COURTESY TRANSLATION

(*only the Italian version is authentic*)

IVASS
ISTITUTO PER LA VIGILANZA
SULLE ASSICURAZIONI

MARKET CONDUCT SUPERVISION DIRECTORATE

PRODUCT SUPERVISION DIVISION

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IVASS
ISTITUTO PER LA VIGILANZA SULLE ASSICURAZIONI

INDEX

Introduction and overview

The analysis of the trends in the supply of insurance products in the second half 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, regardless of their commercial success.[1] The analysis also takes into account other initiatives, of various kinds, addressed to customers by insurance companies.

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 from undertakings). 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*), the precontractual information documents that undertakings are required to provide to potential customers before the insurance-based investment contract is concluded (IBIPs)[2].

In **non-life insurance**, the main business areas where the insurance industry is exploring new, tailor-made and modular solutions, often with digital connotations, continue to be mobility, health, home and cyber ones.

In the second half of 2020 the following was noted:

- **Digital:** with the non-life sector still under insured, undertakings are looking to increase their offerings through products that are increasingly integrated with various types of services, including digitalised ones. One of the biggest innovations is the launch on the market of a digital surety policy based on **blockchain** technology to cover the implementation of remediation works.
- **Mobility:** the insurance market has long been oriented towards creating an ecosystem of services in which the company proposes to cover all the customer's needs in the field of mobility (from the purchase of the car to its sale, vehicle repairs or payment of fines or

[1] The analysis does not take into account the amount of premiums written for each product, which is not available, but only the number of new products launched in the semester.
[2] 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.

motorway tolls); in this area, the new insurance offers identified involved on-demand policies. New products were offered for alternative forms of mobility to assist people in all their movements by car, motorbike and bicycle, but also on urban transport or on foot. Several partnerships based on digital data integration have been established between insurance companies and leaders in the automotive sector with the aim of developing innovative services and products.

- **Health:** this sector has also been increasingly penetrated by insurtech. The new insurance products offered do not only cover traditional accident and health risks, but are aimed at providing the policyholder - also through the use of artificial intelligence techniques - tools to prevent and monitor their personal health and assistance for the entire family through a wide range of services. Accident and health policies are also offered in conjunction with public utilities and increasingly as part of **modular** products that offer protection not only to the individual, but also to their goods and pets. Remote medical care, home delivery of medicines and many other care services are now common.
- **Household:** the insurance models offered on the market are now often **modular** and tailor-made and enriched with additional coverages, such as for environmental damage. The range of offers dedicated to cover against natural events has expanded.
- **Pets:** the recurring inclusion of pet coverages in **modular** household products is maintained; however, a specific product exclusively dedicated to the care and protection of dogs and cats was identified.
- **SME:** the insurance market has come up with new, **modular** multi-coverage policies that, for example, also provide protection in the event of compensation due as a result of environmental damage and specific coverage for specific categories (hotels and non-hotel facilities, the Retail and Farming sectors, and the food industry). New initiatives included early payment of invoices to suppliers and a new business risk assessment service that allows risk managers to generate multi-risk assessments of a company's various locations.
- **Cyber risk:** the need for cyber risk coverage is increasingly felt by businesses and households, especially following the exponential growth of cyber attacks in 2020, accentuated by the pandemic and the rise of smart working, and the spread of cyberbullying. The insurance market has taken action by offering new solutions that support customers in keeping their identity under control on the web, for example by partnering with leading malware and cybercrime companies or by supporting Foundations that deal with these issues.

➢ **Specific coverage related to the 110% Superbonus:** some undertakings , as well as banks, have entered the sector of the transfer of the tax credit deriving from the "110% Superbonus" incentive provided by the "Relaunch Decree". They offer liquidity to those who intend to access it or policies to cover the legal risks of professionals and technicians who issue sworn statements[3] and for the pecuniary losses to which principals are exposed.

In the second half of 2020, the trends in **life business** have shown:

- ✓ companies have continued to design and 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. Among the new individual products observed (106), there are 41 hybrid products (they were 50 in the first half of 2020) and 30 with-profit policies (49 in the first half of 2020). The launch of new Individual Savings Plans (PIR) has been seen, with 3 insurance companies launching 3 new unit-linked products. In total, 250 new life products were reported in the year 2020.
- ✓ the **average holding period** for the investment related to the new IBIPs has remained 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[4] – expressed by the Reduction in Yield (RIY) synthetic indicator specified in the KID – is, in some cases related to hybrid and unit-linked products, very high and potentially critical in terms of profitability for customers. For both categories of products, the values for the RIY of the underlying financial options generally range between **1.5%** and **4%**; however if for hybrid products around 35% of the cases[5] falls in the range [**3%**;**4%**]**,** for unit linked products this percentage reaches 40% of the cases. Unit linked products show values for the RIY **exceeding 4%** in 43% of the cases. The least costly products are with-profit policies, in which

[3] Namely architects, engineers and surveyors enrolled in a professional association or board, authorised to issue the sworn statements (certifications needed to obtain the requirements to access the tax benefits provided for under the “ecobonus” and “sismabonus”).
[4] Including one-off costs (such as entry costs), recurrent costs (such as management commissions) or ancillary costs (such as performance fees).
[5] 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.

roughly 70% of the new offers have a RIY generally ranging between **1%** and **2**%. A specific analysis of these costs is under way.

- ✓ an emerging trend is the focus on **sustainable finance** with regard to environmental, social and governance factors in the investment selection and management criteria (ESG[6]) adopted in hybrid and unit linked products. In the six-month period under review, there were 9 such products, including 2 unit linked products, launched by 6 insurance companies[7].

1. New Non-life Products

1.1 Digital

In 2020, Insurtech also gained great attention and relevance within the insurance industry.

The following were launched: a project that provides customers with a completely digital and innovative customer journey, from the signing process (with the support of a chatbot) to the management of a household policy, for example; a web app for online claim reporting that digitalises the completion of the accident statement form signed following a road accident, and an innovative training programme to improve interaction with customers, also remotely, and the commercial proposition of agency staff.

An absolutely new digital surety policy is based on **Blockchain** technology to cover the implementation of remediation works with the Municipality as beneficiary. The purpose of using this technology is to prevent the increasing phenomenon of fraud in public procurement.

1.2 Mobility

The new offering in this sector has mostly involved products with integrated solutions dedicated to new forms of mobility that cover the needs of the policyholder wherever they are and whenever they are needed.

[6] *Environmental, Social and Governance*. Investments are made in securities labelled as socially responsible investments (SRI - Sustainable and Responsible Investment), i.e those that aim to reconcile economic performance with social and environmental impact, by financing companies that contribute to sustainable development in all sectors of activity, through the integration of environmental, social and governance criteria into financial management.

[7] On 10 March 2021, EU Regulation 2019/2088 entered into force, requiring operators in the financial sector to comply with increased transparency obligations on ESG factors with the aim of providing investors with detailed and consistent information on the sustainability risks of investments and the impacts these may have on environmental sustainability.

A new mobility product puts people at the centre of all their movements (by car, motorbike, bike), providing them with assistance and the policy can be customised according to their individual habits and needs with a series of optional coverages. The basic package includes: road assistance to vehicles for private use (cars, bicycles, motorcycles and scooters); on site charging of electric cars; roadside assistance for such vehicles; personal care (including sending a physiotherapist in case of accident), liability and legal expenses coverage.

A new multi-coverage, dedicated to alternative mobility and new urban transport means, protects against accidents linked to non-professional road traffic by also covering risks linked to the use of private vehicles or public transport as a passenger and on foot (it can also be activated in the case of disability).

A partnership between an insurance company and an automotive group has been launched to offer digital services dedicated to the development of innovative services related to urban mobility in the field of Connected Insurance and the Internet of Things to all customers who own a connected car.

Other initiatives in favour of customers in the Automotive sector noted during the six-month period include: the extended possibility of interrupting motor liability coverage, the offer of additional coverage packages that combine motor liability coverage with prevention and health protection services even if you ride a bike or scooter and in the event of COVID-19 hospitalisation.

A new self-powered black box has also been launched for motorbikes, which is easy to install and immediately alerts the Operations Centre in the event of a crash.

1.3 Health

The offer in this sector has been characterised by **modular** products (which can be purchased on demand) that provide protection not only for the person, but also for their goods and pets.

New digital health service platforms were launched during the six-month period. Based on **artificial intelligence techniques**, they are able to assess symptoms by filling in a set of questions via a chat and return an initial assessment to be shared with the general doctor or specialist.

A company has launched a product that provides medical assistance by telephone to the policyholder and his/her family members 24 hours a day and, in the event of an emergency, home assistance at night and on public holidays. The coverage also offers, in the days following a hospital stay, home care by a physiotherapist, nurse, social worker, baby sitter, carer and pet sitter, home delivery of medication or groceries. The same company also launched the new integrated family protection plan, which includes three types of protection against serious illness, dependency and death. Although the individual solutions are included in a single plan, they can be activated separately depending on the life stages of the policyholder and his or her family members. A single solution can be used or they can be combined as required.

Some undertakings have offered, free of charge to all their customers, health coverage, which can sometimes be activated via an app, providing 24-hour medical and specialist video-consultation services, metabolic assessment check-ups, home delivery of medicines and numerous other assistance services, hospitalisation and post-hospitalisation indemnities in the event of a COVID-19 diagnosis.

1.4 Household

For the home sector, the offer of **modular** and tailor-made products continues, enriched with new coverages, such as coverage for environmental damage and various assistance services.

A new product enables customers to design a personalised protection programme to deal with unforeseen events in their private lives, with coverages that can also be activated via app. It offers coverage for risks ranging from property (buildings, contents, liability, natural disasters, legal protection, pets, etc.) to personal protection.

Another product covers, again on a **modular** basis, theft and fire damage to the home, its contents and third parties, and provides assistance in emergency situations involving the home (hotel bookings and expenses, early return of the policyholder, relocation due to damage, home repair with a cleaning company, recommendations of craftsmen, security guards and psychological counselling, etc.) also following catastrophic events.

A new homeowner policy has also been launched, with various coverages that can be added and removed during the course of the policy's term, and which introduces environmental damage coverage, offering liability and emergency and restoration coverage for both those insuring a detached house and those who own a flat in a condominium and may find themselves jointly and severally liable.

Finally, a protection service has been promoted in the event of claims caused by large-scale natural events, dedicated to all customers who have active natural events coverage for their home, vehicle or business activities. This service provides for customer assistance through a dedicated task force, with telephone access via toll-free number and geolocalised posts on social networks at the site of the event.

1.5 Pets

Although pet coverage is often included in modular household policies, a specific product has been launched for dogs and cats that can be activated free of charge for one month and cancelled at any time. The policy provides a range of services, such as veterinary remote medical care, home delivery of medicines and reimbursement of expenses if the pet is lost and, with a premium surcharge, reimbursement of veterinary expenses.

1.6 Small and medium-sized enterprises

In the second half of the year, the insurance industry provided small and medium-sized enterprises with multi-coverage insurance solutions, innovative risk management services and advance payments to suppliers.

A multi-coverage policy has been marketed to insure commercial, craft and service businesses with up to 10 employees, which combines traditional coverages to protect the company's assets and employees with emergency assistance services and coverage for environmental damage.

A further multi-coverage insurance formula, which concerns companies with up to 50 employees, offers insurance with target-specific solutions, protection for fire, other damage to property, theft and robbery, windows, electronics, third-party liability, product liability, assistance, income support. The policy can be customised with a range of ancillary coverage and services tailored to the specific needs of the customer's business (artisans, traders, Firms and agencies). A specific option is dedicated to buildings used as shelters, housing communities for people in need, hospitals, nursing homes, retirement homes, social and care facilities, etc.

A further multi-risk product is designed for hotels, residences, hostels, B&Bs and farm holiday centres, and includes six different types of coverage that can be combined, legal protection and a comprehensive assistance service, which includes assistance in the event of theft or robbery of customers' luggage and reimbursement of expenses for tourist services not used due to accident or illness.

With regard to the Food sector, a customisable solution was introduced that offers specific support at all stages of production, covering risks related to the food sector, while - with regard to the insurance solutions previously marketed - a company offered three additional months free of charge on new policies dedicated to SMEs, a discount of up to 20% and the possibility of starting to pay the premium from the 4th month.

Finally, an insurance group has launched a new risk assessment service that allows corporate risk managers to carry out multi-risk assessments of a company's various locations to better understand specific exposures and take targeted action to manage and transfer risk.

1.7 Cyber risk

Businesses and households are increasingly concerned about the need for security against computer fraud, e-mail scams (so-called “phishing”), theft of personal data and credentials (including company credentials), access of various kinds that can be sold on the web and “monetised” in the long term, and cyberbullying (especially of minors).

A company offered a new solution to provide cyber security and keep track of one's identity on the web through a platform, allowing customers who want to track their personal data to monitor them on the public web, as well as on the deep and dark web. In the event of a violation, you will be notified immediately by an e-mail or a text message.

A new Cyber insurance package that can be activated through an app or at the agency has been made available free of charge to holders of motor liability policies issued by a company. The coverage is valid from midnight on the day after joining and until the expiry of the motor liability policy.

Finally, a partnership between an insurance company and a leading company against malware and cybercrime led to the creation of an integrated solution whereby antivirus software and digital risk insurance coverage can be purchased together. The coverage provides expert advice and intervention in case of online reputational damage and cyberbullying, such as identity theft, unauthorised disclosure of personal data, public insults, defamation, hatred incitement, as well as protection in case of problems with online purchases, such as delivery of defective or damaged goods, non-delivery, as well as loss of or damage to goods while returning them.

1.8 Various types of coverage related to the 110% Superbonus

To boost the Italian economy and at the same time contribute to the Country's energy and seismic upgrading, Decree Law no. 34 of 19 May 2020 (the so-called “Relaunch Decree Law”), converted into Law 77 of 17 July 2020, introduced the 110% Superbonus incentive measure. This mechanism envisages the possibility to carry out energy efficiency works (Super Ecobonus) and seismic upgrading works (Super Sismabonus) taking advantage of a 110% tax deduction (with the tax credit spread over 5 years), to be applied on renovation expenses incurred from 1 July 2020 to 30 June 2022. Taxpayers are alternatively allowed to assign the tax credit to third parties (banks, insurance companies), obtaining immediate cash or to assign the credit to suppliers, carrying out the work without any monetary outlay. Several insurance companies have launched initiatives to facilitate the use of this incentive by facilitating their customers' access to the tax benefits granted to individuals and companies through the transfer of the tax credit and at the same time offering third party liability, professional liability, employer's liability, etc. policies to professionals and construction firms.

Other undertakings, on the other hand, have launched ad hoc policies on the market to cover the specific risks envisaged by the legislation: a legal protection policy dedicated to certifying technicians, to guarantee the effectiveness of the compulsory Professional Indemnity policy in relation to the activity aimed at obtaining Superbonus tax benefits for their customers; a specific professional indemnity coverage to protect professionals and technicians legally qualified to carry out “ecobonus” certifications; a policy for the protection of customers, designed to protect individuals and condominiums who have had access to the 110% Superbonus and other building bonuses for specific interventions on civil buildings in the event that the tax credit is revoked following a tax assessment (the customer is compensated for the financial loss resulting from the obligation to return the sums received and at the same time is supported by the legal protection coverage).

2. Life Business sector

2.1 Trends in individual products

In the second half of 2020 **106** new individual products were recorded, compared to 144 recorded in the previous six months; in total, **250** new products were reported in the year 2020.

Companies continued to design and 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.

41 new hybrid products were recorded (50 in the first six months of 2020), **30** with-profit products (they were 49 in the first half of 2020) and **17** new unit-linked products (they were 22 in the first half of 2020).

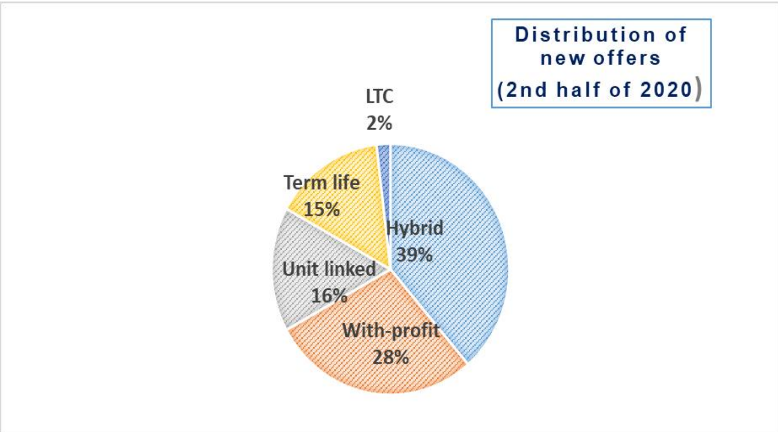
The slightrecovery in Individual Savings Plans (PIR) recorded in the first six months of 2020 (3 hybrid and 2 unit-linked products) continued in the second semester with 3 new unit-linked products being offered.

With regard to the categories of products other than IBIPs, 18 new products were recorded, including 16 term life insurance policies (18 during the previous six-month period). 2 new stand-alone Long Term Care products were launched (3 during the previous six-month period); LTC coverage was also found, in the form of complementary coverages, as part of, in one case, a death benefit product and, in another case, as a part of a hybrid product: such coverage provides for the payment of a monthly non-profit life annuity upon verification of the state of dependency.

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

Year 2020	New IBIPs	2nd half of 2020	1st half of 2020
91	**Hybrid**	41	50
79	**With-profit**	30	49
39	**Unit linked**	17	22
209		**88**	**121**
	New Products - Other types	**2nd half of 2020**	**1st half of 2020**
34	Term life insurance	16	18
5	Long Term Care /Dread Desease	2	3
2	Others	0	2
250	**TOTAL new products**	**106**	**144**

The following table shows the percentage distribution of the new products offered in the last six months of 2020, with hybrid products accounting for 39% (35% in the first semester) and with profit products for 28% (34% in the first semester).



2.2 Focus on IBIPs

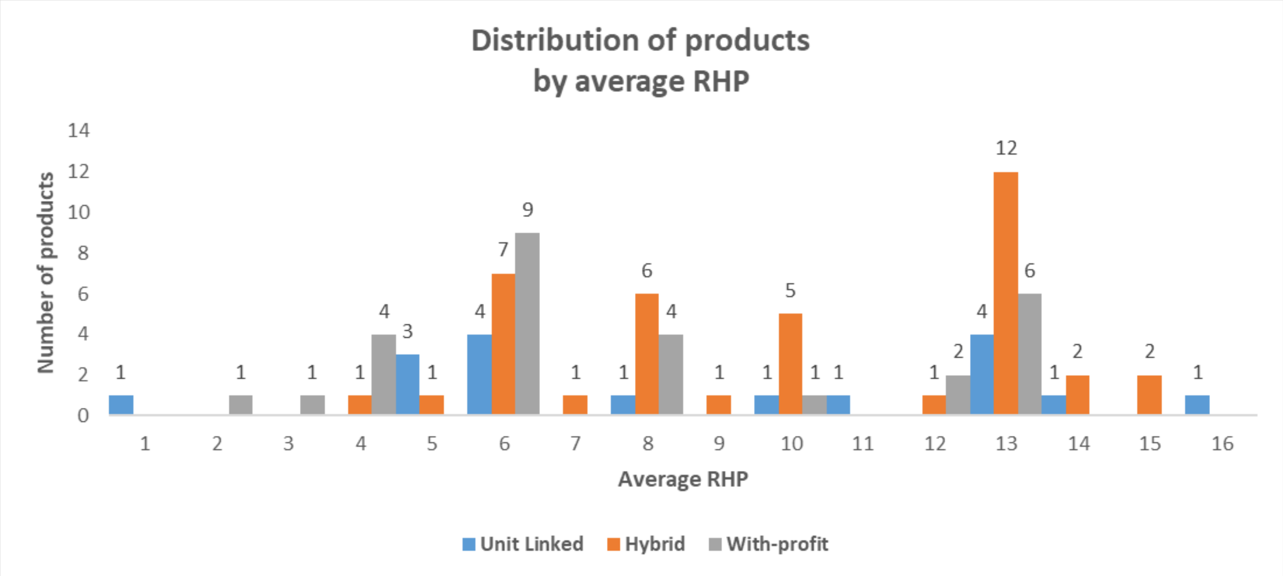
Of the 106 new products observed, **88** are IBIPs, mainly hybrid and with profit products.

The analysis of the KID shows that the average recommended holding period for these products[8] is approximately **7 years**, a value which is in line with the new products recorded in the previous six months. More in detail, for hybrid products it is approximately 7.7 years, for unit-linked products it is 7.5 years and for with profit policies it is around 6 years.

The graph below shows the distribution of products, broken down by type and by average RHP. It can be seen, in brief, that hybrid products are mainly concentrated on an average

[8] 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.

RHP of 10 years (12 products), for unit linked products on an average RHP of 5 and 10 years (8 products), and finally, for with profit products, they are mainly characterised by an average RHP of 5 and 10 years (with 9 and 6 products respectively).



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].

For the above, the RIY value of the various underlying investment options was considered for each product. The analysis shows that, in some cases for unit linked and hybrid products, the RIY values per option are very high, raising doubts about the profitability of the products for customers purchasing these options. As mentioned, a specific analysis is under way.
For both categories of products the values for the RIY of the underlying financial options generally range between **1.5%** and **4%**; however if for hybrid products around 35% of the cases[11] falls in the range [**3%**;**4%**]**,** for unit linked products this percentage reaches 40% of the cases. Unit linked products show values for the RIY **exceeding 4%** in 43% of the cases**.** The least costly products are with-profit policies, with a RIY generally ranging between **1%** and **2**%.

[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 tariffs more than product.
[11] Reference is made to the various underlying investment options.

More in detail, for:

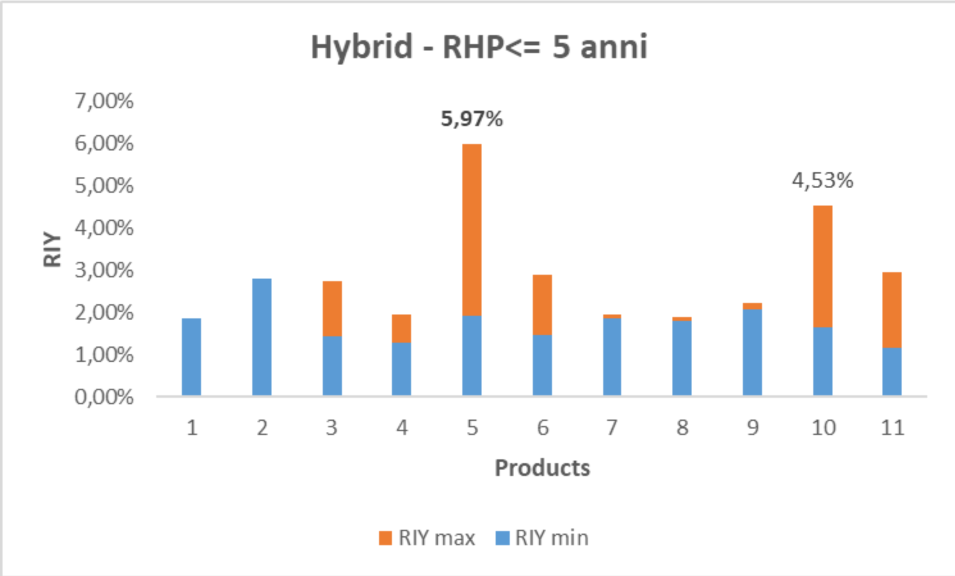
- **hybrid products**, the values for the RIY for each investment option are, in around 54% of the cases, included in the range [**1,5%; 3%**], in around 35% of the cases [>3%;4%] and, in approximately 8% of the cases, they exceed 4%. The maximum value for the RIY recorded for this type of products is 5.97%;
- **unit linked products**, the values for the RIY for each investment option are, in around 15% of the cases, included in the range [**1,5%; 3%**], in around 40% of the cases [>3%;4%] and, in approximately 43% of the cases, they exceed 4%. The maximum value for the RIY recorded for this type of products is 6.07%;
- **with-profit products,** the values for the RIY generally range, in around 70% of the cases, between **1%** and **2**% and reach a maximum value of 3.14%.

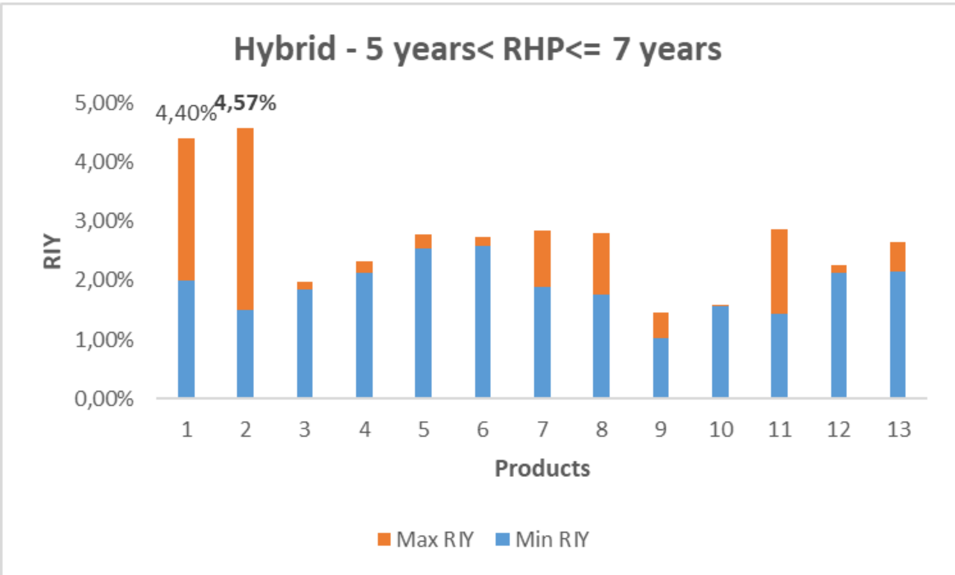
Analysis by product

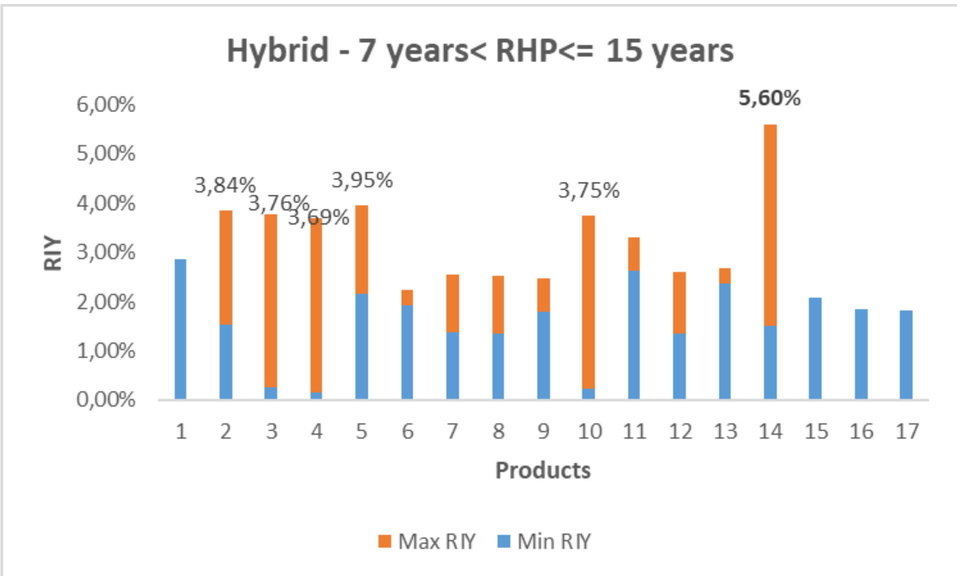
For the sake of completeness, the following graphs for the three types of IBIPs show the minimum and maximum RIY values associated with each product. Considering how the various products are broken down according to their average RHPs, it was deemed advisable to refer to clusters, which are considered to be more significant, and in particular for:

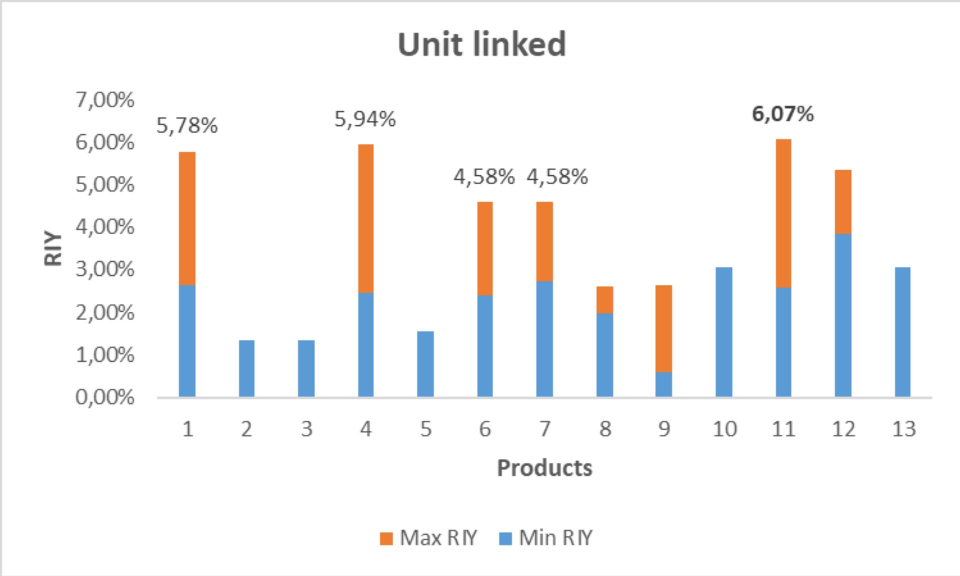
- ✓ <u>hybrid products</u>, RHP lower than or equal to 5 years; RHP included between 6 and 7 years; RHP included between 8 and 15 years;
- ✓ <u>unit linked products</u>, since data on RIY was available for only 13 products[12], no clustering was done;
- ✓ <u>with-profit products,</u> RHP included between 4 and 6 years; RHP of 10 years.

[12] For 4 products, the 2 firms marketing them have made direct reference to the KIIDs of the UCITS funds, as an option permitted by European legislation, and for which, therefore, the same level of detail of information as for the KIDs is not available

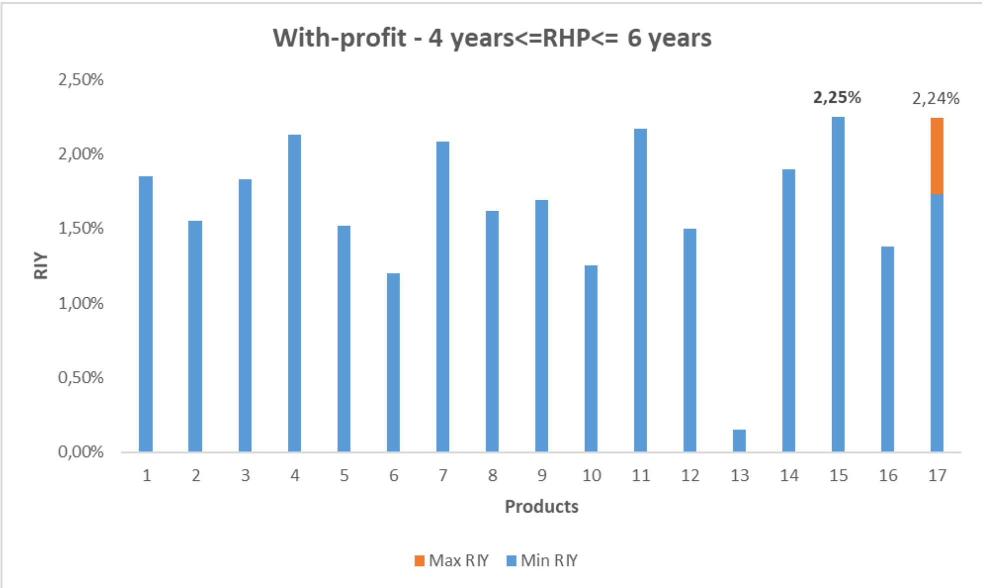

Hybrid - RHP<= 5 anni
7,00%
6,00%
5,00%
4,00%
3,00%
2,00%
1,00%
0,00%
RIY
5,97%
4,53%
1
2
3
4
5
6
7
8
9
10
11
Products
RIY max
RIY min


Hybrid - 5 years< RHP<= 7 years
5,00%
4,00%
3,00%
2,00%
1,00%
0,00%
RIY
4,40%
4,57%
1
2
3
4
5
6
7
8
9
10
11
12
13
Products
Max RIY
Min RIY

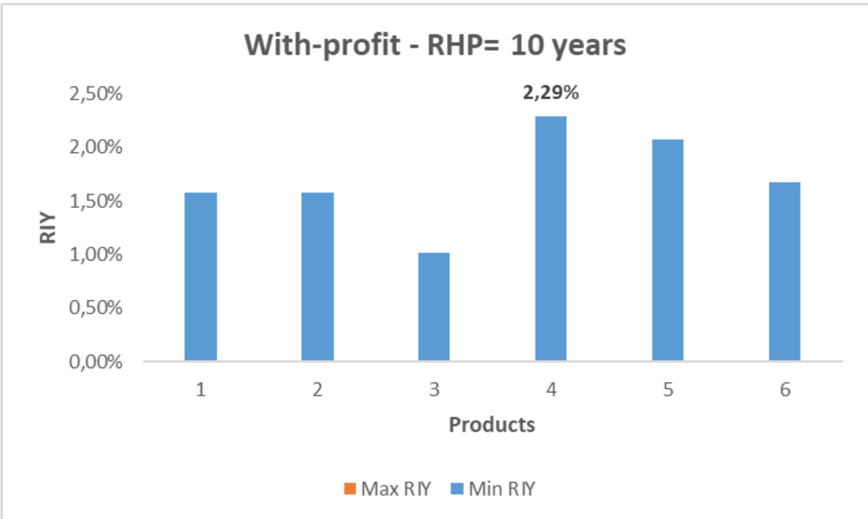

Hybrid - 7 years< RHP<= 15 years
6,00%
5,00%
4,00%
3,00%
2,00%
1,00%
0,00%
RIY
3,84%
3,76%
3,69%
3,95%
3,75%
5,60%
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
Products
Max RIY
Min RIY



Unit linked
RIY
7,00%
6,00%
5,00%
4,00%
3,00%
2,00%
1,00%
0,00%
5,78%
5,94%
4,58%
4,58%
6,07%
1 2 3 4 5 6 7 8 9 10 11 12 13
Products
Max RIY
Min RIY



With-profit - 4 years<=RHP<= 6 years
RIY
2,50%
2,00%
1,50%
1,00%
0,50%
0,00%
2,25%
2,24%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17
Products
Max RIY
Min RIY



With-profit - RHP= 10 years
RIY
2,50%
2,00%
1,50%
1,00%
0,50%
0,00%
2,29%
1 2 3 4 5 6
Products
Max RIY
Min RIY