



National Association of Insurance Undertakings- ANIA
Annual Meeting

Speech by IVASS President Luigi
Federico Signorini

Rome, 5 July 2022

Dear President, ladies, gentlemen,

I would like to thank ANIA and President Farina for the invitation.

A few days ago, I presented the report on the activities of Ivass; on that occasion, I dealt with the issues of prudential supervision that seem to me to be most important. I focused in particular on how the tensions following the Russian aggression against Ukraine and the aftermath of the pandemic are affecting the profitability, liquidity and solvency of companies.

I will not come back to these issues today except to reiterate that I expect insurance companies to pay close attention to all relevant variables, in particular interest rate and spread trends and inflation dynamics. I trust that corporate bodies keep them in mind when calculating balance sheet aggregates. It is important that in non-life insurance, inflation is adequately taken into account in the valuation of technical provisions.

I also recommend accelerating measures to ensure the resilience of IT-related business functions, also in view of the growing threat of cyber attacks. We are in the process of updating the survey on this issue carried out in 2019, to see how companies have adapted to national regulations and EIOPA recommendations.

I had reserved the right to return to a more technical forum on certain issues of importance to the insurance industry: today's event gives me the opportunity to do so. I will touch on five points.

1. In the area of motor third-party liability (MTPL) there are, as I have noted elsewhere, positive developments; however, some points still deserve attention.

Territorial gaps in the cost of policies are gradually narrowing: the gap between Naples and Aosta, the two provinces at the extremes of the distribution, has narrowed by almost half in eight years. On the other hand, technical margins continue to show marked differences (from -30 euro per policy in Caltanissetta, to +148 euro in Isernia), which are not always immediately explainable. I have asked for more details on the causes of this variability and I promise to come back to it once we have a more complete picture. We think that the degree of competition at the local level plays a role: with the same risk, where the higher the competition between companies, the lower the prices for consumers seem to be. However, we also know that the incidence of late claims reporting and the time and uncertainty of litigation are very important, and that progress on this front

is essential to reduce territorial differences.

In fact, two important new elements are on the way. The first concerns the national single Table for compensation of non-economic damage from macro-injuries, valid for MTPL as well as healthcare liability. We collaborated with the Ministry of Economic Development (MISE) on its definition, in harmony with the criteria set by the legislator. The draft decree put out for consultation by the MISE received some comments, on which we will provide our assessment in the coming days. We trust that this will be followed by rapid enactment. The measure has been awaited for more than 15 years, and we expect its adoption to have significant positive effects on legal certainty, uniformity of treatment and the duration of litigation, to the benefit of both injured parties and insurance companies.

The other important new element is the establishment of the Insurance Arbitrator, on whose regulation we are convinced that a fair balance has been reached thanks, again, to the cooperation between MISE and Ivass. The experience of the Banking and Financial Arbitrator was and is positive, and has helped divert many disputes from the courts to the out-of-court system, with enormous cost and time savings. We do not hide the differences between the two cases, first and foremost the competence for equitable estimates: these are likely to have a not insignificant impact on the activity of the insurance arbitrator, whereas they are not foreseen in the banking case; thus, the precedent does not help us here. We will follow the experience with all the necessary attention, ready to suggest refinements if appropriate. One thing is certain: the system cannot function well without the conscious, open cooperation of the insurance industry. This is an important opportunity to break the chain of pathological litigation. I am counting on you.

Still on the subject of MTPL, the recent debate on the competition bill has highlighted the inefficiency of two institutions that play a central role in the sector: inter-company compensation mechanisms in direct compensation and the bonus-malus system. We believe the time has come to reform them. Subject to all the necessary technical investigations, it could find acceptance from the consumer side as well as from the intermediary and company side.

The current direct compensation agreement, based on the lump-sum system, has, on the whole, played a positive role in the 15 years it has been in force, helping to keep claims costs down; however, it is characterised by insufficient granularity and a suboptimal incentive structure. It is possible to design a different, more effective method. This is an objective we feel is important to pursue, in cooperation with the Antitrust Authority, businesses and consumer representatives.

The bonus-malus system, after almost thirty years of operation, shows clear signs of wear and tear. On the one hand, universal conversion classes have lost almost all signalling value (just under 90 per cent of vehicles are in class 1); on the other hand, the habit of defining "internal" classes, which are neither

transparent nor universal, has become widespread among companies. A reform is now urgent. However, it should not be forgotten that the subject is complex and must be tackled in an organic manner, also taking into account all the rules that have stratified over time.

2. In the insurance industry, artificial intelligence (AI) can be useful in designing and pricing insurance coverage that better meets consumers' needs. However, ethical parameters and safety requirements must be met. These should be as objective and transparent as possible in order to effectively protect the rights and interests at stake and at the same time give certainty to operators.

We therefore share the need for a cross-cutting European regulation that goes in the desired direction. However, we consider it necessary for the discipline to take proper account of the peculiarities of the regulated sectors. We are well aware that some AI-related risks are of particular relevance in the insurance sector. However, it is good that the rules on the subject fit organically into the existing framework of prudential and market conduct regulation. It seems preferable, therefore, that the authorities already supervising the sector should be responsible for its compliance, so as to avoid as far as possible overlaps, ambiguities and inconsistencies, which would be detrimental to the effectiveness of action. We know that EIOPA is moving in the same direction.

In the meantime, we have launched a survey on the subject to better understand how much and how, in the Italian context, AI algorithms are used in some key processes of the insurance industry (customer profiling, policy pricing, claims management). The resulting picture can also help us, if necessary, in further discussions with the most active and innovative players.

3. For insurance-based investment products, the focus of regulators is, as you know, on analysing the value that the product has for the insured ("value for money"). It is obviously not a question of hindering companies in their legitimate quest for profit through fair and transparent offers; but to prevent the marketing of products - and these cases are less rare than one might think - which, due to their cost structure and returns reasonably foreseeable in advance, do not have an acceptable justification as an investment. Not only the customer rarely has the necessary tools to fully assess the cost effectiveness of what is offered; as we have observed, the companies themselves are sometimes not equipped for such a systematic evaluation.

The obligation to adopt appropriate "product governance" consists precisely in this: equip themselves to know and document what they are selling and to whom. As I said a few days ago, it seems to me a necessary condition for establishing a proper relationship of trust with customers.

At the European level, we are working with EIOPA to define measurement criteria and methodologies that allow for a harmonised, balanced and robust supervisory approach.

At the national level we are engaged in a dialogue with many companies. We found, it is fair to acknowledge here, commitment and cooperation; however, there is still a long way to go, and I would like to urge companies to continue along the path they have started and look for good, balanced solutions. It goes without saying that we will not hesitate to intervene, on the basis of legal principles, in cases of clear, unjustified consumer detriment.

4. The EIOPA thematic survey on the sale of payment protection insurance (PPI) through the banking system recently closed. The final report will be published in the autumn. We can already say that the analysis has highlighted recurring problems: disproportionate costs; practices that hinder the consumer's evaluation of alternative coverage; unjustified constraints and restrictions in contract terms. Based on these findings, harmonised supervisory interventions and practices will be developed.

We will assess together with the Bank of Italy the most appropriate initiatives to be taken on a national basis, in line with the actions that will be defined at European level. We would like to favour measures based on transparency and competition of offers as far as possible. However, following this path requires the loyal cooperation of banks and insurers, inter alia in terms of standardisation of conditions. Otherwise, competition will hardly work, and more intrusive interventions on pricing rules, which for our part we continue to regard as anything but a first best, may become difficult to avoid.

5. The apparatus I have used to get its "finger on the pulse" of the market has recently been enriched with an innovative tool, mystery shopping. The recent amendment of the Consumer Code has extended the use of this instrument, initially confined to cross-border infringements of EU rules, to the strictly domestic sphere. Last October, we presented to the public the results of the European project that helped us to develop the methodology with which we will integrate this tool into our supervisory activities.

Since then, we have taken other steps: we prepared a regulation for national mystery shopping, and the consultation closed in April; we are working on the realisation of the first campaign carried out independently.

I would like to emphasise an important point, in light of the concerns expressed by several parties. We will use the results of the visits, both to initiate a supervisory dialogue with the operators concerned and, from a policy perspective, to initiate discussions and consultations with the market, especially in the case of widespread anomalies. Mystery shopping, as we see it today, is not intended to initiate sanction proceedings.

Ladies and gentlemen,

For us, it is essential to maintain, indeed to extend, the frequency and scope of discussions with the industry and the entire market, with all the players in the insurance system.

It is important for discussion to be open and transparent.

It can take place in different ways: through "official" occasions such as this; through technical or academic conferences, which I hope can be multiplied; finally, at the regulatory stage, through the instrument of public consultation, not only required in many cases by law, but also valuable for the regulator.

No one is omniscient. The free, frank and open discussion of the proposals on the table is essential to fully assess the direct and indirect implications of each option, the repercussions on the various operators, and possible alternatives. We are ready to listen; committed to give a public account, as is our duty, of the discussions, positions expressed and suggestions made; and of course the reasons for our choices.

I would also like to make a commitment to restart the traditional meetings with major companies, which are very useful for Ivass and - I trust - also for companies: meetings that had to be interrupted, along with many other things, because of the difficulties related to the health emergency.

The pandemic has taught us to work from home, attend online conferences and seminars, maintain relationships even at a distance, cultivate technology-mediated dialogue. However, it also made us realise even better how important the direct relationship is: how beneficial it is to interact face-to-face, speaking to the audience and not to a screen.

So I thank you once again for this opportunity.

