Italian insurance in 2006/2007

ANIA
Associazione Nazionale
fra le Imprese Assicuratrici

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Summary

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ADDITIOANAL COMMENT SECTIONS

Executive summary

In 2006 the world economy expanded at a very strong pace. The IMF estimated world GDP growth at 5.4%, up from 4.9% in 2005 and the fastest in over three decades. Growth became more evenly balanced between the different regions of the world. In the euro area GDP increased by 2.8%, the best performance since 2000. There was a partly unexpected acceleration in Italy too, though the growth rate remained below that of the area.

THE RESULTS FOR THE YEAR

The profitability of Italian listed insurance companies dipped slightly in 2006, the median ROE falling from 16.8% to 15.5%. A similar pattern was observed in France, with median ROE dropping from 18.9% to 15.7%, but the indicator rose in Germany and the United Kingdom to 19.2% and 20.0% respectively. Higher values were recorded in the Netherlands, Spain, Ireland and the Scandinavian countries.

The results for the entire insurance industry were also positive, overall, despite a decline in profitability, due in part to a contraction in life insurance premiums and a fall in income from financial investment. The net result for the industry came to Euro 5.3 billion, down from Euro 5.9 billion, while ROE slipped from 13.8% to 11.6%, owing in part to a slight increase in shareholders' equity. Profit came to 5.0% of premiums, compared with 5.4% in 2005.

Total premium income diminished by 2.0%, after increasing by 8.3% in 2005. The decrease was concentrated in the life sector and was due to a rise in interest rates, which curbed investors' demand, especially for capital redemption instruments (Class V), and to the supply policies of some major companies involved in corporate restructurings. Non-life premiums rose by 2.3%, compared with 1.3% in 2005.

The technical result for non-life insurance came to Euro 2.8 billion, down by Euro 0.5 billion. A 3.2% increase in claim costs was combined with an 8.5% reduction in investment income, so the technical result fell from 9.5% of net written premiums to 7.8%.

In the life sector, the contraction of premiums was combined with a sharp increase in benefit outlays (34.0%), as policies underwritten at the turn of the decade matured. Nevertheless, the companies recorded positive net fund-raising (Euro 11.9 billion), albeit less than half as much as in 2005 (Euro 29.8 billion). The technical account result was positive (Euro 2 billion, compared with Euro 2.5 billion in 2005).

Operating expenses were stable as a ratio to premiums in the non-life sector (23.6%) but rose in the life sector from 5.9% to 7.0%, owing in part to the sharp fall in premiums in Class V, where the expense ratio is lower.

More in detail, this year's Report compares the results of insurance companies in the main countries (Italy, France, Germany, Spain, United Kingdom and United States) in 2000-2005, based on the income statements available in the ISIS database compiled by Bureau van Dijk.

THE FORECASTS FOR 2007

Direct premiums written in Italy should be in line with 2006. For the non-life sector an increase of 2.5% is estimated (2.4% in 2006). Obviously, this performance depends largely on the motor liability sector, where premiums written are expected to increase by just 0.8%, about 1 percentage point less than the number of vehicles registered. In the property sector (fire and other material damage) the increase should be more than 4%, thanks to the strong expansion of economic activity.

Premium income in the life sector is expected to be about the same as in 2006. In particular, an increase in premiums for linked policies should be accompanied by a further contraction in Class V policies and significant growth in Class VI, thanks to additional retirement scheme memberships in connection with the reform of supplementary pension plans.

NON-LIFE INSURANCE – DIRECT BUSINESS IN ITALY

Non-life premiums grew by 2.4% in 2006 to more than Euro 37 billion. In proportion to GDP (2.52%) this aggregate has been virtually unchanged since 2002. This stability is due to the fact that motor premiums are growing less than nominal GDP and there has been no appreciable increase in the penetration of other non-life insurance classes.

Outside the motor sector, non-life premiums written increased by 4.1% by comparison with 2005, the lowest growth rate this decade. The main reason for the slowdown was a reduction in premiums in the transport sector, the direct consequence of a "soft" market (with declining unit prices). Premium volume contracted in nearly all the classes of this sector (by 5.0% for railway rolling stock damage, 9.5% for ships, 7.0% for goods in transit, and 18.7% for aircraft liability).

According to the CEA data presented in this year's Report, non-life insurance premiums amounted to 2.6% of GDP in Italy in 2005, compared with 3.8% in Germany and 4.0% in the UK. Net of compulsory motor liability insurance, the difference is even greater. On this basis, premiums written came to 1.1% of GDP in Italy, 2.2% in France, 2.8% in Germany and 2.9% in the UK.

This year we present three studies on the under-insurance of Italian households and firms. The first is a partial account of the findings of a research project sponsored by ANIA and conducted by academic experts and practitioners on the future of health care in Italy. The study provides the latest projections of public expenditure on health and long-term care produced by the OECD and the State Accounting Office, which concur on the significant rise in public health spending, considerably greater than the so-called "pension system hump". It then goes on to detail some possible areas of participation by the insurance industry in adjusting health care supply to the increasing demand, both quantitatively and qualitatively, without prejudice to the fundamental principles of the National Health Service. These areas include the reformulation of the co-payment system, private in-hospital care by NHS doctors, and health funds.

The second study gives the results of a survey of business insurance conducted by Capitalia, in cooperation with ANIA, on a representative sample of 633 manufacturing firms with between 10 and 500 employees. It found that 88.3% had at least one damage insurance policy, not counting motor liability. Their premium payments averaged 0.27% of sales. The larger the firm, the greater the probability of its having insurance, the lower the ratio of premiums to sales, and the higher the degree of insurance cover (the ratio of assets insured to assets). There is no geographical divergence of South from North either in propensity to insure or in the cost or extent of coverage. One possible causal factor in Italian firms' lower propensity to take out insurance is the taxation of insurance policies, which is generally higher than in other European countries. A special study presented in this year's Report shows that the tax on general liability insurance premiums is 22.25% in Italy, against 19% in Germany, 9% in France and 5% in Britain.

The third study offers an international comparison of disaster insurance. The theme is important, in that according to the European Environment Agency Italy is one of the countries most exposed to natural disasters, particularly floods, landslides and earthquakes. Nevertheless, unlike all the other main European countries, Italy has no law on natural disaster insurance. One of the countries examined is France, where fire insurance policies for homeowners extend automatically to disaster coverage and where the publicly owned Caisse Centrale de Réassurance offers reinsurance against natural catastrophes at a fixed price. The State intervenes only if the Caisse does not have sufficient funds. These arrangements allow private insurers to price natural disaster risk in a geographically uniform manner at 12% of the fire insurance policy premium.

Monographic treatment this year has been dedicated to three special topics. Two involve health care insurance and medical malpractice insurance (for physicians and for health care institutions), the third auditors' liability. The first provides updated statistics on the number and average cost of claims in health insurance policies. The second gives data on the evolution of claims and premiums in the years following the claims – a statistical inquiry that is essential, because in this sector the period necessary to quantify damages is so long. The third offers a critique of the EU Commission study on the advisability of limiting auditors' liability in order to foster the extension of the auditing market and make it easier for auditors to be insured.

Finally, the Report describes ANIA's many initiatives for the prevention of flood, fire and theft risks, as well as for the insurance certificate for airlines.

MOTOR LIABILITY

Motor premiums amounted to Euro 18.4 billion in 2006, or 49.5% of total non-life premiums. This represented a 1.2% increase over 2005, and as the number of vehicles in circulation increased by 2.0%, the average premium declined by 0.8% (using the Paasche variable-weight index). This trend was due to the good performance of technical account results, which led companies to keep their policy prices broadly unchanged and often enough to offer competitive discounts.

ISTAT's motor liability price index rose by 2.3% in 2006. ISTAT calculates this item using owner profiles that are constant over time (a Laspeyres fixed-weight index). That is, it does not take account of the fact that over 90% of the insured cause no accidents in any given year and thus benefit from the "bonus" or of the fact that companies commonly offer discounts from their list prices. Considering that the average premium was lowered by 0.8% and that the "bonus" effect is generally worth between 1% and 2% of total premiums, it follows that in 2006 such discounts were again substantial.

The rise in the cost of liability policies has been modest again in 2007. The ISTAT index for motor liability insurance was up 1.5% in May by comparison with May 2006, the same as the overall CPI.

Our Report presents an international study comparing the frequency and cost of motor liability claims. In 2000 claims frequency in Italy was 2.5 percentage points higher than the European average as reported by the CEA. By 2004 the gap had been narrowed to 1.5 points, but Italy's accident frequency (8.6%) was second only to Spain's (10.1%). France, at less than 5%, has the lowest frequency.

The average cost of accident claims was Euro 3,000 in Europe in 2004 and a third higher (Euro 4,000) in Italy. Claims in France and Germany cost nearly Euro 500 less than in Italy, and those in Spain only half as much. One factor in Italy's greater costs is the percentage of accidents involving personal injury (21% in 2006), which is nearly twice as high as in other countries. A detailed geographical breakdown of claims in Italy ascribes a part of the very great regional variability in these technical indicators to fraud. Comparing regional accident data with ISVAP's statistics on motor insurance fraud, we find a correlation coefficient of 0.81 between claim frequency and percentage of fraudulent claims.

This year's Report pays special attention to the ANIA Foundation's recent road safety initiatives. The aim is to produce practical, effective actions that can actually improve safety and heighten safety consciousness. Safety programmes were directed specifically to young drivers, road and infrastructural safety, truck traffic, and new safety technologies.

Following protracted debate over the introduction, by law, of direct compensation in the motor liability sector and the design of the implementing regulations, the procedure became effective on 1 February 2007. The Report describes its operation in detail, and there is a specific explanation of how the fixed compensation levels are determined.

The Report also analyzes the measures of the "Bersani 2" decree. The new measures concern: the period of validity of the risk attestation, extended from one year to five; the requirement to assign to the policy on a second vehicle acquired by the owner of one already insured or by a stable member of the latter's household the same merit class as that of the vehicle already insured; the rules for modifying the bonus/malus rating after an accident; and the requirement for prompt notification of the insured of a change in merit class as a result of an accident. Some of these measures weaken the deterrent effect of the "malus" penalty for accidents. This will produce a levelling of the distribution towards the better classes, but the insured will have to pay higher premiums to offset the income loss due to failure to apply the penalties.

Another legislative change is examined in a special treatment of the ISVAP regulations implementing the Insurance Code, which institute information requirements in connection with the annual expiry of motor liability policies and lay down rules governing the operation of the Italian Informational Centre under ISVAP.

Finally, we note that on 12 October 2006 the Commission referred Italy to the EU Court of Justice, arguing that Italian provisions on the obligation to contract in the motor liability sector are in conflict with the third non-life insurance directive.

LIFE INSURANCE – DIRECT BUSINESS IN ITALY

Italian households' disposable income increased by 2.3% in nominal terms and 0.5% in real terms in 2006. Following the 0.3% real contraction of 2005, this modest growth indicates that households' purchasing power has essentially stagnated. Against a backdrop of improving confidence, the household saving rate diminished from 12.3% to 11.0%, the lowest since 2000 but still high by international standards.

Households' financial saving, i.e. the difference between the gross flows of assets and liabilities, amounted to Euro 64,863 million in 2006, a decrease of 13.2% from 2005. The main causes were the decline in the propensity to save and the continued growth in real estate investment. The rise in interest rates reawakened household investors' interest in bonds and made risky securities less attractive, in part because the strong performance of shares led investors to realize part of their capital gains. The outflow from Italian investment funds was much greater than in 2005, with net redemptions of nearly Euro 37 billion; this was only partly offset by Euro 10 billion in net purchases of foreign funds. Overall, at the end of the year investment fund units (Italian and foreign) accounted for 9% of households' financial portfolios.

Investment in life insurance policies continued to grow, though more slowly than in 2005. Such policies accounted for 17.3% of the flow of savings in 2006, compared with 32% in 2005. Life insurance reserves rose from 10.8% to 11.0% of total financial assets.

Total direct life premiums written, equal to Euro 69.4 billion, declined by 5.6% in 2006 after rising by 12.0% in 2005. Trends varied from class to class and company to company. Premiums from Class V products fell by 29.6% and those from Class I by 3.3%, while linked products (Class III) registered a gain of 3.8%.

The contraction in Class V was quite uniform across companies and is explained essentially by the rise in short-term interest rates, which made investment in these products less advantageous. For the aggregate consisting of Classes I and III (which accounted for 87% of total life premiums in 2006), the median growth rate was 5.7% (against a market mean of -0.2%). This median was more or less in line with that of 2005, when the increase in premiums was much sharper for large companies and very close to the system-wide growth rate calculated by excluding a few large companies involved in corporate restructuring (6.2%).

ROE was 11.2% in 2006, down from 12.6%. The ratio of profits to technical reserves (analogous to the standard indicator used in the asset management industry, taking as denominator an aggregate that proxies for total funds invested on behalf of policyholders) was 55 basis points, 16 less than in 2005.

Compared with other Europeans, Italian households have traditionally been characterized by a high propensity to save and a large stock of wealth, owing in part to Italians' strong tendency to view financial and real estate assets as a protective "cushion" for contingencies. Nevertheless, an ANIA study has found that Italian households have a protection gap deriving from insufficient coverage against the risk of the death of the main breadwinner, only partially mitigated by pension system survivor benefits, savings, and insurance policies.

Legislative Decree 303 of 29 December 2006 (coordinating the consolidated law on banking and that on finance with the new law for the protection of saving) clarifies a good number of key points in the regulations on "financial products issued by insurance undertakings". Specifically, the law provides that this category includes Class III policies (except those for retirement purposes, which are covered by separate rules) and capital redemption operations (Class V).

Decree Law 279/2006 brought the entry into force of the new supplementary retirement provisions forward to 1 January 2007, amending Article 23 of the Maroni Decree on that point. Our Report this year details the measures taken in order to do so. The Minister of Labour issued decrees defining the procedures whereby workers were to indicate their intentions and mandating the transfer to INPS of the accruing severance pay of those workers in firms with 50 or more employees that do not elect to join a supplementary retirement scheme. One section is dedicated to the tax treatment of supplementary retirement provisions.

Finally, the Report examines the reform, now before Parliament, of the taxation of income from financial investment. After a general examination, this passage comments on the proposal for a "temporal correction." As worded in the Government amendment, the formulas for this correction must be "simplified and comprehensible, taking account of different times of taxation." "Simple," however, is not synonymous with "light". Consequently, the mandate must strike a proper balance between reducing the incentive to defer the realization of capital gains on prevalently speculative investments (the lock-in effect) and not penalizing medium and long-term investments – this so as not to discourage the accumulation of savings and in light of the preferential tax treatment of medium and long-term investments in other countries such as France, the United Kingdom and the United States. The Report also provides an international comparison of tax treatment of insurance products in various European countries.

DISTRIBUTION AND THE INTERIM REPORT OF THE EU COMMISSION ON BUSINESS INSURANCE

At the start of 2007 the Commission's Interim Report on Business Insurance made available the initial findings of a survey of member states. The Interim Report makes explicit observations on the Italian market, in particular on the duration of contracts and the structure of distribution networks. In three separate contributions our own Report sets forth the arguments submitted by ANIA in the course of the public consultation. It gives new data on the real incidence of insurance brokers in the distribution of non-life products, highlights the competitive features of distribution by exclusive agents, which can lower average distribution costs, and discusses the possible benefits of a long-term relationship between insurer and customers. The international portion of the Report also rehearses the CEA's arguments on the Commission document.

Decree Law 223 of 4 July 2006, ratified as Law 248/2006 (known as the Bersani decree) prohibited insurance companies from signing agreements with their agents for exclusive distribution of motor liability policies. The second Bersani decree (Decree Law 7 of 31 January 2007, ratified as Law 40/2007) extended this ban to all non-life classes. This year's Report has specific treatments of the incompatibility of these measures with European law and on the economic effects of the ban on exclusive agency agreements.

THE LEGISLATIVE FRAMEWORK

This year's Report describes legislative developments within the European Union, with special attention to the insurance industry's potential contribution to achieving the Lisbon objectives, to the new Financial Services Action Plan and principles of "better regulation," and to the codification of life and non-life insurance. We also examine the effects on the insurance industry of the Directive on services in the internal market and comment on the proposals for directives on mergers and on pension fund portability.

There is a detailed discussion of ISVAP's consultation document on investment cover of technical reserves and the assets underlying unit-linked contracts. The proposals, which are in line with the more open policies introduced by other European authorities also in sectors contiguous to insurance, envisage new quantitative and qualitative limits on some types of investment to cover technical reserves and the introduction of a new type of assets, to be classed as "alternative investments".

The Report also contains two special studies of the planned European reform of prudential supervision known as "Solvency II", now in the decisive phase. One focuses on the proposed framework directive laying down the key, general principles for future legislation and scheduled for release on 10 July. In keeping with the principles of "better regulation", the Commission's text was to be accompanied by an impact assessment of the effect on insurance companies, supervisors, insurance products and markets, consumers, and SMEs. The second sets forth the results of the second quantitative impact study (QIS 2), which assesses the adequacy and reliability of the various possible approaches that could be adopted as the standard formula for calculating capital requirements, checks whether the companies possess the necessary data, and makes a preliminary quantitative assessment of the capital required by the various formulas. These initial findings indicate that at European level on average technical reserves would tend to be reduced and the solvency capital requirement and the elements serving to cover would increase. The third quantitative impact study (QIS 3), conducted between April and June 2007, sought to evaluate and calibrate the parameters of the standard formula both for the solvency capital requirement and for the mean capital requirement at group level. Sixty-seven insurance companies with registered offices in Italy have expressed interest in participating in the impact study. They represent 80% of direct non-life insurance business and 77% of mathematical reserves.

There are close-ups of three laws now before Parliament that although not specific to the insurance industry will nonetheless have a major impact on insurance business: proposals for the reform of independent regulatory authorities, for anti-fraud action, and for class action lawsuits.

Finally, the Report concludes with an in-depth examination of the “tax wedge”. Italy’s Finance Law for 2007 reduced the tax wedge on labour, i.e. the difference between labour costs to firms and workers’ net earnings, by enacting specific deductions from the tax base of the Regional Tax on Productive Activities. The benefit was not granted to banks, other financial institutions, insurance companies and firms holding public concessions with regulated prices in the sectors of energy, water supply, transport, network infrastructure, postal and telecommunications services, waste water collection and treatment, and solid waste collection and disposal. ANI and ABI lodged a complaint with the European Commission, arguing that this deduction was selective and represented state aid. On 28 May the Government issued an urgent decree-law abrogating European authorization for application of the deductions. In its accompanying report the Government cited the doubts raised by the Commission over the selective exclusion of some sectors, hence over the measure’s compatibility with Community rules. The accompanying report recalled that “The Council of Ministers has in any event pledged to extend the benefits in question to undertakings in the banking, insurance and financial sectors, deciding at the same time that the necessary funding is to be borne by the sectors in question. This commitment corresponds to the request, formulated at European Union level, for complete compliance with Community legislation”.

The number of companies with registered offices in Italy decreased, as a result of several mergers. The number of foreign representations, especially those operating in non-life classes, is increasing.

OPERATING INSURANCE COMPANIES

As at 30 April 2007, 242 insurance companies were operating (240 as at 30 April last year), of which 166 were insurance companies with registered office in Italy (171 as at 30 April last year) and 76 were branch offices of foreign insurance companies (69 as at 30 April last year), mainly from European Union members (71).

84 insurance companies write only life insurance business (of which 16 are foreign branch offices) and 126 companies write only non-life business (of which 50 are foreign branch offices); 24 companies write both life and non-life business, accounting for 48.1% of the total premium collection in terms of market share; 8 companies write only reinsurance business (of which 6 are foreign branch offices).

187 insurance companies are ANIA members (of which 16 are corresponding members): these insurance companies represent more than 91% of the premiums of the entire market.

Considering the legal status of the 166 companies that have legal offices in Italy, 162 are joint stock companies, 3 are mutual companies and one is a cooperative company.

NUMBER OF COMPANIES BY LEGAL STATUS

	LIFE	NON-LIFE	MULTI BRANCHES	PROFESSIONAL REINSURERS	TOTAL COMPANIES
Situation as at April 30, 2006					
Limited companies	71	76	17	3	167
Cooperatives	-	-	1	-	1
Mutuals	-	2	1	-	3
Domestic companies	71	78	19	3	171
Foreign branches	15	46	2	6	69
in E.U. countries	*15*	*43*	*2*	*5*	*65*
Total companies	**86**	**124**	**21**	**9**	**240**
Situation as at April 30, 2007					
Limited companies	68	74	18	2	162
Cooperatives	-	-	1	-	1
Mutuals	-	2	1	-	3
Domestic companies	68	76	20	2	166
Foreign branches	16	50	4	6	76
in E.U. countries	*16*	*47*	*4*	*4*	*71*
Total companies	**84**	**126**	**24**	**8**	**242**

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

	2001	2002	2003	2004	2005
Austria	73	72	71	72	72
Belgium	204	201	189	181	181
Denmark	241	226	214	210	210
Finland	69	68	68	68	65
France	504	495	486	475	470
Germany	694	703	703	677	670
Greece	107	102	100	99	99
Ireland	196	199	224	217	220
Italy	256	254	249	245	239
Luxembourg	93	95	95	95	95
Netherlands	353	341	335	317	300
Portugal	86	85	74	70	70
United Kingdom*	808	806	772	1,167	1,170
Spain	342	334	328	330	320
Sweden	461	448	440	428	415
Total	**4,487**	**4,429**	**4,348**	**4,651**	**4,596**

Source: CEA
(*) Change of definition since 2004

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

	2001	2002	2003	2004	2005
Austria	171	173	180	191	210
Belgium	101	109	126	139	166
Denmark	51	56	62	65	70
Finland	171	177	183	191	207
France	254	262	282	314	347
Germany	196	204	213	219	227
Greece	25	27	30	34	37
Ireland	54	57	61	61	66
Italy	298	343	379	395	429
Luxembourg	68	69	79	96	123
Netherlands	123	125	132	138	141
Portugal	93	98	110	122	156
United Kingdom	284	289	265	272	273
Spain	123	141	122	132	142
Sweden	39	37	42	42	48
Total	**169**	**177**	**180**	**190**	**202**

Source : CEA

The Italian insurance market: key figures 2006

In 2006 Italian insurance companies' technical account results were positive, but in decrease compared to the previous year. The sector's overall ROE dropped from 13.8% of 2005 to 11.6 of 2006. This is due, on the one hand, to a more limited positive contribution of the investment income which concerned both life and non-life classes, and, on the other hand, to the 4% reduction in the life class premium collection.

INCOME STATEMENT
Euro million

INCOME STATEMENT

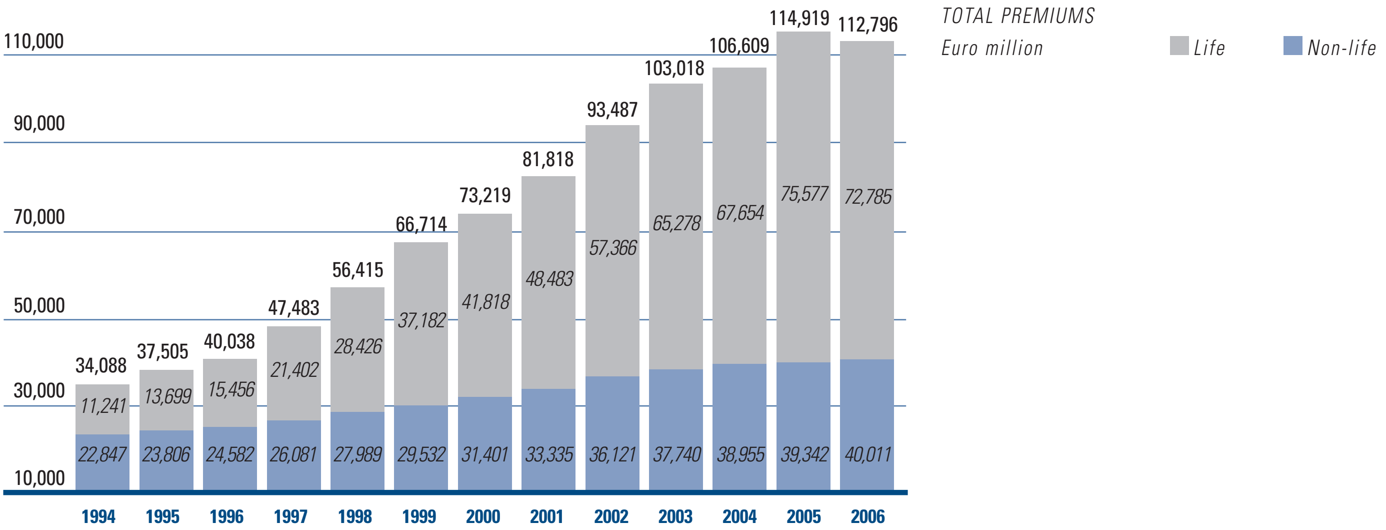
	2000	2001	2002	2003	2004	2005	2006
Technical account of non-life and life classes (*)							
Written premiums	66,965	75,240	86,350	95,646	100,098	108,451	106,289
Changes in premiums reserves (-)	27,500	30,046	32,645	43,720	40,427	41,999	19,222
Investment income	7,567	5,435	3,939	13,090	16,316	20,064	15,141
Other technical income	463	780	980	1,135	1,215	1,321	1,335
Incurred claims (-)	35,583	38,240	44,459	48,994	58,826	68,236	83,976
Operating expenses (-)	9,791	10,208	10,648	11,346	11,927	12,567	13,349
Other technical costs (-)	942	897	1,088	1,656	1,430	1,241	1,437
Balance	**1,179**	**2,064**	**2,429**	**4,155**	**5,019**	**5,792**	**4,781**
Technical account - non-life (*)							
Written premiums	27,029	28,915	30,958	32,729	34,208	34,663	35,474
Changes in premiums reserves (-)	543	835	825	656	599	638	657
Investment income	2,135	1,931	1,483	2,012	2,234	2,318	2,120
Other technical income	294	409	321	371	371	319	371
Incurred claims (-)	22,004	22,224	22,736	23,633	24,269	24,294	25,072
Operating expenses (-)	6,457	6,851	7,178	7,522	7,949	8,184	8,371
Other technical costs (-)	754	696	760	874	1,045	883	1,086
Balance	**-300**	**649**	**1,263**	**2,427**	**2,951**	**3,302**	**2,779**
Technical account - life (*)							
Written premiums	39,936	46,325	55,392	62,917	65,890	73,788	70,815
Changes in technical provisions (-)	26,957	29,211	31,820	43,064	39,828	41,361	18,565
Investment income	5,432	3,504	2,456	11,078	14,082	17,745	13,021
Other technical income	169	371	659	764	844	1,001	964
Incurred claims (-)	13,579	16,016	21,723	25,361	34,557	43,942	58,904
Operating expenses (-)	3,334	3,357	3,470	3,824	3,978	4,383	4,978
Other technical costs (-)	188	201	328	782	385	358	351
Balance	**1,479**	**1,415**	**1,166**	**1,728**	**2,068**	**2,490**	**2,002**
Non-technical account							
Other non-life income	705	629	401	518	810	894	830
Other life income	876	436	726	868	1,127	1,179	1,238
Balance of other income and expenses	-394	-2	-872	-951	-1,016	-862	-999
Balance of ordinary activities	**2,366**	**3,127**	**2,684**	**4,590**	**5,940**	**7,003**	**5,850**
Balance of extraordinary activities	**1,067**	**1,204**	**2,262**	**1,132**	**1,027**	**691**	**953**
Taxes on income (-)	1,390	1,454	1,436	1,929	1,731	1,837	1,541
Result for the financial year	**2,043**	**2,877**	**3,510**	**3,793**	**5,236**	**5,857**	**5,262**
Return on Equity	**6.7%**	**8.9%**	**10.6%**	**10.6%**	**13.6%**	**13.8%**	**11.6%**

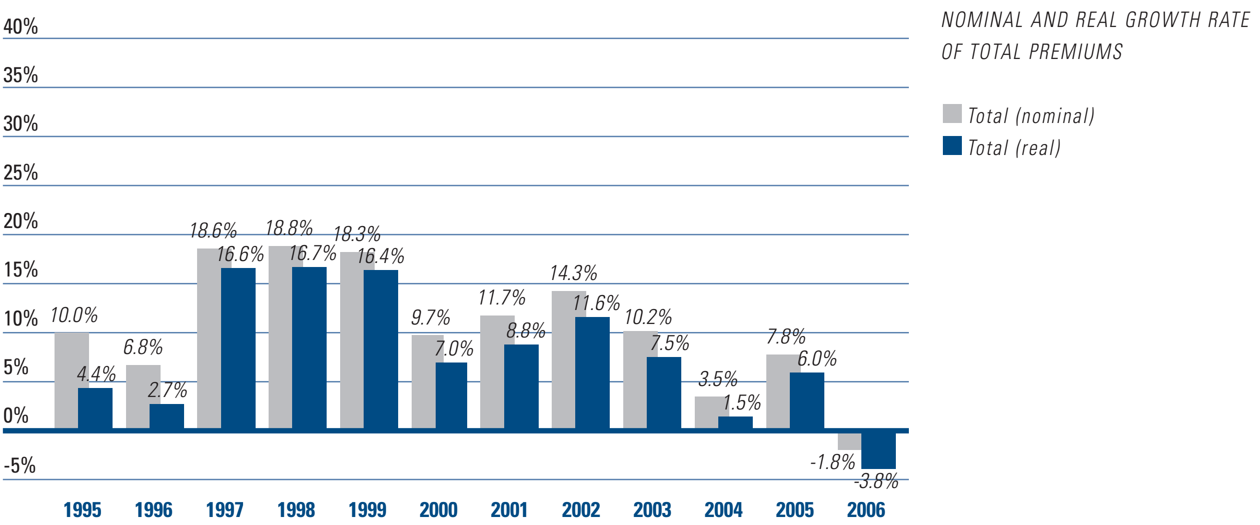
(*) Technical items net of cessions and retrocessions

TECHNICAL ACCOUNT

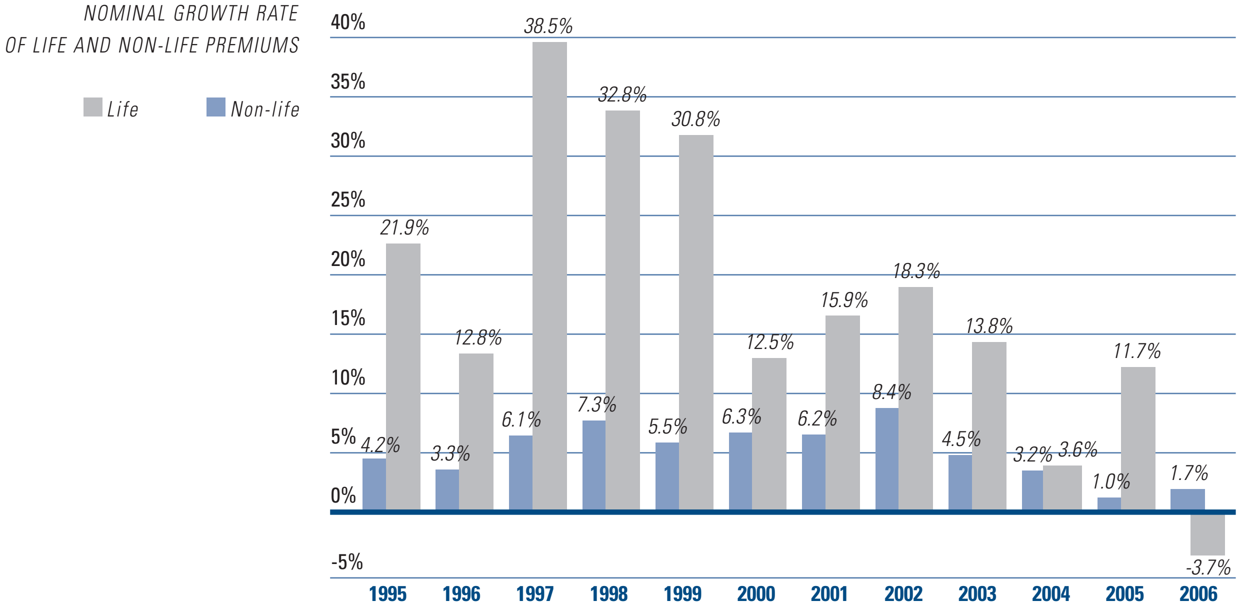
Premium income

The total gross premiums for domestic and foreign business, direct and indirect, gross of reinsurance and collected by with registered offices in Italy and by the branches of foreign non-European Union companies totalled Euro 112,796 million in 2006. In particular, Euro 40,011 million were collected in non-life classes and Euro 72,785 million in the life classes.





The Italian insurance market: key figures 2006



After years of strong expansion, the overall premiums recorded a slight reduction, equal to 1.8%. This result was determined by the life sector, whose premiums decreased in 2006 by 3.7% (they had increased by 11.7% in 2005). This dynamic reflects the reduction in the sale of policies with minimum return guarantee recorded in particular by the bank-insurance channel. Premiums in non-life classes grew, even though in a limited way: 1.7% compared to 2005. As a result of these trends, the share of life premiums on the total decreased compared to the previous year (from 65.8% to 64.5%).

The percentage of **premiums ceded to reinsurance** remained at the levels of 2005, equal to 5.8%. the overall amount of these premiums was equal to Euro 6,506 million, of which 4,536 in non-life classes and 1,970 in life classes.

Overall premiums, net of the share of ceded premiums, achieved Euro 106,289 million with a 2.0% compared to the previous year): Euro 35,474 million in non-life classes and Euro 70,815 million in life classes.

Claims, benefits and provisions

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

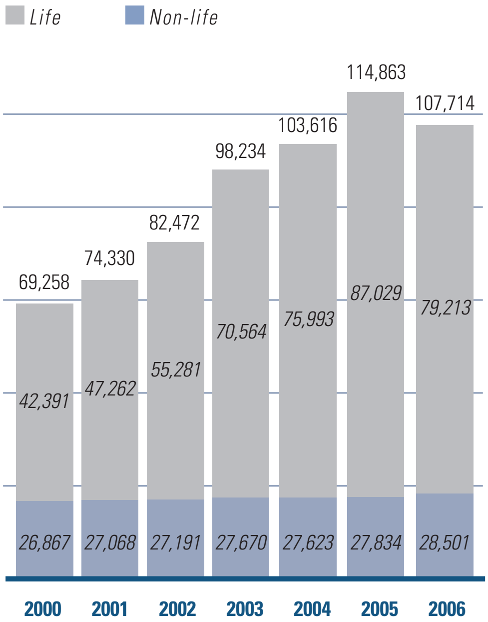
- incurred claims cost and changes in premium reserves for the non-life classes;
- incurred claims cost and changes in mathematical reserves and the other technical reserves for the life classes.

The amount of these benefits was of Euro 107,714 million (-6.2% compared to 2005): 28,501 (+2.4%) and 79,213 million in life classes (-9.0%).

The **reinsurance contribution** was equal to Euro 4,517 million (-2.4%), of which 2,773 million for non-life classes and 1,744 million for life classes.

The **amount of benefits** was therefore of Euro 103,198 million (-6.4%): 25,729 million in non-life classes and 77,469 million in life classes.

CLAIMS, BENEFITS AND PROVISIONS
Euro million

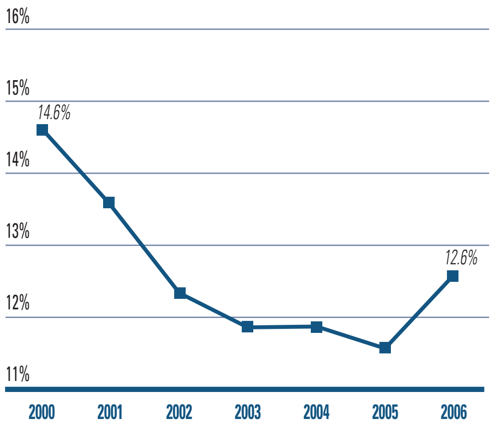


Operating expenses

Operating expenses for direct and indirect business, net of reinsurance, that include acquisition costs, costs arising from premium collection, costs relating to the organisation and management of the distribution network and the administration expenses relating to technical management of insurance business, totalled Euro 13,349 million with an increase of 6.2% compared to 2005. due to a reduction in the overall written premiums, the incidence of operating expenses on written premiums passed from 11.6% of 2005 to 12.6% of 2006.

In particular, the operating expenses for non-life business were equal to Euro 8,371 million, with an incidence on premiums, unchanged compared to 2005, of 23.6%; for life business, they were equal to Euro 4,978 million, with an incidence on premiums of 7.0% (5.9% in 2005); the increase was due, on the one hand, to the reduction in the V class policies, characterised by lower expenses and, on the other hand, to a higher incidence of fixed expenses in the presence of a decreasing premium volume.

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



Technical account result

The **technical account result**, net of reinsurance, was positive totalling Euro 4,781 million, equal to 4.5% of direct and indirect premiums (5.3% in 2005).

There was a positive result for non-life classes totalling Euro 2,779 million (Euro 3,302 million in 2005); the incidence of such result on premiums decreased to 7.8% (9.5% in 2005).

Life classes showed a positive result of Euro 2,002 million (Euro 2,490 million in 2005). The incidence of such result on premiums was of 2.8% (3.4% in 2005).

TECHINCAL ACCOUNT RESULT TO PREMIUMS RATIO (%)
Incidence on net witten premiums (%)

	2000	2001	2002	2003	2004	2005	2006
Non-life and life	1.8%	2.7%	2.8%	4.3%	5.0%	5.3%	4.5%
Non-life	-1.1%	2.2%	4.1%	7.4%	8.6%	9.5%	7.8%
Life	3.7%	3.1%	2.1%	2.7%	3.1%	3.4%	2.8%

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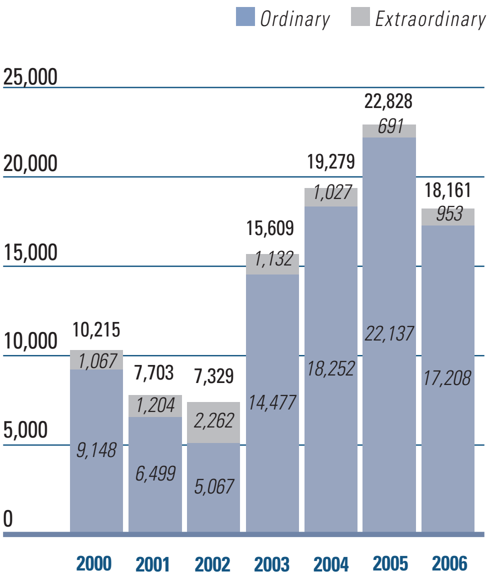
NON-TECHNICAL ACCOUNT

Investment income

Ordinary and extraordinary net investment income, life and non-life, which also includes investment income transferred to technical life and non-life accounts, was equal to Euro 18,161 million in 2006, with a strong reduction compared to the previous year (-20.4%), mainly because of the drop in ordinary net investment income (-22.3% compared to 2005). The reduction was only partially balanced by the increase in extraordinary investment income (which increased by 38.0% compared to 2005).

TREND OF NET INVESTMENT INCOME

Euro million



The drop in ordinary net investment income compared to 2005 was equal to Euro 4,928 million; it was concentrated in the Euro 3,306 million decrease in gross investment income for the benefit of insured; the positive trend of life and non-life extraordinary gross investment income was equal to only Euro 481 million.

More in detail, the **ordinary gross investment income for life and non-life classes** reached Euro 26,364 million (Euro 28,900 million in 2005), with a decrease of 8.8%. Income derived from:

– shares and holdings, for an amount of Euro 3,078 million (-1.6% compared to 2005), which were 11.7% of the total income;
– investments for the benefit of insured and investment income deriving from pension fund management, for an amount of Euro 8,176 million (-28.8% compared to 2005), which represented 31.0% of the total income;
– land and buildings, for an amount of Euro 237 million (-2.9% compared to 2005), which were 0.9% of the total income;
– revaluations and realised investments, for an amount of Euro 3,256 million (+1.3% compared to 2005), which were 12.3% of the total income;
– securities, bonds and other investments, for an amount of Euro 11,617 million (+7.3% compared to 2005), which represented 44.1% of the total income.

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

	2000	2001	2002	2003	2004	2005	2006
Shares	7.1%	11.9%	13.7%	12.0%	9.5%	10.8%	11.7%
Land and buildings	3.8%	4.1%	2.6%	1.5%	1.1%	0.8%	0.9%
Other investments	44.9%	49.7%	46.8%	41.9%	42.7%	37.5%	44.1%
Revaluations	25.8%	17.5%	12.9%	12.9%	11.7%	11.1%	12.3%
Income from linked and pension funds	18.4%	16.8%	24.0%	31.7%	35.0%	39.8%	31.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The **overall expenses referring to income from ordinary and extraordinary investments, life and non-life**, totalled Euro 10,001 million, in strong increase compared to Euro 7,390 million of 2005.

Extraordinary investment income, gross of expenses, totalled Euro 1,799 million (Euro 1,318 million in 2005) and the relative expenses totalled Euro 846 million (Euro 627 million in 2005).

RESULT FOR THE FINANCIAL YEAR

The **result for ordinary activity, non-life and life**, was positive amounting to Euro 5,850 million (Euro 7,003 million in 2005), with a decrease of 16.5%.

The **result for extraordinary activity** totalled Euro 953 million, reflecting an increase (+37.9%) compared to Euro 691 million in 2005.

Income taxes for the period totalled Euro 1,541 million (Euro 1,837 million in 2005).

Despite the contribution of the extraordinary activity, the reduction in technical account results (for non-life and life classes) determined a **profit** of Euro 5,262 million for the financial year 2006, decreasing by 10.2% compared to Euro 5,857 million in 2005. The profit totalled 5.0% of premiums (5.4% in 2005). The R.O.E. (Return on Equity), calculated as the ratio between net profit and the centered mean of the capital stock and of equity reserves, was equal to 11.6%, in reduction compared to 13.8% of 2005.

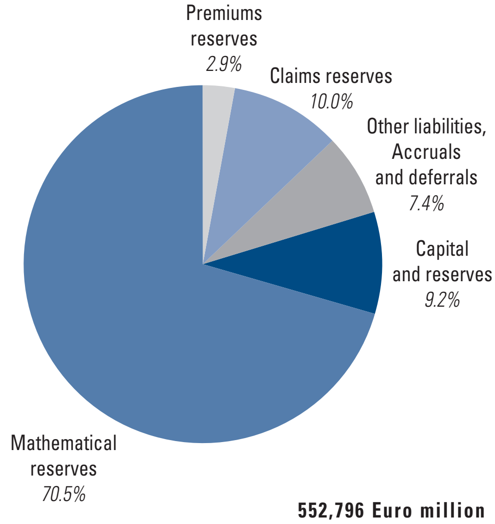
BALANCE SHEET

Liabilities

The total liabilities carried in the balance sheet amounted to Euro 552,796 million (+4.9% compared to 2005).

In particular:

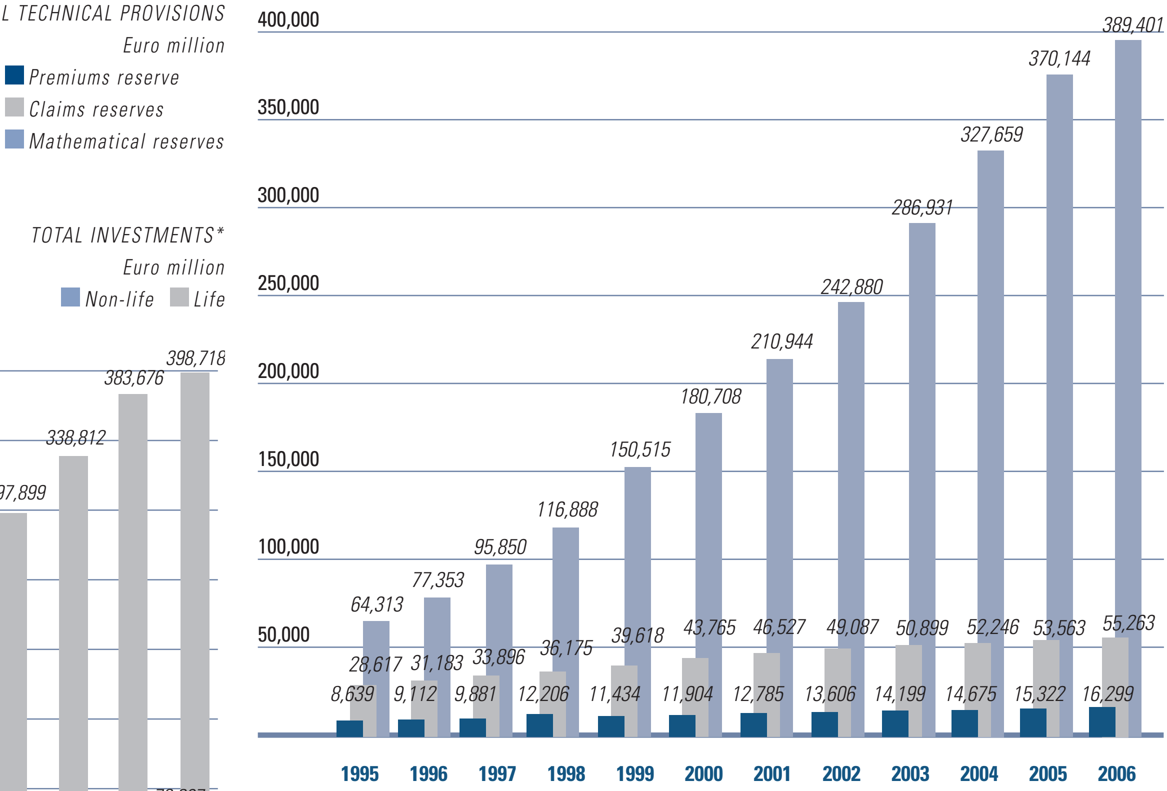
- capital and reserves, equal to Euro 50,818 million, remained substantially unvaried compared to 2005, and were equal to 9.2% of total liabilities; subscribed capital, equal to Euro 13,638 million, increased by 5.1%, equity reserves, equal to Euro 31,918 million, decreased by 1.7% compared to 2005. The profit for the financial year totalled Euro 5,262 million;
- technical provisions, representing commitments undertaken on behalf of the insured were equal to Euro 438,887 million and recorded an increase of 5.0% compared to 2005; they represented 83.4% of the total. Life reserves, weighing for 70.5% on the total, increased by 5.2%, while non-life reserves (claims and premiums) grew by 3.9%;
- the other liabilities, equal to Euro 40,348 million (7.3% of the total), increased by 11.6% compared to the previous year, and the breakdown for this item was as follows: subordinated liabilities increased by 47.0% (from Euro 3,295 million to Euro 4,843 million) and deposits received from reinsurers increased by 0.1% (from Euro 12,994 million to Euro 13,013 million). Funds for risks and charges (Euro 2,202 million) remain substantially unvaried, whereas debts and other liabilities increased by 15.1%, from Euro 17,632 million to Euro 20,290 million;
- accrual and deferral totalled Euro 667 million (0.1% of the total).



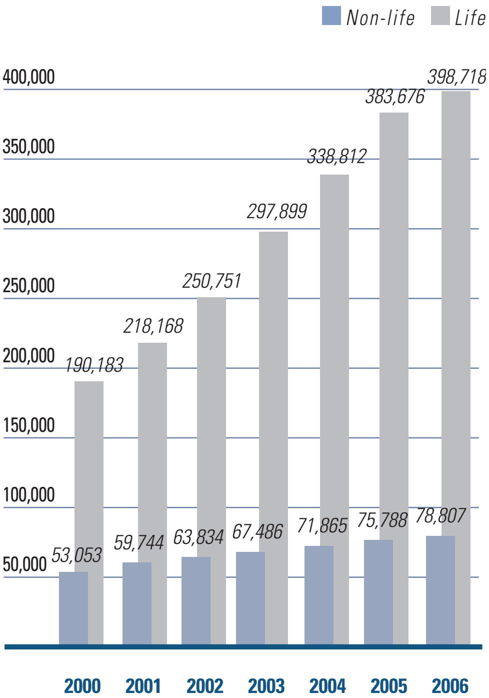
BREAKDOWN OF LIABILITIES (%)

The Italian insurance market: key figures 2006

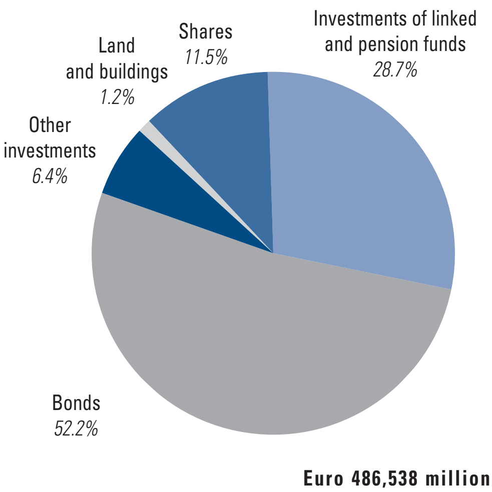
TOTAL TECHNICAL PROVISIONS
Euro million



*TOTAL INVESTMENTS**
Euro million



(*) Net of professional reinsurers



BREAKDOWN OF INVESTMENTS (%)

Assets

Investments, reinsurance share of technical provisions, amounts owed by debtors, other assets, accruals and deferred income amounted to Euro 552,796 million, equalling to the total amount of liabilities.

In particular:

– investments reached Euro 486,538 million, representing 88.0% of total assets. Insurance companies only engaging in reinsurance activities were excluded since the relative balance sheet format does not provide for a division between life and non-life classes; therefore, excluding reinsurance business, investments in non-life classes were equal to Euro 78,807 million (4.0% increase compared to 2005) and investments in life classes were equal to Euro 398,718 million (3.9% increase compared to 2005).
The highest increase (+8.1%) was recorded by investments in bonds and other fixed income securities with Euro 254,130 million; followed by investments in shares and holdings (+3.0%) with Euro 55,714 million, investments in land and buildings (+2.3%) with Euro 5,937 million and investments in loans and deposits that, with Euro 30,905 million register a 8.0% contraction compared to 2005. Investments for the benefits of life insurance policyholders, equal to Euro 139,852 million, increased by 2.4%;

– the technical provisions borne by reinsurers amounted to Euro 21,427 million, increased by 1.7%, and represent 3.9% of the total assets;

– amounts owed by debtors were equal to Euro 23,155 million (4.2% of the total), with an increase of 7.6%. These refer to amounts owed deriving from direct insurance activities (Euro 11,182 million), amounts owed deriving from reinsurance activities (Euro 2,570 million), and other amounts owed (Euro 9,403 million);

– amounts owed by shareholders (Euro 25 million), intangible assets (Euro 3,958 million composed of commissions and other expenses) and other assets (Euro 13,439 million) reached a total of Euro 17,421 million (3.2% of the overall amount), thus recording an 11.7% increase;
– accrual and deferred income amounted to Euro 4,255 million (0.8% of total), reaching 18.6%.

BALANCE SHEET
Euro million

	2000	2001	2002	2003	2004	2005	2006
LIABILITIES	**298,174**	**338,346**	**378,192**	**429,890**	**475,716**	**526,899**	**552,796**
CAPITAL AND RESERVES	34,496	35,093	37,401	41,342	44,780	51,301	50,818
Subscribed capital	*9,775*	*9,512*	*9,961*	*10,529*	*10,991*	*12,982*	*13,638*
Equity reserves	*22,678*	*22,704*	*23,930*	*27,033*	*28,621*	*32,463*	*31,918*
Profit for the financial year	*2,043*	*2,877*	*3,510*	*3,780*	*5,169*	*5,857*	*5,262*
TECHNICAL PROVISIONS	236,377	270,256	305,573	352,029	394,581	439,029	460,963
Non-life classes	*55,669*	*59,312*	*62,693*	*65,098*	*66,921*	*68,885*	*71,562*
Life classes	*180,708*	*210,944*	*242,880*	*286,931*	*327,659*	*370,144*	*389,401*
OTHER LIABILITIES	27,125	32,674	34,920	36,203	35,989	36,141	40,348
Subordinated liabilities	*1,072*	*1,487*	*1,990*	*2,666*	*2,862*	*3,295*	*4,843*
Provisions for risks and charges	*2,048*	*1,524*	*2,045*	*2,189*	*2,105*	*2,219*	*2,202*
Deposits received from reinsurers	*10,453*	*11,682*	*13,011*	*13,231*	*12,876*	*12,994*	*13,013*
Debts and other liabilities	*13,552*	*17,981*	*17,874*	*18,117*	*18,146*	*17,632*	*20,290*
ACCRUALS AND DEFERRALS	176	323	298	316	366	428	667
ASSETS	**298,174**	**338,346**	**378,192**	**429,890**	**475,716**	**526,899**	**552,796**
AMOUNTS OWED BY SHAREHOLDERS	46	99	84	45	15	3	25
INTANGIBLE ASSETS	2,424	2,469	2,792	3,707	4,262	3,947	3,958
INVESTMENTS:	248,346	283,381	320,069	370,814	416,322	465,109	486,538
Land and buildings	*8,335*	*7,798*	*5,484*	*4,534*	*4,842*	*5,805*	*5,937*
Shares and holdings	*40,700*	*40,478*	*40,145*	*43,763*	*48,793*	*54,096*	*55,714*
Bonds and other fixed income securities	*123,825*	*140,530*	*161,343*	*186,564*	*208,051*	*235,036*	*254,130*
Loans and deposits	*22,892*	*24,977*	*28,342*	*28,837*	*30,460*	*33,603*	*30,905*
Investments for the benefit of life insurance policyholders and the investments deriving from the management of pension funds	*52,594*	*69,598*	*84,755*	*107,116*	*124,176*	*136,569*	*139,852*
TECHNICAL PROVISIONS BORNE BY THE REINSURERS	19,895	21,499	22,003	21,789	20,753	21,072	21,427
AMOUNTS OWED BY DEBTORS	16,808	18,696	19,915	20,333	21,020	21,529	23,155
OTHER ASSETS	8,332	9,715	10,585	10,198	10,149	11,652	13,439
ACCRUALS AND DEFERRED INCOME	2,323	2,487	2,744	3,004	3,194	3,587	4,255

THE SOLVENCY MARGIN

At end of 2006 insurance companies with their registered office in Italy, excluding reinsurers, possessed for their total assets in the life and non-life sectors a solvency margin of Euro 44.7 billion, slightly decreasing compared to the previous year.

For life business, the margin (Euro 24.3 billion) was equal to 2.02 times the minimum requirement (Euro 12.0 billion), determined in terms of mathematical provisions and capital at risk. The ratio had been 2.08 in 2005 and 2.04 in 2004.

For non-life business the margin possessed (Euro 20.4 billion) was 3.29 times the minimum requirement (Euro 6.2 billion), determined in terms of the amount of premiums written and the average cost of claims in the last three years (taking the higher result of the two criteria). The ratio has been rising steadily in recent years; its value in 2006 was slightly lower compared to the previous year.

SOLVENCY MARGIN 2000-2006 (EXCLUDING REINSURERS)
Euro million

LIFE	2000	2001	2002	2003	2004	2005	2006
Solvency margin	16,415	17,512	18,418	20,000	20,954	23,999	24,312
Solvency margin required by law	6,400	7,034	7,986	9,132	10,266	11,544	12,036
Cover ratio	2.56	2.49	2.31	2.19	2.04	2.08	2.02
NON-LIFE	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Solvency margin	13,558	12,927	14,792	15,615	17,308	20,826	20,384
Solvency margin required by law	4,626	4,938	5,138	5,356	5,825	6,095	6,192
Cover ratio	2.93	2.62	2.88	2.92	2.97	3.42	3.29

Source: ISVAP

THE PROFITABILITY OF THE INSURANCE INDUSTRY

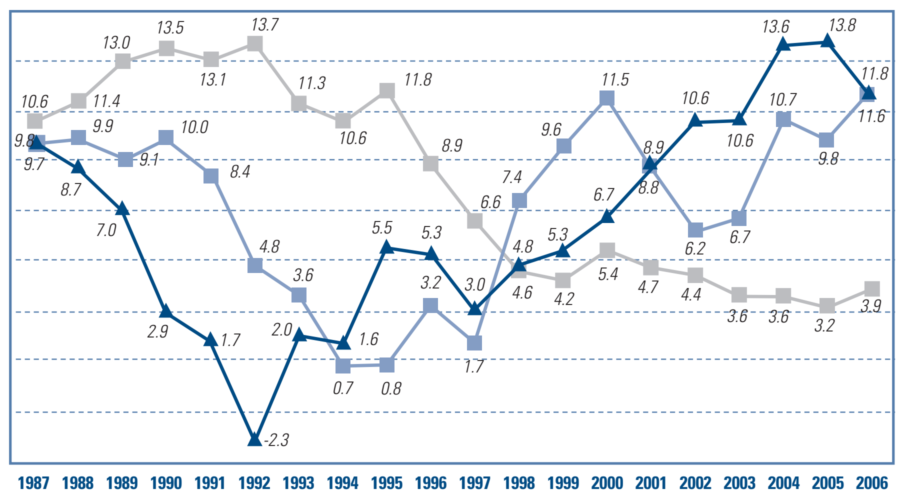
Measured by return on equity (the ratio of profit for the period to shareholders' equity at the beginning of the period), the profitability of the insurance industry declined in 2006.

- In the non-life sector ROE fell by more than three percentage points, from 14.7% to 11.6%. This was mainly due to the slowdown in the result on ordinary operations (in particular, the return on investment, given by the ratio of investment income to total investment assets, fell by 1.6 percentage points), not entirely offset by the increase in the profitability of extraordinary operations (measured by result on extraordinary operations as a percentage of shareholders' equity).
- In the life sector (excluding pure reinsurers) ROE fell from 12.6% to 11.2%. As in the non-life sector, profitability reflected a decline in the return on

investment, which fell by 1.6 percentage points, but it was also affected, though to a lesser extent, by a decrease in the profitability of extraordinary operations.

For the insurance industry as a whole, including reinsurers, ROE fell by more than 2 percentage points in 2006, from 13.8% to 11.6% (Figure 1). Insurance companies' ROE was in line with that of banks in 2006 (11.8%). In the last twenty years their average ROE (6.5%) has been lower than banks' (7.2%) and below the average return on government securities (8.1%).

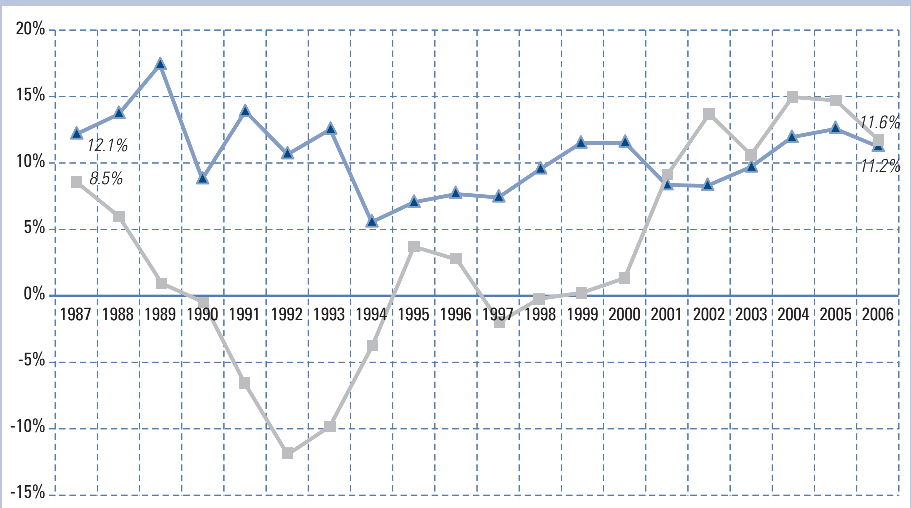
FIGURE 1
COMPARISON OF ROE



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

ROE has displayed different trends in the life and non-life sectors since 1987 (Figure 2). From that year until 2001 profitability in the life sector was always higher than in the non-life sector. In the ensuing years, thanks to steadily improving technical operations, the non-life sector outperformed the life sec-

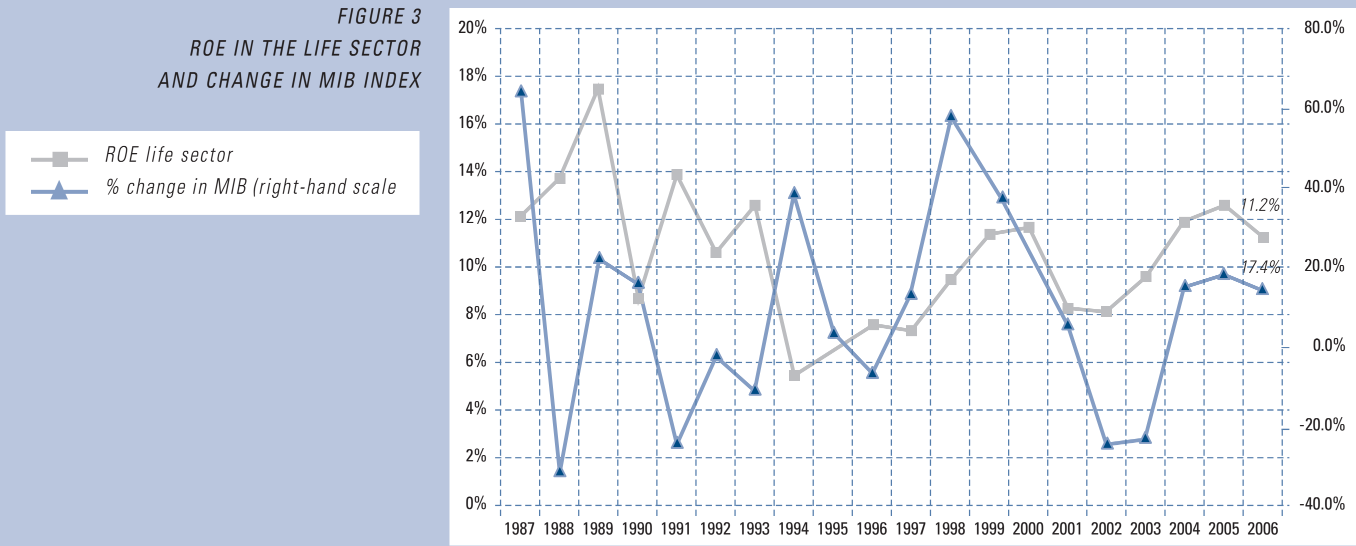
FIGURE 2
ROE IN THE LIFE AND NON-LIFE SECTORS



tor, its ROE peaking at 15.0% in 2004. In 2006 ROE was about the same in both sectors.

In the **life sector**, over the twenty-year period the cyclical behavior of ROE was correlated with the performance of the financial markets. High ROE in the late 1980s, in correspondence with high inflation, was followed by a steady contraction in the early 1990s, to 5.4% in 1994. Subsequently, low inflation and the growth of the stock markets fostered the supply of new products having a large financial component, which boosted the volume of business of the Italian life market and thus made it more competitive with the other main European countries. ROE rose from 5.4% in 1994 to 11.3% in 2000. The last-mentioned pattern is highlighted by comparing ROE in the life sector with the Italian stock exchange's MIB index (Figure 3): beginning in the second half of the 1990s, with the spread of the new insurance products with a large financial component, there is a positive correlation between the indicators.

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



Although 2001 and 2002 saw stock markets plunge and fears of deflation spread, there was only a modest decline in the profitability of the life sector in Italy (8%), thanks to very strong sales, a limited exposure to equities in the portfolios where the financial risk is borne by the company, and the continuing presence of securities with high coupon yields in long-term portfolios. The recovery of the financial markets enabled ROE in the life sector to remain consistently above 11% in the last four years

ANIA has also analyzed ROE in the life sector by company size, the latter gauged by total technical reserves at 31 December 2006 (Figure 4). ROE was above the sectoral average for the 11 large companies (with technical reserves of more than Euro 10 billion), which account for more than 60% of total technical reserves. It was lowest, at 3.6%, for the 37 companies with technical reserves of under Euro 1 billion.

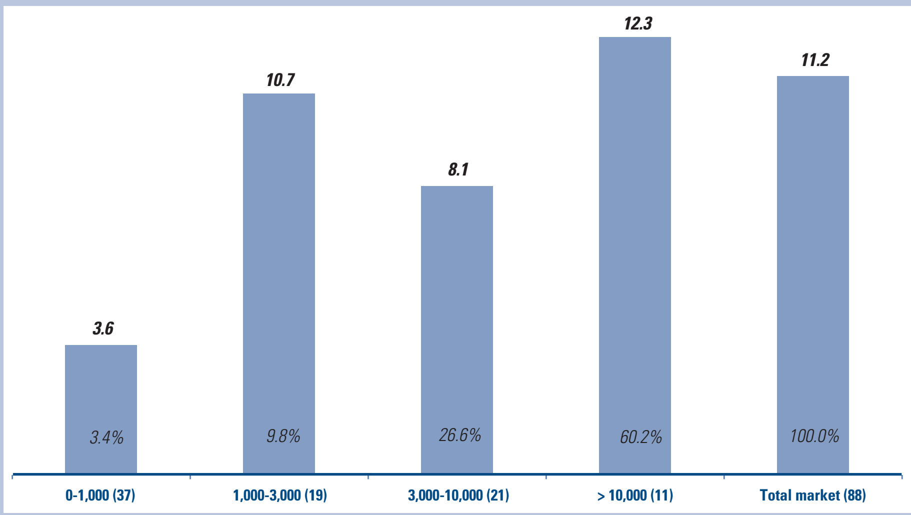


FIGURE 4
ROE BY SIZE CLASS OF TECHNICAL RESERVES IN THE LIFE MARKET IN 2006
(millions of euro and %)

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

In the **non-life sector**, a company's capacity to create value depends primarily on insurance operations and, to a lesser extent than in the life sector, ordinary financial operations. It is interesting to compare the time series of ROE with that of the combined ratio for the period (Figure 5).

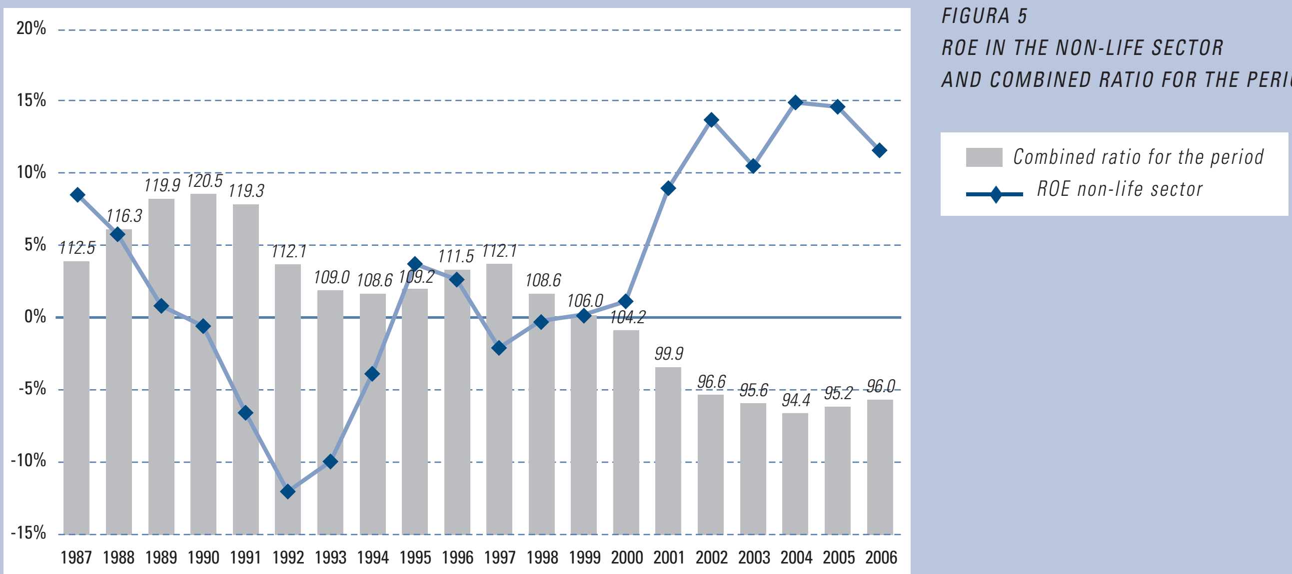
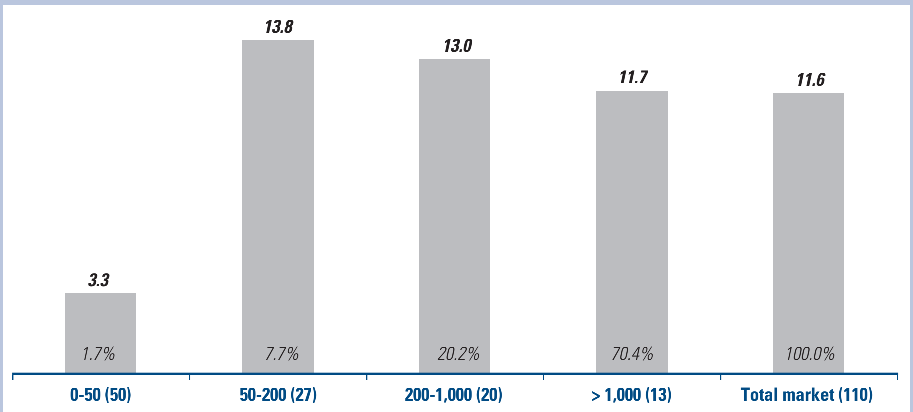


FIGURA 5
ROE IN THE NON-LIFE SECTOR AND COMBINED RATIO FOR THE PERIOD

Between 1987 and 1992 ROE plunged by more than 20 percentage points to a low of minus 12% in 1992, while the combined rose to very high levels and even topped 120%. Negative ROE in the first half of the 1990s gave way between 1995 and 2000 to figures that were close to zero. In short, for more than a decade the profitability of the non-life sector was negative, destroying value for shareholders who had invested in it. It was not until 2000 that ROE gradually began to ameliorate. In the last six years it has fluctuated between 10% and 15% as a result of the equilibrium achieved in underwriting business, reflected in the combined ratio remaining consistently below the threshold of 100%. In 2006 the deterioration of one percentage point in the combined ratio was a factor in the decline in ROE from 14.7% to 11.6%.

FIGURE 6
ROE BY SIZE CLASS OF PREMIUMS WRITTEN IN THE NON-LIFE MARKET IN 2006
(millions of euro and %)



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

As with life sector, ANIA has also analyzed non-life ROE by company size, this time proxied by the volume of premiums written (Figure 6). In 2006 the 50 companies with premiums of less than Euro 50 million had average ROE of 3.3%, against a market average of 11.6%,; however, these companies accounted for less than 2% of the total non-life market. At 13.8%, ROE was highest in the next size class (premiums of between Euro 50 million and Euro 200 million). After that, the indicator decreases as firm size increases, diminishing to 11.7%, or practically the market average, for the 13 largest companies, which together account for more than 70% of the market.

THE INTERNATIONAL SCENARIO

In 2005 premiums written worldwide totalled USD 3,426 billion, an increase of 4.9% in real terms, a value over two times higher than the one registered in 2004.

Life insurance premiums totalled USD 1,974 billion, up by 5.7% in real terms (2.3% in 2004); non-life premium volume amounted to USD 1,452 billion and an increase, in real terms, by 3.9% (2.3% in 2004).

In 2005 the life insurance market expanded by 9.1% in Europe. In North America the growth was positive and equal to 3.8%, while it was negative in Japan (-3.6%). Latin America registered a strong expansion(15.6%).

In the non-life sector, premiums increased by 3.4% in United States and by 3.5% in Europe. In Latin America the growth was equal to 21%, in strong increase compared to the previous year.

PREMIUMS IN 2005
Dollar million

	LIFE	NON-LIFE	TOTAL
North America	551,530	670,105	1,221,635
Latin America	23,263	35,336	58,599
Europe	769,337	518,583	1,287,920
Asia	573,239	186,540	759,779
of which: Japan	*375,958*	*100,523*	*476,481*
Africa	27,795	12,230	40,025
Oceania	28,539	29,217	57,756
Total	**1,973,703**	**1,452,011**	**3,425,714**

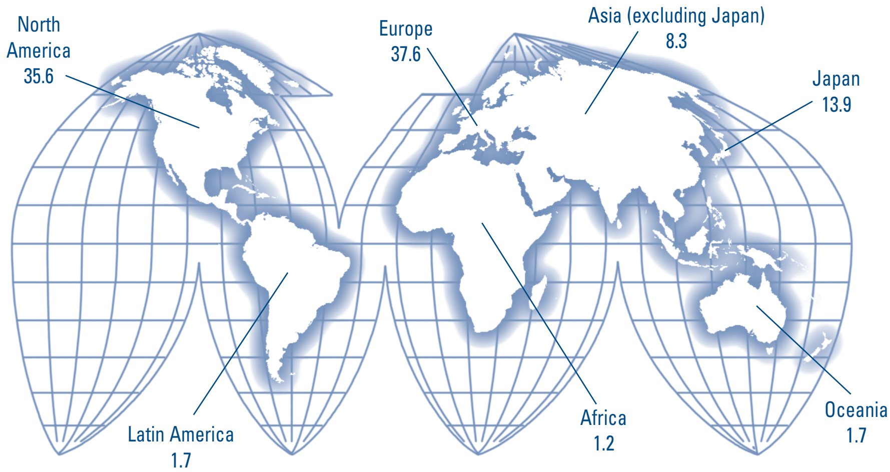
Source: Swiss Re - SIGMA

REAL GROWTH RATE IN 2005 (%)

	LIFE	NON-LIFE	TOTAL
North America	3.8	3.4	3.6
Latin America	15.6	21.0	18.8
Europe	9.1	3.5	6.8
Asia	2.7	3.3	2.8
of which: Japan	*-3.6*	*-4.2*	*-3.7*
Africa	10.2	9.3	9.9
Oceania	7.5	6.1	6.8
Total	**5.7**	**3.9**	**4.9**

Source: Swiss Re - SIGMA

WORLDWIDE DIRECT INSURANCE IN 2005 - MARKET SHARES



Source: Swiss Re - SIGMA

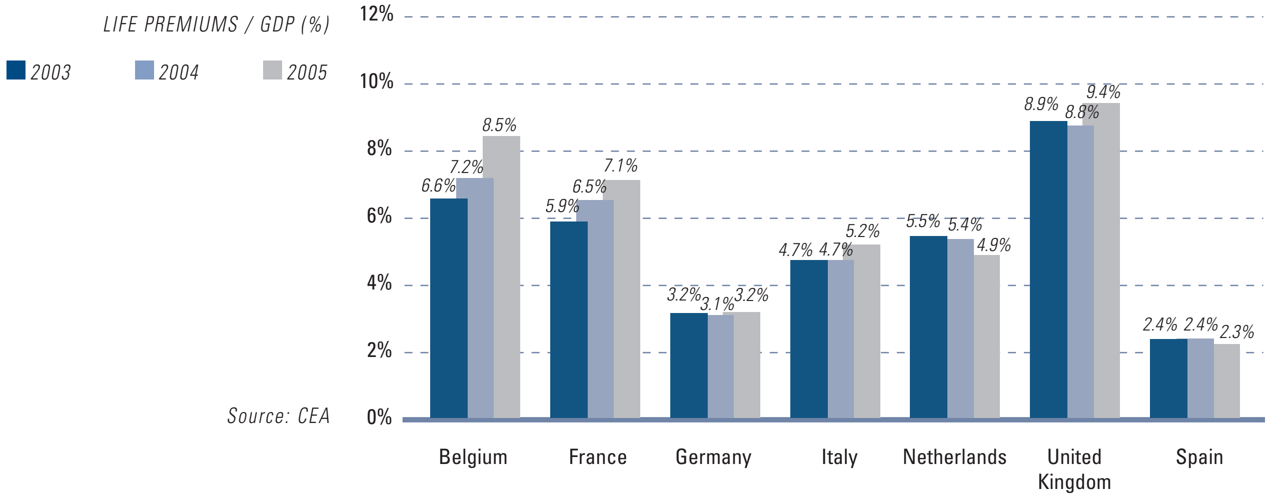
THE IMPORTANCE OF INSURANCE BY COUNTRY

The ratio of premium volume to GDP – the insurance "penetration" index – moved differently in the life and non-life sectors between 2003 and 2005.

In the life sector, France, Belgium, Italy and United Kingdom increased their ratio; in particular in France the index passed from 6.5% in 2004 to 7.1% in 2005, in Belgium it reached 8.5% (7.2% in 2004) and in Italy 5.2% (4.7% in 2004).

In United Kingdom, where the index is the highest of Europe, the ratio increased by 9.4% (8.8% in 2004). In Germany the index remained practically unchanged at 3.2% whereas in the Netherlands and in Spain it decreased by 4.9% and 2.3% respectively.

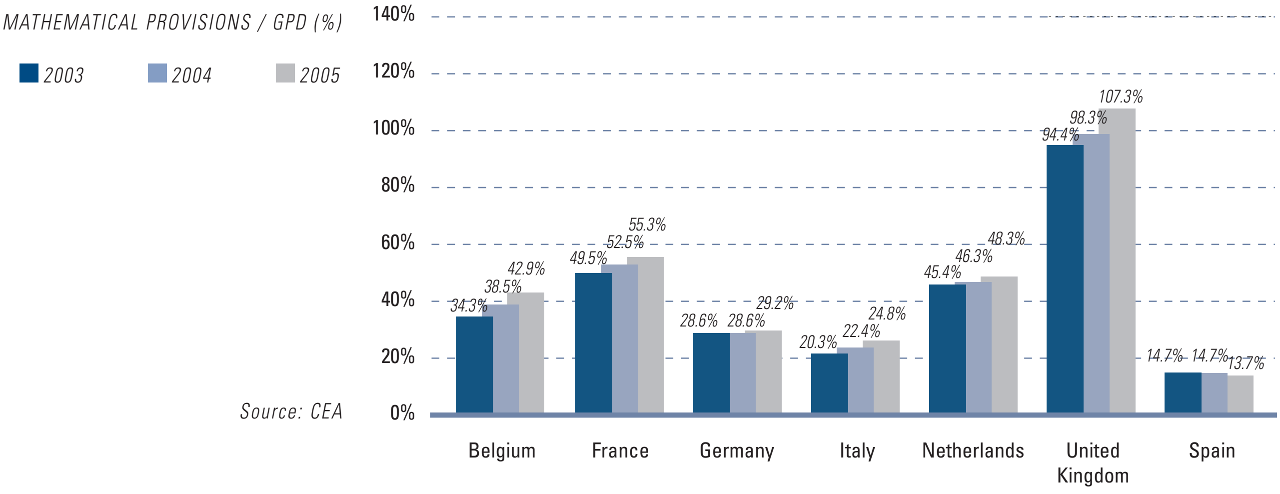
LIFE PREMIUMS / GDP (%)



Source: CEA

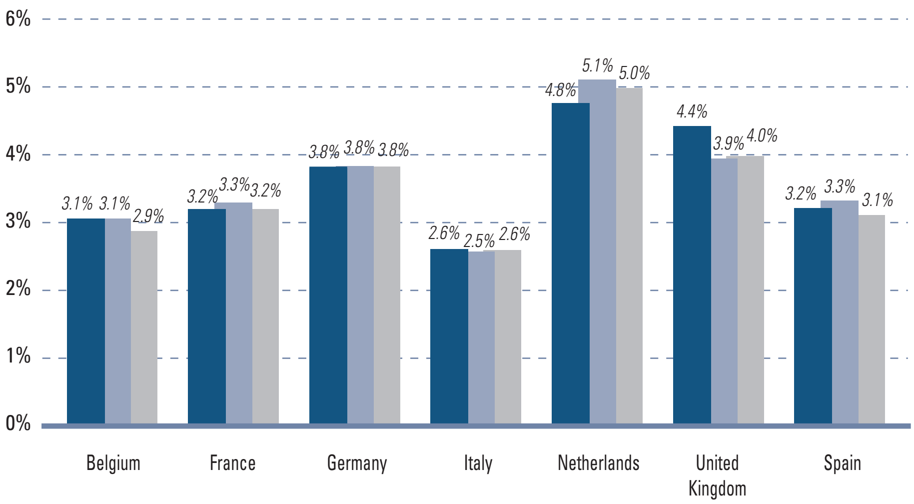
Between 2003 and 2005 the ratio of life insurance provisions to GDP – an indicator that proxies for the degree of maturity of the life insurance market – rose in Italy from 20.3% to 24.8%; despite the increase, the value of the ratio remained lower than in the other European countries except Spain, where it was 13.7% in 2005, lower than the previous year. Also in Germany the index value was lower than other European countries (29.2%). Higher indices were registered by the United Kingdom (107.3%), France (55.3%), the Netherlands (48.3%) and Belgium (42.9%).

MATHEMATICAL PROVISIONS / GPD (%)



Source: CEA

In non-life insurance, Italy still had the lowest ratio of premiums to GDP in Europe, at 2.6% in 2005, substantially stable compared to the previous year. Over the three years the gap with the other countries also held practically unchanged; in particular, in 2005, nearly half a percentage point vis-à-vis Belgium in 2005, more than half a percentage point vis-à-vis France and Spain, more than a percentage point vis-à-vis Germany and the United Kingdom and nearly 2.5 points vis-à-vis the Netherlands.

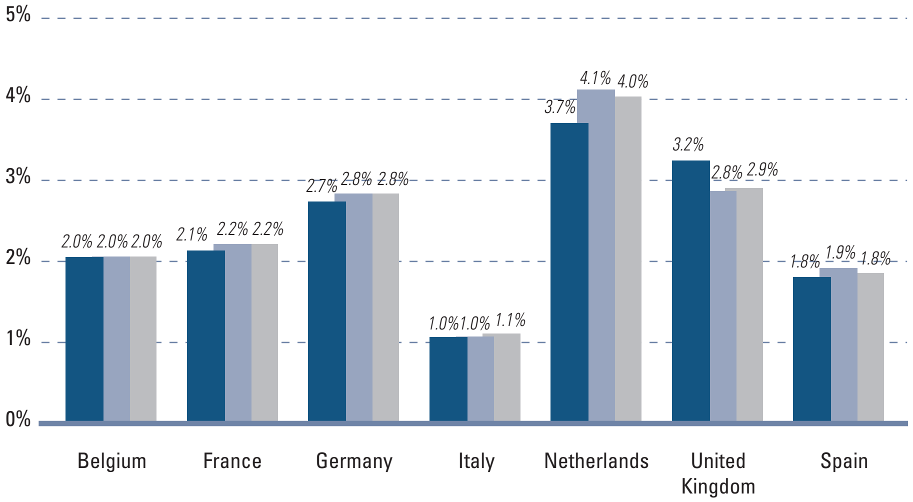


NON-LIFE PREMIUMS / GDP (%)

2003 *2004* *2005*

Source: CEA

The gap of Italy with other European countries increases, in terms of the insurance "penetration" index, excluding motor premiums by the ratio of premiums to GDP. It allows to clearly compare the degree of tendency to insurance, as motor class is mandatory by law everywhere.



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

2003 *2004* *2005*

Source: CEA

The ratio was equal to 1% in Italy, while other countries registered values on average two times higher (as in Belgium, France and Spain) or even three or four time higher, as in Germany, United Kingdom and the Netherlands.

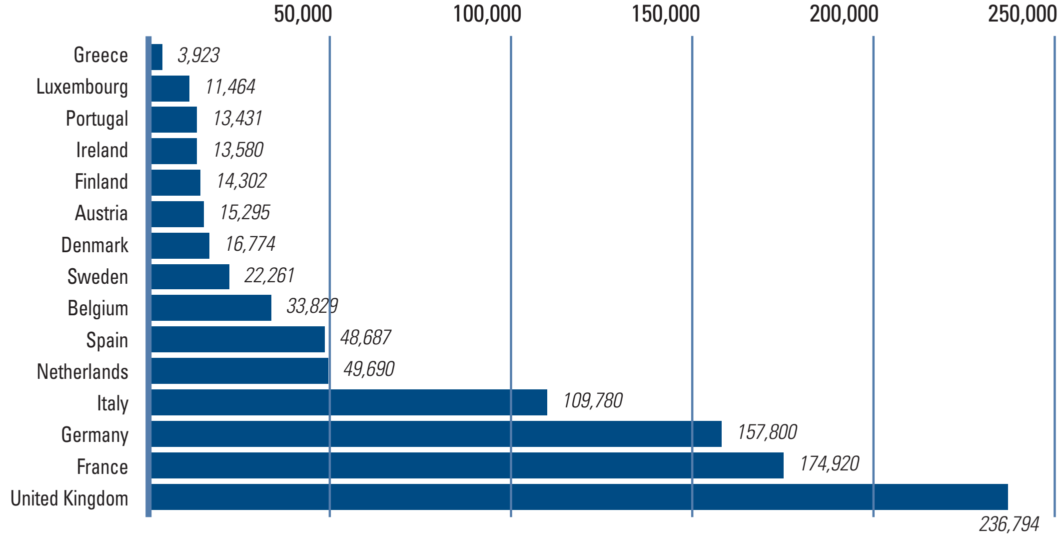
THE MAIN MARKETS IN THE EUROPEAN UNION

Insurance companies in the first 15 EU member states wrote premiums for Euro 922,530 million in 2005, an increase of 8.4% which follows the 5.5% increase in 2004. The volume of premiums expanded in all countries. The sharpest gains were recorded by Portugal (28.3%) Luxembourg (27.8%), Belgium (19.0%), Sweden (16.1%), Ireland (13.2%) and France (10.6%).

Life insurance premiums expanded by 11.6% in 2005, after increasing by 6.8% the previous year. Exceptionally strong growth was registered in Portugal (49.4%), Belgium (26.7%), Luxembourg (25.3%), Ireland ((22.8%) and Austria (15.6%). The only country in which life premiums written declined was the Netherlands (-1.6% compared to the previous year).

Non-life premiums rose by 3.6% in 2005 compared to the previous year (same value in 2004). A positive influence came from the rise in premiums in Luxembourg (44.9%), Sweden (22.9%), Finland (7.5%), Spain (7.2%) and the Netherlands (5.9%). A negative contribution came from Ireland (-5.6%).

DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2005
TOTAL
Euro million

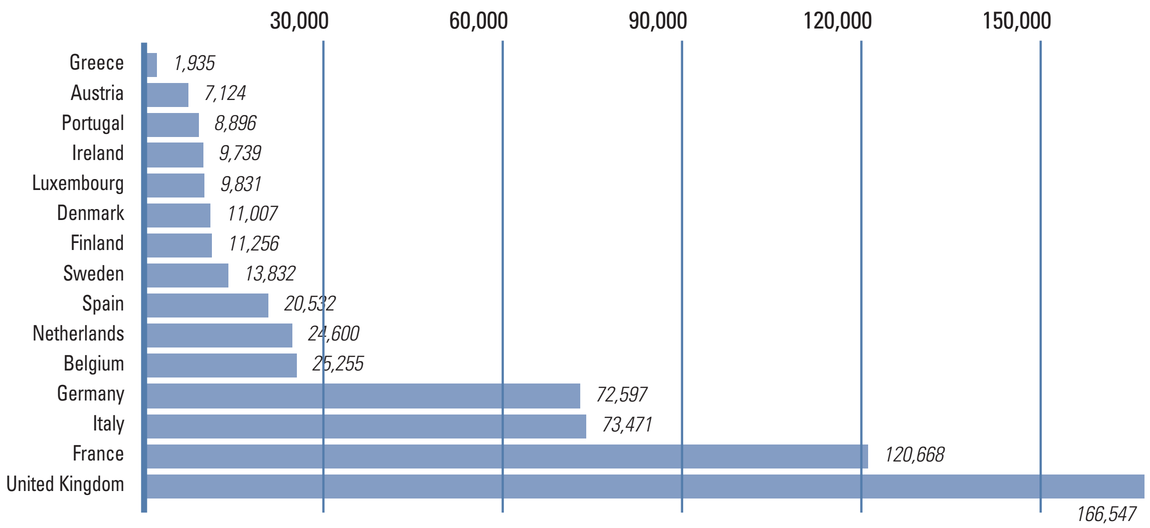


Source: CEA

DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2005

LIFE

Euro million

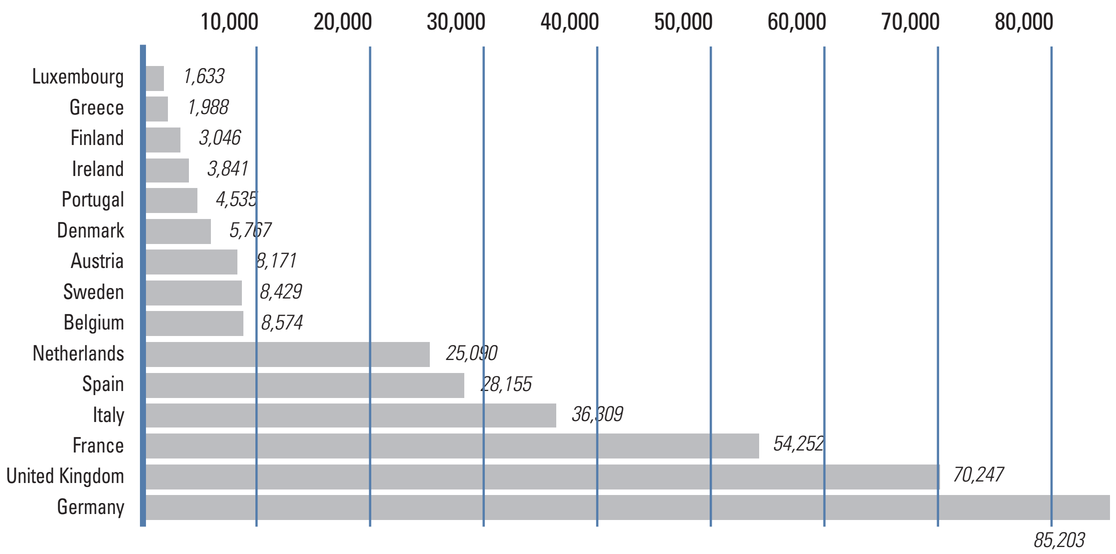


Source: CEA

DIRECT PREMIUMS IN THE EUROPEAN UNION (15) IN 2005

NON-LIFE

Euro million

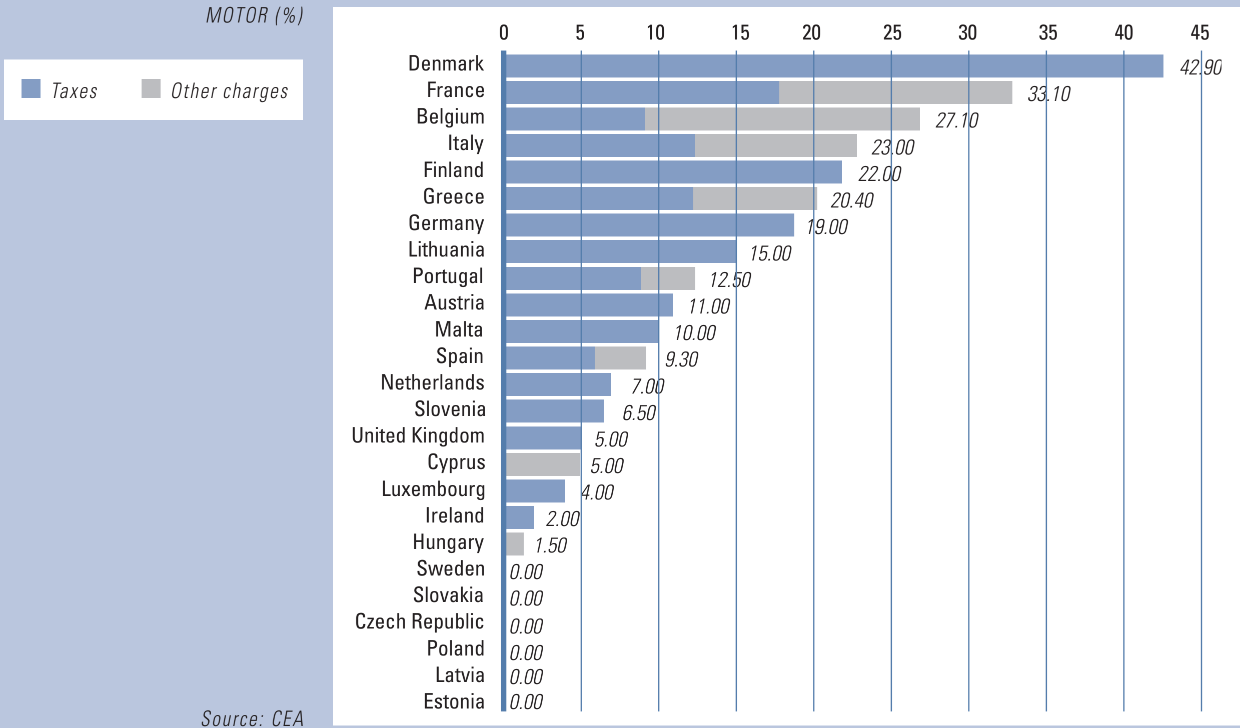


Source: CEA

TAXATION OF PREMIUMS IN THE EUROPEAN UNION

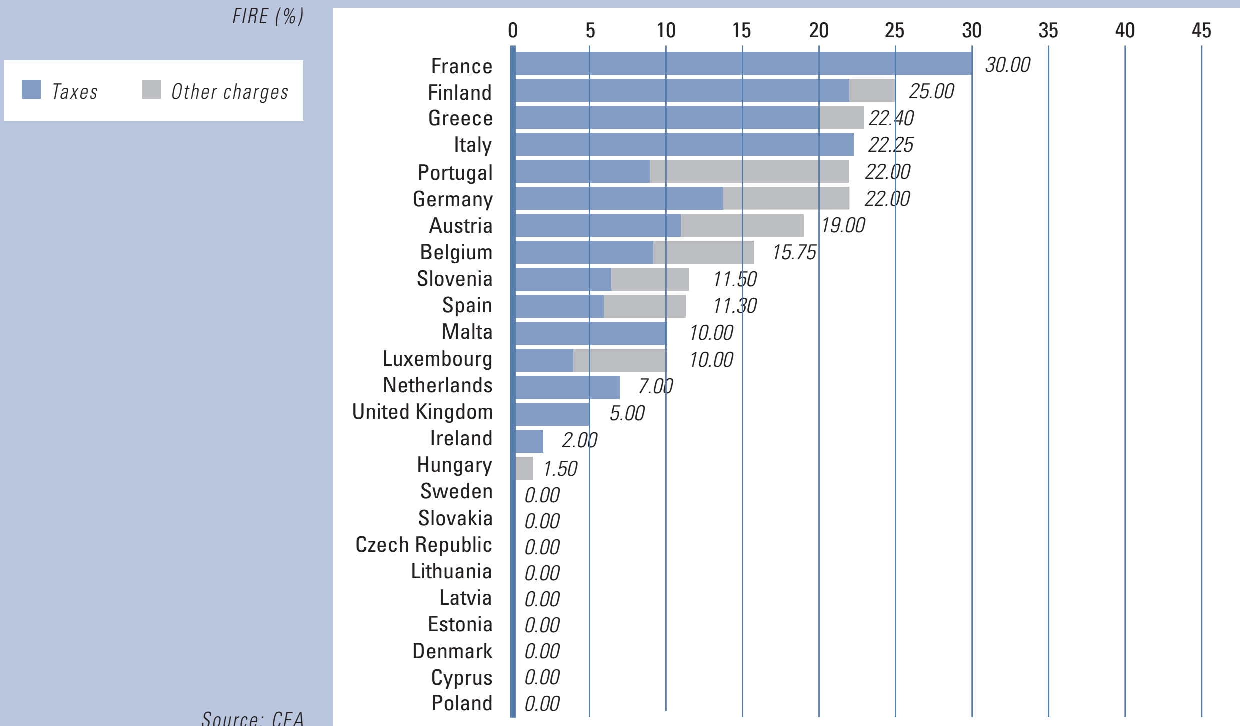
The situation of Italian indirect taxation seems to be consolidated, characterised by one of the highest fiscal pressures registered in the EU.

MOTOR (%)

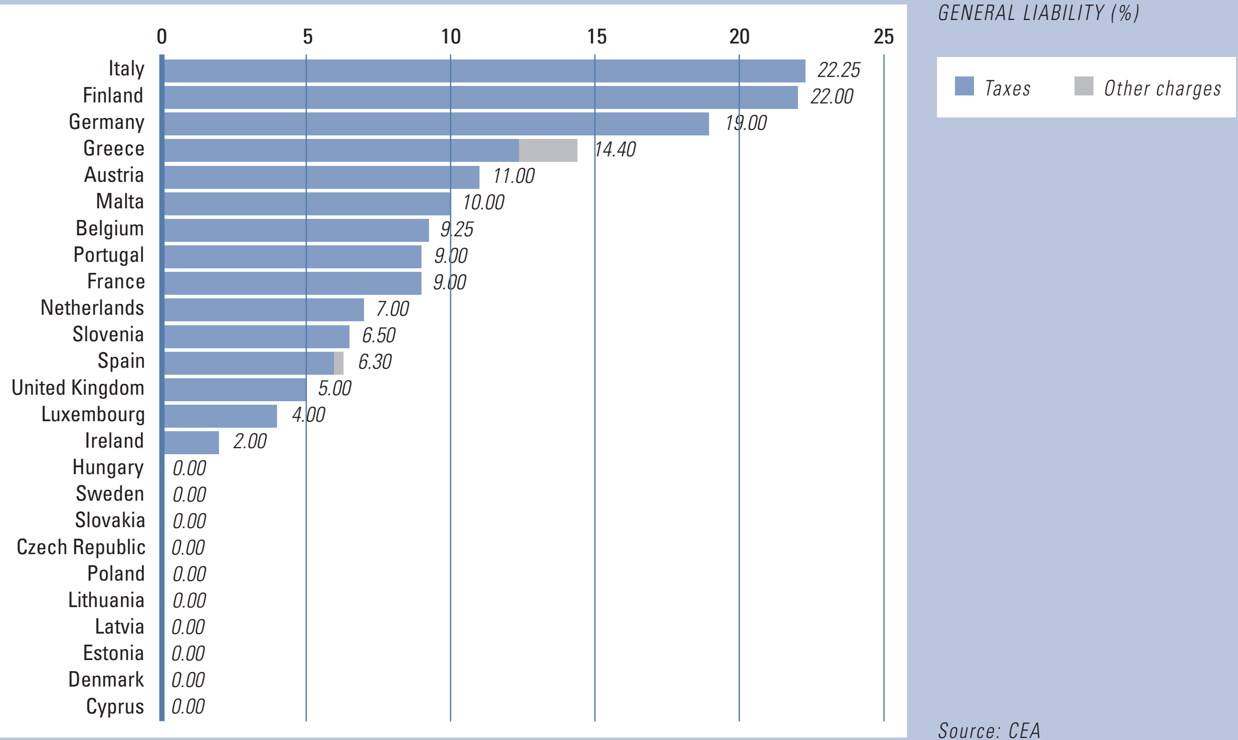


Source: CEA

FIRE (%)



Source: CEA



Source: CEA

INSURANCE PROFIT AND LOSS ACCOUNTS IN EUROPE

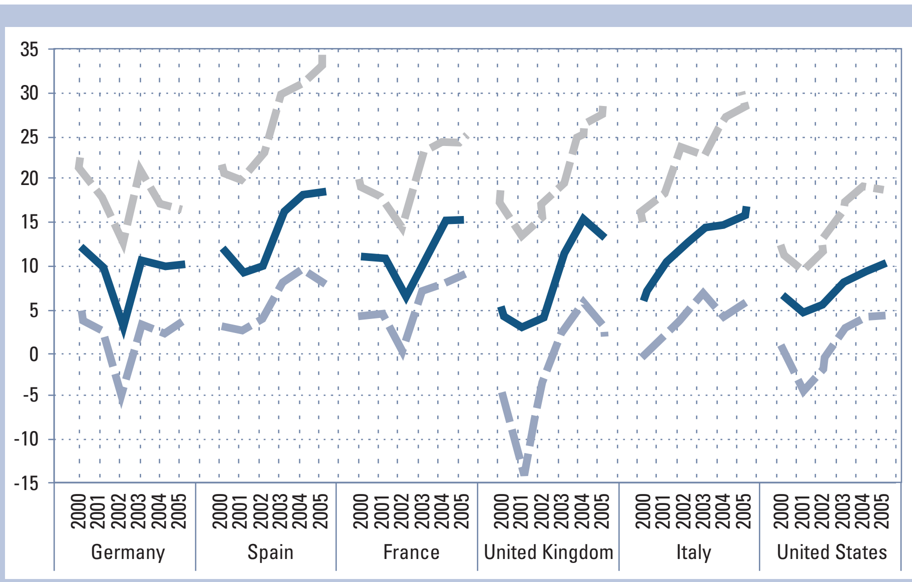
The Bureau van Dijk ISIS database gives details on the profit and loss accounts and balance sheets of European insurance companies. The database takes information from Fitch-IBCA on a sample of companies that account for about 90 percent of the market. Here, we use it to examine comparative trends in insurance profitability in the United States, France, Germany, Spain and Italy, from 2000 to 2005.

Non-Life companies

The companies doing Non-Life insurance business surveyed by ISIS in the countries considered in 2005 numbered 2,190: 1,542 in the US, 112 in the United Kingdom, 113 in France, 237 in Germany, 63 in Italy and 123 in Spain. Profitability is measured as the ratio of pre-tax profits to equity (defined as the sum of subscribed capital, reserves for own shares, revaluation reserves, other reserves and retained profits). This summary indicator shows that Italian insurance companies' median profitability increased from 14,8% in 2004 to 16,1% in 2005. The median German ROE held steady (10.1% in 2005, compared with 10.0% the previous year). French median profitability rose slightly (15.1% in 2005, up from 14.9% in 2004) as did Spanish (18.4%, up from 18.0%) and American (10,3%, up from 9,4%). Profitability decreased from 14,9% in 2004 to 13,2% in 2005 in the United Kingdom.

FIGURE 1
RETURN ON EQUITY – NON-LIFE

75%-ile
Median
25%-ile



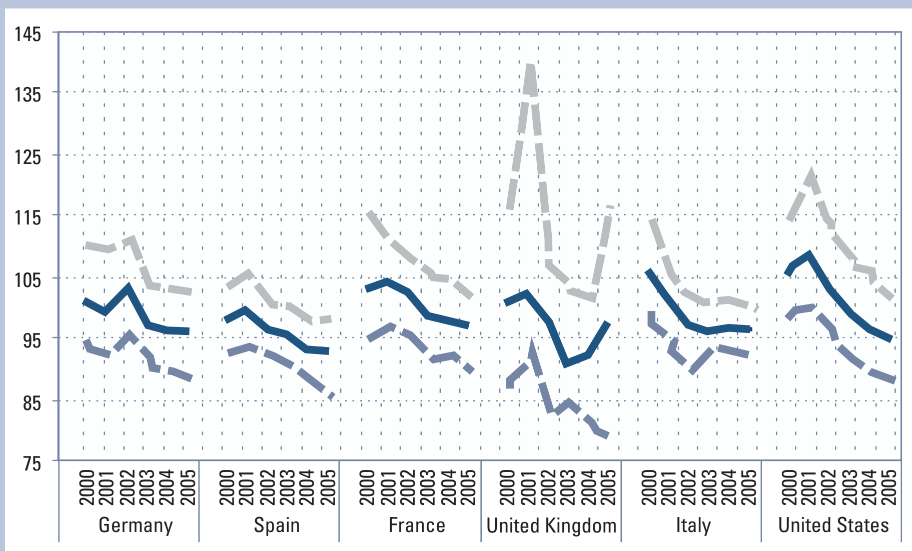
Source: Bureau van Dijk, ISIS

We can gauge the dispersion about the median by the interquartile distance, i.e. the difference between the indicator values for the companies in the first and the third quartiles of firms ranked in increasing order of profitability. The interquartile distance in Italy was quite large in 2005, 23 percentage points, owing to gains scored by the more profitable companies and deterioration for the less profitable. The difference in France was 16 points, in Germany 14, in the United Kingdom 25, in the United States 14 and in Spain 26 (Figure 1).

The main technical indicator, the combined ratio – the sum of the loss ratio and the expense ratio – of the median Italian insurance company fell slightly from 96.6% in 2004 to 96.3% in 2005. In Germany and Spain it declined too, respectively from 96.7% to 96.1% and from 93.1% to 92.9%. French companies recorded

FIGURE 2
COMBINED RATIO % – NON-LIFE

75%-ile
Median
25%-ile



Source: Bureau van Dijk, ISIS

a decrease in the combined ratio: from 98.1% in 2004 to 97.1% in 2005. In the United States this ratio fell to 94.7% from 96.3%, whereas in the United Kingdom it increased from 92.3% in 2004 to 97.4% in 2005. The interquartile distance of the sample companies was 8 percentage points in Italy, 12 in France, 14 in Germany, 37 in the United Kingdom, 14 in the United States and 13 in Spain (Figure 2).

Except the United Kingdom, the change in the combined ratio in 2005 essentially reflected the trend in claims, with a loss ratio of 68.9% in Italy, 76.0% in France, 68.6% in Germany, 69.4% in the United Kingdom, 66.0% in the United States, and 70.1% in Spain (Figure 3). In 2005 the expense ratio was equal to 27.1% in Italy, 23.9% in France, 26.9% in Germany, 31.5% in the United Kingdom, 28.6% in the United States and 20.9% in Spain (Figure 4).

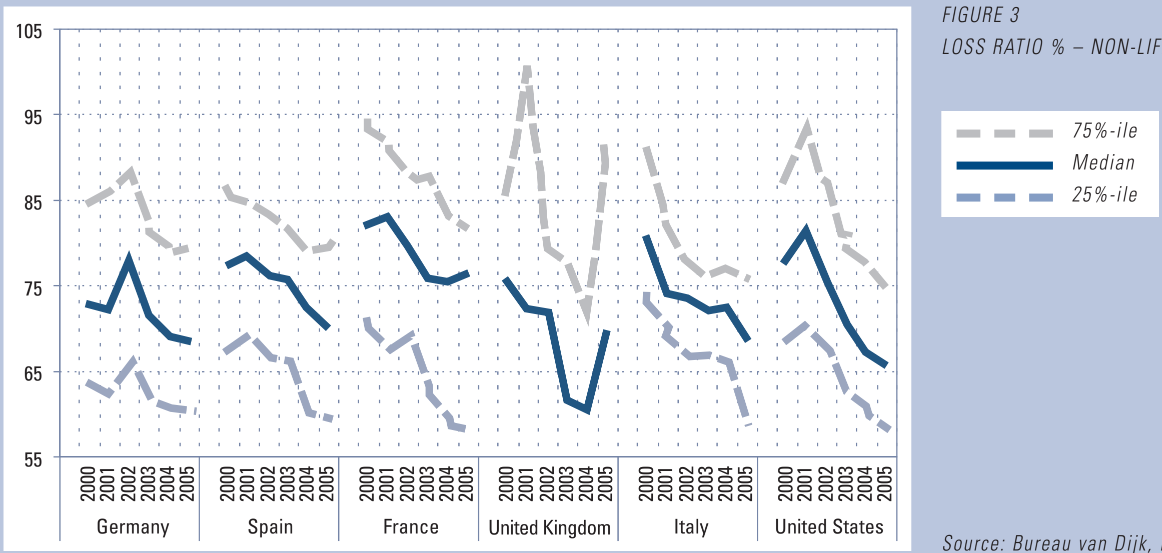


FIGURE 3
LOSS RATIO % – NON-LIFE

Source: Bureau van Dijk, ISIS

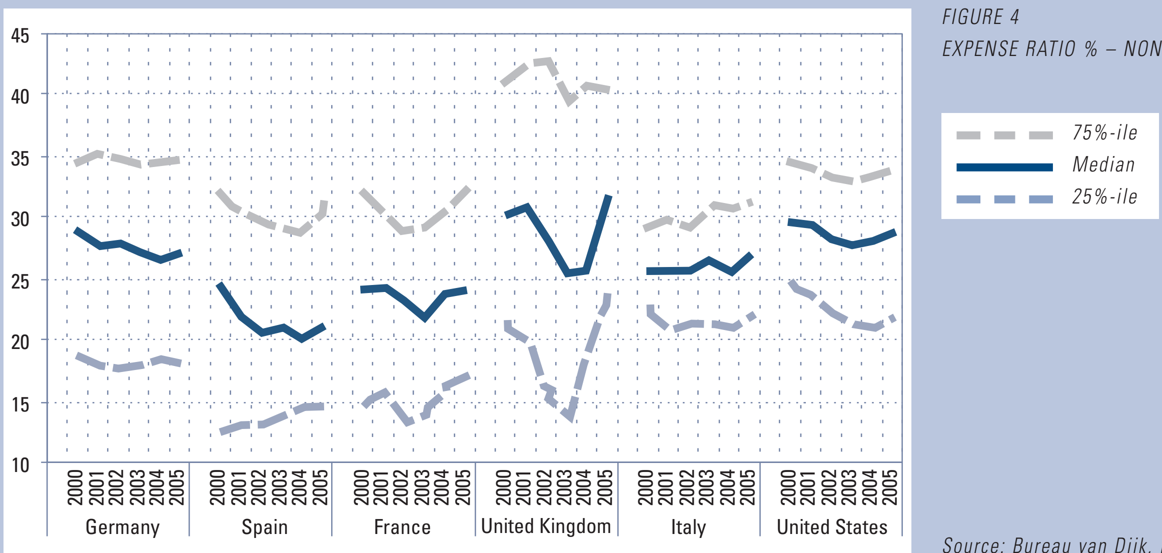
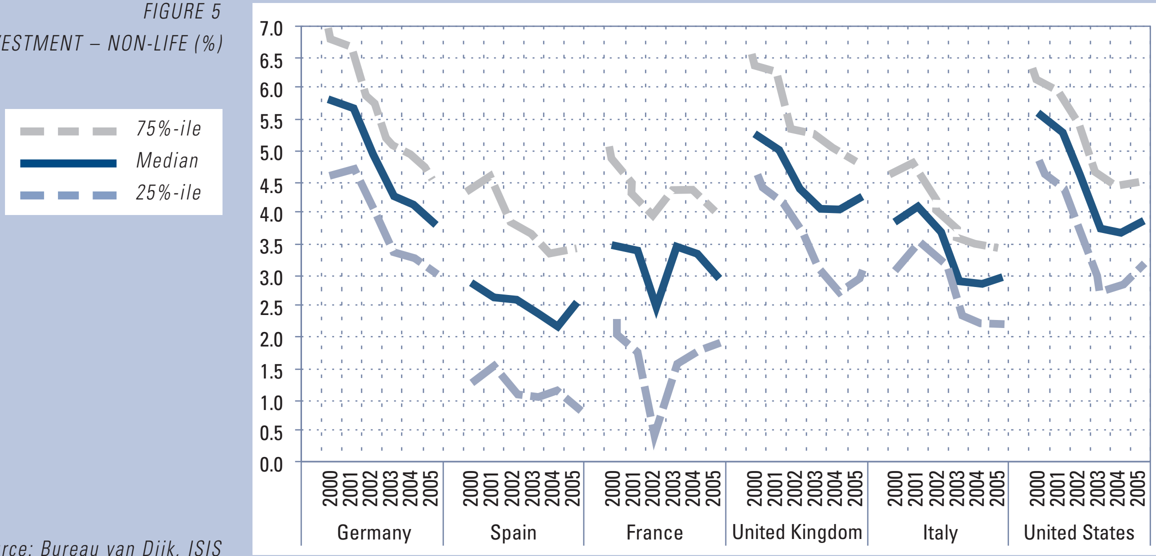


FIGURE 4
EXPENSE RATIO % – NON-LIFE

Source: Bureau van Dijk, ISIS

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



Source: Bureau van Dijk, ISIS

The return on investment for the median company in Italy and the United States held virtually steady at 2.9% and 3.8% respectively in 2005, while falling to 3.0% in France and 3.9% in Germany (3.4% and 4.1% in 2004 respectively). It increased slightly in the United Kingdom (from 4.0% in 2004 to 4.2% in 2005) and in Spain (from 2.2% in 2004 to 2.5% in 2005). The concentration of companies around the median value is comparable in all countries. The interquartile distance was 2.3 percentage points in France, 1.6 in Germany, 1.9 in the United Kingdom, 1.3 in Italy, 1.4 in the United States and 2.5 in Spain (Figure 5).

Life companies

The companies doing Life insurance business covered by the ISIS database in 2005 numbered 1,038: 525 in the United States, 76 in the United Kingdom, 78 in France, 226 in Germany, 65 in Italy and 68 in Spain. The ROE of the median Italian company in the Life sector rose from 15.7% in 2004 to 16.6% in 2005. The Spain and British median also gained appreciably, from 17.8% to 19.0% and from 12.5% to 16.4% respectively. The indicator also grew in France (from 10.0% to 10,4%) and Germany (from 6.8% to 9.6%). In the United States median profitability remained quite steady (from 12.4% in 2004 to 12.5% in 2005). Profitability is highly variable, with interquartile distances of 12.7 percentage points in Italy, 10.3 in France, 20.0 in Germany, 21.2 in the United Kingdom, 16.2 in the United States and 21.6 in Spain (Figure 6).

In 2005 the expense ratio of the median company was 7.1% in Italy, increasing slightly from 6.9% in 2004. It fell in France from 8.8% in 2004 to 7.6% in 2005, in Germany from 14.9% to 11.1%, in Spain from 11.6% to 10.5% and in the United States from 27.3% to 26.6%. On the contrary it rose to 17.7% from 17.4% in the United Kingdom. The mean and the dispersion of the expense ratio vary signif-

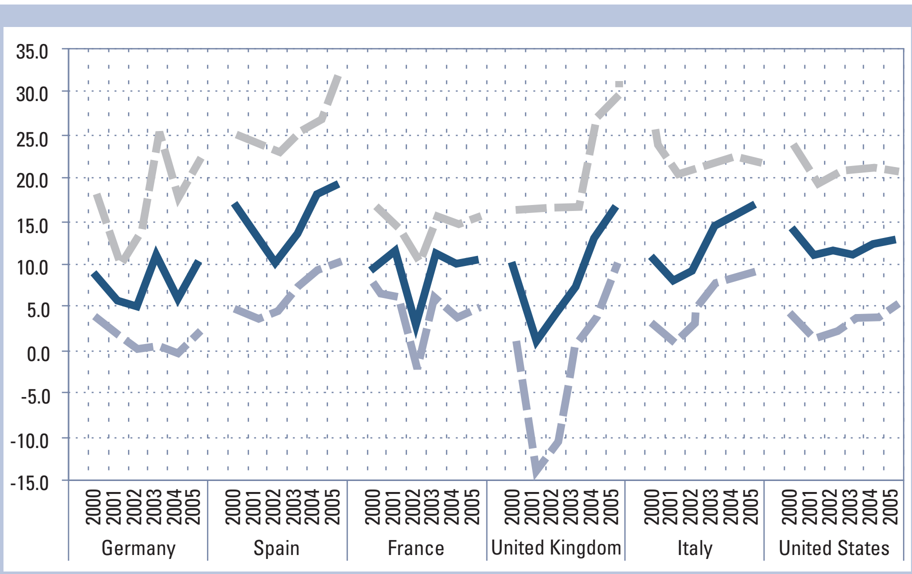


FIGURE 6
RETURN ON EQUITY – LIFE (%)

Source: Bureau van Dijk, ISIS

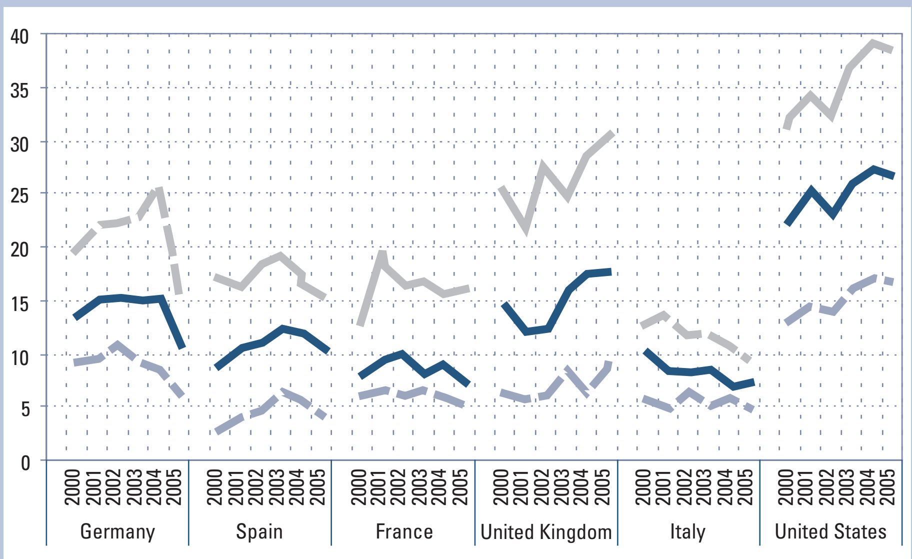


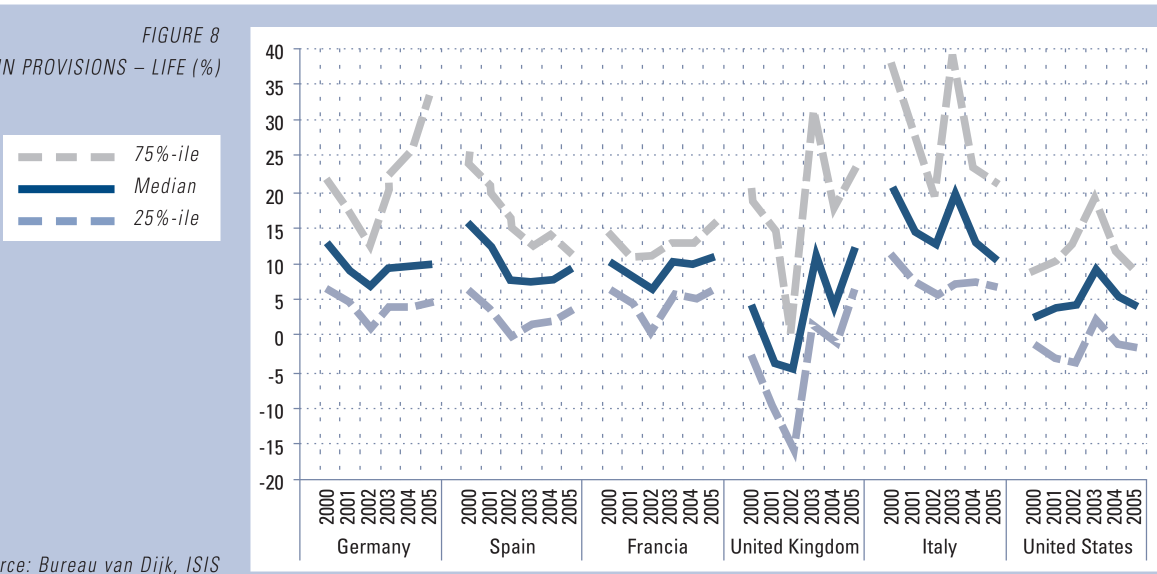
FIGURE 7
EXPENSE RATIO – LIFE (%)

Source: Bureau van Dijk, ISIS

icantly across countries, reflecting among other things the differing degree of development of linked policies characterized by a lower expense ratio. In 2005 the interquartile distance for Italian companies was 5.1 percentage points, compared with 10.8 in France, 10.3 in Germany, 21.6 in the United Kingdom, 22.6% in the United States and 11.7 in Spain (Figure 7).

Median provisions for Italian companies in the Life sector increased by 11.0% in 2005, after rising 13.3% in 2004. In the rest of the European countries considered provisions grew more fastly: 10.8% in France (10.0% in 2004), 10.2% in Germany (9.3%) 12.0% in the United Kingdom (4.5%) and 9.1% in Spain (7.7%). In the United States provision slowed down, increasing by 4.1% against 5.5% in 2004. Dispersion among Italian companies diminished, with the difference

FIGURE 8
CHANGE IN PROVISIONS – LIFE (%)

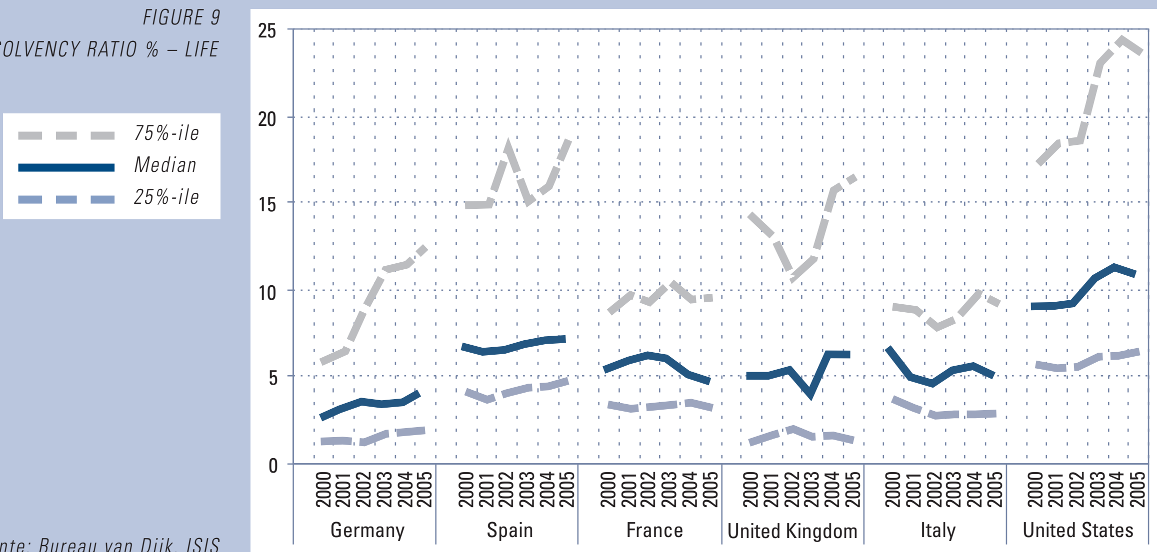


Source: Bureau van Dijk, ISIS

between the first and third quartile of the distribution coming down to 14.9 percentage points, compared with 8.7 points in France, 27.8 in Germany, 16.5 in the United Kingdom, 10.9 in the United States and 8.2 in Spain (Figure 8).

The median solvency ratio – the ratio of equity to total assets – declined slightly in Italy from 5.5% in 2004 to 5.1% in 2005. In France from 5.0% to 4.7% and in the United States from 11.2% to 10.9%, while rising in Germany from 3.5% to 3.8%. In the United Kingdom and in Spain the ratio barely changed, respectively: from 6.2% in 2004 to 6.3% in 2005 amd from 7.1% in 2004 to 7.2% in 2005. The interquartile distance in Italy was 6.3 percentage points, as against 10.4 in Germany, 17.0 in the United States, 6.5 in France, 15.1 in the United Kingdom and 13.8 in Spain (Figure 9).

FIGURE 9
SOLVENCY RATIO % – LIFE



Fonte: Bureau van Dijk, ISIS

PROFITABILITY OF LISTED EUROPEAN INSURANCE COMPANIES IN 2006

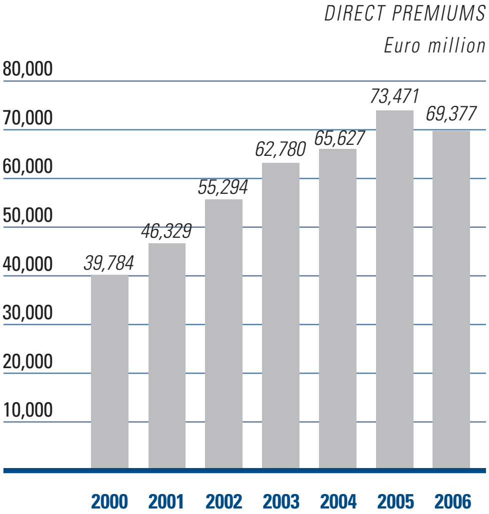
The profitability of listed Italian insurance companies recorded a slight decrease in 2006: the ROE of the median company dropped from 16.8% in 2005 to 15.5% in 2006. A similar trend was observed in France (from 18.9% to 15.7%). The ROE increased in Germany and in the United Kingdom, where it was equal to 19.2% and 20.0% respectively. Higher figures were recorded in the Netherlands, Spain, Ireland and in the Northern countries.

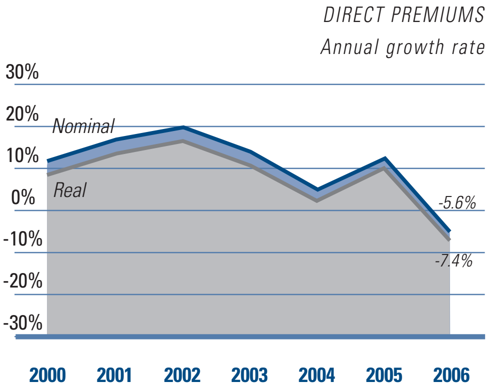
RETURN ON EQUITY OF LISTED INSURANCE COMPANY

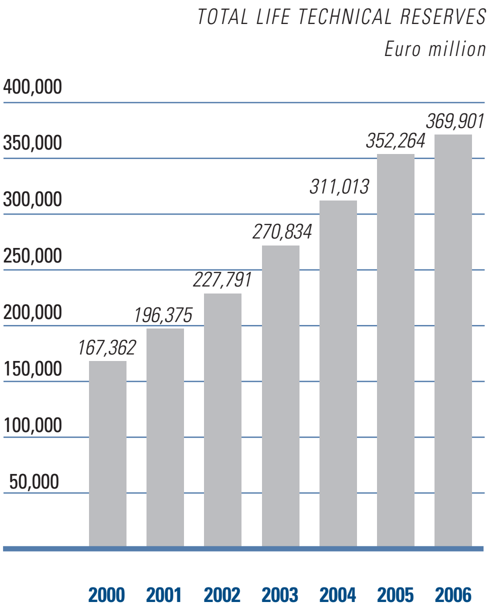
	2002	2003	2004	2005	2006
Denmark	5.0	13.9	18.1	22.3	35.4
Finland	13.5	12.1	25.8	26.6	22.7
France	5.9	12.0	11.9	18.9	15.7
Germany	0.7	8.1	8.9	17.0	19.2
Ireland	12.5	24.9	27.0	26.7	33.3
Italy	6.3	12.3	13.3	16.8	15.5
Netherlands	16.5	16.2	18.2	23.9	21.0
Spain	10.9	15.8	20.9	22.3	23.9
United Kingdom	5.7	11.9	15.9	18.6	20.0

Source: Thomson Financial data processed by ANIA

Life insurance







In 2006 life insurance premiums decreased by 5.6% compared to 2005. This result is due to a strong reduction of Class V product premiums (-30%), to a 3.3% decrease of Class I product premiums and to an increase of linked product premiums (+3.8%). The reduction in both premiums and investment income contributed to the decrease in overall technical account result.

DOMESTIC BUSINESS

Premiums for direct domestic business for the 89 insurance companies operating in life classes amounted to Euro 69,377 million with a 5.6% decrease in nominal terms (+12.0% in 2005) and 7.4% decrease in real terms (+10.1% in 2005). Life premiums represent 65% of the total (life and non-life) reflecting a decrease by more than two percentage points compared to 2005.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 57,716 million with a 32.0% increase.

In spite of the lower level of premiums, mathematical provisions increased by 5.0%, to Euro 369,901 million; this result is due to the revaluation of the stock thanks to the good performance of the stock market and to positive net premium flows. Net premiums, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was equal to Euro 11,661 million, compared to Euro 29,761 million in 2005. The incidence of the net collection on the change in mathematical provisions was equal to 63.3% (72.2% in 2005).

The **changes in mathematical** and other technical provisions were equal to Euro 18,426 million (Euro 41,196 million in 2005).

Operating expenses were equal to Euro 4,597 million (Euro 4,308 million in 2005); they include, in addition to acquisition costs, costs arising from premium collection and costs relating to the organisation and operation of the distribution network, also the administration expenses relating to the technical management of insurance business. The ratio of operating expenses to premiums was equal to 6.6% (5.9% in 2005), mainly due to the strong reduction in the sale of with-profit policies, characterized by a lower expense ratio.

Considering the investment income equal to Euro 12,168 million (Euro 17,062 million in 2005), **the result of the technical account for direct business**

LIFE TECHNICAL ACCOUNT
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	39,784	46,329	55,294	62,780	65,627	73,471	69,377
Incurred claims (-)	13,574	16,100	21,783	25,453	34,313	43,710	57,716
Changes in technical provisions (-)	26,693	28,981	31,504	43,257	39,666	41,196	18,426
Balance of other technical items	-5	175	284	427	476	697	675
Operating expenses (-)	3,398	3,323	3,379	3,745	3,864	4,308	4,597
Investment income	4,688	2,812	1,845	10,661	13,523	17,062	12,168
Direct technical account result	**802**	**912**	**757**	**1,413**	**1,783**	**2,016**	**1,481**
Reinsurance result and other items	659	480	279	293	249	327	459
Overall technical account result	**1,461**	**1,392**	**1,036**	**1,706**	**2,032**	**2,343**	**1,940**
Annual % changes in premiums	11.8%	16.5%	19.4%	13.5%	4.5%	12.0%	-5.6%
Expense ratio	8.5%	7.2%	6.1%	6.0%	5.9%	5.9%	6.6%
Investment income/Technical provisions	3.0%	1.5%	0.9%	4.3%	4.6%	5.1%	3.5%
Technical account result/Gross written premiums	**2.0%**	**2.0%**	**1.4%**	**2.3%**	**2.7%**	**2.7%**	**2.1%**
Overall technical account result/Gross written premiums	**3.7%**	**3.0%**	**1.9%**	**2.7%**	**3.1%**	**3.2%**	**2.8%**
Overall technical account result/Technical provisions	**0.95%**	**0.77%**	**0.49%**	**0.68%**	**0.70%**	**0.71%**	**0.55%**

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

reflected a profit of Euro 1,481 million (Euro 2,016 million in 2005). The ratio to premiums decreased from 2.7% in 2005 to 2.1% in 2006.

The net result for reinsurance activities and indirect insurance business was positive at Euro 459 million (Euro 327 million in 2005).

The overall technical account result was equal to Euro 1,940 million (Euro 2,343 million in 2005). A reduction is observed both in the ratio to premiums (from 3.2% in 2005 to 2.8% in 2006) and in the ratio to the centred mean of technical reserves (from 0.71% in 2005 to 0.55% in 2006).

INDIVIDUAL LIFE CLASS

Life insurance

Premiums for direct domestic business, collected from the 87 companies operating in this class, amounted to Euro 32,753 million; the decrease was equal to 3.3% compared to 2005. The ratio to premiums for the class on the total life premiums increased from 46.1% in 2005 to 47.2% in 2006. Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 23,034 million (+26.2% compared to 2005).

The **changes in mathematical** and other technical provisions were equal to Euro 12,746 million representing a 31.5% decrease; this result is in line with the growth of the amounts paid, due to the expiring of contracts written in previous years.

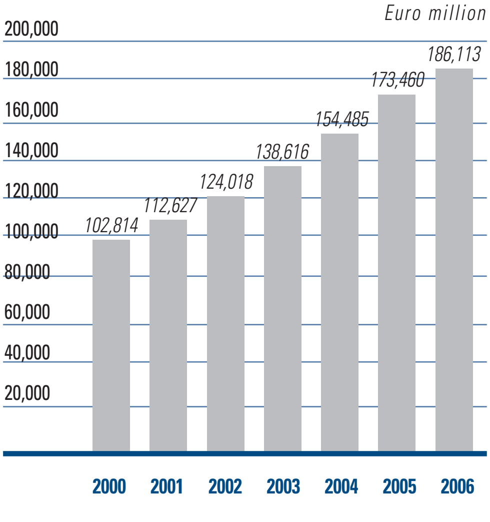
On the whole **net premiums**, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was equal to Euro 9,719 million, compared to Euro 15,618 million in 2005. The incidence of the net collection on the change in mathematical provisions was equal to 76.3% (83.9% in 2005).

CLASS I - LIFE
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	15,967	19,413	23,991	27,788	30,101	33,871	32,753
Incurred claims (-)	9,686	11,254	13,660	14,839	16,761	18,253	23,034
Changes in technical provisions (-)	8,680	9,806	12,233	14,737	15,692	18,610	12,746
Balance of other technical items	-66	-81	-109	-96	-88	-41	-71
Operating expenses (-)	2,019	1,791	1,770	1,941	2,048	2,365	2,641
Investment income	5,403	4,801	4,399	5,350	5,950	6,458	6,611
Direct technical account result	**919**	**1,282**	**618**	**1,525**	**1,462**	**1,060**	**872**
Reinsurance result and other items	642	407	293	292	247	371	446
Overall technical account result	**1,561**	**1,689**	**911**	**1,817**	**1,709**	**1,431**	**1,318**
Annual % changes in premiums	-9.3%	21.6%	23.6%	15.8%	8.3%	12.5%	-3.3%
Expense ratio	12.6%	9.2%	7.4%	7.0%	6.8%	7.0%	8.1%
Investment income/Technical provisions	5.5%	4.5%	3.7%	4.1%	4.1%	3.9%	3.8%
Technical account result/Gross written premiums	**5.8%**	**6.6%**	**2.6%**	**5.5%**	**4.9%**	**3.1%**	**2.7%**
Overall technical account result/Gross written premiums	**9.8%**	**8.7%**	**3.8%**	**6.5%**	**5.7%**	**4.2%**	**4.0%**
Overall technical account result/Technical provisions	**1.57%**	**1.57%**	**0.77%**	**1.38%**	**1.17%**	**0.87%**	**0.75%**
Premiums to total life premiums ratio (%)	*40.1%*	*41.9%*	*43.4%*	*44.3%*	*45.9%*	*46.1%*	*47.2%*

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

TECHNICAL PROVISIONS - CLASS I - LIFE
Euro million



Operating expenses were equal to Euro 2,641 million (Euro 2,365 million in 2005). The ratio to premiums was 8.1% (7.0% in 2005).

Considering the investment income, equal to Euro 6,611 million (Euro 6,458 million in 2005), **the result of the technical account for direct business** reflected a profit of Euro 872 million (Euro 1,060 million in 2005). The ratio to premiums decreased slightly passing from 3.1% in 2005 to 2.7% in 2006.

The net result for reinsurance activities and indirect insurance business was positive at Euro 446 million.

The overall technical account result was equal to Euro 1,318 million, in slight decrease compared to Euro 1,431 million in 2005. The ratio to premiums was substantially stable compared to 2005 and equal to 4.0%; on the contrary the incidence on the centred mean of technical reserves passed from 0.87% to 0.75%, due to a 7.3% increase in the stock of provisions.

Life insurance linked to investments funds or index-linked insurance

Premiums for direct domestic business for the 78 insurance companies operating in this class amounted to Euro 27,385 million (a 3.8% increase compared to 2005). The percentage on the overall direct life premiums passed from 35.9% in 2005 to 39.5% in 2006.

CLASS III - INVESTMENT FUNDS
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	22,214	23,613	24,559	26,488	24,756	26,389	27,385
Incurred claims (-)	2,421	3,098	5,562	7,590	13,370	20,797	25,179
Changes in technical provisions (-)	17,485	16,670	14,233	22,145	16,146	12,634	4,173
Balance of other technical items	72	267	341	548	589	757	741
Operating expenses (-)	1,282	1,394	1,378	1,578	1,614	1,706	1,746
Investment income	-1,335	-2,576	-3,318	4,156	5,993	8,781	3,770
Direct technical account result	**-237**	**142**	**409**	**-121**	**207**	**790**	**798**
Reinsurance result and other items	4	61	-19	-5	5	-45	17
Overall technical account result	**-233**	**203**	**390**	**-126**	**212**	**745**	**815**
Annual % changes in premiums	47.9%	6.3%	4.0%	7.9%	-6.5%	6.6%	3.8%
Expense ratio	5.8%	5.9%	5.6%	6.0%	6.5%	6.5%	6.4%
Investment income/Technical provisions	-3.3%	-4.4%	-4.5%	4.5%	5.4%	7.0%	2.9%
Technical account result/Gross written premiums	**-1.1%**	**0.6%**	**1.7%**	**-0.5%**	**0.8%**	**3.0%**	**2.9%**
Overall technical account result/Gross written premiums	**-1.0%**	**0.9%**	**1.6%**	**-0.5%**	**0.9%**	**2.8%**	**3.0%**
Overall technical account result/Technical provisions	**-0.57%**	**0.35%**	**0.53%**	**-0.14%**	**0.19%**	**0.59%**	**0.62%**
Premiums to total life premiums ratio (%)	*55.8%*	*51.0%*	*44.4%*	*42.2%*	*37.7%*	*35.9%*	*39.5%*

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

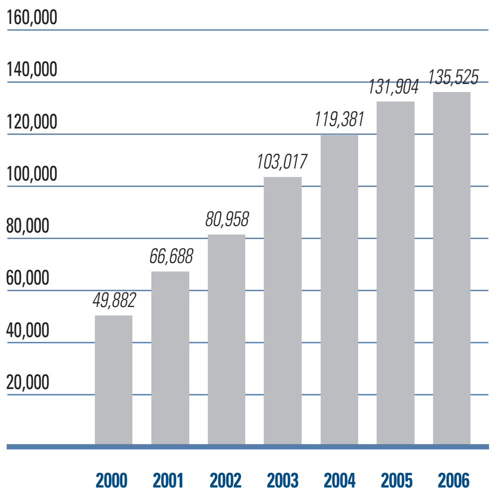
Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 25,179 million and registered a strong increase compared to 2005 (+21.1%), also for the expiring of contracts effected in the end of the 90's.

The **changes in mathematical** and other technical provisions were equal to Euro 4,173 million, 67.0% less than in 2005. This result is due to the increase of the incurred claims and to the capital account losses of the bond portfolio. Provisions stock increased by 3%, in line with the premiums collection's trend.

On the whole **net premums**, defined as the difference between premiums and amounts paid and the change in the provisions for amounts to be paid, was equal to Euro 2,206 million, compared to Euro 5,592 million in 2005. The incidence of the net collection on the change in mathematical provisions was equal to 52.9% (44.3% in 2005).

Operating expenses were equal to Euro 1,746 million (Euro 1,706 million in 2005). The ratio to premiums was 6.4%, substantially stable compared to the one in 2005.

TECHNICAL PROVISIONS - CLASS III - INVESTMENT FUNDS
Euro million



Life insurance

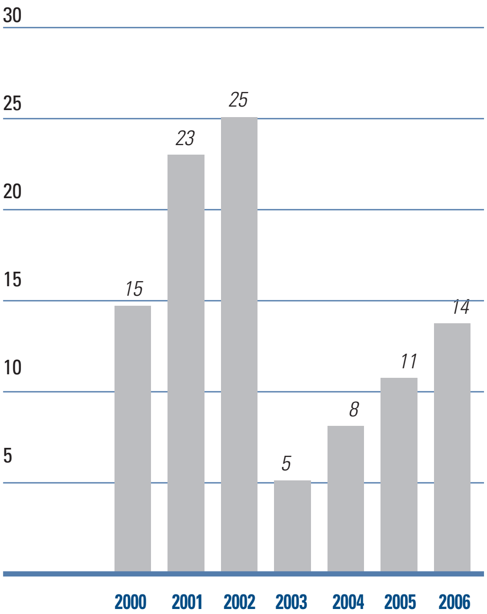
Considering the strong reduction of investment income (equal to Euro 3,770 million from Euro 8,781 million in 2005), the **result of the technical account for direct business** was positive at Euro 798 million, in line with the value recorded in 2005. The ratio to premiums was substantially stable and equal to 2.9%.

CLASS IV - HEALTHCARE
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	8	12	10	17	18	24	23
Incurred claims (-)	2	3	3	7	9	12	7
Changes in technical provisions (-)	4	8	4	2	2	2	3
Balance of other technical items	-1	0	1	0	0	-2	0
Operating expenses (-)	0	0	0	4	2	3	3
Investment income	1	1	1	0	0	1	0
Direct technical account result	**2**	**2**	**5**	**4**	**5**	**6**	**10**
Reinsurance result and other items	1	0	-2	-5	-4	-5	-9
Overall technical account result	**3**	**2**	**3**	**-1**	**1**	**1**	**1**
Annual % changes in premiums	36.1%	46.8%	-10.3%	61.3%	9.2%	28.9%	-2.4%
Expense ratio	3.6%	3.3%	2.3%	21.8%	11.6%	12.5%	12.3%
Investment income/Technical provisions	5.9%	6.0%	5.9%	1.4%	3.9%	5.6%	2.8%
Technical account result/Gross written premiums	**21.4%**	**14.8%**	**44.2%**	**24.2%**	**27.7%**	**23.6%**	**44.0%**
Overall technical account result/Gross written premiums	**34.1%**	**20.6%**	**28.9%**	**-6.2%**	**3.5%**	**6.0%**	**3.6%**
Overall technical account result/Technical provisions	**21.6%**	**12.71%**	**12.48%**	**-6.93%**	**9.67%**	**14.93%**	**7.14%**
Premiums to total life premiums ratio (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

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

TECHNICAL PROVISIONS - CLASS IV - HEALTHCARE
Euro million



The net result for reinsurance activities and indirect insurance business was positive at Euro 17 million.

The **overall technical account result** was positive at Euro 815 million (Euro 745 million in 2005). The ratio to premiums was 3.0% and the ratio to the centred mean of technical reserves amounted to 0.62%; both of them are the highest values of the last years.

Long-term healthcare insurance

Premiums for direct domestic business for the 30 insurance companies operating in this class amounted to Euro 23 million with a 2.4% increase compared to 2005.

The **overall technical account result** was positive at Euro 1 million as in 2005. The ratio to premiums was 3.6% (6.0% in 2005).

Capitalization operations

Premiums for direct domestic business for the 78 insurance companies operating in this class amounted to Euro 8,931 million reflecting a strong reduction

(-29.6% compared to 2005). The percentage on the overall direct life premiums consequently decreased passing from 17.3% in 2005 to 12.9% in 2006.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 9,432 million (Euro 4,615 million in 2005).

CLASS V - CAPITALIZATION
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	1,503	3,201	6,610	8,360	10,554	12,692	8,931
Incurred claims (-)	1,463	1,739	2,551	3,003	4,149	4,615	9,432
Changes in technical provisions (-)	435	2,421	4,951	6,243	7,631	9,418	1,237
Balance of other technical items	-12	-13	52	-26	-29	-20	-3
Operating expenses (-)	91	131	224	215	190	223	189
Investment income	621	594	792	1,136	1,558	1,751	1,740
Direct technical account result	**123**	**-509**	**-272**	**9**	**113**	**167**	**-190**
Reinsurance result and other items	12	11	7	11	1	5	5
Overall technical account result	**135**	**-498**	**-265**	**20**	**114**	**172**	**-185**
Annual % changes in premiums	-48.5%	113.0%	106.5%	26.5%	26.2%	20.3%	-29.6%
Expense ratio	6.0%	4.1%	3.4%	2.6%	1.8%	1.8%	2.1%
Investment income/Technical provisions	4.4%	3.8%	4.0%	4.4%	4.8%	4.3%	4.0%
Technical account result/Gross written premiums	**8.2%**	**-15.9%**	**-4.1%**	**0.1%**	**1.1%**	**1.3%**	**-2.1%**
Overall technical account result/Gross written premiums	**9.0%**	**-15.6%**	**-4.0%**	**0.2%**	**1.1%**	**1.4%**	**-2.1%**
Overall technical account result/Technical provisions	**0.95%**	**-3.18%**	**-1.35%**	**0.08%**	**0.35%**	**0.42%**	**-0.42%**
Premiums to total life premiums ratio (%)	*3.8%*	*6.9%*	*12.0%*	*13.3%*	*16.1%*	*17.3%*	*12.9%*

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

The **changes in mathematical** and other technical provisions were equal to Euro 1,237 million (Euro 9,418 million in 2005).

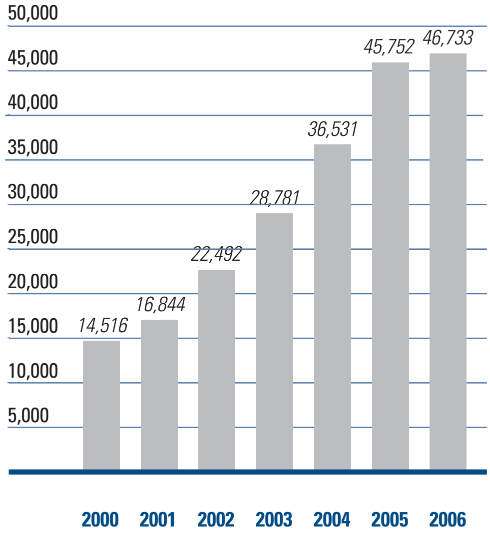
Operating expenses were equal to Euro 189 million (Euro 223 million in 2005). The ratio to premiums passed from 1.8% in 2005 to 2.1% in 2006.

Considering the investment income equal to Euro 1,740 million, the **result of the technical account for direct business** reflected a negative result of Euro 190 million (Euro 167 million in 2005).

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

The **overall technical account result** was negative at Euro 185 million (Euro 172 million in 2005).

TECHNICAL PROVISIONS - CLASS V - CAPITALIZATION
Euro million



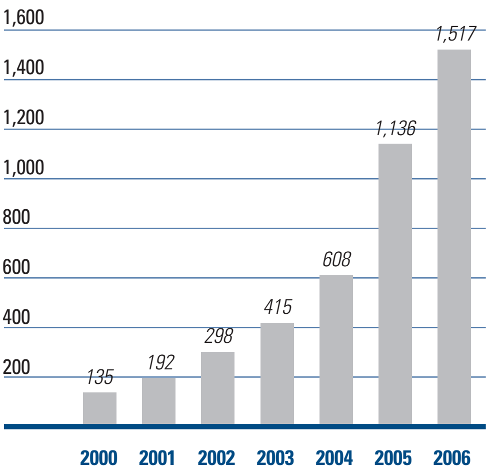
Life insurance

CLASS VI - PENSION FUNDS
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	93	91	124	128	198	495	285
Incurred claims (-)	2	7	8	15	24	33	64
Changes in technical provisions (-)	89	76	85	131	194	532	267
Balance of other technical items	1	1	2	3	3	4	7
Operating expenses (-)	6	6	7	8	10	11	17
Investment income	-2	-7	-30	19	23	71	47
Direct technical account result	**-5**	**-4**	**-4**	**-4**	**-4**	**-6**	**-9**
Reinsurance result and other items	0	0	0	0	0	0	0
Overall technical account result	**-5**	**-4**	**-4**	**-4**	**-4**	**-6**	**-9**
Annual % changes in premiums	108.4%	-2.6%	36.6%	3.4%	54.4%	150.4%	-42.4%
Expense ratio	6.6%	7.0%	5.8%	6.4%	5.0%	2.3%	6.0%
Investment income/Technical provisions	-1.8%	-4.5%	-12.1%	5.2%	4.4%	8.2%	3.9%
Technical account result/Gross written premiums	**-5.1%**	**-4.7%**	**-3.1%**	**-3.3%**	**-2.0%**	**-1.2%**	**-3.2%**
Overall technical account result/Gross written premiums	**-5.1%**	**-4.9%**	**-3.2%**	**-3.3%**	**-2.0%**	**-1.2%**	**-3.2%**
Overall technical account result/Technical provisions	**-5.36%**	**-2.72%**	**-1.60%**	**-1.20%**	**-0.79%**	**-0.66%**	**-0.76%**
Premiums to total life premiums ratio (%)	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.3%*	*0.7%*	*0.4%*

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

TECHNICAL PROVISIONS - CLASS VI - PENSION FUNDS
Euro million



Pension fund management

Premiums for direct domestic business for the 38 insurance companies operating in this class amounted to Euro 285 million, a value lower than in 2005 (Euro 495 million).

The reduction observed in 2006 (-42,4%) is due to the fact that in 2005 some large insurance companies started managing the assets of a large open pension fund, which produced a 150% growth in activity. In 2006, even though premium inflows continued, there were no transfer of similar magnitude.

Amounts paid for claims and the change in the provisions for amounts to be paid, net of recoverable sums, totalled Euro 64 million (Euro 33 million in 2005).

The **changes in mathematical** and other technical provisions were equal to Euro 267 million with an about 50% decrease.

Operating expenses were equal to Euro 17 million (Euro 11 million in 2005). The ratio to premiums was 6.0% (2.3% in 2005).

Considering the investment income equal to Euro 47 million, the **result of the technical account for direct business** reflected a deficit of Euro 9 million (Euro -6 million in 2005).

The **overall technical account result** was negative at Euro 9 million (Euro -6 million in 2005).

AN ANALYSIS OF THE TRENDS IN PREMIUM INCOME IN 2006 AT COMPANY LEVEL AND BY CLASS OF INSURANCE

Trends in premium income varied markedly from company to company and across the different classes of life insurance in 2006.

At the individual company level, the median growth rate in life premiums was minus 0.7%, far smaller than the overall decrease of 5.6% (Figure 1). The decline was concentrated in some large companies undergoing corporate reorganization, with a combined market share of 16.7% in 2006, whose premium income fell by 26.2%

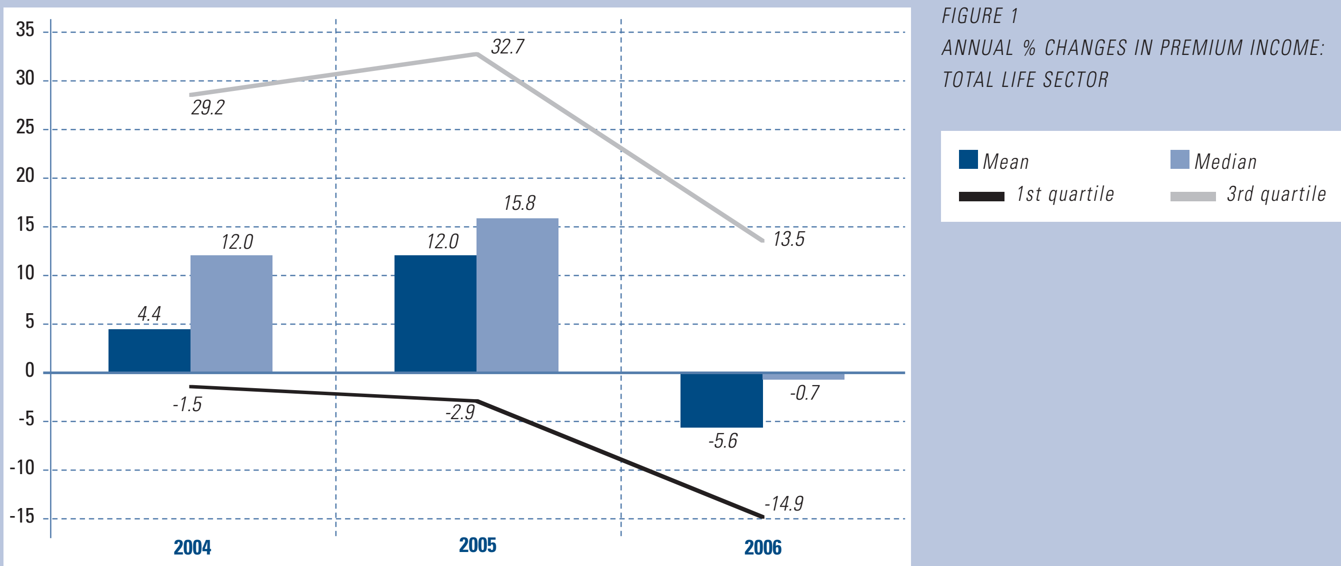


FIGURE 1
ANNUAL % CHANGES IN PREMIUM INCOME: TOTAL LIFE SECTOR

In Class V, a sharp contraction (-29.6%) came after years of rapid growth. The median change from the previous year was -23.6%, close to the market mean (Figure 2). The decline in premiums is explained, essentially, by the rise in short-term interest rates, which made investment in Class V products less advantageous.

Finally, in Classes I and III, which together account for 87% of total life premiums, the median growth rate of companies' premium income was 5.7%, in line with the figure for 2005, when the increase in premiums was much

FIGURE 2
ANNUAL % CHANGES IN PREMIUM INCOME:
CLASS V

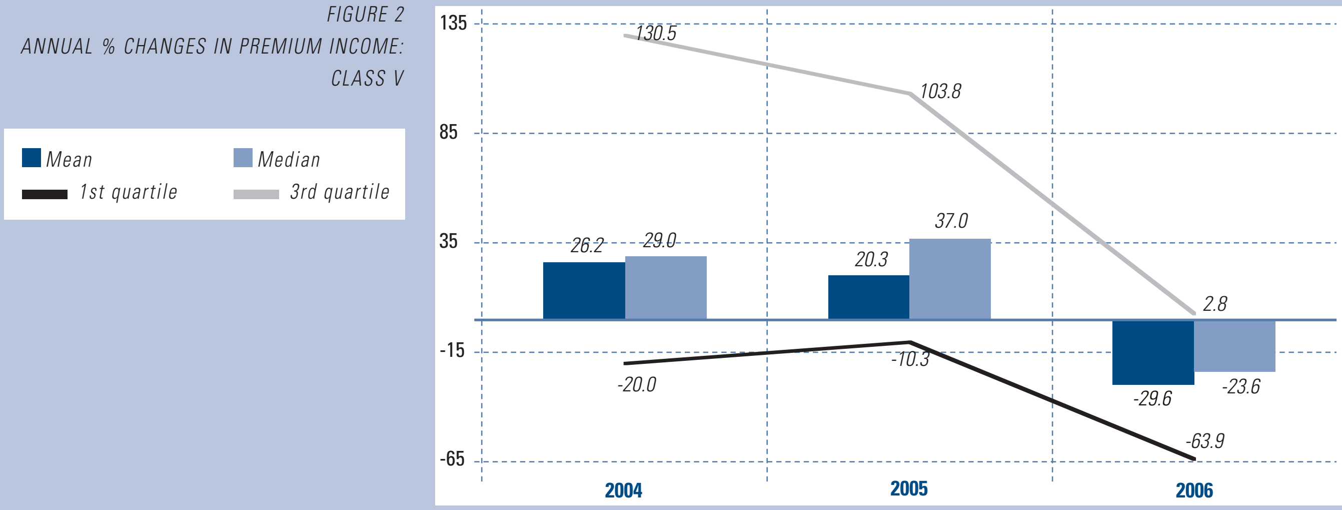
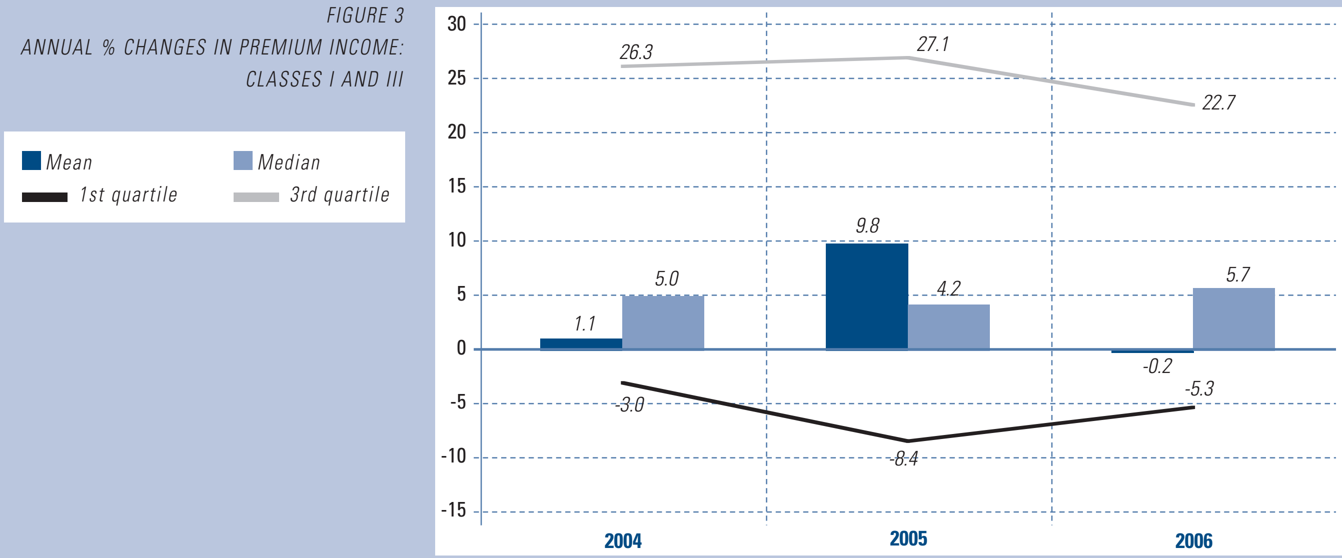


FIGURE 3
ANNUAL % CHANGES IN PREMIUM INCOME:
CLASSES I AND III



sharper for large companies and very close to that in the aggregate obtained by excluding the above-mentioned companies undergoing reorganization (6.2%).

The conclusion can therefore be drawn that the contraction in premium income was the result of diminished interest in Class V policies and of the supply policies adopted by some large companies.

THE YIELD OF WITH-PROFIT POLICIES

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

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

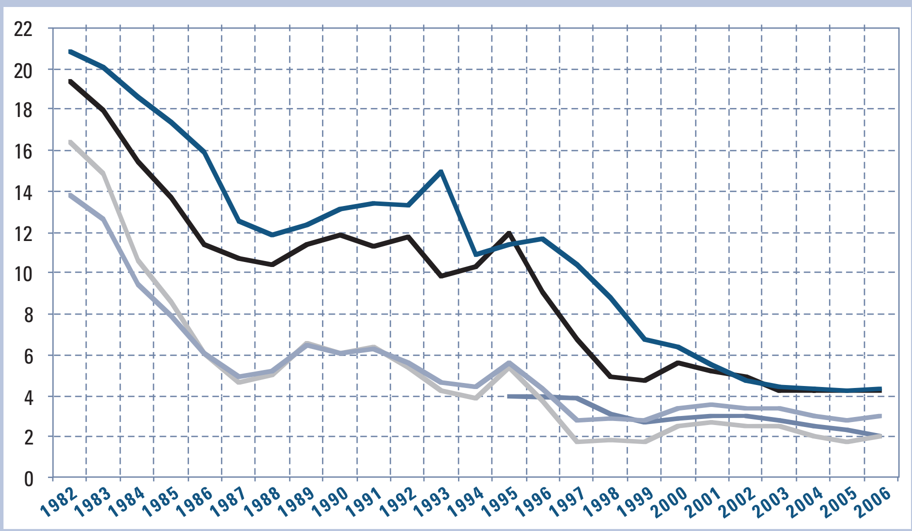


FIGURE 1
YIELDS OF SEPARATE FUNDS AND OTHER FINANCIAL INSTRUMENTS (%)

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

Figure 1 shows that between 1982 and 2000 the separate funds' yields were consistently well above those of government securities – the comparison is with Italian Treasury bonds from 1995 on – and severance pay funds and sim-

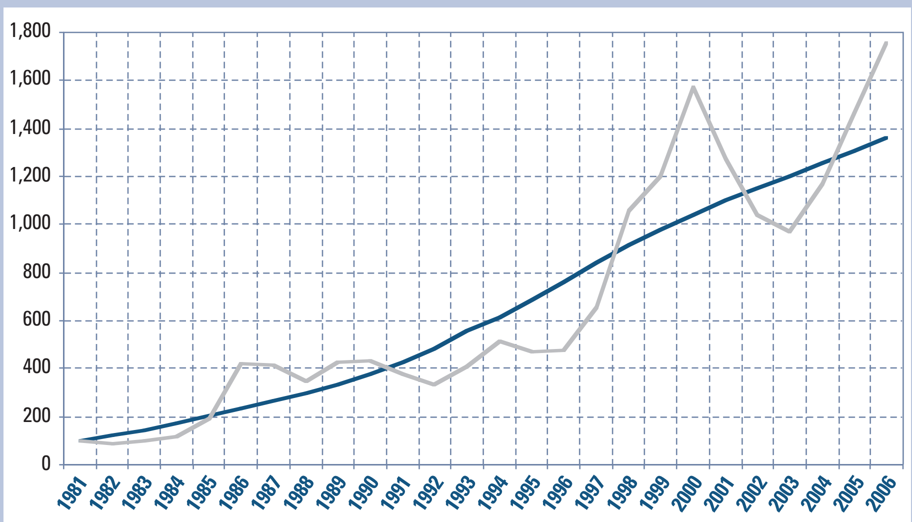


FIGURE 2
VALUE OF AN INVESTMENT IN WITH-PROFIT POLICIES AND IN ITALIAN SHARES (ASSUMING REINVESTMENT OF ALL DIVIDENDS)

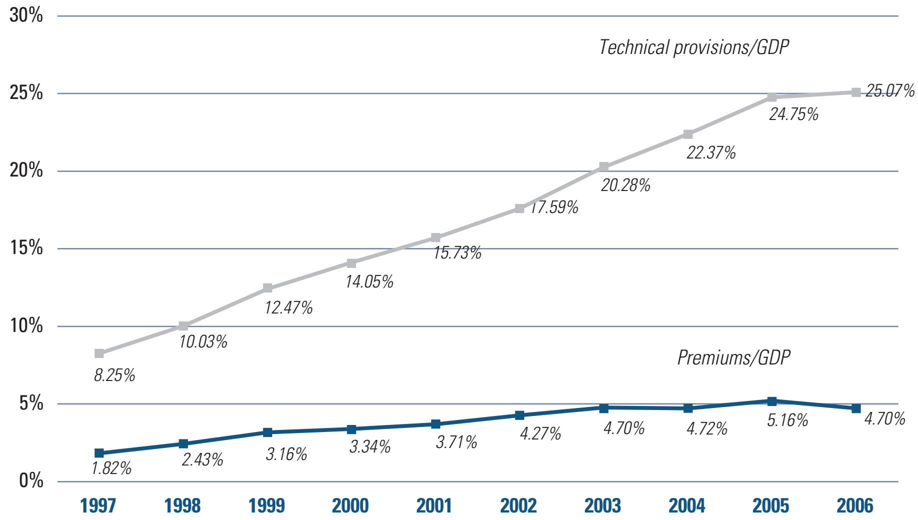
Source: Based on Bank of Italy, ISTAT and ISVAP data ilarly higher than the rate of inflation. In the five years 2002-2006 the separate funds returned 4.4% per year, while inflation averaged 2.1% and severance pay funds and Treasury bonds yielded an average of 3.1% and 4.2% respectively.

Setting the value of an investment in a with-profits capital redemption policy in 1981 equal to 100, in 2006 the investment was worth 1,362 (with an average annual yield of 11.12%; Figure 2). The same investment in Italian shares, with all dividends reinvested, was worth 1,755 in 2006 (average annual yield of 15.65%).The simple real rate of return of the separate funds was 5.96%, with a standard deviation of 2.60%; for the investment in shares it was 10.49%, with a standard deviation of 32.02%. As gauged by the Sharpe ratio (yield in relation to its standard deviation), over the past 25 years an investment in with-profits policies has been decidedly preferable to one in equities; even considering that ordinarily only 80% to 95% of a separate fund's return is allocated to the policyholder, this conclusion still holds.

LIFE INSURANCE AND GDP

After years of constant growth, the ratio of mathematical reserves to GDP remained virtually unchanged in 2006 at just over 25%. Starting at 8.25% in 1997, the ratio had risen by about 17 percentage points by 2005, or at an annual average rate of 13%. The contraction in total premiums earned in 2006 caused the direct Italian business of the life sector to fall to from 5.16% to 4.7% of GDP. The figures given here take account of the general revision of the time series for GDP.

PREMIUMS AND TECHNICAL PROVISIONS TO GDP RATIO (%)*



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

LIFE INSURANCE AND ITALIAN HOUSEHOLD SAVING

Households' disposable income grew by 2.3% in nominal and 0.5% in real terms in 2006. The latter figure, coming on the heels of a 0.3% decrease in 2005, reflects the broad stagnation of households' purchasing power. Offsetting the growth in per capita earnings (2.6% in nominal terms) and that in employment was a leap in current taxes on income and wealth, which rose by 8.9%, compared with an average of 1.9% in the five previous years.

The household saving rate fell from 12.3% to 11.0%, the lowest level since 2000 but still rather high by European standards. The steadily improving climate of confidence probably induced households to trim their precautionary saving. According to the Bank of Italy, a contributory factor may have been the reduction in the gap between actual and perceived inflation, which had widened considerably with the cash changeover to the euro in 2002.

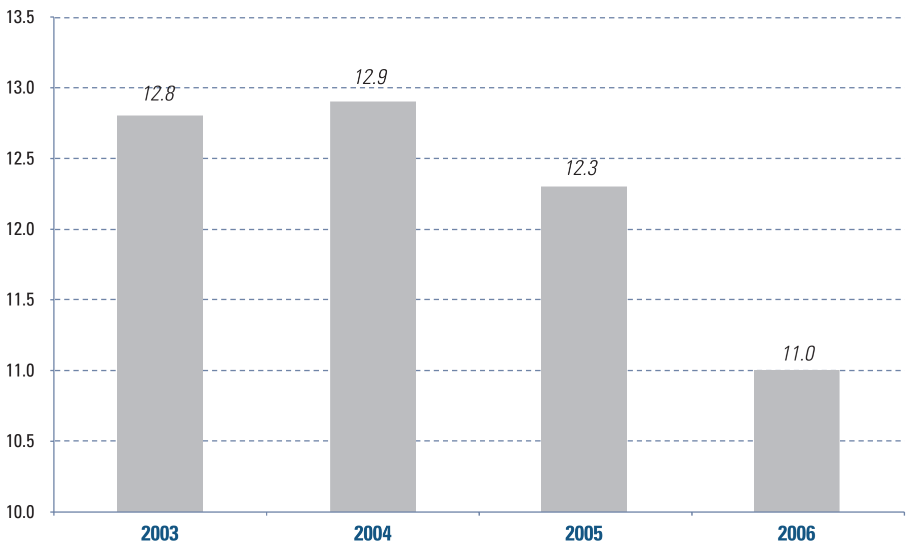


FIGURE 1
HOUSEHOLDS' SAVING RATE
(% OF DISPOSABLE INCOME)

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

In 2006 households' financial saving, defined as the difference between the gross flows of assets and liabilities, amounted to Euro 64,863 million. This decrease of 13.2% from the previous year mainly reflected the decline in the propensity to save and the continuing growth in households' investment in real estate. Financial wealth expanded by 4.2%, thanks to the good performance of the stock market, and rose to Euro 3,386 billion (3.2 times disposable income, compared with the European average of 2.8).

The rise in interest rates prompted households to return to bond investment. Short and medium/long-term domestic and foreign securities accounted for more than 28% of the gross flows of saving. Higher interest rates also stimulated investment in deposits with an agreed maturity and in repos ("Other deposits"). The total direct flow of investment in these instruments grew from Euro 10,504 million to Euro 26,972 million and accounted for 22.2% of new investment.

Net investment in shares and other equity contracted sharply, from Euro 27,617 million to Euro 5,119 million or 4.3% of the total flow. The rise in bond yields made investment in relatively risky securities less attractive, while the rise of the stock market was seen by investors as an opportunity for profit-taking. Shares made up the largest single portion of households' financial portfolios at the end of the year (21.6%).

Net disposals of investment fund units were much larger than in 2005. The outflow of Euro 37,000 million was only partially offset by net purchases of units of foreign funds (Euro 9,822 million). Overall, Italian and foreign funds made up 9% of households' year-end financial portfolios.

Investment in life insurance policies grew, although more slowly than in 2005 and its share of the flow of saving fell from 32.0% to 17.3%. Life insurance technical reserves constituted 11.0% of the stock of financial assets at the end of 2006, up slightly from 10.8% a year earlier.

TABLE 1 - ITALIAN HOUSEHOLDS' FINANCIAL ASSETS

INSTRUMENT	FLOWS				STOCKS			
	Euro million		Breakdown %		Euro million		Breakdown %	
	2005	2006	2005	2006	2005	2006	2005	2006
Notes and deposits	37,007	31,273	28.34	25.99	552,650	583,824	17.01	17.24
Other deposits	10,504	26,972	8.04	22.41	319,599	346,571	9.84	10.24
Short term bonds	-15,219	11,802	-11.66	9.81	1,889	13,065	0.06	0.39
Medium-long term bonds	-25,115	12,805	-19.23	10.64	535,461	532,654	16.48	15.73
Stock and direct participations	27,617	5,119	21.15	4.25	695,590	730,722	21.41	21.58
Shares in investment funds	-7,065	-36,869	-5.41	-30.64	269,271	224,802	8.29	6.64
Technical provisions (*)	56,501	33,559	43.27	27.89	577,643	611,202	17.78	18.05
of which: life class reserves	41,736	20,832	31.96	17.31	352,531	373,363	10.76	11.03
Other assets	4,203	3,070	3.22	2.55	17,598	20,668	0.54	0.61
Foreign assets	42,140	32,601	32.27	27.09	278,623	322,504	8.58	9.52
of which: Medium-long term bonds	27,909	9,737	21.37	8.09	119,034	125,369	3.66	3.70
Stocks and direct participations	-654	1,534	-0.50	1.27	91,186	100,254	2.81	2.96
Shares in investment funds	13,797	9,822	10.57	8.16	64,940	81,358	2.00	2.40
Total assets	130,574	120,334			3,248.324	3,386,012		
Total liabilities	55,831	55,471			542,170	595,580		

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

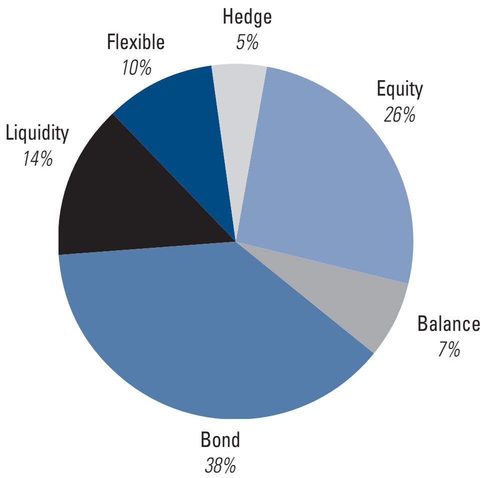
According to Assogestioni data, in 2006 Italian investment funds' net fund-raising was negative by almost Euro 18 billion. The largest net redemptions were recorded by bond funds, which were penalized by low returns. Despite the rise in share prices, equity and balanced funds also closed the year showing net redemptions. By contrast, flexible funds and hedge funds had a net inflow of resources. The first quarter of 2007 confirmed this overall trend. Fund-raising was negative by Euro 10.6 billion, the bulk of the outflows being booked by equity and bond funds.

A breakdown of fund-raising by place of domicile shows that the fund-raising of Italian funds was negative by Euro 42,494 million in 2006, while that of round-trip and foreign funds was positive by Euro 11,780 million and Euro 12,848 million respectively.

At the end of March 2007 investment funds' net assets totaled Euro 609,691 million, down by 1.5% from a year earlier. Nearly 40% of the resources under management is invested in bond funds and 26% in equity funds (Figure 2). Italian funds manage 58.8% of total assets, roundtrip funds 33.6% and foreign funds 7.5%.

FIGURE 2

ASSETS OF INVESTMENT FUNDS BY CATEGORY OF FUND AT 31 MARCH 2007



Source: Assogestioni

TABLE 2 - INVESTMENT FUNDS NET COLLECTION

Euro million

Type of fund	2003	2004	2005	2006	2007(*)
Equity	-1,063	-2,322	-4,480	-8,134	-5,036
Balanced	-5,332	-2,684	1,135	-1,208	-1,629
Bond	11,100	-380	10,841	-28,550	-10,715
Liquidity	15,468	-6,508	-9,468	-7,398	-1,475
Flexible	3,079	1,339	5,949	21,274	6,993
Hedge	3,529	5,920	4,467	6,149	1,296
Total	**26,781**	**-4,633**	**8,443**	**-17,866**	**-10,566**

Source: Assogestioni

(*) Data concerning the first four months

THE REFORM OF THE TAXATION OF INCOME FROM FINANCIAL INVESTMENT

The mandate for the Government to revise the taxation of income from capital and other income from financial investment is contained in Article 1 of the enabling bill (Chamber of Deputies Bill 1762). The mandate originally established guidelines and principles for the Government to follow in revising the withholding tax or substitute tax rates on income from financial investment, which were to be unified in a single rate of not more than 20%. It also directed the Government to coordinate the new rules with the provisions already in being, in accordance with the principle of equivalency of treatment between different types of financial income and financial instruments and different categories of intermediary.

The ensuing discussion induced the Government to re-examine the terms of the draft mandate and to present an amendment that replaced Article 1 *in toto*. To begin with, the new version confirms the time-tested regimes of administered savings and managed savings. It also basically equalizes the taxation of Italian and foreign investment funds' income: tax will be levied only on investors, upon disposal of shares/units.

There follow two provisions intended to alter the tax base of financial incomes:

- the first, which no doubt will modernize the very concept of "income", allows tax to be levied on the effective net return on transactions by eliminating the distinction between capital gains and other income from financial investment in the presence of losses. Insurance companies have long called for this improvement, which fulfils the requests that ANIA set forth in its testimony before the Finance Committee of the Chamber of Deputies last January;
- the other introduces simplified and comprehensible temporal adjustment formulas, unequivocally referring to the "equalizer" mechanism, that allows for different times of taxation. This has been the most hotly debated point. Proponents of the adjustment mechanism claim it is necessary to remedy the distortions arising from the deferment of taxation, as explained in the final report of the committee of inquiry set up at the Ministry for the Economy and Finance. They are pitted against those who argue that – whatever the merits of the technical questions – no one can accept, and in fact no country adopts, a system of taxation that discourages savers from holding their investments long term.

The draft legislation is completed by a series of transitional provisions that address specific issues, in particular the working off of losses accumulated under the various tax regimes, and coordinate the new legislation with the previous body of law at both the procedural and the substantive level in order to guarantee implementation within the required timeframe. Unlike the original version, it does not explicitly direct the government to set a unified nominal tax rate, nor does it indicate whether this will be done with a subsequent measure.

As regards "temporal adjustment", it is necessary that any implementing mechanisms that the Government may introduce be comprehensible for the average saver and verifiable without the need of a consultant, but also be such as to exclude excessively heavy taxation. "Simple" is not synonymous with "light". And in fact the worry is that a simple equalizer may involve heavier taxation than would arise if the capital gain were taxed year by year – for example when the capital gain is concentrated in the final part of the holding period.

The mandate must strike a proper balance between reducing the incentive to defer the realization of capital gains on prevalently speculative investments (the lock-in effect) and not penalizing medium and long-term investments – this so as not to discourage the accumulation of savings and in light of the preferential tax treatment of medium and long-term investments in other countries such as France, the United Kingdom and the United States.

THE GAP IN PROTECTION AGAINST THE RISK OF DEATH IN ITALY

By European standards, Italian households traditionally have a high propensity to save and a large stock of wealth, in part because they are more inclined to view accumulated holdings of financial assets and property as a protective buffer against future contingencies. As a supplement to this approach, however, it would be advisable for households also to be more aware of their public pension entitlements and their degree of protection against adverse events that could undermine their economic stability.

Concerning the latter point, a study by ANIA estimates the average exposure of Italian households with dependents to the risk of death of their main income-earner. It shows that Italian households are only partially protected. The risk exposure, or "protection gap", is measured as the difference between the economic resources required following the death of the sole or main breadwinner in order to maintain the household's standard of living and the resources actually available to the household.

The economic protection required is the sum of three components:

– the income needed to maintain the current standard of living of the spouse, children and any other household members. Since income is a flow of amounts, the required protection is calculated by discounting, calculating the flow's present value;
– expenditures for the ongoing "operation" of the household, mainly child-rearing and education expenses, calculated as the present value of the assumed flow of future expenses;
– debt to be repaid in respect of outstanding mortgages and other loans.

The economic protection available comprises:

– survivors benefits from the compulsory pension system, which, like other flows, are discounted;
– the household's financial and retirement savings;
– existing cover from such sources as life insurance policies and company pension funds, plans or contracts.

At the end of 2005 the protection gap, calculated using Istat and Bank of Italy data and government forecasts for growth and inflation, amounted to Euro

758.4 billion (53.5% of GDP), or Euro 65,000 per household. Needless to say, the average aggregates households whose profiles differ widely in terms of age, income, wealth, and insurance cover.

The average protection required was Euro 270,000:

- Euro 250,000 for income protection and
- Euro 20,000 for residual debts (mainly mortgages and other loans).

Set against this amount were available resources totaling Euro 205,000:

- Euro 99,000 from social security benefits,
- Euro 65,000 from household savings, and
- Euro 41,000 from insured capital.

The protection gap therefore stems mainly from insufficient protection of household income, mitigated only in part by the survivors benefits, savings and existing insurance cover. Compared with previous estimates, the protection gap has grown in recent years both in absolute terms and relative to GDP, partly because of households' stepped-up borrowing.

The ANIA study also examines recent trends in mortality of the Italian population and in the market for death benefit insurance, the natural instrument for coping with the protection gap. It finds that the decrease in death rates shown by population statistics in the past decades has been essentially reflected in a reduction in the price of insurance against the risk of death. The study concludes that greater recourse to death benefit insurance could give Italian households affordable protection against the risk of death of the main income-earner, a result to which social and fiscal policy measures, company-level programmes and the insurance market can all contribute.

THE START-UP OF PENSION FUND REFORM

The new system's launch date moved up

Legislative Decree 279/2006 moved up the entry into force of the new regime for supplementary pension schemes to 1 January 2007. The contents of the decree were then incorporated into the Finance Law for 2007.

The new provisions set the deadlines for pension funds intending to adapt to the new system to comply with the requirements of the Maroni Decree so as to register new members from 1 January 2007. These funds had to update their bylaws or rules by 31 December 2006, while individual pension plans established autonomous, separate pools of assets pursuant to ISVAP Order

2472/2006 with a view to the application from 1 July 2007 of the provisions on the Person Responsible for the Fund. For open pension funds, 1 July 2007 was set as the date at which the rules on the Person Responsible for the Fund and those on the Supervisory Board, where applicable, would take effect.

The new provisions also establish the procedures for the start-up. In detail:

- *s*upplementary pension plans that have completed the required steps will be allowed, after notifying COVIP, the Pension Fund Supervisory Authority, to register new members via the severance pay assignment procedure;
- COVIP will grant authorization or clearance for the changes by 30 June 2007, including by means of tacit consent. A COVIP regulation issued on 30 November 2006 laid down the procedures for adapting supplementary pension schemes to Legislative Decree 252/2005;
- accruing severance pay and contributions, where applicable, begin to be paid into supplementary pension schemes starting 1 July 2007, including payments for members registered between 1 January and 30 June 2007. However, contributions in respect of self-employed workers and members of the liberal professions can be paid in before 1 July, subject to COVIP approval of the changes to the fund rules or, in the case of individual pension plans, entry in the Register of Pension Funds.

If COVIP finds impediments to its issuing authorization/clearance by 30 June 2007, the member is permitted to transfer his entire accrued position to another supplementary pension fund even if he has been in the old fund for less than the required two years.

The decree also inserted a new paragraph (numbered 4-bis) on so-called pre-existing or old pension funds into Article 23 of Legislative Decree 252/2005. These are allowed to register members through the severance pay assignment procedure from 1 January 2007, provided they comply by 31 May 2007 with the provisions to be issued by the Minister for the Economy and Finance.

Interministerial implementing decrees

On 30 January 2007 the Minister of Labour and Social Security, in concert with the Minister for the Economy and Finance, issued two decrees concerning supplementary retirement schemes, both published in the *Gazzetta Ufficiale* on 1 February.

The first decree, implementing Article 1, paragraph 765, of the Finance Law for 2007, establishes the procedures whereby employees are to elect to assign their accruing severance pay to a supplementary retirement scheme and also regulates FONDOINPS, the residual, funded pension scheme established at INPS, the National Social Security Institute, to receive the severance pay of workers who do not made an explicit choice and are not covered by an occupational or other collective scheme. The second decree implements the provisions of Article 1, paragraphs 755 and 756, of the Finance Law for 2007, concerning the Treasury Fund for the payment of severance pay to private sector employees.

The first decree requires that the explicit choice be made using the forms annexed to the decree (Form TFR1 for workers hired by 31 December 2006, Form TFR2 for those hired afterward). The employer must make the forms available, keep the form signed by the worker and give the worker a countersigned copy in receipt.

The forms do not have to be submitted by workers who at December 2006 were already members of a supplementary pension fund and paying all of their accruing severance pay into it by virtue of the fact that they had registered with the public pension system after 28 April 1993 or had already assigned all their severance pay using a different form.

For private-sector employees on payroll at 31 December 2006, the decree further provides that:

– in the case of explicit assignment to a supplementary pension fund, from 1 July 2007 the employer pays in severance pay plus contributions, if any, including for the period between the date of the assignment and 30 June 2007. The portions of severance pay due for the period prior to 1 July are revalued at that date by the severance pay revaluation rate applied on 31 December 2006;
– in the case of tacit assignment, from 1 July 2007 the employer pays accruing severance pay into the appropriate collective scheme identified on the basis of Article 7(8)(b) of Legislative Decree 252/2005.

For the same workers, severance pay accruing between 1 January and the date of enrollment in the pension fund by explicit option or tacit consent remains set aside with the company.

Pursuant to Article 23(4) of Legislative Decree 252/2005 as amended by the Finance Law for 2007, for workers registered with the public pension system before 29 April 1993, the above-mentioned deferment to 1 July 2007 applies only for the payment of “residual” severance pay, i.e. the portion not already assigned to a supplementary pension fund.

Lastly, in the case of private-sector employees who at 31 December 2006 were on the payroll of firms with 50 or more employees and elect to keep all or part of their accruing severance pay with their employer under the Civil Code regime, effective the month following such choice the employer pays the severance pay accrued after 1 January 2007 into the Treasury Fund at INPS, increased by the revaluations in respect of the amounts due for the months preceding that of payment.

Private-sector employees hired after 31 December 2006 who have not made already made a choice on the assignment of severance pay during previous employment must elect within six months of the date they are hired.

In the case of explicit assignment to a supplementary pension fund, the employer pays in accruing severance pay plus contributions, if any, from the month following that of assignment. Since such payments cannot be made before 1 July 2007, for workers hired in the first six months of the year the amount of severance pay must be revalued at the date of payment by the revaluation rate applied on 31 December 2006.

In the case of tacit assignment, starting the month following the deadline the employer pays accruing severance pay into the appropriate collective scheme identified on the basis of Article 7(8)(b) of Legislative Decree 252/2005.

For the same workers, severance pay accrued from the date of hiring up to the date of enrollment by explicit choice or tacit consent remains set aside with the employer if the company has fewer than 50 employees, while it is paid into the Treasury Fund at INPS if the company has 50 or more.

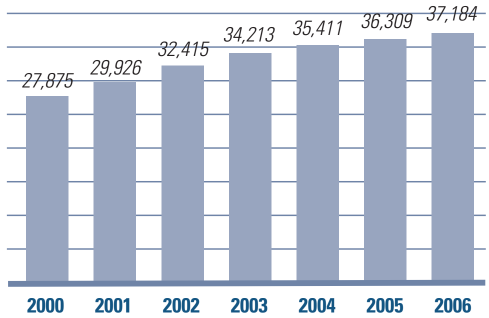
In the case of private-sector employees hired after 31 December 2006 by firms with 50 or more employees and who elect to keep all or part of their accruing severance pay with their employer under the Civil Code regime, effective the month following such choice the employer pays the severance pay accrued from the date of hiring into the Treasury Fund at INPS, increased by the revaluations in respect of the amounts due for the months preceding that of payment.

Lastly, the decree in question regulates FONDOINPS, the residual, funded pension scheme established at INPS to receive severance pay assigned by tacit consent by workers who are not covered by an occupational or other collective scheme. Legislative Decree 252/2005 also applies to this fund, and the regulation is broadly similar to that established for occupational pension funds.

The second decree regulates the devolution to the Treasury Fund at INPS of severance pay accruing from 1 January 2007 or from the date of hiring, if later, and not assigned to supplementary pension schemes by employees of private-sector firms with 50 or more employees. For firms in existence on 31 December, the criterion for counting employees is the average annual number of employees on payroll in 2006. For firms instituted after that date, it is average annual employment in the first calendar year of activity. All employees must be counted regardless of type of contract or working hours, including employees not entitled to severance pay. A worker on leave or otherwise absent is not counted only if another worker has been hired to take his place.

Non-Life Premium income equal to over Euro 37 billion, registered a moderate increase (2.4%). The incidence of Non-Life premiums on total market (Life and Non-Life) increased from 33% to 35%. In the presence of a stable expense ratio, the worsening of the loss ratio led to a deterioration of both the combined ratio and the overall technical account, whose incidence on premiums decreased from 8.5% in 2005 to 6.9% in 2006.

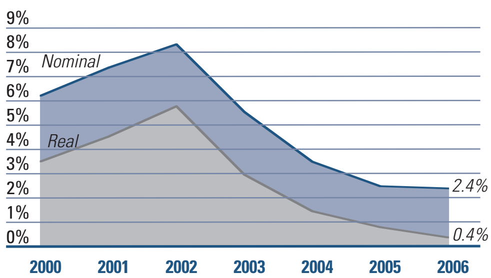
DIRECT PREMIUMS
EURO MILLION



DOMESTIC BUSINESS

Premiums for direct domestic business for the 109 insurance companies operating in Non-Life classes were equal to Euro 37,184 million, with a 2.4% increase in nominal terms and 0.4% in real terms. This trend was determined above all by the limited growth (+1.3%) in the motor insurance business (motor third party liability insurance, third party liability insurance for watercraft and land vehicles insurance) which represents about 60% of the overall Non-Life income and, also, by the continuous presence of a “soft” market (that is characterised by moderate unit prices) mostly in transports: premiums decreased for nearly all the classes of this sector (-5.0% for railway rolling stock, -9.5% for ships, -7.0% for goods in transit and -18.7% for aircraft third party liability). The percentage incidence on the total of Non-Life and Life premiums was equal to 34.9%, increasing from 33.1% in 2005.

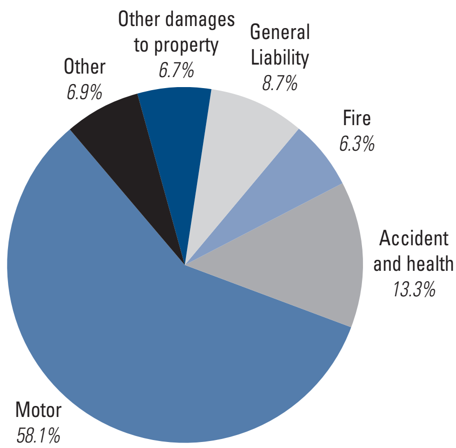
GROWTH RATE OF DIRECT PREMIUMS



The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 26,580 million (Euro 25,709 million in 2005), with a 3.4% increase compared to the previous year; the ratio to earned premiums was equal to 72.7%, slightly increasing compared to 72.1% of 2005.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 25,901 million (Euro 24,841 million in 2005), with a 4.3% increase. The ratio to earned premiums was equal to 70.8%, reflecting an increase compared to 69.6% of 2005.

Operating expenses, which include administration expenses relating to technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network, were equal to Euro 8,675 million (Euro 8,392 million in 2005) with a 3.4% increase and an incidence on direct premiums equal to 23.3% (23.1% in 2005). This trend was the result of both a slight increase in commision (from 15.3% of premiums in 2005 to 15.6% in 2006) and a slight decrease in administration expenses (from 4.8% of premiums in 2005 to 4.6% in 2006).



Euro 37,184 million

BREAKDOWN OF MAIN NON-LIFE CLASSES

Non-life insurance

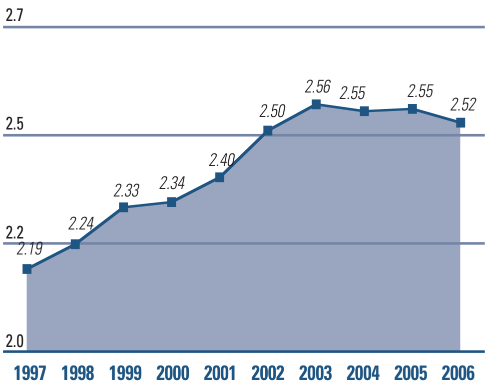
NON-LIFE TECHNICAL ACCOUNT

Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	27,875	29,926	32,415	34,213	35,411	36,309	37,184
Changes in premiums reserves (-)	532	776	764	734	610	627	619
Incurred claims (-):	23,015	23,024	23,654	24,306	24,549	24,841	25,901
- incurred claims cost for the current accident year (-)	22,156	22,397	23,407	24,456	24,928	25,709	26,580
- excess/shortfall of reserves for those claims incurred in previous accident years	-859	-627	-247	150	379	868	679
Balance of other technical items	-434	-326	-460	-503	-591	-561	-664
Operating expenses (-)	6,471	6,891	7,331	7,703	8,058	8,392	8,675
- missions	4,269	4,497	4,844	5,138	5,338	5,546	5,797
- other acquisition costs	796	921	953	1,004	1,046	1,105	1,155
- other administration costs	1,406	1,473	1,535	1,561	1,674	1,741	1,723
Direct technical balance	**-2,577**	**-1,091**	**206**	**967**	**1,603**	**1,888**	**1,325**
Investment income	1,804	1,632	1,211	1,629	1,917	1,991	1,856
Direct technical account result	**-773**	**541**	**1,417**	**2,596**	**3,520**	**3,879**	**3,181**
Reinsurance results and other items	720	281	-124	-407	-864	-845	-672
Overall technical account result	**-53**	**822**	**1,293**	**2,189**	**2,656**	**3,034**	**2,509**
Annual % changes in premiums	6.2%	7.4%	8.3%	5.5%	3.5%	2.5%	2.4%
Combined ratio	**107.4%**	**102.0%**	**97.3%**	**95.1%**	**93.3%**	**92.7%**	**94.2%**
- Expense ratio	23.2%	23.0%	22.6%	22.5%	22.8%	23.1%	23.3%
- Missions/Gross written premiums	15.3%	15.0%	14.9%	15.0%	15.1%	15.3%	15.6%
- Other acquisition costs/Gross written premiums	2.9%	3.1%	2.9%	2.9%	3.0%	3.0%	3.1%
- Other administration costs/Gross written premiums	5.0%	4.9%	4.7%	4.6%	4.7%	4.8%	4.6%
- Loss ratio:	84.2%	79.0%	74.7%	72.6%	70.5%	69.6%	70.8%
- Loss ratio for the current accident year	81.0%	76.8%	74.0%	73.1%	71.6%	72.1%	72.7%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-3.1%	-2.2%	-0.8%	0.4%	1.1%	2.4%	1.9%
Technical balance/Earned premiums	**-9.4%**	**-3.7%**	**0.7%**	**2.9%**	**4.6%**	**5.3%**	**3.6%**
Technical account result/Earned premiums	**-2.8%**	**1.9%**	**4.5%**	**7.8%**	**10.1%**	**10.9%**	**8.7%**
Overall technical account result/Earned premiums	**-0.2%**	**2.8%**	**4.1%**	**6.5%**	**7.6%**	**8.5%**	**6.9%**

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

NON-LIFE PREMIUMS / GDP (%)



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

The **technical balance for direct business** was positive at Euro 1,325 million (Euro 1,888 million in 2005).

Considering investment income, equal to Euro 1,856 million, the **direct technical account result** was positive at Euro 3,181 million (Euro 3,879 million in 2005). This result represented 8.7% of premiums (10.9% in 2005).

The passive reinsurance and net indirect business result was negative at Euro 672 million (Euro -845 million in 2005).

The **overall technical account result** was positive at Euro 2,509 million (Euro 3,304 million in 2005). The ratio to earned premiums was equal to 6.9% (8.5% in 2005).

NON-LIFE INSURANCE AND GDP

The incidence of Non-Life premium on GDP has been substantially stable since 2002, slightly decreasing in 2006. This result is due to the similar increment of the motor insurance and nominal product and to the limited diffusion of other Non-Life insurance classes.

COVERAGE OF CATASTROPHIC RISKS: ITALY COMPARED WITH OTHER COUNTRIES

The 1990s was the warmest decade on record since accurate weather statistics have been kept. In Europe, 2003 was the warmest year in at least five centuries; temperatures almost 2° C. above average reaped 35,000 victims. Some predict that the average temperature will rise another 6° C. before the end of the century if countermeasures are not taken. Various studies contend that the climate change we are witnessing is largely responsible for the greater frequency and magnitude of natural disasters such as floods, storms and protracted droughts.

In general, the frequency of occurrence and scale of economic loss caused by natural disasters have increased significantly over the past decade. The problem can be faced by addressing the causes of climate change while intervening with territorial planning and civil protection measures and arrangements to mitigate the loss of lives and material damage when a natural disaster does strike.

According to a 2004 report by the European Environment Agency, Italy is one of the EU countries most exposed to natural disasters, particularly floods, landslides and earthquakes: 6.1% of the entire territory is classified as having a high risk of landslide, while some 40% of the population lives in active seismic areas (where 64% of buildings have not been built to anti-seismic specifications). Earthquakes have claimed more than 120,000 victims in Italy in the last century, landslides and floods some 3,500 in the last half century. According to the Italian Department of Civil Protection, in the last two decades the State has spent Euro 4 billion a year for disaster relief and compensation.

Despite the severity of the threat, Italy does not have a law on natural disaster insurance; the tendency is to intervene after the fact with ad hoc measures, appropriating funds from general budget revenues. This approach has a number of serious drawbacks. For one thing, it does not offer incentives to planning preventive action or steps to contain the losses in case of catastrophe. And when a natural disaster does strike, individuals cannot be certain how much compensation they may receive and when, since this depends on ad hoc measures and no timetable is set for disbursements (the wait is generally long). In addition, the current system lacks transparency in the award and disbursement of compensation, makes inefficient and ineffective use of resources, passes the burden onto to future generations by resorting to loans from international organizations or, more generally, to public debt, and creates the illusion that the system is cost-free whereas the costs are actually defrayed out of general revenue, thus increasing the volatility of the budget.

In the Anglo-Saxon countries indemnification for losses owing to natural disasters is based on voluntary private insurance, a system that does overcome many of the problems of the Italian model but also has several drawbacks. In particular, voluntary coverage induces adverse selection, with the demand for insurance coming entirely from persons who live in high-risk areas. Furthermore, less wealthy residents of high-risk areas cannot afford catastrophe insurance. In addition, there are limits to the insurance or reinsurance market's capacity to cover such large risks.

Some countries have opted for a mixed model, seeking to combine the best of the public and private coverage systems. In France, for example, provision is made for the automatic extension of fire insurance policies for private residences to cover natural disasters. This semi-compulsory rule enables the system to avoid adverse selection and to count on a critical mass of contracts affording a degree of mutuality. Moreover, the publicly owned Caisse Centrale de Réassurance allows insurance companies to reinsure themselves against the risk of natural disasters at a pre-determined price. The State intervenes only if the Caisse does not have sufficient funds. These arrangements allow private insurers to increase their underwriting capacity and to price natural disaster risk in a geographically uniform manner at 12% of the fire insurance policy premium.

INSURANCE OF SMALL AND MEDIUM-SIZED MANUFACTURING FIRMS

Insurance is less widespread among firms in Italy than in the other leading industrial countries. To give an idea, the property insurance premiums of the corporate sector are estimated at 0.23% of GDP in Italy, compared with 0.30% in Germany, 0.34% in France and 0.50% in the United Kingdom.

It is not clear to what extent this depends on the structure of the Italian productive system, based on small and medium-sized enterprises. However, it is reasonable to assume that SMEs are precisely the firms most vulnerable to adverse events owing to their shortage of capital and limited access to the financial markets. The taxation of premiums is generally higher in Italy than in the other European countries, and this too may help to explain less extensive recourse to insurance cover.

In the theoretical literature there is a consensus that corporate demand for insurance, especially on the part of larger companies, depends on factors different from those that determine households' demand. While households and small businesses resort to insurance essentially because of risk aversion, for larger companies buying insurance helps to reduce agency and bankruptcy costs and thus to lower borrowing costs. Painting it with a broad brush, insurance produces benefits for companies by:

– reducing the probability of a firm becoming insolvent as a consequence of events that destroy production infrastructure. This has the effect of reducing "expected" bankruptcy costs and, presumably, of improving the contractual terms and conditions applied to the firm by suppliers and, above all, lenders;

- lowering the expected costs of a liquidity crisis by preventing accidents to property and goods from rendering the company unable to resume production for want of funds;
- attenuating the volatility of profits over time, thus facilitating more accurate valuation of the firm by third parties and, under certain conditions, possibly reducing the corporate tax burden;
- permitting the firm to improve its organization, by providing it with a professional advisor (the insurer) for the various services connected with risk management.

To assess the level of insurance coverage of small and medium-sized manufacturing firms, ANIA has used the data of the 25th Capitalia survey, conducted in July 2006 on a sample of 633 manufacturing firms with between 11 and 500 workers. The survey questionnaire included some questions on firms' insurance cover; in particular, they were asked how much they spent for non-life insurance other than motor and general liability policies, the amount insured, how much they spent for property policies (fire and theft), how much for general liability insurance, and, lastly, whether they disclosed their insurance cover to banks when applying for credit.

It was found that 88.3% of the respondent firms had at least one non-life insurance policy (excluding motor vehicle liability insurance). The percentage increases with firm size, from 86.6% for firms with between 11 and 50 workers to 98.4% for those with 251-500 (Table 1).

TABLE 1
PERCENTAGE OF INSURED FIRMS

	Non-life (excl. motor liability)	**of which: general liability**	**Property ins. (non-motor)**
Geographical location			
South*	92.5	86.7	72.4
Centre and North*	87.7	88.3	72.5
Type of product			
Intermediate goods	83.6	85.0	62.5
Capital goods	88.7	87.6	86.4
Consumer goods	93.0	91.5	77.0
Size			
11-50 workers	86.6	86.6	68.8
51-250 workers	97.0	95.7	91.5
251-500 workers	98.4	96.7	88.2
Total	**88.3**	**88.1**	**72.5**

Source: Based on data from the 25th Capitalia survey
(*) Abruzzo is included in the Centre and North

There are also substantial differences according to broad product sector: 93% of firms making consumer goods had insurance, compared with 89% for firms producing capital goods and 84% for those producing intermediate goods. Insurance was found to be more widespread among firms in the South than in the rest of Italy. It could be that the probability of taking out insurance is higher where there is less recourse to market-based financing.

The survey found significant differences between categories of firm in recourse to general (non-auto) property insurance. Overall, 72.5% of the respondents were covered, with no differences between geographical areas.

Smaller firms resorted less to general liability insurance. The percentage insured is lower among companies making intermediate goods, perhaps because habitual dealings between suppliers and customers reduces the risk, while it is higher for makers of consumer goods and, most of all, capital goods.

Non-life insurance

Non-life premiums, excluding general liability and motor vehicle liability policies, averaged Euro 24,000 per firm, with wide deviations depending on firm size (Table 2, first column). The incidence on sales revenues averages 0.27% and does not appear to have been influenced significantly by geographical location or product type. To give a term of comparison, Towers Perrin estimates that in 1995 the average US firm spent 0.4% of its sales revenues on insurance.

TABLE 2
SPENDING ON NON-LIFE INSURANCE (EXCLUDING MOTOR AND GENERAL)

	Amount (Euro)		% of sales revenues		Premiums/ins. amount (%)	
	Mean	**Std. error**	**Mean**	**Std. error**	**Mean**	**Std. error**
Geographical location						
South*	19,210	1,974	0.27	0.02	0.39	0.05
Centre and North*	24,643	1,859	0.27	0.02	0.37	0.03
Type of product						
Intermediate goods	25,139	2,957	0.25	0.02	0.36	0.05
Capital goods	26,675	4,569	0.29	0.04	0.31	0.06
Consumer goods	21,619	1,767	0.28	0.02	0.42	0.03
Size						
11-50 workers	15,075	1,287	0.27	0.02	0.43	0.05
51-250 workers	61,887	5,713	0.29	0.02	0.33	0.03
251-500 workers	209,849	27,817	0.20	0.02	0.29	0.06
Total	**24,023**	**1,648**	**0.27**	**0.02**	**0.37**	**0.03**

Source: Based on data from the 25th Capitalia survey
(*) Abruzzo is included in the Centre and North

TABLE 3
AMOUNT INSURED, NON-LIFE
(EXCLUDING MOTOR AND GENERAL)

	Amount (thousands of Euro)		As a % of total assets	
	Mean	Std. error	Mean	Std. error
Geographical location				
South*	4,973	717	64.1	8.4
Centre and North*	5,540	511	62.3	5.5
Type of product				
Intermediate goods	5,803	835	53.9	7.7
Capital goods	6,790	1,490	79.3	12.2
Consumer goods	4,672	470	67.7	5.7
Size				
11-50 workers	2,957	312	52.5	7.6
51-250 workers	15,400	1,489	70.7	6.0
251-500 workers	68,100	10,600	78.1	12.7
Total	**5,473**	**456**	**62.5**	**5.0**

Source: Based on data from the 25th Capitalia survey
(*) Abruzzo is included in the Centre and North

The ratio of premiums paid to the amount insured is 0.37% (Table 2, fifth column). The indicator proxies for the unit price of coverage, but only imperfectly, since deductibles, benefit ceilings and other policy clauses introduce a pronounced non-linearity in the ratio.

The indicator decreases as firm size increases. Plausibly, larger firms have more sophisticated risk prevention and management procedures, which by reducing risk lead to proportionately lower premiums. In addition, it is possible that they have a better ability to select risk and insure themselves against more severe but less probable risks, which involve lower premiums. Finally, the structure of brokers' and agents' fees often has a fixed component, the incidence of which is obviously greater, the smaller the premium.

The amount insured by non-life policies averages 62.5% of total assets (Table 3). The level of coverage is highest among companies that make capital goods (79.3%), followed by those that produce intermediate goods, while the insurance cover of firms that make consumer goods is equal, on average, to only 53.9% of assets.

The level of coverage increases with firm size, rising from 52.5% for firms with at most 50 workers to 78.1% for the largest companies in the sample. Among the possible explanations, it is worth underscoring the inverse relationship between the cost of cover and firm size and the fact that, assets being equal, larger firms tend to have higher sales revenues, presumably thanks to economies of scale.

TABLE 4
SPENDING ON LIABILITY INSURANCE
(EXCLUDING MOTOR LIABILITY)

	Amount (Euro)		As a % of sales revenues	
	Mean	Std. error	Mean	Std. error
Geographical location				
South*	4,843	605	0.07	0.01
Centre and North*	7,173	642	0.08	0.01
Type of product				
Intermediate goods	6,090	842	0.06	0.01
Capital goods	10,296	1,887	0.12	0.02
Consumer goods	6,354	694	0.09	0.01
Size				
11-50 workers	4,310	519	0.08	0.01
51-250 workers	17,441	1,488	0.09	0.01
251-500 workers	62,119	8,832	0.06	0.01
Total	**6,878**	**560**	**0.08**	**0.01**

Source: Based on data from the 25th Capitalia survey
(*) Abruzzo is included in the Centre and North

General liability insurance

General liability insurance premiums cost the average company nearly Euro 6,900, or 0.08% of sales revenues (Table 4). Although the amount of premiums is lower in the South than in the Centre and North (Euro 4,800 as against Euro 7,200), the ratio to sales revenues is similar in all parts of the country.

Larger companies spend proportionately less (0.06% of sales revenues), although they also take out more insurance (Table 1). This pattern is similar to that found in non-life insurance in general.

Considerable differences are found in the incidence of premiums according to manufacturing specialization. Companies that make capital goods spend an average of 0.12% of sales revenues on general liability policies, those specialized in consumer goods 0.09% and those that produce intermediate goods 0.06%. In this case the ranking among firms is similar to that for the probability of having insurance. In other words, capital goods makers are not only more likely to insure themselves but also spend more in relation to sales. This suggests that there this is a strong correlation between a firm's product specialization and its risk

Insurance and borrowing

According to the economic literature, there is some evidence that recourse to insurance increases the ability of firms to borrow and lowers the cost of credit. However, the results of the Capitalia survey show that banks are relatively uninformed about the insurance policies that firms have in place, only

	% of firms that disclose	Sales revenues (thousands of Euro)		Amount insured/assets (%)	
		Does not disclose	Discloses	Does not disclose	Discloses
Geographical location					
South*	32.9	7,378	8,826	53.7	69.4
Centre and North*	37.3	9,146	9,558	56.0	75.5
Type of product					
Intermediate goods	42.5	10,310	9,948	44.0	73.0
Capital goods	26.0	7,428	10,500	79.7	77.1
Consumer goods	35.3	8,295	8,533	62.9	75.9
Size					
11-50 workers	38.3	5,200	5,736	43.2	70.4
51-250 workers	28.4	21,107	25,219	66.0	80.7
251-500 workers	41.4	97,920	590,763	83.5	70.5
Total	**36.8**	**8,946**	**9,484**	**55.8**	**74.7**

TABLE 5
DISCLOSURE TO BANKS

Source: Based on data from the 25th Capitalia survey
(*) Abruzzo is included in the Centre and North

37% of firms informing their banks (Table 5). Bearing in mind that some insurance policies are connected with credit transactions, information is very limited indeed.

Among firms belonging to the same product category, those that inform banks generally have higher sales and a higher ratio of insurance cover to total assets than non-disclosers. This result is especially interesting in light of the fact that the greatest differences between disclosing and non-disclosing firms are found among small companies and those that make intermediate goods, i.e. the categories with the lowest propensity to take out insurance. This may be the result of more highly insured firms taking the initiative to signal their relatively low risk to banks, although we cannot rule out that it may be due to banks themselves requiring firms to have certain insurance coverage.

CONTRACT DURATION AND THE BERSANI 2 DECREES

Article 5.4 of Decree Law 7 of 31 January 2007, ratified as Law 40 of 2 April 2007 – containing urgent measures for consumer protection, the promotion of competition, the development of economic activity and the creation of new businesses and known as “Bersani 2” after Economic Development Minister Pierluigi Bersani – radically alters the rules on the duration of insurance contracts laid down in Article 1899 of the Civil Code.

Under the new rules, the insured can withdraw from multi-year non-life insurance policies every year with advance notice of 60 days; and with the introduction of Article 8-bis in Law 50/2007, it must be possible to exercise this option at no cost to the consumer.

Further, Article 5.5 establishes the nullity of all clauses that conflict with the provisions of the Article, giving insurers 60 days from the date that the new law goes into effect to adapt any such non-compliant clauses that may be in force on that date.

Under Article 5.4, finally, the new provisions apply to all contracts signed after the law's entry into force (3 April 2007). For contracts signed previous to that date, the right to withdrawal can be exercised only if at least three years have passed since the contract date.

The technical results of the motor insurance business remained positive also in 2006, thanks in particular to the maintenance of reserves for claims occurred in the years before 2005. Loss ratio slightly increased passing from 78.8% in 2005 to 79.5% in 2006. The overall technical results for land vehicles remained positive although the ratio to earned premiums decreased compared to 2005.

MOTOR LIABILITY MANAGEMENT

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

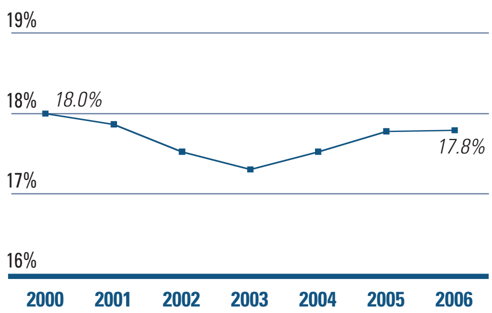
Premiums for direct domestic business, collected from the 71 companies operating in this class, totalled Euro 18,416 million in 2006, reflecting a growth rate of just 1.2%; they were equal to 49.5% of the overall premiums for Non-Life classes (50.1% in 2005). The stable growth in premiums was due above all to a good trend of technical results, which brought the companies to maintain premium rates substantially stable and frequently to apply flexibility on prices in competitive key.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 14,944 million (Euro 14,756 million in 2005), with a 1.3% increase compared to 2005, since the decrease of claims frequency, that it is continued in 2006, was more than offset by the increase of the average cost of the claims. The ratio to earned premiums was stable (81,4%).

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 14,589 million (Euro 14,284 million in 2005) with a 2.1% increase compared to 2005. The excess for the reserves for claims incurred in previous years, positive since 2004, was equal to Euro 355 million, reflecting a decrease compared to the previous year (Euro 472 million). All this explains the worsening of the ratio of incurred claims cost for the financial year to earned premiums, which increased from 78.8% in 2005 to 79.5% in 2006.

Operating expenses amounted to Euro 3,276 million (Euro 3,235 million in 2005) and include administration expenses relating to technical management of insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio to premiums (17.8%) was substantially stable compared to 2005.

OPERATING EXPENSES TO PREMIUMS RATIO (%)



Motor insurance

The **technical balance for direct business** was positive at Euro 255 million (Euro 386 million in 2005).

Considering the investment income (Euro 991 million in 2006 compared to Euro 1,104 million in 2005), the **technical account result for direct business** was positive at Euro 1,246 million (Euro 1,490 million in 2005).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 1,255 million (Euro 1,474 million in 2005), representing a 6.8% of earned premiums (8.1% in 2005).

MOTOR LIABILITY
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	14,221	15,344	16,653	17,646	18,087	18,198	18,416
Changes in premiums reserves (-)	173	333	341	280	91	82	64
Incurred claims (-):	13,886	13,734	13,735	14,177	14,375	14,284	14,589
- incurred claims cost for the current accident year (-)	12,775	13,043	13,438	13,982	14,561	14,756	14,944
- excess/shortfall of reserves for those claims incurred in previous accident years	-1,111	-691	-297	-195	186	472	355
Balance of other technical items	-184	-98	-166	-178	-228	-211	-232
Operating expenses (-)	2,559	2,741	2,921	3,047	3,169	3,235	3,276
- missions	1,588	1,681	1,804	1,900	1,949	1,944	1,966
- other acquisition costs	312	369	399	418	437	468	496
- other administration costs	659	691	718	729	783	823	814
Direct technical balance	**-2,581**	**-1,562**	**-510**	**-36**	**224**	**386**	**255**
Investment income	1,050	899	648	888	1,077	1,104	991
Direct technical account result	**-1,531**	**-663**	**138**	**852**	**1,301**	**1,490**	**1,246**
Reinsurance results and other items	218	178	36	-12	-61	-16	9
Overall technical account result	**-1,313**	**-485**	**174**	**840**	**1,240**	**1,474**	**1,255**
Annual % changes in premiums	7.3%	7.9%	8.5%	6.0%	2.5%	0.6%	1.2%
Combined ratio	**116.8%**	**109.3%**	**101.7%**	**98.9%**	**97.4%**	**96.6%**	**97.3%**
- Expense ratio	18.0%	17.9%	17.5%	17.3%	17.5%	17.8%	17.8%
- Missions/Gross written premiums	11.2%	10.9%	10.8%	10.8%	10.8%	10.7%	10.7%
- Other acquisition costs/Gross written premiums	2.2%	2.4%	2.4%	2.4%	2.4%	2.6%	2.7%
- Other administration costs/Gross written premiums	4.6%	4.5%	4.3%	4.1%	4.3%	4.5%	4.4%
- Loss ratio:	98.8%	91.5%	84.2%	81.6%	79.9%	78.8%	79.5%
- Loss ratio for the current accident year	90.9%	86.9%	82.4%	80.5%	80.9%	81.5%	81.4%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	-7.9%	-4.6%	-1.8%	-1.1%	1.0%	2.6%	1.9%
Technical balance/Earned premiums	**-18.4%**	**-10.4%**	**-3.1%**	**-0.2%**	**1.2%**	**2.1%**	**1.4%**
Technical account result/Earned premiums	**-10.9%**	**-4.4%**	**0.8%**	**4.9%**	**7.2%**	**8.2%**	**6.8%**
Overall technical account result/Earned premiums	**-9.4%**	**-3.2%**	**1.1%**	**4.8%**	**6.9%**	**8.1%**	**6.8%**
Premiums to total non-life premiums ratio (%)	*51.0%*	*51.3%*	*51.4%*	*51.6%*	*51.1%*	*50.1%*	*49.5%*

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

LAND VEHICLES INSURANCE MANAGEMENT

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

LAND VEHICLES
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	2,678	2,811	2,955	3,062	3,145	3,154	3,205
Changes in premiums reserves (-)	26	40	70	52	45	61	58
Incurred claims (-):	1,204	1,160	1,205	1,257	1,260	1,417	1,494
- incurred claims cost for the current accident year (-)	1,316	1,278	1,306	1,361	1,388	1,514	1,584
- excess/shortfall of reserves for those claims incurred in previous accident years	112	118	101	104	128	97	90
Balance of other technical items	-37	-18	-32	-40	-46	-36	-44
Operating expenses (-)	657	692	709	738	759	748	768
- missions	456	477	494	517	531	518	536
- other acquisition costs	72	84	83	88	88	89	94
- other administration costs	129	131	132	133	140	141	138
Direct technical balance	**754**	**901**	**939**	**975**	**1,035**	**892**	**841**
Investment income	59	50	34	47	57	59	56
Direct technical account result	**813**	**951**	**973**	**1,022**	**1,092**	**951**	**897**
Reinsurance results and other items	-13	-33	-30	-50	-46	-19	-36
Overall technical account result	**800**	**918**	**943**	**972**	**1,046**	**932**	**861**
Annual % changes in premiums	2.4%	5.0%	5.1%	3.6%	2.7%	0.3%	1.6%
Combined ratio	**70.0%**	**66.5%**	**65.7%**	**65.8%**	**64.8%**	**69.5%**	**71.4%**
- Expense ratio	24.5%	24.6%	24.0%	24.1%	24.1%	23.7%	24.0%
- Missions/Gross written premiums	17.0%	17.0%	16.7%	16.9%	16.9%	16.4%	16.7%
- Other acquisition costs/Gross written premiums	2.7%	3.0%	2.8%	2.9%	2.8%	2.8%	2.9%
- Other administration costs/Gross written premiums	4.8%	4.7%	4.5%	4.4%	4.4%	4.5%	4.3%
- Loss ratio:	45.4%	41.9%	41.8%	41.7%	40.7%	45.8%	47.5%
- Loss ratio for the current accident year	49.6%	46.1%	45.3%	45.2%	44.8%	48.9%	50.3%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	4.2%	4.2%	3.5%	3.5%	4.1%	3.1%	2.9%
Technical balance/Earned premiums	**28.5%**	**32.5%**	**32.5%**	**32.4%**	**33.4%**	**28.8%**	**26.7%**
Technical account result/Earned premiums	**30.7%**	**34.3%**	**33.7%**	**33.9%**	**35.2%**	**30.7%**	**28.5%**
Overall technical account result/Earned premiums	**30.2%**	**33.1%**	**32.7%**	**32.3%**	**33.7%**	**30.1%**	**27.3%**
Premiums to total non-life premiums ratio (%)	*9.6%*	*9.4%*	*9.1%*	*9.0%*	*8.9%*	*8.7%*	*8.6%*

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

Premiums for direct domestic business for the 76 insurance companies operating in this class amounted to Euro 3,205 million in 2006 (+1.6% compared to 2005), representing 8.6% of the overall Non-Life insurance premiums.

The **incurred claims cost for the current accident year**, defined as the sum of the total paid cost and the total reserved cost for all claims occurred in the current accident year, amounted to Euro 1,584 million (Euro 1,514 million in 2005) with a 4.6% increase; the ratio to earned premiums was equal to 50.3%, slightly increasing compared to 2005.

The **incurred claims cost for the financial year**, which includes if compared to the incurred cost of the current year also the excess/shortfall of reserves for those claims incurred in previous accident years, was equal to Euro 1,494 million (Euro 1,417 million in 2005). The ratio to earned premiums was equal to 47.5%, increasing from 45.8% in 2005.

Operating expenses amounted to Euro 768 million (Euro 748 million in 2005) and include administration expenses relating to the technical management of insurance business and acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. The ratio of the operating expenses to premiums was 24.0% (23.7% in 2005).

The **technical balance for direct business** was positive at Euro 841 million (Euro 892 million in 2005).

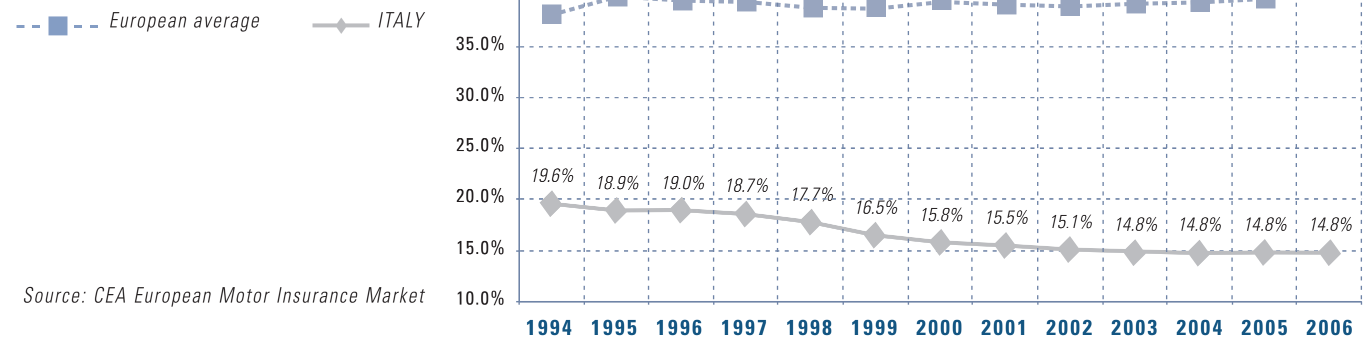
Considering the investment income, the **technical account result for direct business** was positive at Euro 897 million (Euro 951 million in 2005).

Taking the balance for reinsurance into due account, the **overall technical account result** was positive at Euro 861 million (Euro 932 million in 2005), representing a 27.3% ratio to premiums (30.1% in 2005).

NON-LIABILITY MOTOR VEHICLE INSURANCE: A EUROPEAN COMPARISON

Not counting compulsory liability insurance, owners' perception of the risk of damage to vehicles is lower in Italy than in all the other countries of Europe. As a result, vehicle theft and fire policies, and especially insurance against

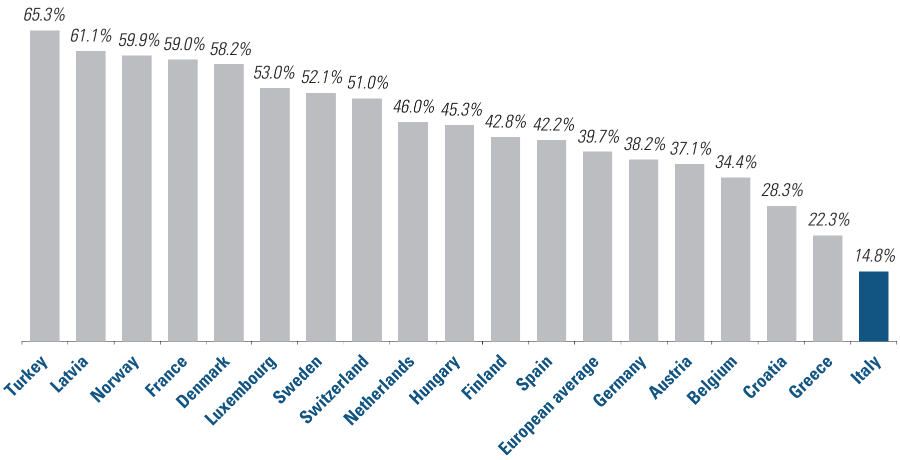
RATIO OF MOTOR DAMAGE PREMIUMS TO TOTAL MOTOR INSURANCE PREMIUMS, 1994-2006



Source: CEA European Motor Insurance Market damage from collision with an identified vehicle or from other accidents (collision with an obstacle, running off the road, overturning) are less common. The relative rarity of these policies – potentially, they could involve millions of cars – is a major factor in Italy's comparatively low ratio of total non-life premiums to GDP.

Data released by the Comité Européen des Assurances (CEA) show that in the last ten years the ratio of non-liability to total auto insurance premiums has held more or less steady at around 40%. In Italy it is lower by nearly two thirds at 14.8%, the lowest in any European country.

RATIO OF MOTOR DAMAGE PREMIUMS TO TOTAL MOTOR INSURANCE PREMIUMS, 2006



Source: CEA European Motor Insurance Market

The limited extent of insurance against motor risks other than liability aggravates the problem of selection bias. That is, these policies are generally taken out for new and expensive cars in large cities or cities where the risk of damage is especially high.

A regional breakdown shows that the ratio of damage to total motor insurance premiums is higher in the provincial capitals of a region than in the region as a whole. And it is nearly twice as high in northern as in southern Italy (18.3% against 9.7%). Interior Ministry data on auto theft (the key risk covered by motor damage insurance) reveal that almost everywhere the number of cars stolen per thousand in circulation is higher in provincial capitals than in the corresponding region. The nationwide average is 4.2 per mille; it is slightly lower in the North (3.3) and higher in the South (6.4). However, some northern cities display high auto theft rates: Turin at 6.7 per mille and Milan with 9.0. These levels are not far below the southern cities of Naples and Bari, which at 10.7 per mille are the most theft-prone in Italy. These latter two cities, and the South in general, also showed the highest rates of motor damage insurance fraud, according to ISVAP; against the national average of 1.1%, the incidence of fraudulent claims in Naples and Bari was 7.4% and 7.0% respectively in 2005.

According to the data released by the Interior Ministry, the number of car thefts in Italy fell by 9.1% in 2006, but the rate is still high: 20 vehicles are stolen every hour.

However, following the introduction of compulsory direct indemnity by the damaged party's own insurer in liability cases, it is likely that Italy may move up in the European rankings of motor damage insurance.

The payment of indemnity to the non-liable party by his own insurance company is a significant stimulus for damage policies for insurance companies and clients alike. Companies that offer attractive terms for damage insurance in addition to liability policies can guarantee the full coverage of the damage suffered by their policyholders even when the latter are partially at fault; in these cases, liability policies cover the damage only on a pro rated basis.

Increasing the insured population is essential to overcoming the current problem of selection bias (today, damage insurance is sought mainly by persons with relatively high risk) and thus making such policies affordable, thanks to greater mutuality among insured. And it is likely that such a trend would lead the way to even more extensive insurance coverage, embracing not only liability and accident damage insurance but also other damage insurance, such as fire and theft (products that are very widespread, for instance, in the United Kingdom).

DISTRIBUTION OF MOTOR INSURANCE OTHER THAN LIABILITY AND THEFT

CITY/REGION	% OF ALL VEHICLES IN CIRCULATION 2005*	% LAND VEHICLES PREMIUMS 2005°	% RATIO LAND VEHICLES TO TOTAL MOTOR PREMIUMS 2005	NO. AUTO THEFTS 2005**	THEFTS/1,000 VEHICLES IN CIRCULATION 2005	NO. AUTO THEFTS 2006**	% CHANGE IN AUTO THEFTS 2006/2005	% FRAUDULENT TO TOTAL LAND VEHICLES CLAIMS 2005+
TURIN	3.9%	7.2%	24.2%	11,755	6.7	10,851	-7.7%	1.0%
PIEDMONT	***7.7%***	***11.1%***	***20.7%***	***13,969***	**4.0**	***12,725***	***-8.9%***	***0.8%***
VALLE D'AOSTA	***0.4%***	***0.1%***	***6.4%***	***76***	**0.4**	***60***	***-21.1%***	***0.2%***
MILAN	6.4%	17.9%	29.9%	25,949	9.0	20,744	-20.1%	0.9%
LOMBARDY	***15.9%***	***31.5%***	***24.0%***	***36,207***	**5.0**	***28,606***	***-21.0%***	***0.8%***
GENOA	1.5%	1.9%	16.9%	2,823	4.2	2,422	-14.2%	2.5%
LIGURIA	***2.8%***	***2.6%***	***13.8%***	***3,486***	**2.8**	***3,119***	***-10.5%***	***2.2%***
TRIESTE	0.4%	0.4%	15.4%	190	1.0	105	-44.7%	0.2%
FRIULI VENEZIA GIULIA	***2.1%***	***1.3%***	***10.6%***	***714***	**0.8**	***574***	***-19.6%***	***0.3%***
TRENTO	0.8%	0.6%	11.1%	210	0.5	174	-17.1%	0.2%
TRENTINO ALTO ADIGE	***1.6%***	***1.0%***	***10.2%***	***346***	**0.5**	***282***	***-18.5%***	***0.2%***
VENICE	1.2%	0.8%	9.1%	862	1.6	652	-24.4%	0.2%
VENETO	***8.0%***	***5.7%***	***10.6%***	***5,705***	**1.6**	***4,300***	***-24.6%***	***0.4%***
BOLOGNA	1.7%	3.7%	24.4%	3,046	4.0	2,272	-25.4%	0.6%
EMILIA ROMAGNA	***7.6%***	***8.7%***	***15.2%***	***7,307***	**2.1**	***6,351***	***-13.1%***	***0.5%***
NORTH	***46.2%***	***62.1%***	***18.3%***	***67,810***	**3.3**	***56,017***	***-17.4%***	***0.8%***
FLORENCE	1.9%	1.4%	10.7%	1,641	1.9	1,183	-27.9%	0.9%
TUSCANY	***6.8%***	***4.5%***	***9.4%***	***4,272***	**1.4**	***3,469***	***-18.8%***	***0.8%***
PERUGIA	1.2%	0.7%	10.1%	900	1.6	646	-28.2%	0.5%
UMBRIA	***1.6%***	***1.0%***	***10.1%***	***1,179***	**1.6**	***842***	***-28.6%***	***0.5%***
ANCONA	0.8%	0.5%	8.4%	365	1.0	373	2.2%	0.5%
MARCHE	***2.8%***	***1.3%***	***7.4%***	***1,285***	**1.0**	***1,225***	***-4.7%***	***0.3%***
ROME	7.5%	10,6%	18,1%	30,396	9,0	28,374	-6.7%	1.4%
LAZIO	***10.1%***	***12.8%***	***16.9%***	***33,191***	**7.3**	***30,935***	***-6.8%***	***1.4%***
CENTER	***21.4%***	***19.6%***	***13.0%***	***39,927***	**4.1**	***36,471***	***-8.7%***	***1.1%***
PESCARA	0.5%	0.4%	12.1%	1,042	4.4	893	-14.3%	2.2%
ABRUZZO	***2.2%***	***1.2%***	***10.0%***	***1,819***	**1.8**	***1,861***	***2.3%***	***1.6%***
CAMPOBASSO	0.4%	0.2%	9.7%	161	1.0	304	88.8%	1.0%
MOLISE	***0.5%***	***0.3%***	***9.9%***	***191***	**0.8**	***350***	***83.2%***	***0.8%***
NAPLES	4.8%	2.7%	9.6%	23,147	10.7	22,523	-2.7%	7.4%
CAMPANIA	***9.0%***	***4.8%***	***9.5%***	***32,318***	**8.0**	***31,239***	***-3.3%***	***8.6%***
REGGIO CALABRIA	0.9%	0.6%	11.3%	2,597	6.5	2,658	2.3%	4.7%
CALABRIA	***3.0%***	***1.8%***	***10.6%***	***7,663***	**5.6**	***7,201***	***-6.0%***	***2.6%***
BARI	2.2%	1.8%	12.1%	10,795	10.7	10,326	-4.3%	7.0%
PUGLIA	***5.8%***	***3.3%***	***9.4%***	***19,357***	**7.4**	***18,377***	***-5.1%***	***6.8%***
POTENZA	0.6%	0.3%	10.2%	334	1.3	303	-9.3%	0.9%
BASILICATA	***0.9%***	***0.5%***	***10.2%***	***462***	**1.2**	***414***	***-10.4%***	***0.8%***
SOUTH	***21.5%***	***11.9%***	***9.7%***	***61,810***	**6.4**	***59,442***	***-3.8%***	***5.1%***
PALERMO	2.0%	1.4%	12.4%	4,658	5.2	4,493	-3.5%	1.9%
SICILY	***8.3%***	***4.7%***	***11.0%***	***15,619***	**4.2**	***16,465***	***5.4%***	***2.8%***
CAGLIARI	1.2%	1.1%	14.3%	2,055	3.8	1,873	-8.9%	1.2%
SARDINIA	***2.6%***	***1.8%***	***11.1%***	***3,374***	**2.9**	***2,898***	***-14.1%***	***1.2%***
ISLANDS	***10.9%***	***6.4%***	***11.0%***	***18,993***	**3.9**	***19,363***	***1.9%***	***2.2%***
TOTAL ITALY	***100.0%***	***100.0%***	***14.8%***	***188,540***	**4.2**	***171,293***	***-9.1%***	***1.1%***

*Source: * ACI - Autoritratto 2005*

° ANIA estimate based on ISVAP

*** Ministry of the Interior*

+ ISVAP - Indagine sul fenomeno della criminalità nel settore assicurativo - elaborazione dei dati per il 2005

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

For a complete picture of developments in the loss ratio of the motor liability insurance sector, one must count not only the number of claims made in a year (which in proportion to the number of vehicles insured gives the "claims frequency") but also their average cost. The evolution of the two main cost components – property damage and personal injury – is also interesting.

CLAIMS FREQUENCY AND AVERAGE COST OF CLAIMS, 2000-2006
Euro

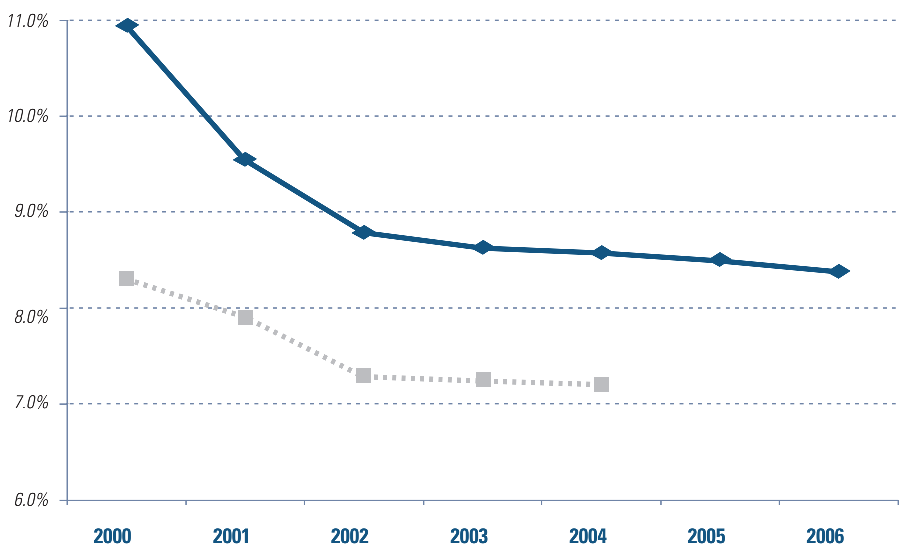
YEAR	CLAIMS FREQUENCY	CLAIMS FREQUENCY: % CHANGE ON PREVIOUS YEAR	AVERAGE CLAIM COST - PROPERTY DAMAGE	PROPERTY DAMAGE: % CHANGE ON PREVIOUS YEAR	AVERAGE CLAIM COST - PERSONAL INJURY	PERSONAL INJURY: % CHANGE ON PREVIOUS YEAR	TOTAL AVERAGE CLAIM COST	TOTAL AVERAGE CLAIM COST: % CHANGE ON PREVIOUS YEAR	INCIDENCE OF PERSONAL INJURY: % ALL CLAIMS
2000	10.95%	-0.93%	1,278	2.93%	9,920	14.91%	2,809	13.07%	20.5%
2001	9.55%	-12.77%	1,431	12.02%	11,175	12.65%	3,186	13.41%	21.2%
2002	8.78%	-8.09%	1,535	7.26%	12,686	13.53%	3,532	10.87%	20.0%
2003	8.63%	-1.71%	1,634	6.44%	13,542	6.75%	3,805	7.74%	21.0%
2004	8.58%	-0.57%	1,701	4.10%	13,206	-2.48%	3,982	4.65%	20.2%
2005	8.51%	-0.81%	1,644	-3.33%	13,106	-0.76%	4,047	1.62%	21.4%
2006*	8.39%	-1.48%	1,649	0.31%	13,490	2.93%	4,136	2.20%	21.0%

(*) Estimates based on ANIA "swift" motor liability statistics

Claim frequency decreased from 8.51% in 2005 to 8.39% in 2006; in percentage terms, the reduction came to 1.48%. A contributing factor was the rise in petrol prices. According to the Ministry for Economic Development, the price of unleaded fuel at the pump averaged Euro 1.28 a litre in 2006, up more than 5% from the Euro 1.22 recorded in 2005.

CEA statistics permit comparison of claim frequency in Italy with a sample of countries representing nearly 60% of the European motor liability insurance market between 2000 and 2004 (the last year available).

The indicator for Italy is considerably higher than the average, although the gap has narrowed progressively. Whereas in 2000 claims frequency in Italy was 2.5 percentage points above the average, by 2004 the difference had been reduced to 1.5 points. Claims frequency was cut by 28% in four years in Italy, against a decrease of 19% in Europe. A survey of the insurance associations in the main European countries conducted by ANIA in 2005 found that the claims frequency rate in Italy was lower only than that of Spain (10.1%).



CLAIM FREQUENCY, 2000-2006

Source: CEA European Motor Insurance Market

France had the lowest rate (under 5%), while Germany and Belgium had rates of 6.8% and 7.0%.

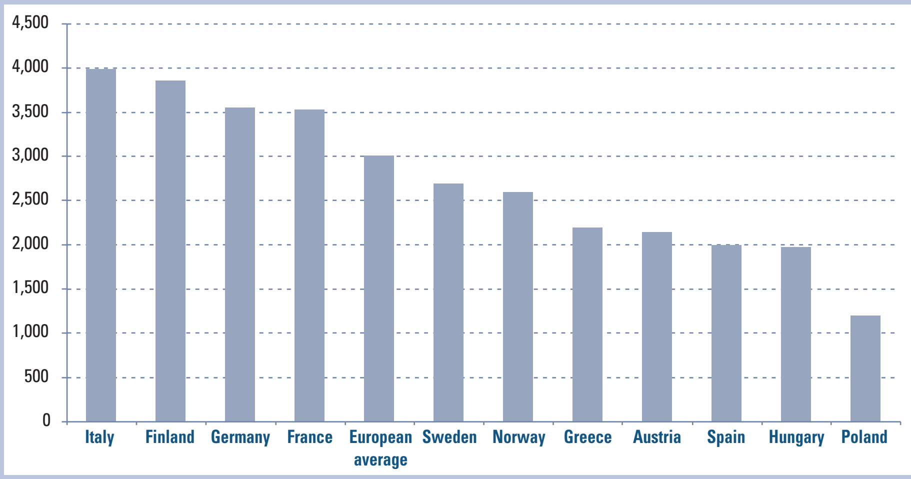
One of the factors in the longer-run reduction in claims frequency in Italy has been the increase in recent years in the number of second cars owned by the insured. The resulting rise in the number of vehicles in circulation has not been reflected in a proportional increase in accidents. Also, there has presumably been an improvement in highway safety over the years, thanks to growing attention by government, insurers and motorists. Another contributing factor has probably been the turnover in the overall fleet of vehicles, with a consequent improvement thanks to the safety features of the new cars.

The average cost of claims (total cost of claims paid and reserved divided by their number) rose again in 2006, although the rate of increase has diminished since the turn of the decade. Last year’s rise was due mainly to the personal injury component, which increased by 2.9%. Overall, the average cost increase (2.2%) more than offset the reduction in claim frequency.

Again, thanks to CEA data Italy can be compared with the other main European countries as regards this indicator. In 2004, the last year for which data are available, the average claim cost was Euro 3,000 in Europe. In Italy it was Euro 4,000, the highest of any country and 33% higher than the average.

The average claim in France and Germany cost about Euro 500 less, and in Spain it was only half as high. The fact that Italy has a higher cost per claim

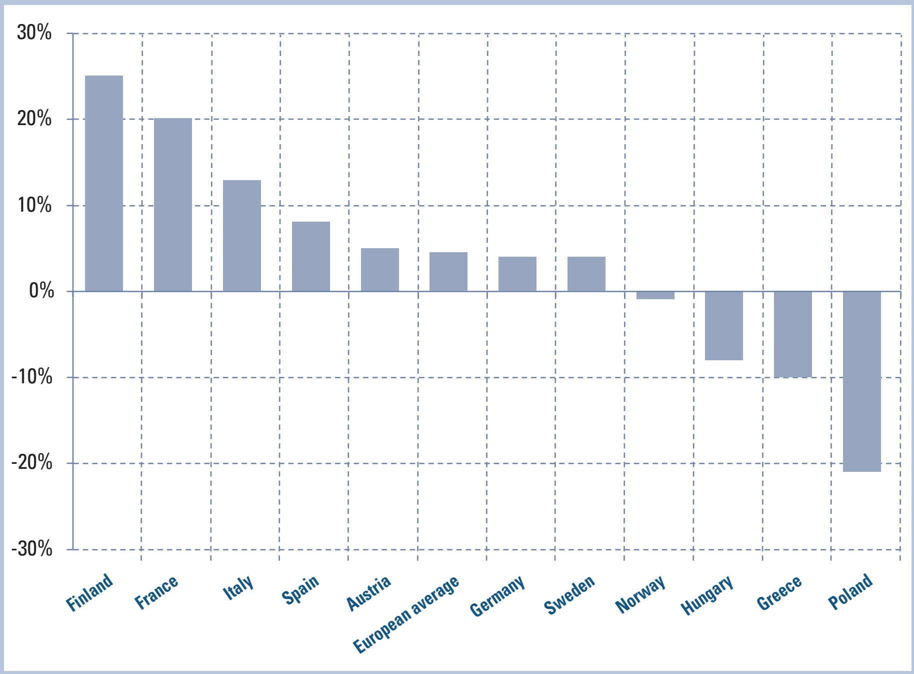
AVERAGE COST OF MOTOR LIABILITY CLAIMS IN 2004
Euro



Source: CEA European Motor Insurance Market

than the rest of Europe is due to the higher proportion of accidents that involve personal injury (21% in 2006); in the other main markets, the proportion averages just half the Italian figure.

CHANGE IN AVERAGE COST OF CLAIMS, 2002-2004



Source: CEA European Motor Insurance Market

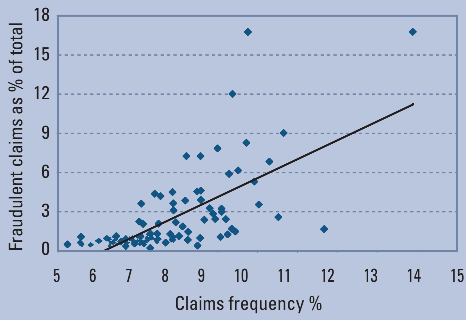
Finally, between 2002 and 2004 Italy had the third-fastest rate of increase (behind France and Finland) in average claim cost: 12.8% against the European average of 4.5%.

GEOGRAPHICAL BREAKDOWN OF CLAIM FREQUENCY AND FRAUD IN ITALY

The claims frequency and their average cost display very substantial geographical variability within Italy. The differences, which are sharpest as regards frequency, depend partly on insurance fraud, which is significant in some parts of the country (figure 1).

In the motor liability sector, the correlation coefficient between the regional frequency of claims in 2006 and the incidence of frauds on total claims as observed by ISVAP was 0.81, a statistically significant value. At provincial level, the correlation coefficient was 0.68. Average claims frequency was 8.39% in 2006, down from 8.51%. In northern Italy the rate was 7.55%, significantly below the nationwide average. Similarly, in that part of the country the share of accident claims with ascertained fraud was 0.97% in 2005, against a national average of 2.81%. The northern region with the highest claims frequency was Liguria (8.68%), which also had the highest incidence of fraud (2.32%).

FIGURE 1
CORRELATION BETWEEN CLAIM FREQUENCY AND CLAIM FRAUD BY PROVINCE



Source: ANIA, ISVAP

The percentage of fraudulent claims is significantly higher in the South, where 8.31% of all claims are fraudulent or involve gross overstatement of damage. In the region of Campania this incidence is over 13%; and this is also the region with the highest claims frequency (11.74%). The same pattern, albeit less pronounced, is found in Puglia: claims frequency well above average (9.57%) and a high proportion of fraudulent claims (over 7%). The other southern regions, however, have lower-than-average claims frequency and fraud.

Among the regions of the Centre, Lazio has the highest claims frequency (9.88%) and is actually second-highest nationwide behind Campania. However, ISVAP does not find a high incidence of fraud (2% of claims). The island regions of Sicily and Sardinia both have claims frequency higher than the national average.

According to provincial-level data, the city with the highest claims frequency is Naples (14.01%), which also has the highest incidence of fraud (16.8%). The city with the lowest frequency is Rovigo (5.28%), where fraudulent claims make up just 0.5% of the total.

In terms of average cost of claims to insurance companies the geographical disparities are not so great. The national average of totally paid claims is Euro 3,548, and the range is only between Euro 3,533 in the North and Euro 3,664 in the South. This convergence is fairly recent, in that at the turn of the century the values registered in the South were lower. The trend is presumably due to the fact that in the last few years, courts have begun to apply standard tables,

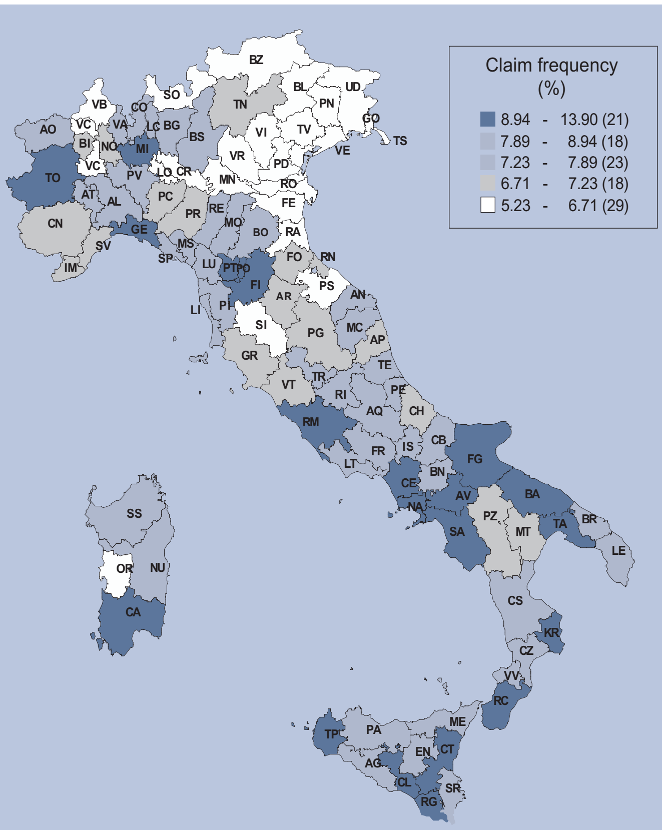
FRAUD AND CLAIM FREQUENCY IN ITALY FOR MOTOR THIRD PARTY LIABILITY – Euro

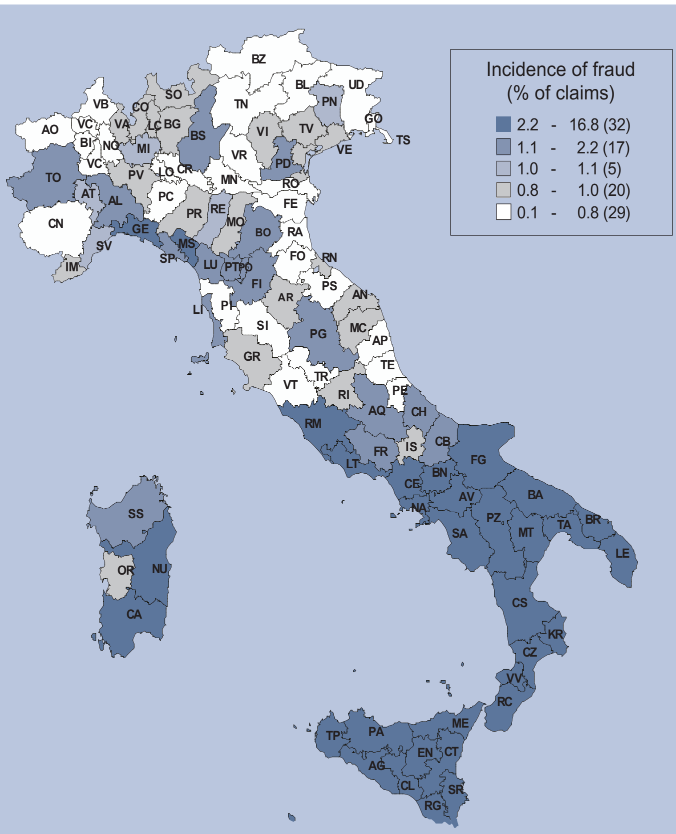
	DATA AT 31/12/2006					2005*	
Region	**% of total vehicles in circulation**	**Claim frequency (%)**	**Average paid claim cost, current gen.**	**Average paid claim cost, previous gens.**	**Average total paid claim cost**	**Claims with fraud (number) (%)**	**Claims with fraud (amount) (%)**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PIEDMONT	8.36%	8.32%	1,487.60	5,839.31	2,913.84	1.10%	1.03%
VALLE D'AOSTA	0.26%	7.37%	1,387.11	8,107.50	3,095.86	0.15%	0.13%
LOMBARDY	17.05%	8.12%	1,455.92	6,918.92	3,403.79	0.94%	0.82%
TRENTINO ALTO ADIGE	1.63%	6.78%	1,523.89	6,648.47	3,301.95	0.44%	0.32%
VENETO	8.73%	6.34%	1,698.56	8,144.61	4,099.26	0.74%	0.68%
FRIULI VENEZIA GIULIA	2.15%	5.72%	1,623.26	8,029.78	3,780.94	0.48%	0.44%
LIGURIA	2.79%	8.68%	1,442.13	5,186.03	2,836.22	2.32%	2.42%
EMILIA ROMAGNA	8.33%	7.11%	1,706.25	8,700.51	4,286.91	0.76%	0.70%
NORTH	**49.30%**	**7.55%**	**1,545.09**	**7,146.14**	**3,533.84**	**0.97%**	**0.86%**
TUSCANY	7.34%	8.40%	1,949.96	6,890.49	3,731.16	0.97%	0.92%
UMBRIA	1.76%	7.28%	1,794.73	8,206.27	3,944.23	0.58%	0.58%
MARCHE	2.95%	7.16%	1,932.37	9,089.62	4,479.82	0.69%	0.59%
LAZIO	9.05%	9.88%	1,563.95	5,441.05	3,284.91	2.15%	1.82%
CENTER	**21.11%**	**8.77%**	**1,765.94**	**6,426.36**	**3,620.20**	**1.54%**	**1.30%**
ABRUZZO	2.36%	7.78%	1,657.55	7,141.85	3,648.22		
MOLISE	0.56%	7.69%	1,335.69	7,860.35	3,409.14	1.29%	1.05%
CAMPANIA	6.99%	11.74%	1,679.27	5,087.06	3,657.45	13.11%	10.69%
PUGLIA	5.59%	9.57%	1,771.81	6,852.03	3,608.55	7.25%	6.42%
BASILICATA	0.92%	7.11%	1,520.68	7,761.68	3,620.92	2.01%	1.73%
CALABRIA	2.71%	8.26%	1,712.36	7,482.84	3,891.87	4.48%	4.04%
SOUTH	**19.13%**	**9.78%**	**1,695.95**	**5,994.26**	**3,664.29**	**8.31%**	**7.01%**
SICILY	8.22%	8.90%	1,351.23	6,074.75	2,935.22	3.82%	3.49%
SARDINIA	2.25%	8.44%	1,472.83	7,086.17	3,368.62	2.14%	1.45%
ISLANDS	**10.47%**	**8.80%**	**1,765.94**	**6,426.36**	**3,620.20**	**3.41%**	**2.95%**
TOTAL ITALY	**100.00%**	**8.39%**	**1,600.88**	**6,634.92**	**3,547.89**	**2.81%**	**2.44%**

** Source: ISVAP - Indagine sul fenomeno della criminalità nel settore assicurativo. Elaborazioni dei dati per il 2005 (Lettera del 27 ottobre 2006).*

in particular that used by the Court of Milan, to value personal injury. For minor injuries the standard national table laid down in the Insurance Code is applied.

As to the payment of fraudulent claims, however, there are highly significant geographical differences: they account for 7% of total indemnity payments in the South and just 0.9%, on average, in the North.





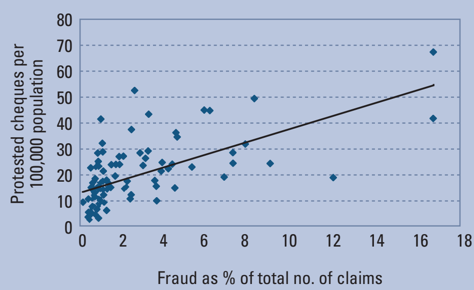
By individual region, however, the differences are more pronounced. In Veneto, Emilia Romagna and Marche claims are the costliest (averaging more than Euro 4,000), while in Liguria, Piedmont and Sicily they are smallest (averaging Euro 2,912). The regions where the amounts paid for fraudulent claims are greatest are Campania (10.8% of the total), Puglia (6.4%) and Calabria (5.3%).

By province, the highest cost of accidents is found in Rovigo – the city with the lowest frequency – at Euro 4,900 in damages per claim. Rovigo is followed by Venice, Bologna and Ferrara, with average claims of between Euro 4,600 and Euro 4,700. The southern city with the most costly accidents is Crotone (Euro 4,500 per claim), where 5.6% of the compensation paid involved fraudulent claims. The city with the lowest cost per claim is Biella (Euro 2,480), followed by Genoa, Siracusa and Aosta at around Euro 2,550.

There is a close correlation between motor liability fraud and other phenomena indicating the malfunctioning of the financial system. For example, using province-level data for 2005, the correlation between the incidence of fraudulent claims and the number of protested cheques was 0.63. This suggests that insurance fraud and other problems that limit the use of credit are related (figure 2).

FIGURE 2

CORRELATION BETWEEN FRAUDULENT CLAIMS AND PROTESTED CHEQUES PER 100,000 POPULATION (PROVINCIAL DATA)



Source: Bank of Italy, ISVAP

MOTOR LIABILITY INSURANCE PRICES IN THE LONG TERM

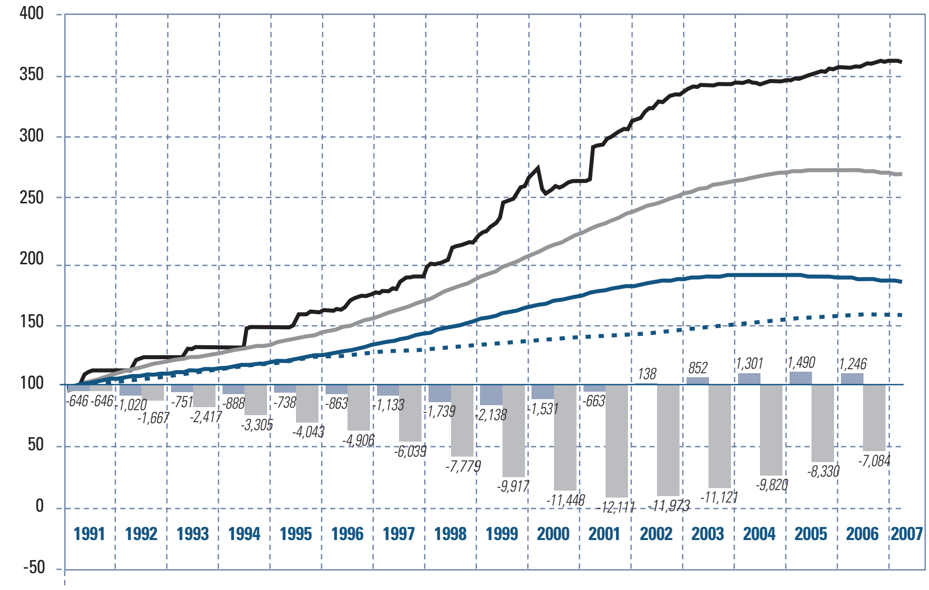
Throughout the 1990s, and even after the premium liberalization of 1994, the Italian motor liability insurance market was characterized by steady losses, hence followed by premium price increases. For that entire decade and through 2001, the technical accounts for the motor liability sector were regularly in deficit, with losses that increased from year to year to peak in 1999 at Euro 2.1 billion (or 16% of premium income). From 1991 through 2001, the sector's losses (even without adjusting for inflation) exceeded Euro 12 billion. This is the backdrop against which the Italian insurance industry acted during the crucial years of policy premium liberalization.

Two distinct sources of data can be used to quantify the price increases over the years: the Istat index for "transport equipment insurance" prices, as part of the overall consumer price index, based on monitoring of premiums for selected risk profiles; and the motor liability "deflator", which tracks the change in the average expense to the insured, i.e. the amount of premium income during the year divided by the number of vehicles in circulation.

To begin with, let us note that even before 1994, i.e. when tariffs were still administered and all companies charged essentially uniform policy premiums (the variations going into effect on 1 April each year), the Istat index item "transport equipment insurance" was rising faster than overall inflation. In 1992, for instance, inflation was 5.3% and the Istat item rose by 10.5%; in 1993 the two rises were 4.6% and 7.7% respectively; in 1994, 4.1% and 8.5%. Despite these increases, the companies' technical results did not improve appreciably. Cumulative losses on motor liability insurance between 1991 and 1994 came to over Euro 3 billion. After the 1994 liberalization, price rises, accord-

PERFORMANCE OF MOTOR LIABILITY PRICE INDEX AND OF DIRECT TECHNICAL ACCOUNT RESULT

- *Istat motor liability insur. price index*
- *Unadjusted premiums*
- *Premiums adjusted for no. vehicles*
- *Consumer price index*
- *Direct business technical account results*
- *Cumulative technical account result*



ing to Istat, were increasingly large as the companies sought to stem their losses. In 1999 the increase in the Istat indicator was the sharpest ever at 16.7%, while the CPI rose by just 1.7%. But 1999 was the year in which insurance companies registered their worst technical result ever in this sector: losses of over Euro 2 billion. This shows that the premium increases were not due to lack of competition but to the attempt to offset the soaring cost of claims, which coincided in part with the introduction of the "ultimate cost" standard for valuing claim reserves. In this situation, in March 2000 the government imposed a 12-month premium freeze (whose obvious consequence was simply to postpone increases to the next year).

In 2002, when the technical results first showed signs of a turnaround (a positive if very modest result of Euro 138 million), the rise in premiums slowed immediately, as the Istat index shows. A contributing factor in the reversal was the protocol of understanding signed in 2003 by the Ministry for Productive Activities, many consumer associations and ANIA, which called for a slowdown in price increases and also a commitment to introduce special measures in favour of young drivers with perfect safety records.

However, it must be emphasized that the Istat item considers only a limited number of risk profiles (currently 6) and that these are fixed over time. Since insurance policy prices have become increasingly personalized since the 1994 liberalization, with the application of a large number of rating factors (age and sex of the insured, type of engine and age of the vehicle, accidents caused in recent years), the types of risk profile to monitor have become practically countless. Further, the "fixed" weights make it impossible to take account of the fact that more than 90% of insured cause no accidents in any year, and thus get a "bonus", i.e. a premium reduction; or that a variable number of renewing policyholders get discounts from the official price list.

Making sure that the risk profiles selected are more appropriate, more representative of the population of policyholders, is only one of the problems involved in calculating the Istat motor insurance index. Considering that the mix of policyholders can vary significantly from company to company, reaching a single value for the entire market requires as realistic a weighting system as possible (across companies and, within each, across risk profiles).To obviate these problems and gauge the adequacy of the Istat index, we can use an alternative indicator, the motor liability insurance deflator, based on annual premium income as certified in the insurance companies' accounts. By definition, the rise in premium income measures the overall increase in gross costs to the insured. But to permit uniform comparison from year to year, account must also be taken of the number and characteristics of vehicles on the road.

Change in number of vehicles. According to the Italian Automobile Club (ACI), the number of vehicles in circulation is rising, so that a part of premiums dur-

TABLE 1 - MOTOR LIABILITY INSURANCE: EVOLUTION OF PREMIUMS COLLECTION AND INSURANCE DEFLATOR

YEARS	1. Motor liability premiums (company account)			2. No. vehicles in circulation*			3. Motor liability premiums "deflated" by col. 2		4. Vehicle characteristics**		5. Motor liability premiums "deflated" by cols. 2 and 4		6. Memo. item: Istat motor liability index		7. Memo. item: consumer price index	
	(Mn. euro)	Index	Annual % change	Thousands	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change
1991	6,729	100.0	-	35,455	100.0	-	100.0	-	100.0	-	100.0	-	100.0	-	100.0	-
1992	7,574	112.6	12.6	36,640	103.3	3.3	109.0	9.0	100.0	0.0	109.0	9.0	110.5	10.5	105.3	5.3
1993	8,167	121.4	7.8	38,580	108.8	5.3	111.6	2.4	100.0	0.0	111.6	2.4	118.9	7.7	110.1	4.6
1994	8,663	128.7	6.1	39,755	112.1	3.0	114.8	2.9	100.0	0.0	114.8	2.9	129.0	8.5	114.6	4.1
1995	9,316	138.4	7.5	40,573	114.4	2.1	121.0	5.4	101.1	1.1	119.6	4.2	142.2	10.2	120.6	5.3
1996	9,770	145.2	4.9	40,453	114.1	-0.3	127.3	5.2	102.7	1.6	123.9	3.6	155.1	9.1	125.4	4.0
1997	10,655	158.3	9.1	40,870	115.3	1.0	137.3	7.9	103.9	1.1	132.2	6.7	169.3	9.2	128.0	2.0
1998	11,745	174.5	10.2	42,650	120.3	4.4	145.1	5.7	105.0	1.1	138.2	4.5	192.4	13.6	130.5	2.0
1999	13,226	196.5	12.6	43,563	122.9	2.1	159.9	10.2	104.3	-0.7	153.3	10.9	224.6	16.7	132.7	1.7
2000	14,196	211.0	7.3	44,680	126.0	2.6	167.5	4.8	104.1	-0.1	160.8	4.9	246.2	9.6	136.0	2.5
2001	15,315	227.6	7.9	46,480	131.1	4.0	173.6	3.6	105.3	1.1	164.9	2.5	272.6	10.7	139.8	2.7
2002	16,628	247.1	8.6	47,763	134.7	2.8	183.4	5.6	105.6	0.3	173.6	5.3	304.3	11.6	143.3	2.5
2003	17,622	261.9	6.0	49,101	138.5	2.8	189.1	3.1	105.4	-0.2	179.4	3.3	319.6	5.0	147.1	2.7
2004	18,062	268.4	2.5	50,100	141.3	2.0	190.0	0.5	106.2	0.8	178.9	-0.3	322.6	0.9	150.4	2.2
2005	18,171	270.0	0.6	51,152	144.3	2.1	187.1	-1.5	106.7	0.5	175.3	-2.0	328.1	1.7	153.3	1.9
2006*	18,387	273.2	1.2	52,175	147.2	2.0	185.6	-0.8	107.1	0.3	173.4	-1.1	335.6	2.3	156.5	2.1

(*) Source: ACI (for 2006, estimate)

(**) This index is set at 100 for all years to 1994, as in the administered-price regime only extremely limited variations according to vehicle characteristics were made

ing any year represents new vehicles. Deflating for this, one gets the average increase in insurance cost per vehicle.

Change in vehicle characteristics. The mix of vehicles insured also changes. For instance, the number of cars with larger engines tends to increase; these vehicles, on average, carry higher premiums. Also tending upwards is the number of diesel-powered vehicles, which on average clock more mileage and thus carry higher premiums. Other variable risk characteristics also indirectly affect premium income, such as vehicle age and the maximum amount of coverage chosen. Considering these factors, one can calculate the average increase in premiums holding vehicle characteristics constant.

Table 1 shows the data needed to calculate the premium deflator since 1991, the base year chosen. In all the years through 2001 except for 1992-93, the Istat index for motor liability insurance (column 6) rises far more than the total premium income (column 1). This pattern is anomalous: one would suppose that the unit price rise should be less than the total increase in premiums, as a rising number of vehicles were insured. And the number of vehicles (column 2) does in fact rise every year. This anomaly ends in 2003, the year Istat revised its price observation with three significant changes:

1. a careful redefinition of policyholder profiles to reduce the possibility of error by Istat surveyors;

2. inclusion of previously neglected profiles (scooters, young drivers);
3. revision of the weights for the different profiles.

In the four years from 2003 through 2006 the average annual increase in motor liability prices, according to Istat, was 2.5%, compared with 0.3% for the per vehicle price deflator (column 3) and no increase at all for the price deflator taking account of vehicle characteristics as well (column 5).

The disparities between the indicators are explained by differences in methodology. In particular, in addition to the effect of the "bonus" earned by 90% of policyholders every year, insurers made increasing use of discounts off list prices, a factor that a fixed-weight indicator like Istat's, using official list prices, cannot take into account.

Overall, going by the motor liability price deflator (column 3), in the 13 years from 1991 to 2004 the cost of insurance per vehicle rose by 90%, while the consumer price index rose 50% (column 7). Afterwards, the cost of insurance per vehicle fell by 1.5% in 2005 and 0.8% in 2006, against rises of 1.9% and 2.1% in the CPI. In 2007 the rise in motor liability insurance prices has remained modest. In May the Istat index for the item was up 1.5% over May 2006, the same as the rise in consumer prices generally.

MOTOR LIABILITY INSURANCE: DIRECT INDEMNITY

Following protracted debate over the introduction, by law, of direct indemnity in the motor liability sector and the design of the implementing regulations, the procedure became effective on 1 February 2007. The system is complex, a fundamental role being played not only by the statutory and regulatory provisions but also by the way relations between insurers are structured. These are governed by a private-law convention (CARD) supported by a specific protocol between ANIA and CONSAP S.p.A. for the management of a "clearing house" for settling obligations between participating companies.

For policyholders, the system is simple, patterned after the old, voluntary amicable accident report. This is now replaced by a legally compulsory system. When there is a collision between two vehicles, the party not liable, or only partly liable, applies for indemnity directly to his own insurance company, which is required to provide all necessary assistance in examining the case and to fully inform the insured of his rights. Further, the new system provides that the insured/damaged party take any legal action for damages against his own insurer, not the other party's. There is also a voluntary conciliation procedure developed by ANIA and a group of consumer organizations for settling disputes between policyholders and companies.

Direct indemnity applies on condition that both vehicles are identified and regularly insured; it is in effect for damage to vehicles and goods transported and for minor personal injury to the driver not at fault (or only partially at fault). The procedure also applies when passengers have suffered injury, but with a special procedure under the law, whereby the injured party must apply to the insurer of the vehicle in which he was riding.

Direct indemnity does not apply in cases of:

- accidents occurring outside Italy;
- accidents involving more than two vehicles;
- accidents involving a motor scooter not carrying the new type of licence plate;
- accidents involving agricultural machinery (until 1 February 2008);
- serious personal injury to the driver.

Unlike the old amicable accident report, direct indemnity applies even when the report form (the so-called "blue" form) is not signed jointly by both drivers or policyholders. However, joint signature does facilitate determination of liability and speed up settlement.

The other side of this simplicity for the insured is a highly complicated apparatus necessitating drastic far-reaching reorganization both for the insurance association (ANIA manages the convention between insurance companies and all the related IT infrastructures) and for the individual insurance companies. The change engendered a series of regulatory, organizational and IT activities that were accomplished in just five months and monitored step-by-step by all the relevant institutions: the Ministry for Economic Development, ISVAP, and the Antitrust Authority.

The implementing regulations

Decree 254 of 18 July 2006 (published in *Gazzetta Ufficiale* No. 199, 28 August 2006) enacted the implementing regulations for direct indemnity pursuant to Article 150 of the Insurance Code. The decree completes the body of rules governing the new damage indemnity procedure. It is marked by the very great number of obligations imposed on insurance companies in terms of the organizational apparatus for the operation of the system (the CARD Convention – Insurance Convention on Direct indemnity) and the settlement of monetary obligations between participants.

The decree institutes a system of fixed compensation based on pre-determined average costs set at the start of each year and applying to all accounting settlements concerning accidents during the year. Under the old voluntary accident report procedure, each mandatary company was fully reimbursed for the amount of the settlement with the insured, adjusted at year's end by methods based on bilateral comparison between average costs for the two companies. Under the new system the direct insurer, which has settled with its own insured on account of the insurer of the vehicle at fault, receives as compensation for each claim settled only a fixed amount corresponding to the previous year's average cost. To take account of the geographical disparities in average compensation costs, the ministerial committee set three fixed amounts for three macro-areas within Italy.

Under this compensation method, a company that has managed to keep the cost of claim settlement below the fixed amount profits by the difference; conversely, it makes a loss if the payment is higher than that amount owing to the company's own inefficiency or simply to bad luck in the case that the actual damages were greater than the fixed amount.

Unlike the fixed-sum compensation method in place in other European countries where the direct indemnity system is used on a voluntary basis, in Italy the insurer of the vehicle at fault cannot learn the amount actually paid on its behalf by the injured party's insurer. This concealment of the actual damage figures has had a substantial organizational impact, as insurance companies have had to radically rethink their risk analysis for setting premiums and redesign their accounting format to comply with the new rules for reporting accidents and calculating claim provisions laid down by ISVAP on the basis of the new method of indemnity and compensation.

Indirectly, the new rule also altered important motor liability contract clauses (deductibles, right of recourse, right to reimburse the company personally to avoid bonus/malus penalty) whose application in a system of direct indemnity required the exchange of information on actual damages paid between the mandatary company and the "debtor" company. As these are clauses to the consumer's advantage, a procedure was instituted under which the insured may exercise his option to pay the damages personally to the manager of the clearing house rather than to his own insurance company. With this new procedure the clearing house, once it has received the reimbursement from the insured, credits the amount to the mandatary insurer and cancels the fixed-sum liability of the debtor company, which can thus annul the bonus/malus penalty for its own policyholder.

Of course there is no escaping the complexity of such a procedure, especially in cases where all these operations must be performed near the contract expiry date. In order to permit right of recourse in policies with a deductible, the clearing house was assigned to report to the liable insurer only amounts below the contractual deductible. This information is thus not systematic but circumscribed to a small number of cases that qualify as exceptions allowed by the Antitrust Authority.

Private-law conventions under the implementing decree

Decree 254/2006 did not simply establish the criteria and procedures for instituting direct indemnity of motor vehicle accident claims but also laid down guidelines for organizational relations and cooperation among insurance companies – first of all, the regulation of contractual obligations between the insurers of the vehicles stemming from the management of the claims. Specifically, Article 13 provides that insurance companies adhere to a private Convention governing the organizational and accounting relationships necessary to operate the system. This article also provides that the settlement of economic obligations between companies must be effected by a "clearing house" that is wholly independent of the insurance companies and their trade associations. The body specified to operate it is CONSAP S.p.A., which has the desired characteristics.

The CARD Convention – Insurance Convention on Direct indemnity

The Insurance Convention on Direct indemnity (CARD) defines the procedures for participating in the direct indemnity system in terms of financial guarantees and IT standards for the performance of the activities required for transmitting claims to the clearing house.

a) Modular structure
Like the voluntary conventions that preceded it, CARD has a modular structure, comprising both the direct indemnity procedure proper governed by Articles 149 and 150 of the Insurance Code and its implementing regulation (Presidential Decree 254/2006) and the special procedure for indemnification of passengers pursuant to Article 141 of the Code.

b) Scope and purpose (Article 1)
The convention thus consists of a general set of rules (procedures for adhesion, bank guarantees, tasks and function of the clearing house manager, penalties, arbitration procedures) and two specific sets of rules for conventions on direct indemnity: that on direct indemnity itself (*Convenzione Indennizzo Diretto – CID)* and that on third party passengers (*Convenzione Terzi Trasportati – CTT).*

c) Participation (Article 2)
Participation in the CARD Convention is compulsory for all motor liability insurers with registered office in Italy and entails subscription of both special conventions. Insurance companies with registered office in other member states doing business in Italy under the freedom of establishment or the freedom to provide services and that intend to participate in the direct indemnity system are required to subscribe the Convention.

d) Clearing house manager (Article 3)
Article 13.3 of the implementing regulation calls for the outsourcing of the operation of the clearing house, defined as the whole set of activities relating

to accounting settlement and transfer of monetary amounts. The manager of the clearing house is also responsible for the data processing necessary to calculate the average claim costs that the Ministry for Economic Development technical committee envisaged in Article 13 of the implementing regulation must set each year to determine the fixed reimbursement amounts. For this purpose, insurance companies must transmit exclusively to the clearing house, in a specific data flow, also the amounts settled in their role as paying agent.

e) Monitoring compliance with the Convention (Article 4)

All activities not assigned to the clearing house and not subject to antitrust rules (verification of insurance cover, exchange of information on liability for the accident, monitoring compliance with the Convention, arbitration) are assigned permanently to ANIA.

f) Conditions for participation and termination (Articles 6-10)

These articles lay down the requirements for being party to the Convention as regards:

- the constitution of a bank surety in favour of the clearing house;
- adoption of technical and IT supports necessary for operation of the system;
- creation of a company unit to handle relations with the clearing house, with ANIA and with the other insurance companies with the specific functions envisaged by the Convention.

They also specify conditions for termination of participation, in connection with situations of corporate abnormality.

g) Enforcement and penalties (Articles 11-12)

Sample checks of compliance with the Convention and checks upon request of individual companies are envisaged. The rules govern some types of dispute not subject to arbitration and set the penalties for non-compliant companies. The checks are performed by a special unit, CONCARD.

h) Arbitration (Article 14)

Rules for arbitration of disputes over the attribution of liability and of disputes in some specified cases relating to third-party passengers.

i) Verification of insurance cover for the CID Convention (Article 16)

The SIC system acts as “official certifier” of the insurance coverage of the two vehicles involved in an accident.

j) Verification of liability in case of accident report not signed jointly for CID Convention (Article 18)

The new rules focus in particular on the determination of liability for accidents, which must be verified whenever the accident report lacks the joint signature of both drivers. The rules of the Convention concerning the apportionment of liability apply exclusively for the purpose of settlement of financial obligations between companies. The Convention allows for a single online exchange of information between the two insurers to report their reciprocal percentages of liability and indicate which case in the barème applies to the accident in question.

Failing agreement on the division of liability, 50% co-liability for the two insurers is presumed. This assumption can be overturned by an arbitration procedure.

k) Compensation of the mandatary company (Articles 23 and 38)
For claims handled via the direct indemnity procedure (CID Convention), the procedure provides for a single fixed payment to the mandatary insurer, in reimbursement of all payments for damages to the vehicle, personal injury to the driver, damage to objects transported and recourse on the part of mutual organizations, private insurers (including recourse on collision insurance) and employers for every claim handled.

As for personal injury to passengers, there is a fixed payment, different from that for the CID Convention, applying to each injured party.

l) Handling fees for mandataries (Articles 27 and 41)
So as not to penalize companies that end up handling a larger number of cases than would have been the case given their effective claim frequency, both the CID and the CTT conventions provide for a handling fee equal to 15% of the fixed sum, applying to the number of cases handled in excess of those of each other mandatary.

m) Operational support
The Convention will be backed by the operational supports provided for in Article 8.

ANIA/CONSAP convention on clearing house functions

All reimbursements made through the direct indemnity procedure are transmitted monthly to the clearing house, which registers the sum owed according to the type of convention (CID or CTT) and, for CID claims, the province of residence of the non-liable owner. The actual damages paid are known only to the clearing house operator and serve to calculate the average costs that the ministerial Technical Committee uses in determining the fixed compensation schedule for the following year.

Relations with the operating entity are defined in a convention that forms an integral part of the CARD Convention itself, as envisaged in Article 8.

THE ESTIMATION OF THE FIXED COMPENSATION AMOUNTS

The direct indemnity system provides for settlement of amounts due between insurance companies via offsetting of the claims paid. This offsetting is based on average costs (differentiated by macro-areas for physical damage, and with deductibles for injury to passengers) calculated yearly by a special Technical Committee. The Committee is composed of one member from the Ministry for Economic Development (as chairman), one from ISVAP, one from ANIA, two from consumer associations, and an actuarial expert who has never worked for any insurance company.

For the first year, lacking data on the new claims system, the Committee fixed the compensation amounts based on the market data available, supplied by ISVAP and ANIA.

1. Fixed compensation amounts for CID-CARD

The amount fixed for direct indemnity must be a single amount used to indemnify: damage to the vehicle (accidents involving just two vehicles); minor personal injury to drivers (permanent disability of no more than 9%); and damage to goods transported by the driver and/or owner. For the component of physical damage alone (vehicle and transported goods), differentiation by three geographical areas is envisaged. The amounts were estimated as follows.

1. **The average cost of damage to the insured vehicle and to goods transported** was estimated based on the value given by ISVAP ([1]) for the average cost of claims paid (for all generations) in 2005, namely Euro 1,554 (it was not possible to exclude the cost of accidents involving more than two vehicles). This amount was reduced by adjustment costs, which are charged to the mandatary company; these coming to about 12%, the average net claim cost is Euro 1,368. This was revalued to December 2006 using Istat's national consumer price index for production and clerical worker households (+2.47%) and then to June 2007 using the target inflation rate for the year (+2.00%). The final estimate of the average cost of damage to the insured vehicle and goods transported came to Euro 1,416.

2. **The three geographical areas** were determined by cluster analysis of ANIA's quarterly statistics on motor liability insurance. The provinces of Italy were divided into three groups defined in such a way that the ratio between

([1]) Letter of 27 October 2006: "Statistiche relative alla gestione dell'assicurazione della responsabilità civile autoveicoli terrestri e veicoli marittimi, lacustri e fluviali" (from the direct Italian insurance portfolio, 2000-2005).

the average cost of current-generation claims paid (2) in each set of provinces and that of the cost in the province of that set with the lowest cost is approximately equal in all three sets of provinces. The difference between the average claim cost in each set and the average cost nationwide (Table 1) was used to generate three coefficients for the geographical differentiation of the property damage component of compensation as estimated above (Euro 1,416). The values for the three sets of provinces are given in the table.

TABLE 1 - GEOGRAPHICAL DIFFERENTIATION
Euro

	Set 1	Set 2	Set 3
Average cost of property damage claims, 30/06/2007	1,416	1,416	1,416
Coefficient for geographical areas	*1.18*	*0.97*	*0.83*
Average cost of property damage claims by geographical area, 30/06/2007	1,671	1,373	1,175

3. **Minor personal injury to driver** (permanent disability of 9% or less) was estimated on the basis of an ANIA study of minor permanent injury on a sample of claims for such injuries, adjusted using additional information from the ISVAP Accident Database. The average cost of claims with this type of injury was Euro 3,993. As this was for claims paid between 1 February and 31 March 2005, it was revalued to June 2007 using Istat's consumer price index for clerical and production worker households as established by law. The average cost of claims for minor personal injury to the driver thus came to Euro 4,071.

The single compensation amount for each geographical area was obtained by weighting the average claim cost as calculated above considering all the types of accident.

To explain these procedures in detail:

Row 1: The average cost of property damage claims is estimated using the three geographically differentiated amounts (Table 1).

Row 2: The average cost of claims for minor personal injury (permanent disability of 9% or less) to driver is the previously estimated value of Euro 4,071.

Row 3: The average claim cost for "mixed" accidents involving property damage and also minor personal injury to the driver is the sum of the averages

(2) In this case, there being no geographical breakdown of the average cost of all generations of accidents involving only property damage, the current generation of claims was used. As these mainly consist of accidents with only property damage, this is the most reasonable value to use for determining the geographical breakdown of this component. Otherwise – i.e. using the average cost of claims paid for all generations of accidents – the geographical distribution would be significantly affected by differences in other average costs (severe personal injury), the pattern of which is different.

TABLE 2 - ESTIMATED SINGLE CLAIM COST FOR CID-CARD

TYPE OF ACCIDENT		AMOUNT in euro Area 1	Area 2	Area 3	NUMERICAL WEIGHT %
Mixed claims					
Row 1.	Property damage	1,671	1,373	1,175	
Row 2.	Minor personal injury	4,071	4,071	4,071	
Row 3. = Row 1. + Row 2.	***Mixed***	***5,741***	***5,444***	***5,246***	***15.33%***
Property damage only					
Row 4.	***Only property damage from serious acc***	***1,671***	***1,373***	***1,175***	***84.67%***
Row 5. Single compensation amount (weighted average of Row 3 and Row 4)		**2,295**	**1,997**	**1,799**	

estimated for the single components. Thus for mixed accidents the average claim cost (revalued to June 2007) was Euro 5,741 for Area 1, Euro 5,444 for Area 2, and Euro 5,246 for Area 3. Weighting – calculating the incidence of these accidents on the total – was as follows. The ANIA database shows that for every 100 accidents there are 135 damaged parties; 83.4 of these are drivers, and only 73 suffer some minor personal injury. Finally, considering that accidents involving personal injury account for 21.0% of the total, the result is that the weight of accidents with minor personal injury to the driver is 15.33% (73.0% × 21.0%)

Row 4: Thus the majority of accidents (100% - 15.33% = 84.67%) do not involve driver injury but only physical damage to vehicles and goods transported. These accidents are valued (at June 2007) as in Row 1.

Row 5: To estimate the fixed compensation value, for each Area the two claim costs estimated above (mixed and material-damage-only) are weighted. The resulting values are Euro 2,295 for Area 1, Euro 1,997 for Area 2 and Euro 1,799 for Area 3.

2. Fixed compensation amounts in respect of passengers (CTT-CARD)

The convention on indemnity for passengers also calls for a fixed compensation amount owed for the damage to every injured passenger and his property, net of litigation, adjustment and expert assessment costs. There is a threshold of Euro 5,000, up to which the mandatary insurer is reimbursed (less the deductible of Euro 500). For amounts above this threshold the mandatary is reimbursed by the threshold amount plus the excess. Accordingly, the average amount of personal injury damages to drivers up to the threshold has been estimated, as follows.

Using the ANIA study on minor personal injury, the threshold value can be considered as equal to the average claims cost of injuries to passengers involving permanent disability of 3%. To estimate the average cost of compensation for personal injury to passengers, the value given in that study, adjusted according to additional information from the ISVAP accident database, has been used. The average claim cost for accidents involving this type of personal injury is Euro 2,555. As this figure is for claims settlements at 1 March 2005, it was revalued to June 2007, using as above Istat's consumer price index for clerical and production worker households as required by law. The average cost of indemnity to passengers for personal injury entailing permanent disability of 3% is estimated at Euro 2,644. The fixed compensation amount was then determined as the weighted average of this cost and the Euro 5,000 threshold level, with weights equal to the percentage of injuries with 3% permanent disability (74.5% of the total) and the rest (25.5%). The fixed amount thus comes to Euro 3,250.

In addition to the fixed deductible of Euro 500 (10% of the threshold), there is also a proportional deductible of 10% of the amount of indemnity paid, with a ceiling of Euro 20,000.

IMPLEMENTING REGULATIONS TO THE INSURANCE CODE PROVISIONS ON MOTOR LIABILITY INSURANCE

The Insurance Code assigns broad regulatory powers to ISVAP, the insurance oversight authority. In the field of motor liability insurance, the Code coordinates the series of laws enacted over the years, with their own regulations. These will continue to apply until they are replaced by new legislation. In integrating and updating these regulations, in 2006 ISVAP issued two implementing measures.

ISVAP Regulation 3 of 23 May 2006. – Requirement to feed data to the SITA database for the operation of the Italian Information Centre (4th EU Motor Directive). The regulation lays down general criteria for the operation of the Italian Information Centre, instituted at ISVAP, whose purpose is to provide informational support to damaged parties in "cross-border" accidents, as provided for in the 4th Motor Directive (Directive 2000/26/EC). The Directive institutes a scheme to protect the victims of road accidents occurring in a member state other than that of residence ("visiting victims"). This calls for the creation in every EU member of an information centre to give accident victims who have returned home and submit the request in their own language the relevant information on the insurance cover of the vehicle liable for the accident.

ISVAP, exercising its option under Article 154 of the Insurance Code, determined that the Italian Information Centre shall acquire the data on motor liability insurance policies on all vehicles registered in Italy by signing an agreement with ANIA to have access to the services of the Association's SITA database (Information Service on insured vehicles by licence plate number). This solution enables ISVAP to draw on a large, long-established voluntary database, avoiding a costly duplicate. Starting 22 July 2006 (as specified by the Regulation), Italy went over from the previous voluntary scheme for data acquisition under SITA to a compulsory data transmission system, necessary for the performance of a public service that is now obligatory under EU law. The ANIA-ISVAP agreement, to be signed pursuant to Article 5 of the Regulation, shall lay down specific technical procedures and timetables for the transmission of data to the SITA database.

ISVAP Regulation 4 of 9 August 2006. – Customer information requirements at expiry of contract and measures to attestation of risk status.

The measure, in effect from 1 January 2007, specifies information requirements for insurers when the annual motor liability insurance policy expires and also governs the content and mode of delivery of the attestation of customers' risk status. The Regulation also extends to all types of vehicle the rules on the indication of the "universal conversion" merit class, which is to be specified in the attestations of risk in order to permit comparison between the different standards used by insurance companies in constructing their own bonus/malus grade. The indication of the universal conversion class in addition to the contractual merit grade was originally provided for in ISVAP Circular 565/2005 only for cars, motorcycles and scooters.

Notice to be sent to policyholder on occasion of the annual contract expiry

In this sphere Regulation 4/2006 is based on Article 191.1b of the Insurance Code, which gives ISVAP broad powers to impose information requirements on companies before the conclusion and during the life of contracts, including insurance products marketed or placed using distance techniques (telephone or Internet). All insurers are required to transmit to the policyholder, at least 30 days prior to expiry of the contract and even where there is no tacit renewal clause, a notice patterned on the form annexed to the Regulation. The notice must state the date of expiry, the procedures for the customer to give notice of intention to terminate, the current premium and that for the following year, the number and cost of accident claims relevant to application of a higher premium ("malus", "pejus") or – as regards premium and accidents – the availability of the relevant information at the agency to which the policy is assigned or, alternatively, the company's call centre.

With the introduction of the direct indemnity system, effective 1 March 2007 ISVAP revised the compulsory information that insurers must provide –

directly or through their brokers – concerning the number and cost of accidents impinging on the policyholder's merit grade and the premium for the following year in cases in which the contract gives the liable party the option of paying the claim himself to avoid the premium increase. ISVAP Provision 2494 of 21 December 2006 revised the facsimile notice annexed to Regulation 4, separating the information applying to claims settled via direct indemnity from that required for claims settled by other procedures. For claims paid by the damaged party's insurer via direct indemnity, in fact, the liable party's insurer must inform its policyholder that to learn the amount of the claim he must apply to CONSAP, the only organization authorized to possess information on actual costs of accidents handled via direct indemnity.

Attestation of risk status

The measures implementing Article 134 of the Insurance Code specify the content, delivery, and period of validity of the attestation of risk status and the initiation and duration of the risk observation period. ISVAP Regulation 4/2006 changed the mandatory delivery date of the attestation, which must now be transmitted to the policyholder together with the notice due 30 days prior to contract expiry. It also modified the initiation and duration of the accident observation period, establishing a uniform measure for all insurers, namely that the period begins on the same date as the initial insurance contract and ends two months prior to its expiry. For years after the first, the period shall cover the twelve months beginning with the end of the previous observation period.

As for the period of validity of the attestation for purposes of taking out a policy with a different company, Regulation 4/2006 lays down an "ordinary" period of 12 months, extendable to 18 where the policyholder declares to the new insurer that the vehicle has not circulated in the period subsequent to the expiry of the previous policy. It appears to be necessary, however, for ISVAP to harmonize this rule on validity, plus other measures, with measures enacted on liability insurance in 2007 by the so-called Bersani-2 decree, which extends the period of validity of risk attestation to five years.

BONUS/MALUS SYSTEMS FOLLOWING THE RECENT RULES CHANGES

Perhaps the main form of motor liability risk personalization, bonus/malus systems are based on the insured's accident history or safety record: his greater or lesser tendency to cause accidents. Since their introduction in the 1970s these schemes have proven their usefulness in preventing accidents; like deductible indemnity policies, they give the insured incentives to drive carefully and avoid damage to third parties.

Given the structure of compulsory motor liability insurance – which must cover not only the owner but any driver of the vehicle (insurance in the name and on account of the liable person) – bonus/malus systems refer to the vehicle, not to authorized drivers or owners, much less the policyholder. However, to identify the person to whom the position established by a vehicle over time on the bonus/malus scale applies, the law expressly names the owner (Article 134 of the Insurance Code).

From the standpoint of price personalization, bonus/malus systems distribute the overall premium cost among the various classes of insured, based on models that apply coefficients to raise or lower premiums as a function of accident history. Until 1994, in the framework of "administered" prices and contract terms (every year the Interministerial Committee on Prices set prices and contract clauses), there was a single bonus/malus scale both in terms of number of merit classes and rules for entry into the mutual insurance system. The rules for changing merit ratings and the premium coefficients were laid down by the Committee and applied in uniform fashion by all companies.

With liberalization, the bonus/malus rating systems began to be differentiated from company to company not only with regard to the three factors just mentioned but also with the introduction of mixed formulas (bonus/malus and deductible) as well as the traditional Anglo-American no-claim discount. To permit comparison among the various systems adopted by different companies and so make it easier for policyholders to switch insurers, ISVAP issued a series of measures introducing and governing the "universal conversion" class to make the bonus/malus scales of all companies comparable. This universal class must be given in the risk attestations for policyholders and must be applied by each insurer in taking on risk, according to a specific table of correspondence with its own internal rules.

This framework, confirmed by the Insurance Code and based on freedom to set prices and establish contract terms, was then acted upon by the "Bersani-2" decree (Decree Law 7/2007, converted into Law 40/2007); Article 5 of the law introduces a set of mandatory measures concerning bonus/malus clauses, laying down:

– the period of validity of the risk attestation, extended from one year to five;
– the requirement to assign to the policy on a new vehicle acquired by the owner of one already insured or by a stable member of the latter's household the same merit class as that of the vehicle already insured;
– the rules for modifying the bonus/malus rating after an accident;
– the requirement for prompt notification of the insured of a change in class as a result of an accident.

There is no denying that these provisions respond to complaints from consumer organizations over certain laws or contract clauses perceived as socially unfair. It is equally certain that the rules go beyond the legislative prerogatives that the EU reserves to Member States, which should abide by the hierarchy of Community law as regards the inviolable principle of free determination of prices and contract instruments in the insurance industry. The new rules have features that make their economic benefits for most consumers questionable, and they have undesired effects, as often happens when market rules are made more rigid. Apart from the provision on the duration of the risk attestation – which answers to specific, reasonable needs concerning the use of a vehicle – and the prompt notification of changes in merit class – already envisaged, de facto, in the insurance rules in force – the new bonus/malus provisions require adjusting the price structure to recover the entire reduction in the resource flow from the types of contract regulated. In particular, requiring insurers to assign new cars acquired by a policyholder or his family members the same merit class as the first car rather than the company's entry-level class is tantamount to a mandatory price discount. This reduces expected premium income and requires the charging of higher prices to other policyholders to make up for the shortfall. In the same way, changing the rules on liability for purposes of calculating higher premiums for drivers causing accidents to penalize only the person "principally" responsible for the accident and excluding partial liability and 50% liability diminishes the flow of premium income by the amounts that would derive from those increases. This is in addition to the reduction in premium income described above.

The regulation on calculating liability for purposes of applying the "malus" penalty is also objectively incompatible with the general principles of the legal order, and in evident conflict with an ethics of accountability for the insured. Quite apart from the rule's difficulty of interpretation, which creates a serious problems in application, let us note that under Italian civil law in the case of joint liability each liable party is responsible for his proportional part of the cost of indemnity. The motor liability insurer covers this substantive liability and in turn must indemnify for damage in proportion to the degree of liability of the person it insures. What is worse is the outcome where the two drivers are equally responsible (50% each). In these cases neither of the two would be assigned the malus penalty. In addition to this absurdity, then, the rule could incite fraudulent behaviour.

In conclusion, the provisions concerning the bonus/malus system distort its nature, reducing the implicit deterrence of the malus penalty. This implies a flattening of the distribution towards the better classes, but the insured will have to pay higher premiums to offset the income loss due to failure to apply the penalties.

THE OBLIGATION TO CONTRACT: REFERRAL TO THE EUROPEAN COURT OF JUSTICE

Concluding the preliminary assessment of Italian rules on the obligation to contract in the motor liability insurance sector, on 12 October 2006 the Commission decided to refer Italy to the EU Court of Justice. In the Commission's view, the Italian provisions are in conflict with the EU Treaty and with the Third Non-life Directive. The procedure was initiated in October 2005 with a first objection to the Italian government, expressing doubt over the maintenance of the obligation to contract. In April 2006 the Commission added a reasoned opinion, preliminary to an infraction procedure before the Court of Justice.

The objections of the Commission bear on two articles of the Insurance Code in particular: Article 35, because it requires companies to calculate motor liability premiums consistent with their technical basis, which must be extended to an observation period of at least five years; and Article 122, because it makes the obligation to contract into an obligation to set prices for all risks and to accept all policy applications, which the Commission sees as a groundless restriction of the freedom to set prices, established explicitly by the Third Non-life Directive (apparently the derogation solely for companies specialized in insuring fleets of vehicles was considered insufficient). These measures are also held to conflict with the principle of home country control, as they apply the obligation to contract in this pervasive fashion even to insurance companies whose registered office is in another EU member state.

The Commission argued that the understandable social concern to protect the insured that underpins the contested rules can be served using less constrictive legislative devices, like those adopted in other member states to ensure universal access to compulsory motor liability insurance without violating EU principles on competition (e.g., the French "Bureau de tarification" of the formation of "bad companies" in the United Kingdom).

On this matter ANIA has repeatedly called for a political solution reconciling the several, delicate exigencies in play to reach an appropriate balance. The Association confirms the readiness of the insurance industry to cooperate on the technical plane in any way that can help attain such a result.

THE SECURITIZATION OF A MOTOR INSURANCE PORTFOLIO

One of France's leading insurers recently completed the complex securitization of a portfolio of motor insurance policies underwritten in four European countries, including Italy. The total amount of the premiums securitized was Euro 411 million, 21% of it in Italy. The operation follows a securitization by the same company concluded in December 2005, limited to the French market.

The first part of the agreement is a standard reinsurance contract. The prime insurer transfers to the reinsurer a portion of its premium income flow and in return receives, apart from the usual reinsurance service, a deposit of Euro 411 million as security. The reinsurer sold to a special purpose vehicle (known as a "Fond Commun de Créances") the right to receive from the company part or all of the deposit depending on the performance of the portfolio of policies transferred. The FCC issued six-year bonds totalling Euro 411 million in three tranches. The first, for Euro 91.5 million, is rated AAA, the second (Euro 220 million) A+, and the third (Euro 100.1 million) BBB.

If the overall loss ratio in the four national markets should exceed 74.3% in a year, an independent committee will have two years to verify the cost of claims. If it were to confirm the overshoot, investors would lose the portion of their investment corresponding to the claims over and above the pre-determined loss ratio. Specifically, if the ratio is between 74.3% and 78.9%, part or all of the third tranche will not be redeemed; for values between 78.9% and 89.0%, the redemption of the second tranche will also be limited; and if the loss ratio is higher still, even the first tranche will be affected. The trigger loss ratio is renegotiated every year.

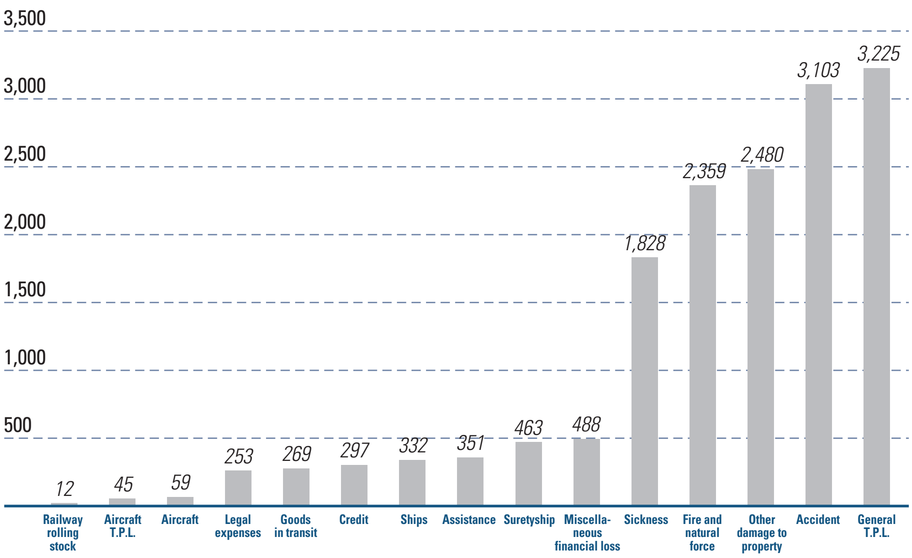
Investors in these bonds (institutional investors only) are thus essentially exposed to the risk of a possible sharp rise in the loss ratio. At present the data on the spreads on these bonds are not available. For the securitization in France in 2005, the average spread for the three tranches was 28 basis points above EURIBOR, in line with that on synthetic products issued by banks. This indicates that the risk of capital loss is deemed quite low.

According to Tillinghast Towers and Perrin, this structure could be applied to other insurance portfolios, especially those on which capital requirements are particularly high by comparison with the effective degree of risk. The markets have responded well. According to Standard & Poor's, this kind of securitization opens up great opportunities for the entire non-life insurance industry, offering portfolio diversification and higher yields.

In 2006 premium growth slowed down as consequence of a "soft" market, in particular in transport. Premium incidence of other non-life classes on the total non-life premiums continues to grow, even though in a limited way. Due to the worsening of loss ratio, which increased by two percentage points compared to 2005, there was a decrease of the incidence on the total technical account result compared to premiums (from 4.3% in 2005 to 2.6% in 2006).

NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR CLASSES

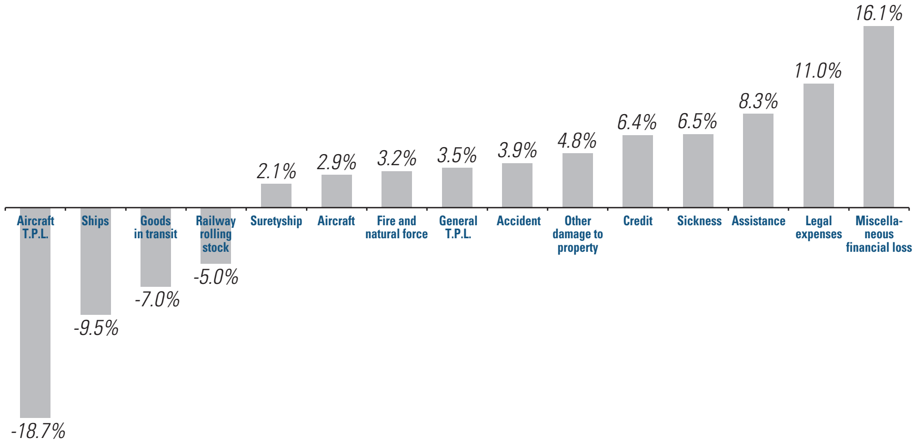
Premiums for direct domestic business, collected in non-life insurance classes other than motor classes (that is excluding land vehicles, motor third party liability, and marine vehicles) were, in 2006, equal to Euro 15,563 million, growing by 4.1% compared to 2005 figures, the lowest growth rate in this decade. This result is mainly explained by the reduction registered for premiums in transport, direct consequence of a "soft" type of market which implies a restraint in unit prices. In particular, the branches which registered a decrease compared to the previous year were motor insurance (-18.7%), ships (-9.5%), goods in transit (-7.0%) and railway rolling stock(-5.0%); the classes that registered growth rates above average were credit (+6.4%), sickness (+6.5%), assistance (+8.3%), legal expenses (+11.0%) and miscellaneous financial loss (+16.1%). Premium incidence of other non-life insurances on the total non-life premiums is slightly increasing, going from 41.2% in 2005 to 41.9% in 2006.



DIRECT PREMIUMS BY INSURANCE CLASS – 2006
Euro million

Other non-life insurance classes

GROWTH RATE OF DIRECT PREMIUMS BY INSURANCE CLASS – 2006



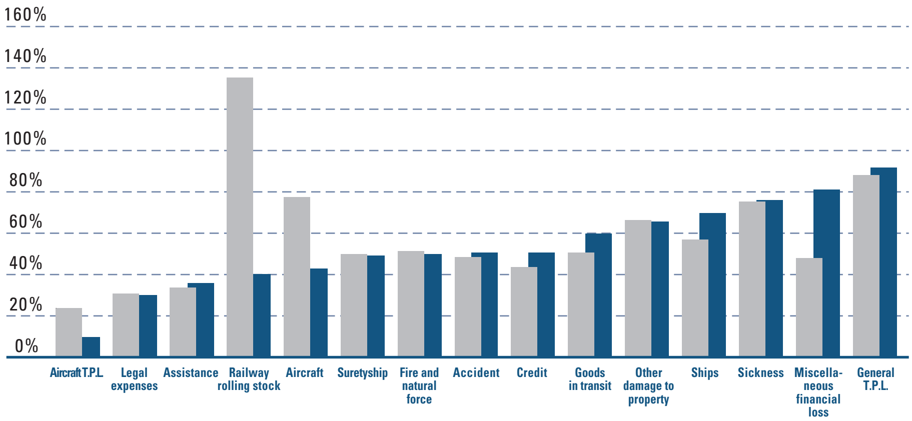
The **incurred claims cost for the financial year**, defined as the total paid cost and the total reserved cost for all claims incurred in the current accident year, amount to Euro 10,052 million (Euro 9,439 million in 2005), with an increase of 6.5% compared to the previous year. Considering that the claims

NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR CLASSES
Euro million

	2000	2001	2002	2003	2004	2005	2006
Gross written premiums	10,976	11,771	12,807	13,505	14,180	14,957	15,563
Changes in premiums reserves (-)	333	404	353	402	474	484	496
Incurred claims (-):	7,925	8,130	8,714	8,872	8,914	9,140	9,818
- incurred claims cost for the current accident year (-)	8,065	8,076	8,663	9,114	8,979	9,439	10,052
- excess/shortfall of reserves for those claims incurred in previous accident years	140	-54	-51	242	64	298	233
Balance of other technical items	-213	-209	-263	-283	-318	-314	-388
Operating expenses (-)	3,255	3,458	3,701	3,919	4,130	4,409	4,631
- missions	2,225	2,339	2,546	2,722	2,858	3,084	3,294
- other acquisition costs	412	468	471	497	521	548	566
- other administration costs	617	650	685	699	751	777	771
Direct technical balance	**-750**	**-430**	**-223**	**28**	**343**	**610**	**229**
Investment income	695	683	529	695	784	829	808
Direct technical account result	**-56**	**253**	**305**	**723**	**1,128**	**1,439**	**1,037**
Reinsurance results and other items	516	135	-130	-346	-758	-811	-644
Overall technical account result	**460**	**388**	**175**	**377**	**370**	**628**	**394**
Annual % changes in premiums	5.7%	7.2%	8.8%	5.4%	5.0%	5.5%	4.1%
Combined ratio	**104.1%**	**100.9%**	**98.9%**	**96.7%**	**94.2%**	**92.6%**	**94.9%**
- Expense ratio	29.7%	29.4%	28.9%	29.0%	29.1%	29.5%	29.8%
- Missions/Gross written premiums	20.3%	19.9%	19.9%	20.2%	20.2%	20.6%	21.2%
- Other acquisition costs/Gross written premiums	3.8%	4.0%	3.7%	3.7%	3.7%	3.7%	3.6%
- Other administration costs/Gross written premiums	5.6%	5.5%	5.3%	5.2%	5.3%	5.2%	5.0%
- Loss ratio:	74.5%	71.5%	70.0%	67.7%	65.0%	63.2%	65.2%
- Loss ratio for the current accident year	75.8%	71.0%	69.6%	69.6%	65.5%	65.2%	66.7%
- Excess/shortfall of reserves for previous years claims/ Earned premiums	1.3%	-0.5%	-0.4%	1.8%	0.5%	2.1%	1.5%
Technical balance/Earned premiums	**-7.1%**	**-3.8%**	**-1.8%**	**0.2%**	**2.5%**	**4.2%**	**1.5%**
Technical account result/Earned premiums	**-0.5%**	**2.2%**	**2.5%**	**5.5%**	**8.2%**	**9.9%**	**6.9%**
Overall technical account result/Earned premiums	**4.3%**	**3.4%**	**1.4%**	**2.9%**	**2.7%**	**4.3%**	**2.6%**
Premiums to total non-life premiums ratio (%)	*39.4%*	*39.3%*	*39.5%*	*39.5%*	*40.0%*	*41.2%*	*41.9%*

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

LOSS RATIO FOR THE CURRENT ACCIDENT YEAR BY INSURANCE CLASS

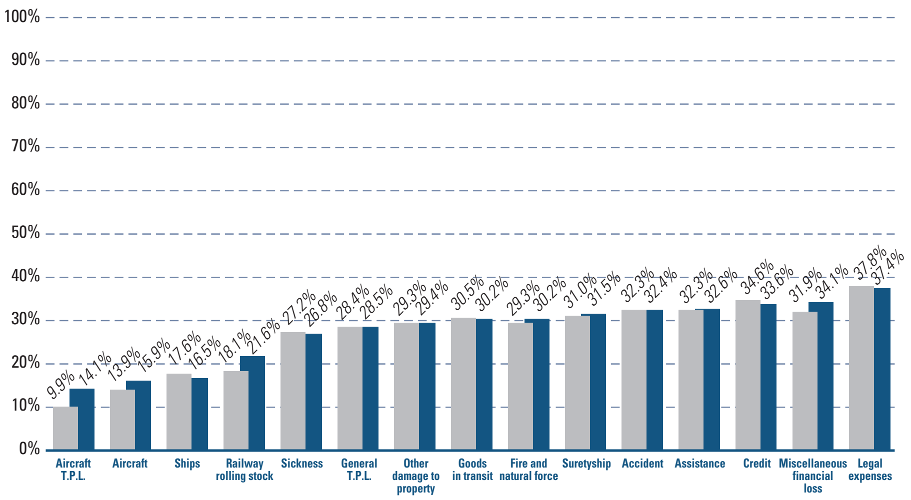


cost growth resulted higher than that registered by premiums, the incurred claims cost for the financial year is turning for the worse, going from 65.2% in 2005 to 66.7% in 2006.

The **incurred claims cost**, which also include if compared to the incurred claims cost for the financial year the possible excess/shortfall for claims incurred in previous accident years, totalled Euro 9,818 million, 7.4% more compared to 2005. The ratio between these incurred claims cost and incurred claims cost for the financial year was equal to 65.2%, increasing compared to 63.2% in 2005. The insurance classes that more than others contributed to the worsening of this indicator and that have a greater importance in terms of premiums compared to others, have been accident, the loss ratio of which passes from 48.9% in 2005 to 50.9% in 2006, sickness (from 75.4% to 76.3% and general liability (88.2% and 91.7%). The worsening is common to most classes with the exception of railway rolling stock and aircraft.

Operating expenses were equal to Euro 4,631 million (Euro 4,409 million in 2005) and include administration expenses relating to the technical manage-

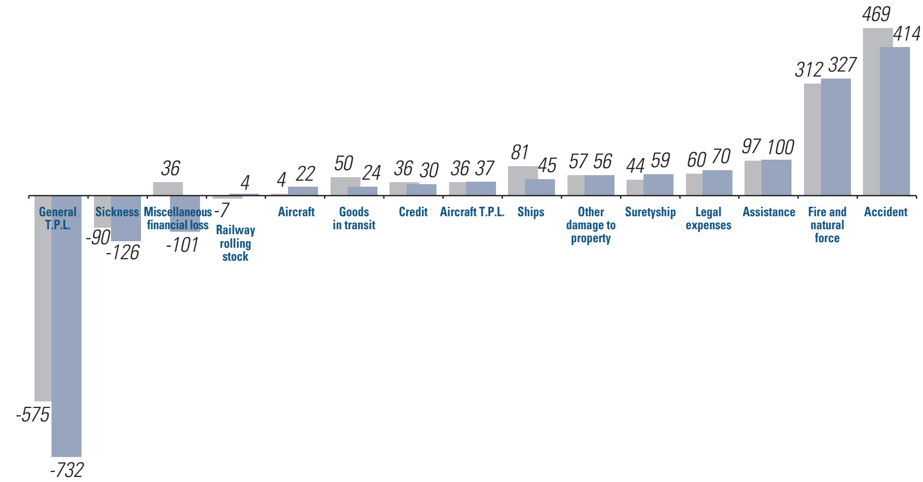
OPERATING EXPENSES BY INSURANCE CLASS
% INCIDENCE ON PREMIUMS



Other non-life insurance classes

DIRECT TECHNICAL BALANCE BY INSURANCE CLASS
Euro million

2005 2006

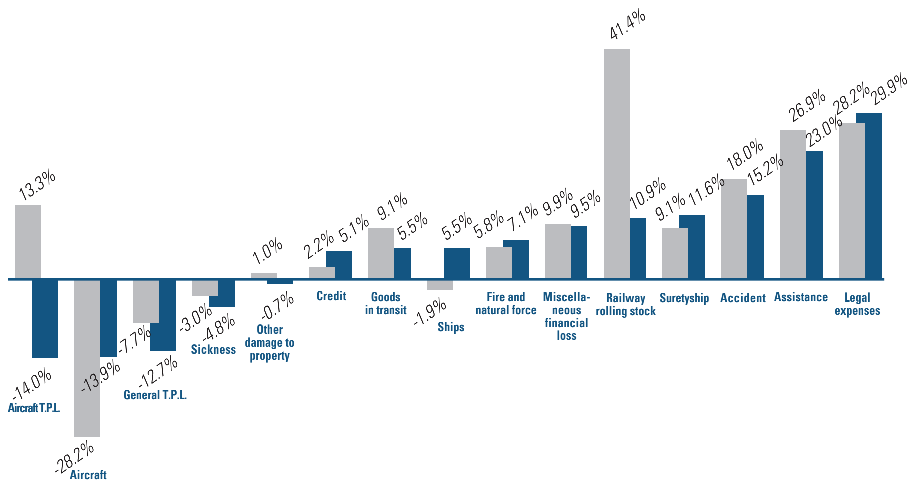


ment of the insurance business, acquisition costs, costs arising from premium collection and costs relating to the organisation and management of the distribution network. These operating expenses were equal to 29.8%, in line with the 29.5% 2005 value. The branch presenting the higher ratio of these operating expenses to premiums is legal expenses (37.4%); more contained values, lower than 20%, register in aircraft third party liability (14.1%), aircraft (15.9%) and ships (16.5%).

The **technical balance for direct business** was positive for Euro 229 million (Euro 610 million in 2005). Even though it continues to be positive, the drop registered by the technical balance is ascribable to the increase of claims cost; in particular a negative technical balance was totalled by general third party liability (Euro -732 million in 2006 against Euro -575 million in 2005); sickness (Euro -126 million against Euro -90 million in 2005); miscellaneous financial loss (Euro -101 million against a positive technical balance equal to Euro 36 million in 2005). Higher balances in absolute value registered in the fire and natural forces classes (Euro 327 million) and in accident (Euro 414 million).

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

2005 2006



Considering that investment income was Euro 808 million (Euro 829 million in 2005), the **direct technical account result** was positive for Euro 1,037 million (Euro 1,439 million in 2005).

Taking the insurance balance into account, the **overall technical account result** was positive at Euro 394 million (Euro 628 million in 2005), with an incidence on premiums of 2.6% (4.3% in 2005). In particular, the general third party liability showed a total technical loss of Euro -403 million (Euro -237 million in 2005), with an incidence on premiums of 12.7. Negative values of such an incidence are registered in 2006 for aircraft third party liability (-14.0%), aircraft (-13.9%), sickness (-4.8%) and other damage to property (-0.7%). Particularly positive incidences (higher than 10%) are registered in the following classes: railways rolling stock (10.9%), suretyship (11.6%), accident (15.2%), assistance (23.0%) and legal expenses (29.9%).

THE INITIAL RESULTS OF THE ANIA-IRSA HEALTH CARE PROJECT

In April ANIA hosted a workshop to discuss the preliminary findings of a research project on health care promoted by ANIA and sponsored by the Insurance Research and Development Institute (IRSA). It was attended by representatives of all the social partners involved in the health care system.

The final version of the project will be presented in book form, publishing the works of the experts – academics and practitioners – involved in the initiative. The volume is intended as a contribution to the ongoing debate on the future of the Italian health care system. Here we offer a partial summary of the initial findings.

The first consideration concerns expenditure on health care in Italy, which is not high by international standards but nevertheless produces results in terms of improving quality of life and lengthening life expectancy, that are at least as good as those attained in other countries that spend more. However, these good results are accompanied by widespread dissatisfaction with the delivery of health services.

One reason for dissatisfaction is certainly the geographically uneven quality of health care services. Second, popular indignation is fueled by sensational media coverage of instances of medical errors and poor service and their tragic consequences. All this, combined with the cumbersome procedures for indemnifying these errors, has a powerful negative impact on the judgments of patients and medical personnel.

Another reason lies in the fact that private out-of-pocket health spending in Italy is decidedly high (according to the World Health Organization, in 2004

TABLE 1 - PUBLIC AND PRIVATE HEALTH CARE EXPENDITURE IN SELECTED COUNTRIES (% OF GDP AND % COMPOSITION)

	1990					2003				
	% of GDP		% composition of private expenditure			% of GDP		% composition of private expenditure		
	Public	Private	Out of pocket	Insurance, health funds	Assistance associations	Public	Private	Out of pocket	Insurance, health funds	Assistance associations
France	6.4	2.0	48.7	46.9	4.4	8.2	2.3	42.2	53.5	4.3
Germany	6.5	2.0	46.8	30.4	22.8	8.5	2.3	47.9	40.2	11.9
Italy	6.1	1.6	73.0	3.0	24.0	6.2	2.2	83.3	3.8	12.9
Spain (1)	5.1	1.4	83.1	17.4	0.0	5.5	2.3	82.0	14.9	3.1
United Kingdom	5.0	1.0	64.0	19.9	16.1	6.7	1.1	*n.a.*	*n.a.*	*n.a.*
United States	4.7	7.2	33.0	56.6	10.4	6.7	8.4	25.3	66.0	8.7

(1) Last data for 2000
Source: OECD, Health Data 2005

this type of outlay accounted for 21% of total health care expenditure in Italy and 84% of private health spending). Rationalizing this large-scale private spending according to the logic of social insurance could be a major objective for public/private cooperation in the health care sector (Table 1). The true importance of the matter emerges when one considers the upward pressure on health care spending that will be exerted in the long term by a wide variety of factors on both the demand and the supply side. Projections are for a significant increase in public health expenditure, and in fact the increase has already gotten under way.

The OECD's latest overall projections of public expenditure for health and related services (in particular long-term care) show that in the absence of effective cost containment between 2005 and 2050 Italy will record the largest increase of any country, with spending set to double from 6.6% to 13.3% of GDP (Table 2). This enormous rise will be due not so much to health care proper as to long-term care, which starting from a very low level will increase fivefold even with cost containment.

The Italian government also forecasts a considerable increase. The estimates released by the State Accounting Office on 30 May 2007 project growth in public health care spending from 6.9% of GDP in 2006 to 8.8% in 2050 due to demographic factors alone (the conservative "pure ageing" scenario). That is, this projection does not consider the likely changes in the pattern of health expenditure by age-group and income (Table 3 gives an estimate made in December 2006). This is a figure comparable to the so-called "pension spending hump", except that where pension expenditure will begin to decline from 2040 on, no inversion in the upward trend in health spending is forecast.

Finally, it must noted that the reforms of recent years in the mechanism for financing health care have proven ineffective. The aim of making spending

TABLE 2 - PROJECTIONS OF PUBLIC HEALTH AND LONG-TERM CARE SPENDING IN SELECTED COUNTRIES, 2005-2050 % OF GDP)

	Health care			LTC			Totale		
	2005 (1)	2050		2005 (1)	2050		2005 (1)	2050	
		Without cost containment	With cost containment		Without cost containment	With cost containment		Without cost containment	With cost containment
Italy	6.0	9.7	7.9	0.6	3.5	2.8	6.6	13.2	10.7
OECD average (2)	*5.7*	*9.6*	*7.7*	*1.1*	*3.3*	*2.4*	*6.7*	*12.8*	*10.1*
France	7.0	10.6	8.7	1.1	2.8	2.0	8.1	13.4	10.8
Germany	7.8	11.4	9.6	1.0	2.9	2.2	8.8	14.3	11.8
United Kingdom	6.1	9.7	7.9	1.1	3.0	2.1	7.2	12.7	10.0
Spain	5.5	9.6	7.8	0.2	2.6	1.9	5.6	12.1	9.6
Sweden	5.3	8.5	6.7	3.3	4.3	3.4	8.6	12.9	10.1
Japan	6.0	10.3	8.5	0.9	3.1	2.4	6.9	13.4	10.9
United States	6.3	9.7	7.9	0.9	2.7	1.8	7.2	12.4	9.7

(1) OECD estimates
(2) Unweighted average
Source: OECD, "Future budget pressures arising from spending on health and long-term care," Economic Outlook no. 79 (June 2006), p. 346

TABLE 3 - PUBLIC EXPENDITURE FOR PENSIONS, HEALTH CARE, ASSISTANCE TO THE ELDERELY, EDUCATION AND UNEMPLOYMENT BENEFITS, 2005-2050 (1)

	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Total non-interest expenditure (2)	-	-	41.7	42	42.4	43.2	44	44.6	44.4	43.8
of which: age-related	26.2	25.9	25.9	26.3	26.7	27.6	28.5	29.1	29	28.5
Pensions (2)	14	14	13.9	14.1	14.4	15	15.5	15.7	15.3	14.5
of which: old-age and long-service pensions (2)	13.7	13.7	13.6	13.9	14.2	14.8	15.4	15.6	15.1	14.4
of which: disability and survivors benefits (2)	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.1
Health care (2) (3)	6.7	6.8	7	7.2	7.4	7.7	8	8.2	8.5	8.6
Assistance to the elderly (2)	0.8	0.8	0.8	0.9	0.9	1	1.1	1.1	1.2	1.3
Education (2) (4)	4.3	3.9	3.8	3.8	3.7	3.6	3.6	3.6	3.7	3.7
Unemployment benefits (2)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Interest payments (2)	4.6	4.7	4.1	3	2.1	1.2	0.4	-0.2	-0.8	-1.6
Total revenues (2)	-	-	47	47	47	47	47	47	47	47
Baseline scenario										
Labour productivity growth rate	0.4	1.1	1.7	1.7	1.8	1.7	1.7	1.7	1.7	1.7
Real GDP growth rate	0	1.9	1.8	1.6	1.3	0.9	0.8	0.8	1.1	1.2
Male participation rate (ages 20-64)	79.2	81.7	83.1	82.9	82.9	83.2	83.7	84.1	84.6	84.4
Female participation rate (ages 20-64)	53.6	57.4	60.3	61.7	62.1	62.3	62.6	63.5	64.3	64.7
Total participation rate (ages 20-64)	66.4	69.6	71.8	72.3	72.5	72.8	73.3	73.9	74.6	74.7
Unemployment rate	7.7	6.7	6.5	6.4	6.4	6.4	6.4	6.4	6.4	6.4
65+ population/total population	19.5	20.6	22	23.2	24.7	27.1	29.9	32.3	33.7	33.9
Old-age dependency ratio (65+/20-64)	31.9	33.9	36.9	39.4	42.5	48	55	62.1	66.5	67.4

(1) Rounding may cause discrepancies
(2) As a percentage of GDP
(3) Including public health spending for assistance to the elderly
(4) Not including adult education (life-long training)
Source: Ministero dell'Economia e Finanze (2006), Programma di stabilità dell'Italia, Aggiornamento dicembre 2006

units more accountable was undermined by the lack of linkage between the available resources and the essential assistance standards.

Based on the foregoing considerations, the project suggests some possible areas of partnership between the private and the public sector without prejudice to the fundamental principles of the National Health Service.

1. Redesigning the system of co-payments

In most OECD countries accountability for spending on health care services is established along the entire “product chain”: drugs, general practitioners, diagnostics, and hospital care. In many cases the co-payment system is highly articulated, taking account of the type of service provided and the patient’s economic and health status. Naturally there are exemptions based on income and type of pathology.

In France, for instance, there is a 30% co-payment for G.P.s, specialist examinations and diagnostics, plus a mixed fixed-fee-plus-percentage scheme for in-hospital services. Virtually all medicines (prescription and non-prescription alike) are reimbursable, but with a standard co-payment of 35%; the co-payment is eliminated for especially important products and raised to 65% for comfort drugs.

The German system of co-payments consists of fixed fees (not percentages) on G.P., specialist and diagnostic services and per day of hospitalization, with a ceiling on the charge to patients in the case of hospitalization. Most drugs (prescription and non-prescription) are reimbursable, subject to a co-payment of 10%, with lower and upper thresholds.

In Italy, public health services are almost entirely free, except for specialist examinations and out-of-hospital diagnostics and prescription co-payments in the few regions that have instituted them. The legislative framework has been complicated by regional decentralization, regulation being devolved to the regions without any basic coordination.

In the long run, leaving this situation unchanged is not a realistically sustainable option. Moreover, it would mean retaining a system that is totally universalistic in theory but in which services are rationed in practice by long waiting lists, frequently to the detriment of the low-income groups. However, simply lowering the essential assistance standards could have perverse consequences in terms of economic impact, as it is difficult to determine in advance which income groups most commonly require the services to be excluded, either now or in the future.

Accepting the principle that adequate health care services cannot be provided without corresponding financial sustainability, a true co-payment system needs to be designed to protect the most vulnerable population groups from being further victimized. The impact on income distribution should be determined in advance through appropriately means-tested reductions and exemptions.

Co-payment, diversified according to type of service and graduated according to the patient's economic situation and health conditions, would also serve to introduce elements of individual responsibility and selection. For this, a regulatory framework could be designed to differentiate payment by individual condition and medical service or type of service. In these circumstances insurance policies for supplementary health services could be proposed, designed in such a way as to cover the purchase and co-payment of some types of health care services.

2. Development of private in-hospital care by NHS physicians

A recent survey by the Agency for Regional Health Services has found that private professional activity by National Health Service doctors in hospitals increased by 38.1% between 2001 and 2004 and involved 0.4% of all hospitalizations in the latter year. No data on specialist medical services under this regime are available.

This outcome is certainly far below potential. The total volume of private health spending, which can be read as a signal of the widespread need for differentiation of health care, freedom of choice and freedom of access to health care services, is far greater than the in-hospital segment.

A survey released in March 2007 by the Senate Health and Hygiene Committee has found significant differences between regions and health units in degree of implementation of private in-hospital care. The study found in particular that it was more common in the regions where health care is better organized.

The Committee study mentions the following weak points:
- lack of space for medical examinations and hospitalization and (to a lesser extent) lack of technology suitable to the exercise of private care within NHS facilities;
- difficulty in carrying out controls and lack of complete and consistent regulations in each local unit;
- lack of central, computerized reservation and pricing facilities;
- lack, in some cases, of local health unit price lists for private services;
- auxiliary personnel's lack of training for the specific tasks required by private professional activity; intermingling of the NHS and private assistance paths;
- disproportion between the allowance for exclusive public practice and the number of doctors engaging in private activity;
- inadequate information on the real costs of private activity;
- occasional existence of duplicate waiting lists (for NHS and for private care).

The sector of private in-hospital care, or part of it, offers interesting opportunities for private third-party payers, who would have the advantage of access to a very large market in which prices could be set in advance. A consistent framework propitious to the expansion of private in-hospital care could stimulate the development by insurers of policies designed to cover this type of medical expense, with insurers paying directly to the medical facility. At the same time it would facilitate the development of supplementary health care funds for private in-hospital care, as envisaged in the law that instituted such funds (Legislative Decree 229/1999).

3. "Vintage" health funds and supplementary insurance

The story of "vintage" supplementary health funds (under Legislative Decree 229/1999, Article 9) is not encouraging. Instituted – on paper – in 1999, the funds are not operational, because the necessary implementing regulations have not been issued. This inertia has been due in part to the resistance of those who believe that the development of such funds implies a narrowing of the scope for public health care and in part to the failure of private in-hospital care to develop, as this was to form a significant portion of the medical services insured. Another obstacle has been difficulty in harmonizing the treatment of these "vintage" funds with pre-existing ones.

In any event, if it were decided to introduce forms of co-payment and to favour private in-hospital medical care, it would be necessary to reconsider ways of optimizing the legal and operational framework for health care funds and their tax treatment. The funds could make for better channelling of the demand for health care services that patients now pay for out-of-pocket, more effectively pooling risks and, if accompanied by tax incentives based on income, prove to be less regressive than the present situation.

THE AVERAGE COSTS OF HEALTH POLICY CLAIMS: SURVEY FINDINGS

ANIA has conducted a sample survey to estimate the average costs sustained in relation to claims on private health insurance policies. The survey covered the years from 2002 through 2006. The sample companies account for almost 40% of total gross premiums written in 2006. The aim of the study was to determine the average costs of claims for in-hospital and out-patient medical services, separately for individual and group policies.

To better understand medical services, the average costs were broken down according to the type of coverage:

– *reimbursement:* where the policy covers health expenses for hospitalization, surgery, or medical examinations and diagnostics;

TABLE 1 - ANIA STATISTICAL STUDY OF HEALTH INSURANCE (individual policies)
Euro

Year	Reimbursement for hospitalization or surgery	Non-hospital expenses
	Average claim cost	Average claim cost
2002	2,081	368
2003	3,131	275
2004	3,244	303
2005	3,416	319
2006	3,349	282

Year	Daily allowance for hospitalization or surgery*	Non-hospital daily allowance*
	Average claim cost	Average claim cost
2002	659	1,093
2003	526	1,024
2004	558	982
2005	594	692
2006	610	831

(*) The average claim cost of daily allowances, surgery and non-hospital care is for the entire period over which the payments are made

– *indemnification:* where the policy provides for a daily allowance or other monetary compensation in case of illness.

Individual policies

In 2006 the average cost of health claims for hospitalization or surgery was Euro 3,350, ten times as much as that of non-hospital care (Table 1). Whereas in-hospital claim costs have been on a rising trend, the average expenditure on non-hospital care has declined, from Euro 370 in 2002 to Euro 280 in 2006. The difference was less marked for policies providing chiefly for a daily allowance in the event of illness. In 2006 the amount paid out during the entire period of disability following hospitalization or surgery was Euro 600 (a figure that was fairly stable over the period covered), while payments not related to hospitalization was Euro 830 (down from over Euro 1,000 in 2002-2003).

In addition to costs, the survey also quantified other parameters relating to individual health insurance policies:

– *duration of contracts:* in the five-year period studied here, the length of health insurance contracts averaged between 7 and 8 years;
– *percentage of individual policies:* the number of individual policies increased from 20% of total health insurance policies in 2002 to 35% in 2006;
– *average premium:* the sample indicates that in 2006 there were more than 1 million individual health insurance policies in being (twice as many as in 2002); the average premium was about Euro 600 (in 2002 it had been somewhat above Euro 400).

Group policies

The average amount of claims paid by insurers for in-hospital medical care under group policies is broadly in line with that for individual policies. In 2006

TABLE 2 - ANIA STATISTICAL STUDY OF HEALTH INSURANCE (group policies)
Euro

Year	Reimbursement for hospitalization or surgery	Non-hospital expenses
	Average claim cost	Average claim cost
2002	3,086	192
2003	3,229	168
2004	3,010	159
2005	3,278	154
2006	3,103	151

Year	Daily allowance for hospitalization or surgery*	Non-hospital daily allowance*
	Average claim cost	Average claim cost
2002	-	-
2003	513	411
2004	509	490
2005	554	461
2006	605	296

(*) The average claim cost of daily allowances, surgery and non-hospital care is for the entire period over which the payments are made

TABLE 3 - ANIA STATISTICAL STUDY OF HEALTH INSURANCE (group policies)
Euro

Year	Non-hospital expenses by type of service							
	Advanced diagnostics	Diagnostic checks	Oncological treatment	Dental treatment	Physical therapy	Medicines	Eyeglasses and lenses	Other
	Average per claim	Average per claim	Average per claim	Average per claim	Average per claim	Average per claim	Average per claim	Average per claim
2002	100	99	946	1,000	286	135	145	1,129
2003	174	99	925	636	323	65	136	1,207
2004	110	95	913	703	349	69	147	1,094
2005	109	95	1,145	716	347	94	146	527
2006	121	98	1,019	666	350	61	135	612

(*) The average claim cost of daily allowances, surgery and non-hospital care is for the entire period over which the payments are made

the 4 average claim under reimbursement policies was Euro 3,100 and that for indemnification policies was about Euro 600 (Table 2). Claims for out-patient care (both reimbursement and indemnification) were lower on the average, only about half as large as for individual policies.

For group policies it was also possible to estimate the average cost of claims, by type of medical service, for reimbursement of non-hospital medical expenses. In 2006 the most costly forms of care were oncological (more than Euro 1,000) and dental (Euro 700). For the other types of claim, amounts were generally stable over the five years, except for drugs. Specifically, claims for advanced diagnostics averaged Euro 120, those for diagnostic tests Euro 100, those for physical therapy Euro 350, and those for eyeglasses and lenses Euro 135.

MEDICAL MALPRACTICE INSURANCE

There are two forms of insurance against liability in the field of health care. One is for private and public sector health care institutions. The other is for individual health care professionals regardless of whether or not they are affiliated with an institution.

ANIA conducts an annual statistical survey to estimate the number of claims on these two types of policy. Over the decade from 1995 to 2005 the number of claims rose by 65%, from a total of just over 17,000 to 28,500 (Figure 1). The sharpest increase was in claims in respect of individual professionals, which soared by 134%, from 5,798 in 1995 to 12,374 in 2005. Claims in respect of institutions rose by 41% from 11,444 to 16,085. This trend, together with the increase over time in the average amount of the payouts, has had extremely adverse repercussions on insurers' technical accounts.

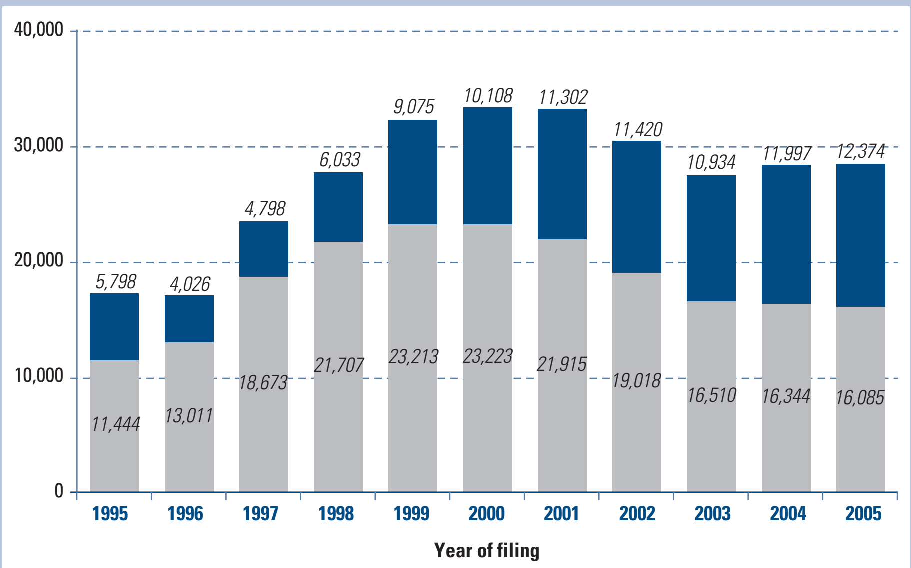


FIGURE 1
NUMBER OF CLAIMS

The fundamental cause of the great increase in the number of claims is a change in the attitude of patients and their family members, who no longer appear to be resigned to negative outcomes of medical treatment but now tend to appraise – not always correctly – the scientific value of tests, the appropriateness of treatment and the performance of doctors and health care institutions. Another factor in the greater number of claims has been an increase in the number of legally eligible injured parties – no longer the patients alone but also their relatives – and an enlargement of the physician's sphere of liability, not through changes in the law but through court decisions that have interpreted the law more and more favourably to the claimants.

TABLE 1
LOSS RATIO TO 31 DECEMBER 2005
*BY YEAR OF FILING**
%

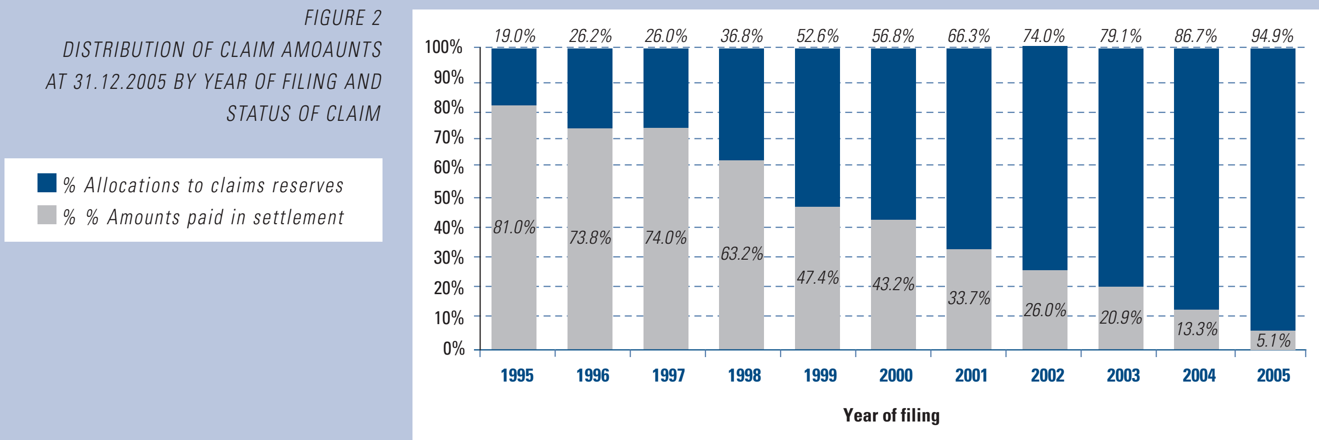
Year of filing	At 31.12.2002	At 31.12.2004	At 31.12.2005
1995	182	212	216
1996	187	198	195
1997	223	320	300
1998	168	340	313
1999	179	262	266
2000	151	216	219
2001	154	218	218
2002	149	232	229
2003		196	199
2004		145	170
2005			173

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

The result was that the premiums earned in years past were much too small to pay the claims. In recent years, this has produced a rise in premiums and stricter standards for taking on new policyholders. To better grasp technical developments in this sector, let us follow trends in the ratio of claims to premiums, which is the technical indicator that gauges how much of the premium income the insurance company must allocate to pay claims.

Table 1 shows the loss ratio for all medical malpractice insurance (individual and institutional) for the various years in which claims were filed at three points in time, i.e. as the company becomes better and better informed as to the final amount of damages. This type of analysis is indispensable, in that in many cases a great deal of time elapses before claims are settled, so several different observation years are needed to truly evaluate the damages. For example, at the end of 2005 just 5% of the losses on claims filed in 2005 related to claims settled; the remaining 95% involved reserves against claims still pending. At that same date, 81% of the losses on claims filed in 1995 related to claims already settled (Figure 2).

FIGURE 2
DISTRIBUTION OF CLAIM AMOAUNTS AT 31.12.2005 BY YEAR OF FILING AND STATUS OF CLAIM



Examining the generation of claims filed in 2002, the ratio of claims to premiums at the end of that year was 149%; at the end of 2005 it was 229% (Table 1). For the generation of claims filed in 1995, after seven years (at the end of 2002), for every Euro 100 of premium income, claim payments amounted to Euro 182. Two years further on (or nine years after filing), this figure had risen to Euro 212. This shows clearly that the value of the reserves set aside initially was not enough to cover settlements. At 31 December 2005, or ten years after, the ratio had risen still further, to 216%.

AUDITORS' LIABILITY AND D&O POLICIES

In January 2007 the European Commission began a consultation on the liability of auditors. The Commission stressed that the unlimited liability of auditing firms could be a deterrent to smaller firms to compete with the large international auditors. Further, unlimited liability could diminish the insurance industry's industry in offering adequate insurance coverage. The consultation paper envisaged four possible ways of limiting liability for auditors:

1. a single Europe-wide ceiling;
2. a ceiling based on the size of the corporation audited;
3. a ceiling based on the auditing fees;
4. proportional liability.

The first method would set a maximum liability applicable throughout the European Union, equal in all member states and independent of the size of the company being audited or the fees paid to the auditor for the assignment. The second and third methods would set differential ceilings to the auditor's liability depending on the size of the corporation audited or else on the amount of fees the auditor charges for each corporate assignment. Proportional liability consists in attributing to each of the parties involved a loss corresponding to its share of responsibility.

The CEA's response to the consultation notes that the problem of insurability essentially concerns the "Big Four" international auditing firms, while other auditors do not face any substantial difficulty in acceding to the insurance market. On the merits, the CEA argued that setting a ceiling on the auditor's liability is unlikely to solve the problem of insurability for the large auditors. First, the CEA notes that the largest suits very often and to significant extent involve investors in non-European countries (including the United States), to which an EU ceiling could not apply. Second, a ceiling will not prevent the occurrence of large-scale losses but would only protect the auditing firms and deflect the interest of the damaged parties towards others, presumably the members of the governing bodies and top executives of the corporations audited. This would be tantamount to shifting the problem of insurability to other categories of person and would probably make traditional liability coverage more costly and possibly unavailable to these corporate directors and officers (D&O).

Further, by the established practice of Italian and international insurers liability coverage is already subject to risk ceilings. Adding a limit to the maximum loss to an auditor is unlikely to spark greater interest on the part of insurance companies in this type of product.

The problem of auditors' liability and the market availability of adequate insurance against it will be hard to solve by setting liability ceilings. This is a problem that can only be resolved through an examination of all the components that make up the auditing market.

Reinsurance

In 2006 overall premiums for indirect domestic business registered strong growth compared to the previous year and were equal to over Euro six billion (+21.8%); premiums for only professional reinsurers, equal to Euro 1,5 billion, reflected a decrease (-8,6%).

DOMESTIC AND FOREIGN INDIRECT PREMIUMS
Euro million

WHOLE MARKET	PREMIUMS	CHANGE %	% ON TOTAL DIRECT AND INDIRECT PREMIUMS
1997	5,215	6.7%	11.0%
1998	5,233	0.3%	9.3%
1999	4,678	-10.6%	7.0%
2000	5,401	15.5%	7.4%
2001	5,461	1.1%	6.7%
2002	5,683	4.1%	6.1%
2003	5,934	4.4%	5.8%
2004	5,487	-7.5%	5.1%
2005	5,048	-8.0%	4.4%
2006*	6,147	21.8%	5.4%

(*) ANIA estimate

Indirect premiums were equal to Euro 6,147 million in 2006, increasing by 21.8% compared to 2005; the growth fundamentally referred to life classes (Euro 3,384 million, +62.6% compared to 2005), while non-life classes registered a slight decrease of premiums (Euro 2,763 million, -6.9% compared to 2005). The ratio of these indirect premiums to total, direct and indirect, increased from 4.4% in 2005 to 5.4% in 2006.

Professional Reinsurers

Indirect premiums for domestic and foreign business, gross of retrocession, for the insurance companies engaged only in reinsurance business (so-called professional reinsurers) amounted to Euro 1,505 million, representing a 8.6% decrease compared to 2005. This is the reason why the market share of professional reinsurers on the whole indirect business decreased (from 32.6% in 2005 to 24.5% in 2006).

PROFESSIONAL REINSURERS INDIRECT PREMIUMS
Euro million

PROFESSIONAL REINSURERS	PREMIUMS	CHANGE %	% ON TOTAL INDIRECT PREMIUMS
1997	1,729	8.5%	33.2%
1998	1,835	6.2%	35.1%
1999	1,669	-9.1%	35.7%
2000	2,025	21.3%	37.5%
2001	1,891	-6.6%	34.6%
2002	2,171	14.8%	38.2%
2003	1,828	-15.8%	30.8%
2004	1,857	1.6%	33.8%
2005	1,647	-11.3%	32.6%
2006*	1,505	-8.6%	24.5%

(*) ANIA estimate

The timeframe in which the reinsurance operations are closed only enable the final data on balance sheet and income statement for 2005 to be presented.

In spite of the appreciable decrease of written premiums in 2005 in consequence of "soft" market, which is characterised by moderate unit prices, the technical account result for the non-life and life classes, net of retroceded premiums, was positive at Euro 202 million, reflecting a slight increase compared to Euro 196 million of 2004. Also the ratio of the technical account result to premiums increased from 13.7% in 2004 to 14.7% in 2005. The improvement of the result was possible thanks to the decrease of the incurred claims cost for the financial year, since 2005 was characterized by a small number of large claims, at least for Italy.

The result for the financial year was positive at Euro 163 million (169 in 2004); the incidence on premiums recorded an increase from 11.8% in 2004 to 14.3% of 2005.

PROFESSIONAL REINSURERS
Euro million

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

(*) Technical items net of cessions and retrocessions

PROFESSIONAL REINSURERS
Euro million

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

Human resources and the operational area

NUMBER OF STAFF

YEAR	ADMIN.	SALES	TOTAL
2000	38,280	3,984	42,264
2001	38,414	3,332	41,746
2002	36,987	2,993	39,980
2003	36,429	2,862	39,291
2004	37,275	2,830	40,105
2005	37,016	2,908	39,924
2006	36,665	3,130	39,795

TOTAL COSTS RELATING TO STAFF
Euro million

YEAR	ADMIN.	SALES	TOTAL
2000	2,201	155	2,356
2001	2,171	142	2,313
2002	2,119	117	2,236
2003	2,268	115	2,383
2004	2,379	129	2,508
2005	2,457	142	2,599
2006	2,533	154	2,687

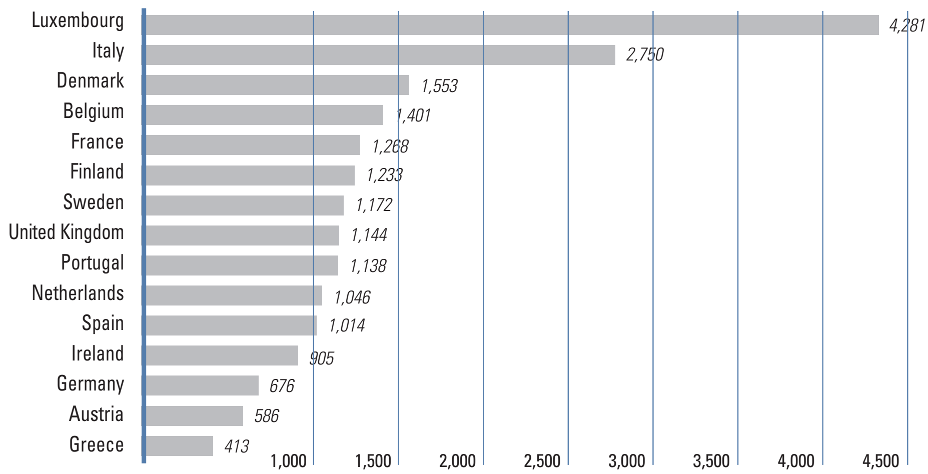
STAFF AND LABOUR COSTS

At the end of 2006 the Italian insurance industry had a total of 39,795 employees, 129 fewer than a year earlier. The number of administrative employees, including managers, declined by 351 to 36,665, while that of sales personnel rose by 222 to 3,130. In addition, the insurance industry collective bargaining agreement also applies to some 3,600 employees of insurance company subsidiaries.

Women accounted for 44.4% of all insurance employees in 2006. Nearly all staff (95%) were on open-ended contracts; 10.4% had part-time jobs. The average age of administrative employees was 43, that of managers 49, that of sales personnel 38.5, and that of call centre staff 31.5. In 2004, 30% of insurance employees were university graduates and another 54% had high school diplomas.

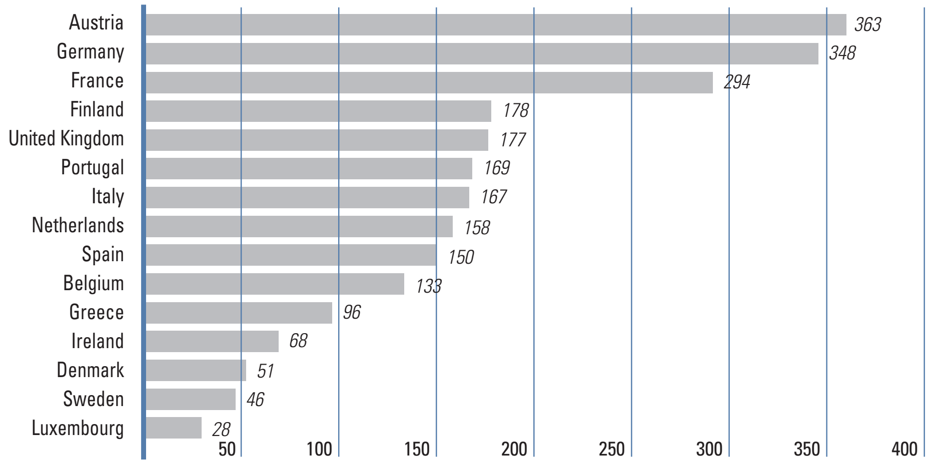
Total staff costs came to Euro 2,687 million in 2006, up by 3.4% from Euro 2,599 million in 2005. A survey conducted by ANIA in 2005 found that salary

PREMIUMS PER EMPLOYEE IN E.U. (15) COUNTRIES - 2005
Euro (000's)



Source: CEA

EMPLOYEES PER COMPANY IN E.U. (15) COUNTRIES - 2005



Source: CEA

accounted for 69.2% of staff costs, fringe benefits for 6.6%, social security contributions for 18.7% and allocations to severance pay for 5.5%. The 3.4% increase in total staff costs was the product of a 0.4% decline in the employees' number (calculated as an average for the year) and a 3.8% increase in gross compensation per capita. Gross compensation per employee rose from Euro 65,000 in 2005 to Euro 67,400 in 2006.

The national accounts published by Istat include data on labour incomes and payroll employment for a category comprising insurance companies and pension funds. The estimation and aggregation procedures are different from those used by ANIA, but the data may nevertheless be useful in making an intersectoral comparison of levels and trends in the cost of labour. The Istat figures show that labour costs in the insurance industry are among the highest in the sectors considered and the rate of increase (4.7% per year from 2004 through 2006) was the highest, 2.2 percentage points more than the private sector as a whole (Table 1).

GROSS COMPENSATION PER EMPLOYEE
Euro million

YEAR	ADMIN.	SALES	TOTAL
2000	57,347	38,154	55,510
2001	56,615	38,819	55,065
2002	56,206	36,996	54,719
2003	61,785	39,283	60,123
2004	64,556	45,327	63,177
2005	66,145	49,495	64,951
2006	68,756	51,010	67,412

TABLE 1
LABOUR COSTS PER EMPLOYEE IN SELECTED SECTORS OF THE ITALIAN ECONOMY
Euro million

Sector	2003	2004	2005	2006
Post & telecommunications	36,792	38,223	39,143	40,277
% change	4.6	3.9	2.4	2.9
Monetary and financial intermediation, excl. insurance and pension funds	64,710	66,279	69,032	70,126
% change	2.6	2.4	4.2	1.6
Insurance and pension funds, excl. compulsory social insurance	55,049	59,159	62,818	63,232
% change	9.4	7.5	6.2	0.7
Activities auxiliary to financial intermediation	28,432	28,973	30,036	30,634
% change	0.3	1.9	3.7	2.0
Total private sector	30,383	31,352	32,014	32,674
% change	2.4	3.2	2.1	2.1

Source: Based on ISTAT data (national accounts, Tables 27 and 47)

TABLE 2
LABOUR COST IN SELECTED COUNTRIES OF THE EURO AREA
Euro

	2000	2004	Annual % change	2004 (at purchasing power parity)
Euro area	52,942	59,390	2.91	57,731
Belgium	63,255	65,189	0.76	63,579
Germany	60,498	65,670	2.07	61,920
Ireland	47,315	57,960	5.20	49,117
Greece	32,094	60,758	17.30	73,767
Spain	35,218	41,985	4.49	46,808
France	57,677	57,507	-0.07	52,840
Italy	51,999	62,807	4.83	61,545
Luxembourg	58,551	73,495	5.85	67,476
Netherlands	54,248	71,632	7.20	67,375
Austria	53,105	58,895	2.62	57,215
Portogal	29,702	37,535	6.03	44,768
Finland	49,330	46,675	-1.37	40,396

Souce: Eurostat

Eurostat's Labour Cost Survey can be used to calculate labour costs per full-time equivalent employee in the euro area insurance industry in 2000 and in 2004 (Table 2). In Italy these were 1.8% below the euro area average in 2000 but 5.8% above it in 2004. At purchasing power parity, Italian labour costs were 6.6% above the euro area average.

Life insurance premiums written through agents and financial salesmen expanded, against a decline in business booked through bank branches and direct sales. Non-life insurance premiums written through agents grew, but agents' market share declined slightly. A study by ANIA based on data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) finds that the figures reported by insurance companies underestimate the importance of brokers in the non-life sector.

LIFE BUSINESS

After years of rapid growth, sales of life products declined in 2006. The decrease was sharpest in distribution through bank branches and direct sales (Table 1). Premiums written through bank branches fell by 8.0%. This channel maintained its leadership in life business, but its market share edged down from 60.6% to 59.0%.

Premiums written through agents increased by 3.4% in 2006 and grew from 18.2% to 19.9% of total new life business. Similarly, those written through financial salesmen rose by 5.8%, their market share expanding to 8.5%.

A string of good years came to an end for direct sales, with premiums written contracting by 11.2% in volume and declining to 11.7% of total life business.

Life products sold through brokers represent a very small share of the total: less than 1% on average for the years 2002-2006.

TABLE 1 - DISTRIBUTION CHANNELS ANALYSIS - YEARS 2002-2006

LIFE BUSINESS

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean	Annual change (%)					Mean change (%)
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	(2002-2006)	2002	2003	2004	2005	2006	(2002-2006)
Bank branches	31,113	36,980	38,479	44,523	40,957	56.3	58.9	58.6	60.6	59.0	***58.7***	9.7	18.9	4.1	15.7	-8.0	***7.6***
Agents	10,864	11,529	12,176	13,372	13,830	19.6	18.3	18.6	18.2	19.9	***18.9***	31.0	6.1	5.6	9.8	3.4	***10.8***
Direct sales	4,937	6,815	8,248	9,110	8,086	8.9	10.9	12.6	12.4	11.7	***11.3***	21.1	38.0	21.0	10.5	-11.2	***14.7***
Financial advisers	7,903	6,977	6,250	5,584	5,907	14.3	11.2	9.5	7.6	8.5	***10.2***	52.3	-11.7	-10.4	-10.7	5.8	***2.6***
Brokers	477	479	474	882	598	0.9	0.7	0.7	1.2	0.9	***0.9***	14.3	0.5	-0.9	85.8	-32.2	***7.5***
Total	**55,294**	**62,780**	**65,627**	**73,471**	**69,377**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	***100.0***	**19.4**	**13.5**	**4.5**	**12.0**	**-5.6**	***8.4***

Insurance distribution

Breaking down life product sales by distribution channel and individual product class (Table 2), for Class I (life policies) the share of bank branches was down sharply, from 57.7% to 53.4%. By contrast, the share booked through agents rose from 25.2% to 28.1% and that of direct sales from 11.6% to 12.7%.

For Class III policies (index and unit-linked products), bank branches dominate distribution, accounting for more than three quarters of premiums written, followed by financial salesmen, with 15.3%. However, the volume of premiums booked by bank branches declined, whereas that booked by financial salesmen showed good growth. The share of sales via agents rose slightly, to 8.2%.

Direct sales is the leading channel for capital redemption products (Class V), contributing some 41% of total premiums in 2006. Agents' share expanded, topping 25%, while the banking channels' fell from 38.8% to 29.4%.

Agents were again the leading sales channel for individual retirement schemes, but their share of this market fell from 58.6% to 50%. In the field of

TABLE 2
BREAKDOWN OF LIFE MARKET BY DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2006

CLASSES	AGENTS	BROKERS	BANK BRANCHES	FINANCIAL ADVISERS	DIRECT SALES	TOTAL
INDIVIDUAL POLICIES						
I - Life	28.4	0.3	56.0	4.9	10.5	100.0
III - Linked	8.2	0.1	76.0	15.3	0.5	100.0
IV - Healthcare	67.2	3.4	5.5	2.7	21.2	100.0
V - Capitalization	20.3	1.3	42.7	3.8	31.9	100.0
VI - Pension funds	51.9	0.6	31.2	0.3	16.0	100.0
TOTAL INDIVIDUAL	***19.1***	***0.3***	***63.4***	***9.2***	***8.1***	***100.0***
GROUP POLICIES						
I - Life	23.3	14.3	16.8	0.9	44.7	100.0
III - Linked	0.0	0.1	25.9	0.0	74.0	100.0
IV - Healthcare	22.2	77.7	0.0	0.0	0.1	100.0
V - Capitalization	34.2	2.7	7.9	0.2	55.1	100.0
VI - Pension funds	20.1	0.4	5.3	2.4	71.9	100.0
TOTAL GROUP	***29.6***	***7.3***	***11.2***	***0.5***	***51.4***	***100.0***
TOTAL POLICIES						
I - Life	28.1	1.2	53.4	4.6	12.7	100.0
III - Linked	8.2	0.1	75.9	15.3	0.6	100.0
IV - Healthcare	25.1	73.0	0.4	0.2	1.4	100.0
V - Capitalization	25.6	1.8	29.4	2.4	40.7	100.0
VI - Pension funds	35.7	0.5	18.0	1.4	44.3	100.0
Ind. pens. schemes (*)	49.9	0.1	14.4	29.8	5.8	100.0
TOTAL LIFE CLASSES	***19.9***	***0.9***	***59.0***	***8.5***	***11.7***	***100.0***

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

group policies, direct sales again brought in the bulk of pension fund subscriptions (71.9%).

NON-LIFE BUSINESS

Non-life premiums written through agents grew by 2.1% in volume in 2006 but diminished as proportion of the total from 84.5% to 84.2% (in 2002 the figure had been 86.1%). Brokers were again the second distribution channel, accounting for 7.5% of the total non-life premium income, about the same as in the four previous years. This share is underestimated, however, as it does not include a substantial proportion of premiums (estimated at almost 18 percentage points) that are originated by brokers but submitted to agents rather than directly to companies. Factoring this in, it is estimated that brokers intermediated 25.4% of non-life premium volumes in 2006 and agents 66.3% (see box for details).

The share of premium income from direct sales rose further, from 6.2% to 6.6%, fueled by the rapid expansion of Internet and telephone sales (average annual growth of 24.7% in the last five years).

Bank branches accounted for 1.7% of the total volume; financial salesmen contributed just 0.1%, as in the four previous years.

More than 90% of motor insurance premiums (third-party liability and land vehicles) were written through agents, 5.9% through direct sales and 2.2% through brokers. In most of the other non-life classes agents were the leading

TABLE 3 - DISTRIBUTION CHANNELS ANALYSIS - YEARS 2002-2006

NON-LIFE CLASSES

CHANNELS	Gross written premiums (Euro million)					Market share (%)					Mean	Annual change (%)					Mean change (%)
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	(2002-2006)	2002	2003	2004	2005	2006	(2002-2006)
Agents	27,876	29,165	30,235	30,681	31,315	86.1	85.2	85.3	84.5	84.2	***85.1***	7.3	4.6	3.7	1.5	2.1	***3.8***
Brokers (*)	2,446	2,549	2,674	2,796	2,779	7.5	7.5	7.6	7.7	7.5	***7.6***	10.4	4.2	4.9	4.5	-0.6	***4.6***
Direct sales	1,747	2,048	2,113	2,251	2,438	5.3	6.0	6.0	6.2	6.6	***6.0***	21.6	17.2	3.2	6.5	8.3	***11.2***
of which: internet and phone sales	*503*	*737*	*856*	*944*	*994*	*1.5*	*2.2*	*2.4*	*2.6*	*2.7*	***2.3***	*52.7*	*46.6*	*16.2*	*10.3*	*5.3*	***24.7***
Bank branches	312	422	360	545	624	1.0	1.2	1.0	1.5	1.7	***1.3***	15.8	35.2	-14.7	51.4	14.5	***18.3***
Financial advisers	34	29	29	36	28	0.1	0.1	0.1	0.1	0.1	***0.1***	13.6	-14.7	-1.6	27.2	-22.4	***-1.2***
Total	**32,415**	**34,213**	**35,411**	**36,309**	**37,184**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	***100.0***	**8.3**	**5.5**	**3.5**	**2.5**	**2.4**	***4.4***

(*) Does not include premiums originated by brokers but submitted to agents rather than directly to companies, estimated at about 18% of total premiums in 2006

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

TABLE 4

BREAKDOWN OF NON-LIFE MARKET BY DISTRIBUTION CHANNEL AND CLASS (%) - YEAR 2006

CLASSES	AGENTS	BROKERS(*)	BANK BRANCHES	FINANCIAL ADVISERS	AGENCIES IN ECONOMY	OTHER TYPES OF DIRECT SALES			TOTAL
						TELEPHONE SALES	INTERNET	OTHER	
Motor liability	91.3	1.8	1.1	0.0	1.3	3.0	1.4	0.1	100.0
Land vehicles	87.7	4.5	1.1	0.0	2.6	2.4	1.3	0.3	100.0
Total motor	***90.8***	***2.2***	***1.1***	***0.0***	***1.5***	***2.9***	***1.4***	***0.1***	***100.0***
Accident	84.1	7.3	2.6	0.4	4.0	0.9	0.3	0.5	100.0
Sickness	60.9	17.5	4.3	0.6	14.1	0.0	0.0	2.5	100.0
Railway rolling stock	44.3	7.8	-	-	48.0	-	-	-	100.0
Aircraft	27.4	31.8	-	-	40.7	-	-	-	100.0
Ships	16.4	68.5	0.0	-	15.1	-	-	0.1	100.0
Goods in transit	43.0	47.1	0.1	-	8.7	0.0	0.2	0.9	100.0
Fire and natural forces	75.7	13.3	3.9	0.1	6.9	0.0	0.0	0.1	100.0
Other damage to property	78.0	15.5	1.5	0.1	4.7	0.0	0.0	0.1	100.0
Aircraft third party liability	21.5	36.1	-	-	42.4	-	-	-	100.0
Ships third party liability	87.7	5.4	0.2	-	5.6	0.6	0.4	0.0	100.0
General third party liability	81.1	13.5	0.8	0.0	4.4	0.0	0.0	0.1	100.0
Credit	78.2	15.7	0.5	-	5.6	-	-	-	100.0
Suretyship	82.4	11.0	1.5	-	5.0	-	-	0.1	100.0
Miscellaneous financial loss	68.8	15.8	9.0	0.0	2.8	0.3	0.2	3.2	100.0
Legal expenses	82.2	9.4	1.9	0.0	2.3	3.0	1.0	0.3	100.0
Assistance	77.5	7.6	2.3	0.2	3.4	3.6	1.4	4.1	100.0
Total non-motor	***75.1***	***14.7***	***2.4***	***0.2***	***6.4***	***0.3***	***0.1***	***0.7***	***100.0***
Total non-life classes	**84.2**	**7.5**	**1.7**	**0.1**	**3.6**	**1.8**	**0.8**	**0.3**	**100.0**

(*) Does not include premiums originated by brokers but submitted to agents rather than directly to companies, estimated at about 18% of total premiums in 2006

THE INTERMEDIATION PERFOMED BY BROKERS IN ITALY IN NON-LIFE BUSINESS

The apparent extent of agents' dominance in distribution of non-life products in Italy – their market share came to 84.2% in 2006 – depends partly on statistical practices whereby policies actually placed or originated by brokers are booked by agents.

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

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

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

According to AIBA, in 2006 brokers operating in the non-life classes in Italy handled Euro 15.9 billion out of a total Euro 37.2 billion worth of premiums, or 42.8%. These figures are much higher than brokers' share as shown by ANIA data (Euro 2.8 billion, 7.5%). AIBA estimates, further, that brokers' share of non-life business had risen from 25.5% in 2000.

TABLE 1
PREMIUMS HANDLED BY BROKERS
ITALIAN DIRECT BUSINESS (MILLIONS OF EURO

Non-life business	2000	2001	2002	2003	2004	2005	2006
Total premiums (ANIA data)	*27,875*	*29,920*	*32,417*	*34,212*	*35,411*	*36,308*	*37,184*
Premiums handled by brokers (ANIA)	1,792	2,201	2,446	2,550	2,674	2,786	2,779
% share of premiums handled by brokers (ANIA)	6.4%	7.4%	7.5%	7.5%	7.6%	7.7%	7.5%
Premiums handled by brokers (AIBA)	***7,095***	***8,304***	***9,694***	***11,142***	***11,720***	***14,168***	***15,910***
% share of premiums handled by brokers (AIBA)	***25.5%***	***27.8%***	***29.9%***	***32.6%***	***33.1%***	***39.0%***	***42.8%***
Ratio of ABIA to ANIA premiums	***4.0***	***3.8***	***4.0***	***4.4***	***4.4***	***5.1***	***5.7***

However, according to our calculations (detailed below) there is good reason to think that the AIBA data are overestimated by some 40%; this would imply non-life premiums handled by brokers amounting to Euro 9.5 billion (against the AIBA estimate of Euro 15.9 billion). Even correcting for this overestimation, the amount of premiums actually ascribable to brokers would still be more than three times greater than the figure shown by insurance companies in 2006 (Euro 2.8 billion).

The adjustment implies that brokers' share of total non-life business actually comes to 25.4%, not 7.5%, with a corresponding decrease from 84.2% to 66.3% in the share attributable to agents. The difference of Euro 6.7 billion between AIBA's estimate and the official figure was allocated to the various product classes according percentage weights estimated using ANIA data and the results of a survey conducted by IRSA in cooperation with AIBA several years ago. This exercise shows that the incidence of brokers' activity varies considerably depending on the line of business. In particular, excluding motor insurance and accident and health policies, brokers' intermediated between 55% and 65% of the volume of premiums from general third-party liability, property and credit and suretyship policies and nearly 80% of the volume in the transport sector.

It is important to note that the above figures for brokers' incidence on premium volumes by class of insurance refer to non-life business as whole. In the case of corporate insurance, the presence of brokers is more extensive; although the pertinent data are not available, the situation in Italy can be assumed to be similar to that in other European countries (Belgium and the United Kingdom, in particular), where, for corporate insurance, the brokers handled on average more than 70% of premiums in each non-life class.

A sample survey of firms located in Lombardy, conducted in 2006 by Assolombarda, confirms the estimates shown in Figure 1. Nearly 60% of the firms reported that they worked directly with a broker in selecting the appropriate types of contract and choosing insurers (Figure 2).

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

– for the volume of premiums derived from the system of commissions, the estimate used the definitely known figure of the amount of commissions collected by brokers in 2006, Euro 1,035 million. On the basis of an average commission that ANIA puts at 11.5% (rather than AIBA's figure of 9%), ANIA estimates the premiums driving from direct intermediation at Euro 9.0 billion, lower than AIBA's estimate of Euro 11.5 billion;

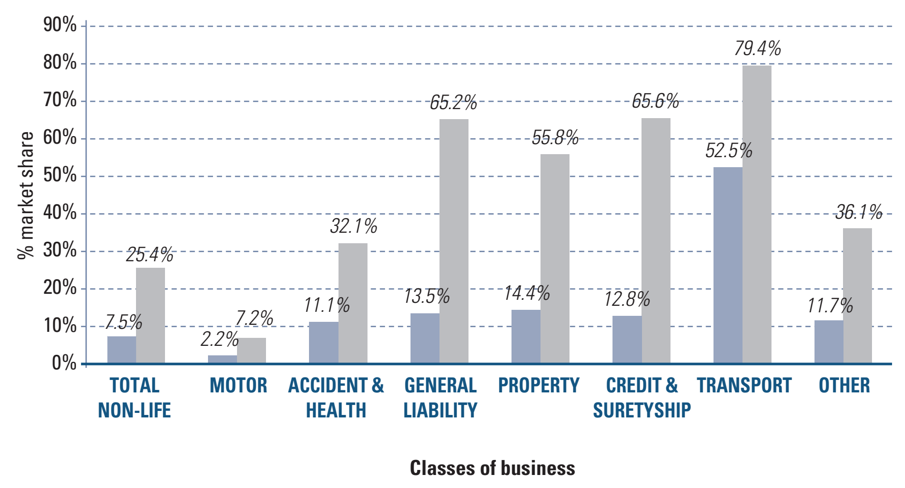


FIGURE 1 - INCIDENCE OF BROKERS ON NON-LIFE PREMIUMS, 2006

ANIA data
ANIA estimates on AIBA data

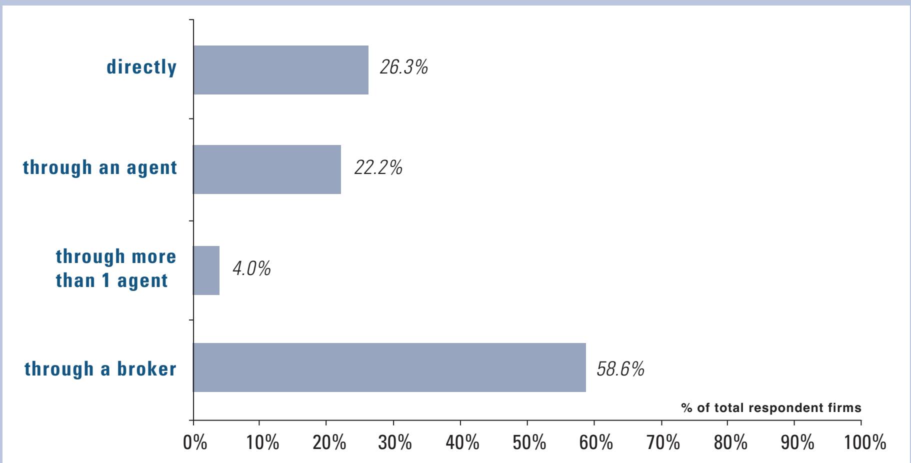


FIGURE 2 - "IN SELECTING THE TYPE OF CONTRACT, THE FIRM ACTS:"

Source: "La gestione del rischio e assicurativa in azienda: esperienze empiriche" Milan, 22 March 2006, Luigi Calvi, Assolombarda Vice President for Small Enterprise

– for the volume of premiums generated by the brokerage fee system, ANIA accepted AIBA's estimate that brokerage fees were equal to 12% of commissions (Euro 1.035 million * 12%=Euro 124.2 million). Then, using the results of a survey of the leading international brokers that operate in Italy, ANIA calculated the incidence of fees on the volume of premiums they generated. The survey found an average incidence of 5%, compared with the figure of 2% used by AIBA. Accordingly, the estimated volume of premiums for this segment of business comes to Euro 2.5 billion (Euro 124.2 million / 5%), far below AIBA's estimate of Euro 6.2 billion (Euro 124.2 million / 2%).

According to ANIA, therefore, in 2006 total premium income attributable to brokers amounted to about Euro 11.5 billion (Euro 9.0 billion from the commission system plus Euro 2.5 billion from the fee system). Life premiums accounted for only Euro 2.0 billion (17.7%) of the total, while non-life premiums made up Euro 9.5 billion (82.3%).

COMPLAINTS SUBMITTED BY ANIA TO THE EUROPEAN COMMISSION ON THE BAN ON EXCLUSIVE AGENCY AGREEMENTS

Decree Law 223 of 4 July 2006, ratified as Law 248/2006, prohibited insurance companies in Italy from signing agreements with their agents for exclusive distribution of motor liability policies. Decree Law 7 of 31 January 2007, ratified as Law 40/2007, subsequently extended the ban on exclusive agency agreements to all non-life classes.

The situation created in Italy following these legislative measures is unparalleled in the other EU member states, engendering major problems for the uniform interpretation and implementation of Community legislation on insurance mediation and competition, and conflicts with the very notion of the single market.

Article 2.7 of Directive 2002/92/EC on insurance mediation defines "tied insurance intermediary" as "any person who carries on the activity of insurance mediation for and on behalf of one or more insurance undertakings". Article 12.1 of the directive requires an insurance intermediary to inform the customer if he is "under a contractual obligation to conduct insurance mediation business exclusively with one or more insurance undertakings". Community legislation therefore expressly recognizes the figure of exclusive insurance intermediary.

As to Community legislation on competition, Article 3.2 of Regulation (EC) No. 1/2003 lays down that national competition law may not prohibit agreements which: a) are not considered restrictive of competition by Community legislation, or b) are governed by an exemption regulation. This provision is aimed at obtaining uniform application of Article 81 of the Treaty in the different member states.

Considering the first point, Community legislation distinguishes between genuine agents and other types of intermediaries that may be classified as independent distributors, and does not consider Article 81.1 of the Treaty to be applicable to agreements between "genuine agents" and their respective principals (point 13 of the Guidelines contained in Commission Communication 2000/C 291/01 on vertical agreements).

A genuine agent is distinguished by the fact that he constitutes an extension of the offering firm, with which he forms a single economic unit; he does not independently determine his conduct on the market, but simply applies the instructions of the principal; he does not take on financial and commercial risks in relation to the contracts concluded, but only risks attendant to agency in general. The latter risks are immaterial for purposes of antitrust law, and it is similarly immaterial whether the agent acts for one or more principals (as is shown by consistent Community jurisprudence and points 14 and 15 of the above-mentioned Guidelines). An insurance agent falls within the category of "genuine agent" as defined above.

Turning to the second point, it is well known that with regard to vertical agreements the Community has issued Exemption Regulation 2790/1999, applicable to independent distributors. Thus, even if insurance agents were, absurdly, to be classified as independent distributors, Italy's legislation still openly violates Article 3.2 of EC Regulation 1/2003.

For that matter, even in the unlikely event that an insurance agent might not be considered a "genuine agent", the Italian measures would conflict with Community law in a good many other respects. In fact, they consider exclusive distribution clauses unlawful "per se" (without any assessment of the excluding effect on the market and the "sensitivity" of the restriction) and preclude application of Article 81.3 of the Treaty, with evident detriment to insurance companies. Furthermore, they pre-empt the Antitrust Authority and the national judiciary, who have the right and duty to apply Community competition law, depriving them of any ability whatsoever to examine specific, concrete cases according to a typically antitrust approach to the problems.

Given the principle of the supremacy of Community law, the legislative provisions enacted in Italy should be considered to be without legal effect. Community jurisprudence has constantly found, in fact, that the provision of the Treaty and the acts of the Community institutions, where they are directly applicable, have the effect not only of rendering *ipso jure* inapplicable whatsoever conflicting provision of pre-existing national law, but also of preventing the valid formation of new national legislative acts that are incompatible with Community provisions (European Court of Justice, 9 March 1978, Case 106/77).

ANIA has petitioned against the Italian legislative measures in two complaints submitted to the European Commission, the first on 13 December 2006, the second on 16 February 2007.

THE ECONOMIC EFFECTS OF THE BAN ON EXCLUSIVE AGENCY AGREEMENTS

The rationale of the Community rules and a substantial body of economic studies suggest that the abolition of the exclusive agency clause, for which there is no precedent in any other country, could produce an increase in costs for insurance companies and their customers.

A loss for insurers

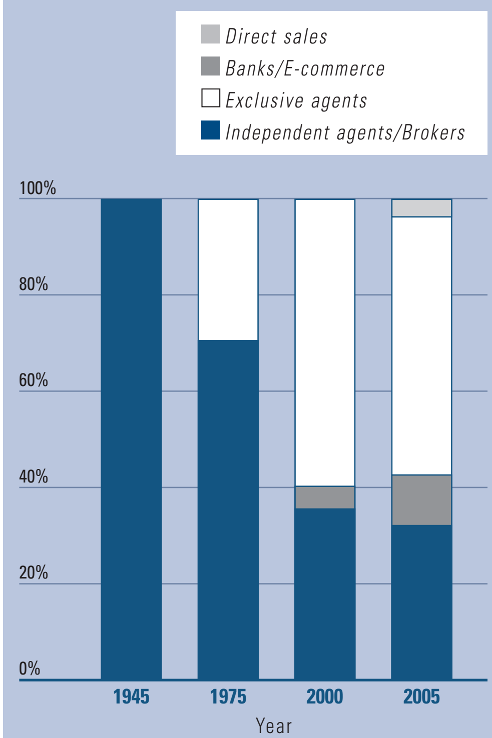
The Community regulation excludes agreements with "genuine agents" from the scope of agreements potentially restrictive of competition – considering such agents as executors of the strategies of the firm that engages them –

essentially for an economic reason: an agent is to be considered a "genuine agent" when the financial and commercial risks inherent in the contracts concluded and/or negotiated on behalf of the principal and in specific investments of the market for that sector of activity are borne by the company, while the agent runs no enterprise risk other than those connected in general with the provision of agency services, such as overheads, staff costs or the risk of the agent's income depending on his performance as agent.

For insurance companies operating in Italy, about a third of which are subsidiaries of foreign companies,[1] the ban on exclusive agency thus represents an economic loss in that it renders irrecoverable the investments made in order to set up the distribution network consisting of exclusive agents. The rationale of the Community regulation consists is that the investments made to set up an exclusive distribution network are sunk costs for the company. It is precisely in order to protect such investments that a genuine agent, like an employee, cannot infringe the pact of loyalty with his principal.

A loss for consumers

DISTRIBUTION CHANNELS USED BY THE TOP 10 MARKET LEADERS



Market share of top ten companies

1945	1975	2000	2005
30%	38%	45%	55%

Consumers in Italy have easy access, including via the Internet or by telephone, to offers that they can compare with a view to selecting the most advantageous, with the utmost transparency.

The ban on exclusive agency creates scope for conflicts of interest: agents will objectively have an incentive to sell the policy with the highest commissions, not the most advantageous one for the consumer. And, perhaps even more important, competition between companies will come to turn on which one offers the highest commissions to agents, thereby determining an increase in costs for consumers.

It is true that the new rules make the Italian market more readily accessible for new entrants, but they too will find that they must compete in offering commissions to agents.

The hypothesis that consumers will face higher costs is corroborated by the results of scholarship. The comparative efficiency of networks based on exclusive agents and on independent agents (brokers or multi-company agents) have been at the centre of a debate on the evolution of the distribution systems adopted by the US insurance industry. Many studies have exam-

(1) Subsidiaries of foreign companies have a 32% market share, high by comparison with the situation in other EU countries. The corresponding figures in Germany, Spain and the United Kingdom, for example, are 12%, 21% and 42% respectively (see *OECD World Insurance Report*, 2006, Table V.2, p. 47).

ined the cost-side impact of the distribution system selected and have concluded, virtually unanimously, that networks of exclusive agents have lower average costs and enable insurers to moderate the prices charged to policyholders. Summing up the consensus, Reagan and Tennyson, in "Insurance Distribution Systems" (published in *Handbook of Insurance*, edited by G. Dionne, 2000, pp. 709-728), observe: "The one unquestioned conclusion arising from this literature is that in property-liability insurance direct writers [these include exclusive agents] have lower underwriting costs on average than independent agency insurers", including brokers and non-exclusive agents.

This is the why independent agents' market share has suffered a pronounced decline. After the Second World War distribution was entirely in their hands, but by 1975 tied agents had 30% of the market and 60% by 2000. This evolution is depicted by the accompanying figure, taken from *Best's Review*, January 2000, p. 9. In particular, the market share of companies that operate with networks of exclusive agents is 70% in so-called personal lines insurance, which includes motor and home-owners' liability insurance.

The key question, then, with specific reference to the United States, concerns the possible coexistence of the two distribution systems. According to many authors, networks of independent agents are able to survive because they provide a different service, aimed at the management of more complex risks, while tied or exclusive agents are equipped to provide a more standardized service and for fields where price competition prevails (for example, in the small business segment).

This thesis is corroborated by the results presented in Berger, Cummins and Weiss, "The Coexistence of Multiple Distribution Systems for Financial Services: The Case of Property-Liability Insurance", published in *The Journal of Business* in October 1997. This study finds that the profit efficiency of companies using exclusive agents is not significantly different from that of companies using independent agents.

The most important policy implication to emerge is that the prevalence of one distribution system or the other needs to be interpreted as a reflection of the composition of demand, which depends on consumers' preferences. It follows that the regulatory suppression of one of the two is inefficient and can determine economic and social costs.

ISVAP REGULATION No. 5 ON INSURANCE MEDIATION

ISVAP Regulation 5 on insurance mediation was issued on 16 October 2006 and published in the ordinary supplement No. 200 to *Gazzetta Uffciale* No. 247 seven days later. On 28 December 2006 Decree Law 300/2006, an omnibus act, extended the entry into force of the register of insurance intermediaries until 1 February 2007. Finally, Law 17/2007, in ratifying Decree Law 300/2006, definitively set 28 February 2007 as the date of the register's entry into force.

1. The structure of Regulation 5/2006

The regulation is composed of six parts. Part I establishes definitions and the scope of the regulation. Part II governs the manner of access to the activity of intermediation by instituting a single register of intermediaries, specifying differentiated requirements for entry in the different sections of the register, and establishing the procedures for listing in and deletion from the register and for transfer to a different section of the register. Lastly, it governs the procedures for pursuit of the activity of insurance intermediation under the freedom of establishment and the freedom to provide services.

Part III regulates the performance of intermediation. This is the heart of the regulation, laying down provisions for the correct performance of the activity of distribution in terms of compliance both with the requirements established by the supervisory authority and with the obligations of diligence, fairness, transparency, professionalism and disclosure vis-à-vis customers.

Part IV establishes disciplinary sanctions for intermediaries, while Part V contains transitional provisions for entering already operative insurance intermediaries in the register. Lastly, Part VI provides that the rules for sending reports in electronic or other form to ISVAP will be laid down in subsequent measures, establishes rules for the out-of-court settlement of disputes and for filing complaints against intermediaries, and repeals some ISVAP circulars in whole or in part.

Apart from the aspects strictly connected with entry in the register, the regulation's most important provisions concern experience requirements, intermediaries' professional updating and the rules for presenting contracts to customers.

2. Appeal to the Lazio Administrative Court

ANIA, together with the trade associations of agents and brokers (SNA and AIBA, respectively) petitioned the Lazio Administrative Court to annul ISVAP Regulation 5/2006.

In particular, the three associations objected to the procedure by which the regulation was adopted, claiming violation of the general principles of participation in administrative procedures through consultation. They also argued that individual aspects of Regulation 5/2006 overstepped the bounds set by primary legislation in Title IX of the Insurance Code. This refers, in particular, to the possibility of intermediaries' being listed both in the section for agents and that for agents' collaborators in the case of distribution of motor insurance contracts, while the Code envisages listing in a single section of the register.

In addition, the petitioners objected to the rule limiting banks to a dedicated section of the register, contrary to the Code, which envisages freedom of registration as long as an intermediary is listed in no more than one section.

Finally, the petitioners objected to the rule requiring the opening of a single "separate" current account, including for multi-company agents, on the grounds that it was inconsistent with the primary legislation's objectives of safeguarding the rights of insurance companies and policyholders.

In its ruling, the Lazio Administrative Court dismissed the petitions submitted by ANIA, SNA and AIBA.

GUIDELINES FOR EVALUATING THE APPROPRIATENESS OF THE CONTRACTS OFFERED IN NON-LIFE CLASSES

Intermediaries are required to propose or advise contracts that are adequate to the insurance needs of the customer (Article 52 of ISVAP Regulation 5/2006). Accordingly, insurance companies instruct the insurance intermediaries whose services they use to obtain from the prospective customer, before the contract is concluded, all the necessary information to evaluate the adequacy of the proposed contract in relation to the customer's insurance needs.

Against this background, ANIA has drawn up guidelines intended to offer market participants an initial tool for gauging the appropriateness of the motor and non-motor non-life insurance contracts they offer to customers.

It is important to underscore that the ability to provide advice in supplying the product that best fits the customer's needs is a key competitive tool in the service model of all insurance companies and intermediaries.

The first part of the guidelines concerns the scope of standardized contracts entered into by a consumer, defined as a "natural person acting for purposes unrelated to the business or professional activity he may perform" (Article 3 of Legislative Decree 206/2005, the Consumer Protection Code).

The guidelines then give general indications regarding the data, grouped into macro categories, that might be of use to evaluate the appropriateness of a he contract. The classes of information pertain to the customer and his expectations/objectives, any previous coverage and the persons to be protected.

Where a contract is taken out in order to fulfil a legal obligation, information is gathered in order to verify that the person is actually obligated to take out insurance and that the contract satisfies the requirements of law and customer's declared needs.

The coverage provided by the contract is a crucial element for matching the product offered to the customer's expectations. Thus, it may be useful to ask the customer what type of reimbursement he desires to receive and what he would propose to do with the compensation payment.

The duration of the policy also deserves attention. It may be useful to find out the coverage period that the customer intends to assign to the contract. With this information in hand, the customer can be made aware of the necessity of renewing the contract or of notifying intention to terminate if he changes his mind about the duration of the contract or other features of the product. To ensure that the contract actually fits the customer's needs, an assessment should also be made of the economic resources that the customer intends to allocate to insurance.

The guidelines also give some examples of situations in which the information available suggests that the contract may not be appropriate to the needs of the customer. Finally, they include model declarations serving to document the activity performed by the insurer and the will of the customer.

RULES ON ASSETS USED TO COVER TECHNICAL RESERVE

On 28 February ISVAP issued a pubic consultation document proposing new rules on investments covering technical reserves and assets underlying unit-linked policies. The document presents innovations of extreme importance for the insurance industry as regards both to the diversification of investments and the development of insurance products. The accompanying report points out that the innovations are in line with measures adopted by other European authorities in insurance and adjacent sectors. The proposed rules set new quantitative and qualitative limits on some categories of investment covering technical reserves and introduce a new asset class called “alternative investments”.

Among the proposed changes involving the investment covering the technical reserves, the ceiling on investment in real-estate funds would be raised from 5% to 10% and that on the indexation of benefits to hedge funds to 6% for unit-linked contracts and, specifically, contracts linked to internal funds.

The new class of “alternative investments” includes investments in shares/units of non-harmonized open-end collective investment undertakings provided for in Directive 85/611/EEC, reserved funds and hedge funds. Assuming that ISVAP’s regulation eventually corresponds to the consultation document, these can make up an overall maximum of 10% of the assets covering the technical reserves. However, sub-limits are fixed for shares/units of reserved funds and hedge funds established under Community law and concentration limits for individual funds.

Harmonized open-end collective investment undertakings will be treated as investments in shares or in bonds, depending on their prevalent investment, while reserved funds and hedge funds will be treated as investments in unlisted shares.

While the proposals show that the supervisory authority has heeded the insurance industry’s insistence on the new investment possibilities present in today’s financial markets, they can still be improved, modified to enable insurance companies to take even greater advantage of the new opportunities, as happens in adjacent sectors, and increase their operational flexibility.

The consultation procedure closed on 23 March 2007. ANIA presented some comments to ISVAP on the proposed regulation. The main ones are summarized below.

– The document limits alternative investments to no more than 10% of the reserves to be covered. Given the multiplicity of instruments that make up the category (non-harmonized open-end collective investment undertakings, reserved funds and hedge funds), ANIA proposed raising the ceiling to 15%, eliminating sub-limits on individual type of investment and admitting all hedge funds authorized by the Bank of Italy as eligible alternative investments.

- Concerning the limits envisaged for investment of the internal funds for unit-linked products, ANIA proposed allowing up to 20% of the assets of internal funds to be invested directly in hedge funds (comparable to what the Bank of Italy allows for Italian non-harmonized, non-reserved open-end investment funds).
- The consultation document envisages raising the limit on investment in real-estate funds from 5% to 10%. Since real-estate funds might not be less transparent or less liquid than properties held directly and, especially for smaller insurers, could foster greater diversification, ANIA proposed raising the investment limit as close as possible to that on direct investments in property (40%), also in light of the expected expansion in the supply of real-estate funds in the near future.
- The document does not explicitly treat investments in listed real-estate investment companies. These vehicles, whose risk profile is low because they are required to engage prevalently in the leasing of buildings, were introduced in Italy by Article 1(119-141) of the Finance Law for 2007. To enable insurance companies to exploit the new opportunities and to increase their operational flexibility, ANIA proposed including listed real-estate investment companies among admissible covering assets with limits similar to those set for real-estate investment funds.

REFORM OF THE SUPERVISORY AUTHORITIES

The problem of a systematic reorganization of the supervisory authorities, most notably of those responsible for oversight of the financial industry, has drawn the attention of Italian public opinion and the country's institutions for many years without yet finding a suitable, consensus solution. Meanwhile, the ongoing production of fragmentary and sometimes contradictory measures as part of laws intended to pursue different purposes has impinged on the legislative edifice of supervision, further confusing the situation and making a systemic solution all the more urgent.

For example, the reform of supplementary pension schemes, approved with Legislative Decree 252/2005, stripped CONSOB of responsibility for supervising open pension funds for transparency and ISVAP of responsibility for supervising insurance-based individual pension schemes and assigned these powers to the Pension Fund Supervisory Authority (COVIP), in the name of a matter-based principle of specialization. Similarly, the law on the protection of savings (Law 262/2005) shifted the duty for supervising the transparency of insurance products of a financial nature from ISVAP to CONSOB. In practice, for the first time these products were subjected to the rules on public offerings and, therefore, to the CONSOB offering prospectus requirements. However, Law 262/2005 did not clarify exactly what these products were but simply made CONSOB and ISVAP jointly responsible for supervising Class III life products.

The clarification was finally supplied by Legislative Decree 303/2006 (intended to harmonize the provisions of the Consolidated Law on Banking, the Consolidated Law on Finance and the law on the protection of savings), which specified that the insurance products of a financial nature were life products belonging to Class III (except for pension products) and Class V and eliminated the joint ISVAP-CONSOB powers over Class III products, entrusting these exclusively to CONSOB.

Apart from the transparency rules, Law 262/2005 and Legislative Decree 303/2006 also established that for insurance products of a financial nature the rules of conduct laid down by the Consolidated Law on Finance and supervised by CONSOB applied to insurance companies. The same does not go for the rules of conduct of insurance intermediaries, whose activity CONSOB does not yet deem subject to its control. Consequently, as regards Class III and Class V products, insurance companies are subject to the rules of conduct established by the Consolidated Law on Finance, while insurance intermediaries are subject to those of the Insurance Code.

Then, there are is the congeries of fragmentary rules on product advertising, scattered over different legislative measures and entrusted for supervision to different authorities: the Consumer Protection Code and Antitrust Authority; the Consolidated Law on Finance and CONSOB; the Insurance Code and ISVAP; pension legislation and COVIP.

The story could continue at length, as could the list of the well-founded grievances on the part of economic agents and consumers, for, plainly, the fragmentation and uncertainty of the rules and of supervisory controls ultimately harm the very consumers whom these institutions were intended to protect. The problem is further exacerbated when supervisory rules and controls change rapidly, as they have in recent years, sometimes remaining in effect for months, certainly not long enough to enable companies to fashion adequate organizational responses.

Like its predecessors, the current government too has presented a reform bill on the matter. It concerns the public service and utility regulatory authorities (communications, electricity and gas, transport infrastructure), supervision of the financial market and reorganization of the authorities. For the reorganization of the financial sector authorities, the bill would move from the current legislative model, in which the division of powers is based on the matter governed and the institutions supervised, to a purpose-based model of supervision. In truth, such models are not very common internationally, although Australia and the Netherlands do have them. Most countries have abandoned the old vertical system in favour of a single authority (for instance, France, Germany, Japan, the United Kingdom and Spain).

More in detail, under the new bill the Bank of Italy would become the single regulator and supervisor for the stability of banks, insurance companies and financial companies, while CONSOB would have exclusive regulatory and supervisory powers for matters of transparency and disclosure to the market (including for insurance and pension products). Consequently, ISVAP and CONSOB would be suppressed. The reorganization and redistribution of tasks in the financial sector would be accomplished by one or more legislative decrees to be issued within one year of the new law's entry into force.

Although the insurance industry has always reiterated that, in principle, it is not up to the supervised entities to express preferences concerning the supervisory regime, for some time it had displayed an inclination to prefer a system based on a single supervisory authority, patterned on the reforms already adopted in the European countries mentioned above. One factor in this position is a desire to limit compliance costs and complexity of regulation, neither of which can be readily foreseen under different arrangements.

Whatever the approach ultimately adopted by the Government and Parliament, an incisive reform of supervisory arrangements is plainly necessary and urgent, for the current situation of fragmentation and duplication of powers is manifestly unacceptable for insurers and not beneficial for consumers.

ACTION TO COMBAT FRAUD

Insurance fraud places a burden on mutuality between policyholders, a hidden tax in favour of illegality, and constitutes a source of self-financing for organized crime, as is shown by the frequent criminal trials involving complex organizations embracing scores of persons. More in general, the extent of insurance fraud is closely correlated with problems in the functioning of the financial system. Figure 1 shows the correlations, calculated on data at

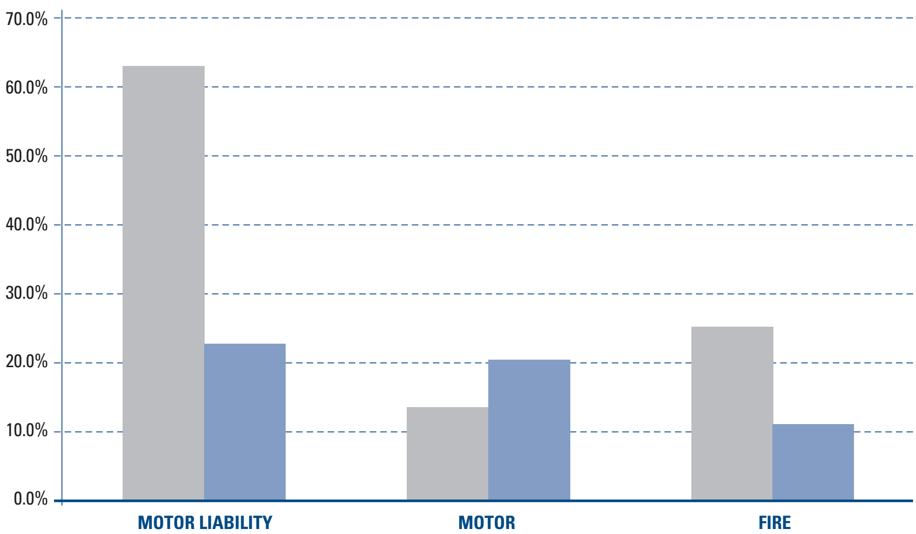


FIGURE 1
CORRELATION BETWEEN THE INCIDENCE OF FRAUD AND PROBLEMS IN THE CREDIT MARKET (PROVINCIAL DATA)

Protested cheques/100,000 pop.
Attachments of property/100,000 pop.

Sources: Based on ISVAP, ISTAT and Bank of Italy data provincial level, between fraud in auto and fire insurance and phenomena that are indicators of a poorly functioning credit market, such as protested cheques and attachments of assets.

The phenomenon is not limited to motor liability insurance (consider arson, for instance), but its social repercussions are especially serious in that class because coverage is obligatory by law.

The scale of insurance fraud is certainly large, though hard to estimate with precision. According to an ISVAP survey for 2005, in motor liability insurance alone there are more than 90,000 fraudulent claims a year (about 3% of the total claims handled by insurance companies). There is a strong correlation between fraud and the incidence of claims, suggesting that fraud explains a good part of the difference between provinces in the frequency of claims and, hence, in the cost of insurance.

In the United Kingdom it is estimated that fraudulent claims make up 10% of the value of claims in auto insurance and 15% in home insurance. In France the incidence of fraud on total insurance premiums paid in all classes is estimated at about 5%.

Against this background and considering the experience of insurers who operate simultaneously in several countries, it is evident that ISVAP's estimate of 3% in the motor insurance sector can only mean that fraud goes largely undetected. This is due in part to the fact that Italy, unlike every other industrial country, lacks a special anti-fraud unit.

The necessity of combating fraud was affirmed in a recommendation of the Council of Europe (REC(2002)9 of 18 September 2002), which recognized that fighting fraud was an intrinsic and necessary part of insurance business. The anti-fraud units in the main industrial countries can access very detailed databanks on the insurance history of policyholders and the goods insured. In some cases, notably the United States, anti-fraud agencies have broad investigative powers.

According to one estimate, if action against fraud, together with appropriate steps to improve road safety, succeeded in bringing the frequency of motor liability claims in the other Italian provinces into line with the average incidence in the ten most "virtuous" ones (6%, close to the average for a country like France), the cost of claims settlements would be reduced by about 30%, with evident beneficial effects on insurance prices.

Effective anti-fraud action can be achieved by a unit composed of no more than a dozen or so professionals who collect and cross-check the data present in various databanks, without infringing the rules on the protection and confidentiality of data, and coordinate the activities needed for criminal prosecution of fraud, providing assistance to the investigative authorities. Doubtless one of the most effective means of suppressing fraud is to verify whether a certain name appears, in one guise or another, in a multiplicity of claims with different companies over a given period of time and whether there is a pattern of similar circumstances attendant to the claims. It is also useful to check the authenticity of motor vehicle insurance certificates, so as to crack down on the widespread use of false certificates as a device for evading compulsory insurance, which adds to the costs borne by the Guarantee Fund for Road Accident Victims and, ultimately, by policyholders.

In Italy, data are available in the ISVAP databank on motor liability claims and in the Central Register of Accidents kept by INAIL, the National Industrial Accidents Insurance Institute. For these data to be truly useful, they must be made accessible to a specialized unit that can supplement them with the other information available.

In the past, ANIA had set up its own anti-fraud unit, equipped with a claims databank fed by flows from member insurance companies. The joint effort of ANIA and the companies was repeatedly of service to the judiciary and made it possible to identify criminal organizations operating to the detriment of the insurance industry. Subsequently, in compliance with the legislation on the protection of personal data and the positions adopted by the Authority for the Protection of Privacy, the unit’s function was limited de facto to providing merely formal coordination between companies in response to specific orders issued by the judiciary.

In the view of operators, there is a high correlation between fraud in the credit sector and fraud in the insurance sector committed by the same persons. This is why other countries permit insurance companies to access and input information into data systems and databanks on credit records. ANIA has asked to be included among the participants in the system for the prevention of consumer credit fraud now being instituted and petitioned for the removal of the legislative impediments to the participation of insurance firms in central credit and financial risk records.

COMPLAINT BY ANIA TO THE EUROPEAN COMMISSION ON THE TAX WEDGE

The Finance Law for 2007 (Law 296 of 27 December 2006) enacted a reduction in the tax wedge on labour, i.e. the difference between the labour costs to firms and workers’ net earnings. The reduction, which will benefit employers, involves the regional tax on productive activities (IRAP), whose tax base includes labour costs. In particular, the Finance Law for 2007 introduced:

a) a deduction from the IRAP tax base of the portion of labour costs consisting in social security and social assistance contributions (Finance Law, Article 1, paragraph 266, point a4);

b) a fixed deduction form the IRAP tax base of Euro 5,000 per year per worker, increased to Euro 10,000 per year for workers employed in the South and Islands (the excess with respect to the basic deduction can be granted in compliance with the limits deriving from exemption under the "de minimis" rule laid down by Regulation (EC) 69/2001) (Finance Law, Article 1, paragraph 266, points a2 and a3).

Both incentives pertain to payroll workers with open-ended contracts. Banks, other financial institutions, insurance companies and firms holding public concessions with regulated prices in the sectors of energy, water supply, transport, network infrastructure, postal and telecommunications services, waste water collection and treatment, and solid waste collection and disposal are excluded. Article 1, paragraph 1, of the Finance Law lays down that "the deductions . . . shall be claimable in an amount equal to 50% starting in February 2007 and in their full amount from July 2007 onwards, subject to approval by the competent European authorities".

The law took effect on 1 February 2007, but the Italian government did not formally notify the measures to the European Commission until April. Plausibly, the Government was induced to temporize by the complaints submitted to the Commission by ANIA and ABI (the Italian Banking Association).

In point of fact, the deduction introduced by the Finance Law for 2007 is selective inasmuch as it does not apply to all companies without distinction but excludes important sectors of the national economy. According to insurance companies and banks, which are among those expressly excluded, the new deductions therefore constitute "State aid" under Article 87.1 of the EC Treaty. With the exception of aid qualifying for exemption under the "de minimis" rule, such measures cannot be put into practice before the European Commission authorizes them. The Commission has two months in which to act from the date in which the member state concerned formally notifies the measure.

According to the Commission, a tax measure constitutes "State aid" when it is an exception to the tax system in force and when such exemption does not appear to be justified by the principles and logic informing the tax system. In the case in question, the relevant tax discipline is the regional tax on productive activities. It establishes different rules for computing the tax base for banks, other financial institutions and insurance companies. The rationale lies in the specific nature of the economic activity performed by these undertakings and the consequent difference, compared with other enterprises, in the type of revenues they earn. This rationale has nothing to do with the decision to exclude these three sectors from the reduction in the tax wedge, so their exclusion is in no way part of a consistent design relating to the purposes of the tax on productive activities or the purely technical choices made by the legislative drafters. Nor does the argument that the banking and insurance industries are not labour-intensive appear relevant, quite apart from the consideration that that is factually inexact.

In early May the European Commission requested the Italian authorities to formulate their observations, in view of a final decision on the question. It is not known whether and how the Italian government has responded to this request.

What is certain is that on 28 May 2007 the Government issued Decree Law 67. This new act eliminated the Finance Law's provision that the reduction of the tax wedge would be claimable "subject to approval by the competent European authorities", rendering the measure immediately effective, so that the companies concerned benefited from the reduction in making their first payment on account of 2007 IRAP. At the same time, Decree Law 67 did not alter the exclusion of banks and insurance companies from the benefit, thereby confirming the measure's selective nature and the possibility of interpreting it as an instance of State aid.

The report accompanying the bill to ratify Decree Law 67 (Chamber of Deputies Bill 2695) remarks that "The Council of Ministers has in any event pledged to extend the benefits in question to undertakings operating in the banking, insurance and financial sectors, deciding at the same time that the necessary funding was to be borne by the sectors in question. This commitment corresponds to the request, formulated at European Union level, for complete compliance with Community legislation".

Apart from the fact that a purely political commitment of this kind does not undo the selective nature of the reduction of the tax wedge – on the contrary, its selectiveness was confirmed by Decree Law 67 – it is worth emphasizing that banks and insurance companies themselves are expected to provide the State with the resources corresponding to the outlays that would arise from extending the measure to them.

There is little doubt that the selective nature of the previous measures, like the problem they pose in terms of State aid under Article 87 of the Treaty, remains unaltered.

THE FORECAST FOR 2007

Direct business in Italy should be roughly in line with 2006. Premiums written are expected to rise by 0.7% to Euro 107 billion, equal to 7.1% of GDP, practically the same as in 2006.

For the non-life sector an increase of 2.5% is estimated (2.4% in 2006), with premiums of Euro 38.1 billion. Obviously, this performance depends largely on the motor liability sector, where premiums written are expected to increase by just 0.8%, about 1 percentage point less than the number of vehicles registered. In the property sector (fire and other material damage) the increase should be more than 4%, thanks to the strong expansion of economic activity.

The accident, health and general liability sectors are expected to grow more than the non-life sector as a whole, land vehicle insurance premiums less (1.8%).

Premium income in the life sector is forecast at be Euro 69 billion, around the same as in 2006. By individual class, the predictions are as follows:

– Class I (life insurance): slight growth of 1.1%, after a contraction of 3.3% in 2006;
– Class III (investment funds): a gain of 5.7%, up from 3.8%;
– other life classes: another contraction following that of 2006 in Class V (capitalization operations) but significant growth in Class VI, thanks to additional retirement scheme memberships in connection with the reform of supplementary pension plans.

TABLE 3
FORECAST OF ITALIAN INSURANCE PREMIUMS
Euro million

CLASSES	2006 PREMIUMS	2007 PREMIUMS	CHANGE % 2006-2005 (*)	CHANGE % 2007-2006 (*)
Motor liability	18,387	18,531	1.2%	0.8%
Land vehicles	3,205	3,263	1.6%	1.8%
Accident	3,103	3,222	3.9%	3.8%
Sickness	1,828	1,949	6.5%	6.6%
Fire and natural forces	2,359	2,453	3.2%	4.0%
General third party liability	3,225	3,343	3.5%	3.7%
Other damage to property	2,480	2,589	4.8%	4.4%
Other non-life classes	2,597	2,781	3.4%	7.1%
TOTAL NON-LIFE CLASSES	**37,184**	**38,131**	**2.4%**	**2.5%**
Premiums/GDP (%)	*2.52%*	*2.54%*		
Class I - Life	32,753	33,104	-3.3%	1.1%
Class III - Linked	27,385	28,950	3.8%	5.7%
Other life classes	9,239	7,149	-30.1%	-22.6%
TOTAL LIFE CLASSES	**69,377**	**69,203**	**-5.6%**	**-0.3%**
Premiums/GDP (%)	*4.70%*	*4.60%*		
TOTAL CLASSES	**106,561**	**107,334**	**-2.9%**	**0.7%**
Premiums/GDP (%)	*7.22%*	*7.14%*		

Source: ANIA estimates
(*) 2006 data are final, 2007 data are estimates

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

2006/2007 figures are provisional

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