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MARKET CONDUCT SUPERVISION DIRECTORATE

PRODUCT SUPERVISION DIVISION

## *REPORT*

# *ANALYSIS OF TRENDS IN THE SUPPLY OF INSURANCE PRODUCTS*

*(January- June 2020)*



October 2020

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## ***Introduction and overview***

The analysis of the trends in the supply of insurance products in the first six months of 2020 refers, as usual, to the new insurance products launched by insurance companies in the observation period, and is aimed to provide an overview of current trends.

The analysis has been focused on the **number** of new products introduced into the market, regardless of their commercial success and of the level of premium income associated with them. In this six-month period, new initiatives undertaken by the market in terms of organisation and processes have also been identified in response to the requirements and issues emerging following the emergency linked to COVID-19.

For the non-life sector, information has been taken from “open sources” (e.g. daily press reviews, portals, websites of the individual companies and communications received directly from companies).

For the Life sector, the information is obtained mainly from the database fed by the so - called “*systematic notification*” of the technical bases of life tariffs; moreover, for the first time, in the case of insurance-based investment products (IBIPs)<sup>1</sup> the data used include also those contained in the KID (*Key Information Document*), the precontractual information documents that undertakings are required to provide to potential customers before the contract is concluded.

In the non-life sector, the insurance offer in the first half of 2020 slowed considerably as a result of the COVID-19 pandemic and the products and initiatives offered by the insurance market were aimed more at handling customer protection and company business continuity requirements in the phase of recovering from the lockdown period than developing new products.

➤ **Again in this six-month period, the key word was “digitalisation”.**

Within a scenario of rapid and deep social and economic change driven by the health emergency, the insurance industry was forced to quickly reorganise its operations from a digital perspective as well. Agency processes were overhauled with the introduction of new

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<sup>1</sup> Under the current European legislation, this is the acronym for insurance-based investment products which include with-profit policies, unit-linked and hybrid products. IVASS, for the supervision on IBIPs, has been using a software for the collection, monitoring and updating of the information contained in the KIDs.

simplified procedures to support remote operations during the underwriting phase (digital signature, OTP<sup>2</sup>, issue of accident, health and term life insurance policies without a required medical visit<sup>3</sup>) and for the payment of premiums via dedicated websites and apps, as well as in the management of claims (e.g., with remote video appraisals for motor, property and liability damages), privileging the settlement of claims on the basis of documentation and using supporting apps and chatbots to open the claim.

➤ **There have been multiple consumer protection initiatives in response to COVID-19**, regarding various products, particularly in the motor, health, professional third-party liability, travel, SME policies and also the life sector: the details of these initiatives are provided in par. 2.

➤ **New non-life products and initiatives not related to COVID-19.**

As regards new products and initiatives not directly connected to the health emergency, as anticipated, there has been a strong market slowdown. Only a few new products were marketed in the Mobility, Home, Health and Cyber Risk sectors, and a couple research initiatives were launched linked to mobility, one from the digital perspective and the other from the social perspective.

➤ **LIFE BUSINESS**

- ✓ In the first half of 2020 undertakings continued to offer mainly hybrid products (namely those products resulting from the combination between class I with-profit products and class III unit-linked products) and with-profit products, both falling within the broad category of IBIPs. Among the new individual products observed (144), there are 50 hybrid products (they were 40 at end-2019) and 49 with-profit policies (44 at end-2019). A recovery in Individual Savings Plans (PIR) has been seen, with 4 insurance companies launching 5 new products, 3 hybrid and 2 unit-linked products.
- ✓ The average holding period for the investment related to the new IBIPs is approximately **7 years**.
- ✓ With regard to **costs, in IBIPs products** they had an impact which in some cases is very high and potentially critical in terms of profitability for customers. Indeed, the

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<sup>2</sup> The acronym “OTP” stands for “One Time Password”, which is a password consisting of codes generated “as required” by dedicated software, which guarantees security as it is valid for a single access session or for one transaction only.

<sup>3</sup> In order to avoid travel by potential policyholders and limit contagion, in order to take out policies customers were asked to remotely complete a medical history questionnaire.

expected reduction in percentage terms of annual policy yields due to costs<sup>4</sup> - expressed by the Reduction in Yield (RIY) synthetic indicator specified in the KIDs - highlights, for a non-negligible share of hybrid and unit-linked products (equal to around 30% of the cases for both types<sup>5</sup>) average indicator values exceeding 2.5% up to 3.5%<sup>6</sup>. The least costly products are with-profit policies, in which roughly 60% of the new offers have an average RIY of less than 1.8%.

The high level of costs recorded for some products will be studied more in depth by IVASS.

## **1. Digital transformation**

The COVID-19 emergency accelerated the digital transformation process already under way in the insurance sector, requiring combined technological and organisational innovation. For companies, it has become a priority to review their business models, by adopting innovative, flexible and personalised models based on remote payment systems, as well as settlement models, through remote claims management, all made possible by cloud technology.

Even more widespread, especially in the Health sector, is the use of chatbots, which use artificial intelligence to create interactive and conversational experiences with customers through text messages (Facebook, Messenger, etc.). These are software solutions designed to simulate a human conversation. A chatbot can help customers to better understand policy conditions, speed up the opening of a claim settlement procedure, avoiding long telephone waits for customers and, therefore, simplify settlement processes and reduce claim management timing.

Machine learning technology is increasingly used by companies in calculating rates as well. A recent technological solution born in the UK market and ready to be tested in the Italian market is Vehicle Build: this is a system which evaluates the characteristics of Advanced Driver Assist Systems (ADAS) developed specifically for the motor sector, which can provide support to companies in determining prices and underwriting policies, making it

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<sup>4</sup> Including one-off costs (such as entry costs), recurrent costs (such as management commissions) or ancillary costs (such as performance fees).

<sup>5</sup> Equal to 15 products out of 49 for hybrid products sampled, and to 6 products out of 20 for unit linked sampled, respectively.

<sup>6</sup> In unit-linked, another 3 products show values exceeding 3.5% and under 4% and in further 3 cases the average values are even higher, up to a maximum of 4.24%.

possible to establish differences in the risk profile associated with vehicles that have specific safety features.

## **2. Initiatives for COVID -19: products and services**

### ***2.1 Motor liability***

The insurance industry has undertaken a range of initiatives in favour of customers who, due to the lockdown on circulation ordered by the government, were unable to use insured vehicles even though they had duly paid their premiums.

Many companies provided customers with vouchers and discounts to be applied when their motor third-party liability policy was renewed. In certain cases, the vouchers may also be used to purchase coverage other than motor third-party liability such as to purchase health policies.

Several companies also postponed the expiry of the insurance coverage period.

In general, additional extensions of the grace period were granted compared to that established in the “Cura Italia” Decree.

IVASS has initiated a specific investigation to better assess the nature and scale of these initiatives and measure the economic advantages for policyholders; the results will be presented in the Report for the second semester 2020.

### ***2.2 Health***

In this sector, some companies have recognised extensions - when not already established - of coverage in the case of a pandemic, eliminated the contractual waiting period<sup>7</sup> and considered the quarantine period to be equivalent to hospitalisation. Other initiatives regarded temporary extensions of the default period (up to 60 days); suspension of debt collection activities and the notification of injunctions; non application of deductibles and recourses envisaged by the contract; increase in the maximum amounts of cover; extension beyond 90 days of coverage for the reimbursement of medical expenses and, in certain cases, free, retroactive improvement in Daily Benefits and Reimbursement of Medical Expense from hospitalisation coverages, with increases in the amounts of daily

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<sup>7</sup> The “waiting period” is the period of time between the date on which the policy is entered into and the effective start of the guarantee.

benefits and the recognition of lump-sum compensation higher than what is established in contractual conditions; telephone service providing information and assistance on COVID-19, free phone or video call consultation. In certain cases, the coverage extensions were established in favour of relatives infected by the virus, with the doubling of daily benefits and allowance in the case of hospitalisation in a public facility. In one case, a “COVID-19” policy was offered free of charge to holders of Motor or Non-Life policies expired or expiring in the months of March, April and May 2020.

### *2.3 Professional indemnity insurance*

Considering the exposure to the virus of specific professional groups (such as medical professionals), companies have worked to reinforce and extend guarantees relating to professional third-party liability policies to support hospitals.

In particular, three companies provided favourable premium conditions for professional third-party liability policies to recent graduate doctors and retired doctors who responded to the extraordinary calls to provide aid to hospitals during the COVID-19 emergency. One of them, for policies already in the portfolio referring to doctors or doctors in training who until the end of the emergency also worked in areas not connected to their specialisation, provided the possibility to extend the guarantee also to invasive surgery and activities performed in the Emergency Room with no additional premium (in partial derogation of policy conditions).

### *2.4 Travel*

In the travel sector, companies adopted a range of initiatives to meet the needs of customers who saw their organised trips cancelled during the lockdown or who were already travelling and contracted the virus abroad.

Specifically, one company made a voucher available to customers to be used in the course of a 12-month period, with a value equal to the entire premium paid for the medical expense reimbursement and cancellation policy, also bearing taxes and duties, while other companies repaid the premium paid in full.

A number of companies revised existing products; one company, for example, developed a new optional module combined with a travel policy which extends the coverage period of all assistance and medical expense reimbursement guarantees, with the provision of a series of guarantees for the inconveniences caused by COVID-19, including assistance

and return home in the case of a crisis situation due to the virus, the reimbursement of higher costs incurred for forced overnight stay in the case of a health lockdown in the selected destination or in the departure location, advances for basic living expenses, coverage of medical expenses, as well as compensation in the case of hospitalisation due to COVID-19, if contracted during the vacation or in the 15 days after returning. On the other hand, another company included new guarantees, free of charge, in travel policies (a daily allowance in the case of hospitalisation up to ten days and convalescence compensation in the case of hospitalisation in intensive care due to COVID-19, reimbursement of expenses for diagnostic investigations performed after testing positive for COVID-19, the “trip cancellation” guarantee due to testing positive for COVID-19, psychological support service in the case of hospitalisation). Many companies eliminated the “pandemic and natural disaster” exclusion from their products.

## *2.5 Aids to small and medium-sized enterprises*

The insurance market responded with a range of proposals to meet the business continuity requirements of small and medium-sized enterprises in the period of recovering from the lockdown and to guarantee protection to the employees of corporate customers. These include free extensions of the coverage period or the application of the guarantee, even in the case of quarantine at home after being infected with COVID-19 for existing policies, periods of free coverage when the policies are renewed or subsidised rates on multi-year policies and free general medical consultation.

In certain cases, specific compensation was also recognised to employees of corporate customers (for example, daily allowance of 100 euros per day starting from the eighth day for a maximum of 1,000 euros when the eighteenth day is reached in the case of hospitalisation due to COVID-19, convalescence compensation of 4,000 euros after discharge from the intensive care unit, personal assistance and services). Additional initiatives offered to customers holding business protection policies regarded: the simplification of procedures for the reimbursement of premiums paid and not used due to early loan repayment, surrenders beyond 30 days with acceptance of self-certifications and IDs expired during the lockdown period, aside from the suspension of premiums for certain categories of customers and the extension of the duration of mortgages and loans.



## *2.6 Life assurance policies*

In the life sector, aside from launching specific monitoring on investment products, also worthy of note is the COVID-19 initiative of one company which, considering the high financial market volatility as a result of the pandemic, re-opened the placement of with-profit policies and increased the share of the premium that could be invested in the with-profit component of a hybrid Accumulation Plan.

The companies of another insurance Group established that loans on policies, when set forth in the contractual conditions, would be granted with a zero interest rate and in certain cases, the possibility of surrender with no penalties was recognised in the case of customer hospitalisation due to the pandemic. For contracts with an investment component, a videoconferencing service was also activated to respond to any queries on the market situation.

## **3. New non-life products and initiatives not related to COVID-19**

As noted previously, there were few new non-life products launched during the six-month period since the needs linked to the COVID-19 epidemic catalysed market attention. Amongst the various initiatives, several in the Mobility, Home, Health and Cyber Risk sectors are described below.

### *3.1 Mobility*

To meet new mobility requirements, companies have developed some initiatives dedicated to people on the move.

One company, taking into account the changes that have taken place in the mobility resumption phase, which favoured travel by bicycle and scooter, proposed to customers purchasing a motor third-party liability policy two new guarantees to cover damages caused to third parties in daily life irrespective of the use of a car, including damage deriving from the use of a bicycle (even with bike sharing), and damage caused while travelling in a car shared with other people. The coverage also includes damages caused by pets or deriving from the use of the principal residence or a vacation rental property.

A new modular solution dedicated specifically to motorcyclists was offered by another company. Aside from protecting both the motorcycle and the biker, the product offers a broad range of services and benefits dedicated to people on the move.

It is also worth mentioning the initiative of one company that enables customers to have access to health prevention under subsidised conditions, through discounts for visits and exams, which are combined with benefits for vehicle safety (prevention with vehicle check-up). All customers of agencies in which the centres specified by the company are found may have a discount voucher and extend it to their relatives as well as to five friends.

Some initiatives linked to mobility adopted by insurance undertakings which are unrelated to the offer of insurance products include:

- a) the offer of a special pair of glasses (anti-crash) tested by a company as part of a project in partnership with a University, which when they are put on help to control stress and remain concentrated while driving by monitoring brain activity and feedback in real time on the level of concentration and stress;
- b) the birth of a new observatory which aims to explore and investigate the world of mobility and, more generally, the associated social changes. The observatory based on proprietary data flows is dedicated to a different topic every month.

### 3.2 *Home*

During the six-month period, a new modular solution was launched, designed to protect not only the home and its contents, but also the family and pets from the inconveniences of family life. The product includes three areas of coverage (Tenant, Borrower and Owner) with specific guarantees, each completely independent of the other, so as to be able to build tailor-made coverage and provide a specific response to everyone's needs.

### 3.3 *Health*

One company offered the market a new flexible and modular health policy which allows the policyholder to have a preventive and continuous approach, combining the possibility to keep both health and physical activity under control through an IoT device, free for those who purchase the policy by 31 December 2020. This is a health policy which combines the reimbursement of medical expenses with a prevention plan consisting of an initial check-up and a voluntary health maintenance programme: a series of preventive and personalised checks to support the policyholder.

### 3.4 Cyber risk

One company operating in the legal expenses insurance sector launched the first insurance service in the market defending the online reputation of businesses and entrepreneurs. The company decided to rely on a start-up committed to combatting online piracy and managing web reputations, which has developed an application based on proprietary technology that can eliminate the majority of harmful and defamatory content, such as unauthorised photos and videos, dated news, false pages and profiles on social networks, etc. All of this is deindexed from search engines and the false profiles are closed. Rather than guaranteeing mere compensation for expenses incurred, the company takes concrete action in favour of the policyholder by providing direct access to the app's services.

## 4. Trends in the Life sector

In the first half of 2020 **144 new individual products** were detected, compared to 105 recorded at end December 2019 (as at 30 June 2019 new products were 121).

Companies continued to offer mainly hybrid products (namely those products resulting from the combination between class I with-profit products and class III unit-linked products) and with-profit products, both falling within the broad category of IBIPs. A recovery in Individual Savings Plans (PIR) has been seen, with 4 insurance companies launching 5 new products, 3 hybrid and 2 unit-linked products. There are 50 new hybrid products (they were 40 at end-2019), 49 new with-profit policies (44 at end-2019) and 22 new unit linked products (5 at end-2019).

With regard to the categories of products other than IBIPs, 23 new products were detected, including 18 term life insurance policies (9 during the previous six-month period). Finally, 3 new Long Term Care products<sup>8</sup> were launched.

The following table shows in detail the number of new individual products launched in the last two semesters and, below, the percentage distribution of the new products offered in the first six months of 2020.

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<sup>8</sup> In the table, under "Other", there are 2 pure risk insurance products linked to mortgages and loans (insurance policies referable to PIP - Payment Protection Insurance).

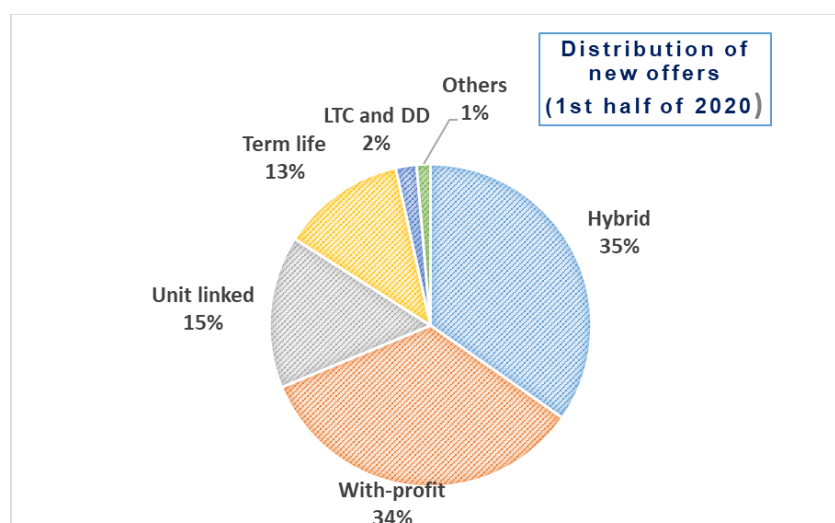
New IBIPs	1st half of 2020	2nd half of 2019
Hybrid	50	40
With-profit	49	44
Unit linked	22	5
	<b>121</b>	<b>89</b>

New Products - Other types	1st half of 2020	2nd half of 2019
Term life insurance	18	9
Long Term Care /Dread Disease	3	1
Others	2	6

<b>TOTAL new products</b>	<b>144</b>	<b>105</b>
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### ➤ IBIPs

Of the 144 new products observed, 121 are IBIPs, mainly hybrid and with profit products.

The analysis of the KID shows that the average holding period for these products<sup>9</sup> is approximately **7 years**. More in detail, for hybrid products it is approximately 7.5 years, for unit-linked products it is 7 years and for with profit policies it is around 6 years.

In relation to costs, compared to the previous Reports showing the analysis of the trends in the supply of insurance products, it was considered more appropriate to take into

<sup>9</sup> The indicators for the RHP (*recommended holding period*) reported in the KID have been taken as reference: they indicate the number of years companies recommend to hold the investment relating to each product.

account the measure that is currently indicated in the KIDs, that is the synthetic indicator *Reduction in yield* (RIY) defined by the regulations on PRIIPs.

In previous reports, separate evidence was provided of the costs weighing on premiums by way of loading and indirect costs, such as the minimums withheld on the yields of with-profit policies (percentage rates to be applied to the results obtained from segregate funds) from the perspective of tariff rather than product. In our opinion the indicator (**RIY**) can best represent, in a concise way, all the costs applied to the product. This measure expresses the expected reduction in the annual return on investment as a result of the costs applied to the product, including one-off costs (such as entry costs), recurrent costs (such as management commissions) or ancillary costs (such as performance fees). The higher the value of the RIY, the higher the level of the costs that are applied to the product and that reduce the investment performance.

Given the above, for each product observed the **average between the minimum and the maximum value of the reported RIY**<sup>10</sup> has been considered. This analysis has shown that:

- around 31% of new **hybrid** products record an average RIY included in the range (2.5%, 3.5%)<sup>11</sup>;
- in the case of **unit linked** products, the percentage of those having an average RIY included in the range (2.5%, 3.5%)<sup>12</sup> is in line with that recorded for hybrid products (around 30%) although the number of products observed is smaller<sup>13</sup>;
- **with profit policies** are less costly, with 60% of the new products having an average RIY lower than 1.8%.

We point out that only 2 unit-linked products and 4 hybrid products have recorded average values for the RIY below 2%.

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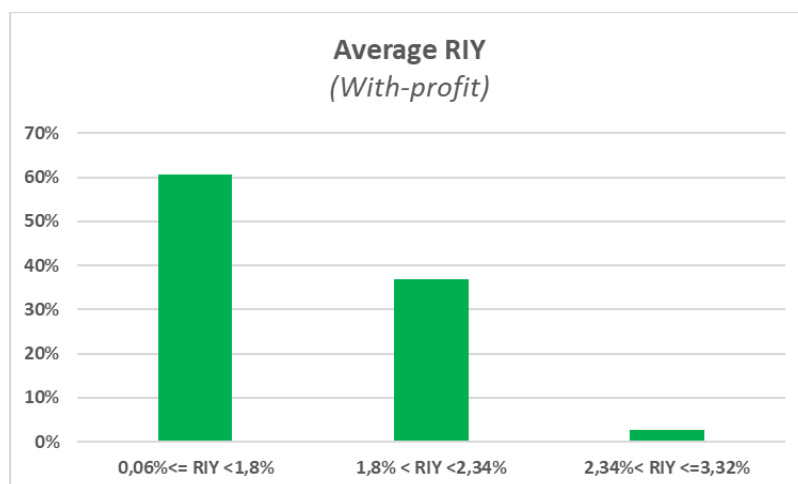
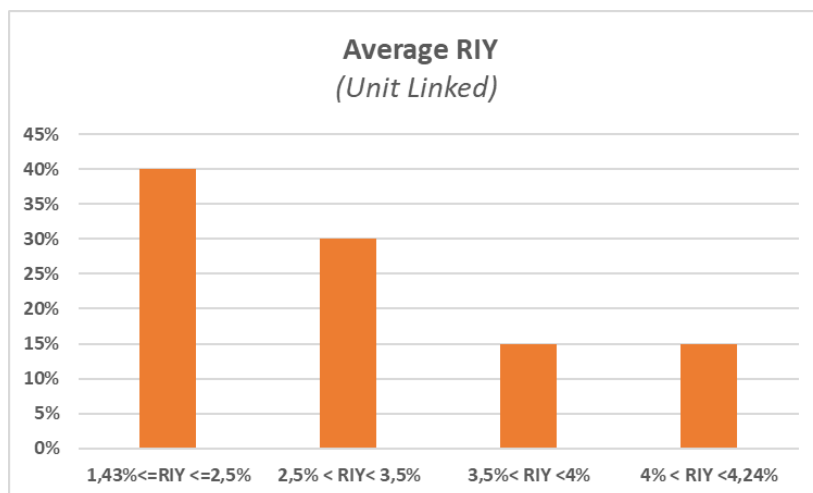
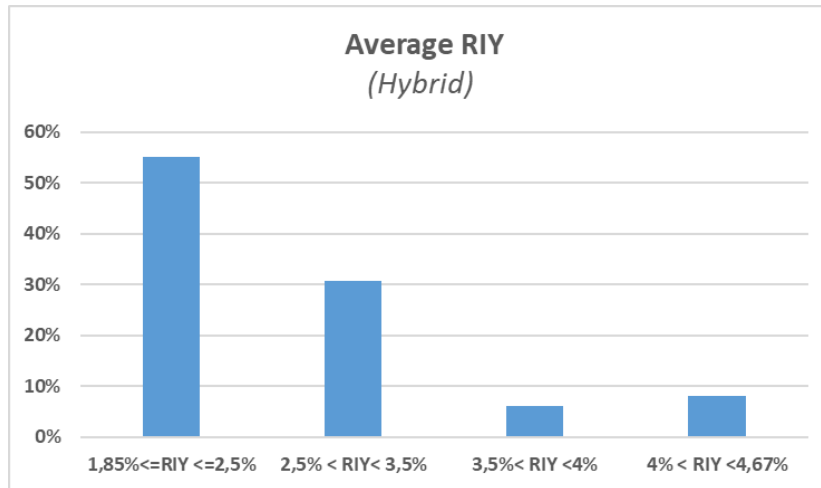
<sup>10</sup> IBIPs are not always characterized by a single investment option in investment funds and/or segregate fund; more often hybrid and unit-linked products have underlying assets which include a number, sometimes even a high number, of internal funds or UCITS.

<sup>11</sup> The extremes of the interval are to be considered excluded.

<sup>12</sup> The extremes of the interval are to be considered excluded.

<sup>13</sup> Equal respectively to 15 products out of 49 for hybrid products, and to 6 products out of 20 for *unit linked*.

As can be seen in the charts below, **unit-linked and hybrid products** recorded in some cases **very high average cost levels** (last bar on the right of the bar graph which shows costs higher than 4%).



The particularly high levels of costs raise perplexity concerning a possible disparity between the yield or profit expected for policyholders and the risk of loss in relation to the investment made.

➤ *Long Term Care insurance*

Given the traditionally limited widespread within the Italian market of long-term care insurance products for policyholders or a family member, undertakings cyclically place ad hoc insurance solutions on the market, as was the case in the first six months of 2020.

During the six-month period, 3 **Long Term Care (LTC)** products were introduced into the market, including an insurance solution which, in addition to the annuity or one-off capital benefits provided in the case of loss of self-sufficiency, provides integrated 24 hour assistance service which includes a care manager and the development of an at-home assistance plan with the presence of a caregiver.