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ANIA

2012 2013

ITALIAN INSURANCE

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Associazione Nazionale
fra le Imprese Assicuratrici

# ITALIAN INSURANCE
# 2012
# 2013

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# ITALIAN INSURANCE

# 2012 2013

# SUMMARY

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# EXECUTIVE SUMMARY

## THE RESULTS FOR THE YEAR

*Total premium income diminished by 4.6% in 2012…*

Italian insurance companies' direct and indirect premium income from domestic and foreign business, gross of cessions and retrocessions, amounted to Euro 108 billion in 2012, declining by 4.6% after dropping by 11.9% in 2011.

*….with non-life premiums down by 2.8% and life premiums decreasing by 5.5%…*

The contraction was the result of a decline of 2.8% in premiums in the non-life sector, compared with growth of 2.6% in 2011, and a further reduction of 5.5% in life insurance premiums after that of 17.7% in 2011.

*…the overall technical account was positive and equal to Euro 2.8 billion for non-life business and Euro 6.9 billion for life insurance…*

The overall technical account result in the non-life sector was positive to the tune of Euro 2.8 billion and equal to 8.5% of premiums (Euro 106 million and 0.3% in 2011). The life sector registered a positive technical result of Euro 6.9 billion, equal to 10% of premiums, compared with negative figures of Euro 3.3 billion and 4.5% in 2011).

*…a contribution came from the sharp improvement in profits from investments, which totaled Euro 29.2 billion…*

The marked improvement in net profits from investments, which rose from Euro 3.5 billion in 2011 to Euro 29.2 billion, more than offset the increase of 5.7% in claims and benefits paid (net of reinsurance). Consequently, ordinary activity of the life and non-life sectors resulted in profits of Euro 9.4 billion, compared with losses of Euro 5.2 billion in 2011 and Euro 1.4 billion in 2011.

*…overall profit after tax amounted to Euro 5.8 billion (Euro 0.6 billion for the non-life sector and Euro 5.1 billion for the life sector)…*

Net of tax, the industry booked an overall profit of Euro 5.8 billion, against losses totaling Euro 4.4 billion in the two previous years. Profits amounted to Euro 0.6 billion for non-life insurance and Euro 5.1 billion for life insurance, compared with losses of Euro 1.0 billion and Euro 2.6 billion respectively in 2011.

*…Investments totaled Euro 527 billion; Class C booked net unrealized capital gains of about Euro 23 billion…*

The industry's overall investments amounted to Euro 527 billion, representing 87.3% of total assets. The current value of Class C investments at 30 April 2013 amounted to Euro 445 billion (Euro 83 billion in the non-life sector and Euro 362 billion in the life sector); the balance between unrealized capital gains and losses at the same date was positive by about Euro 23 billion, compared with a revaluation surplus of Euro 16 billion at the end of 2012 and a deficit of Euro 30 billion at the end of 2011.

*…the solvency margin grew in absolute terms and is more than double the required minimum…*

Insurance companies' solvency margin at the end of 2012 amounted to Euro 50.4 billion, up by 11% from a year earlier. The available margin was 2.2 times the minimum required by law (equal to Euro 22.7 billion). For the life sector, the available margin (Euro 31.8 billion) was 2.0 times the minimum requirement (Euro 16.0 billion), compared with a cover ratio of 1.74 in 2011. In non-life business the available margin (Euro 18.6 billion) was equal to 2.76 times the minimum requirement (Euro 6.7 billion), compared with a ratio of 2.72 in 2011.

*The Report presents an international comparison of the level of taxation of premiums, which in Italy is higher than in the rest of Europe and has continued to grow as a consequence of fiscal federalism*

The tax burden on insurance premiums in Italy has long been among the highest in Europe. For motor liability insurance, in the last two years the taxation of premiums has increased steadily in Italy consequent to the decisions made at local level by Italian provinces. At the end of April 2013 only nine provinces had not raised the tax rate and only four had lowered it. At the end of December 2012 the tax burden on premiums was 15.0%; before the decisions enacted at local level it had been 12.50%.

## FORECASTS FOR 2013

The projections for 2013 suggest that the recession will last at least until the end of the year. Nevertheless, thanks to the improvement in the financial and stock markets that began in the second half of 2012 and continued, with ups and downs, in the first half of 2013, total premium income is expected to show growth this year after two years of decline. This growth will be due entirely to the life sector, whose premium volume should expand by 15% after contracting by 18% in 2011 and a further 5.5% last year. The premium income of the non-life sector will continue to diminish (-3.5%).

**Total premium income for direct Italian insurance business (life and non-life)** is projected at Euro 114 billion this year, up 8.8% from 2012, lifting its ratio to GDP from 6.8% to 7.3%.

*Total insurance premium income is projected at Euro 114 billion in 2013, rising by 8.8%…*

Premium income from direct business in the **non-life sector** is expected to feel the effects of the recession, with a second consecutive contraction (-3.5% in 2013). The forecast decline will reflect:

*…non-life premiums are projected to contract by 3.5% owing to the protraction of the recession…*

– a marked contraction of 5.5% in premiums in the motor and marine liability insurance sector, which thanks to rising profitability will register a decline in the actual average premium paid by policyholders;
– a more modest contraction of 1.6% in premiums in the other non-life sectors, as a result of the direct impact of the recession. In particular, the sharpest fall (6.5%) is expected to be in the land vehicle sector, owing above all to the further diminution of about 10% in new car sales this year following the 20% drop in 2012. More modest declines are expected in sickness (-2.0%), fire (-1.5%), and accident and other property damage (-1%), while general liability and the other non-life sectors should record modest growth of 0.5%.

Total non-life premium income is thus expected to amount to Euro 34.2 billion in 2013, while in proportion to GDP it should remain the same as in 2012 (2.2%).

In the **life sector**, written premiums should rebound to gain possibly as much as 15% after the 5.5% fall recorded in 2012, owing in part to an expanded and more diversified supply of Class I products marketed through banks and in part to a recovery in Class III policies, which should benefit from the improvement in the financial and stock markets.

*…while those of the life sector are likely to grow by 15%…*

In the first four months of 2013, new life insurance business amounted to Euro 20.6 billion, compared with Euro 16.9 billion in the same period of 2012. The increase involved both Class I products, new business in which gained more than 20%, and Class III products, in which premiums rose by more than 25%.

*…in particular, premium income is expected to grow for Class 1 products by 15% to Euro 60 billion…*

For Class I products, assuming that short-term interest rates (3-month Treasury bills) remain well below 1% as in the first four months and that financial markets remain stable, premium income can be expected to rise by 15% for the year as a whole, from Euro 51 billion to about Euro 60 billion.

*…and for Class III products by 22% to Euro 17 billion…*

For Class III (linked) policies, assuming no major turmoil in the equity and financial markets, it is estimated that premiums will increase by 22% for the year as a whole to a total of nearly Euro 17 billion.

*…Total life premiums are expected to top Euro 80 billion*

Total life sector premium income could thus exceed Euro 80 billion in 2013, with its ratio to GDP rising from 4.5% to 5.1%.

## LIFE INSURANCE – DIRECT ITALIAN BUSINESS

*…Italian households' disposable income registered a further sharp decline…*

Italian households' nominal disposable income fell by 2.2% in 2012 after growing by 2.0% in 2011. This exceptionally large contraction, together with average consumer price inflation of 3.0% for the year, caused households' real purchasing power to slump by nearly 5% last year after declining by 0.6% in 2011.

*…and their propensity to save diminished*

Households' final consumption expenditure, which had grown by 3.0% in 2011, declined by 1.6%, which was less than the drop in disposable income. The upshot was a further reduction of 0.5 percentage points in the household saving rate, which has declined in every year since 2004. The flow of saving fell to 8.2% of disposable income in 2011, the lowest level since 1990.

*Households halved the flow of their financial investment last year…*

In 2012 the net flow of financial investment by Italian households was equal to nearly Euro 16 billion, less than half the previous year's figure of Euro 36 billion and the smallest amount since 1995. This steep drop in investment in financial assets, largely ascribable to households' diminished propensity to save, was offset by an equally marked swing in the net flow of liabilities from Euro +19.7 billion in 2011 to Euro -3.3 billion in 2012.

*…while financial saving showed modest growth*

Financial saving – the difference between the flows of financial assets and liabilities – grew slightly, from about Euro 17 billion to Euro 19 billion (1.2% of nominal GDP).

*…Households invested mainly in bank instruments, investment funds and postal deposits…*

The largest flow of investment went to time deposits (Euro 51 billion, compared with Euro 10 billion in 2011); overall, bank instruments attracted net inflows of Euro 37 billion (Euro 7.5 billion in 2011). There was also growth in net purchases of postal securities (including instruments issued by Cassa Depositi e Prestiti), with inflows of Euro 14.7 billion (Euro 4.2 billion in 2011). The net investment inflow into shares and other equity was slightly larger than in 2011 (Euro 5.7 billion, against Euro 4.6 billion), but net purchases of shares of resident issuers increased more substantially (Euro 7.4 billion, up from Euro 2.6 billion in 2011).

*…and drained resources from Italian government securities, foreign bonds and life insurance reserves*

Italians made net disposals of both short- and longer-term Italian government securities (Euro 27.7 billion, after purchases of Euro 61.5 billion in 2011) and of medium- and long-term bonds of foreign issuers (Euro 24.9 billion, after disposals of Euro 15.3 billion in 2011). Lastly, in 2012 Italian households again drained resources from life insurance reserves, with the net outflows amounting to Euro 5.2 billion (Euro 0.3 billion in 2011), and made further net disposals of Italian investment fund units (Euro 5.9 billion, against Euro 22.8 billion in 2011).

*The stock of financial assets held by households grew thanks to the rise in stock and bond markets*

At the end of 2012 the stock of financial assets held by Italian households amounted to Euro 3,716 billion, up by Euro 160 billion or 4.6% from a year earlier; the increase was driven by the sharp rise in the stock and bond markets during the year. As to the composition of the aggregate portfolio, the portions invested in shares and other equity and investment fund units increased by 1.2 and 0.6 percentage points respectively, while that invested in medium- and long-term foreign securities decreased by 0.6 points. Notwithstanding the life sector's negative net cash flow the portion of household wealth invested in life insurance reserves remained practically unchanged (11.5%).

*Italian households' net wealth amounted to 7.5 times disposable income in 2012*

According to Bank of Italy calculations based on ISTAT data, households' net wealth was equal to 7.5 times disposable income in 2012, somewhat more than in 2011. The modest increase was the result of the rise in share prices and the fall in house prices. Households' net financial wealth was equal to 2.58 times disposable income at the end of 2012, compared with a multiple of 2.38 a year earlier. The ratio of household wealth to disposable income in Italy is still among the highest by international standards.

*Life insurance premiums diminished by 5.5%…*

Premiums from direct Italian business of the 66 companies operating in the life sector totaled Euro 69.7 billion in 2012, down 5.5% after falling 18.0% in 2011. The pace of the decline slowed in the course of 2012 and the last quarter saw an upturn, after more than two years of unremitting contraction. Life premiums made up 66.3% of total life and non-life premiums, about the same proportion as in 2011.

*…the decline involved policies of the traditional type, whose contraction exceeded the growth in linked policies…*

Premiums from Class I policies totaled Euro 51.2 billion, down 9.6% from 2011. In Class V, premium income amounted to Euro 2.8 billion, about 10% less than in 2011. By contrast, premiums from linked policies rose to Euro 13.8 billion (Euro 12.5 billion in 2011), with unit-linked policies accounting for all of the growth.

*…incurred claims grew by 1.4%, chiefly owing to claims paid…*

Life insurance incurred claims, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled Euro 75.0 billion, up 1.4% on 2011 as a result of increases of 23.2% in amounts paid for claims and 1.7% in surrenders.

*...net cash flow was negative by Euro 5 billion…*

Net cash flow, defined as the difference between premiums and incurred claims, was negative by Euro 5.3 billion, whereas in 2011 it had been practically nil (Euro -102 million).

# EXECUTIVE SUMMARY

*…the technical provisions grew by 2.4% to more than Euro 423 billion; the expense ratio fell…*

The technical provisions amounted to Euro 423.4 billion, with an increase of 2.4% (compared with 0.6% in 2011). Operating expenses, which along with administration expenses also include acquisition costs, premium collection costs and costs relating to the organization and operation of the distribution network, amounted to Euro 3.4 billion (Euro 3.8 billion in 2011). The decline of 12.2% was sharper than that in premiums, so that the ratio of expenses to premiums diminished from 5.2% to 4.8%. The decline in the expense ratio was due mainly to the fall in dealer commissions from 3.0% to 2.6%.

*…the technical account was positive by Euro 6.8 billion, thanks to investment profits*

Profits from investments came to Euro 25.3 billion, up from just Euro 3.0 billion in 2011. They enabled the technical account to show a profit of Euro 6.8 billion (against a loss of Euro 3.4 billion in 2011). There was an improvement both in the ratio to premiums (from -4.6% in 2011 to +9.8% in 2012) and in the ratio to technical provisions (from -0.82% to +1.62%).

*The Report provides information on the progress of enrolments in supplementary pension plans*

According to data collected by COVIP, some 5.8 million workers were enrolled in supplementary pension plans as of 31 December 2012, an increase of 5.3% from a year earlier and equal to 22.6% of the 25.6 million persons in employment.

## NON-LIFE INSURANCE – DIRECT ITALIAN BUSINESS

*Non-life premiums fell by 1.9%…*

In 2012 non-life premium income amounted to Euro 35.4 billion, down 1.9% from 2011. Its share of total premiums rose from 33.0% to 33.7%, because life sector premiums diminished more sharply. The ratio of non-life premiums to GDP was 2.3%, about the same as in the previous two years.

*…The combined ratio improved, which together with the growth in investment profits produced a positive overall technical account result of Euro 3 billion*

Given a stable expense ratio, the improvement in the loss ratio caused the combined ratio to fall from 97.9% to 95.8%. Lastly, the return on investment, which doubled compared with 2011, together with a positive contribution from reinsurance after many years of negative results, produced a positive overall technical account result of about Euro 3 billion.

*The Report contains:*

*…information on medical malpractice insurance of healthcare institutions and practitioners…*

The Report presents a detailed analysis of the medical malpractice insurance cover of healthcare institutions and individual physicians. The number of claims filed in 2011 decreased by 6.7% from the previous year, continuing the downtrend that began in 2010, when it declined by 1.0%. Despite the decrease, the number is still one of the highest in the last decade. Over ten years (2001-2011), total premiums in the medical insurance sector recorded average annual growth of 7.3% (5.5% for healthcare institutions and 10.3% for individual practitioners).

*…an estimate of insured losses caused by the May 2012 earthquakes in Emilia Romagna…*

The Report presents an estimate of the insurance industry's exposure to losses from natural catastrophes in 2012. In particular, the earthquakes in Emilia Romagna between 20 and 29 May 2012, among the most destructive in the history of that area not least in terms of economic costs, caused almost Euro 13 billion of damage to local industries. At present, the insurance industry estimates that insured losses from the earthquakes amount to Euro 1.2 billion, of which more than half has already been settled by the market.

This section of the Report also presents a description of the construction of an indicator of the degree of insurance cover of small and medium-sized enterprises and an update on the reform of the regulated professions.

## MOTOR LIABILITY INSURANCE

Total motor liability insurance premiums came to Euro 17.6 billion in 2012, down 1.2% after the 5.2% growth recorded in 2011. The improvement in the technical indicators (above all claims frequency) helped put the sector's accounts back in balance. This in turn affected insurers' prices, which began to come down, especially in the fourth quarter.

*Premiums declined by 1.2%…*

A survey conducted by ANIA using a methodology consistent with that required of insurance companies by the supervisory authority found that the number of vehicles insured in Italy was 40.5 million in 2012, down 1.9%.

*…and with the number of vehicles insured decreasing by 1.9%...*

As a consequence, after an overall rise of 10.7% in 2010 and 2011 the average motor liability premium was practically stable (a rise of just 0.7%) in 2012. And in the first quarter of 2013 premium income fell by 6.1% and the number of vehicles insured by 0.5%, so that overall the average premium diminished by 5.6% with respect to the first quarter of 2012.

*…the average motor liability premium remained practically unchanged; but in the first three months of 2013 it declined by 5.6%*

The total number of claims incurred and reported during the accident year that have given or will give rise to compensation was 2.3 million in 2012, down 15.3%. Claims frequency, defined as the ratio between the number of claims and the number of vehicles exposed to the risk of claim-generating accident (measured on the basis of days of exposure during the year, converted into "vehicle-years"), was 5.64%, considerably lower than in 2011. Including an estimate of claims incurred but not reported, claims frequency in 2012 would be 6.23%, down from 7.21% in 2011.

*The number of claims declined, so claims frequency fell significantly…*

The cost of claims in 2012 amounted to Euro 12.1 billion, 9.9% less than the year before. Given the change in the total number of claims (including those incurred but not yet reported), the average cost of claims was Euro 4,797, a rise of 6.1% from Euro 4,519 the previous year. Excluding claims incurred but not reported and insurers' contributions to the Road Accident Victims Guarantee Fund and other residual items, the average cost of claims incurred in 2012 came to Euro 4,531, against Euro 4,345 in 2011.

*…but the positive effect was limited by a rise in the average claims cost*

**Incurred claims costs,** which in addition to the current generation of claims also includes any excess/shortfall of reserves for claims incurred in previous accident years, came to Euro 13.1 billion, 11.4% less than in 2011. For the fourth year

*The incurred claims costs fell by 11.4%…*

running there was a shortfall of reserves against claims incurred in previous years, amounting to Euro 995 million.

*…resulting in a marked improvement in the loss ratio…*

The decrease in incurred claims costs and the modest rise in premiums for the year improved the loss ratio by over 10 percentage points, from 84.5% to 74.1%.

*…and even though the ratio of operating expenses to premiums rose slightly…*

**Operating expenses** – consisting in administration expenses relating to technical management of insurance business, contract acquisition, premium collection and distribution organization and management – amounted to Euro 3.2 billion, the same as in 2011. Owing to the modest decline in premium income, the ratio to premiums rose from 18.2% to 18.4%. The rise essentially reflected an increase in acquisition costs from 3.3% to 3.6%. Commissions and administration costs, which are generally calculated in proportion to written premiums, were both broadly stable.

*…the technical account result was positive*

The technical balance on direct business was positive by Euro 1.1 billion, less than the cumulative loss over the last three years, which exceeded Euro 3.5 billion. Factoring in investment profits of Euro 800 million, the technical account result was positive by Euro 1.9 billion, compared with negative results of Euro 500 million in 2011 and Euro 700 million in 2010.

*The Report includes special sections on:*

*the impact of the number and cost of personal injury claims on total damages, and in particular the positive effect of the new law on very mild injuries…*

A special section of this year's Report offers an analysis of the cost of personal injuries, which account for over two-thirds of motor liability compensation, or some Euro 8.3 billion in 2012. In detail, Euro 2.7 billion consisted in payments for permanent disability of between 1% and 9%, and Euro 5.6 billion for more severe injury or death. The percentage of motor liability claims involving personal injury fell significantly last year, from 22.4% to an estimated 20.7%. Last year insurers indemnified some 340,000 claims for very mild disabilities (1%-2%), compared with 450,000 in 2011. In part this was thanks to Law 27/2012, which introduced a rule to combat the ever more frequent speculative exaggeration of personal injury claims with very minor disability, and in particular whiplash injuries. The law provides that indemnification for permanent micro-disability is subject to compulsory verification by diagnostic instrument. Still, it must be borne in mind that the injured parties have up to two years to file their claims, while the orientation of the courts, which is often decisive for the success of legislation, is not yet clear.

Another study correlates insurance fraud with legal cases involving motor liability claims, in particular civil litigation. A geographical breakdown shows that an extremely large portion of the civil cases pending before justices of the peace is concentrated in the South (the three regions of Campania, Puglia and Calabria account for over 75% of the national total), where the percentage of unfavorable outcomes for the insurer is also higher than average. For the regular courts, by contrast, there is no particular geographical pattern.

*…the performance of the direct indemnity system six years on…*

As in years past, a specific part of the Report is given over to drawing a balance on the application of the direct indemnity system, which has now been in effect for six years. Speed of settlement of motor liability claims has increased: the percentage of claims settled in the year they were incurred has risen from 65.2% in 2006 to 70.3% in 2012.

There is an extended discussion of the implementation of the provisions on motor liability insurance, insurance mediation, and consumer protection introduced by the "liberalization" decree, converted with substantial amendments into Law 27/2012. Articles 29 to 34-ter on motor liability insurance contain rules to combat insurance fraud, the exaggeration of very mild personal injuries and failure to take out compulsory insurance, rules to facilitate and encourage price comparison between companies, and two questionably worded provisions on policy pricing.

*…the state of implementation of the "liberalization" decree…*

Ample space is also dedicated to the changes introduced by Decree Law 179/2012 – the "Grow Italy-bis" decree, converted with numerous amendments into Law 221/2012 and enacting "Further urgent measures for growth". The Report describes the state of advancement of the implementing provisions relating to motor liability insurance, the assignment to IVASS of powers for the prevention of fraud, and the draft implementing decree for the basic motor liability policy contract designed to improve comparability of motor insurance policy offers and facilitate policyholder mobility.

*…the new provisions of the "Grow Italy-bis" decree*

*There are also sections on…*

*…the initiatives of the ANIA Road Safety Foundation…*

The Report details the series of initiatives undertaken by the ANIA Foundation for Road Safety and the ANIA-Consumers Forum.

The Road Safety Foundation focused on three areas in which public institutions should concentrate their efforts to improve road safety: a) stepping up maintenance and safety upgrading of infrastructures, using the proceeds of traffic violation fines, at no additional cost to government or citizens; b) fostering action to improve driving skills and quality, considering that four-fifths of accidents are caused by driver error; and c) equipping commercial vehicles driven by professional drivers with additional safety devices. In particular, the Foundation advocates compulsory "alcohol lock" devices, which block ignition if the driver is not sober, on commercial vehicles, on the cars of repeat drunk driving offenders, and on company fleet cars for purposes of ISO certification of transport safety.

*…and the ANIA-Consumers Forum*

The ANIA-Consumers Forum also dealt with numerous issues last year.

On the basis of the common position in favor of fostering the practice of conciliation in insurance disputes, the Forum called for imparting new impetus to the conciliation procedure envisaged by the agreement between ANIA and the consumer associations. Under the agreement, signed on 17 March 2012, ANIA will restructure and upgrade the IT application for contacts between conciliators – to enable remote activation of the procedure by consumers – and work to foster the formation of a network of conciliators, simplifying its operation.

## THE REGULATORY FRAMEWORK

*The Report discusses:*

*…the institution of IVASS…*

Article 13 of Law 135/2012, converting Decree Law 95/2012, instituted a new insurance supervisory authority, IVASS (Istituto per la vigilanza sulle assicurazioni) to take the place of ISVAP (Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo). The aim is full integration of insurance supervision through closer coordination with banking supervision.

*…the Italian supervisory authority's response to questions on the application of the provisions against interlocking directorates…*

Following the enactment of Law 214/2011, Article 36 of which prohibits persons holding certain corporate offices in companies belonging to the financial and insurance sector from holding similar positions in competitor companies, the supervisory authorities drafted a joint document in response to the many questions they had received concerning the article's application.

*…on the provisions of the Grow Italy-bis decree on dormant insurance policies…*

With a view to overcoming the disparity of treatment between purchasers of banking or financial products and beneficiaries of life policies in connection with rules for dormant accounts and policies, the first draft of Decree Law 179/2012 (the so-called Grow Italy-bis decree) amended the second paragraph of Article 2952 of the Civil Code concerning the lapsing of rights deriving from insurance contracts, extending the limitation period to ten years for all types of life and non-life contracts and applying this new rule to reinsurance contracts as well.

*…on the procedure for recovering tax credits in relation to the tax on the stock of mathematical provisions…*

Law 228/2012 (the Stability Law for 2013) makes substantial changes to the rules governing tax treatment of life insurance mathematical provisions, which had already been amended several times since they were first introduced by Decree Law 209/2002. The 2013 Stability Law raises the tax rate on life mathematical provisions and introduces a ceiling on the total amount of tax credit, calibrated on the stock of such provisions, after which the amount of tax to be paid is reduced.

*…and on the European Court ruling on VAT levied on individual portfolio management services*

In a ruling that caused some surprise, the European Court of Justice, issuing its judgment in Case C.44/11 on 19 July 2012, upheld the applicability of value-added tax to individually managed portfolios. However, the Court derived this principle indirectly, based on the assumption that the exemption explicitly granted by Directive 2006/112 for portfolios managed on a collective basis implies that individually managed portfolios are subject to VAT.

Insurance companies were included among the categories of persons from which the Revenue Agency and the Finance Police can require data, information and documents relating to any and all financial accounts or transactions with customers (Legislative Decree 98/2011, Article 23, paragraphs 24 and 25).

# THE ITALIAN INSURANCE MARKET: KEY FIGURES 2012

# 1

# THE ITALIAN INSURANCE MARKET: KEY FIGURES 2012

A sharp upturn in the return on investments lifted Italian insurance companies' net profit for 2012 to Euro 5.8 billion, a level not seen since before the 2008 crisis, after the large losses of Euro 4.4 billion accumulated in the two previous years. The industry's ROE swung from -7.1% in 2011 to 11.5%, nonetheless still short of the average of 12.5% recorded in the three years preceding the crisis. The improvement was driven by life insurance, which, despite a slightly smaller volume of premiums and negative net premium income of Euro 5 billion, posted a positive result for the year thanks to profits from investment. In 2012 the number of Italian insurance companies operating in the domestic market diminished, partly as a result of mergers and acquisitions. The number of foreign insurance companies' branch offices in Italy rose slightly.

***Number of companies in EU (15) countries***

*Data as at 31 December*

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Austria | 71 | 71 | 72 | 72 | 72 |
| Belgium | 157 | 152 | 148 | 147 | 149 |
| Denmark | 202 | 202 | 159 | 186 | 174 |
| Finland | 63 | 63 | 63 | 63 | 68 |
| France | 464 | 461 | 452 | 441 | 434 |
| Germany | 609 | 607 | 596 | 582 | 580 |
| Greece | 86 | 85 | 82 | 73 | 71 |
| Ireland | 233 | 236 | 227 | 227 | 227 |
| Italy | 243 | 247 | 241 | 242 | 239 |
| Luxembourg | 94 | 96 | 97 | 95 | 95 |
| Netherlands | 316 | 301 | 287 | 263 | 227 |
| Portugal | 83 | 85 | 87 | 82 | 78 |
| United Kingdom | 1,017 | 972 | 934 | 1,314 | 1,213 |
| Spain | 357 | 296 | 294 | 287 | 279 |
| Sweden | 392 | 381 | 381 | 384 | 361 |
| **Totale** | **4,387** | **4,255** | **4,120** | **4,458** | **4,267** |

*Source: Insurance Europe*

***Premiums per company in EU (15) countries***

*Euro million*

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Austria | 224 | 228 | 228 | 233 | 229 |
| Belgium | 199 | 193 | 192 | 201 | 196 |
| Denmark | 96 | 101 | 128 | 112 | 126 |
| Finland | 239 | 251 | 257 | 296 | 267 |
| France | 422 | 397 | 442 | 470 | 438 |
| Germany | 268 | 271 | 288 | 307 | 307 |
| Greece | 58 | 60 | 66 | 72 | 69 |
| Ireland | 78 | 57 | 55 | 56 | 50 |
| Italy | 408 | 373 | 489 | 520 | 461 |
| Luxembourg | 12 | 19 | 18 | 22 | 21 |
| Netherlands | 237 | 261 | 271 | 296 | 347 |
| Portugal | 166 | 180 | 167 | 199 | 150 |
| United Kingdom | 360 | 255 | 220 | 157 | 170 |
| Spain | 152 | 200 | 208 | 196 | 214 |
| Sweden | 63 | 66 | 62 | 74 | 82 |
| **Total** | **250** | **227** | **236** | **225** | **227** |

*Source: Insurance Europe*

## OPERATING INSURANCE COMPANIES

Insurance companies operating in Italy numbered 235 at the end of 2012, compared with 239 at the end of 2011. They counted 135 companies with registered offices in Italy (142 a year earlier) and 100 branches of foreign insurance companies (97 a year earlier), of which 98 based in other EU countries. In the last two years some insurers decided to modify their status in Italy, no longer operating as Italian companies but as branches of European ones. This helps to explain the increase in the number of EU-based companies with establishments in Italy and the decrease in that of Italian companies. In addition, 990 insurance companies with registered offices in other EU countries (or other countries belonging to the European Economic Area) were operating in Italy at the end of 2012 under the freedom to provide services.

***Number of companies by legal status***

| BUSINESS SECTOR | | DOMESTIC COMPANIES | | | | FOREIGN BRANCHES | | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | (situation as at 31 December) | Limited companies | Cooperatives | Mutuals | Total | with head office in non-EU countries | with head office in EU countries | |
| Non-life | 2011<br>2012 | 69<br>67 | -<br>- | 2<br>2 | 71<br>69 | 2<br>2 | 59<br>60 | 132<br>131 |
| Life | 2011<br>2012 | 57<br>52 | -<br>- | -<br>- | 57<br>52 | -<br>- | 18<br>20 | 75<br>72 |
| Professional reinsurers | 2011<br>2012 | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | 8<br>7 | 8<br>7 |
| Multi branches | 2011<br>2012 | 12<br>12 | 1<br>1 | 1<br>1 | 14<br>14 | -<br>- | 10<br>11 | 24<br>25 |
| **Total** | **2011**<br>**2012** | **138**<br>**131** | **1**<br>**1** | **3**<br>**3** | **142**<br>**135** | **2**<br>**2** | **95**<br>**98** | **239**<br>**235** |

At the end of 2012, 72 insurance companies (of which 20 branch offices) engaged exclusively in life business and 131 (of which 62 branch offices) exclusively in non-life business. A total of 25 (of which 11 branch offices) did business in both the life and non-life sectors, accounting for more than 40% of total premium income. Seven undertakings, all of them branches of foreign companies, engaged only in reinsurance. At 31 December 2012 ANIA counted 168 member companies (of which 24 correspondent members). ANIA members collected some 95% of total market premiums in 2012.

The 135 insurers with registered offices in Italy comprised, by legal form, 131 limited share companies, three mutual companies and one cooperative society.

Insurance companies in Italy have a higher average volume of premiums than in the other European countries: Euro 461 million compared with a European average of Euro 227 million. Italy is followed by France with Euro 438 million (for 434 companies), the Netherlands with Euro 347 million (for 227 companies) and Germany with Euro 307 million (for 580 companies).

## INCOME STATEMENT

***Income statement*** *– Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| **Technical account of non-life and life classes (*)** | | | | | | | | |
| Written premiums | 108,451 | 106,273 | 96,765 | 89,157 | 115,199 | 123,546 | 108,420 | 103,099 |
| Changes in reserves (-) | 41,999 | 19,189 | -9,495 | -22,241 | 40,953 | 32,825 | 3,106 | 9,597 |
| Investment income | 20,064 | 15,132 | 10,835 | -9,813 | 26,845 | 14,109 | 3,978 | 27,478 |
| Other technical income | 1,321 | 1,337 | 1,433 | 1,527 | 1,448 | 1,484 | 1,429 | 1,558 |
| Incurred claims (-) | 68,236 | 83,971 | 99,010 | 91,087 | 84,207 | 92,105 | 99,376 | 98,768 |
| Operating expenses (-) | 12,567 | 13,345 | 13,390 | 12,573 | 12,633 | 12,540 | 12,283 | 11,525 |
| Other technical costs (-) | 1,241 | 1,434 | 1,631 | 2,035 | 2,230 | 2,311 | 2,272 | 2,538 |
| **Balance** | **5,792** | **4,803** | **4,497** | **-2,583** | **3,470** | **-642** | **-3,210** | **9,707** |
| **Technical account - non-life (*)** | | | | | | | | |
| Written premiums | 34,663 | 35,458 | 35,211 | 34,328 | 33,791 | 32,954 | 34,052 | 32,723 |
| Changes in premiums reserves (-) | 638 | 629 | 602 | 265 | -21 | 496 | 462 | -512 |
| Investment income | 2,318 | 2,115 | 2,131 | 829 | 2,439 | 1,095 | 640 | 1,657 |
| Other technical income | 319 | 371 | 365 | 423 | 472 | 440 | 451 | 469 |
| Incurred claims (-) | 24,294 | 25,058 | 24,634 | 25,403 | 26,865 | 25,106 | 25,199 | 23,463 |
| Operating expenses (-) | 8,184 | 8,366 | 8,646 | 8,462 | 8,465 | 8,141 | 8,322 | 8,005 |
| Other technical costs (-) | 883 | 1,082 | 1,000 | 1,085 | 1,165 | 1,121 | 1,054 | 1,123 |
| **Balance** | **3,302** | **2,808** | **2,825** | **365** | **228** | **-375** | **106** | **2,770** |
| **Technical account life (*)** | | | | | | | | |
| Written premiums | 73,788 | 70,815 | 61,554 | 54,829 | 81,409 | 90,592 | 74,368 | 70,376 |
| Changes in technical provisions (-) | 41,361 | 18,561 | -10,097 | -22,506 | 40,974 | 32,329 | 2,644 | 10,109 |
| Investment income | 17,745 | 13,017 | 8,704 | -10,642 | 24,406 | 13,014 | 3,338 | 25,821 |
| Other technical income | 1,001 | 967 | 1,068 | 1,104 | 976 | 1,044 | 978 | 1,089 |
| Incurred claims (-) | 43,942 | 58,913 | 74,376 | 65,684 | 57,342 | 66,999 | 74,177 | 75,305 |
| Operating expenses (-) | 4,383 | 4,979 | 4,744 | 4,111 | 4,169 | 4,399 | 3,961 | 3,520 |
| Other technical costs (-) | 358 | 352 | 631 | 950 | 1,064 | 1,190 | 1,218 | 1,415 |
| **Balance** | **2,490** | **1,995** | **1,672** | **-2,948** | **3,242** | **-267** | **-3,316** | **6,937** |

*continued*

# THE ITALIAN INSURANCE MARKET: KEY FIGURES 2012

*continued:* ***Income statement*** *– Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| **Non-technical account (*)** | | | | | | | | |
| Other non-life income | 894 | 777 | 911 | -416 | 939 | 201 | -734 | 92 |
| Other life income | 1,179 | 1,238 | 980 | 462 | 1,177 | 839 | 265 | 1,627 |
| Balance of other income and expenses | -862 | -1,062 | -957 | -1,601 | -1,244 | -1,763 | -1,551 | -1,998 |
| **Balance of ordinary activities** | **7,003** | **5,757** | **5,431** | **-4,138** | **4,342** | **-1,365** | **-5,230** | **9,428** |
| **Balance of extraordinary activities** | **691** | **941** | **1,476** | **751** | **840** | **614** | **478** | **25** |
| Taxes on income (-) | 1,837 | 1,537 | 1,558 | -1,407 | 1,312 | -48 | -1,099 | 3,699 |
| **Result for the financial year** | **5,857** | **5,161** | **5,349** | **-1,980** | **3,870** | **-703** | **-3,653** | **5,754** |
| ***Profit/loss for the year, non-life sector (**)*** | ***2,829*** | ***2,430*** | ***2,802*** | ***-167*** | ***63*** | ***-998*** | ***-1,016*** | ***622*** |
| ***Profit/loss for the year, life sector (**)*** | ***2,865*** | ***2,686*** | ***2,490*** | ***-1,813*** | ***3,807*** | ***295*** | ***-2,637*** | ***5,132*** |
| **Return on Equity** | **13.8%** | **11.4%** | **12.5%** | **-4.7%** | **8.5%** | **-1.4%** | **-7.1%** | **11.5%** |
| **Return on Equity (non-life) (**)** | **14.7%** | **11.6%** | **14.6%** | **-0.9%** | **0.3%** | **-4.6%** | **-4.7%** | **3.0%** |
| **Return on Equity (life) (**)** | **12.6%** | **11.3%** | **10.6%** | **-7.8%** | **15.2%** | **1.1%** | **-8.8%** | **17.3%** |

(*) *Net of cessions and back-cessions*

(**) Excluding professional reinsurers

## THE TECHNICAL ACCOUNT

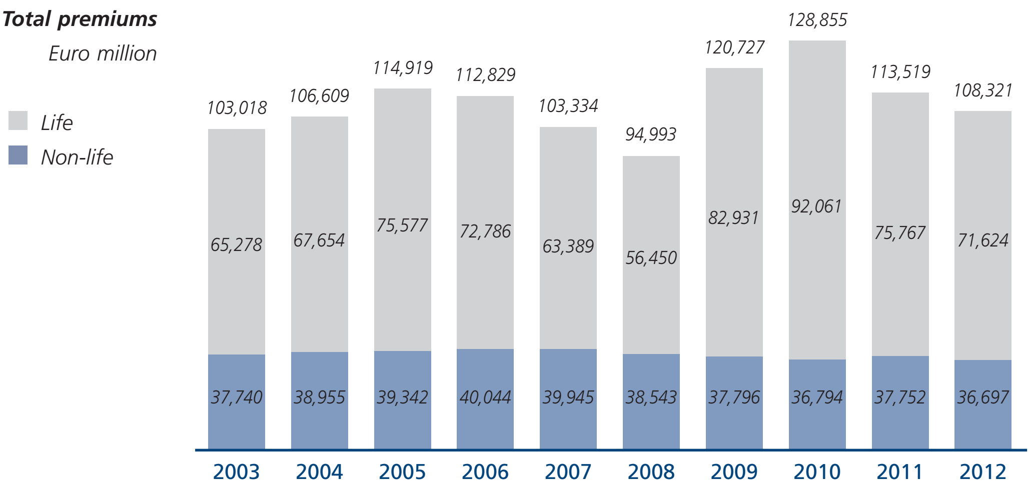
### Premiums

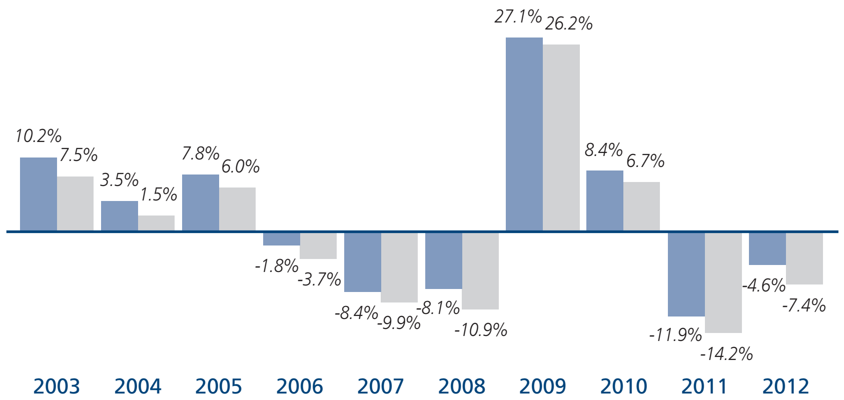
**Premiums from domestic and foreign business**, direct and indirect, gross of reinsurance, collected by the companies having their registered office in Italy and by the Italian branches of non-EU companies totaled Euro 108,321 million in 2012, of which Euro 36,697 million from non-life policies and Euro 71,624 million from life policies. The overall decrease of 4.6% followed a larger one of 11.9% in 2011. Negative contributions to this result came from both the non-life sector, whose premiums diminished by 2.8% after increasing by 2.6% in 2011, and the life sector, whose premiums decreased by 5.5% (after dropping by nearly 18% the previous year).

As a result of these developments, in 2012 life premiums' share of total premium income diminished from 66.7% to 66.1%.

***Total premiums***

*Euro million*

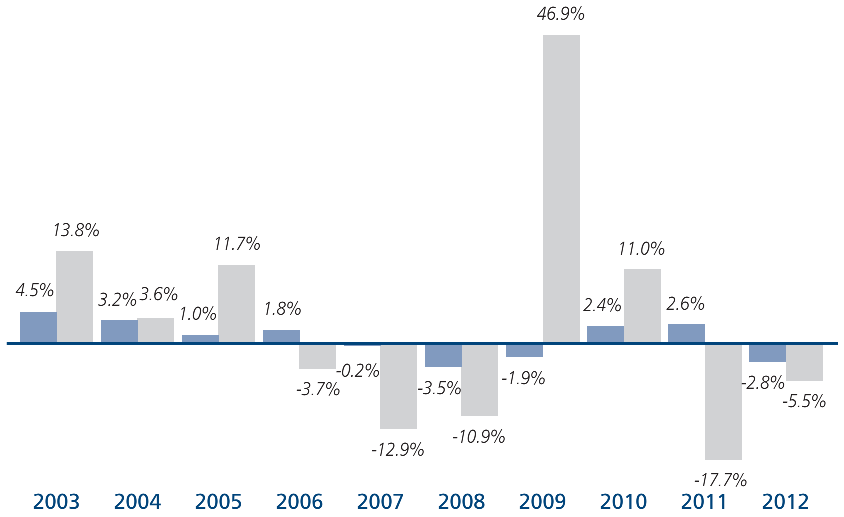





***Nominal and real growth of total premiums***

*Nominal*
*Real*

*The changes (%) were calculated in homogeneous terms*




***Nominal growth of life and non-life premiums***

*Non-life*
*Life*

*The changes (%) were calculated in homogeneous terms*

The percentage of **premiums ceded in reinsurance** rose slightly, from 4.5% to 4.8%. The amount of these premiums came to Euro 5,222 million, of which Euro 3,974 million in the non-life sector and Euro 1,248 million in the life sector.

**Total premiums, net of those ceded**, declined by 4.9% from the previous year to Euro 103,099 million, of which Euro 32,723 million in non-life policy classes and Euro 70,376 million in life business.

## Claims and benefits paid

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

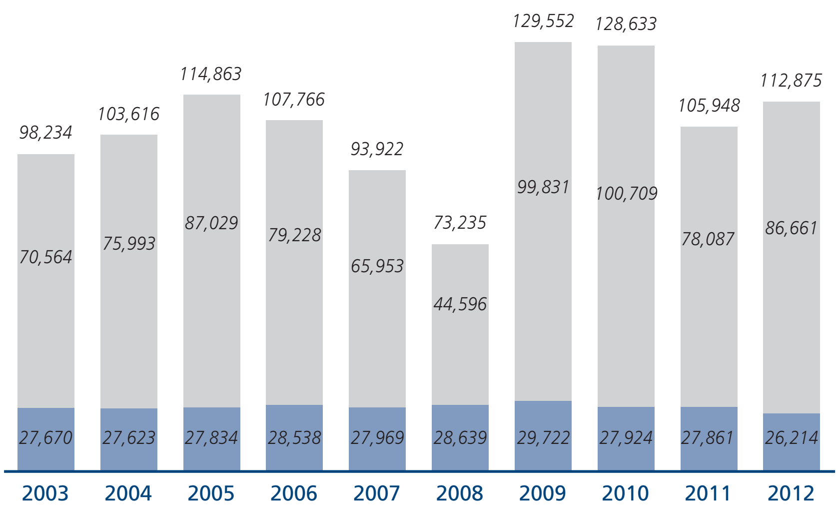
- reserves for non-life classes;
- incurred claims cost plus the change in the mathematical provisions and other technical provisions for life classes.

Benefits and claims paid increased by 6.5% in 2012 to total Euro 112,875 million: Euro 26,214 million in non-life classes (down 5.9% from 2011) and Euro 86,661 million in life classes (up 11.0%).

**The share borne by reinsurance** rose by 30.1% to Euro 4,510 million, of which Euro 3,263 million referring to non-life policies and Euro 1,247 million to life policies.

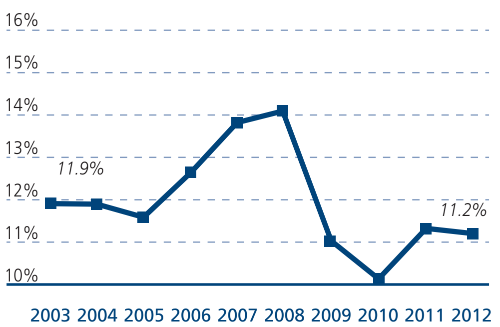
**On a net basis, benefits and claims paid** increased by 5.7% to Euro 108,364, of which Euro 22,951 million in non-life business and Euro 85,414 million in life business.

***Claims, benefits and provisions***
*Euro million*




### Operating expenses

***Ratio of operating expenses to premiums***
*Incidence on net written premiums (%)*




**Operating expenses** relating to direct and indirect business, net of reinsurance cessions, which comprise contract acquisition, premium collection, distribution network organizational and operating costs and the administration expenses relating to technical management of insurance business, totaled Euro 11,525 million, 6.2% less than in 2011. Given the analogous drop in premiums, the ratio of total operating expenses to written premiums remained stable (11.2%, compared with 11.3% in 2011).

For non-life business, operating expenses totaled Euro 8,005 million and amounted to 24.5% of premiums (24.4% in 2011); for life business, they amounted to Euro 3,520 million and 5.0% of premiums (5.3% in 2011).

### Technical account result

**The overall (non-life plus life) technical account result**, net of reinsurance, was positive to the tune of Euro 9,707 million, equal to 9.4% of direct and indirect premiums; the latter indicator had been negative in both 2011 and 2010 (-3% and -0.5% respectively). For non-life business the technical account result was positive by Euro 2.8 billion (Euro 106 million in 2011) and its ratio to premiums rose to 8.5% (0.3% in 2011). In the life sector the result was positive by Euro 6.9 billion (compared with a negative result of Euro 3.3 billion in 2011); the ratio to premiums swung from -4.5% in 2011 to 9.9%.

***Technical account result / Premiums***

*Incidence on net written premiums (%)*

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total | 4.3% | 5.0% | 5.3% | 4.5% | 4.6% | -2.9% | 3.0% | -0.5% | -3.0% | 9.4% |
| Non-life | 7.4% | 8.6% | 9.5% | 7.9% | 8.0% | 1.1% | 0.7% | -1.1% | 0.3% | 8.5% |
| Life | 2.7% | 3.1% | 3.4% | 2.8% | 2.7% | -5.4% | 4.0% | -0.3% | -4.5% | 9.9% |

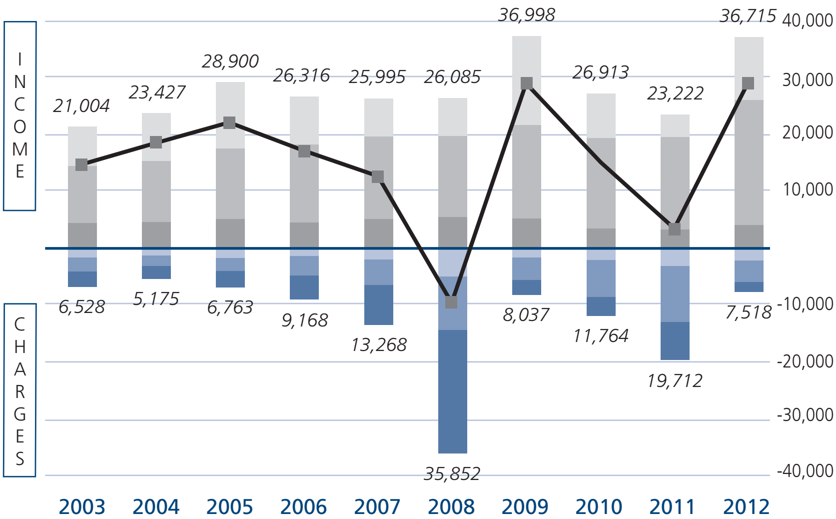
## RESULT ON INVESTMENT ACTIVITY

**Investment income** grew from Euro 23,222 million to Euro 36,715 million, second only to 2009 in the last ten years. In particular:

- non-life investment income rose by 25% to Euro 4,005 million:
- life investment income (Class C) increased by 35% to Euro 21,934 million;
- life investment income (Class D) nearly tripled to Euro 10,776 million.

More in detail, as shown in the table below, the **ordinary gross investment income of life and non-life classes**, amounting to Euro 36,715 million, is divided as follows:

- *income from shares and investment fund units*, amounting to Euro 1,656 million (+4.2% compared with 2011): 4.5% of the total;




***Investment income and charges***

*Euro million*

- *Non-life investment income*
- *Life investment income (Class C)*
- *Life investment income (Class D)*
- *Non-life investment charges*
- *Non-life investment charges (Class C)*
- *Non-life investment charges (Class D)*
- *Net results of investment (income-charges)*

– *income from investments held for the benefit of life insurance policyholders and from the management of pension funds (Class D)*, amounting to Euro 10,776 million (+185.6%): 29.4% of the total;
– *income from land and buildings*, amounting to Euro 229 million (+1.4%): 0.6% of the total;
– *revaluation gains and realized profits on investment*, amounting to Euro 8,198 million (+186.0%): 22.3% of the total;
– *income from securities, bonds and other investments*, amounting to Euro 15,855 million (+7.4%): 43.2% of the total.

***Breakdown of gross ordinary investment income – Life and non-life (%)***

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Shares | 12.0 | 9.5 | 10.8 | 11.1 | 13.8 | 13.3 | 5.5 | 6.4 | 6.8 | 4.5 |
| Land and buildings | 1.5 | 1.1 | 0.8 | 0.9 | 0.9 | 0.9 | 0.6 | 0.8 | 1.0 | 0.6 |
| Other investments | 41.9 | 42.7 | 37.5 | 44.6 | 47.2 | 47.9 | 32.9 | 48.8 | 63.7 | 43.2 |
| Revaluations | 12.9 | 11.7 | 11.1 | 12.3 | 13.5 | 13.1 | 19.4 | 15.3 | 12.3 | 22.3 |
| Income from linked and pension funds | 31.7 | 35.0 | 39.8 | 31.1 | 24.6 | 24.7 | 41.6 | 28.6 | 16.2 | 29.4 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **Gross investment income** | **21,004** | **23,427** | **28,900** | **26,316** | **25,995** | **26,085** | **36,998** | **26,913** | **23,222** | **36,715** |

Net investment income also benefited from the fall of more than 60% in **investment charges**, which declined from Euro 19,712 million to Euro 7,518 million. In particular:

– in the non-life sector investment charges fell by more than 30% to Euro 2,256 million, with the sector recording a net investment profit of Euro 1,749 million (against a net loss of Euro 93 million in 2011);
– in the life sector (Class C), investment charges declined by 62.5% to Euro 3,686 million, with net investment profit tripling to Euro 18,248 million;
– in the life sector (Class D), investment charges fell from Euro 6,574 million to Euro 1,576 million, helping to produce net investment profit of Euro 9,200 million (against a net loss of Euro 2,801 million in 2011).

The insurance industry's overall **net profit on investment** amounted to Euro 29,197 million, compared with just Euro 3,510 million in 2011.

**Extraordinary income**, gross of charges, amounted to Euro 832 million (Euro 1,359 million in 2011), set against corresponding charges of Euro 807 million (Euro 881 million in 2011).

## THE RESULT FOR THE FINANCIAL YEAR

Thanks to the large improvement in investment income, the **result from ordinary activity** of the life and non-life sectors showed a profit of Euro 9,428 million, after losses of Euro 5,230 million in 2011 and Euro 1,365 million in 2010. **Extraordinary income exceeded extraordinary charges** by barely Euro 25 million (Euro 478 million in 2011). Overall, **profit for the year before tax** thus amounted to Euro 9,453 million.

After taxes totaling Euro 3,699 million, the industry showed an **overall net profit of Euro 5,754 million**: Euro 622 million for the non-life sector and Euro 5,132 million for the life sector (compared with net losses of Euro 1,016 million and Euro 2,637 million respectively in 2011). In the previous two years the industry's overall net losses totaled Euro 4,356 million.

More in detail, for non-life business the 2012 profit of Euro 622 million derived from:

- an **intermediate operating result** (the sum of the technical result plus the net investment result pertaining to the non-technical account) of Euro 2,862 million;
- a negative balance of Euro 1,369 million on **other income less other charges**;
- **net extraordinary income** of just Euro 54 million;
- income **taxes** amounting to Euro 924 million.

***Profit-and-loss account by sector****
*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| **NON-LIFE** | | | | | | | | |
| **Technical account result** | **3,100** | **2,605** | **2,702** | **365** | **228** | **-375** | **106** | **2,770** |
| Net investment income | 870 | 808 | 900 | -416 | 939 | 201 | -734 | 92 |
| **Intermediate operating result** | **3,970** | **3,413** | **3,602** | **-51** | **1,167** | **-174** | **-628** | **2,862** |
| Other net income | -571 | -803 | -522 | -688 | -1,161 | -1,185 | -948 | -1,369 |
| Extraordinary income net | 420 | 641 | 824 | 324 | 33 | 218 | 386 | 54 |
| Income tax for year (-) | 990 | 820 | 1,102 | -248 | -24 | -143 | -174 | 924 |
| **Profit/loss for the year** | **2,829** | **2,430** | **2,802** | **-167** | **63** | **-998** | **-1,016** | **622** |
| **LIFE** | | | | | | | | |
| **Technical account result** | **2,490** | **1,995** | **1,672** | **-2,948** | **3,242** | **-266** | **-3,316** | **6,937** |
| Net investment income | 1,179 | 1,238 | 981 | 462 | 1,177 | 839 | 265 | 1,627 |
| **Intermediate operating result** | **3,669** | **3,233** | **2,653** | **-2,486** | **4,419** | **573** | **-3,051** | **8,564** |
| Other net income | -299 | -201 | -395 | -913 | -83 | -578 | -603 | -628 |
| Extraordinary income net | 258 | 303 | 650 | 427 | 807 | 396 | 93 | -29 |
| Income tax for year (-) | 763 | 649 | 418 | -1,160 | 1,336 | 96 | -925 | 2,775 |
| **Profit/loss for the year** | **2,865** | **2,686** | **2,490** | **-1,813** | **3,807** | **295** | **-2,637** | **5,132** |

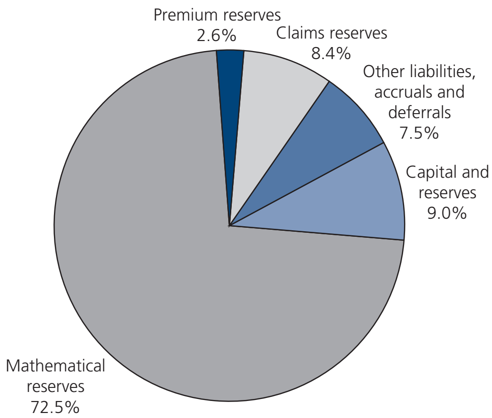
** Excluding professional reinsurers*

For life business, the 2012 profit of Euro 5,132 million came from:

– an **intermediate operating result** of Euro 8,564 million;
– a negative balance of Euro 628 million on **other income less other charges**;
– a negative balance of Euro 29 million on **extraordinary income less extraordinary charges**;
– income **taxes** amounting to Euro 2,775 million.

## BALANCE SHEET

***Breakdown of liabilities (%) – 2012***




***Euro 603,597 million***

### Liabilities

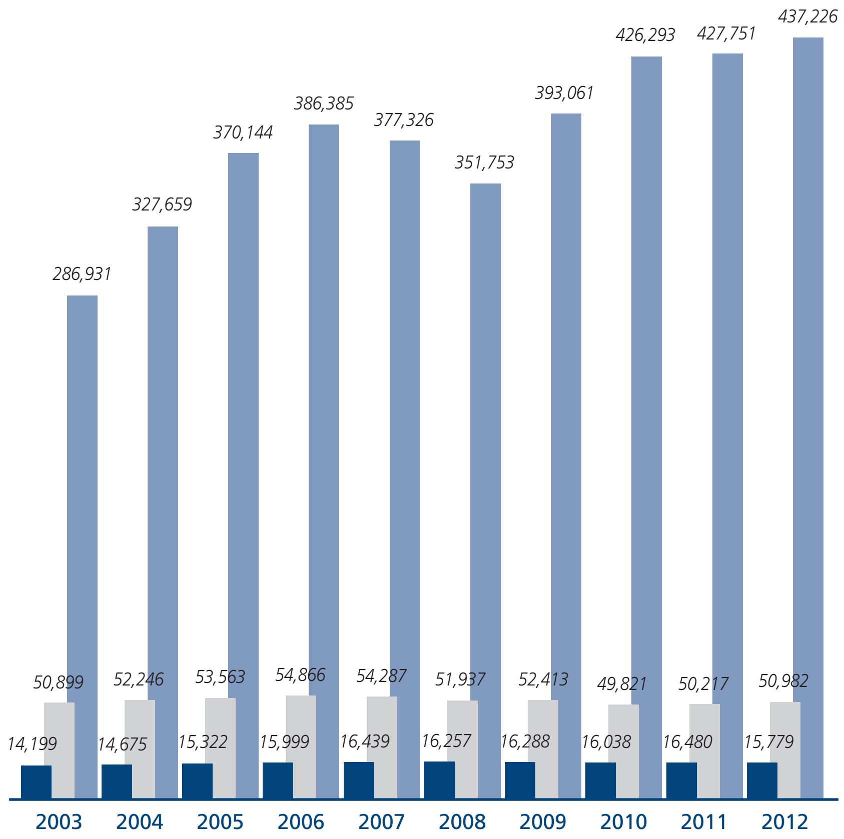
Balance-sheet liabilities totaled Euro 603,597 million, an increase of more than 3% compared with 2011.

In particular:

– *shareholders' equity* grew by 12.4% to Euro 54,257 million, basically thanks to the improvement in the result for the year; it is equal to 9.0% of total shareholders' funds and liabilities. For the other components, share capital increased by 6.9% to Euro 13,319 million and equity reserves diminished by more than 10% to Euro 35,364 million;
– *technical provisions,* which represent the commitments undertaken vis-à-vis the insured, rose by 1.9% to Euro 503,987 million; they made up 83.5% of the total. Life provisions (mathematical reserves) which accounted for 72.5% of the total, grew by 2.2%, while non-life provisions (for claims and unearned premiums) amounted to Euro 66,761 million, broadly unchanged from the end of 2011;
– *other liabilities*, amounting to Euro 44,613 million (7.4% of the total), were up 5.6% from a year earlier. Among the components, subordinated liabilities increased by 15.1%, provisions for other risks and charges by 14.4%, and claims due to creditors and other liabilities by 6.8%, while deposits received from reinsurers decreased by 5.2%;
– *accrued expenses and deferred income* amounted to Euro 740 million (0.1% of the total).

### Assets

On the asset side the main items composing the total of Euro 603,597 million are investments, the reinsurance share of technical provisions, other asset items, debtors, accrued income and prepayments.




***Total technical provisions***

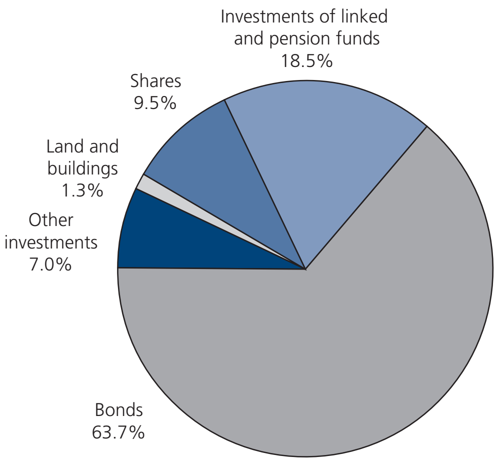
*Euro million*

*Premium reserves*
*Claims reserves*
*Mathematical reserves*

In particular:

- *investments* totaled Euro 526,899 million, an increase of 3.0% from a year earlier, and made up 87.3% of total assets. Investments grew in the non-life sector by 2.2% to Euro 75,641 million and in the life sector by 3.2% to Euro 451,258 million.
  In detail, total investments were distributed as follows:
  - debt securities and other fixed-income securities: Euro 335,554 million, up 6.2% (63.7% of the total);
  - investments pertaining to Class D: Euro 97,521 million, down 1.4% (18.5% of the total);
  - shares and investment fund units: Euro 50,128 million, down 7.8% (9.5% of the total);
  - loans and deposits: Euro 36,916 million, up 4.9% (7.0% of the total);
  - land and buildings: Euro 6,780 million, down 1.8% (1.3% of the total);
- the technical provisions borne by reinsurers totaled Euro 17,779 million, up 1.3% from a year earlier, and made up 2.9% of total assets;
- claims due from *debtors* came to Euro 26,462 million, down 1.5% (4.4% of the total). They comprise claims arising from direct insurance operations (Euro 10,333 million), claims arising from reinsurance operations (Euro 1,472 million) and other claims (Euro 14,657 million);
- *claims on shareholders* (Euro 7 million), *other intangible assets* (Euro 5,748 million of commissions and other expenses) and *other assets* (Euro 21,424

***Breakdown of investments (%) – 2012***

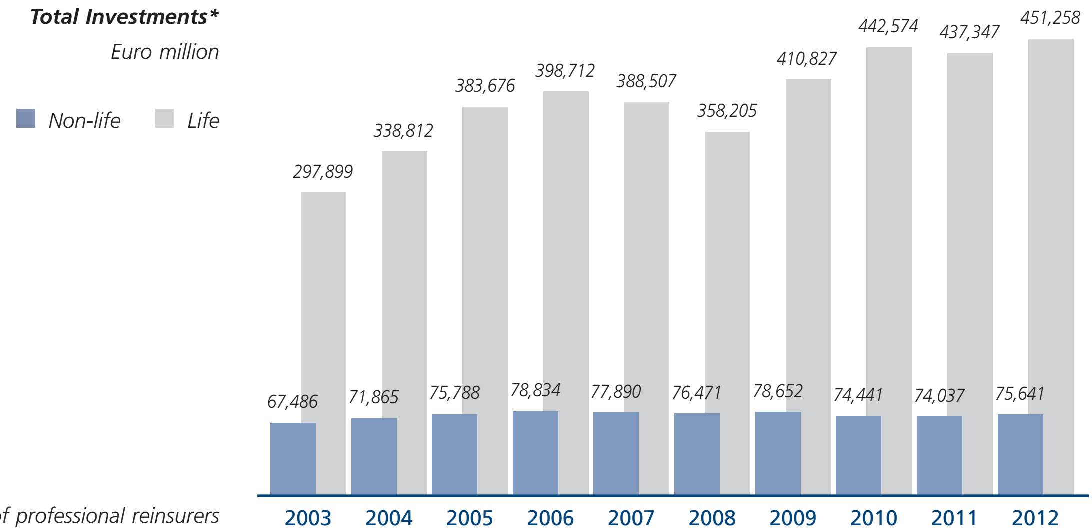



***Euro 526,899 million***

million) amounted to Euro 27,179 million, up 10.4% (4.5% of the total);

– *accrued income and prepaid expenses* were equal to Euro 5,279 million, up 0.8% (0.9% of the total).

***Total Investments****
*Euro million*




** Net of professional reinsurers*

***Balance sheet** – Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| **LIABILITIES** | **526,899** | **547,569** | **537,180** | **505,362** | **560,780** | **586,815** | **585,665** | **603,597** |
| CAPITAL AND RESERVES | 51,301 | 50,297 | 46,042 | 40,932 | 51,803 | 50,260 | 48,252 | 54,257 |
| *Subscribed capital* | *12,982* | *13,402* | *11,399* | *11,472* | *11,925* | *11,985* | *12,463* | *13,319* |
| *Equity reserves* | *32,463* | *31,837* | *29,370* | *31,440* | *36,351* | *38,977* | *39,441* | *35,364* |
| *Profit for the financial year** | *5,857* | *5,058* | *5,273* | *-1,980* | *3,527* | *-703* | *-3,653* | *5,573* |
| TECHNICAL PROVISIONS | 439,029 | 457,250 | 448,052 | 419,947 | 461,762 | 492,151 | 494,448 | 503,987 |
| *Non-life classes* | *68,885* | *70,865* | *70,726* | *68,194* | *68,701* | *65,859* | *66,697* | *66,761* |
| *Life classes* | *370,144* | *386,385* | *377,326* | *351,753* | *393,061* | *426,292* | *427,751* | *437,226* |
| OTHER LIABILITIES | 36,141 | 39,352 | 42,465 | 43,820 | 46,436 | 43,703 | 42,238 | 44,613 |
| *Subordinated liabilities* | *3,295* | *4,725* | *6,085* | *6,924* | *8,374* | *8,753* | *8,751* | *10,070* |
| *Provisions for risks and charges* | *2,219* | *2,206* | *2,133* | *2,117* | *1,711* | *1,771* | *1,613* | *1,846* |
| *Deposits received from reinsurers* | *12,994* | *12,999* | *13,109* | *12,660* | *12,398* | *11,999* | *11,279* | *10,692* |
| *Debts and other liabilities* | *17,632* | *19,423* | *21,139* | *22,119* | *23,954* | *21,180* | *20,594* | *22,004* |
| ACCRUALS AND DEFERRALS | 428 | 670 | 621 | 663 | 779 | 701 | 728 | 740 |
| **ASSETS** | **526,899** | **547,569** | **537,180** | **505,362** | **560,780** | **586,815** | **585,665** | **603,597** |
| AMOUNTS OWED BY SHAREHOLDERS | 3 | 25 | 30 | 6 | 41 | 15 | 3 | 7 |
| INTANGIBLE ASSETS | 3,947 | 3,839 | 3,441 | 3,021 | 6,891 | 6,310 | 6,001 | 5,748 |
| INVESTMENTS: | 465,109 | 483,143 | 470,989 | 434,676 | 489,479 | 517,014 | 511,384 | 526,899 |
| *Land and buildings* | *5,805* | *5,933* | *5,808* | *6,265* | *6,526* | *6,513* | *6,902* | *6,780* |
| *Shares and holdings* | *54,096* | *55,532* | *56,249* | *54,976* | *59,635* | *56,751* | *54,347* | *50,128* |
| *Bonds and other fixed income securities* | *235,036* | *252,727* | *239,081* | *226,866* | *273,755* | *306,898* | *316,029* | *335,554* |
| *Loans and deposits* | *33,603* | *29,100* | *32,529* | *29,590* | *32,351* | *34,708* | *35,195* | *36,916* |
| *Investments for the benefit of life insurance policyholders and the investments deriving from the management of pension funds* | *136,569* | *139,852* | *137,322* | *116,980* | *117,211* | *112,144* | *98,911* | *97,521* |
| TECHNICAL PROVISIONS BORNE BY THE REINSURERS | 21,072 | 20,770 | 20,658 | 19,411 | 19,283 | 18,737 | 17,546 | 17,779 |
| AMOUNTS OWED BY DEBTORS | 21,529 | 22,381 | 23,400 | 25,706 | 25,563 | 26,576 | 26,875 | 26,462 |
| OTHER ASSETS | 11,652 | 13,168 | 14,342 | 18,131 | 14,617 | 13,068 | 18,619 | 21,424 |
| ACCRUALS AND DEFERRED INCOME | 3,587 | 4,242 | 4,321 | 4,411 | 4,907 | 5,093 | 5,238 | 5,279 |

** The difference in 2012 between profit given in the balance sheet and that in the profit-and-loss account is due to an advance on dividends during the year*

## SOLVENCY MARGIN

Insurance companies with registered offices in Italy, excluding reinsurers, had a solvency margin of Euro 50.4 billion for their total assets in the life and non-life sectors at the end of 2012, an increase of more than 11% from a year earlier. The available margin was 2.2 times the minimum required by law (equal to Euro 22.7 billion).

For life business, the available margin (Euro 31.8 billion) was 1.99 times the minimum requirement (Euro 16.0 billion), determined in relation to the mathematical provisions and capital at risk; this cover ratio increased from 1.74 in 2011.

In non-life business the available margin (Euro 18.6 billion) was equal to 2.76 times the minimum requirement (Euro 6.7 billion), which is determined in relation to the amount of written premiums or to the average cost of claims of the last three years, whichever is greater; in 2011 the cover ratio was 2.72.

***Solvency margin 2005-2012***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| **LIFE** | | | | | | | | |
| Solvency margin | 23,999 | 24,435 | 22,722 | 19,699 | 26,578 | 27,362 | 26,825 | 31,765 |
| Solvency margin required by law | 11,544 | 12,041 | 11,890 | 11,587 | 13,444 | 14,668 | 15,400 | 15,990 |
| *Cover ratio* | *2.08* | *2.03* | *1.91* | *1.70* | *1.98* | *1.87* | *1.74* | *1.99* |
| **NON-LIFE** | | | | | | | | |
| Solvency margin | 20,826 | 20,382 | 17,585 | 16,805 | 19,236 | 19,018 | 18,465 | 18,603 |
| Solvency margin required by law | 6,095 | 6,263 | 6,473 | 6,446 | 6,758 | 6,599 | 6,786 | 6,748 |
| *Cover ratio* | *3.42* | *3.25* | *2.72* | *2.61* | *2.85* | *2.88* | *2.72* | *2.76* |
| **TOTAL** | | | | | | | | |
| Solvency margin | 44,825 | 44,817 | 40,307 | 36,504 | 45,814 | 46,380 | 45,291 | 50,368 |
| Solvency margin required by law | 17,639 | 18,304 | 18,363 | 18,033 | 20,202 | 21,267 | 22,186 | 22,738 |
| *Cover ratio* | *2.54* | *2.45* | *2.20* | *2.02* | *2.27* | *2.18* | *2.04* | *2.22* |

*Source : IVASS*

## THE CURRENT VALUE OF THE SECURITIES PORTFOLIO

To obtain detailed information on the current value of the insurance industry's investments and assess the effects of unrealized capital gains or losses on the overall portfolio, several years ago ANIA began to conduct a sample survey using a methodology consistent with the one specified in ISVAP Regulation 36/2011. The latest survey, which takes 30 April 2013 as the valuation date, covers practically the totality of Class C investments for the non-life and life sectors except for loans and deposits with credit institutions and ceding undertakings, which account on average for 3-4%; it does not cover investments relating to linked policies and pension funds (Class D). The current value of assets was calculated by summing their book value (the value stated in the accounts before balance-sheet valuations) and the balance between unrealized capital gains and losses.

The current value of the Class C investments monitored on 30 April 2013, estimated on a sample of firms accounting for about 85% of the market in terms of investments, was Euro 445 billion, compared with end-2011 figures of Euro 431 billion for the sample companies (Table 1) and Euro 429 billion for all insurance companies. The slight difference between the 2012 balance-sheet value and the current value considered in the survey depends on the fact that the balance-sheet value:

- for securities held on a durable basis, does not incorporate unrealized capital gains and losses;
- for securities not held on a durable basis, does not incorporate either unrealized capital gains or, in the case of insurance companies that used the option provided by the Anti-Crisis Decree (Decree Law 185/2008 as amended), unrealized capital losses. ANIA estimates that this provision of the "Anti-Crisis Decree" had no significant impact on the insurance industry's reported results for the year.

The slim discrepancy contrasts with the findings for previous years, when the two above-mentioned components had been larger and the difference between balance-sheet and current values consequently greater.

***Table 1 – Total insurance market – Life and non-life sectors***

*Euro million*

| | Current value of investment | | | % composition of investments 30 April 2013 | Current value of investments | | |
|---|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | | Memo: total investments | | |
| | *30 April 2013* | | | | *December 2010* | *December 2011* | *December 2012* |
| Total non-life | 51,396 | 31,269 | 82,666 | 18.6% | 77,003 | 75,622 | 79,558 |
| Total life | 193,623 | 169,031 | 362,654 | 81.4% | 311,450 | 302,151 | 351,589 |
| **Total overall** | **245,019** | **200,301** | **445,320** | **100.0%** | **388,453** | **377,772** | **431,147** |

| | Balance of valuation gains/losses | | | Balance of valuation gains/losses | | |
|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | Memo: total investments | | |
| | *30 April 2013* | | | *December 2010* | *December 2011* | *December 2012* |
| Total non-life | 4,059 | 1,269 | 5,328 | 1,538 | -836 | 4,479 |
| Total Life | 9,086 | 8,684 | 17,771 | -5,371 | -29,220 | 11,697 |
| **Total overall** | **13,146** | **9,953** | **23,099** | **-3,832** | **-30,056** | **16,177** |

**Of the Italian insurance industry's Euro 445 billion of Class C investments** at current value at end-April, Euro 82.7 billion (20%) referred to non-life business and Euro 362.7 billion (80%) to life business (Table 1). For the two sectors together, Euro 245 billion (55%) was in durable investments and Euro 200 billion (45%) in investments not held on a long-term basis. Overall, **the balance between unrealized capital gains and losses was positive by Euro 23.1 billion** (compared with Euro 16 billion at the end of 2012), whereas it had been negative at end-2011 and end-2010, by Euro 30 billion and Euro 4 billion respectively. The improvement came mainly from the fall in the yields on debt securities, particularly Italian government securities. The non-life sector's positive balance amounted to Euro 5.3 billion, the life sector's to Euro 17.8 billion.

### Non-life sector

The largest asset class – nearly half of the total – consisted in debt securities and other fixed-income securities, mainly not held on a durable basis, with a current value of Euro 40.5 billion at the end of April, a bit more than at the end of 2012 (Table 2). The next-largest asset class was shares and other equity in affiliated undertakings (31.2%), whose value was up slightly from the end of 2012.

**The balance between valuation gains and losses at the end of April 2013 was positive by Euro 5.3 billion** (it had been negative by Euro 0.8 billion at the end of 2011 and positive by Euro 4.5 billion at the end of 2012). The positive balance was due chiefly to investments held on a durable basis (over Euro 4 billion), above all shares and other equity (Euro 1.5 billion, compared with Euro 1.4 billion at the end of 2012) and debt securities and other fixed-interest securities (Euro 1.5 billion, compared with Euro 1.2 billion at the end of 2012).

**The ratio of the balance between unrealized gains and losses to book value was equal to 6.9% overall**: 8.6% for durable and 4.2% for non-durable investments (Figure 1). The ratio was highest for shares and other equity, with a positive balance equal to about 75% of book value, followed by land and buildings (20%).

It is worth looking more closely at investments in government securities, whose relative importance differs between the durable and non-durable investment portfolios (Table 3). In particular, government securities, with a current value of Euro 10.8 billion at the end of April 2013, made up about 22% of total Class C investments held on a durable basis, a further increase by comparison with rising year-end figures of 14% in 2010, 19% in 2011 and 21% in 2012. Valuation gains exceeded losses by barely Euro 0.6 billion. Government securities worth more than Euro 16 billion accounted for practically half the Class C investments not held on a long-term basis, with valuation gains again exceeding losses by Euro 0.6 billion.

***Table 2 – Total insurance market – Non-life sector***

*Euro million*

| | Current value of investment | | | % composition of investments 30 April 2013 | Current value of investments | | |
|---|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | | Memo: total investments | | |
| | *30 April 2013* | | | | *December 2010* | *December 2011* | *December 2012* |
| **C.I Land and buildings (A)** | **7,447** | **5** | **7,453** | **9.0%** | **7,034** | **7,424** | **7,906** |
| C.II.1 Shares and other equity in affiliated undertakings | 25,617 | 171 | 25,788 | 31.2% | 25,839 | 25,324 | 25,119 |
| C.II.2 Debt securities issued by affiliated undertakings | 488 | 957 | 1,445 | 1.7% | 712 | 798 | 1,443 |
| **Total C.II.1 and C.II.2 (B)** | **26,105** | **1,128** | **27,233** | **32.9%** | **26,551** | **26,122** | **26,561** |
| C.III.1 Shares and other equity | 2,520 | 943 | 3,463 | 4.2% | 4,140 | 3,705 | 3,516 |
| C.III.2 Investment fund units | 262 | 3,650 | 3,912 | 4.7% | 3,145 | 3,406 | 3,815 |
| C.III.3 Debt securities and other fixed-income securities | 15,062 | 25,468 | 40,531 | 49.0% | 35,935 | 34,766 | 37,729 |
| – *of which: listed and unlisted gov't securities* | *11,309* | *16,790* | *28,098* | *34.0%* | *22,054* | *22,230* | *25,333* |
| C.III.5 Participation in investment pools | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 |
| C.III.7 Sundry financial investments | 0 | 75 | 75 | 0.1% | 197 | 198 | 30 |
| **Total C.III.1, 2, 3, 5, 7 (C)** | **17,844** | **30,136** | **47,980** | **58.0%** | **43,418** | **42,075** | **45,091** |
| **Overall total (A + B + C)** | **51,396** | **31,269** | **82,666** | **100.0%** | **77,003** | **75,622** | **79,558** |

| | Balance of valuation gains/losses | | | Balance of valuation gains/losses | | |
|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | Memo: total investments | | |
| | *30 April 2013* | | | *December 2010* | *December 2011* | *December 2012* |
| **C.I Land and buildings (A)** | **1,263** | **0** | **1,262** | **1,417** | **1,454** | **1,407** |
| C.II.1 Shares and other equity in affiliated undertakings | 935 | -4 | 931 | -136 | -441 | 510 |
| C.II.2 Debt securities issued by affiliated undertakings | 10 | 38 | 48 | 12 | -7 | 48 |
| **Total C.II.1 and C.II.2 (B)** | **945** | **35** | **980** | **-125** | **-448** | **558** |
| C.III.1 Shares and other equity | 1,412 | 72 | 1,484 | 756 | 688 | 1,359 |
| C.III.2 Investment fund units | -15 | 102 | 87 | -1 | -34 | 30 |
| C.III.3 Debt securities and other fixed-income securities | 454 | 1,051 | 1,506 | -498 | -2,608 | 1,160 |
| – *of which: listed and unlisted gov't securities* | *556* | *636* | *1,192* | *-490* | *-1,729* | *665* |
| C.III.5 Participation in investment pools | 0 | 0 | 0 | 0 | 0 | 0 |
| C.III.7 Sundry financial investments | 0 | 10 | 10 | -11 | 112 | -34 |
| **Total C.III.1, 2, 3, 5, 7 (C)** | **1,852** | **1,235** | **3,086** | **246** | **-1,841** | **2,514** |
| **Overall total (A + B + C)** | **4,059** | **1,269** | **5,328** | **1,538** | **-836** | **4,479** |

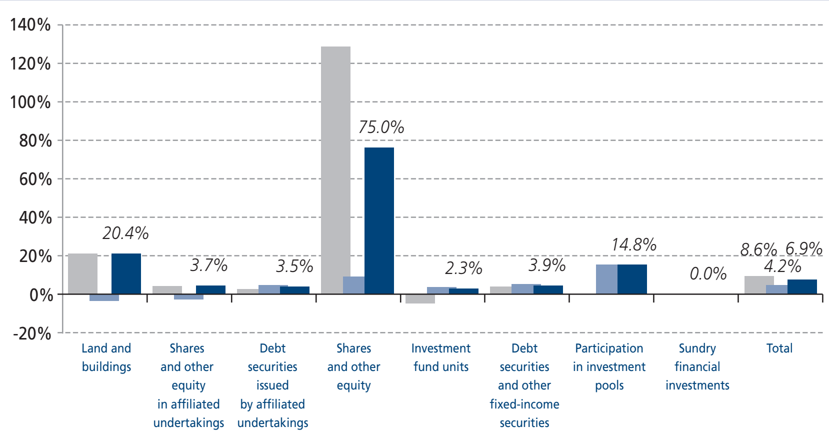



***Figure 1 – Balance of valuation gains/losses as a % of book value of investments at 30 April 2013 – Non-life sector***

***Table 3***
***Investments in government securities (listed and unlisted) – Non-life sector***
*Euro billion*

| | Book value | Current value | Balance of valuation gains/losses | Gov't securities/ Total Class C assets (current value) |
|---|---|---|---|---|
| **Portfolio held on a durable basis** | | | | |
| 2009 | 5.6 | 5.8 | 0.2 | 13% |
| 2010 | 6.4 | 6.3 | -0.1 | 14% |
| 2011 | 10.2 | 9.3 | -1.0 | 19% |
| 2012 | 10.7 | 11.0 | 0.3 | 21% |
| Apr. 13 | 10.8 | 11.3 | 0.6 | 22% |
| **Portfolio not held on a durable basis** | | | | |
| 2009 | 18.6 | 19.0 | 0.4 | 50% |
| 2010 | 16.2 | 15.8 | -0.4 | 50% |
| 2011 | 13.7 | 13.0 | -0.8 | 47% |
| 2012 | 14.0 | 14.3 | 0.4 | 51% |
| Apr. 13 | 16.2 | 16.8 | 0.6 | 54% |

## Life sector

Debt securities and other fixed-income securities were also the top investments in the life sector, with a current value of Euro 308 billion at the end of April 2013, up Euro 8 billion from the end of 2012 (Table 4). Shares and other equity in affiliated undertakings came to Euro 22.7 billion (6.3% of the total) and investment fund units to Euro 21.7 billion (6.0%).

On 30 April 2013 the **balance between unrealized capital gains and losses was positive by some Euro 18 billion** (it had been negative by more than Euro 29 billion at the end of 2011 and positive by Euro 11.7 billion at the end of 2012). With the significant upturn in the financial markets already in the course of 2012 and then in the early months of 2013, the balance with respect to the end of 2012 improved for virtually all assets. In particular, for government securities the positive balance grew by more than Euro 5 billion between the end of 2012 and 30 April 2013, from Euro 7.5 billion to Euro 13 billion. Between the end of 2011 and 30 April 2013 the change in the balance between unrealized gains and losses exceeded Euro 43 billion.

***Table 4 – Total insurance market – Life sector***
*Euro million*

| | Current value of investment | | | % composition of investments 30 April 2013 | Current value of investments Memo: total investments | | |
|---|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | | | | |
| | *30 April 2013* | | | | *December 2010* | *December 2011* | *December 2012* |
| **C.I Land and buildings (A)** | **763** | **0** | **763** | **0.2%** | **911** | **1,149** | **692** |
| C.II.1 Shares and other equity in affiliated undertakings | 20,738 | 1,976 | 22,714 | 6.3% | 21,704 | 21,127 | 19,901 |
| C.II.2 Debt securities issued by affiliated undertakings | 1,117 | 1,029 | 2,146 | 0.6% | 3,693 | 3,244 | 4,833 |
| **Total C.II.1 and C.II.2 (B)** | **21,855** | **3,005** | **24,860** | **6.9%** | **25,398** | **24,370** | **24,734** |
| C.III.1 Shares and other equity | 2,609 | 3,981 | 6,590 | 1.8% | 8,185 | 6,829 | 6,133 |
| C.III.2 Investment fund units | 5,904 | 15,828 | 21,731 | 6.0% | 15,359 | 16,112 | 19,608 |
| C.III.3 Debt securities and other fixed-income securities | 162,470 | 145,842 | 308,312 | 85.0% | 258,257 | 252,048 | 300,328 |
| *– of which: listed and unlisted gov't securities* | *128,685* | *100,377* | *229,062* | *63.2%* | *177,516* | *181,930* | *224,718* |
| C.III.5 Participation in investment pools | 0 | 0 | 0 | 0.0% | 0 | 30 | 0 |
| C.III.7 Sundry financial investments | 0 | 397 | 397 | 0.1% | 3,341 | 1,613 | 93 |
| **Total C.III.1, 2, 3, 5, 7 (C)** | **171,004** | **166,026** | **337,031** | **92.9%** | **285,141** | **276,632** | **326,163** |
| **Overall total (A + B + C)** | **193,623** | **169,031** | **362,654** | **100.0%** | **311,450** | **302,151** | **351,589** |

| | Balance of valuation gains/losses | | | Balance of valuation gains/losses Memo: total investments | | |
|---|---|---|---|---|---|---|
| | Durable | Non-durable | Total | | | |
| | *30 April 2013* | | | *December 2010* | *December 2011* | *December 2012* |
| **C.I Land and buildings (A)** | **109** | **0** | **109** | **161** | **142** | **117** |
| C.II.1 Shares and other equity in affiliated undertakings | 875 | 91 | 966 | 582 | 734 | 570 |
| C.II.2 Debt securities issued by affiliated undertakings | 14 | 58 | 72 | -28 | -295 | 269 |
| **Total C.II.1 and C.II.2 (B)** | **889** | **150** | **1,038** | **554** | **438** | **838** |
| C.III.1 Shares and other equity | -663 | 103 | -559 | -729 | -2,213 | -799 |
| C.III.2 Investment fund units | 141 | 458 | 599 | 284 | -572 | 504 |
| C.III.3 Debt securities and other fixed-income securities | 8,610 | 7,972 | 16,582 | -5,647 | -27,047 | 11,056 |
| *– of which: listed and unlisted gov't securities* | *7,639* | *5,318* | *12,958* | *-5,705* | *-22,177* | *7,499* |
| C.III.5 Participation in investment pools | 0 | 0 | 0 | 0 | 0 | 0 |
| C.III.7 Sundry financial investments | 0 | 2 | 2 | 7 | 32 | -20 |
| **Total C.III.1, 2, 3, 5, 7 (C)** | **8,089** | **8,535** | **16,624** | **-6,086** | **-29,800** | **10,742** |
| **Overall total (A + B + C)** | **9,086** | **8,684** | **17,771** | **-5,371** | **-29,220** | **11,697** |

**The ratio of the balance between unrealized gains and losses to book value for the life sector was positive and equal to 5.2% overall**; it was 4.9% for investments held on a long-term basis and 5.4% for non-durable investments (Figure 2). The highest positive ratio was that of investments in land and buildings (16.6%), followed by debt securities and other fixed-income securities (5.7%) and shares and other equity in affiliated undertakings (4.4%). The highest negative ratio was recorded for shares and other equity, standing at -7.8.% overall (-20.2% for durable investments and +2.7% for non-durable investments).

Investments in government securities again deserve closer examination (Table 5). On 30 April 2013 they made up a substantial portion of both durable and non-durable investments (60-65%), totaling nearly Euro 130 billion for the former and topping Euro 100 billion for the latter. The balance between valuation gains and losses was positive for durable investments by Euro 7.6 billion and for non-durable investments by Euro 5.3 billion.

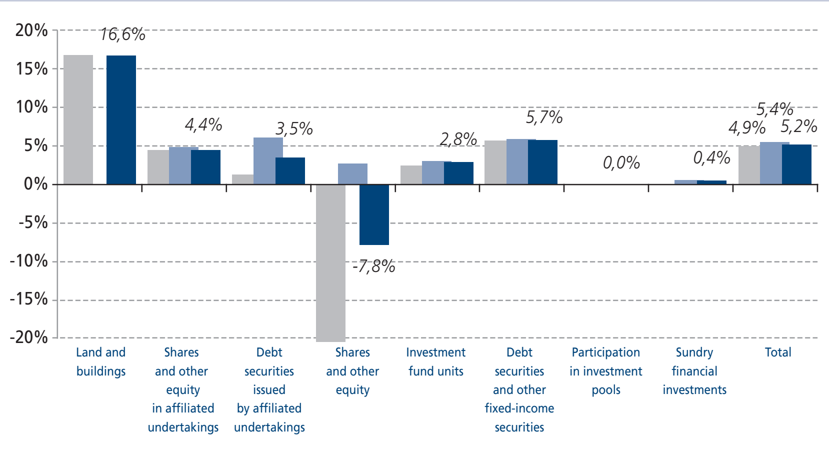



***Figure 2 – Balance of valuation gains/losses as a % of book value of investments at 30 April 2013 – Life sector***

***Table 5***
***Investments in government securities (listed and unlisted) – Life sector***
*Euro billion*

| | Book value | Current value | Balance of valuation gains/losses | Gov't securities/ Total Class C assets (current value) |
|---|---|---|---|---|
| **Portfolio held on a durable basis** | | | | |
| 2009 | 71.1 | 72.8 | 1.7 | 55% |
| 2010 | 95.7 | 92.4 | -3.3 | 58% |
| 2011 | 119.0 | 102.3 | -16.7 | 63% |
| 2012 | 119.7 | 122.6 | 2.9 | 67% |
| Apr. 13 | 121.0 | 128.7 | 7.6 | 66% |
| **Portfolio not held on a durable basis** | | | | |
| | **Book value** | **Current value** | **Balance of valuation gains/losses** | **Gov't securities/ Total Class C assets (current value)** |
| 2009 | 79.7 | 80.9 | 1.2 | 53% |
| 2010 | 87.5 | 85.1 | -2.4 | 56% |
| 2011 | 85.1 | 79.6 | -5.5 | 57% |
| 2012 | 97.5 | 102.1 | 4.6 | 60% |
| Apr. 13 | 95.1 | 100.4 | 5.3 | 59% |

# THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

# 2

## THE MAIN MARKETS IN THE EUROPEAN UNION

In 2012 insurance companies in the first 15 member countries of the European Union (EU-15) had premium income of Euro 971,573 million, a gain of 1.4% after the 3.2% decline recorded the previous year.

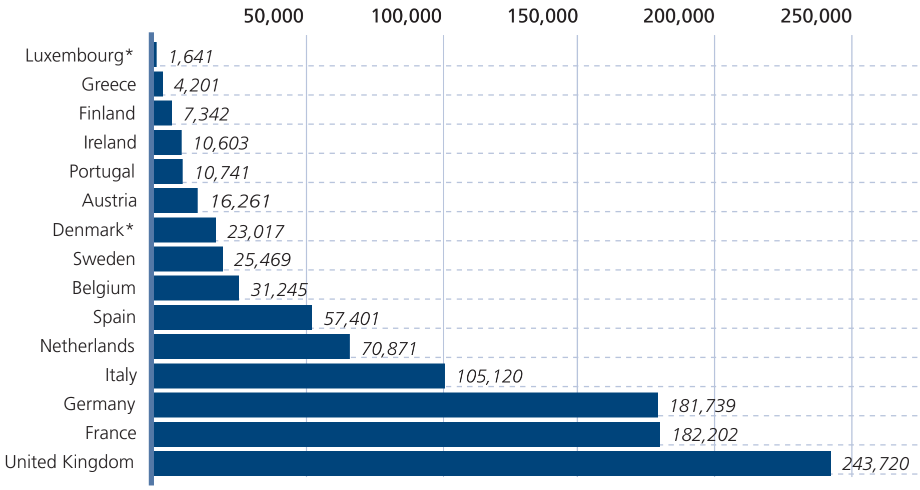
Three countries accounted for all of the growth in total premium volume: the United Kingdom (+15.2%), Finland (+9.9%) and Germany (+4.2%). Among the main countries, the sharpest declines were registered in the Netherlands (-5.7%), Italy (-4.6%) and France (-4.1%).

Life insurance premiums rose by 1.3% to Euro 577,247 million in 2012 after declining by 7.0% in 2011. The increase was driven by the results in Finland (+25.1%), the United Kingdom (+17.8%) and Germany (+5.0%).

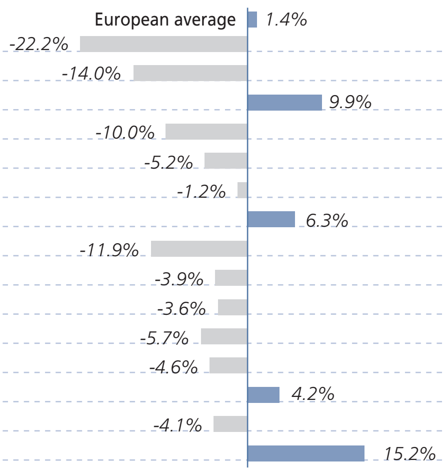
Non-life premiums amounted to Euro 394,326 million, up slightly by 1.4% (+3.1% in 2011). The highest growth rates were those in the United Kingdom (+9.0%), Spain (+4.4%) and France (+3.8%); non-life premium income also increased in Belgium and Germany (by 3.5% and 3.4% respectively).

***Direct premiums in the EU-15 in 2012 – Total***

*Euro million*




***% change in direct premiums 2012/2011 – Total***

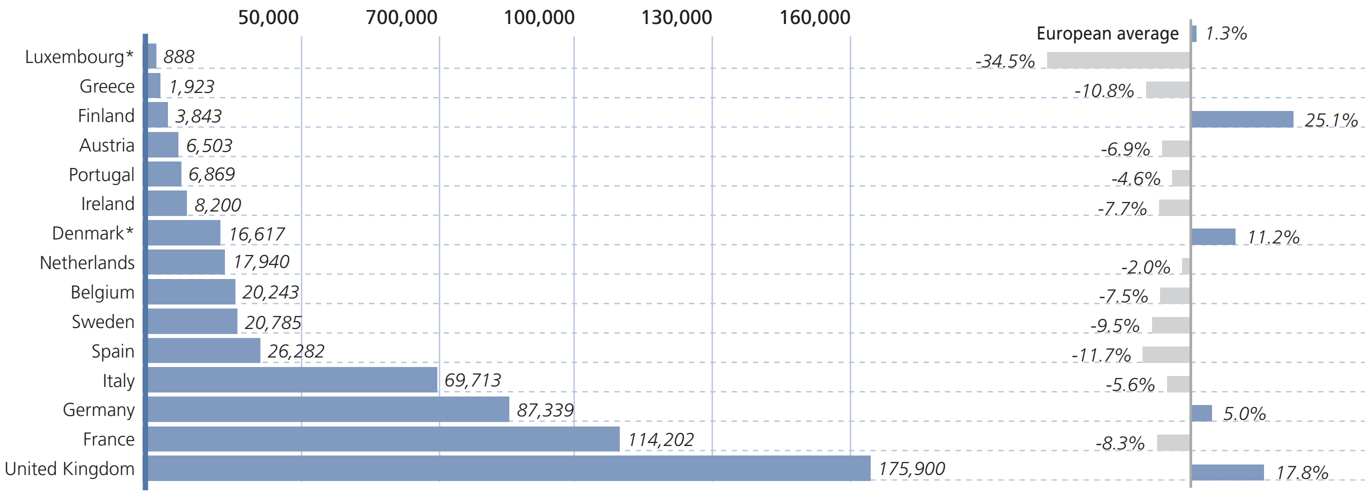



*(*) 2011 and change 2011/2010*

*Source: Insurance Europe*

***Direct premiums in the EU-15 in 2012 – Life***
*Euro million*

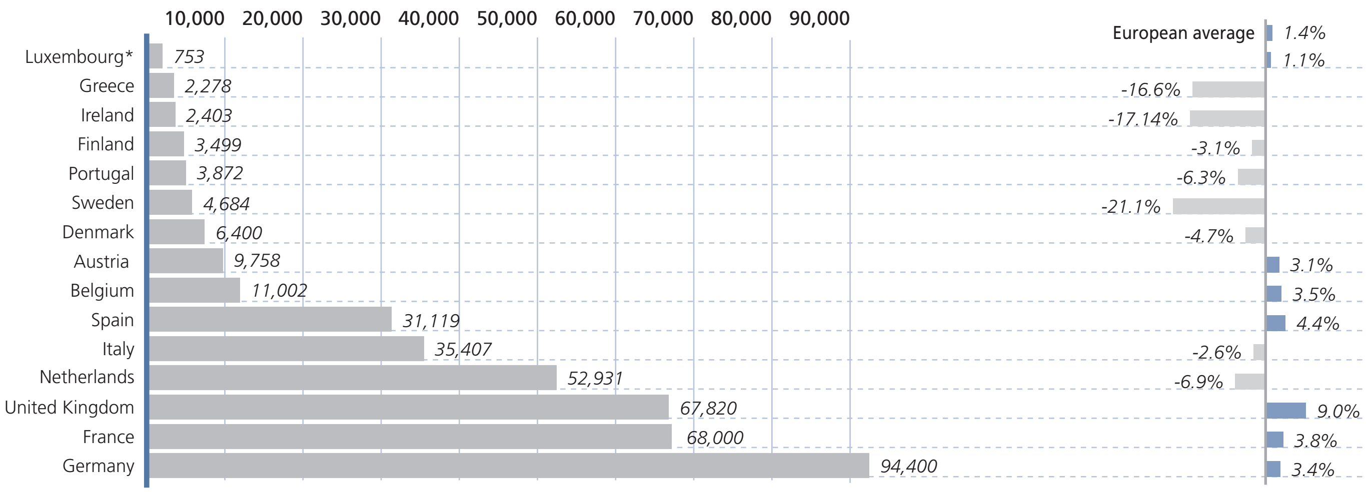
***% change in direct premiums 2012/2011 – Life***




*(*) 2011 and change 2011/2010*
*Source: Insurance Europe*

***Direct premiums in the EU-15 in 2012 – Non-life***
*Euro million*

***% change in direct premiums 2012/2011 – Non-life***

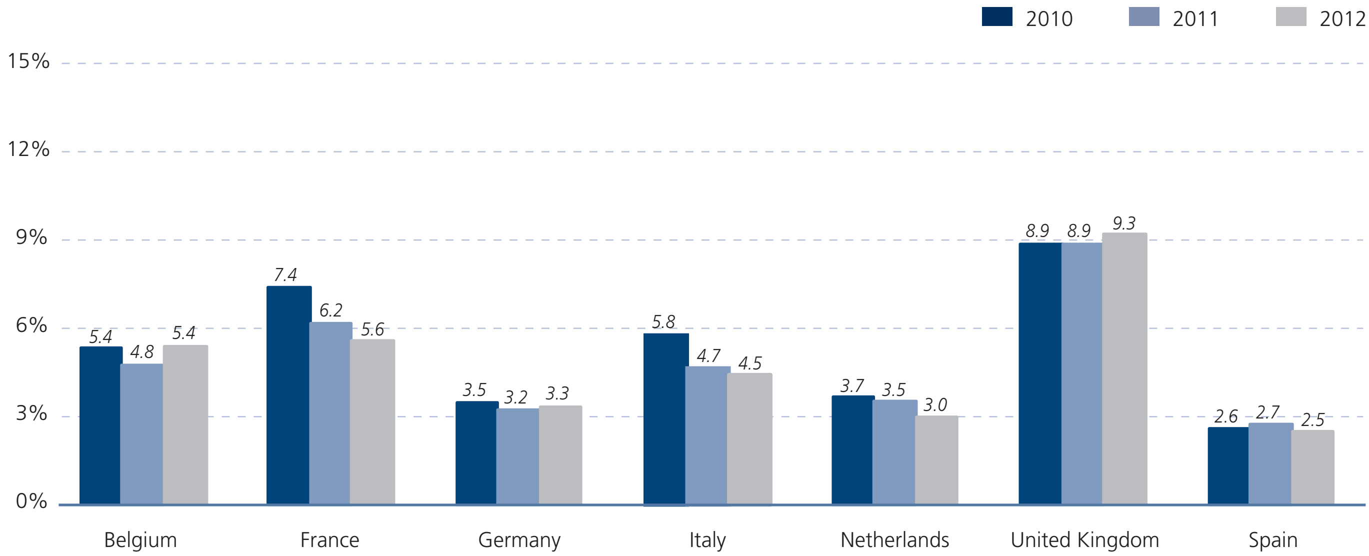



*(*) 2011 and change 2011/2010*
*Source: Insurance Europe*

## THE IMPORTANCE OF INSURANCE BY COUNTRY

Between 2010 and 2012 the ratio of the volume of premiums to GDP – the so-called insurance penetration index – performed differently in the life and non-life sectors. It is to be noted that the data for 2012 provided by Insurance Europe are still provisional and, in some cases, they are estimates made by national insurance associations.

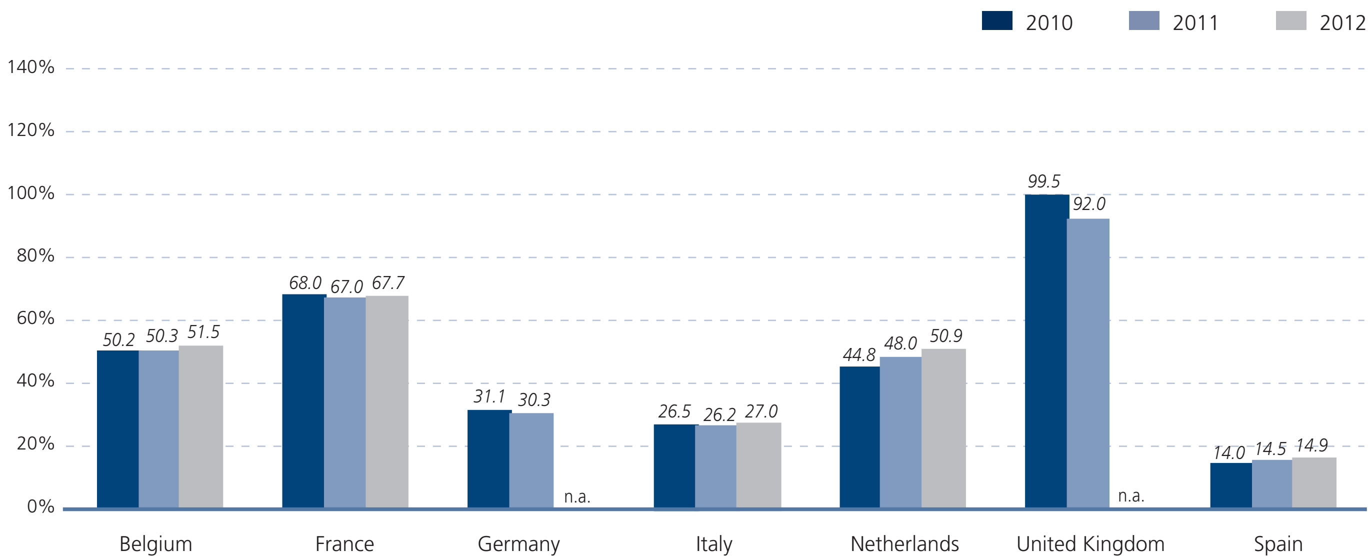
***Life insurance premiums / GDP (%)***




*Source: Insurance Europe*

In the life sector, in the three-year observation period the ratio decreased progressively in France (from 7.4% in 2010 to 5.6% in 2012), Italy (from 5.8% to 4.5%) and the Netherlands (from 3.7% to 3.0%). In Spain, following an initial increase, it decreased from 2.7% in 2011 to 2.5% in 2012 (it had been equal to 2.6% in 2010). In Belgium, the ratio in 2012 (5.4%) was higher than in 2011 (4.8%) but unchanged with respect to 2010. The other countries to record a slight increase in the insurance penetration index were Germany, from 3.2% in 2011 to 3.3% in 2012 (still shy of the 2010 figure of 3.5%) and the United Kingdom, from 8.9% in 2010 and again in 2011 to 9.3% in 2012.

***Life mathematical provisions / GDP (%)***




*Source: Insurance Europe*

As regards life insurance provisions, 2012 data for Germany and the United Kingdom are not yet available, so the comparison for those two countries is limited to 2011.

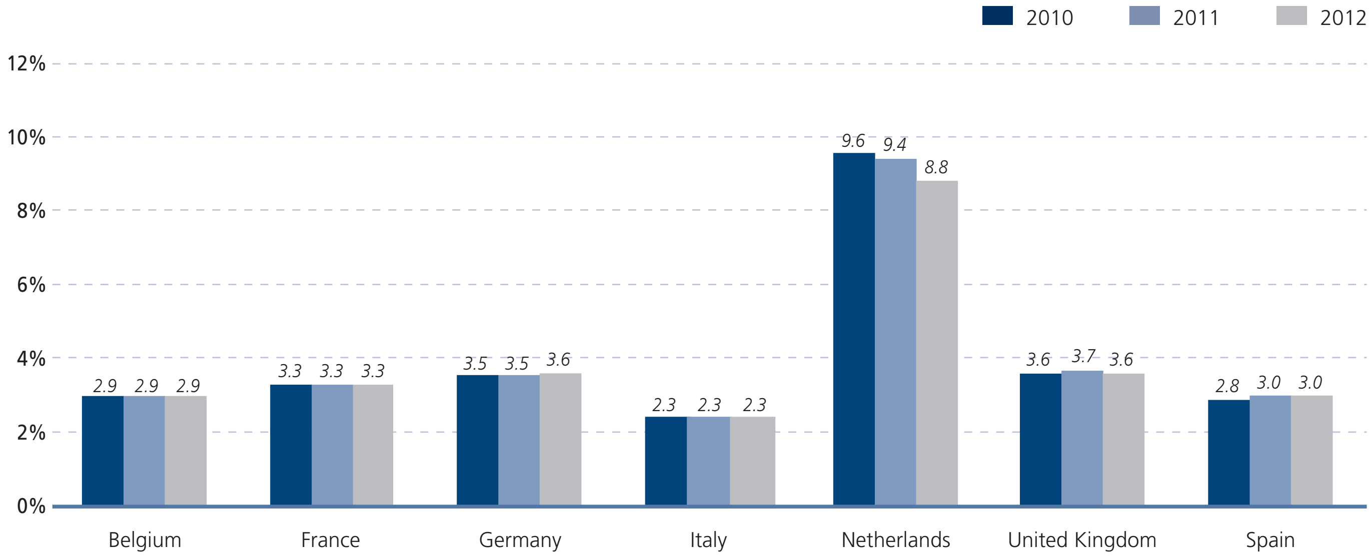
In Italy the ratio of mathematical provisions to GDP, indicative of the degree of maturity of the life insurance market, showed a modest increase in 2012, from 26.2% to 27.0%. This is still lower than in the other European countries, except Spain, where the ratio moved gradually upward from 14.0% in 2010 to 14.5% in 2011 and 14.9% in 2012. Between 2010 and 2012 the ratio also rose in the Netherlands (from 48.0% to 50.9%), Belgium (from 50.3% to 51.5%) and France (from 67.0% to 67.7%). The United Kingdom recorded the highest ratio, but the figure refers to 2011: 92.0%, against 99.5% in 2010; in Germany, the indicator for the same year was 30.3%.

In the non-life sector, in 2012 Italy again had the lowest ratio of premiums to GDP. The penetration index for Italy was 2.3%, the same as in the previous two years and still far below the figures for the other countries. In Belgium and France the ratio remained unchanged over the three years at 2.9% and 3.3% respectively. In Spain it held at 3.0% in 2011 and 2012, with a slight rise from 2.8% in 2010. In Germany the ratio rose to 3.6% in 2012 from 3.5% in the previous two years.

In the United Kingdom and the Netherlands, by contrast, the ratio fell: in the former, from 3.7% in 2011 to 3.6% in 2012; in the latter, from 9.6% in 2010 to 9.4% in 2011 and 8.8% in 2012. The Netherlands' high non-life insurance penetration index – the highest in Europe despite the slight decline over the three years in question, more than 6 percentage points above the Italian indicator – reflects the positive effects in terms of premium collection of the privatization of the health system in 2006.

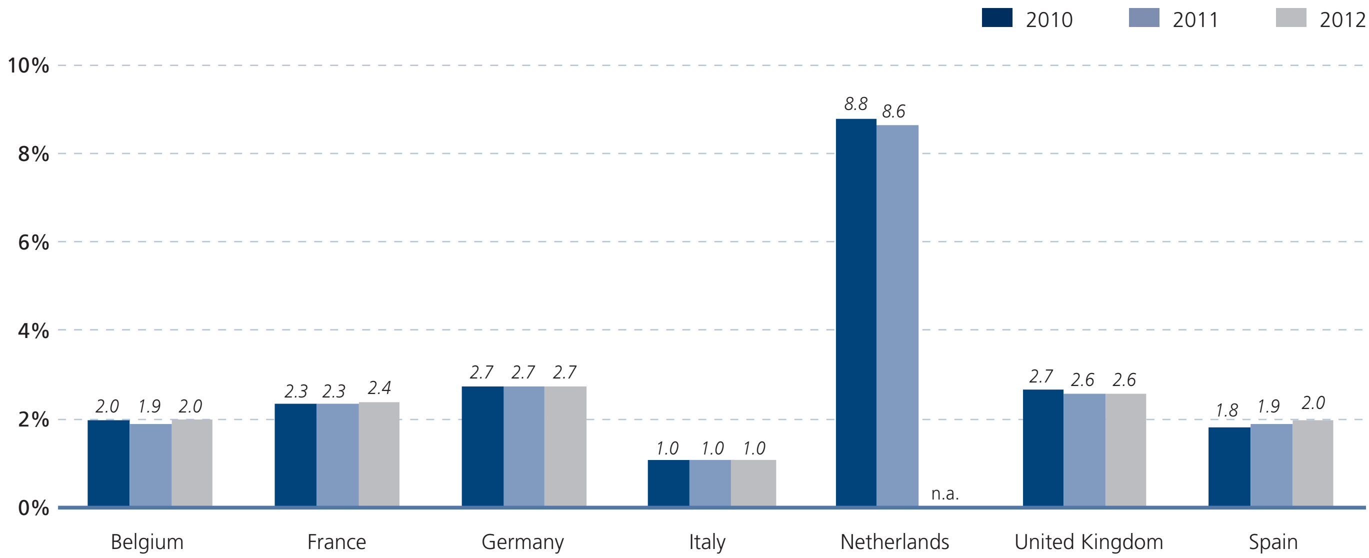
If motor liability insurance (compulsory everywhere) is excluded, the gap in non-life premiums between Italy and the other European countries is even wider. In

***Non-life premiums / GDP (%)***




*Source: Insurance Europe*

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




*Source: Insurance Europe*

2012 the ratio of these premiums to GDP was unchanged in Italy at 1.0%. In Belgium and Spain the ratio was double Italy's and in France it was somewhat more than twice as great. In Germany and the United Kingdom the indicator remained stable at 2.7% and 2.6% respectively in 2012.

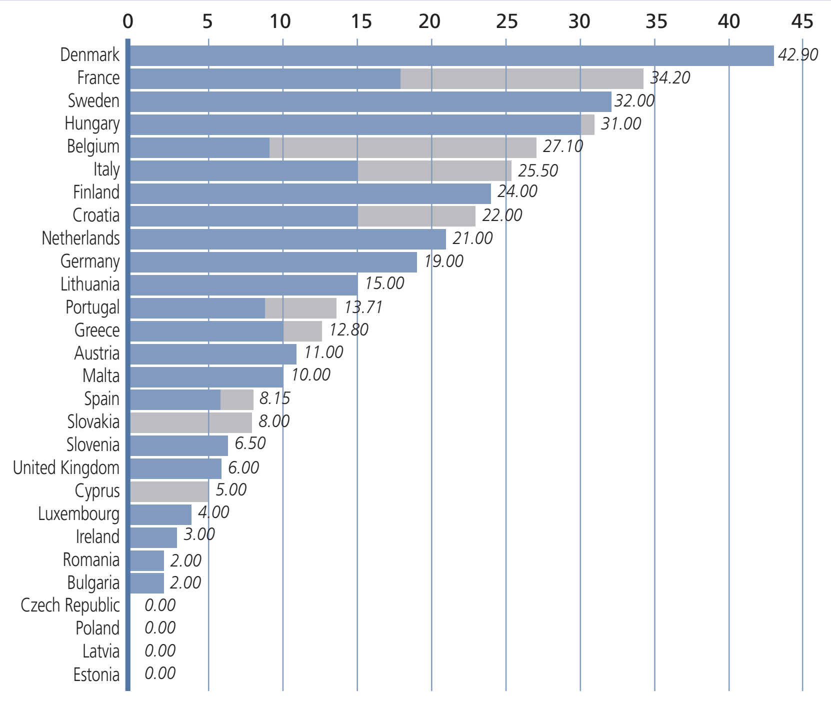
## TAXATION OF PREMIUMS IN THE EUROPEAN UNION

The tax burden on insurance premiums in Italy has long been among the highest in Europe, a pattern confirmed in 2012. In the following discussion we supply details on the tax rates applied to insurance premiums in the EU member countries for motor liability, fire, general liability and goods in transit.

For motor liability insurance, in the last two years the taxation of premiums has increased steadily in Italy consequent to the decisions made at local level by Italian provinces. According to data released by the Fiscal Federalism Division of the Department of Finance, at the end of April 2013 only nine provinces had not raised the tax rate and only four had lowered it. At the end of December 2012 the tax burden on premiums was 15.0% (12.5% excluding the decisions enacted at provincial level). Adding tax-related charges equal to 10.5% brings the overall rate on motor liability insurance to 25.5% in Italy. The incidence of taxation is considerably lower in the United Kingdom (6%), Spain (8.15%) and Austria (11%). It is somewhat higher than average in Germany and the Netherlands (19% and 21% respectively), while in France the overall tax rate on motor liability premiums tops 34%.

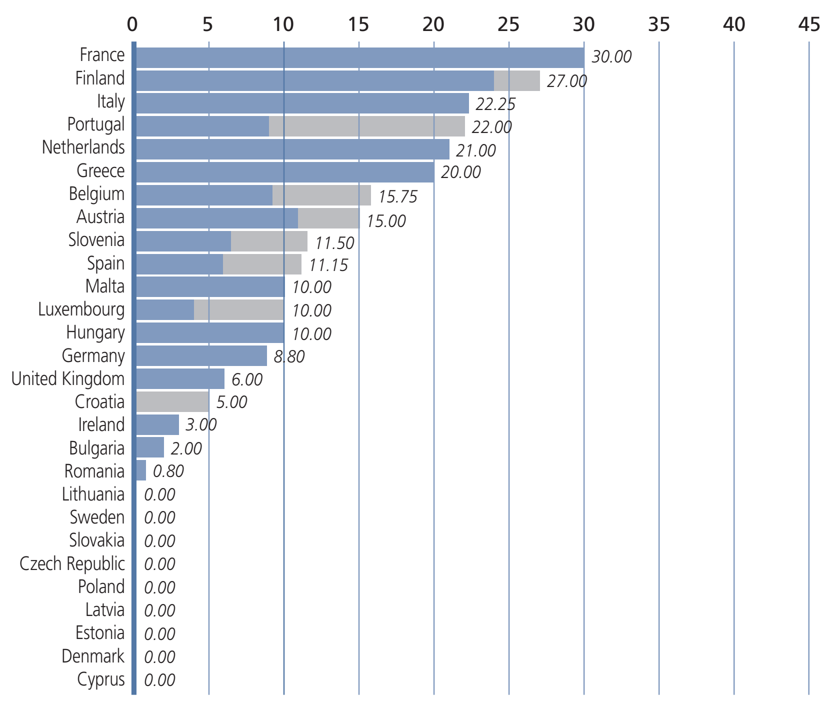
The tax on fire insurance premiums in Italy (22.25%) is sharply higher than in the United Kingdom, Spain and Austria (6%, 11.15% and 15% respectively) but continues to be lower than in France (30%) and Finland (27%).

***Motor liability (%)***




*Source: Insurance Europe*

***Fire (%)***

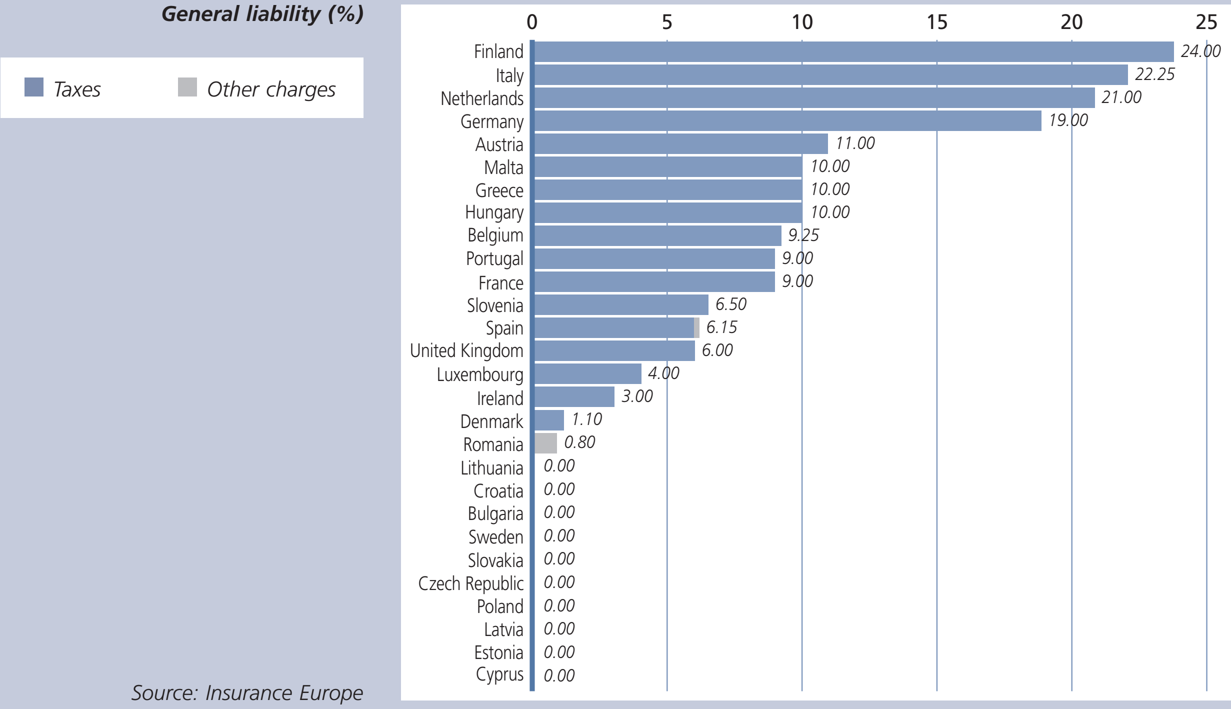



*Source: Insurance Europe*

Aside from Finland (24%), the Italian tax rate on general liability insurance is the highest in Europe (22.25%) and for years has exceeded the rates applied in Germany (19%), France (9%), Spain (6.15%) and the United Kingdom (6%).

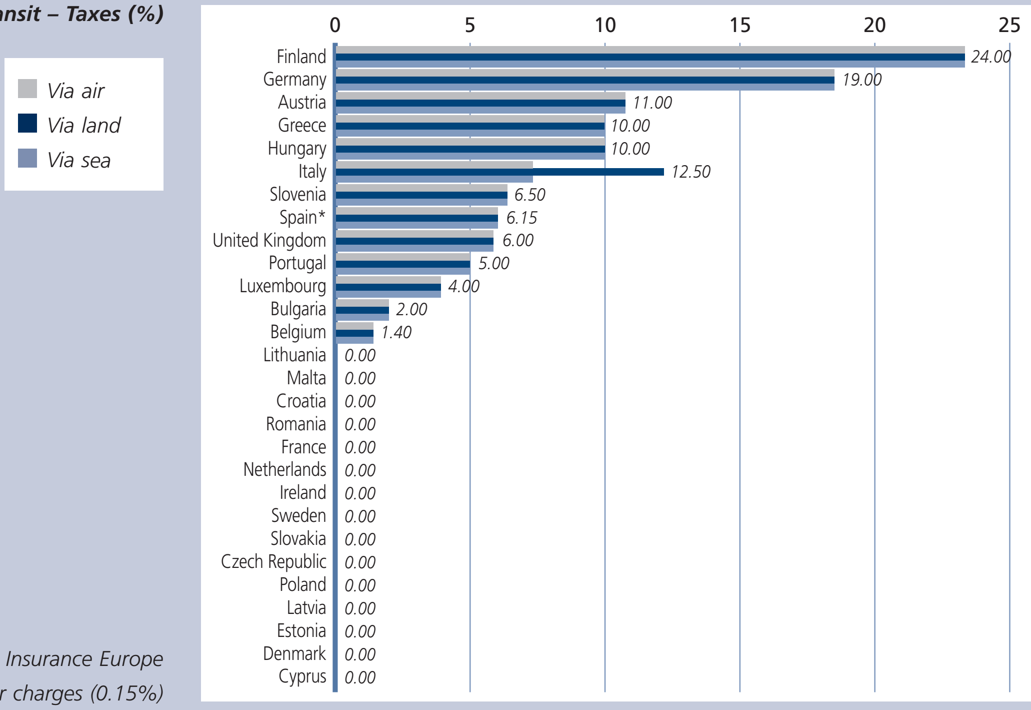
There were no changes last year in Italy in the taxation of shipping insurance premiums, taxed at 7.5% for goods transported by sea or air and at 12.5% for those

***General liability (%)***




*Source: Insurance Europe*

***Goods in transit – Taxes (%)***




*Source: Insurance Europe*

*(*) Taxes (6.00%) plus other charges (0.15%)*

transported by land. The European countries with the highest tax rates are Finland (24%), Germany (19%) and Austria (11%). The United Kingdom applies a 6% rate. In France and most of the other countries such premiums are either exempt or taxed at a very low rate.

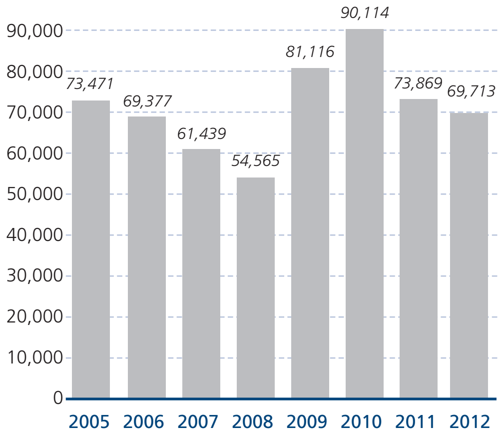
# LIFE INSURANCE

# 3

# LIFE INSURANCE

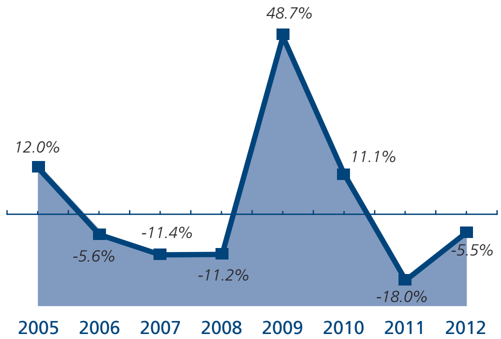
***Direct Premiums***

*Euro million*




Life insurance premiums diminished by 5.5% in 2012 to just under Euro 70 billion. The change with respect to 2011 came from a contraction in premiums from traditional policies and an increase in those from linked policies. In conjunction with an increase in claims and benefits paid, this caused net cash flow for the year to be negative by more than Euro 5 billion. However, these negative technical factors were more than offset by the performance of investment income, which jumped to more than Euro 25 billion (from barely Euro 3 billion in 2011). Accordingly, the overall technical account showed a positive result of Euro 6.8 billion, compared with a negative result of Euro 3.4 billion in 2011.

***Direct Premiums – Annual growth rate***



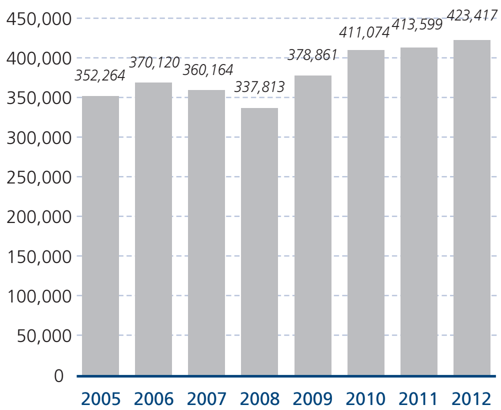

## DOMESTIC BUSINESS

**Premiums from direct domestic business** of the 66 insurance companies operating in the life sector totaled Euro 69,713 million in 2012, down 5.5% after falling by 18.0% in 2011. The pace of the decline slowed in the course of 2012 and the last quarter saw an inversion of trend, after more than two years of unremitting contraction. Life premiums made up 66.3% of total life and non-life premiums, about the same proportion as in 2011.

**Incurred claims**, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled Euro 75,024 million, up 1.4% on 2011 as a result of an increase of 23.2% in amounts paid for claims and a rise of 1.7% in surrenders.

***Total life technical reserves***

*Euro million*




*The absolute change in technical reserves each year may not coincide with that in mathematical and other technical provisions because of portfolio movements, exchange rate variations and other residual items.*

**Net cash flow,** defined as the difference between premiums and incurred claims, was negative by Euro 5,311 million, whereas in 2011 it had been practically nil (Euro -102 million).

Despite negative net premium income, the **change in the mathematical provisions and other technical provisions** topped Euro 10,000 million, up sharply from Euro 2,547 million the previous year.

The **technical provisions** amounted to Euro 423,417 million, with an increase of 2.4% (compared with 0.6% in 2011).

**Operating expenses**, which along with administration expenses also include acquisition costs, premium collection costs and costs relating to the organization

***Life technical account***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 73,471 | 69,377 | 61,439 | 54,565 | 81,116 | 90,114 | 73,869 | 69,713 |
| Incurred claims (-) | 43,710 | 57,804 | 74,316 | 65,547 | 57,198 | 66,801 | 73,971 | 75,024 |
| Changes in technical provisions (-) | 41,196 | 18,303 | -10,245 | -22,636 | 41,114 | 32,184 | 2,547 | 10,005 |
| Balance of other technical items | 697 | 633 | 468 | 104 | 19 | -126 | -177 | -223 |
| Operating expenses (-) | 4,308 | 4,589 | 4,681 | 4,056 | 4,090 | 4,300 | 3,832 | 3,366 |
| - commissions | 2,768 | 2,950 | 2,812 | 2,478 | 2,559 | 2,696 | 2,205 | 1,786 |
| - other acquisition costs | 647 | 735 | 906 | 661 | 640 | 675 | 709 | 687 |
| - other administration costs | 892 | 895 | 962 | 918 | 891 | 929 | 918 | 893 |
| Investment income | 17,062 | 12,126 | 8,176 | -11,030 | 23,996 | 12,617 | 3,019 | 25,319 |
| **Direct technical account result** | **2,016** | **1,440** | **1,331** | **-3,328** | **2,730** | **-680** | **-3,639** | **6,414** |
| Reinsurance result and other items | 327 | 471 | 292 | 320 | 442 | 366 | 268 | 386 |
| **Overall technical account result** | **2,343** | **1,911** | **1,623** | **-3,008** | **3,172** | **-314** | **-3,371** | **6,800** |
| **Net cash flow** | **29,761** | **11,573** | **-12,877** | **-10,982** | **23,918** | **23,313** | **-102** | **-5,311** |
| Annual % changes in premiums | 12.0% | -5.6% | -11.4% | -11.2% | 48.7% | 11.1% | -18.0% | -5.5% |
| Expense ratio | 5.9% | 6.6% | 7.6% | 7.4% | 5.0% | 4.8% | 5.2% | 4.8% |
| - Commissions/gross written premiums | 3.8% | 4.3% | 4.6% | 4.5% | 3.2% | 3.0% | 3.0% | 2.6% |
| - Other acquisition costs/gross written premiums | 0.9% | 1.1% | 1.5% | 1.2% | 0.8% | 0.7% | 1.0% | 1.0% |
| - Other administration costs/gross written premiums | 1.2% | 1.3% | 1.6% | 1.7% | 1.1% | 1.0% | 1.2% | 1.3% |
| Investment income/Technical provisions | 5.1% | 3.4% | 2.2% | -3.2% | 6.7% | 3.2% | 0.7% | 6.0% |
| **Technical account result/Gross written premiums** | **2.7%** | **2.1%** | **2.2%** | **-6.1%** | **3.4%** | **-0.8%** | **-4.9%** | **9.2%** |
| **Overall technical account result/Gross written premiums** | **3.2%** | **2.8%** | **2.6%** | **-5.5%** | **3.9%** | **-0.3%** | **-4.6%** | **9.8%** |
| **Overall technical account result/Technical provisions** | **0.71%** | **0.53%** | **0.44%** | **-0.86%** | **0.89%** | **-0.08%** | **-0.82%** | **1.62%** |

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

and operation of the distribution network, amounted to Euro 3,366 million (Euro 3,832 million in 2011). The decline of 12.2% was sharper than that in premiums, so that the ratio of expenses to premiums diminished from 5.2% to 4.8%. The decline in the ratio was due mainly to the fall in dealer commissions from 3.0% to 2.6%.

**Profits from investments** came to Euro 25,319 million, up from just Euro 3,019 million in 2011. They enabled the **result of the technical account for direct business** to show a profit of Euro 6,414 million (against a loss of Euro 3,639 million in 2011). The ratio of the technical account result to gross written premiums swung from -4.9% in 2011 to +9.2%.

The result of reinsurance cessions and net indirect business was positive by Euro 386 million (Euro 268 million in 2011).

The **overall technical account result** was positive by Euro 6,800 million, whereas in 2011 it had been negative by Euro 3,371 million. There was an improvement both in the ratio to premiums (from -4.6% in 2011 to +9.8% in 2012) and in the ratio to technical provisions (from -0.82% to +1.62%).

## INDIVIDUAL LIFE CLASSES

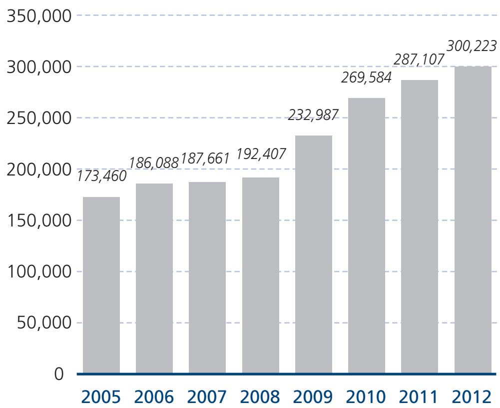
### Class I – Life insurance

***Class I – Life***
*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 33,871 | 32,746 | 27,166 | 31,430 | 64,741 | 67,844 | 56,698 | 51,193 |
| Incurred claims (-) | 18,253 | 23,064 | 28,995 | 29,745 | 28,974 | 35,683 | 44,008 | 45,286 |
| Changes in technical provisions (-) | 18,610 | 12,796 | 1,531 | 4,713 | 40,477 | 36,522 | 17,739 | 11,874 |
| Balance of other technical items | -41 | -113 | -192 | -357 | -337 | -566 | -606 | -716 |
| Operating expenses (-) | 2,365 | 2,634 | 2,811 | 2,845 | 3,284 | 3,316 | 3,105 | 2,741 |
| - commissions | 1,397 | 1,603 | 1,655 | 1,743 | 2,134 | 2,064 | 1,837 | 1,500 |
| - other acquisition costs | 392 | 444 | 544 | 484 | 494 | 555 | 586 | 569 |
| - other administration costs | 576 | 584 | 612 | 618 | 655 | 696 | 682 | 672 |
| Investment income | 6,458 | 6,610 | 7,025 | 3,433 | 9,518 | 7,106 | 5,401 | 14,762 |
| **Direct technical account result** | **1,060** | **749** | **662** | **-2,797** | **1,187** | **-1,137** | **-3,359** | **5,338** |
| Reinsurance result and other items | 371 | 459 | 335 | 332 | 419 | 398 | 285 | 397 |
| **Overall technical account result** | **1,431** | **1,208** | **997** | **-2,465** | **1,606** | **-739** | **-3,074** | **5,735** |
| **Net cash flow** | **15,618** | **9,682** | **-1,829** | **1,685** | **35,767** | **32,161** | **12,690** | **5,907** |
| Annual % changes in premiums | 12.5% | -3.3% | -17.0% | 15.7% | 106.0% | 4.8% | -16.4% | -9.6% |
| Expense ratio | 7.0% | 8.0% | 10.3% | 9.1% | 5.1% | 4.9% | 5.5% | 5.4% |
| - Commissions/gross written premiums | 4.1% | 4.9% | 6.1% | 5.5% | 3.3% | 3.0% | 3.2% | 2.9% |
| - Other acquisition costs/gross written premiums | 1.2% | 1.4% | 2.0% | 1.5% | 0.8% | 0.8% | 1.0% | 1.1% |
| - Other administration costs/gross written premiums | 1.7% | 1.8% | 2.3% | 2.0% | 1.0% | 1.0% | 1.2% | 1.3% |
| Investment income/Technical provisions | 3.9% | 3.7% | 3.8% | 1.8% | 4.5% | 2.8% | 1.9% | 5.0% |
| **Technical account result/Gross written premiums** | **3.1%** | **2.3%** | **2.4%** | **-8.9%** | **1.8%** | **-1.7%** | **-5.9%** | **10.4%** |
| **Overall technical account result/Gross written premiums** | **4.2%** | **3.7%** | **3.7%** | **-7.8%** | **2.5%** | **-1.1%** | **-5.4%** | **11.2%** |
| **Overall technical account result/Technical provisions** | **0.87%** | **0.67%** | **0.53%** | **-1.30%** | **0.76%** | **-0.29%** | **-1.10%** | **1.95%** |
| *Premiums to total life premiums ratio (%)* | *46.1%* | *47.2%* | *44.2%* | *57.6%* | *79.8%* | *75.3%* | *76.8%* | *73.4%* |

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

***Technical provisions – Class I – Life***
*Euro million*




*The absolute change in technical reserves each year may not coincide with that in mathematical and other technical provisions because of portfolio movements, exchange rate variations and other residual items.*

**Premiums from direct domestic business** of the 65 insurance companies operating in Class I amounted to Euro 51,193 million, down 9.6% on 2011. It should be noted that new business in Class I "with-profits" policies is normally negatively correlated with the nominal interest rates offered by Italian government securities (in the period from January 2005 to March 2013 the correlation was -0.83). The high yields on government securities during 2012 contributed to the contraction in sales of new policies of this type. Class I premiums' share of total life premiums declined from 76.8% in 2011 to 73.4%.

**Incurred claims**, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled Euro 45,286 million, up 2.9% on 2011. A factor was the rise in surrenders, which topped Euro 30 billion (Euro 29.7 billion in 2011).

**Net cash flow,** defined as the difference between premiums and incurred claims, was positive by Euro 5,907, roughly half the prior-year figure (Euro 12,690).

The **change in the mathematical provisions and other technical provisions** diminished by more than 30% from the previous year to Euro 11,874 million. Net cash flow's contribution to the change in the mathematical provisions, close to 90% in 2009 and 2010 and 70% in 2011, fell to 50%. The stock of provisions grew by 2.6% during the year to reach Euro 294,544 million.

**Operating expenses** totaled Euro 2,741 million (Euro 3,105 million in 2011). The ratio of expenses to premiums (5.4%) was about the same as in 2011.

With profits from investments nearly tripling to Euro 14,762 million, the **result of the technical account for direct business** reflected a profit of Euro 5,338 million (against a loss of Euro 3,359 million in 2011). The ratio of the technical account result to premiums went from -5.9% in 2011 to +10.4%.

The result of reinsurance cessions and net indirect business was positive by Euro 397 million.

The **overall technical account result** was positive by Euro 5,735 million. Its ratio to premiums was equal to 11.2% (-5.4% in 2011), while its ratio to technical provisions came to 1.95% (-1.10% in 2011).

### Class III – Life policies linked to investment funds or indices

**Premiums from direct domestic business** of the 57 insurance companies operating in Class III amounted to Euro 13,800 million, compared with Euro 12,496 million in 2011. The increase of more than 10% in premiums lifted Class III's share of total life premiums to 19.8% (16.9% in 2011).

**Incurred claims**, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled Euro 23,004 million, down 2.0% on 2011. Surrenders amounted to about Euro 12 billion, decreasing by 5% from the previous year.

**Net cash flow,** defined as the difference between premiums and incurred claims, was negative for the fifth year in a row (Euro -9,204 million, compared with Euro -10,986 million in 2011).

Profits from investments came to Euro 8,590 million, as against losses of Euro 2,684 million in 2011.

Thanks to the large improvement in the result on investments, the **change in the mathematical provisions and other technical provisions** went from Euro -14,096 million in 2011 to Euro -1,280 million last year. The stock of provisions diminished by about 2%.

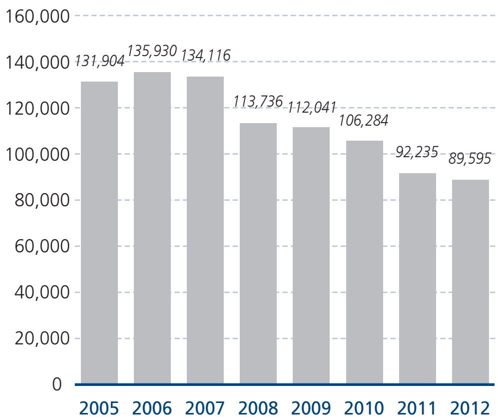
***Class III – Investment funds***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 26,389 | 27,385 | 29,053 | 18,558 | 9,732 | 15,409 | 12,496 | 13,800 |
| Incurred claims (-) | 20,797 | 25,192 | 28,821 | 23,156 | 22,580 | 24,694 | 23,482 | 23,004 |
| Changes in technical provisions (-) | 12,634 | 4,220 | -1,862 | -20,215 | -1,351 | -5,712 | -14,096 | -1,280 |
| Balance of other technical items | 757 | 759 | 671 | 467 | 370 | 445 | 440 | 485 |
| Operating expenses (-) | 1,706 | 1,747 | 1,661 | 1,072 | 632 | 837 | 584 | 494 |
| - commissions | 1,280 | 1,278 | 1,093 | 691 | 365 | 593 | 334 | 274 |
| - other acquisition costs | 186 | 225 | 295 | 144 | 99 | 77 | 81 | 69 |
| - other administration costs | 240 | 241 | 273 | 238 | 168 | 167 | 170 | 151 |
| Investment income | 8,781 | 3,723 | -418 | -14,603 | 12,714 | 4,543 | -2,684 | 8,590 |
| **Direct technical account result** | **790** | **708** | **686** | **409** | **955** | **578** | **282** | **657** |
| Reinsurance result and other items | -45 | 16 | -33 | -9 | 18 | -33 | -22 | -18 |
| **Overall technical account result** | **745** | **724** | **653** | **400** | **973** | **545** | **260** | **639** |
| **Net cash flow** | **5,592** | **2,193** | **232** | **-4,598** | **-12,848** | **-9,285** | **-10,986** | **-9,204** |
| Annual % changes in premiums | 6.6% | 3.8% | 6.1% | -36.1% | -47.6% | 58.3% | -18.9% | 10.4% |
| Expense ratio | 6.5% | 6.4% | 5.7% | 5.8% | 6.5% | 5.4% | 4.7% | 3.6% |
| - Commissions/gross written premiums | 4.9% | 4.7% | 3.8% | 3.7% | 3.8% | 3.8% | 2.7% | 2.0% |
| - Other acquisition costs/gross written premiums | 0.7% | 0.8% | 1.0% | 0.8% | 1.0% | 0.5% | 0.6% | 0.5% |
| - Other administration costs/gross written premiums | 0.9% | 0.9% | 0.9% | 1.3% | 1.7% | 1.1% | 1.4% | 1.1% |
| Investment income/Technical provisions | 7.0% | 2.8% | -0.3% | -11.8% | 11.3% | 4.2% | -2.7% | 9.4% |
| **Technical account result/Gross written premiums** | **3.0%** | **2.6%** | **2.4%** | **2.2%** | **9.8%** | **3.8%** | **2.3%** | **4.8%** |
| **Overall technical account result/Gross written premiums** | **2.8%** | **2.6%** | **2.2%** | **2.2%** | **10.0%** | **3.5%** | **2.1%** | **4.6%** |
| **Overall technical account result/Technical provisions** | **0.59%** | **0.54%** | **0.48%** | **0.32%** | **0.86%** | **0.50%** | **0.26%** | **0.70%** |
| *Premiums to total life premiums ratio (%)* | *35.9%* | *39.5%* | *47.3%* | *34.0%* | *12.0%* | *17.1%* | *16.9%* | *19.8%* |

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

***Technical provisions***
***Class III – Investment funds***
*Euro million*




*The absolute change in technical reserves each year may not coincide with that in mathematical and other technical provisions because of portfolio movements, exchange rate variations and other residual items.*

**Operating expenses** totaled Euro 494 million (Euro 584 million in 2011) and were equal to 3.6% of premiums, down from 5.4% in 2010 and 4.7% in 2011. The diminution in the ratio was due to commissions and other administration expenses, which fell respectively from 2.7% to 2.0% and from 1.4% to 1.1% as a proportion of premiums.

The **result of the technical account for direct business** was positive by Euro 657 million, a slight improvement on 2011. Its ratio to premiums rose from 2.3% to 4.8%.

The result of reinsurance cessions and net indirect business was negative by Euro 18 million.

The **overall technical account result** was positive by Euro 639 million (Euro 260 million in 2011). Both its ratio to premiums (4.6%) and its ratio to technical provisions (0.70%) improved compared with 2011.

***Class IV – Healthcare***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 24 | 23 | 30 | 25 | 26 | 27 | 32 | 43 |
| Incurred claims (-) | 12 | 7 | 7 | 8 | 9 | 9 | 8 | 12 |
| Changes in technical provisions (-) | 2 | 3 | 6 | 3 | 4 | 6 | 6 | 13 |
| Balance of other technical items | -2 | 0 | 1 | -1 | -1 | -2 | -1 | 1 |
| Operating expenses (-) | 3 | 3 | 3 | 3 | 5 | 4 | 8 | 10 |
| - commissions | 1 | 1 | 1 | 2 | 2 | 2 | 4 | 5 |
| - other acquisition costs | 1 | 1 | 1 | 1 | 2 | 1 | 2 | 4 |
| - other administration costs | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 3 |
| Investment income | 1 | 0 | 0 | 0 | 2 | 2 | 2 | 3 |
| **Direct technical account result** | **6** | **10** | **15** | **10** | **9** | **8** | **11** | **12** |
| Reinsurance result and other items | -5 | -9 | -12 | -6 | 0 | 0 | -1 | 7 |
| **Overall technical account result** | **1** | **1** | **3** | **4** | **9** | **8** | **10** | **19** |
| **Net cash flow** | **12** | **16** | **23** | **17** | **17** | **18** | **24** | **31** |
| Annual % changes in premiums | 28.9% | -2.4% | 32.8% | -17.1% | 4.3% | 4.1% | 16.6% | 33.1% |
| Expense ratio | 12.5% | 12.3% | 9.9% | 12.8% | 18.0% | 15.1% | 23.9% | 24.5% |
| - Commissions/gross written premiums | 4.1% | 5.1% | 4.6% | 6.6% | 6.5% | 5.8% | 12.5% | 8.5% |
| - Other acquisition costs/gross written premiums | 2.9% | 3.2% | 1.8% | 3.0% | 6.0% | 5.0% | 6.0% | 9.7% |
| - Other administration costs/gross written premiums | 5.5% | 4.0% | 3.4% | 3.2% | 5.5% | 4.3% | 5.4% | 6.3% |
| Investment income/Technical provisions | 5.6% | 2.6% | 3.0% | 2.3% | 6.6% | 6.7% | 4.8% | 6.3% |
| **Technical account result/Gross written premiums** | **23.6%** | **42.7%** | **49.9%** | **40.9%** | **33.7%** | **30.6%** | **33.2%** | **27.6%** |
| **Overall technical account result/Gross written premiums** | **6.0%** | **2.3%** | **9.8%** | **17.4%** | **33.7%** | **29.8%** | **32.7%** | **44.2%** |
| **Overall technical account result/Technical provisions** | **14.93%** | **4.34%** | **18.32%** | **21.57%** | **37.43%** | **28.34%** | **29.96%** | **42.42%** |
| *Premiums to total life premiums ratio (%)* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.1%* |

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

## Class IV – Permanent health insurance

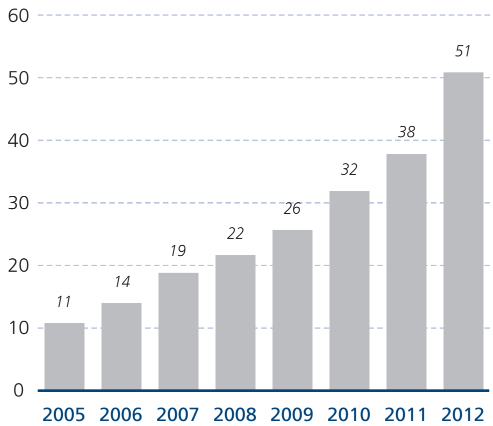
**Premiums from direct domestic business** of the 28 insurance companies operating in Class IV increased by 33.1% to Euro 43 million.

The **overall technical account result** was positive by Euro 19 million (Euro 10 million in 2011). Both its ratio to premiums (44.2%) and its ratio to technical provisions (42.42%) improved compared with 2011.

***Technical provisions***

***Class IV – Healthcare***

*Euro million*




*The absolute change in technical reserves each year may not coincide with that in mathematical and other technical provisions because of portfolio movements, exchange rate variations and other residual items.*

## Class V – Capital redemption policies

**Premiums from domestic business** of the 55 insurance companies operating in Class V amounted to Euro 2,815 million, down by about 10% from 2011. Class V's share of total life premiums fell from 4.2% in 2011 to 4.0%.

**Incurred claims**, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled Euro 5,376 million (Euro 6,060 million in 2011).

# LIFE INSURANCE

***Class V – Capitalization***

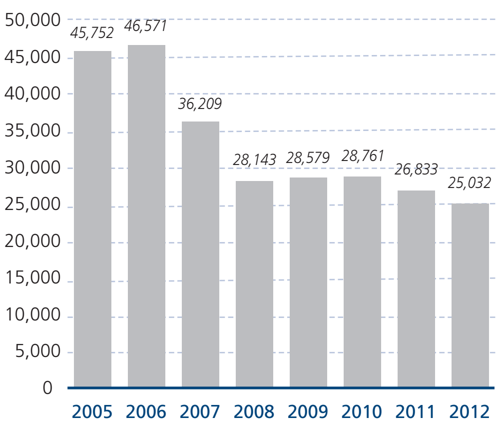
*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 12,692 | 8,938 | 4,469 | 3,196 | 5,078 | 5,154 | 3,131 | 2,815 |
| Incurred claims (-) | 4,615 | 9,478 | 16,380 | 12,494 | 5,461 | 5,809 | 6,060 | 5,376 |
| Changes in technical provisions (-) | 9,418 | 1,017 | -10,562 | -8,077 | 492 | 182 | -2,094 | -1,779 |
| Balance of other technical items | -20 | -19 | -19 | -23 | -31 | -29 | -41 | -33 |
| Operating expenses (-) | 223 | 188 | 177 | 101 | 136 | 110 | 90 | 79 |
| - commissions | 89 | 65 | 58 | 32 | 48 | 30 | 22 | 17 |
| - other acquisition costs | 65 | 57 | 53 | 24 | 36 | 33 | 26 | 23 |
| - other administration costs | 69 | 64 | 65 | 46 | 52 | 47 | 41 | 39 |
| Investment income | 1,751 | 1,747 | 1,542 | 413 | 1,371 | 839 | 409 | 1,279 |
| **Direct technical account result** | **167** | **-17** | **-3** | **-932** | **329** | **-137** | **-557** | **385** |
| Reinsurance result and other items | 5 | 5 | 3 | 4 | 5 | 2 | 5 | 1 |
| **Overall technical account result** | **172** | **-12** | **0** | **-928** | **334** | **-135** | **-552** | **386** |
| **Net cash flow** | **8,077** | **-540** | **-11,911** | **-9,298** | **-383** | **-655** | **-2,929** | **-2,561** |
| Annual % changes in premiums | 20.3% | -29.6% | -50.0% | -28.5% | 58.9% | 1.5% | -39.3% | -10.1% |
| Expense ratio | 1.8% | 2.1% | 4.0% | 3.2% | 2.7% | 2.1% | 2.9% | 2.8% |
| - Commissions/gross written premiums | 0.7% | 0.7% | 1.3% | 1.0% | 0.9% | 0.6% | 0.7% | 0.6% |
| - Other acquisition costs/gross written premiums | 0.5% | 0.6% | 1.2% | 0.7% | 0.7% | 0.6% | 0.8% | 0.8% |
| - Other administration costs/gross written premiums | 0.5% | 0.7% | 1.5% | 1.4% | 1.0% | 0.9% | 1.3% | 1.4% |
| Investment income/Technical provisions | 4.3% | 3.8% | 3.7% | 1.3% | 4.8% | 2.9% | 1.5% | 4.9% |
| **Technical account result/Gross written premiums** | **1.3%** | **-0.2%** | **-0.1%** | **-29.2%** | **6.5%** | **-2.6%** | **-17.8%** | **13.7%** |
| **Overall technical account result/Gross written premiums** | **1.4%** | **-0.1%** | **0.0%** | **-29.0%** | **6.6%** | **-2.6%** | **-17.6%** | **13.7%** |
| **Overall technical account result/Technical provisions** | **0.42%** | **-0.03%** | **0.00%** | **-2.88%** | **1.18%** | **-0.47%** | **-1.99%** | **1.49%** |
| *Premiums to total life premiums ratio (%)* | *17.3%* | *12.9%* | *7.3%* | *5.9%* | *6.3%* | *5.7%* | *4.2%* | *4.0%* |

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

***Technical provisions – Class V – Capitalization***

*Euro million*

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**Net cash flow,** defined as the difference between premiums and incurred claims, was negative by 2,561 million, somewhat better than in 2011 (Euro -2,929 million).

The **change in the mathematical provisions and other technical provisions** was negative again at Euro -1,779 million (Euro -2,094 in 2011).

**Operating expenses** totaled Euro 79 million (Euro 90 million in 2011) and were equal to 2.8% of premiums (2.9% in 2011).

Taking into account the increase in profits on investments to a total of Euro 1,279 million, the **result of the technical account for direct business** was positive by Euro 385 million, against a loss of Euro 557 million in 2011.

The result of reinsurance cessions and net indirect business was positive by Euro 1 million.

The **overall technical account result** was positive by Euro 386 million, against a loss of Euro 552 million in 2011.

***Class VI – Pension funds***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 495 | 285 | 720 | 1,356 | 1,539 | 1,679 | 1,512 | 1,864 |
| Incurred claims (-) | 33 | 64 | 113 | 146 | 173 | 606 | 413 | 1,346 |
| Changes in technical provisions (-) | 532 | 267 | 643 | 939 | 1,492 | 1,185 | 991 | 1,177 |
| Balance of other technical items | 4 | 7 | 9 | 18 | 17 | 26 | 31 | 37 |
| Operating expenses (-) | 11 | 17 | 29 | 35 | 33 | 34 | 45 | 42 |
| - commissions | 2 | 3 | 5 | 11 | 10 | 8 | 8 | 8 |
| - other acquisition costs | 3 | 9 | 13 | 9 | 9 | 9 | 14 | 13 |
| - other administration costs | 6 | 6 | 11 | 15 | 15 | 17 | 23 | 21 |
| Investment income | 71 | 46 | 26 | -273 | 392 | 127 | -109 | 685 |
| **Direct technical account result** | **-6** | **-10** | **-30** | **-19** | **250** | **8** | **-15** | **21** |
| Reinsurance result and other items | 0 | 0 | 0 | 0 | 0 | -1 | 0 | 0 |
| **Overall technical account result** | **-6** | **-10** | **-30** | **-19** | **250** | **7** | **-15** | **21** |
| **Net cash flow** | **462** | **221** | **607** | **1,210** | **1,366** | **1,073** | **1,099** | **518** |
| Annual % changes in premiums | 150.4% | -42.4% | 152.5% | 88.3% | 13.5% | 9.1% | -9.9% | 23.3% |
| Expense ratio | 2.3% | 6.0% | 4.0% | 2.6% | 2.2% | 2.0% | 3.0% | 2.2% |
| - Commissions/gross written premiums | 0.4% | 1.0% | 0.7% | 0.8% | 0.6% | 0.5% | 0.5% | 0.4% |
| - Other acquisition costs/gross written premiums | 0.7% | 3.0% | 1.8% | 0.7% | 0.6% | 0.5% | 0.9% | 0.7% |
| - Other administration costs/gross written premiums | 1.3% | 2.0% | 1.5% | 1.1% | 0.9% | 1.0% | 1.5% | 1.1% |
| Investment income/Technical provisions | 8.2% | 3.5% | 1.4% | -9.6% | 9.0% | 2.2% | -1.6% | 8.6% |
| **Technical account result/Gross written premiums** | **-1.2%** | **-3.4%** | **-4.1%** | **-1.4%** | **16.2%** | **0.5%** | **-1.0%** | **1.1%** |
| **Overall technical account result/Gross written premiums** | **-1.2%** | **-3.4%** | **-4.1%** | **-1.4%** | **16.2%** | **0.4%** | **-1.0%** | **1.1%** |
| **Overall technical account result/Technical provisions** | **-0.66%** | **-0.74%** | **-1.62%** | **-0.68%** | **5.73%** | **0.12%** | **-0.22%** | **0.27%** |
| *Premiums to total life premiums ratio (%)* | *0.7%* | *0.4%* | *1.2%* | *2.5%* | *1.9%* | *1.9%* | *2.0%* | *2.7%* |

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

## Class VI – Pension fund management

**Premiums from domestic business** of the 39 insurance companies operating in Class VI amounted to Euro 1,864 million, up by 23.3% from Euro 1,512 million in 2011.

**Incurred claims**, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled Euro 1,346 million (Euro 413 million in 2011).

The **change in the mathematical provisions and other technical provisions** was positive again at Euro 1,177 million, up from Euro 991 million in 2011.

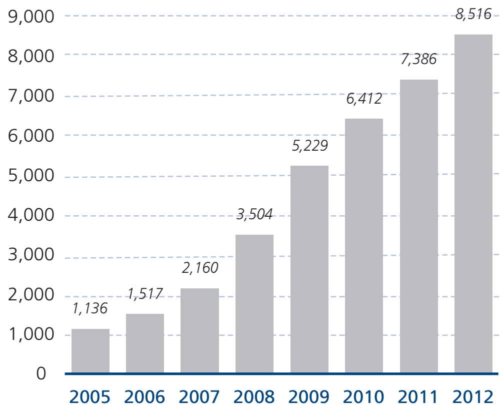
**Operating expenses** totaled Euro 42 million (Euro 45 million in 2011) and were equal to 2.2% of premiums (3.0% in 2011).

Including profits on investments for a total of Euro 685 million, the **result of the technical account for direct business** was positive by Euro 21 million, against a loss of Euro 15 million in 2011.

With the reinsurance balance equal to zero, the **overall technical account result** too was positive by Euro 21 million.

***Technical provisions – Class VI – Pension funds***

*Euro million*

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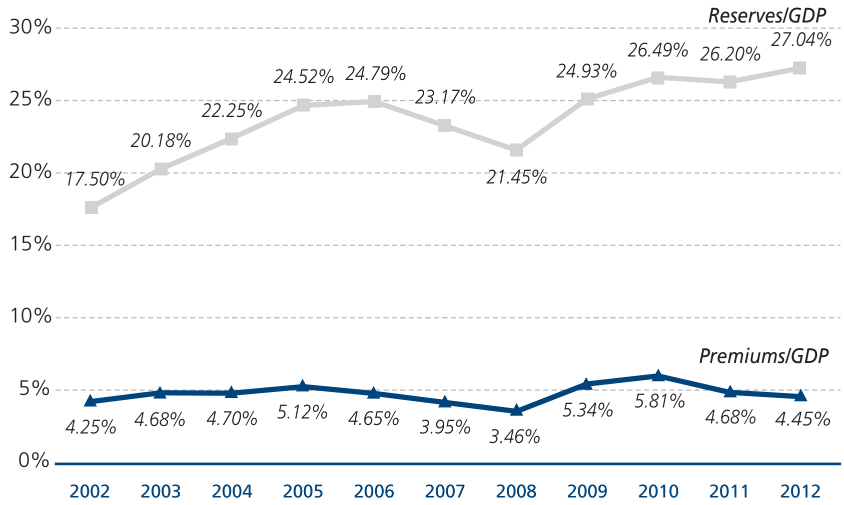
# LIFE INSURANCE

## LIFE INSURANCE AND GDP

The slight increase of 1.2% in the technical provisions in 2012 was reflected in a rise of about a percentage point in the ratio of technical provisions to GDP (27.04% in 2012 against 26.20% in 2011). By contrast, the ratio of life premiums to GDP, which had peaked in 2010 at 5.81%, fell from 4.68°% in 2011 to 4.45% in 2012.

***Premiums and reserves as a % of GDP***




## EVOLUTION OF THE SUPPLY OF LIFE PRODUCTS

### Estimates of the share of guaranteed savings

Using the insurance company data available and making a number of approximations and assumptions, we can estimate the share of the stock of insurance companies' provisions or reserves whose end-of-contract value is guaranteed by the companies ([1]). For 2012 the share is estimated at about 80% of the provisions managed by insurance companies (Figure 1). In particular, profit-sharing policies, whose share has been growing continuously in recent years, accounted for 77.5% of the total at the end of 2012 and Class III and Class VI products, featuring the insurer's guarantee, for an additional 2.5%.

([1]) The share of savings relating to life products with guaranteed benefits comprises the provisions held by insurance companies for:

– profit-sharing products, including with-profit products;
– unit-linked products, invested in internal funds/collective investment undertakings classified as "guaranteed;
– index-linked products featuring the insurance company's guarantee;
– guaranteed sub-funds of pension funds.

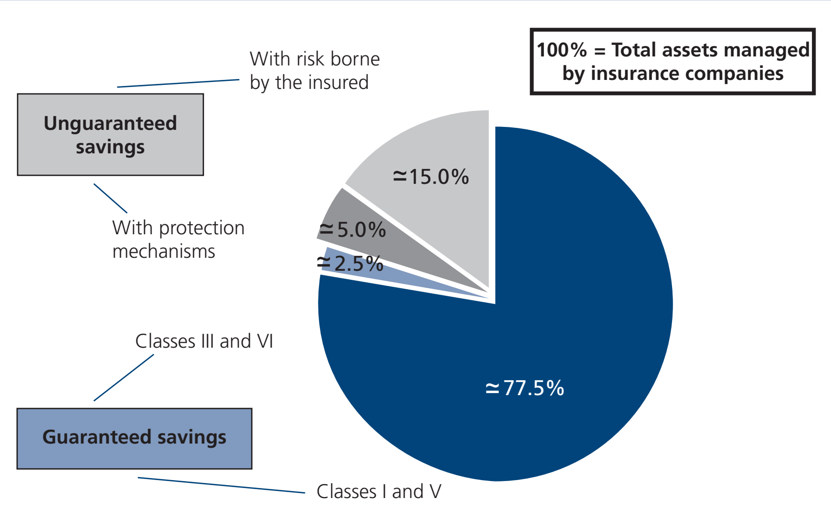



***Figure 1***
***% composition of the assets managed by insurance companies: estimates for 2012***

*Sources: Based on IVASS and COVIP data*

Of the remaining 20% of the amounts set aside, nearly three-fourths was invested in products in which the insured are exposed to the risk of a negative performance of associated funds or sub-funds (mostly unit-linked policies and pension funds) and one-fourth in products explicitly or implicitly featuring protection mechanisms based on financial instruments ("protected" unit-linked policies or index-linked products tied to financial portfolios that provide for at least the premium to be repaid to the policyholder at the contract's maturity).

### Asset allocation corresponding to life products

Using industry statistics and adopting some additional proxies and assumptions, we can also estimate the asset allocation of life products on the basis of balance-sheet data on assets covering reserves ([2]). At the end of 2012 government securities made up about 50% of the assets covering the commitments deriving from life products, private-sector bonds nearly 30% and shares about 10% (Table 1).

For with-profit and profit-sharing products offering guaranteed minimum returns, the portion of government securities exceeded two-thirds, while that of bonds was less than one-fourth and shares accounted for a very low percentage.

For Class III and Class VI products, where the results of the investment are typically linked to the performance of the financial markets, we find an evident search for a higher combination of risk and return. In particular, shares made up 30% of the total portfolio and private bonds almost one-half.

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

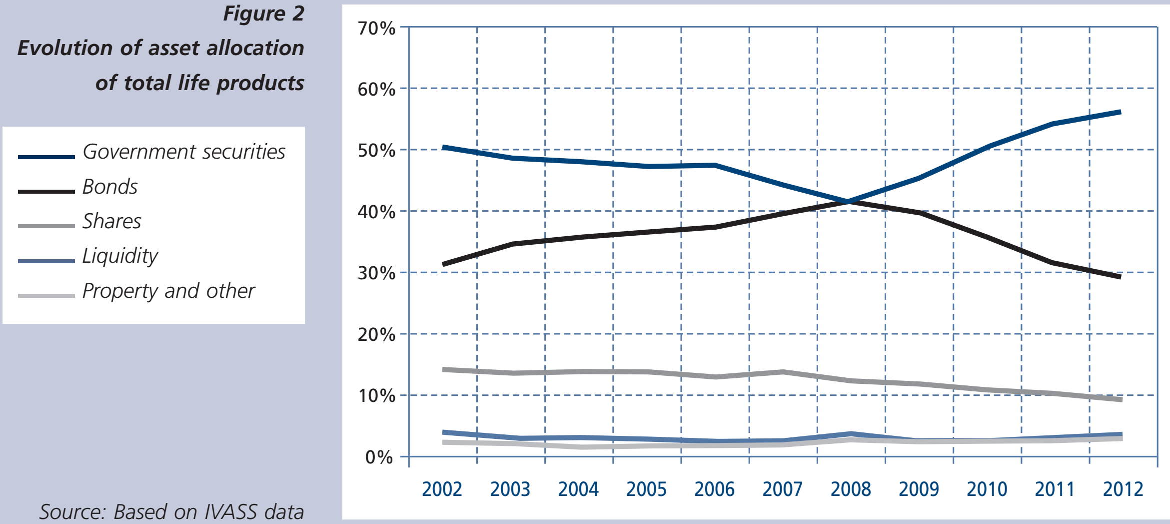
*Table 1*
***Asset allocation of life products in 2012***
*(%)*

| Macro-asset class | Asset allocation corresponding to life products | | | |
|---|---|---|---|---|
| | **Total life market** | Sub-total proft-sharing products | Sub-total class III and VI products | |
| | | | All class III and VI products | *of which: unit-linked* |
| Government securities | 55.8% | 67.0% | 19.2% | 23.1% |
| Bonds | 28.9% | 23.4% | 46.8% | 33.3% |
| Shares and other equity | 9.9% | 3.7% | 30.0% | 37.9% |
| Liquidity | 3.1% | 2.8% | 4.1% | 5.7% |
| Property and other | 2.3% | 3.1% | -0.1% | 0.0% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Sources: Based on IVASS and COVIP data*

Examining the trend in asset allocation corresponding to all life products in recent years (Figure 2), we find a return to the primacy of government securities with respect to private-sector bonds. By contrast, in 2008 the portions invested in these two asset classes were about the same; in 2002 there had been a gap of about 20 percentage points in favor of government securities. Over the same years there was a gradual fall in investment in equities, while the percentage invested in liquid assets, real estate and other assets remained roughly unchanged.

*Figure 2*
***Evolution of asset allocation of total life products***




*Source: Based on IVASS data*

Restricting our discussion to life products with a return guaranteed by the company (Figure 3), we see a partial shift in the composition of the financial portfolio back towards government securities, which at the end of 2012 accounted for nearly 70% of the total, about the same as in the early part of the 2000s but up from less than 60% in 2008-09. This trend is mirrored by the portion invested in private bonds, which after topping 30% in 2008-09 fell back to at the end of 2012 to the levels recorded in the period 2002-06 (i.e. close to 20%). The portion invested in shares is more stable, fluctuating around 5% and reaching a low in 2012. At all events, it should be borne in mind that for life products carrying a guaranteed minimum yield the actual yield for the policyholder is not a direct mark-to-market function of the corresponding asset allocation, owing both to the contractual guarantees and to the specific method of determining the return (valuation of assets at cost and impact of capital gains/losses only if realized), which significantly reduce the volatility of the results.

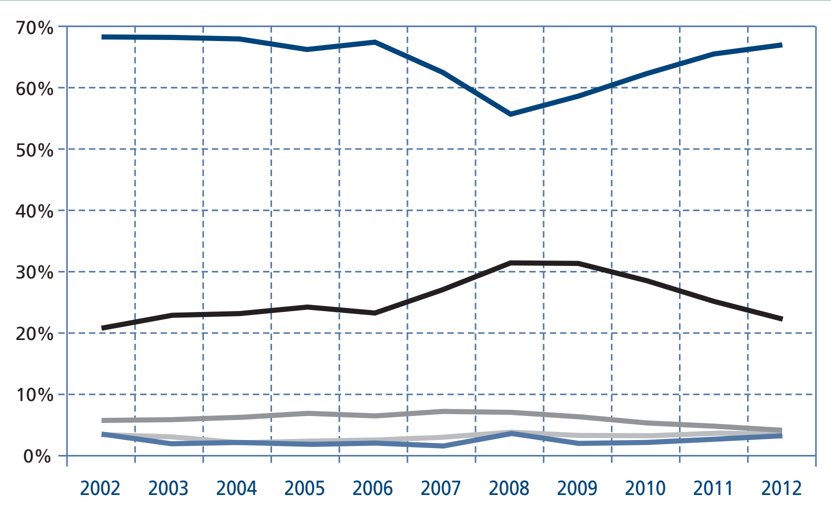



***Figure 3***
***Evolution of asset allocation of profit-sharing life products***
*(%)*

*Source: Based on IVASS data*

Lastly, equities were the single largest asset class in the allocation corresponding to unit-linked policies at the end of 2012. Nevertheless, counting both government securities and private bonds, a larger portion was invested in fixed-income securities; since 2006 the percentage invested in bonds has consistently exceeded that invested in government securities (Figure 4).

In particular, in 2012 shares made up close to four-tenths of the total investments of internal funds and collective investment undertakings, whereas they had exceeded that threshold in the early 2000s; private-sector bonds now stably account for about a third of the total portfolio, compared with just over one-fifth in the early 2000s.

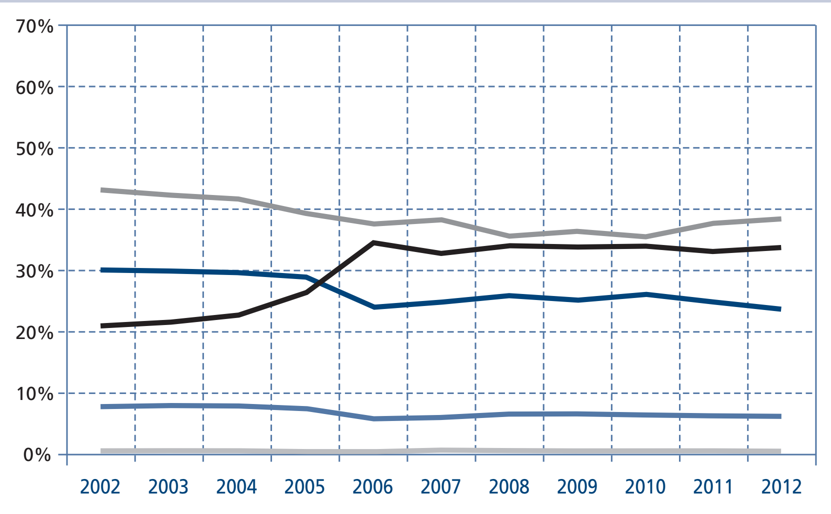



***Figure 4***
***Evolution of asset allocation of unit-linked products***
*(%)*

*Source: Based on IVASS data*

### The evolution of net premium income in the life sector

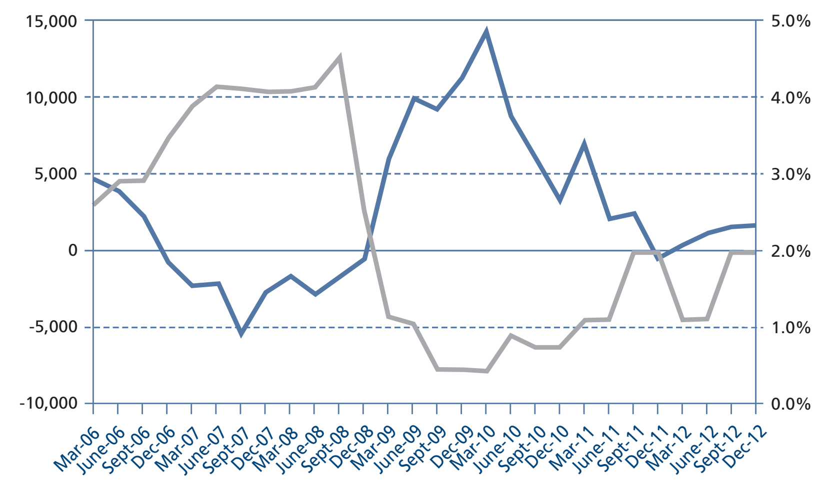
In recent years the performance of net life premium income – the difference between premiums and amounts paid for surrenders, policies maturing, claims and annuities – has fluctuated between positive and negative periods.

For traditional policies and those offering a guaranteed return (Class I and Class V), in each quarter of the period 2006-12 we find a negative correlation between net premium income and the nominal rates on Italian government securities (Figure 5). Partly because of the specific features of the separate asset portfolios to which these policies are normally linked, they become especially attractive for customers when government securities yields fall below the returns that traditional contracts can guarantee by law.

For linked policies, the quarterly series of net premium income in the period 2006-12 shows a progressive deterioration, with net premium income turning negative practically from 2008 on and a positive correlation with the performance of Italy's FTSE-MIB stock exchange index (Figure 6).

***Figure 5***
***Net premium income of traditional policies in each quarter and yield on Italian Treasury bills (BOTs), 2006-2012***

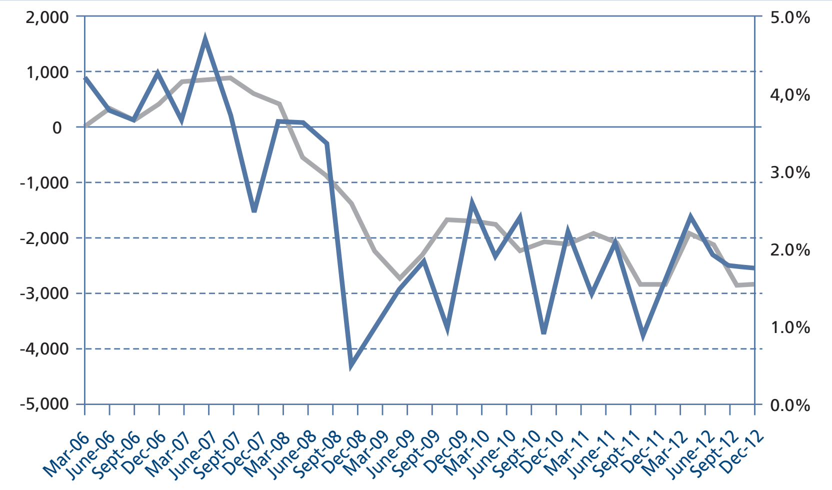
*Net premium income (Classes I and V) in millions of euros (left-hand scale)*
*Gross yield on 3-month BOTs (right-hand scale)*




*Sources: ANIA, Thomson Reuters Datastream*

***Figure 6***
***Net premium income of linked policies in each quarter and FTSE MIB index, 2006-2012***

*Net premium income (Class III) in millions of euros (left-hand scale)*
*Observations of index, 1 January 2006 = 100 (right-hand scale)*




*Sources: ANIA, Thomson Reuters Datastream*

# LIFE INSURANCE
# AND ITALIAN HOUSEHOLDS' SAVINGS

Italian households' nominal disposable income fell by 2.2% in 2012 after growing by 2.0% in 2011 (Table 1). This exceptionally large contraction, together with average consumer price inflation of 3.0% for the year, caused households' real purchasing power to slump by 5% last year after declining by 0.6% in 2011.

***Table 1 – Formation, distribution and uses of consumer households' disposable income***

*(% changes on previous year)*

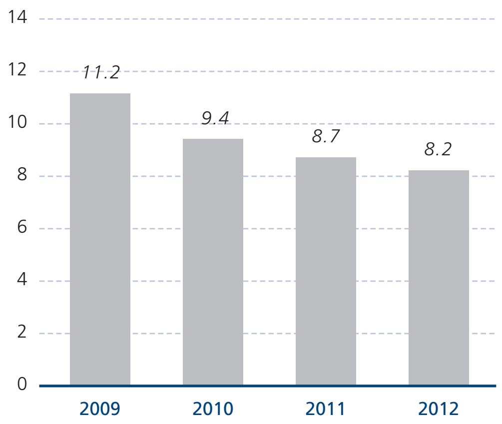
| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Gross operating result (a) (+) | 1.1 | 1.7 | 4.9 | 1.3 |
| Compensation of employees (b) (+) | -1.1 | 1.5 | 1.8 | 0.0 |
| Transferred share of mixed income (+) | -2.9 | -0.2 | 3.1 | -6.9 |
| Net property income (+) | -30.6 | -6.1 | 2.4 | -0.4 |
| *of which:* | | | | |
| *Net interest* | *-35.5* | *-9.3* | *11.5* | *-0.4* |
| *Dividends* | *-34.7* | *-3.4* | *-14.7* | *-10.8* |
| *Other net property income* (c) | *-6.7* | *-1.5* | *2.7* | *9.9* |
| Other profits distributed by corporations and quasi-corporations (+) | -4.8 | 2.6 | -1.9 | -6.6 |
| **Gross primary income** (d) | **-4.4** | **0.8** | **2.0** | **-1.6** |
| Current taxes on income and wealth (-) | -3.3 | 2.7 | 0.1 | 5.5 |
| Net social contributions (e) (-) | -1.6 | 1.0 | 1.3 | 0.2 |
| Net social benefits (+) | 4.6 | 2.6 | 2.2 | 2.0 |
| Other net transfers (f) (+) | -5.5 | 5.6 | 34.1 | -1.2 |
| **Gross disposable income** (g) | **-2.6** | **1.0** | **2.2** | **-2.2** |
| Adjustment for change in net equity of households in pension funds (+) | -8.8 | -6.0 | -17.7 | 11.3 |
| Final consumption expenditure (-) | -1.7 | 3.0 | 3.0 | -1.6 |
| **Gross saving** (h) | **-9.5** | **-15.4** | **-5.7** | **-7.6** |
| Capital taxes (-) | 1,104.1 | -77.0 | -55.2 | 14.0 |

*Source: ISTAT, Conti economici nazionali*

*(a) Net proceeds from activities connected with production for self-consumption. They include the value of imputed rents (owner-occupied dwellings and ordinary maintenance) and the value of domestic services; (b) Domestic incomes plus net incomes from abroad; (c) Rentals of land and property income attributed to the insured in respect of the yields of insurance technical reserves; (d) Operating result plus compensation of employees, share of mixed income transferred by producer households, net property income and other profits distributed by corporations and quasi-corporations; (e) Actual social contributions (including amounts transferred to severance pay funds) and notional contributions paid by consumer households, net of those received as employers; (f) Insurance premiums net of claims payments, net transfers to/from general government, non-profit institutions serving households and rest of the world; (g) Primary income minus current taxes and net social contributions, plus net social benefits and net current transfers; (h) Gross disposable income minus final consumption expenditure, plus adjustment for change in net equity of households in pension funds.*

The chief determinant of this performance was the contraction of 1.6% in gross primary income, the first after two years of growth. Among its components, there were negative contributions from the transferred share of mixed income (-6.6%, after growth of 3.1% in 2011), distributed profits (-6.6% after the previous year's decline of 1.9%) and property income (-0.4%, after growth of 2.4% in 2011). Compensation of employees showed no change from the previous year, whereas in 2011 it had grown by 1.8%.

***Figure 1 – Saving rate of consumer households***
*(% of disposable income)*




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

The erosion of disposable income was accentuated by the sharp increase in current taxes on income and wealth (up 5.5%, compared with just 0.1% in 2011), fueled by the repeated budget corrections carried out by the previous Government. It was further exacerbated by the drop of 1.2% in other net transfers, which had grown by 34.1% in 2011. Net social benefits were again moderately expansive, with growth of 2.0% last year compared with 2.2% in 2011.

Households' final consumption expenditure, which had grown by 3.0% in 2011, declined by 1.6%, which was less than the drop in disposable income. The upshot was a further reduction of 0.5 percentage points in the household saving rate, which has declined in every year since 2004. The flow of saving, gross of debt amortizations and net of changes in pension fund reserves, fell to 8.2% of disposable income, the lowest level since 1990 (Figure 1).

## Financial saving

In 2012 the net flow of financial investment by Italian households and non-profit institutions (for brevity, simply "households") came to nearly Euro 16 billion, less than half the previous year's figure of Euro 36 billion and the smallest amount since 1995. This steep decline in investment in financial assets, largely ascribable to households' diminished propensity to save, was offset by an equally marked swing in the net flow of liabilities from Euro +19.7 billion in 2011 to Euro -3.3 billion in 2012.

As a consequence financial saving – the difference between the flows of financial assets and liabilities – grew slightly, from about Euro 17 billion to Euro 18.9 billion (1.2% of nominal GDP).

The largest flow of investment went to time deposits (Euro 51.0 billion, compared with Euro 10.3 billion in 2011); overall, bank instruments attracted net inflows of Euro 37.2 billion (Euro 7.5 billion in 2011). There was also growth in net purchases of postal securities (including instruments issued by Cassa Depositi e Prestiti), with inflows of Euro 14.7 billion (Euro 4.2 billion in 2011). The net investment inflow into shares and other equity was slightly larger than in 2011 (Euro 5.7 billion, against Euro 4.6 billion).

There were net outflows from both short- and longer-term Italian government securities (Euro 27.7 billion, after inflows of Euro 61.5 billion in 2011) and medium- and long-term bonds of foreign issuers (Euro 24.9 billion, compared with outflows of Euro 15.3 billion in 2011), the latter almost fully offset by purchases of foreign investment fund units.

As in the previous year, there were net outflows from Italian investment funds (Euro 5.9 billion, against Euro 22.8 billion in 2011) and net inflows into shares of resident issuers (Euro 7.4 billion, up from Euro 2.6 billion in 2011).

Lastly, in 2012 Italian households again drained resources from life insurance reserves, with the net outflow amounting to Euro 5.2 billion (Euro 0.3 billion in 2011).

***Table 2 – Financial assets of Italian households***

| | YEAR-END STOCKS | | | | FLOWS | | | |
|---|---|---|---|---|---|---|---|---|
| | Euro million | | % of total | | Euro million | | % of total | |
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Notes and coins | 117,376 | 120,149 | 3.3 | 3.2 | 6,967 | 1,964 | 19.1 | 12.6 |
| Bank instruments | 1,017,257 | 1,059,587 | 28.6 | 28.5 | 7,520 | 37,194 | 20.7 | 238.3 |
| *of which: sight deposits* | 497,958 | 489,543 | 14.0 | 13.2 | -17,996 | -8,407 | -49.4 | -53.9 |
| *other deposits* | 142,274 | 194,579 | 4.0 | 5.2 | 10,312 | 50,958 | 28.3 | 326.4 |
| *medium- and long-term securities* | 377,025 | 375,465 | 10.6 | 10.1 | 15,204 | -5,357 | 41.8 | -34.3 |
| Post-office deposits and other post-office funding | 330,786 | 344,281 | 9.3 | 9.3 | 4,218 | 14,740 | 11.6 | 94.4 |
| Government securities | 188,513 | 188,475 | 5.3 | 5.1 | 61,551 | -27,684 | 169.1 | -177.3 |
| *of which: short-term* | 24,898 | 13,817 | 0.7 | 0.4 | 14,206 | -11,280 | 39.0 | -72.3 |
| *medium- and long-term* | 163,615 | 174,658 | 4.6 | 4.7 | 47,345 | -16,405 | 130.1 | -105.1 |
| Medium- and long-term corporate securities | 3,557 | 1,129 | 0.1 | 0.0 | -16,235 | -5,872 | -44.6 | -37.6 |
| Investment fund units | 234,752 | 267,437 | 6.6 | 7.2 | -18,843 | 16,667 | -51.8 | 106.8 |
| *of which: Italian* | 145,831 | 144,692 | 4.1 | 3.9 | -22,783 | -5,853 | -62.6 | -37.5 |
| *foreign* | 88,921 | 122,745 | 2.5 | 3.3 | 3,940 | 22,520 | 10.8 | 144.3 |
| Shares and other equity | 690,028 | 763,984 | 19.4 | 20.6 | 4,609 | 5,663 | 12.7 | 36.3 |
| *of which: Italian* | 650,902 | 726,313 | 18.3 | 19.5 | 2,597 | 7,381 | 7.1 | 47.3 |
| *foreign* | 39,125 | 37,671 | 1.1 | 1.0 | 2,012 | -1,718 | 5.5 | -11.0 |
| Other external assets | 177,842 | 160,780 | 5.0 | 4.3 | -14,476 | -23,902 | -39.8 | -153.1 |
| *of which: deposits* | 28,455 | 29,841 | 0.8 | 0.8 | 736 | 863 | 2.0 | 5.5 |
| *short-term securities* | - | 517 | 0.0 | 0.0 | 43 | 137 | 0.1 | 0.9 |
| *medium- and long-term securities* | 145,831 | 130,422 | 4.1 | 3.5 | -15,256 | -24,901 | -41.9 | -159.5 |
| Insurance, pension fund reserves and severance pay entitlements | 679,357 | 693,509 | 19.1 | 18.7 | 2,210 | -1,667 | 6.1 | -10.7 |
| *of which: reserves of the life sector* | 416,151 | 427,268 | 11.7 | 11.5 | -331 | -5,226 | -0.9 | -33.5 |
| Other assets | 117,376 | 116,962 | 3.3 | 3.1 | -1,126 | -1,494 | -3.1 | -9.6 |
| **Total assets** | **3,556,844** | **3,716,293** | **100.0** | **100.0** | **36,397** | **15,610** | 100.0 | 100.0 |
| **Total liabilities** | **934,811** | **930,456** | | | **19,667** | **-3,253** | | |
| **BALANCE** | **2,622,033** | **2,785,837** | | | **16,730** | **18,863** | | |

*Source: Based on Banca d'Italia, Conti finanziari*

At the end of 2012 the stock of financial assets held by Italian households amounted to Euro 3,716 billion, up by Euro 160 billion or 4.6% from a year earlier; the increase was driven by the sharp rise in the stock and bond markets during the year. As to the composition of the aggregate portfolio, the portions invested in shares and other equity and investment fund units increased by 1.2 and 0.6 percentage points respectively, while that invested in medium- and long-term foreign securities decreased by 0.6 percentage points. Notwithstanding negative premium income in the life sector, the portion of household wealth invested in life insurance reserves remained practically unchanged (11.5%).

According to Bank of Italy calculations based on ISTAT data, households' net wealth was equal to about 7.5 times disposable income in 2012, somewhat more than in 2011. The modest increase was the result of the rise in share prices and the fall in house prices. Households' net financial wealth was equal to 2.58 times disposable income at the end of 2012, compared with a multiple of 2.38 a year earlier. The ratio in Italy is still among the highest by international standards (Table 3).

***Table 3***
***Households' financial assets in relation to disposable income***

*Sources: Banca d'Italia and ISTAT for the Italian data. For the other countries: Banque de France and INSEE (France); Deutsche Bundesbank (Germany); Banco de España (Spain); Eurostat and ECB (for the euro area); Bank of England and Central Statistical Office (United Kingdom); Federal Reserve System-Board of Governors and Bureau of Economic Analysis (United States)*

| | **Financial assets** | | | **Net financial wealth** | | |
|---|---|---|---|---|---|---|
| | **2007** | **2011** | **2012** | **2007** | **2011** | **2012** |
| **Italy** | **3.50** | **3.23** | **3.44** | **2.73** | **2.38** | **2.58** |
| France | 2.94 | 2.95 | 3.05 | 2.06 | 1.94 | 2.05 |
| Germany | 2.78 | 2.69 | 2.76 | 1.82 | 1.80 | 1.88 |
| Spain | 2.86 | 2.53 | 2.63 | 1.47 | 1.19 | 1.30 |
| Euro area | 3.13 | 3.04 | 3.16 | 2.08 | 1.95 | 2.06 |
| United Kingdom | 4.61 | 4.28 | 4.32 | 2.87 | 2.76 | 2.86 |
| United States | 4.91 | 4.36 | 4.47 | 3.57 | 3.21 | 3.37 |

## SUPPLEMENTARY PENSION PLANS: ENROLMENTS AND NEW REGULATIONS

### Enrolments

COVIP data on enrolments in supplementary pension plans as of 31 December 2012 confirm the slow pace of growth registered in previous years. In 2012 the number of participants increased by 5.3% to top 5.8 million (Table 1). In particular, the number of private-sector employees enrolled rose by 4.4% to more than 4 million at the end of the year. Membership of occupational pension funds fell again last year; participation in open pension funds grew slightly and the number of persons covered by insurance-based individual retirement plans rose appreciably.

Supplementary pension plans' resources grew by 15.1%, reaching Euro 104.4 billion. Compared with a 2.9% revaluation of accrued severance pay, the average return of occupational pension funds was 8.2% and that of open pension funds 9.1%. As for individual retirement plans, unit-linked funds yielded 8.9% and segregated asset portfolios returned an average of 3.8%. The equity sub-funds turned in the best results, but all the sub-funds outperformed accrued severance pay.

| Pension plans | Number of participants | | % change |
|---|---|---|---|
| | December 2011 | December 2012 | |
| Occupational pension funds | 1,994,280 | 1,969,771 | -1.2 |
| Open pension funds | 881,311 | 913,913 | 3.7 |
| Individual retirement plans | 2,025,331 | 2,311,840 | 14.1 |
| Pre-existing pension funds | 664,957 | 659,920 | -0.8 |
| **Total (*)** | **5,536,780** | **5,828,674** | **5.3** |
| of whom: private-sector employees | 3,987,059 | 4,160,898 | 4.4 |

***Table 1***
***Enrolments in supplementary pension plans***

*(*) The total includes FONDINPS and excludes the persons enrolled in both "old" and "new" individual retirement plans. All employees enrolled are deemed to belong to the private sector.*
*Estimates for the number of participants in "old" individual retirement plans and pre-existing pension funds.*

## New regulations

Decree 259/2012 of the Ministry for the Economy and Finance implemented Article 7-bis, paragraph 2, of Legislative Decree 252/2005 laying down the principles for determining the capital requirements of pension funds that cover biometric risks or guarantee a return on investment or a defined benefit.

The ministerial regulation, which entered into force on 20 February 2013, applies – except as provided for in Article 15-quinquies of Legislative Decree 252/2005 – to pension funds that offer direct cover of biometric risks, directly guarantee a return on investment or a given level of benefits, or directly disburse annuities. The regulation does not apply where the financial commitments are undertaken by intermediaries already authorized to engage in these activities and subject to prudential supervision.

Under the new rules, pension funds must establish internal procedures and processes adequate to the magnitude of their financial commitments in being and transmit to COVIP, at least once every three years, technical financial statements containing projections over a time span based on the characteristics of the fund and in any case not shorter than thirty years.

Funds must establish technical provisions adequate to the commitments undertaken vis-à-vis active members, pensioners and beneficiaries, holding at all times sufficient assets to cover them. The technical reserves are to be calculated and certified by an actuary on an individual basis, taking account of the members of the fund as of the valuation date. The assumptions adopted for the calculation must be based on prudential criteria and allow a reasonable margin for adverse variations.

Where assets are insufficient to cover the technical provisions, the pension fund is required to draw up an adjustment plan without delay and submit it to COVIP for approval. In addition, pension funds must permanently hold supplementary assets, over and above the technical reserves, equal on a general basis to 4% of such provisions, in order to offset possible discrepancies between projected and actual revenues and expenditures. If a pension fund does not have adequate capital resources, COVIP may restrict or prohibit the availability of assets, including by measures limiting the disbursement of current and future annuities.

Pension funds that at the time of the regulation's entry into force already cover biometric risks or guarantee a return on investments or a defined benefit or already directly disburse annuities must meet the requirement for supplementary assets within ten years through proportional annual allocations under a plan to be notified to COVIP.

## THE MAIN EFFECTS OF THE "MONTI-FORNERO" PENSION REFORM

The latest pension reform – the so-called Monti-Fornero reform – enacted with Decree Law 201/2011, converted into Law 214/2011, involves a considerable revision of workers' retirement calendar. Its impact is heaviest for workers close to retirement age, who previously enjoyed favorable treatment under the earnings-based computation of pension benefits. This ensured neither fairness nor the financial sustainability of the pension system for future retirees, whose benefits are to be calculated by the contributions-based method. The changeover to contributions-based pensions for all workers, though pro-rated for those who already were entitled to a portion of pension calculated with the earnings-based method, therefore introduces a criterion of greater inter-generational equity, though at a painful cost to workers who had been close to retirement. For younger workers, already subject to such cardinal principles of the reform as the entirely contributions-based method and the automatic linking of pensionable age to life expectancy, the changes now introduced have smaller effects. The new law does away with "moving windows" and other features that basically served to disguise the raising of requirements for pension eligibility and speeds up the automatic adjustment of requirements to life expectancy.

The new measures, the latest of a long series of interventions, are designed to make Italy's pension system sustainable in the long term. The key features of the reform can be summarized in four points: extension of the contributions-based method to all persons enrolled in the public pension system, raising of the requirements for old-age pensions, recasting of long-service pensions into early pensions, and automatic linking of age and contributions requirements to the life expectancy of the population.

The hallmark of the **contributions-based system** is correspondence: the pension amount must be calculated on the amount of contributions paid into the system. The Dini reform had ended earnings-based pension computation but had safeguarded workers with at least 18 years of contributions as of 31 December 1995, thus building in a very long transition. This “safeguard” is abolished with the new reform, which for the portions of pensions accrued from 1 January 2012 onward makes the contributions-based method applicable pro rata.

The right to an **old-age pension** matures when the worker reaches a required minimum age. Before the reform, old-age pensions were payable at age 65 for men, regardless of sector of employment, while for women the minimum age varied according to sector. With effect from 1 January 2012 the reform makes age 66 the pensionable age for all private-sector employees and self-employed men and for women employed in the public sector. In 2018 this requirement will also apply to women who work in the private sector; the progression for phasing in the requirement is different for employees and for self-employed women, but the point of arrival will be the complete harmonization of pension requirements for women from 2018 on: the age requirement rises from 62 years in 2012 for employees (63 years and 6 months for self-employed workers) to 65 years (65 years and 6 months for the self-employed) in 2016 and 66 years for employees and self-employed women alike from 2018 on.

The law contains a safeguard clause whereby retirement age for old-age pensions cannot be less than 67 by 2021 for all workers, irrespective of sex and sector. The overall stiffening of the requirement is very substantial, although a partial mitigation stems from the abolition of the moving windows mechanism, which delayed the time at which pensions became payable by one year for employees and 18 months for the self-employed.

In any case, the law makes entitlement to receive an old-age pension subject to a contributions history of at least 20 years for workers who began to pay into the system after 1 January 1996. In addition, the benefit must be at least 1.5 times the amount of the non-work-related old-age allowance.

The requirements set the minimum age for retirement on a pension. Workers can choose to continue to work until age 70, with the right to keep their job and conversion factors for converting accrued contributions into benefits calculated up to that age.

The reform abolished seniority or long-service pensions. These were payable to workers who had paid into the system for at least a certain number of years even if they had not yet reached the required age for an old-age pension. These benefits have been pointed to as one of the reasons why the pension system was out of kilter: permitting workers to retire very early entails a disproportionate cost with respect to the contributions paid in. Before the reform, long-service pensions were payable for employees with quota 96 (at least 60 years of age plus 36 years of contributions, or 61 plus 35). For self-employed workers, the requirement was 97 (minimum age 61). No age requirement applied once a worker had 40 years of contributions.

The reform modified the system, doing away with the age-plus-contributions quotas and introduced **early pensions**. Workers can retire on a pension before reaching retirement age only if they have 41 years and 1 month of contributions (for women) and 42 years and 1 month (for men), with benefit reductions for those who elect to retire before they reach 62.

The age and contributions-history requirements will be raised further as a result of the **linkage with life expectancy**. This mechanism had already been put in place before the reform, in order to ensure the system's long-term equilibrium. The underlying logic is that when average life expectancy increases, people's working career needs to be lengthened; if not, longer lives will translate into higher costs for the pension system. Retirement age is to be raised periodically, when ISTAT calculates a lengthening of life expectancy.

Originally this system was to be applied from 2015 onward, but its introduction was then brought forward to 1 January 2013. The reform leaves this date standing, but the adjustments will be made every two years starting in 2019. The law has already provided for an ad hoc increase on 1 January 2013 of 3 months of the age requirements for old-age and early pensions.

Workers whose career is entirely under the contributions-based system (i.e. those who began working after 1 January 1996) may qualify for an early pension at age 63, provided their record shows at least 20 years of actual contributions and the amount of the first monthly benefit is not less than 2.8 times the monthly amount of the old-age allowance.

As to the effects of the reform on the income replacement rate ([1]), as estimated by the Public Policy Analysis Center of the Department of Political Economy of the University of Modena and Reggio Emilia, the median pre-tax replacement rate will rise in the next 8-10 years to about 75%. It will then fall back to just above 60% once the contributions-based system is fully phased in; at the 10th percentile, the replacement rate will be about 40%.

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([1]) The replacement rate is the ratio of the initial annual pension to final pay. This is the usual gauge of a pension system's ability to ensure workers a standard of living not too dissimilar to what they enjoyed when they were working. It is, however, a relative, average indicator and does not necessarily fit all cases.

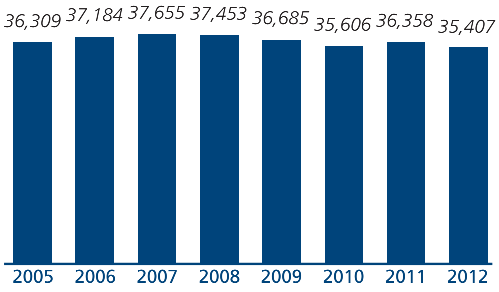
# NON-LIFE INSURANCE

# 4

# NON-LIFE INSURANCE

**_Direct premiums_**

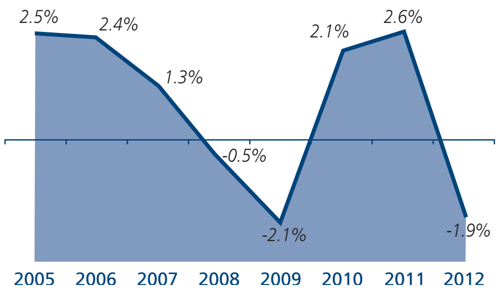
_Euro million_




In 2012 non-life premium income amounted to Euro 35,407 million, down 1.9% from 2011. Its share of total premiums rose from 33.0% to 33.7%, because life sector premiums diminished more sharply. Given a stable expense ratio, the improvement in the loss ratio caused the combined ratio to fall from 97.9% to 95.8%. Lastly, the return on investment, which nearly doubled compared with 2011, together with a positive contribution from reinsurance after many years of negative results, produced a positive overall technical account result of about Euro 3 billion.

## DOMESTIC BUSINESS

**_Growth rate of direct premiums_**

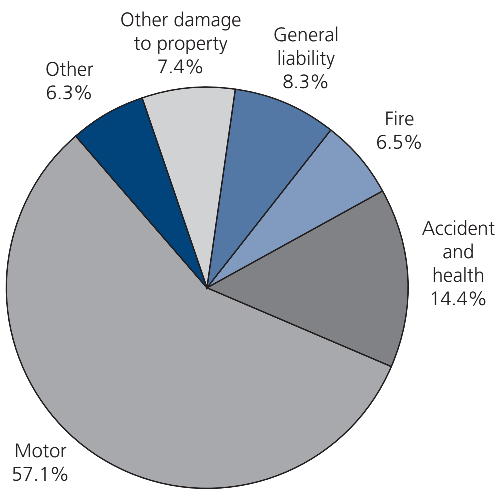



_(*) In homogeneous terms_

**Premiums from direct domestic business** for the 92 Italian and 2 non-EU insurance companies operating in non-life classes were equal to Euro 35,407 million in 2012, down 1.9% in nominal terms compared with the previous year (calculated in homogeneous terms). This drop was the result of the decrease of 2.2% in motor insurance business (motor third party liability insurance, third party liability insurance for watercraft, and land vehicle insurance), which accounts for about 57% of overall non-life income, and the contraction of 1.5% in other non-life classes. Non-life premiums' share of total non-life and life premiums rose from 33.0% to 33.7% as a consequence of the sharper fall in life premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid and the total set aside for all claims incurred in the current accident year, amounted to Euro 24,817 million (Euro 25,328 million in 2011), representing a decrease of 2.0%; the ratio to earned premiums was 69.2%, down from 70.7%.

**_Breakdown of main non-life classes_**




**_35,407 million_**

The **incurred claims cost for the financial year**, which in addition to the incurred cost for the current year also includes the excess/shortfall of provisions for claims incurred in previous accident years (negative by Euro 1.0 billion in 2012, against Euro -1.1 billion in 2011), amounted to Euro 25,775 billion, down 2.6% from Euro 26,462 billion. The ratio to earned premiums thus slipped from 73.8% to 71.8%.

**Operating expenses** – that is, administrative expenses relating to technical management plus costs of contract acquisition, premium collection and the organization and management of the distribution network – amounted to Euro 8,500 million in 2012, a decrease of 3.0% from the previous year. The incidence on direct premiums, at 24.0%, was virtually the same as in 2011, while the ratio of commission expenses to premiums decreased slightly (to 15.5%), as did that of other administration expenses (4.4%). The incidence of other acquisition costs edged upwards to 4.0%.

***Non-life technical account***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 36,309 | 37,184 | 37,655 | 37,453 | 36,685 | 35,606 | 36,358 | 35,407 |
| Changes in premium reserves (-) | 627 | 622 | 570 | 351 | 34 | 524 | 522 | -474 |
| Incurred claims (-): | 24,841 | 25,861 | 26,079 | 27,538 | 28,973 | 26,601 | 26,462 | 25,775 |
| - incurred claims cost for the current accident year (-) | 25,709 | 26,509 | 26,597 | 27,917 | 28,873 | 26,255 | 25,328 | 24,817 |
| - excess/shortfall of reserves for those claims incurred in previous accident years | 868 | 648 | 518 | 379 | -100 | -345 | -1,134 | -958 |
| Balance of other technical items | -561 | -717 | -653 | -747 | -716 | -687 | -591 | -664 |
| Operating expenses (-) | 8,392 | 8,660 | 9,191 | 9,158 | 9,053 | 8,696 | 8,761 | 8,500 |
| - commissions | 5,546 | 5,755 | 6,011 | 6,008 | 5,898 | 5,724 | 5,776 | 5,505 |
| - other acquisition costs | 1,105 | 1,170 | 1,238 | 1,327 | 1,370 | 1,374 | 1,356 | 1,421 |
| - other administration costs | 1,741 | 1,735 | 1,942 | 1,823 | 1,785 | 1,598 | 1,629 | 1,574 |
| **Direct technical balance** | **1,888** | **1,324** | **1,162** | **-341** | **-2,091** | **-902** | **22** | **942** |
| Investment income | 1,991 | 1,854 | 1,924 | 774 | 2,368 | 1,038 | 604 | 1,590 |
| **Direct technical account result** | **3,879** | **3,178** | **3,086** | **433** | **277** | **137** | **626** | **2,532** |
| Reinsurance results and other items | -845 | -661 | -515 | -142 | -344 | -577 | -554 | 480 |
| **Overall technical account result** | **3,034** | **2,516** | **2,571** | **291** | **-67** | **-441** | **72** | **3,012** |
| Annual % changes in premiums | 2.5% | 2.4% | 1.3% | -0.5% | -2.1% | 2.1% | 2.6% | -1.9% |
| **Combined ratio** | **92.7%** | **94.0%** | **94.7%** | **98.7%** | **103.7%** | **100.2%** | **97.9%** | **95.8%** |
| - Expense ratio | 23.1% | 23.3% | 24.4% | 24.5% | 24.7% | 24.4% | 24.1% | 24.0% |
| - Commissions/Gross written premiums | 15.3% | 15.5% | 16.0% | 16.0% | 16.1% | 16.1% | 15.9% | 15.5% |
| - Other acquisition costs/Gross written premiums | 3.0% | 3.1% | 3.3% | 3.5% | 3.7% | 3.9% | 3.7% | 4.0% |
| - Other administration costs/Gross written premiums | 4.8% | 4.7% | 5.2% | 4.9% | 4.9% | 4.5% | 4.5% | 4.4% |
| - Loss ratio: | 69.6% | 70.7% | 70.3% | 74.2% | 79.1% | 75.8% | 73.8% | 71.8% |
| - Loss ratio for the current accident year | 72.1% | 72.5% | 71.7% | 75.2% | 78.8% | 74.8% | 70.7% | 69.2% |
| - Excess/shortfall of reserves for previous years claims/Earned premiums | 2.4% | 1.8% | 1.4% | 1.0% | -0.3% | -1.0% | -3.2% | -2.7% |
| **Technical balance/Earned premiums** | **5.3%** | **3.6%** | **3.1%** | **-0.9%** | **-5.7%** | **-2.6%** | **0.1%** | **2.6%** |
| **Technical account result/Earned premiums** | **10.9%** | **8.7%** | **8.3%** | **1.2%** | **0.8%** | **0.4%** | **1.7%** | **7.1%** |
| **Overall technical account result/Earned premiums** | **8.5%** | **6.9%** | **6.9%** | **0.8%** | **-0.2%** | **-1.3%** | **0.2%** | **8.4%** |

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

*(*) The changes (%) were calculated in homogeneous terms*

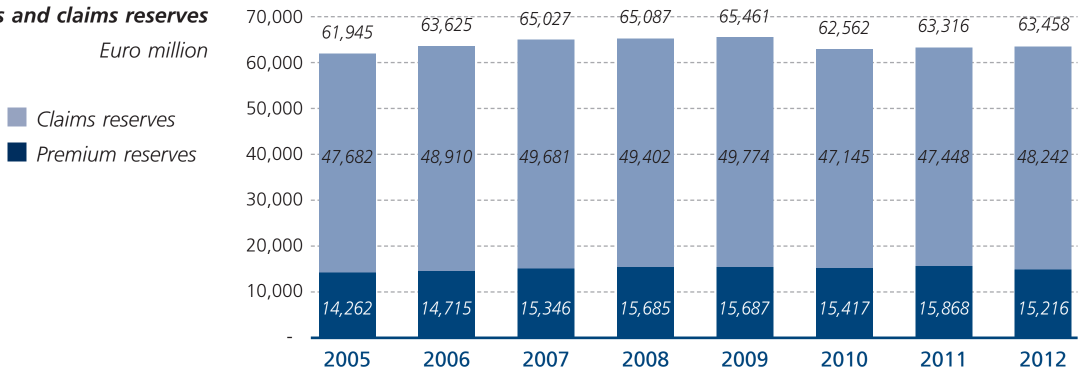
The **technical balance for direct business** was positive at Euro 942 million, compared with just Euro 22 million in 2011.

Counting investment income, which more than doubled to Euro 1,590 million, the **direct technical account result** was positive by Euro 2,532 million, against Euro 626 million in 2011. The ratio to premiums thus rose from 1.7% to 7.1%.

The passive reinsurance and net indirect business result was positive for the first time since 2001, at Euro 480 million.

This contributed to a positive result for the **overall technical account** of Euro 3,012 million, more or less in line with the outturns for 2005-2007 before the onset of the financial and economic crisis. The overall results of the insurance industry in the four years running from 2008 through 2011 were always nega-

***Premium reserves and claims reserves***
*Euro million*



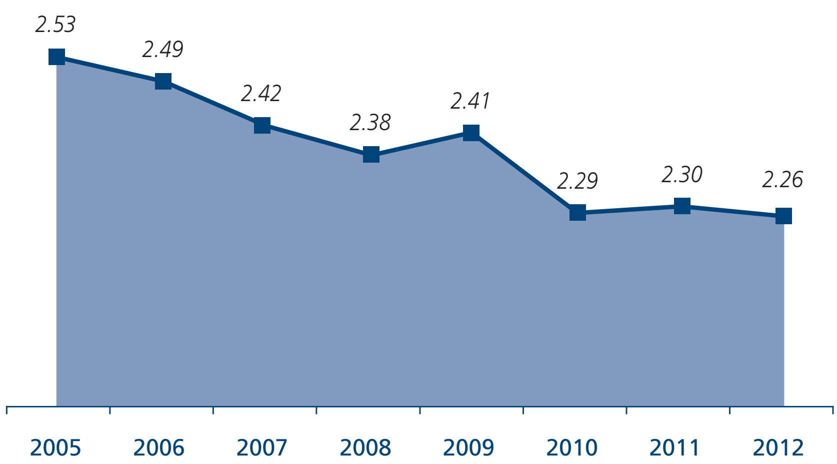

tive or practically nil. The ratio to premium income in 2012 came to 8.4% (0.2% in 2011).

**Technical reserves**, net of amounts to be recovered from policy-holders and third parties, amounted to about Euro 63.5 billion at the end of 2012, of which Euro 15.2 billion consisted in premium reserves and over Euro 48 billion consisted of claims provisions for the current and previous accident years.

## NON-LIFE INSURANCE AND GDP

The ratio of non-life premiums to GDP was 2.3%, about the same as in the previous two years.

***Non-life premiums / GDP (%)***



# MOTOR INSURANCE

# 5

# MOTOR INSURANCE

**Motor insurance premiums registered a 1.2% decrease in 2012, following a gain of 5.2% in 2011. Despite the modest shrinkage of premium income, an 11.4% fall in claims costs helped improve the combined ratio from 102.7% to 92.5%. The increased contribution of the financial component in connection with returns on investment contributed to a positive overall technical balance, offsetting the losses registered by the sector from 2008 through 2011. The overall technical results for land vehicles remained positive and slightly better than in 2011, despite the fifth consecutive decrease in total premiums, which fell by 8.4%.**

## MOTOR LIABILITY OPERATIONS

The data set out here include operations relating to compulsory third party liability insurance for watercraft.

**Premiums for direct domestic business**, collected by the 54 companies operating in this class, totalled Euro 17,576 million in 2012, down 1.2%. These premiums represented 49.6% of the total for non-life classes (48.9% in 2011). In addition, a significant share of premiums (more than 5% of the total, amounting to over Euro 950 million) was collected by foreign companies registered in EU countries operating under the freedom to provide services. No information about the technical results is available for these companies, as they are subject to home country supervision (in accordance with the home country control principle in the EU). Counting these insurers, the total volume of premiums came to Euro 18,530 in 2012, again representing a decline of 1.2%.

The **incurred claims cost for the current accident year**, defined as the sum of the total cost paid and the total cost reserved for all claims incurred in the current accident year, amounted to Euro 12,112 million, a decrease of 9.9% compared with 2011. The year was marked by a sharp fall of 13.5% in claims frequency, but this was partially offset by the 6.1% rise in the average cost of claims. In particular, the total number of claims (the claims frequency indicator) diminished, probably because of declining use of vehicles, especially in cities, owing to higher fuel prices. On the other hand, the average claims cost rose as a result of the changing mix of settlements, consistent with the hypothesis that the diminution involved chiefly the smaller claims, especially those for very minor permanent personal injury. For a detailed analysis, see the section on these two basic indicators.

**Incurred claims cost,** which includes the excess/shortfall of reserves for claims incurred in previous accident years, fell by 11.4%, from Euro 14,791 million to

***Motor and marine liability insurance***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Premium income | 18,198 | 18,416 | 18,239 | 17,637 | 16,994 | 16,913 | 17,794 | 17,576 |
| Change in premium reserves and other balance items (-) | 82 | 64 | -10 | -167 | -5 | 306 | 299 | -121 |
| Claims costs (-) | 14,284 | 14,588 | 14,732 | 14,672 | 15,106 | 14,467 | 14,791 | 13,107 |
| - claims incurred in year (-) | 14,756 | 14,940 | 14,794 | 14,761 | 14,912 | 13,865 | 13,444 | 12,112 |
| - excess/shortfall for claims in previous years | 472 | 352 | 62 | 89 | -194 | -602 | -1,347 | -995 |
| Balance on technical items | -211 | -232 | -226 | -290 | -267 | -244 | -203 | -271 |
| Operating expenses (-) | 3,235 | 3,276 | 3,346 | 3,275 | 3,208 | 3,116 | 3,236 | 3,233 |
| - commissions | 1,944 | 1,962 | 1,936 | 1,882 | 1,808 | 1,787 | 1,868 | 1,839 |
| - other policy acquisition costs | 468 | 498 | 514 | 559 | 574 | 585 | 595 | 638 |
| - other administration costs | 823 | 816 | 896 | 834 | 826 | 745 | 773 | 756 |
| **Technical balance, direct insurance business** | **386** | **256** | **-55** | **-433** | **-1,583** | **-1,221** | **-735** | **1,086** |
| Investment income | 1,104 | 992 | 963 | 344 | 1,217 | 496 | 272 | 786 |
| **Technical account result for direct insurance business** | **1,490** | **1,248** | **908** | **-89** | **-366** | **-725** | **-463** | **1,872** |
| Balance on reinsurance | -16 | 9 | 49 | -2 | -15 | -19 | -19 | 1 |
| **Overall technical account result** | **1,474** | **1,257** | **957** | **-91** | **-381** | **-744** | **-482** | **1,873** |
| Annual % change in premiums | 0.6% | 1.2% | -1.0% | -3.3% | -3.6% | 4.4% | 5.2% | -1.2% |
| **Combined ratio** | **96.6%** | **97.3%** | **99.1%** | **101.0%** | **107.7%** | **105.5%** | **102.7%** | **92.5%** |
| - Expense ratio | 17.8% | 17.8% | 18.3% | 18.6% | 18.9% | 18.4% | 18.2% | 18.4% |
| - Commissions/premiums | 10.7% | 10.7% | 10.6% | 10.7% | 10.6% | 10.6% | 10.5% | 10.5% |
| - Other policy acquisition costs/premiums | 2.6% | 2.7% | 2.8% | 3.2% | 3.4% | 3.5% | 3.3% | 3.6% |
| - Other administration costs/premiums | 4.5% | 4.4% | 4.9% | 4.7% | 4.9% | 4.4% | 4.3% | 4.3% |
| - Loss ratio: | 78.8% | 79.5% | 80.7% | 82.4% | 88.9% | 87.1% | 84.5% | 74.1% |
| - Loss ratio for the year | 81.5% | 81.4% | 81.1% | 82.9% | 87.7% | 83.5% | 76.8% | 68.4% |
| - Excess/shortfall of claims reserves for previous years/premiums for year | 2.6% | 1.9% | 0.3% | 0.5% | -1.1% | -3.6% | -7.7% | -5.6% |
| **Technical balance/premiums for year** | **2.1%** | **1.4%** | **-0.3%** | **-2.4%** | **-9.3%** | **-7.4%** | **-4.2%** | **6.1%** |
| **Technical account result/premiums for year** | **8.2%** | **6.8%** | **5.0%** | **-0.5%** | **-2.2%** | **-4.4%** | **-2.6%** | **10.6%** |
| **Overall technical account result/premiums for year** | **8.1%** | **6.8%** | **5.2%** | **-0.5%** | **-2.2%** | **-4.5%** | **-2.8%** | **10.6%** |
| *Liability premiums/total non-life premiums* | *50.1%* | *49.5%* | *48.4%* | *47.1%* | *46.3%* | *47.5%* | *48.9%* | *49.6%* |

*The indices and % changes are based on values in thousands*

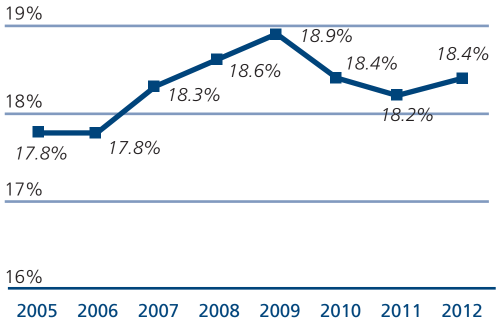
*% changes are based on comparable aggregates*

Euro 13,107 million, about the same as the decrease in the cost for the current year. For the fourth consecutive year there was a shortfall in reserves against claims incurred in previous years, although it moderated from Euro 1,347 million to Euro 995 million. The decrease in claims costs and the modest rise in premiums written resulted in an improvement in the loss ratio, which dropped from 84.5% to 74.1%.

**Operating expenses** – consisting in administration expenses relating to technical management of insurance business, contract acquisition, premium collection and distribution organization and management – amounted to Euro 3,233 million (Euro 3,236 million in 2011). The ratio to premiums rose from 18.2% to 18.4%, as premiums declined slightly. The rise essentially reflected an increase in acquisition costs from 3.3% to 3.6%. Commissions and administration costs, which are generally calculated in proportion to written premiums, were both broadly stable.

# MOTOR INSURANCE

***Operating expenses***
*% of premiums*



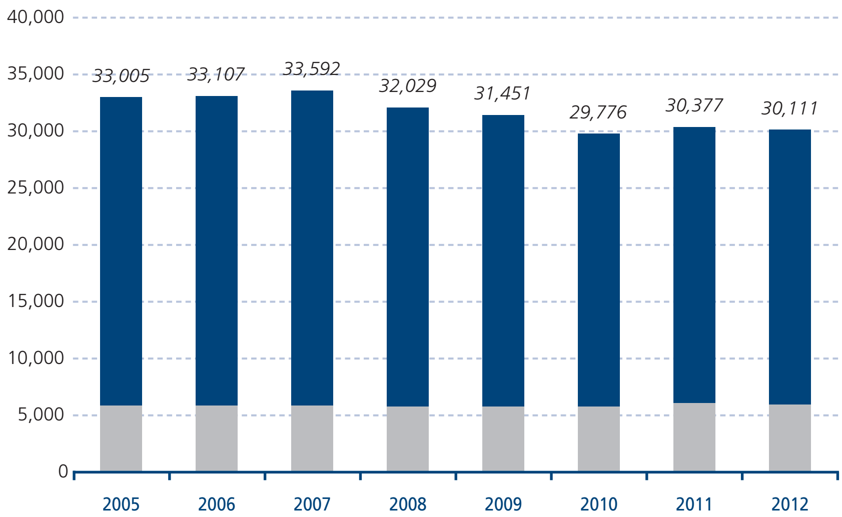

The **technical balance for direct business** was positive at Euro 1,086 million, partially recouping the losses of the last three years, which however amounted to more than Euro 3,500 million. Factoring in investment earnings of Euro 786 million, the **technical account result** was positive by Euro 1,872 million, compared with a negative result of Euro 463 million in 2011.

Taking the balance for reinsurance into account (positive by Euro 1 million), the **overall technical account result** was positive by Euro 1,873 million, compared with a negative outturn of Euro 482 million in 2011.

The **technical reserves of the motor liability sector**, net of recoverable sums, amounted to Euro 30,111 million in 2012, down by about 1%. The premium reserve was about Euro 6,000 million, while the claims reserve for current and previous accident years was Euro 24,100 million.

***Technical reserves, motor and marine liability classes***
*Euro million*

*Premium reserves*
*Claims reserves*




## LAND VEHICLE INSURANCE OPERATIONS

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

**Premiums for direct domestic business** for the 61 insurance companies operating in this class amounted to Euro 2,648 million in 2012, down 8.4%, and accounted for 7.5% of total non-life insurance premiums. The reduction in premium volume, for the fifth consecutive year, was due both to the economic crisis, which led some policyholders to cancel non-compulsory coverage that they considered not indispensable, and to the contraction in new vehicle registrations, which fell by over 20% in the year.

***Land vehicle insurance***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Premium income | 3,154 | 3,205 | 3,284 | 3,208 | 3,132 | 2,950 | 2,891 | 2,648 |
| Change in premium reserves and other balance items (-) | 61 | 61 | 104 | -13 | -12 | -17 | -14 | -72 |
| Claims costs (-) | 1,417 | 1,485 | 1,579 | 1,933 | 2,131 | 1,857 | 1,812 | 1,628 |
| - claims incurred in year (-) | 1,514 | 1,569 | 1,666 | 1,990 | 2,157 | 1,891 | 1,884 | 1,700 |
| - excess/shortfall for claims in previous years | 97 | 84 | 87 | 57 | 27 | 34 | 72 | 72 |
| Balance on technical items | -36 | -51 | -39 | -38 | -34 | -34 | -31 | -28 |
| Operating expenses (-) | 748 | 765 | 827 | 824 | 830 | 781 | 763 | 703 |
| - commissions | 518 | 534 | 569 | 559 | 562 | 530 | 521 | 477 |
| - other policy acquisition costs | 89 | 92 | 100 | 108 | 114 | 119 | 119 | 109 |
| - other administration costs | 141 | 139 | 158 | 157 | 154 | 131 | 123 | 117 |
| **Technical balance, direct insurance business** | **892** | **843** | **735** | **426** | **149** | **296** | **299** | **361** |
| Investment income | 59 | 56 | 58 | 27 | 79 | 31 | 18 | 48 |
| **Technical account result for direct insurance business** | **951** | **899** | **793** | **453** | **228** | **327** | **317** | **409** |
| Balance on reinsurance | -19 | -38 | -27 | -5 | 30 | -20 | -22 | -17 |
| **Overall technical account result** | **932** | **861** | **766** | **448** | **258** | **307** | **295** | **392** |
| Annual % change in premiums | 0.3% | 1.6% | 2.5% | -2.3% | -2.4% | -1.3% | -2.0% | -8.4% |
| **Combined ratio** | **69.5%** | **71.1%** | **74.8%** | **85.7%** | **94.3%** | **89.0%** | **88.8%** | **86.4%** |
| - Expense ratio | 23.7% | 23.9% | 25.2% | 25.7% | 26.5% | 26.5% | 26.4% | 26.5% |
| - Commissions/premiums | 16.4% | 16.7% | 17.3% | 17.4% | 17.9% | 18.0% | 18.0% | 18.0% |
| - Other policy acquisition costs/premiums | 2.8% | 2.9% | 3.1% | 3.4% | 3.6% | 4.0% | 4.1% | 4.1% |
| - Other administration costs/premiums | 4.5% | 4.3% | 4.8% | 4.9% | 4.9% | 4.4% | 4.3% | 4.4% |
| - Loss ratio: | 45.8% | 47.2% | 49.7% | 60.0% | 67.8% | 62.6% | 62.4% | 59.8% |
| - Loss ratio for the year | 48.9% | 49.9% | 52.4% | 61.8% | 68.6% | 63.7% | 64.9% | 62.5% |
| - Excess/shortfall of claims reserves for previous years/premiums for year | 3.1% | 2.7% | 2.7% | 1.8% | 0.8% | 1.2% | 2.5% | 2.7% |
| **Technical balance/premiums for year** | **28.8%** | **26.8%** | **23.1%** | **13.2%** | **4.7%** | **10.0%** | **10.3%** | **13.3%** |
| **Technical account result/premiums for year** | **30.7%** | **28.6%** | **24.9%** | **14.1%** | **7.3%** | **11.0%** | **10.9%** | **15.0%** |
| **Overall technical account result/premiums for year** | **30.1%** | **27.4%** | **24.1%** | **13.9%** | **8.2%** | **10.4%** | **10.1%** | **14.4%** |
| *Liability premiums/total non-life premiums* | *8.7%* | *8.6%* | *8.7%* | *8.6%* | *8.5%* | *8.3%* | *8.0%* | *7.5%* |

*The indices and % changes are based on values in thousands*

*% changes are based on comparable aggregates*

The **incurred claims cost for the 2012 accident year**, defined as the sum of the total settlement costs plus the amount reserved against all claims incurred during the accident year, amounted to Euro 1,700 million, representing a 9.8% decrease compared with 2011. The loss ratio, i.e. the ratio to earned premiums, was 62.5%, a small improvement from 65% in 2011.

The **incurred claims cost for the financial year**, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal to Euro 1,628 million last year, down from Euro 1,812. The ratio to earned premiums was 59.8%, representing an improvement from 62.4% in 2011.

**Operating expenses**, which comprise administration expenses relating to the technical management of insurance business and contract acquisition costs, costs arising from premium collection and costs relating to the organization and management of the distribution network, came down from Euro 763 million to Euro 703 million. The ratio to premiums edged up from 26.4% to 26.5%.

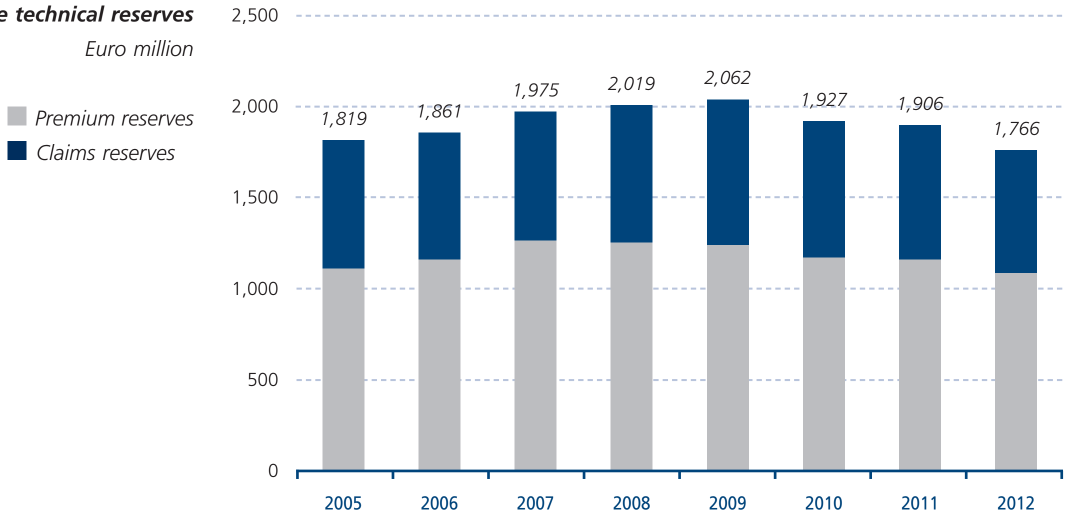
The **technical balance for direct business** was positive at Euro 361 million (Euro 299 million in 2011).

Including investment income, the **technical account result for direct business** was positive at Euro 409 million (Euro 317 million in 2011).

Counting also the balance for reinsurance, the **overall technical account result** was positive by Euro 392 million (Euro 295 million in 2011), equal to 14.4% of premiums (10.1% in 2011).

**Direct technical reserves** for the land vehicle insurance class, net of sums to be recovered from insured and third parties, amounted to Euro 1,766 million in 2012, a decrease of 7.4% from the previous year. Of these reserves, about Euro 700 million consisted in claims reserves and Euro 1,100 million in premium reserves.

***Land vehicle insurance technical reserves***
*Euro million*




## THE AVERAGE COST OF CLAIMS AND CLAIMS FREQUENCY

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

**Number of claims.** The total number of claims incurred and reported is given by the sum of claims incurred and settled during the year and of claims reserved (which will give rise to a payment in the future), but does not include the estimate of those incurred but not reported (IBNR) during 2012 but that will be reported in future years. By this count, the number of claims lodged with Italian or non-EU insurance companies totaled 2,282,670 in 2012, down 15.3% from 2,695,645 in 2011.

**Claims frequency (excluding IBNR).** Claims frequency as shown in Panel A of Table 1 is defined as the ratio between the number of claims incurred and reported during the accident year that have given or will give rise to compensation and the number of vehicles exposed to the risk of claim-generating accident (measured on the basis of days of exposure during the year, converted into "vehicle-years"). This technical indicator fell from 6.53% in 2011 to 5.64% last year, marking a decline of 13.7% to the lowest figure on record. The improvement may have been due to less driving, as is shown by the nearly 10% fall in fuel consumption during the year, owing to the considerable rise in prices and the recession-induced squeeze on households' disposable income. Another factor may have been insurance companies' stepped-up action against fraud. Finally, there has been increasing resort to the practice of informal settlement of small claims by policyholders themselves, in order to avoid having to pay higher premiums. Additional confirmation of the deepening crisis is the further fall last year in the number of vehicles insured, which declined by 1.9% from 41.3 million to 40.5 million (the figure refers only to Italian companies and to those of countries outside the European Economic Area. Including all the other types of insurer doing business in Italy, the decline came to 1.7%. In addition, a considerable number of vehicles (about a million in the past three years) have ceased to take out insurance and should accordingly not be on the roads.

To determine the extent to which the change in claims frequency depends on cyclical or contingent factors such as households' economic situation and fuel prices rather than the number of vehicles insured, ANIA conducted a multiple linear regression analysis. Specifically, for the last five years, 2008-2012, we determined the change in claims frequency for each quarter compared with the same quarter of the previous year. The same calculations were made for variations in the independent variables selected, namely GDP (proxying for general economic conditions and those of households), fuel prices, and ANIA's estimate of number of insured vehicles.

We analyzed a number of models. The best fit (with a multiple determination coefficient of 0.72) was that with two variables linked to the situation of households, i.e. GDP and the price of motor vehicle fuel. Specifically, for an equal change in all the other factors, a 1% decrease in GDP produces a 1.1% decrease in claims frequency; a 10% rise in fuel prices results in a 5.7% fall in claims frequency. Given that on average in 2012 GDP declined by 2% and fuel prices rose by more than 15%, more than 80% of the 13.7% decline in accidents during the year is explained by these two factors. Further, comparing the values for statistical tests used to gauge the goodness of the results for the two variables, we find that the causal variable with the greatest impact on claims frequency is the price of fuel.

The findings are especially relevant to determining whether the fall in number of accidents (hence in claims frequency) is contingent or structural. The strong statistical evidence produced by the study suggests that the fall in claims frequency in 2011 and 2012 was related to factors that have only a temporary impact on insurance claims and that their effects will cease (or diminish) when the economy turns up or the price of fuel turns down. And in fact the initial evidence indicates that in the first quarter of 2013, when petrol prices came down, the reduction in claims frequency was less pronounced than in 2012.

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

| | Panel A: Excludes claims IBNR, the contribution to the Road Accident Victims Guarantee Fund and other residual items | | | | | | | | Panel B: Includes claims IBNR, the contribution to the Road Accident Victims Guarantee Fund and other residual items | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Claims frequency % | % change | Average claim cost - property damage | % change | Average claim cost - personal injury | % change | Average total claim cost** | % change | Claims frequency % | Average claim cost |
| 2000 | 9.82% | -1.3% | 1,278 | 2.9% | 9,920 | 14.9% | 2,809 | 13.1% | 10.95% | 2,825 |
| 2001 | 8.54% | -13.1% | 1,431 | 12.0% | 11,175 | 12.7% | 3,186 | 13.4% | 9.55% | 3,207 |
| 2002 | 7.82% | -8.4% | 1,535 | 7.3% | 12,686 | 13.5% | 3,532 | 10.9% | 8.78% | 3,503 |
| 2003 | 7.66% | -2.1% | 1,634 | 6.4% | 13,542 | 6.7% | 3,805 | 7.7% | 8.63% | 3,771 |
| 2004 | 7.61% | -0.6% | 1,701 | 4.1% | 13,206 | -2.5% | 3,982 | 4.7% | 8.58% | 3,964 |
| 2005 | 7.55% | -0.8% | 1,644 | -3.3% | 13,106 | -0.8% | 4,047 | 1.6% | 8.51% | 4,038 |
| 2006 | 7.47% | -1.1% | 1,674 | 1.8% | 13,233 | 1.0% | 4,100 | 1.3% | 8.47% | 4,080 |
| 2007 | 7.61% | 1.9% | 1,764 | 5.4% | 11,958 | -9.6% | 3,967 | -3.2% | 8.52% | 4,014 |
| 2008 | 7.73% | 1.6% | 1,772 | 0.5% | 11,830 | -1.1% | 3,913 | -1.4% | 8.57% | 3,972 |
| 2009 | 7.77% | 0.5% | 1,725 | -2.7% | 11,694 | -1.1% | 3,903 | -0.3% | 8.60% | 3,986 |
| 2010 | 7.36% | -5.2% | 1,716 | -0.5% | 12,052 | 3.1% | 4,057 | 4.0% | 8.12% | 4,117 |
| 2011 | 6.53% | -11.3% | 1,803 | 5.0% | 13,155 | 9.2% | 4,345 | 7.1% | 7.21% | 4,519 |
| 2012* | 5.64% | -13.7% | 1,857 | 3.0% | 14,776 | 12.3% | 4,531 | 4.3% | 6.23% | 4,797 |

** ANIA estimates based on advance information on 2012 financial statements*
*** Source: ISVAP/IVASS; for 2012, data from reporting forms*

**Average cost of claims (excluding IBNR).** The average cost of claims shown in Panel A of Table 1 is derived by dividing the total cost of claims (paid and reserved) by their number. The indicator takes account both of payments made in final or partial settlement and of compensation payments that companies expect to make in the future for claims that have been reported but whose amount has yet to be determined (reserved amounts). It excludes incurred but non-reported claims (IBNR reserves), contributions to the Road Accident Victims Guarantee Fund and other residual items. These items have been excluded from the 2012 data in order to allow uniform comparison with the data for previous years, derived from the supervisory authority's analysis using this methodology. On this basis, the average claim cost in 2012 was Euro 4,531, up 4.3% from Euro 4,345. In particular, the average cost of claims involving only material damage rose from Euro 1,803 to Euro 1,857, an increment of 3%, while that of claims involving personal injury (including the material damage component) jumped by 12.3%, from Euro 13,155 to Euro 14,776. This increase could be due to the fall in small claims thanks to the institution of compulsory clinical or instrumental verification of minor permanent injuries (so that the remaining accidents are those involving larger claims). As a consequence, the share of claims involving personal injury is estimated to have come down from 22.4% to 20.7%.

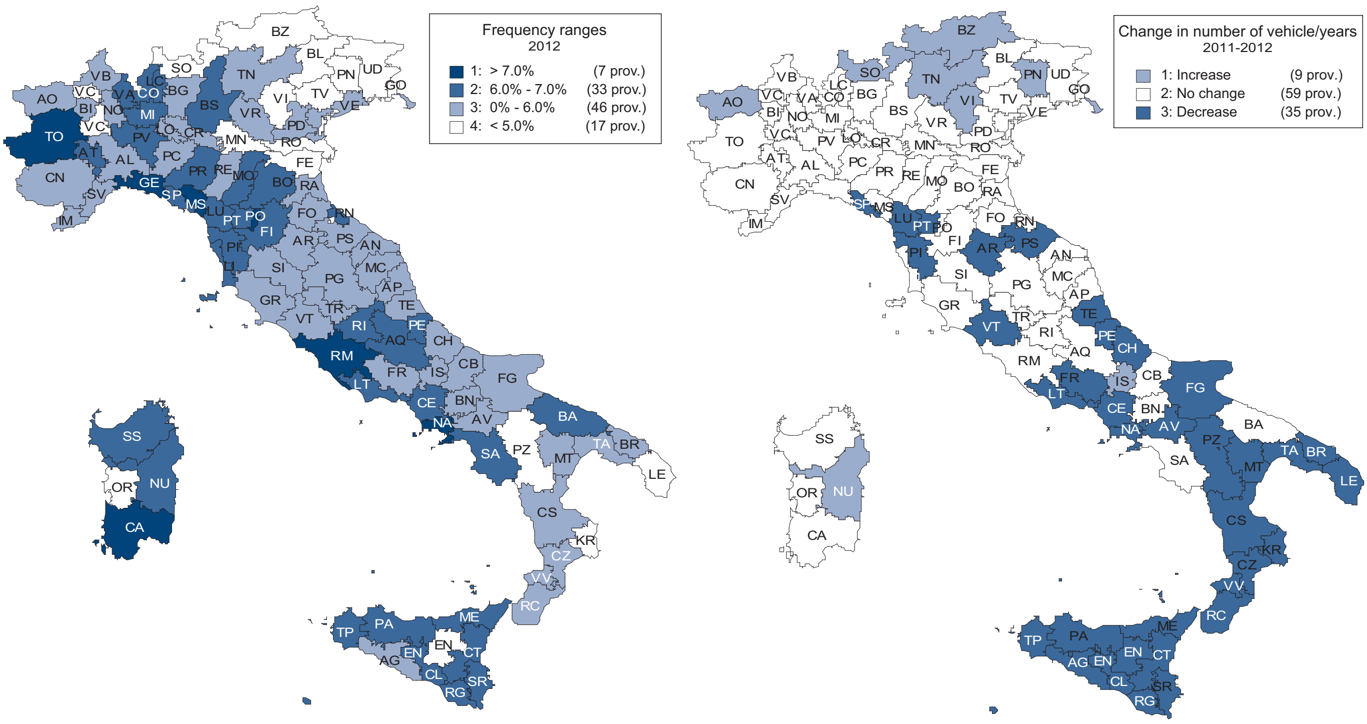
**Number of claims and average cost (including IBNR).** The total number of claims, including the IBNR estimate, came to 2,524,945 in 2012, down by 15.1% from 2011 (Panel B of Table 1); claims frequency also declined, by 13.5%, from 7.21% to 6.23%. Counting all the components included in the definition of the costs of claims for the period (item 18 of Supervisory Form 17), i.e. including IBNR reserves, the contribution to the Road Accident Victims Guarantee Fund and other residual items, the average cost of claims for the period rose by 6.1% to Euro 4,797.

The 13.5% drop in claims frequency was thus accompanied by a 6.1% rise in average cost. Consequently, given the contemporaneous decline of 1.9% in number of vehicles insured, the total cost of claims for the year (item 18 of Supervisory Form 17) came down by 9.9%.

As observed, the total number of vehicles insured in Italy diminished in 2012. However, the decline was more marked in some parts of the country (Figure 1, right-hand map). The provinces recording larger-than-average decreases were located mostly in the Centre-South and in Sicily.

Comparing provincial claims frequency (Figure 1, left-hand map) with the change in number of vehicles insured, we see that there is considerable overlap – that is, many of the provinces where the number of vehicles declined were among those where claims frequency was highest. This is most evident in the regions of Liguria, Tuscany, Campania, and Sicily. The trend presumably again contributed to the nationwide decline in claims frequency in 2012. By comparison with 2011, in fact, the share of insured vehicles in low-claims-frequency provinces increased (e.g. in the regions of the North-East), while that in the high-frequency provinces decreased.

*Figure 1 – Claims frequency by province, 2012, and change in risks covered, 2011-2012*




## COMPENSATION FOR PERSONAL INJURY

The total damages paid (for both property damage and personal injury) came to Euro 12.1 billion in 2012 ([1]). Of this, about two thirds (Euro 8.3 billion) was in relation to personal injury (including the property-damage component of mixed claims); Euro 2.7 billion consisted in compensation for permanent disability of between 1 and 9 percent, the remaining Euro 5.6 billion for more severe disability or death (Figure 1).

The percentage of all motor liability claims involving personal injury fell sharply last year, to an estimated 20.7%. It had risen from 21.3% in 2008 to 21.8% in 2009 and 22.7% in 2010. A first, slight downturn was registered in 2011, to 22.4%. For a number of years now there has been an increasing tendency to speculative exaggeration of personal injury claims, concentrating on very mild injuries (1%-2% disability), which accounted for some 15% of claims and 80% of non-se-

([1]) ANIA's estimate based on data from Italian insurers and units of non-EU insurance companies operating in Italy. The data are for the cost of claims (amounts paid and reserved) of accidents occurring in 2012. The total cost of claims for the year, including any excess or shortfall of reserves against claims from previous years, came to Euro 13.1 billion.

vere injuries in 2011. To counter this tendency, Decree Law 1/2012, the "liberalization" decree, converted with amendments as Law 27/2012, introduced provisions against the 20-year increase in speculative claims for very mild injuries, principally "whiplash" injuries. Compensation now depends on objectively verified injury; mere symptoms reported or alleged by the injured party are no longer sufficient.

With the entry into force of the provisions set out in Article 32 of the Decree Law, the regulatory framework governing compensation for minor injury changes radically. In particular:

Article 32, paragraph 3-ter amends Article 139 of the Private Insurance Code on "Permanent biological damage for non-severe personal injury" by adding the following sentence: "In any case mild injuries that are not susceptible to objective clinical or instrumental verification cannot give rise to compensation for permanent biological damage."

That is, the law expressly distinguishes between the "injury" (i.e. the traumatic pathology caused immediately by the accident) and the "permanent damage" that may result, establishing that if the former does not have certain specific characteristics the latter cannot be recognized; i.e. no permanent biological damage can be recognized, while the temporary damage, medical costs and other components of personal injury are eligible for compensation.

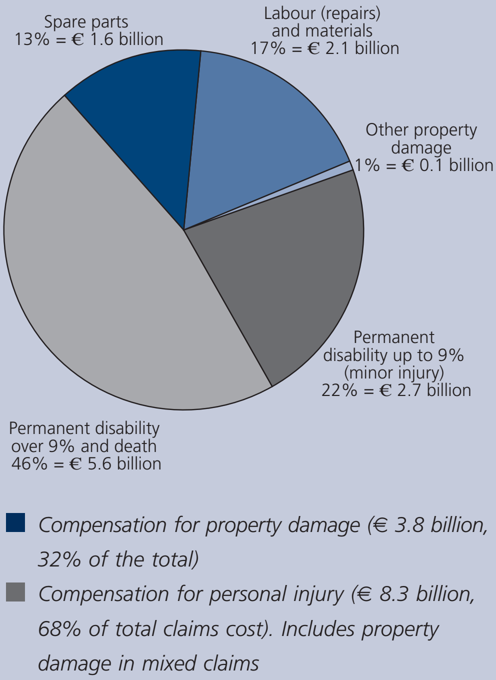
The law goes into the specifics, establishing that the verification giving rise to compensation must be "clinical, objective, instrumental". That is, all three of the requisites for the verification of the damage caused by the accident must be met: a medical examination, an examination using instruments, and the objective conduct of the examinations.

Article 32.3-quater, with wording broader in scope and more comprehensive than the previous formulation, establishes that "personal damage for mild injuries, pursuant to Article 139 of the Private Insurance Code referred to in Legislative Decree 209/2005 shall be eligible for compensation only after a forensic examination in which the existence of the injury is ascertained either visually or by means of equipment."

Essentially, this provision determines the required features of the initial injury (not the final state of permanent damage). In order for there to be damage to the person, the forensic examination must ascertain the injury "either visually or by means of equipment." Otherwise, not only permanent biological damage but all the other accessory components of damages are excluded: temporary disability and medical expenses.

This norm would appear to be intended to be decidedly more restrictive, admitting only injuries that are "visible" (not necessarily to the naked eye but also through real forensic observations) or documented by clinical instruments. This would appear to exclude verification solely by clinical examination by the physician who

***Figure 1***
***Distribution of total cost of liability compensation***



produced the initial certification. It follows that no compensation can be granted for injuries whose existence is supported only by subjective allegations, initial certificates drawn up some time after the accident, or attestations of injury which forensic examination shows to be incompatible with the dynamics of the accident or the violence of the impact.

Given that the new rules may give rise to doubt and uncertainty for those whose job involves their regular application, ANIA together with the Melchiorre Gioia forensic medical association has drafted guidelines for application and publicized them in a series of training seminars in ten locations throughout Italy, attended by about 500 legal fiduciary physicians of insurers and 2,000 claims adjusters.

The data show that the effects of the new law have been positive. ANIA's annual motor liability statistics allow calculation of the percentage distribution of claims by type of damage and severity of injury in 2012. In fact, there was a reduction in the number of claims and the total damages paid to passengers and non-liable drivers covered by the direct indemnity system. The 13.5% fall in claims frequency was accompanied by a 14.4% drop in damage payments to drivers, while those to passengers plummeted by 35.5%.

In 2011 insurers indemnified more than 450,000 claims for very mild personal injury (1-2%) with payments of over Euro 2.0 billion, or 17% of total motor liability claims costs. For 2012 it is estimated that the number of such claims came to no more than 340,000 and compensation payments to Euro 1.7 billion, or 14% of the total (Table 1).

***Table 1***
***Distribution of claims by type of damage and severity of injury - 2012***

| Permanent disability % | % Distribution Number of claims | % Distribution Amount of claims | Average cost of personal injury (€) | | |
|---|---|---|---|---|---|
| | | | Driver | Passenger | Bystander |
| 1 | 7.2% | 6.7% | 3,347 | 3,554 | 4,650 |
| 2 | 6.2% | 7.4% | 4,482 | 4,377 | 5,332 |
| 3 | 2.2% | 3.3% | 5,832 | 5,798 | 7,550 |
| 4 | 1.0% | 1.8% | 7,534 | 7,439 | 9,638 |
| 5 | 0.5% | 1.1% | 9,830 | 9,012 | 12,523 |
| 6 | 0.3% | 0.7% | 11,722 | 11,662 | 13,414 |
| 7 | 0.2% | 0.5% | 14,644 | 14,258 | 17,657 |
| 8 | 0.1% | 0.5% | 15,982 | 20,078 | 26,488 |
| 9 | 0.1% | 0.5% | 20,659 | 26,202 | 33,643 |
| *Up to 9%* | *17.7%* | *22.5%* | **4,769** | **4,512** | **7,910** |
| *Over 9%* | *3.0%* | *46.0%* | | | |
| **Tot. personal injury claims** | **20.7%** | **68.5%** | | | |
| **Tot. property damage claims** | **79.3%** | **31.5%** | | | |
| **Total claims** | **100.0%** | **100.0%** | | | |
| **MEMORANDUM ITEM:** | **Number of claims** | **Amount of claims** | | | |
| | **2,524,945** | **€ 12.1 bn** | | | |

*Source: ANIA – Data partially estimated*

Two considerations remain, however. First, injured parties have two years to report the accident, and the orientation of the courts, which is often decisive for the success of legislation, is not yet clear. And second, these claims, while diminishing, nevertheless account for 75% of claims for non-severe injury (up to 9% permanent disability). In most cases these claims are for "whiplash" injuries that in other countries do not give rise to recognition of permanent disability but only compensation for temporary biological damage and medical costs commensurate with the very limited discomfort sustained, generally quite short-lived.

ANIA's statistical database allows an estimation of the average cost of personal injury claims separately for drivers, passengers, and bystanders. The average cost of personal injury compensation for the three groups increased by between 3% and 5% compared with the previous year. Once again, the cost was considerably greater for bystanders, who are more exposed to more severe injury. It is also possible that in the case of bystanders courts may tend to award higher amounts for the other components of non-economic damages (e.g. moral damages) and more generous compensation in the framework of the "personalization" of damages for the particular condition of the claimant. It should also be borne in mind that the distribution of costs by type of claimant may also be affected by the differing distribution of ages within each percentage point of disability. These factors may help explain why, for a given percentage of disability, the monetary compensation awards differ between drivers, passengers and bystanders.

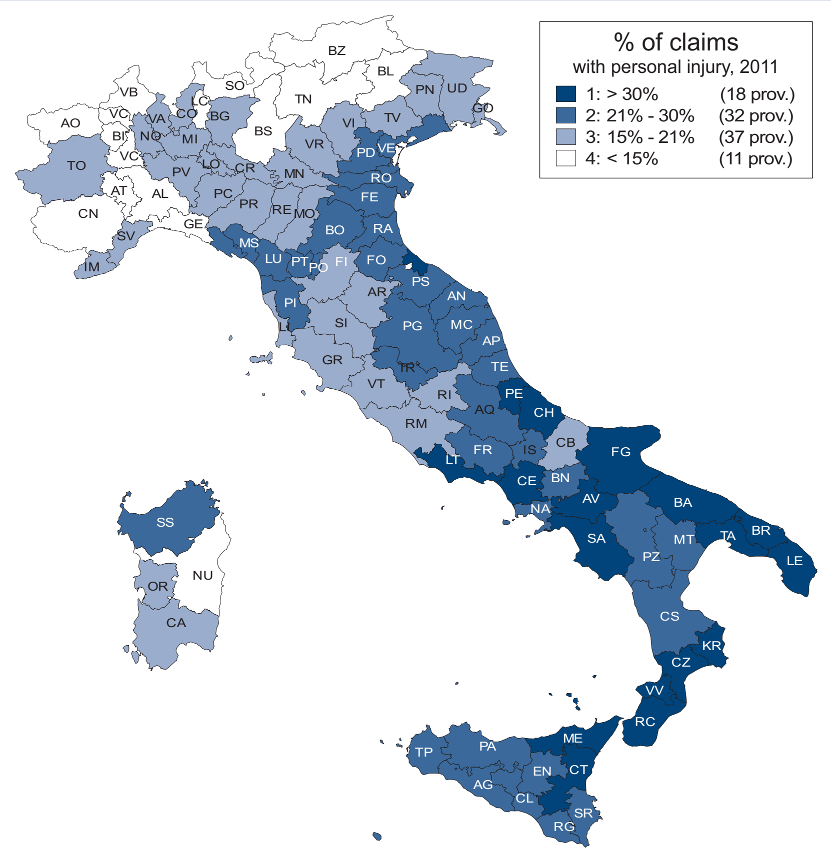



***Figure 2***
***Proportion of claims involving personal injury, by province, 2011***

Despite the improvement, the incidence of personal injury claims in Italy remains one of the highest in Europe, and in some provinces the proportion nears 40%. Figure 2 and Table 2 show that in 2011, the latest year for which the provincial breakdown is available, the provinces of the South were far out of line with the national average rate of 22.4%; the worst were those in the regions of Puglia, Calabria, and parts of Campania.

***Table 2 – Incidence of claims with personal injury, by province, 2009-2011 (°) (percent)***

| Province | 2011 | 2010 | 2009 | Change 2011/2010 |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| TARANTO | 39.3% | 44.4% | 41.5% | -11.5% |
| BRINDISI | 39.3% | 44.5% | 43.5% | -11.8% |
| FOGGIA | 38.4% | 39.3% | 38.3% | -2.1% |
| LECCE | 37.4% | 39.1% | 36.1% | -4.1% |
| VIBO-VALENTIA | 37.2% | 36.9% | 35.6% | 0.6% |
| LATINA | 35.7% | 36.2% | 34.5% | -1.4% |
| CROTONE | 35.2% | 41.0% | 43.6% | -14.1% |
| CATANZARO | 34.8% | 36.0% | 34.3% | -3.5% |
| BARI | 33.5% | 37.9% | 36.1% | -11.6% |
| AVELLINO | 32.8% | 35.1% | 35.4% | -6.7% |
| BARLETTA-ANDRIA-TRANI | 32.7% | 29.2% | n.a. | 11.8% |
| SALERNO | 32.6% | 33.5% | 32.1% | -2.6% |
| PESCARA | 32.2% | 33.7% | 30.9% | -4.4% |
| CHIETI | 31.7% | 33.1% | 29.5% | -4.0% |
| RIMINI | 31.1% | 31.3% | 29.3% | -0.5% |
| CASERTA | 31.0% | 32.5% | 31.1% | -4.7% |
| MESSINA | 30.8% | 34.1% | 31.9% | -9.7% |
| REGGIO-CALABRIA | 30.5% | 33.4% | 33.3% | -8.4% |
| CATANIA | 30.5% | 30.3% | 28.9% | 0.5% |
| CALTANISSETTA | 29.9% | 31.5% | 28.8% | -5.3% |
| COSENZA | 29.7% | 30.6% | 29.3% | -3.0% |
| MASSA-CARRARA | 29.0% | 30.2% | 30.0% | -4.1% |
| ENNA | 28.4% | 30.0% | 27.4% | -5.3% |
| FROSINONE | 28.1% | 30.2% | 28.2% | -6.9% |
| PISTOIA | 27.5% | 27.8% | 27.3% | -0.9% |
| RAGUSA | 27.2% | 28.8% | 26.3% | -5.5% |
| AGRIGENTO | 27.1% | 29.9% | 28.4% | -9.3% |
| PISA | 27.1% | 27.5% | 27.0% | -1.4% |
| BENEVENTO | 26.1% | 26.4% | 25.4% | -0.8% |
| TERAMO | 26.0% | 29.7% | 26.0% | -12.3% |
| SASSARI | 25.4% | 28.9% | 25.0% | -11.9% |
| ANCONA | 25.4% | 27.2% | 26.4% | -6.7% |
| MACERATA | 25.3% | 25.9% | 25.2% | -2.5% |
| PESARO-URBINO | 25.2% | 24.1% | 25.3% | 4.5% |
| SIRACUSA | 25.2% | 26.1% | 24.3% | -3.6% |
| LUCCA | 25.1% | 24.6% | 25.4% | 2.4% |
| POTENZA | 25.1% | 24.8% | 23.4% | 1.2% |
| MATERA | 25.0% | 25.3% | 24.4% | -1.2% |
| ASCOLI-PICENO | 24.2% | 25.6% | 24.2% | -5.8% |
| TERNI | 23.7% | 22.7% | 20.6% | 4.4% |
| VENICE | 23.7% | 24.2% | 24.0% | -2.1% |
| FERMO | 23.7% | 22.0% | n.a. | 7.4% |
| RAVENNA | 23.0% | 23.5% | 24.5% | -2.1% |
| TRAPANI | 22.9% | 24.6% | 21.4% | -6.9% |
| PRATO | 22.8% | 23.0% | 22.7% | -0.9% |
| L'AQUILA | 22.3% | 22.7% | 19.4% | -1.8% |
| BOLOGNA | 22.2% | 22.2% | 21.9% | -0.2% |
| PERUGIA | 22.1% | 22.3% | 21.7% | -0.7% |
| PADUA | 22.0% | 22.3% | 21.5% | -1.4% |
| NAPLES | 22.0% | 22.9% | 22.3% | -4.2% |
| LA SPEZIA | 21.8% | 24.4% | 23.0% | -10.5% |
| FORLÌ-CESENA | 21.8% | 19.7% | 21.2% | 10.6% |
| FERRARA | 21.7% | 22.7% | 22.1% | -4.1% |
| ISERNIA | 21.6% | 23.8% | 20.8% | -9.2% |
| ROVIGO | 21.6% | 21.4% | 21.4% | 0.5% |
| PALERMO | 21.2% | 22.1% | 20.1% | -3.8% |

| Province | 2011 | 2010 | 2009 | Change 2011/2010 |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| MEDIO-CAMPIDANO | 21.1% | 20.1% | 18.1% | 5.0% |
| OGLIASTRA | 20.6% | 21.6% | 17.3% | -4.3% |
| TREVISO | 20.5% | 21.5% | 19.9% | -4.9% |
| AREZZO | 20.2% | 20.1% | 20.6% | 0.9% |
| RIETI | 20.1% | 22.0% | 20.0% | -8.5% |
| CAMPOBASSO | 19.8% | 19.9% | 17.3% | -0.2% |
| REGGIO-EMILIA | 19.7% | 20.4% | 20.9% | -3.6% |
| GORIZIA | 19.7% | 20.3% | 18.3% | -3.1% |
| CARBONIA-IGLESIAS | 19.6% | 20.1% | 18.7% | -2.5% |
| TURIN | 19.3% | 19.7% | 18.6% | -1.8% |
| FLORENCE | 19.3% | 20.8% | 22.3% | -7.2% |
| LODI | 19.2% | 20.2% | 17.9% | -5.2% |
| ROME | 19.1% | 20.0% | 18.8% | -4.4% |
| PIACENZA | 18.9% | 19.1% | 19.1% | -1.0% |
| LIVORNO | 18.5% | 19.8% | 18.9% | -6.4% |
| CAGLIARI | 18.5% | 19.6% | 18.7% | -5.8% |
| VERONA | 18.4% | 19.2% | 18.9% | -4.2% |
| VARESE | 18.3% | 18.6% | 17.6% | -1.2% |
| OLBIA-TEMPIO | 18.3% | 19.7% | 18.7% | -7.1% |
| PAVIA | 17.9% | 18.2% | 16.9% | -1.8% |
| MONZA-BRIANZA | 17.9% | 13.8% | n.a. | 29.3% |
| MODENA | 17.9% | 17.9% | 17.8% | -0.1% |
| MILAN | 17.6% | 18.9% | 17.2% | -7.2% |
| ORISTANO | 17.3% | 17.6% | 16.3% | -1.8% |
| CREMONA | 17.1% | 17.3% | 17.0% | -1.2% |
| VICENZA | 17.0% | 17.4% | 16.3% | -2.4% |
| COMO | 16.7% | 17.1% | 17.0% | -2.2% |
| SIENA | 16.6% | 17.3% | 16.6% | -4.2% |
| PARMA | 16.5% | 17.4% | 16.0% | -5.4% |
| TRIESTE | 16.5% | 17.3% | 18.6% | -5.0% |
| PORDENONE | 16.3% | 17.3% | 15.8% | -5.8% |
| VITERBO | 16.2% | 17.6% | 16.6% | -8.0% |
| GROSSETO | 16.1% | 18.3% | 17.2% | -12.0% |
| MANTUA | 16.1% | 17.4% | 16.4% | -7.2% |
| IMPERIA | 15.7% | 15.8% | 15.9% | -0.9% |
| BERGAMO | 15.6% | 16.0% | 16.2% | -2.6% |
| UDINE | 15.5% | 15.5% | 15.2% | 0.2% |
| NOVARA | 15.4% | 14.8% | 14.5% | 4.3% |
| SAVONA | 15.0% | 16.3% | 15.2% | -7.7% |
| LECCO | 15.0% | 15.6% | 14.6% | -3.7% |
| NUORO | 14.2% | 17.0% | 14.9% | -16.5% |
| ALESSANDRIA | 14.2% | 15.1% | 13.9% | -6.5% |
| BRESCIA | 13.9% | 15.0% | 14.5% | -7.4% |
| ASTI | 13.7% | 14.8% | 13.0% | -7.3% |
| CUNEO | 13.4% | 13.1% | 12.3% | 2.3% |
| VERCELLI | 13.3% | 13.7% | 12.5% | -2.7% |
| SONDRIO | 13.1% | 13.8% | 13.1% | -4.8% |
| AOSTA | 12.9% | 13.2% | 13.0% | -2.1% |
| GENOA | 12.9% | 17.2% | 12.4% | -24.9% |
| RTRENTO | 12.9% | 12.8% | 12.4% | 0.8% |
| BELLUNO | 12.8% | 13.8% | 12.8% | -7.2% |
| VERBANIA | 12.4% | 12.9% | 12.8% | -4.0% |
| BOLZANO | 11.2% | 11.3% | 10.7% | -1.0% |
| BIELLA | 11.0% | 11.0% | 10.2% | 0.8% |
| **TOTALE** | **21.7%** | **23.1%** | **22.2%** | **-5.9%** |

*(°) The provincial incidence of personal injury claims is drawn from ANIA's annual statistics; this accounts for the slight difference in the total (21.7%) from the ISVAP data (22.4%), which lack the provincial breakdown*

As to more serious injuries (those involving at least 10% permanent disability), once again we must note that the rules governing their economic valuation and forensic assessment have yet to be promulgated. The table for economic and forensic evaluation of severe personal injury provided for in the 2005 Private Insurance Code, which has not yet been approved owing to political resistance, would provide greater equity in indemnities between geographical areas, instituting uniform costs nationwide, instead of their determination by single courts as at present. There would be clear, unequivocal indication of the indemnity for biological damage. At the same time, it is worth repeating that the tables would affect only biological damage compensation, not economic or moral damages. It is improper to equate the tables on biological damage with the overall compensation indemnifying accident victims: biological damage is one thing, the other items of economic damage (moral damages, existential damage, costs of assistance) are another; the latter are relatively easy to quantify on the basis of the loss of current and future income, medical expenses sustained, and the cost of assistance, all of which the insurance system will continue to recognize and compensate.

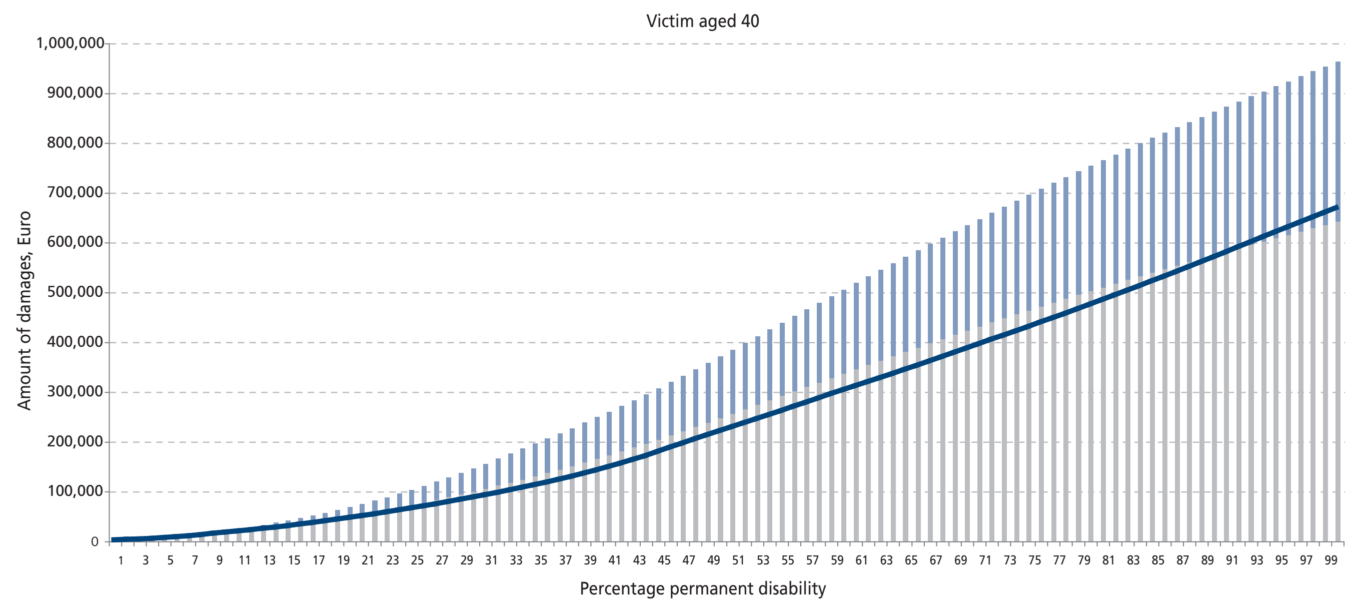
As a typical case, take an accident victim aged 40. Comparing the values for biological damage only as given in the table to be promulgated under the law with the table used currently by the Court of Milan, we find an average difference, for the various degrees of severity of injury, of around 10% (Figure 3). For permanent disability of more than 90%, the new table would actually produce higher compensation than the Court of Milan's practice.

***Figure 3 – Damages awarded to a 40-year-old accident victim by the Milan Court and by the revised legislation***

Awards other than biological damage (moral damages) included in total economic damages – Milan Court, January 2013

Biological damage awards, Milan Court, January 2013

Biological damage award under the law – In the case of approval of the law, settled on the basis of the court's assessment*




*(*) The amounts given in the law are revalued by Istat cost-of-living index for production and clerical worker households, net of tobacco products, February 2013*

The reform would produce a reduction of 10% to 15% in compensation for biological damage, with a direct impact on premiums of 4% to 5%. Moreover, in the medium term it would help to steady the continual but erratic rise in costs, giving insurers stable data for estimating their claims reserve requirement, the size of which is decisive in determining price requirements.

## DECREE LAW 1/2012 FOR LIBERALIZATION, CONVERTED INTO LAW 27/2012: THE STATE OF IMPLEMENTATION OF THE PROVISIONS ON MOTOR LIABILITY

Decree Law 1/2012, of 24 January, on liberalizations, converted with substantial amendments into Law 27/2012 of 24 March, containing "Urgent measures for competition, the development of infrastructures and competitiveness," calls for a series of implementing regulations.

This box describes the present state of implementation of the various provisions concerning motor liability (from Article 29 through Article 34-ter).

**Article 29 – The efficiency of direct indemnity**

***Revision of the criteria for determining the fixed compensation amounts – implementation is assigned to IVASS***

The law as converted calls for the new insurance supervisory authority, IVASS, to issue an implementing provision defining a new criterion for setting the values, costs and deductibles used to determine payments for direct indemnity between insurance companies (paragraph 2). However, IVASS has confirmed for 2013 the same criterion adopted in 2012 (namely, fixed compensation amounts).

The current system, the regulations of which were adopted with the input of the anti-trust authority, has some objective weaknesses. ANIA has already submitted both to IVASS and to the anti-trust authority a proposal to increase competition among insurance companies and has asked for detailed analysis of the practical economic effects of the theoretical solutions suggested.

The position of the insurance industry, in fact, is that even the proposed modifications set out by the anti-trust authority in its latest survey of motor liability have technical weaknesses and limitations in terms of applicability and are thus inadequate to the proclaimed purpose of incentivizing the "production efficiency of insurers and in particular controlling the cost of settlements and detecting fraud" (paragraph 1). For more detail on the anti-trust authority's proposals, see the rest of this box.

**Article 30 – Suppression of fraud**

IVASS has issued Regulation 44 (9 August 2012) implementing the template for the annual report on anti-fraud activity that insurance companies are required to submit starting in May 2013 (paragraph 1). The law now provides for a sanction for failure to submit the report of between Euro 10,000 and Euro 50,000 (paragraph 1-bis). The template calls for general information and also detailed information on the number of policies and the number of claims in which there is risk of fraud, the number of legal actions undertaken or criminal denunciations presented, and management operations and anti-fraud initiatives.

IVASS is also assigned to assess the adequacy of the measures described in these reports with respect to the objective of countering fraud, adopted by insurers in the framework of their own, autonomous strategy and organization. The insurance companies must also make an estimate, to be included in the report or in the notes to their financial statements, of the reduction in claims costs achieved thanks to their anti-fraud action.

**Article 31 – Measures against falsification of stickers**

The regulatory decree of the Ministry for Economic Development, in concert with the Ministry of Infrastructure and Transport, after consultation with IVASS, has been drafted to provide for the gradual "dematerialization" of insurance windshield stickers (paragraph 1) via the complete replacement of paper documents by electronic and ICT systems for checking the vehicle's regular insurance coverage by accessing databases through the remote checking devices envisaged by the Highway Code.

ANIA was able to submit a series of observations on implementation in the course of the technical work at the Ministry for Economic Development.

The draft regulation provides for:

- the institution at the motor vehicles bureau of an integrated file of registered and insured vehicles (the latter drawn from ANIA's SITA database of license plate numbers and other data on vehicles insured for motor liability);
- the establishment of the procedures and calendar for data input to the file by insurers, either directly or through ANIA;
- the complete phasing-in of the "dematerialization" process within 18 months from the issue of the decree.

Once the system is fully phased in, insurers must transmit their data on motor liability coverage to the integrated file on-line. ANIA's IT systems worked together with those of the motor vehicles bureau to install the procedures for interfacing, alignment and checking necessary for proper and prompt transmission of motor liability policies to the integrated file through SITA.

The draft regulatory decree has been approved by the State Council. The procedure is now in the conclusive stage and the regulation is expected to be formally promulgated within months. Accordingly, as part of a dematerialization project begun voluntarily in 2011, ANIA has stepped up its sensitization of insurers to the need to take the strategic and operational measures needed to complete the SITA database and the ATRC database of risk attestations.

Another area in which Article 31 is not yet fully applied is that of insurance controls by means of remote checking equipment such as limited-traffic-zone monitors, electronic toll-collection systems, and so on. The procedures for their use have to be established by another decree, to be issued by the Ministry of Infrastructure and Transport (paragraph 3).

### Article 32 – Insurance policies linked to "black box" technology

Under Article 32, paragraph 1, supplementing Article 132 of the Insurance Code, policyholders who voluntarily agree to install a "black box" to record the actions of the vehicle are entitled to a significant reduction of their motor liability premium with respect to the tariffs laid down in Article 132. The conversion law amended the original text of this rule, requiring that the premium reduction must be effected either upon the signing of the contract or at successive expirations, provided that the standards laid down in the contract have been complied with (for instance, observance of the rules of the road and maintenance of a prudent driving style). All the costs of installation and operation of the black box are charged to the insurance company.

The application of these measures will involve three interdependent provisions:

- A decree of the Ministry of Infrastructure and Transport in concert with the Ministry for Economic Development, defining the devices that can qualify as "black boxes" (paragraph 1). This is the sole provision issued to date (Ministry of Infrastructure Decree 5/2013), after publication on the European Commission site for prior EU consultation (which was concluded in December 2012), which is required for all national provisions of a technical nature (Directive 98/34/EC). In the course of this procedure ANIA, several EU insurers and other interested parties (member states, service providers, manufacturers of other devices) presented observations on the decree, which were only partly endorsed by the competent ministries. The main unheeded criticism was that the decree does not specify the functions that the devices must perform but instead lays down manufacturing specifications for the black boxes (GPS electronic receiver, tri-axial accelerometer, and GPRS mobile phone device for GSM transmission). Given the rapid evolution of these technologies, many experts think it is highly likely that these technical-manufacturing requirements will be obsolete even before they go into force.
  The effectiveness of the Ministry's decree, in fact, depends on the issue of the other measures envisaged by Article 32 by IVASS and the Ministry for Eco-

nomic Development. From the date of issue of these decrees, insurance companies will have two years to adopt devices compliant with the technical requirements laid down in Decree 5/2013.

The decree has also been challenged, before the Lazio Administrative Tribunal, by a manufacturer of devices other than "black boxes" for recording vehicle activity, claiming that these devices have been improperly excluded by the Ministry's implementing regulation. The plaintiff argues that the set of devices envisaged by the law is broader, not limited to black boxes alone. The Tribunal has scheduled the hearing for May 2014.

- A decree of the Ministry for Infrastructure and Transport, after consulting the privacy authority, establishing the common standards of hardware and software for the black boxes (paragraph 1-ter) and also providing for another detailed implementing decree by the Ministry to define the minimum set of data to be recorded and the record trace. Neither of these provisions has yet been issued. For the former decree, in December 2012 the EU consultation was concluded (Directive 98/34/EC), while the latter has not yet undergone the consultation procedure.

  ANIA and a number of EU insurance companies presented their observations in this consultation as well. The main criticism consists in a request for clearer delineation of the functional features needed solely for observation of crashes. This observation appears to fulfill the requirement under Article 32, because it can be utilized by the insurance company both to determine liability in case of accident and to set fees (paragraph 1-bis). However, the minimum data should not include black box registrations of data for more advanced functions (value added services) serving for personalized premiums (based on driving style, or "consumption" measured in kilometers or hours of driving).

  Among other comments to the EU Commission, ANIA remarked on the need to delete one of the indents to the Ministry decree, which limits the obligation to offer special motor liability policies linked to the installation of black box technology to firms operating in Italy. This indent in fact recalls the supervisory authority's interpretation of Article 32 (in a letter to the market dated 19 April 2012), which the industry has disputed. The view of the industry and of ANIA is that this interpretation may constitute a barrier to the entry into Italy of insurers from other EU countries, severely undermining the incentives for competition.

  The Commission and France have asked Italy for clarifications on this point. In the Italian Government's response, the Ministry for Infrastructure and Transport rules out any sort of technical barrier, but citing reasons that in ANIA's view are not perfectly in line with the presumed obligation to offer special policies. Given the specific review provided for in the consultation under Directive 98/34/EC, the Commission completed the procedure with no finding of technological barriers.
- A regulation to be issued by the supervisory authority, IVASS, in concert with the Ministry for Infrastructure and the privacy authority, laying down the procedures for collecting and using the data from the black boxes and the rules for interoperability with a view to portability (paragraph 1-bis). This regulation

(IVASS document 1/2013) was posted for public consultation from 1 to 30 April 2013. The regulatory framework reaffirmed the institute's earlier interpretation, namely that Article 32 makes it compulsory for insurers to offer policies linked to black box installation, a view that ANIA has disputed in its appeal to the Regional Administrative Tribunal of Lazio. For an account of the litigation, see the passage below on Article 32. In the course of the consultation, ANIA accompanied its observations with a special document estimating the economic impact of the alleged obligation to contract together with the economic model laid down in the article, which charges all the costs of the boxes to the insurers. Although called for by the Insurance Code, this analysis is totally lacking in the IVASS regulation under consultation. ANIA estimates that the alleged obligation to offer contracts, undifferentiated, to all motor liability policyholders – rather than the present voluntary, targeted offer of such contracts to the most accident-prone drivers, with their high premiums – would produce additional costs for the entire industry, with the end result of increasing rather than decreasing total premiums paid by policyholders.

Further, the IVASS measure is shot through with uncertainties, both in the difficulty of devising practicable technical means of ensuring the portability of the black boxes (the current limitations of telecommunications technology) and in the limitations that the privacy authority deems necessary to protect the contracting parties. In particular, the authority asked that the regulation allow the user to interrupt the "geolocation" of the vehicle at any time, which would nullify the anti-fraud and personalized-tariff purposes of the regulation.

ANIA has expressly requested the Ministry and the insurance supervisory authority to reconvene the technical and institutional talks with a view to careful reconsideration of the complex implementing rules for black-box insurance contracts, in order to prevent them, in the absence of correctives, from having opposite effects to those desired, which should involve a reduction in premiums.

### Article 32 (black boxes) and Article 34-bis (bonus malus)

#### *The supervisory authority's letter of 19 April 2012. The state of litigation before the Regional Administrative Tribunal*

In a complaint lodged with the Regional Administrative Tribunal of Lazio, ANIA and the motor liability insurance companies have asked for the suspension and annulment of the supervisory authority's letter to the market dated 19 April 2012, which maintains:

*a)* that it is compulsory, and not optional as the industry holds, for insurers to offer motor liability policies linked to black boxes (Article 32);

*b)* that upon the expiration of contracts, in the absence of claims during the observation period, insurance companies must apply the percentage reduction under bonus-malus contracts not, as has always been the practice, to the premium for the new year but to that for the past year (Article 34-bis).

The Lazio tribunal, "after a summary evaluation of the documents submitted," rejected the request for precautionary suspension for lack of *periculum in mora* (ruling 2404 of 6 July 2012) and also expressed the opinion – an uncommon practice in simple examinations of motions for a suspension – that the supervisory authority's interpretation is in line with the letter of the law.

The plaintiffs appealed the ruling to the State Council, which while rejecting the request for suspension did so with a significantly different motivation, namely: "… the acts contested constitute mere interpretative notes, and as such do not place any immediately binding obligations upon the insurance companies; … this is without prejudice to the protection of the companies should further acts by ISVAP be based upon erroneous interpretations of the law … hence … the request for precautionary suspension cannot be deemed, as matters now stand, to be sustained by *periculum in mora*, considering among other things that the hearing of the case on the merits before the Regional Administrative Tribunal is already scheduled for November of this year" (ruling 3139, 1 August 2012).

The hearing was held on 7 November, but the decision was not handed down until April (decision 3530/2013, 8 April 2013).

The ruling partially modifies the Tribunal's initial position. The Tribunal recognizes that the supervisory authority's letter is merely interpretative and, insofar as it is therefore not immediately binding upon the plaintiffs, does not constitute an administrative act subject to appeal. The interlocutory nature of the ruling, however, is not reassuring, in view of some parts of the motivations adduced. The situation can be summarized as follows.

*a*) Black-box-linked policies. The decision, insofar as it deems the supervisory authority's letter of 19 April 2012 to consist in mere "reflections," simply puts the problem off; these considerations will remain such until they are embodied in the IVASS regulation on the procedures for the collection, management and utilization of the data pursuant to Regulation 1/2013, Article 32.1-bis. As a consequence, in the opinion of the Tribunal, if the provisions criticized are simply embodied in the formal regulatory act to be promulgated, "that will be the time and the administrative act against which ANIA and the insurance companies should lodge their complaint to the administrative tribunal.

*b*) Bonus-malus. The Tribunal has recognized greater operational effect to the communication of 19 April 2012 in this regard. The wording of the letter could imply an assessment in terms of "immediate operational effect of its content for insurance companies." Nevertheless, the Tribunal maintained – in an argument whose logic is not entirely clear – that the immediate, concrete harm to the plaintiffs cannot be fully appreciated, in that the sanction mentioned by IVASS cannot be levied save in the case of violation of the provisions of the primary legislation. In operational terms, therefore, the acts that insurers can contest before the Tribunal will be those with which the supervisory authority levies fines for violation of Article 133 of the Insurance Code – as amended by Article 34-bis of the "liberalization" decree – as IVASS itself interprets it.

In the latter regard, however, the regulatory framework for the interpretation would appear to have been substantially modified by Decree Law 179/2012, converted into Law 221/2012; Article 22.1 and 22.2 of the law introduced a new Article 170-bis into the Insurance Code, instituting compulsory annual duration of motor liability policies and banning tacit renewals. The substantial "liberalization" of contracts at the annual expiry agreed to makes it impossible, de facto, for insurers to comply with the biennial premium adjustment mandated by the supervisory authority in its interpretation of Article 34-bis, whereby insurers can adjust motor liability policy premiums only in the policyholder's second year, depending on the company's income requirement.

For more on black-box-linked policies, see the section on basic motor liability policies in the subsequent box, below.

**Article 32.2 – Risk attestation**

For the "dematerialization" of risk attestations (paragraph 2), Article 32 amends and adds to Article 134 of the Insurance Code, making it compulsory for insurers to feed a database of risk attestations, to replace the current paper attestation with data in the database, and to acquire, upon the signing of a policy contract, the risk attestation directly and electronically through the risk attestation database and IVASS's motor liability claims database.

IVASS is assigned to issue the implementing procedures, by means of amendment to Regulation 4/2006, currently in force. IVASS has initiated the preparations for dematerialization together with insurers and ANIA, which has made its ATRC database of risk attestations available. In the framework of its voluntary dematerialization project, the Association is closely monitoring the advancement of the activities that the insurance companies must undertake to institute of the database.

**Article 32 – Liquidation of claims**

***Suspension of time limit for making an offer following consultation of IVASS claims database (paragraph 3.b) – Amendment of ISVAP Regulation 31/2009***

The rule, which amends Article 148 of the Insurance by introducing a new paragraph 2-bis, allows insurance companies to suspend the time limit for making a liquidation offer where the IVASS claims database pursuant to Article 135 shows at least two parameters of significant risk of fraud. For the application of this rule IVASS has considered shortening the term for feeding data into the database, so that insurers supply the claims data underlying determination of significant fraud risk at more frequent intervals. Regulation 31/2009 was therefore amended to shorten the deadline for transmitting claims data to the database from 20 to 7 days from the report of the accident or the submission of the claim (Article 7.2 and 7.3).

**Article 34 – Obligation of price comparison**

***The IVASS implementing regulation – Postponement of the common interface platform introduced by Decree Law 179/2012***

Article 34 lays down that motor liability insurers are required, before the signing of the contract, to inform the customer of the price and other contract terms offered by at least three different insurance companies not belonging to the same group. As this clause applies only to distribution via intermediaries, what follows is a summary comment. For more detailed observations, see the section on distribution in the box on Decree Law 179/2012.

The Law requires IVASS to draft a regulation. The draft was posted for public consultation in 2012 (Consultation document 49, 10 July 2012). The Institute received a very large number of observations and criticisms from all stakeholders, above all from the insurance industry. In fact, the implementation procedures envisaged by the draft regulation are particularly onerous. ANIA estimates costs to insurers of more than Euro 400 million. However, this draft can be considered superseded by the provision for a "common interface technology platform" for estimates and price comparison of insurance contracts in all branches, subsequently enacted by the section governing distribution of Decree Law 179/2012, converted into Law 221/2012.

## DECREE LAW 179/2012, CONVERTED INTO LAW 221/2012 – STATE OF IMPLEMENTATION OF THE RULES ON MOTOR LIABILITY INSURANCE, ARTICLES 21 AND 22

Decree Law 179/2012 dated 18 October and dubbed the "Grow Italy-bis" decree – converted with numerous amendments into Law 221/2012 – and enacting "Further urgent measures for growth" contains, in Articles 21 and 22, several measures relating to life and non-life insurance. The state of advancement of the various implementing provisions is detailed below.

**Article 21 – Measures for detecting and combating insurance fraud**

***Assignment to IVASS of jurisdiction over prevention of motor liability fraud (Article 21.1-21.7)***

The new measures do not institute a special anti-fraud agency but assign this task directly to the insurance supervisory authority IVASS (paragraphs 1 and 2). This gives the Institute a broader role than in the past as interlocutor and collaborator of the insurance companies and the law enforcement authorities. In carrying out these duties IVASS will use not only its own motor liability claims database but an integrated public-private database with information pertaining to its mission. It is to draft an annual report on its anti-fraud activity and formulate criteria and procedures for evaluating insurers in terms of anti-fraud action and making these evaluations public.

Paragraphs 3 and 5 call for two implementing measures:

*a*) a decree of the Ministry for Economic Development in concert with the Ministry for Infrastructure and Transport, identifying the databases that will go to make up the integrated set of databases, both public (the IVASS claims database, the motor vehicles bureau's national database of vehicles and drivers, the public automobile registry, the database of the Road Accident Victims Fund, and INAIL's central accident file) and private (the ANIA SITA database on license plates of insured vehicles and the ATRC database of risk attestations). IVASS will use the integrated set of databases to analyze, process and assess information with a view to detecting suspected frauds and devising early warning mechanisms. The decree must also establish: the procedures for linking the databases, the conditions of access by public agencies, companies and other authorized persons, and the obligation for insurers to consult the anti-fraud database. IVASS will perform an advisory role in the implementation of the measure;

*b*) a decree of the Ministry for Economic Development in concert with the Ministry for Infrastructure and Transport implementing the "dematerialization" of insurance stickers pursuant to Article 31 of the "liberalization" decree; the new decree must regulate the transmission of the data on motor liability insurance coverage to IVASS's integrated anti-fraud database. The draft implementing decree for Article 31, soon to be promulgated, lays down that the integrated database of registered/insured vehicles is to be created at the motor vehicles bureau, with the availability of ANIA's SITA database of insured license plate numbers. The integrated database at the bureau will thus supply the anti-fraud database too with information on insurance coverage.

### *Direct inspection to ascertain extent of damages – Extension of time limits (Article 21.7-bis)*

As converted, the law extends the term during which damaged property must be available for inspection to ascertain damages from two to five days, as part of the liquidation offer procedure; specifically, Article 21.7-bis of the Law amends Article 148 of the Insurance Code to this effect.

### Article 22 – Measures for competition and consumer protection in insurance

Article 22 includes a series of provisions affecting motor liability insurance.

- With the introduction of Article 170-bis of the Private Insurance Code on "contract duration," the article prohibits contracts longer than one year, or a year and a part of a year at the insured's request, and also prohibits tacit renewal in derogation to Article 1899 of the Civil Code. In the course of conversion, the decree was amended to introduce an obligation upon insurers to notify policyholders of impending expiry thirty days in advance and to maintain insurance coverage for fifteen days after expiration of the contract and until the new policy is in effect. For new policy contracts, the provisions take effect with the date of the Decree Law's entry into force (20 October 2012). For contracts containing tacit renewal clauses stipulated prior to that date, the new provisions go into effect as from 1 January 2013 (paragraphs 1-3).

- It defines a basic motor liability policy contract with common clauses, which insurers must offer to the consumer, including via the Internet, without prejudice to the company's freedom to set prices. This provision requires implementing rules, to be issued by the Ministry for Economic Development, which are now nearing completion. For a detailed account of the basic contract, see the section "The basic motor liability contract" below.
- It requires insurers to have on their websites "web insurance" consultation areas open to policyholders to check their policies, the state of payments and deadlines, the redemption values and updated value of life insurance policies. The converted law amended the original decree to eliminate the obligation to enable contract renewals and premium payments online, naturally without prejudice to the insurer's option to activate those functions. These obligations have been defined as compulsory organizational requirements for insurance companies pursuant to Article 30 of the Insurance Code; they apply to all insurance classes. IVASS's draft regulation was posted for consultation from 1 to 30 April 2013 (IVASS document 2/2013) and the definitive text is scheduled for imminent publication. Given the broad scope of the matters covered, the section on "Distribution" offers a more detailed discussion of the law and the implementing regulation.
- It allows first-level intermediaries (agents, brokers, banks, investment firms, financial intermediaries and Banco Posta) to cooperate freely, with the obligation to inform clients when they resort to this distribution mode. The rule applies to the distribution of all classes of insurance product. The law envisages the possibility for IVASS to issue implementing provisions. The section on "Distribution" (Article 22.10-12) offers a more extensive discussion.
- It mandates the institution and regulation of a "common interface platform" that can be used both for comparing the three motor liability policy estimates called for by Article 34 of the "liberalization" decree and more generally for premium estimates and comparisons for non-life insurance policies. The rule was modified by the budget law (or "Stability Law") for 2013, Law 228/2012, Article 1, paragraph 510, which limits the platform's use to the information and premium estimate functions, excluding the function of actually stipulating the contract provided for in the original text, and introduced the possibility of using the platform to fulfill the requirement of making available a comparison of three different estimates. For implementation, the supervisory authority, after consulting ANIA and intermediaries' trade associations, must specify the techniques for constructing the platform. The process will be highly complex,

especially as regards the broad range of contract offers and the combinations of clauses that mark non-life insurance. As for motor liability insurance, the industry has reaffirmed its proposal to realize the platform through the public estimate-generation procedure "Tuopreventivatore RC Auto," which has been operational since 2009 on the websites of IVASS (formerly ISVAP) and the Ministry for Economic Development (pursuant to Article 136 of the Insurance Code). Given the broad scope of the matters covered, see also the section on "Distribution".

- It simplifies procedures and bureaucratic requirements, paperwork and forms for use with customers. This improvement, introduced with the decree's conversion into law, applies not only to motor liability but to all other non-life classes. It requires an implementing provision by IVASS, to which ANIA has already submitted a number of observations, specifying the rules that need simplification most urgently, and proposals for coordination with the measures already in place and with the new provisions for "dematerialization" and "web insurance" (paragraphs 15-bis and 15-ter).

**The basic motor liability contract – Draft implementing decree – Opinion of the State Council – Clause on linking with black box (Article 22.4 – 22.7)**

As the law requires, the Ministry for Economic Development, based on the observations of IVASS, ANIA and the leading trade organizations of intermediaries and consumer associations, has prepared an implementing decree for the basic motor liability policy contract to enhance the comparability of offers and the mobility of policyholders (paragraph 4). The draft regulation makes it obligatory for insurers to offer the "basic contract" to natural persons ("consumers") for the most common types of vehicle (cars, motorcycles and scooters, and trucks) and adopting the bonus-malus premium formula. The Ministry distinguishes three types of clause for the contracts:

*a*) minimum "basic" clauses: compulsory for all insurers to offer, deemed necessary for compliance with the compulsory insurance requirement (Articles 1-15 of the implementing decree). These conditions establish, among other things, that the vehicle is covered by insurance no matter who is driving, that it enjoys coverage up to the minimum limit on indemnity prescribed by law, and that there be specific provisions for exclusion of coverage and the insurer's right of recourse;

*b*) "additional conditions": clauses offered on an optional basis for the broadening or narrowing of coverage (Articles 16-28 of the implementing decree), entailing respectively higher or lower premiums, under the primary legislation (Article 22.4 of the law);

*c*) "accessory conditions": clauses on insurance other than motor liability, such as fire and theft or accidental breakdowns (Articles 29-38 of the implementing decree), which are not envisaged, however, in Article 22, which refers expressly to obligatory coverage only.

The insurance companies can set their price for the basic contract and additional guarantees and clauses at their discretion, but they are in any case obliged to make the offer to consumers via their website (possibly by means of a link to other group companies), using an "electronic form" whose template is to be set out in another decree by the Ministry for Economic Development, in such a way as to ensure that the consumer can be informed of the overall amount to pay for the basic contract and the additional clauses, which it must be possible to select on the website (paragraphs 5 and 6).

ANIA and the insurance company representatives took an active part in the consultations and in the work towards drafting the basic contract, stressing the need for highly simplified content in order to attain the goal of standardization – with a view towards enhanced online comparability – without prejudice to the companies' legitimate, independent contracting power. In fact, competition takes the form not only of price differentiation but also of personalization of insurance terms. In particular, ANIA criticized:

*i*) the inclusion of "accessory conditions" concerning guarantees other than motor liability in the basic contract template; the original law does not contemplate such coverage and its inclusion – even on an optional basis – is certainly no help to clarity with consumers. We accordingly asked that this provision be deleted from the draft regulation;

*ii*) the provision for a clause governing the linkage of the basic contract with black box installation (Article 15 – Systems for remote monitoring of vehicle behaviour) and its inclusion among the "minimum" guarantees to be offered by the basic contract that insurers are required to offer. This approach is clearly unacceptable, given the industry's dispute with the supervisory authority, which holds that it is obligatory to offer black-box-linked policies while ANIA and the insurance companies argue that it must be only optional (see the account of the state of the dispute over the authority's letter of 19 April 2012). The Ministry was accordingly asked to eliminate this clause from the basic contract or at least to place it among the optional clauses.

The draft regulation has now been transmitted to the State Council's advisory section for legislative acts for the opinion that the law requires. As to the draft regulation, ANIA has delivered a note listing additional comments to the Ministry with a copy to the State Council and adding a cost-benefit analysis on the universal obligation to offer the black-box contract. The advisory section delivered its own opinion on 2 April, but suspended its definitive opinion pending additional information and clarifications from the Ministry, with reference among other things to ANIA's observations. The State Council will have to issue a new opinion after receiving the additional information requested.

ANIA has criticized the opinion of the advisory section itself, insofar as it maintains:

1. that the basic contract should be drafted with reference to all persons (natural persons, companies, public entities) and also for all types of vehicle, utterly without distinction, as well as for watercraft;
2. that the linkage clause should be an obligatory part of the basic contract.

Simultaneously with the handing down of the State Council advisory section opinion, IVASS's draft regulation on the procedures for collecting and using the data recorded by the black boxes was posted for public consultation (comment on Article 32.1-bis of the "liberalization" law). This measure appears to confirm the allegedly obligatory nature of the offer of basic motor liability policies linked to the installation of black boxes (IVASS document 1/2013, Article 9). In the course of the consultation, therefore, ANIA expressly asked the Ministry for Economic Development and the insurance supervisory authority to reconvene the technical/institutional talks and urge the careful reconsideration of the current regulatory framework on the matter.

## GEOGRAPHICAL DISTRIBUTION OF MOTOR INSURANCE FRAUD: NON-INSURANCE AND CIVIL LITIGATION

Each year the insurance supervisory authority calculates the incidence of cases of ascertained insurance fraud on total claims (and amounts), in order to estimate the extent and impact of this type of crime. In 2011, a total of 54,502 fraudulent claims were detected, equal to 2.04% of all claims incurred and reported; in 2010 the number was 69,763, or 2.30%. That is, the downward trend continued for the second year, and most sharply in the parts of the country where the incidence of fraud is highest (Table 1).

Northern Italy is the area with the lowest incidence of fraud, and it was the only part of Italy where the incidence increased, from 0.84% of claims in 2010 to 0.93% in 2011. Excluding Trentino-Alto Adige and Liguria, where fraud diminished, the incidence of fraudulent claims increased in all the regions of the North. Friuli-Venezia Giulia and Emilia-Romagna showed the most marked increases (respectively from 0.32 % to 0.57% and from 0.71% to 0.97%), followed by Piedmont (0.96% to 1.21%) and Veneto (0.65% to 0.72%). Piedmont thus overtook Liguria as the most fraud-prone region of the North. Fraud increased slightly in Lombardy as well, from 0.89% to 0.93%, and Valle d'Aosta lost its status as the least fraud-prone region in Italy, as its incidence doubled in2011 (although the number of accidents in the region is very low, hence quite volatile in percentage terms).

The incidence of fraudulent claims held virtually unchanged in the Centre of Italy, at 1.27%. Here, Lazio remained the region with the highest incidence (1.42% in 2011) but it was also the only one to record a decrease (from 1.68% in 2010). This was due essentially to the city of Rome, where fraudulent claims fell by a quarter. The other regions of the Centre all showed increases: the rate more than doubled in Umbria from 0.36% to 0.77%, and also increased in Marche (from 0.70% to 1.02%) and Tuscany (0.95% to 1.22%).

However, the incidence of fraud diminished in the South, from 6.55% to 5.66%, but the rate of fraudulent claims remains highest in this part of Italy. The improve-

*Table 1*
***Motor liability insurance fraud in Italy by region (*)***

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Region** | **% fraudulent claims (no.)** | **% fraudulent claims (value)** | **% fraudulent claims (no.)** | **% fraudulent claims (value)** |
| **(1)** | **(2)** | **(3)** | **(4)** | **(5)** |
| PIEDMONT | 1.21% | 1.26% | 0.96% | 0.85% |
| VALLE D'AOSTA | 0.68% | 1.49% | 0.29% | 0.40% |
| LOMBARDY | 0.93% | 0.91% | 0.89% | 0.86% |
| TRENTINO-ALTO ADIGE | 0.25% | 0.32% | 0.33% | 0.28% |
| VENETO | 0.72% | 0.86% | 0.65% | 0.59% |
| FRIULI VENEZIA GIULIA | 0.57% | 0.58% | 0.32% | 0.27% |
| LIGURIA | 1.03% | 0.99% | 1.47% | 1.52% |
| EMILIA ROMAGNA | 0.97% | 0.92% | 0.71% | 0.78% |
| **NORTH** | **0.93%** | **0.94%** | **0.84%** | **0.80%** |
| TUSCANY | 1.22% | 1.16% | 0.95% | 1.00% |
| UMBRIA | 0.77% | 0.87% | 0.36% | 0.45% |
| MARCHE | 1.02% | 0.88% | 0.70% | 0.68% |
| LAZIO | 1.42% | 1.63% | 1.68% | 1.44% |
| **CENTRE** | **1.27%** | **1.34%** | **1.26%** | **1.14%** |
| ABRUZZO | 1.42% | 1.67% | 0.98% | 1.00% |
| MOLISE | 2.61% | 3.23% | 2.66% | 2.26% |
| CAMPANIA | 7.32% | 8.91% | 9.58% | 10.22% |
| PUGLIA | 6.17% | 6.08% | 5.93% | 6.24% |
| BASILICATA | 2.85% | 3.26% | 2.52% | 3.57% |
| CALABRIA | 4.52% | 6.16% | 4.15% | 4.52% |
| **SOUTH** | **5.66%** | **6.53%** | **6.55%** | **6.92%** |
| SICILY | 2.82% | 4.03% | 2.84% | 2.84% |
| SARDINIA | 0.83% | 0.87% | 0.95% | 0.96% |
| **ISLANDS** | **2.29%** | **3.24%** | **2.37%** | **2.36%** |
| **TOTAL ITALY** | **2.04%** | **2.42%** | **2.30%** | **2.42%** |

*(*) The data for 2010 are net of one insurance company liquidated in 2011 and one placed under extraordinary administration. as well as of two insurers whose policy portfolios were entirely assigned to representatives in Italy of EEA companies*

*Source: IVASS – Indagine sul fenomeno della criminalità nel settore assicurativo. Based on data for 2011 (letter dated 19 September 2012)*

ment was due exclusively to the Campania region, the only one in the South where fraud declined significantly (from 9.58% to 7.32%), though remaining the worst in Italy. The provinces of Caserta and Naples continued to head the list at 8.91% and 8.13% respectively. Fraud increased in all the provinces of Abruzzo, where the regional rate rose from 0.98% to 1.42%, and increased also in Puglia and Calabria (from 5.93% to 6.17% and from 4.15% to 4.52%). Foggia became the Italian province with the highest incidence of fraudulent claims, at 13.25%.

*Table 2 – Estimate of uninsured vehicles, 2012*

*(millions)*

| Region | Total insured vehicles* | Estimated uninsured vehicles | Total vehicles in circulation | Pct. uninsured vehicles |
|---|---|---|---|---|
| North | 20.8 | 1.0 | 21.8 | 4.6% |
| Centre | 9.9 | 0.7 | 10.6 | 6.4% |
| South | 10.8 | 1.5 | 12.3 | 11.9% |
| **Italy** | **41.5** | **3.1** | **44.7** | **7.0%** |

** Including an estimate of vehicles insured by units of EU insurance companies*

The incidence of fraud in the island regions was slightly above the national average, at 2.29% in 2011, down from 2.37%. However, this reflects a higher rate in Sicily (2.82%), while Sardinia shows an incidence well below the national average, at 0.83%.

The amount of compensation in connection with fraudulent claims also varies significantly with location. In the South, it came to 6.53% of total damages, compared with 1.34% in the Centre and under 1% in the North.

Motor insurance fraud is strictly related, geographically speaking, to the circulation of uninsured vehicles. Province-level data gathered by the Highway Police, municipalities, municipal police and the association of municipalities and data supplied directly by the cities of Milan and Rome have been matched against the insured vehicles in the ANIA database to produce a statistical inference of the total number of uninsured vehicles on the roads.

Specifically, the analysis found that 3.1 million vehicles, or 7.0% of all those on the roads, had no insurance coverage in 2012. In the provinces of the South, the figure is nearer 12% on average, with a peak of almost 30% in Naples. In the Centre the average is 6.4%, and in the North 4.6% (Table 2).

The geographical pattern of insurance fraud quite closely resembles that of motor liability disputes, especially civil litigation. The supervisory authority monitors the state of legal actions, both civil and criminal, involving motor liability claims. Its yearly statistics release specifies the number of cases pending before a court or a justice of the peace and also those before the Appeals Courts and the Supreme Court (for civil suits at the second and third levels and criminal cases).

On 31 December 2011 (the latest data available), 2.5% of all the pending cases (over 7,500) were criminal cases, while 95% of all civil cases were before the lower (first-level) courts (the rest were civil cases at second or third level). Of the first-level proceedings, those before justices of the peace accounted for 82% (higher than in previous years); the rest were before the regular courts.

In order to produce the geographical breakdown ANIA has conducted an ad hoc survey of a sample of insurers (accounting for over 60% of the market) on civil suits pending in 2011 and the outcome of those concluded during the year (Table 3). The survey found some evident anomalies, especially in some Southern regions. These areas, which account for an extremely high proportion of civil cases heard by justices of the peace (75 per cent of the national total are in the regions of Campania, Puglia and Calabria alone), are also characterized by shares of unfavourable outcomes for the insurance companies above the nationwide median (and in parallel a lower share of findings in the insurers' favour). For the regular courts, by contrast, no particular geographical pattern is perceptible.

***Table 3 – Motor liability cases before justices of the peace. 2011***

| Region | % of civil cases pending before J.P.s | Cases closed by agreement or withdrawal as % of cases pending | Cases closed with ruling against insurer as % of total cases pending | Cases closed with victory of insurer as % of total cases pending | Cases closed with ruling against insurer as % of cases decided by J.P. | Total civil cases pending before J.P.s as % of total claims on which action is taken |
|---|---|---|---|---|---|---|
| Abruzzo | 0.7% | 46.7% | 19.0% | 7.3% | 72.2% | 2.8% |
| Basilicata | 0.5% | 52.8% | 20.6% | 7.7% | 72.9% | 5.1% |
| Calabria | 3.9% | 50.4% | 22.1% | 5.4% | 80.3% | 12.9% |
| Campania | 61.6% | 50.7% | 14.3% | 4.5% | 76.0% | 50.6% |
| Emilia-Romagna | 1.1% | 39.0% | 17.0% | 12.9% | 56.9% | 1.1% |
| Friuli-Venezia Giulia | 0.1% | 24.0% | 14.8% | 9.2% | 61.7% | 0.8% |
| Lazio | 6.5% | 30.7% | 12.0% | 6.7% | 64.0% | 4.5% |
| Liguria | 0.6% | 35.6% | 10.6% | 7.7% | 58.2% | 1.7% |
| Lombardy | 1.5% | 41.6% | 20.8% | 13.0% | 61.5% | 0.7% |
| Marche | 0.4% | 49.9% | 25.5% | 14.1% | 64.4% | 1.1% |
| Molise | 0.1% | 47.7% | 18.4% | 10.1% | 64.6% | 1.6% |
| Piedmont | 0.7% | 52.8% | 11.5% | 10.2% | 53.1% | 0.6% |
| Puglia | 10.8% | 41.9% | 16.4% | 7.5% | 68.5% | 16.0% |
| Sardinia | 0.5% | 35.5% | 15.8% | 10.8% | 59.4% | 1.7% |
| Sicily | 7.4% | 39.7% | 15.1% | 8.4% | 64.4% | 6.8% |
| Tuscany | 2.3% | 41.8% | 15.1% | 10.5% | 58.9% | 2.2% |
| Trentino-Alto Adige | 0.1% | 31.9% | 14.0% | 9.6% | 59.3% | 0.9% |
| Umbria | 0.4% | 46.7% | 15.1% | 13.6% | 52.5% | 1.7% |
| Valle d'Aosta | 0.0% | 30.8% | 0.0% | 0.0% | 0.0% | 0.6% |
| Veneto | 0.7% | 39.7% | 17.2% | 14.0% | 55.2% | 0.8% |
| **Total** | **100%** | **46.8%** | **15.0%** | **5.9%** | **71.6%** | **7.7%** |
| *Median* | | *41.7%* | *15.5%* | *9.4%* | *61.7%* | *1.7%* |

Of the 240,000 civil suits pending before a justice of the peace, about 150,000 are in Campania, and 108,000 in Naples alone. Of the rest, 26,000 are in Puglia, 18,000 in Sicily and nearly 10,000 in Calabria. Not counting Lazio (and Rome in particular), with its 16,000 pending cases, the remaining 23,000 cases are distributed more or less uniformly among the other regions.

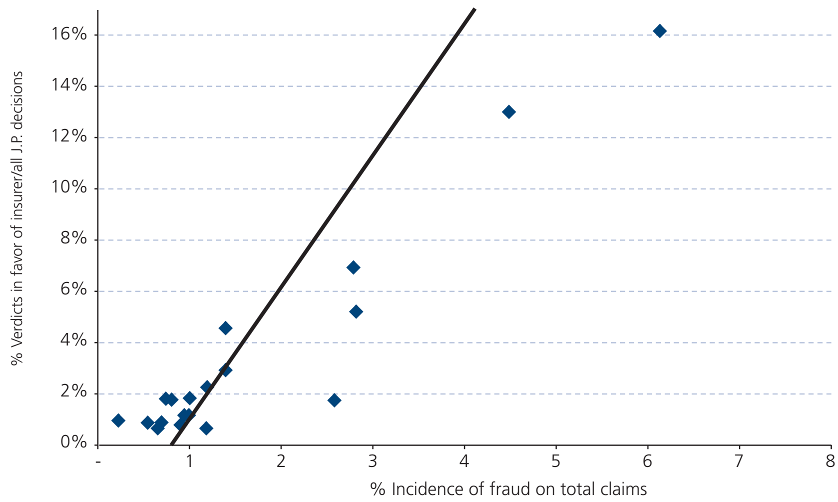
For a better idea of how litigation is concentrated in geographical terms, we have related the number of pending civil cases to the number of claims incurred during the year (it would be better to calculate the ratio for all claims against which funds have been reserved, but as the geographical breakdown on this is unavailable, we consider only claims incurred and reserved during the year). The ratio is over 50% in Campania, 16% in Puglia and 13% in Calabria, while in the rest of Italy the value is incomparably lower (the nationwide median is 1.7%).

Of all the civil cases before justices of the peace, in 2011 about 47% were concluded with an agreement between the parties or unilateral renunciation. Here, there is no particular geographical pattern, the highest values (over 50%) being recorded in Campania and Basilicata.

About 21% of the suits conclude with the ruling of a justice of the peace, and of these 70% find against the insurance company. However, excluding some regions with particularly high percentages – Campania, Calabria, Puglia, Basilicata and Abruzzo – the ratio falls below 60%. In Calabria in particular, the rate of findings against the insurer is 80% (and in the province of Crotone, over 90%); in Campania and Naples the rate is 76%; in Rome, Milan and Turin, around 60%.

The correlation coefficient, on a regional basis, between the number of civil cases pending before a justice of the peace and the total claims incurred in 2011 and the incidence of ascertained fraud was calculated by IVASS at 0.87, a statistically significant value. By province, the correlation was also highly significant, at 0.82. These values strongly suggest that recourse to justices of the peace is more common in the areas where the incidence of fraud is greater. Calculating the regional correlation coefficient between the incidence of fraud and rulings in favour of the insurance company by justices of the peace, one obtains a highly significant negative correlation (-0.73). This indicates that the areas where fraud is most common are also those where insurers most rarely win their case before the justice of the peace.

***Correlation between incidence of civil cases pending before J.P.s on total claims incurred and incidence of fraudulent claims – 2011***




## MOTOR LIABILITY INSURANCE PRICES IN THE LONG TERM

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

Table 1 shows the average price for insurance of a vehicle and its component factors over the years. The results can be summarized as follows:

– the average price for motor liability insurance rose by a total of 10.7% in 2010 and 2011, owing to the particularly negative results of this insurance class; recall that the increase in 2010 depended in part on the increase in the mandatory minimum limit on indemnity per claim, which went into effect in December 2009;
– in 2012 the average premium held broadly stable (an increase of just 0.7%), as the improvement in the technical indicators (claims frequency in particular) helped bring the branch's accounts back into balance, which began to affect the insurance companies' prices;
– in the first three months of 2013 this effect was considerably more evident; in fact the average motor liability premium fell by 5.6%.

To estimate the overall impact on the amount actually spent by policyholders, one must also take account of the National Health Service contribution (10.5%) and of taxes, insofar as since 2011 this amount is set independently by the provinces, which may increase it above the base rate of 12.5% up to a maximum of 16%. The average rate in 2011 was 13.6%, but in 2012 this went up to 15%, with an additional cost to policyholders. Factoring in this tax, the actual change in the average premium would be 1.9%, not the 0.7% registered by premiums as such.

In the market as a whole, "list prices" do not correspond exactly to the actual prices paid for new or renewed motor liability policies; rather, they represent the maximum reference price for each type of risk coverage. Accordingly, variations in them are not a reliable indicator of the change in actual spending by consumers. List prices, that is, may be misleading in that:

1) They ignore the bonus for drivers who do not cause accidents (more than 95 percent of the total, since only those who have primary or equal responsibility are ineligible for the bonus).

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

- the motorist's actual merit class, so that if in the reporting year he is in a better class than the previous year (which happens over 95% of the time), the deflator finds a reduction (or smaller increase) in price;
- discounts with respect to listed prices, so that if a motorist gets a discount in the reporting year that he didn't have the year before, the deflator finds a reduction (or smaller increase) in price.

***Table 1 – Motor liability insurance premiums, 1994-2012***

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

*(*) Starting with 2009, the number is calculated on the basis of the change in the number of vehicles insured derived from an ANIA survey, using a methodology consistent with that which IVASS specifically requests of insurance companies. Preliminary data put the number of insured vehicle/years in 2012 at 40.5 million, down from 41.3 million in 2011. The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer doing business in Italy, the fall in the number of insured vehicles comes to 1.7%*
*(**) The percentage change in premiums from 2010 on is calculated in uniform terms*

2) They take no account of discounts, caps on which are barred by Law 248/2006, known as the Bersani decree.
3) They do not consider the growing number of motorists who change insurer every year to get a better price.
4) They do not take account of the second Bersani decree's provision for the "household" bonus-malus clause.

The actual price of motor liability insurance is the premium paid to take out a new policy or renew an old one. The sum of all the premiums paid by the insured is the national community's total expenditure for the purchase of motor liability insurance. It corresponds to the entire market's premium income as reported in the insurers' financial statements.

Table 2 compares Istat's list price index and the actual cost of liability insurance, from financial statements, over the past seven years (also giving the change between May 2012 and May 2013 according to Istat). Between 2006 and 2009 the gap between the change in the Istat index and that in the average premium cost widened steadily, reaching between 6 and 7 percentage points, since by construction the Istat index cannot reflect the impact of the new bonus-malus rules, which accentuated the natural tendency for policyholders to shift towards the better merit classes, or of the upward trend in discounts. In 2010 and 2011, by contrast, the gap narrowed, essentially because the scope for discounts offered by insurance agents was limited by reason of the worsening of insurers' technical accounts. In 2012 the gap widened again, thanks to the improvement in conditions, which permitted a reduction in the premiums actually paid by policyholders; and the study shows that the distance between the two gauges will increase further in the future.

***Table 2***
***Motor liability insurance prices***

| Year | ISTAT price (% change) (a) | ANIA price (% change) (b) | Difference (% points) (b-a) |
|---|---|---|---|
| 2006 | 2.3 | -0.8 | -3.1 |
| 2007 | 1.5 | -2.7 | -4.2 |
| 2008 | 2.4 | -3.6 | -6.0 |
| 2009 | 2.9 | -3.9 | -6.8 |
| 2010 | 7.2 | 4.7 | -2.5 |
| 2011 | 5.4 | 5.8 | 0.4 |
| 2012 | 4.4 | 0.7* | -3.7 |
| May 2013 (**) | 1.2 | | |

*(*) Estimated data*
*(**) Twelve-month change*

The latest available Eurostat data indicate that in May 2013 the average list price of motor liability insurance in Italy was 1.2% higher than twelve months earlier (Table 3), slightly higher than the average increase of 0.8% in all of Europe. The countries where increases were larger than in Italy were the Netherlands (13.3%), Germany and Austria (3.5%), and Norway (2.5%). In a longer-term perspective, in the five years from 2008 through 2012 the rise in the motor liability premiums came to 82% in the United Kingdom and over 36% in Greece. In Italy the five-year increase came to 24.3%, owing mostly to the 13% rise registered in 2010-2011.

***Table 3***
***Change in transport equipment insurance price index (%)***

| | AVERAGE FOR YEAR | | | | | TOTAL | 12-MONTH CHANGE |
|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2008-2012 | May 2012-2013 |
| **Italy** | **2.4%** | **2.9%** | **7.2%** | **5.4%** | **4.4%** | **24.3%** | **1.2%** |
| Austria | 0.3% | 2.3% | 2.8% | 2.7% | 2.5% | **10.9%** | 3.5% |
| Belgium | 1.4% | -1.2% | 0.3% | 0.4% | 1.3% | **2.1%** | 1.1% |
| Denmark | 1.8% | 0.6% | 4.0% | 1.4% | 1.6% | **9.7%** | -17.9% |
| Finland | 4.6% | 5.5% | 4.0% | 3.0% | 3.2% | **22.1%** | 4.0% |
| France | 0.5% | 1.6% | 6.6% | 1.0% | 2.1% | **12.2%** | -2.0% |
| Germany | 2.8% | 2.0% | 4.2% | 1.5% | -2.7% | **7.9%** | 3.5% |
| Greece | 2.6% | 7.0% | 13.2% | 8.1% | 1.4% | **36.3%** | -2.2% |
| Ireland | -3.6% | 11.5% | 1.4% | 5.0% | 3.3% | **18.3%** | -7.2% |
| Luxembourg | 0.0% | 0.9% | -2.6% | 2.6% | 6.6% | **7.5%** | 0.0% |
| Norway | 3.5% | 4.2% | 4.2% | 4.3% | 3.4% | **21.2%** | 2.5% |
| Netherlands | 0.6% | 1.8% | 0.1% | 3.5% | 2.1% | **8.2%** | 13.3% |
| United Kingdom | 1.7% | 10.3% | 30.8% | 23.3% | 0.7% | **82.3%** | -4.2% |
| Spain | 2.0% | 1.3% | 1.8% | 2.8% | 0.5% | **8.7%** | 0.0% |
| Sweden | 3.7% | 2.0% | 2.0% | -1.2% | 1.0% | **7.7%** | 1.0% |
| **EU 27** | **1.7%** | **2.1%** | **6.0%** | **5.2%** | **1.2%** | **17.3%** | **0.8%** |

*Source: Eurostat*

## DIRECT INDEMNITY SIX YEARS ON: AN APPRAISAL

The direct indemnity system is now six years old, enough time for a reasonable analysis of its impact on damage compensation and the main technical indicators (claims frequency, average cost of claims and speed of settlement) for the main vehicle types (cars, trucks, motorcycles/scooters).

Proper analysis of trends must take account of a series of important factors that could distort the comparison:

– In 2007 the CARD direct indemnity system was in effect for only eleven months; further, the procedure was not open to accidents involving two drivers insured by the same company (cases of so-called "natural" direct indemnity).
– Starting 1 January 2008, albeit on a voluntary basis, "natural" direct indemnity claims could be entered into the CARD system.
– Starting in 2009 it became obligatory for insurers to handle eligible "natural" claims through the CARD system.

The technical indicators have also been affected by the differing procedures for determining the fixed compensation amounts. In 2007 there was a single amount for CID compensation payments. In 2008 and 2009 there were separate amounts for property damage and for minor personal injury. In 2010 the single compensation amount covering both property damage and minor personal injury was reinstated, but calculated separately for motorcycles/scooters and other vehicles. The method for determining the fixed compensation amount for passengers has not changed over time.

Finally, the turnover in scooters – the progressive renewal of those in circulation – has affected the total number of claims and their average amount according to procedure (only scooters with the new type of license plate can be handled by the direct indemnity method, even if as of 13 February 2012 all scooters, including those in circulation prior to July 2006, are required to have the new, fixed plate).

Direct indemnity has certainly had a positive impact on the speed of settlement by insurers, although there was a slight slowing in 2012. Nevertheless, the number of claims settled within the year they were incurred has risen from 65.2% in 2006 to 70.3% in 2012. Claims frequency, which rose constantly from 2007 through 2009, turned back downwards in 2010, and the decrease accelerated in 2011 and again in 2012. Not counting claims reported late, claims frequency in 2012 was 5.64% (down from 6.53% in 2011), nearly 25% lower than in 2006. The pattern for the average cost of claims was exactly the opposite: after three years of reduction, it turned upwards in 2010 and reached Euro 4,531 in 2012, representing an increase of about 10% compared with 2006 (Table 1).

***Table 1***
***Technical indicators, motor liability insurance***

| Year | Claims frequency | Average cost of claims (€) | Speed of settlement (**) |
|---|---|---|---|
| 2006 (*) | 7.47% | 4,100 | 65.2% |
| 2007 | 7.61% | 3,967 | 67.6% |
| 2008 | 7.73% | 3,913 | 69.7% |
| 2009 | 7.77% | 3,903 | 69.0% |
| 2010 | 7.36% | 4,057 | 70.5% |
| 2011 | 6.53% | 4,345 | 70.8% |
| 2012 | 5.64% | 4,531 | 70.3% |

*(*) Counts only accidents for which the insured motorist is liable. In 2007, with the introduction of direct indemnity, the claims considered are those "handled", i.e. the total of CARD plus non-CARD claims*
*(**) Percentage of claims settled in the year incurred*

### Direct indemnity: the data

*Incidence of CARD claims.* In 2012 the claims handled through the CARD direct indemnity convention accounted for 79.4% of the total, while 21.7% were "No-CARD" claims, i.e. those ineligible for direct indemnity (Table 2). The percentage of eligible claims was down very marginally from 79.7% in 2011, pos-

***Table 2 – Proportion of claims handled via CARD convention (*)***

| | All vehicles | Private passenger cars | Motorcycles/scooters | | | Trucks | | | Other |
|---|---|---|---|---|---|---|---|---|---|
| | | | Total | Private motorcycles | Private scooters | Total | < 3.5 tons | > 3.5 tons | |
| ***% of insured vehicles*** | ***100.0*** | ***71.6*** | ***11.4*** | ***8.1*** | ***3.4*** | ***7.8*** | ***6.4*** | ***1.4*** | ***9.2*** |
| ***CARD claims (%)*** | | | | | | | | | |
| 2012 | 79.4 | 84.1 | 79.9 | 81.2 | 75.3 | 64.1 | 70.4 | 44.7 | 59.4 |
| 2011 | 79.7 | 84.5 | 76.5 | 81.7 | 58.6 | 64.9 | 71.4 | 45.3 | 60.0 |
| 2010 | 80.7 | 85.0 | 74.9 | 82.3 | 51.0 | 65.9 | 72.5 | 46.4 | 62.5 |
| 2009 | 79.5 | 84.9 | 73.1 | 82.9 | 43.0 | 64.5 | 71.3 | 44.7 | 58.4 |
| 2008 | 73.1 | 80.7 | 66.4 | 79.4 | 31.3 | 55.6 | 62.4 | 37.8 | 57.6 |
| 2007 | 71.2 | 78.8 | 59.5 | 77.7 | 16.3 | 52.4 | 59.4 | 34.4 | 34.7 |
| ***Non-CARD claims (%)*** | | | | | | | | | |
| 2012 | 21.7 | 16.9 | 21.7 | 20.5 | 26.2 | 36.9 | 30.4 | 56.2 | 42.2 |
| 2011 | 21.1 | 16.2 | 24.7 | 19.6 | 42.4 | 35.7 | 29.2 | 55.3 | 40.9 |
| 2010 | 20.0 | 15.7 | 26.2 | 18.9 | 49.7 | 34.5 | 28.0 | 54.1 | 38.4 |
| 2009 | 21.2 | 15.6 | 27.8 | 18.1 | 57.8 | 36.0 | 29.2 | 55.6 | 42.9 |
| 2008 | 27.5 | 19.9 | 34.4 | 21.4 | 69.5 | 44.9 | 38.0 | 62.8 | 44.0 |
| 2007 | 29.0 | 21.4 | 40.7 | 22.8 | 83.4 | 47.8 | 40.7 | 65.7 | 65.1 |

*(*) Based on quarterly motor liability statistics. A claim may involve some damages handled via the CARD direct indemnity convention and others handled outside it and may therefore be counted in both items; consequently, the total may be greater than 100%*

sibly owing to an increase in coverage by foreign companies doing business in Italy but not participating in the direct indemnity system. The incidence of CARD claims for all vehicles was 80.7% in 2010, 79.5% in 2009, 73.1% in 2008, and 71.2% in 2007.

Despite the large percentage of claims handled via direct indemnity, the CARD system involves only about 50% of total claims costs. The difference reflects the exclusion from the system of most accidents involving serious personal injury, those for which settlements are largest.

The incidence of direct indemnity procedures differs according to vehicle type. For cars and motorcycles, which make up 80% of all insured vehicles, the proportion of claims handled via the direct indemnity procedure is between 81% and 84%. The only vehicle type showing a significant increase in CARD claims is scooters, with a rise from 58.6% in 2011 to 75.3% in 2012 – as noted, on 13 February 2012 it became obligatory even for scooters in circulation since before 2006 to mount the new type of license plate; scooters carrying the old, movable type of plate, do not come within the direct indemnity system.

For trucks – 8% of insured vehicles – 64.1% of accidents were covered by the CARD convention in 2012, but the percentage is considerably higher for smaller trucks (70.4% for those below 3.5 tons, 45% for those above that threshold). Other vehicle types – taxicabs, buses, agricultural vehicles, circulating mobile machinery, and all cars and motorcycles/scooters not for private use or not insured under the bonus-malus system (excluding all vehicles covered by fleet insurance policies) – account for 9.2% of the total. The incidence of direct indemnity for this group slipped from 60.0% in 2011 to 59.4% in 2012.

*Claims frequency.* Claims frequency for all vehicle types fell by 13.7 per cent in 2012 to 5.64% from 6.53% in 2011 (7.36% in 2010, 7.77% in 2009, 7.73% in 2008, and 7.61% in 2007). Thus after three years, from 2007 to 2009, in which claims frequency rose, it improved substantially for the third consecutive year in 2012, falling to its lowest level in recent years (Table 3).

There are several reasons for the reversal. One contributing factor may have been decreased vehicle use, as is demonstrated by the drop of nearly 10% in fuel consumption in 2012, owing both to higher prices and diminishing household disposable income owing to the worsening economic crisis. Another possible factor may have been insurers' stepped-up measures against fraud. In addition, last year saw a further increase in policyholders' recourse to informal settlement for minor accidents, as is confirmed by the number of claims submitted to the claims clearing house operated by Consap.

By type of vehicle, the sharpest improvement in claims frequency last year was registered by motorcycles (a decline of 17.8%), but the other vehicle types also performed better, with diminutions of more than 13% for cars and motor scooters and 15% for trucks.

*Table 3 – Claims frequency by type of vehicle and settlement procedure (*)*

| Settlement procedure/year | All vehicles | Private passenger cars | Motorcycles/scooters | | | Trucks | | | Other |
|---|---|---|---|---|---|---|---|---|---|
| | | | Total | Private motorcycles | Private scooters | Total | < 3.5 tons | > 3.5 tons | |
| ***Claims handled (%)*** | | | | | | | | | |
| 2012 | 5.64% | 6.22% | 3.23% | 3.60% | 2.35% | 3.62% | 5.66% | 8.81% | 3.62% |
| 2011 | 6.53% | 7.21% | 3.85% | 4.38% | 2.71% | 4.24% | 6.43% | 9.80% | 4.24% |
| 2010 | 7.36% | 8.18% | 4.10% | 4.73% | 2.87% | 5.23% | 7.10% | 10.74% | 5.23% |
| 2009 | 7.77% | 8.59% | 4.56% | 5.36% | 3.12% | 5.59% | 7.42% | 11.28% | 5.59% |
| 2008 | 7.73% | 8.47% | 4.47% | 5.28% | 3.17% | 5.99% | 7.81% | 12.64% | 5.99% |
| 2007 | 7.61% | 8.30% | 4.33% | 5.03% | 3.28% | 4.29% | 8.85% | 14.37% | 4.29% |
| ***CARD claims (%)*** | | | | | | | | | |
| 2012 | 4.52% | 5.20% | 2.57% | 2.91% | 1.76% | 2.14% | 3.97% | 3.92% | 2.14% |
| 2011 | 5.21% | 6.02% | 2.90% | 3.53% | 1.57% | 2.51% | 4.54% | 4.38% | 2.51% |
| 2010 | 5.95% | 6.92% | 3.05% | 3.87% | 1.46% | 3.25% | 5.12% | 4.95% | 3.25% |
| 2009 | 6.17% | 7.19% | 3.28% | 4.37% | 1.32% | 3.21% | 5.21% | 4.97% | 3.21% |
| 2008 | 5.66% | 6.60% | 2.87% | 4.05% | 0.96% | 3.34% | 4.71% | 4.61% | 3.34% |
| 2007 | 4.98% | 5.90% | 2.39% | 3.65% | 0.49% | 1.32% | 4.39% | 4.09% | 1.32% |
| ***Non-CARD claims (%)*** | | | | | | | | | |
| 2012 | 1.18% | 1.08% | 0.72% | 0.76% | 0.64% | 1.57% | 1.77% | 5.09% | 1.57% |
| 2011 | 1.38% | 1.24% | 1.01% | 0.91% | 1.22% | 1.84% | 1.99% | 5.75% | 1.84% |
| 2010 | 1.47% | 1.32% | 1.10% | 0.92% | 1.48% | 2.08% | 2.05% | 6.02% | 2.08% |
| 2009 | 1.64% | 1.42% | 1.34% | 1.03% | 1.91% | 2.53% | 2.29% | 6.64% | 2.53% |
| 2008 | 2.13% | 1.85% | 1.69% | 1.24% | 2.42% | 2.90% | 3.26% | 8.74% | 2.90% |
| 2007 | 2.64% | 2.38% | 1.98% | 1.39% | 2.88% | 3.04% | 4.50% | 10.59% | 3.04% |

*(*) Excluding claims reported late, i.e. incurred during the year but reported in a subsequent year. These represent an additional 10 to 15 percent of the percentages shown*

*Speed of settlement.* The claims settled definitively within the first year represented 70.3% of all claims incurred in 2012, down slightly from 70.8% in 2011. The decline involved all types of vehicle (Table 4). A closer analysis of settlement speed distinguishes between the two types of claims handled, namely CARD and non-CARD. Table 4 shows that CARD claims settled within the year slipped from 77.3% to 76.7%, while the figure for non-CARD claims edged upwards from 47.1% to 47.5%. The difference depends on the fact that the non-CARD claims comprise not only multiple-vehicle accidents but also all claims for severe personal injury (permanent disability of the non-liable driver of more than 9%, injury to bystanders and passengers of the liable vehicle), which generally take considerably longer to settle. The same pattern is found when claims are broken down by type of vehicle, except for motor scooters (and consequently for the broader category of motorcycles/scooters). As noted, there was a significant increase in the share of scooters now covered by the CARD procedure, which affected the technical indicators for different vehicle types and procedures.

For this reason the settlement of non-CARD claims slowed perceptibly in 2012, as this category no longer includes a good number of small and quickly settled

*Table 4 – Settlement speed: claims settled in year incurred (%)*

| Settlement procedure/year | All vehicles | Private passenger cars | Motorcycles/scooters | | | Trucks | | | Other |
|---|---|---|---|---|---|---|---|---|---|
| | | | Total | Private motorcycles | Private scooters | Total | < 3.5 tons | > 3.5 tons | |
| ***Claims handled*** | | | | | | | | | |
| 2012 | 70.3 | 71.7 | 52.4 | 51.7 | 55.0 | 68.7 | 69.8 | 65.4 | 72.7 |
| 2011 | 70.8 | 72.3 | 54.2 | 52.5 | 60.0 | 69.5 | 70.6 | 66.2 | 72.7 |
| 2010 | 70.4 | 71.8 | 55.1 | 52.8 | 62.5 | 69.5 | 70.5 | 66.2 | 71.3 |
| 2009 | 69.0 | 70.3 | 54.5 | 52.2 | 61.9 | 68.0 | 68.9 | 65.2 | 72.4 |
| 2008 | 69.7 | 71.1 | 57.4 | 54.4 | 65.6 | 68.5 | 70.1 | 64.3 | 69.3 |
| 2007 | 67.6 | 69.0 | 56.3 | 52.8 | 64.7 | 65.9 | 67.9 | 61.1 | 66.5 |
| ***CARD claims*** | | | | | | | | | |
| 2012 | 76.7 | 78.2 | 57.4 | 57.2 | 57.9 | 76.3 | 77.9 | 68.9 | 76.4 |
| 2011 | 77.3 | 78.8 | 58.4 | 58.2 | 59.3 | 77.1 | 78.6 | 70.2 | 77.4 |
| 2010 | 76.1 | 77.6 | 58.3 | 57.9 | 60.2 | 76.0 | 77.5 | 69.1 | 74.5 |
| 2009 | 74.8 | 76.2 | 57.3 | 57.4 | 56.8 | 74.6 | 76.1 | 67.5 | 75.9 |
| 2008 | 75.6 | 77.3 | 58.9 | 59.3 | 56.1 | 74.5 | 76.4 | 66.1 | 72.3 |
| 2007 | 73.9 | 75.3 | 57.5 | 58.2 | 49.2 | 72.5 | 74.6 | 63.6 | 69.2 |
| ***Non-CARD claims*** | | | | | | | | | |
| 2012 | 47.1 | 42.6 | 34.2 | 29.7 | 46.9 | 56.6 | 52.8 | 62.8 | 66.6 |
| 2011 | 47.5 | 42.4 | 42.1 | 29.9 | 61.3 | 57.4 | 53.6 | 63.6 | 66.5 |
| 2010 | 46.5 | 40.7 | 44.7 | 29.1 | 63.6 | 56.4 | 52.3 | 62.6 | 64.5 |
| 2009 | 46.6 | 40.4 | 46.1 | 28.6 | 62.8 | 55.2 | 51.3 | 61.2 | 64.6 |
| 2008 | 53.3 | 48.8 | 54.4 | 37.2 | 68.6 | 61.3 | 60.5 | 62.5 | 63.7 |
| 2007 | 58.1 | 52.8 | 61.6 | 38.7 | 76.5 | 66.4 | 65.8 | 67.3 | 73.7 |

***Table 5 – Average claim cost by type of settlement procedure***

*Euro*

| Procedure/year | All claims | *% change* |
|---|---|---|
| ***Claims handled*** | | |
| 2012 | 4,531 | 4.3% |
| 2011 | 4,345 | 7.1% |
| 2010 | 4,057 | 3.9% |
| 2009 | 3,903 | -0.3% |
| 2008 | 3,913 | -1.4% |
| 2007 | 3,967 | |
| ***CARD claims*** | | |
| 2012 | 2,669 | -3.0% |
| 2011 | 2,750 | 3.1% |
| 2010 | 2,667 | 4.4% |
| 2009 | 2,555 | -0.3% |
| 2008 | 2,563 | 5.2% |
| 2007 | 2,436 | |
| ***Non-CARD claims*** | | |
| 2012 | 11,382 | 12.0% |
| 2011 | 10,160 | 7.1% |
| 2010 | 9,488 | 7.2% |
| 2009 | 8,847 | 19.4% |
| 2008 | 7,407 | 8.3% |
| 2007 | 6,840 | |

claims that, aside from type of license plate, were otherwise eligible for the direct indemnity procedure.

*Average claims cost.* After three years in which direct indemnity had a beneficial impact on the average cost of claims (reducing it by 5% between 2006 and 2009), the trend was reversed in 2010, and the rise accelerated in 2011 and continued in 2012 with an increase of 4% (Table 5). One factor may well have been a decrease in small claims thanks to the institution of compulsory clinical or instrumental verification of minor permanent injury (the other claims, on average, are larger). Another factor was presumably drivers' greater recourse to informal settlement, which also excluded a number of small claims from the system.

In comparing the average cost of CARD and non-CARD claims, one must bear in mind that variations may be affected by the differing incidence of the different compensation procedures over the years. The average cost of CARD claims decreased by 3% from Euro 2,750 in 2011 to Euro 2,699 last year, owing above all to the introduction of compulsory clinical/instrumental verification of minor permanent injuries, almost all of which are handled by the CARD procedure. The increase of 12% in the average cost of non-CARD claims was presumably due in part to the rise in the proportion of motor scooter accidents eligible for direct indemnity, which excluded small claims that had all the requisites for the procedure but that until last year were excluded by reason of type of license plate.

# OTHER NON-LIFE INSURANCE CLASSES

# 6

# OTHER NON-LIFE INSURANCE CLASSES

**Written premium income of non-life business other than motor vehicle insurance decreased by 1.5%. The combined ratio rose with respect to 2011, reaching 101.5% owing to the 12% increase in the cost of claims. Nevertheless, the growth in investment profits and the large positive contribution of the reinsurance balance lifted the overall profit on the technical account to nearly Euro 750 million.**

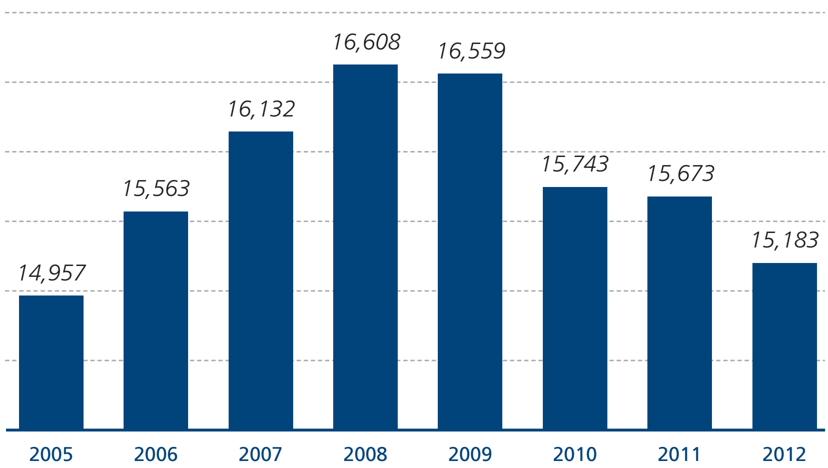
## NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR INSURANCE

**Premiums from direct domestic business** in non-life classes other than motor insurance (i.e. excluding land vehicles and motor and marine vehicle third party liability) totaled Euro 15,183 million, down 1.5% for a uniform set of companies. Premiums increased for policies on railway rolling stock (24.9%), assistance (6.2%), legal expenses (2.6%) and general third party liability (0.2%). They decreased in all the other classes of business, most markedly for policies for fire and natural forces (-1.6%), goods in transit (-2.4%), suretyship (-6.3%), miscellaneous financial loss (-10.6%), aircraft (-11.9%), credit (-16.9%), ships (-18.6%) and aircraft liability (-22.1%). Non-motor insurance premiums' share of total non-life premiums declined from 43.1% in 2011 to 42.9% in 2012.

The **incurred claims cost for the current accident year**, defined as the amounts paid and reserved, totaled Euro 11,005 million, an increase of 10.0% on the previous year. With written premium income down slightly, the loss ratio for the current accident year worsened, rising from 64.8% to 71.2%.

**Incurred claims**, which along with the cost incurred for the current accident year also include any excess/shortfall of the amounts reserved for claims incurred in previous accident years, amounted to Euro 11,040 million, 12.0% more than in 2011.

***Direct premiums of non-life insurance classes other than motor insurance***
*Euro million*



***Non-life insurance classes other than motor insurance (excluding land vehicles insurance and motor liability)***

*Euro million*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 14,957 | 15,563 | 16,132 | 16,608 | 16,559 | 15,743 | 15,673 | 15,183 |
| Changes in premium reserves (-) | 484 | 497 | 476 | 531 | 51 | 235 | 237 | -281 |
| Incurred claims (-): | 9,140 | 9,788 | 9,768 | 10,933 | 11,736 | 10,276 | 9,859 | 11,040 |
| - incurred claims cost for the current accident year (-) | 9,439 | 10,000 | 10,137 | 11,166 | 11,804 | 10,499 | 10,000 | 11,005 |
| - excess/shortfall of reserves for those claims incurred in previous accident years | 298 | 212 | 369 | 233 | 68 | 223 | 141 | -35 |
| Balance of other technical items | -314 | -434 | -388 | -419 | -414 | -408 | -357 | -365 |
| Operating expenses (-) | 4,409 | 4,619 | 5,018 | 5,059 | 5,015 | 4,799 | 4,762 | 4,564 |
| - commissions | 3,084 | 3,259 | 3,506 | 3,567 | 3,528 | 3,407 | 3,387 | 3,189 |
| - other acquisition costs | 548 | 580 | 624 | 660 | 682 | 670 | 642 | 674 |
| - other administration costs | 777 | 780 | 888 | 832 | 805 | 722 | 733 | 701 |
| **Direct technical balance** | **610** | **225** | **482** | **-334** | **-657** | **24** | **458** | **-505** |
| Investment income | 829 | 806 | 903 | 403 | 1,072 | 510 | 314 | 756 |
| **Direct technical account result** | **1,439** | **1,031** | **1,385** | **69** | **415** | **534** | **772** | **251** |
| Reinsurance results and other items | -811 | -632 | -537 | -135 | -359 | -539 | -513 | 496 |
| **Overall technical account result** | **628** | **398** | **848** | **-66** | **56** | **-5** | **259** | **747** |
| Annual % changes in premiums | 5.5% | 4.1% | 3.7% | 3.0% | -0.3% | 0.4% | 0.6% | -1.5% |
| **Combined ratio** | **92.6%** | **94.6%** | **93.5%** | **98.5%** | **101.4%** | **96.7%** | **94.2%** | **101.5%** |
| - Expense ratio | 29.5% | 29.7% | 31.1% | 30.5% | 30.3% | 30.5% | 30.4% | 30.1% |
| - Commissions/Gross written premiums | 20.6% | 20.9% | 21.7% | 21.5% | 21.3% | 21.6% | 21.6% | 21.0% |
| - Other acquisition costs/Gross written premiums | 3.7% | 3.7% | 3.9% | 4.0% | 4.1% | 4.3% | 4.1% | 4.4% |
| - Other administration costs/Gross written premiums | 5.2% | 5.0% | 5.5% | 5.0% | 4.9% | 4.6% | 4.7% | 4.6% |
| - Loss ratio: | 63.2% | 65.0% | 62.4% | 68.0% | 71.1% | 66.3% | 63.9% | 71.4% |
| - Loss ratio for the current accident year | 65.2% | 66.4% | 64.8% | 69.4% | 71.5% | 67.7% | 64.8% | 71.2% |
| - Excess/shortfall of reserves for previous years claims/ Earned premiums | 2.1% | 1.4% | 2.4% | 1.4% | 0.4% | 1.4% | 0.9% | -0.2% |
| **Technical balance/Earned premiums** | **4.2%** | **1.5%** | **3.1%** | **-2.1%** | **-4.0%** | **0.2%** | **3.0%** | **-3.3%** |
| **Technical account result/Earned premiums** | **9.9%** | **6.8%** | **8.8%** | **0.4%** | **2.5%** | **3.4%** | **5.0%** | **1.6%** |
| **Overall technical account result/Earned premiums** | **4.3%** | **2.6%** | **5.4%** | **-0.4%** | **0.3%** | **0.0%** | **1.7%** | **4.8%** |
| *Premiums to total non-life premiums ratio (%)* | *41.2%* | *41.9%* | *42.8%* | *44.3%* | *45.1%* | *44.2%* | *43.1%* | *42.9%* |

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

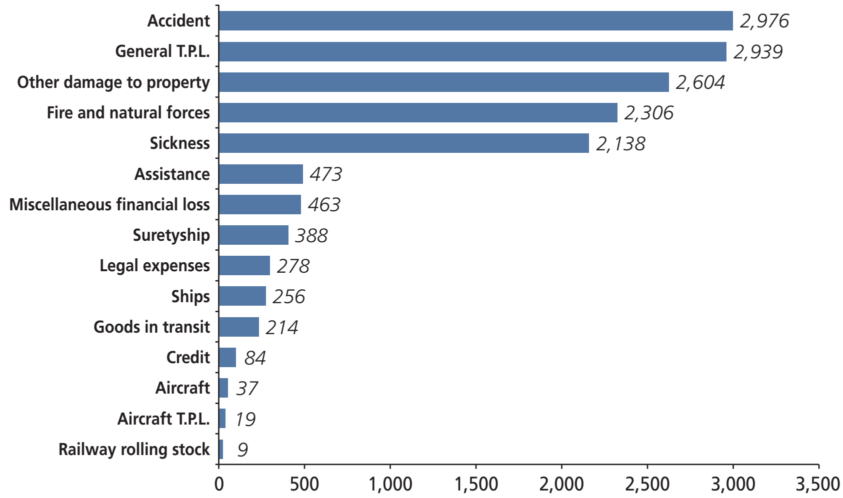
*Change calculated in homogeneous terms*

The loss ratio thus rose from 63.9% to 71.4%. The business segments most responsible for the worsening of the loss ratio and with the highest share of premiums were sickness insurance, fire and natural forces, and other damage to property, whose loss ratios rose respectively from 70.5% to 73.1%, from 54.8% to 89.9%, and from 64.9% to 69.2%. The worsening of the loss ratio for fire and natural forces insurance was mainly due to the May 2012 earthquake in Emilia, whose insurance cost is estimated at Euro 1.2 billion. By contrast, the loss ratio of general liability insurance improved, including by comparison with its performance in recent years, declining from 92.8% in 2011 to 91.1% in 2012.

# OTHER NON-LIFE INSURANCE CLASSES

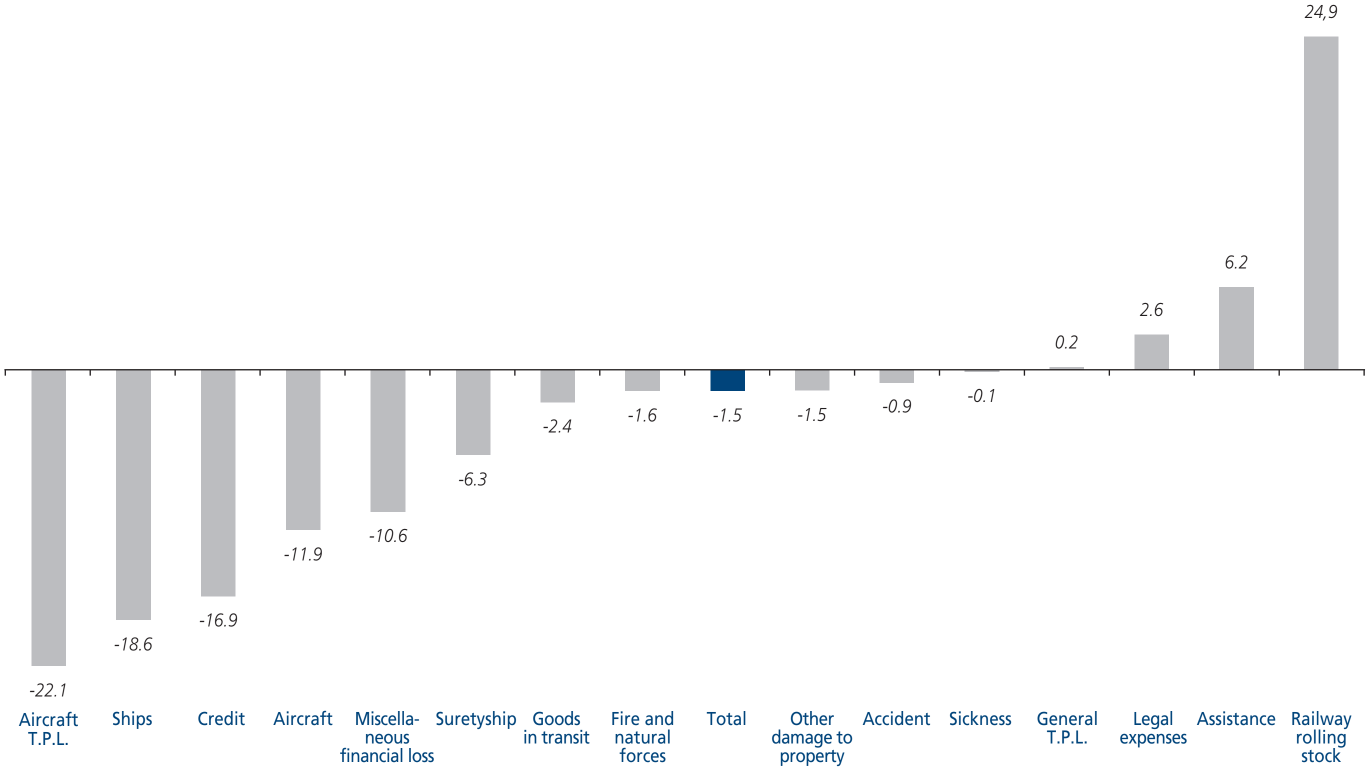
***Direct premiums by insurance class – 2012***

*Euro million*




***Growth rate of direct premiums by insurance class – 2012***

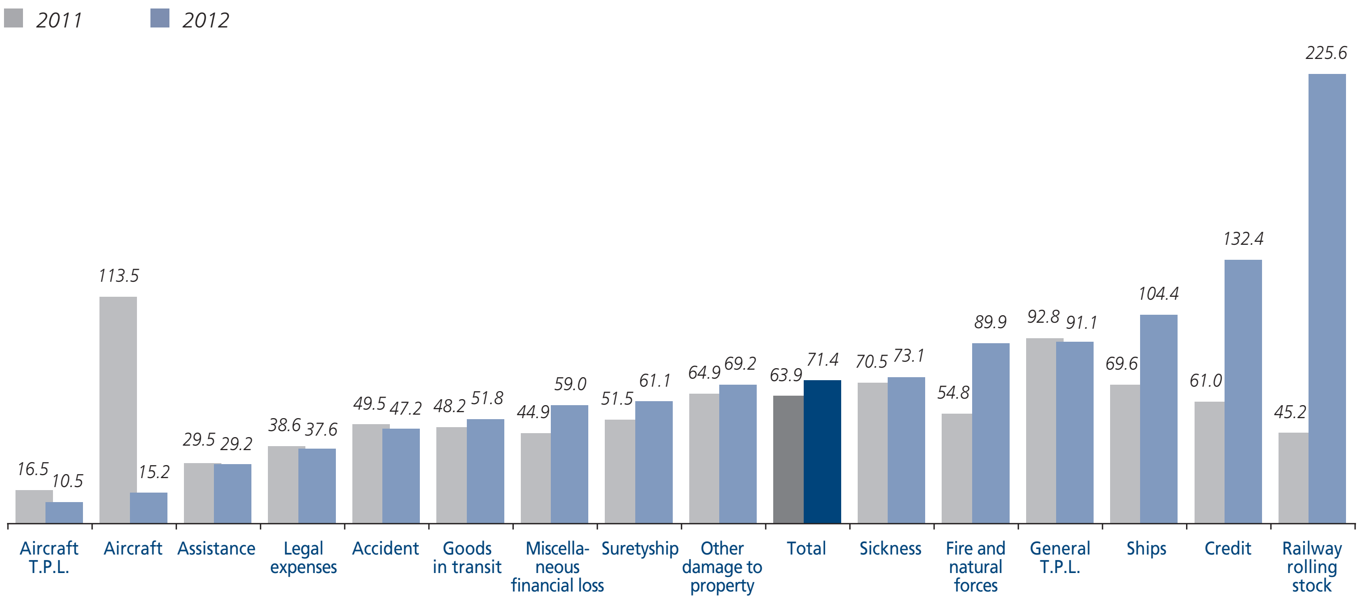
*2012 average: 1.5%*
*Change calculated in homogeneous terms*




**Operating expenses** amounted to Euro 4,564 million (Euro 4,762 million in 2011) and include administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network. The ratio of expenses to premiums was 30.1%, down slightly from 30.4% in 2011. In particular, the ratio for agent commissions diminished from 21.6% to 21.0% of premiums, while that of other acquisition costs rose from 4.1% to 4.4% and that of administration expenses remained broadly unchanged at 4.6%. The business segments with the highest indicators were miscellaneous financial loss (43.5%), legal expenses (34.7%) and assistance (33.6%). Lower ratios were recorded for ships (17.7%), aircraft (14.1%), aircraft liability (13.5%) and railway rolling stock (11.9%).

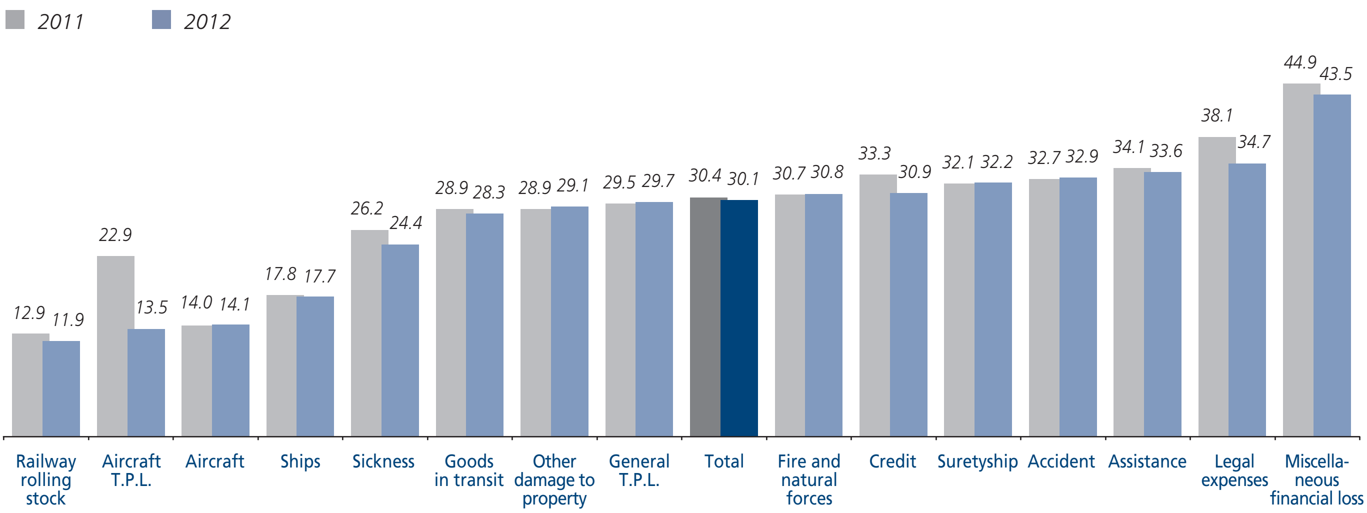
***Loss ratio for the year by insurance class (%)***

*2012 average: 71.4%*




***Operating expenses by insurance class – % incidence on premiums***

*2012 average: 30.1%*

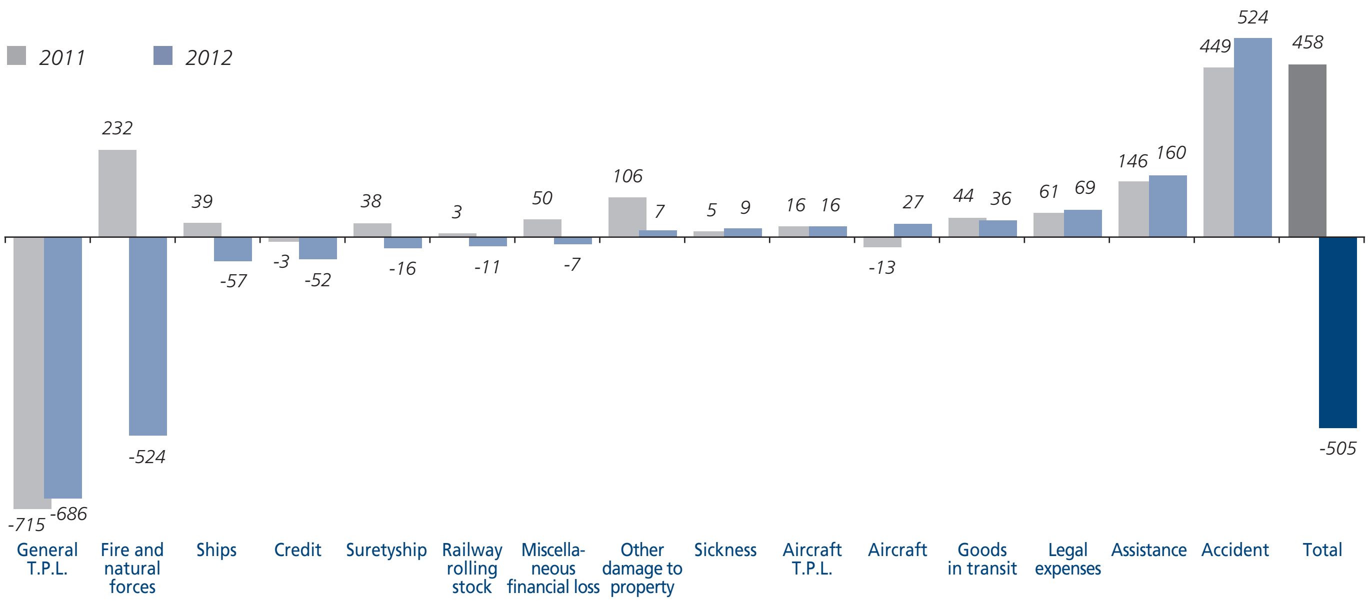


# OTHER NON-LIFE INSURANCE CLASSES

The **technical balance** for direct business was negative by Euro 505 million, whereas it had been positive by Euro 458 million in 2011. The worsening was due to the higher incurred claims costs described above; in particular, for assistance and accident insurance the technical balance was positive and in excess of Euro 100 million (Euro 160 million against Euro 146 million in 2011 for the former, Euro 524 million against Euro 449 million for the latter). Especially large negative balances were recorded for general third party liability (Euro -686 million) and insurance against fire and natural forces (Euro -524 million).

***Direct technical balance by insurance class***

*Euro million*

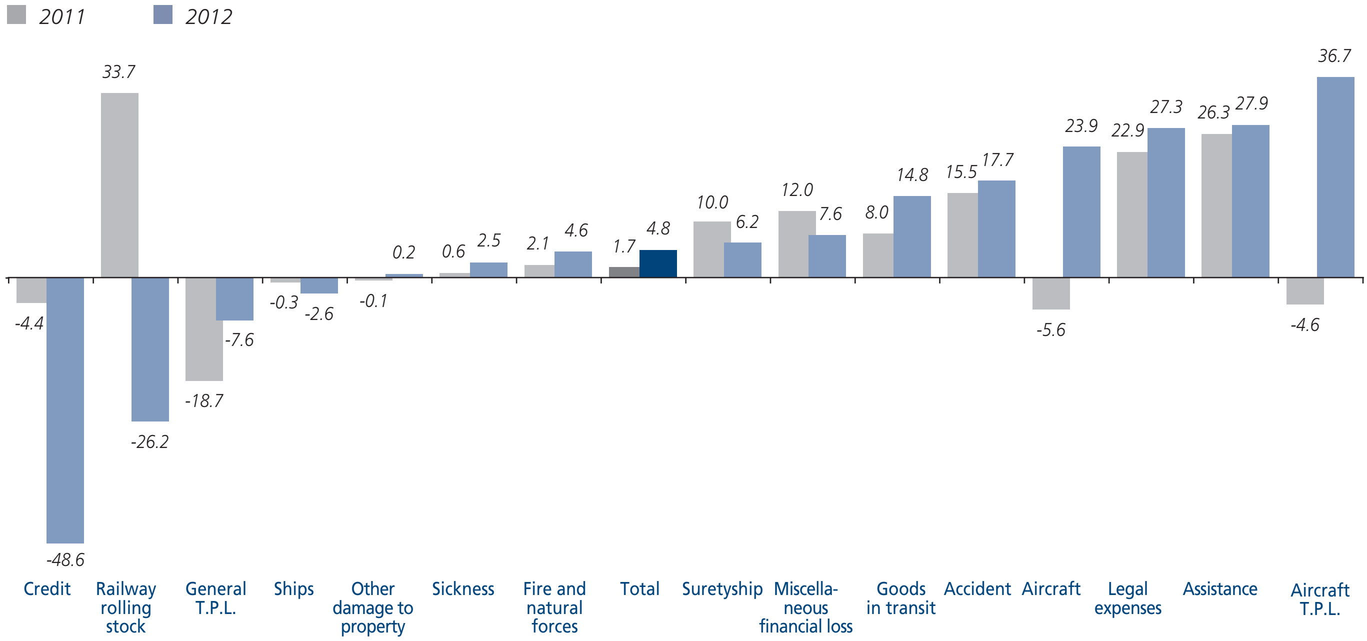



With **investment profits** totaling Euro 756 million, more than twice as much as in 2011, the **direct technical account result** was positive by Euro 251 million (Euro 772 million in 2011).

Taking into account the positive reinsurance balance of Euro 496 million (compared with a negative balance of Euro 513 million in 2011), the **overall technical account result** showed a profit of Euro 747 million, up from Euro 259 million in 2011, and was equal to 4.8% of premiums (1.7% in 2011). The following branches of business registered ratios higher than 10%: goods in transit (14.8%), accident (17.7%), aircraft (23.9%), legal expenses (27.3%), assistance (27.9%) and aircraft third party liability (36.7%). Significantly negative ratios were recorded for general third party liability (-7.6%), railway rolling stock (-26.2%) and credit (-48.6%).

***% incidence of overall technical account result on earned premiums by insurance class***

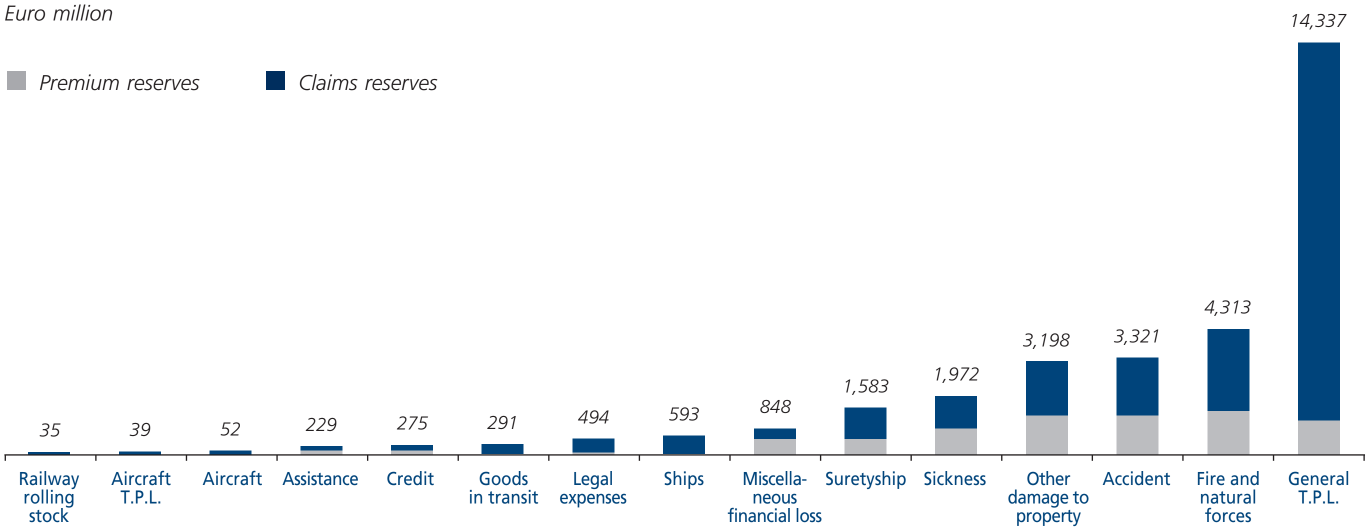
*2012 average: 4.8%*




The **direct technical reserves** of non-life insurance classes other than motor insurance, net of sums to be recovered from policyholders and third parties, amounted to Euro 31,581 million in 2012; premium reserves totaled Euro 8,197 million and claims reserves Euro 23,384 million. General liability was the business segment with the highest technical provisions (Euro 14,337 million counting claims and premium reserves for 2012); total provisions top Euro 3 billion for other damage to property (Euro 3,198 million), accident insurance (Euro 3,321 million) and fire insurance (Euro 4,313 million).

***Technical reserves for non-life insurance classes other than motor insurance – 2012***

*Euro million*



## ANIA STUDY ON THE INDICATOR OF INSURANCE COVERAGE OF SMALL AND MEDIUM-SIZED ENTERPRISES

The Italian insurance industry has conducted a study for developing a practical tool to be used to calculate the degree of insurance cover of a small or medium-sized enterprise (SME) according to the guarantees that the firm has acquired.

Following a broad consultation with the insurance market, ANIA drafted the final report of the study on insurance coverage and the related measurement tool (developed on electronic spreadsheets). This indicator ranges from between 0% and 100%, depending on how complete is the firm's overall insurance cover. As it rises, it reflects a reduction of the volatility of the firm's economic result deriving solely from the insurable risks to which it is exposed.

The indicator's measurement tool requires the user to select the following characteristics of the SME to be analyzed from a drop-down menu:

- type of business: first, the macro-sector of activity (trade, hotels and restaurants, tourism, transport, construction, manufacturing, agriculture, other services), then the sub-sector or branch (e.g. maritime transport);
- the firm's size class in terms of its number of workers;
- the presence or not of a "key man"; if one exists, the user is to indicate the share of volatility of the firm's economic result ascribable to the permanent or temporary loss of the key man; and, to conclude, the presence or not of insurance cover for the key man (generally, term life insurance, total or permanent disability insurance and critical sickness insurance in which the business is designated as the beneficiary).

Once these data are inputted, the tool lists all the guarantees that cover the insurable risks for the SME in question and the user can select the guarantees actually subscribed. The selection makes it possible to view, for each guarantee subscribed and for the complete set of them, the percentage reduction of the volatility of the economic result in relation to the total of insurable risks.

The indicator's estimate is based on the assumption that for each guarantee actually subscribed there is an activation of the most important accessory guarantees bearing on the firm's specific sector of activity. However, the tool allows the user to check whether this assumption actually fits the case by displaying a checklist of the relevant accessory guarantees.

## NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2012 AND AN INITIAL ESTIMATE OF THE INSURANCE MARKET'S CURRENT EXPOSURE

For Italy, 2012 was a year of natural disasters (earthquakes and floods) with a particularly high cost in terms of property and lives lost.

The earthquakes in Emilia Romagna between 20 and 29 May 2012, among the most destructive in the history of that area not least in terms of economic costs, caused an estimated Euro 12.6 billion in damages for more than 10,000 production units of local industry. At present, the insurance industry estimates that insured damages from the earthquakes amount to Euro 1.2 billion (Euro 800 million for the quake of 20 May and Euro 400 million for that of 29 May), of which more than half has already been settled by the market. Insured damages to residential buildings are no doubt smaller in amount; for these, the State has made ad hoc financing available only for the houses with the most serious lesions.

As to floods, the most import event was the flooding that hit part of Tuscany, when the Albegna river jumped its bed on 13 November 2012, killing 5 persons, leaving 700 homeless and causing an estimated Euro 110 million of damage in the province of Grosseto (the hardest-hit townships were Albinia and Orbetello). There is still no estimate of insured damages.

According to a survey by PERILS ([1]) on exposure to earthquake and flooding risk throughout Italy for 2013 (in which about 60% of the insurance industry in terms of fire and natural forces insurance premium volume took part), the total exposure of the sector to these risks, with regard to firms in industry, crafts and distribution), amounts to more than Euro 350 billion, taking account of the contractual limits: for housing, the exposure is estimated at more than Euro 60 billion for 2013. The Italian regions where insurance companies are most exposed to natural catastrophes as regards both businesses and houses are those of the North. These estimates, the initial ones produced by PERILS, are subject to change; PERILS will also carry out a survey of exposures and insured damages at the end of 2013.

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([1]) A non-profit company based in Zurich that manages a participatory database on catastrophic events for a number of insurance markets.

## UPDATE ON THE REFORM OF THE REGULATED PROFESSIONS

Presidential Decree 137 of 7 August 2012 introduces the regulation of the reform of professional associations, implementing Article 3.5 of Decree Law 138/2011, the so-called second budget package, which was converted with amendments into Law 148/2011.

Article 3.5 of Decree Law 138/2011 laid down that the professional associations were to be reformed to implement the following principles:

- freedom of access to the profession, but still with the requirement to pass a compulsory state examination;
- obligation for professionals to engage in ongoing, permanent training;
- upgrading of the apprenticeship for access to the profession, in order to ensure actual training and better conduct of the profession;
- a fee agreement in writing between the parties when the client engages the professional, with the professional fee schedule taken as reference;
- disciplinary bodies separate from administrative bodies;
- freedom of professionals to publicize their activity, qualifications and professional specialties, office structure and fees;
- obligation for professionals to have a suitable insurance policy for the risks deriving from their professional activity, possibly by means of an agreement negotiated by their respective professional associations. At the time his services are engaged, the professional must inform the client of the coverage conditions and the maximum amount covered.

Within the limits of the above principles, Presidential Decree 137 reforms all the regulated professions carried on by professionals registered with associations or organized in colleges. In particular, Article 5 establishes the principle of compulsory insurance, laying down that a professional must take out appropriate insurance for the potential damages deriving from the pursuit of his profession, including the activities of safekeeping of documents and valuables received from the client. Further, at the time of his engagement the professional must inform the client of the details of the insurance policy, the maximum coverage and every subsequent change thereto. The policy may be concluded via a collective agreement negotiated by the national council of a professional association or college or by pension funds or institutes. Failure to take out insurance is a disciplinary violation. Lastly, Article 5.3 requires the compulsory insurance to be in place from 15 August 2013, i.e. twelve months following the entry into force of the presidential decree (the original deadline set by the Decree Law 138/2011 was 13 August 2012).

# HEALTHCARE COPAYMENTS: FLAT AMOUNT OR PERCENTAGE OF THE COST? THE EXAMPLE OF FRANCE

As part of a broad research project on welfare systems in the main European countries, the ANIA- Consumers Forum has sponsored a study by Professor Lucia Vitali of Sapienza University of Rome on the characteristics of the French healthcare system in terms of financing, governance and multiplicity of entities involved.

**General structure**

France's public health institutions are managed through a mixed system of compulsory social insurance and mutual health plans (*mutuelles*). The latter supplement the public healthcare system and give patients near-total coverage, topping up the 60-80% coverage provided by the general health insurance system. Some less costly mutual health plans may not completely cover a number of outlays, such as those for dental care or post-hospitalization assistance (transport and home nursing). An awareness that healthcare has a cost is widespread and permeates legislation and regulations. For example, a patient in a hospital is billed a daily fee of Euro 18, which the patient charges to his *mutuelle*.

The "market in *mutuelles*" has competitive features, especially since 2005. At present occupation-based plans disburse 36% of the supplementary cover, insurance-based plans 30% and plans operated by social security institutions (*institutions de prevoyance*) 34%. The latter have joint boards composed of representatives of firms and workers and appear to be favored by recent legislation (January 2013) making it compulsory for all workers to join a supplementary healthcare scheme by 2016.

Currently some 94% of active workers are covered by a *mutuelle*. The older occupation-based schemes (*mutuelles '45*) were instituted together with the compulsory healthcare regime. In the 1970s 40% of workers were already enrolled in a scheme.

Social health insurance (the scheme for salaried employees in the private sector and similar compulsory schemes for public-sector employees, agricultural workers and self-employed persons), instituted in 1945, is similar to INAM, the Italian entity that was abolished when Italy set up its National Health Service. It covers all workers and their dependents (children up to age 16) and is financed by social contributions for healthcare as well as by a complex system of taxation.

**Financing**

The general healthcare regime in France is based on the principle of social insurance (the benefit provided is paid for by social contributions), i.e. social solidarity among those who work. People with no income – some 4.5 million – are covered by a public scheme of their own, financed with general tax funds and with a 6.9% levy on the premiums of the *mutuelles.*

The law provides that services are not to be completely free of charge except in the case of severe, terminal or chronic illness. For example, the general regime normally covers 70% of the cost of physicians' fees, diagnostics, laboratory work and appointments with specialists, while the patient bears the remaining 30% (or more, if the service is optional or a question of "comfort"). Usually the patient transfers his share of the cost to his mutual health plan.

In order to encourage responsible behavior on the part of patients, copayments (except in severe cases and for maternity) have been the rule since the system's inception. By flanking the compulsory system with voluntary enrolment in a *mutuelle*, the law has based the entire system on the social insurance principle. In theory, supplementary coverage is voluntary, but it is so widespread that the decision to make membership of a mutual plan compulsory for all by 2016 has been accepted as logical and appropriate.

### Operational processes

The system's operations are completely computerized. Every patient has a health card with a photograph and micro-chip. The expense incurred for a health service or a prescription drug is registered on the health card at the time of purchase and the data is transferred instantaneously both to the general health insurance system, which pays most of the charge (according to a formulary updated from year to year) and to the *mutuelle*, which registers the claim and pays the supplementary amount due under its member's coverage. It is important to note that all the actors use the same terminology and computer codes to indicate pathologies and the related treatments.

The data are also inputted to the inter-regime health insurance computer system for the control of pharmaceuticals consumed and therapies provided. They are also transmitted to the tax authorities, for computation of the fees paid by patients to each doctor (who will receive electronically an already completed annual declaration of income, which he only has to approve without change or amend and return to the authorities) and of the revenues of laboratories or private clinics working under agreements with the health insurance system.

In fine, in France a traditional social insurance system goes together with widespread, systematic use of state-of-the-art technology, and the results appear to satisfy users and providers alike.

Copayment for health care has thus been delegated to the system of *mutuelles*, with a premium that varies with age (but, from 2013 on, not with sex, in accordance with the EU directive) and with breadth of coverage.

In this way, payment of the premium (entered in the paystub for employees) enables the insured to access public health services with the assurance that the supplementary plan will defray the costs not covered by the public regime. If a person exceeds the annual ceiling of expenditure of his *mutuelle*, the health card (which contains the specifics of his supplementary coverage) alerts him to the fact that he will have to pay with his own funds. The 10% out-of-pocket portion of costs are borne by persons in this situation as well as by the very wealthy or the tiny minority of those who still lack supplementary protection.

## MEDICAL MALPRACTICE INSURANCE

Recent years have seen a rise in the number of complaints filed for medical malpractice in many advanced countries. Generalizing, we can ascribe this trend chiefly to: the jump in the amount of compensation awarded by courts, particularly for personal injuries; the expansion by court decisions of the sphere of rights and cases qualifying for compensation; and patients' greater awareness and attention to the treatment received, at times encouraged by providers of disputes-handling services.

The obvious consequences for health systems and practitioners include higher direct costs in terms of damages to be paid or insurance cover, more adversarial doctor-patient relations, and higher indirect costs deriving from recourse to so-called defensive medicine.

For the insurance industry, the consequences take the form of major economic losses due to mispricing of insurance cover, more difficult relations with policyholders owing to the inevitable upward adjustment of prices and more stringent contract and underwriting conditions, and the drying up of supply owing to the objective difficulty of forecasting developments of the phenomenon.

In the past few years parliamentary activity in this field has been intense, with a raft of bills filed. ANIA has monitored these and has entered into discussions with the main institutional representatives through working parties and proposals.

Parliament offered an important signal, in connection with the implementation of compulsory insurance cover already envisaged for the regulated professions, with the issue of Law 189/2012. This act converted, with amendments, Decree Law 158/2012 containing urgent measures to promote Italy's development through a higher level of health protection. Law 189/2012 testifies to Parliament's determination to confront the problem of medical malpractice. Despite its positive aspects, it does not contain provisions to deal decisively and effectively with the cost of damage awards, a factor that is driving up the price of medical liability policies. Articles 3 and 3-bis govern, respectively, the professional liability of healthcare practitioners and the management and monitoring of health risks. On the one hand, Article 3, paragraph 1, lays down that practitioners who in carrying on their activity follow guidelines and good practices accredited by the scientific community are not liable under criminal law for minor negligence. On the other, it specifies that in such cases the obligation referred to in Article 2043 of the Civil Code is unaffected, but the judge, including in determining the amount of damages, must take the aforementioned professional conducts duly into account. Consequently, while application of guidelines and good practices accredited by the scientific community rules out de jure a practitioner's penal liability for minor negligence, no substantial change is made to the provisions of civil law currently governing the liability of healthcare professionals. The second paragraph of Article 3 lays down that uniform minimum requirements and procedures guaranteeing the suitability of the related policies to satisfy the compulsory insurance obligation are to be established by presidential decree.

Accordingly the law fixes the criteria which the presidential decree must follow, to wit:

- determination of the cases in which, on the basis of definite categories of professional risk, a fund may be established for the purpose of providing insurance cover to professionals who so request because of the limited availability of suitable insurance policies on the market The fund is to financed by the contributions of the professionals who apply and by a contribution, charged to insurance companies, not exceeding 4% of the premiums collected in the previous financial year;
- determination of the fund manager and his tasks;
- a provision establishing that the insurance contracts in question must include, among other features, a clause setting the increase or decrease in the premium at contract maturity in relation to the occurrence or absence of claims, and a clause making the possibility of terminating the contract subject to the repetition of negligent conduct on the part of the healthcare professional.

Furthermore, biological damage resulting from the conduct of the healthcare profession is to be determined on the basis of the mental/physical disability tables referred to in Articles 138 and 139 of Legislative Decree 209/2005, amended to take account of the case pertaining to healthcare. Article 3, paragraph 5, provides that the registers of court experts used in legal disputes involving matters of healthcare are to be updated every five years in order to ensure high standards of professional experience and competence. Lastly, Article 3-bis, with a view to containing the costs of health risks, lays down that healthcare institutions must adopt the necessary measures within their organization to manage health risks, prevent legal disputes where possible and reduce the cost of insurance. In parallel, the Health Ministry and the regional governments are to set up a system for monitoring the data on clinical risk.

As things now stand, the Health Ministry has instituted a technical working party to draft the measure envisaged by Article 3, paragraph 2, of Law 189/2012. The measure, to be issued by way of presidential decree by 30 June 2013, will regulate the fund obligated to provide suitable insurance cover for certain case and the minimum, uniform requirements for insurance contracts meeting the standards of compulsory professional liability insurance cover for healthcare practitioners. The working party consists of all the representatives involved by Parliament in drafting the statutory measure (Health Ministry, Ministry for Economic Development, Ministry for the Economy and Finance, Conference of Regions and Provinces, ANIA, IVASS, Consap, National Federation of the Associations of Doctors and Dentists, National Federation of the Associations and Colleges of Healthcare Professions, and trade unions most representative of the professional categories involved).

In the field of medical malpractice insurance, for many years ANIA has conducted an annual statistical survey that is useful for identifying technical trends in the sector by means of indices of claims occurrences starting from the 1994 observation period ([2]).

### Estimating premium volume

Direct Italian medical liability insurance business is estimated at Euro 525 million in 2011, 57% of it accounted for by institutional policies and 43% by individual policies ([3]). The statistics do not include the premiums of European insurance companies that operate in Italy under the freedom to provide services, some of which are very active in malpractice business. In 2011 premium volume showed an increase of about 5.5% compared with 2010. This came mainly from the growth of over 8 percentage points in premiums from individual practitioners, probably due in part to the price revision necessitated by the persistent technical imbalance in this business sector. The premiums paid by healthcare institutions also rose, though by a more modest 3.6%.

Over ten years (2001-2011), total premiums in the medical insurance sector recorded average annual growth of 7.3% (5.5% for healthcare institutions and 10.3% for individual practitioners).

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([2]) Two insurance categories are considered:

– institutional liability for healthcare organizations: comprises all policies covering healthcare facilities' liability for medical damages, be they public or private (the survey does not cover nursing homes, medical analysis laboratories, diagnostic centers or universities);
– individual malpractice insurance for physicians: comprises all policies covering doctors' liability, regardless of whether they belong to a healthcare organization.

([3]) ANIA's estimate for the entire market (including the premiums of Italian representatives of insurers with registered offices in the European Economic Area) is based on a sample survey of companies that accounted for 41% of the premium income from general third-party liability insurance in 2011.

### Number and average cost of claims

As Table 1 reports, the number of claims filed with Italian insurers in 2011 was estimated at about 31,500, nearly two-thirds of them involving institutional policies; the number decreased by 6.7% from the previous year, continuing the downtrend that began in 2010, when it declined by 1.0%. Despite the decrease, the number is still one of the highest in the last decade. The sharpest fall (-8.1%) was in claims involving healthcare institutions, presumably owing to their increased attention to health risk analysis and monitoring in order to prevent or curb malpractice settlements.

***Table 1 – Number of claims filed (*)***

| Year of registration | Institutional liability | % change on previous year | Individual malpractice | % change on previous year | Total medical liability | % change on previous year |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1994 | 6,345 | | 3,222 | | 9,567 | |
| 1995 | 11,411 | 79.9% | 5,892 | 82.9% | 17,303 | 80.9% |
| 1996 | 13,028 | 14.2% | 4,028 | -31.6% | 17,057 | -1.4% |
| 1997 | 18,672 | 43.3% | 4,829 | 19.9% | 23,501 | 37.8% |
| 1998 | 21,678 | 16.1% | 6,036 | 25.0% | 27,714 | 17.9% |
| 1999 | 23,261 | 7.3% | 9,073 | 50.3% | 32,334 | 16.7% |
| 2000 | 23,249 | 0.0% | 10,078 | 11.1% | 33,327 | 3.1% |
| 2001 | 21,911 | -5.8% | 11,238 | 11.5% | 33,149 | -0.5% |
| 2002 | 19,028 | -13.2% | 11,443 | 1.8% | 30,471 | -8.1% |
| 2003 | 16,566 | -12.9% | 10,874 | -5.0% | 27,440 | -9.9% |
| 2004 | 16,356 | -1.3% | 11,988 | 10.2% | 28,344 | 3.3% |
| 2005 | 16,343 | -0.1% | 12,290 | 2.5% | 28,633 | 1.0% |
| 2006 | 16,424 | 0.5% | 11,959 | -2.7% | 28,383 | -0.9% |
| 2007 | 16,128 | -1.8% | 13,415 | 12.2% | 29,543 | 4.1% |
| 2008 | 17,746 | 10.0% | 11,851 | -11.7% | 29,597 | 0.2% |
| 2009 | 21,476 | 21.0% | 12,559 | 6.0% | 34,035 | 15.0% |
| 2010 | 21,353 | -0.6% | 12,329 | -1.8% | 33,682 | -1.0% |
| 2011 | 19,627 | -8.1% | 11,782 | -4.4% | 31,409 | -6.7% |

*(*) ANIA estimate of total number of claims filed based on a sample of insurance companies whose premium income in 2011 accounted for 32% of the entire general third-party liability total*

Table 2 shows the medical malpractice claims that the companies closed without compensation, according to their year of registration. Looking at the oldest claims (registered between 1994 and 2001), we see that on average two-thirds of all malpractice claims were closed without payment of any compensation. This percentage is higher (averaging 72%) for claims involving institutions, although it is worth noting that some of these claims are settled directly by the institutions themselves, as the amount falls below the policy deductible. For individual practitioners, an average of 60% of claims are closed without compensation.

Table 3 gives the breakdown of total claims (institutional liability and individual malpractice) into those settled and those reserved, both by number and by amount, according to their year of registration. The percentages settled (whether by number or by amount) are low for the more recent generations of claims, because both the

*Table 2 – Number of claims with no compensation*

| Year of registration | No. institutional liability claims w/out compensation | % of all institutional claims | No. individual malpractice claims w/out compensation | % of all individual malpractice claims | No. claims w/out compensation, total medical malpractice | % of all medical malpractice claims |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1994 | 4,244 | 66.9% | 1,854 | 57.5% | 6,098 | 63.7% |
| 1995 | 9,047 | 79.3% | 4,049 | 68.7% | 13,096 | 75.7% |
| 1996 | 9,993 | 76.7% | 2,252 | 55.9% | 12,246 | 71.8% |
| 1997 | 13,972 | 74.8% | 2,851 | 59.1% | 16,823 | 71.6% |
| 1998 | 15,332 | 70.7% | 3,674 | 60.9% | 19,006 | 68.6% |
| 1999 | 15,735 | 67.6% | 5,573 | 61.4% | 21,309 | 65.9% |
| 2000 | 15,554 | 66.9% | 6,407 | 63.6% | 21,961 | 65.9% |
| 2001 | 15,561 | 71.0% | 6,499 | 57.8% | 22,060 | 66.5% |
| 2002 | 12,397 | 65.1% | 6,805 | 59.5% | 19,202 | 63.0% |
| 2003 | 10,441 | 63.0% | 6,283 | 57.8% | 16,724 | 60.9% |
| 2004 | 10,131 | 61.9% | 6,736 | 56.2% | 16,868 | 59.5% |
| 2005 | 10,063 | 61.6% | 6,889 | 56.1% | 16,952 | 59.2% |
| 2006 | 9,421 | 57.4% | 6,411 | 53.6% | 15,833 | 55.8% |
| 2007 | 9,178 | 56.9% | 7,105 | 53.0% | 16,284 | 55.1% |
| 2008 | 9,026 | 50.9% | 5,643 | 47.6% | 14,669 | 49.6% |
| 2009 | 8,998 | 41.9% | 5,181 | 41.3% | 14,179 | 41.7% |
| 2010 | 6,436 | 30.1% | 3,557 | 28.9% | 9,993 | 29.7% |
| 2011 | 2,891 | 14.7% | 2,183 | 18.5% | 5,073 | 16.2% |

effective liability of the insured and the value of the damage are generally quite uncertain. With the passage of time the percentage of settled claims rises, to over 90% for those older than ten years. After 18 years, 2.3% of the claims registered in 1994 were still unsettled, accounting for over 7% of the amount of that claim generation, showing just how long it can take to settle this type of claim.

Table 4 reports the average cost of settlements for the two types of policy and by year of registration, showing that the average claim cost tends to increase as the percentage settled rises, which is to say as the data solidify. At first, in fact, insurers often underestimate the cost of claims, because the evaluation of physical impairment is complex and adequate information is commonly not available immediately after the occurrence of the event. This is compounded by uncertainty in evaluating damages owing to frequent changes in court rulings in this field.

For instance, for claims filed in 2002, at the end of that year insurers insurers estimated the average settlement cost at Euro 20,157, but four years later, after ten years, the estimate had doubled to nearly Euro 40,000; it kept rising to what now appears to be the "final" average cost of claims of that generation (about Euro 47,000). The same pattern can be observed for all the generations of claims, sometimes with an acceleration.

*Table 3*
***Percentage of total medical liability claims settled at 31/12/2011: Number and amount, by year of registration***

| Year of registration | No. of claims settled (%) | No. of claims reserved (%) | Amount of claims settled (%) | Amount of claims reserved (%) |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| 1994 | 97.7% | 2.3% | 92.9% | 7.1% |
| 1995 | 97.8% | 2.2% | 94.7% | 5.3% |
| 1996 | 97.1% | 2.9% | 94.7% | 5.3% |
| 1997 | 96.5% | 3.5% | 91.7% | 8.3% |
| 1998 | 95.9% | 4.1% | 91.6% | 8.4% |
| 1999 | 94.3% | 5.7% | 89.6% | 10.4% |
| 2000 | 91.2% | 8.8% | 86.8% | 13.2% |
| 2001 | 89.5% | 10.5% | 82.8% | 17.2% |
| 2002 | 86.2% | 13.8% | 75.8% | 24.2% |
| 2003 | 82.4% | 17.6% | 74.7% | 25.3% |
| 2004 | 78.7% | 21.3% | 66.5% | 33.5% |
| 2005 | 73.7% | 26.3% | 60.4% | 39.6% |
| 2006 | 69.0% | 31.0% | 54.1% | 45.9% |
| 2007 | 59.8% | 40.2% | 46.6% | 53.4% |
| 2008 | 52.8% | 47.2% | 38.6% | 61.4% |
| 2009 | 39.7% | 60.3% | 28.8% | 71.2% |
| 2010 | 24.6% | 75.4% | 14.2% | 85.8% |
| 2011 | 9.8% | 90.2% | 2.3% | 97.7% |

***Table 4 – Average cost of medical liability claims, 2002-2011***
*Euro*

| Year of registration | at 31.12.2002 | at 31.12.2004 | at 31.12.2005 | at 31.12.2006 | at 31.12.2007 | at 31.12.2008 | at 31.12.2009 | at 31.12.2010 | at 31.12.2011 |
|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| 1994 | 16,410 | 30,212 | 28,898 | 29,833 | 28,421 | 28,904 | 29,012 | 28,023 | 27,983 |
| 1995 | 14,418 | 21,464 | 21,406 | 22,976 | 22,488 | 22,687 | 22,676 | 22,190 | 21,887 |
| 1996 | 16,961 | 23,253 | 22,000 | 21,789 | 21,622 | 23,819 | 23,493 | 23,028 | 23,091 |
| 1997 | 25,331 | 31,082 | 29,594 | 29,214 | 28,961 | 32,948 | 31,940 | 31,950 | 31,768 |
| 1998 | 17,939 | 24,517 | 22,474 | 30,152 | 29,966 | 34,271 | 33,924 | 33,184 | 33,049 |
| 1999 | 22,820 | 28,144 | 28,556 | 32,063 | 32,571 | 37,281 | 36,511 | 36,584 | 36,157 |
| 2000 | 22,254 | 32,298 | 33,887 | 37,600 | 37,634 | 39,968 | 40,605 | 40,134 | 38,929 |
| 2001 | 21,843 | 31,675 | 33,152 | 36,757 | 35,974 | 40,042 | 40,159 | 37,457 | 45,865 |
| 2002 | 20,157 | 33,026 | 35,298 | 39,903 | 38,490 | 42,732 | 43,196 | 42,371 | 46,835 |
| 2003 | | 30,306 | 34,379 | 39,475 | 39,080 | 44,521 | 47,241 | 46,169 | 50,577 |
| 2004 | | 22,706 | 29,755 | 36,545 | 38,349 | 44,083 | 43,304 | 43,653 | 49,951 |
| 2005 | | | 26,670 | 33,174 | 35,471 | 42,383 | 42,245 | 41,277 | 46,330 |
| 2006 | | | | 30,659 | 33,408 | 41,476 | 42,019 | 41,779 | 50,330 |
| 2007 | | | | | 26,670 | 38,266 | 38,816 | 39,537 | 47,798 |
| 2008 | | | | | | 29,505 | 34,067 | 39,427 | 49,581 |
| 2009 | | | | | | | 25,083 | 33,225 | 43,852 |
| 2010 | | | | | | | | 27,689 | 38,538 |
| 2011 | | | | | | | | | 30,789 |

### Loss ratios

These rapidly rising cost trends, together with the large number of claims registered each year, have produced extremely negative results for the sector's technical accounts, hence very high loss ratios. As with other business segments, for a correct assessment of the performance of medical liability insurance we must also examine the loss ratio (claims in relation to premiums) for the entire medical liability branch year by year. Table 5 gives medical malpractice insurance loss ratios for the various claims generations and their evolution over the years.

At 31 December 2011 the average loss ratio for all generations was 175%. For the most recent generation the ratio came to 147%. As for the evolution of the loss ratio over time, as the percentage settled rises and information is stabilized, we find two distinct patterns:

– For the generations of claims registered from 1994 to 2004, the loss ratio estimated at 31 December 2011 was particularly high (ranging from 174% for claims registered in 2004 to 310% for the 1997 and 1998 generations).
– For the 2005-2008 generation the loss ratio is lower, though it is still clearly at levels that make this business unprofitable.
– For claims registered between 2009 and 2011 (the last three years for which data are available), loss ratios have worsened again, though not reaching the extremes recorded from 1994-2004.

The difference between claim generations presumably depends on insurers' improving ability to estimate and forecast trends.

***Table 5 – Loss ratio (claims/premiums): Total medical liability insurance***
*2011 average: 175%*

| Year of registration | at 31.12.2002 | at 31.12.2004 | at 31.12.2005 | at 31.12.2006 | at 31.12.2007 | at 31.12.2008 | at 31.12.2009 | at 31.12.2010 | at 31.12.2011 |
|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| 1994 | 199% | 251% | 241% | 251% | 238% | 240% | 241% | 237% | 236% |
| 1995 | 182% | 212% | 216% | 206% | 202% | 201% | 201% | 203% | 200% |
| 1996 | 187% | 198% | 195% | 191% | 187% | 199% | 198% | 195% | 189% |
| 1997 | 223% | 320% | 300% | 293% | 286% | 336% | 323% | 323% | 311% |
| 1998 | 168% | 340% | 313% | 288% | 284% | 341% | 331% | 323% | 312% |
| 1999 | 179% | 262% | 266% | 249% | 246% | 330% | 321% | 321% | 308% |
| 2000 | 151% | 216% | 219% | 208% | 206% | 233% | 217% | 214% | 203% |
| 2001 | 154% | 218% | 218% | 200% | 192% | 215% | 204% | 187% | 251% |
| 2002 | 149% | 232% | 229% | 199% | 192% | 207% | 199% | 275% | 287% |
| 2003 | | 196% | 199% | 171% | 162% | 173% | 177% | 215% | 223% |
| 2004 | | 145% | 170% | 154% | 150% | 144% | 140% | 162% | 174% |
| 2005 | | | 173% | 162% | 155% | 133% | 131% | 118% | 123% |
| 2006 | | | | 158% | 157% | 150% | 141% | 128% | 142% |
| 2007 | | | | | 140% | 130% | 123% | 109% | 117% |
| 2008 | | | | | | 111% | 147% | 138% | 148% |
| 2009 | | | | | | | 153% | 155% | 169% |
| 2010 | | | | | | | | 153% | 177% |
| 2011 | | | | | | | | | 147% |

# HUMAN RESOURCES AND THE OPERATIONAL AREA

# 7

## STAFF AND LABOR COSTS

At the end of 2012 the Italian insurance industry's managerial and non-managerial staff numbered 47,712 (including managers), up 0.5% from 47,477 a year earlier; in 2011 the number of employees had risen by 0.6%. ANIA produced this estimate for the entire industry, which includes some 4,000 employees of subsidiaries covered by the insurance industry labor contract, using data from a sample of companies accounting for about 85% of total insurance employment.

Staff comprises administration personnel (38,936 employees), dealers and dealer organizational personnel (5,214 employees), call center staff (2,436) [1] and managerial personnel (1,126). Administration staff increased by 235 (+0.6%) in 2012, while call center employees rose by 83 (+3.5%), 79 of whom in the second section (sales). Dealers and their organizational personnel, instead, were reduced by 70 (-1.3%). The number of managers also diminished, by 13 (-1.2%) compared with 2011.

Overall, net of the decrease in dealers, the number of administration employees rose by 305 or 0.7% in 2012.

For the entire industry, the number of women employed rose by 230 (+1.3%) while the number of men was virtually unchanged (down just 0.1%).

Overall, at the end of the year female personnel accounted for 46.1% of the total. About 40% of all employees are university graduates; 51% have upper secondary school diplomas.

The cost of staff (net of dealers and their organization staff) amounted to Euro 3,478 million in 2012, an increase of 5.9% for the year; per employee costs were Euro 82,100, an increase of 5.0%. The cost for dealers and related staff came to Euro 262 million, down 1.7% from 2011; the per capita cost held practically unchanged (+0.5%) at around Euro 50,000.

To enhance the statistical significance of the data, per capita labor costs are calculated as the total staff cost for a given year over the average number of employees in service during that year and the previous one.

Overall, the insurance companies' labor costs increased by 5.3% in 2012, owing above all to the salary increases of 5.06% for 2011 and 2012 under the industry-wide collective bargaining agreement for non-managerial insurance employees signed in March 2012; the increases were paid out in the course of 2012.

Per employee labor costs increased by 4.8%.

[1] Call center employees are subdivided into claims staff (first section) of 1,432 and sales staff (second section) of 1,004.

***Data for the entire industry, obtained by extrapolating data from a sample of companies accounting for 85% of the market***

***Number of staff***

| YEAR | ADMIN. (*) | DEALERS | TOTAL |
|---|---|---|---|
| 2002 | 36,987 | 2,993 | 39,980 |
| 2003 | 36,429 | 2,862 | 39,291 |
| 2004 | 37,275 | 2,830 | 40,105 |
| 2005 | 37,016 | 2,908 | 39,924 |
| 2006 | 36,665 | 3,130 | 39,795 |
| 2007 | 36,567 | 3,156 | 39,723 |
| *2007 (**)* | *41,121* | *5,157* | *46,278* |
| 2008 | 41,479 | 5,352 | 46,831 |
| 2009 | 41,881 | 5,488 | 47,369 |
| 2010 | 41,730 | 5,456 | 47,185 |
| 2011 | 42,193 | 5,284 | 47,477 |
| 2012 | 42,498 | 5,214 | 47,712 |

*(*) Administration, call center and managerial staff*
*(**) In 2007 for the first time the total included 4,554 employees of subsidiaries of insurance companies and roughly 2,000 additional dealers as a consequence of a major corporate restructuring*

***Total staff costs*** *(Euro million)*

| YEAR | ADMIN. (*) | DEALERS | TOTAL |
|---|---|---|---|
| 2002 | 2,119 | 117 | 2,236 |
| 2003 | 2,268 | 115 | 2,383 |
| 2004 | 2,379 | 129 | 2,508 |
| 2005 | 2,457 | 142 | 2,599 |
| 2006 | 2,533 | 154 | 2,687 |
| 2007 | 2,711 | 169 | 2,880 |
| *2007 (**)* | *2,972* | *277* | *3,249* |
| 2008 | 3,118 | 273 | 3,390 |
| 2009 | 3,142 | 261 | 3,403 |
| 2010 | 3,192 | 263 | 3,456 |
| 2011 | 3,284 | 267 | 3,551 |
| 2012 | 3,478 | 262 | 3,740 |

*(*) Administration, call center and managerial staff*
*(**) In 2007 for the first time the total included 4,554 employees of subsidiaries of insurance companies and roughly 2,000 additional dealers as a consequence of a major corporate restructuring*

***Annual change in total staff costs (%)***

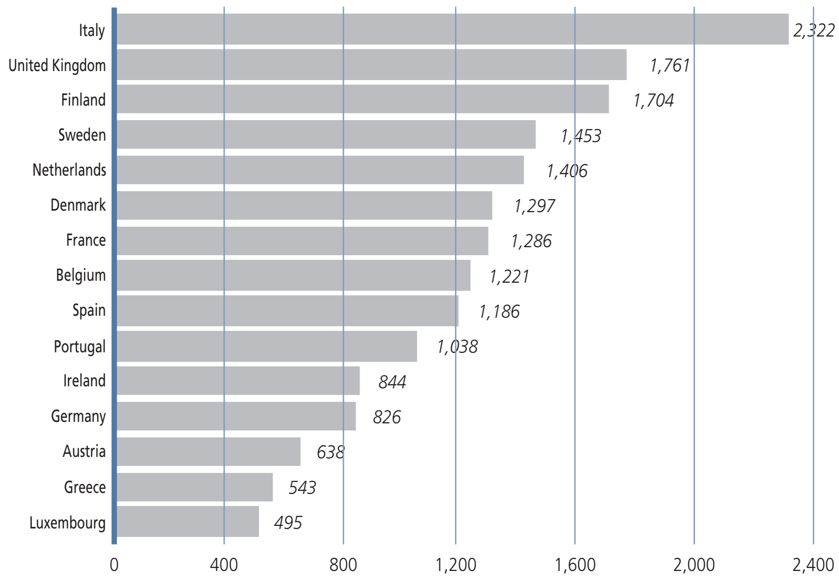
| YEAR | ADMIN. | DEALERS | TOTAL |
|---|---|---|---|
| 2003 | 7.0 | -1.7 | 6.6 |
| 2004 | 4.9 | 12.2 | 5.2 |
| 2005 | 3.3 | 10.1 | 3.6 |
| 2006 | 3.1 | 8.5 | 3.4 |
| 2007 | 7.0 | 9.7 | 7.2 |
| 2008 | 4.9 | -1.6 | 4.3 |
| 2009 | 0.8 | -4.2 | 0.4 |
| 2010 | 1.6 | 0.7 | 1.6 |
| 2011 | 2.9 | 1.5 | 2.7 |
| 2012 | 5.9 | -1.7 | 5.3 |

***Annual change in staff costs per employee (%)***

| YEAR | ADMIN. | DEALERS | TOTAL |
|---|---|---|---|
| 2004 | 4.5 | 15.3 | 5.2 |
| 2005 | 2.3 | 9.3 | 2.8 |
| 2006 | 4.1 | 3.0 | 3.7 |
| 2007 | 7.6 | 5.5 | 7.4 |
| 2008 | 4.6 | -3.8 | 3.8 |
| 2009 | -0.1 | -7.2 | -0.8 |
| 2010 | 1.3 | -0.2 | 1.2 |
| 2011 | 2.5 | 3.4 | 2.6 |
| 2012 | 5.0 | 0.5 | 4.8 |

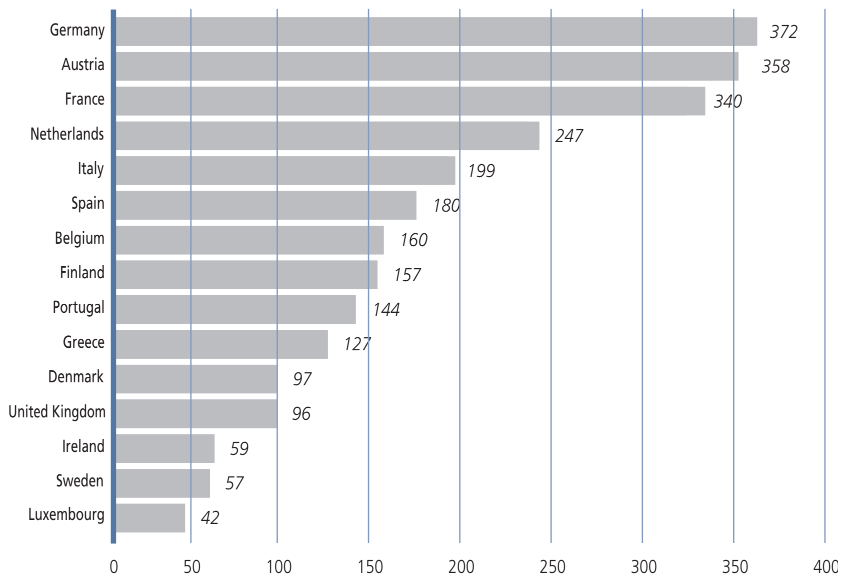
***Premiums per employee in the EU-15 – 2011***

*Euro (000's)*




*Source: Insurance Europe*

***Employees per company in the EU-15 – 2011***




*Source: Insurance Europe*

# INSURANCE DISTRIBUTION

# 8

**Premiums written through bank and post office branches declined more sharply than the average in 2012, so the market share of this channel diminished again. Insurance agents' business also contracted, while the other channels gained. Specifically, premiums generated by financial salesmen and direct sales increased. In the non-life sector, agents were again the main sales channel, but their business contracted by more than the market-wide average. Direct sales, especially via Internet and telephone, continued to grow. An ANIA study based on data from the Italian Association of Insurance and Reinsurance brokers (AIBA) has shown that insurance company figures underestimate the importance of brokers in the non-life sector.**

## LIFE BUSINESS

In 2012, for the second year running, there was a decrease in life insurance premiums written through bank branches and agents, while those generated by financial salesmen, brokers and direct sales increased (Table 1).

In particular, bank branches registered a drop in written premiums of 16.4% in 2012 (even so, this was less than the fall recorded in 2011), so that their market share came down from 54.7% to 48.5%. Over the last five years average premium growth through this channel has been barely positive at 3.3%.

Financial salesmen, the second-leading channel of intermediation after banks, scored a significant increase of 19.8% in premium business, recovering from

*Table 1 - Life insurance business by distribution channel, 2008-2012*

| CHANNEL | Gross written premiums (Euro million) | | | | | Market share (%) | | | | | Average | Yearly change | | | | | Average annual % change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2008 | 2009 | 2010 | 2011 | 2012 | (2008-2012) | 2008 | 2009 | 2010 | 2011 | 2012 | (2008-2012) |
| Bank branches (*) | 28,688 | 47,210 | 54,310 | 40,419 | 33,807 | 52.5 | 58.1 | 60.3 | 54.7 | 48.5 | ***54.8*** | -19.2 | 64.3 | 15.0 | -25.6 | -16.4 | ***3.3*** |
| Financial salesmen | 5,409 | 13,141 | 14,367 | 13,582 | 16,272 | 9.9 | 16.2 | 15.9 | 18.4 | 23.3 | ***16.7*** | 3.3 | 143.3 | 9.3 | -5.5 | 19.8 | ***24.6*** |
| Agents | 12,852 | 12,897 | 13,811 | 12,103 | 11,385 | 23.6 | 15.9 | 15.3 | 16.4 | 16.3 | ***17.5*** | -0.9 | 0.5 | 7.1 | -12.4 | -5.9 | ***-2.4*** |
| Direct sales | 6,811 | 7,057 | 6,689 | 6,994 | 7,458 | 12.5 | 8.7 | 7.4 | 9.5 | 10.7 | ***9.8*** | -0.8 | 4.2 | -5.2 | 4.6 | 6.6 | ***1.8*** |
| Brokers | 805 | 811 | 936 | 771 | 791 | 1.5 | 1.0 | 1.0 | 1.0 | 1.1 | ***1.1*** | -8.0 | 2.3 | 15.4 | -17.6 | 16.4 | ***-0.4*** |
| **Total** | **54,565** | **81,116** | **90,114** | **73,869** | **69,713** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | ***100.0*** | **-11.2** | **48.7** | **11.1** | **-18.0** | **-5.5** | ***5.0*** |

*(*) Includes premiums collected by post office branches*

the contraction registered in 2011. Their average annual gain over the past five years thus comes to 24.6%, the best performance of any channel over the period. Their market share has accordingly risen steadily, from 9.9% in 2008 to 23.3% in 2012.

Premiums through insurance agents fell by nearly 6% last year, about the market average, so their market share held stable at 16%.

Direct sales – essentially through subsidiary agencies and business agencies – expanded by 6.6%, further increasing their market share from 9.5% to 10.7%.

Premiums written by brokers, amounting to just Euro 791 million in 2012, scored a substantial increase of 16.4%.

By type of product (Tables 2 and 3) , Class I registered a 12.7% rise in premium income generated by brokers, who thus maintained their modest market share of 1.0%; direct sales of these life insurance products also increased (by 3.2%), their market share thus rising from 8.3% to 9.5%. Bank branch sales of Class I products fell by 14.2%, and they lost nearly 3 percentage points of market share, from 55.1% to 52.4%. The other channels to lose business were agents (-6.3%) and financial salesmen (-5.6%).

In Class III (index-linked policies), premiums declined in all channels except financial salesmen in 2012. The contraction in business done through the banking channel

***Table 2***
***Composition of life market by distribution channel and class (%)***

| Class | Agents | Brokers | Bank branches (*) | Financial salesmen | Direct sales | Total |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| I - Life | 18.7 | 1.0 | 52.4 | 18.4 | 9.5 | 100.0 |
| III - Linked | 5.0 | 0.0 | 45.3 | 49.1 | 0.6 | 100.0 |
| IV - Healthcare | 27.1 | 49.9 | 18.5 | 0.1 | 4.4 | 100.0 |
| V - Capitalization | 29.5 | 8.1 | 16.9 | 0.4 | 45.2 | 100.0 |
| VI - Pension funds | 15.1 | 0.6 | 14.1 | 3.5 | 66.7 | 100.0 |
| Ind. ret. plans (**) | 38.5 | 0.1 | 22.0 | 27.4 | 12.0 | 100.0 |
| **Total life** | **16.3** | **1.1** | **48.5** | **23.3** | **10.7** | **100.0** |
| **2011** | | | | | | |
| I - Life | 18.0 | 1.0 | 55.1 | 17.6 | 8.3 | 100.0 |
| III - Linked | 6.7 | 0.0 | 64.4 | 28.2 | 0.7 | 100.0 |
| IV - Healthcare | 27.2 | 53.4 | 14.3 | 0.3 | 4.7 | 100.0 |
| V - Capitalization | 24.1 | 5.8 | 26.4 | 1.1 | 42.6 | 100.0 |
| VI - Pension funds | 18.3 | 0.7 | 20.5 | 3.6 | 56.8 | 100.0 |
| Ind. ret. plans (**) | 44.9 | 0.1 | 7.1 | 34.0 | 13.9 | 100.0 |
| **Total life** | **16.4** | **1.0** | **54.7** | **18.4** | **9.5** | **100.0** |

*(*) Includes premiums collected by post office branches*
*(**) Premiums for individual retirement plans (contracts under Legislative Decree 252/2005, Article 13.1(b), are a subset of those for individual Class I and Class III policies (life insurance and investment funds)*

***Table 3***
***Change in premium volume, 2012/2011, by class and distribution channel (%)***

| Class | Agents | Brokers | Bank branches (*) | Financial salesmen | Direct sales | Total |
|---|---|---|---|---|---|---|
| I - Life | -6.3 | 12.7 | -14.2 | -5.6 | 3.2 | -9.6 |
| III - Linked | -18.7 | -9.8 | -22.3 | 92.6 | -5.1 | 10.4 |
| IV - Healthcare | 32.5 | 24.4 | 71.6 | -50.5 | 23.6 | 33.1 |
| V - Capitalization | 10.2 | 26.4 | -42.5 | -72.2 | -4.7 | -10.1 |
| VI - Pension funds | 1.6 | 3.0 | -14.9 | 18.7 | 44.5 | 23.3 |
| Ind. ret. plans (**) | 3.4 | -6.1 | 14.3 | -3.0 | 4.0 | 3.8 |
| **Total life** | **-5.9** | **16.4** | **-16.4** | **19.8** | **6.6** | **-5.5** |

*(*) Includes premiums collected by post office branches*
*(**) Premiums for individual retirement plans (contracts under Legislative Decree 252/2005, Article 13.1(b), are a subset of those for individual Class I and Class III policies (life insurance and investment funds)*

came to 22.3%, and its market share plummeted from 64.4% to 45.3%. Sales by agents also fell sharply, by 18.7%, with this channel's market share falling from 6.7% to 5%. Combined with the contraction of the banking channel's share, the near doubling of premiums written by financial salesmen's (+92.6%) brought the latter's share of the Class III market to nearly 50%.

As to capital redemption policies (Class V), the channels recording the sharpest premium sales declines were bank branches (-42.5%) and financial salesmen (-72.2%). While salesmen account for a marginal share of the market (0.4% in 2012), the decline in banks' sales reduced their market share from 26.4% to 16.9%. In this class, premiums written by agents increased (+10.2%), as did those by brokers (+26.4%); for these two channels, market shares accordingly rose from 24.1% to 29.5% and from 5.8% to 8.1% respectively.

Last year agents were once again the main channel for the marketing of individual retirement policies. The premium income they accounted for rose by 3.4%, but their market share nevertheless slipped to 38.5% after rising for three years to 44.9% in 2011. Sales of these products by financial salesmen, instead, fell by 3% and their market share from 34.0% to 27.4%. The market share accounted for by direct sales channels also declined, despite a 4% increase in premium volume. Sales of these products through bank and post office branches, by contrast, performed strongly indeed (+14.3%), increasing their market share from 7.1% to 22%. Brokers accounted for a mere 0.1% in 2012.

As regards pension funds (Class VI), the share of premiums/contributions paid through the banking channel decreased, as did that of agents, while direct sales gained; the incidence of the other marketing channels remained roughly unchanged.

## NON-LIFE BUSINESS

Agents – the traditional network for premium collection in non-life insurance, accounting for 81% of the market – recorded a decline of 3.0% in premiums written in 2012. This channel has shown an average annual decline of 1.8% over the past five years (Table 4).

Brokers also saw their premium business diminish (by 1.8%), in line with the average for the entire sector; their market share accordingly was unchanged at 7.6%. However, this share is underestimated, insofar as a significant portion of the premium income they generate (around 23.1% of the entire market) is presented to the insurance companies not directly by the brokers but via agencies. Taking this into account, the non-life premiums intermediated by brokers amounted to **Euro 10.9 billion** (Euro 2.7 billion in the official statistics) or to **30.7%** of all non-life premiums (7.6% in the official statistics). As a consequence, the share effectively accounted for by agents should be adjusted to **Euro 20.5 billion** (and not Euro 28.9 billion, as in the official statistics) and their market share from 81% to **57.9%.**

To estimate the market shares accounted for by brokers, ANIA uses data from Italian Association of Insurance and Reinsurance brokers (AIBA) and additional information gathered from the leading Italian insurance brokers. AIBA lacks official data on the volume of premiums handled by brokers but derives an estimate from their payments to the compulsory Guarantee Fund plus a portion of premiums deriving from brokerage fees (not subject to the compulsory contribution). On this basis AIBA estimates brokers' premiums for the entire non-life sector at Euro 18 billion, which is far higher than ANIA's own estimate, owing essentially to the different estimate of premiums deriving from brokerage fees.

Direct sales expanded again in 2012, by 12.3%, thanks to the Internet and telephone channel, which gained 12.1%. Over the past five years direct sales have

***Table 4 - Non-life insurance business by distribution channel, 2008-2012***

| CHANNEL | Gross written premiums (Euro million) | | | | | Market share (%) | | | | | Average | Yearly change | | | | | Average annual % change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2008 | 2009 | 2010 | 2011 | 2012 | (2008-2012) | 2008 | 2009 | 2010 | 2011 | 2012 | (2007-2011) |
| Agents | 31,381 | 30,516 | 29,329 | 29,748 | 28,687 | 83.8 | 83.0 | 82.4 | 81.8 | 81.0 | ***83.8*** | -1.2 | -2.8 | 1.3 | 1.4 | -3.0 | **-1.8** |
| Brokers (*) | 2,854 | 2,921 | 2,730 | 2,768 | 2,691 | 7.6 | 7.9 | 7.7 | 7.6 | 7.6 | ***7.7*** | 3.0 | 2.3 | -1.4 | 1.4 | -1.8 | **-1.2** |
| Direct sales | 2,359 | 2,187 | 2,357 | 2,549 | 2,858 | 6.3 | 6.0 | 6.6 | 7.0 | 8.1 | ***6.8*** | -2.8 | -7.3 | 7.9 | 8.1 | 12.3 | **3.9** |
| *of which: phone and Internet* | *1,042* | *1,081* | *1,273* | *1,491* | *1,669* | *2.8* | *2.9* | *3.6* | *4.1* | *4.7* | ***3.6*** | *-1.1* | *3.7* | *18.9* | *16.9* | *12.1* | **9.9** |
| Bank branches (**) | 804 | 1,070 | 1,142 | 1,247 | 1,123 | 2.1 | 2.9 | 3.2 | 3.4 | 3.2 | ***3.0*** | 18.6 | 33.2 | 17.3 | 9.2 | -5.5 | **6.9** |
| Financial salesmen | 54 | 51 | 48 | 47 | 49 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | ***0.1*** | 86.9 | -5.9 | -5.7 | -0.4 | 2.7 | **-2.0** |
| **Total** | **37,451** | **36,746** | **35,606** | **36,358** | **35,407** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | ***100.0*** | **-0.5** | **-1.9** | **2.2** | **2.1** | **-1.9** | **-1.1** |

*(*) The share attributed to brokers does not take account of a portion of premium volume (estimated at 23.1 percentage points in 2012) originated through this channel but presented to agencies and not directly to insurers*

*(**) Includes premiums collected by post office branches*

gained nearly 4% per year (10% for Internet and telephone sales) and registered an average market share of 6.8% (3.6% for Internet and telephone sales).

Bank and post office branches recorded a decline in non-life insurance business of 5.5% in 2012 after four consecutive years of growth, as several leading bancassurance companies ceased sales of products other than motor liability insurance. Over the five years, in any case, the percentage change remains positive by nearly 7%.

Financial salesmen still have a minimal share of the market (0.1% in 2012).

For motor liability insurance only, agents were the main sales channel again in 2012, with premiums accounting for 87.3% of the total. However, this was nearly a percentage point less than in 2011, as premiums written declined by 2.2% (Tables 5 and 6).

***Table 5***
***Non-life insurance market shares by sector and distribution channel (%)***

| Sector | Agents | Brokers (*) | Bank branches (**) | Financial salesmen/ inv. firms | Insurance co. agencies | OTHER DIRECT SALES Telephone | OTHER DIRECT SALES Internet | Total |
|---|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | | |
| Motor liability | 87.3 | 2.9 | 1.6 | 0.0 | 0.6 | 2.9 | 4.8 | 100.0 |
| Land vehicle | 83.7 | 6.3 | 1.6 | 0.0 | 2.0 | 2.5 | 3.9 | 100.0 |
| ***Total motor*** | ***86.8*** | ***3.3*** | ***1.6*** | ***0.0*** | ***0.8*** | ***2.8*** | ***4.7*** | ***100.0*** |
| Accident and sickness | 66.9 | 12.2 | 6.3 | 0.7 | 12.6 | 0.6 | 0.8 | 100.0 |
| Shipping (°) | 28.4 | 64.5 | 0.0 | 0.0 | 7.1 | 0.0 | 0.0 | 100.0 |
| Property (°°) | 77.5 | 11.5 | 6.2 | 0.1 | 3.3 | 0.6 | 0.8 | 100.0 |
| Gen. third party liability | 84.2 | 9.2 | 2.2 | 0.1 | 4.1 | 0.1 | 0.1 | 100.0 |
| Credit and suretyship | 73.1 | 15.9 | 6.9 | 0.0 | 4.1 | 0.0 | 0.0 | 100.0 |
| ***Total non-motor*** | ***73.4*** | ***13.3*** | ***5.2*** | ***0.3*** | ***6.8*** | ***0.5*** | ***0.6*** | ***100.0*** |
| **Total non-life** | **81.0** | **7.6** | **3.2** | **0.1** | **3.4** | **1.8** | **2.9** | **100.0** |
| **2011** | | | | | | | | |
| Motor liability | 88.1 | 3.0 | 1.4 | 0.0 | 0.7 | 2.8 | 4.0 | 100.0 |
| Land vehicle | 84.0 | 6.8 | 1.5 | 0.1 | 2.0 | 2.4 | 3.3 | 100.0 |
| ***Total motor*** | ***87.6*** | ***3.5*** | ***1.4*** | ***0.0*** | ***0.9*** | ***2.7*** | ***3.9*** | ***100.0*** |
| Accident and sickness | 69.1 | 11.8 | 7.7 | 0.7 | 9.6 | 0.5 | 0.6 | 100.0 |
| Shipping (°) | 28.4 | 66.3 | 0.0 | 0.0 | 5.2 | 0.0 | 0.0 | 100.0 |
| Property (°°) | 77.5 | 10.7 | 7.5 | 0.1 | 3.1 | 0.4 | 0.6 | 100.0 |
| Gen. third party liability | 84.9 | 9.0 | 1.8 | 0.1 | 4.1 | 0.1 | 0.1 | 100.0 |
| Credit and suretyship | 79.1 | 12.4 | 3.9 | 0.0 | 4.6 | 0.0 | 0.0 | 100.0 |
| ***Total non-motor*** | ***74.3*** | ***13.0*** | ***6.1*** | ***0.3*** | ***5.6*** | ***0.3*** | ***0.5*** | ***100.0*** |
| **Total non-life** | **81.8** | **7.6** | **3.4** | **0.1** | **2.9** | **1.7** | **2.4** | **100.0** |

*(*) The share attributed to brokers does not take account of a portion of premium volume (estimated at 23.1 percentage points in 2012) originated through this channel but presented to agencies and not directly to insurers*
*(**) Includes premiums collected by post office branches*
*(°) Shipping sector includes: Railway rolling stock, Aircraft, Ships, Goods in transit and Aircraft T.P.L.*
*(°°) Property sector includes: Fire and natural forces, Other damage to property, Miscellaneous financial loss, Legal expenses and Assistance*

***Table 6***
***Change in non-life premium volume, 2012/2011, by sector and distribution channel (%)***

| Sector | 2012/2011 Agents | Brokers (*) | Bank branches (**) | Financial salesmen/ inv. firms | Insurance co. agencies | OTHER DIRECT SALES Telephone | Internet | Total |
|---|---|---|---|---|---|---|---|---|
| Motor liability | -2.2 | -4.7 | 12.2 | -19.6 | -12.8 | 1.0 | 19.0 | -1.2 |
| Land vehicle | -8.7 | -15.1 | -2.9 | -80.4 | -6.6 | -4.9 | 8.9 | -8.4 |
| ***Total motor*** | ***-3.1*** | ***-7.5*** | ***10.0*** | ***-74.8*** | ***-10.8*** | ***0.3*** | ***17.8*** | ***-2.2*** |
| Accident and sickness | -5.1 | 3.3 | -7.8 | -0.4 | 29.5 | 23.4 | 23.5 | -0.6 |
| Shipping (°) | -12.0 | -14.4 | -14.3 | 0.0 | 19.8 | -55.3 | -0.8 | -11.9 |
| Property (°°) | -1.7 | 6.6 | -19.0 | 48.4 | 3.7 | 42.6 | 31.4 | -1.5 |
| Gen. third party liability | -0.6 | 2.6 | 22.9 | 8.3 | 0.4 | 24.6 | 9.4 | 0.2 |
| Credit and suretyship | -8.9 | -9.2 | 34.8 | 0.0 | -35.0 | 0.0 | 0.0 | -8.4 |
| ***Total non-motor*** | ***-2.9*** | ***0.2*** | ***-10.7*** | ***6.4*** | ***17.3*** | ***33.1*** | ***26.9*** | ***-1.5*** |
| **Total non-life** | **-3.0** | **-1.8** | **-5.5** | **2.7** | **12.5** | **3.1** | **18.6** | **-1.9** |

*(*) The share attributed to brokers does not take account of a portion of premium volume (estimated at 23.1 percentage points in 2012) originated through this channel but presented to agencies and not directly to insurers*
*(**) Includes premiums collected by post office branches*
*(°) Shipping sector includes: Railway rolling stock, Aircraft, Ships, Goods in transit and Aircraft T.P.L.*
*(°°) Property sector includes: Fire and natural forces, Other damage to property, Miscellaneous financial loss, Legal expenses and Assistance*

In motor liability insurance, the second largest channel was telephone and Internet sales, accounting for 7.7% of the total, thanks mainly to rising Internet business (+19.0%). Premiums distributed via bank and post office branches also increased (+12.2%). Brokers, instead, recorded a 4.7% fall in business and had a market share of slightly under 3.0%.

While agents and brokers remained the leading non-motor insurance intermediaries in 2012, agents' premium volume declined by 2.9% and brokers' was virtually unchanged. The market share of the former accordingly slipped from 74.3% to 73.4% while that of the latter rose from 13.0% to 13.3%. The non-motor premium volume of business agencies expanded by over 17%, raising their market share from 5.6% to 6.8%.

## THE "LIBERALIZATION" DECREE, LAW 27/2012, ARTICLES 28 AND 34, ON LIFE INSURANCE POLICIES LINKED TO MORTGAGE LOANS AND COMPARISONS OF THREE POLICY ESTIMATES FOR MOTOR LIABILITY INSURANCE

Law 27/2012, the conversion of the "liberalization" decree, was published on 24 March. Article 28 modifies the rules governing life insurance policies linked to mortgage loans, and Article 34 reforms those requiring the comparison of three policy estimates for motor liability insurance.

Article 28 had provided that if banks or other financial intermediaries made a mortgage loan conditional on a life insurance contract for the borrower, they had to supply the customer with at least two different estimates from companies not belonging to the same insurance group.

The conversion law amended Article 28 as follows:

- the scope was extended to consumer credit, not only mortgage loans;
- it was specified that the two estimates must be for two different life insurance policies from companies not connected with the lending bank or financial intermediary;
- it was specified that the customer can choose freely, on the market, the most economical life insurance policy, and that the bank or financial intermediary must accept it without modifying the terms of the mortgage or consumer loan;
- ISVAP/IVASS is assigned to define the minimum content of life insurance contracts linked to mortgage loans or consumer credit agreements.

As to the requirement for comparison of three different motor liability policy prices, Article 34 of the liberalization decree provided that "motor liability insurers are required, before the signing of the contract, to inform the customer correctly, completely and transparently of the prices and other contract terms offered by at least three different insurance companies not belonging to the same group. For this purpose the companies may use the information that insurance companies are required to publish on their websites."

The conversion law retained the fundamental obligation for correct, complete and transparent pre-contract information to the customer on prices and other contract terms of three different motor liability insurance policies. At the same time, it made the following changes:

- the fine for the insurance company, jointly and severally liable together with the non-compliant intermediary (agent), is reduced from between Euro 50,000 and Euro 100,000 to between Euro 1,000 and Euro 10,000;
- ISVAP/IVASS is now required to lay down operational standards for applying the rule, with transitional provision for its temporary inapplicability and drafting a half-yearly report on the provisions of Article 34.

## ISVAP REGULATION 40/2012 SETTING MINIMUM CONTENT FOR LIFE INSURANCE CONTRACTS

The insurance Authority regulation laying down minimum content for life insurance contracts linked with mortgage loans or consumer credit took effect on 1 July 2012. This content constitutes the base contract and is essential to comparing the prices of different policies.

The basic clause to use in this comparison is “temporary life insurance for loan with diminishing principal” for loans with an amortization schedule or at “constant principal” for other types of consumer credit (revolving credit cards), without prejudice to the possibility, in practice, of a different life insurance policy more advantageous for the consumer. The regulation also lays down other contract content for these policies, such as the possibility of benefit limits or waiting periods.

The lending institution must give the customer a written document describing the minimum content of the insurance contract and an estimate, drafted according to the template laid down in the regulation. With the delivery of the estimate, the customer has a term of a minimum of ten business days to find another contract on the market that meets the minimum standard, which the lender must accept. Finally, the new rules require insurers to offer free online estimate services on their websites.

## ISVAP REGULATION 49/2012, OPERATIONAL STANDARDS FOR COMPARING MOTOR LIABILITY PREMIUMS

On 10 July 2012 ISVAP published its draft of Regulation 49/2012 defining the operational procedures for comparing motor liability insurance premium costs. The regulation applies to all companies authorized to provide motor liability insurance in Italy and all insurance intermediaries who distribute these contracts.

The law establishes that before signing a motor liability insurance contract the customer must be correctly, completely and transparently informed by the intermediary about the prices and contract terms offered by at least three enterprises not belonging to the same group. The intermediary can also use the information that insurers are required to post on their websites.

On price information, ISVAP considered that the best solution for compliance with the purpose of the legislation was to give the customer three separate, customized estimates, tailored to the objective and subjective characteristics of the individual customer’s risk profile.

Once the object of the information requirement placed on intermediaries was thus specified, the eligible instruments for comparison were chosen and the procedures to ensure that the insured have gotten the information were established. The regulation provides that intermediaries must use exclusively the following instruments:

– estimate services used by companies operating in the motor liability sector available on their respective websites;

- the public online comparison service "Tuopreventivatore" developed by the Ministry for Economic Development and ISVAP;
- comparison services specially created and operated by associations of intermediaries.

As to information on contract terms, the regulation requires the delivery of informational notes (separately for each vehicle type: cars, motorcycles/scooters, watercraft) for the insurance products to which the estimates refer. The notes should be those drafted and published on the websites of the companies included in the information packet.

The delivery to the persons entitled of the customized estimates and informational notes must be attested by a signed statement of the customer; the intermediary must keep a copy of the statement, which must specify the names of the companies whose estimates were given to the customer.

The regulation makes the price comparison obligatory both for new motor liability contracts and for contract renewals. If the renewal is completed by a "distance" payment, i.e. without physical contact with the intermediary, the notification that the company must give to the customer 30 days before the policy expires must also contain a notice to the customer that if he so requests the intermediary is required to effect the price comparison.

The regulation does not apply, however, to contracts covered by certain specific conventions, nor to certain categories of contract (vehicle fleets).

Companies that market these insurance products by distance communication are required to post on their websites the notice to customers of the possibility of comparing offers through the price comparison service "Tuopreventivatore".

On 31 July 2012 – at a hearing before the Industry Committee of the Senate as part of an inquiry into motor vehicle insurance with special reference to the market and premium trends for motor liability insurance – ISVAP pointed out that various parties had highlighted a series of problems with the rules on comparison of prices and contract terms and suggested that the primary legislation in this matter might well be reformulated.

## LAW 221/2012 CONVERTING DECREE LAW 179/2012

Law 221/2012, converting Decree Law 179/2012, was published in the *Gazzetta Ufficiale* on 18 December 2012. Among the measures involving insurance was the confirmation of the possibility of "principal" intermediaries to cooperate freely with one another, provided that they inform the customer that they are doing so. The rule applies to the distribution of all classes of insurance policy.

IVASS may adopt implementing provisions to guarantee proper information to consumers.

Beginning 1 January 2013 clauses between intermediaries and insurance companies that are incompatible with the rule are null and void.

The provision for free cooperation among intermediaries establishes not only the obligation to so inform customers but also joint and several liability among the "cooperating" intermediaries for any damages to the customer.

The rule, which calls for the definition of uniform technical standards for a common interface platform among insurers for managing and concluding contracts, was modified by the Stability Law for 2013. The use of the platform will be restricted to information and premium estimates in the non-life sector (that is, the actual conclusion of contracts via the platform is no longer provided for); and the platform can be used to comply with the requirement to provide at least three motor liability estimates. The law requires an IVASS implementing regulation.

The conversion law also introduces measures for simplifying procedures and reducing bureaucratic obligations for non-life insurance companies, and in particular the reduction of requirements for paper-based communications and paper forms between companies, intermediaries and customers. The new provisions should also favor digital relations, certified e-mail, digital signatures and electronic payments. The simplification measures will be the subject of a special provision by IVASS.

# THE ANIA FOUNDATION FOR ROAD SAFETY AND THE ANIA-CONSUMERS FORUM

9

# THE ANIA FOUNDATION FOR ROAD SAFETY

## ROAD ACCIDENTS IN ITALY: THE FIGURES FOR 2011

ISTAT data on road accidents in Italy show that they numbered 205,638 in 2011, resulting in 3,860 fatalities and 292,019 injuries (Table 1), decreasing by 5.6% and 3.5% respectively by comparison with 2010 (when there had been more modest reductions of 3.5% and 1.5%).

***Table 1***
***Deaths and injuries from road accidents in Italy, 2000 to 2011***

| | Deaths | | Injuries | |
|---|---|---|---|---|
| | Number | % change on previous year | Number | % change on previous year |
| 2000 | 7,061 | 5.6 | 360,013 | 13.7 |
| 2001 | 7,096 | 0.5 | 373,286 | 3.7 |
| 2002 | 6,980 | -1.6 | 378,492 | 1.4 |
| 2003 | 6,563 | -6.0 | 356,475 | -5.8 |
| 2004 | 6,122 | -6.7 | 343,179 | -3.7 |
| 2005 | 5,818 | -5.0 | 334,858 | -2.4 |
| 2006 | 5,669 | -2.6 | 332,955 | -0.6 |
| 2007 | 5,131 | -9.5 | 325,850 | -2.1 |
| 2008 | 4,725 | -7.9 | 310,745 | -4.6 |
| 2009 | 4,237 | -10.3 | 307,258 | -1.1 |
| 2010 | 4,090 | -3.5 | 302,735 | -1.5 |
| 2011 | 3,860 | -5.6 | 292,019 | -3.5 |

*Sources: ACI and ISTAT*

Overall, the annual number of traffic fatalities in Italy fell by 45.6% between 2001 and 2011. Impressive as this progress has been – it represents the saving of 3,200 lives a year – it has not fully achieved the objective of cutting traffic deaths in half set by the European Commission at Lisbon.

Considering the data on road accidents in Europe, we find a total of 30,168 traffic deaths in the EU-27 countries in 2011, a decrease of 44.5% in the decade since 2001. The reduction was slightly greater in Italy than the EU-27 average, but less than that achieved by France, Portugal and Spain, which cut their traffic fatalities by 51.4%, 53.0% and 62.7% respectively.

Finally, considering the traffic fatality rate – the number of deaths in proportion to population – Italy ranked 15$^{th}$ of the 27 EU members in 2011 with 6.4 deaths per 100,000 inhabitants; this was above the EU average of 6.0 but nevertheless represented an improvement from the 12$^{th}$ position recorded in 2010.

*Table 2*

***Deaths in road accidents in the EU-27 countries***

| | Number | | Percentage change | Deaths per 100,000 pop. |
|---|---|---|---|---|
| | 2001 | 2011 | 2011/2001 | |
| Austria | 958 | 523 | -45.4 | 6.2 |
| Belgium | 1,486 | 875 | -41.1 | 8.0 |
| Bulgaria | 1,011 | 658 | -34.9 | 8.9 |
| Cyprus | 98 | 71 | -27.6 | 8.5 |
| Denmark | 431 | 221 | -48.7 | 4.0 |
| Estonia | 199 | 101 | -49.2 | 7.5 |
| Finland | 433 | 292 | -32.6 | 5.4 |
| France | 8,162 | 3,970 | -51.4 | 6.1 |
| Germany | 6,977 | 4,002 | -42.6 | 4.9 |
| Greece | 1,880 | 1087 | -42.2 | 9.6 |
| Ireland | 411 | 186 | -54.7 | 4.1 |
| **Italy** | **7,096** | **3,860** | **-45.6** | **6.4** |
| Latvia | 558 | 179 | -67.9 | 8.6 |
| Lithuania | 706 | 297 | -57.9 | 9.7 |
| Luxembourg | 70 | 33 | -52.9 | 6.4 |
| Malta | 16 | 17 | 6.3 | 4.1 |
| Netherlands | 1,083 | 661 | -39.0 | 4.0 |
| Poland | 5,534 | 4,189 | -24.3 | 10.9 |
| Portugal | 1,670 | 785 | -53.0 | 7.4 |
| United Kingdom | 3,598 | 1,958 | -45.6 | 3.1 |
| Czech Republic | 1,334 | 707 | -47.0 | 6.7 |
| Romania | 2,454 | 2,018 | -17.8 | 9.4 |
| Slovakia | 625 | 324 | -48.2 | 6.0 |
| Slovenia | 278 | 141 | -49.3 | 6.9 |
| Spain | 5,517 | 2,056 | -62.7 | 4.5 |
| Sweden | 531 | 319 | -39.9 | 3.4 |
| Hungary | 1,239 | 638 | -48.5 | 6.4 |
| **EU27** | **54,355** | **30,168** | **-44.5** | **6.0** |

*Source: Community Road Accident Data Base (Care)*

## THE NUMBER OF ROAD ACCIDENTS WITH PERSONAL INJURY: SOURCES AND METHODOLOGICAL ISSUES

ISTAT's annual statistics on road accidents, deaths and injuries are obtained by collecting data on accidents throughout Italy. They only cover accidents in which the police intervene and which cause death or personal injury. The data come from forms filled out by the police – Highway Police, Carabinieri, Provincial Police, Municipal Police – that intervened at the scene of the accident. In particular, ISTAT collects data on all accidents that occur on roads or in squares open to traffic in which stationary or moving vehicles (or animals) are involved and which give rise to death or personal injury. The data therefore exclude claims with only property damage, accidents in which police intervention is not required, and those that take place outside public traffic areas, i.e. courtyards, service stations, garages and carparks, tramways and railways, and those in which no vehicle (or animal) is involved.

Another dataset for measuring the accident rate on Italian roads, used especially to assess developments during the year, comes from the Highway Police. As Table 3 shows, however, the number of deaths and injuries in this dataset is lower than that reported by ISTAT, because the Highway Police force is only one of those contributing to the national data collected by ISTAT. In addition, the Highway Police data only refer to accidents on motorways and state, provincial and municipal roads; accidents that take place in urban centers are excluded.

***Table 3***
***Deaths and injuries in road accidents in Italy, 2001 to 2011***

| | PANEL A: HIGHWAY POLICE | | | | PANEL B | |
|---|---|---|---|---|---|---|
| | Deaths | | Injuries | | Memo: ISTAT data | |
| | Number | % change | Number | % change | No. deaths | No. injuries |
| 2001 | 2,309 | n.a. | 74,169 | n.a. | 7,096 | 373,286 |
| 2002 | 2,520 | 9.1 | 84,217 | 13.5 | 6,980 | 378,492 |
| 2003 | 2,187 | -13.1 | 72,342 | -14.1 | 6,563 | 356,475 |
| 2004 | 1,891 | -13.5 | 66,777 | -7.7 | 6,122 | 343,179 |
| 2005 | 1,860 | -1.6 | 64,997 | -2.7 | 5,818 | 334,858 |
| 2006 | 1,889 | 1.6 | 66,057 | 1.6 | 5,669 | 332,955 |
| 2007 | 1,682 | -10.9 | 63,763 | -3.5 | 5,131 | 325,850 |
| 2008 | 1,507 | -10.4 | 57,656 | -9.6 | 4,725 | 310,745 |
| 2009 | 1,295 | -14.1 | 53,756 | -6.8 | 4,237 | 307,258 |
| 2010 | 1,213 | -6.3 | 51,163 | -4.8 | 4,090 | 302,735 |
| 2011 | 1,109 | -8.6 | 47,618 | -6.9 | 3,860 | 292,019 |

*Sources: Polizia Stradale, ISTAT*

The Highway Police data show that the number of fatalities continued to fall in 2011, and slightly faster than in 2010 (8.6% as against 6.3%).

Nevertheless, the ISTAT statistics on road accidents (and, naturally, the partial data collected by the Highway Police) cannot be taken as representing the totality of accidents on Italian roads. In particular, the number of accidents recorded by ISTAT (205,638 in 2011) represented barely 6.6% of the 3,109,657 accidents for which insured parties filed claims with insurers.

Examining the insurance data in detail, most of the 3.1 million motor liability claims filed in 2011 were for accidents involving damage to vehicles or property, but a significant portion (some 700,000, or 22.4%) also involved personal injury. Italy is among the European countries with the highest percentage of claims for personal injury, at about twice the EU average.

It is worth noting that more than 900,000 persons received compensation for the 700,000 personal injury claims filed with insurance companies in 2011, since some injury claims involved more than one person. With the inception of the direct indemnity system in 2007, insurance companies' databases were reorganized, so we now also have data on non-liable drivers and passengers who sustain personal injury. This allows us to make a more precise estimate of the average number of persons involved in a claim: 1.33 in 2010 and 1.34 in 2011.

It should also be borne in mind that the number of injuries and deaths in the insurance companies' statistics do not include persons who were involved in accidents but not entitled to indemnification, such as liable drivers and those hurt in one-vehicle accidents, nor does it reflect compensation payments by the Road Accident Victims Guarantee Fund for accidents caused by uninsured or unidentified vehicles.

The difference between the insurance statistics and the ISTAT data thus stems mainly from the fact that the latter do not include accidents with no police intervention, which give rise to the majority of claims. Most of the personal injuries for which the insurance sector pays compensation are minor and are caused for the most part by accidents in urban centers, for which the police are rarely called in. To quantify the phenomenon, consider that of the 700,000 motor vehicle personal injury claims recorded by insurance companies in 2011, some 620,000 (88%) involved temporary or permanent disability of less than 9%. And of the latter, some 480,000 (78%) were for a permanent disability of between 1% and 2%, corresponding to those generally recognized for so-called whiplash. Considering the average number of persons injured in a road accident, these claims correspond to between 650,000 and 700,000 persons injured, which may help explain the wide gap between the two sources.

***Table 4 – Deaths and injuries in road accidents in Italy, 2000-2011: insurance data (*)***

| Generation of event | Number of claims paid and reserved (**) | % of claims with personal injury | Number of claims with personal injury | % change on previous year | Average number of persons injured per accident | Total number of persons sustaining personal injury - ANIA |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 2000 | 4,521,607 | 17.7% | 801,250 | n.a. | n.a. | n.a. |
| 2001 | 4,066,529 | 18.4% | 746,313 | -6.9 | n.a. | n.a. |
| 2002 | 3,836,135 | 17.9% | 687,052 | -7.9 | n.a. | n.a. |
| 2003 | 3,708,020 | 18.2% | 675,955 | -1.6 | n.a. | n.a. |
| 2004 | 3,673,744 | 19.8% | 728,413 | 7.8 | n.a. | n.a. |
| 2005 | 3,654,072 | 21.0% | 765,953 | 5.2 | n.a. | n.a. |
| 2006 | 3,661,945 | 21.0% | 768,336 | 0.3 | n.a. | n.a. |
| 2007 | 3,685,452 | 21.0% | 772,305 | 0.5 | 1.25 | 965,381 |
| 2008 | 3,716,084 | 21.3% | 791,047 | 2.4 | 1.30 | 1,028,362 |
| 2009 | 3,741,283 | 21.8% | 817,467 | 3.3 | 1.34 | 1,092,086 |
| 2010 | 3,535,512 | 23.1% | 816,703 | -0.1 | 1.33 | 1,088,666 |
| 2011 | 3,109,657 | 22.4% | 696,354 | -13.2 | 1.34 | 934,027 |

*(*) Estimate for all insurance companies (domestic companies and representatives of foreign companies) doing business in Italy*
*(**) Includes the estimate of claims IBNR*

### The ANIA Road Safety Foundation's proposals for the legislature

Road safety has strategic social, economic and infrastructural implications for the entire country. Yet despite this sweeping significance, it never shows up as a priority of governments, regardless of their political hue.

Even though in the course of the last two legislatures Parliament has enacted substantial reforms of the Highway Code to adapt to changing traffic patterns and volumes, past experience demonstrates that the deterrent effect of new provisions fades quickly in the absence of programs of training and control and, more generally, the dissemination of a culture of road safety and accident prevention.

In part the failure to make road safety a priority reflects the fact that the necessary investments are costly and the returns uncertain, hard to measure and in any case not immediate. The difficulties are compounded at present by the particularly stringent national budget constraints.

Nevertheless, road safety must become a priority issue, because it concerns fundamental human rights enshrined in the Constitution, such as the right to work, to health and to mobility, and because it impacts not only on people's day to day activity but on the very quality of life itself. So it is important for the State to invest in road safety, and with the support of civil society.

Since 2004, accordingly, the insurance industry has played a crucial role, working through ANIA's Road Safety Foundation, to offer its strategic and financial support and provide technical competence to national and local institutions. This represents a substantial commitment of know-how and resources, one that the industry is determined to maintain in the current legislature in order to design plans of action to guarantee adequate levels of road safety and bring Italy up to European standards. The intention is to continue work towards the European Commission's objective of reducing the number of traffic fatalities. The Foundation has selected three priority areas for action that we hope the new government will consider:

**Infrastructure safety** – The incidence of the state of infrastructure in road accidents can be put at 20%. It is the duty of the State to ensure that roads are in good condition, and the government must make it a priority to implement Article 208 of the Highway Code (which earmarks the proceeds of fines). This should permit the drafting of a financial plan which, at no additional cost to the State or to taxpayers, would allocate resources to road maintenance.

**Quality of driver training** – If infrastructure weighs in at 20% in causing accidents, the main cause – the remaining 80% – depends on the behavior of drivers. Learning proper driving skills and conduct enhances road safety. Training is crucial, in all stages. This refers first of all to getting one's driver's license, a procedure that now, thanks to the joint activity of the Ministry of Infrastructure and Transport motor vehicles bureau and the ANIA Foundation, includes the monitoring of driving schools and the certification of training courses. The quality of driver education also turns on individual responsibility. In this regard the Foundation will certainly continue its effective action to foster responsible conduct, but schools too can and must do their part, exploiting the ad hoc funds deriving from Article 208 of the Highway Code. Finally, the relevance of optional safe-driving courses at specialized institutions cannot be disregarded. For years the Foundation has emphasized the importance of such courses, which teach drivers how to handle the car in emergencies (which are not dealt with in the driver's license examination), and has called for legislation to foster such courses and set standards for them.

**Workplace safety in correlation with road safety** – For some drivers, road safety is tantamount to workplace safety. This applies to people whose job is driving, who spend most of their working day at the wheel, for whom the law requires a blood alcohol level of zero while driving. This is a highly delicate issue, and the European Union itself has undertaken a series of initiatives to ensure that these drivers are always completely sober. The main European program is the alcohol-lock device that blocks the vehicle's ignition in the case of drunkenness. However, in Italy there has been resistance to this system. The ANIA Road Safety Foundation favors the use of alcohol interlock devices and has called for legislation making them compulsory for:

*a*) commercial vehicles;
*b*) the cars of repeat drunk driving offenders;
*c*) company fleet cars for purposes of ISO certification of transport safety.

In addition, once the device has been made compulsory the law should institute severe penalties for improper use.

## THE FOUNDATION'S SURVEYS

### The ICARO survey on young people and insurance

ICARO is the acronym of the road safety campaign promoted by the police in collaboration with the ANIA Foundation. From the start the project's purpose has been to get young people to see the importance of compliance with the rules, fostering a law-abiding culture so as to avoid reckless conduct behind the wheel, which is the main cause of accidents.

In 2012 the project distributed a questionnaire to university students on their attitudes to motor liability insurance. Ten universities were surveyed (four in the North, two in the Center and four in the South). The respondents numbered 965 – 32% male and 68% female. Of the respondents, 80% reported that they had a driver's license and 26.5% that they drove more than 100 kilometers a week.

The responses to the questions concerning accidents and infractions in the first part are anything but reassuring: 31.6% of students with a driver's license said they had had an accident and another 12% that they had had a near-accident.

On sanctions and the type of infractions committed, 62.7% said they had never been ticketed for traffic offenses and 37.3% that they had. The tickets were for: parking violations (24.6%), use of handheld cell phones (22.3%), speeding (21.4%), not stopping at a red light (8.2%), not wearing seatbelts (7.4%), violating a restricted-traffic area (7.1%), failure to display the parking payment receipt (3.4%), failure to obey a stop sign (3.2%), and, for motor scooters, illegally carrying a passenger (2.4%).

The second part inquired into the students' relationship with insurance: signing the contact, performance of insurance obligations, the reason for selecting a given company, and knowledge of the social function of the insurance policy. Only 36% of the respondents said they owned a vehicle, so it is no surprise that 80% did not have a policy in their own name on the car they drove and that the contract was signed by their parents, most commonly their father (50%). Of those who reported having their own insurance (77.6% of the sample), 20% admitted that they had not chosen the insurance company on their own, while only 22.4% said they had made an informed, individual choice. The methods of choosing an insurance company included:

- advice from friends or relatives (65%);
- comparison of estimates (18.6%);
- Internet (8.1%);
- billboards/handbills (1.2%);
- periodicals (2.3%);
- TV/radio ads (1.7%);
- specialized publications (2.3%).

In addition, 67% said they did not have direct contact with their insurance company. The average duration of contracts is 4 years and 2 months, and 21% reported having changed companies over time. The reasons cited for changing (Figure 1) were high prices (46.1%), a considerable rise in the premium (25.7%), and poor service (19.7%).

As to the causes of the high cost of premiums, 38.6% of the respondents cited the large number of accidents, 26% taxes, 17.9% the high operating costs of insurances agencies and/or companies, and 0.9% the high cost of spare parts.

The third and final part of the questionnaire bears on knowledge of rights and services in connection with insurance contracts, to check the students' awareness of the function of the motor liability insurance policy, above all in social terms.

The average answer to the question on how well they knew the **rights** of the insured, on a scale of 1 to 7 (1=not at all, 7=very well), was 3.52. On the insurance

**services** connected with their company's policy, the average answer was 3.31. Concerning knowledge of the specific **clauses** of their policy, the average answer was 2.8.

As to understanding of specific technical equipment, i.e. the "black box," the students thought it was:
a system recording the dynamics of accidents (73.5%);
a system that automatically signals a mechanical failure (12.7%);
a hidden TV camera that records what happens inside the car (9.3%);
an anti-theft device (4.2%);
a system for not getting lost (0.2%).

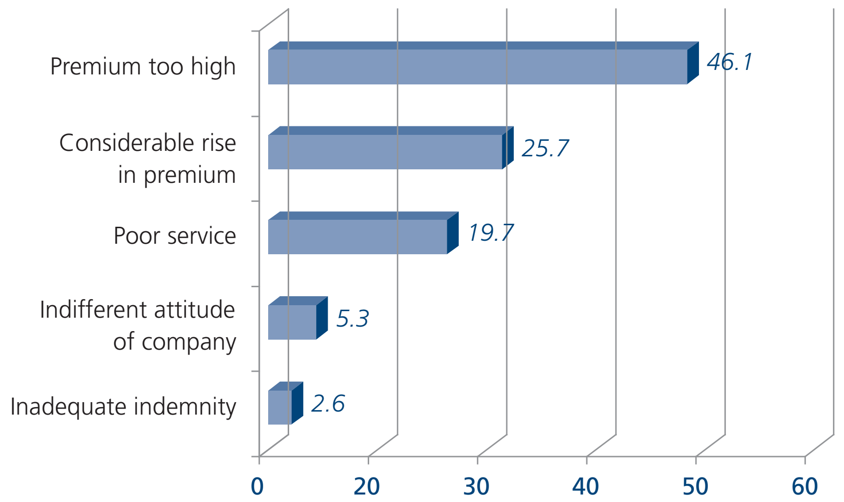



***Figure 1***
***Have you changed insurer? Why?***

*Source: ANIA Foundation, based on ICARO12 data*

Overall, the findings show poor knowledge both of the services provided by motor insurance policies and of the policyholder's rights.

The last question – "Why do you think motor liability insurance is compulsory?" – produced the following responses: 80.6% said the purpose was to guarantee compensation to all parties in case of accident; 5.5% said it was to expand the insurance market; 8.8% said it was to increase State tax revenue; and 5.1% said it was to enable the State to regulate the insurance industry.

The results of this 12th annual ICARO survey demonstrate that young people are poorly informed concerning their insurance obligations and often leave matters to other family members. Clearly, this depends largely on the economic and social status of university student, often not yet self-supporting and still dependent on their families. In addition, the students report being relatively uninformed concerning the services offered by insurance policies but recognize that their price may be due in considerable measure to the large number of accidents. The overwhelming majority attribute compulsory liability insurance to the need to guarantee all parties fair compensation in case of accident.

## THE FOUNDATION'S PROJECTS

**New drivers: the data of the Foundation and the Transport Ministry compared**

New drivers are at greater risk of accidents. They lack driving experience, tend to be reckless and fail to consider vehicle response on the road. In Italy, unlike other countries, the driver's license is granted more on the basis of knowledge of the regulations than practical driving capability. Greater attention needs to be paid to the latter aspect.

To improve the driving ability of 18-26-year-olds, the ANIA Foundation has created a safe driving course for new drivers with the use of an on-line driving simulator to teach newly licensed drivers what they need to cope with the dangers of the road. Between 2007 and 2012 more than 28,500 young people used the simulator, and of these 3,650 then attended a safe driving course, learning in practice from qualified instructors how to handle road dangers.

***Table 5***
***Students and courses, 2007-2012***

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|---|
| New drivers attending | 3,207 | 4,114 | 5,417 | 4,753 | 7,573 | 3,479 | 28,543 |
| Number of courses | 300 | 300 | 400 | 650 | 1.000 | 1.000 | 3.650 |

*Source: ANIA Foundation*

One of the objectives was to see whether safe driving courses, with a teaching program that helps students to react to unforeseen situations of risk (loss of traction, skids, sudden braking) can effectively help reduce accidents. This information was obtained during the year with a special questionnaire for course participants (Table 6).

***Table 6 – Questionnaire for new drivers: Responses of participants in ANIA Foundation courses, 2012* (*)**

| Question | Yes, but primarily not my fault > 50% | Yes, and primarily my fault < 50% | Yes, as passenger; as driver I would have avoided it | Yes, as passenger; as driver I would not have avoided it | No, never |
|---|---|---|---|---|---|
| *Have you had an accident?* | 5.0% | 3.4% | 0.8% | 2.5% | 88.2% |
| **Question** | **I'm more reactive** | **I know the car's limitations better** | **I'm more responsible** | **No, I don't feel more secure** | |
| *After taking the course are you more secure? If so, why?* | 62.2% | 61.3% | 44.5% | 0.0% | |
| **Question** | **Excellent and complete** | | **Good but improvable** | | **Inadequate** |
| *In my opinion the course is…* | 90.8% | | 9.2% | | 0.0% |

*(*) The data refer only to the 350 courses given in June and July*

*Source: ANIA Foundation*

The results are encouraging as far as "declared" driving behavior is concerned. They suggest that better practical preparation can reduce the number of accidents in this population group. More than 60% of the participants said they responded better at the wheel and were more aware of the vehicle's limits, and over 90% considered the course to be complete and well designed.

Finally, a survey by the Ministry of Education covering 10,905 participants found that participation in practical safe driving courses after getting their license heightened the students' awareness of dangers and enhanced their confidence in their driving ability (Figures 2 and 3).

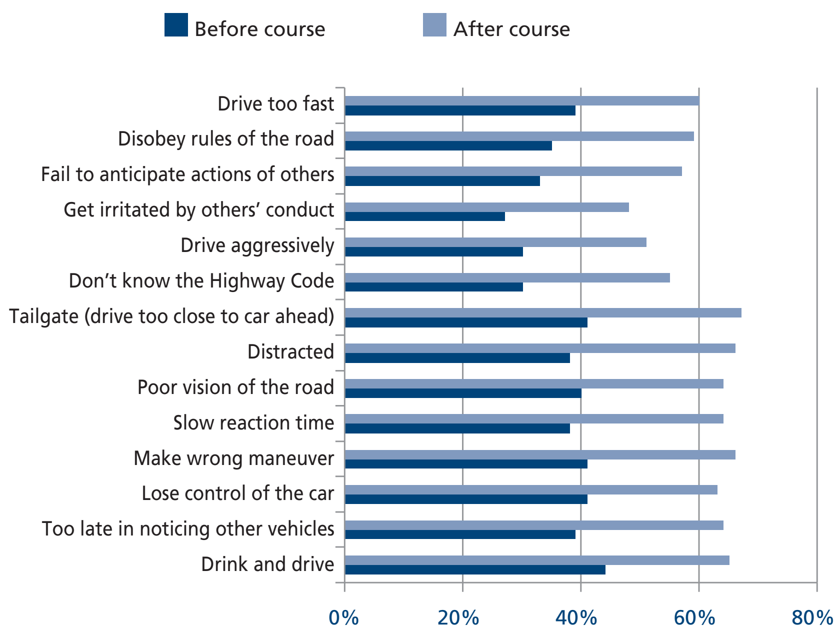



***Figure 2***
***Students' awareness of specific risk factors in OWN driving style (%)***

*Source: Ministero dell'Istruzione*

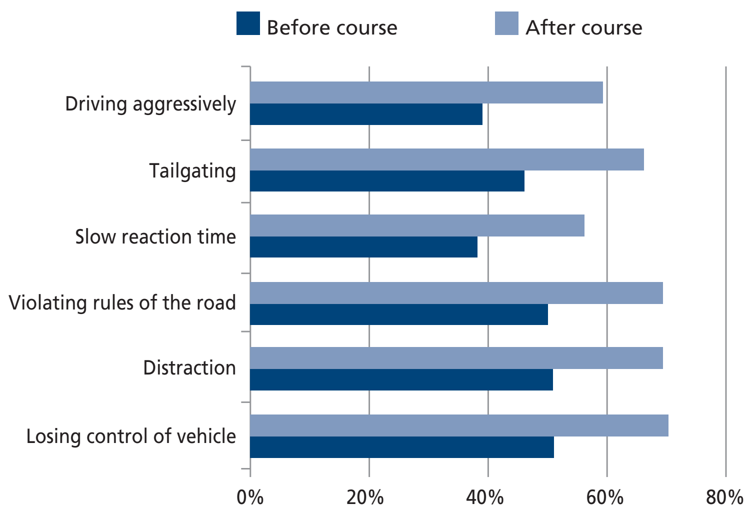



***Figure 3***
***Students' awareness of specific risk factors in OTHERS' driving style (%)***

*Source: Ministero dell'Istruzione*

## THE ANIA-CONSUMERS FORUM

The ANIA-Consumers Forum is a foundation constituted by ANIA, with representatives of insurance companies and consumer organizations and independent members. The Forum's decision-making body includes representatives of eight national consumer organizations: Adiconsum, Adoc, Cittadinanzattiva, Codacons, Federconsumatori, Lega Consumatori, Movimento Difesa del Cittadino and Unione Nazionale Consumatori.

In 2012 insurers and consumers met to talk about major issues relevant to the insurance industry and to society. Topics included motor liability insurance and the development of alternative dispute resolution mechanisms. Secondly, the Forum went ahead with its educational projects to further an insurance culture among both young people and adults. It also contributed to initiatives and studies on the social role of insurance in the new welfare system, presenting a study of the shortcomings of the system of social protection and carrying out its second monitoring of the economic vulnerability of Italian households.

## FOCUS: MOTOR LIABILITY INSURANCE

The ANIA-Consumers Forum has undertaken a series of initiatives to examine the factors behind the high overall cost of motor insurance in Italy. This is unquestionably one of the central themes in the relations between insurers and consumer organizations. The Forum makes possible constructive dialogue towards joint proposals for government and public opinion.

The approach resulted first in the drafting of a paper entitled "Motor liability insurance, legislative proposals to lower costs and prices". This document sets out the Forum's joint suggestions on how to curb costs and prices in the field of motor liability insurance. The proposals were then reviewed and adjusted in the light of the most recent regulatory changes. The representatives of the insurance companies and the consumer organizations approved a new summary paper, which was then submitted to IVASS and the competent institutions.

## THE FORUM'S PROPOSALS ON MOTOR LIABILITY INSURANCE

The General Council of the Forum has approved a new paper setting forth joint proposals for curtailing the costs, and the prices, of motor liability insurance. They are summarized below.

**Black boxes**

Members agreed that the new rules will have irrational effects on policyholders. The Forum called on IVASS to convene technical talks among consumer representatives, insurers and representatives of the national association of actuaries to analyze the practical effects.

**Completing the rules on personal injury**

The Forum decided to call forcefully, including by an ad hoc communication to the Ministry of Health, for the application of Article 138 of the Insurance Code, which provides for setting economic and forensic values for the damages deriving from serious injury.

**Anti-fraud initiatives**

The Forum recommended that the supervisory authority be supported in its action to prevent motor liability insurance fraud by an operational law enforcement unit endowed with the powers of investigation necessary to a successful fight against fraud. The Forum noted the persistence of serious functional shortcomings in the procedures for consulting the IVASS claims database, which prevent the insurers interrogating it from learning which companies handled previous claims. There was agreement on the need to overcome the restrictions on access to such data still imposed by the Data Protection Authority. Finally, the Forum suggested that late accident reports be monitored very carefully.

**Transfer of title to damage compensation**

The Forum called for an explicit ban on the practice of transferring title to damages. It also noted a significant new ruling by the Antitrust Authority, which found to be non-vexatious the contract clause whereby an insurance company prohibited the transfer of the credit without the company's at least tacit consent.

**Incentives for direct repairs**

The Forum agreed that within a given insurance/mutual policy portfolio, the introduction of direct repair can lower costs only if it is made compulsory. In any case, it called for further inquiries in the matter with the involvement of associations of auto repair shops.

**New impetus to conciliation in motor liability disputes**

On the basis of the common position in favor of fostering the practice of conciliation in insurance disputes, the Forum called for imparting new impetus to the conciliation procedure envisaged by the agreement between ANIA and the consumer associations. This joint position is the premise for the new agreement with 17 national consumer organizations: Acu, Adiconsum, Adoc, Altroconsumo, Assoconsum, Assoutenti, Casa del Consumatore, Centro Tutela Consumatori Utenti, Cittadinanzattiva, Codacons, Codici, Confconsumatori, Federconsumatori, Lega Consumatori, Movimento Consumatori, Movimento Difesa del Cittadino and Unione Nazionale Consumatori.

Under the agreement, signed on 17 March 2012, ANIA will restructure and upgrade the IT application for contacts between conciliators – to enable remote activation of the procedure by consumers – and work to foster the formation of a network of conciliators, simplifying its operation.

The website for this service has been prepared (www.conciliazioneauto.ania.it). It will enable conciliators for insurers and consumer associations to engage in dialogue on the individual disputes. This operational version is the fruit of joint work by representatives of consumer associations and insurance companies. The network of conciliators is active and engages in dialogue via the new platform. A joint committee (four members for consumer organizations and four for insurers) will monitor the initiative and deal with problems of information on the existence and availability of the conciliation procedure.

# CONDUCT OF INSURANCE BUSINESS

# 10

## THE INSTITUTION OF IVASS

Article 13 of Law 135/2012 for the conversion of Decree Law 95/2012 (Urgent measures for the revision of public expenditure with no change in services to the population) instituted the Insurance Supervisory Authority (IVASS), which supersedes ISVAP. The aim is to ensure fully integrated supervision of the insurance industry through a closer link with banking supervision.

The original version of Article 13 would have created an authority to supervise both the insurance industry and supplementary pension funds, taking over the functions of ISVAP and COVIP respectively, but in the end Law 13/2012 preserved COVIP and its functions.

On 7 July 2012, the date of entry into force of the decree, ISVAP's governing bodies lapsed and its chairman took over as ordinary and special administrator.

IVASS is a public-law entity with legal personality, performs the functions assigned to it in conformity with Italian law and European legislation, and sends an annual report on its activity to Parliament and the Government.

IVASS and the members of its governing bodies operate in accordance with the principles of organizational, financial and accounting autonomy, as well as transparency and cost-effectiveness, and are not subject to the directives of other public or private entities.

The Statute, approved by a presidential decree issued on 12 December 2012, entered into force on 1 January 2013, and from that date the mandate of the special administrator of ISVAP automatically ceased and IVASS took over all of the special administrator's functions, tasks and powers and all of ISVAP's assets and liabilities.

The governing bodies of IVASS are:

- the President;
- the Board of Directors, consisting of the President and two other members chosen from among persons of high professional standing in the insurance field;
- the Joint Directorate, composed of the Governor of the Bank of Italy, who chairs it, the other members of the Bank of Italy's Directorate and the two other members of the IVASS Board.

The President is the Director General of the Bank of Italy pro tempore. He is the Authority's legal representative, promotes and coordinates the activity of the Board and chairs its meetings, and informs the Joint Directorate of significant facts and developments concerning the administration of the Authority.

The Board of Directors is composed of the President and the two appointed members, who serve for a term of six years and may be reappointed one time only.

The first appointed members are Alberto Corinti and Riccardo Cesari. The Board is charged with the general administration of IVASS and, among other tasks, with implementing the guidelines and acts of strategic direction adopted by the Joint Directorate.

In particular, the Board:

- adopts the Authority's organizational regulation;
- decides upon the remuneration and non-economic terms of employment of IVASS personnel and adopts the related regulation;
- issues the measures appointing, assigning, promoting and terminating employees;
- assigns the managerial-level tasks;
- approves agreements concluded with trade unions;
- manages the fees from supervised entities;
- examines and approves the budget and the annual accounts;
- carries out the additional tasks indicated in the Statute and decides on any questions that the Joint Directorate chooses to bring to its attention.

The Joint Directorate is composed of the Governor of the Bank of Italy, who chairs it, the Director General of the Bank of Italy – President of IVASS, the three Deputy Directors General of the Bank of Italy and the two appointed members of the IVASS Board of Directors.

The Joint Directorate is responsible for setting guidelines and for the strategic direction of the Authority, and in particular for approving the annual report and adopting measures of external importance, including insurance supervisory regulations.

It is also within the powers of the Joint Directorate to establish committees, commissions and panels charged with specific mandates and advisory, investigative or coordination functions, but also with decision-making powers on questions delegated by the Joint Directorate. The Joint Directorate also appoints the Secretary General, who is responsible for ordinary administration of the Authority.

As a result of the redistribution of the tasks formerly assigned to ISVAP, Consap S.p.A. took over those of managing the Italian Information Center, established to permit the persons entitled to do so to apply for compensation following a motor liability claim filed for an accident in a country other than that of residence, and keeping the register of claims adjusters.

Further, with a regulation to be issued under Article 17 of Law 400/1988 within two years of the date of entry into force of the decree, an ad hoc entity will be instituted, having legal personality under private law and the status of an association, to which the tasks and functions of keeping the Single Register of Insurance and Reinsurance Intermediaries and supervising the persons entered in such register will be transferred. It will be subject to supervision by IVASS.

IVASS will continue to be financed by the supervisory contributions provided for in the Insurance Code.

A decree to be issued by the Ministry for Economic Development after consulting IVASS will establish the share of supervisory contributions payable to Consap to cover the costs of performing its new functions.

## ANSWERS TO FAQS SUBMITTED TO THE BANK OF ITALY, CONSOB AND ISVAP (NOW IVASS) ON THE APPLICATION OF ARTICLE 36 OF LAW 214/2011 AGAINST INTERLOCKING POSITIONS AND ISVAP IMPLEMENTING REGULATION 42/2012

Following the enactment of Law 214/2011, Article 36 of which prohibits persons holding certain corporate offices in companies belonging to the financial and insurance sector from holding similar positions in competitor companies, the supervisory authorities drafted a joint document in response to the many questions they had received concerning the article's application.

To begin with, the answers confirm that the list of persons covered by the legislation is exhaustive, it does not consist merely of examples. With regard to the entities operating in the insurance market, they clarify that the new legislation does not apply to insurance and reinsurance intermediaries except for banks and other financial intermediaries.

Industrial companies not operating in the credit, financial and insurance market do not come under the prohibition, unless they are pure holding companies that control companies or corporate groups operating in that market.

On relations between competing groups, the authorities clarify that "group" is to be interpreted in the broad sense used in anti-trust law, i.e. including all parent and subsidiary firms. A group therefore includes a pure holding company not engaged in providing banking, financial or insurance services if it holds direct controlling stakes in companies that do operate in those sectors.

For purposes of calculating the group's turnover to determine whether it exceeds the minimum threshold for applying the ban on interlocking positions, set at Euro 47 billion of turnover (or premiums earned in the case of insurance companies), the turnover of group parent companies and subsidiaries operating in the credit, insurance or financial market but not that of the pure holding company is to be counted.

If an interested party fails to select which among two or more incompatible positions he or she wishes to continue to hold within the time limit or the competent governing bodies of the companies concerned fail to declare his forfeiture of office (there is an initial time limit of 120 days instead of the normal one of 90 days), IVASS must intervene.

ISVAP Regulation 42/2012 governs the procedure by which the Authority is to declare forfeiture of office. After a person responsible for the procedure is appointed according to the general provisions of administrative proceedings, a preliminary, possibly informal assessment is made of the actual situation of incompatibility. If a situation of incompatibility is found to exist and an order of forfeiture is necessary, the person responsible for the procedure notifies the opening of the procedure to the interested party and other persons who could be adversely affected by the order, so as to give the interested party time to file defensive briefs. The procedure must be concluded within sixty days of its inception.

## ARTICLE 22 OF DECREE LAW 179/2012

**Paragraph 14 (lapsing of rights deriving from life policies)**

With a view to overcoming the disparity of treatment between purchasers of banking or financial products and beneficiaries of life policies in connection with rules for dormant accounts and policies, the first draft of Decree Law 179/2012 (the so-called Growth-bis Decree) amended the second paragraph of Article 2952 of the Civil Code concerning the lapsing of rights deriving from insurance contracts, extending the limitation period to ten years for all types of life and non-life contracts and applying this new rule to reinsurance contracts as well.

Recognizing the incongruence of a measure which, expressly directed to solving the problem of dormant policies, covered insurance and reinsurance contracts of every kind and thus undermined the certainty of law, Parliament amended the provision when it passed Law 221/2012 converting the decree and set the limitation period at ten years for life contracts only, keeping it at two years for non-life policies (without detriment to the annual time limit for the payment of premiums).

**Paragraphs 15-quater, 15-quinquies, 15-sexies and 15-septies (policies linked to mortgages)**

Law 221/2012 converting Decree Law 179/2012 newly intervened in the matter of insurance contracts connected with mortgages or other forms of financing. It established that where a single premium is paid whose cost is borne by the debtor/insured, the insurance company, in the event of the early repayment or transfer of the loan, has to refund the portion of the premium paid for the residual period with respect to the original maturity. For pure premiums, the amount is to be calculated as a function of the years and the fraction of year lacking until contract maturity and the residual insured principal.

The criteria and procedures for determining the refund must figure in the conditions of contract. The portion of the premium covering the administrative expenses that the company may withhold must be indicated in the proposed contract, in the policy or in the acceptance form. The expenses must not be such as to jeopardize the portability of the mortgage or loan or to determine an unjustified burden in the case of a refund.

As an alternative to pro-rata refunding of the premium, the insurance company, at the request of the debtor/insured, may provide the insurance cover until the expiration date of the contract in favor of a new designated beneficiary.

The rules apply to all policies, including those sold before the entry into force of Law 221/2012, whose terms and conditions must be updated accordingly.

## STABILITY LAW FOR 2013

**Higher tax rate on mathematical provisions and new limit on tax payments**

Law 228/2012 (the Stability Law for 2013) makes substantial changes to the rules governing tax treatment of life insurance mathematical provisions, which had already been amended several times since they were first introduced by Decree Law 209/2002. The 2013 Stability Law raises the tax rate on life mathematical provisions and introduces a ceiling on the total amount of tax credit, calibrated on the stock of such provisions, after which the amount of tax to be paid is reduced. In addition, the tax treatment of policies issued before 1 January 1996 and taken out by persons engaged in a business is changed. Lastly, new civil law rules are introduced concerning the possibility of applying the tax credits deriving from the payment of the tax on mathematical provisions to cover the technical provisions and enter them among the assets of separate asset portfolios of the life sector.

As mentioned, the most important change introduced by Law 228/2012 concerns the tax rate on the mathematical provisions. Article 1, paragraph 506, of the law raises the rate from 0.35% to 0.50% for 2012 and sets it at 0.45% from 2013 onward.

Since the annual recovery of tax credit is structurally lower than the annual tax payment under the 0.35% rate now in effect and will be lower still under the new rates (0.50% and 0.45%), a ceiling is set on the total amount of the tax credit not offset or assigned under the rules in force. In effect, when the amount of the tax credit neither offset nor assigned during the year, increased by the tax hypothetically to be paid (0.45% of the provisions), exceeds a given percentage of the provisions, the tax payment is correspondingly reduced.

The ceiling, commensurate with the stock of provisions, is introduced with effect from 2013; it is set at 2.5% for that year and will be reduced by 0.1 percentage points per year (0.15 points in the final year) until it reaches 1.25%.

### Policies taken out before 1996

With effect from 2013, Law 228/2012 applies the tax treatment established by Legislative Decree 47/2000 for businesses to life policies and capital redemption operation contracts concluded by persons in the course of a business. Legislative Decree 47/2000 exempts the income received by persons in the course of business activity from taxation at source, without detriment to ordinary taxation.

Under a transitional arrangement, the income accrued up to 31 December 2012, consisting of the difference between the value of the mathematical provision of each policy at that date and the premiums paid, will be deemed paid at that date and withholding tax will therefore apply to such amounts.

Sixty percent of the amount withheld was to be paid by 16 February 2013 and the balance in four equal instalments by 16 February of each of the next four years.

### Tax credits admitted to cover technical provisions and among the assets of separate asset portfolios

Law 228/2012 clarifies that tax credits deriving from the payment of the tax on the mathematical provisions of life policies can be counted among those used to cover the technical provisions and included in the assets of separate portfolios. In detail, the new rule allows the tax credits in question to be included among those referred to in Article 18, paragraph 1, point B5, of ISVAP Regulation 36/2011 laying down guidelines concerning investments and assets covering the technical provisions. The tax credits to which point B5 refers represent the insurance company's credit balance shown in its income tax return, either definitively assessed or for which the limitation period has expired, plus the interest thereon.

This new rule dispels the doubt that some had expressed concerning the possibility of using tax credits arising from the payment of the tax on the mathematical provisions to cover the technical provisions.

The tax credits in question, even if non-interest-bearing, may also be included among the assets of separate portfolios, to which Article 9, paragraph 2, point a) of ISVAP regulation 38/2011 therefore does not apply. The aforesaid article excludes from the assets of separate portfolios "non-interest-bearing credits, except those vis-à-vis insured and intermediaries for premiums to be collected provided they are less than three months past due".

## VALUE-ADDED TAX ON THE MANAGEMENT ON AN INDIVIDUAL BASIS OF INSURANCE COMPANIES' ASSETS

In a ruling that caused some surprise, the European Court of Justice, issuing its judgment in Case C.44/11 on 19 July 2012, upheld the applicability of value-added tax to individually managed portfolios. However, the Court derived this principle indirectly, based on the assumption that the exemption explicitly granted by Directive 2006/112 for portfolios managed on a collective basis implies that individually managed portfolios are subject to VAT.

Italian legislation was brought into line with the European Court's judgment. Article 1, paragraph 520, of Law 228/2012 (the Stability Law for 2013) specifies that the exemption from value-added tax for transactions in shares, bonds and other financial instruments does not apply to the service of individual portfolio management.

The matter is of considerable direct interest to insurance companies, although the provision of the Stability Law will only apply to transactions carried out starting 1 January 2013 (Article 1, paragraph 521).

ANIA has sent a memorandum to the Revenue Agency on the question of the applicability of VAT to the service of "individual" management of the assets of insurance companies (or better, the management of the assets covering the technical provisions guaranteeing the commitments undertaken by the companies toward the insured) entrusted to third parties.

In our view the basic argument in favor of exempting insurers' asset management transactions is that such management concerns portfolios that are "individual" in form but are in substance the expression of a collective portfolio representing the positions held by the insured with the company.

In its brief, ANIA also made appropriate reference to several passages of the European Court's judgment, in order to highlight the differences between the case considered by the European Court and insurance asset management services.

More precisely, the case examined by the European Court involved services of "individual" portfolio management for individual investors. This type of service generally concerns "the assets of a single person, which must be of relatively high overall value in order to be dealt with profitably in such a way. The portfolio manager buys and sells investments **in the name and on behalf of the client investor, who retains ownership of the individual securities** throughout, and on termination of, the contract."

The service in question is therefore different from that provided by undertakings for collective investment in transferable securities (UCITS), the "sole object of which is the collective investment in transferable securities and/or in other liquid financial assets of capital raised from the public".

Belonging to the latter type of activity is that performed by "joint funds, in which many investments are pooled and spread over a range of securities which can be managed effectively in order to optimize results, and in which individual investments may be relatively modest. Such funds manage their investments **in their own name and on their own behalf, while each investor owns a share of the fund but not the fund's investments as such."**

There are solid grounds for maintaining that the service of management of insurance assets can be equated with the management of collective investment funds, insofar as it too involves a service performed for a multiplicity of investors who do not acquire ownership of the investments, since the assets remain the property of insurance companies.

Furthermore, the management of insurance assets does not constitute a "tailor-made" activity (i.e. customized to the specific investment requirements of individual investors) but is characterized by a high level of standardization of investments, precisely because its aim is to maximize the return to the insured as a group.

ANIA developed the above arguments at length in its memorandum to the Revenue Agency.

# FORECASTS FOR 2013

# 11

## THE ITALIAN INSURANCE INDUSTRY IN 2013

The projections for 2013 suggest that the recession will last at least until the end of the year. Nevertheless, thanks to the improvement in the financial and stock markets that began in the second half of 2012 and continued, with ups and downs, in the first half of 2013, total premium income is expected to show growth this year after two years of decline. This growth will be due entirely to the life sector, whose premium volume should expand by 15% after falling by 18% in 2011 and a further 5.5% last year. The premium income of the non-life sector will continue to diminish (-3.5%).

**Total premium income for direct Italian insurance** business (life and non-life) is projected at Euro 114 billion this year, up 8.8% from 2012, raising its ratio to GDP from 6.8% to 7.3%.

***Table 1***
***Insurance premiums in Italy: forecasts***
*Euro million*

| CLASS | Premiums 2012 | Premiums 2013 | % Change 2012-2011 | % Change 2013-2012 |
|---|---|---|---|---|
| Motor and marine liability | 17,576 | 16,609 | -1.2% | -5.5% |
| General liability | 2,939 | 2,954 | 0.2% | 0.5% |
| Accident | 2,976 | 2,946 | -0.9% | -1.0% |
| Other property | 2,604 | 2,578 | -1.5% | -1.0% |
| Land vehicles | 2,648 | 2,476 | -8.4% | -6.5% |
| Fire and natural forces | 2,306 | 2,272 | -1.6% | -1.5% |
| Sickness | 2,138 | 2,095 | -0.1% | -2.0% |
| Other non-life | 2,220 | 2,231 | -5.8% | 0.5% |
| **TOTAL NON-LIFE** | **35,407** | **34,161** | **-1.9%** | **-3.5%** |
| *As a % of GDP* | *2.3%* | *2.2%* | | |
| Class I - Life insurance | 51,193 | 58,874 | -9.6% | 15.0% |
| Class III - Investment funds | 13,800 | 16,840 | 10.4% | 22.0% |
| Other life classes | 4,721 | 4,485 | 1.0% | -5.0% |
| **TOTAL LIFE** | **69,713** | **80,200** | **-5.5%** | **15.0%** |
| *As a % of GDP* | *4.5%* | *5.1%* | | |
| **ALL CLASSES** | **105,120** | **114,361** | **-4.3%** | **8.8%** |
| *As a % of GDP* | *6.8%* | *7.3%* | | |

*Changes calculated on a homogeneous sample*

Premium income from direct business in the **non-life sector** is expected to feel the effects of the recession, with a second consecutive contraction (-3.5% in 2013). The forecast decline will reflect:

– a marked contraction of 5.5% in written premiums in the motor and marine liability insurance sector, which thanks to rising profitability will register a decline in the actual average premium paid by policyholders;

– a more modest contraction of 1.6% in premiums in the other non-life sectors, as the direct impact of the recession. In particular, the sharpest fall (6.5%) is expected to be in the land vehicle sector, owing above all to the further diminution of about 10% in new car sales this year following the 20% drop in 2012. More modest declines are expected in sickness (-2.0%), fire (-1.5%), and accident (-1%) and other property damage (-1%), while general liability and the other non-life sectors should record modest growth of 0.5%.

Total non-life premium income is thus expected to amount to Euro 34.2 billion in 2013, while in proportion to GDP it should remain the same as in 2012 (2.2%).

In the **life sector**, written premiums should rebound to gain possibly as much as 15% after the 5.5% fall recorded in 2012, owing in part to an expanded and more diversified supply of Class I products marketed through banks and in part to a recovery in Class III policies, which should benefit from the improvement in the financial and stock markets.

In the first four months of 2013, new life insurance business amounted to Euro 20.6 billion, compared with Euro 16.9 billion in the same period of 2012. The increase involved both Class I products, new business in which gained more than 20%, and Class III products, in which premiums rose by more than 25%.

For Class I products, assuming that short-term interest rates (3-month Treasury bills) remain well below 1% as in the first four months and that financial markets remain stable, premium income can be expected to rise by 15% for the year as a whole, from Euro 51 billion to about Euro 60 billion. For Class III (linked) policies, assuming no major turmoil in the equity and financial markets, it is estimated that premiums will increase by 22% for the year as a whole to a total of nearly Euro 17 billion.

Total life sector premium income could thus exceed Euro 80 billion in 2013, with its ratio to GDP rising from 4.5% to 5.1%.

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

2012/2013 figures are provisional

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