Italian insurance in 2005/2006

ANIA Associazione Nazionale fra le Imprese Assicuratrici

www.ania.it

Italian insurance in 2005/2006

ANIA Associazione Nazionale fra le Imprese Assicuratrici

www.ania.it

Summary

Summary

ADDITIOANAL COMMENT SECTIONS

Executive summary

The Executive Summary refers to an unabridged version of the report, available in Italian on the ANIA website (www.ania.it/documenti/ass_italiana/index.asp).

In 2005 and the first half of 2006 the world economy continued to grow at a strong pace. In addition to the impetus still coming from the United States and increasingly from India and China, Japan and the euro area too began to make a positive contribution again. The upturn in the euro area, which strengthened during the year thanks to the growing contribution of domestic demand, nevertheless remains subject to the uncertainties of oil prices, which have continued to rise, and the depreciation of the dollar. In Italy the signs of recovery are weaker than in the rest of the Continent. Slow growth has a decisive impact on the public finances, whose balances have deteriorated.

THE RESULTS FOR THE YEAR

The profitability of listed insurance companies improved in all the main European markets in 2005. The ROE of the median Italian listed company rose by about one percentage point to 16.6%, in line with the European average. The gain scored by French insurers was sharper, their median ROE rising from 14.7% to nearly 22%, as was that by German companies, from 9.1% to 17.2%. The British industry confirmed its status as the most profitable in Europe, with a median ROE of 21.8%, more than 4 points better than in 2004.

The results for the entire insurance industry were also positive, thanks to improved technical results in the non-life sector and especially in the life sector. Despite a slight decline in extraordinary profits, net profits for the year rose from Euro 5.2 billion to Euro 5.9 billion. However, ROE held basically stable, as shareholders' equity also rose; ROE thus gained only from 13.6% to 13.8%.

Gross premiums written picked up sharply from annual growth of 3.5% to 7.8%. non-life insurance premiums increased by only 0.9%, the lowest rate since 1994, but life premiums rose by 11.7%, compared with 3.6% in 2004, only slightly below the average for the five years from 2001 to 2005 (12.6%).

The technical result for the non-life sector improved by 11.2%, from Euro 3.0 billion to Euro 3.3 billion. With claims payments basically stable (an increase of just 0.5%), premiums and return on investment both rose by 1.9%. The result of the technical account rose from 8.6% of net written premiums in 2004 to 9.4% in 2005.

The balance on the technical account in the life insurance sector was Euro 2.5 billion in 2005, up from Euro 2.1 billion. Claims payments rose by 27.2%, much faster than premiums, while the investment return improved by 26%. The technical account balance was equal to 0.71% of provisions, about the same as in 2004.

Operating expenses held roughly stable in relation to premiums: 23.6% in the non-life and 5.9% in the life sector (compared with 23.2% and 6.0% respectively in 2004).

The loss ratio for non-life business net of reinsurance, i.e. the ratio of claims to premiums on an accrual basis for the year, declined slightly from 72.2% to 71.4%. The combined ratio held steady at 95%.

Again this year, the *Report* compares the results of insurance companies in Italy, France, Germany and Spain in the period from 1999 to 2004, based on the accounts drawn from the ISIS database of Bureau van Dijk.

FORECASTS FOR 2006

The growth of direct premiums is expected to be slower than in 2005, around 3% as against 8.7%. In the non-life sector, it is expected to continue at about the 2.5% pace registered in 2005. Obviously, this is heavily affected by motor liability insurance, which is expected to show little growth again in 2006 (1.0%), as price increases should be limited thanks to the improvement in the sector's technical result in years past.

The growth of the life branch should amount to around 3.5%, with premiums written worth Euro 76 billion. The growth premiums should benefit from a modest acceleration in households' disposable income but at the same time could be impeded by a possible increase in inflation and in real interest rates. Supply policies will play an essential role. The growth forecast is consistent with a substantially constant share of premiums being written at bank branches.

NON-LIFE INSURANCE

Direct non-life premiums written in 2005 came to just over Euro 36 billion, up 2.5% from 2004; their ratio to GDP was 2.56%, about the same as in the previous two years. This is because motor premiums expanded less than nominal GDP, while there was no appreciable increase in the diffusion of other non-life insurance.

OECD figures for 2003, which are commented on extensively in this *Report*, indicate that gross non-life premiums were equal to 2.9% of GDP in Italy, as against a European average of 4.6%, and 7.3% in the United States, 6.8% in the United Kingdom and 5.9% in Germany. Excluding motor insurance, which is compulsory everywhere, the gap is even wider: premiums written in Italy came to 1.3% of GDP against a European average of 3.3%.

The *Report* recounts the diffusion of casualty and health insurance coverage among Italian households between 2002 and 2004, using data from the Bank of Italy's survey of household income and wealth. On casualty coverage (excluding motor liability), a total of about 4.6 million Italian households (20.1% of the total) apparently had at least one policy, with a clear increase over 2002 when 3.7 million households (16.2%) held such policies. About 1.5 million (6.5% of households) were found to have at least one health and/or accident insurance policy, down from 7.4% in 2002.

The theme of reinsurance is discussed at some length. According to a study by Benfield, notwithstanding the large sums paid in coverage of the losses caused by the hurricanes that struck the United States during the summer, the European reinsurance industry succeeded in maintaining a good level of financial soundness, and none of the main companies made significant recourse to the market to recapitalize. The *Report* also recounts the conclusions of a study by the Group of Thirty on the relationship between reinsurance and the financial markets.

In many countries catastrophe risks are covered, at least in part, by the insurance industry. In some cases the risk is then transferred to the international financial markets. According to Guy Carpenter, the securitization of catastrophe risks was particularly active in 2005. The ten issues of cat bonds totaled capital flows worth over $1.9 billion. The total amount of resources raised by these instruments comes to $4.9 billion. The first bond to cover general liability risk was issued during the year.

Another theme of this year's *Report* is the risk of terrorism, and its insurability. The radical transformation of terrorism over the past decade has reduced the frequency of attacks but greatly increased the number of victims and the amount of material damage. In most industrial countries, but not in Italy, protection against the risks of terrorist attacks is provided by cooperation between private insurers and government.

The *Report* presents an application of Swiss Re's innovative methodology for calculating the combined ratio, which takes account of year of occurrence and of the expected value of payments on future claims, thus making it possible to calculate the profitability of the non-life portfolio. The combined ratio so calculated comes to 95% for Italy in the period 1995-2005, in line with the value for the UK, worse than those of Germany and Canada but better than France, the US or Japan. Detailed figures for individual non-life insurance branches are given.

Finally, we describe a number of ANIA's initiatives in hail insurance and the prevention of risk in port areas.

MOTOR LIABILITY INSURANCE

Total premiums in this sector in 2005 amounted to Euro 18.2 billion, or 50.1% of total non-life insurance premiums. This represented a 0.6% increase over 2004, the lowest rate of growth ever recorded. The trend in premiums written is due above all to the improvement in the technical account in the years previous, which led many companies not to raise their prices in 2005. Considering that the number of vehicles in circulation increased by 2.1%, the average effective premium per vehicle came down by 1.5%.

For 2005 as a whole ISTAT measured the rise in motor liability insurance prices at 1.7%, compared with a rise of 2% in the general consumer price index. Between June 2003, when the memorandum of understanding between ANIA and several consumer organizations was signed, and April 2006 motor liability insurance prices rose 4.3% as against overall consumer price inflation of 6.2%. ISTAT calculates price changes for profiles that are "fixed" (the so-called Laspeyres index), and thus does not take account of the fact that each year over 90% of policyholders do not cause accidents and so benefit from the "bonus". Nor does it factor in the discounts that companies often offer on their published prices. Considering the 1.5% reduction in the premium per vehicle and the "bonus" effect, which generally amounts to between 1% and 2% of premiums, it can be seen that the impact of discounts from published price lists was especially significant.

The *Report* analyzes the frequency of accidents and the average cost of claims from 1980 to 2005. Accident frequency diminished quite rapidly until the start of the current decade, from 15.21% in 1980 to 8.78% in 2002. Since then the decline has been more gradual: to 8.58% in 2004 and 8.55% in 2005. The average cost of claims rose to Euro 4,122 in 2005; the rate of increase, 3.5%, was lower than the high figures recorded at the start of the decade.

The frequency and average cost of claims are compared across countries. In 2004 Italian accident frequency was among the highest, second only to Spain (10.1%). France had the lowest frequency at under 5%. The average total cost of claims was highest in Italy, although it is estimated that the figure for Spain is similar. Presumably a decisive factor in the higher costs in these two countries is the higher percentage of accidents involving bodily injury (20%, as against 10% in the other countries surveyed). In the other countries, the average cost of claims ranges between Euro 3,000 (France) and Euro 3,500 (Germany).

Within Italy, accident frequency and claim cost are broken down by region. In 2005 the region with the highest frequency was Campania (11.9%), compared with the nationwide average of 8.6%. The lowest frequency was in Friuli-Venezia Giulia at 5.9%. The highest average cost of claims settled (over Euro 4,000) was registered in Veneto, Emilia Romagna and Marche; the lowest (Euro 2,800) in Piedmont, Valle d'Aosta and Sicily. In part, the great regional variability in these technical indicators depends on fraud. The regional correlation coefficient between accident frequency in 2005 and the incidence of claims with ascertained fraud found by ISVAP in 2004 was 0.75, a statistically significant value. At provincial level, the value is 0.62.

The recent initiatives of the ANIA Foundation for Road Safety are described. The aim is practical, effective action to improve safety and to make motorists more safety-conscious.

Finally, there is a thorough account of changes to the Insurance Code concerning indemnity and payment procedures. Articles 149 and 150 introduce so-called direct compensation. The new code institutes basic minimum rules, leaving the main matters of application to implementing rules to be contained in a Presidential decree.

LIFE INSURANCE

Italian households' disposable income increased by 2.5% in nominal terms and 0.2% in real terms in 2005, decelerating after the 0.9% real growth of 2004. Uncertainties over the medium-term outlook and over pension system reform continue to spur Italians' propensity to save. The saving rate rose by 0.1% point last year to 14% of disposable income; in 2000 it had been 12.5%.

Households' financial saving, defined as the difference between the gross flow of assets and that of liabilities, decreased by 14.6% in 2005, owing to the weak growth of disposable income and the sharp acceleration in housing investment. The persistence of very low real interest rates prompted households to invest in higher-risk, higher-return financial assets, reversing the trend of previous years. Of the total gross flow of financial assets, 24.5% (Euro 33 billion) was invested in Italian equities, 20.5% (Euro 28 billion) in medium- and long-term foreign securities. Net purchases of life insurance policies (Euro 39.4 billion) accounted for 29% of the gross flow of financial assets, in line with the 30.1% registered in 2004.

The total volume of direct life insurance premiums was Euro 73.5 billion, an increase of 12.0% after the 4.5% growth recorded in 2004. Gross premiums written expanded in all classes, if at differing rates. Class I product premiums increased by 12.5%, class V by 20.3%. Linked products showed more moderate growth of 6.6%. Payments made plus changes in provisions came to Euro 43.7 billion, up 27.4% from 2004. Mathematical provisions increased by 13.3% to Euro 352.2 billion, or 24.9% of GDP, two percentage points more than the previous year.

Last year ANIA released guidelines for complying with insurance companies' obligation to assess the appropriateness of their life insurance policies with respect to prospective customers' insurance and retirement needs and risk propensity. These obligations were introduced by ISVAP circular 551 of 1 March 2005, which was commented on in last year's *Report*.

Legislative Decree 252/2005, fulfilling the Government's mandate under enabling act 243/2004, enacted measures relating to supplementary pension plans. It introduces a new framework intended to encourage workers' participation in private pension funds and thus to develop the "second pillar" supplementary to public social security. The measures affect both potential fund members and employers and also modify the system of oversight. The *Report* gives a detailed description of the measures, most of which go into effect on

1 January 2008. The Decree has a good number of positive features that can help foster the development of well balanced supplementary retirement provisions. However, the individual worker's freedom to choose where to invest his retirement assets and the portability of pension positions – the essential principle enshrined in the enabling act – seems to have been reduced by limitations and procedures that employment contracts or collective bargaining agreements have placed on the transfer of employers' contributions to funds.

Actual membership in both occupational, collectively bargained funds and open funds remains quite limited. At the end of 2005, according to the pension fund supervisory authority COVIP, total membership in the funds was 1,554,000, plus another 818,000 holders of life insurance retirement policies. The total financial assets of pension funds instituted after the reform of 1993 amount to 0.8% of GDP; including the funds already in being at that date, the figure rises to 2.1%. Occupational funds had 1,146,735 members at the end of 2005, or 13.2% of the eligible employees and 9.5% of all private-sector employees. In 2001 membership had been 985,000, or 8.8% of private-sector employees.

The impact of the reform of private pension plans will depend on how many workers join them. A survey by ISAE in September and October 2005 found that more than half of all employees are inclined to leave their severance pay entitlement with their companies, just 10% intending to transfer it to a pension fund; about a third were undecided. The reasons for this choice, according to the survey, are the greater security and liquidity of the company severance pay fund and the fact that the decision to assign severance pay to a pension fund is irrevocable, whereas the decision to leave it with the company can be reconsidered at any time. Most of the uncertain were younger workers, those for whom the reform is especially intended; they are probably waiting for a better defined framework before making their choices.

THE LEGISLATIVE AND REGULATORY FRAMEWORK

The *Report* discusses forthcoming European legislation, in particular the new Action Plan for financial services and the directives on reinsurance, on unfair commercial practices, and on the transferability of private pension rights. It comments on the proposals for directives on designs, on internal market services, and on choice of applicable law.

In Italy, Law 262 for the protection of saving was passed on 28 December 2005. The law takes up the theme of investor protection in a variety of spheres, implementing the rules already in place, in some cases with quite significant changes, in those parts that necessitate specific rules for the protection of investors. The law affects the rules on corporate governance of listed corporations, on transparency of financial products and on their market placement, and on the regulation of the supervisory system; finally, it institutes a uniform set of sanctions for all intermediaries.

First of all, the law confirms the Consob's oversight powers on transparency and compliance with the rules on the placement of all financial products, regardless of issuer. In some cases – the conduct of insurance business, for example – the new rules could cause coordination problems and overlapping jurisdictions between different supervisory authorities. These problems can be resolved either by suitable coordination between the authorities or by subsequent legislation.

The consolidated accounts of Italian insurance companies for 2005 were the first to be drafted in accordance with international accounting standards. The framework adopted by the companies is that envisaged in the ISVAP instruction of 22 December 2005. The transition to international accounting standards in insurance was effected gradually and in differential fashion. The *Report* provides a detailed analysis of the many problems of interpretation and of application that the industry had to face in adopting the new standards.

The new accounts format – balance sheet, profit and loss account, changes in shareholders' equity, financial statement, explanatory notes and tables – does not provide all the information required by IAS/IFRS but it does offer a well-defined, homogeneous body of data and information for the entire insurance industry. The new valuation methods based on the international standards required ISVAP to design correctives to apply to the consolidated accounts for 2005 to prevent the new accounting regime from decreasing the degree of prudence in gauging capital adequacy. Instruction 2430 laid down the new rules on adjusted solvency, introducing the rules on prudential filters.

The *Report* also provides a detailed treatment of ISVAP's circulars on internal controls, passive reinsurance, financial conglomerates and the Association's guidelines for purposes of Legislative Decree 321/2001 on the penal and civil liability of legal persons.

Finally, this year's *Report* concludes with an examination of the European plan for the reform of prudential supervision, known as "Solvency II", now in the final, decisive stage. The offices of the Commission are engaged in drafting a proposed framework directive laying down the essential principles of the future regime. The proposal is expected to be presented by the middle of 2007. The Commission will also provide its regulatory impact assessment, qualitative and quantitative, of the consequences the new rules can be expected to have on European insurance markets and undertakings. At the same time the European committee of insurance supervisors, CEIOPS, has promoted its second quantitative impact study (QIS2). The aims are to verify the adequacy and reliability of the various possible standard formulas for calculating capital requirements, verify the availability at the companies of the necessary data, and make a preliminary estimate of the formulas' quantitative impact on capital requirements. The technical details of the QIS2 exercise are given. A good number of Italian insurance companies are engaged in the exercise, which will be concluded by 31 July.

The number of companies with registered offices in Italy decreased, due in part to mergers during the year. The number of foreign representations operating in non-life classes is increasing.

OPERATING INSURANCE COMPANIES

As at 30 April 2006, 240 insurance companies were operating (244 as at 30 April last year), of which 171 were insurance companies with registered office in Italy (179 as at 30 April last year) and 69 were branch offices of foreign insurance companies (65 as at 30 April last year), mainly from European Union members (65).

86 insurance companies write only life insurance business (of which 15 are foreign branch offices) and 124 companies write only non-life business (of which 46 are foreign branch offices); 21 companies write both life and non-life business; 9 companies write only reinsurance business (of which 6 are foreign branch offices).

185 insurance companies are ANIA members (of which 14 are corresponding members): these insurance companies represent more than 91% of the premiums of the entire market.

Considering the legal status of the 171 companies that have legal offices in Italy, 167 are joint stock companies, 3 are mutual companies and one is a co-operative company.

NUMBER OF COMPANIES BY LEGAL STATUS

	LIFE	NON-LIFE	MULTI BRANCHES	PROFESSIONAL REINSURERS	TOTAL COMPANIES
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**
Situation as at April 30, 2006					
Limited companies	71	76	17	3	167
Cooperatives	-	-	1	-	1
Mutuals	-	2	1	-	3
Domestic companies	71	78	19	3	171
Foreign branches	15	46	2	6	69
in E.U. countries	*15*	*43*	*2*	*5*	*65*
Total companies	**86**	**124**	**21**	**9**	**240**

NUMBER OF COMPANIES IN E.U. (15) COUNTRIES
Data as at 31 December

	2000	2001	2002	2003	2004
Austria	77	73	72	71	73
Belgium	210	204	201	189	181
Denmark	250	241	226	214	210
Finland	65	69	68	68	68
France	527	504	495	486	480
Germany	706	694	703	703	677
Greece	110	107	102	100	100
Ireland	191	196	199	224	224
Italy	252	256	254	249	245
Luxembourg	93	93	95	95	95
Netherlands	482	472	453	443	430
Portugal	88	86	81	74	71
United Kingdom	822	808	806	772	772
Spain	354	342	334	328	325
Sweden	482	461	448	440	428
Total	**4,709**	**4,606**	**4,537**	**4,456**	**4,379**

Source: CEA.

PREMIUMS PER COMPANY IN E.U. (15) COUNTRIES
Euro million

	2000	2001	2002	2003	2004
Austria	152	171	175	185	191
Belgium	95	101	111	136	157
Denmark	44	51	59	70	75
Finland	181	171	180	186	194
France	249	254	267	292	330
Germany	186	195	201	211	225
Greece	24	25	28	32	36
Ireland	55	54	56	53	53
Italy	268	298	345	390	412
Luxembourg	74	68	68	77	94
Netherlands	82	92	97	104	113
Portugal	80	93	104	128	147
United Kingdom	308	284	289	277	285
Spain	115	123	144	127	139
Sweden	41	39	38	44	45
Total	**163**	**164**	**175**	**181**	**194**

Source: CEA.

The Italian insurance market: key figures 2005

In 2005 Italian insurance companies' technical account results on the whole were positive, thanks to an improvement in technical account results both for non-life classes and for life classes, while the balance of extraordinary activities decreased. The profitability stayed at the same levels as 2004.

INCOME STATEMENT

INCOME STATEMENT
Euro million

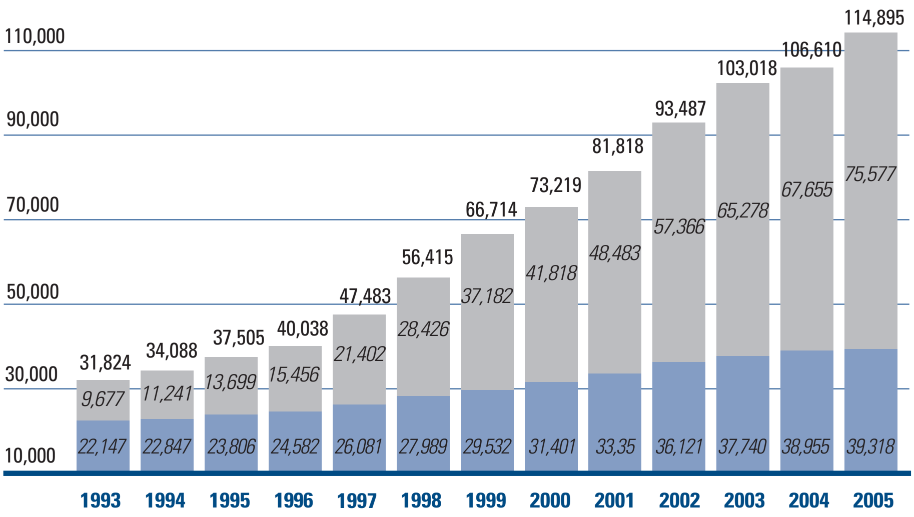
	1999	2000	2001	2002	2003	2004	2005
Technical account of non-life and life classes (*)							
Written premiums	61,011	66,965	75,240	86,350	95,646	100,098	108,563
Changes in premiums reserves (-)	31,919	27,500	30,046	32,645	43,720	40,427	41,989
Investment income	9,941	7,567	5,435	3,939	13,090	16,316	20,022
Other technical income	382	463	780	980	1,135	1,215	1,325
Incurred claims (-)	29,534	35,583	38,240	44,459	48,994	58,826	68,321
Operating expenses (-)	9,167	9,791	10,208	10,648	11,346	11,927	12,585
Other technical costs (-)	802	942	897	1,088	1,656	1,430	1,242
Balance	-88	1,179	2,064	2,429	4,155	5,019	5,773
Technical account - non-life (*)							
Written premiums	25,560	27,029	28,915	30,958	32,729	34,208	34,775
Changes in premiums reserves (-)	803	543	835	825	656	599	628
Investment income	1,874	2,135	1,931	1,483	2,012	2,234	2,276
Other technical income	286	294	409	321	371	371	324
Incurred claims (-)	20,895	22,004	22,224	22,736	23,633	24,269	24,380
Operating expenses (-)	6,237	6,457	6,851	7,178	7,522	7,949	8,202
Other technical costs (-)	684	754	696	760	874	1,045	883
Balance	-899	-300	649	1,263	2,427	2,951	3,282
Technical account - life (*)							
Written premiums	35,451	39,936	46,325	55,392	62,917	65,890	73,788
Changes in technical provisions (-)	31,116	26,957	29,211	31,820	43,064	39,828	41,361
Investment income	8,067	5,432	3,504	2,456	11,078	14,082	17,746
Other technical income	96	169	371	659	764	844	1,001
Incurred claims (-)	8,639	13,579	16,016	21,723	25,361	34,557	43,941
Operating expenses (-)	2,930	3,334	3,357	3,470	3,824	3,978	4,383
Other technical costs (-)	118	188	201	328	782	385	359
Balance	811	1,479	1,415	1,166	1,728	2,068	2,491
Non-technical account							
Other non-life income	607	705	629	401	518	810	895
Other life income	593	876	436	726	868	1,127	1,179
Balance of other income and expenses	168	-394	-2	-872	-951	-1,016	-878
Balance of ordinary activities	1,280	2,366	3,127	2,684	4,590	5,940	6,969
Balance of extraordinary activities	1,398	1,067	1,204	2,262	1,132	1,027	668
Taxes on income (-)	1,195	1,390	1,454	1,436	1,929	1,731	1,786
Result for the financial year	**1,483**	**2,043**	**2,877**	**3,510**	**3,793**	**5,236**	**5,851**
Return on Equity	**5.3%**	**6.7%**	**8.9%**	**10.6%**	**10.6%**	**13.6%**	**13.8%**

(*) Technical items net of cessions and retrocessions.

TECHNICAL ACCOUNT

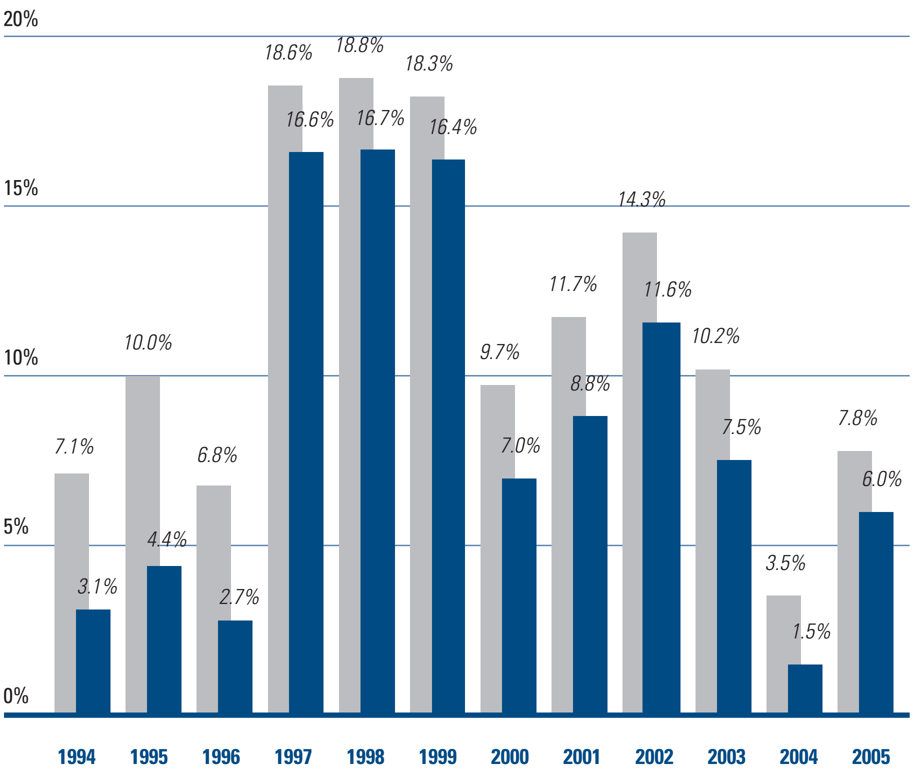
Premium income

The total gross premiums for 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 114,895 million in 2005. In particular, Euro 39,318 million were collected in non-life classes and Euro 75,577 million in the life classes.



TOTAL PREMIUMS
Euro million

Life Non-life

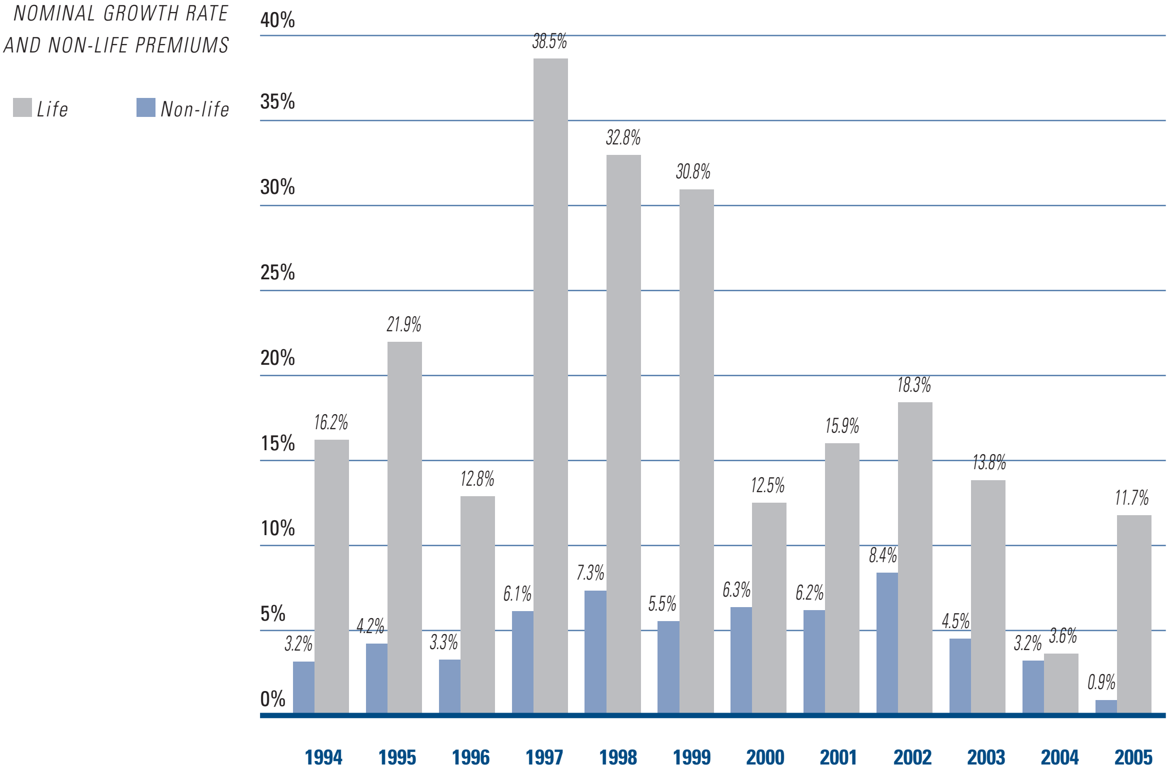


NOMINAL AND REAL GROWTH RATE
OF TOTAL PREMIUMS

Total (nominal)
Total (real)

The Italian insurance market: key figures 2005

NOMINAL GROWTH RATE
OF LIFE AND NON-LIFE PREMIUMS



The growth rate of total premiums registered in 2005 (7.8%) is higher by more than percentage points compared to 2004. Premiums in life classes increased by 11.7% in 2005 compared to the previous year, after a gain of 3.6% in 2004 compared to 2003 (in the last five years the average yearly growth had been 12.6%); premiums in non-life classes increased slightly (0.9% compared to 2004), the lowest value registered since 1994. As a result of these trends, the share of life premiums over the total (65.8%) increased compared to the previous year (63.5%); the share amounted to 33.0% in 1994.

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 6,332 million (Euro 4,543 million in non-life and Euro 1,789 million in life) and decreased their incidence on gross premiums from 6.1% in 2004 to 5.5% in 2005.

Total premiums, net of reinsurance, achieved Euro 108,563 million, reflecting an increase of 8.5% compared to the previous year: Euro 34,775 million in non-life classes and Euro 73,788 million in life classes.

Gross premiums for direct business, Italian and foreign, both non-life and life, increased by 8.7% compared to 2004, reaching Euro 109,870 million (Euro 36,374 million in non-life and Euro 73,496 million in life).

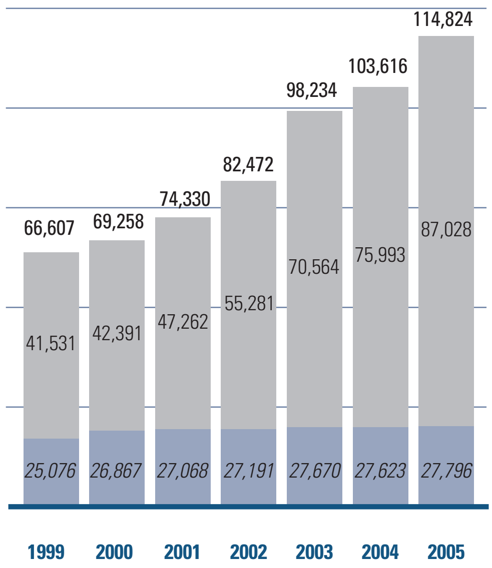
Claims, benefits and provisions

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 114,824 million (+10.8% compared to 2004): Euro 27,796 million in non-life classes (+0.6%) and Euro 87,029 million in life classes (+14.5%). Whereas benefits in non-life classes have been constant during the last few years, starting from 2003 life benefits 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 4,514 million (+3.5%), of which Euro 2,788 million were relative to non-life business and Euro 1,726 million were relative to life.

The **net amount of benefits** therefore totalled Euro 110,310 million (+11.1%): Euro 25,008 million in the non-life and Euro 85,302 million in life business.

CLAIMS, BENEFITS AND PROVISIONS
Euro million

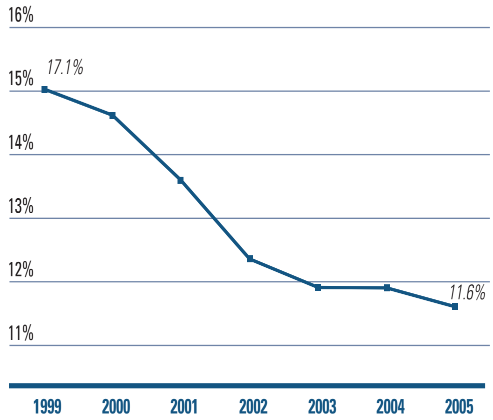


Operating expenses

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 12,585 million, with an increase of 5.5% compared to 2004. The incidence on premiums was equal to 11.6%, reflecting a slight decrease compared to 2004 and 2003.

In particular, the operating expenses for non-life business were equal to Euro 8,202 million, with an incidence on premiums of 23.6% (23.2% in 2004); for life business, they were equal to Euro 4,383 million, with an incidence on premiums of 5.9% (6.0% in 2004).

OPERATING EXPENSES TO PREMIUMS RATIO (%)



Technical account result

The **technical account result**, net of reinsurance, was positive totalling Euro 5,773 million, with an incidence of 5.3% on direct and indirect premiums (5.0% in 2004).

There was a positive result for non-life classes totalling Euro 3,282 million (Euro 2,951 million in 2004); 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 9.4% in 2005 (8.6% in 2004).

Life classes showed a positive result of Euro 2,491 million (Euro 2,068 million in 2004); between 2004 and 2005 the incidence of such result on premiums is increased from 3.1% to 3.4% whereas on technical provisions from 0.67% to 0.71%.

TECHINCAL ACCOUNT RESULT TO PREMIUMS RATIO (%)

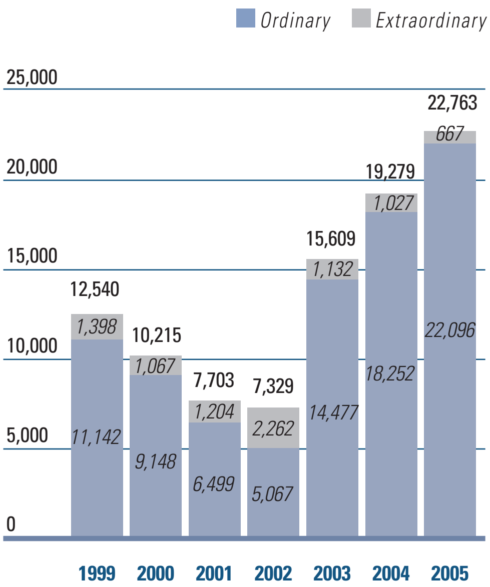
	1999	2000	2001	2002	2003	2004	2005
Non-life and life	-0.1%	1.8%	2.7%	2.8%	4.3%	5.0%	5.3%
Non-life	-3.5%	-1.1%	2.2%	4.1%	7.4%	8.6%	9.4%
Life	2.3%	3.7%	3.1%	2.1%	2.7%	3.1%	3.4%

NON-TECHNICAL ACCOUNT

Investment income

Ordinary and extraordinary net investment income, life and non-life, which also includes investment income transferred to technical life and non-life accounts, was equal to Euro 22,763 million in 2005. The growth compared to the previous year (+18.1%) is concentrated in ordinary net investment income (+21.1% compared to 2004), whereas the extraordinary one decreased sizably (-35.0% compared to 2004).

TREND OF NET INVESTMENT INCOME
Euro million



The increase in ordinary net investment income compared to 2004 was equal to Euro 3,844 million; this thanks to a Euro 3,262 million increase of gross investments for the benefit of insured, together with the positive trend of the stock market.

More in detail, the **ordinary gross investment income for life and non-life classes** reached Euro 28,829 million (Euro 23,427 million in 2004), with an increase of 23.1%. Income derived from:

- shares and holdings, for an amount of Euro 3,088 million (+39.3% compared to 2004), which were 10.7% of the total income;
- investments for the benefit of insured and investment income deriving from pension fund management, for an amount of Euro 11,472 million (+39.7% compared to 2004), which represented 39.8% of the total income;
- land and buildings, for an amount of Euro 245 million (-5.5% compared to 2004), which were 0.9% of the total income;
- revaluations and realised investments, for an amount of Euro 3,214 million (+17.7% compared to 2004), which were 11.1% of the total income;
- other investments, for an amount of Euro 10,809 million (+8.0% compared to 2004), which represented 37.5% of the total income.

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

	1999	2000	2001	2002	2003	2004	2005
Shares	6.1%	7.1%	11.9%	13.7%	12.0%	9.5%	10.7%
Land and buildings	4.1%	3.8%	4.1%	2.6%	1.5%	1.1%	0.9%
Other investments	43.5%	44.9%	49.7%	46.8%	41.9%	42.7%	37.5%
Revaluations	22.2%	25.8%	17.5%	12.9%	12.9%	11.7%	11.1%
Income from linked and pension funds	24.1%	18.4%	16.8%	24.0%	31.7%	35.0%	39.8%
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 7,395 million (Euro 5,959 million in 2004). **Extraordinary investment income**, gross of expenses, totalled Euro 1,329 million (Euro 1,811 million in 2004) and the relative expenses totalled Euro 661 million (784 in 2004).

RESULT FOR THE FINANCIAL YEAR

The **result for ordinary activity, non-life and life**, was positive amounting to Euro 6,969 million (Euro 5,940 million in 2004), with an increase of 17.3%.

The **result for extraordinary activity** totalled Euro 668 million, reflecting a strong decrease (-35.0%) compared to Euro 1,027 million in 2004.

Income taxes for the period totalled Euro 1,786 million, a similar value compared to 2004.

Despite the decrease in extraordinary activity, thanks to the positive trend of technical account results (for non-life and life classes) the financial year 2005 registered a **profit** of Euro 5,851 million, increasing by 11.7% compared to Euro 5,236 million in 2004. The profit totalled 5.4% of premiums (5.2% in 2004). 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%, substantially unvaried compared to 2004.

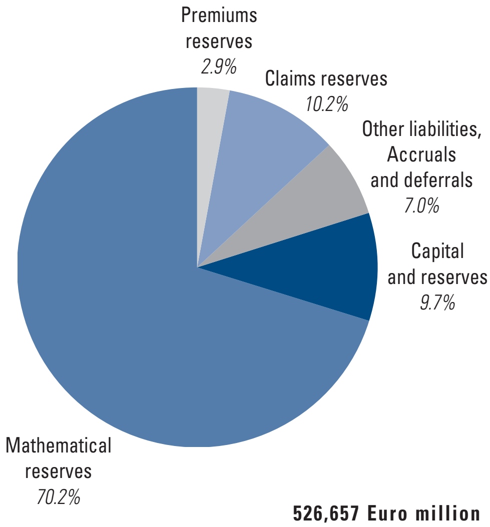
BALANCE SHEET

Liabilities

The total liabilities carried in the balance sheet amounted to Euro 526,657 million (+10.7% compared to 2004).

In particular:

- *capital and reserves*, equal to Euro 51,221 million (9.7% of total liabilities), increased by 14.4% compared to 2004; subscribed capital, equal to Euro 12,914 million, increased by 17.5%, equity reserves, equal to Euro 32,456 million, increased by 13.4%. The profit for the financial year totalled Euro 5,851 million;
- *technical provisions*, representing commitments undertaken of the behalf of the insured (Euro 438,887 million) reflected an increase of 11.2% and represented 83.3% of the total. The increase in life classes (+14.6%) was far superior to non-life ones (+3.1%);
- the *other liabilities*, equal to Euro 36,127 million (6.9% 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 2,862 million to Euro 3,091 million and deposits received from reinsurers increased from Euro 12,876 million to Euro 13,147 million. Funds for risks and charges increased from Euro 2,105 million to Euro 2,245 million whereas debts and other liabilities decreased from Euro 18,146 million to Euro 17,644 million.
- *accruals and deferrals* totalled Euro 423 million (0.1% of the total).

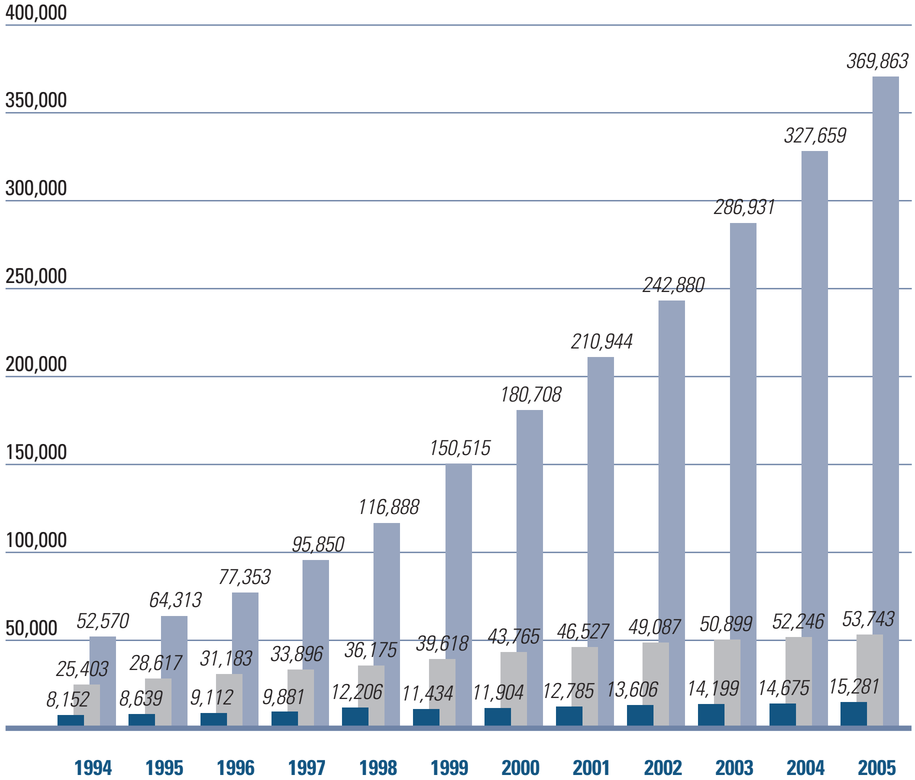


526,657 Euro million

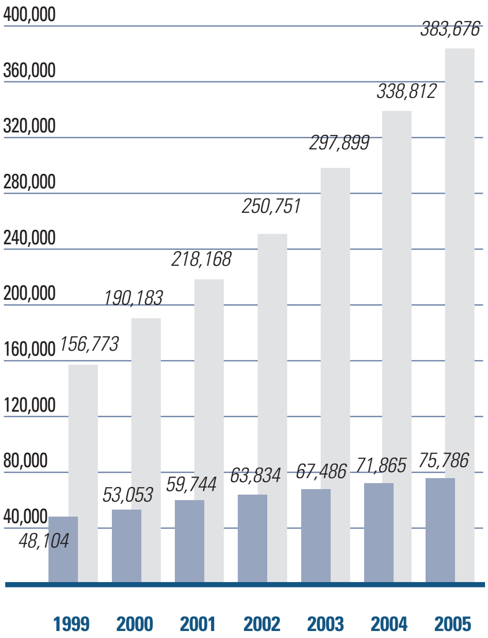
BREAKDOWN OF LIABILITIES (%)

The Italian insurance market: key figures 2005

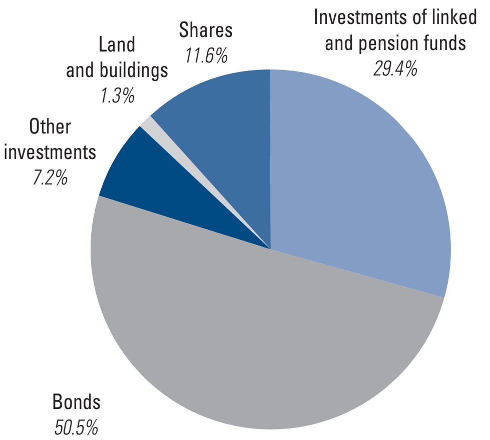
TOTAL TECHNICAL PROVISIONS
Euro million



TOTAL INVESTMENTS*
Euro million



(*) Net of professional reinsurers.



464,864 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 526,657 million, equalling to the total amount of liabilities.

In particular:

– *investments* reached Euro 464,864 million, equal to 88.3% 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 75,786 million, with a 5.5% increase compared to 2004; investments in life classes were equal to Euro 338,676 million with a 13.2% increase compared to 2004. The highest increase (+20.0%) was recorded by investments in land and buildings amounting to Euro 5,810 million; followed by investments in bonds and other fixed income securities (+12.9%) which totalled Euro 234,887 million, shares and holdings (+10.9%) which totalled Euro 54,130 million and loans and deposits (+9.9%) which totalled Euro 33,468 million.
Investments for the benefit of life insurance policyholders and the investments deriving from the management of pension funds equalled to Euro 136,569 million, reflecting a 10.0% increase;

– the *technical provisions borne by the reinsurers* amounted to Euro 21,109 million with a 1.7% increase and represented 4.0% of total assets;

– *amounts owed by debtors* totalled Euro 21,454 million (4.1% of total), with a 2.1% increase. These referred to amounts owed deriving from direct insurance activities (Euro 10,949 million), amounts owed deriving from reinsurance activities (Euro 2,091 million) and other amounts owed (Euro 8,415 million);

- *amounts owed by shareholders* (Euro 3 million), intangible assets (Euro 3,975 million composed of commissions and other expenses) and other assets (Euro 11,661 million) reached a total of Euro 15,638 million (3.0% of the overall amount), thus recording a 8.4% increase;
- *accruals and deferred* income amounted to Euro 3,591 million (0.7% of total), representing a 12.4% increase.

BALANCE SHEET
Euro million

	1999	2000	2001	2002	2003	2004	2005
LIABILITIES	**254,407**	**298,174**	**338,346**	**378,192**	**429,890**	**475,716**	**526,657**
CAPITAL AND RESERVES	30,158	34,496	35,093	37,401	41,342	44,780	51,221
Subscribed capital	*8,947*	*9,775*	*9,512*	*9,961*	*10,529*	*10,991*	*12,914*
Equity reserves	*19,728*	*22,678*	*22,704*	*23,930*	*27,033*	*28,621*	*32,456*
Profit for the financial year	*1,483*	*2,043*	*2,877*	*3,510*	*3,780*	*5,169*	*5,851*
TECHNICAL PROVISIONS	201,567	236,377	270,256	305,573	352,029	394,581	438,887
Non-life classes	*51,052*	*55,669*	*59,312*	*62,693*	*65,098*	*66,921*	*69,023*
Life classes	*150,515*	*180,708*	*210,944*	*242,880*	*286,931*	*327,659*	*369,863*
OTHER LIABILITIES	22,570	27,125	32,674	34,920	36,203	35,989	36,127
Subordinated liabilities	*186*	*1,072*	*1,487*	*1,990*	*2,666*	*2,862*	*3,091*
Provisions for risks and charges	*1,807*	*2,048*	*1,524*	*2,045*	*2,189*	*2,105*	*2,245*
Deposits received from reinsurers	*9,395*	*10,453*	*11,682*	*13,011*	*13,231*	*12,876*	*13,147*
Debts and other liabilities	*11,182*	*13,552*	*17,981*	*17,874*	*18,117*	*18,146*	*17,644*
ACCRUALS AND DEFERRALS	112	176	323	298	316	366	423
ASSETS	**254,407**	**298,174**	**338,346**	**378,192**	**429,890**	**475,716**	**526,657**
AMOUNTS OWED BY SHAREHOLDERS	46	46	99	84	45	15	3
INTANGIBLE ASSETS	2,277	2,424	2,469	2,792	3,707	4,262	3,975
INVESTMENTS:	209,442	248,346	283,381	320,069	370,814	416,322	464,864
Land and buildings	*8,438*	*8,335*	*7,798*	*5,484*	*4,534*	*4,842*	*5,810*
Shares and holdings	*33,123*	*40,700*	*40,478*	*40,145*	*43,763*	*48,793*	*54,130*
Bonds and other fixed income securities	*115,026*	*123,825*	*140,530*	*161,343*	*186,564*	*208,051*	*234,887*
Loans and deposits	*18,423*	*22,892*	*24,977*	*28,342*	*28,837*	*30,460*	*33,468*
Investments for the benefit of life insurance policyholders and the investments deriving from the management of pension funds	*34,432*	*52,594*	*69,598*	*84,755*	*107,116*	*124,176*	*136,569*
TECHNICAL PROVISIONS BORNE BY THE REINSURERS	18,089	19,895	21,499	22,003	21,789	20,753	21,109
AMOUNTS OWED BY DEBTORS	15,652	16,808	18,696	19,915	20,333	21,020	21,454
OTHER ASSETS	6,757	8,332	9,715	10,585	10,198	10,149	11,661
ACCRUALS AND DEFERRED INCOME	2,144	2,323	2,487	2,744	3,004	3,194	3,591

THE SOLVENCY MARGIN

At end-2005 insurance companies with their registered office in Italy, excluding reinsurers, possessed for their total assets in the life and non-life sectors a solvency margin of Euro 45.2 billion, 18.1% more than at the end of the previous year.

For life business, the margin (Euro 24.3 billion) was 2.11 times the legal minimum requirement of Euro 11.5 billion, determined in terms of the mathematical provisions and capital at risk. The ratio had been 2.04 in 2004 and 2.60 in 1999.

For non-life business the margin possessed (Euro 20.9 billion) was 3.45 times the minimum requirement (Euro 6.1 billion), determined in terms of the amount of premiums written and the average cost of claims in the last three years (taking the higher result of the two criteria). The ratio has been rising steadily in recent years; its value in 2005 was the highest since 1999.

SOLVENCY MARGIN 1999-2005 (EXCLUDING REINSURERS)
Euro million

LIFE	1999	2000	2001	2002	2003	2004	2005*
Solvency margin	14,704	16,415	17,512	18,418	20,000	20,954	24,264
Solvency margin required by law	5,666	6,400	7,034	7,986	9,132	10,266	11,504
Cover ratio	2.60	2.56	2.49	2.31	2.19	2.04	2.11
NON-LIFE	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005***
Solvency margin	12,095	13,558	12,927	14,792	15,615	17,308	20,936
Solvency margin required by law	4,394	4,626	4,938	5,138	5,356	5,825	6,074
Cover ratio	2.75	2.93	2.62	2.88	2.92	2.97	3.45

Source: ISVAP.
(*) The figures for 2005 are provisional.

THE RETURN ON EQUITY IN THE LIFE AND NON-LIFE SECTORS

An indicator commonly used to measure the profitability of an insurance company is Return on Equity (ROE). Given by the ratio of the profit for the year to shareholders' equity, ROE is a concise, overall indicator of a company's economic performance. However, for a more careful interpretation of the aggregates that determine the final profit of a company, it is useful to analyze each component of the company's production cycle separately. This holds true particularly in the case of insurance companies, where insurance operations (pertaining specifically to underwriting and management of the risks insured) go together with a financial (or not strictly insurance) component that is an integral part of the entire business process.

The complementary relationship between these two activities within a unitary operation allows us to formulate ROE in a way that distinguishes the impact of the two factors on the final result:

$$ROE = \left\{ \left[\underbrace{\left(\frac{IO}{NTP} + ROI \right)}_{\text{ORDINARY OPERATIONS}} \times \underbrace{\left(L \right)}_{\text{LEVERAGE}} \right] + \underbrace{\left(ROI + \frac{EO}{SE} \right)}_{\text{NON-INSURANCE OPERATIONS}} \right\} \times \underbrace{\left(1 - T \right)}_{\text{TAXATION}}$$

This formulation shows that the profitability of an insurance company depends basically on three components:

1) **Ordinary operations**. The profitability of ordinary operations is obtained as the sum of the return on insurance operations (IO/NTP: result of insurance operations/net technical provisions) and of ordinary financial return (ROI: investment income/total investment assets). The formula also shows that the profitability of ordinary operations contributes to the return on own funds in relation to the level of financial-insurance leverage (“L”). This value is obtained as the ratio of third-party funds (the technical provisions) to the company’s own funds (shareholders’ equity). Given the nature of insurance activity, which creates a permanent, significant debtor exposure of the company towards policyholders, leverage is generally greater than one. Lastly, note the multiplier effect of leverage, which amplifies the result of operations – negatively if the result is negative, positively if positive.

2) **Non-insurance operations**. The profitability of these operations is obtained as the sum of the ordinary financial return (ROI) and the profitability of extraordinary operations (EO/SE: extraordinary operations/shareholders’ equity).

3) **Taxation (T)**. The indicator is calculated as the ratio of taxes paid by the company to profit for the year.

Not only do these components show different dynamics in contributing to the final value of ROE, but their dynamics also differ between the non-life and life sectors. Accordingly, the present analysis of ROE was conducted separately for the two main classes of business.

Non-life sector – Table 1 shows the values of the different components of ROE for the total of non-life classes of business starting from 1998, the earliest year for which all the requisite information for this type of analysis is available. The results presented refer only to direct Italian business, thus excluding professional reinsurers.

TABLE 1
NON-LIFE CLASSES: BREAKDOWN OF ROE

NON-LIFE	1998	1999	2000	2001	2002	2003	2004	2005
Return on Investment assets (ROI)	5.9%	4.3%	4.5%	3.9%	2.6%	3.3%	3.9%	3.9%
Profitability of insurance operations (IO/NPT)	-8.3%	-6.5%	-5.7%	-2.5%	-1.4%	0.0%	0.2%	0.8%
Profitability of extraordinary operations (EO/SE)	4.7%	5.2%	3.0%	5.2%	12.2%	2.9%	3.0%	2.2%
Financial-insurance leverage (L)	3.0	3.0	3.0	3.2	3.5	3.4	3.2	3.0
Taxation indicator (T)	107.4%	94.1%	68.4%	33.4%	27.8%	38.0%	26.1%	25.8%
ROE	**-0.3%**	**0.2%**	**1.2%**	**9.0%**	**13.8%**	**10.6%**	**15.0%**	**14.7%**

Balance sheet data processed by ANIA.

ROE rose during the period under review from -0.3% in 1998 to 14.7% in 2005. The negative value in 1998, but also those close to zero in 1999 and 2000, signal a sector in difficulty, unable to remunerate its shareholders' capital. Situations of this kind are "bearable" for short periods but must then be corrected; if not, there is the risk that those who supply the capital needed to perform the activity (the shareholders) may decide to withdraw from this type of business. It was not until 2001 that ROE showed a significant increase, due in part to the positive contribution of extraordinary financial operations but above all to a clear improvement in insurance operations.

Figure 1 plots the trend of ordinary operations, the "sum" of insurance business and ordinary finance. Plainly, in the years 1998-2002, given the sharply negative impact of insurance operations, ordinary operations benefited from a positive return on ordinary investments that to some extent made good the shortcomings in the technical results. From 2003 on the element that contributed most strongly to the progressive growth of ROE was the continual improvement in the sector's ordinary operations (insurance activity in particular). Coupling this improvement in insurance activity with a positive return on invsetment assets (factors both enhanced by leverage), in 2004 and 2005 we see ROE at about 15%, in line with the level in other leading European countries.

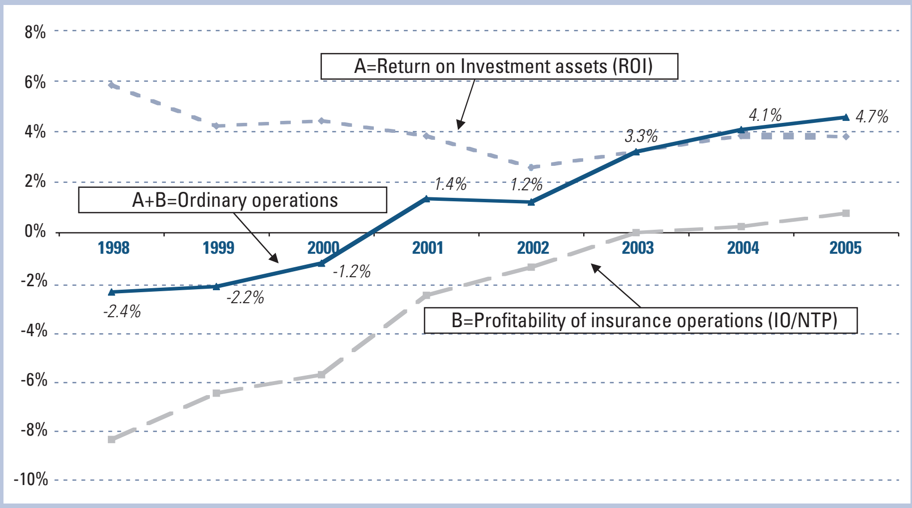


FIGURE 1
NON-LIFE CLASSES: FINANCIAL OPERATIONS AND INSURANCE OPERATIONS

Balance sheet data processed by ANIA.

Figure 2 analyzes two other elements of fundamental importance in evaluating the insurance profitability of the sector: financial-insurance leverage and extraordinary operations. Leverage fluctuated between 3.0 and 3.5 during the period under review.

The result on extraordinary operations helped to improve the sector's profitability, most notably in 2002, when profit from extraordinary operations exceeded 12% of shareholders' equity. ROE was boosted in that year by large capital gains probably connected with the real-estate spin-offs carried out by the largest companies in the market at the time.

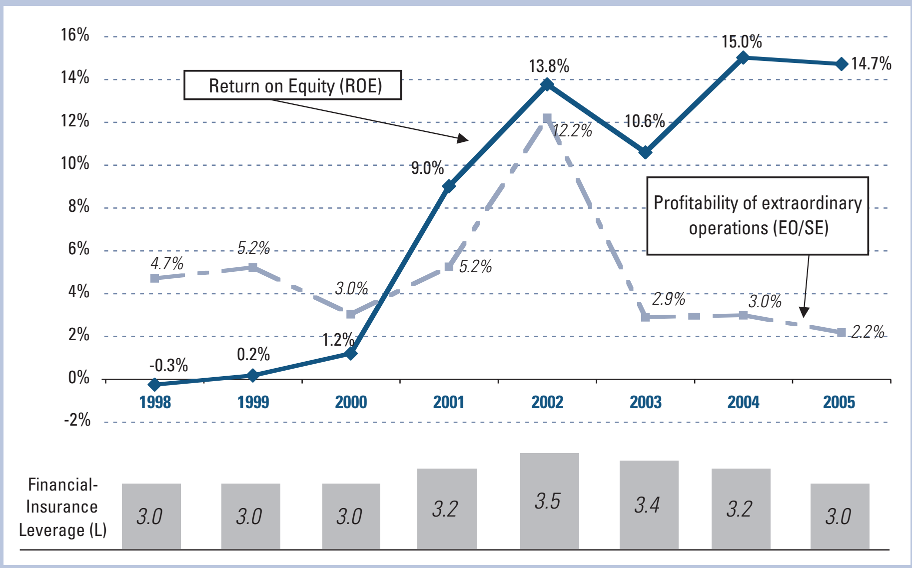


FIGURE 2
NON-LIFE CLASSES: EXTRAORDINARY OPERATIONS, LEVERAGE AND RETURN ON EQUITY (ROE)

Balance sheet data processed by ANIA.

Life sector – Contrary to the trend in the non-life sector, ROE in the life sector did not display significant changes over the period, fluctuating between 8.1% and 12.6% (Table 2).

TABLE 2
LIFE CLASSES: BREAKDOWN OF ROE

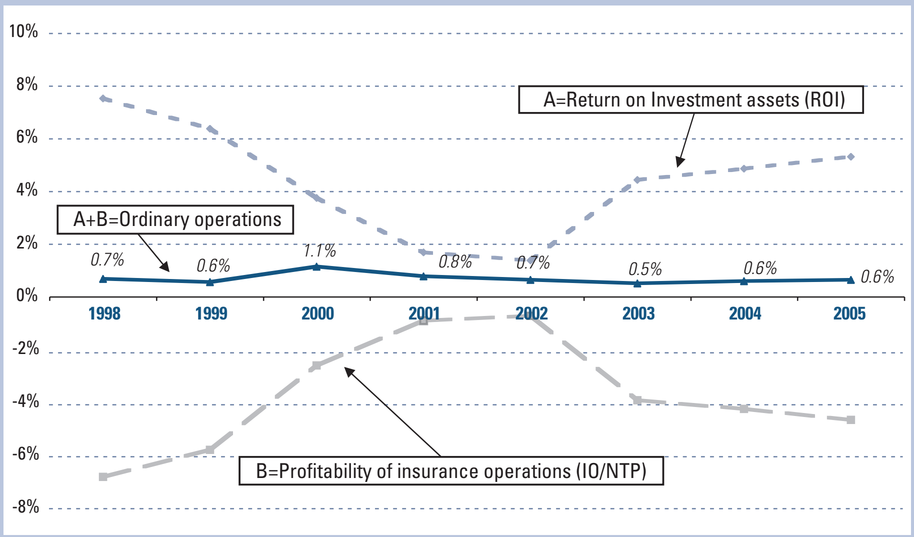
LIFE	1998	1999	2000	2001	2002	2003	2004	2005
Return on Investment assets (ROI)	7.5%	6.4%	3.7%	1.7%	1.4%	4.4%	4.8%	5.3%
Profitability of insurance operations (IO/NPT)	-6.8%	-5.8%	-2.6%	-0.9%	-0.7%	-3.9%	-4.2%	-4.7%
Profitability of extraordinary operations (EO/SE)	2.5%	6.1%	3.3%	2.4%	2.8%	3.2%	2.5%	1.1%
Financial-insurance leverage (L)	7.8	8.7	9.7	10.4	11.6	12.7	13.8	14.6
Taxation indicator (T)	37.7%	34.7%	35.7%	32.6%	30.7%	32.0%	24.0%	21.0%
ROE	**9.6%**	**11.3%**	**11.6%**	**8.2%**	**8.1%**	**9.6%**	**11.9%**	**12.6%**

Balance sheet data processed by ANIA.

ROE in the life sector is heavily affected by the performance of the financial markets, which explains why the indicator was lowest in 2001 and 2002, two difficult years owing especially to the fall of the equity markets. The complementary relationship between ordinary financial operations and insurance activity (which combine to produce total ordinary operations) is strikingly evident in Figure 3, owing also to the presence of a high portfolio share of linked products. In the years in which the technical results of insurance operations were most strongly negative, they were counterbalanced by investment income flows that enabled ordinary operations to show at least marginally positive results, ranging between 0.5% and 1.0%.

This enabled the market to exploit the multiplier effect of leverage, which rose continuously in the period, from 7.4 in 1998 to 14.6 in 2005 (Figure 4).

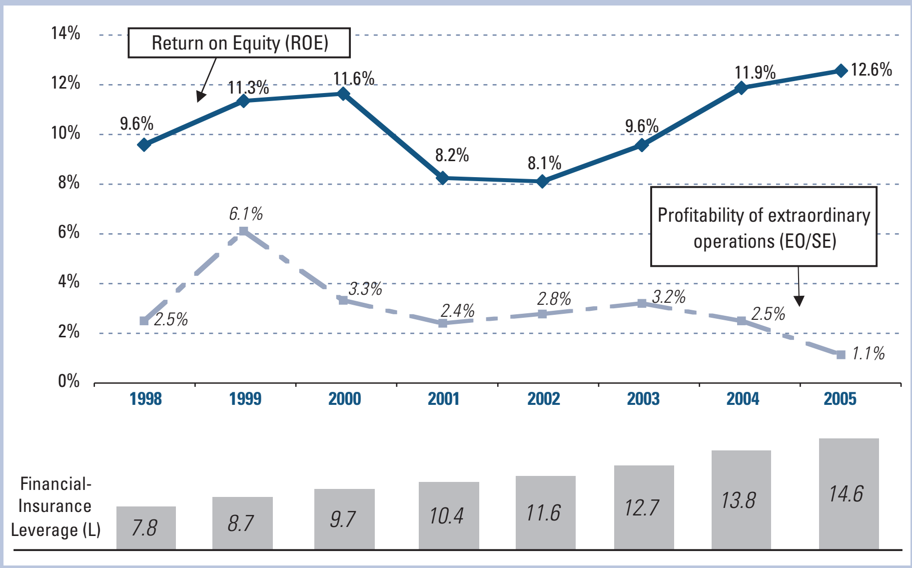
FIGURE 3
LIFE CLASSES: FINANCIAL OPERATIONS AND INSURANCE OPERATIONS



Balance sheet data processed by ANIA.

This steady increase is easily explainable in life insurance business, which is influenced on the one hand by multi-year contracts with continual allocations to provisions and on the other by a market, like the Italian, characterized by strong growth in recent years and hence necessarily implying a progressive increase in the mathematical provisions in favor of policyholders.

FIGURE 4
LIFE CLASSES: EXTRAORDINARY OPERATIONS, LEVERAGE AND RETURN ON EQUITY (ROE)



Balance sheet data processed by ANIA.

In contrast with the non-life sector, where the improvement in overall profitability came primarily from that in ordinary activity, in the life sector financial leverage was the factor with the greatest impact on final ROE.

A less significant factor than in the non-life sector was the profitability of extraordinary operations, which, except in 1999, stayed within the narrow range of 2.5% and 3.0% until 2005, when it recorded a low of just above 1%.

The Italian insurance industry in the international scenario

THE INTERNATIONAL PICTURE

In 2004 premiums written worldwide totalled USD 3,244 billion, an increase of 2.3% in real terms, about the same as in 2003.

Life insurance premiums totalled USD 1,849 billion, up by 2.3% in real terms, after a decline of 0.7% in 2003. Non-life premium volume amounted to USD 1,395 billion, also up by 2.3% in real terms but with a sharp slowdown from the 6.4% growth of 2003. The trends in life and non-life business were thus opposed: the former accelerating and the latter slowing.

After the drop in equity markets in 2002, both life and non-life insurance companies continued in 2004 to hold a low percentage of their portfolios in shares, despite the recovery in the stock markets. The alternative with the best prospects for insurers was to keep increasing their capital base by allocating profits to reserves. This investment strategy and capital strengthening were well received both by investment banks and by rating agencies, which revised their forecasts for the insurance industry upwards in 2004.

Invigorated by increased savings and pension system reforms, the life insurance market expanded by 3.8% in Western Europe in 2004, while growth remained feeble in North America and was negative in Japan. Premium volume rose by 1.7% in the industrial countries, far less than the 7.4% overall growth recorded in the emerging economies, which did show substantial dispersion between countries.

In the non-life sector, the return on investment remained modest, but the technical result improved despite very substantial claims for disasters. This was possible thanks chiefly to disciplined underwriting policies, which contributed to the good performance of the combined ratio in all branches. The increase in non-life premiums came to 1.7% in the industrial countries as a

PREMIUMS IN 2004
Dollar million

	LIFE	NON-LIFE	TOTAL
North America	524,327	643,249	1,167,576
Latin America	20,203	29,121	49,324
Europe	694,563	503,621	1,198,184
Asia	556,321	179,715	736,036
of which: Japan	*386,839*	*105,587*	*492,426*
Africa	26,241	11,368	37,609
Oceania	27,034	28,144	55,178
Total	**1,848,689**	**1,395,218**	**3,243,907**

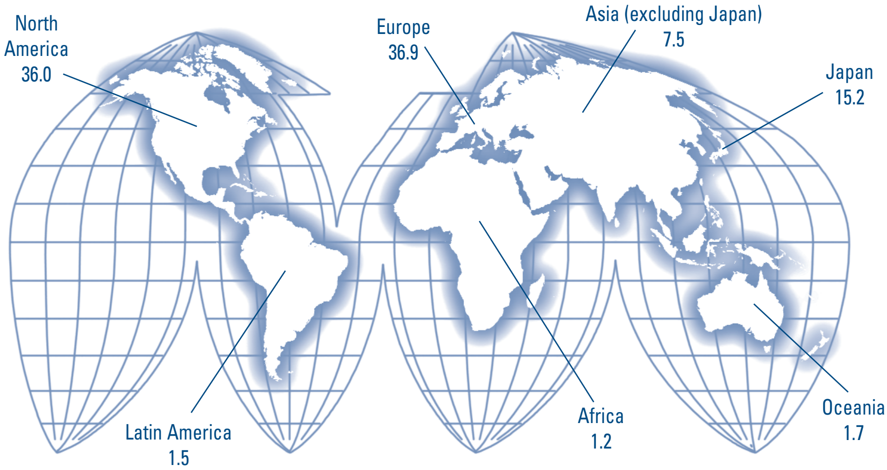
Source: Swiss Re - SIGMA.

REAL GROWTH RATE IN 2004 (%)

	LIFE	NON-LIFE	TOTAL
North America	0.7	2.0	1.4
Latin America	17.1	5.9	10.5
Europe	3.8	2.5	3.2
Asia	2.0	2.1	2.1
of which: Japan	*-1.0*	*-0.5*	*0.9*
Africa	-4.7	10.1	-1.3
Oceania	6.2	0.4	3.2
Total	**2.3**	**2.3**	**2.3**

Source: Swiss Re - SIGMA.

WORLDWIDE DIRECT INSURANCE IN 2004 - MARKET SHARES



Source: Swiss Re - SIGMA.

whole. In the United States, the world largest non-life insurance market, premium volume expanded by 2.0%, while in Western Europe growth varied considerably from country to country. In 2004 the growth rate in the emerging markets came to 7.7%, thanks to rapid expansion in Africa and Central and Eastern Europe.

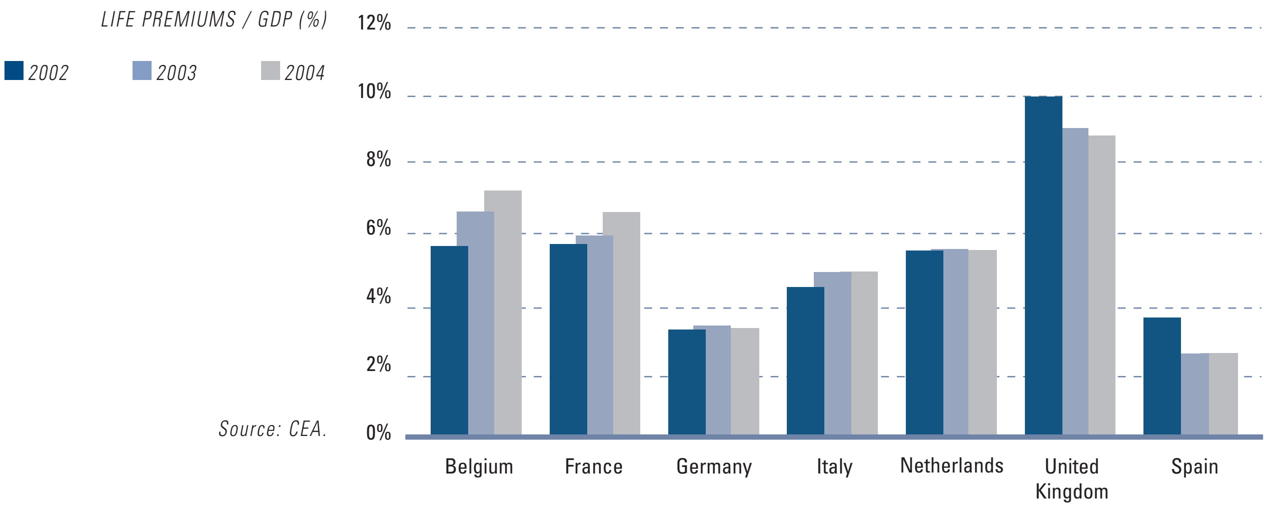
European companies increased their market share of total premiums, advancing from 34.8% in 2003 to 36.9% in 2004. That of North America fell from 37.9% to 36.0% and that of Japan from 16.3% to 15.2%.

THE IMPORTANCE OF INSURANCE BY COUNTRY

The ratio of premium volume to GDP – the insurance "penetration" index – moved differently in the life and non-life sectors between 2002 and 2004.

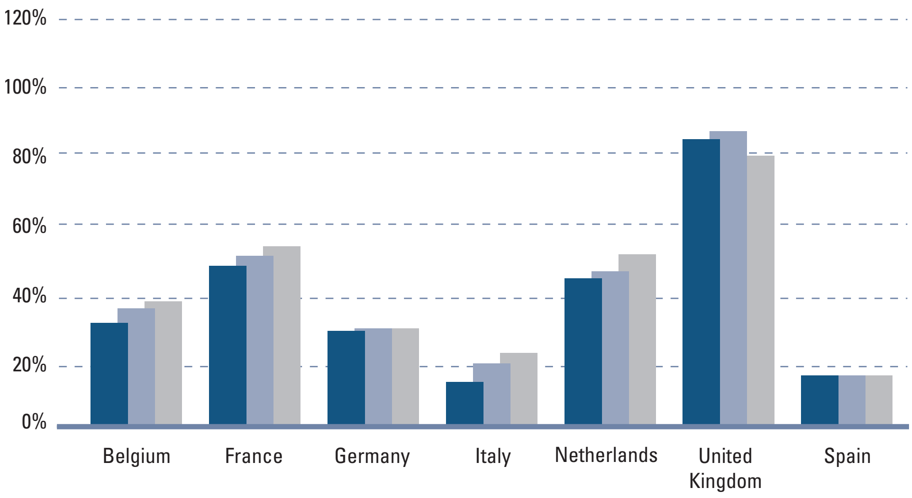
In the life sector, France and Belgium recorded the sharpest increases in the index in 2004: France from 5.9% to 6.5% and Belgium from 6.6% to 7.2%. In Italy and Spain the index remained practically unchanged at 4.7% and 2.4% respectively. Over the three years 2002-2004, the United Kingdom showed a steady decline in the indicator from 9.9% to 8.8%, while the Netherlands and Germany recorded modest declines to 5.4% and 3.1% respectively.

LIFE PREMIUMS / GDP (%)



Source: CEA.

The ratio of life insurance provisions to GDP – an indicator that proxies for the degree of maturity of the life insurance market – rose in Italy from 20.3% in 2002 to 23.2% in 2004 but remains lower than in the other European countries except Spain (where it was 14.7% in 2004). Other European countries have far higher indices: the United Kingdom 79.8%, France 53.0%, the Netherlands 50.6% and Belgium 38.9%.

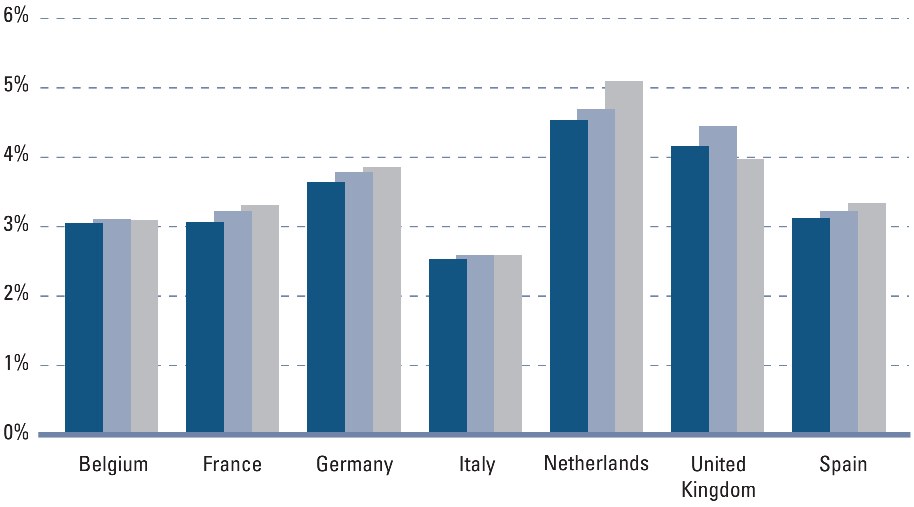


MATHEMATICAL PROVISIONS / GPD (%)

2002 2003 2004

Source: CEA.

In non-life insurance, Italy still had the lowest ratio of premiums to GDP in Europe, at 2.6% in 2004, the same as in 2003. Over the three years the gap with the other countries also held practically unchanged: half a percentage point vis-à-vis Belgium, France and Spain in 2004, nearly 1.5 points vis-à-vis Germany and the UK and 2.5 points vis-à-vis the Netherlands.



NON-LIFE PREMIUMS / GDP (%)

2002 2003 2004

Source: CEA.

THE MAIN MARKETS IN THE EUROPEAN UNION

Insurance companies in the first 15 EU member states wrote premiums for Euro 850,828 million in 2004, an increase of 5.5% following the 1.6% increase in 2003. The volume of premiums expanded in all the countries except Sweden (-0.5%) and Ireland (-0.2%). The sharpest gains were recorded by Luxembourg (22.3%), Greece (12.0%), France (11.4%), Portugal (10.8%) and Belgium (10.2%).

Life insurance premiums expanded by 6.8% in 2004, after contracting by 1.1% the previous year. Exceptionally strong growth was registered in Luxembourg (24.5%) and in France and Belgium (14.5% and 13.5% respectively). The only country in which life premiums written declined was Sweden (-1.5%).

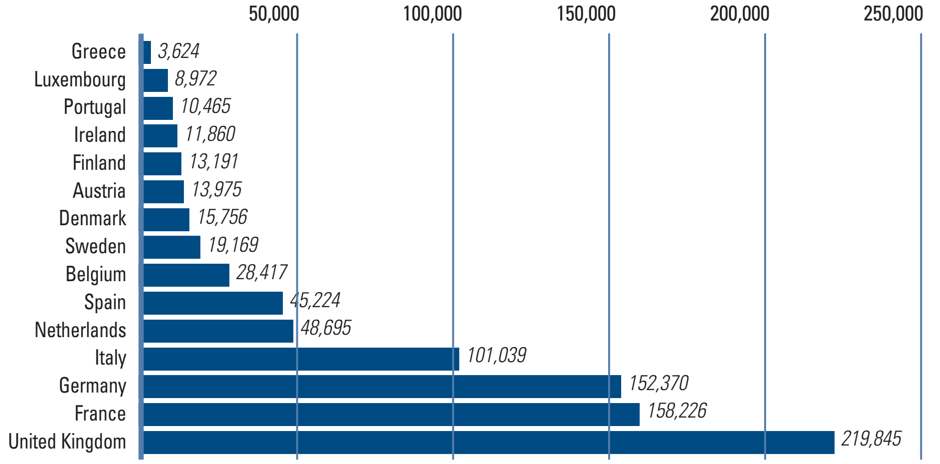
The Italian insurance industry in the international scenario

Non-life premiums rose in the EU-15 by just 3.6% in 2004, after 6.0% growth in 2003. The main check to growth came from the fall in premiums in the UK (-3.1%). Positive contributions came above all from the Netherlands (11.1% growth), Spain (10.0%), France (5.8%) and Germany (4.4%).

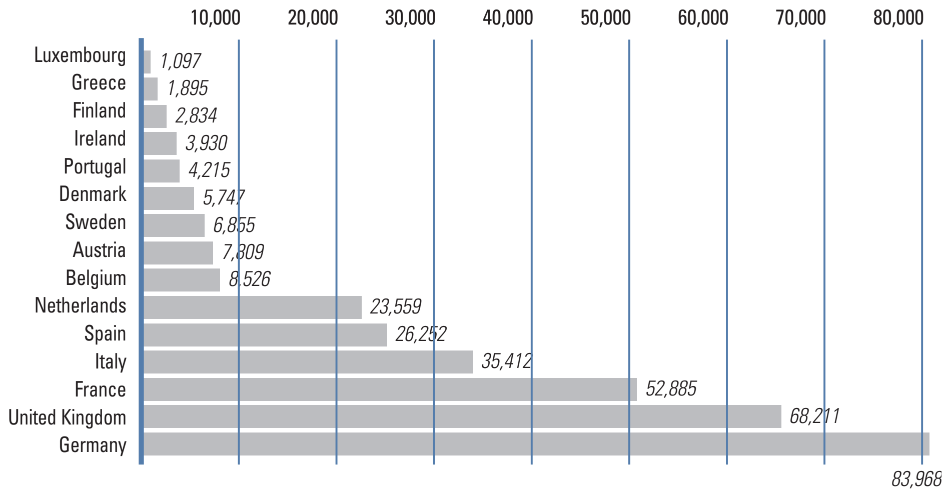
DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2004

Euro million

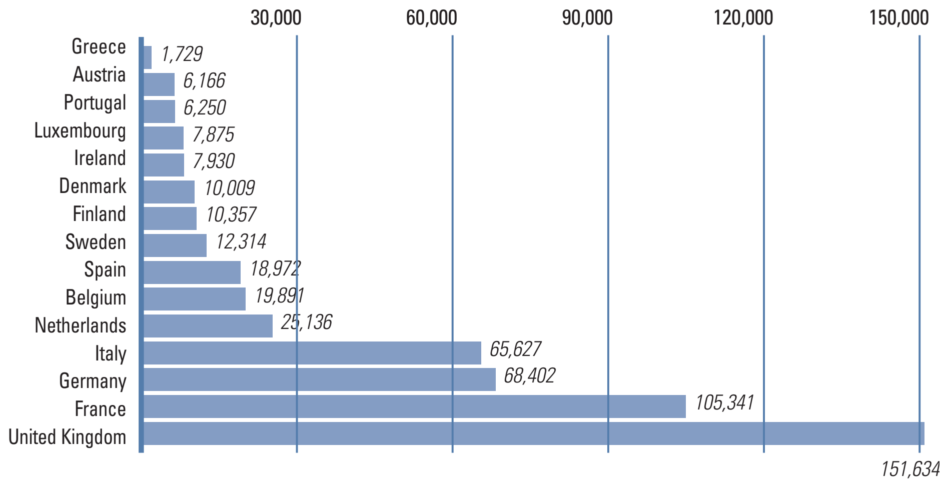
TOTAL



NON-LIFE



LIFE



Source: CEA.

AN INTERNATIONAL COMPARISON USING OECD DATA

The OECD's *Insurance Statistics Yearbook* is an invaluable source of data on the industry in its 30 industrialized member countries. The indicators traced over time are drawn from the statistics published by the official insurance industry supervisory authorities in the member countries. They refer to the years from 1994 to 2003.

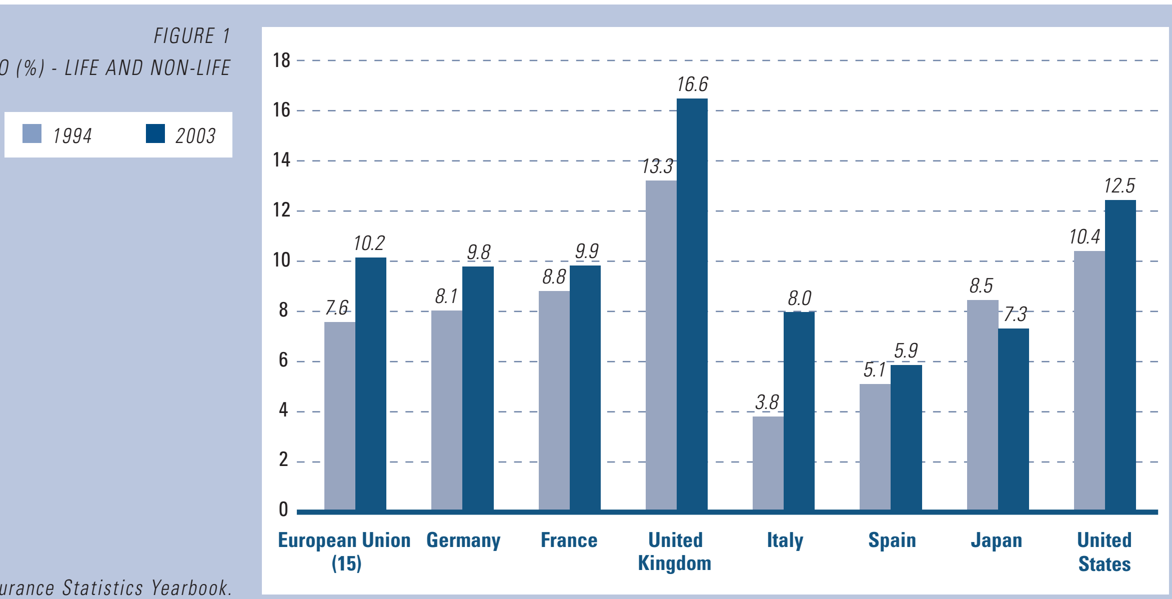
The statistical indicators provided in this database are available at increasingly disaggregated levels, from the total market to individual business lines (auto, property, accident, sickness, general liability, credit and surety, reinsurance). This depth of detail makes it possible to study the different patterns of development country by country, calculating the contribution of each business line to the overall growth of the industry.

A key OECD indicator is gross premiums as a percentage of GDP, which gauges the importance ("penetration") of the insurance industry, hence its stage of development, in a given economy. A study of this variable across countries helps to spotlight the development lags, most evident in the non-life sector, of the Italian insurance industry vis-à-vis other countries with comparable income.

The figures show yearly gross premiums written as a percentage of GDP in Italy, Germany, France, the UK, Spain, the US, Japan and the EU-15 in 1994 and 2003.

Total market. For the insurance market as a whole, the country with the highest penetration index is the UK, with gross premiums equal to 16.6% of GDP in 2003 (13.3% in 1994). Next come the US at 12.5% (10.4% in 1994) and Germany at 9.8% (8.1% in 1994). The EU-15 average was 10.2% (7.6% in 1994). Italy recorded a ratio of 8.0%, hence lower than the European average, but the very sharp increase over 1994 (3.8%) significantly narrowed the gap with the rest of Europe (Figure 1).

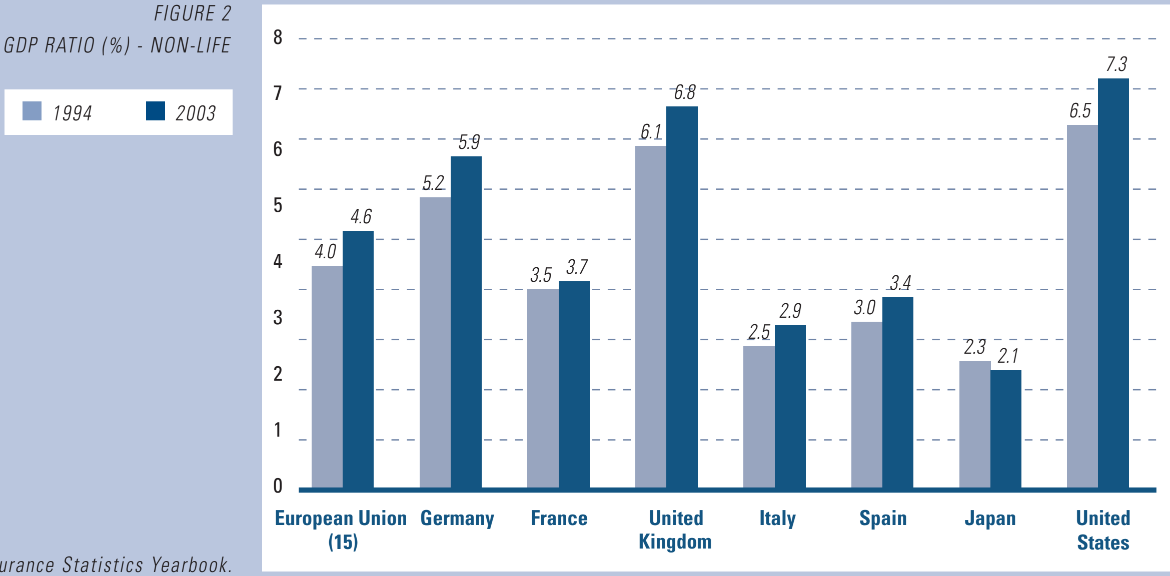
FIGURE 1
PREMIUMS TO GDP RATIO (%) - LIFE AND NON-LIFE



Source: OECD. Insurance Statistics Yearbook.

Non-life insurance. In non-life insurance there have been major changes in the relative positions of the various countries. The US industry is the most highly developed in the non-life branch, with gross premiums equal to 7.3% of GDP in 2003 (6.5% in 1994). The EU average is 4.6%. In the UK the ratio stood at 6.8% (6.1% in 1994), and in Germany at 5.9% (5.2% in 1994). The other European countries are quite far behind. Gross non-life premiums in Italy came to 2.9% of GDP in 2003, up from 2.5% in 1994 (Figure 2).

FIGURE 2
PREMIUMS TO GDP RATIO (%) - NON-LIFE



Source: OECD. Insurance Statistics Yearbook.

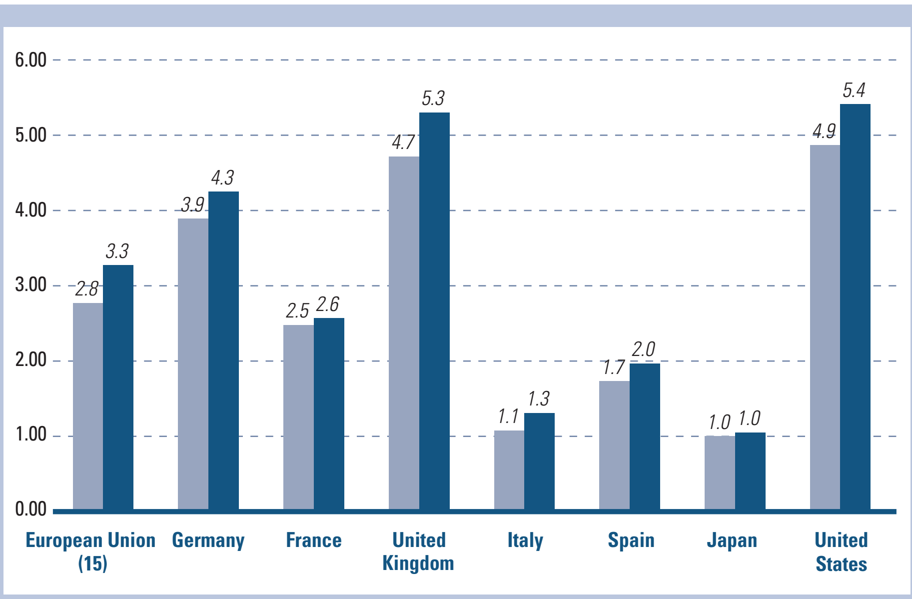


FIGURE 3
PREMIUMS TO GDP RATIO (%) - NON-LIFE, EXCLUDING MOTOR

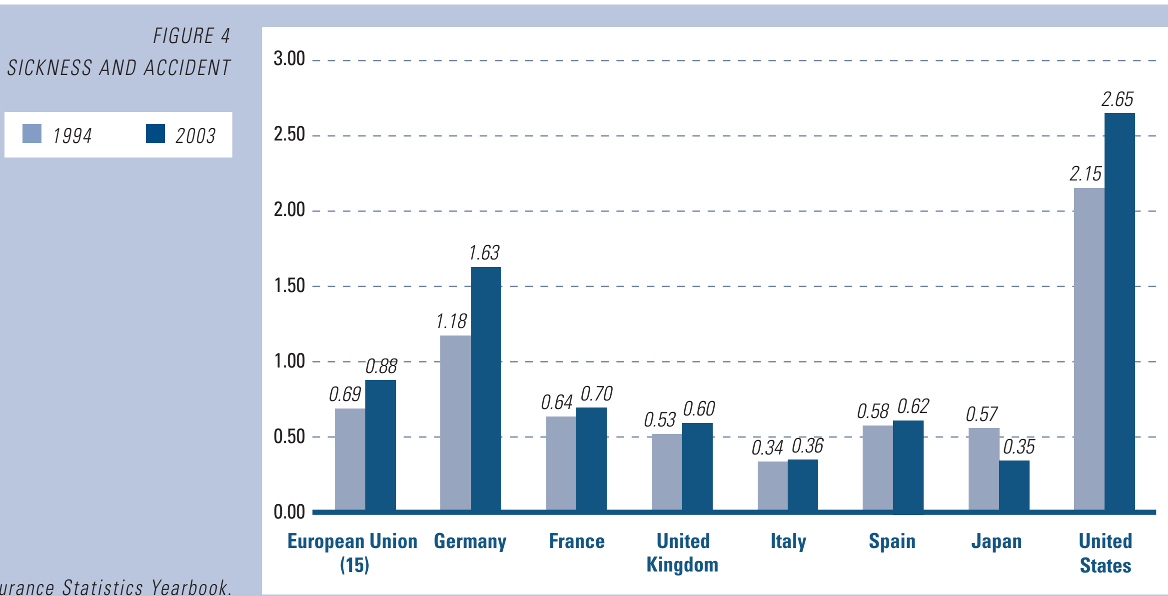
Source: OECD. Insurance Statistics Yearbook.

Non-life excluding motor insurance. We get a better idea of the propensity of different countries for insurance by excluding motor vehicle insurance, which is compulsory practically everywhere. The US and the UK are world leaders in non-auto non-life insurance, with gross premiums equal to 5.4% and 5.3% of GDP, respectively, in 2003 (4.9% and 4.7% in 1994). Third, again, is Germany at 4.3% (3.9% in 1994). By this measure Italy is still farther behind the leaders, at 1.3% (1.1% in 1994).

Sickness and accident insurance. The relative importance of these lines of business depends heavily on the individual country's health care system. The diffusion of private health insurance depends on the size of the public health system, but also on its effectiveness in delivering care. The United States, where there is public health care for only part of the population (the poor and the elderly), had the highest ratio of premiums to GDP of all the countries examined (2.65%, up from 2.15% in 1994). The EU average was 0.88%; the EU country with the highest ratio (1.63%, up from 1.18% in 1994) was Germany, which allows citizens above a certain income threshold to opt out of the national health system and choose private insurance. In the rest of Europe, where national health systems are more pervasive, the ratios are all below 1%. Even so, Italy still shows a substantial gap with respect to the other countries: 0.36% in 2003 (0.34% in 1994), as against 0.70% in France, 0.62% in Spain and 0.60% in the UK.

Italy's backwardness in non-life insurance by comparison with the rest of Europe also depends in part on fire and other property damage business,

FIGURE 4
SICKNESS AND ACCIDENT



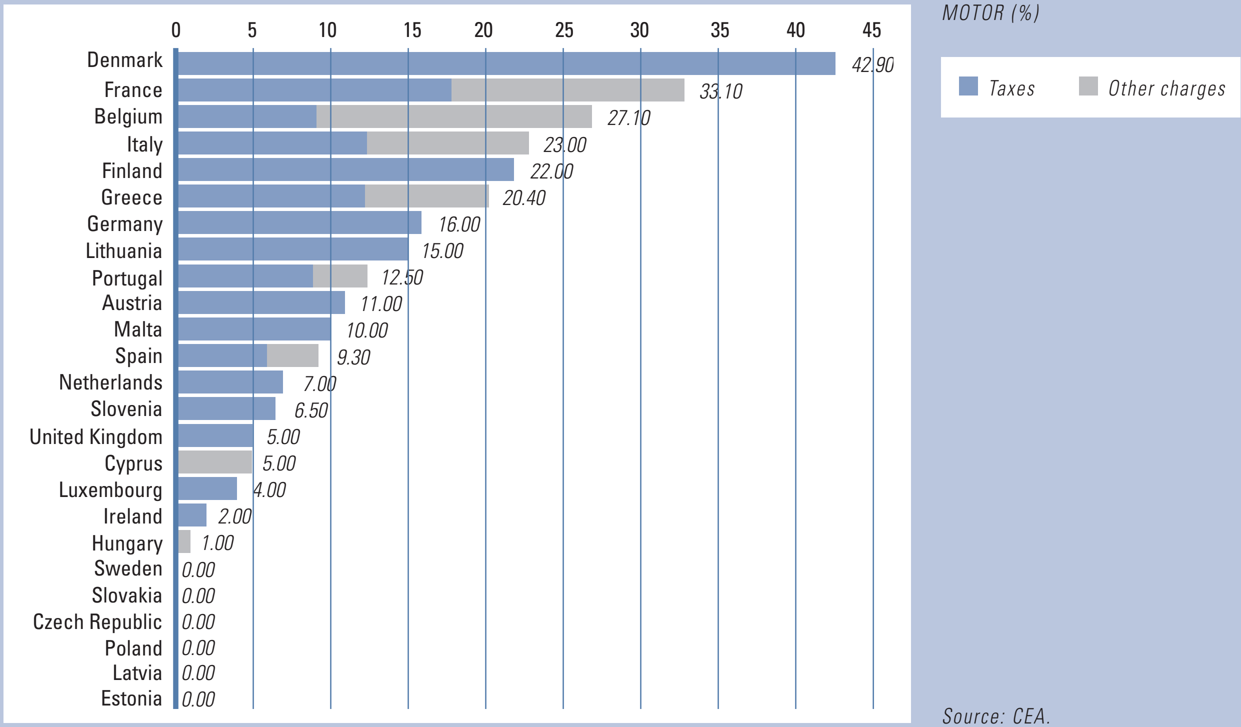
Source: OECD. Insurance Statistics Yearbook.

where the ratio of gross premiums to GDP came to 0.38% in 2003 (0.37% in 1994), against an EU average of 0.96% (0.89% in 1994). In other classes, general liability premiums written came to 0.23% of GDP in Italy in 2003 (0.15% in 1994), against a European average of 0.45% (0.28% in 1994).

TAXATION OF PREMIUMS IN THE EUROPEAN UNION

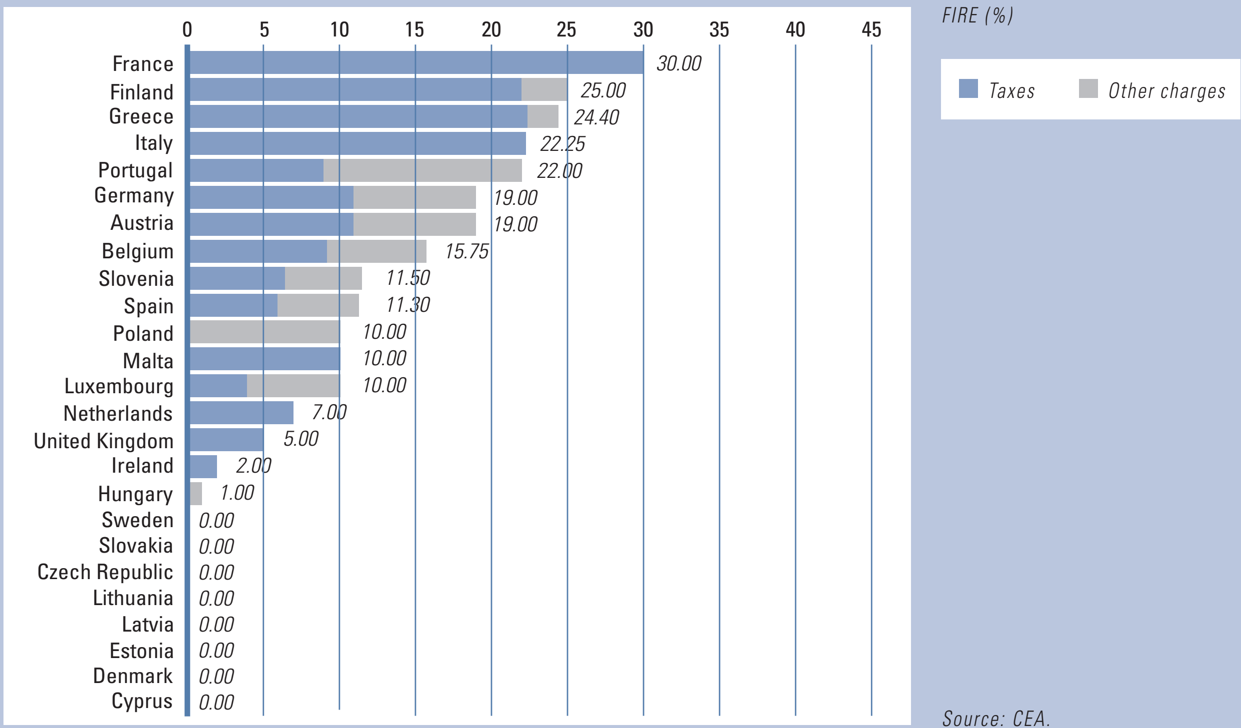
Italian indirect taxes on insurance premiums remained high in 2005. The entry of new member states in 2004, most of which had no indirect taxes or parafis-

MOTOR (%)



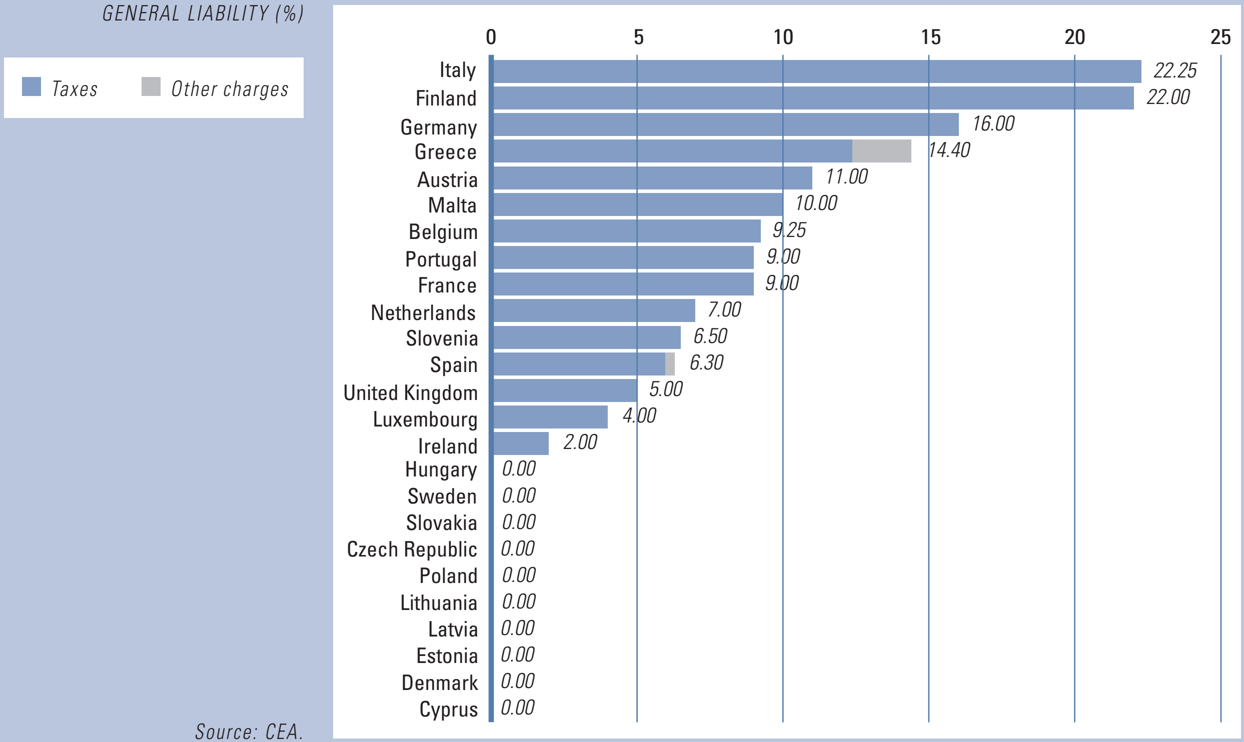
Source: CEA.

FIRE (%)



Source: CEA.

GENERAL LIABILITY (%)



Source: CEA.

cal charges and the rest only had modest taxes, highlights the disparity with such high-tax countries as Italy.

INSURANCE PROFIT AND LOSS ACCOUNTS IN EUROPE

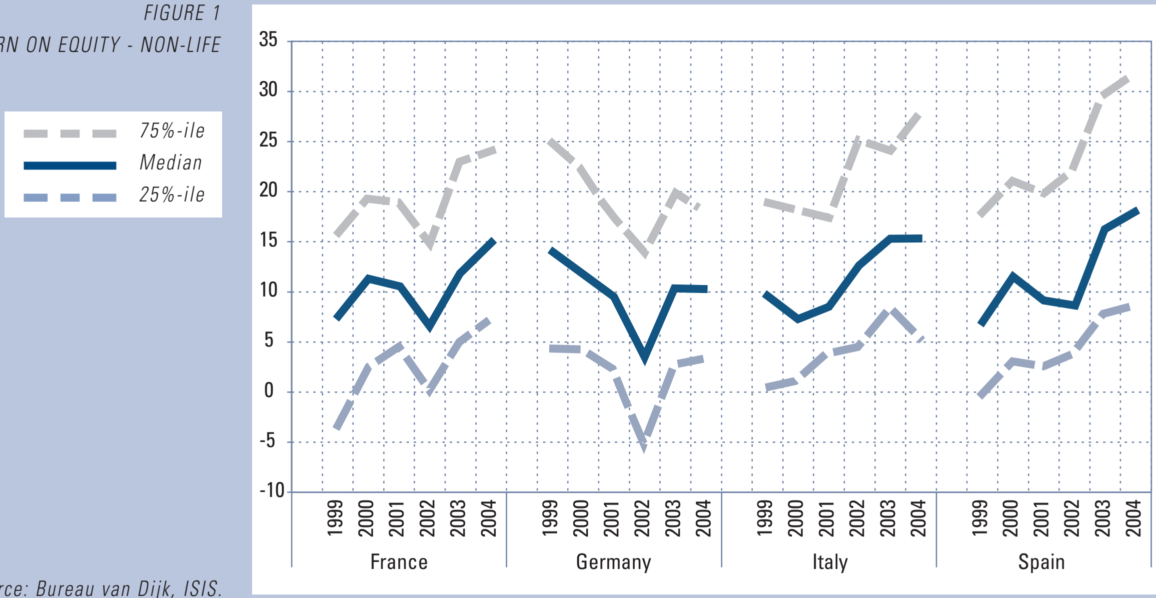
The Bureau van Dijk ISIS database gives details on the profit and loss accounts and balance sheets of European insurance companies. The database takes information from Fitch-IBCA on a sample of companies that account for about 90 percent of the market. Here, we use it to examine comparative trends in insurance profitability in France, Germany, Spain and Italy, from 1999 to 2004.

Non-life companies

The companies doing non-life insurance business surveyed by ISIS in 2004 numbered 539: 104 in France, 257 in Germany, 66 in Italy and 112 in Spain. Profitability is measured as the ratio of pre-tax profits to equity (defined as the sum of subscribed capital, reserves for own shares, revaluation reserves, other reserves and retained profits). This summary indicator shows Italian insurance companies' profitability stable in 2004. The ROE of the median Italian insurance company was 15.2% (15.3% in 2003). The median German ROE also held steady (10.1%, compared with 10.3% the previous year). French median profitability rose sharply (14.9%, up from 11.8%) as did Spanish (18.0%, up from 16.2%).

We can gauge dispersion about the median by the interquartile distance, i.e. the difference between the indicator values for the companies in the first and the third quartiles of firms ranked in increasing order of profitability. The interquartile distance in Italy was quite large in 2004, 22.8 percentage points, owing to gains scored by the more profitable companies and deterioration for the less profitable. The difference in France was 16.6 points, in Germany 14.7 and in Spain 23.2 (Figure 1).

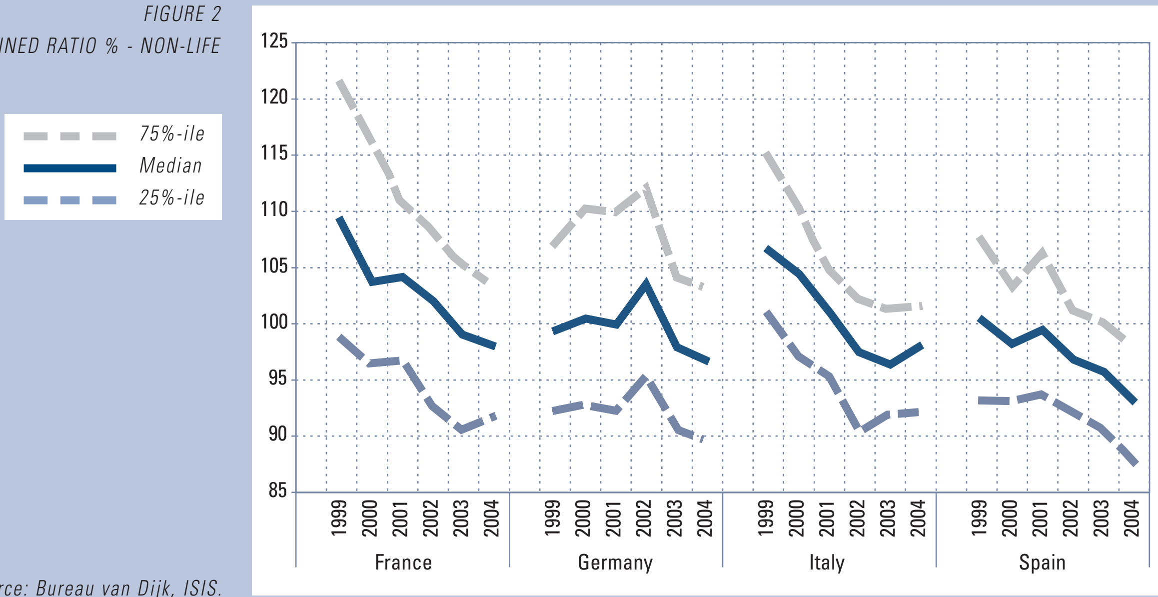
FIGURE 1
RETURN ON EQUITY - NON-LIFE



Source: Bureau van Dijk, ISIS.

The main technical indicator, the combined ratio – the sum of the loss ratio and the expense ratio – of the median Italian insurance company rose slightly from 96.3% to 97.9% in 2004. In all the other main European countries it improved: from 98.9% to 98.0% in France, 97.8% to 96.7% in Germany, and 95.6% to 93.0% in Spain. The interquartile distance of the sample companies was 9.4 percentage points in Italy, 11.9 in France, 13.7 in Germany and 10.3 in Spain (Figure 2).

FIGURE 2
COMBINED RATIO % - NON-LIFE



Source: Bureau van Dijk, ISIS.

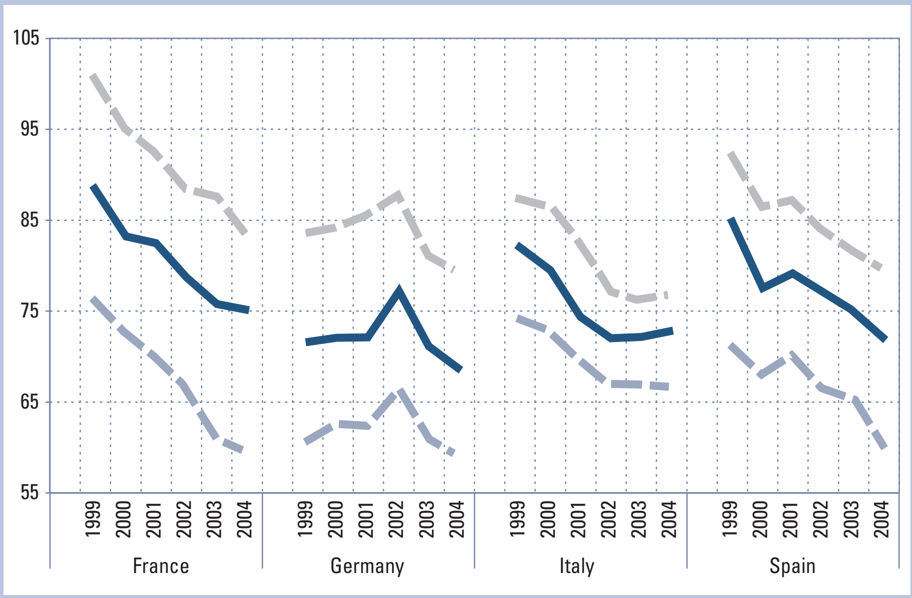


FIGURE 3
LOSS RATIO % - NON-LIFE

Source: Bureau van Dijk, ISIS.

As in 2003, the change in the combined ratio in 2004 essentially reflected the trend in claims, with a loss ratio of 72.7% in Italy, 75.2% in France, 68.7% in Germany and 72.2% in Spain (Figure 3). The expense ratio was broadly stable in all four countries in 2004: 25.5% in Italy, 23.4% in France, 26.9% in Germany and 19.7% in Spain (Figure 4).

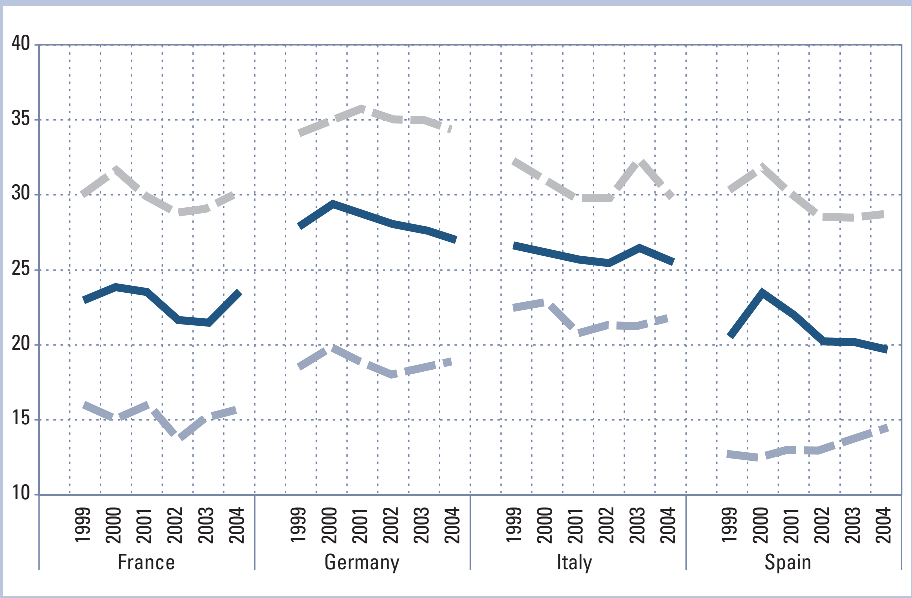
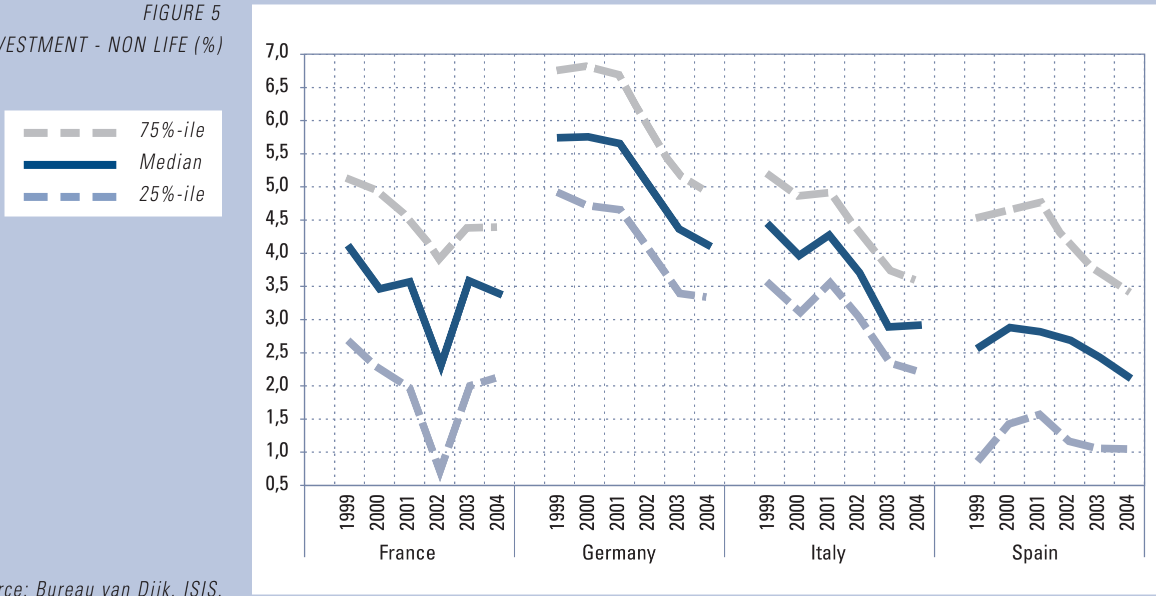


FIGURE 4
EXPENSE RATIO % - NON-LIFE

Source: Bureau van Dijk, ISIS.

FIGURE 5
RETURN ON INVESTMENT - NON LIFE (%)



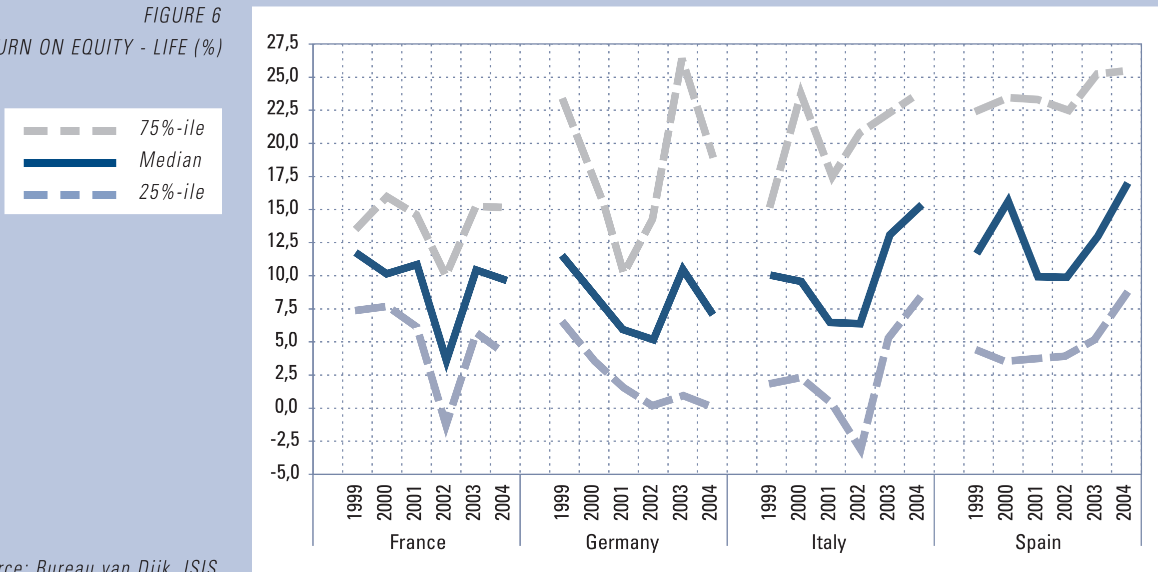
Source: Bureau van Dijk, ISIS.

The return on investment for the median company in Italy held virtually steady at 2.9% in 2004, while falling to 3.4%, 4.1% and 2.1% in France, Germany and Spain respectively. The concentration of companies around the median is comparable in all four countries. The interquartile distance was 2.3 percentage points in France, 1.6 in Germany, 1.4 in Italy and 2.4 in Spain (Figure 5).

Life companies

The companies doing life insurance business covered by the ISIS database in 2004 numbered 433: 61 in France, 237 in Germany, 67 in Italy and 68 in Spain.

FIGURE 6
RETURN ON EQUITY - LIFE (%)



Source: Bureau van Dijk, ISIS.

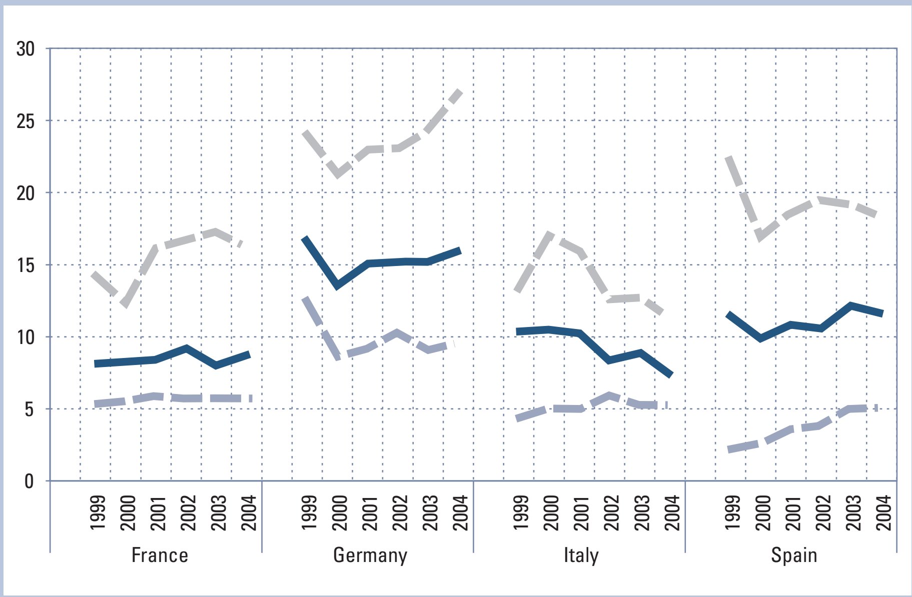


FIGURE 7
EXPENSE RATIO % - LIFE

Source: Bureau van Dijk, ISIS.

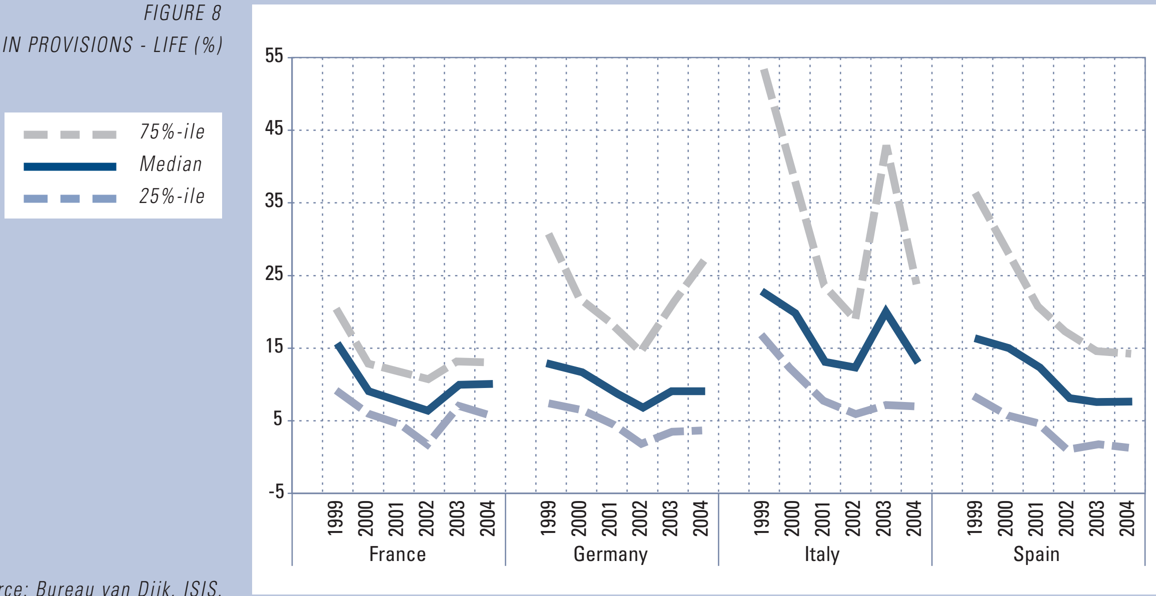
The ROE of the median Italian company in the life sector rose from 13.1% in 2003 to 15.2% in 2004. The Spanish median also gained appreciably, from 12.8% to 16.9%, while the indicator fell in France and Germany from 10.4% in both countries to 9.7% and 7.2% respectively. Profitability is highly variable, with interquartile distances of 15.4 percentage points in Italy, 10.9 in France, 19.0 in Germany and 16.7 in Spain (Figure 6).

The expense ratio of the median company was 7.5% in Italy, down sharply from 8.9% in 2003. It also fell in Spain, from 12.2% to 11.8%, while rising in France from 8.1% to 8.8% and in Germany from 15.2% to 16.0%. Concentration of the expense ratio varies significantly between countries, reflecting among other things the differing degree of development of unit and linked policies. In 2004 the interquartile distance for Italian companies was 6 percentage points, compared with 10.6 in France, 17.3 in Germany and 13.4 in Spain (Figure 7).

Median provisions for Italian companies in the life sector increased by 13.2% in 2004, after rising 19.5% in 2003. The median growth rates for French, German and Spanish companies remained about the same as in 2003 at 10.0%, 9.0% and 7.6% respectively. Dispersion among Italian companies diminished, with the difference between the first and third quartile of the distribution coming down to 16.8 percentage points, compared with 7.3 points in France, 23.3 in Germany and 12.9 in Spain (Figure 8).

The median solvency ratio – the ratio of equity to total assets – declined slightly in Italy in 2004, from 6.3% to 5.8% and in France from 6.1% to 5.5%,

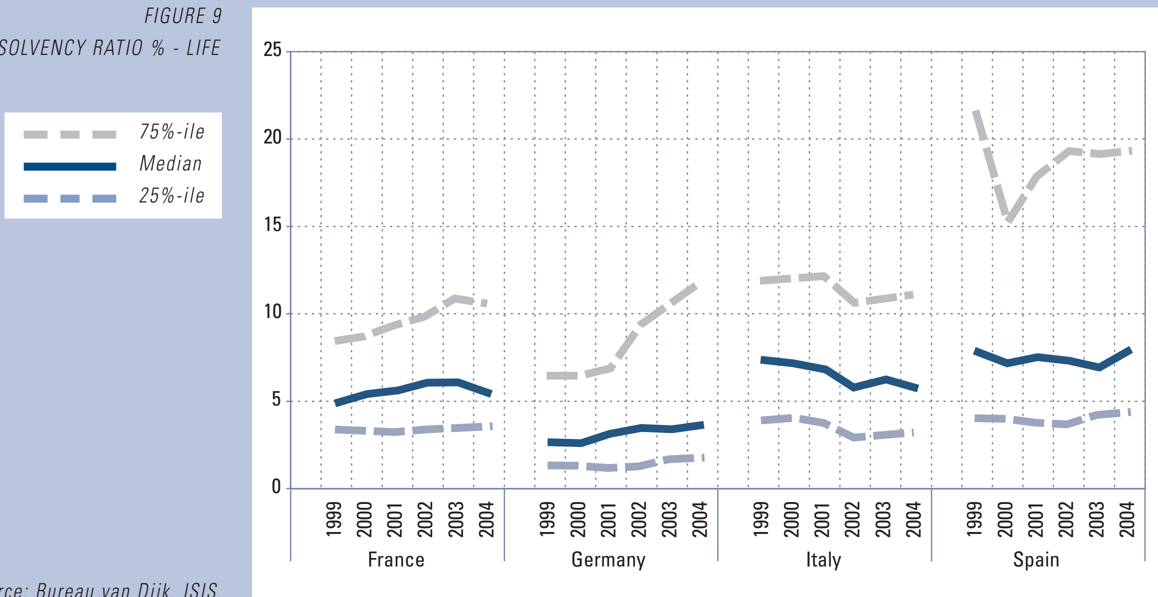
FIGURE 8
CHANGE IN PROVISIONS - LIFE (%)



Source: Bureau van Dijk, ISIS.

while rising in Germany from 3.4% to 7.0% and in Spain from 3.6% to 7.9%. The interquartile distance in Italy was 8.0 percentage points, as against 10.1 in Germany, 7.1 in France and 14.9 in Spain (Figure 9).

FIGURE 9
SOLVENCY RATIO % - LIFE



Source: Bureau van Dijk, ISIS.

RETURN ON EQUITY FOR LISTED EUROPEAN INSURANCE COMPANIES

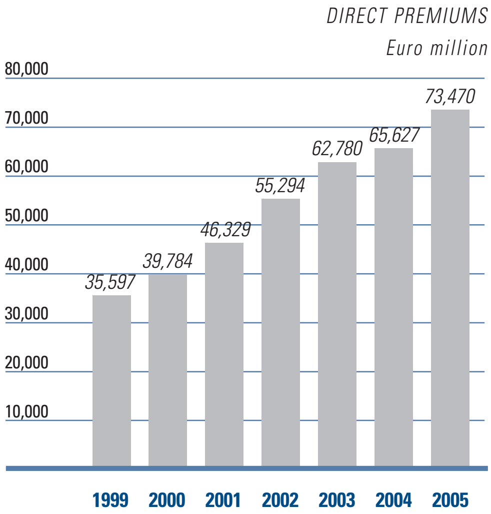
The profitability of listed insurance companies improved in 2005 in all the main European markets. The median ROE for listed Italian companies rose by about 1 percentage point to 16.6%, in line with the European average. The French companies recorded a sharper gain (from 14.7% to nearly 22%), as did German companies (from 9.1% to 17.2%). The British insurance industry confirmed its status as the most profitable in Europe, with a median ROE of 21.8%, more than 4 points higher than in 2004. Swiss companies' ROE remained well below the average at 11.9%.

TABLE 1 - MEDIAN ROE OF LISTED COMPANIES (%)

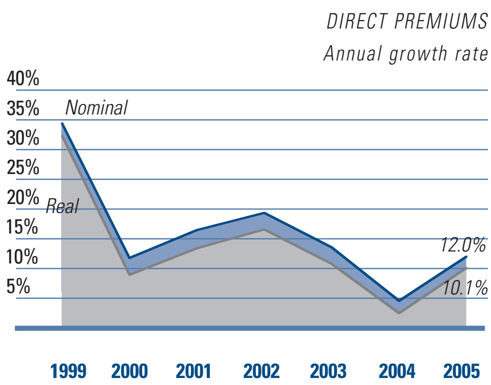
Italy	2003	11.4	**United Kingdom**	2003	12.4
	2004	15.8		2004	17.3
	2005	16.6		2005	21.8
France	2003	12.6	**Switzerland**	2003	9.5
	2004	14.7		2004	14.0
	2005	21.9		2005	11.9
Germany	2003	6.5	**Europe (*)**	2003	10.5
	2004	9.1		2004	14.2
	2005	17.2		2005	17.9

Source: Thomson Financial data processed by ANIA.
(*) Simple average of the five countries.

Life insurance



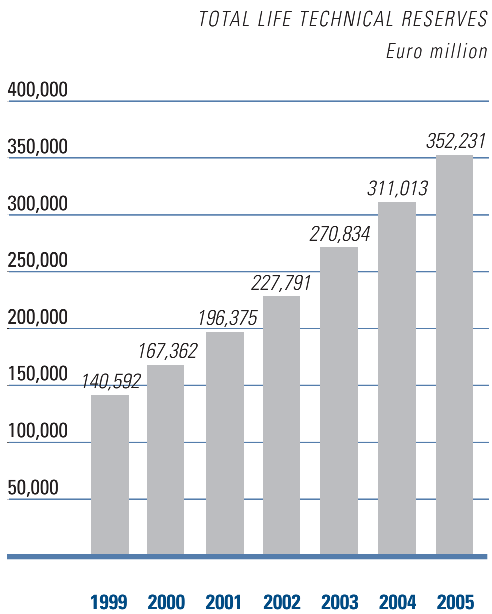
Premiums in life insurance business registered strong growth (12%) compared to the slowdown of the previous year; in particular traditional policies premiums (class I and class V) characterised by floor return guarantees, registered a substantial increase; the growth in pension fund management (class VI) was positive even if premium income is still very modest.



DOMESTIC BUSINESS

Premiums for direct domestic business for the 90 insurance companies operating in life classes amounted to Euro 73,470 million; the growth rate was equal to 12.0% in nominal terms (4.5% in 2004) and 10.1% in real terms (2.5% in 2004). In percentage, life premiums represent 67% of the total (life and non-life) reflecting an increase by more than two points percentages compared to 2004.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 43,710 million, representing a 27.4% increase.



Mathematical provisions were equal to Euro 352,231 million, thus recording a 13.3% increase, in line compared to the premiums.

Operating expenses were equal to Euro 4,308 million (Euro 3,864 million in 2004); they include, in addition to acquisition costs, costs arising from premium collection and costs relating to the organisation and operation of the distribution network, also the administration expenses relating to the technical management of insurance business. The ratio of these operating expenses to premiums amounted to 5.9% as in 2004.

Considering the investment income equal to Euro 17,062 million, the **result of the technical account for direct business** reflected a profit of Euro 2,016 million (Euro 1,783 million in 2004). The ratio to premiums was 2.7% as in 2004.

The net result for reinsurance activities and indirect insurance business was positive at Euro 326 million (Euro 249 million in 2004).

LIFE TECHNICAL ACCOUNT
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	35,597	39,784	46,329	55,294	62,780	65,627	73,470
Incurred claims (-)	8,945	13,574	16,100	21,783	25,453	34,313	43,710
Changes in technical provisions (-)	31,002	26,693	28,981	31,504	43,257	39,666	41,195
Balance of other technical items	-50	-5	175	284	427	476	697
Operating expenses (-)	3,026	3,398	3,323	3,379	3,745	3,864	4,308
Investment income	7,560	4,688	2,812	1,845	10,661	13,523	17,062
Direct technical account result	**134**	**802**	**912**	**757**	**1,413**	**1,783**	**2,016**
Reinsurance result and other items	666	659	480	279	293	249	326
Overall technical account result	**800**	**1,461**	**1,392**	**1,036**	**1,706**	**2,032**	**2,342**
Annual % changes in premiums	34.4%	11.8%	16.5%	19.4%	13.5%	4.5%	12.0%
Expense ratio	8.5%	8.5%	7.2%	6.1%	6.0%	5.9%	5.9%
Investment income/Technical provisions	6.0%	3.0%	1.5%	0.9%	4.3%	4.6%	5.1%
Technical account result/Gross written premiums	**0.4%**	**2.0%**	**2.0%**	**1.4%**	**2.3%**	**2.7%**	**2.7%**
Overall technical account result/Gross written premiums	**2.2%**	**3.7%**	**3.0%**	**1.9%**	**2.7%**	**3.1%**	**3.2%**
Overall technical account result/Technical provisions	**0.64%**	**0.95%**	**0.77%**	**0.49%**	**0.68%**	**0.70%**	**0.71%**

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

The **overall technical account result** was equal to Euro 2,342 million (Euro 2,032 million in 2004). A slight increase is observed both in the ratio to premiums (from 3.1% in 2004 to 3.2% in 2005) and in the ratio to the centred mean of technical reserves (from 0.70% in 2004 to 0.71% in 2005).

INDIVIDUAL LIFE CLASS

Life insurance

Premiums for direct domestic business, collected from the 88 companies operating in the class, amounted to Euro 33,870 million; the growth rate compared to 2004 was equal to 12.5%. The ratio to premiums for the class on the total life premiums increased from 45.9% in 2004 to 46.1%; also this year insureds seem to be addressed towards products with floor return guarantees, and not towards linked products as 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 18,258 million representing a 8.9% increase compared to 2004.

The **changes in mathematical** and other technical provisions were equal to Euro 18,608 million representing a 15.2% increase.

Operating expenses were equal to Euro 2,364 million (Euro 2,048 million in 2004). The ratio to premiums was 7.0% (6.8% in 2004).

Life insurance

Considering the investment income equal to Euro 6,459 million, the **result of the technical account for direct business** reflected a profit of Euro 1,057 million (Euro 1,462 million in 2004). The ratio to premiums was equal to 3.1% from 4.9% in 2004; there was an increase of claims and a decrease of the incidence of profit on technical reserves.

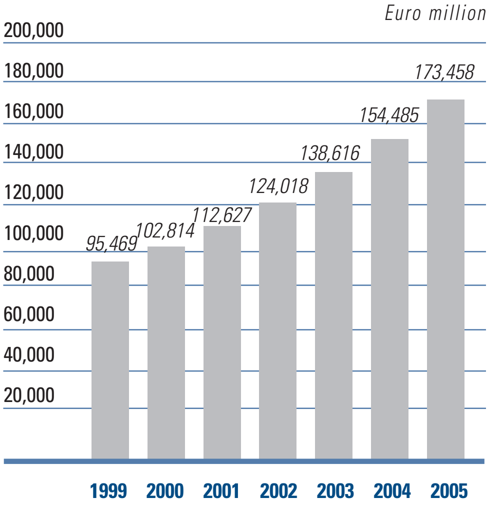
The net result for reinsurance activities and indirect insurance business was positive at Euro 371 million.

CLASS I - LIFE
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	17,603	15,967	19,413	23,991	27,788	30,101	33,870
Incurred claims (-)	6,982	9,686	11,254	13,660	14,839	16,761	18,258
Changes in technical provisions (-)	13,035	8,680	9,806	12,233	14,737	15,692	18,608
Balance of other technical items	-51	-66	-81	-109	-96	-88	-42
Operating expenses (-)	2,034	2,019	1,791	1,770	1,941	2,048	2,364
Investment income	4,597	5,403	4,801	4,399	5,350	5,950	6,459
Direct technical account result	**98**	**919**	**1,282**	**618**	**1,525**	**1,462**	**1,057**
Reinsurance result and other items	662	642	407	293	292	247	371
Overall technical account result	**760**	**1,561**	**1,689**	**911**	**1,817**	**1,709**	**1,428**
Annual % changes in premiums	5.3%	-9.3%	21.6%	23.6%	15.8%	8.3%	12.5%
Expense ratio	11.6%	12.6%	9.2%	7.4%	7.0%	6.8%	7.0%
Investment income/Technical provisions	5.2%	5.5%	4.5%	3.7%	4.1%	4.1%	3.9%
Technical account result/Gross written premiums	**0.6%**	**5.8%**	**6.6%**	**2.6%**	**5.5%**	**4.9%**	**3.1%**
Overall technical account result/Gross written premiums	**4.3%**	**9.8%**	**8.7%**	**3.8%**	**6.5%**	**5.7%**	**4.2%**
Overall technical account result/Technical provisions	**0.85%**	**1.57%**	**1.57%**	**0.77%**	**1.38%**	**1.17%**	**0.87%**
Premiums to total life premiums ratio (%)	*49.5%*	*40.1%*	*41.9%*	*43.4%*	*44.3%*	*45.9%*	*46.1%*

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

TECHNICAL PROVISIONS - CLASS I - LIFE
Euro million



The **overall technical account result** was equal to Euro 1,428 million (Euro 1,709 million in 2004). The ratio to premiums was 4.2% (5.7% in 2004); the ratio to the centred mean of technical reserves was 0.87% (1.17% in 2004).

Life insurance linked to investments funds or index-linked insurance

Premiums for direct domestic business for the 79 insurance companies operating in this class amounted to Euro 26,389 million (a 6.6% increase compared to 2004). The percentage on the overall direct life premiums decreased, passing from 37.7% in 2004 to 35.9% in 2005.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 20,797 million and registered a strong increase compared to 2004 (+55.6%), also for the expiring of contracts effected in the end of the 90's.

The **changes in mathematical** and other technical provisions were equal to Euro 12,636 million representing a 21.7% decrease compared to 2004.

Operating expenses were equal to Euro 1,706 million (Euro 1,614 million in 2004). The ratio to premiums was 6.5%, equal to 2004.

CLASS III - INVESTMENT FUNDS
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	15,022	22,214	23,613	24,559	26,488	24,756	26,389
Incurred claims (-)	1,186	2,421	3,098	5,562	7,590	13,370	20,797
Changes in technical provisions (-)	15,266	17,485	16,670	14,233	22,145	16,146	12,636
Balance of other technical items	14	72	267	341	548	588	756
Operating expenses (-)	834	1,282	1,394	1,378	1,578	1,614	1,706
Investment income	2,287	-1,335	-2,576	-3,318	4,156	5,993	8,781
Direct technical account result	**37**	**-237**	**142**	**409**	**-121**	**207**	**787**
Reinsurance result and other items	1	4	61	-19	-5	5	-45
Overall technical account result	**38**	**-233**	**203**	**390**	**-126**	**212**	**742**
Annual % changes in premiums	128.6%	47.9%	6.3%	4.0%	7.9%	-6.5%	6.6%
Expense ratio	5.5%	5.8%	5.9%	5.6%	6.0%	6.5%	6.5%
Investment income/Technical provisions	9.8%	-3.3%	-4.4%	-4.5%	4.5%	5.4%	7.0%
Technical account result/Gross written premiums	**0.2%**	**-1.1%**	**0.6%**	**1.7%**	**-0.5%**	**0.8%**	**3.0%**
Overall technical account result/Gross written premiums	**0.3%**	**-1.0%**	**0.9%**	**1.6%**	**-0.5%**	**0.9%**	**2.8%**
Overall technical account result/Technical provisions	**0.16%**	**-0.57%**	**0.35%**	**0.53%**	**-0.14%**	**0.19%**	**0.59%**
Premiums to total life premiums ratio (%)	*42.2%*	*55.8%*	*51.0%*	*44.4%*	*42.2%*	*37.7%*	*35.9%*

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

Considering the investment income equal to Euro 8,781 million, the **result of the technical account for direct business** was positive at Euro 787 million (Euro 207 million in 2004). The ratio to premiums amounted to 3.0%.

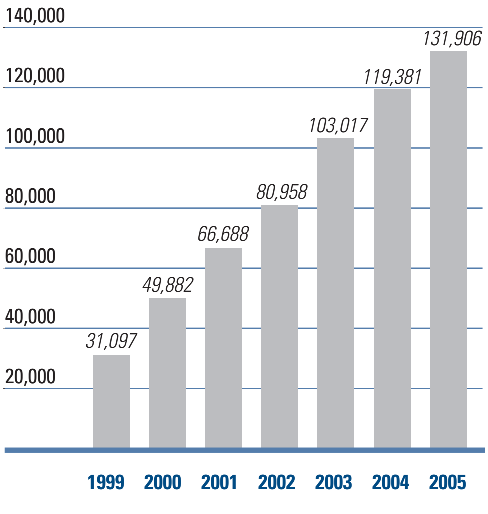
The net result for reinsurance activities and indirect insurance business was negative at Euro 45 million.

The **overall technical account result** was positive at Euro 742 million (Euro 212 million in 2004). The ratio to premiums was 2.8% and the ratio to the centred mean of reserves amounted to 0.59%; both of them are the highest values of the last years.

Long-term healthcare insurance

Premiums for direct domestic business for the 26 insurance companies operating in this class amounted to Euro 24 million with a 28.9% increase compared to 2004.

TECHNICAL PROVISIONS - CLASS III - INVESTMENT FUNDS
Euro million



Life insurance

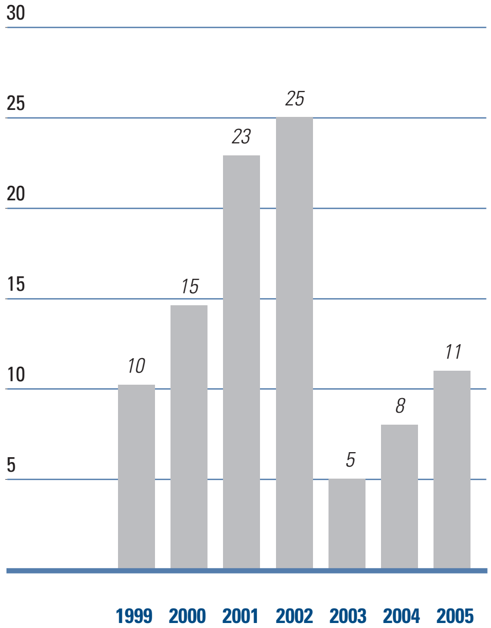
The **overall technical account result** was positive at Euro 1 million (as in 2004). The ratio to premiums was 6.0% (3.5% in 2004).

CLASS IV - HEALTHCARE
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	6	8	12	10	17	18	24
Incurred claims (-)	1	2	3	3	7	9	12
Changes in technical provisions (-)	4	4	8	4	2	2	2
Balance of other technical items	-1	-1	0	1	0	0	-2
Operating expenses (-)	0	0	0	0	4	2	3
Investment income	1	1	1	1	0	0	1
Direct technical account result	**1**	**2**	**2**	**5**	**4**	**5**	**6**
Reinsurance result and other items	-1	1	0	-2	-5	-4	-5
Overall technical account result	**0**	**3**	**2**	**3**	**-1**	**1**	**1**
Annual % changes in premiums		36.1%	46.8%	-10.3%	61.3%	9.2%	28.9%
Expense ratio	7.2%	3.6%	3.3%	2.3%	21.8%	11.6%	12.5%
Investment income/Technical provisions	-	5.9%	6.0%	5.9%	1.4%	3.9%	5.7%
Technical account result/Gross written premiums	**13.7%**	**21.4%**	**14.8%**	**44.2%**	**24.2%**	**27.7%**	**23.6%**
Overall technical account result/Gross written premiums	**-0.2%**	**34.1%**	**20.6%**	**28.9%**	**-6.2%**	**3.5%**	**6.0%**
Overall technical account result/Technical provisions	**-**	**21.60%**	**12.71%**	**12.48%**	**-6.93%**	**9.67%**	**14.95%**
Premiums to total 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.

TECHNICAL PROVISIONS - CLASS IV - HEALTHCARE
Euro million



Capitalization operations

Premiums for direct domestic business for the 81 insurance companies operating in this class amounted to Euro 12,692 million with a 20.3% increase compared to 2004. The percentage on the overall direct life premiums was equal to 17.3% (16.1% in 2004).

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 4,610 million representing a 11.1% increase compared to 2004.

The **changes in mathematical** and other technical provisions were equal to Euro 9,417 million with a 23.4% increase compared to 2004.

Operating expenses were equal to Euro 224 million (Euro 190 million in 2004). The ratio to premiums was 1.8% (equal to 2004).

Considering the investment income equal to Euro 1,750 million, the **result of the technical account for direct business** reflected a positive result of Euro 172 million (Euro 113 million in 2004).

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

The **overall technical account result** was equal to Euro 177 million (Euro 114 million in 2004). The ratio to premiums was 1.4% (1.1% in 2004).

CLASS V - CAPITALIZATION
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	2,921	1,503	3,201	6,610	8,360	10,554	12,692
Incurred claims (-)	771	1,463	1,739	2,551	3,003	4,149	4,610
Changes in technical provisions (-)	2,655	435	2,421	4,951	6,243	7,631	9,417
Balance of other technical items	-11	-12	-13	52	-26	-29	-19
Operating expenses (-)	154	91	131	224	215	190	224
Investment income	671	621	594	792	1,136	1,558	1,750
Direct technical account result	**1**	**123**	**-509**	**-272**	**9**	**113**	**172**
Reinsurance result and other items	4	12	11	7	11	1	5
Overall technical account result	**5**	**135**	**-498**	**-265**	**20**	**114**	**177**
Annual % changes in premiums	-8.4%	-48.5%	113.0%	106.5%	26.5%	26.2%	20.3%
Expense ratio	5.3%	6.0%	4.1%	3.4%	2.6%	1.8%	1.8%
Investment income/Technical provisions	5.3%	4.4%	3.8%	4.0%	4.4%	4.8%	4.3%
Technical account result/Gross written premiums	**0.0%**	**8.2%**	**-15.9%**	**-4.1%**	**0.1%**	**1.1%**	**1.4%**
Overall technical account result/Gross written premiums	**0.2%**	**9.0%**	**-15.6%**	**-4.0%**	**0.2%**	**1.1%**	**1.4%**
Overall technical account result/Technical provisions	**0.04%**	**0.95%**	**-3.18%**	**-1.35%**	**0.08%**	**0.35%**	**0.43%**
Premiums to total life premiums ratio (%)	*8.2%*	*3.8%*	*6.9%*	*12.0%*	*13.3%*	*16.1%*	*17.3%*

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 495 million, a value over two times higher than in 2004 (Euro 198 million).

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 33 million representing a 38.3% increase compared to 2004.

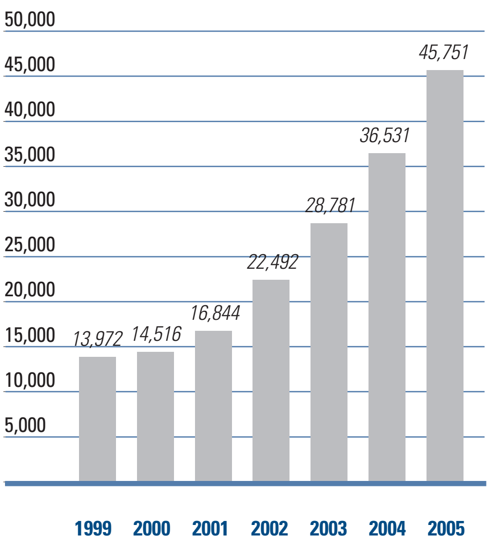
The **changes in mathematical** and other technical provisions were equal to Euro 532 million with a 173.9% increase.

Operating expenses were equal to Euro 11 million (Euro 10 million in 2004). The ratio to premiums was 2.3% (5.0% in 2004).

Considering the investment income equal to Euro 71 million, the **result of the technical account for direct business** reflected a deficit of Euro 6 million (Euro -4 million in 2004).

The **overall technical account result** was negative at Euro 6 million (Euro -4 million in 2004).

TECHNICAL PROVISIONS - CLASS V - CAPITALIZATION
Euro million



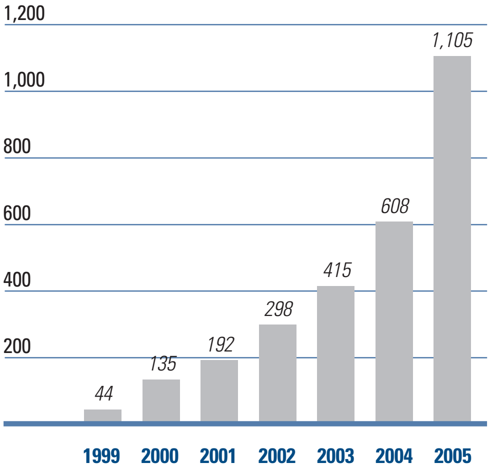
Life insurance

CLASS VI - PENSION FUNDS
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	45	93	91	124	128	198	495
Incurred claims (-)	5	2	7	8	15	24	33
Changes in technical provisions (-)	43	89	76	85	131	194	532
Balance of other technical items	0	1	1	2	3	3	4
Operating expenses (-)	4	6	6	7	8	10	11
Investment income	4	-2	-7	-30	19	23	71
Direct technical account result	**-3**	**-5**	**-4**	**-4**	**-4**	**-4**	**-6**
Reinsurance result and other items	0	0	0	0	0	0	0
Overall technical account result	**-3**	**-5**	**-4**	**-4**	**-4**	**-4**	**-6**
Annual % changes in premiums		108.4%	-2.6%	36.6%	3.4%	54.4%	150.4%
Expense ratio	8.0%	6.6%	7.0%	5.8%	6.4%	5.0%	2.3%
Investment income/Technical provisions	15.8%	-1.8%	-4.5%	-12.1%	5.2%	4.4%	8.3%
Technical account result/Gross written premiums	**-6.6%**	**-5.1%**	**-4.7%**	**-3.1%**	**-3.3%**	**-2.0%**	**-1.2%**
Overall technical account result/Gross written premiums	**-6.6%**	**-5.1%**	**-4.9%**	**-3.2%**	**-3.3%**	**-2.0%**	**-1.2%**
Overall technical account result/Technical provisions	**-13.08%**	**-5.36%**	**-2.72%**	**-1.60%**	**-1.20%**	**-0.79%**	**-0.67%**
Premiums to total life premiums ratio (%)	*0.1%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.3%*	*0.7%*

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

TECHNICAL PROVISIONS - CLASS VI - PENSION FUNDS
Euro million

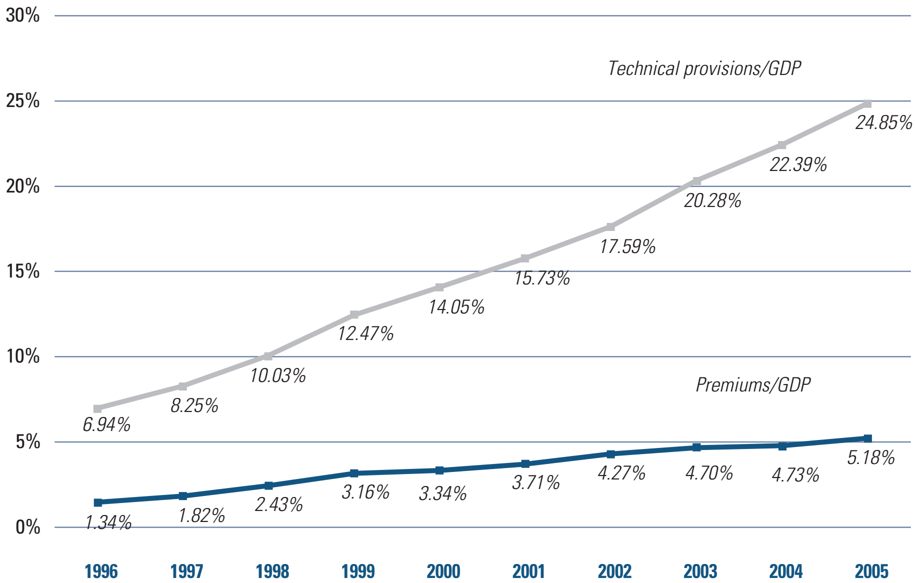


The ratios indicated take account of the revision of Gross Domestic Product's data by ISTAT (Italian National Statistics Institute).

THE LIFE CLASS AND GDP

In 2005 the ratio between mathematical provisions and GDP increased reaching a value equal to 24.85% (22.39% in 2004); in the last ten years this ratio increased by more than 17 percentage points (it was only 6.94% in 1996). Also the weight of the Italian life premiums for direct domestic business to GDP increased substantially in the last ten years, in particular since 1999; in 2005 the ratio to GDP was equal to 5.18%.

PREMIUMS AND TECHNICAL PROVISIONS TO GDP RATIO (%)



THE YIELD OF WITH-PROFITS POLICIES

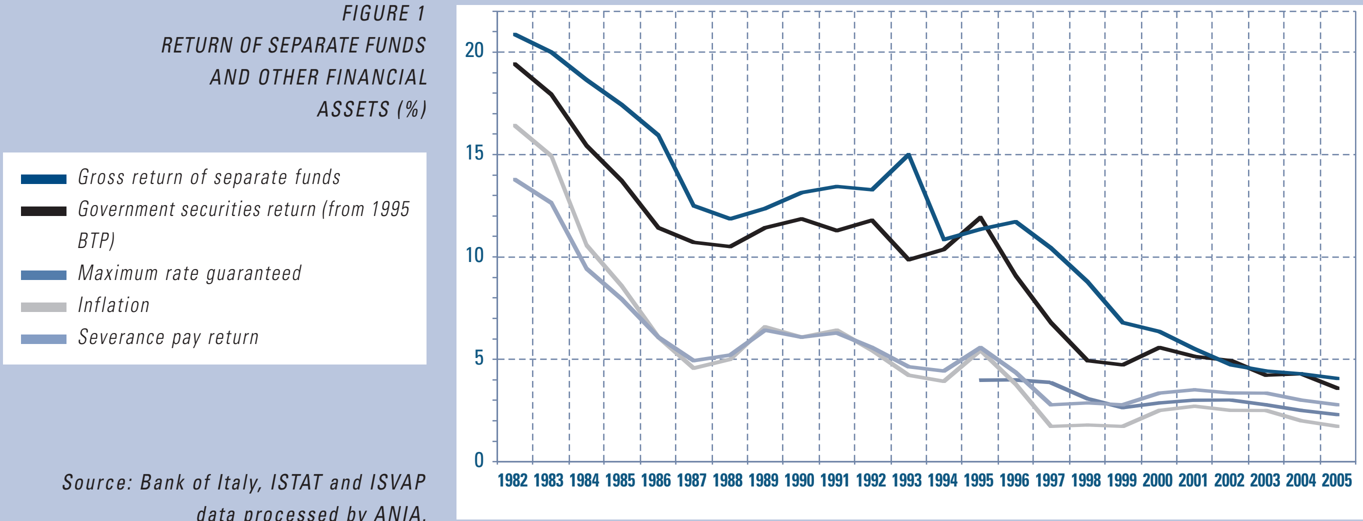
In class I and class V insurance operations, policyholders do not acquire units of an investment fund as in the case of unit-linked policies. The premiums paid, net of costs, go into the separate fund that invests mainly in financial assets. Once assigned to the separate fund, the assets covering commitments can leave the fund only by being realized. Under the present rules, fund assets are accounted for and rates of return computed on the basis of book value – also called historical cost – and realized value. The return of a separate fund is calculated annually as the ratio of the sum of coupons, dividends and realized capital gains to the average stock of fund assets, and is allocated, in whole or in part, to the accrued value of the contractual benefits. The main consequences of the characteristics of these funds are:

- **drastic decrease in yield volatility**. Movements in the term structure of interest rates and share prices have a limited effect on these funds compared with those that are marked to market, since losses affect the fund's return only if they are realized. To understand this mechanism better, take a fund that is closed to entries and exits and has a fixed duration, and calculate its annual returns both marking to market and with the historical cost method. At maturity the yields will be the same, but the volatility of the annual returns of the latter will obviously be much lower;
- **mutuality between investors**. The mechanism for calculating the return of the separate fund implies a degree of mutuality between savers who have invested at different times. This is because the yield for a given period is a weighted average of the yields attributable to the investments made during the life of the fund and still outstanding during the reference period;
- **partial sterilization of the risk of investment timing**. A corollary of mutuality between investors is the sterilization of at least part of the risk of mistiming investment and disinvestment. Asset realization is decided by the manager/insurer; the investor will enjoy a return that is an average of rates of return, and so will not run the risk of entering or leaving the fund in an unfavorable period.

Another advantage of insurance funds is that they are not afflicted by short-termism. Normally, they take a long-run approach to asset allocation, avoiding hurried tactical switches in response to transitory situations. Lastly, the fund manager's discretionary role in determining returns is limited to deciding in part when to realize capital gains and losses. Thanks to the operating mechanism of insurance funds and the statistical predictability of the portfolio movements, insurance companies adopt sophisticated asset/liability management techniques, permitting them to efficiently offer the following financial guarantees:

- **guaranteed minimum returns**. These are currently limited by law to not more than 2% (the legal maximum is based on the yield of the benchmark ten-year Italian government security);
- **consolidation of results**. Consolidation can be periodic (annual, multiannual) or contingent on an event (e.g. transfer of the individual position, accident, death, retirement).

FIGURE 1
RETURN OF SEPARATE FUNDS AND OTHER FINANCIAL ASSETS (%)



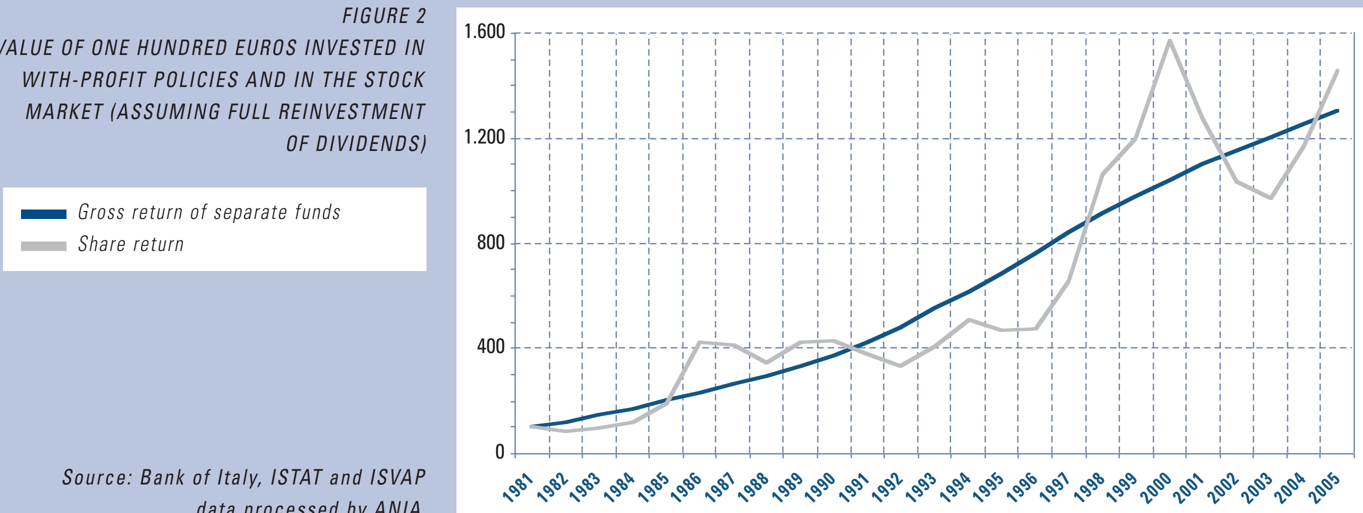
Source: Bank of Italy, ISTAT and ISVAP data processed by ANIA.

It can be useful to make a long-term comparison between the returns achieved by with-profit policies' separate funds, government securities yields, interest rates and the remuneration of staff severance pay.

As Figure 1 shows, in every year between 1982 and 2000 the yield of the separate funds was higher than that on government securities (government bonds – BTPs – from 1995 on), the rate of remuneration of staff severance pay and the inflation rate. In the five years 2001-2005, on average, the annual return of the separate funds was 4.6%, inflation 2.3%, the rate of remuneration of severance pay 3.3% and the yield on BTPs 4.4%.

Setting the value of an investment in a with-profits capital redemption policy in 1981 equal to 100, in 2005 the investment was worth 1,308 (with an average annual return of 11.3%). The same investment in Italian shares was worth 1,458 in 2005, assuming reinvestment of all dividends (average annual return of 11.8%; Figure 2).The real average simple rate of return of the separate

FIGURE 2
VALUE OF ONE HUNDRED EUROS INVESTED IN WITH-PROFIT POLICIES AND IN THE STOCK MARKET (ASSUMING FULL REINVESTMENT OF DIVIDENDS)



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

funds was equal to 6.1%, with a standard deviation of 2.5%; for the investment in shares it was 10.2%, with a standard deviation of 32.7%. On the basis of the Sharpe ratio (calculated as the ratio of the yield to its standard deviation), over the past 24 years investing in with-profits policies has been decidedly preferable to investment in shares; even taking into account the fact that ordinarily between 80% and 95% of a separate fund's return is allocated to the policyholder, this conclusion still holds.

Insurance funds are contractually obligated in terms of result, represented by the accrued asset value, and not in terms of the means used, as in the case of an ordinary asset management mandate. Consequently legislation not only obligates the insurance company to at least match the minimum return commitments stipulated in contracts, drawing on its own funds if need be, but also establishes mechanisms to defend the solidity of the funds. These include:

- the rule requiring assets always to be sufficient and congruous to cover the commitments assumed (Article 24 of Legislative Decree 174/1995);
- the rule on additional provisions to be created in certain cases, to further guarantee the commitments assumed (Article 25 of Legislative Decree 174/1995);
- the prudential rule on the calculation of commitments and the valuation of assets in the financial statements (Articles 25 and 27 of Legislative Decree 174/1995);
- the rules restricting the types of investment and establishing the maximum limits for each type, so as to ensure the security, dispersion, profitability and liquidity of investments (Articles 26 and 29 of Legislative Decree 174/1995);
- the rule on the solvency margin, requiring insurers to hold a certain level of free capital, in addition to the technical provisions, to meet unexpected losses (Articles 33-36 of Legislative Decree 174/1995).

With the issue of ISVAP Circular 551/2005, insurance funds have attained a standard of transparency and disclosure to participants similar to and in some respects higher than that of defined-contribution open pension funds both in the precontractual phase and during the life of the contract. Lastly, let us recall that insurance companies are required to prepare and publish statements of account for each separate fund. These statements are subject to rigorous controls and auditing by external auditors.

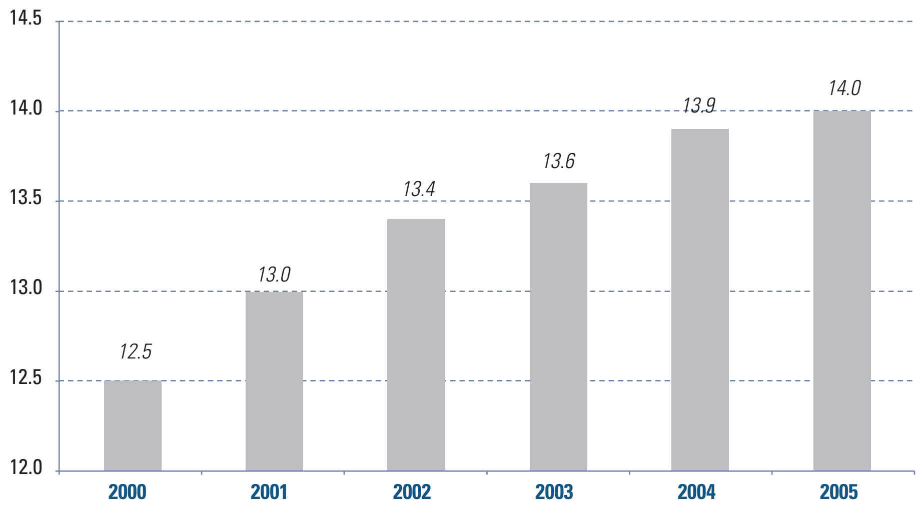
Life insurance

LIFE INSURANCE AND ITALIAN HOUSEHOLDS' SAVING

In 2005 Italian households' disposable income grew in nominal terms by 2.5% but in real terms by only 0.2%, down sharply from 0.9% in 2004. Nominal growth of 2.9% in per capita earnings was accompanied by a modest expansion in employment: the number of employee standard labor units rose by 1.3%, while that of self-employed workers increased by 4.5%. Disposable income was curbed by the anemic growth in net property income, which rose by only 1.7%, compared with 4.8% in 2004, reflecting the marked increase in interest expense due to the very substantial expansion of real-estate loans and consumer credit.

Despite signs of economic recovery in the second half of the year, uncertainty about the medium-term outlook for the economy and the reform of the pension system continues to fuel the household saving rate, which rose by 0.1 percentage points in 2005 to 14.0% (Figure 1).

FIGURE 1
HOUSEHOLDS' SAVING RATE
(% OF DISPOSABLE INCOME)



Source: Bank of Italy.

In 2005 households' financial saving – the difference between the gross flows of financial assets and liabilities – was 14.6% less than in 2004 (Table 2), reflecting the combination of feeble growth in disposable income and a sharp acceleration in investment in housing. The revaluation of shares contributed decisively to the increase in financial wealth, which rose by 7.1% in the year to just under Euro 3,300 billion, or 3.3 times disposable income, compared with a European average of 2.8 (in 2004).

The persistence of low real interest rates spurred households to invest in financial assets with higher yields and risks, reversing the trend of recent years: 24.5% of the gross flow of financial assets (Euro 33 billion) was invested in Italian shares and other equity, 20.5% (Euro 28 billion) in foreign medium and long-term securities. Net disposals of Euro 30 billion of medium and long-term Italian government securities were accompanied by purchases of corporate bonds totaling Euro 7 billion. Net purchases of life insurance policies (Euro 39.4 billion) made up 29% of the gross flow of financial assets, comparable with the figure of the previous year (30.1%).

At the end of 2005 life policies made up 10.6% of Italian households' overall portfolio of financial assets (compared with 10.3% a year earlier), units of Italian and foreign investment funds 10.3% (8.3% counting only Italian funds). Net purchases and the rise in equity prices during 2005 boosted the portion of Italian and foreign shares in the year-end portfolio from 22.2% in 2004 to 24.6%.

TABLE 1 - ITALIAN FAMILIES' FINANCIAL ASSETS

INSTRUMENT	Flows				Stocks			
	Euro million		Breakdown %		Euro million		Breakdown %	
	2004	2005	2004	2005	2004	2005	2004	2005
Notes and deposits	32,961	36,670	24.34	28.32	516,081	552,660	16.9	16.9
Other deposits	16,441	10,039	12.14	7.41	308,160	318,200	10.1	9.7
Short term bonds	8,820	-15,323	6.51	-11.31	17,066	2,003	0.6	0.1
Medium-long term bonds	42,890	-25,894	31.67	-19.12	579,044	640,932	19.0	19.6
Stock and direct participations	-8,632	33,206	-6.37	24.52	599,420	712,610	19.6	21.8
Shares in investment funds	-14,964	-4,071	-11.05	-3.01	283,177	270,248	9.3	8.3
Technical provisions (*)	54,973	49,277	40.59	36.39	522,602	571,879	17.1	17.5
of which: life class reserves	40,806	39,377	30.13	29.08	312,783	347,175	10.3	10.6
Other assets	1,614	3,594	1.19	2.65	18,017	21,611	0.6	0.7
Foreign assets	1,323	41,970	0.98	30.99	207,559	178,459	6.8	5.5
of which: Medium-long term bonds	-1,911	27,728	-1.41	20.47	87,892	18,853	2.9	0.6
Stocks and direct participations	534	-656	0.39	-0.48	76,756	91,185	2.5	2.8
Shares in investment funds	7,979	13,797	5.89	10.19	40,256	64,939	1.3	2.0
Total assets	135,427	129,468			3,051,126	3,268,602		
Total liabilities	52,235	58,402			489,525	545,959		

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.
Life provisions data in 2005 are different from those observed in this report because of the different date of closing of the tables.

Net fund-raising by Italian investment funds amounted to Euro 8,443 million in 2005. Equity and liquidity funds recorded a large volume of redemptions, bond and flexible funds significant inflows. Investment funds' assets rose by 8.8% over the year to Euro 584,547 million. The first four months of 2006 saw net fund-raising of Euro 3,156 million; the bulk of the inflows went to flexible and equity funds, while bond and liquidity funds registered significant outflows owing to the persistently low level of interest rates. At the end of April 2006 investment funds had net assets of Euro 616,719 million, up by 13.5% from twelve months earlier thanks mainly to the good performance of the stock markets.

TABLE 2 - INVESTMENT FUNDS NET COLLECTION
Euro million

Type of fund	2002	2003	2004	2005	2006(*)
Equity	-9,705	-1,063	-2,322	-4,480	4,063
Balanced	-12,024	-5,332	-2,684	1,135	3,105
Bond	-18,469	11,100	-380	10,841	-10,783
Liquidity	29,810	15,468	-6,508	-9,468	-6,818
Flexible	2,381	3,079	1,339	5,949	11,994
Hedge	1,573	3,529	5,920	4,467	1,596
Total	**-6,434**	**26,781**	**-4,633**	**8,443**	**3,156**

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

THE DIFFUSION OF LIFE INSURANCE POLICIES AMONG ITALIAN HOUSEHOLDS ACCORDING TO A BANK OF ITALY SURVEY

The questionnaire for the Bank of Italy's 2004 sample survey of household income and wealth contains some items on the holding of life insurance policies. The questions refer only to policies that provide for payment of a sum in the event of the death of the insured. Interviewees were asked whether there were any policies of this kind in the household, the number of such policies, the household member(s) insured, the year the policy started and the amount paid for each policy (Table 1).

TABLE 1 - SECTION OF QUESTIONNAIRE CONCERNING LIFE INSURANCE

Life insurance

F01. In 2004 did you or another member of your household hold a life insurance policy?

– Yes 1
– No .... 2 → **Quest. F06 ASS1**

F02. In 2004 how many life insurance policies did you, or another member of your household, hold? **NASS1**

	1st Policy	2nd Policy	3rd Policy	4th Policy	5th Policy
(Ask Questions from F03 to F05 for each insurance policy the household had in 2004) **F03.** Members insured **(Holders of the policy)** (Reference number of the member of the household in Section A - Composition of household) →	**ASS1C1 ... 5** |....|	|....|	|....|	|....|	|....|
F04. Year policy started?	|....||....||....||....| **ASS1A1 ... 5**	|....||....||....||....|	|....||....||....||....|	|....||....||....||....|	|....||....||....||....|
F05. How much did your household pay in 2004 for each policy?	**ASS1S1 ... 5** € |....|....|·|....|....|....|	€ |....|....|·|....|....|....|	€ |....|....|·|....|....|....|	€ |....|....|·|....|....|....|	€ |....|....|·|....|....|....|

The survey found that 12.8% of households had at least one life insurance policy in 2004, compared with 18% in 2002. The decline, which contrasts with the aggregate data, may be due to the difference in the questions put to interviewees: in the 2004 survey the inquiry was limited to products with death benefits.

Life policies are most widespread in the North, where 17.2% of households had them, compared with 9.8% in the Centre and 8.3% in the South (Figure 1).

The incidence of life insurance is highest (19.2%) among households where the highest income-earner (head of household) is aged 31-40. It is somewhat lower (17.5%) among households whose head is aged 41-50 (Figure 2).

The diffusion of life insurance is positively correlated with the educational attainment of the head of household: 20.6% of households whose head has a university degree have at least one policy, compared with 16.5% for households where the head has only a high-school diploma and 8.7% where the head has not gone beyond middle school (Figure 3).

Life insurance policies are more common among higher-income households: more than a quarter of the households in the highest quintile of the income distribution hold policies (Figure 4).

FIGURE 1 - DISTRIBUTION OF LIFE POLICIES IN 2004 BY GEOGRAPHICAL AREA (%)

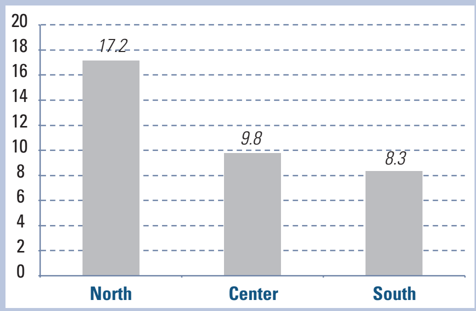


FIGURE 2 - DISTRIBUTION OF LIFE POLICIES IN 2004 BY AGE OF HEAD OF HOUSEHOLD (%)

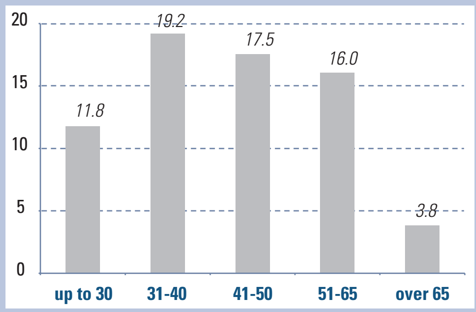


FIGURE 3 - DISTRIBUTION OF LIFE POLICIES IN 2004 BY EDUCATIONAL ATTAINMENT OF HEAD OF HOUSEHOLD (%)

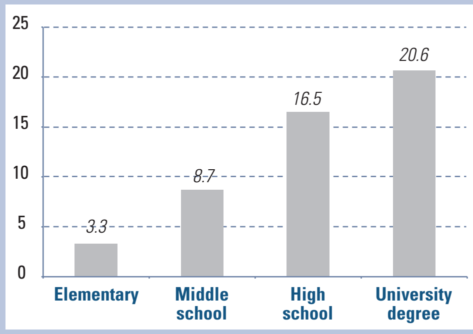
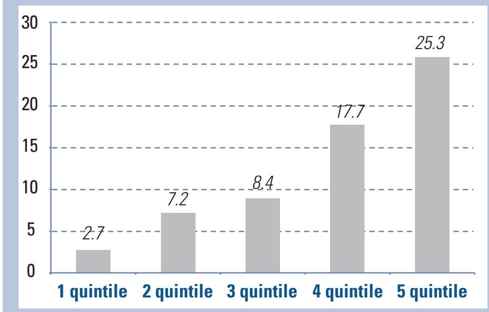


FIGURE 4 - DISTRIBUTION OF LIFE POLICIES IN 2004 BY INCOME



Source: Bank of Italy data processed by ANIA.

THE NEW TAX RULES ON SUPPLEMENTARY PENSION PLANS INTRODUCED BY LEGISLATIVE DECREE 252/2005

Legislative Decree 252/2005 governing supplementary pension plans introduced major revisions in the tax treatment established by Legislative Decree 47/2000.

The provisions of Legislative Decree 252/2005 concerning taxation will not enter into effect until 1 January 2008. They partially implement the mandate of the enabling legislation, Law 243/2004, to encourage supplementary retirement arrangements. However, they do not appear to fulfill it as regards the expansion of the tax deductibility of contributions to supplementary retirement schemes (both collective and individual).

The enabling law provided for the adoption of a ceiling of deductibility defined both as a fixed amount and as a percentage of taxable income, the choice between the two to depend on calculation of advantage. Instead, Legislative Decree 252/2005 sets a fixed annual ceiling of Euro 5,165, dropping the previous rule that also limited contributions to no more than 12% of total individual income. This change accords more favorable treatment than the provisions now in effect to individuals with incomes below Euro 43,041.

It should be stressed that the new rule will apply to all members of supplementary pension plans regardless of their enrolment date, and hence to those enrolled prior to 29 April 1993 ("old members"), who benefited from a transitional regime allowing them to deduct more than the Euro 5,165 limit in respect of contributions paid between 1 January 2001 and 31 December 2005.

Legislative Decree 252/2005 also eliminates the "anchoring" of the employees' supplementary pension plan contributions to staff severance pay. Under this arrangement, the tax deductibility of the contribution to the fund by an employee – excluding first-time employees – enrolled after 28 April 1993 was recognized only if the employee also paid in severance pay entitlements equal to at least half the total contributions paid in.

A derogation is established for first-job holders from 1 January 2008 who in the first five years of membership of a supplementary pension plan have paid in less than the maximum deductible amount of contributions. They will be permitted, in the 20 years following the fifth year of membership, to deduct contributions in excess of the Euro 5,165 limit from total income, thus benefiting from a future fiscal "dowry".

Firms that assign portions of severance pay to supplementary pension plans are permitted to deduct 4% of these amounts from business income (6% for firms with fewer than 50 employees). The deduction is currently limited to 3%.

As regards the taxation of supplementary pension plans during the phase of accumulation, with a view to encouraging long-term saving Law 243/2004 had mandated a revision of the criteria of taxation of the yields of financial assets held by such plans, preparatory to a reduction in the tax rate from the current 11%. However, Legislative Decree 252/2005 disregarded this mandate, despite insistent pressure on the part of the intermediaries concerned, so that the plans will remain subject to the 11% substitute tax on their operating result for the year.

The most significant tax-related aspects of the reform consist in the changes introduced by Legislative Decree 252/2005 in the treatment of benefits paid by supplementary pension plans (Article 11).

In the first place the decree overcomes the "taxation effect" that deterred beneficiaries from opting for payment of their entitlements in a lump sum. This is achieved by abolishing the requirement that currently limits lump sum payments to 33% of accrued entitlements in order to qualify for the exclusion of income already taxed within the fund, albeit in compliance with the 50% cap set for civil-law purposes.

This requirement – waived today only in specific circumstances (a benefit payable smaller than the amount of old-age allowance, redemption owing to retirement or cessation of employment due to "mobility" or other causes independent of the will of the parties) – will cease when the reform is fully phased in, making it easier to obtain benefits in the form of a lump sum.

The tax rules that will apply to benefits from 2008 onwards are considerably simplified by comparison with those now in effect. These have often been criticized for their excessive technicality and for the high administrative and compliance costs imposed by provisions that have been amended repeatedly in the course of time and are, moreover, mostly incorporated unsystematically into a diversity of legislative measures.

In the light of Article 11 of Legislative Decree 252, the criterion of taxation uniformly introduced for pension benefits is based on the application of a final withholding tax of 15% on the taxable amount of the benefit, be it a lump sum or a periodic payment. As in the legislation now in force, the amount will be determined net of the portion corresponding to incomes already subject to tax. The same criterion will apply to benefits disbursed as advances or redemptions.

This tax regime, already very favorable compared with the present one, is further attenuated: the rate of 15% will be decreased by 0.3 percentage points for every year of pension-plan participation from the sixteenth on, up to a maximum reduction of 6 percentage points. As a consequence of the new provision, therefore, the rate can fall to as low as 9% after 35 years of participation.

Since the relevant provisions of Legislative Decree 252/2005 enter into effect on 1 January 2008, for benefits now being accrued Article 23.5 establishes a transitional regime under which the tax rules currently in force will continue to apply to benefits accrued up to the end of 2007. However, Article 23.7 gives persons enrolled in supplementary pension plans as of 28 April 1993 ("old members of old funds") the option of extending the currently applicable tax treatment to benefits accruing from 1 January 2008.

THE TRANSFER OF SEVERANCE PAY TO SUPPLEMENTARY PENSION FUNDS: WORKERS' PREFERENCES

According to estimates based on macroeconomic aggregates, in 2004 the flow of severance pay set aside by firms amounted to Euro 14.3 billion (1.3% of GDP), of which some Euro 1 billion was allocated to pension funds. Total pension fund assets are equal to 2.1% of GDP, those of "new" – post-1993 – funds to 0.8% of GDP.

Membership of occupational and open pension funds is still quite limited. According to the Pension Fund Supervisory Authority (COVIP), at end-2005 there were 1,554,000 members, plus 818,000 holders of insurance-based retirement products. In particular, occupational pension funds had 1,146,735 members, equal to 13.2% of all employees eligible for membership and 9.5% of all private-sector employees. At the end of 2001 their members had numbered 985,000, or 8.8% of all private-sector employees.

The impact of the reform of supplementary pension provisions, to enter into force on 1 January 2008, will depend on the pension-fund membership rate at that date. In the periods September-December 2004 and September-October 2005 Italy's Institute for Economic Research and Analysis (ISAE) conducted a monthly survey of a sample of employees, asking them whether they intended to leave their severance pay with their employer or assign it to a pension fund.

Table 1 summarizes the results. The picture that emerges shows a lack of confidence in supplementary pension funds on the part of employees. The additional information made available with the publication of the new rules has reduced the percentage of the undecided but also significantly increased the percentage of workers not inclined to turn over their severance pay to a fund.

According to ISAE, workers' preference for holding severance pay with their firm is dictated by the greater security and liquidity of this option and by the fact that the decision to assign accruing severance pay to a pension fund is irrevocable, whereas that of holding it with the firm can be reconsidered at any time.

Another factor appears to be that the favorable tax treatment reserved to those who opt for a fund is applied only when the pension is paid. Concern that the tax rules could change over a span of decades works in favor of keeping severance pay with the company. Most of those who have not made up their mind are young workers, the reform's target group, who are probably waiting for the picture to gel.

TABLE 1 - DESTINATION OF THE EMPLOYEE SEVERANCE INDEMINITY (TFR) (% OF THE EMPLOYEES INTERVIEWED)

	2004	2005	
	Average	September	October
Pension fund	13.8	14.6	10.9
Firm	42.2	54.1	51.7
None	44.0	31.3	37.9

Source: ISAE.

A survey carried out in the autumn of 2005 by the Association of Italian Savings Banks (ACRI) likewise found that employees preferred keeping severance pay with their firm: of the 60% of the interviewees who knew about the reform, 61% were not inclined to assign their severance pay to a supplementary pension plan.

THE DIFFUSION OF PRIVATE PENSIONS AMONG ITALIAN HOUSEHOLDS ACCORDING TO A BANK OF ITALY SURVEY

The Bank of Italy's survey of household income and wealth contains some questions on the diffusion of private pensions among Italian households. Interviewees are asked whether any household member holds a private pension fund position or a life insurance policy guaranteeing an annuity or other insurance-based retirement benefit. If the answer is affirmative, they are asked to provide information on the type of contract (individual or collective), its characteristics and the amount paid in during 2004.

The 2004 survey shows that 1.8 million households (about 8% of the total, down from 8.9% in 2002) had invested in these forms of saving. More than 74% of contracts were individual. Private pensions are more widespread in the North and Center (10.9% and 9.2% of households respectively), although their incidence rose in the South between 2002 and 2004 (Figure 1).

These products are most commonly found among households where the head (defined as the highest income-earner) is between 41 and 50 years old (13.5%). Between 2002 and 2004 there was a sharp fall in the diffusion of policies among households headed by persons aged 31-40, offset by a surge among younger households. The percentage of households that invest in these products rises with the educational attainment of the head of household: 17.2% of households headed by a person with a university degree have a retirement saving product, compared with 13.2% of those where the head has only a high-school diploma

FIGURE 1 - DISTRIBUTION OF PRIVATE PENSIONS IN 2004 BY GEOGRAPHICAL AREA (%)

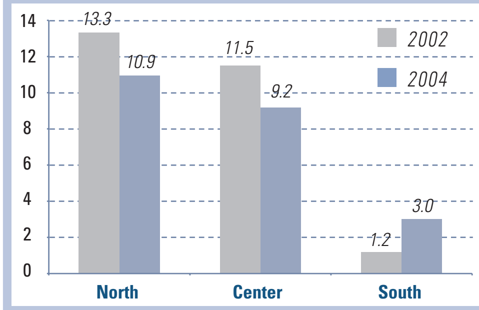


FIGURE 2 - DISTRIBUTION OF PRIVATE PENSIONS IN 2004 BY AGE OF HEAD OF HOUSEHOLD (%)

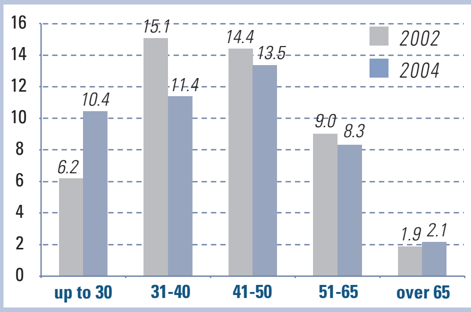


FIGURE 3 - DISTRIBUTION OF PRIVATE PENSIONS IN 2004 BY EDUCATIONAL ATTAINMENT OF HEAD OF HOUSEHOLD (%)

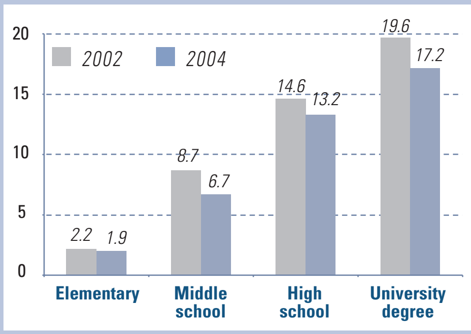
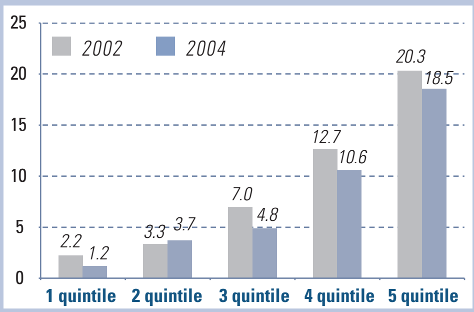


FIGURE 4 - DISTRIBUTION OF PRIVATE PENSIONS IN 2004 BY DISTRIBUTION OF INCOME



Source: Bank of Italy data processed by ANIA.

and 6.7% of those headed by someone who has not gone beyond middle school (Figure 3). Retirement saving products are more common among wealthy households: 18.5% of the households in the fifth (highest) income quintile have a private pension plan, compared with 10.6% in the fourth quintile. The incidence is less than 10% for households with lower incomes (Figure 4).

TABLE 2 - SECTION OF QUESTIONNAIRE CONCERNING PRIVATE PENSIONS

Private/Supplementary pensions, annuities and other forms of insurance-based saving

F10. In 2004 did you or another member of your household, individually or with the help of your, his or her employer, pay premiums for a private (or supplementary) pension, an annuity or simply to receive a lump sum in the future (e.g. under children's saving plans)? **ASS2**

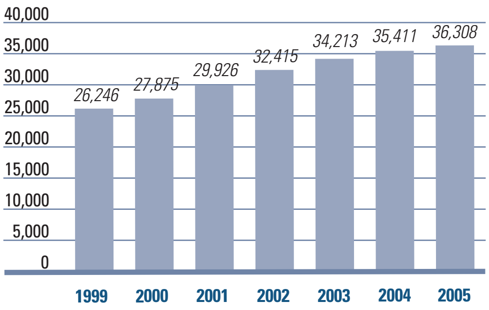
– Yes 1
– No .... 2 → ***Quest. F19***

F11. In 2004 how many private/supplementary pensions, annuities and other forms of insurance-based saving life insurance policies did you, or another member of your household, hold? |......| **NASS2**

	1st Policy	2nd Policy	3rd Policy	4th Policy	5th Policy
(Ask Quest. F12-F16 for each private/supplementary pension, annuity and other form of insurance-based saving the household held in 2004) **F12.** Members insured **(Holders of the policy)** (***Reference number of the memer of the household in Section 1 - Composition of household***) →	**ASS2C1 ... 5** |....|	|....|	|....|	|....|	|....|
F13. Was it an indivudual or group policy?	**ASS2G1 ... 5**				
- individual	1	1	1	1	1
- group, but with the cost borne entirely by the insured	2	2	2	2	2
- group, with the firm the insured works/worked for contributing to the cost	3	3	3	3	3
- don't know............	4	4	4	4	4
ASS2A1 ... 5 **F14.** Year in which premium payments started for this pension or annuity?	|....|....|....|....|	|....|....|....|....|	|....|....|....|....|	|....|....|....|....|	|....|....|....|....|
ASS2D1 ... 5 **F15.** Does this policy allow you to withdraw all or part of your fund?					
- Yes	1	1	1	1	1
- No	2	2	2	2	2
ASS2K1 ... 5 **F16.** (***If "Yes"***). How much did your fund ammount to on 31.12.2004?	|....|....|....|....|	|....|....|....|....|	|....|....|....|....|	|....|....|....|....|	|....|....|....|....|
ASS2R1 ... 5 **F17.** At what age will the insured start to receive the pension or annuity or receive the lump sum?	|....||....|	|....||....|	|....||....|	|....||....|	|....||....|
ASS2S1 ... 5 **F18.** How much did your household pay in 2004 for each private/supplementary pension? ...	€ |....|....|·|....|....|....|	€ |....|....|·|....|....|....|	€ |....|....|·|....|....|....|	€ |....|....|·|....|....|....|	€ |....|....|·|....|....|....|

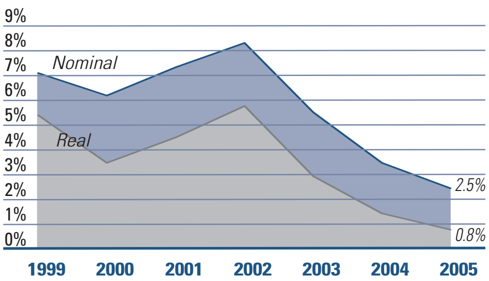
Non-life insurance

DIRECT PREMIUMS
Euro million



Premium income in the non-life class was equal to over Euro 36 billion with a moderate increase (2.5%) compared to 2004. The incidence of non-life premiums on the total (life and non-life) decreased from 35% to 33%. Thanks to a limiting of the incurred claims cost for the financial year, which increased by 1% compared to 2004, combined ratio registered a decrease even if more moderate than observed one in the beginnings of 2000. All this reflected an increase of the overall technical account incidence on premiums (from 7.6% in 2004 to 8.5% in 2005).

GROWTH RATE OF DIRECT PREMIUMS

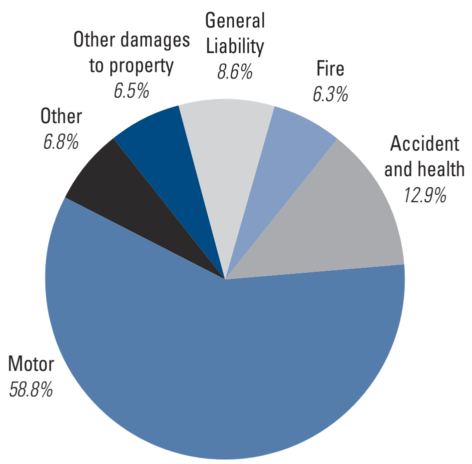


DOMESTIC BUSINESS

Premiums for direct domestic business for the 112 insurance companies operating in non-life classes were equal to Euro 36,308 million, with a 2.5% increase in nominal terms and 0.8% in real terms. This trend was determined above all by the limited growth (0.6%) in the motor insurance business (motor third party liability insurance, third party liability insurance for watercraft and land vehicles insurance) which represents about 60% of the overall non-life income and, also, by the continuous presence of a “soft” market (that is characterised by moderate unit prices) mostly in transports. The percentage incidence on the total of non-life and life premiums was equal to 33.1%.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 25,707 million (Euro 24,928 million in 2004), with a 3.1% increase; the ratio to earned premiums was equal to 72.1%, reflecting a 0.5 percentage point increase compared to 2004.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 24,835 million (Euro 24,549 million in 2004), with a 1.2% increase. The ratio to earned premiums was equal to 69.6%, reflecting a decrease compared to 70.5% of 2004.



Euro 36,308 million

BREAKDOWN OF MAIN NON-LIFE CLASSES

Operating expenses amounted to Euro 8,386 million (Euro 8,058 million in 2004) with a 4.1% increase and an incidence on direct premiums equal to 23.1%, reflecting a slight increase compared to 22.8% of 2004. 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 1,901 million (Euro 1,603 million in 2004).

Considering the investment income, equal to Euro 1,976 million, the **technical account result for direct business** was positive at Euro 3,877 million (Euro 3,520 million in 2004). This result represented 10.9% of premiums (10.1% in 2004).

The passive reinsurance and net indirect business result was negative at Euro 831 million (Euro -864 million in 2004).

NON-LIFE TECHNICAL ACCOUNT
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	26,246	27,875	29,926	32,415	34,213	35,411	36,308
Changes in premiums reserves (-)	766	532	776	764	734	610	630
Incurred claims (-):	21,525	23,015	23,024	23,654	24,306	24,549	24,835
- incurred claims cost for the current accident year (-)	20,989	22,156	22,397	23,407	24,456	24,928	25,707
- excess/shortfall of reserves for those claims incurred in previous accident years	-536	-859	-627	-247	150	379	872
Balance of other technical items	-414	-434	-326	-460	-503	-591	-556
Operating expenses (-)	6,211	6,471	6,891	7,331	7,703	8,058	8,386
Direct technical balance	**-2,670**	**-2,577**	**-1,091**	**206**	**967**	**1,603**	**1,901**
Investment income	1,608	1,804	1,632	1,211	1,629	1,917	1,976
Direct technical account result	**-1,062**	**-773**	**541**	**1,417**	**2,596**	**3,520**	**3,877**
Reinsurance results and other items	292	720	281	-124	-407	-864	-831
Overall technical account result	**-770**	**-53**	**822**	**1,293**	**2,189**	**2,656**	**3,046**
Annual % changes in premiums	7.1%	6.2%	7.4%	8.3%	5.5%	3.5%	2.5%
Combined ratio	**108.1%**	**107.4%**	**102.0%**	**97.3%**	**95.1%**	**93.3%**	**92.7%**
- Expense ratio	23.7%	23.2%	23.0%	22.6%	22.5%	22.8%	23.1%
- Loss ratio:	84.5%	84.2%	79.0%	74.7%	72.6%	70.5%	69.6%
- Loss ratio for the current accident year	82.4%	81.0%	76.8%	74.0%	73.1%	71.6%	72.1%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-2.1%	-3.1%	-2.2%	-0.8%	0.4%	1.1%	2.4%
Technical balance/Earned premiums	**-10.5%**	**-9.4%**	**-3.7%**	**0.7%**	**2.9%**	**4.6%**	**5.3%**
Technical account result/Earned premiums	**-4.2%**	**-2.8%**	**1.9%**	**4.5%**	**7.8%**	**10.1%**	**10.9%**
Overall technical account result/Earned premiums	**-3.0%**	**-0.2%**	**2.8%**	**4.1%**	**6.5%**	**7.6%**	**8.5%**

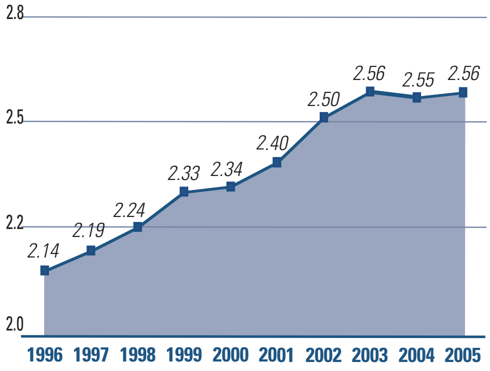
Indexes and changes (%) are calculated on data in Euro thousand.

The **overall technical account result** was positive at Euro 3,046 million (Euro 2,656 million in 2004). The ratio to premiums represented 8.5% (7.6% in 2004).

NON-LIFE INSURANCE AND GDP

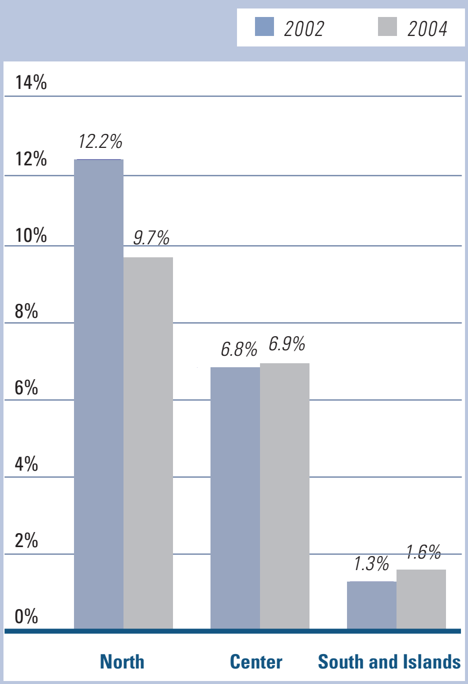
The incidence of non-life premiums on GDP has been substantially stable since 2003 while it increased in the previous years. This result is due to the limited increment of the motor insurance slightly inferior to nominal product and to the limited diffusion of other non-life insurance classes.

NON-LIFE PREMIUMS / GDP (%)



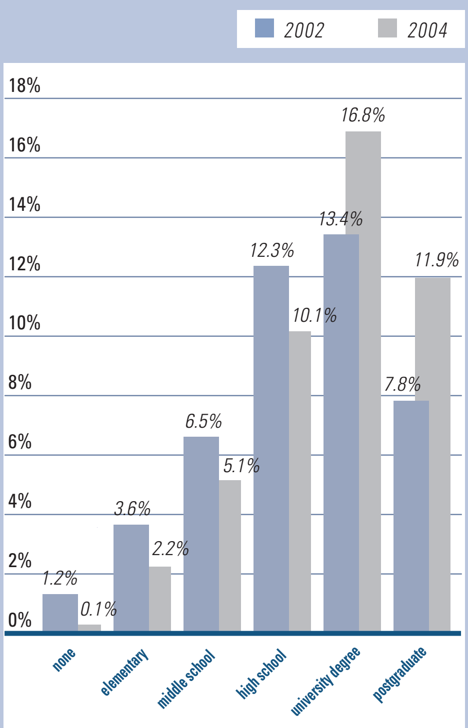
The ratios indicated take account of the revision of Gross Domestic Product's data by ISTAT (Italian National Statistics Institute).

HEALTHCARE POLICIES
DISTRIBUTION BY GEOGRAPHICAL AREA



Source: Bank of Italy.

HEALTHCARE POLICIES
DISTRIBUTION BY DEGREE OF SCHOOLING



Source: Bank of Italy.

THE DIFFUSION OF HEALTH INSURANCE POLICIES AMONG ITALIAN HOUSEHOLDS ACCORDING TO THE BANK OF ITALY SURVEY

As in previous years, the questionnaire sent by the Bank of Italy to a sample of Italian households as part of the 2004 survey of household income and wealth contains a section devoted to the purchase of insurance cover. This section includes the request for heads of households to indicate whether one or more members of their household has a private health insurance policy (covering accidents and/or sickness).

HEALTHCARE INSURANCE SURVEY

Healthcare insurance (accident and sickness)

F06. In 2004 did you or another member of your household have a private health insurance policy (covering accidents and sickness)? **ASS4**

– Yes 1
– No .... 2 → ***Quest. F10***

F07. How much did your household pay in 2004 for health insurance policies? |......| **ASS4S**

Policies (1..5) × members (1..9)	1st Policy		2nd Policy		3rd Policy		4th Policy	
ASS4C11 ... 19 .. ASS4C51 ... 59 **F08.** In 2004, which members of your household were covered by this policy? (Reference number of the member of the household in Section A – Composition of household)	|....| |....| |....| |....| |....|	|....| |....| |....| |....|	|....| |....| |....| |....| |....|	|....| |....| |....| |....|	|....| |....| |....| |....| |....|	|....| |....| |....| |....|	|....| |....| |....| |....| |....|	|....| |....| |....| |....|
ASS4S1 ... 5 **F09.** How much did your household pay in 2004 for this policy?	€ |....|....|·|....|....|....|		€ |....|....|·|....|....|....|		€ |....|....|·|....|....|....|		€ |....|....|·|....|....|....|	

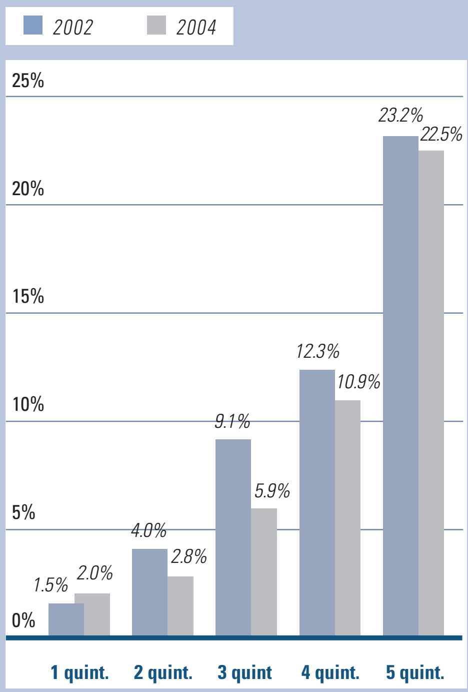
Source: Bank of Italy.

On the basis of the results of the 2004 survey it is estimated that approximately 1.5 million households (6.5% of the total) have at least one such policy, The results of the 2002 survey indicated a slightly higher figure: 1.6 million households (7.4% of the total). Health policies were more frequent in the North, where 9.7% of households had at least one member with a policy in 2004 (12.2% in 2002); the proportion of households with a policy was stable in the Centre at 6.9% and rose slightly in the South, from 1.3% in 2002 to 1.6% in 2004.

Not surprisingly, the relationship between the propensity to purchase a policy and educational attainment shows a rising trend. In fact the propensity rises from 0.1% for households with a head (defined as the person with the highest income) having no school certificate to 16.8% for households with a head having a university degree. Compared with the 2002 survey, the bias in favor of households with a university degree or a postgraduate qualification appears slightly more pronounced.

There is also a positive correlation between the propensity to purchase a policy and the level of the head of household's income. In 2004 only 3% of households in the bottom quintile of the national income distribution had a health policy, against 22.5% for the top quintile. Compared with 2002 there were no significant changes in the degree of concentration of the various income brackets. There was a small increase in the propensity of the bottom quintile and small decreases in the others.

HEALTHCARE POLICIES
DISTRIBUTION PER QUINTILE OF THE HEAD OF HOUSEHOLD'S INCOME



Source: Bank of Italy.

THE DIFFUSION OF NON-LIFE INSURANCE AMONG ITALIAN HOUSEHOLDS ACCORDING TO THE BANK OF ITALY SURVEY

The questionnaire sent by the Bank of Italy to a sample of Italian households as part of the 2004 survey of household income and wealth contains a section devoted to the purchase of insurance cover. This section includes the request for heads of households to indicate whether one or more members of their household has a non-life insurance policy (covering thefts and general liability risks but excluding compulsory motor vehicle liability insurance).

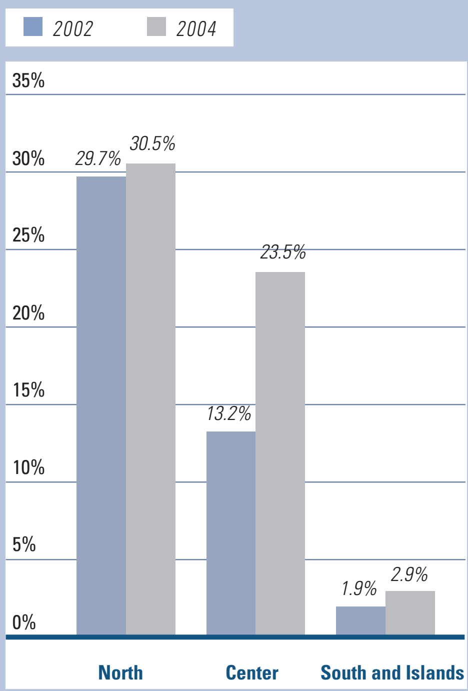
CASUALTY INSURANCE POLICIES SURVEY

Casualty insurance (excluding compulsory automobile liability insurance - RCA)			
F19. In 2004 did you or another member of your household pay premiums for a policy or policies covering accidents, theft, fire, hail, third-party liability, etc. (exclude compulsory automobile liability insurance - RCA)? **ASS3** – Yes .... 1 – No .... 2 → ***End Section***			
NASS31..NASS33	... Means of transport	... Buildings and land	... Persons
F20. How many policies did you have for	|....|	|....|	|....|
F21. How much did your household pay in 2004 for these premiums?			€ |....|....|·|....|....|....| **ASS3S**

Source: Bank of Italy.

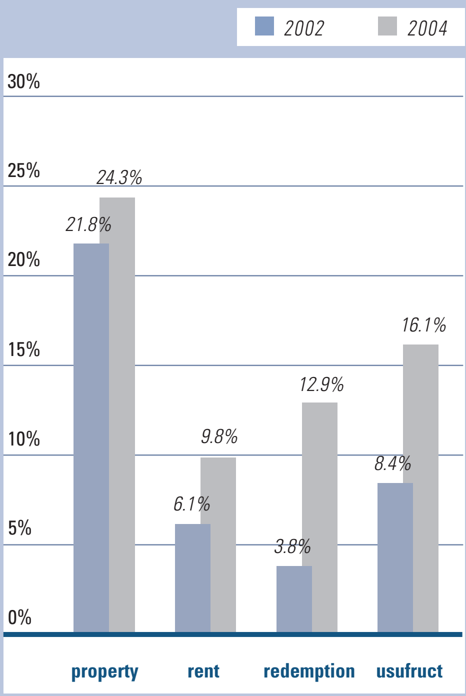
On the basis of the results of the 2004 survey it is estimated that approximately 4.6 million households (20.1% of the total) have at least one non-life policy, This is a significant increase on the figure of the 2002 survey, which indicated 3.7 million households with a policy (16.2% of the total). Non-life policies were more frequent in the North, where 30.5% of households had at least one member with a policy in 2004 (29.7% in 2002); the proportion of households with a policy increased substantially in the Centre (from 13.2% to 23.5%) and in the South (from 1.9% in 2002 to 2.9% in 2004).

NON-LIFE POLICIES
DISTRIBUTION BY GEOGRAPHICAL AREA



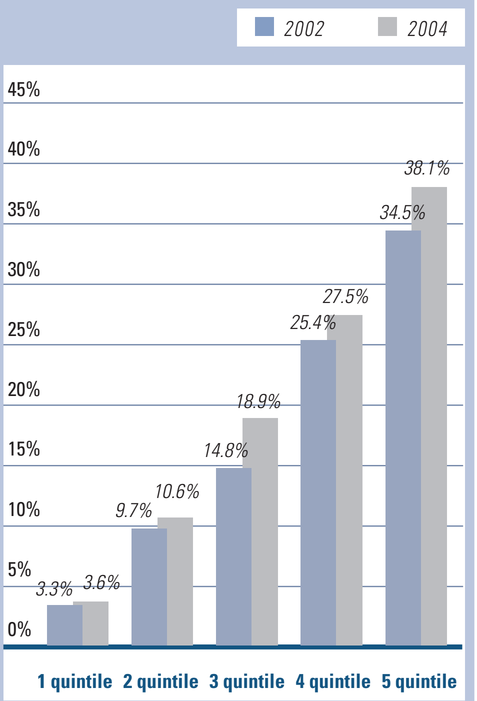
Source: Bank of Italy.

NON-LIFE POLICIES
DISTRIBUTION BY MAIN RESIDENT STATUS



Source: Bank of Italy.

NON-LIFE POLICIES
DISTRIBUTION BY QUINTILE
OF THE HEAD OF HOUSEHOLD'S INCOME



Source: Bank of Italy.

The propensity to purchase a policy according to main home resident status increased for all the classes, with the largest increase occurring for households in the rented, occupied under redemption agreement and occupied in usufruct classes (possibly owing to sampling problems). In fact the propensity rose from 6.1% to 9.8% for households in the rented accommodation class and from 21.8% to 24.3% for households in owner-occupied accommodation.

In 2004 only 3.6% of households in the bottom quintile of the national income distribution had a non-life policy, against 38.1% for the top quintile. Compared with 2002 the increases in the diffusion of policies of this kind were fairly uniform across the different head-of-household income classes.

THE CONVENTIONAL AND THE "ECONOMIC" COMBINED RATIO

Sound underwriting activity is an essential prerequisite for the profitability of an insurance company, especially in the non-life field. This is why recourse is generally made to the combined ratio when assessing the performance of the insurance sector. This indicator is defined as the sum of the loss ratio and the expense ratio; it indicates a positive underwriting result if it is less than 100 and a negative one if it is more than 100. The combined ratio is often used by financial analysts to make comparisons between different companies (or markets) since the fact that it is not an absolute value means that it is independent of the size of the company (or market).

However, trying to establish the profitability of the insurance business written each year using the conventional combined ratio, i.e. based on accounting data or annual financial statements, has three main drawbacks:

– the accounting data based on financial statement information and concerning the cost of claims include the positive/negative adjustments to the reserves for claims that occurred in previous years;
– no account is taken of the time value of cash flows. At the time business is written, the future value of payments is always less than their nominal value owing to the discount effect. This is especially important for the loss ratio component, which compares future payments on the basis of their nominal value with the value of the premiums received in the last year. In other words, the conventional combined ratio should be interpreted in relation to the level of interest rates and the duration necessary for the complete run-off of the claims;
– the incidence of catastrophe claims may alter the trend of loss ratios and make them difficult to interpret.

With this in mind, a recent Swiss Re article[1] proposes an alternative methodology for the calculation of the indicator, which aims to measure the profitability of the non-life sector more accurately by adjusting it for the distortionary factors mentioned above. In order to obtain this result, it is necessary to make at least three main "adjustments" to the combined ratio for the business year.

1) **Switch from a business-year basis to an accident-year basis.** The business-year combined ratio is based on accounting data and therefore, in addition to providing a measure of the insurance business written during the year, takes into account the adjustments to the reserves for claims that occurred in previous years. This analysis serves above all to meet the needs of the company's shareholders. Instead, the accident-year analysis has the merit of assessing the profitability of the business written in a given year but, by contrast with what happens with the business-year combined ratio, claims are allocated ex post to the year in which the risk was covered. In order to have a definite estimate of the claims linked to a given year of occurrence, it is therefore necessary to wait for a number of years, which can vary from one line of business to another. The difficulty of forecasting future payments is in fact aggravated by the fact that at the closing date of the financial statements many claims have not yet been reported and companies must therefore estimate adequate incurred but not reported (IBNR) reserves. An initial estimate of the accident-year combined ratio can be obtained by considering, for each year, the expense for claims in the year in question and excluding any excess/shortfall in the claims reserves for the previous years.

2) **Discounting of payments for future claims.** In order to assess claims correctly, it is necessary to take into account the time value of future claims payments; accounting data do not consider the time value of the payments expected for such claims. This objective is achieved by discounting such payments on the basis of the accident year; the factors involved in this process are therefore the length of the tails and the appropriate discount rate to apply. Discounting makes it possible in fact to assess the economic profitability of business written in light of the investment income opportunity related to the underwriting activity. By means of such discounting it is also possible to compare the combined ratios of countries characterized by different interest rates and, above all, to compare business mixes characterized by different tails (short/long-tail lines of business).

(1) Source: SIGMA - Swiss Re N° 3/2006, "Measuring underwriting profitability of the non-life insurance industry".

3) **Attenuation of the distortions due to catastrophes.** Catastrophes are an additional factor distorting claims in non-life insurance. They are very costly but also rare, so that it is extremely difficult to imagine a diversification of a country's portfolio in just one year. In order to be able to use the combined ratio as an indicator of the insurance industry's profitability, it is therefore necessary to exclude the effects of such extraordinary claims, insofar as they should be distributed over several years. In Italy's case such adjustments do not appear necessary because catastrophes (and terrorist acts) are not normally covered by insurance.

The application of the adjustments referred to above makes it possible to go from the conventional combined ratio to the so-called "economic" combined ratio.

The article published by Swiss Re shows the economic combined ratios of the leading countries (the United States, Canada, the United Kingdom, Germany, France and Japan) but does not present figures for Italy. In this publication those results have therefore been used to make a comparison with market data.

In particular, Table 1 compares the conventional combined ratios of the various countries with their economic combined ratios. Since accident-year data were not available, the Swiss Re article uses business-year combined ratios. This approximation has a limited impact insofar as cyclical effects even out in the medium and long term. All the combined ratios were found to be less than 100%. For Italy, the United States, Canada and France the discount effect was between 8% and 9% of premiums; the figure for Germany was slightly lower (6.4%) and that for Japan almost negligible owing to the low level of interest rates in the period in question. Over a period of nearly 10 years (for most of the countries analyzed), it can be seen that Italy's economic combined ratio was in line with that of the United Kingdom, worse than those of Germany and Canada but better than those of France, the United States and Japan.

TABLE 1
COMPARISON BETWEEN ECONOMIC COMBINED RATIO OF MAIN NON-LIFE MARKETS

	UNITED STATES 1994-2004	CANADA 1994-2004	UNITED KINGDOM 1994-2004	GERMANY 1994-2004	FRANCE 1995-2004	JAPAN 1996-2004	ITALY 1995-2005
Standard combined ratio (*)	106.2%	103.1%	104.2%	99.9%	105.2%	99.4%	103.3%
Actualization	8.2%	8.7%	9.0%	6.4%	7.9%	0.4%	8.3%
Economic combined ratio	**98.0%**	**94.4%**	**95.2%**	**93.5%**	**97.3%**	**99.0%**	**95.0%**

Source: As for Italy, ANIA processing on financial balance data (direct business); as for other countries, Sigma N° 3/2006.
(*) Standard combined ratio is used for requirements of comparison in the years.

Taking advantage of the possibility of analyzing the data for the Italian non-life insurance market in more detail, Figure 1 shows the impact in the period 1995-2005 of the various adjustments made in going from the conventional combined ratio to the economic combined ratio. The first step involves the elimination of the distortionary effects of the excess/shortfall in the claims reserves for the previous years. In this respect it should be noted that in the period 1998-2002 the conventional combined ratio was always higher than the accident-year combined ratio (which implies that in those years there was a shortfall in the claims reserves for the prior years), whereas from 2003 onwards the accident-year combined ratio was increasingly greater than the conventional combined ratio (indicating an excess of the claims reserves for the prior years).

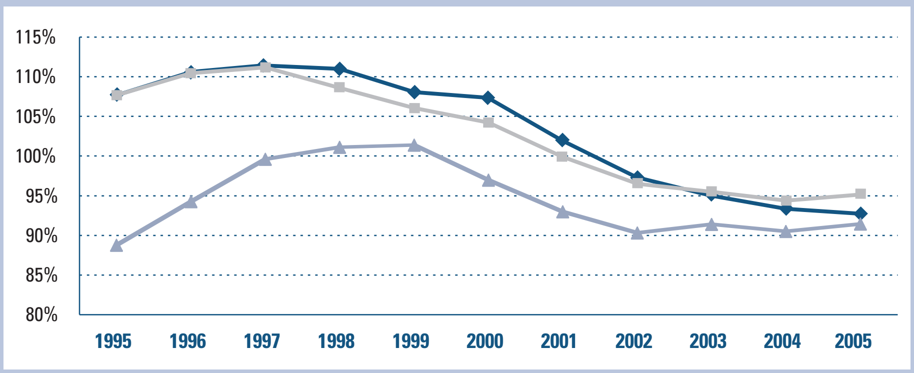


FIGURE 1
COMPARISON BETWEEN SEVERAL METHODOLOGIES OF COMBINED RATIO CALCULATION

ANIA processing of financial balance data (direct business)

The second adjustment (from the accident-year combined ratio to the economic combined ratio) shows the effect of discounting of the amounts of current year claims over the period analyzed; the interest rate used for the discounting is based on risk-free interest rates, and notably the rate on two-year government securities since the average tail for the non-life insurance industry is two years. The figure shows that the discount effect was greatest in the period 1995-98, a result that can clearly be linked to the high interest rates prevailing in Italy in that period. Starting from the year 2000, when interest rates fell and became essentially stable over time, the discount effect was much less evident and implies a downward shift of the conventional combined ratio.

Table 2 shows the profitability of insurance business in 2005 for the main lines of non-life insurance business in Italy, while Table 3 shows a comparison with the results obtained by Swiss Re for the main European countries in 2004. This comparison was possible only for European countries because the lines of business were found to be more homogeneous in terms of the types of risks underwritten in each line of business.

TABLE 2 - COMBINED RATIO IN ECONOMIC TERMS, ITALY 2005

Classes	Combined ratio for the current accident year	Loss ratio for the current accident year	Average duration	Discount rate	Actualization as a % of premiums	Economic combined ratio
Accident and Sickness	92.1%	61.7%	1.0	2.3%	1.4%	90.7%
Credit and Suretyship	94.4%	62.7%	3.0	2.8%	5.4%	89.0%
Property (*)	96.0%	66.7%	1.3	2.4%	2.2%	93.8%
General T.P.L.	105.0%	76.6%	5.5	3.2%	14.4%	90.6%
Transports (**)	86.1%	64.6%	1.7	2.5%	2.8%	83.3%
Motor (***)	95.9%	77.2%	1.8	2.5%	3.6%	92.3%
Total non-life classes	**95.2%**	**72.1%**	**2.0**	**2.6%**	**3.8%**	**91.4%**

Source: ANIA processing on financial balance data (direct business).
(*) Property includes: fire and natural forces, other damage to property.
(**) Transports include: railway craft, aircraft, ships, goods in transit.
(***) Motor includes: land vehicles insurance, motor, third party liability, ships T.P.L..

It is interesting to note that for all lines of business, including general liability, the economic combined ratio is less than 100%. In fact it is precisely general liability that benefits most from the discounting of claims (14.4% of premiums) owing to the fact that it is decidedly long-tail with an average of 5.5 years. Accident and health business has a much shorter tail than the other lines of business (approximately 1 year), so that it also has the smallest discount effect (no more than 2.3% of premiums).

TABLE 3
ECONOMIC COMBINED RATIO (*), EUROPEAN COMPARISON IN 2004

Classes	Italy	France	Germany	United Kingdom
Accident and Sickness (**)	91.9%	95.7%	80.2%	95.9%
Motor	90.5%	95.9%	90.4%	96.0%
General T.P.L.	87.6%	83.7%	87.8%	73.3%
Property	92.6%	85.8%	85.6%	91.1%
Total non-life classes	**90.5%**	**91.4%**	**88.1%**	**93.7%**

Source: Swiss Re - Sigma n° 3/2006; Ania for Italy.
(*) Combined ratio for Italy and for United Kingdom is based on the current accident year and it is adjusted by the change of claims provisions for the previous accident years but not by catastrophic claims; as for Germany and France, combined ratio is based on the financial year.
(**) As for Germany, the figure concerns only accident class.

The European comparison, for which the latest data available for all the countries considered refer to 2004, shows that:

– for accident and health insurance, Germany (for which the figure does not include health insurance) recorded by far the best result (with an economic combined ratio of 80.2%), with Italy scoring nearly 12 percentage points more and France and the United Kingdom approximately 16 points more;

- for motor insurance (which includes liability and vehicle damage cover), Germany was again the country with the lowest economic combined ratio (90.4%), on a par with Italy's and approximately 6 points lower than those of France and the United Kingdom;
- for general liability insurance, the situation is reversed, with Germany and Italy having the worst economic combined ratios (respectively 87.8% and 87.6%), compared with France (83.7%) and above all the United Kingdom (73.3%);
- for property insurance, Italy has the highest economic combined ratio (92.6%), followed closely by the United Kingdom (91.1%), with Germany and France scoring much lower values (less than 86% in both cases).

The technical results of the motor insurance business remained positive also in 2005, thanks in particular to the maintenance of reserves for claims incurred in the years before 2005. The incurred claims cost for the current accident year slightly increased and worsened its incidence on premiums (passing from 80.9% in 2004 to 81.5% in 2005). The overall technical results for land vehicles remained positive, with an incidence on premiums slightly smaller than in 2004.

MOTOR LIABILITY OPERATIONS

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

Premiums for direct domestic business, collected from the 70 companies operating in this class, totalled Euro 18,198 million in 2005 reflecting the lowest growth rate (+0.6%) ever observed in this class; they were equal to 50.1% of the overall premiums for non-life classes (51.1% in 2004). The stable growth in premiums was due above all to a good trend of technical results, which brought the companies to maintain premium rates substantially stable and to apply flexibility on prices in competitive key.

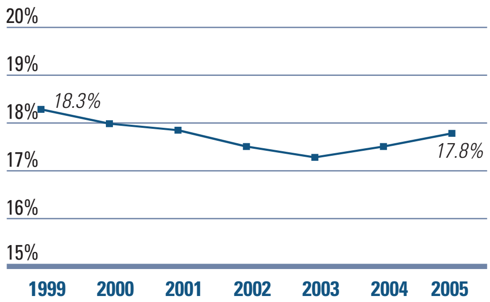
The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 14,755 million (Euro 14,561 million in 2004), with a 1.3% increase compared to 2004 since the decrease in claims frequency, which continued in 2005, was more than offset by the increase in the average cost of the claims.

On the whole the ratio to earned premiums reflected an increase (from 80.9% in 2004 to 81.5% in 2005).

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 14,284 million (Euro 14,375 million in 2004) with a 0.6% decrease compared to 2004. The financial year registered, for the second consecutive year, an excess (Euro 471 million) for the reserves for claims incurred in previous years. All this explains the improvement of the ratio of incurred claims cost for the financial year to earned premiums equal to 78.8%, decreasing compared to 79.9% in 2004.

Operating expenses amounted to Euro 3,235 million (Euro 3,169 million in 2004) and 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

OPERATING EXPENSES TO PREMIUMS RATIO (%)



of insurance business. The ratio to premiums was 17.8% substantially stable compared to 2004 (17.5%).

The **technical balance for direct business** was positive at Euro 388 million (Euro 224 million in 2004).

Considering the investment income, the **technical account result for direct business** was positive at Euro 1,492 million (Euro 1,301 million in 2004).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 1,478 million (Euro 1,240 million in 2004), representing a 8.2% ratio to premiums (6.9% in 2004).

MOTOR LIABILITY
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	13,249	14,221	15,344	16,653	17,646	18,087	18,198
Changes in premiums reserves (-)	466	173	333	341	280	91	82
Incurred claims (-):	13,248	13,886	13,734	13,735	14,177	14,375	14,284
- incurred claims cost for the current accident year (-)	12,322	12,775	13,043	13,438	13,982	14,561	14,755
- excess/shortfall of reserves for those claims incurred in previous accident years	-926	-1,111	-691	-297	-195	186	471
Balance of other technical items	-187	-184	-98	-166	-178	-228	-209
Operating expenses (-)	2,422	2,559	2,741	2,921	3,047	3,169	3,235
Direct technical balance	**-3,074**	**-2,581**	**-1,562**	**-510**	**-36**	**224**	**388**
Investment income	936	1,050	899	648	888	1,077	1,104
Direct technical account result	**-2,138**	**-1,531**	**-663**	**138**	**852**	**1,301**	**1,492**
Reinsurance results and other items	202	218	178	36	-12	-61	-14
Overall technical account result	**-1,936**	**-1,313**	**-485**	**174**	**840**	**1,240**	**1,478**
Annual % changes in premiums	12.6%	7.3%	7.9%	8.5%	6.0%	2.5%	0.6%
Combined ratio	**121.9%**	**116.8%**	**109.3%**	**101.7%**	**98.9%**	**97.4%**	**96.6%**
- Expense ratio	18.3%	18.0%	17.9%	17.5%	17.3%	17.5%	17.8%
- Loss ratio:	103.6%	98.8%	91.5%	84.2%	81.6%	79.9%	78.8%
- Loss ratio for the current accident year	96.4%	90.9%	86.9%	82.4%	80.5%	80.9%	81.5%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-7.2%	-7.9%	-4.6%	-1.8%	-1.1%	1.0%	2.6%
Technical balance/Earned premiums	**-24.0%**	**-18.4%**	**-10.4%**	**-3.1%**	**-0.2%**	**1.2%**	**2.1%**
Technical account result/Earned premiums	**-16.7%**	**-10.9%**	**-4.4%**	**0.8%**	**4.9%**	**7.2%**	**8.2%**
Overall technical account result/Earned premiums	**-15.1%**	**-9.4%**	**-3.2%**	**1.1%**	**4.8%**	**6.9%**	**8.2%**
Premiums to total non-life premiums ratio (%)	*50.5%*	*51.0%*	*51.3%*	*51.4%*	*51.6%*	*51.1%*	*50.1%*

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

LAND VEHICLES INSURANCE OPERATIONS

This class includes insurance against all forms of damage to or loss of land motor vehicles.

LAND VEHICLES
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	2,614	2,678	2,811	2,955	3,062	3,145	3,155
Changes in premiums reserves (-)	29	26	40	70	52	45	62
Incurred claims (-):	1,180	1,204	1,160	1,205	1,257	1,260	1,417
- incurred claims cost for the current accident year (-)	1,299	1,316	1,278	1,306	1,361	1,388	1,512
- excess/shortfall of reserves for those claims incurred in previous accident years	119	112	118	101	104	128	95
Balance of other technical items	-32	-37	-18	-32	-40	-46	-36
Operating expenses (-)	642	657	692	709	738	759	748
Direct technical balance	**731**	**754**	**901**	**939**	**975**	**1,035**	**892**
Investment income	55	59	50	34	47	57	56
Direct technical account result	**786**	**813**	**951**	**973**	**1,022**	**1,092**	**948**
Reinsurance results and other items	-31	-13	-33	-30	-50	-46	-16
Overall technical account result	**755**	**800**	**918**	**943**	**972**	**1,046**	**932**
Annual % changes in premiums	3%	2.4%	5.0%	5.1%	3.6%	2.7%	0.3%
Combined ratio	70.3%	70.0%	66.5%	65.7%	65.8%	64.8%	69.5%
- Expense ratio	24.6%	24.5%	24.6%	24.0%	24.1%	24.1%	23.7%
- Loss ratio:	45.7%	45.4%	41.9%	41.8%	41.7%	40.7%	45.8%
- Loss ratio for the current accident year	50.3%	49.6%	46.1%	45.3%	45.2%	44.8%	48.9%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	4.6%	4.2%	4.2%	3.5%	3.5%	4.1%	3.1%
Technical balance/Earned premiums	**28.3%**	**28.5%**	**32.5%**	**32.5%**	**32.4%**	**33.4%**	**28.8%**
Technical account result/Earned premiums	**30.4%**	**30.7%**	**34.3%**	**33.7%**	**33.9%**	**35.2%**	**30.6%**
Overall technical account result/Earned premiums	**29.2%**	**30.2%**	**33.1%**	**32.7%**	**32.3%**	**33.7%**	**30.1%**
Premiums to total non-life premiums ratio (%)	*10.0%*	*9.6%*	*9.4%*	*9.1%*	*9.0%*	*8.9%*	*8.7%*

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

Premiums for direct domestic business for the 76 insurance companies operating in this class amounted to Euro 3,155 million in 2005 (+0.3% compared to 2004), representing 8.7% 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 incurred in the current accident year, amounted to Euro 1,512 million (Euro 1,388 million in 2004) with a 8.9% increase; the ratio to earned premiums was equal to 48.9% reflecting a 4 percentage point increase compared to 2004; this result cold be due also to the 3% increase of the car thefts registered in 2005.

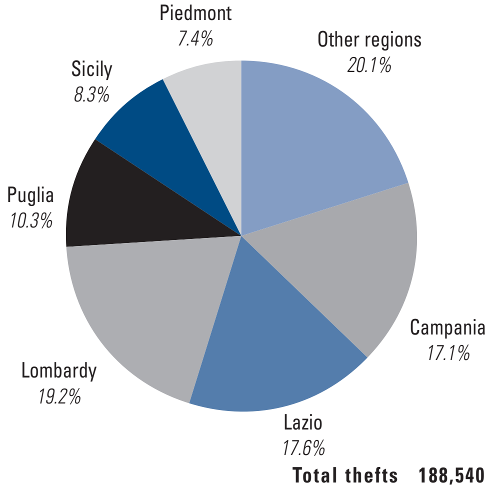
The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 1,417 million (Euro 1,260 million in 2004). The ratio to earned premiums was equal to 45.8%, increasing from 40.7% in 2004.

Operating expenses amounted to Euro 748 million (Euro 759 million in 2004) and include administration expenses relating to the technical management of insur-

CAR THEFTS PER REGION

	2003	2004	2005
Piedmont	16,210	13,129	13,969
Valle d'Aosta	83	67	76
Lombardy	33,533	31,798	36,207
Trentino	336	295	346
Veneto	5,107	4,510	5,705
Friuli	622	586	714
Liguria	2,798	3,388	3,486
Emilia Romagna	6,138	5,780	7,307
Tuscany	3,746	3,236	4,272
Umbria	1,237	943	1,179
Marche	1,075	1,117	1,285
Lazio	34,881	32,038	33,191
Abruzzo	1,455	1,623	1,819
Molise	322	204	191
Campania	38,976	35,670	32,318
Puglia	20,144	19,754	19,357
Basilicata	516	518	462
Calabria	5,725	6,442	7,663
Sicily	16,834	17,319	15,619
Sardinia	3,932	4,053	3,374
Total Italy	**193,670**	**182,470**	**188,540**

Source: Ministry of Interior.



CAR THEFTS IN 2005
breakdown by region (%)

ance 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 23.7% (24.1% in 2004).

The **technical balance for direct business** was positive at Euro 892 million (Euro 1,035 million in 2004).

Considering the investment income, the **technical account result for direct business** was positive at Euro 948 million (Euro 1,092 million in 2004).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 932 million (Euro 1,046 million in 2004), representing a 30.1% ratio to premiums (33.7% in 2004).

THE AVERAGE COST OF CLAIMS AND THE CLAIMS FREQUENCY

The two technical indicators that combined generate the pure premium in the motor liability insurance business are the claims frequency and the average cost of claims. The table gives the time series on these variables since 1980.

EVOLUTION OF AVERAGE CLAIMS COST AND CLAIMS FREQUENCY
Euro

YEAR	CLAIMS FREQUENCY	PERCENTAGE CHANGE IN CLAIMS FREQUENCY	AVERAGE CLAIMS COST - PROPERTY DAMAGE	PERCENTAGE CHANGE IN AVERAGE CLAIMS COST - PROPERTY DAMAGE	AVERAGE CLAIMS COST - PERSONAL INJURY	PERCENTAGE CHANGE IN AVERAGE CLAIMS COST - PERSONAL INJURY	AVERAGE CLAIMS COST - TOTAL	PERCENTAGE CHANGE IN 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	8.58%	-0.57%	1,701	4.10%	13,206	-2.48%	3,982	4.65%	20.2%
2005*	8.55%	-0.39%	n.d.	n.d.	n.d.	n.d.	4,122	3.50%	n.d.

(*) The figure is estimated on the basis of the data extracted from ANIA's "quick" motor liability statistics updated to 31 december 2005.

The costs are broken down into the two main components, material damage and bodily injury. The data on the average cost of claims come from ISVAP's statistical yearbook on motor liability insurance operations, those on frequency from ANIA's auto insurance database. The figures for 2005 are estimated on the basis of ANIA's "quick" motor liability statistics and provisional company accounts for the year.

The claims frequency – the number of claims resulting in claims payments as a percentage of the number of policyholders – was almost flat in 2005 after falling sharply since the turn of the century. In 2005 this indicator inched down to 8.55% from 8.58% in 2004 (-0.39% compared to 2004). The question is whether we have reached a kind of limit to improvement in this field, i.e. whether there is a bedrock frequency of accidents that a highly motorized country cannot expect to lower. In any event, there is room for improvement as regards serious accidents, where preventive traffic safety controls and regulations can have the most significant effect.

The average cost of incurred claims – the ratio of the cost of claims paid and provisions made on this account to the number of claims – was Euro 4,122 in 2005, an increase of 3.5%. This figure represents the total amount of the claim paid or to be paid. Unlike the cost of claims on an accrual basis from the technical account, it excludes all expenses connected with the settlement of the claim and also all estimates of the amount of provisions for accidents that have already incurred but have not yet been reported to the insurance companies (IBNR claims provisons). This figure is for auto liability only, excluding maritime vessels.

A comparative analysis of claims frequency and claims cost can be conducted using the data of other European insurance associations. The figures, of course, are affected by such factors as regulatory differences, uneven social and economic conditions and different road quality.

Germany has the largest number of vehicles in circulation in continental Europe (nearly 54 million), followed by Italy (over 50 million). France and Spain are some distance behind (40 million and 25 million respectively); Belgium has 6 million. Italy has the highest number of vehicles per inhabitant (0.87 in 2004, owing in part to the large number of motorbikes and motorcycles). The other countries surveyed show significantly lower figures: Germany and France 0.65, Belgium and Spain 0.58.

NUMBER OF VEHICLES PER PERSON - 2004

	ITALY	GERMANY	FRANCE	BELGIUM	SPAIN
Registered vehicles (thousand)	50,100	53,843	38,501	6,071	24,594
Populations (thousand)	57,888	82,532	59,900	10,396	42,345
Vehicles per person	0.87	0.65	0.64	0.58	0.58

Source: Statistics by national insurance associations and Eurostat.

Italian claims frequency is exceeded only by Spanish, which stands at 10.1%.

EUROPEAN COMPARISON BETWEEN TECHNICAL INDICATORS IN MOTOR T.P.L.

ITALY

Year	*Claims frequency*	*Average cost paid claims*	*Average cost paid and reserved claims*	*% of claims with personal injuries on total claims*
(1)	(2)	(3)	(4)	(5)
2001	9.55%	1,614	3,186	21.15%
2002	8.78%	1,755	3,531	19.99%
2003	8.63%	1,903	3,805	21.00%
2004	8.58%	2,086	3,982	20.23%

GERMANY

Year	*Claims frequency*	*Average cost paid claims*	*Average cost paid and reserved claims*	*% of claims with personal injuries on total claims*
(1)	(2)	(3)	(4)	(5)
2001	7.47%	1,886	3,408	10.71%
2002	7.24%	1,872	3,400	10.36%
2003	6.95%	1,872	3,430	10.22%
2004	6.75%	1,899	3,469	10.22%

SPAIN

Year	*Claims frequency*	*Average cost paid claims*	*Average cost paid and reserved claims*	*% of claims with personal injuries on total claims*
(1)	(2)	(3)	(4)	(5)
2001	10.88%	1,740	n.d.	17.46%
2002	10.67%	1,920	n.d.	18.11%
2003	10.41%	1,944	n.d.	20.13%
2004	10.10%	1,986	n.d.	20.64%

FRANCE

Year	*Claims frequency*	*Average cost paid claims*	*Average cost paid and reserved claims*	*% of claims with personal injuries on total claims*
(1)	(2)	(3)	(4)	(5)
2001	5.90%	n.d.	2,763	10.68%
2002	5.60%	n.d.	2,857	10.54%
2003	5.05%	n.d.	2,970	10.30%
2004	4.85%	n.d.	3,031	10.31%

BELGIUM

Year	*Claims frequency*	*Average cost paid claims*	*Average cost paid and reserved claims*	*% of claims with personal injuries on total claims*
(1)	(2)	(3)	(4)	(5)
2001	9.48%	n.d.	2,789	11.53%
2002	8.60%	n.d.	3,024	12.37%
2003	7.04%	n.d.	3,232	10.88%
2004	7.00%	n.d.	3,265	10.16%

Source: National insurance association statistics.

France has the lowest claims frequency (under 5%), Germany 6.75% and Belgium 7.00%.

Over time, claims frequency has declined everywhere. The decrease has been most impressive in Belgium, where frequency fell from 9.48% in 2001 (about the same as in Italy that year) to 7.00% in 2004, an improvement of 26 percent. The fall has also been notable in France (18 percent in the four years), especially considering that the figure was quite low to begin with. Spain is the country where accident frequency has decreased least (by just 7 percent).

As for the average total cost of claims paid and provisions on account of payment, Italy led the field in 2004 at nearly Euro 4,000 per accident. It can be estimated that the cost in Spain is comparable. Presumably, it is the higher share of accidents involving bodily injury (20% in these two countries, as against around 10% in the other three surveyed) that accounts for this high cost. The average in the other three countries is between Euro 3,500 (Germany) and Euro 3,000 France.

Italy is also the country where the average claim cost rose most sharply between 2001 and 2004, by 25% compared with 17% in Belgium, 10% in France and 2% in Germany.

MOTOR LIABILITY INSURANCE PRICES ON THE INTERNET

ANIA began conducting a quarterly survey of motor liability insurance premiums in April 2004, using the information posted on the websites of the leading insurance companies – the companies in the sample account for some 90% of total premiums – and tracking the premiums applied in all 20 regional capitals. The present analysis specifically examines the three typical insurance profiles for private automobiles that represent around 70% of all vehicles.

TABLE 1 - NATIONAL SUMMARY OF PREMIUMS REPORTED ON THE INTERNET WEB SITES IN APRIL 2004, 2005 AND 2006 (Amounts in Euro)

Profiles	Average Premium April 2006	Average Premium April 2005	Average Premium April 2004	Annual % Change April 2006 on April 2005	Annual % Change April 2005 on April 2004
1) 36 years old housewife in the maximum discount bonus-malus insurance category - 1100 cc small car	418.05	412.11	412.88	1.44%	-0.19%
2) 40 years old office worker in the maximum discount bonus-malus insurance category - 1900 cc saloon car	678.96	681.48	690.77	-0.37%	-1.34%
3) 45 years old office worker in the entry-level bonus-malus insurance category - 1100 cc small car	1,137.89	1,086.04	1,081.03	4.77%	0.46%

Motor insurance

The price level measured refers to a potential customer requesting an estimate on-line. Obviously, it does not reflect the discounts with respect to published rates that companies are offering more and more frequently at policy renewal time in the context of a widely-practiced price flexibility.

The average premium for each of the three profiles (Table 1), weighted by the companies' market shares and differing geographical distribution, were as follows in April 2006:

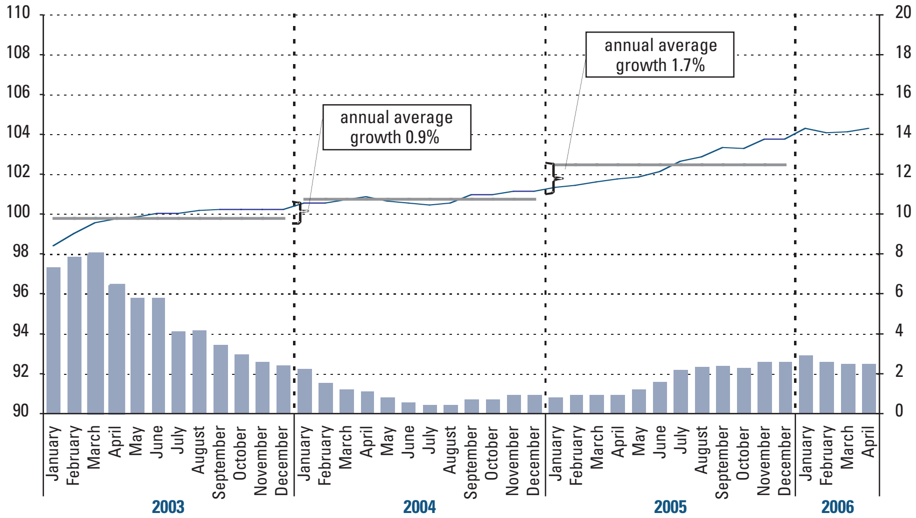
- Profile 1: Euro 418.05 for a housewife, aged 36, in the maximum discount bonus-malus insurance category, owner of an 1100-cc small car, the profile considered the best insurance risk among those analyzed. The premium for this profile was 1.4% more than in April 2005;
- Profile 2: Euro 678.96 for a 40-year-old office worker in the maximum discount bonus-malus insurance category with a 1900-cc saloon car. The premium for this profile was 0.37% lower than a year earlier;
- Profile 3: Euro 1,137.89 for an office worker aged 45 assigned to the entry-level bonus-malus insurance category with an 1100-cc small car. The premium was 4.8% higher than in April 2005.

These changes in premiums are consistent with the ISTAT index, which for the same period (April 2005-April 2006) shows a twelve-month increase of 2.2% for the entire population of insured (Figure 1). From the signing of the memorandum of understanding between ANIA and some consumer associations in June 2003 up to April 2006, the prices of automobile liability insurance rose by 4.3%, while the general index of consumer prices increased by 6.2%.

In the ANIA survey, as in that conducted by ISTAT, the changes in prices are calculated on "fixed" profiles and do not take account of the fact that each year more than 90% of insured do not cause accidents and accordingly enjoy

FIGURE 1
PERFORMANCE OF PRICE INDEX MOTOR LIABILITY - ISTAT

Growth over 12 months (right-hand scale)
Number index
Annual average



the "bonus", which on average brings a reduction of 1-2% in the premium. In addition, both surveys monitor the "nominal" rates offered to the public and do not measure the change in the prices effectively paid by customers purchasing motor liability insurance. In 2005 premium income rose by 0.6%; considering that the number of vehicles in circulation grew by abut 2%, the actual average premium fell by nearly 1.5%.

To evaluate the dispersion of the premiums charged in the market, two indicators were calculated for the same categories of motorist and for selected provinces:

1. the ratio of the maximum premium to the minimum premium;
2. the variation coefficient, defined as the ratio of the standard deviation to the arithmetic mean of all the premiums recorded.

The two indicators gauge the potential opportunities for insurance customers to benefit from the effects of competition. In particular, it was found that:

TABLE 2

SUMMARY OF INSURANCE PREMIUMS IDENTIFIED IN APRIL 2006 IN A NUMBER OF REGIONAL CAPITALS

Amounts in Euro

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

	Milan	Bologna	Perugia	Rome	Naples	Potenza	Bari	ITALY
Average premium	*358.97*	*489.51*	*357.65*	*443.98*	*556.18*	*251.72*	*371.35*	*418.05*
Minimum premium	252.04	346.91	222.32	307.41	362.00	185.12	263.27	
Maximum premium	511.00	746.00	562.00	651.90	1,170.00	369.00	772.00	
Max premium/Min premium	2.0	2.2	2.5	2.1	3.2	2.0	2.9	
Variation coefficient (%)	15.3	15.6	18.8	15.6	22.7	15.5	22.0	
Average premium change (%) (April 06 on April 05)	*-0.1%*	*-0.9%*	*1.9%*	*0.8%*	*3.8%*	*5.2%*	*3.9%*	*1.4%*

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

	Milan	Bologna	Perugia	Rome	Naples	Potenza	Bari	ITALY
Average premium	*588.74*	*787.81*	*583.64*	*726.38*	*934.58*	*418.66*	*612.32*	*678.96*
Minimum premium	352.72	448.92	354.21	404.47	623.78	272.83	441.86	
Maximum premium	763.85	1,048.00	785.00	913.59	1,654.00	509.00	1,085.00	
Max premium/Min premium	2.2	2.3	2.2	2.3	2.7	1.9	2.5	
Variation coefficient (%)	15.6	16.1	16.5	15.2	18.8	13.1	17.3	
Average premium change (%) (April 06 on April 05)	*-1.3%*	*-3.5%*	*0.1%*	*-1.2%*	*1.2%*	*3.5%*	*2.1%*	*-0.4%*

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

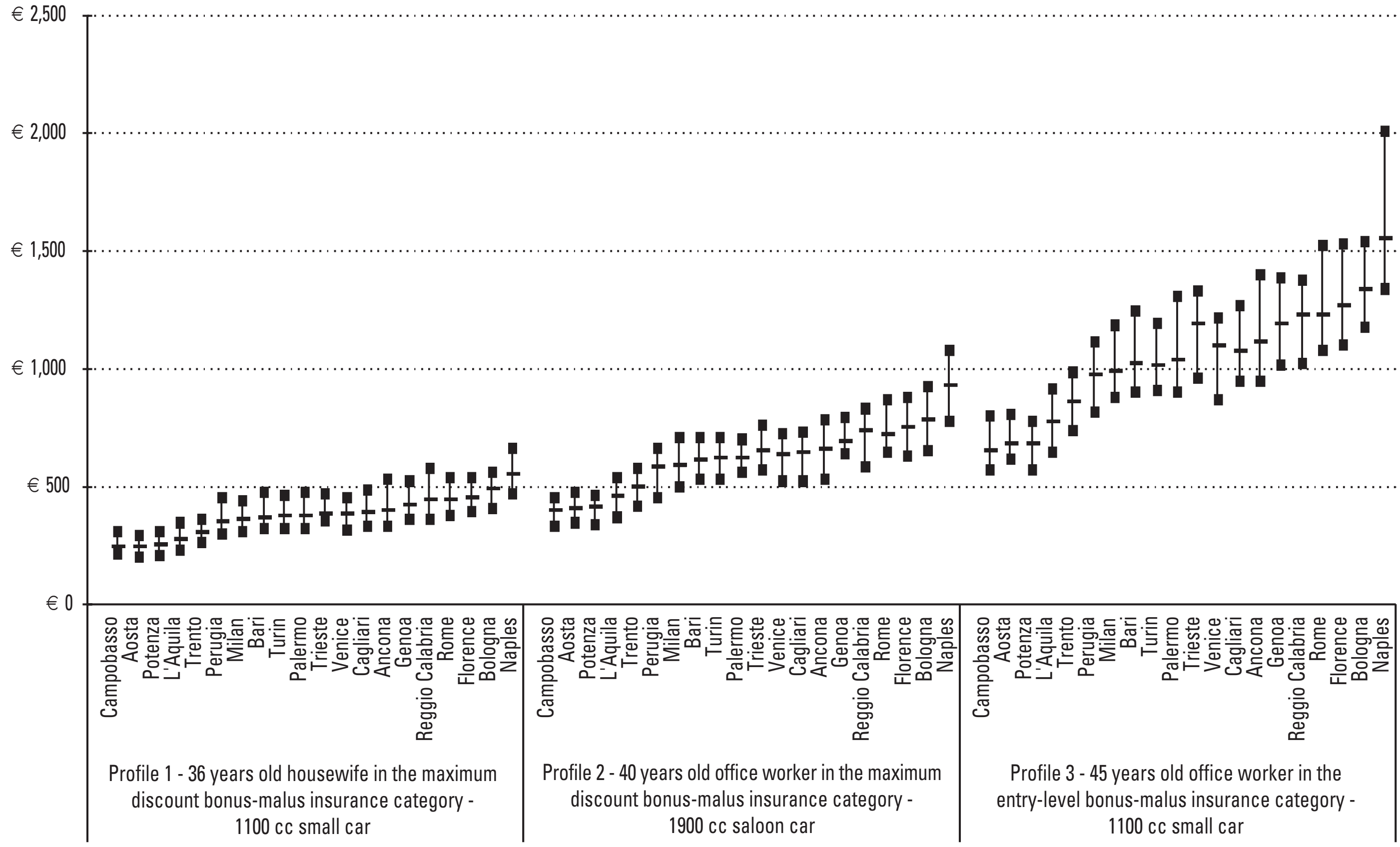
	Milan	Bologna	Perugia	Rome	Naples	Potenza	Bari	ITALY
Average premium	*995.37*	*1,339.21*	*973.83*	*1,231.48*	*1,555.75*	*684.52*	*1,025.61*	*1,137.89*
Minimum premium	657.53	836.33	725.66	844.85	1,125.11	521.30	818.27	
Maximum premium	1,408.50	1,977.73	1,569.05	1,631.10	2,911.00	978.00	1,933.00	
Max premium/Min premium	2.1	2.4	2.2	1.9	2.6	1.9	2.4	
Variation coefficient (%)	13.8	15.4	17.6	14.0	21.2	15.6	19.7	
Average premium change (%) (April 06 on April 05)	*3.1%*	*3.5%*	*4.9%*	*4.2%*	*8.6%*	*7.4%*	*7.0%*	*4.8%*

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

– for all the cities studied and all the profiles, the maximum premium was between 2 and 3 times the minimum premium. This indicates the existence of a margin of saving of 50-66% for those paying the highest amounts within the profiles studied;
– the cities where increases were above the mean were also those showing a higher variation coefficient. The correlation coefficient calculated on these two indicators (for all the regional capitals and profiles) was positive at 0.37. This means that the cities where the increases were greatest are also those where the largest percentage saving can be obtained by comparing the different offers.

Figure 2 plots the mean, lowest and highest premiums recorded in all 20 regional capitals in April 2006. Considering Profile 1 (36-year-old housewife in the best bonus-malus class), i.e. the profile with the lowest average premium and thus the one representing the best risk, the premiums charged are rather close to the mean. Taking the median city of the distribution, the difference between the mean and the minimum is Euro 53 (the mean for this profile is Euro 418). The deviation increases to Euro 60 for Profile 2 (mean of Euro 679) and to Euro 132 for Profile 3 (mean of Euro 1,138). In short, an average customer looking for the best offer for his or her category can find a reduction of 10-12%.

FIGURE 2 - PREMIUMS SUMMARY FOR PASSENGER CARS REPORTED IN APRIL 2006 IN THE REGIONAL CAPITALS



LONG-TERM ANALYSIS OF MOTOR LIABILITY INSURANCE PRICES

The annual increase in the premiums that insurance companies collect and report in their financial statements measures, by definition, the increase in the total expenditures sustained by the insured for coverage. However, for homogeneous comparison between one year and the next, it is necessary to take into account the number of vehicles in circulation and their characteristics.

- **Change in the number of vehicles in circulation**. According to data from the Automobile Club of Italy (ACI), the number of cars on the road is tending to grow, and so part of the premiums collected in the year comes from insuring new vehicles. Taking the increase in the number of vehicles into account, one can calculate the average increase in the expense per vehicle;
- **Change in the mix of risks insured**. There are changes from year to year in the mix of insured vehicles, for example with the upward trend in the number of more powerful cars (higher premiums than for small cars) or in the proportion of diesels (higher premiums than for petrol-driven cars of equivalent size owing to longer operating mileage). Other characteristics of the risks insured also vary in time and indirectly influence premium income, notably the level of the maximum chosen in the policy (the percentage of insured with higher maximums is rising), the age of the vehicle and that of the policy holder. Taking the variation in the characteristics of the vehicles in circulation into account, we can calculate the average increase in the expense at constant characteristics.

Table 1 reports all the information available since 1994, the year rates were liberalized. In 2005 the increase in the volume of premiums collected, i.e. the change in the total expenditure sustained by customers without considering the variations in the number and characteristics of vehicles came to 0.6%, the smallest since liberalization (column 1).

On the basis of monthly ACI data, the number of vehicles in circulation can be estimated to have risen by 2.1% in 2005 (column 2). Consequently, after increasing by 0.5% in 2004, the expense per vehicle fell last year by 1.5%, the first decrease since 1994 (column 3). According to the ISTAT index (Laspeyres index with fixed weights, following the methodology used for the consumer price indices; column 6), motor third-party liability rates rose by 1.7% in 2005 on an annual basis. The difference with respect to the ANIA estimate is explained by the fact that the latter is calculated on an index with variable weights (Paasche index, following the methodology used to calculate the expenditure deflators in the national accounts) and, in addition, takes into account both the movements into new merit classes – each year nearly 90% of all insured do not cause accidents and thus improve their merit rating – and the discounts that insurance companies give their customers with respect to published rates.

The difference in methodology serves to explain most of the divergence between the ANIA and ISTAT estimates of the annual change in motor liability insurance prices since 2003. In that year ISTAT altered its measurement method by:

1. revising the profiles of insured, in order to minimize the possibility of error on the part of ISTAT's price surveyors, and adding new profiles (motorbikes and younger persons);
2. revising the weights used to measure the observed changes in prices for the different profiles. Before 2003 the profiles were not weighted according to their representativeness.

ISTAT's methodological revisions have made its measurements of the increases in motor liability insurance prices broadly consistent with the expenditure deflator calculated by ANIA (column 3): in the three years from 2003 to 2005, motor liability insurance prices increased by an annual average of 2.5% according to ISTAT, while the ANIA indicator rose by an average of 0.7% per year. The divergence reflects the two different methodologies used (fixed and variable weights).

TABLE 1 - MOTOR LIABILITY: EVOLUTION OF PREMIUMS COLLECTION

YEARS	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		MEMORANDUM ITEM 6. ISTAT price index of motor liability	
	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 (%)	Index number	Annual change (%)
1994	8,663	100.0	-	39,755	100.0	-	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	110.2	10.2
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	120.2	9.1
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	131.2	9.2
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	149.1	13.6
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	174.0	16.7
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	190.8	9.6
2001	15,315	176.8	7.9	46,480	116.9	4.0	151.2	3.7	105.3	1.1	143.6	2.6	211.3	10.7
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	235.8	11.6
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	247.7	5.0
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	250.0	0.9
2005	18,171	209.8	0.6	51,152	128.7	2.1	163.0	-1.5	106.7	0.5	152.7	-2.0	254.3	1.7

(*) Sources: Automobile Club of Italy (ACI) (2005 data estimated).

In the period between 1994 and 2002, by contrast, the annual increase in motor liability insurance prices calculated by ISTAT was 11.3%, almost double that calculated by ANIA (6.0%). This glaring discrepancy can be largely put down to the procedures that ISTAT used before 2003.

The figures presented in column 5 also reflect the fact that part of the increase in average premiums is due to changes in the characteristics of the vehicles insured (column 4). They show that, holding the characteristics constant, the expenditure per vehicle diminished by 2.0% in 2005 (and by 0.3% in 2004).

CHANGES TO THE INSURANCE CODE PROVISIONS ON INDEMNITY AND CLAIMS SETTLEMENT PROCEDURES FOR MOTOR LIABILITY INSURANCE: DIRECT COMPENSATION

The Insurance Code's provisions on motor liability insurance largely replicate those now in effect, collating the legislation enacted since the original Law 990/1969.

While the changes made are not numerous, they are quite substantial, especially in the Chapter on compensation and claims settlement procedures.

Article 138 – Serious bodily injury
The article lays down the criteria for a delegation of legislative power to define the single national table of economic and medical values for indemnity for more than minor biological damage. The provision replaces Law 273/2002, Article 23.4, which failed to specify any principle to which the delegated legislation had to conform in preparing the table.

The definition of "biological damage" is more precise than that given in Law 57/2001, Article 5, and corresponds better to established legal scholarship and jurisprudence.

Article 145 – Possibility of legal action
The article governs the possibility of legal action, distinguishing cases in which the court judgment follows from the standard procedure from those in which it is originated by the direct settlement procedure (in the latter, the person damaged takes legal action against his own insurance company).

Apart from this change, the new law introduces another extremely important innovation, with respect to the original Article 22 of Law 990/1969, for purposes of orderly transition from the pre-trial to the in-court phase. That is, the new article specifies that the deadline for taking legal action against the company (60 or 90 days) runs not from the company's mere receipt of the claim but from the receipt of a claim filed by the procedures and with the contents laid down by the law, which is to say a claim for damages accompanied by all the elements that are legally required. As a consequence, it would appear that any suit brought in the absence of a regular pre-trial phase owing to lack of the necessary elements of fact required by the law is open to objection. (The new wording should entail a revisitation of established jurisprudence, which has generally held that the deadline for legal action runs from the mere filing of the claim, regardless of whether or not its content is as required by law.)

Article 148 – Compensation procedure

This rule replicates Article 3 of Law 39/1977. The sanction procedure is given in Title XVIII. Essentially, there are two changes in the new article.

– First, it eliminates the requirement that the insured, after settlement, must transmit to the insurance company the invoice for the repair work and the insurance company's right to request reimbursement of the amount paid if the insured fails to do so.
– Second, in the case of a claim lacking some of the elements prescribed by law, the insurance company's obligation to request the missing elements, specifying them, within 30 days of receipt of the claim is now a non-sanctioned obligation. It follows that unless it does request the supplementary information needed, the insurance company may be held answerable for non-compliance with the deadline for communication of an adjustment offer or a refusal to make an offer and accordingly sanctioned. The change eliminates the provision whereby the request for supplementary information was possible only where the insurer, owing to the incompleteness of the claim, was unable to formulate an offer. This provision, apart from being incongruous given a procedure requiring that the claim contain all the elements of information established by law, produced a sort of arbitrariness in determining what conduct should be sanctioned. Hence, given an incomplete claim, an insurer that has asked for the necessary supplementary information will not be found in violation of the time limits established in Article 148 until the missing elements are provided. Starting 1 January 2006 the procedure also applies to accidents contemplated in Article 149, obviously up until the date of entry into effect of the direct claims settlement system, to be set by the implementing decree.

Article 141 – Compensation for passenger

A special procedure is introduced for compensation of injury to passengers aboard vehicles. The procedure assigns payment of the claim to the insurer of the vehicle the passenger was in at the time of the accident, regardless of prior ascertainment of liability and without prejudice to subsequent settlement between insurance companies.

- **Paragraph 1**: Limits the special procedure to the lowest policy maximums set by law (taking account of the possibility of there being more than one injured party), safeguarding the right to compensation for greater injury from the liable party's insurer where the maximum is greater than the lowest amount allowed by law.
- **Paragraph 2**: Determines that compensation for injury be paid by the out-of-court procedure referred to in Article 148.
- **Paragraph 3**: Provides that any legal action must be taken against the same insurer responsible for handling the pre-trial settlement phase, without prejudice to the right of the insurer of the liable party to intervene in court, relieving the other insurer by admitting the liability of its own insured.
- **Paragraph 4**: Governs the right of recourse of the insurer that advances the compensation on account of the insurer of the liable party, essentially leaving the matter to rules on economic relations between insurers to be instituted as part of the system of direct settlement.

Direct settlement

Articles 149 and 150 of the Insurance Code introduce direct claims settlement by the injured party's own insurer, establishing a minimum framework of rules and leaving the main implementing provisions to be issued by Presidential Decree.

Article 149 governs:

- the operational scope of the procedure, which is obligatory for accidents involving two vehicles with physical damage to vehicles and at most minor injury to drivers;
- the obligation of the "direct" insurer to pay compensation for injury to its own non-liable insured on account of the other insurer, with subsequent settlement between insurers;
- payment of indemnity within 15 days of acceptance or non-acceptance by the injured party; in case of agreement, the release issued by the injured party to his insurer is valid also for the person liable for the accident and for his insurer;
- initiation of legal action against the "direct" insurer in the event that the procedure "fails", but with possibility for the insurer of the liable party to replace the "direct" insurer in the case.

Article 150 leaves to a Presidential Decree, to be issued on a proposal from the Minister for Productive Activities, the institution of detailed rules regarding:

- the criteria for determining the degree of liability of the parties (with a table for the division of liability analogous to that now in effect for the "agreed report of accident" procedure, specifying the most common cases of accidents involving two vehicles);
- the contents and procedure for filing the accident report and the obligations to fulfil in order to receive compensation;
- procedures, conditions and obligations incumbent upon the insurance company;
- limits to accessory damages and conditions for indemnification; this is the delicate, still unresolved, problem of excluding the expenses of the injured party for professional assistance when the pre-reconciliation, direct settlement procedure is successful;
- the standards for cooperation between insurance companies, including the benefits to the insured of the system of direct settlement; the wording of this provision suggests the establishment of standards for insurance companies' organization of the system governing reciprocal credits/debts in connection with direct settlement (as by contemplating inter-company settlement mechanisms based on competition between operators for efficiency in the settlement of claims).

The implementing rules will be instituted by a Presidential Decree that will also specify the date of entry into effect.

The position of the insurance industry on the generalized institution, by legislation, of the direct settlement procedure has always been consistent with the technical necessities of insurance operations and with the purpose of the new procedure. Insurance companies have noted that the benefits of the system depend strictly on the way in which it is applied, and in particular:

a) its degree of practical application, consistent with the types of damage eligible for direct settlement;
b) the mechanism for ascertaining liability, through automatic prior conciliation (an accident report form signed by both parties to the accident) or ex-post arbitration;
c) the systems chosen for settlement of economic obligations between participating insurers.

On the first point, the broadest possible application, covering the great majority of accidents with third-party liability, is an essential condition for the system to produce the benefits expected, i.e. limitation of disputes, less litigation costs, and better service quality.

The second point is strictly related to the basic rules on liability, onto which the direct settlement system is built. Ascertainment of liability depends on the standards established in each legal order: objective or aggravated liability (with a presumption of negligence) or liability due to negligence that the injured party must prove. Especially in civil law systems in which liability depends on ascertainment of negligence, the direct settlement procedure can smoothly resolve the frequent disputes over liability: either by prior conciliation (the parties agree on how the accident happened and so testify in the accident report) or by subsequent arbitration that is binding on the parties (or at least on their insurers).

The third point is the most important with a view to curbing costs through efficiency and competition between insurance companies. All systems of direct compensation must provide for mechanisms of settlement of economic obligations between insurers that take account of the "fiduciary" nature of indemnification. Each insurer compensates its own insured in the name and on the account of the insurer that will ultimately have to settle the claim, as determined by the rules for civil liability.

Obviously if the procedure were to mandate the unqualified reimbursement of any amount paid, there would be perverse effects on cost control. Every insurer would tend towards "largesse" with its own insured, charging the consequences to the liable party's insurer. Apart from the presumable larger indemnity for the injured parties, such a method would sever the connection between estimated premium requirements and cost control. Paradoxically, every insurance company would set the price of its liability coverage based on the relative efficiency or inefficiency of the other companies.

To avoid this perverse effect, direct settlement schemes must have mechanisms of compensation between insurance companies that reflect as faithfully as possible the level of efficiency of each. Now, assuming that efficiency is gauged essentially by the ability to control costs, all such mechanisms tend – but with variants – to be designed to work to the advantage of the companies that settle claims at lower costs and to penalize those whose costs are higher. This gives every company an incentive to keep down the cost of accident claims, to the benefit of the entire system.

Another factor fundamental to system efficiency concerns the exclusion of "improper" costs. Direct settlement should institute a phase of conciliation to prevent possible litigation. From this standpoint, where the full assistance of the insurance company in advocating the case of the injured party has been provided, then when there is a mutually accepted settlement, the settlement of the claim should not cover any additional costs for professional services; such services are superfluous in the most common, ordinary accidents but would be necessary in the case of conflicting positions between the parties and naturally also in more serious and complicated cases.

It is therefore easy to see the crucial importance of a clear, simple legal framework that does not give rise to ambiguity of interpretation, which would be harmful to the market and to consumers.

The implementing rules have not yet been issued. A first draft implementing decree had been submitted to the State Council for an opinion. The Competition Authority issued an opinion on the matters relating to regulation of relations between the insurance companies participating in the scheme.

The first detailed draft prepared by the Ministry for Productive Activities is appreciable for the level of detail and for its clarity in describing the procedure to obtain compensation via the special direct procedures. Some particular provisions, however, do not appear to be wholly consistent with the rationale for the procedure contemplated by Articles 149 and 150 of the Code; others raise serious doubts owing to the problems in application that they could cause. Two aspects in particular need to be noted.

First is the wording used to exclude from the offer procedure the cost of professional assistance – except for medical consultation. It could generate misunderstanding, because it does not clearly bring out the nature and function of the provision. To avoid these doubts, the provision needs to be reformulated to make the most of the true nature of the direct settlement procedure – it is a pre-trial phase whose purpose is conciliation, involving only the injured parties and insurers – and to provide expressly that in case of acceptance of the claim adjustment offer (and in this case only) and in compliance with the time limits (30, 60, or 90 days, depending on the circumstances), the amount of the compensation shall not include fees for professionals that the injured party may have consulted. This provision would be perfectly consistent with the initiation of legal action, which the new Insurance Code makes conditional upon the expiry of the term for the claim adjustment offer, providing that the claim includes all the information necessary to the insurer to reach a judgment of his own on the damage in the framework of the necessary *spatium deliberandi*. Obviously if the offer procedure has a negative outcome, i.e. in the case of disagreement between insurer and insured over attribution of liability or over the amount of damage, the road is opened to legal action, which may be concluded with an out-of-court settlement or by a court ruling. In the logic of the direct settlement system, then, a lawsuit is the last resort, consistently with the aim of reducing litigation and its costs.

Second, Article 13 of the draft decree provides that insurers may form one or more consortiums, with optional membership, in order to regulate organizational and economic relations for direct settlement. This clause was severely criticized by the Competition Authority, which specified the principles to which conventions governing compensation between companies must conform. From this point of view the insurance industry is working to design a system that is competitive and applicable in practice.

The technical account results are positive for most classes, exceptions being health, aircraft and ships insurance. The trend of the general third party liability class was again particularly negative.

ACCIDENT

Premiums for direct domestic business for the 97 companies operating in this class in 2005 amounted to Euro 2,985 million, slightly up compared to 2004 (3.4%) and in line with the trend registered in the last five years; premium incidence for this class on total non-life insurance premiums was equal to 8.2%, stable compared to the previous year.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 1,568 million (Euro 1,586 million in 2004), with a 1.1% decrease compared to last year; the ratio to earned premiums was

ACCIDENT
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	2,263	2,380	2,530	2,621	2,761	2,887	2,985
Changes in premiums reserves (-)	42	54	67	47	43	58	68
Incurred claims (-):	1,357	1,326	1,420	1,436	1,410	1,436	1,427
- incurred claims cost for the current accident year (-)	1,481	1,476	1,530	1,542	1,549	1,586	1,568
- excess/shortfall of reserves for those claims incurred in previous accident years	124	150	110	106	139	150	141
Balance of other technical items	-40	-36	-42	-54	-65	-65	-55
Operating expenses (-)	722	761	801	821	872	922	965
Direct technical balance	**102**	**203**	**200**	**263**	**371**	**406**	**470**
Investment income	102	109	102	89	101	107	103
Direct technical account result	**204**	**312**	**302**	**352**	**472**	**513**	**573**
Reinsurance results and other items	-4	-6	-16	-31	-54	-64	-50
Overall technical account result	**200**	**306**	**286**	**321**	**418**	**449**	**523**
Annual % changes in premiums	2.5%	5.2%	6.3%	3.6%	5.3%	4.6%	3.4%
Combined ratio	93.0%	89.0%	89.3%	87.1%	83.5%	82.7%	81.2%
- Expense ratio	31.9%	32.0%	31.7%	31.3%	31.6%	31.9%	32.3%
- Loss ratio:	61.1%	57.0%	57.7%	55.8%	51.9%	50.7%	48.9%
- Loss ratio for the current accident year	66.7%	63.5%	62.1%	59.9%	57.0%	56.1%	53.8%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	5.6%	6.5%	4.5%	4.1%	5.1%	5.3%	4.9%
Technical balance/Earned premiums	**4.6%**	**8.7%**	**8.1%**	**10.2%**	**13.7%**	**14.4%**	**16.1%**
Technical account result/Earned premiums	**9.2%**	**13.4%**	**12.2%**	**13.7%**	**17.4%**	**18.1%**	**19.7%**
Overall technical account result/Earned premiums	**9.0%**	**13.1%**	**11.6%**	**12.5%**	**15.4%**	**15.9%**	**17.9%**
Premiums to total non-life premiums ratio (%)	*8.6%*	*8.5%*	*8.5%*	*8.1%*	*8.1%*	*8.2%*	*8.2%*

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

equal to 53.8% (56.1% in 2004), the lowest value since 1999. 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 deductibles and exclusions) and of prior risk evaluation.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for claims incurred in previous accident years, was equal to Euro 1,427 million with a 0.6% decrease compared to 2004. The ratio to earned premiums was equal to 48.9%, reflecting a decrease compared to 50.7% in 2004.

Operating expenses were equal to Euro 965 million (Euro 922 million in 2004) 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 32.3%, slightly increasing compared to 31.9% of 2004.

The **technical balance for direct business** was positive at Euro 470 million (Euro 406 million in 2004). The improvement in the technical balance is mostly ascribable to the limited increase in claims cost.

Considering investment income, the **direct technical account result** was positive at Euro 573 million (Euro 513 million in 2004).

Taking the reinsurance balance into account, the **overall technical account result** was positive at Euro 523 million (Euro 449 million in 2004), equal to 17.9% of premiums (15.9% in 2004).

SICKNESS

Premiums for direct domestic business for the 93 companies operating in this class in 2005 amounted to Euro 1,716 million; the growth rate compared to the previous year (8.8%) was the lowest since the year 1999. The incidence on total non-life insurance premiums was equal to 4.7%.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 1,237 million with a 2.8% increase compared to 2004; the ratio to earned premiums therefore decreased from 77.1% in 2004 to 74.8% in 2005.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for claims incurred in previous accident years, was equal to Euro 1,247 million with a 3.0% increase. The ratio to earned premiums was equal to 75.4%, reflecting a decrease compared to 77.6% of 2004.

Operating expenses were equal to Euro 466 million (Euro 409 million in 2004) 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 were equal to 27.1% of the premiums, up from 25.9% in 2004.

The **technical balance for direct business** remained negative at Euro 89 million (Euro -99 million in 2004). The ratio to premiums moved from -6.3% in 2004 to -5.4% in 2005.

Considering investment income, the **result for the direct technical account** was negative at Euro 49 million (Euro -53 million in 2004).

SICKNESS
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	1,164	1,255	1,343	1,426	1,509	1,577	1,716
Changes in premiums reserves (-)	8	33	29	22	33	17	62
Incurred claims (-):	875	934	998	1,063	1,128	1,211	1,247
- incurred claims cost for the current accident year (-)	900	947	1,005	1,066	1,118	1,203	1,237
- excess/shortfall of reserves for those claims incurred in previous accident years	25	13	7	3	-10	-8	-10
Balance of other technical items	-18	-18	-23	-33	-50	-39	-30
Operating expenses (-)	312	332	347	363	380	409	466
Direct technical balance	**-49**	**-62**	**-54**	**-55**	**-82**	**-99**	**-89**
Investment income	35	40	38	31	40	46	40
Direct technical account result	**-14**	**-22**	**-16**	**-24**	**-42**	**-53**	**-49**
Reinsurance results and other items	-10	4	5	2	3	2	0
Overall technical account result	**-24**	**-18**	**-11**	**-22**	**-39**	**-51**	**-49**
Annual % changes in premiums	3.2%	7.8%	7.0%	6.2%	5.8%	4.5%	8.8%
Combined ratio	102.5%	102.9%	101.8%	101.1%	101.6%	103.5%	102.5%
- Expense ratio	26.8%	26.4%	25.9%	25.4%	25.2%	25.9%	27.1%
- Loss ratio:	75.7%	76.4%	75.9%	75.7%	76.5%	77.6%	75.4%
- Loss ratio for the current accident year	77.9%	77.5%	76.4%	75.9%	75.8%	77.1%	74.8%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	2.2%	1.1%	0.5%	0.2%	-0.7%	-0.5%	-0.6%
Technical balance/Earned premiums	**-4.2%**	**-5.1%**	**-4.1%**	**-3.9%**	**-5.6%**	**-6.3%**	**-5.4%**
Technical account result/Earned premiums	**-1.2%**	**-1.8%**	**-1.2%**	**-1.7%**	**-2.8%**	**-3.4%**	**-3.0%**
Overall technical account result/Earned premiums	**-2.1%**	**-1.5%**	**-0.8%**	**-1.6%**	**-2.7%**	**-3.3%**	**-2.9%**
Premiums to total non-life premiums ratio (%)	*4.4%*	*4.5%*	*4.5%*	*4.4%*	*4.4%*	*4.5%*	*4.7%*

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

Taking the balance for reinsurance into account, the **overall technical account result** was negative at Euro 49 million (Euro -51 million in 2004), equal to 2.9% of premiums (3.3% in 2004).

AN OECD STUDY ON LONG-TERM CARE

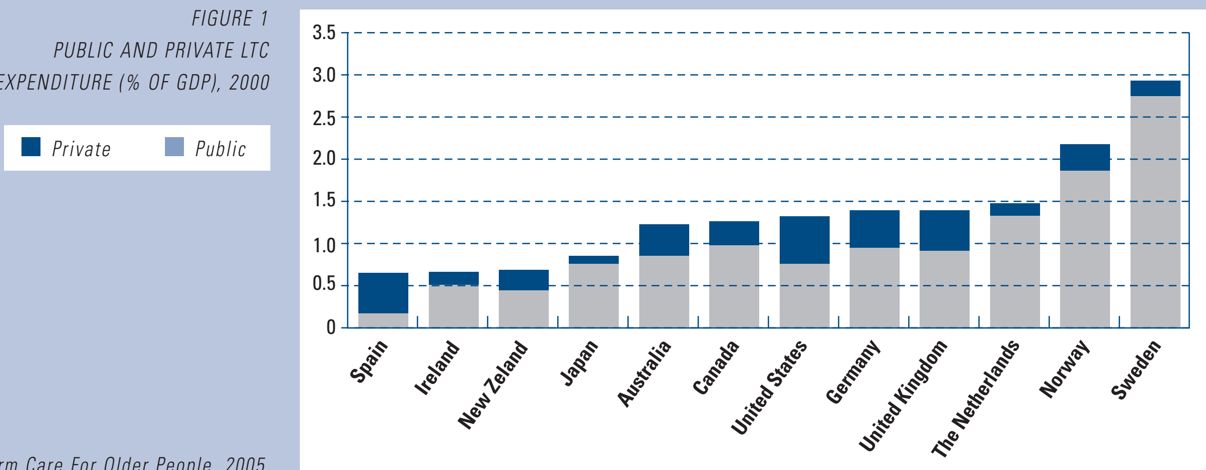
The OECD's 2005 study on long-term care is part its Health Project, a broader research project carried out in 2001-2004 that explores the fundamental issues of the operation of the health and social-care systems of the organization's member countries.

The study does not cover Italy, but the data and conclusions concerning the 19 countries it does examine appear to fit the Italian situation well. In some respects, however, Italy is in a weaker position than the other major industrial in terms both of resources currently allocated to long-term care and of the implications of the projected trends in female employment.

The study finds that a number of countries have recently made significant progress toward overcoming the fragmentation of assistance and welfare services through funding programs that are established on a regional basis or targeted to segments of the population but remain consonant with universal public rights to long-term care.

In 2000 total public and private spending on long-term care was equal to about 2% of GDP in Norway and 3% in Sweden. It ranged between 1 and 1.5% of GDP in Australia, Canada, the Netherlands, the United States, Germany and the United Kingdom; in the last three countries private expenditures were on the order of 0.5% of GDP (Figure 1).

FIGURE 1
PUBLIC AND PRIVATE LTC EXPENDITURE (% OF GDP), 2000



Source: OECD, Long-Term Care For Older People, 2005.

It is universally agreed that spending for long-term care will rise rapidly in all countries over the next 20-30 years, mainly owing to the growing number of old people. With regard to the public component, significant differences in spending will result from the qualitative and quantitative design of the approaches and strategies adopted, such as prevention and rehabilitation programs and co-payments by care recipients.

Another, much more recent study by the Economics Department of the OECD presents spending projections on a homogeneous basis, this time including Italy.

TABLE 1
PUBLIC HEALTH AND LTC EXPENDITURE AS A % OF GDP

	HEALTH			LONG TERM CARE			TOTAL		
		2050			2050			2050	
	2005	Cost-pressure	Cost-containment	2005	Cost pressure	Cost-containment	2005	Cost pressure	Cost-containment
Australia	5.6	8.7	7.9	0.9	2.8	2.0	6.5	12.8	9.9
Austria	3.8	7.6	6.7	1.3	3.3	2.6	5.1	10.9	8.2
Belgium	5.7	9.0	7.2	1.5	3.4	2.6	7.2	12.4	9.0
Canada	6.2	10.2	8.4	1.2	3.2	2.4	7.3	13.5	10.0
Czech Republic	7.0	11.2	9.4	0.4	2.0	1.3	7.4	13.2	10.7
Denmark	5.3	8.8	7.0	2.6	4.1	3.3	7.9	12.8	10.3
Finland	3.4	7.0	5.2	2.9	5.2	4.2	6.2	12.2	8.3
France	7.0	10.8	8.7	1.1	2.8	2.0	8.1	13.4	10.8
Germany	7.8	11.4	9.5	1.0	2.9	2.2	8.8	14.3	11.8
Greece	4.9	8.7	6.9	0.2	2.8	2.0	5.0	11.5	8.9
Hungary	6.7	10.3	8.5	0.3	2.4	1.0	7.0	12.6	9.5
Iceland	6.8	10.7	8.9	2.9	4.4	3.4	9.6	15.2	12.3
Ireland	5.9	10.0	8.2	0.7	4.6	3.2	6.7	14.5	11.3
Italy	6.0	9.7	7.9	0.6	3.5	2.8	6.6	13.2	10.7
Japan	6.0	10.3	8.5	0.9	3.1	2.4	6.9	13.4	10.9
Korea	3.0	7.8	6.0	0.3	4.1	3.1	3.3	11.9	9.1
Luxembourg	6.1	9.9	5.0	0.7	3.8	2.8	6.8	13.7	10.5
Mexico	3.0	7.5	5.7	0.1	4.2	3.0	3.1	11.7	8.7
Netherlands	5.1	8.9	7.0	1.7	3.7	2.9	6.8	12.5	9.9
New Zeland	6.0	10.1	8.3	0.5	2.4	1.7	6.4	12.8	10.0
Norway	7.3	10.7	8.9	2.6	4.3	3.5	9.9	15.0	12.4
Poland	4.4	8.5	8.7	0.5	3.7	1.8	4.9	12.2	8.5
Portugal	6.7	10.9	9.1	0.2	2.2	1.3	6.9	13.1	10.4
Slovak Republic	5.1	9.7	7.9	0.3	2.6	1.5	6.4	12.3	9.4
Spain	5.5	9.5	7.8	0.2	2.6	1.9	5.6	12.1	9.8
Sweden	5.3	8.5	6.7	3.3	4.3	3.4	8.5	12.9	10.1
Switzerland	6.2	9.6	7.8	1.2	2.8	1.9	7.4	12.3	9.7
Turkey	5.9	9.9	8.1	0.1	1.8	0.8	6.0	11.7	8.9
United Kingdom	6.1	9.7	7.9	1.1	3.0	2.1	7.2	12.7	10.0
United States	6.3	9.7	7.9	0.9	2.7	1.8	7.2	12.4	8.7
Average	*5.7*	*9.6*	*7.7*	*1.1*	*3.3*	*2.4*	*6.7*	*12.8*	*10.1*

Source: Projecting OECD Health and Long-Term Care Expenditures: What Are The Main Drivers? Economic Department Working Papers No. 477.

The projections are for spending on both health and long-term care under alternative scenarios:

– a "cost-pressure" scenario in which the demographic factor drives spending to rise 1% per year faster than incomes. This projection is in line with the trends observed in the last two decades;
– a "cost-containment" scenario in which (unspecified) active policy measures reduce that excess.

According to this study, public health spending in Italy would rise from 6% of GDP in 2005 to 9.7% in 2050 in the "cost-pressure" scenario or 7.9% in the "cost-containment" scenario, while long-term-care expenditure would increase from 0.6% to 3.5% or 2.8% (Table 1).

Naturally, public resources can cover only a part of the requirement and the private component, already considerable, looks set to grow further.

According to estimates published by the Agency for Regional Health Services, in Italy the economic value of informal private assistance (home care for relatives) is about double that of cash outlays.

TABLE 2
ESTIMATE OF LONG TERM CARE EXPENDITURE - EXCLUDING HEALTH COMPONENT - (1998)

	Euro million	% on the total
Public expenditure	3,883	35%
Private out of pocket expenditure	2,457	22%
Economic value of family aid	4,841	43%
Total	**11,181**	**100%**

Source: Agency for Regional Health Services. Monitor March-April 2003.

In the future, increasing women's labor force participation and the shrinking of the family-based network of solidarity could cause the informal component of private spending on long-term care to contract and the purely monetary component to expand.

For these reasons, the OECD study asserts, private insurers are likely to play an important role in the future in offering voluntary long-term-care policies covering costs not covered by public programs.

RAILWAY ROLLING STOCK

Premiums for direct domestic business for the 21 insurance companies operating in this class amounted to Euro 12 million in 2005 (-7.9% compared to 2004).

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 24 million, more than double compared to Euro 11 million in 2004; thus the ratio to earned premiums doubled (from 86.6% in 2004 to 182.5% in 2005).

RAILWAY ROLLING STOCK
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	8	9	10	10	12	13	12
Changes in premiums reserves (-)	-1	2	0	2	0	1	-1
Incurred claims (-):	4	7	7	12	2	8	18
- incurred claims cost for the current accident year (-)	7	11	11	14	9	11	24
- excess/shortfall of reserves for those claims incurred in previous accident years	3	4	4	2	7	3	6
Balance of other technical items	0	1	0	1	1	1	0
Operating expenses (-)	2	2	2	2	2	3	2
Direct technical balance	**3**	**-1**	**1**	**-5**	**9**	**2**	**-7**
Investment income	1	0	1	1	1	1	1
Direct technical account result	**4**	**-1**	**2**	**-4**	**10**	**3**	**-6**
Reinsurance results and other items	0	-1	-3	-1	-4	-5	11
Overall technical account result	**4**	**-2**	**-1**	**-5**	**6**	**-2**	**5**
Annual % changes in premiums	10.9%	15.4%	6.6%	8.0%	20.5%	8.9%	-7.9%
Combined ratio	63.8%	112.3%	86.5%	151.0%	32.9%	81.9%	153.5%
- Expense ratio	21.4%	18.2%	16.3%	16.4%	13.9%	19.3%	18.1%
- Loss ratio:	42.4%	94.1%	70.2%	134.6%	19.0%	62.7%	135.4%
- Loss ratio for the current accident year	77.1%	156.0%	114.0%	161.5%	73.5%	86.6%	182.5%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	34.8%	61.9%	43.8%	26.9%	54.5%	23.9%	47.1%
Technical balance/Earned premiums	**38.8%**	**-16.4%**	**13.2%**	**-54.4%**	**67.5%**	**14.5%**	**-52.6%**
Technical account result/Earned premiums	**39.7%**	**-15.2%**	**16.5%**	**-41.7%**	**74.6%**	**23.4%**	**-44.4%**
Overall technical account result/Earned premiums	**43.7%**	**-28.4%**	**-10.8%**	**-56.6%**	**43.2%**	**-15.1%**	**41.5%**
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 excess/shortfall of reserves for claims incurred in previous accident years, more than doubled in 2005, reaching Euro 18 millions; the ratio to earned premiums increased from 62.7% in 2004 to 135.4% in 2005. Due to the limited size 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 significant fluctuations over time.

Operating expenses were equal to Euro 2 million (Euro 3 million in 2004) 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 18.1% (19.3% in 2004).

The **technical balance for direct business** was negative at Euro 7 million (Euro 2 million in 2004).

Considering investment income, the **result for the direct technical account** was negative at Euro 6 million (Euro 3 million in 2004).

Taking the strongly positive contribution of balance for reinsurance into account, the **overall technical account result** was positive at Euro 5 million (41.5% of premiums) whereas it had been negative and equal to Euro 2 million in 2004 (15.1% of premiums).

AIRCRAFT

This class includes insurance cover against all damage to aircraft.

Premiums for direct domestic business for the 26 companies operating in this class in 2005 amounted to Euro 57 million, the same value compared to the previous year; premium incidence for this class on total non-life insurance premiums was equal to 0.2%, a stable value since 2001.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, registered a large reduction and was equal to Euro 41 million (Euro 59 million in 2004), with a 30.0% decrease; the ratio to earned premiums was equal to 72.4%, down from 98.8% in 2004.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for claims incurred in previous accident years, was equal to Euro 44 million (Euro

67 million in 2004), with a 34.5% decrease. The ratio to earned premiums was equal to 77.4%, decreasing compared to 112.7% in 2004.

Operating expenses were equal to Euro 8 million (Euro 9 million in 2004) 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 were equal to 13.9% of the premiums, decreasing compared to 2004 (15.6%).

The **technical balance for direct business** was positive at Euro 4 million (it had been negative and equal to Euro 16 million in 2004).

AIRCRAFT
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	71	117	64	64	64	57	57
Changes in premiums reserves (-)	-5	19	-1	-19	1	-3	0
Incurred claims (-):	77	99	36	79	38	67	44
- incurred claims cost for the current accident year (-)	89	87	31	31	49	59	41
- excess/shortfall of reserves for those claims incurred in previous accident years	12	-12	-5	-48	11	-8	-3
Balance of other technical items	0	0	0	-3	-2	0	-1
Operating expenses (-)	10	13	10	10	10	9	8
Direct technical balance	**-11**	**-14**	**19**	**-9**	**13**	**-16**	**4**
Investment income	1	2	1	1	1	0	1
Direct technical account result	**-10**	**-12**	**20**	**-8**	**14**	**-16**	**5**
Reinsurance results and other items	4	1	-24	-9	-13	30	-21
Overall technical account result	**-6**	**-11**	**-4**	**-17**	**1**	**14**	**-16**
Annual % changes in premiums	7.4%	65.6%	-45.5%	-0.2%	0.3%	-10.9%	0.3%
Combined ratio	115.8%	111.7%	71.4%	111.3%	76.6%	128.3%	91.3%
- Expense ratio	13.9%	11.2%	15.8%	15.3%	15.7%	15.6%	13.9%
- Loss ratio:	101.9%	100.5%	55.6%	96.0%	60.9%	112.7%	77.4%
- Loss ratio for the current accident year	117.3%	88.5%	48.2%	37.1%	78.2%	98.8%	72.4%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	15.4%	-12.0%	-7.4%	-58.8%	17.2%	-13.9%	-5.0%
Technical balance/Earned premiums	**-14.9%**	**-14.1%**	**28.6%**	**-11.1%**	**21.1%**	**-27.4%**	**6.9%**
Technical account result/Earned premiums	**-13.8%**	**-12.5%**	**30.5%**	**-9.1%**	**22.9%**	**-27.0%**	**8.8%**
Overall technical account result/Earned premiums	**-8.4%**	**-10.7%**	**-5.6%**	**-20.8%**	**1.9%**	**24.3%**	**-28.3%**
Premiums to total non-life premiums ratio (%)	*0.3%*	*0.4%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*

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

Considering investment income, the **direct technical account result** was positive at Euro 5 million (it had been negative at Euro 16 million in 2004).

Taking the negative balance for reinsurance into account, the **overall technical account result** was negative at Euro 16 million (it had been positive at Euro 14 million in 2004), representing 28.3% of premiums (24.3% in 2004).

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 49 insurance companies operating in this class amounted to Euro 367 million in 2005, increasing (8.8%) compared to 2004; the ratio to overall non-life insurance premiums was equal to 1.0%, a stable value since 1999.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 218 million (Euro 190 million in 2004),

SHIPS
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	220	224	279	318	293	337	367
Changes in premiums reserves (-)	-5	25	7	5	23	-1	22
Incurred claims (-):	293	283	302	213	286	132	197
- incurred claims cost for the current accident year (-)	243	270	310	224	288	190	218
- excess/shortfall of reserves for those claims incurred in previous accident years	-50	-13	8	11	2	58	21
Balance of other technical items	-1	-3	-2	-1	-3	-1	-2
Operating expenses (-)	44	45	53	51	52	61	65
Direct technical balance	**-113**	**-132**	**-85**	**48**	**-71**	**144**	**81**
Investment income	7	7	9	7	8	6	7
Direct technical account result	**-106**	**-125**	**-76**	**55**	**-63**	**150**	**88**
Reinsurance results and other items	92	119	64	-47	65	-114	-93
Overall technical account result	**-14**	**-6**	**-12**	**8**	**2**	**36**	**-5**
Annual % changes in premiums	-9.8%	1.9%	24.7%	13.9%	-7.7%	14.9%	8.8%
Combined ratio	150.6%	162.2%	130.0%	84.2%	123.8%	57.0%	74.8%
- Expense ratio	19.9%	19.9%	18.9%	16.0%	17.9%	18.1%	17.6%
- Loss ratio:	130.6%	142.2%	111.1%	68.2%	106.0%	38.9%	57.2%
- Loss ratio for the current accident year	108.1%	135.4%	114.2%	71.6%	106.8%	56.3%	63.1%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-22.6%	-6.8%	3.1%	3.3%	0.8%	17.4%	5.9%
Technical balance/Earned premiums	**-50.2%**	**-66.3%**	**-31.3%**	**15.2%**	**-26.3%**	**42.4%**	**23.4%**
Technical account result/Earned premiums	**-47.4%**	**-62.6%**	**-28.1%**	**17.5%**	**-23.4%**	**44.3%**	**25.4%**
Overall technical account result/Earned premiums	**-6.4%**	**-3.1%**	**-4.3%**	**2.5%**	**0.9%**	**10.8%**	**-1.6%**
Premiums to total non-life premiums ratio (%)	*0.8%*	*0.8%*	*0.9%*	*1.0%*	*0.9%*	*1.0%*	*1.0%*

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

with a 14.3% increase; the ratio to earned premiums was equal to 63.1%, reflecting an increase compared to 56.3% of 2004.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 197 million (Euro 132 million in 2004), with a 49.9% increase. The ratio to earned premiums was equal to 57.2%, reflecting an increase compared to 38.9% of 2004. This class too is characterized by high variability of claims experience.

Operating expenses were equal to Euro 65 million (Euro 61 million in 2004) 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 were equal to 17.6% of premiums (18.1% in 2004).

The **technical balance for direct business** was positive at Euro 81 million (Euro 144 million in 2004).

Considering investment income, the **direct technical account result** was positive at Euro 88 million (Euro 150 million in 2004).

Taking the strongly negative balance for the reinsurance into account, the **overall technical account result**, was negative at Euro 5 million, representing 1.6% of the premiums. In 2004 it had been positive at Euro 36 million with an incidence on premiums equal to 10.8%.

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 59 insurance companies operating in this class were equal to Euro 289 million in 2005, increasing compared to 2004; the incidence on overall non-life insurance premiums was stable (0.8%) compared to 2004.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 192 million, substantially stable compared to 2004 (Euro 190 million); thus the loss ratio for the current accident year was stable (66.8%) compared to 2004.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 146 million (Euro 153 million in 2004), with a 4.3% decrease. The ratio to earned premiums was equal to 50.7%, reflecting a decrease compared to 53.8% in 2004.

Operating expenses were equal to Euro 88 million (Euro 82 million in 2004) 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 were equal to 30.5% of the premiums, increasing from 29.2% in 2004.

The **technical balance for direct business** was positive at Euro 50 million and stable compared to Euro 48 million of 2004.

Considering investment income, the **direct technical account result** was positive at Euro 58 million (Euro 56 million in 2004).

GOODS IN TRANSIT
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	289	305	323	321	292	283	289
Changes in premiums reserves (-)	-5	-1	-1	0	-2	-1	1
Incurred claims (-):	216	217	216	178	132	153	146
- incurred claims cost for the current accident year (-)	245	236	256	239	192	190	192
- excess/shortfall of reserves for those claims incurred in previous accident years	29	19	40	61	60	37	46
Balance of other technical items	0	-3	-4	-5	-3	-1	-4
Operating expenses (-)	91	91	94	93	89	82	88
Direct technical balance	**-13**	**-5**	**10**	**45**	**70**	**48**	**50**
Investment income	10	11	11	8	9	8	8
Direct technical account result	**-3**	**6**	**21**	**53**	**79**	**56**	**58**
Reinsurance results and other items	22	9	-14	-12	-42	-20	-31
Overall technical account result	**19**	**15**	**7**	**41**	**37**	**36**	**27**
Annual % changes in premiums	-10.4%	5.5%	6.1%	-0.8%	-9.0%	-3.2%	2.3%
Combined ratio	104.7%	100.7%	95.8%	84.6%	75.6%	83.0%	81.3%
- Expense ratio	31.4%	29.7%	29.2%	29.0%	30.6%	29.2%	30.5%
- Loss ratio:	73.3%	71.0%	66.6%	55.6%	45.0%	53.8%	50.7%
- Loss ratio for the current accident year	83.1%	77.2%	79.0%	74.4%	65.5%	66.9%	66.8%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	9.8%	6.2%	12.4%	18.9%	20.5%	13.1%	16.1%
Technical balance/Earned premiums	**-4.5%**	**-1.7%**	**3.0%**	**14.1%**	**23.7%**	**16.8%**	**17.4%**
Technical account result/Earned premiums	**-1.2%**	**1.8%**	**6.4%**	**16.7%**	**26.8%**	**19.8%**	**20.2%**
Overall technical account result/Earned premiums	**6.4%**	**5.0%**	**2.2%**	**12.8%**	**12.7%**	**12.9%**	**9.3%**
Premiums to total non-life premiums ratio (%)	*1.1%*	*1.1%*	*1.1%*	*1.0%*	*0.9%*	*0.8%*	*0.8%*

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

Taking the negative contribution of the balance for reinsurance into account, the **overall technical account result** was positive at Euro 27 million, decreasing from 2004 (Euro 36 million) and with an incidence on premiums of 9.3% (12.9% in 2004).

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 2,287 million in 2005 (+6.0% compared to 2004), with a 6.3% incidence on total non-life insurance premiums.

FIRE AND NATURAL FORCES
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	1,657	1,701	1,771	1,978	2,037	2,157	2,287
Changes in premiums reserves (-)	48	41	77	77	80	115	133
Incurred claims (-):	818	1,167	899	1,195	1,196	955	1,114
- incurred claims cost for the current accident year (-)	984	1,259	1,041	1,310	1,348	1,095	1,278
- excess/shortfall of reserves for those claims incurred in previous accident years	166	92	142	115	152	140	164
Balance of other technical items	-42	-44	-45	-44	-39	-55	-57
Operating expenses (-)	526	534	550	592	624	646	671
Direct technical balance	**223**	**-85**	**200**	**70**	**98**	**386**	**312**
Investment income	73	83	72	57	78	86	90
Direct technical account result	**296**	**-2**	**272**	**127**	**176**	**472**	**402**
Reinsurance results and other items	-29	210	5	-10	-166	-327	-276
Overall technical account result	**267**	**208**	**277**	**117**	**10**	**145**	**126**
Annual % changes in premiums	-0.2%	2.6%	4.2%	11.7%	3.0%	5.9%	6.0%
Combined ratio	82.5%	101.7%	84.1%	92.8%	91.7%	76.7%	81.1%
- Expense ratio	31.7%	31.4%	31.0%	29.9%	30.7%	29.9%	29.3%
- Loss ratio:	50.8%	70.3%	53.1%	62.9%	61.1%	46.8%	51.7%
- Loss ratio for the current accident year	61.2%	75.8%	61.4%	68.9%	68.9%	53.6%	59.3%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	10.3%	5.5%	8.4%	6.0%	7.8%	6.9%	7.6%
Technical balance/Earned premiums	**13.8%**	**-5.1%**	**11.8%**	**3.7%**	**5.0%**	**18.9%**	**14.5%**
Technical account result/Earned premiums	**18.4%**	**-0.1%**	**16.0%**	**6.7%**	**9.0%**	**23.1%**	**18.6%**
Overall technical account result/Earned premiums	**16.6%**	**12.6%**	**16.3%**	**6.2%**	**0.5%**	**7.1%**	**5.8%**
Premiums to total non-life premiums ratio (%)	*6.3%*	*6.1%*	*5.9%*	*6.1%*	*6.0%*	*6.1%*	*6.3%*

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

Other non-life insurance classes

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 1,278 million, increasing (16.7%) compared to 2004 (Euro 1,095 million); the increase in the number of claims produced a sharp deterioration in the loss ratio for the current accident year, which went from 53.6% in 2004 to 59.3% in 2005.

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 excess/shortfall of reserves for those claims incurred in previous accident years, rose (from Euro 955 million in 2004 to Euro 1,114 million in 2005), producing a deterioration in the ratio on earned premiums (from 46.8% in 2004 to 51.7% in 2005).

Operating expenses were equal to Euro 671 million (Euro 646 million in 2004) 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 were equal to 29.3% of the premiums, down slightly from 29.9% in 2004.

The **technical balance for direct business** was positive at Euro 312 million (Euro 386 million in 2004).

Considering investment income, the **direct technical account result** was equal to Euro 402 million (Euro 472 million in 2004).

Taking the strongly negative contribution of the reinsurance balance into account, the **overall technical account result** was equal to Euro 126 million (Euro 145 million in 2004), representing 5.8% of premiums (7.1% in 2004).

OTHER DAMAGE 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 82 insurance companies operating in the class were equal to Euro 2,367 million in 2005 with a 3.4% increase, the lowest in recent years. The incidence on overall non-life insurance premiums (6.5%) remained unvaried compared to 2004.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 1,703 million, increasing by 3.0% compared to Euro 1,654 million of 2004; the increase in the number of claims was smaller than that in the premium collection for the current accident year.

Consequently the loss ratio for the current accident year improved from 76.6% in 2004 to 73.5% in 2005.

This effect is reflected also in the **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years. This cost was equal to Euro 1,532 million in 2005 (Euro 1,527 million in 2004), with a slight increase of 0.3%. Thus the ratio to earned premiums improved, moving from 70.7% in 2004 to 66.1% in 2005.

Operating expenses were equal to Euro 693 million (Euro 661 million in 2004) 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 were equal to 29.3% of the premiums, up slightly from 28.9% in 2004.

Owing to the claims for the current accident year trend in, the **technical balance for direct business** was positive at Euro 57 million, while it had been negative and equal to Euro 69 million in 2004.

OTHER DAMAGE TO PROPERTY
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	1,652	1,740	1,861	2,080	2,158	2,289	2,367
Changes in premiums reserves (-)	43	67	97	83	65	129	50
Incurred claims (-):	1,091	1,217	1,266	1,329	1,204	1,527	1,532
- incurred claims cost for the current accident year (-)	1,206	1,307	1,312	1,408	1,360	1,654	1,703
- excess/shortfall of reserves for those claims incurred in previous accident years	115	90	46	79	156	127	171
Balance of other technical items	-29	-32	-31	-29	-34	-41	-35
Operating expenses (-)	485	501	534	591	627	661	693
Direct technical balance	**4**	**-77**	**-67**	**48**	**228**	**-69**	**57**
Investment income	60	69	68	56	77	85	88
Direct technical account result	**64**	**-8**	**1**	**104**	**305**	**16**	**145**
Reinsurance results and other items	33	100	62	-147	-140	-64	-122
Overall technical account result	**97**	**92**	**63**	**-43**	**165**	**-48**	**23**
Annual % changes in premiums	4.0%	5.3%	6.9%	11.8%	3.8%	6.1%	3.4%
Combined ratio	97.1%	101.6%	100.5%	95.0%	86.6%	99.6%	95.4%
- Expense ratio	29.4%	28.8%	28.7%	28.4%	29.0%	28.9%	29.3%
- Loss ratio:	67.8%	72.7%	71.8%	66.6%	57.5%	70.7%	66.1%
- Loss ratio for the current accident year	74.9%	78.1%	74.4%	70.5%	65.0%	76.6%	73.5%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	7.2%	5.4%	2.6%	4.0%	7.5%	5.9%	7.4%
Technical balance/Earned premiums	**0.2%**	**-4.6%**	**-3.8%**	**2.4%**	**10.9%**	**-3.2%**	**2.5%**
Technical account result/Earned premiums	**4.0%**	**-0.5%**	**0.1%**	**5.2%**	**14.6%**	**0.8%**	**6.2%**
Overall technical account result/Earned premiums	**6.0%**	**5.5%**	**3.6%**	**-2.2%**	**7.9%**	**-2.2%**	**1.0%**
Premiums to total non-life premiums ratio (%)	*6.3%*	*6.2%*	*6.2%*	*6.4%*	*6.3%*	*6.5%*	*6.5%*

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

Considering investment income, the **direct technical account result** was positive at Euro 145 million (Euro 16 million in 2004).

Taking the negative contribution of the reinsurance balance into due account, the **overall technical account result** was positive at Euro 23 million (1.0% of premiums), while it had been negative and equal to Euro 48 million in 2004 (2.2% of premiums).

AIRCRAFT THIRD PARTY LIABILITY

Premiums for direct domestic business by the 25 insurance companies operating in this class were equal to Euro 56 million in 2005, increasing by 11.7% compared to 2004; the incidence on total of non-life premiums was very limited (0.2%).

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 15 million (Euro 11 million in 2004),

AIRCRAFT T.P.L.
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	17	14	29	51	78	50	56
Changes in premiums reserves (-)	3	-4	8	8	17	-7	0
Incurred claims (-):	12	23	15	9	6	10	13
- incurred claims cost for the current accident year (-)	10	3	4	5	7	11	15
- excess/shortfall of reserves for those claims incurred in previous accident years	-2	-20	-11	-4	1	1	2
Balance of other technical items	0	0	1	0	-1	-3	-1
Operating expenses (-)	3	3	3	5	6	5	6
Direct technical balance	**-1**	**-8**	**4**	**29**	**48**	**39**	**36**
Investment income	1	0	2	1	1	1	1
Direct technical account result	**0**	**-8**	**6**	**30**	**49**	**40**	**37**
Reinsurance results and other items	3	1	-14	-21	-31	-45	-30
Overall technical account result	**3**	**-7**	**-8**	**9**	**18**	**-5**	**7**
Annual % changes in premiums	32.1%	-15.0%	105.2%	75.3%	52.0%	-36.1%	11.7%
Combined ratio	101.4%	150.8%	78.3%	31.5%	18.1%	27.9%	34.0%
- Expense ratio	16.6%	21.2%	10.2%	10.2%	7.4%	9.6%	9.9%
- Loss ratio:	84.8%	129.6%	68.1%	21.3%	10.7%	18.4%	24.1%
- Loss ratio for the current accident year	75.1%	16.8%	19.0%	10.7%	12.0%	19.9%	26.1%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-9.7%	-112.8%	-49.2%	-10.5%	1.3%	1.5%	2.1%
Technical balance/Earned premiums	**-4.4%**	**-46.1%**	**17.6%**	**65.9%**	**79.2%**	**69.6%**	**65.4%**
Technical account result/Earned premiums	**-0.4%**	**-41.8%**	**27.6%**	**69.0%**	**80.4%**	**71.0%**	**66.5%**
Overall technical account result/Earned premiums	**24.5%**	**-36.1%**	**-37.4%**	**20.8%**	**30.5%**	**-9.2%**	**13.3%**
Premiums to total non-life premiums ratio (%)	*0.1%*	*0.1%*	*0.1%*	*0.2%*	*0.2%*	*0.1%*	*0.2%*

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

with a 29.2% increase; however the ratio to earned premiums was very limited and equal to 26.1% (19.9% in 2004).

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 13 million (Euro 10 million in 2004). The ratio to earned premiums was equal to 24.1%, increasing compared to the very low figure of 2004 (18.4%).

Operating expenses were equal to Euro 6 million (Euro 5 million in 2004) 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 were equal to 9.9% of premiums (9.6% in 2004).

The **technical balance for direct business** was positive at Euro 36 million (Euro 39 million in 2004).

Considering investment income, the **direct technical account result** was positive at Euro 37 million (Euro 40 million in 2004).

Taking the strongly negative contribution of the reinsurance balance into due account, the **overall technical account result** was positive at Euro 7 million (13.3% of premiums), while it had been negative and equal to Euro 5 million in 2004 (9.2% of premiums).

GENERAL THIRD PARTY LIABILITY

Premiums for direct domestic business by the 78 insurance companies operating in this class slowed in 2005 compared to previous years, reaching a value equal to Euro 3,116 million (+3.9% compared to 2004); however the incidence on the total of non-life insurance premiums continued to increase, passing from 8.5% of 2004 to 8.6% of 2005.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 2,363 million (Euro 2,216 million in 2004), with a 6.6% increase; considering that claims cost increased more than premiums, the ratio between these two components (that is, the loss ratio for the current accident year) increased from 76.0% in 2004 to 76.6% in 2005. Sectors characterised by a high claims cost were medical liability, building liability (so-called employers' liability) and professional liability. The bodily injury component also continues to grow.

By contrast, the **incurred claims cost for the financial year** decreased due to a smaller shortfall of reserves for claims incurred in previous accident years compared to 2004; thus the incurred claims cost decreased by 2.4% to Euro 2,720 million (Euro 2,787 million in 2004); this explains the improvement in the loss ratio for the current financial year, which went from 95.5% in 2004 to 88.2% in 2005.

Operating expenses were equal to Euro 884 million (Euro 839 million in 2004) 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 were equal to 28.4% of premiums, slightly increasing compared to 2004 (28.0%).

The **technical balance for direct business** was negative at Euro 575 million (Euro -772 million in 2004).

Considering investment income, the **direct technical account result** was negative at Euro 161 million (Euro -392 million in 2004).

GENERAL T.P.L.
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	1,920	2,033	2,229	2,472	2,798	2,999	3,116
Changes in premiums reserves (-)	88	48	60	107	73	81	32
Incurred claims (-):	1,891	2,005	2,295	2,450	2,540	2,787	2,720
- incurred claims cost for the current accident year (-)	1,611	1,706	1,833	2,003	2,154	2,216	2,363
- excess/shortfall of reserves for those claims incurred in previous accident years	-280	-299	-462	-447	-386	-571	-357
Balance of other technical items	-26	-37	-18	-37	-47	-64	-55
Operating expenses (-)	591	609	663	724	792	839	884
Direct technical balance	**-676**	**-666**	**-807**	**-846**	**-654**	**-772**	**-575**
Investment income	279	318	303	227	320	380	414
Direct technical account result	**-397**	**-348**	**-504**	**-619**	**-334**	**-392**	**-161**
Reinsurance results and other items	77	30	55	164	-79	-33	-77
Overall technical account result	**-320**	**-318**	**-449**	**-455**	**-413**	**-425**	**-238**
Annual % changes in premiums	5.5%	5.9%	9.6%	10.9%	13.2%	7.2%	3.9%
Combined ratio	133.9%	131.0%	135.5%	132.9%	121.5%	123.5%	116.5%
- Expense ratio	30.8%	30.0%	29.7%	29.3%	28.3%	28.0%	28.4%
- Loss ratio:	103.2%	101.0%	105.8%	103.6%	93.2%	95.5%	88.2%
- Loss ratio for the current accident year	87.9%	85.9%	84.5%	84.7%	79.1%	76.0%	76.6%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-15.3%	-15.1%	-21.3%	-18.9%	-14.2%	-19.6%	-11.6%
Technical balance/Earned premiums	**-36.9%**	**-33.5%**	**-37.2%**	**-35.8%**	**-24.0%**	**-26.5%**	**-18.7%**
Technical account result/Earned premiums	**-21.7%**	**-17.5%**	**-23.2%**	**-26.2%**	**-12.2%**	**-13.4%**	**-5.2%**
Overall technical account result/Earned premiums	**-17.5%**	**-16.0%**	**-20.7%**	**-19.2%**	**-15.2%**	**-14.6%**	**-7.7%**
Premiums to total non-life premiums ratio (%)	*7.3%*	*7.3%*	*7.4%*	*7.6%*	*8.2%*	*8.5%*	*8.6%*

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

Taking the negative reinsurance balance into account, the **overall technical account result** was negative at Euro 238 million (Euro -425 million in 2004), with an incidence on premiums of 7,7%, down from 14.6% of 2004.

CREDIT

Credit insurance covers the insured from the total or partial loss of the credit value following debtor insolvency upon expiration of the services due.

Premiums for direct domestic business by the 27 companies operating in this class slightly increased (+4.1% compared to 2004) amounting in 2005 to Euro 279 million. Premium incidence on total non-life premiums was stable (0.8%).

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, remained substantially stable and amounted to Euro 203 million (Euro 205 million in 2004); the ratio to earned premiums was equal to 72.7%, a slightly lower figure than in 2004.

CREDIT
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	219	272	314	321	301	268	279
Changes in premiums reserves (-)	3	16	26	-20	-15	-12	-1
Incurred claims (-):	144	174	263	267	254	121	123
- incurred claims cost for the current accident year (-)	229	258	322	316	315	205	203
- excess/shortfall of reserves for those claims incurred in previous accident years	85	84	59	49	61	84	80
Balance of other technical items	-2	-2	-1	-4	-3	-13	-25
Operating expenses (-)	63	69	83	88	88	86	92
Direct technical balance	**7**	**11**	**-59**	**-18**	**-29**	**60**	**40**
Investment income	14	15	41	18	18	17	15
Direct technical account result	**21**	**26**	**-18**	**0**	**-11**	**77**	**55**
Reinsurance results and other items	-14	-12	36	15	28	-57	-44
Overall technical account result	**7**	**14**	**18**	**15**	**17**	**20**	**11**
Annual % changes in premiums	7.9%	24.0%	15.5%	2.1%	-6.1%	-11.1%	4.1%
Combined ratio	94.9%	93.3%	117.3%	106.0%	109.4%	75.7%	76.8%
- Expense ratio	28.6%	25.5%	26.3%	27.6%	29.3%	32.3%	32.8%
- Loss ratio:	66.3%	67.8%	91.0%	78.4%	80.1%	43.4%	44.0%
- Loss ratio for the current accident year	105.5%	100.5%	111.5%	92.7%	99.6%	73.4%	72.7%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	39.2%	32.6%	20.5%	14.3%	19.4%	30.0%	28.8%
Technical balance/Earned premiums	**3.2%**	**4.4%**	**-20.3%**	**-5.3%**	**-9.1%**	**21.3%**	**14.4%**
Technical account result/Earned premiums	**9.8%**	**10.3%**	**-6.2%**	**0.0%**	**-3.6%**	**27.6%**	**19.6%**
Overall technical account result/Earned premiums	**3.1%**	**5.4%**	**6.3%**	**4.4%**	**5.4%**	**7.0%**	**3.8%**
Premiums to total non-life premiums ratio (%)	*0.8%*	*1.0%*	*1.1%*	*1.0%*	*0.9%*	*0.8%*	*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 excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 123 million (Euro 121 million in 2004). The ratio to earned premiums was equal to 44.0%, reflecting a slight increase compared to 43.4% of 2004.

Operating expenses were equal to Euro 92 million (Euro 86 million in 2004) 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 were equal to 32.8% of the premiums, slightly increasing compared to 32.3% of 2004.

The **technical balance for direct business** was positive at Euro 40 million (Euro 60 million in 2004).

Considering investment income, the **direct technical account result** was equal to Euro 55 million (Euro 77 million in 2004).

Taking the strongly negative contribution of the reinsurance balance into due account, the **overall technical account result** was positive at Euro 11 million (Euro 20 million in 2004); the incidence on premiums decreased from 7.0% of 2004 to 3.8% of 2005.

SURETYSHIP

Suretyship insurance, which is similar to a performance guarantee, protects the beneficiary from the risk of non-execution of a bond that the contracting party takes on within a contract or a provision.

Premiums for direct domestic business by the 50 companies operating in this class, after the decrease observed in 2003 and 2004, increased in 2005 by 3.4% to Euro 453 million. Premium incidence for this class on the total of non-life premiums (1.2%) was in line with value observed in 2004.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 248 million (Euro 264 million in 2004), with a 5.9% decrease; the ratio to earned premiums was equal to 56.4%, reflecting a decrease compared to 63.6% of 2004.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 219 million (247 in 2004), with a 11.5% decrease. The ratio to earned premiums fell from 59.6% of 2004 to 49.7% of 2005.

Operating expenses were equal to Euro 140 million, stable compared to 2004, 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 were equal to 31.0% of premiums, reflecting a slight decrease compared to 31.7% of 2004.

The **technical balance for direct business** was positive at Euro 46 million (Euro 3 million in 2004).

Considering investment income, the **direct technical account result** was positive at Euro 74 million (Euro 28 million in 2004).

SURETYSHIP
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	459	433	483	505	486	438	453
Changes in premiums reserves (-)	38	2	18	-1	34	24	13
Incurred claims (-):	137	168	213	254	397	247	219
- incurred claims cost for the current accident year (-)	172	197	202	270	419	264	248
- excess/shortfall of reserves for those claims incurred in previous accident years	35	29	-11	16	22	17	29
Balance of other technical items	-29	-30	-33	-40	-26	-25	-35
Operating expenses (-)	135	127	139	152	145	139	140
Direct technical balance	**120**	**106**	**80**	**60**	**-116**	**3**	**46**
Investment income	25	26	21	19	25	25	28
Direct technical account result	**145**	**132**	**101**	**79**	**-91**	**28**	**74**
Reinsurance results and other items	-56	-34	-7	-2	104	-6	-30
Overall technical account result	**89**	**98**	**94**	**77**	**13**	**22**	**44**
Annual % changes in premiums	-12.4%	-5.7%	11.6%	4.6%	-3.9%	-9.9%	3.4%
Combined ratio	61.9%	68.2%	74.5%	80.1%	117.7%	91.4%	80.7%
- Expense ratio	29.4%	29.3%	28.7%	30.0%	29.9%	31.7%	31.0%
- Loss ratio:	32.5%	38.9%	45.8%	50.0%	87.8%	59.6%	49.7%
- Loss ratio for the current accident year	40.9%	45.7%	43.5%	53.4%	92.8%	63.6%	56.4%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	8.4%	6.9%	-2.3%	3.3%	5.0%	4.0%	6.7%
Technical balance/Earned premiums	**28.5%**	**24.5%**	**17.1%**	**11.8%**	**-25.7%**	**0.6%**	**10.4%**
Technical account result/Earned premiums	**34.5%**	**30.7%**	**21.6%**	**15.5%**	**-20.2%**	**6.7%**	**16.9%**
Overall technical account result/Earned premiums	**21.1%**	**22.8%**	**20.3%**	**15.3%**	**2.9%**	**5.4%**	**10.0%**
Premiums to total non-life premiums ratio (%)	*1.7%*	*1.6%*	*1.6%*	*1.6%*	*1.4%*	*1.2%*	*1.2%*

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

Taking the reinsurance balance into account, the **overall technical account result** was positive at Euro 44 million (Euro 22 million in 2004), equal to 10.0% of premiums (5.4% in 2004).

MISCELLANEOUS FINANCIAL LOSS

Miscellaneous financial loss insurance covers the insured from risks connected with the reduction of wealth owing to non-receipt of income, unforeseen expenditures and unexpected losses of value.

Premiums for direct domestic business by the 80 companies operating in this class continued to increase, amounting to Euro 420 million, in considerable growth (+25.5%) compared to 2004; the significant development in this class was favoured by the offer of risk covers linked to road circulation (as the withdrawal of one's driving licence and the collateral guarantees linked to motor insurance). Premium incidence for this class on total non-life premiums was slightly up (1.2% in 2005, against 0.6% in 1999).

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 170 million (Euro 128 million in 2004), with a 33.3% increase; the ratio to earned premiums was equal to 50.4%, reflecting an increase compared to 47.0% in 2004.

MISCELLANEOUS FINANCIAL LOSS
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	151	163	175	235	275	334	420
Changes in premiums reserves (-)	7	19	7	29	36	62	81
Incurred claims (-):	85	202	88	86	126	93	163
- incurred claims cost for the current accident year (-)	88	197	99	103	151	128	170
- excess/shortfall of reserves for those claims incurred in previous accident years	3	-5	11	17	25	35	7
Balance of other technical items	0	-4	-2	-5	-9	-4	-6
Operating expenses (-)	56	53	56	71	79	98	134
Direct technical balance	**3**	**-115**	**22**	**44**	**25**	**77**	**36**
Investment income	4	6	7	6	8	9	16
Direct technical account result	**7**	**-109**	**29**	**50**	**33**	**86**	**52**
Reinsurance results and other items	19	111	1	-14	4	-40	-18
Overall technical account result	**26**	**2**	**30**	**36**	**37**	**46**	**34**
Annual % changes in premiums	8.8%	8.0%	7.6%	34.2%	17.0%	21.7%	25.5%
Combined ratio	96.4%	173.9%	84.3%	71.9%	81.8%	63.6%	80.0%
- Expense ratio	37.3%	32.6%	32.2%	30.4%	28.9%	29.4%	31.9%
- Loss ratio:	59.1%	141.3%	52.1%	41.5%	52.9%	34.2%	48.1%
- Loss ratio for the current accident year	60.9%	137.7%	58.8%	49.9%	63.3%	47.0%	50.4%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	1.8%	-3.6%	6.8%	8.4%	10.5%	12.8%	2.3%
Technical balance/Earned premiums	**1.9%**	**-80.3%**	**13.3%**	**21.5%**	**10.5%**	**28.2%**	**10.7%**
Technical account result/Earned premiums	**4.7%**	**-75.8%**	**17.3%**	**24.2%**	**13.8%**	**31.6%**	**15.3%**
Overall technical account result/Earned premiums	**18.0%**	**1.4%**	**17.6%**	**17.4%**	**15.3%**	**16.8%**	**10.0%**
Premiums to total non-life premiums ratio (%)	*0.6%*	*0.6%*	*0.6%*	*0.7%*	*0.8%*	*0.9%*	*1.2%*

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 excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 163 million (Euro 93 million in 2004) with a 74.8% increase. The ratio to earned premiums was equal to 48.1%, increasing from 34.2% in 2004.

Operating expenses were equal to Euro 134 million (Euro 98 million in 2004) 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 were equal to 31.9% of premiums, increasing from to 29.4% in 2004.

The **technical balance for direct business** was positive at Euro 36 million (Euro 77 million in 2004).

Considering investment income, the **direct technical account result** was positive at Euro 52 million (Euro 86 million in 2004).

Taking the reinsurance balance into account, the **overall technical account result** was positive at Euro 34 million (Euro 46 million in 2004); the incidence on premiums was equal to 10.0% (16.8% in 2004).

LEGAL EXPENSES

Legal expenses insurance guarantees the insured in defending own interests; in particular it covers legal and expert-opinion expenses.

Premiums for direct domestic business by the 79 insurance companies operating in this class were equal to Euro 228 million in 2005, with growth (11.3%) in line with that recorded in 2003 and 2004; the incidence on total non-life premiums was equal to 0.6% in 2005 (0.4% in 1999).

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 68 million (Euro 64 million in 2004), with a 7.1% increase; the ratio to earned premiums was equal to 31.4%, a slight decrease compared to 32.4% in 2004.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for claims incurred in previous accident years, was equal to Euro 67 million, the same as in 2004. The ratio to earned premiums was equal to 31.0%, down from 34.4% in 2004.

Operating expenses were equal to Euro 86 million (Euro 81 million in 2004) 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 were equal to 37.7% of premiums, slightly decreasing compared to 39.5% in 2004.

The **technical balance for direct business** was positive at Euro 61 million (Euro 45 million in 2004).

Considering investment income, the **direct technical account result** was positive at Euro 67 million (Euro 52 million in 2004).

LEGAL EXPENSES
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	110	126	144	164	184	205	228
Changes in premiums reserves (-)	7	7	7	7	9	8	11
Incurred claims (-):	31	31	38	52	57	68	67
- incurred claims cost for the current accident year (-)	35	38	41	45	55	64	68
- excess/shortfall of reserves for those claims incurred in previous accident years	4	7	3	-7	-2	-4	1
Balance of other technical items	0	-1	-2	-3	-3	-3	-3
Operating expenses (-)	46	52	56	64	71	81	86
Direct technical balance	**26**	**35**	**41**	**38**	**44**	**45**	**61**
Investment income	4	5	5	5	6	7	6
Direct technical account result	**30**	**40**	**46**	**43**	**50**	**52**	**67**
Reinsurance results and other items	-1	-1	-1	0	-4	3	-6
Overall technical account result	**29**	**39**	**45**	**43**	**46**	**55**	**61**
Annual % changes in premiums	12.3%	14.2%	13.8%	14.4%	11.8%	11.7%	11.3%
Combined ratio	71.5%	67.1%	66.6%	71.8%	71.1%	73.9%	68.7%
- Expense ratio	41.8%	41.3%	38.9%	38.7%	38.6%	39.5%	37.7%
- Loss ratio:	29.6%	25.7%	27.7%	33.1%	32.4%	34.4%	31.0%
- Loss ratio for the current accident year	33.9%	31.9%	29.8%	28.9%	31.4%	32.4%	31.4%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	4.3%	6.2%	2.1%	-4.2%	-1.0%	-2.0%	0.5%
Technical balance/Earned premiums	**24.8%**	**29.2%**	**29.6%**	**24.1%**	**25.2%**	**23.1%**	**27.8%**
Technical account result/Earned premiums	**29.2%**	**33.5%**	**33.4%**	**27.6%**	**28.6%**	**26.6%**	**30.9%**
Overall technical account result/Earned premiums	**27.8%**	**32.8%**	**32.7%**	**27.2%**	**26.6%**	**27.7%**	**28.2%**
Premiums to total non-life premiums ratio (%)	*0.4%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.6%*	*0.6%*

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

Taking the marginal contibution of the reinsurance balance into account, the **overall technical account result** was positive at Euro 61 million (Euro 55 million in 2004), equal to 28.2% of premiums (27.7% in 2004).

ASSISTANCE

Assistance insurance guarantees the insured in difficulty, through an obligation to assist for the insurer.

Premiums for direct domestic business by the 76 insurance companies operating in this class were equal to Euro 324 million in 2005 (+13.2% compared to 2004), representing 0.9% of the total of non-life premiums, substantially stable since 1999.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 110 million (Euro 102 million in 2004), with a 8.5% increase; the ratio to earned premiums was equal to 35.7%, a slight increase compared to 36.2% in 2004.

ASSISTANCE
Euro million

	1999	2000	2001	2002	2003	2004	2005
Gross written premiums	183	203	215	240	257	286	324
Changes in premiums reserves (-)	2	5	3	5	5	5	15
Incurred claims (-):	67	73	75	93	96	99	104
- incurred claims cost for the current accident year (-)	68	73	78	87	98	102	110
- excess/shortfall of reserves for those claims incurred in previous accident years	1	0	3	-6	2	3	6
Balance of other technical items	-6	-2	-2	-2	-2	-4	-3
Operating expenses (-)	61	63	67	75	80	88	105
Direct technical balance	**47**	**60**	**68**	**65**	**74**	**90**	**97**
Investment income	2	3	2	2	2	4	1
Direct technical account result	**49**	**63**	**70**	**67**	**76**	**94**	**98**
Reinsurance results and other items	-13	-16	-18	-16	-18	-17	-15
Overall technical account result	**36**	**47**	**52**	**51**	**58**	**77**	**83**
Annual % changes in premiums	3.6%	11.3%	5.6%	11.9%	7.0%	11.2%	13.2%
Combined ratio	70.3%	67.5%	66.6%	70.7%	69.2%	66.1%	66.0%
- Expense ratio	33.5%	31.0%	31.4%	31.4%	31.2%	30.9%	32.3%
- Loss ratio:	36.8%	36.5%	35.2%	39.3%	37.9%	35.2%	33.7%
- Loss ratio for the current accident year	37.5%	36.8%	36.9%	37.1%	38.8%	36.2%	35.7%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	0.7%	0.3%	1.7%	-2.2%	0.9%	1.0%	2.0%
Technical balance/Earned premiums	**26.1%**	**30.3%**	**31.9%**	**27.5%**	**29.2%**	**32.1%**	**31.5%**
Technical account result/Earned premiums	**27.3%**	**31.5%**	**32.9%**	**28.3%**	**30.3%**	**33.3%**	**31.6%**
Overall technical account result/Earned premiums	**19.8%**	**23.8%**	**24.5%**	**21.5%**	**22.8%**	**27.3%**	**26.9%**
Premiums to total non-life premiums ratio (%)	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.8%*	*0.8%*	*0.9%*

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

Other non-life insurance classes

The **incurred claims cost for the financial year**, which include if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 104 million (Euro 99 million in 2004), with a 5.2% increase. The ratio to earned premiums was equal to 33.7%, down from 35.2% in 2004.

Operating expenses were equal to Euro 105 million (Euro 88 million in 2004) 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 were equal to 32.3% of premiums (30.9% in 2004).

The **technical balance for direct business** was positive at Euro 97 million (Euro 90 million in 2004).

Considering investment income, the **direct technical account result** was positive at Euro 98 million (Euro 94 million in 2004).

Taking the reinsurance balance into account, the **overall technical account result** was positive at Euro 83 million (Euro 77 million in 2004), equal to 26.9% of premiums (27.3% in 2004).

Reinsurance

In 2005 overall premiums for indirect domestic business declined compared to the previous year, confirming the presence of "soft" market conditions. In 2004 professional reinsurance registered a positive result for the financial year but inferior to that of the previous year.

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	5,487	-7.5%	5.1%
2005*	5,025	-8.4%	4.4%

(*) ANIA estimate.

PROFESSIONAL REINSURERS INDIRECT PREMIUMS
Euro million

PROFESSIONAL REINSURERS	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	1,857	1.6%	33.8%
2005*	1,627	-12.4%	32.4%

(*) ANIA estimate.

Indirect premiums, that is the total of reinsurance premiums collected by companies operating in Italy, were equal to Euro 5,025 million, representing a 8.4% decrease compared to 2004. The ratio of indirect premiums to total, direct and indirect, premiums was equal to 4.4% in 2005 (5.1% in 2004).

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 1,627 million, representing a 12.4% decrease compared to 2004; this result reflects "soft" conditions in the reinsurance market. The market share of professional reinsurers of overall indirect business decreased from 33.8% in 2004 to 32.4% in 2005.

The timeframe in which reinsurance operations are closed only enable the final data, balance sheet and income statement, for 2004 to be presented.

The technical account result for the non-life and life classes, net of retroceded premiums, was positive at Euro 196 million (Euro 209 million in 2003), equal to 13.7% of premiums (15.0% in 2003).

The result for the financial year was positive at Euro 169 million (Euro 257 million in 2003); the incidence on premiums recorded a strong decrease (11.8% against 18.5% in 2003).

PROFESSIONAL REINSURERS
Euro million

INCOME STATEMENT*	1999	2000	2001	2002	2003	2004
Technical account						
Indirect premiums	1,135	1,447	1,356	1,638	1,390	1,429
Changes in premiums reserves (-)	193	230	196	197	88	72
Investment income	159	219	176	201	277	210
Incurred claims (-)	760	1,083	934	1,146	998	983
Operating expenses (-)	339	425	404	445	364	373
Balance on other profits and losses	7	-11	-12	-2	-8	-15
Balance	**9**	**-83**	**-14**	**49**	**209**	**196**
Non-Technical account						
Profits	33	32	21	25	44	29
Balance on other profits and losses	-34	-20	-22	-6	-16	-10
Balance on ordinary activities	8	-71	-15	68	237	215
Balance on extraordinary activities	-151	109	-1	12	54	-10
Taxes on income (-)	9	3	0	20	34	36
Result for the year	**-152**	**35**	**-16**	**60**	**257**	**169**

(*) Technical items net of cessions and retrocessions.

PROFESSIONAL REINSURERS
Euro million

BALANCE SHEET	1999	2000	2001	2002	2003	2004
Liabilities						
Shareholder's equity	424	457	449	558	708	582
Technical reserves	4,896	5,471	5,874	5,837	5,766	5,819
Funds and deposits from reinsurers	305	431	465	424	425	413
Debts and other liabilities	1,424	1,044	1,094	1,246	1,127	1,180
Total	**7,049**	**7,403**	**7,883**	**8,065**	**8,026**	**7,994**
Assets						
Intangible assets	295	294	267	261	271	191
Investments	4,565	5,109	5,469	5,483	5,429	5,644
Technical reserves from reinsurers	1,084	1,196	1,260	1,190	1,136	1,086
Amounts owed by debtors	630	590	632	795	820	789
Miscellaneous	475	214	255	336	370	285
Total	**7,049**	**7,403**	**7,883**	**8,065**	**8,026**	**7,994**

Human resources and the operational area

NUMBER OF STAFF

YEAR	ADMIN.	SALES	TOTAL
1999	38,481	4,141	42,222
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	37,275	2,830	40,105
2005	37,016	2,908	39,924

TOTAL COSTS RELATING TO STAFF
Euro million

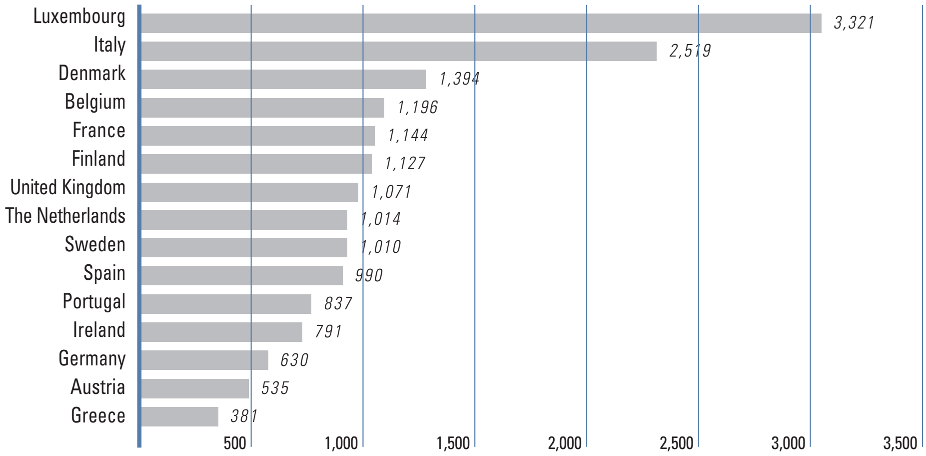
YEAR	ADMIN.	SALES	TOTAL
1999	2,135	145	2,280
2000	2,201	155	2,356
2001	2,171	142	2,313
2002	2,119	117	2,236
2003	2,268	115	2,383
2004	2,379	129	2,508
2005	2,457	142	2,599

The number of insurance companies' employees registered a slight decrease in 2005.

STAFF

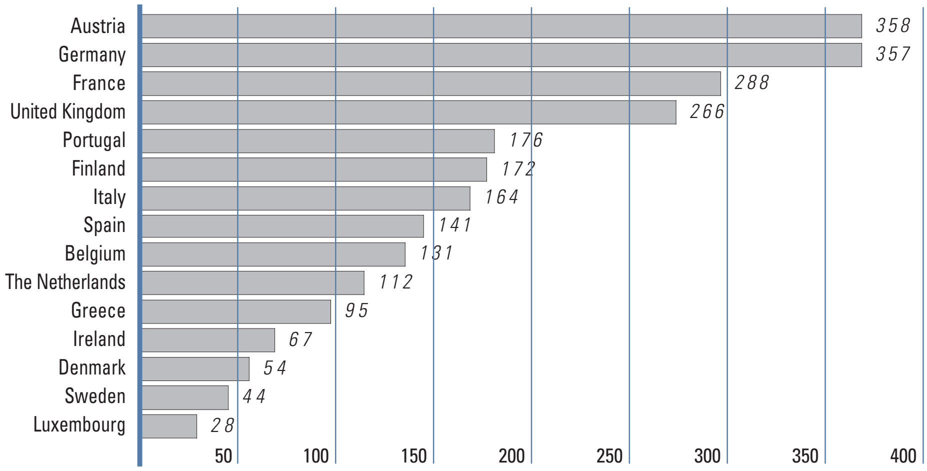
At the end of 2005 the number of staff employed by insurance companies totalled 39,924 reflecting a 0.5% decrease compared to 2004, when the number increased by 2.1%. Administrative staff, including managers, totalled 37,016 with a slight decrease (-0.7%) compared to 2004 whereas sales agents registered a 2.8% increase. Between 2004 and 2005 the overall expense for the staff increased by 3.6%. The cost per worker, equal to Euro 65,100, increased by 4.1%. Between 1999 and 2005 the number of staff decreased by 0.9%, while total staff costs increased by 2.2%; in the same period, the cost per employee increased by 3.2%.

PREMIUMS PER EMPLOYEE IN E.U. (15) COUNTRIES - 2004
Euro (000's)



Source: CEA.

EMPLOYEES PER COMPANY IN E.U. (15) COUNTRIES - 2004



Source: CEA.

In the life sector bank branches strengthened their position with above-average growth; premiums collected through agents and direct sales increased less rapidly. In the non-life sector agents continued to represent the main sales channels, despite slower growth than in years past.

LIFE BUSINESS

In 2005 all distribution channels were characterised by an increase in the demand for life products, except financial advisers, who continued to lose market share (Table 1).

Premiums written through bank branches registered a very positive result (15.8%), in line with the average growth observed in the five years from 2001 to 2005 (15.7%); the incidence on the total market rose further, from 58.6% in 2004 to 60.7% in 2005.

In 2005 the growth rate of the distribution of life products through agencies was equal to 9.7%, higher than average for the five years. The weight of this channel on the total was equal to 18.2%, a value that is substantially stable since 2001.

The sale of life products through financial advisers has decreased for three consecutive years (-10.1% in 2005); their share of the total fell from 11.2% in 2003 to 7.6% in 2005.

After years of strong growth, collection through direct sales slowed in 2005, so that this channel's share of the total showed a slight decrease.

TABLE 1 - DISTRIBUTION CHANNELS ANALYSIS - YEARS 2001-2005

LIFE BUSINESS

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean	Annual change (%)					Mean change (%)
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	(2001-2005)	2001	2002	2003	2004	2005	(2001-2005)
Bank branches	28,353	31,113	36,980	38,479	44,566	61.2	56.3	58.9	58.6	60.7	***59.1***	31.7	9.7	18.9	4.1	15.8	***15.7***
Agents	8,293	10,864	11,529	12,176	13,353	17.9	19.6	18.3	18.6	18.2	***18.5***	-22.8	31.0	6.1	5.6	9.7	***4.4***
Direct sales	4,077	4,937	6,815	8,248	9,136	8.8	8.9	10.9	12.6	12.4	***10.7***	19.2	21.1	38.0	21.0	10.8	***21.7***
Financial advisers	5,189	7,903	6,977	6,250	5,618	11.2	14.3	11.2	9.5	7.6	***10.8***	38.8	52.3	-11.7	-10.4	-10.1	***8.5***
Brokers	417	477	479	474	797	0.9	0.9	0.7	0.7	1.1	***0.9***	16.5	14.3	0.5	-0.9	67.7	***17.3***
Total	**46,329**	**55,294**	**62,780**	**65,627**	**73,470**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	***100.0***	**16.5**	**19.4**	**13.5**	**4.5**	**12.0**	***13.1***

Insurance distribution

As to the distribution of the single life products in the different distribution channels (Table 2), for class I policies (insurances on human life length) distribution incidence through bank branches was equal to 57.7% and through agents was equal to 25.2%, both of them up slightly compared to 2004. By contrast direct sales' market share decreased, moving from to 13.2% in 2004 to 11.6% in 2005.

For class III policies (unit and index-linked) collection through bank branches and financial advisers prevailed (with market shares, respectively, equal to 77.5% and 14.5%). Compared to 2004, bank branches increased their premiums collection whereas financial advisers registered a moderate decrease. Distribution through agencies remained relatively low (7.0%).

Bank branches and direct sale were two of the main collection channels for pure capitalisation policies (class V), with about 37% of premium collection for each channel. Agents' share was slightly higher than 20%, reflecting a decrease compared to 2004.

TABLE 2
BREAKDOWN OF LIFE MARKET BY DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2005

CLASSES	AGENTS	BROKERS	BANK BRANCHES	FINANCIAL ADVISERS	DIRECT SALES	TOTAL
INDIVIDUAL POLICIES						
I - Life	25.4	0.4	60.2	4.5	9.5	100.0
III - Linked	7.0	0.0	77.5	14.5	1.0	100.0
IV - Healthcare	81.1	0.7	8.6	3.7	5.9	100.0
V - Capitalization	17.2	1.9	51.0	2.8	27.1	100.0
VI - Pension funds	58.2	6.7	18.3	0.0	16.8	100.0
Ind. pens. schemes (*)	58.6	0.1	17.7	17.7	5.9	100.0
TOTAL INDIVIDUAL	***17.7***	***0.5***	***65.0***	***8.3***	***8.5***	***100.0***
GROUP POLICIES						
I - Life	21.5	13.7	18.1	0.9	45.8	100.0
III - Linked	0.0	0.0	3.4	0.0	96.6	100.0
IV - Healthcare	0.1	20.5	79.3	0.0	0.1	100.0
V - Capitalization	27.0	5.6	9.6	0.1	57.7	100.0
VI - Pension funds	7.0	0.0	1.9	0.6	90.5	100.0
TOTAL GROUP	***23.9***	***7.9***	***12.1***	***0.4***	***55.7***	***100.0***
TOTAL POLICIES						
I - Life	25.2	1.2	57.7	4.3	11.6	100.0
III - Linked	7.0	0.0	77.5	14.5	1.0	100.0
IV - Healthcare	3.5	19.6	76.4	0.2	0.3	100.0
V - Capitalization	20.1	3.0	38.8	2.0	36.1	100.0
VI - Pension funds	19.1	1.6	5.8	0.5	73.0	100.0
Ind. pens. schemes (*)	58.6	0.1	17.7	17.7	5.9	100.0
TOTAL LIFE CLASSES	***18.2***	***1.1***	***60.7***	***7.6***	***12.4***	***100.0***

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

But agents remained the most active channel in the sale of individual level pension products (mostly IPP but also subscriptions to class VI pension funds), reaching for both of them a market share higher than 58%. Most of the sales of class VI products with group subscription come through direct sales.

NON-LIFE BUSINESS

In 2005, for the fifth consecutive year, the share of agents in total collection registered a slight decrease (from 85.3% in 2004 to 84.4% in 2005), as a direct consequence of a modest growth registered in this last year (1.5%); this value was the lowest since 2001.

Brokers remained the second distribution channel for non-life products with 7.7% of the overall premium collection, a value substantially stable in the last five years; in 2005 the growth rate was equal to 4.2%, higher than total non-life growth and in line with the values registered by this channel in the last two years.

Direct sale, thanks to a strong increase registered in the last years in the internet and telephone channels (the average yearly growth in the last five years was equal to 33.4%), continued to increase its share of the total, going progressively from 4.8% in 2001 to 6.3% in 2005.

The share of bank branches and financial advisers was very modest and equal respectively to 1.5% and 0.1% of the total; financial advisers' market share remained stable in the last five years.

*TABLE 3 - **DISTRIBUTION CHANNELS ANALYSIS - YEARS 2001-2005***

NON-LIFE CLASSES

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean	Annual change (%)					Mean change (%)
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	(2001-2005)	2001	2002	2003	2004	2005	(2001-2005)
Agents	25,976	27,876	29,165	30,235	30,677	86.8	86.1	85.2	85.3	84.4	***85.6***	5.7	7.3	4.6	3.7	1.5	***4.5***
Brokers (*)	2,215	2,446	2,549	2,674	2,786	7.4	7.5	7.5	7.6	7.7	***7.5***	24.1	10.4	4.2	4.9	4.2	***9.3***
Direct sales	1,436	1,747	2,048	2,113	2,274	4.8	5.3	6.0	6.0	6.3	***5.7***	9.6	21.6	17.2	3.2	7.6	***11.7***
of which: internet and phone sales	*329*	*503*	*737*	*856*	*940*	*1.1*	*1.5*	*2.2*	*2.4*	*2.6*	***2.0***	*47.6*	*52.7*	*46.6*	*16.2*	*9.8*	***33.4***
Bank branches	269	312	422	360	543	0.9	1.0	1.2	1.0	1.5	***1.1***	61.0	15.8	35.2	-14.7	51.0	***26.6***
Financial advisers	30	34	29	29	28	0.1	0.1	0.1	0.1	0.1	***0.1***	7.4	13.6	-14.7	-1.6	-2.7	***-0.1***
Total	**29,926**	**32,415**	**34,213**	**35,411**	**36,308**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	***100.0***	**7.4**	**8.3**	**5.5**	**3.5**	**2.5**	***5.4***

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

Insurance distribution

More than 90% of premiums in motor insurance classes (third party motor liability and land vehicles) come through agents, 5.5% through direct sale and 2.4% through brokers.

In the other non-life classes agents were the leading channel, except for the transport sector, where brokers and agencies prevailed.

TABLE 4
BREAKDOWN OF NON-LIFE MARKET BY DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2005

CLASSES	AGENTS	BROKERS(*)	BANK BRANCHES	FINANCIAL ADVISERS	AGENCIES IN ECONOMY	OTHER TYPES OF DIRECT SALES			TOTAL
						TELEPHONE SALES	INTERNET	OTHER	
Motor liability	91.7	2.0	1.1	0.0	1.0	2.8	1.4	0.0	100.0
Land vehicles	88.0	4.9	1.1	0.0	2.3	2.5	1.1	0.1	100.0
Total motor	***91.0***	***2.4***	***1.1***	***0.0***	***1.2***	***2.8***	***1.4***	***0.1***	***100.0***
Accident	84.4	7.5	2.8	0.4	3.6	0.6	0.3	0.4	100.0
Sickness	62.2	19.2	2.9	0.7	12.7	0.0	0.0	2.3	100.0
Railway rolling stock	37.0	7.1	0.0	0.0	55.9	0.0	0.0	0.0	100.0
Aircraft	28.0	48.2	0.0	0.0	23.8	0.0	0.0	0.0	100.0
Ships	14.4	74.1	0.0	0.0	11.4	0.0	0.0	0.1	100.0
Goods in transit	42.8	49.8	0.1	0.0	6.5	0.0	0.2	0.6	100.0
Fire and natural forces	74.8	12.2	3.4	0.1	9.4	0.0	0.0	0.1	100.0
Other damage to property	78.7	15.4	1.5	0.1	4.2	0.0	0.0	0.1	100.0
Aircraft third party liability	20.6	33.0	0.0	0.0	46.4	0.0	0.0	0.0	100.0
Ships third party liability	93.0	3.9	0.2	0.0	2.0	0.5	0.4	0.0	100.0
General third party liability	81.0	13.1	0.6	0.0	5.1	0.0	0.0	0.2	100.0
Credit	78.2	15.2	0.4	0.0	6.2	0.0	0.0	0.0	100.0
Suretyship	83.8	10.6	0.6	0.0	4.9	0.0	0.0	0.1	100.0
Miscellaneous financial loss	70.0	15.2	7.8	0.0	3.9	0.3	0.2	2.6	100.0
Legal expenses	82.5	9.0	1.8	0.0	2.4	3.2	0.8	0.3	100.0
Assistance	78.8	6.3	2.0	0.2	2.9	3.8	1.3	4.7	100.0
Total non-motor	***75.1***	***15.1***	***2.1***	***0.2***	***6.5***	***0.3***	***0.1***	***0.6***	***100.0***
Total non-life classes	**84.4**	**7.7**	**1.5**	**0.1**	**3.5**	**1.7**	**0.8**	**0.3**	**100.0**

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

ITALIAN INSURANCE BUSINESS IN 2006

Total premiums are expected to grow by 3.2% in 2006, significantly less than the 8.7% growth recorded in 2005. It is estimated that premium volume will rise to Euro 113 billion and for the first time touch 8% of Italian GDP.

In the non-life sectors growth is expected to come to 2.7% (2.5% in 2005), with premiums written worth Euro 37.3 billion. Obviously the increase will be affected by the trend in motor liability insurance, which is again forecast to expand only marginally (1.0%), as price rises should again be kept down thanks to the improved technical results for the sector in recent years.

The increase in property insurance premiums (fire and other) should come to around 5%, thanks to the economic upturn and the continuing powerful growth in real estate lending (predicted to rise by 8% in real terms), to which these policies are often linked.

TABLE 3
FORECAST OF ITALIAN INSURANCE PREMIUMS
Euro million

CLASSES	2005 PREMIUMS	2006 PREMIUMS	CHANGE % 2005-2004 (*)	CHANGE % 2006-2005 (*)
Motor liability	18,171	18,352	0.6%	1.0%
Land vehicles	3,155	3,180	0.3%	0.8%
Accident	2,985	3,098	3.4%	3.8%
Sickness	1,716	1,830	8.8%	6.6%
Fire and natural forces	2,287	2,409	6.0%	5.3%
General third party liability	3,116	3,263	3.9%	4.7%
Other damage to property	2,367	2,470	3.4%	4.3%
Other non-life classes	2,512	2,699	9.5%	7.5%
TOTAL NON-LIFE CLASSES	**36,308**	**37,299**	**2.5%**	**2.7%**
Premiums/GDP (%)	*2.56%*	*2.60%*		
Class I - Life	33,870	34,480	12.5%	1.8%
Class III - Linked	26,389	27,577	6.6%	4.5%
Other life classes	13,211	13,947	22.7%	5.6%
TOTAL LIFE CLASSES	**73,470**	**76,004**	**12.0%**	**3.4%**
Premiums/GDP (%)	*5.18%*	*5.30%*		
TOTAL CLASSES	**109,779**	**113,303**	**8.7%**	**3.2%**
Premiums/GDP (%)	*7.74%*	*7.90%*		

(*) Financial balance figures for 2005 and estimated figures for 2006.

Source: ANIA estimates.

Growth in the other sectors should outpace that of 2005, especially in health insurance (6.6%) and the other non-life sectors (7.5%). A contribution to the latter is expected from credit and suretyship insurance, where premiums written could rise quite rapidly because of the upswing in economic activity and possible strains on the supply from banks.

Forecasts for 2006

Life premiums should expand by around 3.5%, with Euro 76 billion in premiums written. Premium growth could benefit from the modest acceleration in disposable income, but at the same time it could be slowed by a pick-up in inflation and real interest rates. Supply policies will play an essential role. The growth forecast is consistent with broad stability of the portion of premiums written at bank branches.

For the individual lines of life insurance business, the forecasts are as follows:

- a slowdown in growth in class I – life insurance – to 1.8% from 12.5% in 2005;
- a slight slowdown in growth in class III – linked policies – to 4.5% from 6.6%.

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.

2005/2006 figures are provisional

Printed in October 2006

Grafica Cristal S.r.l. - Via Raffaele Paolucci, 12/14 - 00152 Roma

ANIA Associazione Nazionale fra le Imprese Assicuratrici
via della Frezza, 70 • 00186 Roma • tel. 06 326881 • fax 06 3227135
piazza San Babila, 1 • 20122 Milano • tel. 02 77641 • fax 02 780870

Ufficio Studi

Servizio Statistiche e Studi Attuariali
via della Frezza, 70 • 00186 Roma • tel. 06 326881 • fax 06 3230565
e-mail: statistico@ania.it • internet: www.ania.it