Italian insurance in 2004/2005

ANIA Associazione Nazionale fra le Imprese Assicuratrici

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Summary

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ADDITIONAL COMMENT SECTIONS

Executive summary

The world economy grew at a sustained rate in 2004, the highest rate over the last two decades. The United States economy began to recover in 2003 and this recovery has been sustained; China and India repeated the brilliant economic results recorded in recent years. Whereas, the price of crude oil, and the revaluation of the Euro over the dollar have depressed the economic recovery in many countries in Europe, including Italy, which has been especially conditioned by the very limited growth in exports, associated with the loss of competitiveness of our economy, and the difficulties experienced by government spending.

RESULTS FOR THE YEAR

The Italian insurance industry reported positive economic results, overall, in 2004 in a limited growth scenario, chiefly due to the effect of an improvement in the technical account result for the Non-Life classes and a favourable growth of the Life insurance class portfolio. However, the annual growth rate of gross premiums for the industry as a whole in 2004 was the lowest in the last ten years, 3.4% (10.2% in 2003); premiums increased by 2.2% in the Non-Life insurance classes (4.5% in 2003) and by 4.1% in the Life insurance classes (13.8% in 2003).

The technical account result for the Non-Life insurance classes increased from Euro 2.4 billion in 2003 to Euro 2.9 billion in 2004; the increased profits generated by investments (11.7%) and a growth in net premiums (3.5%) higher than the increase in the claims-related charges (1.9%) contributed to this result. The technical account result increased from 7.6% in 2003 to 8.8% in 2004 in relation to the respective premiums.

The technical account result referred to the Life insurance classes was equal to Euro 2.1 billion (Euro 1.7 billion in 2003). Profits generated by investments increased by 27.1% compared with 2003, while the increase in claims-related charges (36.7%) was higher than the increase in net premiums (5.1%). The technical account result relating to reserves, increased from 0.65% in 2003 to 0.67% in 2004.

Operating expenses over premiums were equal to 23.2% in the Non-Life classes and equal to 6.1% in the Life classes (23.0% and 6.1%, respectively, in 2003).

The loss ratio (the ratio between the claims-related charges and the respective premiums) decreased from 73.7% in 2003 to 72.3% for the Non-Life classes, while the combined ratio decreased from 96.7% to 95.5%.

The net income for the financial year was equal to Euro 5.3 billion (Euro 3.8 billion in 2003), taking into account the essential stability of extraordinary

income. The net profit (ROE) over shareholders' equity was equal to 13.8% compared with 10.6% in 2003.

The Report illustrates a comparison of the economic results achieved by insurance companies in Italy, France, Germany and Spain obtained by processing the information reported in the Income Statement from 1999 to 2003 stored in the Bureau van Dijk ISIS databanks. 2003 marked an improvement in profitability for the insurance sectors of all these countries compared with previous year, referred to both the Non-Life insurance classes and the Life insurance classes. In particular, the combined ratio decreased for the median company in all the countries (in 2003 this ratio was equal to 95.5% in Spain, 97.8% in Italy, 98.3% in Germany and 99.0% in France), due to the effect of a decrease in the loss ratio. The more favourable trend of the financial markets contributed to improving the profitability in the Life classes, which was reflected in a high-growth rate for the reserves of the median insurance company (18.4% in Italy, 9.1% in France, 8.9% in Germany and 7.1% in Spain).

FORECASTS FOR 2005

The economic difficulties experienced by the Italian economy should be reflected in a limited increase in the premiums income for the Non-Life classes (3.6%). The foregoing growth is clearly influenced by the motor insurance class which should increase by a limited amount in 2005 (2.2%), due to the weak demand for cars and the increased rates which should be curbed, despite the unfavourable trend in the technical needs.

The uncertainties regarding the trend of the economic situation and the low level of consumer confidence should condition significantly the savings trend of Italian households. The continued increase in the propensity for savings and the limited growth in real estate investments should contribute to improving the financial balance of households. Restructuring the portfolio should continue to privilege low risk assets. The premiums income achieved by the Life insurance classes in this framework should increase by approximately 7%.

NON-LIFE INSURANCE

Italy is an under-insured country in the international scenario. The ratio between Non-Life insurance premiums and the GDP was equal to 2.62% in 2004 (2.63% in 2003), approximately one percentage point lower compared with the principal European countries. The difference is even greater when the comparison excludes motor insurance policies: in Italy the impact on the GDP is very close to 1%, whereas the impact is more than double in the other principal European countries.

Part of the gap depends on the structure of the Italian productive system, concentrated on small and medium-sized insurance companies which resort more frequently to self-insurance as a result of the reduced organisational complexity.

Another part of a gap arises from the disproportionate structure of our Welfare system that limits the distribution of market coverage as regards Healthcare, protection of the elderly, natural calamities and terrorism with the claim of offering unlimited coverage with decreasing resources.

The Report includes three in-depth analyses which focus on health insurance. In the first analysis, based on a research project performed by the OECD (Organisation for Economic Co-operation and Development) it is found that the demand for health insurance by Italian families is very limited; this demand is equal to 1% of the total healthcare expenditure, compared with 12.7% in France and 12.6% in Germany. Then an analysis is made of the development of healthcare insurance as a tool to reduce public expenditure for healthcare services and to promote individual and effective choices; in particular, a schematic description is provided of the interaction between public healthcare services and the private healthcare and accident insurance sector in the principal industrialised countries, as emerges from the study performed by the OECD (Organisation for Economic Co-Operation and Development).

The second in-depth analysis describes how the change in the structure of Italian households has modified the demand for healthcare insurance and documents how the number of insured households between 1991 and 2002 has increased from 0.9 million to 1.6 million (7.5% of the total number of households) based on the data reported in the survey on Household Budgets performed by the Bank of Italy. Households with higher incomes tend to take out more insurance and are resident in Central Italy and above all in North Italy, where the head of the family has high academic qualifications, is a Company Director or an independent worker, is aged between 41 and 50 and, his financial portfolio includes shares and Life insurance. If, on the one hand, the distribution of insurance is fostered by the progressive increase in the level of education, on the other hand, the relative demand decreases with the ageing population.

Finally, the third analysis documents the results of a survey performed by the Department of Epidemiology of the Rome E Local Health Authority and by the Public Health Department of the University of Turin on behalf of ANIA. The project details the methodology aspects of how to measure correctly the probability of resorting to Healthcare services in the case of patients already suffering from serious pathologies; estimates the costs sustained by these patients in hospital facilities during the three years following the occurrence of the pathology and compares these costs with the costs associated with a "healthy" patient of the same age and sex; finally a costs forecast model is estimated, by considering the characteristics of the patient.

As regards the insurance of catastrophic risks, the Report documents how natural calamities have caused material claims in Italy estimated at approximately Euro 32 billion between 1997 and 2003, divided almost equally between hydrogeological and seismic events. Average annual claims were equal to approximately Euro 4.6 billion, showing a significant timing difference: 1997 was the year with the highest losses, totalling Euro 11 billion, whereas the natural catastrophic events generated claims amounting to only Euro 374 million in 2001. At present, the cost of catastrophes is born entirely by the Government, which finances the event based on general taxation. The 2005 Financial Law outlines a potential new regulatory framework as regards the insurance cover of natural catastrophes. The basic idea is that the Government gradually withdraws from direct action in the case of a catastrophe, favouring recourse to individual insurance solutions, however protecting low income property owners and maintaining the role of the last appeal guarantor to ensure the system's solvability. The provisions of law are fairly scant and it is not yet clear if the implementation decrees will actually be capable of launching a new system.

In other countries catastrophic type risks are covered, at least partially by the insurance sector and, sometimes, the risk is then transferred to the international financial markets. There were 59 issues of cat bonds on the world market between 1997 and 2004, according to a study by Guy Carpenter and MMC Securities, of which 25 were by insurance companies, 31 by re-insurance companies and 3 by companies outside the insurance sector.

The Report also describes a specific in-depth analysis on the operational risks of banks, namely the potential losses that banks may suffer due to problems related to IT security, the possibility of human errors in the processes, legal risks, fraud and infidelity. According to the new regulations issued by the Committee of Basel, banks must hold a capital provision in relation to this type of risk, which in given circumstances can be reduced if the bank takes out insurance cover. Further in-depth analyses refer to the risks associated with Directors' liability and agriculture.

MOTOR INSURANCE

2004 has been a year in which the rates remained virtually unchanged, also due to the full impact of the positive effects generated by the agreement Protocol entered into among ANIA, the Government and the majority of the Consumer Associations and signed in May 2003 and by the insurance companies achieving a technical balance in this insurance class. The Italian National Statistics Institute (ISTAT) index relating to motor insurance prices increased by 0.9% in 2004 compared with a general rate of inflation of 2.2%.

In April 2005, the rate of growth of the motor insurance prices index over twelve months was equal to 0.9%, according to the latest data available from

ISTAT, compared with 1.9% for the general prices index. The ISTAT insurance prices index has increased by only 1.7% from the date the Protocol was signed to today, representing a period of almost two years, compared with a 3.9% increase in inflation.

The Report illustrates two in-depth analyses on motor insurance prices. The first survey analyses the pricing dynamics over the long-term (1970-2004) and is based on the premiums volume growth rate indicator, net of the increase in the number of vehicles in circulation. This indicator makes it possible to calculate that motor insurance premiums have increased by 59.7%, in the eight years between 1995 and 2002, namely by 6% per annum, which compares with a 2.8% annual rate of inflation and is the most correct approach from the methodological point of view to analyse the pricing trend in a compulsory insurance regime. This high increase in premiums has enabled insurance companies to re-establish the necessary economic balance, which was already compromised by the major deterioration of the loss ratio starting from the mid-80s (the loss ratio is the factor that measures the part of the premiums income used to cover the cost of claims) and the significant decrease in the contribution made by the reserves financial management.

The second in-depth analysis shows the results of a quarterly survey on the evolution of motor insurance premiums, which is based on the public information inferred from the Internet web sites of insurance companies. The survey demonstrates the existence of a wide-ranging offer by insurance companies: in particular, with reference to the various profiles of the insured and in all of the 20 regional capitals analysed, the ratio between the maximum and the minimum premium was always between 2 and 3: this confirms that there are ample margins for savings to be achieved by motorists that pay higher premiums.

A further in-depth survey presented in the Report details an analysis of the trend in the frequency of claims and their average cost. In particular, the data relating to 2004 indicates that the average cost increased by 4.2% compared with 2003 (from Euro 3,805 to Euro 3,965) against a limited reduction in the number of claims (-2.1% compared with 2003, decreasing from 8.63% to 8.45%).

Therefore, it is important to continue the action of curbing the cost of claims. The Report describes the initiatives implemented by the Road Safety Foundation, as well as the experiments with new technological devices (including the clear box) which could favour a decrease in the number of accidents. A number of considerations are also described regarding the problem of assessing the biological injury, in the case of degrees of invalidity exceeding 9 points. Finally, a detailed review is reported on the problems associated with the possibility of applying a compensation system based entirely on direct indemnification in the framework of the third-party motor liability scheme, which is able to decrease the cost of insurance and increase the quality of the service offered to the insured.

LIFE INSURANCE

The income available to households increased by 4.1% in 2004, in nominal terms and by 1.8% in real terms (1.6% in 2003). The rate of savings by households in 2004 was equal to 13.6% of the available income, more than one half percentage point higher than the previous year: therefore, the financial savings by households, defined as the difference between the gross flow of assets and liabilities increased by 7.1%.

Households channelled 32.8% of the gross flow of financial assets into Life insurance products (39.6% in 2003). The demand for long-term Italian securities remained stable, equal to 32.3% of the gross flow (27.1% in 2003).
Households purchased short-term Italian securities totalling Euro 6 billion in 2004, following significant divestments in 2003, whereas households sold quotas in Italian foreign investment funds totalling Euro 7.5 billion, after net purchases totalling Euro 19.8 billion in 2003.

Life insurance policies represented 9.8% of the portfolio held by Italian households at the end of 2004 (9.3% in 2003), while quotas in investment funds represented 10.8% (9.6% only for Italian investment funds). The revaluation of share prices in 2004 caused the proportion of shares held to increase (from 22.4% in 2003 to 24.1% in 2004), despite the net disinvestment. The quotas of bills and deposits (16.2% in 2004) and long-term Italian securities (18.9%) remain essentially stable.

The aggregate volume of direct Life insurance premiums, equal to Euro 65,627 million in 2004, increased by 4.5% compared with 2003. The increase in premiums of traditional insurance policies (class I and class V), characterised by guarantees of minimum performance, more than compensated the decrease in premiums relating to linked-type products. The mathematical reserves, equal to Euro 310,327 million, increased by 14.6%, representing a 23.0% impact on the GDP (20.8% in 2003).

The Return on Equity, defined as the ratio between the profits for the financial year after tax and own capital, equalled 11.6% in 2004 (9.6% in 2003). Again in 2004 the ratio between the overall technical account result and the technical reserves (an indicator analogous to the indicator commonly adopted in the managed assets industry, which uses the series of funds invested on behalf of subscribers as a denominator) was equal to 64 basis points, decreasing by 4 basis points compared with 2003.

The value generated by new business, approximately equivalent to the New Business Margin defined as the ratio between the estimate of the current value of future profits expected from new business produced during the year, net of the cost of capital, and a standardised measure of the new business premiums (equal to the sum of the annual premiums and the ratio between the

single premiums and the number of years duration of the contracts) can be estimated at 29.1% based on the data of a sample of listed companies (27.5% in 2003), on the basis of the data published by a number of listed companies.

The Italian Supervisory Body for Private Insurance Companies (ISVAP), after a stage of public consultation, published Circular 551/D on 1st March 2005 disciplining the transparency provisions concerning Life insurance contracts, imposing rigorous transparency standards for Life insurance products. In addition to laying down the obligations relating to the form and content of the pre-contractual information document, the Circular also includes important rules regarding the offer and management activities relating to the products. The introduction of a summary data sheet is of particular importance, and is designed to inform the client in a simple and immediate way regarding the principal characteristics of the contract. The data sheet, in addition to the historical return data, also includes the "average annual percentage cost" indicator, calculated using the reduction in yield technique, which highlights the amount by which the hypothetical return decreases each year due to the costs burdening the contract.

The Report also illustrates the classification methodology proposed by ANIA referred to the internal investment funds to which the unit-linked insurance policies are linked. The classification of the insurance investment funds was determined by defining five macro-categories in which to include the insurance investment funds in question: share funds, balanced funds, bonded funds, liquid assets funds and flexible funds. The classification is designed to facilitate the identification of the principal features of the fund and to provide the client with an indicator of the investment services offered by the management schemes of the various insurance funds.

THE REGULATORY SCENARIO

2004 and the early months of 2005 were characterised by an important regulatory and disciplinary impact regarding the international accounting standards. The following two accounting standards: IAS 39 *"Financial instruments: recognition and valuation"* and IFRS 4 *"Insurance contracts"* were approved by the European Commission at the end of 2004; these standards include the chief innovations introduced by the new international accounting standards and are very important for the insurance sector, involving more than 90% of the values disclosed in the Financial Statements.

The obligation of preparing and presenting consolidated Financial Statements drawn up in compliance with the IAS becomes applicable for all insurance companies from 2005, also for the unlisted companies, and from 2006 in the case of listed companies which only draw up the Financial Statements for the period. The Italian legislator, consistent with the provisions issued in the prin-

cipal European countries, has not established either the obligation or the option for insurance companies to draw up the individual Financial Statements for the accounting period in compliance with the new accounting standards.

Migration to the international accounting standards by companies required to adopt such accounting standards will apply during 2005 in a gradual and differentiated form. In particular, the Italian Companies and Stock Exchange Commission (CONSOB) has granted listed companies the right to draw up the first and second 2005 quarterly report and the 2005 half-yearly report, in compliance with the old accounting standards. However, a reconciliation table is required to be presented for the values reported with the values obtained by implementing the IAS, at the date of the half-yearly report. The Financial Statements are to be drawn up in compliance with the new accounting standards from the third quarterly report onwards.

Therefore, the insurance sector is committed to putting into place a series of actions to adapt the internal procedures and the IT systems to produce information that complies with the accounting standards which have been approved recently and change continuously. In addition to the operational aspects it is necessary to address aspects of strategic importance, with an innovative spirit. In fact, as is known to many, assets will be valued at the fair value, whereas the reserves relating to insurance contracts will be valued at cost. These different valuation methods may generate an artificial volatility in the economic results of insurance companies. Many believe that re-engineered products and a more prudent approach in financial investments may be the outcome; the capacity for dialogue and comparison with the analysts and the financial market will certainly acquire strategic importance.

In the case of insurance companies, the regulatory scenario will be subject to significant changes in the future. First of all, the IASB could present the new version of the *fair value option* of IAS 39 and this could be approved by the European commission already during 2005. But, above all of the IASB has implemented the preparatory work for the new IFRS 4 (so-called Stage II) which will deal with complex topics, such as the valuation of liabilities generated by insurance contracts. The Report presents an in-depth analysis on this topic.

A description is provided later of the methods with which the European and the Italian insurance sectors are addressing the "Solvency II" project, which has entered a crucial stage in recent months after a preparatory study period and a general definition of the problems. In fact, the European commission presented the general plan ("Roadmap") last July to carry out the work in the project's second stage and submitted three series of 'Calls for Advice' to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), to be completed within February 2006, which basically cover all the essential aspects of the future regime. The Commission will draw up a "framework directive" proposal within the end of 2006.

Executive summary

The law incorporating the "Regulations disciplining pension-related aspects and delegations to the Government in the public Social Security sector, to support complementary Social Security and stable occupation and to restructure compulsory Social Security and Welfare institutions", approved last 23rd August, came into force on 6th October 2004. At present, the Government has only implemented a number of provisions relating to public Social Security; the Government has still to issue the implementing decrees which relate to complementary Social Security schemes. In particular, the decrees relating to the conferment of the employee severance indemnity (TFR) and the employer's contributions to pension schemes via the silence-consent mechanism, the portability of accumulated quotas and increased tax incentives have not yet been approved.

During the debate on the delegated decrees, ANIA shared the importance stressed by various parties, of drawing up common rules relating to the comparability, transparency and portability of all the complementary, collective and individual forms of pension schemes. In this framework, ANIA strongly reproposed the need to remove the prohibition that exists today for pension funds to be able to invest their resources or portions of their resources in class I and class V insurance management arrangements. These management arrangements, which have genuinely distinctive characteristics and offer a minimum guaranteed return, could favour an extension of the number of participants in complementary Social Security schemes, participants that are currently reluctant to invest in funds for the fear of losing the principal account. The Report also includes an analysis of the return of the separate management arrangements, which has always been distinctly higher than the return on Government securities, the employee severance indemnity (TFR) remuneration rate and the long-term rate of inflation. Furthermore, the investment strategy in revaluable policies between 1981 and 2004 was found preferable compared to investing in shares, after having verified the risk and the return.

Finally, two notes describe, respectively, recent measures relating to taxation aspects and the approval procedure of the new private insurance Code, approved in a preliminary form by the Council of Ministers last July and which should be passed within next summer.

THE REAL ECONOMY

The international macro-economic scenario

The growth of the world's economy accelerated in 2004. The GDP recorded a 5.1% increase, despite the downturn in the second half of the year due to the effects of the crude oil price increase. Growth continued to be very unbalanced among the various countries and significantly dependent on the expansion of the American economy and the economy of a number of Asian countries, in particular China and India. World trade increased by 10%, the highest rate over the last decade.

The decreasing driving force of the fiscal policy on consumptions in the United States was balanced by a strong recovery of investments in machinery and plants, favoured by the profitability of companies and by still favourable credit conditions. The GDP recorded a 4.4% growth, almost one and one half point higher compared with 2003 (table 1). The Japanese economy grew by 2.6%, almost twice the level of the previous year: however, the sudden drop in domestic demand recorded in the second half of the year and in the early months of 2005 raises serious doubts regarding the sustainability of the Japanese economic recovery.

The Euro-area's economy continued its disappointing performance: the growth of the GDP failed to exceed 2.0%. The persistent weakness of internal demand combined with a virtually zero contribution from net exports, was significantly penalised by the strong appreciation of the Euro. The continued difficulties experienced by the economy have caused a number of countries in the Euro-area to exceed the public spending restraints imposed by the Stability and Growth Pact, the conditions of which have been made less restrictive. The United Kingdom achieved a 3.1% growth among all the European Union member countries, while the economies of the new member countries of Central and Eastern Europe grew by 6.1%, overall.

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

	GDP	Private Consumptions	P.A. Expenditure	Investments	Aggregate National Demand	Net Exports
United States						
2003	3.0	3.3	2.8	5.1	3.3	-0.4
2004	4.4	3.8	2.1	10.2	4.8	-0.6
Japan						
2003	1.4	0.2	1.2	0.9	0.7	0.6
2004	2.6	1.5	2.6	1.8	1.9	0.8
Euro-Area						
2003	0.5	1.0	1.6	-0.5	1.2	-6.0
2004	2.0	1.2	1.6	1.3	2.0	0.1
United Kingdom						
2003	2.2	2.3	3.5	2.2	2.5	-0.3
2004	3.1	3.1	3.6	5.9	3.7	-0.9

Source: Eurostat and National Official Statistics

TABLE 2
MAIN DEVELOPING COUNTRIES' ECONOMIC INDICATORS

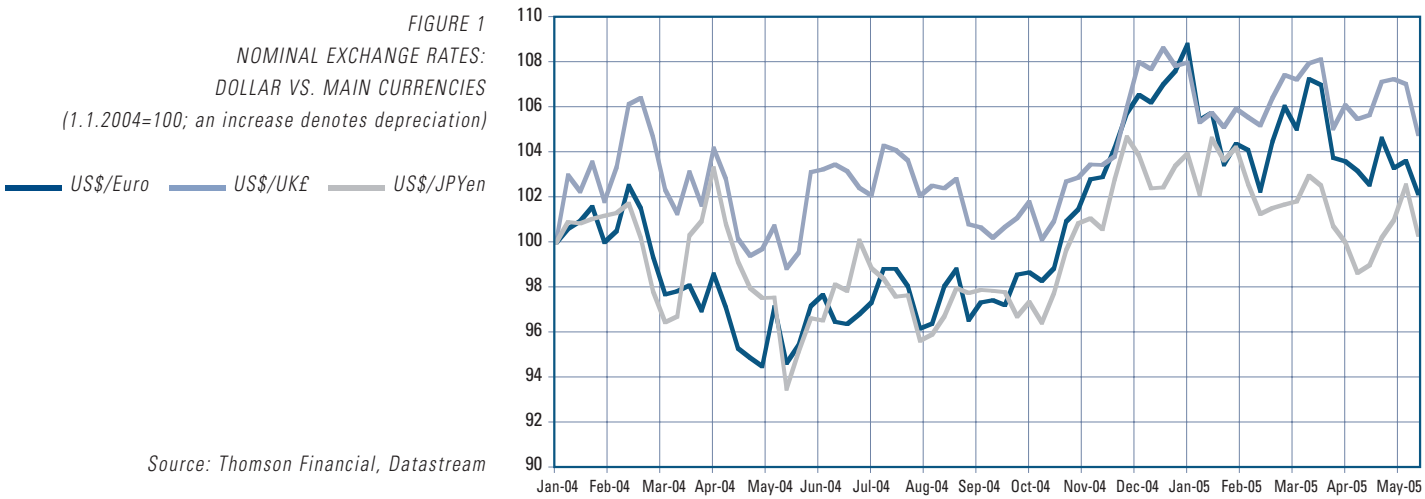
		GDP (Annual Changes %)	Inflation	Current Items (as % of GDP)
China				
	2003	9.3	1.2	3.2
	2004	9.5	3.9	4.2
India				
	2003	7.5	3.8	1.2
	2004	7.3	3.8	0.3
Russia				
	2003	7.3	13.7	8.2
	2004	7.1	10.9	10.2
Brazil				
	2003	0.5	14.8	0.8
	2004	5.2	6.6	1.9

Source: International Monetary Fund

The data referring to China, recording a 9.5% growth and the data relating to India (7.3%), standout among the emerging countries, while it is important to underline the significant growth achieved by the Brazilian economy in Latin America; the zero growth recorded in 2003 has increased to 5.2% (table 2).

The significant asymmetry in the rate of growth among the various regions has intensified the imbalances among the trade balances. The deficit in the United States current transactions has reached 5.7% of the GDP, with a strong domestic demand which more than compensated the effects on exports of the depreciated dollar. Consequently, the trade surplus of the Asian countries has increased. The record level of the United States deficit continues to be a cause of great concern, particularly with reference to the possibility that foreign investors finance the deficit. These concerns have been translated into a weakening of the United States currency. The dollar has depreciated by almost 2% from 1st January 2004 to mid-May last: after a modest appreciation against the Euro during the first half of the previous year, the United States currency lost ground constantly up to March to then achieve a slight recovery. The loss recorded against the pound sterling was more consistent (around 5%), while the ratio with the Japanese yen remained essentially stable, albeit with fluctuations (figure 1). The depreciation of the dollar has had a significant impact on the pricing competitiveness of the Euro-area: the actual rate of exchange of the Euro (namely, weighted for the geographical distribution of exports) has appreciated by approximately 10% from the beginning of 2003.

FIGURE 1
NOMINAL EXCHANGE RATES: DOLLAR VS. MAIN CURRENCIES
(1.1.2004=100; an increase denotes depreciation)



Source: Thomson Financial, Datastream

2004 was characterised by the significant growth in the price of crude oil. The price per barrel was equal to US dollars 30 at the beginning as 2004, and exceeded US dollars 53 by mid-March, to then drop to US dollars 47 by mid-

May. The price of crude oil will decrease very slowly according to the indications provided by the forward contracts. The strong demand of the emerging countries, characterised by the high energy intensive production systems, contributed to push the price of crude oil up. There was a consistent increase in the price of raw materials concurrent with the increase in crude oil price: Moody's index increased 14% from January 2004 (figure 2).

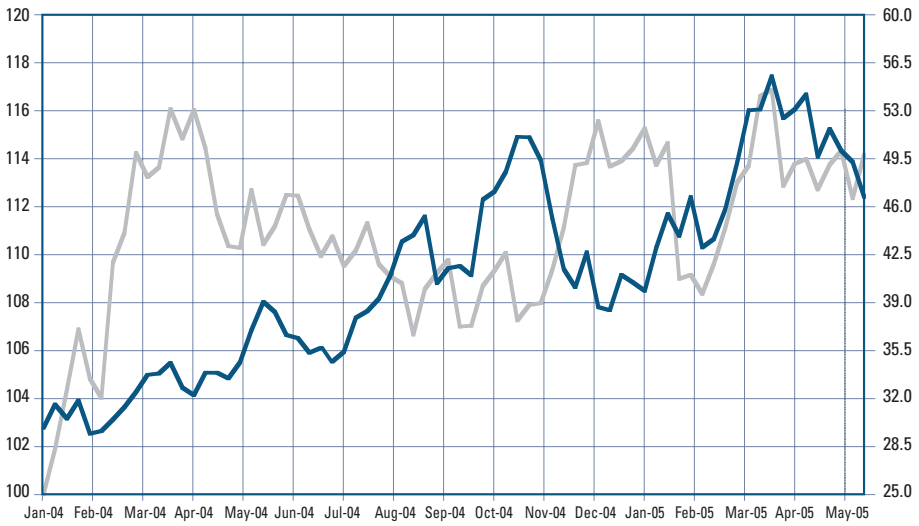


FIGURE 2
PRICE OF BRENT IN $ (RIGHT AXIS) AND RAW MATERIALS' INDEX MOODY'S (LEFT AXIS) (1.1.2004=100)

Source: Thomson Financial, Datastream

The Italian economy

The Italian economy continued to grow more slowly compared in 2004 with the European average: the GPD increased by 1.2%. The building sector and the services sector recorded higher growth rates, whereas the GDP continued to stagnate in the manufacturing sector: industrial production dropped in 2004 for the fourth consecutive year, above all involving non-durable and capital goods.

Investments increased by 2.1% after the downturn recorded in 2003: the significant increase of investments in real estate (3.1%) was driven by the particularly favourable conditions for the cost of mortgages, which in turn triggered an upturn in the prices of real estate property. The slower accumulation of machinery (2.4%) was impacted by the still ample margin of untapped productive capacity. The weak dynamics for investments was also influenced by the still low profitability level of enterprises.

Consumptions by households increased 1%: a limited increase in available income and wealth was offset by a deterioration in the climate of confidence. The gross debt of households continued to increase, fanned chiefly by the

TABLE 3
GDP AND AGGREGATE DEMAND.
ANNUAL CHANGES (%) AND CONTRIBUTIONS TO THE INCREASE

	2003	2004	Contribution to the increase 2004
GDP	0.3	1.2	–
Internal demand	1.2	1.0	1.0
of which:			
Investments	-1.8	2.1	0.4
Private consumptions	1.4	1.0	0.6
Public consumptions	2.3	0.7	0.1
Variation of the supplyes	0.3	-0.1	-0.1
Exports	-1.9	3.2	0.9
Imports	1.3	2.5	-0.7

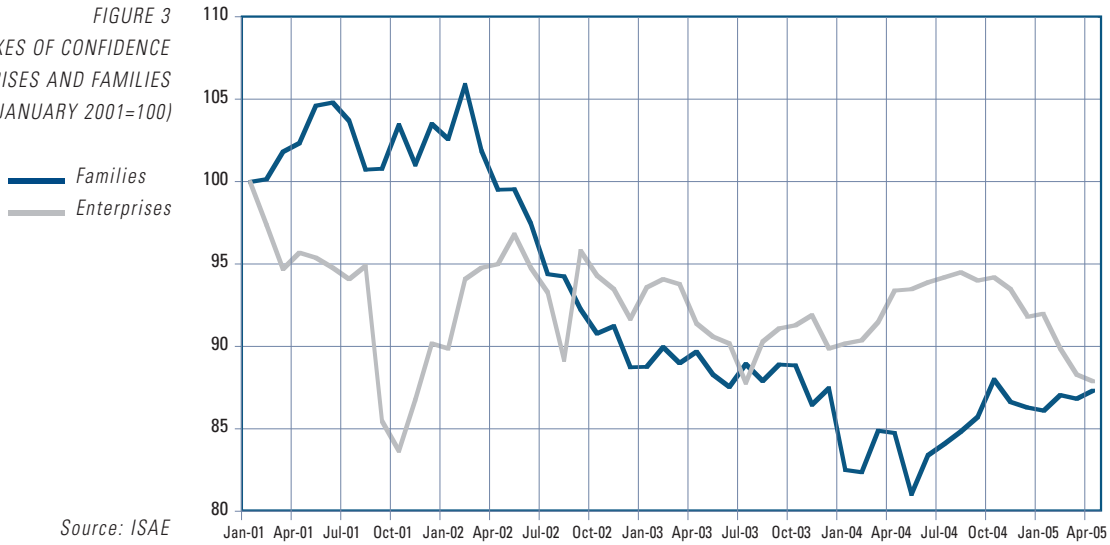
Source: ISTAT

expansion in real estate mortgages favoured by very attractive credit conditions. Bank loans to households increased by 15.8%, also thanks to a significant increase in consumer credit (+16.3% in 2004) supported by very aggressive offer strategies adopted by brokers.

Italian exports (+3.2%) benefited to a lesser degree from the strong increase in world trade compared to the other European countries of the Euro-area: Italy's share in the world market therefore dropped further in 2004, following the loss in cost competitiveness, chiefly due to lower productivity compared to the productivity of the other countries. The appreciation of the Euro contributed to the upturn in imports, which increased by 2.5%; in particular, imports from countries outside the Euro-area increased by almost 5%.

The level of confidence of households and enterprises remained at historically very low levels in May 2005 (figure 3), approximately 15% lower compared with the beginning of 2001. The two indices had a mirror-like evolution in 2004. The confidence of enterprises increased rapidly in the early months of the year, to then deteriorate, while the confidence of consumers was depressed in the first half of 2004 recovering slightly later.

FIGURE 3
INDEXES OF CONFIDENCE OF ENTERPRISES AND FAMILIES (JANUARY 2001=100)



Source: ISAE

The appreciation of the Euro and a situation where demand is still weak have contributed to containing inflation (2.2% in 2004). The impact of the price of crude oil still appears to be very limited for the time being: the trend in the rate of growth was equal to 1.9% in April. A significant drop in the cost of goods with a high technological content (-23% for mobile telephones) and a modest increase in the cost of foodstuffs was recorded in 2004.

Although decreasing, the rate of inflation for services was higher than the rate of inflation for goods (2.3% and 3.4%, respectively). The price of insurance services increased by 1%.

TABLE 4
ITALIAN CONSUMER PRICES

	Change (%) (2003)	Change (%) (2004)	Weights (%) (2003)	Contribution to average inflation (2004)
GENERAL INDEX	**2.7**	**2.2**	**100**	–
Non-regulated goods and services	**2.8**	**2.3**	**82.6**	**2.3**
Fresh food	4.2	2.0	6.9	0.3
Processed food	2.4	2.3	9.8	0.2
Non-food and non-energy goods	1.9	0.8	31.9	0.6
Non-regulated services	3.5	3.4	30.3	1.1
of which: Insurance services	*5.0*	*1.0*	*0.4*	–
Non-regulated energy services	2.3	5.8	3.1	0.1
Regulated goods and services	**2.2**	**1.9**	**18.0**	**0.4**
Pharmaceuticals	-3.8	-1.0	2.9	-0.1
Tobacco	8.3	9.8	1.9	0.2
Rents	2.8	2.8	3.1	0.1
Tariffs	2.7	-1.2	10.0	0.3

Source: ISTAT

The growth of the GDP was lower than the growth foreseen initially, and created serious difficulties in achieving public spending objectives. There was a decrease in revenues (0.8% of the GDP), against a decrease in current expenditure (0.7% of the GDP), arising from the significant decrease in revenues generated by tax amnesties. According to the data published by ISTAT on 24th May 2005, net indebtedness equalled 3.2% of the GDP, the same level as in 2003.

THE FINANCIAL MARKETS

Yields of Government securities

The positive trend in the growth of the economy and the risk of an increase in inflation induced the American Federal Reserve to increase the interest rates regularly: the objective rate increased from 1% to 3% between May 2004 and May 2005. The long-term interest rates reacted very slowly, causing the yield curve to flatten out. The spread between the 10-year rate and the rate on the Fed Funds exceeded 320 basis points at the beginning of 2004 and decreased to 120 by mid-May 2005. The exceptionally low level of real interest rates, which stimulated the mortgage loan market, contributing to strengthen the rise in real estate property prices, on the one hand is due to the prospects of

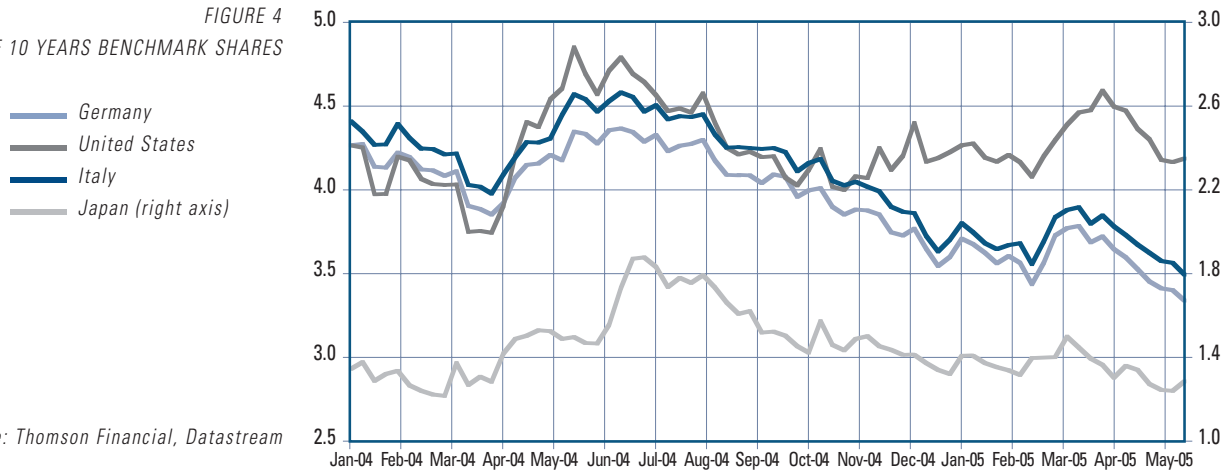
limited inflation and on the other hand to a restructuring of national and foreign investors' portfolio, which privileged public bonds, consequently reducing the yields.

The Central European Bank did not change the official rates after the downturn in June 2003, in view of the weak growth performance and the limited risk of inflation: the short-term rate was left unchanged at 2%, the rate on deposits remained at 1% and the marginal refinancing rate remained at 3%. The 3-month Euribor (Euro Interbank Offered Rate) and the Eonia (Euro Overnight Index Average) fluctuate slightly above 2%.

The disappointing prospects for the economic activities and the portfolio restructuring policies similar to the solutions adopted in the USA have depressed the yields of public securities. The rate on the 10-year Bund was equal to 3.3% in mid-May, almost one percentage point less compared with the beginning of 2004. The long-term Japanese rates were around 1.3%, a decrease compared with the 1.8% peaks in the summer of 2004.

After a slight upturn in late spring 2004, the yield of the 10-year Italian Government securities decreased constantly up to the end of the year, in the wake of reduced growth forecasts for the Italian economy and the downward trend in inflation. The rate was equal to 3.5% by mid-May, after a slight recovery at the beginning of the year (figure 4).

FIGURE 4
PERFORMANCE OF 10 YEARS BENCHMARK SHARES



Source: Thomson Financial, Datastream

The consistent trend of rates within the Euro-area produced a spread on 10-year bonds which remained essentially unchanged compared with the German Bunds. The differential remained below 20 basis points, with minimum fluctuations. The differential compared with the United States securities became negative by more than 70 basis points (figure 5).

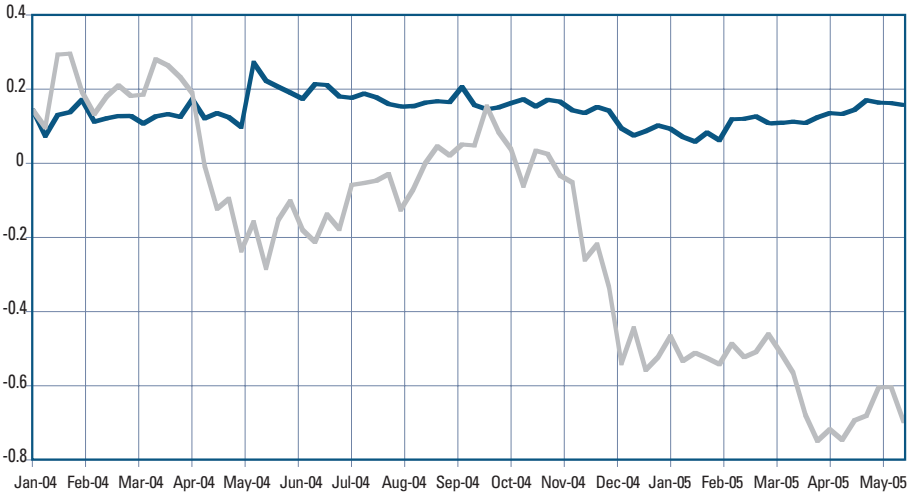


FIGURE 5
ITALIAN AND FOREIGN RATES OF 10 YEARS DIFFERENTIAL

Source: Thomson Financial, Datastream

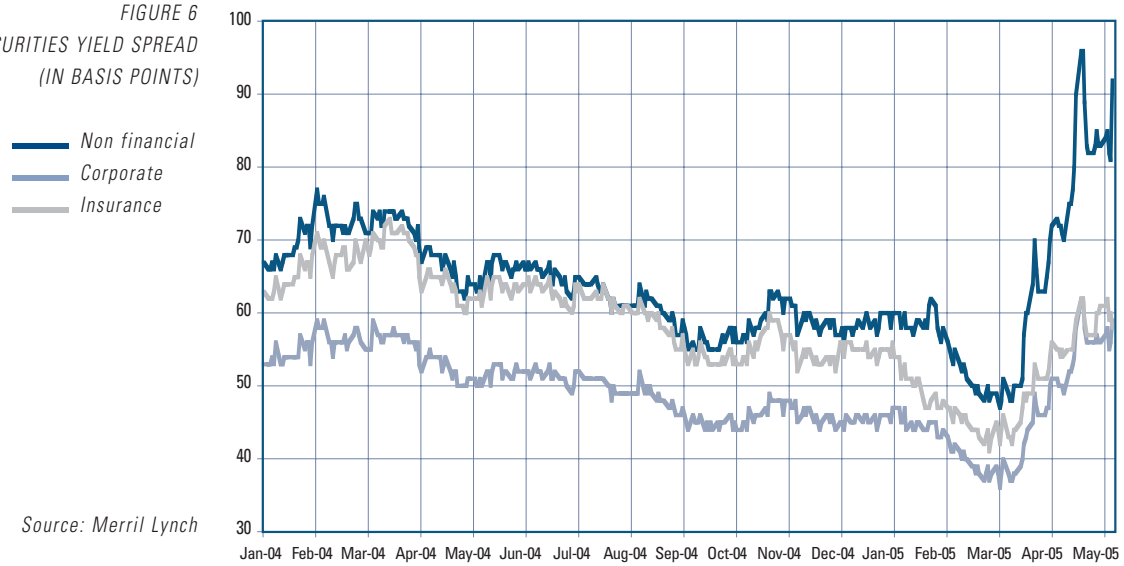
Corporate bonds

The net issues of private Italian bonds increased by 20% in 2004 compared with 2003. The net issues by private banks increased by 34%, the increase for non-financial enterprises (which increased from Euro -1 billion to Euro 10 billion in 2004) was the result of a limited number of high-value deals completed by services companies.

The positive trend of issues was favoured by an extremely limited yield differential for private bonds compared with Government securities. The spread in the aggregate corporate sector in the Euro-area at the end of February 2005 was equal to 36 basis points, thanks to very limited insolvency rates and monetary conditions reflecting extensive liquidity, and represented the lowest value since 1999 (53 basis points at the beginning of 2004) (figure 6).

An increase in the spread was recorded from March, due to a lack of confidence caused by the economic situation and the downgrading of two major American companies operating in the automotive sector. In mid-May the spread for the aggregate corporate sector was in the range of 60 basis points; in particular, the spread exceeded 80 basis points for the non-financial enterprises sector and two percentage points for the automotive sector. The increase was more limited in the insurance sector, which resorts to this market chiefly for acquisition and recapitalisation deals: by mid-May the spread was equal to the position applicable to the aggregate corporate sector (60 basis points) which reported lower values from the beginning of 2004 compared with the insurance sector.

FIGURE 6
BONDS AND GOVERNMENT SECURITIES YIELD SPREAD (IN BASIS POINTS)

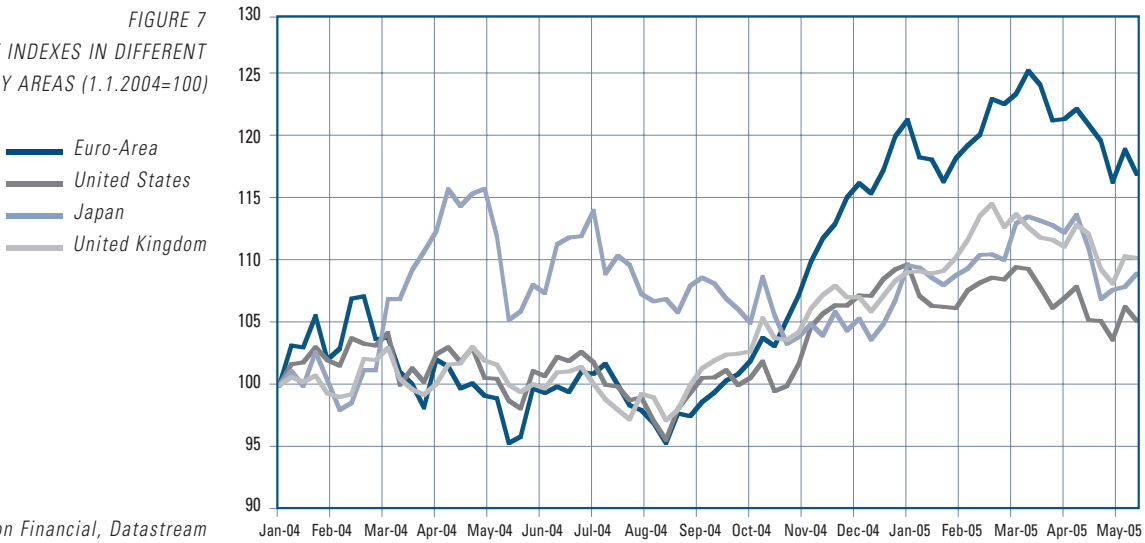


Source: Merril Lynch

The Shares markets

The recovery of share prices recorded in 2003 continued in 2004, particularly during the second half of the year, and in the early months of 2005; the extensive liquidity generated by more than three years of expansionist monetary policy and the general solid level of liquidity of enterprises contributed to this scenario. Share prices increased by 25% in the Euro-area, by almost 15% in Japan and in the United Kingdom, by 10% in the United States (figure 7) between the beginning of 2004 and mid-March 2005. Share prices recorded a decrease in all areas between mid-March and May last, coinciding with the decrease in the growth prospects for the global economy, returning the Stock Market values to the levels recorded at the beginning of 2005.

FIGURE 7
STOCK EXCHANGE INDEXES IN DIFFERENT MONETARY AREAS (1.1.2004=100)



Source: Thomson Financial, Datastream

The growth of the Italian Stock Market (23%) between the beginning of 2004 and mid-May last, greatly exceeded the growth reported in France (15%) and in Germany (6%) (figure 8).

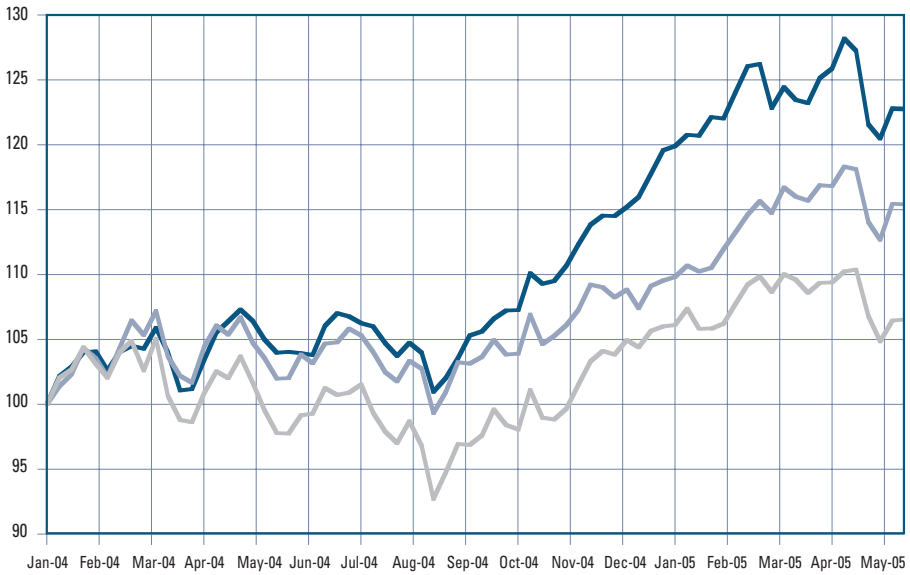


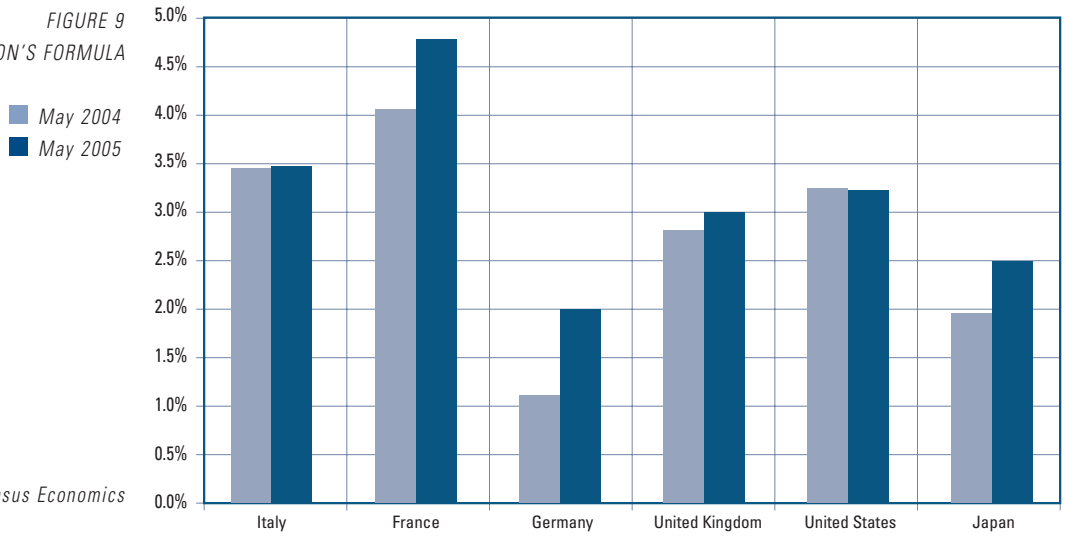
FIGURE 8
STOCK EXCHANGE INDEXES IN EURO-AREA
(1.1.2004=100)

Source: Thomson Financial, Datastream

The Gordon formula provides a useful tool to assess and put into perspective the value of share prices. It is assumed that the long-term ratio between profits and share prices is equal to the long-term real interest rate for a risk-free security, from which the expected growth in profits is subtracted and a risk premium is added. The level of the risk premium can be estimated starting from the data observed for the profit/capitalisation ratio, approximating the real interest rate to the yield of 10-year Government securities, less the rate of inflation foreseen by Consensus, and approximating the expected growth in profits to the economy's potential rate of growth.

By mid-May last the values of Italian shares were consistent with a 3.5% risk premium, a value only slightly higher than the 3% long-term average, which indicates a slight under-valuation, and practically unchanged compared with May last year: the outstanding growth of dividends distributed to shareholders, driven by the brilliant results achieved by listed companies, compensated the significant increase in share prices (15%) and the reduced estimated economic growth prospects. In France, the risk premium was equal to 4.5% in May (4% one year earlier), also due to the considerable increase in dividends, which even exceeded the significant increase in share prices. Germany was an exception to this trend, where dividends were generally lower compared with the level of capitalisation, the values and the trends in the other countries were consistent with the 3% value (figure 9).

FIGURE 9
RISK PREMIUMS – GORDON'S FORMULA

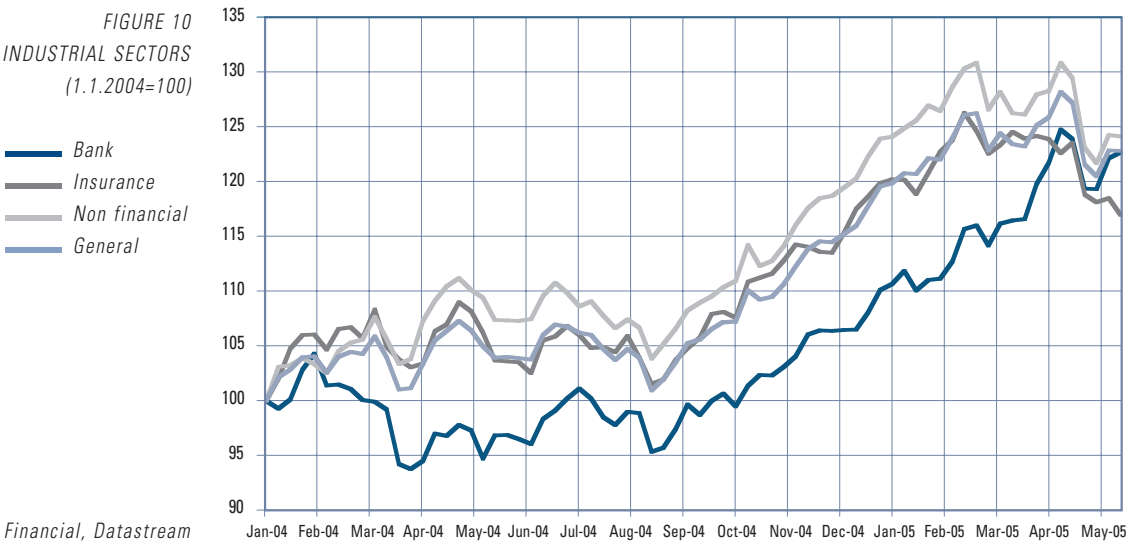


Source: Thomson Datastream and Consensus Economics

Trends for insurance companies listed on the Stock Market

The high growth of the Italian Stock Market was driven by the securities of non-financial services companies, including telecommunications, media and electricity. The securities of the banking sector recovered rapidly, after having suffered the instability generated by the Parmalat situation at the beginning of 2004, based on the positive outlook for profitability. The performance achieved by the insurance sector was in line with the performance of the general market up to mid-March last; after which, insurance prices recorded a downturn that was more marked compared with the general index (figure 10).

FIGURE 10
STOCK MARKET INDEXES PER INDUSTRIAL SECTORS
(1.1.2004=100)



Source: Thomson Financial, Datastream

The growth of the insurance index in Italy was equal to 17% from the beginning of 2004 to mid-May last, a value that is slightly lower compared with the French insurance sector. The values decreased slightly in the United Kingdom and in the United States during the same period, where they were influenced by the negative effects induced by a legal inquiry to investigate the leading enterprise of the sector. In Germany, the disappointing results of the sector had a negative influence on the values up to last November; the values recovered later, also due to the positive results achieved by a major group with ramifications in the banking sector (figure 11).

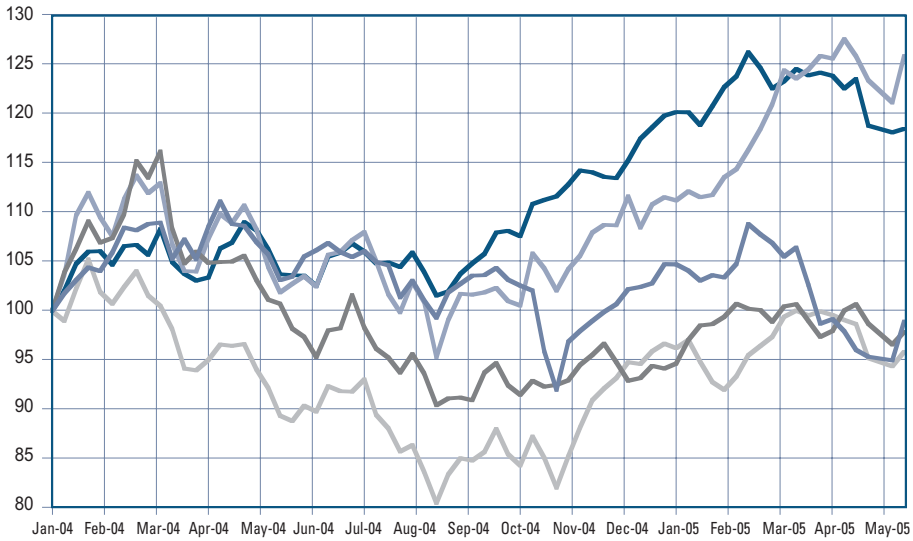


FIGURE 11
INSURANCE SECURITIES IN ITALY AND IN THE WORLD (1.1.2004=100)

Source: Thomson Financial, Datastream

The number of companies with registered offices in Italy decreased, also due to the mergers that took place during the year. On the contrary, the number of foreign representations operating in Life and Non-Life classes is increasing.

OPERATING INSURANCE COMPANIES

As at 30 April 2005, 244 insurance companies were operating (248 as at 30 April last year), of which 179 were insurance companies with registered office in Italy (188 as at 30 April last year) and 65 were branch offices of foreign insurance companies (60 as at 30 April last year), mainly from European Union members (60).

93 insurance companies write only Life insurance business (of which 17 are foreign branch offices) and 122 companies only write Non-Life business (of which 41 are foreign branch offices); 20 companies write both Life and Non-Life business; 9 companies write only reinsurance business (of which 6 are foreign branch offices).

191 insurance companies are ANIA members (of which 12 are corresponding members): these insurance companies represent more than 91% of the premiums of the entire market.

Considering the legal status of the 179 companies that have legal offices in Italy, 175 are joint stock companies, 3 are mutual companies and one is a co-operative company.

NUMBER OF COMPANIES BY JURIDICAL NATURE

	LIFE	NON-LIFE	MULTI BRANCHES	PROFESSIONAL REINSURERS	TOTAL COMPANIES
Situation as at April 30, 2004					
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
in E.U. countries	*14*	*36*	*1*	*6*	*57*
Total companies	**95**	**123**	**20**	**10**	**248**
Situation as at April 30, 2005					
Limited companies	76	79	17	3	175
Cooperatives	–	–	1	–	1
Mutuals	–	2	1	–	3
Domestic companies	76	81	19	3	179
Foreign branches	17	41	1	6	65
in E.U. countries	*16*	*38*	*1*	*5*	*60*
Total companies	**93**	**122**	**20**	**9**	**244**

NUMBER OF COMPANIES IN E.U. COUNTRIES
Data as at 31 december

	1999	2000	2001	2002	2003
Austria	77	77	73	72	71
Belgium	222	210	204	201	200
Denmark	263	249	240	240	240
Finland	65	65	69	68	67
France	525	527	504	495	490
Germany	725	706	694	703	703
Greece	114	110	107	102	99
Ireland	183	191	196	196	199
Italy	250	252	256	254	249
Luxembourg	94	93	93	95	95
The Netherlands	517	482	472	453	440
Portugal	92	88	84	83	77
United Kingdom	829	822	808	806	806
Spain	370	354	342	334	330
Sweden	473	482	461	448	440
Total	**4,799**	**4,708**	**4,603**	**4,550**	**4,506**

Source: CEA

PREMIUMS PER COMPANY IN E.U. COUNTRIES
Euro million

	1999	2000	2001	2002	2003
Austria	142	152	171	177	185
Belgium	76	95	100	111	129
Denmark	40	46	53	58	63
Finland	160	181	171	180	189
France	217	249	254	267	290
Germany	176	187	196	201	209
Greece	21	23	25	28	33
Ireland	37	44	54	57	60
Italy	247	268	298	345	390
Luxembourg	61	74	68	68	77
The Netherlands	69	82	92	97	105
Portugal	73	80	95	101	123
United Kingdom	243	301	290	296	256
Spain	87	115	123	144	126
Sweden	33	39	38	38	44
Total	**137**	**161**	**166**	**176**	**177**

Source: CEA

The Italian insurance market: key figures 2004

In 2004 Italian insurance companies' technical account results on the whole have been positive, mainly thanks to an improvement in technical account results for the Non-Life classes and to a positive development of the Life portfolio.

INCOME STATEMENT

INCOME STATEMENT
Euro million

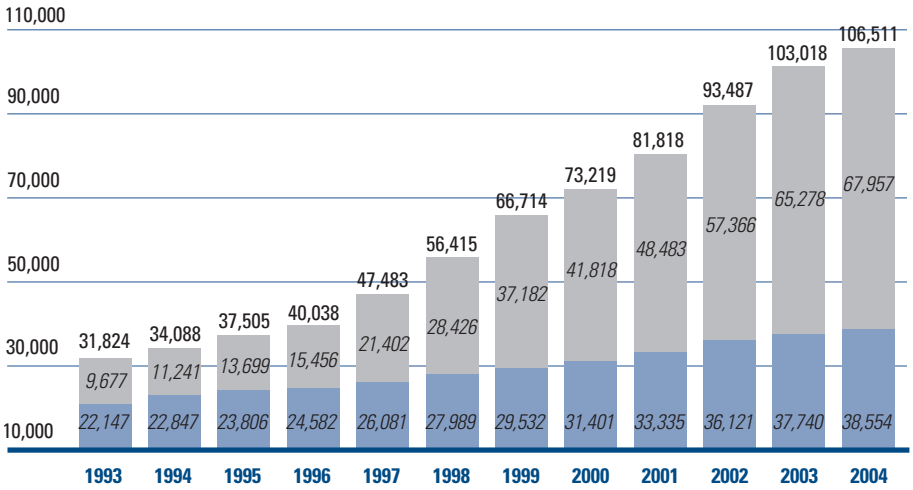
	1998	1999	2000	2001	2002	2003	2004
Technical account of Non-Life and Life classes (*)							
Written premiums	50,736	61,011	66,965	75,240	86,350	95,646	100,037
Changes in premiums reserves (-)	24,994	31,919	27,500	30,046	32,645	43,720	40,518
Investment income	10,760	9,941	7,567	5,435	3,939	13,090	16,331
Other technical income	282	382	463	780	980	1,135	1,218
Incurred claims (-)	27,217	29,534	35,583	38,240	44,459	48,994	58,761
Operating expenses (-)	8,658	9,167	9,791	10,208	10,648	11,346	11,894
Other technical costs (-)	824	802	942	897	1,088	1,656	1,420
Balance	85	-88	1,179	2,064	2,429	4,155	4,993
Technical account - Non-Life (*)							
Written premiums	23,920	25,560	27,029	28,915	30,958	32,729	33,884
Changes in premiums reserves (-)	1,011	803	543	835	825	656	590
Investment income	2,528	1,874	2,135	1,931	1,483	2,012	2,247
Other technical income	173	286	294	409	321	371	369
Incurred claims (-)	19,873	20,895	22,004	22,224	22,736	23,633	24,086
Operating expenses (-)	6,008	6,237	6,457	6,851	7,178	7,522	7,867
Other technical costs (-)	677	684	754	696	760	874	1,035
Balance	-948	-899	-300	649	1,263	2,427	2,922
Technical account - Life (*)							
Written premiums	26,816	35,451	39,936	46,325	55,392	62,917	66,153
Changes in technical provisions (-)	23,984	31,116	26,957	29,211	31,820	43,064	39,928
Investment income	8,232	8,067	5,432	3,504	2,456	11,078	14,084
Other technical income	109	96	169	371	659	764	849
Incurred claims (-)	7,344	8,639	13,579	16,016	21,723	25,361	34,675
Operating expenses (-)	2,649	2,930	3,334	3,357	3,470	3,824	4,027
Other technical costs (-)	147	118	188	201	328	782	385
Balance	1,033	811	1,479	1,415	1,166	1,728	2,071
Non technical account							
Other Non-Life income	788	607	705	629	401	518	865
Other Life income	765	593	876	436	726	868	1,125
Balance of other income and expenses	-131	168	-394	-2	-872	-951	-1,020
Balance of ordinary activities	1,507	1,280	2,366	3,127	2,684	4,590	5,963
Balance of extraordinary activities	950	1,398	1,067	1,204	2,262	1,132	1,088
Taxes on income (-)	1,275	1,195	1,390	1,454	1,436	1,929	1,727
Result for the financial year	**1,182**	**1,483**	**2,043**	**2,877**	**3,510**	**3,793**	**5,324**
Return on Equity	**n.d**	**5.3%**	**6.7%**	**8.9%**	**10.6%**	**10.6%**	**13.8%**

(*) *Technical items net of cessions and retrocessions*

TECHNICAL ACCOUNT

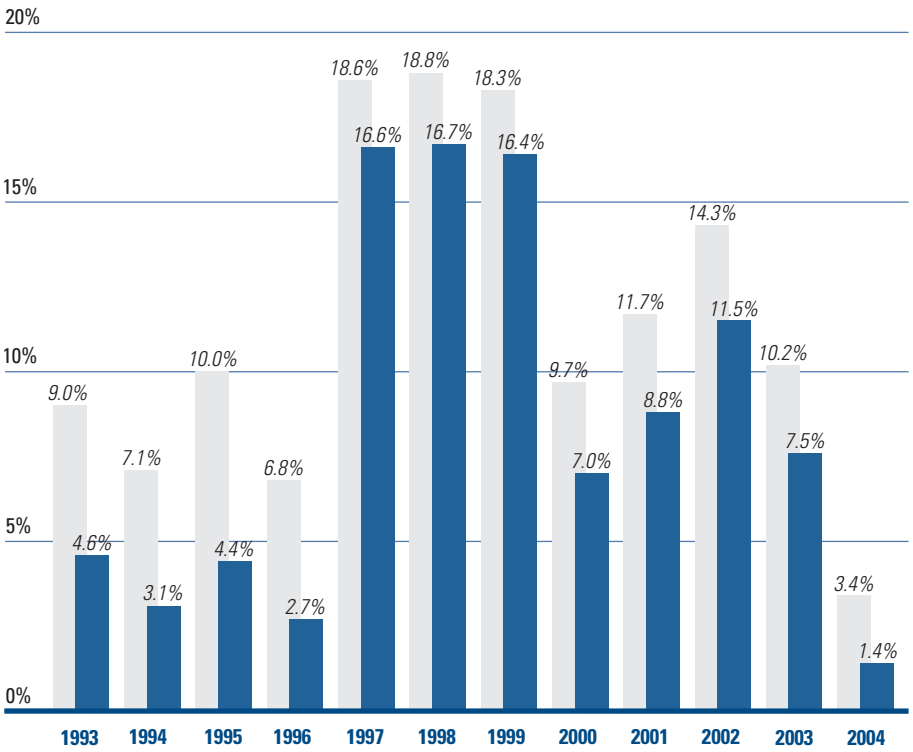
Premium income

The total gross premiums for the domestic and foreign business, direct and indirect, collected by companies with registered offices in Italy and by the branches of foreign non–European Union companies totalled Euro 106,511 million in 2004. In particular, Euro 38,554 million were collected in the Non-Life classes and Euro 67,957 million in the Life classes.



TOTAL PREMIUMS
Euro million

Life Non-Life

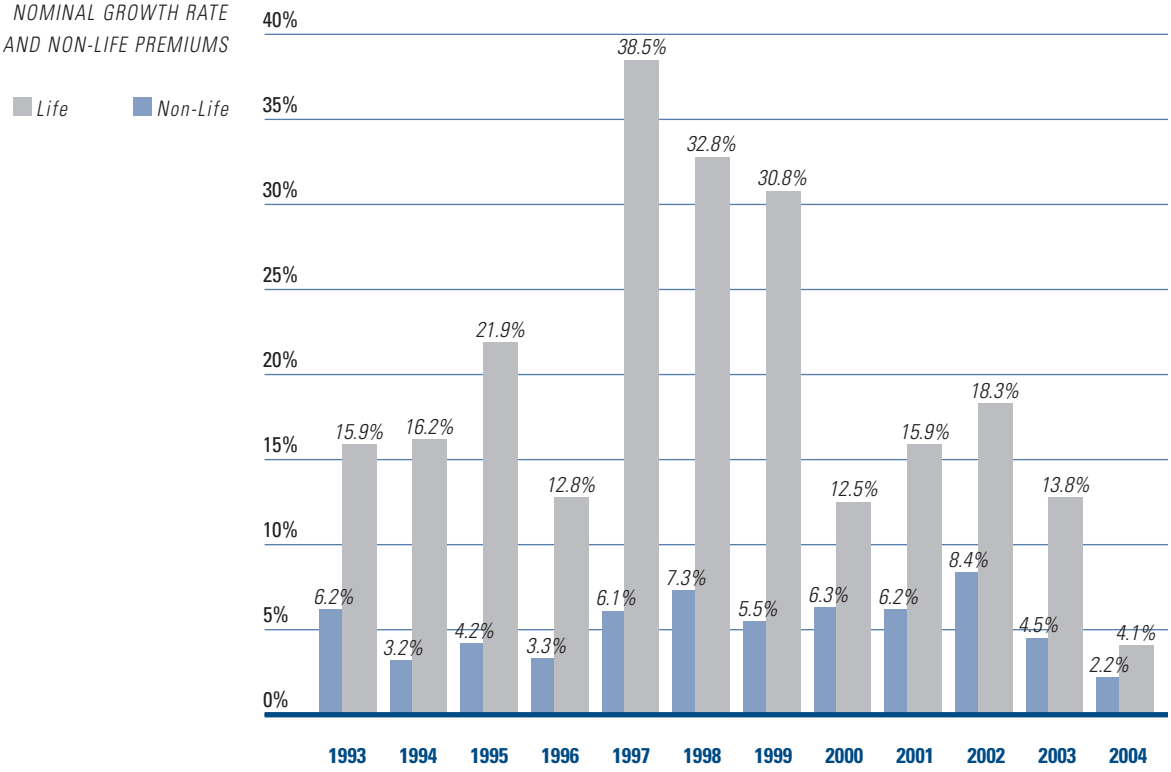


NOMINAL AND REAL GROWTH RATE OF TOTAL PREMIUMS

Total (nominal)
Total (real)

The Italian insurance market: key figures 2004

NOMINAL GROWTH RATE
OF LIFE AND NON-LIFE PREMIUMS



The growth rate of total premiums registered in 2004 (3.4% compared to 2003) is the lowest value of the last ten years. Premiums in Life classes increased by 4.1% compared to 2003, whereas between 1993 and 2003 the average yearly growth had been 21.0%, premiums in Non-Life classes increased slightly (2.2% compared to 2003), the lowest value registered since 1993. As a result of these trends, the share of Life premiums over the total (63.8%) increased only slightly compared to the previous year (63.4%); the share amounted to 30.4% in 1993.

Premiums ceded to reinsurance continue to decrease their share in gross premiums confirming the tendency of companies to maintain and manage risk directly. These premiums totalled Euro 6,474 million (4,670 in the Non-Life and 1,804 in Life) and decreased their incidence on gross premiums from 7.2% in 2003 to 6.1 in 2004.

Total premiums, net of reinsurance, achieved Euro 100,037 million, reflecting an increase of 4.6%: Euro 33,884 million in Non-Life classes and Euro 66,153 million in Life classes.

Gross premiums for the direct business, Italian and foreign, both Non-Life and Life, increased by 4.2% compared to 2003, reaching Euro 101,122 million (35,470 in Non-Life and 65,652 in Life).

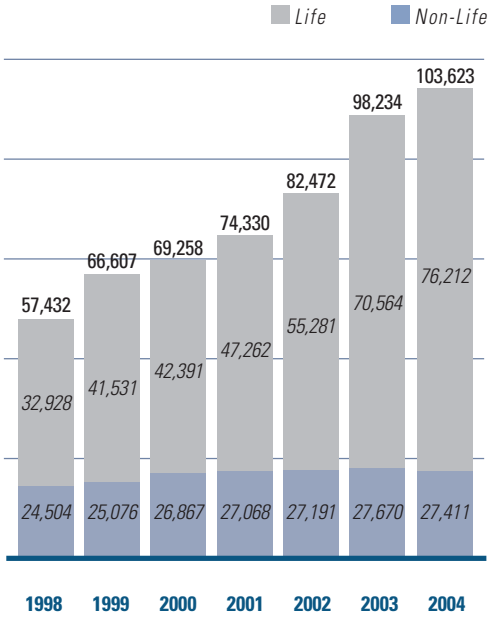
Claims, benefits and provisions

The aggregate amount of **benefits to insured** and others beneficiaries – **gross of reinsurance** – defined as the sum of benefits for the current year (amount of settled claims and technical provisions) and changes in technical reserves for the previous years, totalled Euro 103,623 million (+5.5% compared to 2003): Euro 27,411 million in the Non-Life classes (-0.9%) and Euro 76,212 million in the Life classes (+8.0%). Whereas benefits in the Non-Life classes have been constant during the last few years, starting from 2003 the Life classes ones are increasing due to the near expiry of contracts effected at the end of the 90's, when premium income experienced a strong growth.

The **reinsurance contribution** was equal to Euro 4,343 million (-21.3%), of which Euro 2,734 million were relative to Non-Life business and Euro 1,609 million were relative to Life.

The **net amount of benefits** therefore totalled Euro 99,280 million (+7.1%): Euro 24,677 million in the Non-Life and Euro 74,603 million in Life business.

CLAIMS, BENEFITS AND PROVISIONS
Euro million

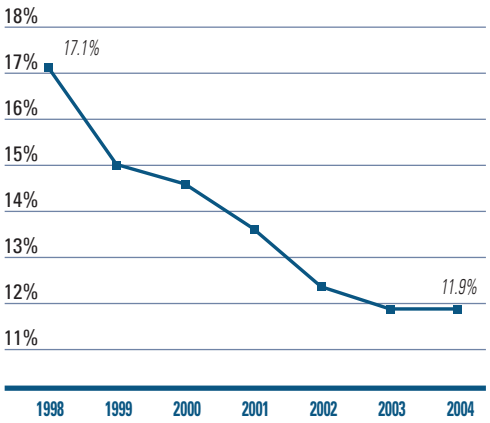


Operating expenses

The **operating expenses** for direct and indirect business, net of reinsurance, that include acquisition costs, costs arising from premium collection, costs relating to the organisation and management of the distribution network and the administration expenses relating to technical management of insurance business, totalled Euro 11,894 million, with an increase of 4.8%. After years of regular reduction, the incidence on premiums was equal to what registered in 2003 (11.9%).

In particular, the operating expenses for Non-Life business were equal to Euro 7,867 million, with an incidence on premiums of 23.2% (23.0% in 2003); for Life business, they were equal to Euro 4,027 million, with an incidence on premiums of 6.1% (as in 2003).

OPERATING EXPENSES TO PREMIUMS RATIO (%)



Technical Account Result

The **technical account result**, net of reinsurance, was positive totalling Euro 4,993 million, with an incidence of 5.0% on direct and indirect premiums (4.3% in 2003).

There was a positive result for the Non-Life classes totalling Euro 2,922 million (2,427 in 2003); the incidence of such result on premiums, negative up to the end of the 90's, inverted its trend in 2001 and was equal to 8.6% in 2004 (7.4% in 2003). Life classes showed a positive result of Euro 2,071 million (1,728 in 2003), with an incidence on premiums between 2% and 4%.

	1998	1999	2000	2001	2002	2003	2004
Non-Life and Life	0.2%	-0.1%	1.8%	2.7%	2.8%	4.3%	5.0%
Non-Life	-4.0%	-3.5%	-1.1%	2.2%	4.1%	7.4%	8.6%
Life	3.9%	2.3%	3.7%	3.1%	2.1%	2.7%	3.1%

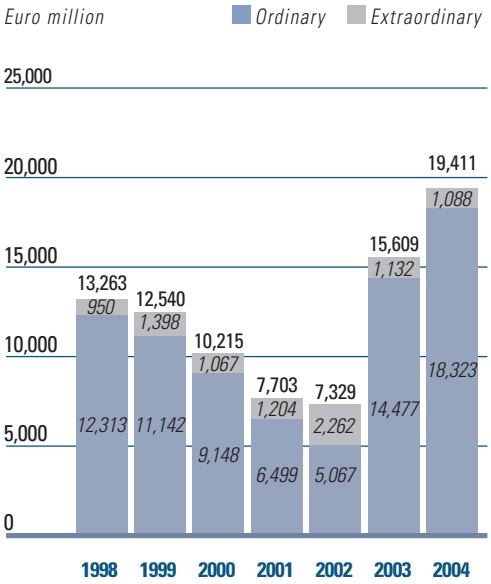
TECHINCAL ACCOUNT RESULT TO PREMIUMS RATIO (%)

NON TECHNICAL ACCOUNT

Investment income

The **ordinary and extraordinary net investment income Life and Non-Life,** which also include investment income transferred to technical Life and Non-Life accounts, were equal to Euro 19,411 million in 2004. The growth compared to the previous year (24.4%) follows the extremely high one in 2003 (113.0%) and is concentrated in the ordinary net investment income (26.6% compared to 2003), whereas the extraordinary ones decreased slightly (-3.9% compared to 2003). The increase in ordinary net investment income compared to 2003 was equal to Euro 3,846 million; this thanks to a Euro 1,555 million increase of gross investments for the benefit of insureds, together with the positive trend of the Stock market and a downturn of gross expenses referring to income from ordinary and extraordinary investments for Euro 1,483 million linked to a strong decrease of share losses.

TREND OF NET INVESTMENT INCOME



More in detail the **ordinary net investment income for Life and Non-Life classes** reached Euro 23,493 million (21,004 in 2003), with an increase of 11.8%. Income derived from:

- shares and holdings, for an amount of Euro 2,250 million (-10.5% compared to 2003), which were 9.6% of the total income;
- investments for the benefit of insureds and investments income deriving from pension funds management, for an amount of Euro 8,204 million (+ 23.4% compared to 2003) which represented 34.9% of the total income;
- land and buildings, for an amount of Euro 260 million (-18.3% compared to 2003) which were 1.1% of the total income;
- revaluations and realised investments, for an amount of Euro 2,765 million (+2.3% compared to 2003) which were 11.8% of the total income;
- other investments, for an amount of Euro 10,015 million (+13.5% compared to 2003) which represented 42.6% of the total income.

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

	1998	1999	2000	2001	2002	2003	2004
Shares	5.1%	6.1%	7.1%	11.9%	13.7%	12.0%	9.6%
Land and buildings	5.0%	4.1%	3.8%	4.1%	2.6%	1.5%	1.1%
Other investments	51.8%	43.5%	44.9%	49.7%	46.8%	41.9%	42.6%
Revaluations	21.8%	22.2%	25.8%	17.5%	12.9%	12.9%	11.8%
Income from linked and pension funds	16.3%	24.1%	18.4%	16.8%	24.0%	31.7%	34.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The **overall expenses referring to income from ordinary and extraordinary investments, Life and Non-Life,** totalled Euro 5,913 million (7,396 in 2003).

Extraordinary investment income, gross of expenses, totalled Euro 1,830 million (2,000 in 2003) and the relative expenses totalled Euro 742 million (868 in 2003).

RESULT FOR THE FINANCIAL YEAR

The **result for the ordinary activity, Non-Life and Life**, was positive, amounting to Euro 5,963 million (4,590 in 2003), with an increase of 29.9%.

The **result for extraordinary activity** totalled Euro 1,088 million, reflecting a decrease (-3.9%) compared to Euro 1,132 million in 2003.

Income taxes for the period totalled Euro 1,727 million (1,929 in 2003).

Despite the slight decrease in the extraordinary activity, thanks to the positive trend of technical account results (for Non-Life and Life classes) the financial year 2004 registered a **profit** of 5,324 million Euro, increasing compared to the 3,793 million Euro of the year 2003. The profit totalled 5.3% of premiums (4.0% in 2003). The R.O.E. (Return on Equity), calculated as the ratio between net profit and the centered mean of the capital stock and of equity reserves, was equal to 13.8%, against 10.6% in 2003.

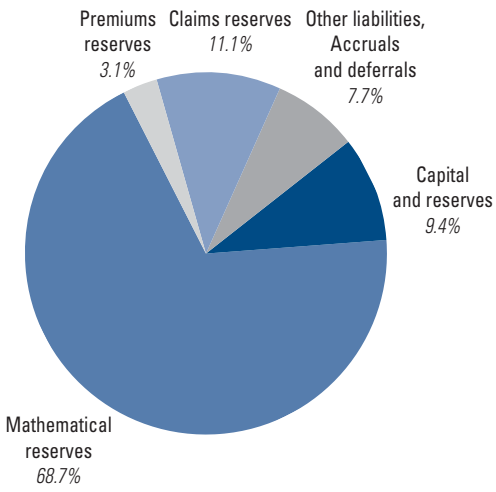
BALANCE SHEET

Liabilities

The total liabilities carried in the Balance Sheet amounted to Euro 476,378 million (+10.8% compared to 2003).

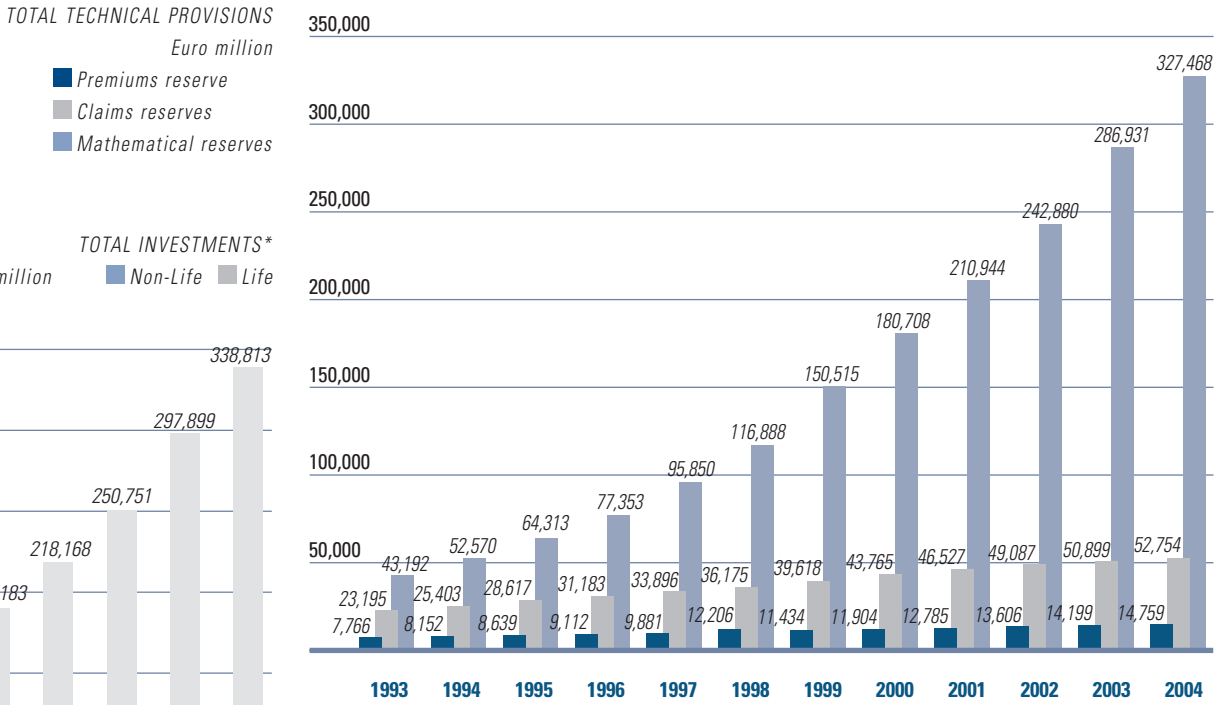
In particular:

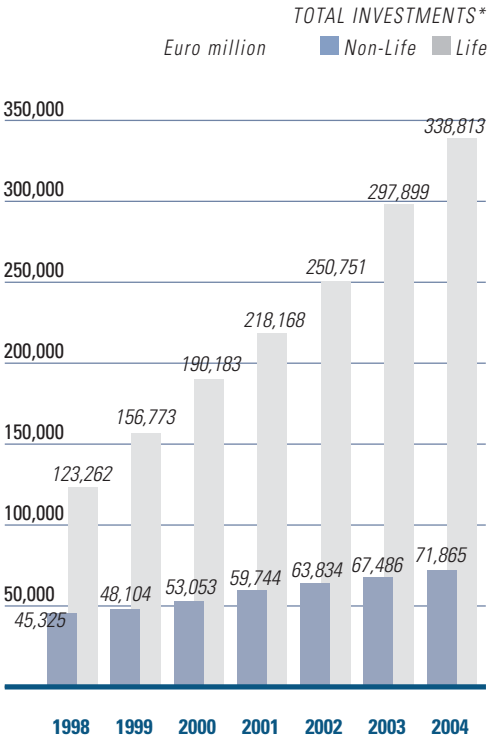
- capital and reserves, equal to Euro 44,961 million (9.4% of total liabilities), have increased of 8.8% compared to 2003; subscribed capital, equal to Euro 11,002 million, has increased of 4.5%, equity reserves, equal to Euro 28.635 million, have increased of 5.9%. The profit for the financial year totalled Euro 5,324 million;
- technical provisions, representing commitments undertaken of the behalf of the insured (Euro 394,981 million) reflected an increase of 12.2% and represented 82.9% of the total. The increase in Life classes (+14.1%) was superior to Non-Life ones (+3.7%);
- the other liabilities equal to Euro 36,071 million (7.6% of the total), remained stable at values of the previous year, and the breakdown for this item was as follows: subordinated liabilities increased from Euro 2,666 million to Euro 2,862 million while deposits received from reinsurers reduced from Euro 13,231 million to Euro 12,922 million. Debts and other liabilities were stable;
- accruals and deferrals totalled Euro 365 million (0.1% of the total).



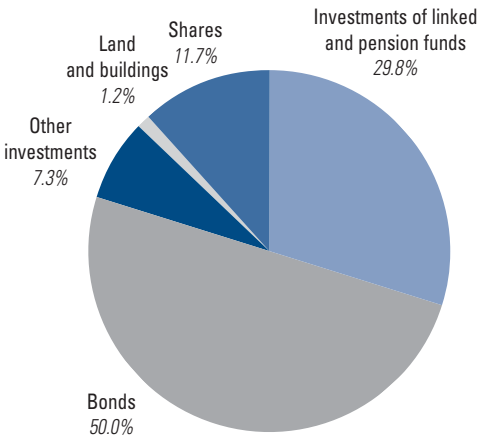
BREAKDOWN OF LIABILITIES (%)

The Italian insurance market: key figures 2004





(*) Net of professional reinsurers



416,534 Euro million

BREAKDOWN OF INVESTMENTS (%)

Assets

Investments, reinsurance share of technical provisions, amounts owed by debtors, other assets, accruals and deferred income amounted to Euro 476,378 million, equalling to the total amount of liabilities.

In particular:

- investments reached Euro 416,534 million, equal to 87.4% of total assets. Insurance companies only engaging in reinsurance activities were excluded since the relative Balance Sheet format does not provide for a division between Life and Non-Life classes; therefore, excluding reinsurance business, investments in Non-Life classes were equal to Euro 71,865 million, with a 6.5% increase compared to 2003; investments in Life classes were equal to Euro 338,813 million with a 13.7% increase still compared to 2003. The highest increase (+11.8%) was recorded by investments in shares and holdings which totalled Euro 48,915 million, bonds and other fixed income securities (+11.5%) which totalled Euro 208,076 million; followed by investments in land and buildings (+7.0%) which totalled Euro 4,849 million, loans and deposits (+5.8%) which totalled Euro 30,518 million;
- investments for the benefit of Life insurance policyholders and the investments deriving from the management of pension funds equalled Euro 124,176 million, representing a 15.9% increase;
- the technical provisions borne by the reinsurers amounted to Euro 20,893 million with a 4.1% decrease representing 4.4% of total assets;
- amounts owed by debtors totalled Euro 21,116 million (4.4% of total), with an 3.8% increase. These referred to amounts owed deriving from direct

insurance activities (Euro 10,449 million), amounts owed deriving from reinsurance activities (Euro 2,374 million) and other amounts owed (Euro 8,293 million);

– amounts owed by shareholders (Euro 15 million), intangible assets (Euro 4,363 million composed of commissions and other expenses) and other assets (Euro 10,251 million) reached a total of Euro 14,629 million (3.1% of the overall amount), thus recording a 4.9% increase;

– accruals and deferred income amounted to Euro 3,206 million (0.7% of total), representing a 6.8% increase.

BALANCE SHEET
Euro million

	1998	1999	2000	2001	2002	2003	2004
LIABILITIES	**214,208**	**254,407**	**298,174**	**338,346**	**378,192**	**429,890**	**476,378**
CAPITAL AND RESERVES	28,189	30,158	34,496	35,093	37,401	41,342	44,961
Subscribed capital	*8,461*	*8,947*	*9,775*	*9,512*	*9,961*	*10,529*	*11,002*
Equity reserves	*18,546*	*19,728*	*22,678*	*22,704*	*23,930*	*27,033*	*28,635*
Profit for the financial year	*1,182*	*1,483*	*2,043*	*2,877*	*3,510*	*3,780*	*5,324*
TECHNICAL PROVISIONS	165,269	201,567	236,377	270,256	305,573	352,029	394,981
Non-Life classes	*48,381*	*51,052*	*55,669*	*59,312*	*62,693*	*65,098*	*67,513*
Life classes	*116,888*	*150,515*	*180,708*	*210,944*	*242,880*	*286,931*	*327,468*
OTHER LIABILITIES	20,671	22,570	27,125	32,674	34,920	36,203	36,071
Subordinated liabilities	*81*	*186*	*1,072*	*1,487*	*1,990*	*2,666*	*2,862*
Provisions for risks and charges	*1,766*	*1,807*	*2,048*	*1,524*	*2,045*	*2,189*	*2,117*
Deposits received from reinsurers	*8,466*	*9,395*	*10,453*	*11,682*	*13,011*	*13,231*	*12,922*
Debts and other liabilities	*10,358*	*11,182*	*13,552*	*17,981*	*17,874*	*18,117*	*18,170*
ACCRUALS AND DEFERRALS	79	112	176	323	298	316	365
ASSETS	**214,208**	**254,407**	**298,174**	**338,346**	**378,192**	**429,890**	**476,378**
AMOUNTS OWED BY SHAREHOLDERS	28	46	46	99	84	45	15
INTANGIBLE ASSETS	2,050	2,277	2,424	2,469	2,792	3,707	4,363
INVESTMENTS:	172,705	209,442	248,346	283,381	320,069	370,814	416,534
Land and buildings	*8,581*	*8,438*	*8,335*	*7,798*	*5,484*	*4,534*	*4,849*
Shares and holdings	*25,992*	*33,123*	*40,700*	*40,478*	*40,145*	*43,763*	*48,915*
Bonds and other fixed income securities	*105,725*	*115,026*	*123,825*	*140,530*	*161,343*	*186,564*	*208,076*
Loans and deposits	*14,465*	*18,423*	*22,892*	*24,977*	*28,342*	*28,837*	*30,518*
Investments for the benefit of Life insurance policyholders and the investments deriving from the management of pension funds	*17,942*	*34,432*	*52,594*	*69,598*	*84,755*	*107,116*	*124,176*
TECHNICAL PROVISIONS BORNE BY THE REINSURERS	16,819	18,089	19,895	21,499	22,003	21,789	20,893
AMOUNTS OWED BY DEBTORS	14,917	15,652	16,808	18,696	19,915	20,333	21,116
OTHER ASSETS	5,537	6,757	8,332	9,715	10,585	10,198	10,251
ACCRUALS AND DEFERRED INCOME	2,152	2,144	2,323	2,487	2,744	3,004	3,206

SOLVENCY MARGIN

Insurance companies with registered offices in Italy, excluding re-insurance companies, had a solvency margin equal to Euro 38,237 million at the end of 2004 (+7.4% compared with the previous financial year) relative to their aggregate business in the Life sector and Non-Life sector.

As regards the Life insurance classes, the margin held (Euro 21,000 million) was equal to 2.05 times the minimum required according to law, determined in relation to the mathematical reserves and the risk capital (Euro 10,259 million); the foregoing ratio was equal to 2.19 in 2003 and equal to 2.82 in 1998.

With reference to the Non-Life classes the margin held (Euro 17,237 million) was equal to 2.96 times the minimum solvency margin to be established, determined in relation to the amount of the premiums income or the average cost of claims over the last three-year period (the higher value between the two criteria being adopted); the foregoing ratio was equal to 2.92 in 2003 and equal to 2.77 in 1998.

SOLVENCY MARGIN 1998-2004
(EXCLUDING REINSURANCE COMPANIES)
Euro million

LIFE	1998	1999	2000	2001	2002	2003	2004*
Solvency margin owned	13,591	14,704	16,415	17,512	18,418	20,000	21,000
Solvency margin to be owned by law	4,812	5,666	6,400	7,034	7,986	9,132	10,259
Cover ratio	2.82	2.60	2.56	2.49	2.31	2.19	2.05

NON-LIFE	1998	1999	2000	2001	2002	2003	2004*
Solvency margin owned	11,469	12,095	13,558	12,927	14,792	15,615	17,237
Solvency margin to be owned by law	4,135	4,394	4,626	4,938	5,138	5,356	5,820
Cover ratio	2.77	2.75	2.93	2.62	2.88	2.92	2.96

Source: ISVAP
(*) The figures for 2004 are provisional

CREATION OF VALUE IN THE INSURANCE SECTOR: A LONG-TERM ANALYSIS

A summary indicator used frequently to assess the profitability of companies and also adopted in the insurance sector, is represented by the ROE (Return On Equity). This index, defined as the ratio between the profit and shareholders' equity, expresses the level by which a given sector – through managing its economic assets – succeeds in achieving a return on the capital available and, therefore, to create value for investors.

The profitability of the Life sector between 1985 and 2004 was almost always higher than the profitability achieved by the Non-Life sector; the last four financial years represent an exception to the above, when the Non-Life sector managed to increase its own profitability index significantly, thanks to the progressive improvement of the technical management processes, achieving 14.9% in 2004 (11.6% for the Life insurance ROE).

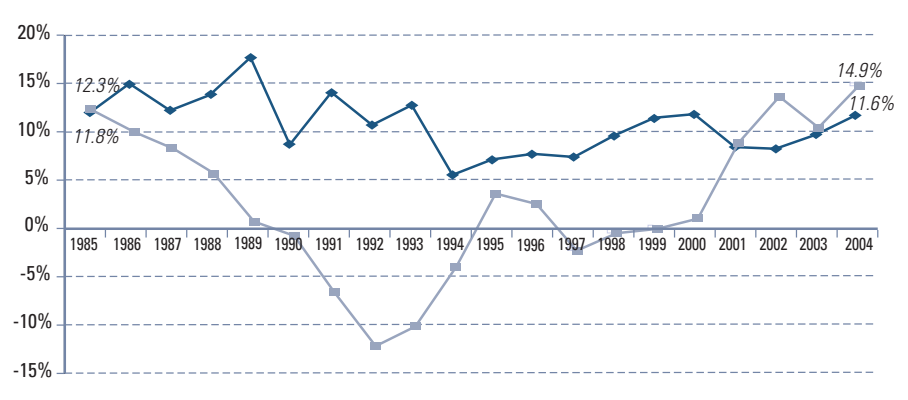


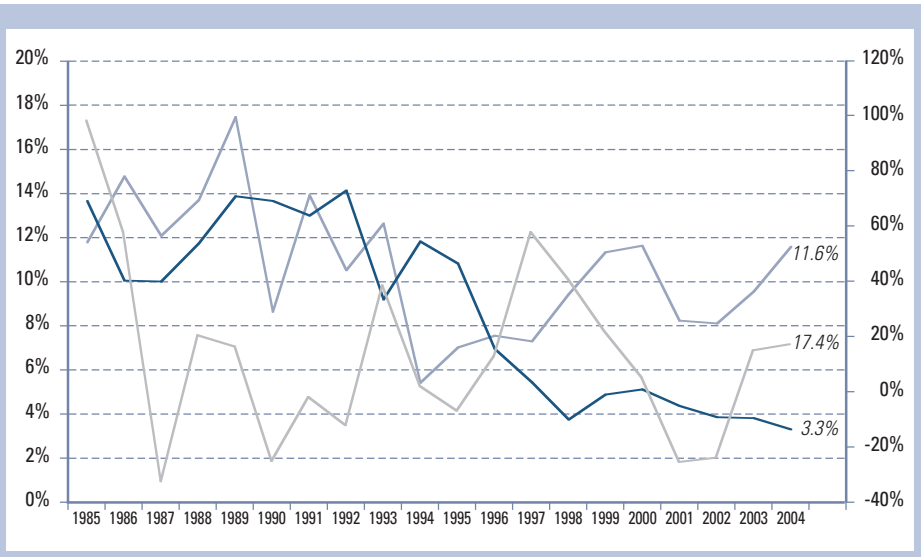
FIGURE 1
RETURN ON EQUITY COMPARISON - NON-LIFE AND LIFE

The complementarity that associates the insurance and financial management processes as parts of the single overall management of the insurance company, develops differently in the Non-Life insurance classes compared with the Life insurance classes; this is the reason the evolution of the ROE during the period of observation was treated separately for the two classes of business.

The ROE reflects a cyclic trend in the **Life insurance sector**, broadly correlated with the trend of the financial markets (figure 2): a progressive reduction for the ROE was recorded beyond the mid-'90s, after very high levels were achieved at the end of the '80s (17.5% in 1989), with inflation that was high but decreasing (the ROE was slightly greater than 7% during the 1995-1997 three-year period). Later, the limited rates of inflation and the growth of the Stock Markets favoured the restructuring of the financial portfolio held by households and the offer from insurance companies of new products with a high financial component. The broad distribution of these policies, offered above all through the banking channel, enabled the Italian Life insurance market to increase the volume of brokered funds and to reduce the gap with the other principal European markets. The ROE was equal to 11.3% in 2000.

2001 and 2002 was a very difficult two-year period for the Life-insurance markets in many countries (including Germany, Switzerland and Japan) due to the significant downturn of the shares markets, due to the lack of capital gains on securities and due to fears of deflation. The ROE experienced a limited decrease in Italy during this two-year period (+8%) due to the substantial income flows, the limited share exposure in portfolios where the financial risk is borne by the company, and where the "durable" type financial portfolio included securities with coupons which are still high. The recovery of the financial markets favoured the increase of the ROE in the last biennial, which reached 11.6% in 2004.

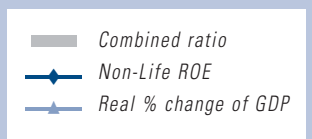
FIGURE 2
LIFE SECTOR RETURN ON EQUITY, LONG-TERM TREASURY BOND YIELD AND MIB INDEX CHANGE (RIGHT AXIS)

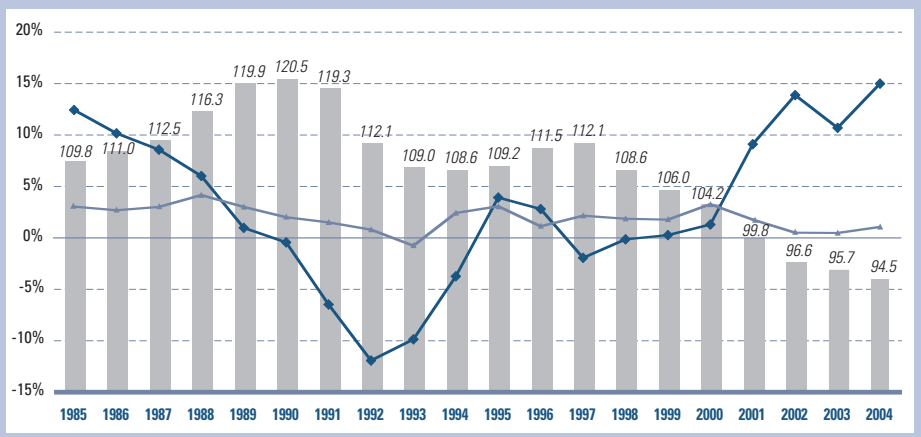


A simple econometric analysis shows that the links between the ROE for the Life insurance sector and the rate applicable to the Long-term Treasury Bonds (BTP) and the growth of the shares market (Milan Stock Market Index-MIB) are statistically significant: in particular, a 10% increase in the share quotations causes the ROE to increase 0.4 percentage points, whereas an increase of one percentage point in the rate on Long-term Treasury Bonds (BTP) causes the ROE to increase 0.3 percentage points.

The capacity of a company to create value in the **Non-Life sector** is strictly related to the technical trend of the insurance management; the financial component associated with the performance of investments plays a less important role compared with the situation applicable to the Life insurance classes.

FIGURE 3
NON-LIFE SECTOR RETURN ON EQUITY AND COMBINED RATIO





A significant downturn of the ROE was recorded between 1985 and 1992 (from +12% to -12%) related to reaching values around 120% of the combined ratio,

the rapid drop in nominal performances and the economic difficulties experienced in the early '90s. The ROE fluctuated around zero values up to year 2000, accompanied by a decrease in the combined ratio, which however, remained above 100%: in other words, insurance management alone was unable to cover the combined cost of claims and management costs via the premiums income. The level of the return on capital has increased over the last four-year period; the rapid increase in the combined ratio and the positive trend of financial investments in 2004 contributed to this result, especially in 2001-2002.

Econometric analyses confirm the negative correlation between the ROE and the Combined ratio and the positive correlation between the ROE and the growth rate of the economy: in particular, an increase of one percentage point in the rate of growth of the GDP in real terms causes the ROE to increase by 3 percentage points, whereas a decrease of one percentage point of the combined ratio causes the ROE to increase by 0.75 percentage points.

INTERNATIONAL COMPARISON

In 2003 overall premiums collected totalled Euro 2,941 billion with an increase in real terms of 2.0% (+5.4% in 2002).

Life insurance collected premiums for Dollars 1,673 billion, with a decrease in real terms of 0.8% (+2.9% in 2002); Non-Life insurance, on the contrary, increased by 6.0% (+9.0% in 2002), for a premium volume equal to Dollars 1,268 million.

The worldwide economic revival, mostly concentrated in the second half of 2003, positively influenced insurance companies' economic situation. The share prices increase, together with less credit risks within corporate securities, allowed the reduction of a part of asset dislocations registered in the past years. Nevertheless, investment profits remained low and on the whole produced unsatisfying results both in the Non-Life and in the Life sector.

The low interest rates offered on the financial markets and the consequent decrease of return guaranty levels offered by the new Life policies weighed on the overall premium collection. In 2003, in particular, the production in the United Kingdom and in the United States decreased; this determined a contraction of 1.7% for the whole Life market in industrialized countries. On the contrary, in emergent markets there was a generalized increase in premium collection (+6.6%); in these markets the insurance Life sector was sustained by a more than positive economic context compared to the world economy, and by fiscal incentives (premium growth in Russia and Brazil was equal to, respectively, 26.5% and 21.8%).

Premium growth, in Non-Life classes, is still linked to the generalised increase in prices more than to a favourable economic trend. In industrialized countries a reduced financial spread and an increase in incurred claims –

PREMIUMS IN 2003
Dollar million

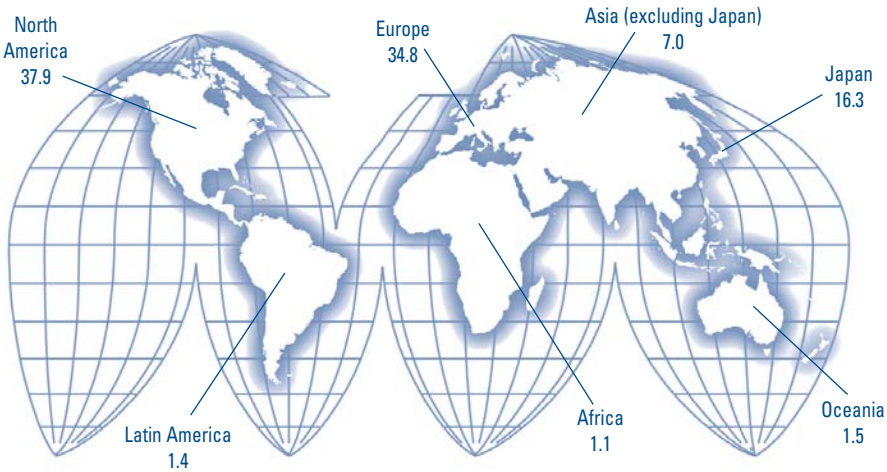
	LIFE	NON-LIFE	TOTAL
North America	503,759	610,882	1,114,641
Latin America	16,070	25,801	41,871
Europe	584,705	437,452	1,022,157
Asia	522,340	163,413	685,753
of which: Japan	*381,335*	*97,530*	*478,865*
Africa	22,184	8,784	30,968
Oceania	23,456	21,824	45,280
Total	**1,672,514**	**1,268,156**	**2,940,670**

Source: Swiss Re - SIGMA

REAL GROWTH RATE IN 2003 (%)

	LIFE	NON-LIFE	TOTAL
North America	-2.2	7.2	2.7
Latin America	-0.4	2.6	1.4
Europe	-2.0	5.7	1.1
Asia	2.7	2.3	2.6
of which: Japan	*0.2*	*-1.5*	*-0.1*
Africa	-14.8	6.8	-10.1
Oceania	-8.4	6.3	-1.9
Total	**-0.8**	**6.0**	**2.0**

Source: Swiss Re - SIGMA



WORLDWIDE DIRECT INSURANCE IN 2003 - MARKET SHARES

Source: Swiss Re - SIGMA

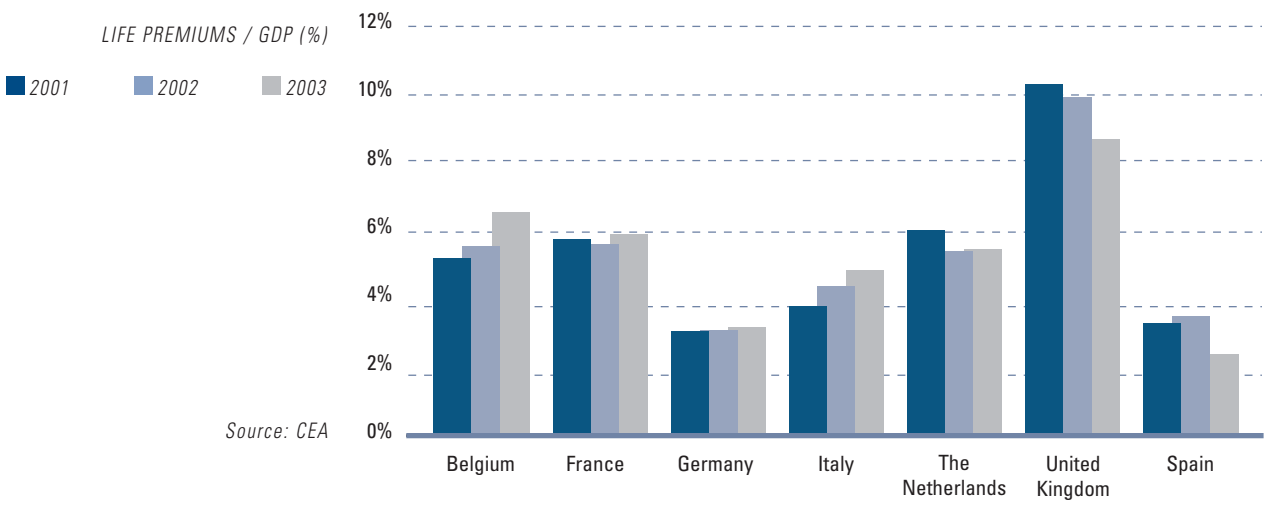
mostly in civil liability cover – pushed insurers to maintain an aggressive attitude on premium rates. The general improvement in the economic trend of emerging markets strongly marked the Non-Life class development, with an increase of 8.5% in premium collection. This transformation is changing the society's attitude, characterised by a growing well-being and by greater interest towards the insurance market. European companies increase their market share, from 32.4% in 2002 to 34.8% in 2003, whereas the weigh of North America decreases (from 40.0% in 2002 to 37.9% in 2003).

INSURANCE IMPACT IN OTHER COUNTRIES

Between 2001 and 2003 the ratio of premium volume to GDP (insurance "penetration" index) revealed different trends between the Life sector and the Non-Life insurance industry.

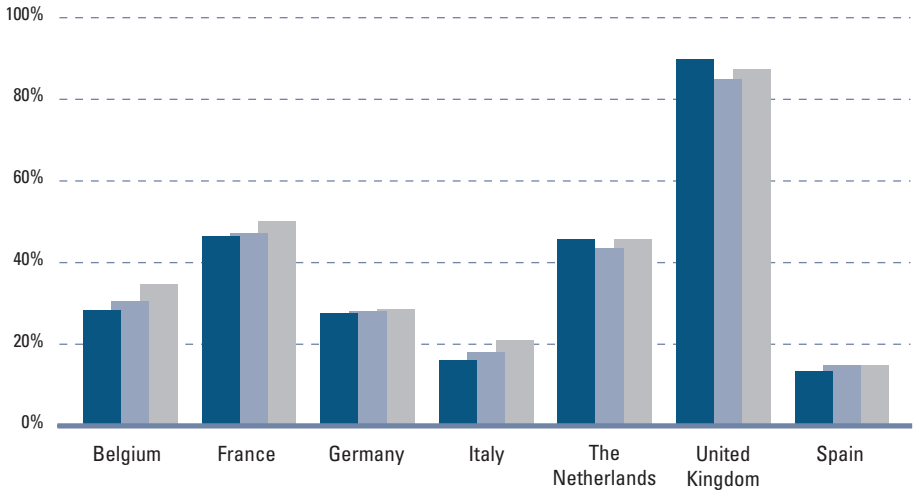
Concerning Life business, in 2003 Belgium is the country with the higher premiums to GDP ratio than the other countries analysed, passing from 5.5% in 2002 to 6.6% in 2003; the ratio was remarkable also in Italy and in France, respectively equal to 4.8% and to 5.9%. United Kingdom and Spain, instead, were characterized by a reduction: in the first country the ratio of premium to GDP recorded, in the three years analysed, a progressive decrease, passing from 10.3% in 2001 to 8.7% in 2003; in the second country the value was equal to 2.4% in 2003 (3.8% in 2002).

LIFE PREMIUMS / GDP (%)



Source: CEA

In Italy from 2001 to 2003 the ratio of mathematical provisions to GDP - an indicator of how mature the Life market is - increased from 18.1% to 20.8%. In spite of this increase, the ratio is still low for international standards; in fact in the other industrial countries, like Germany, France and United Kingdom, the index was equal to 28.6%, 50.2% and 87.1% respectively. Spain is the only country with a lower value than Italy with a value equal to 14.7%.

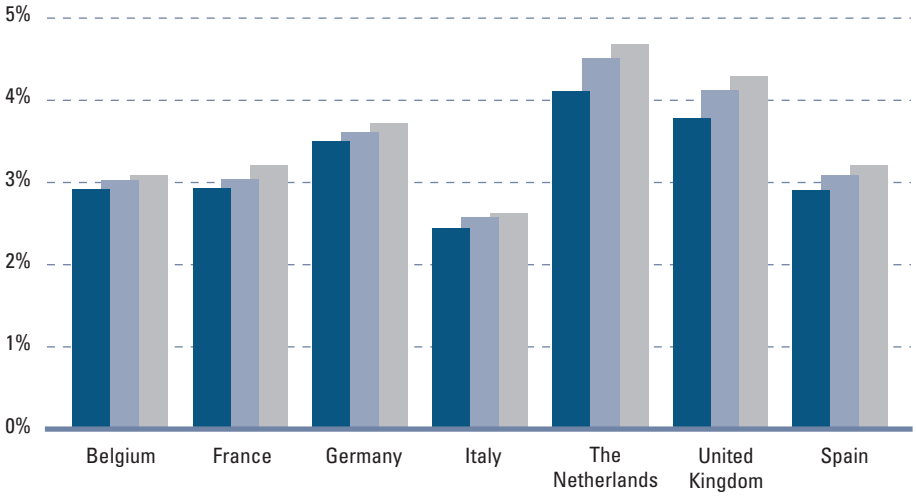


MATHEMATICAL PROVISIONS / GPD (%)

2001 *2002* *2003*

Source: CEA

In the Non-Life insurance industry, Italy is the country with the lowest premiums to GDP ratio (2.6% in 2003). The gap with the other countries remained substantially unchanged in the last three years; in 2003 it was equal to half percentage point compared to Belgium, France and Spain, one point compared to Germany, one point and a half compared to the United Kingdom and two points compared to the Netherlands.



NON-LIFE PREMIUMS / GDP (%)

2001 *2002* *2003*

Source: CEA

THE MAIN MARKETS IN THE EUROPEAN UNION

In 2003 the European Union insurance market collected premiums for Euro 797,976 million, with a slight 0.6% increase (+4.6% in 2002), caused above all by the decrease recorded in the United Kingdom (-11.6%) and in Spain (-13.7%). The most important growth rates have been registered in the following countries: Belgium (+15.8%), Luxembourg (+13.8%), Sweden (+13.1%), Portugal (+12.2%) and Italy (+10.6%).

Life insurance premiums decreased by 2.3% (+2.3% in 2002): in Spain (-33.4%) and in the United Kingdom (-16.2%) premium collection is strongly decreasing, while in Belgium (+21.7%), in Portugal (+18.4%), in Luxembourg (+15.4%) and in Italy (+13.5%) it is in growth.

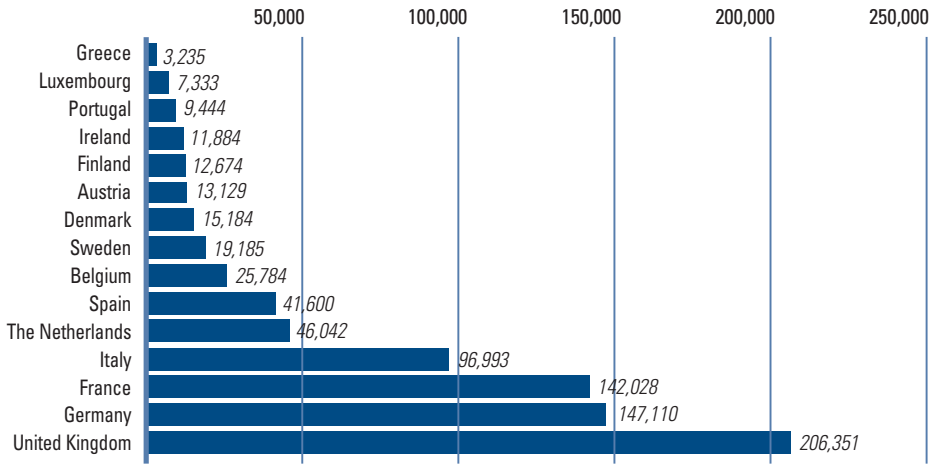
The Italian insurance business in the international scenario

On the contrary, in the Non-Life classes premiums increased by 5.1% compared to the previous year (+8.6% in 2002) with higher than average rates in: Sweden (+33.3%), Greece (+13.6%), Denmark (+12.5%), Spain (+10.5%), France (+7.5%), Ireland (+7.2%), Austria (+6.1%), The Netherlands and Italy (+5.6%).

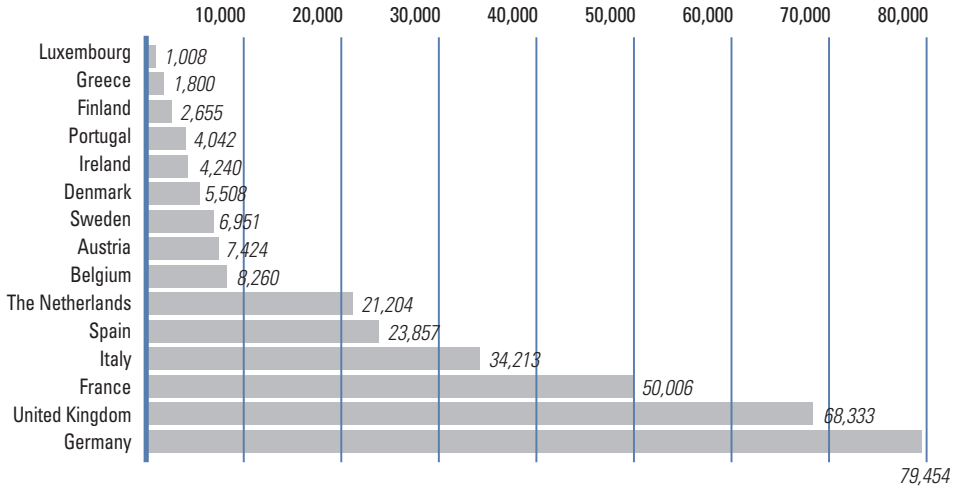
DIRECT PREMIUMS IN THE EUROPEAN UNION IN 2003

TOTAL

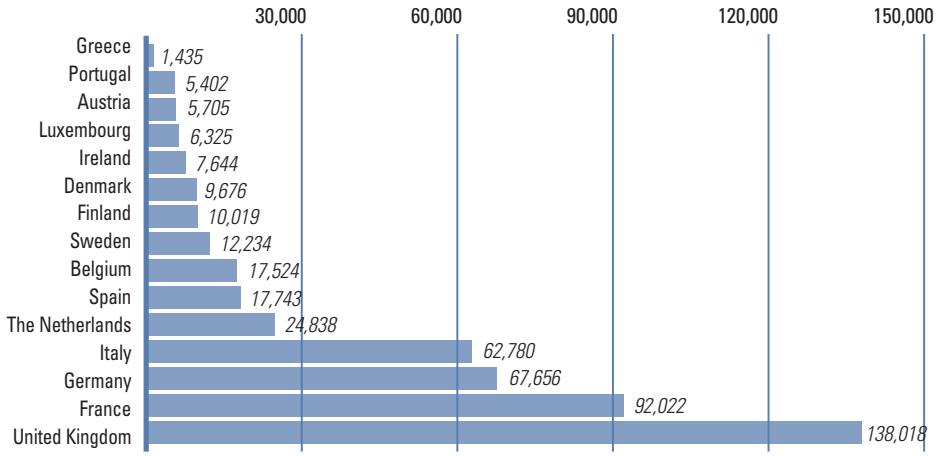
Euro million



NON-LIFE



LIFE



Source: CEA

A EUROPEAN COMPARISON OF INSURANCE COMPANIES INCOME STATEMENTS

The detail on the income statement and on the balance sheet of European insurance companies contained in the ISIS database, marketed by Bureau van Dijk, allows to examine and compare the profitability trends in French, German, Spanish and Italian insurance sectors. The database collects information made available by Fitch-IBCA on a sample of companies representing 90% of the market. The considered laps of time goes from 1999 to 2003.

Insurance companies that exercise Non-Life business

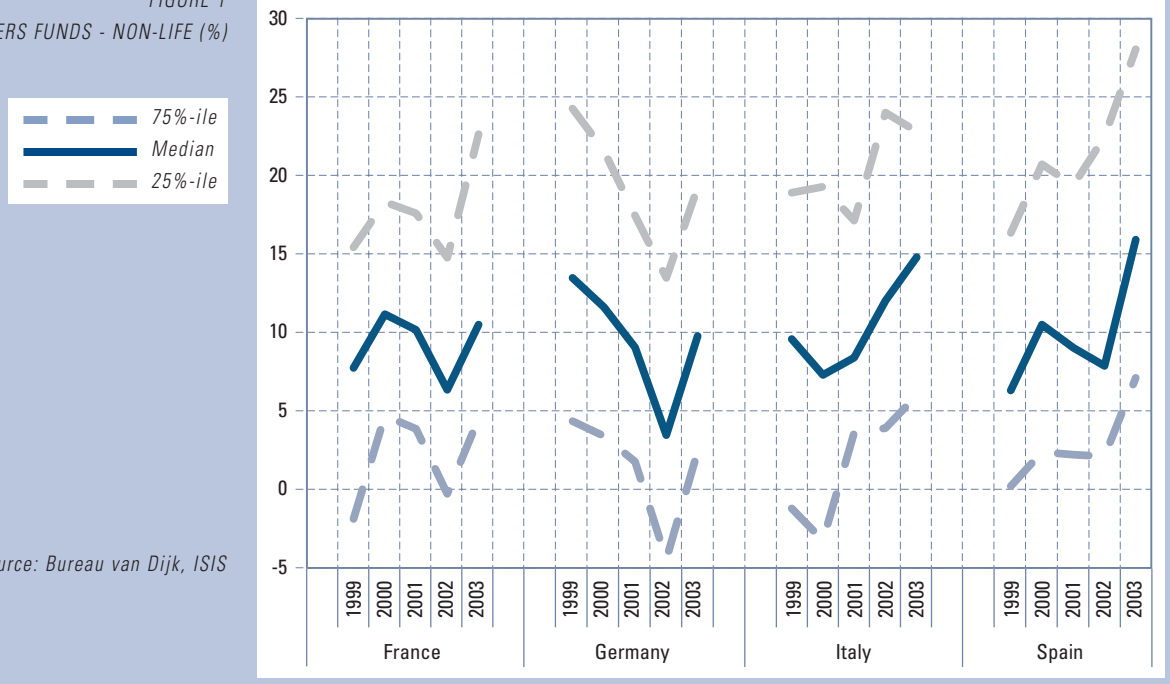
552 insurance companies engaged in Non-Life insurance business in 2003 were included in the ISIS database, of these 110 were operating in France, 256 in Germany, 69 in Italy and 117 in Spain.

The most synthetic indicator measuring company profitability is the post-tax profits over equity means ratio (defined as the sum of the subscribed capital, the reserves for own shares, the equalisation reserves, the other reserves and the carried profits). For the average Italian company the ROE increased from 12.1% in 2002 to 14.9% in 2003, continuing the growth started in 2001. The ROE of the average French company also increases in 2003 (10.6%), reversing the reduction tendency observed in the 3 previous years. A similar trend is registered in Germany and Spain, where in 2003 the average company's capital profitability was 9.8% in Germany and 16.0% in Spain.

A measure of how enterprises are distributed around the average value is given by the interquartile distance, that is, the difference between companies' indicators that represent, respectively, the first and the third quarter of the distribution, which follows the growing level of the indicator. As to capital profitability in 2003, the difference between the first and the third quarter of companies' distribution in Italy totalled 16.9 percentage points, in France 18.1, in Germany 16.8 and in Spain 21.0 (figure 1).

The main technical indicator, the combined ratio, defined as the sum of the loss ratio and the expense ratio, decreased for the average company in all the analysed countries: in 2003 it was 95.5% in Spain, 97.8% in Italy, 98.3% in Germany and 99.0% in France. The dispersion was more contained in Italy (the interquartile spread was equal to 8.3 percentage points) and in Spain (9.6%) whereas it was higher in Germany and France (13.8 and 15.5 respectively).

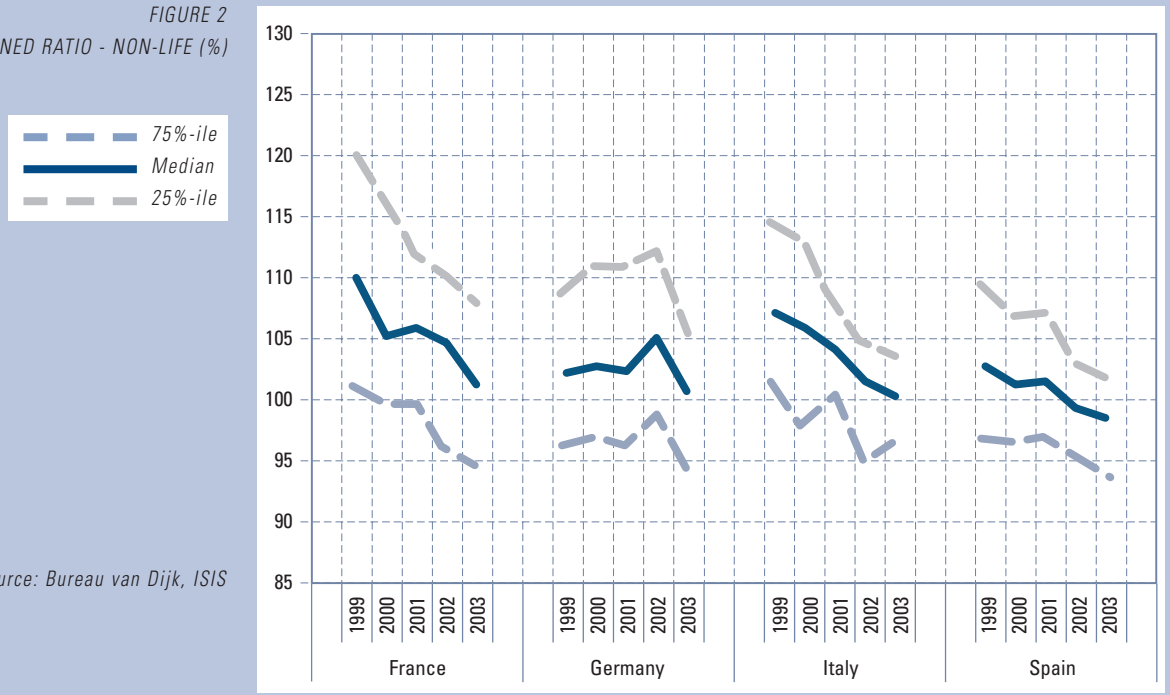
FIGURE 1
RETURN ON SHAREHOLDERS FUNDS - NON-LIFE (%)



Source: Bureau van Dijk, ISIS

In all countries, the time trend of the combined ratio corresponds essentially to the evolution of claims, synthesized by the loss ratio (in 2003 equal to 71.2% in Germany, 73.2% in Italy, 76.3% in France and to 75.3% in Spain), considering the expense ratio trend, essentially stable (in 2003 equal to 21.0% in Spain, 21.9% in France, 26.5% in Italy and 27.7% in Germany).

FIGURE 2
COMBINED RATIO - NON-LIFE (%)



Source: Bureau van Dijk, ISIS

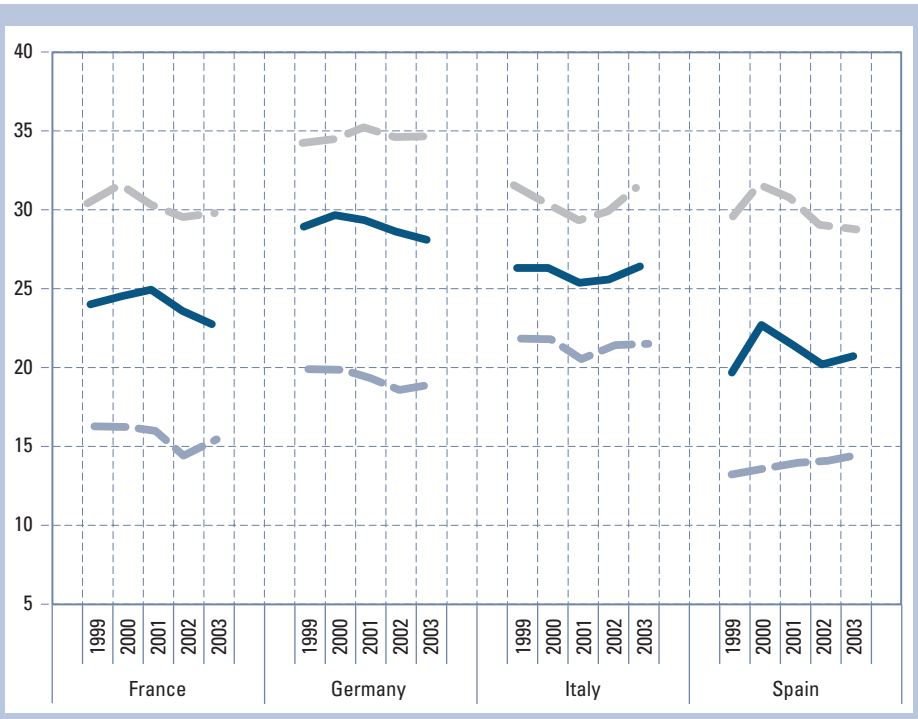
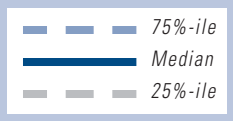


FIGURE 3
EXPENSE RATIO - NON-LIFE (%)



Source: Bureau van Dijk, ISIS

The performance of investments in Italy decreased, totalling 3.1% for the average company in 2003 (3.7% in 2002). The reduction tendency also interested investments profits in Germany and Spain, equal to respectively 4.4% and 2.3% in 2003 (5.1% and 2.6% in 2002). Investment profitability in France is increasing, going from 2.0% in 2002 to 3.6% in 2003. Companies' concentration around the average value is similar across the different countries.

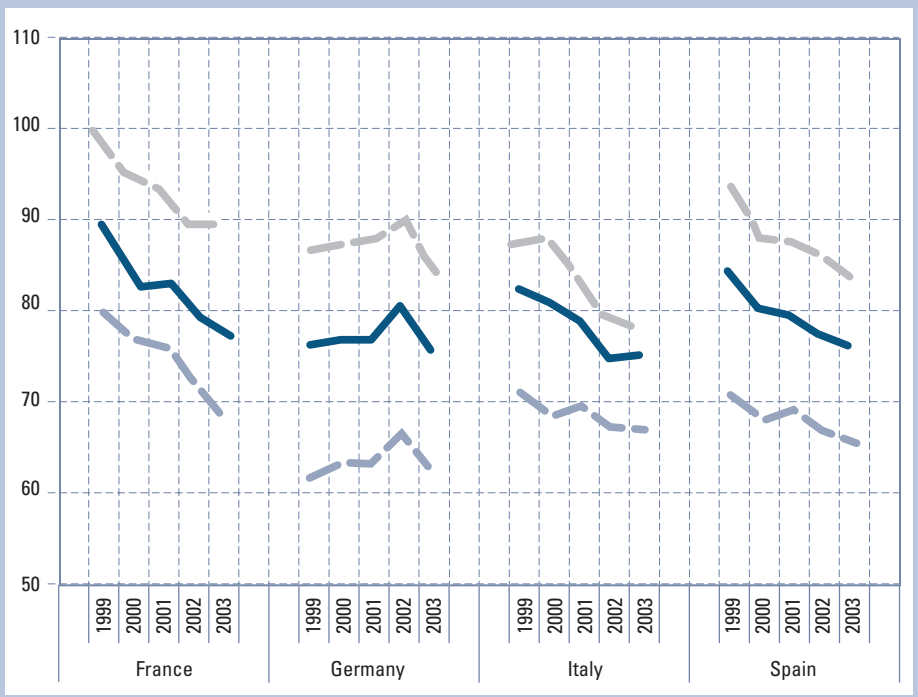
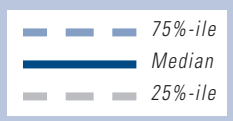
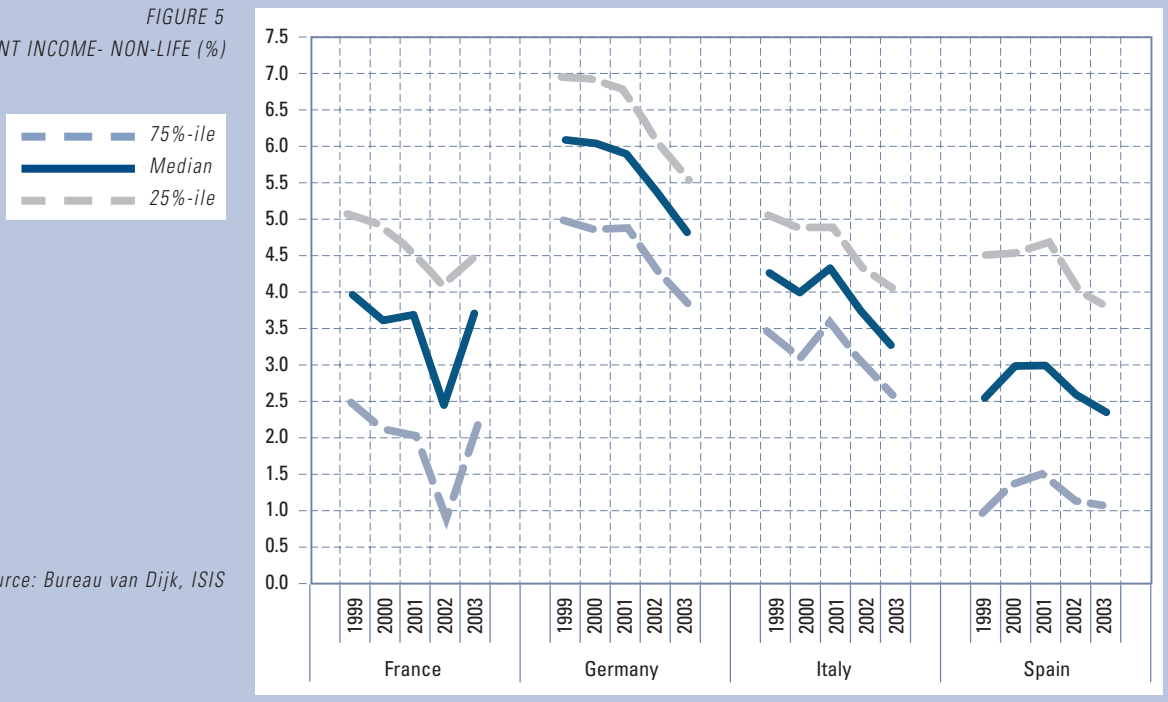


FIGURE 4
LOSS RATIO - NON-LIFE (%)



Source: Bureau van Dijk, ISIS

FIGURE 5
NET INVESTMENT INCOME- NON-LIFE (%)

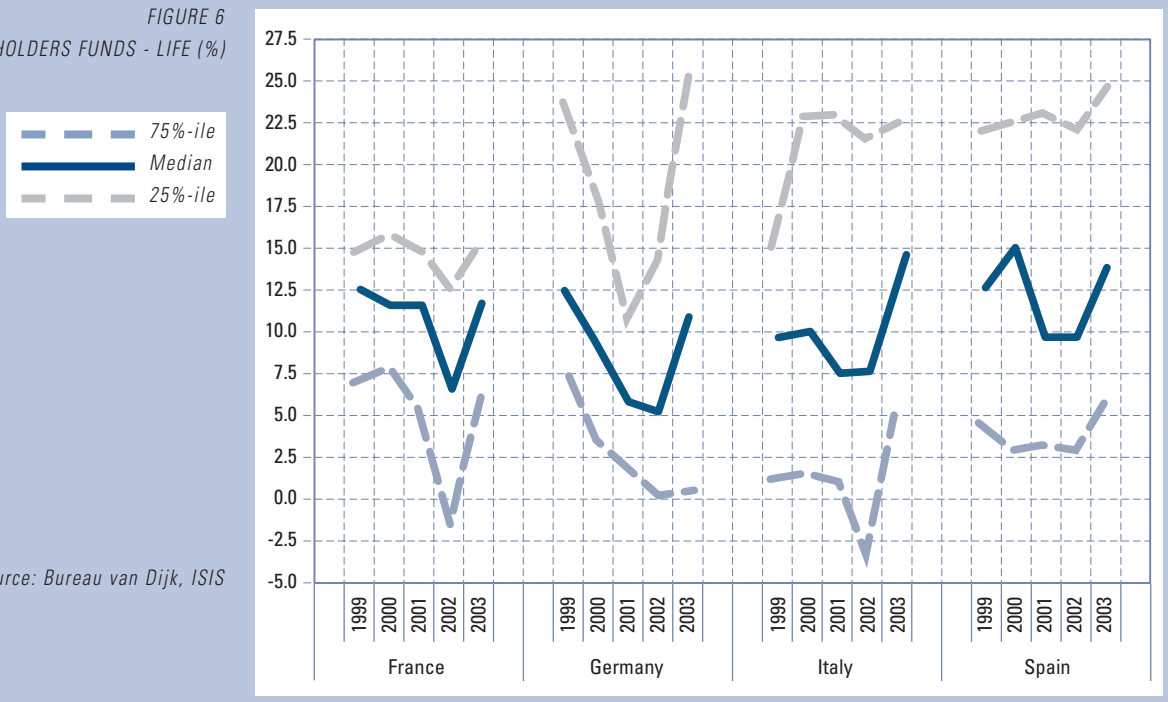


Source: Bureau van Dijk, ISIS

Insurance companies that exercise Life business

In 2003 companies engaged in Life insurance business included in the ISIS database were 395, of these 60 were operating in France, 197 in Germany, 64 in Italy and 74 in Spain.

FIGURE 6
RETURN ON SHAREHOLDERS FUNDS - LIFE (%)



Source: Bureau van Dijk, ISIS

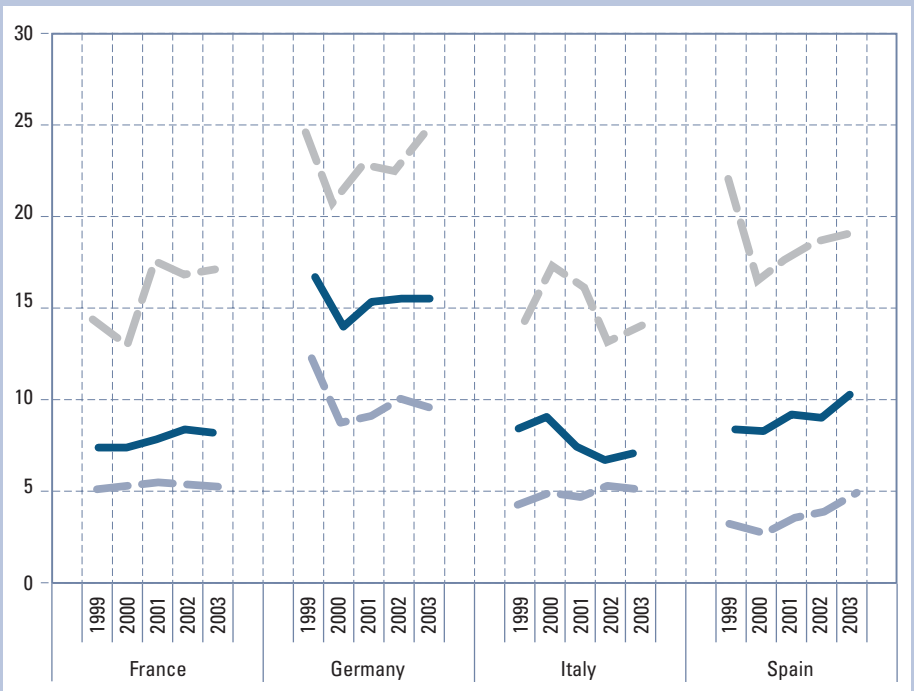


FIGURE 7
EXPENSE RATIO - LIFE (%)

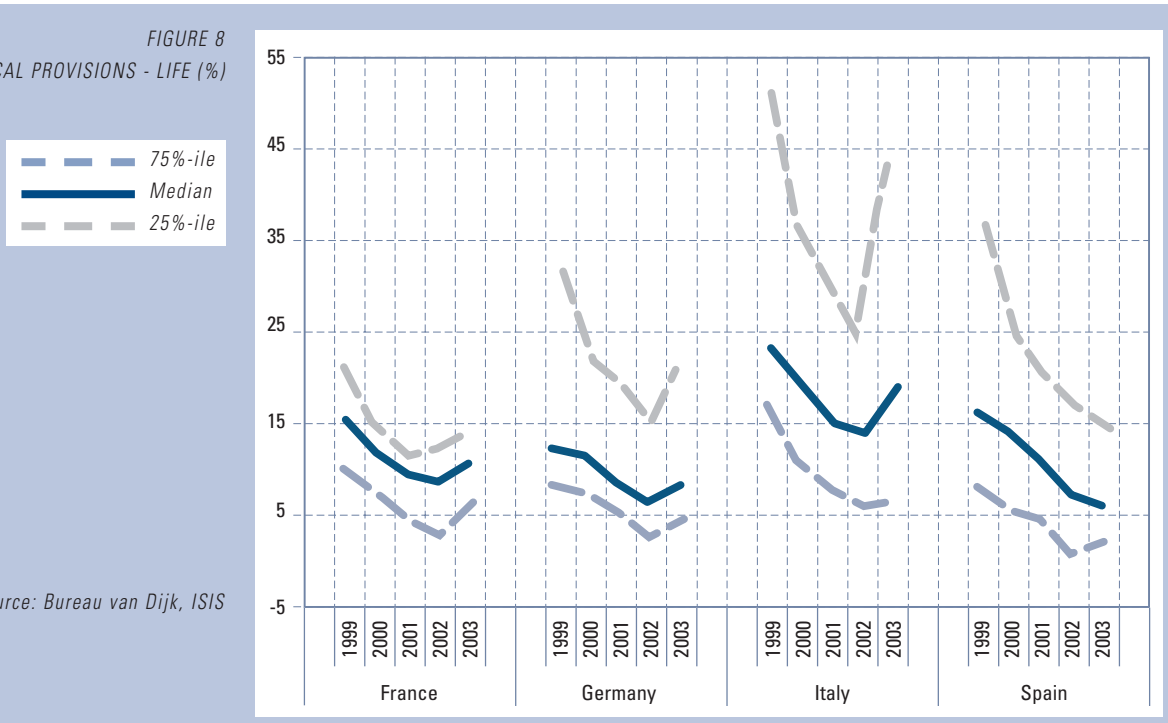
Source: Bureau van Dijk, ISIS

Yield on capital for the average company operating in the Life class in Italy totalled in 2003 14.3%, in significant growth compared to 6.6% in the previous year. In 2003 profitability experimented a substantial growth in other countries as well, in France it was equal to 10.9% (4.6% in 2002), in Germany 10.4% (5.4% in 2002) and in Spain 13.2% (9.8% in 2002). Dispersion around the average value seems to be significantly high: in Italy the difference between the first and the third quarter of companies' distribution amounts to 16.9 percentage points, in France to 9.8, in Germany to 24.8 and in Spain to 19.7.

The expense ratio of the average company in Italy was 8.7% in 2003, slightly higher compared to the value registered in 2002 (8.2%); 9.5% in France (9.7% in 2002), 15.2% in Germany (unvaried compared to the previous year) and 12.1% in Spain (10.5%). The indicator's dispersion is heterogeneous across countries; in 2003 the difference between the first and the third quarter of Italian companies' distribution totalled 7.9 percentage points, 12.0 in France , 14.6 in Germany and 14.2 in Spain.

Mathematical reserves' growth rate of the Italian average company registered a significant increase: from 13.4% in 2002 to 18.4% in 2003; growth rates of average French and German companies increase as well, which in 2003 were equal to, respectively, 9.1% and 8.9% (6.3% and 6.9% in 2002) whereas in Spain reserves increased of 7.1%, against 8.2% of 2002. Variability of Italian companies seems greater compared to the variability of other countries: in 2003 the difference between the first and the third quarter of companies' distribution is equal to 35.4 percentage points; 6.6 in France, 17.7 in Germany and 13.4 in Spain.

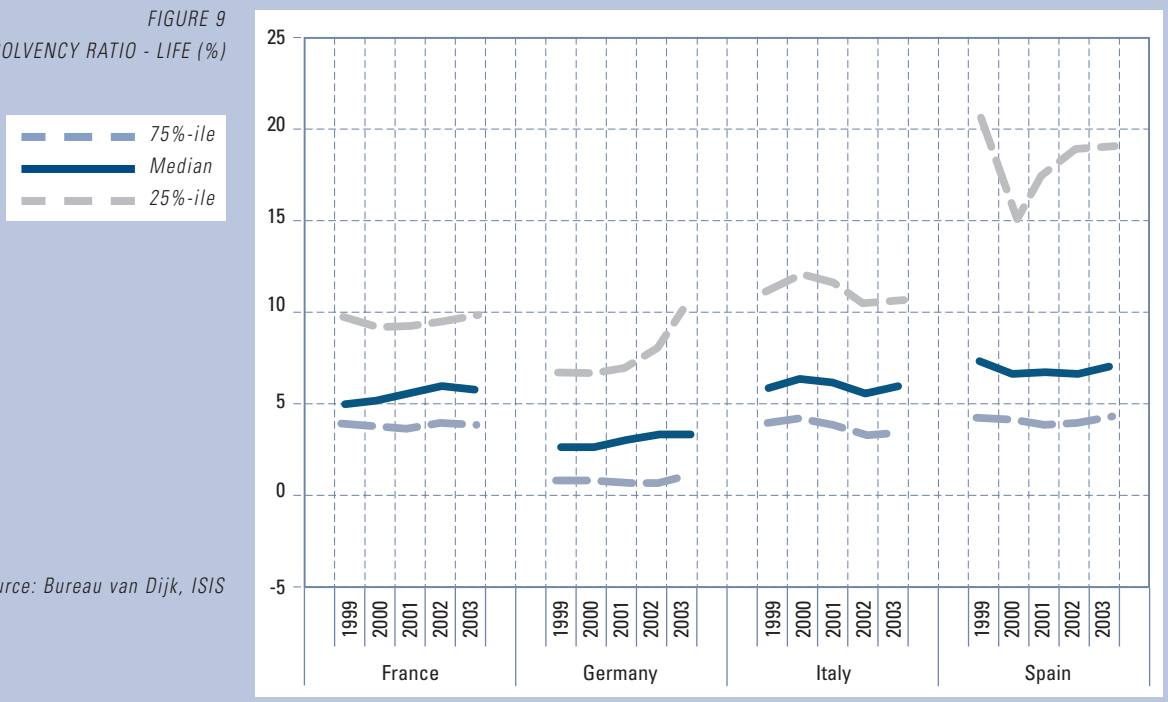
FIGURE 8
CHANGE IN TECHNICAL PROVISIONS - LIFE (%)



Source: Bureau van Dijk, ISIS

In Italy the average company's solvency ratio increased (6.3% in 2003, against 5.8% in 2002), just as in Spain (7.5% against 6.9% in 2002). It remained substantially stable in France (5.8%) and in Germany it is 3.4% (3.4% in 2002). The analysed indicator presents a high dispersion in Spain (15.1 percentage points); Germany follows with 9.2 percentage points, Italy 7.7 and France 6.5.

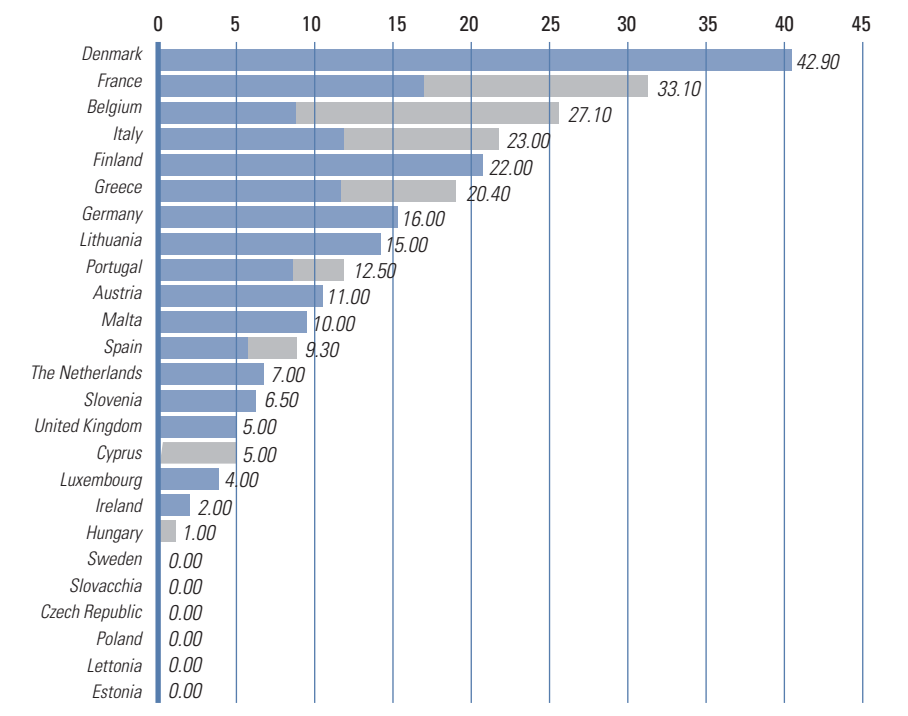
FIGURE 9
SOLVENCY RATIO - LIFE (%)



Source: Bureau van Dijk, ISIS

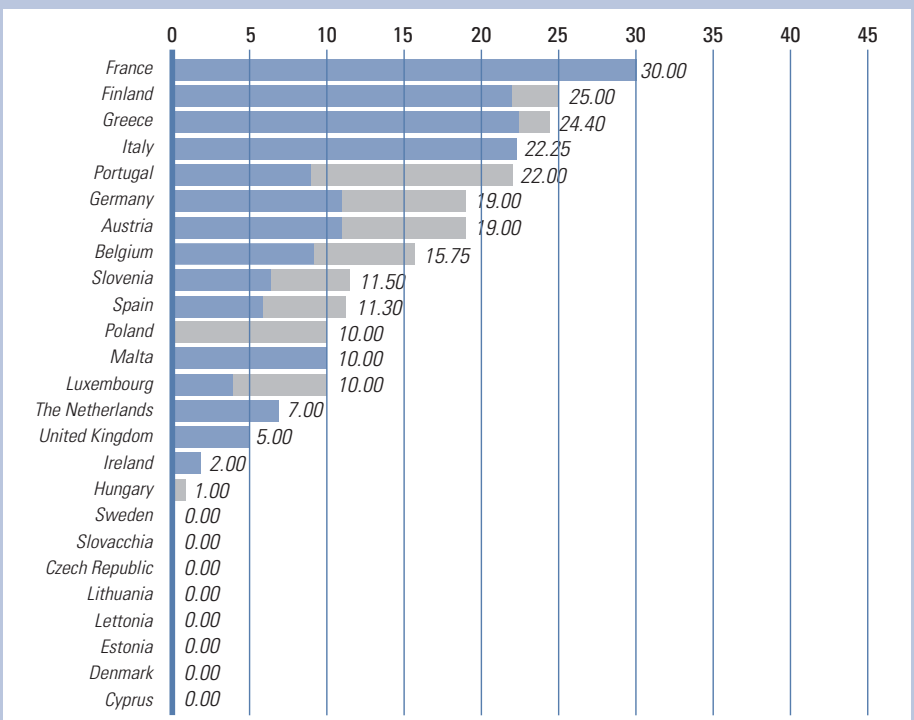
PREMIUM TAXATION IN THE EUROPEAN UNION

In 2004 as well, the level of direct taxation on insurance premiums in Italy was one of the most significant within the European Union. The phenomenon is all



MOTOR (%)

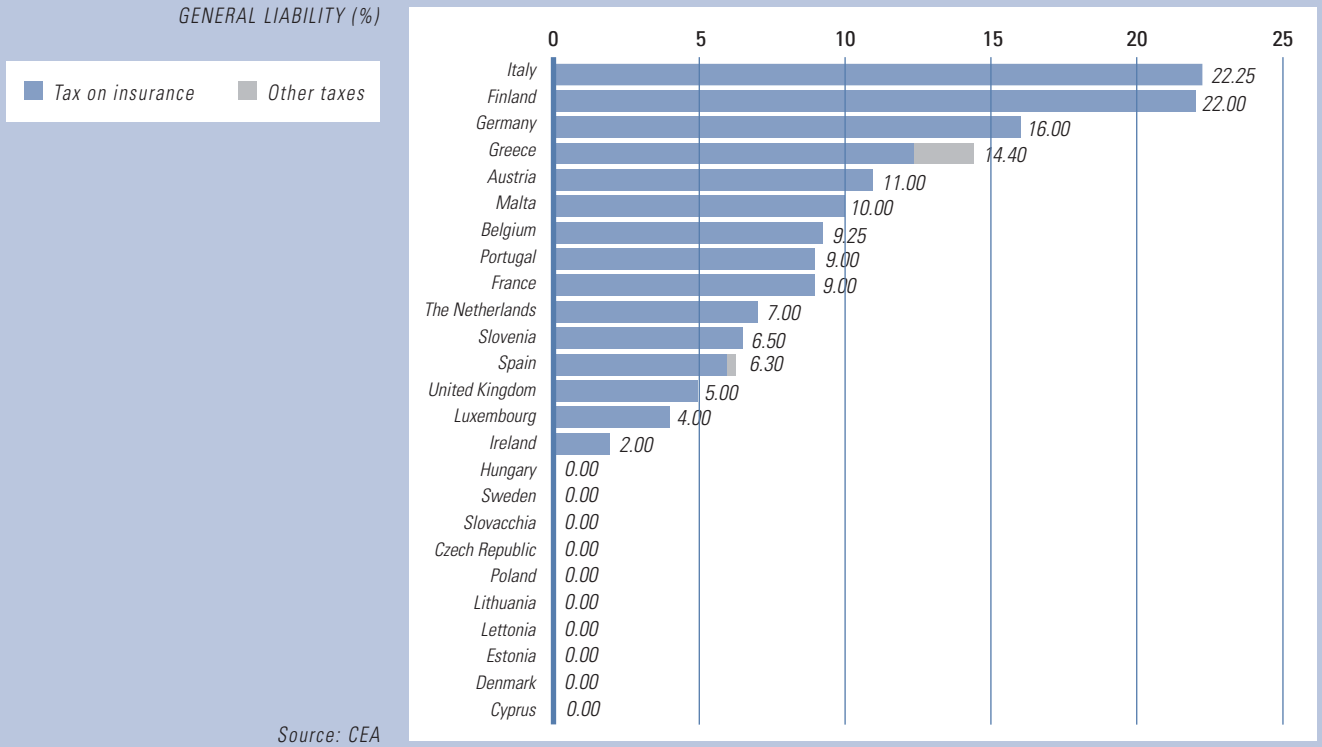
Source: CEA



FIRE (%)

Source: CEA

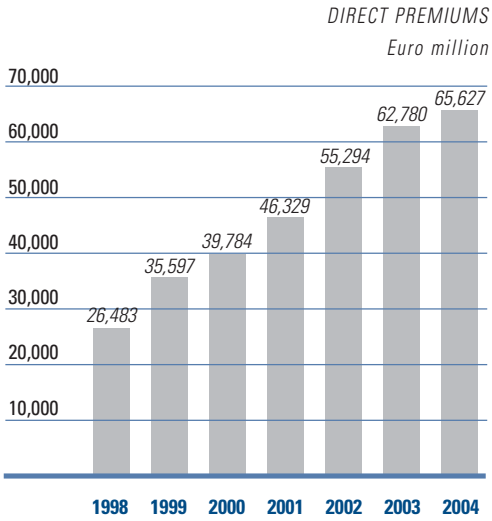
GENERAL LIABILITY (%)



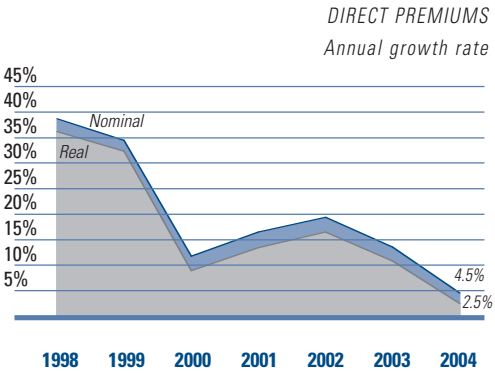
Source: CEA

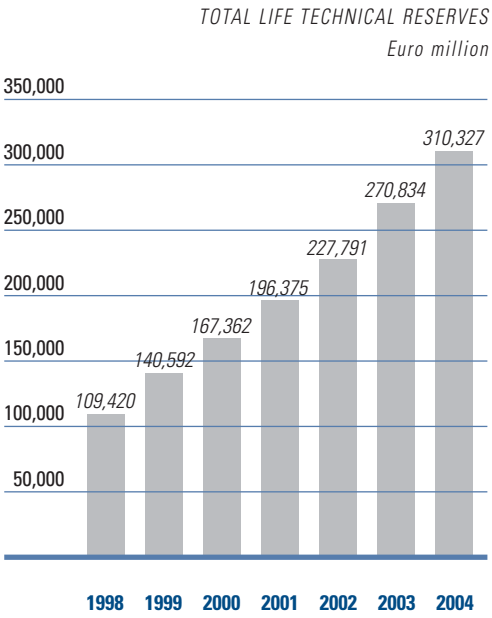
the more evident today after the entry of new Member States that are mainly characterised by the absence of taxation and parafiscal charges, that is, for a modest load in taxes.

Life insurance



Premiums in Life insurance business registered a moderate growth compared to the previous year, the profitability confirmed the same levels as 2003. The increase in traditional policies premiums (class I and class V), characterised by floor return guarantees, more than compensated the reduction in premiums relating to "linked" products.





DOMESTIC BUSINESS

Premiums for direct domestic business for the 93 insurance companies operating in the Life classes amounted to Euro 65,627 million; the growth rate was equal to 4.5% in nominal terms and 2.5% in real terms. After years of very fast development, the year 2004 registers the lowest growth rate since 1998; a slowing down of the collection from the bancassurance and less interest from savers for linked products contributed to this scenario. In percentage, Life premiums represent 65% of the total (Life and Non-Life), in line with 2003.

Amounts paid for claims and the change in the provisions for amounts to be paid net of recoverable sums, totalled Euro 34,313 million, increasing by 34.8%.

Mathematical provisions were equal to Euro 310,327 million, thus recording a 14.6% increase, noticeably higher than premiums.

Operating expenses were equal to Euro 3,864 million (3,745 in 2003); they include, in addition to acquisition costs, costs arising from premium collection, costs due to the organisation and operation of the distribution network, and also the administration expenses relating to the technical management of insurance business. The ratio of these operating expenses to premiums was 5.9% (6.0% in 2003).

Considering the investment income, equal to Euro 13,362 million, the **result of the technical account for direct business** reflected a profit of Euro 1,622 million (1,413 in 2003). The ratio to premiums was 2.5% (2.3% in 2003).

The net result for reinsurance activities and indirect insurance business was positive at Euro 247 million (293 in 2003).

LIFE TECHNICAL ACCOUNT
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	26,483	35,597	39,784	46,329	55,294	62,780	65,627
Incurred claims (-)	7,356	8,945	13,574	16,100	21,783	25,453	34,313
Changes in technical provisions (-)	23,514	31,002	26,693	28,981	31,504	43,257	39,665
Balance of other technical items	-92	-50	-5	175	284	427	475
Operating expenses (-)	2,687	3,026	3,398	3,323	3,379	3,745	3,864
Investment income	7,566	7,560	4,688	2,812	1,845	10,661	13,362
Direct technical account result	**400**	**134**	**802**	**912**	**757**	**1,413**	**1,622**
Reinsurance result and other items	612	666	659	480	279	293	247
Overall technical account result	**1,012**	**800**	**1,461**	**1,392**	**1,036**	**1,706**	**1,869**
Annual % changes in premiums	–	34.4%	11.8%	16.5%	19.4%	13.5%	4.5%
Expense ratio	10.1%	8.5%	8.5%	7.2%	6.1%	6.0%	5.9%
Investment income/Technical provisions	–	6.0%	3.0%	1.5%	0.9%	4.3%	4.6%
Technical account result/Gross written premiums	**1.5%**	**0.4%**	**2.0%**	**2.0%**	**1.4%**	**2.3%**	**2.5%**
Overall technical account result/Gross written premiums	**3.8%**	**2.2%**	**3.7%**	**3.0%**	**1.9%**	**2.7%**	**2.8%**
Overall technical account result/Technical provisions	**–**	**0.64%**	**0.95%**	**0.77%**	**0.49%**	**0.68%**	**0.64%**

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

The **overall technical account result** was equal to Euro 1,869 million (1,706 in 2003). The ratio to premiums amounted to 2.8% (2.7% in 2003); the ratio to the centred mean of technical reserves amounted to 0.64% (0.68% in 2003).

INDIVIDUAL LIFE CLASS

Insurance on human life length

Premiums for direct domestic business, collected from the 92 companies operating in the class, amounted to Euro 30,101 million; the growth rate compared to 2003 was equal to 8.3%. The ratio to premiums for the class on the total Life premiums reached 45.9% from 44.3% in 2003, insureds seem to be attracted by products with floor return guarantees, and not by linked products like at the end of the 90's.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 16,773 million, a 13.0% increase compared to 2003.

The **changes in mathematical** and other technical provisions were equal to Euro 15,696 million, increasing by 6.5%.

Operating expenses were equal to 2,048 million (1,941 in 2003). The ratio to premiums was 6.8% (7.0% in 2003).

Life insurance

Considering the investment income equal to Euro 5,846 million, the **result of the technical account for direct business** showed a profit of Euro 1,331 million (1,525 in 2003). The ratio to premiums was 4.4% from 5.5% in 2003; there was a growth of claims and a decrease of the profit ratio on technical reserves.

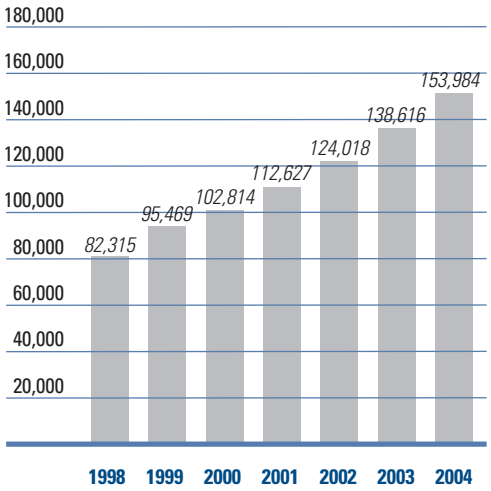
The net result for reinsurance activities and indirect insurance business was positive at Euro 247 million.

CLASS I - HUMAN LIFE
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	16,720	17,603	15,967	19,413	23,991	27,788	30,101
Incurred claims (-)	5,869	6,982	9,686	11,254	13,660	14,839	16,773
Changes in technical provisions (-)	13,626	13,035	8,680	9,806	12,233	14,737	15,696
Balance of other technical items	-93	-51	-66	-81	-109	-96	-99
Operating expenses (-)	2,100	2,034	2,019	1,791	1,770	1,941	2,048
Investment income	5,115	4,597	5,403	4,801	4,399	5,350	5,846
Direct technical account result	**147**	**98**	**919**	**1,282**	**618**	**1,525**	**1,331**
Reinsurance result and other items	619	662	642	407	293	292	247
Overall technical account result	**766**	**760**	**1,561**	**1,689**	**911**	**1,817**	**1,578**
Annual % changes in premiums	–	5.3%	-9.3%	21.6%	23.6%	15.8%	8.3%
Expense ratio	12.6%	11.6%	12.6%	9.2%	7.4%	7.0%	6.8%
Investment income/Technical provisions	–	5.2%	5.5%	4.5%	3.7%	4.1%	4.0%
Technical account result/Gross written premiums	**0.9%**	**0.6%**	**5.8%**	**6.6%**	**2.6%**	**5.5%**	**4.4%**
Overall technical account result/Gross written premiums	**4.6%**	**4.3%**	**9.8%**	**8.7%**	**3.8%**	**6.5%**	**5.2%**
Overall technical account result/Technical provisions	**–**	**0.85%**	**1.57%**	**1.57%**	**0.77%**	**1.38%**	**1.08%**
Premiums to total Life premiums ratio (%)	*63.1%*	*49.5%*	*40.1%*	*41.9%*	*43.4%*	*44.3%*	*45.9%*

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

TECHNICAL PROVISIONS - CLASS I - HUMAN LIFE
Euro million



The **overall technical account result** was equal to Euro 1,578 million (1,817 in 2003). The ratio to premiums was 5.2% (6.5% in 2003); the ratio to the average technical reserves was 1.08% (1.38% in 2003).

Life insurance linked to investments funds or index-linked insurance

Premiums for direct domestic business for the 82 insurance companies operating in this class amounted to Euro 24,756 million (-6.5% compared to 2003, the first reduction from 1998). The percentage on the overall direct Life premiums was equal to 37.7% (42.2% in 2003).

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 13,371 million and registered a strong increase compared to 2003 (76.2%), also for the expiring of contracts issued at the end of 90's.

The **changes in mathematical** and other technical provisions were equal to Euro 16,236 million, a 26.7% decrease compared to 2003.

Operating expenses were equal to Euro 1,614 million (1,578 in 2003). The ratio to premiums was 6.5%, a slight increase compared to 6.0% in 2003.

CLASS III - INVESTMENTS FUNDS
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	6,571	15,022	22,214	23,613	24,559	26,488	24,756
Incurred claims (-)	954	1,186	2,421	3,098	5,562	7,590	13,371
Changes in technical provisions (-)	6,606	15,266	17,485	16,670	14,233	22,145	16,236
Balance of other technical items	6	14	72	267	341	548	599
Operating expenses (-)	426	834	1,282	1,394	1,378	1,578	1,614
Investment income	1,694	2,287	-1,335	-2,576	-3,318	4,156	5,972
Direct technical account result	**285**	**37**	**-237**	**142**	**409**	**-121**	**106**
Reinsurance result and other items	-2	1	4	61	-19	-5	5
Overall technical account result	**283**	**38**	**-233**	**203**	**390**	**-126**	**111**
Annual % changes in premiums	–	128.6%	47.9%	6.3%	4.0%	7.9%	-6.5%
Expense ratio	6.5%	5.5%	5.8%	5.9%	5.6%	6.0%	6.5%
Investment income/Technical provisions	–	9.8%	-3.3%	-4.4%	-4.5%	4.5%	5.4%
Technical account result/Gross written premiums	**4.3%**	**0.2%**	**-1.1%**	**0.6%**	**1.7%**	**-0.5%**	**0.4%**
Overall technical account result/Gross written premiums	**4.3%**	**0.3%**	**-1.0%**	**0.9%**	**1.6%**	**-0.5%**	**0.4%**
Overall technical account result/Technical provisions	**–**	**0.16%**	**-0.57%**	**0.35%**	**0.53%**	**-0.14%**	**0.10%**
Premiums to total Life premiums ratio (%)	*24.8%*	*42.2%*	*55.8%*	*51.0%*	*44.4%*	*42.2%*	*37.7%*

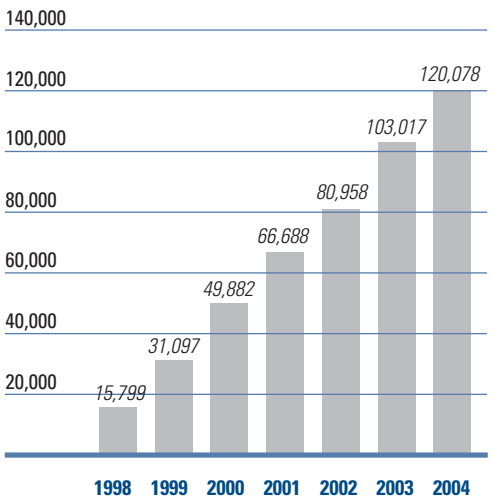
Indexes and changes (%) are calculated on data in Euro thousand

Considering the investment income equal to Euro 5,972 million, the **result of the technical account for direct business** was positive at Euro 106 million (-121 in 2003). The ratio to premiums was 0.4%.

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

The **overall technical account result** was positive at Euro 111 million (-126 in 2003). The ratio to premiums was 0.4% (0.5% in 2003); the ratio to the average reserves was 0.10%.

TECHNICAL PROVISIONS - CLASS III - INVESTMENTS FUNDS
Euro million



Long-term healthcare insurance

Premiums for direct domestic business for the 25 insurance companies operating in this class amounted to Euro 18 million, a 9.1% increase compared to 2003.

Life insurance

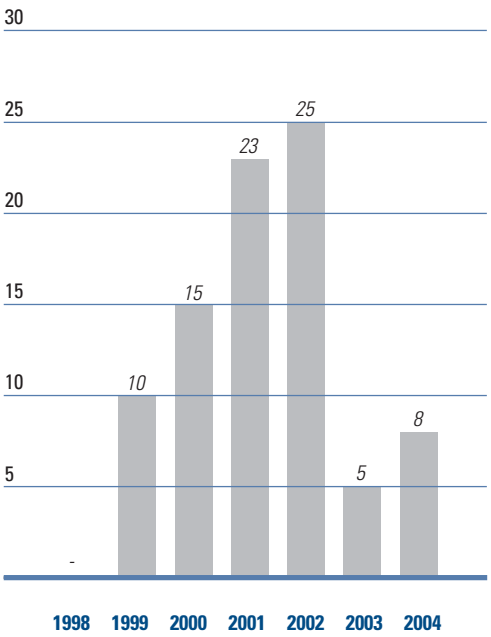
The **overall technical account result** was positive at Euro 1 million (-1 in 2003). The ratio to premiums was 3.5% (6.2% in 2003).

CLASS IV - HEALTHCARE
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	–	6	8	12	10	17	18
Incurred claims (-)	–	1	2	3	3	7	9
Changes in technical provisions (-)	–	4	4	8	4	2	2
Balance of other technical items	–	-1	-1	0	1	0	0
Operating expenses (-)	–	0	0	0	0	4	2
Investment income	–	1	1	1	1	0	0
Direct technical account result	–	**1**	**2**	**2**	**5**	**4**	**5**
Reinsurance result and other items	–	-1	1	0	-2	-5	-4
Overall technical account result	–	**0**	**3**	**2**	**3**	**-1**	**1**
Annual % changes in premiums	–	–	36.1%	46.8%	-10.3%	61.3%	9.1%
Expense ratio	–	7.2%	3.6%	3.3%	2.3%	21.8%	11.6%
Investment income/Technical provisions	–	–	5.9%	6.0%	5.9%	1.4%	3.9%
Technical account result/Gross written premiums	–	**13.7%**	**21.4%**	**14.8%**	**44.2%**	**24.2%**	**27.7%**
Overall technical account result/Gross written premiums	–	**-0.2%**	**34.1%**	**20.6%**	**28.9%**	**-6.2%**	**3.5%**
Overall technical account result/Technical provisions	–	–	**21.60%**	**12.71%**	**12.48%**	**-6.93%**	**9.61%**
Premiums to total Life premiums ratio (%)	–	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

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

TECHNICAL PROVISIONS - CLASS IV - HEALTHCARE
Euro million



Capitalization operations

Premiums for direct domestic business for the 82 insurance companies operating in this class amounted to Euro 10,554 million, with a 26.2% increase compared to 2003. The percentage on the overall direct Life premiums was equal to 16.1% (13.3% in 2003).

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 4,136 million, a 37.7% increase compared to 2003.

The **changes in mathematical** and other technical provisions were equal to Euro 7,537 million, a 20.7% increase compared to 2003.

Operating expenses were equal to Euro 190 million (215 in 2003). The ratio to premiums was 1.8% (2.6% in 2003).

Considering the investment income equal to Euro 1,521 million, the **result of the technical account for direct business** showed a positive result of Euro 183 million (9 in 2003).

The net result for reinsurance activities and indirect insurance business was positive at Euro 1 million.

The **overall technical account result** was equal to Euro 184 million (20 in 2003). The ratio to premiums was 1.7% (0.2% in 2003).

CLASS V - CAPITALIZATION
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	3,191	2,921	1,503	3,201	6,610	8,360	10,554
Incurred claims (-)	533	771	1,463	1,739	2,551	3,003	4,136
Changes in technical provisions (-)	3,281	2,655	435	2,421	4,951	6,243	7,537
Balance of other technical items	-5	-11	-12	-13	52	-26	-29
Operating expenses (-)	161	154	91	131	224	215	190
Investment income	757	671	621	594	792	1,136	1,521
Direct technical account result	**-32**	**1**	**123**	**-509**	**-272**	**9**	**183**
Reinsurance result and other items	-4	4	12	11	7	11	1
Overall technical account result	**-36**	**5**	**135**	**-498**	**-265**	**20**	**184**
Annual % changes in premiums	–	-8.4%	-48.5%	113.0%	106.5%	26.5%	26.2%
Expense ratio	5.0%	5.3%	6.0%	4.1%	3.4%	2.6%	1.8%
Investment income/Technical provisions	–	5.3%	4.4%	3.8%	4.0%	4.4%	4.7%
Technical account result/Gross written premiums	**-1.0%**	**0.0%**	**8.2%**	**-15.9%**	**-4.1%**	**0.1%**	**1.7%**
Overall technical account result/Gross written premiums	**-1.1%**	**0.2%**	**9.0%**	**-15.6%**	**-4.0%**	**0.2%**	**1.7%**
Overall technical account result/Technical provisions	**–**	**0.04%**	**0.95%**	**-3.18%**	**-1.35%**	**0.08%**	**0.57%**
Premiums to total Life premiums ratio (%)	*12.0%*	*8.2%*	*3.8%*	*6.9%*	*12.0%*	*13.3%*	*16.1%*

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

Pension fund management

Premiums for direct domestic business for the 36 insurance companies operating in this class amounted to Euro 198 million, a 54.4% increase compared to 2003.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 24 million representing a 64.7% increase compared to 2003.

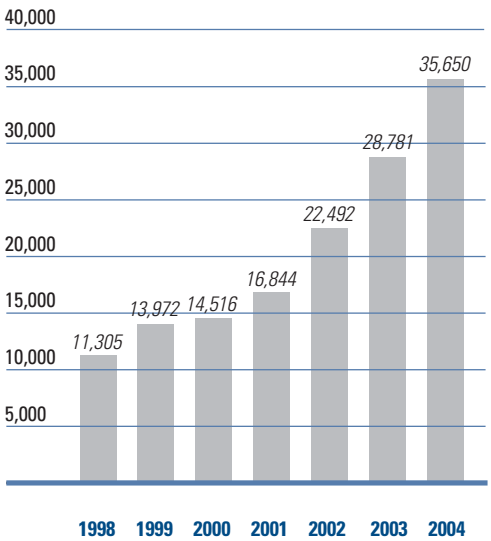
The **changes in mathematical** and other technical provisions were equal to Euro 194 million, a 48.6% increase.

Operating expenses were equal to Euro 10 million (8 in 2003). The ratio to premiums was 5.0% (6.4% in 2003).

Considering the investment income equal to Euro 22 million, the **result of the technical account for direct business** showed a deficit of Euro 4 million, like in 2003.

The **overall technical account result** was negative at Euro 4 million, like in 2003.

TECHNICAL PROVISIONS - CLASS V - CAPITALIZATION
Euro million



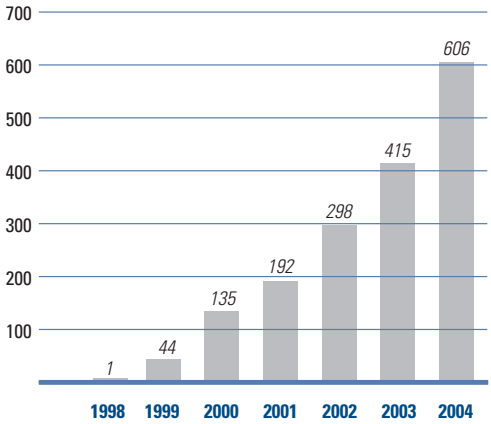
Life insurance

CLASS VI - PENSION FUNDS
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	1	45	93	91	124	128	198
Incurred claims (-)	0	5	2	7	8	15	24
Changes in technical provisions (-)	1	43	89	76	85	131	194
Balance of other technical items	0	0	1	1	2	3	4
Operating expenses (-)	0	4	6	6	7	8	10
Investment income	0	4	-2	-7	-30	19	22
Direct technical account result	**0**	**-3**	**-5**	**-4**	**-4**	**-4**	**-4**
Reinsurance result and other items	0	0	0	0	0	0	0
Overall technical account result	**0**	**-3**	**-5**	**-4**	**-4**	**-4**	**-4**
Annual % changes in premiums	–	7,463.3%	108.4%	-2.6%	36.6%	3.4%	54.4%
Expense ratio	54.6%	8.0%	6.6%	7.0%	5.8%	6.4%	5.0%
Investment income/Technical provisions	–	15.8%	-1.8%	-4.5%	-12.1%	5.2%	4.4%
Technical account result/Gross written premiums	**-52.7%**	**-6.6%**	**-5.1%**	**-4.7%**	**-3.1%**	**-3.3%**	**-2.1%**
Overall technical account result/Gross written premiums	**-52.7%**	**-6.6%**	**-5.1%**	**-4.9%**	**-3.2%**	**-3.3%**	**-2.1%**
Overall technical account result/Technical provisions	**–**	**-13.08%**	**-5.36%**	**-2.72%**	**-1.60%**	**-1.20%**	**-0.82%**
Premiums to total Life premiums ratio (%)	*0.0%*	*0.1%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.3%*

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

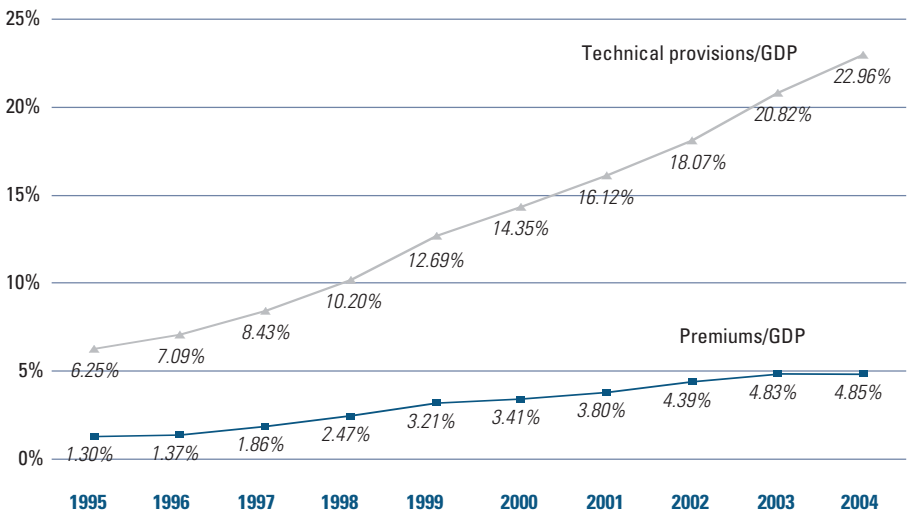
TECHNICAL PROVISIONS - CLASS VI - PENSION FUNDS
Euro million



THE LIFE CLASS AND GDP

In 2004 the increase in the ratio between mathematical provisions and GDP continued and reached 23.0% (20.8% in 2003). In the last ten years this ratio has increased by more than 16 percentage points (it was only 6.25% in 1995). Also the weight of the Italian Life premiums for direct domestic business to GDP increased substantially in the last ten years, in particular since 1998; in 2004, however, the ratio to GDP (4.85%) remained substantially unvaried compared to 2003.

PREMIUMS AND TECHNICAL PROVISIONS TO GDP RATIO (%)



PROFITABILITY ANALYSIS AND COSTS IN LIFE INSURANCE MARKET

Profitability

The profitability index defined as the ratio between profit and premiums is commonly used in the insurance context, but it is adequate only adapts to the Life insurance classes in the case of pure risk policies, which represent a limited part of the business of Italian insurance companies in terms of volume. The choice of a single profitability indicator is complex with regard to Life insurance products where the pure risk component is low and where the profits are generated during the contractual period. A brief analysis of the three indicators usually adopted to value the profitability of the Life-insurance class is outlined below, where the respective features are underlined.

Return on Equity

The ROE for the Life insurance market was equal to 11.6% in 2004. The indicator is based on accounting data, and has already been mentioned in detail in a section of the chapter "Italian insurance: significant data". The ROE sets that the profit is related to all the in-force contracts and, therefore, may not reflect the value of new business; the shareholders' equity value is calculated using accounting rules which allow a number of valuations to be made at the historical cost.

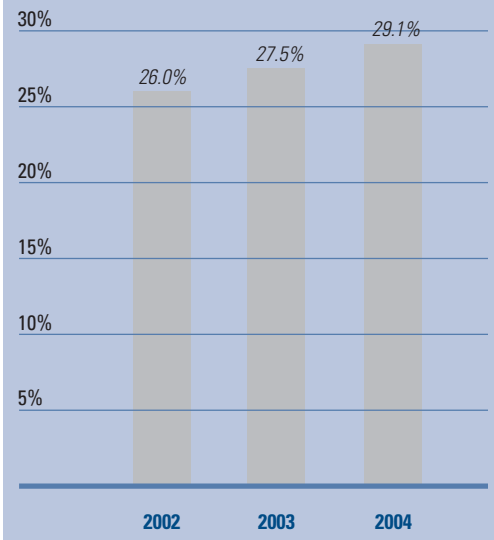
New Business Margin

This indicator is defined as the ratio between the estimate of the current value for future expected profits generated by new business, net of the capital cost, and a standardised measure of the new business premiums. This measure can be calculated as follows: 1) the sum of the annual premiums and the ratio between the single premiums and the duration of the contracts, which conventionally is set equal to 10 (so-called APE – annual premium equivalent); 2) the sum of the single premiums and the annual premiums multiplied by the duration of the contracts, also in this case set equal to 10 (so-called SPE – single premium equivalent), a sum that should be close to the overall amounts paid by the insured.

The indicator for the new business margins, regardless of the use of the APE or SPE, has the advantage that is referred to new business, but has the disadvantage of being based on projections and therefore on *ad hoc* assumptions on the development of the contracts. Moreover, not all insurance companies publish their data and therefore the aggregation for the system as a whole is difficult.

On the basis of the data published by some listed companies that reported results about to the embedded value of the Life-insurance portfolio and which represent more than 30% of the market, it is possible to estimate that the

NEW BUSINESS MARGIN



Source: ANIA estimates based on data published by some listed companies

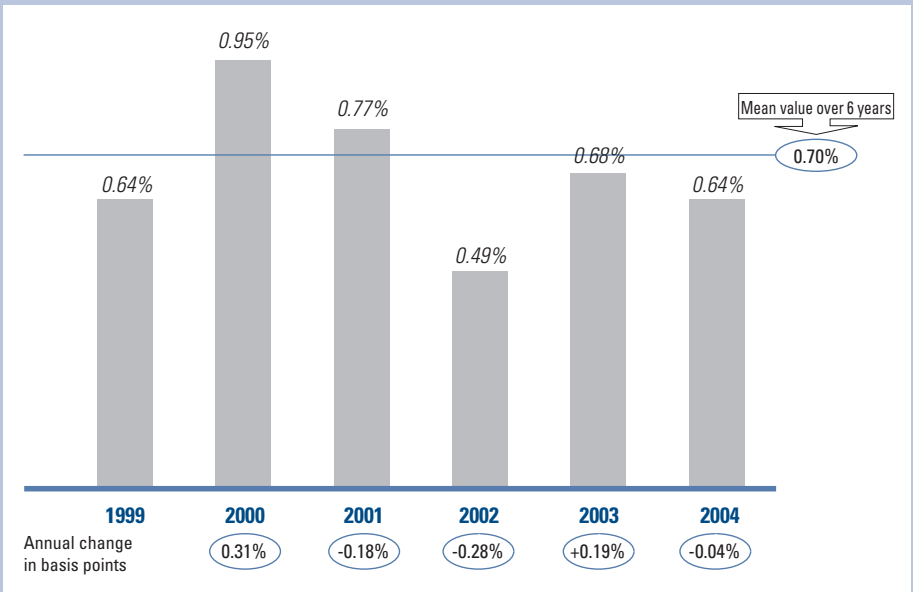
value of new business in 2004 was equal to 29.1% of the APE, a growth compared with the 27.5% estimated for 2003. The foregoing indicator in the European scenario lies in a relatively high band.

Profit on Technical Reserves

The ratio between profit and the technical reserves is analogous to the indicator commonly adopted in the managed assets industry, which has the funds invested on behalf of the insured as the denominator. This refers to a ratio derived from the data reported in the Financial Statements and, therefore, measures the profitability of the current portfolio and does not only refer to new business.

The ratio between the technical account result and the aggregate technical reserves was calculated only with reference to direct Italian business and considering the technical account result (which differs therefore from the profit since the first excludes the part of the extraordinary business relating to the non-technical account). The indicator was equal to 64 basis points in 2004, a decrease of 4 points compared with 2003. A slight decrease for the ratio is showed in the historical comparison in 1999 and in 2002; the mean value over the period analysed is equal to 70 basis points.

OVERALL TECHNICAL ACCOUNT RESULT TO TECHNICAL RESERVES RATIO - DIRECT BUSINESS

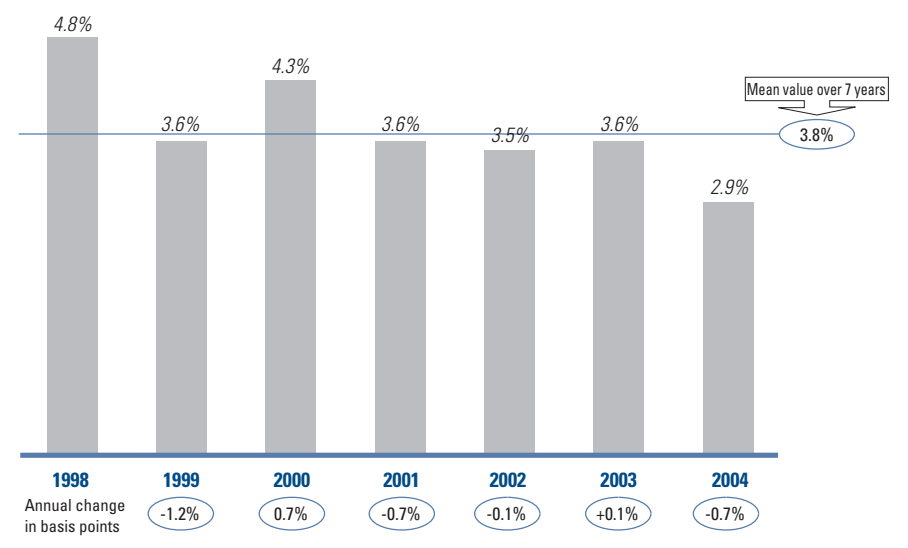


COSTS STRUCTURE

The costs of Life insurance companies are generally divided as follows: distribution costs, in turn indicated separately as acquisition and renewal costs; administration costs or overheads.

Acquisition costs

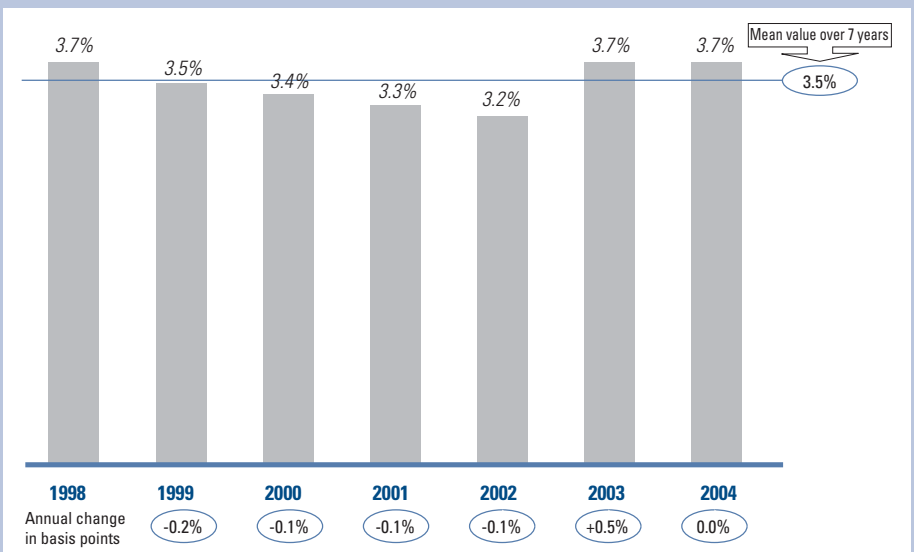
The acquisition costs of contracts on SPE (single premium equivalent) decreased to 2.9% in 2004, after having been stable in previous years. These costs, mainly commissions paid, are related to SPE to take into account the different composition between the annual and single premiums, which have a significantly different commission structure.



COMMISSIONS AND OTHER ACQUISITION COSTS TO SPE (SINGLE PREMIUM EQUIVALENT) RATIO - DIRECT BUSINESS

Renewal costs

In 2004, renewal costs were equal to 3.7% of the renewal premiums (excluding the first year premiums) similarly to the value reported for 2003.

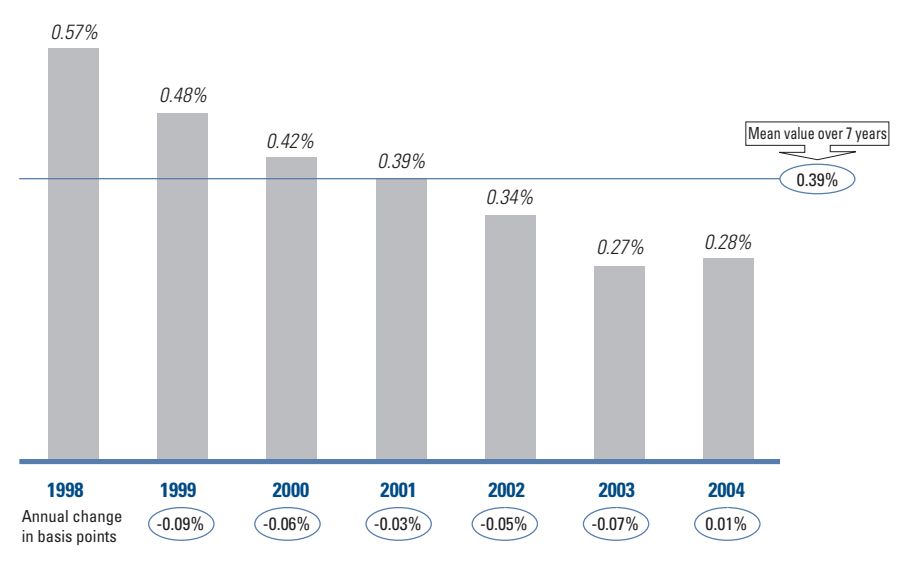


RENEWAL COSTS TO ANNUAL WRITTEN PREMIUMS RATIO - DIRECT BUSINESS

Administration costs

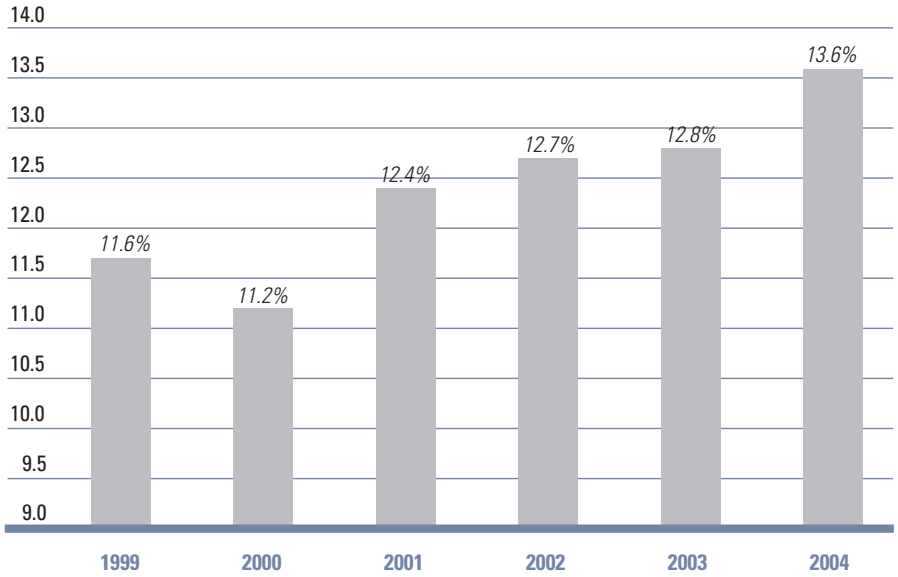
In 2004, administration costs were equal to 0.28% of the technical reserves, a value more or less equivalent to the value reported for 2003, but much lower compared with the value reported a few years ago.

ADMINISTRATION COSTS TO TECHNICAL RESERVES RATIO - DIRECT BUSINESS



THE LIFE CLASS AND HOUSEHOLD SAVINGS

In 2004 household available income increased by 4.1% in nominal terms and 1.8% in real terms (1.6% in 2003), in presence of a 3.0% increase in unitary remuneration in nominal terms, of a slight expansion in the number of dependent work units (0.5%) and of a high increase (1.5%) of self-employed work units. Household savings rates have been increased since 2001. In 2004 they were equal to 13.6% of the taxable income, increasing by half a percentage point compared to the previous year. Accumulated wealth acceleration would derive from a greater incertainty on economic perspectives and from the awareness of having to face a downturn of future pension benefits. Reversing the trend observed in 2003, in 2004 household savings, defined as the difference between the gross asset and the gross liability flow, increased considerably (7.1%): due to a strong increase of liabilities flow (22.8%), following an



FAMILIES' TENDENCY TO SAVE (AVAILABLE INCOME %)

Source: Bank of Italy

increase in loans, the gross asset flow grew by 13.0% compared to 2003 (table 1). The recomposition of the Italian financial portfolio has not been very accentuated.

Savings flows privileged investments characterized by fixed and guaranteed yields. Families invested Euro 40.8 billion in Life insurance, 32.8% of the yearly cash flow (respectively, 43.5 and 39.6% in 2003). The demand for Italian long term bonds was also stable, to which Euro 40 billion have been destined, 32.3% of the cash flow (27.1% in 2003). After the substantial disinvestments of Italian short term bonds in 2003, families bought these bonds for Euro 6 billion in 2004. Financial uncertainties kept families away from the stock market: on the whole, families assigned stocks and other participations, Italian and foreign, for over Euro 9 billion (against a disinvestment of 6.7 billions in 2003) and bought off shares in Italian and foreign funds for Euro 7.5 billion, after net purchases for Euro 19.8 billion in 2003.

At the end of 2004 Life policies represented 9.8% of Italian families' portfolio (9.3% in 2003); shares in Italian and foreign common funds represented 10.8% (9.6% are Italian funds). Shares index revaluation, which took place in 2004, increased Italian and foreign stocks' proportion (from 22.4% in 2003 to 24.1% in 2004), notwithstanding the net disinvestment. Currency and deposits shares (16.2% in 2004) and Italian long term bonds (18.9%) remained substantially stable. The year 2004 ended with an overall outflow from common funds equal to

Life insurance

TABLE 1 - ITALIAN FAMILIES' FINANCIAL ASSETS

	FLOWS				STOCKS			
	Euro million		Breakdown %		Euro million		Breakdown %	
	2003	2004	2003	2004	2003	2004	2003	2004
Liquidity and deposits	35,245	32,475	32.0	26.1	481,330	513,961	16.5	16.2
Other deposits	5,016	14,913	4.6	12.0	297,500	308,164	10.2	9.7
Short term bonds	-26,523	6,032	-24.1	4.9	6,228	13,358	0.2	0.4
Medium-long term bonds	29,804	40,183	27.1	32.3	537,849	597,193	18.5	18.9
Shares in investment funds	16,311	-15,494	14.8	-12.5	325,836	303,012	11.2	9.6
Stocks and direct participations	-6,616	-9,709	-6.0	-7.8	580,619	686,779	19.9	21.7
Premiums reserves (*)	54,988	54,814	50.0	44.1	467,442	522,256	16.0	16.5
of which: Life class reserves	43,544	40,806	39.6	32.8	269,989	310,795	9.3	9.8
Other assets	-235	-135	-0.2	-0.1	15,967	15,831	0.5	0.5
Foreign assets	2,000	1,195	1.8	1.0	200,839	206,779	6.9	6.5
of which: Medium-long term bonds	5,148	-2,044	4.7	-1.6	91,295	88,103	3.1	2.8
Stocks and direct participations	-71	534	-0.1	0.4	73,353	76,727	2.5	2.4
Shares in investment funds	3,493	7,984	3.2	6.4	30,868	40,254	1.1	1.3
Total assets	**109,990**	**124,274**	**100**	**100**	**2,913,609**	**3,167,333**	**100**	**100**
To memory:								
Total liabilities	**41,174**	**50,559**			**441,651**	**489,525**		

Source: calculations extracted from Financial Accounts of the Bank of Italy
(*) The item is costituted by: Life and Non-Life technical reserves, pension funds and TFR

TABLE 2 - INVESTMENTS FUNDS NET COLLECTION
Euro million

	2002	2003	2004	2005(*)
Equity	-9,705	-1,063	-2,322	-3,174
Balanced	-12,024	-5,332	-2,684	-909
Bond	-18,469	11,100	-380	4,646
Liquid assets	29,810	15,468	-6,508	-3,358
Flexible	2,381	3,079	1,339	2,220
Hedge	1,573	3,529	5,920	1,779
Total	**-6,434**	**26,781**	**-4,633**	**1,204**

Source: Assogestioni. (*) Data concerning the first four months

Euro 4.6 billion, against an asset of almost 27 in 2003 (table 2). The surrender of disposable assets funds, suffering from a decrease in the short term yield, totalled Euro 6 billion, against a fund inflow for over Euro 15 billion in 2003. Flexible funds registered an inflow for Euro 1.3 billion; hedge funds for almost Euro 6 billion. In the first 4 months of 2005, funds collection was positive for Euro 1.2 billion: in particular, following outflows for over Euro 3 billion each for the stock funds and disposable assets funds, inflows were registered for income bond funds (Euro 4.6 billion), flexible funds (Euro 2.2 billion) and hedge funds (Euro 1.8 billion).

TRANSPARENCY OF LIFE INSURANCE PRODUCTS

The Italian Supervisory Body for Private Insurance Companies (ISVAP) published Circular 551/D on 1st March 2005, after a phase of public consultation. The Circular refers to the transparency of Life insurance contracts and imposes rigorous transparency standards for Life insurance products.

The Circular also includes important rules relating to the offer and management activities of the contracts, the contents of the pre-contractual informative prospectus, and the information provided during the contract. The most significant new features are described as follows.

Information to be produced for the client

An informative prospectus is to be provided in the pre-contractual phase, relating to the type of insurance policy. The prospectus is to include the following information: summary data sheet, briefing note, terms and conditions of insurance with the regulations disciplining the internal segregated or the fund, glossary and proposal form.

The most significant new feature is represented by the **summary data sheet,** designed to inform the client in a simple and immediate way about the contract's principal features. In addition to the historical performance data, the data sheet also includes the "average annual percentage cost" indicator, calculated using the reduction in yield technique, which highlights the amount by which the hypothetical return on the investment decreases due to the effect of the costs burdening the contract.

The analytical information already included in the **briefing note** has been extended to provide further details: the obligation of detailing all the expenses burdening the contract in table form in the case of unit-linked policies has been supplemented with the obligation of indicating the historical total expenses ratio, the historical performance data compared with the benchmark, the declared ex-ante volatility and the observed retrospective volatility, and details of the portfolio turnover. In the case of with profit policies the requirement has been set whereby the contracting party is required to receive a customised project – namely, a project prepared on the basis of the data reported in the policy – which details the payments schedule and the benefits for each year of the contract, based on two financial performance scenarios: the contractually guaranteed minimum performance and the performance indicated by ISVAP, currently equal to 4% per annum. The requirement to provide the customised project for FIP (individual pension scheme) policies has also been included in the case of schemes based on unit-linked policies.

The **information** that the insurance companies are required to provide **during the contract** has also been extended: some additional information has also been set in the annual statements of account sent to the client – in the case of unit-linked policies – this additional information refers to the updated historical data for the fund detailed in the briefing note. Furthermore, the insurance company has the obligation to publish on its internet web site the informative prospectus, the annual statement of account referred to the segregated fund, the annual table detailing the structure of the segregated fund and the annual management statement of the internal fund. Regarding index-linked policies the publication of the issuer's rating has been added to the publication of the index value or the reference value. Finally, it is important to mention that the insurance company is under obligation to notify the client if the investment made suffers financial losses exceeding 30%.

Specific provisions

The insurance company is under an obligation to define a benchmark for unit-linked contracts, unless the management scheme excludes the indicator to be calculated. Furthermore, the insured is to be reimbursed for the unamortised commissions in the event of transfer or redemption in the case of individual pension schemes, to ensure the right to free movement among the supplementary pension schemes within the framework of the supplementary Social Security system, as ratified by Law No. 243/2004.

Adequacy of the insurance contract offered and conflicts of interest

A requirement has been set whereby insurance companies shall instruct the insurance intermediaries so that they collect information from the insured party and maintain a documentary record thereof in order to assess the adequacy of the contract proposed. The intermediaries shall refrain from proposing contracts which are inappropriate to the client's needs.

A number of new conditions have also been introduced as regards conflicts of interest. In fact, insurance companies must avoid performing transactions where there is a conflict of interest in the proposal and in the management of Life insurance contracts, and, if the foregoing is not possible, insurance companies however must operate in a way that is not prejudicial to clients, by putting in place procedures to identify and manage any conflicts that may arise.

Mergers among segregated funds and internal funds

Mergers among segregated funds and among internal funds have been disciplined, even though they remain subject to the preliminary assessment by the Supervisory Body. In particular, it has been set that the foregoing transactions can be implemented provided they are foreseen in the regulations disciplining the funds; they are in the interests of the contracting parties involved in the merger; they are similar to the characteristics of the funds also with regard to investment policies; they do not entail charges to be borne by the insured and an interruption of the management arrangements.

Final provisions and repeals

In general, it has been set that new provisions shall come into force on 1st December 2005 with some exceptions: for example, regulations which discipline mergers, regulations relating to investment limits and information obligations become effective immediately; the obligation of publishing the issuer's rating for index-linked contracts came in force on 1st April 2005; regulations that impose reimbursement of any unamortised commission in FIP (individual pension scheme) contracts in the case of transfer or redemption will come into force on 1st September 2005.

CATEGORIES OF INTERNAL FUNDS FOR UNIT-LINKED POLICIES

ANIA recently classified internal investment funds for unit-linked policies, in order to:

- facilitate the identification of the fund's principal features;
- provide the client with an immediate indicator of the investment services offered by the insurance funds;
- provide insurance companies with a self-governing tool to better classify and monitor the asset under management in compliance with the investment policy defined in the fund's regulation and the information submitted to clients.

The insurance investment funds were classified first of all by identifying a number of macro-categories in which to include the funds.

Macro-categories

The following macro-categories have been identified:

- ***equity funds***
- ***balanced funds***
- ***government and corporate bond funds***
- ***liquidity funds***
- ***flexible funds***

Macro-categories are differentiated each other by the minimum and maximum investment percentage in equity, therefore identifying immediately the main factors which define the fund's asset-allocation:

- ***equity*** funds are required to invest at least 70% of the assets managed in shares;
- ***balanced*** funds can invest in shares within limits that range from 30% up to 70% of the assets managed;
- ***government and corporate bond*** funds, if "pure", cannot invest in equities, however if "mixed", they can have a share equity component within a 30% limit of the assets managed;
- ***liquidity*** funds cannot invest in equities;
- ***flexible*** funds have no allocation restraints as regards investments in equities, therefore the fund's portfolio can include a variable equity component ranging between 0% and 100%.

Each macro-category is distinguished internally by different categories which have been defined on the basis of risk factors:

- equity: issuer's jurisdiction and other residual category defined on the basis of the specialisation by economic sector or by country;
- balanced: proportion of the equity component;
- government and corporate bond: market risk, identified by both the currency denomination and by the duration of the managed portfolio, and the credit risk;
- liquidity: currency denomination and duration of the managed portfolio;
- flexible: no common risk factor.

SUMMARY TABLE OF MACRO-CATEGORIES BASED ON EQUITY COMPONENT

CATEGORY		PROPORTION ON EQUITY INVESTMENT				
		0%	30%	50%	70%	100%
Equity						
Balanced						
Gov. and corp. bond	pure					
	mixed					
Liquidity						
Flexible						

Equity funds categories

Equity funds are characterised by the following features:

- a principal investment in equities, at least 70% of the managed assets;
- a residual investment, equal to at least 30% of the managed assets, in bonds and liquidity.

The principal investment must refer to the issuer's jurisdiction or the specialisation defined by the category, and determines the denomination of the category.

The residual investment can consist of government and corporate bond of any issuer or of liquidity in the currency of the market defining the category or in Euro.

The equity funds categories are as follows:

- ***Italian***
- ***European***
- ***North American***
- ***Pacific***
- ***global***
- ***specialised***

Moreover, the equity funds are characterised by the following specifications:

- funds belonging to the ***Italian, European, North American and Pacific equity*** categories are characterised by a principal investment in equities with the issuer belonging to the corresponding defining geographical area. The European, North American and Pacific geographical areas consist of the developed countries of the respective areas;
- ***global equity*** funds are characterised by a principal investment in equities relating to global international shares indexes, defined in the fund's regulations or with the issuer or issuers belonging to different geographical areas as defined in the fund's regulation;

Specialised equity funds can be identified by a specialisation, according to the economic sector, to a specific country or to a given restricted group of countries:

- the specialised equity funds based on the economic sector (for example: industry, finance) are characterised by a principal investment in equities relating to a given economic sector or to the combination of two or more sectors, as defined in the fund's regulation;
- the specialised equity funds based on the country are characterised by a principal investment in equities with the issuer belonging to a given country or to a restricted group of countries defined in the fund's regulation.

The fund's potential allocation to several equity categories by considering only the portfolio's equity component must be defined and resolved in favour of a single category in the fund's regulation, thanks to the identification of the reference benchmark.

SUMMARY TABLE OF EQUITY CATEGORIES

CATEGORY	PRINCIPAL INVESTMENT (EQUITIES)							RESIDUAL INVESTMENT (BONDS AND LIQUID ASSETS)		
	Minimum Investment	Geographical areas					Maximum Investment	Currency	
		Italy	Europe	North America	Pacific	Other		Euro	Definition countries
Italian equity	70%	X					30%	X	
European equity	70%		X				30%	X	X
North American equity	70%			X			30%	X	X
Pacific equity	70%				X		30%	X	X
Global equity	70%	not significant					30%	not significant	
Specialised equity	70%	economic sector, country or group of countries defined in the regulations					30%	not significant	

Balanced funds category

The balanced funds categories are distinguished exclusively in relation to the proportion of the equity component, which must be equal to at least 30% and up to 70% of the fund's financial portfolio.

The balanced categories are as follows:

- ***balanced-equity***
- ***balanced***
- ***balanced-bond***

Funds forming part of the balanced-equity and balanced-bond categories are characterised by having a prevailing portion of the investment in equities and bonds or liquid assets, respectively, as defined by the denomination of the category. In particular:

Funds belonging to the:

- balanced-equity category is identified by an investment in equities lying between 50% and 70% of the managed portfolio;
- balanced-bond category is characterised by an investment in equities that can lie between 30% and 50% of the managed portfolio;
- balanced category is characterised by the central position of the equity investment component, which however can vary over a range between 30% and 70% of the managed portfolio in order to provide the operator with a broader mandate to seize market opportunities.

SUMMARY TABLE OF BALANCED CATEGORIES

CATEGORY	PROPORTION OF THE EQUITY COMPONENT		
	30%	50%	70%
Balanced-bond			
Balanced-equity			
Balanced			

Government and corporate bond funds category

The government and corporate bond funds categories are based on the combination of risk factors which generally characterise the investment in bonds, such as the market risk and the credit risk.

The market risk is taken into consideration to define the categories based on the following parameters:

– currency denomination: Euro, US dollar or other currencies;
– portfolio duration: in order to define the government bond categories, this parameter must be less than or equal to 3 years for the category to be defined as "short-term" or more than 3 years to define the category as "medium/long-term".

The credit risk is defined on the basis of the following parameters:

– the issuer's jurisdiction;
– the type of issuer: sovereign state (government) or enterprise (corporate).

The following bond categories are defined on the basis of the previous risk factors:

– ***Pure government Euro short-term bond***
– ***Pure government Euro medium/long-term bond***
– ***Pure corporate Euro bond***
– ***Pure government international short-term bond***
– ***Pure government international medium/long-term bond***
– ***Pure corporate international bond***
– ***Mixed Euro area bond***
– ***Mixed international bond***

The ***pure bond*** funds must invest the entire portfolio in bonds and liquidity, and cannot hold equities unless the equities originate from the conversion of bonds held in the portfolio, and provided their aggregate value does not exceed 10% of the portfolio and that they are sold as soon as possible. Pure bond funds are characterised by a principal investment equal to at least 70% of the portfolio in government or corporate bonds defined by the category, and by a residual investment equal to at least 30% of the portfolio.

Furthermore, these funds are characterised by the following specifications:

– ***Pure Euro bond*** funds are characterised by a principal investment in financial instruments denominated in Euro;
– ***Government bond*** funds are characterised by a principal investment in financial instruments with sovereign issuers or international institution issuers promoted by sovereign entities, whereas the ***corporate bond*** funds are characterised by a principal investment in financial instruments with issuers other than sovereign issuers or international institution issuers promoted by sovereign entities;
– the overall duration of the ***short-term bond*** funds portfolio must not exceed 3 years, the overall duration of the ***medium/long-term bond funds*** portfolio must exceed 3 years.

Whereas, the ***mixed bond*** funds can invest up to 30% of the portfolio in equities and do not have further restraints regarding their investment policy.

SUMMARY TABLE OF BOND CATEGORIES

CATEGORY	PRINCIPAL INVESTMENT							RESIDUAL INVESTMENT		
	Minimum investment	Currency		Nature issuers		Duration (total portfolio)		Maximum investment	Nature	
		Euro	Other currencies	Sovereign	Corporate	< = 3 years	> 3 years		Equities (*)	Bond and liquid assets
Pure government Euro short-term bond	70%	X		X		X		30%	10%	X
Pure government Euro medium/long-term bond	70%	X		X			X	30%	10%	X
Pure corporate Euro bond	70%	X			X	not significant		30%	10%	X
Pure government international short-term bond	70%		X	X		X		30%	10%	X
Pure government international medium/long-term bond	70%		X	X			X	30%	10%	X
Pure corporate international bond	70%		X		X	not significant		30%	10%	X
Mixed Euro area bond	70%	X		Maximum 30% equities held in portfolio. No further restraints						
Mixed international bond	70%		X	Maximum 30% equities held in portfolio. No further restraints						

(*) Equities, to be sold as soon as possible, originating from the conversion of bonds held in the portfolio

Liquidity funds category

The liquidity funds invest all the portfolio in bonds and liquid assets. The portfolio duration must be less than 1 year. The liquidity funds categories are differentiated by the currency denomination of the securities held in the portfolio:

- ***Euro area liquidity***
- ***other currencies liquidity***

Flexible funds category

Flexible funds do not have any restraint regarding the structure of the base investments (equities, bonds) and do not share any specific risk factor (for example: geographical, sectorial or currency). Therefore, there is only one category.

All categories can be coded as shown in the table following for a concise and immediate identification of the category to which the insurance investment fund belongs, or for publication purposes.

CATEGORY	ANIA CODE
Italian equity	AIT
European equity	AEU
North American equity	ANA
Pacific equity	APA
global equity	AGL
specialised equity	ASP
balanced-equity	BAZ
balanced	BIL
balanced-bond	BOB
pure government Euro short-term bond	OEB
pure government Euro medium/long-term bond	OEM
pure corporate Euro bond	OEC
pure government international short-term bond	OIB
pure government international medium/long-term bond	OIM
pure corporate international bond	OIC
mixed Euro area bond	OME
mixed international bond	OMI
Euro area liquidity	LAE
other currencies liquidity	LAA
flexible	FLE

The investment in derivative financial instruments must be considered, for the purpose of the classification of internal funds, by taking into account their effect on the fund's aggregate risk, in particular on the various risk factors (market risk, denomination currency and duration) which identify the category.

Self-regulation

The initial category allocation is under the responsibility of the company that promotes the product linked to the investment fund. Every company that markets a new insurance product defines the relevant category of the fund to which the product is linked, and includes this information in the contractual documentation delivered to the client.

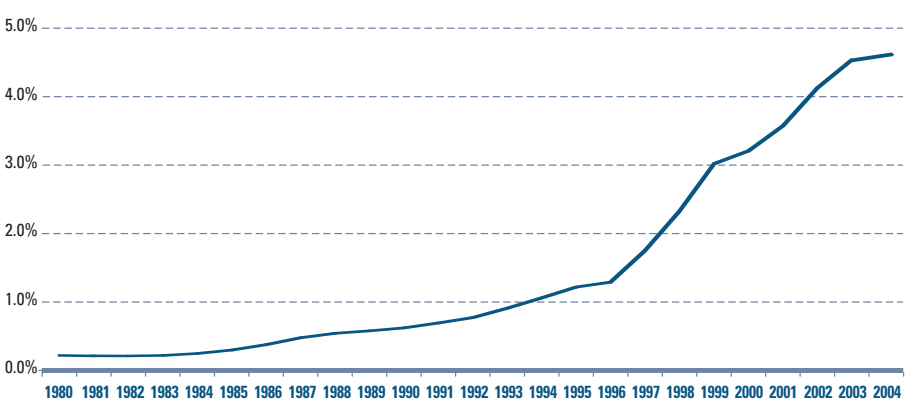
Moreover, insurance companies undertake to put in place self-regulation mechanisms to comply with the investment percentages, the types of securities, the issuer's jurisdiction and the duration of the managed portfolio and all the factors which define and represent the limits of the investment activities of each category.

QUARTERLY EQUATION TO FORESEE THE LIFE CLASS PREMIUMS

This in-depth analysis illustrates the results of an estimate for the trend of the income premiums in Life insurance classes in relation to a number of macro-economic variables, to obtain quantitative forecasts based on the trends of the Italian economy.

The ongoing process of financial innovation and the reforms of the pension system which have been introduced during the last decade make the estimates particularly complex. We are witnessing a scenario that in economic terms is defined as a change of regime. Figure 1 shows the ratio between the Life insurance premiums and the nominal GDP from 1980 to 2004.

FIGURE 1
LIFE INSURANCE SECTOR PREMIUMS AS A % OF GDP



Source: ISVAP

It may be noted that there is a rapid acceleration in the growth trend from the mid-'90s, concurrent with the principal reforms of the pension sector and with the major innovations in the distribution system (suffice it to consider the development of bank insurance). Figure 2 shows the annual growth rate of the Life insurance premiums. It can be readily noted how the growth of premiums does not follow a linear trajectory, but is subjected to increases and sudden decreases. It follows that the relationships between premiums and the other macro-economic magnitudes deduced by the observation of past trends could weaken until they become meaningless with the changing institutional framework in which the economic factors operate. Consequently, an equation obtained without taking into account the change in regime would have a limited predictive capacity.

The basic assumption is that the volume of premiums for the Life insurance sector is determined by the demand, which is addressed by an infinitely elastic offer. This is undoubtedly a questionable assumption, which could undervalue the role played by the sales networks in the strategies adopted by the insurance companies.

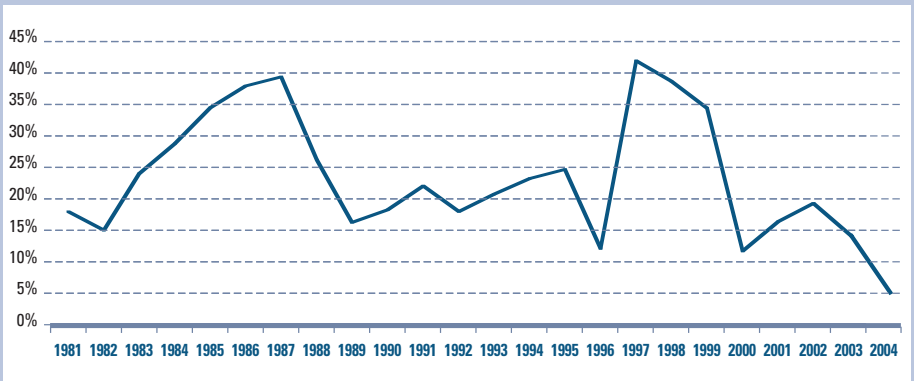


FIGURE 2
GROWTH RATE OF LIFE INSURANCE SECTOR PREMIUMS

Source: ISVAP

Therefore, it is assumed that the dynamics of the insurance premiums are guided by three factors. The first trend, which is slower and long-term, is institutional: the process of financial deregulation enables households to invest their savings in a broader series of instruments. Furthermore, the demographic evolution of Italian society changes the demand for financial investments, both as regards the quantity and the characteristics (liquidity, level of risk). Finally, the major reforms of the pension system and of the financial brokers which were implemented in the '90s may have influenced the demand for Life insurance, either directly, through the authorisation to offer new products, and indirectly, through changing savings and investment decisions. Finally, with regard to the offer, the financial innovation enables the operators (including the insurance companies) to broaden and differentiate the range of products.

We start with the assumption that Life insurance policies have broadly acquired the characteristics of financial investments to describe the second trend, which we assume governs the trend of premiums in the medium-term, and that therefore, the demand for Life insurance policies is determined positively by the income available to households and negatively by the rate of inflation; this second assumption is based on the consideration that recourse by households to institutional investors increases as the nominal yields, of which inflation is a proxy, decrease.

Finally, the third trend, on which the short-term dynamics depend, is associated with seasonal factors, with changes in the macro-economic variables and with the impact of adjustment costs which households address when restructuring their portfolio.

The econometric analysis is based on quarterly data that ranges from the first quarter of 1995 to the fourth quarter of 2004. The dependent variable is given by the reported premiums, identified by ISVAP.

To simplify, we will assume that the first trend is only a time dependent function. The demand for Life insurance policies increases, *ceteris paribus*, with the progress of financial innovation. It is realistic to assume that the rate of the growth process decreases with time, as the fraction of income allocated to purchasing Life insurance policies approaches the desired level.

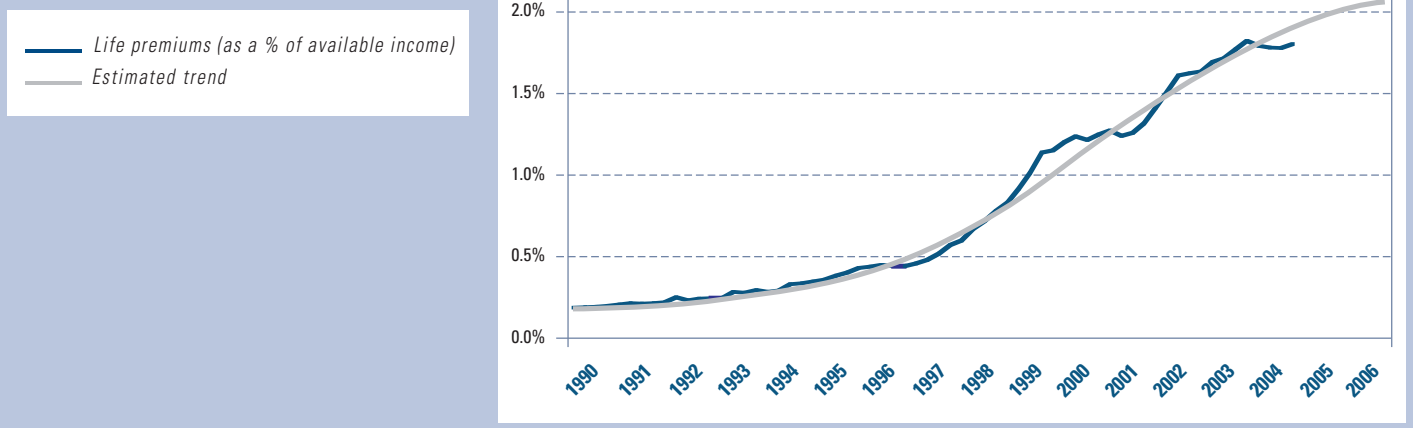
The trend of the ratio between Life insurance premiums and available income, both in nominal terms, would therefore follow non-linear dynamics, which can be represented by a logistic function. This refers to a functional form that is extensively used to model the demand for new products (for example: mobile telephones). The estimate of this function gave the following results:

$$\log\left(\frac{PRM}{YD}\right) = \frac{2.58}{1 + 26.44 \bullet \exp(-0.09t)} - 6.38 \qquad (1)$$

Where PRM is the level of the premiums, YD is the available income and t is the time, measured in quarters.

Figure 3 illustrates the series built up using the estimated coefficients.

FIGURE 3
LONG-TERM TREND AND
LIFE PREMIUMS TO AVAILABLE INCOME RATIO



The second dynamics are the result of the actual financial choices which the households make, given the institutional trend. By applying a highly simplified model for the choice of portfolio, it is found that the optimum amount of resources to be allocated to Life insurance premiums (in real terms) will depend positively on the income available to households in real terms and will depend negatively on inflation. It is found that the demand for Life insurance premiums, over the medium-term, complies with the following relationship:

$$\log(PRMR) = \log(YDR) - 0.08INFL + 0.91trend \qquad (2)$$

Where PRMR and YDR are respectively, premiums and available income, in real terms, and INFL is the inflation.

This relationship is usually called the long-term relationship in econometrics. A 1% increase in the available income produces an equivalent increase in the Life insurance premiums, in the long-term, due to the growth generated by the trend, whereas the growth in inflation of one percentage point reduces the Life insurance premiums by 0.08%.

Finally, the short-term dynamics, namely the quarterly variation rate, depend on seasonal factors and the gap between the level of premiums observed in the previous quarter and the objective described by the long-term relationship (2). The equation becomes:

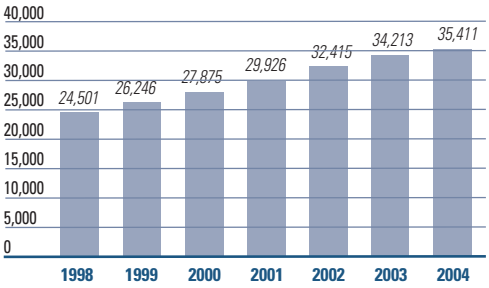
$$\Delta\log(PRMR) = -0.29\Delta\log(PRM_{t-1}) - 0.39(\log(PRMR_{t-1}) - \log(YDR_{t-1}) + \\ + 0.08INFL_{t-1} - 0.91trend_{t-1}) + \text{seasonal factors} \qquad (3)$$

The statistical properties of this equation are sufficiently robust: in particular, the forecast error of one quarter (the so-called, standard error) is equal to 6% and the approach index (R squared) is equal to 96%.

Equation (3) can be used to predict the premiums trend using the forecasts for the available income and inflation provided, for example, by the Organisation for Economic Co-operation and Development (OECD). An important warning is that the forecasts depend crucially on the forecast trend assumptions, a typical problem when estimating scenarios that evolve rapidly. The result of the forecast exercise referred to 2005 is detailed in the last chapter.

Non-Life insurance

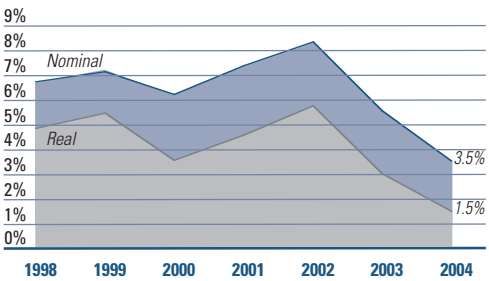
DIRECT PREMIUMS
Euro million



Premium income in the Non-Life class registers a growth rate that is lower since 1998 (3.5%). Non-Life classes incidence on the total premium income remains unvaried. In relation to premiums incurred the incidence on claims cost decreases. The reinsurance balance is negative. The overall technical account result remains positive and its incidence on premiums improves.

DOMESTIC BUSINESS

GROWTH RATE OF DIRECT PREMIUMS



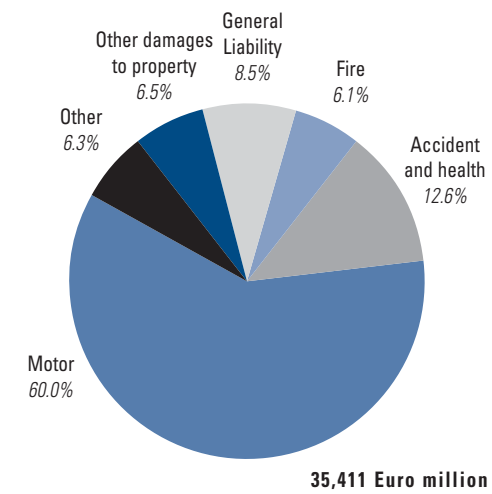
Premiums for direct domestic business for the 113 insurance companies operating in Non-Life classes were equal to Euro 35,411 million, with a 3.5% increase in nominal terms and 1.5% in real terms. For the Non-Life classes, as well as for the Life classes, 2004 registers the lower growth rate since 1998, thanks to the limited growth in the motor insurance business (which represents 50% of the overall Non-Life income) and, in presence of a "soft" reinsurance market (that is, with a high risk absorption capacity), a decrease in premium rates, mostly in transports. The percentage incidence on the total of Non-Life and Life premiums totalled 35%, in line with the year 2003.

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 24,924 million (24,456 in 2003), with a 1.9% increase; the ratio to earned premiums was equal to 71.6%, reflecting a decrease compared to 73.1% of 2003.

The **incurred claims cost for the financial year**, which includes 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 24,548 million (24,306 in 2003), with a 1.0% increase. The ratio to earned premiums was equal to 70.5%, reflecting a decrease compared to 72.6% of 2003.

Operating expenses amounted to Euro 8,058 million (7,703 in 2003), thus representing 22.8% of direct premiums (22.5% in 2003). 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 1,604 million (967 in 2003).



BREAKDOWN OF MAIN NON-LIFE CLASSES

Considering the investment income, equal to Euro 1,910 million, the **technical account result for direct business** was positive at Euro 3,514 million (2,596 in 2003). This result represented 10.1% of premiums (7.8% in 2003).

The passive reinsurance and net indirect business result was negative at Euro 859 million (-407 in 2003).

NON-LIFE TECHNICAL ACCOUNT
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	24,501	26,246	27,875	29,926	32,415	34,213	35,411
Changes in premiums reserves (-)	937	766	532	776	764	734	611
Incurred claims (-):	20,403	21,525	23,015	23,024	23,654	24,306	24,548
- incurred claims cost for the current accident year (-)	19,848	20,989	22,156	22,397	23,407	24,456	24,924
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-555	-536	-859	-627	-247	150	376
Balance of other technical items	-503	-414	-434	-326	-460	-503	-590
Operating expenses (-)	5,981	6,211	6,471	6,891	7,331	7,703	8,058
Direct technical balance	**-3,323**	**-2,670**	**-2,577**	**-1,091**	**206**	**967**	**1,604**
Investment income	2,193	1,608	1,804	1,632	1,211	1,629	1,910
Direct technical account result	**-1,130**	**-1,062**	**-773**	**541**	**1,417**	**2,596**	**3,514**
Reinsurance results and other items	382	292	720	281	-124	-407	-859
Overall technical account result	**-748**	**-770**	**-53**	**822**	**1,293**	**2,189**	**2,655**
Annual % changes in premiums	–	7.1%	6.2%	7.4%	8.3%	5.5%	3.5%
Combined ratio	111.0%	108.1%	107.4%	102.0%	97.3%	95.1%	93.3%
- Expense ratio	24.4%	23.7%	23.2%	23.0%	22.6%	22.5%	22.8%
- Loss ratio:	86.6%	84.5%	84.2%	79.0%	74.7%	72.6%	70.5%
- Loss ratio for the current accident year	84.2%	82.4%	81.0%	76.8%	74.0%	73.1%	71.6%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	-2.4%	-2.1%	-3.1%	-2.2%	-0.8%	0.4%	1.1%
Technical balance/Earned premiums	**-14.1%**	**-10.5%**	**-9.4%**	**-3.7%**	**0.7%**	**2.9%**	**4.6%**
Technical account result/Earned premiums	**-4.8%**	**-4.2%**	**-2.8%**	**1.9%**	**4.5%**	**7.8%**	**10.1%**
Overall technical account result/Earned premiums	**-3.2%**	**-3.0%**	**-0.2%**	**2.8%**	**4.1%**	**6.5%**	**7.6%**

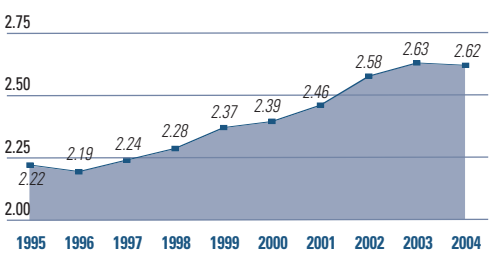
Indexes and changes (%) are calculated on data in Euro thousand

The **overall technical account result** was positive at Euro 2,655 million (2,189 in 2003). The ratio to premiums represented 7.6% (6.5% in 2003).

NON-LIFE INSURANCE AND GDP

In 2004 the incidence of Non-Life premium on GDP registered a slight decrease (from 2.63% to 2.62%); with the only exception of 1996, in the last decade such incidence always had turned out in increase, even if with rather contained rates. The limited increment of the motor insurance and premium rates in reduction in some classes as transports ones have contributed to this result.

NON-LIFE PREMIUMS / GDP (%)



TOWARDS THE ANTI-FRAUD AGENCY

The occurrence of fraudulent activities against insurance companies is very widespread as illustrated by the statistics prepared periodically by ANIA and ISVAP and by the information reported by the media regarding the initiatives to counter fraud.

Countering fraud using contractual tools (price discrimination and/or the introduction of an insurance exclusion) is not a feasible solution, especially in the case of third party liability, where the compensation is paid by the insurance company of the insured party that caused the accident, since this insurance company does not have a contractual relationship with the damaged party. Furthermore, the level of expenditure sustained separately by each single insurance company to counter fraud can be less than the optimum amount, as also fully demonstrated by the economic literature, in particular, due to the difficulties of assessing the overall return of the anti-fraud activity, in economic terms.

The awareness of the social damage caused by fraud and the stringent limits, first of all associated with the regulations disciplining privacy aspects, imposed on anti-fraud activities performed by private parties, such as insurance companies, have induced ANIA to propose establishing a National Anti-fraud Agency at ministerial level, probably at the Home Office.

The Agency could be financed entirely by the insurance sector and should work closely with the anti-fraud functions of the insurance sector and particularly with the ANIA Anti-Fraud Centre. The objective is to strengthen the prevention action and the action to counter fraud, through more effective coordination among the authorities and insurance companies with reference to investigation and repression activities.

This type of innovative partnership between the private sector and the Government has the potential of limiting insurance costs and in this way limiting premiums; it is consistent with the scheme proposed recently by the OECD Committee on insurance that, while drawing up a code of conduct to improve the quality of claims settlement arrangements, prepared a document in November 2004, which indicated the following conclusions: “First of all, the recommendations refer to the insurance companies, but also the public authorities which are invited to encourage or be pro-active in implementing the establishment of a public or private office to counter insurance fraud. Furthermore, where legally possible, insurance companies are invited to co-operate in countering fraud by contributing to set up a sector databank to share information on requests for fraudulent compensation”.

AN INTERNATIONAL COMPARISON ON ANTI-FRAUD STRUCTURES

The reorganisation of activities to counter insurance fraud in our country, which in the first place becomes tangible in the proposal to establish an anti-fraud agency, has foreseen an analysis of the experience gained by other countries which are particularly advanced in this area, such as France, Germany, the United Kingdom and the United States.

These countries operate from different formal positions: while the driving force for these structures in Europe is represented by the Trade Association, which is a private Association, the anti-fraud agencies in the United States are public institutions foreseen by the laws of the single States. The following aspects are the common denominators of these reference models:

- financial support exclusively by the insurance sector;
- co-operation with the Police Forces;
- the importance of exchanging information via specialist databases and investigator networks.

In Europe the insurance companies and the Police Forces carry out investigations, within the limits of their respective jurisdictions, with regard to the use of investigators, while the central anti-fraud structures established within the Trade Association, at best, are responsible for coordinating the general strategies for the sector; in the United States, by contrast, the agencies also perform investigation activities using their own specialists, although the insurance companies are under an obligation to have their own investigation units[1].

Brief descriptions are provided below on a number of anti-fraud structures in Europe and in the United States.

France

ALFA (Agence pour la Lutte contre la Fraude à l'Assurance), is the structure to counter fraud, and is a private body, owned entirely by the insurance companies, on a no-profit basis, with the objective of providing legal support to the member companies in all classes.

ALFA has a network of private investigators, a system of telematic communications among the insurers, acts as an interface with the institutions, as well

[1] Sometimes controlled by the anti-fraud Agency in question, as in the case of California.

as having an intensive study and training activity for insurers and public bodies. Furthermore, ALFA owns two companies: AGIRA, which manages a database of the list of contractual withdrawals and suspensions in the motor sector and GIE ARGOS, which has the objective of searching for, identifying and recovering stolen vehicles.

Germany

A division to counter fraud has been established in the framework of the National Insurers Association (GDV), and it is in constant contact with the Police Forces and the public authorities. The foregoing division has the principal role of defining the prevention and training policies for insurance personnel regarding fraud-related aspects. The Association also promotes conferences on the subject of fraud and participates in the activities of the regional workgroups.

The insurance data and history of the vehicles and of the relative owners are recorded in a database available to the insurance companies; specific software enables the information available to be cross-referenced, to identify inconsistencies, as well as automatically notifying the insurance companies of any suspicious cases.

United Kingdom

The Anti-Fraud Committee has been established in the framework of the Association of British Insurers (ABI) for the purpose of coordinating activities to counter insurance fraud on a sectorial level through the definition of general action strategies and with collaboration from the Government, Police Force and other financial sectors.

The ABI avails of special software which enables information to be exchanged among the insurance companies, as well as a telephone service to facilitate reporting insurance fraud. Information is entered in the database directly by the insurance companies and the database stores data relative to insured vehicles and property stolen or destroyed in fires.

United States

California

The activity of countering insurance crime is entrusted to the Criminal Investigation Branch of the California Department of Insurance, the State Insurance Department.

The Criminal Investigation Branch carries out investigations and the **Fraud Division** has been established within its structure, and has the task of pro-

tecting the community against fraudulent activities which damage the sector, identifying the persons that perpetrate such fraudulent activities, as well as providing all the investigation and support services to implement initiatives to counter fraud in the Non-Life and Life insurance classes.

The investigators, which have police officer status, assess the existence of the conditions to open a formal investigation based on the information received or collected directly.

A distinctive aspect of the Californian model consists in the fact that the insurance companies operating within the State have a legal obligation to notify the Fraud Division of anomalous situations which could be indicative of fraud; if the notification is groundless, an exemption clause is foreseen in such cases in favour of the employees of insurance companies and brokers under the provisions which discipline slander and defamation.

The Fraud Division is financed entirely by the insurance companies.

Massachusetts

The MIFB (Massachusetts Insurance Bureau) is a public investigation agency that has the objective of preventing and countering insurance fraud, in particular, insurance fraud related to the motor and personal injury sectors. The MIFB is financed by the insurance companies of the sector.

The Agency has expertise in the investigation field and has available specific databases, as well as its own group of investigators that are assigned cases which can be opened on the basis of reports made by third parties or directly at the initiative of the Bureau itself.

The insurance companies have a legal obligation to notify suspicious cases to the MIFB, and to provide all useful information to identify elements of proof.

The MIFB engages in an important training operation of the personnel employed by insurance companies and the public authorities, in addition to the investigation activities.

INSURANCE OF BANK OPERATING RISKS

The new Basel 2 regulations governing bank operating risks

The growth in size, the adoption of complex IT technologies, internet banking and trading on line, recourse to outsourcing of various business areas (for

example: EDP) have generated an increase in the complexity of the banks' organisation in recent years. This has lead to an increase in the importance of potential losses associated with IT security, the possibility of human error in the processes, legal, fraud and infidelity risks.

For these reasons the Basel Committee[2] has defined the operating risks in the new agreement relating to capital requirements (so-called Basel II), and has established that the banks shall: a) put in place the necessary operating safeguards; b) hold a capital reserve in relation to the operating risks. This new equity requirement is in addition to the requirements which must be established in relation to market and credit risks.

The operating risk is defined as "the risk of losses arising from the inadequacy or the malfunction of procedures, human resources or internal systems, or external events. This definition includes the legal risk, but not the strategic and reputation-related risk."

The Basel Committee has established three approaches to calculate the equity coefficients in relation to the operating risk, with an increasing level of complexity:

1) **"basic indicator approach"**
   banks that adopt this approach must hold a capital amount in reference to the operating risk equal to a fixed percentage of the annual brokerage margin, established by the Committee (15%), referred to the three previous financial years;

2) **"standardised approach"**
   this approach divides the bank's business into eight operating lines[3]; the equity requirement for each operating line is calculated by multiplying the specific brokerage margin by a factor assigned to that given line (established by the Committee); the total equity coefficient is calculated as a simple sum of the coefficients of each line.

[2] *The Basel Committee was set up at the end of 1974 by the Governors of the Central Banks of the "Group of 10 Countries" (G10); the following countries are currently members of the group: Belgium, Canada, Germany, France, Italy, Japan, Luxembourg, Holland, Spain, Sweden, Switzerland, United Kingdom, and the United States of America. The Committee has no formal supranational authority and its conclusions have no direct imposition validity but are based on "moral suasion" through suggestions, recommendations and guidelines.*

[3] *The operating lines are as follows: "corporate finance", "trading & sales", "retail banking", "commercial banking", "payment & settlement", "agency services", "asset management", "retail brokerage".*

3) **"advanced measurement approaches" – AMA**

in this case the requirement will be equal to the value generated by the bank's internal model to measure the operating risk. The use of this approach is subject to approval by the supervisory body. Partial uses of this approach are also permitted if certain conditions are complied with, in the sense that the bank may use an AMA for a number of operational segments and the other approaches for the remaining segments.

The Basel Committee encourages banks to adopt the more advanced approaches as they progressively put in place more sophisticated systems and practices to measure the operating risk; banks which actively engage in international business and banks which have a significant exposure to operating risk should adopt the approach most appropriate to their risk profile and level of complexity; banks are not allowed to return to adopting a simpler approach without the authorisation of the supervisory body, once they have been authorised to use a more advanced approach.

Recent studies estimated the absorption of the economic capital held by banks in relation to the operating risks in a range that lies between 15% and 25% of their equity, a quota that exceeds the quota foreseen for market risks.

The New Basel Agreement also includes a **specific reference to insurance covers.** In particular, if a bank adopts the **"advanced measurement approaches" (AMA)** the Supervisory Authority can authorise the bank to acknowledge the mitigating effect of the insurance covers for the purpose of calculating the requirement relative to the operating risk (therefore, there is no automatic relationship). The acknowledgement will be limited to 20% of the overall capital cost relating to the operating risk. Moreover, the Basel Committee establishes that the migration effect is subject to the following conditions:

– the insurance company must have a rating at least equal to A (or equivalent) referred to its payment capacity;
– the insurance policy must have an initial duration of not less than one year. The bank shall adopt appropriate techniques to achieve a progressive reduction (so-called "haircut") of the attenuation effect which reflect the residual life of the insurance policy in the case of insurance policies with a residual duration of less than one year. A "haircut" equal to 100% shall be foreseen in the case of policies with a residual duration equal to or less than 90 days;
– the policy shall foresee a minimum termination notice equal to 90 days;
– the policy shall not foresee exclusions or limitations triggered by prudent actions or – in the case of a bank that has gone bankrupt – foresee condi-

tions which preclude the bank, the receiver or liquidator from recovering sums by way of damages suffered or expenses sustained by the bank in question, except in the case of events which occurred after implementation of the receivership or settlement procedures relating to the bank, providing the insurance policy can exclude amendments, money sanctions or penalties arising from measures adopted by the supervisory body;

- the calculations to determine the risk attenuation must reflect the bank's insurance cover to ensure a transparent and consistent expression of the relationship that exists with the actual probability and the impact of the losses adopted to determine the capital requirements relating to the operating risk;
- the insurance cover shall be provided by a third-party company. In the case of insurance provided via a "captive" insurance company, or affiliates, the exposure shall be transferred to an independent third-party entity, for example: via a re-insurance contract, which complies with the eligibility criteria;
- the scheme to acknowledge the insurance shall be soundly based and documented;
- the bank shall disclose the description of its use of insurance cover for the purposes of reducing the operating risk.

Current insurance covers for banks

Many types of event described in the Basel Agreement are already subject to cover – fully or in part – in the insurance policies currently available to banks on the national and international insurance market.

However, the current insurance tool is still imperfect in its capacity to cover the operating risk fully.

In fact, traditional insurance policies currently treat a number of forms of operating risk individually, with an intrinsic historical record of extensions and exclusions, therefore not readily comparable with the need to consider the foregoing risk scenarios as something transversal to the insurance structure that is in place.

For example:

Policy BBB, structured in various Sections, is designed to provide cover chiefly for events of a fraudulent nature, which effect the bank's equity, whether *originating internally (employee fidelity)* or *originating externally (theft, robbery, damage during transport, forged documents, counterfeit currency, damage to premises following fraudulent activities, "computer crime").*

The policy to cover the **artistic heritage** (works of art all risks) of banks covers all the risks which the banks may suffer both inside and outside their premises during exhibitions or restoration work.

The **IT policy** is structured in sections and focuses on covering events which may influence the functionality of the bank's IT systems (damage to hardware and to software, reconstructing damaged archives, higher costs, disaster recovery, contractual third-party liability for the damage caused to third parties in relation to the IT services provided by the bank).

The **fire policy** is designed to cover the "physical" equity assets, such as the buildings used for banking business and the relative content, against the risk of fire (and supplementary guarantees), as well as natural, social-political and catastrophic events. Moreover, cover of the bank's third party liability is provided in relation to the title of ownership of the insured property.

The **third party liability/employee liability (RCT/O) policy** is designed to cover the bank for the amount the bank is under obligation to pay by way of compensation relating to third-party liability, pursuant to law, for personal injury and material damage caused involuntarily to third parties as the result of an accidental event occurring in its capacity as an operator in the banking sector; the insurance cover is also applicable to third-party liability which may involve the bank in relation to personal injury and material damage attributable to a fraudulent event committed by persons assigned to activities for which the insurance cover is provided and in reference to which the bank is liable under law.
Moreover, the bank has third-party liability cover in the case of accidents suffered by workers employed by the bank or by para-subordinated workers assigned to activities for which insurance cover is provided, and for which the Italian National Insurance Institute for Industrial Accidents (INAIL) is under obligation to provide benefits.

Whereas, the **professional third-party liability policy** is designed to provide the bank with insurance cover for the amount that the bank is under obligation to pay, in relation to third-party liability, pursuant to law, to indemnify equity losses caused involuntarily and directly to third parties as the result of errors made by the bank's employees when executing banking transactions.

The **Directors and Auditors third-party liability policy (D.&O.)** is designed to provide cover for corporate bodies for the amount that the latter are under obligation to pay by way of compensation for damages relating to third-party liability, pursuant to law, against equity losses caused involuntarily to third parties as the result of unlawful actions committed while performing the duties indicated and for which insurance cover is provided. Moreover, the bank is also covered only in the circumstance and up to the amount of com-

pensation that the bank has legally paid to the Directors and Auditors for equity losses as the result of requests for compensation for damages made against the latter for unlawful actions committed while performing the duties for which the insurance cover is provided.

Finally, the **personal injury and healthcare policy** relative to employees is designed to settle a capital amount or a daily amount in the case of disability or death of employees following personal injury or illness.

It is very important to have sound statistical references in order to improve and adapt the insurance proposal to the needs of the banks. For this reason the Italian Banking Association (ABI) started to collect data in 2002 relating to operating losses associated with single events experienced by its members (so-called Italian Operating Losses Database – IOLDB). A common **reference definition** is currently being identified in the framework of this initiative to adopt consistent allocation criteria for the operating losses among the various Business Lines.

ANIA and ABI have established a technical workgroup to study the methodological and operating problems associated with the implementation of the new rules, a technical workgroup in which numerous banks and insurance companies participate.

DAMAGES DUE TO NATURAL DISASTERS
Euro million

	Overall damages	Damages to residential buildings
1997	11,298	6,357
Hydro-geological	382	17
Seismic	10,916	6,340
1998	1,653	811
Hydro-geological	865	75
Seismic	788	736
1999	631	45
Hydro-geological	628	45
Seismic	3	0
2000	8,879	760
Hydro-geological	8,717	684
Seismic	168	76
2001	374	71
Hydro-geological	318	43
Seismic	56	28
2002	6,044	1,340
Hydro-geological	2,998	101
Seismic	3,046	1,239
2003	3,147	231
Hydro-geological	3,002	132
Seismic	145	99
TOTAL	**32,026**	**9,615**
Hydro-geological	16,964	1,097
Seismic	15,062	8,518

Source: data processed by ANIA based on data provided by the Civil Defence Department

PRIVATE AND PUBLIC COSTS OF NATURAL DISASTERS

More than half of the Italian Municipalities are subject to the risk of landslides or flooding, according to the data provided by the Ministry of the Environment, with a 9.3% minimum in Sardinia and an 89% peak in Umbria. A study carried out by Swiss Re estimates that more than 60% of Italy is subject to the risk of flooding by rivers or lakes.
Natural disasters represent significant financial damages for the community at large, which is only partly compensated by public funds. The data provided by the Civil Defence Department provides an overview of the costs relating to natural disasters.

The material damage caused by natural disasters in Italy between 1997 and 2003 was estimated at approximately Euro 32 billion, divided almost equally between hydro-geological and seismic events. The average annual damage was equal to approximately Euro 4.6 billion, even if a significant and not surprising variability can be noted: 1997 was the year with the highest losses, with more than Euro 11 billion in damages, due to the earthquake that struck the Marche and Umbria Regions, whereas 2001 was the year with the lowest losses, with damages amounting to only Euro 374 million.

The impact of natural disasters on residential buildings differs depending on the type of event and the place in which the event occurs. In overall terms, damage to residential buildings represents approximately 30% of the overall damage (on average Euro 1.4 billion per year). However, the percentage increases to 56% in the case of seismic events and is limited to 6.5% for floods and landslides.

The Finance Law for 2005 sets out a possible new regulatory framework for the insurance cover of natural disasters. The basic idea is that the Government gradually withdraws from direct action in the case of a catastrophe, favouring recourse to individual insurance solutions, however protecting low income property owners and maintaining the role of the last appeal guarantor to ensure the system's solvency. The provisions of law are fairly scant and it is not yet clear if the implementation decrees will actually be capable of launching a new system.

CATASTROPHE RISK SECURITISATION

There were six issues of catastrophe securities, or cat bond in 2004 (seven in 2003). The value of the transactions has decreased by approximately one third compared with the record value of US Dollar 1.73 billion in 2003, totalling US

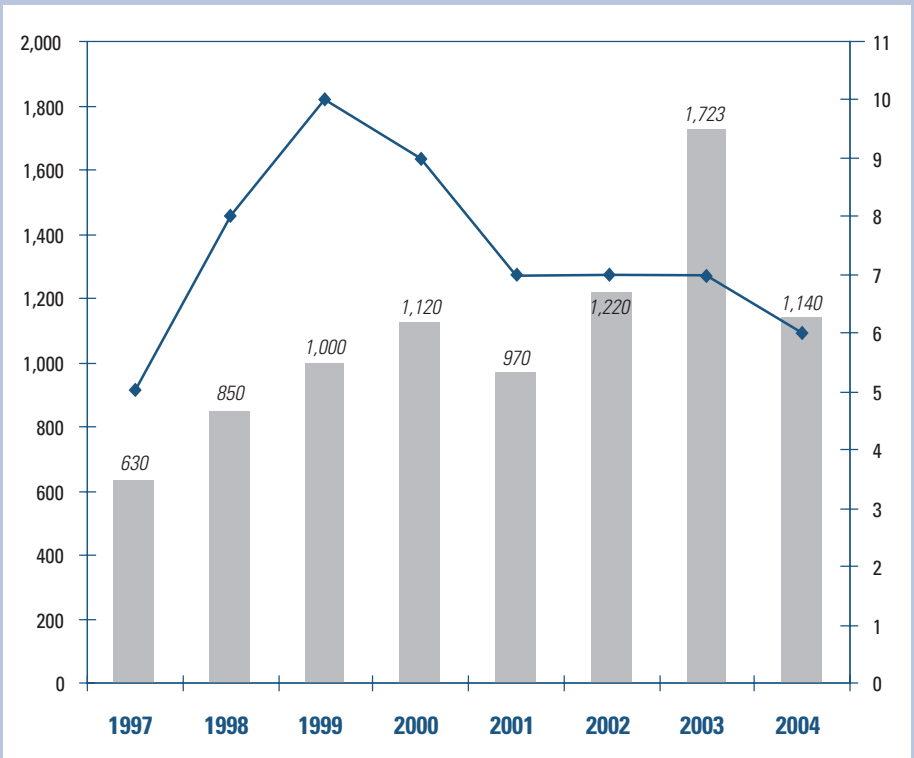
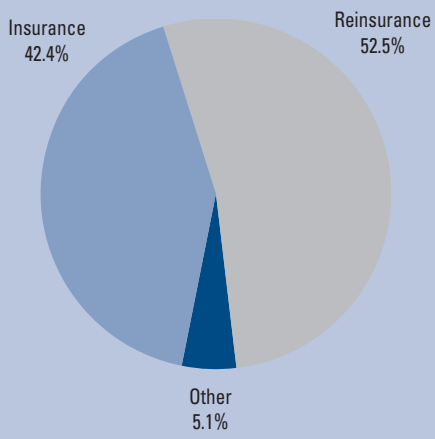


FIGURE 1
NUMBER AND VOLUME ($ MILLION) OF CAT BOND ISSUES: 1997-2004

Volumes (left axis)
Number of issues (rigth axis)

Source: Guy Carpenter & MMC Securities

FIGURE 2
ISSUES STRUCTURE ACCORDING TO ISSUER



Source: Guy Carpenter & MMC Securities

Dollars 1.14 billion, a level similar to the level recorded in 2002. There were 59 issues up to 2004, including 25 by insurance companies, 31 by re-insurance companies and 3 by companies outside the insurance sector, according to a study performed by Guy Carpenter and MMC Securities.

The characteristic factors of uncertainty relating to catastrophic events, such as the low frequency, the limited diversifiability and above all the high entity of the potential damage, expose companies that insure against catastrophes to the risk of serious financial imbalances. Researches performed on the consequences of hurricane Andrew, which struck the South East coast of the United States in 1992, show that Florida's insurance industry would have been insolvent if the hurricane had struck Miami.

New financial products (cat bond) have developed from 1997, which enable the issuers (in general, insurance and re-insurance companies) to transfer part of the catastrophe type risks to the financial market. The cat bond operates like a normal bond for subscribers: the principal plus a coupon is repaid at the expiry date, in general, the coupon is higher than the coupon of a normal fixed income security. In the event of a catastrophe the subscriber loses, part or all of the coupon and/or the invested capital, depending on the seriousness of the catastrophe, which is measured by an objective disaster index. To-date, none of the events which have occurred have caused investors to lose, not even the disasters which struck Florida last summer.

The technical results of the motor insurance business remains positive, thanks in particular to the maintenance of reserves for claims occurred in the years before 2004. The incurred claims cost for the current accident year is increasing and worsens its incidence on premiums. The overall technical results for land vehicles remains positive, with an incidence on premiums that is substantially unvaried compared to 2003.

MOTOR LIABILITY MANAGEMENT

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

Premiums for direct domestic business, collected from the 73 companies operating in this class totalled Euro 18,087 million in 2004 (+2.5% compared to 2003, the lowest growth rate since 1998); they are equal to 51.1% of the overall premiums for Non-Life classes (51.6% in 2003). The contained growth in premiums is due, on one hand, to the application of the Agreement Protocol signed in June 2003 between ANIA, the Government and the majority of the Consumers Associations, on the basis of which motor insurance prices in the period of time from June 2003 to June 2004 should be contained and, on the other hand, it is due to an improvement in technical results.

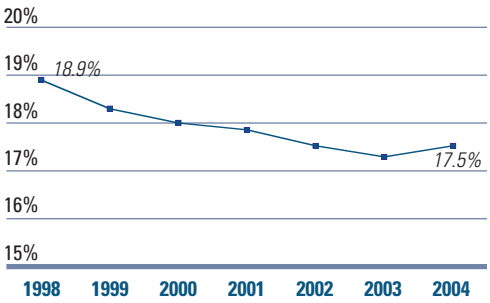
The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 14,561 million (13,982 in 2003), with a 4.1% increase compared to 2003 since the decrease of claims frequency, that it is continued in 2004, has been more than compensated by the increase of the average claims cost.

On the whole the ratio to earned premiums reflected an increase (from 80.5% in 2003 to 80.9% in 2004).

The **incurred claims cost for the financial year**, which includes 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 14,375 million (14,177 in 2003) with a 1.4% increase compared to 2003. The financial year 2004 registers, for the first time, a redundancy (Euro 186 million) for the reserves for claims incurred in previous years. The ratio of incurred claims cost for the financial year to earned premiums was 79.9%, decreasing compared to 81.6% in 2003.

Operating expenses amounted to Euro 3,169 million (3,047 in 2003) and include, in addition to acquisition costs, costs arising from premium collection, costs relating to the organisation and management of the distribution network, also

OPERATING EXPENSES TO PREMIUMS RATIO (%)



the administration expenses relating to technical management of insurance business. The ratio on premiums was 17.5% recording a slight increase compared to 2003 (17.3%).

The **technical balance for direct business** was positive at Euro 224 million (-36 in 2003).

Considering the investment income, the **technical account result for direct business** was positive at Euro 1,301 million (852 in 2003).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 1,240 million (840 in 2003), representing a 6.9% ratio to premiums (4.8% in 2003).

MOTOR LIABILITY
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	11,767	13,249	14,221	15,344	16,653	17,646	18,087
Changes in premiums reserves (-)	253	466	173	333	341	280	91
Incurred claims (-):	12,110	13,248	13,886	13,734	13,735	14,177	14,375
- incurred claims cost for the current accident year (-)	11,142	12,322	12,775	13,043	13,438	13,982	14,561
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-968	-926	-1,111	-691	-297	-195	186
Balance of other technical items	-202	-187	-184	-98	-166	-178	-228
Operating expenses (-)	2,225	2,422	2,559	2,741	2,921	3,047	3,169
Direct technical balance	**-3,023**	**-3,074**	**-2,581**	**-1,562**	**-510**	**-36**	**224**
Investment income	1,283	936	1,050	899	648	888	1,077
Direct technical account result	**-1,740**	**-2,138**	**-1,531**	**-663**	**138**	**852**	**1,301**
Reinsurance results and other items	267	202	218	178	36	-12	-61
Overall technical account result	**-1,473**	**-1,936**	**-1,313**	**-485**	**174**	**840**	**1,240**
Annual % changes in premiums	-	12.6%	7.3%	7.9%	8.5%	6.0%	2.5%
Combined ratio	124.1%	121.9%	116.8%	109.3%	101.7%	98.9%	97.4%
- Expense ratio	18.9%	18.3%	18.0%	17.9%	17.5%	17.3%	17.5%
- Loss ratio:	105.2%	103.6%	98.8%	91.5%	84.2%	81.6%	79.9%
- Loss ratio for the current accident year	96.8%	96.4%	90.9%	86.9%	82.4%	80.5%	80.9%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	-8.4%	-7.2%	-7.9%	-4.6%	-1.8%	-1.1%	1.0%
Technical balance/Earned premiums	**-26.3%**	**-24.0%**	**-18.4%**	**-10.4%**	**-3.1%**	**-0.2%**	**1.2%**
Technical account result/Earned premiums	**-15.1%**	**-16.7%**	**-10.9%**	**-4.4%**	**0.8%**	**4.9%**	**7.2%**
Overall technical account result/Earned premiums	**-12.8%**	**-15.1%**	**-9.4%**	**-3.2%**	**1.1%**	**4.8%**	**6.9%**
Premiums to total Non-Life premiums ratio (%)	*48.0%*	*50.5%*	*51.0%*	*51.3%*	*51.4%*	*51.6%*	*51.1%*

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

LAND VEHICLES INSURANCE MANAGEMENT

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

LAND VEHICLES
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	2,539	2,614	2,678	2,811	2,955	3,062	3,145
Changes in premiums reserves (-)	-3	29	26	40	70	52	45
Incurred claims (-):	1,216	1,180	1,204	1,160	1,205	1,257	1,260
- incurred claims cost for the current accident year (-)	1,321	1,299	1,316	1,278	1,306	1,361	1,388
- redundancy/deficiency of reserves for those claims incurred in previous accident years	105	119	112	118	101	104	128
Balance of other technical items	-42	-32	-37	-18	-32	-40	-46
Operating expenses (-)	632	642	657	692	709	738	759
Direct technical balance	**652**	**731**	**754**	**901**	**939**	**975**	**1,035**
Investment income	81	55	59	50	34	47	56
Direct technical account result	**733**	**786**	**813**	**951**	**973**	**1,022**	**1,091**
Reinsurance results and other items	-16	-31	-13	-33	-30	-50	-45
Overall technical account result	**717**	**755**	**800**	**918**	**943**	**972**	**1,046**
Annual % changes in premiums	–	3.0%	2.4%	5.0%	5.1%	3.6%	2.7%
Combined ratio	72.7%	70.2%	70.0%	66.5%	65.7%	65.8%	64.8%
- Expense ratio	24.9%	24.6%	24.5%	24.6%	24.0%	24.1%	24.1%
- Loss ratio:	47.8%	45.7%	45.4%	41.9%	41.8%	41.7%	40.7%
- Loss ratio for the current accident year	52.0%	50.3%	49.6%	46.1%	45.3%	45.2%	44.8%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	4.1%	4.6%	4.2%	4.2%	3.5%	3.5%	4.1%
Technical balance/Earned premiums	**25.7%**	**28.3%**	**28.5%**	**32.5%**	**32.5%**	**32.4%**	**33.4%**
Technical account result/Earned premiums	**28.8%**	**30.4%**	**30.7%**	**34.3%**	**33.7%**	**33.9%**	**35.2%**
Overall technical account result/Earned premiums	**28.2%**	**29.2%**	**30.2%**	**33.1%**	**32.7%**	**32.3%**	**33.7%**
Premiums to total Non-Life premiums ratio (%)	*10.4%*	*10.0%*	*9.6%*	*9.4%*	*9.1%*	*9.0%*	*8.9%*

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

Premiums for direct domestic business for the 79 insurance companies operating in this class amounted to Euro 3,145 million in 2004 (+2.7% compared to 2003), representing 8.9% 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 1,388 million (1,361 in 2003) with a 2.0% increase; the ratio to earned premiums was equal to 44.8% (45.2% in 2003).

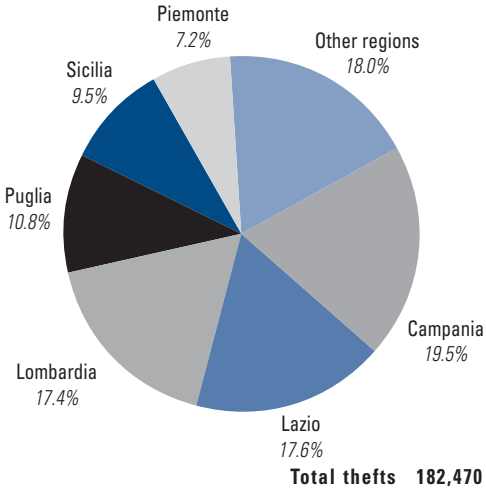
The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years, was equal to Euro 1,260 million (1,257 in 2003). The ratio to earned premiums was equal to 40.7%, decreasing compared to 41.7% of 2003.

Operating expenses amounted to Euro 759 million (738 in 2003) and include administration expenses relating to the technical management of insurance

CAR THEFTS PER REGION

	2002	2003	2004
Piemonte	17,234	16,210	13,129
Valle d'Aosta	78	83	67
Lombardia	33,324	33,533	31,798
Trentino	394	336	295
Veneto	5,159	5,107	4,510
Friuli	769	622	586
Liguria	2,824	2,798	3,388
Emilia Romagna	7,038	6,138	5,780
Toscana	3,634	3,746	3,236
Umbria	1,111	1,237	943
Marche	1,029	1,075	1,117
Lazio	38,491	34,881	32,038
Abruzzo	1,294	1,455	1,623
Molise	229	322	204
Campania	42,958	38,976	35,670
Puglia	20,495	20,144	19,754
Basilicata	523	516	518
Calabria	6,008	5,725	6,442
Sicilia	17,278	16,834	17,319
Sardegna	3,824	3,932	4,053
Total Italy	**203,694**	**193,670**	**182,470**

Source: Ministry of Interior



CAR THEFTS IN 2004
breakdown by region (%)

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% (the same value as 2003).

The **technical balance for direct business** was positive at Euro 1,035 million (975 in 2003).

Considering the investment income, the **technical account result for direct business** was positive at Euro 1,091 million (1,022 in 2003).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 1,046 million (972 in 2003), representing a 33.7% ratio to premiums (32.3% in 2003).

AVERAGE CLAIMS COST AND CLAIMS FREQUENCY

In Non-Life insurance and therefore in motor liability insurance, the value of the premium in essence is determined by the frequency of claim events and of their average cost. The table below indicates the trend of the foregoing fac-

EVOLUTION OF AVERAGE CLAIMS COST AND CLAIMS FREQUENCY
Euro

YEAR	CLAIMS FREQUENCY	PERCENTAGE CHANGE ON CLAIMS FREQUENCY	AVERAGE CLAIMS COST - PROPERTY DAMAGES	PERCENTAGE CHANGE ON AVERAGE CLAIMS COST - PROPERTY DAMAGES	AVERAGE CLAIMS COST - PERSONAL INJURY	PERCENTAGE CHANGE ON AVERAGE CLAIMS COST - PERSONAL INJURY	AVERAGE CLAIMS COST - TOTAL	PERCENTAGE CHANGE ON AVERAGE CLAIMS COST - TOTAL	INCIDENCE OF CLAIMS NUMBER WITH PERSONAL INJURY ON TOTAL CLAIMS (%)
1980	15.21%	–	168	–	1,071	–	307	–	9.5%
1981	14.33%	-5.79%	213	26.95%	1,261	17.68%	375	22.19%	9.0%
1982	13.84%	-3.42%	267	25.04%	1,604	27.21%	427	13.91%	8.1%
1983	13.40%	-3.18%	310	16.33%	1,995	24.41%	535	25.36%	8.7%
1984	13.42%	0.15%	352	13.43%	2,554	27.99%	608	13.49%	8.1%
1985	13.46%	0.30%	411	16.66%	3,239	26.83%	682	12.30%	8.7%
1986	13.61%	1.11%	463	12.69%	3,379	4.32%	750	9.85%	8.8%
1987	14.04%	3.16%	505	9.17%	3,899	15.40%	802	7.02%	7.8%
1988	14.00%	-0.28%	543	7.50%	3,981	2.09%	857	6.82%	8.3%
1989	14.69%	4.93%	580	6.74%	3,747	-5.86%	887	3.55%	8.8%
1990	14.61%	-0.54%	618	6.48%	3,545	-5.39%	967	8.93%	10.9%
1991	14.02%	-4.04%	685	10.88%	3,671	3.55%	1,090	12.77%	11.7%
1992	13.42%	-4.28%	770	12.46%	4,277	16.50%	1,226	12.44%	12.4%
1993	11.83%	-11.87%	872	13.23%	5,227	22.20%	1,427	16.40%	12.6%
1994	11.19%	-5.40%	922	5.74%	5,479	4.82%	1,544	8.26%	14.9%
1995	11.71%	4.67%	1,008	9.36%	6,077	10.92%	1,726	11.77%	15.1%
1996	11.63%	-0.73%	1,058	4.91%	6,616	8.87%	1,882	9.03%	14.7%
1997	11.54%	-0.74%	1,107	4.68%	7,160	8.22%	2,038	8.29%	16.2%
1998	10.95%	-5.11%	1,271	14.77%	7,429	3.77%	2,287	12.19%	17.3%
1999	11.05%	0.95%	1,241	-2.31%	8,632	16.19%	2,484	8.65%	20.2%
2000	10.95%	-0.93%	1,278	2.93%	9,920	14.91%	2,809	13.07%	20.5%
2001	9.55%	-12.77%	1,431	12.02%	11,175	12.65%	3,186	13.41%	21.2%
2002	8.78%	-8.09%	1,535	7.26%	12,686	13.53%	3,532	10.87%	20.0%
2003	8.63%	-1.71%	1,634	6.44%	13,542	6.75%	3,805	7.74%	21.0%
2004*	8.45%	-2.10%	1,813	10.97%	13,794	1.86%	3,965	4.20%	n.d.

(*) The figure is estimated on the basis of the data extracted by motor liability associative rapid statistics

tors starting from 1980 and distinguishes the two principal components as regards the average cost: property damage and personal injury.

The claims frequency, obtained by relating the number of claims reported with indemnification to the number of vehicles exposed to risk, has decreased significantly over the last twenty-five years falling from 15.21% in 1980 to 8.45% in 2004 (estimated data). The decrease was especially rapid in the '90s and this is due to various factors, mainly:

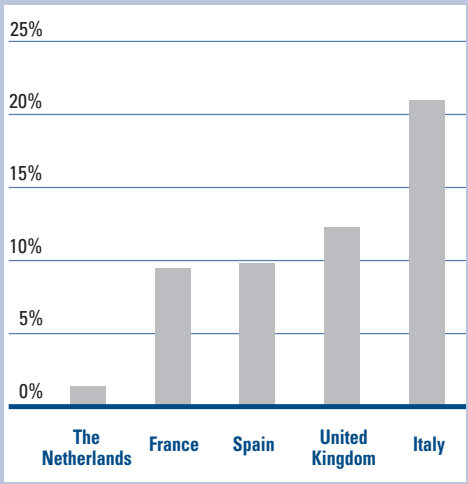
- the improved quality of vehicles which have become progressively safer and equipped with more and more sophisticated driving systems (brake systems, side bar protection and airbags);
- the lower average number of kilometres travelled by vehicles caused by the increase in the number of vehicles pro capita and, in some stages, due to the rapid increase in the price of fuel;
- the greater number of checks carried out by insurance companies on claims to identify fraudulent claims. In this regard, the insurance Anti-fraud Centre established at ANIA has achieved significant results, by promoting and coordinating the actions by insurance companies to prevent and restrain the phenomenon, managing relationships with the central and peripheral Police Forces and with the Magistrates;
- "self-settlement" of minor damage by the insured, particularly starting from the end of the nineties;
- introduction of the penalty points driving licence in July 2003, however the positive effect on the number of insurance claim events was somewhat limited.

The second indicator to be considered when assessing the claim events for the insurance class is the average claims cost. This value is obtained dividing the total cost of claims (paid and reserved) by the total number of claims incurred. The average claims cost over the period of observation considered (1980-2004) increased constantly, completely annulling the benefits produced by the decrease in the frequency of claims: the average claims cost was € 307 in 1980 (which is equivalent to € 1,216 when related to the monetary value in 2004), whereas, it is estimated that this indicator should reach approximately € 4,000 in 2004.

This increase is due to the growth of both the property damage component and the personal injury component.

The claims cost for property damage is impacted by the growth in the prices of vehicle spare parts and by the cost of repairs. The increased number of vehicles which are more and more powerful and the value that becomes progressively higher has entailed the use of more and more expensive spare parts. In this regard it is important to note that also the structural characteristics of the last generation vehicles entail more and more complex repair work even for limited damage. The average annual growth was equal to 11.0%

INCIDENCE OF CLAIMS NUMBER IN 2002 WITH PERSONAL INJURY ON TOTAL CLAIMS NUMBER (%)



over the period of observation (from 1980 to 2004). According to the latest data available, the average cost of only property damage in 2004 exceeds € 1,800; this figure was equal to slightly over € 1,000 in 1996, representing a variation of more than 70% in only 8 years. The general increase in prices reported by ISTAT (NIC price index) over the same period was 20%.

As regards the average claims cost with a bodily injury component, it is important to note that over the last twenty years case law has developed a system of safeguards with reference to personal injury which is more and more in defence of civil rights and objectively expensive. The average annual growth of bodily injury from 1980 to today has been high and equal to approximately 11%. This increase was especially marked at the beginning of the nineties and between 2000 and 2002. It is estimated that the average cost of settlements relating to personal injury was equal to € 13,800 in 2004.

It should be noted that while property damage continues to increase, even in recent years, the bodily injury component currently appears to have reduced its significant increase. Even though a number of recent case law trends regarding the assessment of serious damage could indicate a return to increasing cost.

The average cost of settlements, in addition to the single component, as has been stated on several occasions, also depends on the impact of the total number of personal injury claims. The impact has more than doubled from 1980, increasing from 9.5% to 21.0% in 2003. This represents a very high value, the highest in Europe: thereby entailing an increase in the average cost of the overall claims.

ANALYSIS OF A NUMBER OF FACTORS WHICH DETERMINE THE RATES

The motor liability premium rate consists essentially of two items, without considering tax and tax-related charges: the pure premium, which serves to cover claims settlement and the management cost which serves to cover overheads and cost of capital relating to the insurance business.

The pure premium is obtained by multiplying the number of claims (namely, the number of claims reported compared with the number of insured vehicles) by the average cost of the claim (namely, the overall cost of settlements divided by the number of claims).

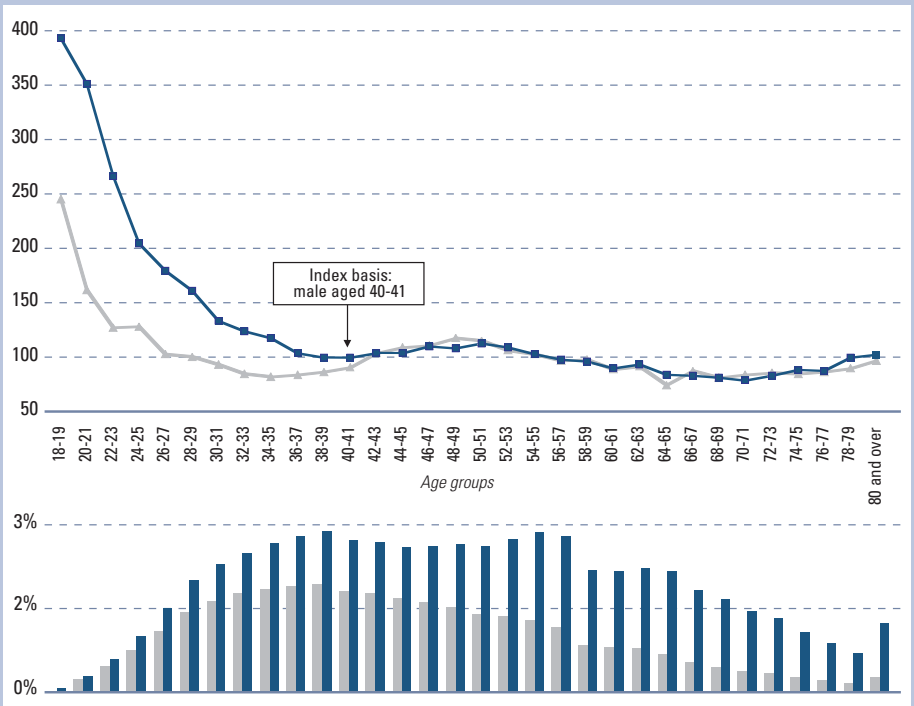
The insurance companies build up significant risks sub-classes with consistent characteristics from the point of view of the claims indicators (pure premium), based on statistical data, and consequently differentiate the relative premiums, in relation to the impact that the specifications and the distinctive features of the risks entail compared with the probability that claims will occur.

This diversification (so-called customised risk) is established both on the basis of objective factors (bonus-malus scheme, vehicle engine size and type of fuel used,

area of use, vehicle use, maximum insured amounts), and on the basis of subjective factors (age, sex and profession of the insured, driving licence seniority).

Among the subjective factors, the age and sex of the insured are undoubtedly among the factors which strongly discriminate the risk, since they have a significant impact on the probability of causing claims.

The analysis of these factors is based on a comparison of the pure premium values for the two sexes and for the various ages, the pure premium for a male aged between 40-41 is set equal to 100. In this regard it is appropriate to note that the different values of the pure premium index are obtained from a bi-dimensional analysis based only on the insured's sex and age risk factors and therefore can be influenced by the correlation that exists between other risk factors that determine the total number of claims observed, as for example: the power rating and the age of the vehicles driven, the area of residence, the age of the driving licence.



PURE PREMIUM INDEX ACCORDING TO SEX/AGE

Females
Males

BREAKDOWN OF INSURED RISKS ACCORDING TO SEX/AGE (%)

Females
Males

The pure premium index for males up to the age of 40 is significantly higher than the corresponding index for females; the two curves essentially overlap after this age, which is equivalent to saying that the risk does not vary significantly between the two sexes. Young males (between 18 and 19) are approximately four times more "expensive" from an insurance point of view, compared with a 40-year old male individual, whereas young females are more than twice as expensive. This difference decreases progressively, particularly

in the case of females aged between 30 and 40, when the index has values which are even lower than the basic reference data.

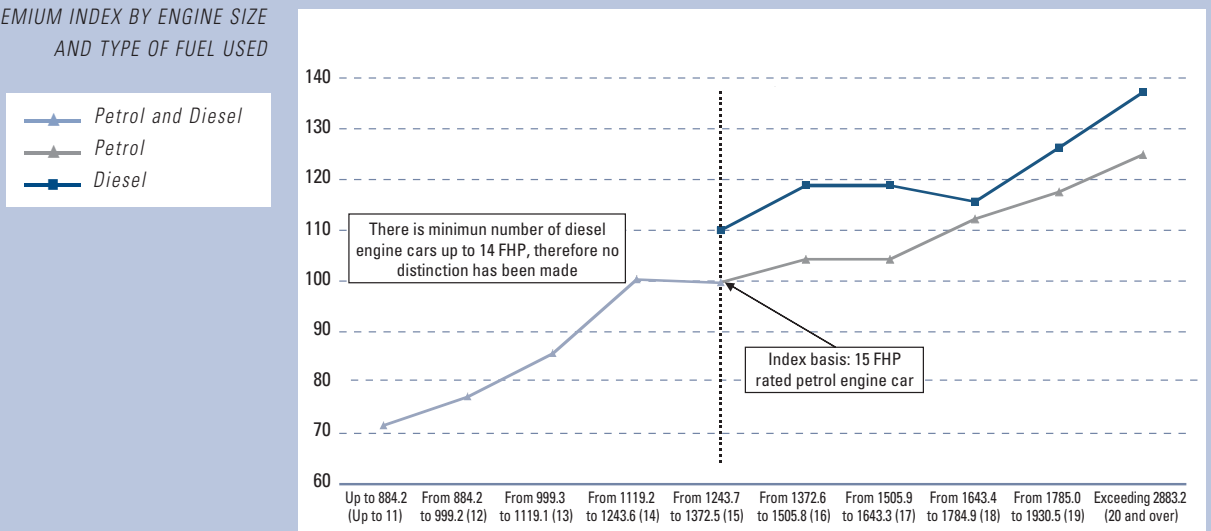
The observed interaction in the trends for the number of claims between the two sexes leads to the consideration that the reduced number of claims made by females compared with males up to the age of 40 is not due to external factors, such as, for example, a lower number of kilometres travelled and therefore, a reduced exposure to the risk of accidents: in fact, if the foregoing factors were crucial, this aspect should impact all ages. Therefore, it is plausible to believe that the lower level of risk for females is actually due to the fact that females are more prudent when driving.

A slight "increase" in the number of claims can be observed on average between 45 and 55 for both sexes; the increase is more marked in the case of female drivers, probably in relation to the cars being driven also by children who have recently passed the driving test.

The objective factors which differentiate significantly the number of claims are represented by the power rating and the fuel used by the insured vehicle, besides the vehicle's insurance history, which represents the factor that is considered for the purposes of assigning the risk in the *bonus-malus* form of insurance systems.

The analysis for these factors is also based on the value of the pure premium index as the vehicle's power rating changes (expressed according to the engine

PURE PREMIUM INDEX BY ENGINE SIZE AND TYPE OF FUEL USED



BREAKDOWN OF INSURED RISKS (%)

size and the rating for tax purposes or fiscal horsepower, "FHP") and depending on the two main types of fuel used by private motor vehicles (petrol and diesel), with the pure premium for a petrol engine car rated at 15 fiscal horse power being set equal to 100. No distinction for the index has been made based on the fuel used in the case of motor vehicles rated at below 15 horsepower, since the number of diesel engine cars in this sector is very limited (0.1% of the total). Also in this case it is important to observe that the bi-dimensional analysis can be influenced by the correlation that exists with other risk factors which determine the total number of claims and which have not been considered in the survey.

The pure premium index increases as the vehicle power rating increases both in the case of the diesel engine cars and petrol engine cars; however, the former always have a higher index value compared with the latter: in particular, the two curves tend to move in parallel. This information appears to suggest that the higher "cost" of diesel engine cars in insurance terms is due to the greater exposure to the risk of accidents, namely due to a greater number of kilometres travelled favoured by the lower cost of fuel.

MOTOR LIABILITY INSURANCE PRICES AFTER SIGNING THE 2003 PROTOCOL

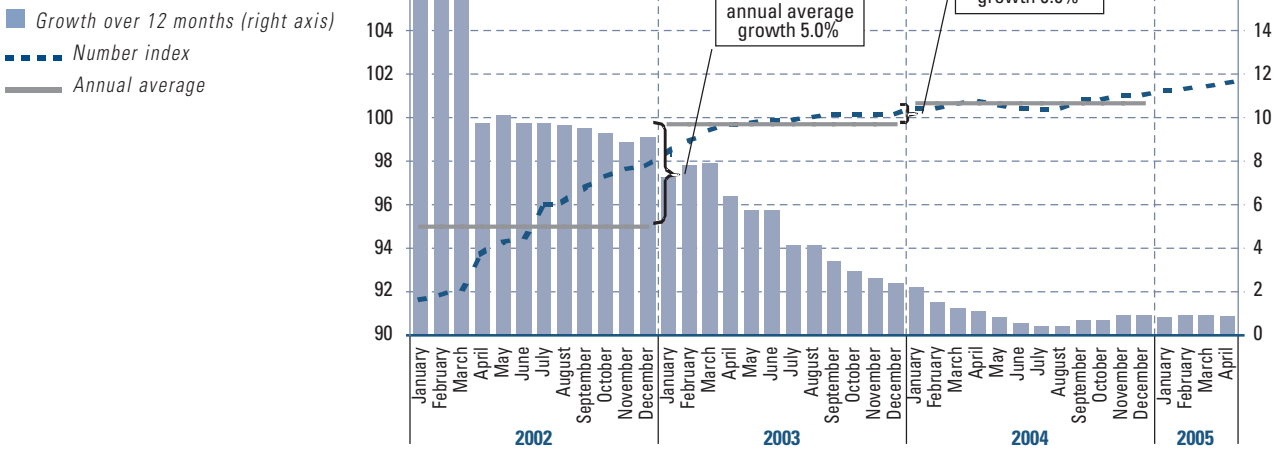
An Agreement Protocol was signed in May 2003 between the Government, the majority of the Consumer Associations and ANIA relating to motor liability insurance, in order to identify a number of fundamental areas in which to take action to contain the cost factors which originated the increases in motor liability insurance prices recorded during those years. It was agreed to implement a policy to cool the motor liability rates for an overall duration of twelve months to enable the actions foreseen in the Protocol to produce positive effects on the costing structure (effects measurable in the long-term and which therefore have not yet occurred in a decisive form), and also to focus on the objective of contributing to contain general inflation. The Protocol also foresaw a series of facilitating measures in terms of rates and contractual terms and conditions for young drivers that did not cause accidents, for motor vehicle owners and for households which own several vehicles.

The ISTAT index relating to the "insurance of means of transport" was analysed in order to assess the results of the commitments undertaken by the insurance sector relating to prices after the Protocol. The value adopted for the indicator in June 2003 was set equal to 100 for the sake of convenience.

The analysis shows that in December 2002 the trend for the motor liability prices index increased by 9.1% compared with the previous year, but already by December 2003, the annual variation had decreased by 2.4% only six months after the application of the Protocol, until reaching a value equal to 0.9% in 2004.

Motor insurance

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



The average annual value for the index was equal to 95.02 in 2002, equal to 99.79 in 2003 and settled to a level equal to 100.74 in 2004; the average growth recorded in 2003 was equal to 5.0%, while the growth recorded in 2004 was significantly reduced and decreased to 0.9%; the growth in general inflation also in 2004 (NIC index) was equal to 2.2%.

The agreed cooling period for the rates was confirmed, one year after the Protocol came into force, again according to the data provided by ISTAT: the motor liability prices index changed by 0.5% in June 2004 compared with June 2003, versus 2.4% recorded by general inflation.

The ISTAT motor liability prices index increased by only 1.7% over a period of almost two years (June 2003-April 2005), compared with an inflation of 3.9%.

The trend for the growth rate of motor liability prices always remained well below the general prices index throughout 2004 and also in the early months of 2005, reflecting values which have never been recorded over the last ten years, except during the period of the rates freeze imposed by the Government during 2000/2001, which however was followed by a major increase in rates due to the boomerang effect produced typically by authoritative measures on the mechanisms that determine the prices of services managed in a private-enterprise regime.

ANALYSIS OF MOTOR LIABILITY INSURANCE PREMIUMS OVER THE INTERNET

ANIA launched a quarterly survey on the evolution of motor liability premiums from the beginning of 2004, which is based on monitoring public information

deduced from the Internet web sites of insurance companies. The monitoring operation relates to five insured profiles (three of which refer to cars, one refers to motorbikes and one refers to mopeds), concerning 30 of the largest insurance companies, which in total represent approximately 90% of the market, and all 20 of the regional capitals.

The level of prices identified refers to a potential client who requests a quotation on-line: naturally, the result does not take into account the discounts compared with the published rates which insurance companies offer with increasing frequency at the time of renewal in the framework of a widespread flexibility in the rates.

According to this survey, the average national premium was equal to Euro 530 last April, and has been weighted to take into account the different representativeness of the profiles, of the insurance companies and of the distribution throughout the territory; the value indicated is slightly below the value one year earlier (table 1). This information is consistent with the data identified by ISTAT that reports a 0.88% change in the average premium over the same period.

In this survey, as well as in the survey performed by ISTAT, the changes in the prices observed were calculated on profiles which are "fixed" in time; therefore, they do not take into account the fact that every year more than 90% of insured do not cause accidents and therefore benefit from the "bonus" effect, which entails an average reduction of approximately 2%-3% of the premium.

TABLE 1
NATIONAL SUMMARY OF PREMIUMS REPORTED ON THE INTERNET WEB SITES IN APRIL 2005
Amounts in Euro

Profiles	National Average Premium April 2005	Annual Percentage Change on April 2004
1 - 36 years old housewife in the maximum discount bonus-malus insurance catergory - 1100 cc small car	412.11	-0.19%
2 - 40 years old office worker in the maximum discount bonus-malus insurance catergory - 1900 cc saloon car	681.48	-1.34%
3 - 45 years old office worker in the entry-level bonus-malus insurance catergory - 1100 cc small car	1,086.04	0.46%
4 - 28 years old office worker in the entry-level bonus-malus insurance catergory - 150-250 cc motorbike	440.85	3.25%
5 - 18 years old student in the entry-level bonus-malus insurance catergory - 50 cc moped	399.15	0.73%
Weighted National Average	**529.96**	**-0.25%**

Source: Data processed by ANIA based on data provided by the internet web sites of insurance companies

More in detail (table 2):

– a 1.3% reduction was recorded for profile 2 (40 year-old office worker, the owner of a 1900 cc family saloon in the maximum discount bonus-malus

insurance category) in the case of motor cars (which represent more than 65% of all insured vehicles); the highest reduction was recorded in Rome (-1.6%), the lowest reduction was recorded in Naples (-0.4%). Average premiums remained virtually unchanged for the other two types of monitored insured (profiles 1 and 3);
- a 3.3% increase was recorded on an annual basis in the case of motorbikes, which represent 6% of the total number of vehicles insured (profile 4). The increases range between 0.3% in Perugia to 3.8% in Rome;
- a 0.7% increase was recorded on an annual basis in the case to mopeds, which represent 8% of the total number of vehicles insured (profile 5). The increases were below 2% in a number of cities/towns (Milan, Bologna, Rome and Bari) while the premiums remained stable in the other cities/towns (Perugia and Potenza) or even decreased noticeably, such as in Naples (-4.8%).

Two indicators have been calculated as regards the variability of the prices offered to the same categories of drivers: 1) the ratio between the maximum and the minimum premium; 2) the variation coefficient defined as the ratio between the standard deviation of the arithmetic mean of all the premiums reported. These two indicators measure the potential opportunities for the insured of benefiting from competitive effects. In particular, it was observed that (table 2):

- the ratio between the maximum and minimum premium always lay between 2 and 3 for all the cities/towns analysed and for all the profiles: this confirms the existence of savings margins of some 50%-66% for motorists paying the maximum values within the profiles analysed;
- the cities/towns which recorded increases exceeding the average level are also the cities/towns which have a higher variation coefficient. In fact, the correlation coefficient calculated on these two indices (for all the regional capitals and for all the profiles) were positive and equal to 0.31. This means that the cities/towns which record the highest increases are also the cities/towns where higher savings can be achieved, in percentage terms, by screening the various proposals (table 2).

The following two graphs (figures 1-2) report the average premiums observed in April 2005 with the respective minimum and maximum premiums offered by the market for all the profiles monitored and for all the regional capitals.

The data illustrated in figure 1, referred to passenger cars, shows that the premiums applied by the insurance companies are fairly near the average value in the case of profile 1 (36-year-old housewife in the maximum discount bonus-malus insurance category), which is the profile with the lowest average premium and therefore representing the best insured. The deviation between the average and the minimum value, for the median distribution city/town, is equal to Euro 50 (compared with an average premium of Euro 412 for this profile); the deviation increases to Euro 86 for profile 2 (that pays Euro 680, on average) and to Euro 112 euro for profile 3 (that pays Euro 1,086 on average). In conclusion, an average client seeking the best offer for its insurance category, can find a reduction of around 10%.

TABLE 2

SUMMARY OF INSURANCE PREMIUMS IDENTIFIED IN APRIL 2005 IN A NUMBER OF REGIONAL CAPITALS

Amounts in Euro

PROFILE 1 - 36 years old housewife in the maximum discount bonus-malus insurance catergory - 1100 cc small car

	Milano	Bologna	Perugia	Roma	Napoli	Potenza	Bari	ITALY
Average premium	*359.40*	*493.96*	*351.12*	*440.58*	*535.84*	*239.35*	*357.28*	*412.11*
Minimum premium	279.20	365.85	258.11	339.15	354.90	181.49	250.04	
Maximum premium	497.00	747.00	547.00	599.52	1,139.00	360.00	751.00	
Max premium/Min premium	1.8	2.0	2.1	1.8	3.2	2.0	3.0	
Variation coefficient (%)	14.1	14.6	17.2	13.6	23.1	14.5	21.7	
Average premium change (%) (April 05 on April 04)	*0.0%*	*0.3%*	*0.1%*	*-0.4%*	*0.6%*	*-0.5%*	*0.7%*	*-0.2%*

PROFILE 2 - 40 years old office worker in the maximum discount bonus-malus insurance catergory - 1900 cc saloon car

	Milano	Bologna	Perugia	Roma	Napoli	Potenza	Bari	ITALY
Average premium	*596.57*	*816.33*	*583.30*	*735.39*	*923.78*	*404.50*	*599.47*	*681.48*
Minimum premium	339.82	450.41	329.94	376.52	611.54	254.53	411.16	
Maximum premium	760.40	1,089.00	792.00	922.43	1,671.00	513.00	1,095.00	
Max premium/Min premium	2.2	2.4	2.4	2.4	2.7	2.0	2.7	
Variation coefficient (%)	16.0	16.3	16.5	15.0	20.3	13.8	18.6	
Average premium change (%) (April 05 on April 04)	*-1.1%*	*-0.7%*	*-1.0%*	*-1.6%*	*-0.4%*	*-1.5%*	*-1.1%*	*-1.3%*

PROFILE 3 - 45 years old office worker in the entry-level bonus-malus insurance catergory - 1100 cc small car

	Milano	Bologna	Perugia	Roma	Napoli	Potenza	Bari	ITALY
Average premium	*965.71*	*1,294.34*	*928.73*	*1,181.95*	*1,432.00*	*637.25*	*958.11*	*1,086.04*
Minimum premium	663.13	852.69	704.34	819.73	1,103.06	506.54	777.16	
Maximum premium	1,288.00	1,897.30	1,317.00	1,719.20	2,813.00	862.20	1,833.00	
Max premium/Min premium	1.9	2.2	1.9	2.1	2.6	1.7	2.4	
Variation coefficient (%)	13.1	14.7	14.7	14.7	20.7	14.1	19.4	
Average premium change (%) (April 05 on April 04)	*0.5%*	*1.1%*	*0.8%*	*0.2%*	*1.1%*	*0.3%*	*1.2%*	*0.5%*

PROFILE 4 - 28 years old office worker in the entry-level bonus-malus insurance catergory - 150-250 cc motorbike

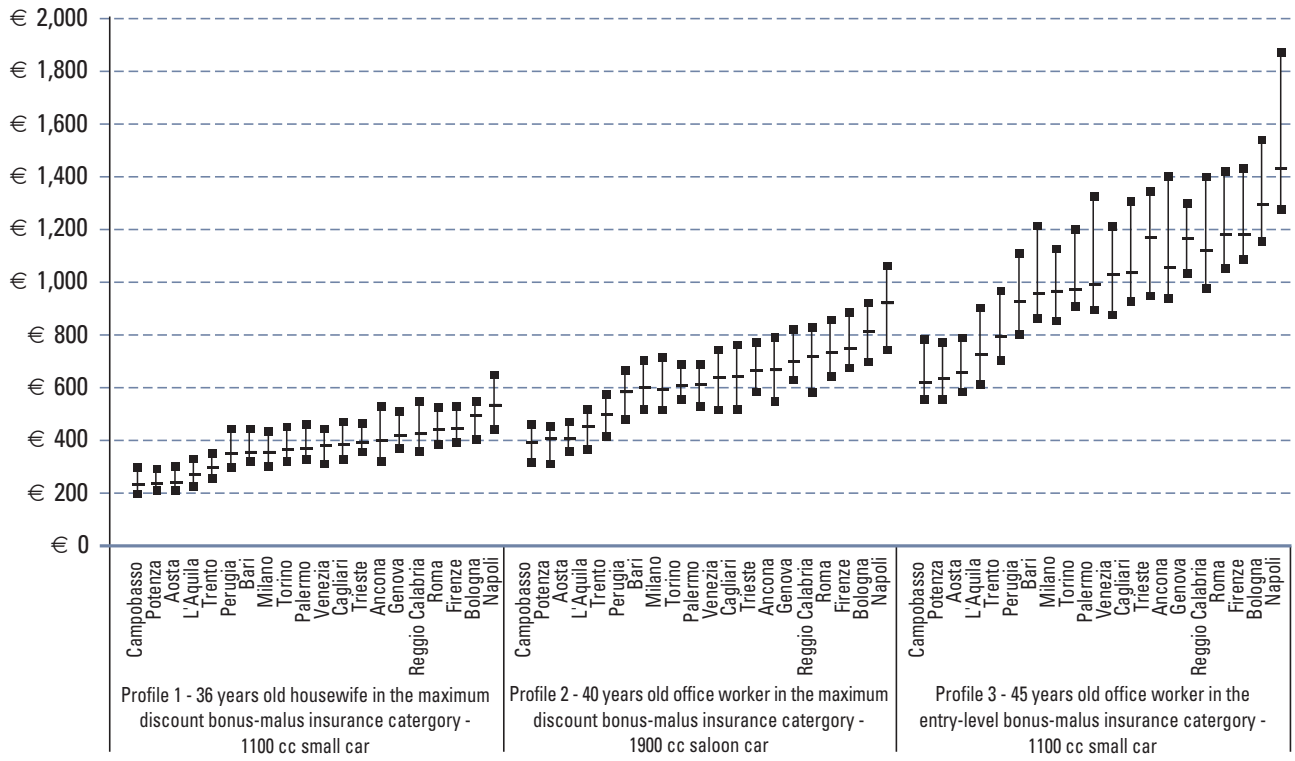
	Milano	Bologna	Perugia	Roma	Napoli	Potenza	Bari	ITALY
Average premium	*340.13*	*352.79*	*225.24*	*460.14*	*653.01*	*312.86*	*456.60*	*440.85*
Minimum premium	253.43	253.95	162.52	316.79	491.10	232.32	355.51	
Maximum premium	515.00	509.50	421.00	678.43	1,551.00	661.00	787.00	
Max premium/Min premium	2.0	2.0	2.6	2.1	3.2	2.8	2.2	
Variation coefficient (%)	18.1	16.7	19.6	19.6	31.5	28.7	23.9	
Average premium change (%) (April 05 on April 04)	*2.2%*	*2.6%*	*0.3%*	*3.8%*	*3.6%*	*2.8%*	*2.1%*	*3.3%*

PROFILE 5 - 18 years old student in the entry-level bonus-malus insurance catergory - 50 cc moped

	Milano	Bologna	Perugia	Roma	Napoli	Potenza	Bari	ITALY
Average premium	*321.31*	*379.45*	*165.61*	*537.29*	*866.58*	*235.00*	*548.17*	*399.15*
Minimum premium	186.00	246.68	108.00	366.00	389.24	156.00	330.65	
Maximum premium	508.00	661.00	344.00	833.58	1,223.79	458.00	908.50	
Max premium/Min premium	2.7	2.7	3.2	2.3	3.1	2.9	2.7	
Variation coefficient (%)	26.4	27.2	25.8	22.0	22.7	25.2	30.9	
Average premium change (%) (April 05 on April 04)	*1.0%*	*1.6%*	*0.6%*	*1.4%*	*-4.8%*	*0.0%*	*2.2%*	*0.7%*

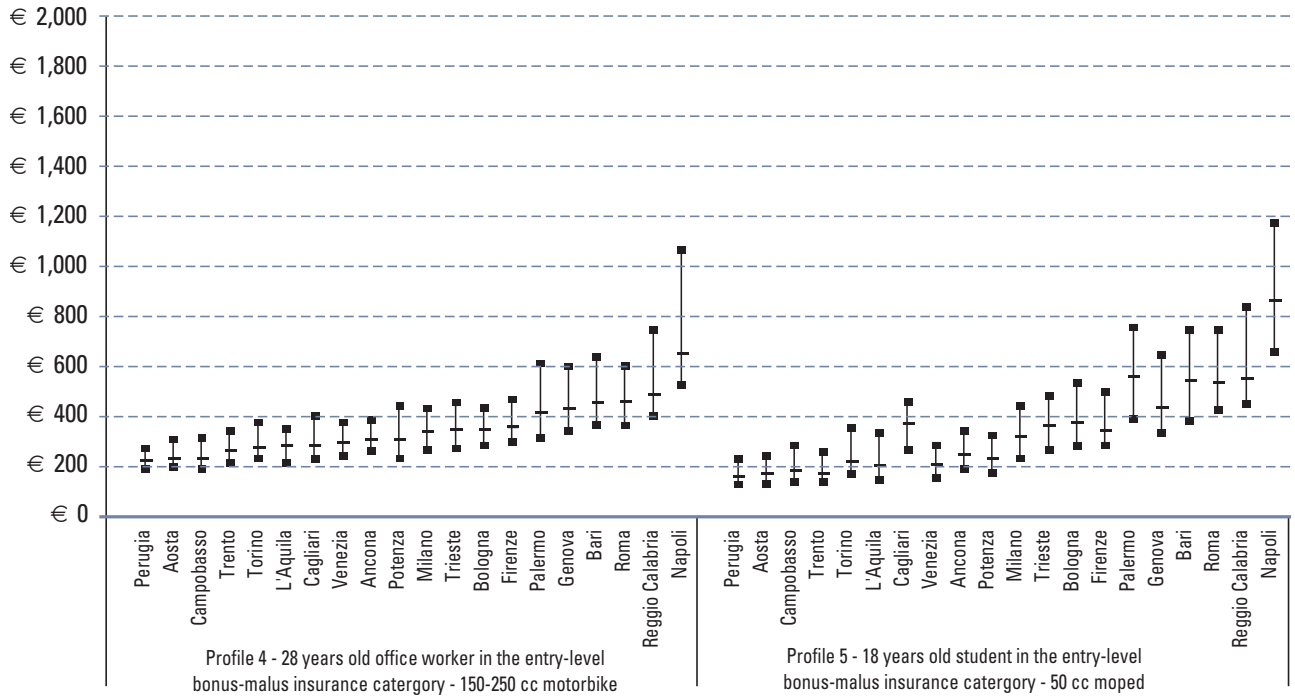
Source: Data processed by ANIA based on data provided by the internet web sites of insurance companies

FIGURE 1 - PREMIUMS SUMMARY FOR PASSENGER CARS REPORTED IN APRIL 2005 IN THE REGIONAL CAPITALS



The same results are obtained for motorbikes and mopeds

FIGURE 2 - PREMIUMS SUMMARY FOR MOTORBIKES AND MOPEDS REPORTED IN APRIL 2005 IN THE REGIONAL CAPITALS



LONG-TERM ANALYSIS OF MOTOR LIABILITY PRICES

Law No. 990 of 24th December 1969 introduced compulsory, third party liability insurance in Italy for all road motor vehicles. The number of vehicles in circulation in 1970, estimated by the Italian Automobile Association (ACI), was approximately 15 million, the number of vehicles in 2004 exceeded 50 million.

Motor liability insurance rates were defined annually from 1971, the first year of compulsory insurance, and up to 1994, by the Italian Inter-ministerial Prices Committee "CIP" and imposed on the private insurance companies in the framework of a public monitoring system analogous to the system in force for national insurance, despite the entirely different nature of motor liability insurance compared with the Social Security models typical of the public insurance schemes. Insurance rates were deregulated in July 1994, which returned the system to the framework of the private-enterprise model adopted typically for third party liability insurance schemes.

It is frequently stated that the deregulation arrangement failed, since motor liability insurance prices have increased significantly from 1994 to today. Therefore, two conclusions can be reached if a long-term analysis is performed, using the more correct methods to estimate the way prices have evolved and of the causal factors which lie at its basis:

- the rates increased year after year both during the managed prices regime and after deregulation;
- the price increases always mirrored the technical trends of insurance management and extremely negative conditions were experienced in terms of net income, where the publicly administered system prevented the prices from following the trend of operations, with even extreme consequences for many operators (bankruptcies).

The analysis was performed using various indicators.

Recourse was made to the evolution of the volume of premiums income collected by the entire sector of the insurance class considered, in order to assess the average annual price increases actually paid by the community to purchase motor liability insurance over such an extended period, and this value was "adjusted" for the increases in the number of vehicles in circulation, to achieve a consistent comparison (table 1). This investigation methodology represents the most correct method of measuring the dynamics of insurance expenditure. Even if it would have been more correct to "adjust" the premium income for the number of vehicles insured (instead of the number of vehicles in circulation); however this date is not available to the sector.

Motor insurance

TABLE 1 - MOTOR LIABILITY: EVOLUTION OF PREMIUMS

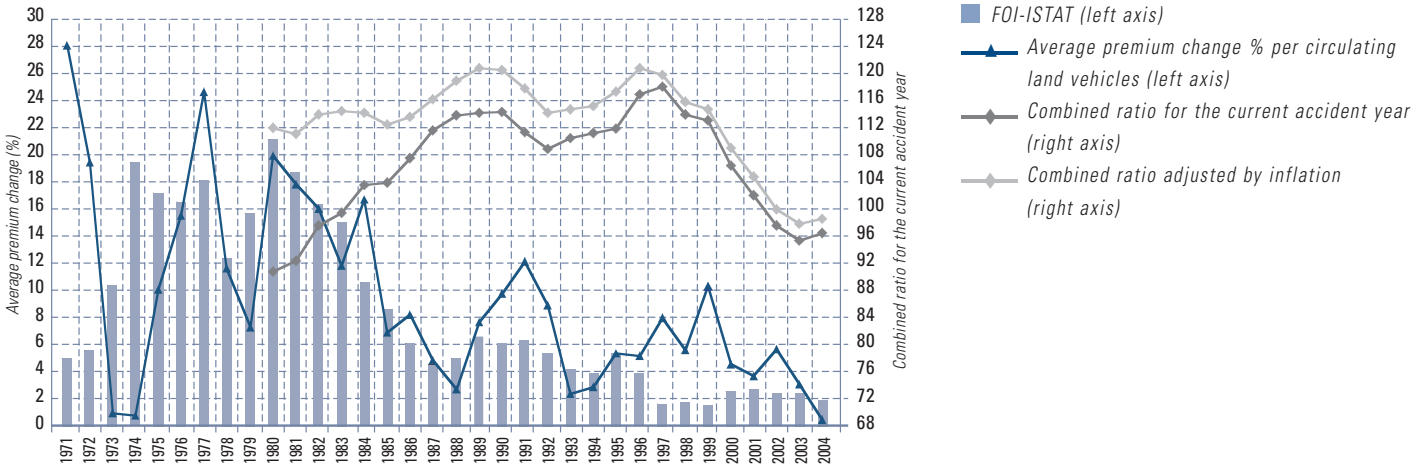
	1. MOTOR LIABILITY PREMIUMS (BALANCE)			2. NUMBER CIRCULATING LAND VEHICLES (*)			3. MOTOR LIABILITY PREMIUMS ADJUSTED BY 2		4. MOTOR LIABILITY PREMIUMS ADJUSTED BY 2 IN REAL TERMS	
YEARS	ABSOLUTE VALUE IN EURO (MLN)	INDEX NUMBER	ANNUAL CHANGE (%)	ABSOLUTE VALUE (THOUSAND)	INDEX NUMBER	ANNUAL CHANGE (%)	INDEX NUMBER	ANNUAL CHANGE (%)	INDEX NUMBER	ANNUAL CHANGE (%)
1970	242	100.0	–	13,304	100.0	–	100.0	–	100.0	–
1971	339	139.7	39.7	14,511	109.1	9.1	128.0	28.0	122.0	22.0
1972	441	182.1	30.3	15,859	119.2	9.3	152.8	19.4	137.8	13.0
1973	478	197.3	8.3	17,000	127.8	7.2	154.4	1.0	126.1	-8.5
1974	510	210.5	6.7	18,007	135.3	5.9	155.6	0.8	106.4	-15.6
1975	587	242.2	15.1	18,812	141.4	4.5	171.3	10.1	100.0	-6.0
1976	715	295.1	21.8	19,842	149.1	5.5	197.9	15.5	99.1	-0.9
1977	905	373.2	26.5	20,144	151.4	1.5	246.5	24.6	104.6	5.5
1978	991	408.9	9.6	19,771	148.6	-1.9	275.2	11.6	103.8	-0.8
1979	1,112	458.7	12.2	20,680	155.4	4.6	295.2	7.3	96.2	-7.3
1980	1,375	567.2	23.7	21,324	160.3	3.1	353.8	19.9	95.2	-1.0
1981	1,702	702.1	23.8	22,401	168.4	5.0	416.9	17.8	94.5	-0.7
1982	2,086	860.6	22.6	23,674	177.9	5.7	483.8	16.0	94.3	-0.2
1983	2,500	1,031.6	19.9	25,383	190.8	7.2	540.7	11.8	91.6	-2.9
1984	2,992	1,234.5	19.7	26,038	195.7	2.6	630.8	16.7	96.7	5.6
1985	3,454	1,425.1	15.4	28,121	211.4	8.0	674.1	6.9	95.1	-1.7
1986	3,930	1,621.3	13.8	29,561	222.2	5.1	729.7	8.2	97.0	2.0
1987	4,278	1,764.8	8.8	30,670	230.5	3.8	765.6	4.9	97.3	0.3
1988	4,555	1,879.3	6.5	31,805	239.1	3.7	786.0	2.7	95.2	-2.2
1989	5,075	2,093.7	11.4	32,905	247.3	3.5	846.6	7.7	96.2	1.1
1990	5,811	2,397.4	14.5	34,312	257.9	4.3	929.6	9.8	99.5	3.4
1991	6,729	2,776.3	15.8	35,455	266.5	3.3	1,041.8	12.1	104.8	5.3
1992	7,574	3,124.8	12.6	36,640	275.4	3.3	1,134.6	8.9	108.3	3.3
1993	8,167	3,369.5	7.8	38,580	290.0	5.3	1,161.9	2.4	106.4	-1.8
1994	8,663	3,574.0	6.1	39,755	298.8	3.0	1,196.1	2.9	105.4	-0.9
1995	9,316	3,843.7	7.5	40,573	305.0	2.1	1,260.2	5.4	105.4	0.0
1996	9,770	4,030.9	4.9	40,453	304.1	-0.3	1,325.5	5.2	106.7	1.2
1997	10,655	4,395.8	9.1	40,870	307.2	1.0	1,430.9	8.0	113.2	6.1
1998	11,745	4,845.6	10.2	42,650	320.6	4.4	1,511.4	5.6	117.5	3.8
1999	13,226	5,456.7	12.6	43,563	327.4	2.1	1,666.7	10.3	127.6	8.6
2000	14,196	5,856.9	7.3	44,680	335.8	2.6	1,744.2	4.6	130.2	2.0
2001	15,315	6,318.3	7.9	46,479	349.4	4.0	1,808.3	3.7	131.5	1.0
2002	16,628	6,860.2	8.6	47,763	359.0	2.8	1,910.9	5.7	135.6	3.1
2003	17,622	7,270.3	6.0	49,101	369.1	2.8	1,969.7	3.1	136.4	0.6
2004	18,062	7,451.9	2.5	50,100	376.6	2.0	1,978.7	0.5	134.4	-1.5

(*) Souce: Italian Automobile Association (ACI) (2004 data estimated); an estimate has been made to adjust the overall number of vehicles, by not considering mopeds for which motor liability was not compulsory during the period preceding 1994

Furthermore, the results of this analysis have been compared with three other indicators:

- the value of inflation observed from 1971 to 2004, obtained from the National consumer prices index for families of factory workers and office workers reported by ISTAT;
- the technical trends for the motor liability insurance class which are expressed by the corresponding combined ratio; this index measures the part of the premiums income which is used to cover the cost of claims and expenses. The data available to build up this indicator is only available from 1980;

– the combined ratio adjusted for inflation (calculated as the difference between the combined ratio as defined above and the rate of inflation) to take into account the positive contribution of investments, a financial variable that can correct but cannot completely cancel the significantly negative technical trends.



Highly variable premium fluctuations were recorded in the early '70s (up to 1974) (from almost 30% in 1971 to 1% in 1974), significantly different from the trend of general inflation, due to the fact that compulsory motor liability insurance was in its initial stages, and that no historical data was available to be used to analyse the trend and the management prospects of a form of insurance that had suddenly become a mass scenario.

The average increases in premiums after 1974 and up to 1983 (excepting only 1977), were instead found to be in line or lower than the increases in general inflation (and were almost all included between 10% and 20%).

A scenario with the average premiums exceeding the general inflation started to be recorded from the beginning of 1984. This different rise is explained by the need to adopt increasing rates: the combined ratio was increasing, a clear and unambiguous sign of the inadequacy of the premiums income to cover the cost of claims and expenses. This combined with decreasing inflation which rendered the investment less remunerative in nominal terms.

Despite this, the managed rate between 1984 and 1989, recorded increases which were only marginally higher than inflation; this situation generated major losses for the sector and numerous insurance companies which operated exclusively in the motor insurance class went bankrupt.

The increases of the average premiums exceeded the rate of inflation in the early '90s (1990-1995), while still subject to the regime of managed and imposed rates, in an attempt to correct this highly negative situation, however, this solution did not enable a management balance to be achieved. The inadequacy of the foregoing rate increases is illustrated by the combined

ratio, which in 1996 touched one of the highest levels ever observed, while the combined ratio adjusted for inflation reached its historical maximum in 1997.

This extremely negative situation forced the insurance companies to restructure the insurance class, by adopting consistent average increases and increases which were higher than the general level of inflation. The "pursuit" continued up to 2002 (motor liability insurance premiums increased by 59.7%, during the eight years between 1995 and 2002, namely by 6% per annum, which compares with an annual rate of inflation of 2.8%) which was the turning point when the combined ratio decreased below 100% for the first time. Increases in the average premium were very limited over the last two years (2003 and 2004): 3.1% and 0.5%, respectively (compared with 2.5% and 2.0% for inflation), after achieving the break-even position in 2002. During the 2002-2004 three-year period the value of the combined ratio adjusted for inflation returned to the values as reported at the beginning of the 80's.

An even more precise analysis of the increases in the average premium should be made by also taking into account the changes introduced over time in the fleet of insured vehicles, for example, the power rating of the vehicles and the fuel used: the increased weight of the number of vehicles powered by larger engines and the decreasing number of cars with a petrol engine in favour of cars powered by a diesel engine, produce a natural increase in the value of the premiums, not due to an increase in the rates charged by the insurance companies, but due to a realignment of the premium to the new risk profiles.

This supplementary analysis is only available starting from 1994. By taking this year as the base, column 4 of table 2 shows what portion of the increase in the average premiums is due to the technical changes to the vehicles in circulation.

TABLE 2 - MOTOR LIABILITY: EVOLUTION OF PREMIUMS ADJUSTED BY LAND VEHICLES CHARACTERISTICS

	1. MOTOR LIABILITY PREMIUMS (BALANCE)			2. NUMBER CIRCULATING LAND VEHICLES (*)			3. MOTOR LIABILITY PREMIUMS ADJUSTED BY 2		4. CIRCULATING LAND VEHICLES CHARACTERISTICS		5. MOTOR LIABILITY PREMIUMS ADJUSTED BY 2 AND 4	
YEARS	ABSOLUTE VALUE IN EURO (MLN)	INDEX NUMBER	ANNUAL CHANGE (%)	ABSOLUTE VALUE (THOUSAND)	INDEX NUMBER	ANNUAL CHANGE (%)	INDEX NUMBER	ANNUAL CHANGE (%)	INDEX NUMBER	ANNUAL CHANGE (%)	INDEX NUMBER	ANNUAL CHANGE (%)
1994	8,663	100.0	–	39,755	100.0	–	100.0	–	100.0	–	100.0	–
1995	9,316	107.5	7.5	40,573	102.1	2.1	105.3	5.3	101.1	1.1	104.1	4.1
1996	9,770	112.8	4.9	40,453	101.8	-0.3	110.8	5.2	102.7	1.6	107.9	3.7
1997	10,655	123.0	9.1	40,870	102.8	1.0	119.6	7.9	103.9	1.1	115.2	6.8
1998	11,745	135.6	10.2	42,650	107.3	4.4	126.4	5.7	105.0	1.1	120.4	4.5
1999	13,226	152.7	12.6	43,563	109.6	2.1	139.3	10.2	104.3	-0.7	133.6	11.0
2000	14,196	163.9	7.3	44,680	112.4	2.6	145.8	4.7	104.1	-0.1	140.0	4.8
2001	15,315	176.8	7.9	46,479	116.9	4.0	151.2	3.7	105.3	1.1	143.6	2.6
2002	16,628	191.9	8.6	47,763	120.1	2.8	159.8	5.7	105.6	0.3	151.3	5.4
2003	17,622	203.4	6.0	49,101	123.5	2.8	164.7	3.1	105.4	-0.2	156.3	3.3
2004	18,062	208.5	2.5	50,100	126.0	2.0	165.5	0.5	106.2	0.8	155.8	-0.3

(*) Source: Italian Automobile Association (ACI) (2004 data estimated)

The results show that on average, in 2004, the actual expense sustained by the community to fulfil the motor liability insurance obligation was even marginally lower compared with the previous year (-0.3%), therefore remaining well below the general level of inflation (2.0%).

BIOLOGICAL INJURY EXCEEDING THE 9 INVALIDITY POINTS

The principle of the eligibility to be indemnified for health injury (so-called biological injury) regardless of the negative repercussions caused to the victim's assets was established definitively twenty years ago, thanks to a historical sentence by the Constitutional Court.

However, despite the time that has elapsed, biological injury – if the regulations relating to minor injuries in motor liability insurance and the specific discipline of occupational accidents are excluded – has not yet found a formal systematic position within third party liability regulations. This gives rise to a situation of ongoing evolution that impacts the entire personal injury category, an evolution that is strictly the prerogative of doctrine and jurisprudence. This situation generates the continuous misunderstandings concerning specific injury items relating to biological injury and the configuration of presumed new injury items (for example: existential injury) which, particularly in the case of physical injury, frequently duplicate the cover already included in health injury or in non-equity damage in general.

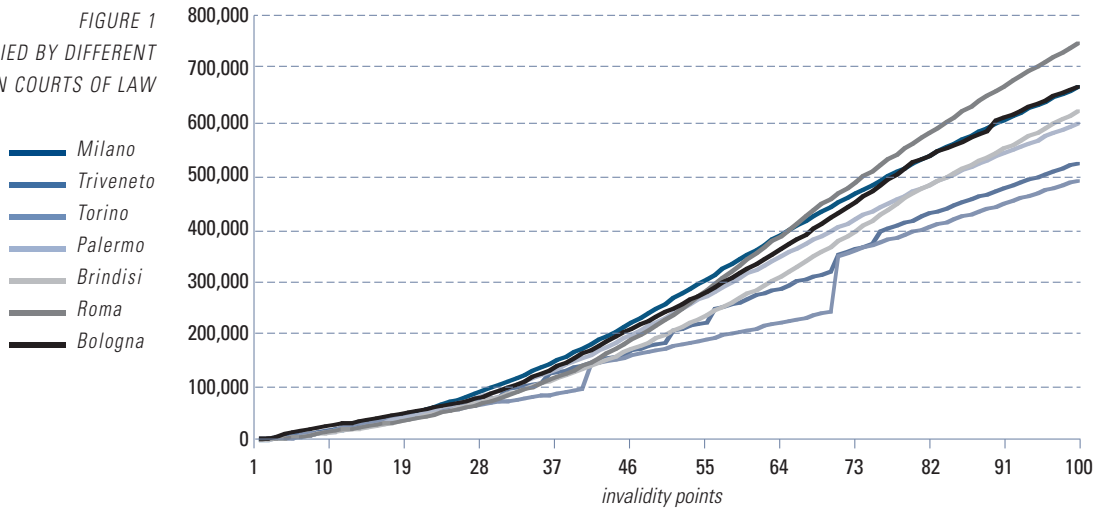
The economic valuation criteria for health injury have been also entrusted to magistrates for a long time, in the framework of the discretional powers of valuation besides the complicated juridical-systematic profiles, in other words, with an examination of each single tangible case, according to the various application forms adopted by the various Courts of Law or by single judges.

Case law-related economic reference tables were adopted to guide the judges, but also the other parties concerned: injured parties, legal advisers and the insurance companies, only commencing from the mid-'90s, above all based on the initiative of the Court of Milan.

Several tables of this type now exist: they are differentiated both for the methodological criteria applied and for the economic reference values. Figure 1 shows the values applied by the principal Italian Courts of law as the invalidity points vary (the amounts refer to an injured person 1 year-old – valuation referred to 2004).

Highly differentiated values are found after the 9 invalidity points: for example, the Court of Turin acknowledges approximately Euro 95,000 for 40 invalidity points, whereas the Court of Milan acknowledges Euro 172,000. The gap grows wider as the degree of invalidity increases.

FIGURE 1
ECONOMIC REFERENCE VALUES APPLIED BY DIFFERENT ITALIAN COURTS OF LAW



This territorial inconsistency has induced the legislator to intervene in order to introduce a uniform national Table.

Biological injury has found an initial regulation in matters relating to civil law (juridical, economic and medical-legal) in the case of minor injuries (up to 9 permanent invalidity points) caused by vehicles in circulation. In this circumstance, the regulatory measure was justified in view of the system's application problems, which led to costs spiralling out of control, with extremely negative repercussions for the community at large in terms of the sustainability of motor liability insurance prices.

The legislator intervened again after Law No. 57 of 2001, also to regulate biological injury in the cases of injuries that cause permanent invalidity exceeding 9 points, delegating the implementation regulations to a measure to be adopted based on the agreement of four Ministries (Justice, Health, Employment and Productive Activities) and which has not yet been issued.

A specific Commission is preparing the table with the medical-legal values; the definition of the relative economic values will soon be addressed.

The first problem that the legislator[1] will need to solve at the time the table is prepared will be to identify the starting basis from which to develop the table in question, however, considering:

– that the regulatory framework already exists (Law No. 57/2001) up to 9 invalidity points;
– that the differentiated case law practice must be redirected to unity taking into account the principle of equality and the necessary reconciliation

[1] The regulatory measure cannot limit itself to the definition of the table of economic values and the medical-legal values, but will be required to clarify the notion of biological injury, to foresee the criteria and the extent by which the monetary value of the point is to be reduced based on the victim's age - considering a female/male distinction, if applicable - and contemplate establishing a limit for the margin of deviation from the "tabular" values to customise the indemnification acknowledged by the Magistrate.

between potentially conflicting interests (maximum benefit granted to the victims and the economic sustainability of the indemnification system).

Different methodologies can be adopted to determine the single reference values in a case of serious injuries. Three of the possible solutions have been examined in the analysis below, solely for study purposes.

All of these methodologies adopt the so-called "multiplier coefficients" defined by Law No. 57/2001 as the starting basis for the first nine invalidity points; these refer to parameters necessary to calculate the monetary value to be acknowledged to the disabled person. In particular, the value acknowledged is obtained by multiplying the value of the initial invalidity point (Euro 663.50) by the number of points and by the multiplier coefficient (table 3).

Invalidity points	Multiplier coefficients	Monetary value (€)
1	1.0	663.50
2	1.1	1,459.70
3	1.2	2,388.60
4	1.3	3,450.20
5	1.5	4,976.25
6	1.7	6,767.70
7	1.9	8,824.55
8	2.1	11,146.80
9	2.3	13,734.45

TABLE 3
DETERMINING THE MONETARY VALUE OF THE FIRST NINE INVALIDITY POINTS

1) *Interpolation method for all the multiplier coefficients.* This method is based on the estimate of an interpolation function of all the 9 multiplier coefficients referable to Law No. 57/2001, by projecting the curve for the points from 10 to 100. The monetary values function obtained obviously increases as the number of invalidity points increase, but with a limited slope: the result would be that the "estimated" reference values would be lower than the values currently applied by the Courts of law (figure 2).

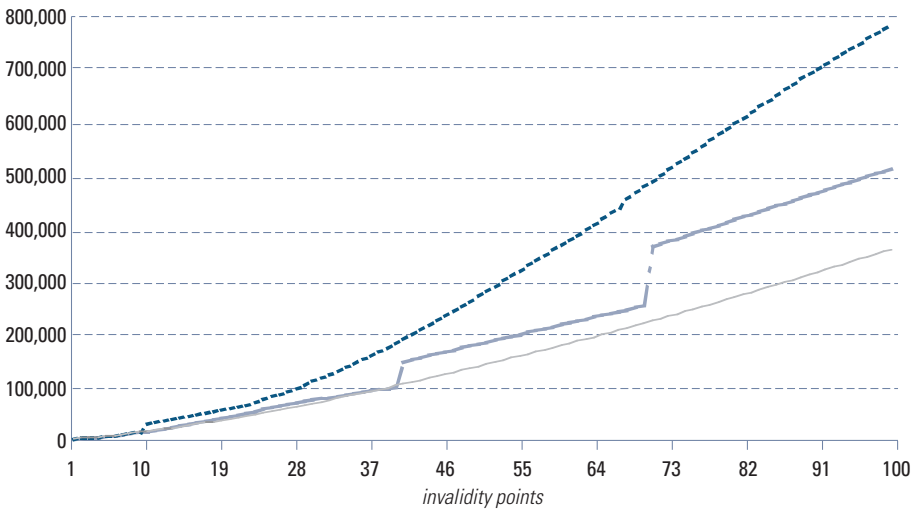
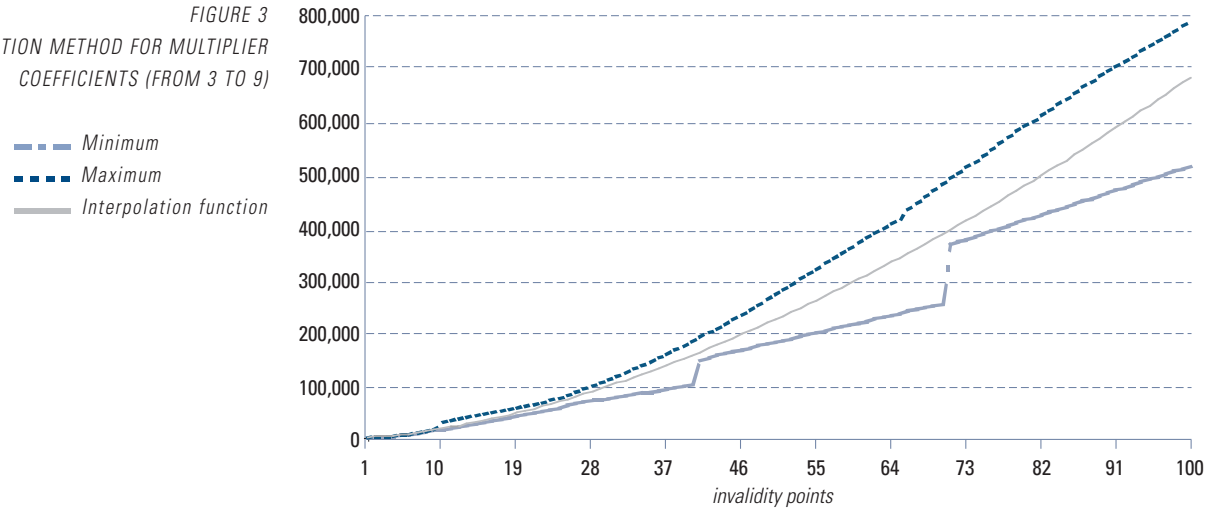


FIGURE 2
INTERPOLATION METHOD FOR ALL THE MULTIPLIER COEFFICIENTS (FROM 1 TO 9)

Minimum
Maxmum
Interpolation function

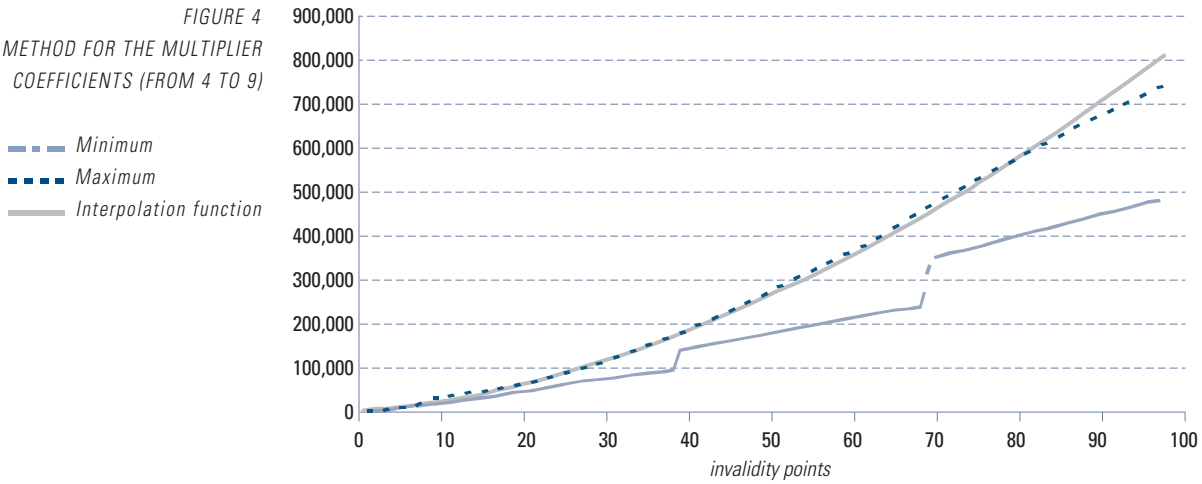
2) *Interpolation method for multiplier coefficients from 3 to 9.* This method is based on the estimate of an interpolation function of the multiplier coefficients from 3 to 9 referable to Law No. 57/2001, by projecting (extrapolating) the curve for the points from 10 to 100. The monetary values function obtained is quite similar to the median distribution value of the coefficients currently used by the Courts of law (figure 3).

FIGURE 3
INTERPOLATION METHOD FOR MULTIPLIER COEFFICIENTS (FROM 3 TO 9)



3) *Interpolation method for the multiplier coefficients from 4 to 9.* This method is based on the estimate of an interpolation function of the multiplier coefficients from 4 to 9 referable to Law No. 57/2001, by projecting (extrapolating) the curves for the points from 10 to 100. The monetary values obtained are very similar to the values foreseen by the table adopted by the Court of Milan, undoubtedly the table used most frequently, up to 65 invalidity points (figure 4).

FIGURE 4
INTERPOLATION METHOD FOR THE MULTIPLIER COEFFICIENTS (FROM 4 TO 9)



The values curve has a greater slope after 65 points compared with the curve applied by the Court of Milan. This is inconsistent with the criteria deduced

from the medical-legal doctrine, according to which the "impairment impact" no longer increases beyond a given permanent biological injury threshold (70%-80%), since it is already particularly high, unfortunately.

A possible adjustment of this method interrupts the rate of growth in the case of degrees of invalidity greater than 75 points (figure 5).

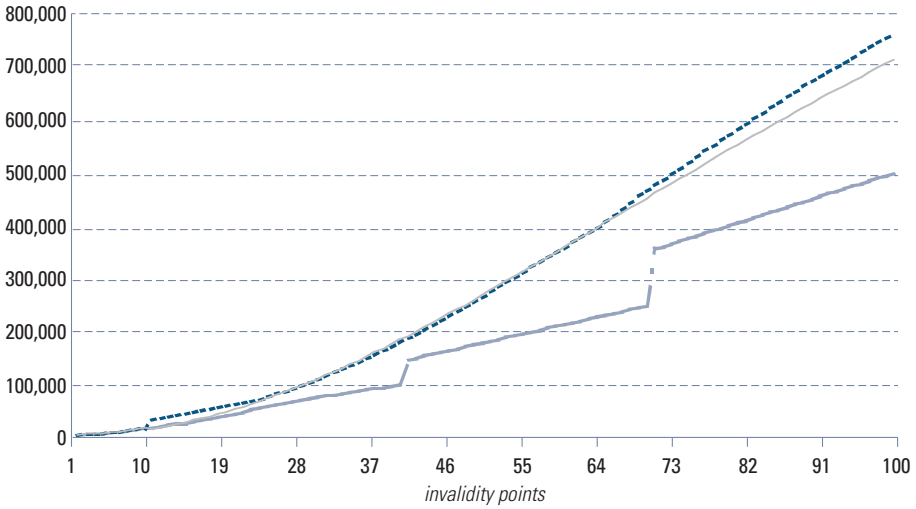


FIGURE 5
INTERPOLATION METHOD FOR THE MULTIPLIER COEFFICIENTS (FROM 4 TO 9) WITH CORRECTION BEYOND 75 POINTS

Minimum
Maximum
Interpolation function

Naturally, these methodologies do not complete the category of possible options. When constructing the legislative table the necessary scientific expertise in the systematic approach will need to be combined with the requirement to ensure the maximum possible protection for the victims, taking into account regulatory choices already implemented and the limits beyond which the protection system would not be sustainable by the community at large.

DIRECT INDEMNIFICATION MODELS APPLICABLE IN COMPULSORY MOTOR LIABILITY INSURANCE

More than 80% of the "cost of production" relating to motor liability insurance is represented by the resources committed in indemnifying claim events caused by insured vehicles. From this scenario it emerges that the only way to limit the price of motor liability insurance is to limit the indemnification costs, while being aware that the aspect relating to rates, referring to the most widespread mass insurance product, is undoubtedly of social importance and a source of understandable tension with the users of the service.

In this framework, the insurance sector questions its own ability to intervene in the process of building up the costs, combining the efficiency of the serv-

ice with the discipline of the cost factors. This preliminary analysis is designed to verify the possibility of conceiving an indemnification system of the damage/injury referable to vehicle traffic within the insurance framework able to find internal competitive levels and corporate efficiency (in its operating mechanisms), which can ensure greater control over costs and thereby produce benefits relating to the price of the service.

1. Limits of the insurance liability system generated by the trilateral insured/insurance company/damage party scheme

Motor liability insurance, just as all the forms of third party liability insurance, covers the insured's assets against the risk of having to indemnify the damage/injury caused to third parties due to the insured's culpable conduct, in the case under review, while driving a motor vehicle.

However, in the case of motor liability insurance, by virtue of the direct action scheme, damaged third parties have the right to obtain indemnification directly from the liable party's insurance company for the damages/injuries suffered. Therefore, an "otherness" relationship is created between the damaged party and the insurer that is required to indemnify. There are no contractual relationships between the two parties and this aspect gives rise to consequences of a given importance in relation to the assessment of the factors on which competition among the operators may be based, since:

a) the party purchasing the product has a limited interest in the quality of the settlement services provided by its own insurer, since the purchaser does not benefit from the service: therefore, the purchaser's product choices are mainly based on the price component;
b) the relationship between the insurer and the damaged party, who meet for the first time (and perhaps for the last time) as a result of the claim event, is bound to be conflictual, with the related "litigation" costs to be borne by the system;
c) the adoption of rate-related policies associated with the relationship between the contents of the indemnification service and the price of the insurance cover is not feasible or is difficult to implement: for example, foreseeing a discounted premium in the case of the insured's self-limited indemnity (insurance exemptions), or with a commitment by the insured/damaged party to have its vehicle repaired by a bodybuilder trusted by the insurance company[2].

[2] The introduction of "self-limitation" clauses of the service is only possible in the insurer/insured relationship and not in relation to the end user of the indemnification service, which cannot be subject to contractual exceptions.
Clauses which subordinate premium discounts to the insured's commitment to use repair facilities that have an agreement with the insurance company, while being undoubtedly functional in the forms of direct insurance (all risk insurance), are only conceivable in abstract terms in the motor liability contract: even if applied at the date a Direct Indemnity Agreement (CID) procedure is implemented since they cannot entail an abso-

Hence, in the motor liability systems characterised by the indirect indemnity model, as regards the service rendered, the adoption of policies that tend to foster competition among operators based on the quality of the service provided and with regard to controlling costs is found to be physiologically limited.

2. Alternative systems: no-fault, direct indemnification

2.1. No-fault insurance

It is assumed that the choice of modelling the insurance in terms of damage/injury arising from vehicle traffic based on the third party liability system, as far as we are concerned, has its origins in the community, and therefore can be found in all E.U. member-countries[3]; there is no doubt that the direct cover models provide all the advantages arising precisely from the direct relationship that is established between the insurer and the party that will receive the insurer's final service:

a) correctness, smoothness and the rapidity of the services rendered;
b) enhancing the quality/price ratio of the service;
c) discouraging litigation;
d) possibility of modelling the contents of the insurance cover in relation to the selected levels of protection dependent on the sustainable price;
e) more effective control over the process of building up costs.

The systems providing direct cover for damages arising from vehicle traffic are widespread in a number of North American states and are based on the "first party/no-fault" scheme.

Although the forms of application differ, these systems are characterised essentially by the absence of any preliminary investigation as regards fault and to establish the economic limits of the indemnity payable to the insured/damaged parties.

The logic that characterises the no-fault systems (above all the "pure" no-fault systems) is to guarantee the rapid payment of indemnities to all "damaged" parties, but within well-defined limits, usually low limits, not subject to change and not challengeable in court.

The limits of a system of this type lie in the low levels of protection provided for victims; this is the reason modified "no-fault" systems have developed, which foresee more substantial guarantees for damaged parties. In fact, in many North American states, in particular, legal action can be brought in the

lute commitment by the insured, who obviously cannot guarantee the willingness of the other motorist to resort to adopting the Direct Indemnity Agreement (CID) procedure.
[3] In any case, models which differ from third-party liability insurance but which however guarantee full indemnification of no-fault victims should find a space in the compulsory insurance regulatory system, while leaving the basic third-party liability structure unchanged.

case of particularly serious physical injuries and which extend beyond the limits established beforehand in the direct insurance cover schemes. This entails the need to supplement the minimal "no-fault" insurance cover with the purchase of third party liability insurance cover.

Very briefly:

- the "no-fault" schemes, in relation to the advantages outlined arising from the direct relationship between the insurer and the beneficiary of the service, **have limitations as regards the overall protection of the victims,** limits which can only be overcome by adopting corrective measures, which however weaken the direct indemnity model;
- the introduction of a "no-fault" scheme in our system would entail redesigning the third party liability model adopted by the community legislator;
- a system based on no fault when determining the claim event would entail rendering the insurance cover **"universal"**, which would be extended to all victims, at fault or no-fault: **with no economic limitations of the indemnities** (limitations inherent in the "Social Security" systems), **this scheme could entail a significant increase in the requirement for financial resources and consequently, the overall premiums requested from the insured.**

2.2. Direct indemnification in third-party liability systems

In an insurance system modelled on third-party liability a number of the typical benefits of direct forms of insurance cover can be achieved by "overturning" the indemnification scheme artificially, assigning the damaged party's insurer the task of paying the indemnity, subject to recovering the amount indemnified from the liable party's insurer.

The direct indemnity schemes, which are linked to the third party liability indemnification model, without making changes, are adopted in many European countries (Italy, France, Portugal, Belgium, Spain and Greece) and are all based on conventional mandate schemes to settle motor liability claims for and on behalf of the liable party's insurer, a mutually conferred mandate on a permanent basis by all the insurance companies taking part in the scheme.

In essence, the insurer settles and pays the indemnity to its insured/damaged party and recovers the amount paid in advance on behalf of the liable party's insurer at a later date, in accordance with the various procedures established conventionally.

Direct indemnity in a third-party liability scheme, strictly speaking, is effective mainly at the time the indemnification service is provided, which differs from the "no-fault" schemes, where the direct relationship with the insured can play a crucial role in the "contractual definition" of the indemnification

service at the time of the claim event (including insurance exemptions, agreeing models of conduct, such as repair of the vehicle at the bodybuilders indicated by the insurer).

3. Rationalisation and controlling the costs of compensation through direct indemnification

Direct indemnity is found to be especially functional to rationalise and control the costs of the indemnification scheme, in addition to the benefits to the user, in terms of simplification and smooth relationships, prompt settlement procedures and the possibility of monitoring the efficiency of the service, since:

a) conflict is avoided, which, instead is a typical scenario in the case of the third-party liability relationship, consequently limiting litigation costs;
b) greater efficiency is fostered in the search for suitable solutions to control the costs of production of the service, based on mechanisms to discipline the economic relationships among the insurance companies.

4. Efficient conditions in the direct indemnity model

Naturally, the production of system-related benefits is strictly associated with the application procedures of the direct indemnity scheme, above all with reference to the following aspects:

a) the level of its tangible application, **compatible with the types of damage/injury eligible to be indemnified in a direct form;**
b) **the mechanisms to assess the liability for the claim event,** based on automatic preliminary settlement procedures (claim form to be signed jointly) or "retroactive" arbitration solutions;
c) **the pre-selected models to settle the economic relationships among the insurance companies participating in the scheme.**

From the first point of view, an application that is as comprehensive as possible and able to include the majority of motor liability claims is an essential condition so that the system can produce the positive effects referred to above: reducing litigation, lower "litigation" expenses, enhancing the service's qualitative levels.

The second aspect is strictly correlated with the basic third-party liability discipline which is linked to the direct indemnity scheme. Liability assessment depends on the principles applicable in each legal system: objective or aggravated liability (with presumed fault) or with the damaged party having the burden of proving fault.

Above all, the direct indemnity model, in civil law systems, where liability is based on establishing fault, must settle smoothly the frequent conflicts that occur when liability is attributed: either based on preliminary settlement tools (the par-

ties agree on the dynamics of the claim event and acknowledge this aspect in the accident report) or based on arbitration procedures which are subsequent and binding on the parties in question (or at least for the insurers involved).

The last aspect represents the most qualifying point in the framework of ensuring control of the costs through a logic of efficiency and competition among the insurance companies.

In particular, all direct indemnity schemes must foresee mechanisms that discipline the economic relationships among the insurance companies, which take into account the "trustee" aspect of the indemnity service: in fact, each insurer indemnifies its own insured for and on behalf of the insurer under obligation to indemnify the damage/injury in the last appeal, based on the third-party liability rules.

Naturally, if a mere reimbursement based on the submission of an "account of expenses" were to be adopted, perverse effects would be triggered as regards controlling the costs, since each insurer would be induced to "be generous" with the indemnities paid to its own insured, subsequently assigning the consequences to the liable party's insurer. In this way, besides the readily intuitable greater benefits for the insured/damaged parties, a rift would be produced in the relationship between the estimated tariff requirement and the costs management, therefore, paradoxically, the price of the motor liability insurance cover would be established by the single insurer based on the levels of efficiency or inefficiency of the other operators.

To avoid such perverse effects, the direct indemnity schemes must therefore foresee compensation mechanisms among insurance companies which are able to represent, as accurately as possible, the various levels of efficiency of each insurance company.

Now, we will assume as having been established that the levels of efficiency are measured, above all, by the ability to manage costs, in general, the foregoing mechanisms, but with some variations, are all based on a logic of favouring the insurance companies that settle claims at lower costs and of penalising the insurance companies which have higher costs when compared with the other insurance companies.

In this way, each insurance company has an incentive to limit the cost of claims, as far as possible, to the benefiting of the costs of the entire system.

5. Comparison between the systems applied: in particular, the French and the Italian model

A) The French model

The direct indemnity scheme was introduced in France in 1968 and was referred to property damage and the scheme was referred to personal injury in 2002.

The French model is based on a convention (IRSA) in which all the insurance companies authorised to engage in motor liability class insurance participate.

The system is based on the following application assumptions:

- collision between at least two motor vehicles occurring in France or in the Principality of Monaco;
- identification of the vehicle that has third-party liability.

Identification of liabilities for the claim event is determined by the claim event report form signed by the drivers of the vehicles involved in the accident or based on a specific settlement procedure that takes into account the results of the reports prepared by the Police Force, the statements made by witnesses (provided they are not passengers or relatives of the insured) or the statements made by the drivers.

The circumstances of the accident which can be identified in the "amicable accident report" form or by other documentation are referable to a predefined scheme to apportion liability (circulation, parking, ignoring signals, other circumstances) which enable the agent insurance company to establish the level of liability of its insured: 0%, 50%, 100%.

Any discussions among the insurance companies regarding the apportionment of liability shall be resolved by an Arbitration Commission.

Moreover, the "IRSA" has an Ethics Committee delegated to supervise compliance with the Conventional rules.

In any event, the scheme is based on voluntary membership and does not prejudice the right of the damaged party to submit its request to the liable third-party and to its insurer (direct action).

In particular, if the damaged party brings legal action against the insurance company of the third-party liable for the claim event, after failing to agree with its own insurance company, and, if the liable third-party is sentenced to compensate the damages, then the legal costs and the related legal fees shall be reimbursed by the agent insurance company:

- at 50% if the event involved exclusively material damage;
- at 100% if the event also involved physical injury.

This mechanism discourages any "anomalous" forms of conduct of the agent insurance company intending to avoid the management commitments by making a compensation proposal that is "unacceptable" to the damaged party.

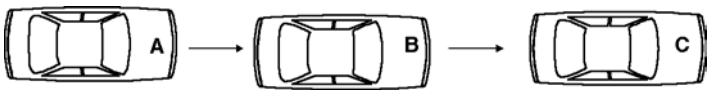
The "IRSA" convention is a modular structure: various claim event categories are identified which are disciplined in different ways.

The accounting settlements among insurance companies also comply with diversified procedures depending on the type of claim event and the amount of the damages involved.

a) *Claim events between vehicles with damage included within the capped limit (Euro 6,500)*
   - The overall amount reimbursed by the agent insurance company is equal to the average lump sum amount, established by the Statistics Committee[4], multiplied by the number of claim events managed on behalf of the debtor insurance company[5]. Therefore, whenever the agent insurance company has paid an indemnity higher than the average lump sum cost, it loses the difference; in the opposite case the agent insurance company makes a profit.
   - The reimbursement process is based on a clearing house arrangement where each single payment must be recorded within 2 years from the date of the claim event: under penalty of forfeiting the right to be reimbursed.
   - A dual penalty is applied if the debtor company does not reimburse the amount within 30 days from the request of reimbursement forwarded to the clearing house and the penalty corresponds to 5% of the amount of the damage by way of interest and 10% on the capped limit of Euro 6,500. The insurance companies' solvency status is ensured by bank guarantees.
   - The direct insurer is only entitled to reimbursement of the costs necessary to repair the vehicle or, if the repair is uneconomic, to the vehicle's commercial value.
   - The ancillary damage items (vehicle technical stoppage, transport costs, etc.) are not eligible to be reimbursed and therefore are to be borne by the insurance company that managed the damage event.

b) *Claim events between vehicles with damage exceeding the capped limit (Euro 6,500)*
   - The debtor insurance company reimburses in full the indemnity amount paid by the direct insurer. The reimbursement procedure is arranged outside the clearing houses.

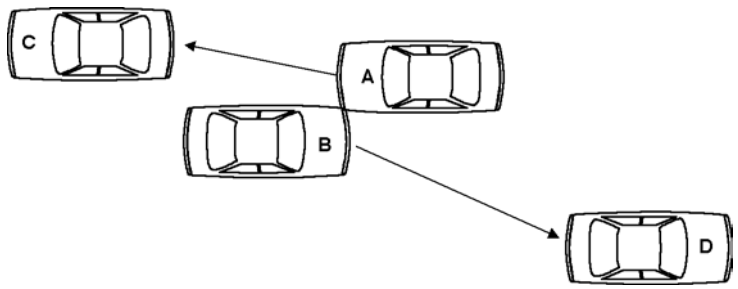
c) *Multiple collisions (Collisions among several vehicles travelling in the same direction)*



[4] This amount had been established at Euros 1,204 in 2003 (in Italy, the average cost of the 2003 CID was Euros 981.47).
[5] This rule is not applicable if the driver has not been identified.

– The agent insurance company pays the damages caused by its own insured and requests reimbursement from the insurer of the vehicle that follows. For example: The insurer of **C** pays the damage of its own vehicle and then requests the insurer of **B** for 100% of the indemnity paid. The insurer of **B,** in turn, pays its own insured, but since it is not the first in line, it can only request the insurer of **A** for 50% of the amount indemnified. The remaining 50% of the damage is to be borne definitively by the insurer of **B**.

d) Carambolages (claim events not included in the definition of multiple collision) among 3 and 7 vehicles



– The insurance company that insures the vehicle that has a registration plate with the lowest number assumes the function of "meneur de jeu" on the basis on which it has the following responsibilities:
  - to identify all the other vehicles involved in the claim event and their respective insurance companies;
  - prepare a "repartition table" where the respective liability quotas in the claim event are indicated for each vehicle (100%, 50%, 0%)[6]. Reimbursements among the insurance companies are based on the foregoing repartition.
    The other insurance companies involved in the claim event have a period of 30 days to challenge the liability repartition. The Arbitration Commission makes the final decision if the insurance companies fail to reach an agreement.

e) Carambolages with more than 7 vehicles

– Management of the damage events follows the rules of the preceding point but the agent insurance company cannot request to be reimbursed the indemnity paid for damages up to Euro 80,000, which therefore, is to be borne definitively by the agent insurance company.

The accounting settlements mechanism adopted by the French insurers, for the most frequent type of damage events (claim events between two vehicles with damage up to Euro 6,500) does not appear to take into account the portfolio selection policies adopted by the insurance companies which are forced

[6] Other repartition percentages for liabilities do not exist, for example 70%, 30%.

to bear a part of the compensation, despite no-fault of their insured, when there is a damage event that exceeds the lump sum cost.

In fact, if on the one hand, the lump sum reimbursement encourages the insurance company to contain the cost of the claim event, on the other hand, this scenario is penalising if insurance company insures a vehicle with a high commercial value or a vehicle that circulates in areas where the hourly cost of labour is particularly high.

Probably, the French system could be considered "fair" in a market where the frequency of claim events among insurance companies and the average insured value are more or less uniform and where there are no significant differences in the cost of repairs among various areas.

Whereas, the point of strength of the "IRSA" is represented by the more or less total application of the procedure to any type of motor liability claim event.

Moreover, it must be remembered that the habit of French motorists of adopting direct indemnity originates from a widespread use of all risks insurance policies (70%). The widespread use of all risks insurance policies allows the insurance exemption mechanisms or repair procedures at contracted bodybuilders to be defined contractually, since the impact of these aspects on limiting the cost of the claim event is quite considerable.

B) The Italian system

The direct indemnity model, adopted by Italian insurers on a voluntary basis from 1975, is based on a Convention ("CID" – Direct Indemnity Convention) entered into by 99.8%, in terms of portfolio, of Italian insurance companies authorised to operate in Italy.

The application framework of the Convention is more limited, compared with the situation in France (less than 40% of the total motor liability claim events involving property damage) due to a series of application terms and conditions introduced to minimise any discussions among the participating insurance companies.

The "CID" is based on precise application conditions:

- collision between only two motor vehicles;
- the Accident Report ("CAI") form signed by both drivers and compete with the other essential data: vehicle registration numbers, names of drivers and insurance companies, circumstances of the claim event;
- positive verification of insurance cover of the liable vehicle indicated in the Accident Report ("CAI") form based on the "SIC" (integrated vehicle Control IT System Sistema);
- no damage to other vehicles, legal action or request for compensation submitted to the insurer of the liable vehicle, pursuant to law;
- from 1st June 2004, this Convention is also applicable to claim events with personal injury suffered by passengers and no-fault drivers, for minor injuries and within the amount of Euro 15,000 per injured person.

In the "CID" scheme, the Accident Report ("CAI") form signed by the drivers represents a fundamental aspect for the purposes of implementing the conventional procedure.

The Accident Report ("CAI") form signed by the drivers of the two vehicles has a symmetrical value for both insurance companies, thanks to a series of conventional rules which enable the insurance companies to interpret the form in the same way and reach the same conclusions in relation to the repartition of liabilities.

In fact, the circumstances of the claim event reported in the form are referable to a liabilities repartition scheme (very similar to the scheme adopted in France by the "IRSA") where 54 different types of claim event are reported.

The reimbursements mechanism is structured in a way that enables the agent insurance company to be reimbursed the indemnity paid (including any accessory items as, for example, technical stoppage, towing expenses, but excluding patronage costs), but however foresees a balance arrangement with a positive or negative balance at the end of the financial year among all the insurance companies, *single insurance company versus single insurance company,* in accordance with the average indemnity costs, in order to foster competition to contain the costs in question.

In some ways the accounting settlements mechanism adopted by the "CID" scheme is more competitive compared with the French scheme.

The fact of knowing only retroactively the results of the comparisons with all the other insurance companies induces the companies to achieve the maximum limitation of the costs involved in managing the "CID" scheme.

In fact, the preliminary knowledge of an average reference cost established beforehand could induce the agent insurance company to adopt an anomalous conduct aimed at managing damage events that lie within the foregoing parameter.

However, the Italian system has been improved over the years, in order to take into account also the different geographical areas and the different values of compensation, so that the comparison between the average indemnity costs is based on claim events which have consistent characteristics[7].

The accounting settlements system among insurance companies also takes into account the number of events managed by each company in relation to the other insurance companies and vice versa.

[7] By amount and by area. The different configurations of the insurance company portfolios would have produced unfair situations without this correction factor: for example, the insurance company with a greater number of motor cars with above average characteristics (and therefore more expensive to repair) and circulating in areas where the cost of repair is higher would be at a disadvantage due to this particular situation compared with insurance companies with a fleet of insured vehicles with opposite or very different characteristics.

Without this correction, a given insurance company could be forced to make a preliminary selection of the "CID" claim events to apply the procedure only in the case of events with costs that are foresee ably below the market average.

However, it is important to note that the settlement system disciplining the relationships among insurance companies is subject to a direct on-going analysis to increase the levels of competition among the insurance companies: in-depth analyses are currently in progress to fine tune the balance settlement scheme even further.

To complete the overview of the direct indemnity schemes operating in Italy, we would mention that another association agreement exists in the case of claim events involving more than 40 vehicles (or 20, in the case of accidents with serious consequences) ("Catastrophe Claim Events") which enables the insurance companies to proceed directly to settle the damages of their own no-fault or partial-fault insured.

The amount of the compensations paid by the insurance company with vehicles involved in the claim event is subsequently divided among all the insurance companies participating in the Agreement, in accordance with the respective motor liability portfolio quotas.

Whereas, the multiple damaged parties Agreement, which was applicable to all claim events involving more than two vehicles, terminated in 2001. Termination was due to a number of imbalances inherent in the system, which did not incorporate a mechanism of full compensation among insurance companies based on the reference to the average cost of damages.

6. Potential developments of the Italian system

The direct indemnity schemes, linked to the third-party liability compensatory model, undoubtedly favour the control over the costs build-up process, thanks to fostering the competition and efficiency in the management of claim events by the insurance companies.

In Italy it is also possible to observe that the average cost of the claim events indemnified by the "CID" scheme, in addition to being significantly lower, has recorded a more limited rate of growth compared with the average cost of claim events (same type) indemnified in the framework of liability insurance.

AVERAGE COST FOR PROPERTY DAMAGES
Euro

Year	Average cost of property damages "CID"	Annual percentage change on property damages "CID"	Average cost property damages (*)	Annual percentage change on property damages	Inflation rate
1998	759	3.9%	969	10.3%	1.8%
1999	788	3.8%	1,069	10.3%	1.6%
2000	843	7.0%	1,272	19.0%	2.6%
2001	898	6.6%	1,454	14.3%	2.7%
2002	940	4.6%	1,559	7.3%	2.4%
2003	989	5.3%	1,660	6.4%	2.5%

(*) In order to have a homogeneous comparison with the average cost of CID claims, have been taken into consideration:
– for the period 1998-1999 the claims referring to land vehicles excluding mopeds and agricultural machines, with a cost not exceeding Itl. 10,000,000;
– for the period 2000-2003 the claims referring to land vehicles, Itl. 10,000,000, with unlimited cost.

7. Feasibility analysis to develop the motor liability compensatory scheme

Precisely the foregoing considerations induced the AGCM, ISVAP and the Government not only to postulate an extension of the system to other forms of damage events, but also to reflect on actions that can guarantee an incentive to reduce costs, even more than the current model.

Naturally, further in-depth analyses need to be performed to assess the prospects of fine tuning the Italian system, on the one hand, these analyses must take into account the regulatory reference framework, which in any event, the direct indemnity scheme cannot disregard, and on the other hand, the characteristics of the insurance market on which the scheme operates.

For this purpose, the problems to be considered to develop a model are quite major and concern both the regulatory structure and the terms and conditions to be complied with to define a "virtuous" model able to produce the positive effects which are theoretically achievable by a direct indemnity scheme applied to all or to the majority of the claim events caused by vehicle traffic.

The further steps in the framework of the voluntary scheme currently in force, relate to the possible extension to other types of claim events currently not included in the "CID" scheme and to verifying the potential deletion of the conditions of applicability (for example: the form signed jointly) which currently limit the potential of implementing the direct indemnity scheme.

However, the aspect that needs to be analysed in greater detail and on which institutional attention will be focused refers to the possibility of incorporating the direct indemnity model in the regulatory system, to give it binding power and ensure its universal application.

However, direct indemnity disciplined by law poses a series of application and compatibility problems with the legal regime that disciplines third-party liability relating to an unlawful act, compared with the voluntary model, which does not change the basic regulatory structure in the least. Very briefly, the problems to be addressed and to be resolved if it is intended to pursue the implementation of the direct indemnity scheme in the regulatory *corpus* involve the following aspects:

- the compatibility of the regulatory measure with the community discipline; the possibility of imposing the system on insurance companies with Registered Offices in other E.U.-member countries;
- the overlap of two systems: the "insurance" system, which would entail that the insurer of the damaged party would be subject to the compensatory obligation – subject to subsequent settlement of the debtor relationships with the liable party's insurer – and the basic civil law system, which

would continue to attribute the right to be compensated by the liable party and therefore payment by the liable party's insurer;
- allocation of direct action, which is consequential to the problem outlined above: in theory it should be possible to exercise the right in relation to the insurer of the insured/damaged party, otherwise the jurisdiction safeguard of its rights would be forfeit, unless direct indemnity is conceived as an out-of-court procedure *ex lege,* which becomes established as a condition of eligibility to exercise the action in relation to the liable party's insurer[8];
- definition of the field of application of direct indemnity: a) should exclude damage by parties *not insured* for motor liability (for example: pedestrians), otherwise it would lack the reference for retroactive settlement of the debtor relationships between insurers; b) it would be necessary to assess carefully the advisability of limiting direct indemnity to minor personal injuries (which however are identified by law), leaving the liable party's insurer to manage the damages which are complex by their very nature and are not *eligible to be entrusted* to agent insurance companies (effects of settlement efficiency on the reserve applicable to such claim events, potential cases of *malagestio,* etc.); c) the applicability of the system would need to be assessed in relation to claim events involving several vehicles, in which the assessment of liabilities is more complex;
- application conditions: the probable lack of automatic settlement mechanisms (the amicable accident report signed jointly currently required by the "CID" procedure) poses the problem of acquiring the information on the liability of the claim event; out-of-court arbitration tools would need to be identified to resolve potential conflicts between the damaged parties and the respective insurance companies;
- tools to discipline the economic relationships among insurance companies: the efficiency of a direct indemnity scheme is based on the possibility of implementing monitoring mechanisms which foster the limitation of costs, otherwise effects contrary to the hoped-for objective would be obtained; the settlement of the relationships among the insurance companies must be left to the effect of market forces; in any event the possibility of setting up a single consortium to manage the system should be foreseen by law.

The debate currently in progress at an institutional level is focusing its attention on the foregoing topics, which have just been outlined, and on a whole series of more detailed application aspects.

[8] This could represent a solution that would avoid overlapping systems: a form of compulsory action that the damaged party is required to perform in reference to its own insurer – that in turn is under obligation to propose a compensatory offer – before contacting the liable party's insurer.

ISVAP CIRCULAR RELATING TO THE DISCIPLINE OF THE BONUS/MALUS SCHEME IN COMPULSORY MOTOR LIABILITY INSURANCE

On 17th May 2005, after the public consultation procedure, ISVAP issued the text of the "Provisions relating to compulsory motor liability insurance – to discipline the *bonus/malus* scheme" (Circular No. 555 D).

The principal objective of the Circular is to include the universal conversion merit category in the risk certificates relative to motorcycles and mopeds, denominated category CU. This provision, already operational in the case of passenger cars, makes it easier for the insured to compare the different proposals relative to motor liability contracts with *bonus/malus* formulae offered by the market and, in this way, favours the mobility of clients and the development of competition.

The provisions foreseen by the Circular had already been implemented to a large extent by the insurance sector following the Agreement Protocol signed by ANIA, the Government and a number of Consumer Associations on 5th May 2003; in particular, a joint technical roundtable had agreed to include a common class of merit (analogous to the solution adopted in the "CIP" scheme, foreseen for passenger cars) in the risk certificates referring to motorcycles and mopeds.

In the final version of the provisions, in line with the observations made by the Association, ISVAP has established that the Circular refers expressly to passenger cars, motorcycles and mopeds insured not only with proper bonus/malus formulae, but also with insurance policies which adopt formulae that are similar, such as the bonus malus subject to insurance exemption, the no claim discount and the no claim discount with insurance exemption. Other types of vehicles for which adoption of the bonus/malus formulae are limited have been excluded.

The last date by which to comply with all the instructions contained in the Circular has been established as 1st November 2005.

THE ANIA ROAD SAFETY FOUNDATION

Approximately Euro 3.5 million road claims occur in Italy every year with more than 700,000 injuries and 8,000 deaths, representing a cost to the community estimated to be Euro 28 billion. In particular, road accidents now represent the primary cause of death for the younger age group.
An 18.2% reduction in accidents with deaths and a 16.6% reduction in accidents with injuries was recorded over the period between July 2002-June 2003, according to the data provided by the Police Force and the "Carabinieri".

If the data reflects a downward trend in the seriousness of accidents the topic of road safety continues to represent a social problem with a significant impact also in terms of costs to the community at large.

The principal causes of claim events include: failing to follow the rules of the Highway Code and the rules of prudence, poor maintenance of the vehicles in circulation, the intense vehicle traffic conditions compared with the road network and the overall obsolescence of the road system.

For this reason during its first year of activity, the ANIA road safety Foundation focused its actions on the young and has created institutional partnerships believing that it is easier to implement tangible initiatives capable of reducing the number of road accidents by pursuing this solution.

This strategy has led to putting in place and implementing a number of initiatives which have often achieved significant media impact.

In the first place, the Agreement Protocol entered into between the ANIA road safety Foundation and the Home Office Police Department.

The Protocol foresees joint initiatives in the communications, information and road education sectors, in particular, focusing on the juvenile world, designed to improve the levels of safety on Italian roads and to prevent accidents and their related consequences.

The most significant initiative implemented in the summer of 2004 which will be reproposed also in 2005 was called "Drive prudently – zero alcohol all your life". This initiative focused on the problems of driving after visiting discotheques. In view of the high frequency of road accidents concurrent with the closing hours of nightclubs, the Police Department and the ANIA road safety Foundation identified a number of roads throughout the country especially exposed to this type of risk, and in particular, in the Emilia Romagna, Versilia and Lazio Regions, and organised numerous preventive services by setting up road traffic check points.

The ANIA Foundation organised the distribution of leaflets during these occasions at the entrance to the entertainment halls located in the areas under surveillance, the leaflets described the dangers of driving after drinking – or, however, when in a psycho-physically altered condition – as well as distributing disposable breathalyser tests, thereby fostering a heightened perception of the real levels of risk associated with situations which are frequently undervalued. The Traffic Police distributed free tickets to discotheques to the drivers found to be sober after taking the breathalyser test. The Foundation has endeavoured to establish a closer relationship with the young through this initiative. The message can be conveyed better and more effectively by speaking their language and visiting the places where they

meet. A sense of awareness, maturity and respect for life can be developed by offering the young the possibility of testing their own alcohol level independently.

The ANIA Foundation partnered the "Icaro" project in 2005, the road safety campaign promoted by the National Police Force and by the Home Office, with the collaboration of the Ministry of Infrastructures and Transport, the Minister of Education and with support from Unicef.

The initiative, which is in its fifth edition, has the objective of helping young people understand the importance of following the rules, to foster a culture of legality and to avoid the adoption of dangerous behaviour that represents the principal cause of road accidents.

This year 29 cities/towns were involved with the participation of over 10,000 youngsters.

Moreover, the ANIA Foundation is committed to supplying useful material and services to strengthen the work of prevention and first aid undertaken by the Traffic Police, based on the guidelines provided by the Police Department.

One of the most important projects, implemented between 2004 and 2005, forms part of the Agreement Protocol that the ANIA Foundation entered into with the Ministry of Education designed to organise a remote training course to prepare for the driving test. In particular, the ANIA road safety Foundation provided a remote training course free of charge to all Italian schools through the Ministry; the course also included tests and was accessible over the Internet or available on a cd. The course contents have been certified by the Ministry and will enable all the persons eligible to take the test after having learnt the rules of the Highway Code using the IT platform provided by the ANIA Foundation.

Again in the field of disseminating safety culture, the information campaign called "Excellent Holidays" ("Vacanze coi fiocchi") organised by the Antartide Centre of Bologna in collaboration with the Federation was found very useful. A brochure was prepared with an invitation to travel with a smile, to put aside haste, to wear a crash helmet, to wear seat belts and to use the special baby's chair designed for small children, and avoid using the mobile phone when driving, to abide by the speed limits and observe the safety distances, avoid dangerous overtaking: in essence to follow the rules of the Highway Code and commonsense to avoid endangering ones own life and the life of others.

The ANIA Foundation has entered into agreement with Walt Disney Italia, again in the field of road education and preventing the risk of accidents. The agreement foresees that their publications, which have a significant circula-

DRIVE PRUDENTLY - ZERO ALCOHOL ALL YOUR LIFE - TRAFFIC POLICE SERVICE SURVEY

Patrols use	627
Check points	270
Vehicles controlled	10,837
People controlled	13,328

Code violations

Total infringements ascertained	3,985
of which:	
Art. 9/bis-ter - Speed competitions	0
Art. 141 - Dangerous driving	62
Art. 142 - Speed limit	1,646
Art. 171 - Safety helmet use	9
Art. 172 - Safety belts use	125
Art. 186 - Drunken driving	1,573
Art. 187 - Driving under the influence of drugs	118

Sanctions applied

Total driving licences withdrawn	2,028
of which:	
Art. 9/bis-ter - Speed competitions	0
Art. 142 - Speed limit	440
Art. 186/2° - Drunken driving	1,555
Art. 187/2° - Driving under the influence of drugs	70
Driving licence points reduced	22,208
Registrations withdrawn	171
Seized vehicles	5

Alcohol tests

Drivers controlled	7,878
Positive drivers	1,551
Free entrance	**1,900**

Source: Home office - Police Department

tion, can be used to disseminate road education culture, also among the young, so that this culture can then be transmitted to adults.

The initiative will include a two-part story published in the weekly "Mickey Mouse" ("Topolino"), the Foundation's tabular publicity, several editorial articles in various publications and above all, the preparation of an educational leaflet as a supplement to the weekly "Mickey Mouse" ("Topolino"), which will be useful to disseminate the rules of good road conduct.

The ANIA Foundation and the insurance sector, through initiatives of this kind and others of the same nature, believe they can make their contribution as insurers to the commitment undertaken by each European Union-member country to reduce the number of road traffic victims by 50%, within 2010.

CLEAR-BOX EXPERIMENT

The Ministry for Productive Activities, with a Decree dated 26th November 2004, concerning the funding of initiatives for the benefit of consumers, has assigned Euro 7 million to ISVAP to implement a pilot project to monitor the vehicle accident rate in at least five regions, by using monitoring devices installed on board the vehicles in question (so-called black boxes or clear-boxes). These devices can contribute to improving road safety: by recording the vehicle's speed, as well as the motoring offences committed, they can represent a way of discouraging bad driving habits.

The project is structured in various stages and also foresees a contribution from the insurance companies. In particular, the right of each insurance company engaging in motor liability insurance to participate individually in the project by entering into agreements with ISVAP, which will entail both collaboration at an organisational level (identifying the insured that are potentially interested in the experiment in each of the 5 sample cities which have been selected, based on parameters which the Monitoring Body will define, providing the addresses of the insured) and the expectation of an incentive to be given to the insured in question to favour their participation; the insured will be selected and contacted directly by ISVAP based on the data provided by the insurance companies.

The incentive foreseen by the ministerial project consists of a discount on the motor liability premium of not less than 10% compared with the tariff that will be in force during each of the contractual periods involved in the experiment. The discount is to be granted once only to the insured that participate in the experiment, which will have a duration of 36 months.

In essence, the insured that are resident in the 5 cities selected (Turin, Milan, Rome, Naples and Palermo) with insurance companies that agree to participate in the experiment and that have been selected based on the data provided by the insurance companies in question, as well as depending on the overall number of clear-boxes available (the total for the entire experiment is estimated to be between 10,000 and 15,000), can go to their insurance agency at the contractual renewal date and benefit from the discounted premium after the device has been installed by the contracting company.

The Association shares both the spirit and the final objective of the overall project. Therefore, the Association is promoting the initiative by fostering the awareness of the motor liability insurance companies.

However, there is a reserve as regards the predetermined fixed minimum discount required from the insurance companies that participate in the project, since it would have been appropriate to allow each single participant to decide the extent of the discount to be applied to the insured participating in the experiment. The expectation of a fixed minimum discount as an incentive, although referred to an institutional experiment, in fact, raises two problems: on the one hand, it is not in line with the logic of the unrestricted formation of prices in motor liability insurance and, on the other hand, the discount could be inconsistent, in numerical terms, with the actual reduction in the costs induced by adopting this new technology.

EUROPEAN COMMISSION INVESTIGATION ON THE CONTRACTING OBLIGATION

The European Commission has requested the Italian Government to provide clarifications regarding the discipline that obliges national and community insurance companies to accept all the motor liability insurance proposals presented thereto and to foresee rates for all risks referable to vehicle traffic.

In particular, the European Commission's attention has focused on the contracting obligation and of establishing rates as such, both with reference to the so-called rate circumvention discipline, in other words infringement of the foregoing obligation achieved with reference to given areas or to a single category of insured.

During the preliminary stage, the commission has consider that the foregoing discipline disrupts the bases of the internal market, in open contrast with the third directive relating to Non-Life insurance (92/49/EEC) and with the orientation of the European Community Court of Justice, according to which the principle of freedom of rates ratified by the community regulations – and breached by discipline under review – is to be applied also to compulsory insurance

and, in any event, prevails over any provision justified on the basis of "a general interest" endorsed by the member country that has issued legislation in contrast with the foregoing principle.

The European commission will assess whether to bring infringement proceedings against our country to verify the compatibility of the discipline in question with community regulations relating to unrestricted determination of the terms and conditions of contract and the rates, as well as aspects of free competition, based on the replies which the Italian Government will provide in relation to the invitation to amend the discipline that obliges contracting.

The technical account results are positive for most part of classes. Except for health, other damages to property, aircraft third party liability and railway craft; the trend of the general third party liability class is particularly negative.

ACCIDENT

Premiums for direct domestic business for the 99 companies operating in this class in 2004 amounted to Euro 2,887 million, slightly increased compared to 2003 (+4.6%) and in line with the development registered in the last five years; premium incidence for this class on the total Non-Life insurance premiums amounts to 8.2%, stable compared to the previous year. The development of this class, even though limited, was fostered by the commercialisation of guarantees sold to motor third party liability insureds to insure driver's injuries.

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 1,587 million (1,549 in 2003), with a 2.5% increase; the ratio to earned premiums was equal to 56.1% (57.0% in 2003), the

ACCIDENT
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	2,208	2,263	2,380	2,530	2,621	2,761	2,887
Changes in premiums reserves (-)	63	42	54	67	47	43	58
Incurred claims (-):	1,323	1,357	1,326	1,420	1,436	1,410	1,435
- incurred claims cost for the current accident year (-)	1,479	1,481	1,476	1,530	1,542	1,549	1,587
- redundancy/deficiency of reserves for those claims incurred in previous accident years	156	124	150	110	106	139	152
Balance of other technical items	-55	-40	-36	-42	-54	-65	-65
Operating expenses (-)	717	722	761	801	821	872	922
Direct technical balance	**50**	**102**	**203**	**200**	**263**	**371**	**407**
Investment income	145	102	109	102	89	101	107
Direct technical account result	**195**	**204**	**312**	**302**	**352**	**472**	**514**
Reinsurance results and other items	-7	-4	-6	-16	-31	-54	-65
Overall technical account result	**188**	**200**	**306**	**286**	**321**	**418**	**449**
Annual % changes in premiums	–	2.5%	5.2%	6.3%	3.6%	5.3%	4.6%
Combined ratio	94.1%	93.0%	89.0%	89.3%	87.1%	83.5%	82.6%
- Expense ratio	32.5%	31.9%	32.0%	31.7%	31.3%	31.6%	31.9%
- Loss ratio:	61.7%	61.1%	57.0%	57.7%	55.8%	51.9%	50.7%
- Loss ratio for the current accident year	69.0%	66.7%	63.5%	62.1%	59.9%	57.0%	56.1%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	7.3%	5.6%	6.5%	4.5%	4.1%	5.1%	5.4%
Technical balance/Earned premiums	**2.3%**	**4.6%**	**8.7%**	**8.1%**	**10.2%**	**13.7%**	**14.4%**
Technical account result/Earned premiums	**9.1%**	**9.2%**	**13.4%**	**12.2%**	**13.7%**	**17.4%**	**18.1%**
Overall technical account result/Earned premiums	**8.8%**	**9.0%**	**13.1%**	**11.6%**	**12.5%**	**15.4%**	**15.9%**
Premiums to total Non-Life premiums ratio (%)	*9.0%*	*8.6%*	*8.5%*	*8.5%*	*8.1%*	*8.1%*	*8.2%*

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

lower value since 1998. Claims experience in this class continues to improve as a consequence of the different policies adopted, mostly at the end of the 90's, on the issue of contractual conditions (introduction of allowances and overdrafts) and of preventive risk evaluation; the progressive decrease in claims frequency for the motor liability and consequently the decrease in claims regarding the cover of driver's injuries, contributed to the improvement in claims experience,

The **incurred claims cost for the financial year**, which includes 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 1,435 million with a 1.7% increase. The ratio to earned premiums was equal to 50.7%, reflecting a decrease compared to 51.9% of 2003.

Operating expenses were equal to Euro 922 million (872 in 2003) 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 31.9%, slightly increasing compared to 31.6% of 2003.

The **technical balance for direct business** was positive at Euro 407 million (371 in 2003). The improvement in the technical balance is mostly imputable to the contained increase of claims cost.

Considering the investment income, the **direct technical account result** was positive at Euro 514 million (472 in 2003).

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 449 million (418 in 2003), representing 15.9% of the premiums (15.4% in 2003).

SICKNESS

Premiums for direct domestic business for the 95 companies operating in this class in 2004 amounted to Euro 1,577 million; the growth rate compared to the previous year (+4.5%) was the lowest one since the year 2000. The incidence on the total Non-Life insurance premiums was equal to 4.5%, a value that remained substantially unvaried since 1998. The growth of this class, even though it was contained, was determined mostly by new acquisitions in collective contracts for corporate insurance policies.

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 1,205 million with a 7.7% increase compared to 2003; the ratio to earned premiums therefore increased from 75.8% in 2003 to 77.2% in 2004.

The **incurred claims cost for the financial year**, which includes 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 1,211 million with a 7.3% increase. The ratio to earned premiums was equal to 77.6%, reflecting an increase compared to 76.5% of 2003.

Operating expenses were equal to Euro 409 million (380 in 2003) 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 25.9% of the premiums, slightly increasing compared to 25.2% of 2003.

The **technical balance for direct business** remains negative at Euro 99 million (-82 in 2003). Also the ratio to premiums recorded a decrease passing from -5.6% in 2003 to -6.3% in 2004.

Considering the investment income, the **result for the direct technical account** was negative at Euro 56 million (-42 in 2003).

SICKNESS
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	1,128	1,164	1,255	1,343	1,426	1,509	1,577
Changes in premiums reserves (-)	46	8	33	29	22	33	17
Incurred claims (-):	860	875	934	998	1,063	1,128	1,211
- incurred claims cost for the current accident year (-)	886	900	947	1,005	1,066	1,118	1,205
- redundancy/deficiency of reserves for those claims incurred in previous accident years	26	25	13	7	3	-10	-6
Balance of other technical items	-31	-18	-18	-23	-33	-50	-39
Operating expenses (-)	308	312	332	347	363	380	409
Direct technical balance	**-117**	**-49**	**-62**	**-54**	**-55**	**-82**	**-99**
Investment income	49	35	40	38	31	40	43
Direct technical account result	**-68**	**-14**	**-22**	**-16**	**-24**	**-42**	**-56**
Reinsurance results and other items	7	-10	4	5	2	3	5
Overall technical account result	**-61**	**-24**	**-18**	**-11**	**-22**	**-39**	**-51**
Annual % changes in premiums	–	3.2%	7.8%	7.0%	6.2%	5.8%	4.5%
Combined ratio	106.9%	102.5%	102.9%	101.8%	101.1%	101.6%	103.5%
- Expense ratio	27.3%	26.8%	26.4%	25.9%	25.4%	25.2%	25.9%
- Loss ratio:	79.5%	75.7%	76.4%	75.9%	75.7%	76.5%	77.6%
- Loss ratio for the current accident year	81.9%	77.9%	77.5%	76.4%	75.9%	75.8%	77.2%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	2.4%	2.2%	1.1%	0.5%	0.2%	-0.7%	-0.4%
Technical balance/Earned premiums	**-10.8%**	**-4.2%**	**-5.1%**	**-4.1%**	**-3.9%**	**-5.6%**	**-6.3%**
Technical account result/Earned premiums	**-6.3%**	**-1.2%**	**-1.8%**	**-1.2%**	**-1.7%**	**-2.8%**	**-3.6%**
Overall technical account result/Earned premiums	**-5.6%**	**-2.1%**	**-1.5%**	**-0.8%**	**-1.6%**	**-2.7%**	**-3.3%**
Premiums to total Non-Life premiums ratio (%)	*4.6%*	*4.4%*	*4.5%*	*4.5%*	*4.4%*	*4.4%*	*4.5%*

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

Taking the balance for reinsurance into due account, the **overall technical account result** was negative at Euro 51 million (-39 in 2003), representing 3.3% of the premiums (2.7% in 2003).

ROLE OF PRIVATE SICKNESS INSURANCE IN MEMBER-COUNTRIES OF THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

The question of adequate and efficient funding of the increasing healthcare expenditure has become more and more of a priority issue on the Agendas of the Governments of industrialised countries. The OECD launched the "OECD Health Project" in 2001, a structured research project on the healthcare systems in the member countries, designed to identify the principal challenges and to suggest solutions to improve the quality of the healthcare services available to the population. In various contributions made to the project, it is discussed whether the development of healthcare insurance can be an effective tool to reduce public healthcare expenditure, at the same time promoting individual choices and efficiency.

The OECD emphasises that the distribution of private healthcare cover can increase the degree of accessibility to healthcare services, especially in countries where broad sections of the population are not protected by the public scheme. There are margins for improvement even when the services are guaranteed for everyone, when for example, the public infrastructures are insufficient or inefficient, with long waiting lists, which in extreme cases prevent the services from being accessed.

The role played by private healthcare insurance is chiefly *duplicative* in the majority of industrialised countries, since it enables the general public to access a private alternative to the services already provided by the public healthcare system. Then, when the insurance policies reimburse the portion of the expenses sustained by the patients (prescription charges) at the time the public healthcare services are used it is said that they play a *complementary* role. Whereas, the role played by private insurance companies is considered to be a *primary* role when they enable groups of the population, not covered by the public service for some reason, to access the basic healthcare service. Finally, private insurance schemes offer a *supplementary* service, covering the costs of services which are not offered by the public system. Naturally, private insurance can operate concurrently within the same country in several roles among those described.

The private insurance companies which offer healthcare insurance coexist with the public healthcare system in very dissimilar institutional and regulatory frameworks. The extension of public cover, the degree of cost-sharing and exemption procedures, which differ in each country, interact intensely on the structure of the sickness policies insurance market, which is frequently already conditioned by direct regulations, both in terms of the offer and the demand.

A schematic description is provided below of the interaction between the public health service and private insurance in the principal industrialised countries that emerges from the survey performed by the OECD.

Italy. 100% of the Italian population has the right to access public healthcare scheme, which guarantees a broad range of healthcare services: basic and specialist medical visits, admissions to hospital, medicines, even dental care. The expense is borne directly by the general public budget. The cost to be borne by the population for using the public services (prescription charges) is quite low: a maximum of Euro 30, with a system of exemptions based on age and income. The private healthcare cover schemes operating in Italy are duplicative (for hospitalisation), complementary (to reimburse prescription charges and for daily hospital cost) and supplementary (for non-reimbursable services, such as dental care); relating to approximately 16% of the population. The healthcare expenditure referable to private cover schemes represents only 0.9% of the total expenditure, again, according to the OECD.

France. All legal residents are entitled to be covered by the public healthcare scheme, which reimburses: basic and specialist medical visits, admissions to hospital, medicines, some dental treatment and eye specialist prescriptions. The prescription charge to be borne by the population consists of the following: 30% of expenses for medical visits, 40% for analyses, up to a maximum of Euro 200 for admissions to hospital, varying for medicines. Private insurance has a complementary function (prescription charges for public services) and a supplementary function ("luxury" services, for example, admission to hospital in a single room, dental treatment and eye specialist prescriptions); they benefit 86% of the population and represent 12.7% of the total healthcare expenditure.

Germany. All subordinate workers are covered by the public healthcare system that offers cover for the following expenses: basic and specialist medical visits, admissions to hospital, medicines, dental care. Independent workers can adhere to the system on a voluntary basis. Subordinate workers with an income that exceeds a given threshold can opt out of the social healthcare fund if they have private insurance policies. The structure of the prescription charges is not particularly expensive for the patients. Private insurance can play a primary role, required for the persons that opt to leave the public system, to cover the expenditure for the same services, plus long-term care, supplementary (in terms of selecting the doctor and luxury services) and complementary; this scheme benefits 18.2% of the population and represent 12.6% of the total healthcare expenditure.

United Kingdom. The national healthcare system covers 100% of residents for the following: basic and specialist medical visits, admissions to hospital, medicines, dental care. The patients do not bear any costs, except for medicines, for which minimum payments are foreseen, however subject to broad exemptions. Private policies offer duplicative cover, for admissions to private facilities, specialist and dental treatment, and supplementary for long-term care, alternative medicines, home help; 10% of the population benefits from

this arrangement, for a cost that represents 3.3% of the total healthcare expenditure.

United States. 25% of the population, selected heterogeneously among the various states based on age and income, is entitled to the public Medicare service which covers basic and specialist medical visits and admissions to hospital. The significant costs to be borne by the patients are governed by a complicated system of minimum prescription charges and excess percentages applied to the expenditure. 72% of the population is protected by primary insurance cover for admissions to hospital, medical and specialist visits, dental treatment, medicines, long-term care, rehabilitation treatment, alternative medicine, luxury services, supplementary and complementary, for the prescription charges of the Medicare scheme; the expenses covered by private insurance represent 35.1% of total healthcare expenditure.

TABLE 1 - COMPARISON BETWEEN PUBLIC AND PRIVATE COVER

	PUBLIC HEALTH EXPEND. AS % OF GDP	PRIVATE HEALTH EXPEND. AS % OF GDP	PUBLIC HEALTH EXPEND. AS % OF TOTAL	PUBLIC SYSTEM COVERAGE	PRIVATE HEALTH INSURANCE AS % OF TOTAL	POPULATION COVERED BY PRIVATE HEALTH INSURANCE	TYPE OF PRIVATE COVER
Australia	6.1	2.8	69.8	100	7.3	45	Duplicative, complementary, supplementary
Austria	5.4	2.4	69.4	99	7.2	0	Primary, complementary, supplementary
Belgium	n.a.	n.a.	72.1	99	n.a.	58	Primary, complementary, supplementary
Canada	6.5	2.7	70.9	100	11.4	65	Supplementary
Czech Republic	6.5	0.6	91.4	100	0.0	–	Supplementary
Denmark	6.9	1.5	82.5	100	1.6	28	Complementary, supplementary
Finland	5.0	1.7	75.1	100	2.6	10	Duplicative, complementary, supplementary
France	7.1	2.3	75.8	100	12.7	86	Complementary, supplementary
Germany	7.9	2.6	75.0	91	12.6	18	Primary, supplementary, complementary
Greece	n.a.	n.a.	56.1	100	n.a.	10	Duplicative, supplementary
Hungary	5.1	1.6	75.5	100	0.2	–	Supplementary
Iceland	7.8	1.5	83.7	100	0.0	–	Supplementary
Ireland	4.7	1.7	73.3	100	7.6	44	Supplementary, duplicative, complementary
Italy	6.0	2.2	73.4	100	0.9	16	Duplicativa, complementary, supplementary
Japan	6.0	1.7	78.3	100	0.3	–	n.a.
Korea	n.a.	n.a.	44.4	100	n.a.	n.a.	Supplementary
Luxembourg	4.9	0.6	87.8	99	1.6	2	Complementary, supplementary
Mexico	2.7	2.9	47.9	45-55	2.5	3	Duplicative, supplementary
The Netherlands	5.5	3.2	63.4	76	15.2	92	Primary, supplementary
New Zealand	6.2	1.8	78.0	100	6.3	35	Duplicative, complementary, supplementary
Norway	6.5	1.1	85.2	100	0.0	–	n.a.
Poland	n.a.	n.a.	70.0	n.a.	n.a.	–	Supplementary
Portugal	n.a.	n.a.	68.5	100	1.5	15	Duplicative, complementary, supplementary
Slovak Republic	5.1	0.6	89.4	100	0.0	–	Supplementary
Spain	5.3	2.1	71.7	100	3.9	13	Primary, duplicative, supplementary
Sweden	n.a.	n.a.	85.0	100	n.a.	–	Complementary, supplementary
Switzerland	5.9	4.7	55.6	100	10.5	80	Supplementary
Turkey	n.a.	n.a.	71.9	66	0.7	2	Complementary, supplementary
United Kingdom	n.a.	n.a.	80.9	100	3.3	10	Duplicative, supplementary
United States	5.8	7.3	44.2	25	35.1	72	Primary, supplementary, complementary

Source: The OECD Health Project
Symbols: "n.a." = figure not available in the search, "-" = negligible value

DEMOGRAPHIC DYNAMICS AND DISTRIBUTION OF HEALTHCARE POLICIES AMONG ITALIAN HOUSEHOLDS

The size of the sickness insurance market in our country is still very limited, despite the fact that households spend a significant amount to use private healthcare services, although benefiting from almost total cover offered by the national healthcare system. Only a very limited portion of private expenditure (0.9% of total expenditure) is in fact referable to the purchase of an insurance policy or the participation in funds and healthcare schemes; whereas,

TABLE 1 - INSURED HOUSEHOLDS

		Insured households	Not Insured households	Total
1991	thousand	901	18,729	19,630
	%	*4.6*	*95.4*	*100*
2002	thousand	1,615	20,034	21,649
	%	*7.5*	*92.5*	*100*

TABLE 2 - SEX OF HEAD OF HOUSEHOLD

Sex of head of household	Composition of population		Insured households (%)	
	1991	2002	1991	2002
Males	72.8	70.3	5.1	8.2
Females	27.2	29.7	3.2	5.7
Total	**100.0**	**100.0**	**4.6**	**7.5**

TABLE 3 - AGE

Age of head of household	Composition of population		Insured households (%)	
	1991	2002	1991	2002
Up to 30 years	11.7	6.4	5.2	7.2
From 31 to 40 years	18.7	20.4	5.5	9.9
From 41 to 50 years	20.7	20.8	6.1	10.3
From 51 to 65 years	24.5	23.5	5.4	8.7
Over 65 years	24.4	29.0	1.5	2.8
Total	**100.0**	**100.0**	**4.6**	**7.5**

TABLE 4 - NUMBER OF MEMBERS OF THE HOUSEHOLD

Number of members	Composition of population		Insured households (%)	
	1991	2002	1991	2002
One	18.2	23.3	3.4	3.3
Two	23.7	26.6	4.5	7.0
Three	23.9	21.7	4.2	10.0
Four	23.6	20.9	6.7	9.5
Five or more	10.6	7.5	3.1	8.8
Total	**100.0**	**100.0**	**4.6**	**7.5**

the majority of private expenditure is sustained directly by individuals (so-called *out of pocket* expenses), above all to gain access to certain services, such as specialist visits and diagnostic tests for which the public service sometimes entails very long waiting lists.

Numerous studies have observed that the structure of Italian households has changed significantly over the last decades. The number of children per couple has decreased, but at the same young family members remain in the family unit longer, thereby slowing down the formation of new families. This scenario tends to change the needs of the younger family members in terms of protection against risks and at the same time changes the intergenerational redistribution dynamics within the household. These represent effects which are potentially important for the demand for insurance, in particular as regards sickness insurance cover.

A quantitative analysis can be performed on the basis of the survey data on the budgets of Italian households performed by the Bank of Italy where the person interviewed was asked if he/she had taken out private healthcare insurance, defined generally as accident and sickness insurance.

Healthcare insurance (accident and sickness)

F06. In 2002, did you, or somebody in your family, underwrite a private healthcare insurance?

– Yes 1
– Yes ..... 2 → ***Question F08***

F07. What amount did your family pay for this police, in 2002?

€ |.....|.....|·|.....|.....|.....|

How many households are insured

1.6 million households had taken out private healthcare insurance in 2002, according to the survey, 7.5% of the total, compared with 0.9 million and 4.6%, respectively, in 1991 (table 1). According to the survey, the total value of premiums paid in 2002, amounted to Euro 980 million, compared with Euro 405 million in 1991[1]. The average amount paid per insured household increased from Euro 405 in 1991 to Euro 607 in 2002.

[1] The total value of premiums for the sickness class in 2002 amounted to Euro 1.4 billion (Euro 570 million in 1991), whereas the total value for the personal injury class amounted to Euro 2.6 billion (Euro 1.6 billion in 1991). Therefore, it would appear that the survey underestimates the situation significantly, but approximates the time-related dynamics fairly accurately. A possible explanation of the underestimate lies in the fact that the question asked in the survey refers to healthcare insurance and that it is only specified in the detail, that personal injury cover is also to be considered: in fact, the deviation is much more limited if only sickness insurance is considered.

Households with a male head of the family take out more insurance than households with a female head of the family (table 2).

As regards the age of the head of the family, it may be noted how the demand for healthcare policies is higher in the case of households where the principal breadwinner is aged between 41 and 50 (table 3). This result can be explained by the fact that households tend to take out insurance when, on the one hand, they start to have children and, on the other hand, when some members of the household reach an age when a number of acute pathologies tend to occur more frequently. An alternative explanation could be due to the fact that the services financed by the healthcare policy are of better quality compared with the services provided by the public healthcare system and that the quality of the healthcare treatment is perceived more clearly with experience and with the knowledge that in the future it will be probably necessary to deal with other healthcare-related expenses. The significant downturn in the penetration of healthcare policies for the last age bracket (over 65) can be explained by the fact that, in general, the healthcare insurance terms and conditions are less favourable for the elderly. It can be noted how the change in the age structure of Italian households has not impacted the distribution of healthcare insurance.

The purchase of healthcare insurance policies is more frequent in medium-large size households and would appear to be correlated with the higher value of medical expenses expected due to the greater number of children. Also in this case the (limited) changes in the structure of households recorded between 1991 and 2002 have not had an impact on the demand for healthcare policies (table 4).

The head of the family's level of education has a positive influence on the distribution of healthcare policies (table 5). This aspect may be due either to a positive correlation between income and the level of education, or with a greater familiarity with insurance products due to a higher cultural level. The marked increase in the level of education recorded between 1991 and 2002 has contributed positively to the growth of the healthcare policy market.

Territorial variables

The percentage of households that have taken out a healthcare insurance policy is much higher in the North of the country compared with the Centre and, above all with the South (table 6). The difference does not only refer to the penetration rate but also its evolution. By comparing the data for 2002 with the data for 1991 it is found that the distribution of these products was more rapid in the North compared with the Centre, whereas it even decreased in the South.

TABLE 5 - DEGREE OF SCHOOLING

Degree of schooling	Composition of population		Insured households (%)	
	1991	2002	1991	2002
None	7.9	7.2	0.2	0.3
Low elementary	32.4	25.3	2.1	2.6
Medium elementary	26.1	27.6	4.1	6.2
High school	26.0	30.6	6.8	12.5
College	7.6	9.3	14.2	13.2
Total	**100.0**	**100.0**	**4.6**	**7.5**

TABLE 6 - GEOGRAPHICAL AREA

Geographical area	Composition of population		Insured households (%)	
	1991	2002	1991	2002
North	47.6	46.5	6.4	12.2
Center	20.1	19.9	4.8	6.8
South	32.3	33.5	1.8	1.3
Total	**100.0**	**100.0**	**4.6**	**7.5**

TABLE 7 - JOB TYPE

Job type	Composition of population		Insured households (%)	
	1991	2002	1991	2002
Blue collar	20.8	19.0	2.7	5.3
White collar	17.7	18.0	4.3	8.6
Manager/Director	7.8	4.6	8.0	15.7
Self employed	19.1	17.6	11.2	16.0
Pensioner	33.4	37.7	1.4	3.6
Other	1.3	3.1	1.3	0.6
Total	**100.0**	**100.0**	**4.6**	**7.5**

TABLE 8 - % DISTANCE FROM MEAN

% Distance from mean	Composition of population		Insured households (%)	
	1991	2002	1991	2002
Minor of -64%	10.0	11.9	0.0	0.7
Between -64 and -50	10.0	12.1	1.2	1.0
Between -50 and -38	10.0	10.6	2.6	2.2
Between -38 and -27	10.0	8.7	2.1	4.6
Between -27 and -14	10.0	8.8	2.5	6.5
Between -14 and +1	10.0	9.8	3.4	6.6
Between +1 and +20	10.0	9.6	4.5	10.1
Between +20 and +42	10.0	9.1	7.9	11.0
Between +42 and +76	10.0	8.2	5.8	14.3
Greater of 76	10.0	11.2	15.9	20.2
Total	**100.0**	**100.0**	**4.6**	**7.5**

TABLE 9 - FINANCIAL ASSET

Type of Asset	Composition of population		Insured households (%)	
	1991	2002	1991	2002
Bank account	81.6	78.3	5.6	9.4
Government bonds	24.3	9.2	7.9	12.1
Corporate bonds	1.6	6.0	22.4	18.7
Investment funds	2.6	11.2	21.1	17.6
Shares	3.7	9.9	22.8	22.4
Managed funds	1.0	2.0	16.2	28.2
Life insurance	16.7	18.0	13.8	16.2
Total	**100.0**	**100.0**	**4.6**	**7.5**

Social-economic variables

Healthcare policies are more common among Executive Managers (for which a significant increase is recorded between 1991 and 2002) and among self employed (table 7). The foregoing association could be due to the fact that these categories normally have a higher income. In the case of independent workers, the greater income volatility and the more limited number of guarantees in the case of disablement or sickness could explain the greater recourse to the use these policies.

Table 8 illustrates how the income distribution has changed between 1991 and 2002 and the distribution of demand for insurance depending on the income bracket. It is quite apparent how healthcare insurance cover is concentrated among households with an above-average income.

A greater number of healthcare policies is to be found in households that invest in less liquid financial assets (table 9). The policy would appear to serve to address unexpected needs which would otherwise require major cash payments.

VALUATION MODELS FOR AGGRAVATED RISKS IN SICKNESS INSURANCE

In essence, insurance represents mutuality and the insurance company, in its capacity as the relative organiser, must proceed to analyse the risks in relation to the probability of the event's occurrence and of the relative cost, by creating consistent categories so that the mutuality ratio among the insured is fair.

Estimating the probability of resorting to healthcare services and the relative cost is very complicated in the case of sickness insurance (admissions to hospital, specialist visits, diagnostic examinations), in particular in the case of potential insured already suffering from serious pathologies, also because of the limited availability of correct quantitative information both from the medical and from the statistical point of view.

Therefore, it is very difficult for insurance companies to form consistent risk categories. Part of the difficulties depends on the fact that the costs distributions are very asymmetrical and variability is high compared with the average value: in other words, there are many patients already suffering from serious pathologies with medium/low costs and a few patients with high or very high costs. This distribution shape depends significantly on the subjective evaluation of the effectiveness and efficiency of the treatment and the use of the healthcare technologies by each patient/insured and by the doctor in charge of the case, as well as depending on the pathology.

Insurance companies frequently limit the cover for these reasons, excluding from the insurance cover treatments that are a direct consequence of previous pathologies. The correct solution from the point of view of insurance technique, however penalises many patients who would even be prepared to pay a higher premium to have the benefit of insurance cover.

The sickness insurers have financed a research project performed by the Epidemiology Department of the Local Health Authority in Rome E for the purpose of analysing the methodological aspects in greater detail and to have reliable preliminary quantitative estimates of the aggravated risks scenario. The project is based on data relating to 8 million hospitalised patients in the Lazio and Emilia Romagna Regions between 1997 and 2001. The study focuses on six serious pathologies:

– acute myocardial heart attack;
– diabetes mellitus;
– arterial hypertension;
– malignant breast cancer;
– malignant colon-rectum cancer;
– malignant prostrate cancer.

The work has the following objectives:

1) in-depth study of the methodological aspects of how to measure correctly the costs associated with the aggravated risks in the hospital environment;
2) to estimate the costs over the three years after the occurrence of the pathology and compare these costs with the costs associated with a "healthy" patient with analogous characteristics of age and sex;
3) to estimate a forecast model for the costs, considering the patient's characteristics.

The pathology associated with the highest "theoretical hospital cost" (obtained by multiplying the number of days spent in hospital during the three years after the occurrence of the pathology by the costs of hospitalisation deduced from the Ministerial tariffs published in 1997) refers to the acute myocardial heart attack, which has an average cost 7 times higher compared with the cost for "healthy" patients during the first follow-up year (2.3 and 2.0 times in the following years); this is followed by the malignant colon-rectum cancer with a cost 6.3 times higher in the first year (3.0 and 2.6 times in the following years). The costs associated with hypertension and prostrate cancer are lower, but however, are approximately two times compared with the costs sustained in the case of "healthy" patients.

AVERAGE HOSPITAL COST WITHIN 36 MONTHS OF FOLLOW-UP COMPARISON WITH SAMPLE OF HEALTHY POPULATION
Euro

Pathology		Years of follow-up I year	II year	III year
Acute myocardial heart attack	with pathology	4,214	1,524	1,395
	healthy	566	672	708
	(ratio)	*(7.4)*	*(2.3)*	*(2.0)*
Diabetes mellitus	with pathology	1,517	1,539	1,524
	healthy	559	660	879
	(ratio)	*(2.7)*	*(2.3)*	*(1.7)*
Arterial hypertension	with pathology	1,280	1,317	1,309
	healthy	567	670	705
	(ratio)	*(2.3)*	*(2.0)*	*(1.9)*
Malignant breast cancer	with pathology	2,206	973	1,124
	healthy	457	530	561
	(ratio)	*(4.8)*	*(1.8)*	*(2.0)*
Malignant colon-rectum cancer	with pathology	3,796	2,163	1,961
	healthy	605	722	754
	(ratio)	*(6.3)*	*(3.0)*	*(2.6)*
Malignant prostrate cancer	with pathology	1,565	1,285	1,210
	healthy	734	897	561
	(ratio)	*(2.1)*	*(1.4)*	*(2.2)*

Epidemiology Department of the Local Health Authority in Rome E

As regards the costs forecast models, the study concludes that it is: possible to quantify the average costs for the "aggravated risks", with reasonable accuracy and also to identify sub-groups with average costs which are significantly different among each other. According to the study, the problem is that it remains very difficult to foresee if the costs during the three following years will be zero, intermediate or high, due to the individual characteristics of the patient.

This situation makes it very difficult to insure the risks, due to the well-known problem of adverse selection or anti-selection, in other words, it would tend to insure only patients that are considered to be in the worst conditions.

The problem of the adverse selection is reduced in the framework of the collective form of private insurance, as for example, the insurance taken out by the employer in favour of its employees.

Alongside methodological refinements, such as the need to supplement the data for admissions to hospital with data on other uses of healthcare services (specialist services, medicines, rehabilitation, home help), it is important to reflect how to use this information to improve the offer of sickness products, also of the collective type.

RAILWAY CRAFT

Premiums for direct domestic business for the 21 insurance companies operating in this class amounted to Euro 13 million in 2004 (+8.9% compared to 2003).

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 11 million (9 in 2003), with a 15.6% increase; the ratio to earned premiums was equal to 86.6%, reflecting an increase compared to 73.5% of 2003.

RAILWAY CRAFT
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	7	8	9	10	10	12	13
Changes in premiums reserves (-)	4	-1	2	0	2	0	1
Incurred claims (-):	10	4	7	7	12	2	8
- incurred claims cost for the current accident year (-)	10	7	11	11	14	9	11
- redundancy/deficiency of reserves for those claims incurred in previous accident years	0	3	4	4	2	7	3
Balance of other technical items	1	0	1	0	1	1	1
Operating expenses (-)	1	2	2	2	2	2	3
Direct technical balance	**-7**	**3**	**-1**	**1**	**-5**	**9**	**2**
Investment income	0	1	0	1	1	1	1
Direct technical account result	**-7**	**4**	**-1**	**2**	**-4**	**10**	**3**
Reinsurance results and other items	6	0	-1	-3	-1	-4	-5
Overall technical account result	**-1**	**4**	**-2**	**-1**	**-5**	**6**	**-2**
Annual % changes in premiums	–	10.9%	15.4%	6.6%	8.0%	20.5%	8.9%
Combined ratio	308.2%	63.8%	112.3%	86.5%	151.0%	32.9%	82.2%
- Expense ratio	12.3%	21.4%	18.2%	16.3%	16.4%	13.9%	19.3%
- Loss ratio:	295.9%	42.4%	94.1%	70.2%	134.6%	19.0%	63.0%
- Loss ratio for the current accident year	304.9%	77.1%	156.0%	114.0%	161.5%	73.5%	86.6%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	9.0%	34.8%	61.9%	43.8%	26.9%	54.5%	23.6%
Technical balance/Earned premiums	**-222.7%**	**38.8%**	**-16.4%**	**13.2%**	**-54.4%**	**67.5%**	**14.2%**
Technical account result/Earned premiums	**-214.2%**	**39.7%**	**-15.2%**	**16.5%**	**-41.7%**	**74.6%**	**23.1%**
Overall technical account result/Earned premiums	**-31.4%**	**43.7%**	**-28.4%**	**-10.8%**	**-56.6%**	**43.2%**	**-15.4%**
Premiums to total Non-Life premiums ratio (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

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

The **incurred claims cost for the financial year**, which includes 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 8 million (2 in 2003) with a 226.1% increase. The ratio to earned premiums was equal to 63.0%, reflecting an increase compared to 19.0% of 2003. Due to the contained dimensions of this class of activity and to the nature of the covered risks, characterised by a low frequency and high amounts, the incurred claims cost is subject to relevant fluctuations in time: the maximum value registered in the period 1998-2004 was equal to 295.9% in 1998 whereas the minimum value was equal to 19.0% in 2003.

Operating expenses were equal to Euro 3 million (2 in 2003) 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 to premiums was equal to 19.3% (13.9% in 2003).

The **technical balance for direct business** was positive at Euro 2 million (9 in 2003).

Considering the investment income, the **result for the direct technical account** was positive at Euro 3 million (10 in 2003).

Taking the balance for reinsurance into due account (that contributed in a negative way), the **overall technical account result** became negative at Euro 2 million (15.4% of premiums) whereas it was positive and equal to Euro 6 million in 2003 (43.2% of premiums).

AIRCRAFT

This class includes insurance cover against all damage to aircraft.

Premiums for direct domestic business for the 28 companies operating in this class in 2004 amounted to Euro 57 million, slightly decreasing compared to the Euro 64 million of 2003; premium incidence for this class on the total Non-Life insurance premiums was equal to 0.2%, a stable value since 2001. The slight premium decrease seems to be due to premium rates reduction applied to airlines, also due to the favourable conditions in the reinsurance market.

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 59 million (49 in 2003), with a 19.5% increase; the ratio to earned premiums was equal to 98.8%, reflecting an increase compared to 78.2% of 2003.

The **incurred claims cost for the financial year**, which includes 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 67 million (38 in 2003), with a 74.9% increase. The ratio to earned premiums

was equal to 112.7%, increasing compared to 60.9% of 2003. For this branch as well as for the railway craft class, the variability of the incurred claims cost was linked, on one hand, to the contained dimensions of the premium income and, on the other hand, to the characteristics of the covered risks.

Operating expenses were equal to Euro 9 million (10 in 2003) 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, substantially stable compared to value of 2003 (15.7%).

The **technical balance for direct business** was negative at Euro 16 million (it was positive at Euro 13 million in 2003).

AIRCRAFT
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	66	71	117	64	64	64	57
Changes in premiums reserves (-)	14	-5	19	-1	-19	1	-3
Incurred claims (-):	64	77	99	36	79	38	67
- incurred claims cost for the current accident year (-)	71	89	87	31	31	49	59
- redundancy/deficiency of reserves for those claims incurred in previous accident years	7	12	-12	-5	-48	11	-8
Balance of other technical items	-4	0	0	0	-3	-2	0
Operating expenses (-)	11	10	13	10	10	10	9
Direct technical balance	**-27**	**-11**	**-14**	**19**	**-9**	**13**	**-16**
Investment income	1	1	2	1	1	1	0
Direct technical account result	**-26**	**-10**	**-12**	**20**	**-8**	**14**	**-16**
Reinsurance results and other items	15	4	1	-24	-9	-13	30
Overall technical account result	**-11**	**-6**	**-11**	**-4**	**-17**	**1**	**14**
Annual % changes in premiums	–	7.4%	65.6%	-45.5%	-0.2%	0.3%	-10.9%
Combined ratio	139.6%	115.8%	111.7%	71.4%	111.3%	76.6%	128.3%
- Expense ratio	16.2%	13.9%	11.2%	15.8%	15.3%	15.7%	15.6%
- Loss ratio:	123.4%	101.9%	100.5%	55.6%	96.0%	60.9%	112.7%
- Loss ratio for the current accident year	136.1%	117.3%	88.5%	48.2%	37.1%	78.2%	98.8%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	12.7%	15.4%	-12.0%	-7.4%	-58.8%	17.2%	-13.9%
Technical balance/Earned premiums	**-52.4%**	**-14.9%**	**-14.1%**	**28.6%**	**-11.1%**	**21.1%**	**-27.4%**
Technical account result/Earned premiums	**-50.0%**	**-13.8%**	**-12.5%**	**30.5%**	**-9.1%**	**22.9%**	**-27.0%**
Overall technical account result/Earned premiums	**-20.7%**	**-8.4%**	**-10.7%**	**-5.6%**	**-20.8%**	**1.9%**	**24.3%**
Premiums to total Non-Life premiums ratio (%)	*0.3%*	*0.3%*	*0.4%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*

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

Considering the investment income, the **direct technical account result** was negative at Euro 16 million (it was positive and equal to Euro 14 million in 2003).

Other Non-Life insurance classes

Taking the balance for reinsurance into due account (that contributed in a positive way), the **overall technical account result** became positive at Euro 14 million (1 in 2003), representing 24.3% of the premiums (1.9% in 2003).

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 52 insurance companies operating in this class amounted to Euro 337 million in 2004, increasing (+14.9%) compared to 2003; the ratio to the overall Non-Life insurance premiums was equal to 1.0%, a stable value since 1998.

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 191 million (288 in 2003), with a 33.9%

SHIPS
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	244	220	224	279	318	293	337
Changes in premiums reserves (-)	4	-5	25	7	5	23	-2
Incurred claims (-):	222	293	283	302	213	286	132
- incurred claims cost for the current accident year (-)	227	243	270	310	224	288	191
- redundancy/deficiency of reserves for those claims incurred in previous accident years	5	-50	-13	8	11	2	59
Balance of other technical items	-4	-1	-3	-2	-1	-3	-2
Operating expenses (-)	48	44	45	53	51	52	61
Direct technical balance	**-34**	**-113**	**-132**	**-85**	**48**	**-71**	**144**
Investment income	8	7	7	9	7	8	7
Direct technical account result	**-26**	**-106**	**-125**	**-76**	**55**	**-63**	**151**
Reinsurance results and other items	-3	92	119	64	-47	65	-114
Overall technical account result	**-29**	**-14**	**-6**	**-12**	**8**	**2**	**37**
Annual % changes in premiums	–	-9.8%	1.9%	24.7%	13.9%	-7.7%	14.9%
Combined ratio	112.1%	150.6%	162.2%	130.0%	84.2%	123.8%	56.9%
- Expense ratio	19.8%	19.9%	19.9%	18.9%	16.0%	17.9%	18.1%
- Loss ratio:	92.3%	130.6%	142.2%	111.1%	68.2%	106.0%	38.8%
- Loss ratio for the current accident year	94.7%	108.1%	135.4%	114.2%	71.6%	106.8%	56.2%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	2.4%	-22.6%	-6.8%	3.1%	3.3%	0.8%	17.4%
Technical balance/Earned premiums	**-14.3%**	**-50.2%**	**-66.3%**	**-31.3%**	**15.2%**	**-26.3%**	**42.6%**
Technical account result/Earned premiums	**-10.7%**	**-47.4%**	**-62.6%**	**-28.1%**	**17.5%**	**-23.4%**	**44.4%**
Overall technical account result/Earned premiums	**-11.9%**	**-6.4%**	**-3.1%**	**-4.3%**	**2.5%**	**0.9%**	**11.0%**
Premiums to total Non-Life premiums ratio (%)	*1.0%*	*0.8%*	*0.8%*	*0.9%*	*1.0%*	*0.9%*	*1.0%*

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

decrease; the ratio to earned premiums was equal to 56.2%, reflecting a decrease compared to 106.8% of 2003.

The **incurred claims cost for the financial year**, which includes 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 132 million (286 in 2003), with a 54.0% decrease. The ratio to earned premiums was equal to 38.8%, reflecting a decrease compared to 106.0% of 2003. Also this class is characterized by an elevated variability of claims experience.

Operating expenses were equal to Euro 61 million (52 in 2003) 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 18.1% of the premiums (17.9% in 2003).

The **technical balance for direct business** was positive at Euro 144 million (-71 in 2003).

Considering the investment income, the **direct technical account result** was positive at Euro 151 million (-63 in 2003).

Taking the balance for the reinsurance into due account (that contributed in a negative way), the **overall technical account result,** although remaining positive, decreased to Euro 37 million (2 in 2003), representing 11.0% of the premiums (0.9% in 2003).

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 61 insurance companies operating in this class were equal to Euro 283 million in 2004, slightly decreasing(-3.2%) compared to 2003 because of a reduction of premium rates; also the incidence on the overall Non-Life insurance premiums was slightly decreasing(from 0.9% of 2003 to 0.8% of 2004; it was equal to 1.3% in 1998).

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 190 million, substantially stable compared to 2003 (Euro 192 million); however, because of a premiums income decrease, loss ratio for the current accident year was slightly increasing compared to 2003 (from 65.5% to 66.9%).

The **incurred claims cost for the financial year**, which includes 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 153 million (132 in 2003), with a 15.5% increase. The ratio to earned premiums was equal to 53.8%, reflecting an increase compared to 45.0% of 2003. This increase, partly due to the growth of the loss ratio for the current accident year, was mostly the result of a reduced sufficiency (compared to 2003) of reserved amounts for claims occurred the previous years.

Operating expenses were equal to Euro 82 million (89 in 2003) 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 (decreasing compared to 30.6% of 2003 but in line with the values of 2001 and 2002).

GOODS IN TRANSIT
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	322	289	305	323	321	292	283
Changes in premiums reserves (-)	-30	-5	-1	-1	0	-2	-1
Incurred claims (-):	226	216	217	216	178	132	153
- incurred claims cost for the current accident year (-)	240	245	236	256	239	192	190
- redundancy/deficiency of reserves for those claims incurred in previous accident years	14	29	19	40	61	60	37
Balance of other technical items	-6	0	-3	-4	-5	-3	-1
Operating expenses (-)	102	91	91	94	93	89	82
Direct technical balance	**18**	**-13**	**-5**	**10**	**45**	**70**	**48**
Investment income	16	10	11	11	8	9	8
Direct technical account result	**34**	**-3**	**6**	**21**	**53**	**79**	**56**
Reinsurance results and other items	3	22	9	-14	-12	-42	-20
Overall technical account result	**37**	**19**	**15**	**7**	**41**	**37**	**36**
Annual % changes in premiums	–	-10.4%	5.5%	6.1%	-0.8%	-9.0%	-3.2%
Combined ratio	95.9%	104.7%	100.7%	95.8%	84.6%	75.6%	83.0%
- Expense ratio	31.7%	31.4%	29.7%	29.2%	29.0%	30.6%	29.2%
- Loss ratio:	64.2%	73.3%	71.0%	66.6%	55.6%	45.0%	53.8%
- Loss ratio for the current accident year	68.1%	83.1%	77.2%	79.0%	74.4%	65.5%	66.9%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	3.9%	9.8%	6.2%	12.4%	18.9%	20.5%	13.0%
Technical balance/Earned premiums	**5.1%**	**-4.5%**	**-1.7%**	**3.0%**	**14.1%**	**23.7%**	**16.8%**
Technical account result/Earned premiums	**9.6%**	**-1.2%**	**1.8%**	**6.4%**	**16.7%**	**26.8%**	**19.7%**
Overall technical account result/Earned premiums	**10.5%**	**6.4%**	**5.0%**	**2.2%**	**12.8%**	**12.7%**	**12.9%**
Premiums to total Non-Life premiums ratio (%)	*1.3%*	*1.1%*	*1.1%*	*1.1%*	*1.0%*	*0.9%*	*0.8%*

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

The **technical balance for direct business** was positive at Euro 48 million but decreasing compared to Euro 70 million of 2003.

Considering the investment income, the **direct technical account result** was positive at Euro 56 million (79 in 2003).

Taking the balance for reinsurance into due account (that contributed in a negative way), the **overall technical account result** was positive at Euro 36 million in line with the one registered in 2003 (Euro 37 million), and with an incidence on premiums substantially unvaried (12.9%).

ANIA DATABASE RELATING TO TRANSPORTED GOODS

The insurance sector relating to "Goods" refers to the coverage of risks associated with losses or damage to goods stowed on board vessels or aircraft or loaded on vehicles, however occurring (frequently, this sector is divided into "sea goods" and "land goods"). ANIA has prepared a statistical survey designed to analyse the technical trends of the claim events for the sector referred to the policy underwriting year (or "U/W Year") in order to satisfy market requirements of having available up-to-date information on a very specific sector (in 2004 the premiums income for this insurance class represented 1.1% of the total non-insurance classes). According to this principle, the evolution of claim events with time (the so-called run-off) is monitored based on the year in which the policy was issued (and not based on the date the claim event occurred, which instead is the practice adopted for other Non-Life insurance classes).

Based on the data collected by ANIA (the insurance companies participating in the statistics represented more than 75% of the total premiums) and by referring to only premiums unwritten in 2003 (table 1), it was found that 40% of the payment related to the insurance of goods transported by land (road, rail or post), whereas 27% of the premiums related to sea transport. The impact of the premiums income relating to goods transported by air was very limited (only 2% of total premiums), whereas the premiums to cover the land carrier's third party liability represented 21% of premiums (which covers the loss and damage to goods delivered to the carrier to be transported from the time the goods are received up to the time the goods are delivered to the addressee). These percentages were similar to the percentages referred to 2002.

TABLE 1 - DISTRIBUTION OF INSURANCE COVERS ACCORDING TO TRANSPORT WAY

Type of insurance	Distribution (%) Premiums per U/W Year 2003	Distribution (%) Premiums per U/W Year 2002
Insurance of goods transported by land	39.6%	40.3%
Insurance of goods transported by sea	26.8%	27.2%
Insurance of goods transported by air	1.8%	1.7%
Insurance to cover the land carrier's third party liabiality	21.3%	19.0%
Other	10.5%	11.8%
Total	**100.0%**	**100.0%**

TABLE 2

EVOLUTION OF AVERAGE CLAIMS COST PER U/W YEAR

	Development year					
U/W Year	1	2	3	4	5	6
1998	6,577	5,962	5,658	5,717	5,724	5,739
1999	7,815	5,607	5,283	5,228	5,052	
2000	4,816	3,375	3,228	3,165		
2001	5,567	4,403	3,863			
2002	5,515	4,413				
2003	5,550					

Amounts in Euro

TABLE 3

LOSS RATIO PER U/W YEAR (%)

	Development year					
U/W Year	1	2	3	4	5	6
1998	54.3%	77.6%	79.9%	81.7%	82.1%	82.3%
1999	60.8%	74.4%	75.0%	75.1%	72.8%	
2000	48.3%	67.0%	67.4%	66.7%		
2001	49.6%	62.6%	58.9%			
2002	44.6%	56.5%				
2003	52.1%					

Furthermore, the ANIA databank enables an assessment to be made, for each underwriting year, of the evolution in time for the average cost of claim events relating to the principal forms of insurance (the following forms of insurance are included, in addition to the forms detailed in table 1: "Inter-modal land or mixed operator liability", "Air/sea inter-modal operator liability", "Stock", "Exhibitions"). This evolution is illustrated in table 2 referred to the total forms of insurance offered.

The average cost of claim events, assessed in the first year of development, remained stable over the last three U/W Years (namely, from 2001 to 2003), corresponding to a value of approximately Euro 5,500. The insurance class is characterised by the fact that in the second year of development the average cost of claim events decreased due to the effect of the deferred claim events which should have a lower average cost. Based on experience of the farther U/W Years (1998 and 1999) it is found that the cost of the claim events becomes more stable from the third year onwards. Therefore, it can be inferred that in more recent years (2001-2003) the final average cost of claim events should not exceed Euro 4,000 (Euro 5,500 in 1998).

The analysis of the loss ratios relating to the U/W Year, namely the ratio between the cost of claim events and the premiums, shows a significant increase between the first and second year of observation (namely, progressively as the claim events develop) and tends to stabilise from the third year. The loss ratio for the first year (namely, at the time the claim events are reported) varies between 45% and 60%; the value at last cost (namely, after three years development) appears to improve (from approximately 82% in 1998 to values approaching 70% in 2000). A sufficiently long series of historical data is not yet available for the more recent U/W Years, but the first year loss ratio in 2003 appears to have deteriorated.

FOODSTUFFS AND THE COLD CHAIN: NOTIONS, INSURANCE AND PREVENTION

ANIA has availed of the suggestions from qualified outside operators (producers, transport companies, experts,) in the framework of the global transport safety project, and has prepared a manual that collects information relating to the classification, the correct preservation and the distribution systems of perishable foodstuffs. The objective is to offer practical guidelines and recommendations to the insurance market and to the operators of the sector designed to prevent damage in the preservation processes of foodstuffs, the correct risk assessment and the efficient management of the claim event.

The manual is available on the ANIA Internet web site and provides information and knowledge relating to the following topics:

- regulatory reference principals and preservation techniques to be adopted during transportation;
- transport-related problems (land, sea and air) also in connection with the technological characteristics of the insulated containers and refrigerator systems;
- preparation criteria of the goods and of the means of transport and packing and stowage procedures;
- insurance aspects;
- essential documentation to execute the transport service.

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 by the 80 companies operating in this class were equal to Euro 2,157 million in 2004 (+5.9% compared to 2003), with a 6.1% incidence on the total Non-Life insurance premiums, a value that is substantially unvaried since the year 2000. The growth of this class, even though it is contained, is linked to individual/private risks (which represent about half of the premium income), and to risks deriving from the commercial sector.

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 1,095 million, decreasing (-18.8%) compared to 2003 (Euro 1,348 million); the reduction of claims, thanks to the reduction of catastrophe claims which had characterised 2003, leads to a relevant improvement of the loss ratio for the current accident year, passing from 68.9% in 2003 to 53.6% in 2004.

For the same reason, the **incurred claims cost for the financial year**, which includes 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 strongly decreasing (from Euro 1,196 million in 2003 to Euro 955 million in 2004), determining also a reduction of the ratio on earned premiums (from 61.1% in 2003 to 46.8% in 2004).

Other Non-Life insurance classes

Operating expenses were equal to Euro 646 million (624 in 2003) 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 29.9% of the premiums, decreasing compared to 30.7% of 2003.

The **technical balance for direct business** was positive at Euro 387 million (98 in 2003).

Considering investment income, the **direct technical account result** was equal to Euro 473 million (176 in 2003).

FIRE AND NATURAL FORCES
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	1,660	1,657	1,701	1,771	1,978	2,037	2,157
Changes in premiums reserves (-)	141	48	41	77	77	80	114
Incurred claims (-):	862	818	1,167	899	1,195	1,196	955
- incurred claims cost for the current accident year (-)	1,027	984	1,259	1,041	1,310	1,348	1,095
- redundancy/deficiency of reserves for those claims incurred in previous accident years	165	166	92	142	115	152	140
Balance of other technical items	-53	-42	-44	-45	-44	-39	-55
Operating expenses (-)	533	526	534	550	592	624	646
Direct technical balance	**71**	**223**	**-85**	**200**	**70**	**98**	**387**
Investment income	105	73	83	72	57	78	86
Direct technical account result	**176**	**296**	**-2**	**272**	**127**	**176**	**473**
Reinsurance results and other items	-77	-29	210	5	-10	-166	-328
Overall technical account result	**99**	**267**	**208**	**277**	**117**	**10**	**145**
Annual % changes in premiums	–	-0.2%	2.6%	4.2%	11.7%	3.0%	5.9%
Combined ratio	88.9%	82.5%	101.7%	84.1%	92.8%	91.7%	76.7%
- Expense ratio	32.1%	31.7%	31.4%	31.0%	29.9%	30.7%	29.9%
- Loss ratio:	56.8%	50.8%	70.3%	53.1%	62.9%	61.1%	46.8%
- Loss ratio for the current accident year	67.6%	61.2%	75.8%	61.4%	68.9%	68.9%	53.6%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	10.8%	10.3%	5.5%	8.4%	6.0%	7.8%	6.8%
Technical balance/Earned premiums	**4.7%**	**13.8%**	**-5.1%**	**11.8%**	**3.7%**	**5.0%**	**18.9%**
Technical account result/Earned premiums	**11.6%**	**18.4%**	**-0.1%**	**16.0%**	**6.7%**	**9.0%**	**23.2%**
Overall technical account result/Earned premiums	**6.5%**	**16.6%**	**12.6%**	**16.3%**	**6.2%**	**0.5%**	**7.1%**
Premiums to total Non-Life premiums ratio (%)	*6.8%*	*6.3%*	*6.1%*	*5.9%*	*6.1%*	*6.0%*	*6.1%*

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

Taking the reinsurance balance into due account (that contributed in a very negative way), the **overall technical account result** was equal to Euro 145 million (it was just 10 in 2003), representing 7.1% of the premiums (0.5% in 2003).

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 83 insurance companies operating in the branch were equal to Euro 2,289 million in 2004 with a growth (+6.1%) in line with the average yearly growth registered since 1998. Premium incidence as well on the overall insurance premiums (6.5%) remained substantially unvaried since 1998. The trend in slight growth for premium income is due to the development of theft policies (mostly for the commercial sector) and of policies regarding technological risks, for which the effects of the Merloni law seem to persist, on the basis of which the public works contractor is obliged to present determined insurances.

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 1,653 million, strongly increasing (21.5%) compared to Euro 1,360 million of 2003; it determined a loss ratio for the current accident year increase passing from 65.0% of 2003 to 76.5% of 2004.

The worsening for the claims experience for the current accident year affected also the **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years. This cost was equal to Euro 1,527 million in 2004 (1,204 in 2003), with a 26.8% increase. The ratio to earned premiums was equal to 70.7%, reflecting a strong growth if compared to 57.5% of 2003.

Operating expenses were equal to Euro 661 million (627 in 2003) 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, slightly decreasing if compared to 29.0% of 2003.

Because of claims experience for the current accident year increase, the **technical balance for direct business** was negative at Euro 69 million, while it was positive and equal to Euro 228 million in 2003.

Considering investment income, the **direct technical account result** was positive at Euro 16 million (305 in 2003).

Other Non-Life insurance classes

Taking the reinsurance balance into due account (that contributed in a very negative way), the **overall technical account result** was negative at Euro 48 million (2.2% of premiums), while it was positive and equal to Euro 165 million in 2003 (7.9% of premiums).

OTHER DAMAGES TO PROPERTY
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	1,588	1,652	1,740	1,861	2,080	2,158	2,289
Changes in premiums reserves (-)	102	43	67	97	83	65	129
Incurred claims (-):	1,223	1,091	1,217	1,266	1,329	1,204	1,527
- incurred claims cost for the current accident year (-)	1,320	1,206	1,307	1,312	1,408	1,360	1,653
- redundancy/deficiency of reserves for those claims incurred in previous accident years	97	115	90	46	79	156	126
Balance of other technical items	-28	-29	-32	-31	-29	-34	-41
Operating expenses (-)	468	485	501	534	591	627	661
Direct technical balance	**-233**	**4**	**-77**	**-67**	**48**	**228**	**-69**
Investment income	80	60	69	68	56	77	85
Direct technical account result	**-153**	**64**	**-8**	**1**	**104**	**305**	**16**
Reinsurance results and other items	133	33	100	62	-147	-140	-64
Overall technical account result	**-20**	**97**	**92**	**63**	**-43**	**165**	**-48**
Annual % changes in premiums	–	4.0%	5.3%	6.9%	11.8%	3.8%	6.1%
Combined ratio	111.8%	97.1%	101.6%	100.5%	95.0%	86.6%	99.6%
- Expense ratio	29.5%	29.4%	28.8%	28.7%	28.4%	29.0%	28.9%
- Loss ratio:	82.3%	67.8%	72.7%	71.8%	66.6%	57.5%	70.7%
- Loss ratio for the current accident year	88.8%	74.9%	78.1%	74.4%	70.5%	65.0%	76.5%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	6.5%	7.2%	5.4%	2.6%	4.0%	7.5%	5.8%
Technical balance/Earned premiums	**-15.7%**	**0.2%**	**-4.6%**	**-3.8%**	**2.4%**	**10.9%**	**-3.2%**
Technical account result/Earned premiums	**-10.3%**	**4.0%**	**-0.5%**	**0.1%**	**5.2%**	**14.6%**	**0.7%**
Overall technical account result/Earned premiums	**-1.3%**	**6.0%**	**5.5%**	**3.6%**	**-2.2%**	**7.9%**	**-2.2%**
Premiums to total Non-Life premiums ratio (%)	*6.5%*	*6.3%*	*6.2%*	*6.2%*	*6.4%*	*6.3%*	*6.5%*

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

HAIL INSURANCE

The agricultural risks insurance in Italy, which is designed to protect farmers against the risk of losing agricultural products due to unforeseen events and events which cannot be quantified beforehand, such as hail, frost or hoarfrost, is characterised by being subject to Government action. The foregoing action comes within the framework of the Government's general interest to intervene in support of the agricultural sector and translates into specific regulatory

provisions of the insurance sector under review. The first Government action relating to the sector dates back to 1970 when a form of facilitated insurance was introduced: in particular, the Government paid 50% of the premium.

In 2004 the Italian Government adapted the regulations to comply with the European community policies as regards Government aid to pay insurance premiums in the agricultural sector. The foregoing policies were incorporated in three Ministerial Decrees (Ministerial Decree No. 100.411 of 17th February 2004, Ministerial Decree No. 100.615 of 10th March 2004 and Ministerial Decree No. 100.919 of 9th April 2004) which relate to insurable areas and cultivations, maximum unit prices applicable and the parameters to calculate the Government grant on insurance premiums, respectively. The Government grant is no longer paid with reference to the actual insurance cost, but based on a parameter deemed "fair" by the Ministry, which in many cases is lower than the pure insurance cost.

In particular, in the case of "single risk" policies (a prevailing form of insurance that covers a single risk) the regulations have established that Government relief shall be granted:

a) at 80% of the parameter, to provide damage insurance cover with a 20% threshold in the underprivileged areas and 30% in the other areas;
b) at 50% of the parameter, to provide damage insurance cover with no threshold.

Moreover, the regulations have not established any prohibition as regards the possibility of taking out ordinary insurance policies, to supplement the facilitated policies with a damage claim threshold, to cover damage under the established thresholds and with a premium to be borne fully by the producer.

ANIA has operated a databank from 1997 designed to provide technical market indicators, in a sector where even the large companies have limited portfolios. The results of the Summer campaigns over the last five years are detailed below for all forms of insurance and for all the products insured, based on the data available to ANIA (it is estimated that approximately 99% of the values insured for the two most common forms of insurance cover such as "hail" and "hail and wind" is represented for 2004).

The 2004 Summer campaign was characterised by an increase of the values insured compared with the previous year, equal to 7.6% for products expressed in quintals and 2.9% for plants and cuttings. The values of productions expressed in quintals and in the number of plants insured, respectively, have also increased (+5.8% and +18.5%, respectively): this aspect emphasises the fact that the increase in the values insured is not only due to an increase in the prices of products, but also to a greater recourse to insurance by the

agricultural sector. In fact, in 2004 the quantities of productions insured exceeded the values for 2000, after touching minimum values in the biennial 2001 and in 2002 during the period of observation.

INSURED PRODUCTS EXPRESSED IN QUINTALS

		2000	2001	2002	2003	2004
Insured items	(1)	639,830	599,191	568,452	553,409	558,597
Insured quintals	(2)	147,816,107	138,731,004	131,162,409	141,960,999	150,226,269
Change %	*(3)*		*-6.1%*	*-5.5%*	*8.2%*	*5.8%*
Insured values (.000 euro)	(4)	3,540,837	3,287,185	3,121,494	3,273,675	3,524,073
Change %	*(5)*		*-7.2%*	*-5.0%*	*4.9%*	*7.6%*
Involved quintals	(6)	44,828,372	41,125,597	36,870,001	26,987,091	34,546,737
Compensated quintals	(7)	9,039,737	12,129,113	10,390,145	7,688,825	9,740,547
Insurance cost	(8) = (7) / (2)	6.1%	8.7%	7.9%	5.4%	6.5%

PLANTS AND CUTTINGS

		2000	2001	2002	2003	2004
Insured items	(1)	1,791	1,814	1,579	1,771	1,835
Insured plants	(2)	64,503,450	64,535,330	61,159,736	66,925,316	79,313,942
Change %	*(3)*		*0.0%*	*-5.2%*	*9.4%*	*18.5%*
Insured values (.000 euro)	(4)	41,927	28,267	27,055	35,627	36,652
Change %	*(5)*		*-32.6%*	*-4.3%*	*31.7%*	*2.9%*
Involved plants	(6)	51,258,128	14,096,473	16,838,908	40,627,310	53,426,690
Compensated plants	(7)	22,682,457	3,357,957	5,558,582	22,195,901	27,754,306
Insurance cost	(8) = (7) / (2)	35.2%	5.2%	9.1%	33.2%	35.0%

Information regarding the trend of the claim events can be found by analysing the "insurance cost" indicator, obtained by relating the quintals compensated to the quintals insured. The values of the quintals involved and compensated are calculated at "zero insurance exemption", namely, without taking into account any limitations in the applicable indemnity to ensure the data originating from the insurance companies is consistent, since the insurance companies can adopt various contractual insurance exemptions.

The insurance cost in 2004 was equal to 6.5% for products sold in quintals, a higher figure compared with the value for 2003 (5.4%), but lower than the value for 2001 and 2002. The insurance cost in the case of plants and cuttings was equal to 35.0% (33.2% in 2003).

Approximately 65% of the quintals subject to Government facilitations were insured with contracts subject to a threshold (these contracts represent 60% of the insured values), while 35% of the quintals were insured with the "traditional" formula with no threshold (40% of the insured values), based on the new forms of contracts introduced with the 2004 regulations.

A similar number of "supplementary" Non-Life insurance contracts were entered into in relation to the facilitated contracts with a threshold, but not sub-

INSURED PRODUCTS EXPRESSED IN QUINTALS - 2004

	Insured Items	Insured Quintals	Breakdown of Insured Quintals (%)	Insured Values (.000 Euro)	Breakdown of Insured Values (%)	Involved Quintals	Compensated Quintals	Insured Cost
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (7) / (2)
Facilit. contracts	551,011	147,066,503	100%	3,480,251	100%	19,119,909	7,838,511	5.3%
- with threshold	341,758	94,934,658	65%	2,103,059	60%	8,836,162	4,988,636	5.3%
- without threshold	209,253	52,131,845	35%	1,377,192	40%	10,283,747	2,849,875	5.5%
Contracts								
Not facilitated	331,693	95,521,989	100%	2,041,504	100%	15,426,828	1,902,036	2.0%
- supplementary*	324,107	92,362,223	97%	1,997,682	98%	15,043,200	1,829,253	2.0%
- other	7,586	3,159,766	3%	43,822	2%	383,628	72,783	2.3%
TOTAL	**558,597**	**150,226,269**		**3,524,073**		**34,546,737**	**9,740,547**	**6.5%**

PLANTS AND CUTTINGS - 2004

	Insured Items	Insured Plants	Breakdown of Insured Plants (%)	Insured Values (.000 Euro)	Breakdown of Insured Values (%)	Involved Plants	Compensated Plants	Insured Cost
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (7) / (2)
Facilit. contracts	1,743	70,691,997	100%	34,307	100%	41,944,090	21,874,248	30.9%
- with threshold	730	32,540,760	46%	11,805	34%	17,273,000	10,227,027	31.4%
- without threshold	1,013	38,151,237	54%	22,502	66%	24,671,090	11,647,221	30.5%
Contracts								
Not facilitated	790	40,513,785	100%	12,285	100%	11,482,600	5,880,058	14.5%
- supplementary*	698	31,891,840	79%	9,940	81%	4,984,200	841,853	2.6%
- other	92	8,621,945	21%	2,345	19%	6,498,400	5,038,205	58.4%
TOTAL	**1,835**	**79,313,942**		**36,652**		**53,426,690**	**27,754,306**	**35.0%**

(*) Policies not facilitated effected to cover claims not exceeding established thresholds

ject to Government facilitations and therefore borne fully by the farmer, because under the threshold values. Whereas, the opposite situation was recorded with regard to plants and cuttings: 54% of plants were insured with contracts not subject to a threshold, whereas their insurance value represented 66% of the total. An equal number of "supplementary" contracts were entered into also in this case, in almost 100% of cases, as regards facilitated contracts subject to a threshold, to provide damage insurance cover below the established thresholds.

From the point of view of the claim events rate it can be observed that for the facilitated sector, contracts subject to a threshold and contracts with no threshold have a similar insurance cost (5.3% and 5.5%, respectively, in the case of products expressed in quintals and 31.4% and 30.5% in the case of plants and cuttings). Whereas, the insurance cost of supplementary contracts for products expressed in quintals is less than half compared with the cost reported for the corresponding facilitated contracts (2.0% compared with 5.3%), whereas the gap is much wider if plants and cuttings are considered (2.6% compared with 31.4%). These differences are explained by the distribution of the compensation amounts for the various products. However, the more

limited insurance cost does not apply to all productions, for example, in the case of supplementary contracts relating to rice the cost for the two types of contract is similar, whereas, in the case of maize, the supplementary contracts have a higher insurance cost compared with the cost of facilitated contracts.

AIRCRAFT THIRD PARTY LIABILITY

After strong increases in 2002 and 2003, in presence of high reinsuring rates due to the events on September 11th 2001, **premiums for direct domestic business** by the 25 insurance companies operating in this class were equal to Euro 50 million in 2004, strongly decreasing (-36.1%) compared to 2003; the incidence on the total of Non-Life premiums was very limited (0.1%).

Both for the limited dimensions of this class of activity and for the very variable nature of the covered risks, 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 12 million (7 in 2003), with a 59.4% increase; however the ratio to earned premiums was very limited and equal to 20.5% (12.0% in 2003).

The **incurred claims cost for the financial year**, which includes 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 11 million (6 in 2003). The ratio to earned premiums was equal to 19.0%, increasing if compared to the very contained value of 2003 (10.7%).

Operating expenses were equal to Euro 5 million (6 in 2003) 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 9.6% of the premiums (7.4% in 2003).

The **technical balance for direct business** was positive at Euro 39 million (48 in 2003).

Considering investment income, the **direct technical account result** was positive at Euro 40 million (49 in 2003).

Taking the reinsurance balance into due account, that had contributed in strongly negative way, the **overall technical account result** was negative at Euro 6 million (9.8% of premiums), while it was positive and equal to Euro 18 million in 2003 (30.5% of premiums).

AIRCRAFT T.P.L.
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	13	17	14	29	51	78	50
Changes in premiums reserves (-)	-3	3	-4	8	8	17	-7
Incurred claims (-):	14	12	23	15	9	6	11
- incurred claims cost for the current accident year (-)	5	10	3	4	5	7	12
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-9	-2	-20	-11	-4	1	1
Balance of other technical items	0	0	0	1	0	-1	-2
Operating expenses (-)	3	3	3	3	5	6	5
Direct technical balance	**-1**	**-1**	**-8**	**4**	**29**	**48**	**39**
Investment income	0	1	0	2	1	1	1
Direct technical account result	**-1**	**0**	**-8**	**6**	**30**	**49**	**40**
Reinsurance results and other items	-4	3	1	-14	-21	-31	-46
Overall technical account result	**-5**	**3**	**-7**	**-8**	**9**	**18**	**-6**
Annual % changes in premiums	–	32.1%	-15.0%	105.2%	75.3%	52.0%	-36.1%
Combined ratio	109.9%	101.4%	150.8%	78.3%	31.5%	18.1%	28.5%
- Expense ratio	21.3%	16.6%	21.2%	10.2%	10.2%	7.4%	9.6%
- Loss ratio:	88.6%	84.8%	129.6%	68.1%	21.3%	10.7%	19.0%
- Loss ratio for the current accident year	30.3%	75.1%	16.8%	19.0%	10.7%	12.0%	20.5%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	-58.3%	-9.7%	-112.8%	-49.2%	-10.5%	1.3%	1.5%
Technical balance/Earned premiums	**-7.5%**	**-4.4%**	**-46.1%**	**17.6%**	**65.9%**	**79.2%**	**69.0%**
Technical account result/Earned premiums	**-5.0%**	**-0.4%**	**-41.8%**	**27.6%**	**69.0%**	**80.4%**	**70.4%**
Overall technical account result/Earned premiums	**-33.5%**	**24.5%**	**-36.1%**	**-37.4%**	**20.8%**	**30.5%**	**-9.8%**
Premiums to total Non-Life premiums ratio (%)	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.2%*	*0.2%*	*0.1%*

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

GENERAL THIRD PARTY LIABILITY

The increase of **premiums for direct domestic business** by the 80 insurance companies operating in this class continued in 2004 reaching a value equal to Euro 2,999 million (+7.2% compared to 2003), passing from 8.2% of 2003 to 8.5% of 2004 (7.4% in 1998).

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 2,213 million (2,154 in 2003), with a 2.7% increase; considering that claims cost increased less than premiums, the ratio between these two issues (that is, loss ratio for the current accident year) decreased passing from 79.1% in 2003 to 75.9% in 2004. Sectors characterised by a high claims cost were medical liability, building liability (the so-called employers' liability) and professional liability. Furthermore, physical damage to the person was an increasing factor.

Other Non-Life insurance classes

The **incurred claims costs for the financial year** were increasing more compared to premiums, and included if compared to the incurred cost of the current year also the redundancy/deficiency of reserves for those claims incurred in previous accident years; this issue, linked to claims experience of previous generations and to the relative reserves deficiency due in part to a continuous increase in I.B.N.R. claims, contributed to expand and to influence incurred claims growth, which reached 2,787 million Euro (2,540 in 2003) with a 9.7% increase; this explains the worsening for the loss ratio for the current financial year which passed from 93.2% in 2003 to 95.5% in 2004.

GENERAL T.P.L.
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	1,820	1,920	2,033	2,229	2,472	2,798	2,999
Changes in premiums reserves (-)	195	88	48	60	107	73	81
Incurred claims (-):	1,838	1,891	2,005	2,295	2,450	2,540	2,787
- incurred claims cost for the current accident year (-)	1,587	1,611	1,706	1,833	2,003	2,154	2,213
- redundancy/deficiency of reserves for those claims incurred in previous accident years	-251	-280	-299	-462	-447	-386	-574
Balance of other technical items	-38	-26	-37	-18	-37	-47	-65
Operating expenses (-)	581	591	609	663	724	792	839
Direct technical balance	**-832**	**-676**	**-666**	**-807**	**-846**	**-654**	**-773**
Investment income	354	279	318	303	227	320	381
Direct technical account result	**-478**	**-397**	**-348**	**-504**	**-619**	**-334**	**-392**
Reinsurance results and other items	87	77	30	55	164	-79	-33
Overall technical account result	**-391**	**-320**	**-318**	**-449**	**-455**	**-413**	**-425**
Annual % changes in premiums	–	5.5%	5.9%	9.6%	10.9%	13.2%	7.2%
Combined ratio	145.1%	133.9%	131.0%	135.5%	132.9%	121.5%	123.5%
- Expense ratio	31.9%	30.8%	30.0%	29.7%	29.3%	28.3%	28.0%
- Loss ratio:	113.1%	103.2%	101.0%	105.8%	103.6%	93.2%	95.5%
- Loss ratio for the current accident year	97.7%	87.9%	85.9%	84.5%	84.7%	79.1%	75.9%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	-15.4%	-15.3%	-15.1%	-21.3%	-18.9%	-14.2%	-19.7%
Technical balance/Earned premiums	**-51.2%**	**-36.9%**	**-33.5%**	**-37.2%**	**-35.8%**	**-24.0%**	**-26.5%**
Technical account result/Earned premiums	**-29.5%**	**-21.7%**	**-17.5%**	**-23.2%**	**-26.2%**	**-12.2%**	**-13.4%**
Overall technical account result/Earned premiums	**-24.1%**	**-17.5%**	**-16.0%**	**-20.7%**	**-19.2%**	**-15.2%**	**-14.6%**
Premiums to total Non-Life premiums ratio (%)	*7.4%*	*7.3%*	*7.3%*	*7.4%*	*7.6%*	*8.2%*	*8.5%*

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

Operating expenses were equal to Euro 839 million (792 in 2003) 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 28.0%, slightly decreasing compared to 2003 (28.3%).

The **technical balance for direct business** was negative at Euro 773 million (-654 in 2003).

Considering investment income, the **direct technical account result** was negative at Euro 392 million (-334 in 2003).

Taking the reinsurance balance into due account, that contributed in a negative way, the **overall technical account result** was negative at Euro 425 million (-413 in 2003), with an incidence on premiums of 14,6%, less than 15.2% of 2003.

INSURANCE OF COMPANY DIRECTORS' THIRD PARTY LIABILITY

The recent reform of company law, combined with the reinforced internal supervisory systems of companies following the financial crises experienced in recent years, has set the foundations for a major change in the structure of companies. In particular, the introduction of new governance models, the development of the code of self-discipline and the introduction of new management models have redefined the liability profiles of the corporate bodies.

In fact, there has been a migration from a strictly regulated system – where the law intervenes on the operational, internal coordination rules and the relationships which exist among the various corporate bodies, in addition to the organisational regulations – to a more structured system that enables different solutions to be adopted and which is essentially based on organisational self-determination and the central aspect of statutory autonomy. In particular, the reform enhances greater autonomy in the choice of the reference models and in the distribution of the functions and powers and places greater emphasis compared to the past in assessing the jurisdiction, professionalism and independence profiles of the companies' government bodies.

The redefinition and the clarification of duties and powers referable to each corporate body have a significant impact, in particular, on the liability profiles of the administrative and auditing bodies.

ANIA is proceeding to update and review the reference terms and conditions of insurance and the technical supporting documents in this context (in particular, the technical note and the pre-assumptive questionnaire) with the aim, on the one hand, of adapting the definition and the contents of the reference policy to the changed requirements of the legal framework and, on the other hand, to foster greater awareness of the risk in question by the market, by potential insured and by experts in general by preparing technical assessment tools capable of favouring a further extension of competition.

In this first stage of the revision work, attention has been focused on preparing a product that complies with the risk profile of the administrative body of Joint-stock Companies which do not have shares placed on the regulated markets and form part of the industrial, commercial and non-financial services sector, which represent, in quantitative terms, the broader portion of the potential parties involved, leaving to a subsequent in-depth stage the intrinsic distinctive aspects of listed companies and companies with a government participating interest. Special attention will be dedicated later to the examination of the specific aspects of limited liability companies and cooperatives.

Progress is being made, parallel with the examination of the reference policy, to update and redefine the supplementary Technical Note, by which useful information is provided to configure the risk adequately and to clarify to potential insured the principal aspects referred to by the insurer to build up a product that actually complies with the needs of the potential insured. In this regard, the Note has been divided into two documents, where the first is intended for potential clients (Company directors, auditors) and provides a description of the scenario, while the second, completed also with a technical analysis of the risk management tools (pre-assumptive questionnaire and clause index), is intended for the insurance companies.

In particular, the pre-assumptive questionnaire will be brought up-to-date to take into account the new distinctive features of the governance models introduced by the reform of the company law and its function as a risk cognitive tool will be extended by taking the lead also from the regulatory measures developed in the framework of the community, as well as from the recent codes of corporate self-discipline.

CREDIT

For the second consecutive year, **premiums for direct domestic business** by the 28 companies operating in this class decreased, they reached in 2004 the value of Euro 268 million (-11.1% compared to 2003); the contraction may be explained through the reduction of financial guarantees offered by the insurance sector, as a result of a negative economic situation. Premium incidence in this class on the total Non-Life premiums was slightly decreasing and was equal to 0.8% (1.1% in 2001).

Because of the reduction of insured risks portfolio as well, **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, decreased and amounted to Euro 204 million (315 in 2003), with a 35.3% decrease; the ratio to earned premiums was equal to 72.9%, the lowest value recorded since 1998 and slightly decreasing compared to 99.6% of 2003.

CREDIT
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	203	219	272	314	321	301	268
Changes in premiums reserves (-)	11	3	16	26	-20	-15	-12
Incurred claims (-):	128	144	174	263	267	254	121
- incurred claims cost for the current accident year (-)	200	229	258	322	316	315	204
- redundancy/deficiency of reserves for those claims incurred in previous accident years	72	85	84	59	49	61	83
Balance of other technical items	-2	-2	-2	-1	-4	-3	-13
Operating expenses (-)	53	63	69	83	88	88	86
Direct technical balance	**9**	**7**	**11**	**-59**	**-18**	**-29**	**60**
Investment income	24	14	15	41	18	18	18
Direct technical account result	**33**	**21**	**26**	**-18**	**0**	**-11**	**78**
Reinsurance results and other items	-10	-14	-12	36	15	28	-58
Overall technical account result	**23**	**7**	**14**	**18**	**15**	**17**	**20**
Annual % changes in premiums	–	7.9%	24.0%	15.5%	2.1%	-6.1%	-11.1%
Combined ratio	93.0%	94.9%	93.3%	117.3%	106.0%	109.4%	75.7%
- Expense ratio	26.1%	28.6%	25.5%	26.3%	27.6%	29.3%	32.3%
- Loss ratio:	66.9%	66.3%	67.8%	91.0%	78.4%	80.1%	43.4%
- Loss ratio for the current accident year	104.5%	105.5%	100.5%	111.5%	92.7%	99.6%	72.9%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	37.6%	39.2%	32.6%	20.5%	14.3%	19.4%	29.5%
Technical balance/Earned premiums	**4.5%**	**3.2%**	**4.4%**	**-20.3%**	**-5.3%**	**-9.1%**	**21.5%**
Technical account result/Earned premiums	**17.1%**	**9.8%**	**10.3%**	**-6.2%**	**0.0%**	**-3.6%**	**27.8%**
Overall technical account result/Earned premiums	**12.2%**	**3.1%**	**5.4%**	**6.3%**	**4.4%**	**5.4%**	**7.1%**
Premiums to total Non-Life premiums ratio (%)	*0.8%*	*0.8%*	*1.0%*	*1.1%*	*1.0%*	*0.9%*	*0.8%*

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

The **incurred claims cost for the financial year**, which includes 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 121 million (254 in 2003), with a 52.1% decrease. The ratio to earned premiums was equal to 43.4%, reflecting a decrease compared to 80.1% of 2003.

Operating expenses were equal to Euro 86 million (88 in 2003) 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 32.3% of the premiums, increasing compared to 29.3% of 2003.

The **technical balance for direct business** was positive at Euro 60 million (-29 in 2003).

Considering investment income, the **direct technical account result** was equal to Euro 78 million (-11 in 2003).

Taking the reinsurance balance into due account, that contributed in a very negative way, the **overall technical account result** was positive at Euro 20 million (17 in 2003); the incidence on premiums increased from 5.4% of 2003 to 7.1% of 2004.

SURETYSHIP

Just like for the credit class, for the suretyship class as well **premiums for direct domestic business** by the 52 companies operating in this class decreased in 2004 (-9.9% compared to 2003), registering an amount of Euro 438 million; the reasons for this contraction are linked, as for the credit class, to the particular economic situation, source of a reduction of insurance policies offered by companies. Premium incidence for this class on the total Non-Life premiums decreased progressively, reaching in 2004 1.2% (1.4% in 2003 and 2.1% in 1998).

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 264 million (419 in 2003), with a 37.0% decrease; the ratio to earned premiums was equal to 63.8%, reflecting a decrease compared to 92.8% of 2003.

The **incurred claims cost for the financial year**, which includes 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 247 million (397 in 2003), with a 37.7% decrease. The ratio to earned premiums reduced from 87.8% of 2003 to 59.6% of 2004.

SURETYSHIP
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	524	459	433	483	505	486	438
Changes in premiums reserves (-)	113	38	2	18	-1	34	23
Incurred claims (-):	151	137	168	213	254	397	247
- incurred claims cost for the current accident year (-)	163	172	197	202	270	419	264
- redundancy/deficiency of reserves for those claims incurred in previous accident years	12	35	29	-11	16	22	17
Balance of other technical items	-32	-29	-30	-33	-40	-26	-26
Operating expenses (-)	153	135	127	139	152	145	139
Direct technical balance	**75**	**120**	**106**	**80**	**60**	**-116**	**3**
Investment income	31	25	26	21	19	25	25
Direct technical account result	**106**	**145**	**132**	**101**	**79**	**-91**	**28**
Reinsurance results and other items	-20	-56	-34	-7	-2	104	-5
Overall technical account result	**86**	**89**	**98**	**94**	**77**	**13**	**23**
Annual % changes in premiums	–	-12.4%	-5.7%	11.6%	4.6%	-3.9%	-9.9%
Combined ratio	66.0%	61.9%	68.2%	74.5%	80.1%	117.7%	91.3%
- Expense ratio	29.2%	29.4%	29.3%	28.7%	30.0%	29.9%	31.7%
- Loss ratio:	36.8%	32.5%	38.9%	45.8%	50.0%	87.8%	59.6%
- Loss ratio for the current accident year	39.6%	40.9%	45.7%	43.5%	53.4%	92.8%	63.8%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	2.8%	8.4%	6.9%	-2.3%	3.3%	5.0%	4.2%
Technical balance/Earned premiums	**18.1%**	**28.5%**	**24.5%**	**17.1%**	**11.8%**	**-25.7%**	**0.7%**
Technical account result/Earned premiums	**25.8%**	**34.5%**	**30.7%**	**21.6%**	**15.5%**	**-20.2%**	**6.7%**
Overall technical account result/Earned premiums	**20.8%**	**21.1%**	**22.8%**	**20.3%**	**15.3%**	**2.9%**	**5.4%**
Premiums to total Non-Life premiums ratio (%)	*2.1%*	*1.7%*	*1.6%*	*1.6%*	*1.6%*	*1.4%*	*1.2%*

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

Operating expenses were equal to Euro 139 million (145 in 2003) 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 31.7% of the premiums, increasing compared to 29.9% of 2003.

The **technical balance for direct business** was positive at Euro 3 million (-116 in 2003).

Considering investment income, the **direct technical account result** was positive at Euro 28 million (-91 in 2003).

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 23 million (13 in 2003), representing 5.4% of the premiums (2.9% in 2003).

Other Non-Life insurance classes

MISCELLANEOUS FINANCIAL LOSS

Premiums for direct domestic business by the 81 companies operating in this class were equal to Euro 334 million, in considerable growth (+21.7%) compared to 2003; the significant development in this class was favoured by the offer of risk covers linked to road circulation (as the withdrawal of the licence and the collateral guarantees linked to motor insurance). Premium incidence for this class on the total Non-Life premiums was slightly increasing (0.9% in 2004, against 0.6% in 1998).

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 128 million (151 in 2003), with a 15.4% decrease; the ratio to earned premiums was equal to 47.0%, reflecting a clear decrease compared to 63.3% in 2003.

MISCELLANEOUS FINANCIAL LOSS
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	138	151	163	175	235	275	334
Changes in premiums reserves (-)	11	7	19	7	29	36	63
Incurred claims (-):	59	85	202	88	86	126	93
- incurred claims cost for the current accident year (-)	68	88	197	99	103	151	128
- redundancy/deficiency of reserves for those claims incurred in previous accident years	9	3	-5	11	17	25	35
Balance of other technical items	-2	0	-4	-2	-5	-9	-4
Operating expenses (-)	51	56	53	56	71	79	98
Direct technical balance	**15**	**3**	**-115**	**22**	**44**	**25**	**76**
Investment income	5	4	6	7	6	8	11
Direct technical account result	**20**	**7**	**-109**	**29**	**50**	**33**	**87**
Reinsurance results and other items	11	19	111	1	-14	4	-42
Overall technical account result	**31**	**26**	**2**	**30**	**36**	**37**	**45**
Annual % changes in premiums	–	8.8%	8.0%	7.6%	34.2%	17.0%	21.7%
Combined ratio	83.1%	96.4%	173.9%	84.3%	71.9%	81.8%	63.8%
- Expense ratio	36.5%	37.3%	32.6%	32.2%	30.4%	28.9%	29.4%
- Loss ratio:	46.5%	59.1%	141.3%	52.1%	41.5%	52.9%	34.3%
- Loss ratio for the current accident year	53.2%	60.9%	137.7%	58.8%	49.9%	63.3%	47.0%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	6.6%	1.8%	-3.6%	6.8%	8.4%	10.5%	12.7%
Technical balance/Earned premiums	**12.0%**	**1.9%**	**-80.3%**	**13.3%**	**21.5%**	**10.5%**	**27.9%**
Technical account result/Earned premiums	**16.0%**	**4.7%**	**-75.8%**	**17.3%**	**24.2%**	**13.8%**	**32.2%**
Overall technical account result/Earned premiums	**24.6%**	**18.0%**	**1.4%**	**17.6%**	**17.4%**	**15.3%**	**16.5%**
Premiums to total Non-Life premiums ratio (%)	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.7%*	*0.8%*	*0.9%*

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

The **incurred claims cost for the financial year**, which includes 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 93 million (126 in 2003) with a 26.0% decrease. The ratio to earned premiums was equal to 34.3%, decreasing compared to 52.9% of 2003.

Operating expenses were equal to Euro 98 million (79 in 2003) 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 29.4% of the premiums, slightly increasing compared to 28.9% of 2003.

The **technical balance for direct business** was positive at Euro 76 million (25 in 2003).

Considering investment income, the **direct technical account result** was positive at Euro 87 million (33 in 2003).

Taking the reinsurance balance into due account, that contributed in a very negative way, the **overall technical account result** was positive at Euro 45 million, a similar value compared to 2003 (Euro 37 million); the incidence on premiums was equal to 16.5% (15.3% in 2003).

LEGAL EXPENSES

Premiums for direct domestic business by the 81 insurance companies operating in this class were equal to Euro 205 million in 2004 (+11.7%), in line with value recorded since 1998; the incidence on the total of Non-Life premiums was equal to 0.6% in 2004 (0.4% in 1998).

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 64 million (55 in 2003), with a 16.5% increase; the ratio to earned premiums was equal to 32.4%, reflecting a slight increase compared to 31.4% of 2003.

The **incurred claims cost for the financial year**, which includes 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 68 million (57 in 2003), with a 19.7% increase. The ratio to earned premiums was equal to 34.4%, reflecting an increase compared to 32.4% of 2003.

Operating expenses were equal to Euro 81 million (71 in 2003) 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 39.5% of the premiums, slightly increasing compared to 38.6% of 2003.

Other Non-Life insurance classes

The **technical balance for direct business** was positive at Euro 45 million (44 in 2003).

Considering investment income, the **direct technical account result** was positive at Euro 52 million (50 in 2003).

LEGAL EXPENSES
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	98	110	126	144	164	184	205
Changes in premiums reserves (-)	4	7	7	7	7	9	8
Incurred claims (-):	31	31	31	38	52	57	68
- incurred claims cost for the current accident year (-)	35	35	38	41	45	55	64
- redundancy/deficiency of reserves for those claims incurred in previous accident years	4	4	7	3	-7	-2	-4
Balance of other technical items	0	0	-1	-2	-3	-3	-3
Operating expenses (-)	43	46	52	56	64	71	81
Direct technical balance	**20**	**26**	**35**	**41**	**38**	**44**	**45**
Investment income	5	4	5	5	5	6	7
Direct technical account result	**25**	**30**	**40**	**46**	**43**	**50**	**52**
Reinsurance results and other items	-1	-1	-1	-1	0	-4	3
Overall technical account result	**24**	**29**	**39**	**45**	**43**	**46**	**55**
Annual % changes in premiums	–	12.3%	14.2%	13.8%	14.4%	11.8%	11.7%
Combined ratio	76.3%	71.5%	67.1%	66.6%	71.8%	71.1%	73.9%
- Expense ratio	43.5%	41.8%	41.3%	38.9%	38.7%	38.6%	39.5%
- Loss ratio:	32.8%	29.6%	25.7%	27.7%	33.1%	32.4%	34.4%
- Loss ratio for the current accident year	37.1%	33.9%	31.9%	29.8%	28.9%	31.4%	32.4%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	4.3%	4.3%	6.2%	2.1%	-4.2%	-1.0%	-2.0%
Technical balance/Earned premiums	**20.9%**	**24.8%**	**29.2%**	**29.6%**	**24.1%**	**25.2%**	**23.0%**
Technical account result/Earned premiums	**27.0%**	**29.2%**	**33.5%**	**33.4%**	**27.6%**	**28.6%**	**26.5%**
Overall technical account result/Earned premiums	**25.0%**	**27.8%**	**32.8%**	**32.7%**	**27.2%**	**26.6%**	**27.7%**
Premiums to total Non-Life premiums ratio (%)	*0.4%*	*0.4%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.6%*

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

Taking the reinsurance balance into due account, that always contributed in a very marginal way, the **overall technical account result** was positive at Euro 55 million (46 in 2003), representing 27.7% of the premiums (26.6% in 2003).

ASSISTANCE

Premiums for direct domestic business by the 78 insurance companies operating in this class were equal to Euro 286 million in 2004 (+11.2% compared to 2003), representing 0.8% of the total of Non-Life premiums, that is a value substantially stable since 1998.

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 102 million (98 in 2003), with a 3.8% increase; the ratio to earned premiums was equal to 36.1%, reflecting a decrease compared to 38.8% of 2003.

The **incurred claims cost for the financial year**, which includes 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 99 million (96 in 2003), with a 3.5% increase. The ratio to earned premiums was equal to 35.2%, reflecting a decrease compared to 37.9% of 2003.

ASSISTANCE
Euro million

	1998	1999	2000	2001	2002	2003	2004
Gross written premiums	176	183	203	215	240	257	286
Changes in premiums reserves (-)	11	2	5	3	5	5	5
Incurred claims (-):	67	67	73	75	93	96	99
- incurred claims cost for the current accident year (-)	69	68	73	78	87	98	102
- redundancy/deficiency of reserves for those claims incurred in previous accident years	2	1	0	3	-6	2	3
Balance of other technical items	-2	-6	-2	-2	-2	-2	-4
Operating expenses (-)	53	61	63	67	75	80	88
Direct technical balance	**43**	**47**	**60**	**68**	**65**	**74**	**90**
Investment income	3	2	3	2	2	2	-1
Direct technical account result	**46**	**49**	**63**	**70**	**67**	**76**	**89**
Reinsurance results and other items	-10	-13	-16	-18	-16	-18	-12
Overall technical account result	**36**	**36**	**47**	**52**	**51**	**58**	**77**
Annual % changes in premiums	–	3.6%	11.3%	5.6%	11.9%	7.0%	11.2%
Combined ratio	70.2%	70.3%	67.5%	66.6%	70.7%	69.2%	66.0%
- Expense ratio	30.0%	33.5%	31.0%	31.4%	31.4%	31.2%	30.9%
- Loss ratio:	40.3%	36.8%	36.5%	35.2%	39.3%	37.9%	35.2%
- Loss ratio for the current accident year	41.5%	37.5%	36.8%	36.9%	37.1%	38.8%	36.1%
- Redun./Defic. of reserves for previous years claims/ Earned premiums	1.2%	0.7%	0.3%	1.7%	-2.2%	0.9%	0.9%
Technical balance/Earned premiums	**25.8%**	**26.1%**	**30.3%**	**31.9%**	**27.5%**	**29.2%**	**32.1%**
Technical account result/Earned premiums	**27.5%**	**27.3%**	**31.5%**	**32.9%**	**28.3%**	**30.3%**	**31.6%**
Overall technical account result/Earned premiums	**21.7%**	**19.8%**	**23.8%**	**24.5%**	**21.5%**	**22.8%**	**27.3%**
Premiums to total Non-Life premiums ratio (%)	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.8%*	*0.8%*

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

Operating expenses were equal to Euro 88 million (80 in 2003) 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 30.9% of the premiums (31.2% in 2003).

Other Non-Life insurance classes

The **technical balance for direct business** was positive at Euro 90 million (74 in 2003).

Considering investment income, the **direct technical account result** was positive at Euro 89 million (76 in 2003).

Taking the reinsurance balance into due account, the **overall technical account result** was positive at Euro 77 million (58 in 2003), representing 27.3% of the premiums (22.8% in 2003).

Reinsurance

In 2004 overall premiums for direct domestic business are declining compared to the previous year. Professional reinsurance, despite a decrease in premium income, registers in 2003 a positive result increasing compared to the previous year, mainly for the growth of investment income and a decrease in operating expenses and incurred claims cost.

DOMESTIC AND FOREIGN INDIRECT PREMIUMS
Euro million

WHOLE MARKET	PREMIUMS	CHANGE %	% ON TOTAL DIRECT AND INDIRECT PREMIUMS
1997	5,215	6.7%	11.0%
1998	5,233	0.3%	9.3%
1999	4,678	-10.6%	7.0%
2000	5,401	15.5%	7.4%
2001	5,461	1.1%	6.7%
2002	5,683	4.1%	6.1%
2003	5,934	4.4%	5.8%
2004*	5,389	-9.2%	5.1%

(*) ANIA estimate

PROFESSIONAL REINSURERS INDIRECT PREMIUMS
Euro million

REINSURERS PROFESSIONAL	PREMIUMS	CHANGE %	% ON TOTAL INDIRECT PREMIUMS
1997	1,729	8.5%	33.2%
1998	1,835	6.2%	35.1%
1999	1,669	-9.1%	35.7%
2000	2,025	21.3%	37.5%
2001	1,891	-6.6%	34.6%
2002	2,171	14.8%	38.2%
2003	1,828	-15.8%	30.8%
2004*	1,760	-3.7%	32.7%

(*) ANIA estimate

Indirect premiums were equal to Euro 5,389 million, representing a 9.2% decrease compared to 2003. These indirect premiums represented 5.1% of the total, direct and indirect, premiums (5.8% in 2003).

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 1,760 million in 2004, representing a 3.7% decrease compared to 2003.

The market share of professional reinsurers on the whole indirect business increased from 30.8% in 2003 to 32.7% in 2004.

The timeframe in which the reinsurance operations are closed only enable the final data, balance sheet and income statement, for 2003 to be presented.

The technical account result for the Non-Life and Life classes, net of retroceded premiums, was positive at Euro 209 million (49 in 2002), representing 15.0% of the premiums (3.0% in 2002). The improvement of the technical account result, although the reduction of premiums, was due, on one hand, to an increase of investment profits and, on the other hand, to a decrease in the incurred claims cost and in the operating expenses.

The result for the financial year was positive at Euro 257 million (60 in 2002); the incidence on premiums recorded a strong increase (18.5% against 3.7% of

2002). The improvement of the result for the financial year is linked to a positive result of technical account but also to the positive result of extraordinary activity.

PROFESSIONAL REINSURERS
Euro million

INCOME STATEMENT*	1998	1999	2000	2001	2002	2003
Technical account						
Indirect premiums	1,212	1,135	1,447	1,356	1,638	1,390
Changes in premiums reserves (-)	268	193	230	196	197	88
Investment income	210	159	219	176	201	277
Incurred claims (-)	914	760	1,083	934	1,146	998
Operating expenses (-)	367	339	425	404	445	364
Balance other profits and losses	-8	7	-11	-12	-2	-8
Balance	**-135**	**9**	**-83**	**-14**	**49**	**209**
Non-Technical account						
Profits	49	33	32	21	25	44
Balance other profits and losses	12	-34	-20	-22	-6	-16
Balance of ordinary activities	-75	8	-71	-15	68	237
Balance of extraordinary activities	2	-151	109	-1	12	54
Taxes on income (-)	6	9	3	0	20	34
Result for the year	**-79**	**-152**	**35**	**-16**	**60**	**257**

(*) Technical items net of cessions and retrocessions

PROFESSIONAL REINSURERS
Euro million

BALANCE SHEET	1998	1999	2000	2001	2002	2003
Liabilities						
Net capital	422	424	457	449	558	708
Technical reserves	4,439	4,896	5,471	5,874	5,837	5,766
Funds and deposits from reinsurers	336	305	431	465	424	425
Debts and other liabilities	1,234	1,424	1,044	1,094	1,246	1,127
Total	**6,431**	**7,049**	**7,403**	**7,883**	**8,065**	**8,026**
Assets						
Intangible assets	136	295	294	267	261	271
Investments	4,118	4,565	5,109	5,469	5,483	5,429
Technical reserves from reinsurers	899	1,084	1,196	1,260	1,190	1,136
Amounts owed by debtors	679	630	590	632	795	820
Miscellaneous	599	475	214	255	336	370
Total	**6,431**	**7,049**	**7,403**	**7,883**	**8,065**	**8,026**

Human resources and the operational area

NUMBER OF STAFF

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	36,429	2,862	39,291
2004	37,288	2,830	40,118

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	2,268	115	2,383
2004	2,394	129	2,523

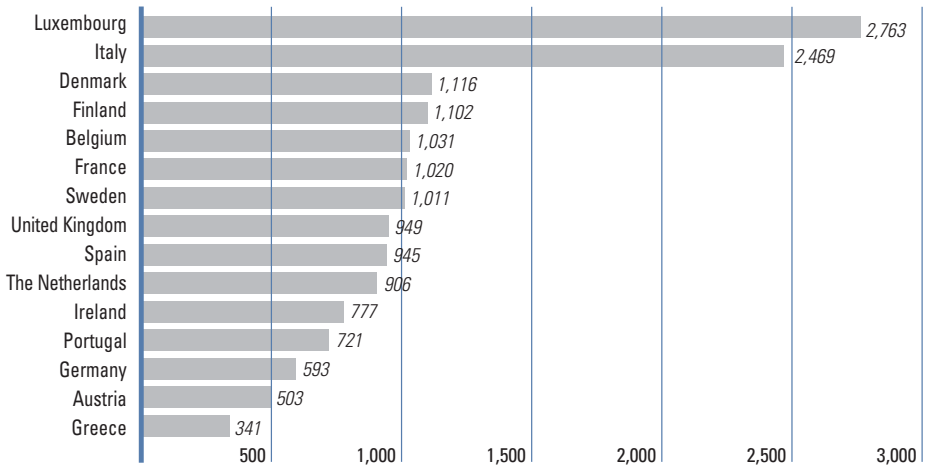
After years of progressive decrease the number of insurance companies' employees registers a slight increase in 2004.

SUBORDINATE COLLABORATORS

At the end of 2004 the number of staff employed by insurance companies totalled 40,118 (+827 persons compared to 2003). Administrative staff, including Managers, totalled 37,288 (+859 persons compared to 2003), whereas sales agents numbered 2,830 (-32 persons).

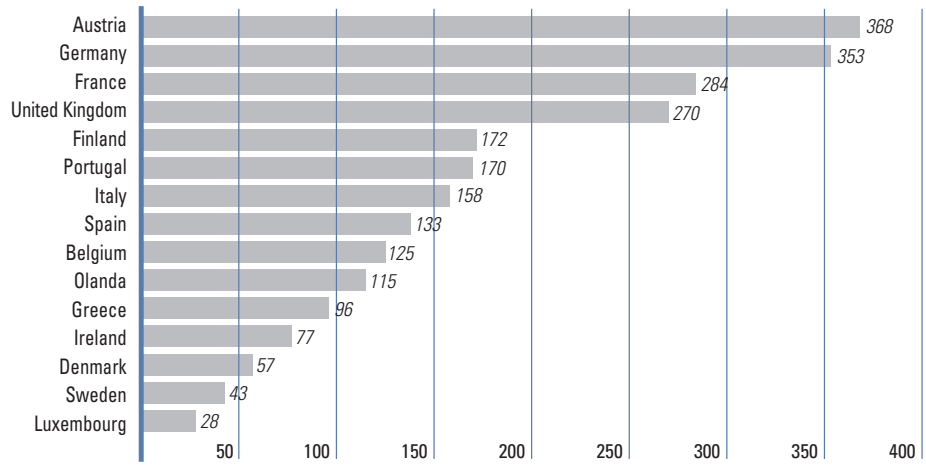
After recording a progressive reduction since the end of 90's, the number of employed workers increased by 2.1%; in particular, there was a 2.4% increase (-1.5% in 2003) for administrative staff (including Managers).

PREMIUMS PER EMPLOYEE IN E.U. COUNTRIES - 2003
Euro (000's)



Source: CEA

EMPLOYEE PER COMPANY IN E.U. COUNTRIES - 2003



Source: CEA

The overall expense for the staff increased in 2004 by 5.9% (6.6% in 2003). Between 1999 and 2004 there has been a decrease in the number of employed workers of 1.2%, whereas the total cost increased by 2.0%; the unit cost for each worker, equal to Euro 62,889 in 2004, increased by 3.3% (3.0% for administrative staff only and 5.4% for producers).

ONGOING TRAINING

The topic of ongoing training is now a subject of fundamental importance and not only in the European agenda but also in the Italian agenda. The objective is to relaunch the competitiveness of the Italian and European economic system to address the new market challenges represented by innovation, by the need to enhance human resources, the professional growth of employees and the necessary adaptation to new levels of professionalism.

Keeping up to date professionally and the ability to adapt to a competitive and dynamic working environment requires a change in mental attitude both by enterprises, required to address the challenge of internal and international competition, and by workers, the knowledge and skills of which must meet the needs of the continuously changing working environment.

The setting up of the Forte and Fondir inter-professional funds by the services industry entrepreneurs associations, including ANIA and the relative Trade Union counterparts, to manage the ongoing training of employees and of executive managers, respectively, assumes significant importance in this framework. Recourse to the services provided by Forte and Fondir will enable companies to obtain loans to implement programmes based on the specific corporate needs and to schedule training sessions with long-term objectives.

The publication of the first two notices during 2004 (one relating to employees and one relating to executive managers) to present the training programmes has rendered the foregoing Funds tangibly operational and has initiated the procedures to access the first tranche of the loans.

A national framework agreement for the sector was defined with the Trade Union organisations, and entered into last 15th December, in order to facilitate access to the loan opportunities guaranteed by the Joint Fund for the ongoing training of the Services Industry ('Fondo Paritetico per la formazione continua del Terziario' – (Forte)).

The foregoing agreement enables the insurance companies intending to use the Forte loans to implement corporate training plans, to achieve the foreseen Trade Union consent based on a standard procedure relating to training, which differs depending on whether this activity is already foreseen by the National collective or supplementary agreement.

An interesting aspect of the agreement is represented by the introduction of an innovative practice relating to Trade Union relations focusing on conciliation and assessment.

The cycle of 3 conferences is organised within this framework, and is implemented through Enbifa and with the direct collaboration of Irsa, and designed for insurance companies and the Trade Unions, and focuses on the opportunities offered by the bilateral management of training activities.

Training courses have been offered to 2,200 employees of companies located throughout the country, corresponding to a total of more than 40,000 hours training through the loans obtained to-date from the Forte Fund.

BILATERAL TRAINING ENTITY

Numerous seminar and conference initiatives were organised during 2004 at associated companies and at Cnel through the insurance sector's Bilateral Training Entity (Enbifa) on topics such as social responsibility, equal opportunities, mobbing; the initiatives involved the companies' employees and Trade Union middle management.

Further seminar initiatives such as the seminars on the subject of bilateral training culture, were organised with the collaboration of Irsa, with which a profitable collaboration has been established.

The foregoing activities were greatly appreciated by the sector operators, and in addition to providing information and comparison aspects on the new economic scenarios, provided the possibility for constructive comparisons among the representatives of the business, Trade Union and the University worlds.

STAFF TRAINING ON EMPLOYMENT-RELATED LEGAL AND CONTRACTUAL REGULATIONS

Study days and in-depth analysis sessions were organised during the year, in cooperation with Irsa, designed for the employees of associate companies and focussed on the regulations relating to the employment market, as amended by Legislative Decree No. 276/2003, as well as relating to holidays, working hours and Trade Union settlements.

The foregoing training initiatives were held by firmly established experts, and have enabled 70 hours training to be offered, structured over 9 study meetings between Rome and Milan, in which approximately 250 persons participated.

OCCUPATIONAL SUPPORTING ACTIONS

During 2004 the compulsory administrative liquidation Fund, established within the Italian National Social Security Institute (Inps), assigned the available financial resources foreseen to everyone that had submitted a request and that met the requirements established by law, to facilitate the early retirement of workers employed by the trustee managed companies subject to compulsory winding-up. The foregoing result was achieved through careful financial management by the Fund's Board of Directors, Ania has a presence on the Board with two representatives.

Therefore, it was possible to propose and to obtain confirmation from 'Inps' regarding the suspension also for 2005 of the ordinary 0.50% contribution on the wage/salary subject to compulsory contribution to finance the Fund, which the companies are committed to paying. Achieving the foregoing result will enable the cost of labour to remain unchanged as regards this aspect.

EUROPEAN COMPANY AND THE INVOLVEMENT OF WORKERS

ANIA, together with ABI, Confindustria, Confcommercio, Confservizi and the confederal Trade Union organisations signed the joint notice in March 2005 to incorporate Community Directive No. 2001/86 in the Italian legal system. The Community Directive refers to the involvement of workers in companies established in the form of European companies, in accordance with the procedures set out in Regulation No. 2157/2001.

The joint notice concludes protracted negotiations between the two sides of industry, which are based on the Government's invitation to define a position as regards this aspect, in line with the community instructions, which foresee the transposition in law of agreements entered into by the two sides of industry to implement European directives. The joint notice was forwarded to the Ministry of Social Policies to draw up the reference law for the directive to be issued within 30th May 2005.

The European Company model enables companies operating in different member countries to organise their business activities based on a uniform legal framework, without being under an obligation to comply with legal and practical restraints arising from the objective differences of the single national legislations; the model may be freely adopted by companies from 8.10.2004, the date on which the Regulation CE 2157/2001 comes into force.

The involvement of workers in managing the European company is limited to information and to consultation of the workers.

In 2004 the positions reached in previous years are confirmed: agents in the Non-Life classes and banks in Life classes represent the main sales channels. Direct marketing in Life class is rising constantly.

LIFE BUSINESS

In 2004 all distribution channels suffered from a decrease in the demand for Life products; except direct sales which registers a 21.0% increase compared to 2003 (table 1).

Collection made through bank counters, equal to 58.6% of the total, increased by 4.1% compared to 2003, a value that is slightly lower than the average one observed in the five years from 2000 to 2004 (+15.6%).

Contained growth rates characterised the distribution of Life products through agencies (about 6% both in 2003 and in 2004). The weight of this channel on the total collection is equal to about 19% in 2004, a value that is substantially stable since 2001.

The sale of Life products through financial advisers decreases (-10.4% in 2004, -11.7% in 2003); their share on the total decreased from 11.2% in 2003 to 9.5% in 2004.

In the last five years direct sales incidence on the total collection is in constant growth, reaching almost 13% in 2004, with an average yearly decrease in the last five years of 24.6%.

TABLE 1 - DISTRIBUTION CHANNELS ANALYSIS - YEARS 2000-2004

LIFE CLASS

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean	Annual change (%)					Mean change (%)
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	(2000-2004)	2000	2001	2002	2003	2004	(2000-2004)
Bank counters	21,523	28,353	31,113	36,980	38,479	54.1	61.2	56.3	58.9	58.6	***58.0***	21.4	31.7	9.7	18.9	4.1	***15.6***
Agents	10,742	8,293	10,864	11,530	12,176	27.0	17.9	19.6	18.3	18.6	***19.9***	10.9	-22.8	31.0	6.1	5.6	***3.2***
Direct sales	3,421	4,077	4,937	6,815	8,248	8.6	8.8	8.9	10.9	12.6	***10.2***	4.5	19.2	21.1	38.0	21.0	***24.6***
Financial advisers	3,740	5,189	7,903	6,977	6,250	9.4	11.2	14.3	11.2	9.5	***11.1***	-16.6	38.8	52.3	-11.7	-10.4	***13.7***
Brokers	358	417	477	479	474	0.9	0.9	0.9	0.7	0.7	***0.8***	-16.2	16.5	14.3	0.5	-0.9	***7.3***
Total	**39,784**	**46,329**	**55,294**	**62,781**	**65,627**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**11.8**	**16.5**	**19.4**	**13.5**	**4.5**	**13.3**

Insurance distribution

Table 2 shows the distribution of the single Life products in the different distribution channels; remarks follow on the results concerning the total premium income (both individual and group contracts).

As to class I policies (insurances on human life length) distribution incidence through bank counters was more than 56%; through agents 24.8% and by direct sale 13.2%.

For class III policies (unit and index-linked) collection through bank counters and financial advisers prevails (with market shares, respectively, equal to 72.4% and 18.9%). Distribution through agencies (7.6%) is relatively low.

Direct sale and bank counters are two of the main collection channels for pure capitalisation policies (class V), with about 37% of premium collection for each channel. Agents' share is slightly higher than 23%.

TABLE 2
BREAKDOWN OF LIFE MARKET PER DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2004

CLASSES	AGENTS	BROKERS	BANK COUNTERS	FINANCIAL ADVISERS	DIRECT SALES	TOTAL
INDIVIDUAL POLICIES						
I - Human life	24.9	0.3	59.4	4.6	10.8	100.0
III - Linked	7.6	0.1	72.5	18.9	0.9	100.0
IV - Healthcare	76.7	1.4	9.8	3.8	8.3	100.0
V - Capitalization	22.0	0.2	47.4	2.5	27.9	100.0
VI - Pension funds	61.9	0.1	19.5	1.1	17.4	100.0
Ind. pens. schemes (*)	59.1	0.3	17.7	18.2	4.7	100.0
TOTAL INDIVIDUAL	**18.1**	**0.2**	**62.7**	**10.2**	**8.8**	**100.0**
GROUP POLICIES						
I - Human life	24.1	15.7	8.5	0.9	50.8	100.0
III - Linked	7.4	7.5	0.0	0.9	84.2	100.0
IV - Healthcare	0.1	93.7	0.0	0.0	6.2	100.0
V - Capitalization	25.9	1.3	12.2	1.2	59.4	100.0
VI - Pension funds	20.0	0.1	8.3	1.6	70.0	100.0
TOTAL GROUP	**25.0**	**6.6**	**10.7**	**1.1**	**56.6**	**100.0**
TOTAL POLICIES						
I - Human life	24.8	1.3	56.3	4.4	13.2	100.0
III - Linked	7.6	0.1	72.4	18.9	1.0	100.0
IV - Healthcare	3.6	89.5	0.4	0.2	6.3	100.0
V - Capitalization	23.2	0.5	36.7	2.1	37.5	100.0
VI - Pension funds	39.4	0.1	13.5	1.3	45.7	100.0
Ind. pens. schemes (*)	59.1	0.3	17.7	18.2	4.7	100.0
TOTAL LIFE CLASSES	**18.6**	**0.7**	**58.6**	**9.5**	**12.6**	**100.0**

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

But agents remain the most active channel in the sale of individual level pension products (mostly IPP, with about 60% of the total, but also adhesions to class VI pension funds, with about 40%); most part of the sale of class VI products with group adhesion is made through direct sales, with more than 45% of the total collection.

NON-LIFE BUSINESS

In 2004 (table 3) 85.3% of premium income in Non-Life classes was made through agents, a value near the 2003 one but slightly lower than the ones in the two years going from 2000 to 2002. This channel's growth in 2004 (+3.7% compared to 2003) is in line with the trend of the whole sector (+3.5%).

Brokers remain the second distribution channel for Non-Life products with 7.6% of the overall premium collection; in 2004 the growth rate was 4.9%, corresponding to the average half yearly value registered in the five years going from 2000 to 2004.

Direct sale, thanks to strong increases registered in the last years in the internet and telephone channels, covers in 2004 6.0% of premium income, a value unvaried compared to 2003. Between 2000 and 2004 income increase through this channel was considerable, going from Euro 1,310 million to Euro 2,113 million, with an average yearly growth of almost 13%.

On the other hand, the weight of bank counters and financial advisers was very contained who collect premiums for slightly more than 1% of the total.

TABLE 3 - DISTRIBUTION CHANNELS ANALYSIS - YEARS 2000-2004

NON-LIFE CLASSES

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean	Annual change (%)					Mean change (%)
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	(2000-2004)	2000	2001	2002	2003	2004	(2000-2004)
Agents	24,586	25,976	27,876	29,165	30,235	88.2	86.8	86.1	85.2	85.3	***86.2***	5.8	5.7	7.3	4.6	3.7	***5.3***
Brokers (*)	1,784	2,215	2,446	2,549	2,674	6.4	7.4	7.5	7.5	7.6	***7.3***	-5.6	24.1	10.4	4.2	4.9	***10.6***
Direct sales	1,310	1,436	1,747	2,048	2,113	4.7	4.8	5.3	6.0	6.0	***5.4***	31.4	9.6	21.6	17.2	3.2	***12.7***
of which: internet and phone sales	*223*	*329*	*503*	*737*	*856*	*0.8*	*1.1*	*1.5*	*2.2*	*2.4*	***1.7***	*n.d.*	*47.6*	*52.7*	*46.6*	*16.2*	***40.0***
Bank counters	167	269	312	422	360	0.6	0.9	1.0	1.2	1.0	***1.0***	59.3	61.0	15.8	35.2	-14.7	***21.1***
Financial advisers	28	30	34	29	29	0.1	0.1	0.1	0.1	0.1	***0.1***	6.2	7.4	13.6	-14.7	-1.6	***0.6***
Total	**27,875**	**29,926**	**32,415**	**34,213**	**35,411**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**6.2**	**7.4**	**8.3**	**5.5**	**3.5**	**6.2**

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

Insurance distribution

More than 90% of the collection in motor insurance classes (third party motor liability and land vehicles) is made through agents, 5% through direct sale and 2.7% through brokers.

In the other Non-Life classes prevails the collection through agents, except for the transport sector (railway craft, aircraft, ships, goods in transit, aircraft third party liability) where collection through brokers and agencies prevails.

TABLE 4
BREAKDOWN OF NON-LIFE MARKET PER DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2004

CLASSES	AGENTS	BROKERS(*)	BANK COUNTERS	FINANCIAL ADVISERS	AGENCIES IN ECONOMY	OTHER TYPES OF DIRECT SALES			TOTAL
						TELEPHONE SALES	INTERNET	OTHER	
Motor liability	92.0	2.4	0.9	0.0	0.9	2.9	0.9	0.0	100.0
Land vehicles	88.4	4.8	0.9	0.0	2.4	2.5	0.9	0.1	100.0
Total Motor	**91.5**	**2.7**	**0.9**	**0.0**	**1.1**	**2.9**	**0.9**	**0.0**	**100.0**
Accident	86.0	7.6	1.2	0.4	3.6	0.5	0.2	0.5	100.0
Sickness	63.1	18.9	2.2	0.8	12.6	0.0	0.0	2.4	100.0
Railway craft	60.6	7.3	0.0	0.0	32.1	0.0	0.0	0.0	100.0
Aircraft	26.6	53.0	0.0	0.0	20.4	0.0	0.0	0.0	100.0
Ships	14.4	68.5	0.0	0.0	17.1	0.0	0.0	0.0	100.0
Goods in transit	46.1	46.8	0.0	0.0	5.9	0.0	0.6	0.6	100.0
Fire and natural forces	78.2	13.1	2.1	0.0	6.5	0.0	0.0	0.1	100.0
Other damages to property	80.7	13.4	1.0	0.1	4.7	0.0	0.0	0.1	100.0
Aircraft third party liability	14.7	30.9	0.0	0.0	54.4	0.0	0.0	0.0	100.0
Ships third party liability	94.4	3.1	0.1	0.0	1.4	0.6	0.3	0.1	100.0
General third party liability	80.9	13.1	0.4	0.0	5.6	0.0	0.0	0.0	100.0
Credit	76.0	13.8	0.7	0.0	9.5	0.0	0.0	0.0	100.0
Suretyship	80.4	11.8	0.3	0.0	7.4	0.0	0.0	0.1	100.0
Miscellaneous financial loss	73.0	16.7	1.9	0.0	4.0	0.4	0.2	3.8	100.0
Legal expenses	83.7	7.7	1.7	0.0	2.3	2.9	0.6	1.1	100.0
Assistance	77.7	6.6	1.5	0.3	4.2	3.7	1.2	4.8	100.0
Total Non-Motor	**76.5**	**14.7**	**1.2**	**0.2**	**6.5**	**0.2**	**0.1**	**0.6**	**100.0**
Total Non-Life classes	**85.3**	**7.6**	**1.0**	**0.1**	**3.3**	**1.8**	**0.6**	**0.3**	**100.0**

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

COMPLETION OF THE SINGLE MARKET IN THE EUROPEAN UNION

The membership of ten new member countries in the European Union, eight of which are members of Central Europe and two countries are in the Mediterranean area, completed on 1st May 2004, represents a turning point and a challenge at the same time. A turning point, because this enlargement, which is the most significant in the history of the European Union, means the European Union attains a surface area of more than four million sq.km. where over 450 million consumers live, transforming the European Union into a top ranking political and economic reality on a global scale. A challenge, because the extension of the '*acquis communautaire*' to the new member countries, in other words the incorporation of European legislation in the respective legal systems has not yet been completed, although it is at an advanced stage.

The European institutions have adopted a new legislative procedure, for each sector (the so-called Lamfalussy procedure), which is more flexible than the "co-decision" procedure and entails a concurrent commitment of the European Commission, Council and Parliament. Moreover, this new procedure focuses on the study of the new Plan of action for the financial services relating to the next five-year period, aiming at the simplification and rationalisation of the current legislation, as a priority requirement, while also discouraging new initiatives if not proven to be necessary. The new legislative procedure is designed to address the problems arising from the membership of ten new member countries and to complete the single market for the single financial sectors.

LAMFALUSSY PROCEDURE

The European commission has prepared a new legislative procedure also for the insurance sector, in order to accelerate the completion of the single market, in accordance with the measures already adopted for the equity market and for the banking sector.

The procedure is structured on four levels: (I) the first level focuses on establishing the framework provisions prepared by the European Commission, Council and Parliament based on the current co-decision procedure; (II) the second level focuses on the implementation regulations for the foregoing framework provisions, under the Commission's control, with the participation of a regulators committee (European Insurance and Occupational Pensions Committee – EIOPC), supported by a supervisors committee (European Insurance and Occupational Pensions Supervisors – CEIOPS); (III) the third level concerns the transposition and the application of the first and second level regulations within the member countries under the supervision of the CEIOPS; (IV) the fourth level consists in monitoring the correct implementation of the foregoing regulations within the European Union via a specific Commission.

The EIOPC (European Insurance Occupational Pensions Committee) is composed of high-level ministerial representatives of the member countries; the Committee provides supporting and consulting support to the European Commission to process community legislation in collaboration with the CEIOPS.

The CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) is composed of representatives of the Supervisory Authorities of the member countries; the committee fulfils the consulting and monitoring functions concerning the implementation of community legislation and the harmonisation of supervisory practices.

In fulfilling its duties, the CEIOPS is supported by a consulting Panel composed of representatives of insurance companies, pension funds, brokers, actuaries, accounting experts and consumers, to receive the opinion of the parties interested in the topics under discussion.

The new legislative procedure has already been implemented for the purposes of defining the reform project of the insurance industry's financial guarantees (Solvency II).

NEW PLAN OF ACTION FOR FINANCIAL SERVICES

The European Commission had issued a plan of action in 1999 relating to financial services (so-called PASF), that was adopted as a guideline by the community legislator during the 1999-2004 five-year period to achieve the integration of the single market for financial services.

Implementation of the programme in the timeframes established and in particular, the adoption of 39 of the 42 measures foreseen therein by the member countries (several of which relate to the insurance business) prompted the Commission to consult the financial sector, by creating a group of experts for each of the sectors involved, in order to assess the level of integration achieved and the initiatives to be put in place over the next five-year period for the purpose of achieving the relative completion.

The Commission produced a Green Book in May 2005 after the first round of consultations. The Green Book is broadly based on a declaration of intent formulated by the last Council Chairmen in office, as well as the expectations expressed by the operators and by the trade associations (including CEA and the National member associations).

The Green Book identifies a number of priority political objectives to be pursued during the next five-year period. These include:

– a regulatory respite, which however, should not involve either the measures currently under study or future measures, the usefulness of which is certified by specific impact assessments;

- the simplification and consolidation of current community legislation, combined with a verification of the relative implementation by member countries and a systematic retrospective assessment of the impact on the European financial system;
- the adoption of a more efficient and effective monitoring scheme at a European level, to be implemented with a more precise definition of the roles and responsibilities of the National supervisory bodies, to achieve the effective harmonisation of the monitoring systems.

The European Commission will deliver the new Plan of action relating to financial services (2005-2010) in a White Book in the forthcoming months, after taking into account the contributions and the observations made to the Green Book. The White Book will be published next November, will detail the legislative initiatives which will be adopted in future years.

Concurrently, it should be noted that the European Commission has recently prepared a new valuation system for the administrative costs of the community legislation currently in force and under study, which can be applied usefully in view of the current implementation of the future Plan of action.

FIFTH MOTOR LIABILITY DIRECTIVE

The European Council formally adopted the fifth motor liability directive on 18th April 2005, approving the amendments proposed by the European Parliament in the second reading.

The measure will come into force on the date it is published in the Official Journal of the European Union, and the member countries shall implement the measure within two years from the foregoing date, and therefore during 2007.

The principal regulations contained in the measure relate to the following aspects:

- increase of the minimum legal coverage to Euro 1 million per claim event for property damage and to Euro 1 million for each victim or to Euro 5 million per claim event, for personal injury, regardless of the number of victims (the previous value, established by the second motor liability directive (84/5/EEC) was equal to Euro 600 thousand per claim event);
- the right of member countries to have a five year transition period from the date the directive is implemented in their own legal system to adjust the applicable insurance coverage to the levels indicated above;
- the five year review of all the legal minimum coverage arrangements, to take into account the changes in the European consumer prices index;
- the extension of the indemnity offer procedure foreseen in the fourth motor liability directive (2000/26/EC) relating to claim events occurring abroad, in favour of the victims of claim events occurring in their country of residence;

- the concurrent extension to the victims of these claim events of the right to receive the same information to be provided by the National information centres established by the foregoing directive for the victims of claim events occurring abroad;
- release of a risk status certificate by the insurer, valid throughout the European Union, concerning third-party liability cover of the insured vehicle for the last five years;
- suppressing the right of the member countries to limit the compensation to be borne by the road victims guarantee funds referred to property damage caused by uninsured vehicles, or to exclude the foregoing if caused by unidentified vehicles associated with serious personal injury;
- a temporary derogation of the rule concerning the determination of the member country where the risk is located designed to facilitate insurance cover of road vehicles imported by one member country to the other.

DIRECTIVE RELATING TO PARITY TREATMENT OF MEN/WOMEN

The European Union Council adopted a directive on 13th December 2004 introducing the parity treatment principle between the two sexes, having regard to the access to goods and services and to their supply (No. 2004/113/EC).

The directive was published in the Official Journal of the European Union on 21st December 2004: member countries shall implement the contents in their respective legal systems within three years, and therefore, within 21st December 2007.

The measure extends the parity treatment principle between the two sexes to all insurance contracts written after the measure has been implemented. However, the member countries may allow differences in the premiums and in the individual benefits depending on the person's sex, if this feature represents a crucial factor in the risks assessment; precise actuarial and statistical evidence is required to demonstrate this, and the data must be compiled, published and kept up-to-date under the control of the member countries.

The member countries will review the derogations which may have been granted within five years from the date the directive is implemented, taking into account the report that will be submitted in this regard by the European Commission to Parliament and to the Council.

Costs relating to pregnancy and maternity shall not be subject to derogations, but the member countries may defer application of the foreseen regu-

latory measure for a maximum period of two years from the date of implementation.

DIRECTIVE PROPOSAL RELATING TO REINSURANCE

The measure is designed to subject pure reinsurance companies to a uniform supervisory regime based on the principles of a single licence and monitoring by the country of origin, an arrangement that has been in force already for some time in the case of direct insurance companies.

Among other aspects, the measure proposes to eliminate the restraints currently in force in some of the European Union member countries relating to reinsurance companies and to facilitate their access to the main extra-European markets and, in particular, to the United States, where their activities are subject to considerable restrictions – for instance restrictions include establishing fixed deposits – motivated by a claimed lack of adequate control in the countries of origin.

The new framework, although subject to a number of attenuating conditions, reproduces closely the current set of rules regulating direct insurance, subjecting the companies of the sector to a series of provisions, which include:

- holding a single authorisation, issued by the member country of origin, which authorises the company to operate both with freedom of establishment and freedom to provide services throughout the European Economic Area, under the control of the member country in question;
- a minimum capital of Euro three million is to be held, reducible to Euro one million in the case of subsidiary companies, and establishment of a solvency margin calculate, both in the case of Non-Life reinsurance and in the case of Life reinsurance, in compliance with the procedures established for direct Non-Life insurance. An exception applies to a number of products for which the relative margin is to be calculated on the basis of the criteria applicable for direct Life insurance;
- setting up adequate technical reserves in relate to the kind of activities engaged in, to be matured by widely traded assets, chosen taking into account the type of transactions engaged in and ensure the necessary guarantees in relation to liquid assets, security, quality and profitability.

These new rules ensure equal treatment among the pure reinsurance companies and mixed companies (operating in both direct insurance and reinsurance business), expending their field of application to indirect insurance business, written by mixed companies if the amount involved exceeds a given thresholds, provided that this business is managed separately.

DIRECTIVE PROPOSAL RELATING TO DRAWINGS AND MODELS

The directive proposal relating to the protection of drawings and models is designed to amend directive 98/71/EC, harmonising the protection regime included therein and introducing the so-called repair clause, which excludes from this regime those components which are essential to restore the operation or the visual aspect of a given product.

The measure under review has a strong importance for the production and marketing of spare parts for motor vehicles, therefore it is being followed with great interest both by insurers and the automotive industry, particularly in countries such as Austria, France, Germany, Greece, Portugal and the northern countries where a protectionist regime is still in force.

It is therefore likely that the measure will meet with strong opposition in the various stages of the approval procedure, currently in the initial stage, therefore its approval could require a very long time.

DIRECTIVE PROPOSAL RELATING TO SERVICES ON THE INTERNAL MARKET

The directive proposal about services in the internal market is designed to implement the freedom of establishment of providers and the free circulation of services among member countries, making effective the exercise of these two fundamental rights established by the Treaty through a gradual evolution which should be completed within 2010.

This directive applies to a broad range of services, albeit with a number of exceptions, among which financial services, since these are already subjected to uniform regulations. It states, in particular, that the services providers are subject exclusively to the provisions of the member country of origin.

Even though insurance services are excluded from the field of application of this directive, the proposal is under the attention of European insurers in reference to the obligation for professional third-party coverage made compulsory for all providers of services which could represent a hazard to the health or to the safety of the receiver or a third-party. In fact, the extremely vague aspect of this obligation, which is applicable to several categories of professionals would entail serious difficulties in the preparation of the related risk profiles, required in order to determine correctly the insurance cover and the rates.

The measure has started its approval procedure at the European Council and Parliament, generating strong criticism by the various member countries, concerning in particular the principle of the country of origin, which makes its approval very uncertain without major amendments to the text being introduced.

TOWARDS THE GLOBALISATION OF INSURANCE BUSINESS

Deregulation of insurance services worldwide was launched in 1997 by the World Trade Organisation (WTO), with the General Agreement on Trade in Services (GATS) which is designed to open up the market of the member countries, by implementing the principles of national treatment and the most favoured nation. A disputes settlement mechanism and by sanctioning provisions ensure the compliance with these principles.

The Agreement seems to achieve two objectives in the insurance industry: the implementation of the freedom of establishment, through agents and subsidiary companies and the introduction of free services in a number of specific business such as the insurance of international cargo transport and reinsurance.

However, this deregulation process failed to live up to the expectations of the European Union from the very beginning, considering the limited nature of the commitments undertaken by non-EU partners in relation to the commitments undertaken by the European Union.

The significant differences which exist between the developing countries and the industrialised countries have been the cause of continuous postponements to the new negotiating round (the Millennium Round) that the WTO planned to start at the beginning of 2000 in order to make further progress along the route to achieving deregulation for the trading of goods and services.

The WTO Council succeeded in ending this long stalemate last 1st August with the adoption of the so-called "July package", promoting new negotiations based on five strategic areas, including services. The negotiations should end in December 2005 at the time of the ministerial conference in Hong Kong.

Intense preparatory work is in progress in Geneva designed both to assess the deregulation proposals which have been submitted so far by the single countries, and where possible, to re-propose them with a view to improving the content and to expedite the countries that are more reluctant to submit their own proposal.

A special mention must be made of the strong pro-active role played by CEA in the insurance framework during these months, with the collaboration of a number of member Associations, including ANIA, particularly with regard to the principal non-European countries (Brazil, China, India, Mexico and the United States), in order to receive their deregulation proposals in line with the very generous proposal drawn up by the European Union at the time.

RECENT TAX-RELATED MEASURES

Technical reserves taxation

1. Decree Law No. 168 of 12th July 2004 containing "Urgent measures to limit public expenditure", converted into Law No. 191 of 30th July 2004, has intervened for the insurance sector on the provisions of Decree Law No. 209 of 24th September 2002, which introduced a form of taxation on the mathematical reserves of the Life insurance classes. The Decree Law introduced two significant amendments: an increase in the tax rate and a tax credit recovery scenario, in addition to the scenario already foreseen, entailing the use of the credit, commencing from 1st January 2005, to pay the withholding and substitute taxes applied on the return on capital relating to Life insurance and capitalisation contracts, as well as the returns on the complementary pension benefits and unearned insurance revenue. Therefore, the increase in the rate applicable to the mathematical reserves has been foreseen from 0.20 to 0.30 per cent commencing from 2004; moreover, if the aggregate amount of the foregoing withholding and substitute taxes due and payable each year is less than the taxes paid for the fifth previous year the possibility has been introduced of compensating the foregoing difference directly with the taxes, contributions and amounts foreseen thereby or to transfer the foregoing to companies or entities belonging to the same group, commencing from 2007, pursuant to Article 17 of Legislative Decree No. 241 of 1997, in accordance with the procedures set forth in Article 43-ter of Presidential Decree No. 602 of 1973.

2. The Inland Revenue has modified the previous policy designed to limit the compensation of tax credits within the limit of Euro 516,456.90, commencing from 1st January 2005, with regard to the use of the tax credit.

3. In reply to a query raised by ANIA referred to the scenario where an insurance company proceeds with the partial or total transfer of the insurance portfolio, the Inland Revenue has confirmed that this transaction entails the transfer of the credit corresponding to the substitute tax relating to the mathematical reserves referable thereto (portfolio), which therefore may be recovered exclusively by the transferee. Otherwise, the transferor company would be unable to recover the credit, considering that, by its very nature, the reserves-related tax represents a prepayment of the taxes that will be applied on the benefits arising with reference to the related contracts. Therefore, transferring the credit to the transferee, in addition to the transfer of the portfolio is entirely consequential, taking into account the recovery procedures for paid taxes and the correlation between the taxes paid and the return on the insurance contracts to be subjected to taxation, even though managed "in bulk".

VAT: Inter-group services

The insurance sector benefits from the so-called "Inter-group VAT regime" introduced by Article 6 of Law No. 133 dated 13th May 1999, which has established a particular VAT exemption discipline to avoid taxation-related obstacles interfering with the rationalisation processes of corporate structures, achieved by outsourcing to group companies segments of the operations originally managed internally. In particular, the provision foresees the exemption of services rendered to group companies by another subsidiary company, parent company of the same group or a subsidiary of the same parent company in the framework of secondary business, pursuant to Article 2359, paragraphs 1 and 2 of the Italian Civil Code.
The Inland Revenue intervened on the subject of inter-group services during 2004 and with resolution No. 6/E of 3rd February 2004, stated that some services supplied by insurance companies within the group represent essential activities and activities which characterise the enterprise's operating cycle and as such, could not be considered secondary, because provided in the framework of business activities which represent an integral part of the insurance core business, replying to a query raised by a company operating in the assistance, business about the application framework of Article 6 of Law No. 133 of 1999.

The Inland Revenue subsequently corrected the preceding policy based on specific observations by ANIA and new assessment factors provided by ISVAP, and with resolution No. 90/E of 9th July 2004 clarified its position concerning the exemption of settlement services rendered by companies belonging to the same group, sharing the definition of the secondary service provided by the Association.

In fact, the foregoing ruling qualified the following aspects: "as auxiliaries those activities related directly to assisting the core business which are included in the economic cycle of the core business in question, and which entail an accessory and complementary relationship compared with the main activity", a characteristic that is inherent in "activities relating to damage assessment and compensation settlement following a claim event". Therefore, the Association obtained confirmation that activities relating to damage assessment and settlement of claim events are included in the exemption regime, as set forth in Article. 6 of Law No. 133 of 1999, thanks to the above-mentioned clarification.

ADOPTION OF THE INTERNATIONAL ACCOUNTING STANDARDS

Regulatory framework

2004 and the early months of 2005 were characterised by an important regulatory impulse in the field of international accounting standards. This derives from Community Regulation No. 1606/2002, which established the obligation for companies listed on EC regulated markets to draw up the consolidated Financial Statements based on the international accounting standards commencing from 1st January 2005, and allowing the single countries authorising or prescribing the implementation of the foregoing standards for the individual Financial Statements of listed companies and for the consolidated and individual Financial Statements of unlisted companies.

In Italy, the Government has been authorised to introduce one or more Legislative Decrees to exercise the cited right, under Article 25 of Community Law No. 306 of 2003. The authorisation was implemented with Legislative Decree No. 38 of 28th February 2005.

The obligation to draw up the consolidated Financial Statements in compliance with the international accounting standards is required commencing from the financial year closed or in progress as of 31st December 2005 with reference to companies included in the application framework of Legislative Decree No. 173 of 26th May 1997. The obligation commencing from the financial year closed or in progress as of 31st December 2006, and relating to the Financial Statements for the period, will only refer to listed companies which do not draw up consolidated Financial Statements; the provisions set forth in Legislative Decree No. 173 of 1997 (*local GAAP*) will be applied to the Financial Statements for the period concerning the other insurance companies (unlisted companies and listed companies which draw up the consolidated Financial Statements), since the adoption of the international accounting standards is not foreseen even as an option.

However, this solution is consistent with the choices adopted by the other European countries where the obligation of drawing up the Financial Statements for the period in compliance with the IAS is not foreseen. Furthermore, in the vast majority of countries, the option of drawing up the Financial Statements for the period based on the IAS is not even foreseen.

The migration to the international accounting standards by companies that are under an obligation to adopt the foregoing accounting standards will be made during 2005 in a gradual and differentiated way.

In fact, the Italian Companies and Stock Exchange Commission (CONSOB) published the amendments to the Issuer Regulations (No. 11971/1999) on 14th April 2005, necessary to take into account the new features introduced by the com-

ing into force of Community Regulation No. 1606/2002, foreseeing a progressive alignment with the IAS Financial Statements. Issuers were granted a certain flexibility in implementing the choice of the methods to be adopted in drawing up the periodic reports, in addition to more favourable publication timeframes for companies that will adopt the new accounting standards already in the first quarterly report or in the half-yearly report. In particular:

- with regard to the 1st quarterly report, if drawn up by applying the IAS/IFRS, the possibility of publishing the report at a later date has been foreseen compared with the applicable regulations (seventy-five days from the end of the quarter instead of forty-five days);
- with regard to the 2nd quarterly report, the possibility of not drawing up this document has been foreseen, if the issuers prepare the half-yearly report in compliance with the IAS/IFRS, which is to be presented by 30th September 2005 (a similar exemption applies in the case of companies that will submit the half-yearly report *local GAAP*, but subject to a shorter term for presentation, seventy-five days from the close of the half-year).

30th September 2005 represents the last date for the application of the transitional regime (CONSOB has deemed as fair a period of nine months from the date of publication of the provisions in the 2004 Official Journal of the European Community to implement the new procedures) and, consequently, the third quarterly report of 2005 is to be drawn up based on the international accounting standards by all companies with an obligation to submit this statement.

The transition to the IAS/IFRS is found to be particularly complex for the insurance sector, since the two accounting standards contain distinctive features which make their implementation particularly complex:

- the international accounting standard related to insurance contracts (IFRS 4 "Insurance contracts") issued by the International Accounting Standards Board (IASB) in March 2004 and published in the Official Journal of the European Union in December 2004, represents only part of the regulations which will become the accounting standard for the insurance sector when fully implemented. As we will see below, the International Accounting Standards Board (IASB) has postponed the treatment of a number of more complex topics, such as assessing liabilities arising from insurance contracts to a second stage of the "Insurance Contracts" project. In view of the high correlation among the items reported under assets and the items reported under liabilities of an "insurance" Balance Sheet, an accounting standard that disciplines only some of the items has evident problems of valuation and integration consistency with the IAS/IFRS set and, in particular with IAS 39 "Financial Instruments";
- the approved version of the IAS 39 includes an extract of a number of forecasts (so-called carve out) of the "fair value option" which becomes very significant for the insurance sector, as also pointed out by CEA (Comité

Européen des Assurances) in the European session. The European Commission requested the IASB to rapidly review the forecasts extracted, at the date the standard was approved. Therefore, it can be considered that the regulatory framework will undergo significant changes, presumably already in 2005, following the review of the forecasts extracted from IAS 39.

Therefore, the enormous effort required from insurance companies to implement the measures to adapt the internal procedures and the IT systems to produce information complying with the recently approved and continuously changing accounting standards is quite evident.

Insurance contracts Stage I

The International Accounting Standards Board (IASB) has divided the project relating to insurance contracts into two stages. The first stage originated IFRS 4 (approved by the European Community Commission with Regulation No. 2236 of 29th December 2004) which aims to specify the information to be reported in the Financial Statements relating to insurance contracts for each entity that issues the foregoing contracts. In particular, IFRS 4 requires:

- new accounting methods to be applied by the insurers for insurance contracts;
- information capable of identifying and illustrating the amounts arising from insurance contracts reported in the insurer's Financial Statements. The foregoing is designed to help the users of the Financial Statements to understand the amount, the timing and the level of uncertainty of future financial flows arising from insurance contracts.

Stage I defines a number of fundamental factors, such as the concept of the insurance contract and the level of disclosure to be reported in the Financial Statements but does not propose a complete overview of the provisions relating to the entry and assessment methods of items arising from insurance contracts.

The principal new aspect introduced by IFRS 4 is the definition of the insurance contract for accounting purposes and the consequences that arise with regard to reporting in the Financial Statements. An insurance contract is an agreement by which an insurer accepts a significant insurance risk from a third-party agreeing to compensate the insured if it suffers damages as the result of a specific uncertain future event. The mean implementary commitment requested from insurance companies in Stage I of the IASB project relating to insurance contracts is precisely the analysis of the contracts issued and their related reclassification in the framework of the relevant categories to comply with the IAS definitions (for example: insurance, investment or service contracts). It is evident that the reclassification activity has entailed a real accounting revolution for the purposes of a consistent representation of all the accounting items linked with the original contract.

Insurance companies may continue to use the *local GAAP* valuation methods, with particular reference to the technical liabilities, except for limited provi-

sions, in particular, relating to the introduction of a "liability adequacy test" and the prohibition of reporting balance and catastrophic reserves. Concerning insurance contracts reclassified in the investment contracts category as a result of implementing IFRS 4, it should be possible to link the relative assessment to the relative values reported under insurance coverage assets, while awaiting the new wording of the fair value option. In fact, the European Commission, when providing a number of answers to the most frequent queries relating to IAS 39, indicated that Article 31 of Directive No. 674/1991 (the directive relating to the accounts of insurance companies) establishes that liabilities associated with unit linked contracts can be valued consistently with the value of the related insurance coverage assets.

The principal topic that remains unsolved concerns the *mismatch* between insurance liabilities, which will continue to be valued using the local accounting standards, and the insurance coverage assets which should be valued in compliance with the methods established by the IAS 39, and therefore, in the majority of cases, will have to be valued at the *fair value.* The problem is only partially mitigated by the possibility of using the practice of *shadow accounting* which enables an insurer to change its accounting standards in order to obtain that the capital gains or capital losses, reported but not realised, influence the measurement of the insurance liabilities by the same extent as the capital gains or capital losses.

The *Financial Statements Tables* are strictly correlated with the implementation process of the IAS/IFRS by insurance companies. The new compulsory tables to be adopted for consolidated Financial Statements are expected to be published shortly in the case of the Italian insurance companies. The existence of sector tables, designed to facilitate the comparison of information and the supervisory activity, represents another commitment that is undoubtedly quite heavy and which the insurance companies are required to address. However, it is important to note that ISVAP can still exercise powers regarding the international accounting standards, based on Article 9 of Legislative Decree No. 38/2005 relating to insurance companies that draw up the Financial Statements (consolidated and referred to the financial period) in compliance with the IAS, as set forth in Article 6, paragraph 1, and Article 83 of Legislative Decree No. 173 of 1997, in particular, regarding the possibility of establishing supplementary provisions relating to Financial Statements, including the plan of accounts, which is especially important and therefore the definition of the Financial Statements tables.

Insurance Contracts Stage II

A specific working group has been set up (*Insurance Working Group*) within the framework of the International Accounting Standards Board with the objective of completing the project relating to insurance contracts. The activities, which are still at a preliminary stage, are focused on defining the timing to submit the Exposure Draft relative to Stage II and to identify the basic principles which will characterise the valuation of the assets and liabilities associated with insurance contracts.

The main points which are subject to more detailed analysis at an international level are:

- use of the *Asset and Liability Measurement* model as an alternative to the traditional *Deferral and Matching*. With the new approach the items reported in the Income Statement linked with the insurance contracts, would arise from the change in the equity valuations made at the opening and closing date of the reference period.
  Moreover, a discussion is in progress about the suitability of having a single model for all insurance products or several differentiated models depending on the different types of insurance contracts;
- adoption of the *fair value* concept for insurance abilities. Major technical difficulties have been identified in applying this concept to insurance liabilities for the Non-Life classes, which are notoriously characterised by a high level of uncertainty;
- definition of the *fair value* concept. Several alternatives exist (for example: *entity specific value, exit value, entry value*) and, at present, a prevailing policy cannot be identified so far. Also in this case, the market is assessing the different possibilities in addition to the possibility of a mixed approach;
- the need to define a conservative level to be considered in the valuations;
- the need or suitability of taking into account the possible conduct of the insured as regards the renewal of contracts.

The differences on an international level and also on a national level, regarding the characteristics of the insurance products, and the distinctive features of current accounting and actuarial practice make the work of the IASB *Insurance Working Group* extremely complicated, in that it is difficult to foresee a likely date for the completion of the work. The rapid conclusion of the work is essential to have a complete set of rules enabling insurance companies to draw up the Financial Statements based on consistent valuation rules for all the items arising from insurance contracts in a single financial period and in time.

The *Comité Européen des Assurances* launched a number of initiatives in the European session, designed to identify the most critical points of Stage I and to set in motion a comparison of the more controversial topics of Stage II.

Statutory provisions relating to the distributability of reserves introduced by Legislative Decree No. 38 of 2005

Article 6 of Legislative Decree No. 38 of 2005 introduced regulations to safeguard the integrity of corporate equity which establish the non-availability (and not only the non-distributability) of the financial year's profits for an amount corresponding to the capital gains reported in the Income Statement, net of the relative taxes, which arise by adopting the fair value or the shareholders' equity method, and the corresponding reserves, as well as the shareholders' equity reserves established and changed as a direct balancing item of the fair value valuation of financial instruments and assets.

The non-availability of these reserves refers not only to distribution but also the allocation to the capital account, as well as the other uses set out in the reference articles (such as the purchase of own shares), as well as release to cover losses, except the reserve set out in Article 6, paragraph 2 under review, namely the reserve established using the financial year's profits corresponding to the capital gains determined by the fair value method. However, the release of these reserve is permitted only after having used the available profits reserves and the legal reserve and shall be restored by assigning the profits accruing in the subsequent financial years.

Therefore, financial instruments available for sale fall within the general rule, which prohibits the release of profits which arise from fair value valuations. A significant exception refers to the capital gains which arise from the fair value valuation referable to trading financial instruments and foreign exchange and hedging operations, for which the regulations do not establish any limitation, and permits release also for distribution purposes.

Fiscal provisions introduced by Legislative Decree No. 38 of 2005

Article 11 of Legislative Decree No. 38 of 2005 introduced a number of provisions which adapt the structure of the Consolidated Act on Income Tax (TUIR) to the IAS and which are naturally intended to refer to parties that adopt the accounting standards in question and other provisions which, even though arising from coordination requirements with the IAS, are applicable to all parties, based on the power of attorney contained in Article 25 of Law No. 306 of 2003, which has foreseen a potential change in the fiscal regulations concerning corporate income for the purposes of harmonising this aspect with the innovations arising from implementation of the international accounting standards. Article 13 of the same Decree includes transitional provisions relating to the stage of initial implementation of the IAS.

We note that the adjustments to the fiscal regulations are limited, which is a symptom of the delegated legislator's will to avoid differentiating the taxable base of companies, as far as possible, depending on whether they are required (also as an option) or are not required to adopt the IAS, barring a number of exceptions, which include the fiscal importance of the fair value of trading financial instruments for the parties that adopt the IAS.

In particular, with reference only to parties that apply the IAS, amendments have been introduced to Article 83 and Article 109, paragraph 4, of the Consolidated Act on Income Tax (TUIR), in relation to the fact that the IAS foresee a number of economic components are to be reported directly under equity (relating to the valuation of assets and liabilities) without transiting in the Income Statement.

The new Article 83, which redefines the so-called derivation principle, assumes the profit (or loss) reported in the Income Statement relating to the tax period as the basis for the fiscal variations "increased or decreased by the components which are assigned directly to equity due to the effect of the international

accounting standards" and consequently the new Article 109, paragraph 4, amended in this sense, also considers as assigned to the Income Statement "the components assigned directly to equity due to the effect of the international accounting standards". In particular, we would mention Article 13, paragraph 2, among the transitional provisions, which when referring to interchangeable goods (therefore, also bonds), could also refer to insurance companies. The foregoing provision enables the valuation of interchangeable goods based on the LIFO method to be maintained for fiscal purposes, subject to the taxpayer's option, also in the case of parties that are required to adopt other valuation methods as the result of applying the IAS, provided the LIFO has been adopted for the three financial periods preceding the first period of application of the IAS or from the shorter period that elapses from the date they were established. In this case, any lower value of the stocks valued using the LIFO method compared with the value reported will be decreased in the tax return.

Taking into account that the fiscal regulations makes a distinction between the tax treatment of financial instruments based on the dual classification consisting of fixed assets and current assets while the international accounting standards foresee four categories of financial instruments, Article 11, paragraph 2, of the IAS has placed financial instruments available for sale among the fixed financial instruments, for the purpose of applying the provisions of the Consolidated Act on Income Tax (TUIR). The foregoing classification will be important not only for the purposes of applying Article 110, paragraph 1, sub-section c), of the Consolidated Act on Income Tax (TUIR), as amended by Article 11 of Legislative Decree No. 38, which establishes the irrelevance of the higher amounts reported for the part exceeding the deducted capital losses for fixed bonded securities (and therefore securities available for sale) but also for the purposes of the participation exemption that, when certain conditions are satisfied, in the case of permanent shareholdings (and therefore the shareholdings available for sale) foresees exemption of the capital gains realised.

THE EUROPEAN REFORM PROJECT OF THE PRUDENT SUPERVISORY REGIME (SOLVENCY II)

The Solvency II project completed its crucial stage in the last few months, after completing the first preparatory period, essentially dedicated to the general study and definition of problems.
The European Commission presented a general plan (*Roadmap*) last July to perform the work of the project's second stage, together with a Framework for consultation of the parties involved.

The working plan (tables 1 and 2) foresees the following:

- by the end of 2006 the Commission draws up a framework directive proposal, containing the general principles of the new prudent supervisory regime;
- the detailed characteristics of the system, to be included in specific implementing measures, in accordance with the Lamfalussy procedure, are to be defined within 2008;

– the CEIOPS (*European Committee of Insurance and Occupational Pension Fund Supervisors*) is the European Commission's principal consulting body, with reference to the definition of the new rules and for the practical application thereof, after implementation by the member countries;
– the CEIOPS provides its opinions to the Commission based on specific requests submitted by the Commission, while awaiting the formal adoption of the framework directive.

The Commission has submitted three rounds of Calls for Advice to the CEIOPS to implement the foregoing working plan, which in practice cover all the essential aspects of the future regime.

TABLE 1 - CALLS FOR ADVICE OF THE COMMISSION AND REPLIES THEREOF BY CEIOPS - FORECAST PERIODS

1st Round (2° tier) sending to the CEIOPS: July 2004	Public consultation from February 2005	Reply to the Commission June 2005		
2nd Round (1° tier) sending to the CEIOPS: December 2004		Public consultation from June 2005	Reply to the Commission October 2005	
3rd Round (3° tier and several topics) sending to the CEIOPS: April 2005			Public consultation from October 2005	Reply to the Commission February 2006

TABLE 2 - STAGE OF "SOLVENCY II" PROJECT

2005	***2006***	***2007***	***2008-2009***	***2010***
Consultation	Framework Directive proposal by the Commission	Comparison within the framework of ECOFIN/ European Parliament	Adoption	Solvency II come into force
Opinions by CEIOPS on the framework Directive proposal		Opinions by CEIOPS to the Commission with respect to the 2° level measures *("implementing measures")*	Opinions by CEIOPS to the Commission with respect to the 2° level measures *("implementing measures")*	

The definition of the basic characteristics of the future prudent supervisory regime is taking shape, in addition to the preparation up the working plan and the estimate of the related implementation timeframes. The fundamental features of Solvency II, according to the most recent documents published by the Commission, will be as follows:

– the system will be organised in a three tier structure, similar to the scheme foreseen by Basle II for the banks: equity requirements (1st tier), supervisory activities (2nd tier), disclosure and market discipline (3rd tier);

– a dual level for equity requirements will be foreseen in the framework of the 1st tier: the *Solvency Capital Requirement (SCR)* and the *Minimum Capital Requirement (MCR)*. The Solvency Capital should be established so that all quantifiable risks to which a company is exposed are considered and should be based on the amount of the economic capital corresponding to a predefined probability of ruin and to a specific timeframe. The Commission has referred to the classification adopted by the *International Actuarial Association (IAA)*, with regard to the risks to be considered to determine the requirement, which include underwriting, credit, market, operating and liquidity risks. As regards the calibration of the parameters, the Commission suggests a 0.5% probability of ruin and a timeframe equal to one year, as a mere working assumption, and as such, to be subjected of an impact study. The definition of the standard formula to calculate the Solvency Capital remains open, and here the opinions of the CEIOPS will be crucial. The standard formula may be based on *risk-factor* type methods (similar to the *Risk-Based Capital* system in force in the United States), on approaches based on probability distributions, on scenarios or on a combination of different methods.
  The Minimum Capital should represent an absolute minimum, to be calculated in a simplified way, which would trigger extreme supervisory measures if they are breached by a company;
– the future regime will need to be structured to encourage and provide incentives to companies to measure and to manage appropriately the risks to which they are exposed. Common principles will be issued at a European level in this regard, relating to *risk management,* internal auditing and the related supervisory activities. Secondly, the possibility of recognising the internal models adopted by the companies to determine the equity requirements will be foreseen, provided these models reflect the company's specific risk profile more effectively, compared with the standard approach and can be validated appropriately;
– the technical reserves are to be calculated in accordance with methods which are more harmonised compared with the current methods. In particular, the technical reserves should consist of a *best estimate* and of a *risk margin* with the prospect of consistency with developments referred to the international accounting standards. As a working assumption, the Commission has identified a level of 75% as the *benchmark* for the probabilities distribution for the confidence level of the technical reserves. Evidently, this refers to a level that will need to be calibrated based on the foreseen impact studies;
– the approach suggested by the Commission related to the rules disciplining investments is the approach referred to as *Prudent Person Plus*, namely a co-ordinated set of general management principles and a few quantitative restrictions on the investments (for example: to avoid concentrating risks), taking into account that the future equity requirements will also reflect the riskiness of the assets held by the companies. Companies will be required to adopt an appropriate *Asset-Liability Management* policy, as well as a

global investment policy, including a plan (*Investment Plan*) and procedures which describe the implementation criteria;
- the effects of all the techniques adopted to mitigate the risks, ranging from reinsurance to financial hedging arrangements, should be considered when determining the equity requirements, since the new solvency system is designed to be more calibrated compared with the current system as regards the actual risk profile of the companies;
- although the primary objective of Solvency II is to assess the solvency of the single companies, the future system will need to allow insurance groups and financial conglomerates to be supervised more efficiently;
- supervisory reporting should be compatible with the Financial Statements reporting, as far as possible, in particular with the accounting rules drawn up by the IASB in order to limit the administrative charges borne by companies;
- the future system will need to promote the harmonisation of the methods and of the qualitative and quantitative supervisory tools: therefore, in principle, the solvency rules should not require additional operations at a national level;
- the system should ensure equal treatment among the various financial sectors: products with analogous risk profiles should be subjected to analogous prudential standards;
- the future system will need to be consistent with the insurance supervisory principles and standards in the process of being drawn up by the IAIS (*International Association of Insurance Supervisors*) for the purpose of promoting broader international harmony.

The studies relating to the impact of the proposed regulations become critical considering the fact that the overall project foresees the introduction of a new equity requirement (the *Solvency Capital*) based on the risks actually sustained by the companies, on more harmonised technical reserves and, probably, on new accounting rules. Estimates of the new minimum requirements, although approximate, should be available before the framework directive is formally proposed, according to the Commission's working plan. For this reason the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has initiated a first preparatory study on a sample of Life insurance companies, to be performed on a voluntary basis. The study foresees that the participating companies apply a series of standardised stress tests to the market values of their own assets and liabilities (the reference concept for the latter is the *best estimate*). The risks to be considered in the stress test involve the interest rate risk, credit risk, market risk, *underwriting* risk and the redemption risk.

The results of the preparatory study, to which also a sample of Italian companies has participated, will be presented by the CEIOPS and will form the basis for the subsequent real impact studies, which should be launched by autumn.

* * *

The European Insurance Committee (CEA), which has followed the Solvency II project from the beginning, set up a *Steering Committee* in September 2004 with the objective of reinforcing its actions in a stage in which the work has intensified significantly at a community level.

Among the numerous initiatives which have been launched we mention:

- the preparation of a series of papers on specific topics (Basle II and Solvency II, structural aspects of Solvency II, answers to the queries raised by the CEIOPS);
- the performance of a comparative study on the principal solvency regimes in force within Europe and outside Europe, in order to identify common factors, recent trends and the more innovative aspects;
- the definition of a series of *Building Blocks*, namely the fundamental principles for a European approach to calculating the Solvency Capital;
- the definition of the structure of a standard model, namely a method to calculate the Solvency Capital Requirement that takes into account, in the most appropriate way, all the relevant and quantifiable risks that can occur to determine the financial stability of a given company.

The positions which are evolving within the European Insurance Committee with reference to the Building Blocks, can be summarised as follows:

- the Solvency Capital Requirement (SCR) should be based on a Total Balance Sheet Approach, namely by considering the economic value of all the assets and liabilities of a given company;
- the company's requirement in terms of Solvency Capital should take into account any prudent margin contained in the technical reserves;
- the standard approach to evaluate solvency should be the risk factor type, at least as a starting basis. However, for certain particularly complex risk categories, for example, the mismatching risk between assets and liabilities for products with guarantees and options or the catastrophe risk in the case of Non-Life insurance classes, could require more sophisticated approaches (for example: the stress or scenario test);
- the risk measurement to be adopted should be the Value at Risk (VaR), with a timeframe equal to one year. The confidence level to be taken as a reference should be defined after having completed adequate simulations;
- the standard formula should consider the underwriting, market/ALM, credit and operating risks;
- the standard formula should reflect the effects of diversified risks; this formula should also take into account the risks mitigation techniques adopted by the companies (reinsurance, derivatives, securitisations);
- the Solvency Capital calculation should reflect the benefits of diversification arising from the fact that the company is part of a group.

The definition of both the Building Blocks and the structure of the standard approach should be completed within the end of June. The coordination of the

calibration stage and the quantitative impact study will follow in later months also in the light of the positions established in this regard within the CEIOPS.

ANIA is following the work of the CEA Steering Committee directly, also thanks to the activities of a working group that has been set up specifically.

PRIVATE INSURANCE CODE

The Legislative Decree scheme containing the regulatory reorganisation of the provisions applicable to insurance (Insurance Code) represents an important legislative innovation.

Insurance legislation has been in special need of this regulatory reorganisation and certification work for some time now, since the previous Consolidated Act dates as far back as 1959. Insurance legislation throughout this long period has been abundant and more and more detailed, originating both from the EC and internal law. Therefore, it was absolutely necessary to proceed both to rationalise and harmonise the sources and to systematically coordinate the sector regulations with the new Consolidated Act to discipline the business operations in a structured form, as has already occurred in the corresponding banking and financial sectors.

However, the new Insurance Code has not limited its activities to collecting existing legislation, since, besides the compiling function inherent to all Consolidated Acts, the Code introduces significant innovations which relate to the following topics:

a) deregulation and concurrent conferral of regulatory powers on the sector auditing Authority, always in compliance with the principle of lawfulness and the principle of super ordination of community regulations;

b) transparent operations and protection of the insured, harmonising the insurance discipline with the regulations relating to financial brokerage, with specific reference to the pre-contractual information supplied to the contracting party, to publicity and the rules of conduct;

c) harmonising insurance regulations with banking regulations in terms of the ownership structures and the group notion;

d) individual discipline, governing contractual figures unfamiliar to the Italian Civil Code, such as assistance and legal expenses insurance;

e) distribution, implementing the directive relating to insurance brokers (2002/92/EC), which gives the distribution system a more competitive, professional and transparent structure for insurance users.

f) fiscal, rationalising a number of provisions relating to insurance taxation: in particular, dual taxation, which occurs in cases of succession in co-insurance agreements, has been eliminated.

* * *

The scheme for the new private insurance Code was approved by the Council of Ministers in a preliminary form on 16th July 2004.

Subsequently, the opinions expressed by the joint Government-Regions Conference (25th November 2004) and the Council of State (14th February 2005) were incorporated, as foreseen by delegated law No. 229 of 29th July 2003 (2001 simplification law).

Lastly, the Legislative Decree scheme was submitted to Parliament, where it was assigned to the Senate Industrial Commission and to the Chamber of Deputies Finances Commission, now called to express their opinion. These opinions are compulsory but not binding.

The scheme will have to be approved by the Council of Ministers in its final form, after completing this last important and delicate stage. Therefore, it is reasonable to assume that the new Insurance Code may be passed finally within next Summer.

The opinion of the Council of State – which is also compulsory but not binding – has assessed the Insurance Code scheme to be essentially positive, focusing on a number of general profiles, such as federalism, relationships with the code-related regulations and, above all, the auditing Authority's regulatory power and the sanctionary system, as well as on the single provisions.

The Council of State made observations on the following aspects relating to the above:

- insurance-related matters come within the Government's exclusive legislative jurisdiction, with regard to federalism;
- as regards the regulations of the Italian Civil Code relating to insurance contracts, perhaps it would be appropriate to introduce this in the framework of the new Code;
- regarding ISVAP's regulatory power, the general and abstract measures adopted by the Institute represent effective regulations;
- finally, as regards the sanction system, which appears to comply with company-related criminal law, the choice of imposing administrative money penalties directly on the companies, barring specific situations.

* * *

The Association has continued to submit a series of additional observations and proposals, also during the examination stage of the new Code by the competent Commissions; the following observations are worthy of mention:

- to ensure the rationality and fairness of the sanction system, modifying the amounts of the sanctions foreseen, where necessary;
- to foresee the applicability of a single substitute sanction, of an adequate amount, in the case of "serial" breaches of a given provision, naturally, providing the breaches in question are not particularly serious and the company takes steps to remove the organisational malfunctions which are the cause of the breaches in question;
- to define adequate principles and criteria for the preparation of the single national table to settle biological injury, in order to ensure full constitutional legitimacy of the future discipline.

ANTITRUST AND THE INSURANCE BUSINESS

The sentence passed by the Joint Sections of Cassation 2207/05

The Joint Sections of Cassation have put an end to the legal action regarding the identity of the competent judicial authority to be approached by consumers to request compensation for damages as the result of an anti-competitive arrangement. The legal action was brought following the measure issued by the Antitrust Authority against a number of insurance companies providing motor liability cover which had exchanged commercial information in the framework of a consulting company.

The Joint Sections confirmed that the Court of Appeal is the only body with jurisdiction to judge on the merits of legal actions brought by any party for compensation for damages, in compliance with the conditions laid down by Law No. 287 of 1990 relating to antitrust matters. In fact, the sentence clarifies that the antitrust law does not represent a useful instrument only to safeguard the interests of entrepreneurs competing with entrepreneurs that have put in place an unlawful arrangement, but concerns all market-related parties, including also end consumers potentially involved in the effects of the unlawful activity.

According to the Supreme Court, the instrument by which consumers can be subjected to the effects of the anti-competitive arrangement is represented by the contracts entered into with the participating entrepreneurs "downstream" of the arrangement in question: in fact, the foregoing contracts would not appear to be separable from the "upstream" arrangement considering their functional link with the anti-competitive will implemented by the participant parties. In essence, the contracts entered into after an arrangement has been put in place, would be the instruments by which the anti-competitive will is implement in a tangible form.

However, the Joint Sections have confirmed that the compensation of the damage cannot proceed solely on the basis of the judgement against the arrangement passed by the Antitrust Authority but that, in fact, it is also necessary for the Court of Appeal to verify the existence of the unlawful effects which have been produced directly in reference to the final receivers, on the basis of the evidence submitted by the plaintiff.

The Regional Administrative Court (TAR) of the Lazio Region and the measure AGCM Life insurance companies and IAMA Consulting

Last April the Regional Administrative Court (TAR) of the Lazio Region revoked the measure adopted by the Antitrust Authority in 2004 against 13 companies operating in the Life insurance sector and against the consulting company IAMA Consulting.

In the measure, the Authority had deemed a market survey conferred on IAMA by the 13 insurance companies involved did not comply with the principles of free competition, without imposing money penalties. The measure was adopted at the end of an investigation opened after a voluntary request submitted by two companies to receive confirmation regarding the lawfulness of the activities performed.

In particular, the investigation compared information that could have been obtained by anyone with an interest, based on current regulations, and furthermore the information was available to anyone interested in obtaining the results, obviously after paying a fee to the consulting company that had carried out the survey.

Moreover, the foregoing was based on a licence held by an English company that had distributed the same product on that market for many years, without encountering problems with the British Antitrust Authority. In fact, the product was used by the Financial Services Authority, since deemed to be useful.

Inquiry in progress relating to the ANIA/Experts agreement

The Antitrust Authority has set up an inquiry to establish compliance with antitrust principles regarding the Agreement entered into by ANIA with a number of associations of Experts and concerning the rates applicable to the Experts in question when the latter render their services to insurance companies.

As is known, the agreement was entered into by applying Law No. 166 of 1992, according to which the definition of the rates for services provided by Experts must be the outcome of consultation between the Signatories then followed by final approval by the competent public Authority that, in such a case is ISVAP.

In any event, while awaiting the outcome of the assessments by the Antitrust Authority, ANIA has formally terminated the agreement as soon as it has been notified that the inquiry had been set up.

SOCIAL SECURITY REFORM: LAW No. 243 OF 23RD AUGUST 2004

Law No. 243 containing the "Regulations disciplining pensions and proxies to the Government in the public Social Security sector, to support supplementary Social Security and stable employment and to restructure the compulsory Social Security and Welfare Institutions", was approved on 23rd August 2004 and came into force on 6th October 2004. At the time of writing the Government has only implemented some of the provisions relating to public Social Security aspects, whereas the relative implementation provisions still have to be issued with regard to complementary Social Security (pension). The most important new features introduced or still in the process of being introduced to the Social Security regulations are outlined below, the aspects relating to public Social Security are shown separately from the aspects relating to complementary Social Security (pension) in order to simplify the presentation.

Public Social Security

The law's objective is to limit the impact of pension-related expenditure on the gross domestic product to ensure its financial sustainability over time.

A series of regulations have been approved for this purpose, the principal features of which are as follows:

- increasing the minimum requirements to be eligible to receive a pension and changing the rules to receive an old-age pension;
- decreasing the number of so-called "openings" from 4 to 2, namely the dates during the year when an application to receive a pension can be submitted, once the relative eligibility has been attained.

The foregoing measures will become effective from 1st of January 2008. Moreover, incentives have been granted to defer old-age pension during the period between 2004-2007 in the case of subordinated workers in the private sector that have become eligible. This incentive is represented by a sizeable "bonus" credited to the wage/salary packet, exempt from Personal Income Tax (IRPEF), corresponding to the contributions due to the Social Security Institutions (which are generally equal to 32.7% of the wage/salary). Naturally, the workers that opt for the foregoing incentive are no longer under any pension-related insurance obligation during the reference period.

Other important regulations concern the following aspects:

- deregulation of the pensionable age, in other words the worker is granted the right to continue working also after having satisfied the eligibility requirements to receive an old-age pension, subject to agreement with the employer;
- separation between Social Security and Welfare by reporting separate account entries in the Financial Statements of the Social Security institutions;

– totalising the insurance periods, granting this possibility also to those that have reached 40 years occupational seniority and have paid for at least 5 years voluntary contributions to any fund or Social Security institution;
– elimination of inequality among pension treatments, with the objective of achieving the same treatment among the various management schemes for a given contribution and pensionable remuneration, excluding the privatised institutions;
– extending the possibility of accumulating seniority pensions with the income from independent or subordinate employment;
– providing incentives for part-time work;
– the right of para-subordinated workers to be able to pay voluntary contributions.

Complementary Social Security

The objective of the proxy conferred on the Government is to sustain and provide incentives for the development of complementary Social Security (pension scheme). The following important principles have been ratified for this purpose:

– the worker is given freedom to confer its employee severance indemnity (TFR) to complementary forms of pension scheme, and to expressly notify the employer with the details of the collective or individual form of pension scheme selected where the new employee severance indemnity (TFR) allocations are to be transferred, or subject to a different explicit expressed wish of not allocating the foregoing to the complementary Social Security (pension) scheme. If the worker fails to communicate a preference, the employee severance indemnity shares will be allocated to collective forms of pension schemes (negotiated pension funds, pension funds open to collective membership or regional pension funds) based on a silence-consent mechanism;
– removing obstacles which come between free membership and migration of workers within the complementary Social Security (pension) system, in order to allow full freedom of choice and harmonising the rules relating to the comparability of costs, transparency and the portability of the individual position;
– the worker is given the possibility of channelling as well the contribution paid by the employer into the selected pension scheme or into the scheme to which the worker intends to migrate, in addition to the employee severance indemnity (TFR);
– give to the Pension Funds Supervisory Commission (COVIP) the exclusive power to establish provisions relating to the transparency of contractual terms and conditions for all forms of complementary pension schemes, as well as to discipline the procedures of offering to the general public all the tools relating to complementary Social Security (pension) schemes;
– increasing the tax incentives, both in terms of deductibility of the contribution paid into the forms of collective and individual pension schemes, of the taxation of the earnings generated by the assets referable to the pension schemes.

ANIA fully shared the importance of establishing common rules regarding comparability, transparency and portability of all the complementary collective and individual pension schemes, as underlined by various parties during the debate held on the delegated decrees.

In this context, ANIA has also strongly reproposed the need to remove the prohibition in force today and to allow the newly established pension funds to invest their resources or a part thereof in class I and class V insurance asset management schemes. These asset management arrangements are characterised by the security and profitability of the investments, and are able to offer a guaranteed minimum return on the amounts assigned, and could favour an extension of the membership base to complementary Social Security (pension) scheme, a membership base that today is reluctant to invest in funds for fear of capital account losses.

In fact, in the class I and class V insurance asset management schemes, the insured do not purchase quotas of an investment fund, which instead is the case of unit-linked policies, but the premiums paid by the insured, net of costs, are channelled into a separate asset management scheme the assets of which can only be released to be sold. The assets and returns generated by the asset management scheme are reported on the basis of current community regulations, with reference to the book value, also defined as the historical cost, and the sale of the assets. The return achieved by the asset management schemes is determined annually as the ratio between the sum of the coupons, dividends and the capital gains or losses realised by the assets held in a separate management scheme compared with the average funds held. The foregoing return is assigned in part or fully to the value generated by the benefits referable to the contract. The main consequences of the characteristics of these asset management schemes are as follows:

- a dramatic decrease in the volatility of the returns. The movement of the yield curve and of the price of shares have a limited effect on the foregoing asset management schemes compared with the effects determined in accordance with the marked-to-market method, since the losses only impact the performance of the fund if sold. To understand this mechanism better we can consider a fund closed to entries and exits with a fixed duration, and the annual return is to be assessed using the marked-to-market method and the historical cost: the returns will be the same at the expiry date, but the volatility of the annual returns for the separate asset management scheme will be obviously much lower;
- solidarity among investors. The mechanism to calculate the return on the separate asset management scheme implies a given level of mutuality among the investors that have invested at different times: in fact, the return of a given period is represented by a weighted average of the return attributable to the investments made during the life of the asset management scheme and still existent during the reference period;
- partial attenuation of the investment's timing risk. The consequence of the solidarity among investors is the attenuation, at least a partial attenuation, of the

risk of mistiming the entry or exit from the investment: in fact, in any event, the sale is decided by the operator-insurer, and the investor will receive an overall return equal to the mean return for the investment period, therefore there will be no timing risk of entering or exiting the asset management scheme.

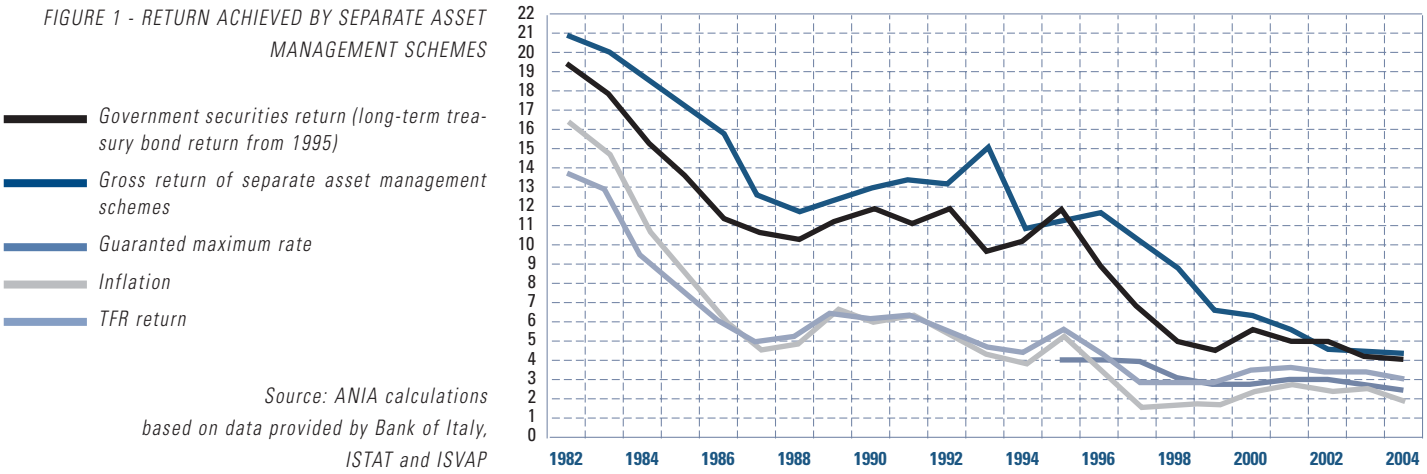
Another advantage of the insurance asset management schemes is that it does not suffer from "shortermism", since long-term asset allocation can normally be adopted and thereby avoid inappropriate choices dictated by contingent situations. Furthermore, we consider it appropriate to stress that in the final analysis the only partial discretionality on the part of the operator-insurer in determining the performance of the asset management arrangement lies in the timing of realising the capital gains or capital losses.

Insurance companies adopt sophisticated asset liability management techniques, thanks to the operating mechanism of the insurance management schemes and of the statistical foreseeability of the portfolio movements, which enable the following financial guarantees to be offered efficiently:

- guaranteed minimum performance. The foregoing currently do not exceed 2.5%, by law (the maximum value foreseen by law is related to the return of a 10-year Government benchmark security);
- consolidated results. Consolidation can be achieved on an annual, multi-annual or event basis (for example: transfer of the individual position, accident, death, retirement).

It may be useful to make a long-term comparison among the returns achieved by separate asset management schemes associated with revaluable policies compared with the returns achieved by Government securities, the inflation rate and the remuneration referable to the employee severance indemnity (TFR).

FIGURE 1 - RETURN ACHIEVED BY SEPARATE ASSET MANAGEMENT SCHEMES



Source: ANIA calculations based on data provided by Bank of Italy, ISTAT and ISVAP

Figure 1 shows how the return of the separate asset management schemes between 1982 and 2000 was distinctly higher each year compared with the rate achieved by Government securities (the return achieved by the long-term Treasury Bonds (BTP) has been considered from 1995), the remuneration rate of the employee severance indemnity (TFR) and the rate of inflation. The

return achieved by the separate asset management schemes over the 2001-2004 four-year period was equal to 4.8% per annum, equal to the BTP rate, compared with a rate of inflation of 2.4% and a remuneration equal to 3.3% referable to the employee severance indemnity (TFR).

If the value of an investment in a "pure" capitalisation policy with revaluable benefits is taken as 100 in 1981, then the value of the investment in 2004 was equal to 1,256 (with an annual average return of 11.6% – figure 2); the same investment in Italian shares was worth 1,172 in 2004, assuming complete reinvestment of dividends (with an annual average return of 11.3%). The real return achieved by the separate asset management schemes was equal to 6.3% as the average per annum (not compound), with a 2.5% standard deviation; the real annual average in the case of the investment in shares was 9.6% with a 33% standard deviation. The investment strategy in revaluable policies was found to be largely preferable, over the past 23 years, compared to the investment in shares, on the basis of the Sharpe ratio (calculated as the ratio between the real net return and its standard deviation); the same conclusion is reached when considering that, in general, a portion of between 80 and 95% of the return achieved by the separate asset management schemes is reimbursed to the insured.

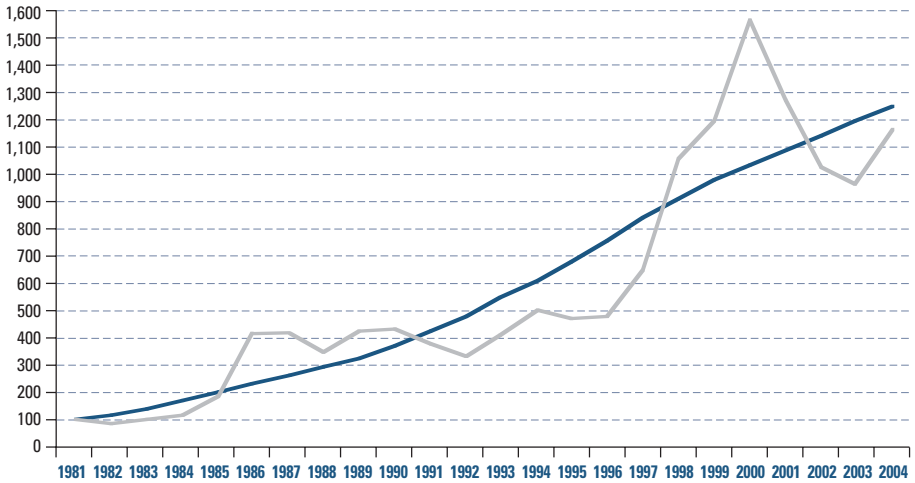


FIGURE 2 - VALUE OF AN INVESTMENT IN REVALUABLE POLICIES AND IN MARKET SHARE (ASSUMING COMPLETE REINVESTMENT OF DIVIDENDS)

The insurance asset management schemes deliver a obligation of result represented by the value of the amount attained by the insured, and not a obligation of means, as is the case in the normal asset management mandate, therefore, the legislator has also foreseen a number of safeguards which ensure the solidity of the management schemes, in addition to the insurer also being liable, with its own equity, to achieve the commitments of a minimum contractual return. In particular, we would mention the following:

- the regulation that imposes the availability of sufficient and appropriate assets to cover the commitments undertaken, at any time (Article 24 of Legislative Decree No. 174 of 1995);
- the regulation disciplining the establishment of supplementary reserves to be set up in certain cases to further guarantee the commitments undertaken (Article 25 of Legislative Decree No. 174/1995);

– the prudent regulation relating to the determination of commitments and the valuation of assets reported in the Financial Statements (Article 25 and Article 27 of Legislative Decree No. 174/1995);
– the regulation that limits the type of investments and establishes the maximum limits for each of the investments, to guarantee the security, distribution, profitability and the respective liquidity status (Article 26 and Article 29 of Legislative Decree No. 174/1995);
– the regulation disciplining the solvency margin, which obliges companies to hold a certain level of releasable shareholders' equity, in addition to the technical reserves, in order to cover any unexpected losses (Articles 33-36 of Legislative Decree No. 174/1995).

With the recent issue of ISVAP Circular No. 551/2005, the insurance asset management schemes have achieved a standard of transparency and information to members, both in the pre-contractual stage and during the contract, which is analogous and in certain cases higher than the management standards applicable to the pension funds open to a defined contribution. Furthermore, we would mention that the reporting obligation and the relative publication of the report for each single separate asset management scheme has always been applicable. The foregoing report is subjected to strict audits by ISVAP and the professional opinion expressed by external auditors.

Considering this and based on the consideration that the separate insurance asset management schemes historically have had a bond/balanced asset allocation (in general, the equity sector does not exceed 20% of total assets), it is reasonable to assume that:

– the persons closest to reaching pensionable age are those most interested in these asset management schemes, presumably not wishing to risk the amount accrued. Whereas, younger persons should be more willing to accept higher risk profiles in order to achieve potentially higher returns, with a relatively limited volatility if the timeframe is sufficiently broad;
– these asset management schemes could represent an adequate incentive to divest the employee severance indemnity (TFR) and channel the amount into a supplementary pension scheme in the case of lower income bracket workers, particularly unwilling to take risks and aware that the employee severance indemnity (TFR) has an almost zero risk profile and a return that is higher than inflation, at current market conditions.

Therefore, overall, the insurance asset management schemes have the potential to broaden the platform of the complementary pension schemes, including workers that are very reluctant to take risks, either because of their personal attitude or due to the low income.

More in general, the offer in pension funds of low volatility sectors, characterised by result obligations, guaranteed minimum returns and consolidation mechanisms, reduces the overall risk to be borne by the workers that generally support the investment risk directly, in the current Italian complementary pensions system, based on the defined contribution.

THE WORLD ECONOMY

The world economy should grow in 2005 at a rate that is still high, even though cooling. The global GDP should grow by 4.3%, according to the International Monetary Fund, compared with 5.1% in 2004, but the disappointing trend of the economic indicators in the first quarter of the year make a downward adjustment highly probable. Inflation should remain at modest levels, despite the high price of crude oil, also due to demand which is relatively weak in many developed countries and as a result of the increasing commercial integration of India and China.

The growth differentials among the different regions should not diminish, instead they could increase within the Euro area.

The growth achieved by the United States, according to the forecasts made by the OECD, will cool slightly to stabilise on the long-term average: the GDP should grow by 3.6%. The role played by private consumption as the principal driving force for growth should decrease gradually, to the extent that households will channel an increasing portion of income to savings, which has reached very low levels over recent years (0.8% of the available income in 2004). The sound profitability achieved by companies, the still favourable credit conditions and the need to increase production capacity should generate a distinct impulse for investments in machinery and plants, whereas the investments in buildings should grow more slowly due to the generalised increase in interest rates. The strong progression in domestic demand, which combined with a public deficit that looks set to exceed 4.5% of the GDP, contributes to deteriorating the current balance of payments position, which should increase from 5.7% to 6.5% of the GDP. The foreign trade deficit continues to represent one of the major unknown factors which have a negative impact on growth due to concern over a sudden change in strategy by Asian investors (public and private), which to-date have financed the majority of the United States commercial deficit, also through the massive purchase of public bonds.

The significant depreciation of the US dollar, the increased price of crude oil and the drive in demand should maintain the growth of prices at around 2.8%, forcing the Federal Reserve to continue its work of containing inflation by increasing interest rates.

Growth in the Euro area shows rather weak signs of recovery. According to the OECD the GDP should grow by 1.2%, with more and more apparent differences among the member countries, a situation that could create problems in managing the monetary policy. If, on the one hand, the French and Spanish economies appear to be recovering, with a foreseen growth rate of 1.4% and 3.0%, respectively, the German recovery appears to be more uncertain (+1.1%), whereas Italy could be heading towards a recession (refer to the paragraph below). The recovery of investments in some countries (in particular, France and Germany) would appear to benefit from very high rates of

profit, the distinct improvement in the financial positions of companies recorded in recent years and credit conditions which will remain favourable, as well as a generalised improvement in the level of confidence of companies. The low inflation rate could favour private consumption. Net exports will still be impacted by the strength of the Euro, with very different effects depending on the level of domestic demand and the commodity mix of exports: for example, exports are expected to make a positive contribution of 0.8% to Germany's growth and a negative contribution to growth in France and Italy (-0.7% and -0.8%, respectively). The expected inflation rate remains quite low (1.8%) and the short-term rates will probably be maintained at the current level. The OECD does not expect substantial changes in fiscal policies, also in view of the distinct softening of the clauses of the Pact of Stability and Growth. However, the effect of corrective measures put in place in previous years, and the differences in growth will generate gaps in public deficits: the French and German deficits should improve, decreasing from 3.7% to 3.0% in the first case and from 3.6% to 3.5% in the second case, whereas the Italian deficit would appear to deteriorate significantly.

TABLE 1
FORECASTS FOR 2005 - MAIN INDUSTRIALISED COUNTRIES
Annual change (%)

	GDP	Private consumption	Investments	Net exports	Consumer price
United States	3.6	3.8	5.8	-0.5	2.8
Euro-Area	1.5	1.1	0.7	-0.1	-0.2
Eurozone	1.2	1.3	2.0	-0.3	1.8
France	1.4	1.9	3.3	-0.7	1.6
Germany	1.2	0.4	0.5	0.8	1.2
Spain	3.0	3.5	6.1	-1.4	3.1
United Kingdom	2.4	1.7	4.0	-0.3	2.0

Source: OCSE (Economic Outlook, June 2005)

THE ITALIAN ECONOMY

The succession of negative indications relating to the economic trend, combined with the very unfavourable data on the growth of the GDP in the first three months of 2005 (-0.5% compared with the third quarter of 2004, which had already recorded a deterioration of the economic situation) have produced a downward review of the growth expectations for this year. According to the Bank of Italy, the increase of the product will be essentially zero. The economy will undergo a significant contraction equal to 0.6%, according to the OECD, with some timid sign of recovery towards the end of the year. The deterioration of international competitiveness (-25% in four years if the unit costs of labour are considered) due to the on-going loss of productivity would generate a net downturn in exports approaching 1%. This loss would not be entirely compensated by domestic demand, remaining essentially at the same level as 2004. The difficult structural situation of the manufacturing sector could translate into a dramatic downturn in investments in machinery and plants, which would decrease by 3.1% despite the

fact that the cost of capital is at very low levels, and the profiles of companies are satisfactory; investments would decrease by 1.6%, overall. The levels of employment and the substantial stability of prices would sustain the available income, which would increase by 1.1% (2.1% in 2004). However, this increase will impact consumption to a very limited degree (expected to increase by 0.7%, while the Bank of Italy foresees a slight increase that exceeds or is equal to 1%): concern over the economic situation and reforms of the Social Security (pension) system produce an increase in the rate of savings by households, which continues a growth trend that has already been observed over a number of years. The rate of inflation does not appear to exceed 2%, even if a significant portion of the 4.4% increase in prices at production level observed in 2004 could be transferred to consumer prices. Without corrective measures the ratio between the public deficit and the GDP could reach 4.5% in 2005, according to the OECD, due to a rate of growth that is significantly lower than the rate foreseen by the Government and the absence of the 'once only' measures which in previous years had contributed significantly to controlling the Government deficit. The forecasts by the Bank of Italy indicate a ratio between public deficit and GDP equal to 4%.

TABLE 2
FORECASTS FOR 2005 - ITALY
(%)

	2004	2005
GDP	1.2	-0.6
Private consumption	1.4	0.7
Investments	2.1	-1.6
Net exports	0.2	-0.8
Consumer price	2.3	1.9
Deficit/GDP (*)	-3.1	-4.5

Source: OCSE (Economic Outlook, June 2005)

(*) Data slightly different from those published by the European Commission

FINANCIAL AND SAVINGS MARKETS

The significant and consistent differences in the economic trends between the United States and the Euro area will imply different trends as regards the short-term rates of interest: the upward trend of the United States rates should continue, and it is expected that the average for 2005 will reach 3.4%. The OECD foresees that the European Central Bank will reduce the reference rates (1.8%), to sustain weak internal demand, while the expected rate for the three-month rates recorded at the end of May indicates that the ECB will leave the rates unchanged during 2005.

The United States 10-year rates should increase to 4.5%, while the performance of the 10-year Euro rates could decrease to 3.5%.

The savings conduct of Italian households should be conditioned significantly by the concern for the trend of the economic situation and the low level of confidence. The continued increase in the propensity towards savings and the limited growth in investments in real estate should contribute to improving the financial balance of households, which Prometeia estimates will grow above 5% of the GDP. The restructuring of the portfolio should privilege liquid assets and bonds, chiefly public, above all to the detriment of investment funds. The demand for Life insurance is increasing.

ITALIAN INSURANCE

In 2005 premium growth should not differ much from last year's: 5.4% against 4.2% in 2004. Premium volume should exceed Euro 106 billion, with

an incidence on GDP in slight increase: 7.7% against 7.5% of the previous year.

TABLE 3
FORECAST OF ITALIAN INSURANCE PREMIUMS
Euro million

CLASSES	2003 PREMIUMS	2004 PREMIUMS	CHANGE (%)
Motor liability	18,062	18,468	2.2%
Land vehicles	3,145	3,221	2.4%
Accident	2,887	3,020	4.6%
Sickness	1,577	1,659	5.2%
Fire and natural forces	2,157	2,261	4.8%
General third party liability	2,999	3,224	7.5%
Other damages to property	2,289	2,416	5.5%
Other Non-Life classes	2,295	2,425	5.7%
TOTAL NON-LIFE CLASSES	**35,411**	**36,694**	**3.6%**
Premiums/GDP (%)	*2.62%*	*2.65%*	
Class I - Human life	30,101	32,058	6.5%
Class III - Linked	24,756	25,886	4.6%
Other Life classes	10,770	11,854	10.1%
TOTAL LIFE CLASSES	**65,627**	**69,798**	**6.4%**
Premiums/GDP (%)	*4.85%*	*5.03%*	
TOTAL CLASSES	**101,038**	**106,492**	**5.4%**
Premiums/GDP (%)	*7.47%*	*7.68%*	

Source: ANIA estimates

In Non-Life classes the growth seems to total 3.6%, with a premium income slightly lower than Euro 36.7 billion. This growth is clearly influenced by the third party liability class, that for 2005 as well should increase within certain limits (2.2%), due to a lower demand for vehicles and rate growths that, despite the negative trend of claims' average cost, should remain low thanks to the improvement in the sector's technical results registered in the previous years. A higher development should regard general third party liability classes (7.5%), that for years now have shown technical results in reduction.

Incertitude regarding the economic revival will still be a distinguishing feature of premium income development in Life classes, confirming a preference for insurances with a low risk profile. In presence of a slight increase in real terms of disposable income and inflation reduction, Life premiums increase is estimated around 6.5% and premium collection should reach Euro 70 billion. As to the single Life classes a further development (+6.5%) of class I – human life – is expected (even though at lower rates compared to those registered in past years) and a modest upturn (+4.6%) of class III – investment funds after the 2004 contraction.

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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