IVASS
ISTITUTO PER LA VIGILANZA SULLE ASSICURAZIONI

MARKET CONDUCT SUPERVISION DIRECTORATE

PRODUCT SUPERVISION DIVISION

September 2021

INDEX

Introduction and overview

The analysis of the trends in the supply of insurance products in the first half of 2021 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, regardless of the commercial success of these products[1]and of the level of premium income associated with them.

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, apart from the database fed by the so - called “systematic notifications” of the technical bases of life tariffs, also from the KIDs (Key Information Document).

In **non-life insurance**, new offers are often characterized by the use of digital technologies, as is now customary. The pay-per-use model, which until now has been used mainly in the mobility sector, is also being extended to the Home sector. The offers of various types of coverages included in the **modular** products continue.

The analysis of the trends in the supply in the first half of 2021 has highlighted the following:

1. Digital: thanks to the use of technology, other innovative products have been developed, enriched with entirely digital instruments, which tend to offer greater security to customers, and make the underwriting and settlement processes of companies more efficient.

2. Health: in order to meet prevention needs, products tend to be enhanced by a range of assistance services and customizable multi-risk policies are offered, which can also be purchased on e-commerce platforms. In addition, coverage has been developed to provide protection against possible reactions to Covid-19 vaccines and for doctors administering the vaccines, free extensions of the daily allowance and Medical Expense Reimbursement guarantee in the event of Covid-19, as well as the free Health Card, which gives access to a network of affiliated facilities at reduced rates.

[1] The analysis does not take into account the volume of premiums written for each product, which is not available, but only the number of new products launched in the semester.

3. Mobility: in the automotive sector, the offer is increasingly aimed at a "connected" car and entirely digital policies with customizable guarantees are being developed. Several partnerships were entered into in the first half of the year, especially in the motor liability and electric mobility sectors. New initiatives have been targeted at customers to offer savings on policy premiums, discounts on guarantees of choice and digital services for in-car safety.

4. Home: the first pay-per-use policy was launched on the market, characterized by the modularity of the premium based on the actual use of the home. Traditional home policies continue to be offered with cyber and catastrophe coverage. Products have been developed that reward environmental sustainability through rebates or coverage to encourage the use of the ecobonus.

5. SME: in support of small and medium-sized trade businesses, a fully digital policy has been launched to protect business, people, assets and data, as well as a new third-party liability product for directors, statutory auditors, managers and the company itself, in the event of disputes by employees. There were also plenty of initiatives in favour of the hotel and tourism sector, also valid in the event of Covid-19 contagion, and of "green" companies.

6. *Cyber*: companies continue to focus on cyber risk. A policy has been launched that also provides coverage for damage caused by "presumed" cyber attacks, and provides protection for the company if it is held civilly liable to third parties; a multi-risk, modular policy was also offered for companies and professional firms, providing cover against financial losses, third-party liability and legal protection as a result of cyber attacks.

In the first half of 2021, the trends in **life business** (individual policies) have shown:

- ✓ companies have increasingly designed and offered hybrid products (namely those products resulting from the combination between class I with-profit products and class III unit-linked products), with a slow down in the promotion of with-profit products. Among the new individual products observed (140), there are in fact 70 hybrid products (they were 41 in the second half of 2020) and 27 with-profit policies (30 in the second half of 2020); the new unit linked products were 21 (17 in the second half of 2020); the other types of insurance products (Term life insurance, different types of pension plans and Long Term Care) were 22, 3 of which LTC. No new individual savings plans (PIR) were launched, interrupting the slight recovery recorded in the previous half-year (3 new offers);

- ✓ the recommended **average holding period** for the investment related to the new IBIPs has remained almost unchanged and is approximately **7 years**;
- ✓ with regard to **costs for IBIPs**, the expected reduction in percentage terms of annual policy yields due to costs[2] – expressed by the Reduction in Yield (RIY) synthetic indicator specified in the KID – is, in some cases related to hybrid and unit-linked products, still high. For both hybrid and unit-linked products, the values for the RIY of the underlying financial options[3] generally range between **2%** and **4%**[4]; specifically, in around 43% of cases, RIY values are greater than or equal to **3%** and less than **4%**, although there was a smaller number of products for unit-linked than for hybrid products[5]. RIY values greater than or equal to **4%** were recorded in around 25% and 7% of hybrid and unit-linked products, respectively. The least costly products are with-profit policies, with a RIY generally ranging between **1%** and **2%**;
- ✓ for 8 new products, one with-profit and 7 hybrid, 2 companies made use of a profit fund to which they could link the benefits[6] on the basis of the changes introduced by IVASS Order no. 68 of 14 February 2018 on segregate funds relating to with profit life policies.

1. New Non-life Products

1.1 Digital

The insurance industry is increasingly turning to the use of artificial intelligence, forging partnerships with technology providers and start-ups both to streamline its processes and to create new products enriched with assistance and security services.

[2] Including one-off costs (such as entry costs), recurrent costs (such as management commissions) or ancillary costs (such as performance fees).
[3] Reference is made to the various underlying investment options. IBIPs, especially hybrid and unit-linked products, often have a number of internal funds or UCITS and/or separately managed accounts as possible underlyers. These are those products generally known as Mop (multi-option products), which are different from single-option products, known as Sop (single-option products) in which there is a single combination of investment in investment fund(s) and/or separately managed accounts to which the class III (unit-linked) and/or class I (with-profit) elements are tied. As to those products for which, when drafting the KID, reference was made directly to the KIIDs of the UCITS funds, as an option permitted by European legislation, the information contained in the general KID was used.
[4] With regard to both hybrid products and unit linked products, around 90% of the options underlying the IBIPs sampled for these types of products fall within this range (84 in total).
[5] 21 unit linked products compared to 61 hybrid products sampled.
[6] In the case of hybrid products, the reference is to the class I component in which the premiums are invested and on which the part of the benefit linked to the results achieved by the segregate fund depends.

In the first half of the year, a company partnered with a leading global provider of digital solutions to streamline and speed up the underwriting process for life protection policies (no need for a medical examination even in the event of contract renewal); another has launched a service that allows estimating the damage of a car accident by taking pictures of the vehicle with a smartphone and uploading the images to a dedicated app.

A company has launched a new car product with real-time technological operation structured in two solutions, which differ in the technologies used and the services offered. One formula includes the installation on the vehicle windscreen of a box equipped with a speaker phone and an emergency button to be contacted by the assistance centre in case of need; while the other has a box to be installed in a hidden point of the vehicle, which, if the car is moved with the engine off, automatically triggers the anti-theft system, activating satellite tracking of the vehicle.

Another company offers a telematic device which, via a hands-free dashboard connected via Bluetooth, automatically activates the Emergency-Call services, following an accident reported by the box, even if the driver does not respond to the call from the operations centre.

An integrated virtual health assistant, which can be activated from a mobile or desktop device via messaging platforms such as WhatsApp or Telegram, has been devised by a company, with an artificial intelligence-based self-service guidance system and a chat to get immediate medical consultation and 24/7 medical remote consultation.

1.2 Health

The offer of **modular** products and customizable multi-risk policies continues, enriched by assistance services that take into account the increasingly felt need for prevention.

A **modular** product built to meet the needs of prevention, diagnosis, treatment and convalescence has been launched, which is also active in the event of epidemics and pandemics. By accessing the dedicated web portal, policyholders can create a prevention path, interacting with a qualified figure, a "Wellbeing Coach", and can also take advantage of remote consultation or video-consultation with a doctor, affiliated facilities, specialist visits, diagnostic examinations at reduced rates, therapeutic and rehabilitation treatments and a personal trainer. There is a daily allowance in case of hospitalization and reimbursements for hospitalization without surgery or for outpatient surgery. In the event of a serious illness, policyholders receive a lump sum to cope with all the consequences of the illness (e.g. to adapt the home to the new state of health, to have a carer provide continuous and long-term care, etc.) and psychological telephone counselling. The guarantees also include legal protection in cases of medical malpractice.

Other companies have offered flexible multi-risk policies that can be customized to suit lifestyles against serious accidents in private and professional life, providing assistance 24/7 and complete protection for policyholders and their family at all times (hospitalization, post-hospitalization and convalescence, home and remote assistance with qualified personnel).

Companies have developed policies to protect policyholders and doctors who administer the Covid-19 vaccine, and have devised a number of initiatives to benefit customers. Among these:

- ✓ a company has launched a new policy, offering a daily allowance in the event of an adverse reaction to the vaccine with or without hospitalization and an allowance/indemnity for hospitalization due to Covid-19 contagion for those already vaccinated;
- ✓ a company has offered all its customers a free policy to protect them against complications that may arise within 30 days of the administration of the Covid-19 vaccine (provided that the adverse reaction is such as to compromise the person's normal activities), which pays a daily allowance for each day of illness and hospitalization;
- ✓ another company has temporarily extended the free extension of the daily allowance and Medical Expense Reimbursement guarantees for hospitalization for all customers who have certain health policies containing these guarantees and who are under 70 years of age, doubling the daily allowance for hospitalization indicated in the policy for each day of intensive care, up to a maximum of 21 days and, in the case of home isolation, recognizing a lump sum indemnity of 1,000 euro;
- ✓ a company has offered, in collaboration with the National Federation of the Orders of Surgeons and Dentists, a special policy designed to protect doctors involved in the administration of vaccines against Covid-19. The coverage also includes an option to extend the guarantee to events that may be reported in the ten years following the expiry of the policy (posthumous guarantee).

An insurance group has provided its policyholders with a Health Card that gives them access to a network of 4,000 affiliated facilities in Italy, with discounts on services and on visits and examinations.

Another company has activated a new service on its portal dedicated to health that directs users towards the best Italian healthcare facility on the basis of their specific health needs, identified on the basis of a performance index of facilities, drawn up using data from the Ministry of Health.

1.3 Mobility

Several partnerships and initiatives in favour of automotive customers were launched during the half-year, particularly in the electric mobility sector.

A policy that can be purchased exclusively online allows a target group of customers to choose from a range of customizable guarantees or predefined packages, benefiting from a discounted price compared with the sum of the premiums for the individual guarantees.

The new coverage offered by another company is instead aimed at a different target group of customers. It covers serious accidents occurring outside the home, while travelling on local public transport, bicycles, e-bikes, scooters, taxis or while walking. The customizable, 100% digital solution, activated in a few simple taps, provides comprehensive assistance on medical transportation and reimbursement of medical expenses.

One company has enhanced its offering to provide assistance to EV drivers in the event of battery failure, by making it easy to locate compatible charging stations available near the vehicle, with customer support via an operator until the charging station is reached. The same company has also entered into several partnerships to automatically provide liability coverage and assistance to subscribers to electric scooters and motorbikes.

One company has launched an insurance package that combines motorway comprehensive cover with technological services provided by a personalized electronic toll collection device; this is an additional guarantee of the motor liability policy, which provides coverage in the event of collision and accidental damage and includes a series of services.

1.4 Home

An ever-evolving sector is that of home policies where the insurance industry, in addition to offering traditional policies, has developed products that reward environmental sustainability through discounts or coverage to encourage recourse to the ecobonus and innovative pay-per-use policies that make extensive use of new technological solutions.

Among these, a multi-risk policy has been launched by a company to offer a full range of tailored solutions to safeguard (including from catastrophic events) the home owned, rented or to be rented and its contents, the family and the risks associated with unprotected web browsing and to provide protection for pets, as well as various assistance benefits. The policy integrates certain technologies to detect, by means of smart sensors, anomalies such as the presence of gas, smoke or the early stages of flooding. The product uses an app to manage emergencies that communicates with home automation devices even in the event of a power failure.

Another home insurance formula has been launched to protect those who have carried out energy efficiency and seismic risk reduction work, taking advantage of the ecobonus, with transfer of the tax credit to the company. The customer of the work is protected in case of non-recovery of the credit or disputes due to irregularities in the requirements. The package consists of a guarantee that reimburses the financial losses suffered as a result of the exercise of the action of recourse by the Revenue Agency and legal protection coverage for disputes against technicians responsible for certificates and sworn statements.

One company presented the first pay-per-use technology option designed as part of a home policy, with traditional home, family and pet guarantees. The option allows managing your monthly premium based on the actual presence inside the home of people connected to the home through a digital device. When purchasing the policy, the customer is provided with a micro-box for monitoring the home (temperature, power supply, presence in the home). The company, depending on the time actually spent in the accommodation, will reimburse a portion of the premium paid each month. Moreover, by connecting the device to a dedicated app, the customer can receive, through a push notification on the smartphone, alerts on events that may occur in the house. The solution is complemented by a selected network of craftsmen and service providers who can be contacted in case of need.

Another company has developed an insurance solution dedicated to the protection of the contents of the home (e.g. protection for damage caused to property inside the premises by fire and explosion) and to the protection against civil liability for administering the home. The product is completed by assistance services that in case of emergency ensure the prompt intervention of a specialist (electrician, plumber and gas technician) and legal protection.

1.5 Small and medium-sized enterprises

In the half-year, the insurance offer dedicated to small and medium-sized companies was mainly aimed at providing support to activities put to the test by the economic crisis due to the Covid-19 pandemic. There were also plenty of initiatives in favour of "green" companies and the hotel and tourism sector.

A company has launched a modular solution, 100% digital, dedicated to supporting micro-businesses in commerce, which protects activities, people, assets and data and provides small business owners with consulting, prevention and assistance services, from protection for "home delivery" to emergency intervention for business interruption, from cyber security for e-commerce to the restoration of digital archives and legal protection.

A new liability product for directors, auditors, managers and the company has been offered by a company to provide protection to people in the company who hold managerial roles from claims against them arising from an unlawful act committed during the performance of their duties. The policy provides coverage for liability arising out of employment relationships as an optional guarantee even in the event of an employee's claim for mental suffering.

In order to meet the new needs of travellers, one company has launched an insurance programme dedicated to hotels and their customers, which aims to guarantee guests a safe and secure stay. The offer includes different coverage solutions that are compatible with each other: cancellation of the reservation, 24-hour medical assistance with the reimbursement of medical expenses and the protection of the stay with reimbursement in case of extension or early interruption of the stay at the hotel. These guarantees also apply in the event of Covid-19 contagion.

A digital policy has been offered to some energy communities in the 100% renewable electricity sector, in order to provide increasingly digitalized and tailor-made services. The group policy provides support for the payment of renewable electricity bills up to 900 euro, in the event of occupational and non-occupational accidents, illness or loss of employment.

1.6 Cyber risk

The attention of insurance companies for Cyber risk remains high. New products were developed during the half-year.

A company has launched a policy for companies that covers damage caused by cyber attacks, even if "presumed", and that protects the financial solidity of the company when it is held civilly liable to third parties.

Another company has developed a policy to protect businesses and professional firms from cyber attacks. This is a multi-risk policy, with annual duration but with the possibility of monthly payment, which can be adapted to the needs and characteristics of the company being insured.

2. LIFE BUSINESS PERFORMANCE

2.1 Trends in individual products

In the first half of 2021 **140** new individual products were recorded, compared to 106 recorded in the previous six months, substantially in line with the new offers observed in the same six-month period of 2020 (144 new products).

The new policies designed and offered by insurance companies are now mainly hybrid products and fewer and fewer new with profit products are being developed.

70 new hybrid products were recorded (41 in the second half of 2020), as well as **27** new with-profit products (they were 30 in the second half of 2020) and **21** new unit-linked products (they were 17 in the second half of 2020), all falling within the broad category of IBIPs which in total amount to 118.

There was a setback in the launch of individual savings plans (PIR), which in 2020 had shown weak signs of recovery.

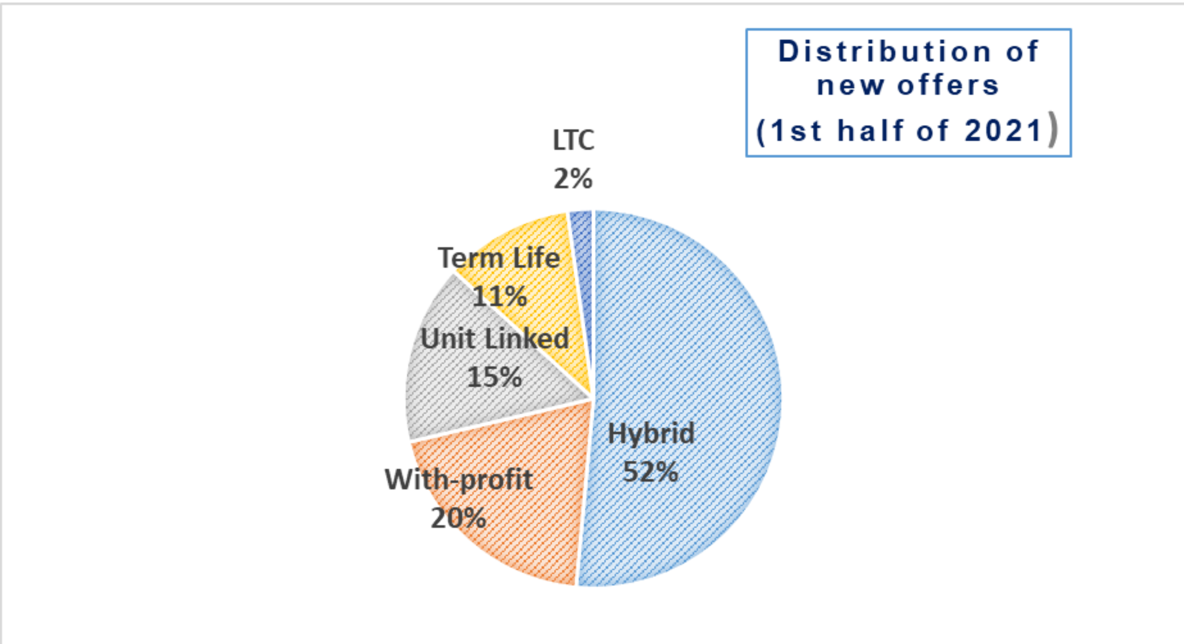
With regard to the categories of products other than IBIPs, 22 new products were recorded, including 15 term life insurance policies (16 during the previous six-month period). Among the new products offered there are 4 new products with purely pension purposes, 3 individual pension plans (PIP) and 1 class VI open pension fund, in addition to 3 new stand alone Long Term Care (LTC) products (2 in the previous six months).

The table below shows in detail the number of new **individual** products launched in the last two semesters.

New IBIPs	1st half of 2021	2nd half of 2020
Hybrid	70	41
With-profit	27	30
Unit Linked	21	17
total IBIPs	**118**	**88**

New Products - Other types	1st half of 2021	2nd half of 2020
Term Life Insurance	15	16
Long Term Care /Dread Desease	3	2
Others	4	0
TOTAL New Products	**140**	**106**

The following table shows the percentage distribution of the new products offered in the first six months of 2021 and the significant share of hybrid products, accounting for 52% (39% in the second semester of 2020), compared to the percentage weight of with profit products (20% against 28% in the second semester of 2020) and of unit linked products (15% against 16% in the second semester of 2020).



2.2 Focus on IBIPs

As mentioned above, out of the 140 new products observed, **118** are IBIPs.

The analysis of the KID shows that the average recommended holding period for these products[7] (so-called RHP) is approximately **7 years**[8], a value which is essentially in line with the new products recorded in the previous six months. More in detail, for hybrid products it is approximately 7 years, for unit-linked products it is 6 years and for with profit policies it is around 6.4 years.

Going into details, hybrid products are mainly concentrated in the RHP range of more than 5 years and less than or equal to 10 years (around 70% of the products), while unit linked products essentially have a RHP with a shorter time horizon, i.e. with periods of less than or equal to 5 years (around 74%). Finally, for with profit products, they are mainly characterised by a RHP of 4, 5 and 10 years.

In relation to **costs**, account was taken of the synthetic indicator Reduction in yield (**RIY**[9]) defined by the regulations on PRIIPs, which is the reference measure reported in the KID[10].

The RIY value of the various underlying investment options was considered for each product. The analysis confirms that, in some cases of unit linked and hybrid products, the values are very high, raising doubts about the profitability of the products for customers purchasing these options.

For both <u>hybrid</u> and <u>unit-linked</u> products, the values for the RIY of the underlying financial options generally range between **2%** and **4%**; 90% of the options underlying the sampled IBIPs fall within this range. In around 43% of the cases, the values for the RIY of the underlying options range between **3%** and **4%**.[11]

RIY values greater than or equal to **4%** were recorded in around 25% and 7% of cases in hybrid and unit-linked products, respectively. The least costly products are with-profit policies, in which roughly 90% of the new offers have a RIY ranging between **1%** and **2**%.

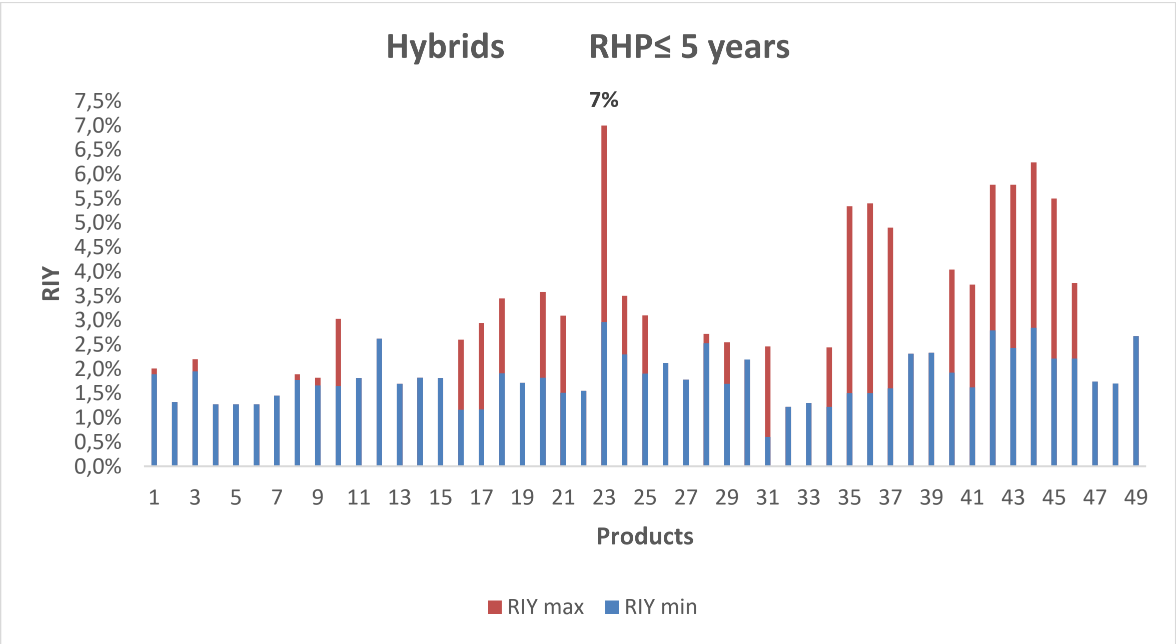
[7] The indicators for the RHP (*recommended holding period*) reported in the KID have been taken as reference: they indicate the number of years companies recommend to hold the investment relating to each product.
[8] The weighted average is 6.73 years and is calculated over nearly 90% of the sampled IBIPs.
[9] This measure expresses the expected reduction, in percentage terms, 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.
[10] This measure was introduced for the first time in the analysis of the trends in the supply of life assurance products in the Report relating to the first six months of 2020. More in detail, 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 separately managed accounts) from the perspective of rates more than product.
[11] although related only to 21 unit-linked products compared to 61 hybrid products sampled.

More in detail, for:

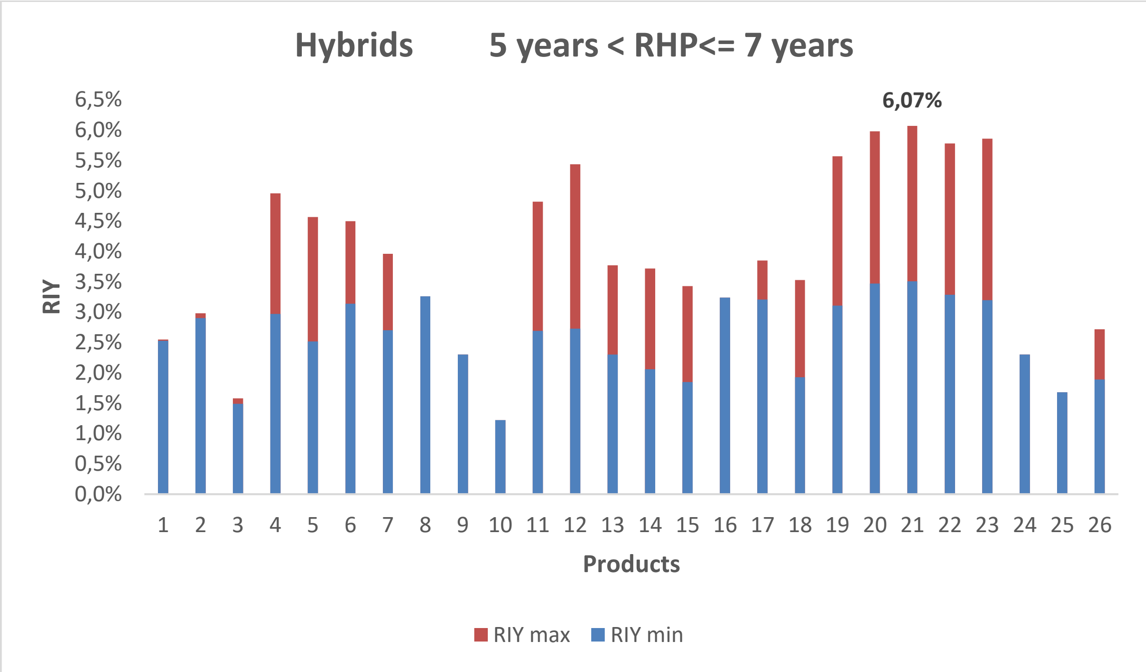
- **hybrid products**, the values for the RIY for each investment option are, in around 24% of the cases, included in the range [**2%; <3%**], in around 44% of the cases [**3%;<4%**] and, in approximately 25% of the cases, they **exceed 4%**. The maximum value for the RIY recorded for this type of products is 7%;
- **unit linked** products, the values for the RIY for each investment option are, in around 41% of the cases, included in the range [**2%; <3%**], in around 43% of the cases [**3%;<4%**] and, in approximately 7% of the cases, they **exceed 4%**. The maximum value for the RIY recorded for this type of products is 5.4%;
- **with-profit products,** the values for the RIY generally range, in more than 90% of the cases, between **1%** and **2**% and reach a maximum value of 2.2%.

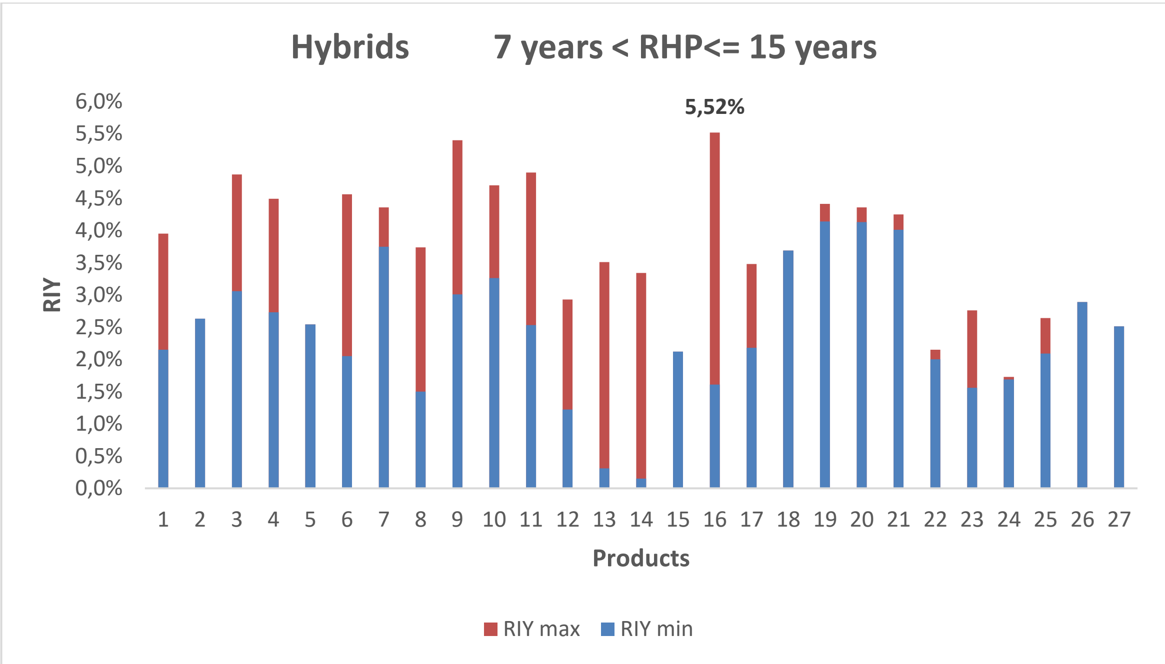
Analysis by product

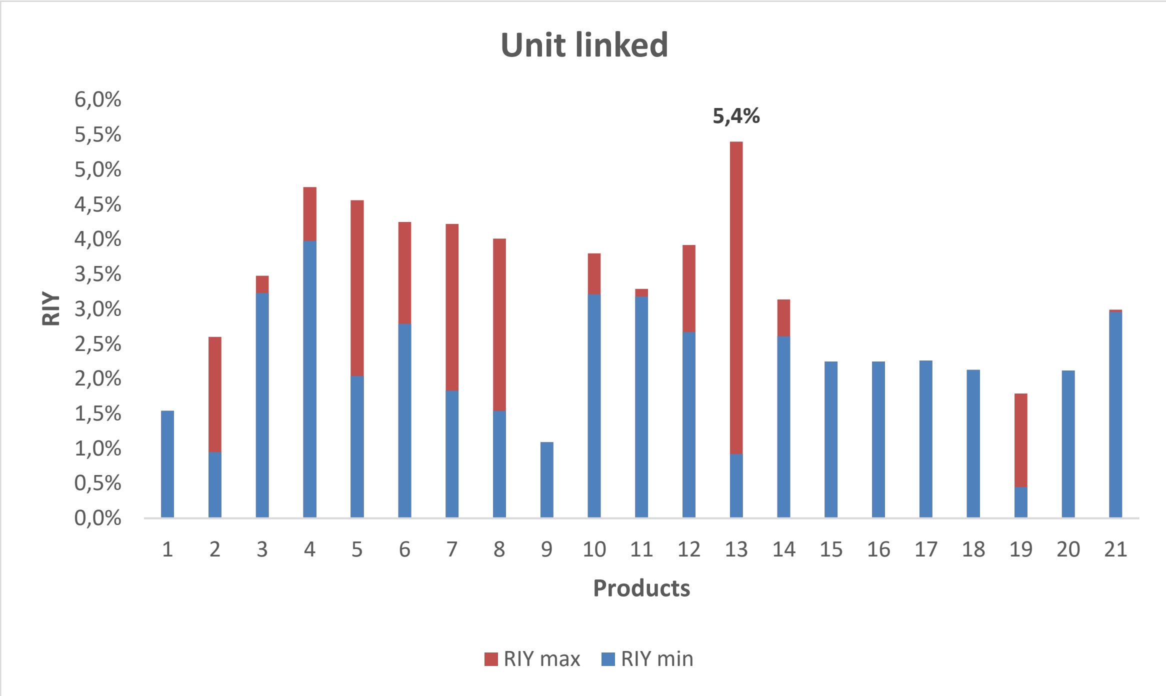
For the sake of completeness, for the three types of products mentioned above and with reference to the most significant clusters of RHP, graphs are shown that highlight the distribution of products by extent of costs expressed according to RIY values[12]:

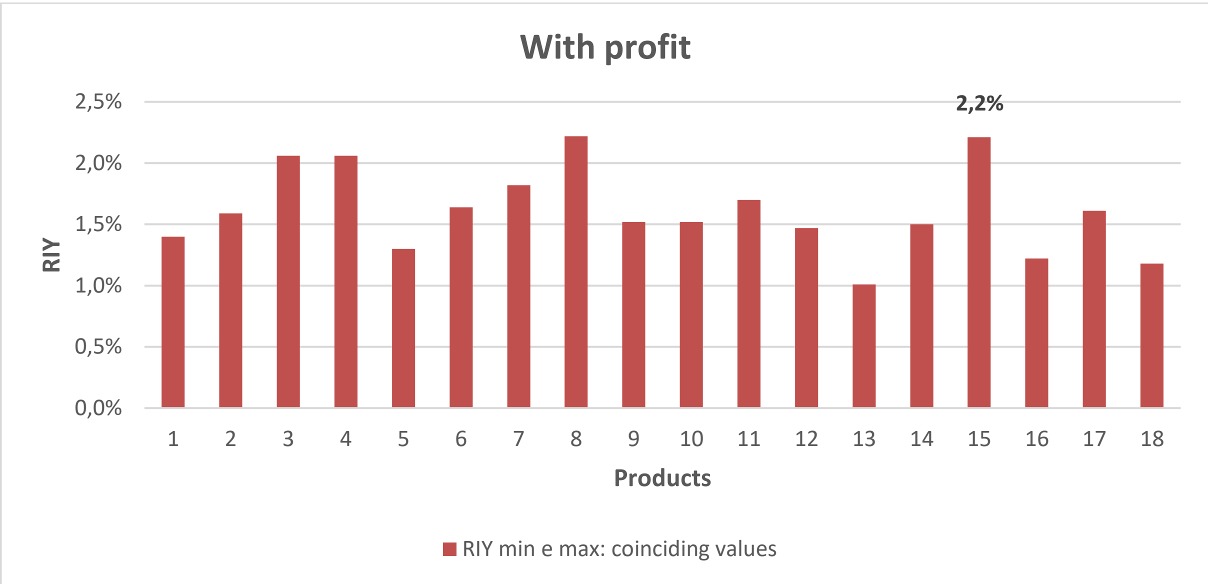


[12] Detected at RHP.


Hybrids 5 years < RHP<= 7 years
6,07%
RIY
6,5%
6,0%
5,5%
5,0%
4,5%
4,0%
3,5%
3,0%
2,5%
2,0%
1,5%
1,0%
0,5%
0,0%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26
Products
RIY max
RIY min


Hybrids 7 years < RHP<= 15 years
5,52%
RIY
6,0%
5,5%
5,0%
4,5%
4,0%
3,5%
3,0%
2,5%
2,0%
1,5%
1,0%
0,5%
0,0%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27
Products
RIY max
RIY min





Additional highlights in the 1st half of 2021 include:

- with reference to 8 new products, one with-profit and 7 hybrid, 2 companies made use of a **profit fund** to which they could link the benefits[13] on the basis of the changes introduced by IVASS Order no. 68 of 14 February 2018 on segregate funds relating to with profit life policies;

[13] In the case of hybrid products, the reference is to the class I component in which the premiums are invested and on which the part of the benefit linked to the results achieved by the segregate fund depends.

- the trend continued to grow of companies resorting to investment selection and management criteria regarding **sustainable finance** in terms of environmental, social and governance (ESG) factors adopted in hybrid and unit-linked products;
- 3 hybrid products, launched by a company, provide benefits linked to two different types of investment, which are subsequent to each other, defining two distinct contractual phases. In the first phase (lasting approximately 6 months), the benefits are contractually guaranteed by the company through the investment in **specific assets**[14], offering a predetermined return attributed on the 1st day of the second contractual phase. In the second phase, benefits are linked to an investment in an internal fund;
- in hybrid products and sometimes in unit-linked products, there are several cases[15] where there are mechanisms of **gradual reallocation and automatic rebalancing** of investments deriving from the premiums flowing into the separate management and those relating to the internal funds/UCITS, implemented by companies in order to keep the risk profile of the portfolio within a certain range.

[14] Policies with specific assets are insurance products whereby companies pay back to policyholders a large portion of the coupons relating to a bond (or a portfolio of bonds).
[15] There are 6 companies that use them within the new hybrid products recorded in the 1st half of 2021.