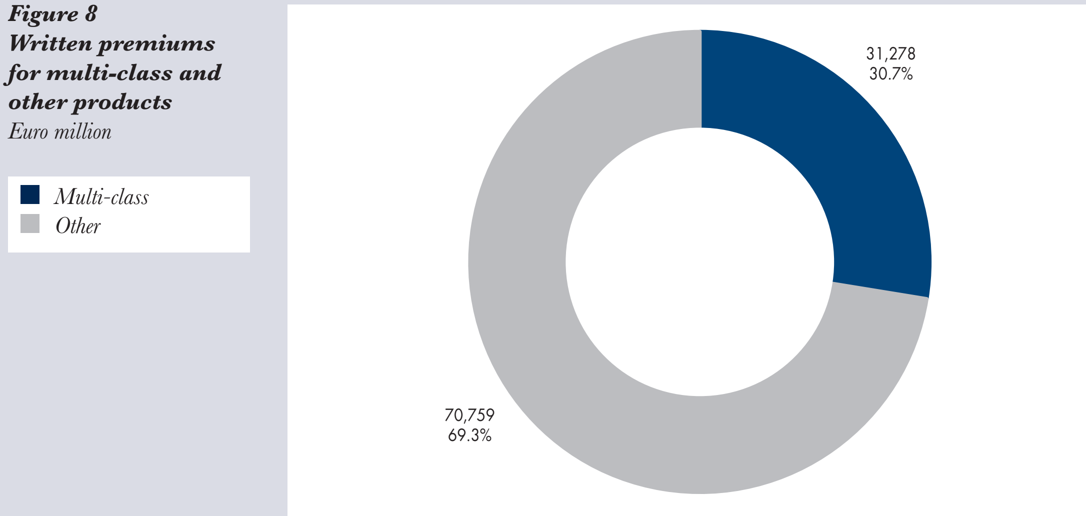


Focusing on new multi-class product business in 2017, 2018 and the first part of 2019, since the last few months of 2017 the Class I component is increasingly dominant as compared to Class III. In particular, this predominance intensified in the first quarter of the current year, in line with the trend in total life business.

Cash flows and provisioning in 2018

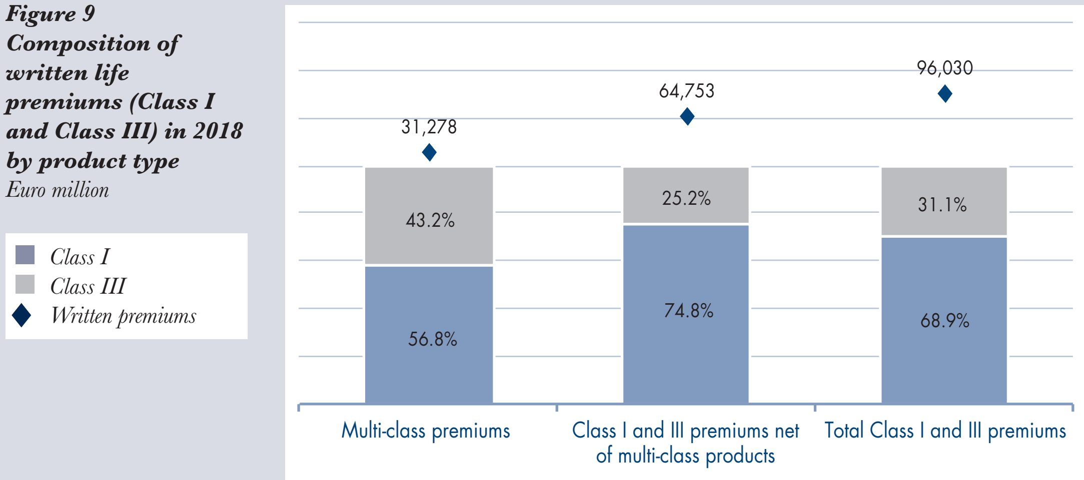
Total premiums written for multi-class policies amounted to €31.3 billion in 2018, or 30.7% of all life business (Figure 8), up from 2017 (28.3%) and 2016 (20.4%). Premiums of multi-class products increased by 12.1% compared with the previous year, mainly as a result of the growth in premiums for the Class I component (+25.1%).

Figure 8
Written premiums for multi-class and other products
Euro million



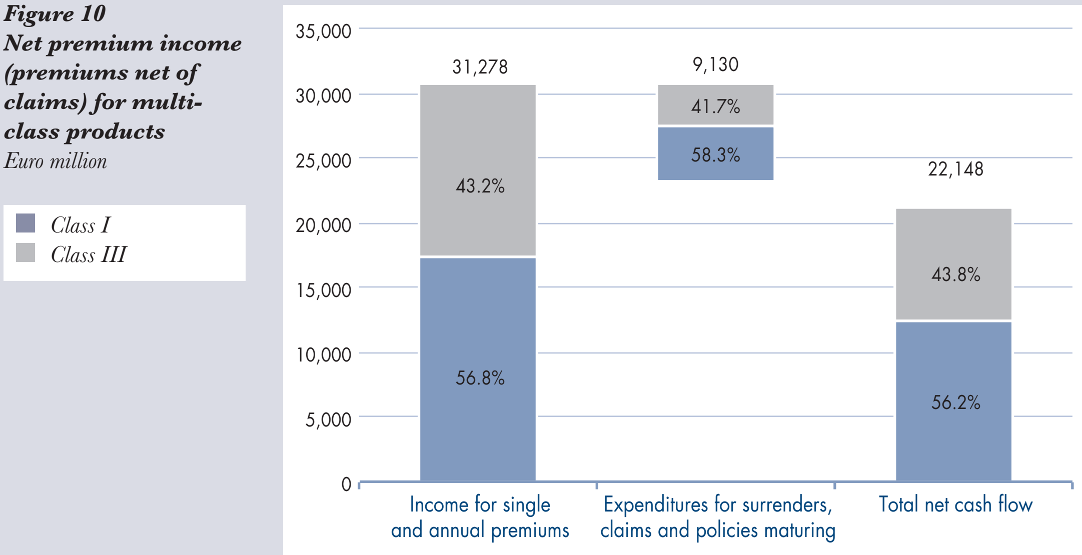
Also for written premiums, the Class III component of multi-class products, which accounted for 43% in 2018 (down from 49.1% in 2017), was higher than that of Class I and Class III components' in overall premiums, for which the same component accounted for under a third (Figure 9).

Figure 9
Composition of written life premiums (Class I and Class III) in 2018 by product type
Euro million



Total claim costs amounted to €9.1 billion (+26.9% compared with 2017), 84% of which for surrenders and 14% for deaths and other events affecting human life covered by life policies. The balance between income (premiums) and expenditures (payments for surrenders, policies maturing, annuities and claims) was therefore substantially positive at €22.1 billion (+6.4% compared with 2017), accounting for 76.7% (75.7% in 2017) of the total net cash flow of life business over the year (€28.9 billion) (Figure 10).

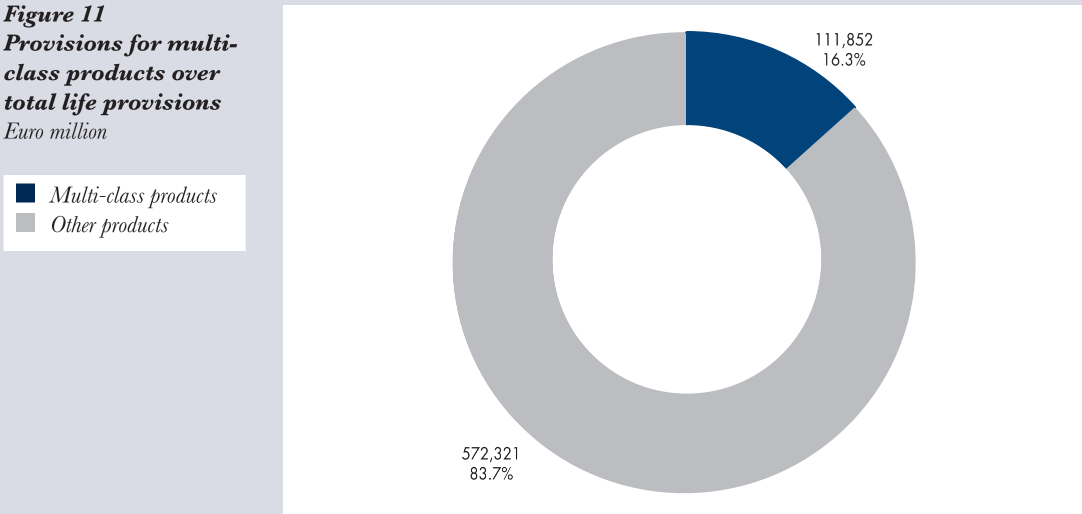
Figure 10
Net premium income (premiums net of claims) for multi-class products
Euro million



In detail, the share invested in Class I products produced a positive cash flow of €12.4 billion, compared to €9.7 billion for Class III products. It is worth noting that the balance for the Class III component of multi-class policies accounted for 84.1% of the entire balance for Class III in 2018, whereas the share for Class I products was 77.9%.

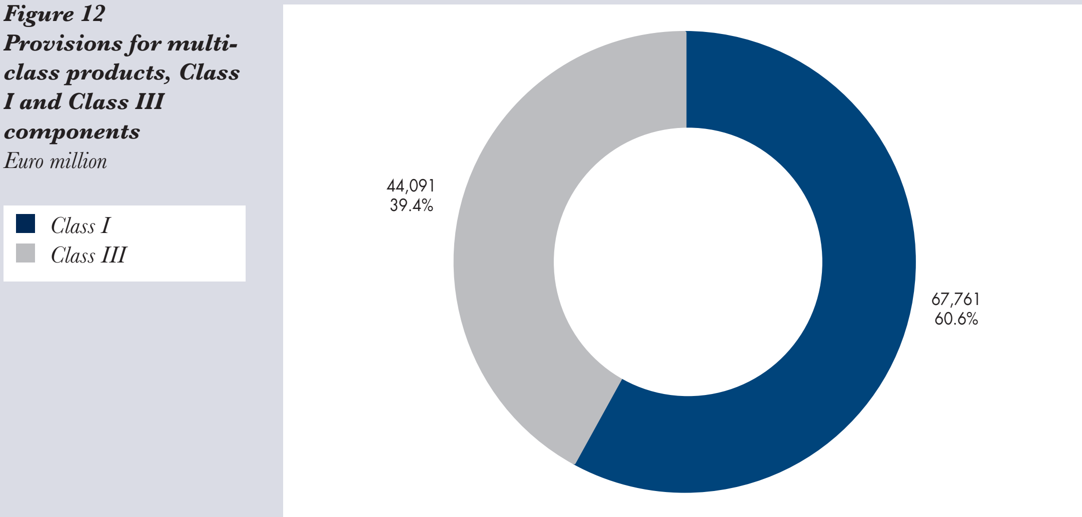
At the end of 2018, life technical provisions serving as cover for multi-class contracts amounted to €111.9 billion (+30.0% on 2017), or 16.3% of the overall life provisions in the Italian market (13.1% in 2017) (Figure 11).

Figure 11
Provisions for multi-class products over total life provisions
Euro million



As for multi-class policy provisions, 60.6%, amounting to €67.8 billion (+33.1% compared with 2017), was in respect of the Class I component, the remainder (39.4%) was for Class III, up by 25.6% compared with 2017 provisions (Figure 12).

Figure 12
Provisions for multi-class products, Class I and Class III components
Euro million



THE DEVELOPMENT OF PIRS

Reference framework

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

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

The 2019 budget law changes the requirements for the creation of eligible savings plans, introducing two more thresholds for qualifying holdings: at least 5% of the aforementioned 70% – or 3.5% of total investment – must be invested in financial instruments of SMEs and at least an additional 5% in venture capital funds (for further details, see the box "New types of qualifying investments introduced by the 2019 budget law", below).

The new requirements make the institution of new PIRs difficult, if not actually impossible, as in the case of insurance companies, for which the new requirements are not compliant with current regulations. Therefore, there has been a stoppage in fundraising, which in the first part of the year consisted solely in additional payments to plans already in being before 1 January 2019, which still benefit from tax exemption.

Market development of insurance PIRs in 2018 and beginning of 2019

The type of insurance product mostly adopted by the insurance business, bearing in mind the limits set by the law, has been unit-linked products, while hybrid (multi-class) products, meaning the combination of a unit-linked component (Class III) and a traditional guaranteed minimum return component (Class I), represent less than a fifth of the business.

In particular, around 81.0% of premiums has gone to unit-linked PIRs, the remaining 19.0% to hybrid or multi-class PIRs. The latter have around 12% of the premiums invested in the Class I component and the other 88% in the Class III component.

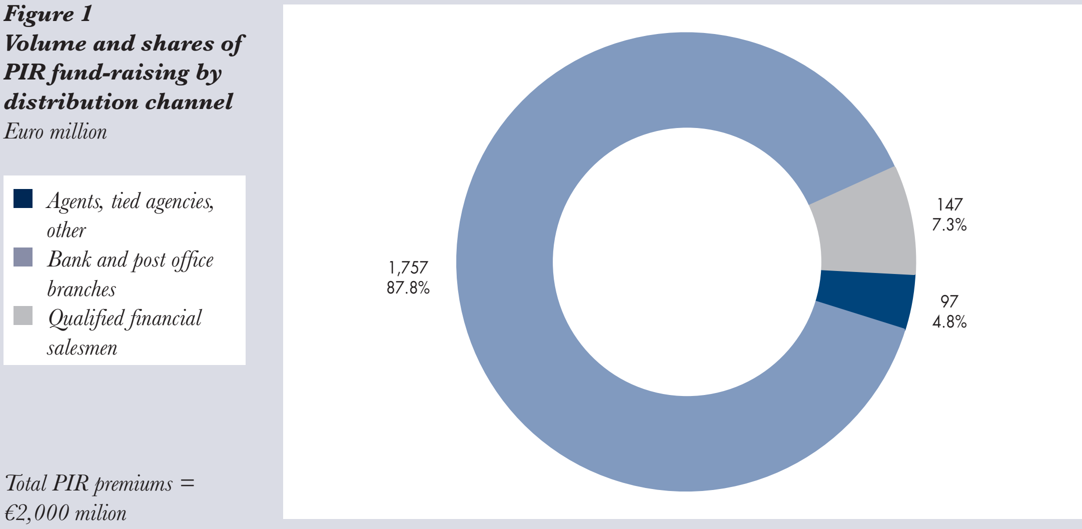
The dominant insurance type is "whole life", representing around two thirds of total business, while more than half of the products envisage more than one investment option.

PIRs are aimed at retail clients, therefore translating into individual policies taken out by natural persons. In 2018, the number of new insurance contracts of this kind was 112,467; the payment of the premium has almost always been one-off, for an average amount of around €17,400. In 2018, premium income amounted to €2.0 billion, or 2.0% of total life premiums of €102.0 billion.

As for the composition of premiums by distribution channel (Figure 1), in 2018, banks and post office branches accounted for €1.8 billion, or 87.8% of total insurance PIR premiums, a far higher percentage than the share of total life business placed through this channel (61.1%). Financial salesmen accounted for 7.3% of insurance PIR premiums against 13.9% of total life business. Insurance agencies and other channels placed 4.8% of insurance PIR premiums, far less than their percentage of total life insurance products (25.0%).

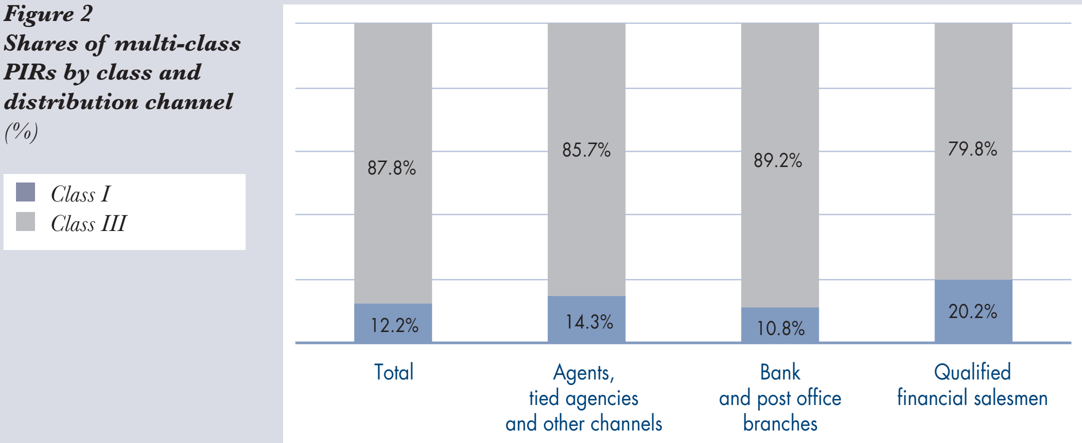
Moreover, as regards hybrid PIRs marketed by bank and post office branches, the Class III component accounts for around 90% of the whole investment, while for those marketed by financial salesmen and agencies, that component is smaller: around 80% and 86%, respectively (Figure 2).

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



Total PIR premiums = €2,000 milion

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



As for cash flows, the balance between inflows (premiums) and outflows (surrenders, policies maturing, annuities and claims costs) is practically equal to premiums, given that, as the marketing of these products began only recently and the tax incentive requires a minimum five-year holding period, there has been only €61 million in outflows, mostly surrenders. At the end of 2018, technical provisions covering PIR contracts amounted to €3.3 billion, or 0.5% of total life provisions; 97.3% of PIR-related provisions is for the Class III component.

In the first quarter of 2019 new insurance PIR business amounted to just €64 million, plummeting by 91.6% compared with the same period of 2018. The average payment to insurance PIRs was €26,700, more than the average for 2018.

As for total premiums, in 2019 the share of insurance PIRs in total new life business went down sharply, representing only 0.3% of the total.

In the first quarter of 2019 the main distribution channel was bank and post office branches, with total new premiums amounting to €60.8 million, or 95% of total new PIR products. Insurance agencies and other channels accounted for €2.6 million worth of new premiums (4.1% of the total), while financial salesmen placed just €0.6 million of new premiums, less than 1% of the total. As far as types of insurance PIRs are concerned, around 57% of premiums was paid for unit-linked PIRs and the remaining 43% for hybrid or multi-class PIRs.

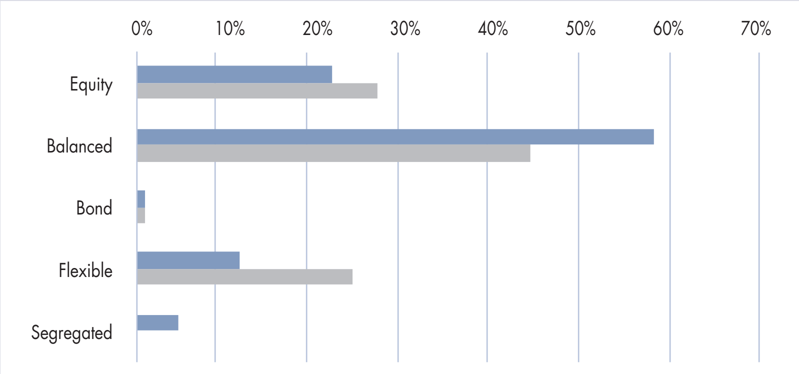
The overall development of PIRs

The total volume of financial and insurance PIR premiums in 2018 came to €5.9 billion, a sharp drop from 2017, the starting year, when the total was in excess of €12 billion. Of this fund-raising, two thirds came from financial products and the remaining third from insurance products, whereas the amounts collected through other types of PIR (such as those of asset management companies) were negligible.

Based on the composition of PIRs constituted via internal insurance company funds, 59% of the assets consists in balanced funds and 23% in equity funds. The remaining 18% is constituted by flexible funds (approximately 13%) and bond funds (5%, of which 1% in unit-linked funds and 4% in segregated funds). For financial PIRs, instead, 46% of the funds raised was allocated to balanced funds, 27% to equity funds and the rest almost exclusively to flexible funds (Figure 3).

Figure 3
Composition of financial and insurance PIRs by asset category

Insurance funds
Investment funds



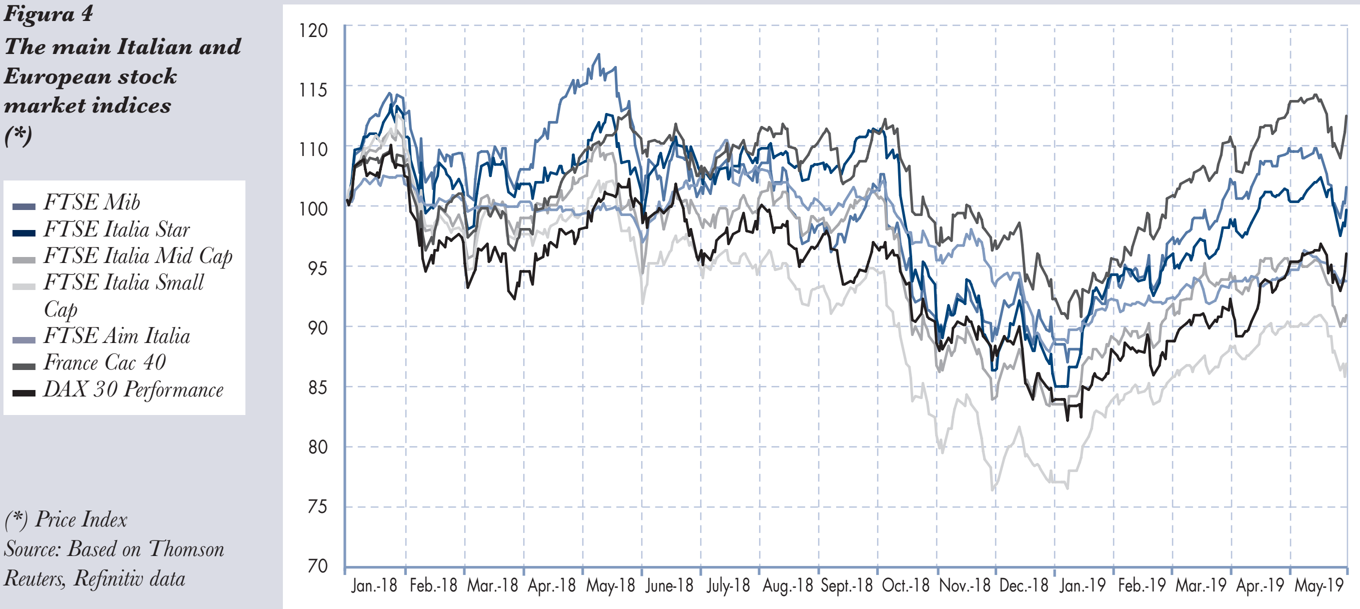
More than a year has passed for insurance PIRs issued in 2017. Therefore, some financial results can be observed and benchmarked by the main share indices (FTSE Italia STAR, FTSE Italia Mid Cap, FTSE Italia Small Cap, FTSE AIM Italia), which can be compared with the general trend of the FTSE MIB and European share indices (CAC40 and DAX30) in 2018 (Table 1). Insurance PIRs turned in a negative performance in 2018, down by around 10%, but nevertheless better than some Italian reference indices. The Small Cap index had the worst performance of all with a 24.12% drop. Trend graphs are shown in Figure 4.

In the early months of 2019, the markets staged a sharp recovery, which should be reflected in the performance of insurance PIRs; the data for the latter, however, are not yet available.

Table 1
Italian and European share indices in 2018 and early 2019

Index	Performance 2018	Performance 1/1/2019 - 16/05/2019
FTSE MIB	-13.22%	16.56%
FTSE Italia STAR	-14.82%	16.49%
FTSE Italia Mid Cap	-17.47%	8.72%
FTSE Italia Small Cap	-24.12%	12.55%
FTSE AIM Italia	-11.52%	4.84%
CAC 40	-8.00%	16.93%
DAX 30	-18.26%	16.58%
Insurance PIRs products	-9.56%	n.a.

Figura 4
The main Italian and European stock market indices (*)



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

THE NEW TYPES OF QUALIFYING INVESTMENT INTRODUCED BY THE 2019 BUDGET LAW

Following the initial period after the introduction of Individual Savings Plans (regulated by paragraphs 100 to 114 of the 2017 Budget law), with a very positive premium cash flow, some problems arose with regard to the effective capacity of PIRs to attract the savings of the great number of potential investors (natural persons resident in Italy not operating for commercial purposes) to small businesses.

Therefore, the 2019 budget law tried to provide a response, amending the 2017 budget law and introducing further minimum investment percentages linked to specific types of financial investment on the composition of the underlying investment in order to qualify for tax benefits (meaning the total personal income tax exemption for the yields on the financial assets included in the plan).

The law set two new investment thresholds in addition to those already existing – both amounting to 3.5% of total investment and related to the following asset categories:

- securities issued by small and medium-sized enterprises traded in multi-lateral trading facilities;
- shares or equity of venture capital funds investing in unlisted SMEs.

Due to the amendments enacted by the 2019 budget law, in order to qualify for the tax exemption the Individual Savings Plan investment must comply for at least two-thirds of the year with the following composition:

1. 70% of the total value in securities (equities or bonds) issued by listed or unlisted enterprises resident in Italy (or in the EU or EEA but with a permanent organization in Italy):
   - 30% of this share (meaning, 21% of the total investment) in securities (equities or bonds) issued by enterprises not listed on the Italian FTSE MIB index or equivalent indices in other regulated stock markets;
   - 5% of this share (meaning 3.5% of the total investment) in securities issued by small and medium-sized enterprises and admitted to trading in a multilateral trading facility. This means, chiefly, AIM Italia (Alternative Capital Market);
   - 5% of this share (meaning, 3.5% of the total investment) in shares or equities of venture capital funds resident in Italy, the EU or EEA. For the purposes of the new rules, eligible venture capital funds are defined as UCITS that invest at least 70% of their fundraising in unlisted SMEs resident in Italy or in an EU or EEA member state (but with a permanent organization in Italy) and meeting one of the three conditions laid down in Article 21(5) of Regulation 651/2014 EU declaring certain categories of aid compatible with the internal market;
2. 30% of total value invested as desired. However, even for this unencumbered share, the savings plan cannot invest in financial instruments issued by enterprises resident in non-tax-transparent States that do not provide proper information exchange. As clarified in the 4 October 2017 guidelines issued by the Ministry of Economy and Finance, this free share can also be devoted to a single segregated fund.

The new grid of investment limits applies, as explicitly stated by the law, to the PIRs constituted as from 1 January 2019. Moreover, the implementation of the new rules has been left to a specific decree of the Minister for Economic Development, together with the Minister of Economy and Finance, in charge of the implementing provisions. The decree was issued on 30 April 2019 and published in *Gazzetta Ufficiale* 105, general series, on 7 May 2019. The decree specifies the characteristics of the small and medium-sized enterprises eligible for PIR investments. A €15 million maximum funding limit is envisaged for each enterprise, taking also into account funds from other incentive measures.

In addition, the operators who intend to issue PIRs shall procure from the investee SME a declaration by the legal representative attesting to its compliance with a set of conditions and the business plan, while in the case of venture capital funds they shall procure from the legal representative of the fund (or fund of funds) a declaration attesting to the fund's compliance with the limits envisaged by the regulation. The Ministry of Economic Development, six months after 7 May, when the Decree was published in the *Gazzetta Ufficiale*, shall monitor the effects of the provision and assess possible further actions.

The new requirements introduced by the latest budget law pose significant problems for the constitution of new insurance PIRs. First of all, even if the investments in the new categories were sufficient to meet the demand and, therefore, be included in newly offered products, current insurance supervisory regulations require, in general, that the assets covering mathematical provisions be characterized by low risk, profitability, and liquidity.

In particular, with ISVAP circular letter 474/2002 on Class III (unit-linked) insurance, the supervisory authority clearly places strict limits on investment in assets not fulfilling the foregoing requirements; for instance, it imposes an investment ceiling of 5% of the fund's current value in assets rated below BB or unrated. It is clear that the new investment categories, although the law allows them to come to as much as 7% of the total investment, pose serious questions as to the profitability and liquidity of the contract shares.

Initially, additional doubts were voiced also as to PIRs subscribed through 31 December 2018. However, a series of meetings with qualified representatives at the Ministry of Economy and Finance clarified that plans constituted prior to 1 January 2019 shall continue to be governed by the previous rules.

Therefore, as for PIR policies underwritten through 31 December 2018, in order to qualify as compliant PIRs and benefit from tax exemptions, they shall comply, for at least two thirds of each calendar year, with the minimum investment percentages originally envisaged by the 2017 Budget law (49% of total investment value in equities or bonds issued by enterprises resident in Italy or in other EU or EEA member states but with a permanent organization in Italy; 21% in equities or bonds issued by enterprises resident in Italy and not listed on the FTSE MIB; 30% as free investment share).

The application of the pre-2019 PIR rules, i.e. those laid down in the 2017 budget law, clearly also apply to periodical or additional fund-raising on the pre-2019 PIR plans effected subsequent to 1 January 2019.

4

NON-LIFE INSURANCE

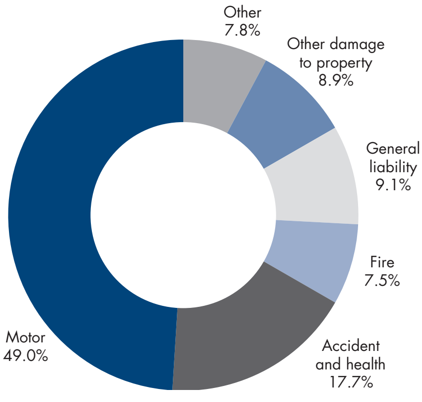
NON-LIFE INSURANCE

In 2018, non-life classes premium income amounted to €33.1 billion, up 2.3% from 2017, continuing the positive trend that started in the last quarter of 2016. The non-life classes' share of total premiums fell slightly from 24.7% to 24.5% as a result of the sharper increase in life premiums. The combined ratio for this accident year showed a slight improvement (90.2% against 91.1% in 2017), as the moderate rise in the expense ratio was more than offset by the improvement in the loss ratio for this accident year. The overall technical account result was €2.8 billion, down slightly from €3 billion in 2017.

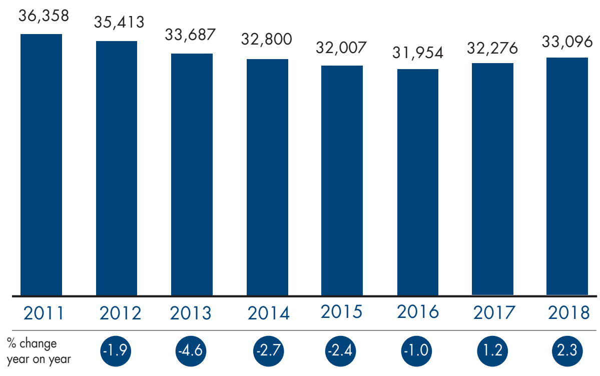
DOMESTIC BUSINESS

Premiums from direct domestic business for the 68 Italian companies and 3 branch offices of extra-EU companies operating in Italy in non-life classes amounted to €33,096 million, with growth of 2.3% growth calculated in homogeneous terms compared with the previous year. This increase was ascribable both to the motor insurance business growth, with a 1.1% rise in premiums, and to the further development of the other non-life classes, which showed 3.5% premium growth. The ratio to total (non-life plus life) premiums was equal to 24.5%, with a slight drop compared with the 24.7% registered in 2017 due to the greater increase in life premiums in 2018 (+3.5%). The motor sector is close to 50% of total non-life premiums, followed by the accident and sickness lines (17.7%) and the general liability and other property damage classes (9%).

Breakdown of main non-life classes, 2018



Direct premiums and change on year (%)
Euro million



In homogeneous terms

Earned premiums, calculated as the difference between written premiums and the changes in premium reserves and other balance items, amounted to €32,550 million, with 2.4% growth compared with 2017.

The **incurred claims cost**, defined as the sum of the total settlement costs and the total amount reserved for all claims incurred in the current financial year, amounted to €22,409 million, up 0.6% from 2017.

NON-LIFE INSURANCE

Non-life technical account
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
Gross written premiums	36,358	35,413	33,687	32,800	32,007	31,954	32,276	33,096
Changes in premium reserves and other items (-)	522	-473	-754	-388	-176	104	504	547
Incurred claims (-):	26,462	25,793	22,400	21,201	20,080	20,008	20,200	20,338
– incurred claims cost for the current accident year (-)	25,328	24,813	22,891	22,301	21,691	21,842	22,278	22,409
– excess/shortfall for claims in previous years	-1,134	-981	491	1,100	1,611	1,833	2,078	2,071
Balance of other technical items	-591	-663	-605	-527	-599	-612	-609	-577
Operating expenses (-)	8,761	8,504	8,433	8,599	8,647	8,767	8,898	9,178
– commissions	5,776	5,509	5,361	5,350	5,378	5,565	5,683	5,828
– other acquisition costs	1,356	1,422	1,478	1,629	1,617	1,489	1,476	1,541
– other administration costs	1,629	1,573	1,594	1,621	1,652	1,713	1,739	1,808
Direct technical balance	**22**	**926**	**3,004**	**2,860**	**2,856**	**2,462**	**2,065**	**2,457**
Investment income	604	1,607	1,202	1,278	1,220	1,044	1,155	706
Direct technical account result	**626**	**2,533**	**4,205**	**4,138**	**4,077**	**3,507**	**3,220**	**3,162**
Reinsurance results	-554	537	-772	-600	-495	-587	-254	-335
Overall technical account result	**72**	**3,070**	**3,434**	**3,538**	**3,581**	**2,920**	**2,966**	**2,828**
Annual % change in premiums	2.6%	-1.9%	-4.6%	-2.7%	-2.4%	-1.0%	1.2%	2.3%
Combined ratio	**97.9%**	**95.9%**	**90.1%**	**90.1%**	**89.4%**	**90.3%**	**91.1%**	**90.2%**
– Expense ratio	24.1%	24.0%	25.0%	26.2%	27.0%	27.4%	27.6%	27.7%
– Commissions/Gross written premiums	15.9%	15.6%	15.9%	16.3%	16.8%	17.4%	17.6%	17.6%
– Other acquisition costs/Gross written premiums	3.7%	4.0%	4.4%	5.0%	5.1%	4.7%	4.6%	4.7%
– Other administration costs/Gross written premiums	4.5%	4.4%	4.7%	4.9%	5.2%	5.4%	5.4%	5.5%
– Loss ratio:	73.8%	71.9%	65.0%	63.9%	62.4%	62.8%	63.6%	62.5%
– Loss ratio for the current accident year	70.7%	69.1%	66.5%	67.2%	67.4%	68.6%	70.1%	68.8%
– Excess/shortfall of claim reserves for previous years/ Earned premiums	-3.2%	-2.7%	1.4%	3.3%	5.0%	5.8%	6.5%	6.4%
Technical balance/Earned premiums	**0.1%**	**2.6%**	**8.7%**	**8.6%**	**8.9%**	**7.7%**	**6.5%**	**7.5%**
Technical account result/Earned premiums	**1.7%**	**7.1%**	**12.2%**	**12.5%**	**12.7%**	**11.0%**	**10.1%**	**9.7%**
Overall technical account result/Earned premiums	**0.2%**	**8.6%**	**10.0%**	**10.7%**	**11.1%**	**9.2%**	**9.3%**	**8.7%**
Premiums to total life and non-life premiums ratio (%)	*33.0%*	*33.7%*	*28.4%*	*22.9%*	*21.8%*	*23.8%*	*24.7%*	*24.5%*

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

Given that earned premiums showed a higher growth in percentage terms, the ratio of claims to premiums improved compared with 2017 (from 70.1% to 68.8%).

Incurred claims, which along with the cost incurred for the current accident year also include any excess/shortfall of the amounts reserved for claims incurred in previous accident years, amounted to €20,338 million, 0.7% more than in 2017. A factor in this result was the significant release (€2,071 million, about the same amount registered in the previous year) in provisions set aside for claims incurred in the previous years. The loss ratio to earned premiums thus improved compared with 2017, moving from 63.6% to 62.5%.

Operating expenses, including costs of contract acquisition, premium collection and dealers' organization and management expenses, as well as administration expenses for technical management, amounted to €9,178 million, with 3.1% growth and a 27.7% ratio to direct premiums (27.6% in 2017). Other administration expenses increased (from 5.4% to 5.5%) and other acquisition expenses grew (from 4.6% to 4.7%) in relation to premiums, while commissions paid remained stable (17.6%).

The **technical balance for direct business** was positive by €2,457 million, up from €2,065 million in 2017.

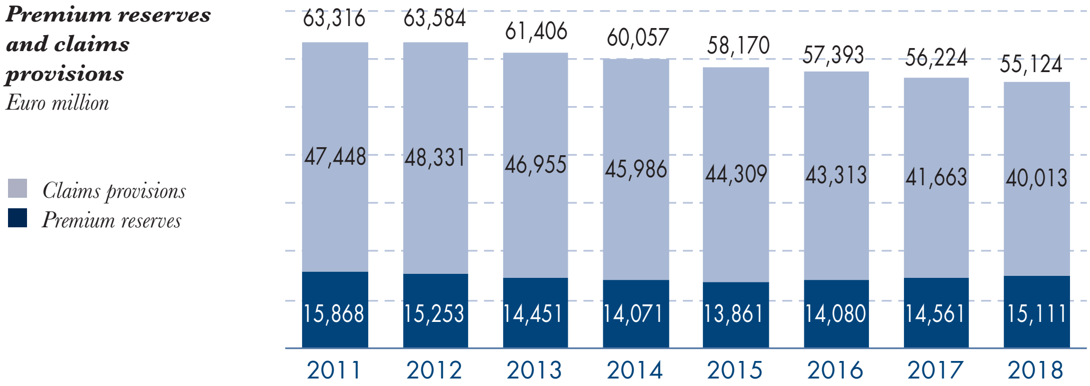
Considering investment income of €706 million (sharply down from €1,155 million in 2017), the **direct technical account result** was positive by €3,162 million (€3,220 in 2017). Its ratio to earned premiums ratio amounted to 9.7% (10.1% in 2017).

The result for reinsurance cessions and net indirect business was negative by -€335 million (against -€254 million in 2017).

Therefore **the overall technical account result was positive** by €2,828 million (€2,966 in 2017). Its ratio to earned premiums amounted to 8.7% (9.3% in 2017).

Direct technical reserves, net of sums to be recovered from policyholders and third parties, were equal to €55,124 million at the end of 2018, of which €15,111 million consisted of premium reserves and €40,013 million consisted of claim provisions.

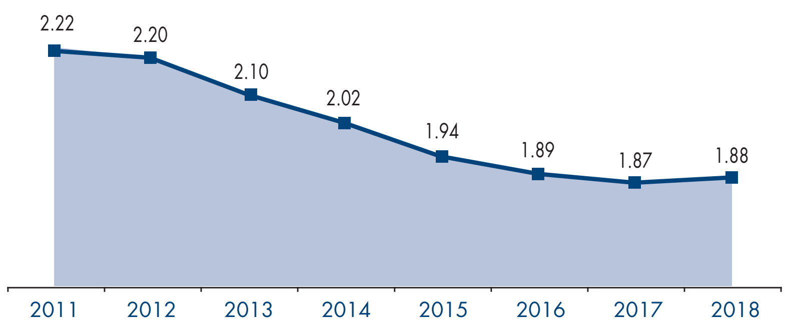
Premium reserves and claims provisions
Euro million



NON-LIFE INSURANCE AND GDP

The ratio of direct premiums to GDP remained broadly unchanged in 2018 (1.88%), in line with the two previous years.

Non-life premiums/GDP (%)



5

MOTOR INSURANCE

MOTOR INSURANCE

In 2018 motor insurance premiums firmed up after the reduction of over 25% registered in the previous six years to hold practically stable (+ 0.1%). The cost of claims too was unchanged, so the combined ratio was also unchanged from 2017. The financial component of returns on investment, though down slightly on the year, contributed to the positive overall technical balance, this too slightly down from the previous year. The overall technical result for land vehicle insurance remained positive at over €200 million.

MOTOR LIABILITY OPERATIONS

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

Premiums for direct domestic business, collected by the 41 companies operating in this class, totaled €13,252 million in 2018, up a scant 0.1%. This followed a six-year series of substantial declines averaging some 4% or 5% annually since 2012, bringing total premiums down by over 25% or €4.5 billion. The marginal gain recorded in 2018 was the resultant of an increase of 0.9% in the number of vehicles insured and a decline of 0.8% in the average premium. Motor liability thus accounted for 40.0% of total premiums for non-life classes (it had been nearly 50% in 2012). In addition, a significant share of premiums (5% of the total, amounting to almost €680 million) was collected by branch offices of foreign companies registered in EU countries operating under the freedom of establishment. These insurers too reversed the trend of recent years: their written premiums, after falling 35% between 2011 and 2017, gained about 10% last year. Overall, Italian, EU and non-EU insurers collected total premium income of €13,931 million in 2018, an increase of 0.6%. No data on technical results are available for the non-Italian EU companies, as they are subject to the home country supervisory authorities under the principle of home country control.

Earned premiums, i.e. total premiums net of the change in premium reserves and some other balance items, came to €13,240 million, practically the same as in 2017.

The **incurred claims cost for the current accident year**, defined as the sum of the total cost paid and the total cost reserved for all claims incurred in the current accident year, amounted to €10,620 million, down 1.4% on 2017. This is consistent with the reduction of 2.1% in the total number of claims (including the estimate of claims incurred but not reported) and the rise of 0.7% in the average cost of claims.

Since the total cost of claims came down by 1.4% and earned premiums were virtually unchanged, the ratio of claims cost to premium income in the 2018 accident year improved by 1.1 percentage points, coming down from 81.3% to 80.2%.

The **incurred claims cost for the financial year**, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal to €10,046 million, compared with €10,053 in 2017. The difference with respect to incurred claims cost reflected the utilization of excess reserves for previous years (€574 million). The excess of previous years' reserves came to 4.3% of earned premium income. Owing to the stability in the amount of earned premiums and of total costs (-0.1%), the loss ratio held steady at 75.9%.

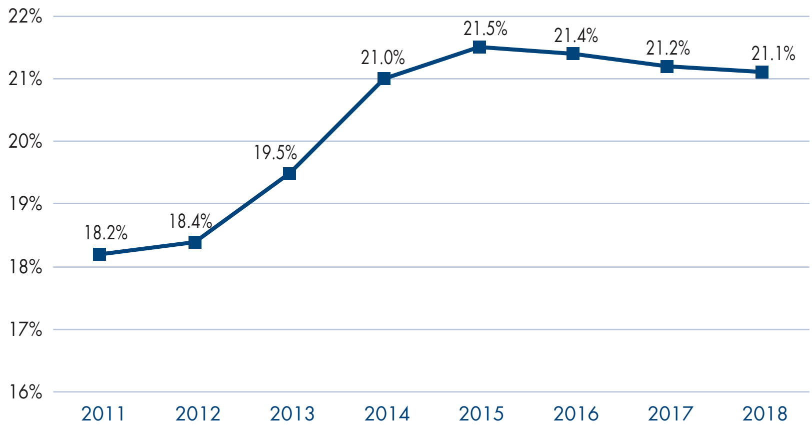
Motor and marine liability insurance
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
Gross written premiums	17,794	17,576	16,263	15,211	14,218	13,526	13,234	13,252
Changes in premium reserves and other items (-)	299	-121	-572	-347	-232	-164	-17	12
Incurred claims (-):	14,791	13,110	11,563	10,818	10,421	10,421	10,053	10,046
– incurred claims cost for the current accident year (-)	13,444	12,108	11,539	11,176	11,032	11,022	10,773	10,620
– excess/shortfall for claims in previous years	-1,347	-1,002	-24	358	611	601	720	574
Balance of other technical items	-203	-272	-248	-143	-127	-172	-185	-187
Operating expenses (-)	3,236	3,233	3,167	3,187	3,060	2,900	2,805	2,795
– commissions	1,868	1,840	1,732	1,634	1,571	1,521	1,457	1,440
– other acquisition costs	595	638	690	789	731	631	614	600
– other administration costs	773	755	746	765	757	749	734	754
Direct technical balance	**-735**	**1,084**	**1,857**	**1,410**	**842**	**196**	**208**	**213**
Investment income	272	799	613	654	600	500	531	313
Direct technical account result	**-463**	**1,883**	**2,469**	**2,064**	**1,442**	**696**	**738**	**525**
Reinsurance results	-19	1	-47	-1	10	-16	-37	-27
Overall technical account result	**-482**	**1,883**	**2,423**	**2,063**	**1,452**	**680**	**702**	**498**
Annual % changes in premiums	5.2%	-1.2%	-7.0%	-6.5%	-6.5%	-5.6%	-2.2%	0.1%
Combined ratio	**102.7%**	**92.5%**	**88.2%**	**90.5%**	**93.6%**	**97.6%**	**97.1%**	**97.0%**
– Expense ratio	18.2%	18.4%	19.5%	21.0%	21.5%	21.4%	21.2%	21.1%
– Commissions/Gross written premiums	10.5%	10.5%	10.6%	10.7%	11.1%	11.2%	11.0%	10.9%
– Other acquisition costs/Gross written premiums	3.3%	3.6%	4.2%	5.2%	5.1%	4.7%	4.6%	4.5%
– Other administration costs/Gross written premiums	4.3%	4.3%	4.6%	5.0%	5.3%	5.5%	5.5%	5.7%
– Loss ratio:	84.5%	74.1%	68.7%	69.5%	72.1%	76.1%	75.9%	75.9%
– Loss ratio for the current accident year	76.8%	68.4%	68.5%	71.8%	76.3%	80.5%	81.3%	80.2%
– Excess/shortfall of claims reserves for previous years/ Earned premiums	-7.7%	-5.7%	-0.1%	2.3%	4.2%	4.4%	5.4%	4.3%
Technical balance/Earned premiums	**-4.2%**	**6.1%**	**11.0%**	**9.1%**	**5.8%**	**1.4%**	**1.6%**	**1.6%**
Technical account result/Earned premiums	**-2.6%**	**10.6%**	**14.7%**	**13.3%**	**10.0%**	**5.1%**	**5.6%**	**4.0%**
Overall technical account result/Earned premiums	**-2.8%**	**10.6%**	**14.4%**	**13.3%**	**10.1%**	**5.0%**	**5.3%**	**3.8%**
Premiums over total non-life premiums (%)	*48.9%*	*49.6%*	*48.3%*	*46.4%*	*44.4%*	*42.3%*	*41.0%*	*40.0%*
Premiums of EU branches	960	954	956	805	762	631	618	679
Annual % changes in premiums	-5.8%	-1.5%	4.8%	-0.6%	-11.8%	-15.8%	-3.6%	9.8%
Premiums of Italian. EU and non-EU insurers	**18,754**	**18,530**	**17,219**	**16,016**	**14,980**	**14,157**	**13,852**	**13,931**
Annual % changes in premiums		-1.2%	-7.3%	-7.0%	-6.5%	-5.5%	-2.2%	0.6%

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

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €2,795 million (€2,805 million in 2017). The ratio of expenses to premium income edged down from 21.2% to 21.1%. In particular, the incidence of other administration costs on income rose from 5.5% to 5.7%, while that of commissions diminished from 11.0% to 10.9% and that of other acquisition costs came down from 4.6% to 4.5%.

Operating expenses
(%) of premiums



Adding the loss ratio (for the current year or the entire policy year) to the expense ratio gives the **combined ratio** (for the current year or for the entire policy year, which includes the excess/shortfall of reserves set aside against claims incurred in previous accident years). The figure, plotting the combined ratio from 2011 to 2018, shows that:

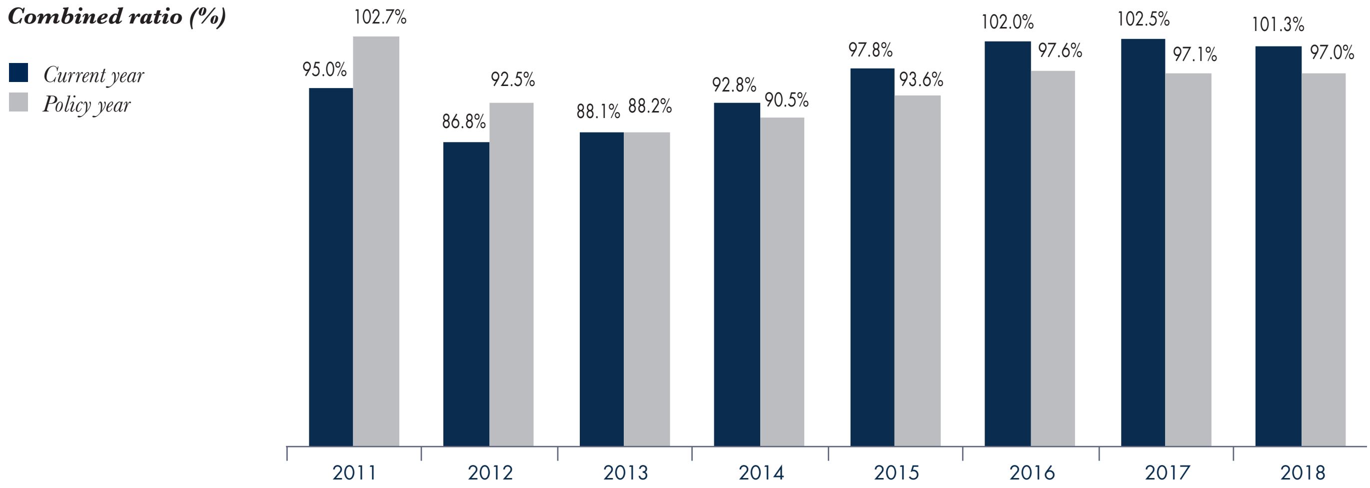
1) The combined ratio for the accident generation of 2018 was 101.3%, representing an improvement of 1.2 percentage points compared with the 2017 generation (102.5%) but nearly 15 points worse than in 2012, when the ratio stood at 86.8%, the best technical result on record.
2) In the three years from 2011 through 2013 the balance-sheet combined ratio for the policy year (current year + previous years) was equal to or higher than that of the current accident year, showing that there was a shortfall (sometimes quite substantial) of reserves against previous years' claims. Only in 2014, and more significantly in the years that followed, were excess reserves sufficient to push the combined ratio for the policy year below that for the current year.

The foregoing variations in the relevant components produced an offset between income and expenses, resulting in a positive **technical balance** of €213 million, up marginally from €208 million in 2017.

MOTOR INSURANCE

Owing to the 41% fall in profits from investments to €313 million last year, the **result of the technical account for direct business**, while remaining positive by €525 million, was down 30% from the €738 million registered in 2017.

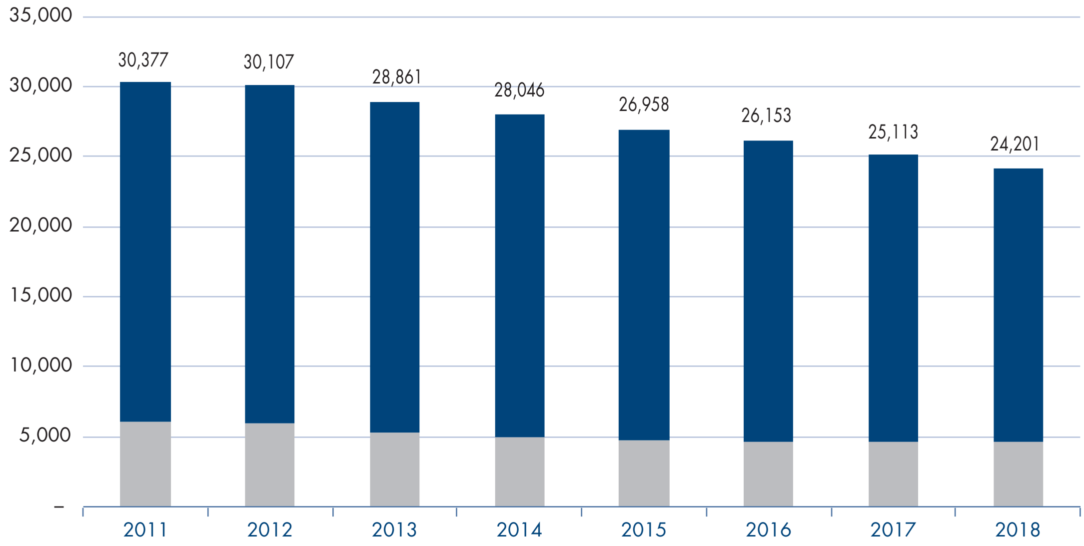
Combined ratio (%)



Taking the balance for reinsurance into account (negative by €27 million), the **overall technical account result** was positive by €498 million, down significantly from €702 million the previous year.

The **technical reserves** for direct business of the motor and marine liability sector, net of recoverable sums, amounted to €24,201 million in 2018, down by about 4% compared with 2017. Among these reserves, the premium reserve was about €4,600 million, while the claims reserve for current and previous accident years was about €19,600 million.

Technical reserves, motor and marine liability classes
Euro million



LAND VEHICLE INSURANCE OPERATIONS

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

Premiums for direct domestic business for the 46 insurance companies operating in this class amounted to €2,966 million in 2018, accounting for 9.0% of total non-life insurance premiums. This represented an increase in premiums of 5.9%, the fourth straight year of increase following gains of 2.9% in 2015, 6.5% in 2016 and 6.3% in 2017 after a seven-year contraction in 2008-14 that had brought a total premium reduction of about 30%. Sales of these policies are closely correlated with new car sales, which according to ACI data had plunged by over 40% in 2009-2013 but then rebounded by nearly 45% in the five years from 2014 through 2018.

Earned premiums, i.e. total premiums net of the change in premium reserves and some other balance items, came to €2,861 million, up some 7% over 2017.

Land vehicle insurance
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
Gross written premiums	2,891	2,648	2,413	2,387	2,455	2,634	2,796	2,966
Changes in premium reserves (-)	-14	-72	-76	-13	54	87	118	105
Incurred claims (-):	1,812	1,630	1,654	1,459	1,396	1,463	1,622	1,688
– incurred claims cost for the current accident year (-)	1,884	1,701	1,695	1,512	1,463	1,515	1,668	1,725
– excess/shortfall for claims in previous years	72	71	41	53	67	53	46	37
Balance of other technical items	-31	-28	-21	-10	-11	-14	-11	-10
Operating expenses (-)	763	703	660	692	733	804	860	935
– commissions	521	477	447	460	492	547	593	641
– other acquisition costs	119	109	102	117	119	122	124	137
– other administration costs	123	117	111	115	121	134	142	157
Direct technical balance	**299**	**360**	**154**	**238**	**261**	**268**	**185**	**229**
Investment income	18	48	35	38	36	32	38	25
Direct technical account result	**317**	**408**	**189**	**276**	**298**	**300**	**223**	**254**
Reinsurance results	-22	-18	1	-27	-36	-64	-36	-37
Overall technical account result	**295**	**390**	**191**	**249**	**262**	**237**	**187**	**218**
Annual % changes in premiums	-2.0%	-8.4%	-8.6%	-1.1%	2.9%	6.5%	6.3%	5.9%
Combined ratio	**88.8%**	**86.4%**	**93.8%**	**89.8%**	**88.0%**	**87.9%**	**91.3%**	**90.5%**
– Expense ratio	26.4%	26.5%	27.4%	29.0%	29.8%	30.5%	30.7%	31.5%
– Commissions/Gross written premiums	18.0%	18.0%	18.5%	19.3%	20.0%	20.8%	21.2%	21.6%
– Other acquisition costs/Gross written premiums	4.1%	4.1%	4.2%	4.9%	4.9%	4.6%	4.4%	4.6%
– Other administration costs/Gross written premiums	4.3%	4.4%	4.6%	4.8%	4.9%	5.1%	5.1%	5.3%
– Loss ratio:	62.4%	59.9%	66.4%	60.8%	58.2%	57.4%	60.6%	59.0%
– Loss ratio for the current accident year	64.9%	62.5%	68.1%	63.0%	60.9%	59.5%	62.3%	60.3%
– Excess/shortfall of claims reserves for previous years/ Earned premiums	2.5%	2.6%	1.7%	2.2%	2.8%	2.1%	1.7%	1.3%
Technical balance/Earned premiums	**10.3%**	**13.2%**	**6.2%**	**9.9%**	**10.9%**	**10.5%**	**6.9%**	**8.0%**
Technical account result/Earned premiums	**10.9%**	**15.0%**	**7.6%**	**11.5%**	**12.4%**	**11.8%**	**8.3%**	**8.9%**
Overall technical account result/Earned premiums	**10.1%**	**14.3%**	**7.7%**	**10.4%**	**10.9%**	**9.3%**	**7.0%**	**7.6%**
Premiums over total non-life premiums ratio (%)	*8.0%*	*7.5%*	*7.2%*	*7.3%*	*7.7%*	*8.2%*	*8.7%*	*9.0%*

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

The **incurred claims cost for the current accident year**, defined as the sum of the total paid and the total reserved for all claims incurred in the current accident year, amounted to €1,725 million, with growth of 3.4% compared with 2017. Given that this cost increased less than the volume of earned premiums, the loss ratio for the year improved from 62.3% to 60.3%.

The **incurred claims cost** for the financial year, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal to €1,688 million, up 4.1% from €1,622 million in 2017. The loss ratio with respect to earned premiums thus improved from 60.6% to 59.0%.

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €935 million (€860 million in 2017). The ratio to premium income in 2018 was 31.5% (30.7% in 2017). In spite of the rise in premium income, the expense ratio in 2018 reached its highest value since 1998, owing above all to distribution commissions, which came to 21.6% of income.

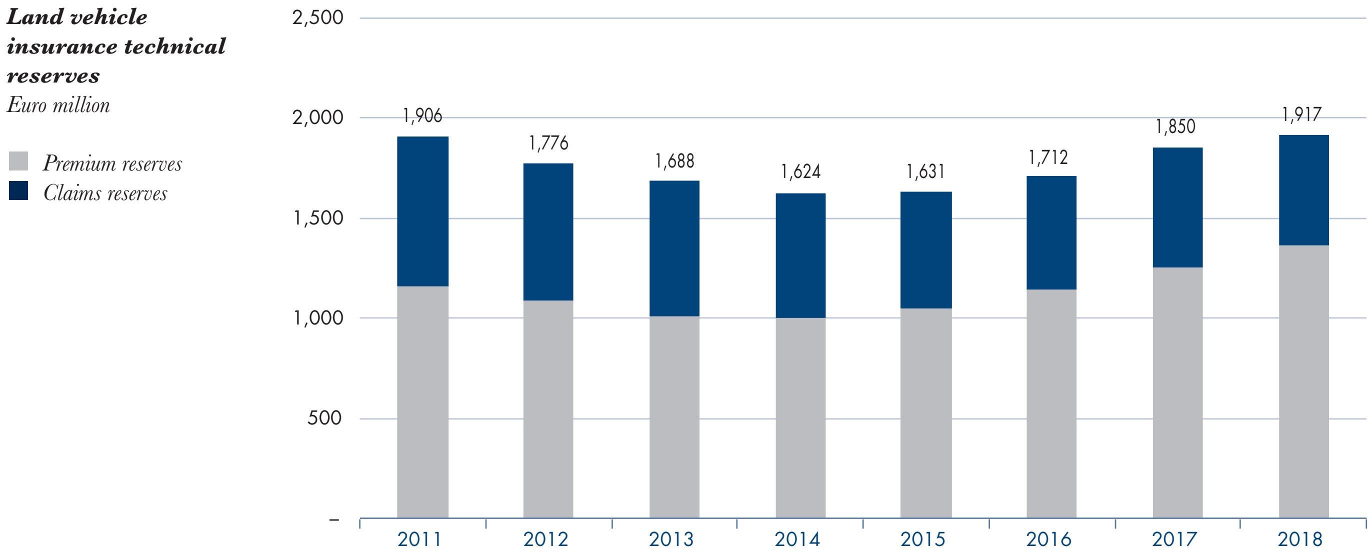
The **technical balance for direct business** was positive in 2018 by €229 million (€185 million in 2017).

Including investment income, the **technical account result** was positive by €254 million (€223 million in 2017).

Taking the balance on reinsurance into account, the **overall technical account result** was also positive, by €218 million (€187 million in 2017). Its ratio to premiums rose from 7.0% to 7.6%.

Technical reserves for direct business, net of recoverable sums, amounted to €1,917 million in the land vehicles class in 2018, slightly more than in 2017. Among these reserves, claims reserves (for the current and previous accident years) amounted to some €550 million, while premium reserves came to over €1,350 million.

Land vehicle insurance technical reserves
Euro million



CAR THEFT IN ITALY

The Ministry of the Interior has released the data (not yet definitive) on thefts of passenger cars and SUVs in Italy in 2018. We have compared them with the data for 2016 and 2017 (Table 1).

Table 1 – Theft of passenger cars in Italy, 2016-2018

Region	Car thefts (**)			Change % car thefts			% of cars regist. (*)	Car thefts per 1,000 registered		
	year 2018	year 2017	year 2016	2018/ 2017	2017/ 2016	2016/ 2015	2018	2018	2017	2016
PIEDMONT	4,711	4,870	5,627	-3.3%	-13.5%	8.0%	7.5%	1.60	1.66	1.95
VALLE D'AOSTA	18	31	37	-41.9%	-16.2%	23.3%	0.5%	0.10	0.19	0.22
LOMBARDY	10,455	10,426	11,181	0.3%	-6.8%	-5.1%	15.8%	1.70	1.71	1.84
LIGURIA	494	528	584	-6.4%	-9.6%	-11.0%	2.2%	0.59	0.63	0.70
FRIULI-VENEZIA GIULIA	339	294	342	15.3%	-14.0%	11.0%	2.1%	0.42	0.37	0.43
TRENTINO-ALTO ADIGE	279	140	167	99.3%	-16.2%	-0.6%	2.9%	0.25	0.13	0.16
VENETO	1,178	1,186	1,608	-0.7%	-26.2%	4.3%	8.1%	0.37	0.38	0.52
EMILIA-ROMAGNA	1,977	2,113	2,332	-6.4%	-9.4%	-11.3%	7.4%	0.69	0.74	0.82
NORTH	*19,451*	*19,588*	*21,878*	*-0.7%*	*-10.5%*	*-2.0%*	*46.3%*	*1.08*	*1.10*	*1.23*
TUSCANY	1,697	1,357	1,681	25.1%	-19.3%	-0.2%	6.5%	0.67	0.54	0.67
UMBRIA	365	324	319	12.7%	1.6%	-22.9%	1.6%	0.57	0.51	0.51
MARCHE	624	702	689	-11.1%	1.9%	-9.7%	2.6%	0.61	0.69	0.68
LAZIO	16,790	15,941	15,339	5.3%	3.9%	-5.3%	9.7%	4.45	4.24	4.08
CENTER	*19,476*	*18,324*	*18,028*	*6.3%*	*1.6%*	*-5.4%*	*20.4%*	*2.44*	*2.32*	*2.28*
ABRUZZO	1,117	1,507	1,339	-25.9%	12.5%	-18.8%	2.3%	1.27	1.73	1.54
MOLISE	281	303	377	-7.3%	-19.6%	26.9%	0.5%	1.32	1.44	1.79
CAMPANIA	19,369	17,969	20,975	7.8%	-14.3%	-3.5%	8.9%	5.55	5.23	6.10
CALABRIA	2,793	2,522	3,160	10.7%	-20.2%	-12.2%	3.3%	2.18	2.00	2.51
PUGLIA	15,726	13,775	14,446	14.2%	-4.6%	-5.2%	6.1%	6.64	5.91	6.20
BASILICATA	289	301	372	-4.0%	-19.1%	-3.6%	1.0%	0.77	0.81	1.00
SOUTH	*39,575*	*36,377*	*40,669*	*8.8%*	*-10.6%*	*-5.2%*	*22.1%*	*4.60*	*4.29*	*4.80*
SICILY	11,880	11,174	11,930	6.3%	-6.3%	-7.2%	8.5%	3.59	3.43	3.66
SARDINIA	882	1,030	1,106	-14.4%	-6.9%	-3.7%	2.7%	0.84	0.99	1.07
ISLANDS	*12,762*	*12,204*	*13,036*	*4.6%*	*-6.4%*	*-6.9%*	*11.2%*	*2.93*	*2.84*	*3.03*
TOTAL ITALY	91,264	86,493	93,611	5.5%	-7.6%	-4.8%	100.0%	2.34	2.25	2.43

Sources: (*) Ministry Infrastructures and Transport/ACI – No. vehicles registered at 31 December 2018
(**) Ministry of Interior – The data for 2018 are subject to rectification

The number of vehicle thefts turned back up last year, from 86,493 to 91,264, an increase of 5.5%. Whereas the number of auto thefts declined steadily from 2012 to 2017 by more than a quarter overall (or about 30,000 fewer vehicles stolen), in 2018 the number of thefts grew by some 5,000. The trend has not been paralleled by recoveries of stolen vehicles by the law enforcement forces (Table 2): 42.7% of all stolen vehicles (some 40,000) were recovered in 2016; in 2017 there was a marginal reduction to 39.2% (34,000 vehicles) and a further decline to 39.0% last year (although in absolute terms the figure rose to 35,500 recoveries).

Table 2
Stolen cars recovered by the law enforcement forces

Region	Stolen vehicles recovered			% stolen vehicles recovered		
	2018	2017	2016	2018	2017	2016
PIEDMONT	2,106	2,289	2,873	44.7%	47.0%	51.1%
VALLE D'AOSTA	9	14	19	50.0%	45.2%	51.4%
LOMBARDY	3,903	4,199	4,988	37.3%	40.3%	44.6%
LIGURIA	415	439	456	84.0%	83.1%	78.1%
FRIULI-VENEZIA GIULIA	165	151	185	48.7%	51.4%	54.1%
TRENTINO-ALTO ADIGE	105	93	129	37.6%	66.4%	77.2%
VENETO	853	865	1,123	72.4%	72.9%	69.8%
EMILIA-ROMAGNA	1,427	1,717	1,944	72.2%	81.3%	83.4%
NORTH	*8,983*	*9,767*	*11,717*	*46.2%*	*49.9%*	*53.6%*
TUSCANY	1,000	1,057	1,254	58.9%	77.9%	74.6%
UMBRIA	231	254	256	63.3%	78.4%	80.3%
MARCHE	297	379	400	47.6%	54.0%	58.1%
LAZIO	4,708	4,463	4,835	28.0%	28.0%	31.5%
CENTER	*6,236*	*6,153*	*6,745*	*32.0%*	*33.6%*	*37.4%*
ABRUZZO	422	529	548	37.8%	35.1%	40.9%
MOLISE	60	55	68	21.4%	18.2%	18.0%
CAMPANIA	6,609	5,391	6,820	34.1%	30.0%	32.5%
CALABRIA	1,463	1,290	1,875	52.4%	51.1%	59.3%
PUGLIA	6,300	5,876	6,571	40.1%	42.7%	45.5%
BASILICATA	67	77	102	23.2%	25.6%	27.4%
SOUTH	*14,921*	*13,218*	*15,984*	*37.7%*	*36.3%*	*39.3%*
SICILY	4,961	4,234	4,909	41.8%	37.9%	41.1%
SARDINIA	466	548	612	52.8%	53.2%	55.3%
ISLANDS	*5,427*	*4,782*	*5,521*	*42.5%*	*39.2%*	*42.4%*
TOTAL ITALY	35,567	33,920	39,967	39.0%	39.2%	42.7%

Source: Interior Ministry; the data for 2018 are subject to rectification

Using ACI's data on the provincial distribution of cars in circulation in 2018 as a base, we can make an approximate calculation of theft rates. Overall in 2018, 2.34 vehicles per thousand were stolen, compared with 2.25 per thousand in 2017 and 2.43 per thousand in 2016.

In regional terms, whereas in 2016 and even more markedly in 2017 the territorial breakdown shows significant declines of 5.2% and 10.6% in the South, last year saw a resurgence in auto theft in that part of the country. If auto thefts diminished in Abruzzo, Molise and Basilicata in 2018 (by 25.9%, 7.3%, and 4.0% respectively), the other southern regions showed increases. The sharpest rise was in Puglia (14.2%), followed by Calabria (10.7%) and Campania (7.8%). Again in 2018 the regions with the highest theft rates in proportion to the number of cars on the roads were Puglia at 6.64‰ and Campania at 5.55‰.

The Center also registered an increase in auto theft in 2018, with a rise of 6.3%. Except for Marche, where thefts dropped by over 11% last year, all the central regions showed increases. The rises were largest in Tuscany (up 25.1%) and

Umbria (12.7%), more limited in Lazio (5.3%). In the regions of central Italy the incidence of theft to cars on the road is less than 1.00‰, if we exclude Lazio, where it came to 4.45‰ (up slightly from 4.24‰ in 2017 and 4.08‰ registered in 2016). The Center regions account for some 20.4% of passenger cars on the roads.

The North was the only macro-region recording a modest diminution in the number of thefts (down 0.7%). By region, the sharpest declines were in Emilia-Romagna and Liguria, with decreases of 6.5% by comparison with 2017, followed by Piedmont (-3.3%) and Veneto (-0.7%). The theft rate also plunged in Valle d'Aosta (by 41.9%), where auto theft is in any case extremely limited. The other northern regions showed increases. In Trentino-Alto Adige thefts actually doubled in 2018, while in Friuli-Venezia Giulia they rose by 15.3%. In Lombardy they were broadly unchanged. The North has nearly half of all Italy's passenger cars (46.3% in 2018) and also the lowest incidence of theft, averaging 1.08‰ overall and a strikingly low 0.25‰ in Trentino-Alto Adige.

The island regions registered a rise of 4.6% in auto theft, While Sardinia recorded a substantial reduction of 14.4% and a consequent improvement in the theft rate from 0.99‰ to 0.84‰, in Sicily the number of cars stolen rose by 6.3%, pushing the theft rate up from 3.43‰ to 3.59‰.

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

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

PASSENGER CAR FIRE AND THEFT COVERAGE IN ITALY

ANIA gathers annual statistics on the technical performance and the diffusion of the various kinds of land vehicle insurance. This means mainly car theft and fire, collision (so-called partial or full “kasko”), breakage of windows and windshields, damage from weather, vandalism, or political events. This section reports the preliminary results for 2018 and a homogeneous comparison with 2016 and 2017 for the most common type of coverage, namely fire and theft. The observation is for a sample of companies that account for over 90% of premium income in this class and refers only to private passenger cars (no fleet policies).

Diffusion of coverage

Based on our sample, we estimate that there were about 9 million passenger car fire and theft policies in Italy in 2018, up from 8.8 million in 2017 and more sharply over the previous three years, when they averaged some 8.5 million. The increase is in line with the rise in new car sales in 2018, the main cause of purchases of this type of voluntary insurance coverage.

Nationwide, this works out to a coverage ratio of about 30% of all cars with motor liability insurance. But the geographical distribution is quite uneven. The regions with higher-than-average coverage are found in the Center and North: nearly half the cars (48.4%) in Lombardy, 38% in Piedmont and Lazio, and 30% in Liguria and Emilia Romagna. Very low diffusion of 15% to 17% (half the national average) is registered mainly in the regions of the South: Campania, 15.8%; Puglia, 16.3%; Basilicata, 16.6%; and Sicily, 16.9%.

Claims frequency

Claims frequency (i.e. the ratio of claims in a year to the number of vehicles insured) is much higher for theft insurance (9.27 claims per 1,000 insured vehicles in 2018, lower than in the previous two years) than for fire (0.31 per 1,000, also down from the two previous years; see Tables 1 and 2).

This indicator too displays great geographical variability (Figure 1). The region with the greatest frequency of theft claims in 2018 was again Puglia, with over 25 cars stolen for every thousand insured, up from 22 in 2017 and 24 in 2016, followed by Campania (over 17, marginally more than in the two previous years), Lazio (13, down slightly from 2017 and 2016) and Molise (over 10 as in 2017). By province, the highest frequencies in 2018 were registered in Foggia (35 auto theft claims for every thousand vehicles insured, up from 30 in 2017 but less than the 40 recorded in 2016), Barletta-Andria-Trani (32, up from 28 in the two previous years), Bari (30, up from 26), Naples (23), and Caserta (just over 18).

Table 1
Technical indicators, auto theft insurance

	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Friuli-Venezia Giulia	1.7	1.6	1.5	2.83	2.92	3.24	25.6	25.8	34.9
Veneto	8.0	7.8	7.5	4.54	4.54	5.72	16.8	16.8	17.3
Trentino-Alto Adige	1.2	1.1	1.0	2.69	3.17	3.84	30.3	30.3	21.6
Emilia-Romagna	8.5	8.4	8.2	6.20	6.88	8.21	20.2	18.4	16.7
TOTAL NORTH-EAST	*19.3*	*18.8*	*18.3*	*5.01*	*5.37*	*6.53*	*19.3*	*18.4*	*17.7*
Piedmont	10.5	10.7	10.9	9.15	8.88	10.08	31.7	31.6	30.8
Lombardy	29.0	29.6	30.4	8.41	9.32	10.09	34.8	32.3	34.4
Liguria	2.5	2.5	2.6	6.16	6.70	6.93	18.5	18.9	17.8
Valle d'Aosta	0.2	0.2	0.2	3.09	3.47	4.16	26.3	29.5	31.5
TOTAL NORTH-WEST	*42.1*	*43.1*	*44.1*	*8.44*	*9.03*	*9.88*	*33.3*	*31.5*	*32.8*
Tuscany	4.6	4.6	4.5	6.02	6.15	7.04	22.9	20.0	18.0
Marche	1.7	1.7	1.6	5.24	6.02	6.76	31.1	29.2	22.8
Umbria	1.2	1.2	1.1	5.92	5.95	6.38	29.5	26.3	23.8
Lazio	12.3	12.5	12.7	13.26	13.92	14.89	62.5	58.0	53.7
TOTAL CENTER	*19.8*	*19.9*	*19.9*	*10.42*	*11.00*	*11.98*	*48.7*	*45.4*	*41.6*
Molise	0.5	0.5	0.4	10.15	10.40	11.99	53.7	50.1	56.0
Campania	4.1	3.9	3.7	17.10	16.31	16.65	54.0	51.0	47.3
Basilicata	0.6	0.6	0.6	8.71	8.40	7.12	61.5	63.4	54.3
Abruzzo	1.9	1.9	1.8	7.15	9.01	8.57	53.0	50.4	46.5
Calabria	1.8	1.8	1.8	9.64	9.03	10.79	45.4	39.1	35.7
Puglia	3.4	3.2	3.0	25.21	22.06	23.64	76.3	70.4	69.9
TOTAL SOUTH	*12.3*	*11.8*	*11.2*	*15.99*	*14.96*	*15.60*	*63.3*	*58.4*	*55.9*
Sardinia	1.7	1.7	1.7	4.03	4.15	5.35	33.0	34.2	31.6
Sicily	4.5	4.5	4.5	9.08	9.60	10.23	39.6	39.3	37.4
TOTAL ISLANDS	*6.2*	*6.3*	*6.3*	*7.67*	*8.07*	*8.87*	*38.7*	*38.6*	*36.5*
TOTAL ITALY	100.0	100.0	100.0	9.27	9.59	10.71	40.2	37.3	36.0

Figure 1 – Claims frequency for car theft and fire insurance – 2018

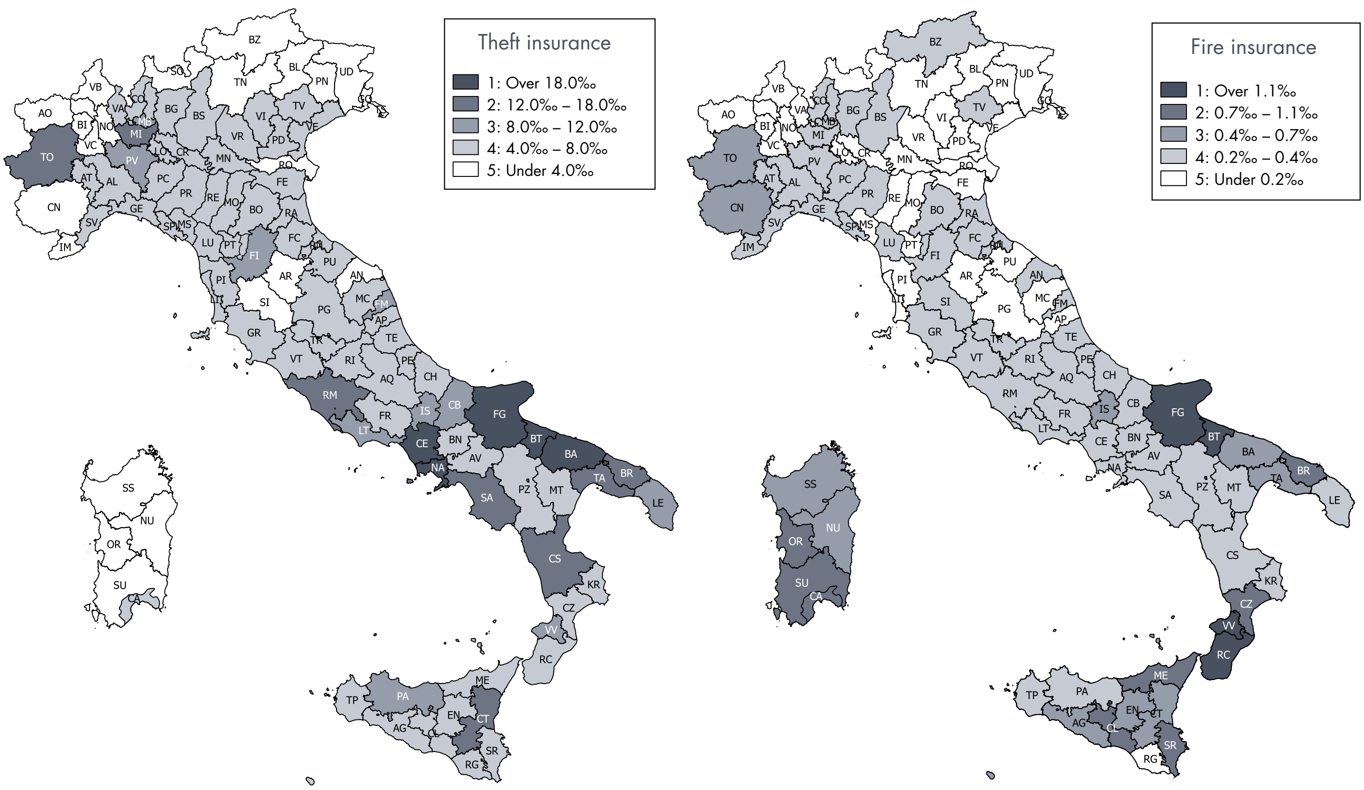


Table 2
Technical indicators, passenger car fire insurance

	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Friuli-Venezia Giulia	1.8	1.8	1.8	0.12	0.15	0.18	80.7	61.8	66.1
Veneto	8.7	8.6	8.4	0.15	0.14	0.17	52.0	54.9	46.3
Trentino-Alto Adige	1.3	1.2	1.1	0.21	0.27	0.26	38.2	58.3	44.2
Emilia-Romagna	8.4	8.4	8.2	0.20	0.26	0.27	44.9	45.7	53.2
TOTAL NORTH-EAST	*20.3*	*20.0*	*19.5*	*0.17*	*0.20*	*0.22*	*49.3*	*50.6*	*51.2*
Piedmont	10.6	10.8	10.9	0.39	0.42	0.36	65.0	56.2	60.3
Lombardy	28.5	29.2	30.0	0.25	0.27	0.25	60.1	59.3	60.4
Liguria	2.5	2.5	2.6	0.27	0.28	0.24	68.8	55.1	41.9
Valle d'Aosta	0.2	0.2	0.2		0.56			82.9	
TOTAL NORTH-WEST	*41.7*	*42.7*	*43.7*	*0.29*	*0.31*	*0.27*	*62.1*	*58.0*	*59.3*
Tuscany	4.6	4.6	4.5	0.18	0.22	0.25	47.5	76.0	50.5
Marche	1.8	1.7	1.6	0.23	0.23	0.24	48.0	42.1	47.6
Umbria	1.2	1.2	1.1	0.15	0.27	0.24	34.0	51.3	61.0
Lazio	11.8	11.9	12.2	0.35	0.46	0.41	65.0	68.3	67.9
TOTAL CENTER	*19.4*	*19.4*	*19.4*	*0.29*	*0.37*	*0.35*	*55.7*	*63.5*	*59.5*
Molise	0.5	0.5	0.4	0.34	0.19	0.32	61.8	37.5	79.8
Campania	4.0	3.8	3.6	0.29	0.29	0.28	70.8	72.1	71.3
Basilicata	0.6	0.6	0.6	0.27	0.36	0.30	59.2	98.8	71.6
Abruzzo	1.9	1.9	1.8	0.35	0.30	0.26	52.6	71.8	69.2
Calabria	1.7	1.7	1.6	0.75	0.82	0.74	84.3	77.1	80.1
Puglia	3.4	3.2	3.0	0.73	0.80	0.70	87.4	82.4	81.0
TOTAL SOUTH	*12.1*	*11.6*	*11.0*	*0.49*	*0.51*	*0.46*	*77.3*	*77.7*	*76.2*
Sardinia	1.8	1.8	1.7	0.76	0.74	0.84	89.8	95.7	68.0
Sicily	4.4	4.5	4.5	0.48	0.56	0.60	75.2	86.2	82.7
TOTAL ISLANDS	*6.2*	*6.2*	*6.2*	*0.56*	*0.61*	*0.67*	*80.7*	*89.5*	*77.6*
TOTAL ITALY	100.0	100.0	100.0	0.31	0.34	0.33	62.4	63.3	61.3

The most "virtuous" regions are nearly all found in the North-East: Trentino-Alto Adige scored 2.69 thefts per thousand vehicles insured in 2018 (down from 3.17 in 2017), Friuli-Venezia Giulia 2.83 (down from 2.92), and Veneto 4.54 (unchanged). Sardinia also registered a low claim frequency of 4 thefts per thousand vehicles insured, down slightly from 2017 and especially from 2016, when the rate was 5 per thousand. The provinces with the lowest theft rates are Pordenone, Sondrio, Bolzano, and Belluno, all under 2.3‰.

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

Average degree of damage

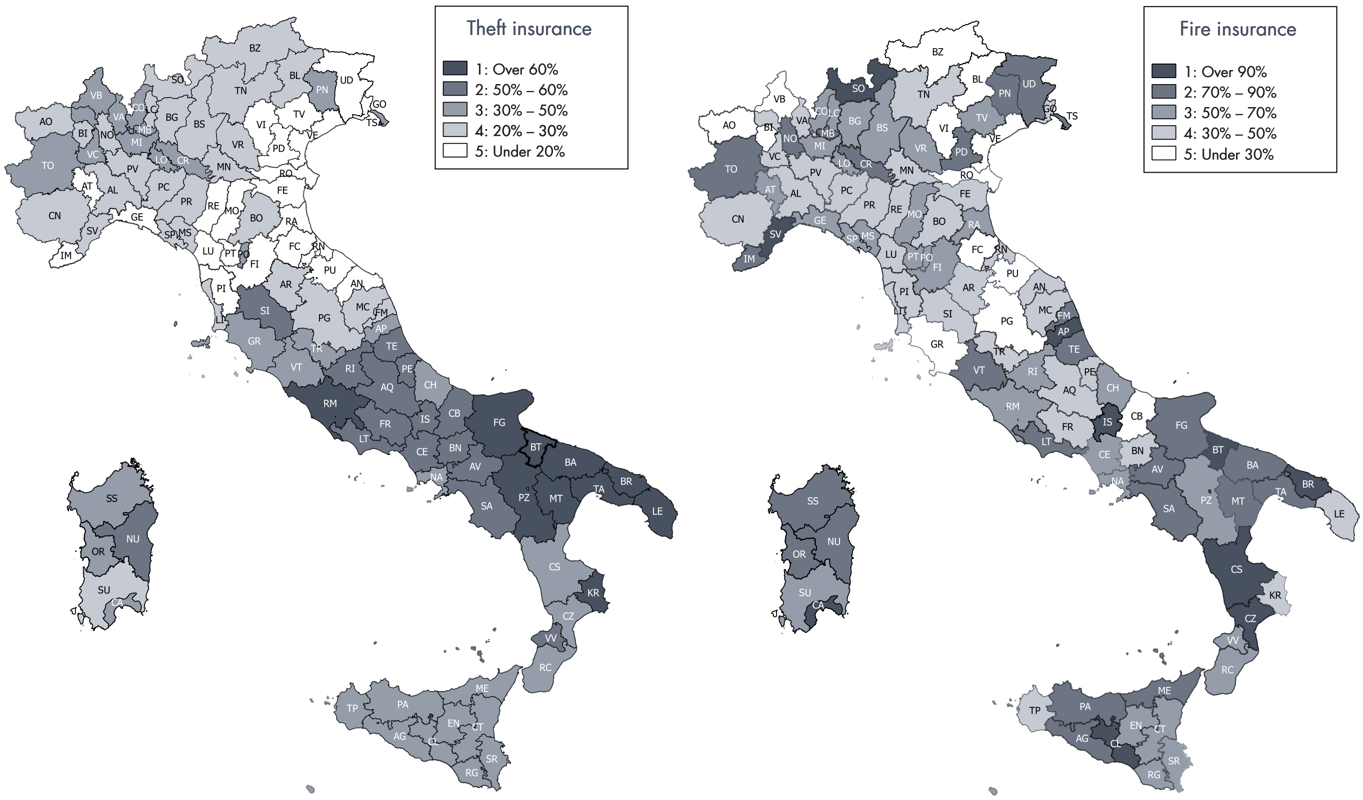
The other significant indicator in analyzing technical trends in fire and theft insurance is the average degree of damage, i.e. the percentage of the value of the good insured that is lost. For given that in the case of both (partial) theft and fire the entire value of the car is not necessarily lost,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

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

For theft insurance, the degree of damage averaged 40.2% nationwide in 2018, 3 percentage points higher than in 2017 and nearly 4 points higher than in 2016, which means that partial auto theft remains quite a significant phenomenon: the average incidence of damages in fact does not even come to half the value insured. For fire insurance the damage rate is considerably higher at 62.4% in 2018, compared with 63.3% in 2017 and 61.3% in 2016. For fire claims, that is, a higher percentage of the total vehicle value is lost.

Again, the degree of damage varies significantly by region for both types of coverage (Figure 2). For theft, the values were higher than the national average

Figure 2 – Average degree of damage, auto theft and fire insurance – 2018



in the South: nearly twice the average in Puglia (76.3%), followed by Basilicata (over 61%), Campania (54%), Molise and Abruzzo (about 53%). Among the regions of the Center and North, a high degree of damage was recorded in Lazio (62.5%, up sharply over 2017 and especially 2016). The provinces with the highest figures were Barletta-Andria-Trani (practically 100% of the value of the insured vehicle), Bari (79%), Crotone (75%), Brindisi (72%), Avellino and Lecce (68%).

For fire insurance, the results are similar: degree of damage greater than 90% in Sardinia and 87% in Puglia; values of over 80% were registered in Calabria and Friuli-Venezia Giulia. Elsewhere, values above the national average were found in Sicily (75.2%) and Lazio (65.0%) More in detail, values of 100% were recorded in many provinces, such as Catanzaro, Isernia, Savona, Caltanissetta, Ascoli Piceno, Brindisi, Barletta-Andria-Trani, Cosenza, Nuoro and Cagliari.

THE AVERAGE COST AND FREQUENCY OF MOTOR LIABILITY CLAIMS

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

Number of claims. The total number of indemnifiable claims incurred and reported is given by the sum of claims incurred and settled during the year and of claims reserved (which will give rise to a payment in the future), but does not include the estimate of those incurred but not reported (IBNR) during 2018 but that will be reported in future years. By this count, the number of claims lodged with Italian or non-EU insurance companies totaled 2,133,797 in 2018, down from 2,184,836 in 2017.

Claims frequency (excluding IBNR, Table 1, Panel A). Claims frequency as shown in Panel A of Table 1 is defined as the ratio of the number of claims incurred and reported during the accident year that have given or will give rise to compensation to the number of vehicles exposed to the risk of claim-generating accidents (measured on the basis of days of exposure during the year, converted into “vehicle-years”). This technical indicator dropped from 5.61% in 2016 to 5.43% in 2017, a decrease of 3.2 percent; after five years of decline from 2010 to 2014, with an overall reduction of nearly 30 percent, the trend was reversed in 2015. The increase continued in 2016 but turned marginally back down in 2017, a contraction that intensified last year.

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

	PANEL A: Excludes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items								PANEL B: Includes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items	
Year	Claims frequency %	Change %	Average claim cost - property damage	Change %	Average claim cost - personal injury	Change %	Average total claim cost**	Change %	Claims frequency %	Average claims cost
2000	9.82%	-1.3%	1,278	2.9%	9,920	14.9%	2,809	13.1%	10.95%	2,825
2001	8.54%	-13.1%	1,431	12.0%	11,175	12.7%	3,186	13.4%	9.55%	3,207
2002	7.82%	-8.4%	1,535	7.3%	12,686	13.5%	3,532	10.9%	8.78%	3,503
2003	7.66%	-2.1%	1,634	6.4%	13,542	6.7%	3,805	7.7%	8.63%	3,771
2004	7.61%	-0.6%	1,701	4.1%	13,206	-2.5%	3,982	4.7%	8.58%	3,964
2005	7.55%	-0.8%	1,644	-3.3%	13,106	-0.8%	4,047	1.6%	8.51%	4,038
2006	7.47%	-1.1%	1,674	1.8%	13,233	1.0%	4,100	1.3%	8.47%	4,080
2007	7.61%	1.9%	1,764	5.4%	11,958	-9.6%	3,967	-3.2%	8.52%	4,014
2008	7.73%	1.6%	1,772	0.5%	11,830	-1.1%	3,913	-1.4%	8.57%	3,972
2009	7.77%	0.5%	1,725	-2.7%	11,694	-1.1%	3,903	-0.3%	8.60%	3,986
2010	7.36%	-5.2%	1,716	-0.5%	12,052	3.1%	4,057	4.0%	8.12%	4,117
2011	6.53%	-11.3%	1,803	5.0%	13,155	9.2%	4,345	7.1%	7.21%	4,519
2012	5.87%	-10.1%	1,899	5.3%	14,804	12.5%	4,495	3.5%	6.48%	4,763
2013	5.65%	-3.8%	1,883	-0.8%	15,986	8.0%	4,564	1.5%	6.24%	4,828
2014	5.48%	-2.9%	1,894	0.6%	16,150	1.0%	4,532	-0.7%	6.05%	4,796
2015	5.55%	1.2%	1,908	0.7%	16,389	1.5%	4,467	-1.5%	6.11%	4,721
2016	5.65%	1.8%	1,912	0.2%	16,132	-1.6%	4,374	-2.1%	6.20%	4,597
2017	5.61%	-0.7%	1,941	1.5%	16,297	1.0%	4,326	-1.1%	6.13%	4,507
2018*	5.43%	-3.2%	1,977	1.9%	16,514	1.3%	4,361	0.8%	5.95%	4,537

(*) ANIA estimates based on advance information on 2017 financial statements
(**) Source: IVASS; for 2018, data from supervisory reporting forms

The number of vehicles insured increased by 0.9% in 2018 to 39.3 million. The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer doing business in Italy, the number of insured vehicles rose by 1.6% to about 42 million.

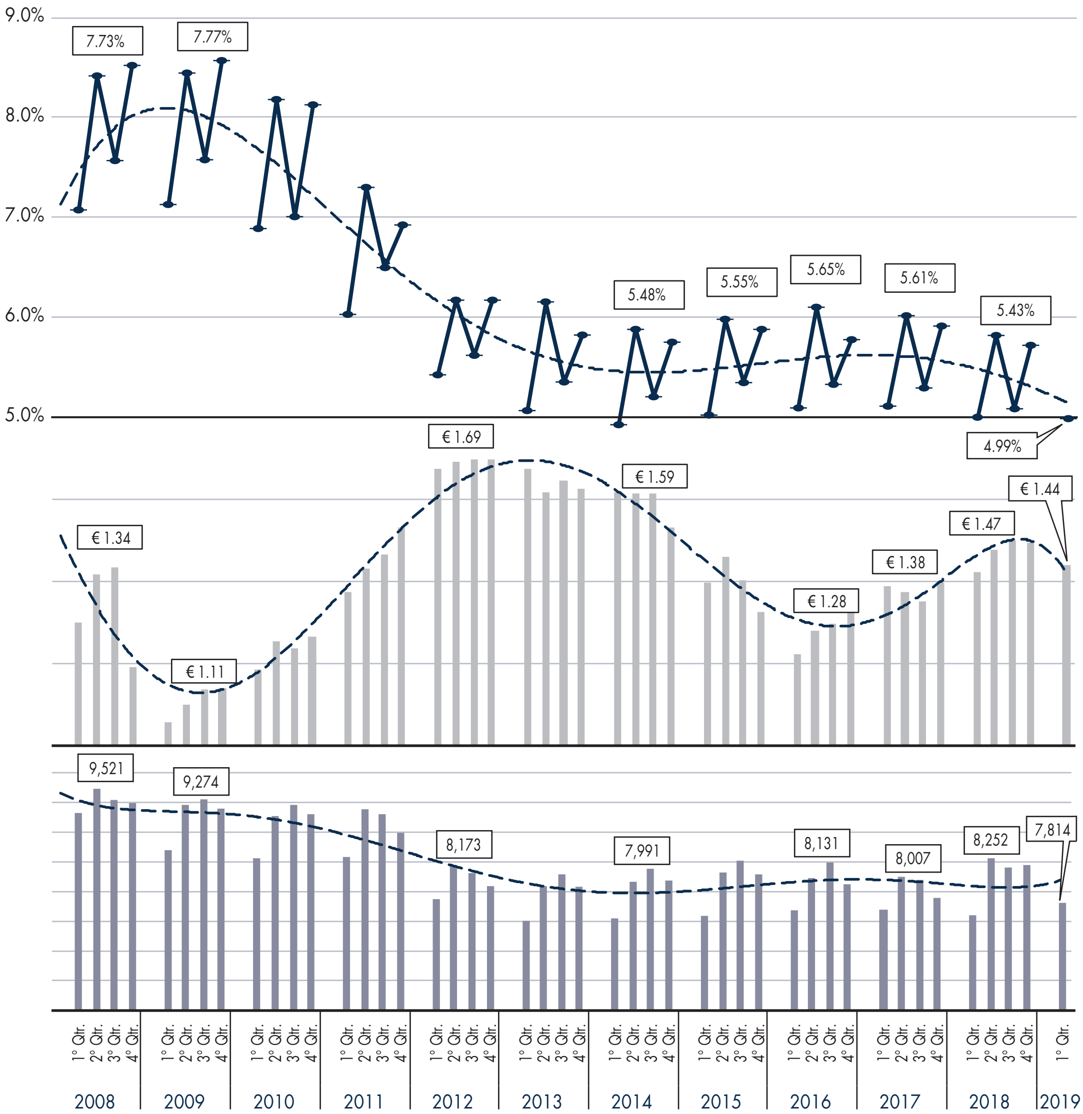
ANIA has compared quarterly data from 2008 through 2018 on the average cost and consumption of vehicle fuel (gasoline, diesel fuel, LPG) with that on claims frequency (Figure 1). The trend in fuel consumption turns out to parallel that in claims frequency, while fuel prices move inversely.

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

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

Figure 1
Claims frequency, fuel consumption and fuel prices, 2008-2019

Claims frequency
Fuel price
Fuel consumption (thousand tons)



Claims frequency turned back down by 0.7 percent in 2017 to 5.61%, and this trend continued in 2018, with a decline of 3.2 percent to 5.43%. There was an upturn in the average cost of fuel in 2017, and the rise continued in 2018 to €1.50 per liter, or by 7 percent compared with 2017 and more than 15 percent compared with 2016.

Meanwhile, fuel consumption edged downward by 1.5 percent in 2017 but increased by 3.1 percent in 2018 despite the higher cost.

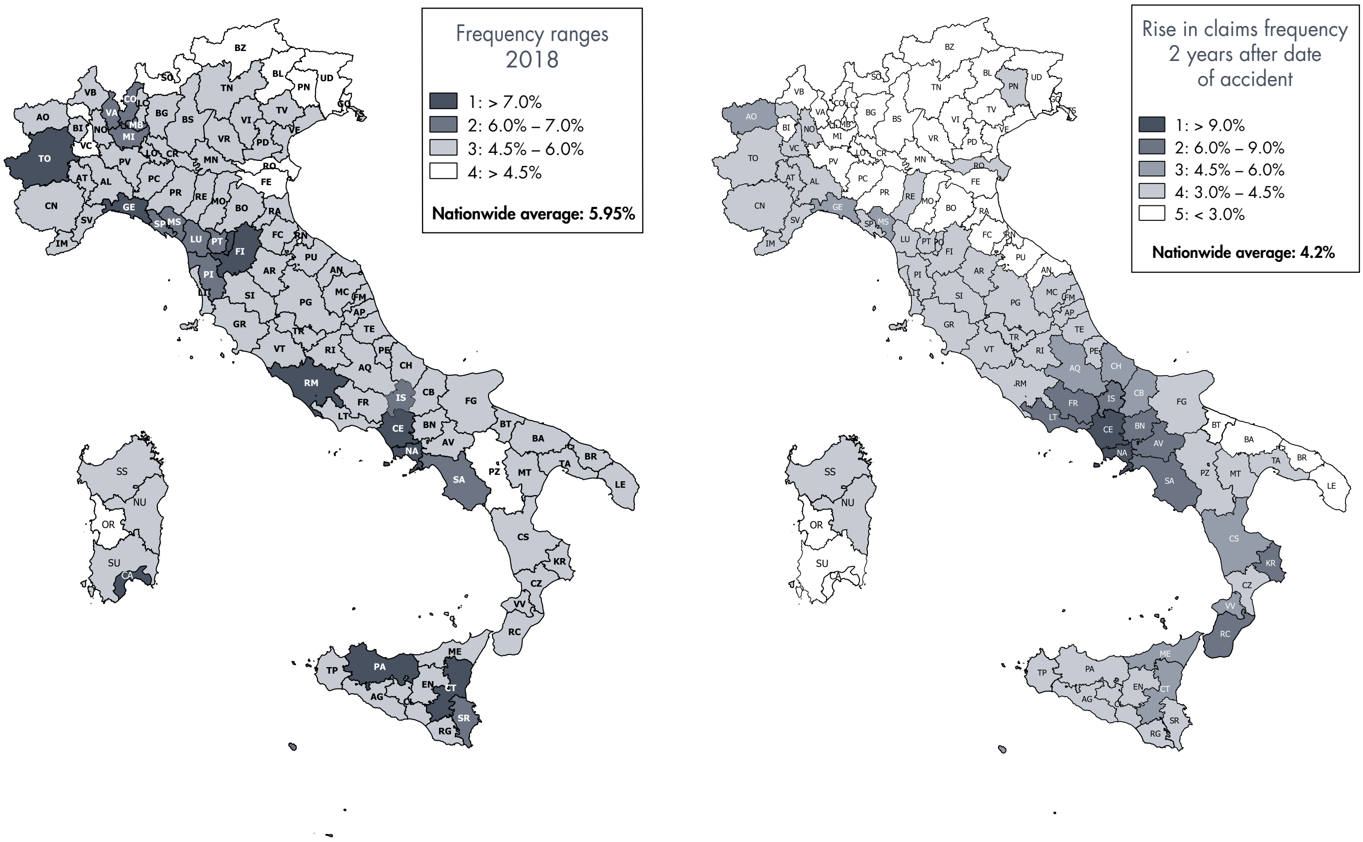
The preliminary data for a sample of insurers indicate that through March 2019 there was a further reduction in claims frequency of some 0.2 percent compared with the first quarter of 2018, while average fuel prices were essentially stable.

Average cost of claims (excluding IBNR, Table 1, Panel A). The average cost of claims shown in Panel A of Table 1 is derived by dividing the total cost of claims (paid and reserved) by their number. The indicator takes account both of payments made in final or partial settlement and of settlements that companies expect to make in the future for claims that have been reported but whose amount has yet to be determined (reserved amounts). It excludes claims incurred but not reported (IBNR reserves), contributions to the Road Accident Victims Guarantee Fund and other residual items. These items have been excluded from the 2018 data in order to allow uniform comparison with the data for previous years, derived from analyses conducted by the insurance supervisor using this methodology. Based on these calculations, the average claim cost in 2018 was €4,361, up 0.8% from €4,326 in 2017. In detail, the average cost of claims involving only material damage increased by 1.9% to €1,977 and that of claims involving personal injury (including the material damage component of mixed claims) by 1.3% from €16,297 to €16,514. The increase in the average overall cost was less than the consumer price inflation rate, which was 1.1% in 2018. This may be explained, at least in part, by the sharp rise in the installation of data recorders – "black boxes" – on cars, especially in areas where fraudulent claims are most common. The availability of data recorded at the moment of the crash may have helped in gauging the claims more accurately, avoiding possible overestimates of damages. And in fact the percentage of claims involving personal injury came down slightly last year from 16.6% to 16.4%.

Number of claims and average cost (including IBNR, Table 1, Panel B). The total number of claims, including the IBNR estimate, came to 2,337,295 in 2018, a decrease of 2.1%, and claims frequency also diminished, coming down 2.9 percent from 6.13% to 5.95%. Counting all the components included in the definition of the cost of claims for the period (item 18 of Supervisory Form 17), i.e. including IBNR reserves, the contribution to the Road Accident Victims Guarantee Fund and the other residual items, the average cost of claims for the period increased by 0.7% to €4,537.

The 2.1 percent decline in the number of claims (including late reports or IBNR claims) was thus partly counteracted by the 0.7 % rise in their average cost, so the total cost of claims for the year contracted by 1.4%.

Figure 2 – Claims frequency by province, 2018, and late accident reports



A provincial breakdown of claims frequency including IBNR (Figure 2, left-hand map) revealed Naples and Prato to be the provinces with the highest rates in 2018 (10.50% and 8.60% respectively), with a frequency well above the national average, which as we have seen was 5.95%. Other provinces significantly above the national average were Genoa (8.30%), Caserta and Rome (7.90%), Florence, Cagliari and Palermo (7.20%), and Catania and Turin (7.10%). Once again, the lowest claims frequencies were recorded in the North-Eastern provinces, with Rovigo recording the national low (3.73%). Claims frequency was especially low also in other provinces of the Veneto and Friuli-Venezia Giulia regions. Lower-than-average levels were reported also in some provinces of the South, such as Potenza and Enna (4.60%), and Matera, Catanzaro and Lecce (4.70%).

The geographical breakdown of claims frequency cannot ignore accident reports that are late in coming to the insurer. Policyholders, in fact, have two years from the date of the accident to submit the report. The right-hand map in Figure 2 shows, province by province, the increase in number of claims two years later by comparison with those reported in the year the accident occurred. Nationwide, on average, for all vehicles, the number of claims after two years is higher by 4.2 percent. However, a closer inspection reveals that the percentage is well above 10 percent in some parts of the country, with extreme peaks of 15.7 percent in the province of Caserta and 15.8 percent in Naples. This means that if in these two provinces we counted only the frequency of claims reported in the year of occurrence, we would be around one sixth short of the actual figures, once all accidents have been reported to the insurance company. The provinces where this indicator is lower than 2 percent were Lecco, Bari, Brindisi, Monza-Brianza, Sondrio, Como and Bergamo.

TECHNICAL MARGIN FOR MOTOR LIABILITY INSURANCE, PROVINCE BY PROVINCE

We have used the data on claims frequency observed by ANIA quarterly and yearly to conduct a geographical analysis, for the year 2018, of the technical profit margin for policy underwriting. That is, we compared, for the main Italian cities, the average premium actually paid by policyholders with the insurance companies' expenses for claims, administration and distribution, net of the financial profit margin. The study covered the entire motor liability sector, i.e. considering all types of policy and vehicle. The table below reports the results for the regional capitals and for Italy.

We began with claims frequency in 2018 (column 1) for all insured vehicles, gross of estimated claims incurred but not reported in the year of the accident (IBNR). For some cities, IBNR weighs very heavily. In Naples and Caserta, for instance, IBNR claims average 16% of those reported within the year of occurrence; in Crotone, Avellino, Salerno and Isernia they stand at 9%; in Florence, Turin, Rome and Perugia at under 4%; and in Lecce and the province of Sud Sardegna at 1.5%. The national average is 9.0%.

Column 2 shows the average cost of claims incurred in 2018, including both IBNR claims and the direct costs of claims settlement, plus such residual items as net amounts recovered and to be recovered and the balance on portfolio movements. The latter were apportioned among the provinces according to the weights of claims costs.

Multiplying claims frequency by average cost we get the "pure premium", the theoretical average cost insurers must sustain for policy coverage (column 3), to which we add administration and distribution costs. These latter costs, which amount to 21.1% of premiums collected, are apportioned among the provinces like the residual items, but according to the pure premium weights.

Column 4 gives the premiums actually paid by policyholders in 2018 for the entire motor liability sector, estimated on the basis both of ANIA's statistics and of the IVASS survey of effective motor liability prices (*Indagine sui prezzi effettivi della r.c. auto*, IPER), net of taxes and parafiscal charges. Account was taken of the variation in taxes between provinces: while they amount to 9% of the premium in Aosta and Trento, in most other cities they now come to 16%.

Comparing columns 3 and 4, we can calculate the estimated technical margin on policy underwriting (column 5). Overall, in 2018 this margin was positive at 2.9% of premium payments (not counting financial income), up from 1.2% in 2017 but far below the figures for 2015 (5.7%) and especially 2014 (14.5%). However, in some provinces the technical margin is negative, offset by the positive margins in others. The city with the worst performance in 2018 was again Campobasso (–23.5% of premium payments, about the same as in 2017), followed by Ancona (-17%, in slight improvement) and Naples (–12.8%, compared with –10.0% in 2017). Such major cities as Rome, Palermo and Turin continued to show negative margins, averaging around –8% in 2017, compared with –10% in 2017. The regional capitals with positive margins were Trieste (+37.8%), Aosta (+30.9%), Trento (+13.7%), L'Aquila (+6.9%), and Bari (+9.5%).

Technical margin by province, 2018, all sectors

REGIONAL CAPITAL CITIES	Claims frequency incl. IBNR	Average claims cost incl. IBNR and other residual items (Euro)	Pure premium incl. IBNR and other residual items, including distribution and administration (Euro)	Average premium paid net of taxes and parafiscal charges (Euro)	Expected technical margin
	(1)	(2)	(3) = (1) x (2)	(4)	(5) = (4) / (3) - 1
ANCONA	5.5%	6,009	402	333	-17.0%
AOSTA	5.3%	2,973	190	249	30.9%
BARI	6.0%	4,331	314	344	9.5%
BOLOGNA	5.9%	5,088	365	364	-0.2%
CAGLIARI	7.2%	4,031	351	330	-5.9%
CAMPOBASSO	4.9%	5,364	319	244	-23.5%
FLORENCE	7.3%	4,327	383	407	6.2%
GENOA	8.3%	3,712	372	365	-1.8%
L'AQUILA	5.7%	4,319	299	290	-3.2%
MILAN	6.8%	3,647	300	315	5.0%
NAPLES	10.9%	4,260	565	493	-12.8%
PALERMO	7.1%	4,200	361	330	-8.5%
PERUGIA	5.6%	4,686	315	297	-5.9%
POTENZA	4.5%	4,753	258	257	-0.7%
REGGIO-CALABRIA	4.9%	6,249	374	398	6.2%
ROME	7.8%	4,336	411	380	-7.5%
TURIN	7.0%	4,225	360	336	-6.9%
TRENTO	4.8%	4,165	242	275	13.7%
TRIESTE	4.5%	3,886	214	295	37.8%
VENICE	4.6%	5,445	301	324	7.6%
TOTAL ITALY	6.0%	4,537	327	337	2.9%

Memo - 2017: ***1.2%***
2016: ***0.7%***
2015: ***5.7%***
2014: ***14.5%***

COMPENSATION FOR PERSONAL INJURY

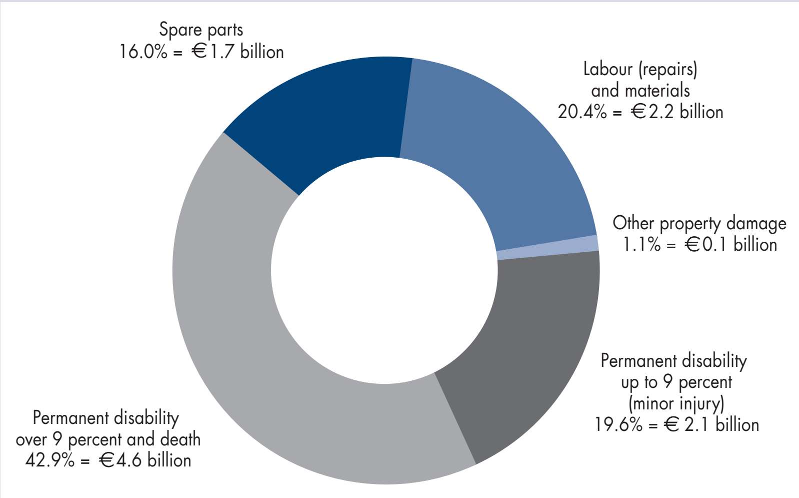
The total damages paid (for both property damage and personal injury) for claims incurred in 2018 came to €10.6 billion ([1]). Of this, 62.6% (**€6.6 billion**) was in relation to **personal injury** (including the property-damage component of mixed claims). The remaining 37% (€4.0 billion) was in relation to damage to vehicles (spare parts and labor for repairs).

As regards personal injury compensation specifically, two facts stand out for 2018 (Figure 1):

– compensation for mild injury involving permanent disability of 1 to 9 percent amounted to €2.1 billion (19.6% of the total claims cost);
– serious injuries involving more than 9 percent permanent disability or death generated outlays of €4.6 billion (42.9% of total claims cost).

Figure 1
Distribution of total cost of liability compensation, 2018

Compensation for property damage (€4.0 billion, 37.4% of total claims cost)
Compensation for personal injury (€6.6 billion, 62.6% of total claims cost). Includes the property component of mixed claims



The percentage of all motor liability claims involving personal injury was 16.4% last year, down slightly from 16.6% in 2017 (Table 1). After peaking in 2010 at nearly 23%, this share registered a first, modest downturn in 2011 and more significant declines in the seven subsequent years, most notably 2012, although at a declining rate that came to 1.3% in 2018. The main factor in the improvement was the reduction in the number of minor injury claims, especially those involving just 1 to 3 percent disability, as is explained below in greater detail.

([1]) ANIA's estimate based on data from Italian insurers and units of non-EU insurance companies operating in Italy. The data are for the cost of claims (amounts paid and reserved) for accidents occurring in 2018. The total cost of claims for the year, including excess or shortfall of reserves against claims from previous years, was €10.0 billion.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total claims frequency	7.77%	7.36%	6.53%	5.87%	5.65%	5.48%	5.55%	5.65%	5.61%	5.43%
% claims with only property damage	*78.2%*	*77.3%*	*77.6%*	*79.9%*	*81.0%*	*81.5%*	*82.3%*	*82.7%*	*83.4%*	*83.6%*
Frequency of claims with only property damage	6.07%	5.70%	5.07%	4.69%	4.57%	4.47%	4.57%	4.67%	4.68%	4.54%
% claims involving personal injury	*21.8%*	*22.7%*	*22.4%*	*20.1%*	*19.0%*	*18.5%*	*17.7%*	*17.3%*	*16.6%*	*16.4%*
Frequency of claims involving personal injury	1.70%	1.67%	1.46%	1.18%	1.07%	1.01%	0.98%	0.98%	0.93%	0.89%
Frequency of claims with up to 9 percent permanent disability	1.627%	1.602%	1.401%	1.121%	1.016%	0.963%	0.932%	0.927%	0.874%	0.847%
of which:										
1% permanent disability	0.708%	0.689%	0.617%	0.506%	0.477%	0.428%	0.414%	0.410%	0.392%	0.365%
2% permanent disability	0.563%	0.552%	0.469%	0.294%	0.243%	0.233%	0.222%	0.207%	0.197%	0.188%
3% permanent disability	0.186%	0.190%	0.163%	0.137%	0.128%	0.116%	0.114%	0.121%	0.112%	0.116%
4% permanent disability	0.077%	0.078%	0.069%	0.071%	0.065%	0.071%	0.065%	0.070%	0.064%	0.067%
5% permanent disability	0.042%	0.040%	0.036%	0.043%	0.042%	0.041%	0.046%	0.049%	0.041%	0.043%
6% permanent disability	0.021%	0.021%	0.019%	0.027%	0.025%	0.028%	0.027%	0.030%	0.027%	0.026%
7% permanent disability	0.014%	0.013%	0.012%	0.019%	0.017%	0.019%	0.018%	0.019%	0.018%	0.017%
8% permanent disability	0.010%	0.010%	0.010%	0.014%	0.012%	0.015%	0.016%	0.013%	0.015%	0.016%
9% permanent disability	0.007%	0.007%	0.007%	0.010%	0.007%	0.011%	0.009%	0.008%	0.009%	0.009%
Frequency of claims with over 9 percent permanent disability	0.070%	0.067%	0.062%	0.059%	0.057%	0.052%	0.051%	0.051%	0.049%	0.046%

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

Minor injury – permanent disability of 1-9 percent. As a result of Law 27/2012 (the "liberalization" decree), which introduced provisions against speculative claims for very mild injuries, principally "whiplash" injuries, there has been a very substantial reduction in the frequency of claims for mild personal injury (calculated as claims for permanent injury of 1 to 9 percent as a percentage of total risks insured). In seven years, this indicator fell from 1.401% in 2011 (before the law) to 0.847% in 2018, or by some 40 percent; over the same period, property damage claims fell by 10 percent (Table 1). More in detail, what really declined was the frequency of claims for the mildest injuries, those for at most 4 percent disability, which came down by 44 percent, while claims for 5-9 percent disability actually rose (by 34 percent). It is worth noting that 1-4-point disabilities account for the overwhelming majority of minor injury claims (94% in 2011) and that thanks to Law 27 their number has been practically cut in half in seven years.

The average cost of mild personal injury claims declined steadily from 2011 through 2017, coming down more than 12% from €6,135 to €5,397. This trend reversed in 2018 with an increase of 6.7% to €5,758 (Table 2).

Death and permanent disability of more than 9 percent. No comparable diminution was observed for more serious injuries (resulting in death or permanent disability of more than 9 percent), which are not subject to the new rules of Law 27/2012. From 2011 through 2018, claims frequency for these injuries diminished significantly (by 25 percent), but only a bit more sharply than total claims (which were down 17 percent), and in any case much less sharply than claims for mild injuries (which decreased by 40 percent).

Turning to the cost of these more serious injury claims of more than 9 percent disability (including damages for fatalities), the average claim cost has risen constantly over the years: from €155,000 in 2009 to over €213,000 in 2018 (Table 2), or by nearly 40%.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total average claim cost	3,903	4,057	4,345	4,495	4,564	4,532	4,467	4,374	4,326	4,361
% of claims with only property damage	*34.5%*	*32.0%*	*31.7%*	*33.3%*	*33.2%*	*34.1%*	*35.1%*	*36.2%*	*37.4%*	*37.9%*
Average cost of claims with only property damage	1,725	1,716	1,803	1,899	1,883	1,894	1,908	1,912	1,941	1,977
% incidence of personal injury claims (value)	*65.5%*	*68.0%*	*68.3%*	*66.7%*	*66.8%*	*65.92%*	*64.94%*	*63.81%*	*62.58%*	*62.10%*
Average cost of claims with personal injury	11,694	12,052	13,155	14,804	15,986	16,150	16,389	16,132	16,297	16,514
of which:										
Average cost of claims with personal injury up to 9 pct. permanent disability	6,037	6,022	6,135	5,951	5,756	5,668	5,508	5,605	5,397	5,758
Average cost of claims with personal injury over 9 pct. permanent disability	155,487	166,750	179,891	191,379	198,045	210,061	216,797	209,325	212,086	212,875

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

The geography of personal injury claims. The percentage of claims involving personal injury registers highs of almost 30% in some Italian provinces. Figure 2 and Table 3 show that in 2017 (the year of the most recent available data at province level) the provinces of the South were far out of line with the national average of 16.6%; the highest provincial proportions are found in Puglia (28.2% in Taranto, 27.8% in Brindisi, 26.9% in Foggia, 25.4% in Barletta-Andria-Trani, 24.8% in Lecce, 24.6% in Bari), Calabria (27.1% in Crotone, 23.8% in Reggio Calabria, 23.7% in Catanzaro, 22.4% in Vibo Valentia, 21.5% in Cosenza), and parts of Campania (24.4% in Salerno, 24.1% in Avellino). Nearly all the other provinces registered a decline in the indicator by comparison with 2016, in line with the decline in the national average.

Figure 2
Proportion of claims involving personal injury, by province, 2017

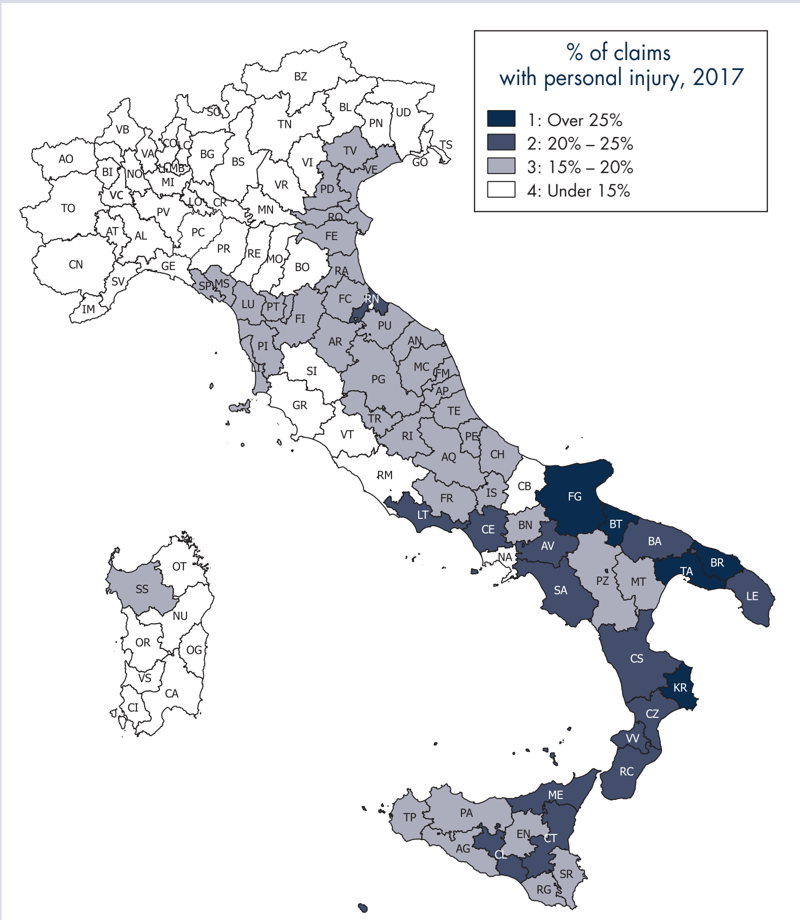


Table 3 – Incidence of claims with personal injury, by province, 2015-2017) (°) *(percent)*

Province	2017	2016	2015	Change 2017/2016
(1)	(2)	(3)	(4)	(5)
TARANTO	28.2%	31.3%	33.7%	-10.0%
BRINDISI	27.8%	31.8%	31.8%	-12.6%
CROTONE	27.1%	33.5%	34.7%	-19.2%
FOGGIA	26.9%	31.4%	31.8%	-14.2%
BARLETTA-ANDRIA-TRANI	25.4%	30.5%	30.0%	-16.9%
LECCE	24.8%	28.4%	29.4%	-12.6%
BARI	24.6%	29.3%	30.4%	-15.9%
SALERNO	24.4%	28.1%	27.9%	-13.1%
AVELLINO	24.1%	26.2%	26.8%	-8.0%
MESSINA	24.0%	29.4%	28.3%	-18.6%
REGGIO CALABRIA	23.8%	26.9%	28.3%	-11.5%
CATANZARO	23.7%	27.0%	27.5%	-12.1%
LATINA	22.8%	25.2%	26.5%	-9.3%
VIBO VALENTIA	22.4%	26.6%	31.6%	-15.9%
COSENZA	21.5%	23.9%	23.3%	-10.2%
CALTANISSETTA	20.7%	22.2%	22.8%	-6.8%
CASERTA	20.6%	23.6%	23.7%	-12.8%
RIMINI	20.1%	20.2%	22.5%	-0.1%
CATANIA	20.0%	26.3%	26.7%	-23.9%
BENEVENTO	19.8%	24.7%	25.7%	-19.7%
ANCONA	19.8%	19.9%	22.1%	-0.6%
CHIETI	19.6%	21.6%	22.5%	-9.1%
FROSINONE	19.2%	21.5%	22.1%	-11.0%
PESCARA	19.0%	21.3%	23.9%	-10.8%
MASSA-CARRARA	18.8%	23.0%	23.9%	-18.5%
MACERATA	18.7%	19.4%	20.7%	-3.5%
VENICE	18.7%	19.3%	19.8%	-3.1%
SIRACUSA	18.6%	21.5%	21.3%	-13.2%
FERMO	18.5%	19.0%	20.6%	-2.9%
PESARO-URBINO	18.3%	19.1%	19.9%	-4.6%
ENNA	18.1%	22.2%	22.7%	-18.2%
TRAPANI	18.1%	19.0%	19.2%	-5.0%
LUCCA	18.0%	19.8%	20.7%	-9.2%
RAGUSA	17.9%	20.7%	20.4%	-13.5%
ASCOLI PICENO	17.9%	18.8%	18.9%	-4.4%
TERNI	17.9%	17.3%	18.1%	3.8%
AGRIGENTO	17.9%	19.4%	20.4%	-7.6%
PISA	17.6%	20.3%	20.4%	-13.4%
TERAMO	17.3%	19.5%	20.4%	-10.9%
PALERMO	17.3%	21.0%	21.3%	-17.5%
MATERA	17.2%	19.0%	20.7%	-9.6%
PISTOIA	17.1%	18.7%	18.3%	-8.3%
ROVIGO	17.1%	16.1%	16.9%	6.1%
POTENZA	16.5%	17.1%	17.8%	-3.8%
SASSARI	16.4%	19.0%	19.3%	-13.8%
RIETI	16.1%	20.8%	20.9%	-22.7%
ISERNIA	16.0%	18.6%	18.9%	-14.2%
PADUA	15.9%	16.8%	17.4%	-5.5%
LA SPEZIA	15.9%	17.9%	17.9%	-11.4%
FERRARA	15.8%	17.1%	17.4%	-7.4%
RAVENNA	15.7%	17.1%	17.7%	-7.9%
PERUGIA	15.7%	16.3%	17.4%	-4.1%
TREVISO	15.5%	15.9%	17.0%	-2.2%
AREZZO	15.5%	16.1%	16.9%	-3.5%
LIVORNO	15.4%	16.2%	16.4%	-4.9%
L'AQUILA	15.3%	16.9%	15.9%	-9.3%
BOLOGNA	14.9%	16.6%	16.7%	-10.4%
FORLÌ-CESENA	14.6%	16.1%	16.3%	-9.1%
GORIZIA	14.6%	15.6%	15.7%	-6.3%
LODI	14.3%	15.0%	16.5%	-4.5%
TURIN	14.2%	15.8%	16.1%	-9.9%
CAMPOBASSO	14.2%	17.3%	17.0%	-18.1%
NAPLES	13.9%	21.5%	23.4%	-35.4%
REGGIO EMILIA	13.8%	14.9%	15.2%	-6.9%
IMPERIA	13.7%	13.8%	13.8%	-0.3%
PIACENZA	13.6%	13.8%	14.5%	-1.8%
ROME	13.6%	19.0%	18.8%	-28.4%
VERONA	13.4%	14.5%	14.8%	-7.2%
MONZA-BRIANZA	13.4%	14.2%	14.4%	-5.4%
PRATO	13.3%	15.6%	16.2%	-15.0%
PAVIA	13.3%	14.0%	14.3%	-5.1%
VARESE	13.3%	14.5%	14.2%	-8.3%
CREMONA	13.2%	14.1%	14.6%	-6.2%
GROSSETO	13.2%	15.0%	14.8%	-12.1%
FLORENCE	13.1%	15.2%	15.5%	-13.7%
VICENZA	12.9%	13.8%	14.2%	-6.4%
MODENA	12.9%	13.6%	13.9%	-4.9%
PARMA	12.9%	13.4%	14.3%	-3.6%
MANTUA	12.9%	13.3%	13.1%	-3.2%
MILAN	12.9%	13.7%	14.1%	-6.3%
OGLIASTRA	12.7%	15.7%	16.7%	-19.0%
SAVONA	12.7%	13.0%	14.1%	-2.0%
SIENA	12.6%	13.4%	14.1%	-5.9%
TRIESTE	12.6%	13.6%	15.8%	-7.4%
COMO	12.4%	12.7%	13.3%	-2.3%
BERGAMO	12.3%	13.2%	13.1%	-6.9%
PORDENONE	12.1%	12.9%	13.2%	-6.1%
CARBONIA-IGLESIAS	12.1%	12.0%	13.3%	0.7%
NOVARA	12.0%	13.3%	13.1%	-9.3%
UDINE	12.0%	12.5%	13.0%	-4.4%
MEDIO CAMPIDANO	11.8%	11.8%	13.6%	0.0%
OLBIA-TEMPIO	11.8%	13.9%	13.8%	-15.5%
GENOA	11.8%	13.0%	13.2%	-9.1%
CAGLIARI	11.7%	13.7%	13.5%	-14.2%
VERCELLI	11.6%	11.7%	12.1%	-0.5%
ORISTANO	11.4%	12.7%	12.5%	-10.8%
VITERBO	11.3%	13.5%	12.9%	-16.5%
SONDRIO	11.3%	11.8%	11.5%	-4.8%
ALESSANDRIA	11.3%	11.4%	11.7%	-0.8%
LECCO	10.8%	12.7%	12.3%	-14.9%
BRESCIA	10.7%	11.3%	12.0%	-6.0%
CUNEO	10.3%	11.4%	11.3%	-9.3%
BELLUNO	10.2%	10.9%	11.6%	-6.4%
ASTI	9.8%	10.3%	11.2%	-4.7%
NUORO	9.3%	10.6%	11.4%	-12.1%
BIELLA	9.2%	9.3%	9.4%	-1.0%
TRENTO	9.1%	9.7%	10.1%	-6.3%
AOSTA	9.1%	10.2%	10.5%	-10.7%
VERBANIA	9.0%	10.8%	10.7%	-17.2%
BOLZANO	8.4%	9.2%	8.9%	-9.3%
TOTAL	15.6%	17.8%	18.1%	-12.4%

(°) The provincial incidence of personal injury claims is drawn from ANIA's annual statistics; this accounts for the slight difference in the total for 2017 (15.6%) from the IVASS data (16.6%), which lack the provincial breakdown

MOTOR INSURANCE FRAUD

Fraud statistics

Using IVASS's definitive data for 2017 and preliminary data for 2018, we can produce a breakdown by province and type of damage claimed of the percentage incidence of claims likely to involve the risk of fraud, those subjected to further investigation (specifying the number of cases in which no payment is made), and those in which the insurer has lodged a civil or criminal complaint. The data come from the compulsory antifraud reports that all enterprises authorized to do motor liability insurance business in Italy must submit yearly to IVASS (IVASS Regulation 44/2012).

Let us recall that for our purposes fraud risk is defined as the risk of economic loss due to customer misconduct vis-à-vis the insurer, often taking the form of simple falsehoods, either during the contractual procedure or in the claims handling process.

In particular, claims exposed to the risk of fraud are those having at least one of the parameters of significance laid down by IVASS in measure 2827/2010 as requirements for consulting the "claims database" created for the express purpose of preventing and combating motor liability fraud.

Comparative analysis of the total national data for the last four years (2015-2018) can now gauge the extent of this type of crime and its impact on the insurance industry (Table 1).

The relevant claims are those lodged with insurance companies in 2018, which numbered 2,813,191, down 1.6% from 2,857,883 in 2017 and 2.7% from 2.9 million in 2016, but slightly more than the 2.8 million claims submitted in 2015. The most substantial declines in 2018 came in the Center (-2.9%), the peninsular South (-2.7%), and the Islands (-3.2%), while the number in the North was broadly unchanged.

To calculate composite indicators for comparison of the different geographical areas, the number of claims that insurers have identified as likely to be fraudulent and the number of those subjected to further investigation are given as percentages of total claims lodged during the year. The average share of claims exposed to risk of fraud

Table 1 – Motor liability insurance fraud by region, 2017-2018

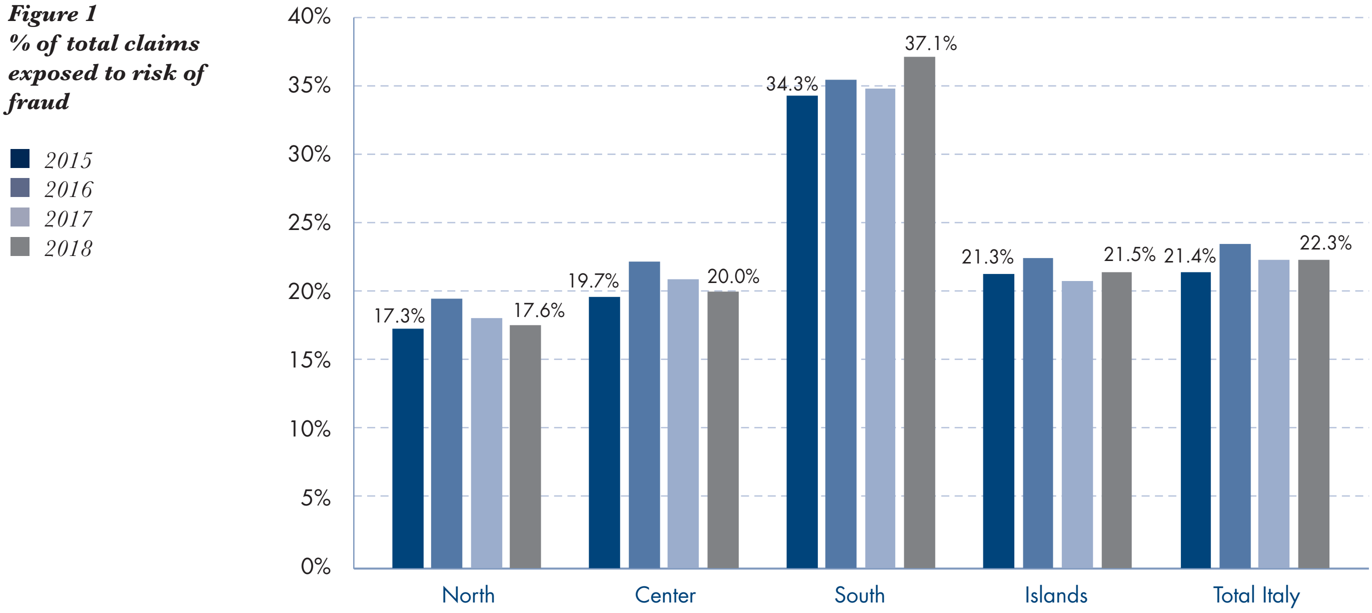
REGION	Number of claims reported (*)		% of claims exposed to risk of fraud		% of claims exposed to risk subjected to further inquiry		% of claims subjected to further inquiry in which no payment was made		% of claims subjected to further inquiry in which insurer lodged civil or criminal complaint	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
EMILIA ROMAGNA	209,145	208,601	19.4%	19.7%	10.1%	11.8%	12.4%	12.7%	1.0%	0.8%
FRIULI-VENEZIA GIULIA	43,774	43,932	17.2%	17.4%	7.7%	7.5%	14.1%	14.0%	0.8%	0.7%
LIGURIA	91,472	89,457	22.3%	20.4%	11.6%	11.2%	11.3%	11.7%	0.9%	0.9%
LOMBARDY	486,514	480,161	17.2%	16.6%	8.5%	9.1%	12.9%	13.4%	1.1%	1.0%
PIEDMONT	224,929	222,909	20.9%	18.9%	9.2%	10.2%	13.1%	14.9%	1.5%	1.2%
TRENTINO ALTO ADIGE	62,000	75,495	18.6%	19.2%	5.1%	4.1%	10.1%	15.7%	0.9%	0.8%
VALLE D'AOSTA	6,751	6,158	14.9%	14.7%	6.3%	6.7%	31.0%	25.3%	0.5%	2.9%
VENETO	199,886	197,535	14.7%	14.7%	7.2%	7.8%	12.6%	13.0%	0.6%	0.6%
NORTH	1,324,471	1,324,248	18.2%	17.6%	8.7%	9.3%	12.7%	13.5%	1.1%	0.9%
LAZIO	383,343	369,978	22.5%	21.3%	12.4%	12.9%	15.7%	15.7%	1.2%	1.0%
MARCHE	68,652	65,015	18.4%	18.0%	9.4%	9.8%	12.5%	12.5%	0.8%	0.5%
TUSCANY	202,066	200,524	19.5%	18.6%	10.1%	10.6%	12.6%	13.4%	1.1%	1.1%
UMBRIA	42,303	40,568	18.4%	18.9%	9.9%	10.8%	12.8%	14.5%	1.9%	1.5%
CENTER	696,364	676,085	21.0%	20.0%	11.3%	11.8%	14.4%	14.8%	1.2%	1.0%
ABRUZZO	55,330	53,319	21.6%	20.7%	11.0%	10.9%	15.4%	15.3%	1.0%	1.3%
BASILICATA	18,862	18,782	25.1%	26.0%	15.3%	17.1%	14.2%	16.5%	1.0%	1.5%
CALABRIA	58,661	56,693	28.0%	29.6%	18.0%	19.7%	15.8%	16.8%	2.6%	1.9%
CAMPANIA	275,886	266,437	44.0%	48.0%	29.5%	33.1%	15.8%	16.6%	1.8%	1.9%
MOLISE	12,454	11,699	33.2%	35.7%	22.5%	24.0%	15.1%	17.0%	2.5%	2.5%
PUGLIA	138,792	137,826	26.3%	27.2%	16.7%	17.8%	14.2%	14.5%	1.0%	0.9%
SOUTH	559,985	544,756	34.8%	37.1%	22.6%	24.9%	15.4%	16.2%	1.7%	1.7%
SARDINIA	66,870	65,108	16.6%	16.3%	8.3%	8.8%	14.8%	14.3%	0.9%	0.5%
SICILY	210,193	202,994	22.2%	23.1%	13.7%	15.0%	14.1%	15.1%	1.1%	0.9%
ISLANDS	277,063	268,102	20.9%	21.5%	12.4%	13.5%	14.2%	15.0%	1.0%	0.8%
TOTAL ITALY	2,857,883	2,813,191	22.4%	22.3%	12.4%	13.3%	14.2%	14.9%	1.3%	1.2%
MEMO:	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
TOTAL ITALY	2,790,251	2,891,442	21.4%	23.5%	10.7%	11.9%	14.5%	14.9%	2.1%	1.3%

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

in 2018 was 22.3% nationwide, compared with 22.4% in 2017, 23.5% in 2016 and 21.4% in 2015 (Figure 1).

The lowest rate of fraud risk in 2018 was again registered in the North at 17.6%, down from 18.2% the previous year. However, the share of claims subjected to further investigation rose from 8.7% to 9.3%. Ultimately, 13.5% of the claims subjected to further investigation were closed without settlement (12.7% in 2017); in 0.9% of the cases, compared with 1.1% in 2017, the insurer lodged a civil or criminal complaint.

Figure 1
% of total claims exposed to risk of fraud



The northern regions with the highest incidence of suspect claims were Liguria, at 20.4%, and Emilia Romagna at 19.7%. Those with the lowest incidence were Valle d'Aosta and Veneto at 14.7%. As to further investigations concluded without compensation – that is, cases of successful anti-fraud action by insurers – the highest rates were in Trentino-Alto Adige, Piedmont and Friuli-Venezia Giulia (14% to 16% of the cases investigated, ignoring Valle d'Aosta given its great volatility owing to the very small number of claims in that tiny region). The overall figure for the North was 13.5%. The region showing the highest percentage of civil and penal complaints was Piedmont at 1.2% (1.5% in 2017), compared with the northern Italian average of 0.9%.

Fraud risk in central Italy was found in 20.0% of all claims submitted in 2018, down by 1 percentage point from 2017. Insurers conducted more than the ordinary inquiry in respect of 11.8% of total claims (up from 11.3%), terminating 14.8% of these without compensation (up from 14.4% in 2017) but lodging a civil or penal complaint in just 1.0% (1.2% in 2017). The highest incidence of suspect cases was in the Lazio region (21.3%, down from 22.5%), which was also the region where settlement without compensation was most common (15.7% of the suspect cases). The central regions with the lowest exposure to fraud risk were Marche and Tuscany (18.0% and 18.6% respectively, down from 18.4% and 19.5%); the region of Umbria represented an exception, with fraud risk rising from 18.4% to 18.9%.

Once again in 2018, the highest incidence of fraud risk was found in the South: over 37% of all claims were suspect, up from 34.8% in 2017. The claims subjected to additional inquiry came to 24.9% of the total, compared with 22.6% in 2017. Of these, 16.2% were terminated without compensation. Insurance companies lodged civil or penal complaints in respect of 1.7% of the claims, the same as in

2017. The regions with higher-than-average percentages were Molise, at 2.5%, Campania (1.9%) and Calabria (1.9%); in Puglia the share of complaints came down marginally to 0.9%.

In the island regions the incidence of claims with risk of fraud was lower than the national average at 21.5%. Sicily was just above the average at 23.1%, while Sardinia was well below it at 16.3%. The percentage of criminal or civil complaints declined from 0.9% to 0.5% in Sardinia and from 1.1% to 0.9% in Sicily.

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

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

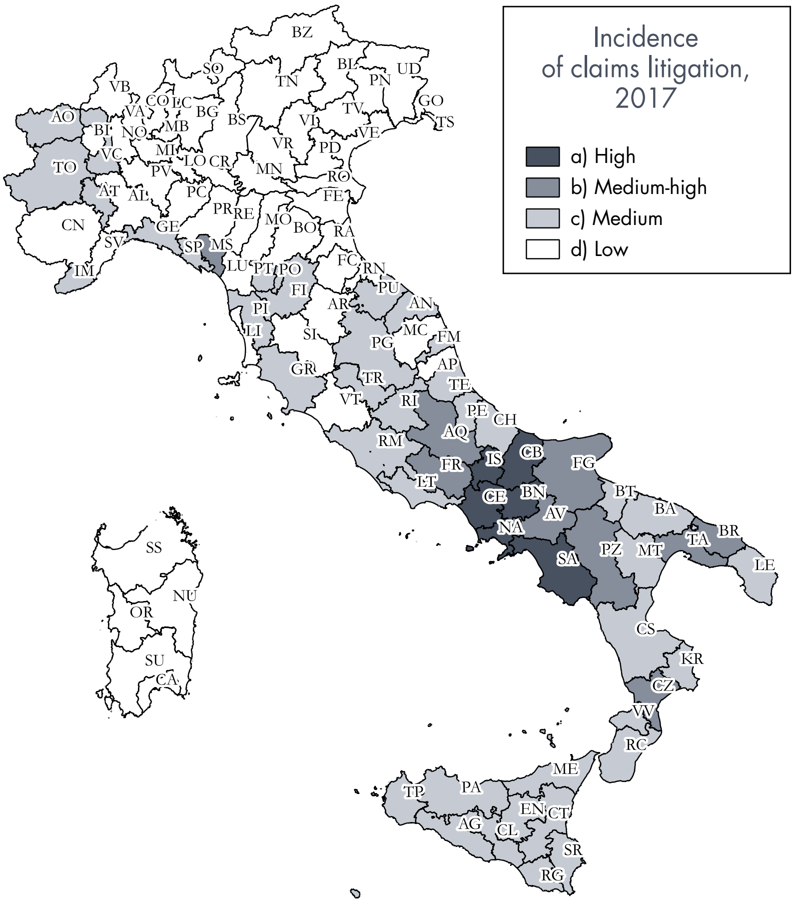
Let us recall, further, the problems inherent in civil justice, where a good portion of motor liability disputes are handled by justices of the peace, for whom the law does not establish a conflict of interest between this function and that of lawyer involved in traffic accident litigation.

ANIA's statistics for motor liability insurance claims in 2017 permit derivation of the provincial distribution of contested claims subject to litigation ([1]) and their incidence on the claims reserved at the end of the year. It is also possible to estimate that the average cost of these litigated claims is four times higher than the average set aside for other claims.

Figure 2 shows that the incidence of litigation of total claims is around average in the Center of Italy (a level that can be considered "normal"), it is lower in the North but higher in the South, with some provinces in the regions of Campania, Molise, Puglia and Calabria showing incidences of 5 or even 10 times the national average.

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

Figure 2
Proportion of claims litigated – 2017



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

- the lengthy time allowed for submitting claims (2 years, and possibly 5 in cases of personal injury), which enables fraudulent parties to eliminate the evidence that insurers can use to detect fraud; in the province of Naples, for instance, 15.8% of claims are filed more than a year after the date of the accident, compared with a national average of "late" claims of 4.2%;
- the deadline of 5 days for ascertaining vehicle damage is too short, and in certain regions in particular is it virtually impossible to estimate the damage before repair work begins;
- the deadline for the formulation of the indemnity offer is incompatible with the type of investigation required to demonstrate fraud. And even the derogation provided for under the Insurance Code, by which the insurer may suspend the term for the offer in order to conduct anti-fraud inquiry, is inadequate, given that at the end of the inquiry the insurer is required either to settle the claim or to lodge a formal legal complaint. The rule, in fact, does not envisage the possibility of withdrawal of the claim by the claimant.

Accordingly, ANIA has analyzed the vehicle damage claims for accidents that occurred and were settled in 2018 (and, for comparison, in 2017) that were settled via direct indemnity and with the CID claim form signed by both damaged and liable parties. In particular, we calculated the number of days between the date of the accident and the submission of the claim to the insurance company.

The study found that for these claims, which are settled most quickly (an average of 33 days, as in 2017), an average of 7 days elapses between the date of the accident and the date when it is reported to the insurer (Table 2).

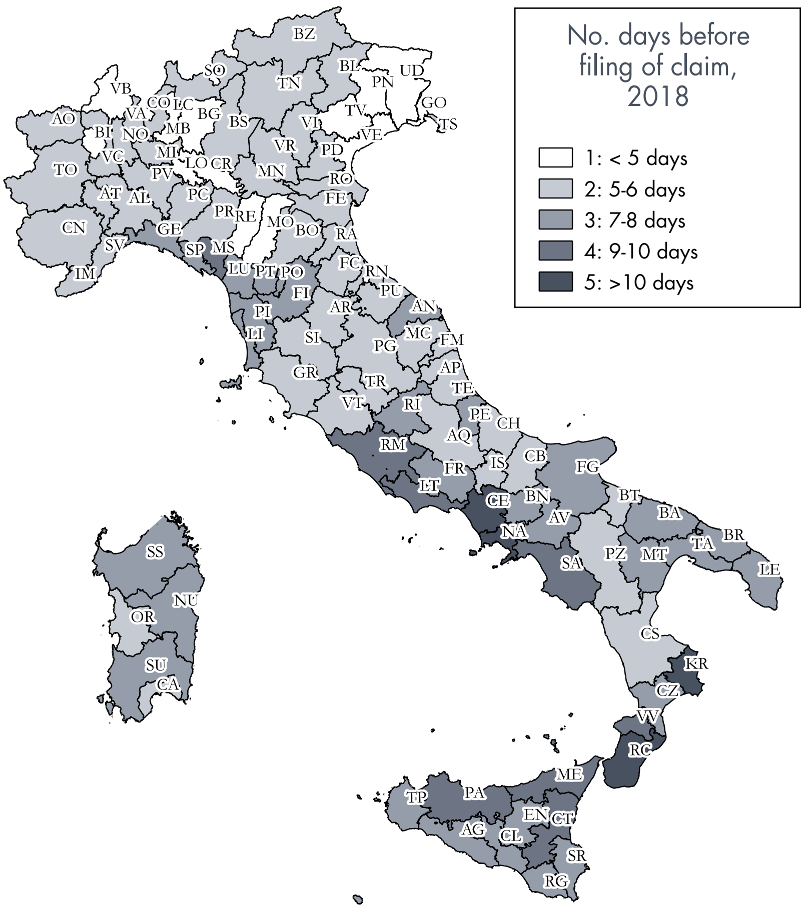
Table 2
Time to report and time to settlement of consensual damage claims

Area	Region	Days between accident date and report date		Days between claim filing and settlement	
		2018	2017	2018	2017
	Liguria	7.6	7.4	34.0	33.2
	Lombardy	5.4	5.5	33.9	33.8
	Piedmont	6.2	6.1	34.6	34.0
	Valle d'Aosta	5.8	5.8	29.8	29.9
North-West	*Total*	*5.8*	*5.8*	*34.1*	*33.8*
	Emilia-Romagna	5.5	5.5	33.2	32.3
	Friuli-Venezia Giulia	5.1	4.9	32.0	32.1
	Trentino-Alto Adige	5.7	5.8	31.8	32.2
	Veneto	5.1	5.1	33.6	32.8
North-East	*Total*	*5.3*	*5.3*	*33.1*	*32.5*
	Lazio	9.7	9.8	38.1	38.9
	Marche	6.7	6.7	31.3	30.9
	Tuscany	7.7	7.7	35.3	35.0
	Umbria	5.7	5.8	27.8	28.3
Center	*Total*	*8.3*	*8.3*	*35.4*	*35.6*
	Abruzzo	6.5	6.8	27.1	28.0
	Basilicata	6.8	6.9	24.1	23.1
	Calabria	8.7	9.3	29.7	28.7
	Campania	13.3	14.6	34.7	35.5
	Molise	5.9	6.0	22.4	22.2
	Puglia	7.7	8.1	28.5	29.8
South	*Total*	*9.1*	*9.7*	*29.7*	*30.2*
	Sardinia	7.0	7.2	27.5	27.1
	Sicily	8.9	9.2	30.4	30.1
Islands	*Total*	*8.1*	*8.4*	*29.3*	*29.0*
	TOTAL ITALY	6.9	7.0	33.2	33.1

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

2018 more than 13 days elapsed, on average, between accident and report (15 in 2017). And on the provincial level (Figure 3) we find an average of 17 days in Naples, 12 days in Caserta and Crotone, 11 days in Salerno and Reggio Calabria, and 10 in Messina, Palermo, Vibo Valentia and Rome. The indicator is lowest in the northern provinces of Gorizia and Pordenone (under 4.6 days). In the major cities values range from 5.6 days in Bologna and Milan to 6.9 in Turin and over 10 in Rome and Palermo.

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



Motor insurance fraud is strictly correlated, geographically, with the circulation of uninsured vehicles. However, estimating the extent of insurance evasion is no easy task. On the one hand it would require strict, constant checks by the law enforcement bodies (virtually impossible, as a practical matter); at the same time it would require a central computer database of all the fines for driving without insurance levied by the Highway Police, municipal police and Carabinieri (at the moment no such database exists). ANIA has accordingly estimated, as in 2017, the total number of uninsured vehicles on the roads on the basis of the open access data of the Motor Vehicles Bureau, which holds the data of the Public Automobile Registry (PRA). We have refined and cleaned these data and run screenings of the available information by the methodology described below.

First, note that the Motor Vehicles Bureau database is enormous: it covers all registered vehicles, divided into 4-wheeled vehicles (cars etc.) and 2-wheeled vehicles (motorcycles and scooters) and broken down by region, province and municipality. The data used for the present analysis refer to vehicles registered as at 31 December 2018; the data items used for the study comprise, in particular:

- date of initial registration of the vehicle
- status of compulsory inspection
- status of compulsory insurance.

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

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

a) vehicles held in judicial depositories, which are numerous (over 300 in Italy’s 110 provinces) but for which there is no central database of vehicles held;

b) unused vehicles (hence, non-circulating) but nevertheless regularly registered and kept in private garages or parking places;

c) vehicles abandoned on the street (mostly motorcycles and scooters), for which it is often impossible to identify the owner (burned, or license plate removed);

d) used vehicles registered with auto dealers but which will only be insured at the moment of sale to the customer (so-called “zero mileage” cars);

e) vehicles with temporary insurance (mostly motorcycles and scooters that have coverage for the spring and summer and might therefore be without insurance at the time of the Public Automobile Registry “snapshot”.

The screening and hypotheses used are as follows:

– Four-wheeled vehicles

- by date of original registration, very old vehicles (prior to 1970) are excluded;
- next, a count is made of all vehicles that according to the PRA circulate with regular inspection but without insurance; the hypothesis is that this is the real "hard core" of insurance evasion, because these are vehicles that have been inspected (and are therefore in a condition to circulate) but that do not pay their insurance premiums;
- for vehicles that have not been inspected and have no insurance, exclusion of all those originally registered prior to 2010; in fact, the time series by year of original registration shows a "break" in the frequency distribution at that year, so newer vehicles can be considered "representative" of a second "hard core" of uninsured vehicles, while the older ones can be presumed to belong to the categories unused/abandoned or judicial depository;

– Two-wheeled vehicles

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

On these assumptions, we estimate that in 2018 **2.7 million vehicles, 6.0% of the total in circulation**, lacked insurance coverage. This was down slightly from the estimate of 2.8 million and 6.3% in 2017. As in previous years, there is very significant geographical variation: against the national average of 6.0%, the proportion was nearly 10% in the South, about average in the Center, and much lower (3.9%) in the North (Table 3).

A more detailed geographical breakdown of the incidence of uninsured vehicles shows that practically all the regions of the North, and their capital cities, are at or well below the national evasion rate of 6.0%. In the Center, it is above all the Lazio region and the city of Rome whose rates are high, at 8.7% and 9.5% respectively, twice those of the other regions of the Center. In the South there is a range from values just above the national average in such regions as Molise, Basilicata, and Sardinia up to over twice the nationwide rate in Calabria and above all Campania, where the evasion rate is more than twice the average; in Naples in particular, one of every six vehicles on the roads is uninsured, and in Reggio Calabria one in eight (Table 4).

Table 3 – Estimate of uninsured vehicles, 2018 by geographical area
(millions)

Area	Total insured vehicles	Estimate uninsured vehicles	*Memo: Estimate uninsured vehicles*					Total vehicles on road	% uninsured vehicles	*Memo: % uninsured vehicles*				
	2018	2018	2017	2016	2015	2014	2013	2018	2018	2017	2016	2015	2014	2013
North	21.0	0.9	0.9	*0.9*	*1.1*	*1.4*	*1.2*	21.9	3.9%	4.1%	*4.3%*	*5.2%*	*6.2%*	*5.3%*
Center	9.6	0.6	0.6	*0.7*	*0.9*	*0.9*	*0.8*	10.3	6.1%	6.3%	*6.6%*	*8.2%*	*8.5%*	*8.1%*
South	11.4	1.2	1.2	*1.3*	*1.4*	*1.6*	*1.5*	12.6	9.6%	10.1%	*10.7%*	*11.1%*	*13.5%*	*13.1%*
TOTAL ITALY	42.0	2.7	2.8	*2.9*	*3.4*	*3.9*	*3.5*	44.7	6.0%	6.3%	*6.7%*	*7.6%*	*8.7%*	*8.0%*

Source: Based on Motor Vehicles Bureau data

Table 4
Estimate of uninsured vehicles, 2018 – Regions and regional capitals
(millions of vehicles)

Region/Capital	Total insured vehicles	Est. uninsured vehicles	Total vehicles on road	% uninsured vehicles
	2018	2018	2018	2018
Bologna	0.721	0.028	0.749	3.8%
Total EMILIA ROMAGNA	3.478	0.136	3.614	3.8%
Trieste	0.167	0.005	0.172	3.0%
Total FRIULI VENEZIA GIULIA	0.993	0.030	1.023	2.9%
Genoa	0.589	0.023	0.611	3.7%
Total LIGURIA	1.178	0.046	1.224	3.8%
Milan	1.947	0.132	2.079	6.3%
Total LOMBARDY	7.129	0.335	7.464	4.5%
Turin	1.569	0.087	1.656	5.3%
Total PIEDMONT	3.369	0.159	3.527	4.5%
Trento	0.465	0.012	0.476	2.4%
Total TRENTINO ALTO ADIGE	0.912	0.022	0.934	2.4%
Aosta	0.117	0.008	0.125	6.2%
Total VALLE D'AOSTA	0.117	0.008	0.125	6.2%
Venice	0.561	0.017	0.577	2.9%
Total VENETO	3.863	0.118	3.981	3.0%
TOTAL NORTH ITALY	*21.038*	*0.854*	*21.891*	*3.9%*
Pescara	0.218	0.014	0.232	6.0%
Total ABRUZZO	0.988	0.059	1.047	5.6%
Rome	2.596	0.273	2.869	9.5%
Total LAZIO	3.780	0.359	4.139	8.7%
Ancona	0.360	0.013	0.374	3.5%
Total MARCHE	1.203	0.049	1.252	3.9%
Florence	0.710	0.030	0.740	4.1%
Total TUSCANY	2.900	0.123	3.022	4.1%
Perugia	0.569	0.026	0.595	4.4%
Total UMBRIA	0.757	0.035	0.792	4.4%
TOTAL CENTER ITALY	*9.629*	*0.624*	*10.252*	*6.1%*
Potenza	0.266	0.018	0.284	6.2%
Total BASILICATA	0.401	0.027	0.428	6.4%
Reggio Calabria	0.287	0.043	0.330	13.1%
Total CALABRIA	1.135	0.135	1.270	10.6%
Naples	1.267	0.248	1.515	16.4%
Total CAMPANIA	2.905	0.423	3.328	12.7%
Campobasso	0.173	0.011	0.184	5.9%
Total MOLISE	0.248	0.016	0.264	6.2%
Bari	0.762	0.053	0.816	6.5%
Total PUGLIA	2.471	0.188	2.660	7.1%
Cagliari	0.291	0.025	0.316	7.8%
Total SARDINIA	1.114	0.079	1.192	6.6%
Palermo	0.702	0.077	0.780	9.9%
Total SICILY	3.087	0.338	3.425	9.9%
TOTAL SOUTH ITALY	*11.362*	*1.206*	*12.568*	*9.6%*
TOTAL ITALY	42.028	2.684	44.712	6.0%

(*) Source: Based on Motor Vehicles Bureau data

ACTION AGAINST INSURANCE FRAUD AND EVASION

"Plate Check" project

Evasion of compulsory motor liability insurance coverage engenders considerable social alarm. Apart from the losses suffered by insurers and the tax revenue agency owing to non-payment of premiums, it has a series of adverse effects in terms of road safety. The data highlight an increase in hit-and-run accidents. For 2017, hit-and-run accidents involving personal injury numbered over 1,000 and deaths 118 ([1]). Clearly, in these cases it is much more difficult for the innocent victims to obtain adequate indemnity.

In response, the ANIA Foundation has approved a project to support law enforcement bodies in countering insurance evasion, supplying the technological tools for quick checks of uninsured and/or uninspected vehicles. The program calls for a project in cooperation with the Highway Police for massive checks of uninsured/uninspected vehicles throughout Italy for a period of three years.

To facilitate the controls, the project calls for the support of ANIA's passenger car department, in particular the Car and Authorities unit, with the institution of a toll-free number to serve the Highway Police.

In December 2018, at the conference on "Road safety: safety requirements, techniques of investigation, administrative protection" held in Cagliari, the ANIA Foundation and the Highway Police signed a protocol for cooperation launching the "Plate Check" project to monitor, prevent and combat insurance evasion. The project calls for supplying the Highway Police, for 36 months, with 120 street control kits: that is, devices for remote computerized reading of the license plates of vehicles on the roads. In this way the Police can check vehicles' insurance and inspection status by real-time interrogation of the Motor Vehicles Bureau's database of registered and insured vehicles, which under the law uses the ANIA SITA database.

The law enforcement bodies have included operation "Plate Check" in their list of high-priority, high-impact services. The training of the officers assigned and the distribution of the street control kits was completed in January 2019. The kits will be deployed on a priority basis for massive checks in the 29 provinces signaled by IVASS (Regulation 37/2018) as those at greatest accident risk. The project is already fully operational. In the first three months (January-March 2019) police agents effected more than 1.7 million checks. The results are in course of analysis.

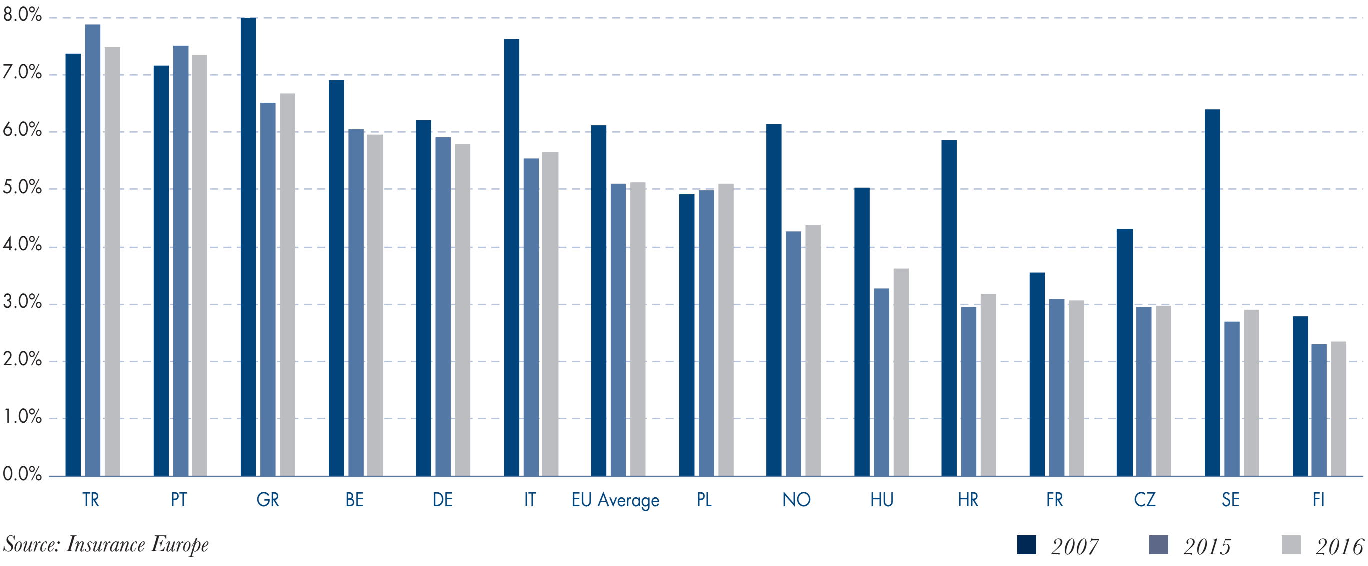
([1]) Source: Highway Police.

TECHNICAL INDICATORS AND TRENDS – THE EUROPEAN PICTURE

In February 2019 Insurance Europe published an update to its "European Motor Insurance Markets" report, analyzing data and technical trends in motor insurance in the countries of Europe. The latest year covered is 2016, with comparisons with 2015 and with 2007.

The report concentrates mainly on cross-country differences in the technical indicators – claims frequency and average claim cost – which are naturally reflected in the level of policy premiums paid by consumers in the various EU member states. In particular, the frequency of claims – i.e. the ratio of the number of indemnified claims (not counting those reported late) to the number of insured vehicle-years – came down by over 17 percent in ten years, falling from 6.1% in 2007 to 5.1% in 2016. Over the same years, claims frequency in Italy dropped almost twice as sharply, by 26 percent, or from 7.6% to 5.6% (Figure 1).

Figure 1 – Claims frequencies in Europe



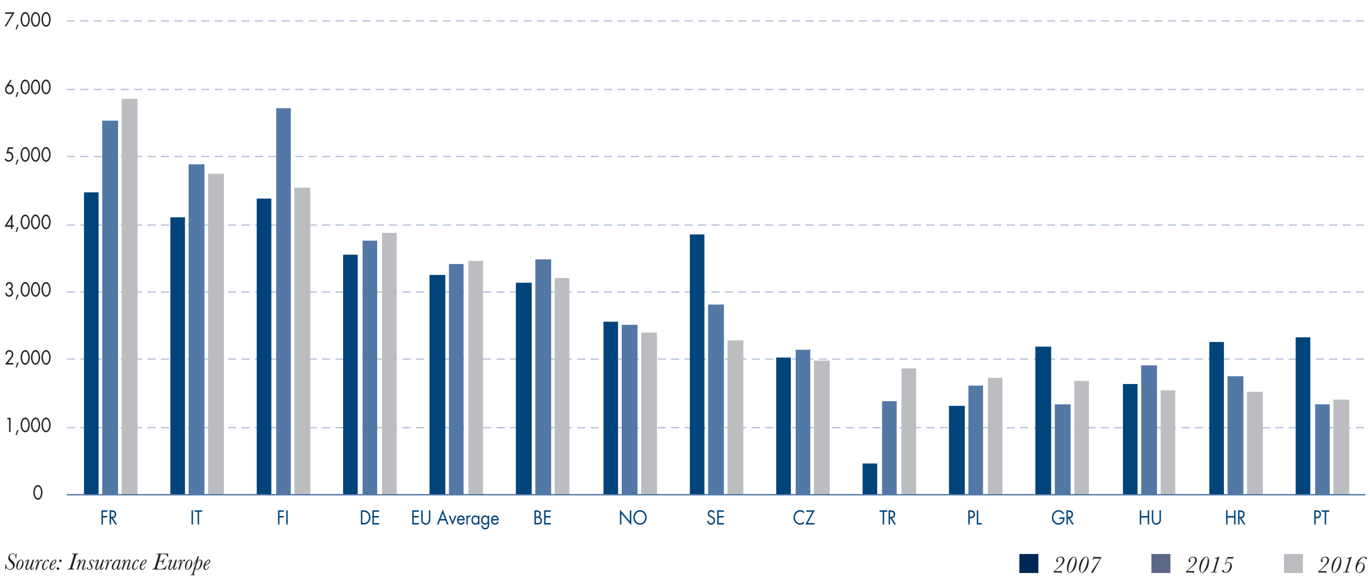
Source: Insurance Europe

In Italy, in any case, the downturn came only in 2010; Italian claims frequency in 2009 was the highest in 15 years at 7.8%, and one of the highest in Europe. By 2016, however, it was only slightly above the EU average (5.6% as against

5.1%, national frequencies being weighted by number of vehicles in circulation). And the rate came down further both in 2017 and in 2018, to stand at 5.4%. It is still far higher than in France (3.1%) or Sweden (2.9%). In making these national comparisons, one should consider such factors as topography, road quality and maintenance, traffic factors related to population density, driving habits, national rules and, not least, the population's attitude towards rules and obligations.

As to the average cost of claims, i.e. total cost of claims in the year divided by the number of compensated claims, the European average increased by 7% in the ten years, from €3,248 in 2007 to €3,468 in 2016 (Figure 2). In Italy, despite a slight decrease of 3% in 2016, over the same decade the cost rose more than twice as fast as in the rest of Europe, by 16%. And from 2010 through 2014 Italy had the highest average cost in Europe. In 2015 and 2016 Italy was surpassed by France but remains one of the highest in Europe (€4,757 in 2016, nearly 40% more than the European average). The marginal further reductions registered in 2017 and 2018 (a total of 1.3%) were clearly insufficient to bring Italy back into line with the rest of the Union. Like frequency, claims cost too is affected by national socio-economic and regulatory factors, which affect the cost of repairs and labor and also the level of compensation for bodily harm, which accounts for 63% of total claims cost in Italy.

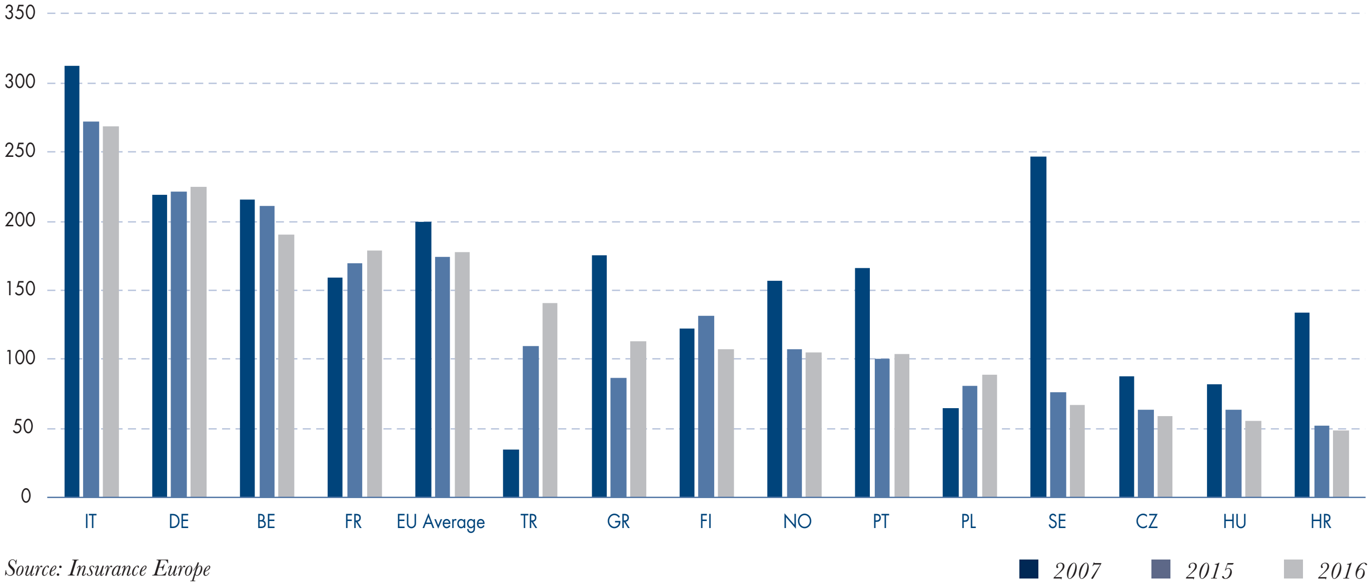
Figure 2 – Average cost of claims in Europe
amounts in €



Source: Insurance Europe

The international divergences in these two technical indicators can be brought together for trend analysis in a single formula if one considers the "pure premium," i.e. the policy premium that would be technically necessary to cover the expected cost of claims per unit of policy risk, obtained by multiplying the frequency of claims by their average cost. This is the basic indicator, which after adding diverse charges – operating expenses, commissions, reinsurance, taxes and parafiscal charges – gives the final premium paid by policyholders (Figure 3).

Figure 3 – Pure premium in Europe
amounts in €

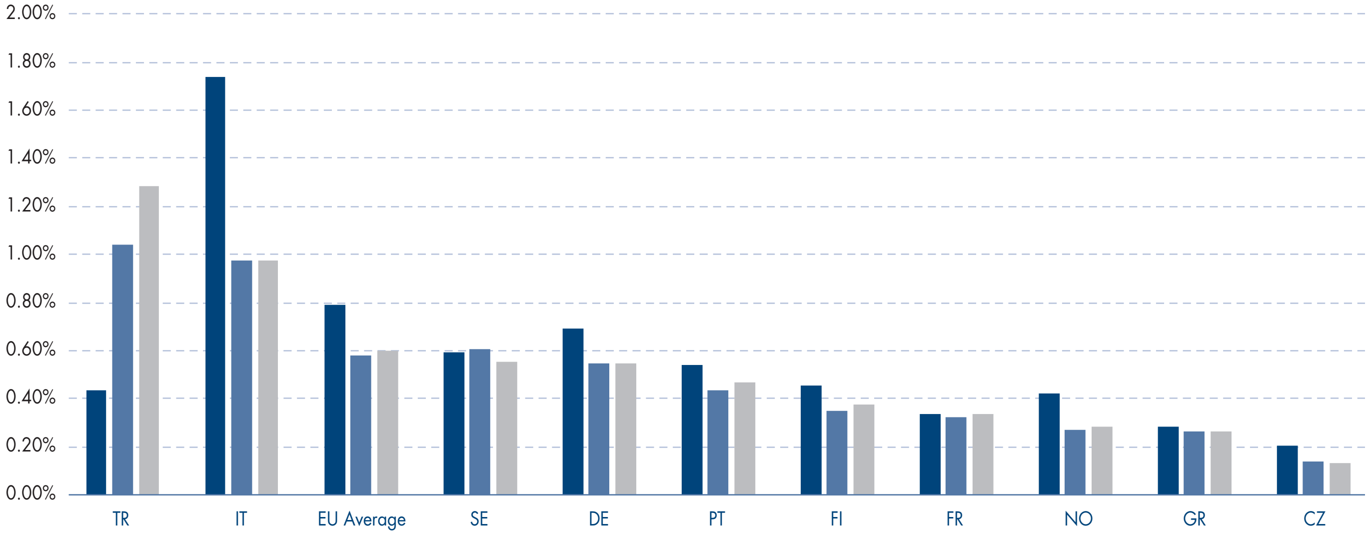


Source: Insurance Europe

The average pure premium in Europe was practically unchanged in 2016 at €177, compared with €200 in 2007. That is, in a decade the indicator came down by 10%. In Italy the indicator declined slightly more sharply, by 14%, from €312 to €269. However, the Italian downtrend, which was paralleled by that in claims frequency, did not begin until 2010; in 2009, in fact, the pure premium in Italy was still €333, the highest in Europe. From then through 2016 it fell by some 20%, and there was a further reduction of about 4% in 2017-2018. Despite this marked improvement, Italy's pure premium remains one of the highest, although the final premium actually paid by motorists has moved proportionally closer to those in the rest of the Union. By country, in 2016 Italy still had the highest pure premium (€269, against the EU average of €177). The figure for Italy was about 20 percent higher than in Germany, 40 percent higher than in Belgium and 50 percent higher than in France and the European average.

One of the main factors in the overall disparity in the pure premium rate between Italy and the rest of Europe is the differing incidence of the number and cost of accidents involving personal injury on the total (Figure 4). In France, for instance,

Figure 4 – Frequency of personal injury claims in Europe
amounts in €



Source: Insurance Europe

the frequency of accidents involving bodily harm was 0.33%, and in Germany 0.54%; the European average was 0.60%. Excluding Turkey, the Italian rate was the highest in Europe at 0.98%, over 60 percent higher than the average. Over the past ten years, and especially since 2012, with Law 27/2012 to curb speculation on minor injuries, Italy has recorded the sharpest reduction of any country, with a fall of 44 percent against 24 percent for the European average. These differences are reflected directly in the average final premium: in fact, Italy shows the highest final premium in Europe, but in line with the technical indications deriving from the "pure premium".

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

The change in the average motor liability premium

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

Table 1 shows the average Italian price for insurance of a vehicle and its component factors, as estimated by ANIA, between 1994 (the year insurance prices were liberalized) and 2018. In particular, the results since 2012-2013 can be summarized as follows:

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

It is worth noting that as a result of the significant decreases registered in the course of six years (a total reduction of 25%), in 2018 the average cost of insurance coverage came back down to its level of 20 years earlier (Table 1, column 3). The price reduction is also confirmed by IVASS's quarterly survey of actual motor liability insurance prices. This Survey of Effective Motor Insurance Prices (IPER) ([2]), covering passenger cars only, confirms the extent of the six-year decline in prices as observed by ANIA.

Figure 1 summarizes the prices found quarterly by IVASS (those prior to December 2013 are ANIA estimates based on the average prices found by a comparable survey conducted by ANIA itself). The survey shows that the average yearly price (the average of the four quarterly values) of passenger car insurance fell from €558 in 2012 to €414 in 2018, or by 26%, in line with the insurance price index shown in Table 1. For 2018 alone, the IPER survey shows that the cost of passenger car insurance was 0.4% lower than in 2017, coming down from €415.30 to €413.80.

([1]) Methodologically, using the variation in the average premium to measure the rise in prices means employing the national accounts method for calculating consumption deflators, which is a Paasche index. The deflator, that is, is a variable-weights index, taking account of the exact composition of insurance expenditure and the price actually paid by the insured. Specifically, the deflator takes account of:

- the motorists' actual merit class, so that if in the reporting year they are in a better class than the previous year (which happens over 95% of the time), the deflator finds a reduction (or smaller increase) in price;
- discounts with respect to list prices, so that if a motorist gets a discount in the reporting year that he didn't have the year before, the deflator finds a reduction (or smaller increase) in price.
- changes in the characteristics of the insured vehicle, due in part to new car registrations.

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

Table 1 – Motor liability insurance premiums, 1994-2018

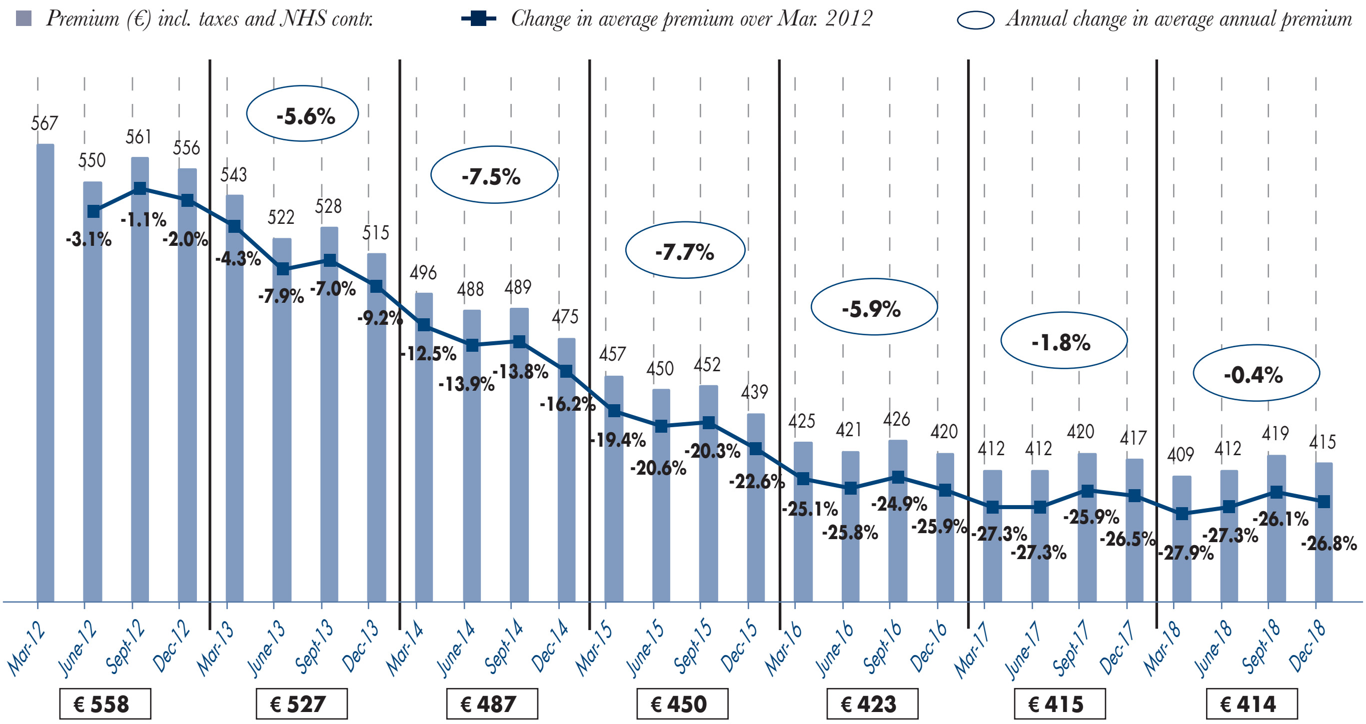
YEAR	1. Premiums (Source: IVASS) (1)			2. No. vehicles in circulation (2)		3. Average price of coverage per vehicle		MEMO: 4. ISTAT motor liability index		MEMO: 5. ISTAT consumer price index	
	Mn. euro	Index	Annual % change (3)	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change
1994	8,663	100.0	6.1	100.0	3.0	100.0	2.9	100.0	8.5	100.0	4.1
1995	9,316	107.5	7.5	102.1	2.1	105.3	5.3	110.2	10.2	105.3	5.3
1996	9,770	112.8	4.9	101.8	-0.3	110.9	5.3	120.2	9.1	109.5	4.0
1997	10,655	123.0	9.1	102.8	1.0	119.6	7.8	131.2	9.2	111.7	2.0
1998	11,745	135.6	10.2	107.3	4.4	126.4	5.7	149.1	13.6	113.9	2.0
1999	13,226	152.7	12.6	109.6	2.1	139.4	10.3	174.0	16.7	115.8	1.7
2000	14,196	163.9	7.3	112.4	2.6	145.8	4.6	190.8	9.6	118.7	2.5
2001	15,315	176.8	7.9	116.9	4.0	151.2	3.7	211.3	10.7	122.0	2.7
2002	16,628	191.9	8.6	120.1	2.8	159.7	5.6	235.8	11.6	125.0	2.5
2003	17,622	203.4	6.0	123.5	2.8	164.7	3.1	247.7	5.0	128.4	2.7
2004	18,062	208.5	2.5	126.0	2.0	165.4	0.4	250.0	0.9	131.3	2.2
2005	18,171	209.8	0.6	128.7	2.1	163.1	-1.5	254.3	1.7	133.8	1.9
2006	18,387	212.3	1.2	131.2	2.0	161.8	-0.8	260.1	2.3	136.6	2.1
2007	18,208	210.2	-1.0	133.5	1.7	157.5	-2.7	264.0	1.5	139.1	1.8
2008	17,606	203.2	-3.3	133.9	0.3	151.8	-3.6	270.2	2.4	143.8	3.3
2009	16,963	195.8	-3.6	134.2	0.2	145.9	-3.9	278.1	2.9	144.9	0.8
2010	16,881	204.4	4.4	133.9	-0.3	152.7	4.7	298.2	7.2	147.1	1.5
2011	17,760	215.0	5.2	133.1	-0.5	161.5	5.8	314.3	5.4	151.2	2.8
2012	17,542	212.5	-1.2	130.7	-1.9	162.6	0.7	328.1	4.4	155.8	3.0
2013	16,232	197.6	-7.0	127.4	-2.5	155.1	-4.6	327.5	-0.2	157.7	1.2
2014	15,180	184.7	-6.5	128.2	0.6	144.2	-7.0	318.7	-2.7	158.1	0.2
2015	14,187	172.7	-6.5	128.3	0.1	134.6	-6.7	313.1	-1.8	158.1	0.0
2016	13,494	163.1	-5.6	128.7	0.3	126.7	-5.9	313.1	0.0	158.0	-0.1
2017	13,202	159.5	-2.2	129.2	0.4	123.5	-2.5	317.4	1.4	159.9	1.2
2018	13,202	159.7	0.1	130.4	0.9	122.5	-0.8	320.4	1.0	161.7	1.1

(1) Premiums only of Italian companies and units of companies with registered offices in non-EEA countries, since the data on number of vehicles insured by units of companies located within EEA countries are not available
(2) Through 2008, based on ACI data. Starting with 2009, the number is calculated on the basis of the change in the actual number of vehicles insured derived from an ANIA survey, using a methodology consistent with that which IVASS specifically requests of insurance companies in anticipating their financial reports. Preliminary data showed a rise of 0.9% in the number of insured vehicle/years in 2018 to 39.3 million. The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer doing business in Italy, the number of insured vehicles rose by 1.6%
(3) The percentage change in premiums in 2010 and in 2013 is calculated in uniform terms

The latest data available also to ANIA (3), for March 2019, indicate that the average price of motor liability insurance, net of taxes and NHS contributions, **came down by a further 0.6% to €343** (4) or €94 less than the €437 recorded in

(3) Since 2013 ANIA conducts a quarterly survey, covering over 85% of the Italian insurance market in terms of premiums, to estimate the price paid for the renewal of motor liability policies. This survey excludes fleet policies and, for better comparability, considers only annual policies expiring in the relevant month and excludes temporary policies. The premiums are net of taxes and NHS contributions.
(4) Including taxes (15.7%) and NHS contributions (10.5%), which amounted on average to 26.2% of the pre-tax premium in 2018, the average post-tax cost for all vehicles in March 2019 came to €433.

Figure 1 – Average price of passenger car insurance, 2012-2018



Sources: Dec. 2013-Dec. 2017, IVASS; previous dates, ANIA estimate based on IVASS data

March 2013 – a fall of 21.5% (Table 2). In detail, premiums on cars fell by 0.9% in the year to March 2019 and those on motorcycles by 1.3%, while those on scooters rose slightly, by 0.6%.

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

Month/Year	Average premium (pre-tax) (€)	% change over year-earlier month
March 2019 – All policies	343	-0.6
of which		
Private passenger cars	346	-0.9
Private motorcycles	234	-1.3
Private motor scooters	156	0.6

For private passenger cars alone, the figure was €437. This amount differs from that given by IVASS and is generally higher, in that the ANIA survey covers only policy renewals within companies' portfolios, for which the previous year's premium is known. This excludes new policies issued during the month, which refer at least in part to motorists who have changed insurer in order to get a cheaper policy and who accordingly get larger reductions, on average, than those staying with the same company. Further, the premium reported by the companies surveyed does not take account of contractual changes or any additional discounts with respect to the previous year.

Looking, for purposes of comparison, to the rest of Europe (Table 3), based on Eurostat data (which are essentially the same as those observed by Istat for Italy and its counterpart institutions for the other countries), we find that only three countries registered decreases in the motor liability price index between 2013 and 2018, namely Greece (-29.8%), Denmark (-6.6%) and Italy (-2.4%). In all the other countries, motor liability prices rose: modestly, by between 2% and 4%, in Norway, Belgium, Sweden and Germany, and much more sharply in the United Kingdom (23.4%), Ireland (25.8%), and the Netherlands (31.0%).

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

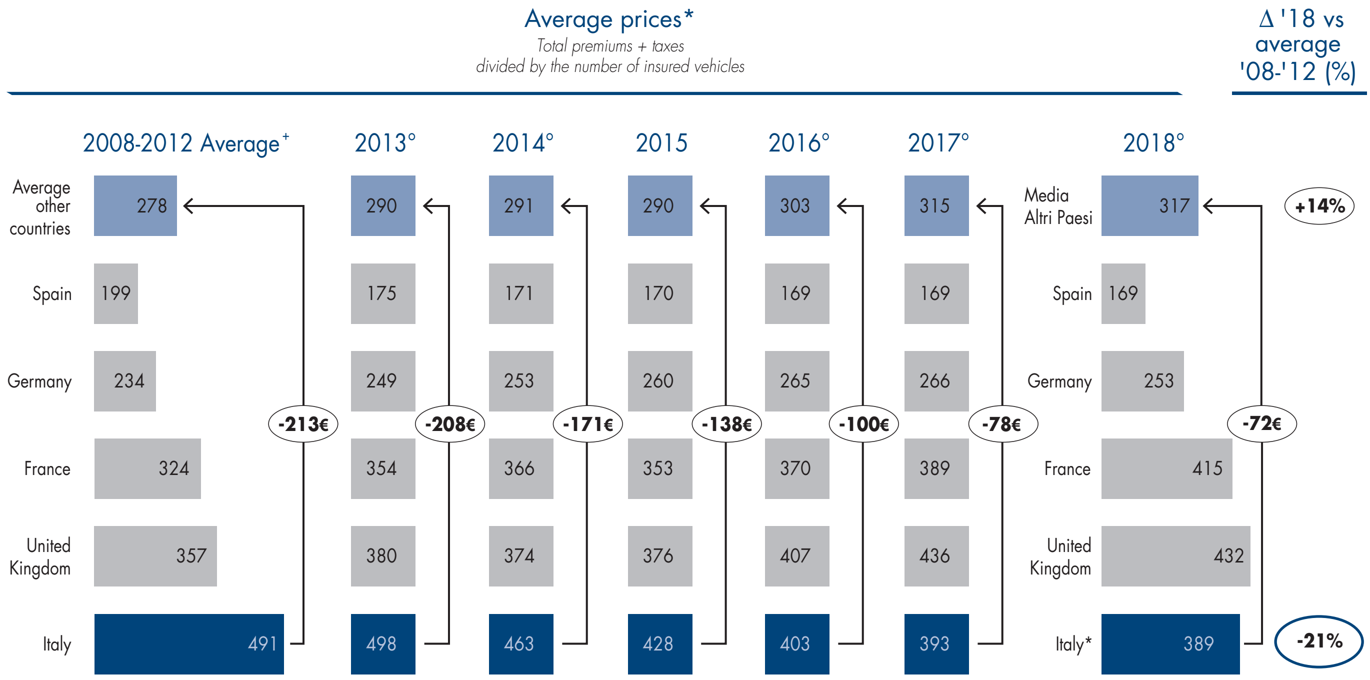
	AVERAGE FOR YEAR						TOTAL	12-MONTH CHANGE
	2013	2014	2015	2016	2017	2018	2013-2018	May 2019-2018
Italy	-0.2%	-2.7%	-1.8%	-0.1%	1.4%	1.0%	-2.4%	-0.7%
Austria	2.5%	1.9%	1.7%	1.8%	2.0%	1.5%	11.8%	-0.4%
Belgium	1.3%	1.3%	0.5%	0.1%	-0.3%	-1.3%	1.6%	-1.9%
Denmark	-17.4%	12.4%	1.9%	-0.1%	-2.3%	1.1%	-6.6%	-3.0%
Finland	4.0%	3.9%	6.0%	2.7%	1.0%	1.2%	20.2%	1.2%
France	-1.5%	-0.2%	1.7%	1.3%	1.4%	3.2%	6.0%	2.1%
Germany	4.1%	1.7%	-1.6%	2.1%	0.3%	-4.7%	1.7%	3.0%
Greece	-7.7%	-8.9%	-9.1%	-3.9%	-3.3%	-1.1%	-29.8%	-0.1%
Ireland	-7.5%	6.0%	19.6%	24.6%	-5.7%	-8.7%	25.8%	-6.9%
Luxembourg	0.8%	1.8%	0.1%	1.7%	0.0%	1.0%	5.5%	1.5%
Norway	2.3%	1.0%	0.2%	-0.4%	-0.5%	1.6%	4.2%	3.6%
Netherlands	12.1%	0.2%	3.4%	2.1%	6.2%	3.9%	31.0%	7.8%
United Kingdom	-1.6%	2.1%	3.0%	11.9%	10.9%	-3.9%	23.4%	-3.0%
Spain	-0.3%	0.7%	1.8%	2.5%	2.6%	1.7%	9.5%	2.0%
Sweden	0.4%	1.2%	1.9%	-0.1%	0.2%	0.2%	3.9%	-1.3%
EU 28	0.5%	0.5%	0.4%	2.7%	2.3%	-0.3%	6.3%	1.7%

Source: Eurostat

Accordingly, the gap between Italian prices and those in the other main countries narrowed once again. The Boston Consulting Group study conducted in 2014 found that between 2008 and 2012 motor liability coverage cost €213 more in Italy than in Germany, France, Spain and the United Kingdom, on average. But an update of this study has found that the gap diminished to €138 in 2015. Using the trends in motor liability price indices released by Eurostat, ANIA has estimated that the gap has narrowed further in 2018 to just €70 (Figure 2).

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

Figure 2 – Average motor liability insurance prices in Europe



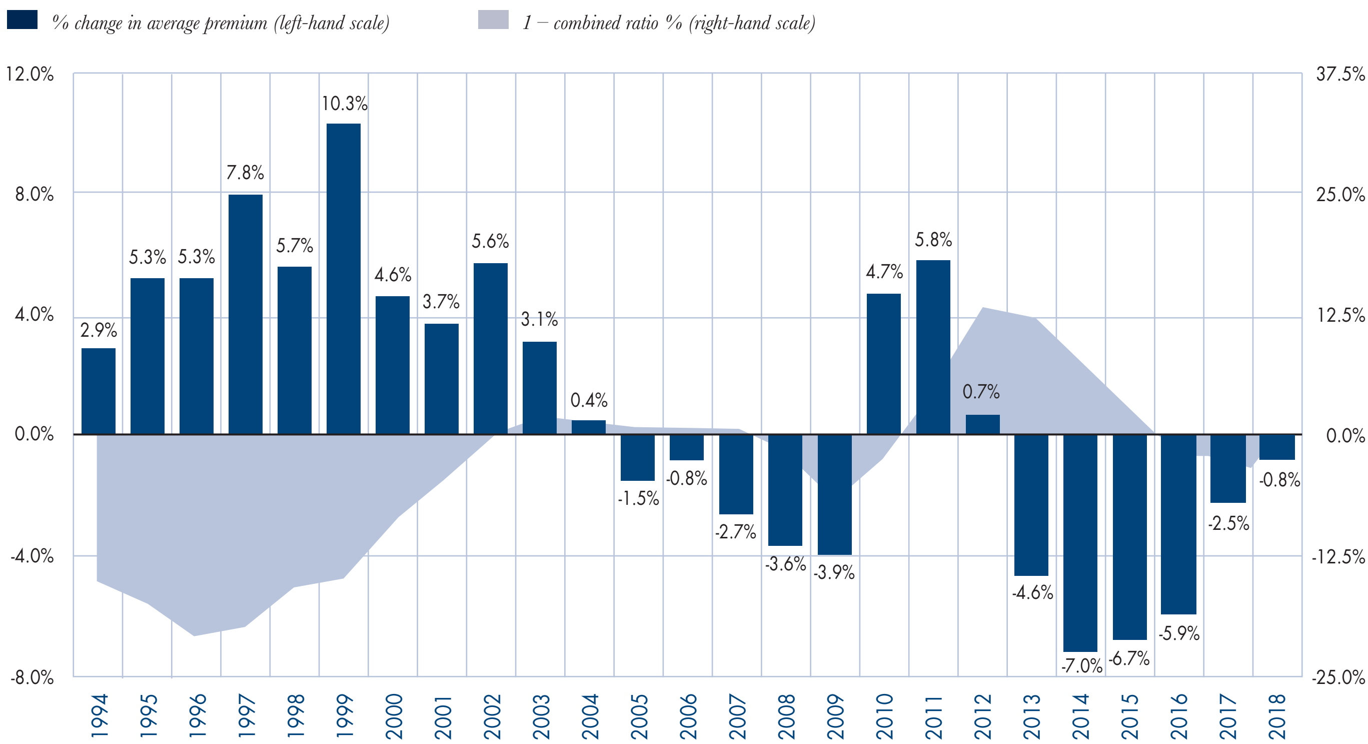
(+) Source: BCG – Documento Finale Confronto sul Mercato RCA in Europa
(°) ANIA estimates based on Eurostat and Insurance Europe data
(*) The slight differences between the premium for Italy given here and that from IVASS's IPER survey are due to the fact that IVASS counts only private passenger cars

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

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

Comparing the complement to 1 of the combined ratio (a negative value indicates a loss, a positive one a profit) with average premium variations over the long run, we can track the "insurance underwriting cycle" (Figure 3). From the price liberalization of 1994 to 2002, the sector's technical results were sometimes sharply negative, and insurers had to bring the accounts back into balance by raising average premiums (the "hard" phase of the cycle). Once the technical results came back into positive territory (in 2002), companies began lowering prices (the "soft" phase). However, there is a lag between the inversion in the profitability trend and that in the price trend. Prices, in fact, can only reflect changes in claim frequency with a lag of months, insofar as the data for the calculation to estimate new premium rates are drawn from past experience, are not available immediately, and can take a considerable amount of time to process. The most recent trends indicate that in view of the positive technical results achieved starting in 2012, we have witnessed the sharpest cut in average premium rates since the 1994 liberalization (down 25% from 2012 through 2018).

Figure 3 – The insurance policy underwriting cycle



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

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

DIRECT INDEMNITY

CALCULATION OF THE SINGLE COMPENSATION AMOUNTS FOR 2019

The Technical Committee has set the single compensation amounts for payments between insurance companies for 2019 under current regulations. The applicable legislation is Article 29 of Decree Law 1/2012 ("Urgent measures for competition, infrastructural development and competitiveness"), converted into Law 27 of 24 March 2012, and the implementing provisions in IVASS's Measure 79 of 14 November 2018 ([1]).

Specifically, the compensation amount is divided into two components:

– a single "CARD-CID" amount for mild personal injury to the driver and damage to the vehicle insured and property transported, itself broken down into two vehicle categories, namely "motorcycles/scooters" and "vehicles other than motorcycles/scooters". The single amount, relating only to property damage, has been set distinctly for three geographical macro-areas;

– for the "CARD-CTT" procedure relating to personal injury to passengers and damage to their property, reimbursement is now on the basis of the actual settlement (again in 2019, no deductible was deemed necessary).

The study to determine the single compensation amount was based on CONSAP's statistics, which refer to settlements of claims admitted to the clearing house between 1 January 2009 and 31 October 2018, which are sufficiently representative of the costs of the claim generation needed to determine the compensation amount.

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

Calculation of the CARD-CID amount

The examination of average definitive settlements revealed a slight increase in 2018 in indemnities for damage to vehicles and property transported, both for "motorcycles/scooters" and for "vehicles other than motorcycles/scooters", while the average cost of injury to drivers diminished.

The reference values for 2019 were set on the basis of the average costs of definitive settlement of claims of all the claim generations available (2009-2018). The method adopted for projecting the ultimate cost of claims of both types was the classical actuarial "chain ladder," based on the time series of average cost increases of previous claim generations according to claim duration.

The amounts so derived were first projected through December and then inflated for one additional year (given that they are to apply to all of 2019) based on the inflation forecast of 1.2% set in the Italian government's 2018 Economic and Financial Document Update.

The base value for average cost of property damage is:

– €1,448 for "motorcycles/scooters";
– €1,618 for the broader class of "other vehicles".

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

– €4,629 for "motorcycles/scooters";
– €2,337 for the broader class of "other vehicles".

Determination of geographical adjustments

The CONSAP statistics on settlements of claims incurred from 1 January 2013 to 31 October 2018 were used to identify three geographical macro-areas. Determination of the geographical indices was by the same methodology as in the past. Based on average settlement cost, provinces were divided into three groups (so-called geographical "areas") depending on deviation from the national mean. The first "area" comprises all provinces with costs more than 10% higher than the mean; the second, those with a deviation of less than 10% either above or below the mean; and the third, those with costs more than 10% below the mean. The average costs for the "areas" so defined were related to the overall average for all provinces and then normalized with respect to the central group, producing three adjustment coefficients (Table 1).

For "motorcycles/scooters", provinces with fewer than 500 claims were excluded, given the high volatility of costs there. These provinces were then all classed in the central group. The determination of the groups also factored in the new provincial structure of Sardinia. In particular, for the years through 2017 the old data on the

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

	MOTORCYCLES/SCOOTERS			OTHER VEHICLES		
	Group 1	Group 2	Group 3	Group 1	Group 2	Group 3
Average cost of damage to vehicle and property transported, to 30/06/2019	1,448	1,448	1,448	1,618	1,618	1,618
Adjustment coefficient by area	*1.29*	*1.00*	*0.83*	*1.17*	*1.00*	*0.84*
Average cost of claims by macro-area	1,869	1,448	1,202	1,901	1,618	1,364

MEMO:

	2012	2013	2014	2015	2016	2017	2018	2019
Average cost of damage to vehicle and property transported (€) (*)	1,613	1,598	1,651	1,556	1,550	1,559	1,588	1,601
Change %	*3.1%*	*-0.9%*	*3.3%*	*-5.8%*	*-0.4%*	*0.6%*	*1.9%*	*0.8%*

(*) Average cost for all sectors

provinces of Medio-Campidano and Carbonia-Iglesia (combined in the new province of Sud Sardegna) were aggregated; those of Olbia-Tempio (abolished) included in Sassari, and those of Ogliastra (abolished) in Nuoro.

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

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

	MOTORCYCLES/SCOOTERS				OTHER VEHICLES			
	Group 1	Group 2	Group 3	% *of claims*	Group 1	Group 2	Group 3	% *of claims*
Average cost of damage to vehicle and property transported	1,869	1,448	1,202	*99.30%*	1,901	1,618	1,364	*99.93%*
Average cost of personal injury to driver with permanent disability of less than 9%	4,629	4,629	4,629	*39.58%*	2,337	2,337	2,337	*8.49%*
Average cost of claims by province group	3,688	3,270	3,026		2,098	1,815	1,561	
SINGLE CARD-CID AMOUNT (*)	**3,688**	**3,270**	**3,026**		**2,095**	**1,810**	**1,560**	

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

THE NEW IT PLATFORM FOR DOCUMENT EXCHANGE: DRAWING THE BALANCE

Italy's CARD Convention, under Article 13 of the Presidential Decree of 2006, allows insurers to set rules for determining organizational and economic relations for the management of direct indemnity. The Convention was substantially restructured in 2017 to make the information processes in support of claims adjustment more efficient.

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

The changes to the Convention were designed to prevent so-called "double settlements", i.e. payments by both insurers to their own policyholders deemed non-liable for the accident, thanks to the exchange of the accident-related documents in support of insurers' respective assessments of liability. One aim of the new procedure was to reduce disputes between CARD insurers and so help to contain penalties under the Convention.

However, the statistics gathered since the entry into force of the CARD amendments in 2017 indicate widespread difficulty among insurers in handling the document acquisition process by the timetable laid down in the CARD rules, and above all in complying with the Convention's rules for apportioning liability.

The main results can be summarized as follows. The accidents occurring in 2018 reported to the CARD system numbered 1,614,253 (excluding 195,483 "natural CARD" accidents, those in which both motorists are insured by the same company). Of these, 1,004,361 (62.2%) were presented with the amicable CAI form signed by both drivers. The remaining 37.7% of the reports (609,892 claims) were handled on the basis of unilateral requests for indemnity; of these, 243,550 (39.9%) were handled via the new document exchange procedure (that is, 16% of total claims in 2018).

In detail, the claims handled by the new procedure can be broken down as follows:

- in 80.3% of the cases, liability was determined after viewing the documentation produced by the other insurer;
- in 11.1%, liability was determined by the conciliation procedure under the Convention;
- in the remaining 8.6%, liability was assigned on a presumptive basis owing to the lapsing of the deadline for providing documentary evidence under the Convention.

So-called "CAI2" claims (those reported via the CAI form signed by both drivers) resulted in a rate of disputes between insurers of 1.06% in 2018, down by 0.28 percent from 2017; meanwhile, the number of CAI2 claims itself declined in absolute terms by some 2%. By contrast, cases of unilateral claims ("CAI1") resulted in a dispute rate of 4.4%, sharply down (by 29.4 percent) by comparison with 2017, while the number of CAI1 claims diminished only marginally (by 0.8%) in absolute terms.

THE MODIFICATION OF THE SYSTEM OF INCENTIVES/PENALTIES

A true, overall assessment of insurance companies' performance with respect to the direct indemnity procedure requires consideration of a set of economic parameters:

1. the monthly balance of the Clearing House: the difference between the total single-amount payments to other insurers for the claims they handled and the payments received from them for claims handled on their account;
2. the difference between the real cost of the claims paid and the payments received: considering that the single amount is an average reference cost set a priori, it has to be determined whether each insurer has a positive or negative differential with respect to that value;
3. handling fees: reimbursement of the costs of settlement (15% of the single amount) to the company that handles a CARD claim on account of another insurer;
4. penalties under the Convention: fines levied by ANIA on CARD insurers for non-compliance with the rules of the Convention;
5. incentives/penalties: a corrective to the system of single-amount reimbursement, called for by the Antitrust Authority to make claims liquidation between CARD insurers more competitive.

The system of incentives/penalties mentioned in point 5 was introduced as a corrective to the compensation model adopted for direct indemnity determined solely by the single settlement amount. The purpose was to provide a mechanism for measuring insurance companies' efficiency in claims settlement in order to foster competition among direct indemnity insurers so as to lower settlement costs through a system that rewards the more virtuous firms at the expense of the less efficient.

IVASS has recently intervened again to improve the system based on the last three years of experience. The new system is governed by IVASS Measure 79 of 14 November 2018, which went into effect on 1 January 2019, abrogating and replacing the previous regulations (IVASS Measures 18 of 5 August 2014 and 43 of 4 March 2016). Those rules are accordingly abrogated, save for the exceptions envisaged in Article 11 of the new measure.

The most important modifications involve:

- the average cost of claims, whose calculation now considers only accidents with exclusive assignment of liability (to just one of the vehicles involved) and excludes those with joint liability;
- introduction of a new component gauging the efficiency of antifraud action in settlements, considering the results achieved by the various insurers;
- a new formulation of settlement speed (which now takes account also of claims lodged in the following year);
- extension, starting with 2020, of the "personal injury component", i.e. the cost of mild bodily harm (not more than 9% permanent disability) to passengers.

The new standards for calculating incentives and penalties apply to the 2019 claim generation, while extension to passengers is deferred to 2020 in order to allow for the necessary amendment to the CARD technical manual.

The incentive system is based on a complex algorithm with four parameters of competitiveness:

a) antifraud effectiveness in settlement;
b) average claim cost;
c) the cost trend;
d) speed of settlement.

For the components of cost, average cost trend, and settlement speed, the incentive is calculated for the claim generation year; for the antifraud component, according to the year of premium accrual.

IVASS Measure 81 of 20 December 2018, in force from 1 January 2019, sets the parameters for calibrating incentives and penalties for claims incurred in 2019, pursuant to Article 6 of Measure 79 of 14 November 2018. To this end, IVASS set minimum premium thresholds, the minimum and maximum percentiles identifying amounts to factor into the calculation of average cost for the reference claims generation; in addition, it set the slope coefficients of the straight line segments representing the components referred to in Article 5(4).

The effects of the new parameters will be picked up in the statistics elaborated by the Clearing House in September 2020.

The equity of the system depends strictly on completeness and timely transmission of the amounts to the Clearing House. New means of monitoring will be assessed to check correspondence between the value of damages under CARD and the claim amounts notified to the Clearing House.

IVASS monitors the effectiveness of this machinery attentively. In the future it could be further refined to make the calculation algorithms perform even better in attaining the legislative objectives of holding down claims costs and furthering anti-fraud action.

TECHNOLOGICAL INNOVATION IN MOTOR LIABILITY INSURANCE

HOW INFORMATICS HAS ALTERED THE MOTOR LIABILITY RISK SCENARIO

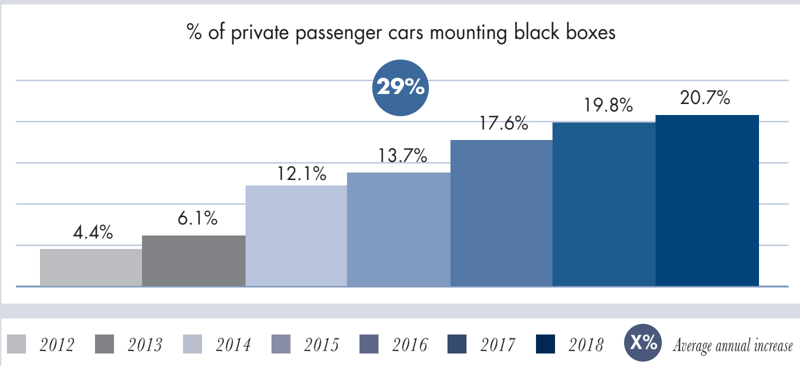
The diffusion of black boxes

The increasing use of black boxes on motor vehicles in Italy is closely intertwined with the general development of technology. It has had a significant impact on insurance products, in that insurers have envisaged the application of the new instrument in their motor policies (not only liability but also such ancillary coverage as fire and theft insurance).

Where at first (towards the end of the 1990s) these devices served essentially as anti-theft protection, perfectly tracking the position of the vehicle, in a second phase beginning in the mid-2000s they grew more and more sophisticated (with such features as accelerometers and assistance service in case of collision), permitting such innovations as "pay as you go" policies with premiums based on use, with preset driving time or mileage. Finally, at the beginning of the current decade, black boxes came to be used increasingly to monitor driving styles, prompting ever more sophisticated pricing techniques, exploiting the data on motorists' habits behind the wheel and introducing "pay as you drive" practices.

This development has been quite abrupt and rapid. Where at the turn of the decade (in 2010-2012) policies containing black box clauses accounted for under 5% of the total, in 2017 their incidence approached 20% and in 2018, 21%. That is, last year of 31.5 million motorists insured, some 6.5 million had opted for the installation of a distance recording device (compared with just over 1 million in 2010). This works out to average annual growth of 29% (Figure 1).

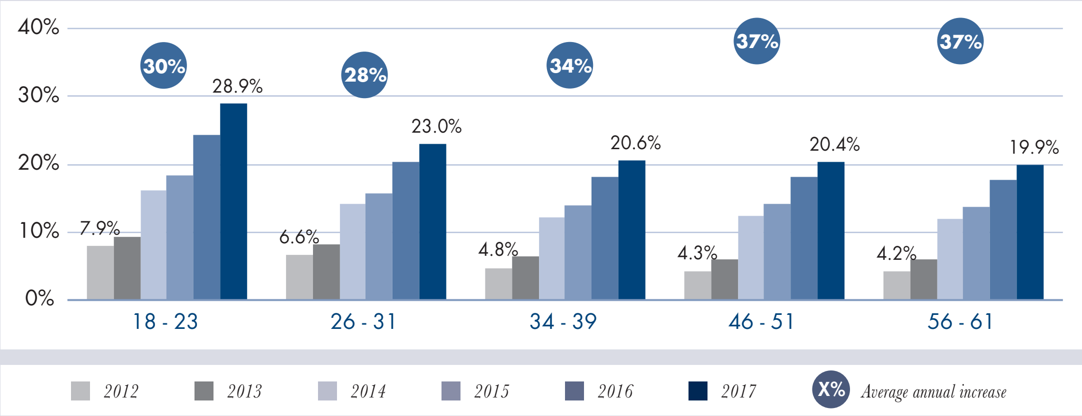
Figure 1
Diffusion of black box policies, 2012-2018



The diffusion of black box policies is not uniform throughout the population of the insured, so it is worth analyzing the risk profiles with the highest incidence of these policies and those for which growth rates have been higher than average.

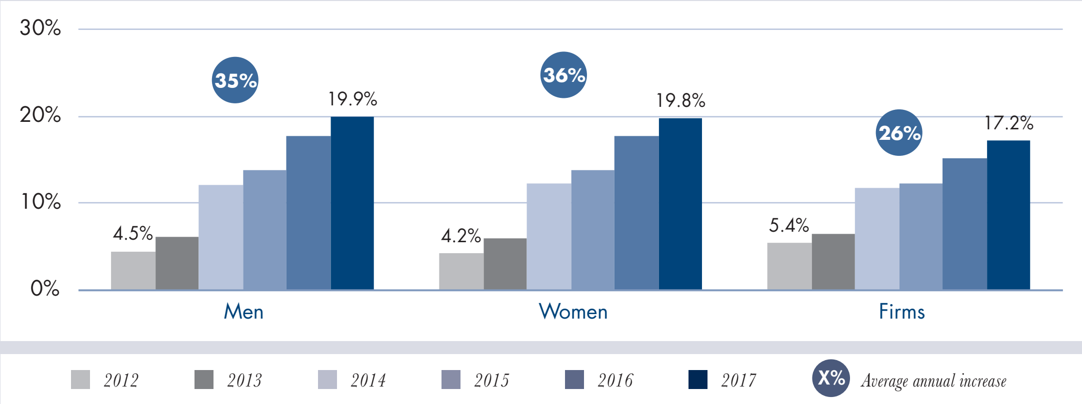
For 2017 alone, a year for which full data are available, and considering the basic policyholder characteristics (age and sex), we find the highest incidence of black box policies among the very young (18-23) and the young (26-31) – at 28.9% and 23.0% respectively – which are the highest-risk profiles. However, over the six years 2012-2017 faster-than-average growth was also recorded by the central age groups (46-51 and 56-61), which indicates that the attractiveness of these policies has spread progressively, now involving drivers with lower risk profiles (Figure 2).

Figure 2
% of black box policies by age, 2012-2017



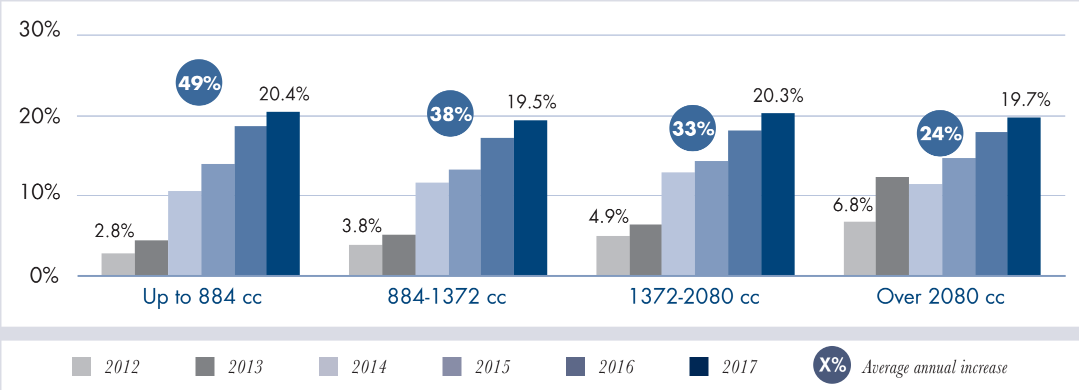
By sex, the incidence of these policies is basically equal, with slightly faster growth over time among women than men (Figure 3).

Figure 3
% of black box policies by sex, 2012-2017



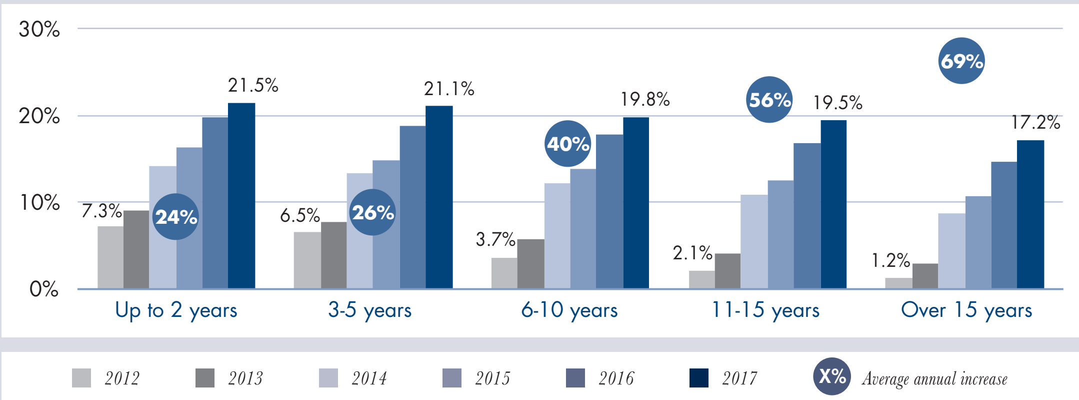
Turning to the characteristics of the vehicle insured, until 2015 the devices were mounted most commonly on the vehicles deemed more dangerous (i.e., high-horsepower cars), but in 2016-2017 the increase was across-the-board, and in fact was sharper for cars with smaller engines, for which the incidence is now greater at 20.4% (Figure 4).

Figure 4
% of black box policies by engine size, 2012-2017



By vehicle age, the highest incidence of black box policies is found in cars less than two years old, partly because in many cases the devices are already mounted in the production process and partly because given the higher risk of theft for new cars policyholders are more inclined to use them as a tracking device in case of theft. Interestingly, however, the highest growth rates have been recorded for cars older than ten years, indicating that these products are attractive across-the-board and their presence has increased for a wide variety of risk profiles (Figure 5).

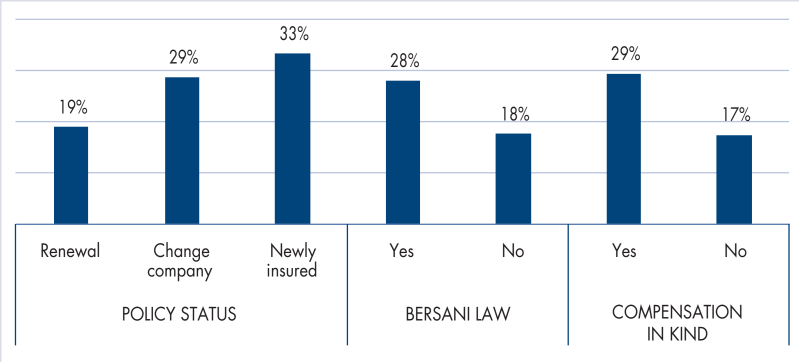
Figure 5
% of black box policies by age of vehicle, 2012-2017



The data for 2017 alone show that among policyholders with theft as well as compulsory liability coverage (nearly a third of all motorists), the incidence of black boxes is 24% against 18% for those without theft insurance.

Let us examine, for 2017, the type of policyholder who most commonly mounts the distance monitoring device. A third of newly insured drivers elected to mount a black box. For motorists changing insurer, the proportion drops to 28.7%, and for those simply renewing with the same company, to 18.9%. In addition, the percentage with black boxes is higher among drivers who benefit from the "Bersani Law" (28%) than those who do not (18%), presumably because the former comprise a larger share of new and young drivers, who in exchange for a premium discount agree to mount the devices. Further, those who opt, in case of accident, for compensation in kind (i.e., execution of repairs by the insurer) also have a higher incidence of black box policies (29%) than those who do not have such a clause; here too there is a correlation with the interest in a discount on the policy premium (Figure 6).

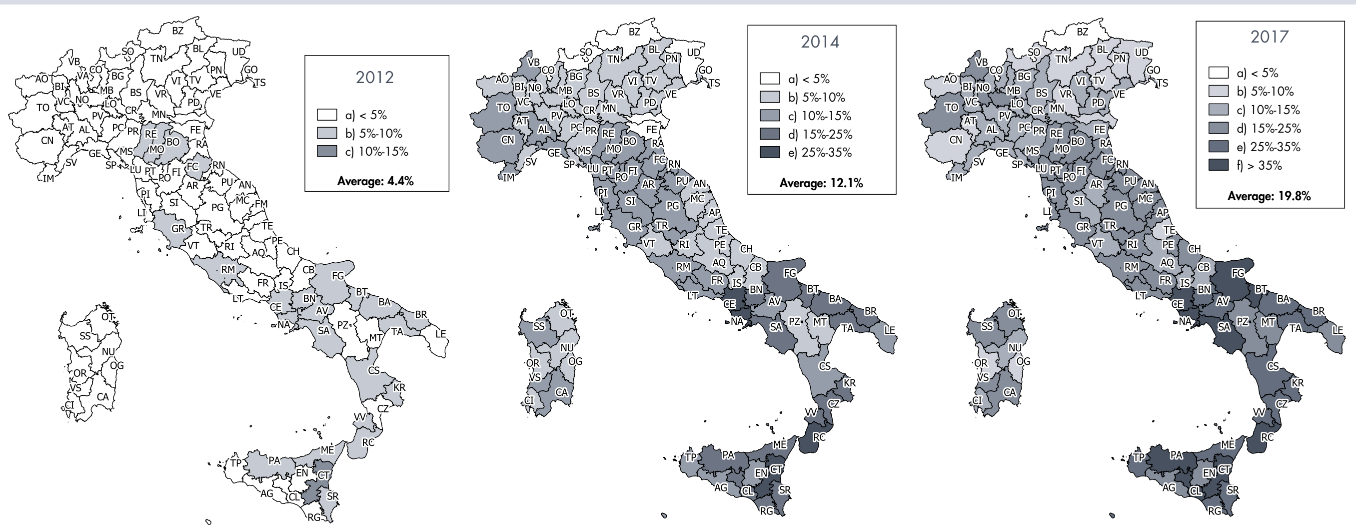
Figure 6
% of black box policies, 2017



Another interesting aspect is the geographical distribution of the diffusion of black boxes over the years. In what follows we consider three years, 2012, 2014 and 2017 (Figure 7). In 2012 contracts calling for mounting of a black box were signed mainly in the South, and especially in some provinces in Campania, Puglia, Calabria and Sicily. Essentially, these are parts of Italy with particularly high rates of accident reports and of insurance fraud. Thus against a national average of 4.4%, a single city that year had a rate of over 10% (Catania at 10.4%), and just a few others (Naples, Caserta, Foggia, Barletta, Reggio Calabria and Palermo) had rates between 8% and 9%.

Two years later, the inclusion of black box clauses had already begun to spread rapidly, no longer limited to the South. There was a general increase throughout the country. The national average had thus risen to 12.1% in 2014, and a good many provinces showed rates between 10% and 15%. The areas that had already had high rates of installation in 2012 recorded an intensification. Their incidence rose to 33% in Caserta, 28% in Catania, and over 25% in both Naples and Reggio Calabria.

Figure 7 – % of policies with black box clauses – by province, 2012-2017



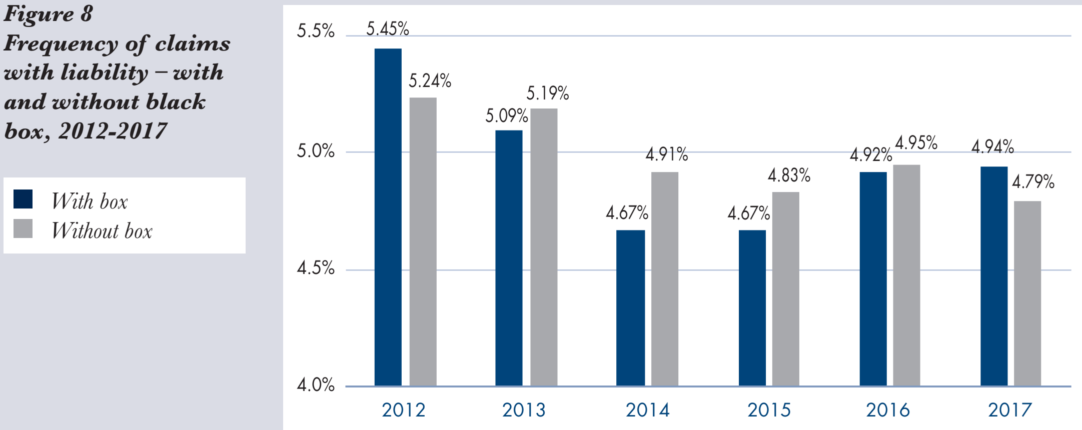
By 2017 the presence of black boxes was widespread everywhere in Italy. Nationwide, practically one contract in five had a clause specifying the installation of the device. In some provinces – Caserta and Naples – their incidence actually exceeded 50%. It was below 10% only in a few provinces, mainly in the North-East (in the regions of Trentino Alto Adige, Veneto, and Friuli), where accident rates are very low, as are fraud rates, and where premiums are generally comparatively low.

The effect of *black boxes* on claim rates for private passenger cars

Analyzing the historical record of accident rates for private passenger cars having installed black boxes (in particular those that monitor driving style) and those lacking them, we can compare the performance of the technical indicators that help to determine premium levels for motor liability policies, namely claims frequency and average claims cost. The database for this analysis is very large: some 5 million policies with and 19 million without the devices in the Italian motor liability market between 2012 and 2017. The main findings are as follows.

1. In 2012 claims frequency for accidents caused by cars with the devices was higher than for those without. As noted above, at first the devices were most widely diffused precisely in the parts of Italy where claims were most frequent and among the highest-risk policyholders (young drivers). From 2014 to 2016, however, the frequency of claims for accidents caused by black-box drivers was always lower than for the others (by between 2 and 5 percent). During these years the devices began to spread also in areas of average claims frequency as well (Figure 8). This could well indicate more careful driving on the part of those who know they are being monitored. The trend reverses again in 2017, however, with significantly higher claims frequency for vehicles with the devices installed than for those without. Here, the phenomenon could reflect the substantial intensification of black-box contracts in the South: in Caserta and Naples, for instance, one motorist in two had the device.
2. The reduction in accidents between 2012 and 2017 (as gauged by claims frequency) was slightly more pronounced for vehicles with the boxes installed, down by 9.3 as against 8.5 percent (Figure 8).
3. However, average claims cost is slightly higher for cars with the devices (by a margin of around 3 percent), save for 2012 when it was lower. This might be because drivers who do not intend to be monitored constantly (hence, also in case of accident) may be more inclined to lodge claims, possibly fraudulent ones, which as a rule are less costly. An onboard remote monitoring device, that is, may trigger a virtuous process reducing moral hazard, which in its extreme form takes the shape of actual insurance fraud (Figure 9).

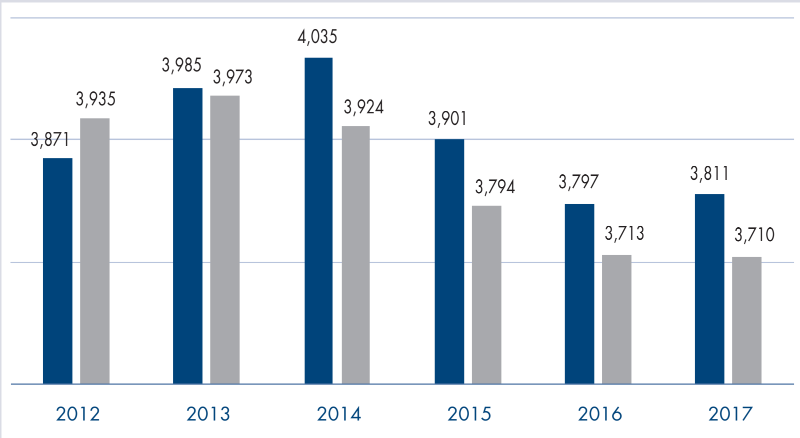
Figure 8
Frequency of claims with liability – with and without black box, 2012-2017



The simple, "raw" comparison of the technical indicators, however, may weaken the analytical conclusions, given that the mix of risks making up the two "policyholder universes" (namely those with and without black boxes mounted) may differ very substantially. In other words, the distribution of risk profiles between those who agree to have the monitoring device installed and those who do not is absolutely not uniform. As a rule it is higher-risk policyholders (or those in high-accident areas) who opt for "pay as you drive" policies in order to save on their premium costs.

Figure 9
Average cost of claims – with and without black box, 2012-2017

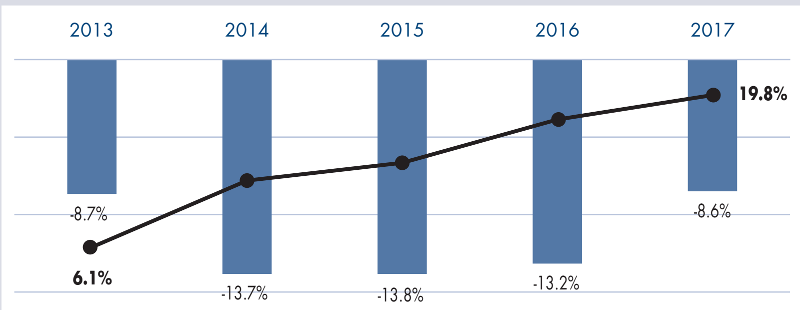
With box
Without box



To compensate for the different mixes of risk (given different policyholder ages, geographical concentrations by claims frequency, and vehicle characteristics), we have performed a multivariate analysis (multiple correlations) on the claims frequency of accidents caused by private passenger cars, in order to isolate the "pure" risk (or "standardized claims frequency") for cars with and without the monitoring devices. This study (on combined policy portfolios from 2013 to 2017) found that after neutralizing the effects of all the other parameters, the claims frequency for vehicles with black boxes is markedly better than that for those without. That is, whereas the "raw" frequency of claims caused, as described above, shows only a limited difference between the two policy types (an index at most 5 percent better for vehicles with the device), adjusting for all the other factors the difference is much more significant. On average in the five years examined the "standardized" probability of causing damage was 10 percent lower among policyholders who opted for monitoring than among the others; and in the years 2014-2016 the difference approached 14 percent (Figure 10).

Figure 10
Estimated reduction in average standardized claims frequency (%), 2013-2017

Reduction due to black box
Diffusion rate of black boxes



Analyzing selected risk factors (those typically correlated with accident rates, discussed above), such as policyholder age and engine size, we can see that the benefits in terms of accident reduction are found across the board, in all risk classes, but the greatest effects are for the notoriously more accident-prone profiles (where the diffusion of black boxes is also greatest).

For example:

1. Young drivers with black boxes (aged 18-31, for whom diffusion rates are between 17% and 22%) display an average standardized claims frequency ("purged" of all other factors) some 20% lower (Figure 11).
2. More powerful cars with the boxes mounted (with engines rated 116-125 kW, for which the diffusion rate is 18%) have an accident rate that is 16% lower (Figure 12).
3. Newer cars with the devices (specifically those less than a year old, for which the diffusion rate is 18%) have a 12% lower accident rate (Figure 13).
4. Finally, a geographical risk analysis for Italy's 110 provinces shows that the greatest benefits in terms of accident reduction are in notoriously high-risk areas (e.g. Caserta, Catania and Naples, with as much as a 20% difference between drivers with and without the devices). The benefit is more moderate for some major cities with average accident rates (Turin, Florence, Genoa), with a difference of 8% to 9%. And in the historically most virtuous provinces (such as Bergamo, Verona and Trento) it shrinks to a mere 2% or 3%. The data clearly show that the diffusion of black boxes by province is directly proportional to degree of risk: the greater the risk, the more widespread to installation of the monitoring devices (Figure 14).

Figure 11
Standardized claims frequency – policyholder age

With black box
Without black box
Box diffusion rate

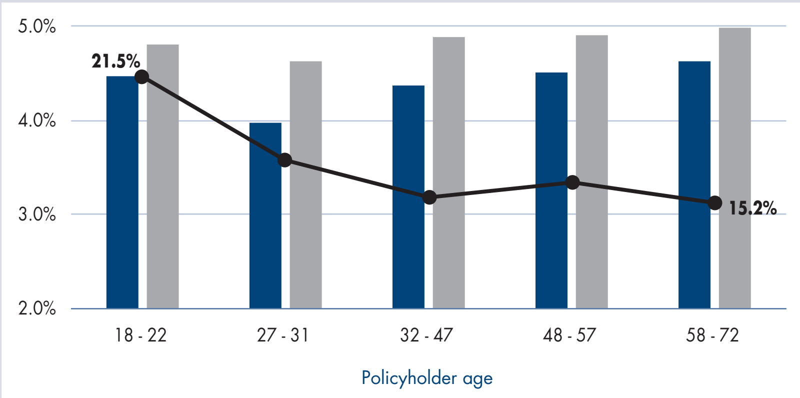


Figure 12
Standardized claims frequency – engine power

With black box
Without black box
Box diffusion rate

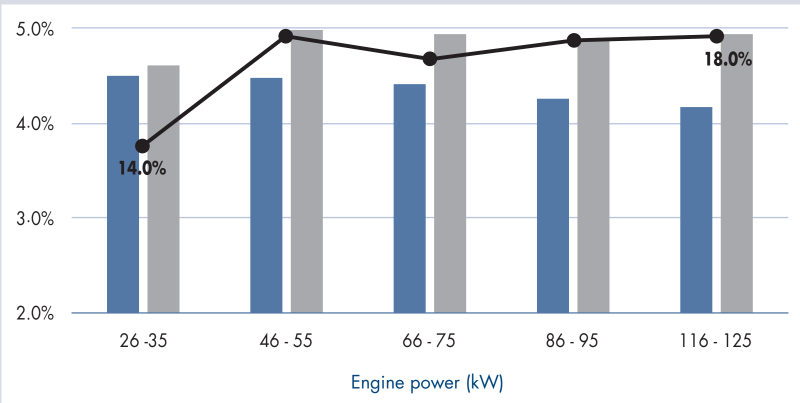


Figure 13
Standardized claims frequency – age of vehicle

With black box
Without black box
Box diffusion rate

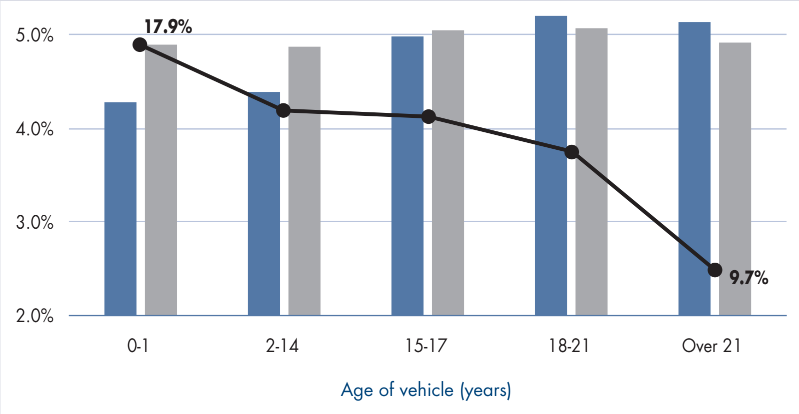
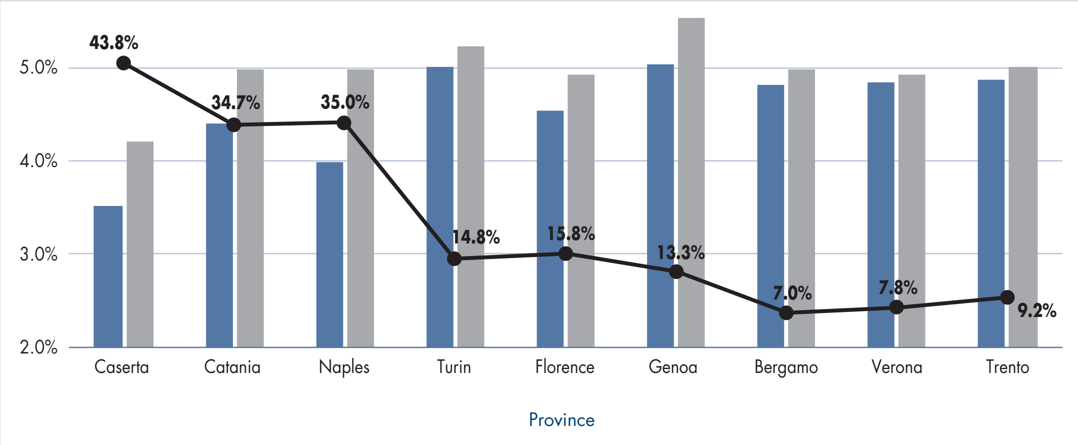


Figure 14
Standardized claims frequency – province

With black box
Without black box
Box diffusion rate



The effect of *black boxes* on accident rates according to number of years of use

With five full years of ANIA statistics on motor liability contracts, we have tried to determine whether the foregoing improvements in accident rates for drivers with black boxes installed are durable or instead are limited only to the year of installation. The inquiry proceeded as follows:

- First we restricted the sample of insurance companies participating in the annual statistical exercise to those supplying data for the entire five-year observation period, 2013-2017.
- The record for each license plate insured by these companies was tracked over the five years to find the "seniority" (number of years of presence in the portfolio) and the date when the box was first installed. All the cars insured in 2013 were assigned a conventional seniority of zero; seniority was then increased by 1 for each year of presence within the portfolio of the same company in subsequent years.
- Firm by firm, a new license plate or one coming from another insurer, in whatever year, begins with zero seniority; that is, when the policyholder changes company, seniority is reset to zero.
- For cars that already had the device mounted in 2013, it being impossible to determine the year in which they were installed and thus calculate seniority, a special code was assigned.

- The license plate numbers examined for this inquiry comprise all those that at the time the box was installed had at least some prior seniority, without the device, in the insurer's policy portfolio. For these cars, that is, the count of seniority is reliable.

We performed a multivariate analysis on the combined portfolio of the subsample just described. For this purpose the "classical" pricing variables (province, age and other policyholder characteristics, bonus-malus class, engine size, payment of premiums by installment) were supplemented by our new "seniority" variable, i.e. time of possession of the black box. The study found that the effect of the devices on accident rates not only persists in the years subsequent to installation but actually increases over time. Specifically, whereas claim frequency for liable accidents diminishes by an average of 10% in the year of installation, in subsequent years the reduction is more marked, coming to over 16%; this may be due to greater policyholder loyalty and heightened effectiveness of the device in modifying driving style and consequently lowering the frequency with which the policyholder causes accidents.

At the same time, however, it must be noted that the positive effect on claim rates in the first year alone has weakened over time, from 15% in 2013 to under 8% in 2017. This may be due to the increasing diffusion of the devices also in areas where accident rates are already not far from the national average.

ISSUES FOR THE FUTURE DEVELOPMENT OF MOBILITY AND MOTOR INSURANCE IN ITALY AND EUROPE

Italian developments

The "Smart Road" decree of the Ministry of Infrastructure and Transport (dated 28 February 2018) establishes the basis for experimentation, on public roadways, of automatic-drive cars. The decree also institutes a "Technical Observatory in support of smart roads and connected and automatically driven vehicles". The aim is to foster digital transformation towards smart roads and the testing and development of connected and automatic vehicles and to promote studies, research and inquiry with special attention to safety.

In May 2019 a further step towards autonomous mobility was taken when the Ministry's Directorate General for motor vehicles, after the requisite preliminary technical checks for the circulation of automated vehicles, officially launched the first on-road tests in Italy, conducted on selected stretches of road in the cities of Turin and Parma.

Developments – Insurance Europe

In May 2018 the European Commission released its third "Europe on the Move" paper for safe, connected and "clean" mobility, as follow-up to the work done under the Commission's own leadership (the GEAR 2030 and C-ITS Platform projects).

A number of initiatives on connected and automatic vehicles have been undertaken. In particular the Commission's directorates general DG MOVE, DG GROW and DG CONNECT are monitoring the work of the Extended Vehicle Neutral Server Use Group. This working group was launched in July 2018 and coordinated by the European Automobile Manufacturers' Association (ACEA) and the European Association of Automotive Suppliers (CLEPA), spare parts producers. Its participants include Insurance Europe. The working group is assigned to devise technical solutions for accessing the data contained in vehicles via a neutral server. It has focused on a series of issues: remote diagnosis, insurance coverage and ancillary services, and electric vehicles, in the effort to develop a short-to-medium-term solution and create, in the long run, instruments for direct access to vehicle data in conditions of security.

Discussion on this issue by the members of Insurance Europe's Motor Working Group brought out that for European insurers it is important to continue the discussion with manufacturers in order to get a better map of the data now accessible through current technologies and usable, in particular, for assessing the risk involved in the circulation of these vehicles and determining liability in case of accidents.

In addition, DG MOVE has formed a platform consisting in a group of experts representing all the stakeholders in cooperative, connected, automated mobility to promote road testing of these vehicles over the next three years. For one thing, the group will deal with technical-legal issues relating to access, transferal, sharing, utilization and filing of data, in part through artificial intelligence.

In June 2018 the United Nations Economic Commission for Europe instituted a Working Party on Automated/Autonomous and Connected Vehicles (GRVA) to discuss issues of protection and security of the data on file for automated driving.

In December the European Parliament's Transport Committee released its report on autonomous vehicles. In particular, the paper calls on the Commission to develop a strategy whereby access to vehicle data is equitable and secure, through the utilization of a neutral technology, for all stakeholders.

LEGISLATIVE, REGULATORY AND JUDICIAL DEVELOPMENTS

THE LAW FOR MARKETS AND COMPETITION: THE STATE OF IMPLEMENTATION OF MOTOR LIABILITY INSURANCE PROVISIONS

Italy's annual antitrust law, Law 124/2017, was enacted on 14 August 2017 and published in the *Gazzetta Ufficiale* on 29 August, going into effect on that date. This annual legislation comprises a number of major provisions on insurance, mostly involving the motor liability sector. The main provisions bearing on compulsory motor liability insurance are set forth below.

AGREEMENT WITH REPAIR SHOPS AND CONSUMERS

On 16 May 2019, at the National Economic and Labor Council, ANIA signed an agreement with consumer associations and the most representative national associations of automobile repair shops for the definitive text of a set of guidelines laying down minimum standards for properly executed repairs and making recommendations for quality service, pursuant to Law 124/2017, Article 1(10).

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

The guidelines are divided into two sections:

- A general part: addressed to the entire car repair and insurance market, this lays down the basic rules for the proper execution of repairs and those for estimation and settlement of damages;
- An optional part: addressed to parties who expressly adhere, this provides an instrument for simplifying relations between auto repair shops and insurers, but with no restriction on free competition.

The parties to the agreement will constitute two joint committees:

- A Joint Plenary Committee, assigned to monitor and assess the application of the guidelines; oversee the work of the Technical Committee and submit proposals to it; and examine critical cases and any complaints lodged, devising appropriate solutions;
- A Joint Technical Committee, assigned to monitor technological innovation for road safety in terms of both procedures and instruments; to design procedures and modes for participation and subsequent relations between insurers and auto repair/bodyshops; to develop a model for repair times, and rules governing specific cases of unavailability of parts or of uneconomic repairs.

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

The parties to the agreement have submitted the guidelines to legal consultants with substantial experience in antitrust matters for vetting, but the parties are also agreed to submit the text, in advance, to the Antitrust Authority for its opinion on implementation.

THE "SECURITY" LAW: PROVISIONS ON CIRCULATION OF FOREIGN VEHICLES IN ITALY

The so-called "Security Law" (Decree Law 113/2018, converted into Law 132/2018, Article 29-bis) introduces significant amendments to the Highway Code. Specifically, the law amends Article 93 of the Code, prohibiting foreign citizens resident in Italy for more than sixty days from driving a vehicle registered abroad, save for vehicles leased or rented without driver under a contract with an enterprise that does not have a legal office in Italy or for vehicles owned by an enterprise established in another EU member state that does not have a secondary unit in Italy and transferred with usufruct to a person resident in Italy. For the latter situations special rules are provided, establishing liability also for the driver of the leased or rented vehicle.

Violation of the prohibition introduced by the new Article 93 of the Highway Code carries a fine of about €3,000. The code also provides for the immediate cessation of circulation of such vehicles and their transport and deposit in a place not open to public passage. If within 180 days the vehicle is not re-registered in Italy or the owner has not applied for a permit to drive the vehicle out of Italy, the supplementary sanction of administrative seizure pursuant to Article 213 of the Highway Code applies.

The law also reinforces the precept laid down in Article 132 of the Highway Code, namely that foreign-registered vehicles, where certain formalities have been complied with, can circulate in Italy for at most one year. Article 29-bis of the "Security Law", in fact, supplements Article 132 of the Highway Code, laying down that violators driving cars with foreign license plates after the year has elapsed are subject to the same fines and accessory penalties as those for violators of Article 93 (a fine of about €3,000 and possibly seizure of the vehicle).

The logic underlying these measures is reasonable. Once the difficulties of initial application are overcome, they will allow for easier and more immediate verification of compliance with insurance requirements and other requirements of the Highway Code on the part of the re-registered vehicles with Italian plates.

IVASS REGULATION 39/2018: APPLICATION OF SANCTIONS FOR MOTOR INSURANCE VIOLATIONS

The new set of sanctions laid down by the Private Insurance Code (Codice delle assicurazioni private, or CAP) consequent to the transposition of the Insurance Distribution Directive (IDD) into Italian law ([1]) is stiffer than its predecessor, with special regard to the amount of fines and the possibility of concurrent application of the fines both to enterprises and to the top officers or staff members with effective responsibility and independent decision-making power. This design has prompted concern above all as regards massive, systematic obligations such as communication to the motor liability databases, the procedure for settlement under direct indemnity, and in general the rules on conduct vis-à-vis customers.

Among the rules abrogated, in fact, was Article 315 of the CAP, which laid down sanctions for non-compliance with the deadlines pursuant to Article 148 ("indemnity

([1]) Legislative Decree 68/2018, Article 1(50), abrogating Chapter III of Title XVIII, "Sanctions and sanction proceedings".

procedures") for traffic damages. With the reform, the sanctions enforcing Article 148, now governed by Article 310, are much more burdensome for insurers. They have been raised to between €30,000 and 10% of sales revenue (the old rules called for fines of €300 to €60,000). These stiffer fines are also applied for non-compliance with other CAP motor liability clauses (Articles 125(5-bis), 127(3) for the requirement to issue the motor liability insurance certificate, Article 134 except para. 2, and Articles 146, 148, 149, 150, 152(5), and 183) and their implementing rules.

Article 310-quater further lays down, ex novo, that the fines for violation of the requirement of communication to the motor liability databases (Articles 134, 135 and 154 of the CAP) are to be ascertained all together for each "reference half-year" and to range from a minimum of €10,000 to a maximum of €100,000.

In view of the very substantial impact of these changes on the conduct of insurance business, to be implemented according to IVASS Regulation 39/2018, the insurance industry conducted a special seminar for insurers only, with the participation of representatives of IVASS and of ANIA. The seminar served to provide a more detailed presentation of the new system of sanctions and offer some indications of the future scenario for insurance companies, their top officers, and other staff with relevant functions.

As regards the implementation of the new rules on notifications to the databases for risk certifications, claims, and motor liability coverage, participants at the seminar hoped that supervisors would take proper consideration of the differing importance of any serial non-compliance due to mere computer error by comparison with repeated violations involving negligence, gross negligence, or malice. Insurers also pointed to the need for a mechanism of minimum thresholds, as a percentage of the data transmitted, below which the insurer's conduct is to be deemed irrelevant for sanction purposes. In this regard, insurers recalled that IVASS had already applied such a mechanism for risk certificates transmitted late in proportion to the total number transmitted to the database (CAP, Article 134). As for massive data feeds for the various motor liability databases, the minimum threshold for sanction purposes should be constantly expressed as a percentage, hence proportionate, with respect to the mass of data transmitted by each insurer. That is, the sanction mechanism must consider the insurer's policy portfolio, the number of claims handled and the extent of the lateness observed.

As for the indemnity procedure, participants called for supervisory consideration of all the various elements involved in this complex settlement procedure and in particular for according greater importance to insurance companies' anti-fraud activities. At present these activities are severely hampered by Article 148 of the CAP, which gives the insurance company only two options when it detects fraud: either offer the damaged party a reasonable, motivated compensation or else, after further inquiry, lodge a formal legal complaint. In this regard participants recalled that in order to encourage anti-fraud activities the industry has long called for legislative amendment of this rule to add the possibility for the insurer, when it has detected a fraud, also to allow the damaged party simply to withdraw the claim without incurring any sanction.

In the light of the major legislative changes to the sanction system, seminar participants suggested that IVASS weigh the institution of an Observatory for systematic monitoring and reporting of sanctions. They also asked for a set of general criteria or guidelines on the supervisory authorities' application of the new rules.

COMPUTERIZED MOTOR INSURANCE SERVICES

DRIVER'S LICENSE POINTS ONLINE

ANIA has stipulated a convention with the Motor Vehicles Bureau enabling insurance companies to access the data on drivers' licenses. This service enables insurers to know, for purposes of providing a premium estimate and issuing the liability policy, the final number of points credited to the license, the driver's province of residence, and the dates of expiry and of initial granting of the license.

ANIA acts as interface between insurers and the Bureau, operating as routing service for the requests.

VEHICLE INSPECTION

ANIA has stipulated a convention with the Motor Vehicles Bureau enabling insurance companies to access the data on the state of inspection of vehicles. The service enables insurers to learn the deadline date for compulsory inspection and to see whether or not it has been complied with. ANIA interfaces between insurers and the Bureau, operating as routing service for the requests and posting the inspection data consultation function via web service.

The service posted online enables insurers to obtain data in real time, during the phase of premium estimate and policy issue and also during claims handling.

DIGITAL OWNERSHIP CERTIFICATE

Since 5 October 2015 the Public Automobile Registry, run by the Italian Automobile Club (ACI), has issued vehicle ownership certificates exclusively in digital form, replacing the old paper certificates. The service provides for acquiring the certificate via three different consultation functions for insurance companies: through certified ID, ID receipt issued by the Registry, and license plate plus tax number.

The service posted online enables insurers to consult the vehicle ownership certificate in real time, during the phase of premium estimate and policy issue and also during claims handling.

REPORT OF STOLEN VEHICLE RECOVERIES

With this service, ANIA reports to insurers the recovery of stolen vehicles. In order to get the report of recovery of a stolen vehicle, all insurers provide a data feed to the database on "theft reports" with all the data relating to the theft of an entire motor vehicle. The data are crossed with those on vehicle recoveries from the Interior Ministry's inter-force center, and in the case of a match the insurer is promptly informed. The purpose of this service is to make the settlement process more efficient. Prompt information on vehicle recoveries enables insurers to limit custody costs and quickly regain possession of the stolen vehicle.

6

OTHER NON-LIFE INSURANCE CLASSES

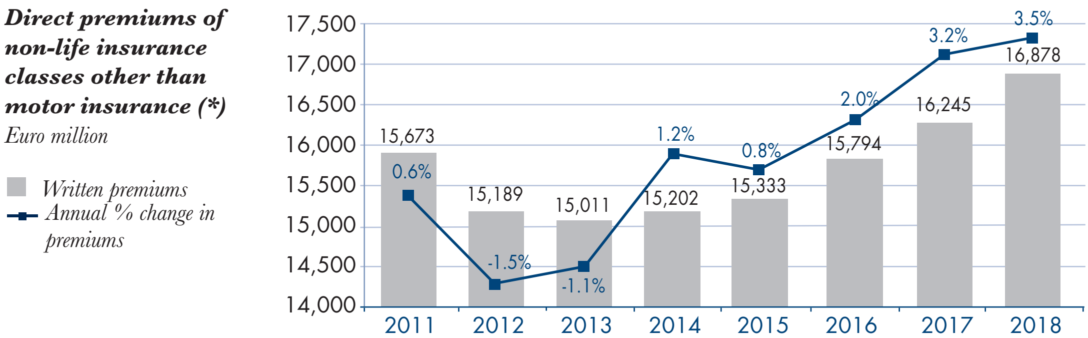
OTHER NON-LIFE INSURANCE CLASSES

Written premium income of non-life business other than motor vehicle insurance (which means excluding motor liability and third-party liability insurance for watercraft and land vehicle insurance) increased by 3.5% in 2018. The 2018 combined ratio improved by 1.4 percentage points compared to 2017 to 84.6% due to growth in the volume of premiums that exceeded the increase in claims costs.

NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR INSURANCE

Premiums from direct domestic business in non-life classes other than motor insurance (i.e. excluding land vehicles and motor and marine vehicle third party liability) totaled €16,878 million in 2018, up 3.5% from the previous year (calculated in homogeneous terms). The classes showing growth in written premiums equaling or exceeding the average were: suretyship (+3.8%), goods in transit (+4.1%), other damage to property (+5.0%), legal expenses (+5.1% due to a higher request for legal cover ascribable to the criminalization of vehicular manslaughter with Law 41/2016, but also due to an increase in multi-risk products for individuals and companies, for cyber-risk coverage and insurance guarantees related to domestic animals, often including the "legal expenses" guarantee), assistance (6.3% due to a rise in homeowners' and health insurance, including a set of assistance services, also in relation to the provision of telematic devices connected to the policy), the sickness class (+7.4%) mainly due to an increase in corporate fringe benefits (group health policies), credit (+7.5%) and the railway rolling stock class (more than 20%). In contrast, the aircraft (-33.8%) and ship classes (-10.2%) suffered a fall-back. Non-motor insurance premiums' share of total non-life premiums increased from 50.3% in 2017 to 51.0% in 2018.

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



(*) All non-life branches except land vehicles, motor liability, and marine liability

Earned **premiums**, calculated as the difference between written premiums and the changes in premium reserves and other balance items, amounted to €16,448 million, with 3.4% growth compared with 2017.

The **incurred claims cost**, defined as the sum of settlement costs and amounts reserved for claims incurred in 2018, amounted to €10,064 million, up 2.3% on the year. Since this cost item grew less than premiums, the loss ratio improved by nearly a percentage point (from 62.1% in 2017 to 61.2% in 2018).

Incurred **claims**, which along with the cost incurred for the current accident year also include any excess/shortfall of the amounts reserved for claims incurred in previous accident years, amounted to €8,604 million, showing a slight increase (+0.9%) from 2017. The lower increase in claims costs compared with the cost incurred for claims in the current accident year is ascribable to a further significant freeing-up of the amount reserved for claims incurred in the years before 2018, which was €1,460 million, showing a ratio to earned premiums close to 9%. This is the highest value (in absolute terms and as a percentage of premiums) of the last 20 years, following constant growth since 2013. The loss ratio to earned premiums thus improved from 53.8% in 2017 to 52.3% in 2018. The classes that contributed the most to the improvement of this indicator and whose incidence in terms of premiums is higher than the others were general liability, whose loss ratio moved from 42.3% in 2017 to 36.3% in 2018; accident, from 39.2% to 38.7%; fire, with a loss ratio moving from 70.2% in 2017 to 61.5% in 2018; and other property damage, whose loss ratio declined from 72.6% in 2017 to 66.9% in 2018; only sickness insurance, whose incidence in terms of premiums is higher than the others, showed a deterioration in this indicator (from 67.5% in 2017 to 70.4% in 2018).

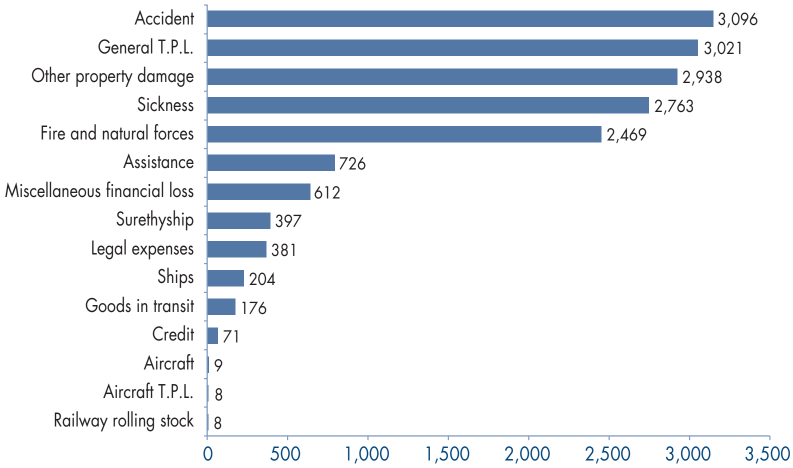
Non-life insurance classes other than motor insurance (excluding land vehicles insurance and motor and maritime liability)
Euro million

	2011	2012	2013	2014	2015	2016	2017	2018
Gross written premiums	15,673	15,189	15,011	15,202	15,333	15,794	16,245	16,878
Changes in premium reserves (-)	237	-280	-105	-28	1	181	402	430
Incurred claims (-):	9,859	11,054	9,183	8,924	8,263	8,124	8,525	8,604
– incurred claims cost for the current year (-)	10,000	11,004	9,657	9,613	9,196	9,304	9,837	10,064
– excess/shortfall of reserves for those claims incurred in previous years	141	-50	474	689	933	1,179	1,311	1,460
Balance of other technical items	-357	-363	-335	-375	-462	-426	-412	-381
Operating expenses (-)	4,762	4,568	4,605	4,720	4,854	5,063	5,234	5,448
– commissions	3,387	3,192	3,182	3,256	3,315	3,497	3,632	3,747
– other acquisition costs	642	675	686	723	767	736	738	804
– other administration costs	733	701	737	741	773	830	864	897
Direct technical balance	**458**	**-517**	**993**	**1,211**	**1,753**	**1,999**	**1,672**	**2,015**
Investment income	314	760	554	587	584	512	586	367
Direct technical account result	**772**	**243**	**1,546**	**1,798**	**2,337**	**2,511**	**2,258**	**2,383**
Reinsurance results	-513	554	-726	-572	-469	-507	-181	-271
Overall technical account result	**259**	**796**	**820**	**1,226**	**1,868**	**2,003**	**2,077**	**2,112**
Annual % changes in premiums	0.6%	-1.5%	-1.1%	1.2%	0.8%	2.0%	3.2%	3.5%
Combined ratio	**94.2%**	**101.5%**	**91.4%**	**89.6%**	**85.6%**	**84.1%**	**86.0%**	**84.6%**
Expense ratio	30.4%	30.1%	30.7%	31.0%	31.7%	32.1%	32.2%	32.3%
– Commissions/Gross written premiums	21.6%	21.0%	21.2%	21.4%	21.6%	22.1%	22.4%	22.2%
– Other acquisition costs/Gross written premiums	4.1%	4.4%	4.6%	4.8%	5.0%	4.7%	4.5%	4.8%
– Other administration costs/Gross written premiums	4.7%	4.6%	4.9%	4.9%	5.0%	5.3%	5.3%	5.3%
– Loss ratio:	63.9%	71.5%	60.7%	58.6%	53.9%	52.0%	53.8%	52.3%
– Loss ratio for the current year	64.8%	71.1%	63.9%	63.1%	60.0%	59.6%	62.1%	61.2%
– Excess/shortfall of reserves for previous years claims/ Earned premiums	0.9%	-0.3%	3.1%	4.5%	6.1%	7.6%	8.3%	8.9%
Technical balance/Earned premiums	**3.0%**	**-3.3%**	**6.6%**	**8.0%**	**11.4%**	**12.8%**	**10.6%**	**12.3%**
Technical account result/Earned premiums	**5.0%**	**1.6%**	**10.2%**	**11.8%**	**15.2%**	**16.1%**	**14.3%**	**14.5%**
Overall technical account result/Earned premiums	**1.7%**	**5.1%**	**5.4%**	**8.0%**	**12.2%**	**12.8%**	**13.1%**	**12.8%**
Ratio of premiums to total non-life premiums (%)	*43.1%*	*42.9%*	*44.6%*	*46.3%*	*47.9%*	*49.4%*	*50.3%*	*51.0%*

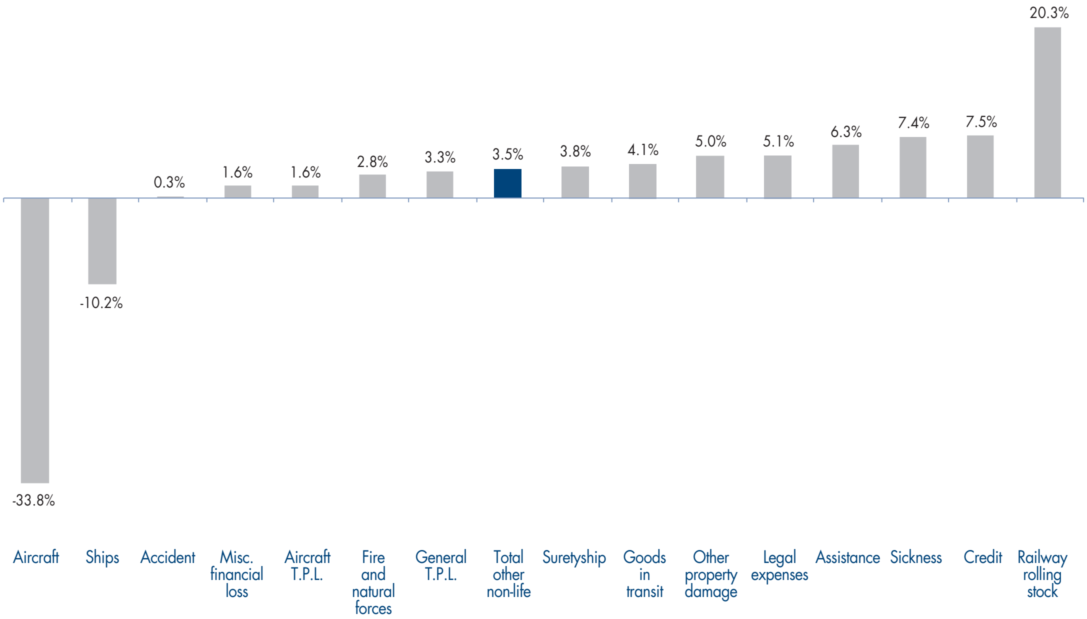
Indexes and changes (%) are calculated on data in € thousand
Change calculated in homogeneous terms

OTHER NON-LIFE INSURANCE CLASSES

Direct premiums by insurance class – 2018
Euro million



Growth rate of direct premiums by insurance class – 2018 (*)
Media 2018: 3.5%

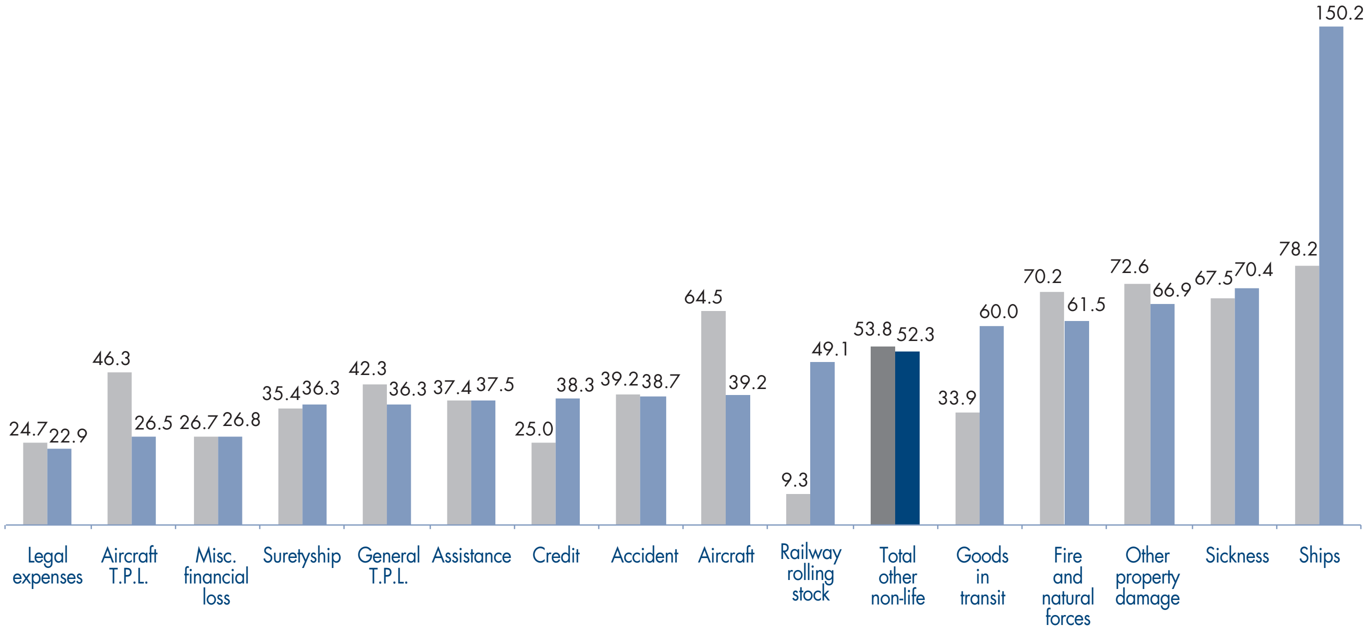


(*) Change calculated in homogeneous terms

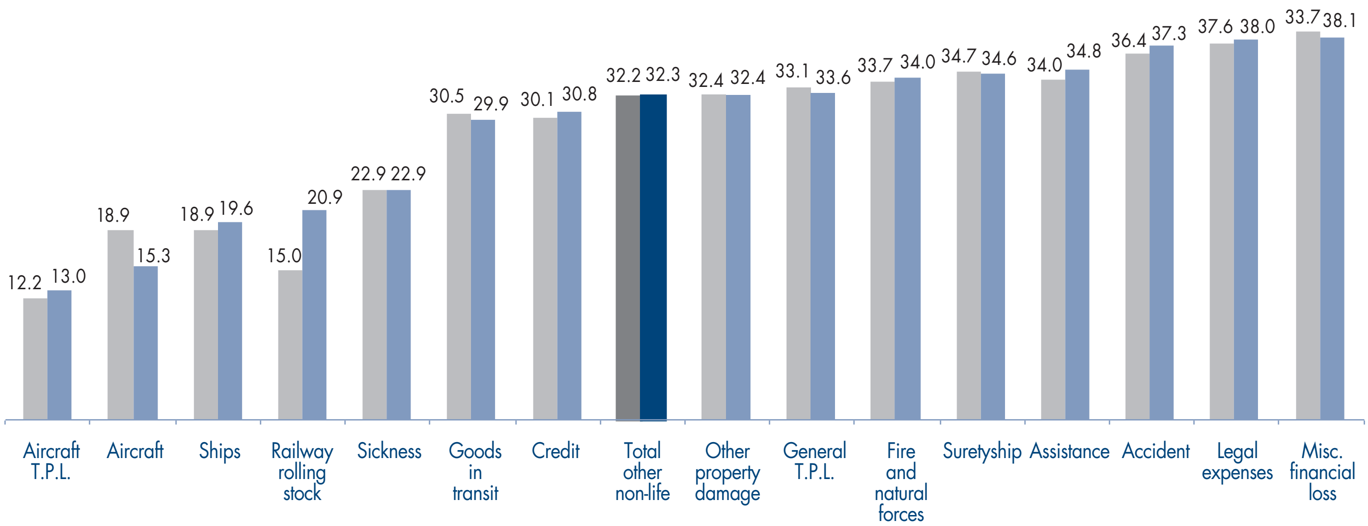
Operating expenses amounted to €5,448 million in 2018 (€5,234 million in 2017) and include administration expenses relating to the technical management of insurance business, acquisition costs and costs relating to the organization and management of the distribution network. The ratio of expenses to premiums was 32.3%, substantially unchanged from 2017 (32.2%). In particular, the ratio of agent commissions to premiums dropped from 22.4% in 2017 to 22.2% in 2018, whereas that of other acquisition costs went up from 4.5% to 4.8% and that of other administration expenses has remained stable at 5.3% over the last three years. The business segments with the highest indicators were miscellaneous financial loss (38.1%), legal expenses (38.0%), accident (37.3%) and assistance (34.8%); more moderate ratios, under 20%, were recorded for ships (19.6%), aircraft (15.3%) and aircraft liability (13.0%).

OTHER NON-LIFE INSURANCE CLASSES

Loss ratio for the year by insurance class (%)
Average 2018: 52.3%

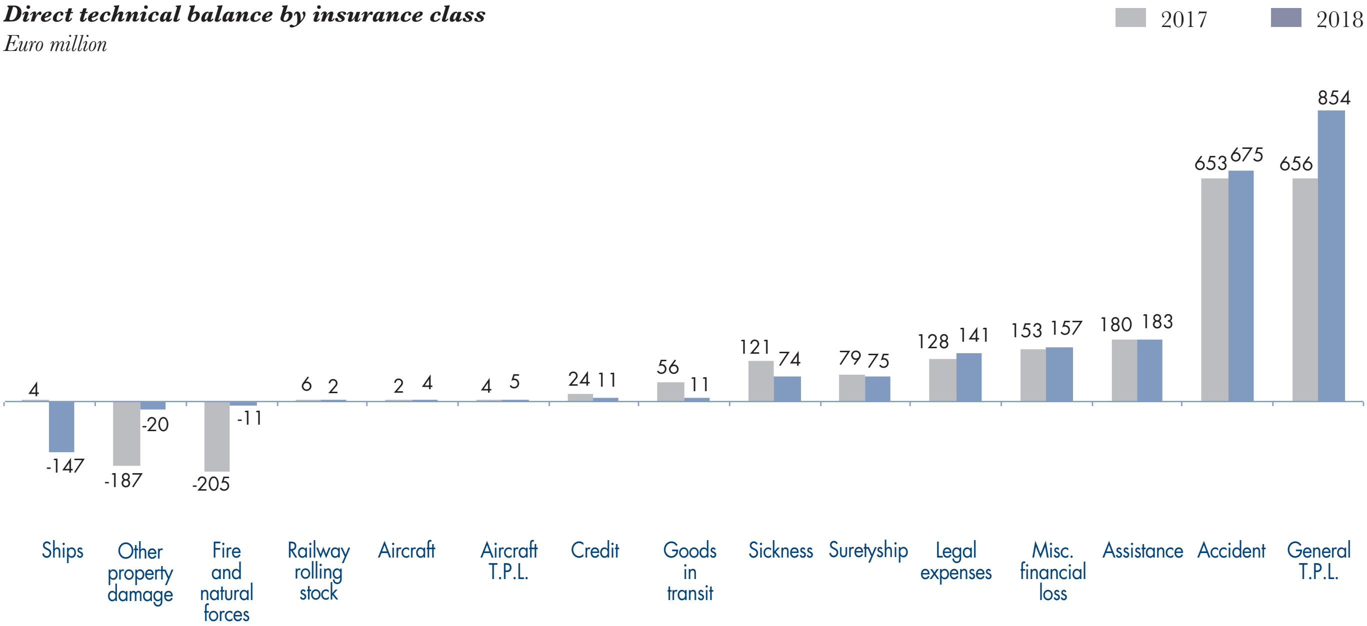


Expense ratio for the year by insurance class (%)
Average 2018: 32.3%



The **technical balance** for direct business was positive by €2,015 million, up sharply (+20.5%) compared with 2017. The improvement of the technical balance was mainly due to the higher growth in premiums compared with the claims costs, as described above. More specifically, positive balances exceeding €100 million were scored by legal expenses (€141 million, €128 million in 2017), miscellaneous financial loss (€157 million, €153 million in 2017), assistance (€183 million, up from €180 million in 2017), accident insurance (€675 million compared with €653 million in 2017) and general third-party liability (€854 million compared with €656 million in 2017). The balance was negative for fire insurance (-€11 million), other property damage (-€20 million) and ships (-€147 million).

Direct technical balance by insurance class
Euro million

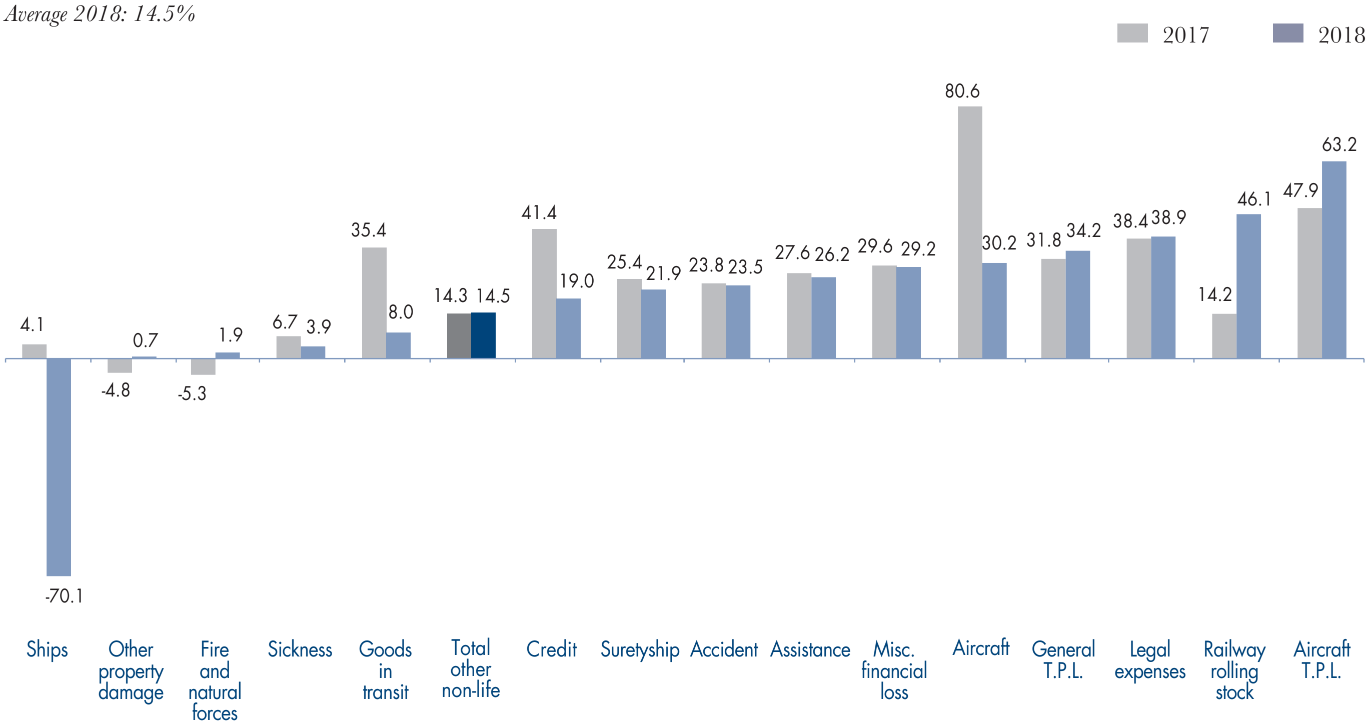


However, considering that **investment income** decreased by nearly 40% (from €586 million in 2017 to €367 million in 2018), the **technical balance for direct business** grew by only 5.5% (from €2,258 million to €2,383 million), with a ratio of 14.5% to earned premiums (14.3% in 2017). More specifically, negative or below-average ratios were scored in the following lines: goods in transit (8.0%), sickness (3.9%), fire (1.9%), other property damage (0.7%) and ships (-70%). Among the most important classes in terms of premiums, general third-party liability and accident insurance scored particularly well at 34.2% and 23.5% respectively.

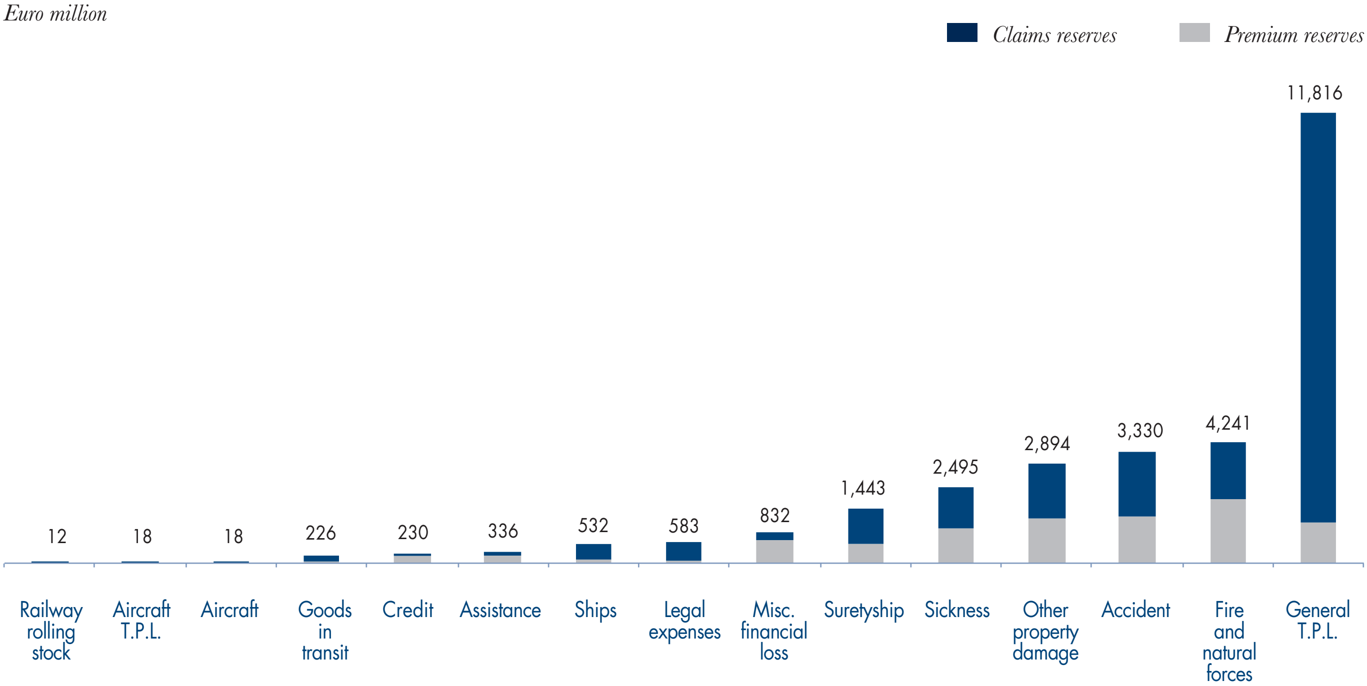
Counting also the balance for reinsurance (negative by €271 million), the **overall technical account result** was positive by €2,112 million (€2,077 million in 2017), equal to 12.8% of premiums (13.1% in 2017).

The **direct technical reserves** of non-life insurance classes other than motor insurance, net of sums to be recovered from policyholders and third parties, amounted to €29,007 million in 2018; premium reserves totaled €9,157 million and claims reserves €19,850 million. General liability was the business segment with the highest technical provisions (€11,816 million counting claims and premium reserves for 2018); total provisions top €3 billion for accident insurance (€3,330 million) and fire insurance (€4,241 million).

Incidence of overall technical account result on earned premiums by insurance class (%)
Average 2018: 14.5%



Technical reserves for non-life insurance classes other than motor insurance – 2018
Euro million



A SURVEY ON ITALIAN HOUSEHOLDS WITH NON-LIFE INSURANCE POLICIES

Attitude towards risk and insurance demand

Individuals live, operate and make decisions in an environment characterized by uncertainty. In the vast majority of cases, people tend to avoid situations with a high level of uncertainty as much as possible, thus adopting prudent behavior. In economics, this conduct is defined as risk aversion.

Economic theory itself suggests that employment options, propensity to save and investment strategies are driven by this tendency, which is part of individual preferences. These can be described as a personal classification schema determined by the level of satisfaction when it comes to decision-making. It is possible to infer these individual preferences, not directly observable, thanks to their correlation with several social, demographic and cultural factors.

Income, age, type of employment, level of education, state of health, size of household, area of residence and, as suggested by some studies, gender can affect risk propensity more or less directly, and more or less independently of their relationship with the other characteristics. Choosing to purchase an insurance product is also closely linked to these characteristics since this decision is strongly driven by one's own risk perception as an individual and as a family member.

Survey on the budgets of Italian households

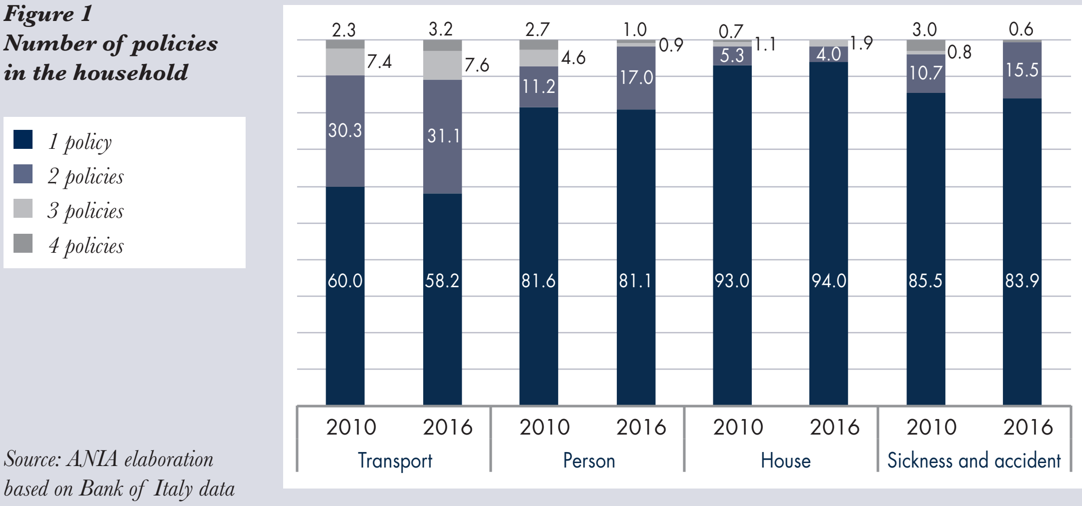
The Bank of Italy conducts a biennial survey on the budgets of a representative sample of Italian households, gathering a range of information on their demographic and socio-economic profiles. The questionnaire includes a section on insurance policies held by the households. The questions include one on healthcare policies held (either accident or sickness) and one on any other non-life insurance, sub-divided into motor insurance other than third-party liability, homeowners' insurance and general third-party liability insurance. Specific demand for policies as well as their main determining factors can be identified relating these data to the demographic and socio-economic characteristics of the households analyzed.

It should be specified that the information gathered by the survey was extracted from the answers of the households interviewed, so their accounting correctness cannot always be verified. In fact, discrepancies with the aggregate accounting data reported by the insurers are not infrequent. This does not reduce the added value of the survey, which lies mostly in the possibility of connecting the households' economic choices – in this case the decision to buy insurance – with their demographic and socio-economic profiles.

Number of policies held and preferred distribution channel

A comparison between the results of the survey conducted in 2010 and those of the survey conducted in 2016 (thus considering a reasonably long time frame for assessment of variations) shows that the majority of insured households still hold only one policy; and more than 90% of these have just one homeowners policy (Figure 1). In general, these figures have remained broadly unchanged between 2010 and 2016 in the different business sectors.

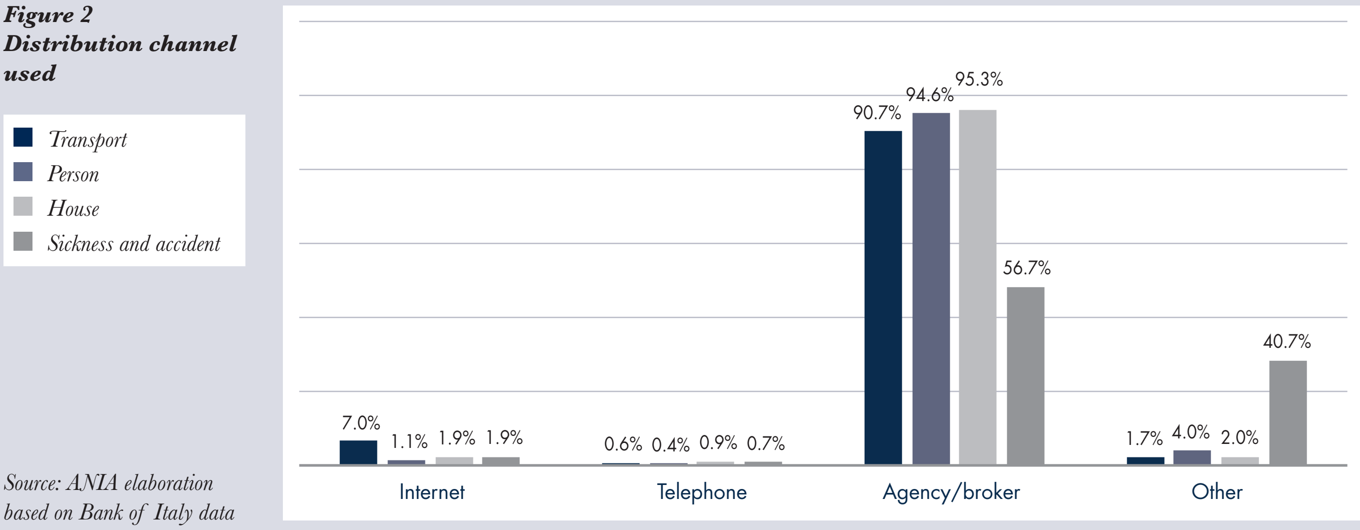
Figure 1
Number of policies in the household



Source: ANIA elaboration based on Bank of Italy data

For the first time in 2016 the survey included a question on the insurance intermediary through whom the policy was purchased. Agencies are the main distribution channel through which Italian households purchase any type of policy, with a significant difference for sickness and accident policies whose distribution is likely to be affected by the substantial presence of healthcare funds (Figure 2). This is all the more evident in younger age groups.

Figure 2
Distribution channel used



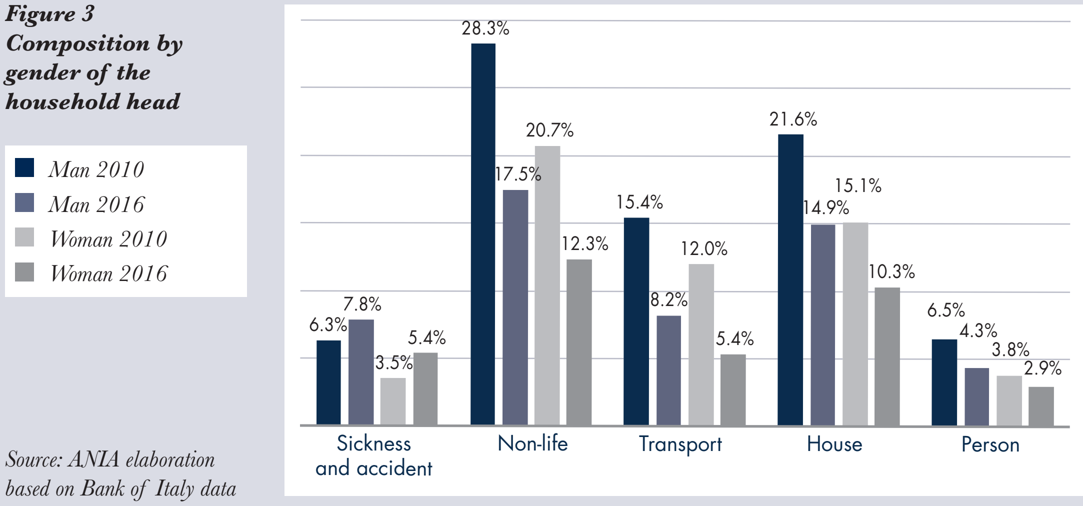
Source: ANIA elaboration based on Bank of Italy data

Demographic characteristics

As for demographic variables (gender, age, size of the household, country of birth), having a stable job, starting a family and purchasing a residential property seem to be among the most important drivers for the propensity to buy insurance.

The most significant finding is the greater frequency of policy-holding among households with a male head, in apparent contradiction with the theory that women are more risk-averse on average. This may be ascribable to the household composition effect, for which households with female heads have less financial resources. A comparison with the 2010 survey highlighted a general drop in insurance distribution for both genders and for all types of policy, except for healthcare (Figure 3).

Figure 3
Composition by gender of the household head



Source: ANIA elaboration based on Bank of Italy data

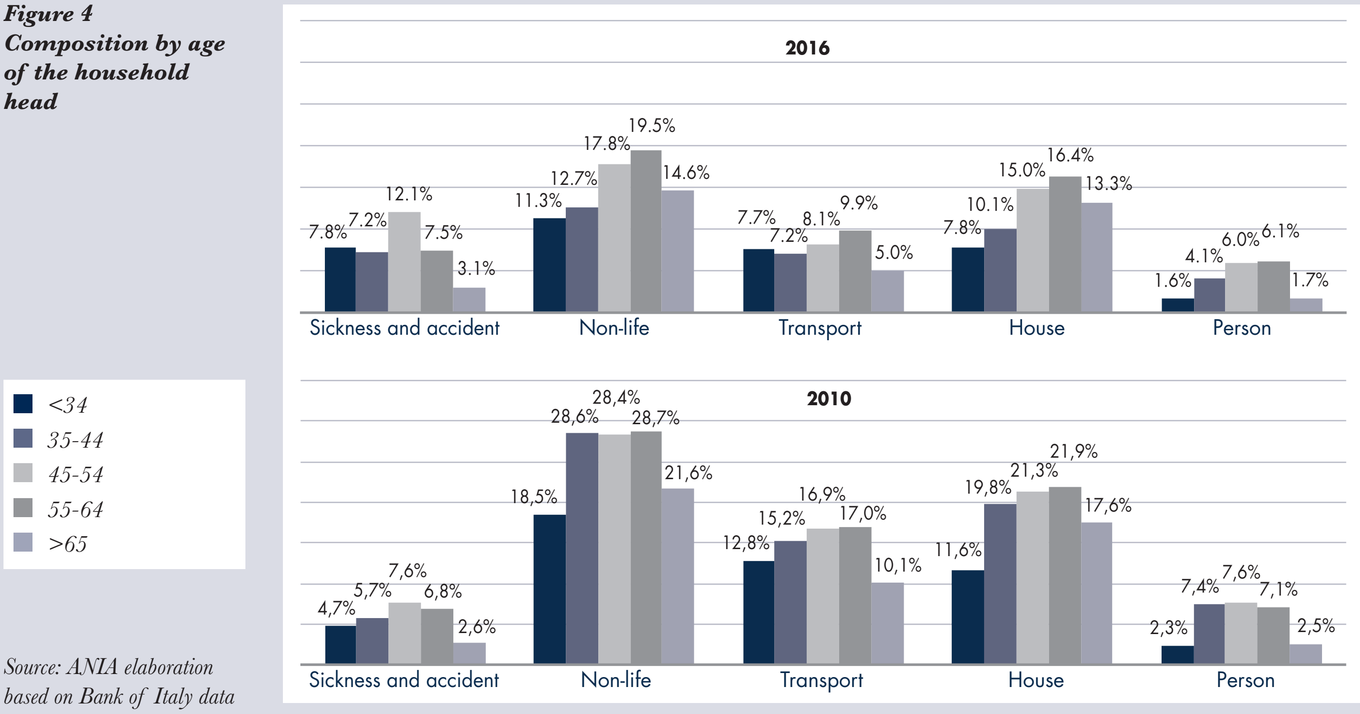
Among the different age groups, in 2016 55/64-year-olds held the highest proportion of policies. This may be ascribable to the strong link between risk aversion and life cycle stages and hence with the time pattern of wealth accumulation. In 2010 the situation was slightly different, when the 35/44 and 45/54 age groups also figured among the main policyholders (Figure 4).

Social characteristics

As for social characteristics (geographical area, size of the municipality of residence, education), the geographical characteristics of the households analyzed are significantly related to the structure of their economic choices.

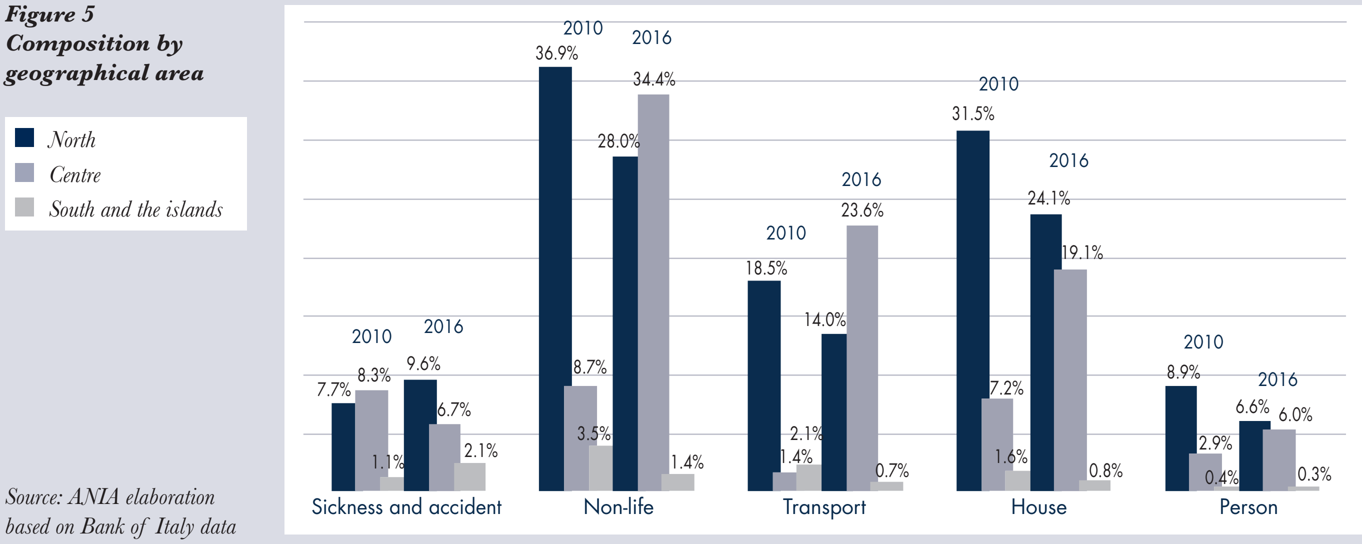
The unbalanced distribution in favor of households in Northern and Central Italy is evidence of the connection between the propensity to buy insurance and financial resources. Again one finds some reduction over time in the distribution of all types of policy except healthcare (Figure 5).

Figure 4
Composition by age of the household head



Source: ANIA elaboration based on Bank of Italy data

Figure 5
Composition by geographical area



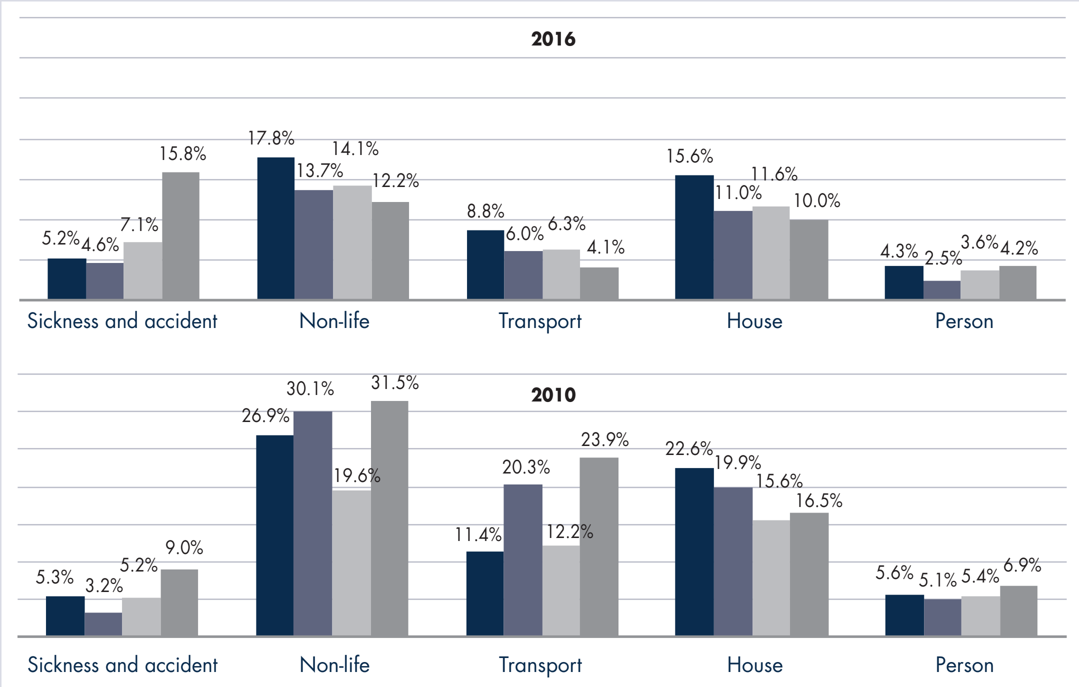
Source: ANIA elaboration based on Bank of Italy data

There is no straight correlation of insurance policy-holding in general with the size of the municipality of residence. However, the distribution of homeowners' insurance is inversely proportional to the size of the municipality. This correlation may be determined both by supply-side factors, such as greater efficiency of dealers in smaller municipalities, and by demand-side factors, with higher rates of home ownership in smaller cities and towns. The propensity to buy healthcare insurance instead has shown an opposite trend to homeowners' insurance and would appear to depend on a common trigger, namely income (Figure 6).

Figure 6
Composition by size of the municipality of residence
(n. of inhabitants)

- *<20,000*
- *20,000-40,000*
- *40,000-500,000*
- *>500,000*

- *<20,000*
- *20,000-40,000*
- *40,000-500,000*
- *>500,000*



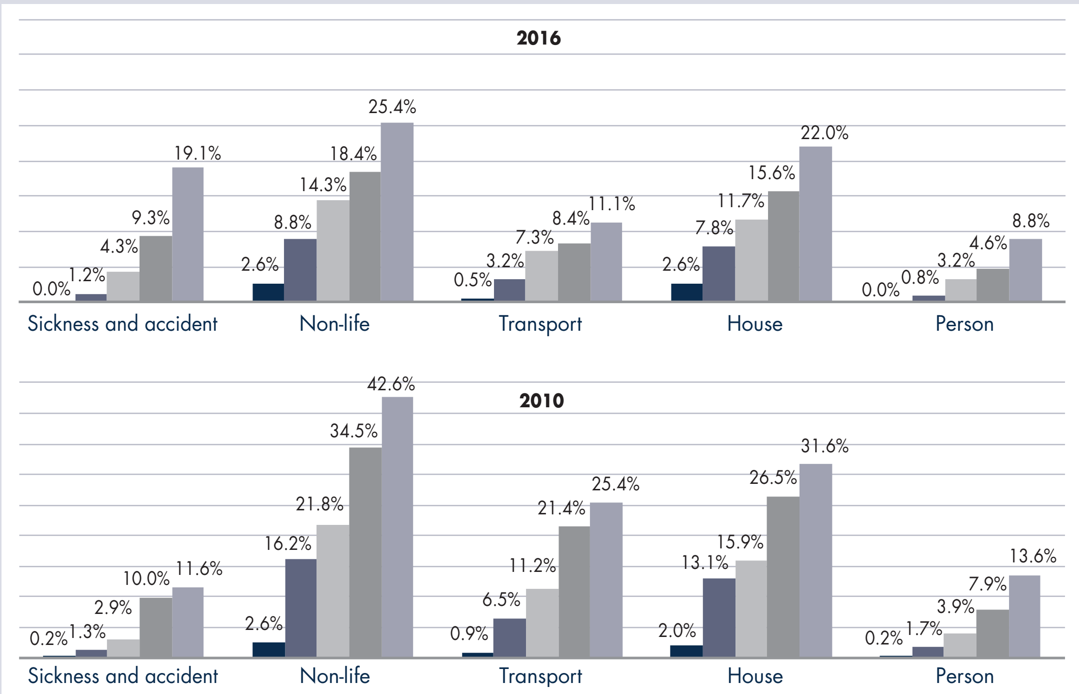
Source: ANIA elaboration based on Bank of Italy data

The correlation with educational attainment, by contrast, is strong. The income/wealth effect is likely to be compounded by an additional insurance driver deriving from the presumably greater awareness of risks and of the related insurance products among individuals with higher levels of education (Figure 7).

Figure 7
Composition by education

- *None*
- *Primary school*
- *Lower-secondary education*
- *Secondary education*
- *University/Graduate/ Post-graduate*

- *None*
- *Primary school*
- *Lower-secondary education*
- *Secondary education*
- *University/Graduate/ Post-graduate*



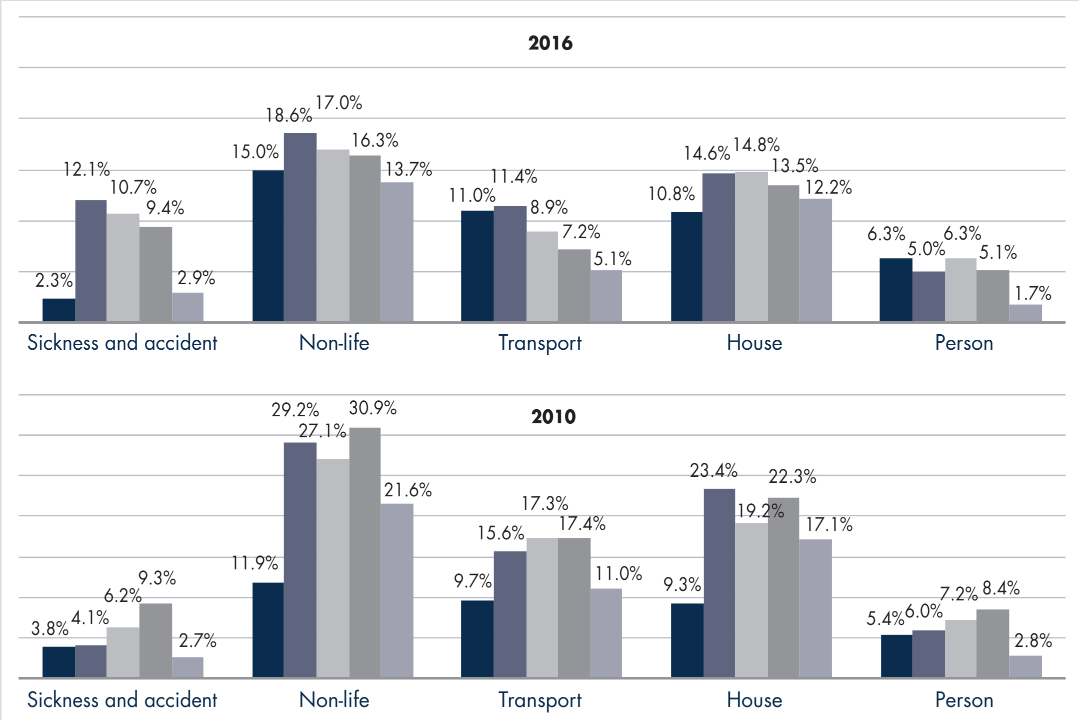
Source: ANIA elaboration based on Bank of Italy data

Economic conditions

Among the various economic conditions (occupational status and sector, income and wealth), the uncertainty linked to self-employment is a major contributory factor, confirmed by both surveys.However, the data showed limited presence of insurance among heads of household in the agricultural sector or in no sector and more insurance in "Other sectors", which is likely to include professionals (Figure 8).

Figure 8
Composition by economic sector

Agriculture
Industry
Public service
Other sectors
None

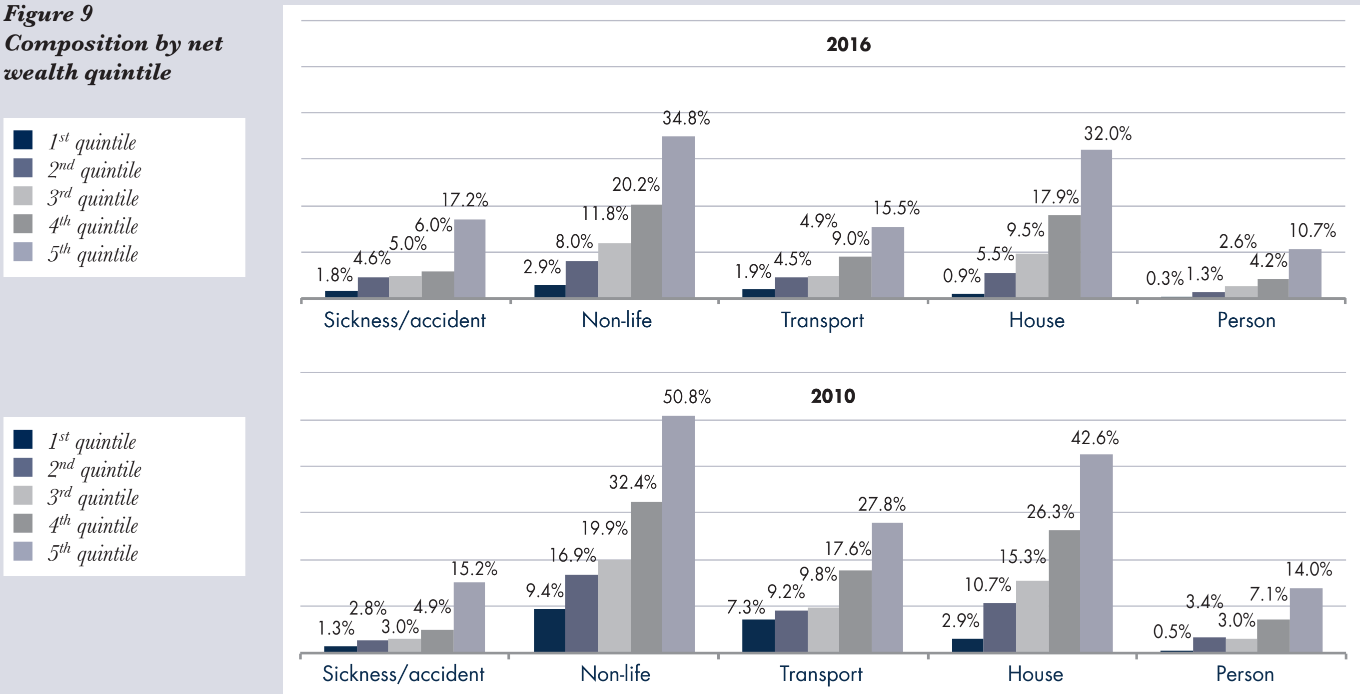


Source: ANIA elaboration based on Bank of Italy data

As can be easily seen, the households' financial resources are strongly related to the propensity to buy insurance both in terms of flow (income) and in terms of stock (financial wealth), both because larger flows increase the possibility to allocate resources to insurance policies and because greater wealth is correlated with the ownership of goods to be insured (Figure 9).

As shown by these trends, the role of family income (which can also proxy for financial and property wealth) emerges clearly, being a common driver for insurance demand. However, the importance of this variable throughout the sample restricts the informative potential of the database via descriptive analysis alone, not allowing robust quantitative estimation of the correlation among the characteristics analyzed. Further elaborations based on models for estimating non-life insurance demand are being examined, allowing to identify which family characteristics can affect the propensity to buy insurance significantly and to what extent.

Figure 9
Composition by net wealth quintile



Source: ANIA, based on Bank of Italy data

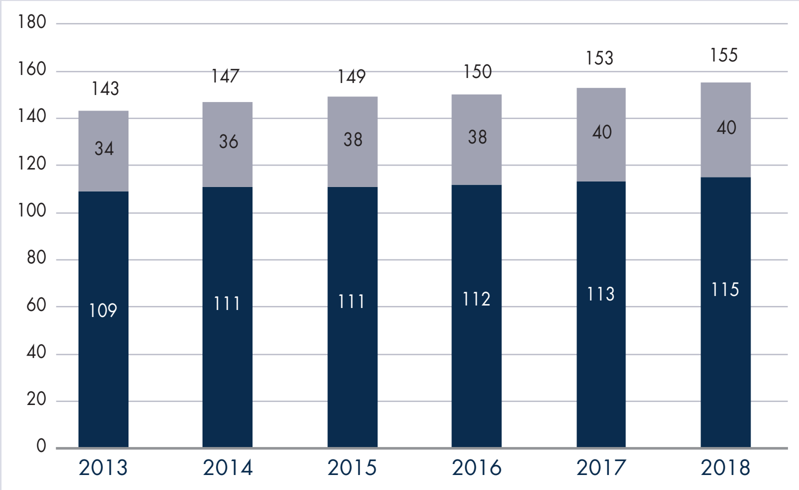
ITALIAN VERSUS INTERNATIONAL HEALTHCARE EXPENDITURE BY SOURCE OF FUNDING

According to the OECD, the organization grouping the 30 most industrialized countries, Italian healthcare expenditure amounted to €155 billion in 2018, of which €115 billion public and €40 billion private. Over the last five years the trends in the two components have been different, with private expenditure (average annual growth of 2.7%) more dynamic than public expenditure (+0.9%)(Figure 1).

The divergence stems from the different nature of the underlying factors for the two components. The public component is affected not only by the population's health requirements but also by fiscal policy constraints. Given the composition effect, private expenditure trends are obviously related to the extent of public healthcare coverage and its accessibility. On the other hand, private expenditure must also be in line with the constraints imposed by disposable income, which, in turn, depend on the general economic cycle (Figure 2).

Figure 1
Trend in public and private healthcare expenditure
Euro billion

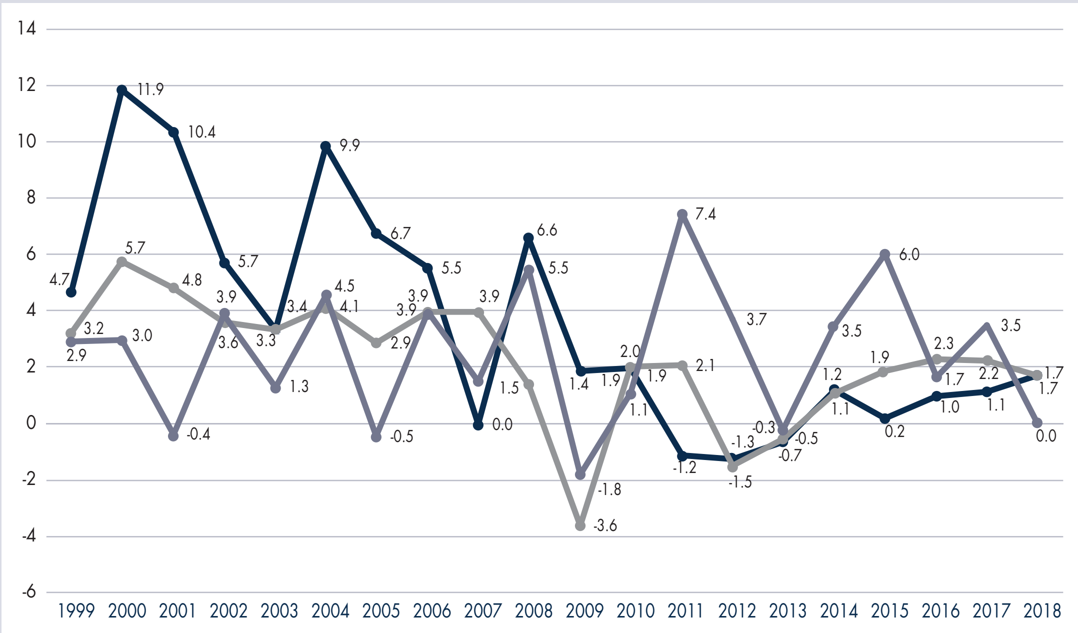
Public
Private



Source: OECD

Figure 2
Growth rates of the components of healthcare expenditure and GDP (*)

Public
Private
Nominal GDP



(*) % variation from the previous year
Source: ANIA, based on OECD and ISTAT data

Italian healthcare expenditure amounted to 8.8% of GDP in 2018, below the average of the most developed countries. This is ascribable to the particularly low share of the public component, which has remained broadly unchanged over the last ten years at 6% to 7% of GDP. Private expenditure instead amounted to 2.3% of GDP, above the average of the other countries (Figure 3).

The OECD database allows us to extract information on the composition of private expenditure by source of funding. In Italy, 90% of private healthcare expenditure is out-of-pocket, i.e. is paid directly by households. This is the highest percentage among the main countries, whose values range from 60% to 80% (Figure 3). Only 10% of Italian private healthcare expenditure is covered by insurance (7%) or healthcare funds (3%).

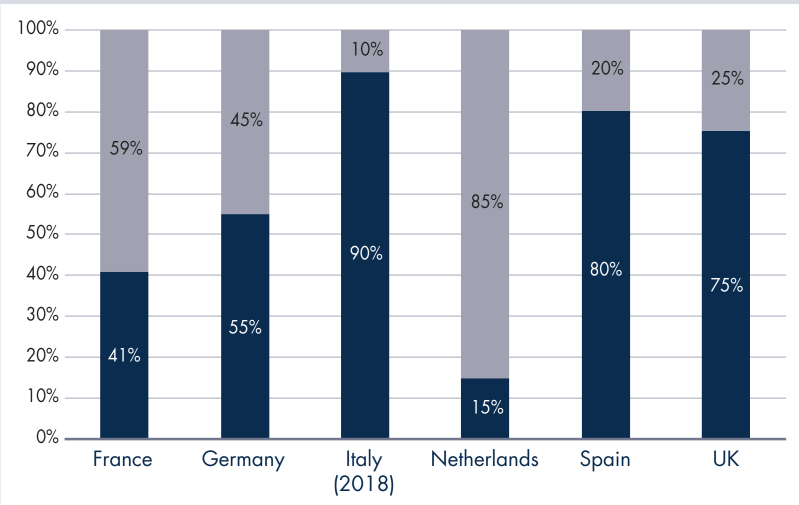
Figure 3
Public and private healthcare expenditure in the international context (*)

2009
2018

(*) as a % of GDP
Source: OECD

Figure 4
Source of funding for private healthcare expenditure in 2017 (*)

% out of pocket
% from insurance or healthcare funds



(*) as a % of GDP
Source: OECD

ACCIDENT AND SICKNESS INSURANCE COVERAGE

For the class of accident and sickness insurance, ANIA can disaggregate the premiums both between individual and group policies and between the two types of coverage, based on the half-yearly statistics.

Accident insurance

In 2018, written premiums (individual and group) for accident insurance sold by Italian companies and EU and non-EU foreign branches operating in Italy amounted to €3.5 billion, +0.8% more than a year earlier (Table 1). New business was estimated at 15% of total premiums (against 19% in 2017), amounting to €525 million (-21.5% compared with the previous year).

Permanent (total or partial) disability insurance accounted for 36% of written premiums, or €1.3 billion (1.2% more than in 2017). Among all the types of insurance, the only negative performance was in accident policies covering injury to drivers, down by 2.1% in a year and amounting to €760 million (21% of the total), whereas death insurance registered 0.7% growth and totaled €601 million (17% of total premiums). Temporary disability premiums were equal to €297 million (8% of the whole portfolio), up by 6.1% from 2017, showing the sharpest increase among all the types of policies.

Table 1 – Composition of premiums for accident insurance, %
Euro thousands

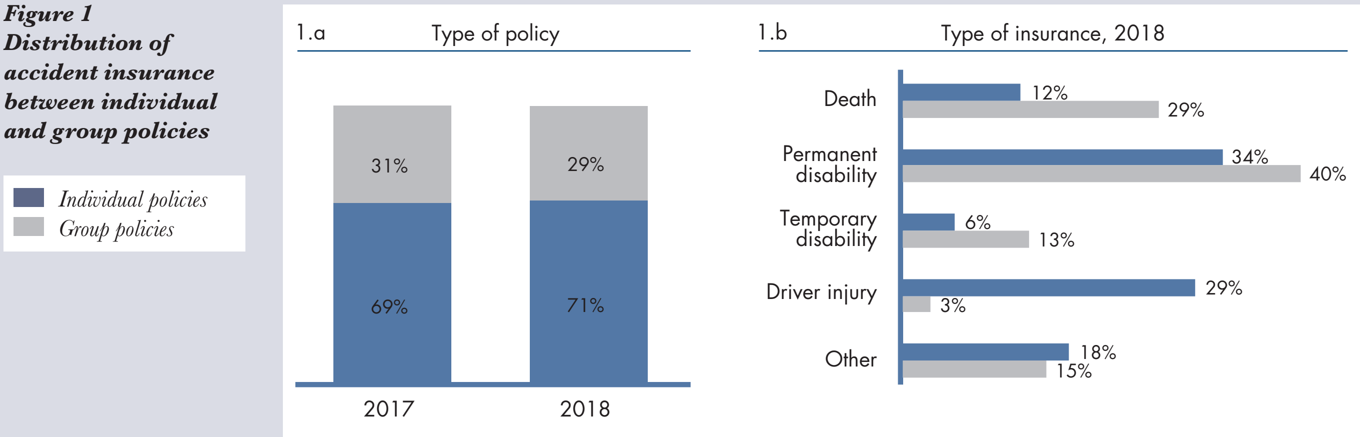
Type of coverage	Written premiums					Of which: new business					% New business on Written prem.	
	2017		2018			2017		2018				
	Premiums	Share	Premiums	Share	Annual change	Premiums	Share	Premiums	Share	Annual change	2017	2018
ACCIDENT												
Death	597,183	17%	601,075	17%	0.7%	99,359	15%	75,084	14%	-24.4%	17%	12%
Permanent disability	1,260,917	36%	1,276,204	36%	1.2%	227,926	34%	177,438	34%	-22.2%	18%	14%
Temporary disability	279,833	8%	296,939	8%	6.1%	69,186	10%	48,098	9%	-30.5%	25%	16%
Driver injury	776,132	22%	759,696	21%	-2.1%	170,697	26%	145,119	28%	-15.0%	22%	19%
Other (*)	600,405	17%	608,645	17%	1.4%	101,337	15%	78,862	15%	-22.2%	17%	13%
Total	3,514,470	100%	3,542,558	100%	0.8%	668,504	100%	524,602	100%	-21.5%	19%	15%

(*) Coverage for hospitalization indemnity allowance, costs of care and rehabilitation, plus other coverage not specified or that the insurer cannot distinguish
Source: ANIA

Taking account of written premiums only, in 2018 accident premiums for individual policies accounted for 71% of total premiums for the class, two percentage points more than the previous year (Figure 1.a), and group policies accounted for the remaining 29%.

Looking at the distribution of premiums by main insurance guarantees, there are some differences between individual and group policies (Figure 1.b). While nearly 30% of written premiums of individual policies are for driver injury insurance, this guarantee is minor for group policies (3%) where coverage against other risks is more common.

Figure 1
Distribution of accident insurance between individual and group policies



With regard to ***individual policies*** (coverage for one person or one household), written premiums in 2018 are estimated to have totaled €2.5 billion, 4.1% more than in 2017. Around two thirds of premiums are for insurance guarantees against driver's permanent (total or partial) disability and accident. In detail, coverage against permanent disability in 2018 accounted for 34% of premiums (the same as in 2017), the highest share of all guarantees, whereas driver's accident coverage was 29% of total premiums, down from 31%. The share of death insurance premiums was 12% (as in 2017), followed by temporary disability insurance at 6%. The remaining share of written premiums (18%) is for "other risks" (which include hospitalization indemnities, reimbursement of injury-related treatment and rehabilitation expenditures, plus additional guarantees other than those specified or that insurers do not distinguish).

As for ***group policies*** (covering more than one individual where the policyholder underwrites the insurance in the name and on behalf of someone else), the volume of premiums for 2018 amounted to €1.0 billion, down by 6.5% from the previous year. More specifically, 40% of written premiums cover permanent disability risk (thus confirming this as the main guarantee, as for individual policies), stable compared with 2017. The second best-selling guarantee, in terms of volume of premiums, is death insurance, with a market share of 29%, 17 percentage points more than in individual policies. The volume of premiums of temporary disability insurance in 2018 remained at 13% of total premiums, like the share of group policies covering driver injury, unchanged at 3%. Premiums covering "other risks" accounted for 15% of the total.

Sickness insurance

Written premiums (individual and group policies) for sickness insurance amounted to €2.9 billion in 2018, of which €502 million was for new business (17% of the total), registering an increase of 7.3% compared with a year earlier (new business grew by 13.4%) (Table 2).

Reimbursements of healthcare expenses ([1]) account for over three quarters (78%) of total premiums, or €2.2 billion, up by 10.0% from 2017. Permanent disability premiums also showed an uptrend, with €251 million (9% of total premiums and up by 0.9% compared with the previous year). Premiums for daily income allowance ([2]) totaled €179 million, or 6% of the total (-5.3%). Written premiums for long-term care insurance showed a positive, albeit still subdued, trend ([3]), totaling €29 million, or 1% of total premiums (up by 4.2% compared with 2017).

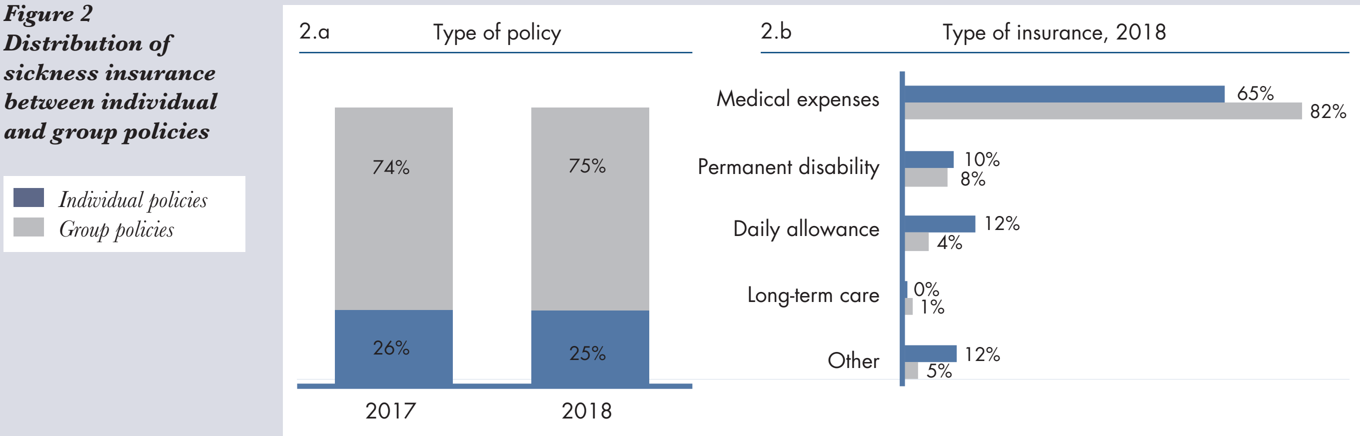
Table 2 – Composition of premiums for sickness insurance, %
Euro thousands

Type of coverage	Written premiums					Of which: new business					% New business on Written prem.	
	2017		2018			2017		2018				
	Premiums	Share	Premiums	Share	Annual change	Premiums	Share	Premiums	Share	Annual change	2017	2018
SICKNESS												
Medical expenses	2,044,933	76%	2,249,798	78%	10.0%	183,648	41%	262,987	52%	43.2%	9%	12%
Permanent disability	248,737	9%	250,900	9%	0.9%	174,377	39%	152,026	30%	-12.8%	70%	61%
Daily allowance	189,329	7%	179,266	6%	-5.3%	18,641	4%	22,736	5%	22.0%	10%	13%
Long-term care	27,788	1%	28,968	1%	4.2%	3,008	1%	3,765	1%	25.2%	11%	13%
Other (*)	193,232	7%	192,504	7%	-0.4%	62,955	14%	60,486	12%	-3.9%	33%	31%
Total	2,704,019	100%	2,901,436	100%	7.3%	442,628	100%	502,000	100%	13.4%	16%	17%

(*) The portion of premiums for coverage not specified (such as temporary disability, found in some company policies) or that the insurer cannot distinguish for lack of information
Source: ANIA

Taking account of written premiums only, group policies accounted for a major share of sickness insurance, accounting for 75% of total premiums in 2018 (Figure 2.a), up by one percentage point from the previous year, whereas individual policies went down to 25%.

Figure 2
Distribution of sickness insurance between individual and group policies



([1]) Covers policyholder's expenses pre- and post-hospitalization for sickness or maternity and surgery.
([2]) A daily allowance in case of hospitalization due to illness.
([3]) Indemnity or assistance in an institution consequent to the request for long-term care owing to loss of self-sufficiency, i.e. inability to perform certain fundamental, elementary activities.

Looking at sickness insurance broken down by the main type of coverage offered on the market, there is a narrower gap between individual and group policies (see Figure 2.b) than in the case of accident insurance, with healthcare expenditure reimbursements leading in both cases.

The volume of written premiums of ***individual policies*** in 2018 amounted to €739 million, up by 3.9% compared with the previous year. More specifically, healthcare expenditure reimbursements accounted for a major share over total individual premiums in 2018 too, amounting to 65% (67% in 2017). Daily income allowance premiums also decreased by two percentage points, moving from 14% in 2017 to 12%. Coverage against permanent disability, unlike accident insurance, has a lower incidence with 10% of the total (9% in 2017), whereas long-term care insurance, which is more frequently part of life policies, was almost negligible also in 2018. The "other risks" group, which includes portions of premiums for risks not specified above (e.g. temporary disability in the policies of some companies) or which cannot be allocated otherwise for lack of information, accounted for 12% of premiums.

The volume of premiums of ***group policies*** in 2018 is estimated to be €2.2 billion, the highest amount ever, with an increase of 8.5% compared with the previous year. For this type of policy, the incidence of reimbursement of healthcare expenditures over total premiums was even higher than that of individual policies. This is chiefly attributable to private healthcare funds or corporate health insurance for employees; more specifically, this type of guarantee accounts for 82% of total premiums of group policies, three percentage points more than the incidence estimated in 2017. The second best-selling category of group policies is permanent disability, which accounted for 8% of total premiums in 2018, down from 11% in 2017. The daily income allowance guarantee accounted for 4% of total premiums, up by one percentage point from 2017, whereas long-term care insurance was rarely sold, albeit a bit more than in the case of individual policies, with a market share of 1%. "Other risks" accounted for a smaller share in group than in individual policies, accounting for 5% of written premiums.

NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2018 AND AN INITIAL ESTIMATE OF THE ITALIAN INSURANCE MARKET'S CURRENT EXPOSURE

Worldwide, the number of natural disasters came to 181 last year (184 in 2017). Although the number of catastrophic events was in line with the previous year, in 2018 economic losses attributable to damages came to €135 billion, half of what they were in 2017, a record year in terms of damage (nearly €275 billion), and they were 25% lower than the average loss over the last 50 years.

The damage was mainly due to hurricanes and forest fires which struck in North America and the Caribbean. Insurance companies covered €66 billion, or 50% of the total damage, exceeding the average of the last 10 years (nearly €55 billion). The events with the greatest impact in terms of insurance were Hurricane Michael, which struck the Caribbean and the

USA causing €9 billion in claims, and the most destructive forest fire ever, which hit California, with €11 billion in claims settled by insurance companies.

It is worth noting that more than half of the claims registered in 2018 are ascribable to relatively modest events like floods, heavy rainfall, snow and ice storms, drought and forest fire: none of these natural disasters can be compared to earthquakes, cyclones or hurricanes. The causes underlying the increase in damage from relatively small-sized events are population growth and unrestrained urban development in areas with extreme climate conditions, further worsened by climate change.

In Asia, more and more people live in coastal areas, with a strong exposure to the risk of tropical storm. In America, since 1990, 60% of new residential building has been in the areas between forest land and existing settlements, areas where fire may spread rapidly, making it impossible to extinguish.

In 2018, Italy suffered several hydrogeological events causing, in some cases, unprecedented damage, such as in the exceptionally bad weather which hit the vast majority of the country at the end of the year. According to the Civil Protection report to the European Commission for the Solidarity Fund activation, these extreme weather events caused €6.2 billion damage. Of this, €4.5 billion is ascribable to direct damage (€3.1 billion for public buildings and infrastructural damage and more than €1.3 billion for private buildings and businesses), whereas expenditure related to emergencies amounted to €1.7 billion.

According to the PERILS survey on catastrophic events risk exposure in Italy for 2019 (which sees the participation of 74% of the market in terms of the volume of fire premiums), overall exposure of the insurance market to such risks is:

- for businesses – buildings, goods and incidental damage – around €829 billion in respect of earthquakes (+27% compared with 2018) and €689 billion in respect of floods (-1% from 2018), net of the contractual limits set by the insurance policies. Lombardy is estimated to be the region contributing the most to the increase in insurance against earthquake risk compared with the previous year. Nearly 410,000 businesses are insured against earthquakes and 407,000 against floods, assuming that the main part of business risks insured against flood are insured against earthquakes as well;
- for homeowners – buildings, goods and incidental damage – around €180 billion in respect of earthquakes (+37% compared with 2018) and €74 billion in respect of floods (+10% from 2018), net of the contractual limits set by the insurance policies. Both in respect of earthquake and flood risks, Lazio, Piedmont, Emilia Romagna and Tuscany are estimated to have grown the most compared with 2018. Insured risks for dwellings amounted to 533,000 against earthquakes and 183,000 against floods, many of which also in this case are assumed to include earthquake insurance as well.

Geographically, total insurance exposure to natural disaster risk (businesses and dwellings) is concentrated mostly in the North of Italy in line with the previous year, nearly 70% of the total. Central regions are becoming increasingly important, with nearly 20% of the total.

In the light of the absolute levels of insurance coverage described above, the variations from the previous year (e.g. in the distinction between business and residential risks) may be partly due to an enhanced classification of data as a consequence of greater accuracy in risk management. However, it is important to make it clear that these are estimates, thus subject to some deviations from what will actually occur during the year.

THE DIFFUSION OF FIRE INSURANCE WITH EXTENSION TO NATURAL DISASTERS

With a view to assessing the impact of the 2018 Budget Law which introduced tax incentives for individuals underwriting insurance policies against natural disasters for residential dwellings, ANIA carried out a new statistical study (whose date of assessment is 31 March 2019) to quantify the number of policies and exposure (in terms of value insured) of Italian residential dwellings insured against fire, with a special focus on insurance extension to natural disasters and how it had changed from the two previous editions of the survey (30 September 2016 and 31 March 2018).

The survey again saw the participation of a large sample of companies (representing 90% of all fire insurance premiums), which can be compared to the previous editions. Based on such data, ANIA elaborated an estimate of the exposure for the whole market. Following is an account of the results for the main factors characterizing the fire insurance policies examined by the survey.

Type of policy. At the end of March 2019, **the number of active policies** (for the whole market) was **9.7 million**, up by 7.1% from the survey of March 2018 and up by 12.1% from the survey of September 2016. The total value of **amounts insured** was **€3,639.7 billion**, up by nearly 8% compared with 2018 and 9% compared with 2016 (Table 1). The 2019 distribution of policies by type is broadly unchanged from 2018: more than 55% are multi-risk policies ([1]) (in line with 2018), 31.8% individual fire policies (single risk), less than 13% comprehensive building policies, and only 0.7% are policies covering only earthquake risk and not fire.

Table 1 – Type of policy

Type of policy	March 2019		March 2018		September 2016		March 2019		March 2018		September 2016		% change 2019/2016	
	No. policies	% share	No. policies	% share	No. policies	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	No. policies	Value insured
Multirisk	5,366,686	55.1%	4,996,969	55.0%	4,523,165	52.1%	1,231,682	33.8%	1,107,530	32.8%	1,004,100	30.0%	18.6%	22.7%
Fire (single risk)	3,096,137	31.8%	2,839,114	31.2%	2,792,230	32.1%	621,989	17.1%	546,912	16.2%	560,900	16.8%	10.9%	10.9%
Comp. building	1,214,119	12.5%	1,143,081	12.6%	1,289,552	14.8%	1,762,973	48.4%	1,691,073	50.1%	1,758,746	52.6%	-5.8%	0.2%
Only earthquake	63,825	0.7%	62,566	0.7%	39,480	0.5%	23,005	0.6%	22,512	0.7%	13,916	0.4%	61.7%	65.3%
Uncoded	735	0.0%	50,655	0.6%	44,963	0.5%	38	0.0%	6,391	0.2%	5,915	0.2%		
TOTAL	9,741,502	100.0%	9,092,385	100.0%	8,689,391	100.0%	3,639,687	100.0%	3,374,417	100.0%	3,343,576	100.0%	12.1%	8.9%

By contrast, the percentage distribution of the amounts insured shows that over half of the assets insured refer to comprehensive building policies (these evidently being the most significant in terms of value), 34% to multi-risk policies and 17% to individual fire policies (single risk).

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

Risk sector. Table 2 shows that 82.4% of fire insurance policies are for dwellings (they were 84.2% in March 2018, 82.5% in September 2016), 14.3% for industrial buildings ([2]) (up from the last survey) and only 3.3% (against 2% in 2018) for ancillary commercial units, i.e. those units used for business activities and located on the ground floor of mainly residential buildings. Clearly, in terms of amounts insured the percentage distribution varies greatly, as industrial buildings, having a greater value than individual dwellings, account for half the total amount insured (50.2%). Nearly 47% of the amount insured is for dwellings and only 3.1% for ancillary commercial units.

Table 2 – Risk sector

Type of policy	March 2019		March 2018		September 2016		March 2019		March 2018		September 2016		% change 2019/2016	
	No. policies	% share	No. policies	% share	No. policies	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	No. policies	Value insured
Dwelling	8,023,209	82.4%	7,652,344	84.2%	7,170,029	82.5%	1,698,987	46.7%	1,564,694	46.4%	1,524,473	45.6%	11.9%	11.4%
Building	1,389,831	14.3%	1,253,848	13.8%	1,360,218	15.7%	1,828,193	50.2%	1,729,231	51.2%	1,751,084	52.4%	2.2%	4.4%
Ancillary commercial unit	326,307	3.3%	186,192	2.0%	159,144	1.8%	112,367	3.1%	80,492	2.4%	68,019	2.0%	105.0%	65.2%
Uncoded	2,155	0.0%					140	0.0%						
TOTAL	9,741,502	100.0%	9,092,385	100.0%	8,689,391	100.0%	3,639,687	100.0%	3,374,417	100.0%	3,343,576	100.0%	12.1%	8.9%

It should also be highlighted that since 1,390,000 policies cover the whole building, and since the average number of apartments per building can be calculated at around 4.3 ([3]), based on ISTAT's data, the overall number of **dwellings insured** for the whole market may be estimated at roughly **14.3 million** = [8.023 mln (dwellings) + 1.389 mln (industrial buildings) x 4.3 + 0.326 mln (ancillary units)]. Of the **dwellings included in the ISTAT survey** in 2011 (**31.2 million**), **46.0%** have fire insurance (42.8% in March 2018 and 42.2% in 2016).

Policy extension to natural disasters. Italy is characterized by an approach to the management of damage caused by natural disasters which traditionally relies on ex-post state intervention. This approach to damage management, implemented repeatedly over time, has legitimated the belief that there is a last-resort guarantor in charge of reconstruction. This is why insurance coverage against natural disasters is so rare: 91.5% of policies have no such coverage extension (Table 3).

([2]) ISTAT's definition of building: "roofed construction, separated by streets or empty spaces, or by other buildings through main walls going from the foundations to the roof top seamlessly, having one or more than one free access to the street and, possibly, one or more than one independent staircase".
([3]) This differs from the number published by ISTAT (3.3 nationwide) for two reasons: 1) in calculating the average number of dwellings per building, ISTAT counts buildings with just one dwelling; for the present statistic, however, as single dwellings are counted separately, the average per building is calculated only for buildings with more than one dwelling; and 2) because the provincial distribution of insured dwellings differs from that of all the dwellings found in the census. This is why our estimate of dwellings per building (4.3) is higher than that indicated by ISTAT.

Table 3 – Extension of fire insurance to natural disasters

Type of policy	March 2019		March 2018		September 2016		March 2019		March 2018		September 2016		% change 2019/2016	
	No. policies	% share	No. policies	% share	No. policies	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	No. policies	Value insured
None	8,915,522	91.5%	8,469,908	93.2%	8,249,693	94.9%	3,364,447	92.4%	3,194,456	94.7%	3,205,633	95.9%	8.1%	5.0%
Earthquake only	458,203	4.7%	289,400	3.2%	190,225	2.2%	172,417	4.7%	102,892	3.0%	74,659	2.2%	140.9%	130.9%
Flood only	195,633	2.0%	220,147	2.4%	186,787	2.1%	43,841	1.2%	44,458	1.3%	39,341	1.2%	4.7%	11.4%
Earthquake and flood	172,144	1.8%	112,930	1.2%	62,686	0.7%	58,983	1.6%	32,612	1.0%	23,942	0.7%	174.6%	146.4%
TOTAL	9,741,502	100.0%	9,092,385	100.0%	8,689,391	100.0%	3,639,687	100.0%	3,374,417	100.0%	3,343,576	100.0%	12.1%	8.9%

The results of the survey (regarding all active policies as at 31 March 2019) show that 8.5% of policies have an extension of coverage to natural disasters, up from March 2018 (when it was 6.8%) and September 2016 (5.1%).

As of 31 March 2019, there were **some 826,000 policies with extension to natural disasters** on the market, a number obtained from the sum of straight earthquake policies (458,000), straight flood policies (196,000) and multi-risk earthquake and flood policies (172,000). Compared with the survey carried out in September 2016, after just two years, the number of straight earthquake policies has more than doubled (+141%), while multi-risk earthquake and flood policies have almost tripled (+175%).

To promote nat-cat policies (earthquake and floods), Law 205 of 27 December 2017 established, from the year 2018, tax incentives for anyone taking out this type of homeowner insurance. To judge the impact of the law, **considering only the policies with nat-cat extension subscribed in 2018 and in the first quarter of 2019, this type of policy accounted for 45% of the 826,000 active policies**. These tax incentives therefore seem to have started to have an effect, even if still quite limited.

Based on the number of active policies with extension to natural disasters and using the same calculation method to "convert" policies into dwellings covered (as described earlier in the "Risk sector" section), **the number of dwellings insured against natural disasters as at 31 March 2019 is estimated at roughly one million** (766,000 in 2018). In relation to the total number of dwellings surveyed by ISTAT (31.2 million) **insurance penetration would appear to be still very moderate at 3.2%** (2.5% in 2018). The comparison with the estimate of 2009 (when dwellings insured against natural disasters numbered 35,000) shows a thirty-fold increase in insurance coverage, signifying that the Italian market is increasingly sensitive to this type of insurance. As a matter of fact, since 2009 there have been more than 40 floods and several severe earthquakes (L'Aquila in 2009, Emilia Romagna in 2012 and central Italy between August 2016 and January 2017), which has evidently helped to increase awareness of the need to protect real estate wealth.

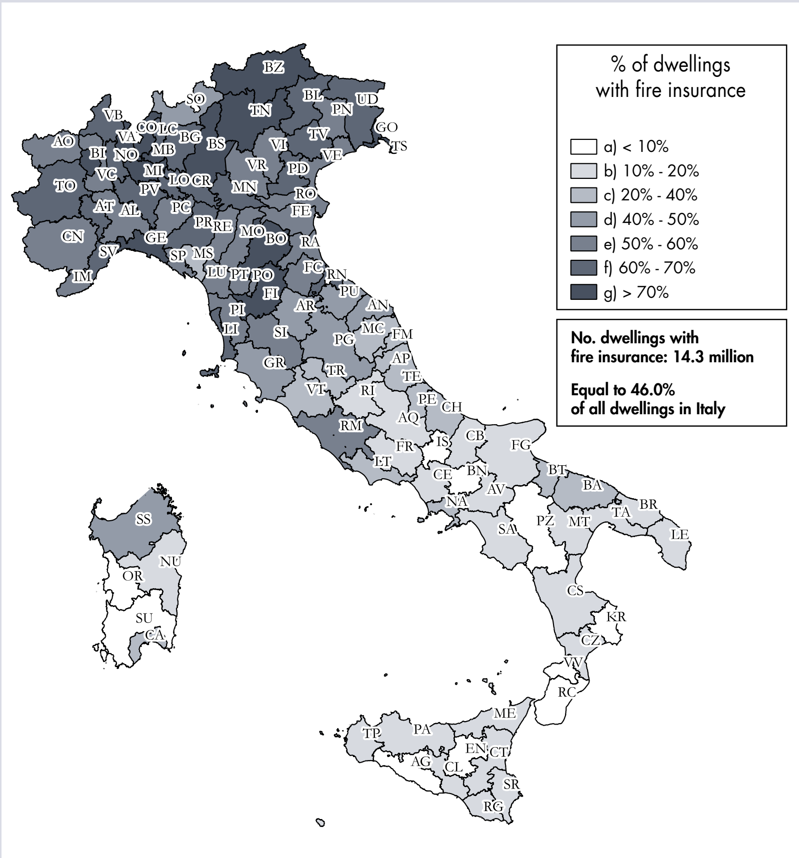
Thanks to the data available, we estimated, at national level, that:

- the **amount insured** exceeds **€172 billion for individual earthquake policies**, and is roughly **€45 billion for individual flood policies, plus an additional €60 billion for policies covering both risks**. Overall, **total exposure** amounts to **over €275 billion** (it was roughly €180 billion in March 2018);

- **the average premium** (**net of taxes** (4) **of fire insurance** for the 9.7 million policies surveyed is **€178.** Given that these policies provide insurance for 14.3 million dwellings (with an average floor area of 130 m^2), the average premium per dwelling would be €120. As for the guarantee extension to natural disasters, the average premium (net of taxes) for the over 826,000 policies insuring against either earthquake or flood or both, is €119. As these policies provide insurance for nearly a million dwellings (with an average floor area of 110 m^2), the average premium per dwelling would be €100.

Incidence (%) of dwellings covered by fire insurance on all existing dwellings. Analyzing the incidence by province of insured over total dwellings (46.0% at national level – see above), we find that almost everywhere in the North of Italy more than one of every two dwellings has fire insurance, whereas in the South in most cases the proportion does not exceed 20% and in central Italy the proportion is one out of two dwellings (Figure 1). In Biella, Genoa, Milan and Trieste, more than 80% of dwellings are insured, 76% in Varese, 74% in Bolzano and Trento, compared with only 10% in Vibo Valentia, Oristano, Isernia, and less than 8% in Agrigento and Crotone.

Figure 1
% of dwellings with fire insurance

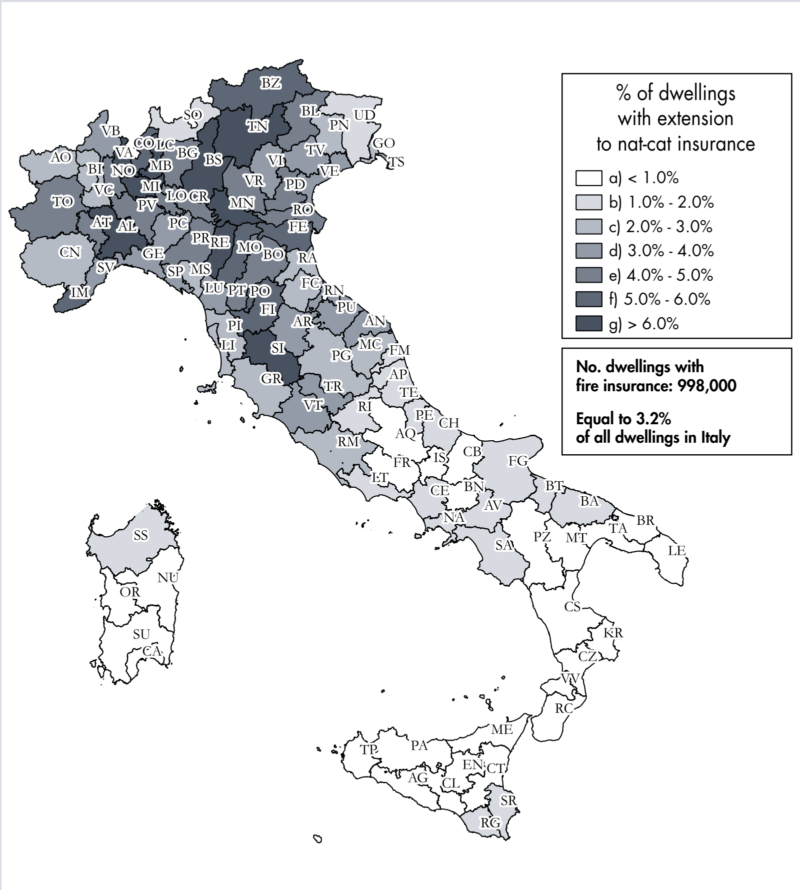


Incidence (%) of dwellings covered by natural disaster insurance on all existing dwellings. Also significant is the provincial breakdown of the incidence by province of dwellings insured against natural disasters over all dwellings (3.2% at national level). This

(4) Currently 22.5% of the premium.

indicator exceeds 7% (Figure 2) only in Trento, Mantua and Brescia; generally, across the North, the incidence is around 5%. In Emilia-Romagna, the province with the highest incidence is Reggio Emilia (6.3%), followed by Ferrara and Modena (nearly 6.0%). In central Italy, where the average incidence of nat-cat policies is around 3.2%, the provinces with the greatest incidence are Siena (6.9%), Prato and Florence at around 5.5%, whereas in most southern cities the percentage of insured averages about 1%.

Figura 2
% of dwellings with nat-cat insurance



Diffusion of hydrogeological insurance among Italian businesses with at least 20 employees in 2016

The Bank of Italy collects data on an annual basis on the ordinary and extraordinary activities of a stratified sample of Italian businesses operating in the industrial and non-financial services sectors with at least 20 employees. It is worth noting that the surveyed sample, even if representative of a very limited context (roughly 75,000 businesses out of nearly 4.4 million Italian businesses), has sales turnover exceeding 70% of the national total (2016 ISTAT data).

One section of the 2016 questionnaire focused on insurance policies against hydrogeological risk. Businesses were asked about any damage caused by landslides and floods over the last five years, about any insurance held against this type of damage and, if not, about their intention to acquire it (Figure 1).

Figure 1 – The Bank of Italy questionnaire

Hydrogeological risk

Did your business have any loss or did it have to incur recovery costs due to landslides or floods in the last 5 years?

0 No
1 Yes
9 I don't know/no reply |..............| RI1

Are your properties (production plant, warehouses, outlets, offices) or your machinery currently insured against the risk of landslides or floods?

1 No, but we are planning to purchase a policy
2 No, and we are not planning to purchase any policy
3 Yes |..............| RI2

Source: Bank of Italy

In 2016, 4.6% of businesses had been affected by hydrogeological events-related damage in the previous five years. The highest incidence is in central and North-West Italy (6.0% in both cases), followed by Southern Italy and the islands (4.0%) and the North-East (2.4%) (Table 1).

Table 1
Diffusion of policies and frequency of events by geographical area (*)

	Affected by event-related damage	Insured	Not insured	
			Intends to insure	Does not intend to insure
North-West	6.0	45.9	7.1	47.0
North-East	2.4	47.4	9.6	43.0
Centre	6.0	44.1	11.7	44.1
South-islands	4.0	32.5	16.3	51.1
Total	4.6	43.7	10.3	46.1

(*) as a %
Source: ANIA, based on Bank of Italy data

43.7% of businesses hold insurance against landslides and floods. Except for Southern Italy and the islands (32.5%), the percentage is distributed quite evenly on a geographical basis at around 45%, with a high of 47.4% in North-Eastern Italy.

Intention to purchase an insurance policy increases as we move towards Southern Italy, where more than 16% of businesses are interested in taking out this kind of insurance, compared with 7% in North-Western Italy.

With regard to the size of the business, the frequency of claims grows with the number of employees, exceeding 13% among the largest companies, against 4.1% of the smallest businesses. Not surprisingly, the insurance rate follows a comparable trend, with nearly 60% coverage among businesses with 1,000 employees or more. Intention to purchase a policy drops significantly as the size of the business decreases (Table 2), probably as a consequence of the composition effect.

Table 2 – Diffusion of policies and frequency of events by number of employees (*) (%)

	Affected by event-related damage	Insured	Not insured	
			Intends to insure	Does not intend to insure
20-49 employees	4.1	40.7	11.1	48.2
50-99	5.1	46.6	8.4	45.0
100-199	4.8	51.9	10.1	38.0
200-499	7.4	53.6	7.8	38.6
500-999	11.2	58.4	7.2	34.3
1,000 employees and over	13.2	58.3	2.3	39.4
Total	4.6	43.7	10.3	46.1

(*) as a %
Source: ANIA, based on Bank of Italy data

Valuable information comes from the distribution of these indicators over the different production sectors. The incidence of damage caused by landslides and floods varies significantly from one sector to another, ranging from 1.5% in real estate and IT services to more than 22% in the other industrial sectors (where the sample is not very representative, however). There is also considerable sectoral variation in the percentages of businesses insured against this risk: transport has the lowest incidence (33%) and chemicals, food processing and other manufacturing sectors the highest at over 50%. Finally, inter-sectoral differences in the intention to purchase insurance are less marked (Table 3).

Table 3 – Diffusion of policies and frequency of events by production sector (*) (%)

	Affected by event-related damage	Insured	Not insured	
			Intends to insure	Does not intend to insure
Food processing	5.0	52.8	9.9	37.3
Transport	3.8	33.2	11.1	55.7
Real estate/IT services	1.5	35.8	10.3	53.9
Textiles	3.2	45.2	13.3	41.5
Chemicals	5.8	55.4	11.1	33.5
Mining	3.8	43.1	6.0	51.0
Metal engineering	4.5	46.2	7.9	45.9
Other manufacturing	4.6	52.7	9.4	37.9
Other industries	22.5	42.0	11.8	46.1
Commerce	4.6	46.1	11.6	42.3
Lodging and catering	6.2	42.5	10.7	46.8
Total	4.6	43.7	10.3	46.1

(*) as a %
Source: ANIA, based on Bank of Italy data

MEDICAL THIRD-PARTY LIABILITY: THE CLAIMS MADE CLAUSE

On 24 September 2018 the combined sections of the Court of Cassation deposited Sentence 22437 of 5 June 2018 on the legitimacy of the claims-made clause. The sentence was issued based on the 8 January 2018 referral order issued by the third section of the Court to the combined sections plenary. The order asks the combined sections to establish the legitimacy, or lack thereof, of the following principles:

(i) it is forbidden for the parties to consider as "claims" any facts not envisaged by Art. 1882 of the Civil Code, or, in third party liability insurance, not envisaged by Art. 1917, first paragraph, Civil Code;
(ii) as for third-party liability insurance, pursuant to Art. 1322 of the Civil Code, the ruling deems to be always unworthy of consideration any clause limiting compensation not according to the contractual conditions in force when the policyholder caused the damage but to those in force when the damaged third party applied to the policyholder for compensation, also known as the "claims made" clause.

Sentence 22437 follows a previous ruling by the combined sections (Sentence 9140 in 2016), in which the Supreme Court already ruled on the legitimacy of claims made clauses, but leaving some points open:

- first, the claims made clause was an atypical agreement in that it was not envisaged in Italian law;
- precisely because it was not contemplated in Italian law, the validity of the clause always had to be determined by a concrete assessment of the worthiness of the clause itself.

Both problems are resolved by this second combined sections sentence. The Court tackled the issue, confirming the legitimacy of the clause according to a different principle from that of "worthiness", which was at the basis of the 2016 sentence. The combined sections confirmed that the claims made clause is not inherently illegitimate due to the reasons hypothesized by the 8 January 2018 sentence, clarifying that:

- a compensation request can be treated as a "claim" for purposes of the insurance policy;
- since claims made clauses can be treated as "typical agreements," they do not need to be subjected every time to a worthiness assessment pursuant to Art. 1322 of the Civil Code; rather, their legitimacy shall be verified according to their compliance with the already existing sets of provisions envisaging a claims made clause, as well as compliance with the general provisions of Italian law, such as the Civil Code and the Private Insurance Code;
- claims made clauses shall be subject to an assessment of the contract with regard to its practical purposes.

Therefore, claims made clauses and their "declinations" (such as "tail period," "retroactivity," "deeming clause") shall be considered as typical clauses since they have been described in several sets of regulations under Italian law.

Supporting this statement, the Court of Cassation cited several reference provisions as for claims made clauses:

- Law 24/2018 (the Gelli Law) on third-party heathcare insurance;
- Decree Law 138/2011, as amended by Law 124/2014 (the so-called "competition" law) on tail periods for third-party liability coverage for professionals;
- Ministerial Decree of 22 September 2016, implementing Art. 12 of Law 247/2012 (legal profession law).

The combined sections found that Parliament had detected in claims made clause "... basic coordinates, which cannot be amended *in pejus* in the discipline of the contract..." as well as "the protection of the minimum guarantee to avoid coverage voids". These statements would appear to confirm that the currently used claims made clauses are valid, worthy of protection and representing a minimum guarantee allowing the avoidance of "coverage voids" as stated by the Court.

However, according to the Court, the compliance check with the reference regulation does not relieve the insurer of the obligation to perform a contract adequacy check on the practical purpose of the contract itself. It goes without saying that, without any explicit provision, the adequacy assessment shall be carried out by the insurer taking into account the sentences of the Court of Cassation and the general provisions on insurance.

The validity of claims made clauses on third party liability in such areas as products and pollution is still an open question, insofar as the Court was unable to cite a reference set of regulations. In those cases, in light of the principles stated by the Court, the legitimacy of the clauses should in any case be subject, first of all, to a compliance check with the aforementioned special sets of provisions and with the general provisions of the law, as well as with the appropriateness check with the practical purpose of the contract.

MEDICAL MALPRACTICE INSURANCE: MEDICAL THIRD PARTY LIABILITY DATA OVERVIEW

Volume of premiums

In order to provide a correct and comprehensive picture of the technical trends of insurance coverage for medical malpractice policies, ANIA has relied, for the past three years now, on the results of a survey based on data provided by insurance companies to the supervisory authority and to ANIA ([1]).

In 2018, total medical liability premiums amounted to €613 million, or almost 15% of the whole third-party liability business (Figure 1). Premiums rose by 4.8% from the previous year, but the trends of each category of policyholder analyzed were different (Table 1). In 2018 the volume of premiums of public healthcare institutions was 2.5% lower than in 2017 at €265 million, while that of private institutions increased for the fourth consecutive year (+19.3%) to around €115 million, as did premiums of individual policies for healthcare practitioners, which amounted to €233 million (up 7.7%).

([5]) The sectors being surveyed were:
- healthcare institutions: analysis of policies covering institutional liability, differentiated between public and private institutions. This type of policy is subscribed to protect the institution against damage to third parties, obviously including patients, damage due to healthcare actions performed by the institution or personnel, either employees or collaborators. The coverage generally extends to damage caused by the condition of the clinic, such as misuse of equipment, the employer's liability to workers. Up to the ceiling for healthcare activity, also included are structures such as nursing homes, medical labs, diagnostic centers and universities.
- liability of healthcare personnel: the survey covers policies for professional liability of all those working in healthcare (e.g. nurses, paramedical personnel) as well as, obviously, medical professionals, for damage for which the insured party has been ruled wholly or partially liable.

Figure 1
Malpractice premiums over total T.P.L. premiums, 2018

■ *Medical malpractice*

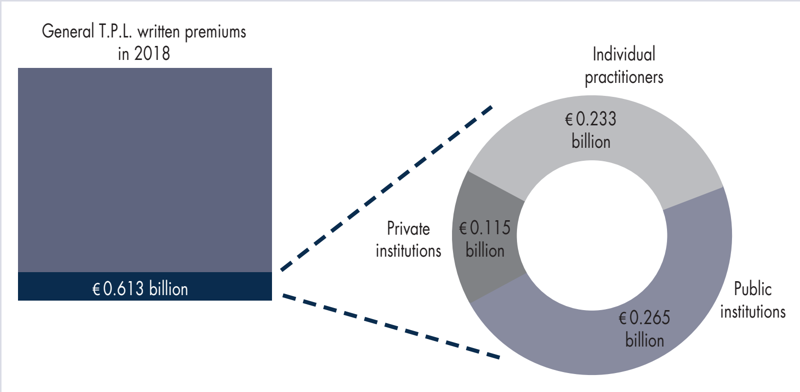


Table 1 – Distribution of malpractice premiums by institution and practitioner (*)
(amounts in thousands of euros)

Year of report	Public institution	Annual % change	% of total	Private institution	Annual % change	% of total	Practitioners	Annual % change	% of total	Total malpractice	Annual % change	% of total
2010	514,398		70%	79,503		11%	140,506		19%	734,408		100%
2011	459,200	-10.7%	63%	103,852	30.6%	14%	169,667	20.8%	23%	732,720	-0.2%	100%
2012	423,828	-7.7%	60%	99,584	-4.1%	14%	184,115	8.5%	26%	707,527	-3.4%	100%
2013	341,847	-19.3%	56%	89,115	-10.5%	14%	184,886	0.4%	30%	615,848	-13.0%	100%
2014	302,931	-11.4%	52%	80,078	-10.1%	14%	196,023	6.0%	34%	579,032	-6.0%	100%
2015	268,372	-11.4%	45%	84,575	5.6%	14%	240,157	22.5%	40%	593,104	2.4%	100%
2016	289,928	8.0%	48%	93,145	10.1%	16%	215,232	-10.4%	36%	598,305	0.9%	100%
2017	271,847	-6.2%	47%	96,142	3.2%	16%	216,404	0.5%	37%	584,394	-2.3%	100%
2018	264,943	-2.5%	43%	114,650	19.3%	19%	233,076	7.7%	38%	612,669	4.8%	100%
Change 2010-2018		-48.5%			44.2%			65.9%			-16.6%	
Average annual change		-8.0%			4.7%			6.5%			-2.2%	

(*) Premium volume for total of insurers doing this business; the technical indicators reported in the tables that follow are from a slightly reduced sample of insurers that supplied data both on premiums and on claims

Number and average cost of claims reported

The first technical element to consider in order to assess the riskiness of a particular segment is the number of claims received by insurance companies every year. For all medical malpractice insurance, the number of claims made in 2018 was around 18,000, of which 5,300 for policies taken out by public healthcare institutions and over 3,200 by private institutions, plus approximately 9,500 from individual practitioners (Table 2).

The total number of claims for overall medical malpractice insurance declined for the sixth consecutive year in 2018 (-5.8% compared with 2017); claims filed by public healthcare institutions diminished by 12.9% and those from private facilities dropped by 11.8%, while those from individual practitioners edged up (+1.1%).

Table 2
Number of claims

Year of report	Public institution	Annual % change	Private institution	Annual % change	Practitioners	Annual % change	Total malpractice	Annual % change
2010	15,828		5,739		11,101		32,667	
2011	14,032	-11.3%	5,141	-10.4%	14,545	31.0%	33,718	3.2%
2012	13,117	-6.5%	4,895	-4.8%	16,269	11.9%	34,281	1.7%
2013	10,881	-17.0%	3,876	-20.8%	16,442	1.1%	31,199	-9.0%
2014	8,591	-21.0%	3,507	-9.5%	15,628	-5.0%	27,726	-11.1%
2015	7,257	-15.5%	3,284	-6.4%	13,389	-14.3%	23,930	-13.7%
2016	5,949	-18.0%	3,082	-6.2%	12,123	-9.5%	21,154	-11.6%
2017	6,037	1.5%	3,680	19.4%	9,425	-22.3%	19,142	-9.5%
2018	5,258	-12.9%	3,244	-11.8%	9,529	1.1%	18,031	-5.8%
Change 2010-2018		-66.8%		-43.5%		-14.2%		-44.8%
Average annual change		-12.9%		-6.9%		-1.9%		-7.2%

Over the period 2010-2018, the total number of claims received for medical malpractice was almost cut in half; from 33,000 to 18,000. This positive trend is mainly attributable to public healthcare facilities leaving the insurance coverage system (in certain regions) in favor of self-insurance of risk, bringing the number of claims down by 67% between 2010 and 2018. Over the same period, claims made by private institutions also diminished (-44%), while those received from individual practitioners fluctuated, recording an increase in 2010-2013, followed by a steady decrease until 2017 when the trend was reversed again; even so, the 9,529 claims lodged that year still represented a 14.2% reduction compared with 2010.

Number of no-payment claims

The medical malpractice insurance business is characterized by a high number of claims made which, after court determination concerning the liability of the professional or of the healthcare institution, do not result in any compensation actually being paid since, in many cases, it is established that the damage was not caused by negligence. More specifically, there has been an exponential increase in the number of criminal and civil proceedings with a view to holding the practitioner or institution liable for events which, instead, cannot be attributed to a mistake made by the physician or bad management by the clinic. This process, which has affected all the developed countries in general, started in the mid-20th century in the United States.

Table 3 shows the situation as at 31 December 2018 of medical malpractice claims that the companies closed without compensation (no-payment claims), according to their year of registration. It is useful to look not mainly at the absolute number of no-payment claims but at their incidence on total claims received.

Looking at the oldest claims (registered between 2010 and 2015), we see that on average at the end of 2018 almost two thirds of all malpractice claims were closed without payment of any compensation.

Interestingly, no-payment claims show a similar trend both for public and private healthcare institutions, although the latter recorded a higher incidence of no-payment claims for the older generations of claims. This could be due to the fact that for healthcare institutions (especially private ones) the phenomenon of duplication of malpractice complaints is more frequent, given that often immediately after the occurrence of the event a claim is made both individually against the personnel involved in the individual case (both medical and non-medical) and against the institution; many of these claims then lapse when the insurance

Table 3
Number of no-payment claims to 31 December 2018

Year of report	Public institution		Private institution		Healthcare personnel		Total malpractice claims	
	No. no-payment claims	% no-payment claims	No. no-payment claims	% no-payment claims	No. no-payment claims	% no-payment claims	No. no-payment claims	% no-payment claims
2010	7,168	45%	3,600	63%	6,640	60%	17,408	53%
2011	7,019	50%	3,272	64%	10,041	69%	20,332	60%
2012	7,276	55%	3,028	62%	11,954	73%	22,258	65%
2013	5,683	52%	2,294	59%	12,123	74%	20,100	64%
2014	4,932	57%	2,121	60%	10,903	70%	17,956	65%
2015	4,186	58%	1,989	61%	9,161	68%	15,336	64%
2016	3,381	57%	1,793	58%	8,184	68%	13,358	63%
2017	2,513	42%	1,769	48%	2,583	27%	6,865	36%
2018	1,463	28%	767	24%	1,711	18%	3,941	22%

company identifies them as a single claim. A more rapid inquiry into claims made against multiple parties for the same incident would help close no-payment claims more quickly for healthcare institutions rather than for individual operators.

Incidence of claims and amounts settled and reserved over total claims by year of registration

The percentages settled (whether by number or by amount) are relatively low for the more recent generations of claims, because both the effective liability of the insured and the value of the damage are generally quite uncertain (Table 4). The older the generation of claims,

Table 4
Malpractice claims settled/reserved to 31/12/2018, % of total

Year of report	Public institution		Private institution		Healthcare personnel		Total malpractice claims	
	No. claims settled %	No. claims reserved %	No. claims settled %	No. claims reserved %	No. claims settled %	No. claims reserved %	No. claims settled %	No. claims reserved %
2010	85.8%	14.2%	78.8%	21.2%	80.9%	19.1%	83.3%	16.7%
2011	82.9%	17.1%	75.8%	24.2%	75.4%	24.6%	79.5%	20.5%
2012	82.0%	18.0%	72.7%	27.3%	72.6%	27.4%	77.4%	22.6%
2013	75.4%	24.6%	66.2%	33.8%	61.5%	38.5%	68.9%	31.1%
2014	61.8%	38.2%	57.9%	42.1%	55.8%	44.2%	58.4%	41.6%
2015	49.3%	50.7%	51.1%	48.9%	45.7%	54.3%	47.7%	52.3%
2016	31.8%	68.2%	40.7%	59.3%	30.3%	69.7%	32.6%	67.4%
2017	22.1%	77.9%	28.2%	71.8%	13.1%	86.9%	18.0%	82.0%
2018	3.3%	96.7%	14.3%	85.7%	4.8%	95.2%	5.9%	94.1%

Year of report	Public institution		Private institution		Healthcare personnel		Total malpractice claims	
	Amounts paid %	Amounts reserved %	Amounts paid %	Amounts reserved %	Amounts paid %	Amounts reserved %	Amounts paid %	Amounts reserved %
2010	77.8%	22.2%	66.9%	33.1%	67.3%	32.7%	74.4%	25.6%
2011	66.7%	33.3%	64.6%	35.4%	61.9%	38.1%	65.4%	34.6%
2012	73.6%	26.4%	62.0%	38.0%	58.2%	41.8%	68.5%	31.5%
2013	65.5%	34.5%	42.6%	57.4%	49.7%	50.3%	58.4%	41.6%
2014	49.4%	50.6%	42.1%	57.9%	36.5%	63.5%	45.2%	54.8%
2015	35.7%	64.3%	28.5%	71.5%	26.7%	73.3%	32.5%	67.5%
2016	18.9%	81.1%	26.1%	73.9%	19.3%	80.7%	19.9%	80.1%
2017	5.7%	94.3%	9.6%	90.4%	11.6%	88.4%	7.6%	92.4%
2018	0.6%	99.4%	2.5%	97.5%	2.9%	97.1%	1.5%	98.5%

the higher the percentages: 9 years after reporting, nearly 17% of claims, for the whole class, remain unsettled, accounting for 25.6% of the amount reserved for that claim generation.

Private healthcare institutions and individual practitioners account for the highest incidence of claims to be settled (by amount) for the "oldest" year of registration (2010); in fact, 9 years after reporting, one third of claims are still unsettled compared with 22% for public institutions. The same trend characterizes the number of claims pending.

Evolution of the average claim cost

Table 5 reports the average cost of claims (paid and reserved) for the three types of policy and by year of registration, showing that the average claim cost tends to increase as the per-

Table 5 – Average cost of claims to 31/12/2018
In euros

Sector	Year of report	No. years after claim								
		1	2	3	4	5	6	7	8	9
Public institutions	2010	37.436	46.829	54.199	59.557	63.109	63.072	63.713	65.643	64.514
	2011	49.340	57.972	62.092	64.310	64.672	64.356	64.295	65.439	
	2012	53.383	69.473	75.079	71.709	73.840	65.329	64.106		
	2013	55.905	65.692	68.468	72.047	71.556	70.718			
	2014	61.797	74.758	85.609	93.665	90.065				
	2015	70.337	99.455	111.609	113.087					
	2016	93.418	111.336	127.324						
	2017	86.175	106.820							
	2018	77.582								
Private institutions	2010	23.215	36.389	44.985	47.554	48.844	49.613	50.230	51.020	54.926
	2011	33.239	41.824	55.037	58.271	60.722	60.205	57.550	59.718	
	2012	39.022	49.665	58.588	61.372	64.160	61.514	62.534		
	2013	40.468	55.177	60.024	57.895	58.892	61.418			
	2014	39.522	49.493	59.662	65.452	63.317				
	2015	33.846	57.353	53.276	55.006					
	2016	41.203	45.930	47.232						
	2017	45.513	59.842							
	2018	42.122								
Healthcare practitioners	2010	21.108	21.101	25.274	30.213	30.764	29.525	29.554	29.718	29.012
	2011	20.449	21.398	29.847	30.705	32.956	33.916	35.466	34.343	
	2012	19.082	21.095	24.995	31.180	33.368	32.180	29.866		
	2013	24.141	25.891	34.897	40.807	39.245	33.320			
	2014	21.397	24.252	28.414	30.462	28.204				
	2015	21.903	19.952	29.508	28.652					
	2016	19.212	22.216	30.206						
	2017	18.067	19.749							
	2018	16.741								
TOTAL MALPRACTICE	2010	30.779	37.927	44.887	49.956	52.594	51.899	52.413	53.713	53.200
	2011	36.482	42.358	50.209	52.451	53.947	54.089	54.401	54.622	
	2012	36.514	45.703	52.215	55.158	57.706	53.088	51.963		
	2013	39.130	45.661	53.265	57.522	56.908	55.191			
	2014	36.823	45.402	54.302	58.934	57.073				
	2015	38.819	47.896	59.282	60.699					
	2016	43.938	51.869	66.188						
	2017	41.438	51.595							
	2018	37.216								

centage settled rises and the data are consolidated (it is worth stressing that the amount takes only direct claim costs into account, leaving indirect costs out).

At first, in fact, insurers often underestimate the cost of claims, because the evaluation of physical impairment is complex and adequate information is commonly not available immediately after the occurrence of the event. This is compounded by uncertainty in evaluating damages owing to frequent changes in court rulings in this field. For instance, for claims made against public healthcare institutions in 2010, insurance companies registered an average claim cost of €37,000. Three years later, the cost was 60% higher, at around €60,000, and it continued to rise further to €65,000 at the end of 2018 to end at what would seem to be the presumed “latest” average claim cost for that generation of claims.

Private healthcare facilities registered a similar, and in some years more marked, trend, as did individual practitioners, although to a lesser extent. The average claim cost 9 years after registration for claims made in 2010 was lower (around €55,000) for private healthcare institutions and more than halved (€29,000) for individual practitioners.

Loss ratios

The high settlement costs (rising over time) have produced extremely negative results for the sector’s technical account, hence high loss ratios. As with other business segments, for a correct assessment of the performance of medical liability insurance we must also examine the loss ratio (claims in relation to premiums).

Table 6 gives medical malpractice insurance loss ratios for the whole sector and separately for healthcare institutions and individual practitioners, for the various claims generations.

At 31 December 2018, the average loss ratio for all generations was practically 100% or more.

However, when observing the three technical indicators separately, public and private healthcare institution coverage presents the higher ratios and has a greater impact on the overall industry trend. For the 2010-2012 claims generations, private institutions recorded the worst technical results. Especially in the more recent years (2013-2018), public healthcare institutions registered the highest loss ratio, between 110% and 147% on average, but given their greater impact (in terms of number of claims and premiums), their loss ratio influences the indicator of the whole class. For individual practitioners’ policies, on the contrary, the loss ratio has shown some improvement starting with the 2014 generation, with values under 100%. Nonetheless, fewer than a third of claims of this generation have been settled and it may be too early to quantify the actual loss ratio.

Table 6 – Malpractice loss ratio to 31/12/2018

Sector	Year of claim	No. years after claim								
		1	2	3	4	5	6	7	8	9
Public institutions	2010	114.4%	121.7%	120.0%	115.8%	115.0%	113.3%	111.9%	115.2%	107.0%
	2011	130.3%	135.6%	125.1%	116.9%	113.1%	109.7%	107.7%	103.0%	
	2012	127.5%	140.8%	128.5%	117.8%	117.3%	101.7%	96.6%		
	2013	143.5%	142.2%	130.0%	125.5%	119.6%	115.7%			
	2014	130.9%	145.4%	135.7%	128.6%	115.8%				
	2015	127.0%	150.5%	143.3%	125.7%					
	2016	121.8%	134.1%	129.1%						
	2017	129.4%	147.1%							
	2018	109.8%								
Private institutions	2010	130.0%	158.2%	163.3%	154.7%	146.6%	144.5%	146.4%	149.8%	160.8%
	2011	129.1%	137.0%	134.8%	126.3%	124.3%	120.4%	104.9%	106.9%	
	2012	144.9%	150.9%	147.0%	140.6%	138.8%	117.6%	112.6%		
	2013	136.6%	155.1%	146.5%	129.8%	111.1%	105.1%			
	2014	139.8%	143.8%	150.5%	128.3%	112.6%				
	2015	106.0%	137.6%	115.4%	96.3%					
	2016	106.8%	99.6%	83.7%						
	2017	118.2%	122.2%							
	2018	95.4%								
Healthcare practitioners	2010	98.2%	102.5%	96.8%	98.8%	90.2%	90.5%	86.2%	83.9%	80.8%
	2011	96.1%	97.7%	105.0%	91.8%	90.4%	88.5%	85.8%	82.0%	
	2012	89.0%	93.9%	85.6%	86.5%	85.4%	71.9%	61.8%		
	2013	116.4%	118.9%	113.3%	110.4%	97.4%	72.9%			
	2014	115.3%	108.5%	91.2%	83.7%	66.1%				
	2015	76.0%	68.2%	71.0%	55.7%					
	2016	67.8%	72.5%	62.7%						
	2017	67.4%	65.5%							
	2018	56.6%								
TOTAL MALPRACTICE	2010	113.2%	122.4%	120.8%	117.1%	114.1%	112.7%	111.2%	113.5%	108.4%
	2011	122.5%	127.3%	122.0%	112.6%	109.7%	106.5%	102.4%	98.9%	
	2012	119.9%	129.9%	119.9%	112.8%	111.9%	96.1%	89.8%		
	2013	134.3%	137.0%	127.3%	121.6%	111.7%	101.3%			
	2014	127.0%	133.0%	123.0%	113.7%	98.9%				
	2015	103.8%	116.0%	110.8%	93.9%					
	2016	100.7%	107.6%	99.4%						
	2017	104.8%	113.3%							
	2018	87.2%								

THIRD-PARTY FINANCIAL LIABILITY INSURANCE OF OFFICIALS IN THE AWARD PROCEDURES OF CALLS FOR PUBLIC TENDERS

In the public tender sector, where officials must make specific decisions in the awarding of a tender, the fear of a challenge at the State Audit Office against the public employee regarding a potential loss to the public treasury, can turn into an obstacle in the public procurement procedure. Therefore, an analysis has been carried out, especially as far as insurance coverage is concerned, to determine whether the decision making process is actually slowed down and whether those causes can be removed with more and broader insurance coverage.

It is worth recalling that the 2008 budget law introduced a general ban for general government bodies on subscribing policies covering "gross negligence", envisaging the cancellation of those insurance policies and severe economic penalties in case of non-compliance. Therefore, the burden of the insurance premium is exclusively on the individual public employees who, however, have no obligation to subscribe policies.

After an initial analysis, the risk of a "gross negligence" conviction for a public employee has increased, but the possibility is still relatively remote, since it only occurs when a "gross, macroscopic and inexcusable" error is ascertained.

In any case, the factors negatively affecting the insurance coverage of public officials are:

1) availability, or lack thereof, of an appropriate insurance offer for the needs of a public official in charge of the award procedure;
2) awareness on the part of the public officer of the exposure to the risk of loss of "gross negligence" in a loss to the public treasury.

As for the availability of an appropriate insurance offer, a survey on some of the most important market operators showed an adequate presence of specialized products, also known as PO – Public Officials liability policies, even though most of them are marketed by foreign insurance operators, while the offer of Italian companies is quite limited.

In any event, these products offer adequate characteristics for the purpose of coverage against the aforementioned risks together with limited costs – even though there is a degree of variability according to the risk exposure related with the position in the public administration, the maximum coverage and the pricing autonomy of companies. This confirms that the coverage is characterized by a limited degree of risk.

Moreover, unlike other branches of the public administration, there is a high level of awareness in public procurement about risks and risk exposure of the officials in charge of the award process.

Finally, the most critical issues are fear of reputational loss – not financial loss, which, as mentioned above, is very rare and limited in amount by specific legal protections of public officials – and the risk of a criminal indictment which, even if it does not translate into a conviction, forces the official to stand trial and to pay high legal costs. It is no accident, then, that legal expense coverage has costs that vary considerably but are in any case much higher than those of "gross negligence" coverage.

Therefore, it would be desirable to find a solution for these problems, as by introducing "third party" liability coverage for the employee paid by the tendering entity, possibly with legal expense coverage. Furthermore, this hypothesis has also been suggested by the Council of State with Opinion 2163/2017, which is in line with what has been introduced in the healthcare sector by Law 24/2017 envisaging the obligation for public and private institutions to insure their employees with "third-party" liability policies.

REGULATORY CHANGES

New provisions on purchasers of properties to be built

On 14 February 2019, Legislative Decree 14 of 12 January 2019 was published in the *Gazzetta Ufficiale*, instituting the Code of business crisis and insolvency in implementation of Law 155 of 19 October 2017. The provisions affecting the insurance sector in particular are Articles 385 and 386 amending Articles 3 and 4, respectively, of Legislative Decree 122/2005 containing "Provisions for the protection of the financial rights of purchasers of real estate properties to be built, pursuant to Law 210 of 2 August 2004".

Art. 385 envisages the issuing of a surety protecting the advance payments paid by the purchasers of real estate properties for construction, which can be enforced if one of the two following conditions occur:

- the building company enters a situation of crisis envisaged by Art. 3(2) of Leg. Dec. 122/2005, having met the requirements set by paragraph 1, lett. b) item a);
- from the date in which the notary public certifies the non-reception, upon the act of property transfer, of the 10-year post-construction policy, where the policyholder has notified their intention to withdraw from the preliminary contract.

The surety ends when the guarantor receives from the building company, or other policyholder, a copy of the deed transferring the property or any other real right of use of the property.

Art. 386 provides that the delivery of the 10-year post-construction policy, protecting the purchaser in case of any defect in the building for ten years after the purchase, must be given by the construction company to the purchaser when the property is transferred and can only be enforced by the purchaser. These provisions envisage that, within 90 days of the entry into force, the following shall be adopted:

- a decree by the Minister of Justice, in concert with the Minister of Economy and Finance, setting the standard surety template;
- a decree by the Minister for Economic Development, together with the Minister of Justice and the Minister of the Economy and Finance, setting contents, characteristics and standard template of the ten-year post-construction compensation policy. Furthermore, the deed of property transfer must include the details of the policy and the compliance with the standard policy template.

In any case, the law provides that, pending the adoption of the decrees, the contents of the surety and the ten-year policy must be agreed by the parties pursuant to Articles 385 and 386.

Submission of the new customs policy texts

In 2018, with the contribution from an internal working group, ANIA cooperated with the representatives of the Customs Agency in order to draft two shared policy texts regarding the European Union Customs Code, which entered into force in 2016.

Policy texts were published on the Customs and Monopolies Agency website in December 2018, together with an explanatory circular letter.

Implementation decree on the insurance obligation of accredited certification entities

In 2018, ANIA cooperated with the Ministry for Economic Development in drafting the implementation decree on the insurance obligation of accredited certification entities. Among the most important provisions of the decree is the 3-year tail period clause in case of closure of the entity. The lowest coverage ceiling per claim amounts to €2,500,000. The Decree was published on the website of the Ministry on 21 May 2018.

7

HUMAN RESOURCES AND LABOR

STAFF AND LABOR COSTS

Personnel make-up and costs: the statistics

At the end of 2018 the Italian insurance industry's managerial and non-managerial staff numbered 46,197, down 0.8% from a year earlier, when total staff came to 46,558.

The contraction was partly due to significant ongoing corporate restructuring and reorganization that affected employment.

ANIA produced this estimate for the entire industry, which includes some 4,000 employees of subsidiaries covered by the insurance industry labor contract, using data from a sample of companies accounting for about 85% of total insurance employment.

Staff comprises administration personnel (37,351 employees), dealers and organization staff (5,124), contact center staff (2,386) ([1]), and managers (1,336).

For the entire industry, the number of men employed slipped by 1.3%, more than that of women (down 0.6%).

At the end of the year female personnel accounted for 46.8% of the total, essentially the same as a year earlier. About 48% of all insurance employees are now university graduates, whereas 47% have upper secondary school diplomas.

The total cost of staff (administration staff, managers and contact center personnel but excluding dealers and their organization staff) amounted to €3,824 million in 2018, 0.8% less than the previous year. The increase due to the raises for non-managerial employees under the new collective bargaining agreement was more than offset by the decline in their numbers and by lesser costs sustained by insurers for early retirement incentives. The per capita cost ([2]) for these employees came to €92,740, virtually the same as in 2017 (-0.2%).

However, the total cost for dealers and related staff came down by 2.3% during the year to €278 million, owing above all to the decline in commissions, which decreased by 5%. Their per capita costs accordingly came down by 1.1% to €54,172 in 2018.

For the entire industry – i.e. administration and managerial staff, contact centers, and dealers and their organizational staff – the companies' total labor costs shrank by 0.9% in 2018 to €4,103 million, while per capita costs remained broadly stable (-0.2%) compared to the previous year at €88,465.

([1]) Contact center staff is subdivided into contact center operations employees (formerly called "call center, first section") numbering 1,496, and contact center sales employees (formerly called "call center, second section") numbering 890.
([2]) As usual, to enhance the statistical significance of the data, per capita labor costs are calculated as the total staff cost for a given year over the average number of employees in service during that year and the previous one.

HUMAN RESOURCES AND LABOR

Number of staff

Year	Administrative (*)	Dealers	Total
2008	41,479	5,352	46,831
2009	41,881	5,488	47,369
2010	41,730	5,456	47,185
2011	42,193	5,284	47,477
2012	42,498	5,214	47,712
2013	42,747	5,189	47,936
2014	42,199	5,253	47,452
2015	41,536	5,218	46,754
2016	41,598	5,252	46,850
2017	41,402	5,156	46,558
2018	41,073	5,124	46,197

(*) Administrative, contact center and managerial staff

Total staff costs
Euro million

Year	Administrative (*)	Dealers	Total
2008	3,118	273	3,390
2009	3,142	261	3,403
2010	3,192	263	3,456
2011	3,284	267	3,551
2012	3,478	262	3,740
2013	3,635	262	3,897
2014	3,742	274	4,016
2015	3,735	292	4,027
2016	3,832	287	4,119
2017	3,857	285	4,142
2018	3,824	278	4,103

(*) Administrative, contact center and managerial staff

Change in total staff costs (from the previous year)
(%)

Year	Administrative	Dealers	Total
2008	4.9%	-1.6%	4.3%
2009	0.8%	-4.2%	0.4%
2010	1.6%	0.7%	1.6%
2011	2.9%	1.5%	2.7%
2012	5.9%	-1.7%	5.3%
2013	4.5%	0.0%	4.2%
2014	3.0%	4.3%	3.0%
2015	-0.2%	6.6%	0.3%
2016	2.6%	-1.7%	2.3%
2017	0.6%	-0.6%	0.6%
2018	-0.8%	-2.3%	-0.9%

Change in per capita staff costs (from the previous year)
(%)

Year	Administrative	Dealers	Total
2008	4.6%	-3.8%	3.8%
2009	-0.1%	-7.2%	-0.8%
2010	1.3%	-0.2%	1.2%
2011	2.5%	3.4%	2.6%
2012	5.0%	0.5%	4.8%
2013	3.8%	0.9%	3.7%
2014	3.3%	3.9%	3.3%
2015	1.3%	6.3%	1.5%
2016	3.3%	-1.7%	2.9%
2017	0.8%	0.0%	0.8%
2018	-0.2%	-1.1%	-0.2%

LABOR REGULATIONS AND THE INDUSTRY SOLIDARITY FUND

Last year ANIA's activities of support and advice to insurers again included labor issues, illustrating and explaining the laws and regulations that were enacted.

In particular, the so-called Dignity Decree (transposed into law in August 2018) introduced significant changes in labor legislation, governing, among other things, fixed-term employment contracts, temporary staff leasing and total social security contribution relief to promote youth employment.

With regard to fixed-term employment, the law established a new maximum term (24 months) for fixed-term contracts (including any extensions) and temporary work with the same employer through successive contracts (so-called renewals) to perform tasks falling within the same job grade and legal category.

Furthermore, to regulate the use of fixed-term contracts more strictly, the law reinstated a rule on the reasons for which employers can legitimately have recourse to temporary contracts, laying down that for contracts longer than 12 months (extensions included) a reason among those specifically envisaged by the law must be specified.

ANIA promptly provided clarifications and specific information (confirmed by an end-October circular of the Ministry of Labor and Social Policy commenting on the legislation) on the provisions – which do not apply in any case to seasonal employment, which assistance/insurance companies also offer – and on the introduction, in transposition of the decree into law, of a limited "transitory regime" for fixed-term employment contracts and temporary employment. With this document the Ministry confirmed the possibility of derogation, via collective bargaining agreement, from the maximum total duration of fixed-term contracts plus renewals, and specified that the terms contained in the collective agreements signed prior to the law's entry into force (for instance, the February 2017 agreement for non-managerial employees of insurance companies) shall remain effective until their expiry.

Clearing up doubts on the interpretation of the provisions, this specification indicates that companies in the insurance industry that apply this collective bargaining agreement may still stipulate fixed-term contracts with the same employee up to a maximum duration of 36 months (until 31.12.2019 and without prejudice to the provisions on the mandatory reasons).

The Ministry's circular confirmed ANIA's initial interpretation and specified that the legislative amendments enacted by the Dignity Decree do not in any way concern open-ended staff leasing.

The 2019 budget law enacted last December introduced substantial social contribution relief for the hiring of workers under 35 (or older but with no regular paying job in at least the last 6 months) to permanent contracts in the southern regions, as well as other measures on mandatory paternity leave, smart working and benefits to encourage reintegration and employment for workers with disabilities.

During 2019, the Italian government issued a law containing "urgent provisions on citizenship income and early retirement, and other measures on pensions." ANIA provided a summary and detailed comments also on this legislation. The law introduced, as of April 2019, a program of "citizenship income" as a "fundamental measure of active labor policy" which the government adopted "as a guarantee of the right to employment, the fight against poverty, inequality and social exclusion", specifying the residency and citizenship requirements, the socio-economic, income and wealth requirements for eligibility for this social benefit, whose amount for the individual recipient is €780 per month. Of most direct interest to firms are the incentives for the hiring of recipients of citizenship income, essentially social contribution relief for the employer up to the amount of the citizenship income.

As for pensions, the law introduced a second type of "early retirement" called "quota 100", on an experimental basis for the three-year period 2019-2021, available to applicants fulfilling the following two requirements: at least 62 years of age (the age requirement will be progressively adjusted for increases in average life expectancy) and a minimum of 38 years of social contributions paid. This is not a structural measure and, therefore, abrogates neither the old age pension nor the existing early retirement pension, the latter being based only on social contributions paid for a minimum of 42 years and 10 months for men and 41 years and 10 months for women. The requirements for these categories of pension will not be adjusted (at least until 31 December 2026) to the "increases in life expectancy".

To mitigate the financial impact of these measures, the government reinstated, except for the old age pension, the "moving windows" mechanism, delaying (for private sector employees) the time at which pensions become payable (either with early retirement or "quota 100") by three months.

Based on the provisions of this legislation and the practical instructions published by INPS, ANIA provided helpful clarifications to insurers on the possible impact of the new pension measures on the extraordinary benefits of the joint solidarity funds (such as the ANIA/AISA Intersectoral Solidarity Fund), recalling that these funds can still provide an extraordinary allowance to workers who will become eligible for "quota 100" by 31 December 2021. However, this allowance may only be granted when there are specific company-level bargaining agreements to guarantee employment levels by fixing, as a precondition for drawing on the Solidarity Fund, the number of workers to be hired to replace those receiving the allowance.

The Intersectoral Solidarity Fund for income support, jobs, occupational reconversion and requalification for employees in insurance and social assistance (ANIA/AISA Fund)

As to the Intersectoral Fund's activity, in 2018 some insurance companies and groups involved in major corporate reorganization and restructuring with an impact on jobs had recourse to both ordinary and extraordinary benefits to fund professional training and retraining programs for the employees directly affected by such operations.

Long Term Care Fund

The activity of the Board of Directors of the LTC Fund to ensure payment to eligible beneficiaries continued also throughout 2018.

LABOR RELATIONS AND COLLECTIVE BARGAINING, INDUSTRY-WIDE AND COMPANY-LEVEL

Collective bargaining agreement for managerial personnel of insurance companies

On 2 July 2018 ANIA and FIDIA signed the renewal of the collective bargaining agreement for the managerial personnel of insurance companies.

This agreement – concluded through negotiations that began in May 2018 – was the object of specific communications and informative notes to insurance companies. It significantly modifies the old agreement; the parties concurred on more streamlined regulation adapted to changing organizational needs. The agreement finds a meeting ground between the companies' need for operational flexibility and the trade unions' platform of demands.

The key points in the agreement are:

- elimination of the "two grades" for managerial staff and suppression of the relevant seniority raises;
- new regulation on payments in lieu of unused holiday time for past years;
- redefinition of the additional allowance in case of recourse to arbitration;
- introduction of certain fringe benefits;
- updating of the provisions on permanent disability and supplementary healthcare contributions;
- regulation of grievance procedures (individual labor disputes);
- framework agreement on incentives for early retirement of managerial staff close to retirement age.

The new collective bargaining agreement, effective as of the date of stipulation, runs to 30 June 2022, with tacit renewal for another 4 years unless one of the parties revokes it at least three months prior to its termination date.

Joint declaration on gender-based harassment and violence at the workplace

On 14 June 2019, ANIA and the trade unions – First-Cisl, Fisac-Cgil, Fna, Snfia and Uilca – signed a Joint Declaration which, referring specifically to national and European legislation, adopts the definitions of gender harassment, sexual harassment and gender violence. The Declaration specifically states that with a view to ensuring the respect of workers' dignity and professionalism, any act of gender-based harassment or violence at the workplace, either physical or psychological, is unacceptable and must be reported and properly investigated and punished, while at the same time providing support to the victims. Protecting the privacy of all the parties involved, shielding them from any retaliation and penalization, is of tantamount importance. The parties pledged to work for the greatest possible dissemination of the Declaration, urging all companies and workers to apply its principles and safeguards.

The Declaration is the fruit of a positive collaboration of unions and employers within the insurance industry's National Committee for Equal Opportunity, which has recently resumed its work and whose aims include promoting and fostering a culture of equal opportunity at the workplace.

Agreements with trade unions on corporate reorganization and restructuring

Throughout 2018 ANIA continued to provide consulting and support to insurance companies in relation to corporate and group reorganization and restructuring, above all as regards compliance with the procedures for negotiation with the trade unions laid down in the industry-wide bargaining agreement. In a good many cases, the talks resulted in agreements with the trade unions preliminary to recourse to the benefits of the ANIA/AISA Solidarity Fund.

Formation of working groups within the Standing Industrial Relations Committee

Following the agreement reached with the national secretariats of the industry's trade unions on the occasion of the conclusion of the Coordinated Text of the Collective Bargaining Agreement of 22 February 2017, the two sides concurred on forming a series of joint working groups, with union and employer representatives plus ANIA's Industrial Relations Department.

<u>Working group on insurance/assistance companies</u>: charged with examining industry-specific labor issues and, where possible, laying the ground for progressive harmonization with the provisions of the collective bargaining agreement for non-managerial insurance staff.

<u>Working group on contractual job description of staff</u>: charged with analyzing the current rules on job descriptions for non-managerial staff in the industry and assessing – preliminary to the next contract renewal – whether they require updating and/or modification. In the course of the group's meetings, the parties agreed to promote dialogue and in-depth study on the subject, through an ad hoc workshop organized by Enbifa (National joint organization for insurance training).

Working group on out-of-workplace union benefits: charged with redefining the way in which employees can enjoy leave of absence on trade union business, with a view to simplification and streamlining, also in terms of IT.

Working group on equal opportunity, diversity and inclusion: charged with updating, examining and broadening the studies on the subject carried out in recent years by the industry's National Committee for Equal Opportunity.

THE SOCIAL DIALOGUE

Workshops sponsored by Enbifa

Throughout the year, the National Joint Organization for Insurance Training – Enbifa – sponsored a series of interesting initiatives to foster the insurance industry "business-labor dialogue" through the organization of events and meetings focused on a variety of issues related to human resources and work organization.

In particular, the workshop "The Insurance World and the Metamorphosis of Society", held in June 2018 with representatives of insurers and trade unions present within the companies, opened a debate on how work has changed, specifically in the insurance industry, and the transformations now under way, both in terms of business organization and of technological innovation, and modes of working that have an impact on this industry.

In November, a second conference was held at the Scuola Superiore Sant'Anna in Pisa, titled "Workers over 50, a resource for companies", providing an opportunity to examine issues relating to these older workers and possible management tools to encourage "active aging" within the companies.

The panel of speakers included representatives of the HR departments of insurance companies and of the national trade union secretariats, as well as experts in corporate organization, economists, and labor law specialists.

The Insurance Sectoral Social Dialogue Committee

In 2018 the social partners at European level, after underwriting the "Joint Declaration on the social effects of digitalization in the insurance market and its effects on employment relationships", signed the follow-up implementation agreement.

Meanwhile, the Insurance Sectoral Social Dialogue Committee proceeded with its examination of the issue through studies and reports by EU member state insurance undertakings, focusing mainly on new occupations emerging within the insurance market and on work methods. In this context, corporate best practices on smart working and, more in general, on work-life balance reconciliation were also illustrated.

TRAINING – JOINT INTERINDUSTRY FUNDS

Banking and insurance fund (FBA)

The banking and insurance fund continued its training activities in 2018 with the publication of four separate notices of funding available for company, sector, local and individual training plans for smaller companies.

The table below summarizes the funding approved by FBA for insurers.

Funding approved by Fondo Banche Assicurazioni for insurers, notices issued in 2018

Notice	No. Applicants	Endowment	FBA grants	No. Workers involved	Type of plan
Notice 1/2018 (in course of execution)	28	€ 45,000,000,00	€ 6,681,847.00	31,525	General
Notice 2/2018 (open)	17 (1)	€ 4,000,000.00	€ 386,417.47 (1)	Data not yet available (2)	Individual plans
Notice 3/2018 (in course of execution)	32	€ 10,000,000.00	€ 4,286,003.20	16,136	General

Source: FBA – Area Valutazione e Monitoraggio Piani – data at 15 March 2019

(1) Applications submitted through 15 March 2019. The amount may increase before the notice is concluded
(2) The data on male and female workers will become available once the insurance companies complete their financial reports on the individual plans

Joint interprofessional fund for life-long training (Fondir)

In 2018, Fondir too organized its activities to improve the skills of managerial staff in the services sector, with the activities for Year 2017, Notice 1/2017 and Notice 1/2018.

The amount allocated to the insurance industry for Year 2017 was nearly €600,000 to finance company and individual training plans. Applications were received and granted for over €225,000.

The amount allocated to the insurance industry for Notice 1/2017 was over €965,000. Applications were received and granted for over €390,000.

The amount allocated to the insurance industry for Notice 1/2018 was €800,000 to finance company and individual training plans. Applications were received and granted for nearly €90,000.

For Year 2017 the program involved 23 insurance companies, with 10 company projects and 25 individual plans started. Three quarters of the training activities were in-classroom; 55% were on language training and 40% on the development of personal skills.

Year 2017 Company and individual plans in the insurance industry

Insurance companies involved	Type of company plan	Type of individual plan	Teaching method (%)	Subjects taught (%)
23	10	25	Classroom 75% Coaching 10% Outdoor training 7% Synchronized E-learning 5% Non-Synchronized E-learning 3%	Foreign language 55% Personal skills development 40% Business management 5%

Source: Based on Fondir data at 5 March 2019

Twenty-eight companies applied for Notice 1/2017; of the 46 plans started, 23 were one-to-one, 21 seminars/workshops/conferences and 2 advanced training/master courses.

Notice 1/2017 Bulletin Board – Insurance industry

Companies involved	Fondir Bulletin Board 2017	One-to-one courses	Seminars Workshops Conferences	Advanced training Master Courses
28	46	23	21	2

Subjects taught	Teaching method
Foreign language 50% Personal skills development 26% Business management and administration 24%	One-to-one 50% Seminars/Workshops/Conferences 46% Advanced training/Master Courses 4%

Source: Based on Fondir data at 5 March 2019

Last year, instead, the program for Notice 1/2018 involved 5 insurance companies, with 5 company and 3 individual projects.

8

INSURANCE DISTRIBUTION

INSURANCE DISTRIBUTION

In 2018, the share of life premiums written through banks and post office branches remained virtually unchanged, whereas the shares accounted for by brokers and direct marketing continued to grow.
In the non-life sector, agents continued to be the main form of insurance distribution, although their share declined again, to the benefit of other channels. An ANIA study based on data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) has shown that insurance company figures underestimate the importance of brokers in the non-life sector.

LIFE INSURANCE

In 2018 life premiums increased (+3.5%), after two consecutive years of contraction. More specifically, premium income produced by bank and post office branches started to grow again, with a positive trend registered also by direct marketing and, although for smaller volumes, by brokers.

In particular, after the decline registered in the two previous years, in 2018 bank and post office income showed an uptrend (+3.2%) just under the industry's average (+3.5%) and a market share in line with 2017 at 61%, thus remaining the market leader for life business. Over five years, however, the average annual change is still negative at -2.5% (Table 1).

The volume of life premiums sold by financial salesmen dropped by 3.9% compared with 2017, when it had gained 3.4% after the drastic decline of 2016 (-22.0%).Their percentage weight thus slipped to 13.9%, almost the same as in 2016, thus confirming their position as second-leading channel for the marketing of life policies, with an average of 15% over the five-year period.Written premiums sold through insurance agents declined for the third consecutive year (-1.8%), with a negative impact on their market share which went from 14.3% in 2016 to 13.9% in 2017 and 13.2% in 2018.

Table 1 – Breakdown of distribution channels for the 2014-2018 observation period – Life classes

CHANNEL	Gross written premiums (Euro million)					Market share (%)					Average	Annual change (%)					Average change (%)
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	(2014-2018)	2014	2015	2016	2017	2018	(2014-2018)
Bank branches (1)	68,997	72,929	64,294	60,425	62,382	62.4	63.4	62.9	61.3	61.1	***62.2***	36.7	5.7	-11.8	-6.0	3.2	***-2.5***
Financial salesmen	18,066	18,306	14,276	14,759	14,182	16.3	15.9	14.0	15.0	13.9	***15.0***	29.0	1.3	-22.0	3.4	-3.9	***-5.9***
Agents	14,121	14,684	14,669	13,699	13,457	12.8	12.8	14.3	13.9	13.2	***13.4***	15.0	4.0	-0.1	-6.6	-1.8	***-1.2***
Direct sales	8,709	8,434	8,358	8,789	10,182	7.9	7.3	8.2	8.9	10.0	***8.5***	15.3	-3.2	-0.9	5.2	15.8	***4.0***
Brokers	626	594	659	939	1,833	0.6	0.5	0.6	1.0	1.8	***0.9***	-21.5	-5.1	10.9	42.4	95.3	***30.8***
TOTAL	110,518	114,947	102,257	98,611	102,036	100.0	100.0	100.0	100.0	100.0	***100.0***	29.9	4.0	-11.0	-3.6	3.5	***-2.0***

(1) Data for this channel includes premiums distributed by post office branches

Direct sales, which include not only the Internet and telephone channels but also policies marketed through tied agencies, showed a sharp increase (+15.8%), thus contributing to the expansion of their market share, which now accounts for 10% of the whole life business.

With extremely marginal premium income, but doubling from the previous year, brokers intermediated nearly 2% of life premiums.

By type of product (Tables 2 and 3), Class I products (traditional life insurance policies) surged by 5.4% on 2017, as business done by all the main channels increased; in particular: banks and post offices grew by 2.8%, thus accounting for 64.3% of the total, followed in terms of percentage weight by agents (15.3%), whose market share increased only slightly, and direct sales, which account for 9.8% of Class I premiums and expanded by 3.3% on 2017). However, since these channels grew less than the Class average, their market share shrank compared with the previous year, to the benefit of financial salesmen and brokers, who with respective growth of 37.4% and 57.2% increased their shares from 7.0% and 1.0% in 2017 to 9.1% and 1.6% in 2018.

Class III (unit and index linked policies), instead, declined (-4.5%), mainly as a result of the 21.9% drop in premiums sold by financial salesmen, whose share thus went down from 32.6% in 2017 to 26.7% in 2018, to the benefit of all the other channels. In particular, premium income through banks and post offices went up from 56.9% in 2017 to 61.4% in 2018, the share of direct sales increased from 2.2% to 3.5% and that of agents from 8.1% to 8.4%.

As for capital redemption policies (Class V), there was nearly a 50% expansion in 2018 thanks to a growth across all channels, with the exception of agents, whose share dropped by 15 percentage points from 27.5% to 11.8% to the benefit of direct sales and brokers. Both of the latter outperformed the class average, with growth of 76.9% and 254.4% respectively, thus increasing their shares from 40.9% to 48.5% and from 7.8% to 18.5%. The volume of premiums written by the other channels also increased. In particular, bank and post office branches (+33.7%) sold 20% of total Class V policies, followed by financial salesmen who grew by 13.3%, although they account for just 1% of the market.

Class VI products (pension funds) registered an overall premium growth of 7.8% on 2017, thanks to a positive performance in all channels (except for brokers). The predominant channel continues to be direct sales, accounting for over 40% of total premiums/contributions, despite growing less than the market average (+6.3%), whereas the growth of bank and post office branches and financial salesmen was greater than the average, thus expanding their market shares marginally from 33.2% to 34.0% and from 7.8% to 8.0% respectively.

As for individual retirement plans, premiums/contributions generated grew by 4.2% for the total market, as a result of the performance of all channels. In particular, agents continue to be the main distribution channel, although they grew (+1.9%) less than the class average, thus bringing their market share down to 35.3% from 36.1% in 2017. The importance of bank and postal marketing and financial salesmen is virtually unchanged at 30.4% and 18.3%, with growth of 3.7% and 4.4% respectively, in line with that of the total market. Premiums written by direct sales increased their share slightly from 14.9% to 15.7%, outpacing the class average with growth of 10.2%.

Table 2
Breakdown of life market by class and distribution channel (%)

Class	Agents	Brokers	Bank branches (1)	Financial salesmen	Direct sales	Total
			YEAR 2018			
I - Life	15.3	1.6	64.3	9.1	9.8	100.0
III - Investment funds	8.4	0.1	61.4	26.7	3.5	100.0
IV - Health	33.9	43.1	19.1	0.0	3.9	100.0
V - Capitalization	11.8	18.5	20.2	1.0	48.5	100.0
VI - Pension funds	16.6	1.3	34.0	8.0	40.2	100.0
Individual retirement policies (2)	35.3	0.3	30.4	18.3	15.7	100.0
TOTAL LIFE	13.2	1.8	61.1	13.9	10.0	100.0
			YEAR 2017			
I - Life	16.1	1.0	65.9	7.0	10.0	100.0
III - Investment funds	8.1	0.1	56.9	32.6	2.2	100.0
IV - Health	28.7	43.0	22.6	0.0	5.7	100.0
V - Capitalization	27.5	7.8	22.6	1.3	40.9	100.0
VI - Pension funds	16.7	1.6	33.2	7.8	40.7	100.0
Individual retirement policies (2)	36.1	0.3	30.5	18.3	14.9	100.0
TOTAL LIFE	13.9	1.0	61.3	15.0	8.9	100.0

Table 3
Change (%) in life premium volume by class and distribution channel 2018/2017

Class	Agents	Brokers	Bank branches (1)	Financial salesmen	Direct sales	Total
I - Life	0.3	57.2	2.8	37.4	3.3	5.4
III - Investment funds	-2.1	49.1	3.0	-21.9	47.6	-4.5
IV - Health	44.5	22.5	3.3	0.0	-16.9	22.2
V - Capitalization	-35.8	254.4	33.7	13.3	76.9	49.3
VI - Pension funds	7.4	-10.5	10.2	10.0	6.3	7.8
Individual retirement policies (2)	1.9	21.4	3.7	4.4	10.2	4.2
TOTAL LIFE	-1.8	95.3	3.2	-3.9	15.8	3.5

(1) Data for this channel includes premiums distributed by post office branches
(2) Individual retirement plan premiums (written as per Article 13, paragraph 1(b) of Legislative Decree 252/2005) are a subgroup of individual policies in Class I (life) and Class III (investment funds)

NON-LIFE INSURANCE

In 2018, non-life business confirmed the uptrend registered last year, after a five-year decline, gaining 2.3% on 2017.

The agency network confirms its position as main distribution channel for the collection of premiums in the non-life sector, although its market share declined progressively from 79.3% in 2014 to 75.3% in 2018, as a result of negative average growth (-1.1%) over the five years despite an upturn to +1.0% in 2018 (Table 4).

Brokers, with 4.6% growth in the volume of premiums, remain the second-leading channel for the non-life sector and continue to increase their percentage weight progressively from 8.7% in 2014 to 9.5% in 2018.

Furthermore, this share is underestimated, insofar as a significant portion of the premium income they generate (around 23.4% of the entire market) is presented to the insurance companies not directly by the brokers but via agencies. Taking this into account, the non-life premiums intermediated by brokers amounted to €10.9 billion (€3.2 billion in the official statistics) or to 32.9% of all non-life premiums (9.5% in the official statistics). As a consequence, the share effectively accounted for by agents should be adjusted to €17.2 billion (and not €24.9 billion, as in the official statistics) and their market share from 75.3% to 51.9%. For motor liability insurance, brokers' share in 2018 would thus come to 9.9% against 5.1% in the insurance company figures, while agents' share would come down from 83.1% to 78.3%. But this anomaly is significant mainly in the other non-life classes, where brokers' share should be adjusted from 13.7% in the official statistics to 54.9%, while that of agents would be reduced from 67.8% to 26.6%.

Table 4 – Breakdown of distribution channels for the 2014-2018 observation period – Non-life classes

CHANNEL	Gross written premiums (Euro million)					Market share (%)					Average	Annual change (%)					Average change (%)
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	(2014-2018)	2014 (3)	2015	2016 (3)	2017	2018	(2014-2018)
Agents	26,004	25,147	24,633	24,622	24,912	79.3	78.6	77.1	76.3	75.3	***77.3***	-4.2	-3.3	-2.7	0.1	1.0	**-1.1**
Brokers (1)	2,867	2,694	2,927	3,011	3,155	8.7	8.4	9.2	9.3	9.5	***9.0***	8.2	-6.0	4.5	3.0	4.6	**2.4**
Direct sales	2,596	2,593	2,570	2,572	2,778	7.9	8.1	8.0	8.0	8.4	***8.1***	-2.6	-0.1	-0.9	0.3	7.8	**1.7**
of which: Internet and telephone sales	1,586	1,504	1,407	1,388	1,419	4.8	4.7	4.4	4.3	4.3	***4.5***	-1.1	-5.2	-6.5	-0.7	1.6	**-2.7**
Bank branches (2)	1,269	1,497	1,756	1,979	2,176	3.9	4.7	5.5	6.1	6.6	***5.4***	5.5	18.0	17.3	12.9	9.7	**14.4**
Financial salesmen	64	76	65	91	74	0.2	0.2	0.2	0.3	0.2	***0.2***	21.5	18.3	-14.0	39.9	-18.7	**3.7**
TOTAL	32,800	32,007	31,953	32,277	33,096	100.0	100.0	100.0	100.0	100.0	***100.0***	-2.7	-2.4	-1.0	1.2	2.3	0.2

(1) Brokers' contribution over the years does not include the share of premiums generated through this channel with presentations at the agency and not directly at the company (estimated at 23.4% in 2018)
(2) Data for this channel includes premiums distributed by post office branches
(3) Changes (%) are calculated on a homogeneous basis in terms of companies covered

To estimate the market shares accounted for by brokers, ANIA uses data from the Italian Association of Insurance and Reinsurance brokers (AIBA) and additional information gathered from the leading Italian insurance brokers. In particular, AIBA lacks official data on the volume of premiums handled by brokers but derives an estimate from their payments to the compulsory Guarantee Fund plus a portion of premiums deriving from brokerage fees (not subject to the compulsory contribution). On this basis AIBA estimates brokers' premiums for the entire non-life sector at over €13.8 billion, which is higher than ANIA's own estimate, owing essentially to the different estimate of premiums deriving from brokerage fees and to AIBA's inclusion of the premiums collected by EU insurance companies, which are not counted in ANIA's statistics.

For completeness, Table 5 shows the estimated non-life market shares of agents and brokers from 2008 on, adjusted as above. Note that in these eleven years the share of total non-life insurance accounted for by brokers gained over 5 percentage points, from 27.5% to 32.9%, whereas in the official statistics the gain was less than 2 points. After widening constantly to nearly 26 percentage points in 2016, and narrowing down to less than 22 percentage points in 2017, the gap between the figures derived from the insurance companies and those estimated by ANIA on AIBA data has expanded back to just over 23 percentage points.

Table 5 – Estimated market shares of agents and brokers

Year	MOTOR				NON-MOTOR				TOTAL			
	Brokers share		Agents share		Brokers share		Agents share		Brokers share		Agents share	
	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)
2008	2.6	8.3	90.1	84.4	13.9	51.7	75.9	38.1	7.6	27.5	83.8	63.9
2009	3.2	8.7	89.6	84.1	13.8	49.3	75.1	39.6	7.9	27.1	83.0	63.8
2010	3.0	8.7	88.6	82.9	13.5	50.8	74.6	37.3	7.7	27.4	82.4	62.7
2011	3.5	9.9	87.6	81.2	13.0	57.0	74.3	30.3	7.6	30.2	81.8	59.2
2012	3.3	9.8	86.8	80.3	13.3	58.4	73.4	28.3	7.6	30.7	81.0	57.9
2013	3.5	9.8	86.3	80.0	13.3	58.1	73.3	28.5	7.9	31.4	80.5	57.0
2014	3.6	10.8	85.7	78.5	14.7	61.3	71.8	25.2	8.7	34.2	79.3	53.8
2015	3.7	10.9	85.3	78.1	13.6	57.7	71.3	27.2	8.4	33.3	78.6	53.7
2016	4.5	12.2	84.2	76.6	13.9	58.3	69.8	25.5	9.2	35.0	77.1	51.3
2017	4.7	9.1	83.8	79.4	13.9	52.6	68.9	30.2	9.3	31.1	76.3	54.6
2018	5.1	9.9	83.1	78.3	13.7	54.9	67.8	26.6	9.5	32.9	75.3	51.9

Direct sales (which in addition to telephone and Internet sales include premiums generated at the insurance company head offices) increased by 7.8% in 2018, as did their market share, which came to 8.4% from 8.0% a year earlier. Internet and telephone sales alone also resumed growth (+1.6%), after declining steadily for four consecutive years, thus registering a percentage weight of 4.5% for the 2014-2018 five-year period.

The marketing of non-life policies through bank and post office branches increased more sharply than the overall market, with premiums rising by 9.7% in 2018, bringing their five-year average to 14.4%; the growth in their market share thus continued, rising from 3.9% in 2014 to 6.6% in 2018.

Financial salesmen continue to have an extremely marginal, and shrinking, market share (0.2% in 2018).

As for motor insurance (motor third party liability and land vehicles) premiums grew by 1.1%. Accounting for 83% of the entire market, agents are still the main sales channel, although they lost a few decimal points to all the other channels. In particular, the market share of brokers went from 4.7% in 2017 to 5.1% in 2018, also as a result of the increase in their premium volume by 10.7%, whereas that of bank and post office branches went from 2.8% to 3.1% (premiums growing by 13.1%). The second-leading channel for motor insurance business continues to be Internet, whose share is 5.9%, in line with 2017, after premium growth of 3.4%, slightly more than the Class average (Tables 6 and 7). By contrast, the volume of premiums inter-

Table 6
Breakdown (%) of non-life market by class and distribution channel

Class	Agents	Brokers [1]	Bank branches [2]	Financial salesmen/ Inv't firms	Subsidiary agencies	OTHER DIRECT SALES		Total
						Telephone	Internet	
YEAR 2018								
Motor liability	85.1	3.4	2.8	0.0	0.7	1.7	6.3	100.0
Land vehicle insurance	74.3	12.8	4.6	0.1	2.4	1.4	4.4	100.0
Total motor	83.1	5.1	3.1	0.0	1.0	1.6	5.9	100.0
Health and accident	56.5	12.9	13.1	0.9	15.3	0.6	0.8	100.0
Transport [3]	32.5	61.3	0.3	0.0	5.8	0.1	0.1	100.0
Property [4]	73.6	12.1	10.3	0.2	2.3	0.5	1.0	100.0
General Liability	80.3	11.8	4.7	0.1	2.9	0.1	0.1	100.0
Credit and suretyship	72.8	18.0	6.1	0.0	3.1	0.0	0.0	100.0
Total non-motor	67.8	13.7	9.9	0.4	7.0	0.4	0.7	100.0
TOTAL NON-LIFE	75.3	9.5	6.6	0.2	4.1	1.0	3.3	100.0
YEAR 2017								
Motor liability	85.8	3.1	2.6	0.2	0.4	1.8	6.1	100.0
Land vehicle insurance	74.1	12.3	3.7	0.1	4.0	1.4	4.4	100.0
Total motor	83.8	4.7	2.8	0.1	1.1	1.7	5.8	100.0
Health and accident	58.8	13.5	12.3	0.9	13.0	0.6	0.8	100.0
Transport [3]	31.1	62.7	0.3	0.0	5.8	0.1	0.1	100.0
Property [4]	74.1	12.0	10.1	0.2	2.0	0.5	1.0	100.0
General Liability	82.1	10.6	4.2	0.1	2.8	0.1	0.1	100.0
Credit and suretyship	71.6	17.5	4.6	0.0	6.3	0.0	0.0	100.0
Total non-motor	68.9	13.9	9.4	0.4	6.2	0.5	0.7	100.0
TOTAL NON-LIFE	76.3	9.3	6.1	0.3	3.6	1.1	3.2	100.0

([1]) Brokers' share over the years does not include the portion of income they generate that is presented to the insurance companies not directly by the brokers but via agencies (estimated at 23.4% in 2018)
([2]) Data for this channel includes premiums distributed by post office branches
([3]) The class of transport insurance includes: railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability
([4]) The Property class includes: fire and natural forces, other damage to property, miscellaneous financial losses, legal expenses and assistance

Table 7
Change (%) in non-life premium volume by class and distribution channel 2018/2017

Class	Agents	Brokers [2]	Bank branches [3]	Financial salesmen/ Inv't firms	Subsidiary agencies	OTHER DIRECT SALES		Total
						Telephone	Internet	
YEAR 2018/2017 ([1])								
Motor liability	-0.7	11.5	7.0	-100.0	61.1	-4.3	3.0	0.1
Land vehicle insurance	6.2	9.8	33.7	20.4	-34.9	-0.5	6.0	5.9
Total motor	0.3	10.7	13.1	-84.4	-1.5	-3.8	3.4	1.1
Health and accident	-0.6	-1.3	9.7	1.7	22.2	-4.7	-0.4	3.5
Transport [4]	0.2	-6.3	13.0	-20.0	-4.0	3.9	4.4	-4.0
Property [5]	3.4	4.2	5.8	10.0	19.2	-0.4	4.3	4.1
General Liability	1.1	14.7	15.1	1.9	8.4	1.7	4.4	3.3
Credit and suretyship	6.2	7.1	38.3	(...)	-49.3	(...)	(...)	4.3
Total non-motor	1.8	2.6	8.7	3.3	18.0	-2.3	2.5	3.5
TOTAL NON-LIFE	1.0	4.6	9.7	-18.7	15.2	-3.5	3.3	2.3

([1]) Changes (%) are calculated on a homogeneous basis in terms of companies covered
([2]) Brokers' share over the years does not include the portion of income they generate that is presented to the insurance companies not directly by the brokers but via agencies (around 23.4% in 2018)
([3]) Data for this channel includes premiums distributed by post office branches
([4]) The class of transport insurance includes: railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability
([5]) The Property class comprises: fire and natural forces, other damage to property, miscellaneous financial losses, legal expenses and assistance

mediated through telephone declined (-3.8%), accounting for 1.6% of motor insurance, virtually unchanged with respect to the previous year.

In 2018, non-motor non-life business continued to expand (+3.5%). This is chiefly attributable to the positive performance of tied agencies (+18.0%), which sold 7% of total premiums for the Class, and of bank and post office branches (+8.7%), with a market share of nearly 10%. Also growing (+1.8%), but more slowly than the sector average, is the business of agents, who thus lost one percentage point in their market share (from 68.9% to 67.8%).

DISTRIBUTION OBSERVATORY

Over the last year, the work of the Observatory, which counts on the participation of all the Trade Associations of the insurance and financial distribution industry, has unavoidably focused, through attentive discussion and exchange of views, on the extensive primary and secondary legislation adopted in Italy, as a result of the transposition into national law of the European IDD and MiFID II Directives.

Moreover, given that the mission goals of the Observatory include support to intermediaries in an ever-changing cultural, regulatory and technological context to improve their level of professionalism to the benefit of the services provided to customers, the debate dealt extensively with behavioral finance applied to new strategic choices aimed at supporting and safeguarding customers through the POG/IDD process.

In particular, the Observatory analyzed the target skills required for insurance networks to accompany customers in the complex process of product and investment selection by:

– understanding customers' needs through attentive listening, analysis and decodification of their needs;
– properly managing feedback to provide information and keep the customer's interest alive.

On this basis, the Observatory identified the trends in market evolution following the entry into force of the new provisions, which highlighted new gaps, such as scant ability to convey information to customers.

There was agreement on the need to strengthen, on a continuous basis, the hard and soft skills of distributors. In particular, relational skills were deemed indispensable to proper transfer of information and knowledge to customers, thus ensuring a good degree of understanding of the products by the customer.

At the same time, the evolution of distributors' knowledge and competence was identified as essential, integrating technical expertise – product, legal, fiscal and financial – with so-called innovative skills, that is to say: environmental, catastrophe, cybernetics and technological.

AGENTS' PENSION FUND

The ordinary Delegates Meeting of the Agents' Pension Fund was held on 17 April 2019.

The points on the agenda were: approval of the 2018 Financial Statements and appointment of the members of the Fund bodies (Board of Directors and Board of Auditors).

The Report on the Financial Statements, approved by the Meeting, highlighted the positive outcome of the actuarial report, with a surplus of €129 million. This reassuring performance, even better than that of the previous year, confirms the soundness of the Fund, thus allowing the Board of Directors to suggest a 6-7% increase in benefits, based on a project presented by Covip.

The 2018 Financial Statement also attained positive results, with an operating surplus of €30 million (€5 million more than a year earlier).

The spending review measures adopted by the Board of Directors also proved to be effective: overall management costs for the Fund were €150,000 less than in 2017.

Especially significant was the performance of the book yield on Fund assets, which averaged 4.00% for both years, thus exceeding the target of 3.50%, in a particularly difficult year for world markets.

The Delegates Meeting also voted to appoint the Fund managing bodies, renewing the mandate to the Board of Directors and Board of Auditors for another three years.

The following members were elected:

BOARD OF DIRECTORS

Full members:

AGENTS' DELEGATES: Francesco Libutti and Roberto Pisano
PENSIONERS' DELEGATES: Guido Ferrara
COMPANIES' DELEGATES: Stella Aiello; Franco Ellena; Massimo Nicoletti

BOARD OF AUDITORS

Full members:

AGENTS' DELEGATES: Silvia Carofalo; Omero Martella
COMPANIES' DELEGATES: Giuseppe Alpestri; Roberto Munno

IVASS REGULATION 40 ON INSURANCE DISTRIBUTION

IVASS Regulation 40 of 2 August 2018 lays down provisions on insurance and reinsurance distribution as referred to in Title IX of Legislative Decree 209 of 7 September 2005 (Private Insurance Code).

The provisions set forth in the Regulation implement EU Directive 2016/97 of 20 January 2016 – the Insurance Distribution Directive (IDD) – on insurance and reinsurance distribution (transposed into Italian law by Legislative Decree 68 of 21 May 2018), thus completing the regulatory framework implemented by primary legislation.

Overall, the new regulatory text establishes an organic framework of rules on market access, business activity, conduct in sales to customers, also in case of remote promotion and marketing, professional training and retraining of operators, and it promotes the use of new IT technology, while taking into account any new risks.

In addition to transposing the new rules contained in the Directive, this Regulation aims to rationalize the fragmented framework currently in force, as well as to incorporate the needs for modernization (also with a view to promoting the use of new IT technology), streamlining, and enhanced usability of the regulatory system, which have emerged over time as market requirements.

In particular, the Regulation incorporates the provisions of the previous ISVAP regulations 5/2006 (insurance and reinsurance mediation) and 34/2010 (promotion and distance marketing of insurance contracts), and of IVASS regulations 6/2014 (professional requirements of insurance and reinsurance intermediaries) and 8/2015 (simplification of procedures and requirements in the relationship between insurance companies, intermediaries and customers), abrogating them, de facto, as of 1 October 2018, without prejudice to the validity of the provisions therein in case of violations committed prior to the entry into force of the new regulation.

The Regulation may be divided into three macro areas:

- requirements for access to and exercise of insurance distribution, with special reference to requirements for the registration of intermediaries, for the conduct of business by distributors within the premises of the intermediaries, for the employees of companies directly involved in insurance distribution and for call center operators of companies and intermediaries;
- professional training and retraining based on which – in addition to the updating and extension of rules under IVASS Regulation 6/2014 to employees of insurance undertakings and ancillary insurance intermediaries – the subject matters taught in the training and retraining courses are adapted, in compliance with the new minimum professional knowledge and competence requirements set out in Annex I of the IDD;
- rules of conduct and pre-contractual information, which update the subject matter extending the rules to insurers dealing directly in insurance distribution;
- promotion and marketing of insurance contracts through remote communication techniques, supplementing the previous provisions and regulating, in particular, insurance distribution via the Internet, including price comparison websites, social network profiles and any apps.

The new regulatory provisions went into effect as of 1 October 2018.

STRATEGIC TRAINING IN DISTRIBUTION NETWORKS

Considerations and tools to face the new challenges

In a 2018 study, ANIA addresses the issue of how companies can adapt to a market characterized by the advent of new technology, profound changes in consumers' habits and behavior and new regulatory scenarios.

The new European and national provisions for the insurance and financial sectors have a significant impact on existing distribution models, widening the range of operators on the market and charging intermediaries – now called distributors – with the difficult task of dealing with multi-channel systems and new competitors.

In addition, the growing use of digital technologies and social media can have considerable repercussions on all distribution processes and, in particular, on the methods used to offer the services and, upstream, on correct and effective interaction between distributors and customers.

Finally, customers' new needs require market operators to have high levels of professional skills so as to provide services that are ever more customized and consulting-oriented.

Other necessary corollaries to this reference scenario are the needs emerging from a better understanding of the products offered, transparency of information and speed in the purchase of insurance products which customers must be able to carry out at any time through diversified channels based on their needs and lifestyle.

The insurance distribution sector will be facing some tough challenges that should be tackled by unreserved openness to new operational and development models which can evolve into innovative and successful forms of business; this would also be a response to the intensifying competitive pressures on insurance undertakings and networks.

With these challenges ahead, the definition of a new role of evolved distributor, who can integrate into this ever-changing reality, must result in an unavoidable cultural shift, as the profound transformation of the industry demands. This will require all distributors to see their profession in a different perspective and acquire new skills (legal, business, managerial, digital), tools and knowledge, also with regard to emerging risks (environmental, cybernetic, technological), to strengthen the multidisciplinary nature of their profession, which will be the true added value enabling them to provide services that meet their customers' new needs.

Taking into account all current legal provisions on professional knowledge and competence, ANIA has gained an awareness of emerging customers preferences and analyzed their needs and communication methods to provide innovative professional training that can improve operators' performance and professionalism.

To this end ANIA has produced a document for companies to take as reference, at their discretion, when implementing their training plans, while taking into account the specificity of their corporate structure, distribution channels, product catalog, and business plans.

In particular, the project consists in five steps:

1) analysis of emerging trends and detection of needs: study of the main developments in customers' purchasing behavior with a view to identifying their main needs;
2) identification of target skills by role profiles: identification of priority skills for market operators, with different levels of requirements based on their individual roles;
3) collection of suggestions from agents' and brokers' trade associations and fine-tuning with undertakings' marketing departments: considerations and inputs from agents' and brokers' trade associations and sharing with the undertakings' sales managers to perfect the whole project;
4) design of a possible procedure for company assessment: design of a hypothetical model for assessment of the competences of insurance distribution networks;
5) allocation of resources to training courses: model of targeted strategic training courses for the development of individual professional skills.

IVASS REGULATION 76/2018 – MOTOR/CLAIMS/USE OF THE TERM INSURANCE IN COMPANY NAMES

IVASS Regulation 76 of 2 August 2018 amended and supplemented ISVAP Regulations 9/2007 (Rules on the use of the term insurance in company names), 23/2008 (Transparency of premiums and contract terms in compulsory motor insurance) and 24/2008 (Procedure for filing complaints with ISVAP and complaint management by insurance undertakings and distributors).

The amendments and additions referred to therein were necessary for harmonization with the new legislation on insurance distribution transposing EU Directive 2016/97 of 20 January 2016 (IDD).

The revision of the regulatory framework aimed to ensure formal and substantive consistency of the secondary legislation imposed by IVASS with the new provisions on insurance and reinsurance distribution. In this context, IVASS sought to reduce amendments to a minimum to ensure continuity of the current provisions and to maintain the structure of the amended regulations.

Nonetheless, Regulation 76 introduces the following main changes:

Regulation 9/2007 (Rules on the use of the term insurance in company names)

- the definition of "distributor" was added to include the new category of "ancillary insurance intermediary";
- the definitions of "Register" and "List annexed to the Register" were updated in accordance with the amendments to the Private Insurance Code under Legislative Decree 68/2018;
- the provision on the restricted use of the term insurance and reserved words or expressions in company names were updated.

Regulation 23/2008 (Transparency of premiums and contract terms in compulsory motor insurance)

- the definitions of "intermediary" and "intermediary working directly with a company" were modified to include the profession of "ancillary insurance intermediary";
- the reference to the "precontractual information sheet" was replaced by a reference to "precontractual information documentation referred to in Article 185 of the Code", in accordance with the amendments to IVASS Regulation 41/2018 on information, publicity and design of insurance products;
- an explicit reference to the social network profile was added in the regulation on information requirements for distributors.

Regulation 24/2008 (Procedure for filing complaints with ISVAP and complaint management by insurance undertakings and distributors)

- the definitions of "employees and collaborators", "large broker", "intermediaries registered in the annexed list" and "Register" were amended, in accordance with the amendments to the Private Insurance Code under Legislative Decree 68/2018 and the provisions laid down by Regulation 40/2018 on insurance and reinsurance distribution;

- the definitions of "ancillary insurance intermediary" and "insurance-based investment products" were added, in accordance with the amendments made by Legislative Decree 68/2018 to the Private Insurance Code and to the Consolidated Law on Finance;
- the provisions on complaints outside the jurisdiction of IVASS were updated, with special reference to complaints on the distribution of insurance-based investment products by entities subject to supervision by CONSOB, in accordance with the amendments to the Consolidated Law on Finance under Legislative Decree 68/2018;
- the term of "60 days from the end of the calendar year", within which the annual report on complaint management must be published, and the deadline for the transmission of the report on complaint management in the second half of the year to IVASS were added;
- a new provision was added on the management of complaints pertaining to the conduct of ancillary insurance intermediaries registered in Section F of the Register, who are now subject to the same provisions applying to distributors registered in Section A.

DEVELOPMENTS IN BANCASSURANCE

Bancassurance, which has developed in Europe since 1980, is now – in Italy as in a good many European countries – the prime system of distribution, especially for savings, investment and credit protection insurance products linked to loans granted by banks, and has good prospects of growth in non-life insurance.

In countries like France, Spain and Italy, where the penetration of insurance investment instruments was relatively limited when the bancassurance model – i.e. insurance sales through banks and the post office – began to gain a footing, this segment has expanded rapidly and is now definitely predominant. In other major European countries, such as Germany and the UK, where the distribution of insurance investment instruments through other channels was already fairly common, bancassurance has grown more moderately.

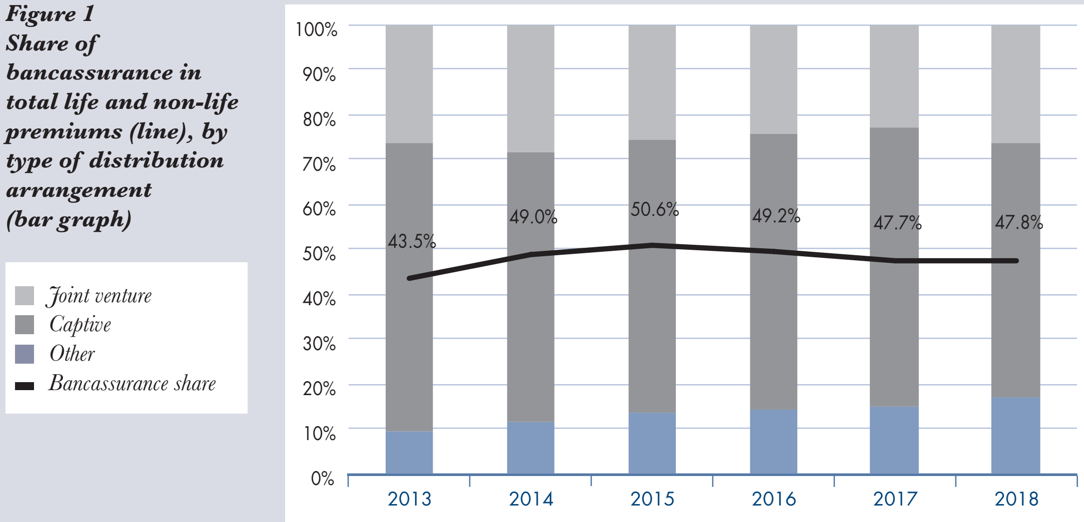
The market comprises several models of bancassurance, differing in such features as the duration of distribution agreements, the shareholding relations between the partners, the modes of remuneration of the distribution network, the insurance products marketed, exclusiveness of the partnership, and other factors. Thus there is no immediate reduction of the different partnerships found to a single, homogeneous class. Nevertheless, with some approximation, the agreements now in place can be divided into the following main types:

- ***joint venture***: a company owned jointly by an insurance company and a bank, in which either one may hold the controlling interest. In theory, joint ventures between an insurer and various banking partners are possible, just as a single banking group could have joint ventures with more than one insurance partner. In a joint venture, the insurance company acts essentially as a source of capital for the subsidiary and a provider of technical-operational insurance services.

- ***captive***: total or predominant control by the bank, for which the insurer is the "manufacturer" of the products for distribution and one of the group's business units. This model is thus characterized by close integration between producer and distributor and may involve transfer pricing between the different units within the group.
- ***other distribution agreement***: For our purposes, this means any type of commercial accord between a bank and an insurance company other than joint venture or capitve, whereby the insurer makes available to the bank or banks one or more insurance products for distribution. The accord may also provide for various forms of collaboration and does not necessarily have to be exclusive, possibly envisaging the bank's participation in the insurance company's equity.

In Italy the leading type of arrangement, in terms of premium income, in recent years, is the captive model, adopted by some of the leading bank and postal players (Figure 1). In 2018 total life and non-life premiums marketed via banks and the post office amounted to €64.5 billion, nearly half of total premium income, broadly maintaining this share at its recent level.

Figure 1
Share of bancassurance in total life and non-life premiums (line), by type of distribution arrangement (bar graph)



The life sector

The share of premium income collected through banks and the post office began to be significant in Italy towards the end of the last century, rising from around 10% in the early 1990s to over 50% after the turn of the century and 60% in recent years (Figure 2). The growth of insurance policies as instruments for household saving, then, can be ascribed to the development of bancassurance, even though premium volume through the other channels also expanded significantly.

In 2003, at the beginning of the observation period, just over 40% of premiums earned through bank and postal branches came from the captive model (Figure 3). This share grew gradually over time, with some dips, to 57.1% in 2018, or €35.6 billion out of a total of €62.4 billion.

Figure 2
Life premiums (€ bln, left-hand scale) and share of bancassurance (%, right-hand scale)

Life insurance premiums
Bancassurance share

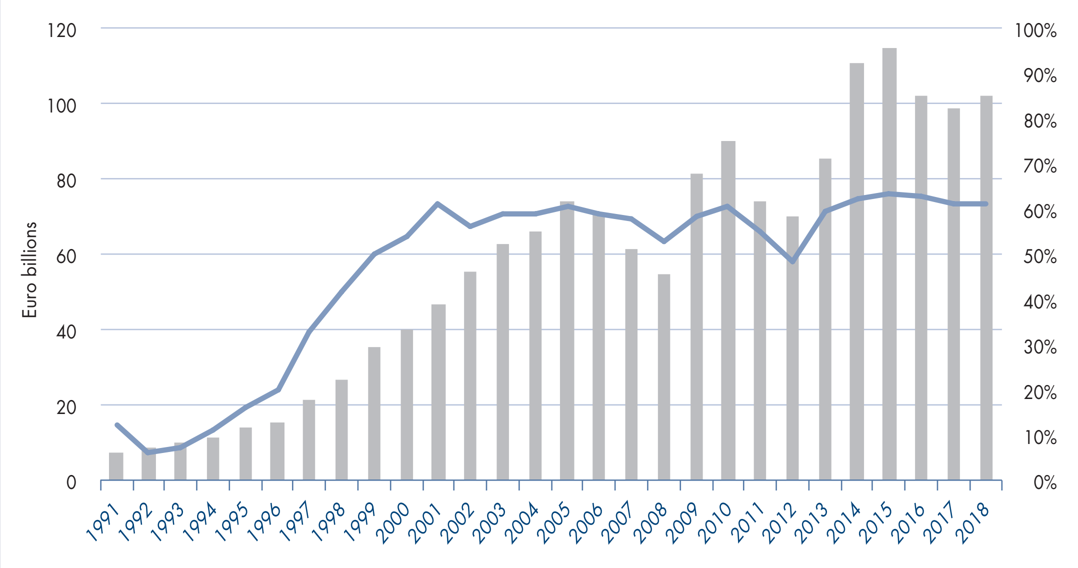
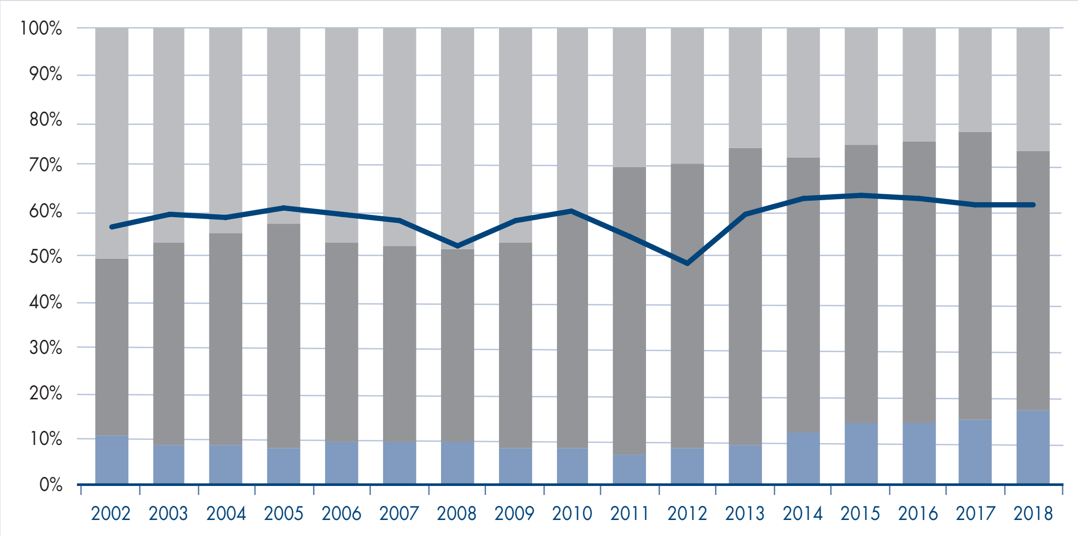


Figure 3
Share of life premiums earned via bancassurance (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Bancassurance share



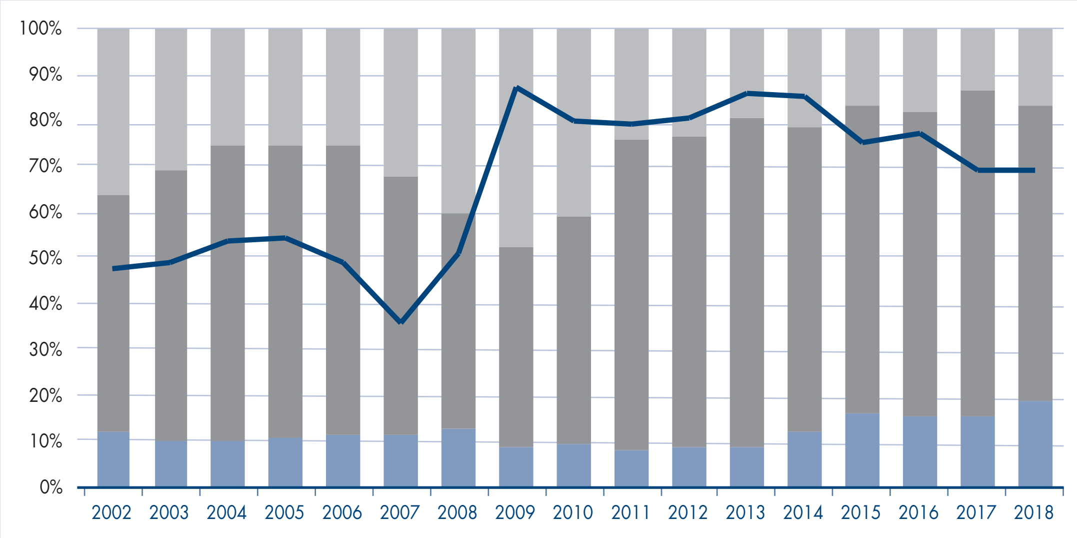
The joint venture arrangement, which until a few years back rivaled the captive model in terms of share of life premium income, has recently seen a decline in incidence and in 2018 shrank to just above a quarter of bank and postal premium income, with a volume of €16.6 billion.

Distribution arrangements other than captive and joint venture, though quite significant in number, have always accounted for a limited market share, peaking in 2018 at 16.3% of total bank and post office premiums at nearly €10.1 billion.

Examining the time series for Class I and Class V premiums, consisting essentially in insurance saving policies with profit sharing in segregated funds and guaranteed yield, the division of premium income by type of arrangement shows an even more marked prevalence of captive enterprises, whose share of total bancassurance premiums rose from around half in the first decade of the century to over two thirds in 2018 at €27.8 billion (Figure 4).

Figure 4
Share of Class I and Class V in total bancassurance life premiums (line), by type of distribution arrangement (bar graph)

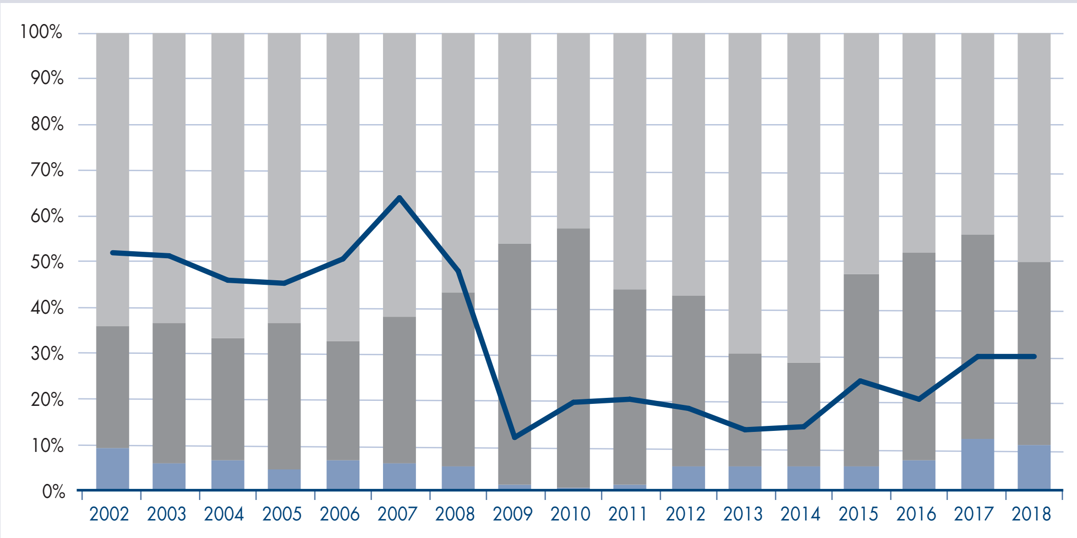
Joint venture
Captive
Other
Class I and V bancassurance share



Repeating this analysis for Class III (Figure 5), we find instead that – save for the exceptional years of financial market crisis, which drove investors away from asset management products in general, including insurance products – policy premiums earned by joint ventures accounted for the greater part, nearly half of total premiums or €9.2 billion.

Figure 5
Share of Class III in total bancassurance life premiums (line), by type of distribution arrangement (bar graph)

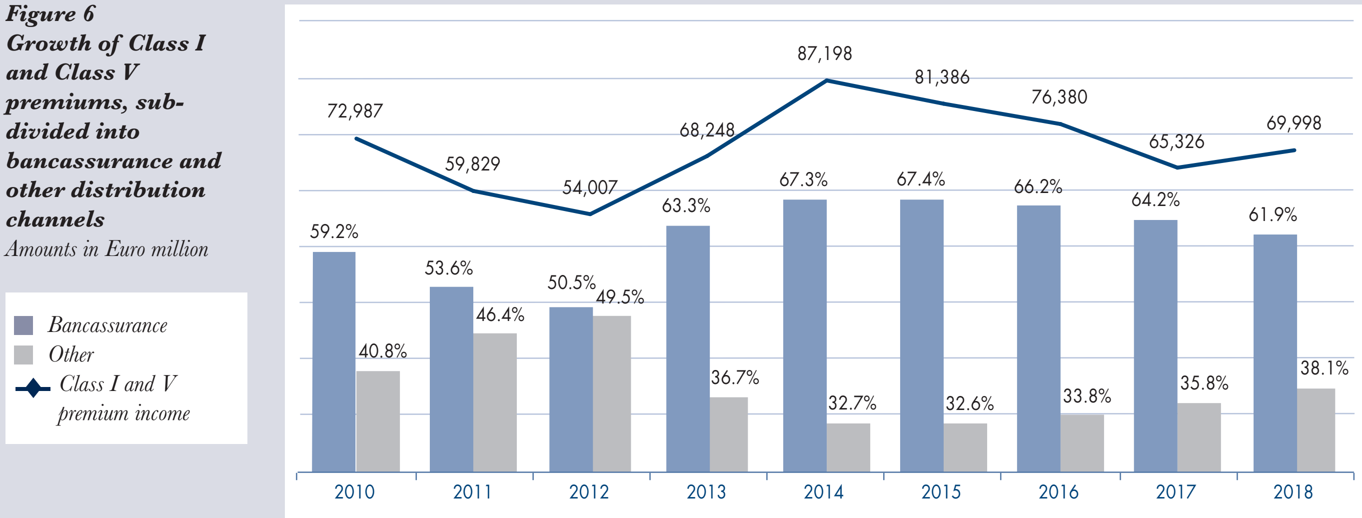
Joint venture
Captive
Other
Class III bancassurance share



Recent trends in life bancassurance

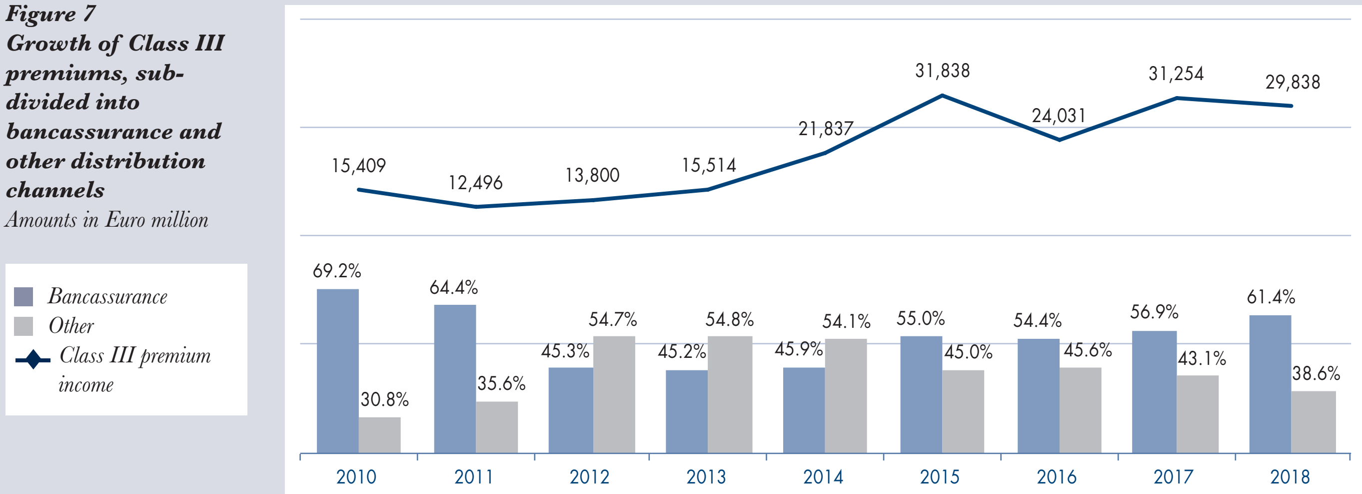
Restricting the analysis of the development of life bancassurance to the more recent years, its predominance over the other channels for distribution of traditional insurance products (Class I and V) is confirmed, with more than 60% of the total premium income for these products intermediated through bank and postal branches (Figure 6).

Figure 6
Growth of Class I and Class V premiums, sub-divided into bancassurance and other distribution channels
Amounts in Euro million



As for Class III, in which the absolute value of total premiums has slipped modestly, in 2018 the share intermediated through bank and postal branches was predominant compared with other channels at just above 61% of total premiums, in any case higher than in recent years (Figure 7).

Figure 7
Growth of Class III premiums, sub-divided into bancassurance and other distribution channels
Amounts in Euro million



For retirement products alone (individual retirement plans and open pension funds), which make up a limited portion of total life premiums, the incidence of bancassurance, while gradually increasing, remains far below that of other channels, which accounted for over two thirds of the total in 2018 (Figure 8).

For 2018 alone, an examination of life insurance market concentration (for undertakings classified according to bancassurance premiums only) shows the top five undertakings with 64.2% of total premium income, the next five with 18.7%, and all the others with 17.1% (Figure 9). Taking the premium shares of these same groups of undertakings via the other channels results in respective shares of 0.2%, 0.3%, and 99.5%. That is, it is clear that the leading insurers in terms of bancassurance premium income rely practically exclusively on that channel.

Figure 8
Growth of retirement product premiums, sub-divided into bancassurance and other distribution channels
Amounts in Euro million

Bancassurance
Other
Individual ret't and pension fund premium income

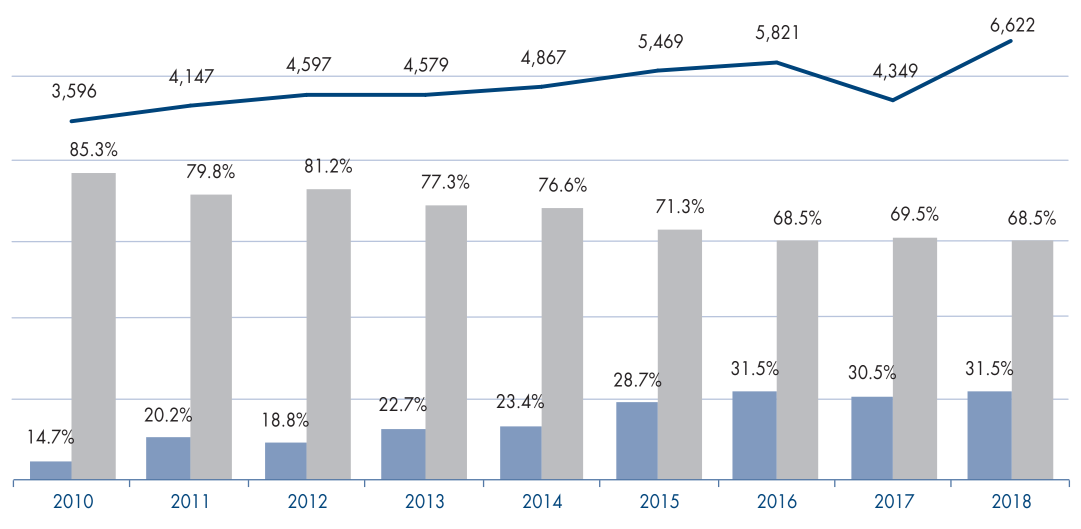
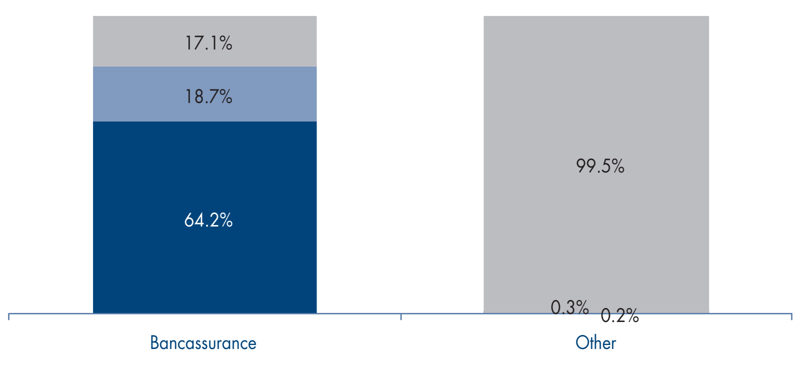


Figure 9
2018 market shares, life premiums earned via bancassurance and other channels

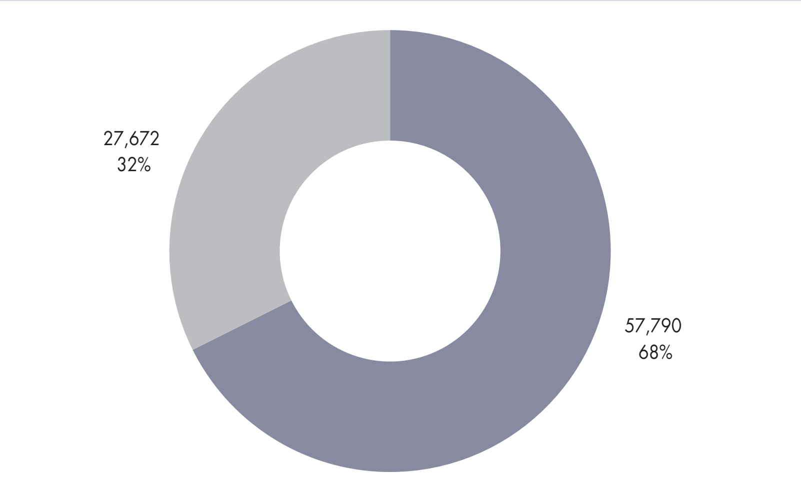
Top 5 undertakings
6th-10th
Other



Looking at new business in 2018 (Figures 10-12), bancassurance accounted for €57.8 billion out of the €85.5 billion in new premium income in life insurance, or 68% (Figure 10).

Figure 10
New life business, 2018, individual and group policies, sub-divided into bancassurance and other channels
Amounts in Euro million

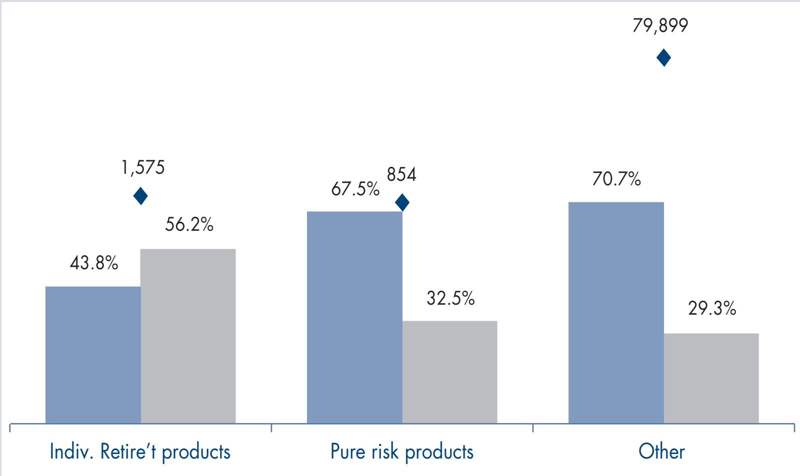
Bancassurance
Other



This predominance characterizes both insurance investment products and pure risk products, while, as noted above, in the distribution of individual retirement products the share of bancassurance is smaller than that of the other channels (Figure 11).

Figure 11
New life business, 2018, individual policies, sub-divided into pure risk, retirement and other products and between bancassurance and other channels
Amounts in Euro million

Bancassurance
Other
Premium income

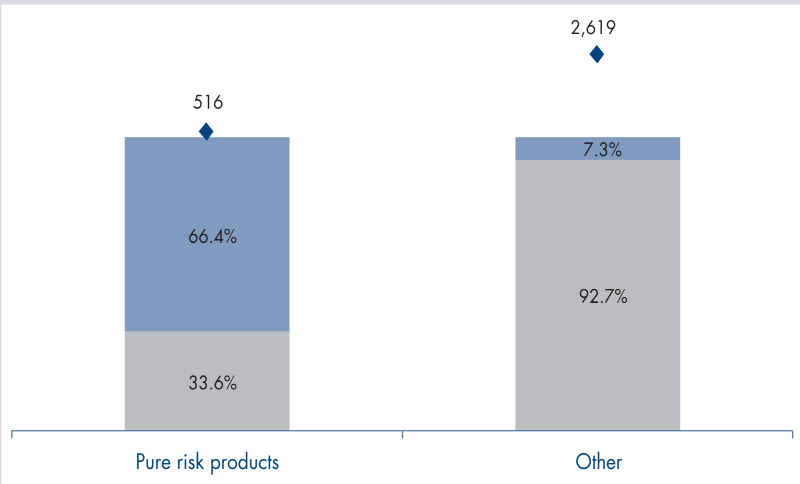


Note: Premium amounts are given in log scale for graphic necessity

As to group policies, by contrast, bancassurance accounts for a much smaller share for all products other than pure risk policies, with an incidence unchanged at 7% of the total (Figure 12).

Figure 12
New life business, 2018, group policies, sub-divided into pure risk, retirement and other products and between bancassurance and other channels
Amounts in Euro million

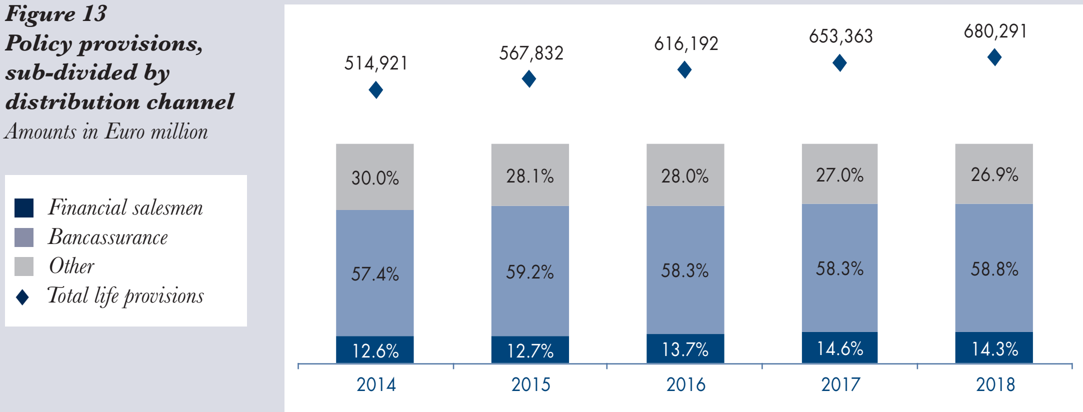
Bancassurance
Other
Total



Note: Premium amounts are given in log scale for graphic necessity

Turning to provisions, the share in respect of policies marketed through bank and postal branches is clearly predominant at 59%, nearly €400 billion out of total life provisions of €680 billion (Figure 13). Provisions for policies marketed by financial salesmen accounted for 14% of the total and the other channels, principally agency networks, for the remaining 27%.

Figure 13
Policy provisions, sub-divided by distribution channel
Amounts in Euro million

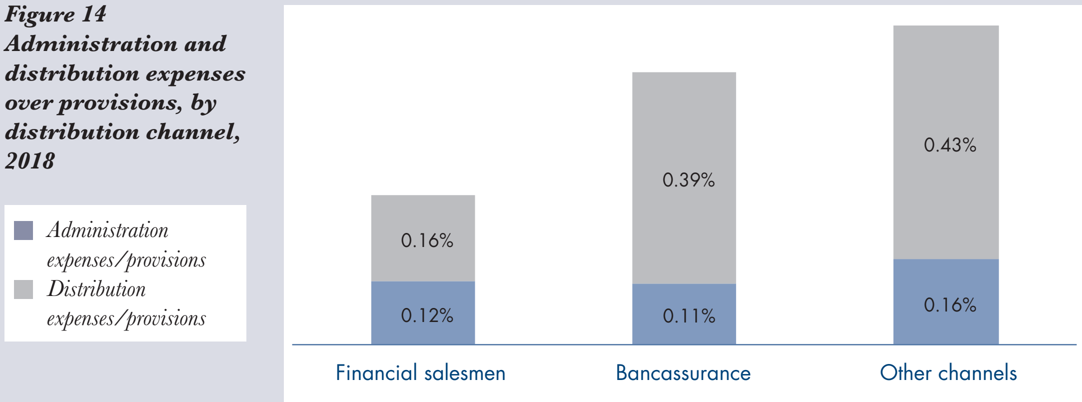


Taking the ratio of administration costs sustained in 2018 to provisions as an indicator of operating costs with respect to a proxy for assets under management (as in the asset management industry), it is evident that it varies widely according to distribution channel. The ratio is lowest for bancassurance, intermediate for financial salesmen, and highest for the traditional channels (brokers and agents), which account for virtually all of the “other” channels (Figure 14).

Here, however, it is worth noting that these are accounting data, which may be affected by differences in distribution structures, organizational policies, the type and volume of products marketed, investment policies and accounting policies for representing these items in the various insurers’ books.

The ratio of distribution expenses to provisions is lowest for financial salesmen and bancassurance, highest for the other – mainly traditional – channels.

Figure 14
Administration and distribution expenses over provisions, by distribution channel, 2018



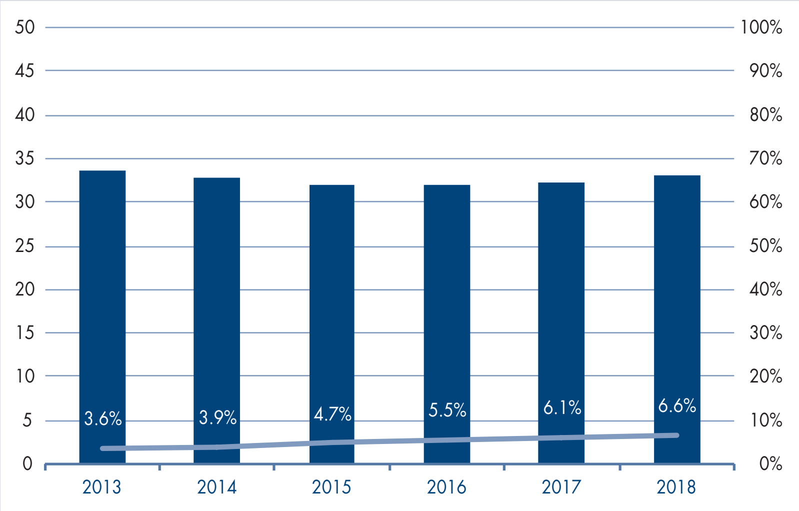
Taking the total of administration plus distribution costs, the lowest ratio to policy provisions in 2018 was registered by financial salesmen; it was somewhat higher for bancassurance and highest, by a wide margin, for the “other” channels.

Recent trends in the non-life sector

In non-life insurance, bancassurance distribution began later than in the life sector and is still less important, relatively, than the other channels. Even so, the share of premium income earned through bank and postal branches rose from 3.6% in 2013 to 6.6% in 2018 (Figure 15), or a gain of 83%. In absolute amount, premiums collected via bancassurance came to nearly €2 billion out of €33.1 billion.

Figure 15
Non-life premiums (€ bln, left-hand scale) and share of bancassurance (%, right-hand scale)

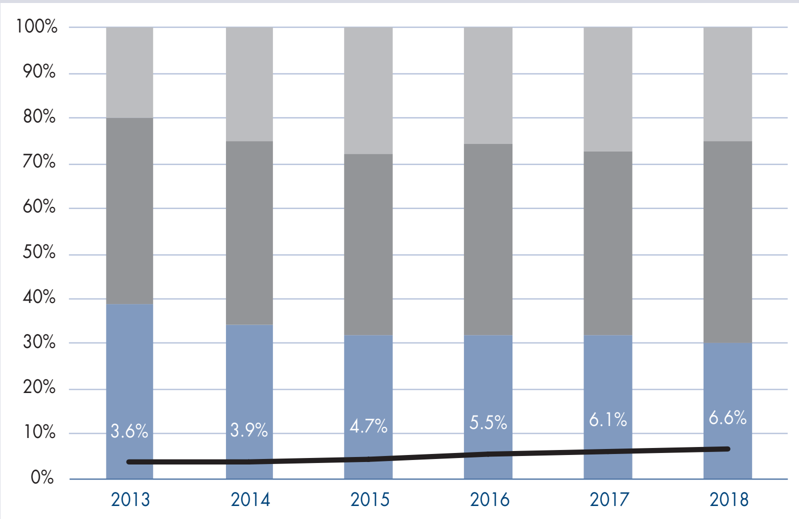
Non-life insurance premiums
Bancassurance share



Among the various models of bancassurance distribution, the captive arrangement is dominant in Italy. From 2013 through 2018 it has accounted for between 40% and 45% of total bancassurance non-life premium income. (Figure 16). In 2018 the captive model accounted for 45% (€983 million). The share of joint ventures rose from 20% to 25% over the period (to €546 million in 2018), at the expense of "other" distribution arrangements, which came down to 30% (€655 million) in 2018.

Figure 16
Share of bancassurance in total non-life premiums (line), by type of distribution arrangement (bar graph)

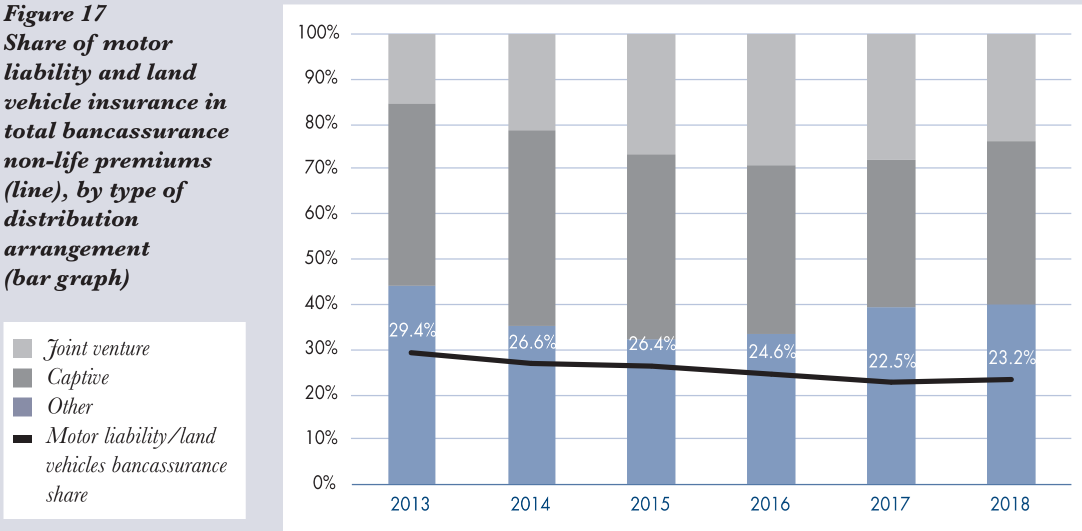
Joint venture
Captive
Other
Bancassurance share



The charts below show trends in non-life premium collection via the bancassurance channel over the past 6 years, by insurance class and type of distribution arrangement. Transport insurance is not given, as no premiums in this class were distributed via bank and postal branches.

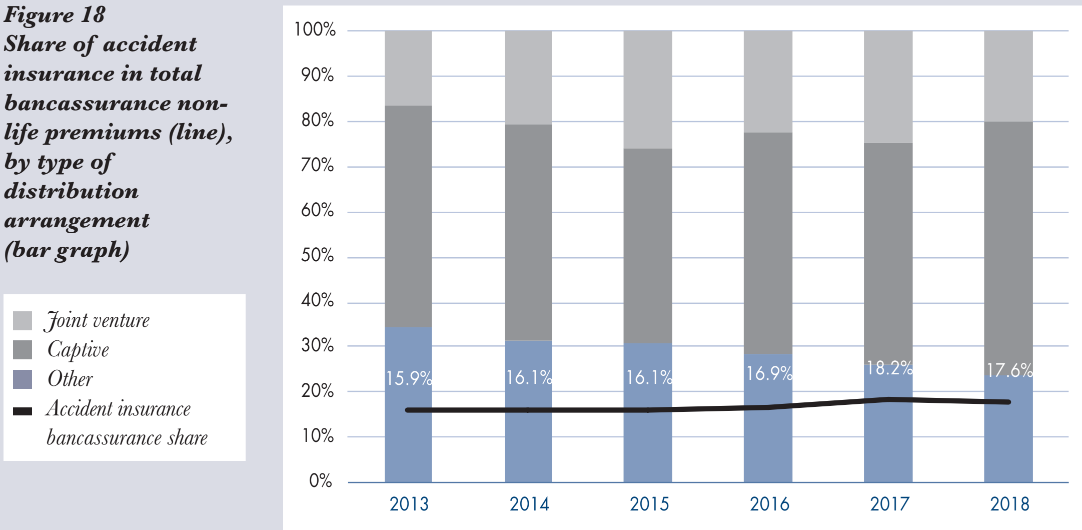
For motor liability and land vehicle insurance, there is a modest prevalence of arrangements other than joint ventures and captive distribution, with a share of premium income of 40% in 2018 (Figure 17). However, the share of joint ventures has risen from 16% to 24% of total bancassurance premiums. The share of this class in total bancassurance non-life premiums has diminished from 29.4% in 2013 to 23.2% in 2018, or €361 million.

Figure 17
Share of motor liability and land vehicle insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)



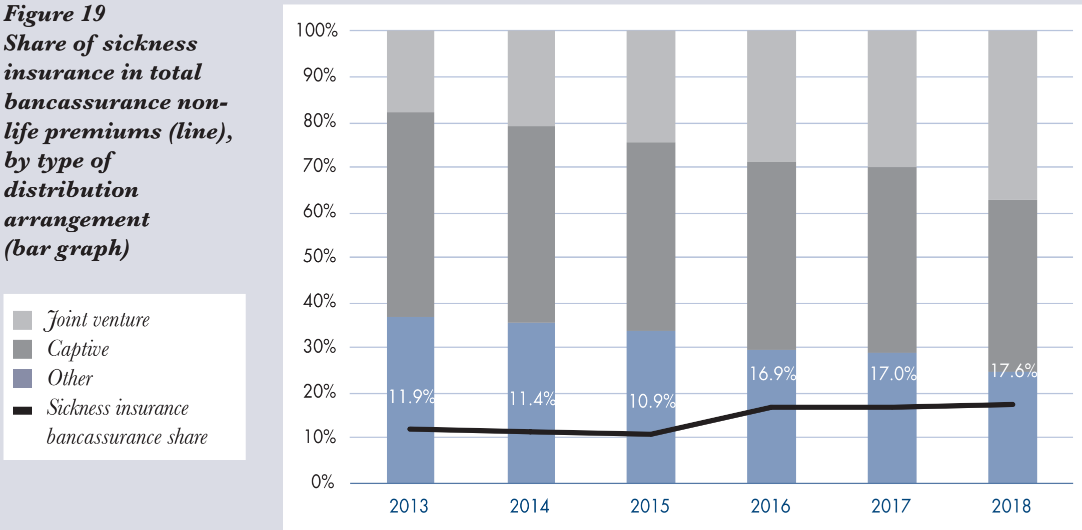
For accident insurance, by contrast, captive distribution is preponderant, accounting for 56% of total non-life premiums collected via bancassurance (€214 million). The share of this class in total bancassurance premiums increased slightly over the observation period, from 15.9% to 17.6% (Figure 18).

Figure 18
Share of accident insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)



In the sickness class, as for accident policies, the most common arrangement is the captive model, accounting for 38% of bancassurance premiums in 2018 (Figure 19). However, between 2013 and 2018 this model's share was reduced in favor of joint ventures, which doubled their portion of the total from 18% to 37%. In addition, sickness insurance has come to account for a significantly larger share of total non-life premiums collected via bancassurance, rising from 10.9% in 2015 to 17.6% in 2018.

Figure 19
Share of sickness insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)



In the class of fire and other property insurance too, the most common bancassurance arrangement is the captive model, accounting for 48% of premiums in 2018, followed by other arrangements at 37% (Figure 20). In particular, in the last year nearly €174 million was distributed using the captive model. The share of fire and other non-life insurance over total non-life premiums collected via bancassurance has remained broadly stable, varying only between 16.3% and 17.6% in the years from 2013 to 2018.

Also for miscellaneous financial loss (Figure 21) the captive model is the most prevalent form of bancassurance. In 2018 it accounted for 46% of the premiums earned through bank and postal branches, or €125 million. The share of this class in total non-life premiums collected via bancassurance came to its lowest at 12% in 2018.

General third-party liability insurance (Figure 22) is dominated by the captive model (52% of non-life bancassurance premiums, or €74 million, in 2018). Since 2013 this arrangement has shown a small increase in its share but no major variation in this class's share of total non-life bancassurance premium income.

Figure 20
Share of fire and other property insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Fire/other property bancassurance share

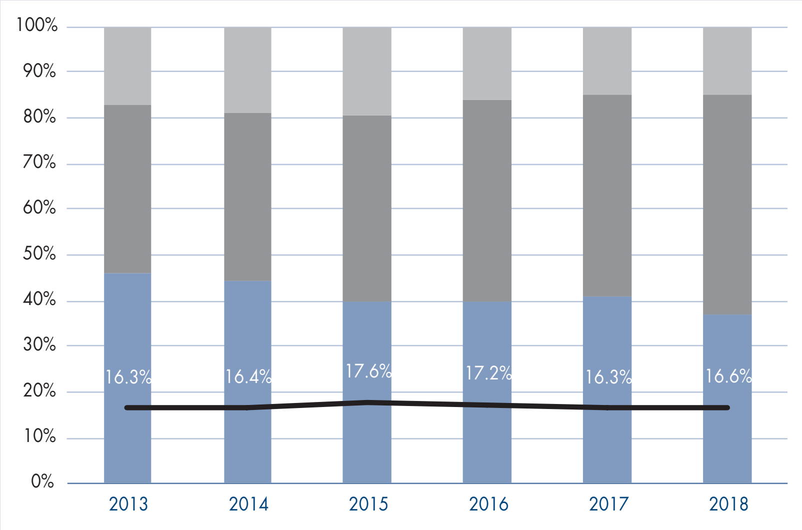


Figure 21
Share of financial loss in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Financial loss bancassurance share

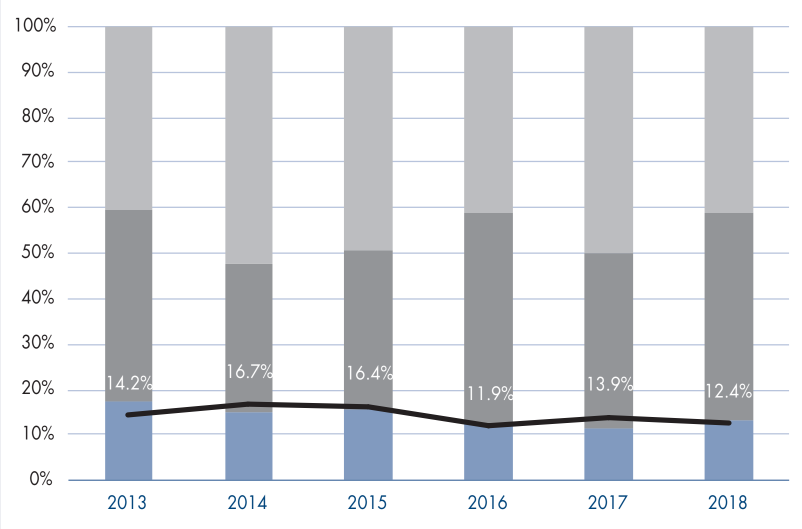
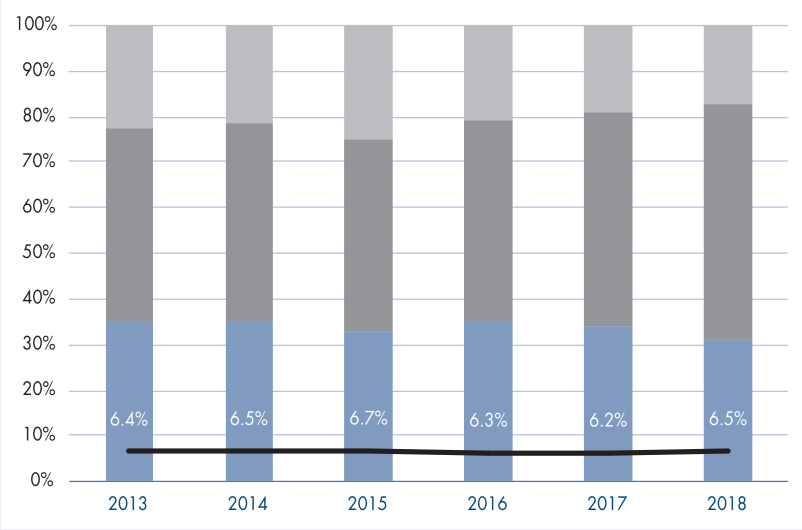


Figure 22
Share of general liability insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
General liability bancassurance share

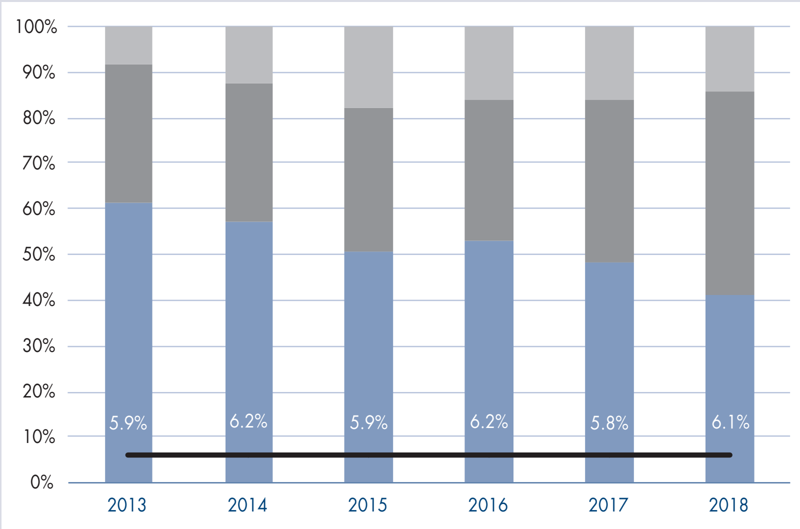


Finally, Figure 23 shows all the other non-life classes together, which account for 6.1% of bancassurance premiums. In these classes – credit, suretyship, assistance, legal expenses – the captive model is prevalent for the first time, at 45%, after years of other arrangements taking the lead.

Figure 23
Share of other classes* in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Other classes' bancassurance share

(*) Credit, suretyship, legal expenses, assistance



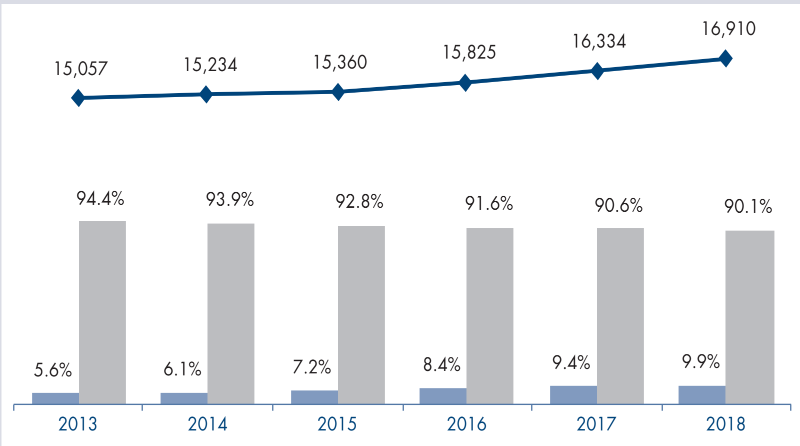
In what follows we provide a graphic representation of the development of bancassurance with respect to other distribution channels over the past six years, broken down into insurance classes as above.

Non-motor non-life insurance (i.e. all non-life classes save motor liability and land vehicles) accounted for 9.9% of bancassurance premiums in 2018 (Figure 24). Small as this is by comparison with life insurance, in absolute terms the amount practically doubled between 2013 and 2018 to some €1.7 billion (Figure 24).

Figure 24
Non-motor* non-life premiums, 2013-2018, sub-divided between bancassurance and other channels

Bancassurance
Other
Non-motor premium income

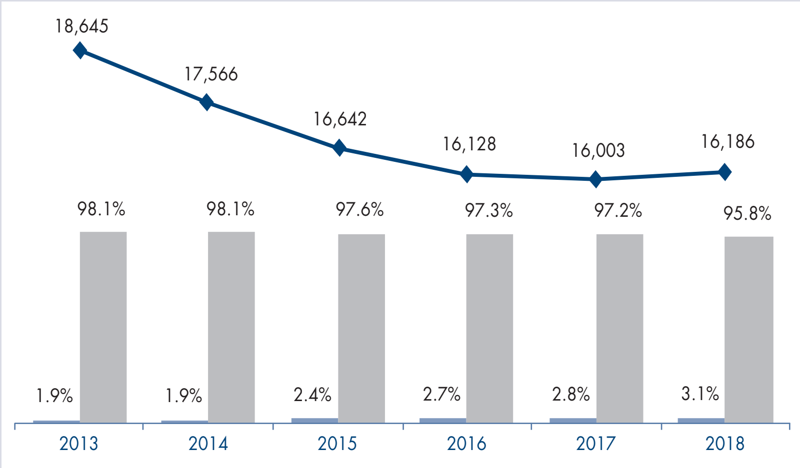
(*) Total non-life excluding motor liability and land vehicles classes



Motor liability and land vehicle insurance (Figure 25) is still marginal in bancassurance intermediation, despite some growth since 2013. In 2018 its share of premiums came to 3.1%.

Figure 25
Motor insurance premiums, 2013-2018, sub-divided between bancassurance and other channels

Bancassurance
Other
Motor premium income



In the accident and sickness insurance classes bancassurance is more important, at 12.4% and 13.9% of premium income, respectively, in 2018 (Figures 26 and 27).

Figure 26
Accident insurance premiums, 2013-2018, sub-divided between bancassurance and other channels

Bancassurance
Other
Accident premium income

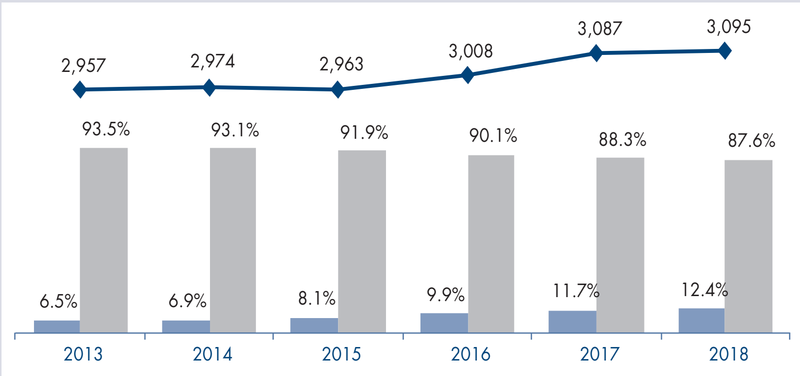
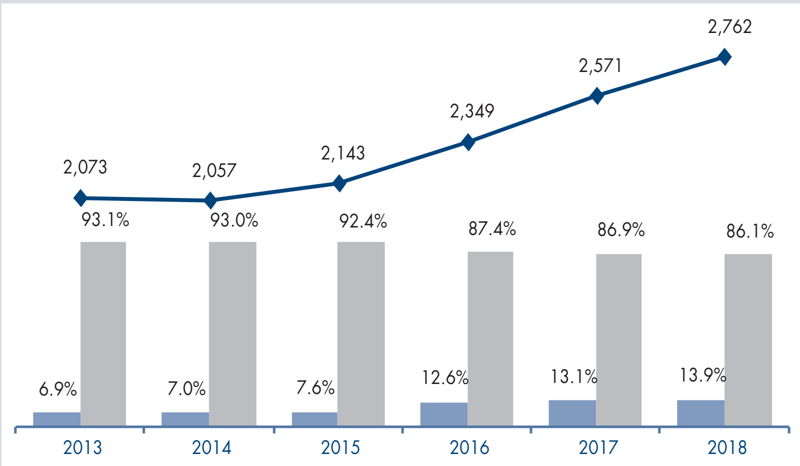


Figure 27
Sickness insurance premiums, 2013-2018, sub-divided between bancassurance and other channels

Bancassurance
Other
Sickness premium income

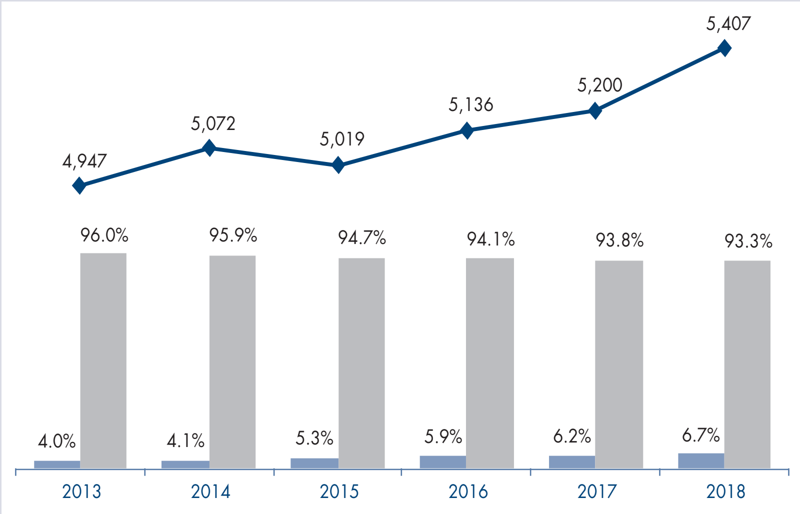


In sickness insurance in particular, the overall growth in premiums in the last three years has been due mainly to the increase in business intermediated through bank and post office branches.

Fire and other property damage policies also saw a modest interest in the bancassurance share, which rose from 4.0% in 2013 to 6.7% in 2018 (Figure 28).

Figure 28
Fire and other damage to property insurance premiums, 2013-2018, sub-divided between bancassurance and other channels

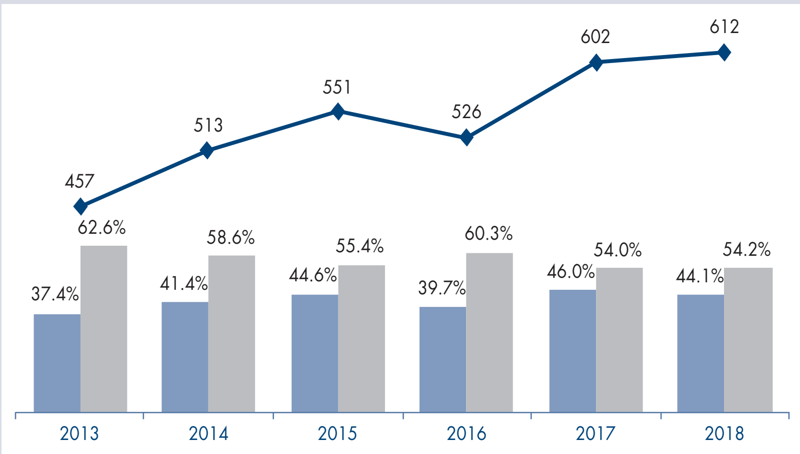
Bancassurance
Other
Fire and other damage to property insurance premium income



Insurance for miscellaneous financial loss registered the largest share of bancassurance intermediation of all classes, partly because these policies are often ancillary to mortgage loans and consumer credit (Figure 29).

Figure 29
Financial loss premiums, 2013-2018, sub-divided between bancassurance and other channels

Bancassurance
Other
Financial losses premium income



The trend in general third-party liability insurance (Figure 30) followed more or less the same pattern in the six years – a gradual increase, albeit starting from a very low level, to record its highest percentage in 2018 (4.7%).

The same pattern also applies to the remaining non-life insurance classes – credit, suretyship, legal expenses, assistance – whose share rose from 5.6% in 2013 to 8.4% in 2018 (Figure 31).

Figure 30
General liability insurance premiums, 2013-2018, sub-divided between bancassurance and other channels

Bancassurance
Other
General liability premium income

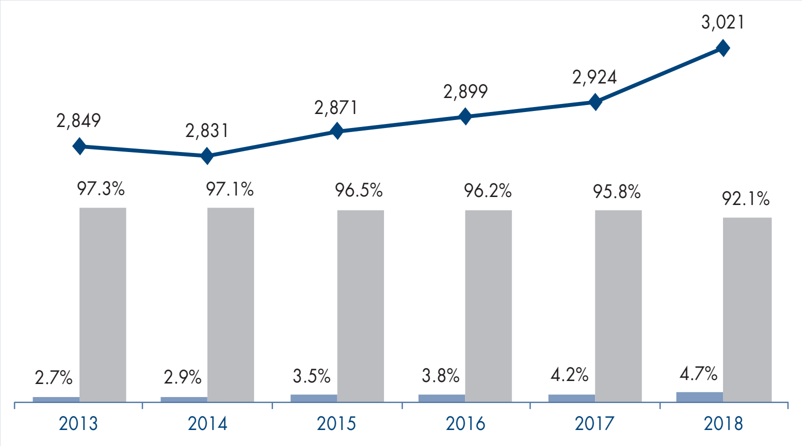
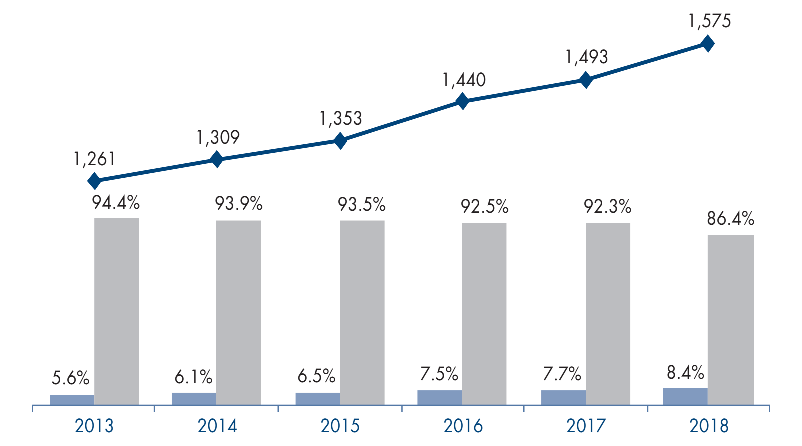


Figure 31
Other non-life premiums*, 2013-2018, sub-divided between bancassurance and other channels

Bancassurance
Other
Other premium income

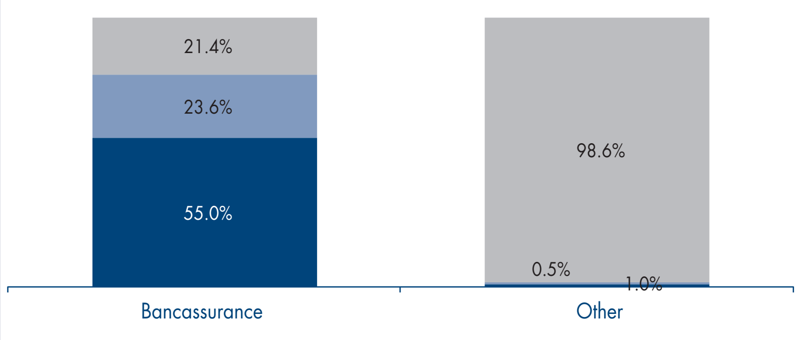
(*) Credit, suretyship, legal expenses, assistance



For 2018 alone, an examination of life insurance market concentration (for undertakings classified according to bancassurance premiums only) shows the top five undertakings with 55.0% of total premium income, the next five with 23.6%, and all the others with 21.4% (Figure 32). Taking the premium shares of these same groups of undertakings via the other channels results in respective shares of 1.0%, 0.5%, and 98.6%. That is, it is clear that the leading insurers in terms of bancassurance premium income rely practically exclusively on that channel.

Figure 32
2018 market shares by non-life premiums earned via bancassurance and other channels

Top 5 undertakings
6th-10th
Other



"CLOSE LINKS" REGULATION

On 13 February 2019 IVASS published Regulation 84/2019 laying down the methods and terms for sending IVASS information on holdings and close links involving the persons registered in the RUI (the single register of insurance and reinsurance distributors, including ancillary insurance intermediaries), in compliance with Article 105 of IVASS Regulation 40/2018 and Article 109 (4-sexies) of the Private Insurance Code.

The Regulation went into force on 23 February.

For a complete definition and understanding of the concept of "close links" please refer to the Private Insurance Code.

In particular, Article 1(iii) defines a close link as a relationship between two or more natural or legal persons linked by:

1) control, as per Article 72 (definitions of control);
2) a holding, regardless of whether it is held directly or through subsidiaries, trust companies or third parties, representing at least 10% of the capital or the voting rights, or a holding which, while not exceeding the above-mentioned limit, permits the exercise of a significant, albeit not dominant, influence over the company;
3) a link whereby the same persons are under the control of a single subject, or in any case are subject to a single administration pursuant to a contract or a clause in their articles of incorporation, or where the administrative bodies are mainly made up of the same persons, or there are important and durable reinsurance links;
4) a technical, organizational, financial, legal and family relation such as to have a relevant influence on the running of the company.

In addition, with regard to the requirements for registration in the Register of insurance distributors, even as ancillary insurance intermediary, Article 109(4-sexies) established mandatory communication of information on close links, whose existence must not be an obstacle to the performance of IVASS supervisory function.

More specifically, the following information must be communicated to IVASS:

- the names of the shareholders or partners, either natural or legal persons, representing more than 10% of the distributor and the total amount of the holding;
- the names of the persons with close links with the distributor;
- the indications showing that such holdings do not prevent IVASS from exercising its supervisory powers.

As for the deadlines for compilation, the IVASS Regulation set a specific calendar for transmitting the information required, based on the type of distributor. In detail:

- 1-31 March 2019, transmission of the communications required for distributors registered in sections B and D of the RUI and for insurance undertakings;
- 1-30 April 2019, transmission of the communications required for distributors registered in section A of the RUI and for distributors in the List annexed to the RUI.

9

ANIA FOUNDATION, ANIA-CONSUMERS FORUM, ANIA SAFE AND INNOVATION BY ANIA

THE ANIA FOUNDATION

ANIA FOUNDATION: TRADITION AND INNOVATION FOR NATIONAL PROTECTION

Last year was one of consolidation for the ANIA Foundation’s new mission, no longer limited to road safety but extended to a broader concept of protection, safety and security. This strategic option serves to conduct activities in all areas of insurance business.

The path embarked on was backed by an approach oriented to direct contact with people, in the awareness that in our age of uncertainty, insurance companies represent protection and security for the development of enterprises and the support of households. Free medical check-ups in local areas, the new website, the development of applications, safe driving courses for new drivers, theoretical instruction and practical training for students driving motor scooters: these are just a few of the concrete initiatives undertaken by the Foundation to meet citizens’ needs for protection.

Another fundamental principle is innovation. Innovating in a business means looking to the future, being willing to experiment, including new methods of action. Here, the ANIA Foundation intends to continue to serve as an incubator of ideas and projects that can register successes equal to those recorded in our nearly fifteen years of work on road safety.

The appreciation demonstrated by outside observers and the results attained have inspired the new course, whose fulcrum is experimentation in social life, among other things in order to identify new lines of business with investment in medical and environmental research, the application of new technologies, and the involvement of young people, especially millennials.

In a word, the ANIA Foundation has dedicated resources to developing practical proposals to serve not only the demand for health and a serene old age but also protection of housing and prevention in the broadest sense, with a view to the maximum diffusion of an insurance culture and mentality.

Road safety: a well-beaten trail

Over the years, the ANIA Foundation has dealt systematically with the problem of traffic accidents, creating a network and promoting dialogue between the public and private sectors. This has produced a series of memorandums of understanding with central and local governments and the design of methods for intervention that have served as a model for others and helped to reduce the number of traffic fatalities. Over the years, the Foundation has produced a series of innovative projects, realizing and financing training and educational activities that have made a significant contribution to the spread of a new culture and mentality of compliance with the rules of the road.

Road accidents in Italy and Europe

ISTAT data on road accidents in Italy show that they numbered 174,933 in 2017, resulting in 3,378 fatalities and 246,750 injuries. By comparison with 2016, the number of deaths turned back up by 2.9%, while the numbers of accidents and injuries both diminished, by 0.5% and 1% respectively. The number of severe injuries was broadly stable. According to hospital discharge records, there were 17,309 in 2017, virtually the same as in 2016. On average, according to ACI-ISTAT data, every day in the year saw 479 accidents, with 9 deaths and 676 injuries.

Table 1
Fatalities and injuries caused by road accidents in Italy, from 2001 to 2017

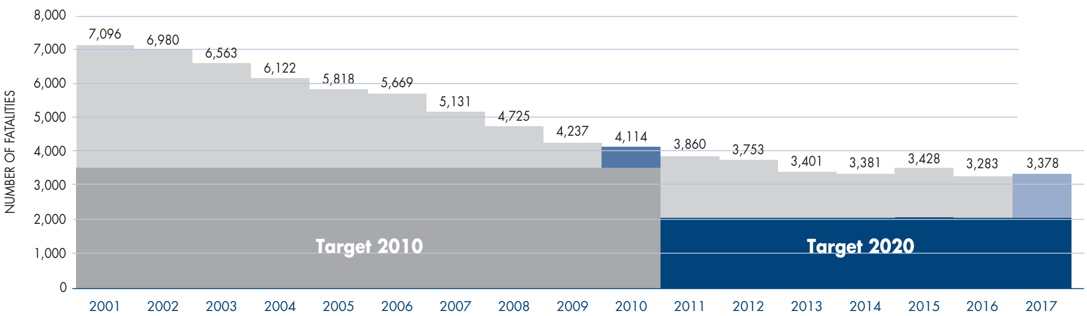
Year	Fatalities		Injuries	
	Number	12-month change (%)	Number	12-month change (%)
2001	7,096	0.50	373,286	3.7
2002	6,980	-1.63	378,492	1.4
2003	6,563	-5.97	356,475	-5.8
2004	6,122	-6.72	343,179	-3.7
2005	5,818	-4.97	334,858	-2.4
2006	5,669	-2.56	332,955	-0.6
2007	5,131	-9.49	325,850	-2.1
2008	4,725	-7.91	310,745	-4.6
2009	4,237	-10.33	307,258	-1.1
2010	4,114	-2.90	304,720	-0.8
2011	3,860	-6.17	292,019	-4.2
2012	3,753	-2.77	266,864	-8.6
2013	3,401	-9.38	258,093	-3.3
2014	3,381	-0.59	251,147	-2.7
2015	3,428	1.39	246,920	-1.7
2016	3,283	-4.23	249,175	0.9
2017	3,378	+2.89	246,750	-1.0

Source: ACI, ISTAT

The table shows a reversal of the trends registered in 2016, when the number of accidents increased but that of fatalities diminished.

Since 2010, the base year for the new UN objective of cutting traffic fatalities in half by 2020, the reduction has been no more than 18%, too little for Italy to achieve the target in the three years remaining (Figure 1).

Figure 1
Italian traffic fatalities, 2001-2017



Source: ANIA Foundation, based on ISTAT data

The Italian trend in traffic fatalities is part of a general pattern throughout the EU28, where there were 25,315 deaths in 2017, a decrease of scarcely 1.6%, bringing the overall decrease since 2010 to 19.9% (Table 2).

The traffic fatality rate – the number of deaths in proportion to population – is a standard measure making for more significant comparisons within the EU. By this gauge, the most virtuous country is Sweden at 25.3 traffic deaths per million inhabitants; the worst is Romania at 99.3. Italy's position has worsened from 14th in 2016 to 18th in 2017, at 55.8 deaths per million population, which is higher than the EU average of 49.7 and also higher than the figures for the large EU countries with which Italy is generally compared:

- France: 53.2 deaths per million inhabitants (15th);
- Spain: 39.3 per million (8th);
- Germany: 38.4 per million (7th);
- UK: 27.1 per million (2nd).

The situation just described shows the urgent need for structural measures at European level to reduce traffic accidents through targeted, integrated programs.

Table 2
Traffic deaths in EU28 countries

COUNTRY	Number			Change (%)		Deaths per million inhabitants	Rank (1st = country with lowest rate, 28th = country with highest rate)
	2010	2016	2017	2017/2016	2017/2010	2017	2017
Austria	552	432	413	-4.4	-25.2	47.1	12
Belgium	841	640	620	-3.1	-26.3	54.8	17
Bulgaria	776	708	682	-3.7	-12.1	96.0	27
Croatia	426	307	331	7.8	-22.3	79.7	26
Cyprus	60	46	53	15.2	-11.7	62.0	19
Czech Republic	802	611	577	-5.6	-28.1	54.5	16
Denmark	255	211	183	-13.3	-28.2	31.8	3
Estonia	79	71	48	-32.4	-39.2	36.5	6
Finland	272	250	223	-10.8	-18.0	40.5	9
France	3,992	3,469	3,456	-0.4	-13.4	53.2	15
Germany	3,651	3,214	3,177	-1.2	-13.0	38.4	7
Greece	1,258	807	739	-8.4	-41.3	68.6	23
Hungary	740	597	624	4.5	-15.7	63.7	21
Ireland	212	188	158	-16.0	-25.5	33.0	4
Italy	**4,114**	**3,283**	**3,378**	**2.9**	**-17.9**	**55.8**	**18**
Latvia	218	158	136	-13.9	-37.6	69.7	24
Lithuania	299	188	192	2.1	-35.8	67.4	22
Luxembourg	32	32	25	-21.9	-21.9	42.3	11
Malta	15	22	19	-13.6	26.7	41.3	10
Netherlands	640	629	613	-2.5	-4.2	35.9	5
Poland	3,907	3,026	2,831	-6.4	-27.5	73.7	25
Portugal	937	565	624	10.4	-33.4	63.6	20
Romania	2,377	1,913	1,951	2.0	-17.9	99.3	28
Slovakia	353	242	276	14.0	-21.8	50.7	14
Slovenia	138	130	104	-20.0	-24.6	50.3	13
Spain	2,478	1,833	1,846	0.7	-25.5	39.3	8
Sweden	266	270	253	-6.3	-4.9	25.3	1
United Kingdom	1,905	1,878	1,783	-5.1	-6.4	27.1	2
EU 28	31,595	25,720	25,315	-1.6	-19.9	49.7	

Source: Community Road Accident Data Base (CARE)

THE NUMBER OF ROAD ACCIDENTS WITH PERSONAL INJURY: DATA SOURCES AND METHODOLOGICAL ISSUES

ISTAT's annual statistics on road accidents, deaths and injuries are obtained by collecting data on accidents throughout Italy. They only cover accidents in which the police intervene and which cause injury or death. The data come from forms filled out by the police forces – Highway Police, Carabinieri, Provincial Police, Municipal Police – that intervened at the scene of the accident. In particular, ISTAT collects data on all accidents that occur on roads or in squares open to traffic in which stationary or moving vehicles (or animals) are involved and which give rise to death or personal injury. The data therefore exclude accidents that cause only property damage, those in which police intervention is not required, those that take place outside public traffic areas, i.e. courtyards, service stations, garages and carparks, tramways and railways, and those in which no vehicle (or animal) is involved.

Another dataset for measuring the accident rate on Italian roads, used especially to assess developments during the year, comes from the Highway Police. As Table 3 shows, however, the number of deaths and injuries in this dataset is lower than that reported by ISTAT, because the Highway Police force is only one of those contributing to the national data collected by ISTAT. In addition, the Highway Police data only refer to accidents on motorways and state, provincial and municipal highways; accidents that take place on city streets are excluded.

According to the Highway Police data, the number of fatalities remained essentially unchanged in 2017, by contrast with the ISTAT data which showed a rise of 2.9%. In any case, the ISTAT statistics on road accidents (and, all the more so, the merely partial data collected by the Highway Police) cannot be taken as representing the totality of accidents on Italian roads. In particular, the total number of accidents recorded by ISTAT (174,933 in 2017) represented not even 7% of the 2,582,371 accidents for which insured parties filed claims with insurers.

Examining the insurance data in detail, most of the nearly 2.6 million motor liability claims filed in 2017 were for accidents involving damage to vehicles or property, but a significant

Table 3
Fatalities and injuries caused by road accidents in Italy, 2001-2017

	PANEL A: HIGHWAY POLICE				PANEL B	
	Deaths		Injuries		ISTAT Data	
Year	Number	12-month change (%)	Number	12-month change (%)	Deaths	Injuries
2001	2,309	n.a.	74,169	n.a.	7,096	373,286
2002	2,520	9.1	84,217	13.5	6,980	378,492
2003	2,187	-13.1	72,342	-14.1	6,563	356,475
2004	1,891	-13.5	66,777	-7.7	6,122	343,179
2005	1,860	-1.6	64,997	-2.7	5,818	334,858
2006	1,889	1.6	66,057	1.6	5,669	332,955
2007	1,682	-10.9	63,763	-3.5	5,131	325,850
2008	1,507	-10.4	57,656	-9.6	4,725	310,745
2009	1,295	-14.1	53,756	-6.8	4,237	307,258
2010	1,213	-6.3	51,163	-4.8	4,090	302,735
2011	1,109	-8.6	47,618	-6.9	3,860	292,019
2012	1,018	-8.2	41,645	-12.5	3,753	266,864
2013	902	-11.4	39,896	-4.2	3,401	258,093
2014	857	-5.5	38,188	-4.3	3,381	251,147
2015	841	-1.9	37,632	-1.5	3,428	246,920
2016	777	-7.6	36,791	-2.2	3,283	249,175
2017	776	-0.1	34,077	-7.4	3,378	246,750

Source: Highway Police, ISTAT

portion (about 429,000, or 16.6%) also involved personal injury, from minor to severe. Italy is among the European countries with the highest percentage of claims for personal injury, at about twice the EU average.

It is worth noting that some 550,000 persons received compensation for the 429,000 personal injury claims filed with insurance companies in 2017, as some accidents naturally resulted in injury to more than one person. With the inception of the direct indemnity system in 2007, insurance companies' databases were reorganized, so we now also have data on non-liable drivers and passengers who sustain injuries. This allows us to make a more precise estimate of the average number of persons involved in a claim: 1.28 in 2017, up from 1.25 in 2016 and 1.26 in 2015.

It should also be borne in mind that the number of injuries and deaths in the insurance companies' statistics do not include persons who were involved in accidents but not entitled to indemnification, such as liable drivers and those hurt in one-vehicle accidents; nor does it reflect compensation payments by the Road Accident Victims Guarantee Fund for accidents caused by uninsured or unidentified vehicles. The difference between the insurance statistics and the ISTAT data thus stems mainly from the fact that the latter do not include accidents with no police intervention, which give rise to the overwhelming majority of claims. Most of the personal injuries for which the insurance sector pays compensation are minor and are caused for the most part by accidents on city streets, in urban centers, for which the police are called in only very rarely. To quantify the phenomenon, consider that of the 429,000 motor vehicle personal injury claims recorded by insurance companies in 2017, some 405,000 (95%) involved temporary or permanent disability of less than 9%. And of the latter, 271,000 (67%) were for a permanent disability of just 1% or 2%, corresponding to those generally recognized for so-called whiplash. Considering the average number of persons injured in a road accident, these claims correspond to more than 345,000 persons injured, which may help explain the wide gap between the two sources.

Table 4 – Deaths and injuries in road accidents in Italy, 2001-2017 - Insurance data (*)

Generation of event	Number of claims paid and reserved (**)	% of claims with personal injury	Number of claims with personal injury	% change on previous year	Average number of persons injured per accident	Total number of deaths and persons sustaining personal injury – ANIA
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2001	4,066,529	18.4	746,313	-6.9	n.a.	n.a.
2002	3,836,135	17.9	687,052	-7.9	n.a.	n.a.
2003	3,708,020	18.2	675,955	-1.6	n.a.	n.a.
2004	3,673,744	19.8	728,413	7.8	n.a.	n.a.
2005	3,654,072	21.0	765,953	5.2	n.a.	n.a.
2006	3,661,945	21.0	768,336	0.3	n.a.	n.a.
2007	3,685,452	21.0	772,305	0.5	1.25	965,381
2008	3,716,084	21.3	791,047	2.4	1.30	1,028,362
2009	3,741,283	21.8	817,467	3.3	1.34	1,092,086
2010	3,535,512	23.1	816,703	-0.1	1.33	1,088,666
2011	3,109,657	22.4	696,354	-14.7	1.34	934,027
2012	2,675,840	20.1	537,743	-22.8	1.31	705,643
2013	2,512,259	19.0	477,329	-11.2	1,28	610,981
2014	2,455,104	18.5	454,194	-4.8	1.28	581,449
2015	2,516,869	17.7	445,486	-1.9	1.26	561,312
2016	2,582,640	17.3	447,055	0.4	1.25	559,266
2017	2,582,371	16.6	428,942	-4.1	1.28	549,046

(*) Estimate for all insurance companies (domestic companies and representatives of foreign companies) doing business in Italy
(**) Includes the estimate of claims I.B.N.R.
Source: ANIA

LINES OF ACTION

Over the years, in determining project types and the objectives to attain, the ANIA Foundation has followed four lines of action based on specific concepts:

- prevention;
- protection;
- new technology;
- communication.

The Foundation's main activities are described below, with the scenarios relating to the individual projects.

Prevention

The concept of "prevention" refers to action to keep undesired or harmful events from happening. In practice, this is one of the core activities of insurers, who calculate risks for the purpose of protecting people and their property.

Today's insurance industry is fully aware of its leading role in the market for the services and benefits for citizen protection. This is why every year insurance companies make substantial investments in the development of projects of risk containment for the entire gamut of population targets.

One area in which the ANIA Foundation has invested heavily (over €100 million in its 14 years of activity) is road safety and accident prevention. Accident prevention demands an intersectoral approach, the involvement of a wide range of instruments and a marked capacity to detect problem areas. Over the years the Foundation has focused on the concept of road safety, intervening on the main factors of road and highway risk: the human factor, the vehicle, and the infrastructures.

Infrastructure represents a major factor in the Foundation's strategy. In this regard the issue of poor road maintenance remains the centerpiece of the Foundation's annual plans of action. The "Blackpoint" project enables road users to signal – via portal (blackpoint.smaniadisicurezza.it), toll-free phone (800.433.466) or smartphone app – the most dangerous points in the road network. Based on the alerts received, the Foundation acts to sensitize road operators to remove the elements of risk, monitors the action of the competent government agencies and reports back to the people who originated the alert.

The database formed over the years has become a support tool for the insurance industry itself. Thanks to the mapping of points of risk, insurers can apply the safety data provided by new-generation black boxes, giving them the capability to alert drivers to the danger and advise prudence when they approach one of the blackpoints.

To date, nearly 9,200 blackpoints have been signaled (Table 5), 60% on city streets, the main problem being the road surface (potholes and absence of traffic indications) and dangerous crossings. More than 50% of the reports have been followed by confirmation and registration of an actual blackpoint. And the official ACI-ISTAT statistics for 2017 confirm that city streets constitute the riskiest portion of the entire road network, with 130,461 accidents, or 74.6% of the total.

Table 5
Blackpoints, 2018

	Total
Reports received	9,194
Blackpoints verified	4,923
Letters sent to competent gov't agencies	8,177
Total phone calls to reporters and agencies	48,706
App downloads	3,940

Source: ANIA Foundation

Signaling anomalies and problems that you observe in driving and sharing this information are key factors for road safety. This process can contribute substantially to accident reduction.

Again in 2018 the Foundation engaged in projects to inculcate a mentality of respect for the rules of the road, for better habits behind the wheel. It is worth recalling that over 80% of accidents are due to improper conduct by drivers: speeding, inexperience, failure to yield right of way are the main factors in accidents. The ANIA Foundation accordingly accords special importance to training as the preferred tool for risk prevention.

The central target for this activity is young people, "new drivers". The latest available ISTAT statistics (for 2017) show that the road fatality rate is still considerably higher for the youngest drivers (aged 20-29) than for others: 77.2 per million persons compared with 55.8 per million for the entire population. In its educational activity the Foundation therefore stresses this group above all, seeking to provide instruments that heighten their awareness of risks on the road.

One of the most effective instruments of accident prevention is learning to react properly to unexpected threats. Accordingly the Foundation promotes attendance at safe driving courses. From 2007 through 2017 the ANIA Foundation conducted nearly 10,000 courses, free of charge, for new drivers aged 18-26.

The results in terms of accident reduction are highly encouraging. The data on the courses given in 2017 ([1]) show that just 3.7% of 800 young people surveyed reported having had an accident after completing the safe driving course; 48.2% said they felt more responsible at the wheel, and 64% felt they were more reactive to sudden dangers. Overall, 95% of the participants judged that the project was excellent and fully comprehensive.

([1]) The data refer to the courses conducted in 2017, but evaluated one year after their conclusion, i.e. in December 2018.

Another training project, conducted at high schools with the sponsorship of the Ministry of Education, is ANIA Campus. The objective here is to heighten young people's awareness of the risks in driving motor scooters and motorcycles, supplementing their preparation for the certificate of capability for the new driver's license consequent to the amendments to the Highway Code.

The 2018 ANIA Campus edition consisted in two phases: a theoretical phase in which participants were informed on the proper clothing to wear while driving these vehicles, proper conduct on the road, and the risks of driving under the influence of alcohol or drugs; and a practical/didactic phase with test drives of motorcycles and scooters on specially equipped, protected tracks at selected schools.

Every visit involved over 100 young people test driving motor scooters (50-cc and 125-cc engines), for a total of over 900 high school students. The instructors found that 50% were basically unfamiliar with these vehicles (the most problematic point in their preparation appears to be emergency braking). As in previous editions of the program, ANIA Campus found that the number of 14-16-year-olds driving scooters is decreasing, and a large proportion of young people (especially in cities) have never even ridden a bicycle.

In fact, the Foundation also addressed a project specifically to bicycle riders, given the statistics indicating that bicycles are the second most dangerous vehicles on the road (for their drivers), after motorcycles. Since 2001 the number of fatalities for automobile drivers has come down by 61.9%, while that of cyclists has improved much less markedly, by just 30.6%. The prime cause of the higher mortality of cyclists is presumably the lack of external protection, such as the body of a car ([2]). In partnership with the Italian Cyclists Federation and with the cooperation of the Highway Police, we have launched a campaign of information and sensitization to the risks of bicycles, addressed above all to members of the Federation and to school students. In 2018 this "Safe on bikes" project involved the creation of a series of instruments in support of safety education and sensitization, and in particular a specific instruction format on the themes of concentration while riding and making cyclists more visible, the preparation of tutorial videos, and an information folder with the key information on cycling safety ([3]).

For high school students in 12th and 13th grade, who are approaching their driver's license tests, a special tour with theoretical and practical training was conducted, with the participation of professional driving instructors and driving simulators. Activities involved classroom lessons on issues such as safe driving, with special reference to concentration and distraction, in particular as a consequence of smartphone use, and encouraging young people to maintain proper physical and mental conditions while driving.

Overall, the ten days of instruction involved 2,000 students. Since the start of the project in 2007, the "New drivers" platform has registered over 37,000 students ([4]).

([2]) ACI/ISTAT data for 2018.
([3]) The folder can be downloaded at http://www.fondazioneania.it/download/opuscoli.
([4]) www.neopatentati.it.

Finally, the Foundation's educational and training activities also include project "Icarus", a road safety campaign launched in 2001 and promoted by the Highway Police together with the Ministry for Infrastructure and Transport and the Ministry of Education. The objective is to sensitize students to the risks of the road and at the same time to improve the preparation of drivers' education instructors, creating and distributing specially designed didactic and training materials both to police officers and to teachers. Over the years "Icarus" has involved a total of some 200,000 students.

The 2018 edition of the project was dedicated specifically to distractedness while driving, and in particular distraction due to multitasking. The instruction, under the supervision of the Psychology Faculty of the University of Rome La Sapienza, was provided via a training kit consisting in didactic cards with exercises and simulations, tutorial videos, and a storytelling competition for high school students on the theme of distractedness.

The Foundation also continued its cooperation with the San Patrignano drug rehabilitation community, with an initiative called "We Free," to sensitize young people (middle and high school students) on the risks of driving after taking drugs.

The extension of the Foundation's mission made it possible to deal with new issues, such as online gaming dependency, which is spreading rapidly among young people with the uncontrolled use of smartphones, exposing them to the risk of gaming addiction. The Foundation has undertaken three initiatives under the title "*Rien ne va plus*", engaging nearly 500 students on issues of gambling addiction. The issue is addressed by sensitizing people to the need for correct use of income. For even though households report being unable to save (the Italian household saving rate in 2017 was the lowest on record at 7.8% of disposable income, compared with 20% in 1990 ([5])), Italians spent over €100 billion on gaming and gambling. Italy in fact ranks fourth worldwide in gambling losses ([6]).

The prevailing tendency currently would appear to be to analyze and cure gaming addiction rather than focusing on prevention. Accordingly the ANIA Foundation, in cooperation with the University of Rome La Sapienza, has taken an active role in combating pathological gambling and promoting education for more rational management of savings, dedicating resources for the design of a three-year project entitled "Dostoevsky". The project seeks to implement a study differentiating the pathological from the non-pathological correlates of gambling, in both psychological and neuroscientific terms. The idea is to direct people, especially young people, towards an understanding of the risk and knowledge of the solutions, for appropriate financial and insurance planning.

Initiated in 2018 and still under way, the project consists in three phases. The first, exploratory, serves to produce an updated mapping of the profiles of gamblers and the negative fallout (with special attention to usury and loan-sharking). Focus groups are used to identify possible scenarios of virtual reality with various types of gaming and categorizing them for children/youths, adults, the elderly. The second phase – training

([5]) ISTAT, 2017.
([6]) Agenzie delle Dogane e dei Monopoli, 2017.

– builds on the findings of the exploratory phase to design training and sensitization courses, deploying "immersive reality" as the key teaching tool. The third phase – verification – will involve analysis via neuro-imaging techniques inquiring into the neuropsychological correlates of the gambling addict and consequently effective help.

Another area of prevention is personal protection and above all health. In this field, prevention means a series of rules of behavior (regular medical check-ups, healthy diet, physical activity) to safeguard personal health and well-being and impede serious disease. This is the principle behind the Foundation's "Street Health Tour", which is designed to foster healthy lifestyles through direct contact with the population. In 2018 the Tour provided over 6,000 free check-ups ([7]). This is a service especially useful to people who cannot access the National Health Service, while also sensitizing people to the advantages of supplementary health care. For that matter, the data on the NHS paint a critical picture: Italians pay out of pocket for 150 million health care treatments provided outside the NHS, at a total cost of nearly €40 billion. This is a steadily increasing trend (an increase of 9.6% between 2013 and 2017); it involves more than two thirds of the population (44.1 million people) with average spending of €655 per capita ([8]).

For this reason the free check-ups offered by the ANIA Foundation medical truck are highly appreciated. The NHS is not particularly well regarded, especially in the South of Italy and the island regions, where the Service never scores a satisfaction rate of even 50%. The main problem areas are waiting time (cited by 86% of survey respondents), the cost of co-payments (56%), inadequate structures (54%), and service quality (51%) ([9]).

In the course of the examinations, thanks to interactive data collection with ad hoc questionnaires designed by the medical staff, the Foundation has gathered significant data on the health of those who accessed the program:

- 47% had high blood pressure (and of these, 11% have very severe hypertension);
- 16% had suspected skin neoplasia;
- 11% had test scores indicating "non-normal" cognitive activity, of whom 3% showed evidence of an already advanced pathology;
- 41.5% had hearing problems;
- 40% had poor eyesight (of whom 57.6% had not taken corrective measures, and 7% were convinced that their eyesight was good);
- 42% had a thyroid nodule, although only 6% of these were advised by the staff to have additional tests done. Another significant finding is the high percentage of those examined (82%) who had never had thyroid hormone dosage via blood test performed; this is clear evidence of the importance of prevention and information on these illnesses;
- 15% showed excessively high levels of lung carbon monoxide, the direct consequence of heavy smoking and/or living in a highly polluted area.

([7]) A truck was equipped for free check-ups of eyesight, hearing, lung carbon monoxide concentration, heart functions, thyroid, and dermatological controls.
([8]) Censis-Rbm: VIII Rapporto sulla sanità pubblica, private e intermediate – July 2018.
([9]) Survey: Indagine demoscopica Eumetra MR: Sanità 4.0, curarsi nell'era digitale, generazioni a confronto, November 2018.

Protection

Prevention activities can sharply reduce, but not completely eliminate, the risk of an adverse event. This is most important as regards traffic accidents. Where prevention fails and accidents occur, given the serious consequences that they produce, they can also have a traumatic emotional impact on direct victims and their relatives. The physical harm caused by accidents is often accompanied by psychological consequences with significant permanent effects on the quality of life of the victims and their families.

Aware of this dramatic problem, the ANIA Foundation, in collaboration with the Psychology Faculty of the University of Rome La Sapienza and the Highway Police, has developed the "ANIA Cares" project. This three-year project, the only one of its kind anywhere, is designed to provide psychological support to the persons directly or indirectly involved in serious traffic accidents, reducing what is known as "secondary victimization," i.e. the feeling of indifference and abandonment.

The scientific model for intervention was finalized in 2017 with the training of psychologists, the definition of conventions with hospitals in four pilot cities (Milan, Florence, Rome and Campobasso), the activation of a toll-free telephone number, and the first experimental interventions of "emergency psychological assistance".

Last year the project went operational, focusing on psychological assistance to accident victims and their relatives. 851 therapy sessions were provided to 334 people (30% direct accident victims and 70% relatives). Recourse to this assistance was greatest in Rome, which accounted for 75% of the cases.

Of 1,185 calls received by the call center, more than a third required post-event psychological sessions, and 23% required the immediate dispatch of a psychologist; 28% of the calls only asked for information about the service, and 15% of the requests could not be satisfied, in that they were for services that could not be provided.

Most of the calls to the toll-free number (52%) came from medical staff at the project hospitals. Another 27% came from law enforcement officers. Just 11% were from accident victims or their relatives or representatives.

To gauge the effectiveness of support and therapy, measurements before-and-after the psychological intervention were performed. The results were highly encouraging, showing a sharp decrease in suffering according to the evaluation scales used. Patients' comments also show a high degree of appreciation of the service.

In 2017, ANIA Cares was expanded from psychological assistance only to include an additional unit, specializing in motor rehabilitation. In cooperation with Fondazione Universitaria Foro Italico, the ANIA Foundation has made available three Re-Walk Robotics "exoskeletons" to develop, at the university institute, a three-year rehabilitation course for a sample of victims aged 18 to 35 who have lost the use of their lower limbs due to accident. In 2018, 97 persons with spinal lesions due to traffic accidents were examined for eligibility for the program; 50% were found to be unsuitable owing to physical problems with respect to the parameters for use of the exoskeleton. A total of 39 persons did use the service, with continuous activity involving five separate, increasingly complex training and rehabilitation courses. A total of 3,500 training sessions were held, lasting 5,400 hours. This is one of the most intensive rehabilitation programs in existence, either nationally or internationally.

The objective of the testing is to determine the implications of the exoskeleton for paraplegics' self-representation of their body. The idea is to see whether the brain can learn to treat a major prosthesis (like an exoskeleton) as a part of the body.

The general results of the intervention are highly satisfactory, showing a broad improvement in quality of life.

Technological innovation

Technological innovation means all the activities of enterprises and institutions to introduce new products and services connected with the development of new technologies, or new methods for producing, distributing and using them. A necessary condition for innovation is acceptance by the users, who may be either customers who purchase the new good or service or the users of a public service.

Sensitivity and attention to innovation are the key to competitiveness. So if innovation is now essential to every industry, for insurance it is a crucial asset, permitting a significant broadening of the range of products and services supplied.

ANIA Foundation has invested heavily in the development of initiatives for testing new technologies, involving the millennial generation, whom the entire insurance industry must address in order to continue and complete the process of modernization. In line with this philosophy, in 2018 the Foundation organized its second "hackathon" – a marathon of ideas involving creative young people with expertise in new technologies: for 24 hours, non-stop, they competed in the development of innovative ideas on a specified topic, in this case "Insurtech". The headquarters of the "H-Farm" in Treviso hosted a hundred young people (average age, 22) recruited via blogs, social networks and contacts with working groups on innovative start-ups. At the end of the 24 hours, the teams presented their projects in a format calling for a 5-minute oral and multimedia presentation.

The event represented a significant opportunity for encounter between young people and the insurance community, and in fact the program called for moments of contact and dialogue between the hackathon participants and representatives of the insurance companies present. These talks opened the way to selections, with job opportunities for the best contestants.

The Foundation, then, is not engaged solely in the effort to develop new products and models to the advantage of the insurance industry but also serves to facilitate employment in a moment when the jobless rate, and the youth unemployment rate in particular, is critical.

In the narrower field of road safety, innovation and safety are increasingly inseparable in accident prevention. Just think of the technology now mounted in cars, from power braking and ABS to speed control and pre-collision sensors.

Recent developments in technology are paving the way towards the mobility of the future, with ever-smarter vehicles equipped with sophisticated technological systems. Constant monitoring of vehicles produces unique data that can augment passenger safety and give us invaluable information on driving styles, data that can improve road safety, economize on fuel consumption, and optimize maintenance programs.

The Foundation has decided to test and assess the new IT systems (black boxes, video recorders, interlock engine block) to derive data, check the effectiveness of the systems, and gather more and better information on the mechanisms of accidents. The experimentation has focused on high-accident-rate vehicle fleets (buses, taxis, trucks): these are the highest-mileage vehicles, hence those most exposed to accident risk.

Last year saw the continuation of monitoring on a sizeable fleet of taxis (600 cabs) in three metropolitan areas (Milan, Rome, Naples), under a cooperation agreement with Unione Tassisti Italiani. The program is intended to launch a risk management project using on-board video recorders and applying a safety model already promoted for public transport and freight carriers.

The data collected in 2018 confirm that most accidents for these vehicles (80%) occur on city streets and at low speed. The share of accidents due to excessive speed has diminished in the course of the testing, indicating greater awareness and responsibility on the part of drivers. As to the dynamics: a third were rear-end collisions and another third side impact collisions. The data drawn from the videos confirm the high risk of distraction, which was the cause of nearly half the accidents recorded on video.

While the proportion of passenger cars mounting black boxes is now substantial (over 20%), the same cannot be said of motorcycles and scooters, despite the fact that the serious accident rate is much higher for the latter. Accordingly, starting in 2016 the Foundation has tested IT systems also on motorcycles and scooters, in two versions, namely with and without video.

The experiment with video (Octorider 2V cameras) involved 176 scooters and 74 motorcycles, mostly in Milan, Naples and Genoa. The drivers' age tended to be between 30 and 40, and they are overwhelmingly male (just 5% women). The testing of traditional black boxes (Slim box) involved 500 vehicles, mostly in Sicily, Puglia and Lazio. Here the drivers were mostly aged 40-50 and again almost all men (3% women).

The data show that in 2018 the vehicles monitored were driven for a total of nearly 5 million kilometers: 57% on city streets, 30% on extra-urban highways, the remaining 13% on motorways. Most trips were short (85% covered less than 8 kilometers, just 0.4% more than 80).

As to speeding, while average speeds in urban areas are within the legal limits owing to traffic and stoplights (overall average speed in cities is just over 30 km/h), where the situation is more fluid motorcyclists may go well over the speed limit. On extra-urban highways speed averages between 80 and 90 km/h, and 25% of the entire distance is covered at speeds above the legal limits; and another 5% very much higher (more than 40 km/h over the speed limit). All in all the level of risk found in 2018 was about the same as in 2017, but with an encouraging trend to less speeding (down by 5% on the year). Presumably this was due to greater sense of responsibility on the part of drivers, owing in part to campaigns of sensitization addressed to program participants.

Insurance, in the future, will inevitably have to shift towards more and more customized products depending on the real level of risk for policyholders. This means it is essential to analyze the enormous mass of data produced by vehicle systems and analytical algorithms.

With a view to assessing these developments, in January 2017 the ANIA Foundation developed a proposal for a "safe driving" project to gather information on driving styles and determine the correlation between conduct at the wheel and the risk of accident. A three-year experiment will be conducted with the cooperation of a number of insurance companies, which have selected a sample of their policyholders for installation of the "SOS Call" system to evaluate its effectiveness and usefulness for insurance purposes.

"Safe driving" provides support to motorists, with real-time information to drivers on the riskiness of the various routes as a function of a series of factors monitored, such as traffic, speed limits, environmental and weather conditions, dangerous roads and "blackpoints" with high accident risk. The program also serves to inculcate a greater sense of responsibility in drivers, inviting them to obey the Highway Code.

The vehicles monitored for this program covered 8 million kilometers in 2018, 36% on city streets, 37% on extra-urban highways, and 27% on motorways. Most trips were short: 76% covered less than 8 kilometers, just 1.4% more than 80.

In urban areas the average speed is low, just 16 km/h, as city traffic conditions weigh heavily on travel time. Outside cities speeds increase considerably: 30% of the total distance is covered at speeds above the limit, and 6% at speeds of more than 40 km/h above the limit. And speed is confirmed to be one of the leading risk factors. In 2018, a total of 34 accidents were recorded by the IT system, most of them with sharp braking and frontal impact, a sure sign of speeding and failure to maintain safety distance. There were also 8 accidents in which the car simply went off-road, indicating lack of concentration on the part of the driver.

Another area in which technology can bring significant benefits is driving under the influence of alcohol. The European Commission estimates that 25% of all traffic fatalities are due to overdrinking – for the European Union as a whole, this means over 7,000 deaths a year. Some countries in the North of Europe (Sweden, Finland), as well as the United States and Canada, have instituted rules for the installation of engine block systems (interlock devices) for vehicles driven by professionals or by drivers with a past record of driving under the influence of alcohol.

In practice, interlock systems involve mounting an ethylometer to check the air expired from the driver's lungs and linked to the ignition. When the level of alcohol in the air that the driver breathes into the device, or in the vehicle as measured by a special sensor, exceeds a given level (specified by the Highway Code), the device prevents ignition of the engine.

As part of road safety policy guidelines for 2011-2020, the Commission has pledged to examine the possibility of making these devices compulsory for certain drivers (school buses, hazardous materials transport) and/or types of vehicle.

Italy has neither any specific rules nor experimentation under way. Accordingly the Foundation has decided to undertake a project, involving professional drivers, to provide data permitting assessment of these systems' effectiveness and to determine their degree of acceptability among both professionals and public opinion. In the course of 2018, 25 systems were installed on a fleet of long-distance tour buses.

The eventual findings can serve as support for Parliament in evaluating the efficacy of the technology in countering violations of Article 186 of the Highway Code and introducing provisions to combat driving under the influence of alcohol, with special attention to recidivism on the part of those who, after being sanctioned, get their driver's license back.

This workshop of ideas for the motor insurance sector, which combines technology and research with a view to prevention and protection, is a model for the development of new projects for other insurance branches as well. In health insurance, for instance, where our society will have to cope with major trends such as population aging or the need for assistance to the non-self-sufficient, there has been a sharp increase in the use of devices that monitor health and well-being. And in homeowners' insurance, more and more sophisticated computer-linked applications have been developed.

In the last two years the Foundation has concentrated on projects designed to protect and improve people's quality of life. Embarking on this route, the Foundation has worked hand-in-hand with Italy's most important structures, both public and private, to design applied research projects and programs of prevention of certain diseases. One cooperative project, together with Campus Biomedico in Rome, involves the design of bionic prostheses for upper limbs with sensorial feedback, for amputees; another seeks to design an algorithm to calculate the risk of stroke for persons predisposed to that pathology. The projects' results will be available in 2020, together with an estimate of the impact on the insurance industry.

Our desire to contribute actively to improving health standards prompted cooperation also with the Bambino Gesù pediatric hospital in Rome. Through the Foundation the insurance industry has decided to finance the Bio-bank for research on rare diseases, which affect some 2 million people in Italy alone, two thirds of them children. This engagement with Europe's largest center of pediatric research has laid solid foundations for improving the quality of life of hundreds of thousands of people who are battling diseases whose causes are unknown and for which no definitive cure has yet been found.

Communication

Even today, many people see insurance as an unavoidable obligation. But in a society of uncertainty, it is essential to educate people to a new logic of protection and prevention. This means getting in touch with people's needs.

Through the Foundation, the insurance industry has therefore sought to create occasions for dialogue by means of events with considerable public and media impact, events that can make people better aware of the broad and diversified activities of the insurance sector, whose mission is centered on the protection of persons, their property and their assets.

With this in mind, again in 2018 the Foundation took part in the Rimini Meeting, with a stand offering various activities of sensitization and training for safety and prevention. The space was divided into three "thematic corners" to attract all the various kinds of visitors. There were three specific areas:

- prevention and health: 3 stations for check-ups of eyesight, 2 for neuro-cognitive disease screening, 2 for lung carbon monoxide checks, 1 for dermatological exams;
- road safety: 2 static driving simulators, 1 dynamic driving simulator and a carpet for the simulation of drunk driving;
- social media and apps.

Thanks to the dedication of the participating physicians, 1,275 patients were examined, many of them for more than one problem, with a total of nearly 2,000 screenings. The road safety division also saw large-scale participation, especially on the part of young people; 400 dynamic and over 1,200 static driving simulations. With these machines, drivers were able to experience different ways of driving and test their capacities, dealing in conscious fashion with the risks of distracted driving and driving under the influence of alcohol or drugs.

The Foundation also confirmed its participation last year at the "Tennis & Friends" event. With the support of leading institutions and the intervention of a number of celebrities, we set out to disseminate a culture of prevention. Through free check-ups performed by physicians from the Policlinico A. Gemelli Foundation and other centers of health care excellence, this yearly event helps to safeguard citizens' health and thus reduce the costs of the National Health Service.

Last year's Rome edition involved 400 professionals in 29 specialties, with 109 health stations that performed 18,810 screenings, 20% more than in 2017. About 25% of the persons screened were found to have pathologies of which they were unaware; in 4% of the cases tumors were detected and surgical operations promptly performed. In the area set up by the ANIA Foundation, 900 heart, 210 nutrition, 180 gastroenterological, and 350 hepatic checks were performed.

The first edition of Tennis & Friends in Naples also produced significant results, performing 4,500 check-ups. Here the Foundation paid special attention to women, providing an area for breast exams, gynecological examinations and a test for osteoporosis.

At two points in the Rome and Naples events the Foundation provided information and communications on the commitment of the insurance industry in the field of personal prevention and protection.

In support of the new strategies, again last year the Foundation conducted a national communication campaign. Along the same lines as the 2017 campaign, we focused on the values of the insurance industry, stressing its importance for serenity and security. The campaign slogan – "You just think about living, we'll think about insuring you"— appeared following a series of messages addressed to the public, to businessmen, and to professionals. To get the message across, we devised a multimedia plan, with static creativity for ads in the main daily newspapers, spots on national TV broadcasts and pay TV channels. A website dedicated to the campaign (meglioassicurarti.ania.it) was created for diffusion on the web and social networks.

In short, the ANIA Foundation seeks to promote a systematic, innovative model of protection, in which communication and training, cooperation with public and private institutions, experimentation and new technology are blended into a single project for educating citizens to a greater awareness of the benefits of careful protection of people and property. At the same time, the Foundation gives the insurance industry itself tools for designing products and services better and better adapted to the needs of households and firms and for contributing to sustainable economic growth and looking to the future with confidence and determination.

THE ANIA-CONSUMERS FORUM

The ANIA-Consumers Forum is a foundation constituted by ANIA, with representatives of insurance companies and consumer organizations and independent members. The Forum's decision-making body includes representatives of nine national consumer organizations: Adiconsum, Adoc, Cittadinanzattiva, Codacons, Federconsumatori, Lega Consumatori, Movimento Consumatori, Movimento Difesa del Cittadino and Unione Nazionale Consumatori.

Within the Forum, insurers and consumers meet to talk about major issues relevant to the insurance industry and to society generally, organizing a series of activities, studies and projects focusing on two specific areas of interest. First is welfare, with inquiry into the current situation and future prospects for the welfare state, with the aim of sensitizing public opinion to the impact on Italian households and devising joint proposals to present to governmental institutions. Second is insurance education and training, with an effort to foster greater awareness and information on risk management, retirement planning, and the defense of one's wellbeing.

Regular dialogue between the parties within the Forum also permits examination of other issues relevant to insurance, such as the impact of recession on households, or natural disasters, and possible insurance solutions to handle the costs. Lastly, the Forum sees to the realization of a whole series of initiatives stemming from agreements between ANIA and consumer organizations for the improvement of insurance services. Among the most significant are the motor liability dispute conciliation procedure, proposals for more transparent contracts, and extraordinary measures for support and facilitation of policyholders in the case of natural disasters or other tragic events such as the collapse of the Morandi Bridge in Genoa.

THE WELFARE SYSTEM

The Forum continued its discussion of Italy's present welfare model, the new organization that is taking shape and the social role of insurance companies within this changing scenario. This is the framework within which the Forum has undertaken a series of initiatives of research and analysis, in cooperation with major research centers and academic institutions.

In the course of 2018, in particular, together with Censis a research project entitled "From precautionary cash to protection: channeling savings to reduce inequality". The aim is essentially to direct saving to instruments of protection.

The Observatory on the economic vulnerability of Italian households continued its activities. The Observatory is sponsored by the Forum in cooperation with the University of Milan, which produced and presented a digital application with which citizens can determine their degree of financial knowledge and monitor their family's vulnerability.

Last year also saw the launch of a program of actions on the part of the Forum's consumer organizations, entitled "Better informed, better protected" to inform and sensitize the public on selected issues of special interest (such as supplementary health care).

Finally, the Forum is an active participant in the "Second Welfare Path" project, created at the initiative of the Luigi Einaudi Research Center in Turin and bringing together businesses, foundations, trade unions and local government bodies. In 2019 the Forum will contribute to the drafting of the "Fourth Report on Second Welfare in Italy", which will include information and analysis on the insurance industry's role in this field.

The Censis survey "From precautionary cash to protection: channeling savings to reduce inequality"

In 2018, the insurance and consumer representatives in the Forum agreed on the need for further study of the issue of saving and its channeling to instruments of social protection. This decision stemmed from the shared observation that Italian saving is held largely in the form of liquid assets and allocated to uses of only slight efficacy with respect to the growing needs of households for retirement resources and protection.

On these premises, the Forum commissioned Censis to carry out a survey to provide background information for a dialogue on the issue between insurers and consumers.

The findings of the survey – "From precautionary cash to protection: channeling savings to reduce inequality" – were published by Franco Angeli and presented at a conference held in Rome on 19 June 2019, attended, in addition to representatives of ANIA and the Forum, also by public institutional figures and representatives from academia and the world of business and labor. The results of the survey and the issues raised in the course of the event attracted considerable interest on the part of the press and public opinion.

THE CENSIS REPORT – THE SIGNIFICANT DATA

Here we set out the main findings of the Censis survey conducted for the ANIA-Consumers Forum. The report details current dynamics, future scenarios and possible solutions for an effective, sustainable welfare state.

First of all, the report notes the increase in inequality: the wealthiest 20% of Italians hold 68.8% of total wealth, the poorest 20% just 1.1%. The consumption of working-class households contracted by 1.1% in 2016-2017, while that of entrepreneurs' households increased by 1.8%. And 38% of Italians maintain that the opportunities for a better life are less fair than they were 30 years ago.

Second, the survey found that between 2008 and 2018 the share of cash in Italian household asset portfolios increased by 16.3%. This is precautionary saving, motivated by the need to be able to cover expenditure for unexpected adversities (66.1%), the desire to feel protected (52.3%), and by desire for a comfortable old age (44.9%). All households reported that private welfare spending weighed very heavily or fairly heavily on income.

The erosion of the public welfare system and the consequent recourse to private spending is attested to by the fact that at least once during the year 72.7% of Italians requiring a benefit available free of charge or at low cost from the public system turned nevertheless to private providers, paying out of pocket. Specifically, 71.8% of respondents paid for specialist medical examinations, 45.6% for dental care, 39.3% for diagnostics, 29.2% for drugs. Further, according to 63.4% of respondents, the public system guarantees only basic benefits, and the rest has to be purchased out of pocket. What is worse, according to 19.9% it does not provide even the essentials; only 16.6% consider that the public system offers all the coverage they need.

The Censis report also documents the limited recourse of Italians to supplementary welfare programs, in part because only 20% said they were familiar with the instruments of supplementary health care coverage, 23.3% with supplementary retirement programs, and 15.6% with coverage for non-self-sufficiency. It is worth noting that 66.5% of people who save are in favor of allocating part of these resources to supplementary forms of protection, but that for 53.9% this depends on the benefits obtainable in return for the saving effort.

The authors of the report suggest several lines of action with which to begin at once. First of all rules, including fiscal rules, need to be instituted to foster responsible welfare choices on the part of citizens, to go beyond the "do-it-yourself" logic that aggravates inequality and disparities. It is also important to intensify and disseminate information on supplementary welfare programs, in order to enhance effectiveness and create a framework of uniform rules for those operating in this sector. Finally, the authors stress the need to improve the supplementary welfare programs available by instituting flexible, personalized forms of protection tailored to individual needs.

THE VOLUME "FROM PRECAUTIONARY CASH TO PROTECTION"

The series of volumes on "Welfare Scenarios", published by the ANIA-Consumers Forum in collaboration with the publisher Franco Angeli, lengthened in 2019 with the release of a new volume entitled "From precautionary cash to protection", reporting the latest welfare survey conducted by Censis for the Forum.

The previous four volumes in the series reported the findings of earlier surveys by Censis, namely "New needs and the desire for a future", "New protection beyond the crisis", "Towards a sustainable social state", and "Several pillars, a single system".

"Better informed, better protected"

In cooperation with the consumer organizations, in 2018 the Forum launched its "Better informed, better protected" program for the realization of projects on the part of the individual organizations belonging to the ANIA-Consumers Forum to inform consumers and make the most of possible joint proposals on a range of issues of great social interest: health care, saving, natural disasters, innovation. In 2019 the projects foreseen will be developed and presented to the public. The contents of these initiatives will be gotten across through a series of conferences and workshops all over Italy and publicized in the media thanks to multiple communications activities carried on by the consumer organizations.

THE CONSUMER INITIATIVES AT A GLANCE

Adiconsum: "Tools and strategies for well-being in old age"

Survey and desk analysis – together with interviews with experts, representatives of government, civil society and the insurance industry – to observe citizens' perceptions of public health and welfare systems, non-self-sufficiency, and prevention, plus their level of knowledge of and attitude to supplementary health care programs.

Adoc: "Natural disasters in Italy. Perception of risk and households' behavior"

An inquiry on households' risk perception and behavior as regards natural disasters. The inquiry, developed in synergy with Codacons, is constituted by desk analysis on earthquake, flood and landslide risks in Italian territory and a survey of households in a medium-to-high earthquake risk area (Naples).

Cittadinanzattiva: "Saving and vulnerability #più informati più protetti"

Through civic consultation, information campaigns and debates, the "better informed, better protected" project aims to sensitize citizens to rational use of money, to inform consumers and heighten their awareness of risk and protection solutions, and to institute a constructive dialogue on the problems that citizens perceive and experience, so as to develop proposals for improvement.

Codacons: "Natural disasters in Italy. Perception of risk and households' behavior"

An inquiry on households' risk perception and behavior as regards natural disasters. The inquiry, developed in synergy with Adoc, is constituted by desk analysis on earthquake, flood and landslide risks in Italian territory and a survey of households in a medium-to-low earthquake risk area (Aosta).

Federconsumatori: "Put your choices into practice: health at the center"

Desk analysis of the response of the leading European countries to the growing demand for assistance in connection with the diffusion of chronic illnesses and actions in terms of prevention, organizational management of resources, the siting and financing of activities, with a view to models that could be imported into Italy. In addition, direct involvement of citizens through a sample survey.

Lega Consumatori: "Savers: from vulnerability to awareness"

This project is intended to foster public information and awareness of the channeling of saving to protection. The project will produce informational tools and consulting services at the association's offices throughout Italy.

Movimento Consumatori: "My insurance"

A questionnaire produced with the assistance of experts is used to inquire into consumers' knowledge and needs in the area of risk protection and channeling of savings and to define a profile of minimum insurance priorities and essential information needs. At the same time an informative handbook on insurance for consumers will be produced.

Movimento Difesa del Cittadino: "I assure you: I'm not taking risks"

Studies, information campaigns and local debates will foster greater awareness on the part of citizens concerning the prevention of natural disaster risk and the usefulness of the related insurance instruments; also to sensitize government institutions to the need to foster prevention and to drastically lower costs and so facilitate access to insurance.

Unione Nazionale Consumatori: "Innovation and new forms of data utilization: strategic project for action on emerging consumer needs"

The study seeks to favor analysis of consumers' expectations for insurance companies' data management and to identify best practices for insurance in the framework of Big Data. This activity will be flanked by an informational campaign on innovation.

The household economic vulnerability app

Last year the Observatory on the economic vulnerability of Italian households, which is sponsored by the Forum in cooperation with the University of Milan, presented its new digital application designed to sensitize citizens to the need to monitor their risk exposures and plan strategies of protection. By popularizing this app, insurers and consumer associations belonging to the Forum intend to inform consumers and heighten their awareness of external shocks that could make their household financially vulnerable, owing among other things to the shrinkage of the public welfare system, which no longer offers the same protections as in the past.

This digital tool was developed thanks to the scientific contribution of a research team at the University of Milan. It consists of an informative section detailing the studies and activities of the Observatory plus a second section that consumers can use to check their degree of financial knowledge and at the same time monitor their household's vulnerability.

Consumers who download the app (via iOS or Android) are called on to answer a set of questions testing their financial education and to respond to a larger questionnaire that provides a qualitative feedback on the basis of the answers, indicating whether there are risk factors that could jeopardize the consumer's economic security and suggesting protective strategies.

INSURANCE EDUCATION

One of the Forum's official purposes is to undertake campaigns of information and education on insurance issues to enable consumers to make informed choices. The consumer and insurance representatives who make up the Forum see it as absolutely essential that citizens have the necessary knowledge before making important financial decisions for themselves and their families. Some basic knowledge is required, for instance, to plan for the costs of children's studies, for rational management of credit, for getting adequate insurance coverage, and for properly preparing one's retirement.

In pursuit of the objective of education on these issues for young people and adults alike, the ANIA-Consumers Forum is engaged in continuous training and instruction in insurance matters for staff and technical personnel of the consumer organizations. It produces a series of guides entitled *L'Assicurazione in chiaro* ("Insurance made plain") and sponsors initiatives like the "Prize for Applied Mathematics" and the educational project *Io e i rischi* ("Me and risks"), a course on risk awareness, prevention and mutuality for Italian students and households.

In developing these actions, the Forum has not only relied regularly on associations of insurers and consumers but has also been able to draw on the authoritative contributions of associations of teachers, universities, and cultural foundations.

"Me and risks": Insurance at school

The Forum has developed a multi-year educational program called "Me and risks" that is intended to heighten young people's awareness of risk and spread a culture of risk prevention and management over one's life span. The program is undertaken in cooperation with the Association of European Economics Education (AEEE Italia) and with the scientific consultancy of Università Cattolica del Sacro Cuore and Università Bocconi in Milan and is sponsored by the national institute for educational documentation, innovation and research.

"Me and risks" is mentioned in the report *L'educazione finanziaria in Italia: oggi e domani. Il primo censimento Nazionale delle iniziative promosse sul territorio* (Financial education in Italy: today and tomorrow. First national census of local initiatives) presented at the Bank of Italy. The report describes the main programs of financial, insurance and retirement education in Italy. In addition, through "Me and risks," the Forum participates – together with the Bank of Italy, ANASF, and ABI, the banking association – in the discussions on financial education organized by the Lombardy regional school office. "Me and risks" has also gained international recognition; the program has been cited by Insurance Europe as among the best practices of financial education instituted by European insurers.

In practical terms, the program is a course for middle and high school students. It proceeds through classroom lessons given by the students' regular teachers, who are supplied with a didactic kit of educational/game materials. The instruction modules for middle school focus on the concepts of risk, prevention and mutuality, while those for high schools deal with risk management over the life cycle, retirement saving, planning of the future and insurance.

The program also involves conferences for high school students; theatricals for young students presenting the same themes as the instructional materials (risk, prevention, mutuality); and material addressed to families with children.

In its relatively brief span of activity the program has involved over 130,000 students from schools in all parts of Italy.

Applied mathematics prize

The "Grand Prix for Applied Mathematics" is an initiative connected with the "Me and risk" program for high schools. The competition was developed by the ANIA-Consumers Forum together with the Banking, Financial and Insurance Sciences Faculty (specifically, the degree course in statistics and actuarial science) of the Università Cattolica del Sacro Cuore in Milan, with the sponsorship of the Lombardy Region and the National Council of Actuaries.

The "Grand Prix" competition is designed to enable contestants to put their logical and mathematical knowledge to use in various practical life situations. The tests consist in problems to be solved by applying intuitive mathematical models to real life situations.

The Forum, through the competition, intends to capitalize on students' mathematical abilities and spark their interest in the more practical, concrete aspects of the discipline, as well as to sensitize them to the possible career opportunities for those who opt for a university course in statistics and actuarial science.

The "Grand Prix" has been increasingly successful. The 2019 edition saw the participation of over 10,000 students (up 12% compared with 2018), from 150 high schools. The winners and their teachers won tablets and other multimedia devices. The prizes were presented on 23 March 2019 at the Università Cattolica, in the presence of representatives of the academic and insurance communities.

COMMITTEE FOR FINANCIAL EDUCATION

The "Committee for the planning and coordination of the activities of financial education" is charged with promoting and coordinating initiatives to heighten citizens' knowledge and competence in financial, insurance and retirement matters and so improve everyone's capacity to make choices consistent with their objectives and conditions.

The Committee was instituted in 2017 by a decree of the Minister for Economy and Finance in concert with the Minister for Education, Universities and Research and the Minister for Economic Development, implementing Law 15/2017 enacting "urgent measures for the protection of saving in the credit sector"; Article 24-*bis* provides for a set of "General provisions on financial, insurance and retirement education".

The Committee is composed of eleven members and chaired by a director, Professor Anna Maria Lusardi. The other members were designated by the ministries for economy and finance, for education, universities and research, for economic development, for labor and social policies, and by the Bank of Italy, CONSOB, IVASS, the pension supervisor COVIP, the National Council of Consumers and utility customers, and the supervisor keeping the single register of financial advisers (OCF).

The main initiative undertaken so far by the Committee has been the drafting of a "National strategy for financial education", submitted in 2018 to a public consultation, in which ANIA offered its own ideas. Last year the Committee also presented a new portal for financial, insurance and retirement education. The portal is intended as an authoritative source of information on financial matters, an opportunity for citizens to increase their knowledge in this field.

Through the Bank of Italy a survey was conducted on financial, insurance and retirement education initiatives in Italy, which include both the "Me and risks" program of insurance education and the "Insurance made plain" series of guides of the ANIA-Consumers Forum.

Finally, last year the Committee instituted "Financial Education Month", the first edition of which was conducted in October involving a series of events to inform the sensitize the public concerning correct ways of managing and planning personal and household resources. The idea is to work for economic well-being through the use of appropriate financial, insurance, and retirement instruments.

Participation in "Financial Education Month"

The ANIA-Consumers Forum took part in the first annual "Financial Education Month" by holding some of the didactic conferences included in the "Me and risks" program for high schools. In view of the importance of the "Month" and the success of the Forum's participation, a series of initiatives for the next edition have been prepared. At the invitation of IVASS, cooperation with the insurance supervisor has been initiated to maximize the number of events devoted to insurance and to heighten the role of insurance education within the framework of the "Month".

The partnership has developed a set of initiatives that will be proposed to the event's organizing committee for 2019: an "Insurance and insurance education day", a conference presenting the joint Forum-IVASS initiatives for "Financial Education Month"; informative workshops and seminars on insurance issues in several cities in different parts of Italy; the launch ceremony for the 2020 "Applied Mathematics Prize" at the Università Cattolica del Sacro Cuore, the event's co-sponsor; the "Me and risks" conferences on insurance issues (e.g. "How insurance works") for high school students, in cooperation with Association of European Economics Education (AEEE Italia); and the "Me and risk" edutainment events on risk, prevention and mutuality for middle school students.

The "Insurance made plain" guides

The ANIA-Consumers Forum has created a set of guides, the "Insurance made plain" series, which explain the insurance issues of greatest interest to consumers in simple language for a mass readership. The latest volume in the series, presented in 2018, is "Health insurance", which offers a description of the various types of health care policies available in the market, explaining how insurance works to reimburse medical expenses, and setting out the various forms of indemnity, policies providing protection in case of serious illness and those providing economic support for those who are no longer self-sufficient.

The guide also goes more deeply into a number of issues involved in health insurance, such as the medical history questionnaire, latency and exclusion periods, possible supplementary coverage, plus tax rules and advantages for policyholders.

The previous "Insurance made plain" publications covered motor liability insurance (with an updated second edition in 2017), insurance distribution, life insurance, and home and homeowners insurance. All the guides are also available in digital format on the websites of the ANIA-Consumers Forum (www.forumaniaconsumatori.it) and of the educational program "Me and risk" (www.ioeirischi.it). In addition, they are available to the public also on the websites of the participating consumer organizations and insurance undertakings. In 2019 the Forum will publish a new guide.

MEMORANDUM OF UNDERSTANDING BETWEEN ANIA AND CONSUMER ORGANIZATIONS ON THE COLLAPSE OF THE MORANDI BRIDGE IN GENOA

Last year, with the active involvement of the insurance supervisor IVASS, the insurance industry engaged in a highly articulated dialogue with consumer organizations on possible measures that insurers could take for the residents of Genoa affected by the collapse of the Morandi highway bridge in August.

The dialogue was fruitful, and in February 2019 a memorandum of understanding was signed between ANIA and 13 consumer organizations in the Liguria region: Adiconsum, Adoc, Adusbef, Altroconsumo, Assoutenti, Casa del Consumatore, Codacons, Federconsumatori, Konsumer Italia, Lega Consumatori, Sportelli Consumatori in Rete, Sportello del Consumatore, and Udicon.

The measures provided for in the memorandum will be in effect for the duration of the state of emergency declared by the Council of Ministers by its resolution of 15 August 2018, i.e. only until 15 August 2019 or a later date if the Government should decide to extend the state of emergency.

ANIA SAFE

The merger of ANIA Servizi and ED.ASS. into IRSA Servizi e Formazione was completed at the end of 2018. The new organization was then renamed ANIA Servizi e Formazione: ANIA SAFE.

The purpose of the merger is to capitalize on the respective strengths of the component units, with entrepreneurial synergies. ANIA itself is the sole shareholder of the new organization.

ANIA SAFE is structured into three areas: Services, Training, and Publishing. Each obviously focuses primarily on devising solutions and proposals for the insurance market, but not neglecting possible opportunities for extension to other markets. The merger has brought the various activities together in a single structure, heightening administrative, accounting, and organizational efficiency. The services provided will be complementary and synergetic.

ANIA SAFE Training

This is ANIA's training school at the service of insurance companies, banks and financial companies. It develops customized training projects for the professional development and updated training of all professionals employed in those enterprises. Its activities are based on careful analysis of customer needs; projects are developed ad hoc, centered on the customer organization with its special needs and features. The projects draw on leading professionals in the relevant sector for consultation and teaching, including ANIA's own experts. ANIA SAFE Training offers customers learning direct from the source, with up-to-date content in line with current legislation and regulations. In the last decade in-career training has been radically transformed by the constant, pressing regulation of the financial industry. The introduction of customer-centered business models requires a thorough change in mind-set, which can be supported by new competences and capacities. Training methods too are subject to significant change, with the gradual transition from the traditional classroom format to methods of instruction more in keeping with the times, supported by advanced technology, and to more dynamic, interactive forms of learning. The topic of the digital transformation is central today, and digital skills are crucial for all professionals, not just the more technical. Another key component in ANIA SAFE Training's activities is consultation on accessing industry financing via FBA and FONDIR, which enable enterprises to pursue their objectives of human resources development while economizing on investment.

ANIA SAFE Services

This area develops and offers to insurance companies a broad range of distinctive, innovative services to enhance operating efficiency. The services fall into three main categories: data-solution, operational support, and "central purchasing".

Data-solution services give insurers access to information, documents, and data structured to support specific areas of operations. For example, this area includes the new “Map Italy” service collecting data for territorially based risk assessment, and the SIC-Compliance service, giving access to a full repository of laws and regulations for the entire insurance industry.

Operational support services offer integrated platforms and tools for operational processes, such as the new IFRS 17 service, which will allow correct transition on the occasion of the imminent introduction of this revolutionary new accounting standard, or the DNF benchmarking service, giving insurers a reference standard for the drafting of their non-financial reporting documents.

“Central purchasing”, finally, gives insurance companies access to selected services purchased on the market with the intermediation of ANIA SAFE. Since they are negotiated for the entire industry, they can be offered to insurers on especially favorable terms. Here the service is provided directly to the requesting insurance company by the service provider itself. One instance of such a service is cyber security services.

ANIA SAFE publishing

This area offers selected content to the insurance market, mostly the product of ANIA’s activities. In the future ANIA SAFE publishing will concentrate more on rationalizing and enriching the enormous mass of information produced by ANIA itself, with a view to data monetization. Research, studies, analyses and statistics will be rationalized, and the information made available will also include direct distribution via the new ANIA SAFE portal, with materials differentiated both for the insurance market and for the professionals interested in ANIA publications.

INNOVATION BY ANIA

THE IMPACT OF THE DIGITAL ECONOMY ON GROWTH

Over the past decade the economic importance of digital technology has increased exponentially, contributing to value creation in every sector of the economy. Information and communication technology is transforming social interactions and personal relations through the convergence of fixed, mobile, and radio-connected networks and the intensifying interconnection of apparatuses and objects to realize the "Internet of things".

The main pillar of the digital economy is the great abundance of data produced by a multitude of operators (firms, businesses, individuals, objects) in a variety of forms (text, sound, video, geo-positioning). These data can then be transmitted on a range of platforms (e-commerce sites, social networks, satellites). Thanks to innovative processing techniques (big data), together with the rapid increase in computer calculating power, one can extract from this enormous mass of data information that can be used at every stage and level of the production process.

It is not easy to define the concept of "digital economy", nor, therefore, to estimate its size or impact on the overall economy. Thanks to their marked non-specificity, digital technologies pervade all economic activities.

To examine the national accounting data for ICT, the European Commission has estimated the direct impact of this sector – i.e. not counting the productivity spillover to other sectors – at 4.8% of the total EU economy. The ICT sector generates about a quarter of R&D activity and accounts for over 50% of productivity growth.

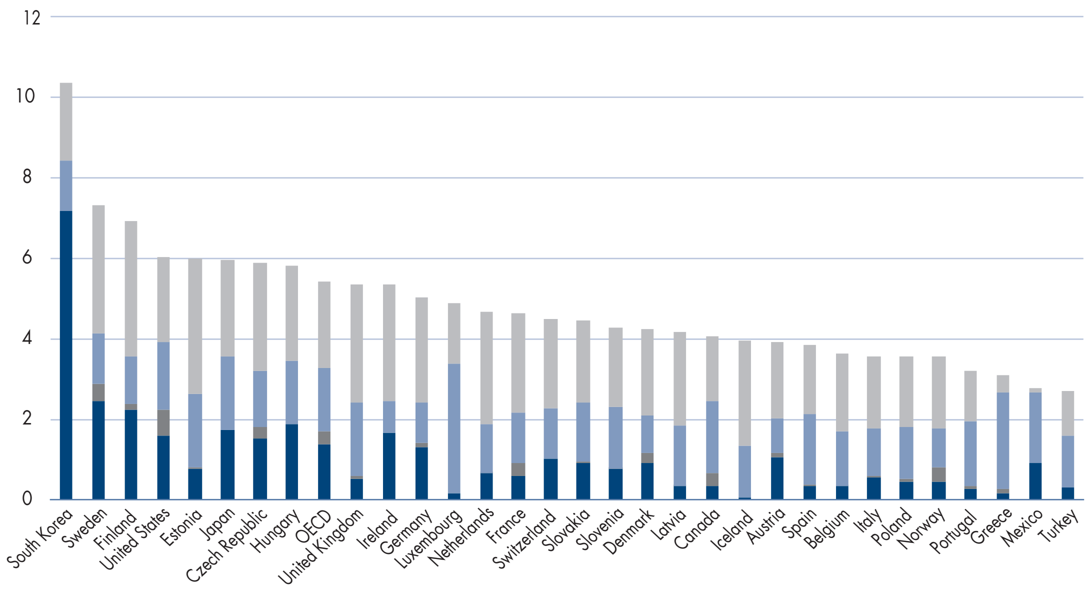
The relative importance of ICT in different national economies varies widely. Considering the thirty OECD members, the impact ranges from over 10% of total value added in South Korea to under 3% in Mexico and Turkey. The figures show how far behind Italy is, with a contribution of less than 4% to value added compared with an average of over 5% for the thirty most heavily industrialized countries (Figure 1).

But the digital impact goes beyond this contribution, important as it is, to value added. As noted earlier, investment in digital technology has considerable spillover effects in terms of productivity growth also in traditional sectors. An Oxford Economics study has found that in the last 30 years every euro invested in ICT has produced a return on investment of 20 euros – a striking finding indeed, considering that the ROI in traditional economic sectors is seven times less.

In terms of GDP growth, the OECD estimates that between 2001 and 2008 – the period between the development of the dot.com economy and the first signs of global financial crisis – ICT investment contributed an annual average of 0.4 percentage

Figure 1
Value added of Information and Communication Technology sector and subsectors, 2015 (*)

ICT infrastructure
Software
Telecommunications
Other information services



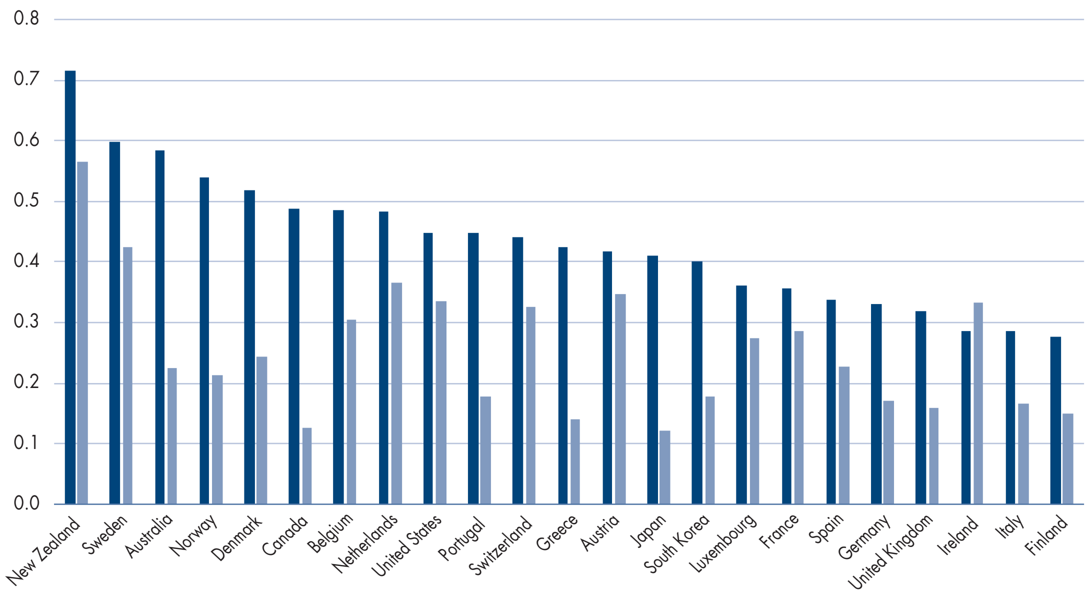
(*) As % of total value added at current prices
Source: OECD

points. Over the next nine years the contribution came down marginally to 0.3 points a year (Figure 2). No specific cause for this difference has been pinned down, but it is likely that the productivity gains due to digital technology development are not yet great enough to fully offset the cyclical weakening of the economy triggered by the financial crisis.

Country by country, again we can see how far below the average Italy is, with GDP growth contribution of 0.3 percentage points yearly in 2001-2008 and 0.2 points afterwards.

Figure 2
Contribution of digital economy to GDP growth (*)

2001-2008, average
2009-2017, average



(*) Annual average, percentage points
Source: OECD

ACTIVITIES

The "Innovation by ANIA" observatory is intended to make the new impetus of innovation, involving all economic sectors, available in practice. It is a permanent workshop designed to confer additional concreteness on the modernization that insurance companies are already experiencing in their production processes and the development of new solutions for customers.

The first "Innovation" event, in 2017, dealt with the theme of the new mobility. The result was the start of experimentation with motor liability insurance governed by a logic of insuring the "person" rather than the vehicle and making the most of the conduct of virtuous customers. The testing ended with a proposal for reform of the law on motor liability insurance to align it progressively with the newly emerging needs of the overall system of mobility.

The second event, held in February 2019 at Palazzo Mezzanotte in Milan, inquired further into "health and well-being". On this front, too, innovation requires insurers to engage constantly with profoundly changing scenarios. Specifically, the meeting dealt with questions relating to scientific research, the prospects of new medical-health technologies and their impact on the economy and society. In a radically altered society the notion of accessible, quality care and cures remains a priority, but it is now flanked by other indispensable, decisive aspects such as prevention, assistance, and well-being in general.

Some factors, characteristic not only of Italy but of the industrial countries in general, make this top priority need more and more urgent. Above all, the problem is population aging. The statistics make it clear that in 2050 Italy will have more people over 65 than under 16 ([1]). And even today the situation harbors considerable problems. There are at least 3 million non-self-sufficient old people, mobilizing some 8 million family caregivers. The number is huge, but not enough to fully meet these people's need for assistance. In addition another million are engaged, paid private and public caregivers of various sorts. National public welfare and assistance is struggling to support this system. And a good many households therefore go into crisis, having to use their own income, and sometimes their savings, to provide 24-hour-a-day care, given that they are on their own in facing this necessity. Insurance coverage for over-65s with functional impairments has increased by just a few percentage points to 31%, even though the estimate of the population potentially needing such coverage increased by over 66,000 between 2013 and 2015 ([2]).

The President of ANIA, Maria Bianca Farina, opened the Palazzo Mezzanotte gathering with a call to "invent" a new health care model maintaining the central role of the universal health service but systematically exploiting all available skills and resources and optimizing the indispensable relation between public and private. Other speakers were the geneticist Bruno Dallapiccola, scientific director of the Bambino

([1]) ISTAT, Italia Longeva-Rete nazionale sull'invecchiamento e la longevità attiva, 2018.
([2]) Bocconi, Rapporto sull'innovazione e il cambiamento nel settore Long Term Care, 2018.

Gesù pediatric hospital, and Professor Fabio Pigozzi, Rector of University Foro Italico. The meeting included a round table with a number of top officers in insurance companies on the opportunities of innovation.

In addition, this second Innovation by ANIA event counted an exceptional guest, namely Sophia, the humanoid robot. Sophia is the most advanced robot yet created by Hanson Robotics of Hong Kong. It can simulate a full range of facial expressions (over 62), trace and recognize faces, and hold conversations with people. Sophia has become a sought-after TV and media "personality", appearing on such programs as 60 Minutes, The Tonight Show, and Good Morning Britain. "She" also took part in the Future Investment Summit in Riyad and was given honorary Saudi citizenship; and Sophia was named as the first "Innovation Champion" of the UN Development Program. Sophia imagines a future in which "robots can help humans not only to do certain things but also to feel better". For example, they can measure blood pressure and heartbeat and assist surgeons in long and complex operations that at present are not possible. Robots will deal with the routine, while human beings can concentrate on harder, more creative matters.

10

THE CONDUCT OF INSURANCE BUSINESS

SOLVENCY II

THE 2018 SOLVENCY II REVIEW AND THE STATE OF THE ART FOR 2020

The first phase of the review of the Solvency II regulations, bearing on the standard formula for calculating the Solvency Capital Requirement (SCR), was completed on 8 March 2019 with the European Commission's adoption of the relevant delegated legislation. The new Delegated Regulation EU 2019/981 amending Delegated Regulation EU 2015/35, which supplemented Directive 2009/138/EC of the European Parliament and Council on the taking-up and pursuit of insurance and reinsurance business (the Solvency II Directive) was published on 18 June in the *Official Journal of the European Union*, going into effect on the twentieth day after its publication in the OJEU and applicable as of the third quarter of 2019, except for points (50), (59), (60) and (61) of Article 1 on deferred taxes and points (66) and (74) of Article 1 relating respectively to the parameters of the non-life and health insurance premium and reserve risk sub-modules, which shall apply as of 1 January 2020.

On 11 February 2019 the Commission formally launched the second phase of the revision with the publication of a formal request to EIOPA for a technical opinion. This phase, broader and bearing on the first-level legislation (the Directive), and in particular on measures relating to insurance products carrying long-term guarantees and to equity risk, should be concluded by the end of 2020.

Phase 1: Review 2018

The top-priority issues for the insurance industry under discussion in the first phase of the Solvency II review were:

i. Review of the method for calculating the risk margin, in particular calibration of level of cost of capital;
ii. the need to defer to 2020 the revision of the calibrations of interest rate risk (a point introduced autonomously by EIOPA by reason of the continuing situation of low interest rates);
iii. introduction of a new asset class with less severe margin adjustments for equities whose characteristics make them classifiable as "long-term";
iv. the need for review, already in Review 2018 (though this is scheduled for Phase 2) of the operation of the volatility adjustment, and in particular its national component, which has not functioned as expected (see the box "Focus: Volatility adjustment").

Beyond these points, the insurance industry called for: i) taking account of national specificities in revising the method of calculating the loss absorption capacity of deferred taxes (autonomous initiative of EIOPA); [1] ii) revising the capital charges for unrated debt securities; iii) recalibrating premium risk for the credit and surety classes, currently based on insufficient data; iv) modifying some parameters for the estimation of underwriting risk; v) including within the review the principles of sustainable finance, among other things in order to strengthen long-term investments and growth in the European Union.

On the whole the text released on 8 June 2019 reflects EIOPA's technical advisory given at the end of the consultation, with some improvements to take account of stakeholders' requests, such as the new asset class of long-term equity and the postponement to the second review phase of the revision of the method for calibrating interest rate risk and the deferral of application of the new premium risk parameters for credit and surety insurance to 1 January 2020.

The changes made are broadly in line with the desires of the insurance industry, in particular as regards the new rules for prudential treatment of unrated debt securities [2].

The Regulation also meets the industry's requests as regards unlisted equity instruments; simplification of calculation for application of the look-through approach; the valuation of the sub-modules for risks of early termination, natural catastrophe, fire, mortality for health and life insurance, counterparty non-compliance, mass and concentration incidents, and the sub-modules for determination of the underwriting risk mitigation for non-life classes; the treatment of derivatives and guarantees issued by regional and local authorities; deferred taxes; risk mitigation techniques; and non-proportional reinsurance.

On the other hand, the industry opposed the Commission's decision – in line with EIOPA's advisory – not to agree to insurers' requests concerning risk margin and volatility adjustment.

As regards volatility adjustment, in any case, the industry has attained an important result – albeit a temporary one with a view to the broader Review 2020 – in the talks toward review of the competences of the European Supervisory Authorities (the ESA review) with the modification of the value threshold for activation (see the box "Focus: Volatility adjustment").

Finally, the new text of the Delegated Regulation states: "In order to ensure transparency, prudence, reliability and consistency over time, the method to determine the technical information on the volatility adjustment applied by the European Insur-

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[1] The two most intensely debated issues are:

– the time frame: in Italy there is no deadline for recovering tax losses;
– tax consolidation: recognized in Italy but always opposed by EIOPA.

[2] The modifications to the text introduce the criteria for identifying which unrated bonds are to be treated, as regards capital charges, as bonds rated BBB to A.

ance and Occupational Pensions Authority (EIOPA), in particular the activation of the country component as set out in Article 77d(4) of Directive 2009/138/EC, should be re-examined where evidence shows that the method fails to meet the objectives, and as part of the Commission review under Article 77f(3) of Directive 2009/138/EC."

Phase 2: Review 2020

The second phase of the review will cover a number of areas in addition to long term guarantees (LTG) ([3]) and equity risk ([4]): i) methods, assumptions and standard parameters for calculating SCR by the standard formula; ii) supervisory rules and practices for calculating the MCR; iii) supervision of groups and capital management in groups of insurance or reinsurance undertakings.

In addition, the Commission has specified other parts of the Solvency II framework where it sees a valuation as desirable, for instance supervision of cross-border activities and strengthening the proportionality principle, as in the case of reporting requirements.

ANIA has formed a working group dedicated specifically to discussing and analyzing the 19 points set out in the Commission's call for advice and any other points deemed relevant to the Italian insurance industry.

With reference to the LTG package, the Commission has asked EIOPA to consider two possible approaches to volatility adjustment, one based on the concepts of liability illiquidity and representative portfolios, the other on those of cash-flow matching and entity-specific portfolio. Discussions and analysis directed to a proposal for overcoming the problems with the existing mechanism of artificial volatility adjustment are being conducted both by ANIA internally and by Insurance Europe.

The other important points noted by Italian insurers include: reexamination of the changes to the method for calculating the risk margin (already proposed during Phase 1) and the criteria for classification of net deferred taxes (now classed as Tier 3); a more readily applicable matching adjustment (at present, only Spain and the United Kingdom actually have access to the adjustment); more appropriate calibration of the interest rate risk sub-module than that proposed by EIOPA in the course of Review 2018; recalibration of the real estate risk sub-module; modification of the requirements for the Solvency and Financial Condition Report (SFCR) and the Quantitative Reporting Templates (QRTs) in order to simplify their structure and rationalize the information; modification of the calibration of spread risk for bonds and loans; and the need to identify possible synergies between Solvency II and the IFRS 17 accounting framework.

([3]) Volatility adjustment, matching adjustment, transitional measures, extrapolation of the risk-free interest rate curve, extension of the recovery period in the case of non-compliance with SCR.
([4]) Symmetric adjustment.

FOCUS: VOLATILITY ADJUSTMENT

The prudential supervisory regime that went into effect at the beginning of 2016 with the Solvency II Directive provides for the valuation of assets and liabilities at market values. Own funds and the solvency capital requirement (SCR) are then calculated by this fair value approach. For insurance companies, which are typically long-term investors, this exposes the prudential indicators to the short-term fluctuations of the financial markets, which makes them artificially volatile and inconsistent with the business model of the insurance industry.

To mitigate this undesirable "artificial volatility", which could force an insurer to liquidate part of its investment portfolio even in the absence of structural tensions on its investments, the Omnibus II Directive instituted a package of long-term guarantees, including the volatility adjustment (VA). This measure allows an insurance company to apply an additional "corrective" to the risk-free interest rate curve used to calculate technical provisions, structured in such a way as to absorb the short-term effects of artificial volatility on own funds and SCR.

The VA is published monthly by EIOPA, with reference to the last working day of the month. The calculation mechanism calls for:

- an equal adjustment for all the countries with the same currency (known as the "currency VA");
- a second, additional adjustment that is triggered only in the event of significant fluctuations in a specific market (the "country adjustment"), providing that certain conditions on the spreads calculated are met.

The currency VA is based on the yield spread with respect to the risk-free interest rate of a representative investment portfolio of the average European insurance company (the currency spread), adjusted for credit risk and probability of default on the bonds in the portfolio (fundamental spread).

The country adjustment is the difference between the risk-adjusted country spread (calculated in the same way as the risk-adjusted currency spread but based on the specific country's average insurance company investment portfolio covering the policies marketed in the country) and twice the currency spread. This component is applied only when it is positive and only when the risk-adjusted country spread is greater than 100 basis points (the "100 condition").

Both the adjustment components, finally, are subject to a correction coefficient (application ratio) of 65%.

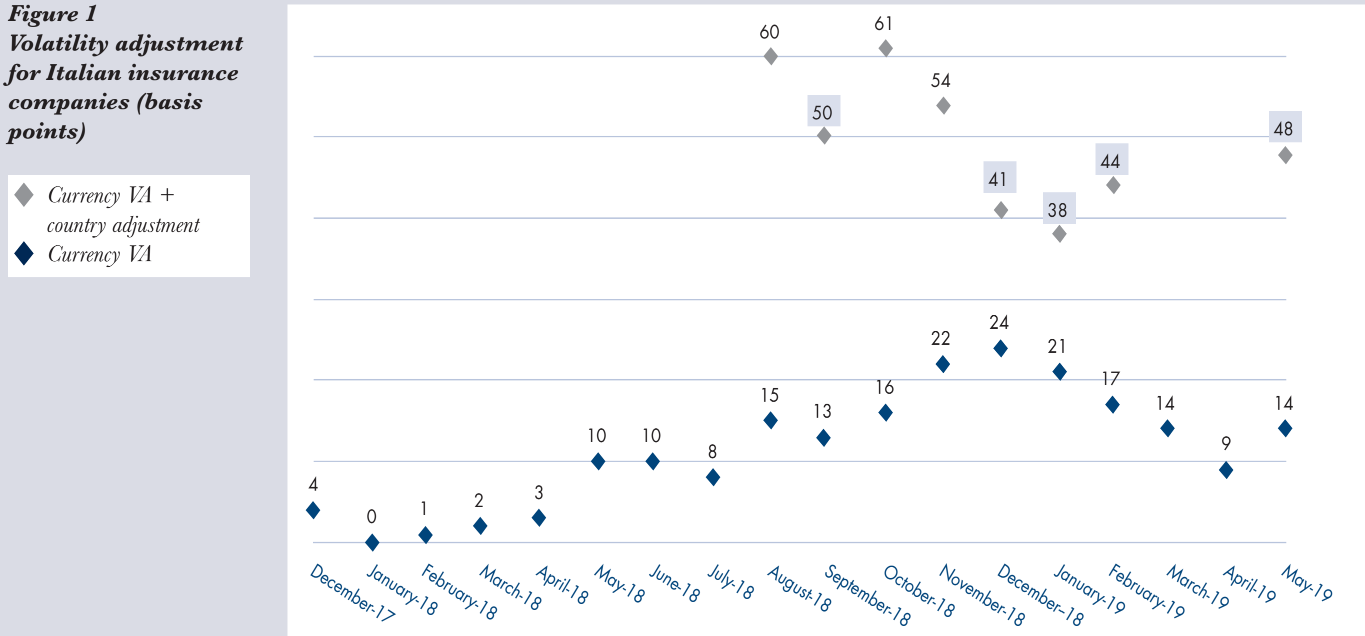
In Italy, from the entry into force of Solvency II the volatility adjustment has never worked in proper or timely fashion. The country component is activated irregularly and fails to reflect the actual dynamics of the market. This happens both because the conditions for activation of the national component of the adjustment have not worked as they should have and because the portfolios and indices used in its calculation do not accurately reflect the investment profile of the single companies or, consequently, the actual risk to which they are exposed.

The Commission's issue of the Delegated Regulation for Solvency II on 8 March with no change to the VA provisions seriously impedes the possibility of improvement in the short term. In any case the issue has been brought up again during the negotiations over the ESA review on the powers of the European Supervisory Authorities with the lowering of the threshold value for activation from 100 to 85 basis points.

On 1 April the text was approved by the Permanent Representatives Committee of the EU Council and on 16 April by the Parliament. It will be reviewed by linguistic jurists and published in the OJEU, probably this autumn. Once published, Member States will have at most six months to transpose it into their legal order.

ANIA has conducted an analysis to assess the impact of the change on Italian insurance companies. The conclusion is that lowering the activation threshold from 100 to 85 basis points would allow activation of the country component more regularly than at present and more consistently with the purpose of the instrument (Figure 1).

Figure 1
Volatility adjustment for Italian insurance companies (basis points)



Source: ANIA, based on data from EIOPA, Thomson Reuters and Bloomberg

Note: The blue points show the monthly value of the currency VA applicable by all euro-area countries; the grey points show the total VA (currency VA + country adjustment) in the months in which the country adjustment is activated for Italian insurers; the values within the squares show the total VA in the months (in addition to those currently indicated) in which the new rules, not yet in effect, would have permitted activation (September and December 2018, January, February and May 2019). Note that in August, October and November 2018 the country adjustment would be activated, with the same value, under both old and new rules.

However, it must be emphasized that this solution, while valid and useful in the short term, fails to take a structural approach to the problems with the working of the mechanism to counter artificial volatility. These problems will be addressed thoroughly in the course of the revision of the Solvency II Directive, which began officially with the Commission's call for advice to EIOPA in February 2019 and should be completed at the end of 2020.

ANIA'S INITIATIVE ON SOLVENCY II FINANCIAL REPORTING

The new Solvency II supervisory regime introduces the requirement for an annual Solvency and Financial Condition Report (SFCR), based on data starting from 31 December 2016. The report contains a mass of information on technical results, governance, the internal control system and capital management of insurance companies and insurance and reinsurance groups.

In 2016 ANIA undertook a two-year project to support insurers, with an analysis of the qualitative information and quantitative data in the reports, so as to highlight elements of difference and best practices. The analysis released in 2018 refers to the data at 31 December 2017 for a sample of 98 Italian insurance companies accounting for 99.9% of the national insurance market in terms of premiums.

By comparison with the previous release, the analysis has now been extended in order to reflect the interventions of EIOPA and IVASS in the past year ([1]), which have clarified the expectations of the authorities on certain matters of content and on the overall structure of the reports.

The publication of the second annual SFCRs reveals trends in organizational choices and in the information provided. Generally, the second year's reports were more detailed and more in line with the authorities' expectations. For the Italian market, the second year of application of Solvency II saw an improvement in the solvency ratio, i.e. the ratio of eligible own funds to the solvency capital requirement (SCR), which rose by 24 percentage points to 241%. The data show that the ratio in Italy is higher than in the UK (154%), the Netherlands (185%) and Belgium (192%) and broadly on a par with France and Spain. Among the main countries, Germany ranks first with a solvency ratio of 338%.

As for the risk modules that determine the overall requirement, the most significant continues to be market risk, whose weight in the Basic SCR rose from 76% to 80%. While the benefit of diversification among modules remained practically unchanged at 21%, there was an increased impact of the adjustments for the loss-absorption capacity of technical provisions and deferred taxes (up by 5 percentage points).

The number of insurers utilizing the volatility adjustment came down from 74 to 66. This was the only one of the countercyclical and transitional measures envisaged by Solvency II to be used at 31 December 2017 by Italian insurers, unlike those in other countries. The impact of VA on the solvency ratio also diminished, from a benefit of 19 percentage points in 2016 to 7 points in 2017.

([1]) EIOPA Supervisory Statement "Solvency II: Solvency and Financial Condition Report", 8 December 2017; IVASS "Letter to the Market", 28 March 2018.

Total assets in the Market Value Balance Sheet amounted to over €930 billion (up €50 billion compared with 2016); financial investment accounted for over 75% of this and government securities for €370 billion.

In view of the importance of this initiative, ANIA SAFE has decided to renew the project for the next two years as well. Examination of the new SFCRs based on accounting data at 31 December 2018 was initiated in April 2019.

IVASS REGULATION 42 ON EXTERNAL AUDITING OF THE PUBLIC DISCLOSURE REQUIREMENT (SFCR)

On 2 August 2018 IVASS released its Regulation 42 on the auditing of the yearly Solvency and Financial Condition Reports that insurance companies publish and transmit to the supervisory authority as required by the Solvency II prudential regime. IVASS required that the outside auditor of these reports carry out targeted controls on a number of specified elements in the solo and group SFCR:

- balance sheet and valuations for purposes of solvency;
- eligible own funds and coverage of solvency requirement;
- the solvency capital requirements (SCR and MCR), regardless of the calculation method utilized (standard formula or internal model).

The new Regulation, that is, extends the auditing sphere, by comparison with IVASS's December 2016 market letter, also to capital requirements. And while the controls on capital requirements are more limited, it is worth noting that there is no single approach at European level and that at present a number of countries do not in fact require the auditing of these capital requirements.

The outside auditing activity prescribed by the Regulation calls for:

- with respect to the balance sheet and own funds, "issuance of a judgment of compliance with the directly applicable provisions of the European Union and the national law governing this sector, under the international audit standards applied in this case (complete audit conducted, at present, according to ISA 800 and ISA 805)";
- as for the solvency capital requirement alone, "regardless of the calculation method utilized, the conduct of more limited controls which nevertheless shall enable the official auditor to conclude that no elements have come to its attention suggesting that the report has not been compiled in compliance with the directly applicable provisions of the European Union and the national law governing this sector (in short, a limited audit conducted, at present, according to ISRE 2400)".

The Regulation also provides that the judgment of compliance, i.e. the conclusions drawn from the limited audit, shall not extend to judgments made by IVASS in the exercise of its supervisory functions with reference to the aforementioned elements of the SFCR, including that relating to the solvency capital requirement calculated using undertaking- or group-specific parameters or via an internal model (partial or total). The auditor or auditing firm shall limit its action, for instance, to "certifying" the effective implementation of the approved internal model (or the undertaking- or group-specific parameters), in order to avoid duplication with respect to the controls required and the authorization process on the part of the supervisory authority.

The insurer's administrative body, with the prior approval of the control body, shall be empowered to assign the task of auditing the Report either to the same official auditor that audits the yearly and consolidated accounts or to a different auditor.

A Clarification released by IVASS in February 2019 introduces a derogation to the deadline by which the undertaking must make available to the official auditor the SFCR as approved by the administrative body, such deadline being set by Article 10.2 of the Regulation. The derogation, allowed only under certain circumstances, lays down that the extension of the deadline shall not be for less than seven days.

The new provisions enacted in the Regulation apply starting with the Report referring to the 2018 financial year.

IVASS CLARIFICATION ON APPLICATION OF THE TRANSITIONAL MEASURE ON TECHNICAL PROVISIONS

In consideration of the situation of exceptional financial market turmoil, ANIA has begun a study to identify possible extraordinary or temporary measures that can:

- contain the impact on insurance companies' liquidity;
- avoid procyclical actions that could undermine the stability of the entire financial system;
- avoid jeopardizing policyholder protection;
- avoid penalizing insurance companies' investments in government securities.

Among the measures hypothesized, the work focused in particular on the possible applicability of the transitional deduction from technical provisions envisaged by Article 344-*decies* of the Insurance Code ("Transitional measure on technical provisions"), referred to in Legislative Decree 209 of 7 September 2005. The measure was instituted within the framework of Solvency II in order to allow gradual transition from the Solvency I to the Solvency II regime, avoiding adverse effects on insurance companies and on the market. The application of the measure brought significant benefits for the solvency ratio in a number of European countries.

On 31 October 2018 IVASS, responding to requests from the insurance market, accordingly clarified its provisions on the application of this transitional measure on technical provisions, confirming its possible application. Specifically, IVASS offered indications concerning application for authorization, corporate governance and risk control safeguards, calculation of the transitional measure on technical provisions, and the documentation to include in the application for authorization. Lastly, on 18 April 2019 IVASS published a document responding to various questions of interpretation raised by the market.

IVASS REGULATION 38/2018 ON CORPORATE GOVERNANCE

IVASS issued Regulation 38 (3 July 2018) on corporate governance of insurance undertakings and groups together with a market letter dated 5 July presenting guidelines for the application of the proportionality principle in the system of corporate governance. The Regulation abrogates ISVAP Regulation 20 of 26 March 2008 containing provisions concerning internal controls, risk management, compliance and outsourcing; ISVAP Regulation 39 of 9 June 2011 on executive compensation policies; and ISVAP Circular 574/2005 on reinsurance.

According to IVASS's report on the measure, the new regulatory framework – with which insurers and groups are to comply gradually – rationalizes existing rules on corporate governance in insurance, guaranteeing that IVASS's rules comply with the Solvency II Directive, its Delegated Regulation (EU) 2015/35, and the EIOPA guidelines.

In revising the regulation, IVASS pursued a number of key objectives, including:

- ensure that the ultimate responsibility for the system of corporate governance is clearly assigned to the administrative body, specifying its tasks in this regard and fostering adequate composition of the body, qualifications of the members, and functioning;
- strengthen the role of the basic functions, ensuring direct dialogue between the heads of functions and the administrative body;
- align executive compensation policies with the long-term interests of the undertaking, while also providing sufficient information to shareholders and IVASS;
- rationalize and simplify the rules on outsourcing of functions or processes to firms external to the company or group;
- discipline safeguards against cyber risk and IT security as part of the corporate governance rules;
- foster the development of mechanisms and corporate processes for handling possible crisis situations, requiring systemically important groups in particular to prepare an enhanced contingency plan;
- promote full awareness on the part of insurance undertakings also of environmental and social risks.

The new Regulation covers the following macro-areas:

1) corporate governance (corporate bodies, adequacy of organization, internal control system, risk management system, integrity and experience of corporate officers – directors, managers, internal auditors – and those who perform key functions, i.e. risk management, compliance controls, internal audit, and actuarial);
2) reinsurance and other risk-mitigation techniques;
3) capital management, until now disciplined by a market letter;
4) the above-mentioned fundamental corporate governance functions, previously disciplined by Regulation 20/2008 and, as regards the actuarial function, by a market letter;
5) executive compensation policy, previously disciplined by Regulation 39/2011;
6) outsourcing, specifically that of key corporate functions and essential or important activities, it too previously disciplined by Regulation 20/2008;
7) corporate governance of insurance groups.

Generally speaking, insurers must comply with the Regulation by 31 December 2019 (and must have adopted the relevant resolutions by June 2019). Any amendments to the statutes should have been made in time for the renewal of the corporate bodies decided on along with the approval of the balance sheet and income statement for 2018 (with completion of the adaptation by the end of 2021), just as policies on executive compensation and outsourcing should have been approved together with the 2018 accounts. In derogation to the deadline of 31 December 2019: current positions and contracts must be modified at the latest by the date of their expiry, if compatible with the rules on modification; the provisions of the Regulation on outsourcing and compensation shall apply immediately as regards the conferral of assignments and the signature of contracts subsequent to the Regulation's entry into effect (23 July 2018).

IVASS MARKET LETTER OF 5 JULY 2018: THE PROPORTIONALITY PRINCIPLE IN CORPORATE GOVERNANCE

The Solvency II framework provides that prudential rules should be applied, in general, in a way proportionate to the undertaking's risk, determined by the nature, scope and complexity of the risks inherent in its business. However, the regulatory reference framework, both European and Italian, does not classify undertakings according to the proportionality principle, leaving the supervisory authorities' application to the possible identification of predefined categories within which to place firms depending on risk profile.

After a public consultation, in July 2018 IVASS issued Regulation 38, with provisions on corporate governance in single undertakings and insurance groups. It also issued a market letter laying down guidelines on the application of the proportionality principle in the system of corporate governance.

The letter specifies three possible models of corporate governance – enhanced, ordinary, simplified – to be determined by self-evaluation based on:

- size analysis of the undertaking (amount of gross technical provisions if it does life insurance business, and of gross premiums if it is engaged in non-life business);
- plus, as a supplement or partial correction, an analysis based on qualitative and quantitative parameters proxying for the riskiness/complexity of the undertaking's business and transactions (the complexity of the corporate structure, the complexity of the insurance risks underwritten, the complexity of asset management strategies, the propensity for risk exposure).

IVASS expects in any case that the enhanced governance system will be adopted by insurance companies that: use internal models of risk assessment, engage jointly in life and non-life insurance, have issued financial instruments traded on regulated markets.

For final parent firms, IVASS allows only the enhanced and ordinary modes of corporate governance. The three different governance arrangements are characterized by differing configurations of certain organizational safeguards: the system of delegation of powers and the autonomous management powers of the head of the administrative body; the system and make-up of board committees on risks and executive compensation; the organization of outsourcing of key functions; the structure of compensation of the administrative and internal control bodies, of top management, and of the officers performing key functions and other important staff members (risk takers).

The undertaking's assessments are to be set forth formally in a report to the supervisor and published in the Solvency and Financial Condition Report; and where the undertaking's view differs from that of IVASS in terms of the optimal configuration of the governance safeguards, talks with IVASS are to be held in the framework of the process of prudential controls envisaged in current law and regulations.

MAIN RESULTS OF THE EIOPA STRESS TEST FOR 2018

On 14 December EIOPA released the results of the stress test conducted starting on 14 May to assess the vulnerability of the insurance industry to selected adverse scenarios. The exercise referred to the situation at 31 December 2017. It involved 42 insurance groups in 12 European countries, accounting for about 75% of European insurance assets. Four of the groups taking part were Italian: Assicurazioni Generali, Intesa Sanpaolo Vita, Poste Vita and Unipol Gruppo.

As IVASS noted in its press release of 14 December, "this was not a simple 'pass-or-fail' exercise; the purpose is to assess the vulnerability and resilience of the insurance industry assuming adverse scenarios, in order to stimulate thought about possible preventive measures and corrective actions to take beforehand to mitigate vulnerability."

The 2018 stress test specified three adverse scenarios:

- Yield Curve Up (YCU) – a rise in interest rates together with the aggravation of bond spreads plus an increase in life policy redemptions and an increase in estimates of claims reserves owing to higher inflation);
- Yield Curve Down (YCD) – a protracted period of extremely low interest rates accompanied by a decline in share prices and rising life expectancy;
- Nat-Cat (NC) – a scenario for catastrophe risk positing the practically simultaneous occurrence of 8 disasters, including 2 earthquakes in Italy, 4 windstorms, and 2 floods.

The test also sought to assess the implications of cyber risk by means of a qualitative questionnaire.

Impacts were measured via two indicators: the difference between Solvency II assets and liabilities (i.e. the excess of assets over liabilities) and the solvency ratio.

Like the 2016 stress test, the exercise required impact assessment of the measures relating to long term guarantees (e.g. the volatility adjustment) and of the transitional measures. The results indicate that on the whole the European insurance industry is well capitalized. As for the four Italian groups, their pre-stress solvency ratio stood at 213%, higher than the average for the total European sample (202%).

None of the four groups showed a solvency ratio of less than 100% in any of the three stress scenarios:

- for Yield Curve Up, the ratio for the four Italian groups remains positive but, on average, lower than the European sample (122% as against 145%);
- for Yield Curve Down, the Italian ratio is higher than the European average (157% as against 137%);
- for Nat-Cat, the solvency ratio remains broadly unchanged.

SOLO AND CONSOLIDATED ACCOUNTS

IVASS Regulation 43/2019 on implementation of suspension of capital losses on trading securities

Decree Law 119/2018 (urgent fiscal and financial measures), converted into Law 136 of 17 December 2018, allows companies not applying international accounting standards, including insurance companies, in situations of exceptional financial market turmoil, to value securities not to be held to maturity at the cost entered in the accounts for 2017 rather than at market price, thus avoiding volatility due to changes in the spread. This rule reinstates a provision in effect, with appropriate legislative modifications, from 2008 to 2015.

On 12 February 2019 IVASS issued the implementing regulation for the law, Regulation 43/2019. As under the previous provisions, companies electing this option must retain profits in an encumbered reserve and provide additional information to IVASS; in addition, they are subject to requirements of public disclosure and strengthening of corporate safeguards.

IFRS 17: the state of the art internationally

In May 2017 the International Accounting Standards Board (IASB) issued its new accounting standard on insurance contracts, IFRS 17, which will apply to the accounts drawn up in conformity with the IFRS accounting standards.

Following publication, the European Commission, which should transpose it into European law, requested the European Financial Reporting Advisory Group (EFRAG) for its opinion on the new international accounting standard. With a view to its endorsement advice, in order to gauge the effects and model the IFRS 17 requirements, EFRAG carried out a detailed case study on a sample of European insurance groups with the resources required to carry out a study at that level, plus a simplified case study, in order to get feedback from companies that did not take part in the detailed study. On the basis of the findings of these studies, on 3 September 2018 EFRAG sent a letter to the IASB calling attention to six features of the standard in whose regard EFRAG considered further examination to be necessary.

Insurance Europe, together with eight other international associations, also sent a letter to the IASB setting out the position of the European insurance industry on IFRS 17 and its implementation. Among the various questions raised, the letter underscored the need to defer the standard's entry into effect for two years and requested the resumption of discussions in light of the operational problems that had been found.

Last year ANIA instituted several working groups on IFRS 17 in order to determine the issues of greatest importance to the Italian insurance industry. The groups brought out a number of technical and operational problems of application that concern fundamental elements of the standard and that have a major impact on insurers' income statements in terms of mismatching and accounting inconsistencies, not to mention inadequate accounting representation of profits.

Accordingly, ANIA met with the IASB, the European Commission and EFRAG to describe the problems raised and demonstrate, given the impact of IFRS 17, the necessary for a postponement of at least two years of the date of entry into force, currently scheduled for 2021.

Starting in October 2018, the IASB carried out a series of assessments regarding possible modifications to IFRS 17, in view of the numerous problems pointed out by the insurance industry. In November the Board voted in favor of deferring its entry into effect for one year and also for a one-year extension of the temporary exemption from IFRS 9. That is, the two standards should now apply as of 1 January 2022.

In the following months the Board also analyzed the problems that had emerged with respect to insurers and approved, in respect of some of these, proposals for amendment of the standard. On 26 June 2019 the IASB released an exposure draft detailing the amendments approved. These do not touch on one of the greatest problems for the insurance industry, both Italian and European: namely, the requirement to group contracts by annual cohorts, a requirement that is totally inconsistent with the business underlying the management of Italian segregated funds.

The Board's release of the standard, revised in light of the public consultation, is expected for June 2020. EFRAG should then provide its endorsement advice to the Commission. And on the basis of the advice, the Accounting Regulatory Committee, composed of European government representatives, will then weigh endorsement of the standard. If it is endorsed, it must then be enacted by the European Parliament and the Council.

THE ITALIAN OBSERVATORY FOR SUSTAINABLE FINANCE AND THE JOINT ABI/ANIA DECLARATION FOR GREEN BUILDINGS

The Ministry for the Environment and Protection of Territory and the Seas has posted on its website *Il Rischio climatico per la Finanza in Italia* (Climate risk for finance in Italy), a report drafted by a working group, including ANIA representatives, at the Italian Observatory on Sustainable Finance (OIFS).

The heightened attention to the possible consequences of climate change for the financial industry has reinforced international cooperation on "green finance", with a series of initiatives coming from industry and government. The principal actions in this field include the institution of the Task Force on Climate-related Financial Disclosure (TCFD) by the Financial Stability Board in 2015, the creation in 2016 of the G20's Green Finance Study Group and the European Commission's High Level Expert Group on Sustainable Finance, and the formation in 2017 of the Network for Greening the Financial System, sponsored by a group of central banks and supervisory authorities. These initiatives have highlighted the need to enhance the financial system's sensitivity to the risks of climate change. The OIFS working group in Italy has circulated a questionnaire on disclosure of climate-related financial risk; the responses confirm that the international conclusions apply to Italy as well, indicating the concrete need of firms and investors for a better understanding of the potential financial consequences of climate change.

In January 2019 the Italian Banking Association (ABI) and ANIA issued a joint declaration for exploitation of private residential dwellings, to improve their energy efficiency and attenuate the economic impact of earthquake risk. Along the lines of programs already in being in other countries, the banking and insurance industries intend to develop synergies to foster communication and information on legislative, fiscal and regulatory changes and on European or Italian initiatives relevant to the real estate market and better energy efficiency, among other things by the formation of ad hoc joint working groups. They also plan on joint initiatives, including training courses, to improve energy efficiency and contribute to the requalification of buildings; to study and exploit instruments for measurement and control of performance so as to calculate the possible savings of greater energy efficiency, which can be used in designing new financial and insurance products; to develop jointly, while respecting their respective roles and the regulations in place, initiatives to diffuse among Italians a culture of prevention, adaptation and mitigation of the risks due to climate change and earthquakes. Lastly, the joint declaration should serve as concrete support for improvement in the urban environment in relation to the risks of climate change and for the compilation of systemic data on the issue.

TRANSPOSITION OF IORP II AND SHAREHOLDER RIGHTS II DIRECTIVES, ENVIRONMENTAL, SOCIAL AND GOVERNANCE STANDARDS

Legislative Decree 147/2018 of 13 December (*Gazzetta Ufficiale* no. 14, 17/1/2019) transposes into Italian law Directive EU 2016/2341 on governance, risks and investment choices of pension funds (Institutions for Occupational Retirement Provisions, IORPs), known as the IORP II Directive. As regards sustainability in particular, the new rules require the integration of environmental, social and governance factors:

1) into pension funds' risk management, with greater disclosure of the ways in which investment policy takes account of "the environmental, social and governance risks related to investment assets and investment decisions";
2) into the internal weighting of risk, to be performed every three years or immediately after any significant change in a fund's risk profile, with "assessment of the environmental risks, including those related to climate change, social risks, and risks related to the depreciation of assets due to regulatory change";
3) and into the investment policy statement, which must cover, among other matters, "how the investment policy takes environmental, social and governance factors into account". In April 2019 EIOPA initiated a stress test for pension funds, which will also apply to the main insurance groups starting in 2020, to check their degree of awareness of the risks related to climate change.

Legislative Decree 49/2019, dated 10 May, transposes the Shareholder Rights Directive (Directive EU 2017/828) into Italian law. The directive bears on governance and disclosure of investment decisions of institutional investors, which include pension funds and insurance companies. Specifically, as regards environmental, social and governance issues, the directive lays down that institutional investors and asset managers shall publicly disclose information about the implementation of their "engagement" and in particular how they have exercised their voting rights. The policy must describe how they monitor investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance. The policy must also describe how the fund conducts dialogues with investee companies, exercises voting rights and other rights attached to shares, cooperates with other shareholders and other relevant stakeholders, and manages actual and potential conflicts of interest.

THE 2019 BUDGET LAW

Tax measures

The 2019 budget law (Law 145 of 30 December 2018) enacts measures with a significant impact on the taxation of insurance business. The measures act chiefly on time profiles, so their effects are mainly financial. This refers in particular to provisions for redetermination of the payments on account of the tax on insurance, increasing the amount due to 85% of the yearly tax liability in 2019, 90% in 2020 and 100% from 2021 on. Following the increase mandated by the 2018 budget law, the new measure results in an increase of 2.5 times in the insurance tax on account in just four years (from 40% in 2017 to 100% in 2021).

Along with this provision addressed specifically to the insurance industry, there are provisions on corporate income tax (IRES) and the regional tax on productive activities (IRAP) in general, hence also affecting insurance companies. One significant measure bears on the deductibility of value adjustments to credits with customers, including insurers' premium claims on policyholders. The 2019 budget law suspends the deduction of the portion of value adjustments that under the old law would have been taken for 2018, deferring it to 2026, at the end of the ten-year period specified by Decree Law 83 of 27 June 2015 for deduction of adjustments imputed to accounts for years before 2015.

Starting with Fiscal Year 2015, in fact, definitive value adjustments entered in insurers' balance sheets in relation to credits with policyholders are fully deductible for both IRES and IRAP in the fiscal year in which they are entered. But this full deductibility is subject to gradual implementation, through a deferral mechanism affecting both previous value adjustments (already deductible by quotas) and 25% of the adjustments entered in the balance sheet for FY 2015. Under the 2019 budget law, this deferral mechanism is suspended for one year effective with the IRES/IRAP tax returns for FY 2018.

No less unfavorable is the abrogation of the so-called ACE rules for economic development introduced by Decree Law 201 of 6 December 2011, Article 1. The abrogation has raised considerable criticism, given that in the years while it was in force it was an effective stimulus to undertakings' self-financing, by increasing the fiscal attractiveness of issues of equity rather than debt instruments.

This tax benefit, we know, facilitated companies' issue of new risk capital instruments and renunciation of dividends, allocating profits to reserves. For purposes of ACE these allocations, together with the assignment to reserves of profit for the year, constituted increases in own funds by an equal amount (upward variations in the ACE base), to which a specific remuneration rate specified by the law was applied (the notional return on new investment of own capital), this then being used to determine the actual benefit in the form of a deduction from total net revenue.

The elimination of the ACE benefit as of 2019 would not appear to be sufficiently offset by the significant reduction of 9 percentage points, from 24% to 15%, in the nominal corporate income tax rate on profits reinvested in new tangible productive goods and in increased employment. From the outset, however, this provision proved to be hard to apply, given the long series of conditions to be satisfied and the complexity of the control and verification mechanisms. For this reason the latter tax benefit has been abrogated – without ever having become operational – by Article 2 of Decree Law 34 of 30 April 2019 (the "growth decree"), which introduced a simplified mechanism of gradual reduction in the nominal IRES rate (ordinarily 24% for corporate taxpayers in general, including insurance companies) down to the amount of taxable income corresponding to operating profits for the year allocated to reserves other than those of encumbered profits, according to the following percentages:

- 1.5% for 2019 (lowering the IRES rate to 22.5%),
- 2.5% for 2020 (lowering the IRES rate to 21.5%),
- 3% for 2021 (lowering the IRES rate to 21%);
- 3.5% for 2022 (lowering the IRES rate to 20.5%).

It should be noted, in any case, that while abrogating the ACE tax benefit, the 2019 budget law allows carrying forward to subsequent fiscal years, for IRES, any previous excess deductibles generated over the years by the positive difference between the notional return and total declared taxable income, or to convert them wholly or in part into IRAP credits.

CLASS ACTIONS

The *Gazzetta Ufficiale* of 18 April 2019 published Law 31 of 12 April 2019, provisions concerning class actions. The new rules on class actions apply only as of 18 April 2020, and exclusively to illicit conduct subsequent to that date. The new regime has been transposed from the Consumer Code into the Code of Civil Procedure, allowing class actions on the part of all those who, while not being either consumers or utility customers, have claims to damages, including modest claims, caused by multiple offenses (contractual and non-contractual) in whose regard legally protected rights may be seen to be of the same class. This therefore extends the subjective scope of class action protection (from consumers and customers only to all persons with individual rights of the same kind) and the objective scope (class action can now be taken to determine liability and sentence to payment of damages or restitution in cases of both contractual and extra-contractual torts).

Any member of the "class" can propose legal action, as can non-profit organizations and associations whose statutory purpose is to protect the homogeneous individual rights of a "class" and which are included in a special public register kept by the Ministry of Justice. The petition for a class action is lodged with the special corporate section of the court with jurisdiction in the place where the defendant firm has its legal offices, and the case is heard by summary procedure. To ensure sufficient publicity for the suit, the petition, together with the decree setting the hearing date, is posted on the public area of the IT services portal of the Ministry of Justice. Litigants may join the class action at two distinct points: either in the phase immediately following the order admitting the action or in the phase subsequent to the court ruling whereby the action is upheld.

The ruling upholding the action ascertains the liability of the defendant; defines the character of the uniform personal rights allowing inclusion in the "class"; and specifies the documentation, if any, that adherents to the lawsuit must produce. In addition, the ruling provides directly for compensation for damages or restitution, if the lawsuit was initiated by a natural person. The ruling also names a delegated judge to handle the adhesion procedure subsequent to the upholding ruling (and decide on settlements) and a joint representative of the plaintiffs who drafts and deposits the plan of the uniform personal rights of the plaintiffs and notifies the plan to the plaintiffs and to the defendant.

The delegated judge, by a motivated order, when he/she accepts all or some of the requests to be admitted to the class of plaintiffs, condemns the defendant to pay the amounts or transfer the goods owed to each plaintiff as compensation for damages or restitution. This order constitutes an executive instrument and is notified to the defendant, to the plaintiffs, to the joint representative and to the defense attorneys.

The adhesion procedure is terminated: when the payout to the plaintiffs, effected by the joint representative, reaches the entire amount of their claims; or when in the course of the procedure it proves to be impossible to achieve reasonable satisfaction of the plaintiffs' claims. The closure of the procedure is declared by motivated order of the delegated judge.

In the case of negotiated settlements between the parties, the law establishes that: until the case is heard in court, the court may formulate a settlement or conciliation proposal for the parties; or, after the ruling upholding the action, the joint representative of the plaintiffs may stipulate with the condemned firm a settlement agreement: prior to sentencing, the plaintiffs declare expressly if they intend to take part in the settlement agreement between the parties (otherwise the agreement is not effective in their regard); however, after the sentence a settlement agreement authorized by the judge applies to all plaintiffs, including those who formulated objections to the draft agreement, unless they have revoked the power of attorney of the joint representative.

The law also regulates class action injunctions, by means of which "anyone with an interest" (plus organizations and associations entered in the Ministry of Justice register) can petition the court to order an undertaking to cease and desist from behavior damaging to a multiplicity of persons or to enjoin the repetition of the illicit or damaging behavior.

By the conviction, the court may order, at the instance of a party, the convicted party: to take suitable measures to eliminate or reduce the effects of the violations ascertained; to pay a penalty in case of delay in complying with the court order; and also to publicize the order by the communications media deemed most appropriate.

IVASS REGULATION 39 ON ADMINISTRATIVE SANCTIONS

IVASS Regulation 39/2018 lays down the procedure for administrative sanctions both for insurance undertakings and for intermediaries in implementation of the Insurance Code as amended by Legislative Decree 68/2018 transposing Directive EU 2016/97 of the European Parliament and the Council of 20 January 2016 on insurance distribution. The Regulation went into effect as of 1 October 2018. For infractions prior to that date, IVASS Regulation 1/2013 on fines and Regulation 2/2013 on disciplinary sanctions for intermediaries continue to apply.

The main changes (some already present in the Code) are as follows:

- the principle of importance of the infraction, replacing that of the absolute lack of harm to supervisory functions and customer interests;
- applicability of sanctions directly to natural persons (corporate officers and other persons within the organization of insurance or intermediary companies) in the case of infractions relating to the requirement for sound and prudent management or to the distribution of profits;
- introduction of "enhanced" adversarial proceedings (for all sanction proceedings) for defendants who have submitted written defenses or taken part in the hearing, to whom the sanctions service shall transmit the sanction proposal so that the defendant can submit further written summary observations to the enlarged directorate of IVASS (or to delegates named by the directorate);
- for certain types of infraction, single ascertainment of more than a single infraction of the same type committed within a certain period of time (previously, this was envisaged only in cases of non-compliance with the obligation of transmission to databases);
- a new power of the enlarged directorate (or its delegates) to alter, wholly or in part, the sanction proposed by the sanctions service (for undertakings) or the guarantee board (for intermediaries).

As regards sanctions, in conformity with the Code as amended by the decree transposing the Insurance Distribution Directive, the regulation provides for: a) more severe fines, which are now in proportion to the undertaking's sales; b) new criteria for graduating fines; c) alternative, non-pecuniary sanctions. The latter include: temporary ban on exercise of functions within a company and orders to cease the violations; new forms of publication of sanction provisions, in the IVASS bulletin and on its website, by various procedures (including anonymous or deferred), as well as by extract of sentences of administrative courts that rule on appeals and extract of the decrees deciding on extraordinary appeals to the President of the Republic.

The sanction procedure has five phases: preliminary; charge of infractions; inquiry; decision; notification, communication and publication of the sanction or else dismissal.

The IVASS departments that detect infractions and make charges are: Inspectorate, Prudential Supervision, Consumer Protection, Supervision of Intermediaries, Research, and Data Management.

The departments responsible for the proceeding as described above are the Sanctions Department for all sanction proceedings, except those undertaken against intermediaries by the Supervision of Intermediaries and the Inspectorate departments, and for money-laundering proceedings; and the Supervision of Intermediaries Department for the sanction proceedings undertaken by that department and by the Inspectorate on intermediaries.

Among the significant passages modified by IVASS in the final draft of the Regulation, in response to specific proposals of ANIA's, are the following: limitation of the provision to the "heads" of key functions, thus excluding all employees engaged in ordinary activity within those functions, whereas employees and outside collaborators are potentially subject to sanctions only if they have effective responsibility and decision-making autonomy; specification that defense documents may also be underwritten by a proxy or other person with powers of representation, according to the corporate standards adopted; on the obligations of the Sanctions Department, addition of the provision that in the case of especially complex inquiries or new matters, the department shall transmit the acts of the proceeding to the committee for examination of irregularities, which shall issue a binding opinion on the sanction proposal to submit to the enlarged directorate or to the persons delegated by the latter.

THE NEW REGULATION ON MONEY LAUNDERING AND TERRORIST FINANCING

IVASS has posted Regulation 44 of 12 February 2019 on its website. The Regulation implements Legislative Decree 231/2007 (as amended by Legislative Decree 90/2017 implementing Directive EU 2015/849) on organization, procedures, internal controls and customer due diligence to prevent the use of the financial system for the purpose of money laundering and terrorist financing. The Regulation takes account of the joint guidelines of the European Supervisory Authorities on simplified and enhanced due diligence and on the factors to consider in assessing the risk of money laundering or terrorist financing in connection with business relationships or occasional transactions in the life insurance sector. The Regulation is divided into five chapters: general provisions; the system of internal controls for the prevention of money laundering and terrorist financing, and the role of the corporate bodies; the obligations of customer due diligence (including so-called simplified and enhanced due diligence, performance of activities by third parties and requirements on intermediaries); special cases (contracts on behalf of other parties, modes of payment of policy premiums); and final provisions.

On 27 March ANIA held a seminar on IVASS Regulation 44, examining more closely the new provisions on customer due diligence and organization, procedures and internal controls. Representatives of IVASS also participated. In particular, the seminar consisted in: a general description, provided by IVASS, of the new regulatory framework; testimony on the state of application of the rules from some insurance company representatives; and a Q&A session held jointly by IVASS and ANIA on the main problems in interpretation and application of the new rules. These were followed by a general discussion with the participation of insurance representatives.

As regards the Regulation's entry into force, the seminar settled the following points:

1) all the rules on customer due diligence apply to new contracts starting 1 May 2019; that is, both pre-existing rules still unchanged and those that are truly innovative and do not necessitate further specifications by IVASS. If innovative rules require organizational and procedural adaptation and have an impact on the information systems of insurance companies and intermediaries, the necessary adaptions must be completed by the end of 2019. For contracts already in being on 1 May, implementation may be gradual as a function of potential changes in risk profiles (for example, when additional deposits are made on an ongoing business relationship, when new beneficiaries are designated, when the policy is wholly or partially surrendered, or when a claim is liquidated);
2) the provisions being issued by IVASS on risk factors and risk mitigation will fix the calendar for the implementation of the measures. In particular, a reasonable transition period will be introduced for applying a specific subset of enhanced due diligence measures – among those indicated by Regulation 44 – to the products/customers/distribution channels that the provision on risk factors identifies as at greatest risk of money laundering;
3) the administrative body of the insurance company must adopt, by September 2019, suitable resolutions to adapt organization, procedures and internal controls by the end of the year.

IVASS has announced that pending further implementing measures it will make available to insurers, on its website, a Q&A text based on the seminar discussions.

BLOCKCHAIN AND SMART CONTRACTS

Decree Law 135 of 14 December 2018, converted with amendments into Law 12 of 11 February 2019 (urgent measures for support and simplification for firms and general government) includes a measure concerning distributed ledger and smart contract technology. This is the first Italian legislation on this matter.

The law defines "technologies based on distributed ledgers" (blockchains) as "technologies and information protocols that use a ledger that is shared, distributed, replicable, simultaneously accessible, and architecturally decentralized on cryptographic bases, such as to allow registration, validation, updating and filing of data both open and further protected by encryption verifiable by all participants, inalterable and not modifiable."

A "smart contract" is defined as "a computer program that operates on distributed ledger technology whose execution is automatically binding upon two or more parties on the basis of effects that the parties themselves have predefined." Smart contracts satisfy the requirement of being in written form via prior IT identification of the parties involved, through a process meeting the requirements laid down by *Agenzia* *per l'Italia Digitale* (AGID) in guidelines to be adopted by 14 May 2019. By that date AGID was to define the technical standards that distributed ledger technologies must possess in order to be legally efficacious, with special regard to their admissibility as evidence in court proceedings.

BLOCKCHAIN ADR

Test case: Digital Alternative Dispute Resolution

The test case of blockchain technology for alternative dispute resolution (ADR) involved experimentation, in real cases, with a digital platform for out-of-court settlement of insurance disputes. The case is one in a series of initiatives for the digitization of civil lawsuits ("legaltech") set out in the digital agenda and accordingly endorsed and sustained by national governments and the EU.

The need is for efficient, effective machinery for early dispute resolution, avoiding litigation while guaranteeing the policyholder's right to indemnification of damages. This objective is shared by insurance companies and attorneys for the damaged parties who show an interest closing out suspended cases with insurers in the best interest of their clients. The experimentation was limited to a subset of "simple" motor liability cases.

Given: *a*) contrasting interests that need to be secured by a mechanism of agreement, *b*) the urgent need for digitization and automation of processes, and *c*) agreements that guarantee legal efficacy over time, it was considered that blockchain technology offered particularly great value added. The dispute resolution mechanism was devised and created via an algorithm (smart contract) for matching the offers of the two parties (a "blind auction"), submitted in secure, encrypted fashion and guaranteed by the blockchain protocol.

ANIA conducted the experiment with a twofold objective: to discover, given the present state of ADR regulation, what it is possible to digitize using blockchain technology; and to develop a proposal for regulatory changes to improve the procedures for adopting ADR machinery and, in practice, settle disputes and reduce litigation. The experiment was also useful in further studying, sharing and generalizing the opportunities and problems for potential alternative uses and the factors that are crucial to success in adopting blockchain technology.

The project was developed in cooperation with CeTIF-Università Cattolica and REPLY, with IVASS as observer. For test purposes a narrow perimeter was established (200 motor liability cases), involving eight insurance companies and about 20 attorneys for policyholders, over a period of two months. The model of legal procedure adopted was assisted negotiation, governed by Legislative Decree 132/2014. The eight ANIA members that agreed to take part in the test were: AXA, Cargeas – Cardif, Cattolica Assicurazioni, Generali Italia, Helvetia, Real ITES GEIE, SARA, and Zurich. The insurers contributed to every phase in the project, from initial analysis (concept design) to platform testing, experimentation, and feedback.

Resolution of the disputes: smart contracts

The settlement mechanism is based on an agreement algorithm proper to blockchain codified in a so-called "smart contract" and then applied, in automatic fashion, during the process of request/offer via blind auction. For limited differences between request and offer, the smart contract determines the settlement amount automatically; where the difference is larger, if the successive rounds of negotiation do not produce sufficient convergence between the two amounts, the mechanism issues a verdict of no agreement.

The procedure uses Blockchain Hyperledger Fabric technology. For its users – insurance adjusters and policyholder attorneys – an ad hoc web-based application has been designed. The experiment also involved the use of known, traditional technologies such as certified e-mail and digital signature to guarantee certainty, security and non-modifiability of the transactions recorded.

The results

The experiment was activated for 201 disputed claims. Of the 201 cases, 134 were judged by both parties to be admissible for ADR, as they fulfilled the requirements for testing. The cases loaded onto the platform but not negotiated were rejected by one or the other party, mainly for lack of time, lack of power of attorney, or inadmissibility of the case (for example, because it had already been submitted to antifraud procedures, or because litigation had already been initiated).

Of the 134 cases negotiated, 65 (48%) were settled successfully with an agreement, while for the other 69 no agreement was reached, owing either to too great a difference between request and offer or to expiration of the time limit. The average time to resolution was 11 days, thanks to a mechanism of matching between offer and request that mandated a short term for each round (3 days per round for a maximum of 5 rounds), helping the parties to continue the negotiation.

The document, legally valid, was standardized and then handled automatically by the platform, with greater uniformity and improved process control.

For this test case, the Italian insurance industry has promoted digital innovation applied to the ADR process in the motor liability sector. This process is now the object of intense scrutiny by policyholders, insurers and regulators alike (IVASS and Italian and international legislatures). The experiment thus represents an operative response to the European Parliament's request to institute adequate and effective, impartial and independent out-of-court complaint and redress procedures for the settlement of disputes between customers and insurance distributors (Directive EU

2016/97, Article 15). The results of the test will also contribute to decisions on the operational functioning of arbitration in insurance consumer disputes, as is already provided for in banking.

APPLICATION OF THE GUIDELINES FOR "CLEAR AND SIMPLE CONTRACTS" IN THE ITALIAN INSURANCE MARKET

In October 2016, at the request of IVASS, a technical panel for "Clear and simple contracts" was formed, with the participation of ANIA, the main organizations of consumers and insurers. The objective was to simplify the language and structure of insurance contracts. The panel concluded its work early in 2018 with the drafting of a set of guidelines for drafting contracts.

The guidelines were annexed to IVASS's market letter of 14 March 2018, which also set out a calendar for insurance companies' redrafting and revision of contracts: for new insurance products, at the latest starting 1 January 2019; for the "principal" products being marketed, by the end of 2019.

To assess the state of application of the guidelines, ANIA has monitored insurers by distributing a questionnaire asking respondents to indicate, broken down by insurance branch (separately for life and non-life) and type of customer/policy:

1) the number of new products they expect to introduce in 2019 (and as such, drafted according to the "Clear and simple contract" guidelines laid down in the IVASS market letter of 14 March 2018);
2) the number of existing products considered "principal" and which, continuing to be marketed, will have to be revised during the year according to the guidelines;
3) the number of products already in compliance with the "clear and simple" guidelines prior to 31 December 2018.

A good part of the insurance industry responded to the questionnaire. As of 31 January 2019, the deadline for transmitting the data, 81 companies had responded. Of these, 38 were non-life, 28 life, and 15 mixed insurers. The 53 non-life and mixed companies accounted for 61.4% of the non-life market in terms of premium income; the 43 life or mixed companies accounted for 80.2% of total life insurance premiums.

Non-life (and mixed) insurance companies

The non-life and mixed insurance companies responding to the questionnaire expect a total of 263 new products introduced in 2019 to be in compliance with the guidelines, and 811 pre-existing "principal" products. At the time of the questionnaire, 101 products on the market were already in compliance.

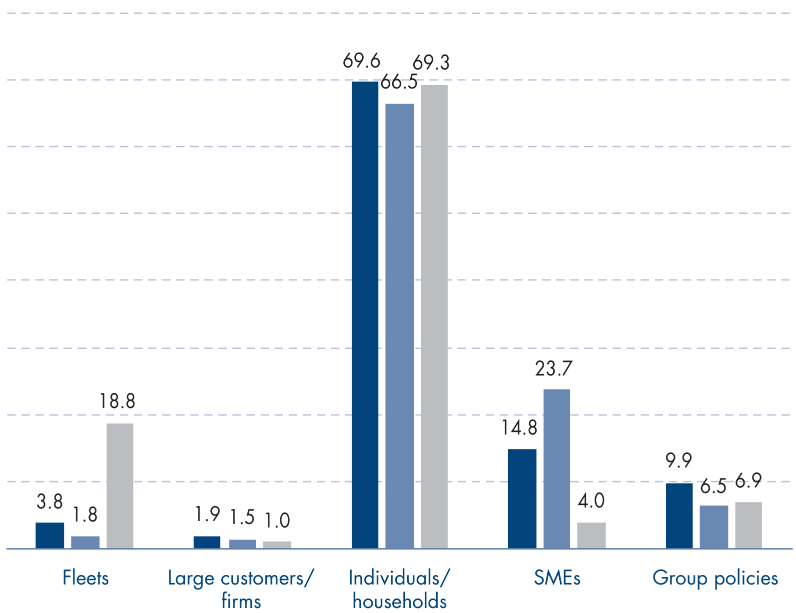
The breakdown of compliant new and "principal" products by customer type shows a clear preponderance of already-compliant products (over two thirds of the total) designed for individuals and households (Figure 1). These, in fact, are the customers most likely to find it hard to understand an insurance contract, hence also the group that will benefit the most from the new rules for drafting contractual documents.

Similar considerations apply also to the second type of customer most affected by new products, namely small and medium-sized enterprises, to which 14.8% of the new products to be introduced in 2019 were addressed, and 23.7% of existing "principal" policies to be revised during the year.

The breakdown by class of insurance business confirms insurers' tendency to offer user-friendly products in the classes typically addressed to individuals and households (Figure 2). Sickness insurance in particular is marked by a pro-active stance on the

Figure 1
Clear and simple contracts by type of customer – non-life (*)

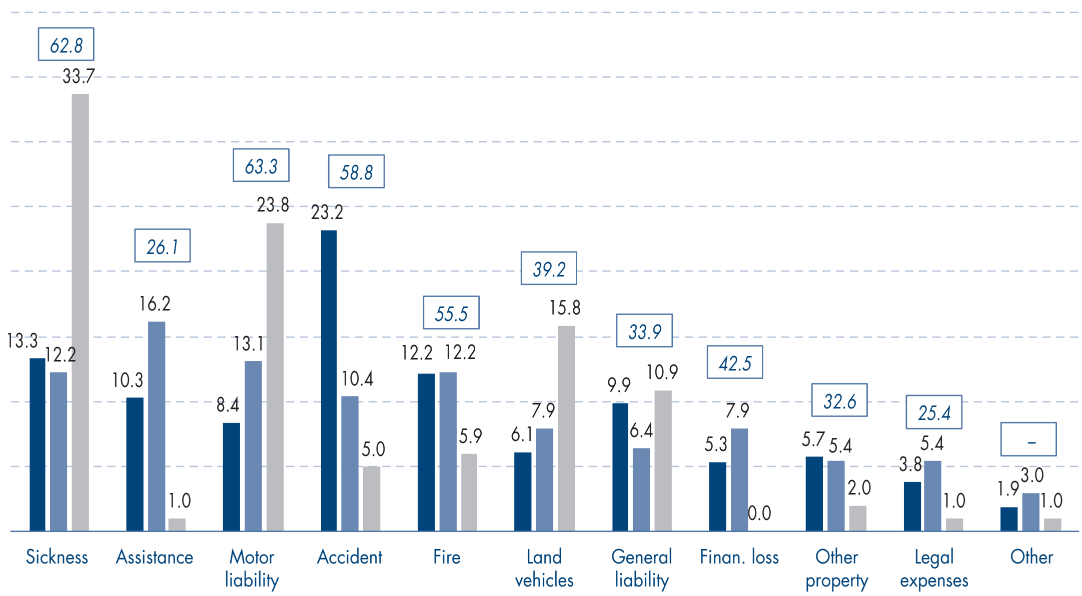
Compliant new products
"Principal" products to be made compliant by end of 2019
Products already compliant prior to 2019



(*) % of total products
Source: ANIA

Figure 2
Clear and simple contracts by insurance class – non-life (*)

Compliant new products
"Principal" products to be made compliant by end of 2019
Products already compliant prior to 2019



(*) % of total products
Source: ANIA

Note: values in boxes indicate % in terms of premium income of the class part of insurers, with over a third of products on the market already in conformity with the new guidelines prior to IVASS's deadline. Second, at a distance, is motor insurance: liability with 23.8% and land vehicle insurance with 15.8%. Innovation is intensive in the accident insurance class, in which new products to be introduced in 2019 make up 23.2% of the total.

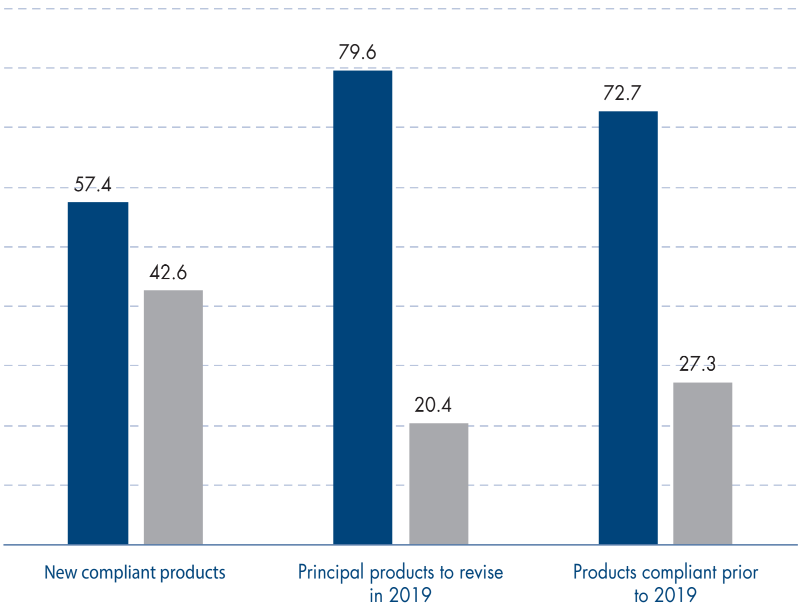
Life (and mixed) insurance companies

The life and mixed insurance companies participating in the questionnaire reported the planned introduction of 244 new compliant products in 2019 and 431 pre-existing products to be made compliant in the course of the year. Already-compliant products at the time of the questionnaire numbered 33.

The sharp attention of the life insurance sector to individual and household customers stands confirmed (Figure 3). This applies especially to existing products, where policies for individuals or households account for four-fifths of the "principal" products to be revised during 2019 (79.6%) and close to three quarters of those already compliant (72.7%).

Figure 3
Clear and simple contracts by type of customer – life (*)

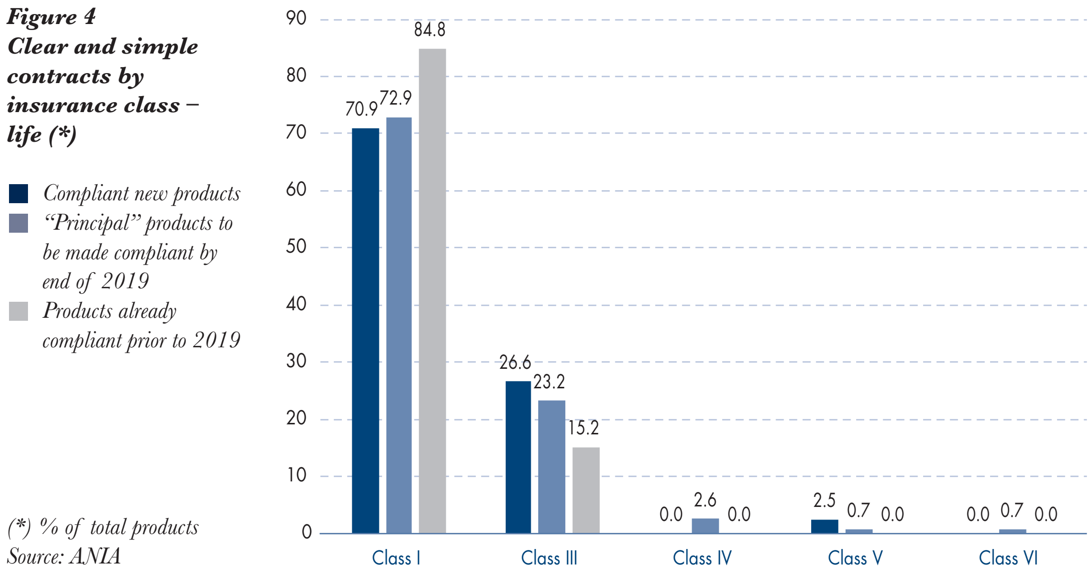
Individuals/households
Group policies



(*) % of total products
Source: ANIA

By insurance class, there is an absolute predominance of products in the three classes where traditional policies are concentrated, followed at a considerable distance by linked policies. Activity in the other classes is practically nil, reflecting their relative unimportance in Italian insurance portfolios, as gauged by premiums.

Figure 4
Clear and simple contracts by insurance class – life (*)



(*) % of total products
Source: ANIA

REGULATION (EU) 2016/679 ON THE PROTECTION OF NATURAL PERSONS WITH REGARD TO THE PROCESSING OF PERSONAL DATA AND ON THE FREE MOVEMENT OF SUCH DATA – LEGISLATIVE DECREE FOR ADAPTATION

Although Regulation 2016/679 (the General Data Protection Regulation, GDPR) is immediately applicable in national law, it nevertheless required the amendment of Italian law. The adaptation to the new Community framework, effected by Legislative Decree 101 of 10 August 2018, necessitated: the express abrogation of incompatible parts of the Code on personal data processing; amendment solely of those parts of the Code needed to implement the provisions of the Directive not directly applicable; coordination of the existing provisions on personal data protection with the GDPR; where appropriate, introduction of specific implementing and supplementary measures to be adopted by the Italian Data Protection Authority pursuant to the GDPR; and, lastly, adaptation of the regime of penal and administrative sanctions.

As of 19 September 2018, therefore, all persons who process personal data must comply not only with the GDPR but also with the Data Protection Code as amended by Legislative Decree 101/2018 and its transitional and final measures.

Parliament has established that measures of the Authority that are compatible with the GDPR and Legislative Decree 101 shall remain in effect. This is of particularly great importance both with regard to the 2007 measure on "insurance chains" and with regard to numerous provisions on access to insurance companies' forensic medical examinations. Determination of whether or not such measures are compatible – they would appear to meet this standard – is remanded, in the first instance, to the data controller.

As for general authorizations, these are subject to re-examination by the Authority, which by ad hoc measure shall identify the provisions compatible with the GDPR and the Decree (in particular, those bearing on the processing of sensitive data, now called "special categories of personal data"). This ad hoc measure has been submitted to public consultation, and its issue is now pending. The provisions deemed incompatible, instead, will lapse as of the date of official publication of the measure.

As regards current codes of conduct:

- the credit information system code (SIC) is to be transformed into a code of conduct pursuant to the GDPR. Associations and other organizations representing the groups affected have submitted the code, with proposed revisions, to the Authority, and the approval procedure should conclude on 19 September 2019; the commercial data code as updated for the GDPR has been approved;
- the other codes, referred to in annexes A.1, A.2, A.3, A.4 and A.6 of the Personal Data Code (on data processing respectively: for statistical or research purposes; for files in the public interest or historical research; for statistical or research purposes in the framework of the National System of Statistics; for defensive purposes or to assert or defend rights in court; or for the exercise of journalistic activities) shall be renamed codes of conduct and published in the *Gazzetta Ufficiale*.

Further:

- for the processing of personal data necessary for performance of a legal obligation or for execution of a task in the public interest, and for the processing of genetic, biometric and health data, the Authority shall promote the adoption of specific ethical rules, compliance with which shall constitute an essential condition for the lawfulness and correctness of such processing;
- for "special" categories of data (formerly known as "sensitive"), and with special regard to genetic, biometric and health data, Legislative Decree 101/2018 provides that processing be effected not only according to the conditions laid down by the GDPR but also in compliance with guarantee measures to be issued by the Data Protection Authority by a specific measure at least once every two years; for genetic data only, for cases of especially high risk the guarantee measures may require consent or other specific precautions as further protection of the rights of the data subject;
- Legislative Decree 101 allows processing of personal data on criminal convictions and crimes or related restrictive measures, and in particular ascertainment of liability for accidents or events with an impact on human life, as well as prevention, ascertainment and action against fraud or situations of concrete risk to the correct exercise of insurance business, insofar as this is permitted by the pertinent laws and regulations;
- the rights of the data subject laid down by the GDPR may not be exercised by the data subject where this could result in effective, practical damage to the data controller or the data processor (including, under this principle, as is now the case, defensive investigations and the exercise of a right in court, and expressly extending the principle also to the application of the rules against money laundering);
- the provision on the processing of data of deceased persons, otherwise not mentioned in the GDPR, has been retained, with some amendments; in particular,

the Decree provides that the rights of deceased data subjects may be exercised by persons who have an interest of their own or who act in defense of the deceased data subject as the latter's agent or for legally worthy family reasons;
- data feed to the processing register instituted at the Authority is to cease, while the register shall continue to be publicly accessible to all until 31 December 2019;
- two new crimes are introduced: illicit communication and diffusion of personal data processed on large scale; and fraudulent acquisition of personal data, again in case of large-scale processing. At the same time, the provisions on illicit data processing and crimes against the Data Protection Authority have been retained in modified form. The provisions on violations of the rules on remote checks and inquiries on workers' opinions have been replaced.

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FORECASTS FOR 2019

FORECASTS FOR 2019

All the forecasts set out in this chapter consist in projections of the key variables onto "orderly" macroeconomic market and geopolitical scenarios. But clearly the accuracy of the overall forecasting framework may be affected by a climate of uncertainty deriving from possible developments at various levels, national and global, such as the nature and prospects of future – post-Brexit – agreements, resolution of the trade tensions between the United States and China, or, as regards Italy, normalization of relations with the European Union concerning fiscal sustainability.

THE WORLD ECONOMY IN 2019-20

World economic growth is expected to slow significantly in 2019-20 by comparison with its performance in 2018, owing to a series of factors. Geopolitically, the escalation of the trade tensions between the U.S. and China has had an especially negative impact on world trade, whose growth was reduced to practically nil at the start of 2019. Additional hotpoints, such as the deterioration of diplomatic relations with Iran and the political and humanitarian crisis in Venezuela, are seen as fueling strains in world commodity markets, especially the oil market. In Europe, Brexit will continue to weigh heavily; the outcome has become all the more uncertain by the results of the 2019 elections for the European Parliament. The global climate will also be affected by the trend in the economic fundamentals, such as the slowdown in the German economy, the tightening of credit standards for lending to China, and the progressive but uncoordinated stand-down from the exceptional measures of monetary expansion expected in the leading industrial economies.

The International Monetary Fund estimates that global output will grow by 3.3% in 2019 (3.6% in 2018) and 3.6% in 2020. Growth in the advanced countries is forecast to slow both in 2019 (+1.8%, down from 2.2% in 2018) and in 2020 (+1.7%), while for the emerging economies it should dip from 4.5% in 2018 to 4.4% in 2019 before picking up to 4.8% in 2020.

The phases of GDP growth in the leading economies are expected to continue to differ (Table 1). A significant slowdown in the US economy is forecast (to +2.3% and +1.9% in the two years, according to the IMF; +2.8% and +2.3% according to the OECD), in connection with slackening private investment. The euro area is predicted to grow at a more moderate pace (IMF: +1.3% and +1.5%; OECD: +1.2% and +1.4%) owing to a contraction in net exports. The cyclical moderation in China is also expected to continue over the next two years (IMF: +6.3% and +6.1%; OECD: +6.2% and +6.0%).

FORECASTS FOR 2019

Table 1 – Forecasts for the leading economies, 2019-2020
(% change on previous year)

	United States				Euro area				China			
	IMF		OECD		IMF		OECD		IMF		OECD	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
GDP	2.3	1.9	2.8	2.3	1.3	1.5	1.2	1.4	6.3	6.1	6.2	6.0
Household consumption	2.2	1.8	2.4	2.1	1.1	1.3	1.2	1.3	–	–	6.5 (1)	6.1 (1)
Gen'l gov't consumption	1.0	0.7	1.6	2.4	1.3	1.1	1.2	1.1	–	–	–	–
Fixed investment	3.6	2.2	3.2	3.8	2.4	2.6	2.6	2.2	–	–	–	–
Exports	2.7	2.6	1.7	2.4	3.2	3.5	-0.2 (2)	-0.1 (2)	3.3	4.1	1.6	3.6
Imports	3.9	3.0	1.2	3.4	3.3	3.7	–	–	4.1	4.8	2.8	3.6
Unemployment rate (3)	3.8	3.7	3.7	3.6	8.0	7.7	7.9	7.7	3.8	3.8	–	–
Public deficit/GDP (4)	-4.6	-4.4	–	–	-1.0	-0.9	-0.9	-0.8	-6.1	-5.5	–	–
Consumer prices	2.0	2.7	1.4	2.1	1.3	1.6	1.2	1.5	2.3	2.5	1.9	2.1

(1) Domestic demand
(2) Net exports
(3) Unemployed as % of labor force
(4) Percentage points
Sources: IMF and OECD

THE ITALIAN ECONOMY IN 2019-20

The unexpected, sharp slowdown of the Italian economy (with a technical recession in the second half of 2018) forced the main forecasting institutions to revise their growth forecasts for the next two years drastically downward (Table 2). The projections of the April 2019 Economic and Financial Document (EFD) of the Italian Ministry for the Economy, those of the OECD and those of the IMF all concur in predicting a basic standstill in 2019 (EFD: +0.1%; OECD: 0.0%; IMF: +0.1%), followed by a halting recovery in 2020 (EFD and OECD: +0.6%; IMF, +0.9%).

Aggregate growth is expected to be affected above all by a sharp contraction in private sector investment in 2019 expected by OECD (-0.2%) and IMF (-1.0%), in contrast with the 0.7% expansion estimated by the EFD. The three instituions all agree, however, on an investment expansion of around 1% in 2020. Another negative factor is the impact of public spending, which is set to decline in 2019 (EFD: -0.3%; OECD: -0.2%; IMF: -0.4%) but to come back into positive territory in 2020 (EFD: +0.4%; OECD: +0.4%; IMF: +0.8%). Positive contributions should come from the growth (albeit weak) in private consumption (EFD: +0.6%, +0.6%; OECD: +0.4%, +0.5%; IMF: +0.3%, +1.0%), while the contribution of net exports is expected to be practically nil in both years.

The slowdown in economic activity should be reflected in a moderation of consumer price dynamics according to OECD and IMF but not according to the EFD, which predicts inflation of over 2% in 2020.

The unemployment rate, finally, should stay below 12% over the next two years according to the IMF, while the EFD and OECD estimates are more pessimistic, projecting higher and rising rates.

Table 2
Forecasts for the Italian economy
(% change on previous year except as otherwise specified)

([1]) Percentage points
Sources: Documento di Economia e Finanza (April 2019); International Monetary Fund (April 2019); European Commission (May 2019)

	Ministry for Economy		OECD		IMF	
	2019	2020	2019	2020	2019	2020
GDP at market prices	0.1	0.6	0.0	0.6	0.1	0.9
Private consumption	0.6	0.6	0.4	0.5	0.3	1.0
Gen'l gov't consumption	-0.3	0.4	-0.2	0.4	-0.4	0.8
Investment	0.7	1.2	-0.2	0.9	-1.0	0.8
Exports	2.1	2.3	1.8	2.3	2.6	2.8
Imports	2.2	2.5	1.1	2.6	2.0	3.2
Unemployment rate ([1])	11.0	11.2	11.7	12.3	10.7	10.5
Harmonized index of consumer prices	1.0	2.3	0.6	1.0	0.8	1.2
Public deficit/GDP ([1])	-2.4	-2.0	-2.4	-2.9	-2.7	-3.4

THE ITALIAN INSURANCE INDUSTRY IN 2019

The **total premium income** of the Italian insurance industry's direct policy portfolio (**life and non-life combined**) should come to nearly €140 billion in 2019, with growth of 2.6% for the year. Overall insurance business, that is, is expected to continue its moderate expansion, in line with the 3.2% growth recorded in 2018. The growth in 2019 will result both from the positive contribution of non-life premiums (+3.2%) and life premiums (+2.5%). In proportion to Italian GDP, total premium income will thus edge up from 7.7% to 7.8% (Table 3).

Total direct premiums of Italian insurance companies in the **non-life** sector are expected to come to €34 billion, up 3.2% compared with 2018, consolidating the uptrend of 2017 (+1.2%) and 2018 (+2.3%), following the decline of over 12% recorded in the previous five years. This will result from the stability of motor liability premiums and the further growth of 5.3% in premium income in all the other non-life classes.

For motor liability, 2018 saw a marginal rise in premium income (+0.1%), thanks to an increase in the number of vehicles insured (+0.9%) that barely outstripped the decline in the average premium (-0.8%). It is estimated that this trend, with similar values, is likely to continue in 2019, producing a second consecutive year of stability in total premium income for this branch. The portion of total non-life premiums accounted for by motor liability will come down further to 39%, from 41% in 2017 and 40% in 2018.

The expansion of business in the other non-life sectors is expected to continue, with growth averaging more than 5% to nearly €21 billion in premiums, although Italy

Table 3
Forecast insurance premiums in Italy
In millions of euros

CLASS	PREMIUMS 2018	PREMIUMS 2019	CHANGE 2019-2018	Memo: CHANGE 2018-2017	Memo: CHANGE 2017-2016
Motor and marine liability	13,252	13,253	0.0%	0.1%	-2.2%
Accident	3,096	3,251	5.0%	0.3%	2.6%
General third party liability	3,021	3,112	3.0%	3.3%	0.9%
Other property	2,938	3,158	7.5%	5.0%	1.4%
Land vehicles	2,966	3,100	4.5%	5.9%	6.3%
Fire and natural forces	2,469	2,531	2.5%	2.8%	1.0%
Sickness	2,763	3,039	10.0%	7.4%	9.5%
Other non-life	2,591	2,712	4.7%	2.8%	5.0%
TOTAL NON-LIFE (net of motor liability)	19,844	20,902	5.3%	3.9%	3.7%
TOTAL NON-LIFE	33,096	34,155	3.2%	2.3%	1.2%
As a % of GDP	*1.9%*	*1.9%*			
Class I Life	66,193	74,467	12.5%	5.4%	-14.7%
Class III Investment Funds	29,838	23,870	-20.0%	-4.5%	30.1%
Other Life	6,006	6,217	3.5%	31.2%	-0.2%
TOTAL LIFE	102,036	104,553	2.5%	3.5%	-3.6%
As a % of GDP	*5.8%*	*5.9%*			
TOTAL	135,133	138,708	2.6%	3.2%	-2.4%
As a % of GDP	*7.7%*	*7.8%*			

Changes based on homogeneous sample of companies

remains underinsured in this segment. The growth should be fueled by continuing technological innovation, with the creation of new, more attractive, more useful insurance products. In particular, the expansion should be connected with an increased propensity on the part of individuals and households to acquire voluntary coverage – especially in the area of health (accident and sickness) and property ("other" property damage and fire) – and with the growing demand from businesses for insurance (again, in the health area) and from professionals (e.g., in the general liability class).

Land vehicle premiums (fire, theft, and collision insurance) should grow less in 2019 than in the previous years: +4.5% compared with gains of nearly 6% in the three previous years, as a result of the decline in new car registrations in 2019 (down 2.9% between January and May compared with a rise of 1.1% in the same period of 2018). Premium volume should nevertheless exceed €3.0 billion, returning to the level of ten years ago.

Total non-life premium income is expected to hold unchanged in proportion to GDP at 1.9% in 2019.

In the **life sector**, we forecast a continuation of the trend registered in 2018: premium growth of about 2.5% once again, for a total volume of nearly €105 billion for 2019. This is the expected resultant of two distinct trends:

- continued growth in variable yield policy premium income (Class I), with a gain of 12.5% to almost €75 billion, following the more modest growth of 5.4% last year. One factor is the maintenance of the interest rates on Italian government

securities at levels that are not too low, enabling insurance companies to offer life policies with more competitive guaranteed yields, as in the case of hybrid (multi-class) policies, which recorded sharp growth in the early months of 2019;
- another sharp decline in the marketing of prevalently financial products (Class III, unit-linked policies), which are projected to contract by 20% for the year to a volume of under €24 billion (from nearly €30 billion in 2018). Uncertainty on the performance of the equity markets should direct policyholders' demand toward products with stronger yield guarantees.

The positive trend in the market for life insurance policies is confirmed by an analysis of new individual life insurance policies, sales of which came to €37.1 billion through May 2019, up from €36.4 billion in the first five months of 2018 – a rise of slightly under 2.0%. The expansion appears to have been due exclusively to variable-yield Class I life policies (with a gain of 17.1% in the five months to over €27 billion), while Class III unit-linked policies contracted by almost 26% to premium volume of €9 billion.

Total written life insurance premiums should rise from 5.8% to 5.9% of GDP in 2019.

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

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