INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/233

ITALY

FINANCIAL SECTOR ASSESSMENT PROGRAM

August 2020

TECHNICAL NOTE—INSURANCE SECTOR REGULATION AND SUPERVISION

This Technical Note on Insurance Sector Regulation and Supervision for Italy was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in February 2020.

Disclaimer:
This document was prepared before COVID-19 became a global pandemic and resulted in unprecedented economic strains. It, therefore, does not reflect the implications of these developments and related policy priorities. We direct you to the **IMF Covid-19 page** that includes staff recommendations with regard to the COVID-19 global outbreak.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ITALY

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 17, 2020

TECHNICAL NOTE

INSURANCE SECTOR REGULATION AND SUPERVISION

This Technical Note was prepared in February 2020, before the global intensification of the COVID-19 outbreak. It focuses on Italy's medium-term challenges and policy priorities and does not cover the outbreak or the related policy response, which has since become the overarching near-term priority.

Prepared by
Monetary and Capital Markets Department

This Technical Note was prepared in the context of a Financial Sector Assessment Program (FSAP) mission in Italy, led by May Khamis. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx

CONTENTS

APPENDICES

Glossary

AGCM	Autorità Garante della Concorrenza e del Mercato (the Italian competition authority)
ANIA	Associazione Nazionale fra le Imprese Assicuratrici (the Italian Insurance Association)
BdI	Banca d'Italia (the Italian Central Bank)
BTP	Buoni del Tesoro Poliennali (Italian Treasury Bond)
CONSAP	Concessionaria Servizi Assicurativi Pubblici (Public Insurance Services Concessionaire)
CONSOB	Commissione Nazionale per la Società e la Borsa (the Italian capital markets supervisor)
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
FICOD	Financial Conglomerates Directive
FOE	Freedom of Establishment
FOS	Freedom to Provide Services
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
G-SII	Global Systemically Important Insurer
GWP	Gross Written Premiums
IAIS	International Association of Insurance Supervisors
IBIP	Insurance-based investment products
ICP	Insurance Core Principles
IDD	Insurance Distribution Directive (EU Directive)
IFRS	International Financial Reporting Standards
IPID	Insurance Product Information Disclosure
IVASS	Istituto per la Vigilanza Sulle Assicurazioni (the Italian insurance regulator and supervisor)
KID	Key Information Disclosure
LTG	Long-Term Guarantees
MCR	Minimum Capital Requirement
MiFID II	Markets in Financial Instruments Directive II
MISE	Ministero dello Sviluppo Economico-Ministry of Economic Development
MMoU	Multilateral Memorandum of Understanding on Cooperation and Information Exchange
MoU	Memorandum of Understanding

MPAD	Macroprudential Analysis Division
MTPL	Motor Third-Party Liability
ORSA	Own Risk and Solvency Assessment
POG	Product Oversight and Governance
PRIIPs	Packaged Retail and Insurance-based Investment Products (EU Regulation)
RAF	Risk Assessment Framework
SFCR	Solvency and Financial Condition Report
SCR	Solvency Capital Requirement
TN	Technical Note
TPL	Third Party Liability
ULP	Unit-linked Products
USP	Undertaking Specific Parameters
VA	Volatility Adjustment

EXECUTIVE SUMMARY

This technical note (TN) provides an update and an assessment of the supervisory framework and practices for the Italian insurance sector since the last assessment concluded in 2013. The mission conducted a target review focusing on the implementation of Solvency II, the financial resilience of insurers, the effectiveness of supervision, and previously identified weaknesses without a full assessment of Italy's observance with the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs). Implementation of the European Union (EU) Solvency II Directive in 2016 has significantly strengthened regulation and supervision since the last FSAP, introducing risk-based capital standards, comprehensive insurance group supervision and new requirements on governance, risk management and controls. The supervision of intermediaries has also been strengthened in line with the EU Insurance Distribution Directive in 2018.

There is a need to strengthen the independence and human resources of the insurance supervisor, Istituto per la Vigilanza Sulle Assicurazioni (IVASS). Current legislation confers the Minister for Economic Development the power to approve certain supervisory action, and to set the fit-and-proper assessment criteria. Legislative amendment is needed to make IVASS the competent authority for these supervisory matters. Moreover, the staff establishment for IVASS is capped by legislation in 2012. Given the increase in activities since then, IVASS should review its staff requirements in line with its strategic plan.

Italy implemented Solvency II in full and added to the minimum requirements in two areas. Solvency ratio improved slightly on Day-One of Solvency II for the industry as a whole. The improvement was due to the conservatism inherent in the solvency requirements for life insurance business under the previous Solvency I framework. Fourteen insurers have been approved to use either full or partial internal models.

The implementation of Solvency II has improved corporate governance and risk management. Solvency II has brought more transparent group structure, higher quality in governance, greater awareness of risk management processes, and more responsible investment strategy. The risk-based capital also incentivized life insurers to move further away from interest guarantees and towards capital-light products. Despite the considerable amount of effort and cost, the industry acknowledges the benefits of Solvency II.

There is scope to fine-tune the Solvency II requirements based on three years of implementation experience. The industry has highlighted a few areas for either further clarification, streamlining, or revision in methodology. There is also a need to improve harmonization to create level playing fields across borders.

The supervisory framework and process are in line with European Insurance and Occupational Pensions Authority (EIOPA) guidelines, with some scope for further enhancements. IVASS has made significant strides in improving its supervisory framework and processes. It has developed a risk-based approach to offsite and onsite supervision, documented the process in a Supervisory

Handbook, and participated actively in supervisory colleges for group supervision. The review noted strengths in the approach and room for improvement in a few areas:

- Coverage of onsite inspection has improved, but IVASS should consider incorporating a minimum frequency to increase comprehensiveness of coverage.
- In the current development of market conduct indicators, IVASS may consider calculating lapse rate by number of policies as a measurement of suitability of business sold and analyze the lapse rate by policy year to detect possible "churning" by intermediaries.
- Above and beyond the indirect detection of misconduct through statistical analysis, explore ways of more direct detection such as mystery shopping.
- Conclude the discussion with CONSOB on the division of responsibilities relating to insurance-based investment products (IBIPs) as soon as possible and communicate the outcome to the market, since the Insurance Distribution Directive (IDD) is already in effect.
- Review the role of IVASS in handling consumer complaints considering the new responsibility for insurance arbitration.

Italy fared well in the 2018 EIOPA stress test. Assets and liabilities of Italian insurance sector have different characteristics compared to other European countries. On the assets side, 39 percent[1] of assets held by the 12 Italian entities in the scope of the EU-wide stress test are invested in Government bonds (mostly Italian), as compared to an average of 24 percent for Europe. Thus, Italian insurers are more susceptible to sovereign risk. On the liabilities side, the duration is much shorter at seven years and is well-matched with assets duration. Thus, Italian insurers are less affected by lower interest rates. The stress test confirmed that the Italian insurance sector is more vulnerable to the "yield curve up" scenario mainly due to the exposure to sovereign bonds and the lapse risk associated with the life business. The EIOPA stress tests results suggest that the Italian insurers included in the test are sufficiently capitalized (see Box 2). However, sensitivity analysis conducted by IVASS indicate that solvency ratios of a number of insurers (on solo basis) would fall below the 100 percent threshold under a more severe shock that involves an increase in Italian sovereign spreads to above 399 bps (see Table 6).

IVASS conducts macroprudential surveillance to identify risks to insurance sector, assess them and report the analysis internally and externally. IVASS has developed surveillance tools to monitor market trends and adopt appropriate macro- and micro-prudential actions. IVASS uses several methods to assess risks, including macro trend analysis, monitoring, stress testing, sensitivity analysis, and analysis of the narrative reports prepared by the insurers (Own Risk and Solvency Analysis reports, and Solvency and Financial Condition Reports). The results of the surveillance are reported to IVASS management on a regular basis and serve as input to the Financial Stability

[1] For the Italian insurance sector as a whole, investments in government bonds constitute 48 percentage of total assets.

Report prepared by the central bank. Selected results are also communicated externally through the Letters to the Market and its annual report.

Table 1. Italy: Main Recommendations		
Recommendation	**Responsible Authorities**	**Timing***
IVASS independence and resources		
1. Amend the Code of Private Insurance to confer IVASS authority on: • removal of authorization, winding-up of insurers and placing insurers under extraordinary administration; and • establishment of the fit-and-proper assessment criteria for qualified shareholders, senior management and key persons in control functions of insurers.	IVASS / MISE	ST
2. Review the adequacy of IVASS human resources in light of its strategic plan, and propose amendment to the IVASS Statute accordingly.	IVASS / MISE	ST
Solvency II implementation		
3. Initiate discussion at the EIOPA level on: • review of the effectiveness (usefulness and adequacy) of the reporting requirements, based on the implementation experience in the past three years. • further harmonization of Solvency II requirements for level playing field across borders. • refinements in certain areas, such as guidelines on proportionality, recognition of policy limits in catastrophic risk charge, etc.	IVASS / EIOPA	I
Supervision		
4. Consider setting a minimum frequency of inspection, to produce a more comprehensive coverage of insurers to minimize the possibility that the smaller insurers might not be inspected for an extended period.	IVASS	I
5. Expand its ability to directly detect market misconduct, rather than relying on indirect detection through complaints and collection of statistics.	IVASS	C
6. Develop indicators for quality of business, for example: • Lapse rate measured in terms of number of policies lapsed as a proxy for suitability of policies sold. • Analysis of lapse rate by policy year may detect trend of "churning" by intermediaries.	IVASS	I

Table 1. Italy: Main Recommendations (concluded)		
Recommendation	**Responsible Authorities**	**Timing***
7. Clarify the division of responsibilities with CONSOB in terms of IBIPs as soon as possible and inform the market to provide clarity; harmonize the differences between the rules governing IBIPs between MiFID II and IDD.	IVASS / CONSOB	I
8. As part of the overall staff review exercise, review the involvement in the resource-intensive complaint handling, in light of the new mandate in insurance arbitration.	IVASS	I
Macroprudential surveillance		
9. Closely monitor insurers' exposures to the sovereign and explore policy options to encourage further diversification.	IVASS	C
10. The quarterly risk dashboard can be improved by including key indicators of the quality of business sold, developed by the market conduct supervisors.	IVASS	I

* C= continuous; I (immediate)= within one year; ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years).

INTRODUCTION[2]

A. Scope and Approach of This Note

1. This TN provides an update and an assessment of the supervisory framework and practices for the Italian insurance sector since the last assessment concluded in 2013. The note is part of the Italy 2019 FSAP and draws on discussions in Rome from March 7 to 28, 2019. The FSAP's overall conclusions and recommendations are set out in the Financial Sector Stability Assessment.

2. The note focuses on key issues, with reference to international standards but without presenting a detailed assessment of Italy's observance. As an update to the full assessment of observance of the ICPs of the IAIS in 2013,[3] the note focuses on developments such as the implementation of the EU Solvency II framework,[4] the enhancements in the supervisory framework, key vulnerabilities for the Italian insurance market and how IVASS addresses them. Please also refer to the Technical Note on Systemic Risk Oversight Framework and Macroprudential Policy which is part of this FSAP mission for a more comprehensive discussion of the macroprudential issues for the entire Italian financial sector. The discussion in this note is limited to the macroprudential

[2] This technical note was prepared by Mimi Ho (IMF external expert).

[3] Italy: Detailed Assessment of Observance of IAIS Insurance Core Principles, IMF, December 2013.

[4] Please refer to TN – Euro Area Policies: Insurance, Investment Firm, and Macroprudential Oversight, June 2018, for a discussion of the regulatory and supervisory arrangements in EU, and the risks and vulnerabilities.

surveillance function of IVASS relating to the insurance sector. Unless stated otherwise, references in this note to the IAIS ICPs are to the version issued in October 2011, as revised as of November 2018. The institutional arrangements for financial sector regulation and supervision in Italy are presented in Section B.

3. The note draws on information supplied by the authorities and extensive discussions in Italy. Meetings were held with the President, Secretary General and staff of the Italian insurance supervisory authority, IVASS; a selection of insurance companies; industry and professional bodies; audit firms; and rating agency. IVASS provided extensive statistical and other information and shared examples of supervisory work.

4. The author is grateful to the authorities and private sector participants for their excellent cooperation. The preparation of this TN benefited greatly from their readiness to share insights and information. The author is especially grateful to the staff of the IVASS for their outstanding cooperation and support for the work of the FSAP.

B. Overview—Institutional and Market Setting

The Insurance Market

5. The Italian insurance market is the fourth largest in Europe by insurance premium volume in 2017;[5] there is room for growth in the non-life sector. Insurance penetration rate (i.e., premiums as a percentage of GDP) was 8.34 percent,[6] the seventh highest in Europe, indicating room for further growth, particularly in the non-life sector where the penetration rate is below the European average. Table 2 and Figure 1 set out the trend in the development of the sector in recent years. Total assets of the sector at the end of June 2018 were EUR 910 billion, equivalent to 53 percent of GDP, compared to about 215 percent of GDP for the banking sector.

6. The sector comprises 100 direct insurers as of end-June 2018; there has been no reinsurer operating in Italy since 2009. (Unless otherwise indicated, the 2018 statistics are as of end-June 2018.) Of the 100 direct insurers, 36 are life insurers, 52 non-life, and 12 composite insurers. The industry has consolidated significantly in the past decade through mergers and takeovers, resulting in a reduction in the number of insurers from 162 in 2007 to 100 in 2018. The life insurance premium income has been stagnant after a surge in 2014 and 2015, when low interest rates drove consumers to unit-linked products (ULPs) offered by insurers.[7] The stringent regulatory requirements imposed by Solvency II also influenced the insurers' preference for ULPs which attract lower capital charges compared to traditional products.

[5] Swiss Re, Sigma Report, Number 3/2018: World Insurance in 2017.

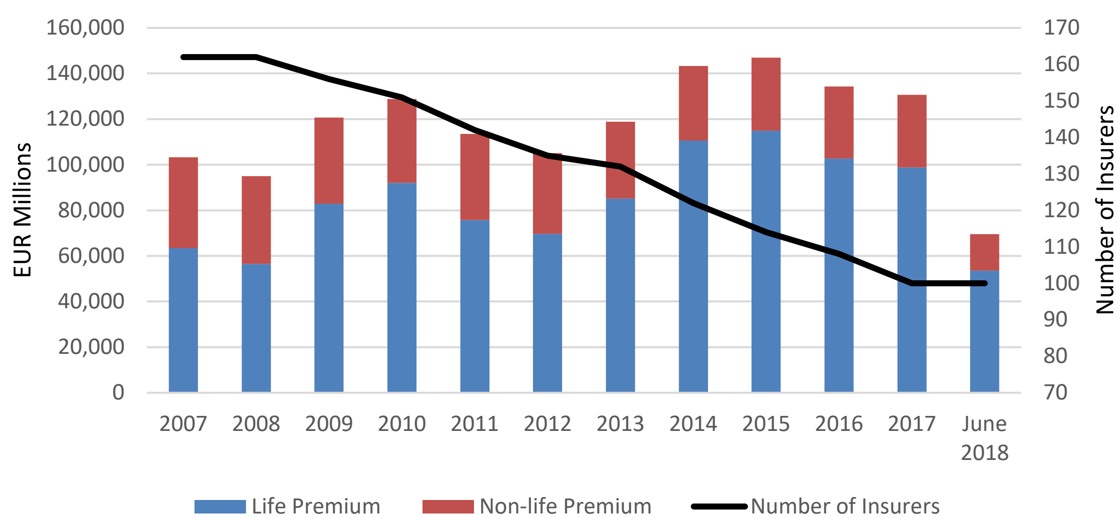
[6] The 8.34 percent is broken down as 6.20 percent for life insurance and 2.14 percent for non-life insurance.

[7] Source: *The Italian Insurance Market*, by PwC, September 2015.

7. The sector is highly concentrated. Seventy-seven insurers belong to 29 insurance groups. The top five insurance groups have 65 percent life insurance market share (by premium), and the top ten groups have 80 percent. There is a similar level of concentration in the non-life market: the top five and top ten insurance groups dominate 67 percent and 85 percent, respectively, of the non-life market.

8. Life insurance products are trending towards less capital-intensive ULP or hybrid products; distribution is predominantly through bancassurance. Life insurance business is mainly single premium, savings products. The sales of traditional participating policies have declined steadily from 79 percent of total life insurance premiums in 2014 to 66 percent in 2018. The sale of ULPs has increased from 21 percent to 31 percent during the same period, reflecting the increasing emphasis on the ULP business to meet customers' demand for returns, and the insurers' desire to reduce capital strain resulting from the guarantees inherent in the traditional products. The ULPs may be sold on a stand-alone basis, or a hybrid product, which is a bundled policy combining elements of capital-guarantee of the traditional policies with the direct investment participation of the ULP. Banking and postal office distribution (collectively referred to as the bancassurance channel) accounted for about 60 percent of total premiums collected in 2017.

Figure 1. Italy: Development of Insurance Sector



Source: IVASS and Insurance Association of Italy (ANIA) data.

Table 2. Italy: Number and Size of Insurers					
	2014	2015	2016	2017	June 2018
Life: number	47	44	41	36	36
GWP (EUR mns)	110,517	114,947	102,685	98,785	53,595
Assets (EUR mns)	n.a.	n.a.	518,787	544,001	545,191
Non-life: number	63	58	55	52	52
GWP (EUR mns)	32,799	32,006	31,573	31,910	16,030
Assets (EUR mns)	n.a.	n.a.	20,028	21,026	21,451
Composite: number	12	12	12	12	12
GWP (EUR mns)	*	*	*	*	*
Assets (EUR mns)	n.a.	n.a.	344,366	355,811	343,657
Total: number of insurers	**122**	**114**	**108**	**100**	**100**
GWP (EUR mns)	**143,316**	**146,953**	**134,258**	**130,695**	**69,625**
Assets (EUR mns)	**n.a.**	**n.a.**	**883,181**	**920,838**	**910,299**

Source: IVASS data.
Note: Data do not include business of branches or business carried out a cross-border basis from other EU countries.
Asset figures include both general account (traditional business) and separate account (unit linked business) on Solvency II basis.
* Data included in the life and non-life sectors respectively.

9. The prolonged low interest rate environment has less impact on the Italian life insurers than elsewhere. This is mainly because of the following two factors:

- About 80 percent of life insurance business is sold as single premium policies which have short policy terms. There is no long term annuity business, due to the reliance on the public pension system. Thus, the average liability duration is seven years, much shorter than the typical double-digit duration for life insurance liabilities elsewhere, enabling insurers to match the assets and liabilities durations fairly well; and

- Insurers have progressively reduced the minimum guaranteed returns offered in life insurance policies and also shifted towards less capital-intensive products where the risk is fully or partially borne by policyholders. About 35 percent of the products enforce only guarantee return of capital (i.e., no guarantee on investment return), and 35 percent have an interest rate guarantee between 1 percent to 2 percent.

10. The non-life sector is seeking new areas of growth. The current business make-up is conventional. Motor insurance, including the compulsory third party liability insurance (TPL), accounted for 52 percent of non-life gross written premium (GWP) in 2018. Accident and Health[8] (18 percent) and Property (15 percent) were the second and third largest classes of non-life insurance. While Italy is prone to the risks of earthquakes and floods, consumers tend to rely on public assistance rather than private insurance. Competition has capped market growth. Insurers are experimenting with technology and innovation for "blue-ocean" opportunities. For example, some

[8] Accident and Health insurance may be written by life insurers as well, but it is a negligible portion (0.1 percent) of life insurance business.

insurers use FinTech to issue "instant insurance" products: low-premium and short-duration policies that can be activated by the client instantly as the need arises, such as accident insurance for skiing or soccer. Despite the increased interest in FinTech, the use of direct distribution channel including internet is still limited, producing only about five percent of total premium. About three quarters of the non-life products are distributed through insurance agents.

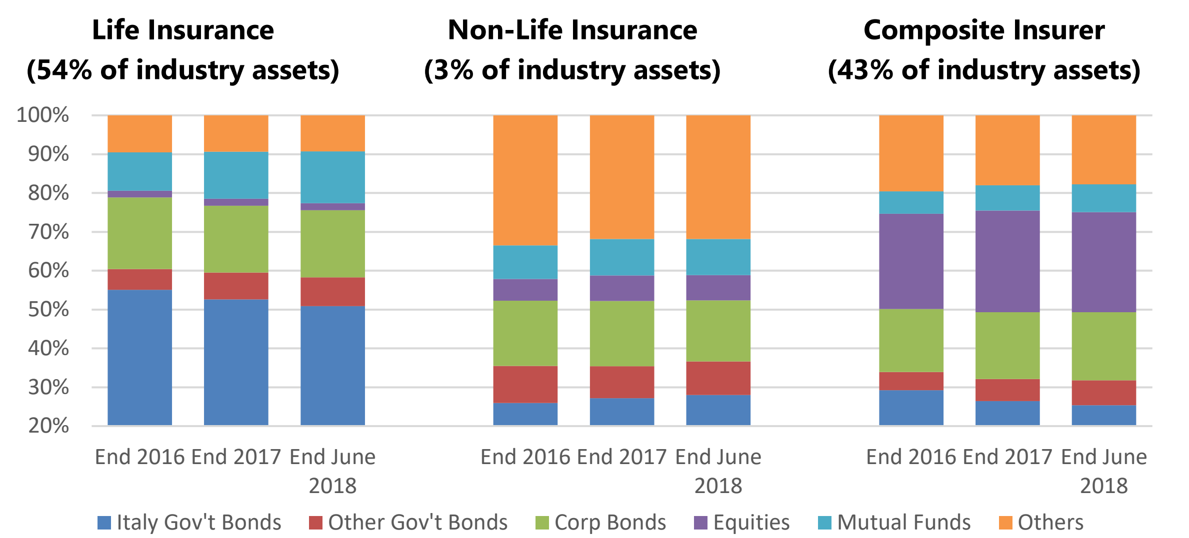
11. There is high participation by foreign insurers in the Italian market. European Economic Area (EEA) insurance undertakings may conduct insurance business in Italy through the Freedom to Provide Services (FOS) or Freedom of Establishment (FOE) arrangements. These entities collected 17 percent of total insurance premiums in 2017, mostly in life insurance. IVASS is the conduct supervisor for these FOS/FOE entities in Italy while their home supervisors are the prudential supervisors. Conversely, with one exception, Italian insurers have limited cross-border activities. Only nine have opened branches or provided cross-border services in other EU countries on a significant scale. The exception is Generali, which operates in 50 countries, and has a significant local market share in a number of European jurisdictions. The cross-border activities and the division of supervision responsibilities between home and host supervisors have led to the necessity for close cooperation among EU supervisors.

12. The investment portfolios of life and non-life insurers reflect the differences in the nature of their business. For this analysis, assets in separate accounts backing unit linked business are excluded (see Figure 2). In aggregate, 46 percent of insurance general account assets are invested in government bonds (including 39 percent in Italian government bonds (Buoni del Tesoro Poliennali (BTP)), nearly twice the 24 percent average for insurers in the EU region. Further analysis shows that there are significant differences in investment strategies based on business models. Life insurers have 50 percent of their assets in BTPs, although the percentage has been reducing gradually in recent years. By comparison, non-life and composite insurers have a much lower level of holdings, at 28 percent and 25 percent, respectively. Non-life and composite insurers also have more significant investments in equities, at 6.5 percent and 25 percent, respectively, compared to life insurers.

13. Separate account assets are mostly invested in mutual funds, accounting for over 80 percent of total separate account assets in 2018.

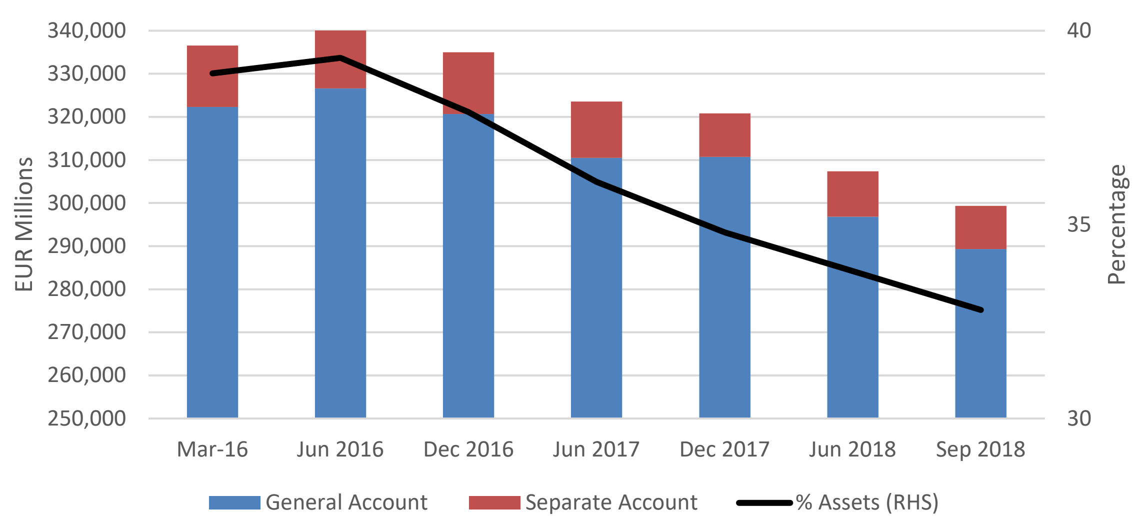
14. High concentration of investments in BTPs is the key risk to the insurance sector. The increased credit spread on BTPs has heightened supervisory attention on insurers' resilience since May 2018. IVASS has conducted top-down stress tests, the latest being as of September 30, 2018, based on several scenarios of the 10-year BTP and the German Government bond yield spread. Insurers have been de-risking by gradually reducing the holdings of BTPs (see Figure 3), both in their general accounts and separate accounts. But the exposure to BTPs is likely to remain high in the medium term.

Figure 2. Italy: Composition of Assets in General Account



Source: IVASS data.

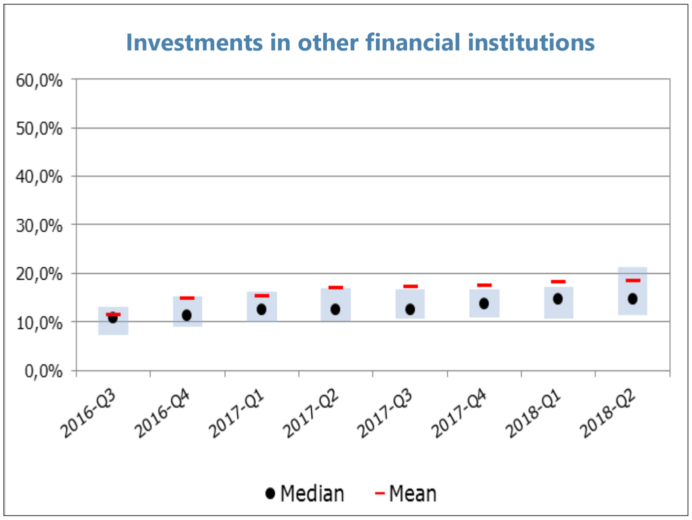
Figure 3. Italy: Government Bonds in Insurance Sector



Source: IVASS data.

15. The insurance sector has returned to profitability in 2012 after a tremulous period since the financial crisis in 2007. Both life and non-life sectors have seen stable profits in the past four years (see Figure 4).

16. The interconnectedness with banks is not high. Bank deposits account for a small share of insurers' assets. The main sources of interconnectedness with banks is through investments and product distribution. Excluding ULPs, less than 8 percent of insurer's assets are invested in other financial institutions, of which 41 percent relate to Italian banks. In the aggregate, the exposure to banks is limited, although there is a slight increasing trend, possibly due to the need for diversification away from government securities. In terms of ownership structure, 10 domestic and 9 foreign banks have shareholdings in 31 insurers. The holding is less than 10 percent in 10 of the cases. While banks (including post offices) accounted for 60 percent of the distribution of life insurance products, it poses little impact on the stability of the financial system.

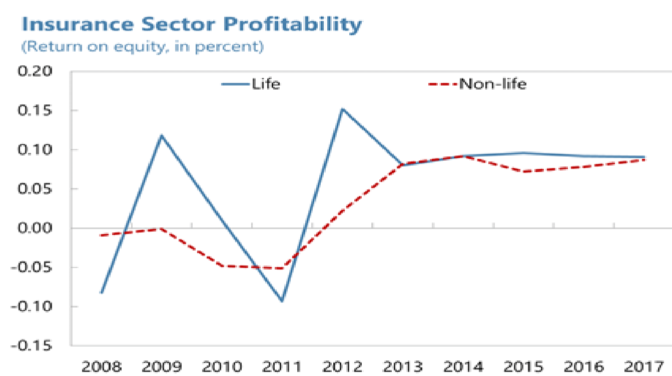


Regulatory and Supervisory Arrangements

17. IVASS is the principal regulator and supervisor for the insurance sector. IVASS was established by law number 135 in August 2012 (the "IVASS Law") and became operational on January 1, 2013. IVASS is responsible for prudential and market conduct regulation and supervision of insurers, reinsurers and insurance intermediaries. There are two other agencies that share some responsibility with IVASS for insurance market conduct supervision:

Figure 4. Italy: Profitability of Insurance Sector

The insurance sector has returned to profitability in 2012 after a tremulous period during the fiscal crisis.



Source: IVASS.

- The Commissione Nazionale per la Società e la Borsa (CONSOB–the Italian capital markets supervisor) is responsible for intermediaries' conduct associated with the distribution of insurance-based investment products (IBIPs) through bancassurance channels. IVASS is responsible for the conduct associated with the distribution of such products directly by insurers or through traditional agents/brokers channels. This is a new arrangement since the implementation of the Insurance Distribution Directive (IDD) in October 2018. The two agencies are still in discussion to iron out the details. Prior to IDD, IBIPs were considered financial products, under CONSOB's purview.

- The Autorità Garante della Concorrenza e del Mercato (AGCM-the Italian competition authority) overlaps with IVASS in its responsibility to protect consumers from unfair commercial practices in all sectors, including insurance. IVASS and AGCM have reached an agreement in 2014 on cooperation procedures: IVASS is responsible for the handling of individual consumer complaints relating to insurance policies, while AGCM is responsible for sector-wide unfair practices. Under the agreement, IVASS alerts AGCM when it encounters contractual clauses or misbehavior that are likely to trigger "unfair practice" as defined in the Italian Code of Consumer. Since 2014, IVASS has provided AGCM with 10 opinions on unfair practices in the insurance sector and reported seven possible cases of unfair practices.

18. By the IVASS Statute, IVASS operates independently without political direction.[9] IVASS is governed by a President, a Board of Directors and a Joint Directorate.

- The President is the legal representative of IVASS and the chairman of the Board of Directors. By IVASS Statute, the President shall be the Director General of the Banca d'Italia (BdI).

- The Board of Directors is responsible for the administration of IVASS. It comprises three members: the President and two insurance experts, who are appointed by the President of the Republic, upon a resolution by the Council of Ministers initiated by the President of the Council of Ministers, acting on the proposal of the Governor of BdI and in agreement with the Minister for the Ministry of Economic Development (Ministero dello Sviluppo Economico (MISE)). The appointment of the expert directors is for a term of six years, renewable once.

- The Joint Directorate is a collegial body responsible for the strategic direction of IVASS and oversees supervisory matters that have significant implications for supervised entities, such as imposing sanctions, or issuance of new regulations. The Joint Directorate may delegate responsibility to the President, individual directors, or members of IVASS management. A list of delegated responsibilities is published on IVASS website. The Joint Directorate comprises seven members: Governor of BdI, the Senior Deputy Governor of BdI (who is concurrently the President of IVASS), the three Deputy Governors of BdI, and the two expert IVASS board members.

19. By the Code of Private Insurance 2005, the Minister for MISE is the approving authority for certain insurance supervisory matters. These matters are: withdrawal of authorization; winding up of an insurer/reinsurer; and placing an insurer/reinsurer under extraordinary administration, acting on the recommendation by IVASS. The nature of these actions requires IVASS to disclose entity-specific information to the Minister, which is prohibited by the IVASS Statute. Also, the MISE

[9] Article 13, paragraph 4 of the IVASS Law states: "IVASS and the members of its bodies shall perform their activity in full autonomy and independence, and shall not be subject to the directives of other public or private entities. IVASS may disclose data to the Minister of Economic Development and to the Minister of Economy and Finance in aggregated form only."

establishes the criteria for the assessment of the fitness and propriety of persons holding key positions in insurance undertakings.

20. IVASS is accountable to the Parliament and the Government[10] and is funded through fees levied on the regulated entities.[11] IVASS submits a report on its activities to the Parliament and the Government each year. IVASS is funded by supervisory fees levied on (a) insurers and reinsurers, and (b) insurance and reinsurance intermediaries operating in Italy. The fees are established by a decree of the Minister for Economy and Finance based on the recommendation from IVASS, and published in the Government Gazette and IVASS Bulletin. IVASS is free to set the level of staff remuneration.

21. IVASS is structured into nine directorates reporting to the Secretary General, and three offices reporting to the governing bodies (see Appendix I for an organizational chart). Manpower of IVASS consists of permanent staff, contract staff, and staff seconded from BdI. The IVASS Statute caps the number of permanent staff at 355, which is the level of staffing of ISVAP (IVASS' predecessor) as at the end of 2012. The need to establish an arbitration function mandated by IDD has added 45 headcounts dedicated to the new function with effect from 2020.

22. Insurance guarantee schemes are limited to compulsory insurance. Assets backing technical provision are considered as ring-fenced, and policyholders have priority of claim on these assets above other creditors. Aside from the priority of claim, there is no other protection for life insurance policyholders. However, there has been no life insurer failure since 1979 that would have required compensation. The Public Insurance Services Concessionaire (Concessionaria Servizi Assicurativi Pubblici (CONSAP)) is a limited company wholly owned by the Ministry of Economy and Finance that manages several schemes under various ministries, including two related to compulsory insurance: The Guarantee Fund for Road Victims and the Guarantee Fund for Hunting Victims. These funds are funded by a percentage of the insurance premiums. A Guarantee Fund for Medical Malpractice for the new compulsory medical malpractice insurance is currently under consideration. If established, it is to be administered by CONSAP as well.

- The Guarantee Fund for Road Victims covers damages related to motor third-party liability (MTPL) resulting from accidents involving unidentified vehicles, uninsured vehicles, or vehicles insured by undertakings under mandatory winding-up at the time of the accident or afterwards.
- The Guarantee Fund for Hunting Victims covers damages related to hunting (for which insurance is compulsory) involving unidentified hunters, uninsured hunters, or hunters whose insurers are under mandatory winding-up at the time of the accident or afterwards.
- The Guarantee Fund for Medical Malpractice is contemplated to cover damages that: (a) exceed the maximum amount of the insurance coverage of the healthcare facilities or professionals; (b) involve insurer placed under mandatory winding-up at the time of the incident; or (c) relate to

[10] Article 13, paragraph 5 of the IVASS Law.

[11] Articles 335 and 336 of the Code of Private Insurance 2005.

healthcare facilities or professionals who are uninsured for unilateral termination of the contract at the undertaking's initiative or for subsequent non-existence or for removal of the undertaking from the relevant register.

23. There are arrangements for cooperation among the authorities. More than half of the insurance products are distributed through banks and post offices, and one third of life insurance are investment products in nature. By necessity, there is close cooperation between IVASS, BdI and CONSOB on supervisory matters. A Coordination Agreement between the three agencies was signed on March 31, 2006 to share information on Italian financial conglomerates, such as total assets and capital requirements. The cooperation on financial stability matters is less structured in the absence of a national macroprudential policy authority. IVASS is invited to attend the Coordination Committee for Financial Stability of the BdI, which is an internal committee that meets three times a year.

24. IVASS is an active participant in EU insurance regulatory bodies and other international standard setting organizations. IVASS participate actively in the work of the European Insurance and Occupational Pensions Authority (EIOPA), European Systemic Risk Board, IAIS, and Financial Stability Board.

FINDINGS AND RECOMMENDATIONS

A. Overview of the Implementation of the 2013 Recommendations

25. Most recommendations of the 2013 assessment have been implemented. The 2013 assessment of insurance sector regulation and supervision noted that there was a high level of observance of the ICPs. Most were assessed as observed or largely observed and only five ICPs were rated as partly observed.[12] Four of the ICPs rated as partly observed have been addressed through the implementation of the EU-wide prudential and conduct standards since 2016, such as the Solvency II Directive, the IDD, the Packaged Retail and Insurance-based Investment Products (PRIIP) Regulations. The mission assessed the remaining ICP previously rated as partly observed (ICP 2–Supervisor) to be largely observed; areas where IVASS can improve are discussed in paragraphs 27 and 28. A summary of the 2013 FSAP recommendations and the actions taken since then on the five ICPs previously rated as partly observed are set out in Appendix II to this note.

26. The implementation of Solvency II has addressed many of the gaps identified in regulation; supervisory procedures of intermediaries have also been enhanced and further improvements are underway. Solvency II has transformed the approach to capital adequacy, valuation of assets and liabilities, the regulation of investments, insurance group supervision, governance, risk management and internal controls systems. All these issues were the subject of recommendations in the 2013 assessment (also see Section B below). IVASS has strengthened its

[12] These are: ICP 2 (Supervisor), ICP 9 (Supervisory Review and Reporting), ICP 14 (Valuation), ICP 17 (Capital Adequacy), and ICP 18 (Intermediaries).

offsite and onsite supervision of insurers, and enhanced its supervisory framework for intermediaries (also see Sections C and E below). IDD and PRIIP Regulations have introduced new and more extensive disclosure requirements relating to the sale of relevant policies.

27. IVASS has improved its organizational structure and functions, but more action is needed to strengthen its independence.

- As described in the Regulatory and Supervisory Arrangements section of this note, there is an inconsistency in laws relating to the working relationship between IVASS and MISE. On the one hand, IVASS is prohibited from disclosing entity-specific information to MISE. On the other hand, the Minister for MISE is the approving authority on the withdrawal of authorization and winding-up of an entity, which requires IVASS to disclose entity-specific information to the Minister. The inconsistency in laws should be rectified by amending the Code of Private Insurance (enacted in 2005) to remove the Minister's approving power relating to withdrawal of approval and winding-up of insurers to ensure full independence of IVASS, as envisaged in the IVASS Statute (enacted in 2012).

- Having fit and proper individuals at the helm of an insurance entity is central to effective governance of the entity. This is a fundamental principle of Solvency II. The competence to set the fit-and-proper assessment criteria should be with an independent supervisor. Currently, however, this competence is vested to the Minister for MISE.[13] It is recommended that the Code of Private Insurance be amended to enhance the fit and proper requirements, pursuing an alignment with the banking sector framework[14], and transfer this competence from the Minister to IVASS.

28. IVASS has met the demand of increasing workload despite the statutory limit on its manpower. There have been many external and internal initiatives since 2013 that have put a substantial strain on IVASS' human resources. To name a few, the validation of internal models for the initial implementation of Solvency II, the ongoing supervision of the use of the models, the development and implementation of forward-looking onsite and offsite supervisory methodology, the increased cross-border supervisory coordination for group supervision, and expanded macroprudential analysis. There is no apparent abatement in demand on resources. IVASS has met the challenge on resources partly through staff secondment from BdI. For example, 6 out of the 60 professional staff in the Prudential Supervision Directorate are seconded from BdI. The low staff turnover rate and the ensuing continuity and retention of institutional knowledge has also helped. Nonetheless, it is recommended that IVASS should review and justify the manpower needed to deliver its strategic plan, and then amend the IVASS Statute if necessary.

[13] Article 77 of the Code of Private Insurance.

[14] The fit-and-proper requirements for banks are set by the Minister for Economy and Finance.

B. The Implementation of Solvency II

29. IVASS has adopted Solvency II in full, and has added to the minimum requirements in two areas. The implementation of Solvency II has changed many aspects of Italian prudential regulation, aligning it more closely to the IAIS ICPs. It has resulted in more risk-based capital standards, extensive new requirements on the valuation of assets and liabilities, a new approach to the regulation of insurers' investments, a comprehensive new approach to group supervision and new requirements on governance, suitability of substantial shareholders and key persons, risk management and internal controls systems. IVASS has adopted in full, with specific enhancements in two areas:

- For the determination of the solvency requirements calculated using the standard formula, specific guidance is provided for the application of the loss-absorbing capacity of deferred taxes.[15]

- The calculation of solvency requirements presented in the annual Solvency and Financial Condition Report (SFCR) are subject to an audit requirement.

30. The industry aggregate solvency ratio has improved under Solvency II. Immediately upon the implementation of Solvency II, the solvency ratio, i.e., the ratio of eligible capital to Solvency Capital Requirement (SCR), improved from 229 percent to 236 percent for the industry as a whole (see Table 3). The improvement is due to the conservatism inherent in the solvency requirements for life insurance business under the previous Solvency I framework, which resulted in an increase in solvency ratio from 132 percent to 247 percent for (pure) life insurers. For (pure) non-life insurers, the solvency ratio declined from 265 percent to 179 percent, indicating less stringent requirements previously. For composite insurers, the solvency ratio in aggregate declined from 347 percent to 239 percent. On entity basis, the solvency ratios of eight insurers with market share of 0.5 percent fell below 100 percent upon Solvency II adoption. This has since been rectified.

Table 3. Italy: Solvency Ratios Pre- and Post-Solvency II

	Solvency I–Dec 31, 2015			Solvency II Day-One: Jan 1, 2016		
	Min. Capital Requirement (EUR mns)	Available Capital (EUR mns)	Solvency Ratio (%)	Solvency Capital Req. (EUR mns)	Available Capital (EUR mns)	Solvency Ratio (%)
Life	14,040	18,556	132	11,337	27,973	247
Non-life	2,026	5,377	265	4,049	7,252	179
Composite	11,024	38,205	347	34,487	82,264	239
Total	27,090	62,137	229	49,873	117,489	236

Source: IVASS data.

[15] The loss absorbing capacity of deferred tax (LACDT) allows companies to reflect that a future loss may also result in a reduction of future tax liabilities. Therefore, it helps to reduce capital requirements.

31. Fourteen insurers at solo level have been approved to use full or partial internal models. Four are authorized to use full models, and 10 are authorized to use partial models. These 14 insurers represent 69 percent of the industry SCR and 40 percent of the industry technical provisions. In addition, eight solo non-life insurers have been authorized to use undertaking specific parameters (USP) instead of the standard formula parameters for the non-life business lines. The remaining 79 solo insurers using the standard formula represent 27 percent of the industry SCR, and 57 percent of the industry technical provisions. In terms of insurance groups, three groups have been authorized to use partial internal models and two groups authorized to use USP.

32. The Volatility Adjustment (VA) is the only long-term guarantees (LTG) measure used by Italian insurers. Seventy-four Italian insurers applied VA at the end of 2016.[16] The VA is also the measure most widely used in Europe (730 insurers, mostly carrying on life business), together with other LTG measures. On average, the impact of the use of VA was an improvement of 9 percentage points in the solvency ratio for the Italian insurers at the end of 2016, compared to as high as 50 to 80 percentage points in some EU countries. This correlates to the relatively short liability duration of the Italian life insurance business.

33. Supplementing the minimum solvency requirements, IVASS has the power to impose dividend restriction and capital add-on. IVASS may restrict payment of dividends and other forms of distribution of capital.[17] IVASS has used this power twice in the last two years out of prudential concerns. IVASS also has the power to require capital add-on based on deficiencies in risk governance, subject to the condition that the measure is (a) not punitive, (b) temporary, and (c) applied on a collaborative process. IVASS exercises its power to impose capital add-on judiciously since it is a measure of last resort. IVASS imposed the add-on on one insurer in 2018, after two years of intense supervisory activity. The insurer is required to report the add-on in its SFCR.

34. Solvency II brought several positive changes to business practices. In addition to the risk-based solvency regime, Solvency II raised the standard for governance, which resulted in a number of changes to the insurance industry practices, many in the risk management areas. Despite the considerable amount of effort and cost involved to implement Solvency II, the industry recognizes the benefits it has brought to their operations, and acknowledges the quantitative skills and practical attitude that IVASS has demonstrated during the internal model approval process. The areas where Solvency II has brought significant changes include:

- **Group structure**: Some insurance groups simplified and streamlined their structure by eliminating intermediate levels and merging entities, to make the cost and capital structure more efficient.

[16] EIOPA LTG Report 2017.

[17] Article 188 of the Code of Private Insurance.

- **Quality of governance**: The complexity of the new regime[18] resulted in the need to have multi-disciplinary competence in the board of directors, and qualified professionals at the management level, to understand and manage the risks inherent in insurance and financial business. Solvency II also introduced the independence of control functions, requiring insurers to have independent check-and-balance in the areas of risk management, actuarial and compliance, beyond the traditional internal audit.

- **Risk management**: Solvency II requires insurers to implement strategic planning, capital management, risk appetite framework, and Own Risk and Solvency Assessment (ORSA). It strengthens the role of the risk management function by requiring it to be integrated into all aspects of the organization. The contribution of the Chief Risk Officer at board meetings has become increasingly important to ensure that decisions are made in full awareness of their impact on the risk profile and the solvency capital requirement.

- **Products**: For life business, insurers placed more emphasis on products with lower capital charges and reduce the traditional products with interest guarantees. Within the traditional portfolio, the mode of interest guarantee has been reduced from between 2 to 3 percent, to less than 1 percent (see Table 4).

Table 4. Italy: Interest Guarantees in Insurance Products

	Distribution of Technical Provisions Relating to Policies with Interest Guarantees in Segregated Funds					
	More than or equal to 5%	Between 4% and 5%	Between 3% and 4%	Between 2% and 3%	Between 1% and 2%	Between 0 and 1%
2015	0%	5%	3%	48%	27%	17%
2017	0%	4%	3%	24%	29%	41%

Source: IVASS data.

- **Investment**: Solvency II removed the quantitative limits on assets representing technical provisions and introduced the *prudent person principle*. The new principle placed the responsibility on the management to identify, quantify, and manage risks according to the entity's risk appetite. Insurers have updated their investment process, asset and liability management and liquidity risk management policies in line with the nature, scale and complexity of their business.

[18] IVASS has established criteria of the proportionality principle for governance. Insurers may identify the system of governance consistent with their size, complexity or risk profile.

35. Industry identified practical challenges in Solvency II. During the mission's discussions with the industry, a number of practical issues were raised of which IVASS is aware and will discuss with EIOPA. These include:

- Clarity is needed in the application of the proportionality principle of Solvency II. IVASS has set criteria for proportionality in governance. But more need to be done in other aspects, such as reporting and Pillar I requirements.
- The cat risk under the standard formula does not take into account policy limits, which is common in Italian non-life policies. This has resulted in unnecessary reinsurance premium and capital requirement.
- Similarly, the standard formula for non-life premium risk is based on average commission rates. Where actual commission rates are higher than those inherent in the formula, capital requirement is inadvertently imposed on the excess commission.

36. Harmonization of implementation details of Solvency II will eliminate national differences and level the playing fields across borders. While Solvency II is a maximum harmonization directive, adoption by national authorities differs in detail.[19] Even when the rules are the same, interpretation by national authorities may be different. Thus, further effort to ensure consistency in application is needed to eliminate potential opportunity for regulatory arbitrage. It is recommended that IVASS raise this issue at the EIOPA level.

37. IVASS should initiate a discussion at EIOPA level to review the regulatory reporting requirements. Industry fed back during discussions with the FSAP team that the number of reports could be reduced and/or streamlined to avoid duplicate reporting of similar information. It is timely for IVASS to raise the issue at EIOPA level to review the reporting requirements after three years of experience with Solvency II, from the perspective of the usefulness and adequacy of information collected, and the need, if any, to improve the reporting template.

38. Finally, financial figures are prepared on three different bases; rationalization of the accounting basis will be helpful. For financial reporting and taxation, insurers are required by corporate law to use Italian GAAP at solo entity level (except for listed entities which there are none currently). At consolidated group level, insurers are required to use International Financial Reporting Standards (IFRS), whether or not the group is listed. Assets and liabilities for solvency purposes are on Solvency II basis. Seventy-seven of the 100 insurers need to prepare three sets of accounts: GAAP, IFRS and Solvency II, since they belong to groups. IVASS has had discussions with the Government and the industry on the adoption of IFRS to simplify the situation, as is the case with banks. The discussions did not come to any conclusions because of the uncertainty of then-pending

[19] A peer review performed by EIOPA in 2018 on the fit-and-proper standards in EEA concluded that: "A number of cross-border cases have indicated a lack of harmonization in relation to the propriety assessment of AMSB members and qualifying shareholders across the European Economic Area (EEA). This lack of harmonization led to potentially divergent outcomes in different countries in relation to the same persons."

IFRS 17 on insurance contracts.[20] Subject to endorsement at the EU level, IFRS 17 is expected to have significant impact on the financial statements. IVASS should continue the dialog with Government and the industry on this subject, balancing the benefit of simplification, the need to narrow the divergence between regulatory reporting (Solvency II) and financial reporting (GAAP), and the high IFRS 17 implementation cost. IVASS should also ensure those who are on IFRS start the planning for implementing IFRS 17 immediately, because the implementation is complex.

C. Insurance Supervision

39. IVASS has developed a risk-based supervisory framework to align its supervisory intensity with the risk and impact assessment. The effort started in 2015 in anticipation of Solvency II, and for alignment with ICP 9. The supervisory review process, including the risk assessment framework (RAF), was completed in 2017 and incorporated into its internal Supervisory Handbook in 2018. The risk assessment process is automated, but supervisors are expected to exercise their judgment and override the auto-generated ratings where necessary. The rationale for the overrides is documented, and subject to review. With these enhancements to its supervisory framework, IVASS now fully complies with EIOPA's guidelines on supervisory review process.

40. The main source of information for offsite analysis is the regulatory reporting. The Prudential Supervision Directorate performs regular analysis of both quantitative and narrative information submitted by the regulated entities. The quarterly and/or annual quantitative information based on Solvency II templates includes balance sheets, performance, assets, technical provisions, capital requirements, group information, etc. on three bases: local GAAP (required by corporate laws), IFRS (for insurers belonging to an insurance group) and Solvency II. Annual narrative information required includes SFCR, ORSA, Regular Supervisory Report, and report on frauds. IVASS reviews the narrative reports thoroughly and takes necessary action. For example, as a result of the review of ORSA reports in 2018, IVASS requested improvements from 8 insurance groups and 41 solo entities (37 of which belong to the 8 groups); coordinated comments from five supervisory colleges where IVASS is the group supervisor and conveyed the feedback to the insurance groups; and conducted follow-up onsite inspection to two entities. Other sources of information include customer complaints and the outcome of the macroprudential analysis on the key trends in the macroeconomic factors that can affect the insurance sector. The goal of the offsite analysis is to facilitate early detection of the need for supervisory intervention.

41. Technology facilitates efficient data analysis, information sharing, report-generation and ad hoc inquiries. IVASS embraces SupTech for greater efficiency and more proactive monitoring of risks. Regular and ad hoc reports generated by the database include: high level dashboards and firm dossiers for its directors; and detailed supervisory reports, capital adequacy indicators, trends in

[20] Issued by the International Accounting Standards Board in May 2017, IFRS 17 sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts. It takes effect in January 2022 (with restated 2021 accounts). Its use in Italy is subject to adoption at EU level.

lapses and assets for supervisors and inspectors. The database can also generate special reports using a query software.

42. Onsite inspections are also risk-based; there is no minimum required frequency of inspections. Inspection Directorate conducts onsite inspections of insurers and insurance intermediaries. Each year, an inspection plan is prepared following risk-based principles, with input and agreement from offsite supervisors. The plan indicates the entities to be inspected and the scope of the inspections, taking into consideration: the risk and impact assessments by the offsite supervisors; date of the last inspection; the need for a follow-up inspection (for example, to verify the adoption of USP for SCR calculations, or to verify implementation of required remedial action); extraordinary events (such as mergers, acquisitions, transfers of portfolio); certain risk profiles; certain types of business; issues highlighted by macroprudential analysis; and the size of the entity. The inspection plan is approved by the board.

43. The number of inspections has increased over the past three years. The number of entities inspected over the past three years represents about 80 percent of the insurance market. The average duration of an inspection of an insurer is 40 to 44 days (shorter for a follow-up inspection), and 10 days for an intermediary.

Table 5. Italy: Onsite Inspections Conducted

Year	Life Insurers		Non-Life Insurers		Intermediaries (Number)
	Number	Market Share* %	Number	Market Share* %	
2018	12	21.6	13	40.9	18
2017	10	44.2	9	34.9	19
2016	6	14.5	6	2.9	12
Total	28	80.3	28	78.7	49

Note: * This is based on the respective entities' market share in 2017.
Source: IVASS.

44. After the inspection, IVASS issues and presents an inspection report to the Board of Directors of the entity. The Supervisory Handbook requires the inspection team to complete the inspection report within three months following the completion of the field work. The report outlines the findings of the inspection and recommendations for improvement; and approved by the Board. In case of considerable deterioration of the financial condition and/or serious breach of consumer protection rules, the report may be delivered together with a supervisory letter.

45. IVASS should consider a minimum frequency of inspection. The Italian market is concentrated. A few large insurers have large market shares. In the absence of a minimum frequency of inspection, a risk-based approach to prioritize inspection inevitably leads to a situation where many small insurers are not being inspected for many years. As Table 5 shows, the inspection program covered 80 percent of market by premium, but only 56 percent by number of undertakings, over a three-year period. It is not difficult to envisage that a number of small insurers will not have been inspected even over an extended period. This is a risk in itself. This outcome may be acceptable from a financial stability point of view, given that the market impact of the failure of these entities is likely to be minor, albeit there might be social, reputational and possibly political impacts. But, it is not congruent with the strong consumer protection ethos of IVASS.

D. Group Supervision and Cross-Border Cooperation

46. IVASS applies subgroup supervision to three subgroups. Under Solvency II, group supervision is applied only at the level of the ultimate parent company in an EEA country. Where there are subgroups at national level, the respective supervisory authorities may apply subgroup supervision only if justified by objective differences in the operations, the organization or the risk profile between the subgroup and the group. After consultation with the relevant group supervisors and the groups themselves, IVASS decided to apply subgroup supervision to three of the ten Italian subgroups. To avoid duplication in supervision, these subgroups are subject to a proportionate supervision, carried out in close coordination with the relevant group supervisor. For example, they are not required to submit quarterly templates or the group SFCR. IVASS has assessed and decided not to apply subgroup supervision of the Italian subgroups of non-EEA groups.

47. The scope of group supervision includes all risks and all related entities, whether or not regulated, located in EEA or not. On a case by case basis, IVASS may exclude from the scope non-EEA entities when there are legal obstacles to the transfer of relevant information; or entities that are of negligible interest or whose inclusion would be inappropriate or misleading. So far, there have been no cases of exclusion. In total, there are 21 Italian groups and three subgroups subject to group supervision in the following areas: group solvency calculation, the system of governance, ORSA, the risk concentration and intra-group transactions.

48. IVASS maintains a register of ultimate parent undertakings on its website, whether they are re/insurer, insurance holding company, mixed financial holding company, or ancillary undertaking. The purpose is to provide transparency and information to policyholders. Currently, there 29 insurance groups in the register, including 8 subgroups of EEA and non-EEA countries. They are subject to offsite supervision, onsite inspections and IVASS' power of direction.

49. IVASS participates in 22 supervisory colleges and acts as the group supervisors in six of the colleges. In its role as the group supervisor, IVASS coordinates the activities of the relevant college. In consultation with the other supervisors involved, IVASS establishes a coordination arrangement on the organization of the college and procedures on cooperation and exchange of information during ongoing supervision and during crises. IVASS draws up annual work plan, host and chair meetings, and coordinate feedback from members of the college. Since two of the groups are insurance-led financial conglomerates, BdI participates in the college activities. For two other groups belonging to banking-led financial conglomerates. IVASS cooperates with BdI, and participates in one of the banking colleges. To deal more efficiently and in depth with specific technical issues, IVASS may establish specialist teams within the college. All colleges meet at least annually, and IVASS provides dedicated platforms to share information to ensure confidentiality and security. As host supervisor in 16 colleges, IVASS assesses the risk profile of the Italian companies of the group and shares its assessment with the group supervisor and within the college. IVASS also participates in joint onsite inspections agreed on and organized by college members on specific topics.

50. The supervisory colleges have developed a common approach to assess risks, at group and solo level. Since 2014 the risk assessment has been performed as a regular college activity by each member supervisor, based on a tool developed by the group supervisor and agreed within the college. The group supervisor collects the risk assessment carried out by each member supervisor and performs a risk analysis for the whole group. The results are discussed during the college meetings and taken into account in the annual review of the college work plan.

51. There are no constraints on the sharing of non-public information with non-EEA supervisory authorities. Information is exchanged in accordance with memoranda of understanding (MoU) and confidentiality agreements signed between IVASS and the relevant non-EU supervisory authorities. Information may also be exchanged within the cross-border colleges of supervisors according to the coordination arrangements agreed in the college. IVASS is a signatory to the IAIS Multilateral Memorandum of Understanding on Cooperation and Information Exchange (MMoU). IVASS has also signed MoU or confidentiality agreements with a number of supervisory agencies.

52. Overall, arrangements for group supervision and cross-border cooperation are adequate.

E. Insurance Conduct of Business and Intermediary Supervision

53. IVASS identified three key market conduct risks:

- **Timeliness of paying claims:** There are precise legal deadlines for the payment of compulsory MTPL claims. Most of IVASS fines are related to late MTPL settlements. In 2017, 76 percent of ordinances, corresponding to 48 percent of the number of fines, were related to MPTL. In terms of amounts, the 2017 MTPL fines amounted to EUR 6.2 million (EUR 7.9 million in 2016). An example of poor life insurance claim practice is unnecessarily burdensome request for documentation for surrenders as well as for death benefits.

- **Tied-in sales:** These are insurance policies sold together with a non-insurance product, often a loan/mortgage whose repayment is protected by a payment protection insurance. In 2018, IVASS also investigated uncorrelated policies, i.e., insurance policies (health, property, liability, etc.) sold together with a loan, without any link between the two financial products. Such investigations were carried out in cooperation with AGCM which has investigated involved insurers for unfair practices, and involved intermediaries for aggressive selling practices.

- **Complex products:** Products could be either complex in wording, or complex in substance. The former is being addressed through joint effort between IVASS and Consumer Association and other stakeholders including ANIA to simplify policy wording to enhance understandability and therefore facilitate suitability assessment. The latter is more difficult to address, involving issues of product design and suitability.

54. The IDD, which came into effect in October 2018, substantively strengthened the standard for business conduct, and is directly relevant in addressing the conduct risks mentioned above. The IDD is a minimum harmonization directive on the conduct of insurance distribution, including (a) the knowledge and competence of distributors, (b) product oversight and governance (POG), (c) non-life product disclosure in an Insurance Product Information Document (IPID), (d) disclosure on product bundling, (e) additional disclosure on IBIPs, and (f) disclosure of the nature of remuneration. In particular, POG aims to ensure that products and services marketed and sold are designed to meet the needs of identified customer groups and are targeted accordingly. IVASS is in the process of developing a market conduct supervisory handbook, incorporating the new requirements.

55. Insurers, including those operating in Italy under FOS and FOE, are subject to regular reporting requirements for IVASS to monitor their conduct of business. The requirements include: half yearly reports on customer complaints lodged with the insurers, quarterly reports on premiums by lines of business (for FOE), and annual reports on key figures of FOS/FOE activity in Italy (premiums and technical provisions by lines of business), the latter disseminated by EIOPA to the relevant supervisors on the basis of Solvency II quarterly reporting template as submitted to EIOPA by the Home Supervisor. Other less structured sources of supervisory information include customer complaints lodged with IVASS, onsite inspection findings, mass and social media, consumer associations, web-surfing, and communication with other supervisors.

56. IVASS' sanction power has been enhanced since October 2018. In addition to pecuniary fines, IVASS is able to issue "cease and desist" orders to insurers. IVASS is allowed to take into account the history of repeat offences in setting the level of sanction.

57. All insurance intermediaries are registered with IVASS and subject to supervision. There are over 225,000 registered individual and corporate agents, brokers and other intermediaries. IVASS holds the insurers responsible for the conduct of their distributors, although IVASS exercises direct supervision as well. Eligibility for registration includes minimum professional qualifications, free of criminal records and not in undischarged bankruptcy. IVASS may take the following actions against errant intermediaries:

- Request the principal insurer to conduct audits or impose disciplinary action.
- Summon the intermediaries for discussions.
- Issue warning letters.
- Issue market-wide letters.

58. IVASS is in the process of developing indicators for poor conduct for intermediaries as well as for insurers. The goal is to:

- assess the insurer's ability to monitor the distribution channels, detect signals of irregular conduct of distributors, identify root causes and remove effects, and implement actions to mitigate the risks of misconduct of their distributors;
- monitor the level of market compliance and take prompt action to counteract irregular conducts and possible contagion effects;
- capture distribution trends, and detect distribution channels whose actions may affect the interests of customers; and
- acquire a sound data set, useful for statistical surveys at market/enterprise/sales channel level.

These indicators are mainly based on regular supervisory reporting and statistics on customer complaints and analysis of business sold by lines of business. IVASS is also exploring more direct ways to detect market misconduct, such as mystery shopping, although there appears to be legal obstacles.[21] The ultimate goal is to incorporate these market conduct indicators into the risk-based supervisory framework in prioritizing supervisory activities.

59. There is overlap in supervision and distribution rules relating to IBIPs. Pre-IDD, unit- and index-linked products were considered financial products regulated by CONSOB under the Markets in Financial Instruments Directive (MiFID and later MiFID II). Post-IDD, IBIPs are classified as insurance products and fall under IDD framework. IVASS and CONSOB are working together on the coordination of the division of responsibilities. At legislative level, IVASS is the competent supervisor on (a) conduct of distribution of IBIPs through insurers, agents and brokers, (b) POG of insurers manufacturing IBIPs, (c) POG of agents and brokers distributing IBIPs, and (d) pre-contract information on IBIPs in addition to key information disclosure (KID). CONSOB is the competent supervisor on (a) conduct of distribution of IBIPs through banks and post office, (b) POG of banks distributing IBIPs, and (c) KID. Since IDD has already taken effect, IVASS should expedite the discussion with CONSOB to provide clarity to the market aiming, to the extent possible, to a common regulatory framework to apply to all distribution channels.

60. IVASS has a strong mandate in consumer protection. The Consumer Protection Directorate handles 20,000 complaints each year. The insights gleaned from these complaints enhances its supervisory capability. However, handling complaints is resource intensive. A new insurance arbitration function will be established within IVASS with dedicated human resources by 2020. IVASS should re-evaluate its involvement in complaint handling in light of the new arbitration function, as part of its overall manpower review.

[21] Mystery shopping involves a pretense of identity and/or information. The legal implication is unclear whether the outcome of mystery shopping can be the basis for supervisory action.

61. Brexit could have a significant impact on Italian consumers and IVASS has started preparation for its occurrence since early 2018. There were 126 British undertakings licensed to do business in Italy under the FOS/FOE arrangements. Of these, 53 were active at the end of 2017, mainly in non-life insurance. In 2017, 9.7 million Italian customers paid EUR 1.7 billion in premiums to British insurers. In fact, one British insurer is a market leader in a niche line of liability insurance (medical malpractice) in Italy. Justifiably, IVASS is concerned about the impact of Brexit, particularly from the consumer protection perspective. Leveraging on EIOPA's Brexit platform, IVASS has mapped the contingency plans of the 58 (the United Kingdom and Gibraltar) undertakings active in Italy. IVASS has also held discussions with the 11 most significant British non-life insurers and one life insurer[22] operating in Italy regarding their Brexit contingency plans. The discussions revealed that the key exit strategies are: establishing a *Societas Europaea*; or portfolio transfer. Other actions taken by IVASS include:

- Requested British insurers operating in Italy as well as Italian insurers operating in the United Kingdom to:
  - send adequate personalized information on the impact of Brexit to their Italian (or British in the case of Italian insurers) policyholders and beneficiaries;
  - publish similar information on their websites; and
  - provide appropriate instructions to their distributors regarding the information to be provided to their current and potential customers.
- Published on IVASS website information on Brexit and its impact on policyholders.

62. Overall, arrangements for insurance conduct of business supervision are adequate and IVASS has demonstrated its willingness to take action in cases of detected misconduct. To maximize effectiveness with finite resources, it is recommended that:

- IVASS should expand its ability in direct detection of market misconduct, rather than solely relying on indirect detection through complaints and collection of statistics.

- Consider monitoring policy lapse rate measured in terms of number of policies, as an indicator for the <u>suitability</u> of products sold, based on the rationale that a policyholder is more likely to surrender a policy that does not suit his needs. A further analysis of the lapse rate by policy year may be useful in detecting possible misconduct situations where intermediaries encourages customers to terminate their policies after the commission period expires and take up similar or the same policies so that from the intermediaries receive commissions again.

- Division of responsibilities with CONSOB in the area of IBIPs should be finalized as soon as possible and communicate to the market to provide clarity. Differences between MiFID II and IDD relating to IBIPs should be harmonized.

[22] This insurer had 80 percent share of the premiums collected by British life insurers operating in Italy.

- As part of the overall manpower review exercise (see section A), IVASS should review its involvement in the resource-intensive complaint handling, in light of the new mandate in insurance arbitration.

F. Macroprudential Surveillance and Stress Testing

63. There is a formal process to conduct macroprudential surveillance. A Macroprudential Analysis Division (MPAD) was set up in 2013 with the tasks to:

- perform macroprudential analysis on the Italian insurance market;
- develop macroprudential tools;
- identify, assess and monitor macroprudential risks;
- assess the effects of stressed situations potentially emerging in the financial markets towards insurance undertakings; and
- report the results internally and externally.

It has developed a set of indicators and standardized tools, including quarterly risk dashboard, quarterly assessment of vulnerabilities, monthly liquidity monitoring, ad hoc surveys, and annual industry stress test. It monitors the share prices and credit spreads. When the need arises, it performs more frequent analysis and top-down stress testing to ensure the stability of the insurance market.

Risk Identification

64. The risk dashboard is a useful risk identification tool for both macro- and micro-prudential supervision. The risk dashboard is produced quarterly, providing the level and trend of key risks for the insurance sector. The dashboard has proven a useful indicator for further macro- and micro-prudential action. For example, the Q2:2018 risk dashboard signaled a significant increase in the "profitability and solvency risk" due to the spread crisis and the political uncertainty that hit particularly the solvency position of life insurers as well as an increase in the liquidity risk. Two actions resulted from this observed trend:

- The MPAD updated the parameters and repeated the sensitivity analysis at the following reference date of June 2018.
- The Prudential Supervision Directorate performed liquidity analysis for individual life insurers, taking into account the above information and that from other macroprudential tools, such as the liquidity monitoring and the ORSA reports.

65. Frequency of monitoring of liquidity risks was increased from quarterly to monthly since August 2018. 80 percent of life insurance is issued on a single premium basis. This could result in liquidity strains in times of high surrenders and other claims through maturity or death, although the shorter duration which characterizes the life insurance business sold in Italy in theory makes policyholder less prone to a run to the contracts. Since August 2018, IVASS re-activated the monthly collection of cash flow data to analyze potential liquidity strains. For life insurers, IVASS analyzes data on lapses and claims (cash outflows) against premiums (cash inflows). For all insurers, IVASS analyzes:

- the composition of investments (other than assets covering ULP business);
- the differences between the book value (local GAAP) and the market value of investments;
- the amount of unrealized investment gains and losses; and
- the linkage between the size of unrealized investment gains and loss to the spread between BTP and Bund.

66. MPAD conducts a quarterly survey of key risks and vulnerabilities to insurance businesses. The survey collects quantitative and qualitative information on: items not part of the regular Solvency II reporting; changes in the investment strategy with specific reference to the sale of securities with high spreads; the use of liquidity swap transactions, short term funding, Term Structured Repo, ART; changes in business mix (hybrid products/ULP); main risks and challenges at entity level; focus on (life) multi-class products. The survey also includes ad hoc requests on topical subjects to help identify emerging vulnerabilities, such as cyber security, climate change and crypto assets (see Box 1).

Risk Assessment

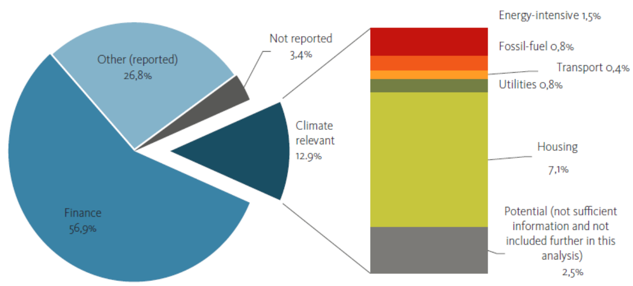
67. The key risk assessment function is the quarterly macro trend analysis. MPAD monitors the trend of major macroeconomic and financial indicators, focusing on the risks related to the insurance sector and the key performance indicators of the insurance sector, such as solvency ratio, combined ratio, return on equity, share price, composition of the eligible own funds, composition of assets, minimum interest rate guarantees, etc. This analysis provides a high-level view of the insurance sector against the macro trends.

68. MPAD performs top-down stress tests to assess the resilience of the sector. The shocks are based on the asset values on a specific date, determined based on the maximum value and the 75th percentile (or higher when warranted) of the historical series of the BTP-Bund spread. The stresses are applied to Italian Government bonds, corporate bonds and equities. To simplify the process, no shocks are applied to SCR, post-stress balance sheets do not take into consideration any fiscal effects, and technical provisions (other than those for the unit- and index-linked business) are not recalculated but revalued considering the effect of volatility adjustment; hence the analysis doesn't take into account the potential ability of the technical provisions to reduce the discretionary benefits under the stressed conditions. IVASS has performed top-down stress tests at December 31, 2016 and December 31, 2017. In light of increased pressure on BTP yield spread since May 2018, MPAD has performed ad hoc stress tests during 2018. The latest was as of September 2018 (see Table 6).

As can be seen, there would be a number of insurers whose solvency ratios would drop below 100 percent under a more severe shock that involves an increase in Italian sovereign spreads to above 399 bps.

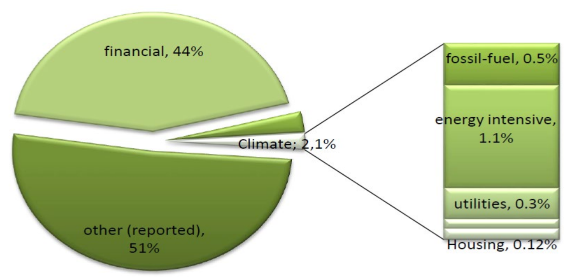
Box 1. Monitoring Climate Change Risk

According to EIOPA Financial Stability Report December 2018, 13 percent of European insurers' assets are exposed to climate-related risks. Such risks may arise from a transition to a more carbon-neutral economy, or erosion of real estate value particularly in high-risk areas.



Source: EIOPA.

IVASS analyzed the exposure to climate-sensitive investments in the Italian market, and found that the exposure is substantially lower at 2 percent of total industry assets. IVASS also conducted a qualitative survey on the current and future impact of climate change on the insurance business.



Source: IVASS.

Key Findings:

- The impact depends on the specific line of business in which entities are engaged.
- The probability of impact of the risk is assessed through internal model or standard formula.
- Risk mitigation is generally through reinsurance. Only one entity tapped capital market through cat bond.
- Not all entities have developed risk management and investment policy relating to climate change. Those who have are mainly large/cross border entities who have already adopted ESG (Environmental, Social, and Governance) principals in their internal management processes and investment strategies, or other entities that deal with climate risks in their risk management framework.
- On the supply side, climate change risk is still included in guarantees linked to natural events; some entities distribute eco-friendly insurance products or services (e.g., discounts on "green" vehicles).
- Social commitment is widespread, and the initiatives reported are numerous, such as reducing the amount of CO_2 emission through energy efficiency; reduction of the environmental impact of business trips; control of waste and policies on reuse and recycling; reduction of use of paper and water.
- The impact of climate change on the lines of business linked to health and life expectancy is to be monitored, but on long term perspective.

The author of this box is Mimi Ho, based on information provided by IVASS.

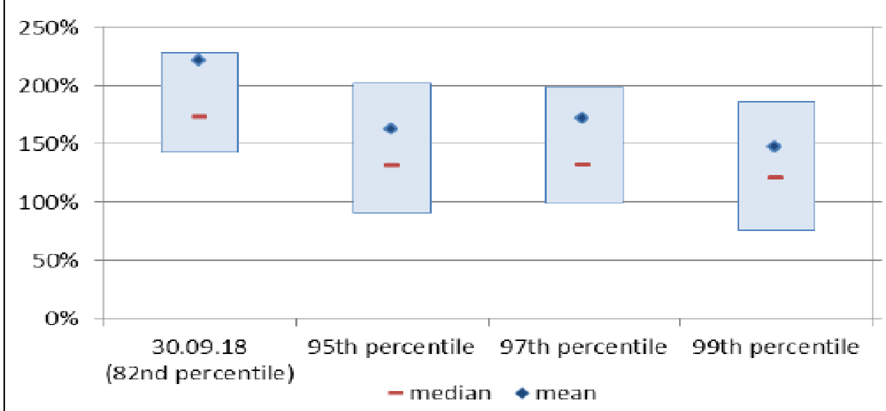
69. MPAD also performs bottom-up stress tests to assess the resilience of the sector to specific adverse scenarios. The bottom-up stress tests coincide with the EIOPA stress tests conducted once every two years. For the 2018 stress test, four insurance groups participated in the EIOPA stress test, and IVASS selected eight more insurance groups for its own stress test. These 12 insurance groups represent 74 percent of the market. Due to the high exposure to Government bonds, the Italian market is more vulnerable under the yield-curve-up scenario. On the other hand, the liability duration is low (seven years) and well-matched with assets duration, which make the Italian market less vulnerable under the yield-curve-down scenario compared to the other European markets (see Box 2). IVASS has taken action to address the vulnerabilities by asking the vulnerable insurers to mitigate the risk of their portfolios and repeat the stress test at the end of 2018. The affected insurers have since reduced their exposure to BTP and directed new investments to other EU government bonds. While the 2018 year-end stress test results were not yet available at the time of the FSAP visit, the solvency position of the affected insurers were improved at the end of 2018.

70. Other assessment tools used by MPAD include:

- Sensitivity analysis–to assess the effect of a single change in a material risk, such as a 100 bps increase in spread, on the financial position of the sector.
- ORSA analysis–to include macroprudential perspectives in the review of ORSA reports, thus enabling IVASS to identify the key factors, assumptions and strategies affecting the industry.
- SFCR review–IVASS performs a comparative analysis of the SFCRs published by the largest insurance groups. The qualitative information of the reports is evaluated. The results are presented in a Letter to the Market, where IVASS suggested areas for improvement.
- Others–monitoring the use of derivatives on a semi-annual basis; analysing the effectiveness of reinsurance; evaluation of the systemic risk related to the interconnectedness within the insurance sector; and workshop with the stakeholders.

71. Notwithstanding the decline in the concentration of exposures to Italian government bonds in the insurance sector, supervisors should explore policy options to encourage further diversification. IVASS has engaged in a dialogue with the most exposed insurers aiming to increase the resilience of the sector. This has contributed to reduce the exposure of the sector to Italian sovereign bonds (see Figure 3). However, IVASS sensitivity analysis suggest that the risk is meaningful for a number of institutions. IVASS should continue to closely monitor insurers' exposures to the sovereign and explore policy options to encourage further diversification.

Table 6. Italy: Top-down Stress Test Results as at September 2018

	As at Sep 30[1]	95th Percentile[2]	97th Percentile	99th Percentile
Sample size	95 out of 97			
Reference date	September 30, 2018			
BTP-Bund spread (bps)	267	399	450	495
Volatility Adjustment[3]	13	74	85	95
Solvency ratio[4]				

Source: IVASS data.

Note:

[1] Equivalent to the 82nd percentile of historical BTP-Bund spread.

[2] Over the 10-year period from 2007 to 2017.

[3] Volatility adjustment is an adjustment to the risk-free rate curve used for the valuation of technical provisions, to reduce the artificial volatility of financial statements due to the market-sensitive nature of Solvency II.

[4] The box portions represent the range of the solvency ratios.

Risk Reporting

72. The results of the macroprudential surveillance are communicated internally and externally and contribute to the Financial Stability Report published by BdI. Senior Management of IVASS receives regular reports on macro trends, risk dashboard, liquidity analysis, equity and spread trends, stress test results, sensitivity analysis, ORSA analysis, SFCR review, etc. IVASS colleagues have access to non-entity specific information through a dedicated intranet page. Entity-specific information is shared only with relevant staff. Externally, the information contributes to the Financial Stability Report published by the BdI. Selected results are also communicated to the industry through the Letters to the Market and IVASS' annual report.

73. Overall, IVASS' approach to macroprudential surveillance is comprehensive and well executed. The quarterly risk dashboard could be further improved by including indicators for the quality of insurance business, as developed by the market conduct supervisors.

Box 2. EIOPA 2018 Stress Test

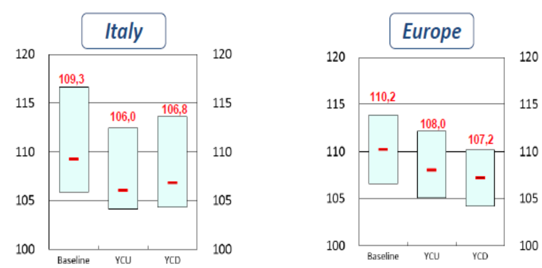
EIOPA conducts EU-wide stress tests every other year. The 2018 stress test covered 42 insurance groups from 12-member states. Four Italian insurance groups participated in the stress test. In addition, IVASS selected another eight insurance groups in an internal stress test. The 12 Italian groups constitute 74 percent of market share.

The 2018 EIOPA stress test was based on data as of December 31, 2017, under three scenarios:

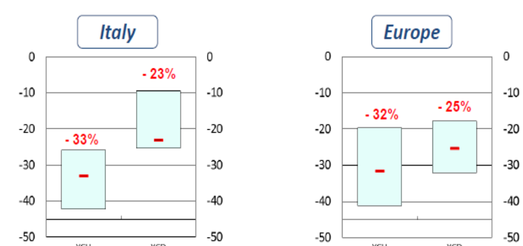
	Financial shocks:		Insurance shocks:	
1. Yield curve up (YCU):	10Y swap	+85 bps	Mass lapse	+20%
	10Y BTP	+205 bps	Cost of claims	+2.24%/year
	EU Financial BBB	+301 bps		
	Italian equity	-40%		
2. Yield curve down (YCD):	10Y swap	-80 bps	Longevity	+15%
	10Y BTP	-20 bps	rates	
	EU Financial BBB	-36 bps		
	Italian equity	-19%		
3. Natural catastrophe (nat cat):	Four European windstorms, a set of two central and eastern European floods and a series of two Italian earthquakes. The aggregate insured loss from these events = EUR 48 billion.			

The nat cat scenario has very little impact on Italian insurance groups due to low exposure to nat cat coverages. The comparison of the stress test results for the 12 Italian insurance groups against the EIOPA results (inclusive of the four Italian groups) are as follows:

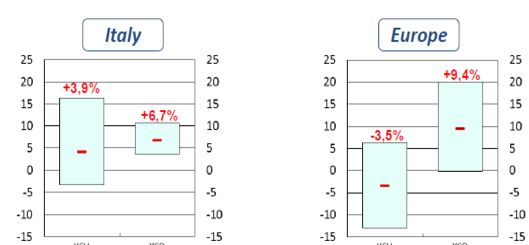
Assets over liabilities ratio: The results are largely comparable. The Italian insurers appear to be more vulnerable to the YCU scenario, while the European insurers tend to be more vulnerable to the YCD scenario.



Excess of assets over liabilities: The results are largely comparable. The Italian insurers appear to be more vulnerable to the YCU scenario.

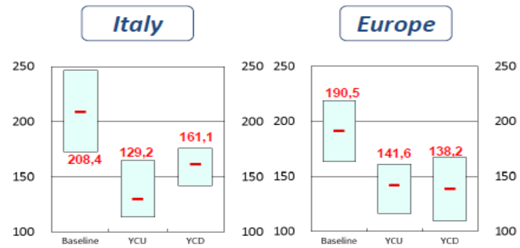


Solvency capital requirement (SCR): Under the YCU scenario, the SCR increased for the Italian insurers, while it decreased for the European insurers. Overall, the SCR appear to be more stable for the Italian sector.



Box 2. EIOPA 2018 Stress Test (concluded)

Solvency ratio: The Italian insurers are much more affected by the YCU scenario, and fare better under the YCD scenario, as compared to their European counterparts. The solvency ratios of two small groups could not meet the 100 percent ratio under the YCU scenario.

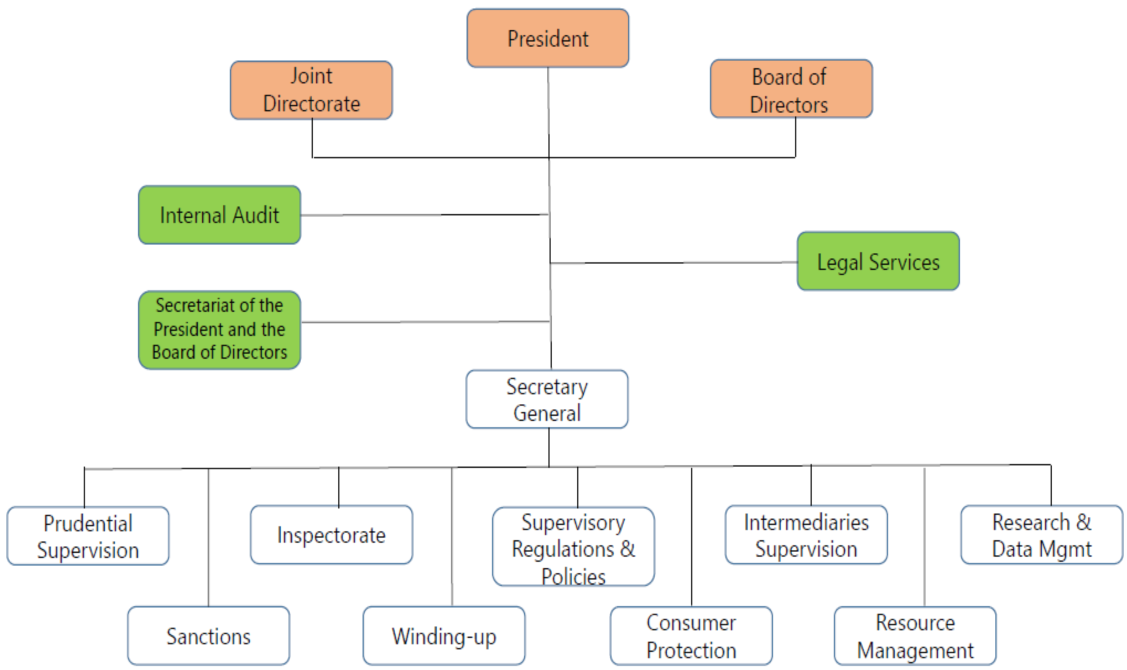


____

The author of this box is Mimi Ho, based on information provided by IVASS.

Appendix I. IVASS Organization

Appendix I Table 1. IVASS Organizational Chart



Source: IVASS data.

Appendix II. Italy's Response to the Recommendations of the 2013 Detailed Assessment

For the ICPs (2011 version) that were rated as Partly Observed–ICPs 2, 9, 14, 17 and 18

Recommendations to Improve Observance of ICPs	Comments by the Authority on the Implementation of Recommendations from the 2013 FSAP
ICP 2: Supervisor	
1. It is recommended that the President and Council exercise the authority to delegate ministerial matters to appropriate Heads of IVASS Divisions to ensure quick efficient operability.	IVASS has in place an appropriate system of delegations, publicly disclosed on its website. In accordance with article 13 (19) of IVASS Establishing Law no. 135/2012 and article 8 (3) of IVASS' Statute, the Joint Directorate has delegated powers to the President and Directors and to the Heads of Directorates. The system of delegations is intended to improve the effectiveness and timeliness of IVASS' actions, reserving the power to set guidelines and strategical guidance to the Joint Directorate.
2. The scope and audit detail need to be strengthened, proper resourcing is recommended.	In accordance with IVASS Rules of Procedures, in 2013 IVASS issued the Internal Audit Regulation (updated in 2016) detailing the activities to be carried out by the Internal Audit Office, powers and responsibilities of the auditors, outcomes communications and follow-up. The office is made of the head and 5 staff members. The Office performs audits on organizational units, working processes and IT procedures and infrastructures of the Institute. These audits are generally aimed at assessing aspects of effectiveness, efficiency and safety, including the management of risks and resources as well as compliance with rules and procedures. A comprehensive internal audit of the Institute has been completed in 2017.
3. The assessors recommend instituting a formal internal quality controls process for supervision and the development of formal supervisory processes that allow for emergency action and cross checking of the activities of each supervisory division to ensure accuracy and consistency in regulatory action.	Consistency and accuracy in regulatory actions is ensured by the setting up of a single prudential supervision directorate (instead of two directorates) and the existence of an internal supervisory handbook (currently under review). The Directorate has a number of internal procedures in place in order to ensure a consistent approach and the 4 Divisions coordinate their activities on a continuous basis. The appointment of a Deputy Head of Division for each Insurance Group Division ensures not only the constant presence of a person responsible for the Division but also strengthens the level of control and in-depth examination of the most relevant issues. This enables also useful discussion within the Division before supervisory decisions are proposed to the Head of the Prudential Supervision Directorate.

Recommendations to Improve Observance of ICPs	Comments by the Authority on the Implementation of Recommendations from the 2013 FSAP
	Moreover, there are in place an internal audit function and an Operational Risk Management System (ORM). The ORM System provides for the mapping of the most relevant Directorates' procedures and the assessment of the related risks on the basis of a 5-degree ranking of impact/probability of the risks, highlighting the causes of the risks and the mitigating safeguards to put in place. This is used as the basis for the internal audit plan.
4. IVASS should establish formal procedures and timelines to ensure more expedient regulatory action to protect consumers on timely basis.	Following the implementation of the Solvency II Directive, art. 3 of the Code of Private Insurance has been modified in order to strengthen the supervisory purpose of consumer protection. The main purpose of supervision is to ensure suitable protection of insured persons and other persons entitled to insurance benefits. To this objective, IVASS pursues the sound and prudent management of insurance and reinsurance undertakings as well as their transparency and fairness to customers. The protection of consumers of insurance services is achieved through: - the market conduct supervision on insurance undertakings/intermediaries (on-site and off-site) including the application of sanctions in case of breach of the sectorial rules; - the management of complaints towards insurance; - undertakings/intermediaries submitted by policyholders to IVASS; - the acquisition of data on complaints received by each insurance undertaking and the publication of these data on IVASS website since 2016; - the Consumer Contact Centre (IVASS telephone assistance service for consumers); - regular contacts with the consumers associations (quarterly meetings); - collaboration with home supervisors for the activity pursued on cross-border basis in Italy by EEA insurers and intermediaries (according to the existing EIOPA Protocols for collaboration between NCAs); and - on-going investigation aimed at identifying consumer detriment through specific thematic reviews: e.g., On policies linked to non-insurance products

Recommendations to Improve Observance of ICPs	Comments by the Authority on the Implementation of Recommendations from the 2013 FSAP
	and services ("You are insured and perhaps you have not realized it"), PPI costs, dormant policies. On the basis of the data gathered through the above-mentioned activities, IVASS has identified the most common causes of complaints and dysfunctions of company processes/policies, with the consequent activation of supervisory interventions on the undertakings concerned, calibrated in relation to the type and seriousness of the situations detected (e.g., summoning company representatives and sending letters to individual companies; requesting the corporate bodies to take the necessary corrective measures; activation of inspections). In the event of widespread problems, IVASS put in place interventions addressed to the whole market through the issuance of Letters to the Market (soft regulation). Since 2013 IVASS issued 15 letters to the market. Here are some examples of topics: - investigation on free motor liability policies offered in connection with the purchase of cars, - ban on the use of opt-out mechanisms for on-line motor liability insurance quotations and offer of ancillary cover, - Unfair clauses in life insurance contracts, - refusal of compensation in the settlement of motor liability claims, for policies linked to loans (PPI – Payment Protection Insurance), refund of the remaining part of the premium in case of early partial repayment of the loan. Some of these interventions on the market are made in collaboration with other Authorities (AGCM, CONSOB, Banca d'Italia), the Consumers' Associations, or the Italian Insurers Association (ANIA). Please find below a list of activities carried out in years 2017/2018: - taking into account that the supervision on insurance-based investment products (IBIPs) is shared between IVASS (when the IBIP is distributed by an insurance undertaking, an agent or a broker) and CONSOB (when the IBIP is distributed by a bank or an investment firm), the two institutions have established a permanent round-table on the subject, in order to guarantee an

Recommendations to Improve Observance of ICPs	Comments by the Authority on the Implementation of Recommendations from the 2013 FSAP
	efficient supervision avoiding overlaps and unnecessary costs for operators. The Regulation to be adopted on IBIPs (information requirements, inducements and mandatory advice) is aimed at ensuring the consistency of the rules applicable to IBIPs regardless of the distribution channel adopted; - Letter to the market of 4 September 2017 for the implementation of the EIOPA Guidelines on Product Oversight and Governance requirements; - Activity on the simplification of insurance contracts has continued in 2017 together with the consumer associations and ANIA, which led to the issuance of the Guidelines for the revision of insurance contracts' structure and language in February 2018 in order to achieve simplicity and clarity; As to IVASS on-going activities: - The insurance alternative dispute resolution system will be established within IVASS (regulation to be adopted by the Minister of Economic Development together with Minister of Justice, upon IVASS' proposal): it will offer policyholders, undertakings and intermediaries a quick and inexpensive alternative to the recourse to a judge; - We are currently working on the implementation of the consumer protection specific set of risk indicators and risk dashboard.
5. It is recommended that IVASS develop clear and consistent fundamental procedures for financial analysis supervision that identifies troubled companies and then implement a troubled company task force consisting of employees with significant areas of expertise that would regularly meet and focus on all elements of supervision of nationally significant troubled companies, to ensure the	IVASS has in place procedures for the analysis conducted by the Prudential Supervision and Inspection Directorates. In 2014 the Authority issued its Internal Supervisory handbook and since then there have been 6 releases in order to adapt it to the new Solvency framework. The last version has been adopted with the Circular Letter n. 12 of the 12/6/2018. The supervisory handbook has been updated in order to implement EIOPA Supervisory Review Process (SRP) Guidelines and some chapters of the EIOPA Supervisory Handbook (so far, the update related to the functioning of the Colleges of supervisors, Risk Assessment Framework, Technical Provisions, Investment and the application of the Prudent Person Principle, Governance). The risk-based approach of the SRP – described in the Internal Supervisory Handbook – allows to assess whether the capital and organizational structure of the undertakings/groups is appropriate to their risk profile. In this contest, the

Recommendations to Improve Observance of ICPs	Comments by the Authority on the Implementation of Recommendations from the 2013 FSAP
exercise of prompt and efficient regulatory action.	first phase of the entire process, the Risk Assessment Framework (RAF), has been structured in order to carry out a prior assessment of the current and forward-looking risks of all the undertakings, followed by the attribution of a supervisory rating (from 1 to 4) to each insurer. This allows to: - plan the supervisory actions for those companies that have a more complex risk profile and require in-depth analysis, and - define the supervisory strategies in terms of timing and effort and to prioritize the actions. In this regard, IVASS has adopted an IT plan for the implementation of tools for the analysis of financial data (e.g., Assets analysis).
6. New regulatory requirements and obligations resulting from forthcoming changes in EU legislative frameworks, including Solvency II and implementing measures, will have heavy staffing and budget impacts, thus consideration should be made to limit cross budget support practices.	IVASS has been facing for several years the relevant impact of implementing Solvency II and now the forthcoming impact on the organization deriving from the implementation of the IDD. Despite the increasing number of duties to cope with, IVASS must still meet a staffing constraint imposed by law. (400 permanent headcounts, of which 45 for the looming Alternative Dispute Resolution set up). Therefore IVASS, in order to comply with the new obligations has strongly focused on improving effectiveness and efficiency of internal working processes, also leveraging changes to organizational design (if needed) or improving technology through the outsourcing of IT services to the Banca d'Italia.
ICP 9: Supervisory review and reporting	
1. IVASS should consider developing specialized staff expertise in specific supervision areas (financial analysis, inspection expert, governance and enterprise risk management expertise, etc.) to drill down into the specific details of specified areas of supervisory responsibilities.	All these recommendations are now mostly taken into account by the Authority thanks to: - the reorganization carried out following the establishment of IVASS. The reorganization included the unification in one single Directorate of the previous two units of prudential supervision. - the drawing up of the internal supervisory handbook, that has been updated in order to adapt it to the new Solvency II framework. These two actions currently allow a higher degree of compliance with the ICP. In fact, the use of the undertakings' impact assessment and risk classification process for the prioritization of the supervisory activity and the setting up of a

Recommendations to Improve Observance of ICPs	Comments by the Authority on the Implementation of Recommendations from the 2013 FSAP
2. It is recommended that IVASS establish formal processes across both divisions that set forth trigger points and specific ladders of intervention to ensure consistent and expedient regulatory action. 3. IVASS should implement internal quality controls and adopt formal communication and peer review processes that ensure accuracy and consistency in offsite analysis and onsite inspections, particularly for nationally significant companies. 4. IVASS should develop guidelines along with a centralized asset valuation process to ensure that all staff members conduct the same valuation.	supervisory plan – as required by ICP 9 – has been used de facto in the SRP cycle since 2016. Moreover, a higher level of consistency in the supervision of risks and specialization of activities has been achieved through the setting up in March 2017 of the Risks Analysis Division within the Prudential Supervisory Directorate, which provides support on the quantification and management of the insurance undertakings/groups' risks (technical, financial, credit, operational risks) to the other 3 Divisions of the Directorate. The Risks Analysis Divisions performs horizontal assessment (for example peer review on technical provisions, back-testing on internal models, adequacy of the standard formula on non-life parameters….). The Directorate has a number of internal procedures in place in order to ensure a consistent approach and the 4 Divisions coordinate their activities on a continuous basis (see also above-ICP 2.3). The inspection procedure is supported by a robust review process. Special procedures are in force to ensure the monitoring of inspections in coordination with the off-site supervision departments by which major findings of the inspection report are shared. The inspection report is subject to a careful analysis carried out by a specialized team of referees that checks: clarity and technical foundations of findings, consistency of the whole inspection assessment, compliance with reporting standards. Furthermore, IVASS Internal Audit team assess the procedures adopted by the Directorate and suggest possible improvements. Taking into account the numerous innovations brought by Solvency II and the time needed to make them effective, IVASS has partly implemented: - a forward-looking supervisory approach which includes also early intervention measures (e.g., RAF, tool on capital adequacy). - the development of IT tools for the consultation and analysis of supervisory reports/data related to technical provisions and investments (following the update of the IVASS supervisory handbook chapters on these items).

ICP 14: Valuation	
1. Current valuation methods, excluding the anti-crisis measures appear, as a whole, to be prudent. However, due to the lack of transparency in the determination of the margins, its regulatory usefulness is doubtful. The implementation of Solvency II is recommended to gain clarity on the resilience assessment of the insurers. 2. In the mean time for the purpose of transparency and consistency in the market, IVASS should provide guidance on the expected level of prudency that need to be applied. This should be done at a high level by stating for instance confidence levels or requirements on the stochastic models to be used.	With the implementation of the Solvency II regime, IVASS is now in line with the valuation principles set out in ICP 14. These criteria are now embedded in our current legal framework as follows: - the amended Code of Private Insurance, which transposed the Solvency II Directive (see art. 30, 30bis, 35 quarter and 36 bis); - Commission Delegated Regulation (EU) 2015/35 (directly applicable at national level); - IVASS Regulation n. 34/2017, concerning the valuation of assets and liabilities other than technical provisions and the criteria used for their valuation and the relative report on the Regulation (implementing the EIOPA Guidelines on Governance); and - IVASS Regulation n. 18/2016, regarding the application rules for determining technical provisions (implementing the EIOPA Guidelines on technical provisions). The Solvency II framework sets specific valuation principles: according to art. 75 of the Directive, assets (liabilities) shall be valued at the amount for which they could be exchanged (transferred) between knowledgeable willing parties in an arm's length transaction (market consistent valuation). The technical provisions are calculated in a prudent, reliable and objective manner, using information provided by the financial markets and generally available data on underwriting risks. With specific regard to the calculation of technical provisions, their valuations shall be equal to the sum of a best estimate and a risk margin. The risk margin shall be such as to ensure that the value of the technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations. In particular, the risk margin is consistent to the "MOCE" and it is calculated based on the capital requirement. Regarding the reconciliation between the local GAAP values of assets and liabilities with the values for solvency purpose, the Solvency and Financial Condition Report that undertakings have to publish as well as to submit to IVASS (according to the Commission Delegated Regulation (EU) 2015/35 and IVASS regulation n. 33/2016), includes a section (section D – Valuation for solvency purpose) where a description of the main differences should be reported.

ICP 17: Capital adequacy	
1. Implementation of Solvency II framework will allow the observance of this principle. The swift implementation of Solvency II is recommended.	The Solvency II provisions on capital adequacy envisage two different levels of capital, the Solvency Capital Requirement (SCR) and the Minimum Capital Requirements (MCR). It prescribes not only the calculation methods of the solvency requirements of undertakings/groups on a risk-based approach but also the own funds eligible for the coverage of the requirements - both on a qualitative basis (classification in three tiers) and quantitative (limits) - and their fungibility/availability. The non-compliance of the Solvency requirements activates different Supervisory actions. IVASS implemented this regulatory framework in the Code of Private Insurance (Title III, Chapter IV-bis). In addition, IVASS issued many Regulations, Regulatory Orders and recommendations in the form of Letters to the market regarding the capital adequacy for solvency purpose, in order to clarify in details some regulatory and technical aspects: - Regulation n. 35/2017 on the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes for the determination of the solvency capital requirement calculated using the standard formula - Regulation n. 34/2017 laying down provisions on governance concerning the valuation of assets and liabilities other than technical provisions and the criteria used for their valuation and the relative report on the Regulation - Regulation n. 27/2016 on the implementation of the catastrophe sub-module of the health insurance for the determination of the solvency capital requirement calculated using the standard formula - Regulation n. 25/2016 concerning the items of basic own fund, following the national implementation of EIOPA Guidelines on financial requirements of the Solvency II framework - Regulation n. 20/2016 introducing provisions on the use of external experts for inspections on undertakings about internal models. - Regulation n. 17/2016 on the group solvency calculation - Regulation n. 16/2015 on the implementation of market risk and counterparty default modules for the determination of the solvency capital requirement calculated using the standard formula

	- Regulation n. 15/2015 concerning the application of the life underwriting risk module in the determination of the solvency capital requirement calculated using the standard formula. - Regulation n. 13/2015 concerning the ancillary own-fund items - Regulation n. 12/2015 on the use of internal models for the determination of the solvency capital requirement - Regulation n. 11/2015 concerning the use by insurance and reinsurance undertakings of the specific parameters of the undertaking and group-specific parameters in the determination of the solvency capital requirement calculated using the standard formula. Moreover, in 2017 IVASS revised its Supervisory Review Process (SRP) in order to implement SII framework and EIOPA Guidelines on this matter. The risk-based approach of the SRP - described in the Internal Supervisory Handbook (currently being updated) - allows to assess whether the capital and organizational structure of the undertakings/groups is appropriate to their risk profile. In this context, the first phase of the entire process, the Risk Assessment Framework (RAF), has been structured in order to carry out a prior assessment of the current and forward- looking risks of all the undertakings, followed by their scoring (supervisory rating from 1 to 4). This allows: - to plan the supervisory actions for those companies that have a more complex risk profile and require in-depth analysis; and - to define the supervisory strategies in terms of timing and effort and to prioritize the actions. The capital adequacy of the undertaking is the relevant aspect of the RAF. Specific triggers have been identified (quantitative triggers in term of proportion of the SCR, and qualitative ones in terms of tiering), that contribute to the judgment of the level of risk (low/medium-low/medium-high/high) and consequently to a greater intensity of the supervision.
2. IVASS is recommended to maintain the resources and focus in the approval work of internal models to avoid possible deficiencies in the capital determination emanating from the use of	In 2014 IVASS adopted specific internal rules and procedures to manage, at an early stage, the <u>pre-application processes for the internal models</u> (at that time IVASS was involved in seven processes, three as a group supervisor and four as a local supervisor). IVASS top management was involved in this process, not only in the final decision but also in the most critical steps of the process (involvement of the Secretary General, President, Board, Joint Directorate; the setting up of a Committee for the preparatory phase to SII). In the period 2014–2017 the organizational structure of the Prudential Supervision Directorate

internal models under Solvency II.	encompassed 6 coordinators - under the supervision of the head of the Directorate - responsible for coordinating the activities of qualitative teams (made of 18 experts) and quantitative teams (25 experts), the latter specialized in macro-areas of risks (two teams for the Non-Life and Aggregation Area, three teams for the Life, and Credit risks Area). The most significant steps in the pre-application model process are: - definition of ad-hoc protocol for the content and timeline of the information flows between the company and the group, the supervisors of the group and the college of supervisors; - on-site visits (joint on-site visits for cross-border groups) followed by a formal feedback, shared with the other involved supervisors, highlighting the problems/concerns found; and - drawing up a list of blocking points to the approval of the internal model (ad-hoc excel file) to be updated with the improvements further implemented by the company. For <u>the IM approval application process </u>(IMAP), IVASS uses the application package suggested by EIOPA. The IMAP process lasts 6 months and it is followed by the multi-step process envisaged by the EIOPA Implementing Technical Standards. At the end of the process, the Joint Directorate approves the use of the IM (joint decision in case more the one supervisor is involved). In case the IM needs minor adjustments, the company draws up an ad-hoc remediation plan, to be approved by IVASS. <u>The supervision on the approved IM</u> is based on an ad-hoc annual plan for the follow-up of the remediation plan (with possible on-site visit) and for the assessment of the new annual calibration. In 2016 IVASS adopted further rules for the assessment and <u>approval of the major model changes</u>, a process similar to the IM Approval but with a simplified governance. Regarding the minor changes of the IM, which do not need supervisor approval, they are monitored and assessed on a quarterly basis. In 2016 IVASS, following the experience made with the Generali IMAP, decided to require on a yearly basis the complete documentation of the IMs. This approach, although more demanding, allows all the involved supervisors to have an annual update of the calculation/calibration and methodology of the IMs. In March 2017 IVASS set up the Risks Analysis Division (DAR) within the Prudential Supervisory Directorate. The division is divided into two technical

	areas (non-life and life), with two different heads of the areas and, respectively, six and seven staff members. The division performs the following tasks: assessments on the adequacy of the methodologies for the calculation of capital requirements by using the Standard Formula, USP/GSP and Internal Models; the monitoring, benchmarking and back-testing of approved internal models; analyses and evaluations of model changes and follow-up of remedial plans; analyses of the ORSA reports; analyses linked to the valuation of technical provisions using standardized methodologies. The DAR provides technical support to the other 3 division of the Directorate, involved in all the steps of the IM process thanks to the assignment of quantitative and qualitative experts. Regarding the approval of the Undertaking Specific parameters (USP): - in November 2014 IVASS sent a Letter to the market in order to get an initial view of the compliance of the undertakings with the requirements envisaged for their use. Regarding the approval process of the USP, IVASS agreed with the undertakings to carry out a preliminary analysis similar to the IM pre-application, followed by the formal application; - Since 2015 IVASS has approved the use of USP/GSP for 8 undertakings and 2 groups; one is still in the pre- application process; - in October 2015 the Generali College set up a USP specialized team led by IVASS (with 5 European supervisors) dedicated to the approval of these parameters for specific undertakings situated in different EU Member States, with the aim to ensure consistency; - the Risks Analysis Division performed a comparative analysis of the correct representation of the risk profile using the SF, through the application of the USP instead of the market-wide parameters. The outcome showed that for 4 companies the use of USP led to a much higher solvency capital requirement: these companies have set a temporary conservative margin over the SCR till the approval of the USP.
ICP 18: Intermediaries	
1. IVASS is recommended to devote sufficient attention to the establishment of this new institution in particular to	The "ORIA project" envisaged by Italian Law 135/2012 (for the establishment of a body with registration, supervisory and sanctioning duties with respect to intermediaries) has so far not been implemented because in the course of the process the IDD Directive was passed, prohibiting, at its Article 12, the possibility

proper governance, adequate systems and bylaws having due regard to the particularities of the insurance intermediation in Italy.	of devolving supervisory duties to a private Body whose members directly or indirectly include insurance or reinsurance undertakings, intermediaries or associations thereof. The delegated Law of 2018 for the implementation of IDD and the subsequent amendments to the CAP (Legislative Decree no. 68 of 21 May 2018 transposing the directive) reintroduced and recalibrated, in line with the aforementioned Article 12, the provision of a Body for the registration of insurance intermediaries in the Single Register of Intermediaries and for the similar obligations pertaining to the maintenance of the lists of the persons within the undertakings who operate as distributors and of Italian and EU intermediaries who carry out cross-border activities. With its Internal Instruction of 28 September 2018, IVASS established a working group, tasking it with defining solutions that take into account the transfer of competences and activities to the new Body and the definition of the scope of IVASS supervision on its operations. The work is expected to be completed by April 2019. The study will be followed by dialogue with MISE and trade associations and the drafting of the detailed regulations.
2. IVASS should consider publishing any market-wide notices to intermediaries if the Department discovers problems in certain areas of activity. It is recommended that IVASS re-direct its focus on intermediaries from maintaining the Register to proactive supervision of intermediaries' conduct of business. 3. IVASS should adopt a risk-focused approach and prioritize its inspections of intermediaries, focusing on larger and more problematic intermediaries.	Proactive supervision of intermediaries' conduct of business. IVASS strengthened its supervision, including preventive and systematic supervision on intermediaries. In the first place, in March 2017, to rationalize and boost the efficiency of the activities of the Directorate, it was reorganized, appointing a Deputy Head of Directorate, establishing a new unit for the performance of supervisory duties (DVI - Intermediaries Supervision Directorate) and consolidating in a single Division (DGRUI - RUI Management Division) the two sectors that performed Register management tasks. Based on this new organisation, the preventive supervisory actions were already enhanced in 2017: - actions on principal undertakings and/or relevant intermediaries for network control. The objective is to stimulate the development: a) of the culture of control and of efficient organisation, based, especially for medium/large sized intermediaries, on more robust governance systems; b) of adequate levels of training, focusing on the protection of consumers' interests;

	- maintenance and update of a list of intermediaries considered "at risk" due to pre-existing findings, which are subjected to systematic and periodic monitoring (acquisition of info on the business); - meetings with intermediaries who operate - or intend to operate - in innovative ways (digital brokers, platforms for the sale of micropolicies/instant insurance, P2P models, utilities, new players); - meetings/summons of intermediaries who have present or potential critical issues; - warning letters in the presence of suspicion of non-compliant behaviours; - intensification of the exchanges with the other ESA/NCAs also through platforms or calls and close collaboration with Consumer Protection Directorate in the management of the files relating to EU undertakings that operate cross border – under FoS and/or under FoE - through Italian distribution networks; - off-site supervisory actions on Websites and social network profiles of intermediaries that had contents not fully compliant with the regulatory requirements; - information requests to Italian intermediaries who notify the intention to operate in other EU Countries immediately after registration in the RUI and/or in the presence of other warning signs; - systematic update and "clean up" of the RUI, now up and running, carried out annually starting from 2014. The new guidelines resulted at the end of 2017: A. in a development plan ("general framework") of the supervisory activity on the behaviour of intermediaries, oriented to IDD criteria, with a view to preventive supervision. The plan hinged on a series of initiatives directed at: - orienting insurance distributors towards compliance with the new legal and regulatory frameworks; - promptly intercepting the signs of potential anomalies through preventive supervision;

	- developing off-site supervision methodologies that take into account the evolution of the existing distribution models, the advent of new ones and the emerging entities in the field of insurance distribution. In 2018, the Directorate started work for the preparation of a reference framework ("Masterplan") for a new model of structured analysis of the data with the objective of intercepting behaviours, both at the level of the market and of individual distributors, not in line with the laws and regulations of the sector. B. in an action plan ("specific framework") to contrast fake sites. This latter activity was a veritable "contingency action" launched in 2017 and made necessary by the spread of the - particularly aggressive - phenomenon of the sale of fake policies (mainly MTPL) to unaware consumers attracted by the particularly low prices advertised on websites not connected with actually existing undertakings and/or intermediaries. The danger of the phenomenon is intensified by the fact that the authors of the fraud often misappropriate and use identities and trademarks of actually existing intermediaries and companies. Therefore, a relentless and effective fight was implemented, making it possible to identify, so far, over 150 fake sites (on average, one every 3 days!), reported to the Judicial Authority, requesting that they be taken offline and that those responsible for the scams perpetrated through these sites be prosecuted. The outcomes of the investigations and advice on protection against such scams are published through press releases, information campaigns, relations with consumer associations, participation in radio and television broadcasts. However, since the Judicial Authority did not react in the timely manner needed for the fight against this phenomenon to be effective, since the second half of 2017 the Directorate has further enforced the contrasting action, collaborating with a broader range of stakeholders, with the objective of obtaining the removal of the fake sites from the web without delay. Specifically, relations were established with: - the Italian Domain Registry (NIC) to point out the need to verify the "subjective requirements" of the person registering the indicated domain names (this collaboration has led so far to the cancellation of 75 percent of fake domains with .it extension).

	- Google Italia, to agree on a process - "Fast-tracking" - to report the possible non-compliance with Google policies of the ads for fake websites published on the related search engine; - Internet Service Providers (providers of web hosting services), both Italian and foreign, to urge them to intervene, after verifying the subjective requirements of applicants requesting access to "Internet space" for the site. Moreover, with Italian Legislative Decree no. 68 of 21 May 2018 transposing Directive (EU) 2016/97 on insurance distribution, a new legitimacy condition for exercising insurance distribution via Internet was introduced in the CAP. It is Paragraph 2-bis of Article 109 which, for websites through which it is possible to exercise insurance distribution activities, in accordance with Article 106, prescribes the obligation for the holder of the domain to be registered in the RUI. This requirement was further specified in IVASS Regulation no. 40/2018 and more specifically in Article 78. To disseminate these provisions and promote the adoption by all possible recipients (direct and indirect) of procedures and practices that are fully in accordance with their spirit, an information letter was issued for Companies offering information society services, as Internet Service Providers with hosting functions in accordance with Article 16 of Legislative Decree no. 70/2003 (on electronic commerce). This note, in addition to communicating the entry into force of the new provisions starting from 1 October 2018, has the dual objective of: - suggesting to major Providers with their registered office in Italy that they should adopt operational and organizational safeguards useful to prevent persons not registered in the RUI from being the holders of Internet domains and using the web to perpetrate insurance fraud against unaware consumers; - enhancing the collaboration with IVASS in contrasting unauthorised insurance distribution via the Internet. With regard to the recommendation to publish "market-wide notices to intermediaries if the Department discovers problems in certain areas of activity", some letters to the market were issued on relevant aspects of the mediation activity on which, based on the experience of the Directorate, it was necessary to provide guidance/clarification or to acquire knowledge on emerging/relevant phenomena. In detail: - letter of 6 November 2017 on segregated accounts, substitute guarantee, etc.;

	- letter of 28 November 2017 containing recommendations to intermediaries on cyber security, preceded by an investigation on the degree of awareness and safeguards on this matter, carried out through the associations on the basis of a questionnaire prepared by the Intermediaries Supervision Directorate; - letter of 16 February 2018 containing prescriptions directed at ensuring that brokers comply with regulatory provisions for the management of complaints with respect to which deficiencies/discrepancies were observed. The letter was preceded by an investigation–initiated by IVASS on 6 October 2017–on the degree of compliance with the safeguards required by regulations, carried out through the associations on the basis of a questionnaire prepared by the Intermediaries Supervision Directorate; - letter of 12 October 2018 to the main associations, concerning the review of the actions carried out by the Italian intermediaries who operate cross border with UK undertakings to manage the effects of Brexit taking into account the need to guarantee service continuity and protect consumers from detriment. Moreover: - to spread knowledge of the set of rules governing the activity of intermediaries and to prevent problems due to enforcement uncertainties/misunderstandings, both a comprehensive Guide, and numerous FAQs were implemented and published in the IVASS site. To date, the Guide was entirely revised in light of the IDD and of the implementing regulations, while the FAQs undergo evolutionary maintenance; - for the purposes of promoting the compliance and cultural growth of the sector, numerous opinions were provided to intermediary trade associations; - training/information functions are carried out daily by the Intermediaries Contact Centre, whose duties are to provide first response and support to intermediaries' requests on administrative, regulatory and technical questions; - in addition, a general instruction was issued (2015) to impose the PEC (certified electronic mail) on first-level intermediaries and to manage the address acquisition phase. The operation involved over 40,000 parties and it had satisfactory returns; - in particular, it was the first step towards the subsequent modernisation of the RUI management infrastructure which since March 2017 has been digitised using digitally signed dynamic PDF documents sent via PEC to a dedicated IVASS mailbox. The benefits of the shift from paper to digital were immediate

	and entailed an enormous streamlining and a considerable requalification of work processes; - currently, an IVASS-BDI project group is working on the definition of the specifications directed at launching a new RUI management application, in portal logic.