

ITALIAN
INSURANCE

2016 - 2017

Ania

Associazione Nazionale
fra le Imprese Assicuratrici

ITALIAN
INSURANCE

2016 - 2017

Ania

Associazione Nazionale
fra le Imprese Assicuratrici

EXECUTIVE SUMMARY	9
 1. THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016	 23
OPERATING INSURANCE COMPANIES	24
INCOME STATEMENT	25
THE TECHNICAL ACCOUNT	26
PREMIUMS	26
CLAIMS AND BENEFITS PAID	27
OPERATING EXPENSES	27
TECHNICAL ACCOUNT RESULT	28
RESULT ON INVESTMENT ACTIVITY	28
THE RESULT FOR THE FINANCIAL YEAR	30
BALANCE SHEET	31
LIABILITIES	32
ASSETS	32
INSURANCE UNDERTAKINGS AND THE NEW INVESTMENT INSTRUMENTS LINKED TO CREDIT RISK	34
FOCUS: MINIBONDS AND PRIVATE PLACEMENT	36
THE IMPACT OF TAXATION ON INSURANCE COMPANIES' FINANCIAL STATEMENTS	38
THE SOLVENCY OF THE ITALIAN INSURANCE INDUSTRY	40
 2. THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING	 49
THE INTERNATIONAL SETTING	50
THE IMPORTANCE OF INSURANCE IN THE MAIN EU NATIONAL MARKETS	51
TAXATION OF PREMIUMS IN THE EUROPEAN UNION	55
AN INTERNATIONAL OVERVIEW OF INSURANCE COMPANIES' INCOME STATEMENTS	58
THE PROFITABILITY OF LISTED EUROPEAN INSURANCE COMPANIES IN 2016	66
 3. LIFE INSURANCE	 67
DOMESTIC BUSINESS	68
LIFE INSURANCE AND GDP	75
EVOLUTION OF THE SUPPLY OF LIFE PRODUCTS	75
THE COMPOSITION OF LIFE INSURANCE EXPENSES	80
THE DEVELOPMENT OF BANCASSURANCE IN THE LIFE SECTOR	82
THE RETURN ON WITH-PROFIT POLICIES	89
LIFE INSURANCE AND ITALIAN HOUSEHOLDS' SAVINGS	91
SUPPLEMENTARY PENSION PLANS: DEVELOPMENTS AND NEW REGULATIONS	93

SUMMARY

DORMANT POLICIES: REIMBURSEMENTS AND DATA	96
MULTI-CLASS LIFE PRODUCTS	98
4. NON-LIFE INSURANCE	105
DOMESTIC BUSINESS	106
NON-LIFE INSURANCE AND GDP	108
5. MOTOR INSURANCE	109
MOTOR LIABILITY OPERATIONS	110
LAND VEHICLES INSURANCE OPERATIONS	113
CAR THEFT IN ITALY	116
PASSENGER CAR FIRE AND THEFT COVERAGE IN ITALY	118
THE AVERAGE COST OF CLAIMS AND CLAIMS FREQUENCY	122
CLAIMS FREQUENCY AND COST – THE EUROPEAN PICTURE	127
TECHNICAL MARGIN FOR MOTOR LIABILITY INSURANCE, PROVINCE BY PROVINCE	130
COMPENSATION FOR PERSONAL INJURY	131
MOTOR INSURANCE FRAUD	136
MOTOR INSURANCE PRICE DEVELOPMENTS IN ITALY AND EUROPE: THE INSURANCE CYCLE	146
DIRECT INDEMNITY	152
NEW CARD CONVENTION	152
CALCULATION OF THE SINGLE COMPENSATION AMOUNTS FOR 2017	152
COURT OF CASSATION, SECTION 3, ORDER 3146/2017: THE EFFECTS ON THE DIRECT INDEMNITY PROCEDURE	155
TECHNOLOGICAL INNOVATION IN MOTOR LIABILITY INSURANCE	157
ECALL: DELEGATED ACTS IMPLEMENTING REGULATION (EU) 2015/758 ON TYPE-APPROVAL REQUIREMENTS FOR THE DEPLOYMENT OF THE ECALL IN-VEHICLE SYSTEM	157
FEASIBILITY STUDY ON THE “DYNAMIC” RISK CERTIFICATE	158
ITALIAN AND INTERNATIONAL PROJECTS	159
DEMATERIALIZATION	161
DEVELOPMENTS IN THE DIGITIZATION OF INSURANCE CERTIFICATES	161
LEGISLATIVE, REGULATORY AND JUDICIAL DEVELOPMENTS	162
FIVE-YEAR ADJUSTMENT OF MINIMUM COVERAGE AMOUNTS	162
THE “COMPETITION” BILL – RULES ON MOTOR LIABILITY INSURANCE	162
SINGLE CIRCULATION DOCUMENT: DRAFT LEGISLATIVE DECREE A.G. 392	163
VEHICULAR HOMICIDE (LAW 41/2016): JURISPRUDENCE	164

6. OTHER NON-LIFE INSURANCE CLASSES	165
NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR INSURANCE	166
PUBLIC PROCUREMENT – DECREE CORRECTING THE CODE FOR PUBLIC PROCUREMENT	172
MEDICAL MALPRACTICE INSURANCE	172
MEDICAL MALPRACTICE LIABILITY – THE GELLI LAW	177
NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2016 AND AN INITIAL ESTIMATE OF THE INSURANCE MARKET'S CURRENT EXPOSURE	180
THE DISTRIBUTION OF FIRE INSURANCE FOR PRIVATE DWELLINGS WITH EXTENSION TO NATURAL DISASTERS	181
7. HUMAN RESOURCES AND LABOR	187
STAFF AND LABOR COSTS	188
LABOR REGULATION AND THE SECTOR FUNDS	190
COLLECTIVE BARGAINING, INDUSTRY-WIDE AND COMPANY-LEVEL	192
THE SOCIAL DIALOGUE	195
TRAINING – JOINT INTERINDUSTRY FUNDS	195
8. INSURANCE DISTRIBUTION	197
LIFE INSURANCE	198
NON-LIFE INSURANCE	200
9. THE ANIA FOUNDATION AND THE ANIA-CONSUMERS FORUM	205
THE ANIA FOUNDATION	206
THE ANIA FOUNDATION: A NEW MISSION AND NEW OBJECTIVES	206
THE SCENARIOS	206
ROAD ACCIDENTS IN ITALY AND EUROPE	207
THE NUMBER OF ROAD ACCIDENTS WITH PERSONAL INJURY: DATA SOURCES AND METHODOLOGICAL ISSUES	209
THE NEEDS AND THE UNCERTAINTIES OF ITALIANS	211
THE DEMAND FOR WELFARE	212
LINES OF ACTION	213
A) PREVENTION	214
B) THE IMPACT OF TECHNOLOGY ON SAFETY, SECURITY, AND DAMAGE PREVENTION	216
C) COMMUNICATION, THE IMAGE OF INSURANCE	217

SUMMARY

THE ANIA-CONSUMERS FORUM	220
WELFARE	220
THE ECONOMIC VULNERABILITY OF ITALIAN HOUSEHOLDS	220
REPORT 2016	221
REPORT 2016, THE KEY DATA	221
NEW PUBLICATION: "DIFFICULTIES AND NEW EQUILIBRIA"	222
THE "WELFARE SCENARIOS" PROGRAM	222
"SECOND WELFARE PATHS"	223
INSURANCE EDUCATION	223
"ME AND RISKS": INSURANCE AT SCHOOL	224
APPLIED MATHEMATICS PRIZE	224
NATIONAL AGENCY FOR FINANCIAL EDUCATION	225
THE "INSURANCE MADE PLAIN" GUIDES	226
DEVELOPMENT OF AGREEMENTS WITH CONSUMER ORGANIZATIONS TO IMPROVE INSURANCE SERVICES	226
MEMORANDUM OF UNDERSTANDING WITH CONSUMER ASSOCIATIONS ON LIFE INSURANCE	226
10. CONDUCT OF INSURANCE BUSINESS	229
SOLVENCY II	230
REVISION OF THE SOLVENCY II DIRECTIVE	230
RESULTS OF THE EIOPA STRESS TEST 2016	231
WORKING GROUP ON "PROPORTIONALITY AND SIMPLIFICATION IN SOLVENCY II"	232
WORKING GROUP ON RISK REPORTING	233
THE SOLVENCY II FINANCIAL REPORT PROJECT	233
SOLO AND CONSOLIDATED ACCOUNTS	234
THE NEW ACCOUNTING STANDARD FOR INSURANCE CONTRACTS: IFRS 17	234
APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4	235
TRANSPOSITION OF DIRECTIVE 2013/50/EU AMENDING THE TRANSPARENCY DIRECTIVE	236
THE 2017 BUDGET LAW	238
LONG-TERM SAVING PLANS	238
EXEMPTION OF ACCRUED YIELD ON SUPPLEMENTARY PENSION PLANS	238
VAT GROUP	240
TAX EXEMPTION FOR PRODUCTIVITY WAGES AND FRINGE BENEFITS	241
ASSISTANCE IN CASES OF SEVERE DISABILITY AND NO FAMILY SUPPORT	242
APPLICATION OF VAT EXEMPTION TO CO-INSURANCE CONTRACTS	243
INITIAL RULINGS OF THE COURT OF CASSATION (22429/2016, 5585/2017)	243
MONEY LAUNDERING AND THE FINANCING OF TERRORISM –TRANSPOSITION OF THE FOURTH DIRECTIVE	244
MAJOR USERS OF CIVIL JUSTICE	245
THE ALPA COMMITTEE ON ALTERNATIVE DISPUTE RESOLUTION	246
THE FINANCIAL DISPUTE ARBITER	247

SUMMARY

LEGISLATIVE DECREE 254/2016 TRANSPOSING DIRECTIVE 2014/95/EU ON DISCLOSURE OF NON-FINANCIAL AND DIVERSITY INFORMATION BY CERTAIN LARGE UNDERTAKINGS AND GROUPS	248
COMMISSION GUIDELINES FOR APPLICATION OF DIRECTIVE 2014/95/EU ON NON-FINANCIAL REPORTING	249
CLIMATE CHANGE AND RELEVANT INFORMATION FOR STAKEHOLDERS – THE RECOMMENDATIONS OF THE FSB TASK FORCE	249
NON-FINANCIAL REPORTING GUIDELINES OF THE LONDON STOCK EXCHANGE	250
BANK OF ITALY: FINANCING THE FUTURE, THE ITALIAN DIALOGUE ON A SUSTAINABLE FUTURE	250
 11. FORECAST FOR 2017	 251
THE ITALIAN INSURANCE INDUSTRY IN 2017	252

ADDITIONAL COMMENT SECTIONS

INSURANCE UNDERTAKINGS AND THE NEW INVESTMENT INSTRUMENTS LINKED TO CREDIT RISK	34
FOCUS: MINIBONDS AND PRIVATE PLACEMENT	36
THE IMPACT OF TAXATION ON INSURANCE COMPANIES' FINANCIAL STATEMENTS	38
THE SOLVENCY OF THE ITALIAN INSURANCE INDUSTRY	40
TAXATION OF PREMIUMS IN THE EUROPEAN UNION	55
AN INTERNATIONAL OVERVIEW OF INSURANCE COMPANIES' INCOME STATEMENTS	58
THE PROFITABILITY OF LISTED EUROPEAN INSURANCE COMPANIES IN 2016	66
EVOLUTION OF THE SUPPLY OF LIFE PRODUCTS	75
THE DEVELOPMENT OF BANCASSURANCE IN THE LIFE SECTOR	82
SUPPLEMENTARY PENSION PLANS: DEVELOPMENTS AND NEW REGULATIONS	93
DORMANT POLICIES: REIMBURSEMENTS AND DATA	96
MULTI-CLASS LIFE PRODUCTS	98
CLAIMS FREQUENCY AND COST – THE EUROPEAN PICTURE	127
TECHNICAL MARGIN FOR MOTOR LIABILITY INSURANCE, PROVINCE BY PROVINCE	130
COMPENSATION FOR PERSONAL INJURY	131
TECHNOLOGICAL INNOVATION IN MOTOR LIABILITY INSURANCE	157
ECALL: DELEGATED ACTS IMPLEMENTING REGULATION (EU) 2015/758 ON TYPE-APPROVAL REQUIREMENTS FOR THE DEPLOYMENT OF THE ECALL IN-VEHICLE SYSTEM	157
FEASIBILITY STUDY ON THE "DYNAMIC" RISK CERTIFICATE	158
ITALIAN AND INTERNATIONAL PROJECTS	159
DEMATERIALIZATION	161
DEVELOPMENTS IN THE DIGITIZATION OF INSURANCE CERTIFICATES	161
LEGISLATIVE, REGULATORY AND JUDICIAL DEVELOPMENTS	162
FIVE-YEAR ADJUSTMENT OF MINIMUM COVERAGE AMOUNTS	162
THE "COMPETITION" BILL – RULES ON MOTOR LIABILITY INSURANCE	162
SINGLE CIRCULATION DOCUMENT: DRAFT LEGISLATIVE DECREE A.G. 392	163
VEHICULAR HOMICIDE (LAW 41/2016): JURISPRUDENCE	164
PUBLIC PROCUREMENT – DECREE CORRECTING THE CODE FOR PUBLIC PROCUREMENT	172
MEDICAL MALPRACTICE INSURANCE	172
MEDICAL MALPRACTICE LIABILITY – THE GELLI LAW	177
NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2016 AND AN INITIAL ESTIMATE OF THE INSURANCE MARKET'S CURRENT EXPOSURE	180
THE DISTRIBUTION OF FIRE INSURANCE FOR PRIVATE DWELLINGS WITH EXTENSION TO NATURAL DISASTERS	181
THE NUMBER OF ROAD ACCIDENTS WITH PERSONAL INJURY: DATA SOURCES AND METHODOLOGICAL ISSUES	209
REPORT 2016, THE KEY DATA	221
NEW PUBLICATION: "DIFFICULTIES AND NEW EQUILIBRIA"	222
NATIONAL AGENCY FOR FINANCIAL EDUCATION	225

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

THE RESULTS FOR THE YEAR

<i>Total premiums fall by 8.2%</i>	Total premium income from Italian and foreign insurance business, direct plus indirect, gross of reinsurance, fell by 8.2% overall, after a gain of 2.6% in 2015. This was the first decline after three years of growth.
<i>Down 10.6% in life insurance, up 0.4% in non-life...</i>	The overall decline is the resultant of a sharp contraction in life insurance (-10.6%, compared with +4.0% in 2015) and a modest gain of 0.4% in non-life premiums (against a fall of 1.9% in 2015).
<i>...produced by a result of €3.7 billion in the overall technical account; €3.1 billion for non-life...</i>	In the life sector the result was positive by €3.7 billion (up from the €2.8 billion of the previous year); the ratio to premiums went from 2.4% in 2015 to 3.6% in 2016. For non-life business the technical account result was positive by €3.1 billion (€3.8 billion in 2015) and its ratio to premiums fell to 10.4% (12.3% in 2015).
<i>...the result on ordinary and extraordinary operations: €7.7 billion...</i>	The result on ordinary activity, life and non-life combined, rose to €7.5 billion (up from €7.1 billion); on extraordinary activity it was €0.2 billion (down from €1.0 billion). Overall, pre-tax profit thus came to €7.7 billion (€8.1 billion in 2015).
<i>...and net profit for the year of €5.7 billion</i>	After taxes totaling €2.0 billion, the industry showed an overall net profit of €5.7 billion: €2.1 billion for the non-life sector and €3.6 billion for the life sector.
<i>Insurance industry pays over €2 billion in direct taxes</i>	On a preliminary basis, in 2016 the industry paid a significant amount of direct taxes (more than €2.0 billion, compared to €2.4 billion in 2014 and 2015 and nearly €3.0 billion in 2013).
<i>Solvency Capital Ratio of Italian insurance at 2.21 in 2016...</i>	In 2016, the Solvency II ratio (for a sample of companies) was 2.21, slightly less than a year earlier (2.32) but more than in 2014 (2.12).
<i>...1.61 for non-life insurers...</i>	For the companies doing only non-life business, the average Solvency II ratio was 1.61 (1.63 in 2015).
<i>...2.10 for life insurers...</i>	For companies operating only in the life sector, the ratio was 2.10 (down from 2.55 in 2015).
<i>...and 2.30 for mixed insurance companies</i>	For companies doing both life and non-life business, the average Solvency Capital Ratio came to 2.30, down from 2.33 the year before.
<i>This year's Report has special sections on: taxation of premiums, a European comparison...</i>	Again in 2016, continuing an established trend, Italy had one of the heaviest tax burdens in Europe on insurance premiums for motor liability, fire, general liability and goods transported.
<i>...of insurers' economic results...</i>	The Report compares the results of insurers in the main European countries (Italy, France, Germany, the UK, and for Europe overall) in the period 2011-2015, based on the income statements in the Fitch database.

EXECUTIVE SUMMARY

...and the profitability of listed insurance companies

In the United Kingdom the ROE of the median company was 10.8%, significantly less than in 2015 (15.0%); the median ROE of German companies, instead, recovered to 15.2% from the 13.3% of 2015 and that of French companies was 9.3% (it was 8.7% in 2015). The Return on Equity of the median Italian company was 12.0%, showing a contraction compared to 2015 (12.8%).

FORECASTS FOR 2017

Premiums projected to decline 2.8% this year to €130 billion...

The total premium income of the Italian insurance industry's direct policy portfolio (life and non-life combined) should come to just over €130 billion in 2017, down 2.8% for the year, following a drop of nearly 9% recorded in 2016. It is worth recalling, however, that in 2014 and 2015 premium income had scored record highs of around €145 billion each year.

The decline in 2017 is expected to result from a further decrease in life premiums (estimated at 4% this year), only partly offset by modest growth of 1.0% in non-life premiums.

In proportion to Italian GDP, total premium income will thus decline from 8.0% to 7.7%.

...motor and marine liability premiums to drop 1.5%, those in other sectors to gain 2.9%...

Total direct premiums of Italian insurance companies in the non-life sector are expected to rise for the first time since 2011, gaining 1.0% to top €32 billion. This will result from the slowdown in the reduction in motor liability premiums and the further growth in premium income in all the other non-life classes.

For motor liability, although the technical margins are narrowing, insurers are operating in an increasingly competitive market. Accordingly, we estimate a further modest decline of 1.5% in premiums this year. This would mark the sixth consecutive decrease, bringing the shrinkage in total premium volume from 2011 through 2017 to over 25% in absolute terms, without adjusting for inflation. However, the pace of the contraction in this business is clearly slowing – from 7.0% in 2013 to 6.5% in 2014 and 2015 and 5.6% in 2016. The forecast is for total premium income of €13.3 billion in 2017, accounting for 41.3% of total non-life premiums, compared with 42.3% in 2016.

The expansion of business in the other non-life sectors is expected to continue, however, thanks in part to the overall economic recovery. We estimate a gain of 2.9% this year to nearly €19 billion, just exceeding the 2.6% gain recorded in 2016 (to €18.4 billion).

The main contributions to the increase will come from:

- land vehicle insurance (i.e. fire, theft and collision coverage), once again expanding owing to the increase in new car registrations, which were up 8.1% in the first five months of 2017. For the year as a whole premiums in this class should gain 5.0% to a total of €2.8 billion;

EXECUTIVE SUMMARY

- sickness insurance, where premiums should increase by 7% following the surge of 9.6% in 2016, as a result of quickening demand for coverage of medical and surgical risks, especially group insurance plans as part of company fringe benefit packages; premium volume should exceed €2.5 billion for the year;
- accident, fire and other property insurance, expected to expand at about the same rate as GDP, or between 1.0% and 1.5%.

Total non-life premium income is expected to hold unchanged in proportion to GDP at 1.9%.

...life premiums to slip by 4.0%...

In the life sector, we forecast a second year of contraction in premium income, which should slip by 4.0%, considerably more modest than the 11% fall recorded in 2016. Life premiums should total more than €98 billion this year.

...owing to changing product mix – a sharp fall of 16.5% in variable yield policy premiums and a 35% gain in Class III premiums

Life insurance premium volume has fluctuated considerably in recent years, owing to the volatility both of the financial markets and of the yields on segregated funds in a context of low interest rates. As a consequence, 2017 should again be marked by divergent performance of premiums in the two main life segments. Variable yield policy premium income (above all Class I policies) is expected to drop sharply, falling 16.5% to €61.5 billion, owing precisely to insurers' difficulty in offering traditional guaranteed-yield products. On the other hand, prevalently financial products (unit-linked policies) are predicted to expand substantially, gaining 35% to €32.4 billion, sharply reversing last year's 24.5% contraction.

This changing pattern in the marketing of life insurance policies emerges in an analysis of new life production, which through May 2017 came to €35.2 billion, down from €41.0 billion in the first five months of 2016 – a fall of 14.1%. The decline came mainly in traditional products: written premiums on variable-yield Class I life policies dropped by 27.2% to €22.9 billion and those on with-profits policies came down by 17.1% to €672 million. The growth in unit-linked policy premiums (up 33.6% to €11.6 billion) was not enough to offset the decline in the other life classes.

Total written life insurance premiums should decline from 6.1% of GDP in 2016 to 5.8% this year.

LIFE INSURANCE – DIRECT ITALIAN BUSINESS

Households' disposable income grows in nominal terms, holds constant in real terms...

In 2016 the nominal growth of the disposable income of Italian households was 1.6%, with a significant acceleration compared to 2015 (+0.8%) and 2014 (+0.6%). Real disposable income growth was unchanged.

...the saving rate rises...

In 2016 the propensity to save, defined as gross saving (net of changes in pension fund reserves) over disposable income, started to rise again, although marginally (to 8.3%, from 8.0% in 2015), after the decrease registered a year earlier.

EXECUTIVE SUMMARY

...while the flow of net financial saving diminishes...

In 2016 the net flow of financial investment by Italian households came to €20 billion, with a marked contraction on 2015 (€28.8 billion). Although substantial, the growth of gross inflows into household portfolios (€33.2 billion, up from €29.3 billion in 2015) was insufficient to compensate for the upturn in debt (+€13.2 billion, compared with +€0.5 billion in 2015).

...investment in mutual funds slows, that in life policies also, but less sharply...

Italian households continued to make further net disposals of fixed-income securities, which involved especially bonds issued by Italian banks (-€47.2 billion, -€71.4 billion in 2015) and, to a lesser extent, government securities (-€6.2 billion, -€32.0 billion in 2015). Contrary to the trend registered a year earlier, in 2016 households also drained substantial resources from equities (-€24.7 billion, +€23.5 billion in 2015). There was also massive disinvestment in bank deposits other than sight deposits (-€18.7 billion, -€20.4 billion in 2015). The flows destined to mutual funds (+€14.6 billion, +€41.8 billion in 2015) decelerated, while investment in life policies decreased only slightly (+€39.4 billion, +€43.9 billion in 2015). By contrast, investments in miscellaneous other assets – trade credits, Bancoposta current accounts, currency, coins and other minor items (+€49.0 billion, +€13.6 billion in 2015) – and sight deposits (+€30.5 billion, +€40.2 billion in 2015) increased.

...the stock of financial assets exceeds €4 trillion

At the end of 2016 the stock of financial assets held by Italian households amounted to €4,168 billion. The largest share of Italian household financial wealth continues to be in liquid instruments, i.e. bank deposits (27.4%; 26.4% in 2015), followed by insurance, pension funds and provisions for employee severance pay (22.9%, 21.7%), which include life insurance provisions (14.9%, 13.8%) and shares and other equities (22.0%, 23.8%); the share invested in mutual funds amounted to 11.5% (11.0% in 2015).

Life premiums come to €102.3 billion...

In 2016 premiums from direct domestic business of the 53 insurance companies operating in the life classes decreased by 11.0% to €102.3 billion (in 2015 they had reached the highest volume on record at €114.9 billion), and by 7.5% compared with 2014 but still higher than the previous years. In relative terms, life premiums made up 76.2% of total life and non-life premiums, compared with 78.2% in 2015.

...and net cash flow to €39.3 billion

Net cash flow, i.e. the difference between premiums and incurred claims, was positive by €39.3 billion, down from €43.8 billion in 2015 and €45.9 billion in 2014 but far more than in 2013 (€18.3 billion) not to mention the negative value registered in 2012 (-€5.3 billion).

Mathematical reserves expand by 8.6%...

Total technical provisions, amounting to €616.2 billion, gained 8.6% from 2015, to produce an average annual growth of 9.8% over the five-year period 2012-2016.

...while incurred claims costs decline by 11.6%...

Incurred claims, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled €62.9 billion in 2016; they were down 11.6% from 2015, essentially because of a drop in policy surrenders, which accounted for some 64% of total disbursements.

...and operating expenses by 3.3%...

Operating expenses – that is, administrative expenses relating to technical management plus costs of contract acquisition, premium collection and the organization and

EXECUTIVE SUMMARY

	management of the distribution network – amounted to €3.8 billion (of which 81% for Classes I and V, 18% for Class III and 1% for other life classes), a decline of 3.3 percent from the previous year.
<i>...while investment income amounts to nearly €17 billion</i>	Investment income amounted to €16.7 billion in 2016, 4.3% higher than in 2015 but lower than the previous three-year period (it exceeded €25 billion in 2012).
<i>The direct technical account result comes to €3.4 billion...</i>	<p>The final result of the technical account was again amply positive at €3.4 billion, over 40% more than in the previous two years but just half the amount recorded in 2012.</p> <p>The result of reinsurance cessions and net indirect business was positive by €289 million (€315 million in 2015).</p>
<i>...and the overall technical account result to €3.6 billion</i>	Taking account of the passive reinsurance balance, the overall technical account result was positive by €3.6 billion, an increase of 36.7% for the year that brought its ratio to premiums and to technical provisions up, respectively from 2.3% to 3.6% and from 0.49% to 0.62%:
<i>Yield on segregated funds: 3.24%</i>	The yield on insurers' segregated funds came to 3.24% last year. Over the past five years the yield has averaged 3.7%, compared with 2.0% for government securities, 2.0% for severance pay provisions, and inflation of 0.8%.
<i>Pension fund members number nearly 7.8 million, almost 30 percent of the work force</i>	In 2016 enrollments in supplementary pension plans continued the gradual growth of recent years (+7.6%). Overall, the number of members reached nearly 7.8 million, 27.8% of the entire Italian work force.

NON-LIFE INSURANCE – DIRECT ITALIAN BUSINESS

<i>Non-life premiums equal €32 billion...</i>	In 2016 non-life premium income amounted to €32 billion, down 1% from 2015. But its share of total premiums rose from 21.8% to 23.8%, because life sector premiums diminished more sharply.
<i>...the combined ratio worsens slightly and the technical account result is €2.9 billion</i>	The combined ratio performed slightly worse than in 2015, coming up to 90.3% from 89.4% in 2015: in addition to the slight increase in the expense ratio, there was a deterioration of the loss ratio. The overall technical account result diminished to €2.9 billion.
<i>Sections on malpractice insurance...</i>	This year's Report offers an examination of medical malpractice insurance for healthcare institutions and individual practitioners. In 2016 the average ratio of claims to premiums in this sector, for all claims generations, was still higher than 100% (it had peaked in 2013 at 132%). The highest ratios, decisive for the overall trend, are those for healthcare institutions.
<i>...and on other special topics</i>	<p>The chapter has sections on a series of other special topics:</p> <ul style="list-style-type: none">• the diffusion of home insurance, personal liability and accessory motor risk insurance of Italian households in 2014, seen in relation to a series of economic and

EXECUTIVE SUMMARY

socio-demographic variables, according to the Bank of Italy's Survey of Household Income and Wealth;

- natural disasters in Italy and the forecast exposure of the insurance industry to flooding and earthquake damage in 2017;
- report on the 77th conference of the International Union of Aerospace Insurers, the most important world event in this sector, hosted by ANIA in June 2017;
- the provisions relevant to the insurance industry of the so-called Gelli Law enacting "Provisions on the safety of treatments and of persons cared for, as well as on the professional liability of healthcare professionals";
- the diffusion of residential fire insurance with extension to natural disaster coverage;
- the coverage offered in sickness and accident insurance;
- the statistics on accidents.

MOTOR LIABILITY INSURANCE

Motor liability premiums fall 5.6%, accrued premiums by 6.0%...

In 2016 motor insurance premiums registered a decrease of 5.6%, and accrued premiums fell by 6.0%. The cost of claims held steady, resulting in a worsening of the combined ratio from 93.6% in 2015 to 97.6% last year. The positive contribution of the financial component in connection with returns on investment, which was down slightly on the year, and the particularly positive liquidation of excess claims reserves for previous years helped produce a positive overall technical balance, though smaller than in 2015. The overall technical results for land vehicles remained positive, with the second consecutive increase in premiums (by 6.5%) after seven years of decline.

...the number of vehicles insured edges up...

The number of vehicles insured in Italy rose by 0.3% in 2016, from 38.5 to 38.7 million. This refers only to Italian companies and agencies of companies located outside the European Economic Area; counting all the other insurers present in Italy, the number of vehicles insured increased by 0.7%.

...the average premium declines by 5.9% and the gap between Italian and other European premiums narrows to €100

The average motor liability premium dropped by 5.9% in 2016, a bit less than in the three previous years (-6.7% in 2015, -7.0% in 2014 and -4.6% in 2013). The decline last year was confirmed also by IVASS's survey of effective motor insurance prices, according to which the cost of passenger car insurance in 2016 (the average of the four quarterly figures) decreased by 5.9%. The IVASS survey estimates that this price has fallen from €567 in 2012 to €412 in March 2017, a decline of 27%. There was a corresponding narrowing of the difference between premiums in Italy and in the other main European countries. The survey conducted in 2014 by the Boston Consulting Group found that on average in the period 2008-2012 Italian premiums were €213 higher than the average for Germany, France, Spain and Britain; but in 2015 the survey found the difference had declined to €138. Based on Eurostat's motor liability insurance price index, ANIA now estimates that the gap narrowed further, to €100 in 2016.

The number of claims rises, and so does claims frequency (+1.8%)...

The number of indemnifiable claims incurred and reported in 2016 (those that gave rise to compensation during the year or will do so in future) came to 2.2 million, up 2.9%. Claims frequency, i.e. the ratio between the number of claims and the number

EXECUTIVE SUMMARY

of vehicles exposed to the risk of claim-generating accidents (measured on the basis of days of exposure during the year, converted into “vehicle-years”), increased from 5.55% in 2015 to 5.65% last year, or by 1.8 percent. Counting also an estimate of accidents that will be reported later (IBNR claims), claims frequency was 6.20% in 2016, up from 6.11% in 2015.

...owing to cyclical economic factors...

To compile statistics on the factors contributing to changes in claims frequency, the Report compares quarterly data from 2008 through 2016 on the average cost and consumption of vehicle fuel with that on claims frequency. The average price of fuel was stable or rising between 2009 and 2014, discouraging vehicle use and consequently reducing accidents and claims. This is confirmed by fuel consumption: the use of gasoline, diesel fuel and LPG declined in those five years by 25%, 10% and 4.5% respectively. In 2015, by contrast, average fuel prices plunged; this presumably had the opposite effect of encouraging vehicle use, hence increasing the number of accidents. And in fact there was also a rise in claims frequency. But this tendency was not observed in fuel consumption, which according to provisional data was stable or slightly down in 2016. This can be attributed to the greater efficiency of new car engines, which improved by 18.1% in 2016 alone, thus consuming less fuel than older models for the same amount of driving.

...the increase in number of claims is accompanied by an offsetting decline of 2.6% in their average cost

The incurred claims cost for the current accident year, defined as the sum of the total cost paid and the total cost reserved for all claims incurred in the current accident year, amounted to €11.0 billion, about the same as in 2015. Considering the total number of claims (including an estimate of accidents occurring in 2016 but not yet reported, or IBNR claims), the average cost of incurred claims came to €4,597, down 2.6% from €4,721 in 2015. Excluding IBNR claims, and net of contributions to the fund for road accident victims and some residual items, the average claims cost in 2016 was €4,374 (€4,467 in 2015).

...incurred claims cost for the financial year is broadly unchanged...

The incurred claims cost for the financial year, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal to €10.4 billion, about the same as in 2015. The difference with respect to incurred claims cost reflected the utilization of excess reserves for previous years (€601 million).

...but the loss ratio worsens owing to the decline in accrued premiums...

Owing to the decline in accrued premiums, the loss ratio worsened from 72.1% in 2015 to 76.1% last year.

...operating expenses are unchanged in relation to premiums...

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €2.9 billion (€3.1 billion in 2015). Given that the percentage decline in expenses was equal to that in premium income, the ratio between the two was unchanged at 21.5%. In particular, the incidence of commissions, which ordinarily represent a percentage of premiums, was unchanged, while that of other administration costs rose from 5.3% to 5.5% and that of other acquisition costs came down from 5.1% to 4.7%.

...and the overall technical result is positive

Given the stability of the incurred claims cost, the further decline in premiums of €700 million resulted in a deterioration of €650 million in the technical balance,

EXECUTIVE SUMMARY

which plunged from €842 million in 2015 to just €193 million last year. With profits from investments amounting to €502 million, down from €600 million in 2016, the result of the technical account showed a profit of €695 million, down from €1,442 million in 2015. Taking the balance for reinsurance into account (negative by €5 million), the overall technical account result was positive by €690 million (compared with €1,452 million in 2015).

The Report has special sections on car theft and ANIA's statistics on land vehicle insurance...

A special section of the Report analyses the Interior Ministry's data on car theft in Italy in 2016 (not yet definitive), comparing them with those from 2013 to 2015. It also gives ANIA's updated monitoring on the technical indicators and the diffusion of fire and theft insurance in the land vehicles sector.

...motor liability technical indicators in the main European countries

Based on data as of June 2016 given in Insurance Europe's "European Motor Insurance Markets" report, a chapter in this year's ANIA report discusses the differences between the technical indicators of motor liability claims frequency and cost in the main European countries, which are obviously reflected in the size of the premiums paid by consumers in the various EU member countries.

...a provincial analysis of the technical margin for policy subscription...

The Report gives the results of ANIA's geographical analysis, for the year 2016, of the technical profit margin for policy subscription. That is, we compared, for some provincial capitals, the premium actually paid by policyholders with the insurance companies' expenses for claims, administration and distribution, net of the financial profit margin.

...the incidence of personal injury on total claims...

There is an ample section devoted to the cost of personal injury claims, which account for nearly two-thirds of total accident compensation, for a total of €7.0 billion in 2016: €2.4 billion for mild injuries with permanent disability of from 1 to 9 percentage points and €4.6 billion for more severe injury or death. The percentage of all motor liability claims involving personal injury was 17.6% last year, about the same as in 2015. To trace developments in the various components of the personal injury aggregate, we tracked these items from 2009 to 2016, revealing that the effect of Law 27/2012 (the "Liberalization" decree) now appears to have been fully incorporated. The law altered the requirements for compensation for mild personal injury. The frequency of claims for severe injury and death has not changed.

...the diffusion of claims at risk of fraud and an estimate of uninsured vehicles...

We report the findings of the IVASS report for 2015 and 2016 on accidents exposed to particular risk of fraud. Nationwide, 23.5% of accident claims were found to be at risk of fraud in 2016, up from 21.4% in 2015. But this conceals considerable geographical variability. The province-level data gathered by the Highway Police, municipalities and municipal police have been used to produce a statistical inference of the number of uninsured vehicles at 2.9 million, or 6.7% of all the vehicles on the roads.

...the calculation of the single compensation amount for direct indemnity in 2017...

A section of the Report is given over to the calculation of the single compensation amount for 2017. For the geographical areas with coefficient of 1, the CARD-CID amount for motorcycles and scooters is €3,220, that for other vehicles €1,810.

EXECUTIVE SUMMARY

...the measure activating the eCall system...

We report on the European Commission's publication of the delegated acts for implementation of Regulation 2015/758, which constitute a complex set of detailed rules on the technical requirements and test procedures necessary to make the eCall system for motor vehicles and their components operational.

...the feasibility study on "dynamic" risk certification...

The Report also summarizes the feasibility study concerning "dynamic" certification of drivers' risk status. The technical task force basically approved the plan for IT management of the dynamic certificate formulated by the EDP department of ANIA. The system assigns to each motor liability risk certificate a Single Risk Identification, so that late accident reports can be immediately paired with the risk certificate even in the case of subsequent change of insurer.

...the advancement of ANIA's national and international projects...

The Report relates the state of advancement of ANIA's project "Smart roads, connected vehicles and the mobility of the future"; the international activity on the "Gear 2030" project for progressive automation of cars, from semi-automated to totally automated, and the "Cooperative intelligent transport system" project related to the European initiative to prepare the infrastructure for interconnected vehicles.

Special chapter on:

A chapter of this year's Report, as always, is dedicated to the numerous initiatives of the ANIA Foundation and the ANIA-Consumers Forum:

...ANIA Foundation initiatives...

After a decade of activity in promoting road safety, in developing its strategic plan for 2016-2018 ANIA decided to strengthen the Foundation, broadening its mandate. No longer restricted to road safety alone, starting in 2017 the mission embraces all protection-related issues, with the aim of meeting the need for safety and security of households, firms, and Italy as a country.

Last year saw the further development of the "ANIA Cares" program to provide psychological support to the relatives of accident victims. In particular, the Foundation completed the call for applications to select 100 psychologists in the pilot areas (Rome, Milan, Florence and Campobasso) to attend training courses in emergency psychological care. Also in 2016, ANIA Cares was expanded to include an additional unit, specializing in rehabilitation of the severely injured to regain motorial capability. The project focuses on new technology, such as walking rehabilitation robotics (so-called "exoskeletons").

The Foundation's road safety activities in 2016 included safe driving courses for new drivers and experimentation with on-board technology. A survey of course participants in 2015 found that under 3% had had an accident after completing the safe driving course, more than 53% said they felt more responsible at the wheel, 73% felt they were more reactive to sudden dangers, and more than 90% judged that the project was excellent and fully comprehensive. As to technology mounted on cars, in addition to continued testing of video cameras, last year saw the start of a project for black boxes on motorcycles and scooters (both with and without video cameras). The data will be available starting in 2018.

...and the ANIA-Consumers Forum

On 24 November 2016 the third report of the Observatory on the vulnerability of Italian households, realized by the Forum in collaboration with the University of

EXECUTIVE SUMMARY

Milan, was released. The Observatory monitors the financial vulnerability of households and their ability to manage risks.

In the field of insurance education, the Forum issued a new publication in its “Insurance made plain” series, this one on life insurance. In addition, it continued to develop the “Prize for Applied Mathematics” and the educational project “Io e i rischi” (“Me and risks”), a course on risk awareness, prevention and mutuality for Italian students and households. Over the years these initiatives have seen the participation of more than 90,000 students in every region of Italy.

In order to improve services to the insured, the consumer organizations belonging to the ANIA-Consumers Forum signed a memorandum of understanding with ANIA to promote and facilitate the application of the “Self-government code on procedure for payment of death benefits in life insurance contracts” issued by ANIA in 2016.

THE REGULATORY FRAMEWORK

The Report discusses:

...the transposition of Directive 2013/50/EU amending the Transparency Directive...

Legislative Decree 25 of 15 February 2016 (published in *Gazzetta Ufficiale* 52 of 3 March 2016) transposed into Italian law European Union Directive 2013/50 which amended Directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, abrogating the requirement to publish intermediate financial reports.

...IFRS 9 Financial Instruments: application of the IFRS 17 standard going into effect in 2021...

On 22 November 2016 the European Commission published its endorsement of IFRS 9 on financial instruments. This international accounting standard goes into effect in the European Union as of 1 January 2018. On 18 May 2017 the insurance contracts standard (IFRS 17) was published, scheduled for application as of 1 January 2021. In the interim, the insurance industry will continue to apply IFRS 4, which allows the valuation of insurance contract liabilities according to the applicable national GAAP.

...ANIA's project to support insurers in drafting their first SFCR...

ANIA, with a group of consultants, has initiated a project to support insurance undertakings in drafting their first Solvency and Financial Condition Report under Solvency II rules. The two-year project will be conducted in two phases, prior and subsequent to the publication of the SFCR by solo companies and groups. It will involve:

- an online forum for support in preparing the SFCR;
- a national and international analysis of the results of benchmarking that highlights the differences between reports and can assist in developing guidelines;
- a study of best practices in the market for various clusters of companies.

...the Commission's call for advice to EIOPA on changes to the standard formula...

On 18 July 2016 the Commission transmitted to EIOPA its call for advice on changes to the standard formula. On 8 December 2016 EIOPA initiated a public consultation preparatory to the drafting of the advice the Commission had requested. Then, on

EXECUTIVE SUMMARY

21 February 2017, the Commission issued a second call for advice, requesting the opinions of the European supervisory authorities on the treatment of a series of assets:

- Unrated bonds and loans;
- Unlisted equity;
- Strategic equity investments.

...the results of the Solvency II stress test...

On 24 May 2016 EIOPA began a new stress test under the Solvency II framework. The exercise is designed to bring out strengths and weaknesses of the European insurance industry. As IVASS observed, this stress test “is not a ‘pass or fail’ exercise aimed at gauging the capital adequacy of individual insurance companies or determining any capital shortfalls; rather the objective is to assess profiles of vulnerability and resilience of the life insurance industry to a prolonged period of low interest rates and a pronounced increase in credit spreads”. EIOPA published the results on 15 December.

...the money laundering decree...

On the proposal of Prime Minister Paolo Gentiloni and Economy Minister Pier Carlo Padoan, the Council of Ministers definitively approved a legislative decree dictating stricter provisions for combating money laundering and terrorist financing. The new measure totally supplants Legislative Decree 231/2007. The new decree transposes EU Directive 2015/849, which was designed to optimize the use by all member states of the instruments available to combat money laundering and the financing of terrorist activities.

...the Court of Cassation rulings on exemption of VAT for co-insurance contracts...

Over the years a substantial body of tax litigation has built up over the applicability of VAT exemption to amounts received by companies as delegates in the framework of insurance contracts managed via co-insurance, as per Article 1911 of the Civil Code. To date, Court of Cassation rulings on lower and appeals court decisions on the matter have been very largely in favor of the insurance industry’s position, namely that the VAT exemption applies.

...the legal framework for VAT groups...

The budget law for 2017 (Law 232 of 11 December 2016) adopts a legal framework governing the transactions of the “VAT Group” as per Presidential Decree 633/1972. Under paragraph 24 of Article 1 (the law’s sole article), the VAT Group regime will give resident firms that are connected by financial, economic and organizational bonds substantial benefits in streamlining the performance of obligations in connection with the application of VAT to transactions between parties belonging to the same VAT Group).

...tax benefits for long-term saving plans...

Among the major innovations introduced by the 2017 budget law (Law 232 of 11 December 2016) is a tax benefit for individuals – natural persons resident in Italy acting outside of business activity – who hold long-term saving plans. The tax break (paragraphs 100-114 of Article 1) consists in the tax exemption of yields (investment income and other financial income except that from significant equity holdings) on investments in the financial assets forming part of the saving plan.

...tax breaks for fringe benefits...

The budget law for 2017 (Law 232 of 11 December 2016) further strengthened the tax breaks on performance bonuses and corporate fringe benefits. The ceiling on the

EXECUTIVE SUMMARY

amount of productivity pay eligible for the 10% substitute tax was raised from €2,000 to €3,000 (or from €2,500 to €4,000 in the case of equal participation of employees in the organization of work). At the same time, for purposes of the tax break the ceiling on gross employee income earned during the year prior to the attribution of the bonus was raised from €50,000 to €80,000.

*...on the institution of the
Italian financial dispute
arbiter*

On 3 June 2016 the Companies and Stock Exchange Commission (Consob) instituted its Financial Dispute Arbiter for out-of-court settlement of disputes arising in the context of investment services to retail investors. The Arbiter, a sort of ombudsman, went operational as of 9 January 2017. It can resolve disputes up to a ceiling amount of €500,000 on Class III and Class V life insurance products placed either through direct sale or through banks and other authorized intermediaries pursuant to Letter D of the Single Registry of Intermediaries, relating to violation of the requirements of information, due diligence, correctness and transparency that apply to companies and intermediaries in placing these products.

*...and the Justice Ministry
study group on reform of
ADR instruments*

On 8 March 2016 the Minister of Justice instituted, at the ministry's legislative office, a study committee, chaired by Prof. Guido Alpa, to draft a comprehensive reform of Italy's instruments for alternative dispute resolution. The purpose is to harmonize and rationalize a legislative and regulatory framework that currently comprises quite heterogeneous instruments for out-of-court settlement, owing to a lengthy series of uncoordinated legislative acts in this field.

1

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Insurance companies' net profit for 2016 was €5.7 billion, in line with the previous year. Consequently, the industry's ROE remained stable (going from 9.6% in 2015 to 9.5% in 2016). This positive result is chiefly attributable to the technical account, which exceeded €6.8 billion. In particular, the technical balance for life insurance was positive by €3.7 billion, better than 2015, while it registered a fall for the non-life sector, although it remained positive at €3.1 billion. In 2016 the number of Italian insurance companies operating in the domestic market diminished as a result of mergers and acquisitions. The number of branch offices of foreign companies operating in Italy remained stable.

OPERATING INSURANCE COMPANIES

Insurance companies operating in Italy numbered 215 at the end of 2016, compared with 220 at the end of 2015. They counted 108 companies with registered offices in Italy (114 a year earlier) and 107 branches of foreign insurance companies (106 in 2015), the bulk of which are based in other EU countries (103). In addition, 1,000 insurance companies with registered offices in other EU countries (or other countries belonging to the European Economic Area) were operating in Italy at the end of 2016 under the freedom to provide services.

*Number of
companies by legal
status*

BUSINESS SECTOR	YEAR	DOMESTIC COMPANIES				FOREIGN BRANCHES		TOTAL
	Situation as at 31 December	Limited companies	Cooperatives	Mutual	Total	with head office in non-EU countries	with head office in EU countries	
Non-life	2015	56	–	2	58	3	60	121
	2016	53	–	2	55	3	62	120
Life	2015	44		–	44	–	23	67
	2016	41			41	–	20	61
Professional reinsurers	2015	–	–	–	–	–	7	7
	2016	–	–	–	–	–	7	7
Multi sector	2015	10	1	1	12	–	13	25
	2016	10	1	1	12	–	15	27
TOTAL	2015	110	1	3	114	3	103	220
	2016	104	1	3	108	3	104	215

At 31 December 2016, 61 insurance companies (of which 20 branch offices) engaged exclusively in life business (67 in 2015) and 120 (of which 65 branch offices) exclusively in non-life business. A total of 27 (of which 12 branch offices) did business in both the life and non-life sectors, accounting for approximately 35% of total premium income. Seven undertakings, all of them branches of foreign companies, engaged only in reinsurance. At the same date, ANIA counted 146 member companies (of which 29 correspondent members).

The 109 insurers with registered offices in Italy comprised, by legal form, 105 limited share companies, three mutual companies and one cooperative society.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

The data reported here refer to the statutory financial statements (Local GAAP) of Italian insurance companies and differ from those of the new Solvency II regime both in terms of fair value accounting and of balance-sheet items classification. The statutory financial statements of Italian companies, in fact, have not yet started to apply IAS/IFRS accounting standards, also marked to market value, in line with Solvency II requirements. The main data on the criteria established by the new solvency regime are dealt with in the last section of this chapter.

INCOME STATEMENT

Income statement

Euro million

	2009	2010	2011	2012	2013	2014	2015	2016
Technical account of non-life and life classes (*)								
Written premiums	115,199	123,546	108,420	103,139	117,374	142,035	146,005	132,866
Changes in reserves (-)	40,953	32,825	3,106	9,631	29,520	60,006	53,343	49,023
Investment income	26,845	14,109	3,978	27,480	20,068	22,511	17,770	18,341
Other technical income	1,448	1,484	1,429	1,560	1,641	1,781	2,325	2,624
Incurred claims (-)	84,207	92,105	99,376	98,776	88,322	84,838	90,530	82,170
Operating expenses (-)	12,633	12,540	12,283	11,539	11,725	12,126	12,382	12,184
Other technical costs (-)	2,230	2,311	2,272	2,537	2,625	2,744	3,330	3,615
Balance	3,470	-642	-3,210	9,696	6,891	6,613	6,516	6,839
Technical account non-life (*)								
Written premiums	33,791	32,954	34,052	32,763	31,618	31,071	30,501	29,690
Changes in premium reserves (-)	-21	496	462	-494	-623	-282	-173	178
Investment income	2,439	1,095	640	1,660	1,262	1,346	1,288	1,164
Other technical income	472	440	451	469	429	393	382	401
Incurred claims (-)	26,865	25,106	25,199	23,480	21,323	20,187	19,291	18,787
Operating expenses (-)	8,465	8,141	8,322	8,018	8,041	8,243	8,318	8,187
Other technical costs (-)	1,165	1,121	1,054	1,124	1,021	913	984	1,011
Balance	228	-375	106	2,765	3,546	3,749	3,751	3,092
Technical account life (*)								
Written premiums	81,409	90,592	74,368	70,376	85,756	110,963	115,504	103,176
Changes in technical provisions (-)	40,974	32,329	2,644	10,125	30,143	60,288	53,516	48,845
Investment income	24,406	13,014	3,338	25,820	18,806	21,166	16,482	17,177
Other technical income	976	1,044	978	1,091	1,212	1,388	1,943	2,223
Incurred claims (-)	57,342	66,999	74,177	75,296	66,999	64,651	71,239	63,383
Operating expenses (-)	4,169	4,399	3,961	3,521	3,684	3,884	4,064	3,997
Other technical costs (-)	1,064	1,190	1,218	1,413	1,604	1,831	2,346	2,604
Balance	3,242	-267	-3,316	6,931	3,344	2,864	2,765	3,747
Non-technical account (*)								
Other non-life income	939	201	-734	94	825	925	860	1,122
Other life income	1,177	839	265	1,626	1,444	1,917	1,821	1,825
Balance of other income and expenses	-1,244	-1,763	-1,551	-1,922	-2,182	-2,064	-2,104	-2,250
Balance of ordinary activities	4,342	-1,365	-5,230	9,494	6,978	7,391	7,093	7,536
Balance of extraordinary activities	840	614	478	-28	1,314	961	1,010	202
Taxes (-)	1,312	-48	-1,099	3,696	3,062	2,405	2,395	2,014
Result for the financial year	3,870	-703	-3,653	5,770	5,231	5,947	5,709	5,724
<i>Profit/loss for the financial year, non-life sector</i>	<i>63</i>	<i>-998</i>	<i>-1,016</i>	<i>641</i>	<i>2,125</i>	<i>2,448</i>	<i>1,956</i>	<i>2,106</i>
<i>Profit/loss for the financial year, life sector</i>	<i>3,807</i>	<i>295</i>	<i>-2,637</i>	<i>5,129</i>	<i>3,105</i>	<i>3,498</i>	<i>3,753</i>	<i>3,618</i>
Return on Equity	8.5%	-1.4%	-7.1%	11.5%	9.7%	10.1%	9.6%	9.5%
Return on Equity (non-life)	0.3%	-4.6%	-4.7%	3.1%	9.7%	10.2%	7.9%	8.3%
Return on Equity (life)	15.2%	1.1%	-8.8%	17.3%	9.8%	10.1%	10.8%	10.2%

(*) Net of cessions and back-cessions

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

THE TECHNICAL ACCOUNT

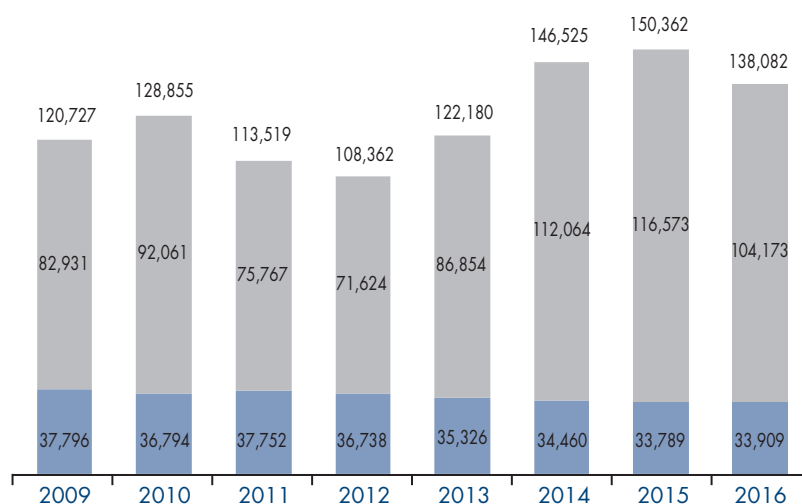
Premiums

Premiums from domestic and foreign business, direct and indirect, gross of reinsurance, collected by the companies having their registered office in Italy and by the Italian branches of non-EU companies totaled €138,082 million in 2016, of which €33,909 million from non-life policies and €104,173 million from life policies. The overall drop of 8.2% was the first registered after three years of steady growth in which premiums had increased from €108,362 million in 2012 to €150,362 million in 2015. The 2016 decrease was caused by the life sector in which premiums contracted by 10.6% (after the 4% increase registered a year earlier); on the contrary, non-life premiums recovered modestly, after four years of steady decrease (+0.4%).

As a result of these developments, in 2016 life premiums' share of total premium income diminished from 77.5% to 75.4%.

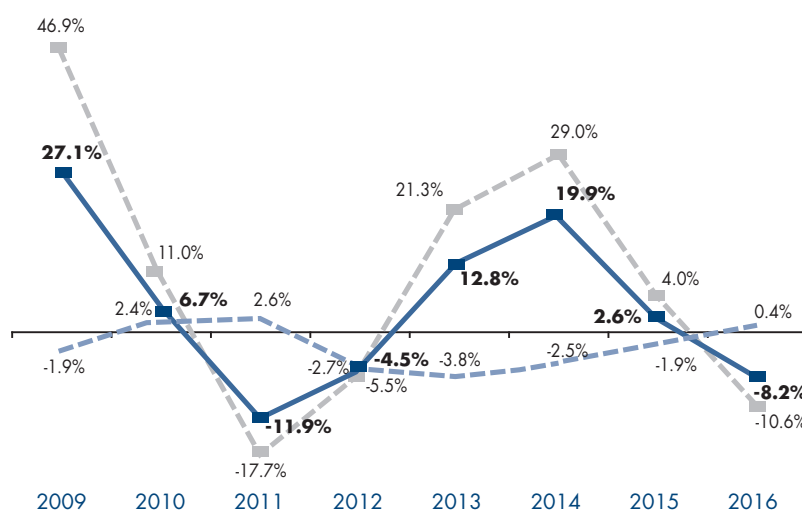
Total premiums
Euro million

■ Life
■ Non-life



Nominal growth of life, non-life and total premiums

■ Non-life
■ Life
■ Total



THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

In 2016, **premiums ceded in reinsurance** amounted to €5,216 million, of which €4,219 million from non-life classes and €997 from life classes (in 2015 they totaled €4,357 million, of which €3,287 million non-life and €1,069 million life), Total ceded premiums' share (life and non-life) of total gross premiums surged from 2.9% in 2015 to 3.8% in 2016.

This translates into **total premiums, net of those ceded**, amounting to €132,866 million: of which €29,690 million from non-life policies and €103,176 million from life policies.

Claims and benefits paid

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

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

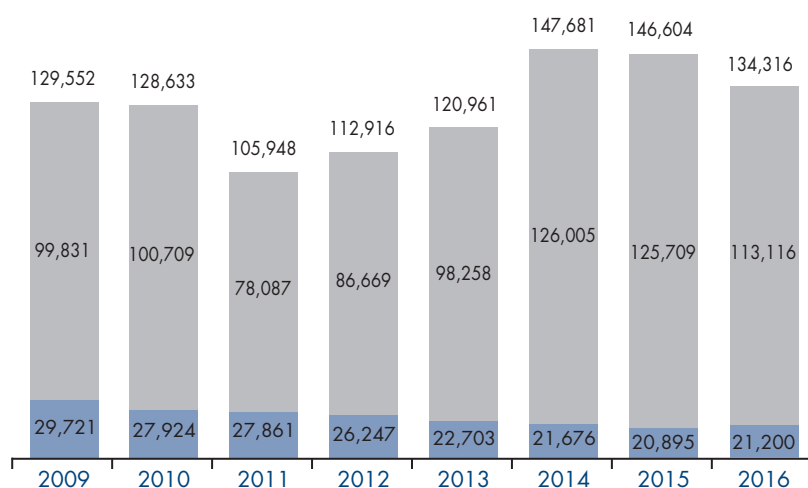
Benefits and claims paid diminished by 8.4% in 2016 to total €134,316 million: €21,200 million in non-life classes (+1.5%) and €113,116 million in life classes (-10.0%).

The share borne by reinsurance rose by 14.3% to a total of €3,123 million, of which €2,235 million referring to non-life policies and €888 million to life policies.

On a net basis, benefits and claims paid decreased by 8.8% to €131,193 million: €18,965 million in non-life classes and €112,228 million in life classes.

Total claims and benefits paid
Euro million

■ Life
■ Non-life



Operating expenses

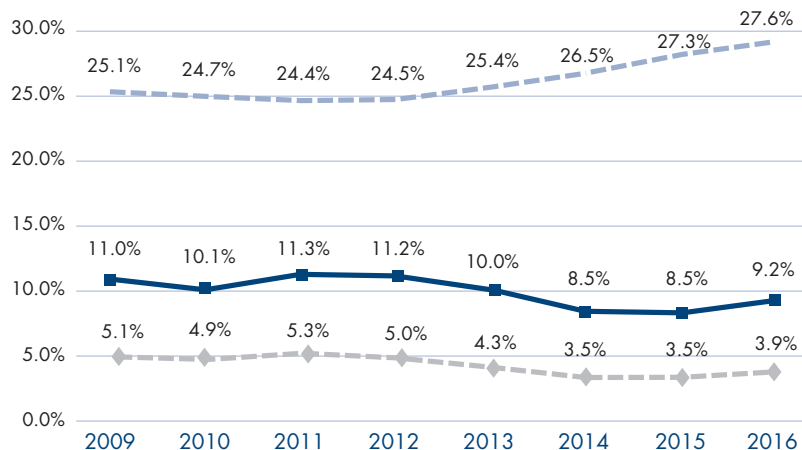
Operating expenses relating to direct and indirect business, net of reinsurance cessions, which comprise contract acquisition, premium collection, distribution network organizational and operating costs and the administration expenses relating to technical management of insurance business, totaled €12,184 million, 1.6% less than in 2015, Given the larger decrease in premiums, the ratio of total operating expenses to written premiums increased (9.2%, compared with 8.5% in 2015).

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

The incidence of costs for individual life and non-life policies have shown different trends, as a result of a different variation of premiums in the two sectors (downwards for life premiums and stable for non-life premiums). In particular, in 2016, operating expenses in non-life business amounted to €8,187 million (they were €8,318 million in 2015) with a ratio to premiums of 27.6%, slightly up from 27.3% the previous year; operating expenses in life business amounted to €3,997 million in 2016 (they were €4,064 million in 2015), with a ratio to premiums of 3.9% (3.5% in 2015).

Operating expenses Incidence on net written premiums (%)

■ Non-life
◆ Life
■ Total



Technical account result

The overall (non-life plus life) technical account result, net of reinsurance, was positive to the tune of €6,839 million, equal to 5.1% of direct and indirect premiums; the latter indicator is slightly higher than in the previous two years, amounting to 4.7% of premiums in 2014, and 4.5% in 2015. For non-life business the technical account result was positive by €3.1 billion (€3.8 billion in 2015) and its ratio to premiums fell to 10.4% (12.3% in 2015). In the life sector the result was positive by €3.7 billion (up from the €2.8 billion of the previous year); the ratio to premiums went from 2.4% in 2015 to 3.6% in 2016.

Technical account result/Premiums Incidence on net written premiums (%)

	2009	2010	2011	2012	2013	2014	2015	2016
Non-life and Life	3.0%	-0.5%	-3.0%	9.4%	5.9%	4.7%	4.5%	5.1%
Non-life	0.7%	-1.1%	0.3%	8.4%	11.2%	12.1%	12.3%	10.4%
Life	4.0%	-0.3%	-4.5%	9.8%	3.9%	2.6%	2.4%	3.6%

RESULT ON INVESTMENT ACTIVITY

In 2016, **return on investment** amounted to €31,710 million (it was €31,046 million in 2015), up by 2.1%, In particular:

- non-life investment income shrank by 1.1% to €3,809 million;
- life investment income (Class C) decreased by 0.6% to €21,194 million;
- life investment income (Class D) rose by over 14% to €6,708 million.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

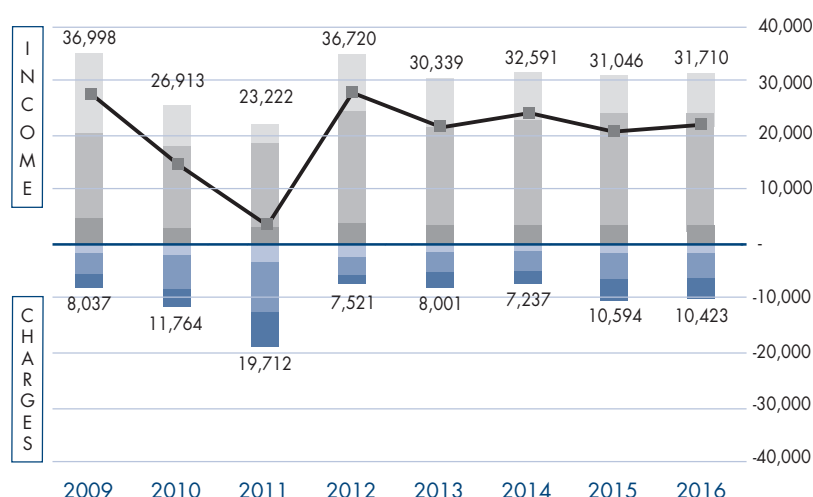
More in detail, as shown in the table below, the **ordinary gross investment income of life and non-life classes** is divided as follows:

- *income from securities, bonds and other investments*, amounting to €17,893 million (+1.6% on 2015): 56.4% of the total;
- *income from investments held for the benefit of life insurance policyholders and from the management of pension funds (Class D)*, amounting to €6,708 million (+14.1% on 2015): 21.2% of the total;
- *revaluation gains and realized profits on investment*, amounting to €3,974 million (-14.7% on 2015): 12.5% of the total;
- *income from shares and investment fund units*, amounting to €2,947 million (+9.5% compared with 2015): 9.3% of the total;
- *income from land and buildings*, amounting to €188 million (-7.6% on 2015): 0.6% of the total.

Investment income and charges

Euro million

- Non-life income
- Life income (Class C)
- Life income (Class D)
- Non-life charges
- Life charges (Class C)
- Life charges (Class D)
- Net investment result



Breakdown of gross ordinary investment income %

Life and non-life

	2009	2010	2011	2012	2013	2014	2015	2016
Shares	5.5%	6.4%	6.8%	4.5%	6.3%	8.6%	8.7%	9.3%
Land and buildings	0.6%	0.8%	1.0%	0.6%	0.7%	0.6%	0.7%	0.6%
Securities, bonds etc.	32.9%	48.8%	63.7%	43.2%	53.3%	53.0%	56.7%	56.4%
Revaluations and capital linked policies	19.4%	15.3%	12.3%	22.3%	14.8%	11.5%	15.0%	12.5%
and pension funds	41.6%	28.6%	16.2%	29.4%	24.9%	26.2%	18.9%	21.2%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The **cost** of investment was virtually unchanged (€10,594 million in 2015 and €10,423 million in 2016). In particular:

- in the non-life sector investment charges fell by over 10% to €1,523 million. This translates into a net investment profit for this sector amounting to €2,285 million, moderately better than the previous year (€2,149 million);
- in the life sector (Class C), investment charges decreased by more than 10% to €4,271 million, with net investment profit still positive at €16,923 million, up from €16,556 million in 2015;
- in the life sector (Class D), investment charges rose by 12% to €4,629 million, with net investment profit rising to €2,079 million, up from €1,748 million in 2015.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

The insurance industry's **overall net profit on investment** amounted to €21,287 million, compared with €20,452 million in 2015, of which €18,341 million (86%) came from the technical account (up from €17,770 million in 2015), and €2,946 million (14%) from the non-technical account (down from €2,682 million in 2015).

Extraordinary income, gross of charges, amounted to €570 million, down from €1,458 million in 2015. Operating expenses totaled €368 million (€448 million in 2015).

THE RESULT FOR THE FINANCIAL YEAR

In 2016, the **result of the ordinary activity** of the life and non-life sectors increased to €7,536 million from €7,093 a year earlier. **Extraordinary income** (which is added to the ordinary activity), while remaining positive at €202 million, was down sharply from €1,010 million in 2015. Overall, profit for the year **before tax** thus amounted to €7,738 million (€8,103 million in 2015).

After taxes, totaling €2,014 million, the industry showed an **overall net profit of €5,724 million**: €2,106 million for the non-life sector and €3,618 million for the life sector.

Given this net profit of €5.7 billion, the sector's profitability for 2016 (expressed in terms of ROE, Return on Equity) was 9.5%, in line with the previous year; the life and non-life sectors separately registered ROE of 8.3% (7.9% in 2015) and 10.2% (10.8% in 2015) respectively.

In particular, the profit of the **non-life** sector for 2016 was €2,106 million, up 8% from the €1,956 million of 2015; this result reflected the different trends shown by the following items:

- **an intermediate operating result** (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €4,213 million (down €400 million for the year);

Profit-and-loss account by sector (*)

Euro million

	2009	2010	2011	2012	2013	2014	2015	2016
Non-life								
Technical account result	228	-375	106	2,765	3,546	3,749	3,751	3,092
Net investment income	939	201	-734	94	825	925	860	1,122
Intermediate operating result	1,167	-174	-628	2,859	4,371	4,674	4,612	4,213
Other net income	-1,161	-1,185	-948	-1,295	-1,354	-1,502	-1,469	-1,436
Net extraordinary income	33	218	386	1	473	450	72	120
Income tax for year (-)	-24	-143	-174	924	1,365	1,173	1,259	791
Profit/loss for the year	63	-998	-1,016	641	2,125	2,448	1,956	2,106
Life								
Technical account result	3,242	-266	-3,316	6,931	3,344	2,864	2,765	3,747
Net investment income	1,177	839	265	1,626	1,444	1,917	1,821	1,827
Intermediate operating result	4,419	573	-3,051	8,557	4,788	4,781	4,586	5,574
Other net income	-83	-578	-603	-627	-828	-563	-636	-814
Net extraordinary income	807	396	93	-29	841	511	939	82
Income tax for year (-)	1,336	96	-925	2,772	1,696	1,231	1,136	1,223
Profit/loss for the year	3,807	295	-2,637	5,129	3,105	3,498	3,753	3,618

(*) Excluding professional reinsurers

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

- a negative balance of €1,436 million on **other income less other charges**, virtually unchanged from 2015 (-€1,469 million);
- a positive balance of €120 million on **other net extraordinary income**, in line with 2015 (€72 million);
- **income taxes** amounting to €791 million, down €467 million from the €1,259 million paid in 2015.

In 2016, the **life** sector's profit was €3,618 million, 4% less than the previous year (€3,753 million); this result is due to the different trends registered by the following items:

- an **intermediate operating result** (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €5,574 million (exceeding the €4,586 million of 2015 by more than €1,000 million);
- a negative balance of €814 million on **other income less other charges**, nearly €200 million worse than in 2015;
- a positive balance of just €82 million on **other net extraordinary income**, down nearly €900 million from the €939 million of 2015;
- a volume of **income taxes** of €1,223 million, slightly increased compared with the €1,136 million of 2015.

BALANCE SHEET

Balance sheet

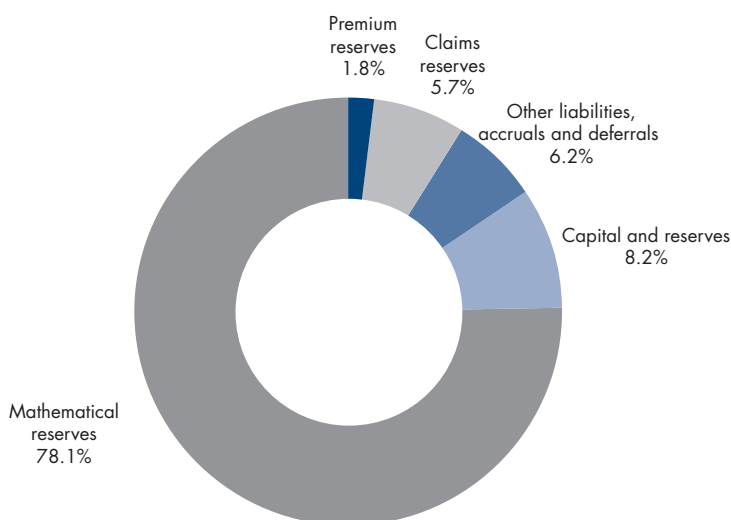
Euro million

	2009	2010	2011	2012	2013	2014	2015	2016
LIABILITIES	560,780	586,815	585,665	603,706	641,230	703,134	762,742	810,134
CAPITAL AND RESERVES	51,803	50,260	48,252	54,299	63,906	64,403	66,223	66,345
Subscribed capital	11,925	11,985	12,463	13,345	14,828	14,562	15,320	15,341
Equity reserves	36,351	38,977	39,441	35,365	43,907	43,894	45,189	45,280
Profit for the financial year	3,527	-703	-3,653	5,589	5,171	5,947	5,713	5,724
TECHNICAL PROVISIONS	461,762	492,151	494,448	504,067	530,905	591,746	647,523	693,789
Non-life classes	68,701	65,859	66,697	66,838	64,764	63,368	62,005	61,264
Life classes	393,061	426,292	427,751	437,229	466,141	528,378	585,518	632,524
OTHER LIABILITIES	46,436	43,703	42,238	44,601	45,739	46,301	48,380	49,385
Subordinated liabilities	8,374	8,753	8,751	10,070	10,475	12,709	14,861	15,061
Provisions for risks and charges	1,711	1,771	1,613	1,847	2,295	2,251	2,273	2,276
Deposits received from reinsurers	12,398	11,999	11,279	10,692	9,927	9,177	8,321	8,074
Debts and other liabilities	23,954	21,180	20,594	21,992	23,042	22,164	22,924	23,975
ACCRUALS AND DEFERRALS	779	701	728	739	680	684	616	615
ASSETS	560,780	586,815	585,665	603,706	641,230	703,134	762,742	810,134
AMOUNTS OWED BY SHAREHOLDERS	41	15	3	7	0	0	0	0
INTANGIBLE ASSETS	6,891	6,310	6,001	5,747	6,194	6,907	6,664	6,520
INVESTMENTS:	489,479	517,014	511,384	526,975	562,960	629,566	692,645	741,130
Land and buildings	6,526	6,513	6,902	6,780	6,459	6,041	6,645	6,251
Shares and other equity	59,635	56,751	54,347	50,129	57,297	56,387	57,022	56,795
Bonds and other fixed income securities	273,755	306,898	316,029	335,627	363,826	410,269	437,571	464,482
Loans and deposits	32,351	34,708	35,195	36,918	38,565	48,098	63,156	74,084
Investments for the benefit of life insurance policyholders and the investments deriving from the management of pension funds	117,211	112,144	98,911	97,521	96,814	108,771	128,252	139,519
TECHNICAL PROVISIONS BORNE BY REINSURERS	19,283	18,737	17,546	17,768	16,533	15,109	14,104	13,728
AMOUNTS OWED BY DEBTORS	25,563	26,576	26,875	26,497	28,192	28,612	26,559	28,177
OTHER ASSETS	14,617	13,068	18,619	21,428	21,868	17,164	16,954	14,665
ACCRUALS AND DEFERRALS	4,907	5,093	5,238	5,284	5,483	5,777	5,814	5,913

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Liabilities

Breakdown of liabilities (%) – 2016



€ 810,134 million

In 2016, balance-sheet liabilities totaled €810,134 million, an increase of more than 6% compared with 2015.

In particular:

- shareholders' equity grew by 0.2% to €66,345 million; it is equal to 8.2% of total shareholders' liabilities. For the other components, share capital increased by 0.1% and equity reserves by 0.4% (to €15,341 million and €45,280 million respectively), while the operating profit increased only slightly as described above;
- *technical provisions*, which 7.1% to €693,789 million; they made up 85.6% of total liabilities. Life provisions, which accounted for 78.1% of the total, grew by 8.0%, while non-life provisions (for claims and uncollected premiums) amounted to €61,264 million, down by approximately 1% from 2015;
- *other liabilities*, amounting to €49,385 million (6.1% of the total), were up 2.1% from a year earlier. Among the components, subordinated liabilities increased by 1.3%, claims due to creditors and other liabilities by 4.6% and provisions for other risks and charges by 0.1%, while deposits received from reinsurers decreased (-3%);
- accrued expenses and deferred income amounted to €615 million (0.1% of the total).

Assets

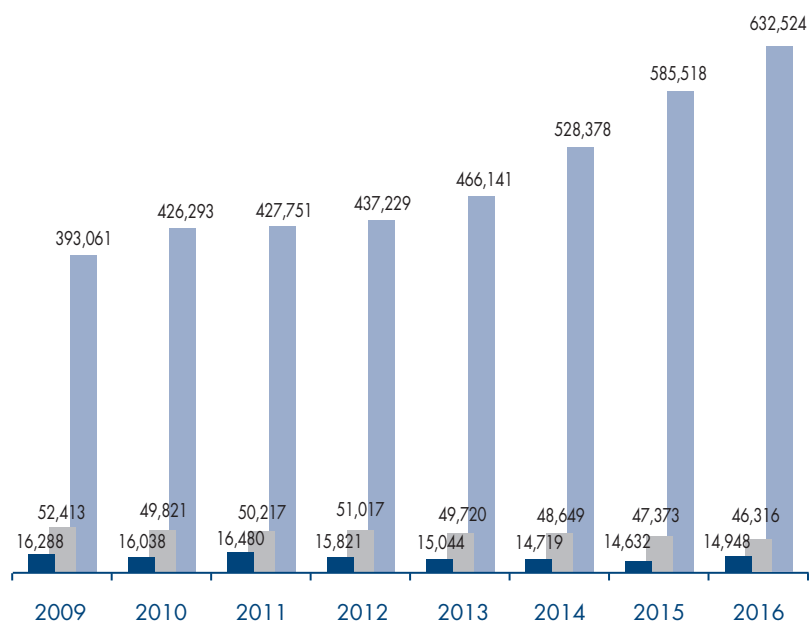
On the asset side, the main items composing the total of €810,134 million are investments, the reinsurance share of technical provisions, receivables, other asset items, accruals and deferrals.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Total technical provisions

Euro million

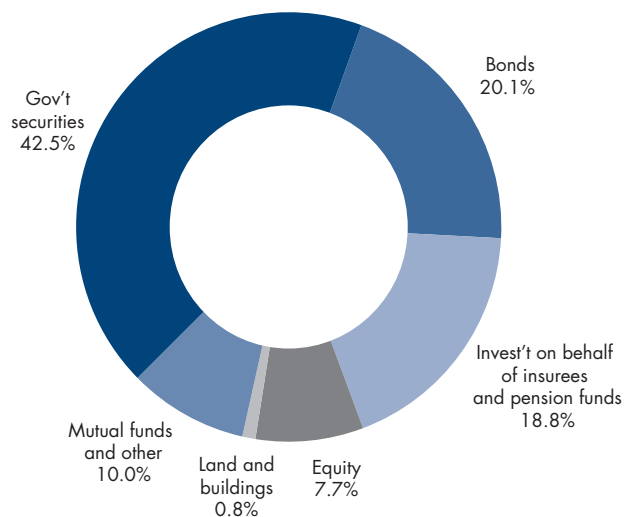
■ Premium reserves
■ Claims reserves
■ Mathematical reserves



In particular:

- *investments* totaled €741,130 million, an increase of 7.0% from a year earlier, and made up over 90% of total assets. Investments in the non-life sector came to €84,241 million (in line with 2015) and in the life sector grew to €656,889 million (+8.0%).

Breakdown of investments (%) – 2016



Euro 741,130 million

In detail, total investments were distributed as follows:

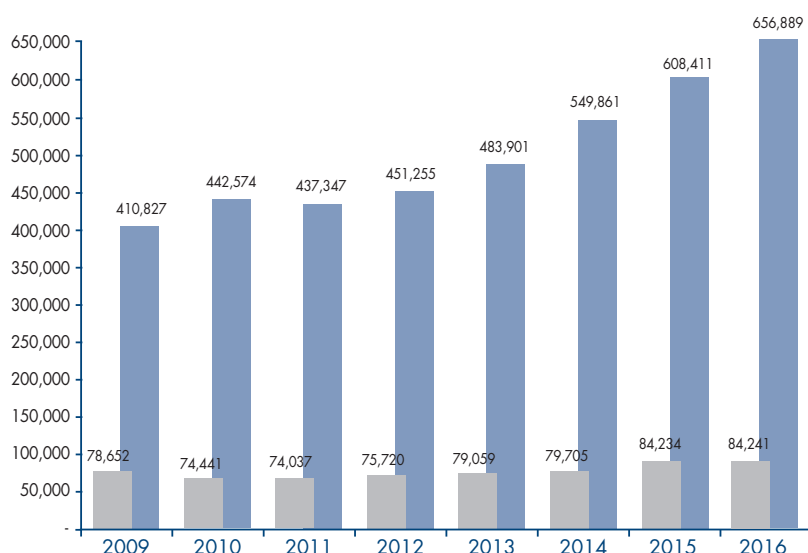
- government securities: €315,244 million, up 2.9% (42.5% of the total); of these, over 90% (around €280,000 million) were issued by Italy;
- bonds: €149,238 million, up 14% (20.1% of the total);
- investments pertaining to Class D: €139,519 million, up 8.8% (18.8% of the total);

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

- mutual funds and other investments: €74,084 million, up 17.3% (10.0% of the total);
- shares and other equity: €56,795 million, down 0.4% (7.7% of the total);
- land and buildings: €6,251 million, down 6% (0.8% of the total).
- the technical provisions borne by reinsurers came to €13,728 million, down 2.7% from a year earlier, and made up 1.7% of total assets;
- receivables totaled €28,177 million, up 6.1% (3.5% of the total). They comprise claims arising from direct insurance operations (€8,646 million), claims arising from reinsurance operations (€1,322 million) and other claims (€18,209 million);
- claims on shareholders (equal to zero), other intangible assets (€6,520 million) and other assets (€14,665 million) amounted to €21,185 million, down 10.3% (2.6% of the total);
- accrued income and prepaid expenses were equal to €5,913 million, up 1.7% (0.7% of the total).

Total Investments
Euro million

■ Life
■ Non-life



INSURANCE UNDERTAKINGS AND THE NEW INVESTMENT INSTRUMENTS LINKED TO CREDIT RISK

Based on the findings of a survey by ANIA on investments used by insurance companies to cover their technical provisions, a focus study was elaborated concerning the instruments – both traditional and recently introduced ⁽¹⁾ – exposed to credit risk.

⁽¹⁾ This refers in particular to the recent measures implemented by the Italian Government with the “Competitiveness” and “Destination Italy” decrees to support credit and which allow companies to cover their technical provisions by using also minibonds, financial bills, securitizations, unsecured direct funding to persons other than natural persons and micro-businesses and by increasing investments limits towards certain types of funds.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

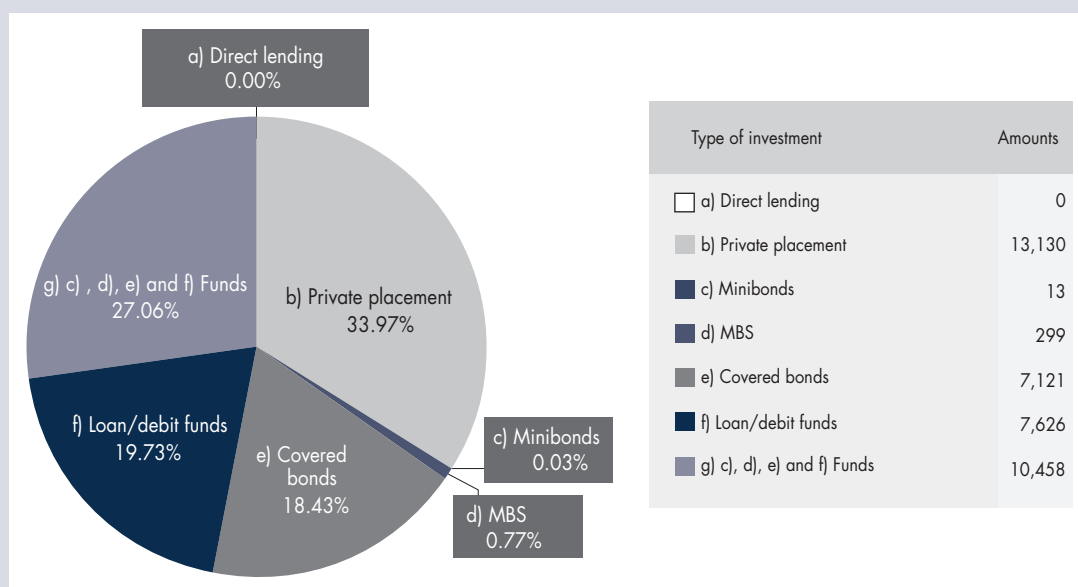
Companies were asked to report:

- i) The amount of investments covering the technical provisions (by asset class) as of 31 December 2016 and 31 March 2017;
- ii) The amount, as of the same dates, of the instruments exposed to credit risk covering the reserves as detailed below:
 - a) Direct lending
 - b) private placement ⁽²⁾
 - c) minibonds
 - d) mortgage backed securities (MBS)
 - e) covered bonds ⁽³⁾
 - f) Loan/debit funds
 - g) c), d), e) or f) funds
- iii) monitoring and management arrangements for investments.

The respondents to the survey represent approximately 64.2% of the undertakings on the market (in terms of overall investments made by all companies) ⁽⁴⁾.

As of 31 March 2017, the sample's share of investments exposed to credit risk amounted to nearly €38.7 billion, 8.4% of total covering assets of the respondents.

Investments exposed to credit risk as of 31 March 2017 (2017 sample survey)
Euro million



Source: ANIA

A comparison with last year's survey – elaborated with a homogeneous perimeter of companies as of 31 December – shows a growing trend for investments exposed to credit risk, both in absolute terms and compared to total covering investments.

⁽²⁾ Unrated bonds sold through bilateral negotiations (or involving a limited number of investors) with private or public issuers.

⁽³⁾ Secured bonds, new item added to this year's survey.

⁽⁴⁾ Respectively 66% and 60% of the market in the 2016 and 2015 edition.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

In addition, among the instruments falling within this category:

- Undertakings invested a significant share of their portfolio of assets exposed to credit risk in private placement (€14.1 billion, of which €9.8 billion in Italian issuers), with a slight increase compared to data from the previous survey (+5.9%); As for bonds subscribed with private issuers (€9.1 billion), around 54% are of Italian issuers and the remaining 46% from foreign issuers, mainly euro-denominated bonds, slightly down from the 61.7% of the previous survey;
- Investments in debit/loan funds equaled €16.1 billion, as of 31 December 2016, mostly to non-Italian funds (in line with 31 December 2015); the 2015 data were modified based on corrections sent by the respondents;
- Investments in covered bonds amounted to €4 billion, showing a downwards trend compared with 31 December 2015 (-9.0%);
- Securitizations and minibonds are still little used (€307 million and €2 million respectively; down 23.8% and up 2.8% compared with 31 December 2015);
- This year too, none of the undertakings in the sample made use of direct lending.

The survey also revealed that the most common method whereby companies monitor these investments is third-party assessments, followed by investment committees and internal procedures.

FOCUS: MINIBONDS AND PRIVATE PLACEMENT

Based on the results of the survey, ANIA decided to study more in depth the types of instruments surveyed, with a special focus on minibonds and private placement, to investigate the main problems.

Minibonds

In Italy, the minibond market ⁽⁵⁾ is still modest, especially compared to the American market, but it has shown steady growth since 2012, as a reaction to the aftermath of the financial crisis and of the credit crunch. Since the launch of the new market segment Extra-MOT dedicated to debt instruments for SMEs (February 2013) – called “Extra-MOT Pro” – the overall volume of listed bonds as of 31 April 2017 is approximately €10.7 billion. As of the same date, the number of bonds issued was 175 for an overall volume of €7.8 billion, with an average coupon of 5.03% and an average maturity of 6.67 years.

If we classify the bonds according to business sector, the leading sector is manufacturing, followed by energy materials and consumer goods. The sectors represented are highly diversified: trade, public services, financial and healthcare services, IT, telecommunications, and commodities.

⁽⁵⁾ The term “minibonds” generally refers to debt securities (bonds and finance bills with a maturity of up to 36 months issued by listed or unlisted companies). More specifically, minibonds are issued by limited companies or cooperatives with operations (excluding banks and insurance undertakings) not exceeding €500 million, not listed on exchanges open to retail investors. Minibonds do not require the issuing of a rating in order to be placed; however, a significant number of companies use ratings to meet the investors’ information needs.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Table 1
Classification of
minibonds by issuer
sector

At 30 April 2017

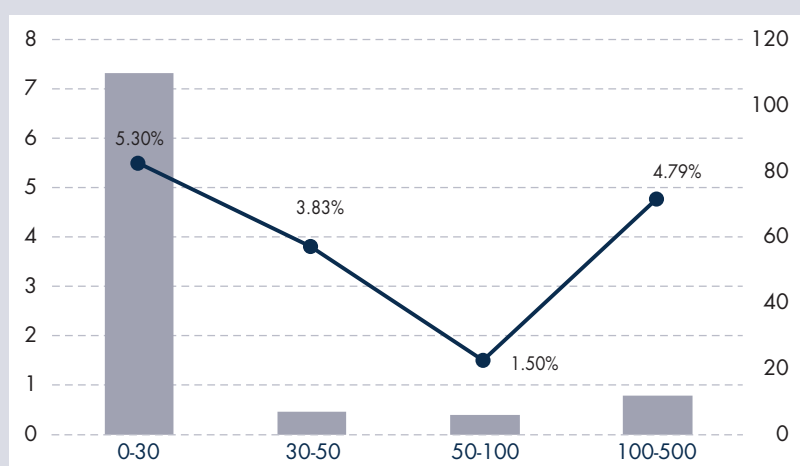
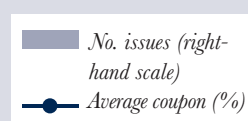
	Volume (€ million)	No. issues	Average maturity	Average coupon (%)
Energy	2,211.90	24	8.16	4.25
Commodities	83.30	10	5.75	5.50
Industry	2,503.20	53	5.20	5.25
Consumer goods	1,082.70	28	5.10	5.65
Healthcare	36.00	5	5.83	6.38
Consumer services	825.30	14	5.62	5.88
Telecommunications	5.40	2	3.25	5.40
Public services	225.80	14	19.05	3.81
Finance	731.90	16	4.75	4.15
IT	58.85	9	4.21	4.68
TOTAL	7,764.35	175	6.67	5.03

Source: Borsa Italiana,
ExtraMOT Pro Statistics

If we analyze the issue volumes, over 80% of the issues (144 out of 175) were smaller than €30 million, with an average coupon of 5.3%, The remaining 20% of issues were equally divided among the other sizes, with average coupons of between 1.5% and 4.8%.

Figure 1
Classification of
minibonds by issue
volume

At 30 April 2017



Source: Borsa Italiana,
ExtraMOT Pro Statistics

Private Placement

The term “private placement” lacks a commonly accepted definition ⁽⁶⁾; but it can be considered, both for issuers and investments, as a financing instrument mid-way between a bank loan and a public bond issue. The term normally refers to unrated bonds placed through private offers presented to a small group of qualified investors; the contract does not have any obligation of transparency (the exchange of information is negotiated directly with the investor and communicated privately); private placements are medium-term (5-7 years), unsecured and with a fixed interest rate.

⁽⁶⁾ In the United States it is “debt security not registered with the Securities and Exchange Commission” (SEC); in Europe, which lacks a harmonized legislation, PP can be defined as “any debt instrument other than bank loans exempt from the prospectus requirement laid down by the EU directive on public placement”. According to international practice (in line with SEC principles), a memorandum (containing information on the financial situation of the issuer and risk factors of the investment, useful for the investors) and an offer document should be drafted.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

The first edition of the survey showed that the share of private placement investments, although limited to only a few insurance companies, was rather high in comparison with the other forms of investment exposed to credit risk.

At the end of 2015, ANIA accordingly decided to launch a joint working group with the Italian Banking Association (ABI) in order to study recent market trends and developments for this type of instrument more in depth and explore the specific problems and *desiderata* of the insurance industry, with a view to assessing the actual interest of insurance companies in private placement.

The working group found that the insurance companies that take part in private placement are mostly medium-sized or large companies, unrated (but with low credit risk) and unlisted, which intend to diversify their sources of bank funding. But the market is also open to rated issuers and listed companies or companies with listed debt securities. The survey also found that the most interesting type of PP for the international insurance industry is private placement of assets rated, implicitly if not explicitly, BB or better; and as regards the type of borrower, utilities, infrastructure operators and industrial companies.

The main problems for the insurance industry brought out by the working group were: the need for broader disclosure, for platforms that give an incentive to issuers to provide more complete information, and for independent credit scoring systems with ample coverage in terms of number of companies, accessible data and low cost; the lack of adequate guarantees as to product structure; the severe information asymmetries in the relationship between the parties; high costs of due diligence, both credit-wise and legally, and an unfavorable regulatory treatment compared with their actual risk profile.

The working group decided to deal with some of the problems mentioned above in a series of ad hoc meetings involving primary market experts. In November 2016, during the meeting focusing on the techniques to assess the credit risk connected with private placement operations, Standard & Poors illustrated its assessing techniques and engaged in a long Q&A session. For the next few months, the agenda calls for a meeting with a leading auditor (to discuss the technical aspects of due diligence) and a meeting to review the current state of insurance legislation.

THE IMPACT OF TAXATION ON INSURANCE COMPANIES' FINANCIAL STATEMENTS

Over the past few years, a series of specific fiscal measures have been adopted, which have burdened insurance companies exclusively. In particular, the measures reported below have consisted, according to the circumstances, in “special” levies or increases in the tax rates for taxpayers in general.

On a preliminary basis, in 2016 the industry paid an especially large amount of direct taxes (more than € 2.0 billion, following over €2.4 billion in 2014 and 2015 and nearly €3.0 billion in 2013).

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Financial year	Total taxes (Euro million)
2013	3,061
2014	2,405
2015	2,395
2016	2,014

Below is an estimate of the impact of each “specific” tax measure for insurance companies on their latest financial statement..

IRAP surcharge

Since 2011 insurance companies are subject to IRAP with a surcharge of 2 percentage points over the tax rate applied to businesses of other industries (5.90% compared with 3.90%). The surcharge is 1.25 points more than that charged to banks (4.65%).

In addition, under article 16(3) of Legislative Decree 446/1997, the majority of Regions (including Emilia Romagna, Lazio, Liguria, Piedmont, Tuscany and Veneto) have instituted a further 0.92% surcharge on insurance companies, bringing the overall IRAP tax rate to a total 6.82%.

There is no theoretical or conceptual justification for the IRAP surcharge, given that insurance undertakings do not *per se* generate more taxable income from production than other business sectors.

In 2016 the industry paid €350 million for IRAP (only a bit less than the €384 million in 2015).

IRAP

Financial Year	IRAP (*) (Euro million)	of which: for surcharge on insurance companies (Euro million)	“Total” Tax Rate (%)	of which: “basic” gov’t tax rate (%)	of which: regional surcharge (%)
2013	715	210	6.82%	5.90%	0.92%
2014	429	126	6.82%	5.90%	0.92%
2015	384	113	6.82%	5.90%	0.92%
2016	344	101	6.82%	5.90%	0.92%

(*) Estimate for the market

Tax on life insurance mathematical provisions

Since 2003 insurance companies have been subject to a tax on the stock of mathematical provisions of life insurance companies as entered in the balance sheet. This tax constitutes a simple advance against the tax that will be levied when the benefits of the policies are paid: the relevant regulation (Article 1 of Legislative Decree 209/2002), in fact, states that this tax generates a tax credit to be used as an advance payment on the withholding taxes and substitute tax applied on the investment income at the start of the benefit period of the policy.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

This tax is, de facto, a non-interest-bearing compulsory loan from insurance companies to the Treasury, given that insurance companies have to pay in advance the amounts due for taxes that would otherwise be deferred until the payment of the benefits.

The tax rate has changed numerous times over the years (mostly increasing). More in detail it was:

- **0.20%** from 2003 to 2007
- **0.39%** in 2008
- **0.35%** from 2009 to 2011
- **0.50%** in 2012
- **0.45%** since 2013

The so-called stability law (Law 228/2012), the budget law for 2013, introduced an automatic cap mechanism in order to limit the taxes due in a given year when tax credits not yet offset (or not yet ceded to another company of the group) exceed the mathematical provisions by a certain percentage (precisely, 2.2% in 2016). Nonetheless, the tax credits due to the industry and not yet offset at the end of 2016 amounted to nearly €8 billion, €1 billion more than in 2015.

Tax credit on life reserves

(*) Estimate for the market

Financial Year	Tax Credit (*) at 31 December - (Euro million)	Annual Change
2013	5,210	522
2014	6,282	1,072
2015	6,940	658
2016	7,917	977

THE SOLVENCY OF THE ITALIAN INSURANCE INDUSTRY

The new Solvency II supervisory system went into effect on 1 January 2016, radically changing the way in which capital requirements are calculated and the information which companies must communicate to IVASS on a quarterly basis. During 2016-2017 ANIA launched a project to systematically collect, also quarterly, the main data contained in the *Quantitative Reporting Templates* (QRT) envisaged by the third Pillar of the new Solvency II supervisory system.

Around 80 companies, accounting for over 90% of the Italian insurance market, adhered to the project, producing a reliable and representative estimate of the main solvency and technical indicators for the entire industry, also broken down by insurance class. The data reported below mostly refer to the fourth quarter of 2016.

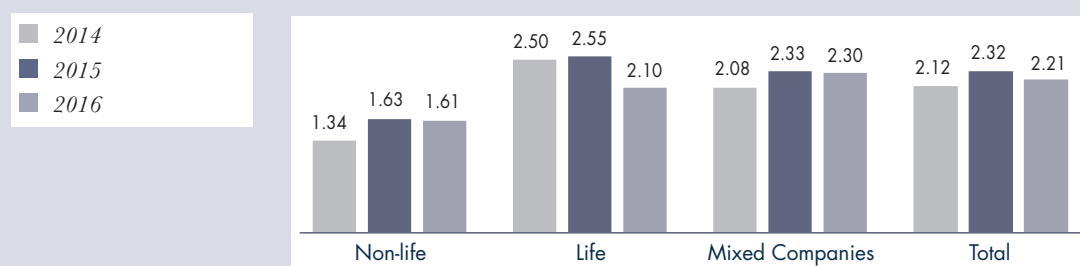
Solvency II ratio

The indicator measures the extent to which the companies' own capital is capable of covering the specific technical/financial risks of the insurance sector; it is calculated as the ratio of eligible own funds to the Solvency Capital Requirement (SCR).

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Figure 1 shows the evolution of the indicator in the period 2014-2016 by sector. In 2016, the Solvency II ratio (for the sample) was 2.21, slightly less than a year earlier (2.32) but more than in 2014 (2.12). The analysis by sector between 2015 and 2016 showed that while the solvency ratio was broadly stable overall, in the life sector it dropped from 2.55 to 2.10 and for the non-life sector it stayed always under 2.00 throughout the whole three-year period, reaching the value of 1.6 in 2016 (as in 2015); for mixed companies (operating both in the life and non-life sectors) the indicator was 2.30, in line with the previous year. The solvency ratio for the total market (2.21) is calculated as the ratio of €118 billion of eligible own funds to approximately €54 billion of Solvency Capital Requirement.

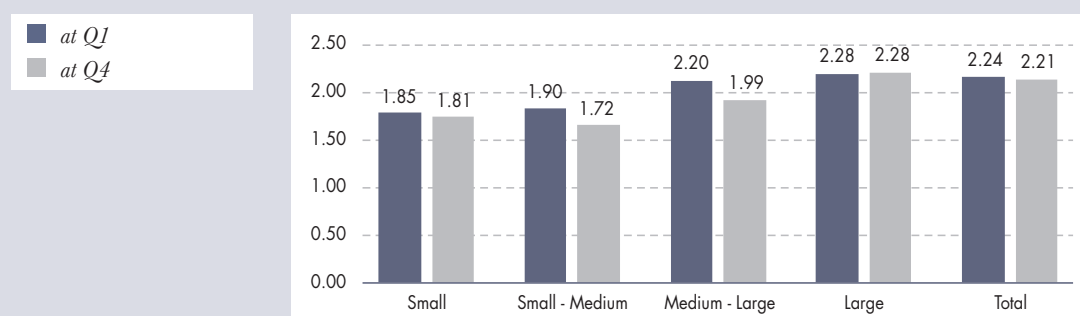
Figure 1 – Solvency II ratio*



(*) 2014 and 2015 data refer to the preliminary and Day-one phases from a sample survey by ANIA; 2016 data refer to the end of the fourth quarter of a sample of companies representative of 90% of the market, elaborated through the InfoQRT portal

The indicator was also analyzed according to company size. The results (which compare the first and fourth quarters of 2016) highlight a positive correlation between size (in terms of premiums) and its solvency index (Figure 2). In 2016, the average ratio for small and medium-sized undertakings with total premiums under €1 billion was below 2.0, while for large companies with over €4.5 billion in premiums it was 2.3.

Figure 2 – Solvency ratio of the insurance industry by size*



(*) The size is calculated based on written premiums of the direct portfolio for the year 2015, according to the following criteria: Small: Premiums <€0.3 bn; Small-Medium: €0.3 bn ≤ Premiums < 1.0 bn; Medium-Large: 1.0 bn ≤ Premiums < 4.5 bn; Large: Premiums > 4.5 bn

The excess of assets over liabilities

The excess of assets over liabilities plays a crucial role in the Solvency II system, as together with subordinated liabilities it is an integral part of basic own funds.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

A Key Performance Indicator (KPI) was analyzed based on this element, obtained by measuring the excess against total assets. More specifically, the two figures below show the ratio by sector (Figure 3) and by company size (Figure 4). On average, in 2016 the indicator was 12% but with a different distribution according to business sector: on the one hand, for non-life and mixed insurance companies the excess amounts to more than 20%, while for the life sector the incidence is far lower at 5.4%.

Figure 3
% excess of assets over liabilities
(see Q1 and Q4 2016)
by sector

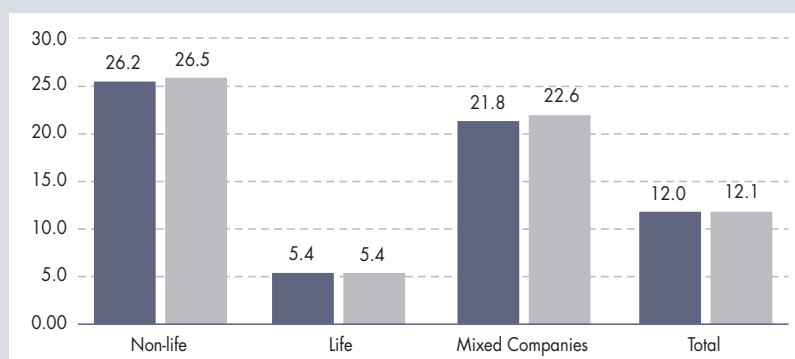
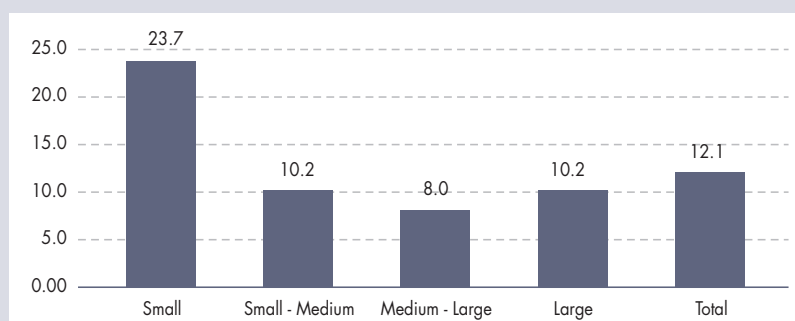


Figure 4
% excess of assets over liabilities at Q4 2016 by size



The distribution by company size also provides a varied picture: at the end of the fourth quarter of 2016, for small insurers (with less than €300 million in premiums) the excess amounted to 23.7% of total assets, while for the other, larger companies it was significantly lower at between 8% and 10%.

Distribution of Solvency II investments

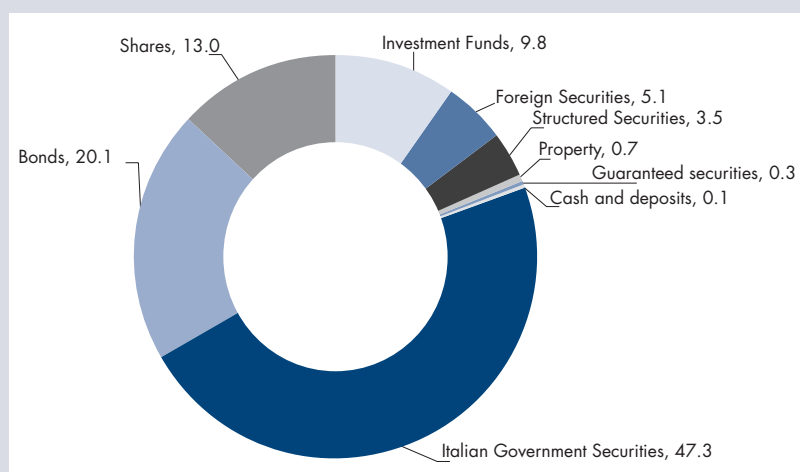
Figure 5 below shows all the assets of the Italian insurance industry valued under the new Solvency II supervisory regime. According to this approach, assets must be assessed in terms of fair value accounting, i.e. the amount at which they may be traded between informed and willing parties in a transaction carried out at normal market conditions. The values reported in the figure differ from those of assets valued in terms of local GAAP, for which asset items are entered at purchase price or production cost, taking into account whether they are destined to be held in the company portfolio for some time. To this end, the investments assessed at fair value under Solvency II amounted to around €810 billion in 2016 (sample estimate), while overall investments in the local GAAP financial statements were €741 billion. At the end of the fourth quarter of 2016 the sector's main investment (net of index and unit linked contracts), totaling €670 billion, was in Italian government securities

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

(47.3%), followed by bonds (20.1%) and shares (13.0%). Investment funds accounted for only 10% and foreign securities for 5.1%.

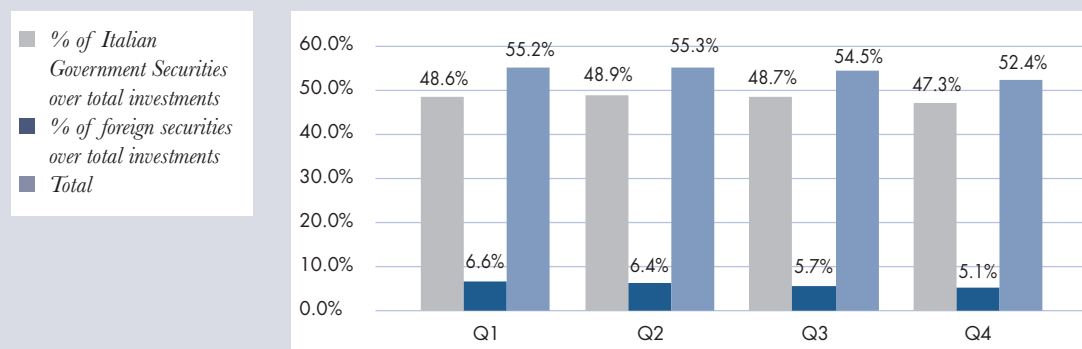
While representing the industry's main investment, the incidence of government securities on total investments throughout 2016 came down by around 3 percentage points in the last quarter (Figure 6).

Figure 5
Investment
distribution
(Solvency II)
at Q4 2016 – (%)
Around €670 bn (estimate based on sample)



Excluding assets destined to index and unit-linked contracts

Figure 6 – % of Italian government securities over total investments in 2016



Excluding assets destined to index and unit-linked contracts

Own Funds

Own funds used to cover the capital requirement consist of the excess of assets over liabilities, minus the amount of own shares held by the company and of subordinated liabilities.

They are classified in three tiers defined on the basis of their quality, in other words based on their ability to absorb losses over time. In particular, the features considered for the classification in tiers include the level of subordination, the absence of incentives for redemption, the absence of mandatory service costs, the absence of surcharges and constraints. In detail, these elements go from Tier 1 capital (paid-up ordinary share capital, paid-in preferred shares, retained earnings, reconciliation reserve) to Tier 2 and Tier 3 items with a lower absorption capacity. With regard to Tier 1 own funds, these are divided into limited funds, subject limited to specific caps (such as subordinated liabilities), and unlimited funds.

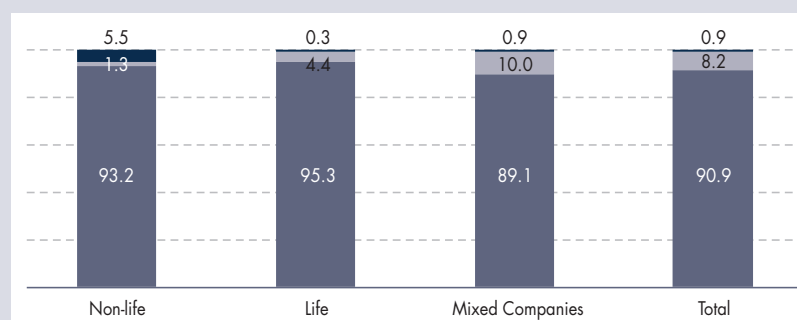
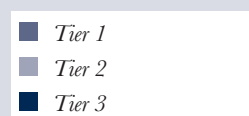
THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Table 1 and Figure 7 show the percentage of eligible own funds distributed by tier and insurance sector. At the end of 2016 the incidence of Tier 1 own funds was nearly 91%; Tier 2 accounted for 8.2% and the remaining 1% consisted of Tier 3 elements. The tier composition showed a greater incidence of Tier 3 elements in the non-life sector, while Tier 2 elements were mostly present in mixed companies.

Table 1
Composition of
eligible own Funds at
Q4 2016 by Tier

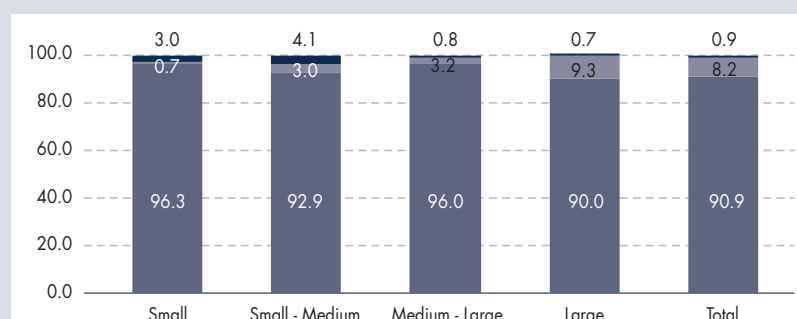
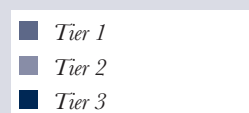
	T1 limited	T1 unlimited	Total Tier 1	Tier 1	Tier 2	Tier 3	Total
Non-life	0.5	99.5	100.0	93.2	1.3	5.5	100.0
Life	3.8	96.2	100.0	95.3	4.4	0.3	100.0
Mixed Companies	6.6	93.4	100.0	89.1	10.0	0.9	100.0
TOTAL	5.6	94.4	100.0	90.9	8.2	0.9	100.0

Figure 7
Composition of
eligible own Funds at
Q4 2016 by Tier



The distribution by company size (Figure 8) shows that for large companies alone (with more than €4.5 billion in premiums), Tier 1 own funds account for 90% of the total. For these companies, Tier 2 and Tier 3 components are, however, still significant (9.3% and 1% respectively). All other companies show a greater incidence of Tier 1 (more than 90%) and a much smaller incidence of Tier 2.

Figure 8
Composition of
funds by Tier and by
size at Q4 2016



The following figures analyze four KPIs by business sector; each KPI is broken down by insurance sector and company size.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Reconciliation Reserve on SCR

The reconciliation reserve is part of the basic own funds and equals the excess of assets over liabilities, minus own shares (directly and indirectly owned), expected dividends, distributions and charges and other elements of basic own funds; the indicator in Figure 9 measures the percentage incidence of the reconciliation reserve against the SCR. At the end of the fourth quarter, the indicator was 120%, slightly up from the end of the first quarter of 2016 when it was 116.3%. In the sectors analyzed (non-life, life and mixed), the overall reconciliation reserve was higher than the SCR, with a resulting indicator still above 100%. In particular, at the end of 2016 the indicator for mixed companies was 126.5%, more than that registered for companies operating exclusively in the non-life (103.6%) and life sectors (107.3%).

Figure 9a)
Reconciliation
reserves over SCR by
sector – Q1 and Q4
2016

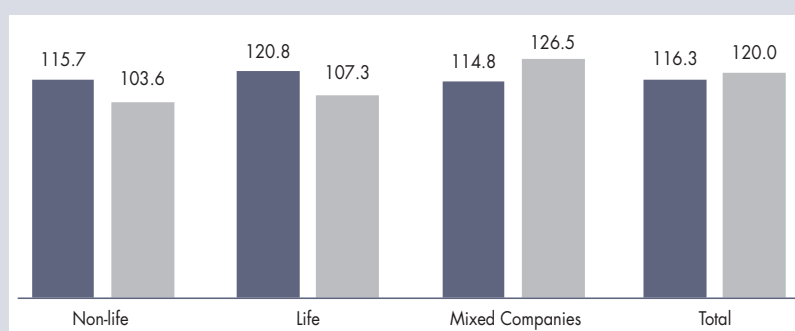
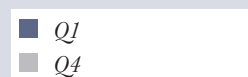
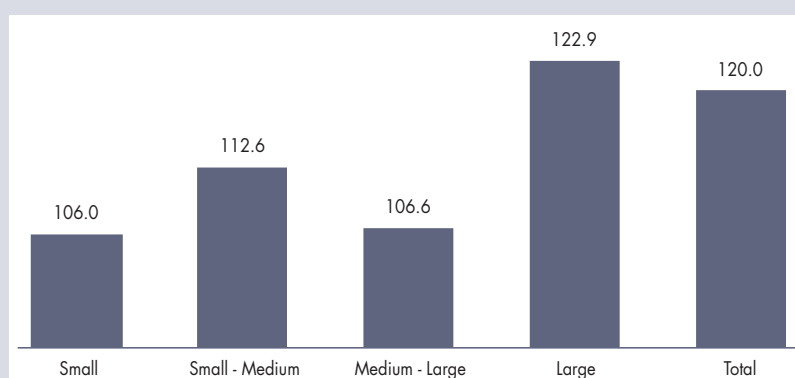


Figure 9b)
Reconciliation
reserves over SCR
by size – Q4 2016



The analysis carried out at the end of 2016, by company size, shows that large companies (with premiums higher than €4.5 billion) have an indicator of 122.9%, higher, on average, than that of the other insurance companies.

Reconciliation reserve on eligible own funds

Figure 10 shows that at the end of 2016 the incidence of the reconciliation reserve over total eligible funds amounted to 54.4% overall, the highest incidence being for non-life businesses (64.5%), followed by mixed companies (55.1%) and finally life businesses (51.1%). Similar results were registered at the end of the first quarter of 2016. The distribution of the indicator by company size was essentially homogeneous, with the exception of smaller companies (those with premiums between €300 million and €1 billion), with a value of 65.4% at the end of 2016.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Figure 10a)
Reconciliation
reserve over total
eligible funds by
sector – Q1 and Q4
2016

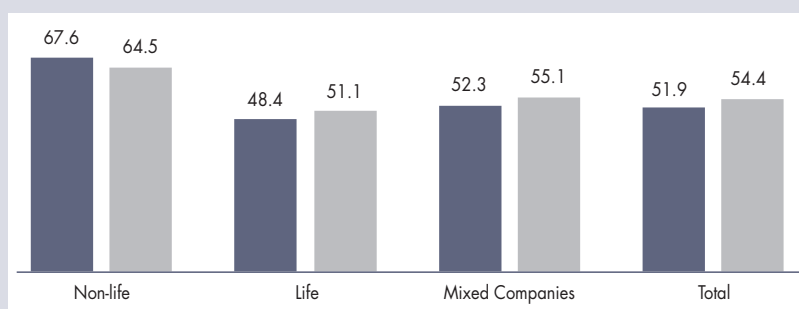
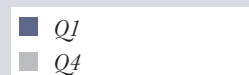
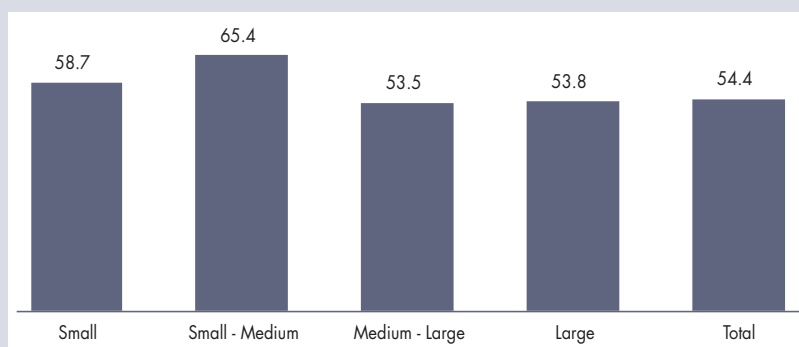


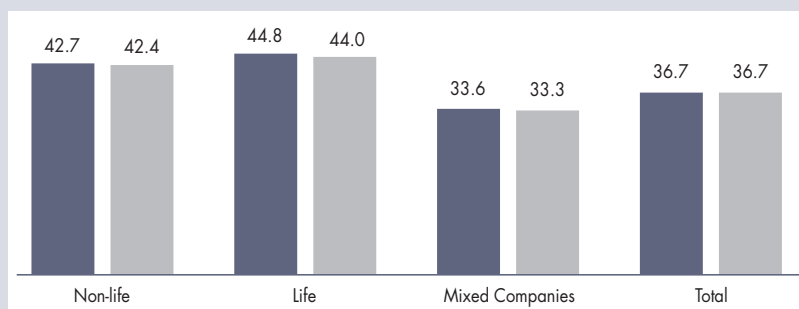
Figure 10b)
Reconciliation
reserves over total
eligible funds by size
– Q4 2016



MCR/SCR

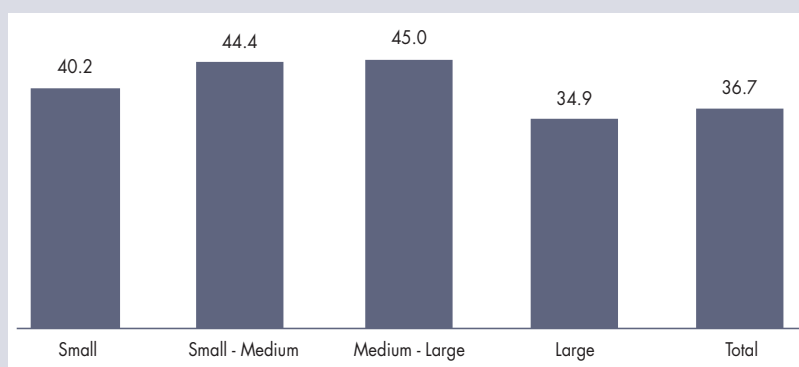
This indicator measures the incidence of the Minimum Capital Requirement (MCR) over the Solvency Capital Requirement (SCR). Without prejudice to the minimum levels set for MCR, this cannot be less than 25% or more than 45% of the company's solvency capital requirement. The end-year results for 2016 are very similar to those registered at the end of the first quarter, showing that, especially for companies operating exclusively in the life or non-life sector, the ratio is close to the upper threshold (45%); on the contrary, for mixed companies the value is 35%, mid-way between the two thresholds. The analysis by size shows that for large companies the value of the indicator (34.9%) is lower than for other insurance companies.

Figure 11a)
MCR over SCR by
sector – Q1 and Q4
2016



THE ITALIAN INSURANCE MARKET: KEY FIGURES 2016

Figure 11b)
MCR over SCR by
size – Q4 2016



EPIFP/Reconciliation reserve

The ratio of expected profits included in future premiums (EPIFP) to reconciliation reserve is much more variable. This was approximately 11% at the end of 2016. In detail, at the end of 2016 the ratio was 2.3% for non-life businesses, 21.3% for life businesses and 8.4% for companies operating in both the life and non-life classes. The analysis by size highlights a positive correlation between company size and expected profits.

Figure 12a)
EPIFP over
Reconciliation
Reserves by sector –
Q4 2016

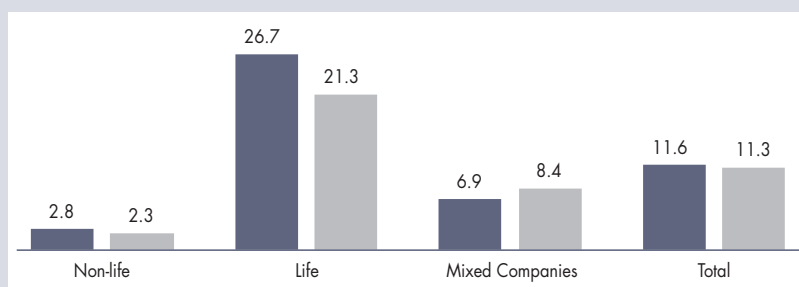
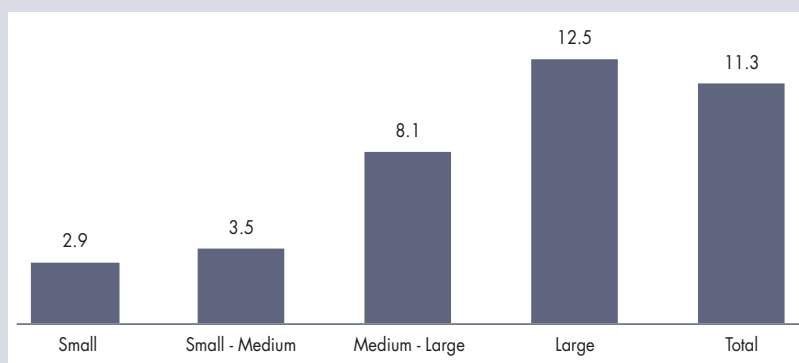


Figure 12b)
EPIFP over
Reconciliation
Reserves by size –
Q4 2016



2

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

THE INTERNATIONAL SETTING

In 2016, world total premium income continued to grow up to \$4,732 billion, with an increase of 3.1% in real terms compared with 2015, when it had increased by 4.3%. The slowdown in growth is chiefly linked to the trend of the main advanced markets and more moderate expansion in the emerging markets, with a few exceptions.

More specifically, Asia's premium income accounted for nearly 32% of the world insurance market, up 7.9% from 2015 thanks to the strong expansion of the Chinese market, China having made up around 10% of the volume of world premiums in 2016, the same as Japan. Europe, accounting for 31% of premium income overall, showed a growth of only 1.3% in 2016; North America registered the same market share, with an increase in the volume of premiums of 1.4%. With premium income only slightly greater than the previous year, Latin America and Africa are still a small part of the total volume, with market shares of 3% and 1% respectively. Oceania, with a market share of only 2%, experienced a downward trend in the volume of premiums (-4.8%).

In 2016 life premiums amounted to \$2,617 billion, up 2.5% in real terms (they had grown 4.4% in 2015). In particular, premium income in North America and Europe

Premium volume 2016 \$ million

	LIFE	NON-LIFE	TOTAL	Share % Total
North America	608,823	858,085	1,466,908	31.0
Latin America	69,212	79,288	148,500	3.1
Europe	858,607	611,414	1,470,021	31.1
of which: West. Europe	843,610	572,608	1,416,219	29.9
of which: C&E Europe	14,996	38,806	53,802	1.1
Asia	1,000,268	493,260	1,493,528	31.6
of which: Japan	354,053	117,243	471,295	10.0
of which: China	262,616	203,515	466,131	9.9
Africa	40,571	20,138	60,709	1.3
Oceania	39,537	52,987	92,524	2.0
TOTAL	2,617,017	2,115,172	4,732,189	100

Source: Swiss Re – SIGMA
No. 3, 2017

Real Growth 2016 %

	LIFE	NON-LIFE	TOTAL
North America	-0.2	2.5	1.4
Latin America	5.0	-3.7	0.2
Europe	0.1	3.0	1.3
of which: West. Europe	0.2	2.8	1.2
of which: C&E Europe	-0.5	5.4	3.7
Asia	7.4	8.9	7.9
of which: Japan	-6.2	-1.7	-5.1
of which: China	29.1	20.0	25.0
Africa	1.2	-0.2	0.8
Oceania	-13.3	2.8	-4.8
TOTAL	2.5	3.7	3.1

Source: Swiss Re – SIGMA
No. 3, 2017

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

remained stable, after the expansion of 2015. The growth of Asian markets (+7.4%) was slowed down partly by the premium income in Japan, down 6.2%; it was, however, strongly supported by the significant increase in premiums in China (+29.1%), mainly of traditional products and healthcare policies. The volume of premiums grew moderately in Latin America (+5.0%) and Africa (+1.2%), while it continued to decrease in Oceania (-13.3%).

In 2016, non-life premiums increased by 3.7% (to \$2,115 billion) compared to 2015 when the volume had grown by 4.2%. Despite the upward trend, many advanced markets grew less than the previous year. In detail, North America and Western Europe grew by 2.5% (+3.1% in 2015) and 2.8% (+3.7% in 2015) respectively, while Japan went down by 1.7% (it had grown by 4.2% the previous year). The development of the emerging markets was essentially led by China (+20.0%) and partly by Central and Eastern Europe while, given the worsening of the economy as a whole, premium income in Latin America decreased.

The world economic setting continued to influence the insurance markets. More specifically, the life sector continued to be influenced negatively by low interest rates in the advanced markets, while it registered an acceleration in the emerging markets. On the contrary, the non-life sector benefited from the stabilization of the economic conditions in advanced markets while suffering, at the same time, from the recession in Latin America (in Brazil and Venezuela in particular). In this context, life premiums will continue to grow moderately, led by the emerging markets in Asia (in addition to China and India), and by North America where the sector's premium income is likely to exceed that of Western Europe, which will have to tackle the uncertainty of Brexit. The non-life sector may register growth in the advanced markets, in particular in those countries where hi-tech industry is highly developed, in light of the growing attention paid to cyber risk. In the emerging countries – especially because of initiatives like “Belt and Road” in China, which will promote international investments thanks to the development of infrastructure and logistics – the demand for products in the property and transport sectors is expected to increase.

THE IMPORTANCE OF INSURANCE IN THE MAIN EU NATIONAL MARKETS

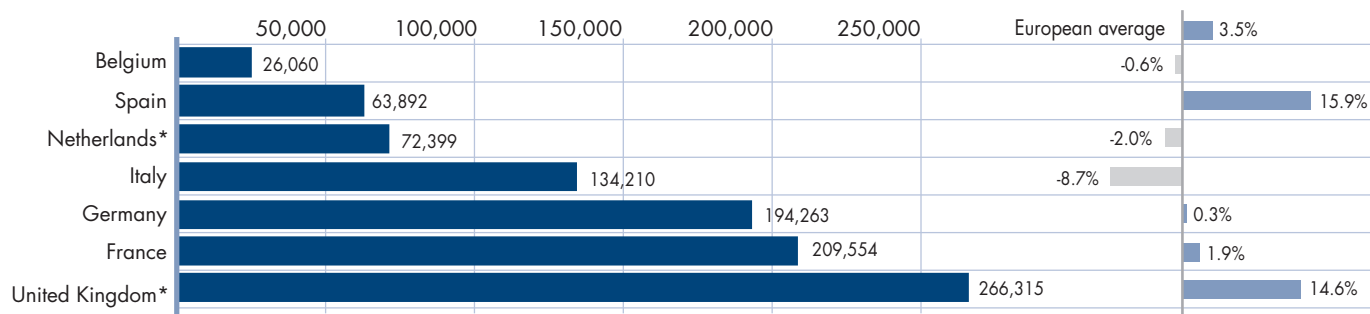
In 2016, the overall volume of premiums in the main EU markets (Belgium, France, Germany, Italy, the Netherlands, the United Kingdom and Spain) was €967 billion, up 3.5% compared to 2015. In detail, premiums increased in Spain (+15.9%), the United Kingdom (+14.6%; the British variation refers to 2015 over 2014), France (+1.9%) and Germany (+0.3%), while it registered a downturn in Italy (-8.7%), the Netherlands (-2.0%; the Dutch variation refers to 2015 over 2014) and Belgium (-0.6%).

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Direct premiums in the main EU countries in 2016 – Total

€ million

% change in direct premiums 2016/2015 – Total



(*) 2015 and change 2015/2014

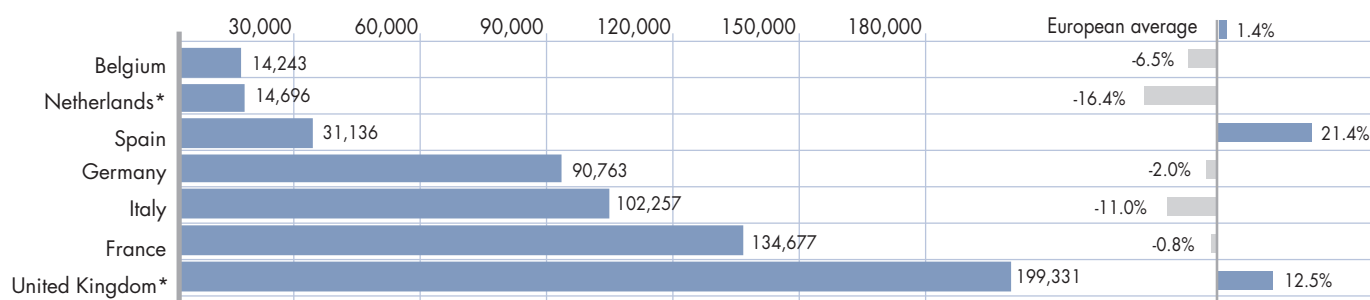
Source: Insurance Europe; ABI for UK

More specifically, life premium income in 2016 amounted to €587 billion, essentially in line with that of the previous year. An analysis of the sample countries showed an increase in premiums only in Spain (+21.4%) and the United Kingdom (+12.5%, premium income of 2015 compared to 2014), while they decreased in all the other sample countries, in particular in the Netherlands (-16.4% in 2015 compared to 2014), Italy (-11.0%), Belgium (-6.5%), Germany (-2.0%) and France (-0.8%).

Direct premiums in the main EU countries in 2016 – Life

€ million

% change in direct premiums 2016/2015 – Life



(*) 2015 and change 2015/2014

Source: Insurance Europe; ABI for UK

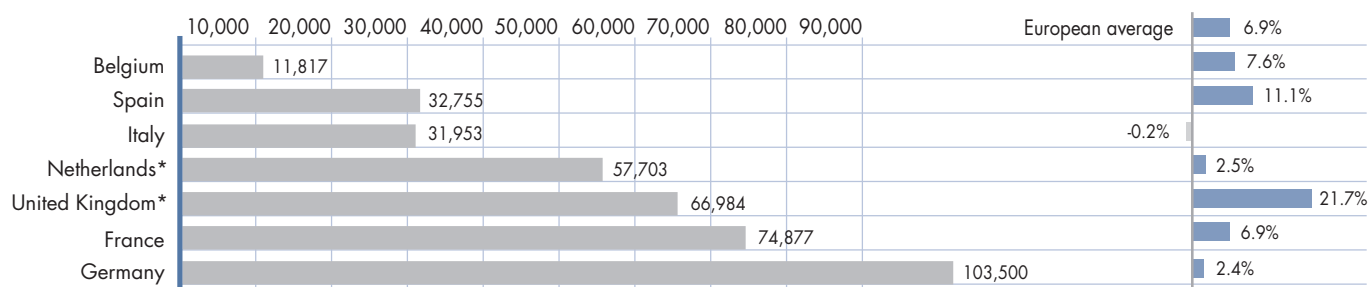
The non-life sector in 2016 was characterized by a growth in premium income, which gained 6.9% to €380 billion. In fact, all the countries in the sample registered growth or relative stability. In detail, premiums increased in the United Kingdom (+21.7% in 2015 compared to 2014), Spain (+11.1%), Belgium (+7.6%), France (+6.9%), the Netherlands (+2.5% in 2015 compared to 2014) and Germany (+2.4%). The volume of non-life premiums in Italy remained essentially unchanged.

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Direct premiums in the main EU countries in 2016 – Non-life

€ million

% change in direct premiums 2016/2015 – Non-life



(*) 2015 and change 2015/2014

Source: Insurance Europe; ABI for UK

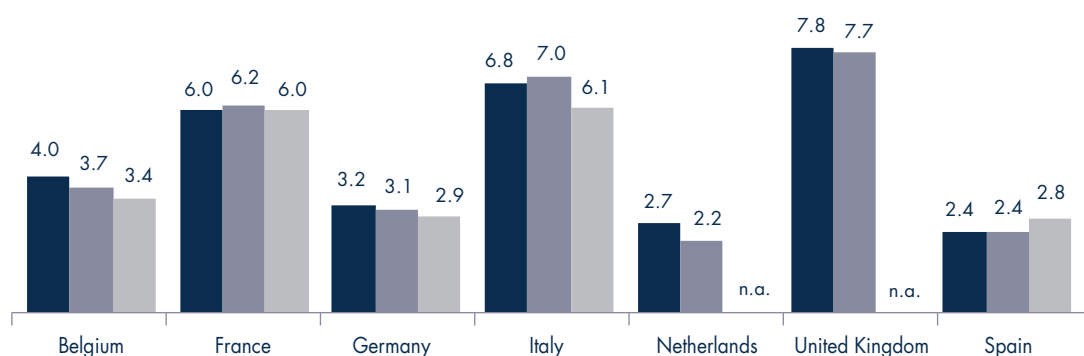
From 2014 through 2016 the ratio of the volume of premiums to GDP – the so-called insurance penetration index – performed differently in the life and non-life sectors. It is to be noted that the data for 2016 provided by Insurance Europe are still provisional and, in some cases, they are estimates made by national insurance associations.

With regard to life classes, the 2016 indicator dropped in all the sample countries except Spain. In detail, the analysis showed a progressively downward trend throughout the three-year period in Belgium, where the ratio went down from 4.0% in 2014 to 3.4% in 2016, and in Germany, from 3.2% to 2.9% in the same years. After a mild upturn between 2014 and 2015, the French and Italian indexes also showed a decrease in 2016; more specifically the index went from 6.2% in 2015 to 6.0% in 2016 in France (in line with 2014), and from 7.0% in 2015 to 6.1% in 2016 in Italy (it was 6.8% in 2014). The same downtrend was registered in 2014 and 2015 in the Netherlands, where the index went from 2.7% in 2014 to 2.2% in 2015, and in the United Kingdom, where it went from 7.8% in 2014 to 7.7% in 2015 (nevertheless the highest value among all the countries examined). In Spain, however, the index rose to 2.8% in 2016, after remaining stable at 2.4% in 2014 and 2015.

Life premiums/GDP

(%)

■ 2014
■ 2015
■ 2016



Source: Insurance Europe;
ABI for UK

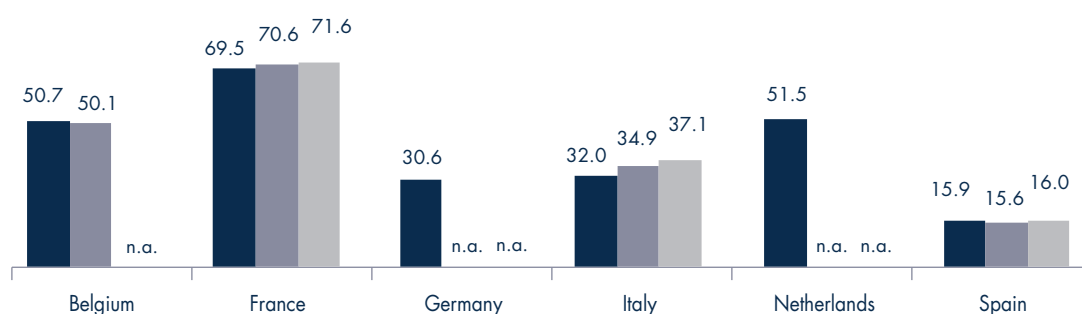
As regards mathematical provisions, 2016 and 2015 data for Germany and the Netherlands (and 2016 data for Belgium) are not yet available.

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

In Italy the ratio of mathematical provisions to GDP, indicative of the degree of maturity of the life insurance market, showed a steady increase in the three-year observation period from 34.9% in 2015 to 37.1% in 2016 (it was 32.0% in 2014). However, this is still lower than in the other European countries, except Spain (16.0% in 2016) and Germany (30.6% in 2014). Similarly to Italy, also in France the indicator showed an upward trend going from 69.5% in 2014 to 70.6% in 2015 and 71.6% in 2016. A downturn was observed in Belgium, from 50.7% in 2014 to 50.1% in 2015. In the Netherlands, the index was 51.5% in 2014.

Life mathematical provisions/GDP (%)

■ 2014
■ 2015
■ 2016

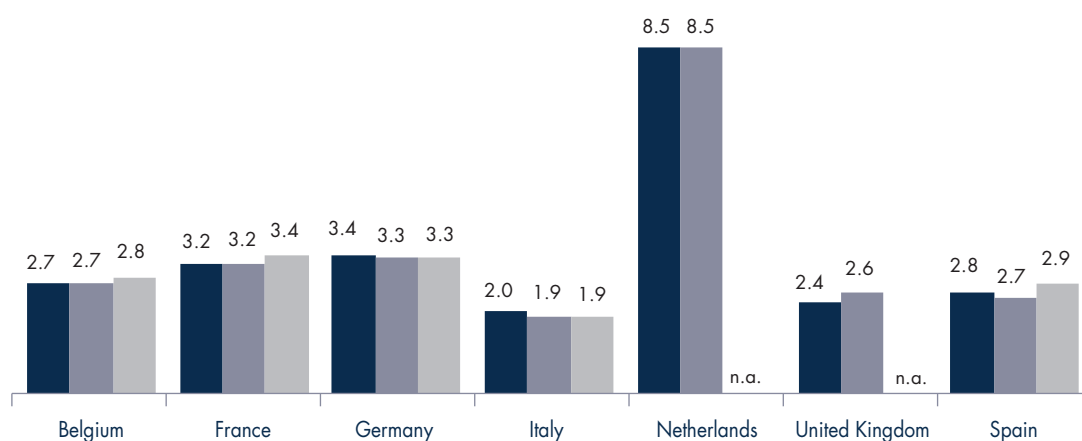


Source: Insurance Europe

In the non-life sector, in 2016 Italy again had the lowest ratio of premiums to GDP. Over the past two years, the Italian index has been stable at 1.9%, slightly down from the 2.0% registered in 2014. The Netherlands' high non-life insurance penetration index – the highest in Europe, more than 6 percentage points above the Italian indicator in 2015 – remained stable in the two-year period 2014-2015 at 8.5%, reflecting the positive effects in terms of premium collection of the privatization of the health care system in 2006. In Germany as well, the indicator remained stable at 3.3% in the 2015-2016 period (it was 3.4% in 2014). In the other countries of the sample the ratio showed an uptrend: in particular in Belgium and France the index, which was stable in the two-year period 2014-2015, at 2.7% and 3.2% respectively, grew to 2.8% in Belgium and to 3.4% in France, while in Spain the ratio went up to 2.9% in 2016, after the drop from 2.8% to 2.7% in 2015; in the United Kingdom the index moved up from 2.4% in 2014 to 2.6% in 2015.

Non-life premiums/GDP (%)

■ 2014
■ 2015
■ 2016



Source: Insurance Europe;
ABI for UK

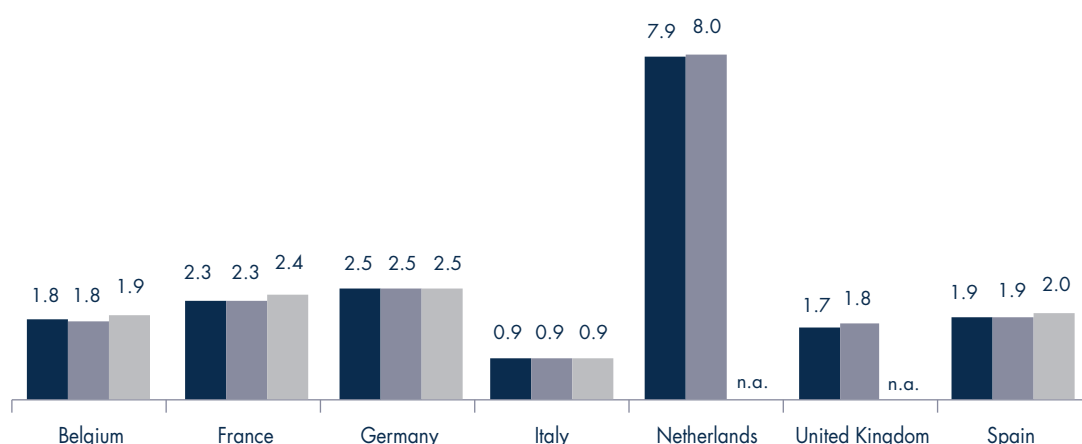
THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

If motor liability insurance (compulsory everywhere) is excluded, the gap in non-life premiums between Italy and the other European countries is even wider. In 2016 the ratio of these premiums to GDP was unchanged in Italy at 0.9%. In Belgium and Spain, the ratio was just over double Italy's. In Germany the indicator remained stable at 2.5% over the three-year observation period, while it increased slightly in France from 2.3% in 2014-2015 to 2.4% last year. Also growing, although referred only to 2014 and 2015, was the value of the index in the Netherlands which went from 7.9% to 8.0% and in the United Kingdom from 1.7% in 2014 to 1.8% in 2015.

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

■ 2014
■ 2015
■ 2016

Source: *Insurance Europe*;
ABI for UK



TAXATION OF PREMIUMS IN THE EUROPEAN UNION

As in past years, 2016 confirms an unchanging pattern, with Italy being among the countries in Europe with the highest tax burden on insurance premiums.

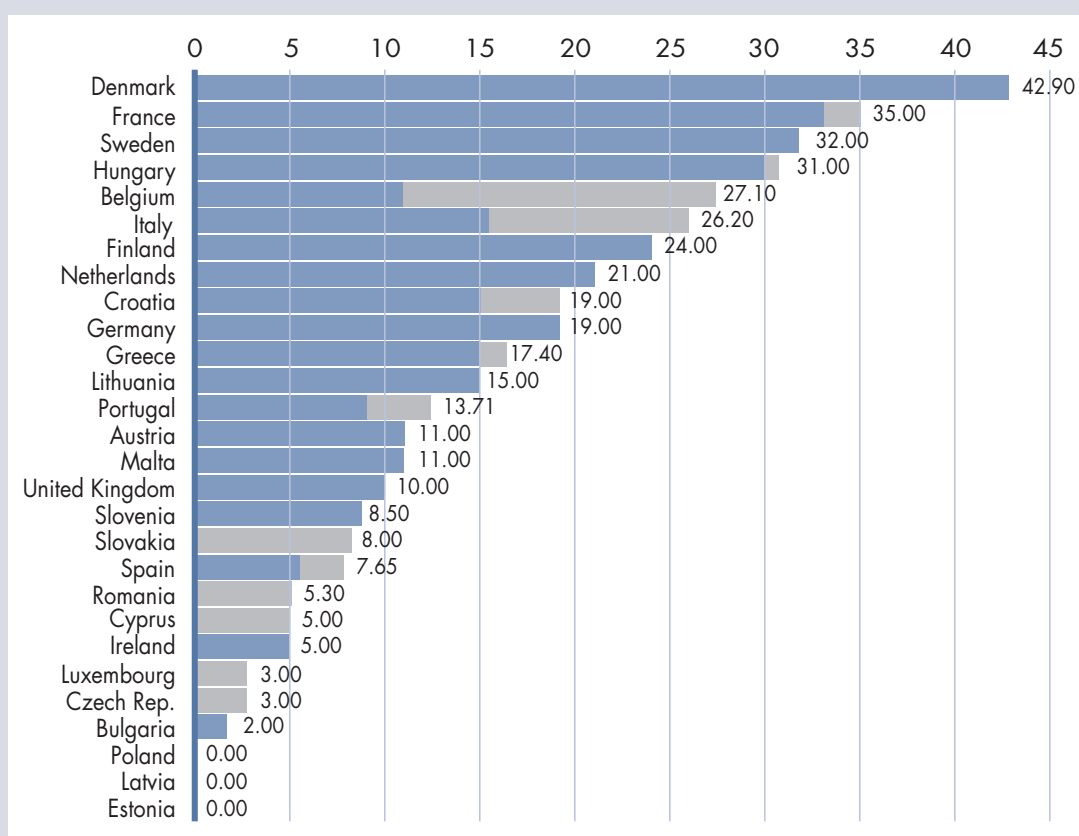
The situation is summarized in the charts below, which specify the tax rates applied to insurance premiums in the EU member countries for motor liability, fire, general liability and goods in transit.

In the motor liability branch the tax burden on premiums in Italy is 15.7%. Adding tax-related charges equal to 10.5% brings the overall rate on motor liability insurance to 26.2%. The 15.7% value is the result of local increases decided in 2011 by Italian provinces, which can raise the rate up to a ceiling of 16%.

The latest data from the Fiscal Federalism Bureau of the Finance Department show that, in fact, only three Italian provinces have kept the tax rate below the 12.5% base rate; all the others have implemented rises bringing the tax rate to the highest value allowed (16%), with a few isolated exceptions.

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Motor liability (%)



Source: Insurance Europe

The incidence of taxes and parafiscal charges on motor liability insurance in Europe averages 20%. Italy is still well above the average and the values applied in other major countries, such as the United Kingdom (10%), Spain (7.65%) and Austria (11%). In the Netherlands the tax rate remains slightly above average (21%), while in France the overall charge remained unchanged at 35%.

The tax on fire insurance premiums in Italy (22.25%) continues to be sharply higher than in the United Kingdom, Spain and Austria (10%, 11.15% and 15% respectively) but lower than in France (30%) and Finland (27%).

As in the past, Italy and Finland are confirmed as the countries with the most onerous tax burden in Europe for general third-party liability (22.25% and 24% respectively), with values regularly higher than in Germany (19%), the United Kingdom (10%), France (9%) and Spain (6.15%).

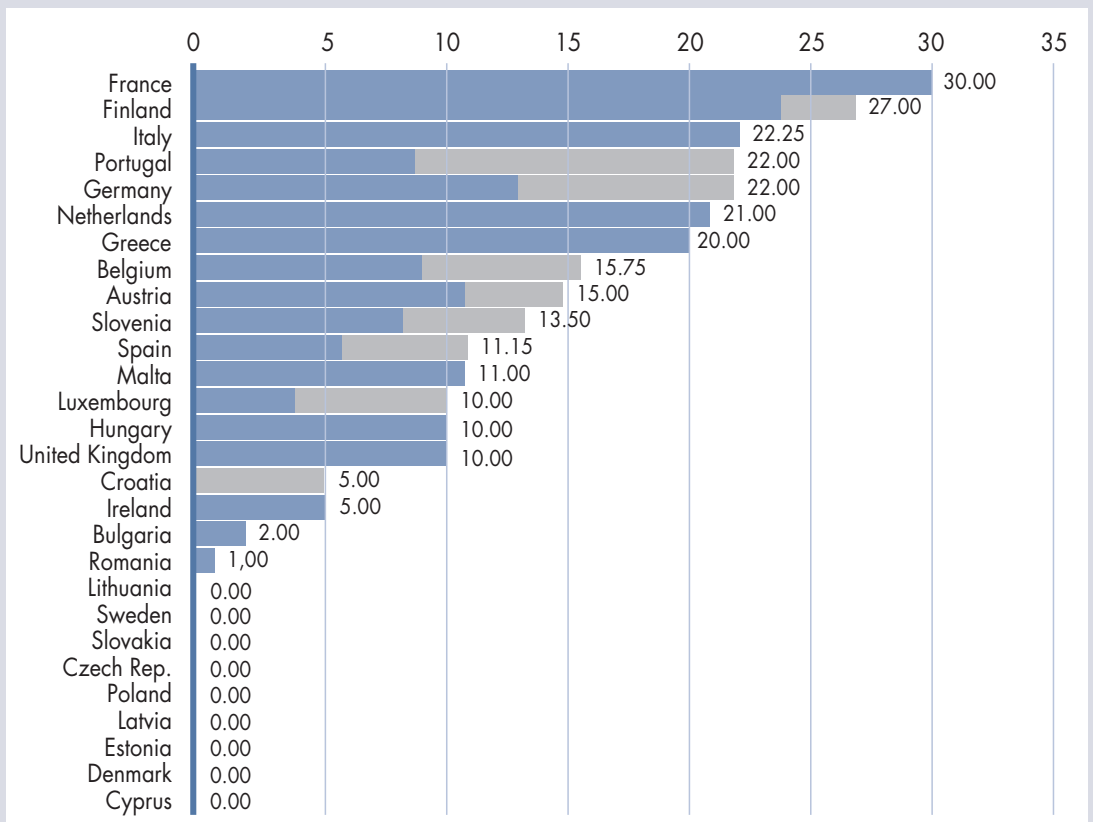
There were no changes last year in Italy in the indirect taxation of shipping insurance premiums, taxed at 7.5% for goods transported by sea or air and at 12.5% for those transported overland. The European countries with the highest tax rates are, once again, Finland (24%), Germany (19%), and Austria (11%). The United Kingdom applies a 10% rate. In France and most of the other countries such premiums are either exempt or taxed at a very low rate.

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Fire

(%)

■ Taxes
■ Other fiscal charges

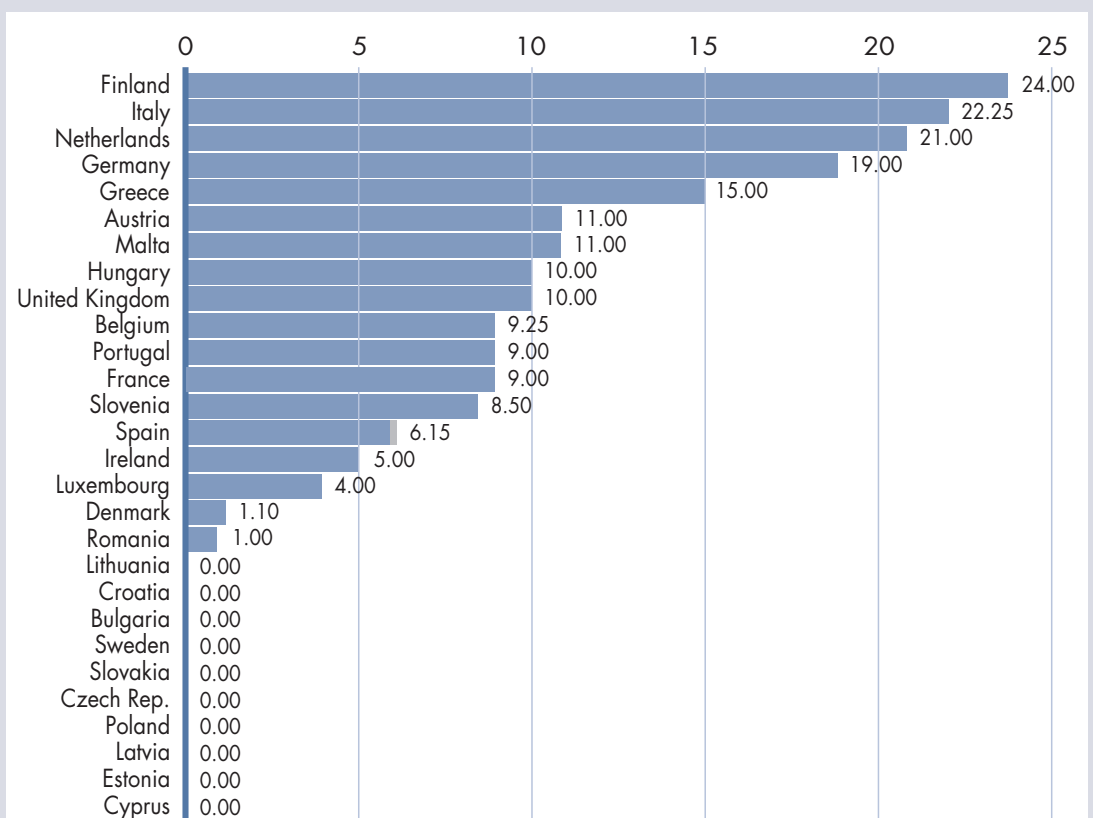


Source: Insurance Europe

General liability

(%)

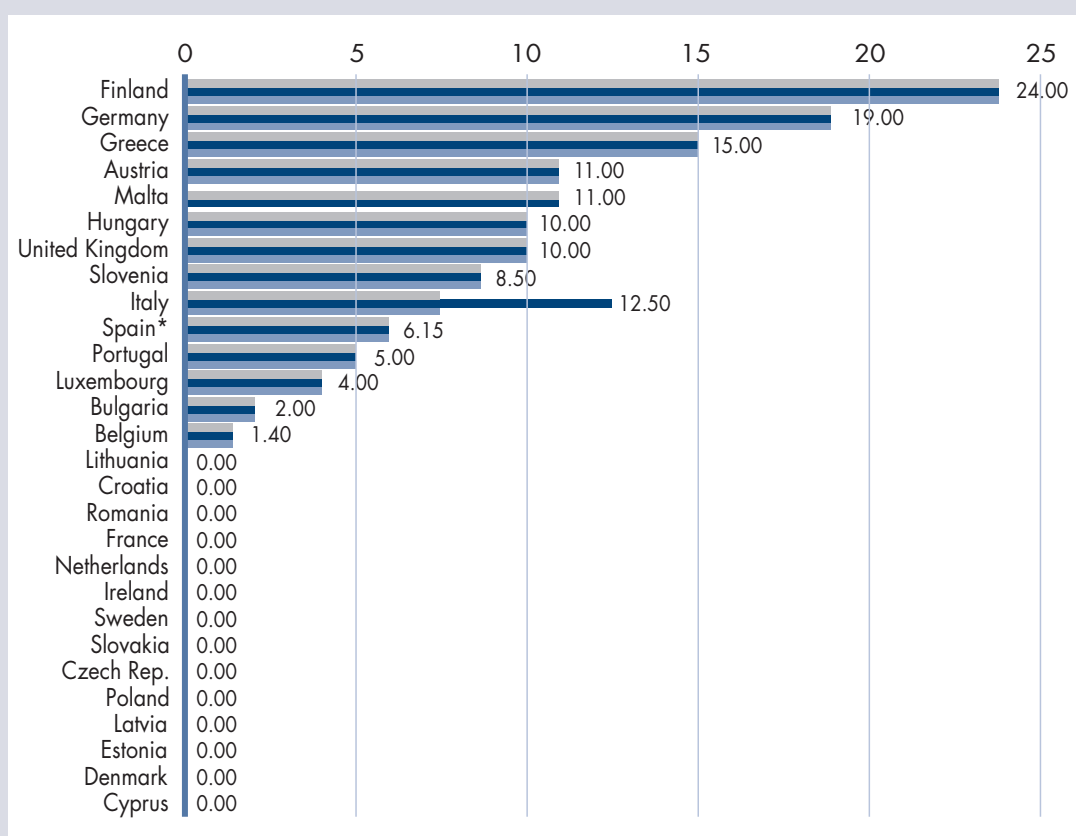
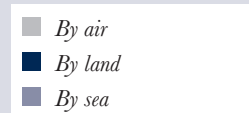
■ Taxes
■ Other fiscal charges



Source: Insurance Europe

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Goods in transit taxes (%)



Source: Insurance Europe
(*) The figures for Spain include taxes (6.0) and other charges (0.15)

AN INTERNATIONAL OVERVIEW OF INSURANCE COMPANIES' INCOME STATEMENTS

The detailed data on the income statements and balance sheets of insurance companies in Europe reported in the Fitch Connect database allows a comparative analysis of the trends of some important indicators of profitability and portfolio management of the insurance industry in the main European countries (France, Germany, Italy and the United Kingdom), compared with the average value in a sample of nine European countries which, in addition to those analyzed individually, include Austria, Belgium, the Netherlands, Sweden and Switzerland ⁽¹⁾. The database collects information made available by a sample of companies representing over 90% of the insurance market. The observation period goes from 2011 to 2015.

Insurance companies operating in non-life business

In the observation period (2011-2015), the companies of the European sample surveyed by Fitch Connect and operating in non-life insurance business numbered 920, of which 227 in Germany, 135 in the United Kingdom, 139 in France and 85 in Italy.

⁽¹⁾ Spain is excluded, because it has instituted a financial statement model that does not allow comparison with previous years.

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

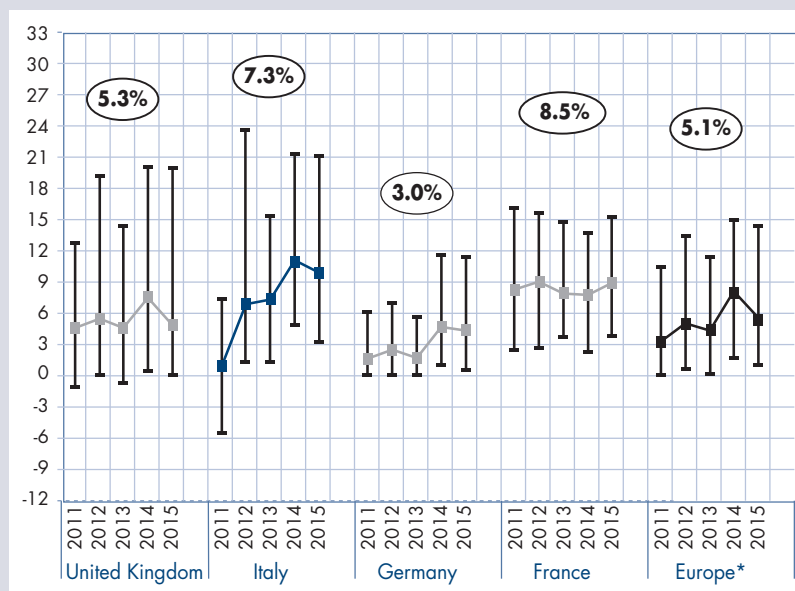
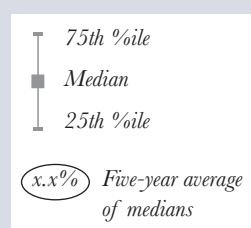
The first indicator of profitability considered is **return on equity (ROE)**, i.e. the ratio of net income to average of shareholder's equity over the past two years.

The profitability of the average company for the European sample turned down from 7.1% in 2014 to 5.6% in 2015 (Figure 1), still remaining higher than the values observed in the previous years. The Italian index, after the major growth registered the previous year (from 7.4% in 2013 to 11.2% in 2014), contracted to 10.0%. The same pattern was observed in the United Kingdom and Germany. In detail: profitability of the average British company decreased from 6.8% in 2014 to 5.0% in 2015, while that of German companies reached 4.4% from 4.8% in 2014. France is the only country among the four examined to show an upturn in the indicator, from 7.9% in 2014 to 9.0% in 2015. The five-year average shows a value for Italy of 7.3%, lower than France (8.5%) and higher than Germany (3.0%), the European average (5.1%) and the United Kingdom (5.3%).

The data on dispersion of undertakings around the median can be obtained by calculating the interquartile range, which is the difference between the values of the indicators referred to the companies which represent, respectively, the first and third quartile of companies in increasing order of profitability.

In 2015, the dispersion of undertakings in Italy was somewhat greater than a year earlier, at 18 percentage points instead of 17, but lower than in the United Kingdom where it topped 20 percentage points. The other countries observed recorded lower values. In detail, the dispersion of the European sample averaged 13 percentage points; that of French and German companies, 11 points.

Figure 1
Return on equity (%)
Non-life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK

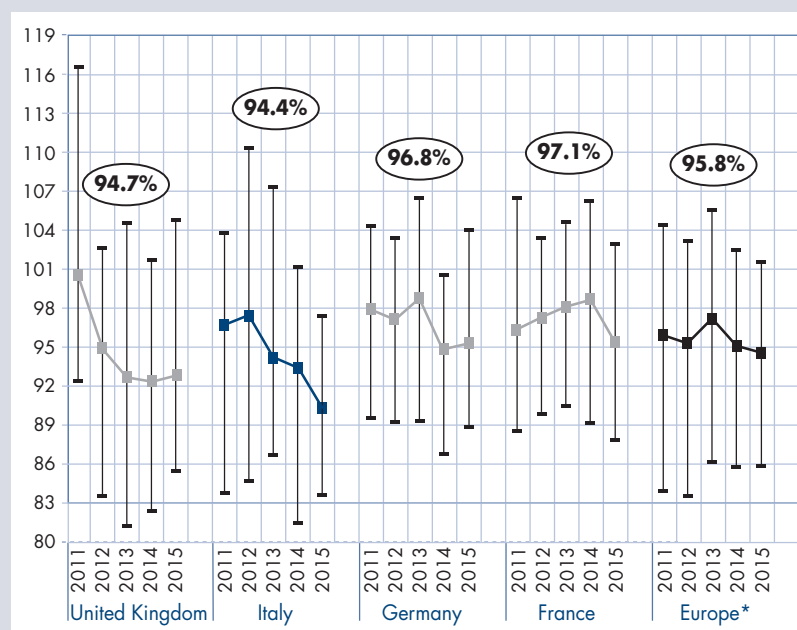
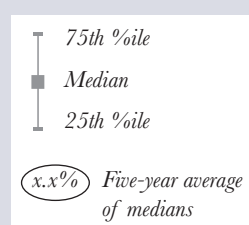
In 2015 the **combined ratio**, defined as the sum of the *loss ratio* and the *expense ratio* of the median company, recorded a European average of 94.7%, mildly better than 2014 when it exceeded 95% (Figure 2). The median Italian company also showed accelerating improvement, going from 94.5% in 2013 to 93.5% in 2014 and 90.5% in 2015. In the five years

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

considered, the ratio for Italy is approximately 1.5 percentage points lower than the European average. The same trend was observed in France, which went from 98.6% in 2014 to 95.2%. In Germany and the United Kingdom, by contrast, there was a deterioration in the ratio, which rose to 95.4% and 93.2% in the two countries from 94.8% and 92.5% in 2014, respectively.

In 2015, the difference between the first and third quartile of the sample of companies was 20 percentage points in the United Kingdom, 16 points in the European sample, 15 in France, 13 in Italy and 12 in Germany. With the exception of the United Kingdom, the dispersion of undertakings around the median has decreased in all the countries analyzed.

Figure 2
Combined ratio (%)
Non-life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK

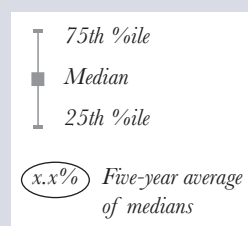
In the same year, at European level the **expense ratio** was essentially stable (29.2% in 2014 and 29.3% in 2015). However, this conceals divergent performance in the main countries. In the United Kingdom the ratio went up from 39.0% in 2014 to 45.4%, while it decreased in Italy from 35.2% in 2014 to 34.6% in 2015, in Germany from 28.8% to 28.5% and in France from 25.5% to 25.3% (Figure 3).

In 2015 the difference between the first and third quartile of the sample of companies was greatest in the United Kingdom at 28 percentage points, followed by Italy at 25 points, lowest in Germany with 15 points.

The **net profit** in non-life insurance business as a ratio **to the volume of written premiums** showed a minor drop at European level, from 5.4% in 2014 to 5.1% in 2015 (Figure 4). With the exception of France, where the ratio jumped from 3.9% in 2014 to 6.2% in 2015, all the other countries analyzed registered a contraction. The ratio was 5.1% in Italy in 2015 (down from 6.3% in 2014), followed by Germany at 4.1% (5.1% in 2014) and the United Kingdom at 3.0% (4.9% in 2014). The five-year average was 3.8% in Italy and the United Kingdom, higher than Germany (3.2%), but lower than France (4.5%) and Europe as whole (4.2%).

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Figure 3
Expense ratio (%)
Non-life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK

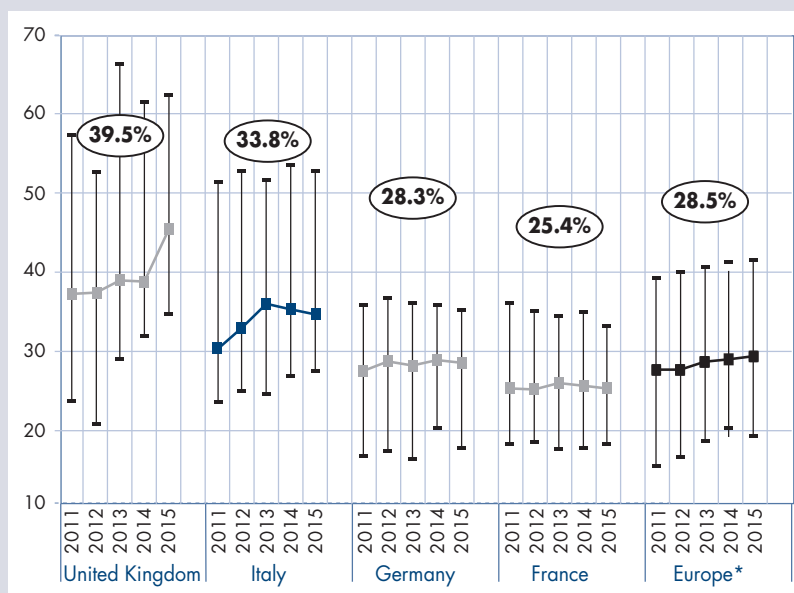
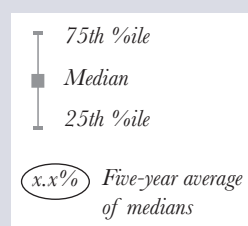
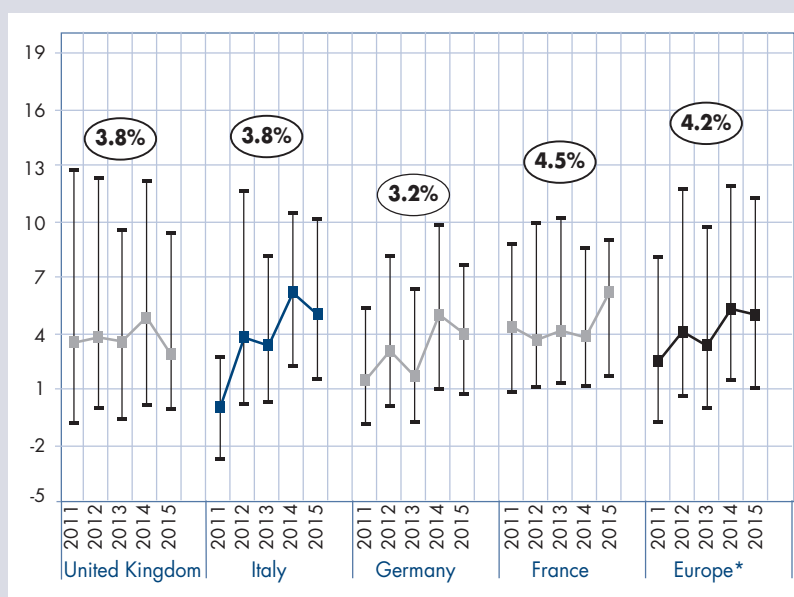


Figure 4
Net profit/Premiums (%)
Non-life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK



The interquartile range of companies was widest in the overall European sample, at 10 percentage points, higher than in the four major countries: 9 points in the United Kingdom, 8 in Italy, and 7 in France and Germany.

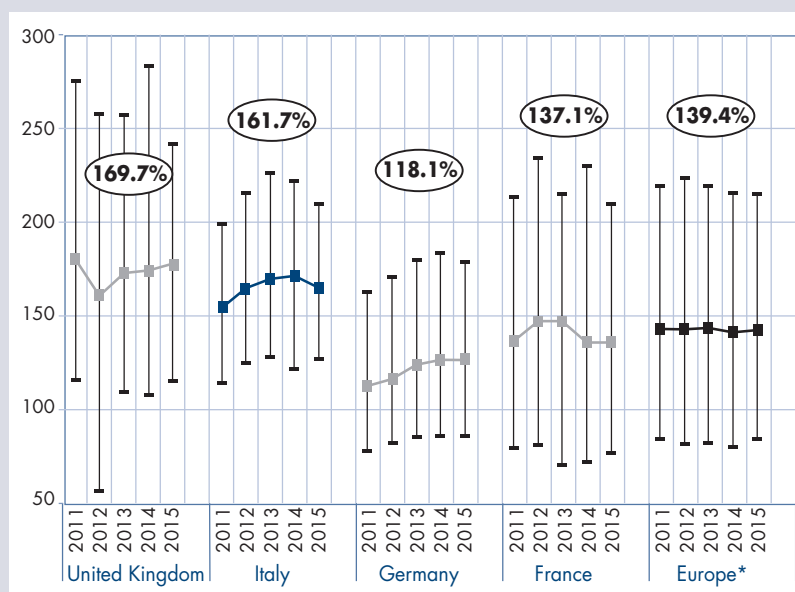
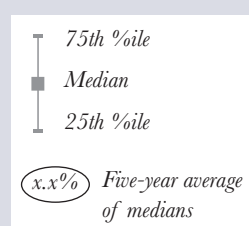
With respect to the previous year, in 2015 the **ratio of total technical provisions to the volume of written premiums** increased at European level to 139.2% from 138.0% in 2014 (Figure 5); the same trend, but more pronounced, was observed in the United Kingdom, where the ratio rose to 174.6% in 2015 from 170.8% a year earlier. The other countries showed a decrease. In detail: Italy dropped from 168.0% in 2014 to 161.6% in 2015, France from 132.5% to 132.4% and Germany from 123.4% to 123.3%. In the five-year period of observation, Italy's average value (161.7%) was higher than the

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

European sample (139.4%) and all the other countries except the United Kingdom, which had a value of 169.7%.

In the last year of observation, the difference between the first and third quartiles of the distribution of companies was greatest in France at 133 percentage points (one point higher than the average dispersion of the companies in the European sample), followed by the United Kingdom at 126 points, Germany at 92 points and Italy at 82 points.

Figure 5
**Technical provisions/
Premiums (%)**
Non-life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK

Insurance companies operating in life business

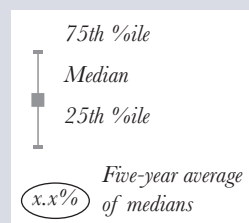
In the period 2011-2015, the companies surveyed by Fitch Connect included in the European sample examined and operating in life business numbered 639, of which 281 in Germany, 84 in France, 70 in Italy and 50 in the United Kingdom (the low representativeness of the British sample may compromise the analysis of trends for this country).

The **Return on Equity (ROE)** – the ratio of net income to average shareholder's equity over the past two years) of the median Italian company, while dropping from 8.8% in 2014 to 5.2% in 2015, recorded a five-year average of 6.9%, higher than the European sample (5.5%), which also fell in 2015 (Figure 6). A similar trend was observed in the other countries analyzed. In detail: in the United Kingdom the median ROE decreased from 9.8% in 2014 to 8.5% in 2015, in France from 6.4% to 5.8% and in Germany from 5.3% to 4.0%.

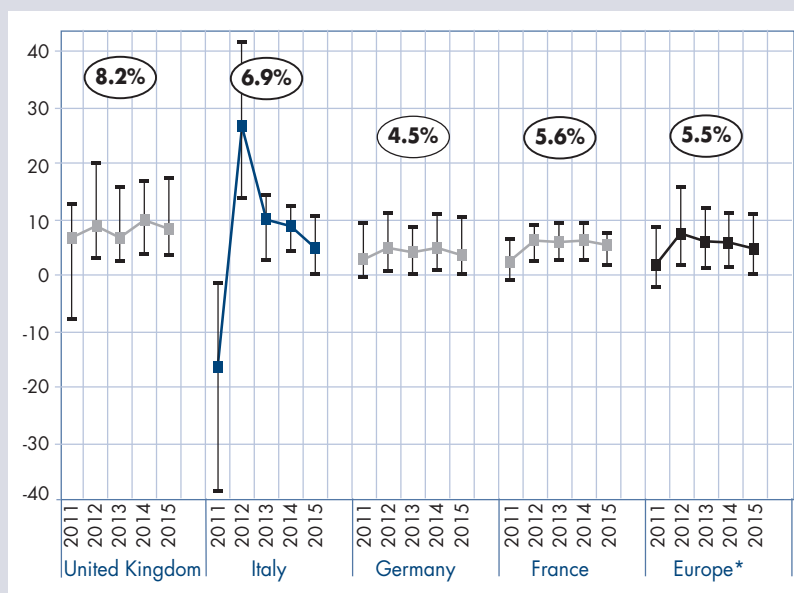
As for the dispersion of company profitability around the median, in 2015 the highest value was registered in the United Kingdom, with a difference between the first and third quartiles of the distribution equal to 13 percentage points, followed by the European sample and Italy with 10 percentage points, then Germany with 9 points and finally France with 5 points.

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Figure 6
Return on equity (%)
Life



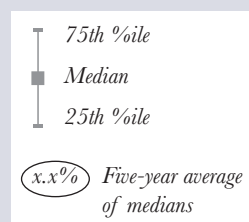
Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK



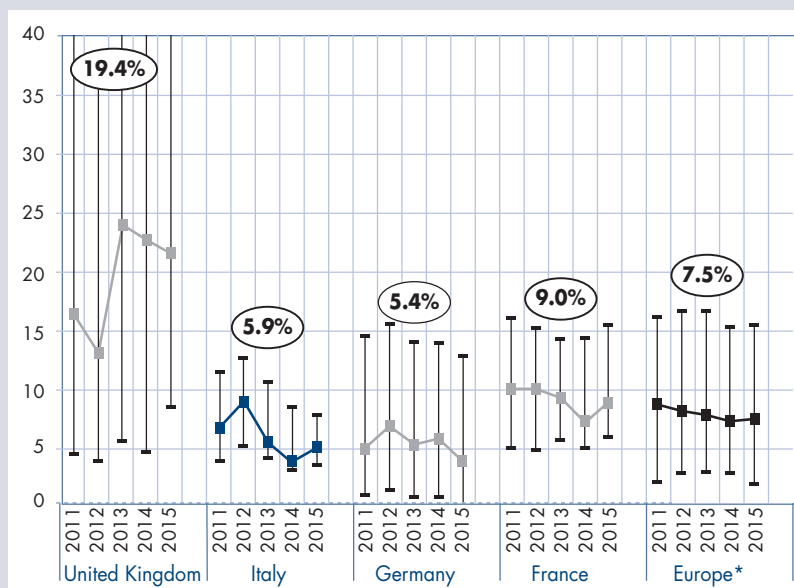
In 2015 the **expense ratio** of the median life insurance company averaged 7.1% in Europe, slightly higher than a year earlier (Figure 7). Among the countries examined, there was an increase in this indicator in France, where it went up from 7.8% in 2014 to 9.1% in 2015, and in Italy where it reached 4.8% from 4.4%, while in the United Kingdom it improved from 22.9% to 21.6% and in Germany from 5.5% to 4.4%.

The interquartile range of companies may vary noticeably between countries, also in view of the incidence of linked-type business, which generally shows a lower expense ratio than the other life classes. In 2015 the difference between the first and third quartiles of the distribution of companies was 39 percentage points in the United Kingdom, 12 points in Germany (1 point less than the European sample), 9 in France and 4 in Italy.

Figure 7
Expense ratio (%)
Life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK

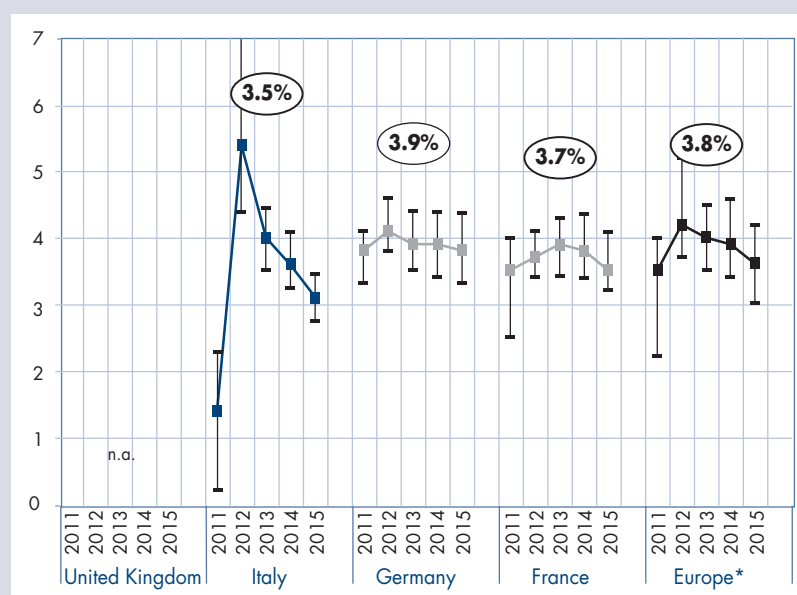
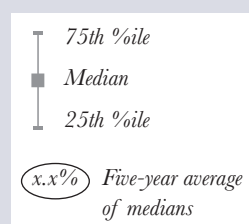


THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

In the same year, the **return on investment** of the European sample (excluding the United Kingdom because of lack of data) slipped from 3.9% in 2014 to 3.6% in 2015 (Figure 8). Italy showed a steady drop in the indicator over the past four years, coming down to 3.1% in 2015 from 5.4% in 2012. France also showed a downward trend compared to the previous year, going from 3.8% in 2014 to 3.5% in 2015, and Germany showed a mild decrease to 3.8% from 3.9% in the two previous years. The average analysis of the indicator over the five-year period shows a value for the European sample of 3.8%, lower than Germany (3.9%) but higher than France (3.7%) and Italy (3.5%).

As for the interquartile range of companies, in 2015 there was a distance between the first and third quartile of the distribution of more than one percentage point in the European sample and in Germany, while for France and Italy the values were more modest.

Figure 8
Return on
investments (%)
Life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK

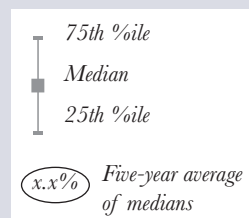
In 2015, the **net profit** in life insurance business as a ratio **to the volume of written premiums** was essentially stable at 2.0% at European level (Figure 9). The United Kingdom and France showed an increase of the indicator in 2015, going from 7.7% to 14.8% and from 3.6% to 4.1% respectively. The opposite trend was recorded by the indicator in Italy and Germany: the former going from 1.9% in 2014 to 1.4% in 2015 and the latter from 1.6% to 1.4%.

In the five-year period of observation, the European average of the indicator was 2.2%, higher than Italy (2.1%) and Germany (1.5%) and lower than France (3.6%) and the United Kingdom (7.1%).

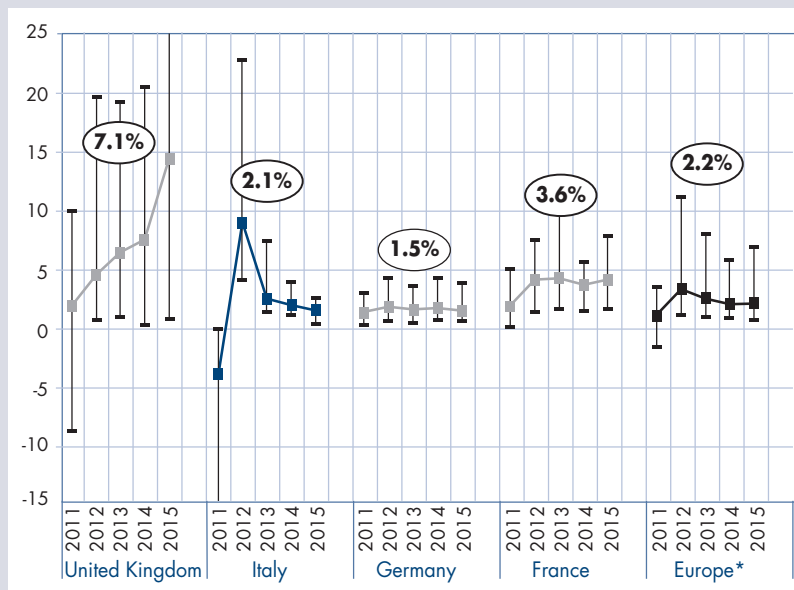
In 2015 the **ratio of technical provisions to written premiums** of the median company in the European sample rose to 8.5; the mean value for the five-year period of obser-

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

Figure 9
Net profit/Premiums (%)
Life

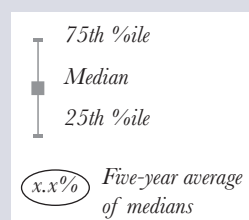


Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK

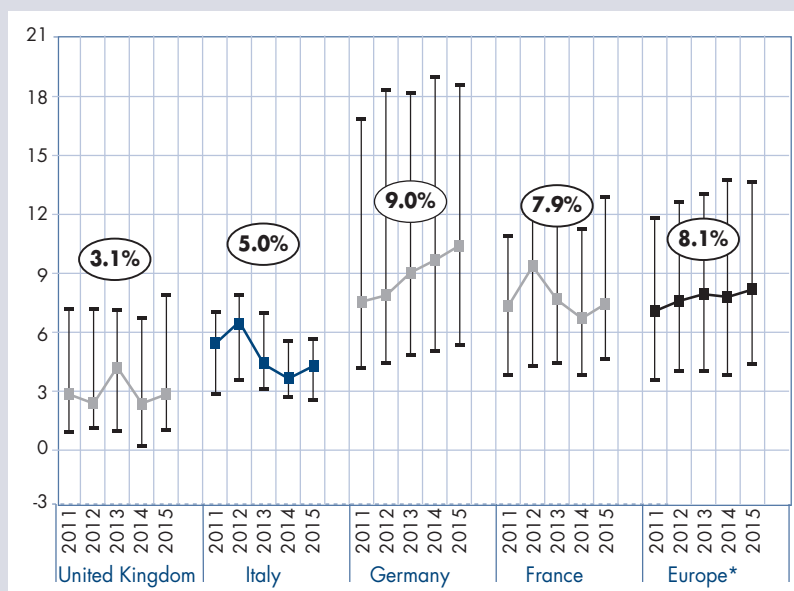


vation was 8.1 (Figure 10). This trend is common to all the countries analyzed: Germany showed an incidence of 10.2, up from 9.5 in 2014, France went from 7.0 to 7.8, Italy from 3.9 to 4.6 and the United Kingdom from 2.6 to 3.1.

Figure 10
Technical provisions/Premiums
Life



Source: Fitch Connect
(*) Sample of 9 countries:
AT, BE, CH, DE, FR, IT,
NL, SE, UK



In 2015 the greatest difference between the first and third quartiles in the distribution of companies was recorded in Germany (13), while Italy is still the country with the lowest dispersion (3).

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

THE PROFITABILITY OF LISTED EUROPEAN INSURANCE COMPANIES IN 2016

With regard to listed companies only, it is possible to compare the profitability of the insurance industry in European countries in 2016. It should be considered that the figures refer to consolidated financial statements – in other words inclusive of business from foreign subsidiaries – and that these financial statements were written based on IAS accounting standards, which allow the recognition of some capital losses in net equity without showing up in the income statement.

With the notable exception of the United Kingdom, profitability (gauged by median ROE net of taxes and the dividends of preferred shareholders) of insurance companies listed in the main European countries remained virtually unchanged in 2016. In the United Kingdom the ROE of the median company was 10.8%, significantly lower than in 2015 (15.0%); the median ROE of German companies, instead, recovered to 15.2% from the 13.3% of 2015 and that of French companies was 9.3% (it was 8.7% in 2015).

The ROE of the median Italian company was 12.0%, showing a contraction compared to 2015 (12.8%).

As for the distribution of the performances of individual companies, dispersion was greatest in the United Kingdom with an interquartile range of 29.9 percentage points, followed by Italy (13.3 points), Germany (3.9) and France (3.6).

Table 1
Return on Equity (%)
of listed insurance
companies (median)
and interquartile
range (percentage
points)

	2010	2011	2012	2013	2014	2015	2016	
							median	IV-I quartile
France	11.0	9.5	9.7	9.2	9.6	8.7	9.3	3.6
Italy	9.1	5.6	8.8	14.1	12.4	12.8	12.0	13.3
United Kingdom	11.7	11.4	15.6	16.1	15.3	15.0	10.8	29.9
Germany	12.3	11.0	12.4	14.0	13.7	13.3	15.2	3.9

Source: Based on Thomson Reuters Datastream data

3

LIFE INSURANCE

LIFE INSURANCE

Life insurance premiums diminished by 11.0% in 2016 to €102 billion, chiefly because of the marked drop in unit-linked policies registered throughout the year and a less pronounced decrease in Class I. The decrease in premiums was partly offset by a smaller decrease in benefit payments, generating positive net cash flow of €39 billion, nearly €4.5 billion less than in 2015. Mathematical reserves fell by 9%, while financial technical income grew by 4%. The combined effect of all these factors, despite the downtrend in net premiums, produced a higher overall technical result than a year earlier, at €3.6 billion.

DOMESTIC BUSINESS

In 2016 premiums from direct domestic business of the 52 insurance companies operating in the life classes came to €102,257 million, down by 11.0% from 2015 (when they had reached the highest volume on record with €114,947), and by 7.5% compared with 2014, but still higher than in earlier years. In percentage, life premiums made up 76.2% of total life and non-life premiums in 2016, compared with 78.2% in 2015.

Life technical account

Euro million

	2009	2010	2011	2012	2013	2014	2015	2016
Gross written premiums	81,116	90,114	73,869	69,715	85,100	110,518	114,947	102,257
Incurred claims (-)	57,198	66,801	73,971	75,022	66,788	64,577	71,196	62,931
Changes in mathematical and technical provisions (-)	41,114	32,184	2,547	10,013	29,928	59,967	53,023	48,453
Balance of other technical items	19	-126	-177	-222	-325	-381	-378	-328
Operating expenses (-)	4,090	4,300	3,832	3,367	3,538	3,812	3,974	3,844
- commissions	2,559	2,696	2,205	1,788	1,982	2,206	2,349	2,181
- other acquisition costs	640	675	709	681	683	686	701	686
- other administration costs	891	929	918	898	874	921	924	977
Investment income	23,996	12,617	3,019	25,382	18,409	20,588	15,976	16,657
Direct technical account result	2,730	-680	-3,639	6,473	2,929	2,369	2,352	3,357
Reinsurance results and other items	442	366	268	388	369	383	315	289
Overall technical account result	3,172	-314	-3,371	6,861	3,298	2,752	2,667	3,646
Net cash flow	23,918	23,313	-102	-5,306	18,312	45,941	43,751	39,325
Annual % change in premiums	48.7%	11.1%	-18.0%	-5.5%	22.1%	29.9%	4.0%	-11.0%
Expense ratio	5.0%	4.8%	5.2%	4.8%	4.2%	3.4%	3.5%	3.8%
- Commissions/Gross written premiums	3.2%	3.0%	3.0%	2.6%	2.3%	2.0%	2.0%	2.1%
- Other acquisition costs/Gross written premiums	0.8%	0.7%	1.0%	1.0%	0.8%	0.6%	0.6%	0.7%
- Other administration costs/Gross written premiums	1.1%	1.0%	1.2%	1.2%	1.0%	0.8%	0.8%	1.0%
Investment income/Technical provisions	6.7%	3.2%	0.7%	6.1%	4.2%	4.3%	3.0%	2.8%
Technical account result/Gross written premiums	3.4%	-0.8%	-4.9%	9.3%	3.4%	2.1%	2.0%	3.3%
Overall technical account result/Gross written premiums	3.9%	-0.3%	-4.6%	9.8%	3.9%	2.5%	2.3%	3.6%
Overall technical account result/Technical provisions	0.89%	-0.08%	-0.82%	1.64%	0.75%	0.57%	0.49%	0.62%
Premiums to total life and non-life premiums ratio (%)	68.9%	71.7%	67.0%	66.3%	71.6%	77.1%	78.2%	76.2%

Indexes and changes (%) are calculated on data in thousands of euros

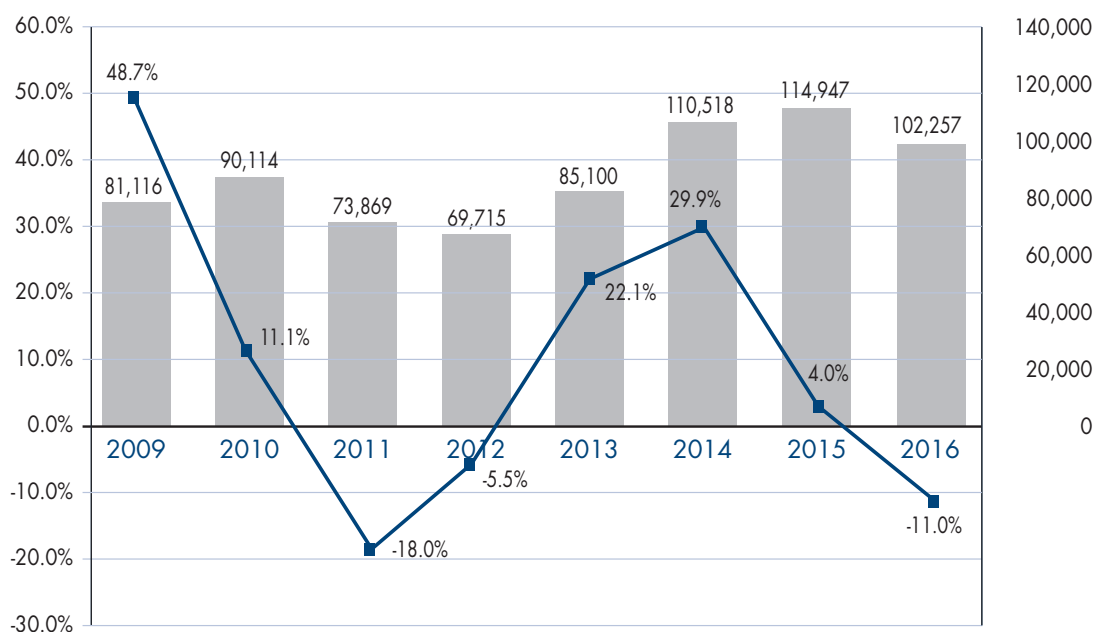
LIFE INSURANCE

The drop in life insurance business registered starting early in the year is the product of the reduction in traditional policies (Classes I and V), which had already started in 2015, and in unit-linked policies (Class III) throughout 2016; it is however true that 2015 (and to a lesser extent 2014) had been a record year for the business. The economic context, characterized by persistent low interest rates on government securities and by high volatility of the equity markets, was certainly a factor in the slowdown in the growth of life insurance premium income.

All these factors led companies, starting in 2015, to direct their business towards multi-class products (whose premiums are invested partly in segregated funds and partly in unit-linked funds), with diversified asset allocation that can reap the benefits from positive developments in the equity market, while nevertheless limiting the investment risk for policyholders. This trend was confirmed in 2016, when the incidence of these products on the total life market reached 20.4% (in just one year it had jumped from 11.8% in 2014 to 20.0% in 2015), with positive net premiums (premium income less costs) equal to nearly 40% of gross premium income. In volume terms, the total premiums for multi-class policies marketed by Italian and non-EU insurance companies were estimated at €21 billion (they were €23 billion in 2015).

Total direct premiums (Life) Euro million

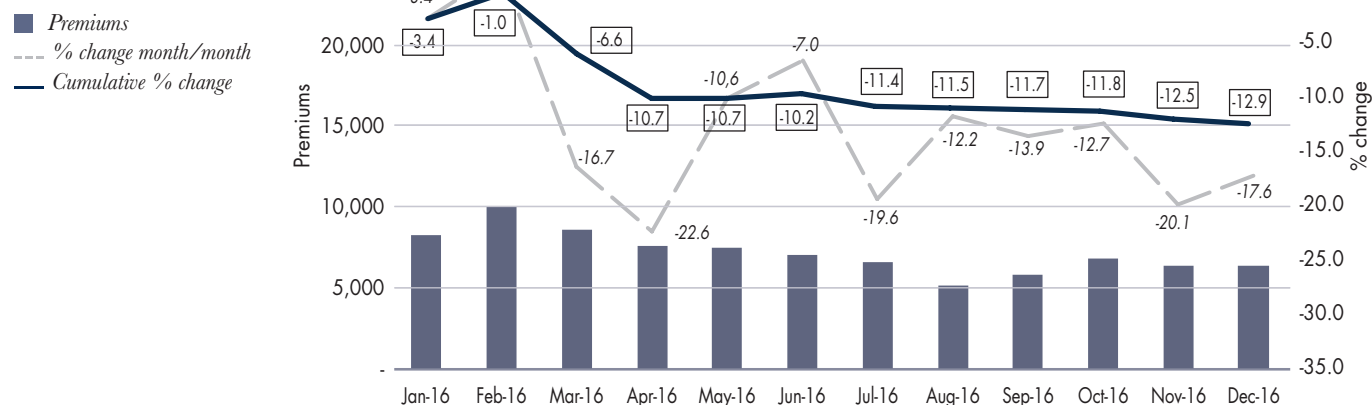
■ Premiums (right-hand scale)
— Annual growth rate



The fall in written life premiums in 2016 is clearly reflected also in the monthly pattern of new business, especially individual policies issued by Italian and non-EU companies. In particular, Class III policies registered a steep fallback starting in the early part of the year, with a total drop at the end of the year of 30% compared with 2015. The same trend was recorded also for Class V policies, although with more moderate volumes: for 2016 as a whole, the decrease in premiums (which had started in mid-2015), was around 25%. Class I premiums, after growing throughout the first half of 2016, turned down to record negative 12-month variations throughout the second half to produce an overall decrease of 4.5%. The total of new life

LIFE INSURANCE

Life premiums from new business
Year 2016
Euro million

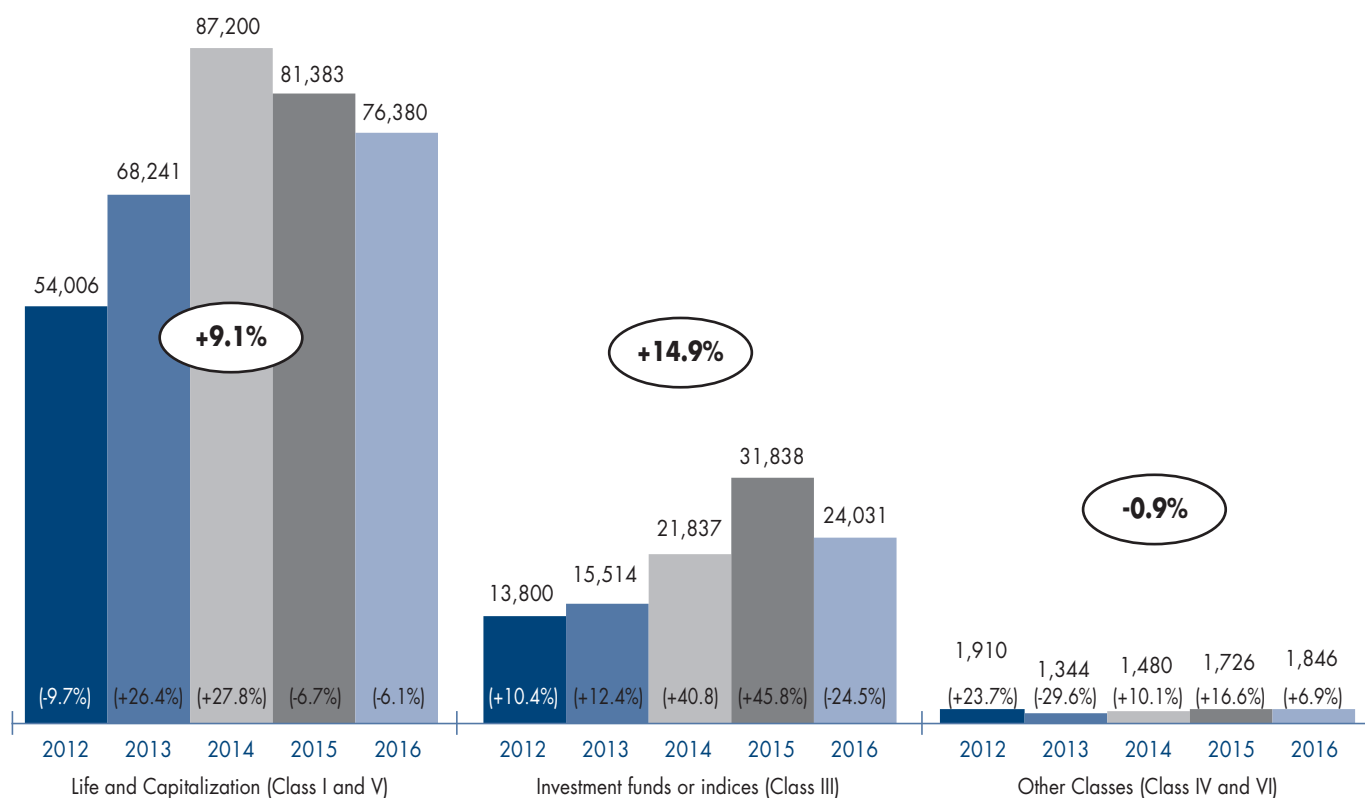


business, including group policies, was around €87 billion, 12.3% less than in 2015; among the distribution channels, the sharpest drop came in the business done by bank and post office branches and by qualified financial salesmen, while business generated by agencies was essentially stable thanks to the increase registered in internal agencies.

Looking at the insurance classes separately, in 2016 Class I (straight life) and Class V (capitalization) written premiums declined as in the previous year, falling by 6.1%

Premiums from direct domestic business by insurance class
Euro million

(x.x%) % change five-year geometric mean
(x.x%) annual % change



to €76,380 million, whereas in 2014 they had gained 27.8%. Even so, over the past 5 years the average annual increase in these classes was still positive at 9.1%. It is worth noting that the decline in traditional policies depended chiefly on the 8% fall in business done by bank and post office branches, which nevertheless accounted for 66% of these policies in 2016, when traditional policy premiums constituted over 75% of the entire life portfolio (in 2015 their share had been 71%), of which 72% in Class I (down 5.4% on the year) and the remaining 3% in Class V (down 21.8%).

Class III policies (investment or index-linked funds) also showed a negative trend in 2016 with premiums amounting to €24,031 million, down 24.5% from the previous year, after two consecutive years of exceptional growth (+40.8% in 2014 and +45.8% in 2015). In 2016 these products accounted for 24% of the entire life portfolio, 4 percentage points less than the previous year. Over the past 5 years, the average annual increase was 14.9%, compared with 26.3% over the previous five-year period. The contraction in 2016 was mainly the result of premiums marketed through bank and post office branches, which accounted for 54% of Class III premiums, though the absolute volume of this business shrank by 25.3% for the year. Almost the entire remaining share of linked policies (37%) was distributed via financial salesmen, who registered a 27.9% drop in collected premiums.

By contrast, policies of other life classes (Classes IV and VI) continued to grow for the third consecutive year (+6.9%), amounting to €1,846 million, 2% of total life premium income. Despite the growth of the past years, these classes' annual average growth over five years was negative (-0.9%), whereas it had been positive at 2.8% in 2011-2015. More specifically, of the total life premiums €79 million came from long-term care and protracted illness insurance policies (Class IV) with an increase of 7.9% compared to 2015 (thanks above all to sales through agents and direct sale), while the remaining €1,766 million refer to pension funds (Class VI), 6.9% more than the previous year (thanks to direct sale and business brought in by bank branches).

Incurred claims, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled €62,931 million in 2016; they declined by 11.6% from 2015, essentially because of a drop in policy surrenders, which accounted for some 64% of total disbursements.

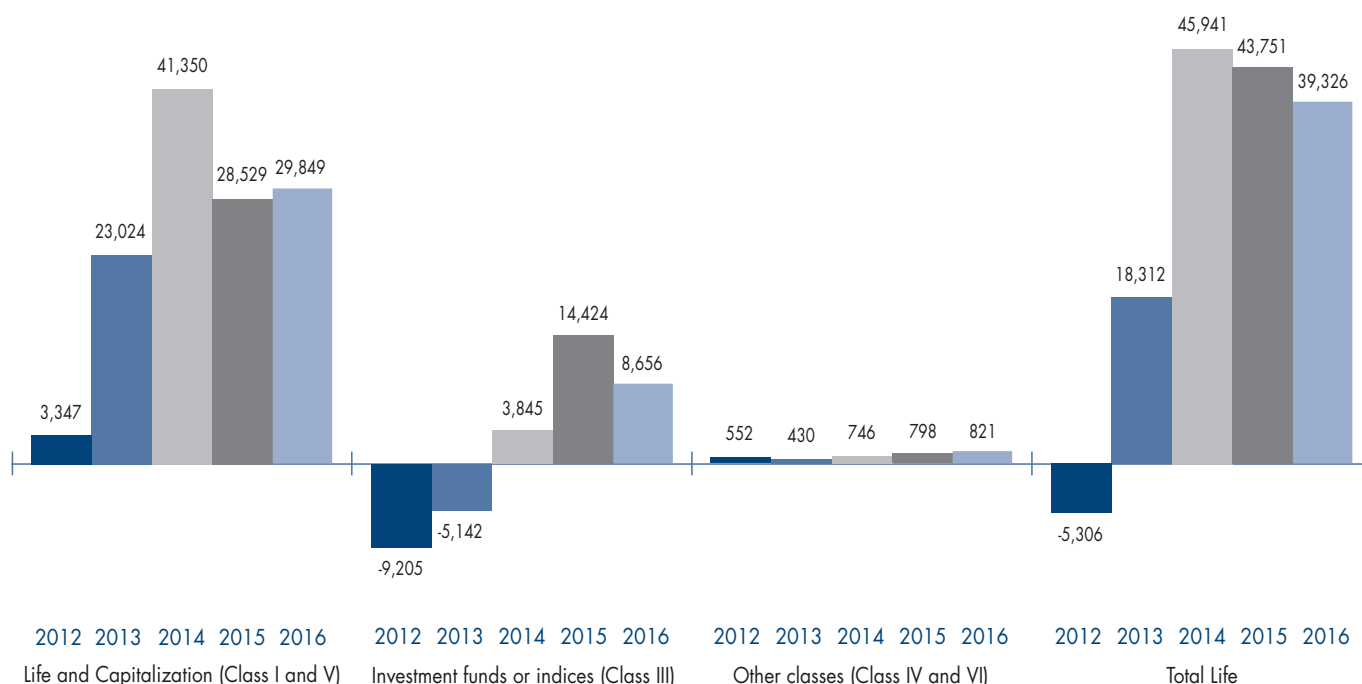
Net cash flow, defined as the difference between premiums and incurred claims, was positive by €39,325 million, down from €43,751 million in 2015 and €45,941 million in 2014 but far more than in 2013 (€18,312 million) or than the negative value registered in 2012 (-€5,306 million).

In particular, net cash flow of Class I and V premiums amounted to €29,849 million, up 4.6% from 2015 but €11 billion lower than in 2014 when the net flow exceeded €40 billion. Despite the fall in premiums, the net cash flow for Class III premiums

LIFE INSURANCE

Net cash flow

Euro million



was still positive for the third straight year at €8,656 million – €5 billion less than in 2015 when it achieved the highest figure on record (€14,424 million) but €5 billion more than in 2014. Also growing, but with a much smaller volume, was the net cash flow for other life classes (IV and VI) which increased slightly last year to €821 million (+2.8% on 2015).

Mathematical provisions and other technical provisions increased by €48,453 million in 2016, 8.6% less than in 2015 and nearly 20% less than in 2014 but still more than €20 billion better than in 2013. **Total technical provisions**, amounting to €616,192 million, gained 8.6% from 2015, to produce average annual growth of 9.8% over the five-year period 2012-2016. More in detail, the amounts set aside in traditional classes amounted to €479,399 million (€452,011 million for Class I), up 8.5% compared to 2015. These reserves account for 78% of total life reserves and have registered an average growth of 10.2% over the past five years. Technical reserves pertaining to linked policies totaled €121,788 million (20% of total reserves), with an increase of 8.8% for the year and average annual growth of 8.0% over five years. Reserves set aside in 2016 for the remaining classes (IV and VI) increased by 8.9% to €15,005 million compared to a year earlier and by 15.0% on average in the five-year period 2012-2016.

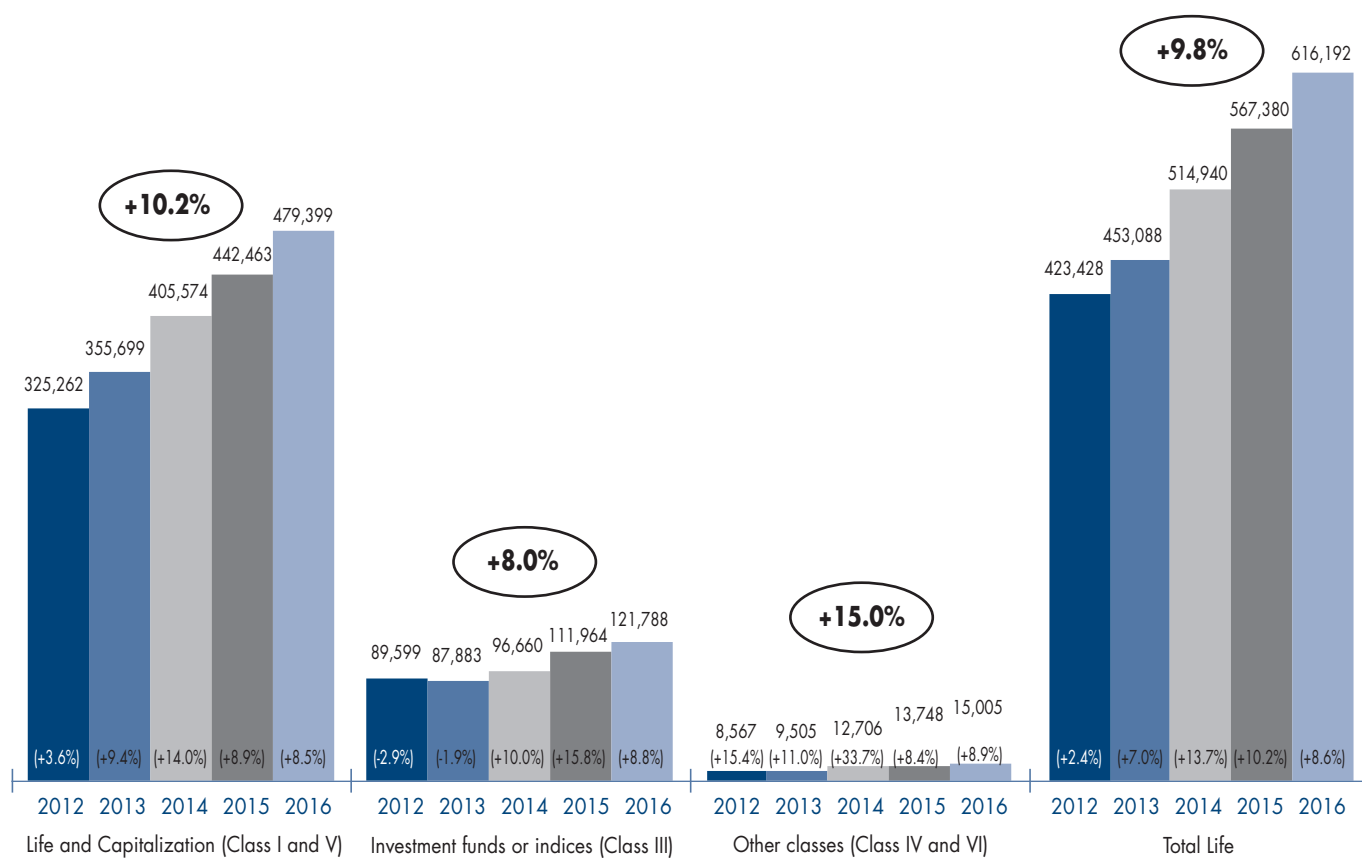
Operating expenses – that is, in addition to the costs of contract acquisition, premium collection and the organization and management of the distribution network, also administration expenses relating to technical management – amounted to €3,844 million (of which 81% for Classes I and V, 18% for Class III and 1% for the other life classes), a decline of 3.3 percent from the previous year.

LIFE INSURANCE

Total technical provisions

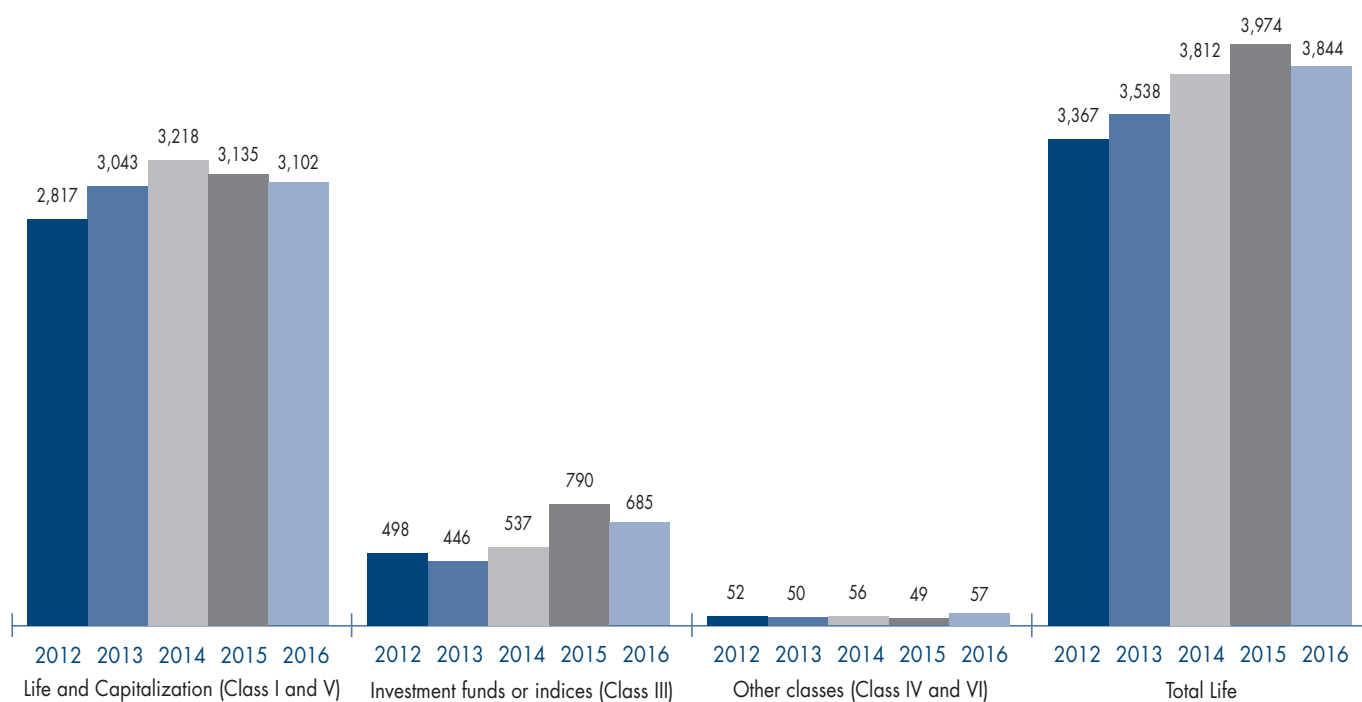
Euro million

(x.x%) % change five-year geometric average
(x.x%) annual % change



Operating expenses

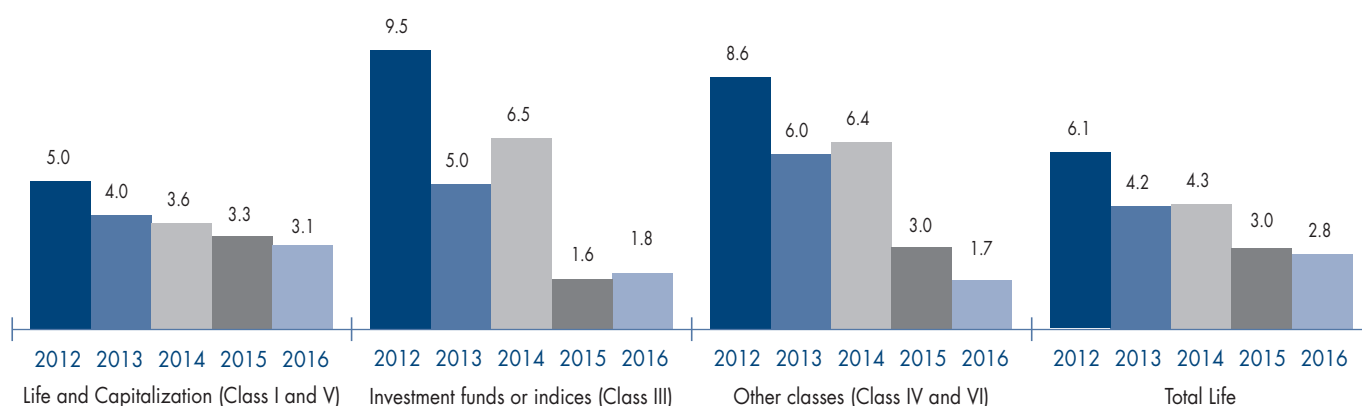
Euro million



LIFE INSURANCE

Investment income amounted to €16,657 million in 2016, 4.3% higher than in 2015 but lower than the previous three-year period (in 2012 it exceeded €25 billion). As a ratio to mathematical reserves, investment income was lower than in 2015; in traditional life business (Classes I and V) in particular, the ratio has come down steadily, from 5.0% in 2012 to 3.1% in 2016, while for Class III policies (investment or index funds) it dropped to 1.8% from 9.5% in 2012 but was higher than in 2015 (1.6%). In the other life classes, the ratio fell steadily from 8.6% in 2012 to around 6.0% in 2013-2014, and down to 1.7% in 2016.

Profits from investments on mathematical provisions %

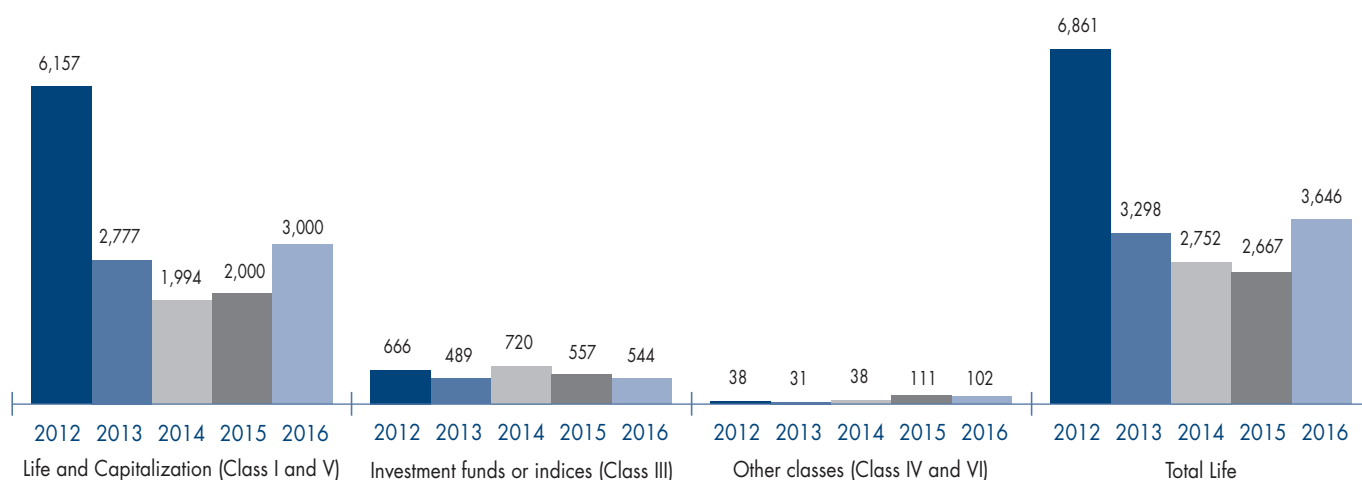


The final **result of the technical account** was again amply positive at €3,357 million, over 40% more than in the previous two years but scarcely half the amount recorded in 2012.

The result of reinsurance cessions and net indirect business was positive by €289 million (€315 million in 2015).

Counting the reinsurance balance, the **overall technical account result** was positive by €3,646 million, an increase of 36.7% for the year that brought its ratio to premiums and to technical provisions up, respectively from 2.3% to 3.6% and from 0.49%

Overall technical balance Euro million



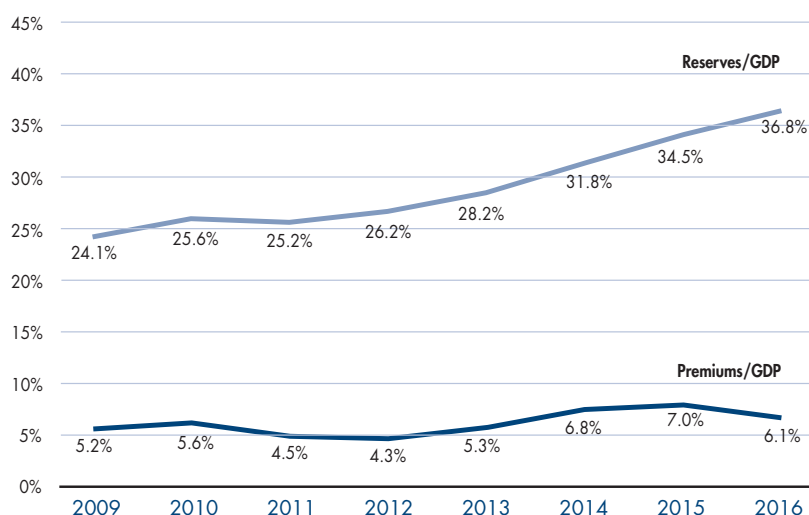
LIFE INSURANCE

to 0.62%: in particular, there was an increase in the traditional branches (Classes I and V), from €2,000 million in 2015 to €3,000 in 2016, while the technical balance for Class III policies (investment or index funds) amounted to €544 million, 2.5% less than a year earlier, owing mainly to the decline in premiums. The balance for the remaining classes also declined slightly, to €102 million (it was €111 million in 2015).

LIFE INSURANCE AND GDP

The 8.6% growth of life insurance technical provisions in 2016 resulted in a rise in their ratio to GDP from 34.5% to 36.8% (the highest on record for Italian insurance business). By contrast, the ratio of life premiums to GDP decreased, from 7.0% in 2015 to 6.1% in 2016.

Premiums and reserves as a % of GDP



EVOLUTION OF THE SUPPLY OF LIFE PRODUCTS

Estimate of the assets covering guaranteed yields

Using the insurance company data available and making a number of approximations and assumptions, we can estimate the share of insurance assets covering guaranteed yields by the insurance companies ⁽¹⁾.

⁽¹⁾ The share of guaranteed life benefits comprises the provisions held by insurance companies for:

- Class I and Class V profit-sharing products, including with-profit products;
- unit-linked products, invested in internal funds or UCITS classified as “guaranteed”;
- index-linked products featuring the insurance company’s guarantee;
- guaranteed sub-funds of pension funds (Class VI).

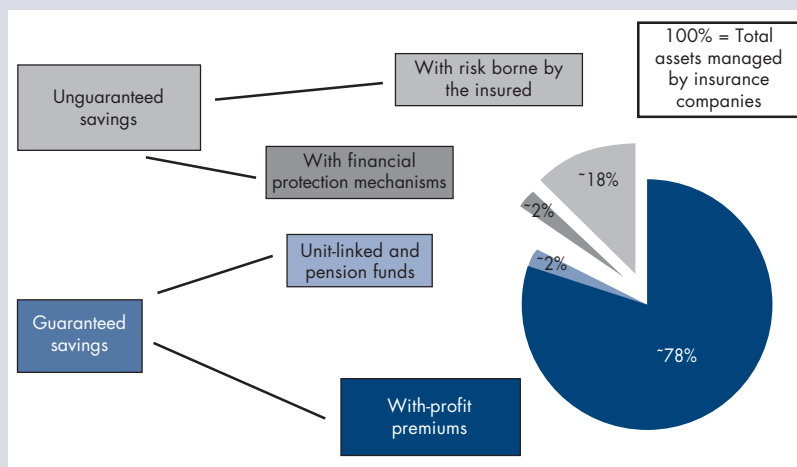
LIFE INSURANCE

For 2016 the share is estimated at 80% of total assets covering life provisions (Figure 1), slightly down from 82.5% in 2015. In particular, the share is almost entirely covered by investment in respect of profit-sharing policies, which account for 78% of total assets, while the guaranteed share in linked contracts (Class III) and pension funds (Class VI) account for the remaining 2%.

Approximately 2% of assets was invested in coverage of products explicitly or implicitly featuring financial protection mechanisms (“protected” unit-linked policies or index-linked products tied to financial portfolios that provide for at least the premium to be repaid to the policyholder at the contract’s maturity). The remaining 18% of total assets was invested in unit-linked policies and pension funds in which the risk is borne by the insured.

Figure 1
% composition of the
guaranteed assets
managed by
insurance
companies:
estimates for 2016

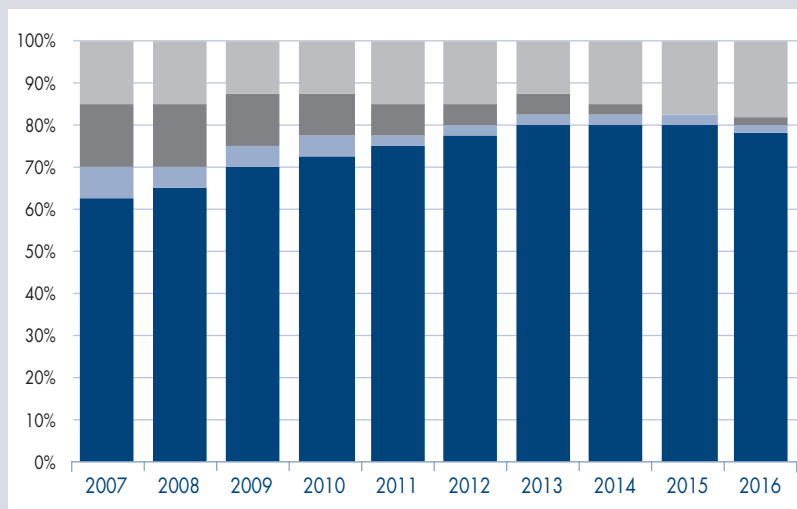
Source: Based on IVASS and COVIP data



Over the years, the share of life premiums whose end-of-contract value is guaranteed by the insurer has grown progressively thanks to the increase in sales of Class I and Class V policies, while the shares of “protected” or guaranteed Class III and Class VI products have diminished (Figure 2), and the share of contracts in which the risks are borne entirely by the insured has reached its highest value on record at 18% over the past year.

Figure 2
Trend of the
composition of
guaranteed life
provisions managed
by insurance
companies

— Share of policies with risks borne by the insured
— Share of protected policies
— Share of guaranteed policies (Classes III and VI)
— Share of guaranteed policies (Classes I and V)



Source: Based on IVASS and COVIP data

Asset allocation corresponding to life products

Using industry statistics, balance-sheet data on assets covering reserves and some additional proxies and assumptions ⁽²⁾, we can also estimate the asset allocation of life products.

At the end of 2016 government securities made up about 55% of the assets covering the commitments deriving from life products (Table 1). Private-sector bonds were nearly 32%, while shares accounted for about 10% of the overall portfolio.

Table 1
Asset allocation of
life products at the
end of 2016
(%)

Macro-asset class	Asset allocation corresponding to life products			
	Total life market	Sub-total profit-sharing products	Sub-total Class III and VI	
			All Class III and VI products	of which unit-linked
Government securities	55.0%	64.6%	20.9%	18.3%
Bonds	31.8%	29.2%	40.6%	42.5%
Shares and other equity	10.0%	3.2%	34.2%	34.0%
Liquidity	1.7%	0.9%	4.3%	5.2%
Property and other	1.3%	2.1%	0.0%	0.0%
TOTAL	100.0%	100.0%	100.0%	100.0%

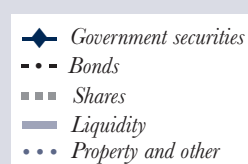
Source: Based on IVASS and COVIP data

For with-profit and profit-sharing products offering guaranteed minimum returns, the portion of government securities was two-thirds, while that of corporate bonds was just under 30%. Shares accounted for just a few percentage points.

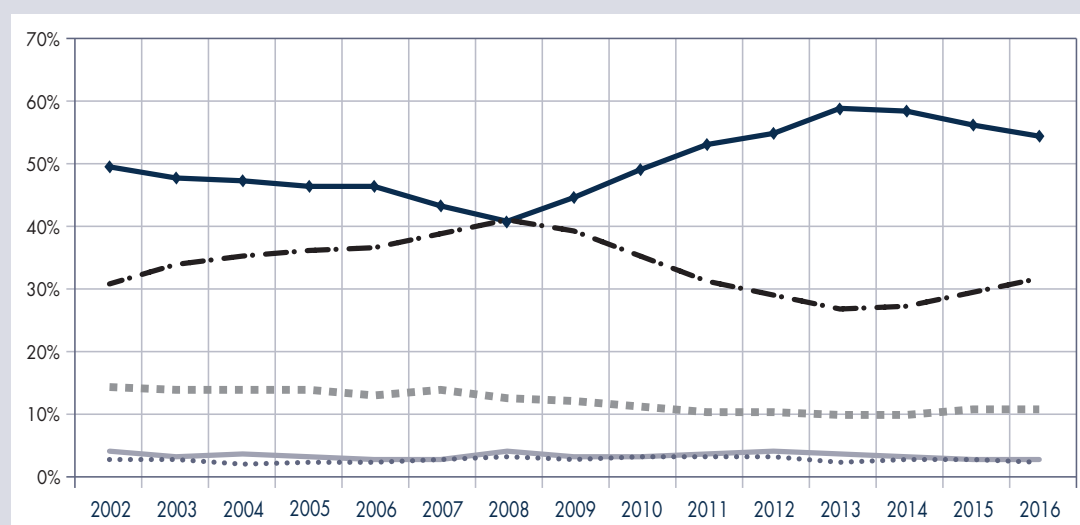
For Class III and Class VI products, where the results of the investment are typically linked to the performance of the financial markets, we find an evident search for a higher combination of risk and return. In particular, private-sector bonds made up just over 40% of the total portfolio and investments in equities accounted for approximately one-third. Correspondingly, the share of investment in government securities decreased to just over 20%.

Examining the evolution of the asset allocation corresponding to all life products since 2002 (Figure 3), we find a steady downturn in recent years of the shares of government securities

Figure 3
Evolution of asset
allocation of life
products
(%)



Source: Based on IVASS and COVIP data



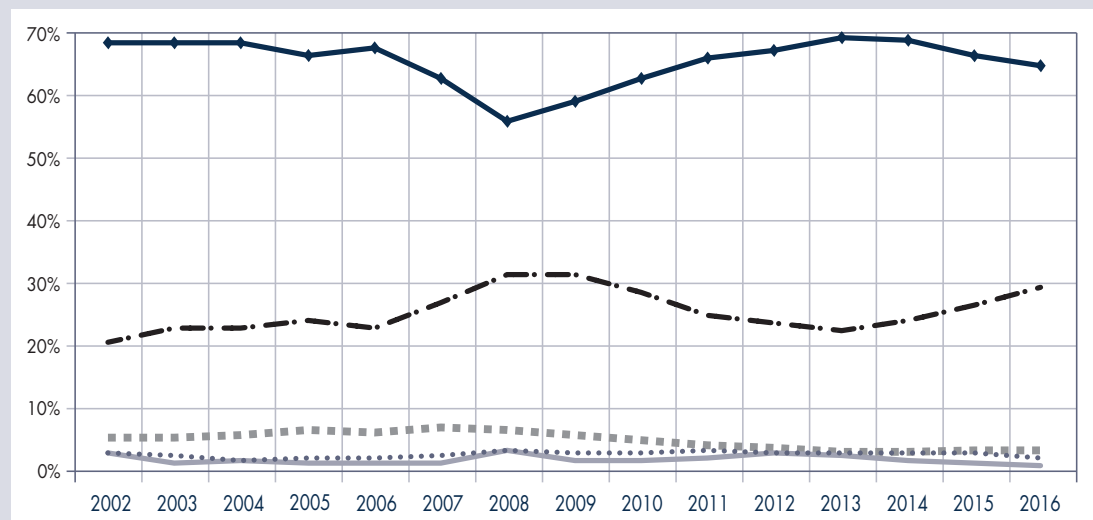
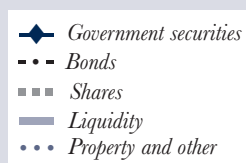
⁽²⁾ The effective composition of investments in UCITS is estimated with a look-through approach to obtain the elementary assets (government securities, bonds) composing the investment.

vis-à-vis an uptrend of corporate bonds; the portions invested in these two macro-asset classes were about the same in 2008 before starting to diverge.

Over the same years there was a gradual fall in investment in equities (to nearly 10%), while the percentage invested in liquid assets, real estate and other assets remained very low and roughly unchanged.

Even restricting our discussion to profit-sharing life products with a return guaranteed by the company (Figure 4), we see a slight decrease of government securities in the composition of the financial portfolio over the past few years, while corporate bonds came back up to nearly 30%; public bonds thus still represent the preponderant investment product. The portion invested in equities is now stable around 5%, after declining in the previous years.

Figure 4
Evolution of asset
allocation of profit-
sharing life products
(%)



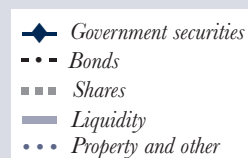
Source: Based on IVASS and COVIP data

In any case, it should be borne in mind that for this type of product, the actual yield for the policyholder is not a direct mark-to-market function of the corresponding asset allocation, owing both to the contractual guarantees of minimum yield and to the specific method of determining the return (valuation of assets at historic cost and impact of capital gains/losses only when realized), which significantly reduce the volatility of the financial results.

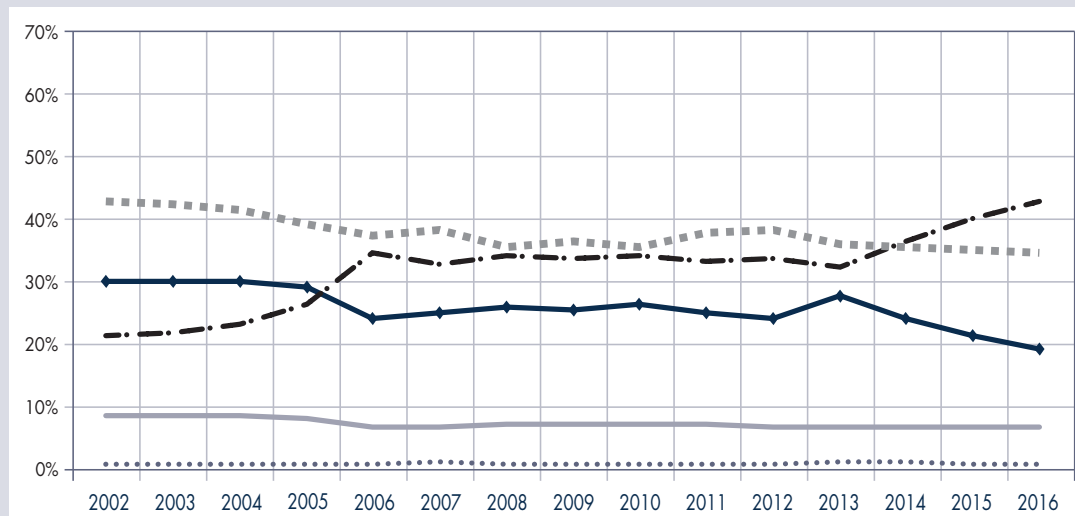
Finally, among the assets corresponding to unit-linked policies, at the end of 2016 the largest class was corporate bonds, heightening, when considered together with government securities, the preponderance of fixed-income securities among total assets. Also in this case, over the past few years, the trend observed was a shift from government to corporate bonds (Figure 5).

LIFE INSURANCE

Figure 5
Evolution of asset allocation of unit-linked products (%)



Source: Based on IVASS and COVIP data



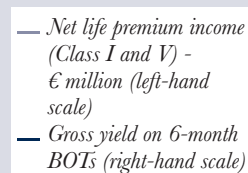
Finally, in 2016 shares made up just over one-third of the total investments, whereas in the early 2000s they had exceeded 40%.

The evolution of net premium income in the life sector

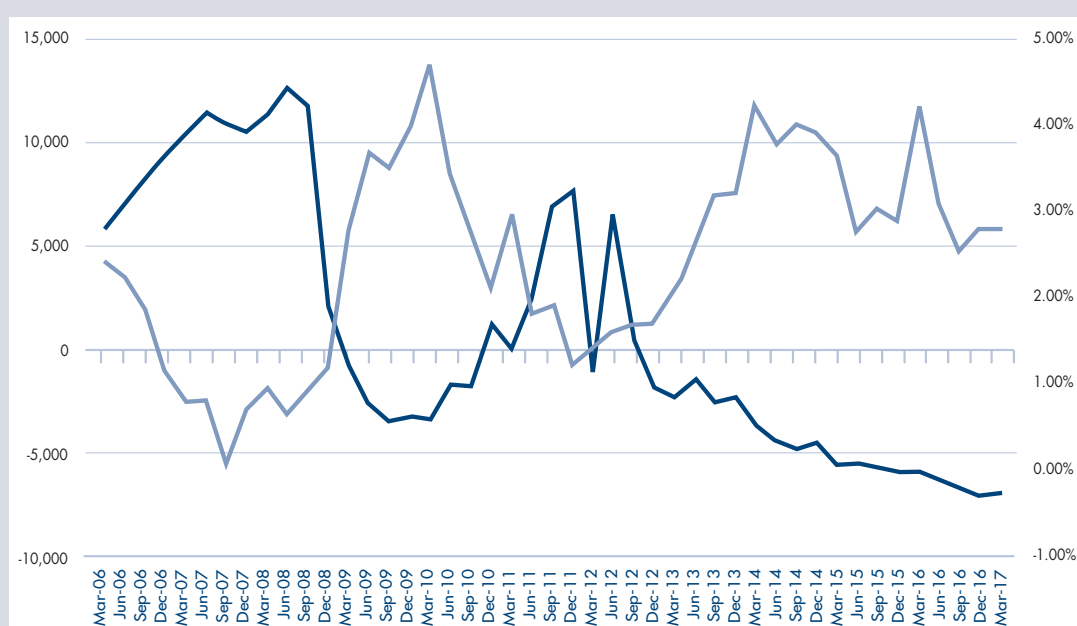
From 2006 to the first quarter of 2017 the quarterly performance of net life premium income – the difference between premiums paid by policyholders and amounts paid to policyholders for surrenders, policies maturing, claims and annuities – has fluctuated between positive and negative periods. The positive periods came in 2006, 2009-2010 and then more recently since the start of 2012.

In particular, for profit-sharing life policies – which account for the bulk of life products in Classes I and V – in the period examined we find a negative correlation between net premium income and the nominal rates on Italian government securities (Figure 6).

Figure 6
Net premium income of traditional policies in each quarter and yield on Italian Treasury bills



Source: ANIA, Thomson Reuters, Datastream



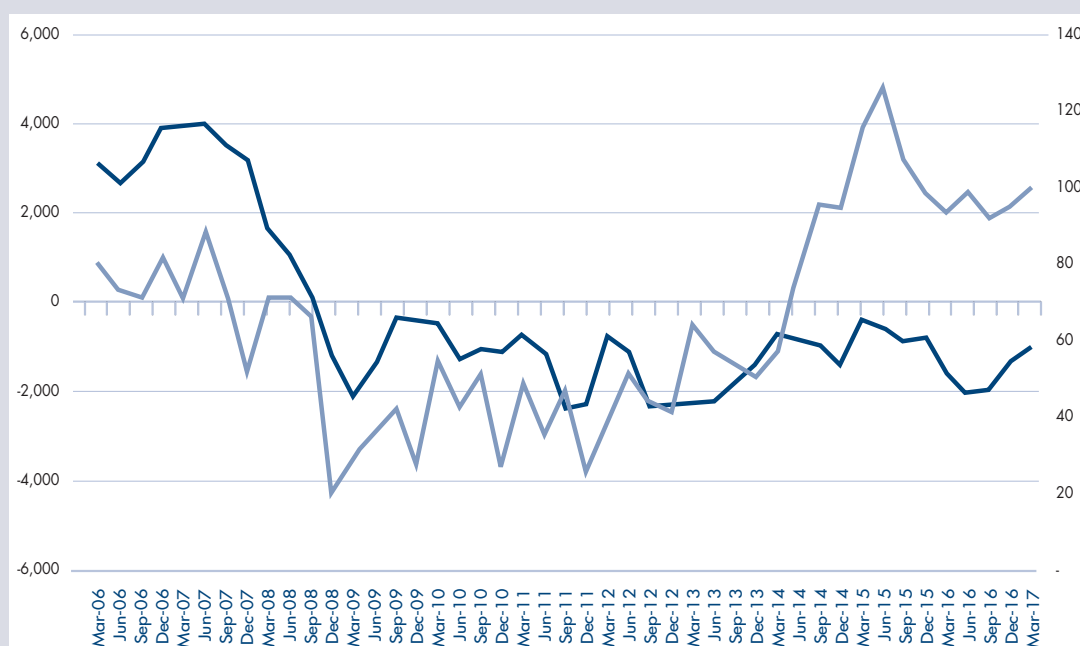
LIFE INSURANCE

Partly because of the specific features of the separate asset portfolios to which these policies are normally linked, they become especially competitive when government securities yields are low, as it is currently the case, also as a result of European monetary policy measures.

For linked policies – following the negative net premium income recorded starting in 2008, correlated with the performance of Italy's FTSE-MIB stock exchange index (Figure 7) – the quarterly series of net premium income in the period examined has inverted the trend over the past few years, with positive net cash flows, to a much greater extent than the recovery of stock market.

Figure 7
Net premium income
of linked policies in
each quarter and
index FTSE MIB

— Net life premium income
(Class III) - € million
(left-hand scale)
— Survey index base
1.1.2006 = 100
(right-hand scale)



Source: ANIA, Thomson
Reuters, Datastream

THE COMPOSITION OF LIFE INSURANCE EXPENSES

In the financial statements, companies' expenditures are classified in two categories: general and administration expenditures and those for the distribution of insurance products, the latter divided into policy acquisition and collection costs.

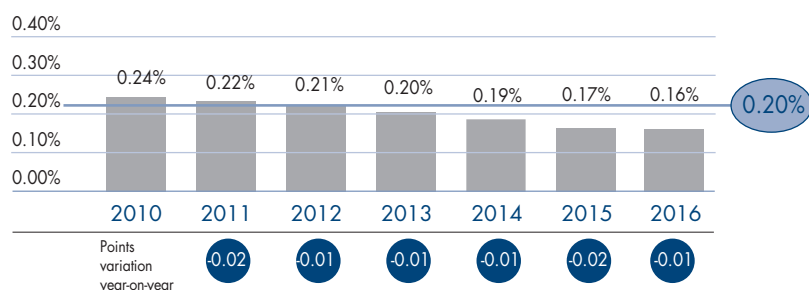
General and administration costs

General and administration costs are calculated in relation to technical reserves, which serve as a proxy for the sums managed on behalf of the insured. This allows us to calculate the ratio of insurance companies' expenditures for contract management and administration in relation to the assets covering commitments – standard

LIFE INSURANCE

practice in the asset management industry and in life insurance markets like Italy's with a prevalent component of saving contracts. The trend in this ratio, as is illustrated in the diagram below, is downward, with a seven-year average of 20 basis points and 16 basis points for the last year (Figure 1).

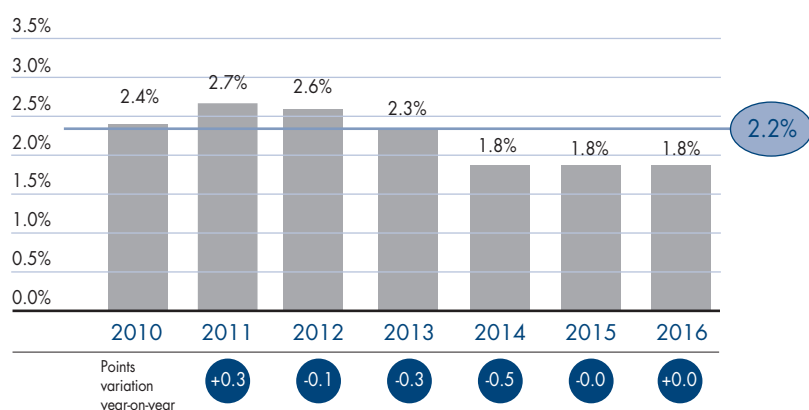
Figure 1
Overhead and administration costs/Technical provisions



Acquisition costs

Acquisition costs consist mainly in commissions on new contracts paid to the distribution channels. It is useful to calculate their ratio to standardized premiums (i.e. SPE, the single premium equivalent), which is equal to the sum of single premiums and annual premiums multiplied by the average duration of contracts, here conventionally established at 10 years. This standard measure allows us to include subsequent as well as initial payments and take into account the differences in the composition and commission structure between single and periodic premiums. The ratio of acquisition costs to standard premiums was 1.8% in 2016, unchanged from the previous two years and less than the average value of 2.2% for the period observed (Figure 2).

Figure 2
Acquisition costs/Single Premium Equivalent



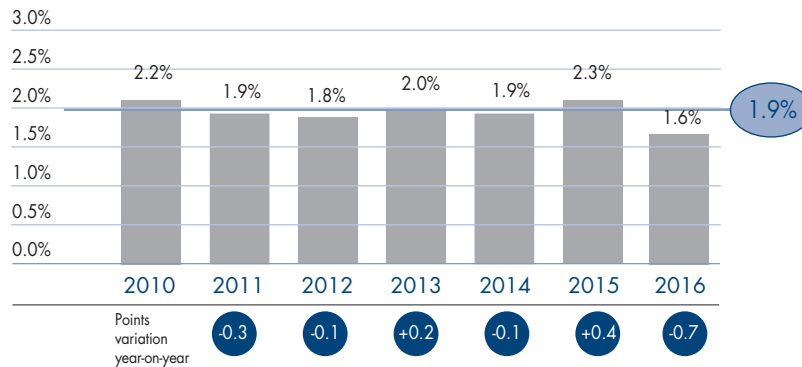
Collection costs

Collection costs consist mainly in recurring commissions paid by insurance companies to dealers on the subsequent annual premium instalments (excluding first year premiums) for policies with multi-year payment plans, and are calculated only based on expenses for years other than the first year or, in other words, net of new business. Last year, after a few years of fluctuation, the indicator resumed its down-

LIFE INSURANCE

ward trend, falling to 1.6%. The average value for the period of observation was 1.9% (Figure 3).

Figure 3
Acquisition
costs/renewal
premiums



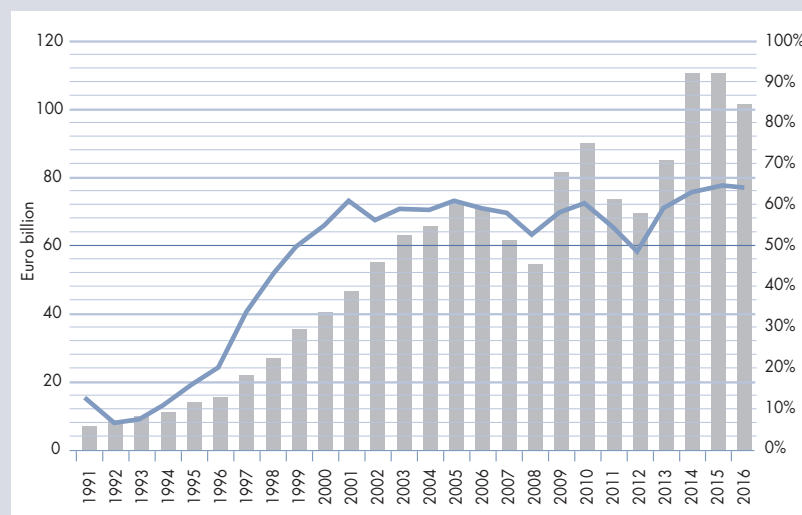
THE DEVELOPMENT OF BANCASSURANCE IN THE LIFE SECTOR

First introduced in Europe in the early 1980s, bancassurance is now the main distribution channel used by insurance companies in Italy, as in many other European countries, to collect premiums for life products, although its diffusion presents differences at country level. In countries such as France, Spain and Italy, when the bancassurance model took off, the penetration rate in the asset management market was very low, but the portion of insurance business done through bank and post office branches grew rapidly and has now consolidated its leading position. In other European countries – even of primary importance such as Germany and the UK – where insurance distribution channels for insurance investment instruments were already well-established, the phenomenon had a lower impact.

In Italy, the share of life premiums collected through bank and post office branches began to be significant at the end of last century, regularly exceeding 50% after 2000 and 60% in the past few years, compared with just 10% of the early 1990s (Figure 1).

The significant growth in insurance investment solutions in Italy is closely connected to the development of bancassurance, despite the volume of premiums in life insurance having increased considerably also in other channels.

Figure 1
Life premiums
(€ billion, left-hand
scale) and share
distributed through
bank and post office
branches (% , right-
hand scale)



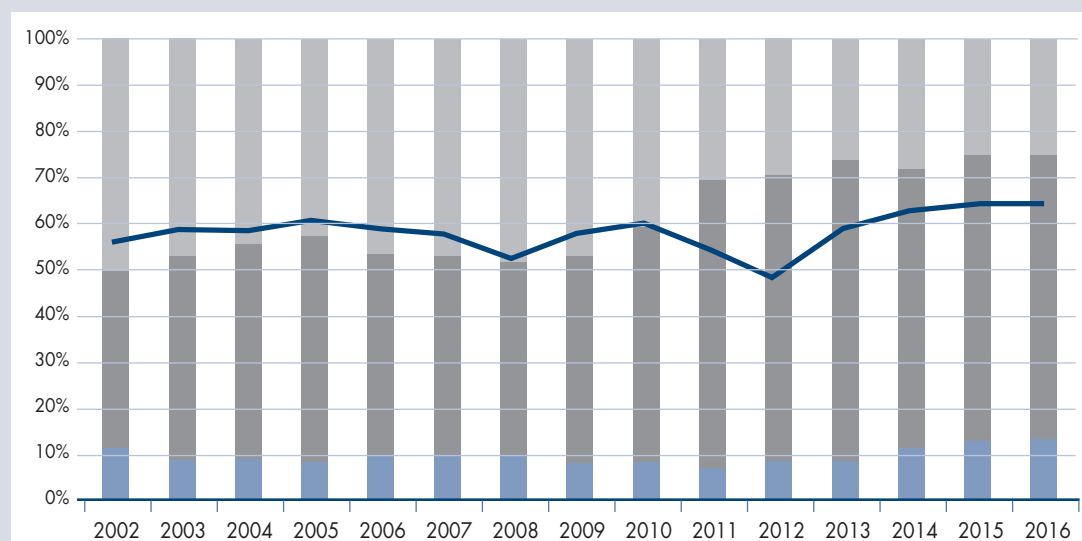
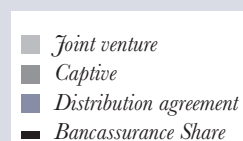
The development of life bancassurance by type of distribution agreement

There are several models of bancassurance distribution agreement on the market, which differ in the duration, the shareholding relations between the parties involved, the way in which the distribution network is remunerated, the insurance products involved, exclusive or non-exclusive partnership, and any collaborations for product design or specification of the target market. Therefore, associating the different types of partnership with the homogeneous classes might prove difficult. However, with some degree of approximation, an analysis of the existing agreements was carried out, on the basis of which they were classified into three macro types:

- *Joint Venture*: In bancassurance these are companies controlled jointly by an insurance company and a partner bank, where the controlling shareholder can be either one or the other. In theory, there can be joint ventures of insurance undertakings with multiple bank partners, and individual bank groups can form joint ventures with multiple insurance partners. With this type of agreement, the insurance company is fundamentally a provider of capital in the joint venture and of technical-operative services.
- *Captive*: The “captive” model consists in total or partial control by the banking partner, for which the insurance company acts as “manufacturer” of the insurance products distributed and as one of the business units of the group. This model is based on strong integration between distributor and producer and can involve forms of transfer pricing among different units within the group.
- *Other distribution arrangements*: For our purposes, this means any other type of trade agreement between the bank and the insurance company valid for a fixed number of years and under certain terms, with which the insurance company makes available to a banking intermediary (or to multiple intermediaries) one or more insurance products to be distributed. The agreement can envisage also other forms of collaboration for aspects other than sales network remuneration and it can be implemented non-exclusively or without any premium income targets, while including a contribution from the bank to the insurance undertaking.

As is shown in Figure 2, in the past few years the absolute market leader in Italy has been the captive model, chosen not by the greatest number of operators but by some of the top bank and post office players in terms of market share. The captive model accounted for 38% of premium income from all bank and post office branches in 2002 (first year of the observation period); its volume grew over the years, with fluctuations, to €44.6 billion, or 61.0% of the €73 billion in life premiums collected by bank and post office branches in

Figure 2
Share of life premiums distributed via bank and post office branches (line graph), by type of distribution agreement (bar chart)



2015. In 2016 premium income pertaining to the captive model was €39.7 billion, or 61.8% of the €64.3 billion in life premiums distributed through this channel.

The joint venture distribution model, which until a few years ago rivaled the captive model in life market share, has registered a fallback in the last two years to just a fourth of the premiums collected through bank and post office branches in 2016, equal to a volume of €15.7 billion.

Trade agreements other than joint venture and captive, although quite common in terms of absolute numbers in the insurance industry, have always accounted for a small share of the bancassurance market, fluctuating around 10% over the years, but peaking last year at 13.7% of the premiums collected by bank and post office branches (amounting to a volume of €8.8 billion).

Looking into the same time series, but restricting the analysis to the sum of Class I and V products, which are composed for the most part of profit-sharing life policies, the breakdown of premium income by type of agreement shows a strong prevalence of captive undertakings, whose share went from about half the premiums collected in the early 2000s to two-thirds in 2016 (Figure 3).

By contrast, for Class III products alone (Figure 4) the analysis indicates that, apart from some particular years characterized by the crisis of the financial markets in which savers

Figure 3
Share of Class I and Class V premiums in total life premiums distributed via bank and post office branches (line graph), by type of distribution agreement (bar chart)

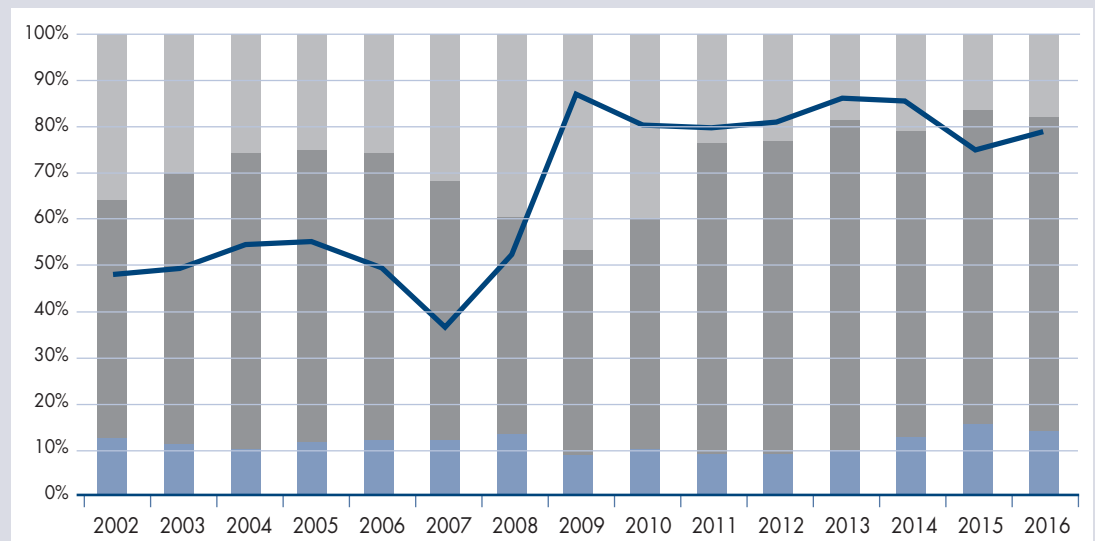
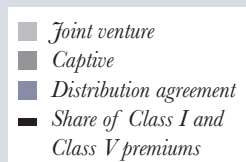
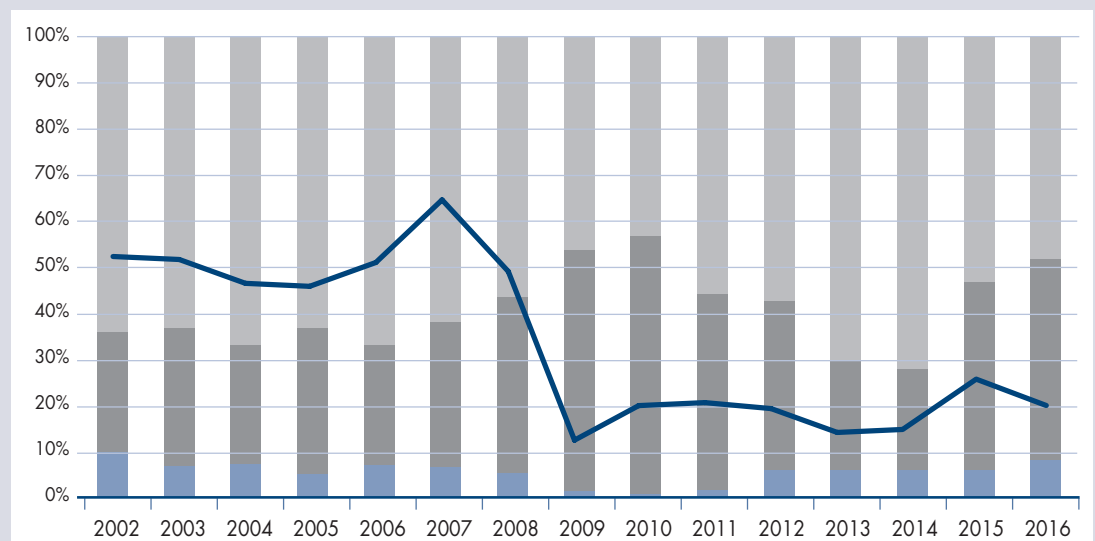
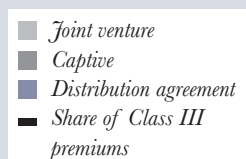


Figure 4
Share of Class III premiums on total life premiums distributed via bank and post office branches (line graph), by type of distribution agreement (bar chart)



LIFE INSURANCE

stayed away from all financial and insurance products where the risk is borne by the policyholder, joint ventures have accounted for the largest share of premiums over time, reaching a high of over 48% in 2016.

Recent developments in life bancassurance

Looking at the past five years, and especially the most recent years, bank and post office branches have played an ever more important role as opposed to other distributors of traditional insurance products (Classes I and V) (Figure 5), exceeding two-thirds of total premiums collected in 2016 for those products.

As for Class III products, the share written by bank and post office branches in 2016 surpassed that of other distribution channels with 54% of total premiums (Figure 6).

Figure 5
Evolution of Class I and Class V life premiums into 2012-2016 broken down in bank and post office branches and other channels
€ million

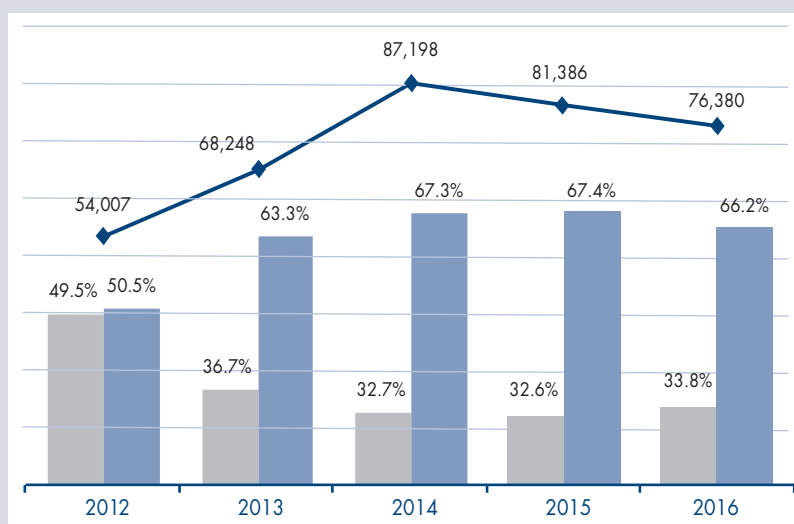
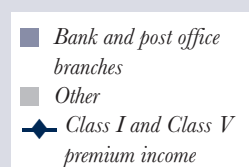
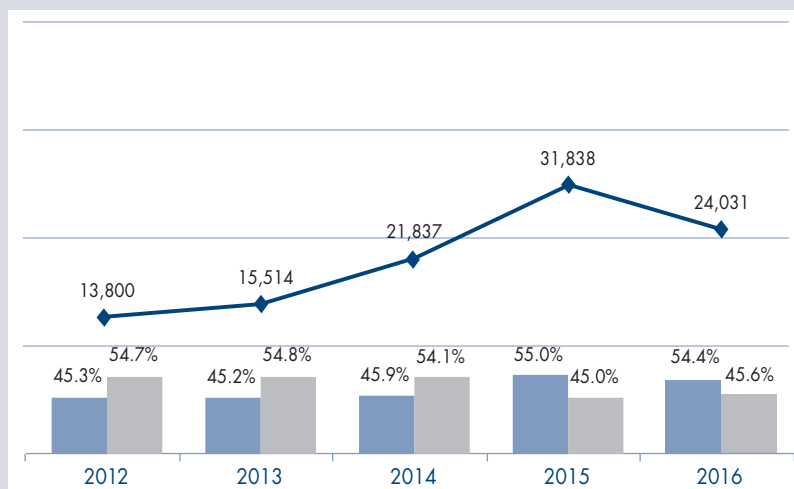
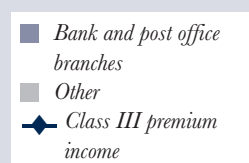
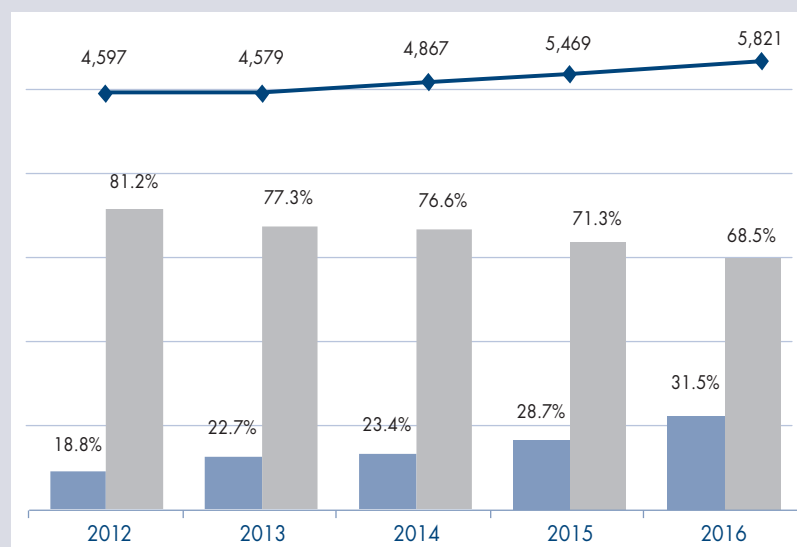
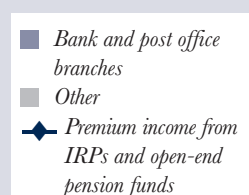


Figure 6
Evolution of Class III life premiums in 2012-2016 broken down into bank and post office branches and other channels
€ million



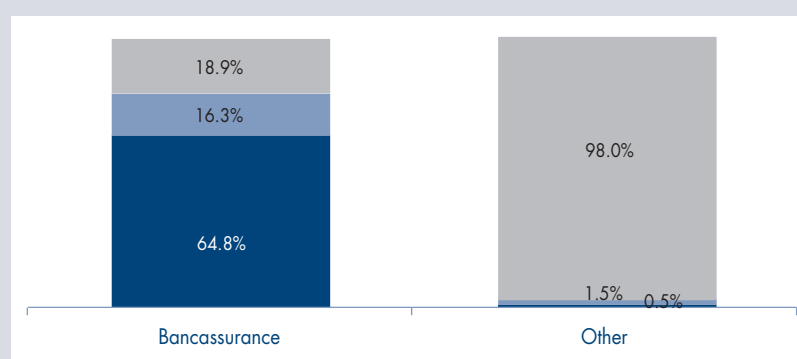
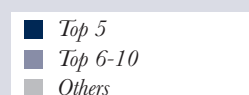
Restricting the analysis to individual pension products (Individual Retirement Plans and open pension funds), which account for a small percentage of total income, the share of premiums marketed through bank and post office branches, although gradually growing over the five-year observation period, is significantly lower than that of other channels, which account for more than two-thirds of total income, mainly thanks to premiums distributed through agency networks (Figure 7).

Figure 7
Evolution of life premiums relating to IRPs and open pension funds in 2012-2016 broken down into bank and post office branches and other channels
€ million



For 2016 alone, the analysis of the degree of concentration of life business – restricted to undertakings classified based on premiums collected through bank and post office branches – shows that the top five companies in the industry account for 64.8% of total income; companies ranking from 6th to 10th account for 16.3%, the rest for 18.9% (Figure 8). Ranked by volume of premiums written through other channels, the respective shares of the three groups of companies came to 0.5%, 1.5% and 98.0%, which means that the market leaders in terms of premiums written by bank and post office branches rely almost exclusively on these channels.

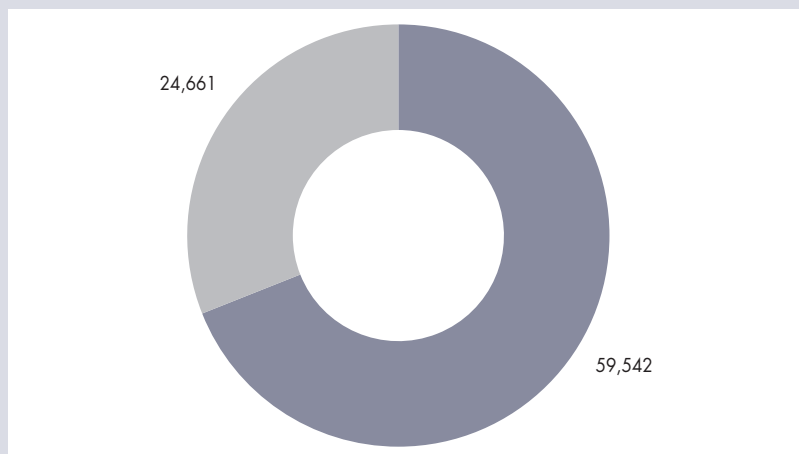
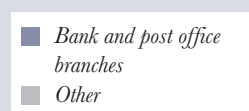
Figure 8
2016 Market share comparison of companies based on life premiums collected through bancassurance and other channels



LIFE INSURANCE

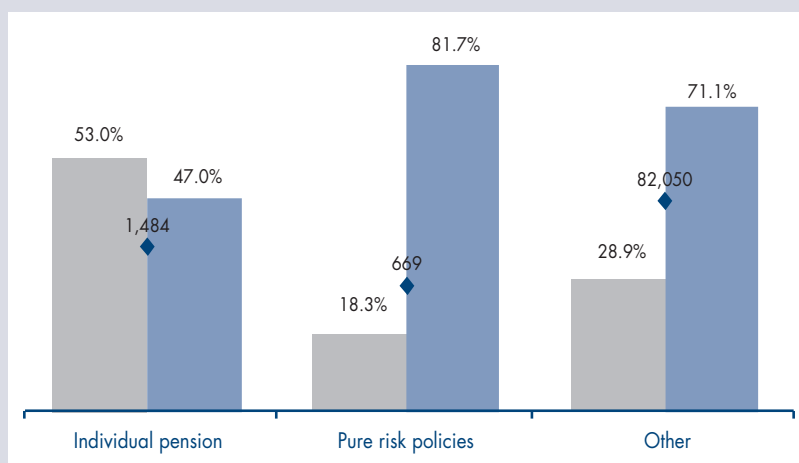
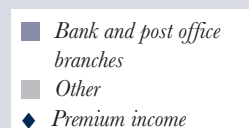
Looking at new life business in 2016 (Figures 9-11), we see that products distributed through bank and post office branches accounted for €59.5 billion of new premiums collected for life classes, 71% of all new business (€84.2 billion) (Figure 9).

Figure 9
New business for individual and group life policies in 2016 broken down into bank and post office branches and other channels
€ millions



The preponderance of bancassurance is observed both for insurance investment products and for pure risk policies, whereas – as mentioned earlier – this channel only accounts for a minority share in the distribution of individual retirement products (Figure 10, where premium income is reported on a logarithmic scale).

Figure 10
New life business 2016 for individual products broken down into pure risk, pension and other products and into bank and post office branches and other channels
€ million

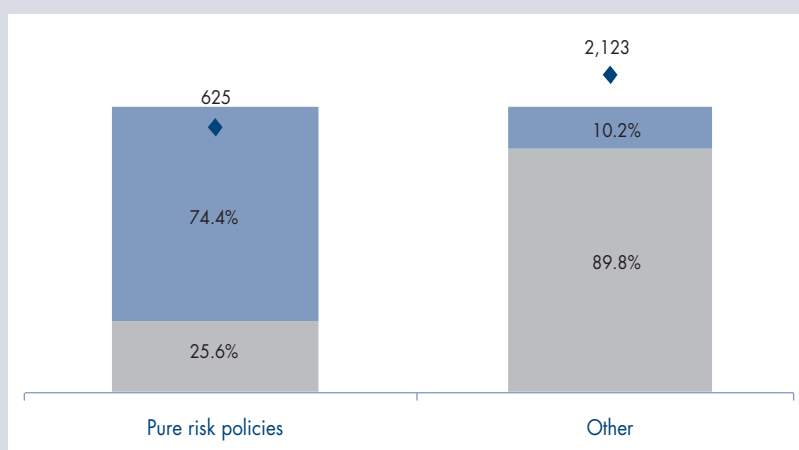


With regard to corporate clients and group policies, the data highlight that distribution through bank and post office branches mainly involves pure risk products, which account for nearly three-fourths of total premiums. By contrast, for other products the levels are again significantly lower, with a share of just 10% of the total (Figure 11).

LIFE INSURANCE

Figure 11
New life business
2016 for group
products broken
down into pure risk
and other products
and into bank and
post office branches
and other channels
€ million

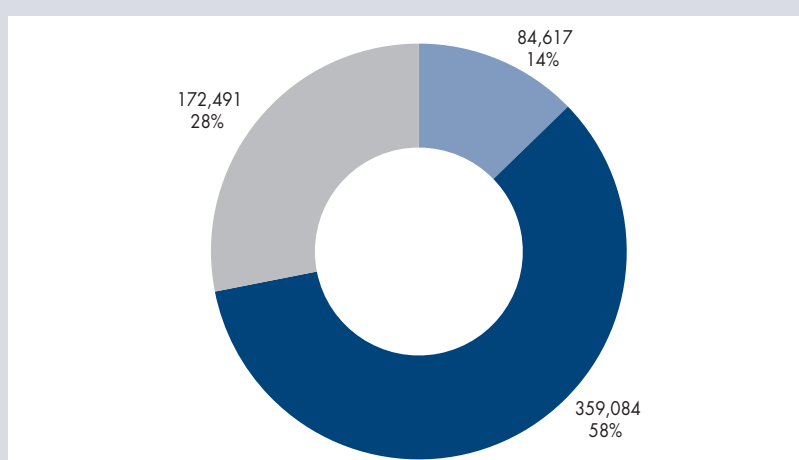
■ Bank and post office
■ Branches and other channels
◆ Total



In terms of provisions, contracts sold via bank and post office branches decidedly account for the major share, with almost €360 billion of the €616 billion of overall life insurance reserves (Figure 12). Premiums collected by financial salesmen account for 14%, while agency networks, which constitute practically all the rest, account for 28% of total provisions, scarcely half the provisions for life policies distributed through bancassurance channels.

Figure 12
Mathematical and
technical reserves
2016 by channel
€ million

■ Financial salesmen
■ Bank and post office branches
■ Other channels

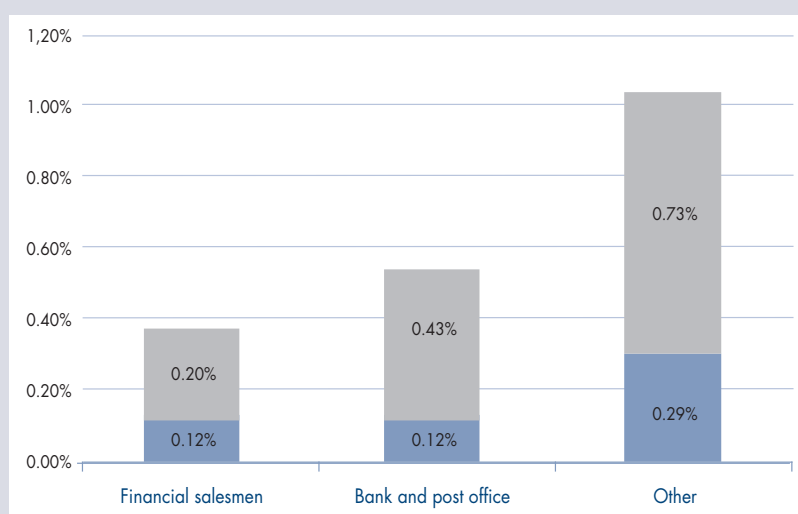


Relating administration expenses borne by insurance companies in 2016 to the reserves, to calculate the incidence of operational expenditures on an approximation of the assets covering the reserves (standard practice in the asset management industry), it appears that the average value of the index is distributed in a diversified manner: financial salesmen and bank and post office branches have the lowest incidence, and traditional insurance channels the highest, accounting for virtually all of the expenses relating to the other channels (Figure 13).

However, it should be noted that these data are of an accounting nature and can be influenced by differing distribution arrangements, as well as by the type and quantity of products sold, investment policies and the companies' accounting choices.

LIFE INSURANCE

Figure 13
Administration costs and distribution costs on mathematical reserves for 2016 broken down by channel



The ratio of distribution costs to reserves shows minimum values for the network of financial salesmen, intermediate values for bank and post office branches and, once again, the highest values for other channels of distribution, mainly consisting in traditional insurance channels.

As a ratio to total administration and distribution costs, their incidence on reserves is smallest for financial salesmen, somewhat greater for bancassurance channels, and far greater for the other channels.

THE RETURN ON WITH-PROFIT POLICIES

The capital or annuities generated by with-profit policies increase as a function of the return of segregated funds, a special type of insurance funds with investments mainly in fixed income securities, accounting for assets based on purchase or book value, a method also known as “at historic cost”. Once assigned to a segregated fund, an asset can exit the fund only by liquidation. The return achieved by the asset management scheme is determined as the ratio of the sum of coupons, dividends and the capital gains or losses to the average amount of assets held in the observation period, which is generally one year. The return is distributed among the assets in a certain percentage or net of a fixed measure, without prejudice to the guaranteed minimum yield under the insurance contract.

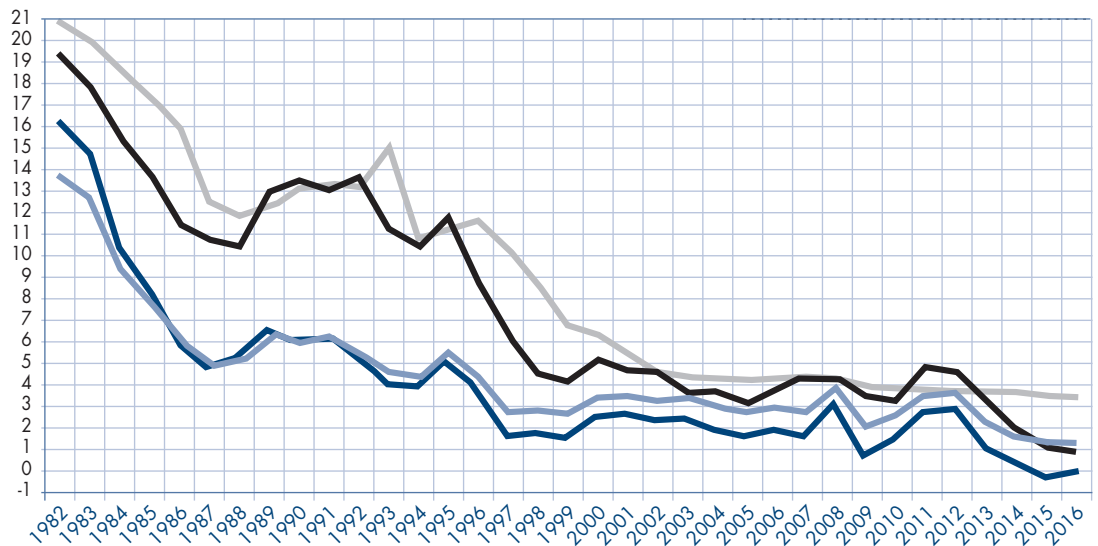
In the past, the return on segregated funds was usually higher than that of government securities, the revaluation rate of severance indemnities, or the inflation rate

LIFE INSURANCE

(Figure 1). Over the past five years, in particular, the return was 3.7% (3.24% in 2016), compared with the 2.0% for government securities, 2.0% revaluation for severance pay entitlements, and inflation of 0.8%.

Figure 1
Comparison between
return on segregated
funds, government
securities, inflation
and revaluation of
severance pay
entitlements

■ Inflation
■ Sev. Pay Yield
■ Gov't Securities
Yield (*)
■ Segregated Funds
Yield



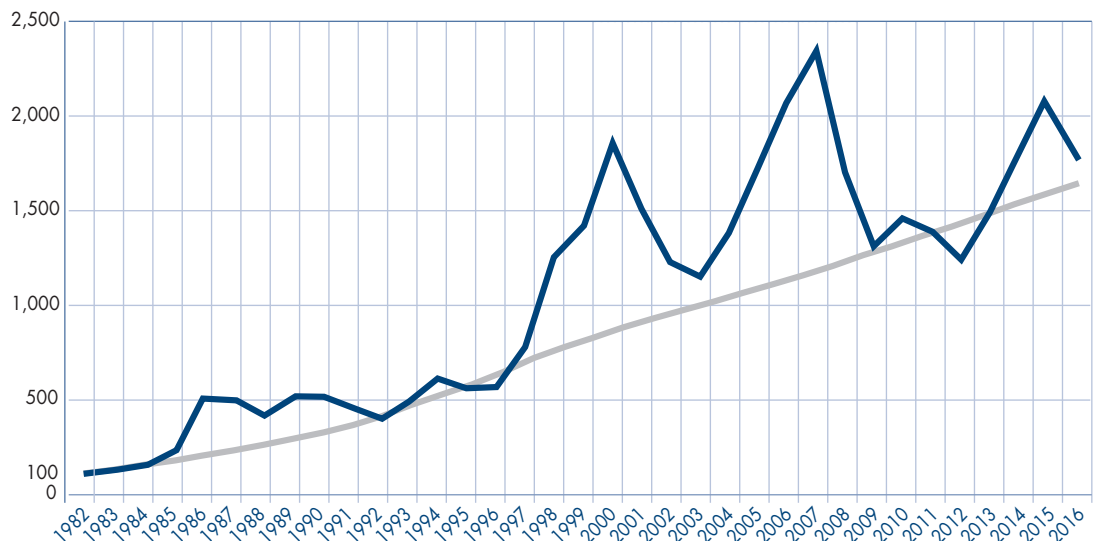
Sources: IVASS, ISTAT, Bank of Italy and ANIA estimates

(*) weighted average yield of a basket of government securities with residual maturity over one year

With an investment of 100 in 1982 in a segregated fund, at the end of last year, calculating all the gross returns obtained up to the present, the investment value would be 1,653 (Figure 2), with an average annual return of 8.6% – 4.9% in real terms – and an annualized volatility (standard deviation) of 5.4%. The same investment in Italian equities, assuming all dividends are reinvested, would have reached a value of 1,762 in the same time frame, with an average annual return only slightly higher than that of segregated funds and an annualized volatility of 29.1%.

Figure 2
Comparison between
yields of segregated
funds and Italian
shares

■ Segregated funds
gross yield
■ Shares yield
(Datastream index
including dividends;
annual average)



Sources: Thomson Reuters,
IVASS and ANIA estimates

LIFE INSURANCE

The Sharpe ratio, which examines the return at standard deviation to measure the performance of an investment by adjusting it for its financial risk, was 1.79 for segregated funds and 0.18 for Italian shares in the period of observation, confirming the stability of the investment strategy in with-profit policies, even when taking account of the return share before taxes withheld by the company.

LIFE INSURANCE AND ITALIAN HOUSEHOLDS' SAVINGS

In 2016 the nominal growth of the disposable income of Italian households was 1.6%, with a significant acceleration compared to 2015 (+0.8%) and 2014 (+0.6%). Real disposable income was unchanged (Table 1).

Table 1
Formation,
distribution and uses
of consumer
households'
disposable income
(% changes on previous year
unless otherwise specified)

	% share of households' gross disposable income, 2016 ⁽¹⁾	2014	2015	2016
		Annual % change		
Compensation of employees	61.3	0.4	2.1	2.4
Self-employment income ⁽²⁾	25.9	0.1	-0.4	0.9
Property income ⁽³⁾	22.4	-0.9	0.6	0.4
Social benefits and net transfers	32.4	1.9	2.2	1.4
Net social contributions (-)	23.1	-0.1	2.2	1.3
Current income and capital taxes (-)	18.9	0.3	3.6	1.7
Gross disposable income	100.0	0.6	0.8	1.6
in real terms ⁽⁴⁾	-	0.4	0.8	1.6
		% of gross disposable income		
Average saving rate ⁽⁵⁾	-	8.7	8.0	8.3

⁽¹⁾ Consumer households

⁽²⁾ Mixed income and withdrawals from quasi-companies

⁽³⁾ Gross operating income (mainly rentals), net return to land and intangible assets, net interest, dividends and other distributed profits

⁽⁴⁾ Deflated using household consumption deflator

⁽⁵⁾ Saving, gross of amortization and net of change in pension fund reserves, as a ratio to gross disposable income

Source: ISTAT, National
Economic Accounts

All the components contributed to the increase in disposable income in 2016, notably compensation of employees (+2.4%; +2.1% in 2015), self-employment earnings (+0.9%, -0.4% in 2015), social benefits (+1.4%, +2.2% in 2015), and to a lesser extent property income (+0.4%, +0.6% in 2015). The erosion of disposable income by net social contributions (+1.3%, +2.2% in 2015) and current taxes (+1.7%, +3.6% in 2015) moderated.

In 2016 the propensity to save, defined as gross saving (net of changes in pension fund reserves) over disposable income, turned back up again, although marginally (8.3%, 8.0% in 2015), after the decline registered a year earlier.

Financial saving

In 2016 the net flow of financial investment by Italian households and non-profit institutions (for brevity, simply “households”) came to +€20 billion, with a marked contraction on 2015 (+€28.8 billion). Although remarkable, the growth of gross inflows into household portfolios (+€33.2 billion, up from +€29.3 billion in 2015) was insufficient to compensate for the upturn in debt (which grew by +€13.2 billion, compared with +€0.5 billion in 2015) (Table 2).

Italian households continued to make further net disposals of fixed-income securities, especially bonds issued by Italian banks (-€47.2 billion, -€71.4 billion in 2015) and, to a lesser extent, government securities (-€6.2 billion, -€32.0 billion in 2015). Contrary to the trend in 2015, in 2016 households drained substantial resources also from equities (-€24.7 billion, +€23.5 billion in 2015). A massive disinvestment also affected bank deposits other than sight deposits (-€18.7 billion, -€20.4 billion in 2015).

Table 2 – Financial assets of Italian households ⁽¹⁾

INSTRUMENTS	YEAR-END STOCKS (euro million) 2016	YEAR-END STOCKS/TOTAL ASSETS (%)		FLOWS (euro million)	
		2015	2016	2015	2016
ASSETS ⁽²⁾					
Bank instruments ⁽³⁾	1,143,739	26.4	27.4	13,228	11,700
Italian	1,112,452	25.7	26.7	19,786	11,858
sight deposits	649,143	14.1	15.6	40,169	30,520
other deposits	463,309	11.6	11.1	-20,383	-18,662
Foreign	31,287	0.8	0.8	-6,558	-159
Bonds	362,340	9.9	8.7	-111,334	-62,031
Italian	273,107	7.8	6.6	-104,940	-60,043
of which: Government	131,156	3.2	3.1	-32,028	-6,208
bank	136,407	4.5	3.3	-71,393	-47,154
Foreign	89,233	2.2	2.1	-6,394	-1,988
Investment fund units	479,980	11.0	11.5	41,790	14,596
Italian	245,675	5.7	5.9	22,503	-364
Foreign	234,305	5.3	5.6	19,287	14,960
Shares and other equity	916,765	23.8	22.0	23,531	-24,698
Italian	846,014	22.1	20.3	20,819	-24,370
Foreign	70,751	1.7	1.7	2,713	-328
Insurance, pension fund reserves and severance pay entitlements	953,033	21.7	22.9	48,538	44,634
of which: reserves of the life sector	620,892	13.8	14.9	43,859	39,357
Other assets ⁽⁴⁾	312,144	7.1	7.5	13,592	49,005
Total assets	4,168,002	100.0	100.0	29,344	33,206
LIABILITIES					
Short-term debt	54,188	6.3	5.8	-109	-2,049
of which: bank	53,104	6.2	5.7	-135	-2,153
Medium- and long-term debt	643,668	69.1	69.3	-233	10,793
of which: bank	571,173	61.4	61.5	10,195	9,755
Other liabilities ⁽⁵⁾	230,373	24.6	24.8	875	4,433
Total liabilities	928,230	100.0	100.0	533	13,177
BALANCE	3,239,772			28,811	20,029

⁽¹⁾ Consumer households, producer households and non-profit institutions serving households

⁽²⁾ Managed asset portfolios not specified, as the invested assets are given under individual instruments

⁽³⁾ Includes Cassa Depositi e Prestiti

⁽⁴⁾ Trade credits, Bancoposta current accounts, banknotes, coin, other minor items

⁽⁵⁾ Trade payables, severance pay funds and other minor items

Source: Bank of Italy, Financial Accounts

LIFE INSURANCE

The flow destined to mutual funds (+€14.6 billion, +€41.8 billion in 2015) decelerated, while investments in life policies decreased only slightly (+€39.4 billion, +€43.9 billion in 2015). By contrast, there was increased investment in other assets – trade credits, Bancoposta postal current accounts, currency, coins and other minor items (+€49.0 billion, +€13.6 billion in 2015) and in sight deposits (+€30.5 billion, +€40.2 billion in 2015).

At the end of 2016 the stock of financial assets held by Italian households amounted to €4,168 billion. The largest share of Italian household financial wealth continues to be in liquid instruments, i.e. bank deposits (27.4%; 26.4% in 2015), followed by insurance, pension funds and provisions for employee severance pay (22.9%, 21.7%), which include life insurance provisions (14.9%, 13.8%) and shares and other equities (22.0%, 23.8%); the share invested in mutual funds amounted to 11.5% (11.0% in 2015).

SUPPLEMENTARY PENSION PLANS: DEVELOPMENTS AND NEW REGULATIONS

Enrollments, contributions and resources destined to benefits

In 2016 enrollments in supplementary pension plans continued the gradual growth of recent years. The number rose to nearly 8 million, up 7.6% from a year earlier.

Taking account of enrollments to multiple pension plans, which in 2016 were around 620,000, the actual number of supplementary pension fund enrollees is 7.2 million, or 27.8% of the labor force in Italy (Table 1). However, the number of enrolled persons who have stopped contributing has continued to rise, reaching nearly 2.0 million in 2016.

Table 1
*Evolution of
enrollments by
pension plan*

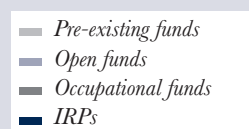
Pension plans	Number of participants		Change %
	2015	2016	
Occupational pension funds	2,419,103	2,597,022	7.4%
Open funds	1,150,132	1,258,979	9.5%
Individual retirement plans	3,034,543	3,280,719	8.1%
Pre-existing funds	645,612	653,971	1.3%
Total	7,234,858	7,787,488	7.6%
of whom:			
private-sector employees (million)	6.7	7.2	7.1%
Labor force (million)	25.5	25.8	1.2%
Share of labor force	26.3%	27.8%	1.5%

Source: Based on IVASS and
COVIP data

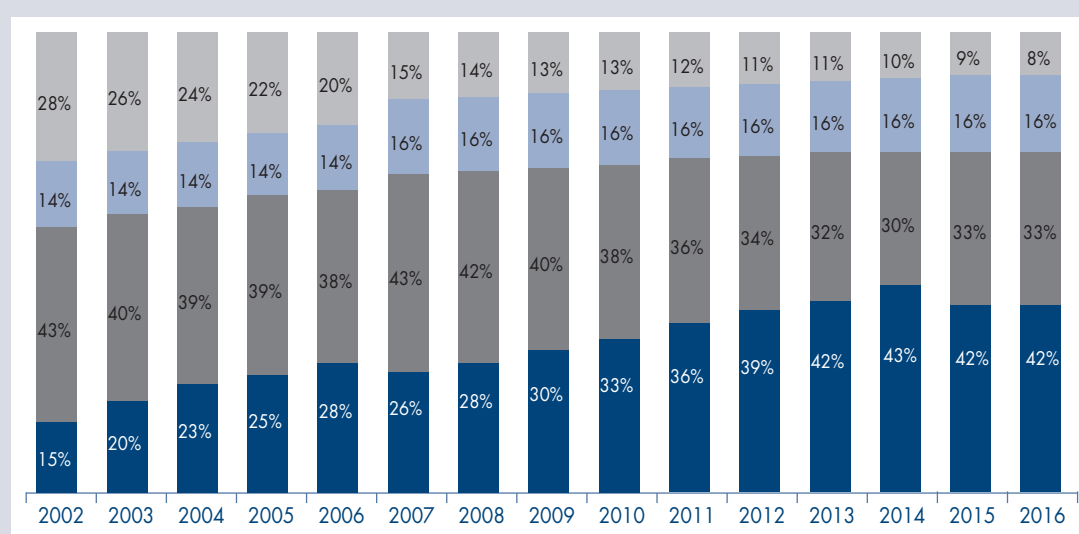
LIFE INSURANCE

Enrollments in occupational funds have increased significantly, as a result of the massive enrollment in the occupational fund for employees in the construction industry, decided on a collective basis. Open pension funds also registered significant growth, higher than that of Individual Retirement Plans. IRPs have accounted for the largest share of enrollments in absolute terms and have confirmed their position as the leading type of pension fund by number of members (Figure 1), although this is also the category with the highest number of enrollees failing to pay their contributions (1.3 million members of IRPs in 2016).

Figure 1
Time series on
pension plans'
participants



Source: Based on COVIP data



Overall contributions paid to the different types of supplementary pension fund have increased by 5.0% compared with 2015 (Table 2), to more than €14.2 billion. In particular, the largest increase was observed for open pension funds and IRPs, which registered the sharpest upturn also in terms of absolute amounts.

Table 2
Evolution of pension
fund contributions
Euro million

Pension plans	Contributions		Change %
	2015	2016	
Occupational pension funds and Fondinps	4,471	4,623	3.4%
Open funds	1,600	1,779	11.2%
Individual retirement plans	3,795	4,094	7.9%
Pre-existing funds	3,720	3,753	0.9%
Total	13,577	14,256	5.0%

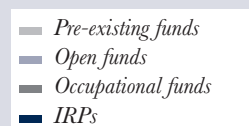
Source: Based on COVIP data

Contributions made to occupational funds have decreased over the past few years in proportion to total contributions, although they still account for the largest share of the market (Figure 2).

Contributions to IRPs have grown steadily in the observation period, whereas those to open pension funds have been virtually stable, albeit rising somewhat in recent years in relative terms.

LIFE INSURANCE

Figure 2
Time series of
contribution flows by
type of supplementary
pension



Source: Based on COVIP data

The average yield of pension funds, while differentiated by financial lines, were higher in 2016 than the revaluation rate of severance pay entitlements at 1.5%. In particular, the average yield of the different types of occupational funds was 2.7%, compared to 2.2% for open pension funds, 3.6% for unit-linked funds and IRPs and 2.1% for IRP segregated funds.

The contributions paid and the average positive yields produced growth of 7.8% in resources destined to benefits, which came to €151 billion, or 9.0% of nominal GDP and 3.6% of financial assets held by Italian households (Table 3).

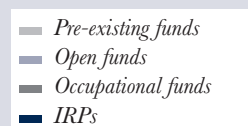
Table 3
Resources set aside
for benefits by type of
supplementary
pension
Euro million

Source: Based on COVIP, Ministry of the Economy and Finances and Banca d'Italia data

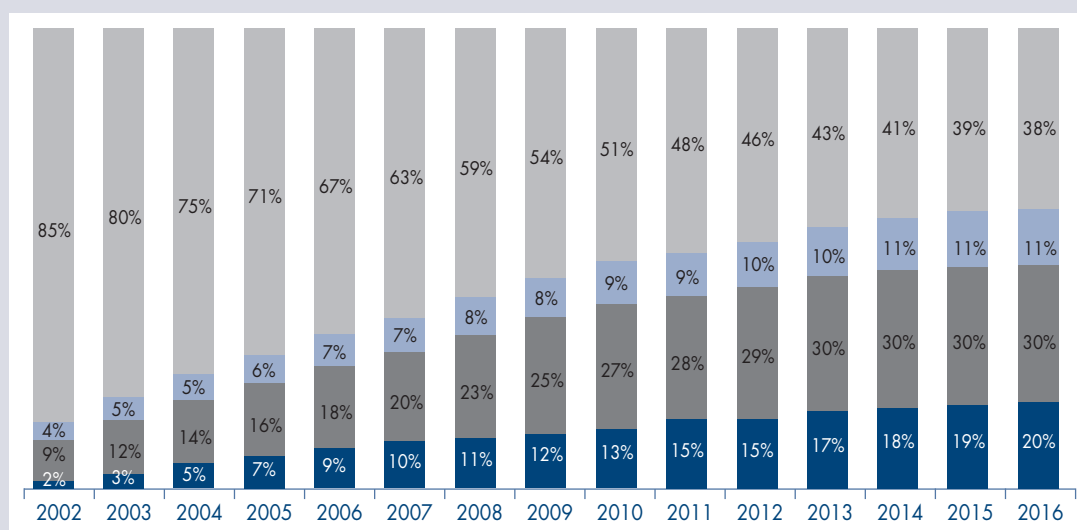
Pension plans	Resources managed		Change %
	2015	2016	
Occupational pension funds and Fondinps	42,546	45,931	8.0%
Open funds	15,430	17,092	10.8%
Individual retirement plans	27,006	30,642	13.5%
Pre-existing funds	55,299	57,538	4.0%
Total	140,351	151,278	7.8%
Share of GDP	8.6%	9.0%	0.4%
Share of households' financial savings	3.4%	3.6%	0.2%

Pre-existing funds still account for the largest share of benefit provisions, although all other forms of supplementary pensions have steadily increased their own shares (Figure 3).

Figure 3
Resources set aside
for benefits by type of
supplementary
pension



Source: Based on COVIP data



New regulations

The provisions adopted by the pension supervisory authority COVIP modifying the information requirements and new enrollment procedures – which have been integrated with the new self-assessment questionnaire to be filled out by new members to prove that they are informed about their own pension situation and expectations – entered into force in 2017. In the course of 2017, the supervisory authority clarified that when the acquisition of additional information is necessary, during enrollment, with regard to sector-specific provisions regulating the trends of distribution networks, such information may be collected by supplementing the Enrollment Form, provided the self-assessment questionnaire is filled out as laid down by COVIP. The supervisory authority has also explained that the Enrollment Form must be filled out in all its parts but that failing to answer to one or more questions in the self-assessment questionnaire will not prevent enrolling in the pension scheme.

With regard to the reporting of costs in the Information Note of pension funds in the new Costs Sheet, as decided by COVIP in 2016, the supervisory authority established that pension funds shall make the Sheet available on their websites, taking care to highlight the latest version and making it easily accessible from the main search engines. With a view to facilitating easy access to the Sheets, COVIP has decided to dedicate a page of its own website to the pension funds, giving links to all the Sheets, which the pension plans themselves will be required to feed and keep updated.

DORMANT POLICIES: REIMBURSEMENTS AND DATA

The reimbursement of so-called dormant policies, which have been transferred by insurance companies to the special fund for this purpose created by CONSAP, has continued throughout 2016-2017 with five notices to submit a claim for reimbursement.

The latest reimbursement window was for events (death/life of the policyholder) or policies having matured after 1st January 2006 and before 1st January 2009, with expiry of the deadline before 1st January 2011.

Other requirements include the refusal of reimbursement by the insurance company involved due to policy expiration and the consequent transfer of the amount to the specific CONSAP fund, as well as the absence of reimbursement, full or partial, within one of the previous notices to submit a claim for reimbursement.

Claims for reimbursement must attach the original copy of the insurance company statement declaring, in conformity with a specific form, that: 1) the policy is eligible for “dormant” status, as defined above; 2) the insured capital was transferred to the “dormant policies fund” (with indication of the date of transaction, amount transferred and Transaction Reference Number); 3) the claim submitted was denied due to the expiry of the deadline and could not be dealt with at a later stage; 4) anti-money-laundering requirements were complied with. The statement must also include (under penalty of preclusion of claim) the policy reference number and may not refer to more than one policy.

If the claim is accepted, only a percentage of the amount transferred to the dormant policies fund by the insurance company is reimbursed, depending on the resources made available at each time by the government.

ANIA obtained from the insurance companies the data which they communicated to IVASS to substantiate the analysis carried out to estimate the number of dormant policies and of those which may become dormant in the next few years. In particular, the analysis covered both individual and group policies of Class I, III and V, as long as the group policies were signed individually as part of a framework agreement.

For “term life” policies and “endowments, deferred capitals, deferred annuities and capitalization”, the data requested refers to policies having matured between 2012 and 2016, whereas the data requested for “whole-life” policies – which, by definition, do not have a set maturity – refer to policies in force as of 31 December 2016. Overall, the analysis covered 15 million life insurance policies.

Already dormant policies, i.e. those for which the beneficiary’s right to claim the benefit has already expired, number just 1,782. However, there are 4.5 million policies for which insurance companies have received neither notification of the death of the policyholder nor a request from the beneficiary claiming the benefit. Of these, 3.9 million involve term life policies for which it is presumable that the policy has matured but the policyholder is still alive and therefore no benefit payment is due.

In detail, of the nearly 4 million policies matured over the past five years for which the insurance company has received neither notification of the death of the policyholder nor a request for benefit by the beneficiary, 95% refer to term life policies, 50% of the contracts originally issued. The remaining 5% are life insurance saving policies, just 2.5% of all the contracts originally signed.

In particular, for term life policies, the data requested refer to the number of policies and the amounts initially insured. Of the 6.7 million policies maturing in 2012-2016, 41,000 were liquidated. As for the remaining policies:

- for around 2 million (29% of the total) it was established that the insured is alive;
- for 800,000 (12% of the total) it was established that the policyholder intends to cease payment of premiums and voluntarily rescind the contract;
- for 82 contracts the expiry of the policy was contested to the beneficiaries;
- for the remaining 3.9 million policies, it was impossible to verify whether the policyholder was in fact dead or alive.

LIFE INSURANCE

With regard to “mixed, deferred capital, deferred annuities and capitalization” policies, the data requested refer to the number of policies and to the amounts insured at maturity. Of the 7.8 million contracts having matured between 2012 and 2016, around 270,000 (3% of the total) were liquidated as a result of the decease of the policyholder. As for the rest:

- over 3 million (40% of the total) were redeemed;
- around 4.2 million (53% of the total) were liquidated at maturity;
- around 70,000 (1% of the total) were terminated following the voluntary suspension of payments by the policyholder;
- for over 1,700 contracts the expiry of the policy was contested to the beneficiaries;
- for the remaining 200,000 policies, the insurance company has received neither notification of the death of the insured nor a request for benefits by the beneficiary.

As for whole-life insurance policies with no fixed maturity, as of 31 December 2016 there were around 425,000 policies held by policyholders aged between 85 and 100. For some 2,500 contracts, the policyholder is over 100 years old.

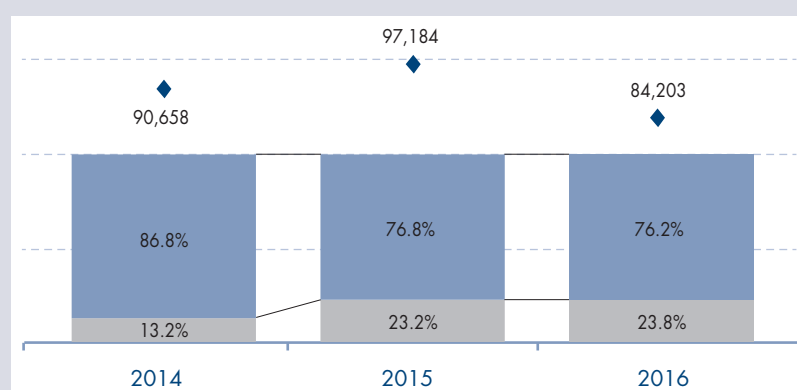
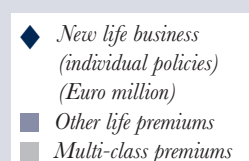
MULTI-CLASS LIFE PRODUCTS

The prolonged low interest rate environment has produced the need to meet the demand for medium and long-term yields with alternatives to traditional insurance products. Multi-class products resulting from the combination of traditional insurance products with guaranteed minimum return (Class I) and multiple unit-linked investment options (Class III), are now offered by a large number of insurers.

Multi-class products in new life business consisting in individual policies

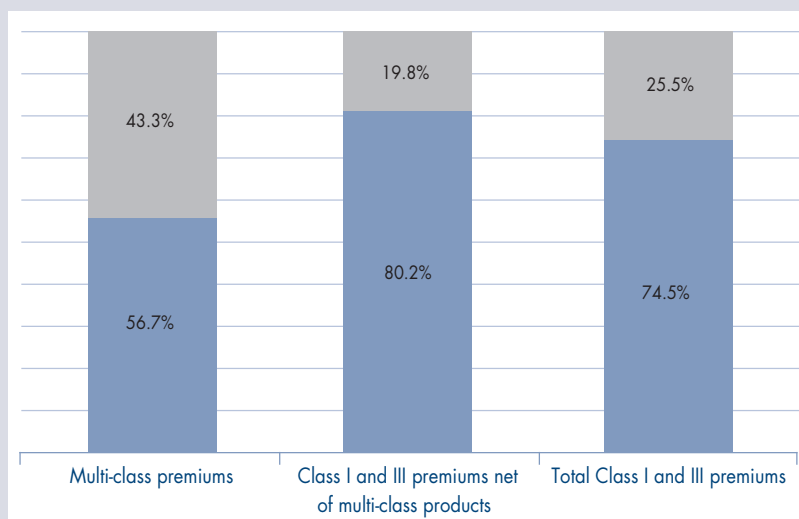
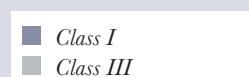
Multi-class products target mainly “retail” customers with individual policies. In 2016, roughly 650,000 new multi-class policies were subscribed, for a volume of premiums of €20.1 billion (they numbered 710,000 in 2015), or nearly 25% of the total new life business of €84.2 billion (Figure 1), the same incidence as in 2015, although with a higher volume of premiums, and higher than 2014 (13.2%).

Figure 1
Share and volumes of new multi-class premiums and other life insurance products 2014-2016



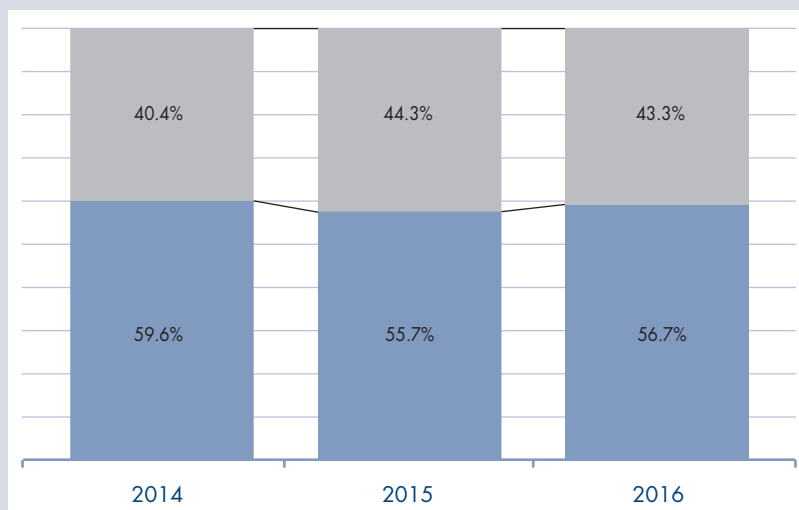
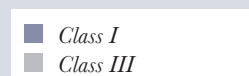
In particular, focusing on the composition of Class I and Class III, in 2016 multi-class products accounted for a portion of Class III premiums equal to 43.3% of total premiums for the two components, higher than the share of Class III policies in overall new business of Classes I and III combined (25.5%), which obviously includes also exclusively Class I or Class III policies. Restricting our analysis to the latter alone, the share going to Class III products was just under 19.8%.

Figure 2
Composition of
Class I and Class III
life products



However, by comparison with 2015, there was a slight decrease in the share of multi-class product premiums going to Class III, which is still higher than in 2014 (Figure 3).

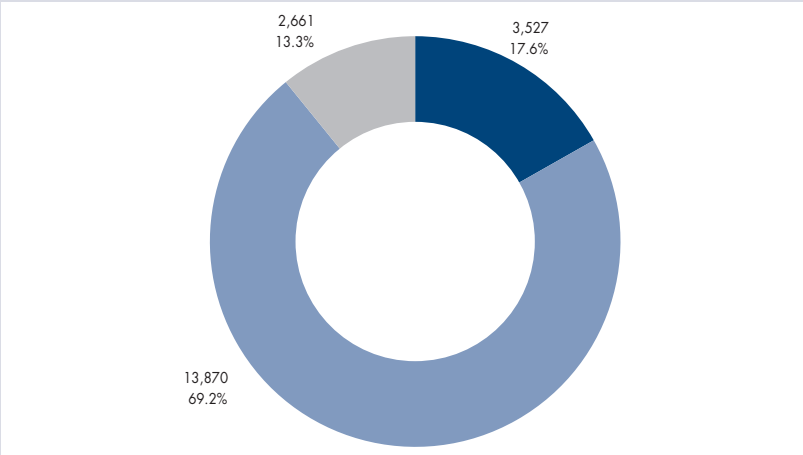
Figure 3
Change in the
composition between
Class I and Class III
multi-class products
in 2014-2016



As for premiums written through the various distribution channels (Figure 4), bank and post office branches distributed €13.9 billion worth of multi-class products in 2016, accounting for 69.2% of total premiums, very slightly less than the share of total new life business sold through that channel (70.7%). Financial salesmen distributed 13.3% of multi-class products, compared to 15.0% of total new business. Insurance agencies and other channels placed a higher share of multi-class products (17.6%) than total life insurance products (14.3%).

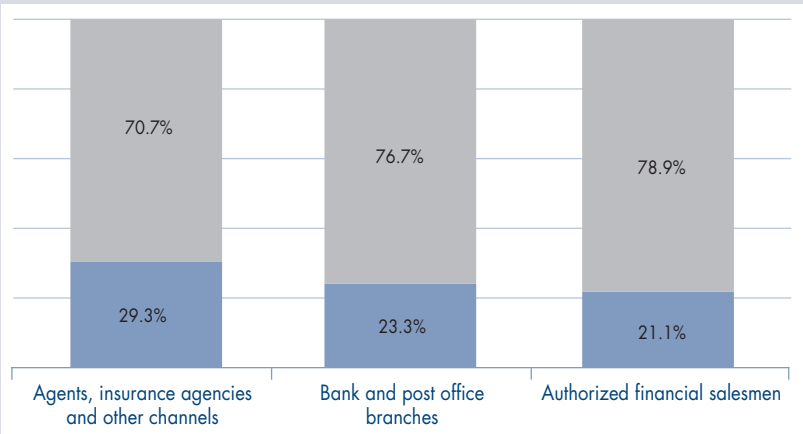
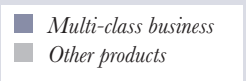
LIFE INSURANCE

Figure 4
Share and volumes of new multi-class business by distribution channel
Euro million



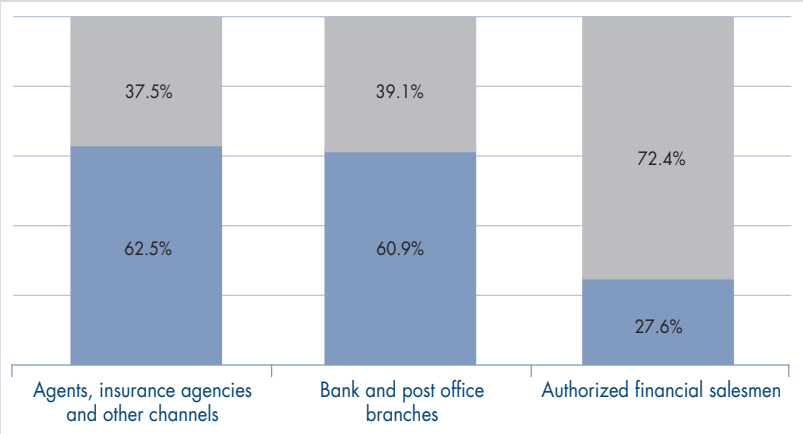
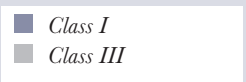
As regards the composition of total new life business according to distribution channel, financial salesmen's share of multi-class products was 21.1%; it was 23.3% for bank and post office branches and 30% for insurance agencies and other channels (Figure 5).

Figure 5
Incidence of new multi-class business by distribution channel



Furthermore, while for policies distributed by insurance agencies and bank and post office branches the share invested in Class I products was predominant, for policies distributed by financial salesmen the predominant share was Class III products with over 70% of the total.

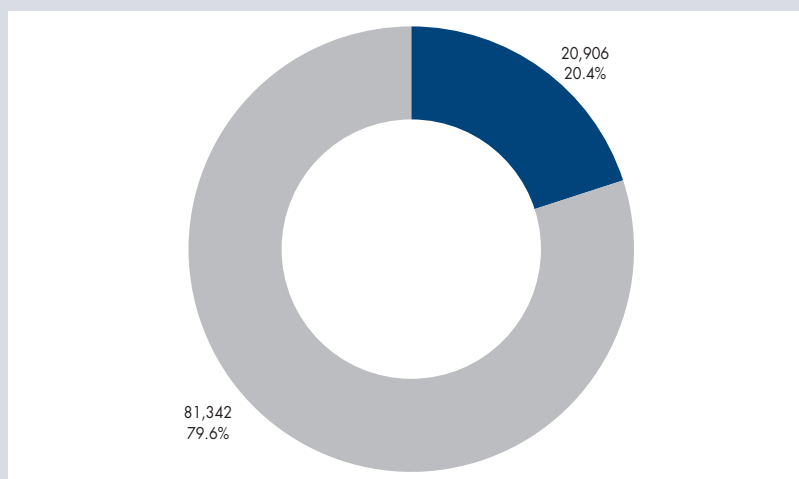
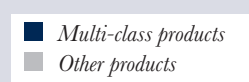
Figure 6
Incidence of Class I and Class III components in multi-class products by distribution channel



Cash flows and provisions in 2016

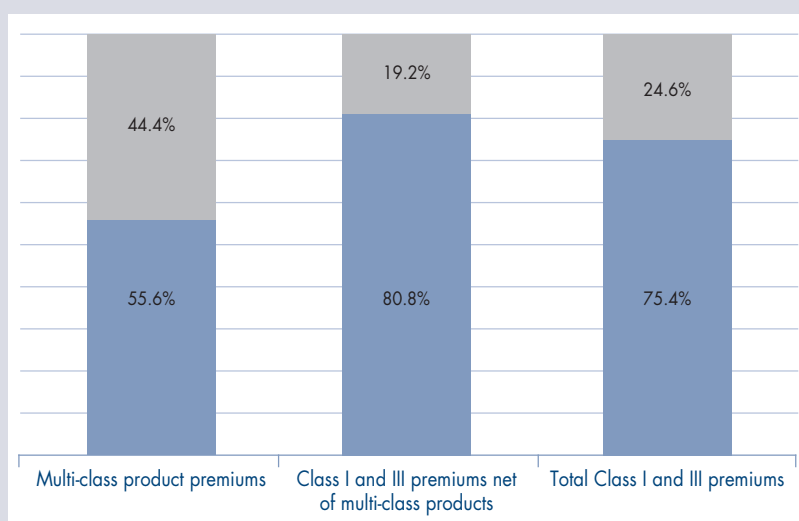
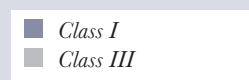
Overall, total premiums for multi-class policies amounted to €20.9 billion in 2016, or 20.4% of all life business (it was 20.0% in 2015 and 11.8% in 2014) (Figure 7). By comparison with 2015, premiums for multi-class products went down by 9.1%, while total Class I and Class III premiums declined by 11.0%.

Figure 7
Share and volume of
multi-class business
and other products
Euro million



As with overall premiums, it appears that although Class I products were predominant in multi-class policies as well, the Class III component for these policies, which accounted for over 44%, exceeded that component's share of Class I and Class III premiums combined, where it was under 25% (Figure 8).

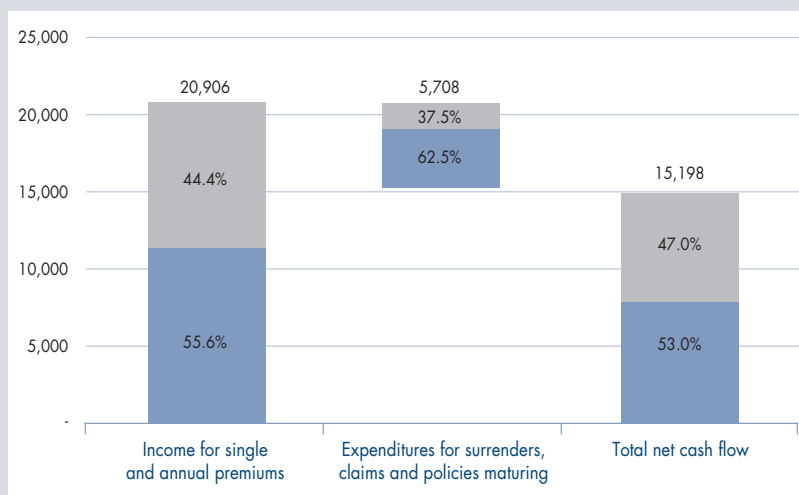
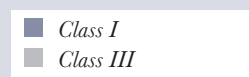
Figure 8
Composition of
Class I and Class III
life products
components



Overall claim costs amounted to €5.7 billion, 85% of which for surrenders. The balance between income (premiums) and expenditures (payments for surrenders, policies maturing,

annuities and claims) was therefore substantially positive at €15.2 billion, accounting for 38.6% (it was 43.3% in 2015) of the total net cash flow for the year's life business (€39.4 billion) (Figure 9).

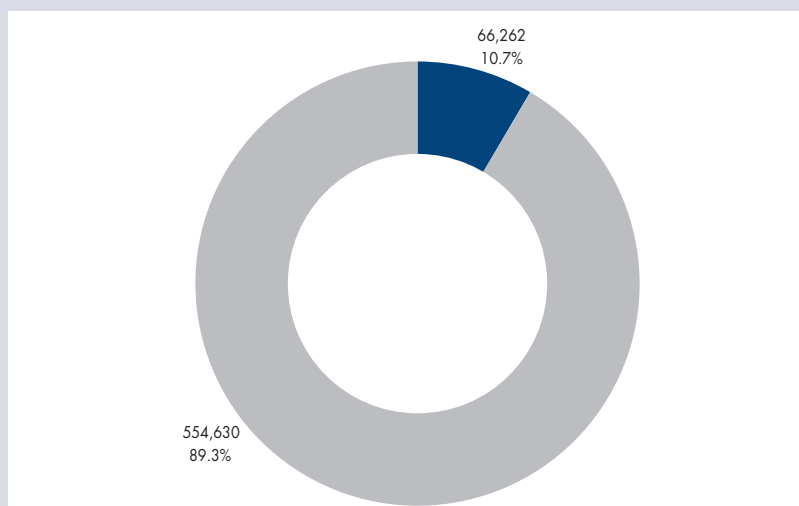
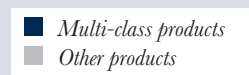
Figure 9
Net cash flow
(premiums net of
claims costs) of
multi-class products
Euro million



In detail, the share invested in Class I products produced a positive cash flow of €8.0 billion, compared to €7.2 billion for Class III products (investment funds). It is worth noting that the balance for the Class III component of multi-class policies accounted for over 80% of the overall balance for Class III income in 2016 (up sharply from 62% in 2015).

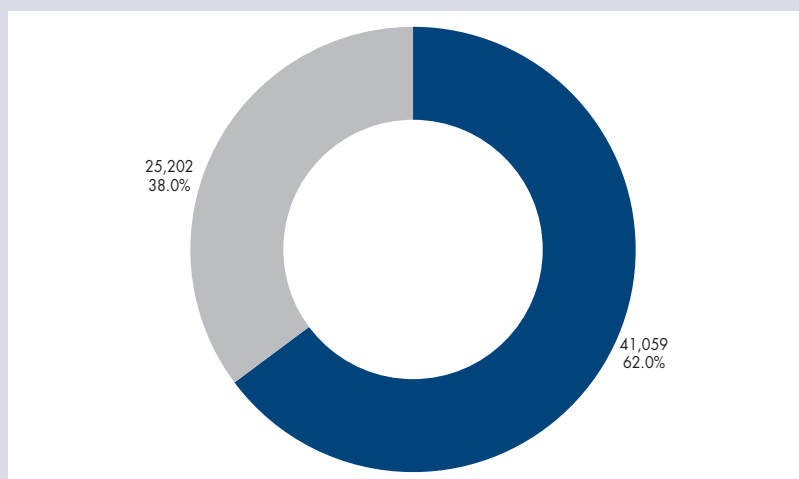
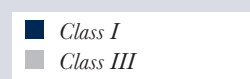
At the end of 2016, life technical provisions serving as cover for multi-class contracts amounted to €66.3 billion, 10.7% of the overall life provisions in the Italian market (they were 8.5% in 2015) (Figure 10).

Figure 10
Multi-class product
provisions over total
life provisions
Euro million



As for multi-class policy provisions, 62%, amounting to €41.1 billion, was in respect of the Class I component, the remaining 38% Class III (Figure 11).

Figure 11
Multi-class policy
provisions broken
down into Class I
and Class III
products
Euro million



4

NON-LIFE INSURANCE

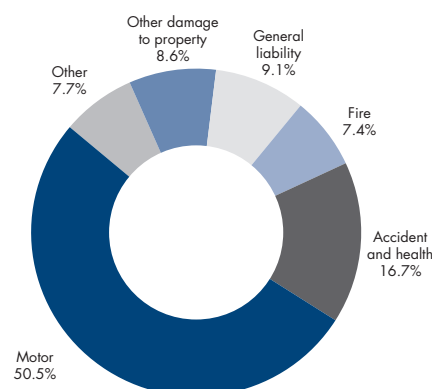
NON-LIFE INSURANCE

In 2016 non-life premium income amounted to €31,953 million, down 1.0% from 2015. Its share of total premiums rose from 21.8% to 23.8%, because life sector premiums diminished more sharply. The combined ratio performed slightly worse than last year, coming up to 90.3% from 89.4% in 2015: in addition to the slight increase in the expense ratio, in fact, there was also a deterioration in the loss ratio. Although the contribution of investment income remained positive, the overall technical account result diminished to €2.9 billion.

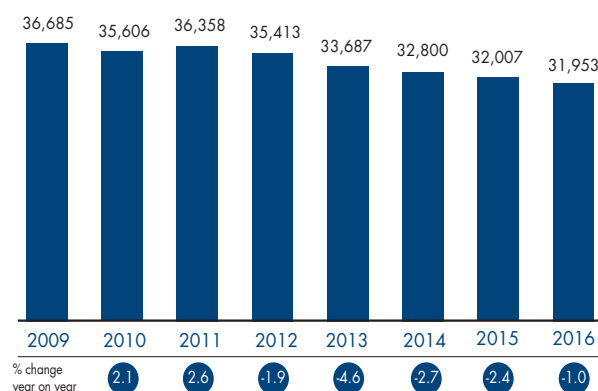
DOMESTIC BUSINESS

Premiums from direct domestic business for the 73 Italian and 3 non-EU insurance companies operating in non-life classes were equal to €31,953 million, down 1.0% compared with the previous year (calculated in homogeneous terms). This decline is chiefly due to the 3.8% drop in motor insurance business (motor third party liability insurance, third party liability insurance for watercraft, and land vehicle insurance), which by itself accounts for 50.6% of overall non-life income; this was only partly offset by the 2.0% gain in other non-life premiums. The non-life share of the industry's total premiums (non-life plus life) rose to 23.8% from 21.8% in 2015 as a consequence of the contraction in life premiums.

Breakdown of main non-life classes 2016



Direct premiums and change on year (%)
Euro million



In homogeneous terms

Earned premiums for the year, i.e. written premiums net of the change in premium reserves and other balance items, came to €31,847 million, up 1.9% compared with 2015.

The **incurred claims cost for the current accident year**, defined as the sum of the amounts paid and reserved for claims incurred during the year, came to €21,844 million, in line with a year earlier. Given the fall in claims costs, the ratio of claims to premiums was higher (68.6% in 2016 as against 67.4%).

NON-LIFE INSURANCE

Non-life technical account

Euro million

	2009	2010	2011	2012	2013	2014	2015	2016
Gross written premiums	36,685	35,606	36,358	35,413	33,687	32,800	32,007	31,953
Changes in premium reserves and other items (-)	34	524	522	-473	-754	-388	-176	106
Incurred claims (-):	28,973	26,601	26,462	25,793	22,400	21,201	20,080	20,005
– incurred claims cost for the current accident year (-)	28,873	26,255	25,328	24,813	22,891	22,301	21,691	21,844
– excess/shortfall for claims in previous years	-100	-345	-1,134	-981	491	1,100	1,611	1,839
Balance of other technical items	-716	-687	-591	-663	-605	-527	-599	-598
Operating expenses (-)	9,053	8,696	8,761	8,504	8,433	8,599	8,647	8,770
– commissions	5,898	5,724	5,776	5,509	5,361	5,350	5,378	5,570
– other acquisition costs	1,370	1,374	1,356	1,422	1,478	1,629	1,617	1,488
– other administration costs	1,785	1,598	1,629	1,573	1,594	1,621	1,652	1,711
Direct technical balance	-2,091	-902	22	926	3,004	2,860	2,856	2,476
Investment income	2,368	1,038	604	1,607	1,202	1,278	1,220	1,049
Direct technical account result	277	137	626	2,533	4,205	4,138	4,077	3,524
Reinsurance results	-344	-577	-554	537	-772	-600	-495	-578
Overall technical account result	-67	-441	72	3,070	3,434	3,538	3,581	2,947
Annual % change in premiums	-2.1%	2.1%	2.6%	-1.9%	-4.6%	-2.7%	-2.4%	-1.0%
Combined ratio	103.7%	100.2%	97.9%	95.9%	90.1%	90.1%	89.4%	90.3%
– Expense ratio	24.7%	24.4%	24.1%	24.0%	25.0%	26.2%	27.0%	27.4%
– Commissions/Gross written premiums	16.1%	16.1%	15.9%	15.6%	15.9%	16.3%	16.8%	17.4%
– Other acquisition costs/Gross written premiums	3.7%	3.9%	3.7%	4.0%	4.4%	5.0%	5.1%	4.7%
– Other administration costs/Gross written premiums	4.9%	4.5%	4.5%	4.4%	4.7%	4.9%	5.2%	5.4%
– Loss ratio:	79.1%	75.8%	73.8%	71.9%	65.0%	63.9%	62.4%	62.8%
– Loss ratio for the current accident year	78.8%	74.8%	70.7%	69.1%	66.5%	67.2%	67.4%	68.6%
– Excess/shortfall of claim reserves for previous years/ Earned premiums	-0.3%	-1.0%	-3.2%	-2.7%	1.4%	3.3%	5.0%	5.8%
Technical balance/Earned premiums	-5.7%	-2.6%	0.1%	2.6%	8.7%	8.6%	8.9%	7.8%
Technical account result/Earned premiums	0.8%	0.4%	1.7%	7.1%	12.2%	12.5%	12.7%	11.1%
Overall technical account result/Earned premiums	-0.2%	-1.3%	0.2%	8.6%	10.0%	10.7%	11.1%	9.3%
Premiums to total life and non-life premiums ratio (%)	31.1%	28.3%	33.0%	33.7%	28.4%	22.9%	21.8%	23.8%

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

The changes (%) were calculated in homogeneous terms

The **incurred claims cost for the financial year**, which in addition to the incurred cost for the current year also includes the excess or shortfall of provisions for claims incurred in previous accident years, amounted to €20,005 million, slightly down from the year before. This improvement in the incurred claims cost was due to the release of provisions set aside in previous years. In fact, despite excess reserves having increased from €1,611 million in 2015 to €1,839 million in 2016, the ratio of incurred costs to earned premiums could not be offset, thus performing slightly worse than a year earlier (rising from 62.4% to 62.8%).

Operating expenses – that is, administrative expenses relating to technical management plus costs of contract acquisition, premium collection and the organization and management of the distribution network – amounted to €8,770 million, an increase of 1.4% from the previous year. The incidence on direct premiums, at 27.4%, increased slightly from the previous year (27.0%). The ratio of commission expenses to premiums also rose (from 16.8% to 17.4%), as did that of other administration expenses (from 5.2% to 5.4%). By contrast, the incidence of other acquisition costs went down, from 5.1% in 2015 to 4.7% in 2016.

NON-LIFE INSURANCE

The **technical balance for direct business** was positive at €2,476 million, down from the €2,856 million in 2015.

Counting investment income, which came to €1,049 million (compared with €1,220 in 2015), **the direct technical account result** was positive by €3,524 million, against €4,077 million in 2015. The ratio to premium income in 2016 came to 11.1% (12.7% in 2015).

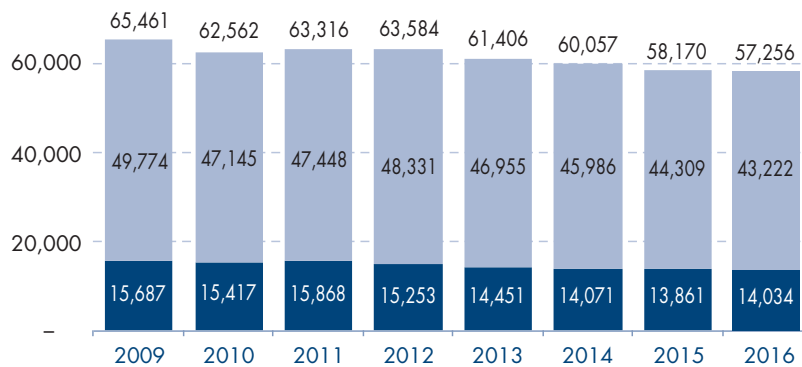
The result on reinsurance cessions and net indirect business was negative by €578 million in 2016, compared with a negative balance of €495 million a year earlier.

This contributed to a positive **overall technical account result** of €2,947 million (€3,581 million in 2015). The ratio to premium income came to 9.3% (11.1% in 2015).

Direct technical reserves, net of amounts to be recovered from policyholders and third parties, amounted to €57,256 million at the end of 2016, of which €14,034 million consisted in premium reserves and €43,222 million in claims provisions.

Premium reserves and claims provisions
Euro million

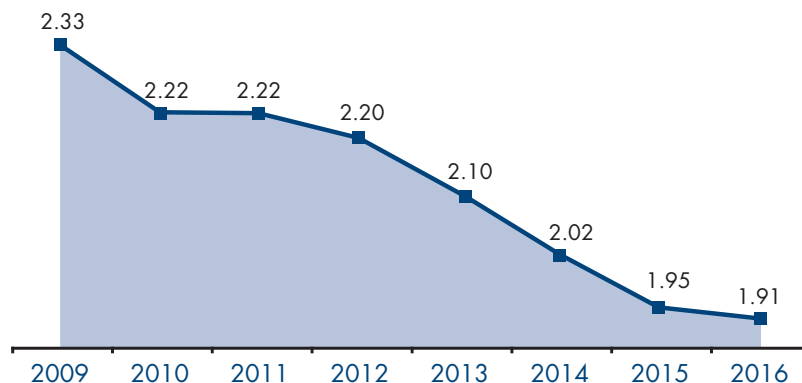
■ Claims provisions
■ Premium reserves



NON-LIFE INSURANCE AND GDP

Given last year's contraction in written non-life premiums, their ratio to Italy's GDP slipped from 1.95% in 2015 to 1.91% in 2016.

Non-life premiums/GDP (%)



5

MOTOR INSURANCE

MOTOR INSURANCE

In 2016 motor insurance premiums again registered a decrease, of 5.6%, while the cost of claims held steady, resulting in a worsening of the combined ratio from 93.6% in 2015 to 97.6% last year. The positive contribution of the financial component in connection with returns on investment, which was down slightly on the year, and the particularly positive liquidation of excess claims reserves for previous years helped produce a positive overall technical balance, though smaller than in 2015. The overall technical results for land vehicles remained positive, with the second consecutive increase in premiums after seven years of decline.

MOTOR LIABILITY OPERATIONS

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

Premiums for direct domestic business, collected by the 46 companies operating in this class, totaled €13,525 million in 2015, down 5.6%, following substantial decreases of 6.5% in both 2015 and 2014, 7.0% in 2013 and 1.2% in 2012. Over the last five years, that is, total premiums have come down by some 25%. These premiums represented 42.3% of the total for non-life classes (44.4% in 2015). In addition, a significant share of premiums (4.5% of the total, amounting to some €630 million) was collected by branch offices of foreign companies registered in EU countries operating under the freedom of establishment. The contraction in premium income for these insurers came to 3.6% in 2016, less pronounced than that sustained by companies with registered offices in Italy. Overall, Italian, EU and non-EU insurers collected total premium income of €14,157 million in 2016, a decline of 5.5% on the year. No data on technical results are available for the non-Italian companies, as they are subject to the home country supervisory authorities under the principle of home country control.

Earned premiums, i.e. total premiums net of the change in premium reserves and some other balance items, came to €13,689 million, down 6.0% with respect to 2015 for a homogeneous set of companies..

The **incurred claims cost for the current accident year**, defined as the sum of the total cost paid and the total cost reserved for all claims incurred in the current accident year, amounted to €11,023 million, practically the same as in 2015. This is consistent with the 2.6% increase in the total number of claims (including the estimate of claims incurred but not reported) and an equivalent decrease (2.6%) in the average cost of claims.

Since the cost of claims was stable while accrued premiums diminished, the ratio of claims cost to premium income in the 2016 accident year worsened by 4.2 percentage points, rising from 76.3% to 80.5%.

The **incurred claims cost for the financial year**, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal

MOTOR INSURANCE

to €10,422 million, the same as in 2015. The difference with respect to incurred claims cost reflected the utilization of excess reserves for previous years (€601 million). The excess of previous years' reserves came to 4.5% of accrued premium income. Owing to the decline in accrued premiums, the loss ratio worsened from 72.1% in 2015 to 76.1% last year.

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €2,902 million (€3,060 million in 2015). Given that the percentage decline in expenses was equal to that in premium income, the ratio between the two was unchanged at 21.5%.

Motor and marine liability insurance Euro million

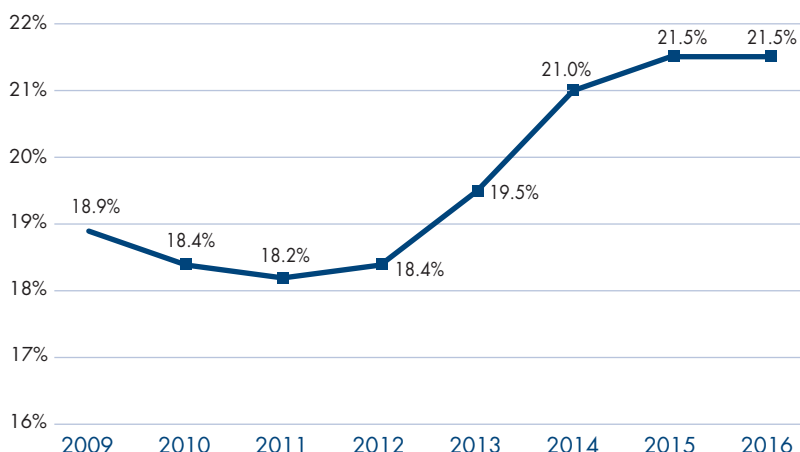
	2009	2010	2011	2012	2013	2014	2015	2016
Gross written premiums	16,994	16,913	17,794	17,576	16,263	15,211	14,218	13,525
Changes in premium reserves and other items (-)	-5	306	299	-121	-572	-347	-232	-164
Incurred claims (-):	15,106	14,467	14,791	13,110	11,563	10,818	10,421	10,422
– incurred claims cost for the current accident year (-)	14,912	13,865	13,444	12,108	11,539	11,176	11,032	11,023
– excess/shortfall for claims in previous years	-194	-602	-1,347	-1,002	-24	358	611	601
Balance of other technical items	-267	-244	-203	-272	-248	-143	-127	-172
Operating expenses (-)	3,208	3,116	3,236	3,233	3,167	3,187	3,060	2,902
– commissions	1,808	1,787	1,868	1,840	1,732	1,634	1,571	1,520
– other acquisition costs	574	585	595	638	690	789	731	632
– other administration costs	826	745	773	755	746	765	757	750
Direct technical balance	-1,583	-1,221	-735	1,084	1,857	1,410	842	193
Investment income	1,217	496	272	799	613	654	600	502
Direct technical account result	-366	-725	-463	1,883	2,469	2,064	1,442	695
Reinsurance results	-15	-19	-19	1	-47	-1	10	-5
Overall technical account result	-381	-744	-482	1,883	2,423	2,063	1,452	690
Annual % changes in premiums	-3.6%	4.4%	5.2%	-1.2%	-7.0%	-6.5%	-6.5%	-5.6%
Combined ratio	107.7%	105.5%	102.7%	92.5%	88.2%	90.5%	93.6%	97.6%
– Expense ratio	18.9%	18.4%	18.2%	18.4%	19.5%	21.0%	21.5%	21.5%
– Commissions/Gross written premiums	10.6%	10.6%	10.5%	10.5%	10.6%	10.7%	11.1%	11.2%
– Other acquisition costs/Gross written premiums	3.4%	3.5%	3.3%	3.6%	4.2%	5.2%	5.1%	4.7%
– Other administration costs/Gross written premiums	4.9%	4.4%	4.3%	4.3%	4.6%	5.0%	5.3%	5.5%
– Loss ratio:	88.9%	87.1%	84.5%	74.1%	68.7%	69.5%	72.1%	76.1%
– Loss ratio for the current accident year	87.7%	83.5%	76.8%	68.4%	68.5%	71.8%	76.3%	80.5%
– Excess/shortfall of claims reserves for previous years/ Earned premiums	-1.1%	-3.6%	-7.7%	-5.7%	-0.1%	2.3%	4.2%	4.4%
Technical balance/Earned premiums	-9.3%	-7.4%	-4.2%	6.1%	11.0%	9.1%	5.8%	1.4%
Technical account result/Earned premiums	-2.2%	-4.4%	-2.6%	10.6%	14.7%	13.3%	10.0%	5.1%
Overall technical account result/Earned premiums	-2.2%	-4.5%	-2.8%	10.6%	14.4%	13.3%	10.1%	5.0%
Premiums to total non-life premiums ratio (%)	46.3%	47.5%	48.9%	49.6%	48.3%	46.4%	44.4%	42.3%
Premiums of EU branches	200	917	960	954	956	805	762	631
Annual % changes in premiums	2.8%	-5.8%	-1.5%	4.8%	-0.6%	-11.8%	-15.8%	-3.6%
Premiums of Italian, EU and non-EU insurers	17,194	17,830	18,754	18,530	17,219	16,016	14,980	14,157
Annual % changes in premiums	-3.2%	-3.4%	4.2%	5.2%	-1.2%	-7.3%	-7.0%	-5.5%

*Indexes and changes (%) are calculated on data in Euro thousands
Changes (%) were calculated in homogeneous terms*

MOTOR INSURANCE

In particular, the incidence of commissions, which ordinarily represent a percentage of premiums, was unchanged, while that of other administration costs rose from 5.3% to 5.5% and that of other acquisition costs came down from 5.1% to 4.7%.

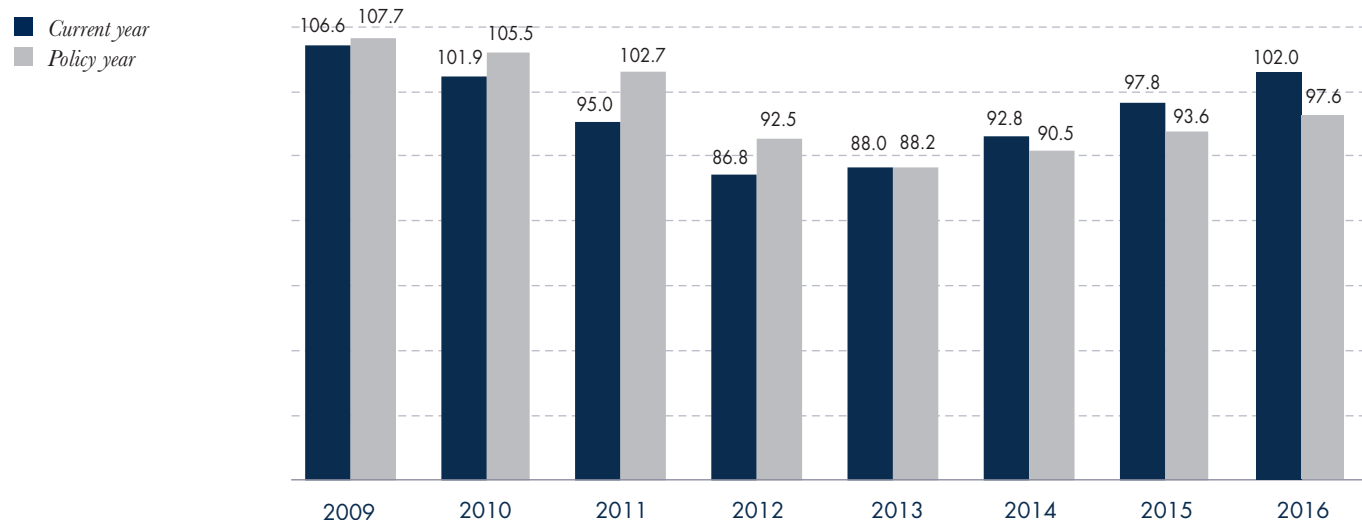
Operating expenses (%) of premiums



Adding the loss ratio (for the current year or the entire policy year) to the expense ratio gives the combined ratio (for the current year or the entire policy year, including the excess/shortfall of reserves set aside against claims incurred in previous accident years). The figure below plots the combined ratio from 2009 to 2016:

- 1) The combined ratio for the accident generation of 2016 was 102.0%, about 4 percentage points worse than the 2015 generation (97.8%) and 15 points worse than in 2012, when the ratio stood at 86.8%, the best technical result on record.
- 2) For all the years from 2009 to 2013 the balance-sheet (policy year) combined ratio was equal to or greater than that of the current accident year, showing that there was often a shortfall (sometimes quite substantial) of reserves against previous years' claims. Only in 2014, and more significantly in 2015 and 2016, were excess reserves sufficient to push the combined ratio for the policy year below that for the current year.

Combined ratio (%)



MOTOR INSURANCE

Given the stability of the incurred claims cost, the further decline in premiums of €700 million resulted in a deterioration of €650 million in the **technical balance**, which plunged from €842 million in 2015 to just €193 million last year.

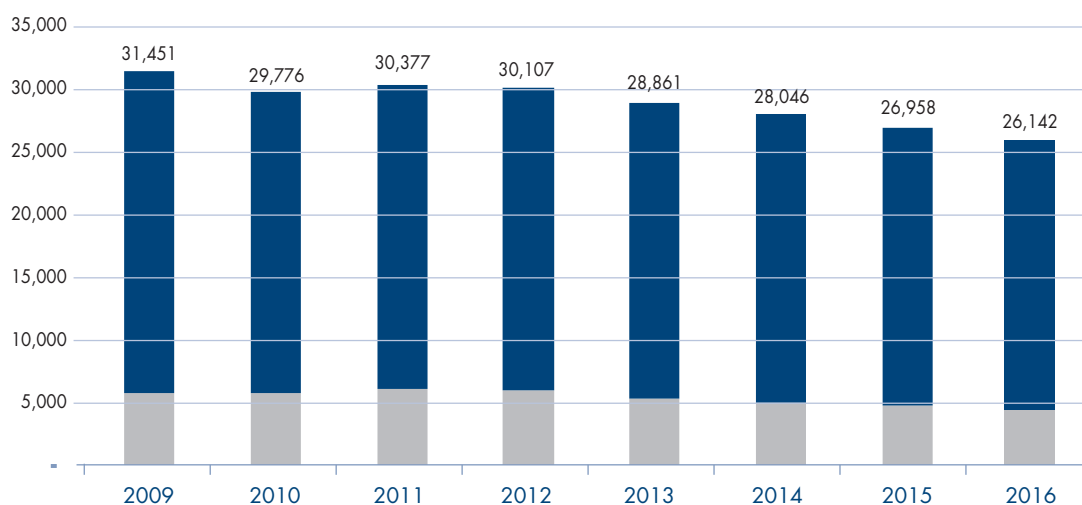
With profits from investments amounting to €502 million, down from €600 million in 2015, the **result of the technical account for direct business** showed a profit of €695 million, down from €1,442 million.

Taking the balance for reinsurance into account (negative by €5 million), the **overall technical account result** was positive by €690 million (compared with €1,452 million in 2015).

The **technical reserves** for direct business of the motor and marine liability sector, net of recoverable sums, amounted to €26,142 million in 2016, with a 3% decrease compared with 2015. Among these reserves, the premium reserve was about €4,600 million, while the claims reserve for current and previous accident years was about €21,500 million.

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

■ Premium reserves
■ Claims reserves



LAND VEHICLES INSURANCE OPERATIONS

The legally defined class of “land vehicles” comprises insurance against all forms of damage to or loss of land motor vehicles. Essentially, this means fire, theft and collision insurance (partial or total).

Premiums for direct domestic business for the 49 insurance companies operating in this class amounted to €2,634 million in 2016, accounting for 8.2% of total

MOTOR INSURANCE

non-life insurance premiums. This represented an increase in premiums of 6.5%, the second straight year of increase following the 2.9% gain in 2015, which had ended a seven-year contraction since 2008 that brought a total premium reduction of about 30%. Sales of these policies are closely correlated with new car sales, which according to ACI data had plunged 40% in 2009-2013 but then rebounded by 5.5% in 2014, 15% in 2015 and 18% last year.

Earned premiums, i.e. total premiums net of the change in premium reserves and some other balance items, came to €2,548 million, up more than 5% over 2015.

Land vehicle insurance

Euro million

	2009	2010	2011	2012	2013	2014	2015	2016
Gross written premiums	3,132	2,950	2,891	2,648	2,413	2,387	2,455	2,634
Changes in premium reserves (-)	-12	-17	-14	-72	-76	-13	54	86
Incurred claims (-):	2,131	1,857	1,812	1,630	1,654	1,459	1,396	1,463
– incurred claims cost for the current accident year (-)	2,157	1,891	1,884	1,701	1,695	1,512	1,463	1,515
– excess/shortfall for claims in previous years	27	34	72	71	41	53	67	53
Balance of other technical items	-34	-34	-31	-28	-21	-10	-11	-14
Operating expenses (-)	830	781	763	703	660	692	733	804
– commissions	562	530	521	477	447	460	492	545
– other acquisition costs	114	119	119	109	102	117	119	124
– other administration costs	154	131	123	117	111	115	121	136
Direct technical balance	149	296	299	360	154	238	261	268
Investment income	79	31	18	48	35	38	36	33
Direct technical account result	228	327	317	408	189	276	298	301
Reinsurance results	30	-20	-22	-18	1	-27	-36	-63
Overall technical account result	258	307	295	390	191	249	262	238
Annual % changes in premiums	-2.4%	-1.3%	-2.0%	-8.4%	-8.6%	-1.1%	2.9%	6.5%
Combined ratio	94.3%	89.0%	88.8%	86.4%	93.8%	89.8%	88.0%	87.9%
– Expense ratio	26.5%	26.5%	26.4%	26.5%	27.4%	29.0%	29.8%	30.5%
– Commissions/Gross written premiums	17.9%	18.0%	18.0%	18.0%	18.5%	19.3%	20.0%	20.7%
– Other acquisition costs/Gross written premiums	3.6%	4.0%	4.1%	4.1%	4.2%	4.9%	4.9%	4.7%
– Other administration costs/Gross written premiums	4.9%	4.4%	4.3%	4.4%	4.6%	4.8%	4.9%	5.1%
– Loss ratio:	67.8%	62.6%	62.4%	59.9%	66.4%	60.8%	58.2%	57.4%
– Loss ratio for the current accident year	68.6%	63.7%	64.9%	62.5%	68.1%	63.0%	60.9%	59.5%
– Excess/shortfall of claims reserves for previous years/								
– Earned premiums	0.8%	1.2%	2.5%	2.6%	1.7%	2.2%	2.8%	2.1%
Technical balance/Earned premiums	4.7%	10.0%	10.3%	13.2%	6.2%	9.9%	10.9%	10.5%
Technical account result/Earned premiums	7.3%	11.0%	10.9%	15.0%	7.6%	11.5%	12.4%	11.8%
Overall technical account result/Earned premiums	8.2%	10.4%	10.1%	14.3%	7.7%	10.4%	10.9%	9.3%
Premiums to total non-life premiums ratio (%)	8.5%	8.3%	8.0%	7.5%	7.2%	7.3%	7.7%	8.2%

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

Changes (%) were calculated in homogeneous terms

The **incurred claims cost for the current accident year**, defined as the sum of the total paid and the total reserved for all claims incurred in the current accident year, amounted to €1,515 million, with an increase of 3.6% compared with 2015. Given that this cost increased less than the volume of accrued premiums, the loss ratio for the year improved from 60.9% to 59.5%.

MOTOR INSURANCE

The **incurred claims cost** for the financial year, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal to €1,463 million, up 4.7% from €1,396 million in 2015. The loss ratio with respect to earned premiums thus improved from 58.2% to 57.4%.

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €804 million (€733 million in 2015). The ratio to premium income in 2016 was 30.5% (29.8% in 2015). In spite of the rise in premium income, the expense ratio reached its highest value since 1998, owing above all to distribution commissions, which came to 20.7% of income.

The **technical balance for direct business** was positive in 2016 by €268 million, up from €261 million.

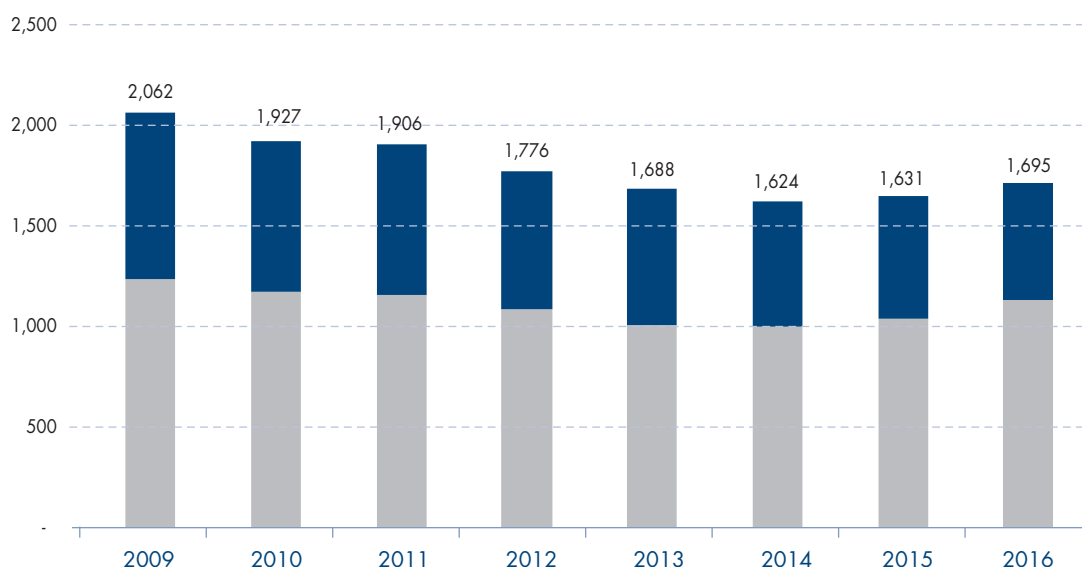
Considering investment income, the **technical account result** was positive by €301 million (€298 million in 2015).

Taking the balance on reinsurance into account, the **overall technical account result** was positive by €238 million, down from €262 million in 2015. Its ratio to premiums also declined, from 10.9% to 9.3%.

Technical reserves for direct business, net of recoverable sums, amounted to €1,695 million in the land vehicles class in 2016, about the same as in the previous two years. Among these reserves, claims reserves (for the current and previous accident years) amounted to some €570 million, while premium reserves came to about €1,100 million.

**Land vehicle
insurance technical
reserves**
Euro million

■ Premium reserves
■ Claims reserves



CAR THEFT IN ITALY

The Ministry of the Interior has released the data (not yet definitive) on thefts of passenger cars in Italy in 2016. We have compared them with the data for 2014 and 2015 (Table 1).

Table 1 – Thefts of passenger cars in Italy, 2014-2016

Region	Car thefts**			Change %			% of cars regist.* 2016	Car thefts per 1,000 registered		
	year 2016	year 2015	year 2014	2016/2015	2015/2014	2014/2013		2016	2015	2014
PIEDMONT	5,627	5,438	5,914	3.5%	-8.0%	-4.4%	7.6%	1.96	1.91	2.09
VALLE D'AOSTA	37	32	27	15.6%	18.5%	12.5%	0.2%	0.41	0.22	0.18
LOMBARDY	11,181	12,846	14,299	-13.0%	-10.2%	-11.6%	16.3%	1.82	2.17	2.43
LIGURIA	584	681	795	-14.2%	-14.3%	-5.4%	2.2%	0.70	0.82	0.96
FRIULI-VENEZIA GIULIA	342	321	404	6.5%	-20.5%	30.3%	2.1%	0.44	0.41	0.52
TRENTINO-ALTO ADIGE	167	179	139	-6.7%	28.8%	6.9%	1.6%	0.27	0.20	0.17
VENETO	1,608	1,645	2,009	-2.2%	-18.1%	2.4%	8.1%	0.53	0.55	0.67
EMILIA-ROMAGNA	2,332	2,776	3,031	-16.0%	-8.4%	0.3%	7.4%	0.83	1.00	1.10
NORTH	21,878	23,917	26,618	-8.5%	-10.1%	-7.1%	45.5%	1.27	1.39	1.56
TUSCANY	1,681	1,795	1,882	-6.4%	-4.6%	-1.1%	6.2%	0.72	0.75	0.79
UMBRIA	319	438	451	-27.2%	-2.9%	-16.8%	1.6%	0.52	0.71	0.73
MARCHE	689	787	781	-12.5%	0.8%	10.9%	2.6%	0.69	0.79	0.79
LAZIO	15,339	17,278	18,404	-11.2%	-6.1%	-7.3%	10.4%	3.91	4.67	4.96
CENTER	18,028	20,298	21,518	-11.2%	-5.7%	-6.5%	20.9%	2.29	2.63	2.80
ABRUZZO	1,339	1,715	1,623	-21.9%	5.7%	23.9%	2.3%	1.55	2.02	1.92
MOLISE	377	314	305	20.1%	3.0%	-7.0%	0.5%	1.82	1.54	1.50
CAMPANIA	20,975	22,136	21,084	-5.2%	5.0%	1.2%	9.0%	6.16	6.61	6.32
CALABRIA	3,160	3,660	4,036	-13.7%	-9.3%	2.8%	3.3%	2.55	2.99	3.32
PUGLIA	14,446	15,829	15,623	-8.7%	1.3%	2.2%	6.2%	6.18	7.00	6.95
BASILICATA	372	397	338	-6.3%	17.5%	32.0%	1.0%	1.03	1.10	0.95
SOUTH	40,669	44,050	43,010	-7.7%	2.4%	2.6%	22.3%	4.84	5.34	5.24
SICILY	11,930	13,190	15,481	-9.6%	-14.8%	-8.6%	8.6%	3.68	4.16	4.92
SARDINIA	1,106	1,205	1,486	-8.2%	-18.9%	-7.8%	2.7%	1.08	1.19	1.48
ISLANDS	13,036	14,395	16,967	-9.4%	-15.2%	-8.5%	11.3%	3.05	3.44	4.09
TOTAL ITALY	93,611	102,660	108,113	-8.8%	-5.0%	-3.6%	100.0%	2.48	2.75	2.92

Sources: (*) Ministry Infrastructures and Transport/ACI – No. vehicles registered at 25 February 2017 and previous years

(**) Ministry of Interior - The data for 2016 are subject to rectification

The number of vehicle thefts fell again last year, from 102,660 to 93,611, a decrease of no less than 8.8%. Except for 2012, when thefts rose by a marginal 1.5%, auto theft has been decreasing steadily: since 2012 the reduction comes to 19.4%, or over 22,500 fewer vehicles stolen. This sharp downtrend, however, has not been paralleled by recoveries of stolen vehicles by the law enforcement forces (Table 2): 43.4% of all stolen vehicles – about 47,000 – were recovered in 2014, 42.8% or 44,000 vehicles in 2015 and 42.7% or 40,000 vehicles in 2016.

Using ACI's data on the provincial distribution of cars in circulation in 2016 as a base, we can make an approximate calculation of theft rates. Overall in 2016, 2.48 vehicles per thousand were stolen, down from 2.92 in 2014 and 2.75 in 2015.

MOTOR INSURANCE

Table 2
Stolen cars
recovered by the law
enforcement forces

Region	Stolen vehicles recovered			% stolen vehicles recovered		
	2016	2015	2014	2016	2015	2014
PIEDMONT	2,873	3,003	3,569	51.1%	55.2%	60.3%
VALLE D'AOSTA	19	10	18	51.4%	31.3%	66.7%
LOMBARDY	4,988	5,801	6,685	44.6%	45.2%	46.8%
LIGURIA	456	589	663	78.1%	86.5%	83.4%
FRIULI-VENEZIA GIULIA	185	226	273	54.1%	70.4%	67.6%
TRENTINO-ALTO ADIGE	129	141	105	77.2%	78.8%	75.5%
VENETO	1,123	1,344	1,708	69.8%	81.7%	85.0%
EMILIA-ROMAGNA	1,944	2,409	2,430	83.4%	86.8%	80.2%
NORTH	11,717	13,523	15,451	53.6%	56.5%	58.0%
TUSCANY	1,254	1,381	1,470	74.6%	76.9%	78.1%
UMBRIA	256	325	357	80.3%	74.2%	79.2%
MARCHE	400	498	536	58.1%	63.3%	68.6%
LAZIO	4,835	4,928	4,904	31.5%	28.5%	26.6%
CENTER	6,745	7,132	7,267	37.4%	35.1%	33.8%
ABRUZZO	548	672	652	40.9%	39.2%	40.2%
MOLISE	68	78	74	18.0%	24.8%	24.3%
CAMPANIA	6,820	7,778	7,040	32.5%	35.1%	33.4%
CALABRIA	1,875	1,822	2,167	59.3%	49.8%	53.7%
PUGLIA	6,571	7,099	6,972	45.5%	44.8%	44.6%
BASILICATA	102	77	113	27.4%	19.4%	33.4%
SOUTH	15,984	17,526	17,038	39.3%	39.8%	39.6%
SICILY	4,909	5,227	6,419	41.1%	39.6%	41.5%
SARDINIA	612	568	745	55.3%	47.1%	50.1%
ISLANDS	5,521	5,795	7,164	42.4%	40.3%	42.2%
TOTAL ITALY	39,967	43,976	46,920	42.7%	42.8%	43.4%

Source: Ministry of Interior -
The data for 2016 are
subject to rectification

In regional terms, whereas in 2014 and 2015 the South had run counter to the national trend, with an increase in car theft, in 2016 the territorial breakdown shows a decline of 7.7% in that part of the country. Except for Molise, where thefts rose by 20.1% (but the figure for this region is highly volatile given the very small absolute numbers), all the southern regions registered decreases. The sharpest decline was in Abruzzo (21.9%), followed by Calabria (13.7%), while Puglia, Basilicata and Campania scored more modest declines (8.7%, 6.3% and 5.2% respectively). Even so, again in 2016 the regions with the highest theft rates in proportion to the number of cars on the roads were again Puglia at 6.18‰ and Campania at 6.16‰, both down somewhat from 2015.

The sharpest decline in auto theft last year came in the regions of the Center, with a drop of 11.2%. The downtrend involved all the central regions, especially Umbria, where there was a drop of 27.2%. The decrease came to 12.5% in Marche, 11.2% in Lazio and a more modest 6.4% in Tuscany. In the regions of central Italy the incidence of theft to cars on the road is less than 1.00‰, if we exclude Lazio, where it stood at 3.91‰ (down from 4.96‰ in 2014 and 4.67‰ in 2015). The Center regions account for some 21% of passenger cars on the roads.

In the North the number of thefts diminished by 8.5%. By region, the sharpest fall was in Emilia Romagna, with a 16.0% decrease by comparison with 2015, followed by Liguria (down 14.2%), Lombardy (down 13.0%), Trentino-Alto Adige (down

6.7%), and Veneto (down 2.2%). The other northern regions registered increases: 6.5% in Friuli Venezia Giulia, 3.5% in Piedmont and 15.6% in Valle d'Aosta (which is subject to the same caveat as Molise). The North has nearly half of all Italy's passenger cars (46.0% in 2015) and also the lowest incidence of theft, averaging 1.27‰ and a strikingly low 0.27‰ in Trentino Alto-Adige.

The island regions registered a decline of 9.4% in auto theft, with substantial reductions both in Sicily (9.6%) and in Sardinia (8.2%). Consequently the theft rate also improved, to 1.08‰ in Sardinia and 3.68‰ in Sicily.

The Ministerial data on passenger car thefts and the regional frequency indicators derived from them are not directly comparable with those produced by the insurance industry (described in the next section). The theft rates set out above are calculated as the ratio between thefts of cars reported to the police and the number of such vehicles registered according to ACI, the Italian Automobile Club. The frequencies calculated by insurers only consider vehicles with theft insurance, on average fewer than a third of all those on the roads. The insurance technical indicator is thus the ratio between the number of thefts reported to insurers and the total number of vehicles insured.

Nevertheless, as far as identifying the riskiest areas, the Ministerial data confirm those of the insurance industry: the regions with the highest incidence of stolen cars are also those where thefts of insured vehicles are most numerous.

PASSENGER CAR FIRE AND THEFT COVERAGE IN ITALY

Since 2015 ANIA has been gathering annual statistics on the technical performance and the diffusion of the various kinds of land vehicle insurance. This means mainly car theft and fire, collision (so-called partial or full "kasko"), breakage of windows and windshields, damage from weather, vandalism, or political events. This section reports the preliminary results for 2016 and a homogeneous comparison with 2014 and 2015 for the most common type of coverage, namely fire and theft. The observation is for a sample of companies that account for over 91% of premium income in this class and refers only to private passenger cars (no fleet policies). The main technical trends are discussed below.

Diffusion of coverage. Based on our sample, we estimate that there were just under 8.5 million passenger car fire and theft policies in Italy in 2016, down slightly from 2014 and 2015, when they numbered just over 8.5 million.

Nationwide, this works out to a coverage ratio of about 30% of cars with motor liability insurance. But the geographical distribution is quite uneven. The regions with higher-than-average coverage are found in the Center and North: nearly 50% in Lombardy, 37% in Lazio and Piedmont, 30% in Liguria and Emilia Romagna. Very low diffusion of under 15% (less than half the national average) is registered (apart

from Marche, also with just under 15%) only in the regions of the South: Campania, 13.7%; Puglia, 14.2% and Basilicata, 14.7%. Calabria and Sicily, at 17.1% and 16.5% respectively, are also well below the national average.

Claims frequency. Claims frequency (i.e. the ratio of claims in a year to the number of vehicles insured) is much higher for theft insurance (nearly 11 claims per 1,000 insured vehicles in 2016) than for fire (0.34 per 1,000, about the same as in previous years; see Tables 1 and 2).

This indicator too displays very considerable geographical variability (Figure 1). The region with the greatest frequency of theft claims in 2015 was again Puglia, with close to 24 cars stolen for every thousand insured, up sharply from 19 in 2014 and 2015, followed by Campania (nearly 17, up from 15 in 2014 and 2015), Lazio (15, down slightly from the previous two years) and Molise (over 12). By province, the greatest frequency was registered in Foggia (almost 40 claims for auto theft for every thousand vehicles insured, up from 31 in 2015), Barletta-Andria-Trani (29, up from 25), Bari (27, up from 21), and Caserta and Naples (20, up from 18).

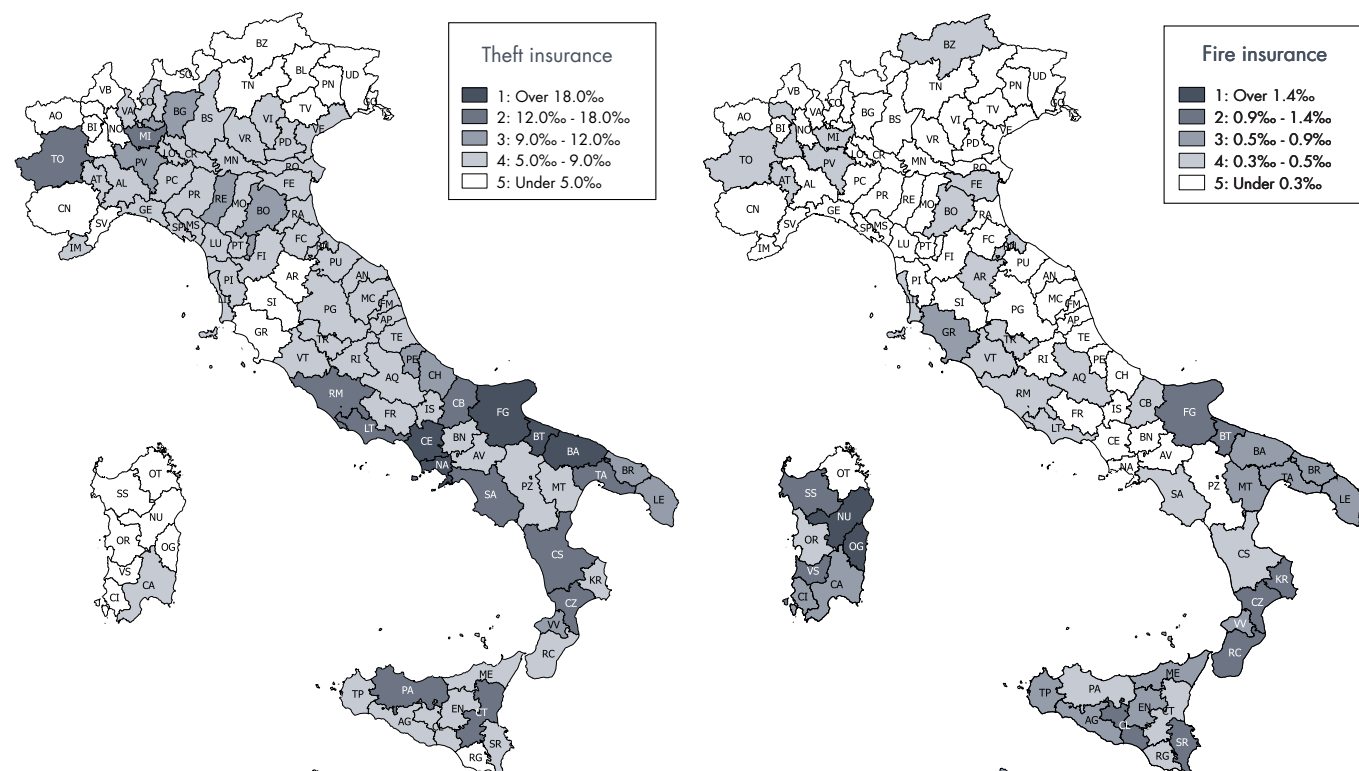
The most “virtuous” regions are nearly all found in the North-East: Friuli Venezia Giulia scored 3.3 thefts per thousand vehicles in 2016 (up slightly over the previous years), Trentino-Alto Adige under 4, and Veneto 6. The cities with the lowest rates are Oristano, Sondrio, Belluno, Medio Campidano and Bolzano, all at under 3 thefts per thousand insured vehicles.

Table 1
*Technical indicators,
auto theft insurance*

	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Friuli-Venezia Giulia	1.5	1.5	1.5	3.26	2.84	2.77	35.2	28.7	22.9
Veneto	7.4	7.1	7.0	5.80	5.88	6.64	17.3	18.0	19.4
Trentino-Alto Adige	1.0	1.0	1.0	3.94	4.06	3.49	21.4	20.4	22.6
Emilia-Romagna	8.3	8.2	8.0	8.25	9.30	9.30	16.7	16.3	18.2
TOTAL NORTH-EAST	18.2	17.8	17.5	6.60	7.10	7.34	17.7	17.3	18.8
Piedmont	11.0	10.9	11.0	10.11	10.90	12.09	30.7	30.4	30.6
Lombardy	30.5	30.9	31.1	10.13	10.93	11.49	34.4	34.2	34.4
Liguria	2.6	2.7	2.7	6.95	9.71	8.24	17.8	24.5	24.8
Valle d'Aosta	0.2	0.2	0.2	4.20	3.87	4.45	31.6	61.3	43.4
TOTAL NORTH-WEST	44.3	44.7	45.0	9.91	10.82	11.42	32.7	32.8	33.1
Tuscany	4.5	4.3	4.2	7.07	7.36	7.91	18.0	21.7	21.0
Marche	1.6	1.5	1.4	6.84	6.73	7.19	22.7	25.6	24.1
Umbria	1.1	1.1	1.1	6.39	7.48	8.66	23.7	27.2	23.5
Lazio	12.7	12.9	13.2	14.95	15.18	16.15	53.7	55.9	55.5
TOTAL CENTER	19.9	19.8	19.9	12.04	12.40	13.35	41.6	44.5	44.2
Molise	0.4	0.4	0.4	12.20	11.85	11.62	56.4	59.3	43.5
Campania	3.6	3.5	3.4	16.89	14.90	14.96	47.3	50.3	47.4
Basilicata	0.5	0.5	0.5	7.37	8.78	8.38	55.9	62.0	52.6
Abruzzo	1.8	1.7	1.7	8.63	9.95	10.14	46.5	46.2	43.4
Calabria	1.8	1.8	1.8	10.89	10.17	12.87	35.7	36.0	38.1
Puglia	3.0	3.1	3.0	23.84	18.97	19.08	70.1	80.7	74.1
TOTAL SOUTH	11.1	11.1	10.9	15.79	14.09	14.55	56.1	59.0	54.5
Sardinia	1.7	1.8	1.8	5.41	6.67	7.28	31.7	32.4	37.6
Sicily	4.5	4.7	4.7	10.26	10.15	11.96	37.3	38.3	37.2
TOTAL ISLANDS	6.3	6.4	6.5	8.92	9.20	10.67	36.4	37.0	37.2
TOTAL ITALY	100.0	100.0	100.0	10.77	11.17	11.75	36.0	36.3	35.7

MOTOR INSURANCE

Figure 1 – Claims frequency for car theft and fire insurance – 2016



Fire insurance claims too were particularly uncommon in Veneto and Friuli Venezia Giulia, while their frequency was above average in many regions of the South and Islands (Table 2 and Figure 1). Sardinia registered the highest fire insurance claims frequency (three times the national average), followed by Calabria, Puglia and Sicily at about twice the average. The riskiest provinces for fire insurance claims were Nuoro in Sardinia with a rate of over 2.0‰, followed by Ogliastra at 1.7‰, and Caltanissetta, Sassari, Reggio Calabria and Crotone at about 1.0‰.

Average degree of damage. Another significant indicator in analyzing technical trends in fire and theft insurance is the average degree of damage, i.e. the percentage of the value of the good insured that is “lost”. For given that in the case of both (partial) theft insurance and fire insurance the entire value of the car is not necessarily lost, it is worth determining what portion of damage is indemnified in relation to the value insured. This indicator is normally less than 100%; a value greater than 100% can arise only due to an accounting effect in quantifying the insured value exposed to risk during the year.

The insurers’ average exposure for both types of policy (i.e. value insured divided by risk insured) rose from €8,600 in 2015 to over €10,000 last year. One factor in this increment was the increase in new car registrations (a positive balance of 478,000 between vehicle registrations and cancellations in 2016, practically twice the gain of 243,000 recorded in 2015).

MOTOR INSURANCE

Table 2
Technical indicators,
car fire insurance

	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Friuli-Venezia Giulia	1.7	1.8	1.8	0.18	0.10	0.12	65.9	21.5	72.9
Veneto	8.1	7.9	7.9	0.17	0.18	0.21	45.6	61.2	41.6
Trentino-Alto Adige	1.1	1.1	1.1	0.27	0.18	0.13	42.6	47.2	59.5
Emilia-Romagna	8.3	8.3	8.1	0.27	0.19	0.22	52.9	60.9	78.3
TOTAL NORTH-EAST	19.3	19.0	18.9	0.22	0.18	0.20	50.6	58.4	60.7
Piedmont	11.0	10.9	11.0	0.36	0.35	0.43	59.9	63.6	70.7
Lombardy	30.2	30.6	30.8	0.25	0.25	0.27	60.3	67.5	60.1
Liguria	2.7	2.7	2.8	0.24	0.26	0.34	40.6	74.5	58.5
Valle d'Aosta	0.2	0.2	0.2	0.00	0.33	0.34	0.0	102.5	112.6
TOTAL NORTH-WEST	44.0	44.5	44.7	0.28	0.28	0.31	59.0	66.7	63.4
Tuscany	4.5	4.3	4.2	0.24	0.20	0.27	49.3	54.9	61.4
Marche	1.6	1.5	1.5	0.25	0.26	0.22	46.6	57.7	57.7
Umbria	1.1	1.1	1.1	0.25	0.22	0.17	60.7	69.4	25.0
Lazio	12.2	12.3	12.5	0.42	0.44	0.37	67.9	78.1	82.7
TOTAL CENTER	19.4	19.3	19.3	0.35	0.36	0.33	59.2	68.3	71.4
Molise	0.4	0.4	0.4	0.33	0.19	0.29	79.7	61.0	74.1
Campania	3.5	3.4	3.3	0.29	0.31	0.44	71.3	71.1	95.7
Basilicata	0.5	0.5	0.5	0.30	0.59	0.33	76.0	72.7	62.7
Abruzzo	1.8	1.7	1.7	0.27	0.24	0.31	68.9	71.5	72.1
Calabria	1.6	1.7	1.7	0.77	0.93	0.89	79.0	99.3	102.8
Puglia	3.0	3.1	3.0	0.70	0.60	0.73	80.4	100.0	90.2
TOTAL SOUTH	10.9	10.8	10.6	0.48	0.49	0.56	75.9	86.0	89.0
Sardinia	1.7	1.7	1.8	0.88	1.07	1.02	66.7	77.0	81.9
Sicily	4.5	4.6	4.7	0.61	0.51	0.57	82.3	84.4	82.6
TOTAL ISLANDS	6.2	6.4	6.4	0.68	0.66	0.69	76.9	82.0	82.9
TOTAL ITALY	100.0	100.0	100.0	0.34	0.32	0.35	60.9	69.3	69.2

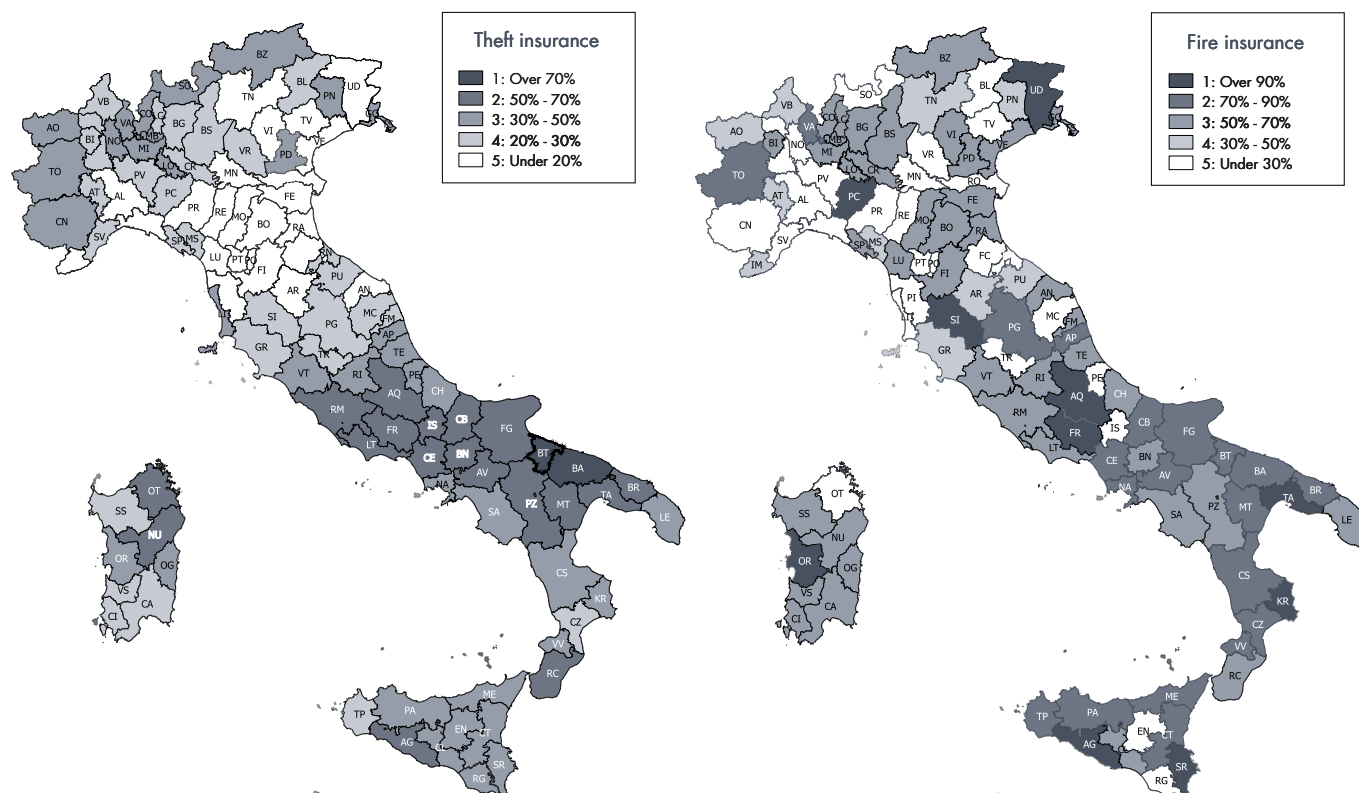
For theft insurance, the degree of damage averaged 36% nationwide in 2016, as the previous year, which means that partial auto theft is quite a significant phenomenon: the average incidence of damages in fact does not even come to two-fifths of the value insured. For fire insurance, the rate was 61%. For fire claims, that is, a high percentage of the total vehicle value is lost.

The average degree of damage from fire diminished in 2016, because for constant average claim indemnity, insurers' average exposure increased, as noted. This did not occur in the case of theft insurance (where the degree of damage held practically constant), because the increase in average exposure was accompanied by a parallel rise in average claim cost.

Again, the degree of damage varies significantly by region for both types of coverage (Figure 2). For theft, the values were higher than the national average in the South: nearly twice the average in Puglia (70.1%), and high also in Molise and Basilicata (56%), and Campania and Abruzzo (47%). Among the regions of the Center and North, a high degree of damage was recorded in Lazio (53.7%). The provinces with the highest figures were Barletta-Andria-Trani (more than 95% of the value of the insured vehicle), Bari (75%), Brindisi (66%), Agrigento (62%) and Isernia (60%).

MOTOR INSURANCE

Figure 2 – Average degree of damage, car theft and fire insurance – 2016



For fire insurance, the results are similar, with degree of damage of 80% or more in Sicily and Puglia, and between 70% and 80% in nearly all the regions of the South. Elsewhere, above-average values were registered in Lazio (67.9%), Sardinia (66.7%) and Friuli Venezia Giulia (65.9%). More in detail, values of 100% were found in many provinces such as Frosinone, Crotone, Agrigento, Piacenza, Oristano, Siracusa and L'Aquila.

THE AVERAGE COST OF CLAIMS AND CLAIMS FREQUENCY

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

Number of claims. The total number of indemnifiable 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

MOTOR INSURANCE

the estimate of those incurred but not reported (IBNR) during 2016 but that will be reported in future years. By this count, the number of claims lodged with Italian or non-EU insurance companies totaled 2,184,543 in 2016, up 2.9% from 2,122,875 in 2015.

Claims frequency (excluding IBNR, Table 1, Panel A). Claims frequency as shown in Panel A of Table 1 is defined as the ratio between the number of claims incurred and reported during the accident year that have given or will give rise to compensation and the number of vehicles exposed to the risk of claim-generating accidents (measured on the basis of days of exposure during the year, converted into “vehicle-years”). This technical indicator rose from 5.55% in 2015 to 5.65% in 2016, an increase of 1.8 percent; after five years of decline from 2010 to 2014, with an overall reduction of nearly 30 percent, the trend was reversed in 2015 and the increase continued last year. The number of vehicles insured increased by 0.3% in 2016 to 38.7 million. The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer doing business in Italy, the number of insured vehicles rose by 0.7% to 41 million.

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

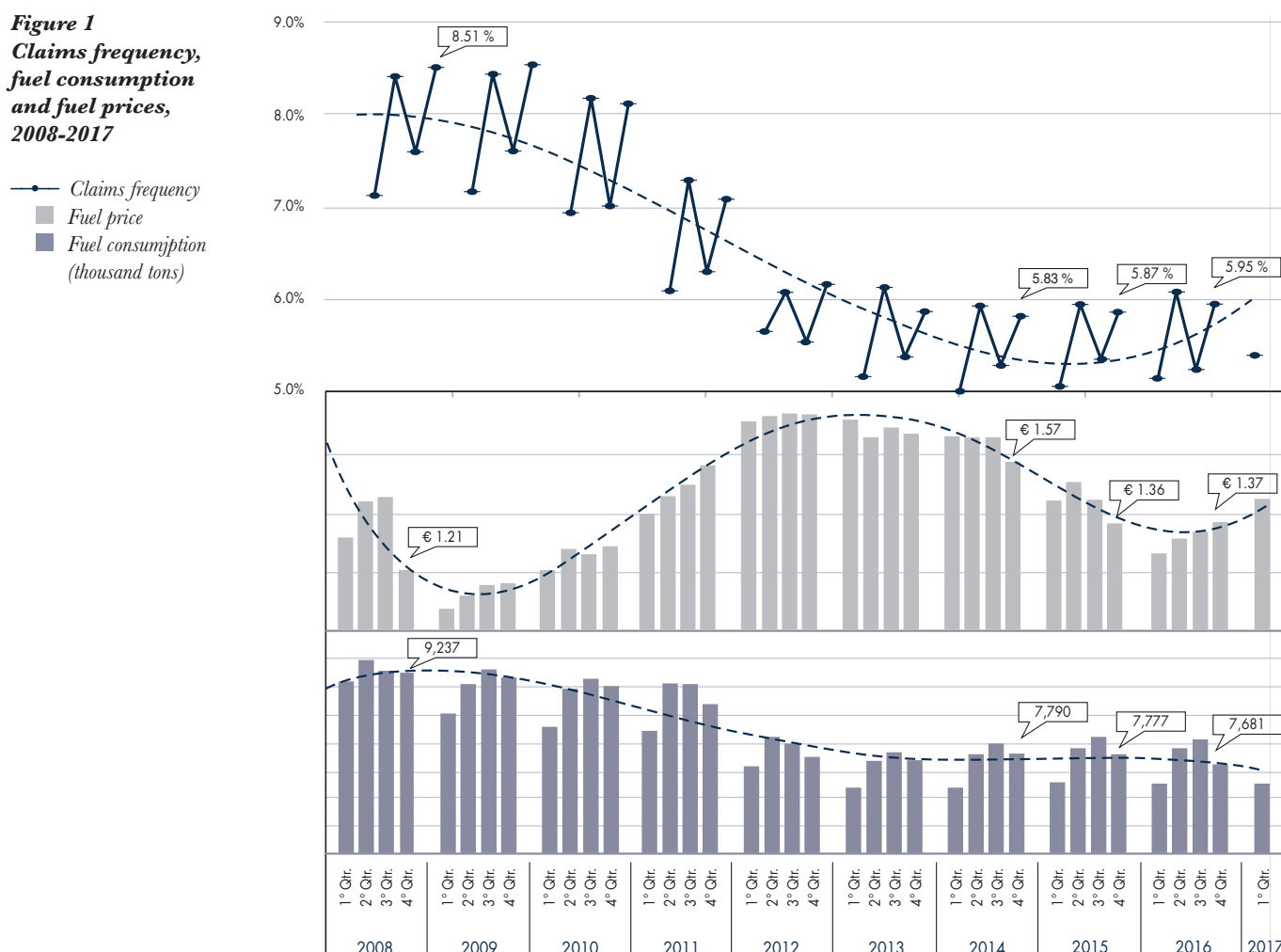
Year	PANEL A: Excludes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items								PANEL B: Includes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items	
	Claims frequency %	Change %	Average claim cost - property damage	Change %	Average claim cost - personal injury	Change %	Average total claim cost**	Change %	Claims frequency %	Average claims cost
2000	9.82%	-1.3%	1,278	2.9%	9,920	14.9%	2,809	13.1%	10.95%	2,825
2001	8.54%	-13.1%	1,431	12.0%	11,175	12.7%	3,186	13.4%	9.55%	3,207
2002	7.82%	-8.4%	1,535	7.3%	12,686	13.5%	3,532	10.9%	8.78%	3,503
2003	7.66%	-2.1%	1,634	6.4%	13,542	6.7%	3,805	7.7%	8.63%	3,771
2004	7.61%	-0.6%	1,701	4.1%	13,206	-2.5%	3,982	4.7%	8.58%	3,964
2005	7.55%	-0.8%	1,644	-3.3%	13,106	-0.8%	4,047	1.6%	8.51%	4,038
2006	7.47%	-1.1%	1,674	1.8%	13,233	1.0%	4,100	1.3%	8.47%	4,080
2007	7.61%	1.9%	1,764	5.4%	11,958	-9.6%	3,967	-3.2%	8.52%	4,014
2008	7.73%	1.6%	1,772	0.5%	11,830	-1.1%	3,913	-1.4%	8.57%	3,972
2009	7.77%	0.5%	1,725	-2.7%	11,694	-1.1%	3,903	-0.3%	8.60%	3,986
2010	7.36%	-5.2%	1,716	-0.5%	12,052	3.1%	4,057	4.0%	8.12%	4,117
2011	6.53%	-11.3%	1,803	5.0%	13,155	9.2%	4,345	7.1%	7.21%	4,519
2012	5.87%	-10.1%	1,899	5.3%	14,804	12.5%	4,495	3.5%	6.48%	4,763
2013	5.65%	-3.8%	1,883	-0.8%	15,986	8.0%	4,564	1.5%	6.24%	4,828
2014	5.48%	-2.9%	1,894	0.6%	16,150	1.0%	4,532	-0.7%	6.05%	4,796
2015	5.55%	1.2%	1,908	0.7%	16,389	1.5%	4,467	-1.5%	6.11%	4,721
2016*	5.65%	1.8%	1,923	0.8%	15,785	-3.7%	4,374	-2.1%	6.20%	4,597

* ANIA estimates based on advance information on 2016 financial statements

** Source: IVASS; for 2016 data from reporting forms

ANIA has compared quarterly data from 2008 through 2016 on the average cost and consumption of vehicle fuel with that on claims frequency (Figure 1). Overall, claims frequency came down by 2.7 percentage points from 8.51% in the fourth quarter of 2008 to 5.83% in the fourth quarter of 2014. However, in the fourth quarter of 2015, after five straight years of decline, the indicator edged up to 5.87% and rose further to 5.95% at the end of last year, representing an increase of 2 per cent over 2014.

Figure 1
Claims frequency,
fuel consumption
and fuel prices,
2008-2017



The figure shows that the average price of fuel was stable or rising between 2009 and 2014, discouraging vehicle use and consequently reducing accidents and claims. This is confirmed by fuel consumption: the use of gasoline, diesel fuel and LPG declined in those five years by 25%, 10% and 4.5% respectively, with an overall fall of 15% in fuel consumption. In 2015, by contrast, average fuel prices plunged, from €1.66 per liter in the second quarter of 2014 to €1.26 in the first quarter of 2016; this presumably had the opposite effect of encouraging vehicle use, hence increasing the number of accidents. And in fact there was also a rise in claims frequency. But this tendency was not observed in fuel consump-

tion, which according to provisional data was stable or slightly down in 2016. This can be attributed to the greater efficiency of new car engines, which improved by 18.1% in 2016 alone, thus consuming less fuel for the same distance as older models.

The early data for the first quarter of 2017 indicate an upturn in fuel prices (the average overall price of gasoline and diesel fuel was €1.47 a liter, while fuel consumption was stable or marginally down compared with the year-earlier quarter). The March data for a sample of insurers show a further slight increase in claims frequency, up about 1.5 percent compared with the first quarter of 2016.

Average cost of claims (excluding IBNR, Table 1, Panel A). 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 settlements 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 claims incurred but not reported (IBNR reserves), contributions to the Road Accident Victims Guarantee Fund and other residual items. These items have been excluded from the 2016 data in order to allow uniform comparison with the data for previous years, derived from analyses conducted by the insurance supervisor using this methodology. Based on these calculations, the average claim cost in 2016 was €4,374, down 2.1% from €4,467 in 2015. In detail, the average cost of claims involving only material damage was up 0.8% at €1,923, while that of claims involving personal injury (including the material damage component of mixed claims) declined by 3.7% from €16,389 to €15,785. The diminution may be explained, at least in part, by the sharp rise in the installation of data recorders – “black boxes” – on cars, especially in areas where fraudulent claims are most common. The availability of data recorded at the moment of the accident may have helped in gauging the claims more accurately, avoiding possible overestimates of damages. And in fact the marginal upturn in claims frequency did not result in any rise in the percentage of claims involving personal injury last year, which was estimated to be constant at 17.6%.

Number of claims and average cost (including IBNR, Table 1, Panel B). The total number of claims, including the IBNR estimate, came to 2,397,687 in 2016, an increase of 2.6%, and claims frequency rose by 1.8 percent, from 6.11% in 2015 to 6.20% last year. Counting all the components included in the definition of the cost of claims for the period (item 18 of Supervisory Form 17), i.e. including IBNR reserves, the contribution to the Road Accident Victims Guarantee Fund and the other residual items, the average cost of claims for the period came down by 2.6% to €4,597.

The 2.6 percent rise in the number of claims (including late reports or IBNR claims) was thus accompanied by a 2.6 % diminution in their average cost, so the total cost of claims for the year (item 18 of Supervisory Form 17) was practically unchanged.

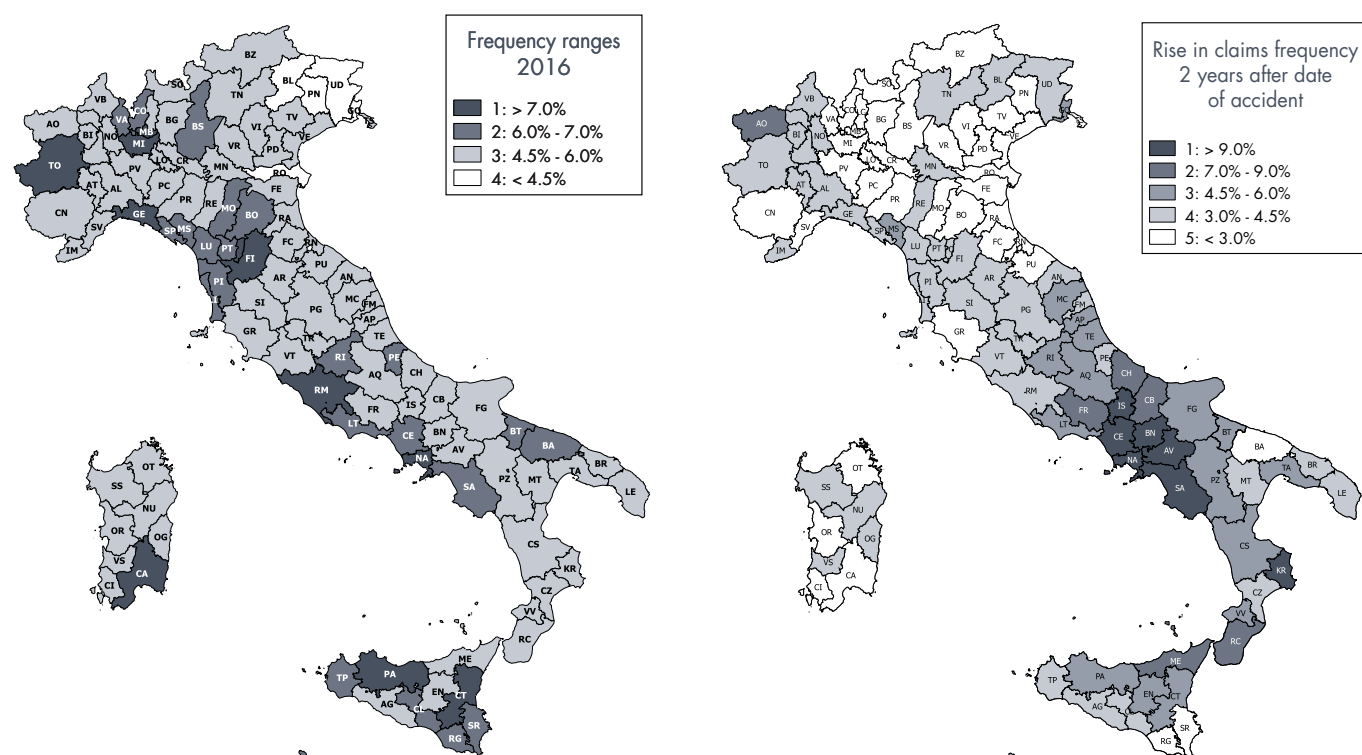
MOTOR INSURANCE

A provincial breakdown of claims frequency including IBNR (Figure 2, left-hand map) revealed Naples and Prato to be the provinces with the highest rates in 2016 (9.62% and 9.28% respectively), with a frequency more than 50 percent higher than the national average, which as we have seen was 6.20%.

Claims frequency was higher than the national average also in some Tuscan provinces other than Prato, such as Florence (7.27%), Pistoia (6.97%) and Massa Carrara (6.78%). On a more general note, most of Italy's largest cities (Genoa, Rome, Turin, Cagliari, Milan and Palermo), regardless of their geographical area, show higher-than-average claims frequency, owing of course to greater exposure to the risk of accidents due to heavier traffic flows.

Once again, the lowest claims frequency was recorded in the North-Eastern provinces, with Rovigo recording the national low (4.01%). Claims frequency was especially low also in other provinces of the Veneto and Friuli Venezia Giulia regions. Lower-than-average levels were reported also in some provinces of the South, such as Cosenza, Matera and Catanzaro (4.90%), Reggio Calabria (4.86%), Enna (4.79%), Potenza (4.73%) and Oristano (4.66%).

Figure 2 – Claims frequency by province, 2016, and late accident reports



The geographical breakdown of claims frequency cannot ignore accident reports that are late in coming to the insurer. Policyholders, in fact, have two years from the date of the accident to submit the report. The right-hand map in Figure 2 shows, province by province, the increase in number of claims two years later by comparison with those reported in the year the accident occurred.

MOTOR INSURANCE

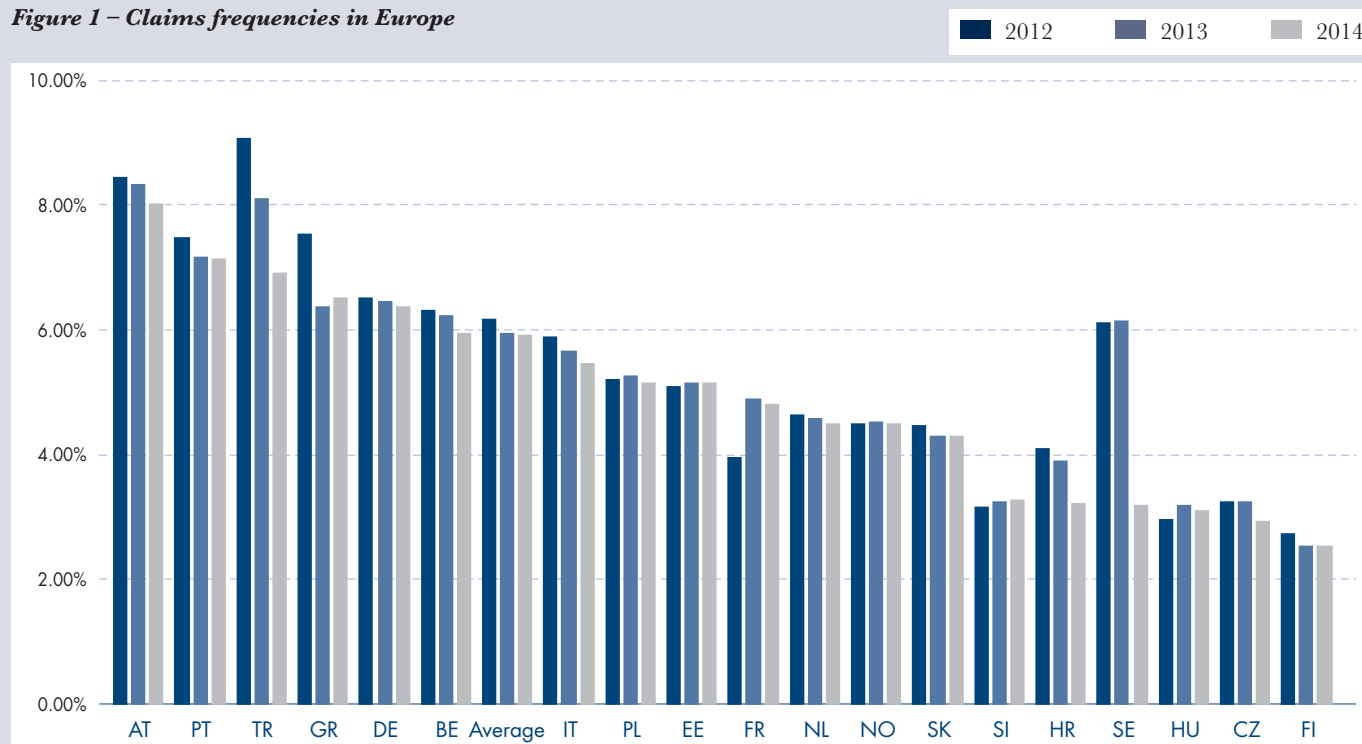
Nationwide, on average, for all vehicles, the number of claims after two years is higher by 4.8%. However, a closer inspection reveals that the percentage is well above 10% in some parts of the country, with extreme peaks of 19% in the province of Caserta and 26% in Naples. This means that if in these two provinces we counted only the frequency of claims reported in the year of occurrence, we would be around a quarter short of the actual figures, once all accidents have been reported to the insurance company. In most of the provinces of the Center and North and in Sardinia this indicator is at or well below the national average; in Bergamo, Venice, Trieste and Ravenna, for instance, it is scarcely 2%.

CLAIMS FREQUENCY AND COST – THE EUROPEAN PICTURE

Insurance Europe published its report “European Motor Insurance Markets” in June 2016, analyzing data and technical trends in motor insurance in the countries of Europe. The latest year covered is 2014.

The report concentrates mainly on cross-country differences in the technical indicators – claims frequency and average claim cost – which are naturally reflected in the level of policy premiums paid by consumers in the various EU member states. In particular, the frequency of claims – i.e. the ratio of the number of compensable claims (not counting those reported late) to the number of insured vehicle-years – came down by over 23 percent between 2004 and 2014, falling from 7.7% to 5.9% (Figure 1). Over the same years, claims frequency in Italy dropped a bit more sharply, by 28 percent. In Italy, in any case, the downturn came only in 2010; and whereas at the end of the 1990s the country’s claims frequency was one of the highest in Europe, by 2014, at 5.5%, it was actually below the European average of 5.9% (national frequencies weighted by number of vehicles in circulation). It is still 14 percent higher than in France (4.8%) and 21 percent higher than the Dutch rate (4.5%)

Figure 1 – Claims frequencies in Europe

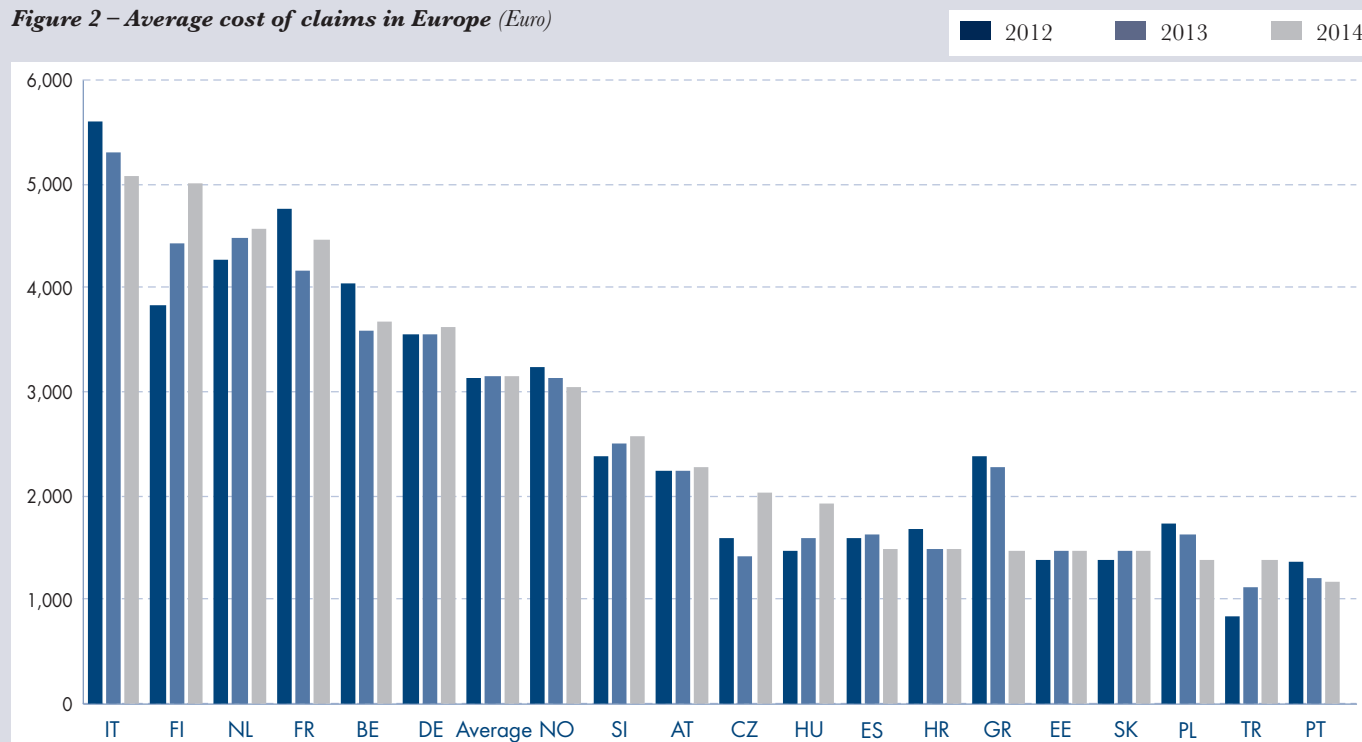


Source: Insurance Europe

MOTOR INSURANCE

As to the average cost of claims, i.e. total cost of claims in the year divided by the number of compensated claims, the European average edged up only marginally, by 0.3 percent, in 2014 (Figure 2). Nevertheless, over the past ten years average claims cost in Europe has risen 10% to about €3,200. In Italy, despite a decrease of 4% in 2014, over the same decade the cost rose much faster than in the rest of Europe, by over 30%. For the last three years for which data are available (2012-2014), Italy had the highest average cost of all at €5,125 in 2014, 61% above the European average.

Figure 2 – Average cost of claims in Europe (Euro)



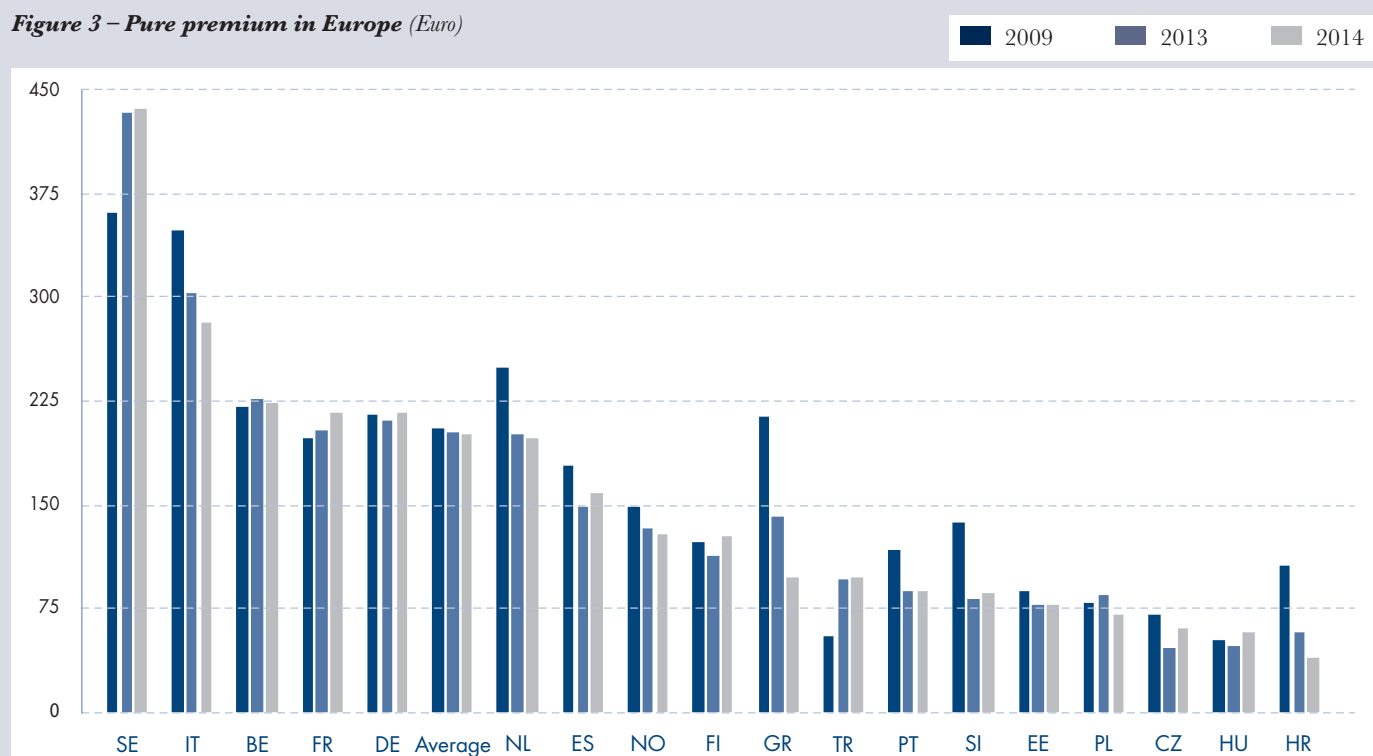
Source: Insurance Europe

The international divergences in these two technical indicators can be formulated together for trend analysis if one considers the “pure premium,” i.e. the policy premium that would be technically necessary to cover the expected cost of claims per unit of policy risk, obtained by multiplying the frequency of claims by their average cost. This is the basic indicator, which after adding diverse charges – operating expenses, commissions, reinsurance, fiscal and parafiscal costs – gives the final premium paid by policyholders (Figure 3).

The average pure premium in Europe was practically unchanged in 2014 at €200, compared with €189 in 2012 and €204 in 2009. That is, over the entire five-year period the indicator was broadly unchanged. By country, Italy was second only to Sweden in 2014, with a pure premium rate of €280, compared with the EU average of €200. The figure for Italy was about 25 percent higher than in Belgium, 30 percent more than in France and Germany, and nearly twice as high as in Spain or the Netherlands.

MOTOR INSURANCE

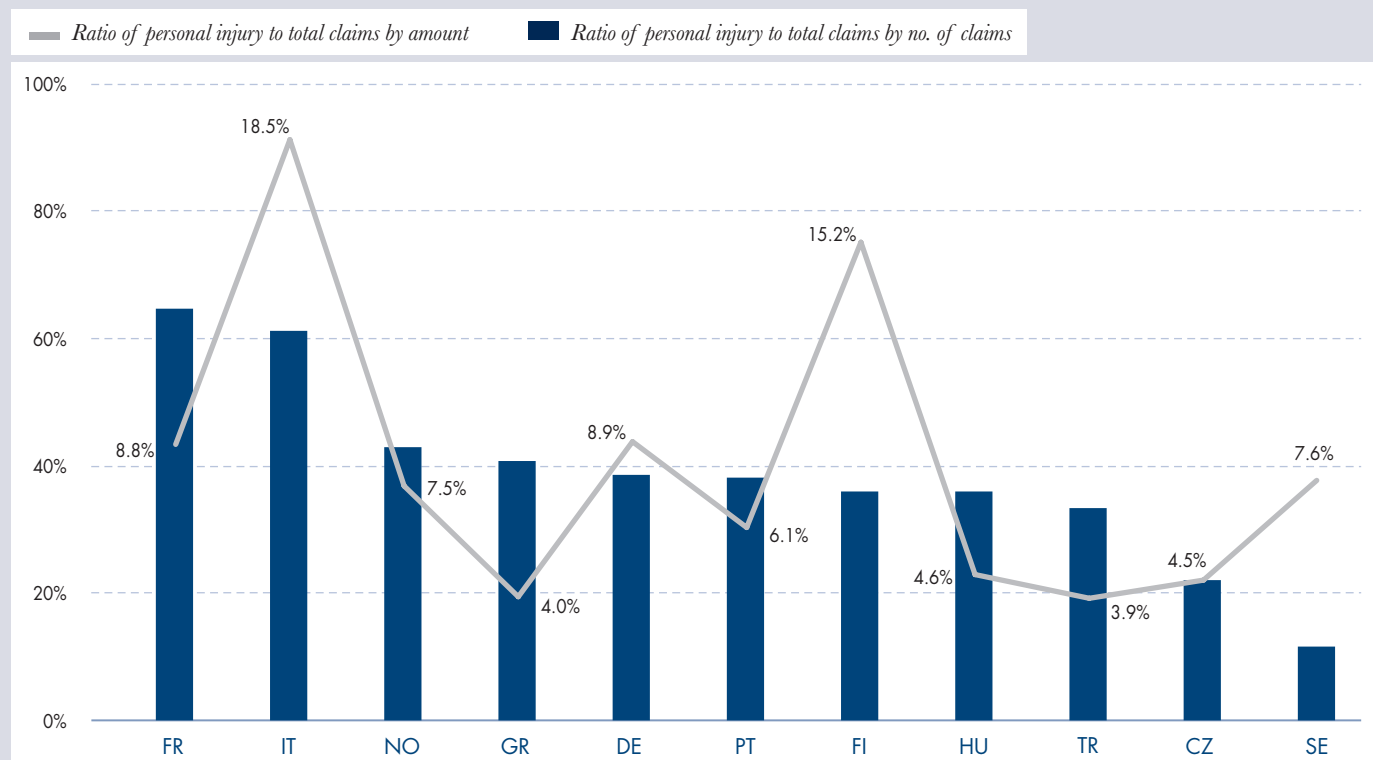
Figure 3 – Pure premium in Europe (Euro)



Source: Insurance Europe

One of the main factors in the overall disparity in the pure premium rate between Italy and the rest of Europe is the differing incidence of the number and cost of accidents involving personal injury on the total (Figure 4). In France, for instance, the share of total compensation

Figure 4 – Proportion of personal injury claims in Europe, 2014 (Euro)



Source: Insurance Europe

accounted for by personal injury claims was about the same as in Italy at 60%, but the proportion of accidents involving injury was less than half that in Italy, at 9% as against 18.5% in 2014. In Germany, injury compensation counts for an average of 40% of the total, while the proportion of accidents with personal injury is about the same as in France at 9%.

These differences are reflected directly in the final average premium paid by policyholders, which in fact is higher than the European average in Italy but in line with the technical indicator produced by calculating the pure premium. At the same time, it is worth observing that Italy, with a pure premium of €280 in 2014, is the country that registered the sharpest decrease of all from 2012 through 2014 – a decline of 19% while the European average held practically steady. And this is reflected in the fact that the final premium paid by Italian policyholders has come down towards the European average.

TECHNICAL MARGIN FOR MOTOR LIABILITY INSURANCE, PROVINCE BY PROVINCE

We have used the data on claims frequency observed by ANIA quarterly and yearly to conduct a geographical analysis, for the year 2016, of the technical profit margin for policy subscription. That is, we compared, for the main Italian cities, the premium actually paid by policyholders with the insurance companies' expenses for claims, administration and distribution, net of the financial profit margin. The study covered the entire motor liability sector,

Provincial analysis of the technical margin for motor liability - 2016 - All type of vehicle – (Euro)

PROVINCE	Claims frequency incl. IBNR	Average claims cost incl. IBNR and other residual items	Pure premium incl. IBNR and other residual items, including distribution and administration	Pure premium paid net of taxes and parafiscal charges	Expected technical margin
	(1)	(2)	(3)	(4)	(5) = (4) / (3) - 1
ANCONA	6.0%	5,744	415	333	-19.9%
AOSTA	5.5%	3,159	212	249	17.2%
BARI	6.0%	4,853	355	364	2.5%
BOLOGNA	6.5%	4,792	378	367	-2.9%
CAGLIARI	7.4%	3,350	302	330	9.2%
CAMPOBASSO	5.4%	3,846	253	249	-1.5%
FLORENCE	7.7%	4,325	403	417	3.5%
GENOA	9.0%	3,725	407	368	-9.6%
L'AQUILA	5.9%	3,246	233	298	28.1%
MILAN	7.4%	3,605	325	322	-0.8%
NAPLES	10.6%	4,293	553	509	-8.0%
PALERMO	6.9%	4,479	375	343	-8.7%
PERUGIA	5.8%	4,148	292	296	1.3%
POTENZA	4.7%	5,995	345	268	-22.2%
REGGIO CALABRIA	5.0%	6,075	372	432	16.2%
ROME	7.9%	4,326	417	388	-7.1%
TURIN	7.7%	3,896	365	336	-8.0%
TRENTO	5.0%	4,435	268	278	3.7%
TRIESTE	5.1%	4,603	286	296	3.4%
VENICE	4.8%	5,858	344	329	-4.4%
TOTAL ITALY	6.2%	4,597	346	349	0.7%

Memo: 2015: **5.7%**
2014: **14.5%**

i.e. considering all types of policy and vehicle. The table reports the results for the provincial capitals and for Italy.

We began with claims frequency (column 1) for all insured vehicles, gross of estimated claims incurred but not reported in the year of the accident (IBNR). For some cities, IBNR weighs very heavily. In Naples, for instance, IBNR claims average 26% of those reported within the year of occurrence, in Reggio Calabria 8%, in Genoa and Rome 4%, but in Venice and Trieste less than 2%; the national average is 9%.

Column 2 shows the average cost of claims, including both IBNR claims and the direct costs of claims settlement, plus such residual items as net amounts recovered and to be recovered and the balance on portfolio movements. The latter were apportioned among the provinces according to the weights of claims costs.

Multiplying claims frequency by average cost we get pure premiums, the theoretical average cost insurers must sustain for policy coverage (column 3), to which we add administration and distribution costs. These latter costs, which amount to 21.5% of premiums collected, are apportioned among the provinces like the residual items, but according to the pure premium weights.

Column 4 gives the premiums actually paid by policyholders for the entire motor liability sector, estimated on the basis both of ANIA's statistics and of the IVASS survey of effective motor liability prices (*Indagine sui prezzi effettivi della r.c. auto*, IPER), net of taxes and parafiscal charges. Account was taken of the variation in taxes between provinces: while they amount to 9% of the premium in Aosta, in most other cities they now come to 16%.

Comparing columns 3 and 4, we can calculate the estimated technical margin on policy subscription (column 5). Overall, in 2016 this margin was barely positive at 0.7% of premium payments (not counting financial income), down from 5.7% in 2015 and even more sharply from 14.5% in 2014. However, in some cities the technical margin is negative, offset by the positive margins in others. The city with the worst performance in 2016 (-22.2% of premium payments) was Potenza, followed by Ancona (-19.9%) and Genoa (-9.6%). Large cities such as Rome, Naples and Turin also showed negative margins, averaging around 8%. The cities with the largest positive margins were L'Aquila (+28.1%), Aosta (+17.2%), and Reggio Calabria (+16.2%).

COMPENSATION FOR PERSONAL INJURY

The total damages paid (for both property damage and personal injury) for 2016 came to €11.0 billion ⁽¹⁾. Of this, nearly two thirds (**€7.0 billion**) was in relation to **personal injury** (including the property-damage component of mixed claims).

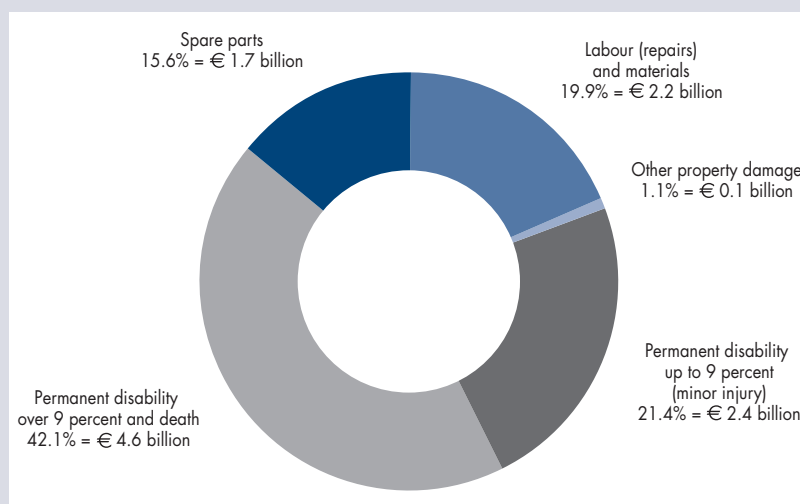
⁽¹⁾ ANIA's estimate based on data from Italian insurers and units of non-EU insurance companies operating in Italy. The data are for the cost of claims (amounts paid and reserved) of accidents occurring in 2016. The total cost of claims for the year, including any excess or shortfall of reserves against claims from previous years, was €10.4 billion.

As regards personal injury compensation specifically, two facts stand out for 2016 (Figure 1):

- compensation for mild injury involving permanent disability of 1 to 9 percent amounted to €2.4 billion (21.4% of the total claims cost);
- serious injuries involving more than 9 percent permanent disability or death generated outlays of €4.6 billion (42.1% of total claims cost).

Figure 1
Distribution of total cost of liability compensation, 2016

■ ■ ■ Compensation for property damage (€4.0 billion, 36.5% of total claims cost)
■ ■ ■ Compensation for personal injury (€7.0 billion, 63.5% of total claims cost). Includes the property component of mixed claims



The percentage of all motor liability claims involving personal injury was 17.6% last year, about the same as in 2015 (Table 1). After peaking in 2010 at 22.7%, this share had registered a first, modest downturn in 2011 and more significant declines in subsequent

Table 1 – Claims frequency by type of damage and severity of personal injury (*)

	2009	2010	2011	2012	2013	2014	2015	2016
Total claims frequency	7.77%	7.36%	6.53%	5.87%	5.65%	5.48%	5.55%	5.65%
% claims with only property damage	78.2%	77.3%	77.6%	79.9%	81.0%	81.5%	82.3%	82.4%
Frequency of claims with only property damage	6.07%	5.70%	5.07%	4.69%	4.57%	4.47%	4.57%	4.66%
% claims involving personal injury	21.8%	22.7%	22.4%	20.1%	19.0%	18.5%	17.7%	17.6%
Frequency of claims involving personal injury	1.70%	1.67%	1.46%	1.18%	1.07%	1.01%	0.98%	0.99%
Frequency of claims with up to 9 percent permanent disability of which:	1.627%	1.602%	1.401%	1.121%	1.016%	0.963%	0.932%	0.942%
1% permanent disability	0.708%	0.689%	0.617%	0.506%	0.477%	0.428%	0.414%	0.417%
2% permanent disability	0.563%	0.552%	0.469%	0.294%	0.243%	0.233%	0.222%	0.210%
3% permanent disability	0.186%	0.190%	0.163%	0.137%	0.128%	0.116%	0.114%	0.123%
4% permanent disability	0.077%	0.078%	0.069%	0.071%	0.065%	0.071%	0.065%	0.071%
5% permanent disability	0.042%	0.040%	0.036%	0.043%	0.042%	0.041%	0.046%	0.050%
6% permanent disability	0.021%	0.021%	0.019%	0.027%	0.025%	0.028%	0.027%	0.030%
7% permanent disability	0.014%	0.013%	0.012%	0.019%	0.017%	0.019%	0.018%	0.019%
8% permanent disability	0.010%	0.010%	0.010%	0.014%	0.012%	0.015%	0.016%	0.013%
9% permanent disability	0.007%	0.007%	0.007%	0.010%	0.007%	0.011%	0.009%	0.008%
Frequency of claims with over 9 percent permanent disability	0.070%	0.067%	0.062%	0.059%	0.057%	0.052%	0.051%	0.051%

(*) Valued at the end of the year in which the accident occurred

years, most notably 2013, although the rate of decrease has moderated since then and, as noted, was practically nil last year. The main factor in the improvement was the reduction in the number of minor injury claims, especially those involving less than 3 percent disability, as is shown below in greater detail. However, the frequency of personal injury claims turned marginally back up in 2016, owing in part to the general increase in claims frequency.

To analyze the trends of the different components of personal injury claims, we have examined their evolution over time, with an assessment of the impact on the overall price requirements of the motor liability sector.

Minor injury – permanent disability of 1-9 percent. The effect of Law 27/2012 (the “liberalization” decree) appears now to have been fully incorporated. The law introduced provisions against speculative claims for very mild injuries, principally “whiplash” injuries, changing the eligibility requirements for compensation. The sharpest reductions in mild injuries (calculated as claims for permanent injury of 1 to 9 percent as a percentage of total risks insured), in fact, came on the heels of the law’s enactment. In 2012 and 2013 this indicator fell by 27 percent, from 1.401% in 2011 to 1.016% in 2013; over the same period, property damage claims fell by 10 percent. The decline continued in 2014 (by 5.3 percent to 0.963%) and 2015 (by 3.2 percent to 0.932%). In 2016, however, it turned back up to 0.942%, rising at about the same rate as the frequency of property damage claims and thus ascribable to the overall rise in claims frequency (although the latter rose slightly faster, by 1.9 as against 1.1 percent).

The average cost of mild personal injury claims declined steadily from 2011 through 2015, coming down more than 10% from €6,135 to €5,508. Last year, however, it edged back up by 1.8%, to €5,605.

Death and permanent disability of more than 9 percent. No comparable diminution was observed for more serious injuries (resulting in death or permanent disability of more than 9 percent), which are not subject to the new rules of Law 27/2012. From 2009 through 2015, claims frequency for these injuries diminished significantly (by 28 percent), but only at the same rate as overall claims (which were down 29 percent), and in any case much less sharply than claims for mild injuries (which decreased by 43 percent). In 2016, the frequency of the claims for serious injury was roughly unchanged at 0.051%.

Turning to the cost of these more serious injury claims (including damages for deaths), the average claim cost rose constantly through 2015: from €155,000 in 2009 to over €215,000 in 2015 (Table 2). It then turned down modestly and in 2016 was just over €200,000.

The geography of personal injury claims. The percentage of claims involving personal injury reached record highs in some Italian provinces in 2015, over 30%. Figure 2 and Table 3

MOTOR INSURANCE

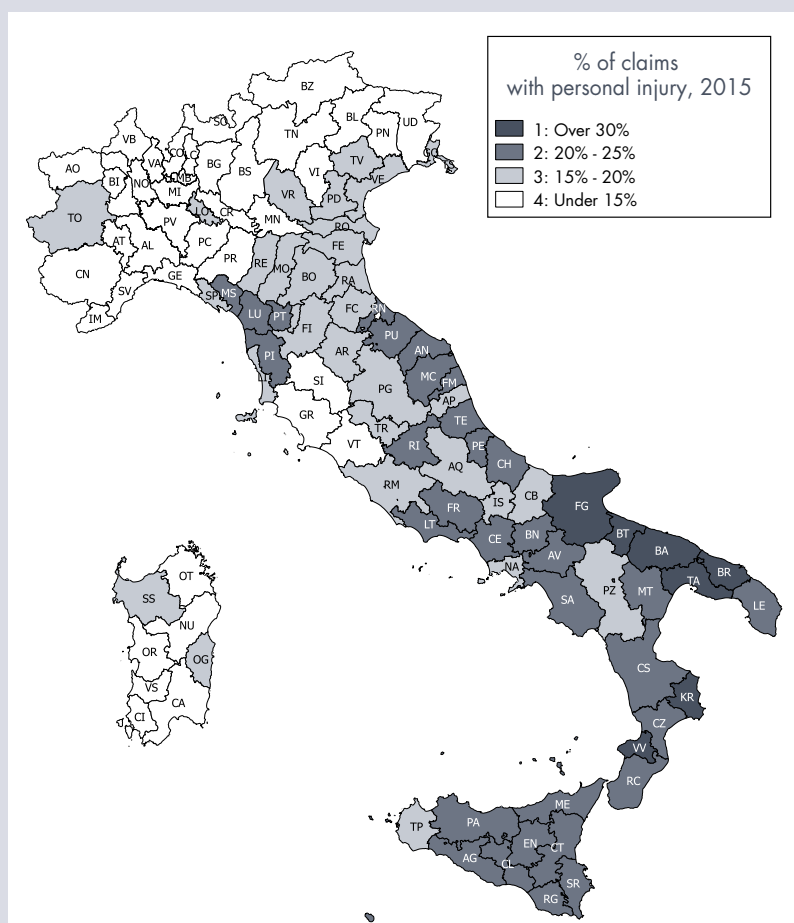
Table 2 – Average claim cost by type of damage and severity of personal injury (*)
(Euro)

	2009	2010	2011	2012	2013	2014	2015	2016
Total average claim cost	3,903	4,057	4,345	4,495	4,564	4,532	4,467	4,374
% of claims with only property damage	34.5%	32.0%	31.7%	33.3%	33.2%	34.1%	35.1%	36.5%
Average cost of claims with only property damage	1,725	1,716	1,803	1,899	1,883	1,894	1,908	1,923
% incidence of personal injury claims (value)	65.5%	68.0%	68.3%	66.7%	66.8%	65.92%	64.94%	63.48%
Average cost of claims with personal injury	11,694	12,052	13,155	14,804	15,986	16,150	16,389	15,785
of which:		3.1%	9.2%	12.5%	8.0%	1.0%	1.5%	-3.7%
Average cost of claims with personal injury up to 9 pct. permanent disability	6,037	6,022	6,135	5,951	5,756	5,668	5,508	5,605
Average cost of claims with personal injury over 9 pct. permanent disability	155,487	166,750	179,891	191,379	198,045	210,061	216,797	202,610

(*) Valued at the end of the year in which the accident occurred

show that in 2015 (the year of the most recent available data at province level) the provinces of the South were far out of line with the national average of 17.7%; the highest proportions are found in the regions of Puglia (33.7% in Taranto, 31.8% in Foggia and Brindisi), Calabria (34.7% in Crotona), and parts of Campania (27.9% in Salerno, 26.8% in Avellino).

Figure 2
Proportion of claims involving personal injury, by province, 2015



MOTOR INSURANCE

Table 3 – Incidence of claims with personal injury, by province, 2013-2015 (%) (percent)

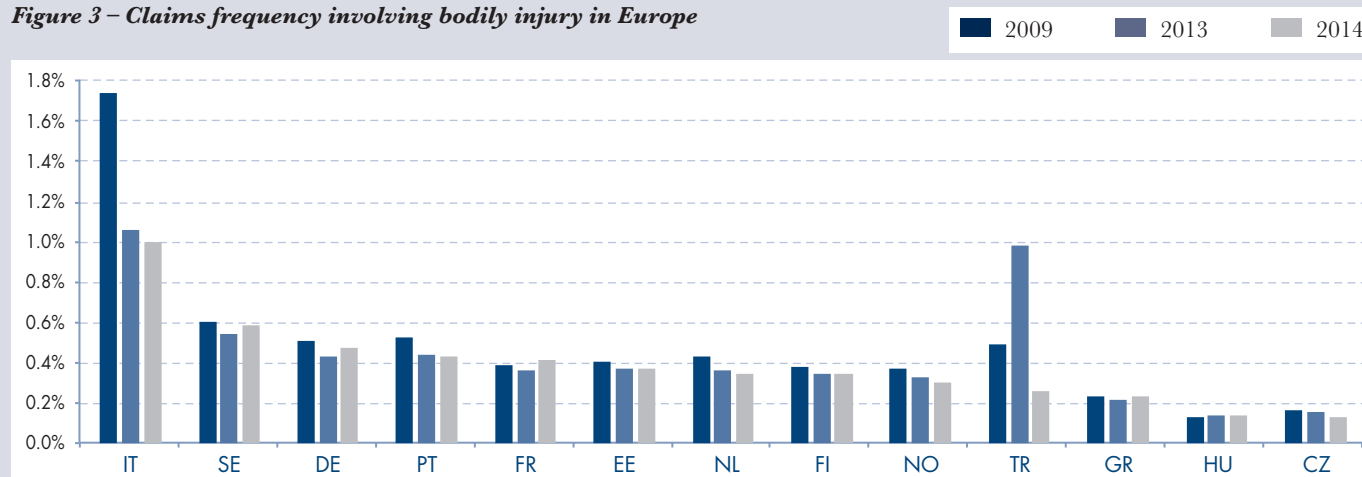
Province	2015	2014	2013	Change 2015/2014
(1)	(2)	(3)	(4)	(5)
CROTONE	34.7%	33.0%	34.4%	5.2%
TARANTO	33.7%	34.7%	34.7%	-3.0%
FOGGIA	31.8%	31.4%	30.7%	1.4%
BRINDISI	31.8%	32.4%	33.7%	-1.9%
VIBO VALENTIA	31.6%	30.7%	31.3%	2.7%
BARI	30.4%	28.9%	29.2%	5.3%
BARLETTA-ANDRIA-TRANI	30.0%	29.4%	29.6%	1.9%
LECCE	29.4%	30.8%	31.8%	-4.5%
MESSINA	28.3%	28.0%	30.2%	1.1%
REGGIO CALABRIA	28.3%	27.6%	28.1%	2.3%
SALERNO	27.9%	27.6%	28.6%	1.0%
CATANZARO	27.5%	28.9%	29.8%	-4.7%
AVELLINO	26.8%	27.4%	29.8%	-2.0%
CATANIA	26.7%	26.3%	27.1%	1.6%
LATINA	26.5%	28.7%	29.1%	-7.8%
BENEVENTO	25.7%	21.9%	22.3%	17.6%
PESCARA	23.9%	25.5%	27.6%	-6.0%
MASSA-CARRARA	23.9%	23.7%	24.9%	0.5%
CASERTA	23.7%	22.4%	23.8%	6.1%
NAPLES	23.4%	19.2%	19.5%	22.0%
COSENZA	23.3%	25.7%	25.6%	-9.3%
CALTANISSETTA	22.8%	23.5%	25.3%	-3.3%
ENNA	22.7%	22.4%	20.9%	1.2%
RIMINI	22.5%	23.7%	25.4%	-5.0%
CHIETI	22.5%	23.8%	25.9%	-5.7%
FROSINONE	22.1%	23.2%	23.8%	-4.7%
ANCONA	22.1%	23.0%	21.7%	-4.1%
PALERMO	21.3%	21.8%	22.3%	-2.3%
SIRACUSA	21.3%	21.5%	21.5%	-0.8%
RIETI	20.9%	19.2%	18.4%	8.9%
MATERA	20.7%	21.0%	21.9%	-1.6%
MACERATA	20.7%	21.0%	21.5%	-1.3%
LUCCA	20.7%	21.0%	21.2%	-1.6%
FERMO	20.6%	21.3%	21.3%	-3.1%
RAGUSA	20.4%	21.2%	22.2%	-3.7%
PISA	20.4%	20.9%	21.5%	-2.5%
TERAMO	20.4%	22.5%	23.4%	-9.4%
AGRIGENTO	20.4%	21.1%	21.9%	-3.7%
PESARO-URBINO	19.9%	20.5%	21.3%	-2.7%
VENICE	19.8%	20.8%	21.1%	-5.3%
SASSARI	19.3%	20.6%	20.1%	-6.0%
TRAPANI	19.2%	20.9%	21.4%	-8.1%
ISERNIA	18.9%	16.9%	18.7%	12.2%
ASCOLI PICENO	18.9%	20.0%	22.2%	-5.8%
ROME	18.8%	17.9%	17.6%	5.3%
PISTOIA	18.3%	20.1%	20.5%	-8.9%
TERNI	18.1%	19.5%	19.8%	-7.1%
LA SPEZIA	17.9%	19.4%	20.7%	-7.7%
POTENZA	17.8%	19.5%	20.2%	-8.9%
RAVENNA	17.7%	18.9%	18.8%	-6.3%
PERUGIA	17.4%	17.2%	18.5%	1.6%
PADUA	17.4%	17.1%	18.4%	1.7%
FERRARA	17.4%	15.5%	15.9%	11.9%
CAMPOBASSO	17.0%	18.1%	17.7%	-5.8%
TREVISO	17.0%	16.9%	17.5%	0.3%
ROVIGO	16.9%	17.8%	18.2%	-5.1%
AREZZO	16.9%	17.3%	18.0%	-2.8%
BOLOGNA	16.7%	18.2%	19.0%	-8.2%
OGLIASTRA	16.7%	14.2%	15.4%	17.5%
LODI	16.5%	16.5%	17.0%	0.2%
LIVORNO	16.4%	16.8%	17.0%	-1.9%
FORLÌ-CESENA	16.3%	17.7%	17.4%	-8.3%
PRATO	16.2%	15.7%	15.9%	3.3%
TURIN	16.1%	15.5%	15.8%	3.6%
L'AQUILA	15.9%	18.4%	18.7%	-14.0%
TRIESTE	15.8%	15.4%	14.5%	2.3%
GORIZIA	15.7%	16.4%	16.9%	-4.3%
FLORENCE	15.5%	15.5%	15.8%	0.3%
REGGIO EMILIA	15.2%	15.4%	16.3%	-1.7%
GROSSETO	14.8%	14.2%	15.6%	3.7%
VERONA	14.8%	15.8%	15.6%	-6.8%
CREMONA	14.6%	15.3%	15.3%	-4.7%
PIACENZA	14.5%	15.6%	15.2%	-6.7%
MONZA-BRIANZA	14.4%	15.3%	15.8%	-5.6%
PARMA	14.3%	15.2%	14.6%	-6.2%
PAVIA	14.3%	15.7%	15.9%	-9.3%
VARESE	14.2%	16.1%	15.6%	-11.6%
VICENZA	14.2%	14.4%	14.2%	-1.7%
SAVONA	14.1%	14.0%	14.3%	0.9%
SIENA	14.1%	14.0%	14.0%	0.9%
MILAN	14.1%	14.7%	15.4%	-4.6%
MODENA	13.9%	15.2%	15.7%	-8.9%
IMPERIA	13.8%	15.2%	14.4%	-9.0%
OLBIA-TEMPIO	13.8%	14.1%	15.4%	-1.9%
MEDIO CAMPIDANO	13.6%	15.0%	13.2%	-9.5%
CAGLIARI	13.5%	14.2%	15.1%	-4.9%
COMO	13.3%	13.8%	14.0%	-3.4%
CARBONIA-IGLESIAS	13.3%	14.4%	14.4%	-7.6%
PORDENONE	13.2%	13.8%	14.2%	-3.9%
GENOA	13.2%	12.9%	12.3%	2.1%
NOVARA	13.1%	13.0%	13.9%	0.8%
BERGAMO	13.1%	13.7%	13.8%	-4.4%
MANTUA	13.1%	14.1%	14.2%	-7.2%
UDINE	13.0%	13.5%	14.0%	-3.5%
VITERBO	12.9%	13.8%	14.2%	-6.5%
ORISTANO	12.5%	13.1%	13.1%	-4.0%
LECCO	12.3%	13.4%	12.9%	-8.2%
VERCELLI	12.1%	12.7%	12.4%	-5.2%
BRESCIA	12.0%	12.3%	12.2%	-2.6%
ALESSANDRIA	11.7%	12.5%	12.9%	-6.8%
BELLUNO	11.6%	10.3%	10.8%	13.5%
SONDRIO	11.5%	12.1%	12.4%	-5.0%
NUORO	11.4%	11.1%	11.5%	2.4%
CUNEO	11.3%	12.1%	11.9%	-6.3%
ASTI	11.2%	11.6%	11.1%	-3.5%
VERBANIA	10.7%	11.3%	10.3%	-5.1%
AOSTA	10.5%	10.8%	10.6%	-2.6%
TRENTO	10.1%	10.6%	10.6%	-4.3%
BIELLA	9.4%	10.4%	9.7%	-9.3%
BOLZANO	8.9%	9.9%	10.0%	-9.5%
TOTAL	18.1%	18.2%	18.5%	-0.5%

(%) The provincial incidence of personal injury claims is drawn from ANIA's annual statistics; this accounts for the slight difference in the total for 2014 (18.2%) from the IVASS data (17.7%), which lack the provincial breakdown

MOTOR INSURANCE

By European standards, as Insurance Europe's "European Motor Insurance Markets" report shows, despite the decline in the share of personal injury claims from 22% in 2009 to 18.5% in 2014, Italy continues to display one of the highest injury frequencies in Europe in proportion to the number of policyholders (Figure 3).

Figure 3 – Claims frequency involving bodily injury in Europe



Source: Insurance Europe

This frequency diminished in Italy, in line with the overall reduction in claims, from 1.8% in 2009 to 1% in 2014, but in the rest of Europe it was much lower at under 0.6%, maintaining the substantial gap between Italy and the rest of Europe.

MOTOR INSURANCE FRAUD

Antifraud action in Italy

Using IVASS's definitive data for 2015 and preliminary data for 2016, we can produce a breakdown by province and type of damage claimed of the percentage incidence of claims likely to involve the risk of fraud, those subjected to further investigation (specifying the number of cases in which no payment is made), and those in which the insurer has lodged a civil or criminal complaint. The data come from the compulsory antifraud reports that all enterprises authorized to do motor liability insurance business in Italy must submit yearly to IVASS (IVASS Regulation 44/2012).

Let us recall that for our purposes fraud risk is defined as the risk of economic loss due to customer misconduct vis-à-vis the insurer, often taking the form of simple falsehoods, either during the contractual procedure or in the claims handling process. In particular, claims exposed to the risk of fraud are those having at least one of the

MOTOR INSURANCE

parameters of significance laid down by IVASS in measure 2827/2010 as requirements for consulting the “claims database” created for the express purpose of preventing and combating motor liability fraud.

Comparative analysis of the data for the last four years (2013-2016) can now gauge the extent of this type of crime and its impact on the insurance industry (Table 1).

Table 1 – Motor liability insurance fraud in by region, 2015-2016

REGION	Number of claims (*)		Claims at fraud risk/total claims		Claims with further inquiry/total claims		of which: claims subject of further inquiry and concluded without settlement		of which: claims against which civil or penal complaints were lodged	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
EMILIA ROMAGNA	208,355	207,466	20.0%	21.5%	9.7%	10.9%	12.9%	13.8%	1.4%	0.8%
FRIULI-VENEZIA GIULIA	45,022	45,003	17.4%	19.9%	7.8%	9.6%	14.9%	13.1%	2.0%	0.8%
LIGURIA	100,245	93,575	19.0%	24.1%	8.4%	10.4%	14.9%	14.0%	3.0%	1.5%
LOMBARDY	485,746	490,221	16.2%	18.4%	6.2%	7.5%	14.9%	14.9%	1.2%	1.1%
PIEDMONT	224,341	224,846	18.2%	20.7%	7.1%	8.6%	13.6%	14.3%	1.6%	1.5%
TRENTINO-ALTO ADIGE	50,750	66,502	18.7%	17.2%	5.3%	5.0%	11.2%	10.2%	1.8%	0.5%
VALLE D'AOSTA	8,611	7,759	14.6%	15.9%	6.4%	7.0%	27.2%	24.8%	6.8%	1.8%
VENETO	199,603	200,872	15.2%	17.4%	6.7%	8.0%	11.3%	12.7%	1.1%	0.6%
NORTH	1,322,673	1,336,244	17.3%	19.5%	7.2%	8.4%	13.7%	14.0%	1.5%	1.0%
LAZIO	380,244	370,805	20.5%	22.7%	10.0%	11.4%	16.4%	16.7%	1.7%	1.1%
MARCHE	67,940	67,600	19.7%	21.4%	9.9%	11.1%	11.4%	11.5%	1.3%	0.6%
TUSCANY	201,100	201,459	18.6%	21.9%	8.8%	11.0%	12.0%	12.4%	1.6%	1.1%
UMBRIA	42,073	42,268	17.8%	20.6%	8.7%	10.1%	12.0%	13.2%	2.5%	0.9%
CENTER	691,357	682,132	19.7%	22.2%	9.6%	11.1%	14.4%	14.7%	1.7%	1.1%
ABRUZZO	55,235	54,598	22.0%	24.1%	10.1%	11.4%	13.9%	14.1%	1.2%	1.3%
BASILICATA	18,250	18,994	23.5%	24.9%	12.7%	13.4%	14.1%	16.2%	3.7%	2.1%
CALABRIA	55,731	58,413	28.1%	29.0%	17.0%	17.7%	14.6%	13.7%	3.7%	3.5%
CAMPANIA	244,430	265,598	42.9%	43.4%	26.9%	26.8%	15.4%	17.0%	3.5%	2.1%
MOLISE	13,202	13,305	29.5%	31.7%	17.2%	19.4%	19.5%	17.1%	1.4%	2.4%
PUGLIA	128,503	138,479	28.0%	28.8%	16.5%	17.6%	12.8%	13.5%	1.9%	0.8%
SOUTH	515,351	549,387	34.3%	35.4%	20.7%	21.4%	14.8%	15.8%	3.0%	1.9%
SARDINIA	66,353	67,667	17.2%	18.6%	7.8%	8.8%	21.5%	15.9%	1.9%	0.7%
SICILY	194,517	208,953	22.8%	23.7%	12.8%	13.2%	14.6%	15.2%	1.1%	0.9%
ISLANDS	260,870	276,620	21.3%	22.4%	11.5%	12.1%	15.8%	15.3%	1.2%	0.9%
TOTAL ITALY	2,790,251	2,844,383	21.4%	23.5%	10.7%	11.9%	14.5%	14.9%	2.1%	1.3%
MEMO:	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
TOTAL ITALY	2,891,442	2,683,727	16.5%	19.3%	8.7%	9.9%	12.1%	14.4%	2.8%	1.8%

(*) Excludes claims involving liability of the vehicle and includes all class 10 claims (land vehicles) for which the insurer, during the year, has received an accident report or claim for damages pursuant to Articles 148 and 149 of Legislative Decree 209/2005. Claims are those reported by all insurance companies operating in the motor liability sector in Italy (Italian, EU, and non-EU)

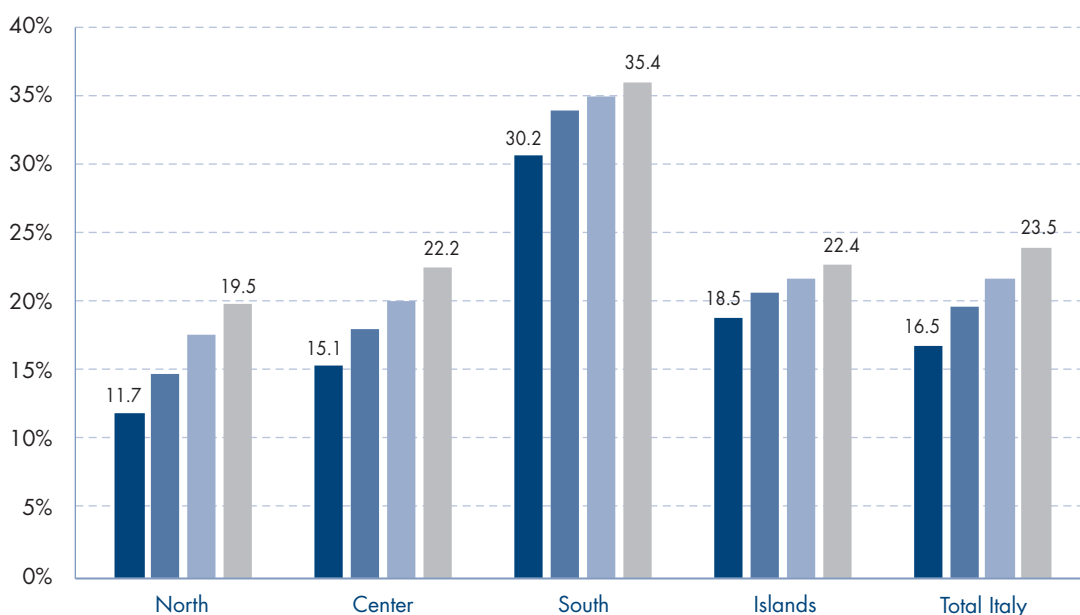
The relevant claims are those lodged with insurance companies in 2016, which numbered 2, 844,383, up 2% from just under 2.8 million in 2015 and 6% more than the 2.7 million submitted in 2014, but still fewer than the 2.9 million registered in 2013.

The largest rise came in the South (where they rose by 6.6%), and in particular in Campania (8.7%) and Puglia (7.8%).

To calculate composite indicators for comparison of the different geographical areas, the number of claims that insurers have identified as likely to be fraudulent and the number of those subjected to further investigation are given as percentages of total claims lodged during the year. The average share of claims exposed to risk of fraud in 2016 was 23.5% nationwide, up from 21.4% in 2015, 19.3% in 2014 and 16.5% in 2013.

Figure 1
*% of total claims
exposed to risk of
fraud*

■ 2013
■ 2014
■ 2015
■ 2016



The lowest rate of fraud risk in 2016 was again registered in the North at 19.5%, although this represented a rise from 17.3% the previous year. However, the share of claims subjected to further investigation was only 8.4% (higher than in 2015, when it stood at 7.2%). Ultimately, 14% of the claims subjected to further investigation were closed without settlement (13.7% in 2015); in 1% of the cases, compared with 1.5% in 2015, the insurer lodged a civil or criminal complaint. The northern regions with the highest incidence of suspect claims were Liguria, at 24%, and Emilia Romagna, at 22%, both higher than the previous year. Those with the lowest incidence were Valle d'Aosta, Veneto and Trentino Alto Adige, all between 15% and 17%. As to further investigations concluded without compensation – that is, cases of successful anti-fraud action by insurers – the highest rates were in Lombardy, Piedmont and Emilia Romagna (14% or 15% of the cases investigated, ignoring Valle d'Aosta given its great volatility owing to the very small number of claims overall). The overall figure for the North was 14%. The regions showing the highest percentages of civil and penal complaints were Liguria and Piedmont at 1.5%, compared with the northern Italian average of 1.0%.

Fraud risk in central Italy was found in 22.2% of all claims in 2016, up from 19.7%. Insurers conducted more than the ordinary inquiry in respect of 11.1% of total

claims (up from 9.6%), terminating 14.7% of these without compensation (up slightly from 14.4% in 2015) but lodging a civil or penal complaint in just 1.1% (1.7% in 2015). The highest incidence of suspect cases was in the Lazio region (22.7%), which was also the region where settlement without compensation was most common (16.7% of the suspect cases). The central region with the lowest exposure to fraud risk was Umbria (20.6%), but this nevertheless represented an increase from 17.8% the previous year.

The highest incidence of fraud risk in 2016 was found once again in the South: over 35% of all claims were suspect, slightly more than the 34.3% registered in 2015. The claims subjected to additional inquiry came to 21.4% of the total, compared with 20.7% in 2015. Of these, 15.8% were terminated without compensation. Insurance companies lodged civil or penal complaints in respect of 2% of the claims (3% in 2015). The only region with a higher-than-average percentage was Calabria, at 3.5%; the lowest incidence of complaints, at 0.8%, was in Puglia.

In the island regions the incidence of claims with risk of fraud was just under the national average at 22.4%. Sicily was near the average at 23.7% while Sardinia was below it at 18.6%. In both regions the percentage of criminal or civil complaints dropped below 1% in 2016.

The number of complaints lodged by insurers increased to 3,687 complaints in 2015 (the latest available data); this represented an increase of 8% from 2014.

The extremely low number of civil and criminal complaints of alleged insurance fraud depends on a series of specific reasons:

- this offence is ordinarily punishable only via complaint by a party (entailing high legal costs, the risk of a counter-complaint, and little chance of actually recovering the amounts lost);
- the law precludes punishment for insignificant offenses; and in most cases of insurance fraud this clause applies, given the ordinarily small amount involved and the fact that the guilty parties are not generally habitual offenders;
- many public prosecutors offices, clogged with the numerous complaints lodged by insurers, are unable to conclude the trials before the statute of limitations expires; 70% of first hearings in these cases come at least 3 years after they are requested. On the average, four years elapse between the initiation of penal action and the lower-court verdict; in this context, all the offender has to do is lodge an appeal to reach the statute of limitations, namely 6 years.

Let us recall, further, the problems inherent in civil justice, where a good portion of motor liability disputes are handled by justices of the peace, for whom the law does not establish a conflict of interest between this function and that of lawyer involved in traffic accident litigation.

The rules governing the insurer's formulation of a settlement offer, with their strict rules of transparency and rapidity of claim settlement, often appear to be incompat-

ible with antifraud action, which instead takes time and requires confidentiality. Often the extreme protections accorded to damaged parties come at the expense of the insured driver presumed to be liable, who is charged for damages that under more reasonably balanced legislation could be ineligible for compensation.

Further, the two-year time period prior to the deadline for submitting a claim for material damage can easily be exploited by fraudulent parties to make it all but impossible for the insurer to conduct any inquiry, even into the very existence of the accident. The same goes for the excessive recourse to convenient “eyewitness” accounts, which can be provided even years after the accident.

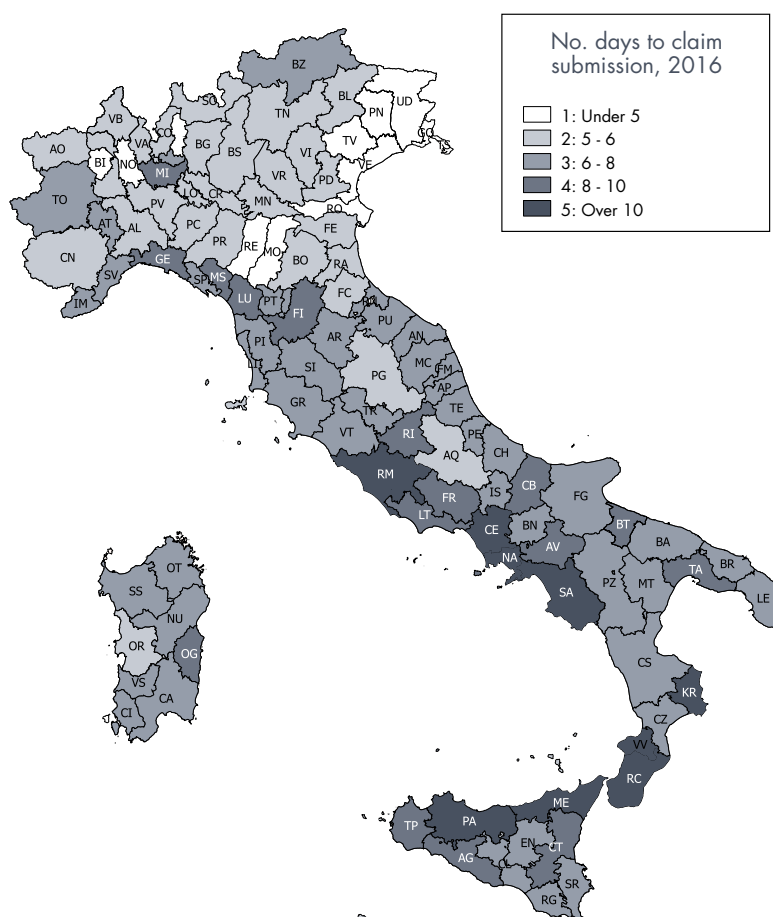
We have conducted an analysis restricted to claims for material damage to vehicles submitted and settled in 2016 (and, for comparison, those of 2015) covered by the direct indemnity procedure and signed by both the damaged and the liable party (CID claims). Specifically, we calculated the number of days that elapsed between the date of the accident and that of the presentation of the claim to the insurers. For this type of damage, which is that for which settlement is fastest (around 32 days, practically unchanged between our two years of observation), an average of 7 days passes between the date of the accident and the date when the insurer learns of it (Table 2). However, there is considerable geographical variation. In nearly all the northern regions, with the exception of Liguria, the figure is lower, while in the Center and especially the South it is higher everywhere, and more than twice the average in Campania, at 15 days in 2016 (down from 16.1 days in 2015). Disaggregating by

Table 2
Time to accident
report and time to
settlement of CID
claims (vehicle
damage) signed
by both parties
(no. of days)

Area	Region	No. days between accident and report		No. days between claim and settlement	
		2016	2015	2016	2015
North-West	Liguria	7.5	7.7	33.4	33.7
	Lombardy	5.4	5.3	31.5	31.0
	Piedmont	6.0	6.0	32.9	31.4
	Valle d'Aosta	5.8	5.9	29.4	27.5
	Total	5.7	5.7	32.0	31.3
North-East	Emilia-Romagna	5.4	5.4	30.0	30.6
	Friuli-Venezia Giulia	4.8	4.6	30.1	29.6
	Trentino-Alto Adige	5.7	5.5	28.2	28.8
	Veneto	5.1	4.9	31.2	31.6
	Total	5.2	5.1	30.4	30.8
Center	Lazio	9.9	10.3	37.3	37.6
	Marche	6.8	6.6	29.6	29.3
	Tuscany	7.8	7.9	34.1	34.9
	Umbria	5.7	5.6	26.7	25.6
	Total	8.5	8.6	34.4	34.6
South	Abruzzo	6.6	6.6	27.0	27.5
	Basilicata	6.6	7.1	21.9	21.7
	Calabria	9.1	9.4	27.8	28.8
	Campania	15.3	16.1	35.6	35.9
	Molise	5.9	5.9	21.2	20.9
	Puglia	8.0	8.3	28.8	29.7
	Total	9.8	10.1	29.5	29.9
Islands	Sardinia	7.1	7.1	26.0	26.4
	Sicily	9.2	9.3	29.7	29.9
Islands	Total	8.3	8.4	28.2	28.5
TOTAL ITALY		7.0	7.0	31.6	31.6

province (Figure 2), we find an average time to report of over 20 days in Naples, nearly 14 in Caserta, over 12 in Crotone and Reggio Calabria, 11 in Messina, Palermo and Salerno, and 10 in Rome, Catania and Avellino. Those with the shortest time to report were Rovigo (4.1 days) and Gorizia (4.4 days). In the large cities, we find a range from 5.6 days in Bologna and Milan, 6.6 in Turin, to 8.5 in Genoa and Florence.

Figure 2
Lateness of CID
claims (vehicle
damage, signed by
both parties)



Antifraud action in Italy

In the course of the last few years action against motor insurance fraud has grown more highly structured and will soon be in a position to produce even more significant results.

The chief innovation, which puts Italy in the vanguard in this field, is the national Integrated Antifraud Database (*Archivio Integrato Antifrode*, AIA), which thanks to its link with the seven main databanks brings together millions of individual files on vehicles, registrations, driver's licenses, insurance policies, damaged parties, witnesses, and claims adjusters. AIA assigns to each claim, in real time, an indicator of anomaly based on a probabilistic estimate of its fraud potential, with a specification of the variables generating the estimate. Apart from the general benefit of pursuit of justice,

the integrated database is likely to lower costs for insurers and ultimately, therefore, the premiums charged to policyholders.

The latest annual report of the insurance supervisor, IVASS, estimates that even today insurance companies' antifraud action, limited though it is by the lack of adequate instruments of inquiry, has already produced a reduction in settlement costs equal to 1.6% of premiums.

ANIA's cooperation with IVASS to further improve the functioning of AIA has continued with:

- additional links to external databases;
- the creation of an AIA portal with online services for law enforcement bodies, insurers and IVASS;
- the refinement and extension of tools for claims analysis, thanks among other things to network analysis.

If the "competition" bill now before Parliament should be definitively enacted, it could have further positive effects on the integrated database thanks to interlinking with additional databases and the possibility of using AIA data also for antifraud purposes in the course of risk assumption. This new, better-structured antifraud action as regards the motor liability branch alone is generating worrisome phenomena of fraud in other branches of insurance business that are less well protected. Hence the need to consider an amendment to the law permitting the use of AIA also during the risk-assumption phase, and not only in motor liability insurance.

In addition to the IT support of the databases, motor liability antifraud action has been reinforced by interchange between insurers and IVASS as regards possible fraud and by new forms of collaboration with public prosecutors' offices to support the judicial authorities in suppressing insurance fraud. One of the main obstacles for insurance companies in combatting fraud has long been known to be the relatively slack attention paid by courts and law enforcement bodies to insurance matters, which often take a back seat to crimes of greater social virulence.

A significant signal of a reversal of these facile conclusions may be the initiatives that ANIA has undertaken with public prosecutors' offices to launch protocols for cooperation designed to foster more effective antifraud action and lay the basis for the successful conclusion of trials.

In order to undertake practical, concrete initiatives against insurance fraud in one of the country's most critical areas in this regard – Naples – ANIA, the insurance companies, the Public Prosecutor, and the judicial police have drawn up a protocol for cooperation designed to identify and discipline operational best practices, in reciprocal relations, to streamline and speed up communications and information exchange concerning episodes of penal relevance and accordingly, within the jurisdiction of the Court of Naples, to make action against insurance fraud, so widespread in that territory, faster and more effective.

To this end the Public Prosecutor of Naples has formed a pool of 12 assistance prosecutors specializing in insurance fraud and has named a section of the judicial police

to interface with insurers to detect criminal organizations involved in insurance fraud. If this program of cooperation between insurers, prosecutors and police should prove successful, the “Naples model” might well be exported to other territories. Finally, the initiative may serve as a practical, concrete example to induce Parliament to create that national agency against insurance fraud that the insurance industry has long been calling for.

Below, we summarize the approach to insurance fraud in the United Kingdom, France and Germany.

United Kingdom

Antifraud activity in Britain is conducted through the Insurance Fraud Bureau (IFB), which groups not only insurance companies but also other insurance stakeholders (lawyers, investigators, etc.). IFB members have access to the intelligence reports on frauds released by IFB and take part in investigations, which numbered over 150 in 2016. The UK has long had a database on claims settled by insurers integrated with data on credit risk. The exploitation of these IT tools enables insurers to know the level of risk to be insured and to price it accordingly. In addition, British insurance companies have instituted a contact point where the general public can report frauds, which are then referred to the investigative authorities for further inquiry.

France

French insurance companies have structured their antifraud action in the form of two special entities:

1. **ALFA** – This is a corporation owned by the insurance companies whose corporate purpose is to prevent insurance fraud. ALFA cooperates with law enforcement bodies and operates a claims database. It also works together with insurers in inquiries into cases of insurance fraud involving a large number of companies. Further, ALFA is working to develop antifraud best practices and share them with German insurance companies.
2. **ARGOS** – This is a private non-profit corporation owned 50% by the French insurance companies and 50% by the Interior Ministry. Its purpose is the locate and recover vehicles and other goods reported stolen pending claims settlement. ARGOS is active not only in France but also in Spain, Portugal and Poland.

Germany

The insurance companies operating in Germany have created a claims database accessible to insurers and law enforcement bodies. Through a complex scoring system the database generates notices where indicators of anomaly are found.

MOTOR INSURANCE

Motor insurance fraud is also strictly correlated, geographically, with the circulation of uninsured vehicles. Province-level data gathered by the Highway Police, municipalities and municipal police have been matched against the insured vehicles in the ANIA database to produce a statistical inference of the total number of uninsured vehicles on the roads.

In 2013 and even more so in 2014, we witnessed an alarming increase in the number of uninsured vehicles, but this process appears to have been halted in 2015 with a reduction in non-insurance, and the downtrend appears to have continued last year (Table 3). Specifically, it is estimated that 2.9 million vehicles, or 6.7% of all those on the roads, had no insurance coverage in 2016, down from an estimated 3.4 million in 2015, 3.9 million in 2014, 3.5 million in 2013 and 3.1 million in 2012. In the provinces of the South, the percentage was 10.7% (11.5% in 2015, 13.5% in 2014, 13.1% in 2013 and 11.9% in 2012). In the Center the average was 6.6% last year (8.2% in 2015, 8.5% in 2014, 8.1% in 2013 and 6.4% in 2012), and in the North 4.3% (5.2% in 2015, 6.2% in 2014, but 5.3% in 2013 and 4.6% in 2012).

Table 3 – Estimate of uninsured vehicles, 2016, by geographical area
(millions)

Area	Total insured vehicles	Estimate uninsured vehicles	Memo: Est. uninsured vehicles				Total vehicles on road	Percentage uninsured vehicles	Memo: Percentage uninsured vehicles			
	2016	2016	2015	2014	2013	2012	2016	2016	2015	2014	2013	2012
North	20.5	0.9	1.1	1.4	1.2	1.0	21.5	4.3%	5.2%	6.2%	5.3%	4.6%
Center	9.6	0.7	0.9	0.9	0.8	0.7	10.3	6.6%	8.2%	8.5%	8.1%	6.4%
South	11.1	1.3	1.4	1.6	1.5	1.5	12.5	10.7%	11.1%	13.5%	13.1%	11.9%
TOTAL ITALY	41.3	2.9	3.4	3.9	3.5	3.1	44.2	6.7%	7.6%	8.7%	8.0%	7.0%

Source: ANIA, based on Highway Police data

A contribution to the reduction may have come from the dematerialization of motor vehicle insurance stickers, which went into effect in October 2015 and thus worked its main effect in 2016. Dematerialization allows on-road verification of compliance with the compulsory insurance requirement by law enforcement officers through immediate consultation of the computer database of all insured vehicles. Unfortunately, as of today it is still not possible to effect the other type of verification envisaged by Law 27/2012, namely the distance reading of license plate numbers by electronic instruments. The regulation specifying the technical characteristics of such observation systems and the procedures for activating the system has not yet been issued. This means of verification would certainly permit rapid, automated checks on a much greater number of vehicles than can be performed on-road by law enforcement officers and would more effectively reduce fraud perpetrated by uninsured drivers.

Geographically, practically all the regions of the North display similar rates of non-insurance, all below the national average of 6.7%. In the Center, it is above all the Lazio region and the city of Rome whose rates are high, at 9.3% and 10% respectively, twice those of the other regions of the Center. In the South, we find a range from percentages just over the national average in regions like Basilicata, Sardinia and Molise, up to more than twice the national average in Calabria and, worst of all, Campania. In Naples nearly one vehicle in five is uninsured, and in Reggio Calabria one in seven (Table 4).

MOTOR INSURANCE

Table 4
Estimate of
uninsured vehicles,
2016 – Regions and
regional capitals
(millions)

REGION/Capital	Total insured vehicloes	Est. uninsured vehicles	Total vehicles on road	% uninsured vehicles
	2016	2016	2016	2016
Bologna	0.705	0.031	0.735	4.2%
Total EMILIA ROMAGNA	3.396	0.147	3.543	4.2%
Trieste	0.169	0.006	0.174	3.2%
Total FRIULI-VENEZIA GIULIA	0.963	0.033	0.996	3.3%
Genoa	0.579	0.025	0.604	4.1%
Total LIGURIA	1.165	0.051	1.216	4.2%
Milan	1.943	0.143	2.086	6.9%
Total LOMBARDY	7.039	0.364	7.402	4.9%
Turin	1.544	0.095	1.639	5.8%
Total PIEDMONT	3.319	0.173	3.491	4.9%
Trento	0.422	0.013	0.435	2.9%
Total TRENTINO-ALTO ADIGE	0.829	0.024	0.853	2.8%
Aosta	0.117	0.008	0.125	6.6%
Total VALLE D'AOSTA	0.117	0.008	0.125	6.6%
Venice	0.539	0.018	0.557	3.2%
Total VENETO	3.702	0.128	3.830	3.3%
TOTAL NORTH ITALY	20.530	0.927	21.457	4.3%
Pescara	0.217	0.015	0.232	6.5%
Total ABRUZZO	0.962	0.065	1.026	6.3%
Rome	2.662	0.295	2.957	10.0%
Total LAZIO	3.812	0.389	4.201	9.3%
Ancona	0.360	0.014	0.374	3.8%
Total MARCHE	1.207	0.054	1.260	4.2%
Florence	0.734	0.033	0.767	4.3%
Total TUSCANY	2.889	0.135	3.024	4.5%
Perugia	0.557	0.029	0.585	4.9%
Total UMBRIA	0.742	0.038	0.780	4.9%
TOTAL CENTER ITALY	9.612	0.681	10.293	6.6%
Potenza	0.268	0.019	0.287	6.8%
Total BASILICATA	0.398	0.030	0.429	7.0%
Reggio Calabria	0.286	0.048	0.334	14.5%
Total CALABRIA	1.125	0.151	1.277	11.9%
Naples	1.259	0.273	1.533	17.8%
Total CAMPANIA	2.829	0.468	3.297	14.2%
Campobasso	0.162	0.012	0.174	7.0%
Total MOLISE	0.237	0.018	0.255	7.1%
Bari	0.750	0.059	0.808	7.3%
Total PUGLIA	2.377	0.209	2.586	8.1%
Cagliari	0.365	0.027	0.392	7.0%
Total SARDEGNA	1.103	0.088	1.190	7.4%
Palermo	0.719	0.086	0.805	10.7%
Total SICILIA	3.071	0.374	3.445	10.9%
TOTAL SOUTH ITALY	11.140	1.339	12.479	10.7%
TOTAL ITALY	41.282	2.947	44.229	6.7%

Source: ANIA, based on Highway Police data

MOTOR INSURANCE PRICE DEVELOPMENTS IN ITALY AND EUROPE: THE INSURANCE CYCLE

The change in the average motor liability premium

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

Table 1 shows the average Italian price for insurance of a vehicle and its component factors between 1994 (the year insurance prices were liberalized) and 2016. The results for the last five years (2012-16) can be summarized as follows:

- in 2012 the average premium held practically stable (an increase of just 0.7%), as the improvement in the technical indicators (claims frequency in particular) helped bring the branch's accounts back into balance; in effect, the fourth quarter of that year saw the start of a downward trend in average policy cost that has continued to the present;
- in 2013, and especially in 2014 and 2015, this effect was considerably more evident; in fact, in those three years the average motor liability premium fell by 17.2% (4.6% in 2013, 7.0% in 2014 and 6.7% in 2015).
- in 2016 there was a further drop, a bit less sharp than in the previous two years at 5.9%.

It is worth noting that as a result of the significant decreases registered in the course of five years (a total reduction of nearly 25%), in 2016 the average cost of insurance coverage came back down to its 1998 level (Table 1, column 3). The price reduction is also confirmed by the survey of actual motor liability insurance prices begun by IVASS in the fourth quarter of 2013. This Survey of Effective Motor Insurance Prices ⁽²⁾ gives quarterly data on the actual prices

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

- the motorists' actual merit class, so that if in the reporting year they are in a better class than the previous year (which happens over 95% of the time), the deflator finds a reduction (or smaller increase) in price;
- discounts with respect to list prices, so that if a motorist gets a discount in the reporting year that he didn't have the year before, the deflator finds a reduction (or smaller increase) in price.
- changes in the characteristics of the insured vehicle, due in part to new car registrations.

⁽²⁾ Indagine sui **P**rezzi **E**ffettivi **R**.C.Auto.

MOTOR INSURANCE

Table 1 – Motor liability insurance premiums, 1994-2016

YEAR	1. Premiums (Source: IVASS) ⁽¹⁾			2. No. vehicles in circulation ⁽²⁾		3. Average price of coverage per vehicle		MEMO: 4. ISTAT motor liability index		MEMO: 5. ISTAT consumer price index	
	Mn. euro	Index	Annual % change ⁽³⁾	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change
1994	8,663	100.0	6.1	100.0	3.0	100.0	2.9	100.0	8.5	100.0	4.1
1995	9,316	107.5	7.5	102.1	2.1	105.3	5.3	110.2	10.2	105.3	5.3
1996	9,770	112.8	4.9	101.8	-0.3	110.9	5.3	120.2	9.1	109.5	4.0
1997	10,655	123.0	9.1	102.8	1.0	119.6	7.8	131.2	9.2	111.7	2.0
1998	11,745	135.6	10.2	107.3	4.4	126.4	5.7	149.1	13.6	113.9	2.0
1999	13,226	152.7	12.6	109.6	2.1	139.4	10.3	174.0	16.7	115.8	1.7
2000	14,196	163.9	7.3	112.4	2.6	145.8	4.6	190.8	9.6	118.7	2.5
2001	15,315	176.8	7.9	116.9	4.0	151.2	3.7	211.3	10.7	122.0	2.7
2002	16,628	191.9	8.6	120.1	2.8	159.7	5.6	235.8	11.6	125.0	2.5
2003	17,622	203.4	6.0	123.5	2.8	164.7	3.1	247.7	5.0	128.4	2.7
2004	18,062	208.5	2.5	126.0	2.0	165.4	0.4	250.0	0.9	131.3	2.2
2005	18,171	209.8	0.6	128.7	2.1	163.1	-1.5	254.3	1.7	133.8	1.9
2006	18,387	212.3	1.2	131.2	2.0	161.8	-0.8	260.1	2.3	136.6	2.1
2007	18,208	210.2	-1.0	133.5	1.7	157.5	-2.7	264.0	1.5	139.1	1.8
2008	17,606	203.2	-3.3	133.9	0.3	151.8	-3.6	270.2	2.4	143.8	3.3
2009	16,963	195.8	-3.6	134.2	0.2	145.9	-3.9	278.1	2.9	144.9	0.8
2010	16,881	204.4	4.4	133.9	-0.3	152.7	4.7	298.2	7.2	147.1	1.5
2011	17,760	215.0	5.2	133.1	-0.5	161.5	5.8	314.3	5.4	151.2	2.8
2012	17,542	212.5	-1.2	130.7	-1.9	162.6	0.7	328.1	4.4	155.8	3.0
2013	16,232	197.6	-7.0	127.4	-2.5	155.1	-4.6	327.5	-0.2	157.7	1.2
2014	15,180	184.7	-6.5	128.2	0.6	144.2	-7.0	318.7	-2.7	158.1	0.2
2015	14,187	172.7	-6.5	128.3	0.1	134.6	-6.7	313.1	-1.8	158.1	0.0
2016	13,494	163.1	-5.6	128.7	0.3	126.7	-5.9	313.1	0.0	158.0	-0.1

⁽¹⁾ Premiums only of Italian companies and units of companies with registered offices in non-EEA countries, since the data on number of vehicles insured by units of companies located within EEA countries are not available

⁽²⁾ Through 2008, based on ACI data. Starting with 2009, the number is calculated on the basis of the change in the actual number of vehicles insured derived from an ANIA survey, using a methodology consistent with that which IVASS specifically requests of insurance companies in anticipating their financial reports. Preliminary data showed a modest rise in the number of insured vehicle/years in 2016 to 38.7 million. The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer doing business in, the number of insured vehicles rose by 0.7%

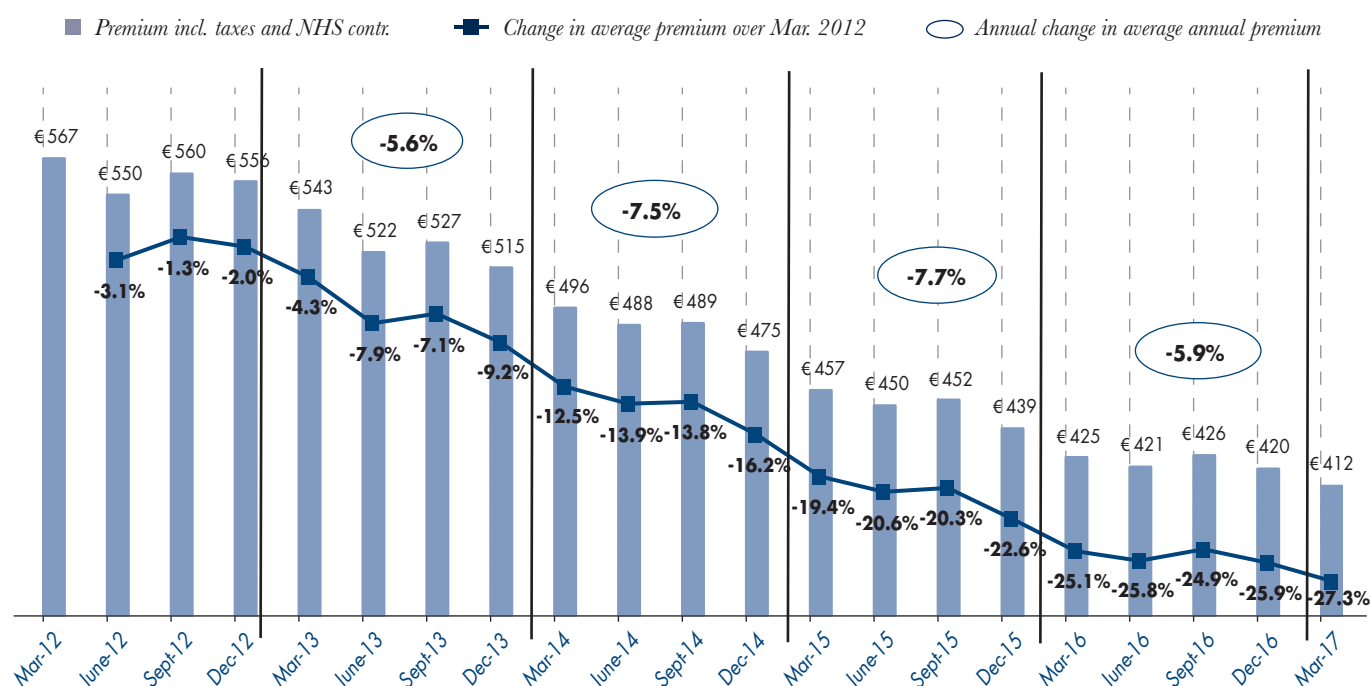
⁽³⁾ The percentage change in premiums in 2010 and in 2013 is calculated in uniform terms

paid by policyholders (not list prices or tariffs) for a sample of 2 million annual policies on private passenger cars only. The amounts include all the components of the final price, i.e. taxes, discounts from list price, and commissions to intermediaries.

Figure 1 summarizes the prices found quarterly by IVASS (those prior to December 2013 are ANIA estimates based on the average prices found by a comparable survey conducted by ANIA itself). The survey shows that the average price of passenger car insurance fell from €567 in March 2012 to €412 in March 2017, or by 27.3%, in line with the insurance price index shown in Table 1. For 2016 alone, the IPER survey shows that the cost of passenger car insurance (obtained as the average for the four quarters) was 5.9% lower than in 2015, falling from €450 to €423, the same as the ANIA estimate.

MOTOR INSURANCE

Figure 1 – Average price of passenger car insurance, 2012-2017



Sources: Dec. 2013-Mar. 2017, IVASS; other months, ANIA estimate based on IVASS data

In parallel with the foregoing breakdown of the change in average premiums derived from insurance company accounts, starting in 2013 ANIA has also utilized a quarterly monitoring program (covering 85% of the market in terms of premium income) to estimate the actual price paid for a renewed motor liability insurance policy. The survey excludes fleet policies. For comparability, only annual policies expiring in the reference month are considered; temporary policies are consequently excluded. The premiums are calculated net of taxes and National Health Service contributions.

The latest data, for **March 2017** (Table 2), indicate that the average price of motor liability insurance, net of taxes, came **down by a further 3.1%** compared with **March 2016** to **€351** ⁽³⁾, or €98 less than the €449 recorded in March 2012 – a fall

Table 2
Actual motor liability premiums at policy renewal: ANIA monitoring

Type of vehicle	Average premium (pre-tax) (euros)	% change over year-earlier month
March 2017 – All policies	351	-3.1
of which:		
Private passenger cars	354	-3.6
Private motorcycles	236	-0.8
Private motor scooters	153	1.7

⁽³⁾ Including taxes (15.7%) and NHS contributions (10.5%), which account on average for 26.2% of the pre-tax premium, the average post-tax cost for all vehicles in March 2017 came to €443. For private passenger cars alone, the figure was €447. This amount differs from that given by IVASS and

MOTOR INSURANCE

of 22% in less than five years. In detail, premiums on cars fell by 3.6% in the year to March 2017 and those on motorcycles more modestly, by 0.8%, while the down-trend for motor scooters was reversed, with an increase of 1.7%.

Looking, for purposes of comparison, to the rest of Europe (Table 3), based on Eurostat data (which are essentially the same as those observed by Istat for Italy and its counterpart institutions for the other countries), we find that only Greece registered a decrease in 2016, of 3.9%. Motor liability prices were essentially unchanged in Italy, Belgium, Denmark, Norway and Sweden, while in all the other countries they rose in general by between 2% and 3%; in Ireland they went up by 24.6% and in the UK by 11.9%.

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

	AVERAGE FOR YEAR					TOTAL	12-MONTH CHANGE
	2012	2013	2014	2015	2016	2012-2016	April 2017-2016
Italy	4.5%	-0.2%	-2.6%	-1.8%	-0.1%	-0.5%	1.6%
Austria	2.5%	2.5%	1.9%	1.7%	1.8%	10.8%	1.8%
Belgium	1.3%	1.2%	1.3%	0.5%	0.1%	4.6%	-0.1%
Denmark	1.6%	-17.4%	12.3%	1.9%	-0.1%	-3.9%	-2.3%
Finland	3.2%	4.0%	3.9%	6.0%	2.7%	21.3%	1.0%
France	2.1%	-1.5%	-0.2%	1.7%	1.3%	3.4%	1.9%
Germany	-2.7%	4.1%	1.7%	-1.6%	2.1%	3.5%	3.1%
Greece	1.4%	-7.7%	-8.9%	-9.1%	-3.9%	-25.5%	-5.2%
Ireland	3.6%	-7.5%	6.0%	19.6%	24.6%	51.4%	-7.5%
Luxembourg	6.6%	0.8%	1.8%	0.1%	1.7%	11.4%	0.0%
Netherlands	2.1%	12.1%	0.2%	3.4%	2.1%	21.2%	3.8%
Norway	3.4%	2.3%	1.1%	0.2%	-0.4%	6.6%	-0.8%
Spain	0.5%	-0.3%	0.7%	1.8%	2.5%	5.4%	3.5%
Sweden	1.0%	0.4%	1.2%	1.9%	-0.1%	4.5%	-0.6%
United Kingdom	0.7%	-1.6%	2.1%	3.0%	11.9%	16.6%	10.1%
EU 28	1.4%	0.5%	0.5%	0.4%	2.7%	5.6%	3.1%

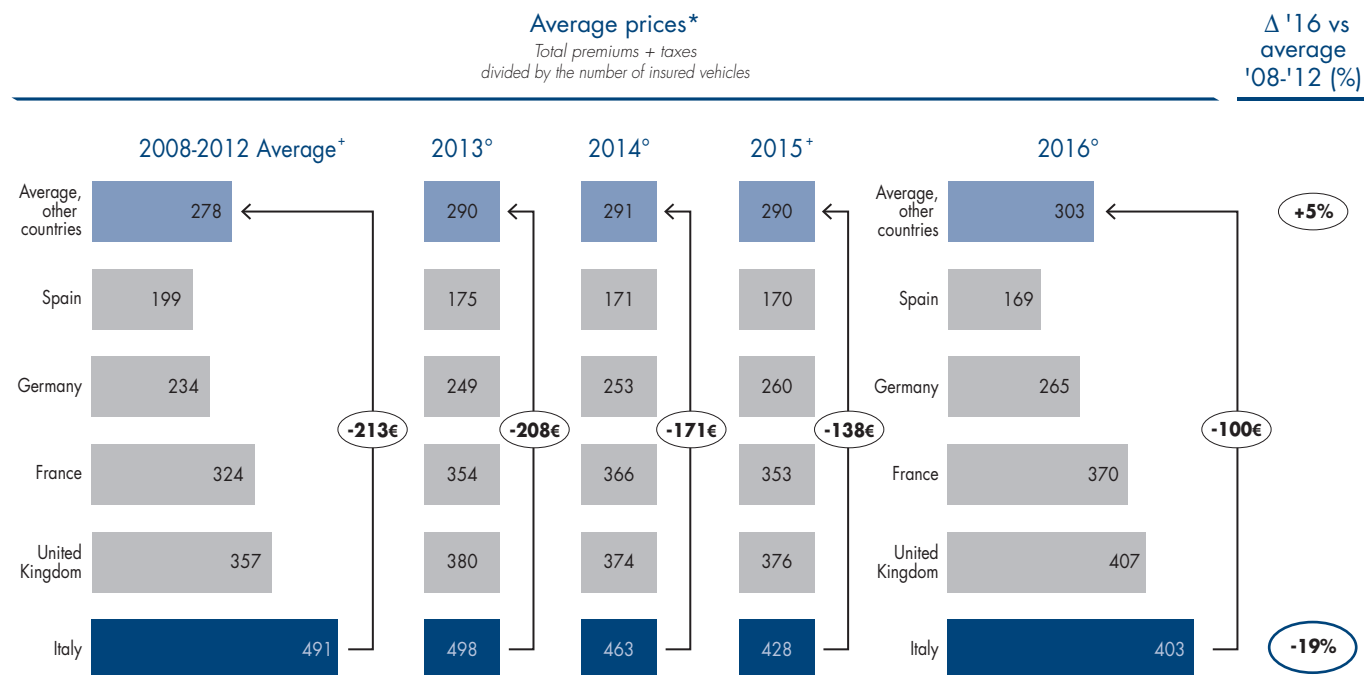
Source: Eurostat

Accordingly, the gap between Italian prices and those in the other main countries narrowed. The Boston Consulting Group study conducted in 2014 found that between 2008 and 2012 motor liability coverage cost €213 more in Italy than in Germany, France, Spain and the United Kingdom, on average. But an update of this study has found that the gap diminished to €138 in 2015. Using the trends in motor liability price indices released by Eurostat, ANIA has estimated that the gap narrowed further in 2016 to €100 (Figure 2).

is generally higher, in that the ANIA survey covers only policy renewals within companies' portfolios, for which the previous year's premium is known. This excludes new policies issued during the month, which refer at least in part to motorists who have changed insurer in order to get a cheaper policy and who accordingly get larger reductions, on average, than those staying with the same company. Further, the premium reported by the companies surveyed does not take account of contractual changes or any additional discounts with respect to the previous year.

MOTOR INSURANCE

Figure 2 – Average motor liability insurance prices in Europe



(+) Source: BCG – Documento Finale Confronto sul Mercato RCA in Europa

(°) ANIA estimates based on Eurostat and Insurance Europe data

(*) The slight differences between the premium for Italy given here and that from IVASS's IPER survey are due to the fact that IVASS counts only private passenger cars

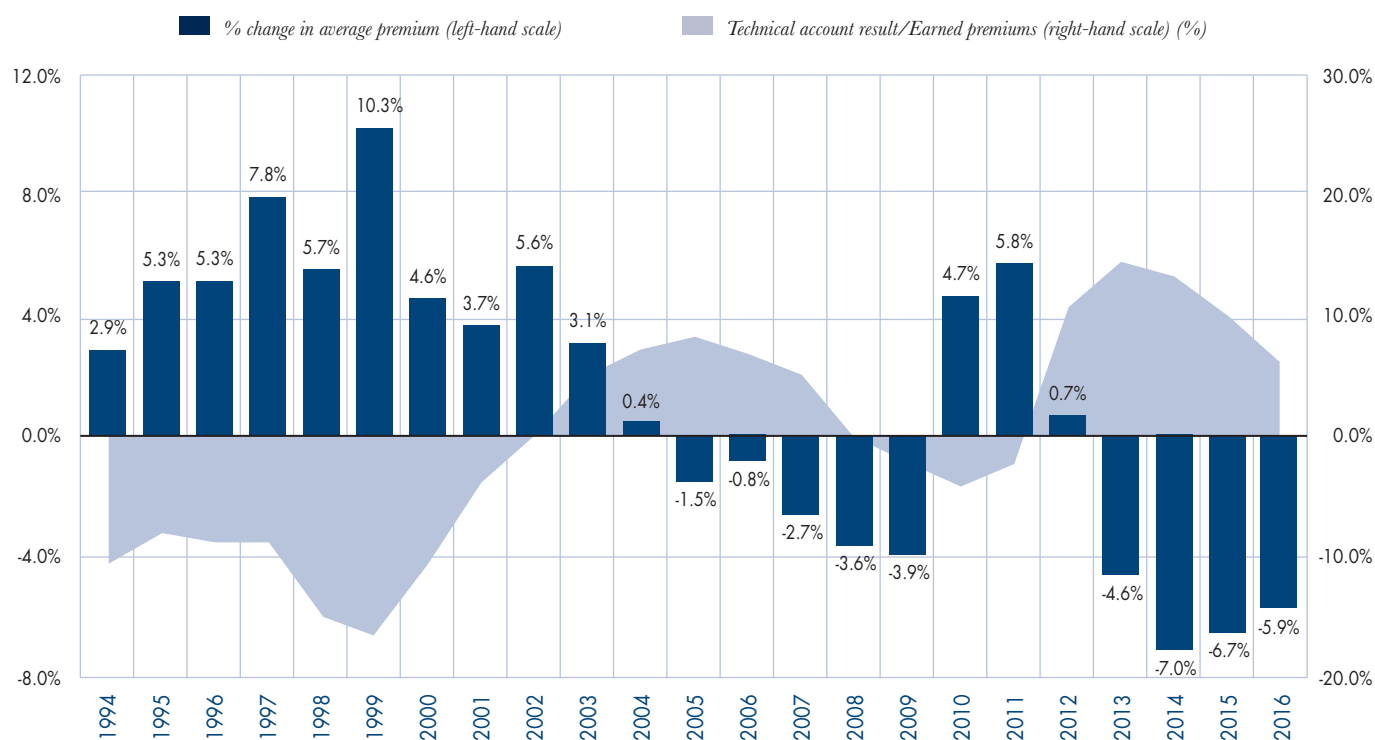
The decline in premiums in Italy is, of course, the consequence of the severe recession (which at least until 2015 curbed car use and thus reduced claim frequency). But above all it stems from sharper competition between insurers, which has enabled consumers to switch to more economical coverage, as in the possibility of subscribing policies providing for mounting data recording devices (“black boxes”) and offering, in exchange, sometimes very substantial premium discounts. The steady increase in the number of these devices installed has enabled insurers to reduce moral hazard both in risk profiling and in claims adjustment in case of accident, reducing fraud and permitting more correct valuation of damage. A positive contribution has also come from the stiffening of standards for compensation for minor personal injury, which by decreasing insurers’ cost component in connection with micro-injuries allowed substantial price cuts starting in 2013.

Policy premiums (or prices) are strictly correlated with insurers’ technical results. Profits or losses obviously depend on the adequacy of prices with respect to the risks underwritten. Comparing motor liability technical results with average premium variations over the long run, we can track the “insurance underwriting cycle” (Figure 3). Up until 2002, following price liberalization, the sector’s technical results were sometimes sharply negative, and insurers had to bring the accounts back into balance by raising average premiums (the “hard” phase of the cycle). Once the technical results came back into positive territory (in 2002), companies began lowering prices (the “soft” phase). However, there is a lag between the inversion in the profitability trend and that in the price trend. Prices, in fact, can only reflect changes in claim frequency

MOTOR INSURANCE

with a lag of months, insofar as the data for the calculation to estimate new premium rates are drawn from past experience, are not available immediately, and can take a considerable amount of time to process. The most recent trends indicate that in view of the positive technical results achieved starting in 2012, we have witnessed the sharpest cut in average premium rates since the 1994 liberalization (nearly 25% from 2013 through 2016).

Figure 3 – The insurance policy subscription cycle



The logic behind the insurance cycle is clear. In high-profit years, insurers are more optimistic and compete harder for new business. In the case of motor liability insurance, as the demand is inelastic, this means winning accounts away from other insurance companies. In a mature and highly competitive market, this implies price cuts in order to gain market share. As a consequence, profits tend to decrease both because of steadily lower premiums and because of the acquisition of lower quality policy risks. Profits do not return to growth until insurers adjust their prices and start being more selective in screening prospective policyholders. This brings profits back up, and the cycle starts over.

Remember that different companies have different operating expenses, hence different minimum acceptable profit margins. Perceptions and expectations of future profits and losses develop in different ways and on different calendars, and individual insurers' strategies are not known. Hence no coordination of market actions is possible; this implies that the cyclical process never attains a point of equilibrium and so should be never-ending.

DIRECT INDEMNITY

NEW CARD CONVENTION

It being a decade now since the institution of the direct indemnity procedure, the relative Convention among insurance companies was thoroughly reviewed and reconsidered last year with a view to setting rules for cooperation among participating insurers to guarantee the determination of liability by the legal deadline for the formulation of a settlement offer.

This objective required thorough analysis of the insurers' settlement liquidation process, which resulted in the revision of a good part of the Convention and radical rethinking of the IT rules governing the determination of liability for the accident.

The changes were designed to foster the rapid exchange of the documentation underlying the reconstruction of liability between the two insurers involved in the accident, enabling the one that handles the claim to make the settlement offer within the deadline laid down by Article 149 of the Insurance Code.

The rapid exchange of the insurers' documentation on liability for the accident has produced a viable corrective to the problem of "double indemnity" and enabled insurers to draft letters retracting the settlement offer on the basis of concrete elements such as to prevent deliberate fraud.

The new CARD Convention applies to all accidents occurring from 1 March 2017 on.

CALCULATION OF THE SINGLE COMPENSATION AMOUNTS FOR 2017

The rules for determining the average cost of claims (the single compensation amount for payments between insurance companies) remain unchanged for the 2017 financial year. The applicable legislation is Article 29 of Decree Law 1/2012, converted into Law 27 of 24 March 2012, and the implementing provisions in IVASS's Measure 18 of 5 August 2014.

Specifically, the compensation amount is divided into two components:

- a single "CARD-CID" amount for mild personal injury to the driver and damage to the vehicle insured and property transported, itself broken down into two vehicle categories, namely "motorcycles/scooters" and "vehicles other than motorcycles/scooters". The single amount, relating only to property damage, has been set distinctly for three geographical macro-areas;
- for the "CARD-CTT" procedure relating to personal injury to passengers and damage to their property, reimbursement is now on the basis of the actual settlement (again in 2017, no deductible was deemed necessary).

The study to determine the single compensation amount was based only on CONSAP's statistics, which refer to settlements of claims admitted to the clearing house between 1 February 2009 and 31 October 2016, which are sufficiently representative of the costs of the claim generation needed to determine the compensation amount.

Calculation of the CARD-CID amount

The examination of average definitive settlements revealed an increase in 2016 for the macrosector of “motorcycles/scooters” both for damage to vehicles and property transported and for settlements for injury to drivers. A similar if more moderate uptrend was also found for “vehicles other than motorcycles/scooters”, for both types of damage.

Accordingly the reference values for 2017 were set on the basis of the average costs of definitive settlement of claims of all the claim generations available (2009-2016). The method adopted for calculating the ultimate cost of claims of both types was the classical actuarial “chain ladder,” based on the time series of average cost increases of previous claim generations according to claim duration.

The amounts so derived were first projected through December and then inflated for one additional year (given that they are to apply to all of 2017) based on the inflation forecast of 0.9% set in the Italian government's 2016 Economic and Financial Document Update.

The base value for average cost of property damage is:

- €1,397 for “motorcycles/scooters”
- €1,577 for the broader class of “other vehicles”.

The base value for average cost of mild injury to driver is:

- €4,597 for “motorcycles/scooters”
- €2,337 for the broader class of “other vehicles”.

Determination of geographical adjustments

The CONSAP statistics on settlements of claims incurred from 1 January 2012 to 31 October 2016 were also used to identify three geographical macro-areas. Determination of the geographical indices was by the same methodology as in the past. Based on average settlement cost, provinces were divided into three groups (so-called geographical “areas”) depending on deviation from the national mean. The first area comprises all provinces with costs more than 10% higher than the mean; the second, those with a deviation of less than 10% either above or below the mean; and the third, those with costs more than 10% below the mean. The average costs for the “areas” so defined were related to the overall average for all provinces and

MOTOR INSURANCE

then normalized with respect to the central group, producing three adjustment coefficients (Table 1).

Table 1 – Determination of average cost of property damage claims by geographical “area”
(Euro)

	MOTORCYCLES/SCOOTERS			OTHER VEHICLES		
	Group 1	Group 2	Group 3	Group 1	Group 2	Group 3
Average cost of damage to vehicle and property transported, to 30/06/2017	1,397	1,397	1,397	1,577	1,577	1,577
Adjustment coefficient by area	1.30	1.00	0.83	1.18	1.00	0.84
Average cost of claims by macro-area	1,816	1,397	1,160	1,861	1,577	1,325

MEMO:

	2010	2011	2012	2013	2014	2015	2016	2017
Average cost of damage to vehicle and property transported (€) (*)	1,520	1,565	1,613	1,598	1,651	1,556	1,550	1,559
Change (%)	4.8%	3.0%	3.1%	-0.9%	3.3%	-5.8%	-0.4%	0.6%

(*) Average cost for all sectors

For “motorcycles/scooters”, provinces with fewer than 500 claims were excluded, given the high volatility of costs there. These provinces were then all classed in the central group.

The single CARD-CID compensation amounts, separately for the two vehicle classes, were computed as the average of property damage and personal injury costs, weighted by their share of total claims (Table 2). The share incidence was calculated as the percentage of total valid CARD-CID claims involving the various types of damage, by vehicle type.

Table 2 – Determination of single CARD-CID compensation amounts by geographical “area”
(Euro)

	MOTORCYCLES/SCOOTERS				OTHER VEHICLES			
	Group 1	Group 2	Group 3	% of claims	Group 1	Group 2	Group 3	% of claims
Average cost of damage to vehicle and property transported	1,816	1,397	1,160	99.2%	1,861	1,577	1,325	99.9%
Average cost of personal injury to driver with permanent disability of less than 9%	4,497	4,497	4,497	40.1%	2,337	2,337	2,337	10.2%
Average cost of claims by macro-area	3,644	3,228	2,992		2,098	1,814	1,562	
SINGLE CARD-CID AMOUNT (*)	3,635	3,220	2,985		2,093	1,810	1,559	

(*) Amounts obtained by re-basing, rounding the central class down to the nearest 10 euros

COURT OF CASSATION, SECTION 3, ORDER 3146/2017: THE EFFECTS ON THE DIRECT INDEMNITY PROCEDURE

By Order 3146/2017 of 24 January, the Court of Cassation, Italy's supreme civil court, provides an interpretation on the scope of the direct indemnity procedure (Articles 149 and 150 of the Insurance Code and Article 1.1(d) of Presidential Decree 254/2006) that is more extensive than envisaged by the current legislation and as such also more extensive than the CARD Convention drafted in conformity with that legislation, which excludes the procedure where the accident involves more than two motor vehicles.

The Court found in favor of appellants who had challenged a sentence handed down by the Court of Appeals in Taranto to the effect that the direct indemnity procedure was inapplicable simply because the accident had involved not only the vehicles of the damaged and the liable parties but also a third vehicle. The Court of Cassation found that the lower court judge, in failing to verify whether the third vehicle was or was not liable, had made an error of law, in wrongly applying the provisions of Presidential Decree 254/2006 in connection with the provisions of Article 149 of the Insurance Code.

The interpretation of the Court of Cassation is that direct indemnity must apply also in cases in which the collision between two motor vehicles causes damage to third parties, as long as the latter are not co-labile. The Court reached this conclusion through a reading of Presidential Decree 254/2006, which in Article 1.1(d) defines an accident as “a collision, in Italian territory, between two motor vehicles identified and carrying compulsory motor liability insurance from which there arises damage to the vehicles or mild injury to their drivers, with no involvement of other liable vehicles.”

The Court of Cassation's interpretation, based on a parenthetical phrase in the implementing regulation, threatens to alter the entire system of direct indemnity. It is worth recalling that the primary legislation (Article 149 of the Insurance Code) clearly and expressly lays down that the system can operate solely where only two vehicles and their drivers are involved. This is further confirmed by the fact that where the system was extended to different types of event, this was done by express provision and with specified procedures (see the case of litigation permitted to third-party passengers pursuant to Article 141 of the Insurance Code).

It should be observed, in any case, that from the outset on various occasions jurisprudence has circumscribed the scope of the direct indemnity system to accidents involving only two vehicles, holding that the mere presence of a third element of any sort – pedestrian, property, vehicle – in addition to the two vehicles involved in the collision precluded the application of direct indemnity.

The fact is that the system is organized in such a way that it can function only for collisions between two vehicles, and the credit and debit amounts between the two insurance companies involved in the claim can be settled efficiently in the clearing

house envisaged by Article 13 of Presidential Decree 254 only as long as no further damage items relating to a third vehicle are presented to the clearing house.

It should be added that the Court order is effective only for the single case involved and the parties to it, and is binding only upon the appeals court from which the case proceeded.

Any interpretation permitting application of direct indemnity also to third vehicles would require amending the text of the CARD Convention, contradicting the reference legislation (Articles 149 and 150 of the Insurance Code and Presidential Decree 254/2006) and, de facto, making the entire conventional and informational framework underlying the direct indemnity system impracticable. It is worth recalling that this system, through CARD, effects the liquidation of 80% of all motor liability claims, with self-evident benefits for the damaged parties, both economic and in terms of speed and procedural simplicity. In fact, the procedure was instituted precisely in order to make it easier for damaged parties in simple accidents where liability is readily determined either through the claim form filled out by both parties to the accident or through the application of the liability sharing schema given in Annex A to Presidential Decree 254/2006, which as we know refers exclusively to accidents involving two vehicles.

A direct indemnity system applying to cases of accidents with more than two vehicles would create a series of problems, to the detriment above all of the damaged parties themselves:

- Determining liability in a multi-vehicle accident would take more time (acquiring reports, reconstructing the dynamics of the accident), which would slow down the liquidation procedure for all the damaged parties. Determining the possible co-liability of the damaged third party – assuming such co-liability is claimed by the other parties – would slow the settlement for the two vehicles actually involved in the collision (even given the joint claim form filled out by both drivers). And in identical fashion the settlement of the claim of the third vehicle or its driver would also be slower, owing to the need for prior determination of the sharing of liability between the first two vehicles.
Further, given that the damaged party has up to two years to present a claim for damages, before settlement of a “multiple CARD” claim can be initiated it would be necessary to wait until all the damaged parties had presented their claims; otherwise there would be the risk of the submission of additional claims after some damaged parties have already been indemnified.
- Applying direct indemnity to a third vehicle not involved in the actual collision could work only if one party were fully liable for the entire accident. The court order, in fact, rules out the co-liability of the damaged third party. This would imply the exclusion from the direct indemnity procedure of all accidents with joint liability (15% of the some 2 million CARD claims settlements each year) in which one or both damaged parties have some co-liability. This approach would very significantly limit the scope of the direct indemnity procedure, which as matters stand today does apply to accidents with joint liability.
- The already complicated procedure whereby the liable policyholder can reimburse the costs to the clearing house, as provided by Annex 1 to IVASS Regulation 4/2006, would be further complicated, with a high risk of poor service to users.

- The single compensation amount mechanism itself would have to be completely reconsidered. For instance, imagine an accident in which the insurer of the sole liable party must pay a number of single compensation amounts corresponding to the number of vehicles damaged; or a rear-end pileup, considered as a single accident involving both liable vehicles and vehicles with no liability whatsoever.

The CARD data for 2016 indicate that about 3,000 direct indemnity procedures were annulled owing to the presence of more than two vehicles during the year, out of a total of some 2 million CARD claims.

TECHNOLOGICAL INNOVATION IN MOTOR LIABILITY INSURANCE

ECALL: DELEGATED ACTS IMPLEMENTING REGULATION (EU) 2015/758 ON TYPE-APPROVAL REQUIREMENTS FOR THE DEPLOYMENT OF THE ECALL IN-VEHICLE SYSTEM

The eCall service is a pan-European emergency service which in case of a serious accident (identified by the vehicle's sensors) provides for automated or manual activation of an S.O.S. call to the single EU emergency number (the 112 service), giving the coordinates for the GPS location of the vehicle. The call is then routed by the mobile phone network to the public safety answering point (PSAP) responsible for that location.

On 12 September 2016 the Commission published the delegated acts implementing Regulation 2015/758 of the EU Parliament and the Council. The acts lay down a complex, detailed set of rules containing the technical specifications and test procedures necessary to make the eCall system operative for motor vehicles and their components.

As to the calendar for implementation, the regulation provides that all PSAPs shall have completed the necessary updates and acceptance testing by 1 October 2017. Further, all member states must comply with the technical rules laid down in the delegated acts starting 31 March 2018, the date by which manufacturers must mount eCall devices on all new passenger cars and light transport vehicles sold in Europe.

However, with some exceptions the member states are generally behind schedule in taking the actions required for the implementation of the eCall system. In Italy too, at present only a few parts of the country can be called "eCall ready".

Some countries, France for one, are developing eCall models based on partnership between the public PSAP operations centers and private centers run by motor liability insurance companies, one purpose of which is to filter the manually made emergency calls so as to forward to the PSAP only those that refer to the most serious accidents.

This kind of public-private synergy on eCall could be achieved in Italy as well, in that Italian highway assistance comprises a significant presence and role of third party service providers

(TPSPs), i.e. private parties that supply in-vehicle mobile applications. For this reason these firms have informed governmental institutions of the urgent need to institute communications standards whereby private emergency centers can forward emergency calls from their own contact centers to the public operations centers, and vice versa. The aim is better coordination and rationalization of interventions, according to their respective competences.

In this regard, in institutional forums ANIA too has always stressed that the insurance industry, thanks among other things to the increasing diffusion of black boxes, has long been active and operational in assistance for vehicle breakdowns and accidents, both directly and in partnership with TPSPs. ANIA has accordingly stressed the need to be involved, along with the other stakeholders, in the process for determining communications standards for handling S.O.S. calls. ANIA is also weighing the creation of a database of highway assistance services enabling the operator to pair license plate numbers with any related assistance service.

FEASIBILITY STUDY ON THE “DYNAMIC” RISK CERTIFICATE

In December 2016 the insurance supervisor IVASS, with the active participation of ANIA and insurers, initiated the second phase of work by the technical task force that had previously examined the technical and legal aspects of the dematerialization of paper risk certificates. That phase concluded with the abrogation of paper-based certificates, replaced by data transmitted by insurers to the ANIA ATRC database of risk certificates. IVASS elected to use that ANIA database, activating the option provided for in the Insurance Code (Article 134 of the Code and IVASS Regulation 9/2015), and as of 1 July 2015 the “static” risk certificate was dematerialized; the rules governing the certificate were fully phased in as of 1 July 2016.

The current certificates are termed “static” in that the insurance companies update the driver’s accident history only once a year, informing the motorists of their new merit class at least 30 days before the expiration of the policy.

The second phase of the task force’s activity engages ANIA and the insurance companies to determine the procedures for realizing a “dynamic” risk certificate, i.e. one that is updated continuously by the insurers themselves, with the support of ANIA’s ATRC and SITA databases, including claims made at the time the certificate is compiled but paid subsequent to their registration.

One purpose of the “dynamic” certificate is to mitigate moral hazard and speculation/fraud, which are typical of the run-up to policy expiration – it is well known that there is a concentration of late accident reports during this period, followed by a change of company on the part of the liable drivers, so as to avoid registration of the accident in their certificates and the resulting increase in premiums upon renewal.

The task is to devise efficient, feasible operational solutions that can be implemented in the short term. The approach agreed on by IVASS, ANIA and the insurers is to proceed gradually, first of all implementing the “digital” certificate, which can be done with minimal regulatory intervention on secondary legislation and no immediate need for amendments to primary legislation.

As a result of the work done in the first half of 2017, the task force has basically approved the plan for IT management of the dynamic certificate formulated by the EDP department of ANIA with the support of its passenger car department. The system assigns to each motor liability risk certificate a Single Risk Identification, so that late accident reports can be immediately paired with the risk certificate even in the case of subsequent change of insurer.

ANIA work groups have carried out further technical and legal studies, examining among other things the procedures for progressively increasing the number of years of previous accident history covered and for updating merit classes when the accident report is made after the “old company” has already issued its risk certificate, which was then used as the basis for the policy issued by the “new” insurer.

ITALIAN AND INTERNATIONAL PROJECTS

Smart roads

In June 2016 the Italian Ministry for Infrastructure and Transport suggested possible lines of action for executing the project entitled “Smart roads, connected vehicles and the mobility of the future” with the participation of all relevant stakeholders, including ANIA. The Ministry proceeded to develop this initiative in the course of the year. The main objectives are:

- to “digitize” Italy’s main motorways and national highways first, and provincial and regional highways subsequently, with a view to enhancing user safety and curbing pollution;
- to institute a system of “open data” management accessible to all;
- to ensure equal data access for all stakeholders, guaranteeing a level playing field for all agents to foster competition, while retaining the central goal of safety for motorists and the possibility of free choice among service providers;
- lastly, to determine the public resources and policies required to make the project operational, as it involves multiple participants (vehicle manufacturers, telematics providers, the after-market industry, insurers).

As part of the project, four work groups were formed to supplement and/or modify the lines of action developed by the Ministry. The topics to be treated were subdivided according to priority. In December 2016 the Transport Ministry released further indications to strengthen the papers produced by the work groups and asked for a document listing the actions deemed by each group to have high priority, specifying the time frame for each (one, three or five years, depending on urgency), the necessary support actions, and any legislative or regulatory intervention. ANIA, assigned to coordinate the work group on access to the data on mobility, identified priority initiatives, bringing together and where possible harmonizing the contributions of the various stakeholders. ANIA submitted its concluding report to the project managers in January 2017.

Gear 2030

ANIA’s passenger car department has been tracking a number of international initiatives. In particular, as regards the European project “Gear 2030” the focus is on the progressive

automation of vehicles and the transition from semi-automated to fully automated. For the circulation of fully automated – or driverless – vehicles, which are expected to be on the roads starting in 2030, the entire system of infrastructures and vehicles will need to be such as to guarantee road safety, as the top priority. This will require the correct management and storage of general data on vehicles, in order to determine the circumstances of accidents involving such vehicles and above all to ensure adequate protection for road users by preventing, as far as possible, accidents and the consequent damage.

Cooperative Intelligent Transport System

The European “Cooperative Intelligent Transport System” (C-ITS) project is designed to prepare the infrastructure to receive connected vehicles. In this context Transport Research Laboratory, the company charged by the Commission to examine the issue of access to vehicle data, has completed its study. In particular the study offers a reconnaissance on the legal, liability, technical and cost-benefit features of three possible operational solutions: on-board application platform, or in-vehicle platform; in-vehicle interface; and data server platform. The fundamental principle, which this survey confirms, is that whatever technological model of access to the data generated by vehicles’ mobility is adopted, the data subject must decide whether to make data available, and to whom, in a framework of fair and equal competition among service providers (car makers, telematics providers, after-market, insurers ...), while guaranteeing privacy, safety and security, and interoperability, in order to facilitate the utilization of the data by all stakeholders, including insurance companies.

Other European initiatives

On the question of liability for highly automated and connected vehicles, Insurance Europe, with the contribution of ANIA among others, has produced a concept paper for use in discussions in institutional forums with the European Commission, laying down the main positions of the European insurance industry on this theme.

On connected and automated driving, ANIA has also been following the “Oettinger Roundtable”, a high level group instituted by the European Commission in September 2015. Originally the roundtable was limited to manufacturers and communications companies, but it was then opened, partially, to other stakeholders in the automotive sector, including insurance companies. The roundtable currently focuses on two main projects:

- paving the way for transnational testing of automated driving on a large scale;
- fostering dialogue among member states on regulatory matters, including access to mobility and liability data, under the aegis of the Commission.

Lastly, ANIA’s passenger car department and other relevant departments have been monitoring the activities and outcomes of public consultations initiated at the start of 2017 by the Commission, European supervisory authorities and the European Parliament on questions of liability and the relation between the Motor Insurance Directive and the Product Liability Directive, focusing in particular on liability for defective products, on the free flow of data and their portability, on the Internet and goods, on big data and robotics, which in some respects comprises driverless cars. The consultations, concluded during the spring,

enabled the Italian insurance industry, with ANIA as its spokesman, to outline its positions and highlight the most delicate points (equal access to data, coordination of the Directives, clarity of the regulatory framework, etc.) with a view to possible regulatory action by European institutions.

DEMATERIALIZATION

Developments in the digitization of insurance certificates

In the second half of 2016 IVASS and the Interior Ministry provided further clarification concerning the interpretation of current legislation (the Insurance Code and the Highway Code) on the procedures for checking vehicles' insurance cover following the complete dematerialization of insurance stickers since 18 October 2015 and on the requirement to transmit the insurance certificate and the motorist's obligation to show it to police officers in the case of a check of the vehicle.

As to the certificate, IVASS and above all the Ministry supported the possibility of abandoning the present paper-based format, with the policyholder's consent. Let us recall that early in 2016 IVASS (by Measure 41/2015, amending ISVAP Regulation 34/2010, Article 10.5) amended the rule that required the insurance certificate to be delivered exclusively in the original paper format. With this change, IVASS allowed all insurance companies to transmit the certificate, as an alternative to the delivery of the original paper certificate and with the express consent of the policyholder, on a durable support, such as via email, smartphone application, tablet, in printable "digital" form.

Subsequently, by a letter to the Ministry dated 1 June, with a copy to ANIA for information, IVASS offered clarification on the procedure for verifying insurance coverage. The initiative was undertaken following a series of reports of vehicles being seized simply because the Motor Vehicles Department's motorist portal database did not list the license plate as insured. IVASS's letter pointed out that under the rules on dematerialization of the insurance sticker now in effect (Decree Law 1/2012), should insurance cover be temporarily not in the motorist portal database for whatever reason (say, an IT blackout), it can be demonstrated by the policyholder in the case of a check by police by displaying the requisite documentation, such as the insurance certificate in the original paper format or in a non-original copy printed from a durable support (e.g. email), as well as by the presentation of the policy itself and receipt for payment of the premium.

On 1 September 2016, the Interior Ministry issued a circular with operational instructions for law enforcement officers concerning verification of insurance certificates, specifying that as a result of IVASS Measure 41/2015, in the case of a check the motorist can demonstrate compliance by displaying not only the traditional original paper certificate but also an insurance certificate in digital format (e.g. via smartphone or other device) or a non-original print-out of the certificate, and that such motorists cannot be sanctioned for failure to have the original certificate (pursuant to Article 180.1(d) combined with Article 180.7 of the Highway Code), nor can they be required to produce the paper-based certificate subsequently (pursuant to Article 180.8 of the Highway Code).

Accordingly, without prejudice to the need for careful verification of motor liability insurance coverage by all the means envisaged by the law, before seizing a vehicle (pursuant to Article 193 of the Highway Code), the ministry circular, in conformity with the principles and aims of the digital administration code, is oriented to much fuller digitization.

LEGISLATIVE, REGULATORY AND JUDICIAL DEVELOPMENTS

FIVE-YEAR ADJUSTMENT OF MINIMUM COVERAGE AMOUNTS

To date the European Commission has effected two adjustments of the minimum amount of motor liability coverage to the European Index of Consumer Prices, based on the motor vehicles directive (Directive 2009/103/EC, Article 9.2). In particular, after the first adjustment in 2010, the Commission made a second adjustment for further, overall adaptation of the compulsory insurance coverage to the Index of Consumer Prices, as follows:

- for personal injury, the amount was updated to €1.220 million for each accident victim or else €6.070 million per accident, whatever the number of victims (in applying the Directive, Italy opted for this latter formula);
- for property damage, the amount was updated to €1.220 million per accident, whatever the number of damaged parties.

As to the entry into effect of the new minimum amounts, Italy took the option offered by the Directive of a transitional period of five years starting from the date of its transposition into Italian law, which was effected by Legislative Decree 198/2007 (the transitional period thus ended on 11 June 2012).

For countries opting for the transitional period, the European legislation also provided that adjustment to the Index of Consumer Prices be effected every five years from the end of that period (Article 9.2 of Directive 2009/103/EC on motor vehicles). As a consequence, in transposing the European legislation the Italian law (Article 128 of the Insurance Code) instituted automatic adjustment of the national minimum amounts to the European Index of Consumer Prices every five years starting 11 June 2012, through a decree issued by the Ministry for Economic Development. The minimum amounts indexed by the Commission and published in Communication 246/2016 went into effect in Italy as of midnight on 11 June 2017 both for new insurance policies and for those already in being as of that date.

THE “COMPETITION” BILL – RULES ON MOTOR LIABILITY INSURANCE

The yearly bill for “Market and Competition,” already passed by the Chamber of Deputies in October 2015, was approved by the Industry Committee of the Senate and then, in October 2016, submitted to the examination of the Senate. A few new amendments proposed by the *rapporteurs* are expected, so that the amended text will be remanded to the Committee,

unless the Government elects to ask for a vote of confidence on the measure. Subsequently, the text as approved by the Senate will be sent back to the Chamber for third reading.

ANIA's passenger car department and the other relevant departments have been watching the parliamentary passage of the bill closely, with special reference to the rules on compensation for non-economic damage due to personal injury in accidents covered by liability insurance and the other provisions of the bill on compulsory motor insurance.

These latter provisions, in addition to the rules laid down in Article 8 governing the compensation tables for the non-economic portion of serious personal injuries (i.e., involving permanent disability of over 9%), contain rules, in Article 3, on compulsory discounts and "bonus" tariffs. The 10th Committee of the Senate removed the provision whereby IVASS was required to set a minimum discount percentage if the policyholder agreed to a series of policy clauses offered by the insurance company. Another provision eliminated was the requirement for IVASS to fix an additional compulsory discount, of an amount such as to produce a tariff "bonus", designed to introduce a single nationwide premium for motorists having had no accidents within the last five years and agreeing to mount black boxes on their cars, with no consideration for geographical differences in risk. Both these provisions have been reformulated so as to overcome the pronounced violation of the principles of Community law and the contradiction of the principle of competition.

Among other things, the proposed rules could have had the adverse effect of discouraging companies from offering contracts with black boxes, imposing additional costs also for risks in respect of which the devices would not have produced any benefit in terms of accident reduction.

SINGLE CIRCULATION DOCUMENT: DRAFT LEGISLATIVE DECREE A.G. 392

In February 2017 the Transport Committee of the Chamber of Deputies and the Public Works Committee of the Senate were charged with delivering their opinions on the "Draft legislative decree for the rationalization of the management of the data on the circulation and ownership of passenger cars, motorcycles and scooters, and trailers with a view to the issue of a single document" (A.G. 392).

The aim of this legislation is to have a single document for vehicles in circulation that contains all the information on the ownership and circulation of passenger cars, motorcycles and scooters, and trailers, achieving significant savings through the use of a single procedure for filing the data, without prejudice to the powers of the institutions involved (the Italian Automobile Club, the Public Registry of Motor Vehicles, and the Ministry for Infrastructure and Transport).

The single ownership and circulation document is to give the technical data on the vehicle, its ownership data, data on the legal-economic situation of the vehicle, data on any privileges and measures of administrative block on circulation, and the data on the vehicle's withdrawal from circulation via demolition or definitive export. The Transport Ministry is empowered to issue the circulation card, certifying the data contained therein, without prejudice to the

responsibility of each administrative body (the Ministry itself and the Public Registry of Motor Vehicles).

The text of the decree may be supplemented by the addition of an enabling clause for the dematerialization of the single circulation document; if it is not, in any case ANIA will consider proposing such an amendment.

VEHICULAR HOMICIDE (LAW 41/2016): JURISPRUDENCE

The lengthy, complicated passage of the legislation introducing vehicular homicide and severe and very severe vehicular injury as separate crimes was marked by heavy media pressure, fueled by very serious accidents resulting in what most people considered to be excessively mild sentences, not enough to deter reckless driving.

In fact, for many years jurisprudence on this matter had tended to swing back and forth in the treatment of the worst accidents, and this is likely to have had some influence in inducing legislators to define this irresponsible conduct as a crime in its own right. Over the years, in fact, accidental death or severe injury due to negligence at the wheel was almost always treated as negligent manslaughter or injury, which carried modest penalties.

In recent years, however, some especially grave accidents were interpreted by the courts as falling into the category of possibly intentional acts. Only glaringly bad conduct with extremely grave consequences was singled out for this kind of treatment, while the overwhelming majority of road accidents remained within the province of ordinary penal law, legislation having in the meantime stiffened the penalties.

The introduction of the independent crimes of vehicular homicide and vehicular injury as of 25 March 2016 under Law 41/2016 forms part of a broader legislative intervention for the application of tougher sanctions under criminal law for negligent manslaughter or injury committed in violation of the highway code.

This generic offense is flanked by mentions of specific types of conduct such as driving under the influence of alcohol or drugs (punishable by from 8 to 12 years in prison), seriously exceeding the speed limit, failure to stop at a red light, wrong-way driving, and other dangerous actions (5 to 10 years). Where one of these violations results in the death of more than one person, the penalty can be tripled, up to a ceiling of 18 years' incarceration.

Harsher prison terms, that is, have been introduced when the guilty party commits the offence of vehicular homicide or severe personal injury while in violation of the highway code, not only for driving while drunk or under the influence of drugs but also for speeding, wrong-way driving, stoplight infractions, risky overtaking and U-turns; and offenders can be issued a new driver's license only after a waiting period ranging from 5 to 30 years (in the case of vehicular homicide with no effort to assist the victim). This means not only increased risk for all motorists of incurring very severe sanctions but also increased legal costs for offenders, possibly also affecting insurance coverage.



OTHER NON-LIFE INSURANCE CLASSES

OTHER NON-LIFE INSURANCE CLASSES

Written premium income of non-life business other than motor vehicle insurance (which means excluding motor liability and third-party liability insurance for watercraft and land vehicle insurance) increased by 2.0% in 2016. The combined ratio for 2016 improved by 1.5 percentage points, coming down to 84.1%, thanks to a decrease in the cost of claims, due in part to the freeing-up of reserves against claims in respect of previous years amounting to €1.2 billion at the end of the year. The positive contribution of the fall in claims cost was the main factor in the improvement of the overall technical result of €2.0 billion (slightly up from 2015).

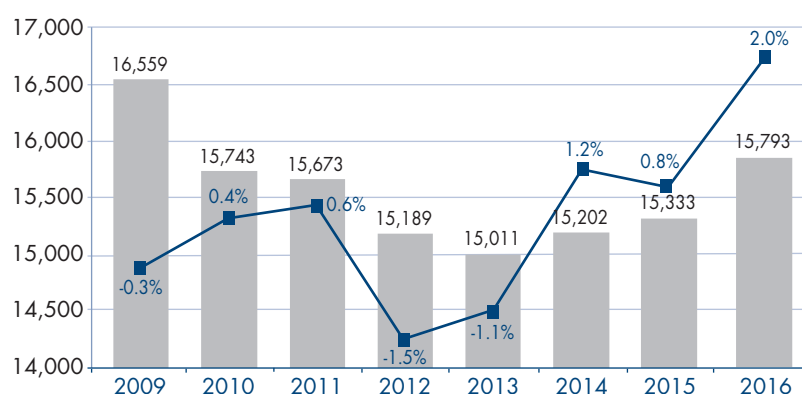
NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR INSURANCE

Premiums from direct domestic business in non-life classes other than motor insurance (i.e. excluding land vehicles and motor and marine vehicle third party liability) totaled €15,793 million, up 2% from the previous year for a uniform set of companies. Written premiums registered an above-average growth for policies on railway rolling stock (+56.3%), credit (+12.3%), aircraft (+10.1%), sickness (+9.6%), assistance (+6.3%), suretyship (+4.9%) and legal expenses (+3.8%). They decreased in the other classes of business: general liability (-0.2%), miscellaneous financial loss (-5.0%) and goods in transit (-7.0%). Non-motor insurance premiums' share of total non-life premiums increased from 47.9% in 2015 to 49.4% in 2016, also by reason of the drop in motor insurance premiums.

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

■ Written premiums
— Annual % change in premiums

(*) All non-life branches except land vehicles, motor liability, and marine liability



Earned premiums for the year, i.e. written premiums net of the change in premium reserves and other balance items, came to €15,610 million, up 0.8% compared with 2015.

The **incurred claims cost for the 2016 accident year**, defined as the sum of the total settlement costs plus the amount reserved against all claims incurred during the accident year, amounted to €9,306 million, representing an increase compared with 2015. As this item of cost was offset by a greater increase in premiums, the loss ratio to earned premiums improved slightly (from 60.0% in 2015 to 59.6% in 2016).

OTHER NON-LIFE INSURANCE CLASSES

Incurred claims, which along with the cost incurred for the current accident year also include any excess/shortfall of the amounts reserved for claims incurred in previous accident years, amounted to €8,120 million, down from 2015. The decrease is attributable to the freeing-up of reserves against claims in respect of previous years amounting to €1,185 in 2016, or +7.6%, confirming the uptrend from the €933 million of the previous year. Thus, the loss ratio to earned premiums fell from 53.9% to 52.0%. The business segments most responsible for the improvement of the loss ratio and with the highest share of premiums were sickness insurance, general liability, and accident insurance, whose loss ratios went respectively from 67.6% to 66.9%, from 54.8% to 48.1%, and from 41.4% to 39.9%. The only segments in which the ratio worsened – also those with the highest shares of premiums – were fire and natural forces (where the loss ratio rose from 56.3% in 2015 to 60.1% in 2016), and other damage to property (from 60.5% to 62.9%).

Non-life insurance classes other than motor insurance (excluding land vehicles insurance and motor and maritime liability)
Euro million

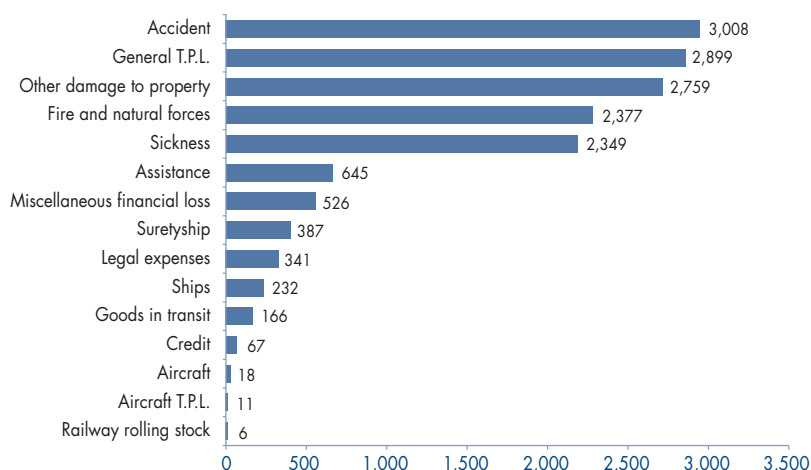
	2009	2010	2011	2012	2013	2014	2015	2016
Gross written premiums	16,559	15,743	15,673	15,189	15,011	15,202	15,333	15,793
Changes in premium reserves (-)	51	235	237	-280	-105	-28	1	183
Incurred claims (-):	11,736	10,276	9,859	11,054	9,183	8,924	8,263	8,120
– incurred claims cost for the current accident year (-)	11,804	10,499	10,000	11,004	9,657	9,613	9,196	9,306
– excess/shortfall of reserves for those claims incurred in previous accident years	68	223	141	-50	474	689	933	1,185
Balance of other technical items	-414	-408	-357	-363	-335	-375	-462	-412
Operating expenses (-)	5,015	4,799	4,762	4,568	4,605	4,720	4,854	5,065
– commissions	3,528	3,407	3,387	3,192	3,182	3,256	3,315	3,506
– other acquisition costs	682	670	642	675	686	723	767	733
– other administration costs	805	722	733	701	737	741	773	826
Direct technical balance	-657	24	458	-517	993	1,211	1,753	2,014
Investment income	1,072	510	314	760	554	587	584	514
Direct technical account result	415	534	772	243	1,546	1,798	2,337	2,528
Reinsurance results	-359	-539	-513	554	-726	-572	-469	-509
Overall technical account result	56	-5	259	796	820	1,226	1,868	2,019
Annual % changes in premiums	-0.3%	0.4%	0.6%	-1.5%	-1.1%	1.2%	0.8%	2.0%
Combined ratio	101.4%	96.7%	94.2%	101.5%	91.4%	89.6%	85.6%	84.1%
– Expense ratio	30.3%	30.5%	30.4%	30.1%	30.7%	31.0%	31.7%	32.1%
– Commissions/Gross written premiums	21.3%	21.6%	21.6%	21.0%	21.2%	21.4%	21.6%	22.2%
– Other acquisition costs/Gross written premiums	4.1%	4.3%	4.1%	4.4%	4.6%	4.8%	5.0%	4.6%
– Other administration costs/Gross written premiums	4.9%	4.6%	4.7%	4.6%	4.9%	4.9%	5.0%	5.2%
– Loss ratio:	71.1%	66.3%	63.9%	71.5%	60.7%	58.6%	53.9%	52.0%
– Loss ratio for the current accident year	71.5%	67.7%	64.8%	71.1%	63.9%	63.1%	60.0%	59.6%
– Excess/shortfall of reserves for previous years claims/ Earned premiums	0.4%	1.4%	0.9%	-0.3%	3.1%	4.5%	6.1%	7.6%
Technical balance/Earned premiums	-4.0%	0.2%	3.0%	-3.3%	6.6%	8.0%	11.4%	12.9%
Technical account result/Earned premiums	2.5%	3.4%	5.0%	1.6%	10.2%	11.8%	15.2%	16.2%
Overall technical account result/Earned premiums	0.3%	0.0%	1.7%	5.1%	5.4%	8.0%	12.2%	12.9%
Ratio of premiums to total non-life premiums (%)	45.1%	44.2%	43.1%	42.9%	44.6%	46.3%	47.9%	49.4%

Indexes and changes (%) are calculated on data in € thousand
Change calculated in homogeneous terms

OTHER NON-LIFE INSURANCE CLASSES

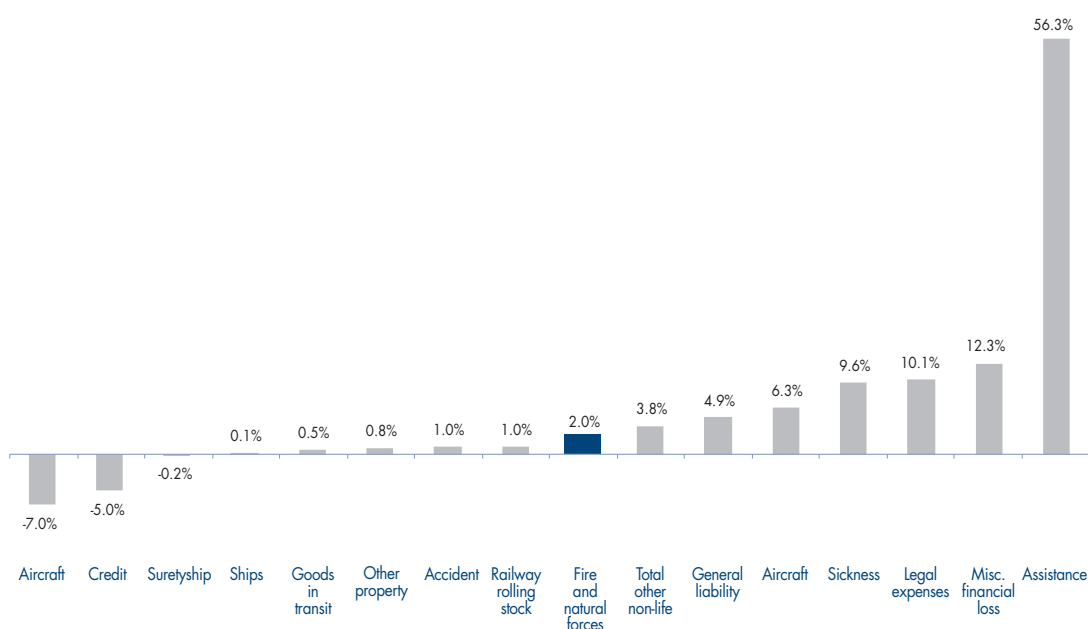
Direct premiums by insurance class – 2016

Euro million



Growth rate of direct premiums by insurance class – 2016 (*)

Average 2016: 2.0%



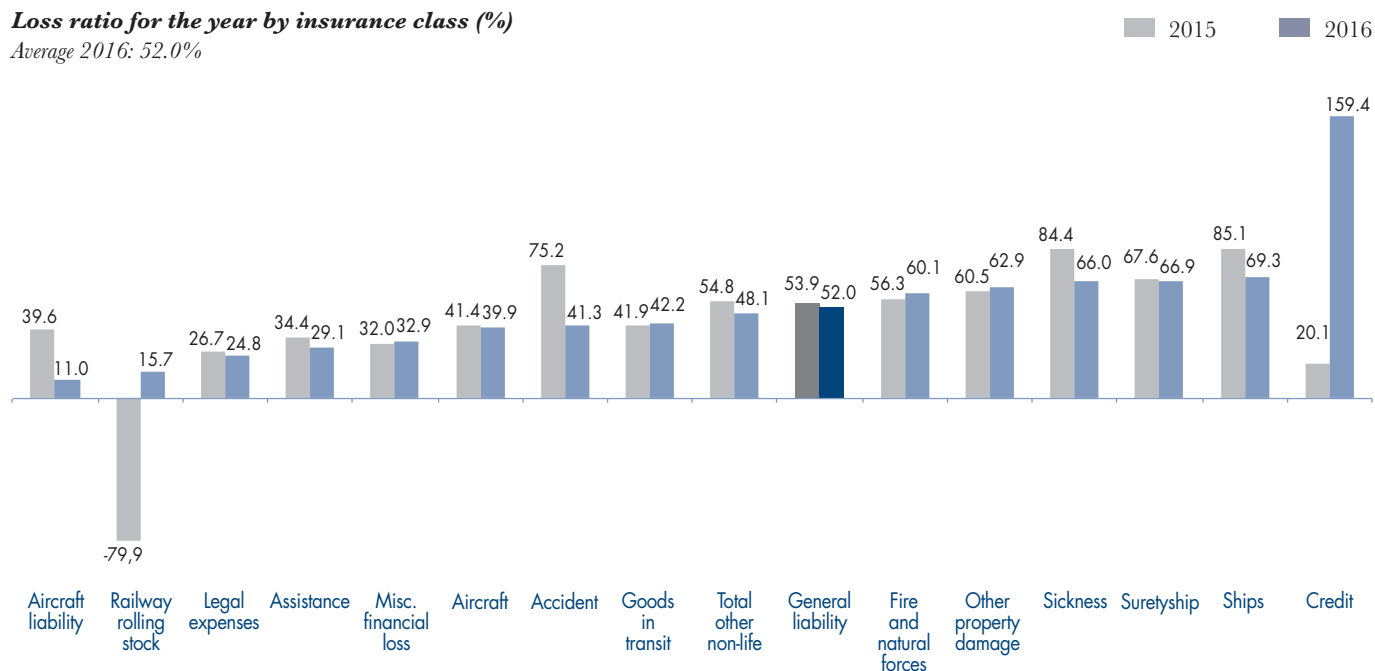
(*) Change calculated in homogeneous terms

Operating expenses amounted to €5,065 million (€4,854 million in 2015) and consist in administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network. The ratio of expenses to premiums was 32.1%, up slightly from 31.7% in 2015. In particular, the ratio of agent commissions to premiums and that of other administration expenses edged up from 21.6% to 22.2% and from 5.0% to 5.2% respectively, while that of other acquisition costs came down from 5.0% to 4.6%. The business segments with the highest indicators were miscellaneous financial loss (37.7%), legal expenses (37.5%) accident insurance (35.9%) and suretyship (33.6%). Lower ratios, below 20%, were recorded for ships (18.6%), aircraft (17.5%), aircraft liability (14.9%) and railway rolling stock (11.4%).

OTHER NON-LIFE INSURANCE CLASSES

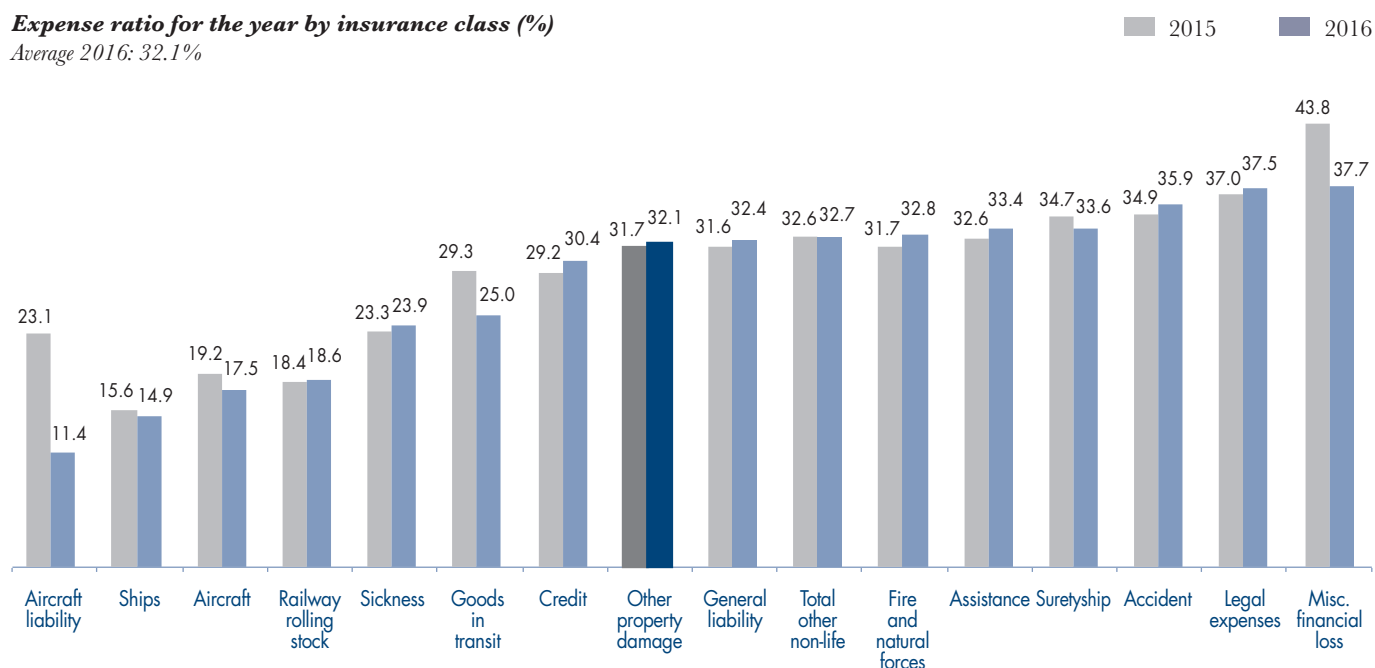
Loss ratio for the year by insurance class (%)

Average 2016: 52.0%



Expense ratio for the year by insurance class (%)

Average 2016: 32.1%



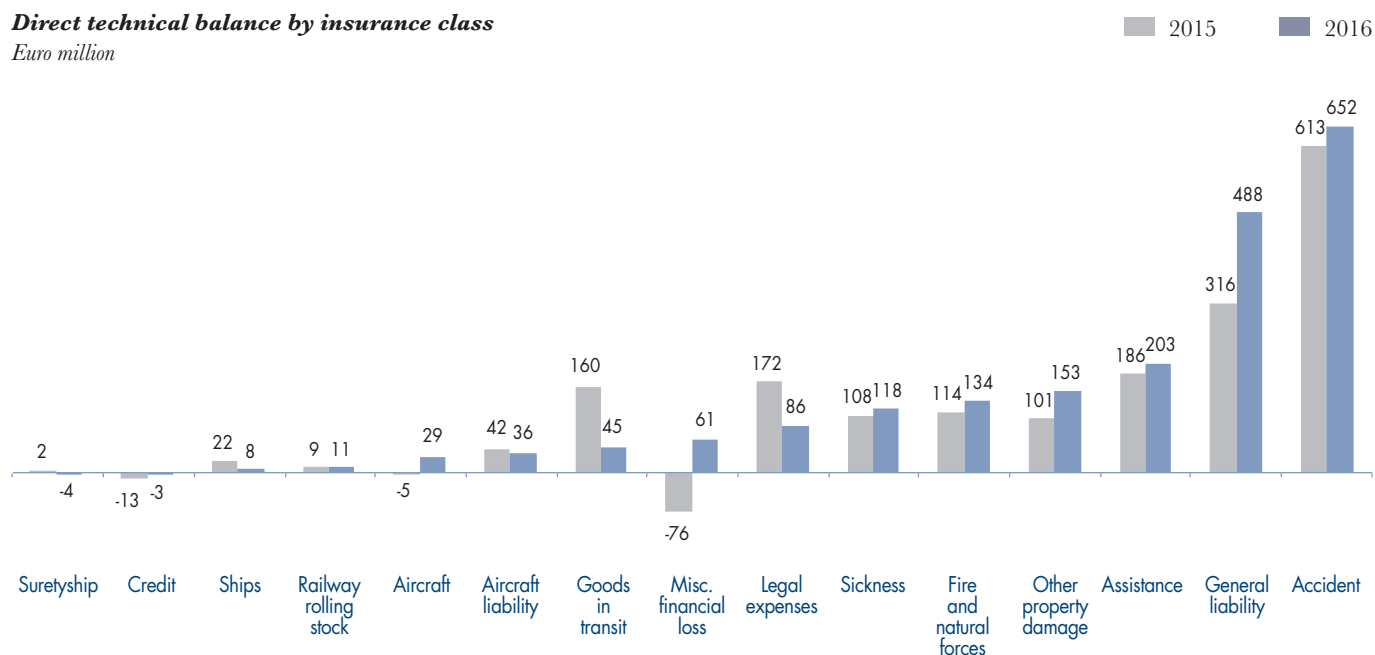
The **technical balance** for direct business was positive at €2,014 million, up from the €1,753 million of 2015. The improvement was due to the lower incurred claims costs described above and the gain in premium income. More specifically, positive balances, exceeding €100 million, were scored by insurance for legal expenses (€118 million, it was €108 million in 2015), sickness (€134 million, €114 million in 2015), miscellaneous financial loss (€153 million compared with €101 million in 2015),

OTHER NON-LIFE INSURANCE CLASSES

assistance (€203 million up from €186 million a year earlier), general liability (€488 million compared with €316 million in 2015) and accident insurance (€652 million from €613 million in 2015). The balance was negative, although only slightly, for the credit and railway rolling stock businesses, respectively at -€3 million and -€4 million.

Direct technical balance by insurance class

Euro million



With **investment profits** totaling €514 million (€584 million in 2015), the **direct technical account result** was positive by €2,528 million (€2,337 million in 2015), and the ratio to accrued premiums rose from 15.2% to 16.2%. In detail, the ratio was above average for the following classes: suretyship (19.1%), accident (23.9%), goods in transit (24.1%), general liability (25.2%), miscellaneous financial loss (32.2%), assistance (32.6%), legal expenses (38.1%), aircraft (63.5%) and aircraft liability (69.9%). Negative values were recorded in the following classes: credit (-2.8%) and railway rolling stock (-81.0%).

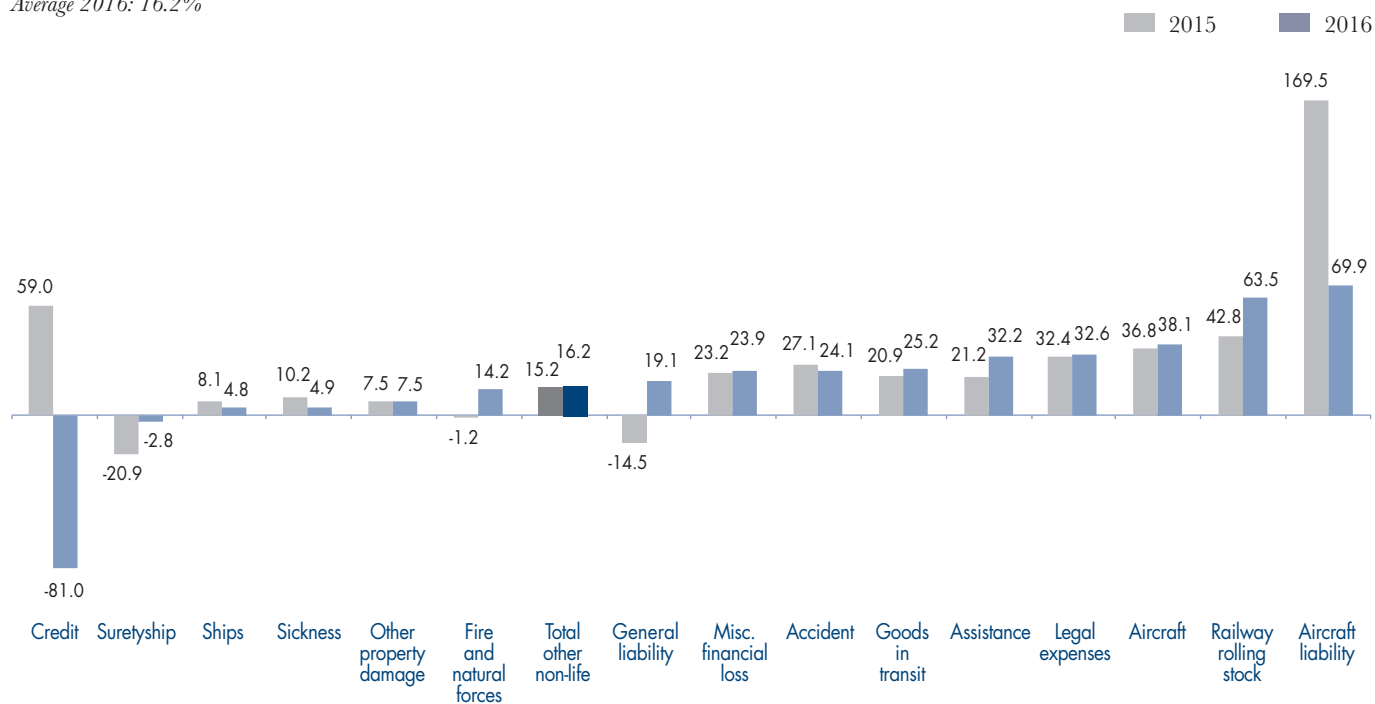
Counting also the balance for reinsurance, which was negative by €509 million, the **overall technical account result** was positive by €2,019 million (€1,868 million in 2015), equal to 12.9% of premiums (12.2% in 2015).

The **direct technical provisions** of non-life insurance classes other than motor insurance, net of sums to be recovered from policyholders and third parties, amounted to €29,419 million in 2016; premium reserves totaled €8,307 million and claims reserves €21,112 million. General liability was the business segment with the highest technical provisions (€13,244 million counting claims and premium reserves for 2016); total provisions top €3 billion for other damage to property (€3,340 million), and fire insurance (€3,785 million).

OTHER NON-LIFE INSURANCE CLASSES

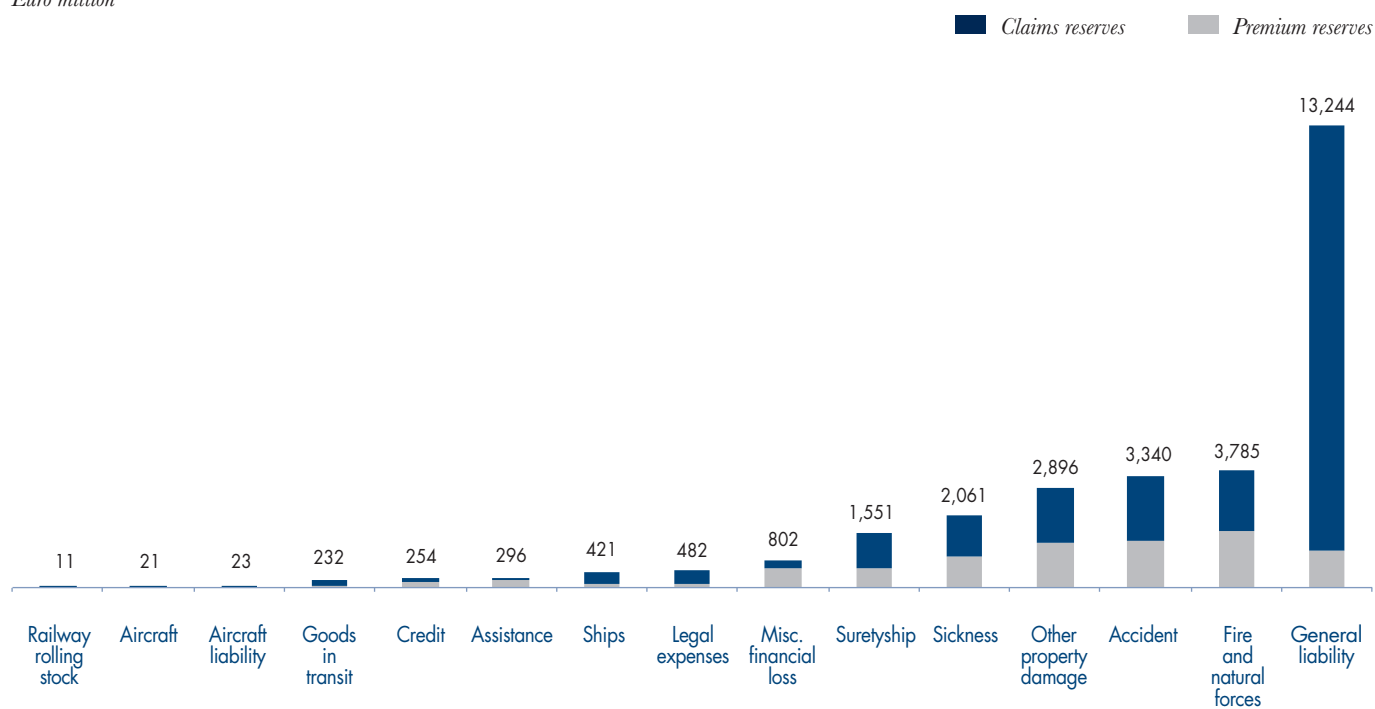
Incidence of overall technical account result on earned premiums by insurance class (%)

Average 2016: 16.2%



Technical reserves for non-life insurance classes other than motor insurance – 2016

Euro million



OTHER NON-LIFE INSURANCE CLASSES

PUBLIC PROCUREMENT – DECREE CORRECTING THE CODE FOR PUBLIC PROCUREMENT

On 5 May 2017, Legislative Decree 56 of 19 April, known as “corrective” of the Code for Public Procurement (Legislative Decree 50 of 18 April 2016 in force since 19 April 2016) was published in the *Gazzetta Ufficiale*. As established by enabling act 11 of 28 January 2016, art. 1, paragraph 12(e), this represents the completion and consolidation of the Code of Tenders one year after it entered into force.

The Decree contains 131 articles establishing several corrections to the 220 articles of the Code for Public Procurement. The amendments aim at completing the regulatory framework without changing it, to improve consistency, clarity and adequacy, to pursue the development of the sector set by the enabling act.

The main differences introduced for the insurance sector are:

- Amendments to art. 93, paragraph 7, of the Code establishing the right for micro, small and medium-sized businesses and consortiums of enterprises established by microbusinesses and SMEs exclusively, to present both temporary and final collateral reduced to 50% even when not in possession of the quality certificate as per the UNI CEI ISO 9000 European standards;
- Amendments to art. 103, paragraph 9, of the Code establishing that sureties and insurance policies set as mandatory by the Code must be compliant with the reference schemes approved by Decree of the Minister for Economic Development in concert with the Minister of Infrastructure and Transport and with the prior agreement of the banks and insurance companies or their representatives. At first, the reference schemes in Decree 50/2016 were a requirement only for sureties, but Corrective Decree 56/2017 extended such requirement to insurance coverage. Such schemes, envisaged also by the previous legislation and whose drafting and issuing fall within the framework of a now consolidated judicial and legislative tradition, enact the innovations established by the code, especially with regard to collateral, including both those already envisaged, as amended by the new code, and new requirements such as collateral against termination.

The issuing process for the ministerial regulation schemes laying down the standard contracts for the securities and insurance coverage mentioned above is still ongoing. The representatives of insurance companies and banks and of the Ministries concerned took part in the work group, created specifically for this purpose, as established by the law. All the representatives collaborated closely and gave their contribution, with the aim (in line with the community principles of economy, impartiality, equal treatment, transparency, proportionality) to allow contract awarders, awarding authorities and all the parties involved in public procurement contracts to strengthen and develop healthy competition, increase the number of tenderers and make more sureties and collateral available on the market by strengthening the protection of contracting authorities.

MEDICAL MALPRACTICE INSURANCE

For many years ANIA has conducted an annual statistical survey to identify the trends in the field of medical malpractice insurance. However, this statistical survey was influenced by the progressive increase in the number of Italian companies having left this market

OTHER NON-LIFE INSURANCE CLASSES

sector in favor of the European companies operating in Italy under the freedom of establishment or freedom to provide services. This also had a negative impact on the representativeness of the statistical sample, as EU companies do not provide ANIA with any data other than premiums, and even this only in part. To bypass the problems linked to the reduced size of the sample, throughout 2017 ANIA has collected and analyzed the data on claims, volume of premiums and medical malpractice coverage “size” in general (both public and private healthcare facilities) which IVASS has requested the companies to furnish.

It should be pointed out that the data of this statistical survey could not be compared with the historical data already available to ANIA, as the scope of the assessment of the two analyses is not uniform ⁽¹⁾. Furthermore, the historical data have suffered, especially over the past few years, from a substantial component that is only estimated, again due to the poor representativeness of the sample. On the contrary, the results of the IVASS survey refer to virtually all companies operating in the industry (Italian and foreign companies, operating under the freedom of establishment or the freedom to provide services).

Volume of premiums

Direct Italian medical liability insurance business was estimated at €638.7 million in 2016, 67% of it accounted for by institutional policies and 33% by individual policies (Table 1). Premiums increased by more than 10% compared with the previous year, owing mainly to the increase of over 15% in the volume of premiums from healthcare institutions, while premiums from individual practitioners remained virtually unchanged (+2.4% compared with 2015). Based on the IVASS time series, the rise in premiums would seem to have coincided in 2016 with a decrease in the number of insured which, unless there is a change in the type of risks insured, would signify a positive change in the cost of coverage offered.

Over the 2010-2016 period, the volume of premiums for total medical malpractice insurance diminished by 12% overall. In particular, premiums from healthcare institutions dropped by roughly 25%, while those from individual practitioners went up by over 40%.

Table 1
Gross written
premiums –
total medical
malpractice (*)
Euro thousands

(*) ANIA Elaborations on
data provided by companies
to IVASS

Year	Healthcare institutions	Δ%	Individual practitioners	Δ%	Total medical malpractice	Δ%
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010	578,946		146,516		725,462	
2011	537,529	-7.2%	164,691	12.4%	702,220	-3.2%
2012	493,072	-8.3%	178,379	8.3%	671,451	-4.4%
2013	397,585	-19.4%	194,328	8.9%	591,913	-11.8%
2014	361,639	-9.0%	189,703	-2.4%	551,342	-6.9%
2015	372,800	3.1%	203,000	7.0%	575,800	4.4%
2016	430,747	15.5%	207,904	2.4%	638,651	10.9%

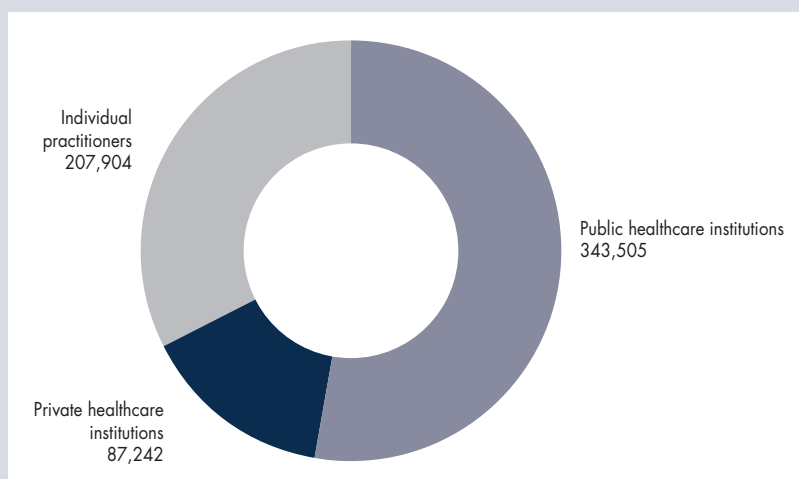
⁽¹⁾ – Institutional liability for healthcare organizations: in the IVASS figures, this comprises all policies covering healthcare facilities’ liability for medical damages, be they public or private; ANIA’s figures exclude nursing homes, medical analysis laboratories, diagnostic centers and universities.

– Individual malpractice insurance for physicians: the IVASS aggregate comprises all policies covering liability of all healthcare practitioners, while the ANIA aggregate refers solely to physicians.

OTHER NON-LIFE INSURANCE CLASSES

During the last year of the survey (2016), the volume of premiums from public healthcare institutions amounted to €343.5 million (54% of total premiums for this class), while that of private healthcare institutions was just above €87 million (14%). Premiums from individual healthcare practitioners totaled nearly €208 million, one third of total premiums collected in the year (Figure 1).

Figure 1
Medical Malpractice
Insurance – Written
Premiums Year 2016
Euro thousands



Number and average cost of claims

The number of claims received by insurance companies (Table 2) in 2016 was 14,803, of which 6,884 for policies taken out by healthcare institutions and 7,919 from individual practitioners. The total number of claims is lower than in 2015 by 21.2%; claims involving healthcare institutions decreased by one third and those involving policies of healthcare professionals by approximately 13%. To have a better understanding of the trend of claims, it would be useful to quantify the frequency of claims (reports) for damages, by comparing the number of claims to an index of exposure. However, at the moment this indicator cannot be calculated.

Table 2
Number of claims
received (*)

Year of report	Healthcare institutions	Δ%	Individual practitioners	Δ%	Total medical malpractice	Δ%
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010	21,425		8,983		30,408	
2011	19,011	-11.3%	9,868	9.9%	28,879	-5.0%
2012	15,599	-17.9%	10,897	10.4%	26,496	-8.3%
2013	12,991	-16.7%	11,294	3.6%	24,285	-8.3%
2014	10,828	-16.7%	10,060	-10.9%	20,888	-14.0%
2015	9,707	-10.4%	9,088	-9.7%	18,795	-10.0%
2016	6,884	-29.1%	7,919	-12.9%	14,803	-21.2%

(*) ANIA Elaborations on data provided by companies to IVASS

Table 3 shows the medical malpractice claims that the companies closed without compensation, according to year of reporting (so called no-payment claims). Looking at the oldest claims (registered between 2010 and 2013), we see that on average two-thirds of all malpractice claims were closed without payment of any compensation. If in 2010 and 2011 this percentage was very similar for healthcare institutions and individual practitioners, between 2012 and 2014 the incidence of no-payment claims is higher for individual practitioners, with an inver-

OTHER NON-LIFE INSURANCE CLASSES

sion of trend for 2015. This could be due to the fact that for healthcare institutions, where the phenomenon of duplication of malpractice complaints is more frequent, there is a higher incidence of non-payment in the more recent claims, given that for the insurance company they correspond to a single claim. Moreover, especially for this type of claim, the times to ascertain and pay damages are long and very often require complicated proceedings.

Table 3 – Number of no-payment claims

Year of report	Number of no-payment claims - Healthcare institutions	Incidence (%) of no-payment claims over total claims - Healthcare institutions	Number of no-payment claims - Individual practitioners	Incidence (%) of no-payment claims over total claims - Individual practitioners	Number of no-payment claims - Total Medical Malpractice Insurance	Incidence (%) of no-payment claims over Total Medical Malpractice Insurance Claims
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010	11,479	53.6%	4,840	53.9%	16,319	53.7%
2011	10,713	56.4%	5,585	56.6%	16,299	56.4%
2012	8,264	53.0%	6,872	63.1%	15,135	57.1%
2013	6,979	53.7%	6,403	56.7%	13,382	55.1%
2014	4,716	43.6%	4,900	48.7%	9,616	46.0%
2015	3,448	35.5%	1,933	21.3%	5,381	28.6%
2016	1,346	19.6%	787	9.9%	2,133	14.4%

Table 4 gives the breakdown of total claims (institutional liability and individual malpractice) into those settled and those reserved, both by number and by amount, according to their year of registration.

Table 4 – Incidence (%) of claims (by number and amount) settled at 31/12/2016

Year	Healthcare institutions		Individual practitioners		TOTAL Med. Malpractice Ins.	
	Number of claims paid (%)	Number of claims reserved (%)	Number of claims paid (%)	Number of claims reserved (%)	Number of claims paid (%)	Number of claims reserved (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010	73.9%	26.1%	68.9%	31.1%	72.4%	27.6%
2011	64.5%	35.5%	57.6%	42.4%	62.2%	37.8%
2012	56.6%	43.4%	48.2%	51.8%	53.6%	46.4%
2013	42.4%	57.6%	39.6%	60.4%	41.1%	58.9%
2014	33.6%	66.4%	24.1%	75.9%	29.2%	70.8%
2015	26.6%	73.4%	14.1%	85.9%	19.9%	80.1%
2016	6.0%	94.0%	4.8%	95.2%	5.3%	94.7%

Year	Healthcare institutions		Individual practitioners		TOTAL Med. Malpractice Ins.	
	Amount of claims paid (%)	Amount of claims reserved (%)	Amount of claims paid (%)	Amount of claims reserved (%)	Amount of claims paid (%)	Amount of claims reserved (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010	72.0%	28.0%	51.9%	48.1%	68.3%	31.7%
2011	61.5%	38.5%	39.6%	60.4%	56.6%	43.4%
2012	48.6%	51.4%	30.9%	69.1%	44.3%	55.7%
2013	40.0%	60.0%	23.4%	76.6%	35.4%	64.6%
2014	21.8%	78.2%	14.3%	85.7%	19.8%	80.2%
2015	9.0%	91.0%	9.3%	90.7%	9.1%	90.9%
2016	0.8%	99.2%	2.7%	97.3%	1.2%	98.8%

OTHER NON-LIFE INSURANCE CLASSES

The percentages settled (whether by number or by amount) are low for the more recent generations of claims, because both the effective liability of the insured and the value of the damage are generally quite uncertain. The older the generation of claims, the higher the percentages: 7 years after reporting, nearly 28% of claims, for the whole class, remain unsettled, accounting for 32% of the amount reserved for that claim generation.

Table 5 reports the average cost of claims (paid and reserved) as of 31 December 2016 for the two types of policy and by year of registration, showing that the average claim cost tends to increase as the percentage settled rises, which is to say as the data are consolidated. At first, in fact, insurers often underestimate the cost of claims, because the evaluation of physical impairment is complex and adequate information is commonly not available immediately after the occurrence of the event. This is compounded by uncertainty in evaluating damages owing to frequent changes in court rulings in this field. If we only look at the most developed generations of claims (with a higher number of claims reported and settled), the average cost per claim for healthcare institutions is nearly €70,000, almost double that for individual practitioners (around €40,000).

Table 5
Average cost
of claims at
31/12/2016 – Total
Medical Malpractice
Insurance
Euro

Year of report	Healthcare institutions	Individual practitioners	TOTAL Medical Malpractice Insurance
(1)	(2)	(3)	(4)
2010	69,378	38,107	60,184
2011	72,391	40,279	61,459
2012	70,573	41,674	60,334
2013	93,408	44,448	71,445
2014	80,192	32,891	58,538
2015	79,291	22,449	48,970
2016	92,127	18,777	50,840

Loss ratios

These high costs, together with the large number of claims registered each year, have produced extremely negative results for the sector's technical accounts, hence high loss ratios. As with other business segments, for a correct assessment of the performance of medical liability insurance we should also examine the loss ratio (claims in relation to premiums) for the entire medical liability branch year by year. At the moment, the only data available are those estimated at 31 December 2016.

Table 6 gives medical malpractice insurance loss ratios for the whole sector and separately for healthcare institutions and individual practitioners, for the various claims generations.

At 31 December 2016, the average loss ratio for all generations was always higher than 100% (it had reached a maximum of 132% in 2013). However, when observing the two technical indicators separately, healthcare institution coverage presents the higher ratios and has a greater impact on the overall industry trend. Especially in the more

OTHER NON-LIFE INSURANCE CLASSES

Table 6
Loss Ratio at
31/12/2016 – Total
Medical Malpractice
Insurance

Year of report	Healthcare institutions	Individual practitioners	TOTAL Medical Malpractice Insurance
(1)	(2)	(3)	(4)
2010	119%	108%	117%
2011	112%	105%	110%
2012	105%	94%	102%
2013	141%	112%	132%
2014	136%	89%	120%
2015	133%	79%	114%
2016	118%	64%	101%

recent years (2013 to 2015), the loss ratio was 140% on average. For individual practitioners' policies, on the contrary, the loss ratio has shown some improvement starting with the 2014 generation, with values under 100%. Nonetheless, less than 30% of claims of this generation have been settled and it may be too early to quantify the actual loss ratio.

MEDICAL MALPRACTICE LIABILITY – THE GELLI LAW

On the 17th of March 2017, Law No. 24 of 8 March 2017 was published in the *Gazzetta Ufficiale*, no. 64 (General Series). The act establishes “Provisions on the safety of treatments and of persons cared for, as well as on the professional liability of healthcare professionals”. The law introduces new measures to implement more modern and effective management models to re-balance the system covering healthcare-related professional liability, reducing costs and safeguarding citizens' health, although some proposals made by ANIA during the parliamentary procedure, if accepted, might have improved the effectiveness even further.

The most relevant innovations for the insurance industry are in articles 7, 9, 10, 11, 12 and 14, commented on below.

Article 7 deals with the liability of healthcare institutions and of individual practitioners. With regard to public or private healthcare facilities, the standard establishes that they are accountable, in terms of civil contractual liability, for the actions of healthcare professionals exercising the profession on their premises, whether they are employed or not and even if they are chosen by the patient. This principle applies also to any healthcare provided as freelancer on the premises of the healthcare facility or within the framework of clinical trials and research as well as to care provided under special agreement or through telemedicine. By contrast, with regard to healthcare-related professions, the bill establishes that professionals are accountable for non-contractual liability, unless they acted under a contract with the patient.

ANIA believes that the availability of a special burden of proof deriving from non-contractual liability could lead healthcare professionals to avoid or at least strongly limit prescriptions

OTHER NON-LIFE INSURANCE CLASSES

given only as a mere precautionary self-defense. Also relevant is that the amendments added in the Senate include the extension of the applicability of the tables referred to in articles 138 and 139 of the Insurance Code not only to compensation for damages caused by healthcare professionals, as already established by the Balduzzi Law, but also to claims for damages caused by the activities of the healthcare institution.

Thus, it will be possible to determine the economic value of damages related to malpractice cases, resetting possible injustices and discriminations due to geographical reasons and minimizing the subjective element in the assessments (regardless of whether they are performed by judges, companies, lawyers, or other parties involved in the case of out-of-court settlement). The introduction of tables to standardize compensation will hopefully be a valid tool to bring the system back into balance, encouraging greater consistency in damage compensation and providing increased certainty in the amounts of compensation expected.

Article 9 deals with the compensation action against the healthcare professional operating in the public and private sector. The action may be brought only in the case of willful misconduct or gross negligence. This applies both to the company making the claim and to the insurer involved under article 1916, paragraph 1, of the Italian civil code. There are also other restrictions of time and quantity on taking legal action. If the healthcare professional is not a formal party to the court or out-of-court proceedings for damages, the claim against him/her must be filed, under penalty of forfeiture, within one year from the payment to the injured party, whether settled in or out of court. In quantitative terms, the compensation may not exceed, in case of wrongful misconduct, three times the professional's gross annual salary. This restriction on compensation does not apply to professionals exercising the profession outside the healthcare facilities or within the facilities but as freelancers or who use the facility when fulfilling the terms of a contract entered into with a patient.

It must also be specified that the text of the bill reinstates exclusive jurisdiction to the State Audit Office for proceedings involving matters of revenue liability for willful misconduct or gross negligence filed against the healthcare professional employed by the public healthcare facility. Article 10 establishes that all public and private healthcare institutions must have insurance coverage or similar measures (so called self-insurance) for third party liability risks, including damages caused by any person working in the facility in any capacity. The institutions must therefore cover, through an insurance policy or other analogous measures, third party liability also for healthcare professionals (either employed or not), without prejudice to their right to recourse for damages.

The law also establishes that:

- professionals exercising the profession outside the healthcare facilities or within the facilities but as freelancers or who use the facility when fulfilling the terms of a contract entered into with a patient, must take out their own insurance policy;
- healthcare professionals operating in any capacity in public or private healthcare institutions must take out a third-party liability insurance for wrongful misconduct at their own expense.

The obligation to take out insurance coverage for healthcare facilities and healthcare professionals certainly implies greater protection for all those involved in the National Health System. By contrast, with regard to the possibility of self-insurance for healthcare institutions,

OTHER NON-LIFE INSURANCE CLASSES

let us observe that for the provision to be consistent with the protection of citizens' rights, the healthcare facilities would have to apply technical and actuarial criteria similar to those in place for insurance companies.

Furthermore, article 10 envisages the issue, within 120 days from the entry into force of the law, of a decree establishing minimum insurance policy requirements for healthcare institutions and healthcare professionals, with the identification of risk classes and corresponding insurance ceilings. The decree will fall under the jurisdiction of the Ministry of Economic Development, in cooperation with the Ministry of Health and the Ministry of Economy and Finance, upon approval of the State-Regions Conference, and upon consultation with ANIA, representative associations of private healthcare institutions, the Federation of physicians and dentists, the Federations of colleges and orders of healthcare professions, the trade unions of the categories involved and patient protection associations.

The decree will also have to establish the minimum requirements and the general terms of activity of other analogous measures alternative to the insurance coverage, as well as the rules governing risk transfer where the insurer changes; in addition, the decree will require healthcare institutions to have on their balance sheet a risk fund and a fund constituted by provisions set aside against settlement of claims reported.

Article 11 regulates the extension of the insurance coverage, establishing 10-year retroactive coverage and 10-year posthumous insurance in case of cessation of activities for events occurring during the policy term, including the retroactive period. According to this provision, events must have occurred in the 10 years preceding the end of the contract but they must have been reported while the policy was in effect.

Article 12 establishes the right of the damaged party to bring actions directly against the insurance company of the healthcare facility and of the healthcare professional who will also be fellow litigants in their respective judgments, that is to say that they will have to be present in court with their respective insurance companies. The insurance company may not raise against the damaged party any exception deriving from the contract other than those established by the ministerial decree establishing the minimum policy requirements and it shall enjoy the right to recourse for damages in compliance with said minimum requirements.

Such provisions shall apply from the entry into force of the decree. It should be specified that during the parliamentary process, ANIA repeatedly pointed out that direct action against those parties who, like insurance companies, are certainly solvent may have increased the expectation of obtaining economic advantages even when the case is weak, thus significantly increasing litigation and the caseload on courts. On the other hand, we welcome the provision that direct legal action is subject to limits on the basis of contractual obligations, limits to be established by the ministerial decree.

Article 14 establishes a Guarantee Fund to pay for any damages caused by medical malpractice:

- a) when damages exceed the ceiling of the policy taken out by the healthcare institution or individual practitioner;
- b) when the insurance company at the time of the claim is or is going to be insolvent or compulsorily wound up;
- c) when the healthcare institution or individual practitioner does not have insurance coverage due to unilateral termination by the insurance company or intervening cessation of the company or its cancellation from the register of insurance companies.

OTHER NON-LIFE INSURANCE CLASSES

The Fund will be endowed by annual payments owed by the companies authorized to provide third-party liability insurance for damages caused by medical malpractice. The Guarantee Fund will be managed by CONSAP S.p.a., in light of a special mandate from the Ministry of Health. The Decree establishes that – with a regulation adopted within 120 days from the entry into force of the law by decree of the Ministry of Health in collaboration with the Ministry of Economic Development and the Ministry of Economy and Finance, upon consultation with the State-Region Conference and representatives of the insurance companies – the amounts and modalities of payment of the contribution of insurance companies must be defined, as well as the principles to be adopted in the agreement between the Ministry of Health and Consap, the methods of intervention, functioning and recourse of the Fund vis-à-vis the liable party.

In accordance with this provision, lastly, the decree referred to in article 10 establishing minimum policy requirements must establish that the minimum ceiling must be re-calculated based on the performance of the Fund for the hypothesis (a) mentioned above. With regard to the Guarantee Fund, it would clearly have been desirable to create a single Fund merging that established by the Balduzzi Law and that of the new law being instead of having two separate funds. Furthermore, the hypothesis of intervention of the new Fund in case of damages for an amount exceeding individual policy ceilings remains controversial. In fact, this measure is clearly inefficient as it may lead healthcare institutions and physicians to get insurance only for the legal minimum ceiling and count on the Guarantee Fund to cover any excess damage.

NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2016 AND AN INITIAL ESTIMATE OF THE INSURANCE MARKET'S CURRENT EXPOSURE

Worldwide, the number of natural disasters came to 191 last year, continuing the upward tendency of the last 50 years. The damage came to nearly \$150 billion, caused chiefly by earthquakes, cyclones and hurricanes in Japan, China, North America and Europe (the worst was the earthquake in Japan, with damage of between \$20 billion and \$25 billion). The total was twice that registered in 2015, despite a marginal decline in the number of events (from 198 in 2015), owing to several especially devastating disasters.

The damage insured in 2016 came to €43 billion, with a basically constant percentage covered by insurance (around 30%). Of the damage covered, 30% was due to events in North America (Hurricane Matthew and the flood in Louisiana) and 8% to the earthquake of April 2016 in Japan.

It is worth noting that while the number of disasters has been rising in recent years, the economic damage, and consequently the amount insured, has not changed a lot by comparison with the ten-year average, presumably thanks to increased action for prevention and the enhancement of the security of the territory.

In 2016, Italy suffered less hydrogeological disasters than in the past, but was struck by severe earthquakes in the central regions, in particular that of August 24 and the quake swarm of

OTHER NON-LIFE INSURANCE CLASSES

October 26-30, events which have caused not only material damage (to buildings, monuments, businesses and infrastructure) but also nearly 300 fatalities.

Unfortunately, Italy has a long history of earthquakes, as shown in the chart below which summarizes the most significant events in terms of economic loss registered in Italy in the past 50 years.

Table 1

Year	Geographical area	Economic damage (Euro million)	Damage insured (Euro million)
1976	Friuli (2 events)	16,000	4
1980	Irpinia	25,000	86
1997	Umbria	2,500	130
2002	Molise	1,000	6
2009	L'Aquila	2,700	38
2012	Emilia	12,700	1,250
2016	Center of Italy	5,700	200

Source: ANIA, based on Swiss Re and PERILS data. The economic damage and damage insured are revalued to 2016, based on the Italian Consumer Price Index

According to the PERILS survey on earthquake and flooding risk exposure in Italy for 2017 (which sees the participation of 74% of the market in terms of the volume of fire and natural forces insurance premiums), overall exposure of the insurance market to such risks (for buildings, goods and incidental damages) with regard to businesses (industry, crafts, commerce) is around €600 billion taking account of the contractual limits (18% more than in 2016). In particular, the regions that contributed the most to the increase in exposure for businesses in 2017 are Lombardy, Lazio, Tuscany and Emilia Romagna.

For dwellings insured against natural disasters, in 2017 the exposure is estimated at €100 billion, 9% less than a year earlier. This was mainly due to the negative changes recorded in Lazio, Piedmont and Veneto.

Geographically, total insurance exposure to natural disaster risk (businesses and dwellings) for 2016 is concentrated mostly in the North of Italy, nearly 70% of the total, followed by the Center with around 20%.

The absolute levels of insurance coverage are unchanged. However, some detail estimates and changes observed (e.g. in the distinction between business and residential risks) may be due in part to more accurate data collection by the companies after the most recent earthquakes. These data, however, are subject to variations.

THE DISTRIBUTION OF FIRE INSURANCE FOR PRIVATE DWELLINGS WITH EXTENSION TO NATURAL DISASTERS

The catastrophic events of August 2016 in the Center of Italy have highlighted, once again, how vulnerable the Italian territory is and to what extent the historical buildings in Italy are incapable of withstanding earthquakes, even not particularly severe ones. Based on the esti-

OTHER NON-LIFE INSURANCE CLASSES

mates of the Department of Civil Protection, the earthquakes of the summer 2016 caused damage for over €23.5 billion, of which €12.9 billion for damages to private dwellings (the estimate includes direct damage, both public and private – namely the destruction of buildings, infrastructure, crops and damage to businesses and enterprises, the cultural heritage, power networks, gas and water distribution systems – and eligible costs, borne by the State in response to the emergency).

The idea of gradually making natural disaster insurance compulsory in Italy by extending the guarantees envisaged by existing fire insurance policies has been discussed multiple times. The damage coverage system for natural disasters adopted in Italy has created a situation where basically the State covers the major losses, with damages amounting to an average of around €3 billion every year. This has limited the expansion of the private market so far. In 2009, ANIA estimated the number of buildings insured against natural disasters at 35,000 out of 12 million residential buildings, or just 0.3%.

In this context, there is a need to have access to updated data on the number of policies and on the overall insured value of Italian private dwellings currently covered against such risk ⁽¹⁾.

Types of policy. In September 2016, the number of active policies (for the sample of companies in the survey) was **8.2 million** for a total value of amounts insured of approximately **€3,142 million** (Table 1): of these, over 52% are multi-risk policies, 32% individual fire policies, nearly 15% comprehensive building policies, and only 0.4% are policies covering only earthquake risk and not fire. By contrast, the percentage distribution of the amounts insured shows that over half of the assets insured refer to comprehensive building policies (these evidently being the most significant in terms of value), 30% to multi-risk policies and only 17% to individual fire policies.

Table 1
Type of Insurance
Policy

Type of Policy	Number of policies	% Distr. of policies	Insured Amounts (Euro mln)	% Distr. of Amounts
Multi-risk	4,267,070	52.3%	954,959	30.4%
Fire (individual policy)	2,618,233	32.1%	527,989	16.8%
Comprehensive building policies	1,200,603	14.7%	1,640,177	52.2%
Only earthquake	36,733	0.4%	12,970	0.4%
Not specified	41,913	0.5%	5,528	0.2%
Total	8,164,552	100.0%	3,141,624	100.0%

Risk Sector. Table 2 shows that 82% of insurance policies are for dwellings, 13.5% for industrial buildings and only 4.4% for ancillary commercial units, i.e. those units used for

⁽¹⁾ Based on ANIA's 2009 survey, in November 2016 IVASS instituted an annual survey of insurance companies on fire and/or earthquake policies in being (as of 30 September 2016) with respect to risks in the territory of Italy. The risks involved refer solely to dwellings or residential buildings and possibly ancillary commercial units. ANIA has accordingly suspended its own survey and will take the data directly from IVASS. A total of 49 insurers responded to IVASS's request for information, representing 94% of fire insurance premiums in 2016. The statistics were then used, together with other public data (Istat's 2011 census of dwellings) to produce a reasonable estimate of the diffusion of insurance against fire and natural disasters covering Italian dwellings.

OTHER NON-LIFE INSURANCE CLASSES

business activities and located on the ground floor of mainly residential buildings. Clearly, in terms of amounts insured the percentage distribution changes, as industrial buildings, having a greater value than individual dwellings, account for nearly half the total amount insured.

Table 2
Insured Risk

Type of Risk	Number of policies	% Distr. of policies	Insured Amounts (Euro mln)	% Distr. of Amounts
Dwelling unit	6,704,442	82.1%	1,391,807	44.3%
Building	1,099,653	13.5%	1,484,382	47.2%
Ancillary commercial unit	360,457	4.4%	265,435	8.4%
Total	8,164,552	100.0%	3,141,624	100.0%

It should also be highlighted that since around 1.1 million insurance policies cover the whole building, and since the average number of apartments per building can be calculated at 4.2, based on Istat's national data ⁽²⁾, the overall number of dwellings insured within the sample may be estimated at roughly 11.684 million = [6.704 mln (dwellings) + 0.360 mln (ancillary units) + 1.100 mln (industrial buildings) × 4.2] and extrapolating these data to national level, the total number of dwellings covered by fire insurance in Italy can be placed at around **12.4 million**. Of the dwellings included in the Istat survey in 2011 (31.2 million), almost 40% have fire insurance.

Policy extension to natural disasters. The extension of insurance coverage to natural disasters in Italy is very limited: 95% of policies do not have it. However, compared with 2009, there has been an increase in the number of policies with natural disaster coverage extension (Table 3). At the end of September 2016, in fact, the number of policies with earthquake or flood risk coverage (or both) was estimated to be **400,000**. The comparison with the estimate of 2009 (when dwellings insured against natural disasters numbered 35,000) shows a ten-fold increase in insurance coverage, signifying that, although to a limited extent, the market is now more “sensitive” to this type of insurance.

Table 3
Extension to natural disasters

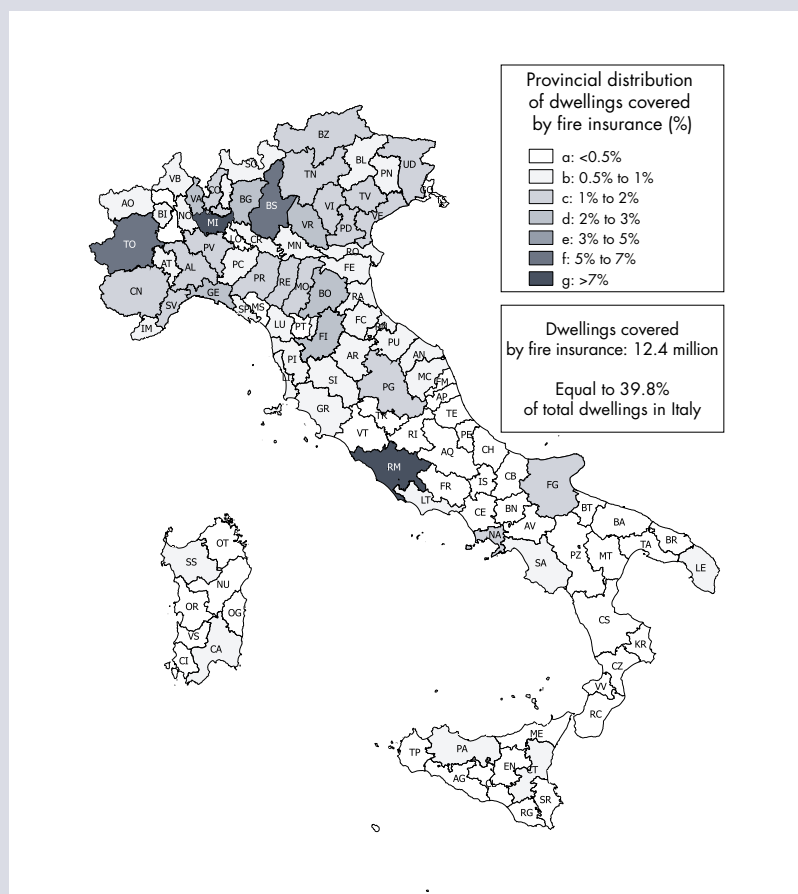
Extension to natural disasters	No. of policies	% distr. of policies	Insured Amounts (Euro mln)	% distr. of amounts
No extension	7,755,449	95.0%	3,013,009	95.9%
Only earthquake risk	176,987	2.2%	69,587	2.2%
Only flood risk	173,791	2.1%	36,672	1.2%
Both earthquake and flood risk	58,325	0.7%	22,355	0.7%
Total	8,164,552	100.0%	3,141,624	100.0%

⁽²⁾ This differs from Istat's figure (3.3 nationwide) because in calculating the average number of dwellings per building Istat also counts buildings consisting of a single unit. For the present observation, however, since single dwelling units are considered separately, the average number of units per building is calculated considering only those with at least two units. Therefore, the national average of 4.2 is higher than the Istat figure.

OTHER NON-LIFE INSURANCE CLASSES

Thanks to the statistical data, it was possible to analyze also the geographical distribution of dwellings with fire insurance throughout Italy (Figure 1). Geographically, insured dwellings are concentrated mainly in the North of Italy, with a greater concentration in Veneto, Lombardy, Piedmont, Emilia Romagna and Friuli Venezia Giulia.

Figure 1
Distribution by province of dwellings covered by fire insurance – 2016



However, the provinces of Milan, Turin, Rome and Brescia alone account for almost 25% of all insured dwellings in Italy. In all the other provinces the percentage seldom exceeds 2%; in almost half of the Italian provinces, mainly in the Center and South of Italy, the share of the total number of insured dwellings in Italy is below 0.5%. Very similar to the distribution of insured dwellings is, of course, the geographical distribution of the amounts insured, with a higher concentration in the North of Italy.

However, analyzing the incidence by province of insured dwellings on all existing dwellings (40% at national level), we find that in the North of Italy more than one of every two dwellings has fire insurance, while in the South in most cases the proportion does not exceed 20% (Figure 2). In Trieste, nearly 75% of dwellings are insured, 68% in Milan and Bolzano, 66% in Trento and Brescia, compared with only 8% in Reggio Calabria, Benevento and Potenza and only 7% in Agrigento and Enna.

The diffusion of fire insurance with coverage extended to natural disasters is much more limited (Figure 3). Out of 12 million dwellings with fire insurance, only **610,000** (2%) are covered against natural disasters (mainly earthquakes and/or flooding), 80% of which are in the North of Italy.

OTHER NON-LIFE INSURANCE CLASSES

Figure 2
Incidence by province of dwellings covered by fire insurance – 2016

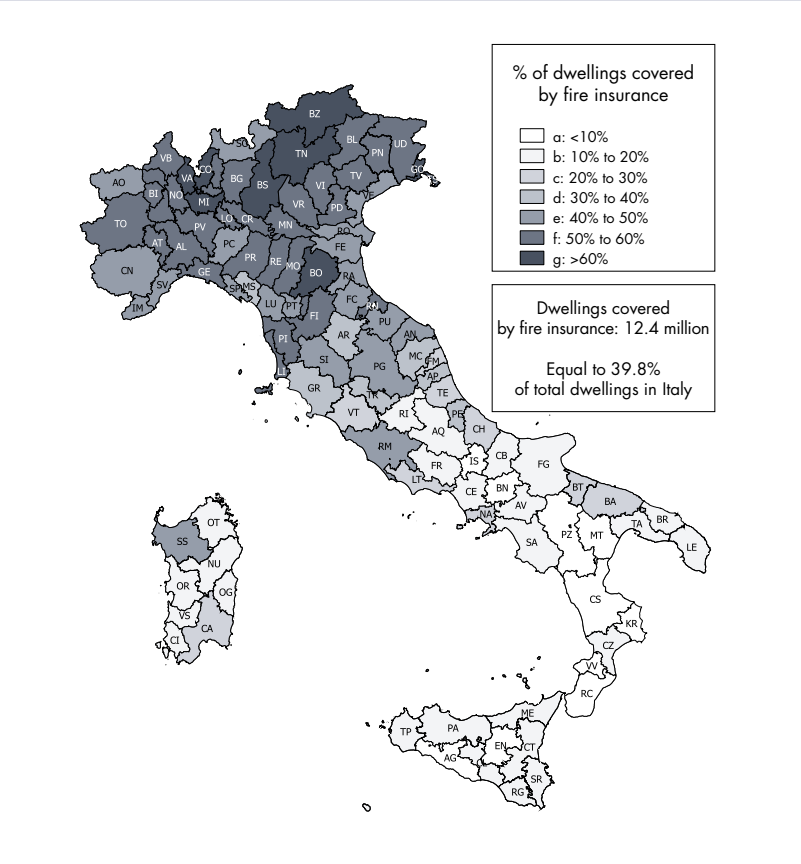
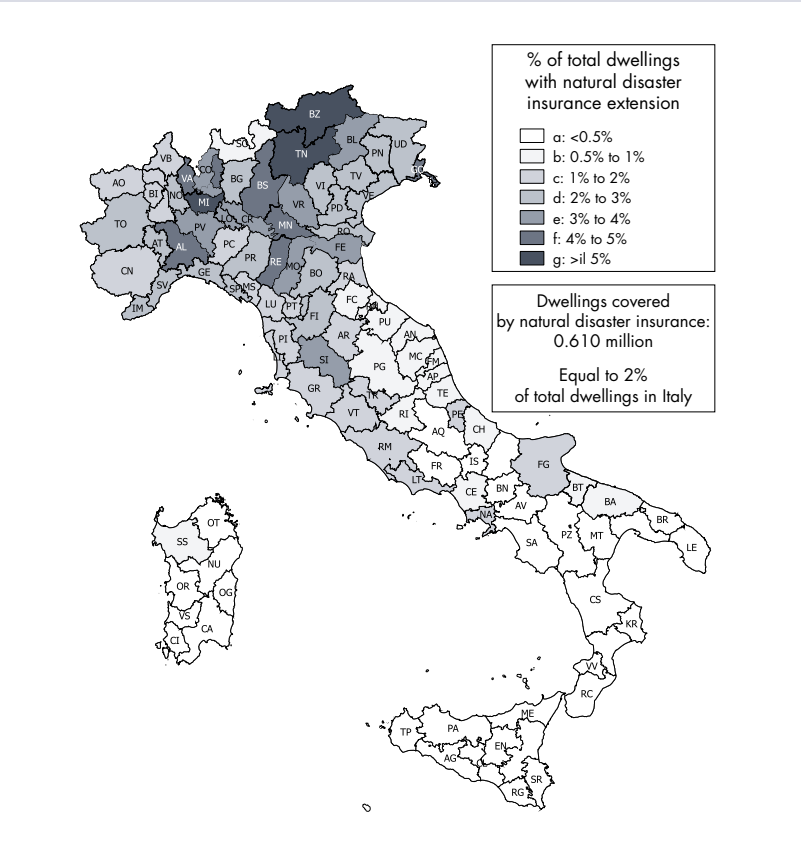


Figure 3
Distribution by province of dwellings with fire insurance extended to natural disasters – 2016



7

HUMAN RESOURCES AND LABOR

STAFF AND LABOR COSTS

Statistical survey on staff composition and costs

At the end of 2016 the Italian insurance industry's managerial and non-managerial staff numbered 46,850, a scant 0.2% more than a year earlier, when total staff came to 46,754, but ending two years of modest contraction (down 1.0% in 2014 and 1.5% in 2015). In part, the slight expansion reflected insurers' lesser recourse in 2016 to the extraordinary benefits of the solidarity fund of ANIA/AISA (the Italian association of mutual assistance societies).

ANIA produced this estimate for the entire industry, which includes some 3,500 employees of subsidiaries covered by the insurance industry labor contract, using data from a sample of companies accounting for about 85% of total insurance employment.

Staff comprises administration personnel (37,909 employees), call center staff (2,404) ⁽¹⁾, managers (1,285) and dealers and organization staff (5,252). Administrative staff shrank by 61 (-0.2%) in 2016, while managerial and call center personnel increased by 42 (+3.4%) and 81 (+3.5%) respectively. Dealers and organizational personnel also increased, more modestly, by 34 (+0.7%).

For the entire industry, the number of women employed gained somewhat (+0.5%), while the number of men slipped by 0.2%. At the end of the year female personnel accounted for 46.5% of the total, essentially the same as a year earlier. About 46% of all insurance employees are now university graduates; another 49% have upper secondary school diplomas, as in 2015.

The total cost of staff (including administration staff, managers and call center personnel but not dealers and their organization staff) amounted to €3,832 million in 2016, 2.6% more than the previous year. The increase was due above all to the rise in the number of managers and to company level bargaining agreements at several major insurers. The cost per administration employee rose 3.3% in 2016 to an average of €92,180 ⁽²⁾.

However, the total cost for dealers and related staff, at €287 million, came down by 1.7% during the year, owing above all to the decline in commissions, which decreased by 2%; per capita costs too declined by 1.7% to €54,791 in 2016.

⁽¹⁾ Call center employees are subdivided into claims and back office staff (first section) of 1,467 and sales staff (second section) of 937. Starting with the statistics for 2017, the distinction will be redefined in the light of the changes made in the renewal of the collective bargaining agreement, on 22 February 2017.

⁽²⁾ As usual, to enhance the statistical significance of the data, per capita labor costs are calculated as the total staff cost for a given year over the average number of employees in service during that year and the previous one.

HUMAN RESOURCES AND LABOR

Number of staff

Year	Administrative (*)	Dealers	Total
2007 (**)	41,121	5,157	46,278
2008	41,479	5,352	46,831
2009	41,881	5,488	47,369
2010	41,730	5,456	47,185
2011	42,193	5,284	47,477
2012	42,498	5,214	47,712
2013	42,747	5,189	47,936
2014	42,199	5,253	47,452
2015	41,536	5,218	46,754
2016	41,598	5,252	46,850

Total staff costs

Euro million

Year	Administrative (*)	Dealers	Total
2007 (**)	2,972	277	3,249
2008	3,118	273	3,390
2009	3,142	261	3,403
2010	3,192	263	3,456
2011	3,284	267	3,551
2012	3,478	262	3,740
2013	3,635	262	3,897
2014	3,742	274	4,016
2015	3,735	292	4,027
2016	3,832	287	4,119

Annual change in total staff costs (%)

Year	Administrative (*)	Dealers	Total
2008	4.9%	-1.6%	4.3%
2009	0.8%	-4.2%	0.4%
2010	1.6%	0.7%	1.6%
2011	2.9%	1.5%	2.7%
2012	5.9%	-1.7%	5.3%
2013	4.5%	0.0%	4.2%
2014	3.0%	4.3%	3.0%
2015	-0.2%	6.6%	0.3%
2016	2.6%	-1.7%	2.3%

Annual change in per capita staff costs (%)

Year	Administrative (*)	Dealers	Total
2008	4.6%	-3.8%	3.8%
2009	-0.1%	-7.2%	-0.8%
2010	1.3%	-0.2%	1.2%
2011	2.5%	3.4%	2.6%
2012	5.0%	0.5%	4.8%
2013	3.8%	0.9%	3.7%
2014	3.3%	3.9%	3.3%
2015	1.3%	6.3%	1.5%
2016	3.3%	-1.7%	2.9%

(*) Administration, call center and managerial staff

(**) In 2007 for the first time the total included employees of subsidiaries of insurance companies and dealers who due to a major corporate restructuring were now included in ANIA's statistics

For the entire industry – i.e. administration and managerial staff, call centers, and dealers and their organizational staff – the companies' total labor costs rose by 2.3% in 2016 to €4,119 million, while per capita costs rose 2.9% to €88,000.

LABOR REGULATION AND THE SECTOR FUNDS

The 2017 Budget Law – Provisions concerning labor

In the area of labor relations, the most important provisions of the 2017 Budget Law for the insurance industry, as for many others, were those bearing on corporate welfare, or fringe benefits. ANIA constantly monitored legislative initiatives in this area, keeping its member companies regularly informed of developments.

Let us briefly summarize the most relevant changes for the insurance industry introduced by the budget law.

Corporate welfare

The Budget Law approves measures for the further strengthening of the tax breaks for performance-related bonuses and tax relief for fringe benefits in the form of goods and services. Specifically:

- the ceiling on the amount of productivity pay eligible for the special low 10% substitute tax rate was raised from €2,000 to €3,000;
- the ceiling on gross employee income eligible for the tax break was raised from €50,000 to €80,000.

The law further provides that totally or partly in lieu of performance bonuses, employees' compensation may include the use of cars, subsidized loans, lodging facilities, and railway transportation.

The range of tax-exempt fringe benefits (e.g. supplementary retirement plans, supplementary health care plans, employee shareholding programs) was broadened, where the employee opts to take these benefits wholly or in part in lieu of the performance bonus.

Early retirement programs

To enhance flexibility in exiting the labor market, and without prejudice to the framework instituted by the latest public pension reform to safeguard financial sustainability, an early retirement program has been introduced on an experimental basis through 31 December 2018 – the program known as APE, standing for “anticipo pensionistico”.

This “instrument” consists in a “retirement loan” equal to at least 1.4 times the minimum pension provided for by the compulsory public pension system, net of the APE repayment installment; the amount is paid in twelve monthly installments. The program is open to workers who have terminated their employment relationship, at least 63 years old, meeting the minimum requirement of 20 years of contributions, and who will be eligible for the old age pension within 3 years and 7 months from the

date of the application for early retirement. In taking the loan (which has a minimum duration of six months), the worker sustains both “explicit” costs (bank interest, life insurance premiums for risk of death) and “implicit” ones (social security obligations in connection with the failure to make pension contributions). Repayment begins when the worker gains eligibility for the regular old age pension, with monthly installments for 20 years.

This early retirement provision may also take the form of the “subsidized” or “social” APE, open to workers in situations of special need, which is determined according to specific requirements: unemployment (and lack of income); especially demanding jobs (dangerous or heavy labor), such that remaining at work to an older age increases the risk of accident or occupational illness; state of health; the burden of care for household members (first-degree relatives) with severe disabilities.

Persons entitled to the benefit are paid directly by the social security administration, INPS, receiving an amount equal to the pension certified at the time of the application if this is less than €1,500 or, if the pension is larger, of €1,500.

As regards the “social” APE, on 16 June 2017 Decree 88 of the prime minister, dated 23 May 2017, was published, providing for the implementation of Article 1, paragraphs 179-186, of Law 232 of 11 December 2016, on this matter.

Persons entitled to “ordinary” APE, if they are members of a supplementary retirement plan, can request, with the same period of early retirement as provided for by APE, that the accumulated assets of such plan be liquidated, in whole or in part, through the payment of a temporary annuity (“rendita temporanea” – RITA) subject to the same tax treatment applicable to pension benefits.

Three-year contribution exemption for “student workers”

The 2017 budget law, unlike the Stability Laws for 2015 and 2016, does not extend the “generalized” exemption from social security contributions for new open-ended hires. Instead, the legislation introduces a new provision for contribution relief, again for open-ended hires, including apprenticeships, of “student workers” taken on in 2017 or 2018. The new incentive consists in total exemption for at most 36 months of employer social security contributions except for premiums and contributions to INAIL, the national work accident insurance institute.

The Intersectoral Solidarity Fund for income support, jobs, occupational reconversion and requalification for employees in insurance and social assistance (ANIA/AISA Fund)

Again in 2016, some insurance companies and groups involved in major corporate reorganizations and restructurings with an impact on jobs had recourse – following special agreements with the trade unions – to the “extraordinary benefits of the ANIA/AISA Intersectoral Solidarity Fund” to help cope with delicate situations.

HUMAN RESOURCES AND LABOR

The benefits consist in resources to accompany towards retirement employees lacking less than five years for social security pension eligibility. Essentially, they permit early termination of the employment relationships of the workers closest to eligibility for an INPS pension with no significant impact on their contributions or pension entitlements.

In its resolutions, the Fund's Management Committee has focused on INPS' monitoring and administration of these operations. ANIA acted to support and assist insurance companies in complying with their formal obligations.

As to the Fund's "ordinary benefits" (namely, those allocated to income support in cases of corporate restructuring that entail loss of jobs or short hours, as well as the funding of training for occupational reconversion and requalification), the Management Committee intervened on the utilization of the member insurance companies' contributions.

In fact INPS, with respect to insurers' requests for funding of training programs, notified the Committee that these requests could be granted, but that a literal reading of the Fund's Regulation limited the funding to the amount of each company's contributions in the previous quarter. As this interpretation would have limited the companies' activities severely and caused serious operational problems, the Committee issued a special "Note" of clarification, which was then formally endorsed by an opinion of the Ministry of Labor and Social Policy, confirming that for the purposes at issue insurers may utilize all their ordinary contributions from the constitution of the Fund through the quarter prior to the request for funding.

COLLECTIVE BARGAINING, INDUSTRY-WIDE AND COMPANY-LEVEL

Renewal of the insurance industry contract for non-management insurance personnel

On 22 February 2017, an agreement was reached between ANIA's Negotiating Delegation and the main trade unions in the insurance industry on a draft for the renewal of the industry-wide contract for non-management personnel, which had expired on 30 June 2013.

The agreement, which was then ratified by ANIA's council and approved by workers' assemblies at the various insurance companies, expires on 31 December 2019.

The agreement came at the conclusion of lengthy and difficult negotiations that had lasted nearly 20 months, with contrasting positions on issues that are crucial for the insurance companies, which had long been waiting for significant modifications to the contract to permit real gains in organizational flexibility and the management of work.

HUMAN RESOURCES AND LABOR

In practice, the new contract differs substantially from its predecessors, constituting a significant turning point in work rules for insurance employees and effectively instituting a more modern contractual framework for the industry, which is essential in today's ever more dynamic and competitive market. In detail, the most important points of the agreement concerned:

Hours: The draft agreement retained the 37-hour week and the distribution of this working time, but it also introduced, while deferring the matter to company-level talks, the concrete possibility of work on Friday afternoon for all the companies' relevant areas or functions. However, where agreement with the unions at company level proves impossible, the employer may in any case either spread the 37 hours evenly over the week (7.24 hours a day from Monday through Friday, for at most two-thirds of the staff in the relevant areas) or else provide for work on Friday afternoons (above the 37 hours), compensating these workers with time off in subsequent months (in this case, for at most 23 Fridays per capita per year).

The companies can use either of these modes of Friday working for any of the relevant areas/sectors/functions, based on specific operational needs. However, both modes cannot be applied in the same sector or department.

Functionaries: The contractual framework was redrawn, providing for a single grade with two levels of functionary: Business Functionary (comprising the old grade 1 and 2 functionaries) and Senior Functionary (the old grade 3 functionaries). The two are fully fungible, distinguished according to experience and professional competence (and not, as in the past, by non-fungible hierarchical levels). Both types of functionary can be assigned both organizational tasks in connection with operations or responsibility for corporate structures (with the coordination also of other Functionaries) and functions marked by a high degree of specialization and/or responsibility for corporate projects.

Contact center: The agreement specifies full operational flexibility within contact centers, through the complete fungibility of tasks among all the employees of the contract centers for claims, sales, back office and assistance. These jobs, accordingly, can be performed in "mixed" form depending on organizational and/or operational exigencies, with no need for agreement with the unions at company level.

By other contract provisions the parties introduced changes to the formal job description covering contact center staff, thus laying the basis for possible fungibility of tasks between the latter and third-level administration staff.

Thanks to the above modifications, the industry contract is now more functional to the changed context in which the contact centers operate.

Other provisions: Additional noteworthy provisions of the agreement concern the so-called "*contractual area*" and "*employees of undertakings subject to compulsory administrative liquidation*".

The former lay down that where call center activities are outsourced to firms not subsidiaries of insurance companies, the insurers must nevertheless guarantee application

of the insurance industry contract to the employees of those centers. In the case of outsourcing already in place, this clause shall be phased in with the necessary gradualism.

As to undertakings subject to compulsory administrative liquidation, some temporary measures of support for jobs were introduced, namely the insurers' pledge to devote a share of their hiring (3%) to the ex-employees of the liquidated companies. These hirings will involve fixed-term contracts.

Finally, the **economic clauses** of the agreement provide that for the entire period covered, from 1 July 2013 to 31 December 2019, employees' salary increases (partly in the form of one-off payments) shall take account only of past and/or forecast inflation. Specifically:

- for the period 1 July 2013-31 December 2014, a one-off payment of €400 for a grade 4, class 7 employee, recalibrated for other employees according to grade and seniority class. This amount does not count in calculating the basis for any other contractual or legal purposes. In lieu of this payment, the employee may opt for an *extraordinary contribution* to his/her supplementary pension plan; for grade 4, class 7 employees, the contribution was set at €489, again recalibrated for other employees according to grade and seniority class;
- starting 1 January 2015, increments over the period of the contract, amounting by the expiration date to a salary raise of €103 a month for a grade 4, class 7 employee. In percentage terms, and even counting certain specific extra increments for contact center employees and functionaries' indemnities, the total salary increase under the agreement comes to less than 5%;
- in relation to the foregoing, starting 1 January 2015 the agreement provides for back pay; these amounts, however, count only towards the determination of severance pay entitlements for the year 2017 and maternity benefits, and not towards determination of the basis for any other benefits (e.g. the recalculation of overtime pay, supplementary pension contributions, or the long-term care fund).

Following the signing of the agreement, the parties met to decide on changes to the provisions for health care for functionaries and the new terms of the agreement, to be annexed to the industry contract, for certain specific employment contracts (fixed-term, temporary employee, apprenticeship). When these talks are concluded, the coordinated text of the insurance industry contract can be drafted and communicated to companies.

Agreements with trade unions on corporate reorganization and restructuring

In the course of 2016 ANIA engaged in an especially important activity of support to insurance companies in relation to a series of corporate reorganizations and restructurings. Chiefly, the Association assisted insurers in carrying out the procedures of negotiation with the trade unions laid down in the industry-wide contract.

In some cases, as noted earlier, the procedures resulted in recourse to the extraordinary benefits of the ANIA/AISA Solidarity Fund. In others, the redundancies produced by the reorganization were dealt with by economic measures to facilitate early

HUMAN RESOURCES AND LABOR

termination of employment relationships. Finally, ANIA's collaboration with insurers also involved operational support in the negotiations for company-level bargaining agreements and action directed to the "union conciliation" procedure envisaged in the insurance industry contract for managerial and non-managerial employees. These conciliation procedures were quite numerous in 2016.

THE SOCIAL DIALOGUE

The Insurance Sectoral Social Dialogue Committee

Last year the social partners at European level in the insurance sector examined the *"social effects of digitalization in the insurance market and its effects on employment relationships"*. On 12 October 2016 they released a joint declaration, reiterating the partners' commitment to open and constructive dialogue on the various issues under discussion, to serve as a frame of reference on these issues. The declaration contains guidelines which, though not binding, can foster and encourage social dialogue at national and company level.

In this context, the social partners in the insurance sector agreed that it must be the shared objective of all participating organizations to follow the digital transformation in a positive manner, ensuring that digitalization presents new opportunities for insurers and their work force.

The National Joint Insurance Training Agency

As to Italy's joint insurance training agency (Ente Bilaterale Nazionale per la Formazione Assicurativa, ENBIFA), it is worth noting the support offered by ANIA in organizing the ENBIFA seminar entitled "Il lavoro che verrà" (the work of the future) in March 2016. The event was attended by numerous representatives of the academic world, journalism, and the social partners. At the end of the year the procedures preliminary to the renewal of the agency's directive bodies (the management council and the board of auditors) for the three-year term 2017-2019 got under way.

TRAINING – JOINT INTERINDUSTRY FUNDS

FBA and Fondir

The "Fondo Banche Assicurazione" (the joint banking and insurance fund) continued its training activities in 2016 with the publication of three separate notices of available funding for company, sector, local and individual training plans for smaller companies.

HUMAN RESOURCES AND LABOR

The table below summarizes the funding approved by FBA for insurers.

Funding approved by Fondo Banche Assicurazioni for insurers, notices issued in 2015 and 2016

Notice	No. applicants	Endowment	FBA grants	No. workers involved	Type of plan
Notice 1/2015 (in course of execution)	55	€ 54,000,000.00	€ 6,449,940.00	9,060	General
Notice 2/2015 (concluded)	45	€ 6,000,000.00	€ 1,000,887.71 ⁽¹⁾	2,022	Individual plans
Notice 3/2015 (in course of execution)	32	€ 7,000,000.00	€ 2,618,038.75	1,359	General
Notice 4/2015 (in course of execution)	3	€ 5,000,000.00	Data available at conclusion ⁽²⁾	10	Individual advanced training
Notice 1/2016 (in course of execution)	40	€ 46,000,000.00	€ 6,435,972.00	7,587	General
Notice 2/2016 (in course of execution)	18	€ 10,000,000.00	Data available at conclusion ⁽²⁾	1,448	Individual plans
Notice 3/2016 (in course of execution)	44	€ 8,153,804.80	€ 3,459,692.80	2,245	General

Source: FBA – Area Valutazione e Monitoraggio Piani – data updated to 27 March 2017

⁽¹⁾ Total individual plans, final financial reports

⁽²⁾ The data on FBA funding will be available once the insurance companies complete their financial reports on the individual plans

Fondir, the fund for continuing training of managers, also organized in 2016 to enhance managers' skills, funding individual and company training programs.

8

INSURANCE DISTRIBUTION

INSURANCE DISTRIBUTION

The share of life premiums written through bank and post office branches dipped in 2016 after rising for four straight years, while the shares accounted for by agents and direct marketing increased. In the non-life sector, agents continued to be the main form of insurance distribution, although their share declined again, to the benefit of brokers and bank and post office branches. An ANIA study based on data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) has shown that insurance company figures underestimate the importance of brokers in the non-life sector.

LIFE INSURANCE

In 2016 life premiums diminished after three years of strong growth, owing mainly to the sharp contraction in premiums written through financial salesmen and the more moderate decline in the business of bank and post office branches. The premium income produced by agents and direct marketing held more or less steady. The only channel scoring an expansion was brokers, whose volume in any case remains marginal.

In particular, the volume of written premiums at bank and post office branches fell by 11.8%, a bit sharper than the market's overall decline of 11.0%. This halted three years of rapid expansion from 2013 through 2015 (Table 1). Over five years, however, bank and post office branches still scored premium income growth of 17.4%, better than the 10.1% recorded by the entire life market. This channel accordingly remains the market leader, edging down from 63.4% to 62.9% of the total in 2016.

Premiums written by financial salesmen plunged by 22% in 2016, making them the third-leading channel for the marketing of life policies, now surpassed by agents, who regained the second spot, which they had lost to the salesmen in 2009. The fall for financial salesmen was the sharpest of any life insurance marketing channel, and it resulted in a lowering of their market share from 23.3% in 2012 to 14.0% last year.

Table 1 – Breakdown of distribution channels for the 2012-2016 observation period – Life classes

CHANNEL	Gross written premiums (Euro million)					Market share (%)					Average (2012-2016)	Average Annual growth (%)					Var. % Change % (2012-2016)
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016		2012	2013	2014	2015	2016	
Bank branches ⁽¹⁾	33,808	50,469	68,997	72,929	64,294	48.5	59.3	62.4	63.4	62.9	59.3	-16.4	49.3	36.7	5.7	-11.8	17.4
Financial salesmen	16,272	14,008	18,066	18,306	14,276	23.3	16.5	16.3	15.9	14.0	17.2	19.8	-13.9	29.0	1.3	-22.0	-3.2
Agents	11,386	12,274	14,121	14,684	14,669	16.3	14.4	12.8	12.8	14.3	14.1	-5.9	7.8	15.0	4.0	-0.1	6.5
Direct sales	7,458	7,552	8,709	8,434	8,358	10.7	8.9	7.9	7.3	8.2	8.6	6.6	1.3	15.3	-3.2	-0.9	2.9
Brokers	791	797	626	594	659	1.1	0.9	0.6	0.5	0.6	0.8	16.4	0.8	-21.5	-5.1	10.9	-4.5
TOTAL	69,715	85,100	110,518	114,947	102,257	100.0	100.0	100.0	100.0	100.0	100.0	-5.5	22.1	29.9	4.0	-11.0	10.1

⁽¹⁾ Data for this channel includes premiums distributed by post office branches

INSURANCE DISTRIBUTION

Written premiums sold through insurance agents were approximately equal to the amount registered in 2015, thus expanding their market share from 12.8% to 14.3% and, as noted, regaining second position among the channels.

Direct sales, which include policies marketed through subsidiary agencies, contracted by a marginal 0.9% in 2016, thus increasing their share of the market to 8.2%, after four consecutive decreases that had brought it down from 11% in 2012 to 7.3% in 2015.

With marginal premium income of just €659 million in 2016, or 0.6% of the total, brokers were the only life insurance channel to register an expansion last year, gaining 10.9% after falls of 21.5% in 2014 and 5.1% in 2015.

By type of product (Tables 2 and 3), Class I products (traditional life insurance policies) declined by 5.4% in 2016, owing above all to the drop in premiums written by financial salesmen, which declined by 10.6%, faster than the overall market, and by bank and post office branches (down 7.0%); the market shares of these channels diminished, respectively from 7.6% to 7.2% and from 68.5% to 67.4%. Premiums produced by direct sales and agents held broadly unchanged, so these two channels increased their market shares, respectively from 8.1% to 8.6% and from 15.3% to 16.2%.

In Class III (unit and index linked policies) too, the leading channel was banking and postal branches (financial salesmen having lost their leadership in 2015). Class III premiums contracted by 24.5% overall in 2016, with practically equal contributions from the banking channel (down 25.3%) and salesmen (down 27.9%). Interestingly, premiums generated by agents grew by 8.2%, helping to increase their market share in this class from 5.1% to 7.3%.

As for capital redemption policies (Class V), there was a contraction for all distribution channels in 2016, with a 21.8% fall in total premiums generated. The sharpest fall, 36.7%, was in bank and post office branches, whose share thus came down from 43.9% in 2015 to 35.5% in 2016. This was a factor in the increased share of the second-leading channel for this class, namely direct sales, whose incidence rose by 6 percentage points from 28.7% to 34.7%.

Class VI products (pension funds) registered premium growth of 6.9% in 2016, powered principally by sales through bank and post office branches, which increased by 15.8%, bringing their market share from 31.0% in 2015 to 33.6% last year. The predominant channel here continues to be direct sales, accounting for over 40% of total premiums/contributions, which expanded overall by 6.0% in 2016.

The main distribution channel for individual retirement plans continued to be agents in 2016, despite a marginal decline of 0.4% in premiums/contributions generated; their market share came down from 39.2% to 36.7%. The importance of bank and postal marketing is increasingly steadily; last year their market share rose from 27.7% to 30.6%, thanks to the 17.2% increase in premiums, far outpacing the average for this class (6.2%).

INSURANCE DISTRIBUTION

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

Class	YEAR 2016					Total
	Agents	Brokers	Bank branches ⁽¹⁾	Financial salesmen	Direct sales	
I - Life	16.2	0.6	67.4	7.2	8.6	100.0
III - Investment funds	7.3	0.0	54.4	36.8	1.4	100.0
IV - Sickness	26.0	31.8	24.3	0.2	17.7	100.0
V - Capitalization	23.5	5.6	35.5	0.7	34.7	100.0
VI - Pension funds	17.3	1.2	33.6	7.1	40.8	100.0
Individual retirement policies ⁽²⁾	36.7	0.1	30.6	18.3	14.2	100.0
TOTAL LIFE	14.3	0.6	62.9	14.0	8.2	100.0
Class	YEAR 2015					Total
	Agents	Brokers	Bank branches ⁽¹⁾	Financial salesmen	Direct sales	
I - Life	15.3	0.5	68.5	7.6	8.1	100.0
III - Investment funds	5.1	0.0	55.0	38.5	1.3	100.0
IV - Sickness	24.5	35.5	27.7	0.2	12.1	100.0
V - Capitalization	22.5	4.6	43.9	0.4	28.7	100.0
VI - Pension funds	19.5	1.8	31.0	6.5	41.1	100.0
Individual retirement policies ⁽²⁾	39.2	0.1	27.7	19.5	13.4	100.0
TOTAL LIFE	12.8	0.5	63.4	15.9	7.3	100.0

Table 3
Change (%) in life
premium volume by
class and distribution
channel 2016/2015

Class	Agents	Brokers	Bank branches ⁽¹⁾	Financial salesmen	Direct sales	Total
I - Life	0.1	23.1	-7.0	-10.6	0.1	-5.4
III - Investment funds	8.2	-46.8	-25.3	-27.9	-17.5	-24.5
IV - Sickness	14.4	-3.5	-5.4	23.2	58.3	7.9
V - Capitalization	-18.4	-4.4	-36.7	33.9	-5.5	-21.8
VI - Pension funds	-5.5	-27.0	15.8	16.7	6.0	6.9
Individual retirement policies ⁽²⁾	-0.4	21.5	17.2	-0.3	12.3	6.2
TOTAL LIFE	-0.1	10.9	-11.8	-22.0	-0.9	-11.0

⁽¹⁾ Data for this channel includes premiums distributed by post office branches

⁽²⁾ Individual retirement plan premiums (written as per Article 13, paragraph 1(b) of Legislative Decree 252/2005) are a subgroup of individual policies in Class I (life) and Class III (investment funds)

NON-LIFE INSURANCE

Total non-life premiums declined again last year, but at a more moderate pace than their average over the last five years: 1.0% as against 2.5%.

In particular, the agency network, which has traditionally been the main channel for the collection of premiums in the non-life sector, recorded its fifth consecutive

INSURANCE DISTRIBUTION

decrease in premiums in 2016 with a decline of 2.7%, sharper than the contraction of the overall market (Table 4). As a consequence, agents' market share has slipped steadily, from 81.0% in 2012 to 77.1% in 2016.

By contrast brokers, the second-leading channel for the non-life sector, scored a gain of 4.5% in business volume and recorded their largest market share in the five years at 9.2%.

Table 4 – Breakdown of distribution channels for the 2012-2016 observation period – Non-life classes

CHANNEL	Gross written premiums (Euro million)					Market share (%)					Average (2012-2016)	Average Annual growth (%)					Average % (2012-2016)
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016		2012	2013 ⁽⁴⁾	2014 ⁽⁴⁾	2015	2016 ⁽⁴⁾	
Agents	28,692	27,120	26,004	25,147	24,633	81.0	80.5	79.3	78.6	77.1	79.3	-3.0	-5.4	-4.2	-3.3	-2.7	-3.7
Brokers ⁽¹⁾	2,692	2,648	2,867	2,694	2,927	7.6	7.9	8.7	8.4	9.2	8.4	-1.8	-1.6	8.2	-6.0	4.5	2.1
Direct sales	2,858	2,663	2,596	2,593	2,570	8.1	7.9 ⁽³⁾	7.9	8.1	8.0	8.0	12.3	-3.3	-2.6	-0.1	-0.9	-2.6
of which: Internet and telephone sales	1,670	1,603	1,586	1,504	1,407	4.7	4.8 ⁽³⁾	4.8	4.7	4.4	4.7	12.1	2.3	-1.1	-5.2	-6.5	-4.2
Bank branches ⁽²⁾	1,123	1,202	1,269	1,497	1,756	3.2	3.6	3.9	4.7	5.5	4.2	-5.5	7.1	5.5	18.0	17.3	11.8
Financial salesmen	49	53	64	76	65	0.1	0.2	0.2	0.2	0.2	0.2	2.7	8.5	21.5	18.3	-14.0	7.6
TOTAL	35,413	33,687	32,800	32,007	31,953	100.0	100.0	100.0	100.0	100.0	100.0	-1.9	-4.6	-2.7	-2.4	-1.0	-2.5

⁽¹⁾ Brokers' contribution over the years does not include the share of premiums generated through this channel with presentations at the agency and not directly at the company (estimated at 25.8 percent in 2016)

⁽²⁾ Data for this channel includes premiums distributed by post office branches

⁽³⁾ The data is not comparable with the time series because of the exclusion from direct Italian insurance business in 2013 of the portfolio of a national company which was transferred to the Italian operating branch of a European company. Including data from this company, the market share for direct sales would be 8.2%, of which 5.1% through the Internet and telephone sales

⁽⁴⁾ Changes (%) are calculated on a homogeneous basis in terms of companies covered

However, this share is underestimated, insofar as a significant portion of the premium income they generate (estimated at 25.8% of the entire market) is presented to the insurance companies not directly by the brokers but via agencies. Taking this into account, the non-life premiums intermediated by brokers in 2016 amounted to €11.2 billion (€2.9 billion in the official statistics) or to 35.0% of all non-life premiums (9.2% in the official statistics). As a consequence, the share effectively accounted for by agents should be adjusted downward to €16.4 billion (and not €24.6 billion, as in the official statistics) and their market share from 77.1% to 51.3%. For motor liability insurance, brokers' share in 2016 would thus come to almost 12.2%, against 4.5% in the insurance company figures, while agents' share would come down from 84.2% to 76.6%. But this anomaly is significant mainly in the other non-life classes, where brokers' share should be adjusted from 13.9% in the official statistics to 58.3% on this more appropriate basis, while that of agents would be reduced from 69.8% to 25.5%.

To estimate the market shares accounted for by brokers, ANIA uses data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) and additional

INSURANCE DISTRIBUTION

information gathered from the leading Italian insurance brokers. AIBA lacks official data on the volume of premiums handled by brokers but derives an estimate from their payments to a compulsory special Guarantee Fund plus a portion of premiums deriving from brokerage fees (not subject to the compulsory contribution). On this basis AIBA estimates brokers' premiums for the entire non-life sector at over €14.3 billion, which is higher than ANIA's own estimate, owing essentially to the different estimate of premiums deriving from brokerage fees and to AIBA's inclusion of the premiums collected by EU insurance companies, which are not counted in ANIA's statistics.

For completeness, Table 5 shows the estimated non-life market shares of agents and brokers from 2007 on, adjusted as above. Note that in these ten years the share of total non-life business accounted for by brokers gained nearly 10 percentage points, from 25.8% to 35.0%, whereas in the official statistics, the gain was less than 2 points. The gap between the figures derived from the insurance companies and those estimated by ANIA (on AIBA data) has thus widened constantly; in recent years it has amounted to nearly 26 percentage points.

Table 5 – Estimated market shares of agents and brokers

Year	MOTOR				NON-MOTOR				TOTAL			
	Brokers share		Agents share		Brokers share		Agents share		Brokers share		Agents share	
	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)
2007	2.4	7.5	90.4	85.3	14.0	50.2	76.2	40.0	7.4	25.8	84.3	65.9
2008	2.6	8.3	90.1	84.4	13.9	51.7	75.9	38.1	7.6	27.5	83.8	63.9
2009	3.2	8.7	89.6	84.1	13.8	49.3	75.1	39.6	7.9	27.1	83.0	63.8
2010	3.0	8.7	88.6	82.9	13.5	50.8	74.6	37.3	7.7	27.4	82.4	62.7
2011	3.5	9.9	87.6	81.2	13.0	57.0	74.3	30.3	7.6	30.2	81.8	59.2
2012	3.3	9.8	86.8	80.3	13.3	58.4	73.4	28.3	7.6	30.7	81.0	57.9
2013	3.5	9.8	86.3	80.0	13.3	58.1	73.3	28.5	7.9	31.4	80.5	57.0
2014	3.6	10.8	85.7	78.5	14.7	61.3	71.8	25.2	8.7	34.2	79.3	53.8
2015	3.7	10.9	85.3	78.1	13.6	57.7	71.3	27.2	8.4	33.3	78.6	53.7
2016	4.5	12.2	84.2	76.6	13.9	58.3	69.8	25.5	9.2	35.0	77.1	51.3

Direct sales (which in addition to telephone and Internet sales include premiums generated at the insurance company head offices) declined by 0.9% in 2016, on a par with the decrease in total non-life premiums. As a result the market share of this channel was practically unchanged at around 8.0%, and also steady at the five-year average. Internet and telephone sales alone saw a marginal decline in market share, from 4.7% to 4.4%, given that the premium volume of this business contracted by 6.5%.

The marketing of non-life policies through bank and post office branches again increased sharply in 2016, with premiums rising by 17.3%; the growth in their market

INSURANCE DISTRIBUTION

share that began in 2013 thus accelerated; it reached 5.5% last year, compared with 3.2% in 2012.

Financial salesmen continue to have an extremely marginal market share (0.2% in 2016).

As for motor insurance (motor third party liability and land vehicles) insurance agents are still the main sales channel, accounting for over 84% of the entire market in 2016. Nevertheless their premium volume decreased by 4.9% for the year, while total motor insurance business shrank by 3.8% (Tables 6 and 7). The second-leading channel for motor insurance business is Internet and telephone sales, whose share came down moderately from 7.9% to 7.5%. Next come brokers, who with a gain of 14.8% in premium volume increased their market share to 4.5%. Bringing up the rear were bank and post office branches, which however expanded their motor insurance business by 9.4% in 2016, increasing their modest market share from 2.4% to 2.7%.

Table 6
Breakdown (%) of
non-life market by
class and
distribution channel

YEAR 2016								
Class	Agents	Brokers ⁽¹⁾	Bank branches ⁽²⁾	Financial salesmen/ Inv't firms	Subsidiary agencies	OTHER DIRECT SALES		Total
						Telephone	Internet	
Motor liability	85.9	3.1	2.6	0.0	0.6	2.2	5.5	100.0
Land vehicle insurance	75.7	11.8	2.8	0.0	3.2	2.1	4.4	100.0
Total motor	84.2	4.5	2.7	0.0	1.0	2.2	5.3	100.0
Health and accident	60.7	13.0	11.1	0.9	12.8	0.7	0.8	100.0
Transport ⁽³⁾	29.0	66.6	0.2	0.0	4.0	0.1	0.1	100.0
Property ⁽⁴⁾	74.7	12.4	9.0	0.2	2.3	0.6	0.9	100.0
General liability	82.0	10.2	3.8	0.1	3.6	0.1	0.1	100.0
Credit and suretyship	70.4	17.3	5.2	0.0	7.1	0.0	0.0	100.0
Total non-motor	69.8	13.9	8.4	0.4	6.3	0.5	0.7	100.0
TOTAL NON-LIFE	77.1	9.2	5.5	0.2	3.6	1.4	3.0	100.0
YEAR 2015								
Motor liability	86.5	2.5	2.4	0.0	0.5	2.4	5.7	100.0
Land vehicle insurance	78.3	10.5	2.5	0.0	2.3	2.1	4.4	100.0
Total motor	85.3	3.7	2.4	0.0	0.8	2.4	5.5	100.0
Health and accident	63.2	12.9	7.9	1.2	13.1	0.7	0.9	100.0
Transport ⁽³⁾	30.1	65.1	0.0	0.0	4.5	0.1	0.1	100.0
Property ⁽⁴⁾	62.6	8.2	20.7	0.3	2.3	2.1	3.8	100.0
General liability	83.0	9.2	3.5	0.1	4.0	0.1	0.1	100.0
Credit and suretyship	72.9	15.3	6.6	0.0	5.2	0.0	0.0	100.0
Total non-motor	71.3	13.6	7.2	0.5	6.2	0.5	0.7	100.0
TOTAL NON-LIFE	78.6	8.4	4.7	0.2	3.4	1.5	3.2	100.0

⁽¹⁾ Brokers' share over the years does not include the portion of income they generate that is presented to the insurance companies not directly by the brokers but via agencies (estimated at 25.8% in 2016)

⁽²⁾ Data for this channel includes premiums distributed by post office branches

⁽³⁾ The class of transport insurance includes: railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability

⁽⁴⁾ The Property class includes: fire and natural forces, other damage to property, miscellaneous financial loss, legal expenses and assistance

INSURANCE DISTRIBUTION

Table 7
Change (%) in non-life premium volume by class and distribution channel 2016/2015

YEAR 2016/2015 ⁽¹⁾								
Class	Agents	Brokers ⁽²⁾	Bank branches ⁽³⁾	Financial salesmen/ Inv't firms	Subsidiary agencies	OTHER DIRECT SALES		Total
						Telephone	Internet	
Motor liability	-6.2	12.3	6.7	-100.0	9.2	-12.4	-8.2	-5.6
Land vehicle insurance	3.0	18.1	24.5	-100.0	49.0	7.2	8.9	6.5
Total motor	-4.9	14.8	9.4	-100.0	26.0	-9.8	-6.2	-3.8
Health and accident	0.4	4.7	47.0	-16.3	2.1	4.8	-6.2	4.6
Transport ⁽⁴⁾	-4.3	0.6	659.7	-86.8	-10.1	4.7	-40.3	-1.2
Property ⁽⁵⁾	0.6	-3.2	4.4	-5.7	20.3	5.5	-2.3	0.8
General liability	-0.8	6.3	10.3	7.7	-7.8	7.7	-2.4	-0.2
Credit and suretyship	3.1	14.4	-15.2	0.0	47.5	0.0	0.0	5.9
Total non-motor	0.2	1.6	20.1	-13.6	4.2	5.2	-4.1	2.0
TOTAL NON-LIFE	-2.7	4.5	17.3	-14.0	6.8	-7.4	-6.0	-1.0

⁽¹⁾ Changes (%) are calculated on a homogeneous basis in terms of companies covered

⁽²⁾ Brokers' share over the years does not include the portion of income they generate that is presented to the insurance companies not directly by the brokers but via agencies (estimated at 25.8% in 2016)

⁽³⁾ Data for this channel includes premiums distributed by post office branches

⁽⁴⁾ The class of transport insurance includes: railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability

⁽⁵⁾ The Property class comprises: fire and natural forces, other damage to property, miscellaneous financial loss, legal expenses and assistance

Agencies were the leading channel also for non-life insurance outside the motor sector, with a market share of nearly 70% in 2016; their premium volume was broadly unchanged for the year. Within this sector, the volume intermediated by brokers increased, their market share standing at 14%; the business done by bank and post office branches expanded strongly, by 20.1%, bringing their market share from 7.2% to 8.4%.

9

THE ANIA FOUNDATION AND THE ANIA-CONSUMERS FORUM

THE ANIA FOUNDATION

THE ANIA FOUNDATION: A NEW MISSION AND NEW OBJECTIVES

At its formation in 2004, the ANIA Foundation's mission was to work to prevent road accidents and reduce their gravity. With this mandate, it has developed a series of activities to sensitize road users to the need to limit traffic risk, not only fostering better driving habits but also working to bring traffic regulations up to date for greater effectiveness.

One of our initiatives that has been instrumental in changing the “culture of the road” has been the increasingly popular **designated driver** approach (also known as “BOB” after the Belgian campaign so called) whereby one member of a group elects not to drink and takes charge of taking his or her friends home safely. Another is the promotion of **safe driving courses** on tracks with professional drivers, to learn techniques to handle dangerous situations on the road, such as aquaplaning and understeering.

On the regulatory front, the Foundation played a fundamental role in instituting a road test for the license to drive motor scooters, helping to improve the skill of the people driving these vehicles. The Foundation was a strong supporter of the introduction of the **crime of vehicular homicide** into the Italian criminal code. The existence of this provision serves as a deterrent to reckless driving, and with proper communication is a form of sensitization to heighten awareness of the risks involved in reckless driving.

Taking account of the Foundation's major achievements in its decade-long activity, its fruitful contribution to improving the image of the insurance industry and its ability to serve unseen or undervalued needs and design innovative projects, in developing its strategic plan for 2016-2018 ANIA decided to strengthen the Foundation, broadening its mandate. This ushers in a new phase in the Foundation's history, with even more challenging objectives: no longer restricted to road safety alone, the new mission embraces all protection-related issues, with the aim of meeting the need for safety and security of households, firms, and Italy as a country.

THE SCENARIOS

Our society, our social system, requires support, as by itself it is not in a position to respond to the growing needs of people and firms. What we may call “megatrends” – in demography, say, or massive digitization – generate an ever-increasing **demand for protection**. Consequently, people sense the difficulty encountered by the public

welfare system in responding to the growing need for retirement and health care provisions. Another important area is public-private partnership in protecting homes and other real assets in the case of natural disaster, as well as workplace safety, investment for firms, and the culture of saving.

Road accidents in Italy and Europe

ISTAT data on road accidents in Italy show that they numbered 174,539 in 2015, down 1.4% for the year, resulting in 3,428 fatalities (up 1.4%) and 246,920 severe injuries, down 1.7% (Table 1). On average, every day in the year saw 478 accidents, with 9 deaths and 676 serious injuries.

Table 1
Fatalities and
injuries caused by
road accidents in
Italy, 2001-2015

Year	Fatalities		Injuries	
	Number	12-month change (%)	Number	12-month change (%)
2001	7,096	0.5	373,286	3.7
2002	6,980	-1.6	378,492	1.4
2003	6,563	-6.0	356,475	-5.8
2004	6,122	-6.7	343,179	-3.7
2005	5,818	-5.0	334,858	-2.4
2006	5,669	-2.6	332,955	-0.6
2007	5,131	-9.5	325,850	-2.1
2008	4,725	-7.9	310,745	-4.6
2009	4,237	-10.3	307,258	-1.1
2010	4,090	-3.5	302,735	-1.5
2011	3,860	-5.6	292,019	-3.5
2012	3,753	-2.8	266,864	-8.7
2013	3,401	-9.4	258,093	-3.2
2014	3,381	-0.6	251,147	-2.7
2015	3,428	1.4	246,920	-1.7

Sources: ACI, ISTAT

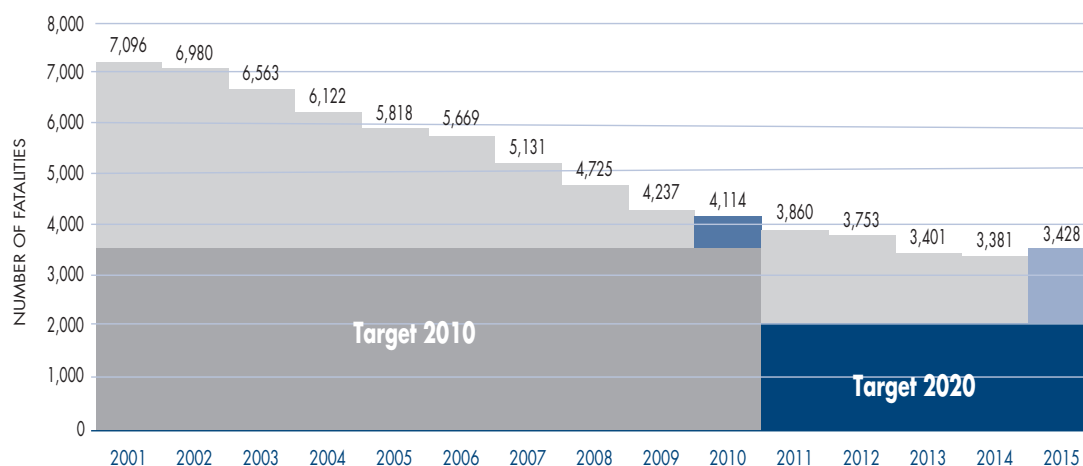
The table shows that in 2015, for the first time since 2001, the number of traffic deaths increased. But advance warning of the reversal was perceptible already in 2014, when the reduction in the number of deaths slowed sharply, diminishing by a scant 0.6% compared with 9.4% in 2013.

Since 2011, the base year for the new objective of halving traffic fatalities by 2020, the reduction has been no more than 11.2%, making it unlikely in the extreme that Italy can achieve the target in the five years remaining (Figure 1).

The Italian trend in traffic fatalities is part of a general pattern throughout the EU28, where there were 26,100 deaths in 2015, an increase of 0.4% over 2014 (Table 2). In the five years from 2011 through 2015, that is, the number of fatalities was reduced by 15%, essentially unchanged from the 15.3% reduction registered through 2014.

THE ANIA FOUNDATION

Figure 1
Italian traffic
fatalities, 2001-2015



Source: ANIA Foundation,
based on Istat data

Table 2 – Traffic deaths in EU28 countries

COUNTRY	2011	2012	2013	2014	2015	2015/11	2015/14	Deaths per million inhabitants	Rank (1 st = country with highest rate, 28 th = lowest rate)
Austria	523	531	455	430	479	-8.4	11.4	56.0	15°
Belgium	862	770	723	727	732	-15.1	0.7	65.0	10°
Bulgaria	657	601	601	661	708	7.8	7.1	98.0	1°
Cyprus	71	51	44	45	57	-19.7	26.7	67.0	9°
Croatia	418	390	368	308	348	-16.7	13.0	82.0	5°
Czech Republic	772	742	655	688	734	-4.9	6.7	70.0	8°
Denmark	220	167	191	182	178	-19.1	-2.2	31.0	24°
Estonia	101	87	81	78	67	-33.7	-14.1	51.0	18°
Finland	292	255	258	229	266	-8.9	16.2	49.0	20°
France	3,963	3,653	3,268	3,384	3,461	-12.7	2.3	54.0	17°
Germany	4,009	3,600	3,339	3,377	3,459	-13.7	2.4	43.0	21°
Greece	1,141	988	879	795	805	-29.4	1.3	74.0	7°
Hungary	638	606	591	626	644	0.9	2.9	65.0	11°
Ireland	186	162	188	193	166	-10.8	-14.0	36.0	22°
Italy	3,860	3,753	3,401	3,381	3,428	-11.2	1.4	56.0	16°
Latvia	179	177	179	212	188	5.0	-11.3	95.0	2°
Lithuania	296	302	256	267	242	-18.2	-9.4	83.0	4°
Luxembourg	33	34	45	35	36	9.1	2.9	64.0	12°
Malta	16	9	17	10	11	-31.3	10.0	26.0	28°
Netherlands	546	562	476	477	531	-2.7	11.3	31.0	25°
Poland	4,189	3,571	3,357	3,202	2,938	-29.9	-8.2	77.0	6°
Portugal	891	718	637	638	593	-33.4	-7.1	57.0	14°
Romania	2,018	2,042	1,861	1,818	1,893	-6.2	4.1	95.0	3°
Slovakia	328	352	251	291	274	-16.5	-5.8	51.0	19°
Slovenia	141	130	125	108	120	-14.9	11.1	58.0	13°
Spain	2,060	1,903	1,680	1,688	1,689	-18.0	0.1	36.0	23°
Sweden	319	285	260	270	259	-18.8	-4.1	27.0	27°
United Kingdom	1,960	1,802	1,770	1,854	1,806	-7.9	-2.6	28.0	26°
EU 28	30,700	28,200	26,000	26,000	26,100	-15.0	0.4	51.6	

Source: Community Road Accident Data Base (CARE)

The traffic fatality rate – the number of deaths in proportion to population, a standard measure making for more significant comparisons within the EU – ranks Italy 16th of the 28 EU member states, with 56 deaths per million inhabitants, which is higher than the EU average of 51.6 and also higher than the figures for the large EU countries with which Italy is generally compared:

- France: 54 deaths per million inhabitants;
- Germany: 43 per million;
- Spain: 36 per million;
- UK: 28 per million.

The situation just described shows the urgent need for structural measures at European level to reduce traffic accidents through targeted, integrated programs.

THE NUMBER OF ROAD ACCIDENTS WITH PERSONAL INJURY: DATA SOURCES AND METHODOLOGICAL ISSUES

ISTAT's annual statistics on road accidents, deaths and injuries are obtained by collecting data on accidents throughout Italy. They only cover accidents in which the police intervene and which cause injury or death. The data come from forms filled out by the police forces – Highway Police, Carabinieri, Provincial Police, Municipal Police – that intervened at the scene of the accident. In particular, ISTAT collects data on all accidents that occur on roads or in squares open to traffic in which stationary or moving vehicles (or animals) are involved and which give rise to death or personal injury. The data therefore exclude accidents that cause only property damage, those in which police intervention is not required, those that take place outside public traffic areas, i.e. courtyards, service stations, garages and carparks, tramways and railways, and those in which no vehicle (or animal) is involved.

Another dataset for measuring the accident rate on Italian roads, used especially to assess developments during the year, comes from the Highway Police. As Table 3 shows, however, the number of deaths and injuries in this dataset is lower than that reported by ISTAT, because the Highway Police force is only one of those contributing to the national data collected by ISTAT. In addition, the Highway Police data only refer to accidents on motorways and state, provincial and municipal highways; accidents that take place on city streets are excluded.

According to the Highway Police data, the decline in the number of fatalities continued in 2015, but less than half as fast as in 2014 (-1.9% as against -5.5%). In any case, the ISTAT statistics on road accidents (and, *a fortiori*, the merely partial data collected by the Highway Police) cannot be taken as representing the totality of accidents on Italian roads. In particular, the number of accidents recorded by ISTAT (174,539 in 2015) represented barely 7% of the 2,516,869 accidents for which insured parties filed claims with insurers.

Examining the insurance data in detail, most of the two-and-a-half million motor liability claims filed in 2015 were for accidents involving damage to vehicles or property, but a significant portion (over 445,000, or 17.7%) also involved personal injury, from minor to severe. Italy is among the European countries with the highest percentage of claims for personal injury, at about twice the EU average (Table 4).

Table 3
Fatalities and
injuries caused by
road accidents in
Italy, 2001-2015

Year	PANEL A: HIGHWAY POLICE				PANEL B	
	Deaths		Injuries		ISTAT Data	
	Number	Annual change (%)	Number	Annual change (%)	Deaths	Injuries
2001	2,309	n.a.	74,169	n.a.	7,096	373,286
2002	2,520	9.1	84,217	13.5	6,980	378,492
2003	2,187	-13.1	72,342	-14.1	6,563	356,475
2004	1,891	-13.5	66,777	-7.7	6,122	343,179
2005	1,860	-1.6	64,997	-2.7	5,818	334,858
2006	1,889	1.6	66,057	1.6	5,669	332,955
2007	1,682	-10.9	63,763	-3.5	5,131	325,850
2008	1,507	-10.4	57,656	-9.6	4,725	310,745
2009	1,295	-14.1	53,756	-6.8	4,237	307,258
2010	1,213	-6.3	51,163	-4.8	4,090	302,735
2011	1,109	-8.6	47,618	-6.9	3,860	292,019
2012	1,018	-8.2	41,645	-12.5	3,753	266,864
2013	902	-11.4	39,896	-4.2	3,401	258,093
2014	852	-5.5	38,188	-4.3	3,381	251,547
2015	841	-1.9	37,632	-1.5	3,428	246,920

Source: Highway Police,
ISTAT

Table 4 – Deaths and injuries in road accidents in Italy, 2000-2015 – Insurance data (*)

Generation of event	Number of claims paid and reserved (**)	% of claims with personal injury	Number of claims with personal injury	% change on previous year	Average number of persons injured per accident	Total number of deaths and persons sustaining personal injury - ANIA
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2000	4,521,607	17.7%	801,250	n.a.	n.a.	n.a.
2001	4,066,529	18.4%	746,313	-6.9	n.a.	n.a.
2002	3,836,135	17.9%	687,052	-7.9	n.a.	n.a.
2003	3,708,020	18.2%	675,955	-1.6	n.a.	n.a.
2004	3,673,744	19.8%	728,413	7.8	n.a.	n.a.
2005	3,654,072	21.0%	765,953	5.2	n.a.	n.a.
2006	3,661,945	21.0%	768,336	0.3	n.a.	n.a.
2007	3,685,452	21.0%	772,305	0.5	1.25	965,381
2008	3,716,084	21.3%	791,047	2.4	1.30	1,028,362
2009	3,741,283	21.8%	817,467	3.3	1.34	1,092,086
2010	3,535,512	23.1%	816,703	-0.1	1.33	1,088,666
2011	3,109,657	22.4%	696,354	-14.7	1.34	934,027
2012	2,675,840	20.1%	537,743	-22.8	1.31	705,643
2013	2,512,259	19.0%	477,329	-11.2	1.28	610,981
2014	2,455,104	18.5%	454,194	-4.8	1.28	581,449
2015	2,516,869	17.7%	445,486	-1.9	1.26	561,312

(*) Estimate for all insurance companies (domestic companies and representatives of foreign companies) doing business in Italy

(**) Includes the estimate of claims I.B.N.R.

Source: ANIA

It is worth noting that some 561,000 persons received compensation for the 445,000 personal injury claims filed with insurance companies in 2015, as some accidents resulted in injury to more than one person. With the inception of the direct indemnity system in 2007, insurance companies' databases were reorganized, so we now also have data on non-labile

drivers and passengers who sustain personal injury. This allows us to make a more precise estimate of the average number of persons involved in a claim: 1.26 in 2015, very slightly less than in 2014.

It should also be borne in mind that the number of injuries and deaths in the insurance companies' statistics do not include persons who were involved in accidents but not entitled to indemnification, such as liable drivers and those hurt in one-vehicle accidents, nor does it reflect compensation payments by the Road Accident Victims Guarantee Fund for accidents caused by uninsured or unidentified vehicles. The difference between the insurance statistics and the ISTAT data thus stems mainly from the fact that the latter do not include accidents with no police intervention, which give rise to the majority of claims. Most of the personal injuries for which the insurance sector pays compensation are minor and are caused for the most part by accidents on city streets, in urban centers, for which the police are rarely called in. To quantify the phenomenon, consider that of the 445,000 motor vehicle personal injury claims recorded by insurance companies in 2015, some 420,000 (95%) involved temporary or permanent disability of less than 9%. And of the latter, over 288,000 (68%) were for a permanent disability of between 1% and 2%, corresponding to those generally recognized for so-called whiplash. Considering the average number of persons injured in a road accident, these claims correspond to around 360,000 persons injured, which may help explain the wide gap between the two sources.

The needs and the uncertainties of Italians

A survey conducted in 2015 by Episteme, commissioned by the AXA Italia insurance company, found that seven out of every ten Italians feel exposed to risks and that six out of ten "have the impression that they are surrounded by dangers." This implies a demand for protection on a number of fronts, including natural disaster, given that the national geological council estimates that 24 million Italians live in areas potentially at risk of earthquake and 7 million in areas subject to hydrogeological risk (source: Ispra).

Italy's territorial vulnerability is notorious. According to the most recent ANCE/CRESEM report, areas at high hydrogeological risk comprise 10% of the Italian territory, or some 30,000 square kilometers, and 89% of all Italian municipalities; high earthquake risk involves 50% of the national territory and 38% of municipalities.

Another way of gauging the severity of the problem is to recall that since 1900 Italy has had 30 earthquakes worse than 5.8 on the Richter scale and since 1918 the country has suffered 5,000 major floods and 12,000 landslides (Source: Protezione Civile).

These natural disasters cost Italian taxpayers an average of €3 billion a year, an exorbitant figure that is nevertheless insufficient to deal with the problem. Just think that the ordinary allocation for natural disasters in the 2016/2017 budget laws was €48 million, while the damage estimate for the earthquake that shook central Italy in August 2016 came to €23.5 billion.

It is self-evident that emergency action by the State cannot be the sole strategy for guaranteeing Italians' safety and security. We need adequate programs of prediction and prevention to reduce the vulnerability of the territory, together with a more highly developed public-private partnership for risk coverage. For while the risk of certain types of disaster may be deemed to be in a sense inevitable, that does not go for the amount of damage that they cause, which can perfectly well be limited by proper preventive measures. The provision of private support for public financing in the case of such major events can no longer be put off, as the choices of other countries have long since demonstrated.

The demand for welfare

According to the Censis report ⁽¹⁾, Italians cite a series of factors as reasons for their sense of insecurity: their general view of their future (93.9%), the risk of unemployment (87.2%), the possibility of inadequate income (85.4%), the risk of non-self-sufficiency in old age (77.5%), retirement provisions (74.1%), health (63.4%). In general, almost two of every three Italians (62.4%) believe that in the future the State will not have the means, alone, to meet the population's welfare needs.

As analyzed by the Eurispes *Rapporto Italia* (2017), the picture of Italians' sentiment does not change. As a result of the economic crisis and recession, Italians have an acute sense of uncertainty. One out of four feel poor (in 39% of these cases consequent to an illness), and nearly half of Italian households have trouble making ends meet (owing above all to housing costs); three quarters are unable to save.

Another major factor is demography: more and more, Italy is a country of old people. In 2015 **life expectancy at birth was 80.1 years for males and 84.7 for females** (compared with 80.7 and 85.6 in 2014). This puts Italy second in the EU for male life expectancy, behind Sweden at 80.4 years, and third for female, behind Spain (85.8) and France (85.5), and obviously above the respective European averages of 77.9 and 83.3 ⁽²⁾.

Table 5
Old age in Italy

Indicator	Year	Value	% change on 2005
Average age of population	2015	44.4	+4.5
Children per woman	2015	1.35	+0.7
Old age index ⁽³⁾	2015	157.7	+14.2
Old age dependency index ⁽⁴⁾	2015	33.7	+14.6
Life expectancy at birth – male	2015	80.1	+2.6
Life expectancy at birth – female	2015	84.7	+1.4
Life expectancy at 65 – male	2015	18.7	+7.5
Life expectancy at 65 – female	2015	22.0	+4.3

Source: ISTAT

⁽¹⁾ Censis, "L'economia italiana a-ciclica. Rivedere i fondamentali della società italiana" – Un Mese di Sociale 2015/1.

⁽²⁾ Istat, *Popolazione e famiglie in un flash* – 2016.

⁽³⁾ Old age index = (pop. over 65)/(pop. 0-14)*100.

⁽⁴⁾ Old age dependency index = (pop. over 65)/(pop. 15-64)*100.

According to Istat (see Table 5), Italy has far more old than young people, while for every 100 people of working age there are 33.7 older than 65, against the European average of 28.1.

These two indicators, combined with the demographic projections of continued population aging, are especially significant. They reflect the country's "demographic debt" with future generations in terms of health care, welfare and retirement provisions.

Nevertheless, as the report on the sustainability of the National Health Service to 2025 reveals ⁽⁵⁾, since 2010 the political response to recession has been massive disinvestment in the public health care system. In addition to the cuts of €25 billion enacted in the budget packages from 2012 through 2015, the public health system has had to forgo another €6.79 billion compared with the provisions of the "Health Pact". And continuing along these lines the Economic and Financial Document 2016 projects a reduction in the financing of the NHS to 6.5% of GDP, a threshold that will undermine the quality of health care seriously enough to threaten a lowering of life expectancy ⁽⁶⁾.

The result is that the Italian share of GDP going to health care spending (public and private) is lower than the OECD average ⁽⁷⁾. Referring to the European Union, rated on this basis Italy trails Finland, the UK, France, Belgium, Austria, Germany, Denmark, Sweden and the Netherlands; it is last among the G7 countries in total public plus private health care spending, but second only to the United States in out-of-pocket health spending. The data, that is, show unequivocally that the political system has shifted a substantial share of public spending to the general population, in spite of the recommendations of the OECD ⁽⁸⁾, which in January 2015 called on Italy to "ensure that ongoing efforts to contain health system spending do not subsume health care quality as a fundamental governance principle" and thus do not undercut health care quality.

In this context it is self-evident that the insurance industry has a crucial role to play in allaying the concerns of Italians and, through the transfer of the risk of possible adverse events, enable them to maintain their lifestyle and to face old age and possible unexpected events confidently. The ANIA Foundation, with its vocation as partner in support of the needs of the population, will clearly do its part, launching a major campaign of sensitization and information on these issues, continuing and indeed expanding its lines of action, so far involving road safety issues.

LINES OF ACTION

The initiatives of the ANIA Foundation to reduce the number and severity of traffic accidents can be summed up in three key concepts: prevention, new technology, and communication. The Foundation's main activities are described below, with an anticipation of the extension of the mandate to new fields.

⁽⁵⁾ GIMBE: Evidence for Health – 2016: *Rapporto sulla sostenibilità del Servizio Sanitario Nazionale 2016-2025*.

⁽⁶⁾ Ibid.

⁽⁷⁾ OECD Health Statistics 2015. How does health spending in Italy compare? July 2015.

⁽⁸⁾ OECD Reviews of Health Care Quality: Italy 2014.

a) Prevention

For Italy, there is no denying that one of the crucial issues for traffic safety is the number of motorcycles and scooters, owing to the greater vulnerability of their drivers, of course, but also to the lack of proper training, especially for the youngest drivers.

In 2015, according to Istat, there were some 26,000 accidents involving motorcycles or motor scooters, causing 878 fatalities, an increase of 7.6% compared with 2014; actually, the number of deaths due to motorcycle accidents increased by 9.8%, while those caused by motor scooters declined by 6.3%. Italy has the unenviable top ranking in the EU28 for number of deaths due to two-wheeled vehicles, followed by France with 769 and Germany with 701. Spain, in fourth position, had less than half Italy's number of fatalities, at 389.

To deal with the problem and prevent accidents, in 2016 the ANIA Foundation held two events addressed to young people and intended to promote proper conduct in driving motorcycles and scooters: "ANIA Campus" and "Open barracks for highway safety". "ANIA Campus" was held in 20 squares in various Italian cities. It involved 1,300 participants, including 1,016 high school students (see *Assicurazione italiana 2015-2016*, p. 283 ff.). The "barracks" initiative, held in cooperation with the Carabinieri, made available five Carabinieri stations where tracks for driving motorcycles and scooters were installed.

The training program consisted of half-day modules divided into a classroom phase with lessons on issues of road safety and responsible conduct and a practical phase in which the older students used road simulators and the younger ones tested their ability to drive these vehicles.

The tests, with driving instructors, highlighted recurrent problems, such as: improper position and approach to driving; problems with balance; poor use of brakes; improper acceleration. Obviously, this kind of behavior increases risk. This kind of training is therefore not merely useful but absolutely necessary.

The initiative was quite well received by the participants: 27 schools and over 1,750 young people took part, over 1,800 gadgets were distributed, all representing increases over the previous years.

Another crucial tool for accident prevention is stricter controls on the roads. A strategic instrument here is the Foundation's cooperation with the Carabinieri and the Highway Police. The 2016 edition of the Foundation's **"Adopt a highway"** project reinforced on-road controls over a period of two months to deter driving under the influence of alcohol and improper transportation of children.

The Carabinieri patrols were equipped with single-use alcohol testers and given informational brochures to distribute to the persons subject to the checks; the brochures dealt with the procedures for transporting children and the consequences of irresponsible conduct behind the wheel.

In the course of the initiative the Carabinieri checked a total of 25,335 vehicles and identified 32,651 persons; 3,730 drivers were tested for alcohol. The most common infractions of the Highway Code discovered were failure to use seat belts (Article 172), found in 134 cases, and speeding (Articles 141 and 142), with 127 cases; drivers' licenses were penalized by a total of 4,080 points, and 153 vehicles were sequestered.

The benefits of the program consist in a very significant reduction in accidents on the highways selected, a well appreciated campaign of sensitization, and positive impact on the image of the insurance industry thanks to its contribution to fostering responsible conduct by drivers, to the special advantage of the most vulnerable highway and traffic "users", namely children and young people generally.

Another effective means of prevention is to let young people listen to people who have had relevant personal experiences. This is the focus of a Foundation project in cooperation with Comunità di San Patrignano, a drug rehabilitation center. ANIA participates in the Community's "We free days" with driving simulators (500 test drives at the latest edition) and support for theatrical road shows (35 performances in 2016, involving 10,000 students in all parts of Italy), dealing with the issue of highway risk when you drive under the influence of drugs.

One of the most effective instruments of accident prevention is responsible driving conduct, including the ability to react properly to sudden risks. To learn the proper techniques in safety, **safe driving courses** are essential. From 2007 through 2015 the ANIA Foundation conducted 7,100 courses, free of charge, for new drivers aged 18-26. The results are highly encouraging. The data on the courses given in 2015 ⁽⁹⁾ show that just 2.8% of the 1,000 young people contacted by phone reported having had an accident after completing the safe driving course; 53% said they felt more responsible at the wheel, and 73% felt they were more reactive to sudden dangers. Overall, more than 90% of the participants judged that the project was excellent and fully comprehensive.

Prevention is therefore fundamental in addressing the problem of traffic accidents. But the concept of prevention is equally essential to providing all-round protection and security, in every area of life. Fostering every type of behavior that can safeguard individuals and their basic interests is essential, to avoid having to cope with the serious necessities that can arise if you behave irresponsibly, to the detriment of your health or your wealth.

Drawing on our experience with road safety, in seeking to meet Italians' requests for protection and welfare the ANIA Foundation plans a series of initiatives – at local level, if possible, in order to heighten people's sense that the insurance industry is close to them and their needs – to foster healthy lifestyles as a form of prevention of health problems and to help households act correctly in managing their income and their saving, in order to have a decent standard of living and face old age more confidently.

⁽⁹⁾ The data refer to the courses conducted in 2015, but evaluated one year after their conclusion, i.e. in December 2016.

b) The impact of technology on safety, security, and damage prevention

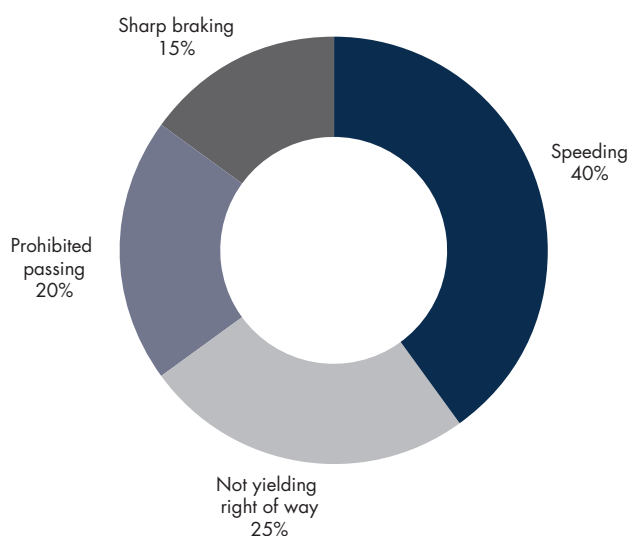
Innovation and safety form an increasingly indissoluble duo for accident prevention. Just think of the new technology now mounted on vehicles, such as assisted braking, speed control and pre-collision controls, to name just the best known.

Data recorders (black boxes) are part of this group of devices, and over the years the ANIA Foundation has tested them, mainly for professional drivers (truckers, bus and taxi drivers) to monitor their driving behavior; study the causes of accidents (with special focus on distraction and the use of cell phones) and to combat fraud in connection with simulated accidents.

Last year for the first time, tests with black boxes were also run on two-wheel vehicles. Specifically, 500 Viasat devices and 250 Octocams were installed. The latter were equipped not only with GPS and tri-axial accelerometers but also videocameras to film pre- and post-accident events. The experiments served to monitor drivers' conduct and determine the main causes of accidents, so as then to design ad hoc training initiatives. Initial analysis of the film tapes from the Octocams mounted on 176 motor scooters (with engine displacement of at least 125 cc) and 74 motorcycles during the autumn and winter covered a total of 400,000 kilometers traveled, mainly during daylight and in urban areas. Specifically, the 176 scooters traveled 308,000 km, averaging 1,750 km each; the motorcycles, 92,500 km for an average of 1,250 km. The age of the drivers ranged mostly between 30 and 40 and they were almost all men (just 5% women).

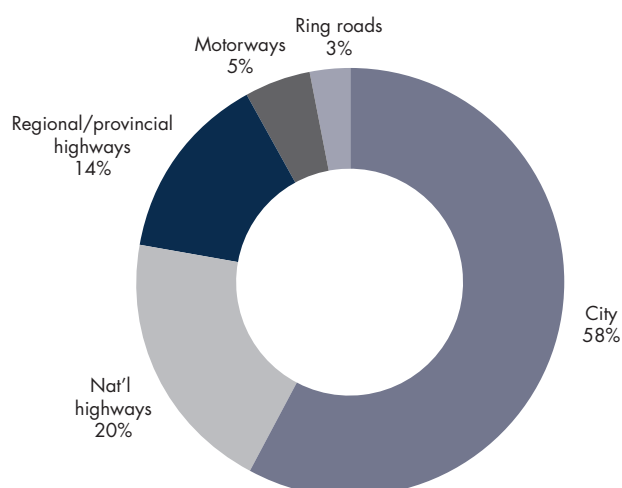
The tests are still under way, but the initial data suggest that dangerous situations arise mainly as a result of high speed (40%), failure to yield right of way (25%), passing where prohibited (20%) and sharp braking (15%) – Figure 3.

Figure 3
Driving errors,
motorcycles and
scooters (Octocam)



These types of improper conduct were found mainly in urban areas (58%) but also on national highways (20%) – Figure 4.

Figure 4
Location of driving
errors, motorcycles
and scooters
(Octocam)



The Foundation's work in the passenger car segment was what showed the real potential of technology for accident prevention. Looking at the proliferation of devices that help people monitor their health and welfare, or the swarm of home automation applications (domotics), it is easy to see how this model, applied to driving, can be exported to other areas like health, aging, or assistance to the non-self-sufficient.

The new technologies can also help to assess the healthiness of home and work environments as well as to speed up damage assessments in the wake of natural disasters, so as to accelerate intervention to restore a secure environment.

Technology and innovation represent the future of what insurance can offer: service platforms and devices for risk profiling and prevention, to intersect, in advance, with the millennials' new mode of dialogue, are not some challenge for the future but a model to realize and install here and now. The ANIA Foundation will be the locus for experimenting, understanding and measuring how and how much to innovate.

c) Communication, the image of insurance

After four years, in 2016 the Foundation returned to the Rimini Meeting, with a stand describing our activities of sensitization and training for road safety. The space was divided into "thematic corners" to attract all the various kinds of visitors and highway "users". Specifically, one zone was given over to the virtual experiences created by the Foundation (the "Black Point" app and the static and dynamic driving simulator); a second was dedicated to eyesight checks and a control for the tendency to nocturnal apnea (a disorder that can have an adverse impact on road safety), a third to information on insurance protection against traffic risk.

During the course of the Meeting, the Foundation effectively promoted its long-established activities and new initiatives, most particularly those with active involvement of visitors (the "new drivers" and the "drive in Italy" projects). This represented a significant means of sensitization of the public to accident prevention.

Unfortunately, however, where prevention fails and accidents occur, given the serious consequences they can have a traumatic emotional impact on all those involved, direct victims and relatives alike. The physical harm caused by accidents is often accompanied by psychological consequences with significant effects on the quality of life of the victims and their families.

Aware of this dramatic problem, the ANIA Foundation, in collaboration with the Psychology Faculty of the Sapienza University of Rome and the Highway Police, has developed a three-year project, the only one of its kind anywhere, to provide psychological support to the persons directly or indirectly involved in serious traffic accidents, reducing what is known as “secondary victimization,” i.e. the sense of indifference and abandonment. The first year concluded with the successful finalization of the operational protocol, and in 2016 the project continued with the call for applications to select 100 psychologists in the pilot areas (Rome, Milan, Florence and Campobasso) to attend training courses in emergency psychological care. The lessons, held at the Psychology Faculty of the Sapienza University of Rome in October 2016, resulted in completion of the support network “ANIA Cares”, which will go operational in the third year, when victims are effectively contacted and given care.

Also in 2016, ANIA Cares was expanded to include an additional unit, specializing in rehabilitation of the severely injured to regain motorial capability. In cooperation with Fondazione Universitaria Foro Italico, which is active in research and training in motorial activity and sports, the ANIA Foundation launched a project for the physical and psychological recovery of victims of traumatic injuries that prevent them from walking.

The project focuses on new technology, such as walking rehabilitation robotics (so-called “exoskeletons”). The idea is to test its effectiveness in restoring physical mobility to accident victims; to publicize the opportunities offered by these systems for the rehabilitation of the severely injured; to support the seriously disabled in regaining the ability to carry out a series of actions that are essential to daily life; to improve the process of acceptance by family members; to offer psychological support to ease stress and the sense of difficulty due to the emotional impact of the accident; and to show how the insurance industry can provide highly qualified support to the insured.

The project will institute an experimental rehabilitation path, treating thirty victims over three years in four main phases:

- Selection: choosing patients on the basis of physical requirements and clinical suitability, verified by multi-specialist medical examination;
- Training: design of a specific course for correct use of the exo-skeleton, lasting two months with three or four 2-hour sessions a week, given by two special assistants, properly trained.
- Exercise: two 2-hour training and exercise sessions a week over a total of 34 months.
- Psychological support: assistance (provided by expert psychologists from the Psychology Faculty of the Sapienza University of Rome) in overcoming the psychological trauma produced by the accident and dealing with the stress caused by the complexity of the rehabilitation process.

THE ANIA FOUNDATION

Paying attention to relatively unvoiced needs and developing the sensitivity to understand the areas in which people most need to be sustained is fundamental to creating culture and attentiveness; and above all it is essential to reducing the perception of uncertainty and risk. Accordingly, in the near future the ANIA Foundation plans to engage in a major campaign of communication on how to recognize, manage, and cope with possible crisis situations, such as those created by natural disasters, problems of non-self-sufficiency, or the emergence of economic problems. The campaign may include such elements as: information brochures to help people distinguish situations of danger and suggest what to do to attain safety and security; programs of information and sensitization on healthy lifestyles, together with projects of prevention in relation to non-self-sufficiency; training and education for proper management of income and saving and the spread of a culture of supplementary retirement plans.

THE ANIA-CONSUMERS FORUM

The ANIA-Consumers Forum is a foundation constituted by ANIA, with representatives of insurance companies and consumer organizations and independent members. The Forum's decision-making body includes representatives of nine national consumer organizations: Adiconsum, Adoc, Cittadinanzattiva, Codacons, Federconsumatori, Lega Consumatori, Movimento Consumatori, Movimento Difesa del Cittadino, and Unione Nazionale Consumatori.

Within the Forum, insurers and consumers meet to talk about major issues relevant to the insurance industry and to society. Through the Foundation they have organized a series of activities focusing on three specific areas of interest: welfare, insurance education, and mutual agreements to improve the service provided to policyholders.

WELFARE

The Forum continued its discussion of Italy's current welfare model, the new organization that is taking shape and the social role of insurance companies within this changing scenario. This is the framework within which the Forum has undertaken a series of initiatives of research and analysis, in cooperation with major research centers and academic institutions.

Last year saw the development of a number of specific initiatives. First was the presentation of the findings of the third monitoring conducted by the Observatory on the Economic and Financial Vulnerability of Italian Households, performed in cooperation with the University of Milan.

In addition, together with Censis and consumer organizations the Forum has developed the "Welfare scenarios" program, consisting in a series of studies to realize and exploit joint proposals on the theme of welfare.

Finally, the Forum also took part in drafting the "Third Report on Second Welfare in Italy", dedicated to the new forms of coverage of welfare services developed in Italy to meet needs not served by the public welfare system. The report forms part of the "Second Welfare Path" project, created at the initiative of the Luigi Einaudi Research Center in Turin and bringing together businesses, foundations, trade unions and local government bodies. The report will be presented at the end of 2017.

The economic vulnerability of Italian households

The ANIA-Consumers Forum has constituted an Observatory to monitor and analyze the financial vulnerability of Italian households and their capacity to manage risks. The purpose is not only to study and render measurable a phenomenon that

carries profound social implications but to offer households the tools to enhance their awareness of the impact of recession and the progressive diminution of welfare state guarantees, leaving them increasingly exposed to external shocks such as job loss or short hours, a sudden need to care for an elderly person, illness and accident, and complicating the defense of their welfare.

The Forum constituted the Observatory in collaboration with the University of Milan. Its work has involved contributions, at different times and in different ways, from a whole series of entities, associations and research centers: Istituto GFK Eurisko, Istituto Eumetra Monterose, Forum delle Associazioni Familiari, Stati Generali delle Donne, Azienda Servizi alla Persona (Personal Services Agency) of the City of Bologna. This joint work has produced three reports (in 2010, 2013 and 2016). Developing a specific index of vulnerability, the reports have tracked the increase in the economic vulnerability of Italian households and analyzed its main economic and socio-demographic factors.

Report 2016

The most recent publication of the Observatory is the fruit of two separate research projects: “Vulnerabilità finanziaria delle famiglie italiane: analisi di trend” (The financial vulnerability of Italian households: trend analysis) and “La gestione al femminile del bilancio familiare” (Women’s management of the household budget). The former traces the vulnerability index and highlights the main risk factors. In this way it offers an objective, measurable picture of ongoing social changes. This section of the report also examines the causes and symptoms of vulnerability, as well as the characteristics of the most fragile families. The latter, instead, deals with the way in which women manage household budgets; the focus is on a special population segment, namely female heads of household.

The main conclusions of the Report were presented at a national conference held in Rome on 24 November 2016, with the participation of authoritative representatives of the academic community and economic and social professions.

REPORT 2016, THE KEY DATA

The Observatory’s monitoring found a modest attenuation of the trend to vulnerability. In fact, the index fell by 13% between 2013 and 2016, or from 3.164 to 2.750 on a 10-point scale (10 indicating maximum vulnerability).

Table 1 – Financial vulnerability index for Italian households, 2013-2016

	Mean	Median
Vulnerability index 2013	3.164	2.662
Vulnerability index 2016	2.750	2.121

According to the researchers' analysis, three of every five Italians have economic problems; 40.1% of households say they have some difficulty making ends meet, 13.3% say they have a great deal of difficulty doing so, and 7.9% say they simply cannot.

This malaise translates into the fact that 16.5% of the respondent households cannot cope with a major unexpected expense (conventionally put at €700). Another indicator of the state of vulnerability is having to forgo medical examinations for economic reasons; the number of households reporting this behavior rose from 34.4% in 2013 to 37.2% in 2016.

Turning to the factors of vulnerability, a key emerging aspect is the increasing importance of economic and financial determinants. Among socio-demographic factors, the most important is the heightened vulnerability of households headed by women and of large families. The study also documents the relevance of geographical factors. Individuals resident in the southern and island regions show a higher index of vulnerability than those in the North, socio-demographic and financial conditions being equal.

Furthermore, a particularly significant factor is external shocks in connection with employment conditions and situations resulting in income loss or increased expenses; 24% of the households interviewed reported job losses or shortened hours, 13.4% of the sample was affected by illness, death or disability in the course of the last year, and 7.5% underwent a separation in the last three years.

Finally, the study confirms the contribution that financial education can make to reducing vulnerability.

NEW PUBLICATION: "DIFFICULTIES AND NEW EQUILIBRIA"

The series of volumes on the economic vulnerability of Italian households published by the ANIA-Consumers Forum in collaboration with the publisher Franco Angeli lengthened in 2016 with the release of "The economic vulnerability of Italian households. Difficulties and new equilibria".

The volume consists of two complementary parts. The first reports on the third monitoring of vulnerability conducted by the University of Milan. The second, developed by the Eumetra Monterosa research institute, examines women's management of household budgets.

The "welfare scenarios" program

In the last two years the Forum has developed the program known as "Welfare scenarios", a series of studies on pensions, health care, problems of aging and the need for assistance carried out by Censis and the consumer associations belonging to the Forum. The program's purpose is to make use of the Forum's "Proposals for an equitable and sustainable welfare system" – a set of eight proposals endorsed by insurers and consumer groups to enhance the transparency, equity, efficiency and reliability of the Italian welfare system and sensitize decision makers and public opinion to the consequences of demographic trends.

THE ANIA-CONSUMERS FORUM

The presentation of the results of the initiatives undertaken by Censis and the consumer groups was attended not only by representatives of ANIA and the Forum but also by public institutional figures and representatives from academia and the world of business and labor.

“Second welfare paths”

The project called “Second welfare paths” was launched in April 2011 at the initiative of the Luigi Einaudi research center in Turin. It is a research workshop directed by the University of Milan and involving, in addition to the ANIA-Consumers Forum, a series of leading bank foundations, institutions, trade union organizations and corporations: the Compagnia di San Paolo foundation, Fondazione Cariplo, *Corriere della Sera*, KME, Luxottica, Fondazione con il Sud, Fondazione Cariparo, Fondazione Cassa di Risparmio di Cuneo, CISL Piemonte, CISL Lombardia, and the City of Turin.

The objective is to develop and activate strategies for intervention and for supplementary programs in order to shorten the transition. One promising strategy is the promotion of what has been dubbed “second welfare”, a mix of protections and privately financed social investments by a broad range of economic and social players, above all insurance companies.

INSURANCE EDUCATION

One of the Forum’s official purposes is to undertake campaigns of information and education on insurance issues to enable consumers to make informed choices. The consumer and insurance representatives who make up the Forum see it is absolutely essential that citizens have the necessary knowledge before making important financial decisions for themselves and their families. Some basic knowledge is required, for instance, to plan for the costs of children’s studies, for rational management of credit, for getting adequate insurance coverage, and for properly preparing one’s retirement.

In pursuit of the objective of education on these issues for young people and adults alike, the ANIA-Consumers Forum is engaged in continuous training and instruction in insurance matters for staff and technical personnel of the consumer organizations. It produces a series of guides entitled “L’Assicurazione in chiaro” (“Insurance made plain”) and sponsors initiatives like the “Prize for Applied Mathematics” and the educational project “Io e i rischi” (“Me and risks”), a course on risk awareness, prevention and mutuality for Italian students and households.

In developing these actions, the Forum can count not only on consumer organizations but also on the authoritative contributions of associations of teachers, universities, and cultural foundations. In 2017 the Forum’s long-standing partners were joined by two major players from the insurance distribution network: Sindacato Nazionale

THE ANIA-CONSUMERS FORUM

Agenti and Associazione Italiana Brokers di Assicurazione e Riassicurazione (AIBA) both signed agreements to foster training and educational activities. In the future, some of the initiatives of the ANIA-Consumers Forum will be conducted with the contribution of the ANIA Foundation.

“Me and risks”: Insurance at school

The Forum has developed a multi-year educational program called “Me and risks” that is intended to heighten young people’s awareness in matters of risk prevention and management. The program is undertaken in cooperation with the Association of European Economics Education (AEEE Italia) and with the scientific consultancy of Università Cattolica del Sacro Cuore and Università Bocconi in Milan and is sponsored by the national institute for education documentation, innovation and research.

“Me and risks” is mentioned in the report “L’educazione finanziaria in Italia: oggi e domani. Il primo censimento Nazionale delle iniziative promosse sul territorio” (Financial education in Italy: today and tomorrow. First national census of local initiatives) presented at the Bank of Italy on 18 January 2017. The report describes the main programs of financial, insurance and retirement education in Italy.

In addition, through “Me and risks,” the Forum participates – together with the Bank of Italy, ANASF, and ABI, the banking association – in the discussions on financial education organized by the Lombardy regional school office. And Insurance Europe has cited “Me and risks” as among the best practices of financial education instituted by European insurers.

In practical terms, the programme is a course for middle and high school students. It proceeds through classroom lessons given by the students’ regular teachers, competitions, conferences, theatricals touching on the contents of the learning modules (risk, risk prevention, mutuality), and informational materials for families with children.

In six years, the program has involved over 90,000 students from schools in all parts of Italy.

Applied mathematics prize

The “Grand Prix for Applied Mathematics” is an initiative connected with the “Me and risk” program for high schools. The competition was developed by the ANIA-Consumers Forum together with the Banking, Financial and Insurance Sciences Faculty (specifically, the degree course in statistics and actuarial science) of the Università Cattolica del Sacro Cuore in Milan, with the sponsorship of the Lombardy Region and the National Council of Actuaries.

The “Grand Prix” is designed to enable students to put their logical and mathematical abilities to use in various practical life situations. The tests consist in problems to be solved by applying intuitive mathematical models to real life situations.

During the 2016-17 school year, the prize competition involved over 7,500 students from 104 high schools in 38 provinces and 12 regions from the North to the South of Italy.

NATIONAL AGENCY FOR FINANCIAL EDUCATION

Decree Law 237 of 23 December 2016 (the 2016 “Banks Decree”), converted into law on 17 February 2017, enacts urgent measures for the protection of saving in the credit sector. As regards financial education, Article 24-bis, added in the course of the measure’s parliamentary passage, enacts a set of “General provisions on financial, insurance and retirement education”.

The article is the product of a lengthy examination conducted in parallel by the two houses of Parliament, which had already begun consideration on these matters in relation to other legislative measures. The conversion of the Banks Decree was an opportunity to get public and private players involved in the discussion and impart a legislative impetus to the rules. ANIA, asked to contribute at parliamentary hearings and conferences, repeatedly described its own initiatives to heighten consumers’ awareness, in the firm belief that a new culture of optimal management of assets and savings is fundamental.

More in detail, the article introduces “measures and actions designed to develop financial, insurance and retirement education. These provisions shall guarantee the effectiveness, efficiency and consistency of the actions undertaken by public and private entities in the matters of financial, insurance and retirement education and shall recognize the importance of financial education as an instrument for consumer protection and a better-informed use of the financial instruments and services that the market offers.”

Other especially significant aspects of Article 24 are the formalization of a strategy and the creation of an institutional committee that will deal with the issue of financial education. Paragraph 3 reads in part “The Ministry for Economy and Finance, in accord with the Ministry for Education, Universities and Research, shall adopt, in the framework of the resources available under current legislation, a program for a ‘National Strategy for Financial, Insurance and Retirement Education’”; and Paragraph 6 lays down that “For the realization of the National Strategy ... there shall be instituted a Committee for the planning and coordination of the activities of financial education, assigned to promote and plan initiatives of sensitization and financial education.” Paragraph 8 reads “The Committee shall be composed of eleven members and chaired by a director, appointed by the Minister for Economy and Finance in agreement with the Minister for Education, Universities and Research, to be chosen from among persons with demonstrated competence and experience in this field. The members other than the director, they too to be selected from among persons with demonstrated competence and experience in the field, shall be designated as follows: one by the Minister for Economy and Finance, one by the Minister for Education, Universities and Research, one by the Minister for Economic Development, one by the Minister of Labor and Social Policy, one by the Bank of Italy, one by the National Company and Stock Exchange Committee (Consob), one by the Institute for Insurance Supervision (IVASS), one by the Committee for Pension Fund Supervision (COVIP), one by the National Council of Consumers and Clients, and one by the organization for supervision and keeping of the single register of financial advisers (OCF).” Paragraph 10, finally, says that “Said Committee shall have the task of identifying measurable objectives, programs and actions to undertake, drawing on the experience, competence and initiatives undertaken by institutions active within Italy and encouraging cooperation between public and private parties.”

The “Insurance made plain” guides

The ANIA-Consumers Forum publishes the “Insurance made plain” series of guides, which explain the insurance issues of greatest interest to consumers in simple language for a mass readership. The third volume in the series, presented in November 2016, is “Life insurance”, providing a clear and exhaustive account of the various types of life insurance policy, what they are and how they work. Readers are given all possible useful information.

The guide sets out the characteristics of life insurance coverage, the various types of policy available (saving and investment, protection, supplementary retirement plan), the parties involved in the contract phase (the insurance company, the contracting policy holder, the insuree, the beneficiary), the main rules governing the relationship between insurer and customer, accessory guarantees, and tax treatment.

The previous “Insurance made plain” publications covered motor liability insurance – an updated second edition came out in May 2017 – and insurance distribution. All the guides are also available in digital format on the websites of the ANIA-Consumers Forum (www.forumaniaconsumatori.it) and of the educational program “Me and risk” (www.ioeirischii.it). In addition, they are available to the public also on the websites of the participating consumer organizations and insurance undertakings. In 2017 the Forum will publish a new guide, on home and household insurance.

DEVELOPMENT OF AGREEMENTS WITH CONSUMER ORGANIZATIONS TO IMPROVE INSURANCE SERVICES

Memorandum of Understanding with consumer associations on life insurance

In order to improve services to the insured, the consumer organizations belonging to the ANIA-Consumers Forum signed a memorandum of understanding with ANIA to promote and facilitate the application of the “Self-government code on procedure for payment of death benefits in life insurance contracts” issued by ANIA in 2016.

With the Memorandum, ANIA and the consumer groups declare that they:

- endorse the objectives and provisions of the “Self-government code”;
- will jointly present the Memorandum to IVASS;
- will jointly call the competent authorities’ attention to the problems of current law on notarial acts and develop alternative proposals;
- will sensitize the Italian Data Protection Authority to the problems in regaining possession of health documentation on the deceased;
- will seek to reach agreements with associations representing health care professionals and institutions and to involve other major stakeholders (notaries);

THE ANIA-CONSUMERS FORUM

- will cooperate to develop joint conciliatory solutions whereby consumers can be represented by one of the signatory consumer organizations in disputes on matters covered by the “Self-government code”.

ANIA and the consumer organizations have met regularly in the course of 2017 to discuss the content and objectives of the Memorandum of Understanding and have initiated a constructive dialogue with the Data Protection Authority to begin a study of the difficulties that beneficiaries and insurers face, in the framework of the liquidation procedure, in gaining access to the health care documents on persons who are deceased and to devise the best solutions to these problems.

10

CONDUCT OF INSURANCE BUSINESS

SOLVENCY II

Revision of the Solvency II Directive

The Solvency II Directive instituting a new regulatory framework for the insurance market went into effect as of 1 January 2016. The Directive and its implementing Delegated Acts provide that before December 2018 the Commission shall review the “methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement with the standard formula”. Accordingly, on 18 July 2016 the Commission transmitted to EIOPA its call for advice on changes to the standard formula. In the request for EIOPA’s technical advice, the Commission specified several areas susceptible to modification as regards methods, assumptions and calibrations.

The main objectives set by the Commission comprise ensuring a supervisory framework that is proportional, technically robust, consistent and risk-based, as well as, hopefully, simplification. A further point is the removal of unjustified constraints on financing, but in this regard the Commission specified that technical advice may be requested at a later stage.

As to proportional and simplified application of the requirements, EIOPA was asked for advice on various matters, ranging from possible improvements to proposals for further simplification and checking/utilization of the simplifications already in place, as in the case of the look-through method.

As to the removal of technical inconsistencies, EIOPA will issue evaluations/verifications on the parameters, methods and assumptions concerning the risk modules defined (for instance, non-life premium risk and reserve risk), on the risk margin and the calculation of the adjustment for the risk-absorption capacity of deferred tax credits. It will also offer opinions on additional possibilities for the use of undertaking-specific parameters and on such other matters as differences, by comparison with banking rules, in the characteristics determining the classification of own funds or new criteria for eligibility if the 20% ceiling on some types of own funds were to be lifted.

On 8 December 2016 EIOPA initiated a public consultation preparatory to the drafting of the advice the Commission had requested. Then, on 21 February 2017, the Commission issued a second call for advice, requesting the opinions of the European supervisory authorities on the treatment of a series of assets:

- Unrated bonds and loans. Assuming that the risk factors for rated securities can also be applied to unrated securities, EIOPA was asked to set qualifying standards which, if satisfied, can allow unrated bonds to have a calibration equivalent (for credit quality, steps 1-3) to that of rated bonds;
- Unlisted equity. EIOPA was asked to determine criteria to apply to portfolios of unlisted shares issued within the European Economic Area that may benefit from treatment analogous to that of listed shares. These criteria could include: portfolio diversification and transparency for investors; the strategies and competence of the asset manager; and the insurance company’s own risk management system;

CONDUCT OF INSURANCE BUSINESS

- Strategic equity investments. EIOPA was asked for information on the utilization of privileged treatment (a 22% shock) for strategic equity investments as against ordinary shares. In particular, the information should relate to the size and sectors of such investments, their purposes and the type of shares constituting the investment.

On 26 April 2017 EIOPA published its own call for evidence on the treatment of unlisted equity and unrated bonds under the Solvency II standard formula, setting 24 May as the deadline for transmission of the information. EIOPA intends to give the Commission a partial opinion by October; the final opinion is to be published at the end of February 2018. ANIA is taking part in the work towards the revision of the Directive, highlighting the specific features of the Italian insurance market, also as part of the discussions of this issue within Insurance Europe.

Results of the EIOPA stress test 2016

On 24 May 2016 EIOPA began a new stress test under the Solvency II framework. The exercise is designed to bring out strengths and weaknesses of the European insurance industry. As IVASS observed, this stress test “is not a ‘pass or fail’ exercise aimed at gauging the capital adequacy of individual insurance companies or determining any capital shortfalls; rather the objective is to assess profiles of vulnerability and resilience of the life insurance industry to a prolonged period of low interest rates and a pronounced increase in credit spreads”.

EIOPA published the results on 15 December 2016. The test hypothesized three scenarios:

- “Baseline”: the pre-stress scenario, corresponding to the balance-sheet situation at “day one” (1 January 2016);
- “Low for Long”: the “LY” scenario of persistently low yields at all maturities (the yield curve posited here has an ultimate forward rate of 2%);
- “Double-Hit”: a scenario of a shock to the risk-free yield curve together with various powerful financial market shocks (rapidly rising sovereign yields and a fall in the risk-free interest rate).

The participating insurers were also required to determine the impact on their own funds of measures relating to long term guarantees (LTGs) (e.g., volatility adjustment, matching adjustment) and the transitional measures.

The exercise involved 236 large, mid-sized and small insurance companies established in 30 European countries, accounting for 77% of the market in terms of life technical provisions excluding health and unit-linked. The stress test confirmed the vulnerability of the EU insurance industry to a market situation of persistent low yields and sharply widening spreads on financial assets.

For the pre-stress scenario, the sample tested had a solvency capital ratio (SCR) of 196% (just two companies, with 0.02% of the sample’s total assets, had ratios of under 100%). Not applying the LTG and transitional measures the SCR falls to 136%, and 32 insurers with 26% of total assets have SCRs below 100%.

CONDUCT OF INSURANCE BUSINESS

In the “Low for Long” scenario the reduction in the excess of capital over liabilities (the indicator used in the exercise, as participants were not asked to recalculate SCR/MCR post-stress) came to 18% or €100 billion (an increase in liabilities of over €380 billion against an increase in assets of over €280 billion).

In the “Double Hit” scenario the reduction in the excess of capital over liabilities came to 28.9% or €160 billion (reductions of €450 billion in liabilities and €608 billion in assets).

Sixteen Italian companies doing traditional life business, accounting for 76% of the Italian market in terms of life technical provisions, took part in the exercise. The results indicate that the Italian insurance industry is well capitalized for the pre-stress scenario with an SCR of 243%, higher than the European average and with a significantly less extensive implementation of LTG and transitional measures than in the other main countries. In the low for long scenario the reduction in the excess of capital over liabilities for Italian insurers was just 5.1%, much less than the European average. In the double hit scenario, finally, the reduction in the excess of capital over liabilities came to 33.8%, slightly more than the European average but in line with those of the other main countries.

Working group on “Proportionality and simplification in Solvency II”

In October 2015 ANIA formed a working group with insurance company representatives on “Proportionality and simplification in Solvency II” to consider matters relating to the implementation of the Solvency II Directive in Italy under the principle of proportionality and to begin a dialogue with the supervisory authority concerning the effective implementation of the principle and possible spheres of application.

The Group set the final objective of drafting a report containing proposed guidelines for this matter to be used as the Association’s position in discussions with the authorities.

On 27 May 2016 the first of a series of meetings with the insurance supervisor was held. The report was presented and the various key points of the proposal were discussed. Based on the input from the supervisor and subsequent quantitative studies, the Group set out the Association’s final proposal, structured as follows:

- definition of the drivers on which to base the application of the proportionality principle;
- specification of a set of indicators for each driver;
- setting of ranges or thresholds for each indicator to determine the intervals within which the principle is to be applied;
- development of concrete proposals for the various systems of exemption, simplification and variability in terms of deadlines.

For each interval, the threshold values were established through quantitative analysis of the specificities of the Italian insurance market.

CONDUCT OF INSURANCE BUSINESS

The ANIA Working Group, accordingly, proposed three different possible procedures for the application of the proportionality principle:

- **exemption from the obligation:** the insurance company is exempted from compliance with certain specific rules, in reference to one or more risk areas that are deemed not significant;
- **variable deadlines:** the rules can be complied with on a different schedule from that laid down in the reference regulation;
- **simplification:** the calculations can be made by the simplified/proxy procedures rather than the standard methodology laid down in the reference rules.

The proposal, now being examined by the insurance supervisory authority, provides that insurance companies proceed to a self-evaluation of their position by the steps suggested in the report, applying for the authority's subsequent approval.

Working group on Risk Reporting

In the current environment, insurance companies are subject to stiffer and stiffer requirements for disclosure, both qualitative and quantitative, in terms of number, frequency, complexity and promptness of information disclosures. These requirements impact on internal processes, methods and organization. And this already complex situation has been further complicated by the introduction of audit standards for Solvency II, triggering a trade-off between high-quality data and prompt reporting.

The large number of national and international regulatory regimes and the related reports has produced requirements and procedures for data disclosure that are not always consistent in terms of logic, content and deadlines and that involve various corporate departments in the production process. This scenario entails a risk of redundancy, overlapping of the information generated in producing the disclosure documents required in various regulatory environments (Solvency II, corporate financial reporting, IAS/IFRS accounts).

This is the backdrop to a new initiative taken by ANIA, namely the formation, with the support of a consulting company, of a working group on this issue, assigned to detect possible opportunities for synergy with a view to rationalizing and unifying the information generated, moving towards an integrated reporting framework. The benefits of rationalizing the overall reporting framework would be substantial in terms both of consistency and clarity of exposition, for all the relevant stakeholders: insurers, the general public and the supervisory authority. The group's examination took account of the present regulatory framework and the experiences of individual insurance companies. In addition, it is based on dialogue, partly concluded and partly still under way, with the supervisory authorities, regarding both prudential supervision and balance sheet reporting.

The Solvency II Financial Report Project

The new Solvency II supervisory regime introduces the requirement for a Solvency and Financial Condition Report (SFCR) that is to be accessible not only to the supervisory authorities but to all stakeholders.

CONDUCT OF INSURANCE BUSINESS

The deadline for publishing the 2017 SFCR was 20 May for solo companies (deferred to 22 May at the behest of IVASS), without prejudice to the possibility for groups of issuing a single report comprising the financial reports of all the single members; for groups, the deadline was set at 1 July.

The legislative instructions for preparing the Solvency II SFCR are principle-based, and ANIA has accordingly initiated, with the assistance of a number of consultants, a project to support companies in drafting the first report. The two-year project will be conducted in two phases, prior and subsequent to the publication of the SFCR by solo companies and groups. It will involve:

- an online forum for support in preparing the SFCR;
- a national and international analysis of the results of benchmarking that highlights the differences between reports and can assist in developing guidelines;
- a study of best practices in the market for various clusters of companies.

The best practices identified, both for the market as a whole and for single clusters, will be discussed with the supervisory authorities and the other stakeholders. This project might also be developed at the level of the European insurance association and could also help companies in preparing next year's Solvency II accounts. This is the only project of its kind in Europe, and given among other things the synergy deriving from integration with ANIA's InfoQRT project it will give Italian insurance groups a primary role within the Community in designing a proposal for a reference model for the public reporting requirements under Solvency II.

SOLO AND CONSOLIDATED ACCOUNTS

The new accounting standard for insurance contracts: IFRS 17

On 18 May 2017, after two decades of discussion and public consultations, the International Accounting Standards Board issued its new accounting standard on insurance contracts, IFRS 17. The definitive standard followed a series of public consultations – in 2007, 2010, and 2013 – that produced over 600 letters of comment.

The new standard is an epoch-making innovation for the industry, and the long time required for its definitive formulation reflects the underlying complexities of applying the new requirements. IFRS 17 defines the standards for “recognition, measurement, presentation and disclosure” of insurance contracts. It replaces the old, “interim” standard, IFRS 4, which allowed the continued application of local standards, with the consequence of a lack of overall market uniformity. The purpose of the new standard is to generate greater transparency and comparability. The standard goes into effect as of 1 January 2021. Early application is allowed, but only where IFRS 9 and IFRS 15 have already been adopted.

In brief, IFRS 17 institutes a new general model for the accounting treatment of insurance contracts. It takes a Building Block Approach based on the current value

CONDUCT OF INSURANCE BUSINESS

of expected future cash flows, an explicit risk adjustment, and the inclusion among liabilities of a contractual service margin (CSM) that precludes recognition of a profit upon subscription of the contract. Taking account of the existence of multiple contracts, the IASB allows, in the presence of certain features, two alternatives to the building block approach, namely the variable fee approach (VFA) and the premium allocation approach (PAA). The VFA applies to contracts under which the policyholder participates in profits, with specific rules to account for the fact that the liability varies according to the value of the underlying assets. The PAA, instead, is a simplified model for short-term contracts (up to one year) in which liabilities for remaining coverage are equal to the portion of the premium accruing in future periods.

Additional significant novelties include the definition of the portfolio as a set of contracts that are exposed to similar risks (i.e., contracts relating to a single product line and/or category) and that are managed together (as if they constituted a single set). The guidelines for aggregation of insurance contracts also provide for sub-division into “contracts that are onerous at initial recognition,” “contracts that at initial recognition have no significant possibility of becoming onerous subsequently” and “remaining contracts in the portfolio”. Finally, the standard prohibits the aggregation of contracts stipulated in different years; the distribution of the CSM over the coverage period reflects temporal factors and factors linked to the concept of “unit of account”.

The standard introduces a new mode of presenting profits in the profit-and-loss account, requiring the explicit calculation of revenue margins and the distinct presentation of “insurance revenue, insurance service expenses and insurance finance income or expenses”.

Three operational approaches for managing the initial application of the standard are contemplated: the retrospective approach, i.e. determination of the initial impact as if the new standard had always been applied; the modified retrospective approach, i.e. application of the full retrospective method save for some possible variants; and the fair value approach, i.e. the possibility of determining the effects of initial application using the data in being on the transition date.

Acknowledging the substantial impact of IFRS 17 and the significant implementation effort that will be required, the Board has instituted a Transition Resource Group. The deadline for applications for membership in the Group was fixed at 31 July 2017.

Application of IFRS 9 Financial Instruments with IFRS 4

On 22 November 2016 the European Commission published its endorsement of IFRS 9 on financial instruments. This international accounting standard goes into effect in the European Union as of 1 January 2018. Further (see above), on 18 May the insurance contracts standard (IFRS 17) was published, scheduled for application as of 1 January 2021. In the interim, the insurance industry will continue to apply IFRS 4, which as we recall allows the valuation of insurance contract liabilities according to the applicable national GAAP.

CONDUCT OF INSURANCE BUSINESS

The insurance industry has pointed out that the misalignment between the entry into effect of IFRS 9 and IFRS 17 will entail a series of problems for insurance undertakings. That is, the financial assets forming part of insurance liabilities will now be valued according to the IFRS 9 standard, while the insurance liabilities (technical provisions) themselves would continue to be valued according to the present version of IFRS 4 until 2021.

To obviate the temporal misalignment, on 12 September 2016, following a consultation held between December 2015 and February 2016, the IASB published its statement “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”. The statement allows companies doing insurance business to choose between two transitory measures, certain constraints remaining nevertheless binding:

- the overlay approach, under which insurers can eliminate from the profit-and-loss account the additional volatility deriving from changes in the valuation of financial assets consequent to IFRS 9. Insurers may use this option for designated financial assets;
- the deferral approach, which allows companies that have not previously applied any version of IFRS 9 and whose predominant activity is insurance business to defer their application of IFRS 9 until 2021, when IFRS 17 goes into effect. These companies, that is, will be able to keep on applying the old IAS 39.

The use of the approaches proposed is optional, and companies are allowed to abandon them at any time prior to the entry in effect of the new accounting standard. For the deferral approach, determination whether or not the undertaking’s “predominant activity” is insurance requires calculating the ratio of liabilities deriving from contracts under the scope of IFRS 4 to the total book value of liabilities. If the former are predominant with respect to the latter and if the liabilities deriving from insurance business are equal to at least 90% of total liabilities, or less than 90% but greater than 80%, and the undertaking does not conduct significant activities unrelated to insurance, insurance is to be deemed its “predominant activity”.

In any case, a temporary exemption is envisaged from some requirements in terms of supplementary disclosure on the classification of financial instruments between 1 January 2018 and the new date of entry into effect.

Transposition of Directive 2013/50/EU amending the Transparency Directive

Legislative Decree 25 of 15 February 2016 (*Gazzetta Ufficiale* 52, 3 March 2016) transposed into Italian law Directive 2013/50/EU, amending Directive 2004/109/EC (the “Transparency Directive”) on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, abrogating the requirement to publish reports more frequently than half-yearly. The transposition in fact amended Italian provisions on financial reporting, changing the rules on the publication, by listed issuers whose home country is Italy, of periodic financial reports in addition to yearly and half-yearly.

CONDUCT OF INSURANCE BUSINESS

The most important points in the new rules are: the raising of the threshold for compulsory notification to the market of significant equity holdings in listed companies; abrogation of quarterly reporting by listed companies, at the same time empowering Consob to reinstate this requirement on condition that the contents remain the same as currently mandated.

For the purpose of assessing the exercise of the power conferred on the national companies and stock exchange commission, Consob, by the Consolidated Law on Finance to discipline quarterly reporting requirements according to the real necessities of the market, on 14 April 2016 Consob released a preliminary consultation document aimed at acquiring data and evidence for a regulatory impact assessment, inviting specific sets of stakeholders to supply data and evidence.

The participants' contributions were supplemented by further studies and quantitative data, permitting a more comprehensive assessment of the contribution of periodic reports by issuers to investment decisions. On 5 August Consob issued a second consultation document on the changes to the rules on periodic financial reports introduced by Legislative Decree 25 of 15 February 2016 transposing Directive 2013/50/EU into Italian law.

This paper detailed the results of the April consultation and set forth the proposal for amending the regulations. It hypothesized three possible interventions:

- 1) introducing the requirement for intermediate reports;
- 2) no additional periodic information requirements, but definition of principles and criteria for their application to issuers that intend to make reports on a voluntary basis;
- 3) neither additional periodic information requirements nor principles and criteria for application to issuers that intend to make reports on a voluntary basis.

In the light of the information produced by the consultation, Consob judged that the second of these options was the most reasonable course for attaining the purposes of the regulation with the least additional burden upon issuers. Accordingly, the commission proposed to amend the Regulation on Issuers by inserting a new Article 82-ter.

ANIA took part in both consultations and endorsed the commission's proposal, observing that it moved in the direction ANIA has long advocated by giving issuers substantial "freedom of choice" concerning their communication of financial information to the market more frequently than yearly and half-yearly.

On 3 November 2016, finally, Consob approved the amendments to the Regulation on Issuers concerning periodic reports. The Directive allowed member states to reintroduce additional periodic information over and above the yearly and half-yearly reports, but on certain conditions and after a regulatory impact assessment of costs and benefits. The new Italian provisions went into effect as of 2 January 2017. They allow listed companies to choose whether or not to issue additional periodic financial reports. Where companies elect voluntarily to publish such reports, they must give notification of this choice to the market, specifying the information elements they

intend to provide, in such a way that decisions are clear and stable over time. A decision to cease publication of the supplementary reports must be motivated and made public; such a decision can only be effective starting with the subsequent financial year.

THE 2017 BUDGET LAW

Long-term saving plans

Exemption of accrued yield on supplementary pension plans

Among the major innovations introduced by the 2017 budget law (Law 232 of 11 December 2016) is a tax benefit for individuals – natural persons resident in Italy acting outside of business activity – who hold long-term saving plans (Piani di Risparmio a Lungo Termine, PIR). The tax break (paragraphs 100-114 of Article 1) consists in the tax exemption of yields (investment income and other financial income except that from significant equity holdings) on investments in the financial assets forming part of the saving plan.

The exemption is immediate; that is, it is effective from the date of subscription of the PIR, with no minimum holding period (in this the measure differs from predecessor tax incentives, including the tax credit instituted by the 2015 Stability Law, Article 1, paras. 92 ff., for investments in medium- and long-term financial assets by supplementary private pension plans).

PIRs can be packaged in the form of custodianship or administration, portfolio management, or other stable relationships, with the exercise of the option for application of the tax regime on managed assets. Initially, the products through which a PIR may be constituted did not include insurance contracts. ANIA moved immediately to correct this omission, intervening in the relevant forums in the course of the rule's formulation. Our requests were satisfied. The final version of the law expressly mentions life insurance and with-profits insurance contracts among the instruments through which one may constitute a long-term saving plan.

The eligible moneys or assets allocated to the PIR cannot exceed €30,000 each year, with an overall ceiling of €150,000. The tax facility (better, exemption) applies exclusively to the yields on the financial assets specified by the law as “qualified” and only on condition that they constitute – for at least two thirds of each calendar year in the course of the plan – certain minimum thresholds of the total PIR investment. Specifically, the moneys or assets allocated to the plan, must be invested:

- for at least 70% of the total value in financial instruments (representing risk or debt capital), not necessarily traded in regulated markets, issued or stipulated with firms engaged in activities other than real estate, resident in Italy or another EU member state or signatory state of the European Economic Area Agreement with a permanent establishment in such state;

CONDUCT OF INSURANCE BUSINESS

- for at least 21% (30% of the above-mentioned quota of 70%) of the total value in financial instruments issued by firms other than those forming part of the Italian Stock Exchange FTSE MIB index or equivalent indices in regulated markets.

The remaining quota of 30% of the total value of the PIR is not subject to any investment restriction.

The investment in qualified assets may also be made via insurance contracts, with-profits policies, or units or shares in UCITS resident in Italy or other EU member states or adherents of the EEA Agreement that invest at least 70% of their assets in such instruments. In any case there is a ceiling (10% of the total value) on investment in deposits, current accounts or financial instruments issued by a single entity or stipulated with the same counterparty (or with another company belonging to the same group as the issuer or counterparty).

If, as noted above, the tax exemption in favor of the holder of a PIR applies simply via the formation of a plan meeting the requirements laid down in the law, the definitive maintenance or consolidation of the exemption nevertheless requires a minimum holding period of five years. If this minimum holding requirement is not satisfied, the tax not paid in the interim is recaptured via the application of the ordinary tax rate plus interest on the amount of taxes owed, but with no sanctions. In the case of PIRs constituted via insurance policies – for which tax recapture is not a feasible course where they operate, as they normally do, by the capitalization of earnings – the five-year holding period is to be measured with respect to the policy (which constitutes the container into which the investment in qualified financial assets flow) and specifically with reference to the single premiums that form the funds that feed the PIR.

Once the five-year minimum holding period is reached, the yields on the investment of the premiums are definitively tax-exempt for the plan's holder. In any case, no individual may hold more than one PIR; and in the same manner, no PIR can have more than one holder. That is, joint ownership of a single saving plan by more than one person is not allowed.

Another provision of the budget law (Article 1, paras. 88-94) is the tax exemption for the yield on investments in specific types of qualified financial assets by the private entities managing compulsory pension funds referred to in Legislative Decree 509/1994 and Legislative Decree 103/1996 and the supplementary pension funds referred to in Legislative Decree 252/2005. This facility exempts investment income and income from other financial assets (except those relating to significant equity holdings) produced by investment in the aforesaid financial assets. In the case of supplementary private pension funds, the tax facility takes the form of exclusion of the relevant yields from taxable income subject to withholding tax on net yield for the year as per Legislative Decree 252/2005, Article 17. In any case, the amounts allocated to exempt investment cannot exceed 5% of the net worth of the pension entity or private supplementary pension fund.

Qualified financial assets for this purpose are:

- i) equity securities of firms resident in Italy or other EU member states or adherents of the EEA Agreement doing business in Italy with a permanent establishment;

- ii) shares or units in UCITS resident in Italy or other EU member states or adherents of the EEA Agreement that invest predominantly in the financial instruments referred to in point (i) above.

As with the tax exemption of the yields generated by PIRs, the tax benefit for these institutional investors is also subject to the five-year minimum holding period for qualified financial assets. In the event of failure to meet this requirement, recapture of unpaid taxes applies, again with no sanctions.

VAT Group

ANIA has always favored the introduction into Italian tax law of the notion of the VAT group envisaged in Article 11 of the VAT Directive (Council Directive 2006/112/EC), which has long since been done in many member states, including Germany, Austria, Belgium, the UK, Ireland, the Netherlands and Spain. The lack of this provision in Italy has always been perceived as a definite competitive disadvantage for Italian corporate groups, especially those consisting of firms engaging in VAT-exempt business activity, for which procurement of goods and services from third parties is subject to substantial limits to the deductibility of taxes paid upstream.

ANIA has been working on the problem for a number of years now, and in particular since Law 23 of 11 March 2014, which included an express delegation of power on the matter, which was unfortunately not followed by the actual introduction of the VAT group measure. In recent years ANIA has promoted a task force of business associations and the main insurance companies and banks to draft a detailed provision for submission to the government and the tax agency. Extensive, thorough dialogue with the Department of Finance and the Revenue Agency led, at last, to the passage, as part of the 2017 budget law (Law 232 of 11 December 2016), of a legal framework governing the transactions of the “VAT Group” as per Presidential Decree 633/1972.

Under paragraph 24 of Article 1 (the law’s sole article), the VAT Group regime, which applies to resident firms that are connected by financial, economic and organizational bonds, will offer substantial benefits in streamlining the performance of obligations in connection with the application of VAT to internal transactions (i.e., transactions between parties belonging to the same VAT Group). The main feature of the new provision is the creation, at the option of the members adhering, of a new, single party liable for VAT, in lieu, de facto, of the individual member companies. Vis-à-vis third parties (i.e. those not belonging to the VAT Group), this liable party acts as a single entity, identified by its own VAT number.

Internal transactions (sales of goods and provision of services between entities belonging to the same VAT Group) are now outside the scope of VAT – and as such are not counted towards VAT liabilities; in their regard there is no longer a requirement to register the amounts or to issue invoices.

This mechanism offers considerable advantages to the tax administration as well. It greatly simplifies controls, in that the institution of a single VAT subject will enable the Revenue Agency to focus its auditing on that sole entity.

CONDUCT OF INSURANCE BUSINESS

The companies belonging to the VAT Group must name a representative for dealings with the financial administration. In principle, this should be the highest controlling entity, or the party with the largest volume of business or revenue in the fiscal year prior to that in which the VAT Group is formed. By definition, this should be the most highly capitalized company within the Group, which as such offers the soundest guarantees to the financial administration.

While the introduction of the provision for VAT Groups was welcomed by the insurance industry, ANIA has nevertheless criticized, in the relevant forums, certain legislative choices made. First of all, we do not agree with the decision to defer the entry into effect of the VAT Group provision to 1 January 2018, which is unjustified above all given the time required for the option, once exercised, to become effective. In practice, the initial application of VAT Groups will not begin until 2019 if the option is exercised sometime between 1 January and 30 September 2018, and not until 2020 if it is exercised between 1 October and 31 December.

Another problem concerns the all-inclusive nature of the option (the “all in all out” approach), whereby for effectiveness the VAT Group must include all the companies subject to the financial, economic or organizational bonds mentioned above. This threatens to hamper the necessary flexibility that this instrument should enjoy.

ANIA will be monitoring the subsequent phases in the legislative preparation of the implementing rules for the VAT Group provision, which has been delegated to a forthcoming decree by the Ministry for Economy and Finance.

TAX EXEMPTION FOR PRODUCTIVITY WAGES AND FRINGE BENEFITS

For many years now the need for incentives for corporate productivity has been recognized in Italy. The first significant measure came with Decree Law 93 of 27 May 2008, which instituted an experimental tax exemption for overtime pay and productivity bonuses. Originally applicable until 31 December of that year, the measure was extended repeatedly through 2014 and then frozen in 2015 for lack of funds.

In recent years corporate welfare programs – fringe benefits for employees – have become increasingly widespread in Italy as in many other countries, given that in many respects the State is no longer in a position to perform its welfare functions to the full. Against this backdrop, the budget law for 2016 (Law 208 of 28 December 2015) made particularly innovative provisions, imparting new impetus to corporate welfare programs. On the one hand the law reinstated the tax exemption for productivity pay (via a substitute tax replacing the individual personal income tax and the related regional and municipal surtaxes with a flat tax of 10%); at the same time it gave employees the option to transform all or part of this productivity pay into corporate welfare services for themselves or their families, not subject to the substitute tax of 10% (for which they would otherwise be liable if they received the performance pay in the form of cash) and hence totally exempt from individual income tax.

CONDUCT OF INSURANCE BUSINESS

The law also made significant changes to the rules for determining employees' labor income to provide incentives for educational, recreational, health and welfare services for all employees or certain categories of them. Thanks to these changes, starting in 2016 welfare services enjoy the tax benefits described above even if they result from company-level collective bargaining; under the previous law such services, in order to be excluded from employee income, had to be unilateral benefits provided voluntarily by the employer.

Continuing along these lines, the budget law for 2017 (Law 232 of 11 December 2016) further strengthened the tax breaks on performance bonuses and corporate fringe benefits. The ceiling on the amount of productivity pay eligible for the 10% substitute tax was raised from €2,000 to €3,000 (or from €2,500 to €4,000 in the case of equal participation of employees in the organization of work). At the same time, for purposes of the tax break the ceiling on gross employee income earned during the year prior to the attribution of the bonus was raised from €50,000 to €80,000.

The law further provides that if the performance bonus is replaced by contributions to a supplementary pension fund (as referred to in Presidential Decree 252/2005) or health care contributions (referred to in Article 51.2(a) of the Income Tax Code), these amounts do not form part of the employee's taxable income even if they exceed the current ceilings (€5,164.57 for contributions to supplementary pension funds and €3,615 for health care contributions).

As to the rules for determining employee income, the law exempts employer contributions and bonuses, either for all employees or some categories, for benefits, including benefits in the form of insurance, relating to the risk of non-self-sufficiency (i.e., long-term care policies) or the risk of severe illnesses ("dread disease" policies).

Finally, firms were given an additional instrument to facilitate the renewal of collective bargaining agreements. The 2017 budget law provides that the individual income tax exemption for corporate welfare benefits for all employees or some categories of employees and their family members (for purposes of education, training, recreation, social and health care assistance, or religion) shall apply even when the benefits stem from a national or local collective bargaining agreement or from agreements between employer and trade union confederations, and no longer only from company-level agreements.

ASSISTANCE IN CASES OF SEVERE DISABILITY AND NO FAMILY SUPPORT

Law 112 of 22 June 2016, sometimes known as the "after our departure" act, introduces explicit rules in favor of persons having severe disabilities and lacking family support or who could lack such support in the future. The law institutes a series of benefits to encourage insurance policies in favor of such persons and also to favor other legal instruments on their behalf.

CONDUCT OF INSURANCE BUSINESS

Specifically, the new law amends Article 15.1(f) of the Income Tax Code, increasing from €530 to €750, starting 1 January 2017, the annual ceiling on the tax credit for payments of premiums on policies for risk of death, if in favor of persons with severe disabilities (as defined by Law 104/1992, Article 3.3). It also allows the institution of trusts in favor of persons with severe disabilities and the constitution of constraints on the use of real property or registered mobile assets and the creation of special funds consisting of assets subject to such constraints and governed by trust contracts.

Where these legal instruments have the exclusive purpose of social inclusion, care and assistance for severely disabled persons, the assets and rights conferred or allocated to them, starting 1 January 2017, shall be exempt from taxes on inheritances or *in vita* donations; in addition, the registry, mortgage and cadastral taxes on transfers of assets and rights in favor of these instruments shall be in fixed amount.

Finally, starting with the 2016 fiscal year, the law recognizes the deductibility from total income of private individuals of grants, donations and other liberalities in favor of the aforesaid trusts or special funds of up to 20 percent of taxable income or €100,000, whichever is smaller.

APPLICATION OF VAT EXEMPTION TO CO-INSURANCE CONTRACTS

Initial rulings of the Court of Cassation (22429/2016, 5585/2017)

Over the years a substantial body of tax litigation has built up over the applicability of VAT exemption to amounts received by companies as delegates in the framework of insurance contracts managed via co-insurance, as per Article 1911 of the Civil Code. To date, lower and appeals court decisions on the matter have been very largely in favor of the insurance industry's position, namely that the VAT exemption applies, in that the services provided by the delegated company, which acts as agent on behalf of the other co-insurers, form an inseparable whole with the insurance transaction itself, which is tax-exempt under Community law (Directive 112/2006/EC, Article 135.1[a]) and Italian law (Presidential Decree 633/1972, Article 10.1[2]).

According to ANIA's data, as of 6 April 2017, 86% of the 93 lower-court rulings and 77% of 49 appeals had found in favor of the exemption. This is the backdrop to the first two rulings on this question by the Court of Cassation (no. 22429 of 4 November 2016 and no. 5585 of 8 March 2017). Although the supreme court remanded the cases to the court from which it was appealed for serious lack of legal motivation in the appeal sentence, both rulings – the second more explicitly than the first – tend definitely towards VAT exemption for the revenue accruing to the delegated company (agency commissions and reimbursement of expenses).

The more recent of the two decisions asserted the legal principle that where the condition is satisfied that the delegate has a contractual obligation to the policyholder whereby the company has, for example, assumed obligations vis-à-vis the latter (such

CONDUCT OF INSURANCE BUSINESS

as the guarantee of coverage against risk), then the co-insurance service unquestionably forms part of the original insurance transaction and as such is VAT-exempt under Presidential Decree 633/1972, Article 10.1(2). The first ruling handed down by a lower court after the deposit of this second Court of Cassation ruling fully incorporated its content and so was in line with the legal principle just cited.

If this orientation on the part of the supreme court is adopted by tax commissions (as we can reasonably expect, given the Court's function of guaranteeing the uniformity of the law) and hopefully confirmed by subsequent rulings by the Court of Cassation itself, the litigation on this issue may be eliminated, with the definitive acceptance of the insurance companies' position and consequently the annulment of the tax obligations imposed by the financial administration to date.

MONEY LAUNDERING AND THE FINANCING OF TERRORISM – TRANSPPOSITION OF THE FOURTH DIRECTIVE

On the proposal of the Prime Minister and the Minister for Economy and Finance, the Council of Ministers definitively approved a legislative decree dictating stricter provisions for combating money laundering and terrorist financing. The new measure – Legislative Decree 90 of 25 May 2017, published in the *Gazzetta Ufficiale* – totally supplants Legislative Decree 231/2007. The new decree transposes EU Directive 2015/849, which was designed to optimize the use by all member states of the instruments available to combat money laundering and the financing of terrorist activities. The legislation is addressed to natural and legal persons who operate in the financial field – including life insurance companies – and professionals, who are subject to specific obligations of customer due diligence and reporting to the national Financial Intelligence Unit of any transactions suspected of involving money laundering or terrorist financing. The FIU conducts the consequent inquiry and analysis. Further investigation of the reports is carried out by the Antimafia Investigation Bureau (Direzione Investigativa Antimafia, DIA) and the special foreign exchange unit of the Finance Police. The Ministry's Financial Security Committee is responsible for formulating strategies for the prevention of money laundering and the financing of terrorism and for the analysis, at national level, of the risks in this field.

In particular, the relevant supervisory authorities are assigned to adopt measures implementing the decree's provisions on the organization, procedures and internal controls of the institutions they supervise, as well as verification of their customer due diligence and organizational and procedural adequacy.

In keeping with the suggestions of Parliament, the group of “politically exposed persons” subject to more thorough controls has been enlarged. In addition to high State officials, ministers and parliamentarians, top magistrates, regional administrators and councillors, members of the European Parliament, directors-general of local health units and hospitals, and other categories, the group now also includes mayors of

CONDUCT OF INSURANCE BUSINESS

municipalities larger than 15,000 population and the top managers of companies that these municipalities own.

The legislative decree dwells on national risk analysis, risk assessment by the obliged entities, and their risk mitigation procedures. It further revises the rules on customer due diligence (ordinary, simplified, enhanced, effected by third parties), data retention (eliminating the requirement for each entity to have a specific Single Electronic Archive), suspicious transaction reporting, and non-execution of a transaction owing to the impossibility of proper customer due diligence. Within this framework, the decree also institutes a registry of the beneficial owners of legal persons and trust companies, in order to heighten transparency and provide the authorities with effective tools for combating money laundering and the financing of terrorism.

In addition, the decree reforms the rules on the use of cash and bearer securities.

Among the innovations is a revamping of administrative sanctions, instituting a set of measures graduated according to the gravity of the violation. Consistent with the Directive, the legislative decree sets out a system of fines that are intended to be effective, proportionate and deterrent, levied against the natural and legal persons directly responsible for the violations of the provisions for the prevention of money laundering and terrorist financing. The legislation provides for specific fines on banks and other financial intermediaries, including life insurance companies.

Lastly, the decree also revises Legislative Decree 109/2007 as it bears on the fight against the financing of terrorism (freezing of funds and other economic resources).

Transitionally, the decree lays down that measures undertaken by supervisory authorities pursuant to provisions that have been abrogated or supplanted shall continue to apply through 31 March 2018, pending the issue of new measures.

MAJOR USERS OF CIVIL JUSTICE

On 15 March 2017 the Minister of Justice met with the major users (“big customers”) of the civil justice system, including ANIA as representative of insurance companies, for the purpose of:

- performing a quantitative analysis of litigation, from the point of view of the entities most heavily engaged in civil litigation and in insolvency and bankruptcy proceedings;
- designing organizational procedures to improve the response according to type of litigation, starting with the major users;
- verifying the need for certain rules changes;
- enhancing the performance of the services provided.

The ministerial analysis verified, for six sample districts (Bari, Milan, Naples, Palermo, Rome and Turin), the matters and subjects of certain types of litigation to which

“big customers” were parties. This inquiry found that the proceedings in which major users were involved accounted for 24% of all the proceedings filed in 2015 in the six districts. The identification of these major users was an essential preliminary to the initiation, by the Ministry of Justice, of direct dialogue with these entities to develop correct models of organization, best practices and action plans to deal with the problem and develop the project on “Major users of civil justice”, which consists in a set of IT and statistical services designed precisely for entities that are frequently present in court.

ANIA is a convinced participation in this project, which represents a major step forward towards the administration of the civil justice system with a managerial approach.

THE ALPA COMMITTEE ON ALTERNATIVE DISPUTE RESOLUTION

On 8 March 2016 the Minister of Justice instituted, at the ministry’s legislative office, a study committee (the Alpa Committee) to draft a comprehensive reform of Italy’s instruments for alternative dispute resolution. The purpose is to harmonize and rationalize a legislative and regulatory framework that currently comprises quite heterogeneous instruments for out-of-court settlement, owing to a lengthy series of uncoordinated legislative acts in this field.

ANIA testified before the Committee on 11 May 2016, offering a number of the insurance industry’s observations and proposals to reorder the system and make the alternative dispute resolution mechanisms more effective and efficient. The main needs that ANIA called to the Committee’s attention were:

- better coordination of the rules on mediation and conciliation of disputes concerning civil and healthcare liability, those bearing on insurance contracts, and assisted negotiations, on the one hand, with consumer ADR on the other, i.e. the rules on alternative dispute resolution for disputes involving insurance contracts between consumers and professionals;
- providing for the effective independence, professional qualification and competence of mediation entities or consumer ADR organizations and of the persons that carry out ADR procedures;
- ensuring that mediation and assisted negotiation are not compulsory;
- abrogation of the requirement for legal assistance in mediation procedures;
- development of a clear legislative framework within which a well-balanced ADR clause can be used without danger of being rejected by courts as vexatious, in order to provide incentives for the inclusion of such clauses in the general conditions of contract;
- increasing the tax incentives for mediation and assisted negotiation and making them available for all forms of arbitration.

The Alpa Committee accordingly released, on 7 January 2017, a paper on the reform of ADR instruments; the effect of the document is not yet known. It consists in a

CONDUCT OF INSURANCE BUSINESS

systematic, detailed text comprising all the existing rules on arbitration, mediation, assisted negotiation and voluntary jurisdiction, with a brief account of suggested changes. One of the more significant of these is the proposed amendment of Article 33.2(t) of the Consumer Code (Legislative Decree 206/2005). This proposal responds to the insurance industry's call for the possibility of inserting an arbitration clause in consumer contracts, while complying with certain conditions for protection of the weaker party, so that such clauses cannot be deemed to be vexatious. To be deemed non-vexatious, the clause should provide for an explicit arbitration procedure, administered pursuant to Article 832 of the Code of Civil Procedure; that is, the arbitration agreement should refer disputes to a "pre-constituted arbitration regulation", specify the jurisdiction of the consumer's court, and allow appeal against the arbitration ruling for violation of rules of law.

THE FINANCIAL DISPUTE ARBITER

On 3 June 2016 the Companies and Stock Exchange Commission (Consob) instituted its Financial Dispute Arbiter (Arbitro per le Controversie Finanziarie, ACF) for out-of-court settlement of disputes arising in the context of investment services to retail investors. The Arbiter, a sort of ombudsman, went operational as of 9 January 2017. It can resolve disputes up to a ceiling amount of €500,000 on Class III and Class V life insurance products placed either through direct sale or through banks and other authorized intermediaries pursuant to the Single Registry of Intermediaries, Letter D, relating to violation of the requirements of information, due diligence, correctness and transparency that apply to companies and intermediaries in placing these products.

The system makes participation of intermediaries compulsory. The procedure produces a decision (but not a binding decision); it must be concluded within 90 days of the lodging of the complaint; and it allows the investor – but not the intermediary – to appeal the decision and to waive the arbitration proceeding by express act. Where the ruling is against the intermediary, the Arbiter can require it to indemnify the investor for damages and pay the expenses sustained by the latter for the acts deemed necessary. Where the intermediary fails to comply with the Arbiter's decision, there is a "reputational" sanction of public announcement of such failure.

The arbitration panel consists of the chair and two members appointed directly by Consob and another two members appointed by Consob but designated, one each, by the national consumer council and the most representative associations of intermediaries.

Now that the ACF is operational, the insurance company:

- must provide investors, via the contractual documents and its website among other means, with information on the functions of the Arbiter, specifying that the investor cannot waive the right to appeal to the Arbiter and that this right can always be exercised, even where a contract clause provides for the submission of disputes to other out-of-court settlement entities;

CONDUCT OF INSURANCE BUSINESS

- must guarantee that the complaints submitted to them are assessed also in the light of the legal orientations implied by the Arbiter's past decisions and that in the event of refusal, even partial, to accept such complaints the investor is given all necessary information on the procedures and deadlines for the submission of the complaints to the Arbiter;
- must make available on the home page of its website the links to the Arbiter's website.

In order to enable insurers to handle the obligations in connection with making their case during the complaint procedure, there is provision that the insurers may act through a legal counsel or through a business association.

LEGISLATIVE DECREE 254/2016 TRANSPOSING DIRECTIVE 2014/95/EU ON DISCLOSURE OF NON-FINANCIAL AND DIVERSITY INFORMATION BY CERTAIN LARGE UNDERTAKINGS AND GROUPS

Legislative Decree 254/2016 transposes into Italian law Directive 2014/95 of the European Parliament and the Council on disclosure by certain large undertakings and groups of non-financial information and diversity information as regards the membership of their administrative, management and supervisory bodies.

As of 1 January 2017 these information requirements apply to “those large undertakings which are public-interest entities and which, according to their latest balance sheet, had average number of employees of at least 500 during the previous financial year.” The requirement for a non-financial information statement – which must be made as part of the approval of the financial report for 2017 – applies “to the extent necessary for an understanding of the undertaking's development, performance and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, and active and passive measures against corruption and bribery.”

To comply with this requirement, undertakings may follow the international, European or national guidelines that they deem appropriate. The statement must include an account of policies on these matters, the results attained and the related risks; and it must be included in the undertaking's report on operations. Further, the non-financial information statement must give information on due diligence, including on the undertaking's supply chain, to detect, prevent and mitigate the present and potential repercussions. The information can be provided at group level rather than by each single large undertaking within the group. The members of a group are exempted from the requirement if they and their subsidiaries are included in the consolidated report on operations or in the separate report of another undertaking. Special indications for application to listed undertakings are to be issued by Consob, which is also the authority responsible for applying sanctions in case of false or erroneous statements.

CONDUCT OF INSURANCE BUSINESS

COMMISSION GUIDELINES FOR APPLICATION OF DIRECTIVE 2014/95/EU ON NON-FINANCIAL REPORTING

Article 2 of Directive 2014/95/EU provides that “The Commission shall prepare non-binding guidelines on methodology for reporting non-financial information, including non-financial key performance indicators, general and sectoral, with a view to facilitating relevant, useful and comparable disclosure of non-financial information by undertakings. In doing so, the Commission shall consult relevant stakeholders.” After a broad public consultation with the participation of more than 350 stakeholders, the Commission is now about to release the guidelines, taking account of best practices in this field, international developments and initiatives undertaken within the European Union. In fact, “Corporate Social Responsibility” – defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” – is one of the themes on which the Commission is relying to enhance growth, competitiveness and innovation. CSR, which goes beyond undertakings’ legal obligations to society and the environment, can bring benefits in terms of risk management, cost reduction, access to capital, customer relations, human resource management, and capacity for innovation.

CLIMATE CHANGE AND RELEVANT INFORMATION FOR STAKEHOLDERS – THE RECOMMENDATIONS OF THE FSB TASK FORCE

Following the December 2015 Paris conference on climate, the Financial Stability Board formed an international task force (consisting in part of financial industry representatives and in part of others) to draft analyses and recommendations for greater transparency of information on the environmental impact of economic activity and production. The aim was to heighten the awareness of investors (especially institutional investors, such as insurance companies, pension funds, mutual funds, and also other financial operators and interested stakeholders) of the direct and indirect consequences for investment choices, risk analysis and corporate governance produced by the climate change that is under way. To this end the task force developed a series of recommendations to make information relating to climate change more available, consistent, comparable, credible, clear and authoritative for the financial markets, in order to make these markets more efficient in the framework of stable and resilient economies.

According to the task force, climate change is destined to be a major factor in corporate governance. Concluding a lengthy process of drafting and consultation, in December 2016 the task force published its final report, with a set of recommendations for public consultation, whose final version was scheduled for release in July 2017.

CONDUCT OF INSURANCE BUSINESS

NON-FINANCIAL REPORTING GUIDELINES OF THE LONDON STOCK EXCHANGE

The London Stock Exchange too has issued a set of guidelines patterned on the work of the FSB task force concerning information about climate change. In particular, the guidelines stress the importance of ensuring the comparability of such information over time and between companies, by referring to internationally recognized standards. The guidelines acknowledge the great importance of the concept of “materiality”, through eight reporting priorities, among which a special position is accorded to the “investment guide” to non-financial information and data, which must be complete, consistent, reliable, comparable and transparent.

BANK OF ITALY: FINANCING THE FUTURE, THE ITALIAN DIALOGUE ON A SUSTAINABLE FUTURE

On 6 February 2017 a report on the role of finance in climate change was presented at the Bank of Italy by the UN Environment Program Finance Initiative and the Italian Ministry for Environment and territorial protection. ANIA took part in drafting the report, coordinating the chapter on the insurance industry. The climate change that is now under way as a consequence of the model of economic development pursued to date has favored the increasing frequency of climate-related events and the intensifying social and environmental damage caused all around the world. Civil society and the financial community have sustained extremely heavy social and economic costs to cope with extreme natural events. The consequences could be very serious, irreversible, in the absence of rapid intervention to deal with the structural causes of progressive global warming. In the last two years, in particular, the financial community has been examining its own role and the need to intervene, hopefully converting a problem into an opportunity through the progressive transition from fossil fuels generating CO₂ to renewable energy sources. This transition, which must be achieved in the least traumatic way possible but nevertheless within a reasonably short time span, requires progressive, more and more widespread de-carbonization and the development of instruments and financial products that can sustain the process. In this context, great importance attaches to non-financial information on the impact of economic activities, which will be increasingly widespread and whose utilization is the real challenge for financial analysts, risk managers, asset managers and product designers in the years to come. As institutional investors with a particularly long time horizon, insurers and pension funds will be key protagonists in the process of change.

11

FORECASTS FOR 2017

THE ITALIAN INSURANCE INDUSTRY IN 2017

The **total premium income** of the Italian insurance industry's direct policy portfolio (**life and non-life combined**) should come to just over €130 billion in 2017, down 2.8% for the year, following a drop of nearly 9% recorded in 2016. It is worth recalling, however, that in 2014 and 2015 premium income had scored record highs of around €145 billion each year. The decline in 2017 is expected to result from a further decrease in life premiums (estimated at 4% this year), only partly offset by modest growth of 1.0% in non-life premiums. In proportion to Italian GDP, total premium income will thus decline from 8.0% to 7.7% (Table 1).

Total direct premiums of Italian insurance companies in the **non-life** sector are expected to rise for the first time since 2011, gaining 1.0% to top €32 billion. This will result from the slowdown in the reduction in motor liability premiums and the further growth in premium income in all the other non-life classes.

Table 1
Forecast insurance
premiums in Italy
Euro million

CLASS	PREMIUMS 2016	PREMIUMS 2017	CHANGE 2017-2016	Memo:	
				CHANGE 2016-2015	CHANGE 2015-2014
Motor and marine liability	13,525	13,325	-1.5%	-5.6%	-6.5%
Accident	3,008	3,053	1.5%	1.0%	-0.4%
General third party liability	2,899	2,914	0.5%	-0.2%	1.4%
Other property	2,759	2,787	1.0%	0.5%	-1.7%
Land vehicles	2,634	2,766	5.0%	6.5%	2.9%
Fire and natural forces	2,377	2,413	1.5%	0.8%	-0.2%
Sickness	2,349	2,513	7.0%	9.6%	4.2%
Other non-life	2,401	2,511	4.6%	1.8%	2.8%
TOTAL OTHER NON-LIFE (excluding motor and marine liability)	18,427	18,957	2.9%	2.6%	1.1%
TOTAL NON-LIFE	31,953	32,281	1.0%	-1.0%	-2.4%
<i>As a % of GDP</i>	<i>1.9%</i>	<i>1.9%</i>			
Class I Life	73,639	61,488	-16.5%	-5.4%	-5.7%
Class III Investment Funds	24,031	32,442	35.0%	-24.5%	45.8%
Other Life classes	4,587	4,220	-8.0%	-12.4%	-14.2%
TOTAL LIFE	102,257	98,150	-4.0%	-11.0%	4.0%
<i>As a % of GDP</i>	<i>6.1%</i>	<i>5.8%</i>			
TOTAL	134,209	130,431	-2.8%	-8.8%	2.5%
<i>As a % of GDP</i>	<i>8.0%</i>	<i>7.7%</i>			

*Changes (%) were calculated
in homogeneous terms*

For motor liability, although the technical margins are narrowing, insurers are operating in an increasingly competitive market. Accordingly, we estimate a further modest decline of 1.5% in premiums this year. This would mark the sixth consecutive decrease, bringing the shrinkage in total premium volume from 2011 through 2017 to over 25% in absolute terms, without adjusting for inflation. However, the pace of the contraction in this business is clearly slowing – from -7.0% in 2013 to -6.5% in

FORECASTS FOR 2017

2014 and 2015 and -5.6% in 2016. The forecast is for total premium income of €13.3 billion in 2017, accounting for 41.3% of total non-life premiums, compared with 42.3% in 2016.

The expansion of business in the other non-life sectors is expected to continue, however, thanks in part to the overall economic recovery. We estimate a gain of 2.9% this year to nearly €19 billion, just exceeding the 2.6% gain recorded in 2016 (to €18.4 billion). The main contributions to the increase will come from:

- land vehicle insurance (i.e. fire, theft and collision coverage), once again expanding owing to the increase in new car registrations, which were up 8.1% in the first five months of 2017. For the year as a whole premiums in this class should gain 5.0% to a total of €2.8 billion;
- sickness insurance, where premiums should increase by 7% following the surge of 9.6% in 2016, as a result of quickening demand for coverage of medical and surgical risks, especially group insurance plans as part of company fringe benefit packages; premium volume should exceed €2.5 billion for the year;
- accident, fire and other property insurance, expected to expand at about the same rate as GDP, or slightly higher (between 1.0% and 1.5%).

Total non-life premium income is expected to hold unchanged in proportion to GDP at 1.9%.

In the **life sector**, we forecast a second year of contraction in premium income, which should slip by 4.0%, considerably more modest than the 11% fall recorded in 2016. Life premiums should total more than €98 billion this year. Life insurance premium volume has fluctuated considerably in recent years, owing to the volatility both of the financial markets and of the yields on segregated funds in a context of low interest rates. As a consequence, 2017 should again be marked by divergent performance of premiums in the two main life segments:

- variable yield policy premium income (above all Class I policies) is expected to drop sharply, falling 16.5% to €61.5 billion, owing precisely to insurers' difficulty in offering traditional guaranteed-yield products;
- prevalently financial products (unit-linked policies), instead, are predicted to expand substantially, gaining 35% to €32.4 billion, sharply reversing last year's 24.5% contraction.

The changing pattern in the marketing of life insurance policies emerges in an analysis of new life production, which through May 2017 came to €35.2 billion, down from €41.0 billion in the first five months of 2016 – a fall of 14.1%. The decline came mainly in traditional products: written premiums on variable-yield Class I life policies dropped by 27.2% to €22.9 billion and those on with-profits policies came down by 17.1% to €672 million. The growth in unit-linked policy premiums (up 33.6% to €11.6 billion) was not enough to offset the decline in the other life classes.

Total written life insurance premiums should decline from 6.1% of GDP in 2016 to 5.8% in 2017.

The data published cover all insurance companies registered in Italy, branch offices of foreign companies registered in non-EU countries and branch offices of foreign companies that write reinsurance business only.

2016/2017 figures are provisional

Printed in October 2017

ITALIAN INSURANCE 2016 - 2017

Ania

Associazione Nazionale
fra le Imprese Assicuratrici

Via di San Nicola da Tolentino 72
00187 Roma
T +39 06 326 881

Attuariato, Statistiche e Analisi Banche Dati
Studi economici, Ricerca e Finanza
relazioneannuale@ania.it www.ania.it