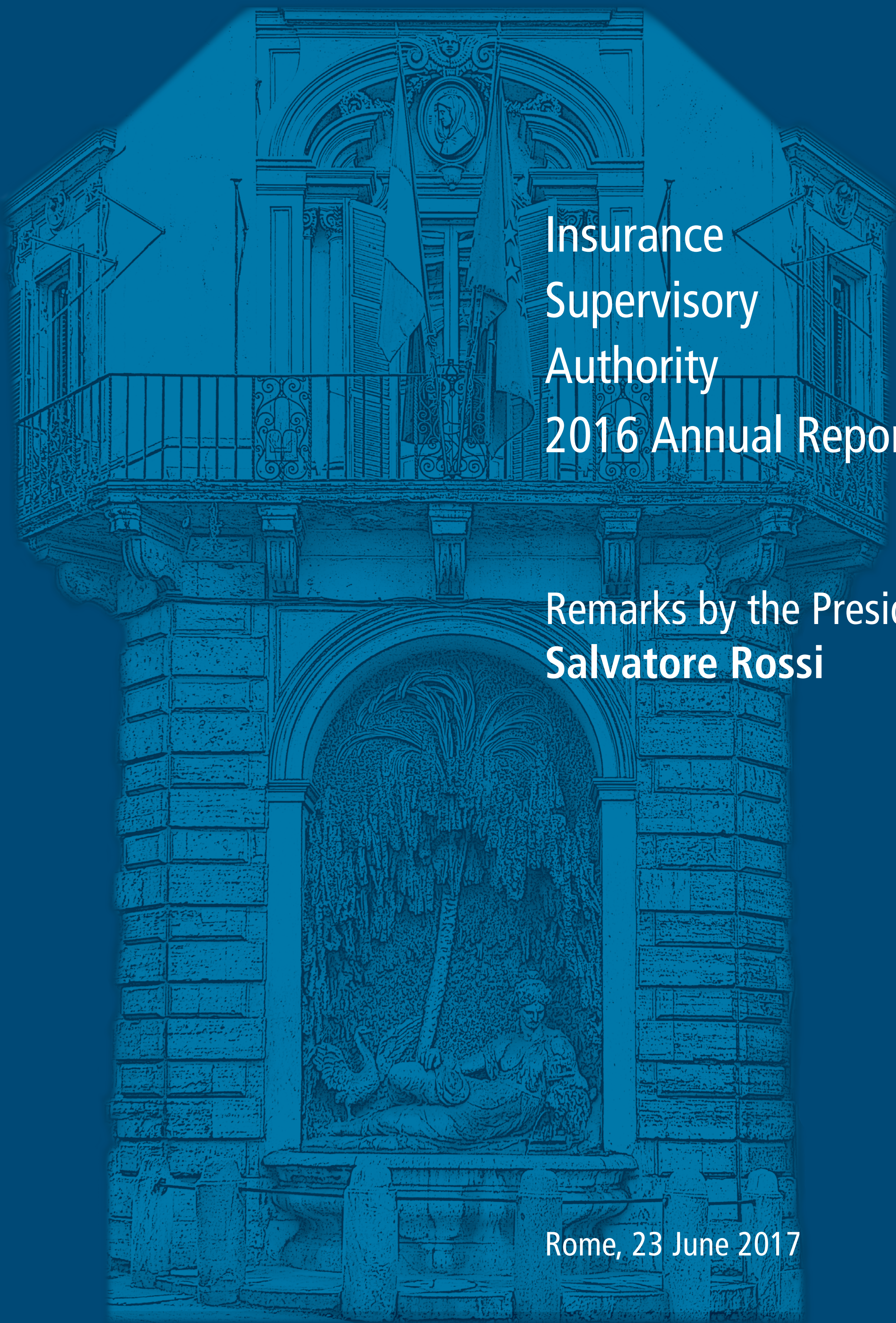
IVASS
ISTITUTO PER LA VIGILANZA
SULLE ASSICURAZIONI



Insurance Supervisory Authority 2016 Annual Report

Remarks by the President **Salvatore Rossi**

Rome, 23 June 2017

IVASS
ISTITUTO PER LA VIGILANZA SULLE ASSICURAZIONI

Insurance Supervisory Authority
2016 Annual Report

Remarks by the President
Salvatore Rossi

Rome, 23 June 2017

Contents

The first 5 years of IVASS

On 6th July 2012, the Government issued the decree that established IVASS, and its fifth birthday will take place in a few days. IVASS inherited functions and personnel from the now-dissolved ISVAP, and was placed under the direction of the Bank of Italy.

This symbolic occasion is a good opportunity for a first assessment of our experience.

IVASS formally began life on 1 January 2013. We sought to build it in a way that is effective in action, agile in organisation, efficient in costs, that preserves the historic memory and the best part of the tradition of insurance supervision.

Have we done it? You will tell us, the policyholders will tell us, since in the last analysis we are here to serve them. I will limit myself here to reviewing some of the steps we have already made along the way.

First of all, we reviewed the structure and organisation of IVASS in the parts more strictly related to supervision on insurance undertakings: the two Services for off-site controls have been unified, an Inspectorate for on-site supervision has been created, together with a new Regulation Service, the direct protection of consumers of insurance services has been further reinforced, market analysis and data management functions have been renewed and enhanced. Not being able to change the primary regulations, we streamlined sanctions and winding-ups as much as possible, that is the pathological side of the system. The supervision on nearly 250,000 intermediaries (essentially agents and brokers) that our insurance system counts, unique in the panorama of advanced countries, has been made more preventive. We concentrated all of the internal management functions in a single structure, to which we have, among other things, entrusted the task of transferring the entire ICT system of IVASS into the system of the Bank of Italy.

Since 2015, we are equipped with a Three-year Strategic Plan, in which we publicly give account of our objectives and the actions undertaken to achieve them; the evaluation of the managers of the structures is linked with their achievement; we give account of the state of progress of our initiatives in the Report on the activity of IVASS, which we transmit to Parliament and Government, and also publish on our website.

From this year, our personnel have new career paths.

The negotiations with the workers' representatives was intense, even hard at times, but it never lost sight of the general interest, and for this I give full credit to the trade union counterparts.

The new set-up, which took its cue from that defined by the Bank of Italy in the meantime, but with the necessary adjustments, has simplified staff classification and streamlined the pay scale by emphasizing merit. It has been specifically recognised that one may have a career as a manager, that is at the command of units such as divisions and services, or as a specialist, and that the two distinct paths are accessible to anyone at any point in their professional life.

With regard to information technology, cited in the law establishing IVASS as a field of close cooperation with the Bank of Italy, today our servers are hosted in the data center of the Bank, and our staff uses the same computer services offered to its employees. The path is marked.

We finally have an Internet site that is completely new in its graphics and functionality. With the necessary precautions for a public Institution, we now plunge into the world of social media.

Finally, in line with the provisions in our Strategic Plan and National Anti-corruption Plan, we are equipping ourselves with an articulated system of Operational Risk Management (ORM).

This year, Secretary General Corrado Baldinelli has returned to the Bank of Italy to take on important assignments. He deserves recognition for his excellent work here at IVASS, and our affectionate greetings. To Stefano De Polis, who took his place, a warm welcome and good work.

The men and women that work at IVASS are our best and irreplaceable resource. I sincerely thank them for the work that they do, also on behalf of the Joint Directorate and the Board Members Riccardo Cesari and Alberto Corinti.

The Italian insurance undertakings

Studying the progress of the market and the insurance industry over time is fundamental for those who must supervise the sound and prudent management of the undertakings for the protection of policyholders, a task that the Insurance Code assigns to us. The annual Report that we present today is testimony to this. Also the Financial Stability Report published last April by the Bank of Italy[1] contains interesting news and analyses on the insurance market. I refer to these documents for every detail.

Earnings from premiums

In 2016, the total of premiums paid to the insurance undertakings established in Italy decreased by 8.7 percent compared with the previous year, from €147 to €134 billion. This is a strong decline, that pushes us to immediately ask ourselves if it is widespread among all the business lines of the undertakings, or is concentrated; if it is because of the unit prices or of volumes.

The reply to the first question is immediate: it is the "life" sector that is suffering the most, here the value of the premiums has fallen by 11 percent, after three years of continuous growth; the "auto" sector (called "auto" for simplicity, but which includes every type of risk posed by any motor vehicle) has suffered a smaller decrease, of 3.1 percent, which contributes, however, to an ongoing downward trend over the past five years; instead, the area of "non-life" business other than "auto" has finally increased, by a rate not seen since 2008, of 3 percent.

The incidence on the total amount of the premiums paid last year was equal to 76 percent for the life sector, and to 12 percent for the other two. Five years ago, the percentages were, respectively, 67, 19 and 14. So, the decline of the life sector in 2016 has limited, but not bowed its primacy, which has, in any case, increased in these five years. The auto sector continues to decrease strongly.

The reduction of premiums in the life sector last year was concentrated in policies with a more marked financial content, those (class III) that have driven the progress of the prior years, and that are linked to market performance: the reduction has reached nearly 25 percent compared with 2015. But the premiums of policies with a marked financial content have started growing rapidly again at the beginning of this year, again to the detriment of traditional life policies. The distortion of the typical insurance function of life policies continues. A process frequently complained about by us and by the industry itself.

Examining prices and quantities separately is very difficult, especially in non-life products, because the policies contain numerous customized

[1] Bank of Italy, *Financial Stability Report*, 1-2017.

contract clauses that modify their intrinsic value, and because the price lists don't take account of the discounts, which are quite variable. It is more easily done for the motor liability sector, thanks to the special IPER investigation launched three years ago by IVASS, which detects the actual price of each policy in each province.

In motor liability insurance, the moderately negative result in the premiums collected is mainly due to prices. Five consecutive years of reduction in average price have brought it, in the fourth quarter of 2016, to €420 for a private use car.

In an international comparison, the average premium for compulsory insurance (after taxes and contributions) was still higher in Italy in 2016 by €140 over other three major European countries (France, Germany and Spain). But the gap has narrowed compared with more than €260 in 2011, and nearly €190 in the previous year.

There's still a lot of variability from area to area: in Naples, the average price at the end of 2016 was approximately €630, in Aosta, €300. The gap within the country has, however, also reduced by a third in the three years of the life of IPER.

Reduction of the circulation of vehicles due to the economic crisis, and a more effective fight against fraud, also thanks to technology, largely explain both results.

The first has resulted in a reduction in accidents, and therefore, has pushed the undertakings to contain prices. The economic recovery, already in progress for some time, although at a modest rate, increases again circulation of vehicles and accidents, and therefore, prices.

We expect, instead, a further moderating effect from the fight against fraud, thanks to the spread of "black boxes" (now installed on a fifth of circulating vehicles) and the entrance into force of the Integrated Anti-fraud Database in the middle of 2016.

This latter, which I spoke about at length in my Remarks last year, is the fruit of a further IVASS initiative that equips the insurance undertakings with a powerful instrument to isolate incorrect policyholders, which are, in any case, a minority. It should ultimately translate into a benefit for the majority of the correct policyholders without prejudice to the accounts of the undertakings. In the course of the coming year, a new improved and enhanced version of the Database will be operative.

The non-life sectors, other than motor liability, are, perhaps, taking off. The reason is both market related and technological. The competition between undertakings starts to move from the price of an insurance policy to insurance benefits and ancillary services. Technology encourages devices, such as gas leak detectors, flood detectors, intrusion detectors, sensors for the registration of driving style, programs aimed at promoting individual physical/mental well-being, and other forms of prevention.

The covers for medical malpractice are a special case, and have been the subject of one of our specific investigations. It is a market of already over €600 million, but last year the national insurers addressed it very little: the policies for public hospitals, that are more than half of this market, are nearly all underwritten by few foreign operators (British, with headquarters in the USA), operating in Italy under the right of establishment. The Italian undertakings complain about the difficulty of quantifying the risk, legislative uncertainty, low profitability. A new law was passed[2] on the security of the care and the professional liability of healthcare personnel, that has introduced important advances.

Earnings from investments

In 2016, the investments on the asset side of the financial statements of the undertakings have yielded, net of the relative charges, over €19 billion, for a return on investment equal to 3.3 percent (3.4 in 2015).

Last year I touched on the persistence of historically low yields throughout the world, and in particular, in Europe. I noted that it was a long-term trend, beginning well before the monetary policies took on strongly expansive directions in response to the Great Recession. But, now that a relative normalisation of these latter is in progress all over the world, or at least is in sight, it's correct to wonder what effects a raising of rates could produce on the insurance undertakings.

The investments of the Italian companies – in total, more than €810 billion at market values – remain strongly concentrated in government bonds: approximately €360 billion, equal to 44 percent of the total. Italian sovereign bonds obviously represent the largest part. This concentration exposes our undertakings, more than those in the other European countries, to the risk of sudden rises in interest rates on held securities, with consequent lowering of their market value.

For the purposes of the profit and loss account, this may not be very important: in an accounting system based on historic cost, or on the lower value between cost and market value, a rise in interest rates reduces only unrealised capital gains, that is, those not yet recorded in the profits. In these

[2] Law 24 of 8 March 2017.

years of falling interest rates and rising prices, many unrealised capital gains have accumulated, up to €50 billion of one year ago. They were for the benefit of the policyholders only in the case of with-profit contracts, and provided that they were realised by undertakings. The widening of the spread to the detriment of Italian securities is reducing their value. If, in the future, all the interest rates in Europe began to rise again unexpectedly, they would risk disappearing.

Capital requirements are a different issue. In the Solvency II world, which is founded on market values, a variation in the interest rates is directly reflected in the value of investments, and in the adequacy of the technical provisions, therefore, in the capital requirements and in own funds: in the final analysis, in the solvency ratio. We'll return to this in a moment.

Costs and profitability

In 2016, the operational costs of undertakings, connected with acquisitions of contracts and with management of the undertakings themselves, did not change much compared to 2015.

The other source of costs for undertakings is the payment of the benefits envisaged in the policies. These costs have, instead, decreased in absolute value, approximately as much as the premiums, therefore, the ratio remained almost stable in 2016.

As a result of the nearly parallel reduction in premium income and costs of benefits, most of all in the life sector, and in a context of substantial stability of the net financial income and management costs, the Italian undertakings, in 2016, made nearly stable profits compared with 2015, just under €6 billion, with a return on equity of 8.6 percent.

In an international comparison, according to OECD data dating back to 2015, insurers in Italy are more profitable than in France or in Germany. As noted last year, this depends on the more prudent choices of our undertakings when making commitments with policyholders, but also on the concentration of their investments in Italian government bonds, more profitable because they are considered more risky by financial markets. A concentration against which we have warned undertakings.

This partly explains the request put forward by several parties in Europe to impose a capital requirement on government bonds in the assets of the undertakings, which takes account of that risk. We (IVASS) have so far opposed this request with arguments of principle: a large part of the gap in yields that the markets require comes from the perceived risk of the break-up of the Euro, a risk inherent to the system that the European regulations cannot shift on undertakings.

The return on equity (ROE) in the life sector last year was 9.2 percent, but with strong variability according to the business size.

In the non-life sector, the average ROE was 7.8 percent, with a low dispersion. In motor liability, profits have decreased sharply, from approximately €1.5 billion in 2015, to just less than €700 million, reflecting the fall in prices in the presence of operational costs and claims that were, on average, substantially stable.

The profits of our insurance undertakings will, in perspective, be subject to contrasting pressures. Technological innovations may make them grow, if they are used to obtain competitive advantages or to cut costs. Greater competition may reduce them.

The latter does not depend as much on the number and size of the undertakings, as on the possibility for those who intend to buy an insurance policy to be able to truly compare the different offers on the market. The many provisions regarding transparency that have been adopted in these latest years – to which IVASS has given, and continues to give its contribution – have helped. In the motor liability sector, policyholder mobility, once nearly non-existent, has almost reached 15%.

Solvency

Up to this point, we have analysed the flows, that is the profit and loss account of insurance undertakings. But the balance sheet is even more interesting for those who supervise their stability. We (IVASS) push that the undertakings have sufficient technical provisions to face the commitments taken, and enough capital to absorb any losses, whatever their origin: adverse events or less profitable investments than expected.

The correct evaluation of the commitments towards policyholders and third parties remains central: the measurement of technical provisions is based on it.

Over the course of 2016, IVASS began on-site inspections on the methods of calculating technical provisions in the life sector, in particular through the Best Estimate of Liabilities (BEL). The BEL is the best possible estimate of the commitments underlying the underwritten policies, and is the result of extremely sophisticated statistic-mathematical models.

From the inspections conducted last year, which covered a quarter of the sector, defects in the quantification of the BEL were revealed, which were reflected in the last analysis on solvency indicators. Essentially, the undertakings did not fully take into account the contractual options embedded in the policies, which, *de facto*, increase their commitments.

We have, therefore, decided to redesign our inspection plan for this year, inserting more of this type of inspections, so as to cover a further 40 percent of the market share collected in the life sector.

The capital of the single undertakings, measured with Solvency II, is generally much higher than the regulatory requirement: 2.2 times at the end of 2016, although less than the 2.35 times of the prior year. The reduction substantially follows the fall in the market values of the Italian government bonds, given the principle of the market value underlying the calculation of the solvency ratio in Solvency II.

Solvency II rising to the challenge

Now that nearly a year and a half has passed since the new European regulatory framework of Solvency II has taken effect, a first evaluation can be attempted. An evaluation that is now based on experience gained, and not only on abstract assumptions.

In March 2016, we organised, here at IVASS, a first international Conference on the launch of Solvency II, that saw the participation of the Presidents of EIOPA and IAIS, in addition to many leading representatives of the European insurance market. This year, we have organised another Conference on a specific theme, that of the application of the new regime to the small and medium insurance undertakings.

Some problems with the new regulations emerge from the experience gained in this field, and from the meetings, on which discussion is required in order to act and resolve them.

Before reviewing them, let me, however, reiterate that Solvency II represents a shift from a regulation insensitive to the theme of risk, to one based on an analytical measurement of this. Two qualitative pillars of corporate governance and information to give to different stakeholders are added to the quantitative pillar of solvency. This is also a fundamental step forward, compared with Solvency I.

For an industry whose raw material is risk, and whose function consists in dividing it among the policyholders, ignoring it at the time of evaluating its solvency and having it evaluated was no longer acceptable. Solvency II has bridged this gap.

Certainly, in retracing the path taken in the banking world, European legislators have accumulated such a delay that they were almost out of time, complicating the situation and increasing burdens when voices were raised from the banks, to invoke, instead, simplifications and streamlining.

The next revision of Solvency II, set for 2018, will be the occasion to review unnecessary complications. For this, it will be more useful than ever to debate them quickly, without worrying about appearing anti-European. As the Governor of the Bank of Italy said last May 31st[3], as I, myself, reiterated one week ago[4], any criticisms are not aimed at questioning the progress of Europe, but at facilitating it, indicating what seems to be the right direction.

But, we come to the problems that have emerged until now.

The first, I have already mentioned: a great complexity in the measurement of the capital requirement, coming from the goal of taking into account the highly varied risk profiles that the different undertakings may present. It is a fact that undertakings are quite different from each other: by business model, size and nationality. The risks of potential losses that they run are equally quite different. Certainly, it is not correct to ask an undertaking that intends to run less risk than another to maintain the same capital of the other.

To overcome this unsolvable deadlock of the old regime, Solvency II has decided to follow the approach used for the banks, entrusting the undertakings themselves with the determination of their capital requirement and own funds, while reserving to the supervisory authorities the task of verifying whether the chosen method is adequate to their own risk profile. The eligible methods, as we well know, are actually three, of increasing complexity: the standard formula, the undertaking-specific parameters, and the internal model. For the last two, the regulation entrusts to the supervisory authorities the task of granting a prior authorisation, a difficult task. But even the simplest method, the standard formula, presents objective complexities.

This situation poses problems both to the undertakings, particularly the medium-small ones, and to we supervisors. For the undertakings, they are essentially added costs of compliance. For us, they regard how to use the given, scarce resources.

In Italy, 2 groups and 12 undertakings have, up to now, chosen the internal model; in the much wider English market, the approved models were just over 20. Another 2 groups and 7 undertakings have chosen, in Italy, the USP formula (Undertaking-Specific Parameters), while the remaining 92 have chosen the standard formula.

---

3 Visco, I., *Concluding Remarks of the Governor*, 31 May 2017, http://www.bancaditalia.it/pubblicazioni/interventi-governatore/integov2017/cf_2016.pdf.

4 Rossi, S., *Europe: from the monetary union, to the economic union and beyond*, 14 June 2017, https://www.ivass.it/media/interviste/documenti/interventi/2017/20170614-sr-unmon/rossi_14062017.pdf.

Our efforts have been, and are, engaged to the extreme in this challenge. We know that other and more serious and difficult commitments await us, to continuously check these measurements and their changes. But the national authorities have, in the meantime, this bullet in the chamber, that, once fired, as CEO of the UK Prudential Regulation Authority Sam Woods recently said[5], leaves them with little space to adjust the solvency ratio of a given company over time.

The greater the complexity of the measurement instruments, the more the large undertakings can seek to “optimise” the capital requirement and the level of own funds, even beyond what would be prudent, putting supervisors in difficulty.

It is evident that there is a trade-off between precision in the measurement of risk that an undertaking runs, and the sustainability of the efforts aimed at obtaining it. If it takes an entire truck to contain the documentation necessary for describing the internal model of an undertaking, there is the suspicion that Solvency II has not yet found the right equilibrium in this trade off.

The second problem that we have all noticed in Solvency II lies in the strong and rapid volatility of the solvency ratio, arising essentially from the market value principle.

Perhaps it may be more prudent to evaluate an asset as if it were to be sold immediately, rather than at the value that it had when it was acquired. It is a fact that the market values have become very volatile: as a result, the solvency indicator of some undertakings has varied even by a hundred points over the course of a year.

It is now realistically difficult to imagine a change of the regulations that abandons the market value principle. It is necessary, therefore, that undertakings and supervisors learn to live with this volatility, and interpret it, even considering safety buffers of own funds that protect the undertakings from crises that are self-created from strong market fluctuations.

It is, instead, conceivable, and indeed desirable to reinforce the anti-cyclic measures, such as the Volatility Adjustment, to avoid that the response of the undertakings and the supervisory actions accentuate the cyclical difficulties, rather than mitigating them.

A third problem is in the unequal implementation of the new regulation on a European scale, or, as is said, in the lack of a level playing field.

[5] Woods, S., *Insurance supervision at the PRA*, 20 March 2017, http://www.bankofengland.co.uk/publications/Documents/speeches/2017/speech967.pdf.

It is not a question of good or bad intentions of the national regulators and supervisors, but of the great diversity of national starting points that made Solvency II live with a number of transitional measures. To this is added persistent national margin of discretion in implementation.

The theme is broad and multifaceted. Here I will mention just one aspect: the possibility for any one European undertaking, established and supervised in a given country, to freely operate in all the other countries under the right of establishment or of free provision of services, without being subject to the supervision of the host countries.

If there is not full uniformity in the implementation regulations, in the practices and in the styles of national supervision, then trouble can happen.

Just to make an example, in Italy, we have had some cases of undertakings actually controlled by Italian individuals of dubious reputation, formally incorporated in other countries of the European Union. They selected Italy as their preferential market, and conducted business which, in our opinion, put unaware clients at risk. In some cases, we have prohibited the commencement of new business in Italy and, in one case, the European Court of Justice, called upon to rule by our Council of State, supported us, while reaffirming the sacrosanct cardinal principle of supervision on the part of the home country authorities.

In short, Solvency II, although enjoying our applause for the historic delays it makes up for, at the same time, makes us struggle over a few too many complexities and difficulties in implementation.

Now that we have this new set-up, we work to improve it where we can, to heighten awareness of the market and of ourselves as supervisors, to obtain full compliance of undertakings to the new principles.

IVASS' action today

The regulatory and supervisory action of IVASS takes place on two fronts.

In relation to Solvency II, now that the phase of mere compliance with the new regulation has been largely completed, it's necessary that everyone – supervisors and the supervised – have a sustainable strategy for the future.

ORSA (Own Risk and Solvency Assessment) is the cornerstone of the new system.

The in-depth studies that we have conducted on the way in which undertakings face ORSA have shown, along with some comforting aspects, others that are less so. Many undertakings have effectively taken a path of change, beginning with increasing the sensibility and awareness of the boards of directors. Progress must, instead, be made in the methods for the forward looking assessment of solvency, also taking into account the qualitative risks, which are not directly measurable.

That magic number that to some seems to be the solvency ratio, is also the fundamental parameter on which the markets and investors judge the undertaking. It should certainly be made consistent with the profitability of the undertaking, but the safety buffer, with respect to the regulatory requirement, must be as thick and stable over time as possible.

The supervision on the relationships between undertakings and single clients, for the protection of the latter, is synergistic, and not in conflict, with the prudential supervision as we have long stated. It is not only contractual disclosure: protection embraces all the phases of the relationship, including the payments due by undertakings.

For example, compliance with life policy payment times is crucial. Last year, we imposed a sanction, unprecedented in its severity, on an undertaking that accumulated serious delays in payments. In the motor liability sector, many complaints regard ambiguous or unfounded refusals. We have summoned all the undertakings to review the settlement processes in order to be faster and clearer.

We now publish, on our site, the names of the undertakings that receive the most complaints. They themselves benefit from this: their top management bodies have become more aware of certain operational dysfunctions.

One particular case is that of the so-called “dormant” policies, to which we now turn our attention.

The phenomenon is very important. It has emerged from our investigations that approximately 4 million life policies expired in the past 5 years, but have not been settled, because the undertakings don’t know if the policyholder is or is not deceased at the expiry of the policy: often the beneficiaries do not show up because they are unaware that they are beneficiaries, and in the policy they are indicated in general terms (for example, “legitimate heirs”).

We have sensitised undertakings and consumers. Many undertakings have activated new controls, aware of the potential reputational damage that can come to them.

We also notified the Government last March, that these patently imperfect legal provisions should be amended. We would like that the beneficiaries of the insurance policies be clearly identified, and that insurance undertakings could access the newly established National Database of the resident population; indeed, that they should do so at least once a year to check the deaths of the policyholders and arrange the payment of sums due, as happens in other European countries.

The entire framework of the relationships between undertakings and clients is, in any case, destined to change with the transposition of the new European Directive on Insurance Distribution (Insurance Distribution Directive, IDD). I mentioned this last year.

This year, I would like to draw your attention to a specific aspect of this Directive: sanctions.

For those who violate the regulations on the distribution of insurance products, the Directive envisages pecuniary administrative sanctions, applicable to natural as well as legal persons, whose maximum amount is particularly dissuasive, and introduces non-pecuniary sanctions. This updates old rules, no longer adequate.

But the entire Italian insurance sanction system is obsolete, not just the part relating to the distribution of products.

IVASS has suggested to the Government, which is preparing the draft enabling law on IDD, that it redesigns all the sanctions of the sector now envisaged by the Insurance Code along similar lines.

The objective is also to harmonise insurance supervisory tools. In the field of consumer protection, micro-sanctions must be overcome. Discretion is needed so as not to pursue less meaningful cases and progression in the punitive nature of the sanctions that, for the first time in the insurance field, may be extended to natural persons.

In this way, greater convergence with the banking world can be obtained, when it is desirable or necessary.

On the winding-up front, in 2016 we continued the efforts of closing old procedures, some of which were more than 30 years old. It's not easy, it's very tiring; the regulations don't help, being strongly conditioned by formal constraints, even when, due to the passing of time, the value of the assets to reclaim and distribute has become ridiculous: *omnia fert aetas* ("time sweeps away all things"), as the eternal Virgil said. But the Italian legislature doesn't seem to be paying attention.

Last year we closed eight winding-up procedures and allocated almost €30 million to creditors. We try to do our part in the unchanged regulatory framework: we have enlarged the range of technical instruments available to liquidators, and want to continue to do so. We expect decisive advances from an amendment of the regulations on remunerations for liquidators, which would make them dependent on the results achieved, on the costs incurred and the time used: acting on personal incentives is always the best path.

Looking to the future, our growing commitment is focused on cyber risk.

For those who are insurers by profession, the spread of a new risk represents an opportunity. As long as it's measurable, however. In the case of cyber risk, the data on past incidents is still poor and confusing. It's not easy to offer policies with appropriate prices. At the same time, the more computer systems integrate with the internet, the more insurers are themselves exposed to cyber incidents, for example as they are accessing big data, that is the capillary information spread across the network about all of us.

Cyber risk is now a common concern of the two principle fora of international cooperation, the G20 and the G7. The insurance world is also moving. The IAIS has published documents on the theme. We took this into account in drawing up a questionnaire recently, which was subjected to Italian undertakings in the context of the quarterly survey on vulnerability.

The risk is serious, new, pervasive. Regulations, organisational arrangement and awareness are necessary.

We at IVASS want to be in the front line of this new challenge, for we understand the impact of innovations, and perceive aspects of potential risk; we are studying interventions on the regulatory framework, also encouraging experimentation.

Most of all, we must intensify the collaboration with the undertakings and intermediaries, as well as with the other Authorities. One area is that of computer fraud, that favours the spread of unauthorised insurers. It requires better monitoring of the internet and social media. We face a common enemy.

In Europe, the banking crises have been regulated "*ex novo*". You can argue about how this has been done, but this is not the place. It is a fact that in the insurance sector, we are not similarly prepared. Despite the presence of large multinational undertakings, a European regulatory framework and national laws are still being defined, from those regarding bankruptcy to those specific to the sector, and are very different from country to country.

But the solution to the problem cannot be found in the European banking world. In the banks, depositors can leave at any moment, panicked, even irrationally, and against this sometimes there is no last resort financing that holds. In insurance, policyholders, particularly life policyholders, take much longer to arrive at settlement. In banks, the only defence in the case of unexpected losses is capital, in insurance the first defence is the assets covering technical provisions, then comes capital.

The principle inspiring the new regulation on banking crises – if there is a crisis, shareholders and bank creditors lose immediately, but not tax payers – may find justification in the large quantity of public money used in the past years to save banks in crisis (in countries other than Italy, never let us forget). In the insurance sector, this justification is decisively less important.

* * *

Authorities, ladies and gentlemen, I conclude.

The insurance world has shared with the rest of the financial system much of the turmoil generated by the great global financial crisis first, and then by the European crisis of "sovereign debt". But, at the same time, it has remained, until now, partly screened, at least compared to the banks. We have also seen this here in Italy.

As I mentioned before, we have many times said that banks and insurance undertakings have different functions in the economic system. Insurance, although taking on the risks of others, has paradoxically been more stable than banks.

Solvency II now liberalises the assets of the undertakings, telling them: invest where and how you like, as long as you measure the risk and take account of it in your own funds. The long period of falling yields, and then of very low yields on fixed-income securities has put further pressure on the profitability of the undertakings. The Italian undertakings have resisted better than those of other countries in virtue of a better matching of assets and liabilities, and also thanks to the decision to continue to invest in national government bonds. But it's getting more and more difficult to maintain the advantage.

We go towards a world in which some certainties of the past will no longer exist. This requires that we regulators and supervisors of the sector sharpen our supervision. We trust we will be able to do so, in the interest of policyholders and of financial stability.

Designed and Printed
by the Printing and Publishing Division of the Bank of Italy