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ISTITUTO PER LA VIGILANZA
SULLE ASSICURAZIONI



**MARKET CONDUCT SUPERVISION DIRECTORATE
PRODUCT SUPERVISION DIVISION**

REPORT

ANALYSIS OF TRENDS IN THE SUPPLY OF INSURANCE PRODUCTS

(January – June 2019)



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Foreword

This Report is the fifth document that, since the first semester of 2017, IVASS has published, at a six-month frequency, to disclose the results of the analyses of the trends in the supply of insurance products and to provide the various stakeholders with a periodic observatory of market trends.

As in the previous ones, this Report contains information on new insurance products¹ and analyses conducted in the observation period, in this case from 1 January to 30 June 2019.

The analysis of the trends in insurance supply is one of the activities performed by IVASS for the purposes of monitoring emerging phenomena, possible irregularities in the conduct of insurance operators and the subsequent risks of potential prejudice to consumers' rights.

The constant attention paid to these phenomena makes it possible for the Institute to take guidance or supervisory action more timely than in the past, even before receiving complaints.

As usual, the analysis disregards the commercial success of the products and the level of premium income associated with them.

Any reference that may relate to commercial products or initiatives mentioned herein implies neither an evaluation of their content, nor approval thereof by IVASS.

¹ For the life sector, the information is obtained mainly from the database fed by the so - called "systematic notifications" of the technical bases of life tariffs. For the non-life sector, as usual use is made of "open sources" (e.g. daily press reviews, portals, websites of the individual companies) and, as an exception, also of the communications of new products that undertakings have sent, and will continue to send to IVASS in 2019, as part of the information on new products drawn up in accordance with the Guidelines for "Clear and simple contracts" established by the Technical panel made up of undertakings, intermediaries and consumers associations, on IVASS' initiative and in coordination with ANIA. This source will be used also to obtain information on the second semester of the current year, at the end of which it will be exhausted.

INTRODUCTION AND OVERVIEW

The analyses relating to the new offerings presented in this Report update the trend scenario provided by IVASS with the publication of 20 May 2019 on the second half of 2018.

In the first half of 2019 the following trends have been observed.

- 1. Digitalization:** the benefits and the potential of technological innovation are now recognised by a growing number of companies. The goal underlying their use is twofold: to automate business processes and to improve interactions with customer. Business models are in fact increasingly focused on “understanding” customers and on improving customer experience also as a result of tailor-made offers and innovative service solutions.
- 2. Modular Products:** the offer of modular and flexible insurance coverage continues to develop with specific solutions dedicated to ancillary covers for MTPL (paragraph 2.1), sustainable mobility and digital life (paragraph 2.2), household liability (paragraph 2.3), risks related to property and natural catastrophes (paragraph 2.4).
- 3. Cyber:** new cyber guarantees have been developed against the risk of aggression and improper conduct on the Internet, addressing families (e.g. cyberbullying) or protecting professionals and companies against computer attacks, fraud, theft of data and information that need to be protected against often sophisticated hacking attempts, in order to safeguard their business.
- 4. Health:** the range of policies covering health-related events has been extended with guarantees not only for family members but also for third parties, regardless of whether they are family members or cohabitate, and with coverage for a specific target of old age customers.
- 5. Associations:** the range of products aimed at protecting the insurance needs of new entities, particularly widespread in our country, which deal with voluntary activities and other charitable, cultural, sports and recreational activities, including non-profit activities, has also increased, specifically tailored to real needs.

6. Damage to crops due to adverse weather conditions: new agriculture-related products regard specific crops, such as quality grapes or fodder production that is assessed and monitored through an innovative remote-sensing method using satellite technologies.

7. In the life insurance sector, the trends observed in the reference period concern:

- ✓ the significant drop (around 36%) in the number of new products launched compared with the first half of 2018;
- ✓ the incidence of new individual products and collective plans remained stable;
- ✓ the recovery, for individual plans, of the offer of with-profit policies, concurrently with a slow down in the growth of hybrid products and the stability of unit linked policies that in the past had registered up-and-down results;
- ✓ the absence of any offer of new insurance PIR.

More detailed information is provided below on the individual phenomena found.

1. DIGITALISATION

Companies are now competing in the field of digitalization which has an impact on both internal processes and external communication channels. In order to automate internal processes, significant financial investments are made to revise business plans and to implement new or more efficient platforms. Technology plays a key role in the operating plans of companies wishing to offer technologically advanced products that meet the need for temporary and on-demand insurance coverage and that are in line with the web and mobile functions currently available to a wide range of users.

Significant investments have been made to implement deep changes which have led to developments in technological architecture and to major impact on working methods. Software methods are acquired, so-called technological enablers, capable of working as a single team that: breaks down projects into “blocks” that can be rapidly developed in sequence; defines subsequent developments; tests and releases the developed components into production more rapidly.

Process automation makes it possible to quickly delegate all standard operations to automatic systems and to employ more time and resources in higher value added activities at the customer's service.

Reviewing and developing the operating model makes it possible to create better products and services that quickly adapt to customers' changing needs, to deal with new skills and to offer customers advice and higher quality relational channels.

2. MODULAR PRODUCTS

The new modular and flexible products regard guarantees combined with third-party motor liability, sustainable mobility and digital living, household liability, property risks, and natural catastrophes.

2.1 GUARANTEES COMBINED WITH THIRD-PARTY MOTOR LIABILITY

To respond to the needs of the growing number of people who travel every day using various means of transport (on foot or by bike, car, public transport, plane or sea), some insurance companies offer, in one single payment and combined with traditional third-party motor liability insurance, coverage to protect the driver, pedestrian, cyclist or person using public transport, against injury or liability for damage to third parties.

2.2 SUSTAINABLE MOBILITY AND DIGITAL LIFE

In consideration of green-mobility and sharing-economy trends, a new policy offers three different guarantees, either individually or combined: sharing (for accidents that occur on shared or rented vehicles, whether cars, bicycles or scooters), bike (for damage caused to third parties by the customer and/or family members using bicycles, whether personal or under a sharing or rental agreement) and cyber (providing legal support to customers and their families in the event of online reputational damage, identity theft and disputes with online stores).

The product is part of a strategy aimed at innovating traditional insurance offers. It proposes **micro-policies** especially designed for young people to bring them closer to the culture of protection, starting from small risks and offering them simple and easily accessible insurance solutions given their low cost.

2.3 HOUSEHOLD LIABILITY

A third-party liability policy (this main cover is always included) can be combined with guarantees against risks relating to household management, either owned or rented, and to legal support in the event of cyberbullying and employment issues. A telephone help service is also available that gives information about regulations and opinions useful for asserting one's rights. The policyholder is free to opt in or out the optional guarantees and services, on a monthly basis and without penalties, to terminate the contract at any time (again on a monthly basis) and to adapt it to his/her needs.

2.4 HOUSE-RELATED RISKS AND NATURAL CATASTROPHES

The range of products offering protection against catastrophes such as earthquakes, floods and flooding, often specifically aimed at condominiums, has been improved with a product for small buildings (up to 8 housing units). In addition to covering damage to property, psychological help to condominium residents is provided, if the earthquake or flood leads to them not being able to use their home, to serious and very serious personal injury or to death.

In the event of damage to buildings for an amount not exceeding a certain threshold, a service for the direct repair of the damage by specialised technicians is also included, free of charge.

3. CYBER

In the cyber sector, the insurance offer includes two new policies against the risks of aggression and improper conduct on the Internet, one addressing families for protection against cyberbullying, and the other for professionals and companies protecting them against computer attacks.

The first provides a prevention and protection system against the appropriation of sensitive data and monitors violent and improper behaviour on the Internet. Among other things, the policies offer a service including a programme with an algorithm for protection of digital profiles that can be accessed free of charge. The reimbursement of medical, legal and psychological help costs for post-traumatic stress in the event of aggression and support to assert one's rights as injured parties are also included.

The second protects the work of entrepreneurs or professionals from cyber risks, raising the threshold of cyber security against possible fraudulent actions. The product responds to the need to seek protection against hacking attacks (fraud, theft of data and information) that can seriously damage a company's business. The policy offers two distinct levels of coverage: liability to protect the policyholder's assets for damage to third parties (information and privacy security) and multimedia and advertising activities (discrediting of products, commercial defamation, etc.); protection of the policyholder's assets for direct damage associated with investigation costs, losses for failure to protect data, cyber extortion, services for the management of privacy breaches (IT experts, legal services, crisis management costs, etc.).

4. HEALTH

The recognition of premium discounts based on the size of the insured group is the feature of a new policy that covers health-related events and envisages extension of the guarantees not only to family members, but also to third parties, regardless of whether they are family members or cohabitate.

Another new aspect concerns the issue of policies that include specific guarantees for policyholders who exceed the normally insurable age limit of 70.

During the first half of the year under observation, a new platform offering health services to customers in combination with insurance covers was launched.

5. ASSOCIATIONS

This is a highly dynamic and vital sector that, in our country too, moves ideas and people. Products are created dedicated to voluntary activities or other social and recreational activities.

Specific solutions are offered to the charity and non-profit sectors (voluntary and social promotion associations, social cooperatives operating in the social, educational and welfare sectors, foundations, the world of the disabled, etc.) with coverage that, in compliance with the obligations under framework law no. 266/91 on volunteering, provides: accident and illness guarantees, protecting both the Associations and their volunteers while performing activities on behalf of the Associations; third-party liability guarantees for the protection of assets.

Other multi-risk, third-sector policies provide tailor-made guarantees for the various activities carried out within sports, social and recreational associations (music bands, theatre companies, guided tours, etc.), voluntary services, child services (nurseries, recreation centres, child care, etc.) and for temporary risks (public events, competitions, festivals, trade fairs, conferences, concerts, etc.). Within each target, the policy can be customised based on the coverage chosen that best suits the specific needs. The main guarantees however include indemnities against injury or illness, third-party liability and legal protection.

6. DAMAGE TO CROPS DUE TO ADVERSE WEATHER CONDITIONS

New insurance offers covering risks relating to agricultural activities protect specific crops with the help, in one case, of innovative technological systems using satellite technologies.

A policy has been launched to protect quality grapes, which complies with the characteristics of a single wine production specification. The company intends to develop similar policies specifically designed for the characteristics of grapes from different areas of origin.

These guarantees address the economic effects of damage due to adverse weather conditions on different production phases. They evolve over the course of the season at an equal pace with the growth of the bunches of grapes on the vines, and are calibrated on the peculiar features of the local area and on the phenological phases that are characteristic of the varieties considered.

The first parametric policy has also been launched to protect farms that cultivate pastures, grasslands and meadows for the production of fodder from the loss of productivity due to climatic risks, such as drought, floods and storms, which have been growing steadily in recent years.

The product is based on an innovative remote sensing method developed together with a world leader in satellite technologies which uses images from space to evaluate and monitor the production of fodder in Italy. Following observation, the system calculates any loss of productivity and activates a simplified compensation mode,

which provides automatic compensation, without the need for an expert appraisal or requests from the customer.

It differs from other parametric policies available on the Italian agricultural insurance market because it does not use ground-based weather stations and climatic parameters (such as millimetres of rain or temperature) to which a compensation value is connected. Instead, thanks to the satellite system, it monitors the actual growth of crops and indexes it to a standard value in respect of which compensation is calculated if there is a loss in yield.

7. LIFE BUSINESS PERFORMANCE

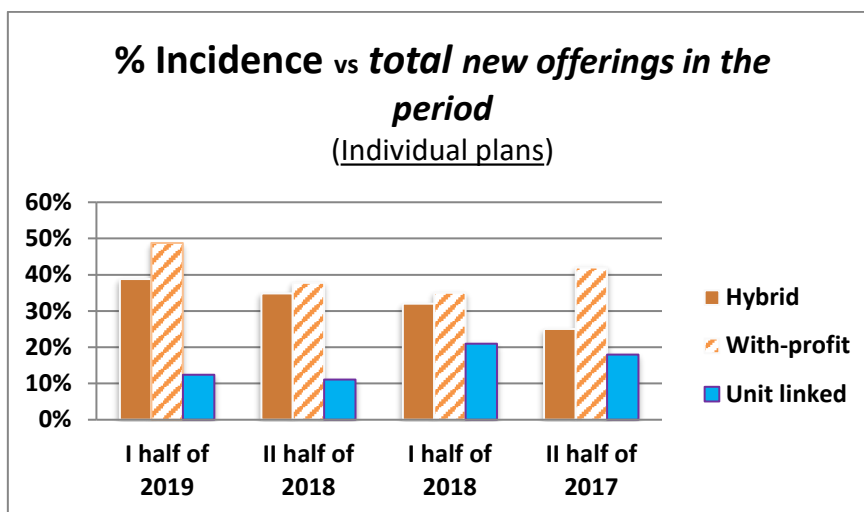
The life business performance in the first half of 2019 reported a significant drop (around 36%) in the number of new products launched compared with the first half of 2018.

Based on the systematic communications² containing the main technical characteristics of newly marketed life products entered into the IVASS database in the first half of 2019, 243 new products were recorded³, equally divided between individual and collective plans.

As regards only individual plans (121), despite a slow down in the promotion of new products with respect to the second semester 2018 (135), in the first six months of 2019 there was a recovery in with-profit policies, in contrast with the fall recorded in 2018. The growth in hybrid products (namely those products resulting from the combination between class I with-profit products and class III unit-linked products) is less significant than in the previous semesters. Unit linked products proved to be stable after up-and-down results.

² The analyses refer to aggregate data on the number of new products offered by companies without any reference to premium income. Data may not tally due to approximations resulting from the reclassification of underlying tariffs that may not always be clear in their application to each product.

³ The analyses refer to aggregate data on the number of products without any reference to premium income.



In the first six months of 2019 no communication was received concerning new insurance PIR [Individual Saving Plan] products, which already in the second half of 2018 had reported a sharp drop.

With regard to the life product structure, if we observe the main types of **individual** tariffs the following can be deduced:

- ✓ with-profit, hybrid and unit-linked products, in around 82% of the cases they are characterised by a **single premium** with a percentage of the **loading**, applied to the premiums, that generally does not exceed 5% (in line with the previous half year) and, in with-profit policies, is often equal to zero; fixed amounts, in terms of costs, are separately present and vary according to the type of tariff.
- ✓ as regards with-profit policies, indirect loading is always applied through withholdings from the revenue obtained from separately managed accounts (normally ranging from a minimum of 0.8% to a maximum of 1.5%) and management fees are also applied on the unit component, normally not exceeding 3%;

- ✓ similarly to the previous half year periods, with profit products provide, almost exclusively (about 80%), **minimum guaranteed** rates equal to **0%**⁴, with a coverage structure generally with an annual average return at maturity and sometimes dependent on an annual consolidation mechanism;
- ✓ as a final update compared to the 2nd semester of 2018, note that, following the amendments introduced by IVASS Order no. 68 of 14 February 2018 on separately managed accounts for with-profit life policies, as at 30 June 2019 the companies that have made use of the option to set up a profit fund to which benefits associated with new products can be linked are 7, including the 4 already identified in the previous survey.

⁴ In the rest of the cases concerning capital redemption contracts, annual average guaranteed rates of return at maturity equal to 0.01%, 0.02%, 0.1% and 0.15% were observed. Maximum guaranteed amounts of 1% and annual consolidation were also observed.