(only the Italian version is authentic)

REGULATION N. 16 OF 4 MARCH 2008

REGULATION LAYING DOWN THE PROVISIONS AND VALUATION METHODS FOR DETERMINING THE NON-LIFE TECHNICAL PROVISIONS REFERRED TO UNDER ARTICLE 37 (1) OF LEGISLATIVE DECREE N. 209 OF 7 SEPTEMBER 2005 – CODE OF PRIVATE INSURANCE.

AMENDED AND SUPPLEMENTED BY ISVAP REGULATION N. 30 OF 12 MAY 2009 AND BY ISVAP REGULATION N. 33 OF 10 MARCH 2010. THE AMENDMENTS OR INTEGRATIONS ARE SHOWN IN *ITALICS.*

ISVAP

Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo (the Supervisory Authority for Private Insurance Undertakings and Insurance Undertakings of Public Interest)

HAVING REGARD to law n. 576 of 12 August 1982 as subsequently amended and supplemented, on the reform of insurance supervision;

HAVING REGARD to legislative decree n. 209 of 7 September 2005 as subsequently amended and supplemented, introducing the Code of Private Insurance;

HAVING REGARD to presidential decree n. 254 of 18 July 2006;

adopts the following

REGULATION

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TITLE I
General Provisions

Art. 1
(Legislative sources)

1. This Regulation has been adopted in compliance with articles 37 (1), 190 (1 and 2), 191 (1, d) and 349 (1) of legislative decree n. 209 of 7 September 2005.

Art. 2
(Definitions)

1. For the purposes of this Regulation:
   a) "other acquisition costs" shall mean: the costs arising from the conclusion of an insurance contract other than the acquisition commissions, as defined in article 52 of legislative decree n. 173 of 26 May 1997;
   b) "appointed actuary" shall mean: the actuary appointed by the undertaking pursuing the classes of insurance against civil liability in respect of the use of motor vehicles and craft referred to in legislative decree n. 209 of 7 September 2005;
   c) "technical bases" shall mean: all the statistical data, pertaining to the risks insured and to the claims, taken as reference for the method of calculating premium rates;
   d) “CARD” shall mean: Agreement between insurers for direct compensation and the regulation of the reimbursements ensuing from damages as per articles 141, 149 and 150 of legislative decree n. 209 of 7 September 2005 and presidential decree n. 254 of 18 July 2006;
   e) "loading" shall mean: the share of the operating expenses (acquisition, collection and administration costs) and any other burden considered by the undertaking in the premium rates calculation and the business compensation margin of an undertaking's hazard;
   f) "cost of claims" shall mean: the amounts paid and written in the provisions including the relevant claims settlement costs;
   g) "decree" shall mean: legislative decree n. 209 of 7 September 2005;
   h) "total expected losses" shall mean: the estimate of the overall cost of the risks which which will be presumably covered during the period of validity of the premium rate;
   i) "debtor lump sum" shall mean: lump-sums and reimbursements owed by the undertaking (according to the CARD) as the undertaking liable for the payment of the claims and/or claims items which are managed by other undertakings and for which its policyholders are liable, in full or in part;
   j) "managing lump sum" shall mean: lump-sums and reimbursements owed to the undertaking (according to the CARD) for the claims and/or claims items managed as managing undertaking on behalf of other undertakings;
   k) "managing undertaking" shall mean: the undertaking which pays compensation on behalf of the insurer of the vehicle liable, in full or in part, for the accident;
   l) "undertaking liable for payment" shall mean: the undertaking for which the damages caused, in full or in part, by its policyholders are reimbursed by other undertakings on its behalf;
   m) "technical assumptions" shall mean: all the elements taken into account in the estimate of the future cost of the claims caused by the risks which will be insured in the period of validity of the premium rate and the relevant attributed values;
   n) "financial assumptions" shall mean: the forecasts of financial nature, such as, for instance, those relating to the trend in the rates of return deriving from the

undertaking's investments, used in premium rates construction, and the inflation assumptions used for the evaluation of technical provisions;

o) “ISVAP” shall mean: Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo (Supervisory Authority for Private Insurance Undertakings and Insurance Undertakings of Public Interest);
p) "premium rate" shall mean: the premium of the single contract determined as a function of the total expected losses, of any customisation variables and of the reciprocity criteria adopted by the undertaking;
q) "average premium rate" shall mean: the total expected losses divided by the number of risks which will be presumably covered during the period of validity of the premium rate,
r) "acquisition commissions" shall mean: the remunerations accrued for the acquisition and renewal of insurance contracts, as defined in art. 51 of legislative decree n. 173 of 26 May 1997;
s) "non-life insurance classes" shall mean: the classes of business referred to under article 2 (3) of legislative decree n. 209 of 7 September 2005;
t) "claims/premiums ratio" shall mean: the percentage incidence, over the premiums earned, of the sums paid and reserved for the claims occurred in the year, including the relevant direct expenses and settlement expenses;
u) "direct compensation" shall mean: the procedure for the settlement of damages envisaged by articles 141, 149 and 150 of legislative decree n. 209 of 7 September 2005;
v) "branch" shall mean: a branch, not having a legal personality, that is part of an insurance or reinsurance undertaking and that directly exercises all or part of the insurance or reinsurance business;
w) "CARD claims" shall mean: claims and/or claims items regulated by the direct compensation procedure, dealt by the undertaking as managing undertaking on behalf of the insurance undertakings of the liable vehicles (undertakings liable for payment);
x) "no CARD claims" shall mean: claims and/or claims items regulated by the ordinary system and not falling within the scope of CARD;
y) "claims settlement costs" shall mean: external and internal costs incurred by undertakings in claims management, as defined by art. 48 (3) of decree n. 173 of 26 May 1997;
z) "direct expenses" shall mean: expenses sustained by the undertakings to avoid or control the damages caused by the accident, such as, for instance, the legal costs referred to under article 1917 (3) of the civil code, loss containment costs in transport and aviation insurance, and fire suppression and water damage costs in fire insurance;
aa) "third State" shall mean: a State which is not a member of the European Union or does not belong to the European Economic Area;
bb) "customisation variables" shall mean: the elements used in the characterisation and rating of the single risks insured.

Art. 3
(Scope)

1. This Regulation shall apply to insurance undertakings having their head office in Italy and to the branches in Italy of insurance undertakings whose head offices are in a third State, authorised to pursue non-life insurance business.

2. This Regulation shall bear the provisions and methods of valuation for non-life insurance

technical provisions and the related requirements imposed on undertakings and on the appointed actuary.

TITLE II
Provisions and methods of valuation for non-life insurance technical provisions of Italian direct business

Art. 4
(General principles)

1. Undertakings pursuing non-life insurance shall establish, as per art. 37 (1) of the decree, for the contracts in the Italian direct insurance portfolio, technical provisions which must at all times be such that they can meet any liabilities arising out of insurance contracts as far as can reasonably be foreseen.

2. Undertakings shall establish technical provisions gross of reinsurance cessions.

3. Undertakings shall calculate technical provisions by using prudent methods of valuation and shall set up – taking into account the characteristics of the risks accepted and of claims:
   a) the provision for unearned premiums;
   b) the provision for claims outstanding;
   c) the provision for claims incurred but not reported at the closing of the financial year;
   d) the equalisation provisions;
   e) the senescence provision;
   f) the provision for bonuses and rebates.

4. Undertakings shall have adequate procedures and control systems in place to ensure the completeness, relevance and accuracy of the accounting and statistical data used for the purpose of calculating technical provisions.

5. For the purpose of guaranteeing adequate processes to calculate technical provisions undertakings shall have resources available, in terms of personnel, means and IT tools, ensuring that the calculation processes and their controls are reliable and efficient on a continuous basis.

CHAPTER I
Provision for unearned premiums

Art. 5
(Definition of provision for unearned premiums)

1. The provision for unearned premiums shall include the total amount of the sums needed to cover the future cost of claims regarding risks not expired at the date of valuation.

2. The premium provision shall be made up of the provision for unearned premiums, related to the accrual-based temporal division of the premium, and of the provision for unexpired

risks, connected with the technical performance of the risk.

3. Given the particular nature of the risks relating to the insurance lines referred to under article 37 (4) of the decree, the provision for unearned premiums referred to under paragraph 1 shall be supplemented through the establishment of an ad-hoc provision according to the valuation methods regulated by Section III of this Chapter.

Art. 6
(Assessments of the provision for unearned premiums)

1. Undertakings shall assess, for each insurance class, that the provision for unearned premiums set aside at the end of the previous financial year, uprated by the premium instalments falling within the financial year and regarding contracts for which the premium provision had been set up, has been sufficient, during the year, to provide for the overall cost of the claims occurred which, according to specific corporate analyses, regarded the contracts which had generated the provision.

2. Undertakings shall have internal management evidence in relation to the assessments referred to under paragraph 1.

Section I
Provision for unearned premiums

Art. 7
(Setting up of the provision for unearned premiums)

1. Undertakings shall calculate the provision for unearned premiums based on the amounts of gross premiums written, as defined by article 45 of legislative decree n. 173 of 26 May 1997, which is to be allocated to the subsequent financial years.

2. Undertakings shall assess and set up the provision for unearned premiums separately for each insurance class and possibly within the various kinds of risks included in it.

3. Within each insurance class undertakings shall calculate the provision for unearned premiums according to the criteria referred to under article 8.

4. Notwithstanding the provisions of paragraph 3, undertakings shall apply to the contracts concluded or renewed by 31 December 1991 the criteria for the calculation of the provision for unearned premiums defined in annex 1.

Art. 8
(Criteria for the calculation of the provision for unearned premiums)

1. Undertakings shall calculate the provision for unearned premiums separately for each insurance contract with the “pro rata temporis” method, based on the gross premiums written referred to under article 7 (1), deducted from the acquisition commissions and the other acquisition costs, limited to directly chargeable costs. For multi-year contracts, in case of amortisation of said commissions and costs paid for the acquisition of contracts, only the share regarding the financial year may be deducted.

2. As an alternative to the provisions of paragraph 1, undertakings shall calculate the provision for unearned premiums through a flat-rate method only in case it implies a provision which shall anyhow be not less than that which can be obtained through the "pro rata temporis" method, and the percentage deviation is not more than 2% referred to each insurance class.

3. If the undertakings use the flat-rate method for the calculation they shall keep the documents of the valuations made to assess the condition referred to under paragraph 2.

4. The calculation methods referred to under paragraphs 1 and 2 may not be used within the same insurance class.

Section II
Provision for unexpired risks

Art. 9
(Setting up of the provision for unexpired risks)

1. Undertakings shall set up the provision for unexpired risks in respect of risks to be borne after the end of the financial year, in order to provide for all claims and expenses in connection with insurance contracts concluded before that date, in so far as the expected cost of those risks is more than that of the provision for unearned premiums, evaluated net of the supplementary provisions referred to under articles 15, 18 and 21, increased by any premiums receivable on those contracts.

2. Undertakings shall assess and set up the provision for unexpired risks separately for each insurance class and possibly, in relation to the various kinds of risks included in each insurance class, also taking account of the outcome of the assessments referred to under article 6.

Art. 10
(Criteria for the calculation of the provision for unexpired risks)

1. To estimate the expected cost referred to under article 9 (1), regarding the risks to be borne after the end of the financial year, undertakings shall define an adequate provisional model, based on prudent transition parameters through which the expected claims ratio and further cost items can be analytically estimated for each contract or homogeneous groups of contracts in light of the trends observed during the financial year and of prospective analyses.

2. As an alternative to the provisions of paragraph 1, undertakings can calculate the provision for unexpired risks through an empirical method based on the projection of the overall expected claims ratio, according to the criteria referred to under article 11.

3. In assessing the provision for unexpired risks undertakings shall not consider the effects of the income components produced by capital or deriving from investments representing technical provisions.

Art. 11
(Empirical method for the calculation of the provision for unexpired risks)

1. The provision for unexpired risks calculated through the empirical method shall be estimated based on a prospective value of the ratio between claims and earned net premiums of the current generation.

2. The prospective value referred to under paragraph 1 shall be determined on a prudent basis, starting from the ratio between claims and earned net premiums during the year of the assessment, and shall also take account of the values of the ratio in a retrospective observation timeframe and of further objective evaluation elements regarding the performance of the expected cost of the risks to be borne after the end of the financial year.

3. Undertakings shall identify the extent of the retrospective observation timeframe referred to under paragraph 2 in relation to the peculiarity of the single insurance classes or of the single types of risks for which the assessments are made.

4. For the calculation of the ratio between claims and earned net premiums undertakings shall consider the burden of claims for the financial year, including direct and liquidation costs and the net premiums, determined on the basis of the earned gross premiums written, having deducted the acquisition commissions and other acquisition costs, limited to directly chargeable costs.

5. Undertakings shall calculate the expected cost of future risks inherent in contracts as the product of the prospective value of the ratio between claims and earned premiums referred to under paragraph 1 and the sum of the provision for unearned premiums and any premiums, net of the acquisition charges referred to under paragraph 4, receivable on those contracts.

6. Undertakings shall set up the provision for unexpired risks as equal to the possible surplus between the expected cost of future risks referred to under paragraph 5 and the provision for unearned premiums, increased by future premiums, net of the acquisition charges referred to under paragraph 4, receivable under the contracts concluded before the end of the financial year.

Section III
Integration of the provision for unearned premiums

Art. 12
(Supplementary provisions of the provision for unearned premiums)

1. Undertakings covering risks relating to suretyship, hail and other natural forces as well as damage due to nuclear energy shall establish a supplementary provision for unearned premiums according to the criteria defined in this regulation.

Art. 13
(Setting up of the supplementary provision
for suretyship insurance)

1. For suretyship insurance undertakings shall set up a supplementary provision of the provision for unearned premiums at each balance-sheet date.

2. To comply with the provision referred to under paragraph 1 undertakings shall calculate the supplementary provision according to the criteria defined in article 14.

3. In carrying out the assessments for setting up the supplementary provision referred to under paragraph 1 undertakings shall refer to suretyship insurance premiums.

Art. 14
(Calculation criteria for the supplementary provision for suretyship insurance)

1. Undertakings shall calculate the supplementary provision referred to under article 13 separately for the following types of risks:
   a) Contract guarantees:
      1) Tenders
      2) Assimilated to tenders
      3) Contracting of taxes
      4) Loyalty
      5) Foreign tenders
   b) Guarantees for legal requirements:
      1) Customs duties
      2) Assimilated to customs duties
      3) Duties – EU Regulations
      4) Tax payments and reimbursements
      5) Legal guarantees
   c) Other guarantees

2. For each type of risk referred to under paragraph 1 undertakings shall take account of the value of the ratio between the provision for unearned premiums – before the integration – and gross premiums written at the end of the financial year (RP/P%).

3. In case the ratio referred to under paragraph 2 is at or below thirty-five percent, undertakings shall determine the supplementary provision referred to under article 13 (1) as equal to the total resulting from the application of the following percentages to the gross premiums written in the financial year and of the four previous financial years:

premiums earned N	*35%*
premiums earned N-1	*30%*
premiums earned N-2	*25%*
premiums earned N-3	*10%*
premiums earned N-4	*5%*

4. In case the ratio referred to under paragraph 2 is over thirty-five percent and at or below seventy-five percent, undertakings shall determine the supplementary provision referred to under article 13 (1) as equal to the product between the amount resulting from the application of the criteria referred to under paragraph 3 and the coefficient deriving from the following formula:

1-0.5(RP/P%-35%)/65%*

5. In case the ratio referred to under paragraph 2 is over seventy-five and below hundred percent, undertakings shall determine the supplementary provision referred to under article 13 (1) as equal to the total resulting from the application of the following percentages to the gross premiums written in the financial year and of the four previous financial years:

premiums earned N	*100%-RP/P%*
premiums earned N-1	*21%*
premiums earned N-2	*17%*
premiums earned N-3	*7%*
premiums earned N-4	*3%*

6. In case the ratio referred to under paragraph 2 is at or over hundred percent undertakings shall not set up the supplementary provision referred to under article 13 (1).

7. In the absence of any gross premiums written in the financial year undertakings shall calculate the supplementary provision referred to under article 13 (1) by applying the percentages referred to under paragraph 5 to the gross premiums written of the four previous financial years. However, in case the situation referred to under paragraph 6 took place in the previous financial year undertakings shall not set up the supplementary provision referred to under article 13 (1).

Art. 15
(Setting up of the supplementary provision for insurance against damage due to hail and other natural forces)

1. Undertakings providing insurance against damage due to hail and other natural forces shall set up the supplementary provision of the provision for unearned premiums at each balance-sheet date.

2. In order to fulfil the obligations pursuant to paragraph 1 undertakings shall add an amount determined according to the criteria defined in article 16 to the supplementary provision of the previous year.

3. If the supplementary provision is at least fifty percent of the amount of gross premiums written of the financial year undertakings shall cease to set aside the additional amount referred to under paragraph 2.

4. Undertakings can use the supplementary provision according to the criteria defined in article 17. In that case undertakings shall not set aside the supplementary provision referred to under paragraph 2 and shall determine the supplementary provision as equal to the positive difference between the supplementary provision at the commencement of the year and the amount allocated in line with article 17.

5. In carrying out the assessments for setting up the supplementary provision referred to under paragraph 1 undertakings shall refer topremiums and claims of insurance against damage due to hail and other natural forces.

Art. 16
(Calculation criteria for the supplementary provision for insurance against damage due to hail and other natural forces)

1. Undertakings providing insurance against damage due to hail and other natural forces shall set aside the additional amount referred to under article 15 (2) in the years where the claims/premiums ratio is at or below eighty-four percent.

2. Undertakings shall determine the additional amount referred to under paragraph 1 by applying the rates shown in the following table to gross premiums written, in relation to the claims/premiums ratio found in the same financial year.

Claims/premiums ratio (%)	Percentages to be set aside (%)
-	-
84	1.00
83	2.00
82	3.00
81	4.00
80	5.00
79	6.00
78	7.00
77	8.00
76	9.00
75 and lower ratio	10.00

Art. 17
(Criteria for the use of the supplementary provision for insurance against damage due to hail and other natural forces)

1. Undertakings may use the supplementary provision referred to under article 15 (1) following the occurrence of the accidents deriving from the insured events if the claims/premiums ratio referred to under article article 16 is at or over one hundred and six per cent.

2. Undertakings shall determine the amount to be allocated to the supplementary provision within the limits shown in the following table, in relation to the claims/premiums ratio found in the same financial year.

Claims/premiums ratio (%)	Percentages to be used in the provision set aside at the beginning of the year. (%)
-	-
106	1.00
107	2.00
108	3.00
109	4.00
110	5.00
111	6.00
112	7.00
113	8.00
114	9.00
115 and higher ratio	10.00

Art. 18

(Setting up of the supplementary provision for insurance against damage due to natural forces such as earthquake, tidal wave, volcanic eruption and connected events)

1. Undertakings providing insurance against damage due to earthquake, tidal wave, volcanic eruption and connected events shall set up the supplementary provision of the provision for unearned premiums at each balance-sheet date.

2. To comply with the provision referred to under paragraph 1 undertakings shall calculate the supplementary provision according to the criteria defined in article 19.

3. *The supplementary provision referred to under paragraph 1 cannot be more than 100 times the amount of the gross premiums written of the financial year.*

4. *Undertakings shall use the supplementary provision according to the criteria defined in article 20. In that case undertakings shall assess the supplementary provision referred to under paragraph 1 as equal to the positive difference between the provision at the commencement of the year and the cost of claims allocated in line with article 20.*

5. *In carrying out the assessments for setting up the supplementary provision referred to under this article undertakings shall refer to the premiums and claims of insurance against damage due to earthquake, tidal wave, volcanic eruption and connected events.*

Art. 19
(Calculation criteria for the supplementary provision for insurance against damage due to natural forces such as earthquake, tidal wave, volcanic eruption and connected events)

1. Undertakings shall determine the amount of the supplementary provision referred to under article 18 (1) as the sum of thirty-five percent of the gross premiums written of the financial year and seventy percent of the the gross premiums written of the previous years.

2. If the supplementary provision has been used as per article 20, only the gross premiums written of the financial years after the last financial year of use shall be considered for the calculation referred to under paragraph 1.

3. If the supplementary provision has been used as per article 20, the residual supplementary provision – if any – shall be added to the amount referred to under paragraph 1.

Art. 20
(Criteria for the use of the supplementary provision for insurance against damage due to natural forces such as earthquake, tidal wave, volcanic eruption and connected events)

1. Undertakings shall use the supplementary provision referred to under article 18 when the insured events occur, if the amount of the cost of claims incurred in the financial year is higher than the gross premiums written of that year.

2. Undertakings shall allocate the amount of the cost of claims incurred in the financial year exceeding the gross premiums written of that year to the supplementary provision set aside at the commencement of that year.

Art. 21
(Setting up of the supplementary provision for insurance against damage due to nuclear energy)

1. *Undertakings covering damage due to nuclear energy shall set up the supplementary provision of the provision for unearned premiums at each balance-sheet date.*

2. *To comply with the provision referred to under paragraph 1 undertakings shall calculate the supplementary provision according to the criteria defined in article 22.*

3. *Undertakings shall use the supplementary provision according to the criteria defined in article 23. In that case undertakings shall assess the supplementary provision referred to under paragraph 1 as equal to the positive difference between the provision at the commencement of the year and the cost of claims allocated in line with article 23.*

4. *In carrying out the assessments for setting up the supplementary provision referred to under this article undertakings shall refer to the premiums and claims of insurance against damage due to nuclear energy.*

Art. 22
(Calculation criteria for the supplementary provision for insurance against damage due to nuclear energy)

1. Undertakings shall determine the amount of the supplementary provision referred to under article 21 (1) as the sum of sixty-five percent of the gross premiums written of the financial year and hundred percent of the the gross premiums written of the nine previous years.

2. If in the nine years preceding the year of valuation the supplementary provision has been used as per article 23, only the gross premiums written of the financial years after the last financial year of use shall be considered for the calculation referred to under paragraph 1.

3. If in the nine years preceding the year of valuation the supplementary provision has been used as per article 23, the residual supplementary provision after the last financial year of use – if any – shall be added to the amount referred to under paragraph 1.

Art. 23
(Criteria for the use of the supplementary provision for insurance against damage due to nuclear energy)

1. Undertakings shall use the provision referred to under article 22 when the insured events occur, if the amount of the cost of claims incurred in the financial year is higher than the gross premiums written of that year.

2. Undertakings shall allocate the amount of the cost of claims incurred in the financial year exceeding the gross premiums written of that year to the supplementary provision set aside at the commencement of that year.

CHAPTER II
Provision for claims outstanding

Art. 24
(Definition of provision for claims outstanding)

1. The provision for claims outstanding shall comprise the total amounts that, according to a prudent valuation based on objective elements, would be necessary to honour the payment of outstanding claims incurred in the current or previous years, whatever the date of report, as well as the relevant claims settlement costs, irrespective of their origin.

Art. 25
(Assessments of the provision for claims outstanding)

1. Undertakings shall assess, for each insurance class, that the provision for claims outstanding set aside at the end of the previous financial year has been sufficient, during the year, to provide for the payment of the claims of the previous years and of the relevant settlement costs.

2. Undertakings shall have internal management evidence in relation to the assessments referred to under paragraph 1.

Section I
Provision for claims outstanding

Art. 26
(Setting up of the provision for claims outstanding)

1. Undertakings shall set up the provision for claims outstanding separately for each outstanding claim whose settlement process is not yet finished at the end of the financial year, or for which the compensation, direct expenses and settlement costs have not been paid-up.

2. Undertakings shall enter the claims in the provision as long as both compensation and direct expenses are paid. Any residual settlement costs for claims already closed shall be anyhow shown in the provisions for claims outstanding.

3. Undertakings shall assess the provision for claims outstanding as equal to the ultimate cost, taking account of all future foreseeable liabilities.

4. In the calculation of the provisions for claims outstanding undertakings cannot consider the actual value of the expected amount for the future settlement of claims nor effect any other discounting or deduction.

Art. 27
(Calculation criteria for the provision for claims outstanding)

1. Undertakings shall determine the provision for claims outstanding starting from a separate analytical assessment of the cost of each claim reported but not paid-up based on the inventory method.

2. The cost of claim shall be assessed in accordance with the principle of the foreseeable

ultimate cost based on reliable historical and perspective data, also taking account of the assessments referred to under article 25.

3. To determine the provision for claims outstanding based on the principle of the ultimate cost undertakings shall take duly account of the business aspects characterising the management of the claims cycle and the peculiarities of insurance classes.

4. To determine the ultimate cost of claims of the insurance classes characterised by slow settlement processes, or where the analytical assessment referred to under paragraph 1 does not allow to take into account all future foreseeable liabilities, undertakings shall supplement the assessments referred to under paragraph 1 with statistical-actuarial methods or systems for the estimate of the trend in costs.

5. Notwithstanding the provisions of paragraph 1, limited to the current generation, and except for the credit and suretyship class, undertakings can determine the provision for claims outstanding through the criterion of the average cost in accordance with the provisions of article 28.

6. Undertakings shall enter settlement costs not directly attributable to individual claims or common to several classes on the basis of adequate allocation criteria.

7. Where undertakings must pay benefits resulting from a claim in the form of annuity, they shall calculate the provision for claims outstanding to be set aside based on recognized actuarial methods.

Art. 28
(Criterion of the average cost for the current generation)

1. In applying the criterion of the average cost referred to under article 27 (5), undertakings shall first identify the classes which – by their technical features – are suitable for the application of the criterion itself.

2. Within each of the selected classes undertakings shall define, for the generation pertaining to the financial statements, an adequate model for the identification of categories of claims which are sufficiently numerous and quantitatively and qualitatively homogeneous, and can therefore be evaluated at average cost.

3. Undertakings shall apply the inventory method to the claims of the current generation not belonging to the homogeneous categories as per paragraph 2.

Art. 29
(Statistical-actuarial methods for the calculation of the ultimate cost)

1. If the conditions referred to in article 27 (4) apply, undertakings shall apply, to appropriate aggregations of claims of the same class, appropriate statistical-actuarial methods based on the projection of reliable historical and perspective data.

2. Undertakings shall distribute the amounts resulting from the assessments referred to under paragraph 1 among individual claims according to adequate attribution parameters.

3. For the purposes of the assessments referred to under paragraph 1, undertakings shall

select prudent technical and financial assumptions that allow to predict all the components of the claims settlement process in line with the evolutionary factors both endogenous and exogenous to the undertaking, including any changes occurred in regulations. In this context, undertakings shall consider, among other things, the assumptions regarding the time period of deferral of payments, elimination of claims closed without payment, re-openings and the evolutionary trend in the cost of claims, related to seniority in terms of payment and to prospective assessments of the economic environment, with particular reference to the evolution of the inflation process.

4. If, for particular types of claims, it is not possible to apply the statistical-actuarial methods referred to in paragraph 1, undertakings shall, based on the inventory method, carefully assess the records on file, supplemented by compliance with and the possible use of appropriate coefficients for running off the technical provisions of previous generations or of other similar indicators.

Section II
Provision for claims incurred but not reported

Art. 30
(Definition of the provision for claims incurred but not reported)

1. The provision for claims incurred but not reported shall comprise the total amounts that, according to a prudent valuation, would be necessary to honour the payment of claims incurred in the current or previous years but not yet reported at the date of valuation, as well as the relevant settlement costs.

Art. 31
(Setting up of the provision for claims incurred but not reported)

1. Undertakings shall set up the provision for claims incurred but not reported separately for each insurance class or in relation to the various kinds of risks included in each insurance class.

2. Undertakings shall assess the provision referred to under paragraph 1 as equal to the ultimate cost, taking account of all future foreseeable liabilities given the different nature of such risks.

Art. 32
(Calculation criteria for the provision for claims incurred but not reported)

1. Undertakings shall determine the provision for claims incurred but not yet reported at the balance-sheet date, by number and amount, based on the experience gained in previous years, taking into consideration the frequency and average cost of claims incurred but not reported, and the average cost of claims reported during the year.

2. While respecting the principle of prudence referred to under article 30, undertakings can adopt a valuation method which differs from the one generally referred to in paragraph 1, in the absence of sufficient statistical data or for classes characterised by a high variability of the average cost and frequency.

3. Undertakings shall verify that the estimated values for the provision referred to under article 30 are compatible with the evaluation elements shown in the belated claims at

their disposal when they assess the provision.

Section III
Provision for claims outstanding in motor vehicle liability insurance

Art. 33
(Setting up of the provision for claims outstanding in motor vehicle liability insurance)

1. For the insurance contracts classified under class 10 of article 2 (3) of the decree undertakings shall set up the provision for claims outstanding for all CARD claims and for all NO CARD claims as equal to the ultimate cost, taking account of all future foreseeable liabilities and of the "managing lump sums" due to the undertaking based on the direct compensation procedure.

2. Undertakings shall set up the provision for claims outstanding also for all claims for which an undertaking works as undertaking liable for payment within CARD, based on the "debtor lump sums".

Art. 34
(Calculation criteria for the provision for claims outstanding in motor vehicle liability insurance)

1. To calculate the provision for claims outstanding of insurance class 10 referred to under article 2 (3) of the decree undertakings shall apply the criteria referred to under Sections I and II of this Chapter.

2. Undertakings shall determine the total amount of the provision for claims outstanding to be disclosed in the financial statements based on the amount calculated from the analytical assessments of the claims as defined by article 33 (1) by adding the "debtor lump sums" regarding the claims defined by article 33 (2) due by the undertaking at the end of the financial year.

3. For the purposes of the valuations referred to under paragraph 2 undertakings shall consider the "managing lump sums" and the "debtor lump sums" identified according to the criteria for inclusion in the provision for claims outstanding indicated by the Regulation referred to under article 90 of the decree.

Section IV
Provision for claims outstanding of credit and suretyship insurance

Art. 35
(Setting up of the provision for claims outstanding of credit insurance)

1. For the insurance contracts classified under credit insurance referred to under article 2 (3) of the decree undertakings shall set up the provision for claims outstanding, subject to the general principles set forth in Sections I and II of this Chapter, when one of the following conditions is met:
   a) De jure insolvency of the debtor due to:
      1) bankruptcy;
      2) administrative compulsory winding up;
      3) composition to avoid bankruptcy;
      4) controlled administration;

5) extraordinary administration;
6) equivalent procedures abroad.

b) De facto insolvency of the debtor due to:
1) enforcement procedure;
2) expiry of the original deadlines for execution by the debtor of the full or partial payments, and of the additional ones (extensions) as may be agreed by consensus between the creditor and debtor as long as provided in the policy;
3) out-of-court composition;
4) taking into account the situation of the debtor, agreement on the fact that even partial payments of the debt are unlikely, and that insignificant results of enforcement actions can be envisaged in relation to the amount of legal costs to be borne;
5) declared non-compliance with the obligation to insure political risks.

2. In cases of de jure insolvency of the debtor the provision for claims outstanding shall be anyhow set up following a notification by the insured that those events have occurred, or that acts or facts have occurred which let reasonably assume that those events have occurred.

3. In cases of de facto insolvency of the debtor the provision for claims outstanding shall be anyhow set up (following a notification by the insured):
a) at the date of the application of the enforcement procedure, for the case referred to under paragraph 1 (b, 1);
b) at the deadline for execution by the debtor of the full or partial payments, for the case referred to under paragraph 1 (b, 2);
c) at the execution date of the composition deed, for the case referred to under paragraph 1 (b, 3);
d) at date of the agreement by the insurer and by the creditor, for the case referred to under paragraph 1 (b, 4);
e) at date of the recognition of the non-compliance, for the case referred to under paragraph 1 (b, 5).

4. In setting up the provision for claims outstanding undertakings shall take into account the following kinds of risks:
a) domestic commercial credits;
b) export commercial credits;
c) instalment credit;
d) mortgages and concessional loans secured in rem;
e) credits from leasing contracts.

Art. 36
(Special calculation criteria for the provision for claims outstanding in credit insurance)

1. Undertakings shall assess the provision for claims outstanding as equal to the insured amount and can, by way of derogation from article 26 (4), reduce its amount only if there are objective facts proving that the deducted sums can be recovered and that the undertaking is able to recover them. Any advances shall be considered as partial claims payment.

2. Only as regards the de facto insolvency of the debtor referred to under article 35 (1, b, 2), when evaluating the provision for claims outstanding undertakings can take into account the evolution of their historical data, referred to the individual kinds of risks referred to in

article 35 (4), their specific features and the different generation of claims, provided that they are reliable, well established over time and supported by adequate evidence.

Art. 37
(Setting up of the provision for claims outstanding of suretyship insurance and special calculation criteria)

1. For the insurance contracts classified in the suretyship insurance class referred to under article 2 (3) of the decree (subject to the general principles referred to under Sections I and II of this Chapter), undertakings shall set up the provision for claims outstanding both in case of forfeiture of security or anyhow if acts or facts occur which can be regarded or can objectively be regarded as pre-requisites for issuing the guarantee.

2. Undertakings shall assess the provision for claims outstanding as equal to the insured amount and can, by way of derogation from article 26 (4), reduce its amount only if there are objective facts proving that the deducted sums can be recovered and that the undertaking is able to recover them.

Section V
Procedures and collection of data

Art. 38
(Procedures)

1. Undertakings shall impart adequate instructions to their settlement departments in charge of the analytical assessment of the provision for claims outstanding referred to under article 26 (1) in compliance with the principle of prudence and the objectivity of the qualifying elements shown in the documents regarding each claims file, also in view of the assessment by undertakings according to the ultimate cost principle as per article 37 (5) of the decree.

Art. 39
(Organisation and keeping of data)

1. Undertakings shall possess adequate systems for the collection and management of the data related with the claims cycle, along with suitable statistics used within the assessments of the provisions for claims outstanding.

2. The data collection systems referred to under paragraph 1 shall allow to give evidence – for the cases characterised by a plurality of counterparties – of the claims paid and of those written in the technical provisions regarding each of them, as well as of any existing litigations.

3. Undertakings shall keep among their documents, even in an electronic file, the summary printouts of the single steps of the setting up of provisions for claims outstanding for at least ten years after passing the relevant financial statements.

CHAPTER III
Equalisation provisions

Art. 40
(Definition of equalisation provisions)

1. Undertakings pursuing non-life insurance business shall, by law, set up equalisation provisions which include all the amounts set aside in order to equalise the fluctuations in loss ratio in future years or to cover special risks.

Art. 41
(Setting up of the equalisation provisions in credit insurance)

1. The undertakings authorised to pursue credit insurance shall set up an equalisation provision for the purpose of offsetting any retained technical deficit arising in that class at each balance-sheet date.

2. At each balance-sheet date undertakings shall add an amount determined on the basis of criteria defined in article 42 to the equalisation provision of the previous year.

3. The equalisation provision referred to under paragraph 1 cannot be more than one hundred fifty percent of the higher amount of retained premiums of credit insurance in the five years preceding that of the assessment.

4. In case the retained technical balance at the balance-sheet date is negative, undertakings shall not set aside the additional amount referred to under paragraph 2, and shall determine the equalisation provision referred to under paragraph 1 as equal to any excess between the equalisation provision of the previous year and the technical deficit to the extent defined in article 43.

Art. 42
(Calculation criteria for the equalisation provisions in credit insurance)

1. Undertakings shall determine the additional amount referred to in article 41 (2), by applying seventy five percent to the retained positive technical balance for the year realised in credit insurance.

2. The provision referred to in paragraph 1 cannot be higher than twelve percent of the retained premiums for the year.

3. For the purpose of the assessments referred to under paragraphs 1 and 2 the retained premiums shall be the premiums written net of reinsurance and retrocessions for insurance and reinsurance risks. Positive technical balance and technical deficit shall be defined as the balance on the technical account of the insurance class net of reinsurance and retrocessions, regarding insurance and reinsurance risks.

Art. 43
(Criteria for the use of the equalisation provision in credit insurance)

1. In case the retained technical balance at the balance-sheet date is negative undertakings shall use, at least to reach the balance, the equalisation provision set up in the previous year.

Art. 44
(Equalisation provision for risks arising from natural catastrophes
and for damage due to nuclear energy)

1. The undertakings authorised to pursue non-life insurance shall set up – except for the credit and suretyship class – an equalisation provision for risks arising from natural catastrophes and for damage due to nuclear energy, for the purpose of offsetting the trend in claims ratio over time, according to the conditions and practices established in the Regulation referred to under article 37 (7) of the decree issued by the Ministry of Economic Development and the Ministry of Economy and Finance, after hearing ISVAP's opinion.

CHAPTER IV
Reserve for increasing age

Art. 45
(Definition of the reserve for increasing age)

1. The reserve for increasing age is a provision aimed to make up for the risk increase due to the advancing age of the insured persons within the insurance contracts of class 2 referred to under article 2 (3) of the decree.

Art. 46
(Setting up of the reserve for increasing age)

1. Undertakings shall set up the reserve for increasing age referred to under article 45 for multi-year contracts, or annual contracts which however envisage an obligation to renew them at the expiry date, where premiums have been calculated, for the whole life of the guarantee, according to the age of the insured person when the contract was concluded.

2. Undertakings shall set up the reserve for increasing age in relation to insurance contracts against the risk of dependency even if policy conditions expressly envisage that during the life of the contract the amount of premiums can vary according to the evolution of the statistics referred to all the population.

3. Undertakings shall determine the reserve for increasing age on the basis of the criteria set out in article 47.

Art. 47
(Calculation criteria for the reserve for increasing age)

1. Undertakings shall assess the reserve for increasing age referred to under article 45 in relation to the foreseeable lifetime of contracts, the age of the insured persons and the technical bases adopted.

2. Undertakings shall assess the reserve for increasing age separately for each contract, based on the technical-actuarial criteria similar to those adopted in life assurance.

3. Notwithstanding the provisions of paragraphs 1 and 2, for annual premium contracts undertakings may determine the reserve for increasing age for the health risk on a lump-sum basis, and calculate that it is not less than ten percent of the gross premiums written

of the financial year relating to the contracts showing the features indicated under article 46 (1).

4. To calculate the reserve for increasing age for the health risk on a lump-sum basis ISVAP can fix a higher percentage than that envisaged under paragraph 3, taking account of the foreseeable lifetime of contracts, the age of the insured persons and the technical bases adopted.

5. The provisions referred to in paragraphs 3 and 4 do not apply to insurance contracts against the risk of dependency.

CHAPTER V
Provision for bonuses and rebates

Art. 48
(Criteria for the determination of the provision for bonuses and rebates)

1. The provision for bonuses and rebates shall comprise amounts intended for the policyholders or contract beneficiaries by way of bonuses and rebates, to the extent that such amounts have not been already credited to policyholders.

TITLE III
Obligations for the actuary appointed by an undertaking carrying on motor vehicle liability and liability for ships insurance

Art. 49
(Technical report on premium rates)

1. *For each tariff or change in premium rates adopted by the undertaking in motor vehicle liability and liability for ships, the appointed actuary shall draw up the technical report on the premium rates envisaged by the Regulation of the Ministry of Economic Development referred to under articles 31 and 34 of the decree.*

2. *The technical report on the premium rate referred to in paragraph 1 shall be drawn up and underwritten by the appointed actuary in compliance with the standard report in annex 2 to this Regulation, and shall show the outcome of the assessments by the appointed actuary pursuant to the provisions of the Regulation of the Ministry of Economic Development referred to under paragraph 1.*

3. *The appointed actuary shall express his/her opinion on the premium rate in the technical report.*

4. *For the undertakings having recourse to the exemption referred to under article 55 (quater, 2) of l*egislative decree n. 198 of 11 April 2006, the appointed actuary shall include in the technical report on the premium rate a declaration of adequacy of the data *in relation to the equal treatment between men and women in the access to insurance*

services[1]*.*

Art. 50
(Technical reports enclosed to the balance-sheet and to the half-yearly report)

1. *The appointed actuary shall draw up a technical report on the provisions of insurance against civil liability in respect of the use of motor vehicles and craft of the Italian direct portfolio the undertaking is proposing to disclose in the financial statements, as envisaged by the Regulation of the Ministry of Economic Development referred to under articles 31 and 34 of the decree.*

2. *The technical report referred to under paragraph 1 shall be drawn up and underwritten by the appointed actuary in compliance with the standard referred to under annex 3 to this Regulation.*

3. *The appointed actuary shall draw up a technical note on the provisions of insurance against civil liability in respect of the use of motor vehicles and craft of the Italian direct portfolio which the undertaking is proposing to disclose in the semi-annual report, in which he/she expresses his/her own opinion on the procedures and methods used in the calculation of technical provisions and provides an adequate description of it.*

Art. 51
(Report in case of termination of the appointment)

1. *The appointed actuary shall draw up the report referred to under article 31 (6) of the decree also in case he/she ceases to perform his/her activity within an undertaking in case of merger or division of the latter.*

2. *In case of total or partial transfer of the portfolio to another undertaking the appointed actuary shall draw up the report referred to under article 31 (6) of the decree with reference to the portfolio transferred.*

TITLE IV
Obligation to give information to ISVAP

CHAPTER I
Obligation to give information on the premium rates of motor vehicle liability and liability for ships insurance

Art. 52
(Obligation, for the appointed actuary, to give information on the premium rates of motor vehicle liability and liability for ships insurance)

1. If the appointed actuary has expressed a negative opinion on the assumptions adopted by the undertaking in the premium rates calculation, he/she shall notify ISVAP immediately thereof and send it a copy of the technical report referred to under article 49.

[1] Paragraph added by article 13 (3) of ISVAP Regulation n. 30 of 12 May 2009.

2. If the appointed actuary, in the performance of his/her functions of supervision over premium rates envisaged by the Regulation of the Ministry of Economic Development referred to under articles 31 and 34 of the decree, finds a violation of the regulations by the undertaking, he/she shall notify ISVAP immediately thereof and provide a detailed note about the outcome of his/her checks.

CHAPTER II
Obligation to give information on the technical provisions of motor vehicle liability and liability for ships insurance

Art. 53
(Obligation, for the appointed actuary, to give information on the technical provisions of motor vehicle liability and liability for ships insurance)

1. If the appointed actuary thinks that he/she should not issue the statement of sufficiency referred to in article 37 (2) of the decree he/she shall notify ISVAP immediately thereof and send it a copy of the technical report referred to under article 50 accompanied by specific reasons.

2. If the appointed actuary, in the performance of his/her functions of supervision envisaged by the Regulation of the Ministry of Economic Development referred to under articles 31 and 34 of the decree, finds serious violations of the regulations on the technical provisions of insurance against civil liability in respect of the use of motor vehicles and craft by the undertaking, he/she shall notify ISVAP immediately thereof and provide a detailed note about the outcome of his/her checks.

CHAPTER III
Other information obligations

Art. 54
(Free access to in-house data)

1. In case the undertaking does not guarantee – pursuant to article 31 (3) of the decree – free access to the in-house data considered necessary for the performance of the appointed actuary's duties the latter shall immediately notify ISVAP that the obstacles found are still there (after sending to the undertaking a written notice to fulfil that obligation within a given time limit).

TITLE V
Transitional and final provisions

CHAPTER I
Transitional provisions

Art. 55
(repealed)[2]

[2] Article repealed by article 140 (1, c) of ISVAP Regulation n. 33 of 10 March 2010. Article 55 laid down: *"1. Until the issuing of the Regulation referred to under article 62 (1) of the decree the*

Art. 56
(Provisions for claims outstanding in motor vehicle liability insurance)

1. Until the issuing of the Regulation referred to under article 90 of the decree the provisions of ISVAP order n. 2495 of 21 December 2006 shall apply for the calculation of the "managing lump sums" and the "debtor lump sums" for the evaluation of the provision for claims outstanding.

Art. 57
(Equalisation provisions for risks arising from natural catastrophes)

1. *Until the issuing of the Regulation by the Ministry of Economic Development referred to under article 37 (7) of the decree, the provisions of ministerial decree n. 705 of 19 November 1996 shall apply for the calculation of the equalisation provisions for risks arising from natural catastrophes.*

Art. 58
(Actuary appointed by an undertaking carrying on motor vehicle liability and liability for ships)

1. *Until the issuing of the Regulation by the Ministry of Economic Development referred to under articles 31 and 34 of the decree, the provisions of ministerial decree n. 67 of 28 January 2004 and of ISVAP circular n. 531 of 14 May 2004 shall apply to the actuary appointed by the undertaking carrying on motor vehicle liability and liability for ships, except for Sections I and II.*

CHAPTER II
Final provisions

Art. 59
(Insurance undertakings having their head office in the Swiss Confederation)

1. *All the provisions of this Regulation shall apply to insurance undertakings having their head office in the Swiss Confederation and proposing to pursue the non-life insurance classes referred to under article 2 (3) of the decree in the territory of the Italian Republic.*

Art. 60
(Repeals)

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undertakings pursuing reinsurance business, also on a non-exclusive basis, shall establish technical provisions at the end of each year, gross of retrocessions, in respect of the commitments undertaken and in compliance with the provisions of paragraphs 2 and 3.
2.The undertakings referred to under paragraph 1 shall generally enter technical provisions for reinsurance relating to the Italian and foreign portfolio in the financial statements according to the statements submitted by ceding undertakings.
3.The undertakings referred to under paragraph 1 shall make autonomous assessments of the adequacy of reinsurance provisions communicated by ceding undertakings, so as to ensure that they are sufficient in respect of the commitments undertaken and make any necessary adjustment to the financial statements, taking also account of past experience".

1. *As at the date this Regulation enters into force:*
   a. *ISVAP circular n. 531 of 14 May 2004, limited to Sections I and II;*
   b. *ISVAP circular n. 360 of 21 January 1999, with regard to the following sections and paragraphs:*
      - section A, paragraphs 1, 2, 4 and 5;
      - section A.1, paragraphs 1, and 2;
      - section A.1.1, letter a), paragraphs 1, 2 and 3;
      - section A.1.1, letters b) and c);
      - sections A.1.2, A.1.3, A.2.1, A.2.2 and A.2.3;
   c. *ISVAP order n. 1978 of 4 December 2001.*

2. *Any other provision incompatible with the rules of this Regulation shall not be applicable.*

Art. 61
(Publication)

1. *This Regulation shall be published in the Italian Official Journal and in ISVAP's Bulletin and website.*

Art. 62
(Entry into force)

1. *This Regulation shall enter into force on the day following its publication in the Official Journal of the Republic of Italy.*
2. *The rules relating to technical provisions shall apply from the six-monthly report of 30 June 2008.*
3. *The provisions referred to under article 49 shall apply to the premium rates which enter into force after 1 June 2008.*

Rome, 4 March 2008

the President
(Giancarlo Giannini)