# Italian insurance in 2007/2008

ANIA

Associazione Nazionale
fra le Imprese Assicuratrici

# Summary

*ADDITIONAL COMMENT SECTIONS*

# Executive summary

## THE RESULTS FOR THE YEAR

Premium income of Italian insurance companies from direct and indirect insurance business in Italy and abroad, net of reinsurance and retrocessions, fell by 8.7%, after decreasing by 2.0% in 2006. The contraction was concentrated in the life sector, where premiums plunged 13.1%, due partly to the rise in interest rates during the first half of the year, which discouraged investors' demand (especially for traditional insurance products and with-profit policies, Class I and Class V) and partly to investors' shift, during the last part of the year, into medium/long-term bonds issued by government and banks. However, a good portion of premium earnings in Italy are accounted for by insurers based abroad and doing business here under the freedom to provide services. ANIA estimates that in 2007 the premium income of such companies exceeded Euro 10 billion, up 75% from 2006. Including these premiums, the decline in life insurance premium income would be halved. Non-life insurance premium earnings remained stable after a 2.3% rise in 2006.

The technical result for the non-life sector came to Euro 2.9 billion, basically unchanged from 2006. While the cost of claims diminished slightly (by 0.9%), operating expenses rose by 3.6% and their incidence on premium earnings increased by nearly a percentage point from 23.6% to 24.4%. Factors in the rise were the investment required to adapt to the new rules on motor liability insurance and an increase in acquisition costs in the other classes, owing in part to the ban on multiyear contracts.

In life insurance, the contraction of premium income was accompanied by soaring claims costs (up 26.2%), owing to the lapse of policies subscribed at the turn of the decade and a sharp increase in surrenders. For the first time in over a decade net fund-raising was negative (by Euro 12.8 billion). In 2006 the balance between premiums and claim costs had been positive by Euro 11.9 billion. The technical result was positive by Euro 1.7 billion, but Euro 300 million less than in 2006. The decline in premiums and the changing mix of products sold drove the expense ratio up from 7.0% to 7.7%.

An improvement in the result on extraordinary operations more than offset the absolute decline in the net result, and ROE for the entire insurance industry rose from 11.4% to 12.4%, owing in part to a contraction in shareholders' equity, which resulted in a very slight dip in the solvency ratio.

For listed insurance companies only, on a consolidated basis (i.e., including the business of foreign subsidiaries), the median ROE of Italian insurers fell from 16.5% to 14.8%. The median also declined in France (from 16.9% to 15.2%), but rose in the United Kingdom (from 18.3% to 19.6%) and in Germany (from 13.7% to 14.8%). This year's Report offers a comparison of the economic performance of insurers in Italy, France, Germany, Spain, the United Kingdom and the United States from 2001 to 2006, based on the income statement data available from Bureau Van Dijk's ISIS database.

## THE FORECASTS FOR 2008

The difficulties of the financial markets will affect the performance of the insurance industry in Italy. In the first four months of 2008, new life business amounted to Euro 13.6 billion, or 15.2% less than in the same period of 2007. The downward trend in premium income for financial insurance products (Classes III and V) continued, as savers preferred medium/long-term bank and government bonds.

Assuming continued financial market uncertainty and investor preference for low-risk products, mainly bonds, we can use a simple time series model to estimate that in 2008 the decline in life insurance premiums should moderate to 7.7% from 11.4% in 2007. The decline in the financial insurance products component (13% for unit-linked and 70% for capital redemption policies) should be accompanied by an increase in premiums on traditional insurance policies. A major contribution should come from retirement policies (expected to gain 75%).

In the motor liability sector premium income is expected to hold basically stable. The increase in property insurance premiums (fire and other casualty coverage) should average 1.5%, reflecting the slowdown in economic growth. Better than average growth is expected in accident, health and general liability insurance; less than average (0.7%) for non-liability land vehicle insurance.

Total premium earnings on direct Italian insurance business is likely to diminish in 2008. Premium volume is expected to decline by 4.3% to Euro 95 billion, slipping from 6.45% to 6% of GDP.

## LIFE INSURANCE – DIRECT BUSINESS IN ITALY

Households' disposable income grew by 3.2% in nominal and 1.0% in real terms in 2007, an acceleration with respect to the 0.2 % growth recorded in 2006. The household saving rate, though declining slightly, remained higher than in the rest of Europe. It was 11.2% in 2007, down from 11.5% in 2006 and an average of 12.5% over the previous two years.

In 2007 households' financial saving, defined as the difference between the gross flows of assets and liabilities, amounted to Euro 51.9 billion, a decrease of 23.7% from the previous year. As a ratio to GDP, it fell from 5.7% to 3.4%.

The financial turmoil that erupted during the summer of 2007 prompted households to turn to low-risk investments. More than Euro 60 billion (half the gross savings flow) went into medium/long-term bonds. Of this, Euro 25.7 billion was invested in government paper and another Euro 25 billion in bank bonds (22.6%

of the gross flow of savings). After years of growth, net investment in life insurance policies was negative in 2007 by Euro 12.9 billion.

The outflow of funds from life policies resulted in a slight decline (from 10.5% to 10.2%) in life insurance reserves' share of total household financial assets. "Insurance technical reserves," which in addition to the reserves of the life and non-life insurance classes comprises severance pay and pension fund assets, accounted for 16.5% of total household financial assets at the end of 2007, down from 16.6%. Finally, the share consisting in Italian and foreign investment fund units fell from 8.3% to 7.7%.

Fund-raising in the life sector came to Euro 61.4 billion, as a fall of 11.4% followed the 5.6% drop in premium income registered in 2006 after years of strong growth. The outcome for 2007 reflected the sharp fall in premiums in Class V, which declined by 50%, a 17.0% drop in premiums in Class I, and an increase in linked policy premiums of 6.1%. Amounts paid and changes in reserves against amounts to be paid, net of recoveries, continued to rise, expanding by 28.6% to Euro 74.3 billion, mainly because of the large number of surrenders and the lapsing of a substantial portion of policies. The reduction in premium income and in investment earnings also contributed to the deterioration in the overall technical result.

In the life sector ROE fell from 11.2% to 10.6%. This was determined by the decline of 1.2 percentage points in the return on investment. The result on extraordinary operations showed a slight improvement. The ratio of profit to technical reserves (analogous to the indicator commonly used in the asset management industry, in which the denominator is assets under management) was 44 basis points, 10 points less than in 2006.

The Bank of Italy has released a study on the wealth of Italian households from 1995 to 2005. In 2005 net total household wealth was Euro 7.8 trillion, equivalent to Euro 346,000 per household and Euro 134,000 per capita. About half of this consists in real estate wealth. At the end of 2007 Italian households' wealth was about eight times their disposable income, in line with the ratio in France and the United Kingdom and significantly higher than in Germany, the United States and Japan.

The data released by the pension fund oversight authority Covip on new pension fund subscriptions in 2007 permit drawing a preliminary balance of the results of the reform of Italy's supplementary private pension system. There are unquestionably some positive aspects. The total number of members of supplementary retirement schemes is now over 4.5 million, an increase of 1.5 million or 43% in a year. Some 1.2 million private-sector employees joined private retirement schemes during the year, bringing the total to over 3 million, or 66% more than at the end of 2006. Still, only 24.9% of private-sector employees have a supplementary pension plan.

On 4 May 2007, after a public consultation, Consob issued its amendments to the Issuers Regulation (Regulation 11971/1999), which were necessary to include a new chapter (Chapter II-bis) in Part II, Title I. The chapter concerns the activity of soliciting investment in financial products issued by insurance companies, extending the scope of the financial prospectus requirements to these products (life insurance products in Class III, except retirement products, and Class V). The Report examines the new regulation in depth and describes the standard prospectus model developed by ANIA, which provides practical examples of how to present the prospectus and operational solutions consistent with the models attached to the Issuers Regulation. These standard models were transmitted to Consob for verification of compliance; the oversight agency took note of their preparation and posted the information on its website.

Consob's new Intermediaries Regulation alters the rules of conduct for the marketing of insurance financial products. The changes involve the classification of customers, provisions on inducements, and the adequacy or appropriateness of the products marketed. On this latter question in particular, ANIA published a special document, which the Report summarizes, on "Insurance financial products: Considerations on their adequacy and appropriateness".

## NON-LIFE INSURANCE – DIRECT BUSINESS IN ITALY

Premium income from direct Italian non-life insurance business increased 1.3% in 2007 to nearly Euro 38 billion. In proportion to GDP it fell slightly to 2.45%, owing to the decline, in nominal terms, of motor vehicle insurance premiums. Other non-life insurance showed an increase of 3.8%, the lowest growth rate of the decade. This was due to the persistently soft market (with low per policy cost increases) above all in the transport equipment sector: all the classes of business in the sector recorded a decline in premium volume (19.8% for railway rolling stock damage, 14.5% for aircraft liability, 11.7% for aircraft damage, 8.7% for watercraft damage, 0.3% for freight). Premium income increased for accident insurance (2.8%), other material damage (3.8%), and above all health insurance (12.1%).

In the non-life sector ROE rose by almost three percentage points, from 11.6% to 14.4%, thanks mainly to the improvement in the result on ordinary activities. In particular, the profitability of insurance operations (gauged by the ratio of the result on these operations to the technical provisions) improved by 0.5 percentage points, turning positive. There was also an increase in the profitability of extraordinary operations (ratio of the result on extraordinary operations to shareholders' equity).

The Report also gives the CEA data on other European countries for 2006. In the non-life sector, the ratio of premium income to GDP was 2.5% in Italy, against

3.2% in France and 3.8% in the United Kingdom and Germany. Not counting the motor vehicle sector, the gap is even wider: the ratio of premiums to GDP was 1.0% in Italy against 2.2% in France and 2.8% in Germany and the UK.

The Report also looks into the extent of insurance held by Italian households. One study concerns casualty insurance, using data developed by the Bank of Italy's Survey of Household Income and Wealth. On the basis of the 2006 survey, some 4.8 million of the almost 23 million households resident in Italy (21.1%) had at least one non-life policy (other than compulsory motor liability). The same survey found that 1.45 million households, or 6.1%, had health and/or accident insurance.

Other special topics treated in this year's Report are the regulatory changes on supplemental health funds enacted by the Finance Law for 2008, insurance coverage against environmental damage, and the type of insurance protection available to those installing renewable energy generators. We also report on recent developments in the CAT bond market and draw up a balance of natural disasters in 2007. Finally, the Report describes ANIA's numerous initiatives for the prevention of flood, fire and theft, in particular the SIGRA project, which mapped landslide and flood risk for the entire territory of Italy, and the insurance certificate for aircraft.

## MOTOR LIABILITY INSURANCE

Total motor liability premium earnings came to Euro 18.2 billion in 2007, a decline of 1.0% from 2006. This was the first decline in premium volume since insurance became compulsory in 1969.

The data supplied by ACI indicate an increase of 1.7% in the number of vehicles in circulation in the 12 months ending in December. This rate of increase is consistent with that given by ANIA's own SITA database on license plates with insurance coverage, showing a rise of 1.5% in the number of contracts for which policy receipts were issued. An ad hoc survey by ANIA found that the number of vehicle-years insured rose by 0.8%, from 43,209,000 to 43,551,000.

Despite the different statistical methods used (e.g., end-period or yearly average data), slight differences in the field of observation (as regards the treatment of fleet vehicles, motor scooters and public service vehicles), the three statistical sources are basically concordant. In 2007 the number of vehicles insured increased. And as total premium income earned fell by 1%, it follows that the average cost of coverage declined by between 2% and 3% in the year.

Istat's index for motor liability prices rose 1.5% in 2007, against a 1.8% rise in the overall consumer price index. Istat calculates its price index on the basis of "fixed" user profiles (a Laspeyres fixed-weight index). This means it fails to take account of the fact that every year more than 90% of policyholders – those who caused no accidents the previous year – benefit from the "bonus" effect; nor does it reflect insurers' discounts from list prices.

The gap between the Istat index and the average price widened sharply in 2007, rising from an average of 2.2 percentage points in 2003-2006 to 4.2 points (2.7 + 1.5). This can be ascribed essentially to three of the measures enacted by the Bersani decree laws: abolition of the ceiling on discounts, requirement that additional vehicles in a household be rated in the same merit class as that already insured, and postponement of downgrading ("malus") to the time of settlement, not the accident date. These measures reduced insurers' revenues substantially, thus lowering the average price of policies. But they had no impact – nor could they have – on price levels, and thus on Istat's fixed-weights index.

Claims frequency – defined as the ratio of all accidents occurring and reported during the year and that give or will give rise to a claim settlement to the number of vehicles exposed to risk (based on the number of insured days during the year, giving the number of vehicle-years) rose from 7.47% in 2006 to 7.74% in 2007, an increase of 3.7%.

The cost of claims relating to the year, which is the key variable to judge how well the direct indemnity procedure is working, came to Euro 14,794 million, 1.0% less than in 2006. Considering that the total number of accident claims (including an estimate of those that occurred in 2007 but had not yet been reported by the end of the year) was 3,767,725 (4.7% more than in 2006), the average claim cost declined by 3.8%. Excluding the cost of still unreported accidents and the contribution of the Road Accident Victims' Fund and other minor items, the average cost of accident claims in 2007 fell by 5.3% compared with 2006.

To determine the causes of the increase in frequency and the decline in average claim cost, more detailed data are needed; these are not now available. The trends would jibe with an increase in the number of minor accidents. However, it is also possible that the reduction in the average claim cost was due partly to a reduction in legal and litigation costs as well as a tightening of settlement policies by the mandatary companies (those handling claims).

Total claim settlement outlays – which include not only the current year's but also past years' claims – increased by 1.0% compared with 2006, mainly because the reserves against previous years' claims were sufficient by Euro 61 million, compared with Euro 352 million in 2006. This helps explain the worsening of the ratio of claim costs to premiums earned from 79.5% to 80.7%.

Operating expenses for the industry came to Euro 3,344 million, up from Euro 3,276 million. These include administrative costs pertaining to the technical account and the cost of policy acquisition, premium collection, and the organization and operation of the distribution network. The incidence of operating expenses on premium income rose from 17.8% to 18.3%. The increase was concentrated in the area of administrative costs, owing mainly to investment in information technology and in procedures relating to the new direct indemnity system.

The technical balance on direct business was negative by Euro 54 million, compared with a positive balance of Euro 256 billion in 2006. Factoring in earnings on investments, which were Euro 30 million less than the previous year at Euro 962 million, the technical result fell from Euro 1,248 million to Euro 908 million. Calculating also the reinsurance balance, the overall technical account result was positive by Euro 958 million, down from Euro 1,257 million. It thus fell from 6.8% to 5.2% of premiums.

The Report devotes ample space to an assessment of the first year of application of the direct indemnity system. ANIA conducted a special survey of accidents occurring during the year and claims definitively settled, both for those handled via the direct indemnity convention and those not, for the entire motor liability sector and for the main types of vehicle. The 30 companies participating in the survey accounted for 68.5% of the industry's premium earnings in 2007. The data covered nearly 27 million policyholders and 2.1 million accident claims.

We describe the impact of Legislative Decree 198 of 6 November 2007, which amended a number of provisions of the Insurance Code in application of the fifth Community directive on motor liability insurance (Directive 2005/14/EC) in observance of the guidelines laid down by the Community legislation transposition act of 2006 (Law 13 of 6 February 2007). The legislation makes a number of changes to motor liability insurance: treatment of provisional license plates as equivalent to permanent ones for insurance purposes; the temporary insurability of imported vehicles by insurers in the importing country; the extension of cases eligible for the intervention of the accident victims fund; the extension of the functions of the Italian Information Center under ISVAP; the issue of the attestation of merit class for the last full year of insurance while the policy has not yet expired.

With a letter to the insurance industry dated 11 April 2008 ISVAP set out the operational guidelines for the complex plans for the "single motor liability premium estimate". The purpose is to enable consumers to make an immediate comparison of the premiums for all the motor liability "products" offered by insurers doing business in Italy, so as to spur greater competition. ANIA reconfirmed the industry's willingness to cooperate on the project. The Report traces the initiatives undertaken to comply with the project's strict operational timing, which is scheduled for completion in October.

## THE LEGAL AND REGULATORY FRAMEWORK

The Finance Law for 2008 introduced "collective action for the protection of consumers" into the Italian legal system. Suits for the protection of consumers may be brought by national consumer and service user associations entered in a register established at the Ministry for Economic Development or by associations and committees that are sufficiently representative of the collective interests to be asserted. The action is brought against a firm (including for-profit public corporations) whose conduct has been detrimental to the interests of the members of a "class" of consumers or service users. In order to participate in the action, consumers must expressly declare their intention to do so. Consumers who did not opt in or did not intervene in the trial may still bring individual actions.

Solvency II project activity proceeded rapidly at Community level, as scheduled. The Commission published its proposal for a framework directive on 10 July 2007 and presented a new, amended version on 26 February 2008. It should be approved at the start of 2009. The Solvency II regime should go into force in the member states at the end of 2012. The main questions now under discussion are: supervision of groups; the treatment of equity risk in calculating the solvency capital requirement; the criterion for calculating the minimum capital requirement; the use of discretionary profits in the life sector to cover any losses in case of shocks (surplus funds); and the applicability of the Solvency II regime to pension funds.

As to the International Accounting Standards Board's "Insurance Contracts" project, the consultation on the discussion paper "Preliminary views on insurance contracts" was concluded last year. The most important observations arising from the consultation were:

– general agreement on the model for valuing technical reserves based on three building blocks, but with recognition of the need for further study of some features of this approach, such as "profit at inception," "service margin", the use of specific company data and the discounting of non-life insurers' liabilities;
– uncertainty on the application of the concept of "current exit value" to insurance liabilities, some components of which may have no secondary market;
– the need for closer analysis of the valuation of "participating contracts", of the treatment of premiums, and of policyholder behavior;
– the need for a field test before the new accounting standards are adopted;
– interaction with the other IASB standards and projects.

As a consequence of ANIA's complaint to the European Commission – followed by that of the Italian Banking Association – the Italian Government was urged to extend the reduction of the tax wedge to banks, financial companies and insurance companies and to rationalize the definition of the tax base for the regional tax on productive activities (IRAP) for banks and financial companies. In particular, the extension involved the Euro 5,000 annual deduction for every permanent employee, pro rated for the number of days of employment during the year. The employer's social security contributions relating to permanent employees were also made deductible. The technical report on the measure estimated the tax saving for banks and insurance companies, on an accrual basis, at Euro 252 million for 2007, Euro 370 million for 2008 and Euro 380 million for 2009. Our Report also describes the amendments to the corporate income tax and IRAP enacted in the Finance Law for 2008.

Finally, the Report summarizes the main changes to ISVAP's regulations in implementation of the Insurance Code and the regulations not yet issued but for which the consultation phase has been concluded.

**The number of companies operating in Italy increased, because of the presence of new foreign units in non-life classes.**

## OPERATING INSURANCE COMPANIES

As at 30 April 2008, 246 insurance companies were operating (242 as at 30 April last year), of which 167 were insurance companies with registered office in Italy (166 as at 30 April last year) and 79 were branch offices of foreign insurance companies (76 as at 30 April last year), mainly from European Union members (75).

84 insurance companies write only life insurance business (of which 16 are foreign branch offices) and 133 companies write only non-life business (of which 53 are foreign branch offices); 22 companies write both life and non-life business, accounting for 50.1% of the total premium collection in terms of market share; 7 companies write only reinsurance business (of which 6 are foreign branch offices).

181 insurance companies are ANIA members (of which 19 are corresponding members): these insurance companies represent about 90% of the premiums of the entire market.

Considering the legal status of the 167 companies that have legal offices in Italy, 163 are joint stock companies, 3 are mutual companies and one is a cooperative company.

*NUMBER OF COMPANIES BY LEGAL STATUS*

| | LIFE | NON-LIFE | MULTI BRANCHES | PROFESSIONAL REINSURERS | TOTAL COMPANIES |
|---|---|---|---|---|---|
| **Situation as at April 30, 2007** | | | | | |
| Limited companies | 68 | 74 | 18 | 2 | 162 |
| Cooperatives | - | - | 1 | - | 1 |
| Mutuals | - | 2 | 1 | - | 3 |
| Domestic companies | 68 | 76 | 20 | 2 | 166 |
| Foreign branches | 16 | 50 | 4 | 6 | 76 |
| *in E.U. countries* | *16* | *47* | *4* | *4* | *71* |
| **Total companies** | **84** | **126** | **24** | **8** | **242** |
| **Situation as at April 30, 2008** | | | | | |
| Limited companies | 68 | 78 | 16 | 1 | 163 |
| Cooperatives | - | - | 1 | - | 1 |
| Mutuals | - | 2 | 1 | - | 3 |
| Domestic companies | 68 | 80 | 18 | 1 | 167 |
| Foreign branches | 16 | 53 | 4 | 6 | 79 |
| *in E.U. countries* | *16* | *50* | *4* | *5* | *75* |
| **Total companies** | **84** | **133** | **22** | **7** | **246** |

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

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Austria | 72 | 71 | 71 | 73 | 73 |
| Belgium | 201 | 189 | 181 | 171 | 161 |
| Denmark | 226 | 214 | 213 | 206 | 206 |
| Finland | 68 | 68 | 68 | 67 | 67 |
| France | 495 | 486 | 475 | 486 | 480 |
| Germany | 703 | 703 | 662 | 663 | 655 |
| Greece | 102 | 100 | 99 | 95 | 90 |
| Ireland | 199 | 224 | 217 | 226 | 226 |
| Italy | 254 | 249 | 245 | 239 | 244 |
| Luxembourg | 95 | 95 | 95 | 95 | 95 |
| Netherlands | 341 | 335 | 317 | 300 | 300 |
| Portugal | 85 | 74 | 70 | 70 | 71 |
| United Kingdom* | 806 | 772 | 1.167 | 1.170 | 1.170 |
| Spain | 334 | 328 | 379 | 362 | 362 |
| Sweden | 448 | 440 | 428 | 415 | 392 |
| **Total** | **4,429** | **4,348** | **4,687** | **4,638** | **4,592** |

*Source: CEA*
*(*) Change of definition since 2004*

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

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Austria | 175 | 185 | 197 | 210 | 213 |
| Belgio | 111 | 136 | 157 | 198 | 184 |
| Denmark | 59 | 70 | 74 | 81 | 91 |
| Finland | 180 | 186 | 194 | 213 | 223 |
| France | 267 | 292 | 333 | 360 | 413 |
| Germany | 201 | 210 | 230 | 238 | 247 |
| Greece | 28 | 32 | 37 | 41 | 48 |
| Ireland | 56 | 53 | 55 | 57 | 66 |
| Italy | 345 | 390 | 412 | 459 | 406 |
| Luxembourg | 68 | 77 | 94 | 121 | 130 |
| Netherlands | 129 | 139 | 154 | 166 | 216 |
| Portugal | 99 | 128 | 150 | 192 | 185 |
| United Kingdom* | 289 | 277 | 188 | 189 | 218 |
| Spain | 144 | 127 | 119 | 134 | 145 |
| Sweden | 38 | 44 | 45 | 54 | 59 |
| **Total** | **179** | **182** | **192** | **205** | **221** |

*Source: CEA*
*(*) Change of definition since 2004*

# The Italian insurance market: key figures 2007

**In 2007 Italian insurance companies' technical account results were positive, in line with the previous year. The sector's overall ROE increased from 11.4% in 2006 to 12.4% in 2007. The improvement on the extraordinary activity more than offset the slight worsening of the non-life and life technical accounts in absolute terms.**

## INCOME STATEMENT

*INCOME STATEMENT*
*Euro million*

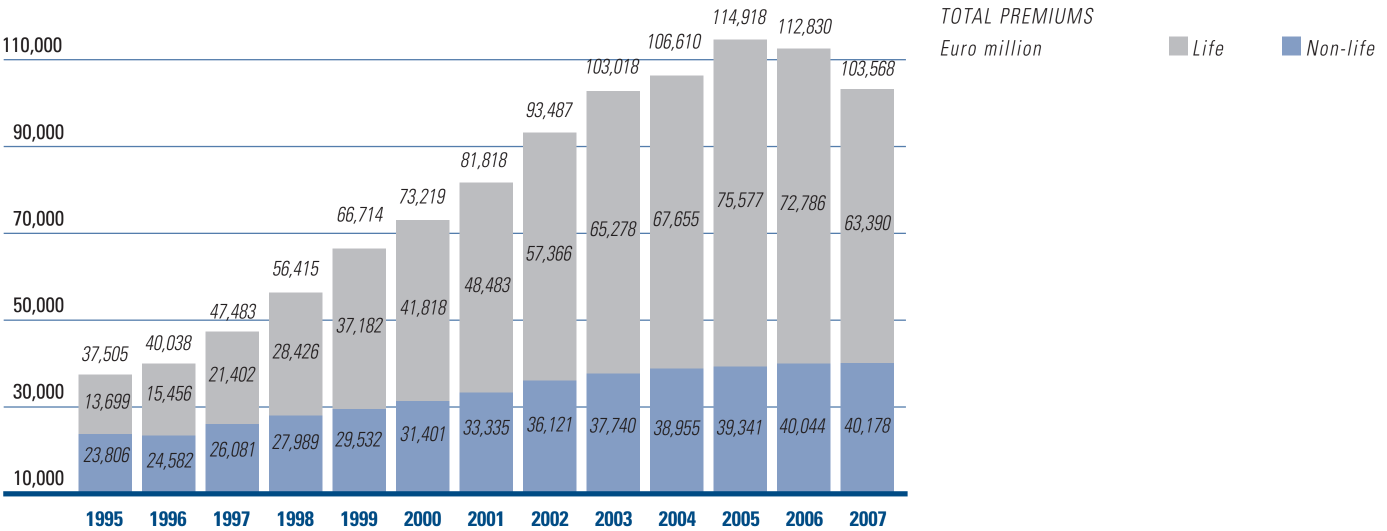
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| **Technical account of non-life and life classes (*)** | | | | | | | |
| Written premiums | 75,240 | 86,350 | 95,646 | 100,098 | 108,451 | 106,273 | 97,026 |
| Changes in premiums reserves (-) | 30,046 | 32,645 | 43,720 | 40,427 | 41,999 | 19,189 | -9,477 |
| Investment income | 5,435 | 3,939 | 13,090 | 16,316 | 20,064 | 15,132 | 10,882 |
| Other technical income | 780 | 980 | 1,135 | 1,215 | 1,321 | 1,337 | 1,431 |
| Incurred claims (-) | 38,240 | 44,459 | 48,994 | 58,826 | 68,236 | 83,971 | 99,219 |
| Operating expenses (-) | 10,208 | 10,648 | 11,346 | 11,927 | 12,567 | 13,345 | 13,417 |
| Other technical costs (-) | 897 | 1,088 | 1,656 | 1,430 | 1,241 | 1,434 | 1,636 |
| **Balance** | **2,064** | **2,429** | **4,155** | **5,019** | **5,792** | **4,803** | **4,544** |
| **Technical account - non-life (*)** | | | | | | | |
| Written premiums | 28,915 | 30,958 | 32,729 | 34,208 | 34,663 | 35,458 | 35,471 |
| Changes in premiums reserves (-) | 835 | 825 | 656 | 599 | 638 | 629 | 618 |
| Investment income | 1,931 | 1,483 | 2,012 | 2,234 | 2,318 | 2,115 | 2,188 |
| Other technical income | 409 | 321 | 371 | 371 | 319 | 371 | 367 |
| Incurred claims (-) | 22,224 | 22,736 | 23,633 | 24,269 | 24,294 | 25,058 | 24,844 |
| Operating expenses (-) | 6,851 | 7,178 | 7,522 | 7,949 | 8,184 | 8,366 | 8,669 |
| Other technical costs (-) | 696 | 760 | 874 | 1,045 | 883 | 1,082 | 1,010 |
| **Balance** | **649** | **1,263** | **2,427** | **2,951** | **3,302** | **2,808** | **2,885** |
| **Technical account - life (*)** | | | | | | | |
| Written premiums | 46,325 | 55,392 | 62,917 | 65,890 | 73,788 | 70,815 | 61,555 |
| Changes in technical provisions (-) | 29,211 | 31,820 | 43,064 | 39,828 | 41,361 | 18,561 | -10,095 |
| Investment income | 3,504 | 2,456 | 11,078 | 14,082 | 17,745 | 13,017 | 8,694 |
| Other technical income | 371 | 659 | 764 | 844 | 1,001 | 967 | 1,064 |
| Incurred claims (-) | 16,016 | 21,723 | 25,361 | 34,557 | 43,942 | 58,913 | 74,375 |
| Operating expenses (-) | 3,357 | 3,470 | 3,824 | 3,978 | 4,383 | 4,979 | 4,748 |
| Other technical costs (-) | 201 | 328 | 782 | 385 | 358 | 352 | 626 |
| **Balance** | **1,415** | **1,166** | **1,728** | **2,068** | **2,490** | **1,995** | **1,659** |
| **Non-technical account** | | | | | | | |
| Other non-life income | 629 | 401 | 518 | 810 | 894 | 777 | 879 |
| Other life income | 436 | 726 | 868 | 1,127 | 1,179 | 1,238 | 991 |
| Balance of other income and expenses | -2 | -872 | -951 | -1,016 | -862 | -1,062 | -967 |
| **Balance of ordinary activities** | **3,127** | **2,684** | **4,590** | **5,940** | **7,003** | **5,757** | **5,447** |
| **Balance of extraordinary activities** | **1,204** | **2,262** | **1,132** | **1,027** | **691** | **941** | **1,467** |
| Taxes on income (-) | 1,454 | 1,436 | 1,929 | 1,731 | 1,837 | 1,537 | 1,585 |
| **Result for the financial year** | **2,877** | **3,510** | **3,793** | **5,236** | **5,857** | **5,161** | **5,329** |
| **Return on Equity** | **8.9%** | **10.6%** | **10.6%** | **13.6%** | **13.8%** | **11.4%** | **12.4%** |

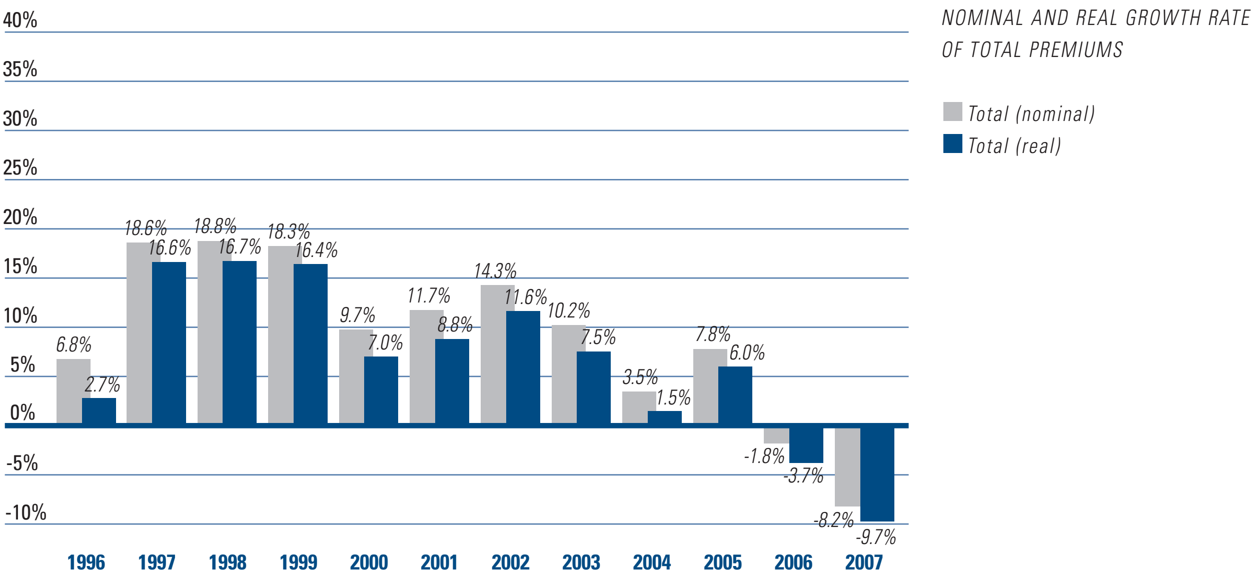
*(*) Technical items net of cessions and retrocessions*

## TECHNICAL ACCOUNT

### Premium income

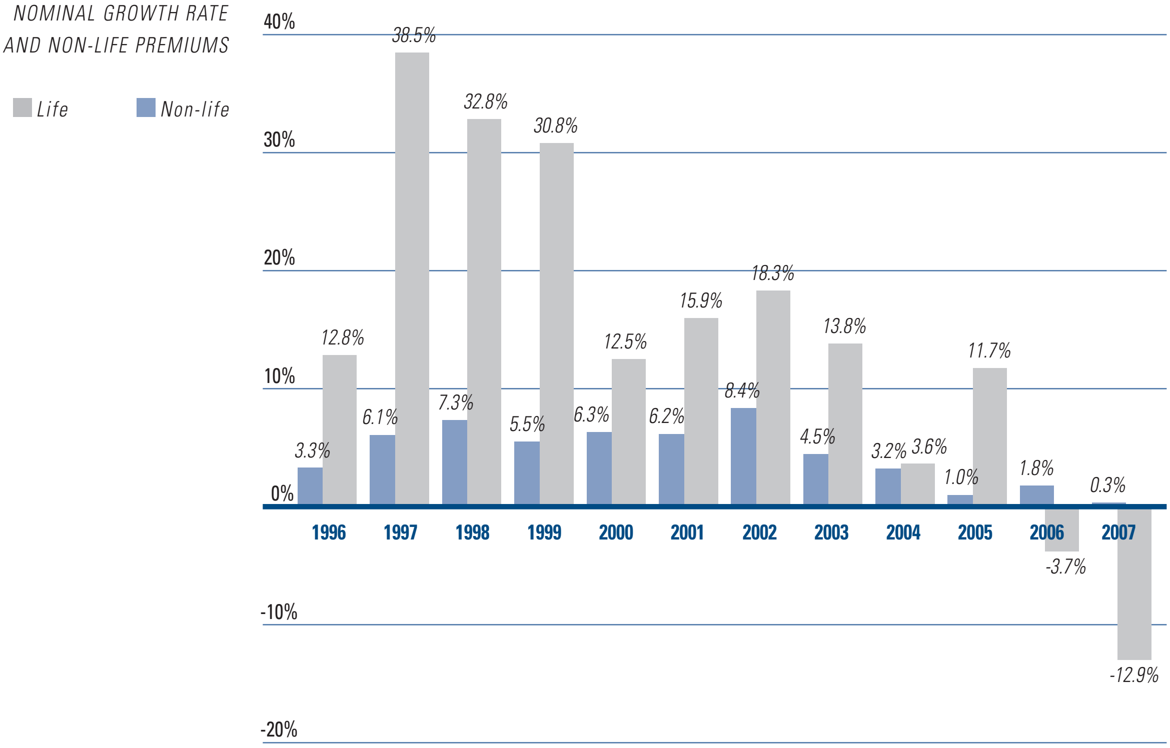
**The total gross premiums for domestic and foreign business, direct and indirect**, gross of reinsurance and collected by companies with registered offices in Italy and by the branches of foreign non-European Union companies totalled Euro 103,568 million in 2007. In particular, Euro 40,178 million were collected in non-life classes and Euro 63,390 million in life classes.



# The Italian insurance market: key figures 2007

NOMINAL GROWTH RATE
OF LIFE AND NON-LIFE PREMIUMS




After a slight reduction recorded in 2006 (-1.8%), the overall premiums recorded a strong decrease in 2007, equal to -8.2%. This result was determined by the life sector, whose premiums decreased in 2007 by 12.9% (they had increased by 3.7% in 2006). However, we should bear in mind that in life business an important share of premiums is written in Italy by companies operating in freedom of services (FOS). ANIA estimated that in 2007, premiums written by these companies have exceeded Euro 10 billion, an increase of about 75% compared to 2006. By adding these premiums the drop in life collection would be halved.

Premiums in non-life classes grew, even though in a limited way: +0.3% compared to 2006. As a result of these trends, the share of life premiums on the total decreased compared to the previous year (from 64,5% to 61,2%).

The percentage of **premiums ceded to reinsurance** slightly increased (from 5.8% in 2006 to 6.3% in 2007). The overall amount of these premiums was equal to Euro 6,541 million, of which 4,706 in non-life classes and 1,834 in life classes.

**Overall premiums, net of the share of ceded premiums**, achieved Euro 97,026 million (with a 8.7% decrease compared to the previous year): Euro 35,471 million in non-life classes and Euro 61,555 million in life classes.

### Claims, benefits and provisions

**Benefits to insured** and other beneficiaries, **gross of reinsurance**, are obtained as a sum of the following components:

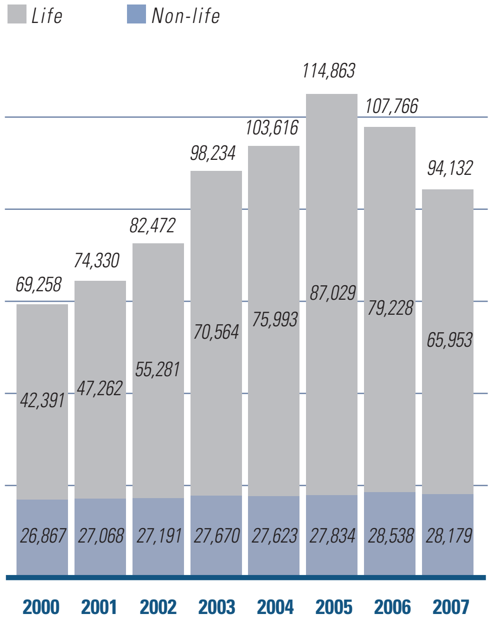
- incurred claims cost and changes in premium reserves for the non-life classes;
- incurred claims cost and changes in mathematical reserves and the other technical reserves for the life classes.

The amount of these benefits was of Euro 94,132 million (-12.7% compared to 2006): 28,179 (-1.3%) and 65,953 million in life classes (-16.8%).

The **reinsurance contribution** was equal to Euro 4,390 million (-4.7%), of which 2,717 million for non-life classes and 1,673 million for life classes.

The **amount of benefits** was therefore of Euro 89,742 million (-13.0%): 25,462 million in non-life classes and 64,280 million in life classes.

*CLAIMS, BENEFITS AND PROVISIONS*
*Euro million*

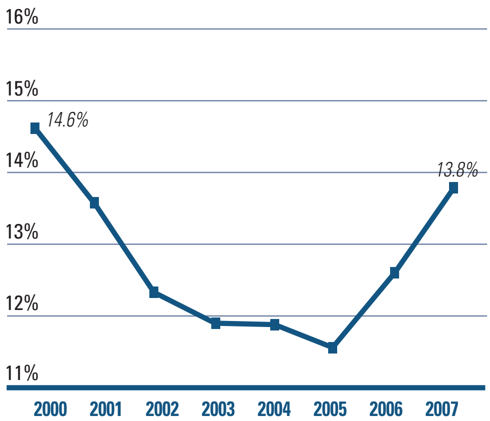



### Operating expenses

**Operating expenses** for direct and indirect business, net of reinsurance, that include acquisition costs, costs arising from premium collection, costs relating to the organisation and management of the distribution network and the administration expenses relating to technical management of insurance business, totalled Euro 13,417 million with an increase of 0.5% compared to 2006. Due to a reduction in the overall written premiums, the incidence of operating expenses on written premiums passed from 12.6% of 2006 to 13.8% of 2007.

In particular, the operating expenses for non-life business were equal to Euro 8,669 million, with an incidence on premiums of 24.4% (23.6% in 2006); for life business, they were equal to Euro 4,748 million, with an incidence on premiums of 7.7% (7.0% in 2006). The increase of incidence in the non-life sector is partly related to investments costs necessary for law provision adjustments in MTPL; in the life business, the increase was due, on the one hand, to the reduction in the V class policies, characterised by lower expenses and, on the other hand, to a higher incidence of fixed expenses in the presence of a decreasing premium volume.

*OPERATING EXPENSES TO PREMIUMS RATIO*
*Incidence on net witten premiums (%)*




### Technical account result

The **technical account result**, net of reinsurance, was positive totalling Euro 4,544 million, equal to 4.7% of direct and indirect premiums (4.5% in 2006).

There was a positive result for non-life classes totalling Euro 2,885 million (Euro 2,808 million in 2006); the incidence of such result on premiums increased to 8.1% (7.9% in 2006).

# The Italian insurance market: key figures 2007

Life classes showed a positive result of Euro 1,659 million (Euro 1,995 million in 2006). The incidence on premiums was 2.7% (2.8% in 2006).

*TECHINCAL ACCOUNT RESULT / PREMIUMS (%)*
*Incidence on net witten premiums (%)*

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Total | 2.7% | 2.8% | 4.3% | 5.0% | 5.3% | 4.5% | 4.7% |
| Non-life | 2.2% | 4.1% | 7.4% | 8.6% | 9.5% | 7.9% | 8.1% |
| Life | 3.1% | 2.1% | 2.7% | 3.1% | 3.4% | 2.8% | 2.7% |

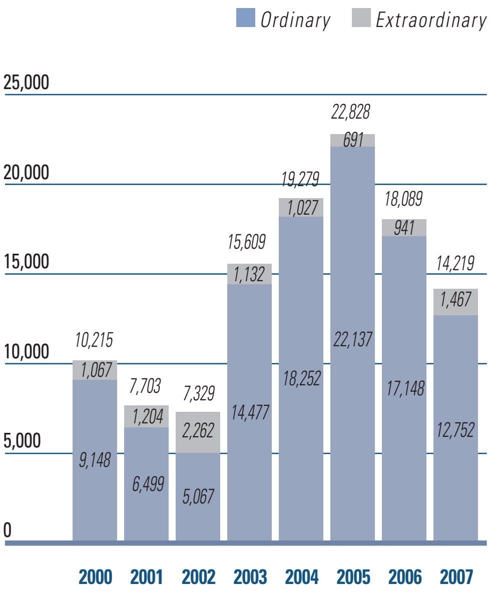
## NON-TECHNICAL ACCOUNT

### Investment income

**Ordinary and extraordinary net investment income, life and non-life**, which also includes investment income transferred to technical life and non-life accounts, was equal to Euro 14,219 million in 2007, with a strong reduction compared to the previous year (-21.4%), mainly because of the drop in ordinary net investment income (-25.6% compared to 2006) as a result of the negative trend of capital markets in the second half of the year. The reduction was only partially balanced by the increase in extraordinary investment income (which increased by 55.9% compared to 2006).

The drop in ordinary net investment income compared to 2006 was equal to Euro 4,396 million; it was mainly due to the Euro 4,104 million increase in gross investment expenses; the positive trend of life and non-life extraordinary gross investment income was equal to only Euro 512 million.

*TREND OF NET INVESTMENT INCOME*
*Euro million*




More in detail, the **ordinary gross investment income for life and non-life classes** reached Euro 26,024 million (Euro 26,316 million in 2006), with a decrease of 1.1%. Income derived from:

- shares and holdings, for an amount of Euro 3,595 million (+22.6% compared to 2006), which were 13.8% of the total income;
- investments for the benefit of insured and investment income deriving from pension fund management, for an amount of Euro 6,384 million (-21.9% compared to 2006), which represented 24.6% of the total income;
- land and buildings, for an amount of Euro 237 million (-0.2% compared to 2006), which were 0.9% of the total income;
- revaluations and realised investments, for an amount of Euro 3,523 million (+9.2% compared to 2006), which were 13.5% of the total income;
- securities, bonds and other investments, for an amount of Euro 12,284 million (+4.6% compared to 2006), which represented 47.2% of the total income.

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

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Shares | 11.9% | 13.7% | 12.0% | 9.5% | 10.8% | 11.1% | 13.8% |
| Land and buildings | 4.1% | 2.6% | 1.5% | 1.1% | 0.8% | 0.9% | 0.9% |
| Other investments | 49.7% | 46.8% | 41.9% | 42.7% | 37.5% | 44.6% | 47.2% |
| Revaluations | 17.5% | 12.9% | 12.9% | 11.7% | 11.1% | 12.3% | 13.5% |
| Income from linked and pension funds | 16.8% | 24.0% | 31.7% | 35.0% | 39.8% | 31.1% | 24.6% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

**Extraordinary investment income**, gross of expenses, totalled Euro 2,296 million (Euro 1,784 million in 2006) and the relative expenses totalled Euro 829 million (Euro 843 million in 2006).

## RESULT FOR THE FINANCIAL YEAR

The **result for ordinary activity, non-life and life**, was positive amounting to Euro 5,447 million (Euro 5,757 million in 2006), with a decrease of 5.4%.

The **result for extraordinary activity** totalled Euro 1,467 million, reflecting an increase (+55.9%) compared to Euro 941 million in 2006.

**Income taxes** for the period totalled Euro 1,585 million (Euro 1,537 million in 2006).

Despite the contribution of the reduction in technical account results (above all in life classes), the extraordinary activity determined a profit of Euro 5,329 million for the financial year 2007, increasing by 3.3% compared to Euro 5,161 million in 2006. The profit totalled 5.5% of premiums (4.9% in 2006). The ROE, calculated as the ratio between net profit and the centred mean of the capital stock and of equity reserves, was equal to 12.4%, increasing compared to 2006 (11.4%).

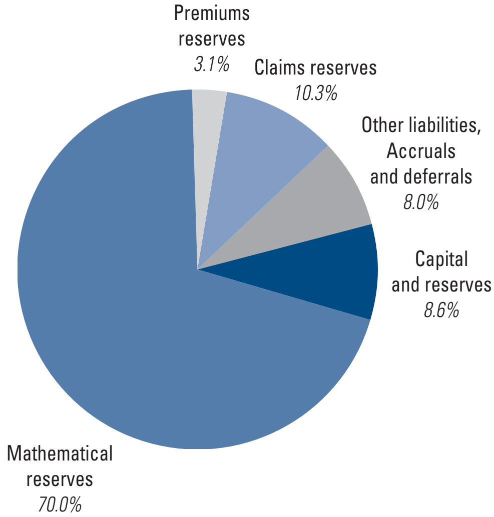
## BALANCE SHEET

### Liabilities

The total liabilities carried in the balance sheet amounted to Euro 539,521 million (-1.5% compared to 2006).

In particular:

– capital and reserves, equal to Euro 46,311 (8.6% of total liabilities) decreased by 7.9% compare to 2006; subscribed capital, equal to Euro 11,572 million, decreased by 13.6%, equity reserves, equal to Euro 29,409 million, decreased by 7.6% compared to 2006.

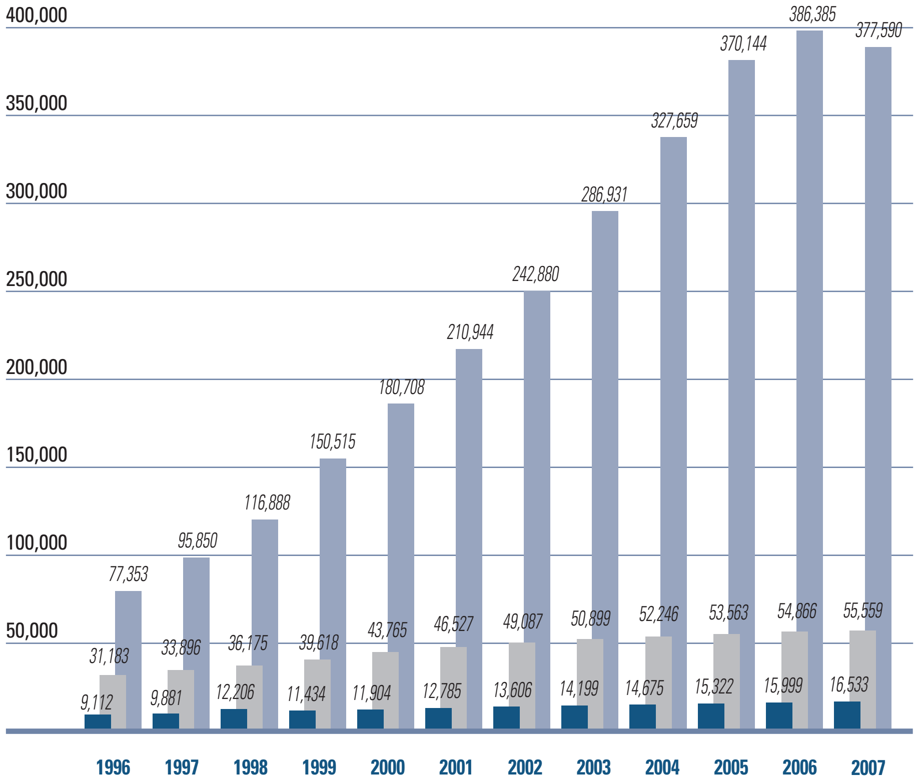



**539,521 Euro million**

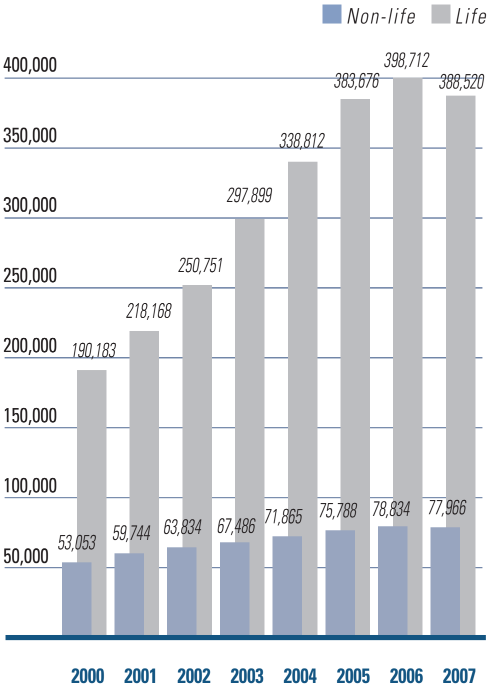
*BREAKDOWN OF LIABILITIES (%) - 2007*

# The Italian insurance market: key figures 2007

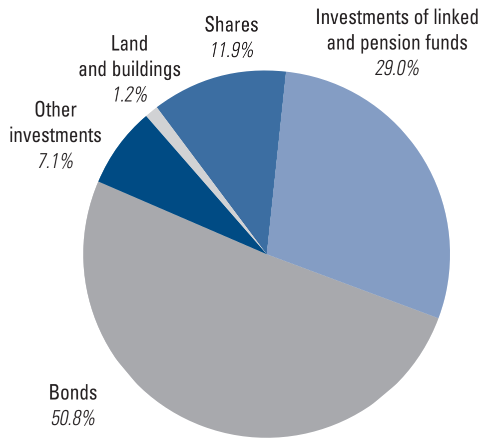
TOTAL TECHNICAL PROVISIONS
Euro million




TOTAL INVESTMENTS*
Euro million




(*) Net of professional reinsurers




**472,755 Euro million**

BREAKDOWN OF INVESTMENTS (%) - 2007

However, it must be noted that the fall in capital and reserves recorded in 2007 was influenced by operations of corporate reorganization of primary insurance groups that resulted in an uneven accounting of this item from the previous year; without these transactions the capital and reserves would have increased, 1.3% compared to 2006.

– technical provisions, representing commitments undertaken on behalf of the insured were equal to Euro 449,682 million and recorded a decrease of 1.7% compared to 2006; they represented 83.3% of the total. Life reserves, weighing for 70.0% on the total, decreased by 2.3%, while non-life reserves (claims and premiums) grew by 1.7%
– the other liabilities, equal to Euro 42,912 million (8.0% of the total), increased by 9.0% compared to the previous year, and the breakdown for this item was as follows: subordinated liabilities increased by 29.3% (from Euro 4,725 million to Euro 6,110 million) and deposits received from reinsurers increased by 1.2% (from Euro 12,999 million to Euro 13,149 million). Funds for risks and charges (Euro 2,131) decreased by 3.4%, whereas debts and other liabilities increased by 10.8%, from Euro 19,423 million to Euro 21,522 million;
– Accrual and deferral totalled Euro 616 million (0.1% of the total).

## Assets

Investments, reinsurance share of technical provisions, amounts owed by debtors, other assets, accruals and deferred income amounted to Euro 539,521 million, equalling to the total amount of liabilities.

*BALANCE SHEET*
*Euro million*

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | **338,346** | **378,192** | **429,890** | **475,716** | **526,899** | **547,569** | **539,521** |
| CAPITAL AND RESERVES | 35,093 | 37,401 | 41,342 | 44,780 | 51,301 | 50,297 | 46,311 |
| *Subscribed capital* | *9,512* | *9,961* | *10,529* | *10,991* | *12,982* | *13,402* | *11,572* |
| *Equity reserves* | *22,704* | *23,930* | *27,033* | *28,621* | *32,463* | *31,837* | *29,409* |
| *Profit for the financial year* | *2,877* | *3,510* | *3,780* | *5,169* | *5,857* | *5,058* | *5,330* |
| TECHNICAL PROVISIONS | 270,256 | 305,573 | 352,029 | 394,581 | 439,029 | 457,250 | 449,682 |
| *Non-life classes* | *59,312* | *62,693* | *65,098* | *66,921* | *68,885* | *70,865* | *72,092* |
| *Life classes* | *210,944* | *242,880* | *286,931* | *327,659* | *370,144* | *386,385* | *377,590* |
| OTHER LIABILITIES | 32,674 | 34,920 | 36,203 | 35,989 | 36,141 | 39,352 | 42,912 |
| *Subordinated liabilities* | *1,487* | *1,990* | *2,666* | *2,862* | *3,295* | *4,725* | *6,110* |
| *Provisions for risks and charges* | *1,524* | *2,045* | *2,189* | *2,105* | *2,219* | *2,206* | *2,131* |
| *Deposits received from reinsurers* | *11,682* | *13,011* | *13,231* | *12,876* | *12,994* | *12,999* | *13,149* |
| *Debts and other liabilities* | *17,981* | *17,874* | *18,117* | *18,146* | *17,632* | *19,423* | *21,522* |
| ACCRUALS AND DEFERRALS | 323 | 298 | 316 | 366 | 428 | 670 | 616 |
| **ASSETS** | **338,346** | **378,192** | **429,890** | **475,716** | **526,899** | **547,569** | **539,521** |
| AMOUNTS OWED BY SHAREHOLDERS | 99 | 84 | 45 | 15 | 3 | 25 | 30 |
| INTANGIBLE ASSETS | 2,469 | 2,792 | 3,707 | 4,262 | 3,947 | 3,839 | 3,549 |
| INVESTMENTS: | 283,381 | 320,069 | 370,814 | 416,322 | 465,109 | 483,143 | 472,755 |
| *Land and buildings* | *7,798* | *5,484* | *4,534* | *4,842* | *5,805* | *5,933* | *5,836* |
| *Shares and holdings* | *40,478* | *40,145* | *43,763* | *48,793* | *54,096* | *55,532* | *56,254* |
| *Bonds and other fixed income securities* | *140,530* | *161,343* | *186,564* | *208,051* | *235,036* | *252,727* | *239,988* |
| *Loans and deposits* | *24,977* | *28,342* | *28,837* | *30,460* | *33,603* | *29,100* | *33,342* |
| *Investments for the benefit of life insurance policyholders and the investments deriving from the management of pension funds* | *69,598* | *84,755* | *107,116* | *124,176* | *136,569* | *139,852* | *137,335* |
| TECHNICAL PROVISIONS BORNE BY THE REINSURERS | 21,499 | 22,003 | 21,789 | 20,753 | 21,072 | 20,770 | 20,694 |
| AMOUNTS OWED BY DEBTORS | 18,696 | 19,915 | 20,333 | 21,020 | 21,529 | 22,381 | 23,675 |
| OTHER ASSETS | 9,715 | 10,585 | 10,198 | 10,149 | 11,652 | 13,168 | 14,477 |
| ACCRUALS AND DEFERRED INCOME | 2,487 | 2,744 | 3,004 | 3,194 | 3,587 | 4,242 | 4,341 |

In particular:

– investments reached Euro 472,755 million, representing 87.6% of total assets. Insurance companies only engaging in reinsurance activities were excluded since the relative balance sheet format does not provide for a division between life and non-life classes; therefore, excluding reinsurance business, investments in non-life classes were equal to Euro 77,966 million (-1.1% compared to 2006) and investments in life classes were equal to Euro 388,520 million (-2.6% decrease compared to 2006).

The highest increase (+14.6%) was recorded by investments in loans and deposits with Euro 33,342 million; followed by investments in shares and holdings (+1.3%) with Euro 56,254 million, investments in land and buildings (-1.6%) with Euro 5,836 million and investments in bonds and other fixed income securities that, with Euro 239,989 million register a contraction (-5.0%) compared to 2006. Investments for the benefits of life insurance policyholders, equal to Euro 137,335 million, decreased by 1.8%;

- the technical provisions borne by reinsurers amounted to Euro 20,694 million, remained substantially steady and represent 3.8% of the total assets;
- amounts owed by debtors were equal to Euro 23,675 million (4.4% of the total), with an increase of 5.8%. These refer to amounts owed deriving from direct insurance activities (Euro 11,756 million), amounts owed deriving from reinsurance activities (Euro 2,331 million), and other amounts owed (Euro 9,587 million);
- amounts owed by shareholders (Euro 30 million), intangible assets (Euro 3,549 million composed of commissions and other expenses) and other assets (Euro 14,477 million) reached a total of Euro 18,056 million (3.3% of the overall amount), thus recording an 6.0% increase;
- accrual and deferred income amounted to Euro 4,341 million (0.8% of the total), reaching 2.3%.

### THE SOLVENCY MARGIN

At the end of 2007 insurance companies with registered office in Italy, excluding reinsurers, owned a solvency margin of Euro 40.3 billion for their total assets in the life and non-life sectors, decreasing compared to the previous year.

For life business, the margin (Euro 22.7 billion) was equal to 1.91 times the minimum requirement (Euro 11.9 billion), determined in terms of mathematical provisions and capital at risk. The ratio had been 2.03 in 2006 and 2.08 in 2005.

For non-life business the margin owned (Euro 17.6 billion) was 2.72 times the minimum requirement (Euro 6.5 billion), determined in terms of the amount of premiums written and the average cost of claims in the last three years (taking the higher result of the two criteria). After years of continuous growth, the value of 2007 is back to the level of 2001.

As previously stated, it should be noted that the drop in the solvency margin owned, both in non-life and life, has been affected by certain corporate restructuring operations of primary insurance groups occurred during 2007, which led to an accounting rewriting in equity on a basis which is inconsistent with that of the previous year.

*SOLVENCY MARGIN 2000-2006*
*(EXCLUDING REINSURERS)*
*Euro million*

| LIFE | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Solvency margin | 17,512 | 18,418 | 20,000 | 20,954 | 23,999 | 24,435 | 22,722 |
| Solvency margin required by law | 7,034 | 7,986 | 9,132 | 10,266 | 11,544 | 12,041 | 11,890 |
| Cover ratio | 2.49 | 2.31 | 2.19 | 2.04 | 2.08 | 2.03 | 1.91 |
| **NON-LIFE** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** |
| Solvency margin | 12,927 | 14,792 | 15,615 | 17,308 | 20,826 | 20,382 | 17,585 |
| Solvency margin required by law | 4,938 | 5,138 | 5,356 | 5,825 | 6,095 | 6,263 | 6,473 |
| Cover ratio | 2.62 | 2.88 | 2.92 | 2.97 | 3.42 | 3.25 | 2.72 |

*Source: ISVAP*

## THE PROFITABILITY OF THE INSURANCE INDUSTRY

The insurance industry's return on equity (defined as the ratio of profit to average shareholders' equity net of profit) rose from 11.4% in 2006 to 12.4% in 2007 (Figure 1). However, this outcome was influenced by differences in recording shareholders' equity with respect to 2006 as a result of corporate reorganization within leading insurance groups during the year. If these restructurings had not taken place, ROE would have been 11.8%, barely higher than in 2006.

In the non-life sector (excluding pure reinsurers) ROE rose by almost three percentage points, from 11.6% to 14.4%. After the differences in recording shareholders' equity, this was due mainly to the improvement in the result on ordinary activities. In particular, the profitability of insurance operations (gauged by the ratio of the result on these operations to the technical provisions) improved by 0.5 percentage points, turning positive. There was also an increase in the profitability of extraordinary operations (ratio of the result on extraordinary operations to shareholders' equity).

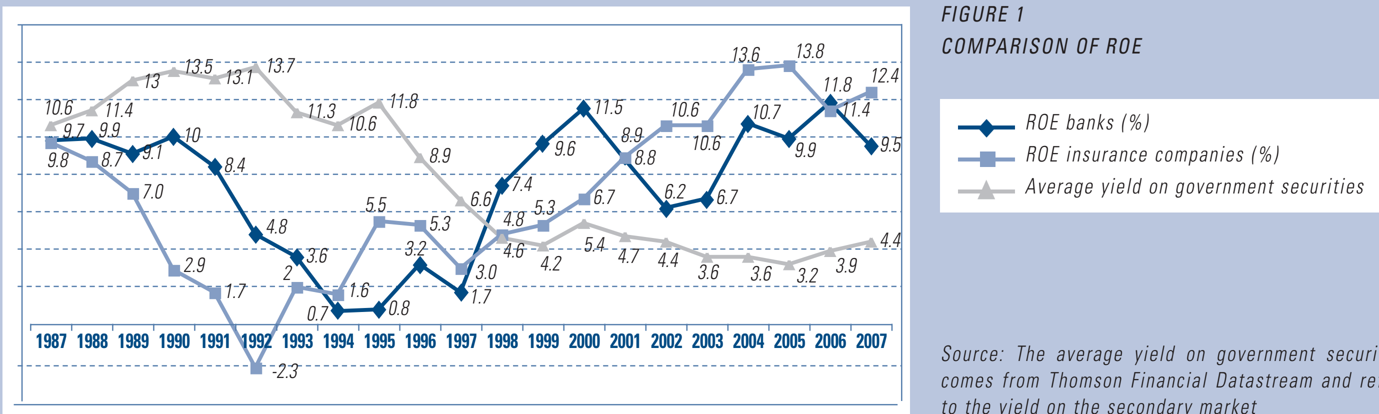



*FIGURE 1*
*COMPARISON OF ROE*

*Source: The average yield on government securities comes from Thomson Financial Datastream and refers to the yield on the secondary market*

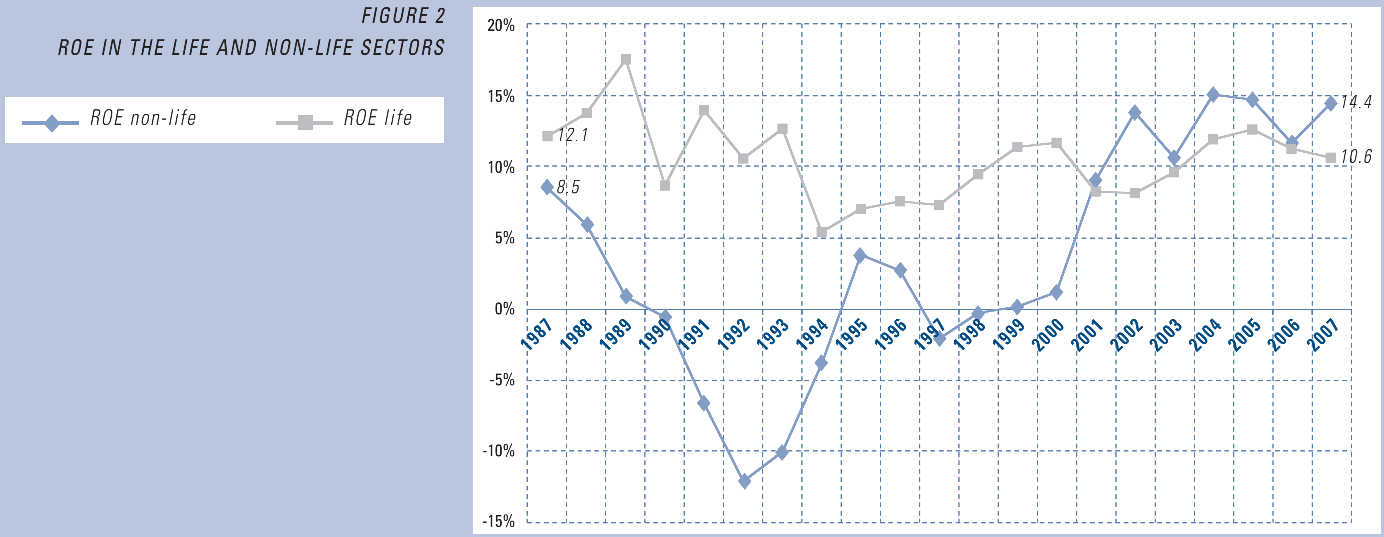
In the life sector (again excluding pure reinsurers) ROE fell from 11.2% to 10.6%. This was determined by the decline of 1.2 percentage points in the return on investment. The result on extraordinary operations showed a slight improvement.

Whereas ROE had been practically the same in the insurance and banking industries in 2006, the figure for banks last year (9.5%) was more than two percentage points lower than that of insurance companies. In the last ten years insurance companies' ROE averaged 9.8%, slightly higher than that of banks (9.2%) and well above the average yield on government securities (4.2%).

ROE in the two main insurance sectors of the insurance market displays differing trends since 1987 (Figure 2). Through 2001 profitability was always higher in the life sector. Since then, thanks to the progressive improvement in the technical account, the performance of the non-life has surpassed that of the life sector, with ROE reaching 14.4% in 2007.

In the **life sector**, over period 1987-2007 we find a cyclical pattern of profitability correlated with the performance of the financial markets. High ROE in the late 1980s, in correspondence with high inflation, was followed by a steady decline in the early 1990s, to 5.4% in 1994. Subsequently, low inflation and the growth of the stock markets fostered the supply of new products having a large financial component, which boosted the volume of business of the Italian life market and enhanced its competitiveness vis-à-vis the other main European countries. ROE rose from 5.4% in 1994 to 11.3% in 2000. This stands out more clearly if we compare ROE in the life sector with the Italian

*FIGURE 2*
*ROE IN THE LIFE AND NON-LIFE SECTORS*



stock exchange's MIB index (Figure 3): there is a positive correlation between the performance of the two indicators from the second half of the 1990s on, coinciding with the distribution of the new products with a large financial component.

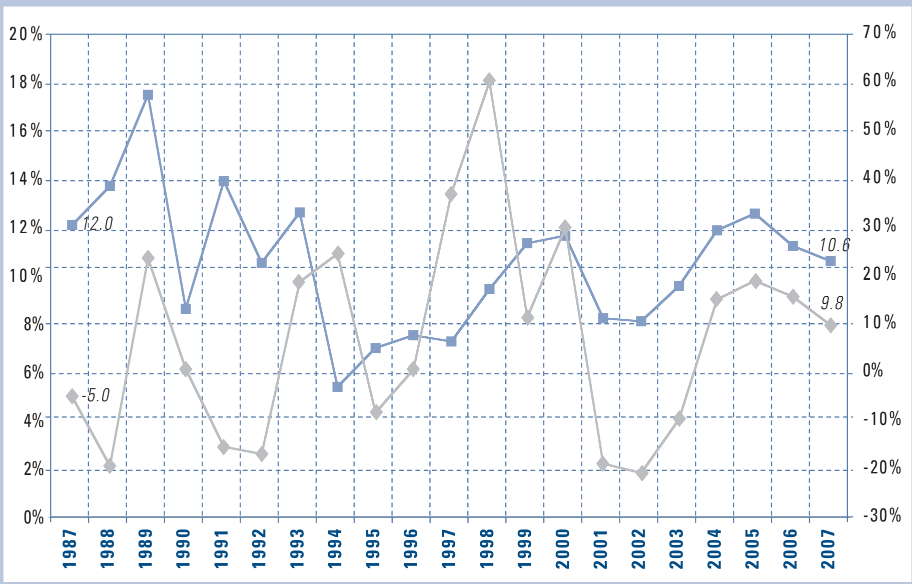



*FIGURE 3*
*ROE IN THE LIFE SECTOR AND CHANGE IN MIB INDEX*

*ROE life sector*
*% change in MIB (right-hand scale)*

ANIA has also analyzed ROE in the life sector by company size, the latter gauged by total technical provisions at 31 December 2007 (Figure 4). ROE was lower in 2007 than in 2006 in all the size classes except the smallest. ROE was above the sectoral average only for the 12 large companies (with technical provisions of more than Euro 10 billion), which account for more than 75% of total provisions, but for these companies it still slipped from 12.3% in 2006 to 11.6% in 2007.

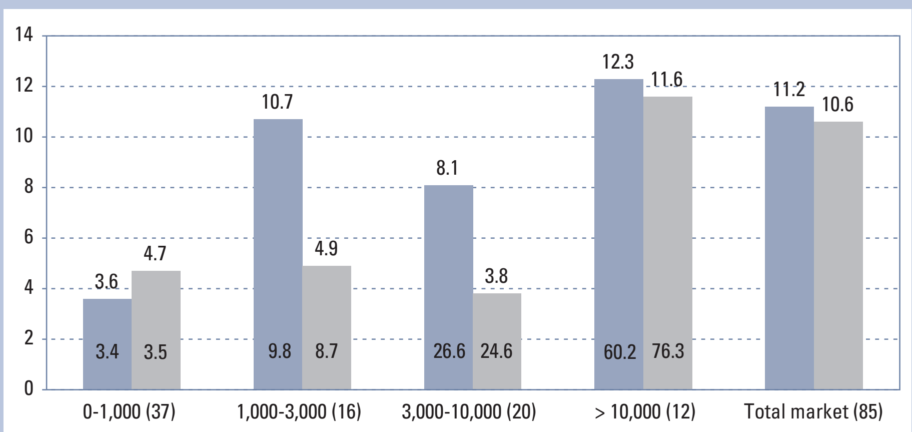


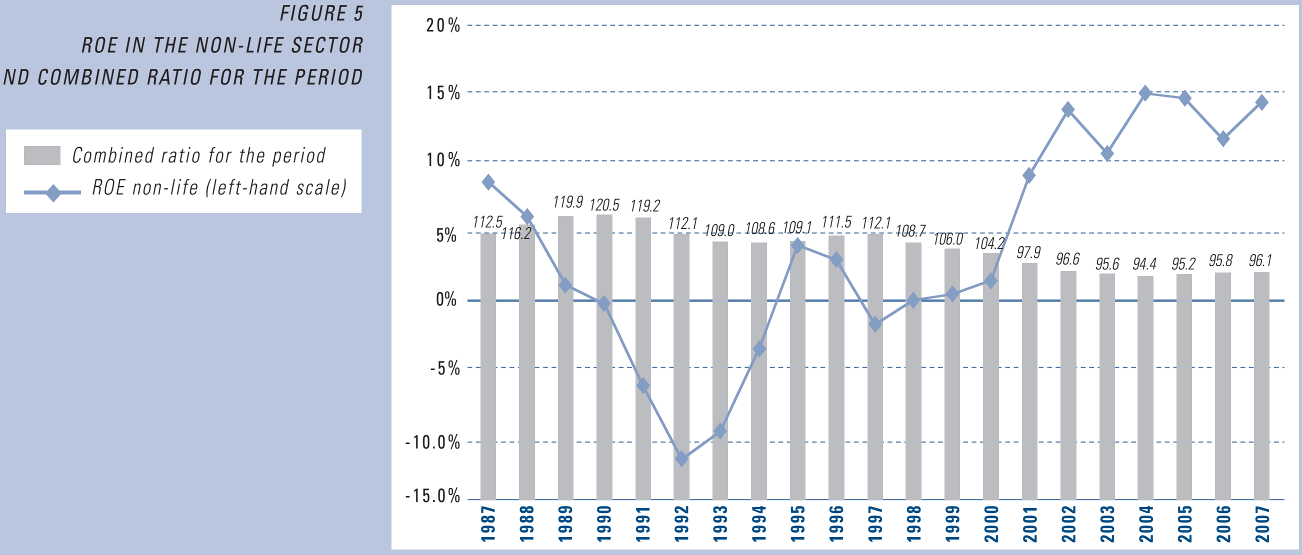

*FIGURE 4*
*ROE BY SIZE CLASS OF TECHNICAL PROVISIONS, LIFE MARKET*
*(Euro million and %)*

*2006* *2007*

*The figures in brackets give the number of companies in each class, those inside the histogram the class's market share*

In the **non-life sector**, a company's capacity to create value depends primarily on insurance operations and, less than in the life sector, on ordinary financial operations. In this respect it is interesting to compare the time series of non-life ROE with that of the combined ratio for the period (Figure 5). Between 1987 and 1992 ROE plunged by more than 20 percentage points to a low of minus 12% in 1992, while the combined ratio showed very high levels and even topped 120%.

*FIGURE 5*
*ROE IN THE NON-LIFE SECTOR AND COMBINED RATIO FOR THE PERIOD*




After the negative results for the first half of the 1990s, ROE in the non-life sector remained close to zero in the years from 1995 to 2000. In short, for over a decade non-life insurance companies recorded negative profitability, destroying shareholder value. It was not until 2001 that ROE began to improve. In the last seven years it has fluctuated between 10% and 15% as a result of the equilibrium achieved in underwriting business, reflected in the combined ratio remaining consistently below the threshold of 100%. In 2007 ROE rose to 14.4% (from 11.6% in 2006), in correspondence with a combined ratio of 96.1%, slightly worse than in 2006 (95.8%).

As with the life sector, ANIA has also analyzed non-life ROE by company size, this time proxied by the volume of premiums written (Figure 6). In 2007 ROE fell in every size class except that of the largest companies (premiums greater than Euro 1 billion). As in 2006, ROE was lowest for the smallest companies (2.4%).

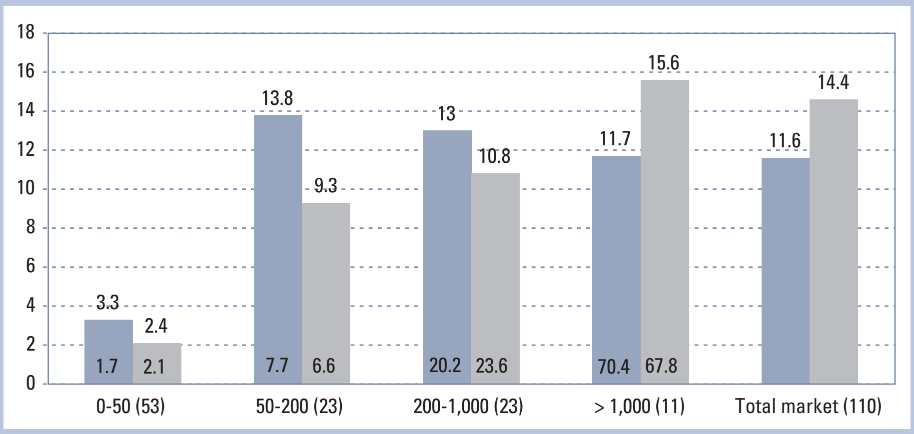



*FIGURE 6*
*ROE BY SIZE CLASS OF PREMIUMS WRITTEN, NON-LIFE MARKET*
*(Euro million and %)*

*The figures in brackets give the number of companies in each class, those inside the histogram the class's market share*

## THE INTERNATIONAL SETTING

In 2006 premiums written worldwide totalled USD 3,723 billion reflecting an increase of 5.0% in real terms, quite similar to that of the previous year.

Life insurance premiums totalled USD 2,209 billion, up by 7.7% in real terms (+5.7% in 2005); non-life premium volume grew by 1.5% in real terms (+3.9% in 2005), to USD 1,514 billion.

Life premium collection continued to record a strong expansion in Europe (+12.4%, against +9.1% in 2005) and in the emerging countries of Africa (+21.6%) and Latin America (+14.1%).

In the non-life sector, premiums increased by 1.0% in the United States, the biggest non-life market, and by 0.5% in Europe. There were strong increases in Latin America (+10.0%), but also in Africa (+6.2%) and in Asia (+4.4%).

*PREMIUMS IN 2006*
*Dollar million*

| | LIFE | NON-LIFE | TOTAL |
|---|---|---|---|
| North America | 572,860 | 685,440 | 1,258,300 |
| Latin America | 28,923 | 42,505 | 71,428 |
| Europe | 940,586 | 544,295 | 1,484,881 |
| Asia | 602,266 | 198,553 | 800,819 |
| *of which: Japan* | *362,766* | *97,495* | *460,261* |
| Africa | 35,468 | 14,200 | 49,668 |
| Oceania | 29,214 | 29,102 | 58,316 |
| **Total** | **2,209,317** | **1,514,095** | **3,723,412** |

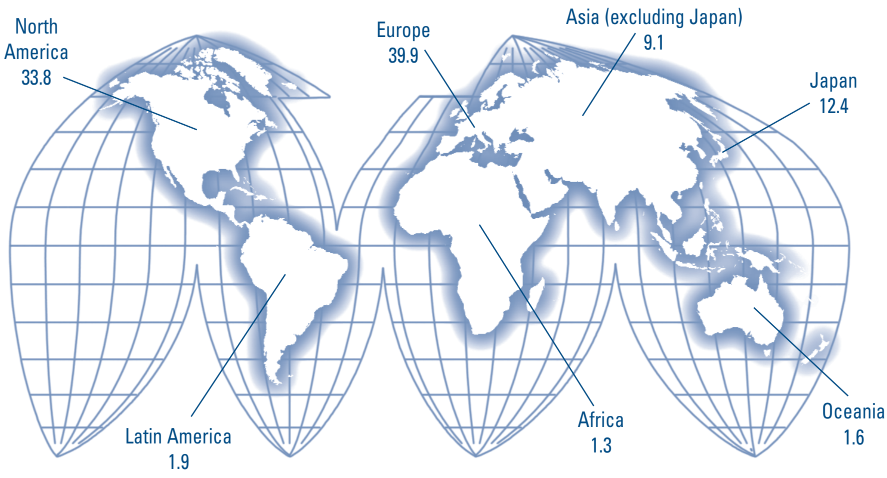
*Source: Swiss Re - SIGMA*

*REAL GROWTH RATE IN 2006 (%)*

| | LIFE | NON-LIFE | TOTAL |
|---|---|---|---|
| North America | 3.8 | 1.0 | 2.2 |
| Latin America | 14.1 | 10.0 | 11.6 |
| Europe | 12.4 | 0.5 | 7.5 |
| Asia | 3.6 | 4.4 | 3.8 |
| *of which: Japan* | *-2.0* | *0.3* | *-1.5* |
| Africa | 21.6 | 6.2 | 17.5 |
| Oceania | 6.1 | -1.5 | 2.2 |
| **Total** | **7.7** | **1.5** | **5.0** |

*Source: Swiss Re - SIGMA*

*WORLDWIDE DIRECT INSURANCE IN 2006 - MARKET SHARES*




*Source: Swiss Re - SIGMA*

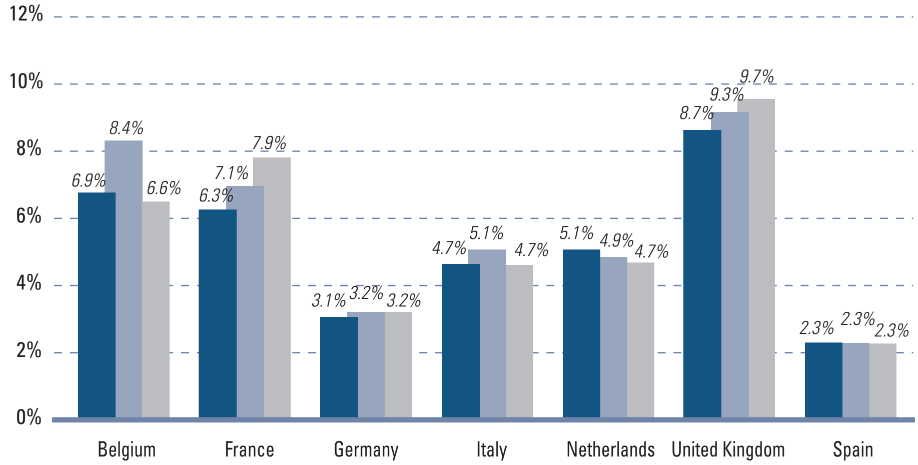
## THE IMPORTANCE OF INSURANCE BY COUNTRY

Between 2004 and 2006 the ratio of premium volume to GDP – the insurance "penetration" index – moved differently in the life and non-life sectors.

With regard to the life sector, the ratio increased gradually in France, passing from 6.3% in 2004 to 7.9% in 2006, and in the United Kingdom (from 8.7% in 2004 to 9.7% in 2006). The ratio remained almost steady in Germany (3.2%) and in Spain (2.3%). In the three-year period observed, the Netherlands recorded a gradual reduction of the indicator, passing from 5.1% in 2004 to 4.7% in 2006, whereas Belgium and Italy were characterized by a variable trend; in particular, in Italy the indicator was equal to 4.7% in 2006, the same value in 2004 but down from 5.1% in 2005.

*LIFE PREMIUMS / GDP (%)*

*2004* *2005* *2006*

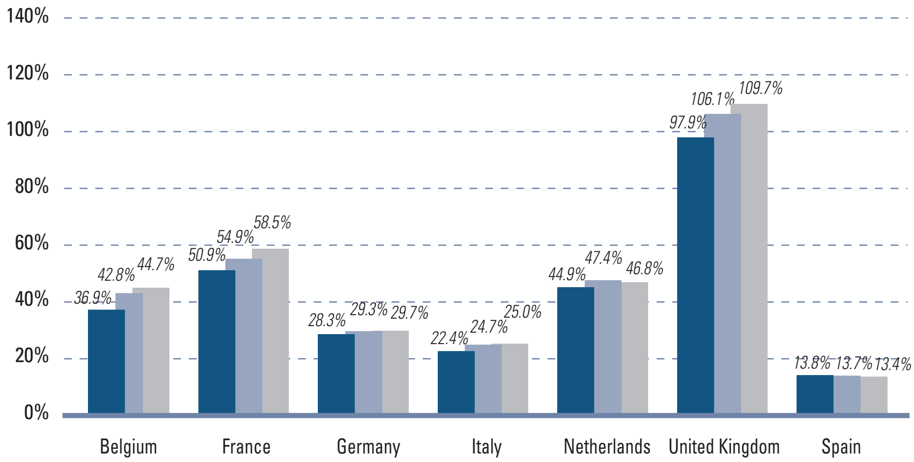



*Source: CEA*

Between 2004 and 2006 the ratio of life insurance provisions to GDP – an indicator that proxies for the degree of maturity of the life insurance market – rose in Italy from 22.4% to 25.0%; despite the increase, the ratio remained lower than in the other European countries except Spain, where it was equal to 13.4% in 2006, in slight decrease compared to the previous year. The indicator also remained lower than 30% in Germany; higher figures were registered in the United Kingdom (109.7%), France (58.5%), the Netherlands (46.8%) and Belgium (44.7%).

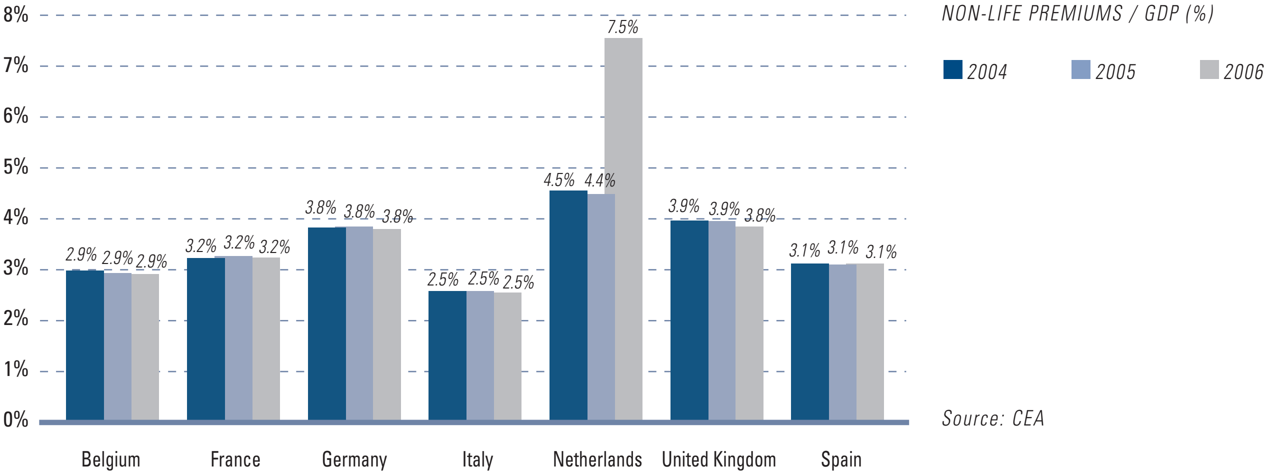
*MATHEMATICAL PROVISIONS / GDP (%)*

*2004* *2005* *2006*




*Source: CEA*

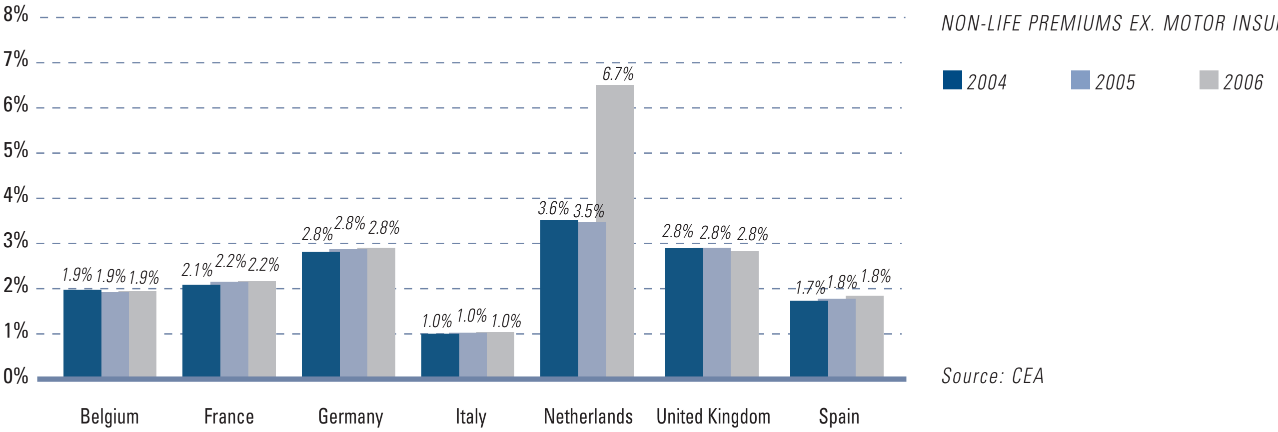
In non-life insurance Italy still had the lowest ratio of premiums to GDP at 2.5%, substantially steady in the three-year period. The gap with the other countries held practically unchanged; in particular, in 2006, half a percentage point vis-à-vis Belgium, more than half a percentage point vis-à-vis France and Spain and more than a percentage point vis-à-vis Germany and the United Kingdom. The only exception was the Netherlands, where the gap increased from two to five percentage points as a result of the recent reform of the health system, which strongly increased the spread of health policies.




*NON-LIFE PREMIUMS / GDP (%)*

*Source: CEA*

The gap between Italy and other European countries increases, in terms of the non-life insurance "penetration" index, excluding motor premiums. It allows to clearly compare propensity to take out insurance, as motor class is mandatory by law everywhere. In the three-year period the ratio was equal to 1.0% in Italy, while other countries registered values on average two times higher (as in Belgium, France and Spain) or more, as in Germany, the Netherlands and the United Kingdom.




*NON-LIFE PREMIUMS EX. MOTOR INSURANCE / GDP (%)*

*Source: CEA*

# The Italian insurance industry in the international setting

## THE MAIN MARKETS IN THE EUROPEAN UNION

Insurance companies in the first 15 EU member states wrote premiums for Euro 986,222 million in 2006, an increase of 7.1% (+8.4% in 2005). The sharpest gains were recorded by the Netherlands (+36.8%), Luxembourg (+15.6%), France (+12.7%), Greece (+10.5%) and Ireland (+9.7%); in terms of premiums volume, the growth was also substantial in the United Kingdom and Spain (7.9% and 8.9% respectively). The only countries characterized by negative rates were Belgium (-12.4%), Italy (-3.0%) and Portugal (-2.4%).

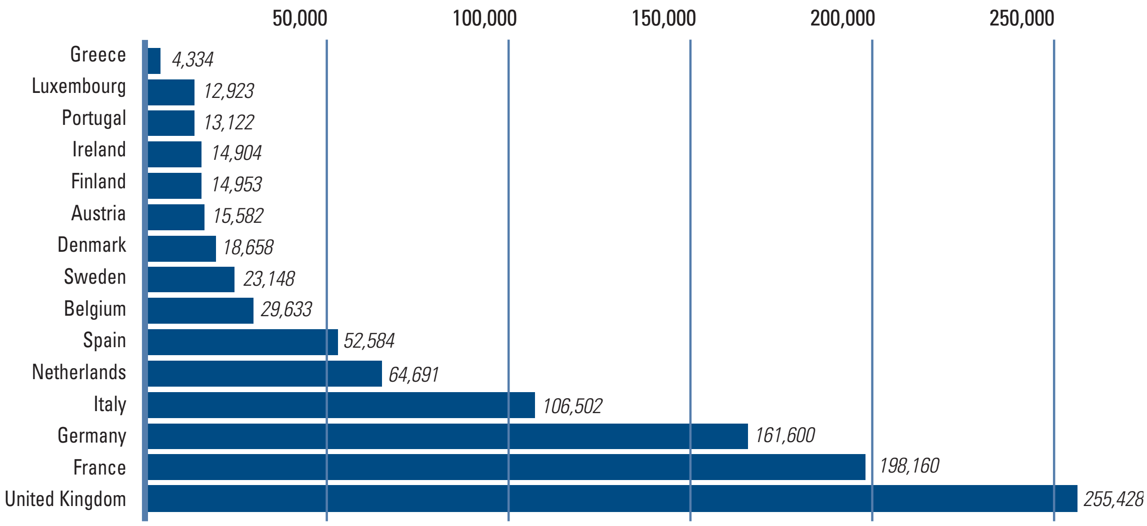
Life insurance premiums totalled Euro 617,025 million in 2006 with an increase of 6.6% compared to the previous year, less than the 11.6% recorded in 2005. In particular a substantial growth was registered in Greece (+17.5%), in France and Luxembourg (+17.0%), in Ireland (+12.9%) and in the United Kingdom (+10.1%); Italy, Belgium and Portugal were characterized by a decrease (equal to -5.6%, -18.0% and -4.1% respectively).

Non-life premiums totalled Euro 369,197 million with an increase of 7.9%, up from 3.6% in 2005. Positive contributions to the growth of non-life premium volume came from the Netherlands (+76.6%), Spain (+8.4%), France (+3.2%), the United Kingdom (+2.6%), Italy (+2.2%) and Germany (+1.8%).

*DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2006*

*TOTAL*

*Euro million*

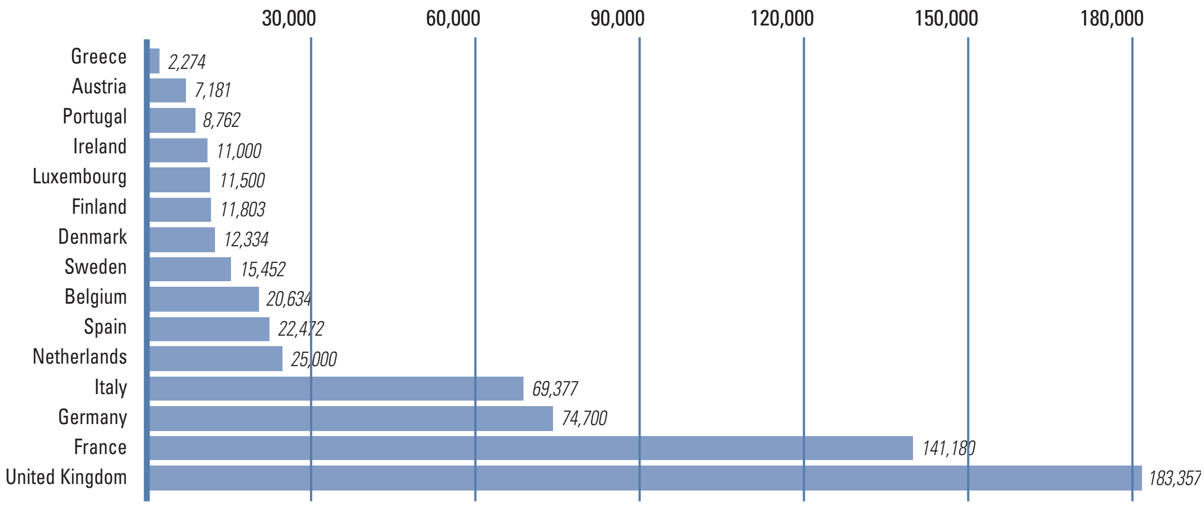



*Source: CEA*

*DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2006*

*LIFE*

*Euro million*

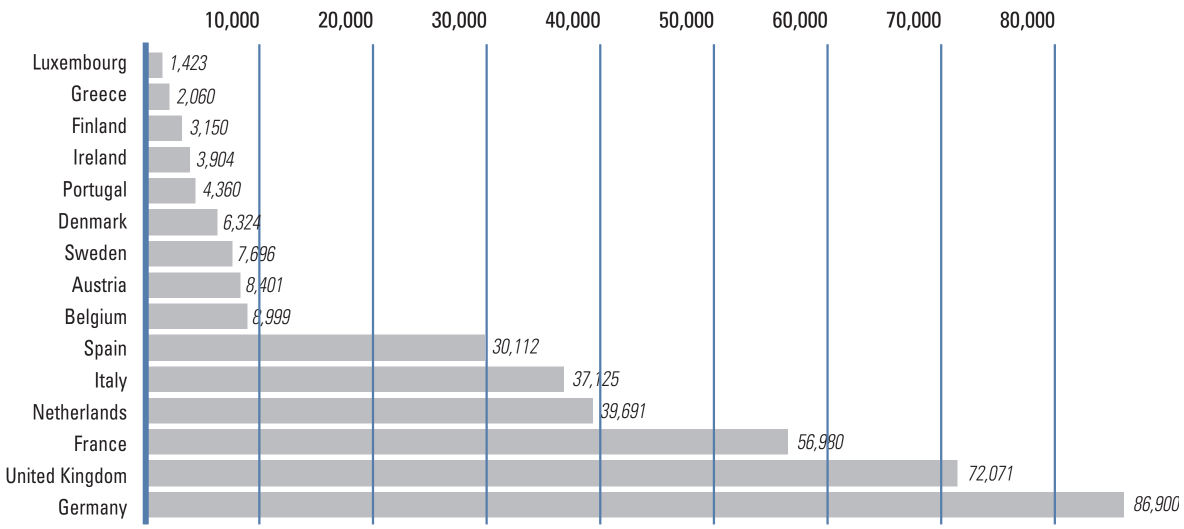



*Source: CEA*

*DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2006*

*NON-LIFE*

*Euro million*




*Source: CEA*

## TAXATION OF PREMIUMS IN THE EUROPEAN UNION

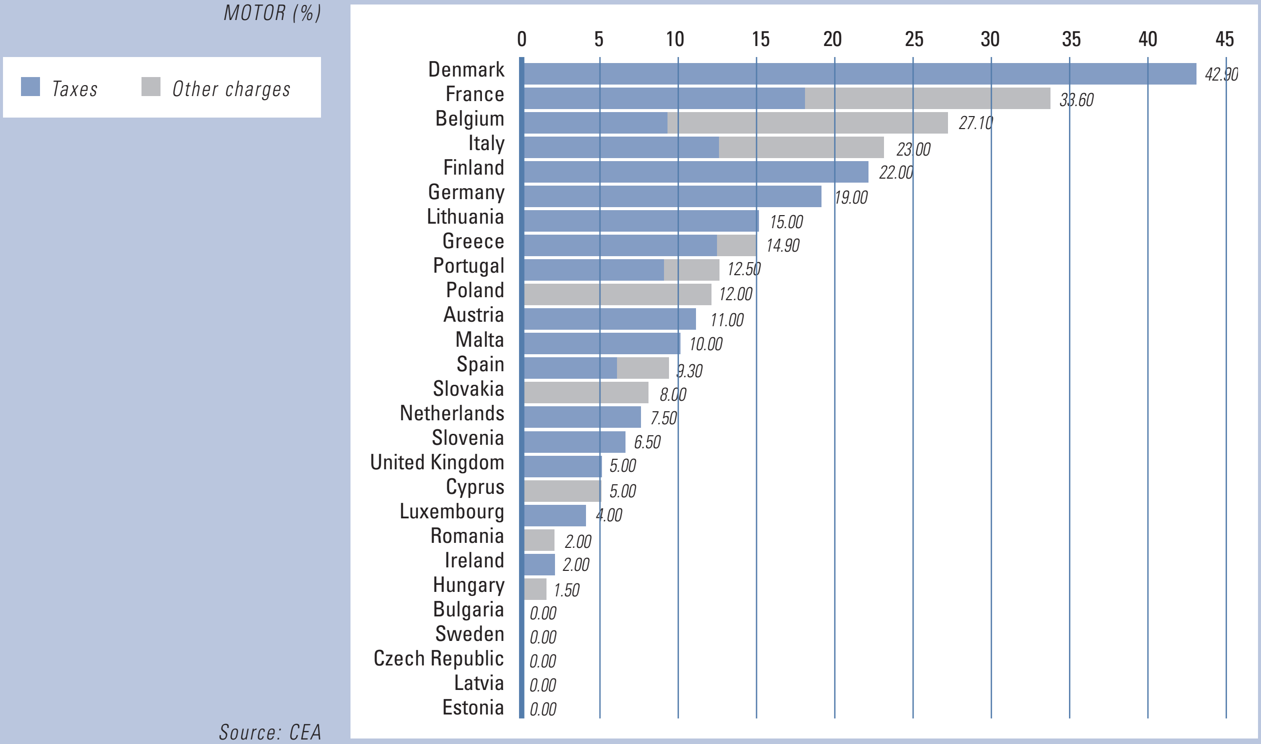
The incidence of indirect taxation on insurance premiums in Italy is one of the highest registered in the EU. In particular, in motor insurance taxes amount to 23% of premiums, as opposed to a European average of 17%; it is higher than in the United Kingdom (5%) and in Germany (19%), but lower than in France (33.6%).

The tax rate on fire insurance premiums, at 22.25%, is higher than in Germany and the United Kingdom (14% and 5% respectively), but lower than in France (30%).

The tax rate on Italian general liability insurance premiums is the highest in Europe (22.25%), in particular surpassing the tax rates applied in Germany (19%), in France (9%) and in the United Kingdom (5%).

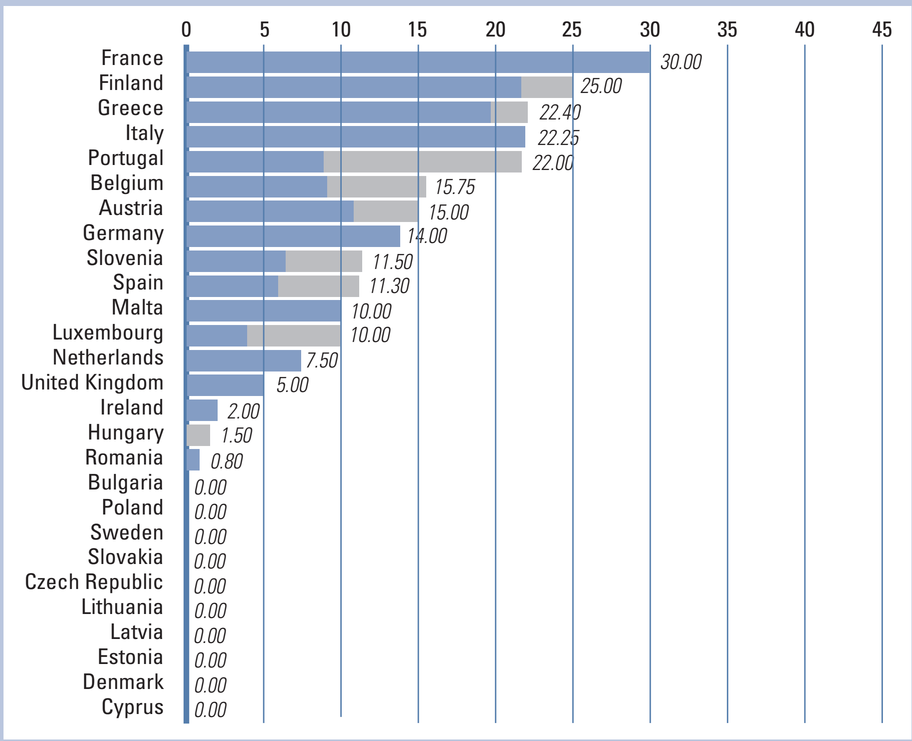
Shipping insurance premiums are taxed at 7.5% for goods transported by sea and by air and at 12.5% for those transported by land. Finland is the country presenting the most burdensome tax regime for this line of business (22%), followed by Germany (19%) and Greece (12.4%); a 5% tax rate is applied in the United Kingdom taxations, whereas in France no such provision is established for these lines of business.

*MOTOR (%)*



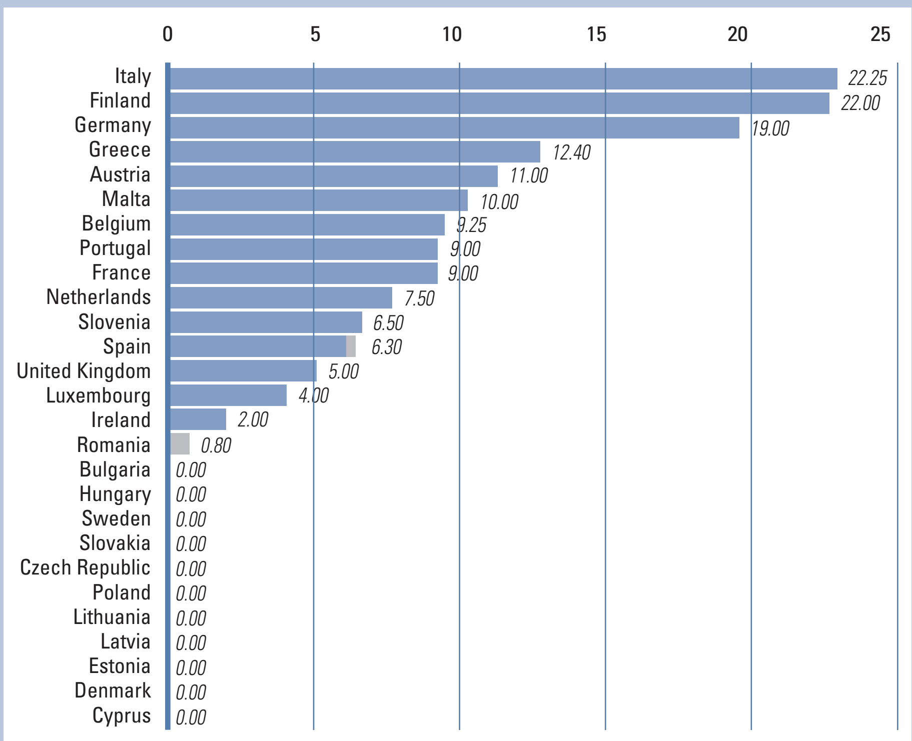

*Source: CEA*

FIRE (%)




Source: CEA

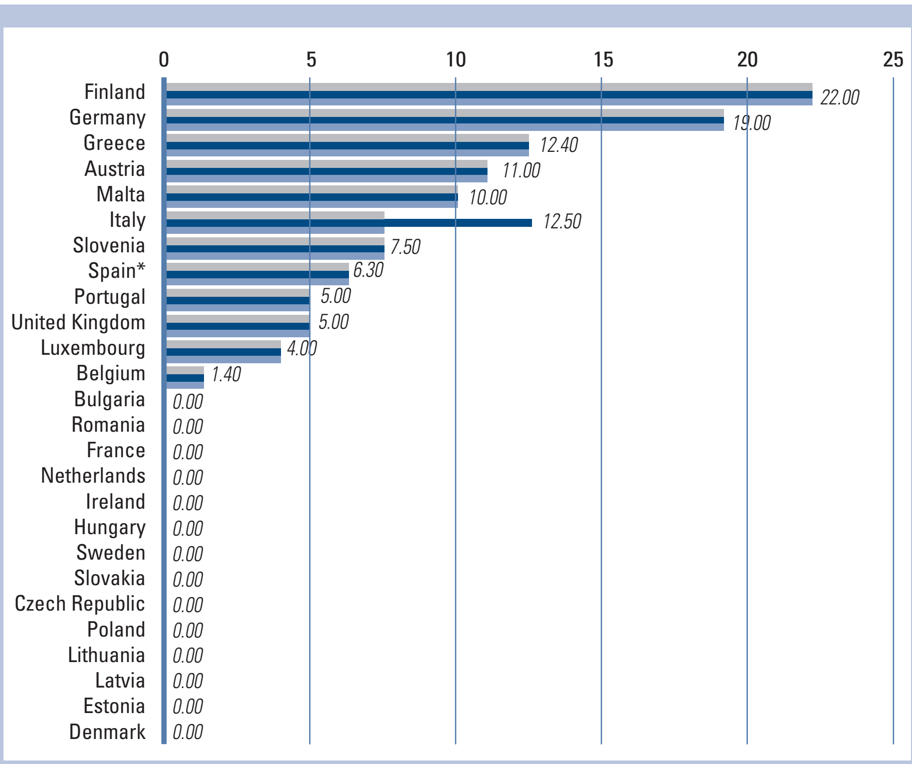
GENERAL LIABILITY (%)




Source: CEA

*GOODS IN TRANSIT – TAXES*

By air
By road
By sea




*Source: CEA*
*(*) Spain's data include taxes (6.00) and other charges (0.30)*

## INSURANCE PROFIT AND LOSS ACCOUNTS IN EUROPE

The Bureau van Dijk ISIS database gives details on the profit and loss accounts and balance sheets of European insurance companies. The database takes information from Fitch-IBCA on a sample of companies that account for more than 90 percent of the market. Here, we use it to examine comparative trends in insurance profitability in the United States, the United Kingdom, France, Germany, Spain and Italy from 2001 to 2006.

### Non-life companies

The companies doing non-life insurance business surveyed by ISIS in the countries considered in 2006 numbered 2,316: 1,654 in the United States, 152 in the United Kingdom, 95 in France, 244 in Germany, 55 in Italy and 116 in Spain.

Profitability is measured as the ratio of pre-tax profits to equity (defined as the sum of subscribed capital, reserves for own shares, revaluation reserves, other reserves and retained profits).

This summary indicator shows that Italian insurance companies' median profitability increased from 17.0% in 2005 to 18.4% in 2006. The median German ROE held steady since 2003 at a value around 10%. French median profitability rose to 17.4% in 2006, up from 16.7% in 2005 as did Spanish (21.1%, up from 18.6%) and American (12.2%, up from 10.6%). Profitability decreased from 16.4% in 2005 to 14.0% in 2006 in the United Kingdom.

We can gauge the dispersion about the median by the interquartile distance, i.e. the difference between the indicator values for the companies in the first and the third quartiles of firms ranked in increasing order of profitability.

The interquartile distance in Italy was quite large in 2006, 27 percentage points, owing to gains scored by the more profitable companies. The difference in France was 19 points, in Germany 15, in the United Kingdom 26, in the United States 16 and in Spain 22 (Figure 1).

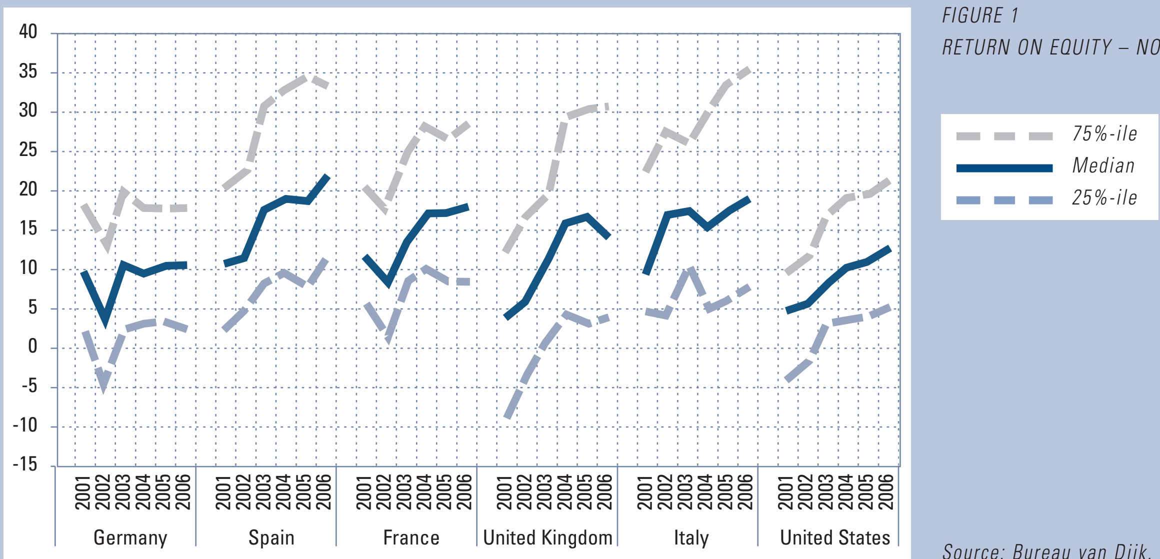
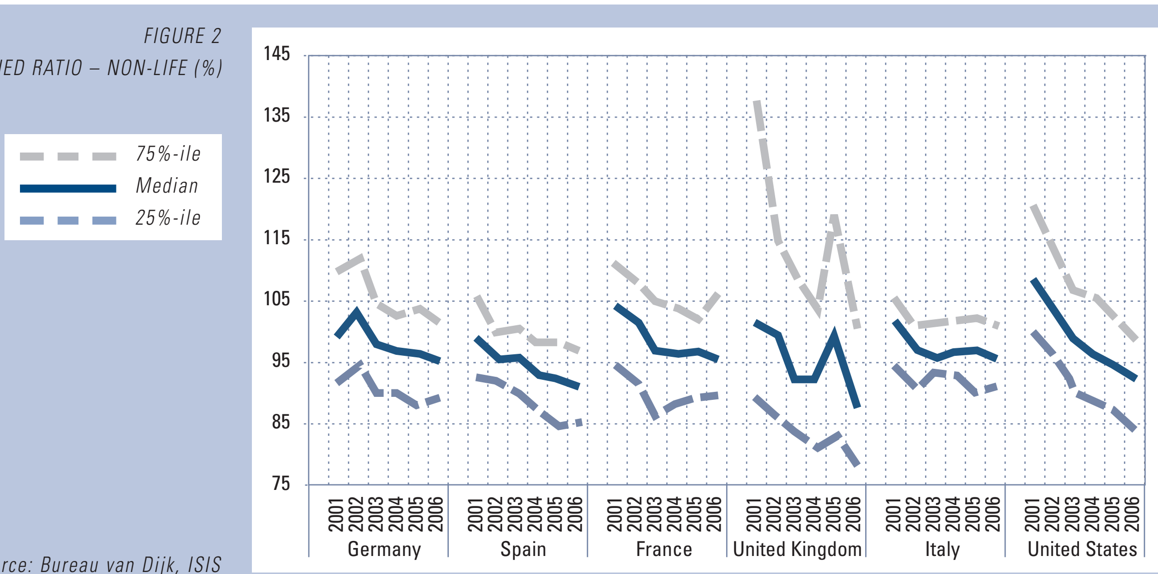



*FIGURE 1*
*RETURN ON EQUITY – NON-LIFE (%)*

*Source: Bureau van Dijk, ISIS*

The main technical indicator, the combined ratio – the sum of the loss ratio and the expense ratio – of the median Italian insurance company fell slightly from 96.8% in 2005 to 96.0% in 2006; in the United States it passed from 94.5% in 2005 to 92.7% in 2006. With the exception of the United Kingdom, where the indicator decreased to 88.0% from 99.1% in the previous year, all the other countries registered more modest decreases (1-2 percentage points). The interquartile distance of the sample companies was 10 percentage points in

FIGURE 2
COMBINED RATIO – NON-LIFE (%)

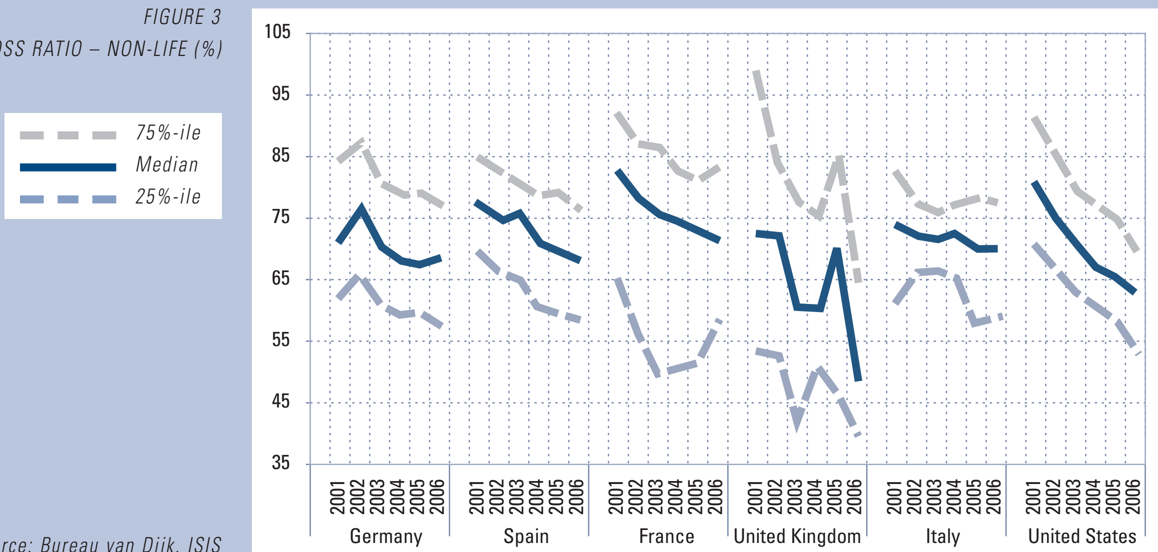



Source: Bureau van Dijk, ISIS

Italy, 16 in France, 12 in Germany, 22 in the United Kingdom, 14 in the United States and 11 in Spain (Figure 2).

Except in the United Kingdom, the change in the combined ratio in 2006 essentially reflected the trend in claims; in 2006 the indicator fell sharply in the United Kingdom (from 70.3% in 2005 to 49.2% in 2006), while reaching 63.3% in the United States; in all the other countries the indicator stabilized around an average of 70% (Figure 3). In 2006 the expense ratio was equal to 34.1% in the United Kingdom, 29.3% in the United States, around 22% in France and Spain and around 26-27% in Germany and Italy (Figure 4).

FIGURE 3
LOSS RATIO – NON-LIFE (%)




Source: Bureau van Dijk, ISIS

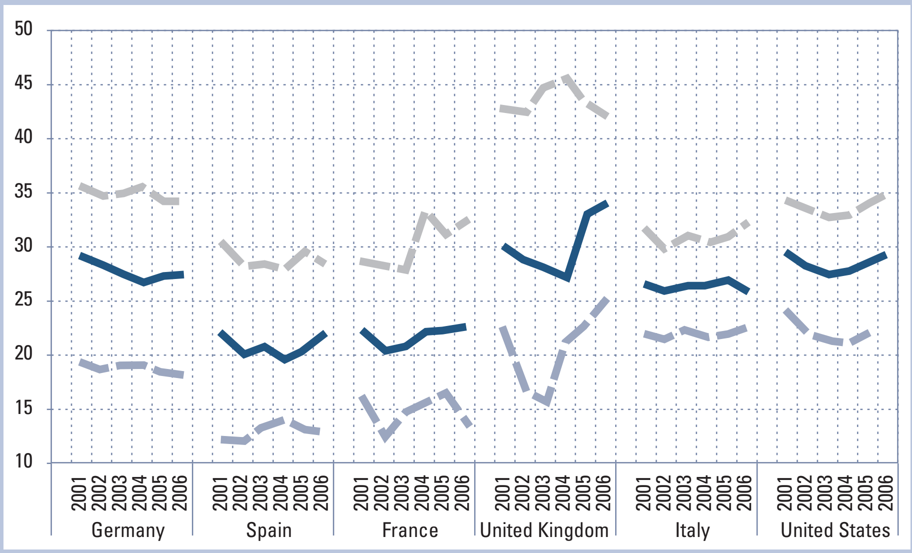



FIGURE 4
EXPENSE RATIO – NON-LIFE (%)

Source: Bureau van Dijk, ISIS

In 2006 the return on investment for the median company held virtually steady with respect to the previous year in Germany (3.9%), in France (3.0%) and in Italy (3.1%); it slightly decreased in Spain (from 2.5% in 2005 to 2.4% in 2006), whereas it increased in the United Kingdom (from 4.1% to 4.2%) and, more markedly, in the United States (from 3.7% to 4.2%). The concentration of companies around the median value is comparable in all countries. The interquartile distance was slightly above 1 percentage point in Germany, Italy, the United Kingdom and the United States, whereas it was higher than 2 points in Spain and France.

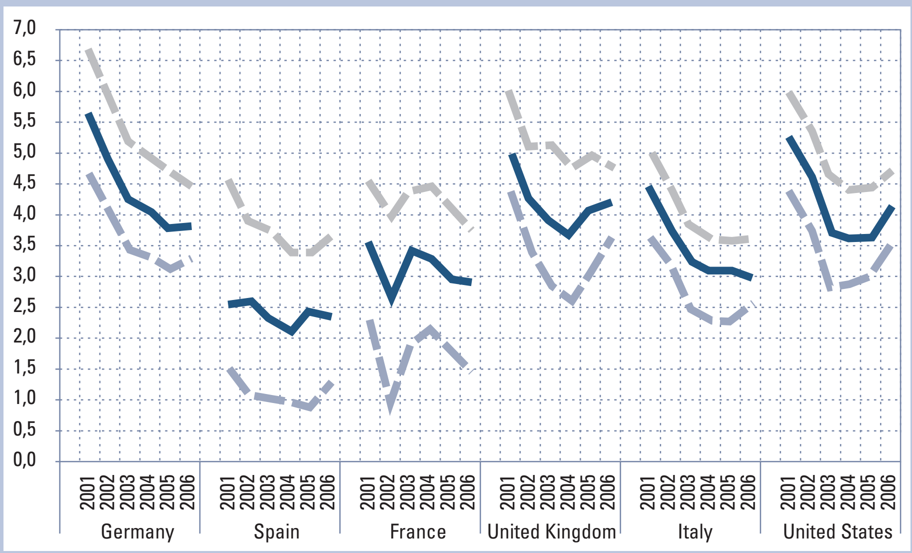



FIGURE 5
RETURN ON INVESTMENT – NON-LIFE (%)

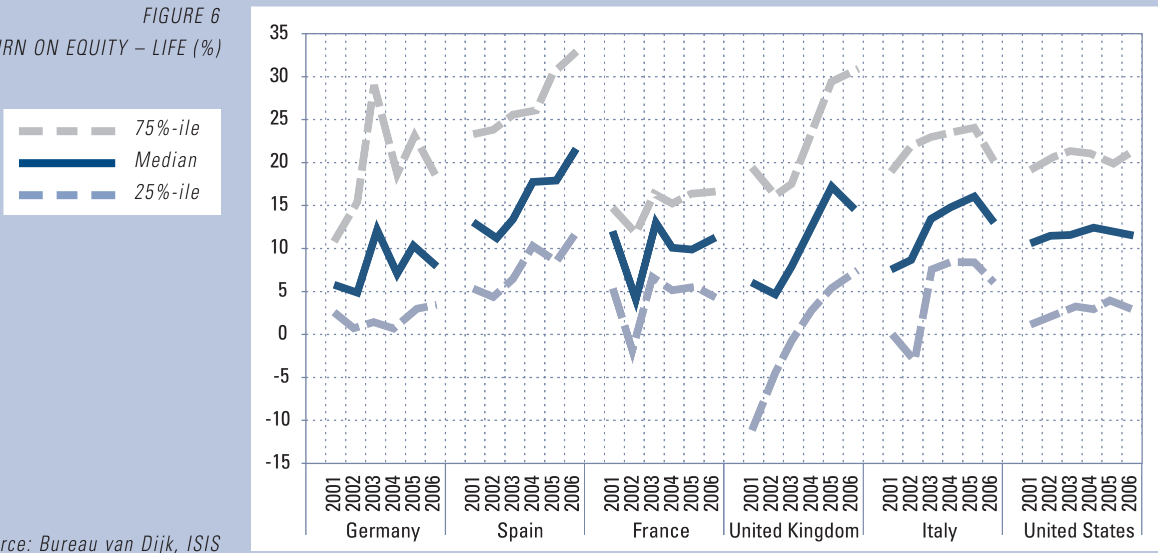
Source: Bureau van Dijk, ISIS

### Life companies

The companies doing life insurance business covered by the ISIS database in 2006 numbered 1,073: 567 in the United States, 97 in the United Kingdom, 60 in France, 233 in Germany, 52 in Italy and 64 in Spain.

The ROE of the median Italian company in the life sector fell from 16.1% in 2005 to 13.5% in 2006. That of the median Spain and French company rose from 18.4% to 22.1% and from 10.4% to 11.0% respectively. The indicator fell in Germany, the United Kingdom and the United States, respectively from 10.4% to 8.4%, from 16.9% to 15.0% and from 12.1% to 11.6%. Profitability is highly variable, with interquartile distances of 11.4 precentage points in France, 13.6 in Italy, 15.7 in Germany, 17.4 in the United States, 20.7 in Spain and 23.1 in the United Kingdom (Figure 6).

*FIGURE 6*
*RETURN ON EQUITY – LIFE (%)*




*Source: Bureau van Dijk, ISIS*

In 2006 the expense ratio of the median company was 8.2% in Italy, increasing from 7.2% in 2005. It also increased in Spain, from 9.4% to 11.7%. It was stable in France and the United States, respectively equal to 6.9% and 27.7%. It fell in Germany and the United Kingdom to 11.1% (11.3% in 2005) and 22.9% (23.7% in 2005 respectively). The mean and the dispersion of the expense ratio vary significantly across countries, reflecting among other things the differing degree of development of linked policies characterized by a lower expense ratio. In 2006 the interquartile distance for Italian companies was 6 percentage points, compared with 9 in France, 10 in Germany, 37 in the United Kingdom, 24 in the United States and 12 in Spain (Figure 7).

In 2006 the growth rate in the provisions of the median company decreased in all countries, except the United States (4.3%, with a one percentage point

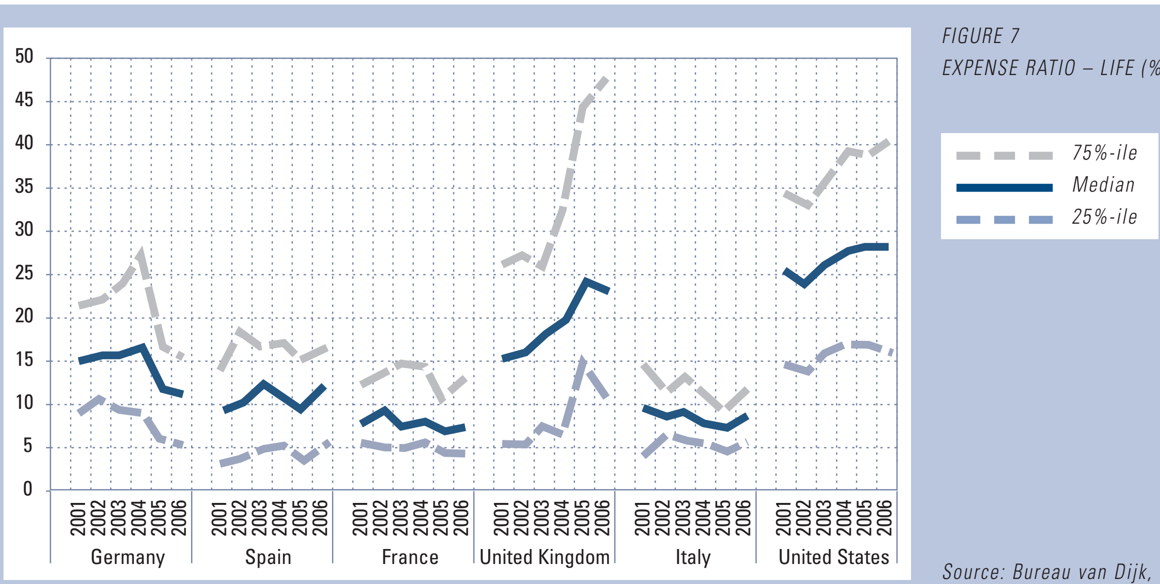



*FIGURE 7*
*EXPENSE RATIO – LIFE (%)*

*Source: Bureau van Dijk, ISIS*

increase compared to 2005). In Italy provisions increased by 4.5% in 2006, after rising 12.0% in 2005; in the United Kingdom they increased by 4.9%, after growing by 12.3% in 2005. The growth rate also slowed in Spain (from 9.8% in 2005 to 5.6% in 2006), and, although less markedly, in Germany and France, respectively 9.5% and 9.9% in 2006 (10.2% and 11.2% in 2005).

Dispersion among Italian companies diminished, with the difference between the first and third quartile of the distribution coming down to 9 percentage points from 13 in 2005; the difference was 9 points in France, 21 in Germany, 15 in the United Kingdom, 13 in the United States and 8 in Spain (Figure 8).

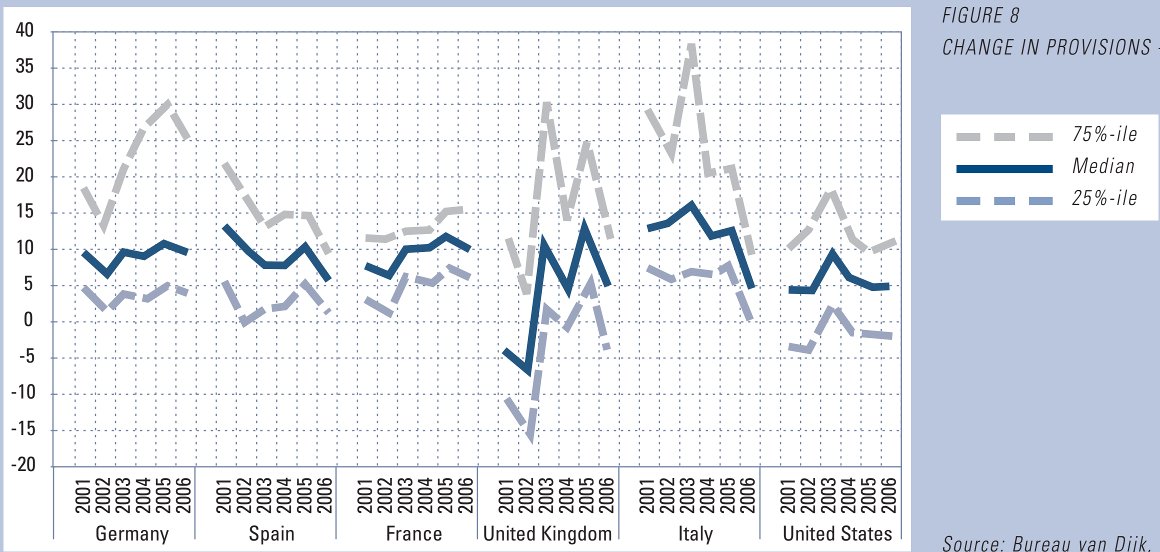
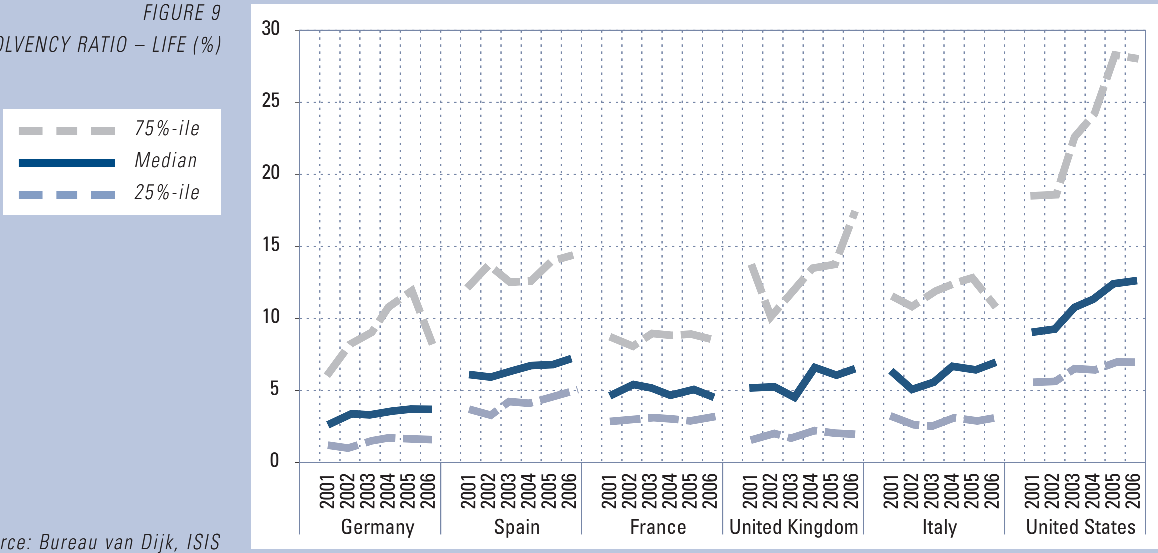



*FIGURE 8*
*CHANGE IN PROVISIONS – LIFE (%)*

*Source: Bureau van Dijk, ISIS*

The median solvency ratio – the ratio of equity to total assets – increased slightly in all countries of the sample except France. In Italy it increased from 6.6% in 2005 to 6.9% in 2006. The change was similar in Spain and the United Kingdom, respectively from 6.9% to 7.2% and from 6.2% to 6.4%. The ratio was clearly higher in the United States, where it rose to 12.5% from 12.3% in 2005. In Germany the ratio was the lowest of the group of countries, less than 4%. In France the ratio has decreased from 5.0% in 2005 to 4.7% in 2006. The interquartile distance in Italy was 8 percentage points, as against 7 in Germany, 21 in the United States, 6 in France, 15 in the United Kingdom and 9 in Spain (Figure 9).

*FIGURE 9*
*SOLVENCY RATIO – LIFE (%)*




*Source: Bureau van Dijk, ISIS*

## PROFITABILITY OF LISTED EUROPEAN INSURANCE COMPANIES IN 2007

The profitability of listed Italian and French insurance companies recorded a decrease in 2007 after a four year long strong growth (Table 1). In the United Kingdom the ROE of the median company grew from 18.3% in 2006 to 19.6%; in Germany from 13.7% to 14.8%. The rate of profitability of Italian, French and German companies is quite similar, rounding 15%.

*TABLE 1*
*RETURN ON EQUITY*
*OF LISTED INSURANCE COMPANY*

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| France | 6.9 | 11.6 | 13.4 | 16.9 | 15.2 |
| Germany | -10.9 | 5.0 | 9.6 | 13.7 | 14.8 |
| Italy | 7.7 | 11.3 | 13.4 | 16.5 | 14.8 |
| United Kingdom | 4.7 | 11.0 | 17.3 | 18.3 | 19.6 |

*Source: Thomson Financial, data processed by ANIA*

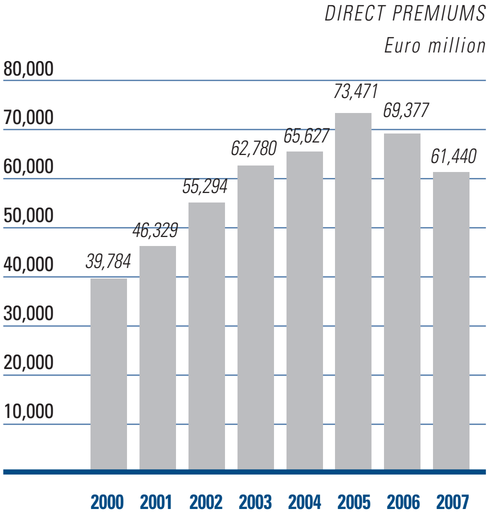
The ratio between profits before tax and premiums for the median firm grew in all the countries considered (Table 2). It was highest in the United Kingdom (20.6), while the indicator for German firms was significantly lower (6.3) with respect to the other countries.

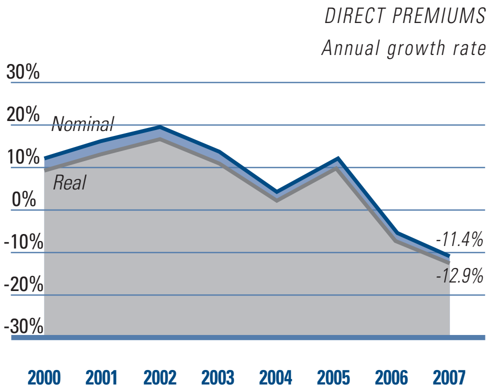
*TABLE 2*
*PROFITS (BEFORE TAX) / PREMIUMS*

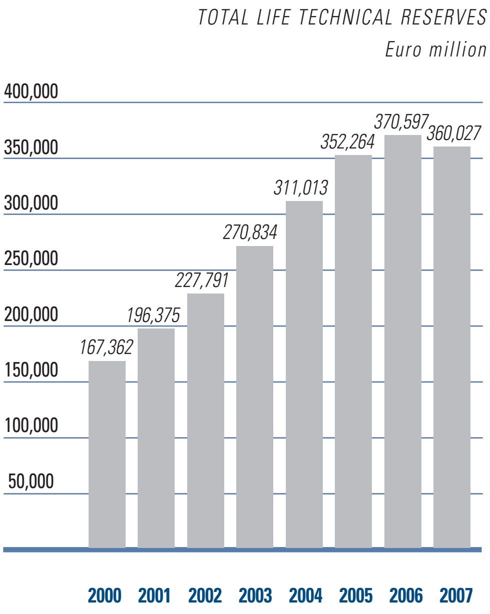
| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| France | 4.0 | 3.8 | 5.9 | 8.9 | 13.3 |
| Germany | -1.1 | 3.9 | 3.2 | 5.3 | 6.3 |
| Italy | 3.2 | 7.4 | 6.9 | 8.9 | 9.0 |
| United Kingdom | 0.2 | 11.5 | 10.4 | 15.2 | 20.6 |

*Source: Thomson Financial, data processed by ANIA*

# Life insurance




**In 2007 premiums in life insurance business decreased by 11.4% compared to 2006. This was the result of a sharp reduction in class V product premiums (-50%), a 17% decrease in class I product premiums and an increase in linked product premiums (+6.1%). The reduction in premiums and in investment income contributed to a decrease in the overall technical account result.**

## DOMESTIC BUSINESS

**Premiums for direct domestic business** for the 85 insurance companies operating in life classes amounted to Euro 61,440 million, with a 11.4% decrease in nominal terms (-5.6% in 2006) and -12.9% in real terms (-7.4% in 2006). In percentage, life premiums represent 62% of the total (life and non-life), reflecting a 3% reduction compared to 2006.

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 74,315 million with a 28.6% increase; this result is due to a large number of surrenders and to a high share of maturities.

**Mathematical provisions** were equal to Euro 360,027 million, recording a 2.9% decrease compared to 2006; this result is due on one side to the devaluation of the stock induced from the poor performance of the stock market and, on the other side, to a negative flow of net collection.

The **change in mathematical** and other technical provisions was negative at Euro -9,965 million (they were positive at Euro 18,303 million in 2006).

For the first time in the last twenty years the **net cash flow**, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was negative at Euro -12,875 million, compared to a positive balance of Euro 11,573 million in 2006.

**Operating expenses** were equal to Euro 4,685 million (Euro 4,589 million in 2006); they also include the administration expenses relating to the technical management of insurance business, in addition to acquisition costs, costs arising from premium collection and costs relating to the organization and operation of the distribution network. The ratio of these operating expenses to premiums amounted to 7.6% (6.6% in 2006); this result depends mainly on strong reduction of capitalization operation premiums business, characterized by a lower incidence of expenses.

*LIFE TECHNICAL ACCOUNT*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 39,784 | 46,329 | 55,294 | 62,780 | 65,627 | 73,471 | 69,377 | 61,440 |
| Incurred claims (-) | 13,574 | 16,100 | 21,783 | 25,453 | 34,313 | 43,710 | 57,804 | 74,315 |
| Changes in technical provisions (-) | 26,693 | 28,981 | 31,504 | 43,257 | 39,666 | 41,196 | 18,303 | -9,965 |
| Balance of other technical items | -5 | 175 | 284 | 427 | 476 | 697 | 633 | 467 |
| Operating expenses (-) | 3,398 | 3,323 | 3,379 | 3,745 | 3,864 | 4,308 | 4,589 | 4,685 |
| Investment income | 4,688 | 2,812 | 1,845 | 10,661 | 13,523 | 17,062 | 12,126 | 8,344 |
| **Direct technical account result** | **802** | **912** | **757** | **1,413** | **1,783** | **2,016** | **1,440** | **1,216** |
| Reinsurance result and other items | 659 | 480 | 279 | 293 | 249 | 327 | 471 | 338 |
| **Overall technical account result** | **1,461** | **1,392** | **1,036** | **1,706** | **2,032** | **2,343** | **1,911** | **1,554** |
| Annual % changes in premiums | 11.8% | 16.5% | 19.4% | 13.5% | 4.5% | 12.0% | -5.6% | -11.4% |
| Expense ratio | 8.5% | 7.2% | 6.1% | 6.0% | 5.9% | 5.9% | 6.6% | 7.6% |
| Investment income/Technical provisions | 3.0% | 1.5% | 0.9% | 4.3% | 4.6% | 5.1% | 3.5% | 2.3% |
| **Technical account result/Gross written premiums** | **2.0%** | **2.0%** | **1.4%** | **2.3%** | **2.7%** | **2.7%** | **2.1%** | **2.0%** |
| **Overall technical account result/Gross written premiums** | **3.7%** | **3.0%** | **1.9%** | **2.7%** | **3.1%** | **3.2%** | **2.8%** | **2.5%** |
| **Overall technical account result/Technical provisions** | **0.95%** | **0.77%** | **0.49%** | **0.68%** | **0.70%** | **0.71%** | **0.54%** | **0.44%** |

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

Considering investment income equal to Euro 8,344 million (Euro 12,126 million in 2006), **the result of the technical account for direct business** reflected a profit of Euro 1,216 million (Euro 1,440 million in 2006). In 2007 the ratio to premiums remained steady at 2.0%.

The net result for reinsurance activities and indirect insurance business was positive at Euro 338 million (Euro 471 million in 2006).

**The overall technical account result** was equal to Euro 1,554 million (Euro 1,911 million in 2006). There was a reduction both in the ratio to premiums (from 2.8% in 2006 to 2.5% in 2007) and in the ratio to the centred mean of technical reserves (from 0.54% in 2006 to 0.44% in 2007).

## INDIVIDUAL LIFE CLASS

### Life insurance

**Premiums for direct domestic business**, collected by the 83 companies operating in this class, amounted to Euro 27.166 million; the decrease was equal to 17.0% compared to 2006. The ratio to premiums for the class on the total life premiums decreased from 47.2% in 2006 to 44.2% in 2007.

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 28,993 million (+25.7% compared to 2006).

# Life insurance

The **change in mathematical** and other technical provisions was equal to Euro 1,639 million, representing a 87.2% decrease; this result is in line with the growth of the amounts paid for the expiring of contracts effected in previous years as well as an increase of lapse rate.

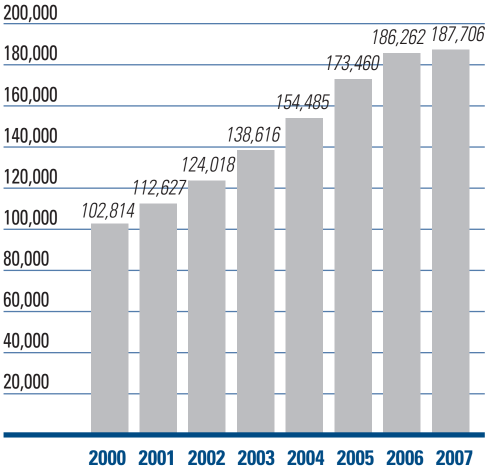
On the whole the **net cash flow**, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was negative at Euro -1,827 million, whereas it had been positive by Euro 9,682 million in 2006.

*CLASS I - LIFE*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 15,967 | 19,413 | 23,991 | 27,788 | 30,101 | 33,871 | 32,746 | 27,166 |
| Incurred claims (-) | 9,686 | 11,254 | 13,660 | 14,839 | 16,761 | 18,253 | 23,064 | 28,993 |
| Changes in technical provisions (-) | 8,680 | 9,806 | 12,233 | 14,737 | 15,692 | 18,610 | 12,796 | 1,639 |
| Balance of other technical items | -66 | -81 | -109 | -96 | -88 | -41 | -113 | -175 |
| Operating expenses (-) | 2,019 | 1,791 | 1,770 | 1,941 | 2,048 | 2,365 | 2,634 | 2,836 |
| Investment income | 5,403 | 4,801 | 4,399 | 5,350 | 5,950 | 6,458 | 6,610 | 7,289 |
| **Direct technical account result** | **919** | **1,282** | **618** | **1,525** | **1,462** | **1,060** | **749** | **812** |
| Reinsurance result and other items | 642 | 407 | 293 | 292 | 247 | 371 | 459 | 357 |
| **Overall technical account result** | **1,561** | **1,689** | **911** | **1,817** | **1,709** | **1,431** | **1,208** | **1,169** |
| Annual % changes in premiums | -9.3% | 21.6% | 23.6% | 15.8% | 8.3% | 12.5% | -3.3% | -17.0% |
| Expense ratio | 12.6% | 9.2% | 7.4% | 7.0% | 6.8% | 7.0% | 8.0% | 10.4% |
| Investment income/Technical provisions | 5.5% | 4.5% | 3.7% | 4.1% | 4.1% | 3.9% | 3.8% | 4.0% |
| **Technical account result/Gross written premiums** | **5.8%** | **6.6%** | **2.6%** | **5.5%** | **4.9%** | **3.1%** | **2.3%** | **3.0%** |
| **Overall technical account result/Gross written premiums** | **9.8%** | **8.7%** | **3.8%** | **6.5%** | **5.7%** | **4.2%** | **3.7%** | **4.3%** |
| **Overall technical account result/Technical provisions** | **1.57%** | **1.57%** | **0.77%** | **1.38%** | **1.17%** | **0.87%** | **0.69%** | **0.64%** |
| *Premiums to total life premiums ratio (%)* | *40.1%* | *41.9%* | *43.4%* | *44.3%* | *45.9%* | *46.1%* | *47.2%* | *44.2%* |

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

*TECHNICAL PROVISIONS - CLASS I - LIFE*
*Euro million*




**Operating expenses** were equal to Euro 2,836 million (Euro 2,634 million in 2006). The ratio to premiums grew from 8.0% in 2006 to 10.4% in 2007.

Considering investment income equal to Euro 7,289 million (Euro 6,610 million in 2006), **the result of the technical account for direct business** reflected a profit of Euro 812 million (Euro 749 million in 2006). The ratio to premiums increased from 2.7% in 2006 to 3.0% in 2007.

The net result for reinsurance activities and indirect insurance business was positive at Euro 357 million.

**The overall technical account result** was equal to Euro 1,169 million, in slight decrease compared to Euro 1,208 million in 2006. The ratio to premiums was 4.3% in 2007, recording an improvement compared to 2006; by contrast, the incidence on the centred mean of technical reserves went from 0.69% to 0.64%.

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

**Premiums for direct domestic business** for the 75 insurance companies operating in this class amounted to Euro 29,053 million (a 6.1% increase compared to 2006). The percentage in relation to overall direct life premiums passed from 39.5% in 2006 to 47.3% in 2007.

*CLASS III - INVESTMENT FUNDS*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 22,214 | 23,613 | 24,559 | 26,488 | 24,756 | 26,389 | 27,385 | 29,053 |
| Incurred claims (-) | 2,421 | 3,098 | 5,562 | 7,590 | 13,370 | 20,797 | 25,192 | 28,822 |
| Changes in technical provisions (-) | 17,485 | 16,670 | 14,233 | 22,145 | 16,146 | 12,634 | 4,220 | -1,979 |
| Balance of other technical items | 72 | 267 | 341 | 548 | 589 | 757 | 759 | 657 |
| Operating expenses (-) | 1,282 | 1,394 | 1,378 | 1,578 | 1,614 | 1,706 | 1,747 | 1,642 |
| Investment income | -1,335 | -2,576 | -3,318 | 4,156 | 5,993 | 8,781 | 3,723 | -420 |
| **Direct technical account result** | **-237** | **142** | **409** | **-121** | **207** | **790** | **708** | **805** |
| Reinsurance result and other items | 4 | 61 | -19 | -5 | 5 | -45 | 16 | -9 |
| **Overall technical account result** | **-233** | **203** | **390** | **-126** | **212** | **745** | **724** | **796** |
| Annual % changes in premiums | 47.9% | 6.3% | 4.0% | 7.9% | -6.5% | 6.6% | 3.8% | 6.1% |
| Expense ratio | 5.8% | 5.9% | 5.6% | 6.0% | 6.5% | 6.5% | 6.4% | 5.7% |
| Investment income/Technical provisions | -3.3% | -4.4% | -4.5% | 4.5% | 5.4% | 7.0% | 2.8% | -0.3% |
| **Technical account result/Gross written premiums** | **-1.1%** | **0.6%** | **1.7%** | **-0.5%** | **0.8%** | **3.0%** | **2.6%** | **2.8%** |
| **Overall technical account result/Gross written premiums** | **-1.0%** | **0.9%** | **1.6%** | **-0.5%** | **0.9%** | **2.8%** | **2.6%** | **2.7%** |
| **Overall technical account result/Technical provisions** | **-0.57%** | **0.35%** | **0.53%** | **-0.14%** | **0.19%** | **0.59%** | **0.55%** | **0.60%** |
| *Premiums to total life premiums ratio (%)* | *55.8%* | *51.0%* | *44.4%* | *42.2%* | *37.7%* | *35.9%* | *39.5%* | *47.3%* |

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

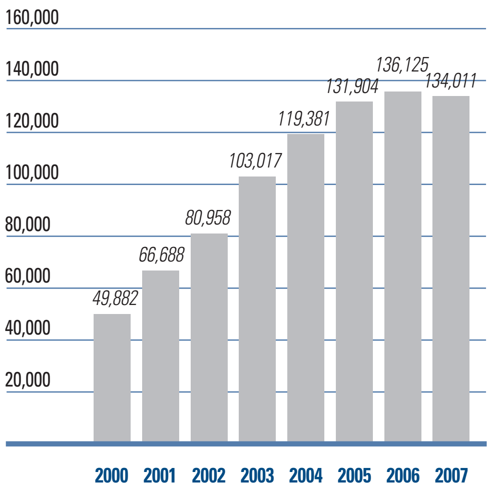
**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 28,822 million and registered a strong increase compared to 2006 (+14.4%), in connection with the expiring of contracts underwritten in the end of the 90's as well as an increase of lapse rate.

The **change in mathematical** and other technical provisions was negative at Euro -1,979 million. Consequently the provisions stock decreased by 1,6% compared to 2006.

On the whole **net cash flow**, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was equal to Euro 231 million, down from Euro 2,193 million in 2006.

**Operating expenses** were equal to Euro 1,642 million (Euro 1,747 million in 2006). The ratio to premiums was 5.7%, a slight decrease compared to 2006.

*TECHNICAL PROVISIONS - CLASS III - INVESTMENT FUNDS*
*Euro million*



# Life insurance

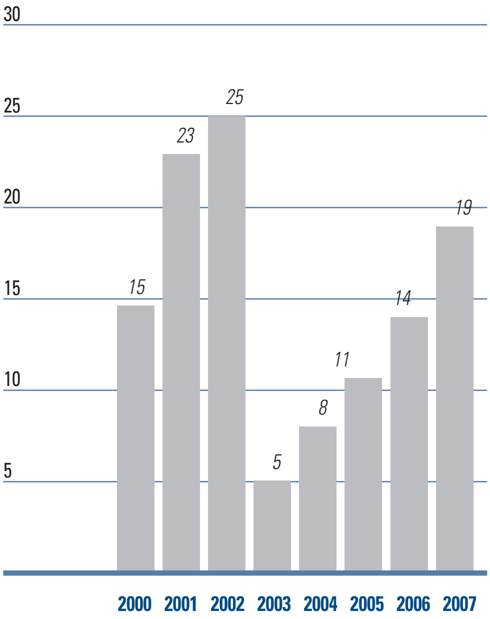
Despite the sharp reduction in investment income (negative and equal to Euro -420 million from Euro 3,723 million in 2006), the **result of the technical account for direct business** was positive at Euro 805 million, increasing with respect to 2006. The ratio to premiums was equal to 2.8%, a slight increase compared to 2006.

*CLASS IV - HEALTHCARE*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 8 | 12 | 10 | 17 | 18 | 24 | 23 | 30 |
| Incurred claims (-) | 2 | 3 | 3 | 7 | 9 | 12 | 7 | 7 |
| Changes in technical provisions (-) | 4 | 8 | 4 | 2 | 2 | 2 | 3 | 5 |
| Balance of other technical items | -1 | 0 | 1 | 0 | 0 | -2 | 0 | 0 |
| Operating expenses (-) | 0 | 0 | 0 | 4 | 2 | 3 | 3 | 3 |
| Investment income | 1 | 1 | 1 | 0 | 0 | 1 | 0 | 0 |
| **Direct technical account result** | **2** | **2** | **5** | **4** | **5** | **6** | **10** | **15** |
| Reinsurance result and other items | 1 | 0 | -2 | -5 | -4 | -5 | -9 | -12 |
| **Overall technical account result** | **3** | **2** | **3** | **-1** | **1** | **1** | **1** | **3** |
| Annual % changes in premiums | 36.1% | 46.8% | -10.3% | 61.3% | 9.2% | 28.9% | -2.4% | 32.8% |
| Expense ratio | 3.6% | 3.3% | 2.3% | 21.8% | 11.6% | 12.5% | 12.3% | 9.9% |
| Investment income/Technical provisions | 5.9% | 6.0% | 5.9% | 1.4% | 3.9% | 5.6% | 2.7% | 3.2% |
| **Technical account result/Gross written premiums** | **21.4%** | **14.8%** | **44.2%** | **24.2%** | **27.7%** | **23.6%** | **42.7%** | **49.9%** |
| **Overall technical account result/Gross written premiums** | **34.1%** | **20.6%** | **28.9%** | **-6.2%** | **3.5%** | **6.0%** | **2.3%** | **9.8%** |
| **Overall technical account result/Technical provisions** | **21.6%** | **12.71%** | **12.48%** | **-6.93%** | **9.67%** | **14.93%** | **4.58%** | **19.64%** |
| *Premiums to total life premiums ratio (%)* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |

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

*TECHNICAL PROVISIONS - CLASS IV - HEALTHCARE*
*Euro million*




The net result for reinsurance activities and indirect insurance business was negative at Euro -9 million.

The **overall technical account result** was positive at Euro 796 million (Euro 724 million in 2006). The ratio to premiums was 2.7% and the ratio to the centred mean of technical reserves amounted to 0.60%; both of them improved compared to 2006.

### Long-term healthcare insurance

**Premiums for direct domestic business** for the 31 insurance companies operating in this class amounted to Euro 30 million, with a 32.8% increase compared to 2006.

The **overall technical account result** was positive at Euro 3 million (Euro 1 million in 2006). The ratio to premiums was 9.8% (2.3% in 2006).

### Capitalization operations

**Premiums for direct domestic business** for the 73 insurance companies operating in this class were roughly halved compared to 2006 at Euro 4,470 million.

The percentage on the overall direct life premiums consequently decreased passing from 12.9% in 2006 to 7.3% in 2007.

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 16,381 million (Euro 9,478 million in 2006).

*CLASS V - CAPITALIZATION*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 1,503 | 3,201 | 6,610 | 8,360 | 10,554 | 12,692 | 8,938 | 4,470 |
| Incurred claims (-) | 1,463 | 1,739 | 2,551 | 3,003 | 4,149 | 4,615 | 9,478 | 16,381 |
| Changes in technical provisions (-) | 435 | 2,421 | 4,951 | 6,243 | 7,631 | 9,418 | 1,017 | -10,267 |
| Balance of other technical items | -12 | -13 | 52 | -26 | -29 | -20 | -19 | -22 |
| Operating expenses (-) | 91 | 131 | 224 | 215 | 190 | 223 | 188 | 175 |
| Investment income | 621 | 594 | 792 | 1,136 | 1,558 | 1,751 | 1,747 | 1,448 |
| **Direct technical account result** | **123** | **-509** | **-272** | **9** | **113** | **167** | **-17** | **-393** |
| Reinsurance result and other items | 12 | 11 | 7 | 11 | 1 | 5 | 5 | 3 |
| **Overall technical account result** | **135** | **-498** | **-265** | **20** | **114** | **172** | **-12** | **-390** |
| Annual % changes in premiums | -48.5% | 113.0% | 106.5% | 26.5% | 26.2% | 20.3% | -29.6% | -50.0% |
| Expense ratio | 6.0% | 4.1% | 3.4% | 2.6% | 1.8% | 1.8% | 2.1% | 3.9% |
| Investment income/Technical provisions | 4.4% | 3.8% | 4.0% | 4.4% | 4.8% | 4.3% | 4.0% | 3.6% |
| **Technical account result/Gross written premiums** | **8.2%** | **-15.9%** | **-4.1%** | **0.1%** | **1.1%** | **1.3%** | **-0.2%** | **-8.8%** |
| **Overall technical account result/Gross written premiums** | **9.0%** | **-15.6%** | **-4.0%** | **0.2%** | **1.1%** | **1.4%** | **-1.0%** | **-8.7%** |
| **Overall technical account result/Technical provisions** | **0.95%** | **-3.18%** | **-1.35%** | **0.08%** | **0.35%** | **0.42%** | **-0.03%** | **-0.97%** |
| *Premiums to total life premiums ratio (%)* | *3.8%* | *6.9%* | *12.0%* | *13.3%* | *16.1%* | *17.3%* | *12.9%* | *7.3%* |

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

The **change in mathematical** and other technical provisions was equal to Euro 10,267 million (Euro 1,017 million in 2006).

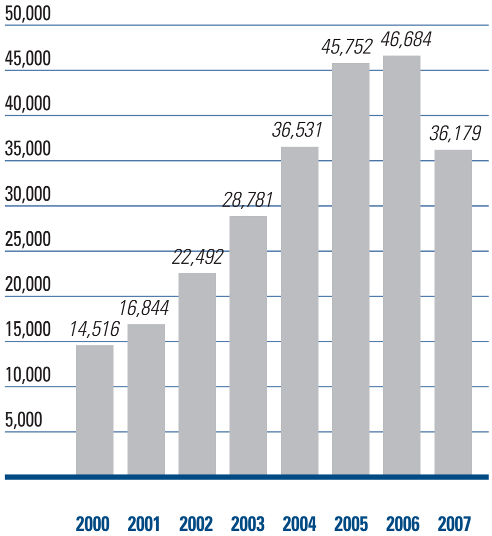
**Operating expenses** were equal to Euro 175 million (Euro 188 million in 2006). The ratio to premiums passed from 2.1% in 2006 to 3.9% in 2007.

Considering investment income equal to Euro 1,448 million, the **result of the technical account for direct business** reflected a negative result of Euro -393 million (Euro -17 million in 2006).

The net result for reinsurance activities and indirect insurance business was positive at Euro 3 million.

The **overall technical account result** was negative at Euro -390 million (Euro -12 million in 2006).

*TECHNICAL PROVISIONS - CLASS V - CAPITALIZATION*
*Euro million*



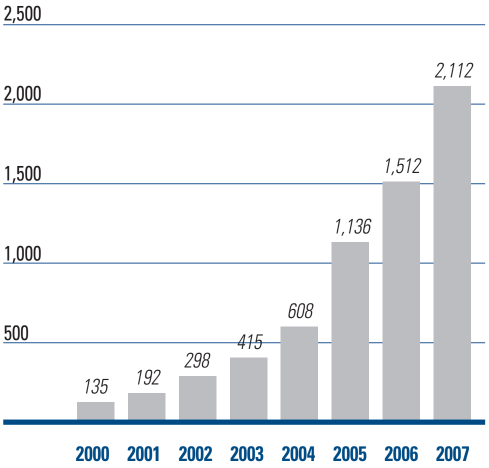
# Life insurance

*CLASS VI - PENSION FUNDS*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 93 | 91 | 124 | 128 | 198 | 495 | 285 | 720 |
| Incurred claims (-) | 2 | 7 | 8 | 15 | 24 | 33 | 64 | 112 |
| Changes in technical provisions (-) | 89 | 76 | 85 | 131 | 194 | 532 | 267 | 637 |
| Balance of other technical items | 1 | 1 | 2 | 3 | 3 | 4 | 7 | 9 |
| Operating expenses (-) | 6 | 6 | 7 | 8 | 10 | 11 | 17 | 29 |
| Investment income | -2 | -7 | -30 | 19 | 23 | 71 | 46 | 26 |
| **Direct technical account result** | **-5** | **-4** | **-4** | **-4** | **-4** | **-6** | **-10** | **-23** |
| Reinsurance result and other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Overall technical account result** | **-5** | **-4** | **-4** | **-4** | **-4** | **-6** | **-10** | **-23** |
| Annual % changes in premiums | 108.4% | -2.6% | 36.6% | 3.4% | 54.4% | 150.4% | -42.4% | 152.5% |
| Expense ratio | 6.6% | 7.0% | 5.8% | 6.4% | 5.0% | 2.3% | 6.0% | 4.0% |
| Investment income/Technical provisions | -1.8% | -4.5% | -12.1% | 5.2% | 4.4% | 8.2% | 3.9% | 1.6% |
| **Technical account result/Gross written premiums** | **-5.1%** | **-4.7%** | **-3.1%** | **-3.3%** | **-2.0%** | **-1.2%** | **-3.4%** | **-3.2%** |
| **Overall technical account result/Gross written premiums** | **-5.1%** | **-4.9%** | **-3.2%** | **-3.3%** | **-2.0%** | **-1.2%** | **-3.4%** | **-3.2%** |
| **Overall technical account result/Technical provisions** | **-5.36%** | **-2.72%** | **-1.60%** | **-1.20%** | **-0.79%** | **-0.66%** | **-0.82%** | **-1.38%** |
| *Premiums to total life premiums ratio (%)* | *0.2%* | *0.2%* | *0.2%* | *0.2%* | *0.3%* | *0.7%* | *0.4%* | *1.2%* |

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

*TECHNICAL PROVISIONS - CLASS VI - PENSION FUNDS*
*Euro million*




### Pension fund management

**Premiums for direct domestic business** for the 43 insurance companies operating in this class amounted to Euro 720 million (Euro 285 million in 2006) with strong growth compared to 2006 (+152,5%). The development of this class is mainly due to the allocation of the Severance Pay (TFR) to pension schemes managed by insurance companies, as established by the entry into force of the new provisions on complementary pension funds.

**Amounts paid** for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 112 million (Euro 64 million in 2006).

The **change in mathematical** and other technical provisions were equal to Euro 637 million with a 140% increase compared to 2006.

**Operating expenses** were equal to Euro 29 million (Euro 17 million in 2006). The ratio to premiums was 4.0% (6.0% in 2006).

Considering investment income equal to Euro 26 million, the **result of the technical account for direct business** reflected a deficit of Euro 23 million (Euro -10 million in 2006).

The **overall technical account result** was negative at Euro -23 million (Euro -10 million in 2006).

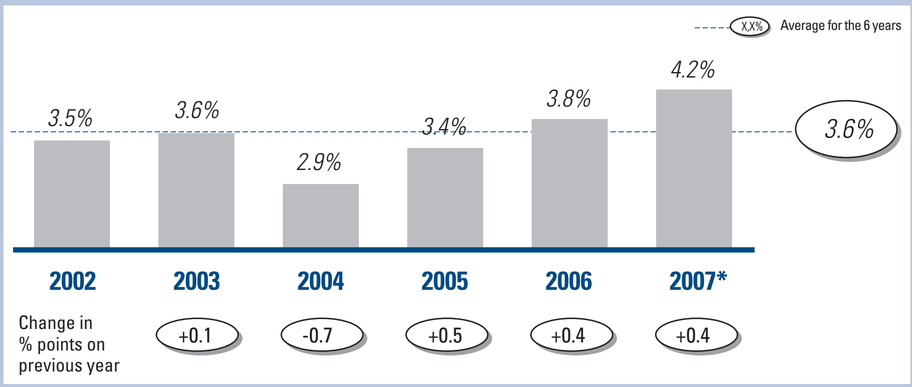
## THE COST STRUCTURE OF LIFE INSURANCE

The operating expenses shown in insurance companies' income statements are generally divided into acquisition costs and collection expenses, which together make up distribution expenses, and general or administration expenses.

### Acquisition costs

Acquisition costs consist largely of commissions on new contracts paid to the distribution networks. Their incidence can be shown by their ratio to a standardized measure of premiums called the single premium equivalent (SPE), equal to the sum of single premiums and of annual premiums multiplied by the average duration, in years, of the contracts [1]. The ratio allows the different structure of commissions paid for annual and single premiums to be taken into account.

In recent years the indicator has tended to rise (see figure below). It averaged 3.6% for the period 2002-07 and stood at 4.2% in 2007.




*COMMISSIONS AND OTHER ACQUISITION COSTS AS A % OF SINGLE PREMIUM EQUIVALENT, DIRECT BUSINESS*

** ANIA estimate*

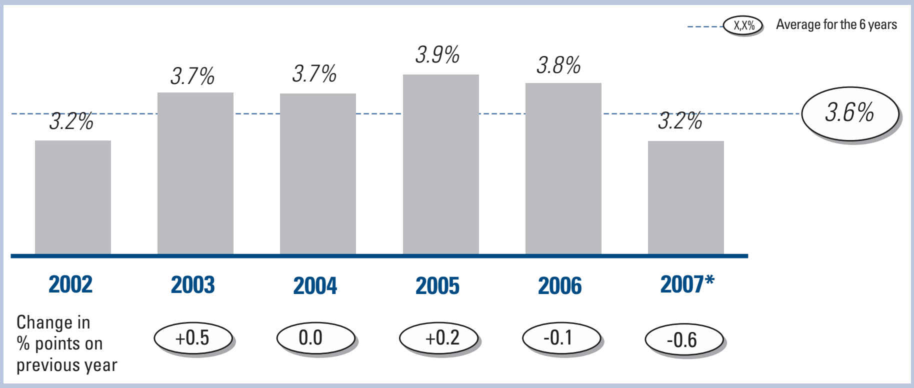
### Collection expenses

The collection expenses sustained by insurance companies are largely for recurring commissions paid in multi-year plans in correspondence with the annual instalments after the first. It is therefore consistent to consider their incidence in relation to the total of annual premiums subsequent to the first, hence excluding the premiums for newly written policies.

(1) In our example the average duration is set at ten years for the sake of convenience.

As the figure below shows, in 2007 the indicator read 3.2%, lower than in the preceding years and below the average of 3.6% for the last six years.

*COLLECTION COMMISSIONS AS A % OF SUBSEQUENT ANNUAL PREMIUMS, DIRECT BUSINESS*

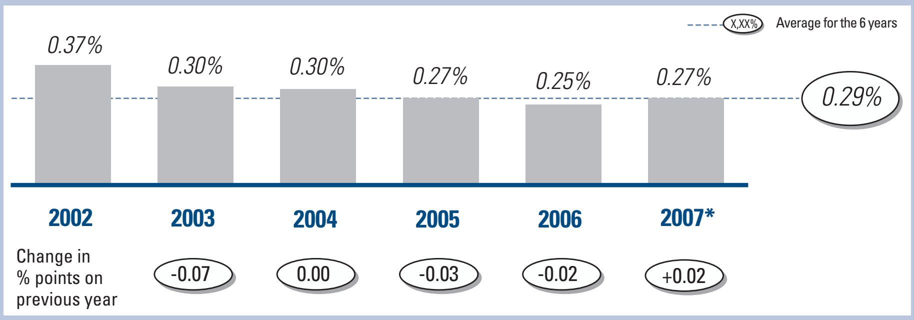



** ANIA estimate*

## General or administration expenses

General expenses are normally expressed as a ratio to the technical provisions, an amount that proxies for the total funds invested on behalf of policyholders. This makes it possible to show the incidence of such expenses, as is the norm in the asset management industry. The index of general expenses, shown in the figure below, held broadly stable in the last three years, standing at 0.27% in 2007.

*ADMINISTRATION EXPENSES AS A % OF TECHNICAL PROVISIONS*




** ANIA estimate*

## THE YIELD OF WITH-PROFITS POLICIES

In Class I and Class V insurance operations the premiums paid by policyholders, net of costs, go into a separate fund that invests mainly in financial assets. Once assigned to the separate fund, the assets covering commitments can leave the fund only by being realized. Under current Community legislation, fund assets are accounted for and rates of return computed on the basis of book value – also called historical cost – and realized value. The return of a separate fund is calculated annually as the ratio of the sum of coupons, dividends and realized capital gains to the average stock of fund assets, and is allocated, in whole or in part, to the accrued value of the contractual benefits.

It can be useful to make a long-term comparison between the rates of return achieved by the separate funds linked to with-profits policies and the yields on government securities and employee severance pay funds.

Figure 1 shows that between 1982 and 2002 the separate funds' yields were consistently well above those of government securities – the comparison is with Italian Treasury bonds from 1995 on – and severance pay funds (TFR) and similarly higher than the rate of inflation. In the five years between 2003 and 2007 the separate funds returned 4.4% per year, while inflation averaged 2.0% and TFR and Treasury bonds yielded an average of 3.0% and 4.1% respectively.

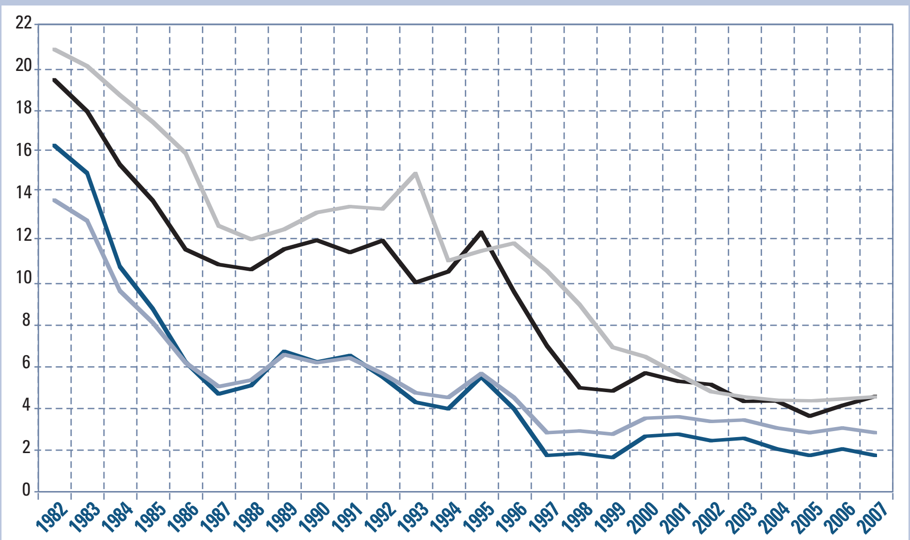


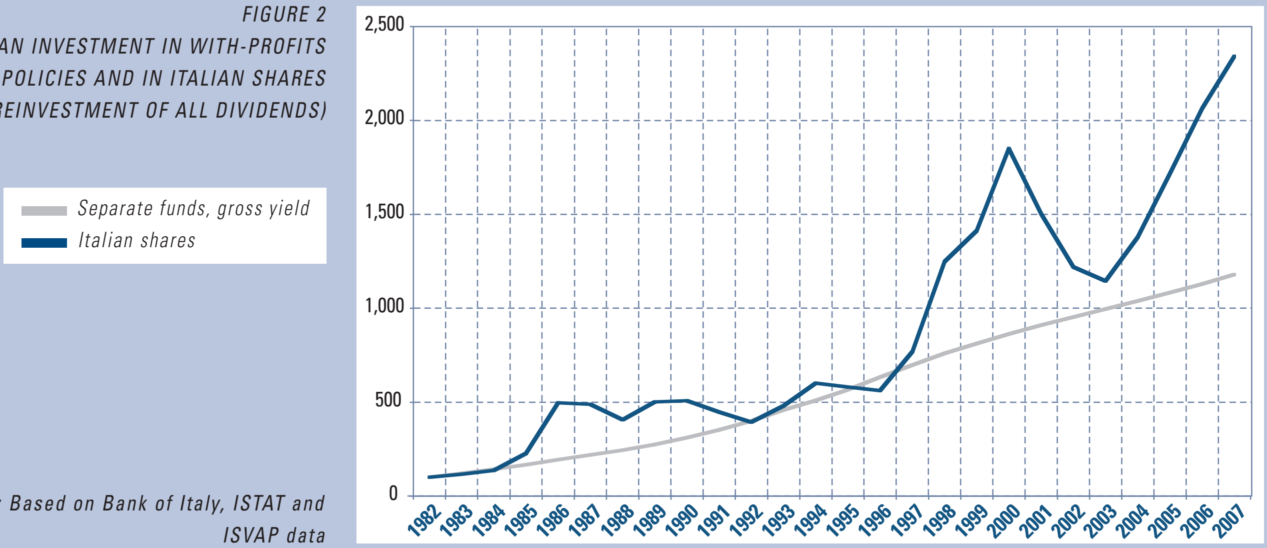

*FIGURE 1*
*YIELDS OF SEPARATE FUNDS AND OTHER FINANCIAL INSTRUMENTS (%)*

*Separate funds*
*Government securities (BTPs from 1995 on)*
*Inflation*
*Employee severance pay funds*

*Source: Based on Bank of Italy, ISTAT and ISVAP data*

Setting the value of an investment in a with-profits capital redemption policy in 1982 equal to 100, in 2007 the investment was worth 1,179 (with an average annual yield of 10.5% (Figure 2). The same investment in Italian shares, with all dividends reinvested, was worth 2,341 at the end of 2007 (average annual yield of 16.8%). The simple real rate of return of the separate funds was 5.9%, with a standard deviation of 4.9%; for the investment in shares it was 12.2%, with a standard deviation of 30.9%. As gauged by the Sharpe ratio (yield in relation to its standard deviation), over the past 25

*FIGURE 2*
*VALUE OF AN INVESTMENT IN WITH-PROFITS POLICIES AND IN ITALIAN SHARES (ASSUMING REINVESTMENT OF ALL DIVIDENDS)*




*Source: Based on Bank of Italy, ISTAT and ISVAP data*

years an investment in with-profits policies has been decidedly preferable to one in equities; even considering that ordinarily only 80% to 90% of a separate fund's return is allocated to the policyholder, this conclusion still holds.

## TRANSPARENCY OF INSURANCE FINANCIAL PRODUCTS AND ANIA'S STANDARD PROSPECTUS MODELS

On 4 May 2007, after a public consultation, Consob issued its amendments to the Issuers Regulation (Regulation 11971/1999), which were necessary to include a new chapter (Chapter II-bis) in Part II, Title I. The chapter concerns the activity of soliciting investment in financial products issued by insurance companies, extending the scope of the financial prospectus requirements to these products (life insurance products in Class III, except retirement products, and Class V).

### The main changes

The products subject to the amended Regulation must be accompanied by the prospectus as soon as marketing begins. The prospectus must be deposited with the Consob, it must be published on the issuer's website (or in widely circulated newspapers or at the facilities of the issuer or the intermediaries), and a copy must be given to the investor. The prospectus for financial products issued by insurance companies does not need the prior authorization of the Consob, in compliance with the EU directive on life insurance.

The prospectus must consist of the following components:

- Summary information sheet
- Part I - Information on the investment and insurance cover;
- Part II - Historical risk-return data and effective costs of the investment;
- Part III - Additional information.

The summary information sheet and Parts I and II, together with the terms of contract, must be provided to the investor free of charge before signature of the insurance proposal – or the conclusion of the contract, if simultaneous. Part III is to be provided only at the investor's request. The prospectus must be updated promptly with every variation in its data. Part II must be updated to the end of the year by the end of the following March; insurers must notify policyholders of the periodically updated data in Part II by the end of February.

As in the current rules governing the insurance industry, advertisements must be recognizable as such and the information in them must be clear, correct and consistent with that in the prospectus. It must be specified that before signing the investor must read the prospectus. Reports of past yields must be accompanied by the indication of the time period involved, and it must be explicitly stated that past yields are not indicative of future yields.

The authority to which customers may address complaints depends on the nature of the complaint. For questions concerning the policy, they are to go to ISVAP; for questions of transparency, to Consob.

There are three master forms for the prospectus: for unit-linked, for index-linked, and for capital redemption policies. Though structured differently, the content of the prospectus is largely the same as that required by ISVAP's information brochure, with some changes:

- The premium on linked policies must be broken down into three components: the portion invested, the portion going to risk coverage, and the portion for charges.
- In the case of protection clauses of unit-linked policies, there is provision for the presentation of probability-based scenarios, based on prudent assumptions, of the occurrence of certain events in connection with the performance of the investment and the protection. These events may be: the expected yield is negative and protection is not realized; the expected yield is negative and the protection is realized; the expected yield is positive but less than that of risk-free bonds of comparable maturity; the expected yield is positive and in line with that of risk-free bonds of comparable maturity; the expected yield is positive and greater than that of risk-free bonds of comparable maturity.

- Similarly, for index-linked policies, there is provision for the presentation of probability-based scenarios, based on prudent assumptions, concerning the occurrence of specified events.
- For all products there is to be a table illustrating the portion of the charges to the customer that go on average to financial salesmen, although it is permissible to show a single figure indicating the portion of the total fees and commissions on the product that goes to distributors.

### ANIA's standard prospectus models

After a series of meetings with Consob following the release of the new regulation concerning financial products issued by insurance companies and the prospectus form, ANIA developed standards for the prospectus on unit-linked, index-linked and capital redemption policies. The intention is to make it easier for insurers to draw up the documents needed to offer the products to the public.

ANIA's standard prospectus models consist in practical examples of the presentation of the required information. They give insurers operational solutions that are consistent with the schemas attached to the Issuers Regulation.

These standard models were submitted to Consob for verification of compliance. On 28 June 2007 Consob took note that ANIA had prepared the models and posted the information on its website.

## SUPPLEMENTARY PENSION REFORM GOES INTO EFFECT

The data released by the pension fund oversight authority Covip on new pension fund subscriptions in 2007 (Table 1) permit drawing a preliminary balance on the results of the reform of Italy's supplementary private pension system. There are unquestionably some positive aspects. The total number of members

*TABLE 1*
*TOTAL MEMBERSHIP IN SUPPLEMENTARY RETIREMENT PLANS (1)*

| Type of plan | Enrolment | | % change 2007/2006 |
|---|---|---|---|
| | 2006 | 2007 | |
| Occupational pension funds | 1,219,372 | 1,996,722 | 63.8% |
| Open pension funds | 440,486 | 745,389 | 69.2% |
| Individual retirement plans | 959,867 | 1,283,210 | 33.7% |
| Pre-existing pension funds | 649,519 | 650,000 | 0.1% |
| **Total** | **3,269,244** | **4,675,321** | **43.0%** |
| **Enrolment rate of private-sector employees** | | **24.9%** | |

*(1) Total members reported by supplementary retirement plans, thus including those via tacit consent, but excluding Fondinps.*

*Source: COVIP*

of supplementary retirement schemes is now over 4.5 million, an increase of 1.5 million or 43% in a year. The number of private-sector employees joining private retirement schemes rose by 1.2 million to more than 3 million, or 66% more than at the end of 2006.

Occupational pension plans enrolled nearly 800,000 new members in 2007, thus topping 2 million, an increase of 64%. Almost all these were employees in the private sector, whose occupational funds now comprise 1.9 million workers (with an increase of nearly 70% for the year).

Open pension funds gained more than 300,000 new enrolees in 2007 to bring the total at the end of the year to 745,000. The inflow of more than 240,000 employees quadrupled their overall membership in these funds to 330,000, while the number of self-employed members rose 17% to 420,000.

The number of persons signed up with individual retirement plans increased to 1,283,000 at the end of 2007, counting both new subscribers and workers enrolled in plans instituted prior to the reform but having carried out the adaptations required. More than 60 percent of enrolees in newly instituted plans were employees.

Apart from the increase in enrolment rates, the launch of the private retirement reform unquestionably helped to complete the regulatory framework and make it possible to compare the various forms of supplementary retirement plan available. Nevertheless, despite this undeniable progress, there is still quite some way to go if Italy is to have a substantial supplementary pension pillar. The overall enrolment rate for private-sector employees (24.9%) is low; in fact, three quarters lack any form of private retirement coverage. What is worse, the workers most in need of supplementary pension benefits – those under age 30 and women – show lower enrolment rates (Table 2), as do workers in small and medium-sized enterprises.

The resources assigned to retirement benefits, including those invested in pre-existing retirement schemes, amounted to nearly Euro 58 billion at the end of 2007, an increase of 12%.

*TABLE 2*
*OCCUPATIONAL PENSION FUNDS: PRIVATE-SECTOR EMPLOYEE MEMBERS BY AGE AND SEX*

| **Age** | **2007** | |
|---|---|---|
| | **Men** | **Women** |
| Under 30 | 9.6% | 10.1% |
| 30-39 | 28.9% | 35.6% |
| 40-49 | 36.6% | 36.1% |
| 50-59 | 23.6% | 17.6% |
| 60 + | 1.4% | 0.6% |
| **Total** | **100%** | **100%** |
| **Distribution of membership by sex** | **70.3%** | **29.7%** |

*Source: COVIP*

*TABLE 3*
*SUPPLEMENTARY RETIREMENT PLANS: FUNDS ASSIGNED TO BENEFITS*
*Euro million, %*

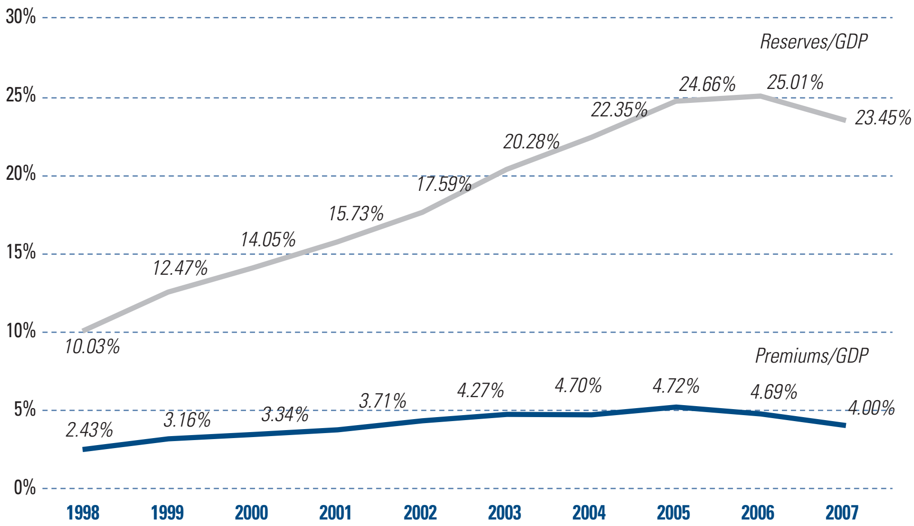
| **Type of plan** | **Assets under management** | | **% change 2007/2006** |
|---|---|---|---|
| | **2006** | **2007** | |
| Occupational pension funds | 9,257 | 11,599 | 25.3% |
| Open pension funds | 3,527 | 4,285 | 21.5% |
| Individual retirement plans | 4,546 | 5,805 | 27.7% |
| Pre-existing pension funds | 34,158 | 36,000 | 5.4% |
| **Total** | **51,488** | **57,689** | **12.0%** |

*Source: COVIP*

## LIFE INSURANCE AND GDP

After years of constant growth, the ratio of mathematical reserves to GDP fell by 1.5 percentage points in 2007, from 25.01% to 23.45%. The decline was due both to the increase in claims payments and to a reduction in premiums earned, whose incidence on GDP slipped from 4.69% to 4.00%.

*PREMIUMS AND RESERVES AS A % OF GDP**




*(*) The ratios take account of the recent general revision by ISTAT of the GDP time series.*

## LIFE INSURANCE AND ITALIAN HOUSEHOLD SAVING

Households' disposable income grew by 3.2% in nominal and 1.0% in real terms in 2007, an acceleration with respect to the 0.2% growth recorded in 2006. For employees, both per capita earnings and employment slowed their growth, to 2.0% and 1.5% respectively, from 2.5% and 2.1% in 2006. The largest contribution to the gain in disposable income in 2007 came from property income (mainly rentals, interest and income from financial assets), which rose by 5.7% compared with 4.5% in 2006. Taxes also rose sharply, by 8.6%, about the same as the previous year.

The household saving rate, though declining slightly, remained higher than in the rest of Europe. It was 11.2% in 2007, down from 11.5% in 2006 and an average of 12.5% over the previous two years (Figure 1). At the end of the year Italian household wealth amounted to eight times disposable income, about the same as in France and the United Kingdom and significantly higher than in Germany, the United States and Japan.

In 2007 households' financial saving, defined as the difference between the gross flows of assets and liabilities, amounted to Euro 51,875 million, a decrease of 23.7% from the previous year. As a ratio to GDP, it fell from 5.7% to 3.4%. Despite

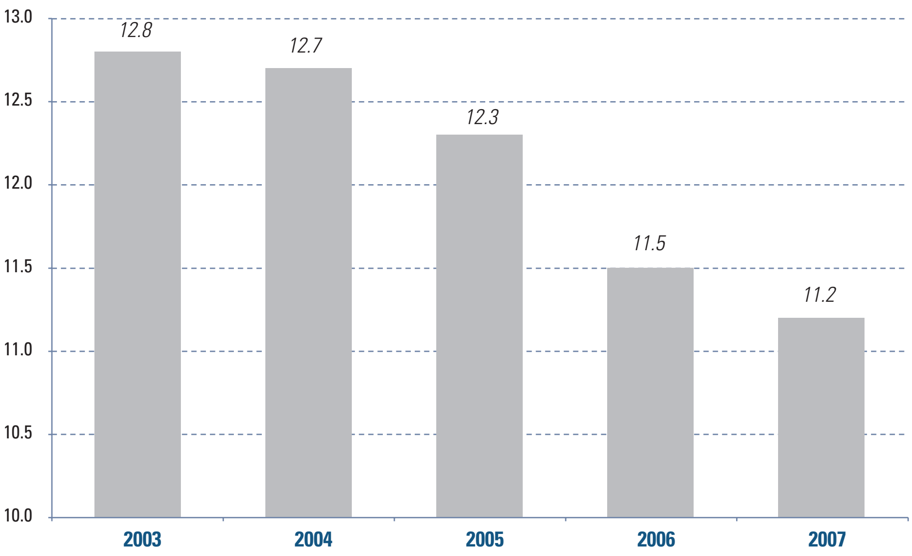



*FIGURE 1*
*HOUSEHOLDS' SAVING RATE*
*(% OF DISPOSABLE INCOME)*

*Source: Bank of Italy. The saving rate is defined as the ratio of saving – including loan amortization and excluding the change in pension fund reserves – to gross disposable income.*

this sharp decline, the percentage remained higher than the euro-area average for 2006 (3.1%). The diminution mainly reflected a fall in households' propensity to save and the continuing growth in their investment in real estate. The contraction of saving and severe losses on equities kept financial wealth basically at the same level as in 2006; it expanded by just 0.57% to Euro 3,697 billion.

The financial turmoil that erupted during the summer of 2007 prompted households to turn to low-risk investments. More than Euro 60 billion (half the total savings flow) went into medium/long-term bonds. Of this, Euro 25.7 billion was invested in government paper and another Euro 25 billion in bank bonds (22.6% of the gross flow of savings).

After the sharp slowdown registered in 2006, net investment in shares and other equity rose appreciably in the first half of 2007. Despite massive disposals in the autumn and winter, the net flow of investment into equities was equal to Euro 24,159 million, or 21.8% of the total.

Net disposals of investment fund units, though less than in 2006, remained substantial. The outflow amounted to Euro 31,430 million. For the first time in years, there were also net disposals of units of foreign funds (Euro 3,543 million).

After years of growth, net investment in life insurance policies was negative in 2007 by Euro 12,875 million. Both demand-side and supply-side factors played a role. Rising long-term interest rates in the first part of the year and the financial market turmoil in the second half helped spur demand for government securities and longer-term bonds as against life insurance policies. And on the supply side, it is worth noting that most of the decline in investment came towards the end of the year and involved products sold through the banking channel, owing in part to banks' changing marketing policies.

In terms of year-end holdings, shares and other equity continue to account for the largest share of household portfolios, though they did fall from 25.3% to 23.8%. They are followed by medium/long-term bonds (Italian and foreign), whose incidence rose from 17.9% to 19.2%. Cash and sight deposits held steady at 15.9%. The fall in net investment in life policies resulted in a slight decline (from 10.5% to 10.2%) in their share of the overall portfolio of financial assets. "Insurance technical reserves," an item that also includes severance pay and pension fund assets, accounted for 16.5% of total household financial assets at the end of 2007, down from 16.6%. Finally, the share consisting in Italian and foreign investment fund units fell from 8.3% to 7.7%.

Real estate and consumer credit expanded rapidly and household borrowing increased by nearly 2% during the year. The stock of debt thus rose from 18.5% to 19.9% of assets.

Investment funds' net fund-raising was negative by over Euro 49 billion last year (Table 2). By domicile, Italian funds recorded net redemptions of Euro 52,860 million, as the disinvestment under way since 2004 accelerated sharply in 2006 and 2007. After a number of years of positive net fund-raising, the

*TABLE 1 - ITALIAN HOUSEHOLDS' FINANCIAL ASSETS*

| INSTRUMENT | FLOWS | | | | STOCKS | | | |
|---|---|---|---|---|---|---|---|---|
| | Euro million | | % of total | | Euro million | | % of total | |
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| **Cash and sight deposits** | 31,273 | 2,285 | 24.84 | 2.06 | 583,824 | 587,941 | 15.88 | 15.90 |
| **Other deposits** | 26,867 | 34,503 | 21.34 | 31.11 | 346,132 | 380,636 | 9.42 | 10.29 |
| **Short-term securities** | 14,353 | 13,571 | 11.40 | 12.24 | 15,676 | 26,045 | 0.43 | 0.70 |
| **Medium/Long-term securities** | 21,053 | 61,346 | 16.72 | 55.31 | 533,300 | 584,115 | 14.51 | 15.80 |
| of which: issued by mon.fin.insts | 20,630 | 25,107 | 16.38 | 22.63 | 332,094 | 355,095 | 9.03 | 9.60 |
| **Shares and other equity** | 5,131 | 24,159 | 4.07 | 21.78 | 931,925 | 880,088 | 25.35 | 23.80 |
| **Investment fund units** | -36,399 | -31,430 | -28.91 | -28.34 | 223,317 | 185,941 | 6.07 | 5.03 |
| **Insurance technical reserves (*)** | 33,177 | -948 | 26.35 | -0.85 | 610,820 | 609,872 | 16.62 | 16.50 |
| of which: life insurance reserves | 11,573 | -12,875 | 9.19 | -11.61 | 386,385 | 377,590 | 10.51 | 10.21 |
| **Other assets** | -2,092 | 7,213 | -1.66 | 6.50 | 108,686 | 115,899 | 2.96 | 3.13 |
| **Foreign assets** | 32,558 | 221 | 25.86 | 0.20 | 322,557 | 326,759 | 8.77 | 8.84 |
| of which: medium/long-term securities | 9,694 | 3,611 | 7.70 | 3.26 | 125,418 | 126,695 | 3.41 | 3.43 |
| shares and other equity | 1,227 | -3,527 | 0.97 | -3.18 | 100,254 | 100,062 | 2.73 | 2.71 |
| investment fund units | 9,771 | -3,542 | 7.76 | -3.19 | 81,358 | 80,749 | 2.21 | 2.18 |
| **Total assets** | 125,920 | 110,920 | 100.00 | 100.00 | 3,676,240 | 3,697,295 | 100.00 | 100.00 |
| **Total liabilities** | 57,916 | 59,045 | 45.99 | 53.23 | 680,623 | 737,219 | 18.51 | 19.94 |

*Source: Based on Bank of Italy data (financial accounts). (*) Includes severance pay and pension funds as well as the reserves of the life and non-life sectors.*

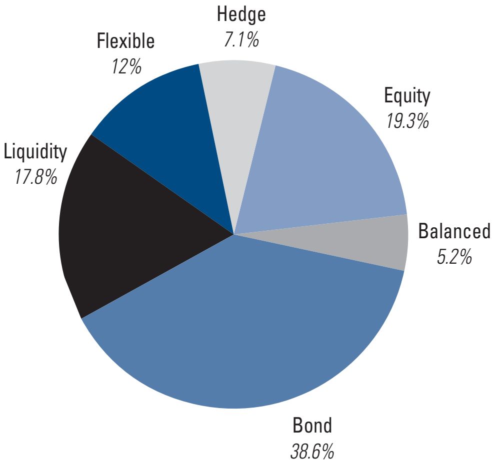
"round-trip" funds established abroad by Italian intermediaries also recorded net redemptions last year, equal to Euro 3,166 million. Foreign funds had net subscriptions of Euro 6,920 million.

Among Italian investment funds, the most massive disinvestment was in bond funds (Table 3), which were hurt by low returns. As in 2006, both equity and balanced funds also closed the year showing net redemptions. By contrast, flexible funds and hedge funds had net inflows of resources, though less substantial than in 2006. The data for the first quarter of 2008 indicate that disinvestment gathered even more momentum. Total net fund-raising remained heavily negative (Euro 36.8 billion), with the bulk of the outflows booked by equity and bond funds.

At the end of March 2008 investment funds' net assets totaled Euro 509,130 million, down by 16.52% from a year earlier. Nearly 40% of the resources under management is invested in bond funds (Figure 2). Italian funds manage 57.3% of total assets, round-trip funds 35.2% and foreign funds 7.5% (Figure 3).

*FIGURE 2*

*ASSETS OF ITALIAN INVESTMENT FUNDS BY CATEGORY OF FUND AT 31 MARCH 2008*




*Source: Assogestioni*

*TABLE 2 - INVESTMENT FUNDS' NET FUND-RAISING BY DOMICILE*

*Euro million*

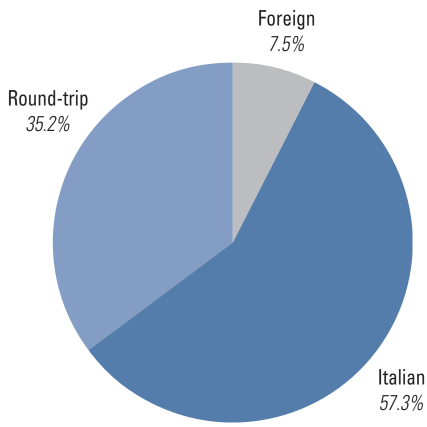
| Domicile of fund | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 (*) |
|---|---|---|---|---|---|---|
| Italian | 10,699 | -19,407 | -9,885 | -42,494 | -52,860 | -28,809 |
| Round-trip | 16,140 | 14,347 | 18,328 | 11,781 | -3,166 | -11,048 |
| Foreign | 2,714 | 5,858 | 12,884 | 21,324 | 6,920 | -4,903 |
| **Total** | **26,781** | **-4,633** | **8,443** | **-17,866** | **-49,155** | **-36,761** |

*Source: Assogestioni*

*(*) First quarter.*

*FIGURE 3*

*ASSETS OF INVESTMENT FUNDS BY DOMICILE AT 31 MARCH 2008*




*Source: Assogestioni*

*TABLE 3 - ITALIAN INVESTMENT FUNDS' NET FUND-RAISING BY TYPE*

*Euro million*

| Type of fund | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 (*) |
|---|---|---|---|---|---|---|
| Equity | -1,063 | -2,322 | -4,480 | -8,134 | -17,960 | -15,406 |
| Balanced | -5,332 | -2,684 | 1,135 | -1,208 | -8,544 | -4,021 |
| Bond | 11,100 | -380 | 10,841 | -28,550 | -35,641 | -14,055 |
| Liquidity | 15,468 | -6,508 | -9,468 | -7,398 | 2,743 | 2,051 |
| Flexible | 3,079 | 1,339 | 5,949 | 21,274 | 1,364 | -5,700 |
| Hedge | 3,529 | 5,920 | 4,467 | 6,149 | 5,179 | 371 |
| **Total** | **26,781** | **-4,633** | **8,443** | **-17,866** | **-52,860** | **-36,761** |

*Source: Assogestioni*

*(*) First quarter.*

## ITALIAN HOUSEHOLDS' WEALTH AND DEBT, 1995-2005

The Bank of Italy recently published estimates on the evolution and composition of Italian households' total wealth in the period 1995 to 2005. In 2005 households' net wealth amounted to Euro 7,800 billion, or approximately Euro 345,000 per household and Euro 134,000 per person (Table 1).

*TABLE 1*
*EVOLUTION OF NET WEALTH*

| Net wealth | 1995 | 2000 | 2005 |
|---|---|---|---|
| Per person | 91,050 | 114,261 | 133,842 |
| Per household | 264,991 | 312,921 | 345,777 |

*Source: Bank of Italy. Data in Euro at 1995 prices*

Adjusted for inflation, per capita net wealth grew by 47% over the decade, or at annual rate of about 3%. Total net wealth expanded by 51%. In the five years 2000-2005, saving accounted for 40% of the increment and the rise in asset prices for the remaining 60%.

There was also a moderate increase in household debt during the decade in question, with financial liabilities rising from 6% of net wealth in 1995 to 7.7% in 2005.

In 2005 real assets (mainly houses) accounted for 63% of total wealth, financial assets 44.6% and financial liabilities 7.7%.

The level of gross wealth was in line with that in other industrial countries, while indebtedness was far lower. Net wealth was equal to 8.5 times disposable income in 2005, the ratio having risen throughout the ten years.

In 2005 households' housing assets were worth more than 4 times their disposable income. In France the ratio was just under 3 and in the United States 2.3. Financial assets amounted to 3.8 times disposable income in Italy, against a factor of 4.4 in the United Kingdom, 3.0 in France and 2.9 in Germany. By contrast, the stock of households' financial liabilities came to only 33% of disposable income in Italy, compared with figures well in excess of 100% in the United Kingdom, the United States and Germany (Table 2).

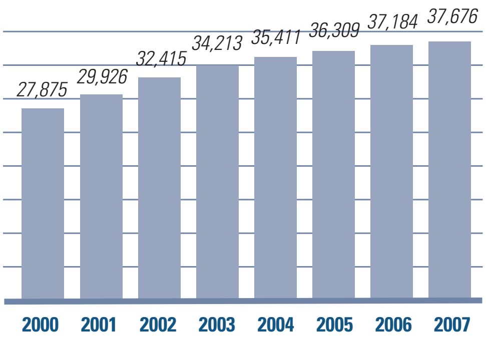
*TABLE 2*
*ASSETS AND LIABILITIES/DISPOSABLE INCOME*

| | 2000 | 2005 |
|---|---|---|
| **HOUSES** | | |
| United States | 1.8 | 2.3 |
| Germany | 2.9 | 2.8* |
| France | 2.9 | 3.0 |
| United Kingdom | 3.1 | 4.2 |
| Italy | 3.4 | 4.2 |
| **FINANCIAL ASSETS** | | |
| United States | 4.6 | 4.3 |
| Germany | 2.7 | 2.9 |
| France | 2.8 | 3.0 |
| United Kingdom | 4.9 | 4.4 |
| Italy | 3.8 | 3.8 |
| **FINANCIAL LIABILITIES** | | |
| United States | 1.03 | 1.35 |
| Germany | 1.14 | 1.08 |
| France | 0.77 | 0.87 |
| United Kingdom | 1.14 | 1.55 |
| Italy | 0.53 | 0.33 |

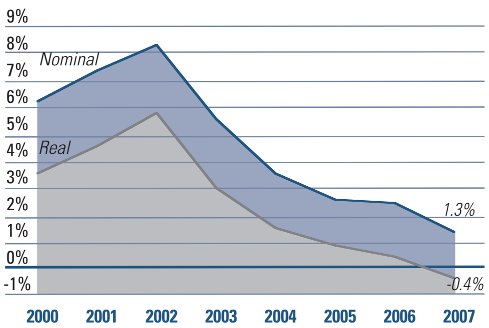
*Source: Bank of Italy*
*(*) Figure for 2004.*

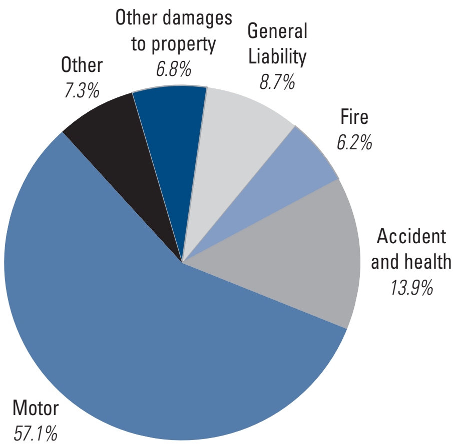
# Non-life insurance

DIRECT PREMIUMS
Euro million




GROWTH RATE OF DIRECT PREMIUMS




**37,676 Euro million**

BREAKDOWN OF MAIN NON-LIFE CLASSES

**Non-life premium income, equal to Euro 37.7 billion, registered a moderate increase (1.3%). The incidence of non-life premiums on the total market (life plus non-life) increased from 35% to 38%. In the presence of a stable loss ratio, the worsening of the expense ratio led to a deterioration of the combined ratio; the incidence of the overall technical account on premiums was substantially unvaried compared to 2006 at 6.9%.**

## DOMESTIC BUSINESS

**Premiums for direct domestic business** for the 110 insurance companies operating in non-life classes were equal to Euro 37,676 million, with a 1.3% increase in nominal terms and a 0.4% decrease in real terms. This trend was determined above all by the decrease (-0.4%) in the motor insurance business (motor third party liability insurance, third party liability insurance for watercraft and land vehicles insurance) which represents about 57% of the overall non-life income and, also, by the continuous presence of a "soft" market (that is characterised by moderate unit prices) mostly in transports: premiums decreased for all the classes of this sector (-19.8% for railway rolling stock, -14.5% for aircraft third party liability, -11.7% for aircraft, -8.7% for ships and -0.3% for goods in transit). The percentage incidence on the total of non-life and life premiums was equal to 38.0%, increasing from 34.9% in 2006.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 26,600 million (Euro 26,509 million in 2006), with a 0.3% increase compared to the previous year; the ratio to earned premiums was equal to 71.7%, decreasing compared to 72.5% in 2006.

The **incurred claims cost for the financial year**, which includes, compared to the incurred cost of the current year, also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 26,082 million (Euro 25,861 million in 2006), with a 0.9% increase. The ratio to earned premiums was equal to 70.3%, slightly decreasing compared to 2006.

**Operating expenses**, which include administration expenses relating to technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network, were equal to Euro 9,191 million (Euro 8,660 million in 2006) with a 6.1% increase and an incidence on direct premiums equal to 24.4% (23.3% in 2006). This trend was the result of both an increase in commissions (from 15.5% of premiums in 2006 to 16.0% in 2007) and an increase in administration expenses (from 4.7% of premiums in 2006 to 5.2% in 2007).

The **technical balance for direct business** was positive at Euro 1,159 million (Euro 1,324 million in 2006).

*NON-LIFE TECHNICAL ACCOUNT*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 27,875 | 29,926 | 32,415 | 34,213 | 35,411 | 36,309 | 37,184 | 37,676 |
| Changes in premiums reserves (-) | 532 | 776 | 764 | 734 | 610 | 627 | 622 | 593 |
| Incurred claims (-): | 23,015 | 23,024 | 23,654 | 24,306 | 24,549 | 24,841 | 25,861 | 26,082 |
| - incurred claims cost for the current accident year (-) | 22,156 | 22,397 | 23,407 | 24,456 | 24,928 | 25,709 | 26,509 | 26,600 |
| - excess/shortfall of reserves for those claims incurred in previous accident years | -859 | -627 | -247 | 150 | 379 | 868 | 648 | 518 |
| Balance of other technical items | -434 | -326 | -460 | -503 | -591 | -561 | -717 | -651 |
| Operating expenses (-) | 6,471 | 6,891 | 7,331 | 7,703 | 8,058 | 8,392 | 8,660 | 9,191 |
| - commissions | 4,269 | 4,497 | 4,843 | 5,138 | 5,338 | 5,546 | 5,755 | 6,012 |
| - other acquisition costs | 796 | 921 | 953 | 1,004 | 1,046 | 1,105 | 1,170 | 1,234 |
| - other administration costs | 1,406 | 1,473 | 1,535 | 1,561 | 1,674 | 1,741 | 1,735 | 1,945 |
| **Direct technical balance** | **-2,577** | **-1,091** | **206** | **967** | **1,603** | **1,888** | **1,324** | **1,159** |
| Investment income | 1,804 | 1,632 | 1,211 | 1,629 | 1,917 | 1,991 | 1,854 | 1,924 |
| **Direct technical account result** | **-773** | **541** | **1,417** | **2,596** | **3,520** | **3,879** | **3,178** | **3,083** |
| Reinsurance results and other items | 720 | 281 | -124 | -407 | -864 | -845 | -661 | -514 |
| **Overall technical account result** | **-53** | **822** | **1,293** | **2,189** | **2,656** | **3,034** | **2,516** | **2,569** |
| Annual % changes in premiums | 6.2% | 7.4% | 8.3% | 5.5% | 3.5% | 2.5% | 2.4% | 1.3% |
| **Combined ratio** | **107.4%** | **102.0%** | **97.3%** | **95.1%** | **93.3%** | **92.7%** | **94.0%** | **94.7%** |
| - Expense ratio | 23.2% | 23.0% | 22.6% | 22.5% | 22.8% | 23.1% | 23.3% | 24.4% |
| - Commissions/Gross written premiums | 15.3% | 15.0% | 14.9% | 15.0% | 15.1% | 15.3% | 15.5% | 16.0% |
| - Other acquisition costs/Gross written premiums | 2.9% | 3.1% | 2.9% | 2.9% | 3.0% | 3.0% | 3.1% | 3.3% |
| - Other administration costs/Gross written premiums | 5.0% | 4.9% | 4.7% | 4.6% | 4.7% | 4.8% | 4.7% | 5.2% |
| - Loss ratio: | 84.2% | 79.0% | 74.7% | 72.6% | 70.5% | 69.6% | 70.7% | 70.3% |
| - Loss ratio for the current accident year | 81.0% | 76.8% | 74.0% | 73.1% | 71.6% | 72.1% | 72.5% | 71.7% |
| - Excess/shortfall of reserves for previous years claims/ Earned premiums | -3.1% | -2.2% | -0.8% | 0.4% | 1.1% | 2.4% | 1.8% | 1.4% |
| **Technical balance/Earned premiums** | **-9.4%** | **-3.7%** | **0.7%** | **2.9%** | **4.6%** | **5.3%** | **3.6%** | **3.1%** |
| **Technical account result/Earned premiums** | **-2.8%** | **1.9%** | **4.5%** | **7.8%** | **10.1%** | **10.9%** | **8.7%** | **8.3%** |
| **Overall technical account result/Earned premiums** | **-0.2%** | **2.8%** | **4.1%** | **6.5%** | **7.6%** | **8.5%** | **6.9%** | **6.9%** |

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

Considering investment income, equal to Euro 1,924 million, the **direct technical account result** was positive at Euro 3,083 million (Euro 3,178 million in 2006). This result represented 8.3% of premiums (8.7% in 2006).

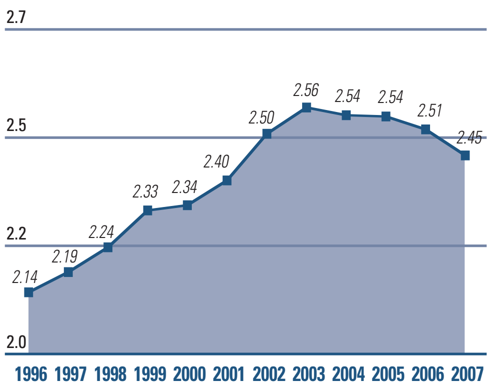
The passive reinsurance and net indirect business result was negative at Euro 514 million (Euro -661 million in 2006).

The **overall technical account result** was positive at Euro 2,569 million (Euro 2,516 million in 2006). The ratio to earned premiums was equal to 6.9%, the same as in 2006.

## NON-LIFE INSURANCE AND GDP

The incidence of non-life premium on GDP has been substantially stable since 2002, if slightly decreasing in the last two years. The decrease in 2007 is explained by the decline in motor premiums, while other non-life insurance premiums and nominal GPD increased.

*NON-LIFE PREMIUMS / GDP (%)*




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

## NON-LIFE INSURANCE COVERAGE OF ITALIAN HOUSEHOLDS IN 2006

Like the previous versions, the questionnaire of the Bank of Italy's 2006 Survey on Household Income and Wealth includes a section on insurance coverage. Heads of households are asked whether they or other household members had casualty insurance (theft, fire, liability insurance other than compulsory automobile insurance) and the amount spent on such policies during the year.

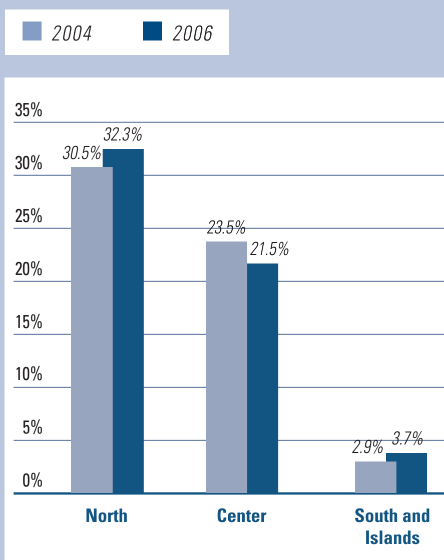
*QUESTIONNAIRE: CASUALTY INSURANCE*

| **Casualty insurance (excluding compulsory automobile liability insurance)** | | | |
|---|---|---|---|
| **F19.** In 2006 did you or another member of your household pay premiums for a casualty insurance policy or policies for theft, fire, hail, third-party liability (excluding compulsory automobile liability insurance)? **ASS3**<br>– Yes ........ 1<br>– No ........ 2 → ***END SECTION*** | | | |
| **NASS31..NASS33** | ... Transport equipment | ... Buildings and land | ... Persons |
| **F20.** How many policies did you have for .... | \|....\| | \|....\| | \|....\| |
| **F21.** What is the total amount your household paid in 2006? | | | € \|....\|....\|·\|....\|....\|....\| **ASS3S** |

*Source: Bank of Italy*

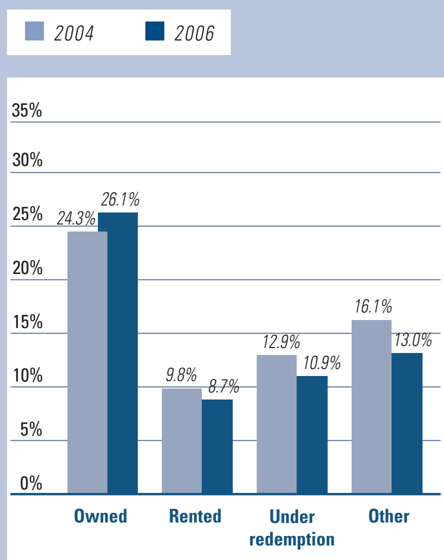
On the basis of the 2006 survey, some 4.8 million of the almost 23 million households resident in Italy (21.1%) had at least one non-life policy (other than compulsory motor liability). In the previous survey, conducted in 2004, 4.6 million households (20.1%) had non-life insurance.

*FIGURE 1*
*INCIDENCE BY GEOGRAPHICAL AREA*




*Source: Based on Bank of Italy data*

*FIGURE 2*
*INCIDENCE BY STATUS OF HOME OCCUPANCY*



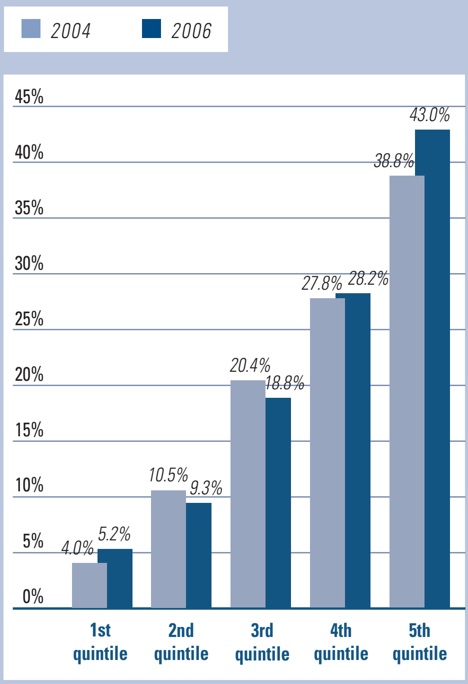

*Source: Based on Bank of Italy data*

The incidence of casualty insurance is highest in the North, where 32.3% of households had at least one policy (30.5% in 2004; Figure 1). Between 2004 and 2006 the proportion of insured households diminished from 23.5% to 21.5% in central Italy while rising from 2.9% to 3.7% in the South.

The share of insured households among owner-occupier households rose from 24.3% in 2004 to 26.1% in 2006 (Figure 2). By contrast, the incidence of casualty insurance fell among non-owner-occupier households; in particular, it declined from 9.8% to 8.7% among renting households.

The share of insured households rose at the higher end of the income distribution, from 38.8% to 43.0% for those in the fifth quintile and from 27.8% to 28.2% in the fourth (Figure 3). In the intermediate quintile it fell from 20.4% to 18.8%.

*FIGURE 3*
*INCIDENCE BY INCOME OF HEAD OF HOUSEHOLD*




*Source: Based on Bank of Italy data*

**The technical results of the motor insurance business, though somewthat worse, remained positive in 2007. The decrease was due to a more limited contribution from the excess of reserves for claims incurred in previous years. The combined ratio rose from 97.3% in 2006 to 99.1% in 2007. The overall technical results for land vehicles remained positive although the ratio to earned premiums decreased compared to 2006.**

## MOTOR LIABILITY MANAGEMENT

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

**Premiums for direct domestic business**, collected by the 65 companies operating in this class, totalled Euro 18,240 million in 2007, reflecting a reduction of 1.0%; they were equal to 48.4% of the overall premiums for Non-Life classes (49.5% in 2006). For the first time since motor liability insurance has become compulsory (that is 1969) the overall premiums for this class registered a decrease. This is due firstly to premium rates maintained stable by companies that, in addition to this, frequently apply flexibility on prices in commercial key and secondly to the effects of two rules contained in Decree Law 7/2007 converted into Law 40/2007 (known as "Bersani 2") that allow many policyholders to have a merit class more favourable than the one they would have had otherwise.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 14,794 million (Euro 14,940 million in 2006), with a 1.0% decrease compared to 2006. Also for this budget item, 2007 was the year of reversal following the constant growth registered in the last decades. In particular, while claims cost had risen between 1998 and 2006 at an annual average rate of 3.7%, in 2007 they registered a slight decrease. A contributory factor to this reduction may have been the introduction of the direct indemnity system. This new system, on the one hand, may have allowed a greater number of small entity claims to be handled and, on the other hand, may have reduced the amount of legal expenses resulting from less legal argument between the parties involved in the claim. Presently there is no detailed information available to verify these hypotheses empirically.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 14,733 million (Euro 14,588 million in 2006) with a 1.0% increase compared to 2006. The excess for the reserves for claims incurred in previous years, positive since 2004, was equal to Euro 61 million, reflecting a decrease compared to the previous year (Euro 352 million). All this explains the worsening of the

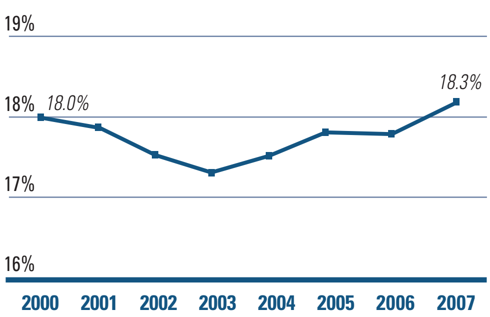
# Motor insurance

*MOTOR LIABILITY*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 14,221 | 15,344 | 16,653 | 17,646 | 18,087 | 18,198 | 18,416 | 18,240 |
| Changes in premiums reserves (-) | 173 | 333 | 341 | 280 | 91 | 82 | 64 | -10 |
| Incurred claims (-): | 13,886 | 13,734 | 13,735 | 14,177 | 14,375 | 14,284 | 14,588 | 14,733 |
| - incurred claims cost for the current accident year (-) | 12,775 | 13,043 | 13,438 | 13,982 | 14,561 | 14,756 | 14,940 | 14,794 |
| - excess/shortfall of reserves for those claims incurred in previous accident years | -1,111 | -691 | -297 | -195 | 186 | 472 | 352 | 61 |
| Balance of other technical items | -184 | -98 | -166 | -178 | -228 | -211 | -232 | -227 |
| Operating expenses (-) | 2,559 | 2,741 | 2,921 | 3,047 | 3,169 | 3,235 | 3,276 | 3,344 |
| - commissions | 1,588 | 1,681 | 1,804 | 1,900 | 1,949 | 1,944 | 1,962 | 1,936 |
| - other acquisition costs | 312 | 369 | 399 | 418 | 437 | 468 | 498 | 512 |
| - other administration costs | 659 | 691 | 718 | 729 | 783 | 823 | 816 | 896 |
| **Direct technical balance** | **-2,581** | **-1,562** | **-510** | **-36** | **224** | **386** | **256** | **-54** |
| Investment income | 1,050 | 899 | 648 | 888 | 1,077 | 1,104 | 992 | 962 |
| **Direct technical account result** | **-1,531** | **-663** | **138** | **852** | **1,301** | **1,490** | **1,248** | **908** |
| Reinsurance results and other items | 218 | 178 | 36 | -12 | -61 | -16 | 9 | 50 |
| **Overall technical account result** | **-1,313** | **-485** | **174** | **840** | **1,240** | **1,474** | **1,257** | **958** |
| Annual % changes in premiums | 7.3% | 7.9% | 8.5% | 6.0% | 2.5% | 0.6% | 1.2% | -1.0% |
| **Combined ratio** | **116.8%** | **109.3%** | **101.7%** | **98.9%** | **97.4%** | **96.6%** | **97.3%** | **99.1%** |
| - Expense ratio | 18.0% | 17.9% | 17.5% | 17.3% | 17.5% | 17.8% | 17.8% | 18.3% |
| - Commissions/Gross written premiums | 11.2% | 10.9% | 10.8% | 10.8% | 10.8% | 10.7% | 10.7% | 10.6% |
| - Other acquisition costs/Gross written premiums | 2.2% | 2.4% | 2.4% | 2.4% | 2.4% | 2.6% | 2.7% | 2.8% |
| - Other administration costs/Gross written premiums | 4.6% | 4.5% | 4.3% | 4.1% | 4.3% | 4.5% | 4.4% | 4.9% |
| - Loss ratio: | 98.8% | 91.5% | 84.2% | 81.6% | 79.9% | 78.8% | 79.5% | 80.7% |
| - Loss ratio for the current accident year | 90.9% | 86.9% | 82.4% | 80.5% | 80.9% | 81.5% | 81.4% | 81.1% |
| - Excess/shortfall of reserves for previous years claims/ Earned premiums | -7.9% | -4.6% | -1.8% | -1.1% | 1.0% | 2.6% | 1.9% | 0.3% |
| **Technical balance/Earned premiums** | **-18.4%** | **-10.4%** | **-3.1%** | **-0.2%** | **1.2%** | **2.1%** | **1.4%** | **-0.3%** |
| **Technical account result/Earned premiums** | **-10.9%** | **-4.4%** | **0.8%** | **4.9%** | **7.2%** | **8.2%** | **6.8%** | **5.0%** |
| **Overall technical account result/Earned premiums** | **-9.4%** | **-3.2%** | **1.1%** | **4.8%** | **6.9%** | **8.1%** | **6.8%** | **5.2%** |
| *Premiums to total non-life premiums ratio (%)* | *51.0%* | *51.3%* | *51.4%* | *51.6%* | *51.1%* | *50.1%* | *49.5%* | *48.4%* |

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

*OPERATING EXPENSES TO PREMIUMS RATIO (%)*




ratio of incurred claims cost for the financial year to earned premiums, which increased from 79.5% in 2006 to 80.7% in 2007.

**Operating expenses** amounted to Euro 3,344 million (Euro 3,276 million in 2006) and include administration expenses relating to technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio to premiums (18.3%) increased compared to 2006. This increase, especially for the administration expenses, was mainly due to investments in procedures related to the startup of the direct indemnity system.

The **technical balance for direct business** was positive at Euro 54 million (Euro 256 million in 2006).

Considering investment income (Euro 962 million in 2007 compared to Euro 992 million in 2006), the **technical account result for direct business** was positive at Euro 908 million (Euro 1,248 million in 2006).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 958 million (Euro 1,257 million in 2006), representing a 5.2% of earned premiums (6.8% in 2006).

## LAND VEHICLES INSURANCE MANAGEMENT

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

*LAND VEHICLES*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 2,678 | 2,811 | 2,955 | 3,062 | 3,145 | 3,154 | 3,205 | 3,287 |
| Changes in premiums reserves (-) | 26 | 40 | 70 | 52 | 45 | 61 | 61 | 107 |
| Incurred claims (-): | 1,204 | 1,160 | 1,205 | 1,257 | 1,260 | 1,417 | 1,485 | 1,579 |
| - incurred claims cost for the current accident year (-) | 1,316 | 1,278 | 1,306 | 1,361 | 1,388 | 1,514 | 1,569 | 1,664 |
| - excess/shortfall of reserves for those claims incurred in previous accident years | 112 | 118 | 101 | 104 | 128 | 97 | 84 | 85 |
| Balance of other technical items | -37 | -18 | -32 | -40 | -46 | -36 | -51 | -39 |
| Operating expenses (-) | 657 | 692 | 709 | 738 | 759 | 748 | 765 | 826 |
| - commissions | 456 | 477 | 494 | 517 | 531 | 518 | 534 | 568 |
| - other acquisition costs | 72 | 84 | 83 | 88 | 88 | 89 | 92 | 100 |
| - other administration costs | 129 | 131 | 132 | 133 | 140 | 141 | 139 | 158 |
| **Direct technical balance** | **754** | **901** | **939** | **975** | **1,035** | **892** | **843** | **736** |
| Investment income | 59 | 50 | 34 | 47 | 57 | 59 | 56 | 57 |
| **Direct technical account result** | **813** | **951** | **973** | **1,022** | **1,092** | **951** | **899** | **793** |
| Reinsurance results and other items | -13 | -33 | -30 | -50 | -46 | -19 | -38 | -27 |
| **Overall technical account result** | **800** | **918** | **943** | **972** | **1,046** | **932** | **861** | **766** |
| Annual % changes in premiums | 2.4% | 5.0% | 5.1% | 3.6% | 2.7% | 0.3% | 1.6% | 2.6% |
| **Combined ratio** | **70.0%** | **66.5%** | **65.7%** | **65.8%** | **64.8%** | **69.5%** | **71.1%** | **74.8%** |
| - Expense ratio | 24.5% | 24.6% | 24.0% | 24.1% | 24.1% | 23.7% | 23.9% | 25.1% |
| - Commissions/Gross written premiums | 17.0% | 17.0% | 16.7% | 16.9% | 16.9% | 16.4% | 16.7% | 17.3% |
| - Other acquisition costs/Gross written premiums | 2.7% | 3.0% | 2.8% | 2.9% | 2.8% | 2.8% | 2.9% | 3.0% |
| - Other administration costs/Gross written premiums | 4.8% | 4.7% | 4.5% | 4.4% | 4.4% | 4.5% | 4.3% | 4.8% |
| - Loss ratio: | 45.4% | 41.9% | 41.8% | 41.7% | 40.7% | 45.8% | 47.2% | 49.7% |
| - Loss ratio for the current accident year | 49.6% | 46.1% | 45.3% | 45.2% | 44.8% | 48.9% | 49.9% | 52.3% |
| - Excess/shortfall of reserves for previous years claims/ Earned premiums | 4.2% | 4.2% | 3.5% | 3.5% | 4.1% | 3.1% | 2.7% | 2.7% |
| **Technical balance/Earned premiums** | **28.5%** | **32.5%** | **32.5%** | **32.4%** | **33.4%** | **28.8%** | **26.8%** | **23.1%** |
| **Technical account result/Earned premiums** | **30.7%** | **34.3%** | **33.7%** | **33.9%** | **35.2%** | **30.7%** | **28.6%** | **24.9%** |
| **Overall technical account result/Earned premiums** | **30.2%** | **33.1%** | **32.7%** | **32.3%** | **33.7%** | **30.1%** | **27.4%** | **24.1%** |
| *Premiums to total non-life premiums ratio (%)* | *9.6%* | *9.4%* | *9.1%* | *9.0%* | *8.9%* | *8.7%* | *8.6%* | *8.7%* |

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

# Motor insurance

**Premiums for direct domestic business** for the 70 insurance companies operating in this class amounted to Euro 3,287 million in 2007 (+2.6% compared to 2006), representing 8.7% of the overall Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims incurred in the current accident year, amounted to Euro 1,664 million (Euro 1,569 million in 2006) with a 6.1% increase; the ratio to earned premiums was equal to 52.3%, increasing compared to 2006.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 1,579 million (Euro 1,485 million in 2006). The ratio to earned premiums was equal to 49.7%, increasing from 47.2% in 2006.

**Operating expenses** amounted to Euro 826 million (Euro 765 million in 2006) and include administration expenses relating to the technical management of insurance business and acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio of the operating expenses to premiums was 25.1% (23.9% in 2006).

The **technical balance for direct business** was positive at Euro 736 million (Euro 843 million in 2006).

Considering investment income, the **technical account result for direct business** was positive at Euro 793 million (Euro 899 million in 2006).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 766 million (Euro 861 million in 2006), representing a 24.1% ratio to premiums (27.4% in 2006).

## MOTOR VEHICLE THEFT IN ITALY AND EUROPE

Eurostat collects data on crime in the various European countries from national authorities, among them the ministries of the interior, police and national statistical institutes. The latest available data refer to 2006. Among the indicators that Eurostat produces is the time series, starting from 1995, of the number of vehicle thefts, including the types of vehicle involved.

An indicator permitting homogeneous comparison between countries is the ratio of vehicle thefts to the number of vehicles in circulation, data that Eurostat also provides. The rate of thefts per 1,000 circulating vehicles is reported in Table 1.

*TABLE 1*
*MOTOR VEHICLE THEFTS REPORTED TO THE LAW-ENFORCEMENT AUTHORITIES PER 1,000 VEHICLES IN CIRCULATION*

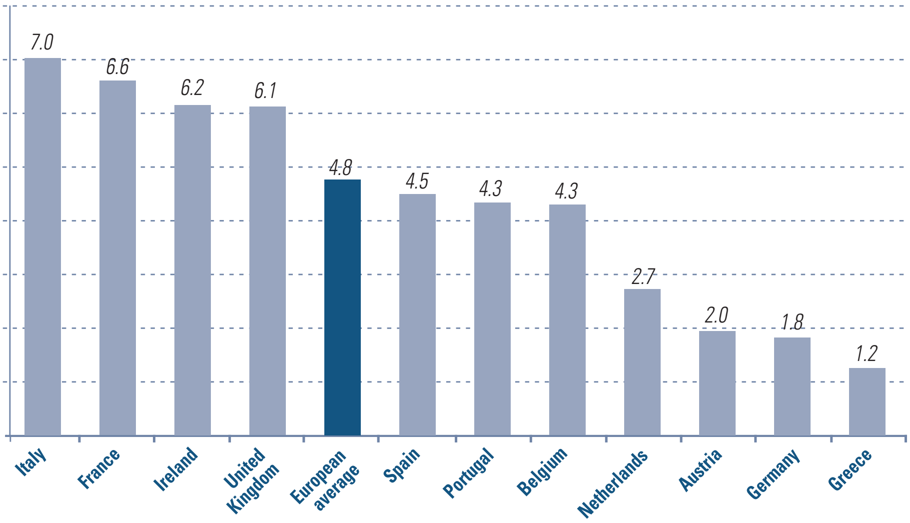
| | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|
| Austria | 1.6 | 1.9 | 1.3 | 1.3 | 1.8 | 1.8 | 2.5 | 2.0 |
| Belgium | 10.5 | 9.5 | 8.5 | 7.5 | 6.1 | 5.0 | 4.4 | 4.3 |
| France | 15.0 | 11.9 | 12.1 | 10.9 | 9.2 | 7.9 | 7.2 | 6.6 |
| Germany | 6.0 | 2.7 | 2.5 | 2.4 | 2.3 | 2.2 | 2.0 | 1.8 |
| Greece | 1.8 | 1.3 | 1.2 | 1.1 | 1.2 | 1.1 | 1.1 | 1.2 |
| Ireland | 10.3 | 10.4 | 9.0 | 8.3 | 7.0 | 7.2 | 6.7 | 6.2 |
| **Italy** | **9.2** | **6.7** | **6.4** | **6.2** | **5.8** | **7.1** | **6.8** | **7.0** |
| Netherlands | 7.5 | 6.2 | 5.6 | 5.4 | 4.2 | 3.7 | 3.1 | 2.7 |
| Portugal | 5.1 | 5.6 | 5.3 | 5.9 | 5.7 | 5.4 | 4.7 | 4.3 |
| United Kingdom | 19.7 | 12.0 | 11.3 | 10.6 | 9.4 | 7.7 | 6.7 | 6.1 |
| Spain | 5.7 | 6.7 | 7.1 | 6.8 | 5.9 | 5.2 | 4.8 | 4.5 |
| **European average** | **10.3** | **7.3** | **7.1** | **6.7** | **5.9** | **5.5** | **5.0** | **4.8** |

*Source: Eurostat*

The international comparison shows a negative trend for Italy. In 1995 there were 9.2 thefts for every 1,000 vehicles in circulation in Italy, against 19.7 in the United Kingdom, 15.0 in France and a European average of 10.3. In 2000 the theft rate in Italy was still lower than the European average (6.7 against 7.3 per 1,000).

Between 2000 and 2006 the incidence of vehicle theft fell sharply at European level, from 7.3 to 4.8 per 1,000. At national level, steep declines were recorded in the United Kingdom (from 12.0 to 6.1), France (from 11.9 to 6.6), Belgium (from 9.5 to 4.3) and the Netherlands (from 6.2 to 2.7). In Italy, by contrast, the downward movement came to halt in 2003, when the indicator fell to 5.8. In the subsequent years the rate has trended upwards. In fact, Italy is the only country where the indicator rose in 2006, from 6.8 to 7.0 per 1,000. With this, Italy became the country with the highest vehicle theft rate (Figure 1). In 2006 there were more than 280,000 vehicle thefts in Italy (28% of the European total), or about 32 vehicles stolen every hour.

FIGURE 1
MOTOR VEHICLE THEFTS REPORTED
TO THE LAW-ENFORCEMENT AUTHORITIES
PER 1,000 VEHICLES IN CIRCULATION - 2006




Source: Eurostat

The incidence of insurance against car theft is low in Italy by European standards. Our statistics do not distinguish auto theft insurance separately from partial or total non-liability insurance (theft, fire, collision, loss). However, the ratio of motor non-liability insurance premiums to total motor premiums (non-liability plus liability) was equal to 14.8% in Italy in 2006 (15.3% in 2007), a very low level compared with other European countries. In fact, a survey conducted by the CEA found that in 2005 the corresponding indicator stood at 59% in France and 42% in Spain.

## THE AVERAGE COST OF CLAIMS AND CLAIMS FREQUENCY: A EUROPEAN COMPARISON

Analysis of the overall loss ratio of the motor liability insurance sector 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. With appropriate adjustments, detailed below, a market-wide analysis of this kind can still be made following the introduction of the direct compensation procedure, so that developments during the year can be compared with those of previous years (see Table 1).

**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 during the year but not reported (IBNR). By this count, the number of claims totaled 3,372,725 in 2007, up 4.7% from 3,221,398 in 2006.

*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 | | | | | | | | MEMORANDUM 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% | -1.26% | 1,278 | 2.93% | 9,920 | 14.91% | 2,809 | 13.07% | 10.95% | 2,825 |
| 2001 | 8.54% | -13.08% | 1,431 | 12.02% | 11,175 | 12.65% | 3,186 | 13.41% | 9.55% | 3,207 |
| 2002 | 7.82% | -8.42% | 1,535 | 7.26% | 12,686 | 13.53% | 3,532 | 10.87% | 8.78% | 3,503 |
| 2003 | 7.66% | -2.09% | 1,634 | 6.44% | 13,542 | 6.75% | 3,805 | 7.74% | 8.63% | 3,771 |
| 2004 | 7.61% | -0.63% | 1,701 | 4.10% | 13,206 | -2.48% | 3,982 | 4.65% | 8.58% | 3,964 |
| 2005 | 7.55% | -0.75% | 1,644 | -3.33% | 13,106 | -0.76% | 4,047 | 1.62% | 8.51% | 4,038 |
| 2006 | 7.47% | -1.09% | 1,674 | 1.83% | 13,233 | 0.97% | 4,100 | 1.31% | 8.47% | 4,080 |
| 2007* | 7.74% | 3.66% | n.a. | n.a. | n.a. | n.a. | 3,884 | -5.26% | 8.65% | 3,927 |

** ANIA estimates based on ANIA quarterly statistics and advance information on 2007 financial statements*
*** Source: ISVAP, for 2006, see circular of 12 December 2007*

**Claims frequency (excluding IBNR, Panel A of Table 1).** Claims frequency as shown in Panel A of Table 1 is defined as the ratio of the number of claims incurred and reported during the accident year that have given or will give rise to compensation to the number of vehicles exposed to the risk of claim-generating accident (measured on the basis of days of exposure during the year, or "vehicle-years"). Considering that the number of vehicle-years increased by 0.8% (from 43.209 to 43.551 million) ([1]) the claims frequency rose from 7.47% in 2006 to 7.74% in 2007, an increase of 3.7% ([2]).

The data now available are not sufficient to explain the increase in claims frequency. Possible causes include larger numbers of minor accidents or of accidents with joint liability.

([1]) It is worth recalling that according to estimates based on ACI data the number of vehicles circulating grew by 1.7% in the twelve months to December 2007. This growth rate is consistent with that resulting from the ANIA's SITA database for license plates having insurance coverage, which shows that between 2006 and 2007 the number of policies for which a payment was made increased by 1.5%. In any event, all three statistical sources show that the number of insured vehicles increased in 2007.

([2]) Claims frequency figures in Table 1 differ slightly from those reported in Table 2 on p. 84, which are derived from sample statistics and exclude a part of the vehicles in circulation (those insured by roll) and the claims they generate.

**Average cost of claims (excluding IBNR, Panel A of Table 1).** 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, in order to obtain a figure for 2007 comparable with the prior-year data calculated by ISVAP according to this method. On this basis, the average claim cost in 2007 was **Euro 3,884**, down 5.3% from Euro 4,100 in 2006.

The reduction in average cost may reflect a larger number of minor claims, which would be consistent with the observed increase in claims frequency. Other factors may have been a decrease in legal and litigation expenses and a stricter settlement policy on the part of the companies handling claims. More detailed data are necessary to test these hypotheses empirically.

Another dataset that is not currently available concerns personal injury. With this information, to be derived from ANIA's annual statistics on motor liability insurance, it will be possible to estimate both the average cost of claims as regards personal injury (and thus also the average cost as regards property damage) and to estimate the number of claims involving physical damage as a proportion of the total number of claims incurred in 2007.

**Number of claims and average cost (including IBNR, Panel B of Table 1).** The total number of claims, including the IBNR estimate, came to **3,767,725**, up 2.9% from 2006. The claims frequency rose from 8.47% to 8.65%. Counting all the components included in the definition of the costs of claims for the period **(item 18 of ISVAP 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 fell by 3.8%, from Euro 4,080 to **Euro 3,927**.

Accordingly, the increase of 2.9% in the number of claims was accompanied by a reduction of 3.8% in average cost, **resulting in a decrease of 1% in the total cost of claims for the period (item 18 of ISVAP Form 17).**

CEA statistics permit comparison of claims frequency and average cost in Italy with a sample of European countries representing nearly 55% of the European motor liability insurance market between 2000 and 2005 (the last year available). Claims frequency, calculated on the basis of accident year and excluding IBNR claims and nil claims, was higher in Italy than the European average throughout the period: in 2005 the indicator in Italy was about 1 percentage point above the European average of 6.6%. In the five years from 2000 to 2005, claims frequency fell by more than 23% in Italy, in line with the reduction of 20% in the European average (Figure 1).

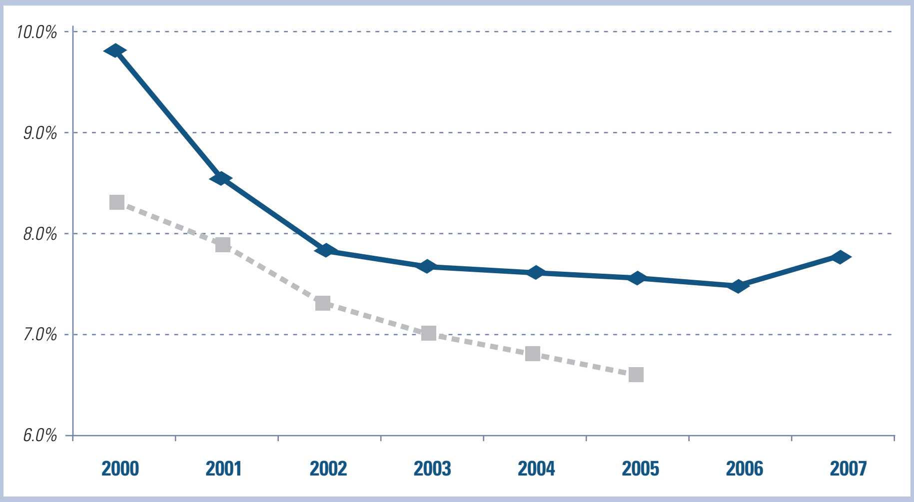
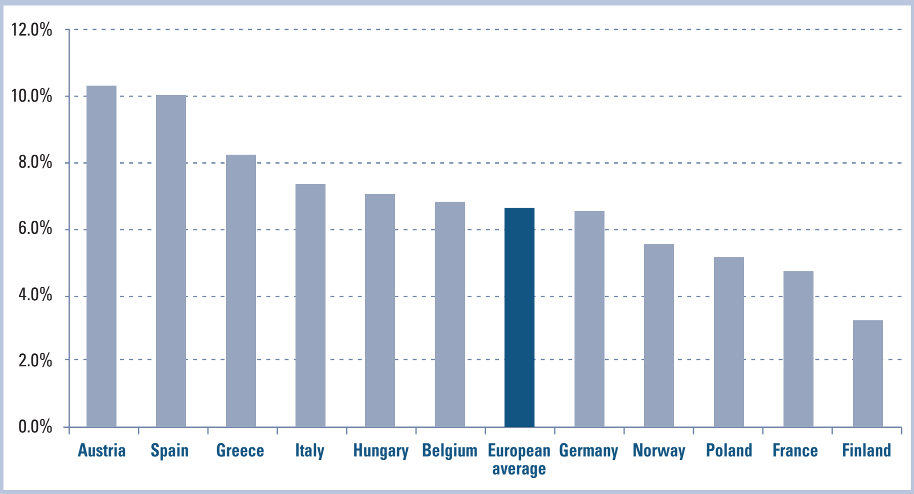



*FIGURE 1*
*MOTOR LIABILITY CLAIMS FREQUENCY*

*Source: CEA European Motor Insurance Market*

Examining the evolution of claims frequency for individual countries, we find somewhat disparate patterns (Figure 2). In 2005 the claims frequency was about 2.5 percentage points higher in Austria and Spain than in Italy (although it should be noted that the figure for Spain was not adjusted for nil claims). Claims frequency was about 1 percentage point higher in Greece than in Italy. The indicator was below the European average in major countries such as Germany (6.5%), Poland (5.1%) and France (4.7%), and as low as 3.2% in Finland.

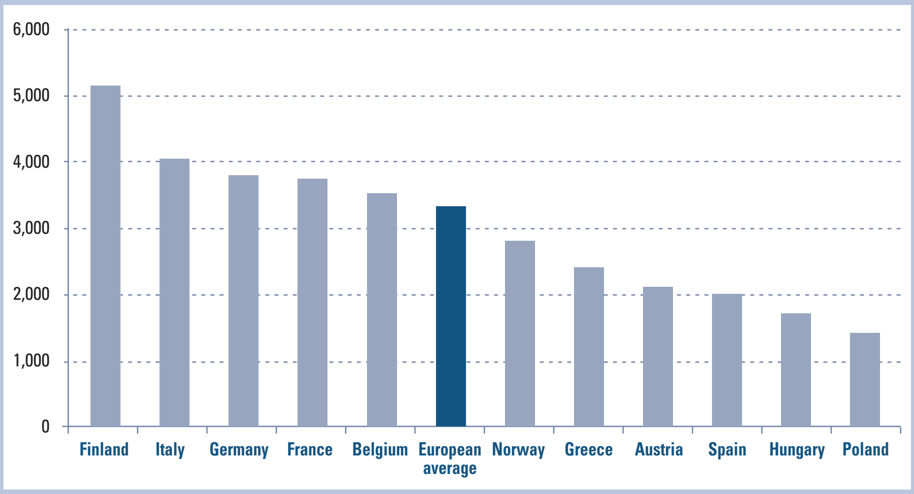
*FIGURE 2*
*MOTOR LIABILITY CLAIMS FREQUENCY IN 2005*




*Source: CEA European Motor Insurance Market*

The same CEA data also permit comparison of the average cost of the claims registered.

*FIGURE 3*
*AVERAGE COST OF MOTOR LIABILITY CLAIMS IN 2005*
*Euro*




*Source: CEA European Motor Insurance Market*

In 2005 the average claim cost was Euro 3,300 in Europe (Figure 3). In Italy it was Euro 4,047, or 23% above the European average and the highest of all the countries considered except Finland, which, as we have seen, was the country with the lowest claims frequency. In France and Germany the average cost of claims was nearly Euro 300 less than in Italy, while in Spain it was about half the Italian figure. The high average cost of claims in Italy compared with all the other countries is largely due to the larger proportion of claims involving personal injury (21% in 2006), approximately double the European average. In particular, in 2005 the corresponding share was 8% in Norway, 10% in France and Germany and 11% in Sweden. The country closest to Italy in this respect was Spain, where 19% of claims involved personal injury.

## DIRECT INDEMNITY – THE FIRST YEAR

The new system of direct indemnity for automobile liability insurance went into effect on 1 February 2007. Now in the case of an accident causing only physical damage or minor injury, the non-liable or only partly liable party applies directly to his own insurer, who must indemnify him for the damages, as established in the insurance companies' convention for direct indemnity (the "CARD" convention).

We can now draw up an initial assessment of the operation of the new system and consider possible variations in the technical indicators for auto liability insurance, using ANIA's quarterly statistical data at 31 December 2007. For the branch as a whole and for the main types of vehicle, these statistics give the number of accidents during the year and the number of definitive indemnifications, both for accidents covered by the convention and for those handled outside it. The data are for 30 insurance companies, which accounted for 68.5% of premium income in 2007, and cover nearly 27 million insured and 2.1 million accidents.

**Proportion of CARD accidents.** Direct indemnity can be requested only if certain conditions are met. The accident must involve only two vehicles, both identified, regularly insured and registered in Italy; if one of the vehicles involved is a motor scooter, its license plate must be numbered according to the new system. The procedure cannot apply if an agricultural vehicle is involved. If in addition to damage to the vehicles and objects transported there are injuries to persons, the injury must not be serious, i.e. must not cause permanent disability of more than 9% to the non-liable driver; for passengers, however, the procedure applies even when the injury results in more than 9% disability, regardless of the number of vehicles involved in the accident.

The proportion of motor vehicle accidents causing damage eligible for direct indemnity under the CARD convention was **73.7%**. That is, nearly three quarters of all the accidents occurring and reported in 2007 qualified. The percentage of accidents to which direct indemnity could not be applied (for at least one type of damage) was **27.4%**. The total is more than 100% because a single accident may cause more than one type of damage, which may or may not qualify for the CARD procedure.

The proportion of accidents qualifying for direct indemnity will certainly rise in the next few years thanks to the constant improvement in the computerized procedures, some problems with which may have slowed down the coverage of accidents at first, and because accidents involving two vehicles insured by the same company will now be included – on a voluntary basis in 2008, obligatory from 2009; in 2007 they were excluded.

By type of vehicle, there were significant differences in the proportion of CARD-covered accidents (Table 1).

*TABLE 1*
*PERCENTAGE OF ACCIDENTS COVERED BY CARD**

| | % of all insured vehicles | % CARD accidents | % non-CARD accidents |
|---|---|---|---|
| PASSENGER CARS | 71.7 | 79.6 | 21.6 |
| MOTORCYCLES AND SCOOTERS | 13.3 | 60.1 | 41.1 |
| *– Motorcycles* | *8.0* | *78.4* | *23.0* |
| *– Motor scooters* | *5.3* | *16.5* | *84.2* |
| TRUCKS | 7.8 | 52.9 | 48.2 |
| *– up to 3.5 tons* | *6.3* | *60.0* | *41.1* |
| *– over 3.5 tons* | *1.5* | *34.8* | *66.4* |
| OTHER | 7.2 | 35.0 | 65.7 |
| **TOTAL** | **100.0** | **73.7** | **27.4** |

*(*) The same accident may result in both CARD and non-CARD damages and thus be counted in both columns, so the total of the two percentages is more than 100.*

For cars and motorcycles, which comprise nearly 80% of all insured vehicles, the percentage of accidents qualifying for the direct indemnity procedure was nearly 80%. For scooters (5.3% of insured vehicles), only 16.5% qualified for CARD, owing to the new-license-plate requirement. For trucks, just over half the accidents were covered by CARD, chiefly those involving smaller vehicles (up to 3.5 tons), 60% of which qualified; of larger trucks involved in accidents, only 34.8% were eligible.

By geographical area (Figure 1), nearly all the provinces showed a high proportion of CARD-covered accidents. The lowest percentage was recorded in Bolzano (62.4%), the highest in Rome (79.1%). The provinces of the South showed values below the national average. In the North, the only provinces lower than the national average were the two provinces of Trentino-Alto Adige (Trento and Bolzano) and Sondrio.

***Claims frequency.*** Claims frequency – based on the year in which the accident occurs – is defined as the ratio between the number of accidents occurring and reported during the year (not counting so-called inconsequential accidents, i.e. those disposed of without payment, and late claims) and the number of those exposed to risk (vehicle-years).

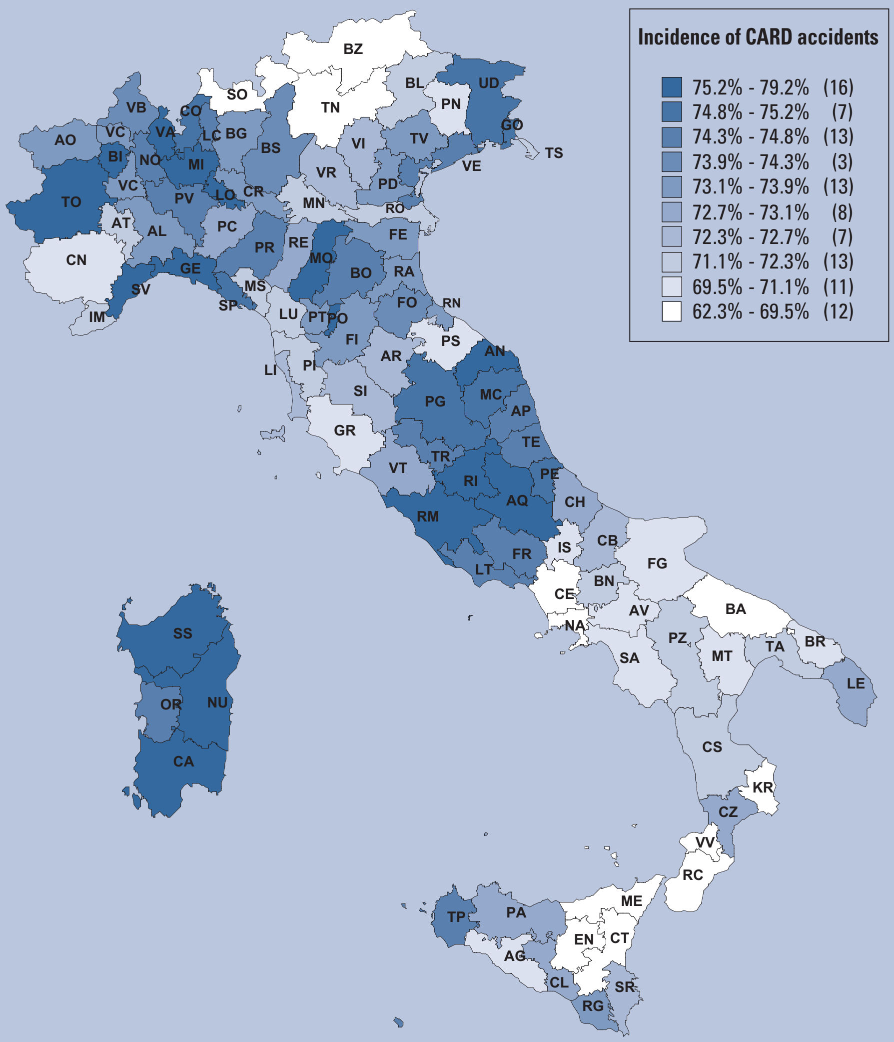



*FIGURE 1*
*CARD ACCIDENTS AS PERCENTAGE OF TOTAL*

However, with the introduction of direct indemnity the definition of "accidents occurred" must be specified in greater detail.

Before direct indemnity went operational on 1 February 2007, the total number of motor liability accidents was the sum of all accidents that insured parties caused with liability to third parties whose claims had to be paid by the insurer of the party at fault. After that date the total number of accidents can still be monitored considering the claims caused by one's own insured. But as the direct indemnity procedure means that each insurer indemnifies its own policyholders, it is essential to monitor the frequency of accidents for which one's own insured are not liable but are the damaged party. Thus it is useful to define total accidents as the sum of:

– Claims handled under the CARD convention relating to accidents involving one's own non-liable policyholders and indemnified by the insurer as case handler;
– Claims settled outside the CARD convention and handled by the ordinary liability procedures (damages to third parties for which one's own insured are liable).

The total is thus the total number of accident claims "handled" by an insurer. The ratio of this number to number of vehicle-years is claims frequency.

While the distinction between accidents caused and claims handled makes no difference to the overall frequency for the entire motor liability sector and for all insurers (obviously, for every policyholder who causes an accident there is another who is the damaged party), the new system may result in differences, with respect to the past, for certain types of vehicle or individual companies, if the claims frequency of accidents for which the insured is at fault differs from that of not-at-fault accidents. Accordingly the proper specification of the technical indicators for a comparison over time is important, as for the years prior to 2007 only the claims frequency of accidents caused is available (Table 2).

*TABLE 2 - CLAIMS FREQUENCY BY TYPE OF VEHICLE*

| | TOTAL | | | PASSENGER CARS | | | SCOOTERS | | | MOTORCYCLES | | | TRUCKS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | CLAIMS FREQ. ACCIDENTS CAUSED % | VAR. FREQ. ACCIDENTS CAUSED % | FREQ. CLAIMS HANDLED % | CLAIMS FREQ. ACCIDENTS CAUSED % | VAR. FREQ. ACCIDENTS CAUSED % | FREQ. CLAIMS HANDLED % | CLAIMS FREQ. ACCIDENTS CAUSED % | VAR. FREQ. ACCIDENTS CAUSED % | FREQ. CLAIMS HANDLED % | CLAIMS FREQ. ACCIDENTS CAUSED % | VAR. FREQ. ACCIDENTS CAUSED % | FREQ. CLAIMS HANDLED % | CLAIMS FREQ. ACCIDENTS CAUSED % | VAR. FREQ. ACCIDENTS CAUSED % | FREQ. CLAIMS HANDLED % |
| 2004 | 7.46 | *n.a.* | n.a. | 7.17 | *n.a.* | n.a. | 3.32 | *n.a.* | n.a. | 3.46 | *n.a.* | n.a. | 18.60 | *n.a.* | n.a. |
| 2005 | 7.37 | *-1.13* | n.a. | 7.15 | *-0.27* | n.a. | 3.20 | *-3.44* | n.a. | 3.45 | *-0.31* | n.a. | 17.76 | *-4.52* | n.a. |
| 2006 | 7.30 | *-0.97* | n.a. | 7.17 | *0.32* | n.a. | 3.12 | *-2.45* | n.a. | 3.54 | *2.58* | n.a. | 16.69 | *-6.00* | n.a. |
| **2007** | **7.54** | *3.31* | **7.72** | **7.48** | *4.34* | **8.41** | **3.38** | *8.33* | **3.33** | **3.64** | *2.75* | **5.10** | **17.21** | *3.11* | **10.07** |

The table permits a number of observations.

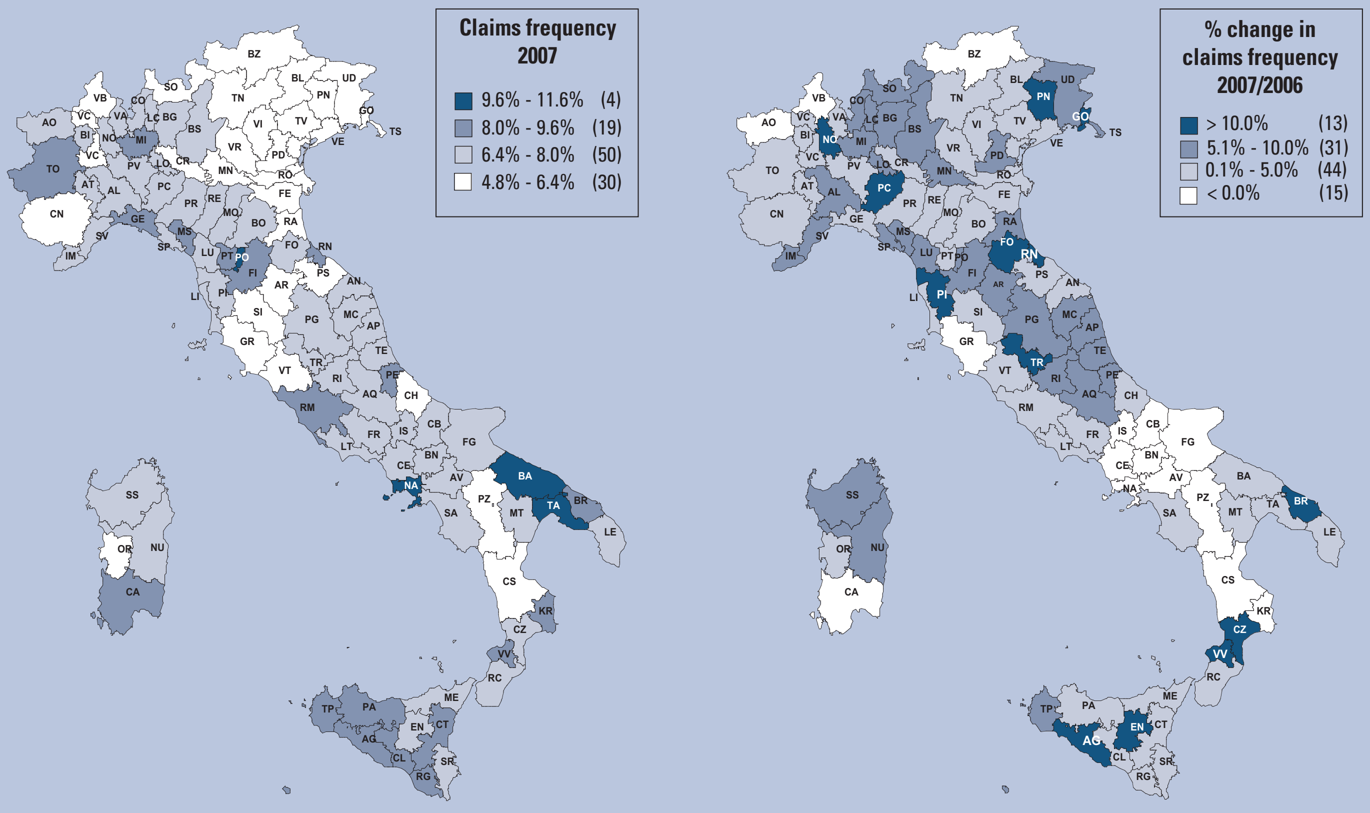
***Claims frequency of accidents caused.*** For all vehicles and the entire motor liability sector, the claims frequency of accidents caused (those for which the insured is liable), not counting those reported late, was **7.54%** in 2007, an increase of 3.3% over the 7.30% registered in 2006.

The frequency rose for all types of vehicle; the increase was steepest for **passenger cars** (4.3%, from 7.17% to 7.48%) and for **scooters** (8.3%, from

3.12% to 3.38%). For **motorcycles** the increase was a more modest 2.8%, to a frequency of 3.64% in 2007. For **trucks** the increase was 3.1%; trucks were again the type of vehicle causing the most accidents, with a frequency of 17.21% in 2007.

Geographically, the increase in frequency of accidents caused was found in practically every province (Figure 2). The frequency went down in very few provinces (those shown in white on the right-hand map). Provinces with high claims frequency but improving over 2006 include Naples (down 6.6%), Cagliari (down 4.9%) and Caserta (down 4.0%). The provinces where claims frequency fell most sharply in 2007 were Isernia (down 9.4%) and Foggia (down 7.1%). Those rising most sharply – albeit from a relatively low base – were Rimini (up 36.3%), Piacenza (up 26.0%) and Novara (up 18.0%). The province with the highest claims frequency in 2007 was Prato, after a significant rise of 6.7%.

*FIGURE 2 - CLAIMS FREQUENCY OF ACCIDENTS CAUSED AND VARIATION 2007/2006 BY PROVINCE*



Claims frequency had been declining steadily in recent years, so 2007 represented a reversal, despite the rise in fuel prices, which past experience suggests should have caused a diminution in circulation of vehicles and thus less risk of accidents. Possible explanations for last year's increase could be a rise in the number of minor accidents or in those with joint liability. To check these hypotheses empirically, however, further study using different data sources would be required.

***Frequency of claims handled.*** The frequency of claims handled industry-wide was **7.72%** in 2007, the first year for which this indicator is available. This is higher than the claims frequency of accidents caused (7.54%), essentially for two reasons:

– ANIA's statistics on damage to third parties do not include accidents involving vehicles covered by fleet policies, but such accidents may well be among the claims handled, if one's own insured are victims of accidents caused by fleet vehicles.
– ANIA's statistics are compiled on a sample basis, so it is possible that the sample insurers have a higher claims frequency of accident victims than of liable policyholders.

Interestingly, the gap between claims handled and accidents caused varies considerably by type of vehicle, regardless of the statistical considerations set out above. For **motorcycles**, in particular, accidents caused showed a frequency of 3.64% in 2007, while claims handled (mostly under CARD) were 40% more frequent at 5.10%. For **motor scooters**, which are still mostly not covered by the direct indemnity procedure, the two frequencies were more closely aligned. For **passenger cars** as well, the frequency of claims handled was higher than that of accidents caused, though the difference was less pronounced than in the case of motorcycles. The only type of vehicle for which claims handled were less frequent than accidents caused was **trucks**, which generally cause more accidents than the other types of vehicle and are the non-liable party in fewer.

***Average amount of claims paid – current generation.*** As for claims frequency, so for the average size of claims paid and settled in the first year of observation (the "current generation" of accidents occurring), we must distinguish between claims settled before 2007 and those settled under the new direct indemnity system. For the former, the claims settled were for damages to third parties, objects or persons on all types of vehicles, or passers-by, and were paid entirely by the insurer of the party at fault. Starting 1 February 2007, claims paid are the claims "**handled**" by an insurance company (the "handler"); and they represent a mix of:

– accidents caused by its own insured with damage to third parties but not covered by the direct indemnity CARD convention and settled entirely by the liable party's insurer; in particular, this includes injuries to passers-by, injuries to the driver not at fault causing more than 9% permanent disability, damages from accidents involving more than two vehicles and injuries to passengers on the vehicle of the at-fault policyholder;
– accidents covered by CARD in which one's own policyholder is not at fault; these claims are settled by the policyholder's own company (the handler); the claims covered are for damages to the vehicles of the two policyholders, injury to the driver not at fault up to 9% permanent disability and injury to passengers in the non-liable vehicle. The handling company that settles the claim on the basis of verified cost is then reimbursed by the debtor company with a predetermined set fee depending on the type of damage (to vehicle, injury to driver, injury to passenger).

A consistent comparison between 2006 and 2007 is possible only for the entire motor liability sector. But for some types of vehicles there may be quite significant differences between the average damage caused and the average damage sustained. This applies especially to motorcycles, as the drivers generally sustain personal injuries with higher average costs than for other types of vehicle, and accidents also have a higher incidence of personal injury to driver and passenger. Table 3 shows average costs of claims settled from 2004 through 2006, under the old system; for 2007 it gives, separately, the average cost of claims settled and handled by insurers under the new direct indemnity convention.

The table shows that:

– For the **entire sector and all types of vehicle, the average cost of current-generation claims** settled rose from Euro 1,581 in 2006 to **Euro 1,605** in 2007, an increase of 1.5%. In 2006 the increment had been 0.5%.
– For the various vehicle types, the average claim handled and settled by insurers differs substantially from the average cost of claims settled in 2006. **Motorcycles** show the widest difference, with average claims settled for current generation damages to third parties of Euro 1,365 in 2006 and average cost of claims handled and settled in 2007 of **Euro 2,182**, or a gap of nearly 60%. Next come **trucks**, with a gap of 9.3%, with current-generation claims settled averaging **Euro 1,711** in 2007. For **motor scooters** the difference in the average figure, while significant (an increase of 9.3%), was smaller than for motorcycles, because most accidents (essentially, those involving scooters without a license plate number, still the majority) continued to be handled outside the direct indemnity system, so the 2007 data are more comparable with those on damages caused in 2006. The average cost of current-generation scooter claims

*TABLE 3 - AVERAGE COST OF CLAIMS SETTLED, CURRENT GENERATION, BY TYPE OF VEHICLE*
*Euro*

| | TOTAL | | | PASSENGER CARS | | | SCOOTERS | | | MOTORCYCLES | | | TRUCKS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | AVERAGE COST, CLAIMS AT FAULT | AVERAGE COST OF CLAIMS HANDLED | *% CHANGE IN COST OF CLAIMS AT FAULT** | AVERAGE COST, CLAIMS AT FAULT | AVERAGE COST OF CLAIMS HANDLED | *% CHANGE IN COST OF CLAIMS AT FAULT** | AVERAGE COST, CLAIMS AT FAULT | AVERAGE COST OF CLAIMS HANDLED | *% CHANGE IN COST OF CLAIMS AT FAULT** | AVERAGE COST, CLAIMS AT FAULT | AVERAGE COST OF CLAIMS HANDLED | *% CHANGE IN COST OF CLAIMS AT FAULT** | AVERAGE COST, CLAIMS AT FAULT | AVERAGE COST OF CLAIMS HANDLED | *% CHANGE IN COST OF CLAIMS AT FAULT** |
| 2004 | 1,509 | n.a. | n.a. | 1,576 | n.a. | n.a. | 1,058 | n.a. | n.a. | 1,316 | n.a. | n.a. | 1,448 | n.a. | n.a. |
| 2005 | 1,573 | n.a. | *4.3* | 1,636 | n.a. | *3.8* | 1,104 | n.a. | *4.3* | 1,350 | n.a. | *2.6* | 1,521 | n.a. | *5.0* |
| 2006 | 1,581 | n.a. | *0.5* | 1,627 | n.a. | *-0.5* | 1,130 | n.a. | *2.4* | 1,365 | n.a. | *1.1* | 1,565 | n.a. | *2.9* |
| **2007** | n.a. | **1,605** | *1.5* | n.a. | **1,580** | *-2.9* | n.a. | **1,236** | *9.3* | n.a. | **2,182** | *59.8* | n.a. | **1,711** | *9.3* |
| **2007** | | | | | | | | | | | | | | | |
| ***of which*: CARD** | | **1,485** | | | **1,448** | | | **1,668** | | | **2,129** | | | **1,496** | |
| ***of which*: non-CARD** | | **2,063** | | | **2,348** | | | **1,175** | | | **2,484** | | | **1,998** | |

*(*) The change between the average cost of claims for which the policyholder was liable in 2006 and that of claims handled in 2007, by individual type of vehicle, must take account of the fact that the different mix of accidents affects the comparison very significantly. For claims incurred /handled, different types of vehicle have different incidence of personal injury, different characteristics of vehicle damage, different repair costs, and so on. This must be considered in the year-on-year comparison.*

settled in 2007 was **Euro 1,236**. For **passenger cars**, by far the largest category, accounting for 72% of all insured vehicles, there was a negative difference of 2.9%, with the average cost of claims handled and settled coming to **Euro 1,580** in 2007.

– Sector-wide, the average cost of claims handled and settled via direct indemnity was **Euro 1,485**, lower than the non-CARD claim average of **Euro 2,063**. This difference is found for all vehicle types save motor scooters, which as noted depends on the small number of accidents covered by the CARD convention.

**Average claim paid in direct indemnity settlements: comparison with CONSAP data and predetermined compensation.** In the direct indemnity system, it is important for insurers to monitor not only the average cost per claim but also the average amount of the individual damage claims forming part of the accident (so called head of damage). The assignment of the individual compensation amounts (CID for direct indemnity and CTT for third-party passengers) to the company handling the claims is determined by the single components of the total damage claim. For example, under the CTT convention on third-party passengers, for each such claim paid the mandatary direct insurer will receive from the liable party's insurer the preset compensation amount. The average claims settled for the two components (CID and CTT) are shown in Table 4.

*TABLE 4 - AVERAGE DEFINITIVE CLAIM PAID UNDER DIRECT INDEMNITY, CURRENT GENERATION*
*Euro*

| | CID Head of damage | % diff. from total | CTT Head of damage | % diff. from total |
|---|---|---|---|---|
| PASSENGER CARS | 1,369 | -2.7 | 2,200 | -1.6 |
| MOTORCYCLES AND SCOOTERS | 1,963 | 39.5 | 2,784 | 24.5 |
| *– Motorcycles* | *1,996* | *41.8* | *2,828* | *26.5* |
| *– Motor scooters* | *1,537* | *9.3* | *2,308* | *3.2* |
| TRUCKS | 1,461 | 3.8 | 2,116 | -5.4 |
| *– Up to 3.5 tons* | *1,406* | *-0.1* | *2,105* | *-5.8* |
| *– Over 3.5 tons* | *1,744* | *24.0* | *2,245* | *0.4* |
| **TOTAL** | **1,407** | | **2,236** | |
| memorandum item: | | | | |
| **TOTAL, CONSAP data** | **1,334** | | **2,184** | |

The table shows that the vehicle type that diverges most sharply from the overall average for both single claim components, CID and CTT, is motorcycles. The other types of vehicle are more closely aligned with the average.

The average amount of each claim component can also be compared with the average reported by the clearing house operator, CONSAP. The clearing house has the data on payments made by insurers for each claim component covered by the CARD convention. But comparison is possible only for the entire motor liability sector (all vehicles), as the clearing house does not distinguish by type of vehicle insured. The two sources are fairly consistent, considering among other things that ANIA's statistics are based on a sample and exclude fleet insurance policies (for trucks these are the most common type), which have lower-than-average claims, at least for the third-party passenger component. The comparison yields the following results: the average CID claim settled according to ANIA's sample statistics was Euro 1,407, while the clearing house figure was Euro 1,334 – a difference of 5.4%; the average CTT claim settled according to ANIA's sample statistics was Euro 2,236, while the clearing house figure was Euro 2,184 – a difference of 2.4%.

It is not yet possible to compare the average claim paid on CID and CTT items with the fixed compensation amounts for 2007 set by the ad hoc Technical Committee of the Ministry for Productive Activities (Euro 2,300, Euro 2,000 and Euro 1,800 for the three macroregions for the CID component and Euro 3,250 for the CTT component regardless of location). This is because the fixed compensation must reflect all the accidents that occurred in 2007 until they have been entirely disposed of, while the data available, whether ANIA statistics or

CONSAP, relate only to claims settled in the first eleven months of operation of the direct indemnity system. They thus cover essentially damage to vehicles and objects and minor personal injury. To judge the adequacy of the compensation set, we will have to wait at least three more years to get an idea of the likely average "ultimate" cost of claims for each claim component. Not until then will it be possible to pronounce an overall assessment of the adequacy of the compensation set.

**Speed of settlement.** The claims settled definitively within the first year of the new system (our indicator of speed of settlement) represented **66.0%** of all claims handled. This was a slight increase from the rate of 65.2% reported by ISVAP for 2006. The claims settled during the same calendar year in which they are made are largely for physical damage and minor personal injury. There is a substantial portion of accidents (34%) for which at the end of 2007 no payment or only partial payment had been made. For the most part, these are accidents involving more serious personal injury, with larger settlements and lengthier procedures due to the complexity of assessment of damages, mainly for the more serious personal injuries.

A more thorough examination of settlement speed might involve a comparison between the two claim settlement systems now in being, i.e. direct indemnity and non-CARD. Quarterly statistics show that 70.9% of all CARD or direct indemnity claims were settled within the calendar year, while for non-CARD claims the rate was just 50.1%. The difference is explained by the fact that the latter category includes accidents involving more than two vehicles and also claims for serious personal injury (permanent disability of more than 9% to the driver not at fault and injury to passers-by and third-party passengers on the vehicle at fault); these generally entail considerably longer time to settlement.

### THE DATA ON DIRECT INDEMNITY FOR 2007

All the data, ratios and technical indicators in this year's Annual Report are drawn from ANIA's quarterly survey of insurers. The sample is representative and statistically significant, but as a sample it does not give the total number of claims actually handled under the CARD direct indemnity convention.

To get overall data on the operation of the direct indemnity system, we can use the data that the 69 members of the CARD convention report automatically to ANIA's information system. The system was created to perform preliminary checks of accident claims reported before they are fed into CONSAP's clearing house. This database shows a total of **2,336,191 accident claims submitted** in **2007**, thus excluding claims on which no action (nil claims) was taken and an estimate of late-reported claims. The number includes those involving joint liability, for which two claims were opened, one by each insurer. The direct indemnity procedure was applied in 74% of the accidents occurring and reported to motor liability insurers, a proportion in line with ANIA's quarterly sample surveys ([3]).

In 66.1% of these cases the accident was reported using the CID amicable reporting form, signed by both drivers; the remaining 33.9% were reported by one policyholder only. Claims involving joint liability accounted for 2.8% of the accidents reported using the CID form and 13.6% of those reported by one driver only. Among the latter, 98% of the cases of joint liability were determined automatically by the information system, which in cases of conflicting declarations of fault simply assigns equal liability to both parties.

Disputes over the actual occurrence of the accident or over the applicability of the direct indemnity procedure arose in 3.35% of the claims reported.

In 7,531 cases, or 0.32%, the insurers activated the arbitration procedure instituted by Article 14 of the CARD convention to settle disputes over the assignment of fault, the occurrence of the accident or the applicability of the procedure. In 70% of these cases the defendant insurance company, after examining the documentation submitted by the plaintiff, accepted the latter's argument and agreed to forgo arbitration before engaging the arbitrator. In all the other cases the arbitration award settled the dispute between the two insurers and determined the amount of the reimbursement via the clearing house.

The table below disaggregates the number of claims by type of damage (recall that a single accident may involve more than one type of damage).

([3]) The percentage is the ratio of the 2,336,191 CARD claims to total motor liability insurance claims in the period from 1 February to 31 December 2007, estimated at 3,150,000. The estimate was derived starting from all the accidents occurring and reported for claim in all of 2007 (3,770,000), adjusted for late-reported claims and obviously excluding those that happened in January.

CID HEADS OF DAMAGE

*DAMAGE TO VEHICLE AND/OR PROPERTY OF DRIVER OR OWNER NOT PRESENT AT ACCIDENT*

| Head of damage status | Number of head of damage | Percentage share |
|---|---|---|
| ***All reported claims*** | **2,277,970** | **100.0** |
| *– of which: paid (wholly or in part)* | 1,692,118 | 74.3 |
| *– of which: open* | 519,514 | 22.8 |
| *– of which: nil claims* | 66,338 | 2.9 |

*INJURY TO DRIVER*

| Head of damage status | Number of head of damage | Percentage share |
|---|---|---|
| ***All reported claims*** | **294,007** | **100.0** |
| *– of which: paid (wholly or in part)* | 111,575 | 38.0 |
| *– of which: open* | 170,625 | 58.0 |
| *– of which: nil claims* | 11,807 | 4.0 |

CTT HEAD OF DAMAGE

*INJURY TO PASSENGERS AND DAMAGE TO OBJECTS TRANSPORTED*

| Head of damage status | Number of head of damage | Percentage share |
|---|---|---|
| ***All reported claims*** | **151,978** | **100.0** |
| *– of which: paid (wholly or in part)* | 53,837 | 35.4 |
| *– of which: open* | 92,682 | 61.0 |
| *– of which: nil claims* | 5,459 | 3.6 |

We can observe that in the case of physical damage to the vehicle or objects transported (CID claims), 74% of the head of damage had been settled within 11 months, while in the case of personal injury, for both CID and CTT claims, the settlement rate over the same period was cut by half, and some 60% of all these heads of damage were still open, and had yet to be settled.

## MOTOR LIABILITY INSURANCE PRICES IN THE LONG TERM

To track motor liability insurance prices over time, the two most commonly used indices internationally are:

– **average price of motor liability coverage** (a Paasche index with variable weights, used internationally as consumption deflator for national accounts purposes);
– **ISTAT's index for transport equipment insurance** (a fixed-weight Laspeyres index consistent with Eurostat's criteria for monthly price observations).

### The motor liability deflator: average expense to the insured

In a compulsory insurance regime, the annual increase in premium income of insurance companies measures the total increase in the expenditures of policyholders for liability coverage. To calculate the average price per policy, one must obviously take account of the variation in the number of vehicles covered. Dividing premium income by number of vehicles, one obtains the average price of coverage per vehicle.

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

– the policyholder's merit class, so that if one's merit class improves from one year to the next (which happens in 90% of cases), the deflator will find a reduction (or smaller increase) in the price;
– discounts with respect to list price, so that if during the year the insured gets a discount he did not enjoy the previous year, the deflator will count a reduction (or smaller increase) in the price;
– switches from one insurer to another for lower premiums.

Table 1 gives the data needed to calculate the average price of liability coverage per vehicle. It had declined by 1.5% in 2005 and 0.8% in 2006, and the fall steepened last year to 2.7%. Since 2003 the average nominal cost of liability insurance has fallen by 4.4%; in real terms, i.e. adjusted for Istat's general consumer price index (which rose by 8.3% in the period), the decrease comes to 13%.

# Motor insurance

*TABLE 1 - MOTOR LIABILITY INSURANCE PREMIUMS, 1994-2007*

| YEAR | 1. Premiums (company accounts) | | | 2. No. vehicles in circulation * | | | 3. Premiums "deflated" by col. 2 | | 4. Memo. item: Istat motor liability index | | 5. Memo. item: Istat consumer price index | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mn. euro | Index | Annual % change | Thousands | Index | Annual % change | Index | Annual % change | Index | Annual % change | Index | Annual % change |
| 1994 | 8,663 | 100.0 | 6.1 | 39,755 | 100.0 | 3.0 | 100.0 | 2.9 | 100.0 | 8.5 | 100.0 | 4.1 |
| 1995 | 9,316 | 107.5 | 7.5 | 40,573 | 102.1 | 2.1 | 105.3 | 5.3 | 110.2 | 10.2 | 105.3 | 5.3 |
| 1996 | 9,770 | 112.8 | 4.9 | 40,453 | 101.8 | -0.3 | 110.9 | 5.3 | 120.2 | 9.1 | 109.5 | 4.0 |
| 1997 | 10,655 | 123.0 | 9.1 | 40,870 | 102.8 | 1.0 | 119.6 | 7.8 | 131.2 | 9.2 | 111.7 | 2.0 |
| 1998 | 11,745 | 135.6 | 10.2 | 42,650 | 107.3 | 4.4 | 126.4 | 5.7 | 149.1 | 13.6 | 113.9 | 2.0 |
| 1999 | 13,226 | 152.7 | 12.6 | 43,563 | 109.6 | 2.1 | 139.4 | 10.3 | 174.0 | 16.7 | 115.8 | 1.7 |
| 2000 | 14,196 | 163.9 | 7.3 | 44,680 | 112.4 | 2.6 | 145.8 | 4.6 | 190.8 | 9.6 | 118.7 | 2.5 |
| 2001 | 15,315 | 176.8 | 7.9 | 46,480 | 116.9 | 4.0 | 151.2 | 3.7 | 211.3 | 10.7 | 122.0 | 2.7 |
| 2002 | 16,628 | 191.9 | 8.6 | 47,763 | 120.1 | 2.8 | 159.7 | 5.6 | 235.8 | 11.6 | 125.0 | 2.5 |
| 2003 | 17,622 | 203.4 | 6.0 | 49,101 | 123.5 | 2.8 | 164.7 | 3.1 | 247.7 | 5.0 | 128.4 | 2.7 |
| 2004 | 18,062 | 208.5 | 2.5 | 50,100 | 126.0 | 2.0 | 165.4 | 0.4 | 250.0 | 0.9 | 131.3 | 2.2 |
| 2005 | 18,171 | 209.8 | 0.6 | 51,152 | 128.7 | 2.1 | 163.0 | -1.5 | 254.3 | 1.7 | 133.8 | 1.9 |
| 2006 | 18,387 | 212.3 | 1.2 | 52,175 | 131.2 | 2.0 | 161.7 | -0.8 | 260.1 | 2.3 | 136.6 | 2.1 |
| 2007 | 18,203 | 210.1 | -1.0 | 53,073 | 133.5 | 1.7 | 157.4 | -2.7 | 264.0 | 1.5 | 139.1 | 1.8 |

*(*) Source: ANIA, based on ACI data*

Premium income entered in companies' accounts, drawn from ISVAP statistics, refer to all insured vehicles (passenger cars, motorcycles, scooters). The number of vehicles in circulation is taken from the data of the Italian Automobile Club (ACI), which is the only source offering an extended time series. However, the ACI data are adjusted by adding an estimate for motor scooters and agricultural vehicles not included in those figures, for homogeneity with the premium data. The difference between the number of vehicles and the number of policies depends on the existence of uninsured vehicles (either because the vehicle does not circulate on public roads, so coverage is not compulsory, or because the owner is in violation of the requirement). There is no evidence of an increase in the number of uninsured vehicles in recent years. The number of license plates registered as insured according to ANIA's database (SITA) increased by 3% per year from 2003 through 2007. In any event, an increase in the number of uninsured vehicles would have only a marginal impact on the estimates of the average price and its annual variations. For example, if there had been an increase of 0.5% in 2007 (a very substantial rise equivalent to over 265,000 vehicles), the decrease in the average cost of insurance would have been 2.2% for the year, instead of the 2.7% actually registered (Table 1).

According to ACI the number of vehicles in circulation rose by 1.7%; this is consistent with the rate derived from other sources, as is explained in detail below (Table 2). Whatever the source, the number of vehicles increased in 2007:

– **SITA database**: This is drawn from ANIA's information system on license plates. It comprises the plate numbers covered by liability insurance for which receipts of premium payment are issued, and registers the actual collection of the premium. However, it does not include motor scooters without license plates or with the old type of plate or agricultural vehicles. Data are provided by 92% of the companies that do motor liability insurance business, and reliability has improved of late, notably since the introduction of direct indemnity, because insurers use it to check vehicles' coverage in case of accident. According to SITA, the number of receipts issued for policy payments rose by 1.5% in 2007; counting only premium payments actually collected, the rise was 0.9%.

– **ACI**: Following the international statistical definition, a country's stock of vehicles is the number registered with Public Motor Vehicle Register (Pubblico Registro Automobilistico, PRA), though it bears repeating that this "theoretical" stock may differ to some extent from the number of vehicles that actually circulate. Some vehicles that are on the roads are not registered with the PRA – those included in other registers such as that of the Defense Ministry (EI license plates), the International Red Cross, and the Foreign Ministry (diplomatic corps CD plates). Motor scooters and agricultural vehicles are not counted as circulating. According to ACI, the number of circulating vehicles registered with the PRA at the end of 2007 was 1.7% higher than a year earlier. Let us reiterate that this figure is net of vehicles (which exist) that are registered but not insured. As we have seen, however, the impact on the estimated annual change should be only marginal.

– **ANIA calculations based on ACI data**: Taking the ACI data as a base, ANIA has estimated the total stock of vehicles in Italy including motor scooters and agricultural vehicles. However, the difference between the two estimates cannot be ascribed entirely to this adjustment. In 2004 ACI revised its data collection methodology to reflect the automatic cancellation, under Article 96 of the Highway Code, of vehicles not having paid the road tax for three consecutive years or more. And as the time series for earlier years have not been revised in the same way (in 2004 some 1.9 million vehicles were so cancelled), in order to avoid a break in the series ANIA has continued to calculate the figure not adjusted for this change, based on the effective change in PRA registrations from year to year. On this basis, the number of vehicles rose by 1.7% in 2007.

– **ANIA annual statistics**: This is a sample survey; the companies participating account for a market share averaging around 75% (the data in Table 2 are estimated for the entire market). The number of vehicle-years (pro rated for the number of days each vehicle was actually covered during the year) is calculated using policy-by-policy data from the companies. The number of vehicle-years may differ from the number of vehicles in circulation if new registrations and cancellations are not constant over the years. A car registered at the end of the year will count as a vehicle-year only on a pro rated basis but will count as an entire vehicle in the national stock. Also, it is possible that in checking the data reported by the companies some (a small part) are not considered because erroneous; this could cause an underestimate of the number of vehicle-years. According to ANIA calculations, the number of vehicles increased by 1.6% in 2007.

– **ANIA ad hoc survey for 2007**: In response to a specific request from ANIA for 2007 (and in order to have a valid comparison with 2006), insurers reported the total number of vehicle-years, calculated internally for purposes of the reports that they must file with the insurance oversight authority. The survey participants represented 98% of the market. According to this source the number of vehicle-years increased by 0.8% in 2007.

*TABLE 2*
*STOCK OF VEHICLES IN CIRCULATION*

| | | 2006 | 2007 | % Change |
|---|---|---|---|---|
| **SITA:** | Licence plates covered at date of policy expiration (including premium receipt) | 43,828,060 | 44,467,588 | 1.5% |
| **SITA:** | Licence plates covered at date of policy expiration (only those for which premium actually collected) | 37,698,230 | 38,038,620 | 0.9% |
| **ACI:** | Stock of vehicles in circulation | 46,329,144 | 47,131,346 | 1.7% |
| **ANIA:** | Estimation based on ACI data | 52,175,142 | 53,072,554 | 1.7% |
| **ANIA:** | Annual motor liability survey statistics | 39,846,288 | 40,492,569 | 1.6% |
| **ANIA:** | Ad hoc survey | 43,209,179 | 43,551,380 | 0.8% |

### Istat's index for transport equipment insurance

The method for observing the prices of "transport equipment insurance" that is used by Istat forms part of the national consumer price observation system and is methodologically consistent with the standards of Eurostat. Prices are observed by the municipal statistics offices in Italy's provincial capitals at a sample of points of sale (agencies) chosen by the offices themselves. Prices are noted for a limited set of driver profiles (currently, seven). Methodologically, each of the seven profiles is representative of one stratum within the population, and the profiles are weighted according to the relative size of the stratum.

The monitoring of consumer prices thus differs, in methodological terms, from the cost deflator (the method described above) insofar as its weights are fixed in time (it is a Laspeyres index). The index number for motor liability prices obtained by Istat from these observations is then fed into the general basket of prices of goods and services purchased by households, with a weighting system. The weight of transport equipment insurance in 2008 is 1.21%. Under a European Community rule set by Eurostat, this weight is derived year by year based on an Istat calculation that measures the premiums paid during the year for motor liability insurance net of compensation for damages paid by insurers. That is, the entire set of Italian households is treated as a single household, sustaining a single cost (the premium) and receiving a single reimbursement.

The actual population comprises millions of profiles, in that each insurance company uses a large number of personalizing factors, including: age, sex, place of residence, number of accidents caused in recent years and vehicle characteristics such as type of engine, year of registration, and the weight/power ratio. Further, the data taken from single companies in the different cities have to be weighted. The crucial importance of the selection of profiles and of their weighting between profiles, companies, and cities is accordingly self-evident. The problem is not specific to auto insurance, but it is much more important in this sector because the law requires the setting of prices for all possible profiles in the entire national territory, even in particular areas or price sectors where the company has no policies in being.

As a practical matter, Istat's price observations based on price profiles fail to take account of two significant factors:

1) **Change in bonus/malus class.** Because it uses fixed weights, the Istat index cannot take account of the fact that the distribution of policyholders will creep towards the better merit classes, as a consequence of the rules for movement from class to class. Every year over 90% of the insured cause no accidents and thus move up one class the next year, while generally those liable for accidents are moved down two classes. In other countries drivers at fault are penalized much more severely. In the United Kingdom, for instance, when you are responsible for an accident you go back to the entry class. If this system were adopted in Italy, the variations in the merit class distribution of the insured would be less significant, and holding compensation costs equal to the average price of insurance per vehicle would differ less from the fixed-weights index.

2) **Discounts.** Istat goes by the insurance companies' published price lists. Insurers have always offered discounts to some customers, but in recent years this practice has become more common in connection with motor lia-

bility insurance's return to profitability in 2002-03 after a decade of substantial losses. In particular, insurers very commonly allow their agents to offer discounts up to a preset amount or "discount allowance" ([4]).

Taking this argument into account, one presumes that in recent years the rise in Istat's index for "transport equipment insurance" has been greater than the average cost of coverage (see columns 4 and 3 in Table 1).

This phenomenon is found in other sectors as well, but it is justified by the different purposes of the fixed- and variable-weight indexes. The fixed-weights index measures the incremental expense that the consumer would sustain in order to purchase the same basket of products as in the previous period, and so rightly does not take account of the fact that if the price of a good is increased the consumer may shift to substitute products. In the case of insurance, however, in general the product is the same from one year to the next and the price falls (or rises less), save in case of accident, owing solely to the passage of time. To illustrate, let us note that Istat compares the price of insurance for a 40-year-old policyholder during the year with the price charged in the previous year. Thus by definition it does not measure the actual change in the price paid by a given policyholder – no driver can ever be charged the prices observed for the same profile in two successive years.

That the problem is serious is demonstrated by the fact that the rise in the Istat index outpaces not only the average cost of coverage but even total premium income, even though every year the volume (number of policies) itself rises, at a rate of between 2% and 3%. The gap is very substantial in recent years and even more so over the long run ([5]). Table 1 shows that since 1994 the Istat index has risen by 264.0%, far more than total premiums earned (210.1%), not to mention the average cost of coverage (157.4%).

Table 1 – which takes Istat's data for list prices – shows further that since 2004 the price of transport equipment insurance has risen less than the overall consumer price index. This means that for the last four years motor liability insurance has had a "cooling" effect on overall inflation. The gap between the Istat

([4]) Clearly the problem of price discounts is not specific to the insurance industry, but it is probably more important here. For Istat's price checker, at a supermarket, can determine the existence and size of a discount simply from the posted price. This is not the case with motor liability insurance, as the discount only arises in the course of negotiations between the parties.

([5]) Prior to 2003 Istat calculated a simple and not a weighted average of the various profiles. This engendered a further severe distortion, which helps explain the very sharp discordance from the annual change in the average cost of coverage (Table 1).

index and the average price widened sharply in 2007, rising from an average of 2.2 percentage points in 2003-2006 to 4.2 points (2.7 + 1.5). This can be ascribed essentially to the three measures enacted by the Bersani decree laws.

### The effect of the Bersani decree laws on auto insurance prices

The measures introduced by the so-called Bersani laws substantially reduced insurers' premium income, and hence the average cost to the policyholder. They had no impact – nor could they have – on price levels, and thus on Istat's fixed-weights index.

As regards the **bonus/malus effect**, two provisions of Decree Law 7/2007, ratified as Law 40/2007 (the "Bersani-2" decree) are relevant:

- the rule requiring the insurer to apply the same merit class as that of the vehicle already insured to another vehicle acquired by the owner or a permanent member of the household;
- the rule deferring demotion to a worse merit class to the time the claim is paid, rather than that of occurrence of the accident.

As a result of these two provisions, a large number of policyholders enjoyed a better merit class in 2007 than they would otherwise have had. For these drivers the decree brought a saving on auto insurance, which helps explain the fall in premium income.

An additional effect should stem from the application of ISVAP's provision on risk attestation, i.e. the implementing regulations for the Bersani-2 rule that merit class downgrading shall apply only to the "principal" driver at fault, thus excluding those with minor liability or 50% liability.

As to **discounts**, let us recall that Decree Law 233 of 4 July 2006, ratified as Law 248/2006 (the "Bersani-1" decree), which banned tied agency clauses between agents and insurers in the motor liability sector, also prohibited the imposition of a discount ceiling on agents. This too may have widened the difference between list prices and actual prices.

It bears repeating that none of these measures could have reduced official price levels, so that whatever benefit consumers obtained from the decrees cannot be reflected in Istat's fixed-weights index based on user profiles.

In the light of the foregoing, some significant considerations follow.

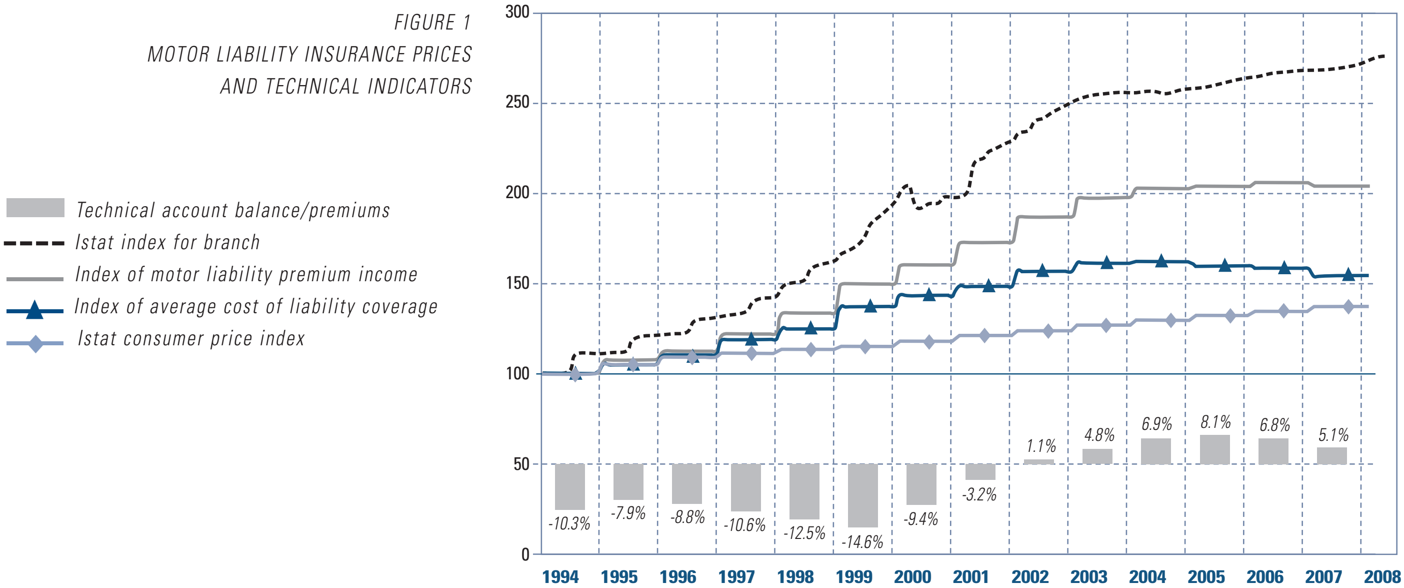
1) First, the three key measures contained in the decrees drafted by Pierluigi Bersani as Minister for Productive Activities (abolition of discount ceil-

ings, same merit class for additional vehicles, and postponement of merit downgrading to time of claim payment) may have reduced the prices actually paid by policyholders in 2007. Indirect confirmation comes from the sharp widening of the differential between the change in the Istat index (+1.5%) and that in the average cost of liability coverage (-2.7%). This gap of 4.2 percentage points compares with an average of 2.2 points from 2003 through 2006.

2) Second, in the twelve months to May 2008 Istat's index for transport equipment insurance rose 2.56%, less than the 3.57% registered by the overall consumer price index. Applying the differential between the trend in the Istat index and that in the average cost of coverage in 2007 (4.2 percentage points) to the figure for May 2008, we can estimate that the average price paid had fallen 1.5% since May 2007. But it is likely that the decrease was actually much greater, in that the impact of the three measures should be increasing over time. Furthermore, the ISVAP implementing regulation on risk attestation should have begun to have effects; as noted above, only the driver "principally" at fault can now be downgraded, excluding those jointly liable for up to and including 50%.

It must be added, however, that in the longer run the price of liability insurance cannot fail to reflect the cost of compensation for damages. Insurance companies' earnings, in fact, are only a fraction of premium income (Figure 1). The average technical balance for the motor liability sector from 2002 through 2007 showed earnings of 0.3% of turnover (counting investment income, this rises to 5.6%). In other words, for every Euro 100 of premiums collected, less

*FIGURE 1*
*MOTOR LIABILITY INSURANCE PRICES AND TECHNICAL INDICATORS*



the cost of damage compensation and operating costs, and including investment income, insurers earned profits of 5 euros before direct taxes (corporate income tax and regional tax on productive activity). It is worth noting that for the same 100 euros of premium payments the policyholder is subject to taxation of an additional Euro 23 (considerably more than in other European countries). And before 2002, results were regularly negative. In the industry's worst year, 1999, for example, the technical balance, including investment earnings, produced a loss of 14.6% of premiums. It was precisely for this reason that liability insurance prices, however measured, were rising rapidly. It was not until 2002-03 that prices managed to get back ahead of damage costs and the companies to return to profitability. Since then, as we have seen, motor liability insurance has had a moderating effect on overall inflation, thanks among other things to a series of measures agreed with consumer associations.

### CALCULATION OF FIXED COMPENSATION AMOUNTS FOR DIRECT INDEMNITY

In setting the fixed compensation amounts between insurers for 2008, the Technical Committee examined the operational effects of the new direct indemnity system. The committee examined potential problems stemming from the application of a single amount for each of the types of vehicle.

For 2007 the settlement of the amounts due between insurance companies under the direct indemnity system involved a single, set average compensation, paid by the insurer of the liable party to that of the insurer that handled the claim and indemnified its policyholder (the mandatary company).

Some types of vehicle, however – motor scooters and motorcycles in particular – have a high incidence of personal injury and higher average cost per accident. For them, therefore, there is a difference between the average amount of damages paid by the mandatary and the fixed amount of compensation. In setting the new compensation amounts for 2008, therefore, the committee considered whether modifying this mechanism was advisable.

As the committee interpreted it, Presidential Decree 254/2006, Article 13, did not allow differentiating the fixed amounts according to vehicle type, but it did allow two separate amounts for indemnification of physical damage and of personal injury to the driver. This solution would contain the increase in the costs on motorcycles, though from the technical standpoint it would not entirely solve the problem in that injuries to motorcyclists are not only more frequent but also more serious than those to automobile drivers.

Considering that no other procedure was practicable, and despite the insurance industry's urging to work out a definitive solution, the Technical Committee determined that for all accidents from 1 January 2008 on the mandatary company would be reimbursed as follows:

- a fixed compensation amount for damage to the vehicle and the objects transported, differentiated according to the three macroregions;
- a fixed compensation amount for minor injury to the driver, with a cap, a deductible, and an uncovered portion.

This procedure entails considerable risk to insurers, in that it reduces the incentive for effective control of costs of injury and could lead to an increase in the number of claims for very minor and possibly non-existent personal injuries. Presumably, however, the system can be further perfected, in the light of the Antitrust Authority's report to the Government (June 2008) laying out possible measures to resolve the main problems of competition in certain industries (report AS453).

As for the experience with the initial application of direct indemnity, the Antitrust Authority called for revision of the fixed compensation method to provide for adequate differentiation by vehicle type.

### Compensation for damage to vehicle and objects transported

Article 13 of Presidential Decree 254/2006 establishes that the amount of the fixed compensation is calculated annually based on the data provided by the clearing house on indemnifications actually paid during the previous year for accidents covered by direct indemnity. In setting the amounts for damage to vehicles and objects, the Committee used the statistics provided by the clearing house operator (Consap) for this type of accident indemnified in 2007. But these data were supplemented by those from ISVAP's accident database, because Consap's data comprised only accidents paid during the year of occurrence and thus did not take account of the normally higher costs of settlements made after the first year. The estimate arrived at was Euro 1,356. Assuming a uniform distribution of payments in the course of each year, this amount was revalued by the change in Istat's consumer price index for production and clerical worker households up to October 2007 (data available when the compensation amount for 2008 was set and equal to 2.27%) and then to December and finally June 2008 on the basis of target inflation for the two years (2% and 1.7% respectively). The result was an estimate of physical damage to vehicles and objects of Euro 1,415 nationwide.

Since the Consap data, with their limited observation period (February-October), were not statistically representative for some provinces, the geographical differentiation for 2007 was retained. The regional values so obtained are given in Table 1.

*TABLE 1*
*GEOGRAPHICAL DIFFERENTIATION OF FIXED COMPENSATION AMOUNTS*
*Euro*

| | Area 1 | Area 2 | Area 3 |
|---|---|---|---|
| Average cost of damage claims to vehicles, 30/6/2008 | 1,415 | 1,415 | 1,415 |
| *Coefficient for geographical areas* | *1.18* | *0.97* | *0.83* |
| **Average cost of damage claims to vehicles by geographical area, 30/6/2008** | **1,670** | **1,373** | **1,175** |

### Compensation for minor injury to driver

In this case especially, Consap's statistics for so short a period cannot be used in setting compensation amounts, since determining damages from personal injury certainly requires more than just one year. The estimate of the average cost of minor personal injury (up to 9% permanent disability) to drivers was accordingly based on a study by ANIA of minor permanent injury on a sample of micro-injuries, corrected using additional information from ISVAP's accident database.

As for indemnification of passengers, the mechanism laid down by the law sets a cap (Euro 5,000) up to which amount the mandatary insurer will receive the fixed compensation amount (less the deductible of Euro 500). For amounts above the cap, the mandatary is credited with the entire covered amount, plus the difference between the indemnity and the cap. Accordingly, the average amount of claims for personal injury to drivers within that limit was estimated. The average cost of accidents with this type of personal injury came to Euro 3,117. This amount was then revalued by the change in Istat's consumer price index for production and clerical worker households up to October 2007 (data available when the compensation amount for 2008 was set and equal to 2.27%) and then to December and finally June 2008 on the basis of target inflation for the two years (2% and 1.7% respectively). The result was an estimate of minor personal injury to drivers of Euro 3,253 (the compensation for 2008 was rounded to Euro 3,250).

In addition to a fixed deductible of Euro 500 (10% of the cap), a variable deductible of 10% of the indemnity was also set, with a maximum of Euro 20,000. Thus for amounts above the cap, the mandatary insurer indemnifies the entire value of the personal injury to the driver not at fault and is reimbursed by the debtor insurance company (that of the driver at fault) as follows:

$$\text{reimbursement} = \text{fixed amount} + (\text{indemnity} - €5{,}000) - \min(€20{,}000;\ 10\%\ \text{of indemnity})$$

### Compensation for injury to passengers

Again, Consap's statistics could not be used, as the indemnity data were for too brief a period. Pending the availability of more significant statistical data from the clearing house, it was decided to take the figure for 2007 as the basis for the compensation amount for 2008, revalued to June 2008 by the same method as for the other types of indemnity. The fixed compensation amount for indemnification of injury to passengers was set at Euro 3,250 for 2007. Adjusting for target inflation for 2008, this average cost was revalued to Euro 3,305 and rounded to Euro 3,300. As for injury to drivers, in addition to the fixed deductible of Euro 500 (10% of the cap) there is a variable deductible of 10% of the amount of the indemnity, with a maximum of Euro 20,000. Thus the reimbursement relative to passenger injuries, for amounts above the cap, follows the same formula as that for drivers:

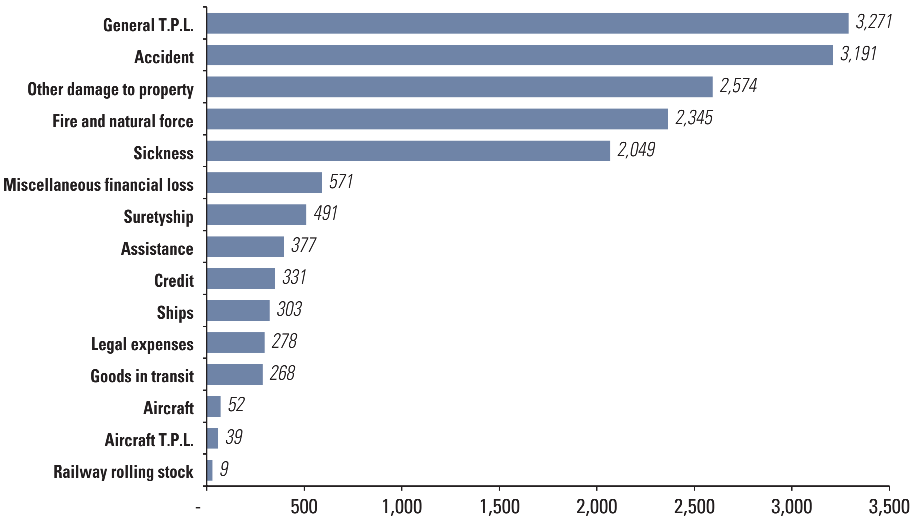
$$\text{reimbursement} = \text{fixed amount} + (\text{indemnity} - €5{,}000) - \min(€20{,}000;\ 10\%\ \text{of indemnity})$$

**In 2007 premium growth was the worst since 2000. This was mainly due to a "soft" market, in particular in transport. The incidence of other non-life classes on total non-life premiums continued to grow, though modestly. The improvement of nearly 3% in the loss ratio for the current accident year contributed to a better direct technical balance and to the rise in the ratio of the overall technical account result to premiums (from 2.6% in 2006 to 5.4% in 2007).**

## NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR CLASSES

**Premiums for direct domestic business**, collected in non-life insurance classes other than motor classes (that is excluding land vehicles, motor third party liability and marine vehicle third party liability) were equal to Euro 16,149 million in 2007, up by 3.8% compared to 2006 figures, the lowest growth rate in this decade. This result is mainly explained by the reduction registered for premiums in transport, direct consequence of a "soft" type of market which implies moderate unit prices. In particular, the branches which registered a decrease compared to the previous year were railway rolling stock (-19.8%), aircraft third party liability (-14.5%), aircraft (-11.7%), ships (-8.7%) and goods in transit (-0.3%); the classes that registered growth rates above average were pecuniary losses (+17.0%), sickness (+12.1%), credit (+11.6%), legal expenses (+9.6%), assistance (+8.1%) and suretyship (+6.0%). Premium incidence of other non-life insurance classes on the total non-life premiums slightly increased, passing from 41.9% in 2006 to 42.9% in 2007.

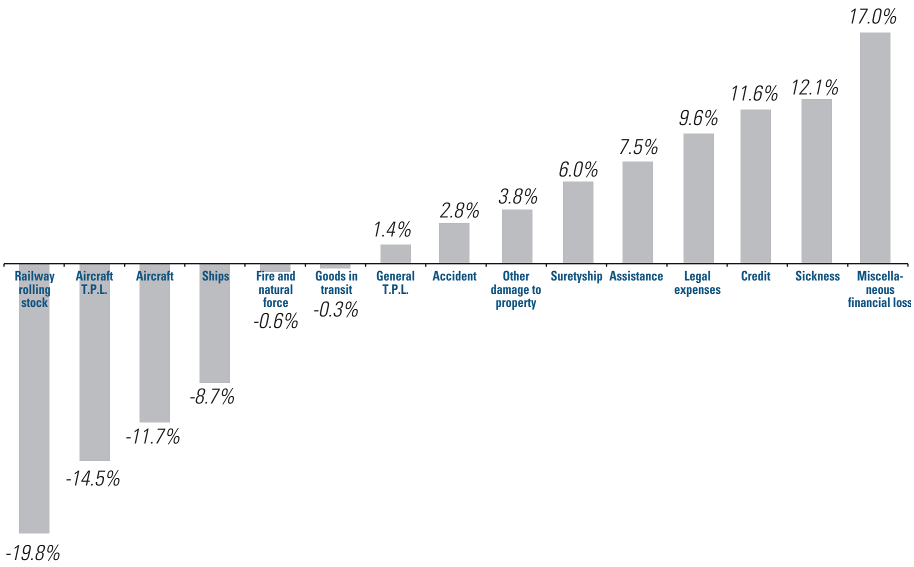
The **incurred claims cost for the financial year**, defined as the total paid cost and the total reserved cost for all claims incurred in the current accident




*DIRECT PREMIUMS BY INSURANCE CLASS – 2007*
*Euro million*

# Other non-life insurance classes

*GROWTH RATE OF DIRECT PREMIUMS*
*BY INSURANCE CLASS – 2007*

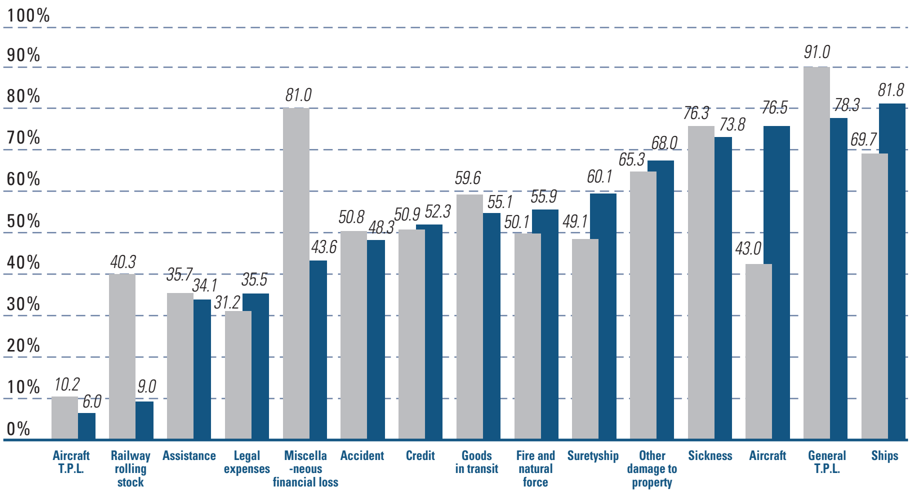



*NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR CLASSES (*)*
*Euro million*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Gross written premiums | 10,976 | 11,771 | 12,807 | 13,505 | 14,180 | 14,957 | 15,563 | 16,149 |
| Changes in premiums reserves (-) | 333 | 404 | 353 | 402 | 474 | 484 | 497 | 496 |
| Incurred claims (-): | 7,925 | 8,130 | 8,714 | 8,872 | 8,914 | 9,140 | 9,788 | 9,770 |
| - incurred claims cost for the current accident year (-) | 8,065 | 8,076 | 8,663 | 9,114 | 8,979 | 9,439 | 10,000 | 10,142 |
| - excess/shortfall of reserves for those claims incurred in previous accident years | 140 | -54 | -51 | 242 | 64 | 298 | 212 | 372 |
| Balance of other technical items | -213 | -209 | -263 | -283 | -318 | -314 | -434 | -385 |
| Operating expenses (-) | 3,255 | 3,458 | 3,701 | 3,919 | 4,130 | 4,409 | 4,619 | 5,021 |
| - commissions | 2,226 | 2,340 | 2,545 | 2,723 | 2,858 | 3,084 | 3,259 | 3,508 |
| - other acquisition costs | 412 | 468 | 471 | 497 | 521 | 548 | 580 | 622 |
| - other administration costs | 617 | 650 | 685 | 699 | 751 | 777 | 780 | 891 |
| **Direct technical balance** | **-750** | **-430** | **-223** | **28** | **343** | **610** | **225** | **477** |
| Investment income | 695 | 683 | 529 | 695 | 784 | 829 | 806 | 905 |
| **Direct technical account result** | **-56** | **253** | **305** | **723** | **1,128** | **1,439** | **1,031** | **1,382** |
| Reinsurance results and other items | 516 | 135 | -130 | -346 | -758 | -811 | -632 | -537 |
| **Overall technical account result** | **460** | **388** | **175** | **377** | **370** | **628** | **398** | **845** |
| Annual % changes in premiums | 5.7% | 7.2% | 8.8% | 5.4% | 5.0% | 5.5% | 4.1% | 3.8% |
| **Combined ratio** | **104.1%** | **100.9%** | **98.9%** | **96.7%** | **94.2%** | **92.6%** | **94.6%** | **93.5%** |
| - Expense ratio | 29.7% | 29.4% | 28.9% | 29.0% | 29.1% | 29.5% | 29.7% | 31.1% |
| - Commissions/Gross written premiums | 20.3% | 19.9% | 19.9% | 20.2% | 20.2% | 20.6% | 20.9% | 21.7% |
| - Other acquisition costs/Gross written premiums | 3.8% | 4.0% | 3.7% | 3.7% | 3.7% | 3.7% | 3.7% | 3.9% |
| - Other administration costs/Gross written premiums | 5.6% | 5.5% | 5.3% | 5.2% | 5.3% | 5.2% | 5.0% | 5.5% |
| - Loss ratio: | 74.5% | 71.5% | 70.0% | 67.7% | 65.0% | 63.2% | 65.0% | 62.4% |
| - Loss ratio for the current accident year | 75.8% | 71.0% | 69.6% | 69.6% | 65.5% | 65.2% | 66.4% | 64.8% |
| - Excess/shortfall of reserves for previous years claims/ Earned premiums | 1.3% | -0.5% | -0.4% | 1.8% | 0.5% | 2.1% | 1.4% | 2.4% |
| **Technical balance/Earned premiums** | **-7.1%** | **-3.8%** | **-1.8%** | **0.2%** | **2.5%** | **4.2%** | **1.5%** | **3.1%** |
| **Technical account result/Earned premiums** | **-0.5%** | **2.2%** | **2.5%** | **5.5%** | **8.2%** | **9.9%** | **6.8%** | **8.8%** |
| **Overall technical account result/Earned premiums** | **4.3%** | **3.4%** | **1.4%** | **2.9%** | **2.7%** | **4.3%** | **2.6%** | **5.4%** |
| *Premiums to total non-life premiums ratio (%)* | *39.4%* | *39.3%* | *39.5%* | *39.5%* | *40.0%* | *41.2%* | *41.9%* | *42.9%* |

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

*(*) Excluding land vehicles, motor and marine vehicles third party liability*



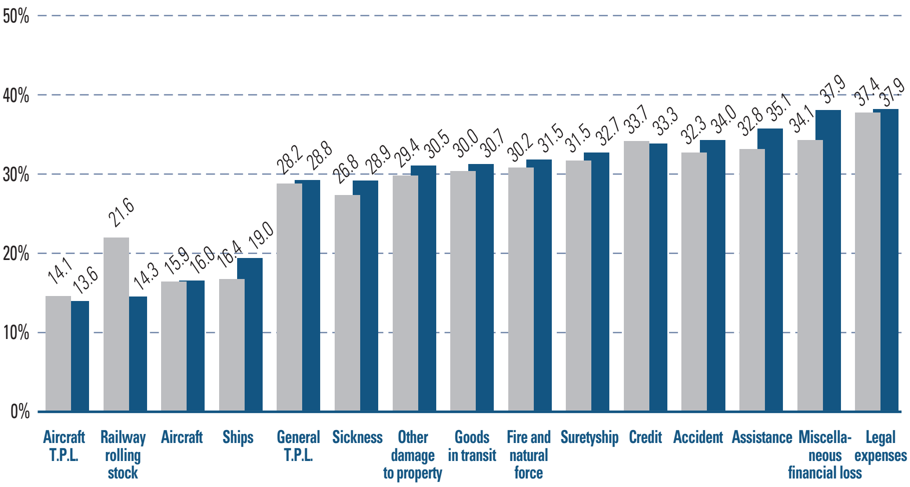

*LOSS RATIO FOR THE CURRENT ACCIDENT YEAR BY INSURANCE CLASS*

2006 2007

year, amounted to Euro 10,142 million (Euro 10,000 million in 2006), with an increase of 1.4% compared to the previous year. Considering that claims cost growth was lower than that of premiums, the loss ratio for the current accident year improved, going from 66.4% in 2006 to 64.8% in 2007.

The **incurred claims cost**, which also includes the possible excess/shortfall for claims incurred in previous accident years if compared to the incurred claims cost for the financial year, totalled Euro 9,770 million, 0.2% less compared to 2006. The ratio between this incurred claims cost and earned premiums was equal to 62.4%, in decrease compared to 65.0% in 2006. The insurance classes that more than others contributed to the improvement of this indicator and that had a greater importance in terms of premiums compared to others were accident, whose loss ratio passed from 50.8% in 2006 to 48.3% in 2007, sickness (from 76.3% to 73.8%) and general liability (from 91.0% to 78.3%).

**Operating expenses** were equal to Euro 5,021 million (Euro 4,619 million in 2006) and include administration expenses relating to the technical manage-



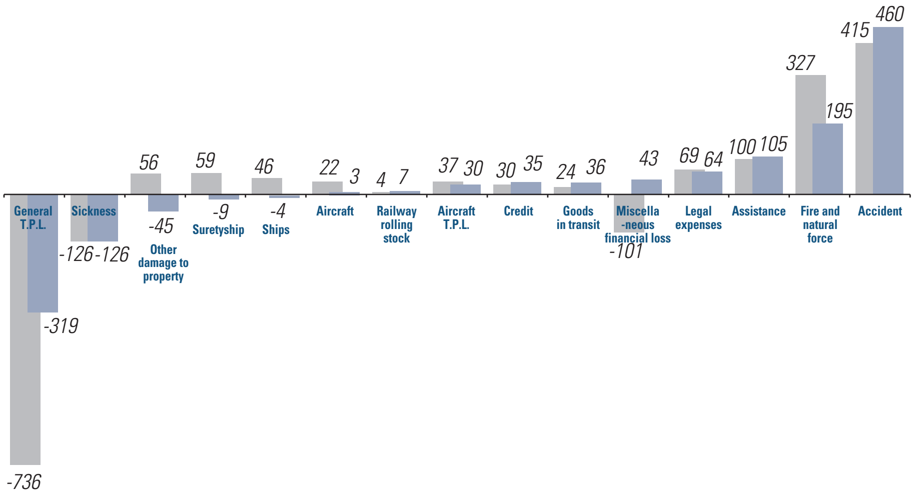

*OPERATING EXPENSES BY INSURANCE CLASS*
*% INCIDENCE ON PREMIUMS*

2006 2007

# Other non-life insurance classes

*DIRECT TECHNICAL BALANCE BY INSURANCE CLASS*
*Euro million*

2006 2007

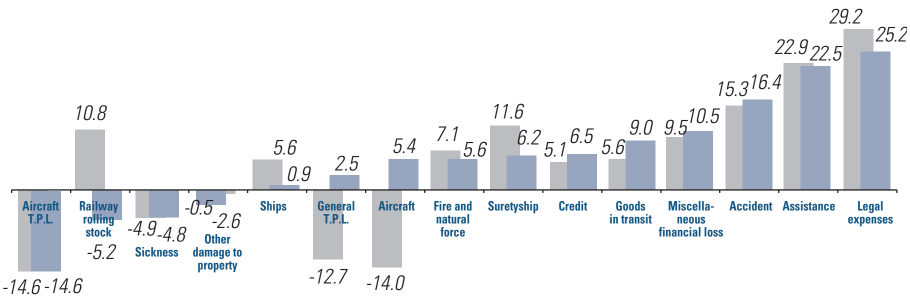



ment of the insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The incidence of these operating expenses on premiums was equal to 31.1%, in slight growth compared to 29.7% in 2006; in particular commissions rose above average compared to other items of operating expenses, passing from an incidence value equal to 20.9% in 2006 to 21.7% in 2007. The branches presenting the higher ratio of these operating expenses to premiums were legal expenses and miscellaneous financial loss (37.9%); more contained values, lower than 20%, were observed in aircraft third party liability (13.6%), railway rolling stock (14.3%), aircraft (16.0%) and ships (19.0%).

The **technical balance for direct business** was positive at Euro 477 million (Euro 225 million in 2006). This improvement was due to the lower incurred claims cost; in particular a positive technical balance was totalled by the following branches: accident (Euro 460 million in 2007 against Euro 415 million in 2006); fire and natural forces (Euro 195 million against Euro 327 million in 2006); assistance (Euro 105 million against Euro 100 million in 2006). The largest negative balances in absolute value were registered for general third party liability (Euro -319 million) and sickness (Euro -126 million).

*% INCIDENCE OF OVERALL TECHNICAL ACCOUNT RESULT ON EARNED PREMIUMS BY INSURANCE CLASS*

2006 2007



Considering that **investment income** was Euro 905 million (Euro 806 million in 2006), the **direct technical account result** was positive at Euro 1,382 million (Euro 1,031 million in 2006).

Taking the insurance balance into account, the **overall technical account result** was positive at Euro 845 million (Euro 398 million in 2006), with an incidence on premiums of 5.4% (2.6% in 2006). In particular, the general third party liability showed for the first time a total technical profit of Euro 80 million (Euro -404 million in 2006), with an incidence on premiums of 2.5%. Positive incidences (higher than 10%) were registered for the following branches: miscellaneous financial loss (10.5%), accident (16.4%), assistance (22.5%) and legal expenses (25.2%). Negative values were registered for other damage to property (-2.6%), sickness (-4.9%), railway rolling stock (-5.2%) and aircraft third party liability (-14.6%).

## PRIVATE HEALTH INSURANCE COVERAGE OF ITALIAN HOUSEHOLDS IN 2006

Like its predecessors, the Bank of Italy's 2006 Survey on Household Income and Wealth has a section on insurance coverage. Heads of households are asked, among other questions, whether any members of the household had private health insurance (i.e. accident and sickness insurance) and how much the annual premiums cost.

*FIGURE 1*
*QUESTIONNAIRE: HEALTH*

<table>
<tr><th colspan="9">Health (accident and sickness)</th></tr>
<tr><td colspan="9">F06. Did you or another member of your household have private health insurance in 2006? ASS4<br>– Yes .......... 1<br>– No .......... 2 → QUEST. F10<br>F07. How many health policies did your household have in 2006? |......| NASS4<br>(Interviewer, use one column for each policy)</td></tr>
<tr><td></td><td colspan="2">1st Policy</td><td colspan="2">2nd Policy</td><td colspan="2">3rd Policy</td><td colspan="2">4th Policy</td></tr>
<tr><td>ASS4C11 ... 19 .. ASS4C51 ... 59<br>F08. Which members of your household had the policy cover in 2006? (Member reference number(s) - Section A – Composition of household)</td><td>|....|<br>|....|<br>|....|<br>|....|<br>|....|</td><td>|....|<br>|....|<br>|....|<br>|....|</td><td>|....|<br>|....|<br>|....|<br>|....|<br>|....|</td><td>|....|<br>|....|<br>|....|<br>|....|</td><td>|....|<br>|....|<br>|....|<br>|....|<br>|....|</td><td>|....|<br>|....|<br>|....|<br>|....|</td><td>|....|<br>|....|<br>|....|<br>|....|<br>|....|</td><td>|....|<br>|....|<br>|....|<br>|....|</td></tr>
<tr><td>ASS4S1 ... 5<br>F09. How much did your household pay for this policy in 2006?</td><td colspan="2">€|....|....|·|....|....|....|</td><td colspan="2">€|....|....|·|....|....|....|</td><td colspan="2">€|....|....|·|....|....|....|</td><td colspan="2">€|....|....|·|....|....|....|</td></tr>
</table>

*Source: Bank of Italy*

FIGURE 2
INCIDENCE BY GEOGRAPHICAL AREA

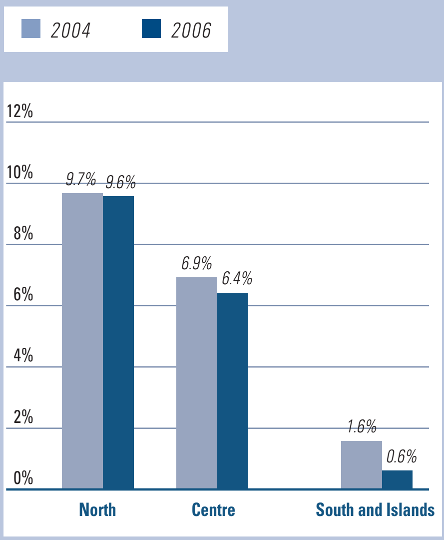



FIGURE 3
INCIDENCE BY OCCUPATIONAL STATUS

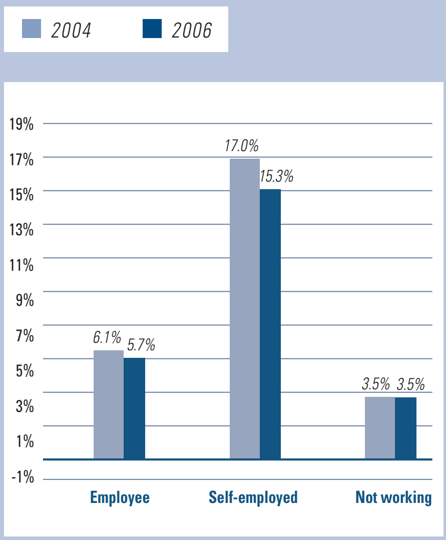
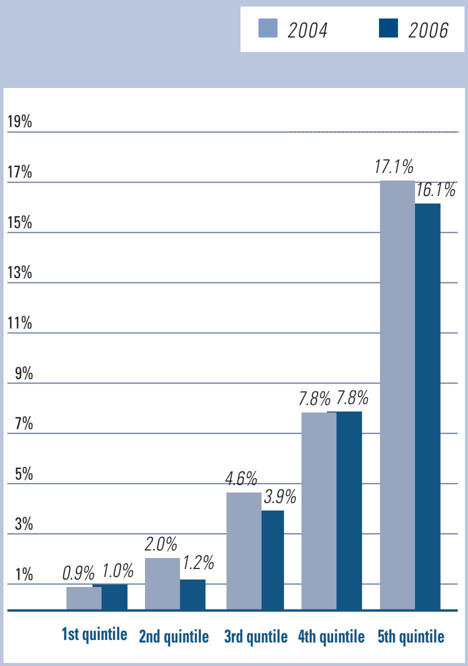



FIGURE 4
INCIDENCE BY INCOME OF HEAD OF HOUSEHOLD




On the basis of the 2006 survey, some 1.45 million households (6.1% of the 22.6 million households resident in Italy) had at least one accident or sickness policy. The previous survey, conducted in 2004, had found a slightly higher incidence of health insurance policies.

The incidence of coverage is highest in the North, where 9.6% of households included at least one member with a private health policy. In the Center the figure was 6.4% (down from 6.9% in 2004) and in the South 0.6%.

Some 15.3% of self-employed workers have private health insurance, compared with 5.7% of employees and 3.5% of non-working heads of household. A relatively high proportion of self-employed workers continue to supplement their National Health Service coverage with private insurance.

Unsurprisingly, the incidence of health insurance coverage increases with the head of household's income. Barely 1% of households in the first (lowest) quintile of the income distribution had a health policy in 2006, against 16.1% in the fifth quintile. Compared with 2004, the incidence of private health insurance fell slightly in the second, third and fifth quintiles and was practically unchanged in the first and fourth.

## SUPPLEMENTAL HEALTH FUNDS

The Finance Law for 2008 amended the tax rules for supplemental health funds and other forms of contractually based assistance. A Health Ministry decree issued on 19 March 2008 establishes the scope of such funds. The aim is to complete the “second pillar” of the Italian health and social assistance system, flanking the National Health Service, in view of the fact that by far the largest share of private health spending in Italy (some 83%) is still directly borne by households, while the role of health insurance and assistance funds is marginal.

The decree defines the areas in which supplemental health funds may intervene as the following:

- additional care and services beyond the so-called essential assistance levels (levels of care and services that the National Health Service is required to provide to all individuals free of charge or with user co-payments), including medicines not covered by the Health Service formulary, thermal cures and orthodontics;
- co-payments for social and health care services provided by the National Health Service;
- care and services provided on an agreed private basis in National Health Services facilities by Health Service personnel;
- health and social services intended primarily to provide care at home, or in specially equipped facilities, for the elderly or permanently disabled, and rehabilitation for temporarily disabled persons (to the extent that such services are not provided by the National Health System).

The decree also delineates the scope of intervention of mutual aid societies, entities and funds, which includes the set of health and social services and benefits defined by their respective bylaws and regulations, such as hospitalization, doctor’s visits and private diagnostics and analyses. In particular, from 2010 on, in order to retain the tax breaks they now enjoy, these entities must attest that at least 20% of the benefits and services they provide involve long-term care and/or orthodontic treatment. A subsequent ministerial decree will establish the manner in which the 20% threshold is to be calculated, control procedures and provisions for possible updating.

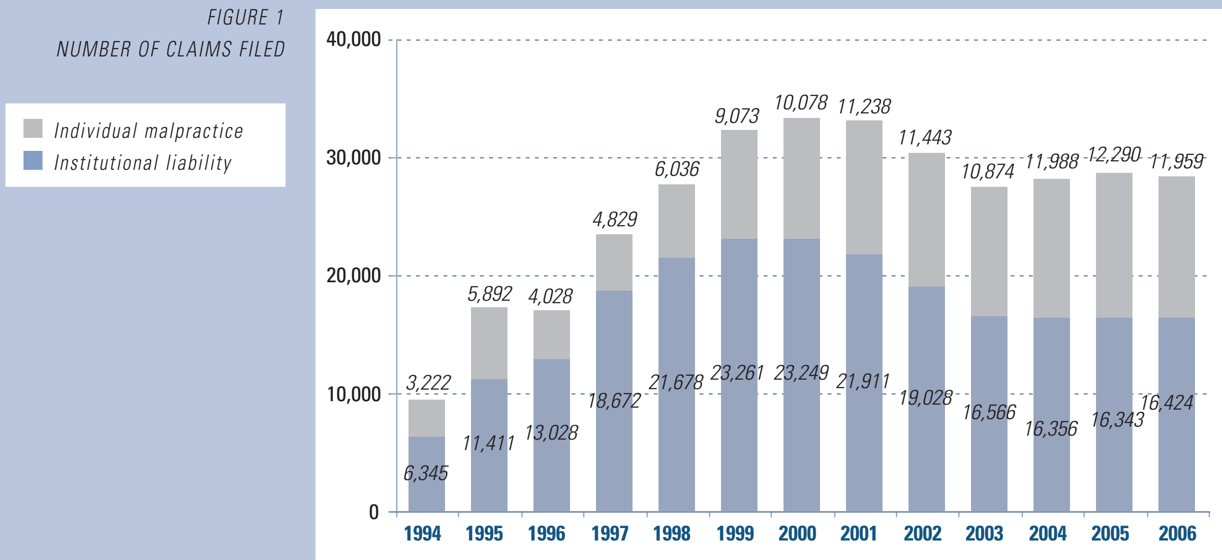
The final article of the decree institutes the Registry of Health Funds at the Ministry of Health, deferring establishment of the Registry’s procedures and mode of operation to a subsequent decree.

## MEDICAL MALPRACTICE INSURANCE: THE STATISTICS FOR 2006

In part reflecting patients' greater awareness of their rights and assertiveness in the event of malpractice or negligence by private or public health care professionals and institutions, over the last ten years courts have reached findings of liability in every case where a doctor or health care institution has been proven negligent in delivering care or to have committed a serious medical error. At the same time, the terms of indemnifiable loss (pecuniary and non-pecuniary damage, biological damage and loss of life) have been broadened and the rights of patients' relatives to compensation have also been recognized. For the insurance industry, all this has led to a rising number of claims filed (Figure 1) and settled, at an ever-higher average cost per claim.

An annual statistical survey conducted by ANIA makes it possible to estimate the evolution of the number of claims filed with insurance companies for two types of medical liability insurance: institutional liability for private and public sector health care institutions and malpractice insurance for individual health care professionals (regardless of whether or not they are affiliated with an institution).

*FIGURE 1*
*NUMBER OF CLAIMS FILED*




Between 1996 and 2006 the total number of claims filed with insurance companies rose by 66%, from some 17,000 to 28,400. Individual malpractice claims soared by 197%, from 4,028 to 11,959, while institutional liability claims grew more slowly, by 26%, from 13,028 to 16,424.

The cost of claims settlement demands special attention, as the settlement period for claims of this type is usually very long owing to legal disputes concerning the recognition of liability and the quantification of damages. Consequently, a company does not initially possess all the information it needs for an accurate assessment of the claim, whose amount often increases with the passage of time. Table 1 shows the amounts paid as a proportion of the total cost of the claim by year of registration. For institutional liability claims registered in 1996, after ten years (i.e. as of 31 December 2006) 84% of the total cost had been paid. The corresponding figure for individual malpractice claims is lower (68%). For claims registered in 2006, the amount paid in the year of registration was only 5.7% of the total cost for institutional liability insurance and 3.6% for individual malpractice insurance.

Because of the lengthiness of settlement and the information gaps that the company needs to fill for an accurate evaluation of the claim, the estimates in the early years of development of claims often fall short. Table 2 shows that the ratio of incurred losses to premiums tends to rise significantly as time passes. The table refers to the aggregate of individual and institutional medical liability insurance.

The data for the more "mature" generations of claims (those registered between 1996 and 1999) show that even after 7-10 years the loss ratio continues to worsen with respect to the estimates made 4-6 years after registration. For example, the indicator as of 31 December 2006 for claims registered in 1997 stood at 293%, far higher than the 223% estimated as of 31 December 2002 after five years had already elapsed since registration. Turning to claims registered in 2002, the ratio deteriorated by fully 50 percentage points in the four years following the year of registration, from 149% to 199%.

Nevertheless, as of 31 December 2006 the loss ratio for all generations available showed a slight improvement with respect to the year-earlier estimate.

*TABLE 1*
*AMOUNT PAID AS A %*
*OF THE TOTAL COST OF CLAIMS*
*TO 31 DECEMBER 2006*
*BY YEAR OF REGISTRATION**

| Year of registration | Institutional liability | Individual malpractice |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| 1996 | 84.0% | 68.3% |
| 1997 | 81.1% | 80.1% |
| 1998 | 78.7% | 66.6% |
| 1999 | 66.3% | 56.1% |
| 2000 | 59.9% | 42.1% |
| 2001 | 46.0% | 39.1% |
| 2002 | 41.0% | 28.1% |
| 2003 | 33.1% | 25.6% |
| 2004 | 25.6% | 15.8% |
| 2005 | 18.5% | 9.8% |
| 2006 | 5.7% | 3.6% |

** The "year of registration" is the year in which the insurance company officially enters the claim in its books and begins processing. If the claim is reopened, the year of registration is changed to the year of reopening.*

*TABLE 2*
*LOSS RATIO TO 31 DECEMBER 2006*
*BY YEAR OF REGISTRATION**

| Year of registration | At 31 December 2002 | At 31 December 2004 | At 31 December 2005 | At 31 December 2006 |
|---|---|---|---|---|
| *(1)* | *(2)* | *(3)* | *(4)* | *(5)* |
| 1996 | 187% | 198% | 195% | 191% |
| 1997 | 223% | 320% | 300% | 293% |
| 1998 | 168% | 340% | 313% | 288% |
| 1999 | 179% | 262% | 266% | 249% |
| 2000 | 151% | 216% | 219% | 208% |
| 2001 | 154% | 218% | 218% | 200% |
| 2002 | 149% | 232% | 229% | 199% |
| 2003 | | 196% | 199% | 171% |
| 2004 | | 145% | 170% | 154% |
| 2005 | | | 173% | 162% |
| 2006 | | | | 158% |

** The "year of registration" is the year in which the insurance company officially enters the claim in its books and begins processing. If the claim is reopened, the year of registration is changed to the year of reopening.*

This may be a sign of more prudential allocation to claims reserves in the previous year or it could indicate that more information on claims had come in, enabling companies to evaluate claims still to be paid more accurately.

To make a homogenous comparison between the different generations of claims, the number of years between the opening of the claim and the observation year must be kept equal. For example, the generations registered in 2002, 2003, 2004, 2005 and 2006 may be compared as of 31 December of the year of opening (i.e. with a single year preceding the observation year). The comparison shows that the 2006 generation of claims closed the first year with a ratio of 158%, lower than that of the 2005 generation (173%) but higher than those of the two other generations considered at the same date (149% for 2002 and 145% for 2004).

**In 2007 total premiums written In Italy by professional reinsurers were 6% lower than in 2006; the reduction in the returns on investment caused a decrease in the overall results, which remained positive.**

Net underwritten premiums, in Italy and abroad, were equal to Euro 4,350 million, 29,6% less than the previous year. The 2006 underwiting result (Euro 6,181 million) was very high due to the fact that the accounts of one of the biggest players included also premiums and other items relative to 2005. Euro 2,426 million of the Euro 4,350 million collected in 2007 were relative to non-life reiunsurance and Euro 1,925 million to life business.

## Professional Reinsurers

Indirect premiums for domestic and foreign business, gross of retrocession, for the insurance companies engaged only in reinsurance business (so-called professional reinsurers) amounted to Euro 1,410 million, representing a 6.4% decrease compared to 2006. Taking into account the peculiar features of the 2006 underwritng data, the market share of professional insurers in total indirect premiums appears to be in line with the previous years.

The timeframe in which the reinsurance operations are closed enable only the final data, balance sheet and income statement, for 2006 to be presented.

In spite of the appreciable decrease of written premiums in 2006 due to a "soft" market, which is characterised by moderate unit prices, the technical account result for the non-life and life classes, net of retroceded premiums, was positive at Euro 203 million, the same result as 2005. The ratio of the technical account result to premiums also increased from 17.7% in 2005 to 20.1% in 2006. The improvement of the result was possible thanks to the decrease of the incurred claims cost for the financial year, since 2006 was characterized by a small number of large claims, at least for Italy.

The result for the financial year was positive at Euro 46 million (163 in 2005), due to a negative result of the non-technical account; the incidence on premiums recorded a sharp decrease, from 14.3% in 2005 to 4.6% in 2006.

*DOMESTIC AND FOREIGN INDIRECT PREMIUMS*
*Euro million*

| WHOLE MARKET | PREMIUMS | CHANGE % | % ON TOTAL DIRECT AND INDIRECT PREMIUMS |
|---|---|---|---|
| 1997 | 5,215 | 6.7% | 11.0% |
| 1998 | 5,233 | 0.3% | 9.3% |
| 1999 | 4,678 | -10.6% | 7.0% |
| 2000 | 5,401 | 15.5% | 7.4% |
| 2001 | 5,461 | 1.1% | 6.7% |
| 2002 | 5,683 | 4.1% | 6.1% |
| 2003 | 5,934 | 4.4% | 5.8% |
| 2004 | 5,487 | -7.5% | 5.1% |
| 2005 | 5,048 | -8.0% | 4.4% |
| 2006 | 6,181 | 22.4% | 5.5% |
| 2007* | 4,350 | -29.6% | 4.2% |

*(*) ANIA estimate*

*PROFESSIONAL REINSURERS INDIRECT PREMIUMS*
*Euro million*

| PROFESSIONAL REINSURERS | PREMIUMS | CHANGE % | % ON TOTAL INDIRECT PREMIUMS |
|---|---|---|---|
| 1997 | 1,729 | 8.5% | 33.2% |
| 1998 | 1,835 | 6.2% | 35.1% |
| 1999 | 1,669 | -9.1% | 35.7% |
| 2000 | 2,025 | 21.3% | 37.5% |
| 2001 | 1,891 | -6.6% | 34.6% |
| 2002 | 2,171 | 14.8% | 38.2% |
| 2003 | 1,828 | -15.8% | 30.8% |
| 2004 | 1,857 | 1.6% | 33.8% |
| 2005 | 1,647 | -11.3% | 32.6% |
| 2006 | 1,506 | -8.6% | 24.4% |
| 2007* | 1,410 | -6.4% | 32.4% |

*(*) ANIA estimate*

# Reinsurance

*PROFESSIONAL REINSURERS*
*Euro million*

| INCOME STATEMENT* | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Technical account** | | | | | | | |
| Indirect premiums | 1,447 | 1,356 | 1,638 | 1,390 | 1,429 | 1,139 | 1,008 |
| Changes in premiums reserves (-) | 230 | 196 | 197 | 88 | 72 | 73 | 47 |
| Investment income | 219 | 176 | 201 | 277 | 210 | 226 | 193 |
| Incurred claims (-) | 1,083 | 934 | 1,146 | 998 | 983 | 767 | 668 |
| Operating expenses (-) | 425 | 404 | 445 | 364 | 373 | 309 | 271 |
| Balance on other profits and losses | -11 | -12 | -2 | -8 | -15 | -14 | -12 |
| **Balance** | **-83** | **-14** | **49** | **209** | **196** | **202** | **203** |
| **Non-Technical account** | | | | | | | |
| Profits | 32 | 21 | 25 | 44 | 29 | 24 | -30 |
| Balance on other profits and losses | -20 | -22 | -6 | -16 | -10 | 8 | -57 |
| Balance on ordinary activities | -71 | -15 | 68 | 237 | 215 | 234 | 116 |
| Balance on extraordinary activities | 109 | -1 | 12 | 54 | -10 | 13 | -2 |
| Taxes on income (-) | 3 | 0 | 20 | 34 | 36 | 84 | 68 |
| **Result for the year** | **35** | **-16** | **60** | **257** | **169** | **163** | **46** |

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

*PROFESSIONAL REINSURERS*
*Euro million*

| BALANCE SHEET | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Shareholder's equity | 457 | 449 | 558 | 708 | 582 | 635 | 494 |
| Technical reserves | 5,471 | 5,874 | 5,837 | 5,766 | 5,819 | 5,707 | 5,679 |
| Funds and deposits from reinsurers | 431 | 465 | 424 | 425 | 413 | 243 | 240 |
| Debts and other liabilities | 1,044 | 1,094 | 1,246 | 1,127 | 1,180 | 1,307 | 1,196 |
| **Total** | **7,403** | **7,883** | **8,065** | **8,026** | **7,994** | **7,891** | **7,609** |
| **Assets** | | | | | | | |
| Intangible assets | 294 | 267 | 261 | 271 | 191 | 154 | 123 |
| Investments | 5,109 | 5,469 | 5,483 | 5,429 | 5,644 | 5,645 | 5,598 |
| Technical reserves from reinsurers | 1,196 | 1,260 | 1,190 | 1,136 | 1,086 | 1,005 | 1,024 |
| Amounts owed by debtors | 590 | 632 | 795 | 820 | 789 | 839 | 609 |
| Miscellaneous | 214 | 255 | 336 | 370 | 285 | 248 | 255 |
| **Total** | **7,403** | **7,883** | **8,065** | **8,026** | **7,994** | **7,891** | **7,609** |

## STAFF AND LABOUR COSTS

At the end of 2006 the Italian insurance industry had a total of **46,278** employees, of which:

- **41,121 administrative employees**, including managers; 37,567 (of which 1,206 managers) were employed by insurance companies and 4,554 by other entities controlled by insurance companies.
- **5,157 dealers**. Compared to 2006 this figure includes roughly 2000 additional workers, as a consequences of a large corporate restructuring.

Total labour costs amounted to Euro 3,249 million, Euro 2,972 million for administrative staff and Euro 277 million for dealers.

In order to describe the dynamics of labour costs we reconstructed the 2007 figures so that they are consistent with those of 2006, also assuming that the average cost of the dealers included for the first time in the 2007 statistics is the same as the rest of the workers of the sector.

The overall cost for administrative labour increased by 7,0% in 2007. The cost per employee was 7,6% higher, the number of workers 0.6% lower at year end.

In particular the unit cost of administrative labour increased from Euro 68,800 in 2006 to Euro 74,000.

The overall cost for dealers increased by 9.7% as the number of employees went up by 4.1% and their unit cost by 5.5%.

Considering the homogeneous sample, labour costs increased by 7.2% overall; the unit cost was 7.4% higher.

*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* |

*(*) For the first time in 2007 the total includes 4,554 employees of other entities controlled by insurance companies and roughly 2,000 additional dealers men as a consequence of a large corporate restructuring*

*TOTAL COSTS RELATING TO STAFF*
*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* |

*(*) For the first time in 2007 total costs relating to staff include 4,554 employees of other entities controlled by insurance companies and roughly 2,000 additional dealers men as a consequence of a large corporate restructuring*

*ANNUAL CHANGE OF TOTAL COSTS RELATING TO STAFF (%)*

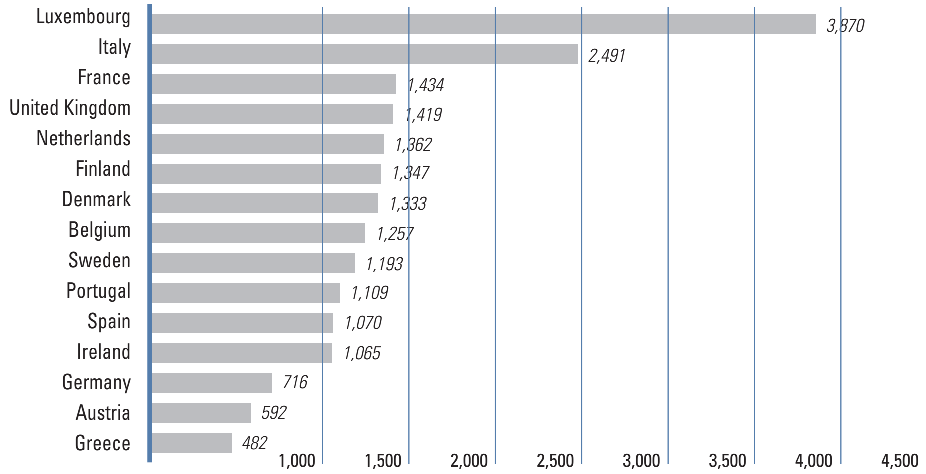
| YEAR | ADMIN. | DEALERS | TOTAL |
|---|---|---|---|
| 2003 | 7.0 | -1.7 | 6.6 |
| 2004 | 4.9 | 12.2 | 5.2 |
| 2005 | 3.3 | 10.1 | 3.6 |
| 2006 | 3.1 | 8.5 | 3.4 |
| 2007 | 7.0 | 9.7 | 7.2 |

*ANNUAL CHANGE OF TOTAL COSTS RELATING TO STAFF 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 |

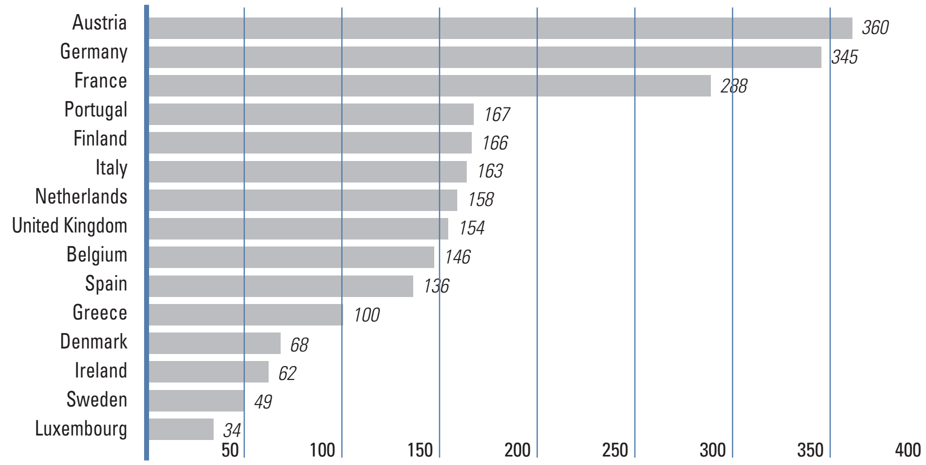
# Human resources and the operational area

*PREMIUMS PER EMPLOYEE IN E.U. (15) COUNTRIES - 2006*
*Euro (000's)*




*Source: CEA*

*EMPLOYEES PER COMPANY IN E.U. (15) COUNTRIES - 2006*




*Source: CEA*

**The decline of business written through bank branches in the life sector continued in 2007. This result is consistent with the performance of agents who, for the first time after several years of growth, registered a reduction in business volume. In the non-life sector, agents remain the prevalent distribution channel; the market share of the direct sales (telephone and internet) is increasing. The results of a study by ANIA based on data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) finds that the figures reported by insurance companies underestimate the importance of brokers in the non-life sector.**

## LIFE BUSINESS

In 2007, all distribution channels selling life products sustained a decline, with the exception of brokers who, however, are of limited importance (Table 1).

Bank branches, although remaining the prevailing channel in terms of premiums booked (approximately 58% in 2007), recorded a sharper decline: from -8.0% in 2006 to -13.3% in 2007. The average annual change calculated over the last five years remains however positive (+2.7%).

After years of constant growth, the sale of life products through agents declined in 2007 (-6.2% compared to 2006); their share of the total life premiums, however, rose from 19.9% in 2006 to 21.1% in 2007. A shrinkage was recorded also for financial advisers (-11.3% compared to the previous year), after the increase of 5.8% in 2006.

*TABLE 1 - DISTRIBUTION CHANNEL ANALYSIS – 2003-2007*

*LIFE BUSINESS*

| CHANNELS | Gross written premiums (Euro million) | | | | | Market share (%) | | | | | Mean | Annual change (%) | | | | | Mean change (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2003 | 2004 | 2005 | 2006 | 2007 | (2003-2007) | 2003 | 2004 | 2005 | 2006 | 2007 | (2003-2007) |
| Bank branches | 36,980 | 38,479 | 44,523 | 40,957 | 35,496 | 58.9 | 58.6 | 60.6 | 59.0 | 57.8 | ***59.0*** | 18.9 | 4.1 | 15.7 | -8.0 | -13.3 | ***2.7*** |
| Agents | 11,529 | 12,176 | 13,372 | 13,830 | 12,969 | 18.3 | 18.6 | 18.2 | 19.9 | 21.1 | ***19.2*** | 6.1 | 5.6 | 9.8 | 3.4 | -6.2 | ***3.6*** |
| Direct sales | 6,815 | 8,248 | 9,110 | 8,086 | 6,862 | 10.9 | 12.6 | 12.4 | 11.7 | 11.2 | ***11.8*** | 38.0 | 21.0 | 10.5 | -11.2 | -15.1 | ***6.8*** |
| Financial advisers | 6,977 | 6,250 | 5,584 | 5,907 | 5,237 | 11.2 | 9.5 | 7.6 | 8.5 | 8.5 | ***9.1*** | -11.7 | -10.4 | -10.7 | 5.8 | -11.3 | ***-7.9*** |
| Brokers | 479 | 474 | 882 | 598 | 875 | 0.7 | 0.7 | 1.2 | 0.9 | 1.4 | ***1.0*** | 0.5 | -0.9 | 85.8 | -32.2 | 46.5 | ***12.9*** |
| **Total** | **62,780** | **65,627** | **73,471** | **69,377** | **61,440** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | ***100.0*** | **13.5** | **4.5** | **12.0** | **-5.6** | **-11.4** | ***2.1*** |

# Insurance distribution

For the second consecutive year, direct sales declined: the premium volume went from -11.2% in 2006 to -15.2% in 2007, with a consequent slight reduction of the weight of this channel over the total life market (from 11.7% in 2006 to 11.2% in 2007).

The business booked through the brokers, although modest in terms of premium volume (on average in the five-year period 2003-2007 the relative market share has been only just over 1%), registers growth of 46.5% in the last year.

With reference to the mix of life products (Table 2), policies of Class I are predominantly sold through the banks, with a weight that is reduced by 10 percentage points compared to 2006. This result implies that the market share of agents increases, reaching almost 35% in 2007.

A prevailing concentration of business volume booked through the bank branches (78% in 2007 compared to 76% in 2006) is also recorded amongst the products of Class III. The financial advisers instead lose market share going

*TABLE 2*
*BREAKDOWN OF LIFE MARKET BY DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2007*

| CLASSES | AGENTS | BROKERS | BANK BRANCHES | FINANCIAL ADVISERS | DIRECT SALES | TOTAL |
|---|---|---|---|---|---|---|
| **INDIVIDUAL POLICIES** | | | | | | |
| I - Life | 35.3 | 0.3 | 46.9 | 5.1 | 12.4 | 100.0 |
| III - Linked | 8.0 | 0.1 | 78.1 | 13.5 | 0.3 | 100.0 |
| IV - Healthcare | 86.0 | 2.6 | 4.8 | 4.2 | 2.4 | 100.0 |
| V - Capitalization | 30.7 | 0.3 | 33.6 | 2.3 | 33.1 | 100.0 |
| VI - Pension funds | 26.8 | 0.0 | 26.5 | 1.7 | 45.0 | 100.0 |
| ***TOTAL INDIVIDUAL*** | ***21.0*** | ***0.2*** | ***62.3*** | ***9.3*** | ***7.2*** | ***100.0*** |
| **GROUP POLICIES** | | | | | | |
| I - Life | 27.4 | 24.9 | 11.3 | 0.5 | 35.9 | 100.0 |
| III - Linked | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 | 100.0 |
| IV - Healthcare | 19.3 | 65.9 | 1.5 | 0.0 | 13.4 | 100.0 |
| V - Capitalization | 16.8 | 5.0 | 3.7 | 0.2 | 74.3 | 100.0 |
| VI - Pension funds | 21.5 | 0.5 | 9.1 | 0.9 | 68.0 | 100.0 |
| ***TOTAL GROUP*** | ***22.4*** | ***15.0*** | ***7.8*** | ***0.4*** | ***54.4*** | ***100.0*** |
| **TOTAL POLICIES** | | | | | | |
| I - Life | 34.5 | 2.7 | 43.6 | 4.6 | 14.6 | 100.0 |
| III - Linked | 8.0 | 0.1 | 78.1 | 13.5 | 0.4 | 100.0 |
| IV - Healthcare | 22.3 | 63.1 | 1.6 | 0.2 | 12.9 | 100.0 |
| V - Capitalization | 23.9 | 2.6 | 19.0 | 1.3 | 53.2 | 100.0 |
| VI - Pension funds | 24.2 | 0.3 | 18.0 | 1.3 | 56.2 | 100.0 |
| Ind. pens. schemes (*) | 44.5 | 0.1 | 12.7 | 36.7 | 6.0 | 100.0 |
| ***TOTAL LIFE CLASSES*** | ***21.1*** | ***1.4*** | ***57.8*** | ***8.5*** | ***11.2*** | ***100.0*** |

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

from 15.3% in 2006 to 13.5% in 2007; the market share of agents remains substantially unchanged at approximately 8%.

With an incidence that exceeded 50%, the weight of direct sales for products of Class V increased. Similarly to the results for 2006, the bank branches shrink further by 10 percentage points, reaching a market share of less than 20%.

Although the sale of individual retirement schemes products it is concentrated on the agents, during the last year it is also recorded an increase of the market share of premiums/contributions written by the financial advisers that goes form 29.8% of 2006 to 36.7 in 2007. The premiums/contributions related to pension funds of Class VI – individual and/or group – continue to be booked mainly by the direct sales (56.2%).

## NON-LIFE BUSINESS

In 2007 the business booked through agents increased by 1.4%; their market share remained in 2007 at the same level of 2006 (84.3%).

For the second consecutive year, brokers' business registered a modest decrease (-0.6% in 2006 and -0.2% in 2007); the market share of this distribution channel remains substantially unchanged, with about 7.5% of premiums; it represents the first option to the agents for the distribution of non-life policies. This share is underestimated, however, (see box for details), as it does

*TABLE 3 - DISTRIBUTION CHANNEL ANALYSIS – 2003-2007*

*NON-LIFE CLASSES*

| CHANNELS | Gross written premiums (Euro million) | | | | | Market share (%) | | | | | Mean | Annual change (%) | | | | | Mean change (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2003 | 2004 | 2005 | 2006 | 2007 | (2003-2007) | 2003 | 2004 | 2005 | 2006 | 2007 | (2003-2007) |
| Agents | 29,165 | 30,235 | 30,681 | 31,315 | 31,769 | 85.2 | 85.3 | 84.5 | 84.2 | 84.3 | ***84.7*** | 4.6 | 3.7 | 1.5 | 2.1 | 1.4 | ***2.6*** |
| Brokers (*) | 2,549 | 2,674 | 2,796 | 2,779 | 2,773 | 7.5 | 7.6 | 7.7 | 7.5 | 7.4 | ***7.5*** | 4.2 | 4.9 | 4.5 | -0.6 | -0.2 | ***2.5*** |
| Direct sales | 2,048 | 2,113 | 2,251 | 2,438 | 2,429 | 6.0 | 6.0 | 6.2 | 6.6 | 6.4 | ***6.2*** | 17.2 | 3.2 | 6.5 | 8.3 | -0.4 | ***6.8*** |
| *of which: internet and phone sales* | *737* | *856* | *944* | *994* | *1,047* | *2.2* | *2.4* | *2.6* | *2.7* | *2.8* | ***2.5*** | *46.6* | *16.2* | *10.3* | *5.3* | *5.4* | ***15.8*** |
| Bank branches | 422 | 360 | 545 | 624 | 678 | 1.2 | 1.0 | 1.5 | 1.7 | 1.8 | ***1.4*** | 35.2 | -14.7 | 51.4 | 14.5 | 8.6 | ***16.8*** |
| Financial advisers | 29 | 29 | 36 | 28 | 29 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | ***0.1*** | -14.7 | -1.6 | 27.2 | -22.4 | 2.8 | ***-3.2*** |
| **Total** | **34,213** | **35,411** | **36,309** | **37,184** | **37,676** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | ***100.0*** | **5.5** | **3.5** | **2.5** | **2.4** | **1.3** | ***3.1*** |

*(*) Does not include premiums originated by brokers but submitted to agents rather than directly to companies, estimated at about 18.5% of total premiums in 2007*

not include a substantial proportion of premiums (estimated at 18.5 percentage points) that are originated by brokers but submitted to agents rather than directly to companies. Factoring this in, it is estimated that brokers intermediated 25.9% of non-life premium volumes in 2007 (7.4% in the official statistics) and agents 65.9%.

After several years of growth the direct sales also registered a slowdown of the premium volume in 2007 (-0.4%); specifically, after double-digit increases recorded annually until 2005 by internet and telephone sales, a more modest increase (just above 5%) followed in 2006 and 2007 with a reduction of the premiums booked directly by the companies (agencies in economy). This result reflects the market share of the total direct sales intermediaries, which goes from 6.6% in 2006 to 6.4% in 2007.

*TABLE 4*
*BREAKDOWN OF NON-LIFE MARKET BY DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2007*

| CLASSES | AGENTS | BROKERS(*) | BANK BRANCHES | FINANCIAL ADVISERS | AGENCIES IN ECONOMY | OTHER TYPES OF DIRECT SALES | | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | TELEPHONE SALES | INTERNET | OTHER | |
| Motor liability | 90.9 | 2.0 | 1.1 | 0.0 | 1.3 | 2.9 | 1.7 | 0.1 | 100.0 |
| Land vehicles | 87.9 | 4.5 | 1.1 | 0.0 | 2.4 | 2.4 | 1.5 | 0.3 | 100.0 |
| ***Total motor*** | ***90.4*** | ***2.4*** | ***1.1*** | ***0.0*** | ***1.5*** | ***2.9*** | ***1.6*** | ***0.1*** | ***100.0*** |
| Accident | 83.8 | 7.6 | 2.1 | 0.3 | 4.1 | 0.9 | 0.4 | 0.8 | 100.0 |
| Sickness | 59.5 | 18.6 | 4.9 | 0.5 | 13.5 | 0.1 | 0.0 | 2.9 | 100.0 |
| Railway rolling stock | 49.6 | 10.2 | - | - | 40.2 | - | - | - | 100.0 |
| Aircraft | 24.8 | 53.5 | - | - | 21.7 | - | - | - | 100.0 |
| Ships | 19.8 | 71.5 | 0.0 | - | 8.6 | - | - | 0.1 | 100.0 |
| Goods in transit | 46.0 | 44.7 | 0.0 | - | 8.2 | 0.1 | 0.0 | 1.1 | 100.0 |
| Fire and natural forces | 78.5 | 11.3 | 5.3 | 0.1 | 4.7 | 0.0 | 0.0 | 0.1 | 100.0 |
| Other damage to property | 80.5 | 14.3 | 1.3 | 0.1 | 3.6 | 0.0 | 0.0 | 0.2 | 100.0 |
| Aircraft third party liability | 22.2 | 36.8 | - | - | 41.0 | - | - | - | 100.0 |
| Ships third party liability | 89.6 | 6.5 | 0.2 | - | 2.6 | 0.5 | 0.5 | 0.0 | 100.0 |
| General third party liability | 82.8 | 11.9 | 0.7 | 0.1 | 4.4 | 0.0 | 0.0 | 0.1 | 100.0 |
| Credit | 77.6 | 15.5 | 0.7 | - | 6.1 | - | - | - | 100.0 |
| Suretyship | 83.4 | 11.0 | 0.7 | - | 4.8 | - | - | 0.1 | 100.0 |
| Miscellaneous financial loss | 66.1 | 15.0 | 12.0 | 0.0 | 3.3 | 0.2 | 0.2 | 3.1 | 100.0 |
| Legal expenses | 82.7 | 9.5 | 1.8 | 0.0 | 2.2 | 2.6 | 1.0 | 0.3 | 100.0 |
| Assistance | 80.8 | 5.5 | 2.0 | 0.2 | 3.0 | 3.6 | 1.8 | 3.2 | 100.0 |
| ***Total non-motor*** | ***76.2*** | ***14.0*** | ***2.7*** | ***0.2*** | ***5.6*** | ***0.3*** | ***0.2*** | ***0.8*** | ***100.0*** |
| **Total non-life classes** | **84.3** | **7.4** | **1.8** | **0.1** | **3.3** | **1.8** | **1.0** | **0.4** | **100.0** |

*(*) Does not include premiums originated by brokers but submitted to agents rather than directly to companies, estimated at about 18.5% of total premiums in 2007*

The market share of bank branches remains limited, but it did record a slight increase in 2007 (accounting for 1.8% of the total volume); the market share of financial advisors was unchanged at just 0.1% of the total non-life market.

More than 90% of motor insurance premiums (third-party liability and land vehicles) were again written through agents. Direct sales exceeded 6% of the premium volume, followed by brokers with 2.4%.

In the other non-life classes agents were the leading sales channel, with the exception of the transport sector, goods in transit and aircraft third party liability. In the accompanying box, we estimate that brokers actually account for between 55% and 65% of premiums from general third-party liability, property, and credit and suretyship policies and for nearly 80% of those in the transport sector.

### THE INTERMEDIATION PERFORMED BY BROKERS IN ITALY IN NON-LIFE BUSINESS

The apparent extent of agents' dominance in distribution of non-life products in Italy – their market share came to 84.3% in 2007 – depends partly on statistical practices whereby policies actually placed or originated by brokers are booked by agents.

Two cases essentially determine this situation. The first concerns brokers, often with a small volume of business, who directly contact insurance companies' local agents. Once the contract is signed, it is advantageous for the broker to have the agent book it, so as not to sustain the administrative costs of managing the policy. The second refers to brokers, often of leading companies, who operate primarily but not exclusively as advisors of the customer, the latter preferring to maintain a direct relationship with the company's local agent.

In both cases, insurance companies have no information on who actually originated the policy. Consequently, in the official statistics compiled by ANIA and those compiled by ISVAP, the insurance supervisory authority, a sizable portion of the business done by brokers figures as having been done by companies' networks of exclusive agents.

The data available at the Italian Association of Insurance and Reinsurance Brokers (AIBA) are used since 2005 to estimate brokers' actual share of business. Each year AIBA calculates the volume of premiums managed by brokers on the basis of their payments to the compulsory Guarantee Fund, which was set up to indemnify policyholders and insurance companies for uninsured losses deriving from broker activities. The contribution is a fixed percentage of the commissions collected by brokers. On the basis of the total volume of commissions and an estimated average commission of 9%, AIBA calculates the underlying volume of premiums, which is then summed with the premiums deriving from risk management and advisory services that brokers provide to customers, which are not subject to the compulsory Guarantee Fund contribution and which AIBA estimates on the basis of the related brokerage fees.

According to AIBA, in 2007 brokers operating in the non-life classes in Italy handled Euro 17.8 billion out of a total Euro 37.7 billion worth of premiums, or 47.2%. These figures are much higher than brokers' share as shown by ANIA data (Euro 2.8 billion, 7.4%). AIBA estimates, further, that brokers' share of non-life business had risen from 25.5% in 2000 to 47.2% in 2007.

*TABLE 1*
*PREMIUMS HANDLED BY BROKERS*
*ITALIAN DIRECT BUSINESS*
*Euro million*

| **Non-life business** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** |
|---|---|---|---|---|---|---|---|---|
| *Total premiums (ANIA data)* | 27,875 | 29,920 | 32,417 | 34,212 | 35,411 | 36,308 | 37,184 | 37,676 |
| Premiums handled by brokers (ANIA) | 1,792 | 2,201 | 2,446 | 2,550 | 2,674 | 2,786 | 2,779 | 2,772 |
| % share of premiums handled by brokers (ANIA) | 6.4% | 7.4% | 7.5% | 7.5% | 7.6% | 7.7% | 7.5% | 7.4% |
| ***Premiums handled by brokers (AIBA)*** | **7,095** | **8,304** | **9,694** | **11,142** | **11,720** | **14,168** | **17,092** | **17,800** |
| ***% share of premiums handled by brokers (AIBA)*** | **25.5%** | **27.8%** | **29.9%** | **32.6%** | **33.1%** | **39.0%** | **46.0%** | **47.2%** |
| ***Ratio of AIBA to ANIA premiums*** | **4.0** | **3.8** | **4.0** | **4.4** | **4.4** | **5.1** | **6.2** | **6.4** |

However, according to our calculations (detailed below) there is good reason to think that the AIBA data are overestimated by some 45%; this would imply non-life premiums handled by brokers amounting to Euro 9.7 billion (against the AIBA estimate of Euro 17.8 billion). Even correcting for this overestimation, the amount of premiums actually ascribable to brokers would still be more than 3.5 times greater than the figure shown by insurance companies in 2007.

The adjustment implies that brokers' share of total non-life business actually comes to 25.9%, not 7.4% (with a difference of 18.5 percentage points), with a corresponding decrease from 84.3% to 65.9% in the share attributable to agents. The difference of about Euro 8 billion between AIBA's estimate and the official figure was allocated to the various product classes according to percentage weights estimated using ANIA data and the results of a survey conducted by IRSA in cooperation with AIBA several years ago. This exercise shows that the incidence of brokers' activity varies considerably depending on the line of business. In particular, excluding motor insurance and accident and health policies, brokers' intermediated between 55% and 65% of the volume of premiums from general third-party liability, property and credit and suretyship policies and nearly 80% of the volume in the transport sector.

It is important to note that the above figures for brokers' incidence on premium volumes by class of insurance refer to non-life business as whole. In the

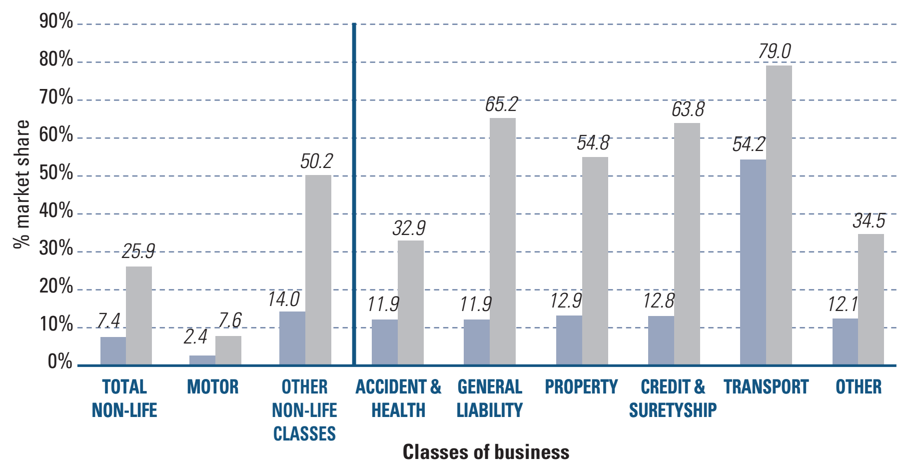



*FIGURE 1 - INCIDENCE OF BROKERS ON NON-LIFE PREMIUMS, 2007*

*ANIA data*
*ANIA estimates on AIBA data*

case of corporate insurance, the presence of brokers is more extensive; although the pertinent data are not available, the situation in Italy can be assumed to be similar to that in other European countries (Belgium and the United Kingdom, in particular), where, for corporate insurance, the brokers handled on average more than 70% of premiums in each non-life class.

To round out the picture, we report details of the estimation that ANIA performed using AIBA's methodology and data but also drawing on some supplementary sources. In particular:

- for the volume of premiums derived from the system of commissions, the estimate used the definitely known figure of the amount of commissions collected by brokers in 2007, Euro 1,248 million. On the basis of an average commission that ANIA puts at 12.4% (rather than AIBA's figure of 9%), ANIA estimates the premiums driving from direct intermediation at Euro 10.1 billion, lower than AIBA's estimate of Euro 13.9 billion;
- for the volume of premiums generated by the brokerage fee system, ANIA accepted AIBA's estimate that brokerage fees were equal to 12% of commissions (Euro 1,248 million * 12% = Euro 149.8 million). Then, using the results of a survey of the leading international brokers that operate in Italy, ANIA calculated the incidence of fees on the volume of premiums they generated. The survey found an average incidence of 5.5%, compared with the figure of 2% used by AIBA. Accordingly, the estimated volume of premiums for this segment of business comes to Euro 2.7 billion (Euro 149.8 million/5.5%), far below AIBA's estimate of Euro 7.5 billion (Euro 149.8 million/2%).

According to ANIA, therefore, in 2007 total premium income attributable to brokers amounted to about Euro 12.8 billion (Euro 10.1 billion from the commission system plus Euro 2.7 billion from the fee system). Life premiums accounted for only Euro 3.1 billion (24.0%) of the total, while non-life premiums made up Euro 9.7 billion (76.0%).

### COLLECTIVE ACTION FOR THE PROTECTION OF CONSUMERS

Law 244/2007 (the Finance Law for 2008), published in the *Gazzetta Ufficiale* on 28 December 2007, introduced "collective action for the protection of consumers" into the Italian legal system by adding new provisions to the so-called Consumer Code (Legislative Decree 206/2005). The new rules take effect on 1 July 2008.

The new means of collective redress differs substantially from US class action. In the first place, Italian consumers desiring to benefit from the effects of a collective action will have to declare their intention expressly (opt-in right), whereas in the United States consumers belonging to the class may opt out of a class action, bringing an individual action, or otherwise tacitly decide to share in the possible benefits of an action brought by others. Second, Italian law only envisages compensatory damages, with no provision for the levying of punitive damages on firms.

A collective action for the protection of consumers may be brought by national consumer and service-user associations entered in a register established at the Ministry for Economic Development or by associations and committees that are sufficiently representative of the collective interests to be asserted. The action is brought against a firm (including for-profit public corporations) whose conduct has been detrimental to the interests of the members of a "class" of consumers or service users.

The action must be brought before the court of the place where the firm has its registered office. The plaintiff petitions the court to ascertain collegially the right to damages and the amounts payable to individual consumers in cases of contracts concluded pursuant to Article 1342 of the Civil Code (contracts concluded by signing forms, e.g. those often used in the fields of banking, insurance and finance), contract violations (e.g. fraud or negligence resulting in unjust loss), and unfair commercial practices and anti-competitive conduct, where the rights of a multiplicity of consumers or service users are injured.

In order to participate in the action, the consumer must notify the association or committee in writing that he intends to opt in. Opt-in declarations may also be notified in the appeals trial, up to the hearing in which the conclusions are specified. Individual consumers may always intervene directly and independently during the trial stage. The bringing of the collective action or subsequent opting in interrupts the statute of limitations on the right to collect damages pursuant to Article 2945 of the Civil Code.

In the first hearing the Court rules on the admissibility of the petition (an adverse ruling may be appealed to the Court of Appeal). The petition is declared inadmissible when it is manifestly unfounded, when there is a conflict of interest or when the judge does not find the existence of a collective interest qualifying for protection. If the petition is accepted, the judge establishes the criteria for determining the amount to be paid or returned to the individual consumers who opted in or intervened during the trial. Where possible, the judge establishes the minimum amount to be paid to each consumer or service user. In the sixty days following the notification of the decision, the firm proposes payment of an amount; an accepted proposal is enforceable. The decision concluding the trial is also valid vis-à-vis the consumers who took part in the collective action.

Consumers who did not opt in or did not intervene in the trial may still bring individual actions. If the firm does not communicate its proposal within the legal deadline or if the proposal is not accepted within sixty days, the president of the competent court forms a conciliation chamber to determine the amount to be paid or returned to the consumers or service users who participated in the collective action or intervened during the trial. The chamber is composed of one lawyer designated by the persons who brought the collective action and one lawyer appointed by the president of the court. The chamber determines the amount payable to each consumer or service user and the procedures and time limits for payment. The minutes of the conciliation chamber are enforceable.

Alternatively, at the agreed request of the promoter of the action and the defendant firm, the president of the court rules that out-of-court settlement will take place at one of the conciliation boards established by trade associations and chambers of commerce under the 2003 reform of company law.

### CUSTOMER SATISFACTION IN THE INSURANCE SECTOR

Every two years ANIA has commissioned a survey of customer satisfaction with insurance products. The 2007 survey was performed by GFK-Eurisko on a sample of 3,000 interviews representing Italian policyholders aged 18 to 64.

The overall level of policyholder satisfaction has increased. On a scale ranging from 3 (highly dissatisfied) to 8 (highly satisfied), 62% of the interviewees answered 7 or 8, compared with 56% in 2004 and 59% in 2001. Respondents are asked to make a general evaluation of insurance products and to assess some specific aspects, such as the conduct of agents, the information provided by the company and the costs compared with the benefits.

All the indicators of satisfaction show an appreciable increase, particularly as regards companies' responsiveness to their policyholders' needs. Although better than in previous surveys, the assessment of costs in relation to benefits remains the most critical item. Only 46% of the interviewees answered 7 or

8; including those who expressed at least a satisfactory opinion (a mark of 6), the proportion rises to 73%.

*TABLE 1*
*INDICATORS OF INSURANCE CUSTOMERS' SATISFACTION: % OF THE SAMPLE ASSIGNING A MARK OF 7 OR 8 ON A SCALE FROM 3 TO 8*

| | Overall evaluation | Agency | Information | Functioning of the policy | Costs/benefits |
|---|---|---|---|---|---|
| 1994 | 62 | 52 | 57 | 61 | 51 |
| 1996 | 61 | 49 | 59 | 58 | 47 |
| 1999 | 60 | 61 | 58 | 55 | 43 |
| 2001 | 59 | 60 | 55 | 52 | 40 |
| 2004 | 56 | 63 | 55 | 52 | 38 |
| 2007 | 62 | 63 | 58 | 57 | 46 |

*Source: GFK-Eurisko survey*

The Italian population's portfolio of insurance products is basically stable. The majority of interviewees only had motor vehicle insurance.

Satisfaction with the policies held is stable or increasing. The incidence of positive opinions was 79% for car insurance, 80% for health insurance, 73% for accident policies, 77% for home and household liability policies, and 76% for life and retirement products.

Turning to the dynamics of the market, the pitch of competition is rising, with 38% of the sample remembering insurance companies' advertisements and promotional messages. In the two years between surveys, 20% of respondents had changed insurer. The proportion of respondents who had complaints about the service decreased. There is a growing propensity to remain with one's present company and also to recommend it to friends and relatives.

In line with the general trend, in 2007 policyholders expressed increasing satisfaction with their own automobile policies. The proportion of respondents who were "highly" satisfied rose to 52%, from 43% in 2004. Counting those who indicated they were at least satisfied, the proportion of positive opinions rises further to 79%.

Some 33% of the persons interviewed asked other companies for estimates when their policies were coming up for renewal. Among those who changed companies, 79% went to an agent while 15% contacted the new company directly via the Internet or by telephone.

Italian policyholders are well informed concerning the changes in the insurance market. In concomitance with the direct compensation procedure's entry into effect, 83% declared they were aware of this development.

### CHANGES IN CORPORATE INCOME TAX AND THE REGIONAL TAX ON PRODUCTIVE ACTIVITIES INTRODUCED BY THE FINANCE LAW

The Finance Law for 2008 amends the business tax regime without modifying the basic structure of the 2004 tax reform. It rationalizes the provisions concerning corporate income tax (IRES) and the regional tax on productive activities (IRAP) by reducing the nominal tax rates, broadening the tax base and simplifying the system.

According to the Government's report on these measures, the changes were made in light of repeated recommendations from the EU to lower nominal tax rates and broaden tax bases and also for reasons of international tax competitiveness, given that nearly all the main European countries have moved in this direction.

The provisions introduced with the Finance Law for 2008 apply starting from the tax year following that in course on 31 December 2007 (i.e. from 2008 for taxpayers whose tax year coincides with the calendar year).

### CORPORATE INCOME TAX

#### *Tax rate and taxation of dividends*

The corporate tax rate is reduced by 5.5 percentage points, from 33% to 27.5%.

This rate reduction is coordinated with some provisions designed to adjust the level of taxation of dividends distributed to natural persons in respect of qualifying holdings. No change is made in the tax treatment of dividends paid on non-qualifying holdings owned by individuals outside the exercise of business activity, which remain subject to substitute tax rate of 12.5%.

Dividends between companies continue to be taxable at 5%.

#### *Elimination of deductions taken exclusively for tax purposes*

The tax base is also broadened as a result of the elimination of the provisions of the 2004 reform that permitted the deductibility of amortization and depreciation, allocations to provisions and other value adjustments exclusively for tax purposes, i.e. in the corporate income tax return, over and above the amounts entered in the income statement. (The tax returns for 2004 and 2005 show that the deductions in question amounted to more than Euro 14 billion). In fact, the 2003 reform of company law prohibited entering negative income components having no economic justification in the income statement solely to obtain otherwise unobtainable benefits.

Non-deductibility takes effect starting from the 2008 fiscal year. However, for prior deductions made exclusively for tax purposes the impact on corporate income tax is cushioned, as they will gradually become subject to IRES when the negative income component already deducted becomes chargeable to income, while they will become taxable for purposes of IRAP in six equal instalments.

However, firms may elect to bring the additional amounts stated for tax purposes into line with those in the financial statements by paying a substitute tax in lieu of IRES and IRAP. The substitute tax rate is 12% on the first Euro 5 million, 14% on the next Euro 5 million and 16% on amounts exceeding Euro 10 million.

***Participation exemption***

The participation exemption for realized capital gains on equity interests meeting certain requirements initially envisaged the total exemption of these capital gains, consistently with the rules for the exemption of dividends to avoid the double taxation of corporate profits. The legislative measures of 2005 had progressively reduced the exemption to 84% and introduced a disparity in the treatment of capital gains and losses as a result of different holding periods for the two.

The Finance Law for 2008 amends the participation exemption by setting a uniform ceiling for the exemption of capital gains and dividends (95%) and eliminating the disparity between holding periods, which is set at 12 months for both capital gains and losses.

The exemption is still set at 84% for realized capital losses on participations corresponding to revaluation deficits deducted before 2004.

***Interest expense***

Simplification was also the motive for replacing the complex thin capitalization and pro-rata net worth rules governing the tax treatment of interest expense with new rules based on the standard of the “congruousness” of borrowing, benchmarked at 30% of the gross operating result reported in the income statement (calculated gross of amortization and depreciation and allocations to risk provisions). Essentially, interest expense is completely deductible up to the amount of interest income, while the amount in excess is deductible within the limit of 30% of the gross operating result. Any further excess may be carried over to subsequent years indefinitely, within the limit of the computation cap generated each year.

However, financial intermediaries and insurance companies and the parent companies of banking and insurance groups are excluded from the scope of these rules.

### *Consolidated tax return*

The changes to the consolidated tax return are of considerable impact, since they drastically curtail the attendant benefits and tax savings. The Finance Law repeals the provision that made dividends distributed to companies of the consolidated group 100% deductible (the ordinary rate is 95%) and eliminates the tax neutrality of the transfer of capital goods between companies of the group (this regime essentially involves the deferment of taxation of realized capital gains as a consequence of the transfer).

The result is to lessen the appeal of the consolidated tax return, whose only advantages are now the offsetting of income and losses between group companies and the new tax treatment of interest expense, which will permit each company participating in the consolidated return to use, for the purposes of the deductibility of interest expense, the margin in respect of the gross operating result not already absorbed by other companies participating in the consolidated return.

### *Extraordinary corporate actions*

The Finance Law rationalizes the tax rules on extraordinary corporate actions (mergers, spin-offs and contributions of companies or business segments).

The regime of neutrality (not producing either capital gains or losses) already governing mergers and spin-offs is now extended to contributions. Consequently, the assets of the company received as a result of a corporate reorganization are acquired at the same tax value they had for the contributor firm.

However, all the beneficiaries of these assets may opt to discharge the excess of the values of the tangible and intangible assets as stated in the accounts with respect to their tax values by paying a substitute tax in lieu of IRES and IRAP. The substitute tax rate is 12% on the first Euro 5 million, 14% on the next Euro 5 million and 16% on amounts exceeding Euro 10 million.

Firms may also elect this option in respect of previous extraordinary corporate actions, i.e. up to the tax period open at 31 December 2007.

## REGIONAL TAX ON PRODUCTIVE ACTIVITIES

The ordinary IRAP rate is reduced from 4.25% to 3.9%. According to the Government's report, the intention is to bring the IRAP tax base closer to the criteria adopted in the national accounts to determine production value (on which the tax is predicated), i.e. to value added in the various economic sectors. Put simply, the tax base for IRAP will be derived from financial statement data, without any link to that for IRES.

For the insurance industry, production value will be determined starting from the result of the technical account of the life and non-life sectors, adjusted to take into account 90% of the amount of amortization and depreciation on capital goods and of other administration expenses and 50% of the amount of dividends of the life sector. Labor costs remain non-deductible, and write-downs, write-backs and losses on credit are not considered.

IRAP will be progressively transformed from a central government into a regional tax. Accordingly, IRAP tax returns will be separated from corporate income tax returns and filed with the region or autonomous province where the taxpayer is domiciled.

## THE ITALIAN INSURANCE INDUSTRY IN 2008

The difficulties of the financial markets will affect the performance of the insurance industry in Italy. In the first four months of 2008, new life business amounted to Euro 13.6 billion, or 15.2% less than in the same period of 2007. The downward trend in premium income for financial insurance products that began in the summer of 2007 continued, as savers preferred bank and government medium/long-term bonds. Premiums written in Class III were 21% less than in the same period of 2007, those in Class V 71% lower. By contrast, policies written in Class I, which have a guaranteed minimum return, increased by 6.4%.

Assuming continued financial market uncertainty and investor preference for low-risk products, mainly bonds, we can use a simple time series model to estimate that in 2008 the decline in life insurance premiums should be more moderate, slowing to a fall of 7.7% from 11.4% in 2007. The decline in the financial insurance products component (13% for unit-linked and 70% for capital redemption policies) should be accompanied by an increase of 6% in premiums on traditional insurance policies. A major contribution should come from retirement policies (expected to gain 75%).

In the motor liability sector premium income is expected to hold basically stable. The increase in property insurance premiums (fire and other casualty coverage) should average 1.5%, reflecting the slowdown in economic growth. Better than average growth is expected in the accident, health and general liability branches; less than average (0.7%) for non-liability land vehicle insurance.

Total premiums on direct Italian insurance business should diminish in 2008. Premium volume is expected to decline by 4.3% to Euro 95 billion, or from 6.45% to 6% of GDP.

*TABLE 1*
*INSURANCE PREMIUMS IN ITALY IN 2008: FORECASTS*
*Euro million*

| CLASS | PREMIUMS 2007 | PREMIUMS 2008 | % CHANGE 2007-2006 (*) | % CHANGE 2008-2007 (*) |
|---|---|---|---|---|
| Motor liability | 18,208 | 18,208 | -1.0% | 0.0% |
| Land vehicles | 3,287 | 3,310 | 2.6% | 0.7% |
| Accident | 3,191 | 3,280 | 2.8% | 2.8% |
| Health | 2,049 | 2,199 | 12.1% | 7.3% |
| Fire and natural phenomena | 2,345 | 2,359 | -0.6% | 0.6% |
| General liability | 3,271 | 3,322 | 1.5% | 1.6% |
| Other property | 2,574 | 2,645 | 3.6% | 2.8% |
| Other non-life | 2,751 | 2,895 | 5.9% | 5.2% |
| **TOTAL NON-LIFE** | **37,676** | **38,218** | **1.3%** | **1.4%** |
| *% of GDP* | *2.45%* | *2.41%* | | |
| Class I - Life insurance | 27,166 | 28,796 | -17.0% | 6.0% |
| Class III - Investment funds | 29,053 | 25,276 | 6.1% | -13.0% |
| Other life classes | 5,221 | 2,610 | -43.5% | -50.0% |
| **TOTAL LIFE** | **61,440** | **56,683** | **-11.4%** | **-7.7%** |
| *% of GDP* | *4.00%* | *3.57%* | | |
| **TOTAL** | **99,116** | **94,900** | **-7.0%** | **-4.3%** |
| *% of GDP* | *6.45%* | *5.98%* | | |

*Source: ANIA estimates*
*(*) 2007 data are final, 2008 data are estimates.*

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

2007/2008 figures are provisional

*Printed in October 2008*