

I t a l i a n   i n s u r a n c e   i n   2 0 0 3 / 2 0 0 4



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Figures published cover all insurance companies registered in Italy, branch offices of foreign companies registered in extra-E.U. countries and branch offices of foreign companies that write reinsurance business only.

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2003/2004 figures are provisional

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The insurance industry in Italy recorded further growth in the Life insurance class (+ 13.5%), also favoured by the success achieved by the traditional products with a minimum guaranteed performance, and an improvement of the technical accounts for Non-Life insurance, although the growth of premium income has cooled compared to the preceding year (5.5% in 2003, 8.3% in 2002) in an international scenario characterised by an acceleration in economic growth from mid-2003, with which however, Italy is struggling to match and by growth in the financial markets.

### RESULTS FOR THE YEAR

The economic results achieved by the Italian insurance companies in 2003 were positive, overall. The technical accounts results in the Non-Life insurance class were generally positive, with significant exceptions relative to the general third party liability and sickness classes. The dynamics of revenue from investment contributed to this position, which achieved major growth compared to the previous year in terms of the overall Non-Life classes.

In the case of the Life insurance classes, the significant growth in premiums (13.5%) and the positive trend of the cash flow management generated an increase of the technical accounts results by approximately 50%.

Overall, the earnings achieved by the ordinary business activities recorded a 65% growth compared to the previous year; however, the profit for the financial period increased by only 3%, a consequence of the income generated by extraordinary business returning to normal levels, which had doubled in 2002 following a number of disposals of real estate assets.

The profit recorded for the financial year equalled 3.8% of the premiums and the R.O.E. amounted to 10.1% (4.1% and 10.6%, respectively in 2002).

Overall, the last biennial has highlighted an improvement in the income results of the Italian insurance industry compared to the 1998-2001 four-year period when the financial year profit averaged 3.0% of the premiums and approximately 6.5% of the capital and equity reserves. A significant contribution to this improvement was made by the decrease of the operating expenditure over total premiums ratio, which decreased from 14.9% in the 1998-2001 four-year period to 12.1% in the last biennial.

The Report illustrates a comparison of the economic results achieved by the insurance companies in the principle countries of the Euro-area, referring to the data contained in the ISIS database which collects the information made available by the Fitch-IBCA rating company. Based on the analysis performed, it is found that the profitability of the Italian insurance companies increased between 1998 and 2002, whereas the profitability of the French and German insurance companies decreased. The different dynamics are explained in the





case of the Non-Life classes by an upturn in the technical accounts and by a reduced dependency on financial performance, and by the major growth in volumes in the case of Life class insurance. These results are consistent with the Stock Exchange trend of shares in the Italian insurance sector, since 1998 recorded a much better performance compared to France and, above all, Germany (calculated by considering that dividends are re-invested).

A contribution to the growth in the income results was produced by the corporate restructuring processes: the Report provides an international analysis of the merger and acquisition operations completed in the insurance sector during recent years. The dealings which involved insurance companies between 1990 and 2003 were equal to 14% in numerical terms and 18% in value of the total realised in the international financial sector. Mergers and acquisitions in the insurance sector had different characteristics compared to the banking sector. In particular, the portion of within border transactions in the insurance sector (70% in value) was significantly lower compared to the corresponding portion relative to banks (92% in value); this indicates a greater international receptiveness of the insurance sector compared to the banking sector.

The concentration process in the Italian insurance market has been quite intensive when compared to the international scenario. The overall value of Italian transactions totalled USD 19.9 billion, equivalent to 4.7% of the total transactions which involved the companies in the principle industrialised countries; this represents a quota equal to that of Germany and slightly less than that of France, two countries with an insurance market that is much larger than the Italian insurance market. The intensive nature of the process in the Italian insurance sector was slightly less than the level recorded in the banking sector, a sector that was more fragmented at the beginning of the period.

### FORECASTS FOR 2004

With the Italian economy experiencing a weak trend, it is estimated that the growth of the premiums income in 2004 will slow down, and should settle at 6.7%, overall. The premiums income should increase by approximately 5% in the Non-Life classes; the growth of premiums in the Life classes is estimated at about 8%, a significant level and again generated mainly by the preference given to forms of insurance that have a limited risk profile.

### NON-LIFE INSURANCE

Italy is still an under-insured country in the international scenario. The Non-Life insurance premiums over GDP ratio was equal to 2.6% in 2003, approximately one percentage point lower compared to the larger European coun-



tries. The difference is even greater when the comparison excludes motor insurance policies. The other European countries have an insurance penetration which averages twice the penetration achieved in Italy with reference to an incidence over the GDP for Italy that barely reaches 1%.

The demand for health insurance by households is very limited, despite the fact that the expenditure that households support directly to benefit from the services offered by private facilities is very high; the Report illustrates a more in-depth analysis of this aspect, which underlines the limited awareness of the Italian population with respect to the difficulties of accessing a number of services, such as specialist visits and diagnostic tests, which, although offered by the public health service, sometimes involve very long waiting lists.

Greater co-operation between the public sector and the insurance sector is potentially capable of offering citizens more adequate and efficient levels of cover. The Report presents specific in-depth analyses on the risks associated with natural disasters, terrorism, environmental liability and agriculture.

The incidence of motor insurance over the total Non-Life classes (59.0% in 2003) is very high when compared to the international scenario. 2003 marks a discontinuity with the past, also due to the positive effects generated by the Marzano Law, by the Agreement Protocol between ANIA and the Associations, by the companies achieving a technical accounts balance in the class: the growth of the motor insurance prices has fallen below general inflation for the first time. The rate of growth of the motor insurance price index in May 2004 referred to a twelve month period was equal to 0.8%, compared to 2.3% for the general prices index, according to the latest available data provided by ISTAT (Italian Central Statistics Institute).

However, more recent data relative to the first quarter of 2004 indicates that the average cost continues to increase (10.8% compared to the first quarter of 2003) in relation to a limited decrease in the number of claims (-1.4% compared to the first quarter of 2003). Therefore, the containment action needs to be continued as regards the cost of claims, to avoid new price increases. The Report shows a detailed and long-term analysis of motor insurance, with special reference to prices, the number of claims and the average cost; the Report focuses on the results of the Agreement Protocol, the new settlement procedure, the extension of the Direct Indemnity Agreement to claims in which minor injuries have occurred, the termination of the agreement between ANIA and the body repair shops' Associations: these refer to initiatives that are linked by the common theme of the insurance sector striving to achieve efficiency, with the objective of reducing the settlement timeframe for claims and containing costs to the advantage of the insured community as a whole. Finally, the effects generated by the regulatory changes referred to the implementation of new tables relative to biological injury, the application of regulations regarding the appointed actuary, implementation of the IV Motor Directive and the new procedures to access the claims settlement documents are described and reviewed in detail.



### LIFE INSURANCE

The gap relative to Life insurance has shrunk considerably from the end of the Nineties compared to the largest European countries but has not disappeared entirely. The offer of new products and the synergies generated with the banks to distribute the products have been the underlying cause of the major growth in premiums, which has produced an increase in their incidence on GDP to 4.8%.

Italian households allocated 37.2% of the gross financial assets to purchasing Life class insurance policies in 2003 (25.6% in 2002) and 16.9% to investment funds. The portion of the financial portfolio invested in Life insurance policies was equal to 9.3%, representing an increase of 1.2 percentage points compared to 2002. The overall volume of insurance policies and pension funds represents 16% of the households' portfolio (14.8% in 2002); this still represents a limited value compared to other countries, also because accumulation started to become effective only recently in Italy.

Significant growth in the premiums of 're-valuation' type traditional policies (20% per annum) was recorded over the last three-year period, characterised by the downturn in share prices and an increased volatility of the quotations; their incidence on total Life class premiums in 2003 increased to 40%. The demand for these products was driven by a certain minimum performance (so-called technical rate), by the presence of advantageous revaluation clauses of the amounts allocated and by the demographic guarantees that these products offer.

The Report shows a long-term comparison of the performance of the separate management schemes, which was significantly higher in each year between 1982 and 2000 compared to the results achieved by Italian Government securities (the performance achieved by the BTP (Long-term Treasury Bonds) has been considered from 1995), the TFR (Employee Severance Indemnity) remuneration rate and the rate of inflation. The average performance of the separate management scenarios was equal to 5% per annum, equal to the rate applied to the BTP (Long-term Treasury Bonds) during the 2001-2003 three-year period, compared to a 2.6% rate of inflation and a TFR (Employee Severance Indemnity) remuneration rate equal to 3.5%. If 100 is taken as the value in 1981 of a given investment in a 'pure' re-valuation capitalisation policy, the value of the investment in 2002 was equal to 1,151; the same investment in Italian shares in 2003 was worth 973, assuming a full reinvestment of the dividends. The investment strategy in re-valuation policies over the last 22 years is found to be much more preferable to the result achieved by the investment strategy in shares on the basis of the Sharpe ratio, which is designed also to take into account the investment's risk, as well as the performance; the same conclusion is reached if one considers that in general a portion of between 80% and 95% of the performance of separate management schemes is refunded to the insured.



## Executive summary

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The Report then illustrates two in-depth analyses relative to supplementary Social Security. The first analysis describes the text of the reform Law approved by the Senate, according to which the supplementary Social Security system will no longer be limited only to collective pension schemes (contractual funds and funds open to collective participation) but will also include individual arrangements including insurance products, specifically the "Individual Pension Schemes". Therefore, the range of products available to workers and their right of choice will be broadened, and guaranteed not only at the date the TFR (Employee Severance Indemnity) is conferred, if applicable, but also at a later date. The approved text does not remove the prohibition whereby pension funds are not allowed to invest their resources, fully or in part, in traditional human life insurance policies and these include the revaluable policies, despite the fact that the pension funds established before 1993 resort extensively to these products. The second in-depth review concerns the provision supplementary Social Security services which should take the typical and natural form of the Life annuity. However, the use of annuities, is somewhat limited worldwide and in particular in Italy: the reasons of this phenomenon are analysed and a number of possible measures to promoting the development of this market are described.





# Evolution and prospects of the economic situation

## THE INTERNATIONAL ECONOMY

The rate of growth of the world's economy has increased from mid-2003, easing the fears of deflation generated by the cooling phase that marked a major portion of 2002 and 2003. Tax policies have sustained domestic demand and stimulated the growth of the productive business activities of the major economies. The monetary policies maintained the short-term interest rates levels very low, adjusting the evolution of the monetary aggregates. The growth of the world economy was equal to 3.9% in 2003 (3.0% in 2002) and world trade increased by 4.5% (3.1% in 2002).

The United States economy began to recover in the second half of 2003, the GDP increased by an annual average of 3.1% (table 1). Japan experienced a growth in production that was much greater than expected, already starting from the first quarter of 2003. Production in India and Russia is enjoying major growth, in addition to China, whose economic activity continues to grow significantly. The economy in Latin America has started to pick up again, particularly Argentina, despite the recent concerns expressed by the rating agencies regarding the solvency of the country's foreign debt.

TABLE 1  
MAIN INDUSTRIALISED COUNTRIES'  
ECONOMIC INDICATORS  
Annual changes (%)

		GDP	Consumptions	P.A. Expenditure	Investments	Aggregate National Demand	Net Exports
United States							
	2002	2.2	3.4	3.8	-3.7	2.8	-0.7
	2003	3.1	3.1	3.3	4.4	3.3	-0.4
Japan							
	2002	-0.3	0.9	2.4	-6.2	-1.0	0.7
	2003	2.5	0.9	1.0	3.1	2.0	0.7
Euro Area							
	2002	0.9	0.1	2.9	-2.8	0.3	0.6
	2003	0.4	1.0	2.0	-1.0	1.0	-0.6
United Kingdom							
	2002	1.6	3.4	2.5	1.8	-0.2	-1.3
	2003	2.2	2.5	1.8	2.9	-	-0.3
Canada							
	2002	3.4	3.0	1.3	3.7	-0.3	-0.3
	2003	1.7	3.3	3.0	4.9	4.2	-2.3

Source: Eurostat and National Official Statistics

Meanwhile, the recovery of the Euro-area economies has been more modest: the gross domestic product increased by 0.4% in 2003, partially due to the deterioration of net exports related to the strengthening of the Euro. The esti-

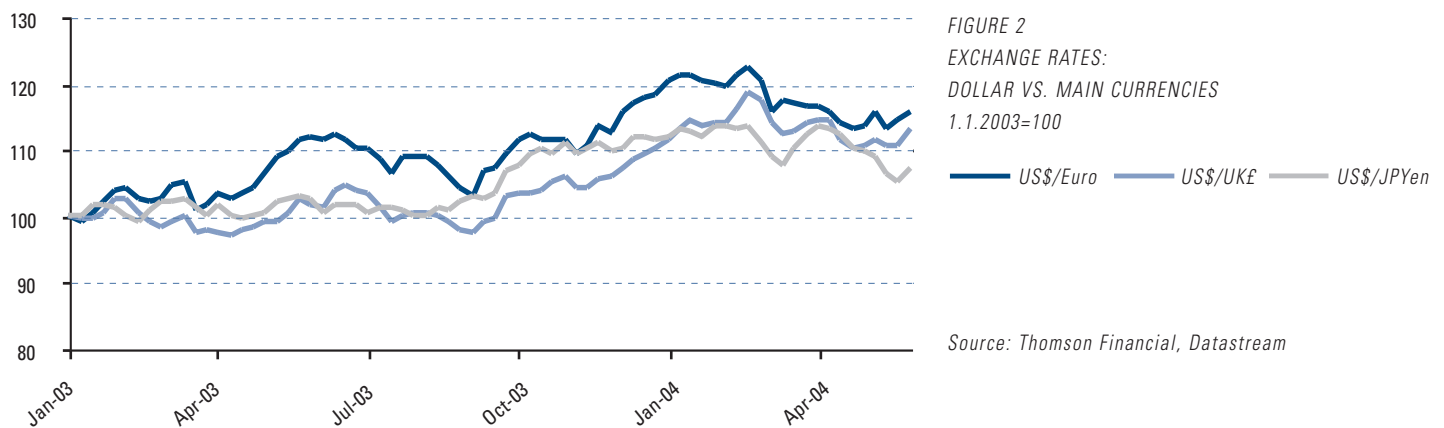


## Evolution and prospects of the economic situation

mates for the first quarter of 2004 provided by Eurostat suggest an improvement in the Euro-area with a 0.6% growth in the GDP over the previous quarter; the GDP is foreseen to continue its growth by 0.3%-0.7% in the second quarter and by 0.4%-0.8% in the third quarter.

The recovery has impacted the main areas of the world asymmetrically. The different trends of the economies have contributed to increase the imbalances among the regions. The current trade surpluses achieved by the Asian countries have continued to grow compared to the substantial decrease of the surpluses achieved by European countries and the increased deficit of the United States.

The on-going widening of the United States current trade balance deficit and the cooling of the incoming capital flows necessary to finance the country represent the basis for the tensions on the international currency markets. The dollar has experienced major depreciation vis-à-vis the Euro, losing more than 15% since the beginning of 2003 (figure 2). The fall of the dollar was more limited compared to other currencies. The central banks of the major Asian economies have accumulated dollar reserves, thereby neutralising a significant portion of the increase due to their own domestic currencies. This has increased the instability of the exchange rates and forced the G7 member countries in the meeting held last February in Florida to call for greater flexibility of the oriental currencies.



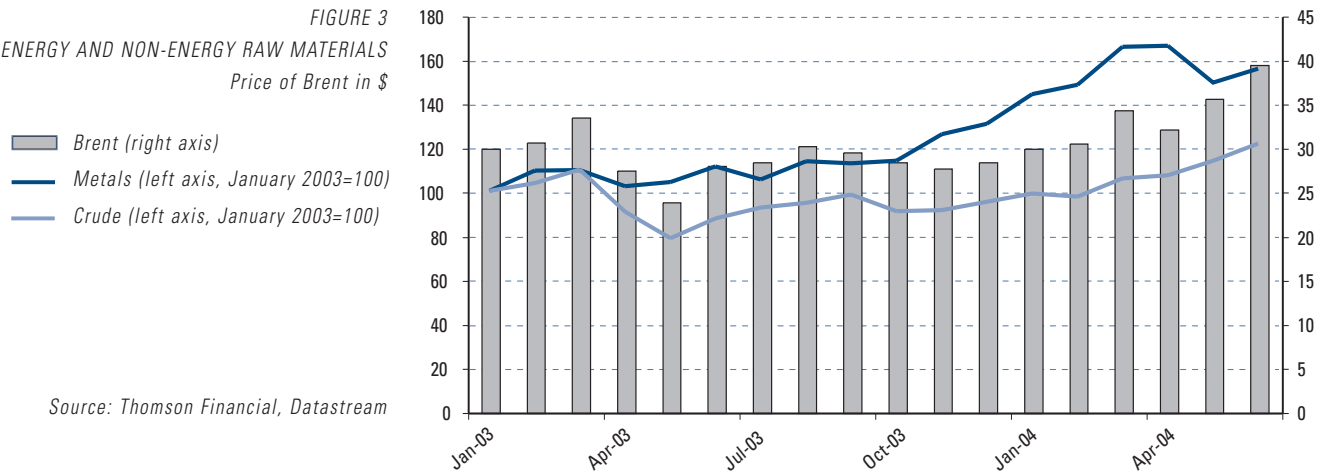
Source: Thomson Financial, Datastream

The more sustained growth of the world economy has had limited impacts on the growth of prices. Inflation in the United States decreased. The prices index in Japan remained virtually stable confirming the levels of 2002. The harmonised consumer prices index (HCPI) in Europe increased by 2.1% in 2003, two tenths of a percentage point lower compared to 2002. The strengthened Euro and the weakness of domestic demand more than compensated the increase in prices of imported raw materials.



## Evolution and prospects of the economic situation

FIGURE 3  
ENERGY AND NON-ENERGY RAW MATERIALS  
Price of Brent in \$



Source: Thomson Financial, Datastream

The price of crude oil recorded a major increase, rising from 24.2 dollars per barrel of Brent crude in May 2003 to values slightly less than 40 dollars in June 2004 (figure 3). The demand has remained high due to the growth in production in various areas and the uncertainty about the availability of supplies caused by geopolitical tensions in the Middle East. The increase in prices has also impacted non-energy raw materials; on the one hand this has contributed to strengthen the opinion of operators on the extent of the recovery at a global level but on the other hand has generated concern about inflation in the importing countries.

### THE INTERNATIONAL FINANCIAL MARKETS

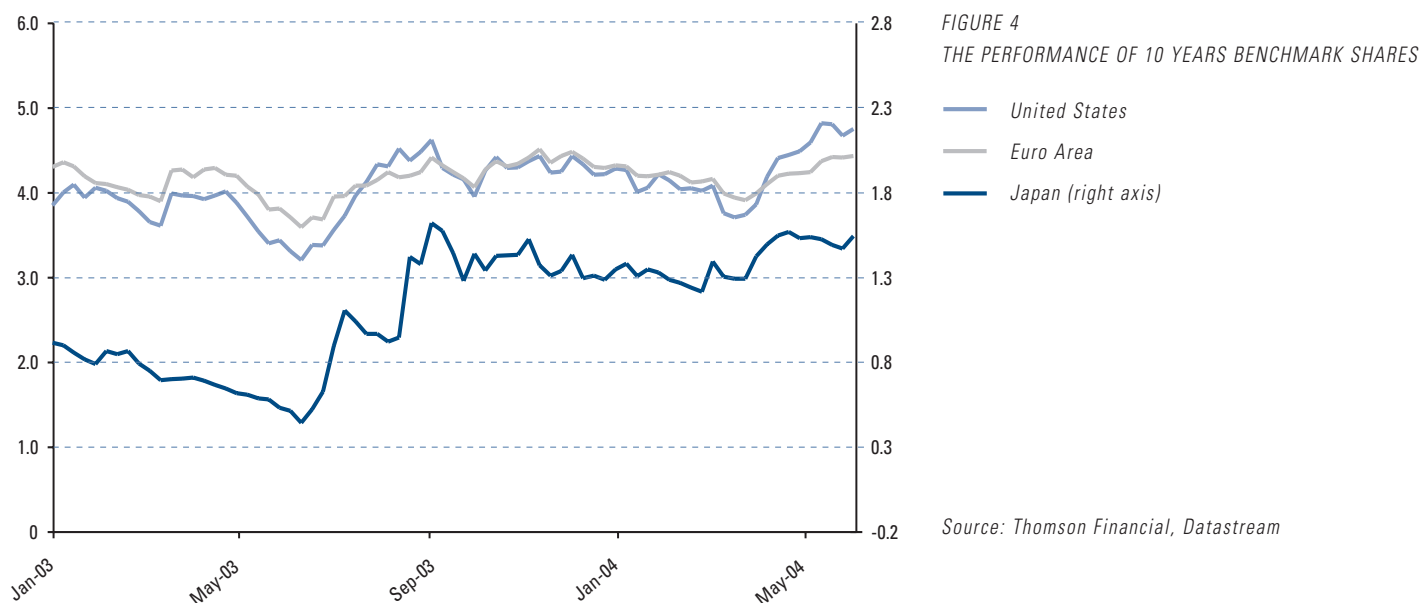
The performance of American long-term government securities has fallen progressively up to the end of the second quarter of 2003, when there were strong fears (expressed publicly by the Federal Reserve) that the country's economy was entering a phase of deflation. Yields rebounded quickly from the all time-low of 3.1%, after the cut in official rates in June. Interest rates remained relatively stable in 2004, with a temporary downturn in the first half of March, caused by the concern spurred by the negative trend of employment figures. Confirmation of the positive economic growth forecasts in the second quarter of 2004 again raised the performance of the American long-term securities to 4.7% at the end of May.

The yield on the long-term Japanese securities followed a similar trend. After having fallen to less than half percentage point in June 2003 they recorded a more sustained growth during the remaining half of the year driven by the recovery of the domestic economy. At the end of May 2004 the ten years yield was 1.5%.





## Evolution and prospects of the economic situation



The rates in the Euro-area fell to 3.6% in August 2003; the recovery during autumn was less pronounced compared to the American and Japanese rates. The improved growth prospects in spring pushed the ten-year rate to 4.4% without being impacted by the terrorist attacks in Madrid (figure 4).

The liquidity generated by the expansionist monetary policies and the positive expectations about the profitability of companies favoured a recovery of share prices between March 2003 and February 2004 and a decrease in price volatility in all countries.

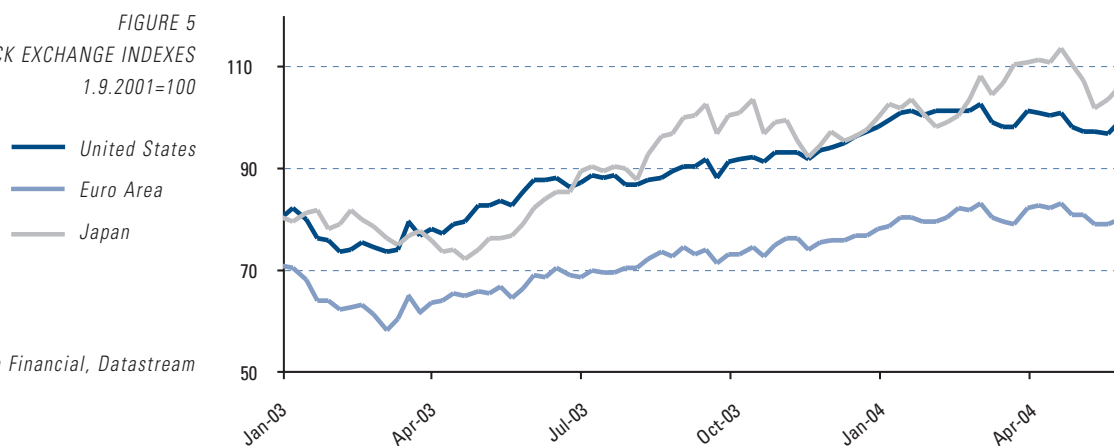
The concerns regarding the sustainability of the American recovery from last March, combined with the reaction of the markets to the terrorist attacks in Madrid resulted in decreased share prices in the United States markets. Share prices in Japan recorded a significant increase, the result of the positive prospects for the economy's future; however, the instability of exchange rates, mediated by the interventionist stance adopted by the Central Bank does not appear to have affected the positive trend. The markets recorded more significant downturns in Europe, probably influenced by the climate of instability created by the terrorist attacks in Madrid.

The level of share prices in the United States and in Japan at the end of May was similar to that in September 2001, whereas the level in the Euro-area was 20% lower (figure 5).



# Evolution and prospects of the economic situation

FIGURE 5  
SYNTHETIC STOCK EXCHANGE INDEXES  
1.9.2001=100



Source: Thomson Financial, Datastream

## THE ITALIAN ECONOMY

### The macroeconomic scenario

Gross domestic product increased by 0.3% in Italy in 2003 (0.4% in 2002; table 6); in sectorial terms, the growth in the building (2.5%) and the services sectors (0.7%) was off-set by the stagnation of the industrial activities and the significant downturn in the agricultural sector (-5.6%).

Investments fell by 2.1%, despite the favourable loan conditions. This situation is attributable to the fall in the profit margins of companies, the large share of spare productive capacity and the high degree of instability.

Exports of goods and services decreased by 3.9%; this has cooled the growth of the GDP to 0.9%, overall. The share of Italian export in international trade has continued to drop, due to the deterioration of our pricing competitiveness which has been impacted not only by the strengthening of the Euro, but also by an increase in production costs in the manufacturing sector. As far as trade flows in goods are concerned our exports to the Euro-area countries, decreased by 3.3%, compared to the 3.0% decrease of Italian goods sold in the rest of the world.

The fall in exports and investment was compensated by the growth in public and private consumption. Household consumption increased by 1.3% (0.5% in 2002); however, a gradual slowdown was recorded during the year, consistent with the deterioration in consumers' confidence. The index was at historically very low levels at the end of May, also due to the effect of the events that led to the financial difficulties experienced by a number of industrial groups.



## Evolution and prospects of the economic situation

	GDP	Aggregate National Demand	Consumptions of Households	Gross Fixed Investments	Imports	Exports
<b>Italy</b>						
2001	1.8	1.4	0.8	1.9	0.5	1.6
2002	0.4	1.3	0.5	1.2	-0.2	-3.4
2003	0.3	1.2	1.3	-2.1	-0.6	-3.9
<b>Euro Area</b>						
2001	1.6	1.0	1.7	-0.3	1.7	-3.4
2002	0.9	0.3	0.1	-2.8	-0.1	1.5
2003	0.4	1.1	1.0	-1.0	1.8	0.1

TABLE 6  
GDP AND AGGREGATE DEMAND  
Annual changes (%)

Source: Eurostat and National Official Statistics

The consumer prices index increased by 2.7% in Italy in 2003, compared to 2.5% in the previous year (table 7). Import prices, labour and non-labour related costs increased more rapidly in Italy compared to the rest of Europe, contributing to an inflation differential of more than 1/2 percentage point.

The objectives for Italian public finance established for the 2003-2006 period have been adjusted repeatedly, due to the downward review of the economy's

	Change (%) (2002)	Change (%) (2003)	Weights (%) (2003)	Contribution to average inflation (2003)
<b>GENERAL INDEX</b>	<b>2.5</b>	<b>2.7</b>	<b>100</b>	<b>-</b>
<b>Non-regulated goods and services</b>	<b>2.9</b>	<b>2.8</b>	<b>82</b>	<b>2.3</b>
Fresh food	5.3	4.2	6.9	0.3
Processed food	2.4	2.4	9.8	0.2
Non-food and non-energy goods	2.2	1.9	31.9	0.6
Non-regulated services	3.9	3.5	30.3	1.1
Non-regulated energy services	-1.9	2.3	3.1	0.1
<b>Regulated goods and services</b>	<b>0.7</b>	<b>2.2</b>	<b>18</b>	<b>0.4</b>
Pharmaceuticals	-1.4	-3.8	2.9	-0.1
Tobacco	1.8	8.3	1.9	0.2
Rents	0.5	2.8	3.1	0.1
Tariffs	0.5	2.7	10	0.3

TABLE 7  
ITALIAN CONSUMER PRICES

Source: ISTAT



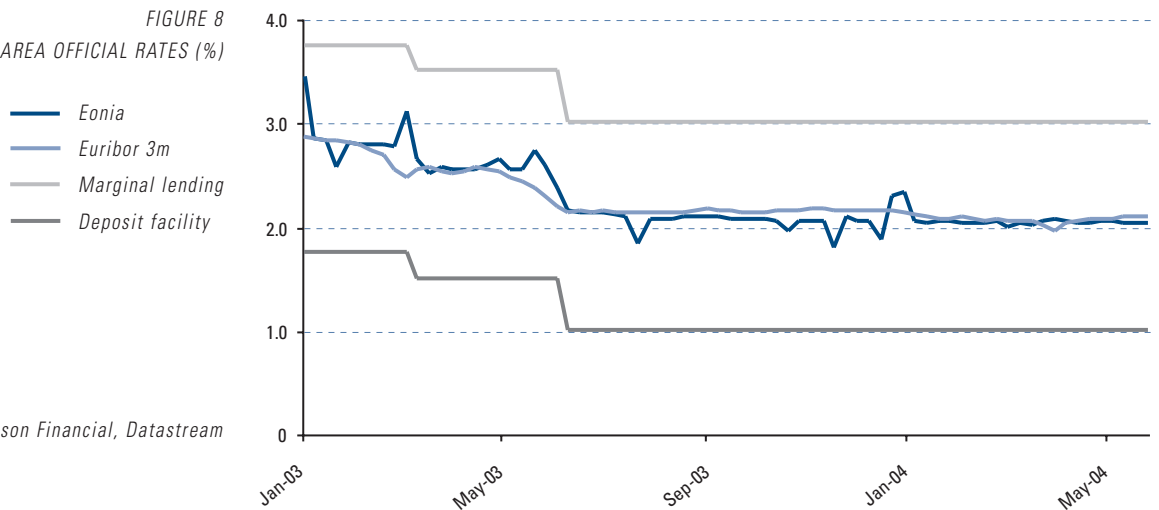
## Evolution and prospects of the economic situation

growth prospects. The Government has resorted to corrective measures, mainly one-off, to comply with Stability and Growth Pact.

### The monetary and credit markets

The European Central Bank has not changed the official rates since June 2003 (figure 8). The real short-term rate has been just barely positive in the Euro-area; the real rate in Italy was slightly negative due to the higher inflation.

FIGURE 8  
EURO AREA OFFICIAL RATES (%)



Source: Thomson Financial, Datastream

M3 growth decreased in the Euro-area countries. The Italian component followed this trend: the growth rate over 12 months dropped from over 7% in March 2003 to 4% in March this year, due to the restructuring of the households' portfolios towards of less liquid assets such as non-monetary investment funds and insurance policies.

The flow of financial savings by Italian households, defined as the difference between the movement in financial assets and liabilities, slowed down: its level was 5.6% of the GDP in 2003 compared to an average of 7% over the 1995-2002 period, above all due to the increase in the portion of savings earmarked for real estate investment. The indebtedness of households has increased, mainly in the form of mortgage loans to purchase real estate; overall the debt incurred by Italian households is equal to 25% of the GDP, significantly lower than the 52% observed on average in the Euro-area countries.



## Evolution and prospects of the economic situation

Italian households earmarked 37.2% of the gross financial assets flow to purchasing Life class insurance policies (25.6% in 2002; table 9), and 16.9% to investment funds in 2003. The portion of portfolio invested in Life class insurance policies was 9.3% in December 2003.

	Flows 2002	% on total	Flows 2003	% on total	Stocks 2003	% on total
Liquidity and deposits	28,769	23.1%	33,953	29.0%	787,696	27.1%
Fixed income bonds	50,448	40.4%	7,855	6.7%	640,043	22.0%
Shares in investments funds	-2,424	-1.9%	19,804	16.9%	356,704	12.3%
Stocks and direct participations	2,624	2.1%	-949	-0.8%	640,845	22.0%
Insurance premiums reserves (*)	42,632	34.2%	54,723	46.7%	467,177	16.0%
<i>of which:</i>						
<i>Life insurance reserves</i>	31,918	25.6%	43,544	37.2%	269,989	9.3%
Other assets	2,725	2.2%	1,754	1.5%	19,146	0.7%
<b>Total assets</b>	<b>124,774</b>		<b>117,140</b>		<b>2,911,611</b>	

TABLE 9  
FINANCIAL ASSETS OF ITALIAN HOUSEHOLDS  
Euro million

Source: ANIA calculations on Financial Accounts Data of the Bank of Italy

(\*) Made up of: Life and Non-Life insurance technical reserves, pension funds and TFR

The operating profitability of Italian companies has deteriorated. The internal financial resources have decreased and financial needs have increased, despite the limited investment activity.

The interest rates applied by banks to non-financial companies are extremely low, if compared historically. Companies have used the loans granted by banks principally for their current business operations, rather than for new investment projects.

The quality of the bank loan has deteriorated due to the weakness of the economic activity and due to the financial difficulties experienced by a number of large industrial groups. The ratio between bad loans and investments has increased from 1% in 2002 to 1.2% in 2003. The new survey performed by 'Euro-sistema' about the loan policies adopted by banks indicates that the criteria adopted when granting loans have become more cautious from the last quarter of 2003 in the case of large companies but not in the case of small companies and households.

### The financial and share markets in Italy

The performance achieved by Italian Government securities recorded quite marked fluctuations (figure 10). The dwindling prospects of recovery of the economy during the first half of 2003, decreased the performance of the long-term benchmark security to 3.6%, the lowest level ever observed. The first signs of a positive economic trend and the restructuring of the portfolios in favour of shares enabled the rates to recover the loss; the levels achieved at the beginning of 2003 were surpassed in May 2004 (4.6%).



## Evolution and prospects of the economic situation

FIGURE 10  
PERFORMANCE OF 10 YEARS  
GOVERNMENT SECURITIES (%)



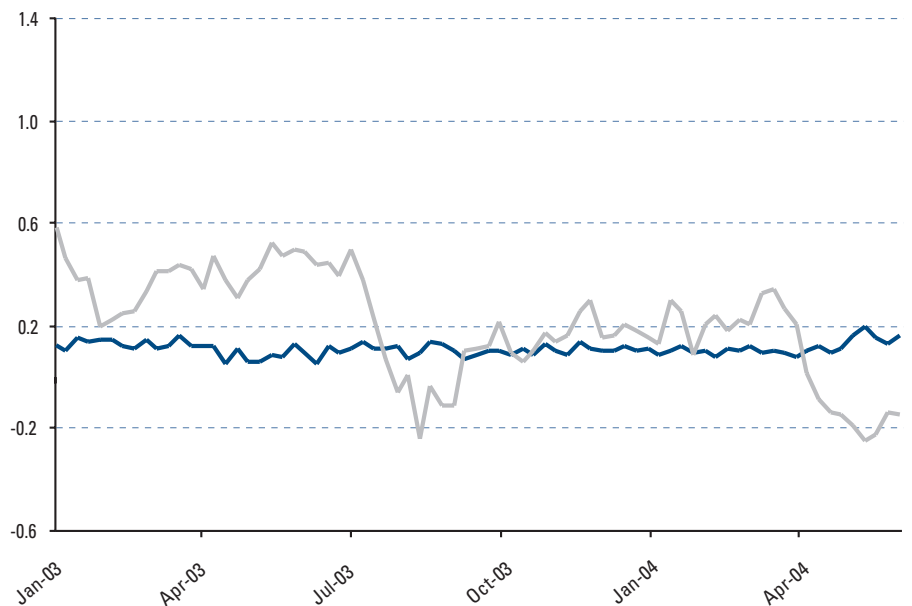
Source: Thomson Financial, Datastream

The spread between Italian and European bond yields fluctuated around one tenth of a percentage point throughout 2003 (figure 11); the fears of a downgrading of the risk merit by a number of rating agencies increased this differential, even if to a limited extent. The differential with respect to United States rates experienced broader variations.

The differential between the performance of the Euro bonds issued by non-financial companies with a high credit merit rating (BBB and above) and the performance of Government bonds continued its downward trend in 2003,

FIGURE 11  
ITALIAN BENCHMARK BOND YIELD DIFFERENTIAL

— Italy-Euro Area  
— Italy-United States



Source: Thomson Financial, Datastream



## Evolution and prospects of the economic situation

reaching 0.6 percentage points in April: the significant increase in the risk premium observed between spring 2000 and autumn 2002 was completely reabsorbed. The premiums on credit default swaps (financial derivatives to ensure repayment of the face value of a given security in the event of default by the issuer) also recorded a significant downturn in all sectors, according to the figures published by the Bank of Italy: in particular, the premium relative to the securities of European insurance companies decreased by 0.8 percentage points at the beginning of 2003 to 0.25 last May.

The spreads for Italian issuers in 2003 essentially followed the decrease observed in the rest of Europe; however, an increase in the performance of the securities of higher risk borrowers was recorded after the Parmalat case emerged. According to the data issued by 'Dealogic', reported by the Bank of Italy, Italian Companies have issues bonds for a value of Euro 13.8 million, compared to Euro 19.5 million issues on average over the last four years; the value and the amount of the bonds issued by companies with no rating or with a low loan merit rating has decreased.

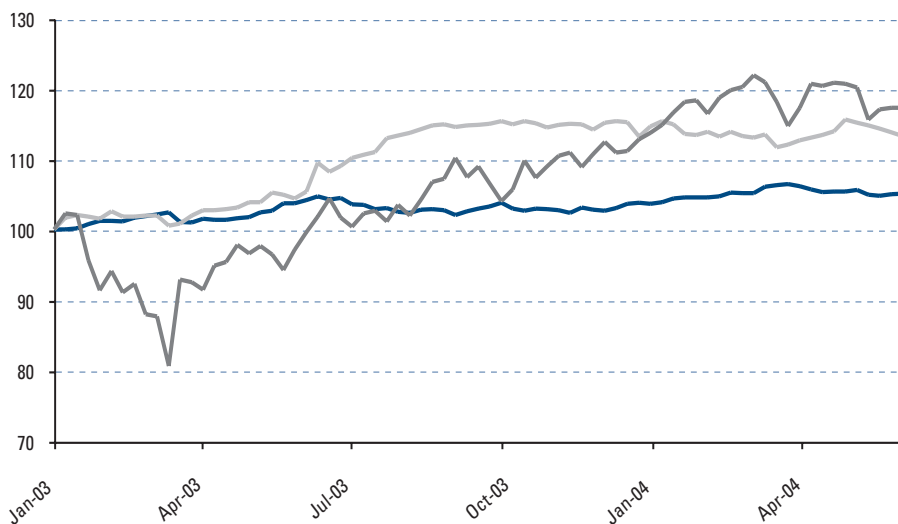


FIGURE 12  
STOCK MARKET AND TREASURY BOND INDEXES.  
ITALY AND EURO AREA  
1.1.2003=100

— MTS  
— MIB Historical Index  
— DJ EuroStoxx

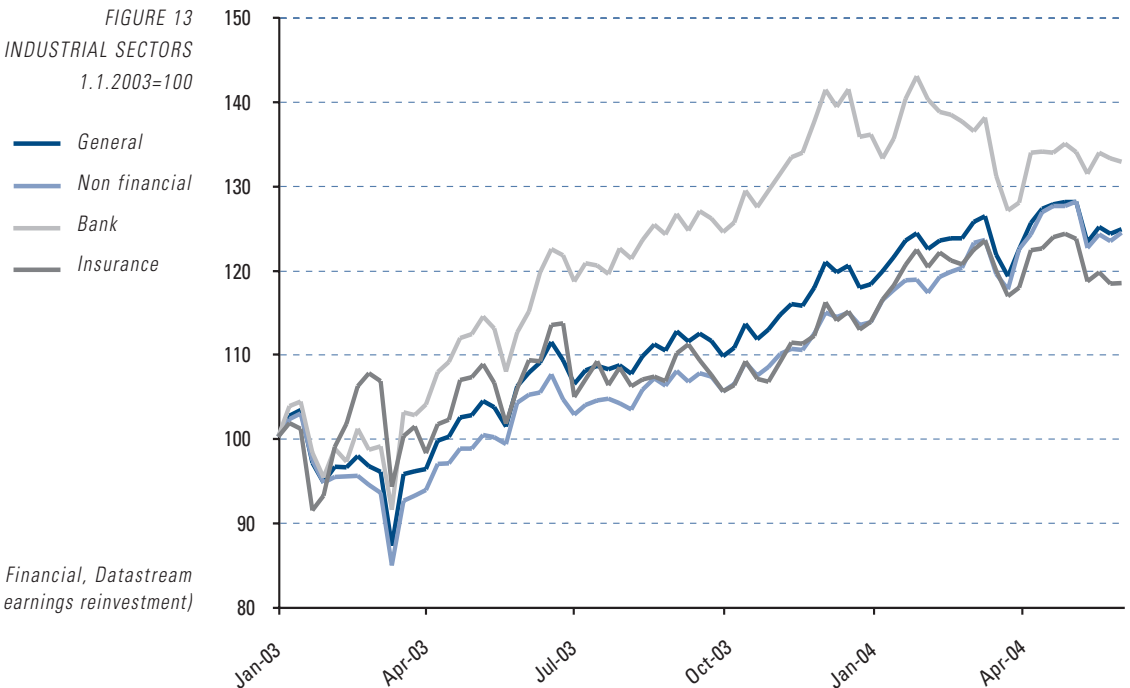
Source: Thomson Financial, Datastream

The increase in share prices in Italy has been lower than the one recorded in the Euro-area (figure 12). The historical MIB index increased by 13% from the beginning of 2003 to May 2004, four percentage points less compared to the Dow Jones Euro Stoxx. An increase in the Stock Exchange indices has stimulated investment in mutual funds. The net income of share funds was positive, whereas the income of bond funds was negative, due to an increase in the medium and long-term interest rates observed during the summer.



## Evolution and prospects of the economic situation

FIGURE 13  
STOCK MARKET INDEXES PER INDUSTRIAL SECTORS  
1.1.2003=100



Source: Thomson Financial, Datastream  
(Indexes take into account earnings reinvestment)

The recovery of Italian Stock Exchange prices was gradual and impacted all the sectors (figure 13); the impact was more intense for the banking sector, which recorded a downturn in the prices in the first five months of 2004. The growth of insurance securities equalled 19% from the beginning of 2003 to the end of last March, significantly lower than the growth of the sector in France (45%) but higher than the growth in Germany (2%). The quotations of insurance companies in the United Kingdom decreased by 9% (figure 14).

The ratio between current profits and Stock Exchange capitalisation decreased in all countries in the Euro-area in 2003 (figure 15), following an increase in the quotations; the ratio remained essentially stable in 2004. The ratio had settled to values close to 6% in Italy at the end of May.

The level of share prices can be analysed by resorting to a useful analytical tool, the Gordon formula, according to which the ratio between profits and share prices in the long-term is equal to the real long-term interest rate of a risk-free security, discounted by the expected growth of profits and augmented by a risk premium. The risk premium consistent with the observed value of the ratio between profits and capitalisation can be calculated by approximating the real interest rate the difference between ten-year Government bond yield and the expected inflation estimated by 'Consensus' and the growth rate of profits by the potential growth rate of the economy. Share prices at the end of May in Italy, France and the United Kingdom were consistent with a risk premium of 3%, a value in line with the scenario observed in the past. Share prices in the United States, Japan and above all in Germany were consistent with a lower risk premium, indicating a possible overvaluation (figure 16).





# Evolution and prospects of the economic situation

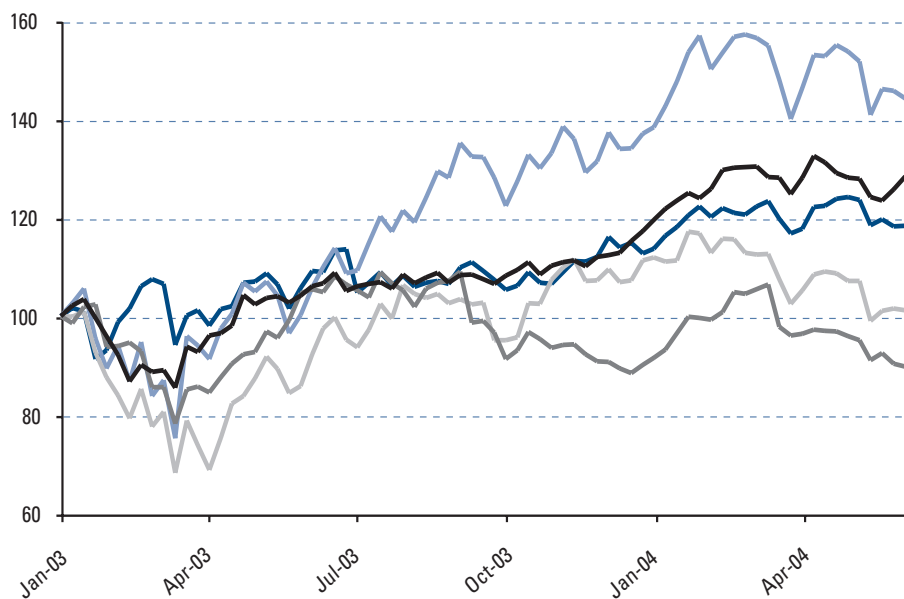


FIGURE 14  
INSURANCE SECTOR STOCK MARKET  
INDEXES IN THE MAIN ECONOMIES  
1.1.2003=100

— Italy  
— France  
— Germany  
— United Kingdom £  
— United States \$

Source: Thomson Financial, Datastream  
(Indexes take into account earnings reinvestment)

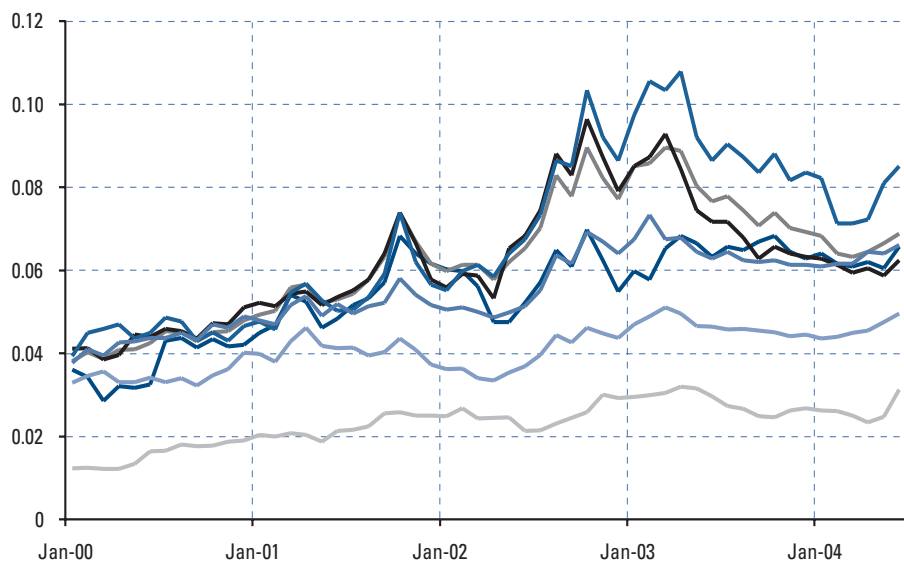


FIGURE 15  
INVERSE OF PRICE/EARNING RATIO

— Italy  
— United States  
— Japan  
— Euro Area  
— France  
— Germany  
— United Kingdom

Source: Thomson Financial, Datastream

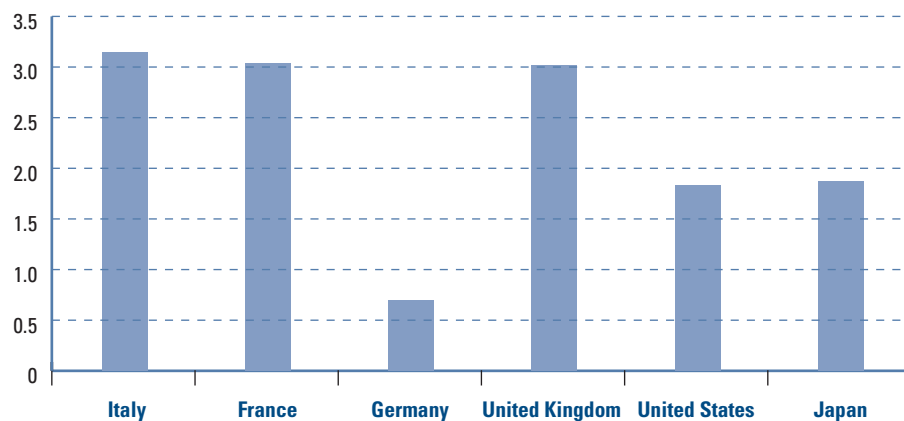


FIGURE 16  
RISK PREMIUMS - GORDON'S FORMULA  
(%)

Source: Thomson Financial, Datastream and Consensus Economics



# Evolution and prospects of the economic situation

## SHORT-TERM ECONOMIC PROSPECTS

### The International scenario

According to the International Monetary Fund, in 2004 world GDP growth will be 4.6% and world trade will increase by 6.8%. International bodies and private analysts agree in expecting a much stronger growth in the United States also in 2004 (4.6% according to the estimates by 'Consensus' and by the IMF, table 17) and in Japan (3.1% according to 'Consensus', 3.4% according to the IMF) compared to the growth in the Euro-area (1.6% according to 'Consensus', 1.7% according to the IMF). Emerging economies should enjoy a robust growth, which would be more balanced across countries: GDP should increase by 7% in Asian countries.

2005 may see a slight cooling of the United States growth rate (3.8% according to 'Consensus'), associated with the expectations of a decrease in the public deficit and a slight tightening of the monetary policy designed to oppose inflationary pressures; the cooling will be more marked in Japan and in the rest of Asia. The Euro-area economy might record a small improvement.

TABLE 17  
SHORT-TERM FORECASTS  
FOR THE MAIN ECONOMIES

	IMF	Consensus Economics									
		GDP		Private consumption		Investments		Industrial production		Consumer's prices	
		2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
United States	4.6	4.6	3.8	3.9	3.3	10.2	9.0	5.0	5.2	2.2	2.1
Japan	3.4	3.1	1.8	1.8	1.4	9.9	5.2	5.2	2.4	-0.2	-0.2
Euro Area	1.7	1.6	2.0	1.2	1.9	2.0	3.2	2.0	2.5	1.8	1.6
France	1.8	1.8	2.1	1.7	1.9	2.7	4.0	2.2	2.7	1.9	1.6
Germany	1.6	1.6	1.7	0.6	1.5	3.3	4.7	2.5	2.6	1.3	1.2
United Kingdom	3.5	3.1	2.7	3.2	2.4	5.2	4.1	1.6	2.5	1.5	1.8

Source: Consensus Economics and International Monetary Fund (IMF)

World prices growth should remain broadly stable, as many economies still have large unexploited productive capacity.

However, the significant growth in crude oil prices observed in spring 2004 is not incorporated in most of the forecasts. Inflationary pressures are foreseeable if the price of crude oil continues to remain at particularly high levels, with possible negative effects on growth. In particular, there are fears that increase in rates, designed to address possible inflationary pressures may interfere with the economic recovery and cause an increase in risk premia on the financial markets, from the current low level.



## Evolution and prospects of the economic situation

### The Italian macroeconomic scenario

The Italian economy is likely to experience weaker economic growth than the rest of the Euro-area. Growth in Italy would be 1% in 2004, compared to the 1.6% foreseen for Germany and the 1.8% for France, according to the estimates collected by 'Consensus' in May (table 18).

However, an acceleration in growth expected during the year. In fact, the sustained growth of the world economy should stimulate Italian exports and the recovery of investments. The expiry of a large number of collective Labour contracts could trigger wage rises and therefore an increase in household's disposable income. However, the gross operating margin of companies would not improve. Public sector financial needs would increase from Euro 38 billion in 2003 to Euro 45 billion. The expected increase would fall within a Euro 30-60 billion range.

	2003	2004			2005
		Average	Minimum	Maximum	
GDP	0.4	1.0	0.7	1.3	1.8
Private consumption	1.2	1.0	0.4	1.7	2.0
Investments	-2.1	0.5	-1.1	1.8	2.7
Industrial production	-0.4	1.1	0.1	2.4	2.4
Consumer's prices	2.7	2.2	1.9	2.3	2.1
Unemployment rate	8.7	8.6	8.1	8.9	8.3
State sector borrowing requirement (Euro bn)	-38.2	-44.9	-61.8	-30.0	-46.3
3m rate	2.1	2.1	1.8	2.2	2.4
10 year Italian Government bond yield	4.5	4.5	4.4	4.1	4.7

TABLE 18  
SHORT TERM FORECASTS FOR THE ITALIAN ECONOMY

Source: Consensus Economics  
(Interest rates' forecasts relate to end of August 2004 and end of May 2005)

Inflation should remain at an average level slightly exceeding 2%, whereas production prices should be subject to a smaller increase. The three-month interest rate foreseen by the end of August 2004 should be 2.1% the same value as last May, whereas a slight increase is foreseen (2.4%) at the end of May 2005. The performance of the ten-year BTP (Long-term Treasury Bonds) should increase over the same period from 4.5% to 4.7%.

This scenario characterised by a slow recovery of the Italian economy and by a lower increase in the rates is based on an essentially stable value of the Euro against the dollar and on a limited impact of the high price of crude oil.

### The monetary policy and financial markets in Italy

A significant change in the focus of monetary policy in the Euro-area is not foreseen, even if the American Federal Reserve were to increase the official rates.



## Evolution and prospects of the economic situation

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According to 'Prometeia', the more limited reactivity of the European economy to the global expansion phase and the strengthening of the Euro will enable the reference rates to be maintained at current levels for the entire year. The cooling of Italian inflation will consolidate the modest upward trend of real interest rates.

The financial balance of Italian households will not experience major changes. The indebtedness of households will continue to grow steadily, thanks to the greater propensity to real estate investment. The financial savings of households should increase to 8% of the GDP. The events associated with the crisis experienced by Cirio and Parmalat will induce greater caution in the portfolio selections made by households, focusing selections towards more liquid and lower risk assets. The portion of higher risk assets should increase in the medium term.

Financial investments in managed assets products could increase during the forthcoming five-year period by an average of 9% per annum, with substantial changes of the composition, according to the forecast report published by 'Prometeia'. A downturn in investments is foreseen in share investment funds in favour of Life insurance products and pension funds.



# The Italian insurance market: key figures 2003

The number of insurance companies remained unvaried, as a result of a decrease in the number of insurance companies with registered offices in Italy and an increase of foreign representations.

## NUMBER OF COMPANIES IN E.U. COUNTRIES

Data as at 31/12

	1999	2000	2001	2002
Austria	77	77	73	72
Belgium	222	210	204	201
Denmark	263	249	240	240
Finland	65	65	69	68
France	525	527	504	495
Germany	725	706	694	703
Greece	114	110	107	102
Ireland	183	191	196	196
Italy	250	252	256	254
Luxembourg	94	93	93	95
The Netherlands	517	482	472	453
Portugal	92	88	84	83
United Kingdom	829	822	808	806
Spain	370	354	342	334
Sweden	473	482	461	448
<b>Total</b>	<b>4,799</b>	<b>4,708</b>	<b>4,603</b>	<b>4,550</b>

Source: CEA

## PREMIUMS PER COMPANY IN E.U. COUNTRIES

Euro million

	1999	2000	2001	2002
Austria	142	152	171	177
Belgium	76	95	100	111
Denmark	40	46	53	58
Finland	160	181	171	180
France	217	249	254	267
Germany	176	187	196	201
Greece	21	23	25	28
Ireland	37	44	54	57
Italy	247	268	298	345
Luxembourg	61	74	68	68
The Netherlands	69	82	92	97
Portugal	73	80	95	101
United Kingdom	243	301	290	296
Spain	87	115	123	144
Sweden	33	39	38	38
<b>Total</b>	<b>137</b>	<b>161</b>	<b>166</b>	<b>176</b>

Source: CEA

## OPERATING INSURANCE COMPANIES

As at 30 April 2004, 248 insurance companies were operating (249 as at 30 April last year), of which 188 were insurance companies with registered office in Italy (194 as at 30 April last year) and 60 were branch offices of foreign insurance companies (55 as at 30 April last year), mainly from European Union members (52).

95 insurance companies write only Life insurance business (of which 14 are foreign branch offices) and 123 companies only write Non-Life business (of which 38 are foreign branch offices); 20 companies write both Life and Non-Life business; 10 companies write only reinsurance business (of which 7 are foreign branch offices).

Considering the legal status of the 188 companies that have legal offices in Italy, 184 are joint stock companies, 3 are mutual companies and one is a cooperative company.

197 insurance companies are ANIA members (of which 14 are corresponding members): these insurance companies represent more than 90% of the premiums of the entire market.

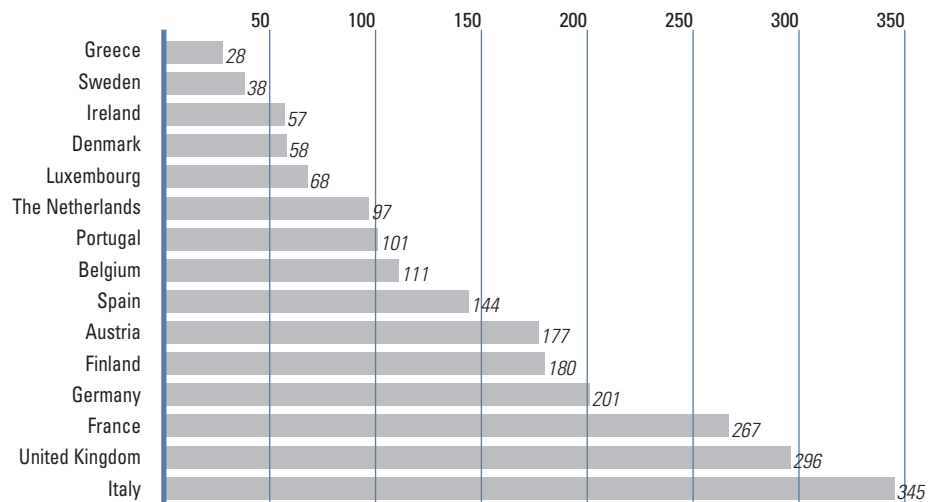
## NUMBER OF COMPANIES BY JURIDICAL NATURE

	LIFE	NON-LIFE	MULTI BRANCHES	PROFESSIONAL REINSURERS	TOTAL COMPANIES
<b>Situation as at April 30, 2003</b>					
Limited companies	83	87	17	3	190
Cooperatives	–	–	1	–	1
Mutuals	–	2	1	–	3
Domestic companies	83	89	19	3	194
Foreign branches	13	35	1	6	55
<i>in E.U. countries</i>	13	33	1	5	52
<b>Total companies</b>	<b>96</b>	<b>124</b>	<b>20</b>	<b>9</b>	<b>249</b>
<b>Situation as at April 30, 2004</b>					
Limited companies	81	83	17	3	184
Cooperatives	–	–	1	–	1
Mutuals	–	2	1	–	3
Domestic companies	81	85	19	3	188
Foreign branches	14	38	1	7	60
<i>in E.U. countries</i>	14	36	1	6	57
<b>Total companies</b>	<b>95</b>	<b>123</b>	<b>20</b>	<b>10</b>	<b>248</b>



# The Italian insurance market: key figures 2003

PREMIUMS PER COMPANY IN E.U. COUNTRIES  
as at December 31, 2002



Source: CEA

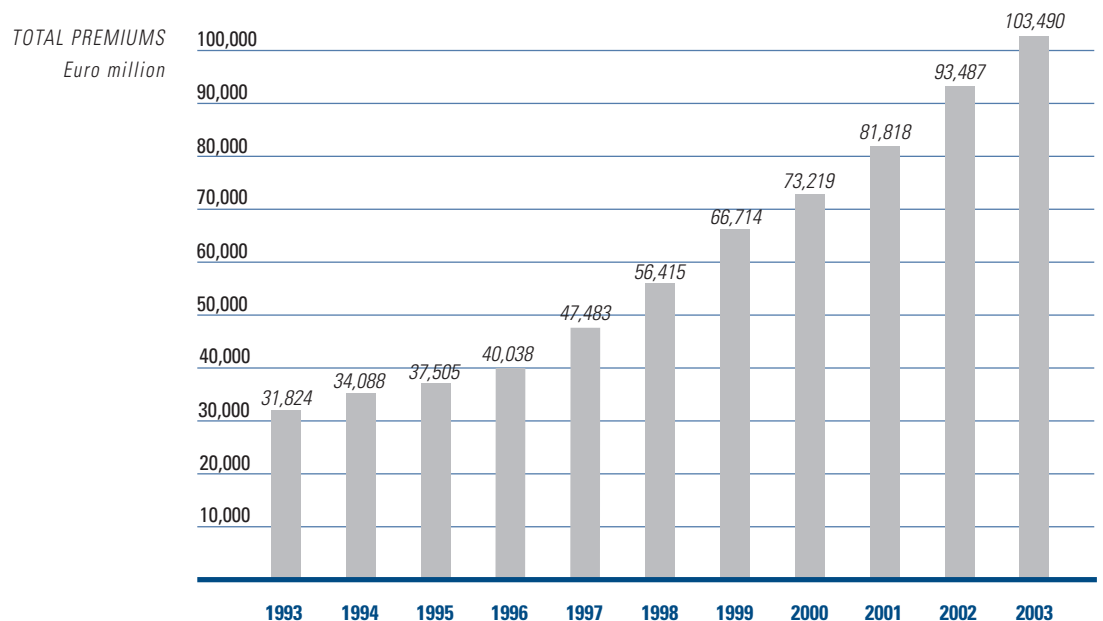
## INCOME STATEMENT

In 2003 the technical account result improves both in Life and Non-Life activities, due to the positive trend of investments. However due to a reduced contribution of the extraordinary activity, the overall profit is only slightly increased compared to 2002, with a decreased incidence on premiums compared to the previous financial year.

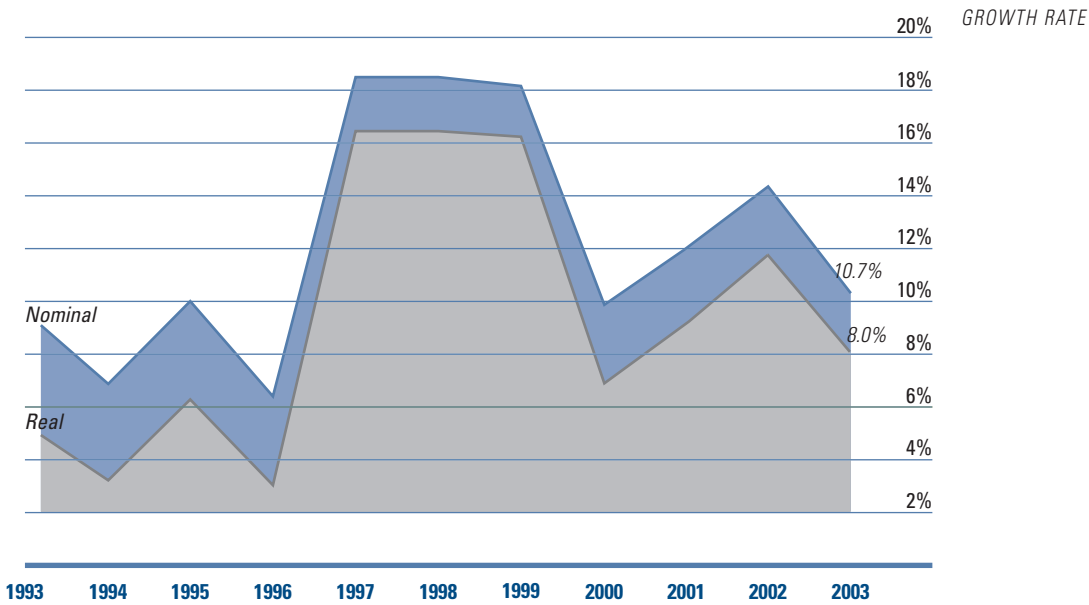
## TECHNICAL ACCOUNT

### Premium income

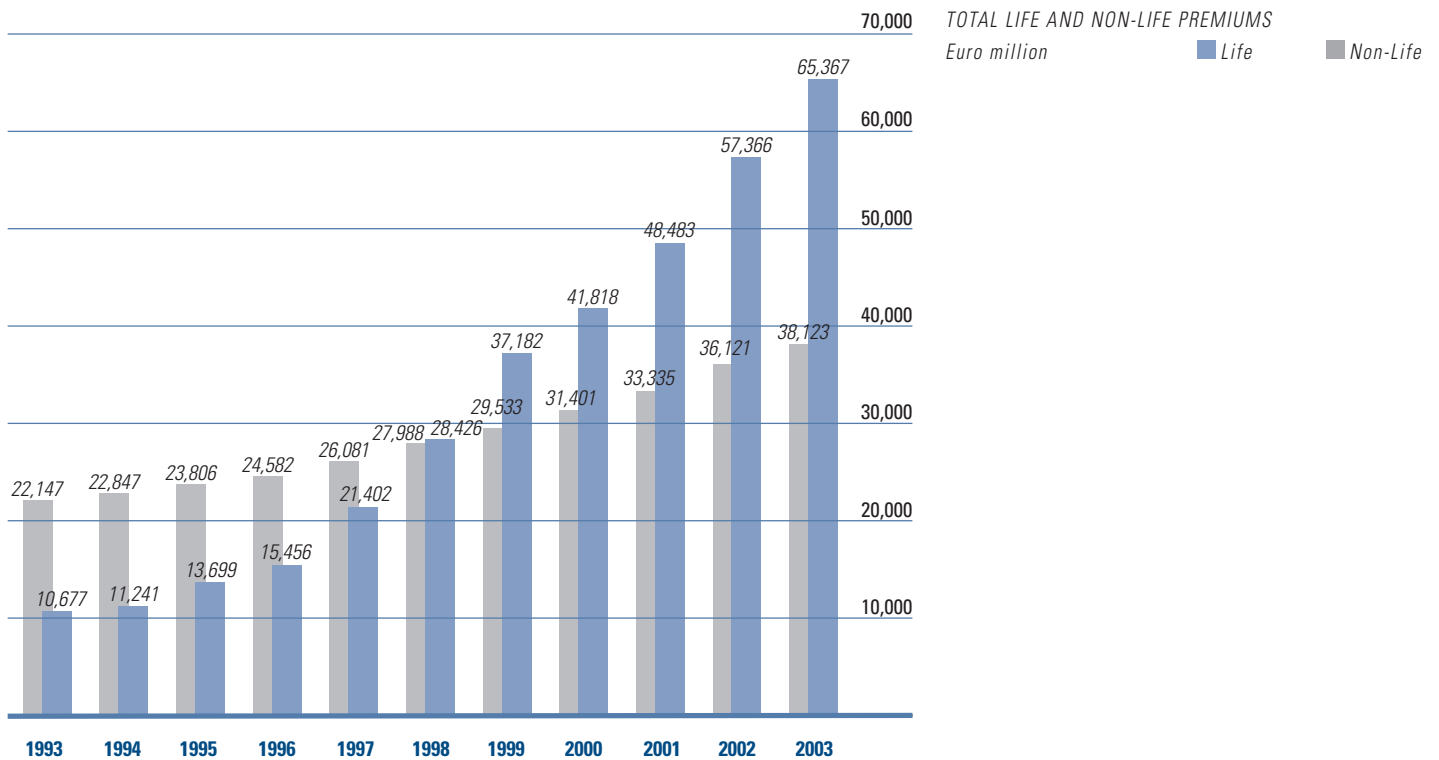
The total gross premiums for the domestic and foreign business, direct and indirect, collected by companies with registered offices in Italy and by the



# The Italian insurance market: key figures 2003



branches of foreign non-European Union companies totalled Euro 103,490 million in 2003 (+10.7% compared to 2002). In particular, Euro 38,123 million were collected in the Non-Life classes and Euro 65,367 million in the Life classes, with an increase of 5.5% and 13.9%, respectively.



## The Italian insurance market: key figures 2003

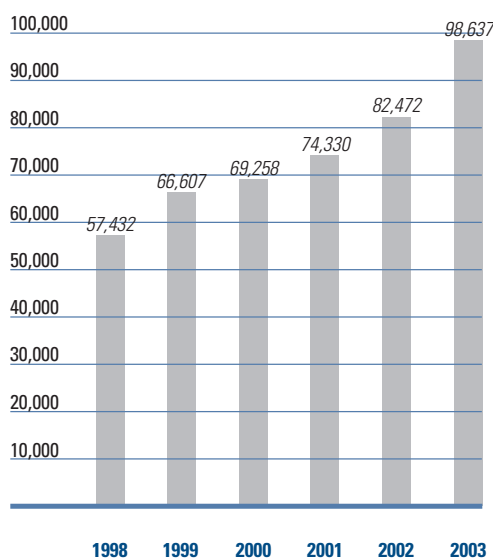
Life insurance classes increased their share over the total premiums from 59.3% in 2001 to 61.4% in 2002 and to 63.2 in 2003.

Premiums ceded to reinsurance totalled Euro 7,499 million (5,116 in the Non-Life and 2,383 in Life) and decreased their share in gross premiums, from 7.6% in 2002 to 7.2 in 2003; confirming the tendency of companies to maintain and manage risk directly.

Total premiums, net of reinsurance, achieved Euro 95,991 million, reflecting an increase of 11.2%: Euro 33,007 million in Non-Life and Euro 62,984 million in Life.

Gross premiums for the direct business, Italian and foreign, both Non-Life and Life, increased by 10.6% compared to 2002, reaching Euro 97,083 million (34,277 in Non-Life and 62,806 in Life).

CLAIMS, BENEFITS AND PROVISIONS  
Euro million



### Claims, benefits and provisions

The aggregate amount for benefits to insured and to other beneficiaries, including the amounts of technical provisions, totalled Euro 98,637 million (+19.6%): Euro 27,990 million in Non-Life and Euro 70,647 million in Life business.

The reinsurance contribution was equal to Euro 5,584 million (+4.0%), of which Euro 3,428 million were relative to Non-Life business and Euro 2,156 million were relative to Life.

The net amount of benefits therefore totalled Euro 93,053 million (+20.7%): Euro 24,562 million in the Non-Life and Euro 68,491 million in Life business.

### Operating expenses

The operating expenses for direct and indirect business, net of reinsurance, totalled Euro 11,455 million, with an increase of 7.6% and an incidence on premiums of 11.9% (12.3% in 2002). These refer to the charges to acquire contracts, to collect premiums, to organise and operate the distribution network as well as administrative costs relating to technical management.

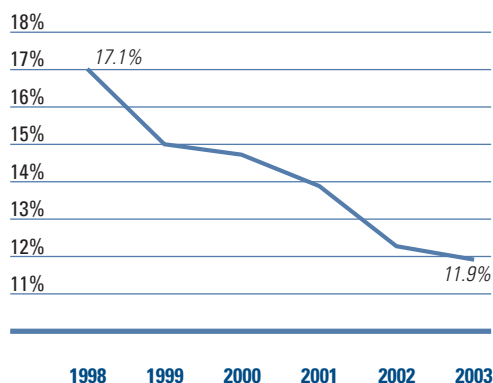
In particular, the operating expenses for Non-Life business were equal to Euro 7,620 million, with an incidence on premiums of 23.1%, (23.2% in 2002); for Life business, they were equal to Euro 3,835 million, with an incidence on premiums of 6.1% (6.3% in 2002).

### Technical Account Result

The technical account result, net of reinsurance, was positive totalling Euro 3,993 million, with an incidence of 4.2% on direct and indirect premiums, reflecting an increase compared to 2002 (2.8%).

There was a positive result for the Non-Life classes totalling Euro 2,259 million (1,263 in 2002), with an incidence on premiums of 6.8% (4.1% in 2002). Life classes showed a positive result of Euro 1,734 million (1,166 in 2002), with an incidence on premiums of 2.8% (2.1% in 2002).

OPERATING EXPENSES TO PREMIUMS RATIO (%)





# The Italian insurance market: key figures 2003

## NON TECHNICAL ACCOUNT

### Investment income

The ordinary and extraordinary net investment income for Life and Non-Life classes reached Euro 15,506 million, with an increase of 111.6%. The ordinary net investment income was equal to Euro 14,414 million (+184.5% compared to 2002), extraordinary investment income was equal to Euro 1,092 million (-51.7% compared to 2002).

More in detail, gross ordinary investment income reached Euro 20,937 million (18,213 in 2002) with an increase of 15.0%. This income comprised principally of income deriving from: "shares and holdings" (Euro 2,415 million, -3.0%), "land and buildings" (Euro 319 million, -31.9%), "other investments" (Euro 8,874 million, +4.0%), "revaluations and realised investments" (Euro 2,707 million, +15.1%) as well as from "investments for the benefit of insureds and deriving from pension funds management" (Euro 6,622 million, +51.5%).

The overall expenses referring to income from investments totalled Euro 6,523 million (13,146 in 2002).

Extraordinary investment income, gross of expenses, totalled Euro 1,966 million (3,162 in 2002) and the relative expenses totalled Euro 874 million (899 in 2002).

## RESULT FOR THE FINANCIAL YEAR

The result for the ordinary activity, Non-Life and Life, was positive, amounting to Euro 4,440 million (2,684 in 2002), with an increase of 65.4%.

The result for extraordinary activity totalled Euro 1,092 million, reflecting a decrease compared to Euro 2,262 million in 2002.

Income taxes for the period totalled Euro 1,919 million (1,436 in 2002).

Financial year 2003 therefore recorded a profit of Euro 3,613 million (3,510 in 2002) with a decreased incidence on premiums (from 4.1% in 2002 to 3.8% in 2003) due to a return to normal values of the income from extraordinary activity.

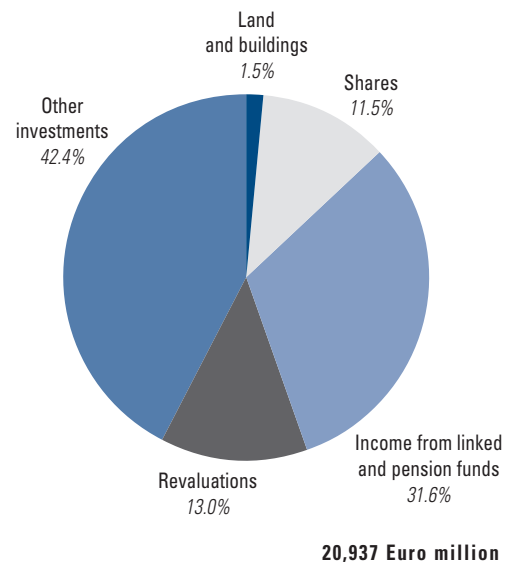
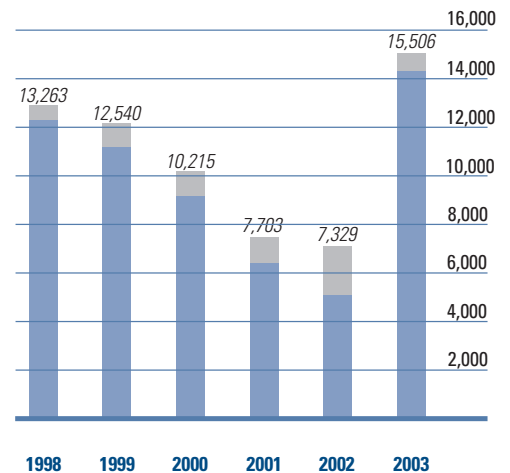
The R.O.E. (Return on Equity), that is, the profitability indicator of the enterprise's own resources, calculated as the ratio between net profit and the centered mean of the capital stock and of equity reserves, slightly decreased and was equal to 10.1% in 2003 compared to 10.6% in 2002.

The format for the Balance Sheet concerning professional reinsurers does not provide the breakdown of the profit, for the financial year, between Non-

TREND OF NET INVESTMENT INCOME

Euro million

■ Ordinary ■ Extraordinary



BREAKDOWN OF GROSS ORDINARY INVESTMENT INCOME (%)



## The Italian insurance market: key figures 2003

Life and Life classes. By excluding these companies therefore, the result for the Non-Life classes reflected a profit totalling Euro 1,646 million (1,968 in 2002) and the result for the Life classes reflected a profit of Euro 1,875 million (1,483 in 2002).

### INCOME STATEMENT Euro million

	1998	1999	2000	2001	2002	2003
<b>Technical account of Non-Life and Life classes (*)</b>						
Written premiums	50,736	61,011	66,965	75,240	86,350	95,991
Changes in premiums reserves (-)	24,994	31,919	27,500	30,046	32,645	43,845
Investment income	10,760	9,941	7,567	5,435	3,939	13,026
Other technical income	282	382	463	780	980	1,139
Incurred claims (-)	27,217	29,534	35,583	38,240	44,459	49,208
Operating expenses (-)	8,658	9,167	9,791	10,208	10,648	11,455
Other technical costs (-)	824	802	942	897	1,088	1,655
Balance	85	-88	1,179	2,064	2,429	3,993
<b>Technical account - Non-Life (*)</b>						
Written premiums	23,920	25,560	27,029	28,915	30,958	33,007
Changes in premiums reserves (-)	1,011	803	543	835	825	742
Investment income	2,528	1,874	2,135	1,931	1,483	1,933
Other technical income	173	286	294	409	321	374
Incurred claims (-)	19,873	20,895	22,004	22,224	22,736	23,820
Operating expenses (-)	6,008	6,237	6,457	6,851	7,178	7,620
Other technical costs (-)	677	684	754	696	760	873
Balance	-948	-899	-300	649	1,263	2,259
<b>Technical account - Life (*)</b>						
Written premiums	26,816	35,451	39,936	46,325	55,392	62,984
Changes in technical provisions (-)	23,984	31,116	26,957	29,211	31,820	43,103
Investment income	8,232	8,067	5,432	3,504	2,456	11,093
Other technical income	109	96	169	371	659	765
Incurred claims (-)	7,344	8,639	13,579	16,016	21,723	25,388
Operating expenses (-)	2,649	2,930	3,334	3,357	3,470	3,835
Other technical costs (-)	147	118	188	201	328	782
Balance	1,033	811	1,479	1,415	1,166	1,734
<b>Non technical account</b>						
Other Non-Life income	788	607	705	629	401	519
Other Life income	765	593	876	436	726	868
Balance of other income and expenses	-131	168	-394	-2	-872	-940
Balance of ordinary activities	1,507	1,280	2,366	3,127	2,684	4,440
Balance of extraordinary activities	950	1,398	1,067	1,204	2,262	1,092
Taxes on income (-)	1,275	1,195	1,390	1,454	1,436	1,919
<b>Result for the financial year</b>	<b>1,182</b>	<b>1,483</b>	<b>2,043</b>	<b>2,877</b>	<b>3,510</b>	<b>3,613</b>
<b>Return on Equity</b>	<b>n.d</b>	<b>5.3%</b>	<b>6.7%</b>	<b>8.9%</b>	<b>10.6%</b>	<b>10.1%</b>

(\*) Technical items net of cessions and retrocessions



# The Italian insurance market: key figures 2003

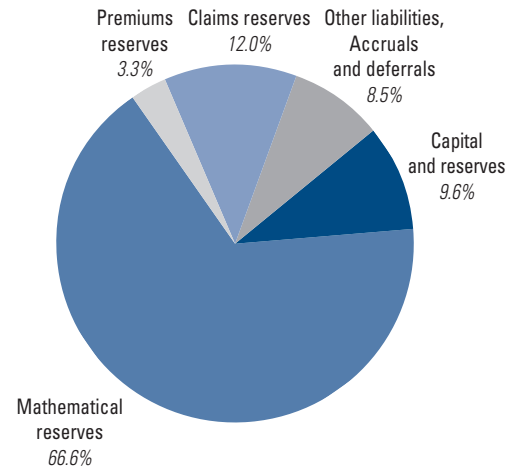
## BALANCE SHEET

### Liabilities

The total liabilities recorded in the Balance Sheet amounted to Euro 429,331 million.

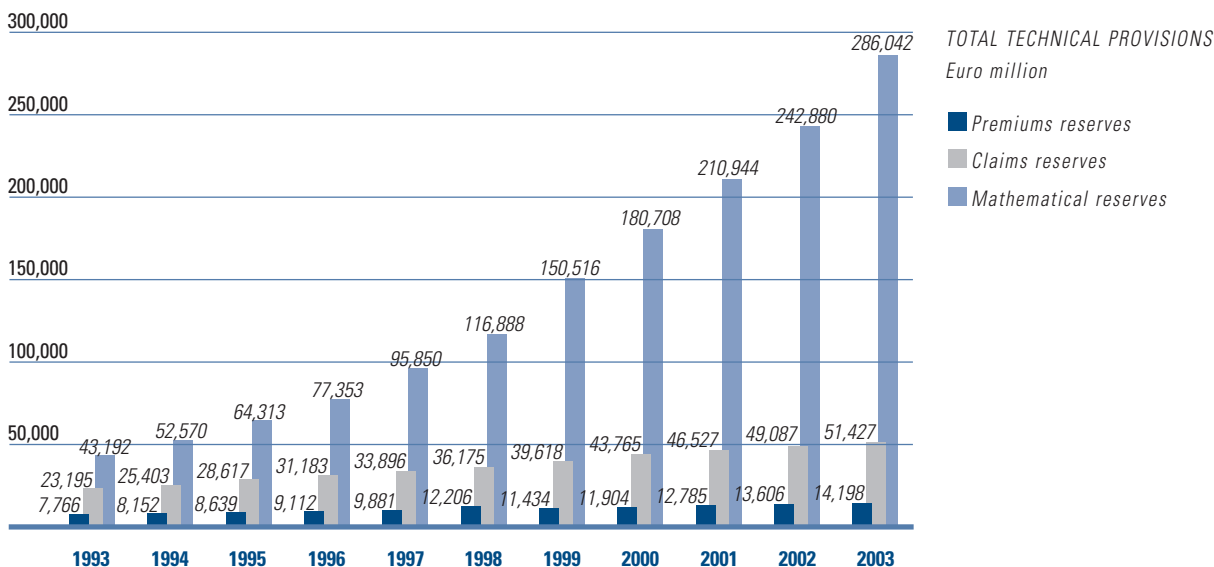
In particular:

- Capital and reserves were equal to Euro 41,151 million (9.6% of total liabilities), with an increase of 10.0% compared to 2002; subscribed capital increased from Euro 9,961 million to Euro 10,585 million (+6.3%), equity reserves increased from Euro 23,930 million to Euro 26,953 million (+12.6%). The profit for the financial year totalled Euro 3,613 million (3,510 in 2002);
- Technical provisions, representing commitments undertaken on behalf of the insured, totalled Euro 351,667 million (81.9% of the total), reflecting an increase of 15.1%. The technical provisions pertaining to the Non-Life classes were equal to Euro 65,625 million (+4.7%), while to Life classes were equal to Euro 286,042 million (+17.8%);
- The other liabilities represented Euro 36,196 million (8.4% of the total), with an increase of 3.7%, and the breakdown for this item was as follows: “subordinated liabilities” amounted to Euro 2,666 million (Euro 1,990 million in 2002), “provisions for risks and charges” to Euro 2,174 million (Euro 2,045 million in 2002), “deposits received from reinsurers” to Euro 13,197 million (Euro 13,011 million in 2002) and “debts and other liabilities” to Euro 18,159 million (Euro 17,874 million in 2002);
- Accruals and deferrals totalled Euro 317 million (0.1% of the total).

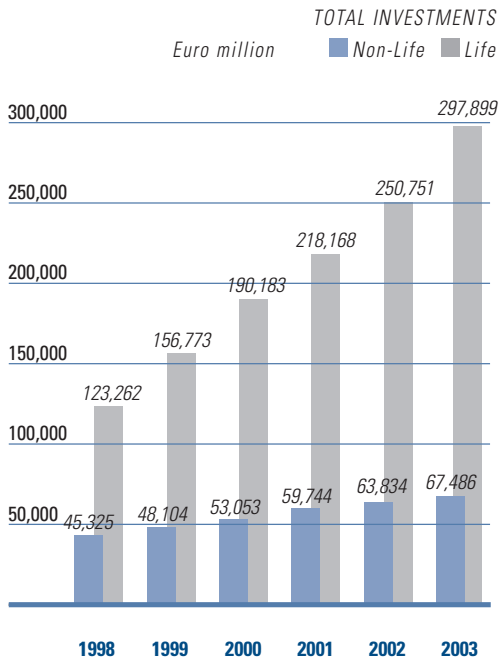


429,331 Euro million

BREAKDOWN OF LIABILITIES (%)



# The Italian insurance market: key figures 2003

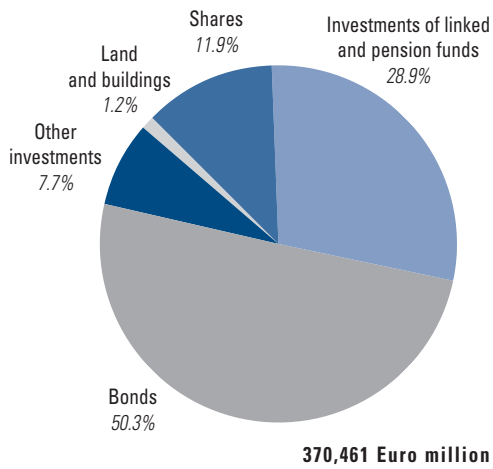


## Assets

Investments, reinsurance share of technical provisions, amounts owed by debtors, other assets, accruals and deferred income amounted to Euro 429,331 million, equalling to the total amount of liabilities.

In particular:

- Investments reached Euro 370,461 million, equal to 86.3% of total assets. Insurance companies only engaging in reinsurance activities were excluded since the relative Balance Sheet format does not provide a breakdown in Life and Non-Life classes; therefore, excluding reinsurance business, investments in Non-Life classes were equal to Euro 67,486 million, with a 5.7% increase compared to 2002; investments in Life classes were equal to Euro 297,899 million with a 18.8% increase still compared to 2002. The highest increase (15.5%) was recorded by investments in "bonds and other fixed income securities" which totalled Euro 186,357 million; followed by "shares and holdings" (+9.3%) which totalled Euro 43,898 million, "loans and deposits" (+0.8%) which totalled Euro 28,559 million and investments in "land and buildings" (-17.4%) which totalled Euro 4,531 million. Investments for the benefit of Life insurance policyholders and the investments deriving from the management of pension funds equalled Euro 107,116 million, representing a 26.4% increase;



BREAKDOWN OF INVESTMENTS (%)

- The technical provisions borne by the reinsurers amounted to Euro 21,755 million (5.1% of total assets) with a 1.1% decrease;
- Amounts owed by debtors totalled Euro 20,249 million (4.7% of total), with an 1.7% increase. These referred to amounts owed deriving from direct insurance activities (Euro 10,318 million), amounts owed deriving from reinsurance activities (Euro 2,877 million) and other amounts owed (Euro 7,054 million);
- Amounts owed by shareholders (Euro 45 million), intangible assets (Euro 3,677 million composed of commissions and other expenses) and other assets (Euro 10,144 million) reached a total of Euro 13,866 million (3.2% of the overall amount), thus recording a 3.0% increase;
- Accruals and deferred income amounted to Euro 3,000 million (0.7% of total), representing a 9.3% increase.



## The Italian insurance market: key figures 2003

	1998	1999	2000	2001	2002	2003
<b>LIABILITIES</b>	<b>214,208</b>	<b>254,407</b>	<b>298,174</b>	<b>338,346</b>	<b>378,192</b>	<b>429,331</b>
<b>CAPITAL AND RESERVES</b>	<b>28,189</b>	<b>30,158</b>	<b>34,496</b>	<b>35,093</b>	<b>37,401</b>	<b>41,151</b>
<i>Subscribed capital</i>	8,461	8,947	9,775	9,512	9,961	10,585
<i>Equity reserves</i>	18,546	19,728	22,678	22,704	23,930	26,953
<i>Profit for the financial year</i>	1,182	1,483	2,043	2,877	3,510	3,613
<b>TECHNICAL PROVISIONS</b>	<b>165,269</b>	<b>201,567</b>	<b>236,377</b>	<b>270,256</b>	<b>305,573</b>	<b>351,667</b>
<i>Non-Life classes</i>	48,381	51,052	55,669	59,312	62,693	65,625
<i>Life classes</i>	116,888	150,515	180,708	210,944	242,880	286,042
<b>OTHER LIABILITIES</b>	<b>20,671</b>	<b>22,570</b>	<b>27,125</b>	<b>32,674</b>	<b>34,920</b>	<b>36,196</b>
<i>Subordinated liabilities</i>	81	186	1,072	1,487	1,990	2,666
<i>Provisions for risks and charges</i>	1,766	1,807	2,048	1,524	2,045	2,174
<i>Deposits received from reinsurers</i>	8,466	9,395	10,453	11,682	13,011	13,197
<i>Debts and other liabilities</i>	10,358	11,182	13,552	17,981	17,874	18,159
<b>ACCRUALS AND DEFERRALS</b>	<b>79</b>	<b>112</b>	<b>176</b>	<b>323</b>	<b>298</b>	<b>317</b>
<b>ASSETS</b>	<b>214,208</b>	<b>254,407</b>	<b>298,174</b>	<b>338,346</b>	<b>378,192</b>	<b>429,331</b>
<b>AMOUNTS OWED BY SHAREHOLDERS</b>	<b>28</b>	<b>46</b>	<b>46</b>	<b>99</b>	<b>84</b>	<b>45</b>
<b>INTANGIBLE ASSETS</b>	<b>2,050</b>	<b>2,277</b>	<b>2,424</b>	<b>2,469</b>	<b>2,792</b>	<b>3,677</b>
<b>INVESTMENTS:</b>	<b>172,705</b>	<b>209,442</b>	<b>248,346</b>	<b>283,381</b>	<b>320,069</b>	<b>370,461</b>
<i>Land and buildings</i>	8,581	8,438	8,335	7,798	5,484	4,531
<i>Shares and holdings</i>	25,992	33,123	40,700	40,478	40,145	43,898
<i>Bonds and other fixed income securities</i>	105,725	115,026	123,825	140,530	161,343	186,357
<i>Loans and deposits</i>	14,465	18,423	22,892	24,977	28,342	28,559
<i>Investments for the benefit of Life insurance policyholders and the investments deriving from the management of pension funds</i>	17,942	34,432	52,594	69,598	84,755	107,116
<b>TECHNICAL PROVISIONS BORNE BY THE REINSURERS</b>	<b>16,819</b>	<b>18,089</b>	<b>19,895</b>	<b>21,499</b>	<b>22,003</b>	<b>21,755</b>
<b>AMOUNTS OWED BY DEBTORS</b>	<b>14,917</b>	<b>15,652</b>	<b>16,808</b>	<b>18,696</b>	<b>19,915</b>	<b>20,249</b>
<b>OTHER ASSETS</b>	<b>5,537</b>	<b>6,757</b>	<b>8,332</b>	<b>9,715</b>	<b>10,585</b>	<b>10,144</b>
<b>ACCRUALS AND DEFERRED INCOME</b>	<b>2,152</b>	<b>2,144</b>	<b>2,323</b>	<b>2,487</b>	<b>2,744</b>	<b>3,000</b>

BALANCE SHEET  
Euro million

### SOLVENCY MARGIN

Insurance companies with registered offices in Italy (excluding reinsurance companies), at the end of 2003 had for all their activities, Life and Non-Life, a solvency margin equal to Euro 35,600 million (with an increase of 6.9% compared to the previous financial year).



## The Italian insurance market: key figures 2003

In particular, the minimum solvency margin to be owned by law for Life classes, determined with respect to mathematical provisions and capitals at risk, was slightly higher than Euro 9,100 million, compared to an effective margin owned of Euro 20,000 million; the cover ratio is equal to 2.20, slightly decreased compared to 2.31 in 2002.

In Non-Life classes the minimum solvency to be owned by law, determined with respect to collected premiums or to the average charge of the claims of the last three years (assuming the higher result between the two criteria), in 2003 was equal to Euro 5,300 million, compared to an effective margin owned of Euro 15,600 million with a cover ratio equal to 2.94, slightly increased compared to 2.90 in 2002.

*SOLVENCY MARGIN 1998-2003  
(EXCLUDING REINSURANCE COMPANIES)  
Euro million*

<b>LIFE</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>
Solvency margin owned	13,591	14,704	16,415	17,512	18,425	20,000
Solvency margin to be owned by law	4,812	5,666	6,400	7,034	7,970	9,100
<b>NON-LIFE</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>
Solvency margin owned	11,469	12,095	13,558	12,927	14,867	15,600
Solvency margin to be owned by law	4,135	4,394	4,626	4,938	5,130	5,300

*Source: ISVAP  
(\*): The figures for 2003 are provisional*



# The Italian insurance business in the international scenario

## INTERNATIONAL COMPARISONS

In 2002 the world insurance market collected premiums for Dollars 2,627 billion. The real growth rate has been equal to 5.5% (1.0% in 2001). Life insurance, which collected premiums for Dollars 1,536 billion, registered an increase in real terms of 3.0% (-1.8% in 2001), whereas Non-Life insurance, with premiums for Dollars 1,091 billion, grew by 9.2% (5.4% in 2001).

The economic situation for 2002 has been characterized by a drop in share quotations, by very moderate interest rates compared to the past and by geopolitical tensions in the Middle East, issues that caused a slowdown in consumption and investments. Nevertheless, the overall situation in the insurance industry highlights an increase in premiums collected, mostly in industrialized countries, after the stagnation in 2001.

Life insurance recovery has been strong mainly in the most important areas for the industry (North America and Europe). Premiums decreased in Oceania and Japan. As in the past, the Life insurance market saw a gradual spreading of welfare products, whereas covering offered by the public pension system decreased, and the collected premiums share for index and unit linked products, in spite of additional capital guarantees, keeps decreasing in most countries.

As to Non-Life, the strong increase in redemptions and the low interest rates induced insurers to concentrate on insurance activities profitability, thus on technical results. Premiums increased after September 11, mostly in industrial and business branches whereas premium rates remained very low.

European enterprises' market share increased from 31.7% in 2001 to 32.4% in 2002.

REAL GROWTH RATE IN 2001 (%)

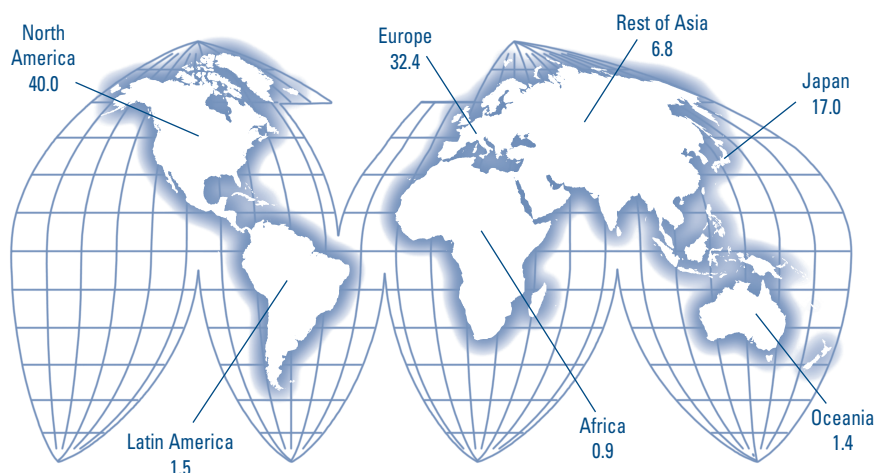
	LIFE	NON-LIFE	TOTAL
North America	-1.5	6.0	2.2
Latin America	5.9	7.1	6.7
Europe	-6.6	6.2	-2.0
Asia	2.6	2.2	2.5
Japan	1.3	-1.2	0.8
Africa	4.0	4.1	4.1
Oceania	-4.5	2.1	-1.9
<b>Total</b>	<b>-1.8</b>	<b>5.4</b>	<b>1.0</b>

Source: SIGMA

REAL GROWTH RATE IN 2002 (%)

	LIFE	NON-LIFE	TOTAL
North America	6.3	11.4	8.9
Latin America	4.8	2.7	3.4
Europe	0.8	7.5	3.5
Asia	2.1	6.4	3.1
Japan	-2.3	1.8	-1.5
Africa	7.0	10.2	7.7
Oceania	-9.3	12.5	-0.8
<b>Total</b>	<b>3.0</b>	<b>9.2</b>	<b>5.5</b>

Source: SIGMA



WORLDWIDE DIRECT INSURANCE IN 2002 - MARKET SHARES

Source: SIGMA

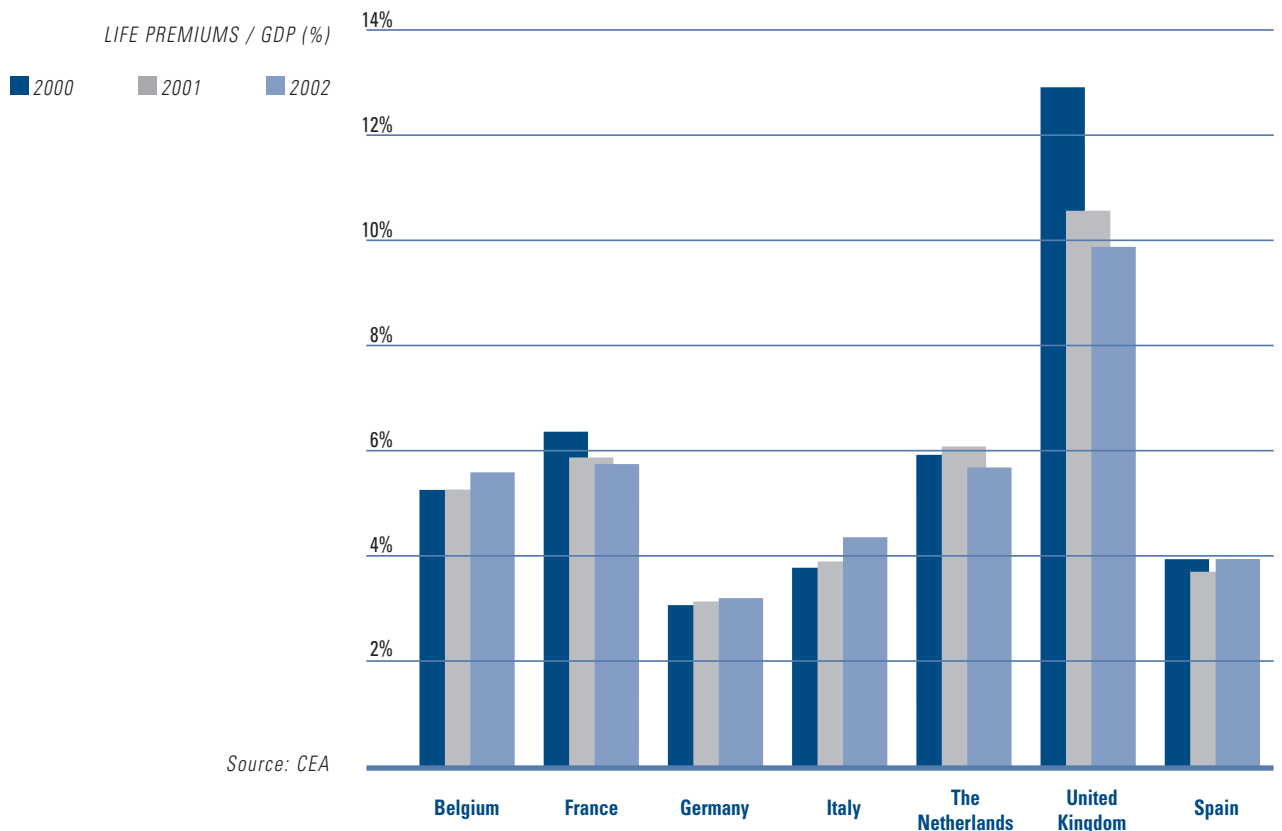


# The Italian insurance business in the international scenario

## INSURANCE IMPACT IN OTHER COUNTRIES

Between 2000 and 2002 the ratio of premium volume to GDP (insurance penetration index) revealed different trends between the Life and the Non-Life insurance industry.

Concerning Life business, Italy is the only country recording an increase of this ratio during the last three years. In 2002 it was equal to 4.4%, a value higher than in Spain (3.8%) and Germany (3.1%). On the contrary, the United Kingdom registered a substantial reduction (from 12.7% to 9.9%).



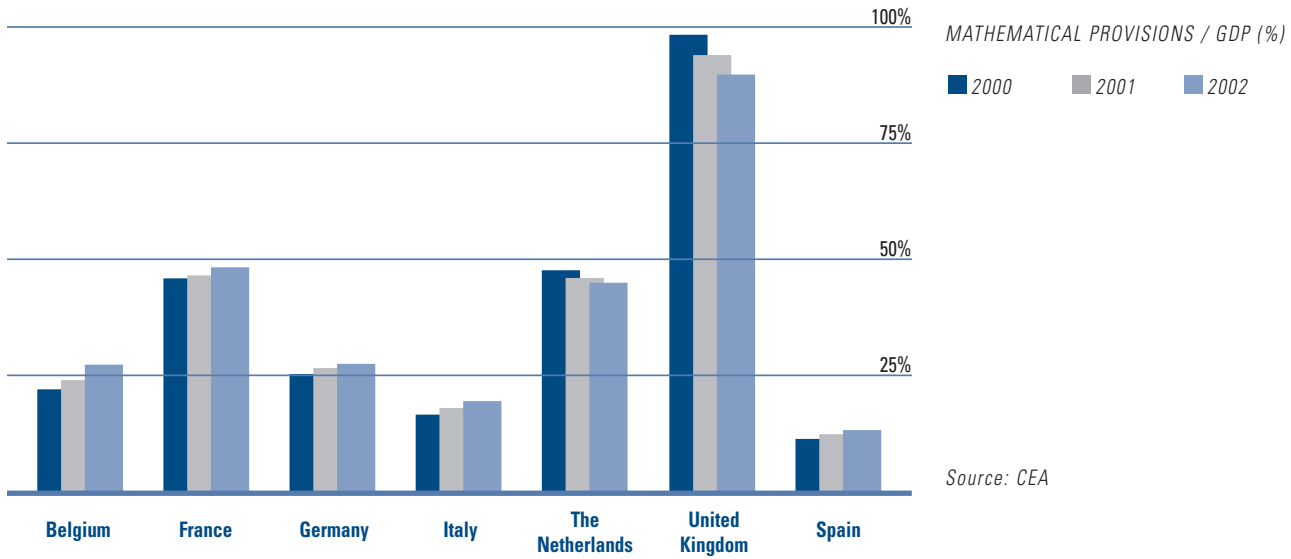
In Italy from 2000 to 2002 the ratio of mathematical provisions to GDP, measure of Life market maturity, increased from 14.4% to 18.1%. In spite of this increase, the ratio is still low for international standards, as the real development of Life business in Italy only started in the second half of the nineties: in 2002 the ratio was equal to 47.2% in France, 27.9% in Germany and 85.8% in the United Kingdom, despite a drop of 12 points in percentage compared to the year 2000.

In the Non-Life insurance industry, Italy is the country with the lowest premiums to GDP ratio (2.6% in 2002). The gap with the other countries remained substantially unchanged during the last three years; in 2002 it was equal to

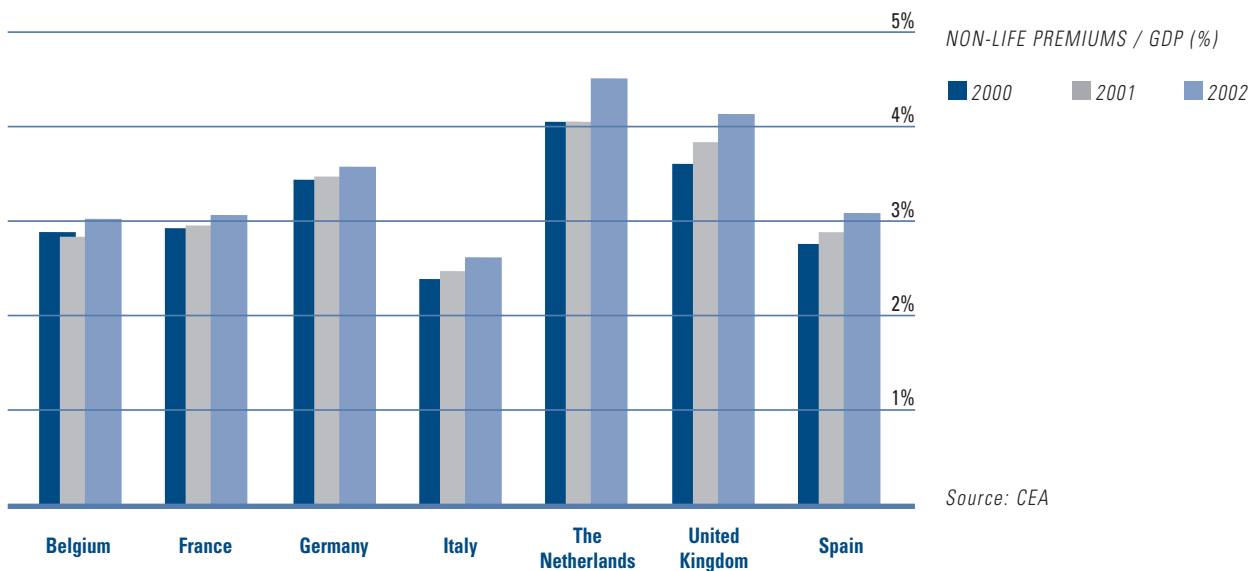




# The Italian insurance business in the international scenario



half percentage point compared to Belgium, France and Spain, one point compared to Germany and one and a half points compared to the United Kingdom.



## THE MAIN MARKETS IN THE EUROPEAN UNION

In 2002 the European Union insurance market collected premiums for Euro 798,840 million, recording a 4.7% (0.7% in 2001) growth rate. Overall, the most important growth rates have been observed in the following countries: Italy (15.0%), Spain (14.6%), Greece (9.6%), Belgium (9.4%), Denmark (8.5%), Ireland (6.6%) and Portugal (5.3%).

Life insurance premiums increased by 2.4% (-3.2% in 2001) with rates higher than average in: Italy (19.4%), Spain (15.6%), Denmark (9.2%), Belgium (8.8%), Finland (3.3%) and Germany (2.8%).

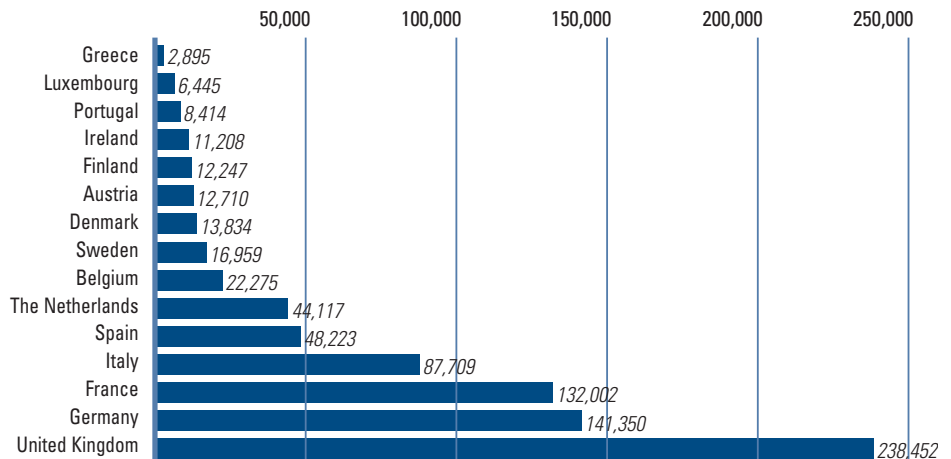


# The Italian insurance business in the international scenario

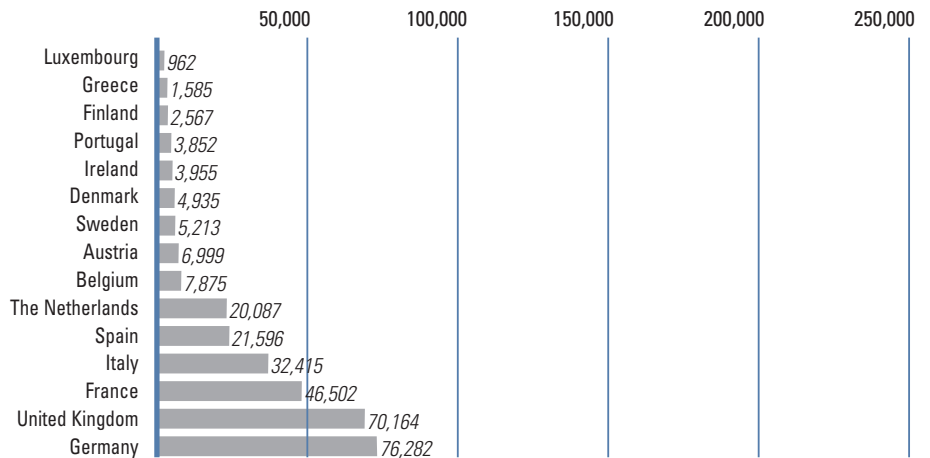
On the contrary, in the Non-Life classes premiums increased by 8.7% compared to the previous year (8.3% in 2001) with higher than average rates in: Ireland (18.1%), Greece (17.4%), Sweden (14.6%), Holland (13.8%), Spain (13.5%), United Kingdom (11.1%), Belgium (10.6%) and Portugal (10.0%).

DIRECT PREMIUMS INCOME IN THE EUROPEAN UNION

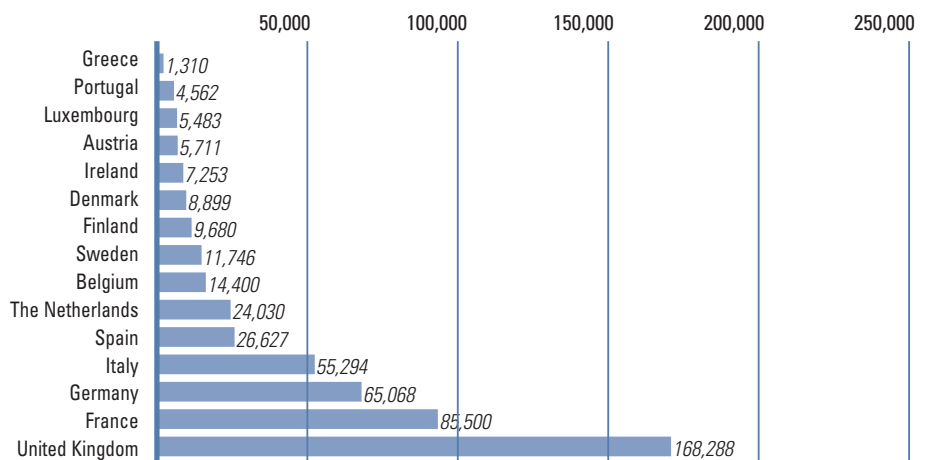
IN 2002  
TOTAL  
Euro million



NON-LIFE



LIFE



Source: CEA



# The Italian insurance business in the international scenario

United Kingdom				Germany			
		2002	% of total			2002	% of total
<b>Premium income</b>	Life	168,288	70.6	<b>Premium income</b>	Life	65,068	46.0
	Non-Life	70,164	29.4		Non-Life	76,282	54.0
<b>Total</b>		<b>238,452</b>	<b>100.0</b>	<b>Total</b>		<b>141,350</b>	<b>100.0</b>
<b>Provisions</b>	Mathematical Life	1,454,496		<b>Provisions</b>	Mathematical Life	589,053	
	Technical Non-Life	144,321			Technical Non-Life	n.d.	
<b>Investments</b>	Properties	95,160	6.7	<b>Investments</b>	Properties	25,973	2.6
	Shares	614,449	43.2		Shares	388,771	38.6
	Bonds	533,083	37.4		Bonds	84,432	8.4
	Mortgages & loans	17,301	1.2		Mortgages & loans	483,191	48.0
	Deposits	36,824	2.6		Deposits	19,618	1.9
	Other	126,778	8.9		Other	4,280	0.4
<b>Total</b>		<b>1,423,595</b>	<b>100.0</b>	<b>Total</b>		<b>1,006,265</b>	<b>100.0</b>
Number of companies		806		Number of companies		703	
Number of employees		217,475		Number of employees		248,100	
Gross Domestic Product		1,694,946		Gross Domestic Product		2,110,400	
Annual inflation		1.63%		Annual inflation		1.38%	
Population (Thousand)		59,329		Population (Thousand)		82,537	

France				The Netherlands			
		2002	% of total			2002	% of total
<b>Premium income</b>	Life	85,500	64.8	<b>Premium income</b>	Life	24,030	54.5
	Non-Life	46,502	35.2		Non-Life	20,087	45.5
<b>Total</b>		<b>132,002</b>	<b>100.0</b>	<b>Total</b>		<b>44,117</b>	<b>100.0</b>
<b>Provisions</b>	Mathematical Life	718,914		<b>Provisions</b>	Mathematical Life	193,451	
	Technical Non-Life	89,783			Technical Non-Life	19,874	
<b>Investments</b>	Properties	44,544	4.9	<b>Investments</b>	Properties	15,095	6.0
	Shares	207,683	22.7		Shares	73,867	29.5
	Bonds	637,089	69.6		Bonds	86,973	34.7
	Mortgages & loans	12,315	1.3		Mortgages & loans	56,103	22.4
	Deposits	3,636	0.4		Deposits	5,307	2.1
	Other	10,157	1.1		Other	13,311	5.3
<b>Total</b>		<b>915,424</b>	<b>100.0</b>	<b>Total</b>		<b>250,656</b>	<b>100.0</b>
Number of companies		495		Number of companies		453	
Number of employees		139,200		Number of employees		50,088	
Gross Domestic Product		1,521,700		Gross Domestic Product		444,600	
Annual inflation		1.95%		Annual inflation		3.28%	
Population (Thousand)		59,637		Population (Thousand)		16,195	

Euro million

Source: CEA



## The Italian insurance business in the international scenario

Spain				Belgium			
		2002	% of total			2002	% of total
<b>Premium income</b>	Life	26,627	55.2	<b>Premium income</b>	Life	14,400	64.6
	Non-Life	21,596	44.8		Non-Life	7,875	35.4
<b>Total</b>		<b>48,223</b>	<b>100.0</b>	<b>Total</b>		<b>22,275</b>	<b>100.0</b>
<b>Provisions</b>	Mathematical Life	102,388		<b>Provisions</b>	Mathematical Life	78,945	
	Technical Non-Life	n.d.			Technical Non-Life	26,438	
<b>Investments</b>	Properties	4,323	3.9	<b>Investments</b>	Properties	3,508	3.1
	Shares	7,674	7.0		Shares	33,949	30.1
	Bonds	70,528	64.3		Bonds	64,667	57.3
	Mortgages & loans	1,702	1.6		Mortgages & loans	6,318	5.6
	Deposits	8,887	8.1		Deposits	2,535	2.2
	Other	16,616	15.1		Other	1,911	1.7
<b>Total</b>		<b>109,730</b>	<b>100.0</b>	<b>Total</b>		<b>112,888</b>	<b>100.0</b>
Number of companies		334		Number of companies		201	
Number of employees		44,000		Number of employees		25,117	
Gross Domestic Product		696,200		Gross Domestic Product		260,000	
Annual inflation		3.05%		Annual inflation		1.62%	
Population (Thousand)		40,683		Population (Thousand)		10,356	

*Euro million*

*Source: CEA*



# The Italian insurance business in the international scenario

## A EUROPEAN COMPARISON OF INSURANCE COMPANIES' INCOME STATEMENTS

A comparison of the economic results achieved by insurance companies in the main Euro-area countries can be made by using the data contained in the ISIS database, marketed by Bureau van Dijk, which collects the information made available by the Fitch-IBCA rating company relative to the balance sheet and income statements of insurance companies (representing more than 90% of the market). The following countries were considered in this analysis: France, Germany, Italy and Spain. The period of observation stretches 1998 to 2002; the data are annual.

### Insurance companies that exercise Life and Non-Life business jointly

128 insurance companies engaged in Life insurance and Non-Life insurance business jointly in 2002 and were included in the ISIS database, of these 31 were operating in France, 33 in Germany, 25 in Italy and 39 in Spain.

The most synthetic indicator for measuring company profitability is the pre-tax profits over equity means ratio (defined as the sum of the subscribed share capital, the reserves for own shares, the equalisation reserves, the other reserves and the profit/loss for the financial period). Figure 1 shows the mean value for the group member companies in each country.

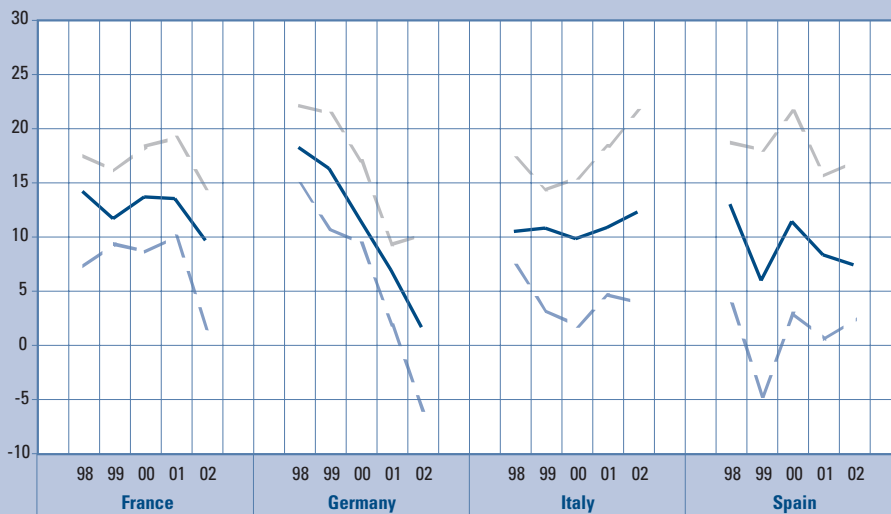
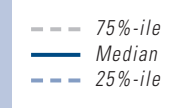


FIGURE 1  
PRE-TAX PROFIT / EQUITY MEANS – COMPOSITE (%)



Source: Bureau van Dijk, ISIS

The sample considered indicated that the profits for the average company decreased in Germany from 18.1% of the equity means in 1998 to 1.5% in 2002. A smaller decrease was recorded also in France and Spain (from 14.1% to 9.6% and from 12.9% to 7.3%, respectively). In Italy, the value of profits for the average company remained stable between 1998 and 2000 and recorded a slight rise in the following two-year period, increasing to 12.2% in 2002. The cross-firm variability of the results also increased in our country: profits increased from 17.3% to 21.6% in the case of the more profitable companies (75% percentile of the distribution), whereas profits decreased from 7.4% to 4.0% in the case of the less profitable companies (25% percentile of the distribution).



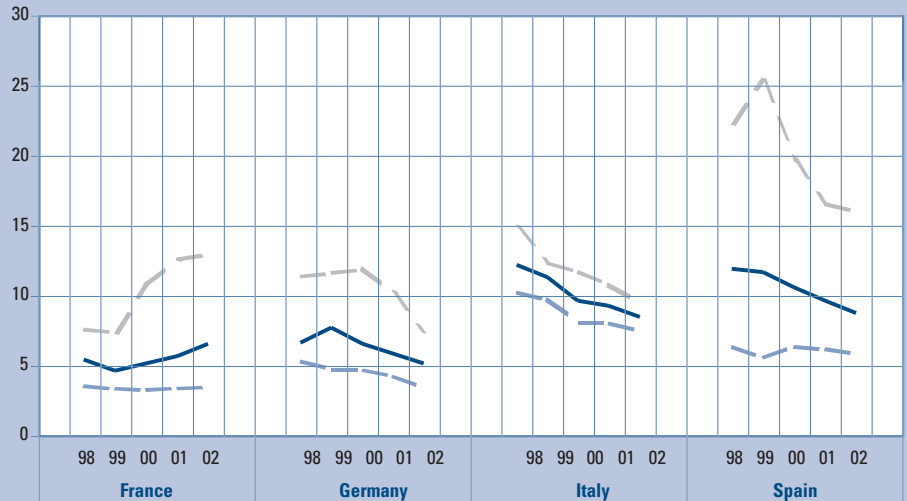
# The Italian insurance business in the international scenario

The increased assets level is measured by the equity mean over total assets ratio. This ratio decreased in Germany, Italy and Spain, whereas the ratio increased slightly in France (figure 2).

FIGURE 2  
EQUITY MEANS / TOTAL ASSETS – COMPOSITE (%)

--- 75%-ile  
— Median  
--- 25%-ile

Source: Bureau van Dijk, ISIS



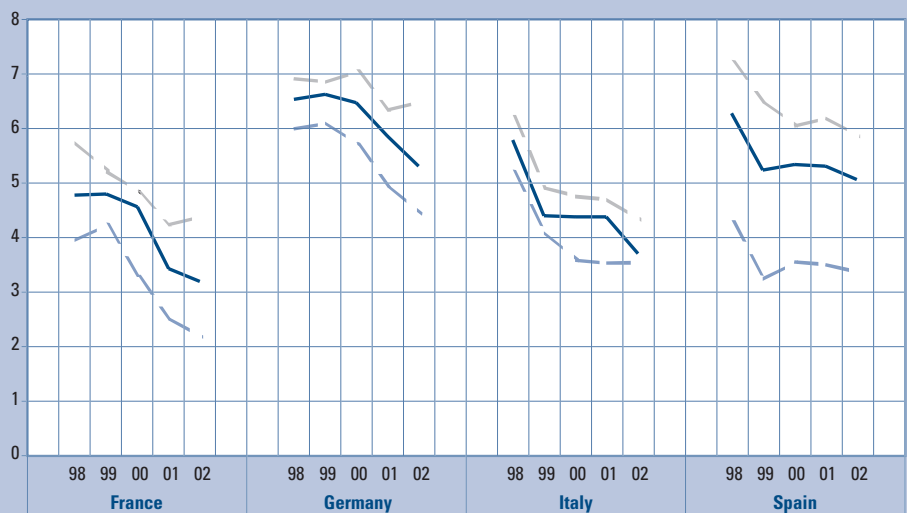
The rate of assets accumulation decreased from 6.6% to 5.1% of total assets in the case of the average company in Germany, from 12.1% to 8.5% in Italy, from 11.9% to 8.7% in Spain; by contrast, in France the increased assets ratio for the average company increased from 5.4% to 6.5%. Therefore, despite the decrease observed over the five-year period in the Italian companies they remain relatively more highly capitalised than the foreign companies.

The performance of investments, measured by the financial revenues over total investments ratio decreased in all countries, consistent with the decrease in interest rates (figure 3). In France, the performance of investments decreased from 4.8% to 3.2%, in Germany from 6.5% to 5.3%, in Italy from 5.8% to 3.7% and in Spain from 6.3% to 5.0%.

FIGURE 3  
NET INVESTMENT INCOME – COMPOSITE (%)

--- 75%-ile  
— Median  
--- 25%-ile

Source: Bureau van Dijk, ISIS



# The Italian insurance business in the international scenario

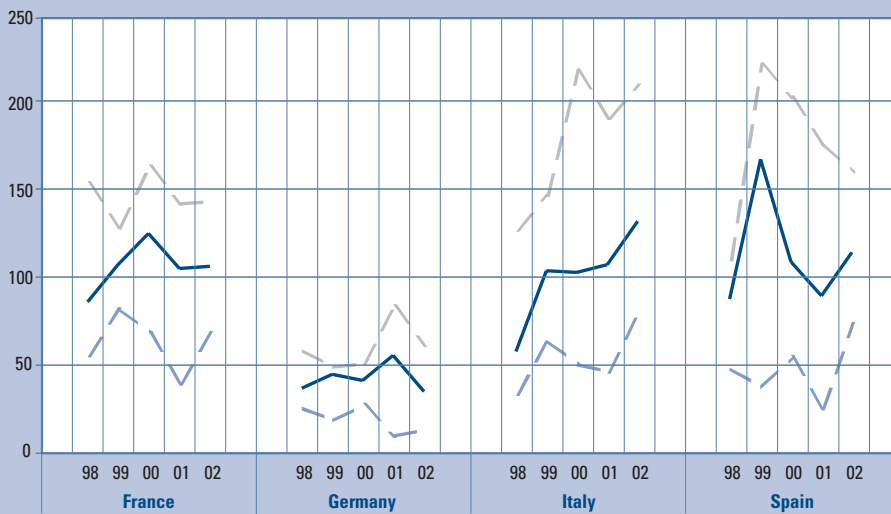
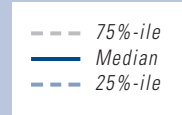


FIGURE 4  
TECHNICAL BALANCE / NET INVESTMENT INCOME – COMPOSITE (%)



Source: Bureau van Dijk, ISIS

The ratio between the technical balance and the revenues generated by investments increased in Italy from 58% to 133% (figure 4); this ratio remained essentially stable in the other countries, even though significant fluctuations were experienced from one year to the next.

## Insurance companies that exercise Non-Life class insurance

432 insurance companies engaged in Non-Life insurance in 2002 and were included in the ISIS database, of these 95 operate in France, 215 operate in Germany, 50 operate in Italy and 72 operate in Spain.

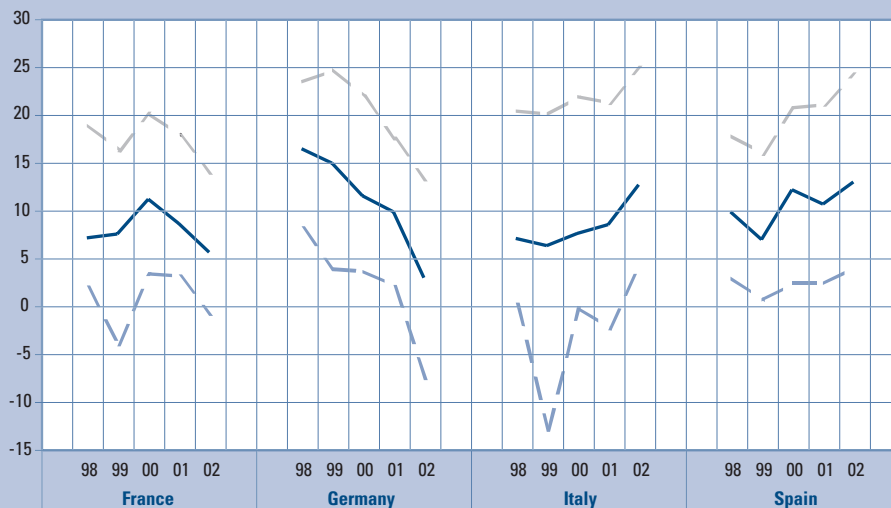
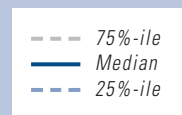


FIGURE 5  
PRE-TAX PROFIT / EQUITY MEANS – NON-LIFE (%)



Source: Bureau van Dijk, ISIS

The pre-tax profits of the average insurance company decreased in Germany from 16.4% of equity means in 1998 to 2.9% in 2002 (figure 5). Profits in France were equal to 7.1% in 1998, and increased to 11.1% in 2000; a significant decrease was experienced in the two following financial periods (5.6% in

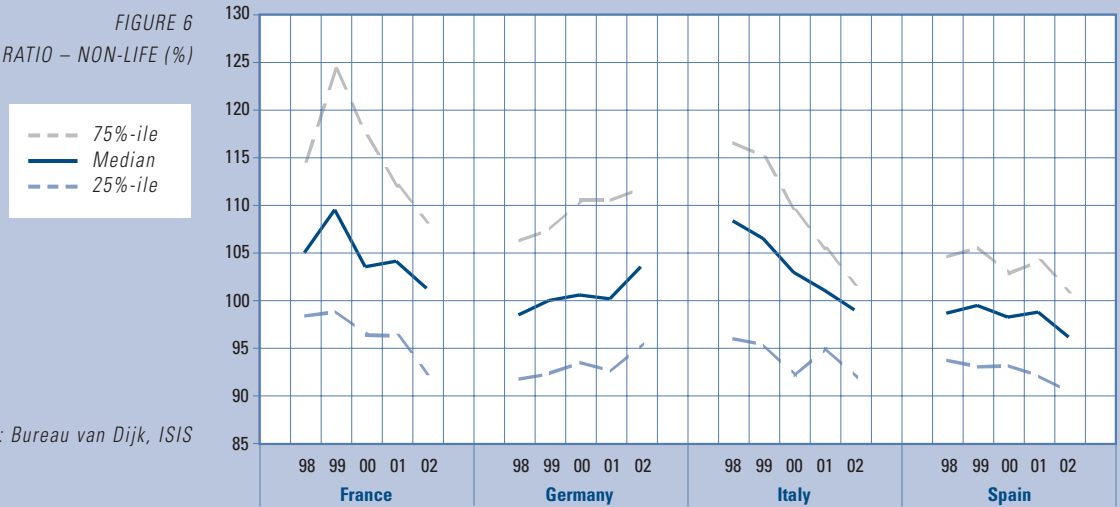


# The Italian insurance business in the international scenario

2002). Whereas, the profits achieved in Spain and in Italy increased (from 9.8% to 12.9% and from 7.0% to 12.6%, respectively).

The most important technical indicator (combined ratio, defined as the sum of the loss ratio and the expense ratio) shows a net deterioration in the case of the average insurance company in Germany (from 98.5% in 1998 to 103.5% in 2000). A slight improvement was found in the other countries, in France and Spain (from 105.0% to 101.3% and from 98.7% to 96.2%, respectively) and a more substantial improvement in Italy (from 108.3% to 99.1%).

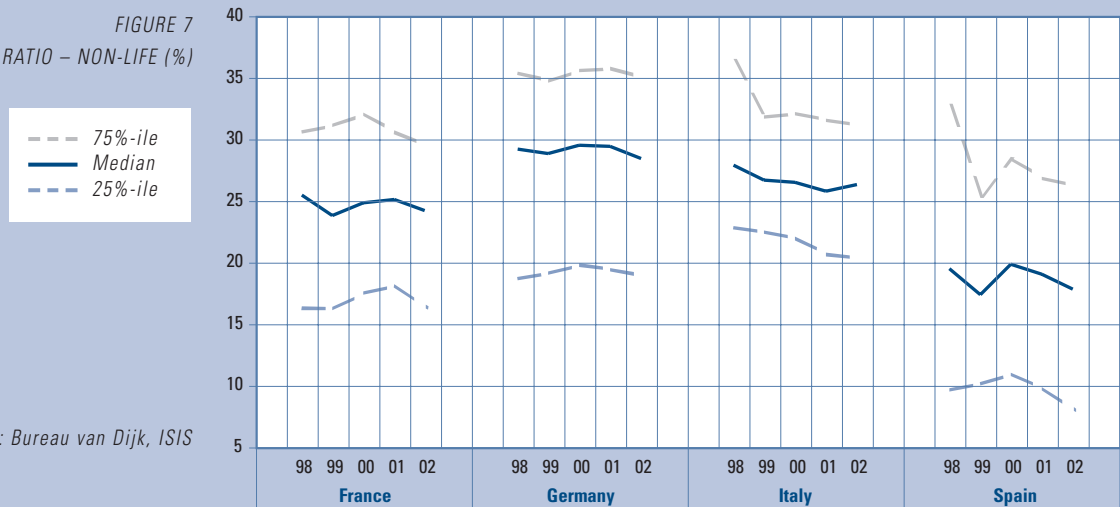
FIGURE 6  
COMBINED RATIO – NON-LIFE (%)



Source: Bureau van Dijk, ISIS

The trends of the combined ratio essentially reflect the dynamics of the loss scenario (loss ratio, figure 8), since the expense ratio decreased slightly in all countries (figure 7).

FIGURE 7  
EXPENSE RATIO – NON-LIFE (%)



Source: Bureau van Dijk, ISIS





# The Italian insurance business in the international scenario

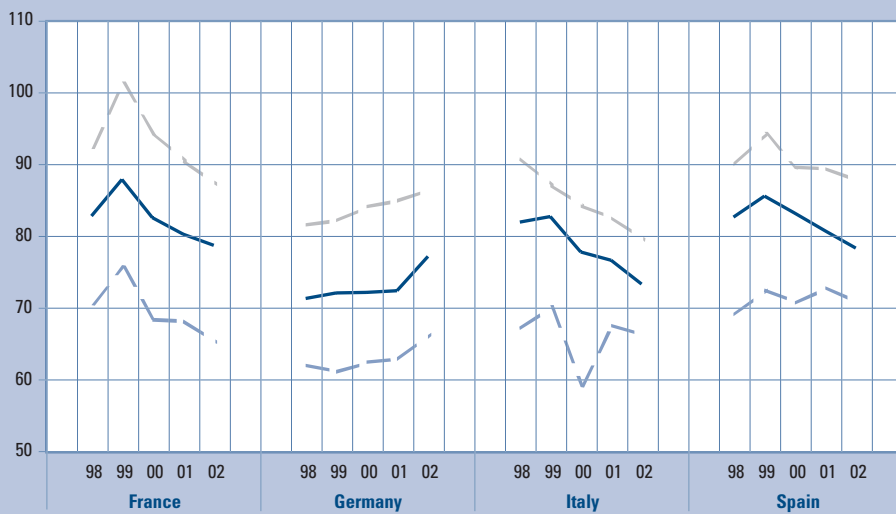
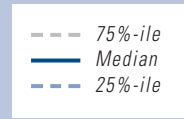


FIGURE 8  
LOSS RATIO – NON-LIFE (%)



Source: Bureau van Dijk, ISIS

The expense ratio decreased in Italy from 27.8% in 1998 to 26.3% in 2002, again with reference to the average insurance company. The expense ratio settled at an intermediate value in 2002 between the value for the average insurance company in France (24.1%) and the value in Germany (28.4%); the impact of expenses was more limited in Spain (17.7%).

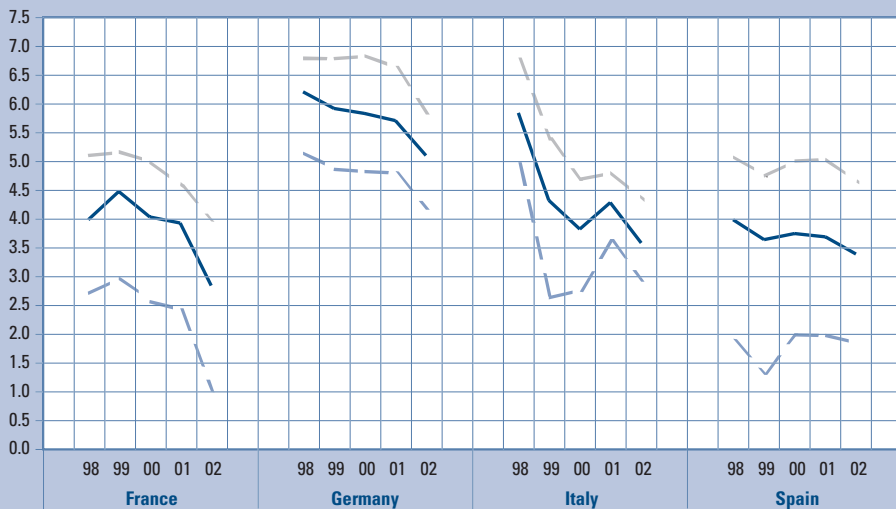
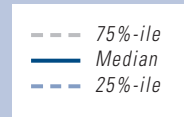


FIGURE 9  
NET INVESTMENT INCOME – NON-LIFE (%)



Source: Bureau van Dijk, ISIS

The performance of investments decreased in all countries. The performance for the average Italian insurance company was equal to 3.5% in 2002, a result similar to the figure in Spain, higher by one half percentage point compared to the value observed in France, but significantly lower than the 5% recorded for the average German insurance company.



# The Italian insurance business in the international scenario

## Insurance companies that exercise Life class insurance.

319 insurance companies engaged in exclusively Life insurance in 2002 and were included in the ISIS database, of these 45 operate in France, 188 in Germany, 44 in Italy and 42 in Spain.

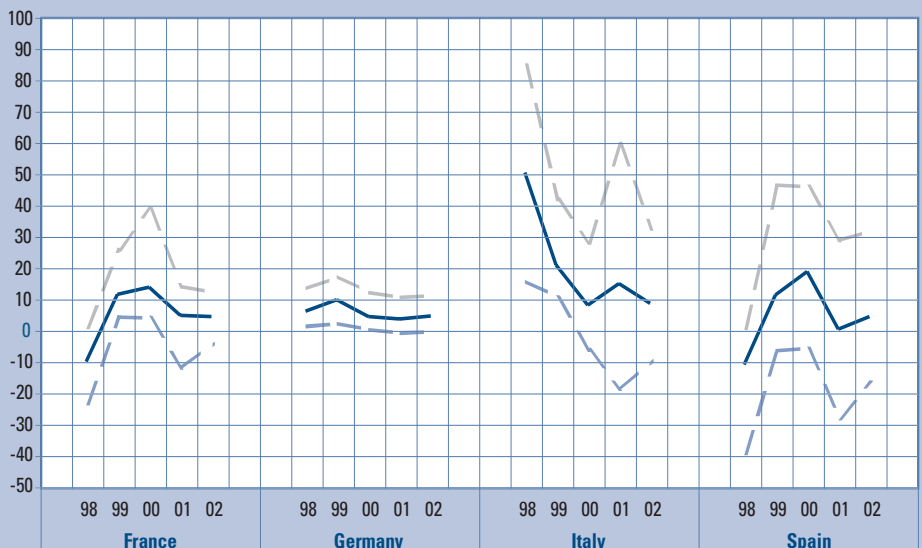
The growth in premiums was much more substantial in Italy compared to the other countries (figure 10), reflecting a much more limited diffusion of Life insurance business at the beginning of the period of observation.

The annual growth of premiums for the average Italian insurance company was equal to 50.7% in 1998, 21.1% in 1999, 8.1% in 2000, 15.1% in 2001 and 8.8% in 2002. The growth rates distribution is very broad. One-fourth of the insurance companies increased the premiums by more than 33% in 2002, compared to 2001, but another fourth of the insurance companies had reduced the premiums by more than 9% (figure 10).

FIGURE 10  
GROWTH OF PREMIUMS – LIFE (%)

--- 75%-ile  
— Median  
--- 25%-ile

Source: Bureau van Dijk, ISIS



The Italian market was characterized by the significant growth of unit and index linked policies, in reference to which the allocated reserves equal 46% of overall reserves (again referring to the average insurance company; figure 11). The quota is much lower in France (13.9%) and in Spain (4.4%), whereas this value is virtually non-existent in Germany.



# The Italian insurance business in the international scenario

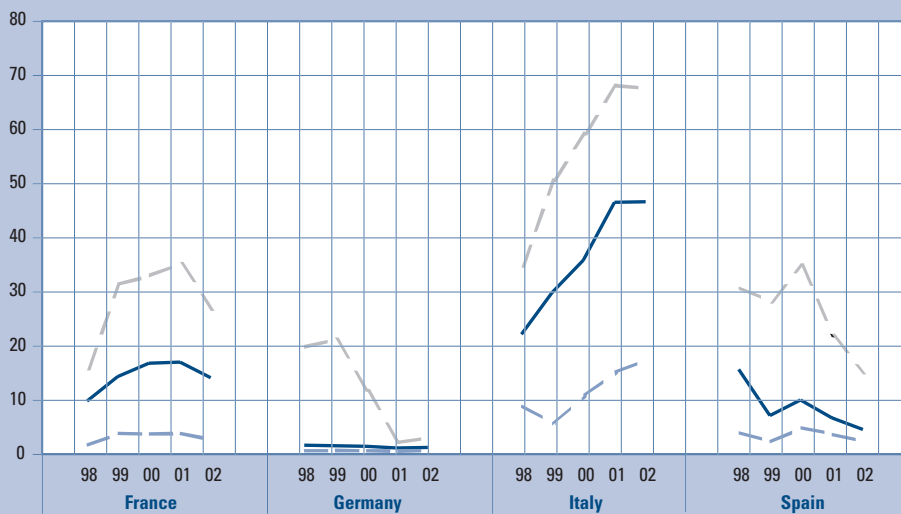


FIGURE 11  
UNIT AND INDEX LINKED SHARE  
OF TOTAL RESERVES - LIFE (%)

--- 75%-ile  
— Median  
... 25%-ile

Source: Bureau van Dijk, ISIS

The profits over equity instruments ratio in the three biggest economies decreased between 1998 and 2002 (figure 12). This ratio decreased in France from 10.1% to 3.1%, in the case of the average insurance company, decreased in Germany from 14.2% to 5.7% and decreased in Italy from 10.2% to 5.7%; the profits over equity ratio in Spain remained essentially stable (13.1% in 1998 and 12.5% in 2002).

The variability of performance across companies in Italy is very substantial. One-fourth of the companies achieved pre-tax profits in 2002 that exceeded 17.5% of the capital, but instead one-fourth of the system endured losses of more than 5% of the capital. The broad distribution of results recorded in Italy was only found in Spain (figure 12).

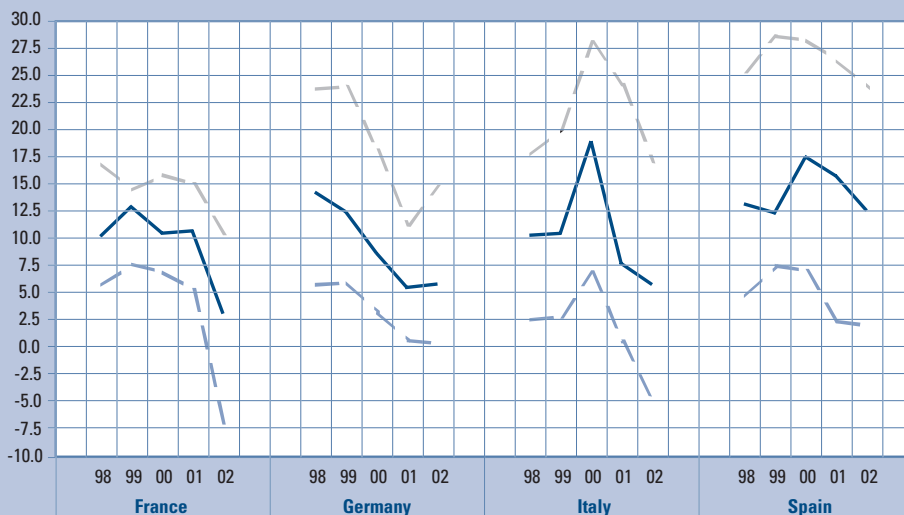


FIGURE 12  
PRE-TAX PROFIT / EQUITY MEANS - LIFE (%)

--- 75%-ile  
— Median  
... 25%-ile

Source: Bureau van Dijk, ISIS



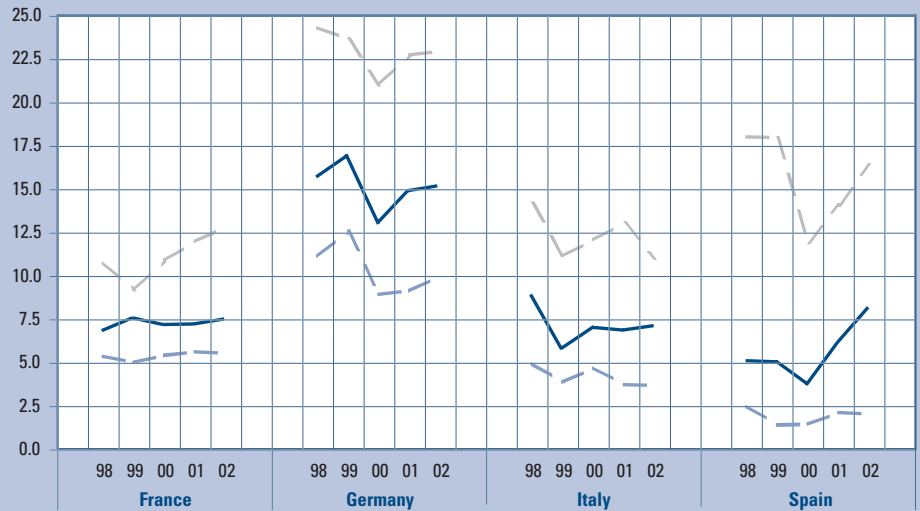
## The Italian insurance business in the international scenario

The expense ratio (defined as the sum of the acquisition and administrative expenses related to the net collected premiums) decreased in Italy from 8.9% in 1998 to 7.1% in 2002 (figure 13), again referring to the average insurance company. This ratio settled at the lowest European value in 2002: in France the ratio was equal to 7.5%, 8.2% in Spain and 15.2% in Germany.

FIGURE 13  
EXPENSE RATIO – LIFE (%)

--- 75%-ile  
— Median  
--- 25%-ile

Source: Bureau van Dijk, ISIS



A large variability of the expense ratio can be observed across insurance companies. One-fourth of Italian insurance companies had an expense ratio of less than 3.8% in 2002, whereas another fourth had an expense ratio that exceeded 11.1%.

### Conclusions

The profitability of Italian insurance companies improved between 1998 and 2002, while the profitability of the French and German companies decreased. The different dynamics in the Non-Life class is explained by the improvement in the technical accounts results and by a reduced dependency on financial performance and by the significant increase in volumes with reference to Life class insurance.

These results are consistent with the trend of the Italian insurance sector securities on the Stock Exchange, which recorded an improved performance from 1998 (calculated by considering reinvestment of dividends) compared to the performance of the French securities and above all that of the German securities (figure 14).



# The Italian insurance business in the international scenario

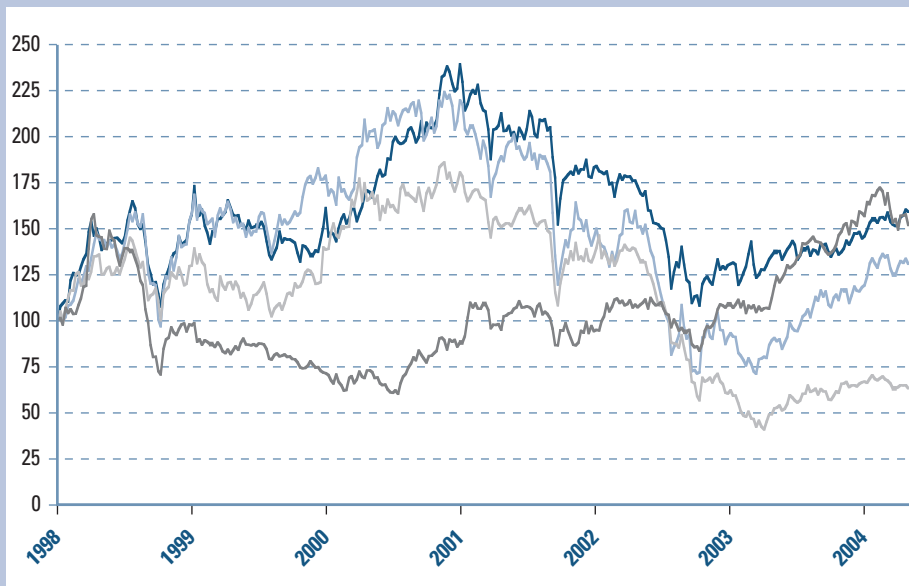


FIGURE 14  
PERFORMANCE OF INSURANCE INDUSTRY  
STOCK MARKET INDEXES



Source: Thomson Financial, Datastream  
Dividends are reinvested

## MERGERS AND ACQUISITIONS IN THE INSURANCE INDUSTRY OF THE MAIN ECONOMIES

### The trend of mergers and acquisitions transactions in time

After the strong growth observed at the end of the Nineties, mergers and acquisitions transactions in the financial sector fell substantially due to the drop in share prices. The annual average number of transactions that involved a financial company in the countries of the Group of Ten, as well as Spain and Australia (according to the information disclosed by Thomson Financial) increased from 603, during the six years between 1990 and 1995 to 866 during the 1996-2000 period, to 607 in the 2001-2003 three-year period. The annual value of transactions for which the terms and conditions are known was equal to USD 64, USD 317 and USD 131 billion, respectively.

Transactions between 1990 and 2003 involving insurance companies equalled 14% in terms of number and 18% in terms of value of the total number of transactions executed in the financial sector. While the share of transactions was found to be substantially stable, in numerical terms, in the three sub-periods of observation, the part in terms of value reflected a positive trend: the share equalled 23% in the 2000-2003 three-year period. Therefore, a major increase in the relative importance of the transactions in the insurance sector was observed in the last three-year period.

Between 1990 and 2003, merger and acquisition transactions of the within-border type, namely transactions where the bidder company and the target com-



## The Italian insurance business in the international scenario

TABLE 1  
TRANSACTIONS OF MERGERS AND ACQUISITIONS IN  
MAIN COUNTRIES' FINANCIAL SECTOR

	Total (1)		Banks (2)		Insurance Companies (3)	
	(a)	(b)	(b/a)%	(c)	(c/a)%	
<b>1990-1995: yearly averages</b>						
Number	633	402	63	89	14	
Value \$mln.	64,142	48,544	76	8,557	13	
<b>1996-2000: yearly averages</b>						
Number	866	496	57	130	15	
Value \$mln.	316,947	217,354	69	55,941	18	
<b>2001-2003: yearly averages</b>						
Number	607	326	54	76	13	
Value \$mln.	130,969	75,690	58	29,959	23	
<b>1990-2003: overall values</b>						
Number	9,949	5,867	59	1,413	14	
Value \$mln.	2,362,493	1,605,102	68	420,922	18	

Source: Thomson Financial, SDC Platinum

(1) Both bidder and target are from the financial sector

(2) Bidder is from the financial sector, target is a bank

(3) Bidder is from the financial sector, target is an insurance company

pany belong to the same country, equalled 87% in terms of number and 85% in terms of value (table 2); these values remained essentially stable during the three sub-periods of observation.

The share of within border transactions in the insurance industry (70% in terms of value) is significantly lower compared to the transactions relative to banks (92% in terms of value); this indicates there is a greater international openness of the insurance sector compared to the banking sector.

However, an increase in the quota of domestic transactions in the insurance sector was recorded during the 2001-2003 period, whereas the quota decreased marginally in the banking sector.

Within-industry merger and acquisition transactions, namely transactions where the bidder company and the target company belong to the same sector were equal to approximately 80% of the total between 1990 and 2003, both in terms of number and value; significant changes in the three sub-periods of observation were not recorded (table 2).

The share of within-industry transactions (82% in terms of value) involving insurance companies was the same as the portion involving banks (table 2). However, an important difference between the two sectors can be noted, with reference to the portion of these transactions over the total number of cross-border transactions. The bidder company was an insurance company in 91% of the cases relative to transnational dealings which involved insurance companies as the target company; whereas, the portion was equal to 74% in the banking sector, with reference to the same type of transactions (target bank and bidder bank).



# The Italian insurance business in the international scenario

	1990-1995	1996-2000	2001-2003	1990-2003
<b>Total (1)</b>				
Number	88.4	85.9	84.7	86.6
Value	89.8	84.0	83.2	84.8
<b>Banks (2)</b>				
Number	92.9	91.4	88.2	91.5
Value	93.4	92.9	82.9	91.6
<b>Insurance Companies (3)</b>				
Number	75.4	72.1	81.6	74.9
Value	70.3	67.1	79.7	70.2

TABLE 2  
MAIN COUNTRIES' % SHARE OF WITHIN-BORDER  
MERGERS AND ACQUISITIONS

Source: Thomson Financial, SDC Platinum

(1) Both bidder and target are from the financial sector

(2) Bidder is from the financial sector, target is a bank

(3) Bidder is from the financial sector, target is an insurance company

		1990-1995	1996-2000	2001-2003	1990-2003
<b>Total (1)</b>					
M&A's within-industry over total	Number	82.0	79.1	75.8	79.6
	Value	82.6	78.9	79.8	79.7
Of which: over total cross border	Number	72.7	71.0	68.1	71.0
	Value	77.1	70.7	84.5	74.0
<b>Banks (2)</b>					
M&A's within-industry	Number	85.9	83.6	74.8	83.1
	Value	86.9	80.5	80.3	81.6
Of which: over total cross border	Number	69.2	67.5	62.6	66.9
	Value	76.4	66.8	86.7	73.9
<b>Insurance Companies (3)</b>					
M&A's within-industry	Number	80.7	77.0	71.5	77.5
	Value	68.9	85.8	79.4	82.4
Of which: over total cross border	Number	87.8	85.2	78.6	85.4
	Value	85.6	91.3	94.8	91.1

TABLE 3  
MAIN COUNTRIES' % SHARE OF WITHIN-INDUSTRY  
MERGERS AND ACQUISITIONS

Source: Thomson Financial, SDC Platinum

(1) Both bidder and target are from the financial sector

(2) Bidder is from the financial sector, target is a bank

(3) Bidder is from the financial sector, target is an insurance company



## The Italian insurance business in the international scenario

The fact that almost all cross-border, within-industry transactions occur in the insurance industry is consistent with the assumption that it is easier to enter foreign markets in the insurance sector, rather than in the banking one. This may depend essentially on two reasons. The first is associated with a different attitude taken by the national authorities in allowing the entry of foreign operators; the second derives from the fact that the insurance business may be less characterised by national aspects, in terms of regulations and accepted practice, compared to the banking business. It is not easy to discriminate between these two scenarios; this undoubtedly is an interesting area for research, which may be developed in the future.

### Differences among countries

Thomson Financial registered 82 transactions between 1990 and 2003 which involved Italian insurance companies; the terms and conditions of purchase were disclosed for 36 of them (see table in appendix).

The overall value of the transactions recorded was USD 19.9 billion, equivalent to 4.7% of the total value of the transactions that involved insurance companies in the largest industrialised countries (table 4); this result refers to a portion which is equal to the level in Germany and slightly less than that in France, two countries whose insurance market is much larger than the Italian

TABLE 4  
MAIN COUNTRIES' MERGERS  
AND ACQUISITIONS (1990-2003)

	Number	Value of M&A		Banks % of world	% of M&A's Cross border		% of M&A's Within industry		
		\$ mln	% of premiums		% of world	Number	Value	Number	Value
United States	606	210,167	23.2	49.9	57.6	11.9	26.4	79.5	87.3
United Kingdom	217	67,586	30.9	16.1	7.5	30.9	52.9	73.7	87.8
The Netherlands	58	25,440	68.4	6.0	1.1	31.0	18.4	82.8	78.7
France	64	24,551	21.6	5.8	5.1	46.9	14.9	71.9	69.2
Italy	82	19,912	29.2	4.7	6.7	28.0	11.2	64.6	80.8
Germany	91	19,870	16.1	4.7	2.8	22.0	35.7	75.8	74.3
Japan	47	17,807	4.0	4.2	10.4	27.7	37.9	68.1	91.4
Switzerland	21	11,451	36.4	2.7	1.7	61.9	15.6	81.0	10.2
Canada	62	9,700	21.4	2.3	1.3	30.6	14.6	77.4	86.7
Australia	48	4,778	14.6	1.1	1.0	37.5	29.6	81.3	79.7
Belgium	30	3,739	18.2	0.9	1.8	73.3	97.2	90.0	97.5
Spain	73	3,116	8.5	0.7	2.4	46.6	51.4	87.7	79.5
Sweden	14	2,806	17.3	0.7	0.8	42.9	0.1	71.4	15.9
Total	1,413	420,922	20.1	100.0	100.0	25.1	29.8	77.5	82.4

Source: Thomson Financial, SDC Platinum  
Bidder is from the financial sector,  
target is an insurance company





## The Italian insurance business in the international scenario

insurance market. In fact, the overall value of the Italian transactions equalled 29% of the premium income (2001 premiums volume expressed in dollars), which compares with 22% in France and 16% in Germany.

Therefore, the concentration process in the Italian insurance market has been quite intensive compared to other countries, even if much less than in the United Kingdom, Netherlands and Switzerland, where the value of the transactions exceeded 30% of premiums.

The intensive nature of the process in the Italian insurance sector was marginally less than in the banking sector, which was probably more fragmented at the beginning of the period: in fact, the portion of operations involving Italian banks equalled 6.7% of the overall number of worldwide transactions which affected the sector.



# The Italian insurance business in the international scenario

APPENDIX

## ITALIAN INSURANCE SECTOR'S MERGERS AND ACQUISITIONS

Year	Target	BIDDER			OPERATIO	
		Name	Nation	Sector	Value (\$ mln)	Type (*)
1990	Prudential Holding SpA	Abeille Assurances Corp	FR	insurance	80.3	Acq. Maj. Int.
1990	Lloyd Internazionale	Cia di Assicurazione	IT	insurance	81.1	Acq. Maj. Int.
1991	Polaris Vita, Sipea, Cidas	Cia di Assicurazione	IT	insurance	63.0	Acq. Maj. Int.
1991	Cia Latina di Assicurazioni	Fondiarria Assicurazioni SpA	IT	insurance	410.3	Acq. Maj. Int.
1992	Jardine Italia SpA	SOPAF	IT	other	2.3	Acq. Maj. Int.
1993	INA (Italy)	Investors	IT	other	3,138.3	Acq. Maj. Int.
1993	Fata	Istituto Nazionale di Credito	IT	bank	240.3	Merger
1994	A Social	Banco Portugues de Investiment	PT	bank	26.0	Acq. Maj. Int.
1994	Mare Assicurazioni (Pilar Ins)	Banco Popolare di Bergamo-Cred	IT	bank	21.6	Acq. Maj. Int.
1994	Lloyd Adriatico SpA	Allianz AG Holding	DE	insurance	253.5	Acq. Maj. Int.
1994	Lloyd Adriatico SpA	Allianz AG Holding	DE	insurance	465.8	Acq. Maj. Int.
1994	Istituto Italiano di Previdenza	Italiana Incendio Vita e Rischi diversi	IT	insurance	86.9	Merger
1996	Giano Vita(Toro Assicurazioni)	Banca di Roma(SIPAB)	IT	bank	11.8	Acq. Maj. Int.
1996	Nuova Tirrena (Italy)	Toro Assicurazioni SpA(Fiat)	IT	insurance	371.8	Acq. Maj. Int.
1996	Unione Italiana di Riassicurazione	Swiss Reinsurance Co	CH	insurance	376.4	Merger
1996	BNL Vita	INA	IT	insurance	136.6	Acq. Maj. Int.
1997	BNC Assicurazioni SpA	Haftpflichtverband der Deutsch	DE	insurance	146.5	Acq. Maj. Int.
1997	Assiba (Assicurazioni Generali)	Banca Commerciale Italiana SpA	IT	bank	34.6	Acq. Maj. Int.
1997	La Previdente (Fondiarria SpA)	Cia di Assicurazione	IT	insurance	370.0	Merger
1997	Reale Riassicurazioni	Muenchener Rueck Italia SpA	IT	insurance	227.2	Merger
1998	Assicurazioni, Systema Vita	Commercial Union Italia	IT	insurance	44.3	Acq. Maj. Int.
1998	Fiduciaria Centrum	Banca Popolare di Brescia	IT	bank	1.6	Acq. Maj. Int.
1998	Gruppo Ital Brokers	Willis Corroon Group PLC	UK	insurance	20.0	Acq. Maj. Int.
1999	Egida	San Paolo-IMI SpA	IT	bank	7.9	Acq. Maj. Int.
1999	INA	Assicurazioni Generali SpA	IT	insurance	10,179.6	Acq. Maj. Int.
2000	Innovazione Vita	Banca Profilo SpA	IT	bank	5.6	Acq. Maj. Int.
2000	MEIE Assicurazioni SpA	Unipol Assicurazioni SpA	IT	insurance	329.6	Acq. Maj. Int.
2000	Vitasi	SAI	IT	insurance	7.1	Acq. Maj. Int.
2000	Bayerische Vita	Ergo Versicherungsgruppe AG	DE	insurance	589.1	Acq. Maj. Int.
2000	BNL Vita (INA/Italy)	Unipol Assicurazioni SpA	IT	insurance	124.4	Acq. Maj. Int.
2000	Lloyd Italico Assicurazioni	Toro Assicurazioni SpA(Fiat)	IT	insurance	45.5	Merger
2001	Dipras SpA	Monte dei Paschi di Siena SpA	IT	bank	0.4	Acq. Maj. Int.
2002	SAI	Fondiarria Assicurazioni SpA	IT	insurance	1,663.7	Merger
2003	Roma Vita	Capitalia SpA	IT	bank	281.4	Acq. Maj. Int.
2003	Ticino Vita	MPS Vita	IT	insurance	20.9	Merger
2003	Noricum Vita	San Paolo IMI SpA	IT	bank	46.5	Acq. Maj. Int.

Source: Thomson Financial, SDC Platinum

Bidder is from the financial sector, target is an Italian insurance company and prices are disclosed

(\*) Acquisition of Major Interest is for the acquisition of a significant capital share



# The Italian insurance business in the international scenario

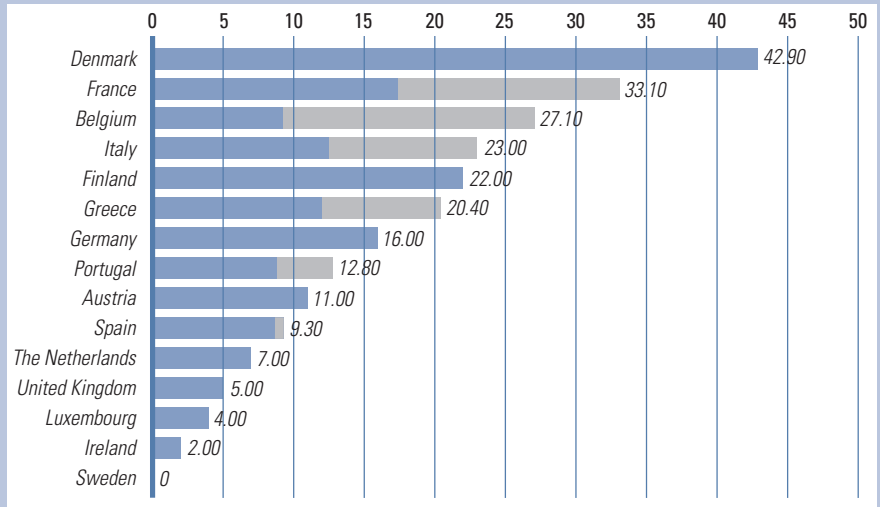
## TAXATION OF INSURANCE PREMIUMS IN THE EUROPEAN UNION

### MOTOR

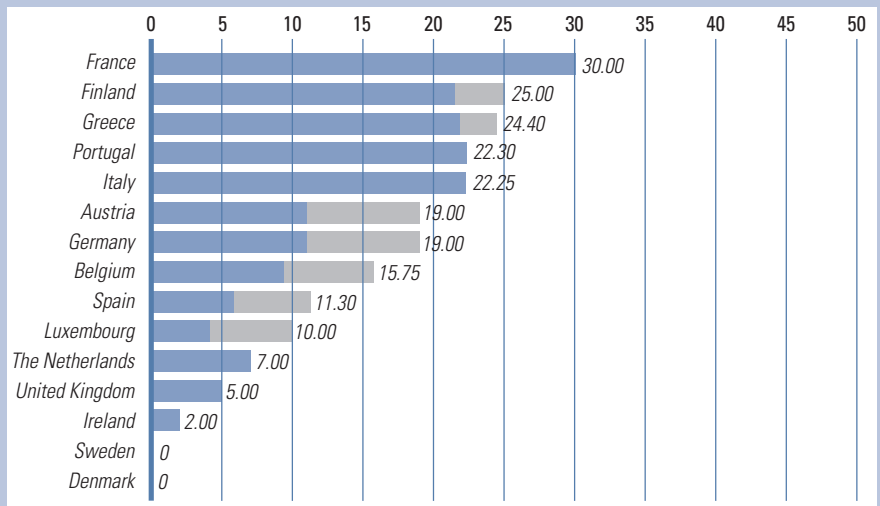
% TAX RATES ON INSURANCE  
IN THE E.U. COUNTRIES - YEAR 2002

■ Tax on insurance ■ Other taxes

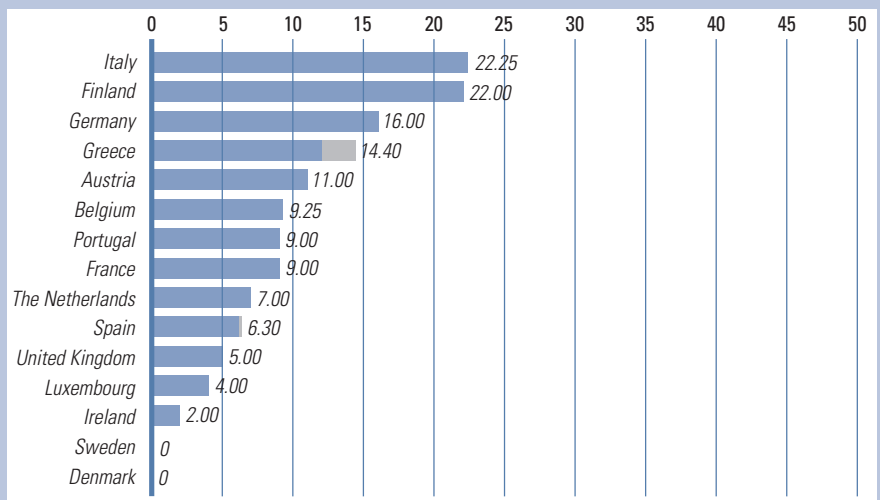
Also in 2003, Italy was confirmed, amongst the European member states, as the country with a significant load in taxes on insurance premiums.



### FIRE



### GENERAL LIABILITY



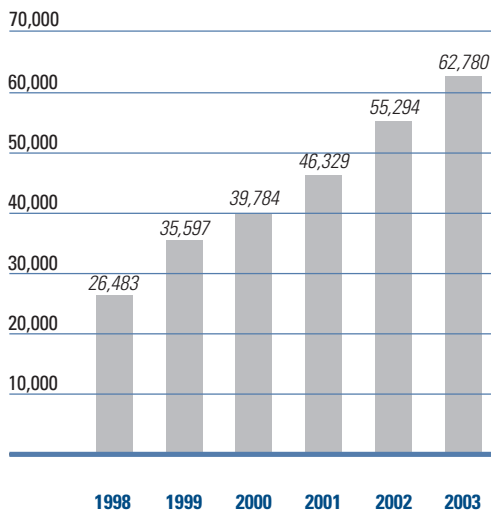
Source: CEA



## Life insurance

Life insurance business is still growing even if at a lower rate compared to 2002. The weight of Life contracts characterized by minimum return guarantees (class I and class V) increases. Investment income is also increasing. The technical account result is positive and growing.

DIRECT PREMIUMS  
Euro million



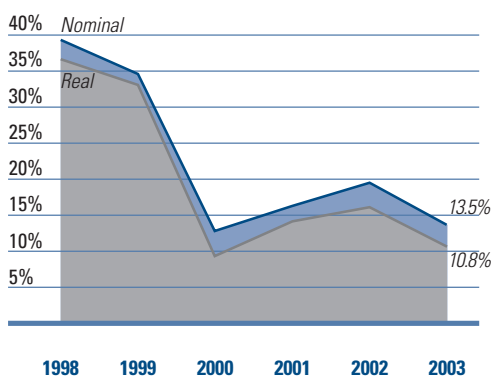
### DOMESTIC BUSINESS

Premiums for direct domestic business for the 96 insurance companies operating in the Life classes amounted to Euro 62,780 million with a 13.5% increase in nominal terms and a 10.8% in real terms.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 25,438 million (21,783 in 2002), representing a 16.8% increase.

Mathematical provisions were equal to Euro 270,796 million (227,791 in 2002), thus recording a 18.9% increase noticeably higher than the premiums. In ten years, from 1993 to 2003, the mathematical provisions ratio compared to GDP shifted from 4.7% to 20.8%.

GROWTH RATE



Operating expenses were equal to Euro 3,742 million (3,379 in 2002), with a 10.7% increase; they include, in addition to acquisition costs, costs arising from premium collection and costs relating to the organisation and operation of the distribution network, also the administration expenses relating to the technical management of insurance business. The ratio of these operating expenses to premiums amounted to 6.0% (6.1% in 2002).

Considering the investment income equal to Euro 10,510 million, the result of the technical account for direct business reflected a profit of Euro 1,261 million (757 in 2002). The ratio to premiums equalled to 2.0% (1.4% in 2002).

LIFE TECHNICAL ACCOUNT  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	26,483	35,597	39,784	46,329	55,294	62,780
Incurred claims (-)	7,356	8,945	13,574	16,100	21,783	25,438
Changes in technical provisions (-)	23,514	31,002	26,693	28,981	31,504	43,275
Balance of other technical items	-92	-50	-5	175	284	426
Operating expenses (-)	2,687	3,026	3,398	3,323	3,379	3,742
Investment income	7,566	7,560	4,688	2,812	1,845	10,510
<b>Direct technical account result</b>	<b>400</b>	<b>134</b>	<b>802</b>	<b>912</b>	<b>757</b>	<b>1,261</b>
Reinsurance result and other items	530	653	664	480	279	293
<b>Overall technical account result</b>	<b>930</b>	<b>787</b>	<b>1,466</b>	<b>1,392</b>	<b>1,036</b>	<b>1,554</b>

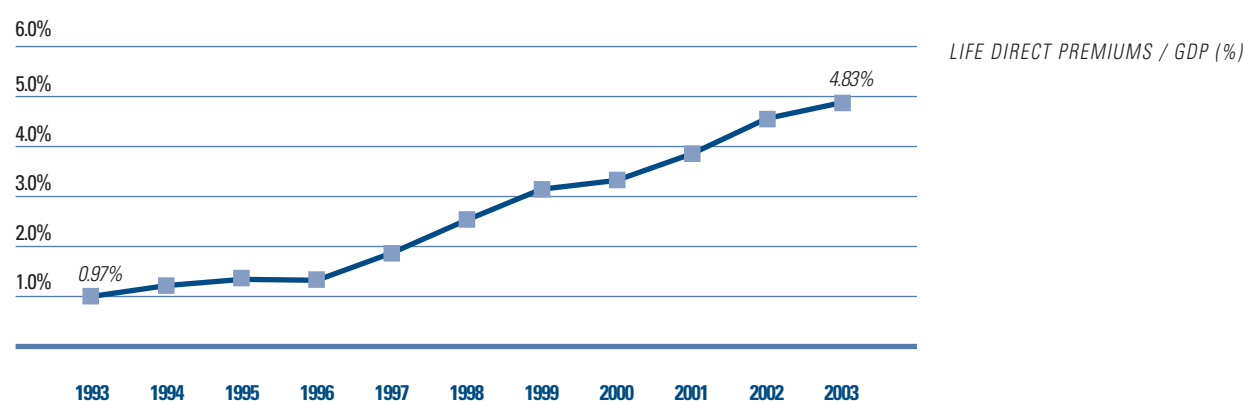


The net result for reinsurance activities and indirect insurance business was positive at Euro 293 million (279 in 2002).

The **overall technical account result** was equal to Euro 1,554 million (1,036 in 2002). The ratio to premiums amounted to 2.5% (1.9% in 2002).

### THE LIFE CLASS AND GDP

In 2003 the ratio of Italian Life premiums for direct domestic business to GDP accounted to 4.83% compared to 4.39% of 2002. The ratio has always been growing for the last ten years reaching a value which is five times higher than the 1993 value.



### INDIVIDUAL LIFE CLASS

#### Insurance on human life length

**Premiums for direct domestic business** for the 93 insurance companies operating in this class amounted to Euro 27,740 million with a 15.6% increase compared to 2002. The percentage on the overall direct Life premiums was equal to 44.2% (43.4% in 2002).

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 14,813 million representing a 8.4% increase.

The **changes in mathematical** and other technical provisions were equal to Euro 14,710 million representing a 20.2% increase.

**Operating expenses** were equal to 1,935 million with a 9.3% increase. The ratio to premiums amounted to 7.0% (7.4% in 2002).

Considering the investment income equal to Euro 5,267 million, the result of the technical account for direct business reflected a profit of Euro 1,451 million (618 in 2002). The ratio to premiums amounted to 5.2%.



## Life insurance

### CLASS I - HUMAN LIFE

Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	16,720	17,603	15,967	19,413	23,991	27,740
Incurred claims (-)	5,869	6,982	9,686	11,254	13,660	14,813
Changes in technical provisions (-)	13,626	13,035	8,680	9,806	12,233	14,710
Balance of other technical items	-93	-51	-66	-81	-109	-98
Operating expenses (-)	2,100	2,034	2,019	1,791	1,770	1,935
Investment income	5,115	4,597	5,403	4,801	4,399	5,267
<b>Direct technical account result</b>	<b>147</b>	<b>98</b>	<b>919</b>	<b>1,282</b>	<b>618</b>	<b>1,451</b>
Reinsurance result and other items	536	649	647	407	293	294
<b>Overall technical account result</b>	<b>683</b>	<b>747</b>	<b>1,566</b>	<b>1,689</b>	<b>911</b>	<b>1,745</b>

The net result for reinsurance activities and indirect insurance business was positive at Euro 294 million.

The **overall technical account result** was equal to Euro 1,745 million (911 in 2002). The ratio to premiums amounted to 6.3% (3.8% in 2002).

### Life insurance linked to investments funds or index-linked insurance

**Premiums for direct domestic business** for the 84 insurance companies operating in this class amounted to Euro 26,560 million with a 8.1% increase compared to 2002. The percentage on the overall direct Life premiums was equal to 42.3% (44.4% in 2002).

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 7,611 million representing a 36.8% increase.

The **changes in mathematical** and other technical provisions were equal to Euro 22,207 million representing a 56.0% increase.

### CLASS III - INVESTMENTS FUNDS

Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	6,571	15,022	22,214	23,613	24,559	26,560
Incurred claims (-)	954	1,186	2,421	3,098	5,562	7,611
Changes in technical provisions (-)	6,606	15,266	17,485	16,670	14,233	22,207
Balance of other technical items	6	14	72	267	341	549
Operating expenses (-)	426	834	1,282	1,394	1,378	1,582
Investment income	1,694	2,287	-1,335	-2,576	-3,318	4,102
<b>Direct technical account result</b>	<b>285</b>	<b>37</b>	<b>-237</b>	<b>142</b>	<b>409</b>	<b>-189</b>
Reinsurance result and other items	-2	1	4	61	-19	-5
<b>Overall technical account result</b>	<b>283</b>	<b>38</b>	<b>-233</b>	<b>203</b>	<b>390</b>	<b>-194</b>



**Operating expenses** were equal to Euro 1,582 million with a 14.8% increase. The ratio to premiums amounted to 6.0% (5.6% in 2002).

Considering the investment income equal to Euro 4,102 million, the result of the technical account for direct business reflected a deficit of Euro 189 million (409 in 2002). The ratio to premiums amounted to 0.7%.

The net result for reinsurance activities and indirect insurance business was negative at Euro 5 million.

The **overall technical account result** was negative at Euro 194 million (390 in 2002). The ratio to premiums amounted to 0.7% (1.6% in 2002).

### Long-term healthcare insurance

**Premiums for direct domestic business** for the 22 insurance companies operating in this class amounted to Euro 17 million with a 70.0% increase compared to 2002.

	1998	1999	2000	2001	2002	2003
Gross written premiums	0	6	8	12	10	17
Incurred claims (-)	0	1	2	3	3	7
Changes in technical provisions (-)	0	4	4	8	4	2
Balance of other technical items	0	-1	-1	0	1	0
Operating expenses (-)	0	0	0	0	0	4
Investment income	0	1	1	1	1	0
<b>Direct technical account result</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>4</b>
Reinsurance result and other items	0	-1	1	0	-2	-5
<b>Overall technical account result</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>-1</b>

*CLASS IV - HEALTHCARE*  
*Euro million*

The **overall technical account result** was negative at Euro 1 million (3 in 2002). The ratio to premiums amounted to 5.9% (30.0% in 2002).

### Capitalization operations

**Premiums for direct domestic business** for the 83 insurance companies operating in this class amounted to Euro 8,335 million with a 26.1% increase compared to 2002. The percentage on the overall direct Life premiums was equal to 13.3% (12.0% in 2002).

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 2,994 million representing a 17.4% increase.

The **changes in mathematical** and other technical provisions were equal to Euro 6,225 million representing a 25.7% increase.



## Life insurance

### CLASS V - CAPITALIZATION

Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	3,191	2,921	1,503	3,201	6,610	8,335
Incurred claims (-)	533	771	1,463	1,739	2,551	2,994
Changes in technical provisions (-)	3,281	2,655	435	2,421	4,951	6,225
Balance of other technical items	-5	-11	-12	-13	52	-25
Operating expenses (-)	161	154	91	131	224	214
Investment income	757	671	621	594	792	1,122
<b>Direct technical account result</b>	<b>-32</b>	<b>1</b>	<b>123</b>	<b>-509</b>	<b>-272</b>	<b>-1</b>
Reinsurance result and other items	-4	4	12	11	7	11
<b>Overall technical account result</b>	<b>-36</b>	<b>5</b>	<b>135</b>	<b>-498</b>	<b>-265</b>	<b>10</b>

**Operating expenses** were equal to Euro 214 million with a 4.5% decrease. The ratio to premiums amounted to 2.6% (3.4% in 2002).

Considering the investment income equal to Euro 1,122 million, the result of the technical account for direct business reflected a deficit of Euro 1 million (-272 in 2002).

The net result for reinsurance activities and indirect insurance business was positive at Euro 11 million.

The **overall technical account result** was equal to Euro 10 million (-265 in 2002). The ratio to premiums amounted to 0.1% (4.0% in 2002).

### Pension fund management

**Premiums for direct domestic business** for the 37 insurance companies operating in this class amounted to Euro 128 million with a 3.2% increase compared to 2002.

### CLASS VI - PENSION FUNDS

Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	1	45	93	91	124	128
Incurred claims (-)	0	5	2	7	8	13
Changes in technical provisions (-)	1	43	89	76	85	132
Balance of other technical items	0	0	1	1	2	2
Operating expenses (-)	0	4	6	6	7	8
Investment income	0	4	-2	-7	-30	19
<b>Direct technical account result</b>	<b>0</b>	<b>-3</b>	<b>-5</b>	<b>-4</b>	<b>-4</b>	<b>-4</b>
Reinsurance result and other items	0	0	0	0	0	0
<b>Overall technical account result</b>	<b>0</b>	<b>-3</b>	<b>-5</b>	<b>-4</b>	<b>-4</b>	<b>-4</b>

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 13 million representing a 62.5% increase.





The **changes in mathematical** and other technical provisions were equal to Euro 132 million representing a 55.3% increase.

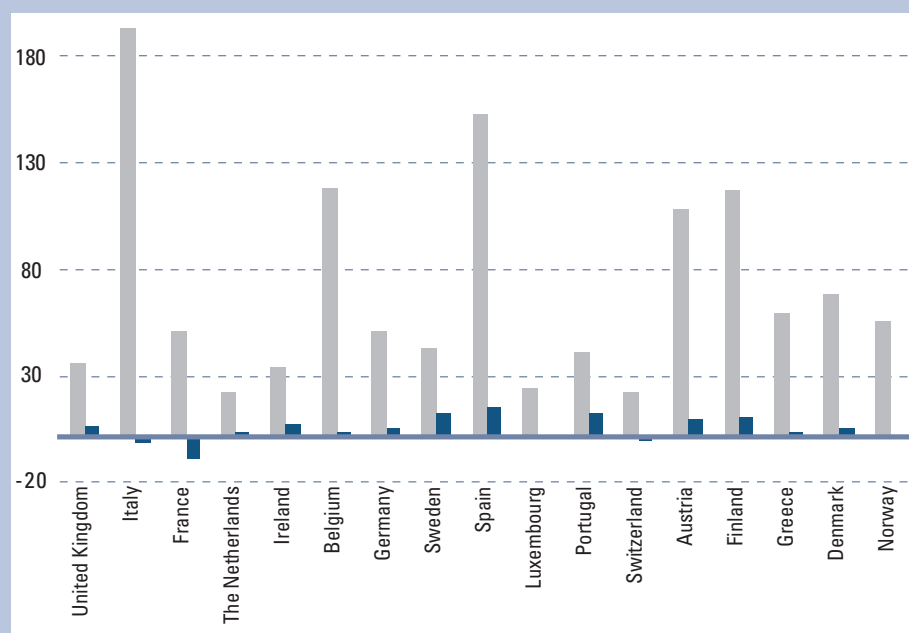
**Operating expenses** were equal to Euro 8 million with a 14.3% increase. The ratio to premiums amounted to 6.3% (5.6% in 2002).

Considering the investment income equal to Euro 19 million, the result of the technical account for direct business reflected a deficit of Euro 4 million, the same value as 2002.

The **overall technical account result** was negative at Euro 4 million, the same value recorded in 2002. The ratio to premiums amounted to 3.1% (3.2% in 2002).

## PROFITABILITY OF 'RE-VALUABLE' INSURANCE POLICIES

The growth of the unit and index-linked policies in all of the European countries was very high during the phase when share prices were rising sharply and the growth of the traditional Life policies was fairly modest.



REAL AVERAGE GROWTH PER YEAR OF UNIT-LINKED AND NON-LINKED, 1997-2000 (%)



Source: SIGMA

The portion of unit and index-linked premiums decreased in the United States, France, Italy and Spain between 2000 and 2002, associated with the downturn in share prices.

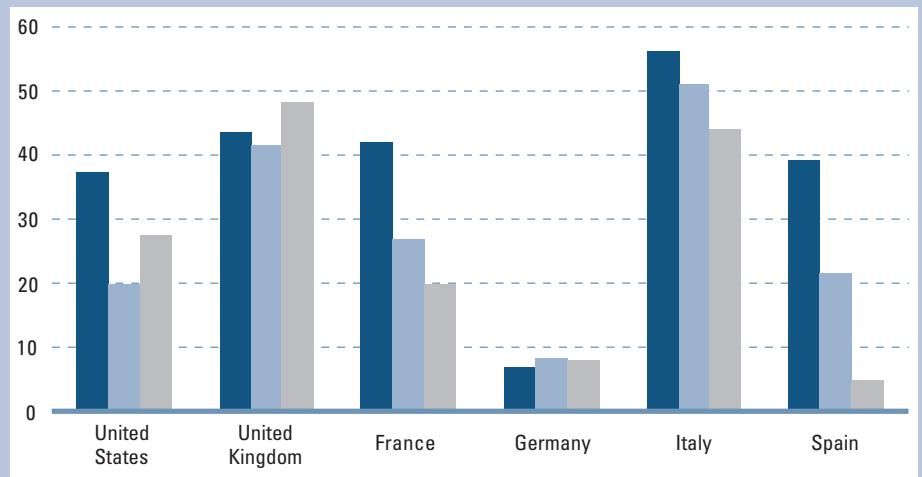
A significant growth of the premiums for traditional 're-valuation' type insurance policies was recorded in Italy during the same period: 20% per annum in the 2001-2003 three-year period; the impact on the total premiums of Life class insurance increased to approximately 40% in 2003. The demand for these products was driven by the guarantee of a minimum certain performance, the



UNIT- AND INDEX-LINKED/LIFE MARKET (%)



Source: SIGMA



inclusion of advantageous re-valuation clauses of the sum allocated and by demographic related guarantees that the products propose.

#### ADVANTAGES OF SEPARATE MANAGEMENT ARRANGEMENTS

- Enable the financial risk to be limited, by adopting cautious financial management criteria and therefore focused mainly on fixed income, regulated and supervised securities.
- Guarantee revaluation of the benefits initially assured by consolidating annually the positive results of cash flow management. Therefore, subsequent losses that the separate management arrangement may incur do not nullify the accrued capital.
- Assets are entered at the historical cost which makes for more limited operating costs compared to the management of linked type policies for given levels of cover.

It may be found useful to make a long-term comparison among the performance achieved by the separate management arrangements linked to re-valuation policies, the performance of Government securities, the rate of inflation and the TFR (Employee Severance Indemnity) remuneration.

The graph shows how the performance of the separate management arrangements between 1982 and 2000 was much higher in each year compared to the rate of Government securities (the performance of the BTP (Long-term Treasury Bonds) was considered from 1995), the TFR (Employee Severance Indemnity) remuneration rate and the rate of inflation. The annual performance of the separate management arrangements during the 2001-2003 three-year period was equal to approximately five percentage points, similar to the rate referred to the BTP, compared to a rate of inflation of 2.6% and a TFR remuneration rate equal to 3.5%.

If 100 is taken as the value of an investment in 1981 made in a 'pure' re-valuation capitalisation insurance policy, then the value of the investment in 2002 was



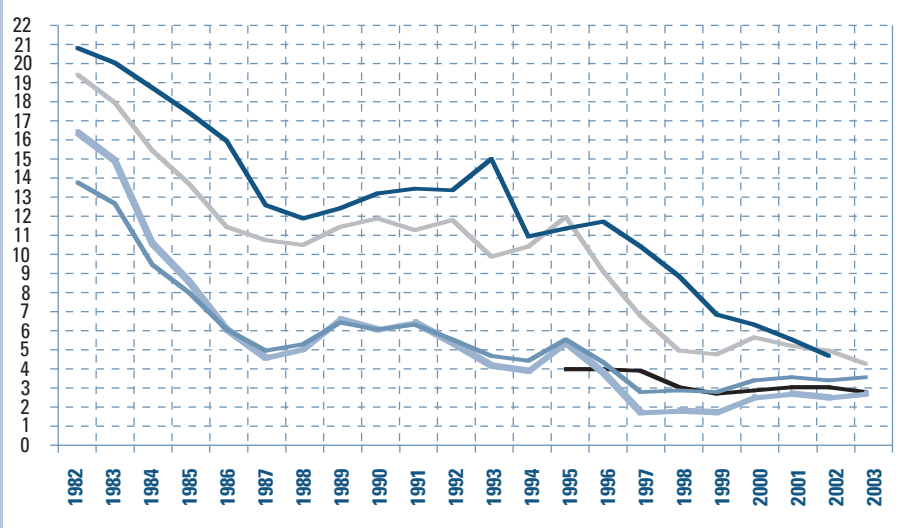
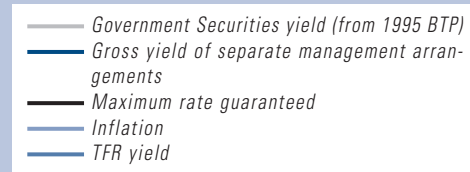


FIGURE 1  
YIELD OF SEPARATE MANAGEMENT ARRANGEMENTS  
AND OTHER FINANCIAL INSTRUMENTS (%)



Source: Bank of Italy, ISTAT and ISVAP data processed by ANIA

equal to 1,151; the same investment made in Italian shares was worth 973 in 2003, assuming the full re-investment of dividends (figure 2). The average annual performance (not compounded) of the separate management arrangements, net of inflation, equalled 6.7%, with a 2.2% standard deviation; the annual average performance in the case of the investment in shares, net of inflation, was 9.2% with a 34% standard deviation. The investment strategy in re-valuation policies over the past 22 years was found to be substantially preferable to the performance of the investment in shares, on the basis of the Sharpe ratio (calculated as the ratio of performance over its standard deviation); the same conclusion is reached if it is considered that in general a quota falling between 80% and 95% of the performance of the separate management arrangements is returned to the insured.

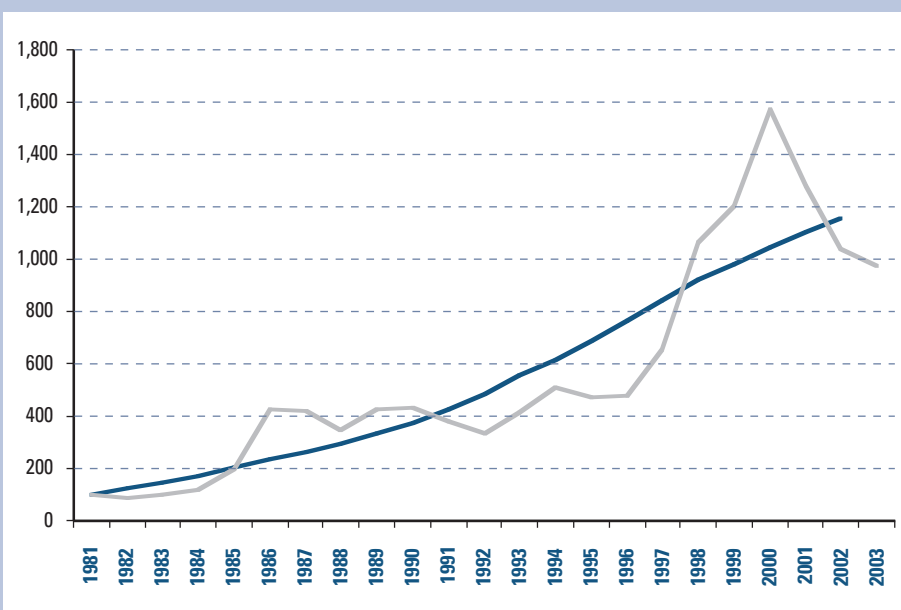
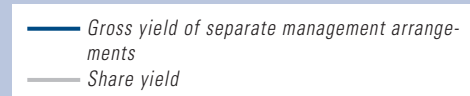


FIGURE 2  
INDEX OF YIELDS BY POLICIES REVALUED  
AND STOCK MARKET  
year 1981=100



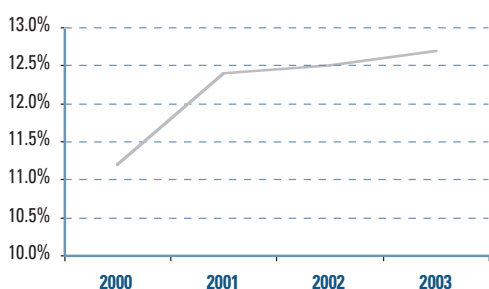
Source: ISVAP and Datastream data processed by ANIA. The share index takes into account dividend reinvested



## LIFE INSURANCE AND HOUSEHOLD SAVINGS

Available income, despite the modest growth of GDP, increased by 4.0% in nominal value and 1.5% in real terms (0.6% in 2002). Almost half of the available income growth is explained by the gross compensation increase and for one third it is explained by the increase in the unrestricted labor income, even though there is a substantial stationariness of the standard work units.

FAMILIES' TENDENCY TO SAVE



Source: Bank of Italy

In 2003 families' tendency to save is slightly increased (12.7%, 12.5% in 2002). According to a study of the Bank of Italy, in the last ten years families intensified wealth accumulation, in order to compensate the reduction of pension benefits: this is why in the second half of the nineties the tendency to save increased, growing from 11.2% in 2001 to 12.7% in 2003.

In 2003 household savings were equal to 5.6% of the GDP (6.9% in 2002 and 8.3% in 2001). The reduction is due to the use of available income in real estate investments, favored by low interest rates.

Financial markets' cyclical trend effected the composition of the Italian financial portfolio. The recent solvency crisis of certain industrial groups rendered Italian savers more cautious, promoting financial investment in liquid assets (currency notes and demand deposits) and in guaranteed yield investments. In 2003 the financial portfolio share invested in Life policies was equal to 9.3% with an increase of 1.2 percentage points compared to 2002. Insurance policies and pension funds represent in total 16% of families' portfolio (14.8% in 2002).

FAMILIES' FINANCIAL ASSETS

Euro million

	Amounts		Breakdown %		Change %
	Dec-02	Dec-03	Dec-02	Dec-03	
Liquidity and deposits	459,921	489,051	16.5	16.8	6.3
Other deposits	288,759	298,645	10.3	10.3	3.4
Short term bonds	32,006	6,864	1.1	0.2	-78.6
Medium-long term bonds	595,643	633,179	21.3	21.7	6.3
Stocks and other direct participations	651,169	640,845	23.3	22.0	-1.6
Shares in investment funds	333,953	356,704	12.0	12.3	6.8
Life reserves	226,445	269,989	8.1	9.3	19.2
Pension funds	157,033	166,739	5.6	5.7	6.2
Premiums and claims reserves	28,976	30,449	1.0	1.0	5.1
Other asset and liability accounts	17,392	19,146	0.6	0.7	10.1
<b>Total</b>	<b>2,791,297</b>	<b>2,911,611</b>	<b>100.0</b>	<b>100.0</b>	<b>4.3</b>

Source: Calculations extracted from Financial Accounts of the Bank of Italy



## SOCIAL EXPENDITURE

In 2003 the Public Administration spent Euro 304,787 million in social protection benefits, that is, 59.5% of the overall public expenditure. Compared to 2002 the overall expenditure increased by 4.2%, in a slower way compared to the average annual growth rate from 2000 to 2002 (5.6%). The GDP percentage used in social protection public benefits continues to increase, even though in a limited way, passing from 23.2% to 23.4%. The most important financial items are still those concerning pensions and healthcare.

### EVOLUTION OF SOCIAL EXPENDITURE IN ITALY

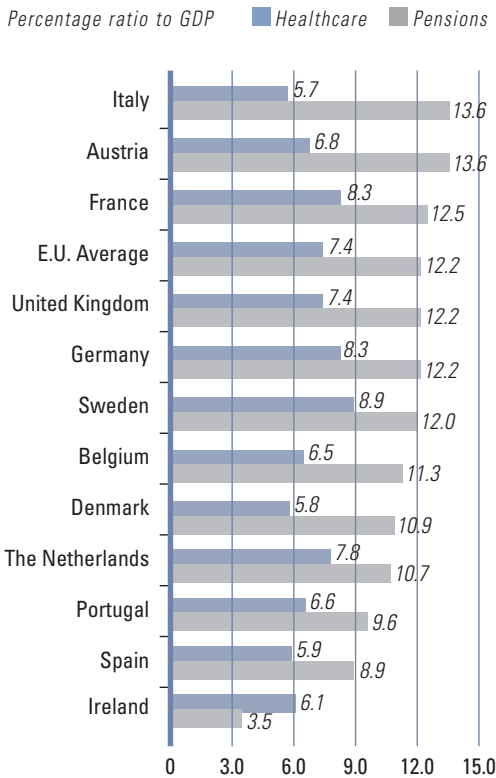
	2000	2001	2002	2003
<b>Amounts (Euro million)</b>				
Health	63,141	69,879	73,676	75,796
Pensions:				
Old age	128,064	133,856	141,491	147,901
Survivors	29,988	30,870	33,306	34,935
Invalidity	15,176	15,070	17,409	18,700
Disease, Accident and Maternity benefits	3,700	3,802	4,011	4,291
Unemployment benefits	3,426	3,276	3,716	3,708
Other benefits	18,605	19,726	18,742	19,456
<b>Total social expenditure</b>	<b>262,100</b>	<b>276,479</b>	<b>292,351</b>	<b>304,787</b>
<b>Percentage of DGP</b>				
Health	5.4	5.7	5.8	5.8
Pensions:				
Old age	11.0	11.1	11.2	11.4
Survivors	2.6	2.5	2.6	2.7
Invalidity	1.3	1.2	1.4	1.4
Disease, Accident and Maternity benefits	0.3	0.3	0.3	0.3
Unemployment benefits	0.3	0.3	0.3	0.3
Other benefits	1.6	1.6	1.5	1.5
<b>Total social expenditure</b>	<b>22.5</b>	<b>22.7</b>	<b>23.2</b>	<b>23.4</b>
<b>Percentage of total public expenditure</b>				
Health	14.5	15.1	15.2	14.8
Pensions:				
Old age	29.2	29.0	29.2	28.9
Survivors	6.9	6.7	6.9	6.8
Invalidity	3.5	3.3	3.6	3.7
Disease, Accident and Maternity benefits	0.8	0.8	0.8	0.8
Unemployment benefits	0.8	0.7	0.8	0.7
Other benefits	4.3	4.3	3.9	3.8
<b>Total social expenditure</b>	<b>60.0</b>	<b>59.9</b>	<b>60.4</b>	<b>59.5</b>

Source: Calculations extracted from Government report on the Italian economic situation - 2003



# Life insurance

SOCIAL SECURITY EXPENDITURE  
IN SOME EUROPEAN COUNTRIES IN 2001



Source: Calculations extracted from Government report on the Italian economic situation - 2002

## Healthcare

The healthcare expenditure has been equal to Euro 75,796 million (5.8% of GDP), as in 2002. The incidence on the overall social expenditure of health benefits granted by the public sector decreased from 15.2% to 14.8%.

The ISTAT (Central Statistical Office) enquiry on the expenditure composition for the different health benefits reveals a significant rearrangement. There is a decrease in the expenses for medicines (-5.3%), but there are also increases for all other components. Outgoings for generic medical assistance benefits increased by 5.0%, those for specialistic medical assistance by 2.7%, those for hospital assistance in private structures by 4.7% and those for hospital assistance in public structures by 4.6%.

## Pensions

Pensions are the most important social expenditure items: Euro 201,536 million, that is, 66% of the social benefits' total. The ratio of pension expenditure to GDP increased from 15.2% in 2002 to 15.5%, whereas its incidence on the total public expenditure decreased (from 39.7% to 39.4%).

## Components of the Italian social expenditure compared to the European situation

Together with Austria, Italy is the European Union country that has the most elevated expenditure for old age and survivors pensions with reference to the GDP (13.6% in 2001, almost one and a half percentage point more compared to the EU mean). Conversely, the healthcare expenditure incidence on the GDP (5.7%) represents the lower value.

## SUPPLEMENTARY SOCIAL SECURITY: SUBJECT TO REFORM

The government delegated law bill relative to the reform of the Social Security system continues its parliamentary course.

Last May the Senate approved a text of a delegated law to reform the supplementary Social Security system, which radically innovates the text that had been approved previously by the Chamber. In particular, the following aspects can be mentioned:

- Establishing the silence-consent principle to confer the TFR (Employee Severance Indemnity) to the supplementary Social Security scheme, namely conferment of the accrued TFR to the supplementary pension funds, unless the worker explicitly expresses a different will.
- The expected removal of impediments which today come between free participation and circulation of workers in the supplementary Social Security system with the objective of implementing full equal treatment not only between contractual funds and open-end funds but also between collective and individual pension schemes.



- Definition of the principle by which the accruing TFR and the contribution made by the employer, if applicable, may be channelled to the supplementary pension scheme freely chosen by the worker if the worker transfers voluntarily from one pension scheme to another.

Therefore, the supplementary Social Security system (so-called second pillar) will not be limited only to the collective pension schemes (contractual funds and open-end funds participated collectively), but will also include individual schemes and insurance products established by Article 9-ter of Legislative Decree No. 124 of 1993: therefore, the range of products available to workers and their right to select will be broadened.

Harmonised rules have been established with regard to the transparency and comparability of the products, as well as assigning the task to a single Supervisory Authority, COVIP, to monitor the satisfactory operation of the entire system, also referring to the methods of proposing the Social Security instruments, together with the principles of the workers' freedom of choice and of pluralism and competitiveness among the various instruments offered by the Social Security operators.

The free participation and circulation of workers in the supplementary Social Security system represents an essential and crucial form to safeguard savings, represents a strong incentive for all managers of Social Security savings to manage at best the resources entrusted to them, in the interests of the participants and helps to overcome the reluctance of workers to channel the TFR into the supplementary Social Security scheme. The development of a system capable of compensating the progressive reduction in the level of protection offered by compulsory Social Security will be favoured.

During the reform debate, ANIA also raised the question of eliminating the prohibition, which exists today with regard to pension funds, of investing their resources, fully or in part, in insurance products relative to insurance classes I and V of the Table annexed to Legislative Decree No. 174 dated 1995; in other words, in traditional human life insurance and in capitalisation transactions.

These refer to instruments that are especially well suited to meeting the typical needs of Social Security savings, since they offer the investor population guarantees and a certain minimum performance relative to the amounts allocated. These guarantees are especially appreciated particularly in times when the financial markets are very volatile: the major recourse that the pension funds existing prior to the new regulations have made and continue to make to these instruments and the significant growth of the premiums paid for these traditional forms of insurance observed over the last three-year period demonstrate this aspect.



According to the data contained in the Report published by COVIP, out of a total of 278 pension funds existing prior to the 1993 reform and operating on the basis of the defined contribution system, 222 of these funds (80% of the total) have chosen to invest resources in traditional re-valuable type insurance policies, benefiting from the relative guarantees.

PRE-EXISTENT PENSION FUNDS WITH  
DEFINITE CONTRIBUTION (\*). MANAGEMENT MODELS

(\*) Funds with autonomous legal status  
Source: COVIP Relation to year 2003

	Direct management	Financial management	Insurance management	Direct and financial management	Mixed management	Total
2002	10	23	222	10	11	276
2003	9	25	222	12	10	278

However, the prohibition was not removed and represents a restraint on market dynamics; the prohibition appears all the more unjustified since it refers to bodies – the pension funds – which are undoubtedly capable of deciding, knowingly, if and to what extent their trust is to be placed in an insurance rather than a financial management arrangement, by assessing the advantages and disadvantages in terms of costs, performance, risk, guarantee and transparency. Therefore, it is difficult to understand why this investment opportunity, which even the ordinary saver is permitted, must be excluded in the case of Social Security savings.

### SUPPLEMENTARY SOCIAL SECURITY INCOME

The participants in pension funds are by and large still all active workers and therefore in the accumulation phase (paying contributions). The accumulation phase will be followed by the phase in which the supplementary pension is paid out.

The typical and natural benefit provided by the supplementary Social Security pension schemes is represented by a Life annuity. The law takes an unfavourable view of settling the supplementary pension benefit in a single payment and in fact, on the one hand prohibits settlement of the principal for a sum exceeding 50% of the accrued amount and, on other hand, establishes an unfavourable tax regime if settlement of the principal exceeds 33% of the accrued amount.

However, the law permits payment of the full amount of the principal accrued if the income corresponds to an amount that is less than the value of the social cheque to avoid payment of modest annuities and the related costs.

The law takes into account that the payment of annuities entails undertaking significant risks with regard to demographic and financial aspects and establishes the principle that annuities shall be paid by the Life insurance companies with which the pension funds are required to enter into specific





agreements. However, the funds are permitted to pay the annuities directly, subject to a ministerial authorisation, providing various conditions have been satisfied, these include entering into an “insurance agreement to cover the longevity risk”.

The size of the private Life annuities market is very limited, not only in Italy, but also in the countries where supplementary Social Security has already become firmly established. The United States Congressional Budget Office has surveyed the characteristics of the annuities market in various national contexts reaching the conclusion that the reasons for a limited distribution of annuities, on the one hand, may be referred to the social-institutional framework and on the other hand, may be due to the complexity of the relative insurance contract.

### Social-institutional factors

Institutional and social factors which limit the full growth of the Life annuities market.

- **Public Social Security.** The public Social Security system pays a Life annuity (not directly linked to the contributions paid in the remuneration system), which covers a significant portion of the longevity risk of pensioners. Public Social Security virtually represents the only form of savings in the case of medium and low income households. However, the incentive to invest the additional available resources in annuities is diminished in the case of households that have higher incomes.
- **Real estate wealth.** Many households have a strong propensity to use their financial resources to buy their own house. In theory, it would be efficient to convert the real estate wealth into a Life annuity at the date of retirement. However, there is a certain reluctance on the part of households to dispose of the house in exchange for greater buying power, due to the psychological security associated with the quality of being house owners due to the sentimental ties with the house and with the district.
- **Exceptional outlays after retirement.** The spending needs of workers can change once they have reached retirement age. Health problems can arise which require huge or prolonged healthcare expenses and which can not be covered by normal sickness insurance policies. The type of Life annuity that guarantees a constant flow of liquidity would not enable these circumstances to be addressed.
- **Inter-generational transfers.** In general, pensioners tend to keep a safety fund for the benefit of the household to be able to address various situations, for example, the difficulties experienced by children to enter the employment market, providing support to buy their own homes. Finally, transfers of inter-generational wealth in the form of donations or legacies are very frequent in many societies, including the Italian society.



### The Life annuity contract

With the Life annuity contract a given party (the insurer) guarantees the periodic payment of an amount payable immediately and up to the beneficiary's date of death against payment of a principal. The reversibility clause may be foreseen, namely, payment of the annuity to another party after the beneficiary's death. The amount of the annuity does not depend only on the amount of the principal paid, but also on the demographic and financial assumptions made.

- **Demographic assumptions.** The period of payment of the single Life annuity is by its very nature uncertain, since the lifespan of the single insured cannot be foreseen with certainty. In aggregate terms, demographic dynamics indicate a more regular trend, enabling insurance companies to foresee the life expectancy of a group of insured. The broader the group, the more precise the estimate of the average life expectancy. However, long-term forecast scenarios have broad margins of uncertainty, in particular with reference to the endogenous causes of death, which are greatly dependent on the evolution of medical science, healthcare services and lifestyles.
- **Financial assumptions.** The premiums paid to obtain the annuity are invested in assets that have an income that is generally uncertain. The insurer will request a lower premium for the annuity if the performance expectations are optimistic, and vice versa if expectations are pessimistic. Assets management entails costs which, in general, are independent of the volume of the investments.
- **Asymmetric information** also plays a significant role. To appreciate this aspect more clearly it must be considered that, in general, insurance companies do not possess the information regarding the risk characteristics of single individuals but only of aggregate data. A fair contract based on the average life expectations of the group may induce parties with a shorter life expectancy not to take out insurance cover, generating the so-called "adverse selection". The remedies to the adverse selection problem are limited by protecting the confidentiality of the information concerning personal characteristics, which could help the insurance companies to separate the parties into different risk groups. The second important factor from the insurance point of view is the fact that, once the annuity contract has been entered into, the insured has a greater incentive to adopt habits and precautions designed to increase his/her life expectancy. In other words the Life annuity contract would induce virtuous effects with regard to the behaviour of the insured, but negative effects for the insurer. Experience shows that insured parties have a longer life expectancy compared to the average lifespan as a result of the combined effect of these factors, which forces the insurer to request a higher premium than the premium the insurer would request if the entire population were insured. A greater number of insured has a positive effect also in this case, since the characteristics of the insured group are closer to the characteristics of the population.



COVIP presented an in-depth comment in the 2003 annual report that focused on the topic of Life annuities and on the problems that are raised in relation to this subject. In the first place concern was expressed with regard to the limited recourse to Life annuity, also with the future in mind, since the annuity very often could be less than the social cheque. This is due to the current modest contribution levels per participant and the possibility of obtaining advances, for various reasons, in the accumulation phase and finally due to the possibility of including reversibility clauses, which naturally reduce the amount of the annuity, above all if the survivor is young. COVIP then focused on the aspect associated with transparency and information in favour of participants, considering that they were eligible for further significant improvements in relation to the complexity of the annuity instrument, the variety of available choices and the resulting consequences. Finally, COVIP addressed the aspects relating to the guarantees provided in favour of participants, as well as assuming a number of solution scenarios in the framework of the agreements between contractual pension funds and the insurance companies designed to generate benefits for the insured.

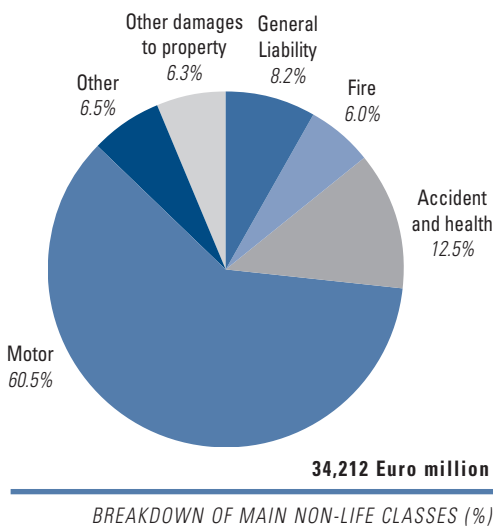
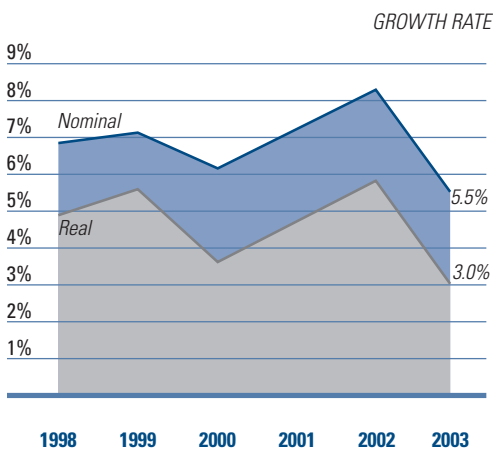
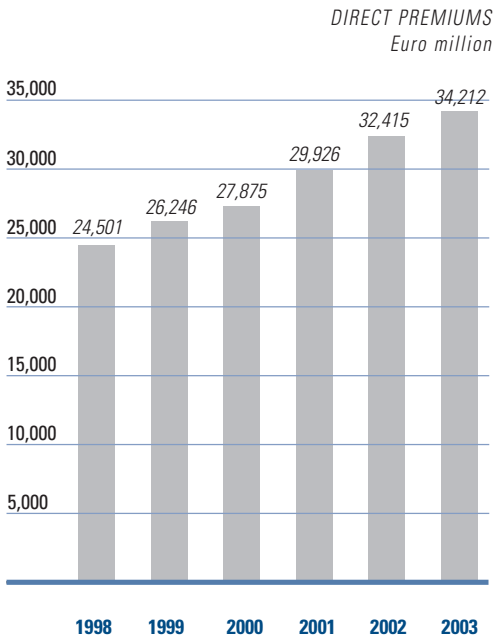
The insurance sector is able to ensure payment of the supplementary Social Security annuities, also by virtue of the numerous supervisory arrangements that have been put in place in relation to the insurance business and the existence of valid technical instruments on the domestic and international market.

Insurance companies can offer a broad range of solutions capable of meeting the various needs of each worker, for example reversibility clauses, the expectation of a certain income for a given period of time. The Funds will select the type of options to be added to the basic annuity which in general should be a constant instalment or re-valuable Life annuity, in keeping with the logic of the supplementary Social Security scheme.

Therefore, the following aspects appear to be crucial to ensure the system's functionality: free negotiations of the contractual terms and conditions between the parties, considering that the pension Funds are in a position to assess the different proposals received; clear and complete information detailing the annuity conversion terms and conditions established by the agreement entered into with the insurance company, referred to both the active worker and to the pensioner during the period of payment; a large annuities markets to ensure a more favourable actuarial equity when calculating the benefits.



# Non-Life insurance



**Premium income is growing but at a more contained rate compared to 2002. Non-Life classes incidence on the total premium income continues to decrease. In relation to premiums incurred claims cost improves and operating expenses remain substantially stable. The overall technical account result was positive and the incidence on premiums is improving.**

## DOMESTIC BUSINESS

**Premiums for direct domestic business** for the 119 insurance companies operating in Non-Life classes were equal to Euro 34,212 million with a 5.5% increase in nominal terms and a 3.0% increase in real terms.

The percentage on the total (Non-Life and Life premiums) was 35.3%, a decrease compared to 37.0% for 2002.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 24,499 million (23,407 in 2002), with a 4.7% increase; the ratio to earned premiums was equal to 73.2%, reflecting a decrease compared to 74.0% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 24,312 million (23,654 in 2002), with a 2.8% increase. The ratio to earned premiums was equal to 72.6%, reflecting a decrease compared to 74.7% of 2002.

**Operating expenses** amounted to Euro 7,705 million (7,331 in 2002), thus increasing by 5.1% and representing 22.5% of direct premiums (22.6% in 2002). These include, in addition to acquisition costs, costs arising from premium collection, costs relating to the organisation and management of the distribution network, also the administration expenses relating to technical management of insurance business.

The **technical balance for direct business** was positive at Euro 961 million (206 in 2002).

Considering the investment income, equal to Euro 1,629 million, the technical account result was positive at Euro 2,590 million (1,417 in 2002). This result represented 7.6% of premiums (4.4% in 2002).

The passive reinsurance and net indirect business result was negative at Euro 429 million (-124 in 2002). The **overall technical account result** was positive at



	1998	1999	2000	2001	2002	2003
Gross written premiums	24,501	26,246	27,875	29,926	32,415	34,212
Changes in premiums reserves (-)	937	766	532	776	764	735
Incurred claims (-):	20,403	21,525	23,015	23,024	23,654	24,312
- incurred claims cost for the current accident year (-)	19,848	20,989	22,156	22,397	23,407	24,499
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-555	-536	-859	-627	-247	187
Balance of other technical items	-503	-414	-434	-326	-460	-499
Operating expenses (-)	5,981	6,211	6,471	6,891	7,331	7,705
<b>Direct technical balance</b>	<b>-3,323</b>	<b>-2,670</b>	<b>-2,577</b>	<b>-1,091</b>	<b>206</b>	<b>961</b>
Investment income	2,193	1,608	1,804	1,632	1,211	1,629
<b>Direct technical account result</b>	<b>-1,130</b>	<b>-1,062</b>	<b>-773</b>	<b>541</b>	<b>1,417</b>	<b>2,590</b>
Reinsurance results and other items	382	292	720	281	-124	-429
<b>Overall technical account result</b>	<b>-748</b>	<b>-770</b>	<b>-53</b>	<b>822</b>	<b>1,293</b>	<b>2,161</b>

## NON-LIFE TECHNICAL ACCOUNT

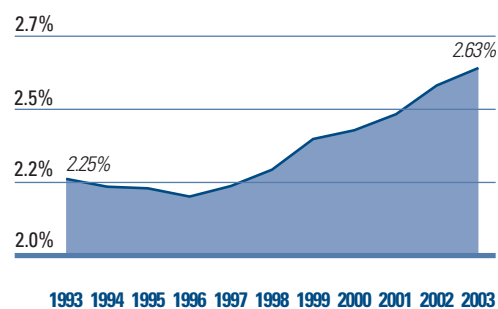
Euro million

Euro 2,161 million (1,293 in 2002). The ratio to premiums represented 6.3% (4.0% in 2002).

## NON-LIFE INSURANCE AND GDP

In 2003 the ratio of the Non-Life direct domestic premiums to GDP was equal to 2.63% (2.58% in 2002). Compared to 1993 the ratio increased by almost half percentage point.

## NON-LIFE PREMIUMS / GDP (%)



## THE INSURANCE CYCLE

Non-Life insurance policies are generally characterised by periods with high premiums (so-called "hard market"), followed by periods with reduced premiums ("soft market"). The underlying logic for these trends in a competitive market is that adaptation of the premiums is retarded compared to the development of the technical trends. In fact, the premiums adjustment process cannot adapt itself immediately to the changing market conditions since the process is based on retrospective data.

One of the indicators adopted to describe the trend of the technical accounts results is the related combined ratio which measures the portion of the premium used to cover the cost of claims and the management costs. The trends of the technical accounts results can be assessed by observing this ratio over a sufficiently long time frame and therefore the adequacy of the premiums paid by the insured can be judged. In fact, by comparing the combined ratio with the annual changes in premiums it can be established whether and to which extent the sector reacts to positive or negative technical accounts results over time. In this regard it can be mentioned that the annual premium



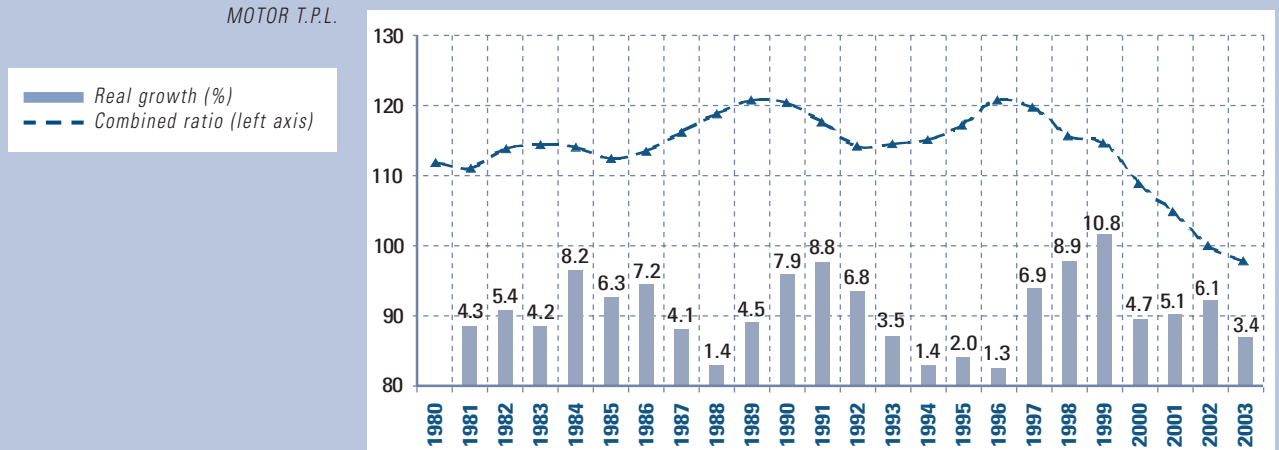
## Non-Life insurance

changes considered represent an expression of the growth in the volume of business rather than the annual changes in insurance prices. Providing a measurement of the latter insurance prices would at least have required extracting the changes in the number of insured from the figures considered. The only change made in the absence of this information was to adjust the variations in the premiums due to the growth of inflation.

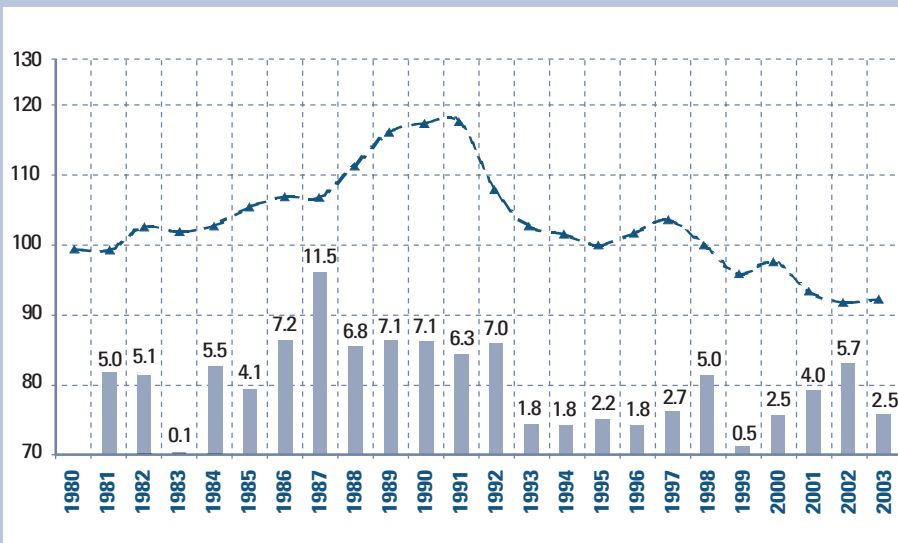
The motor liability class has been analysed separately from the remaining classes to highlight more clearly the trends of the insurance cycle in the Non-Life classes. Separation between the two sectors is very appropriate, particularly when considering that up until 1994 the motor liability class has been subject to an administered tariff system. The lack of tariff freedom and therefore of substantial competition may have led to an imbalance between the premium adjustments and the technical needs of the insurance class.

The combined ratio of the motor liability class has always exceeded 100%, from 1980 to 2000, with particularly negative years between 1987 and 1991 and again between 1995 and 1998 when the indicator even exceeded the 120% threshold. In other words, for every Euro 100 premium collected Euro 120 were used to refund claims and to cover management costs, without considering the positive contribution made by investments. Therefore, the class experienced major economic losses during these years. The more significant premium increases have all been introduced during the periods when the technical performance of the class was worse, with approximately 1-2 years delay. The attempt to correct these negative trends over time has caused the premiums to follow a cyclic trend. The most recent "hard market" period characterised the years immediately after tariffs were deregulated (in particular from 1997); the tariff increases in question enabled the class to return to an essentially balanced position in 2002 and to achieve a profit in 2003.

MOTOR T.P.L.



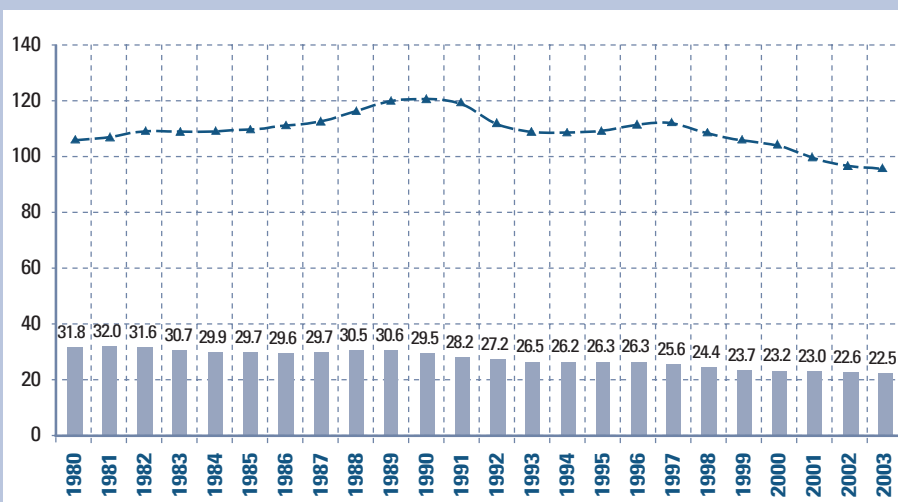
NON MOTOR T.P.L.



There are indications of a cyclic trend of the prices correlated with the profitability trends of the classes in question also in the other Non-Life classes other than motor insurance. In particular, the combined ratio followed an essentially constant growth trend from 1980 to 1991, the more substantial premium increases were observed during these same years. The improved technical accounts produced by these adjustments resulted in the premium increases being much more contained starting from 1993, since the combined ratio decreased progressively after this year until reaching values below 100% after 2000.

The historical series of related combined ratios referred to the total Non-Life classes is illustrated for the sake of completeness, also highlighting the expense ratio for each year, namely the impact of operating costs over the collected premiums.

TOTAL NON-LIFE



Investments in technology and the improved efficiency that resulted have enabled insurance companies to reduce the value of the expense ratio which decreased by more than nine percentage points over a period of twenty years decreasing from 31.8% in 1980 to 22.5% in 2003.

### TERRORISM RISK INSURANCE

The violent fresh upsurge of international terrorism make the initiatives taken by the Italian insurance industry to identify solutions to the problem of how to insure the damage caused by acts of terrorism assume great importance.

An effective insurance management of the terrorist risk requires forms of co-operation between the public and private sector, as highlighted by the various cases experienced in foreign countries concerning this aspect. The efficiency of this co-operation is confirmed, in the last instance, by the fact that following the attacks in Madrid the 'Consortio de Compensacion de Seguros' was able to rapidly address the obligation of indemnities for personal injury and property damage for an amount equal to approximately Euro 150 million.

ANIA deemed it necessary to examine the problem and identify a potential solution characterised above all by the following aspects:

- to establish a co-reinsurance consortium for a minimum of two years, with different participation brackets in the risk undertaken by the insurers, the re-insurers and the Government which, in its capacity as the last appeal re-insurer, should intervene in the event the entity of the damages exceeded the consortium's overall annual capacity limits (similar to the arrangement adopted by the principle countries at a European level);
- compensating the damage caused by acts of terrorism to all real estate assets, as well as the relative contents, located in Italy and intended for uses other than residential use;
- compulsory extension to cover the terrorism risk by the new insurance policies that cover fire risk, as well as a gradual extension of current insurance policies;
- tax regime adapted to the particular aspect of the risk relative to the tax rate applied to the premium and establishing specific technical reserves in abeyance of taxes.

ANIA's proposal is being reviewed by the Government and by Parliament.





### ANIA ANTIFRAUD ACTIVITY

Insurance fraud is by now a subject that is constantly under the attention of operators, institutions and customers in a framework of very broad awareness of the social damage caused by this activity.

The 'Associative Antifraud Body', in co-operation with the Authorities is committed to monitoring, preventing and suppressing the criminal activities that afflict the sector.

The significant data relative to 2003 are shown below:

- the notifications received by the "Special areas" Associative Antifraud Service, overall, were equal to 1,670, with a 3.2% increase compared to the previous year. 656 notifications were received by the Authorities (central and peripheral), 940 were received by the member companies and 74 were received by other parties. 723 notifications referred to the motor liability class, 78 referred to the land vehicles class, 33 to the injuries, illness and Life classes, 41 to the fire and other property damage classes and 87 to various types, whereas no less than 708 concerned the category of the so-called "anomalous policies". In particular, the notifications relative to the latter policies involved 11,300 identified policy positions, for which 558 lawsuits have been filed, overall, against 1,084 persons. The data relative to the so-called "anomalous policies" scenario indicate an increase compared to the previous year and confirm both the regular nature of the action to counter the phenomenon and the validity of the activity of fostering awareness, information and prevention carried out by the Antifraud Body over many years;
- with reference to judiciary activities, insurance companies notified the Associative Service during 2003 that 816 lawsuits had been filed relative to claims or anomalous insurance positions and the registration of 81 aggrieved party suits to sue in criminal proceedings;
- the Service co-operated with the Italian and foreign Authorities, Associative Bodies and Entities in the search for stolen vehicles; this activity led to the retrieval notification of 406 vehicles in Italy and abroad, 397 of which were Italian.

Repressive action is combined with preventive measures. 23 training meetings have been organised in the framework of the "**Training and Communications**" project, held throughout the country in which insurance sector operators and representatives of the Home Office participated.

The setting up of a workgroup comprising representatives from the insurance industry and from ISVAP (Supervisory Body for Private Insurance Companies) represents a significant step. This workgroup aims to improve the use of the motor liability claims Databank in the action to counter fraud.



### NATURAL DISASTERS AND INSURANCE

The insurance sector is frequently called on to play a supportive role to the indemnity measures adopted by the Government in countries that are particularly exposed to the risk of natural disasters occurring (for example: earthquakes, floods, inundations, volcanic eruptions and landslides), which has led to the introduction and consolidation of mixed public-private arrangements to indemnify damages.

Recourse to private insurance, above all, is based on the following factors: economic policy (reduced expenses to be borne by the Government); the need to acknowledge damaged parties a real right to be indemnified; the need to ensure that the damaged parties of each form of natural disaster receive equal treatment releasing their position from the conditions of the provisions adopted retroactively from time to time, which are frequently very different from one to the next as regards the size of settlements and the payment procedures; with the objective of assessing the damage and the indemnification more rapidly and effectively and to avoid waste and misuse.

The subject continues to be under review by political parties and by the Government, which included, recently, a specific provision in the law bill relative to the 2004 financial law designed to introduce natural disasters insurance also in our country. The regulation delegated the Government to discipline the subject with a specific provision, in the meantime establishing the fundamental principles of the new mixed public-private system that was intended to be set up in the wake of the solutions already implemented in other countries.

The new system was characterised by the following features: compulsory inclusion of the natural disasters risk cover in fire insurance contracts entered into for real estate premises intended for residential use; no insurance cover to be provided in the case of buildings without planning permission; the expectation of premiums also correlated to the risk indicators of the various areas; the Government would not take any action in the case of uninsured buildings, except when the owner is destitute; setting up a Consortium among the insurance companies to manage the specific risk considering the catastrophic nature of the risk in question; Government action in the event of natural disasters which have caused damage for a value that exceeds the maximum annual exposure limit of the Consortium.

The insurance companies have shown that they are in favour of the project proposed by the Civil Defence, although they are aware that insuring the damage caused by natural disasters is a highly risky and complex business from the technical point of view.

The project was criticised during the Parliamentary proceedings, which resulted in the project being deferred in the final phases of the debate. In par-



particular, it was argued that the semi-compulsory aspect would have introduced a new tax on housing, however without taking into account that today the costs generated by natural disasters are borne by the general tax system. In an insurance related system the costs would be correlated with risk exposure, albeit imperfectly: in addition to being more impartial compared to the present-day system, this mechanism would favour the action of prevention and protecting the territory and could ensure a more efficient management of the damage assessment phases and their relative settlement.

However, the needs for which measures were intended to be taken and the problems that were intended to be resolved are real and unfortunately continue to exist; these problems will still have to be addressed when the next disaster occurs, an event which experience has proved to be anything but exceptional considering the nature of the typicality of the Italian territory and its characteristics. Therefore, it is to be hoped that the debate among all parties involved will be revived, with an innovative spirit, focusing on aspects that relate to the prevention and protection of the territory.

### ENVIRONMENTAL LIABILITY

Environmental protection is becoming more and more important in the organisation of entrepreneurial activities.

The adoption of eco-management systems represents more and more a competitive instrument for the company since these systems ensure a conscious and sustainable growth by pursuing greater efficiency and improvements in the production process, referred to the principle of consideration for the territory. Recent regulations which incentivise recourse to innovative methods move in the same direction, for example: environmental audits, environmental management systems, environmental balances and reports, analyses of the products' life cycle and security management systems.

Therefore, prevention of environmental damage is becoming more and more part of the programming of corporate strategies: the eco-corporate project promoted by Confindustria (Italian Manufacturers' Association) represents a significant step in this regard. The project is designed to increase industry's awareness regarding environmental problems, through the expectation of administrative and economic facilitations to eco-certified companies. The number of EMAS registrations and the ISO 14001 certified sites has doubled in the 2002-2003 biennial, according to the data collected by Confindustria.

The Agreement Protocol entered into by ANIA and Confindustria on 9th March 2004 comes within this framework, the protocol has the objective of fostering and disseminating the prevention culture as a major factor to limit the risk of accidents occurring which may cause environmental pollution. The two Asso-

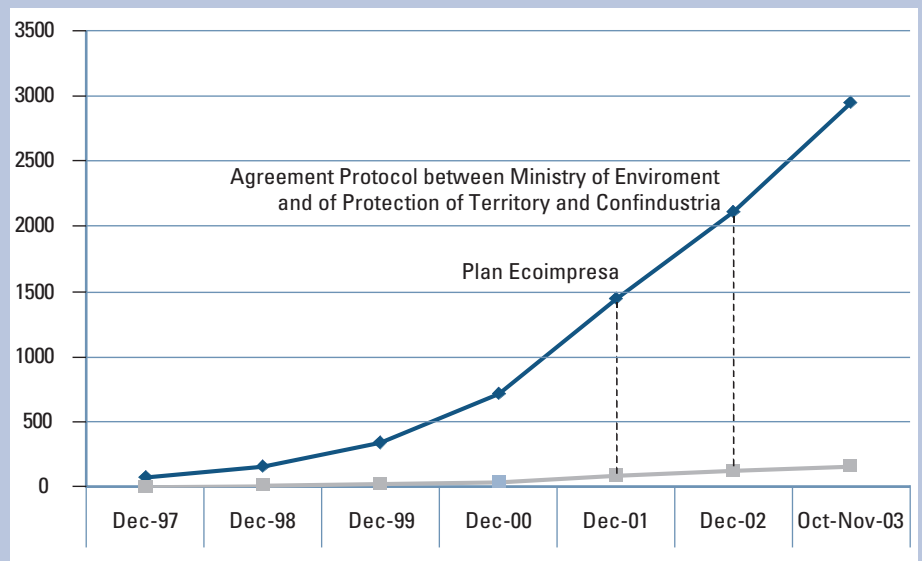


## Non-Life insurance

ciations are committed to incentivise insured companies to make recourse to management tools and environmental certification.

According to the Protocol, the member companies of the Confindustria system that are eco-certified in compliance with the ISO 14001 and EMAS standards are granted a reduction in the cost of the insurance policies covering third-party pollution liability relative to each plant certified. The insurance policies necessarily, will also have to indicate the amount that the company would have paid if it had not been certified, in addition to their actual cost in order to guarantee the transparency of the agreement's operation.

CERTIFICATION STATUS IN ITALY



Source: Confindustria

The importance of the environmental protection problem also from a supranational aspect is also confirmed by the conclusion of the long approval procedure of the directive relative to "Environmental liability relating to the prevention and repair of environmental damage" (directive 2004/35/CE dated 21st April 2004, published on 30th April 20, 2004 in the European Union Official Gazette).

The directive disciplines environmental damage defined as "significant" and any imminent threat of such damage, generated by potentially hazardous and tacitly identified activities (injury to species and to protected habitats, to the waters, contamination of land which cause serious injury to health).

The directive's objective is to incentivise the prevention of environmental damage by the member countries.

UE insurers united in the European Insurance Committee participated with attention during the long consultation phase which preceded the definitive version of the regulation. This regulation initially established that compulsory



financial and insurance guarantees were to be set up to safeguard the environment. However, the uncertain boundaries of the concept of environmental damage (which also includes the imminent threat of such damage) and the broad nature of liability typicalities which make it extremely difficult to quantify the risk and therefore its insurability, have meant the question has to be reconsidered.

The final version of the directive has abandoned the foreseen solution of the compulsory system of insurance and financial guarantees. In fact, a transition period has been foreseen, up to 30th April 2010, during which the single Countries will identify independently the measures to be implemented to render environmental protection effective; a special commission will be required to verify if and how the countries have complied with the standard foreseen in the directive after this period has elapsed and will be able to resolve the migration to a harmonised, compulsory financial guarantee system to protect the environment.

### DEMAND FOR INSURANCE BY COMPANIES AND HOUSEHOLDS

The insurance penetration, expressed by both the ratio of premiums over GDP and by the premiums pro capita, is still very modest in Italy, despite the fact that Italy has a Non-Life premiums income that is among the highest compared to the principle European countries (ranking in fourth place according to 2003 data), which demonstrates that, on average, our country is an underinsured country.

The Non-Life insurance premiums over GDP ratio in Italy was equal to 2.6% in 2003, whereas ratios that exceed 3% (and even exceed 4% as in the case of Holland and the United Kingdom) emerge in a comparison with the other European countries.

Countries	Non-Life premiums (Euro million)	Non-Life premiums /GDP %	Non Motor /GDP %	Non-Life premiums pro-capita (Euro)	Non Motor premiums pro-capita (Euro)
Belgium	8,378	3.22	2.11	809	529
France	50,170	3.25	2.15	841	555
Germany	79,600	3.74	2.69	964	693
Italy	34,212	2.63	1.04	597	236
The Netherlands	21,950	4.88	3.87	1,355	1,076
United Kingdom	68,067	4.31	3.12	1,147	832
Spain	23,832	3.22	1.78	586	324

DIRECT PREMIUMS - YEAR 2003

Source: CEA

The difference is even more marked when motor insurance policies are excluded from the comparison. While Italy has an incidence on the GDP which is very close to 1% the other European countries have an insurance penetration that on average is twice the result achieved by Italy. Analogous consid-



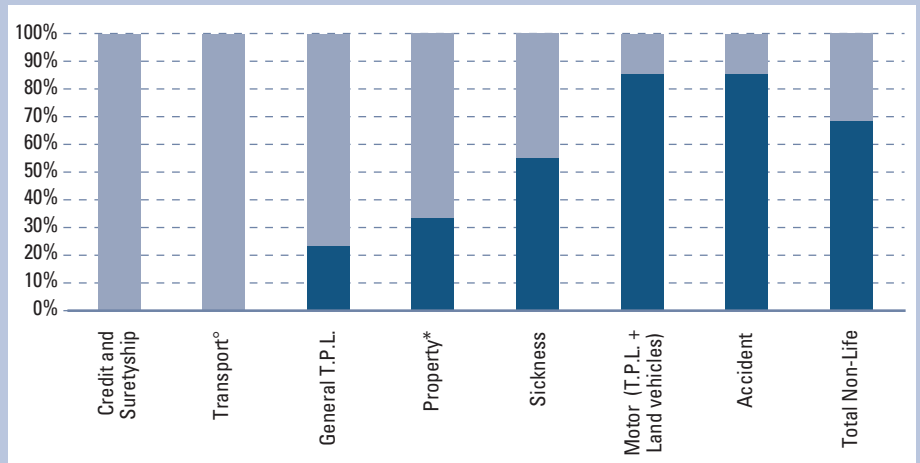
## Non-Life insurance

% DISTRIBUTION OF PREMIUMS  
FOR "HOUSEHOLDS/PRIVATE INDIVIDUALS"  
AND FOR "COMPANIES/ENTERPRICES" IN ITALY

■ % Households/Private individuals  
■ % Companies/Enterprices

(\*) Property includes: fire and natural forces, other damages to property, miscellaneous financial loss

(°) Transport includes: goods in transit, aircraft third party liability, ships third party liability, railway craft, aircraft



erations can be made when the other premiums pro capita indicator is considered: Italy is the country with the lowest premium pro capita, especially in the case of insurance other than motor insurance.

The growth of insurance in Italy is especially modest in the case of households and small size companies.

Non-Life insurance is purchased mainly as the result of a compulsory condition (for example: in the case of motor insurance). Other insurance needs, by choice, are borne by the individuals that in this way accept to run the risks, or as the saying goes, to self-insure.

An estimate by ANIA, based on a sample of insurance companies, indicated that insurance expenditure by households is especially modest also with reference to the classes such as property damage (fire, other damage to assets, money losses) and sickness that, by contrast, are much more developed in other European countries.

The anomaly appears to be even more striking when it is considered that the expenditure borne directly by households to benefit from private healthcare services in Italy, however is very high.

It is apparent that there have to be factors which limit the growth of the insurance sector with regard to the other property damage sector (for example: which refers to the insurance cover of house fire risk or theft of personal property). It is worthwhile mentioning the following factors, among the principle causes of the modest propensity of Italian citizens to take out insurance compared to other European countries:

- the lower perception of risk that households have: (in other words, how strong is the fear of suffering damage);
- the actual magnitude of the risk (for example: how many fires/thefts occur);
- the economic and equity position of households;
- the limited innovations in terms of products available on the market (price, supplementary services, distribution, promotion).



**After years of losses the technical result of the motor insurance business is positive, thanks to the favourable trend of the investment income and of the claims frequency. The overall technical result of the land vehicle hulls class remains positive.**

## MOTOR LIABILITY MANAGEMENT

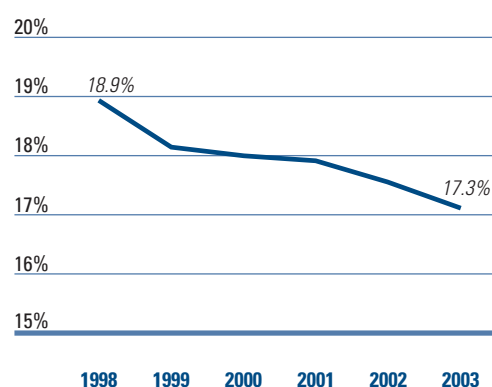
The data indicated below includes also data relating to compulsory third party liability insurance for watercraft.

**Premiums for direct domestic business** for the 77 insurance companies operating in this class amounted to Euro 17,646 million in 2003 (+6.0% compared to 2002), representing 51.6% of the total Non-Life insurance premiums (51.4% in 2002).

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 13,981 million (13,438 in 2002) with a 4.0% increase; the ratio to earned premiums was equal to 80.5%, reflecting a decrease compared to 82.4% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 14,169 million (13,735 in 2002) with a 3.2% increase. The ratio to earned premiums was equal to 81.6%, reflecting a decrease compared to 84.2% of 2002.

OPERATING EXPENSES TO PREMIUMS RATIO (%)



	1998	1999	2000	2001	2002	2003
Gross written premiums	11,767	13,249	14,221	15,344	16,653	17,646
Changes in premiums reserves (-)	253	466	173	333	341	280
Incurred claims (-):	12,110	13,248	13,886	13,734	13,735	14,169
- incurred claims cost for the current accident year (-)	11,142	12,322	12,775	13,043	13,438	13,981
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-968	-926	-1,111	-691	-297	-188
Balance of other technical items	-202	-187	-184	-98	-166	-178
Operating expenses (-)	2,225	2,422	2,559	2,741	2,921	3,047
<b>Direct technical balance</b>	<b>-3,023</b>	<b>-3,074</b>	<b>-2,581</b>	<b>-1,562</b>	<b>-510</b>	<b>-28</b>
Investment income	1,283	936	1,050	899	648	887
<b>Direct technical account result</b>	<b>-1,740</b>	<b>-2,138</b>	<b>-1,531</b>	<b>-663</b>	<b>138</b>	<b>859</b>
Reinsurance results and other items	267	202	218	178	36	-12
<b>Overall technical account result</b>	<b>-1,473</b>	<b>-1,936</b>	<b>-1,313</b>	<b>-485</b>	<b>174</b>	<b>847</b>

MOTOR LIABILITY  
Euro million



## Motor insurance

### CAR THEFTS PER REGION

	2001	2002	2003
Piemonte	16,136	17,234	16,210
Valle d'Aosta	56	78	83
Lombardia	38,542	33,324	33,533
Trentino	376	394	408
Veneto	5,194	5,159	5,035
Friuli	696	769	622
Liguria	3,654	2,824	2,798
Emilia Romagna	7,537	7,038	6,138
Toscana	3,821	3,634	3,746
Umbria	1,314	1,111	1,237
Marche	1,163	1,029	1,075
Lazio	39,361	38,491	34,881
Abruzzo	1,316	1,294	1,455
Molise	249	229	322
Campania	42,570	42,958	38,976
Puglia	21,784	20,495	20,144
Basilicata	410	523	516
Calabria	6,226	6,008	5,725
Sicilia	17,310	17,278	16,834
Sardegna	3,493	3,824	3,932
<b>Total Italy</b>	<b>211,208</b>	<b>203,694</b>	<b>193,670</b>

Source: Ministry of Interior

### LAND VEHICLES

Euro million

**Operating expenses** amounted to Euro 3,047 million (2,921 in 2002) and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio of the operating expenses to premiums was 17.3% and recorded a slight decrease compared to 2002 (17.5%).

The **technical balance for direct business** was negative at Euro 28 million (-510 in 2002).

Considering the investment income, the result for the direct technical account was positive at Euro 859 million (138 in 2002).

Taking the reinsurance balance into due account, the **overall technical account results** was positive at Euro 847 million (174 in 2002), representing a 4.8% ratio to premiums (1.0% in 2002).

### LAND VEHICLES INSURANCE MANAGEMENT

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

**Premiums for direct domestic business** for the 83 insurance companies operating in this class amounted to Euro 3,062 million in 2003 (+3.6% compared to 2002), representing 9.0% of the overall Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 1,362 million (1,306 in 2002) with a 4.3% increase; the ratio to earned premiums was equal to 45.3%, the same value as 2002.

	1998	1999	2000	2001	2002	2003
Gross written premiums	2,539	2,614	2,678	2,811	2,955	3,062
Changes in premiums reserves (-)	-3	29	26	40	70	53
Incurred claims (-):	1,216	1,180	1,204	1,160	1,205	1,259
- incurred claims cost for the current accident year (-)	1,321	1,299	1,316	1,278	1,306	1,362
- redundancy/deficiency of reserves for those claims incurred in previous accident years	105	119	112	118	101	103
Balance of other technical items	-42	-32	-37	-18	-32	-40
Operating expenses (-)	632	642	657	692	709	738
<b>Direct technical balance</b>	<b>652</b>	<b>731</b>	<b>754</b>	<b>901</b>	<b>939</b>	<b>972</b>
Investment income	81	55	59	50	34	48
<b>Direct technical account result</b>	<b>733</b>	<b>786</b>	<b>813</b>	<b>951</b>	<b>973</b>	<b>1,020</b>
Reinsurance results and other items	-16	-31	-13	-33	-30	-52
<b>Overall technical account result</b>	<b>717</b>	<b>755</b>	<b>800</b>	<b>918</b>	<b>943</b>	<b>968</b>





The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 1,259 million (1,205 in 2002) with a 4.5% increase. The ratio to earned premiums was equal to 41.8%, the same value as 2002.

**Operating expenses** amounted to Euro 738 million (709 in 2002) and include administration expenses relating to the technical management of insurance business and acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio of the operating expenses to premiums was 24.1% (24.0% in 2002).

The **technical balance for direct business** was positive at Euro 972 million (939 in 2002).

Considering the investment income, the technical account result was positive at Euro 1,020 million (973 in 2002).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 968 million (943 in 2002), representing a 31.6% ratio to premiums (31.9% in 2002).

### IMPLEMENTATION OF THE AGREEMENT PROTOCOL AMONG THE GOVERNMENT, ANIA AND CONSUMERS ASSOCIATIONS

The Government, ANIA and the majority of the Consumers Associations entered into an Agreement Protocol on 5th May 2003, with a duration of twelve months, relative to motor liability insurance designed to address the crisis factors that impact the "motor liability system" and to return the system in question to a balanced condition.

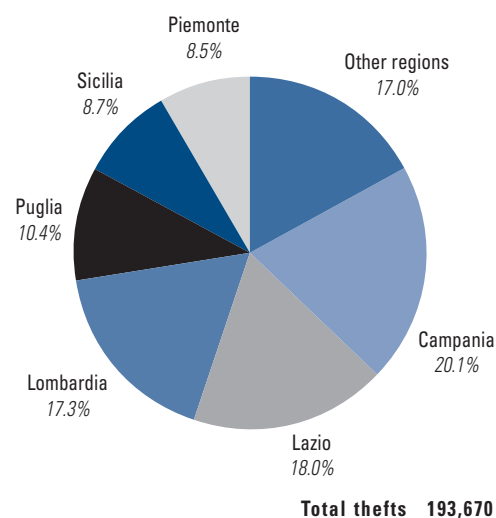
It can be assessed that the majority of the objectives were achieved at the Protocol expiry date.

#### GENERAL RATES LIMITATION

ANIA's invitation to adopt a policy to cool the dynamics of motor liability rates was accepted by virtually all the insurance companies, even if naturally, subject to highly differentiated procedures.

Compliance with the commitment to adopt every possible moderation by insurance companies regarding rates, with the objective of limiting the general inflation rate has been fully confirmed in the surveys carried out by ISTAT (Italian Central Statistics Institute): the rates have changed by only 0.62% from June 2003 to May 2004 (compared to a 5.59% increase measured over the same period the previous year).

Limitation of the rates, which represented the most significant aspect of the Protocol, was also made possible by the improvement in the income statement relative to the motor liability class.



CAR THEFTS IN 2003  
breakdown by region (%)



### **RATE FACILITATIONS FOR THE YOUNG**

More than 85% of insurance companies granted discounts or rate facilitations to young drivers who have not caused accidents or who have taken out insurance for the first time.

### **RATE FACILITATIONS FOR MOPEDS**

ANIA's invitation to grant discounts or rate reductions in favour of moped owners who have not caused accidents has been adopted by more than 80% of insurance companies.

### **FACILITATIONS FOR HOUSEHOLDS**

Slightly less than 90% of insurance companies introduced more attractive rate systems for the owners of several vehicles; moreover, numerous insurance companies also extended the benefit when the second vehicle was registered to another member of the household.

### **NEW SETTLEMENT PROCEDURES FOR PERSONAL INJURIES SUFFERED BY PASSENGERS**

The Government's Code system for private insurance companies includes a provision that establishes the indemnification of injuries suffered by passengers to be paid by the insurer of the carrier vehicle, regardless of establishing the liability of the drivers of the vehicles involved in the accidents; the regulation acknowledges the right of recovery from the insurer of the driver responsible for the accident by the company that has indemnified the injured party.

### **COMPLETION OF THE BIOLOGICAL INJURY REGULATORY FRAMEWORK**

The Decree that incorporates the table with the medical legal disablement values caused by minor psycho-physical injuries (on a scale between 1 and 9 permanent disablement points), with the correlated application rules has been issued by the Minister of Health (Ministerial Decree dated 3rd July 2003).

The Government still has to make provision to complete the regulatory reference framework relative to permanent biological disablement exceeding 9%, adopting the economic and medical-legal tables laid down by Article 23 of Law No. 273 dated 12th December 2002.

### **EXTENSION OF THE CID (DIRECT INDEMNITY AGREEMENT) PROCEDURE TO PERSONAL INJURY**

The Direct Indemnity Agreement (CID) will be applicable not only in the case of damage to vehicles, but also in the event of minor injuries, if any, suffered by the driver and by the passengers in the vehicle for all accidents which occur from 1st June 2004, subject to the "blue form" being signed jointly.

The insurer of the carrier vehicle will indemnify, for each damaged party with personal injuries, every form of injury suffered by the person, within a maximum amount of Euro 15,000: biological, moral and material injury/damage, as well as the medical expenses sustained by the injured person. Furthermore, indemnification of the transported objects owned by the injured persons is foreseen.



### **VEHICLE THEFT, DEMOLITION AND SALE**

The project to Code reference private insurance companies, in compliance with the scenario hoped for by the Protocol, in the event of vehicle theft, assigns the road victims guarantee Fund the task of indemnifying the damage caused by the vehicle driven by the person that committed the theft. If definitively approved, the provision will enable the insured to be refunded the portion of premium relative to the risk period following the date the theft occurred, which is not possible today by virtue of the provision of Article 1, last paragraph of Law No. 990 dated 24th December 1969.

ANIA's invitation to insurance companies to adopt contractual clauses, if not already foreseen, which enable part of the premium paid and not used to be refunded has been accepted substantially by the majority of insurance companies with reference to cases of vehicle demolition and sale without another vehicle being purchased.

### **RISK CERTIFICATE FOR MOTORCYCLES AND MOPEDS**

The technical table foreseen by the Protocol to establish a system that enabled a comparison to be made among the different "bonus-malus" scales adopted by the insurance companies in the case of two-wheeled vehicles has identified a "common scale" for comparison purposes that ANIA distributed to the insurance companies in October 2003.

Therefore, risk certificates relative to the vehicles in question will also indicate the "common" class of merit, in addition to the origin and assigned classes, commencing from September 2004, at the latest.

### **SUBSTITUTION OF A VEHICLE WITH ANOTHER VEHICLE OF A DIFFERENT TYPE**

ANIA's invitation to insurance companies to take into account the vehicle owner's insurance history when applying the rate formulae, also in the case of substituting a vehicle with another vehicle of a different type (for example: motor car with a motorbike and vice versa) has been implemented by a significant number of insurance companies that have introduced specific rate provisions or are assessing its adoption.

### **EXTENSION OF THE SETTLEMENT PROCEDURE FOR THE OUT-OF COURT SOLUTION OF DISPUTES, IF APPLICABLE, RELATIVE TO MOTOR LIABILITY**

The settlement procedure between ANIA and the Consumers Associations relative to motor liability claims was extended throughout the country from 1st July 2004 at the end of the experimental phase conducted in several Italian provinces.

### **INFORMING USERS**

More than 60% of the market implemented ANIA's recommendation of giving all possible co-operation to the Consumers Associations in the action of informing users during the search phase for insurance cover.



### ROAD ACCIDENTS PREVENTION

The ANIA Road Safety Foundation became operational in March 2004. This Foundation has the mission of favouring specific and tangible pro-active projects referring to critical traffic related factors, through forms of co-operation between the public and private sector.

### POSSIBLE STRUCTURAL DEVELOPMENTS OF THE MOTOR LIABILITY SYSTEM

The Association is committed in the study of a possible development of the motor liability indemnification scheme through more advanced forms of direct indemnity, in the framework of the search for structural solutions to contain the costs of the system and to improve efficiency and competition as regards the service provided. The extension of the CID (Direct Indemnity Agreement) in the case of minor personal injury represents a first step.

### THE ANIA ROAD SAFETY FOUNDATION

Road safety and containing the social costs associated with road accidents represents a priority for the insurance companies' mission. A Foundation has been set up for this purpose with the objective of promoting initiatives designed to reduce the serious accident scenarios consistent with the commitment undertaken by all European countries to decrease the number of road victims by 40% within 2010.

According to the data published by ISTAT (Italian Central Statistics Institute) 6,736 persons lost their lives in road accidents in Italy in 2002, 45.5% of which were aged between 15 and 39. It is estimated that the number of deaths in 2003 decreased by 501 and the number of injured by 21,078, based on the data of the Traffic Police and the Carabinieri.

The changes made to the Highway Code, by introducing the points driving license and the expectation of new measures to control driving habits have achieved a decrease in the number of accidents on Motorways and trunk roads for the first time. Therefore, it is important to continue to implement measures to counter the aspects that determine the road traffic risk factors.

The virtuous policy adopted in terms of general system related rules requires the involvement of all the institutional and social forces: Prefectures, Public Prosecutors' Offices, Justices of the Peace, Police Forces, ANIA, single insurance companies, Consumers Associations and car users. For this reason the Foundation has promoted common initiatives with a number of the above-mentioned institutions and has focused its attention on specific initiatives.

In particular, the ANIA Foundation recently signed an Agreement Protocol with the Home Office which binds the parties to implement tangible measures to safeguard the life of vehicle drivers, in particular, young drivers. The "safe return home" operation will be launched over the next few weeks designed to prevent the risks associated with returning home after spending the night in a discotheque. The protocol also focuses on road education aimed at the young



and the very young in the belief that knowing the Highway Code rules represents a tool that helps the rules to be followed. The Foundation's ambitious project is to provide the young with a remote training package to take the driving tests to obtain the moped driving license.

A high level of attention needs to be maintained regarding road safety improvements which may be achieved through the use of technological innovation in a framework characterised by the involvement of institutions and the planning of tangible actions. For this reason the Foundation is preparing an experimental project involving a device capable of recording the dynamics of accidents, the so-called clear-box, also in response to a request from the Government.

The attention paid to the citizen, the road network user, is also to be seen in the black-point project, which follows an agreement with consumers. Citizens will notify the Foundation of the points on the road network that represent the highest risk while the Foundation will launch initiatives to foster the awareness of the local authorities with jurisdiction for the area so that action is taken to remove the risk factors.

### TREND OF MOTOR LIABILITY PRICES

A study prepared by the Committee of motor liability experts was distributed last April, the Committee was set up in the framework of the Ministry of Productive Business Activities "with the task of observing the trend of rate increases charged by insurance companies operating in Italy, in particular assessing the rate differences applied in Italy and also to what extent due account was taken of the behaviour of the insured that did not submit any claims during the year" (Article 21 of Law No. 273 dated 12.12.2002).

The study is based on the official data published by ISTAT and ISVAP (Supervisory Body for Private Insurance Companies). The conclusion reached by the study is that "the effects of the law to reform the sector dated 12-12-2002 and later the Agreement Protocol are starting to be noticed .... The rates of change of insurance rates have dropped below or are in line with the general prices index for the first time after many years. With regard to the absolute level of the average rates, in the case of the more virtuous insured (maximum discount) it can be observed that their level has remained substantially unchanged during the period after the reform and the Agreement Protocol".

The ISTAT index relative to motor liability prices (the value in June 2003 set equal to 100) increased from 89.70 to 97.87 between December 2001 and December 2002 (a 9.1% increase); the index increased from 97.87 to 100.22 in the following year (a 2.4% increase).

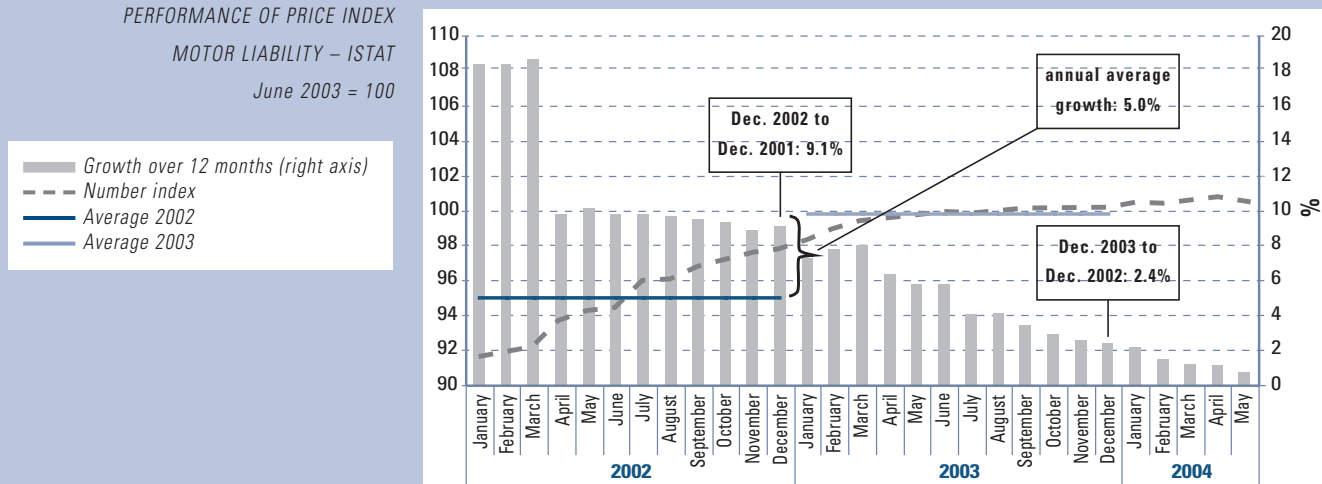
The average annual value of the index in 2002 was equal to 95.02, whereas the value in 2003 was equal to 99.79; therefore the average increase during 2003 was equal to 5.0% compared to the average in 2002, a growth that reflects the increase in prices observed during 2002.



## Motor insurance

The growth of motor liability prices between June 2003 (after the Agreement Protocol was signed) and May 2004 was equal to 0.62%, according to the same data provided by ISTAT. In May 2004 the growth rate of prices over 12 months was equal to 0.80%, significantly lower than the rate of inflation measured by the NIC index (2.3%); the variation is negative compared to the previous month and is equal to -0.22%. Such a restrained trend in the rate of growth for motor liability prices had never been recorded over the last ten years, a trend that is lower than the rate of growth of the general prices index and with monthly variations that show the first signs of a downturn, if the period during which the rates were subject to a compulsory freeze (2000-2001) is not considered.

PERFORMANCE OF PRICE INDEX  
MOTOR LIABILITY – ISTAT  
June 2003 = 100



Whereas, the data provided by ISVAP, also used by the Committee of experts, is based on a survey of motor liability prices in each regional capital referred to a 40-year-old, male, car driver in the maximum discount class and that insures a car with a 1,300 cc capacity engine. The rates were decreased between January 2003 and January 2004, at least in the case of the virtuous drivers, even though the decrease was limited:

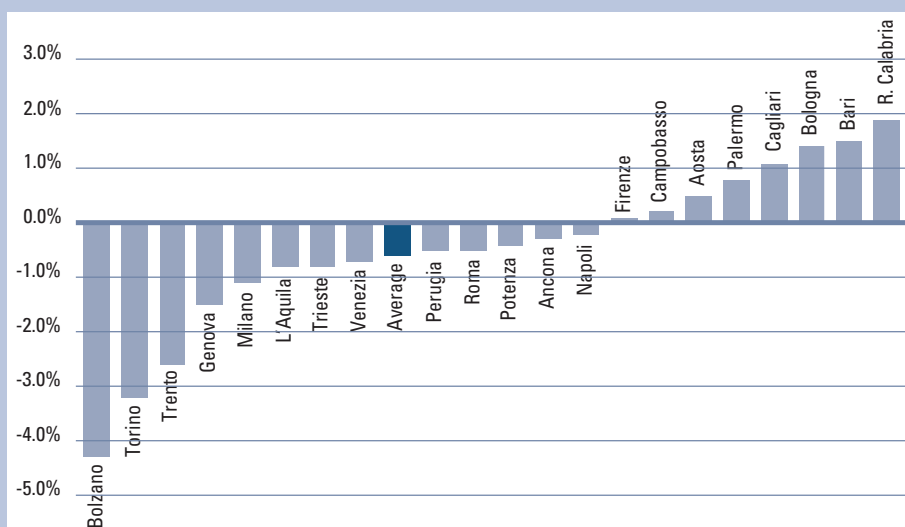
Collection date	Average premium (Euro)	Change %
01/01/03	472.3	–
01/01/04	469.6	-0.6%

The data referring to the regional capitals indicates that there was a price reduction in 13 of the 21 cities examined (for the profile considered).

ANIA is able to measure the average increase in expenditure of the insured to benefit from motor liability cover based on the available Financial Statements' data referred to 2003. The increase in question measures the average rise of the actual prices during the year, after taking due account of the fact that the number of vehicles insured increases with time.

The table details the data obtained from the calculation of the average growth in premiums. It is important to clarify that: 1) the premiums refer to all insured vehicles (passenger cars, motor vehicles, mopeds, etc.); 2) the number of





CHANGE OF AVERAGE PREMIUM  
PER REGIONAL CAPITALS (%)

Source: ISVAP

vehicles in circulation is deduced from the statistics provided by ACI (Italian Automobile Association), 2003 is partly estimated by ANIA, since information regarding the number of insured risks is unavailable. The growth of the average premium per vehicle was equal to 3.1% on the basis of this data. Moreover, the change in the technical features of the vehicles in circulation with time has to be taken into account, this technical change has a direct impact on the premium (for example: power and type of fuel). ANIA estimates that the growth of the average premium would have been 3.3% in 2003, also taking into account the characteristics of the vehicles.

The result of the growth in prices estimated by ANIA (3.3%) is not significantly different from the growth indicated by ISTAT (5.0%). The difference is probably explained by the fact that the profiles to identify the prices considered by ISTAT are fixed in time and therefore the average value among the various profiles that the Institute calculates does not take into account the change in the class of merit: almost 90% of the insured do not cause accidents each year

## MOTOR LIABILITY INSURANCE: PERFORMANCE OF PREMIUMS

YEAR	MOTOR LIABILITY PREMIUMS		NUMBER CIRCULATING LAND VEHICLES (ACI)		AVERAGE PREMIUM PER LAND VEHICLE		CHARACTERISTICS OF CIRCULATING LAND VEHICLES	AVERAGE PREMIUM PER LAND VEHICLE TAKING THE CHARACTERISTICS INTO DUE ACCOUNT	
	ABSOLUTE VALUE IN EURO (THOUSAND)	ANNUAL CHANGE (%)	ABSOLUTE VALUE IN UNIT (THOUSAND)	ANNUAL CHANGE (%)	NUMBER INDEX	ANNUAL CHANGE (%)	ANNUAL CHANGE (%)	NUMBER INDEX	ANNUAL CHANGE (%)
1994	8,663	-	39,755	-	100.0	-	-	100.0	-
1995	9,316	7.5	40,573	2.1	105.3	5.3	1.1	104.1	4.1
1996	9,770	4.9	40,453	-0.3	110.8	5.2	1.6	107.9	3.7
1997	10,655	9.1	40,870	1.0	119.6	7.9	1.1	115.2	6.8
1998	11,745	10.2	42,650	4.4	126.4	5.7	1.1	120.4	4.5
1999	13,226	12.6	43,563	2.1	139.3	10.2	-0.7	133.6	11.0
2000	14,196	7.3	44,680	2.6	145.8	4.7	-0.1	140.0	4.8
2001	15,315	7.9	46,480	4.0	151.2	3.7	1.1	143.6	2.6
2002	16,628	8.6	47,763	2.8	159.8	5.7	0.3	151.3	5.4
2003	17,622	6.0	49,101	2.8	164.7	3.1	-0.2	156.3	3.3



and therefore benefit from a “bonus” that improves their position on the “bonus/malus” scale; furthermore, ISTAT does not consider in its data the discounts granted by insurance companies compared to the published rates.

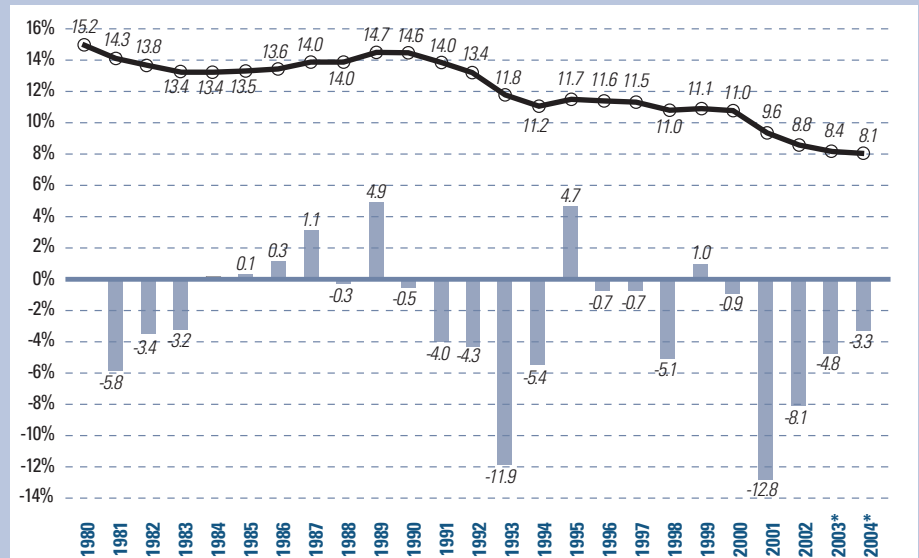
## CLAIMS FREQUENCY: A LONG-TERM ANALYSIS

In Italy the claims frequency in the motor liability class, calculated as the ratio between the number of reported claims (excluding nil claims) and the number of insured exposed to the risk, recorded a progressive, significant decrease over the last 25 years.

The claims frequency varied between 13.5% and 15% during the Eighties to then reflect a significant decrease in the Nineties (from 14.6% in 1990 to 11.1% in 1999). A sharp decrease was recorded during the current decade, reaching 8.4% in 2003. It may be estimated that the frequency of accidents throughout 2004 will decrease to slightly more than 8% based on the data relative to the first quarter of this year, which again indicates a slight decrease. Therefore, the gap that separated Italy from the other principle European countries has reduced, but has not been entirely eliminated: the frequency of claims in France in 2001 was equal to 5.1% and 7.5% in Germany.

CLAIMS FREQUENCY IN THE MOTOR LIABILITY  
(\* ) Estimated data

■ Change of claims frequency (%)  
● Claims frequency



Numerous factors may have contributed to explain the decrease in the claims frequency observed in the long-term. These include:

- the progressive distribution of safer vehicles, equipped with devices such as ABS and airbags;
- the lower average mileage travelled by vehicles, due to the increase in the number of vehicles in circulation, which is greater than the increase in the number of drivers;
- the insured may have been induced to take greater care when driving, because they are more aware of the fact that causing accidents determines higher penalties in terms of the premium paid compared to the past;





- greater recourse by the insured to "self-settlement" of minor damage;
- the increased capacity of insurance companies to counter fraudulent claims.

The frequency of claims also decreased during last year (from 8.8% in 2002 to 8.4% in 2003).

The introduction of the law on the points driving license in force from 1st July 2003 has contributed to this.

The number of claims submitted to insurance companies decreased by 3.3% in 2003 compared to 2002 (from 3,836,135 to 3,708,504 claims). The decrease is lower than the reduction recorded by the number of accidents reported by the Traffic Police and by the Carabinieri (-16.4%). It is important to consider the quantitative and qualitative differences between the two observations when comparing the two sets of data. The number of accidents surveyed by the Home Office only represent 4.4% of the claims submitted to the insurance companies, since they do not include the accidents registered by the local police (approximately three quarters of accidents occur in towns/cities according to ISTAT), naturally, in addition to the accidents where a public official did not intervene. The difference is more limited when the claims that involve injuries or deaths are considered (-17.5% in the Traffic Police and Carabinieri data and -8.2% in the insurance companies' data). And in fact, the intervention of the Traffic Police and the Carabinieri is much more frequent in this type of accident.

Typology of accident	Traffic Police and Carabinieri			Insurance Sector*		
	2002	2003	Change (%) 03/02	2002	2003	Change (%) 03/02
<b>Total accidents</b>	<b>194,910</b>	<b>163,009</b>	<b>-16.4%</b>	<b>3,836,135</b>	<b>3,708,504</b>	<b>-3.3%</b>
- of which with injuries or deaths	97,458	80,390	-17.5%	767,227	704,615	-8.2%
- of which with property damages	97,452	82,619	-15.2%	3,068,908	3,003,889	-2.1%

Note (\*): ANIA estimates

The data provided by the Ministry with regard to the timing dynamics shows a significant decrease in the number of accidents already in the second quarter of 2003 (-20.9% compared to the corresponding period in the previous year) and then in the third quarter of 2003 (-22.3%), which is the period immediately following implementation of the provision concerning the points driving license; however, the rate of decrease in the number of accidents in the fourth

Source	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year		First Quarter	
	2003	Change % 03/02	2003	Change % 03/02	2003	Change % 03/02	2003	Change % 03/02	2003	Change % 03/02	2004	Change % 04/03
Traffic Police and Carabinieri	41,098	-5.9%	38,665	-20.9%	40,126	-22.3%	43,120	-14.9%	163,009	-16.4%	36,522	-11.6%
Insurance companies (*)	1,011,501	-1.4%	943,026	-9.8%	839,684	-0.1%	914,293	-1.1%	3,708,504	-3.3%	1,002,699	-0.9%

Note (\*): ANIA estimates



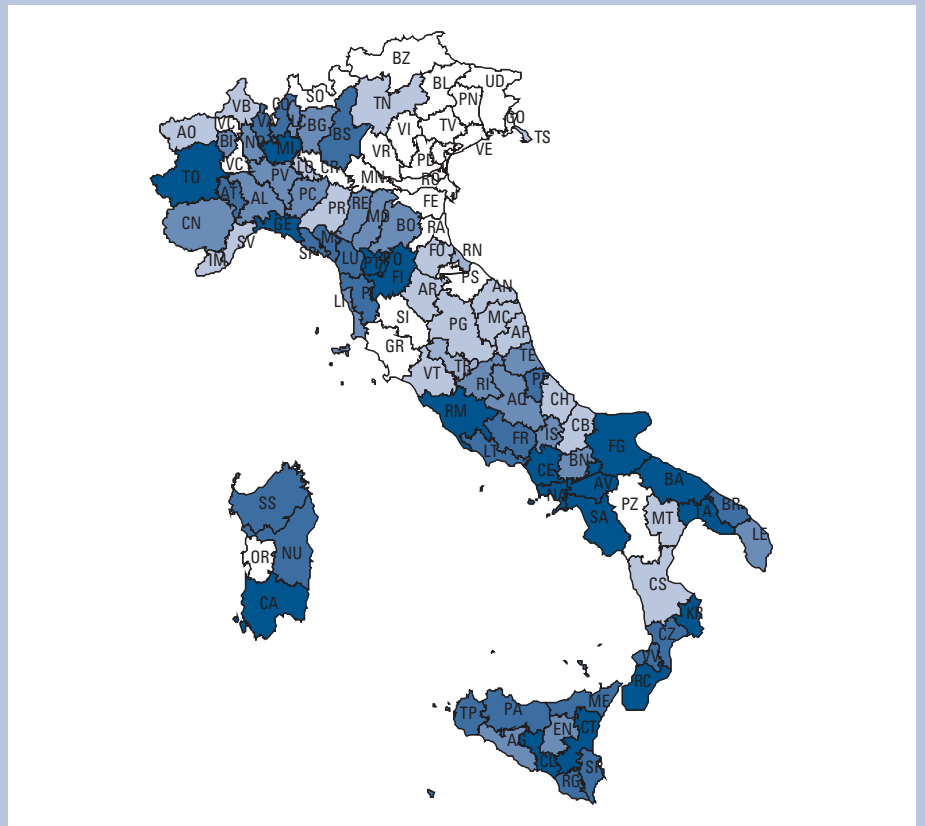
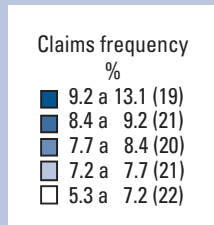
## Motor insurance

quarter of 2003 and in the first quarter of 2004 is slowing down (-14.9% and -11.6%, respectively), a sign that the deterrent factor of the points driving license law is growing weaker as the months pass, whereas the points driving license law had had an obvious effect in the period immediately following the date the law came into force.

The insurance companies' data also highlights a significant decrease in the number of claims submitted in the second quarter of 2003 (-9.8%), but instead, the decreases in the third and fourth quarter were more limited (-0.1% and -1.1%, respectively). The decrease in the first quarter of 2004 was 0.9%.

The provincial distribution of the data regarding the claims frequency referred to 2003 shows that there are a number of provinces (concentrated above all in Lazio, Campania, Puglia and the Ligure-Tuscany coastal area) where the number of claims is much higher than the average volume.

PROVINCIAL DISTRIBUTION OF CLAIMS  
FREQUENCY - YEAR 2003



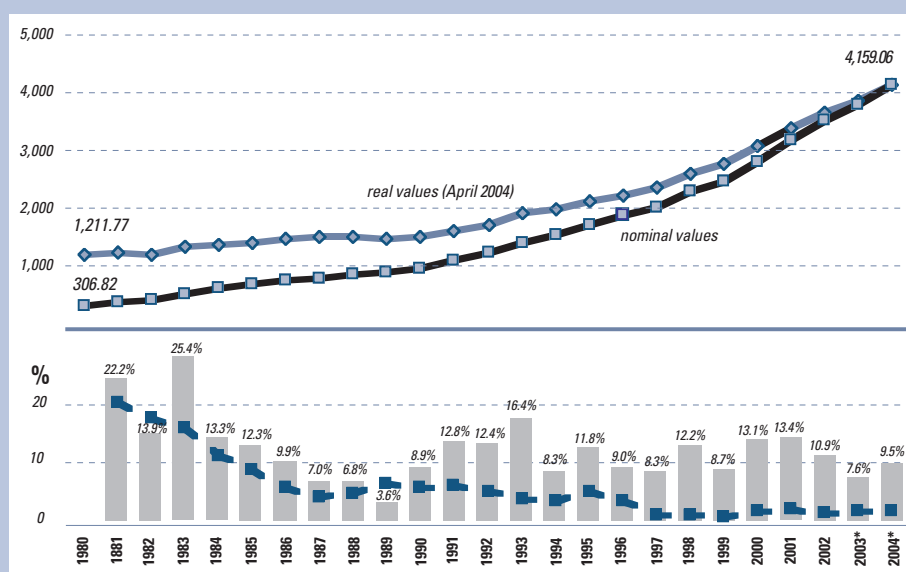
### AVERAGE COST OF CLAIMS: A LONG-TERM ANALYSIS

The insurance premium depends on the probability of causing an accident (claims frequency) and the amount of money necessary to compensate the damages (average cost of claims).

The average cost of motor indemnity claims in Italy, calculated as the ratio between the total cost of claims (paid and reserved) and the number of actual



claims has shown a very large increase from 1980, significantly higher than the decrease in the number of claims, this factor has caused premiums to increase.



AVERAGE CLAIMS COST  
Euro

■ Annual growth rate of average claims cost (%) (nominal values)  
■ Inflation ISTAT (FOI)

(\*) Estimated data

The average cost of claims has increased from Euro 307 in 1980 to more than Euro 4,150 in 2004, a value estimated on the basis of the data referred to the first quarter of this year which show a growth trend equal to almost 11%, compared to the first quarter of 2003. The average cost has more than trebled in real terms, causing an annual 5.2% increase to be recorded. The increase has been more substantial in recent years: the real growth rate of the average cost between 1999 and 2004 was equal to 8.3% per annum.

It is important to distinguish the following components of the average cost: the cost of personal injury and the cost of damage to property, the latter being represented essentially by damage to the vehicles. The average compensation for personal injury is equal to approximately Euro 15,500, whereas the average compensation for damage to property is equal to approximately Euro 1,650, according to the latest data available.

The two components have recorded similar growth rates from 1980 (more than 5% per annum); however, from the mid-nineties the growth in the cost of personal injury has been more rapid (8.5% per annum) compared to the cost of damage to property (5.4% per annum). The significant growth acknowledged by Magistrates to indemnify personal injury has contributed to the different dynamics.

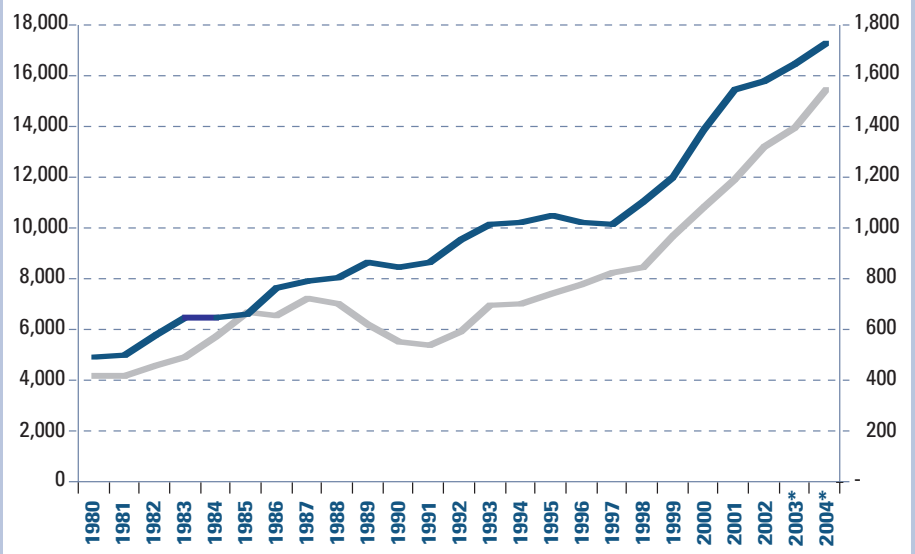
The average cost of indemnifications depends also on the incidence of personal injury claims over the total number of claims, in addition to the cost of the single components. The incidence increased from 8.5% in the second half of the Eighties to an average of 20% during the last five-year period; this represents a figure that is double compared to the figure recorded as the European average. This anomaly has a significant negative impact on motor liability prices.



# Motor insurance

AVERAGE CLAIMS COST  
at real values (April 2004) - Euro

— Personal injury (left axis)  
— Property damages (right axis)



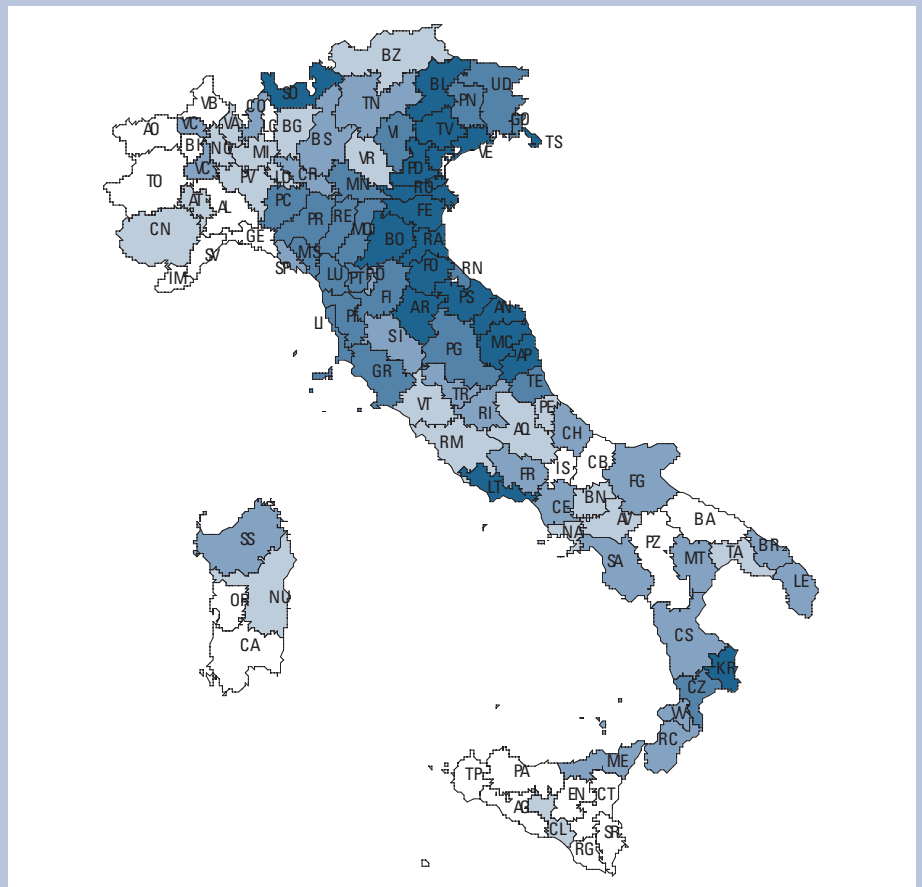
(\*) Estimated data

Major differences are recorded on a national level in terms of the average claims cost: the average cost in Central and North-East Italy is much higher than the average figure with a number of provinces that register average values which are very close to Euro 6,000.

PROVINCIAL DISTRIBUTION OF AVERAGE CLAIMS COST - YEAR 2003

Average claims cost  
Euro

- 4,330 a 5,650 (18)
- 4,000 a 4,330 (20)
- 3,660 a 4,000 (23)
- 3,110 a 3,660 (20)
- 2,460 a 3,110 (22)



### TERMINATION OF THE ANIA - BODY REPAIR SHOPS AGREEMENT

ANIA terminated the agreement with the handcraft body repair shops' Organisations, therefore, the Agreement terminated on 31st December 2003.

Therefore, after eleven years the Agreement entered into and renewed periodically at a central level to regulate the time required for repairs to be executed to a professional standard and the reference rates for labour costs has terminated.

The Agreement had been strongly criticised by the Anti-trust Authority in the document dated May 2003, which concluded the fact-finding investigation relative to the motor liability insurance sector initiated in 1996. The Authority, although showing appreciation for the benefits that the Agreement gave users, expressed serious doubts regarding its legitimacy from a competitive viewpoint, above all with reference to the rate system for the services provided and the validation effects of the indemnification cost generated by the use of common parameters.

However, signs that the Agreement was decreasing in importance, had been displayed before the observations made by the Guarantor Authority. Without overlooking the positive effects produced by the long-term confrontation with the representative Organisations of the body repair shops, it emerged progressively that the growing competitiveness among the operators and the needs for greater efficiency of the indemnification system in terms of controlling costs imposed the adoption of exclusively corporate policies when settling vehicle damage claims and the abandoning of the old schemes where common parameters were shared. This scenario, although eligible to be derogated and actually derogated by the insurance companies, had triggered a perverse collective bargaining mechanism with peaks of excessive corporatism, entirely unnatural in a sector where competition and pricing differentiation for the service provided must apply.

The "repair and direct payment" model on the other hand is compatible with new corporate organisation logics leveraging the potential agreements between single companies and single body repair shops, on the basis of mutually advantageous economic relationships.

The evolution of the direct indemnity system also entails restructuring relationships with the body repair shops, to provide users a complete, more rapid and efficient service and at the same time to manage the costs chain more effectively.

The relationship with the body repair shops may have critical aspects in the short term, as occurs with every new cycle, above all generated by forces to increase the rates for the services provided. The companies will challenge agreements, if applicable, to increase the labour rates. Then, it is to be hoped that the magistrates assess with wisdom, the fairness of the damage items relative to the cost of labour.



### DIRECT INDEMNITY AGREEMENT: EXTENSION TO PERSONAL INJURY

The Direct Indemnity Agreement (CID) was introduced in May 1978 based on an initiative of the motor liability insurance companies, and establishes that the damaged party of a given claim is to be compensated directly by its own insurer instead of by the insurer of the party responsible.

When first introduced, the Agreement was only implemented in the case of damage to property; the Agreement has become operational from 1st June this year also in the case of claims in which minor injuries have been suffered by the drivers and passengers transported in the vehicles.

The "CID-Injuries", rendered possible by the recent regulations which govern minor personal injuries, represents a further development of the system in the framework of gradually overcoming the limitations of the indemnification system foreseen by the law. This system, which is based on the third-party liability scheme, entails high levels of conflict and does not enhance the relationship between the insurance companies and their insured in terms of service efficiency and quality. The development of the Direct Indemnity Agreement (CID) opens the way to further positive developments relative to competition among the companies and to the cost of services, the contractual content and the prices of insurance cover.

Therefore, from 1st June 2004, in the event of a collision between two motor vehicles the direct indemnity scheme is no longer limited to vehicle damage, but also concerns personal injury and damage to property belonging to the driver and to the passengers on board the vehicle, provided the value does not exceed Euro 15,000.

#### Implementation terms and conditions

*Implementation of the Direct Indemnity Agreement (CID) only requires four other items of information, in addition to the signature of the two drivers, compared to the volume of information requested in the blue form:*

- *the identity of the parties;*
- *the registration numbers of the vehicles involved;*
- *the names of the insurance companies detailed on the respective insurance tokens;*
- *how the accident occurred (boxes relative to the circumstances of the accident, graphic representation, comments).*

*The presence of injured persons does not necessarily need to be included in the blue form but this aspect may be reported to the insurance company at a later date if the injured party is unable to indicate this information at the time of the accident.*

#### Damage/injury eligible to be compensated with the new Direct Indemnity Agreement (CID):

**Damage to vehicles:** *without limits in value.*

**Personal injury and damage to their transported property:** *up to Euro 15,000 for each person injured.*

Extension of the Direct Indemnity Agreement (CID) to personal injury does not only represent the achievement of one of the objectives of the Agreement Protocol, but also the opportunity to transfer to personal injury the experience of a system gained over more than twenty years that has enabled 26 million damaged parties to be compensated directly by their own insurer and without litigation.

The trust relationship and easy contact with one's own insurer, the decreased reasons for conflict with regard to the circumstances of the accident, objectivity and transparency in establishing the compensation, shorter management time frames for the file, overall, compared to the time frames established by law represent the points of strength of the Direct Indemnity Agreement (CID) procedure on which the sector intends to focus also in the future.



The medical, legal and economic assessment of the biological injury is carried out with reference to the parameters established by Law No. 57 of 2001 and by the decree issued by the Ministry of Health dated 3rd July 2003.

Naturally, the indemnity also includes the other personal injury items (moral, equity), medical expenses, as well as damage to transported property owned by the injured parties.

The Direct Indemnity Agreement (CID) places the direct relationship between the insurer and the insured first and foremost and does not foresee the involvement of patrons.

The insured-damaged parties can avail of the disputes settlement procedure relative to motor insurance liability promoted by ANIA and by the principle Consumers Associations in the event of problems with the insurance company.

Geographic Area	Number of paid claims in the Agreement	Number of property damages claims incurred (*)
North	640,454	1,331,793
Center	209,157	604,829
South	198,991	882,032
Special registration numbers	504	17,396
<b>Total</b>	<b>1,049,106</b>	<b>2,836,050</b>

YEAR 2003

Geographic Area	Average claims cost in the Agreement	Average cost of property damages claims incurred (*)
North	1,031.72	1,600.61
Center	999.99	1,778.41
South	839.80	1,569.32
Special registration numbers	937.95	481.48
<b>Total</b>	<b>988.95</b>	<b>1,621.93</b>

Euro million

(\*) In order to a homogeneous comparison the same typologies of vehicles present in the Agreement are considered

### CLAIMS SETTLEMENT PROCEDURE

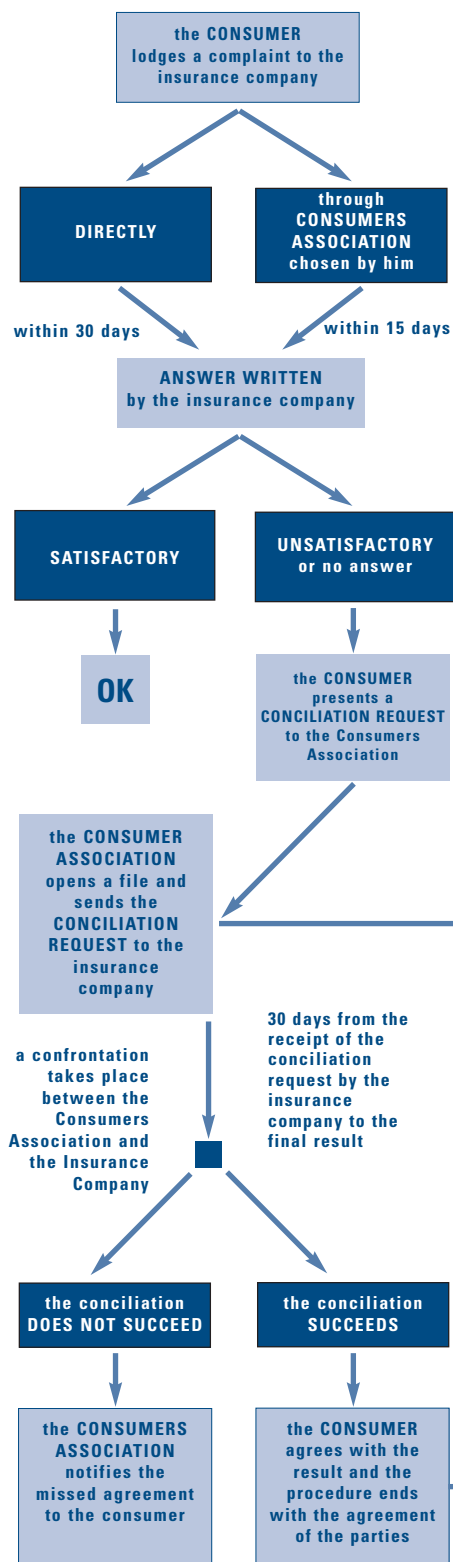
In July 2001, ANIA and the Consumers Associations agreed to implement a settlement procedure on a voluntary basis concerning disputes generated by motor liability claims for an amount not exceeding Euro 15,000.

The novelty aspect of the initiative and the organisational complexity required for implementation suggested proceeding with an initial experimental phase in a number of provinces.

The experiment was broadly positive and therefore on 18th March 2004, ANIA and the Consumers Associations with a nationwide presence, ACU, ADICONSUM, ADOC, Altroconsumo (Consumer Magazine), 'Centro Tutela Consumatori e Utenti' (Consumers and Users Protection Centre) Federconsumatori (Con-



# Motor insurance



sumers Federation) and the Lega Consumatori (Consumers League) agreed to extend the experiment throughout the country commencing from 1st July 2004.

The experiment also identified the need to introduce a number of changes to the original model. In particular, the possibility was foreseen to enable the parties to discuss and settle the case rapidly and informally prior to the formal presentation of the settlement application.

The procedure foreseen is simple and requires a short time to be executed. It is hoped that the procedure will decrease litigation and improve relationships between the insurance companies and motorists.

The procedure does not involve costs for the consumer, except the membership fee to become a member of the Association to which the mandate is conferred.

The procedure is simple: after having submitted a complaint to the insurance company, anyone that does not receive a reply or is dissatisfied with the reply received, can contact one of the Consumers Associations participating in the initiative.

The Association will review the case and if deemed to be well-founded, will assign the discussion to a "Settlement Commission" composed of its own representative conferred with the consumer's mandate and by a representative of the insurance company. The Commission must make a decision within 30 days.

The initiative represents one of the characterising features of the sector's commitment to improve relationships with customers and keep costs monitored.

## BIOLOGICAL INJURY – TABLE OF IMPAIRMENTS TO PSYCHO-PHYSICAL INTEGRITY ON A SCALE BETWEEN 1 AND 9 DISABLEMENT POINTS

The legislator intervened in the personal injury discipline in 2001 to establish certain parameters necessary to quantify the biological injury and in this way prevent dissimilar treatment of injured parties, which occurred with the previous system being deferred entirely to the discretionary powers of the various Law Courts. In particular, Article 5 of Law No. 57 of 2001 disciplines the compensation of biological injury subsequent to injuries with disablement percentages on a scale from 1 to 9 (so-called micro-permanent), establishing differentiating values of the disablement points depending on the seriousness of the injury and foreseeing a reduction coefficient of the values in question depending on age.

The regulations were later completed by the decree dated 3rd July 2003 issued by the Ministry of Health, in agreement with the Minister for Labour and the Ministry of Productive Business Activities which issued the table of impairments to psycho-physical integrity based on a scale between 1 and 9 disablement points and the relative introductory notes concerning the application criteria of the table in question.





As expressly stated by the Decree “the purpose of the table is to indicate numerical parameters to be adopted whenever there is a need to complete a medical-legal assessment in the framework of indemnifying motor liability related personal injury to establish the extent a permanent impairment to the psycho-physical integrity is to be quantified in the event this impairment falls within a rate on a scale between 1% and 9%”.

Naturally, the decree assumes the notion of biological injury that emerges from jurisprudence, from the doctrine and from the law itself, according to which biological injury “consists in the temporary and/or permanent impairment to the psycho-physical integrity of the individual, which has a negative impact on day to day activities and the personal dynamic-relational aspects of the damaged party’s lifestyle, regardless of repercussions, if any, that may effect the injured party’s capacity to generate income”.

The table contains values expressed using three different forms of wording:

- with a single number, for items indicating an anatomy injury or a well-defined functional condition: for example dental injuries;
- with a range from a minimum to a maximum value in the case of impairments that can vary objectively within defined values on the basis of the correlated case history: for example subjective after-effects of concussive head trauma;
- with the expression “equal to or less than” to indicate that the numerical parameter that normally expresses the disablement value of the effects of the injury may be less in relation to the level of minor prejudice, without pre-established minimum limits: for example the results of minor trauma of the neck with persistent backache and analgesic limitation of neck movements.

Finally, the application criteria provide precise methods on a number of complex assessment cases, well known to the medical-legal specialists, in particular, with reference to “compound injury”, to “multiple monochrome injuries” and to pre-existing impairments. Specific details are provided with a reference to particular items included in biological injury, for example: “aesthetic injury”.

### APPOINTED ACTUARY: IMPLEMENTATION REGULATIONS

The social and economic importance of motor liability insurance and the particular complexity of the construction of the relative rates and the calculation of the claims reserves induced the legislator to introduce the figure of the appointed actuary also in the motor liability sector with Article 20 of Law No. 273 of 2002 analogous to the measure adopted in the Life insurance sector.

The budget law was then implemented with the decree issued by the Ministry for Productive Business Activities dated 28th January 2004 and with the ISVAP (Supervisory Body for Private Insurance Companies) circular No. 531/D dated 14th May last.



The implementation provisions and the supervisory instructions consistent with the provisions of law and with the needs for transparency in corporate business activities assign a central, autonomous and independent role to the actuary in the processes to define the rates and calculate the technical reserves, while obviously not depriving the companies of the ordinary operational tools to engage in entrepreneurial activities.

The insurance companies have nominated the appointed actuary and notified the name to ISVAP.

The actuary may be an employee of the company or of another member company of the group or an outside professional and is under obligation: to be registered in the professional list; and exercise professional activities in the Non-Life actuarial insurance sector over a period of at least three years during the last seven years; the mandate shall not have been revoked due to serious breach during the last three years.

The duties of the appointed actuary concern both the phase to define the rates and the phase to calculate the technical reserves.

### *Rates definition*

The actuary has the task of verifying beforehand the technical criteria, the statistical methods, the technical and cash flow scenarios used to determine the rate requirements and the additional factors considered, as well as assessing the consistency of the rate premiums with the reference parameters adopted at the time the rates are prepared and when the rates in question are reviewed.

Moreover the actuary is required to describe in detail the procedures adopted to execute the aforesaid operations and the technical criteria used in the technical report, in compliance with the relative layout provided by ISVAP, to be prepared at least 60 days before the rate comes into force. The report, which the insurance company must preserve for at least five years, must be forwarded, on request, to ISVAP, to the independent auditing company and to the Board of Auditors. As a transition measure, the actuary will be required to perform the audits falling within its jurisdiction within 1st September 2004 with reference to the rates in force on 1st June, as well as the amendments introduced within 90 days from the date the actuary is appointed.

### *Technical reserves calculation*

The appointed actuary is required to verify beforehand the correctness of the procedures and the methods adopted by the company to calculate the technical reserves, as well as the relative estimates.

The verification procedures are described in a technical report drawn up on the basis of the detailed layout prepared by ISVAP. The report is forwarded to the independent auditing company, to the Board of Auditors and to ISVAP together with the year-end Financial Statements.

The provisions relative to the technical reserves become applicable commencing from the Financial Statements relative to the 2004 accounting year.



### IMPLEMENTATION OF THE IV MOTOR CAR DIRECTIVE

Legislative Decree No. 190 dated 30th June 2003 has incorporated directive 2000/26/EEC dated 16th May 2002 in our legal system (so-called IV motor car directive), the principle provisions of which were however already in operation commencing from 20th January 2003, the date established for its coming into force.

The directive introduces a procedure to overcome the difficulties experienced by a party damaged by road traffic in a country other than the damaged party's own country of residence. The directive in question acknowledges each damaged party resident in a member country of the European Economic Area (E.E.A.) the right to contact a representative in the damaged party's country of residence that has been duly appointed by the insurer of the vehicle responsible for the accident.

Italian companies have appointed their own claims settlement representatives in each of the E.E.A. countries (including the ten countries that have become members of the European Union from 1st May 2004). The representatives in question are under obligation to notify an indemnity proposal to the damaged party, in writing, or the reasons for refusing compensation, within three months from the date of receipt of an indemnity claim, in compliance with the directive; failing to comply with the aforesaid terms and conditions entails a money penalty from Euro 2,000 to 6,000.

Moreover, the directive establishes that the following are to be appointed in each member country of the European Union Area to ensure the system's effectiveness:

- an Information Centre that keeps a register of the vehicles registered in its territory and their motor liability insurance cover, or alternatively coordinates the compiling and distribution of this information to facilitate damaged parties in the identification of the responsible party's insurer.
- an Indemnity Body with the task of compensating the damages if the insurer of the vehicle responsible for the accident has failed to appoint a claims settlement representative or if the latter party fails to comply with the indemnity procedure described previously.

The Italian legislator has assigned the Information Centre functions to ISVAP, which can enter into specific agreements, on a no-cost basis, with public or private bodies that already hold and manage the information in question, as an alternative to keeping its own insurance cover register.

Contacts between ISVAP and ANIA are currently in progress to enter into a specific agreement that enables the supervisory Institute to avail of the SITA Databank which gathers information relative to motor liability insurance cover and has been operational for many years within the association.



CONSAP has been appointed as the Indemnity Body, which co-operates with the 'Ufficio Centrale Italiano' (UCI) (Italian Central Office) by express provision of the regulations in compliance with the procedures established based on a specific agreement to execute the functions that have been conferred on CONSAP. UCI is a limited liability consortium company of which all the insurance companies that engage in motor liability insurance in Italy are members. UCI represents the body, denominated Bureau, foreseen by recommendation No. 5 implemented on 25th January 1949 by the Road Transport Subcommittee of the UN Europe Commission and foreseen by directive No. 72/166/EEC, denominated 'Ufficio Nazionale di Assicurazione' (National Insurance Office).

### ACCESSING SETTLEMENT DOCUMENTS OF MOTOR LIABILITY CLAIMS

The Ministry of Productive Business Activities has issued the regulations concerning the right of damaged parties and the insured to access the settlement documents of motor liability claims after completion of the assessment, verification and settlement processes of the claims that refer to them, thereby implementing the provisions of Law No. 57 of 2001.

The regulations, which came into force on 22nd May 2004, discipline the conditions, the limits and the formal access procedures, which may be exercised, if there are no reasons to object or suspend the relative right: a) from the date the damaged party is notified the amount of the sum offered as indemnification; b) or from the date the damaged party receives notification of the reasons for which no offer is deemed to be made; c) after expiry of the various terms contemplated in Article 3 of Law No. 39 of 1977 as regards the indemnification offer (30 days, 60 days or 90 days), if no offer is communicated or if the offer is refused; d) finally, as the remaining term after expiry of the 120th day following the date the accident occurred.

Although the regulations do not contain specific details designed to resolve the significant number of interferences among the provisions which discipline the access to settlement documents and the regulations to protect personal data, they include a specific reference to the general discipline relative to the protection of privacy, establishing that in any event, access to the documentation must be consistent with the conditions as laid down in legislative decree No. 196 dated 30th June 2003 relating to the access to single items of personal data incorporating the "Code relating to the protection of personal data".

In this regard, it has to be stated that the regulations which refer to matters of privacy, in all cases where the regulations are applicable in relation to the tangible case in point concerning the access to personal data, have a higher range compared to the discipline introduced by the regulations and therefore are destined to prevail in all the scenarios in which access to the settlement documents is not motivated by subjective interest worthy of receiving equal



protection compared to the interests protected in terms of privacy or in all cases in which the holder of the data processing function (the company) may be subject to real and tangible prejudice due to the data having been made available, with regard to exercising the right of defence in law court proceedings and out-of-court arrangements.

The outcome is that access is subjected to a series of limitations which can cause the suspension or unsuitability thereof, depending on the circumstances.

ANIA has prepared operating "Guidelines" also with the aim of providing interpretive information with reference to the multiple configurations that may be assumed by accessing the settlement documents of motor liability claims with regard to the privacy related discipline. These Guidelines refer to all problems concerning the procedures that the corporate structures will be required to follow compared to the cases of access submitted by the interested parties in a balancing logic between the subjective positions safeguarded by the regulations and the positions disciplined by the provisions relative to protecting privacy.

The "Guidelines" have been forwarded to ISVAP and to the Guarantor protecting personal data.





## Other Non-Life insurance classes

With the exception of sickness and general third party liability, class of business characterized by particularly negative trend, the overall technical account result for all other Non-Life classes has been positive.

### ACCIDENT

**Premiums for direct domestic business** for the 105 insurance companies operating in this class amounted to Euro 2,760 million in 2003 (+5.3% compared to 2002), representing 8.1% of the total Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 1,550 million (1,542 in 2002), with a 0.5% increase; the ratio to earned premiums was equal to 57.1%, reflecting a decrease compared to 59.9% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 1,406 million (1,436 in 2002), with a 2.1% decrease. The ratio to earned premiums was equal to 51.8%, reflecting a decrease compared to 55.8% of 2002.

	1998	1999	2000	2001	2002	2003
Gross written premiums	2,208	2,263	2,380	2,530	2,621	2,760
Changes in premiums reserves (-)	63	42	54	67	47	44
Incurred claims (-):	1,323	1,357	1,326	1,420	1,436	1,406
- incurred claims cost for the current accident year (-)	1,479	1,481	1,476	1,530	1,542	1,550
- redundancy/deficiency of reserves for those claims incurred in previous accident years	156	124	150	110	106	144
Balance of other technical items	-55	-40	-36	-42	-54	-64
Operating expenses (-)	717	722	761	801	821	872
<b>Direct technical balance</b>	<b>50</b>	<b>102</b>	<b>203</b>	<b>200</b>	<b>263</b>	<b>374</b>
Investment income	145	102	109	102	89	101
<b>Direct technical account result</b>	<b>195</b>	<b>204</b>	<b>312</b>	<b>302</b>	<b>352</b>	<b>475</b>
Reinsurance results and other items	-7	-4	-6	-16	-31	-56
<b>Overall technical account result</b>	<b>188</b>	<b>200</b>	<b>306</b>	<b>286</b>	<b>321</b>	<b>419</b>

ACCIDENT  
Euro million

**Operating expenses** were equal to Euro 872 million (821 in 2002) and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio of these operating expenses to premiums was 31.6% (31.3% in 2002).

The **technical balance for direct business** was positive at Euro 374 million (263 in 2002).

Considering the investment income, the direct technical account result was positive at Euro 475 million (352 in 2002).

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 419 million (321 in 2002), representing 15.2% of the premiums (12.2% in 2002).



## Other Non-Life insurance classes

### SICKNESS

**Premiums for direct domestic business** for the 99 insurance companies operating in this class amounted to Euro 1,509 million in 2003 (+5.8% compared to 2002), representing 4.4% of the total Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 1,124 million (1,066 in 2002), with a 5.4% increase; the ratio to earned premiums was equal to 76.2%, reflecting an increase compared to 75.9% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 1,128 million (1,063 in 2002), with a 6.1% increase. The ratio to earned premiums was equal to 76.4%, reflecting an increase compared to 75.7% of 2002.

SICKNESS  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	1,128	1,164	1,255	1,343	1,426	1,509
Changes in premiums reserves (-)	46	8	33	29	22	33
Incurred claims (-):	860	875	934	998	1,063	1,128
- incurred claims cost for the current accident year (-)	886	900	947	1,005	1,066	1,124
- redundancy/deficiency of reserves for those claims incurred in previous accident years	26	25	13	7	3	-4
Balance of other technical items	-31	-18	-18	-23	-33	-49
Operating expenses (-)	308	312	332	347	363	380
<b>Direct technical balance</b>	<b>-117</b>	<b>-49</b>	<b>-62</b>	<b>-54</b>	<b>-55</b>	<b>-81</b>
Investment income	49	35	40	38	31	40
<b>Direct technical account result</b>	<b>-68</b>	<b>-14</b>	<b>-22</b>	<b>-16</b>	<b>-24</b>	<b>-41</b>
Reinsurance results and other items	7	-10	4	5	2	2
<b>Overall technical account result</b>	<b>-61</b>	<b>-24</b>	<b>-18</b>	<b>-11</b>	<b>-22</b>	<b>-39</b>

**Operating expenses** were equal to Euro 380 million (363 in 2002) and include administration expenses relating to the technical management of insurance business and acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 25.2% of the premiums (25.5% in 2002).

The **technical balance for direct business** was negative at Euro 81 million (-55 in 2002).

Considering the investment income, the result for the direct technical account was negative at Euro 41 million (-24 in 2002).

Taking the balance for reinsurance into due account, the **overall technical account result** was negative at Euro 39 million (-22 in 2002), representing 2.6% of the premiums (1.5% in 2002).





### PRIVATE HEALTHCARE EXPENDITURE AND SICKNESS INSURANCE

Italian citizens spend a great deal of money to use private healthcare services, although they are guaranteed by the National Healthcare System. Only a very small portion of the private healthcare expenditure is referable to the purchase of an insurance policy or to the participation in the funds and health insurance schemes; instead, the majority of the private healthcare expenditure is supported directly by individuals (so-called out of pocket expenses) above all to access a number of services such as specialist visits and diagnostic tests which, even though offered by the public healthcare service sometimes entail very long waiting lists.

Contributions to the public healthcare service represent more than 73% of the overall healthcare expenditure, according to the data provided in the last report published by ISTAT; the portion of expenditure sustained directly by households between 1991 and 2001 increased from 17.3% to 22.6%. The portion in the Northern regions is higher than in the rest of Italy (25.5%).

In a comparative study carried out by the OECD (Organisation for Economic Co-operation and Development) the incidence of expenditure for private insurance policies in Italy is equal to less than 1% of the total healthcare expenditure. Private insurance expenditure is much higher in France and in Germany (approx-

	Private expenditure without coverage	Other private funds	Private insurance	National healthcare service
United States	15.2	56.0	35.1	44.2
Switzerland	32.9	1.0	10.5	55.6
Norway	14.5	0.5	0.0	8.5
Germany	10.5	1.8	12.6	75.0
Canada	15.8	1.9	11.4	70.9
Luxembourg	7.7	1.2	1.6	87.8
Iceland	15.2	0.4	–	84.4
The Netherlands	9.0	12.4	15.2	63.4
France	10.4	1.0	12.7	75.8
Denmark	15.9	0.0	1.6	82.5
Australia	18.5	5.4	7.3	68.9
Austria	18.6	4.7	7.0	69.7
Italy	22.6	3.1	0.9	73.4
Japan	16.8	4.5	0.3	78.3
Ireland	13.5	5.6	7.6	73.3
Finland	20.4	1.9	2.6	75.1
New Zealand	15.4	0.4	6.3	78.0
Spain	23.5	0.9	3.9	71.7
Czech Republic	8.6	–	–	91.4
Hungary	21.3	3.0	0.2	75.5
Korea	41.3	5.6	8.7	44.4
Slovakia	10.6	–	0.0	89.4
Mexico	51.5	–	0.6	47.9

HEALTHCARE EXPENDITURE PER FINANCIAL SOURCES -  
Ranking of countries by pro-capite health expenditure

Source: OECD Health Data, 2003



## Other Non-Life insurance classes

mately 13%), where the portion absorbed by the contributions made to the public healthcare service is slightly more than the portion referring to Italy (75%). The Italian legislator has foreseen tax facilitations referable to the contributions paid to the mutual aid companies and to the healthcare funds, being aware that the growth of the mutual aid arrangements also in the healthcare service sector facilitates citizens' access to the services and reduces the cost of the public healthcare service. In particular:

- no tax is levied on the contributions paid to the mutual aid companies which provide benefits to the participants in the case of illness. These contributions can be deducted from the income tax of natural persons at the rate of 19% of the relative amount for a value not exceeding Euro 1,291;
- the healthcare contributions paid by the employer or by the worker to bodies or funds that exclusively provide healthcare services do not contribute to forming the taxable income from direct employment for an amount that does not exceed a given ceiling; moreover, the employer only pays a 10% solidarity contribution on the contributions to be borne thereby, contributions which represent costs also for taxation purposes.

Whereas, no facilitation is foreseen to incentivise taking out private sickness insurance. In particular, the insurance premium is burdened by a 2.5% tax and does not represent a deductible expense for income tax purposes referable to natural persons. However, insured parties that incur healthcare expenses can avail of the foreseen general tax deduction, even if the expenses in question have been refunded by the insurer, fully or in part, against presentation of the fiscally correct documentation.

The parties that participate in funds, bodies or funds that provide healthcare services or shareholders of mutual aid companies or covered by sickness insurance have been estimated at 5.8 million, and these represent total premiums and contributions equal to Euro 2,250 million. It is important to note that frequently the funds and the mutual aid associations proceed to enter into insurance agreements for all or part of the services to be provided, for the purpose of effectively guaranteeing to their members a refund of the expenses sustained, also over and beyond the liquidity generated by the contributions collected.

It is not easy to explain the anomaly of sickness insurance that has a relatively limited development, while private healthcare expenditure is high. It is proba-

### HOLDERS OF INTEGRATIVE HEALTH INSURANCE

	Number of persons (thousand)	Average premiums (Euro)	Premiums (Euro million)
Mutuals	400	200	90
Autonomous-funds	1,500	440	660
Insured-funds	1,500	310	435
Group-policies	900	270	245
Individual-policies	1,500	530	790
Total	5,800	390	2,250

Source: Databank, Piperno, Mastrobuono  
data processed by Unisalute



ble that the propensity to take out insurance may also be limited by the scant awareness of citizens regarding the difficulties of accessing a number of services with reasonable waiting lists; therefore the only citizens that would appear to take out insurance are the more informed citizens and the citizens for which the long waiting lists associated with the services provided by the National Health Service, in more than one instance, are particularly onerous.

A confirmation of this scenario comes from the multi-purpose survey performed by ISTAT in 2002 regarding the population distribution of the healthcare services. The survey indicates that private expenditure for medical examinations is rather high for the active population (persons aged between 15 and 65), whereas the expenditure decreases significantly in the case of citizens aged over 65. Moreover, for a given age bracket, the proportion of specialist visits to be paid in full increases with the level of education and the economic conditions of households.

Sickness insurance in Italy, in addition to being developed to a relatively limited extent, represents a sector that generates negative economic results for the insurance companies. The result of the overall technical account in 2003 was negative by Euro 39 million, equal to 2.6% of the premiums collected; this result is by no means accidental: losses were equal to 2.2% of premiums averaged over the period 1998-2003.

Therefore, the claims made in a recent study by the "Osservatorio permanente della terza età" (Permanent observatory for the elderly) are not confirmed. The study claims that insurance companies will achieve significant profits from exercising healthcare insurance, profits that would-be generated by the fact that in cases of hospitalisation, especially in cases that involve surgery, both the insured and the participants in the funds or health insurance funds tend to resort mainly to the public facilities which are free of charge instead of using the insurance cover.

If it is considered that, in essence, insurance represents a mutual aid arrangement, it is evident that if the insured did not resort mainly to the services provided by the National Health Service there would be an increase of refund expenses to be borne by the insurance companies and a corresponding increase in the premiums payable by the insured.

The overall expenses for claims borne by the insurance companies were equal to Euro 1,128 million in 2003. The total savings that sickness insurance policies have produced for the public healthcare service can be estimated at approximately Euro 1.5 million, assuming that almost all of the refunds are referable to services provided by private facilities and that the policies establish an insurance exclusion. The benefits that derive to the Government from the complete fiscal surfacing of private services should be added to the above savings.



## Other Non-Life insurance classes

### RAILWAY CRAFT

**Premiums for direct domestic business** for the 23 insurance companies operating in this class amounted to Euro 12 million in 2003 with a 20.0% increase compared to 2002.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 9 million (14 in 2002), with a 35.7% decrease; the ratio to earned premiums was equal to 75.0%, reflecting a decrease compared to 175.0% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 2 million (12 in 2002), with a 83.3% decrease. The ratio to earned premiums was equal to 16.7%, reflecting a decrease compared to 150.0% of 2002.

**Operating expenses** were equal to Euro 2 million, the same value as 2002 and include administration expenses relating to the technical management of insurance business and acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 16.7% of the premiums (20.0% in 2002).

The **technical balance for direct business** was positive at Euro 9 million (-5 in 2002).

Considering the investment income, the result for the direct technical account was positive at Euro 10 million (-4 in 2002).

RAILWAY CRAFT  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	7	8	9	10	10	12
Changes in premiums reserves (-)	4	-1	2	0	2	0
Incurred claims (-):	10	4	7	7	12	2
- incurred claims cost for the current accident year (-)	10	7	11	11	14	9
- redundancy/deficiency of reserves for those claims incurred in previous accident years	0	3	4	4	2	7
Balance of other technical items	1	0	1	0	1	1
Operating expenses (-)	1	2	2	2	2	2
<b>Direct technical balance</b>	<b>-7</b>	<b>3</b>	<b>-1</b>	<b>1</b>	<b>-5</b>	<b>9</b>
Investment income	0	1	0	1	1	1
<b>Direct technical account result</b>	<b>-7</b>	<b>4</b>	<b>-1</b>	<b>2</b>	<b>-4</b>	<b>10</b>
Reinsurance results and other items	6	0	-1	-3	-1	-4
<b>Overall technical account result</b>	<b>-1</b>	<b>4</b>	<b>-2</b>	<b>-1</b>	<b>-5</b>	<b>6</b>

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 6 million (-5 in 2002), representing 50.0% of the premiums (the same value as 2002).



### AIRCRAFT

This class includes insurance cover against all damage to aircraft.

**Premiums for direct domestic business** for the 29 insurance companies operating in this class amounted to Euro 64 million in 2003, the same value as 2002, representing 0.2% of the total Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 49 million (31 in 2002), with a 58.1% increase; the ratio to earned premiums was equal to 77.8%, reflecting an increase compared to 37.3% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 38 million (79 in 2002), with a 51.9% decrease. The ratio to earned premiums was equal to 60.3%, reflecting a decrease compared to 95.2% of 2002.

**Operating expenses** were equal to Euro 10 million, the same value as 2002, and included administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 15.6% of the premiums, the same value as 2002. The **technical balance for direct business** was positive at Euro 13 million (-9 in 2002).

Considering the investment income, the direct technical account result was positive at Euro 14 million (-8 in 2002).

	1998	1999	2000	2001	2002	2003
Gross written premiums	66	71	117	64	64	64
Changes in premiums reserves (-)	14	-5	19	-1	-19	1
Incurred claims (-):	64	77	99	36	79	38
- incurred claims cost for the current accident year (-)	71	89	87	31	31	49
- redundancy/deficiency of reserves for those claims incurred in previous accident years	7	12	-12	-5	-48	11
Balance of other technical items	-4	0	0	0	-3	-2
Operating expenses (-)	11	10	13	10	10	10
<b>Direct technical balance</b>	<b>-27</b>	<b>-11</b>	<b>-14</b>	<b>19</b>	<b>-9</b>	<b>13</b>
Investment income	1	1	2	1	1	1
<b>Direct technical account result</b>	<b>-26</b>	<b>-10</b>	<b>-12</b>	<b>20</b>	<b>-8</b>	<b>14</b>
Reinsurance results and other items	15	4	1	-24	-9	-13
<b>Overall technical account result</b>	<b>-11</b>	<b>-6</b>	<b>-11</b>	<b>-4</b>	<b>-17</b>	<b>1</b>

AIRCRAFT  
Euro million

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 1 million (-17 in 2002), representing 1.6% of the premiums (26.6% in 2002).



## Other Non-Life insurance classes

### SHIPS (SEA, LAKE AND RIVER AND CANAL VESSELS)

This class includes insurance cover against all damage to seagoing vessels, lake and river craft.

**Premiums for direct domestic business** by the 54 insurance companies operating in this class amounted to Euro 296 million in 2003 (-6.9% compared to 2002), representing 0.9% of the overall Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 291 million (224 in 2002), with a 29.9% increase; the ratio to earned premiums was equal to 107.0%, reflecting an increase compared to 71.6% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 288 million (213 in 2002), with a 35.2% increase. The ratio to earned premiums was equal to 105.9%, reflecting an increase compared to 68.1% of 2002.

**Operating expenses** were equal to Euro 53 million (51 in 2002) and include administration expenses relating to the technical management of insurance business and acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 17.9% of the premiums (16.0% in 2002). The **technical balance for direct business** was negative at Euro 71 million (48 in 2002).

Considering the investment income, the direct technical account result was negative at Euro 64 million (55 in 2002).

SHIPS  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	244	220	224	279	318	296
Changes in premiums reserves (-)	4	-5	25	7	5	24
Incurred claims (-):	222	293	283	302	213	288
- incurred claims cost for the current accident year (-)	227	243	270	310	224	291
- redundancy/deficiency of reserves for those claims incurred in previous accident years	5	-50	-13	8	11	3
Balance of other technical items	-4	-1	-3	-2	-1	-2
Operating expenses (-)	48	44	45	53	51	53
<b>Direct technical balance</b>	<b>-34</b>	<b>-113</b>	<b>-132</b>	<b>-85</b>	<b>48</b>	<b>-71</b>
Investment income	8	7	7	9	7	7
<b>Direct technical account result</b>	<b>-26</b>	<b>-106</b>	<b>-125</b>	<b>-76</b>	<b>55</b>	<b>-64</b>
Reinsurance results and other items	-3	92	119	64	-47	67
<b>Overall technical account result</b>	<b>-29</b>	<b>-14</b>	<b>-6</b>	<b>-12</b>	<b>8</b>	<b>3</b>

Taking the balance for the reinsurance into due account, the **overall technical account result** was positive at Euro 3 million (8 in 2002), representing 1.0% of the premiums (2.5% in 2002).



### GOODS IN TRANSIT

This class includes insurance cover against all damage to goods in transit or luggage, irrespective of the means of transport.

**Premiums for direct domestic business** by the 69 insurance companies operating in this class were equal to Euro 292 million in 2003 (-9.0% compared to 2002), representing 0.9% of the total Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 193 million (239 in 2002), with a 19.2% decrease; the ratio to earned premiums was equal to 65.6%, reflecting a decrease compared to 74.5% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 133 million (178 in 2002), with a 25.3% decrease. The ratio to earned premiums was equal to 45.2%, reflecting a decrease compared to 55.5% of 2002.

**Operating expenses** were equal to Euro 89 million (93 in 2002) and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 30.5% of the premiums (29.0% in 2002). The **technical balance for direct business** was positive at Euro 69 million (45 in 2002).

Considering the investment income, the technical account result was positive at Euro 78 million (53 in 2002).

	1998	1999	2000	2001	2002	2003
Gross written premiums	322	289	305	323	321	292
Changes in premiums reserves (-)	-30	-5	-1	-1	0	-2
Incurred claims (-):	226	216	217	216	178	133
- incurred claims cost for the current accident year (-)	240	245	236	256	239	193
- redundancy/deficiency of reserves for those claims incurred in previous accident years	14	29	19	40	61	60
Balance of other technical items	-6	0	-3	-4	-5	-3
Operating expenses (-)	102	91	91	94	93	89
<b>Direct technical balance</b>	<b>18</b>	<b>-13</b>	<b>-5</b>	<b>10</b>	<b>45</b>	<b>69</b>
Investment income	16	10	11	11	8	9
<b>Direct technical account result</b>	<b>34</b>	<b>-3</b>	<b>6</b>	<b>21</b>	<b>53</b>	<b>78</b>
Reinsurance results and other items	3	22	9	-14	-12	-42
<b>Overall technical account result</b>	<b>37</b>	<b>19</b>	<b>15</b>	<b>7</b>	<b>41</b>	<b>36</b>

*GOODS IN TRANSIT*  
*Euro million*

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 36 million (41 in 2002), representing 12.3% of the premiums (12.8% in 2002).



## Other Non-Life insurance classes

### FIRE AND NATURAL FORCES

This class includes insurance cover against all forms of damage to goods (other than land vehicles, railway rolling stock, aircraft, sea-going vessels, lake and river craft, as well as goods in transit and luggage) caused by: fire, explosion, storm, natural forces, nuclear energy and land subsidence.

**Premiums for direct domestic business** for the 85 insurance companies operating in this class were equal to Euro 2,038 million in 2003 (+3.0% compared to 2002), representing 6.0% of the total Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 1,348 million (1,310 in 2002), with a 2.9% increase; the ratio to earned premiums was equal to 68.8%, reflecting a slight decrease compared to 68.9% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 1,195 million, the same value as 2002. The ratio to earned premiums was equal to 61.0%, reflecting a decrease compared to 62.9% of 2002.

**Operating expenses** were equal to Euro 625 million (592 in 2002) and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 30.7% of the premiums (29.9% in 2002). The **technical balance for direct business** was positive at Euro 100 million (70 in 2002).

Considering investment income, the direct technical account result was positive at Euro 179 million (127 in 2002).

FIRE AND NATURAL FORCES  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	1,660	1,657	1,701	1,771	1,978	2,038
Changes in premiums reserves (-)	141	48	41	77	77	79
Incurred claims (-):	862	818	1,167	899	1,195	1,195
- incurred claims cost for the current accident year (-)	1,027	984	1,259	1,041	1,310	1,348
- redundancy/deficiency of reserves for those claims incurred in previous accident years	165	166	92	142	115	153
Balance of other technical items	-53	-42	-44	-45	-44	-39
Operating expenses (-)	533	526	534	550	592	625
<b>Direct technical balance</b>	<b>71</b>	<b>223</b>	<b>-85</b>	<b>200</b>	<b>70</b>	<b>100</b>
Investment income	105	73	83	72	57	79
<b>Direct technical account result</b>	<b>176</b>	<b>296</b>	<b>-2</b>	<b>272</b>	<b>127</b>	<b>179</b>
Reinsurance results and other items	-77	-29	210	5	-10	-170
<b>Overall technical account result</b>	<b>99</b>	<b>267</b>	<b>208</b>	<b>277</b>	<b>117</b>	<b>9</b>

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 9 million (117 in 2002), representing 0.4% of the premiums (5.9% in 2002).





### FLOODING RISK: THE SIGRA PROJECT

#### Integrated System to Manage Flooding Risk Insurance

The climatic changes that have been experienced in recent years and the distinctive hydro-geological conformation of the territory render our country particularly exposed to the risk of flooding, events which have a tragic effect in social and economic terms, as recent episodes have shown.

Therefore, ANIA has deemed it necessary that the insurance sector should have rigorous tools to perform hydro-geological mapping of the country, also for the purpose of fine-tuning the process of risk assessment and the degree of exposure of the different areas of the country.

Technical tender specifications were drawn up initially containing the essential specifications on the basis of a structured project, defined in agreement with the insurance companies, to implement the floods monitoring system throughout the country. The subsequent tender among the major world companies specialised in the sector led to the selection of the Telespazio Agriconsulting consortium, the supplier of the SIGRA (Integrated System to Manage Flooding Risk Insurance) project.

The SIGRA System foresees the implementation of a database containing a broad set of information relative to the Italian territory (digital model of the terrain, map detailing land use, rainfall measurement data, the data originating from the Dock Authorities, ortho-photographs, historical data on claims, road network graphs). This information (associated with other models to produce maps detailing hazardous conditions, slopes, watersheds, scenarios and vulnerability tables) will enable the flooding insurance risk indices to be defined throughout the country using specific software, with special reference to the risk of flooding and to associated phenomena.

The system foresees two separate IT environments:

- SIGRA ANIA, which will be based in the Association and will contain all the collected and modelled IT assets;
- SIGRA USER, which will be usable by the ANIA associate members and will represent the IT system used to process the insurance and reinsurance parameters to manage the risk.

The SIGRA System will be operational in a few years time and is financed entirely by Italian insurers and re-insurers. The Association intends to make the databank available to the local institutions and the Civil Defence to strengthen the prevention and intervention action against the risk of flooding.



## Other Non-Life insurance classes

### OTHER DAMAGES TO PROPERTY

This class includes insurance cover against all damage to property (other than land vehicles, railway rolling stock, aircraft, sea-going vessels, lake and river craft, as well as goods in transit and luggage) caused by hail, frost, theft or by other events that are different from the events included in the class "fire and natural forces".

**Premiums for direct domestic business** by the 89 insurance companies operating in this class were equal to Euro 2,158 million in 2003 (+3.8% compared to 2002), representing 6.3% of the total of Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 1,360 million (1,408 in 2002), with a 3.4% decrease; the ratio to earned premiums was equal to 65.0%, reflecting a decrease compared to 70.5% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 1,215 million (1,329 in 2002), with a 8.6% decrease. The ratio to earned premiums was equal to 58.1%, reflecting a decrease compared to 66.5% of 2002.

**Operating expenses** were equal to Euro 627 million (591 in 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 29.1% of the premiums (28.4% in 2002).

The **technical balance for direct business** was positive at Euro 217 million (48 in 2002).

Considering investment income, the direct technical account result was positive at Euro 294 million (104 in 2002).

OTHER DAMAGES TO PROPERTY  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	1,588	1,652	1,740	1,861	2,080	2,158
Changes in premiums reserves (-)	102	43	67	97	83	66
Incurred claims (-):	1,223	1,091	1,217	1,266	1,329	1,215
- incurred claims cost for the current accident year (-)	1,320	1,206	1,307	1,312	1,408	1,360
- redundancy/deficiency of reserves for those claims incurred in previous accident years	97	115	90	46	79	145
Balance of other technical items	-28	-29	-32	-31	-29	-33
Operating expenses (-)	468	485	501	534	591	627
<b>Direct technical balance</b>	<b>-233</b>	<b>4</b>	<b>-77</b>	<b>-67</b>	<b>48</b>	<b>217</b>
Investment income	80	60	69	68	56	77
<b>Direct technical account result</b>	<b>-153</b>	<b>64</b>	<b>-8</b>	<b>1</b>	<b>104</b>	<b>294</b>
Reinsurance results and other items	133	33	100	62	-147	-148
<b>Overall technical account result</b>	<b>-20</b>	<b>97</b>	<b>92</b>	<b>63</b>	<b>-43</b>	<b>146</b>

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 146 million (-43 in 2002), representing 6.8% of the premiums (2.1% in 2002).



### AGRICULTURAL RISKS INSURANCE

Legislative Degree No. 102 dated 29th March 2004 concerning "Financial measures to support farms" introduced important amendments to the agricultural risks insurance discipline by exercising the delegated powers contained in Law No. 38 dated 7th March 2003.

Agricultural producers benefit from a public grant on the premiums paid to insure their productions against events that may damage them (mainly hail). By implementing recent community policies relative to Government aid it has been established that the grant may be increased up to 80% if the insurance policy foresees the right to indemnification only when the damage is at least equal to 20% of the value of production, in addition to the current grant level for ordinary cover (equal to 50% of a parameter defined annually by the Ministry of Agricultural and Forestry Policies).

The entire current farm production must be insured to receive the grant starting from 1st January 2005: therefore, insuring only part of the production will no longer be permitted.

The possibility for a three-year transition period is also established to set up a single co-insurance or co-reinsurance consortium derogating from the limits established by the specific community Regulations "in the case of risks covered using types of innovative insurance policies not yet distributed on the market".

A provision consistent with community policies has been reintroduced for the purpose of favouring recourse to insurance. According to this provision the Government will not provide compensatory measures in the case of damage to agricultural productions eligible to be covered by facilitated insurance arrangements.

The provision completes the regulatory framework that foresees a "Public reinsurance fund" managed by Istituto di Servizi per il Mercato Agricolo Alimentare (ISMEA - Institute for Services to the Agricultural and Food Market) and assigns the Institute a financial budget amounting to Euro 10 million per annum. This financial budget appears to be insufficient and will only enable limited experiments to be launched.



## Other Non-Life insurance classes

### AIRCRAFT THIRD PARTY LIABILITY

**Premiums for direct domestic business** by the 27 insurance companies operating in this class were equal to Euro 78 million in 2003 (+52.9% compared to 2002), representing 0.2% of the total of Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 7 million (5 in 2002), with a 40.0% increase; the ratio to earned premiums was equal to 11.5%, reflecting a slight decrease compared to 11.6% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 6 million (9 in 2002), with a 33.3% decrease. The ratio to earned premiums was equal to 9.8%, reflecting a decrease compared to 20.9% of 2002.

**Operating expenses** were equal to Euro 6 million (5 in 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 7.7% of the premiums (9.8% in 2002).

The **technical balance for direct business** was positive at Euro 48 million (29 in 2002).

Considering investment income, the direct technical account result was positive at Euro 49 million (30 in 2002).

AIRCRAFT T.P.L.  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	13	17	14	29	51	78
Changes in premiums reserves (-)	-3	3	-4	8	8	17
Incurred claims (-):	14	12	23	15	9	6
- incurred claims cost for the current accident year (-)	5	10	3	4	5	7
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-9	-2	-20	-11	-4	1
Balance of other technical items	0	0	0	1	0	-1
Operating expenses (-)	3	3	3	3	5	6
<b>Direct technical balance</b>	<b>-1</b>	<b>-1</b>	<b>-8</b>	<b>4</b>	<b>29</b>	<b>48</b>
Investment income	0	1	0	2	1	1
<b>Direct technical account result</b>	<b>-1</b>	<b>0</b>	<b>-8</b>	<b>6</b>	<b>30</b>	<b>49</b>
Reinsurance results and other items	-4	3	1	-14	-21	-31
<b>Overall technical account result</b>	<b>-5</b>	<b>3</b>	<b>-7</b>	<b>-8</b>	<b>9</b>	<b>18</b>

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 18 million (9 in 2002), representing 23.1% of the premiums (17.6% in 2002).



### GENERAL THIRD PARTY LIABILITY

**Premiums for direct domestic business** by the 87 insurance companies operating in this class were equal to Euro 2,798 million in 2003 (+13.2% compared to 2002), representing 8.2% of the total of Non-Life premiums.

	1998	1999	2000	2001	2002	2003
Gross written premiums	1,820	1,920	2,033	2,229	2,472	2,798
Changes in premiums reserves (-)	195	88	48	60	107	72
Incurred claims (-):	1,838	1,891	2,005	2,295	2,450	2,545
- incurred claims cost for the current accident year (-)	1,587	1,611	1,706	1,833	2,003	2,156
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-251	-280	-299	-462	-447	-389
Balance of other technical items	-38	-26	-37	-18	-37	-46
Operating expenses (-)	581	591	609	663	724	794
<b>Direct technical balance</b>	<b>-832</b>	<b>-676</b>	<b>-666</b>	<b>-807</b>	<b>-846</b>	<b>-659</b>
Investment income	354	279	318	303	227	321
<b>Direct technical account result</b>	<b>-478</b>	<b>-397</b>	<b>-348</b>	<b>-504</b>	<b>-619</b>	<b>-338</b>
Reinsurance results and other items	87	77	30	55	164	-81
<b>Overall technical account result</b>	<b>-391</b>	<b>-320</b>	<b>-318</b>	<b>-449</b>	<b>-455</b>	<b>-419</b>

GENERAL T.P.L.  
Euro million

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 2,156 million (2,003 in 2002), with a 7.6% increase; the ratio to earned premiums was equal to 79.1%, reflecting a slight decrease compared to 84.7% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 2,545 million (2,450 in 2002), with a 3.9% increase. The ratio to earned premiums was equal to 93.4%, reflecting a decrease compared to 103.6% of 2002.

**Operating expenses** were equal to Euro 794 million (724 in 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 28.4% of the premiums (29.3% in 2002).

The **technical balance for direct business** was negative at Euro 659 million (-846 in 2002).

Considering investment income, the direct technical account result was negative at Euro 338 million (-619 in 2002).

Taking the reinsurance balance into due account, the **overall technical account result** was negative at Euro 419 million (-455 in 2002), representing 15.0% of the premiums (18.4% in 2002).



## Other Non-Life insurance classes

### HEALTHCARE LIABILITY

	1994	2002	Change %
<b>Professional medical liability</b>			
- Number of reported claims	3,150	7,800	148%
- Average claims cost (Euro)	14,500	17,550	21%
<b>Liability of healthcare facilities</b>			
- Number of reported claims	5,100	6,700	31%
- Average claims cost (Euro)	16,000	26,750	67%

Source: ANIA estimates

Complaints made to magistrates and requests for indemnification to insurance companies with reference to events associated with the liability of healthcare facilities and doctors (so-called medical malpractice) have increased significantly in recent years.

The evolution of the number of claims submitted to insurance companies and the average cost over the period 1994/2002 can be estimated on the basis of a specific sample survey carried out by ANIA. The number of claims has almost doubled, overall, increasing from over 8,000 to slightly less than 15,000. In particular, there were 7,800 claims in 2002 referred to professional liability, (representing a 148% increase compared to 1994) and 6,700 claims referred to healthcare facilities liability (a 31% increase).

The change in attitude of patients and their relatives, which no longer seem to be prepared to accept fatalistically the negative outcome of the services and treatment, but tend to assess the scientific adequacy of the tests and treatment received, as well as the work of the doctors and of the healthcare facilities also forms the basis for the significant increase in the number of claims. It has been stressed that the broadening of both the number of parties to be considered damaged, not only the patient but also the patient's relatives and the area of the doctor's liability, which has occurred not through regulatory amendments, but as the result of jurisprudence that has progressively interpreted the regulations in a way that views the injured parties more favourably have also contributed to the increased number of requests for indemnification.

The average cost of claims has also increased by 21% in the case of professional medical liability and by 67% in the case of healthcare facilities over the period of observation, due to the significant increase in the number of injury related factors to be indemnified and more precisely, factors represented by "biological injury" and by "moral injury". However, it is important to highlight that the estimates of the changes in the average cost of claims will be subject to further increases. In fact, while sufficient information regarding the claims and the relative amount to be indemnified have been acquired with reference to the generation of claims submitted in 1994, seen at the end of 2002, the complete definition of the injury with regard to the generation of claims submitted in 2002 will require some considerable time, with a consequent revaluation of the claims amounts which will be settled.

Insurers have reacted to the significant increase in the number of claims and their average cost by increasing the premiums. Despite this, even in 2002 it is can be estimated that for every Euro 100 of premiums collected, the insurance



companies have sustained costs and indemnification refunds for an amount equal to Euro 180 in the case of professional medical liability and Euro 240 in the case of healthcare facilities liability.

In any event, obtaining information about the characteristics of the phenomenon is complicated. A number of authoritative bodies have endeavoured to make estimates in this regard. The data deduced by the Observatory established at Naples University are reported below, from which the following aspects can be inferred:

- the medical professions for which the highest number of cases have been recorded and that therefore are considered to represent a higher risk are the following: obstetrics/gynaecology (16.0% of the total number of cases reported), general surgery (13.7%), orthopaedics and traumatology (12.4%), general medicine (6.0%) and anaesthetics and reanimation (5.2%);
- the professional's liability was acknowledged in more than 70% of the cases reported to the Observatory;
- almost 50% of the legal indemnification suits are processed in criminal law proceedings, 36% in civil law proceedings and 14% in out-of-court settlements.

Third-party liability insurance in the healthcare framework poses problems which are not readily solved also in other countries. An extremely difficult situation is found in the United States, where the premiums for the specific insurance cover have been increased considerably from 2000, above all in some States and for certain medical professions following the increase in indemnifications, both in terms of number and value. In addition, the difficulties experienced by sector have induced many insurance companies to discontinue offering insurance cover of the risk in question.

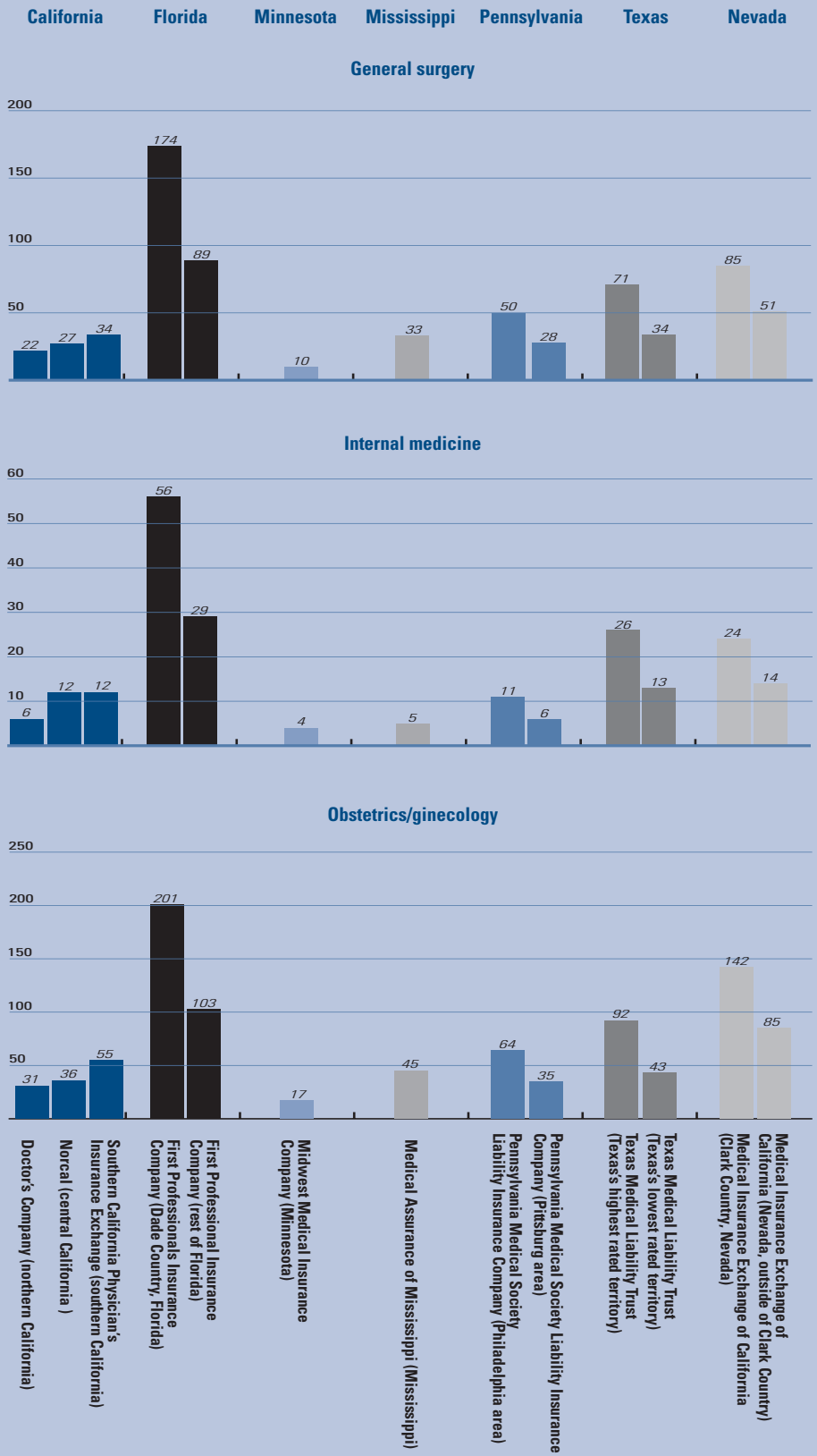
In 2002, according to a study performed by the General Accounting Office (GAO) of United States, which analysed the premiums charged by insurers in seven States (California, Florida, Minnesota, Mississippi, Pennsylvania, Texas and Nevada), the major insurance company based in Florida offered professional liability insurance cover with a basic premium of \$200,000 for gynaecologists, \$71,000 for general surgeons and \$26,000 for interns. This corresponds to a premiums level that in some cases may represent an obstacle to actually exercising the profession.

In Italy, some people maintain that the problems of third-party liability in the medical area and the relative insurance may be resolved by introducing compulsory insurance taken out by the healthcare facilities, an insurance that should also cover the injuries caused by the medical staff working in the facility. Proposals designed to discipline this form of insurance have been made



# Other Non-Life insurance classes

PREMIUMS TO INSURANCE PROFESSIONAL  
MEDICAL LIABILITY 2002 - DOLLARS IN THOUSANDS





also in Parliament by different political parties, proposals that in more than one case foresee nothing short of an administered rates regime, overlooking the community regulations that prohibit measures by the authorities that relate to insurance premium rates.

Quite frankly, the compulsory insurance solution, on the one hand does not appear to be fair in relation to the variety of parties with a liability consisting of bodies and professionals and on the another hand does not address the real problem represented by the increasing number of claims and their average cost. Only a decrease in the number and cost of claims can have an effect on the level of the rates premiums rendering the premiums less expensive for the healthcare facilities and adequate for the insurance companies, which therefore, will not be induced to abandon this business sector.

The solution to the problem lies necessarily in a major preventive action that leads to a limitation of the risks through co-operation between the insurers and the insured. A study commissioned by ANIA from the 'Scuola Superiore di Studi Universitari e di Perfezionamento Sant'Anna' (Sant'Anna Secondary School of University Studies and Specialisation) of Pisa concerning "Healthcare liability between risk assessment and insurance" plays a role in this scenario; the study was completed in 2003.

The study provides an overview of the trends in jurisprudence on the subject and the initiatives adopted to address the problem, in Italy and abroad; moreover, the study contains a questionnaire designed to define a more effective method of assessing the healthcare risk, through a detailed analysis of the healthcare facility, divided into risk areas and setting up a panel of experts from the legal, insurance, medical, economy and clinical engineering world (so-called GAMET panel) appointed to offer a qualitative assessment of the impact of each single aspect on the healthcare facility's global risk level.

ANIA intends to implement a number of initiatives designed to make practical use of the information provided by the study, beginning by setting up a specific databank for the purpose of availing of more accurate and detailed information relative to risk knowledge and management in compliance with the scenario also foreseen at a European level in EC Regulation No. 358/2003.

Furthermore, appropriate training courses have been organised for insurance operators in co-operation with CINEAS (University Consortium for Insurance related Engineering), in addition to numerous meetings with the various representatives of the healthcare facilities with the intention of favouring and strengthening co-operation between the insurer and the insured.



## Other Non-Life insurance classes

### CREDIT

**Premiums for direct domestic business** by the 29 insurance companies operating in this class were equal to Euro 301 million in 2003 (-6.2% compared to 2002), representing 0.9% of the total of Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 320 million (316 in 2002), with a 1.3% increase; the ratio to earned premiums was equal to 101.3%, reflecting an increase compared to 92.7% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 254 million (267 in 2002), with a 4.9% decrease. The ratio to earned premiums was equal to 80.4%, reflecting an increase compared to 78.3% of 2002.

**Operating expenses** were equal to Euro 88 million (the same value as 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 29.2% of the premiums (27.4% in 2002).

The **technical balance for direct business** was negative at Euro 29 million (-18 in 2002).

Considering investment income, the direct technical account result was equal to -11 million (0 in 2002).

CREDIT  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	203	219	272	314	321	301
Changes in premiums reserves (-)	11	3	16	26	-20	-15
Incurred claims (-):	128	144	174	263	267	254
- incurred claims cost for the current accident year (-)	200	229	258	322	316	320
- redundancy/deficiency of reserves for those claims incurred in previous accident years	72	85	84	59	49	66
Balance of other technical items	-2	-2	-2	-1	-4	-3
Operating expenses (-)	53	63	69	83	88	88
<b>Direct technical balance</b>	<b>9</b>	<b>7</b>	<b>11</b>	<b>-59</b>	<b>-18</b>	<b>-29</b>
Investment income	24	14	15	41	18	18
<b>Direct technical account result</b>	<b>33</b>	<b>21</b>	<b>26</b>	<b>-18</b>	<b>0</b>	<b>-11</b>
Reinsurance results and other items	-10	-14	-12	36	15	26
<b>Overall technical account result</b>	<b>23</b>	<b>7</b>	<b>14</b>	<b>18</b>	<b>15</b>	<b>15</b>

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 15 million (the same value as 2002), representing 5.0% of the premiums (4.7% in 2002).



### SURETYSHIP

**Premiums for direct domestic business** by the 55 insurance companies operating in this class were equal to Euro 486 million in 2003 (-3.8% compared to 2002), representing 1.4% of the total of Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 446 million (270 in 2002), with a 65.2% increase; the ratio to earned premiums was equal to 98.7%, reflecting an increase compared to 53.4% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 397 million (254 in 2002), with a 56.3% increase. The ratio to earned premiums was equal to 87.8%, reflecting an increase compared to 50.2% of 2002.

**Operating expenses** were equal to Euro 145 million (152 in 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 29.8% of the premiums (30.1% in 2002).

The **technical balance for direct business** was negative at Euro 116 million (60 in 2002).

Considering investment income, the direct technical account result was negative at Euro 91 million (79 in 2002).

	1998	1999	2000	2001	2002	2003
Gross written premiums	524	459	433	483	505	486
Changes in premiums reserves (-)	113	38	2	18	-1	34
Incurred claims (-):	151	137	168	213	254	397
- incurred claims cost for the current accident year (-)	163	172	197	202	270	446
- redundancy/deficiency of reserves for those claims incurred in previous accident years	12	35	29	-11	16	49
Balance of other technical items	-32	-29	-30	-33	-40	-26
Operating expenses (-)	153	135	127	139	152	145
<b>Direct technical balance</b>	<b>75</b>	<b>120</b>	<b>106</b>	<b>80</b>	<b>60</b>	<b>-116</b>
Investment income	31	25	26	21	19	25
<b>Direct technical account result</b>	<b>106</b>	<b>145</b>	<b>132</b>	<b>101</b>	<b>79</b>	<b>-91</b>
Reinsurance results and other items	-20	-56	-34	-7	-2	102
<b>Overall technical account result</b>	<b>86</b>	<b>89</b>	<b>98</b>	<b>94</b>	<b>77</b>	<b>11</b>

SURETYSHIP  
Euro million

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 11 million (77 in 2002), representing 2.3% of the premiums (15.2% in 2002).



## Other Non-Life insurance classes

### MISCELLANEOUS FINANCIAL LOSS

**Premiums for direct domestic business** by the 84 insurance companies operating in this class were equal to Euro 270 million in 2003 (+14.9% compared to 2002) representing 0.8% of the total of Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 148 million (103 in 2002), with a 43.7% increase; the ratio to earned premiums was equal to 63.2%, reflecting an increase compared to 50.0% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 124 million (86 in 2002), with a 44.2% increase. The ratio to earned premiums was equal to 53.0%, reflecting an increase compared to 41.7% of 2002.

**Operating expenses** were equal to Euro 78 million (71 in 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 28.9% of the premiums (30.2% in 2002).

The **technical balance for direct business** was positive at Euro 25 million (44 in 2002).

Considering investment income, the direct technical account result was positive at Euro 32 million (50 in 2002).

MISCELLANEOUS FINANCIAL LOSS  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	138	151	163	175	235	270
Changes in premiums reserves (-)	11	7	19	7	29	36
Incurred claims (-):	59	85	202	88	86	124
- incurred claims cost for the current accident year (-)	68	88	197	99	103	148
- redundancy/deficiency of reserves for those claims incurred in previous accident years	9	3	-5	11	17	24
Balance of other technical items	-2	0	-4	-2	-5	-7
Operating expenses (-)	51	56	53	56	71	78
<b>Direct technical balance</b>	<b>15</b>	<b>3</b>	<b>-115</b>	<b>22</b>	<b>44</b>	<b>25</b>
Investment income	5	4	6	7	6	7
<b>Direct technical account result</b>	<b>20</b>	<b>7</b>	<b>-109</b>	<b>29</b>	<b>50</b>	<b>32</b>
Reinsurance results and other items	11	19	111	1	-14	4
<b>Overall technical account result</b>	<b>31</b>	<b>26</b>	<b>2</b>	<b>30</b>	<b>36</b>	<b>36</b>

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 36 million (the same value as 2002), representing 13.3% of the premiums (15.3% in 2002).



### LEGAL EXPENSES

**Premiums for direct domestic business** by the 86 insurance companies operating in this class were equal to Euro 184 million in 2003 (+12.2% compared to 2002), representing 0.5% of the total of Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 55 million (45 in 2002), with a 22.2% increase; the ratio to earned premiums was equal to 31.4%, reflecting an increase compared to 28.7% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 57 million (52 in 2002), with a 9.6% increase. The ratio to earned premiums was equal to 32.6%, reflecting a decrease compared to 33.1% of 2002.

**Operating expenses** were equal to Euro 71 million (64 in 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 38.6% of the premiums (39.0% in 2002).

The **technical balance for direct business** was positive at Euro 44 million (38 in 2002).

Considering investment income, the direct technical account result was positive at Euro 50 million (43 in 2002).

	1998	1999	2000	2001	2002	2003
Gross written premiums	98	110	126	144	164	184
Changes in premiums reserves (-)	4	7	7	7	7	9
Incurred claims (-):	31	31	31	38	52	57
- incurred claims cost for the current accident year (-)	35	35	38	41	45	55
- redundancy/deficiency of reserves for those claims incurred in previous accident years	4	4	7	3	-7	-2
Balance of other technical items	0	0	-1	-2	-3	-3
Operating expenses (-)	43	46	52	56	64	71
<b>Direct technical balance</b>	<b>20</b>	<b>26</b>	<b>35</b>	<b>41</b>	<b>38</b>	<b>44</b>
Investment income	5	4	5	5	5	6
<b>Direct technical account result</b>	<b>25</b>	<b>30</b>	<b>40</b>	<b>46</b>	<b>43</b>	<b>50</b>
Reinsurance results and other items	-1	-1	-1	-1	0	-4
<b>Overall technical account result</b>	<b>24</b>	<b>29</b>	<b>39</b>	<b>45</b>	<b>43</b>	<b>46</b>

LEGAL EXPENSES  
Euro million

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 46 million (43 in 2002), representing 25.0% of the premiums (26.2% in 2002).



## Other Non-Life insurance classes

### ASSISTANCE

**Premiums for direct domestic business** by the 80 insurance companies operating in this class were equal to Euro 257 million in 2003 (+7.1% compared to 2002), representing 0.8% of the total of Non-Life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 98 million (87 in 2002), with a 12.6% increase; the ratio to earned premiums was equal to 38.9%, reflecting an increase compared to 37.0% of 2002.

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 96 million (93 in 2002), with a 3.2% increase. The ratio to earned premiums was equal to 38.1%, reflecting a decrease compared to 39.6% of 2002.

**Operating expenses** were equal to Euro 80 million (75 in 2002), and include administration expenses relating to the technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses represented 31.1% of the premiums (31.3% in 2002).

The **technical balance for direct business** was positive at Euro 74 million (65 in 2002).

Considering investment income, the direct technical account result was positive at Euro 76 million (67 in 2002).

ASSISTANCE  
Euro million

	1998	1999	2000	2001	2002	2003
Gross written premiums	176	183	203	215	240	257
Changes in premiums reserves (-)	11	2	5	3	5	5
Incurred claims (-):	67	67	73	75	93	96
- incurred claims cost for the current accident year (-)	69	68	73	78	87	98
- redundancy/deficiency of reserves for those claims incurred in previous accident years	2	1	0	3	-6	2
Balance of other technical items	-2	-6	-2	-2	-2	-2
Operating expenses (-)	53	61	63	67	75	80
<b>Direct technical balance</b>	<b>43</b>	<b>47</b>	<b>60</b>	<b>68</b>	<b>65</b>	<b>74</b>
Investment income	3	2	3	2	2	2
<b>Direct technical account result</b>	<b>46</b>	<b>49</b>	<b>63</b>	<b>70</b>	<b>67</b>	<b>76</b>
Reinsurance results and other items	-10	-13	-16	-18	-16	-18
<b>Overall technical account result</b>	<b>36</b>	<b>36</b>	<b>47</b>	<b>52</b>	<b>51</b>	<b>58</b>

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 58 million (51 in 2002), representing 22.6% of the premiums (21.3% in 2002).



## Professional reinsurance has both a positive technical account balance and a positive result for the year.

The timeframe in which the reinsurance operations are closed only enable the final data for 2002 to be presented.

Indirect premiums were equal to Euro 5,682 million, representing a 4.0% increase compared to 2001. These indirect premiums represented 6.1% of the total, direct and indirect, premiums (6.7% in 2001).

### Professional Reinsurers

Indirect premiums for domestic and foreign business, gross of retrocession, for the insurance companies engaged only in reinsurance business (so-called professional reinsurers) amounted to Euro 2,171 million in 2002, representing a 14.8% increase compared to 2001.

The market share of professional reinsurers on the whole indirect business increased from 34.6% in 2001 to 38.2% in 2002.

The technical account result for the Non-Life and Life classes, net of retroceded premiums, was positive at Euro 49 million (-14 in 2001), representing 3.0% of the premiums (1.0% in 2001).

The result for the financial year was positive at Euro 60 million (-16 in 2001) representing 3.7% of the premiums (1.2% in 2001).

### DOMESTIC AND FOREIGN INDIRECT PREMIUMS

Euro million

WHOLE MARKET	PREMIUMS	% CHANGE
1997	5,215	6.7%
1998	5,233	0.3%
1999	4,678	-10.6%
2000	5,401	15.5%
2001	5,461	1.1%
2002	5,682	4.0%

PROFESSIONAL REINSURERS	PREMIUMS	% CHANGE
1997	1,729	8.5%
1998	1,835	6.2%
1999	1,669	-9.1%
2000	2,025	21.3%
2001	1,891	-6.6%
2002	2,171	14.8%

### PROFIT AND LOSS ACCOUNT

	1998	1999	2000	2001	2002
<b>Technical account</b>					
Indirect premiums	1,212	1,135	1,447	1,356	1,638
Changes in premiums reserves (-)	268	193	230	196	197
Investment income	210	159	219	176	201
Incurred claims (-)	914	760	1,083	934	1,146
Operating expenses (-)	367	339	425	404	445
Balance other profits and losses	-8	7	-11	-12	-2
<b>Balance</b>	<b>-135</b>	<b>9</b>	<b>-83</b>	<b>-14</b>	<b>49</b>
<b>Non-Technical account</b>					
Profits	49	33	32	21	25
Balance other profits and losses	12	-34	-20	-22	-6
Balance of ordinary activities	-75	8	-71	-15	68
Balance of extraordinary activities	2	-151	109	-1	12
Taxes on income (-)	6	9	3	0	20
<b>Result for the year</b>	<b>-79</b>	<b>-152</b>	<b>35</b>	<b>-16</b>	<b>60</b>

### PROFESSIONAL REINSURERS

Euro million



# Reinsurance

PROFESSIONAL REINSURERS  
Euro million

## ASSETS AND LIABILITY STATEMENT

	1998	1999	2000	2001	2002
<b>Liabilities</b>					
Net capital	422	424	457	449	558
Technical reserves	4,439	4,896	5,471	5,874	5,837
Funds and deposits from reinsurers	336	305	431	465	424
Debts and other liabilities	1,234	1,424	1,044	1,094	1,246
<b>Total</b>	<b>6,431</b>	<b>7,049</b>	<b>7,403</b>	<b>7,883</b>	<b>8,065</b>
<b>Assets</b>					
Intangible assets	136	295	294	267	261
Investments	4,118	4,565	5,109	5,469	5,483
Technical reserves from reinsurers	899	1,084	1,196	1,260	1,190
Amounts owed by debtors	679	630	590	632	795
Miscellaneous	599	475	214	255	336
<b>Total</b>	<b>6,431</b>	<b>7,049</b>	<b>7,403</b>	<b>7,883</b>	<b>8,065</b>





# Human resources and the operational area

The number of employees continues to decrease, but at a slower rate compared to the previous year.

NUMBER OF STAFF

## SUBORDINATE COLLABORATORS

At the end of 2003 the number of staff employed by insurance companies totalled 39,262 (-718 persons compared to 2002). Administrative staff, including Managers, totalled 36,401 (-586 persons), whereas sales agents numbered 2,861 (-132 persons). The number of employed workers continued to decrease, but at a lower rate compared to 2002 (-1.8%, compared to -4.2% in 2002). In particular, there was a 1.6% reduction (-3.7% in 2002) for administrative staff and a 4.4% reduction for sales agents (-10.2% in 2002).

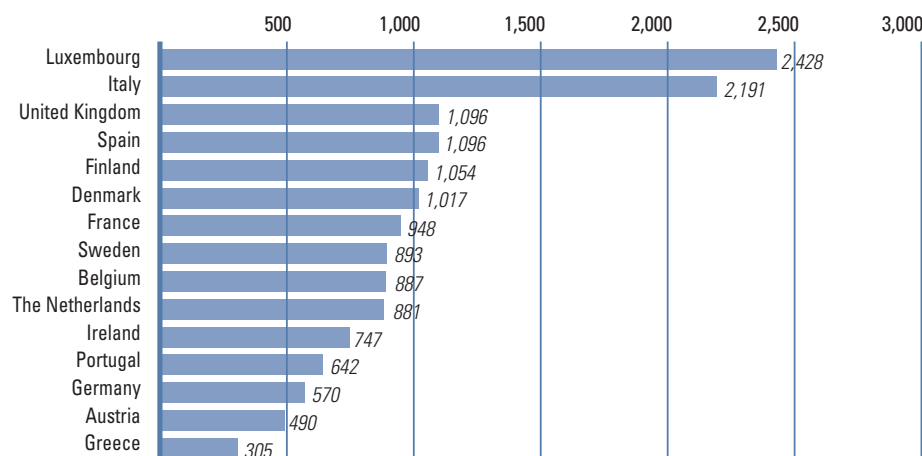
Despite the decrease in the number of employed workers, the total staff cost increased by 6.4%, due to the effect of wage increases expected by collective agreements renewals.

Between 1999 and 2003 there has been a decrease in the number of employed workers of 7.9%, whereas the total cost increased by 4.3%; the unit cost for each worker, equal to Euro 60,044 in 2003, increased by 12.7% (11.7% for administrative staff only). In the same period there was a 10.9% inflation rate.

YEAR	ADMIN.	SALES	TOTAL
1999	38,481	4,141	42,622
2000	38,280	3,984	42,264
2001	38,414	3,332	41,746
2002	36,987	2,993	39,980
2003	36,401	2,861	39,262

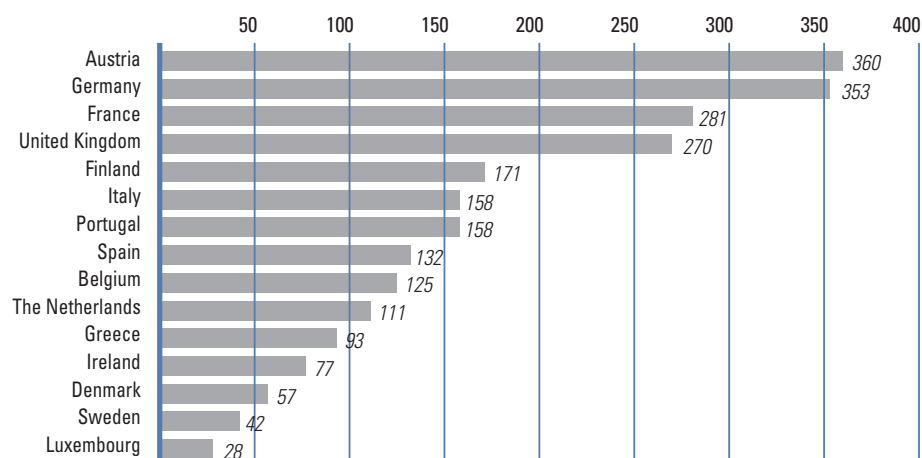
TOTAL COSTS RELATING TO STAFF  
Euro million

YEAR	ADMIN.	SALES	TOTAL
1999	2,135	145	2,280
2000	2,201	155	2,356
2001	2,171	142	2,313
2002	2,119	117	2,236
2003	2,264	115	2,379



PREMIUMS PER EMPLOYEE IN E.U. COUNTRIES - 2002  
Euro (000's)

Source: CEA



EMPLOYEES PER COMPANY IN E.U. COUNTRIES - 2002

Source: CEA



# Insurance distribution

The evolution of the distribution system recorded in these last years is confirmed: the leadership of Non-Life classes belongs to agents, while for the Life classes belongs to bank counters. Direct marketing increases.

## LIFE BUSINESS

Euro million

CHANNELS	2002 PREMIUMS	%	2003 PREMIUMS	%
Bank counters	31,113	56.3	36,995	58.9
Agents	10,864	19.6	11,518	18.3
Financial advisers	7,903	14.3	6,938	11.1
Direct sales	4,937	8.9	6,801	10.9
Brokers	477	0.9	528	0.8
<b>Total</b>	<b>55,294</b>	<b>100.0</b>	<b>62,780</b>	<b>100.0</b>

## LIFE BUSINESS

All distribution channels – except financial advisers – register, in absolute value, an increase in premium collection, and this confirms the general consumer satisfaction vis-à-vis Life insurance products. The growth of direct marketing is significant, having passed from Euro 4,937 million in 2002 to Euro 6,801 million in 2003, with a 38% growth, mostly concentrated in the group policy sector.

BREAKDOWN OF LIFE MARKET PER DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2003

CLASS OF BUSINESS	AGENTS	BROKERS	BANK COUNTERS	FINANCIAL ADVISERS	DIRECT SALES	TOTAL
<b>INDIVIDUAL POLICIES</b>						
I - Human life	25.4	0.6	58.0	5.3	10.7	100.0
III - Linked	8.2	0.0	72.0	19.2	0.6	100.0
IV - Healthcare	86.0	0.1	11.3	1.9	0.7	100.0
V - Capitalization	20.7	0.2	49.5	4.9	24.7	100.0
VI - Pension funds	63.2	1.0	18.1	1.5	16.2	100.0
Ind. pens. schemes (*)	42.6	0.1	13.0	41.1	3.2	100.0
<b>TOTAL INDIVIDUAL</b>	<b>17.6</b>	<b>0.3</b>	<b>62.7</b>	<b>11.9</b>	<b>7.5</b>	<b>100.0</b>
<b>GROUP POLICIES</b>						
I - Human life	23.5	17.2	9.5	0.9	48.9	100.0
III - Linked	18.3	3.6	1.3	0.1	76.7	100.0
IV - Healthcare	0.1	99.9	0.0	0.0	0.0	100.0
V - Capitalization	32.4	2.6	6.8	0.2	58.0	100.0
VI - Pension funds	41.3	0.3	22.4	0.0	36.0	100.0
<b>TOTAL GROUP</b>	<b>28.8</b>	<b>8.2</b>	<b>7.8</b>	<b>0.4</b>	<b>54.8</b>	<b>100.0</b>
<b>TOTAL POLICIES</b>						
I - Human life	25.3	1.5	55.3	5.0	12.9	100.0
III - Linked	8.2	0.0	71.7	19.1	1.0	100.0
IV - Healthcare	3.5	95.9	0.5	0.1	0.0	100.0
V - Capitalization	24.4	0.9	36.1	3.4	35.2	100.0
VI - Pension funds	53.5	0.7	20.0	0.9	24.9	100.0
Ind. pens. schemes (*)	42.6	0.1	13.0	41.1	3.2	100.0
<b>TOTAL LIFE CLASSES</b>	<b>18.3</b>	<b>0.8</b>	<b>58.9</b>	<b>11.1</b>	<b>10.9</b>	<b>100.0</b>

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



## NON-LIFE BUSINESS

Consumer tendency to buy Non-Life insurance products through professional mediators, agents and brokers is confirmed.

It is important to underline the constant growth, for Motor third party liability of the telephone sales, which becomes the second distribution channel with a market share of 2.7%.

The increase of collection through bank counters for accident, sickness and fire business is still limited but nevertheless very interesting.

### NON-LIFE BUSINESS

Euro million

CHANNELS	2002		2003	
	PREMIUMS	%	PREMIUMS	%
Agents	27,876	86.1	29,164	85.2
Brokers(*)	2,446	7.5	2,550	7.5
Direct sales	1,747	5.3	2,047	6.0
Bank counters	312	1.0	422	1.2
Financial advisers	34	0.1	29	0.1
<b>Total</b>	<b>32,415</b>	<b>100.0</b>	<b>34,212</b>	<b>100.0</b>

(\*) The data do not include the premiums collected by brokers and presented to agencies

CLASSES	AGENTS	BROKERS(*)	BANK COUNTERS	FINANCIAL ADVISERS	AGENCIES IN ECONOMY	OTHER TYPES OF DIRECT SALES			TOTAL
						TELEPHONE SALES	INTERNET	OTHER	
Motor liability	92.2	2.2	1.1	0.0	1.1	2.7	0.7	0.0	100.0
Land vehicles	88.5	5.2	1.1	0.0	2.1	2.3	0.7	0.1	100.0
<b>Total Motor</b>	<b>91.8</b>	<b>2.6</b>	<b>1.1</b>	<b>0.0</b>	<b>1.2</b>	<b>2.6</b>	<b>0.7</b>	<b>0.0</b>	<b>100.0</b>
Accident	84.8	7.5	1.9	0.4	4.4	0.5	0.1	0.4	100.0
Sickness	61.7	19.8	2.4	0.9	13.2	0.0	0.0	2.0	100.0
Railway craft	34.8	5.8	0.0	0.0	59.4	0.0	0.0	0.0	100.0
Aircraft	36.6	38.0	0.0	0.0	25.4	0.0	0.0	0.0	100.0
Ships	17.0	60.4	0.0	0.0	22.6	0.0	0.0	0.0	100.0
Goods in transit	45.7	45.7	0.0	0.0	7.6	0.0	0.5	0.5	100.0
Fire and natural forces	76.8	13.9	2.3	0.0	6.9	0.0	0.0	0.1	100.0
Other damages to property	79.0	13.9	1.3	0.1	5.6	0.0	0.0	0.1	100.0
Aircraft third party liability	40.5	16.1	0.0	0.0	43.4	0.0	0.0	0.0	100.0
Ships third party liability	94.3	3.0	0.1	0.0	1.8	0.6	0.2	0.0	100.0
General third party liability	79.8	13.8	0.5	0.0	5.9	0.0	0.0	0.0	100.0
Credit	78.2	11.7	0.7	0.0	9.4	0.0	0.0	0.0	100.0
Suretyship	82.7	10.2	0.7	0.0	6.3	0.0	0.0	0.1	100.0
Miscellaneous financial loss	68.7	23.1	1.6	0.0	3.5	0.3	0.2	2.6	100.0
Legal expenses	83.1	8.3	1.8	0.0	2.6	2.6	0.5	1.1	100.0
Assistance	78.0	6.6	2.0	0.3	4.4	3.9	1.3	3.5	100.0
<b>Total Non-Motor</b>	<b>75.6</b>	<b>14.8</b>	<b>1.4</b>	<b>0.2</b>	<b>7.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.5</b>	<b>100.0</b>
<b>Total Non-Life classes</b>	<b>85.2</b>	<b>7.5</b>	<b>1.2</b>	<b>0.1</b>	<b>3.6</b>	<b>1.7</b>	<b>0.5</b>	<b>0.2</b>	<b>100.0</b>

BREAKDOWN OF NON-LIFE MARKET PER DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2003

(\*) The data do not include the premiums collected by brokers and presented to agencies



### AGENTS AND BROKERS OPERATING IN ITALY

As at December, 31<sup>st</sup> 2003, 22,395 natural persons (+20 compared to 2002) were enrolled in the lists of the first section of the national register of insurance agents, relative to the agents entitled to operate thanks to an appointment given by insurance companies.

The second section of the register, relative to those people who were enabled to perform that activity, but who were not able to operate as they were not appointed by insurance companies, enrolled 13,348 natural persons (-225 compared to 2002).

Still as at December, 31<sup>st</sup> 2003, the national register of insurance and reinsurance brokers enrolled 3,018 natural persons (+266 compared to 2002) and 933 legal persons (+21 compared to 2002).

### NEW NATIONAL AGREEMENT BETWEEN INSURANCE COMPANIES AND AGENTS

ANIA, SNA and UNAPASS entered into the new national Agreement on 23rd December 2003, which disciplines the relationships between insurance companies and agents.

The agreement was renewed after long and complex negotiations and marks a turning point in industrial relations between agents and insurance companies which will enable the major changes that impact the insurance products distribution system to be managed, through dialogue.

In fact, the agreement foresees setting up a common and joint Body to examine the most significant problems that are encountered in the insurance distribution sector and in particular, to identify new solutions, as applicable, to restructure the distribution system with particular reference to the structure of the insurance companies/agents relationship and the exclusive models.

An initial topic brought to the attention of the joint Body referred to incorporating directive 2002/92/EEC concerning insurance brokerage in our regulations.

The principle new features introduced by the new national Agreement concern the following aspects:

- the formal definition of the agency mandates conferred on companies which, on the one hand confirms the importance of the *'intuitus personae'* towards shareholders, directors and representatives in relation to insurance business also in this particular form of agency relationship and on the another hand, confers greater stability to the relationship by introducing a procedure designed to facilitate an understanding between the insurance company and the agency being reached in the event of withdrawal of one of the parties concerned;



- the procedures and the effects of terminating the agency relationship, with the expectation of separate and transparent procedures in cases of withdrawal invoked by the insurance company with details of the reasons or without providing details of the reasons. A single national settlement and arbitration Panel has been set up in the case of withdrawal for true and just cause that the agent may contact, via a rapid and certain procedure, as an alternative to making recourse to the judicial authorities. The Panel has the task of assessing the soundness of the just cause invoked by the insurance company and the subsequent determination of the amounts due and payable to the agent in question.

### IMPLEMENTATION OF THE INSURANCE BROKERAGE DIRECTIVE

Directive 2002/92/EC relating to insurance brokerage establishes that the directive in question is to be incorporated in the legal system of the member countries within 15th January 2005.

The implementation regulation was introduced in Italy in the "Private insurance code" prepared by the Government by virtue of a specific delegated law, the Code in question has initiated the approval procedure.

The new regulation under preparation proposes above all to ensure the professionalism of all parties involved in distributing insurance products, registration of the parties in question in a public list, as well as the adoption of codes of conduct towards customers designed to ensure maximum transparency. In particular, the following phases are foreseen:

Establishing a single national register divided into the following sections:

- a) Insurance agents.
- b) Insurance brokers.
- c) Associated insurance brokers.
- d) Banks, Stock Brokerage Companies and Post Offices which distribute exclusively standardised insurance products.
- e) Brokerage partners as detailed in sub-sections a), b) and d), authorised to engage in insurance brokerage business also limited to a specific class or type of product.

Registration of all brokers in the different sections of the register that are required to satisfy the following conditions for this purpose:

- to possess the necessary honourable qualifications;
- to possess the necessary professionalism, ascertained by passing an eligibility examination or taking part in specific training courses, as applicable;



- to provide adequate guarantees as regards damage that may be caused to third parties, by taking out a professional liability policy or in some cases by assuming joint liability directly by the insurance company or the broker with which the work is executed;
- to offer suitable financial guarantees to consumers, implemented through application of the principle according to which payment of the premium paid in good faith to the broker is considered to have been effected by the insurance company, or through the compulsory participation in the insurance brokers surety Fund.

All brokers shall be under obligation to provide the consumer the following information before finalising the contract:

- general details, for example: the broker's identity and address, the register in which the broker is listed and the methods by which the consumer can monitor, as appropriate;
- regarding the broker's personal relationships with the insurance company, for example: exclusive, multi-firm representative, or no contractual restraints, in this case specifying whether the broker provides consulting services or otherwise based on impartial analyses;
- relative to the product proposed, illustrating the essential features of the contract and the benefits which the insurance company is under obligation to provide.

The proposed regulation appears to be acceptable in its essential framework, even if a number of amendments and integrations appear to be necessary for the following purposes:

- to describe more accurately the activities engaged in by the different insurance brokers and provide a notion of insurance broker that is more consistent with the operating scenario of the Italian insurance market;
- to simplify the management processes entailed in registering brokers, as detailed in sub-section e) of the register, clarifying the responsibilities referable to the insurance company and the responsibilities relative to the agents, brokers and financial parties;
- to foresee a transition discipline that enables the current distribution system to operate during the period necessary to adapt to the new legal provisions.



Uncertainties deriving from international tensions following the Iraqi issue and the fear of new big terrorist attacks, as the Madrid attack the 11<sup>th</sup> of March last, characterized the first part of 2004. In this context, operators announced bearish estimates on economic growth: Italian economic indicators show a very slow growth in the economy.

Considering the insurance market figures, the year 2004 is expected to bring a drop in the growth of Italian direct work premiums that will be of about 6.7%: premium collection total will exceed Euro 103 billion. Premium collection incidence on the gross domestic product will show a slight increase (from 7.46% to 7.57%) due essentially to the development of premiums registered in Life insurance classes.

CLASSES	2003 PREMIUMS	2004 PREMIUMS	CHANGE (%)
Motor liability	17,622	18,291	3.8%
Land vehicles	3,062	3,178	3.8%
Accident	2,760	2,881	4.4%
Sickness	1,509	1,597	5.8%
Fire and natural forces	2,038	2,142	5.1%
General third party liability	2,798	3,098	10.7%
Other damages to property	2,158	2,277	5.5%
Other Non-Life classes	2,265	2,389	5.5%
<b>TOTAL NON-LIFE CLASSES</b>	<b>34,212</b>	<b>35,853</b>	<b>4.8%</b>
<i>Premiums/GDP (%)</i>	<i>2.63%</i>	<i>2.62%</i>	
Class I - Human life	27,740	30,061	8.4%
Class III - Linked	26,560	28,382	6.9%
Other Life classes	8,480	9,178	8.2%
<b>TOTAL LIFE CLASSES</b>	<b>62,780</b>	<b>67,621</b>	<b>7.7%</b>
<i>Premiums/GDP (%)</i>	<i>4.83%</i>	<i>4.95%</i>	
<b>TOTAL CLASSES</b>	<b>96,992</b>	<b>103,474</b>	<b>6.7%</b>
<i>Premiums/GDP (%)</i>	<i>7.46%</i>	<i>7.57%</i>	

*Euro million*

*Source: Data processed by ANIA*

In Non-Life insurance classes an increase near to 5% is expected, with a premium collection that will reach almost Euro 36 billion. Motor insurance will slow down its growth due to the moderate rate increase applied thanks to the improvement of the sector's technical results and thanks to the agreement signed in June 2003 between the Government, most part of the consumers' associations and ANIA, in order to contain premium growth, in particular for young people and families.



## The Italian insurance in 2004

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Uncertainty on the economic recovery will influence the development of premium collection for Life classes, confirming the trend towards insurances with a limited risk profile. Growth in Life classes is expected to be around 8%, with a premium collection equal to Euro 68 billion. Collection from bank counters and postal offices will continue to draw the market. Development trends in Life classes will be positive, even though increases are lower than in 2003: in particular class I premiums (including standard insurance based on human life length) will attain Euro 30 billion with a higher than 8% growth. Class III premiums are also in evolution (including insurance based on the length of human life linked to investment funds) which will grow at a rate equal to 6.9%.







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