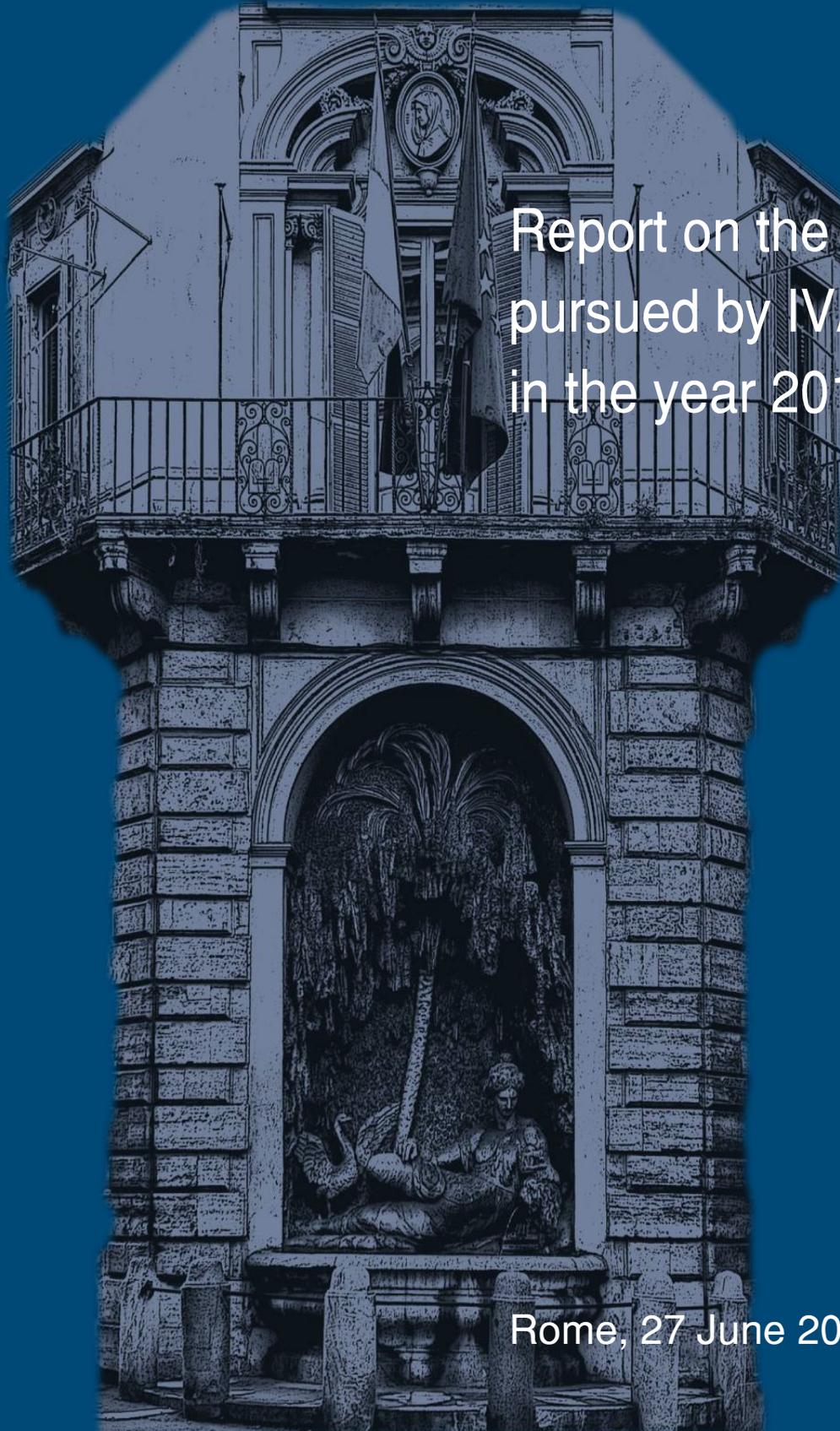




IVASS
ISTITUTO PER LA VIGILANZA
SULLE ASSICURAZIONI



Report on the activities
pursued by IVASS
in the year 2017

Rome, 27 June 2018



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Roma, 27 June 2018

IVASS, 2018 -06-27

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THE MAIN INSURANCE NUMBERS IN ITALY

UNDERTAKINGS SUPERVISED BY IVASS

100+3=
83%



In Italy insurance business is pursued by 100 domestic insurance undertakings and 3 branches of non EEA undertakings (83% of the premium income). 236.887 insurance intermediaries (agents, brokers, etc.) are authorised to carry on business.
Report Fig. I.11, Tab. I.11

131⁺⁴
BL. €



Premium income in Italy has reached 99 bl. in life business (-3.6% compared to the previous year) and 32 bl. in non-life business (+1.1%). Premiums collected abroad or reinsurance premiums amount to 4 bl.
Report Tab. I.15

8%
GDP



In terms of percentage of the GDP, premium income in Italy amounts to 6% for life business and 2% for non-life business. In 2016 Italy ranked sixth among the OECD countries in terms of importance of the life sector compared to the GDP, and only 24th for non-life business
Report Fig. I.6, I.7 and I.16

94
BL. €



Claims paid amount to 71 bl. euro in life business (including surrenders, accrued capital and annuities) and 23 bl. in non-life business, equal to 72% and 67% of premium income.
Report, Tab. I.17, Tab. 15 in the Appendix

**LIFE
ASSURANCE
POLICIES**
64% WITH PROFIT
34% UNIT LINKED



Report Fig. I.14

**NON-LIFE
BUSINESS**
50% MOTOR
18% IMMOVABLE PROPERTY
17% HEALTH
9% GENERAL LIABILITY



Report Tab. I.18

99
BL. €



In life business 61% of the premiums are collected through banks and post offices, 22% through agencies and 15% through financial promoters.
Report Tab. I.21

32
BL. €



In non-life business 79% of the premiums are collected through agencies, 10% through brokers, 6% through banks and financial promoters and 5% through direct sale.
Report Tab. I.24

697
BL. €



Investments of insurance undertakings, excluding representative assets for index and unit-linked contracts, amount to 697 bl. euro, 52% of which in government bonds, 20% in corporate bonds, 12% in participations and 10% in units in UCITS.
Report Tab. I.44

2,4



Italian insurance undertakings hold own funds 2.4 times the Minimum Capital Requirement; composite and life undertakings are better capitalised than non-life ones (2.5, 2.2 and 1.8 times).
Report Tab. I.54

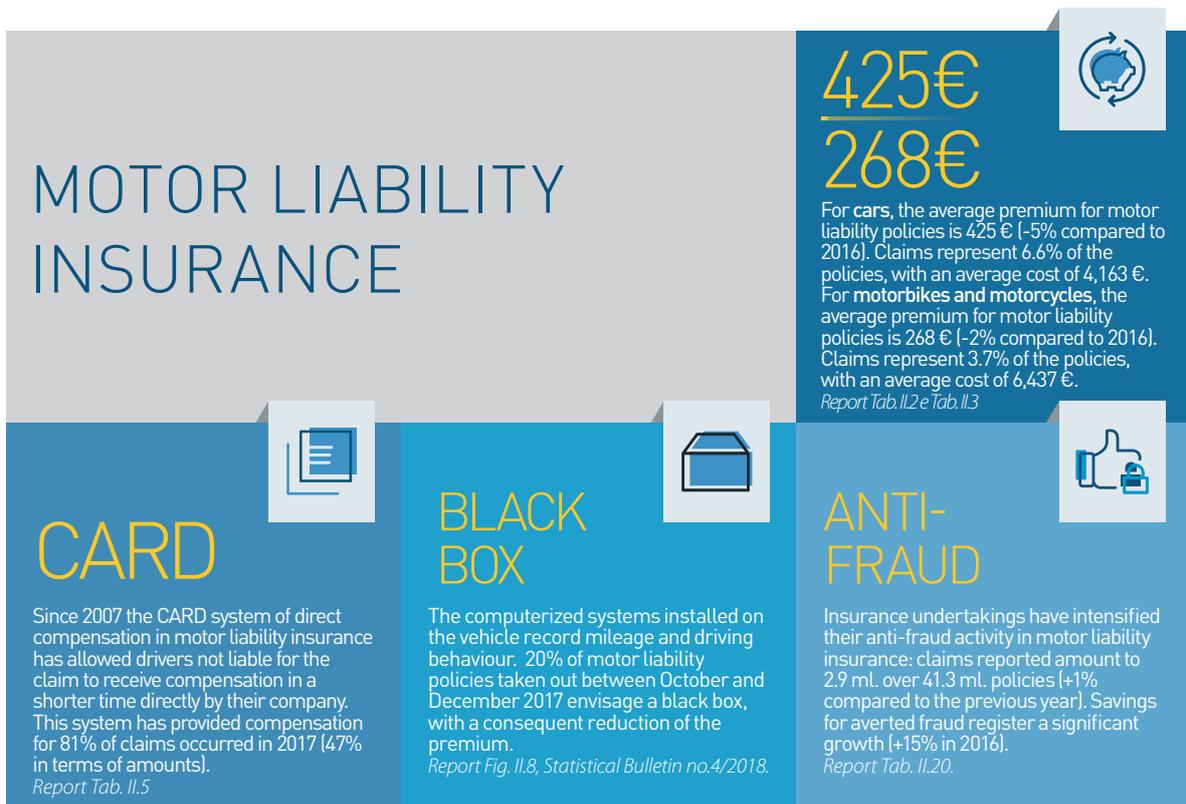


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NOTES

Unless otherwise directed, calculations are carried out by IVASS; for the Institute's own data, indication of the source is omitted.

As a rule, the tables do not include the information on the Italian branches of undertakings with head office in a EU or EEA member State, or for which stability is supervised by their respective Home supervisory Bodies.

The terms defined in the Glossary at the end of the Report are highlighted in blue in the text.

I. - THE INSURANCE MARKET

1. - THE INTERNATIONAL INSURANCE MARKET

1.1. - The global insurance market

According to the Organisation for Economic Cooperation and Development (OECD¹), the global insurance market continued to grow in 2016 as well, both in the life and in the non-life business. The profitability of the investments and of capital remained positive in most of the monitored countries and in both insurance sectors.

In the OECD countries premium income grew by 3.6% in nominal terms; the expansion of the non-life business (8.3%) more than offset the decline of the life business (-1.1%). Significant contributions to growth came from France (+30.5%), United Kingdom (+15.6%) and Spain (+12.4%) while income stagnated in Germany (+0.5%).

In major non-OECD countries, characterised by highly differentiated socio-economic and financial environments, premium growth was generally higher, with rates even above 20% (Hong-Kong 23.8%, with an increase of 27.3% in the life business) and negative rates as low as -9.7% (South Africa).

At the end of 2016, the overall incidence of life and non-life premium income over GDP, measured in nominal terms, averaged 9.0% in OECD countries (respectively 8.7% and 8.5% in 2015 and 2014); the insurance sector is particularly developed (accounting for more than 10% of the GDP) in Denmark, France, Ireland, South Korea, Luxembourg, and United States; it remains below 3% in 8 countries (including Turkey and Greece, with the latter having the lowest portion of all OECD member states, i.e. 2.0%), and it stands at 8.0% in Italy.

With reference to major non-OECD countries, significantly high values were noted in Hong-Kong (17.6%) and in South Africa (14.0%), while insurance is not highly developed in Russia (1.4%) and Brazil (3.3%).

¹ The OECD data provided in the present paragraph are excerpted from the public database <http://stats.oecd.org>, in the *Finance* section as well as from the *Global Insurance Market Trends*. The data are available with a time offset of one year (2016), however they allow comparison of the main insurance markets in the world and they make it possible to appreciate the positioning of the Italian insurance market. Starting from the Report on 2016, the implementation of *Solvency II* entailed major changes for the European insurance industry with an impact on the nature of the information collected from these countries, making comparison between the 2015 and 2016 not immediate.

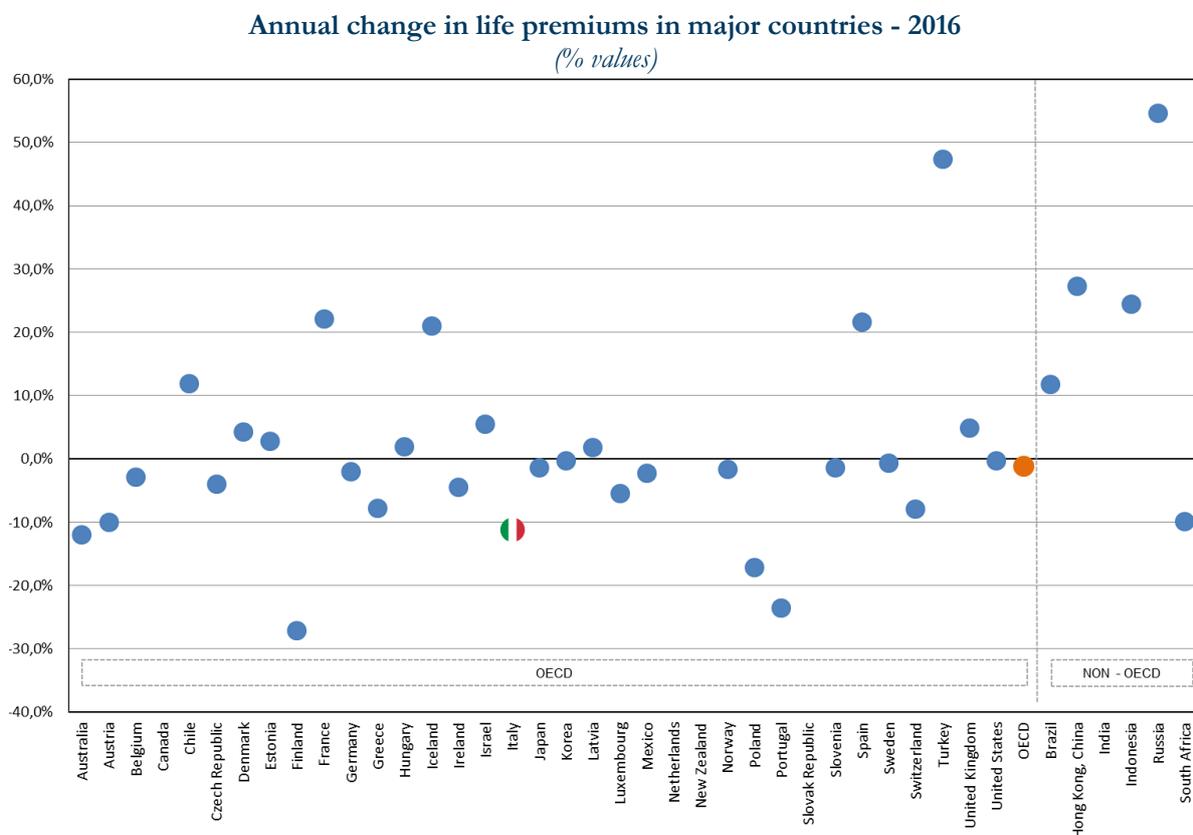
The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The OECD report also includes, in addition to the member countries, several Latin American countries and a group of African, Asian and European countries.

1.1.1. - Life business

Premium income

In 2016 the premium income of the life business contracted in two thirds of the OECD countries (Fig. I.1): the decrease was by more than -10% in 5 countries, including Italy, and particularly intense in Finland and Portugal (over -20%). Higher growth rates are observed in developed markets (France +22.1%, Spain +21.5%) and in those where the incidence of life assurance is still extremely limited, such as Turkey, where premiums, even after growing by +47.3%, still account for less than 1% of the GDP. Moreover, income generally increased in non-OECD countries, with rates even exceeding 50% (+54.6% in Russia).

Figure I.1

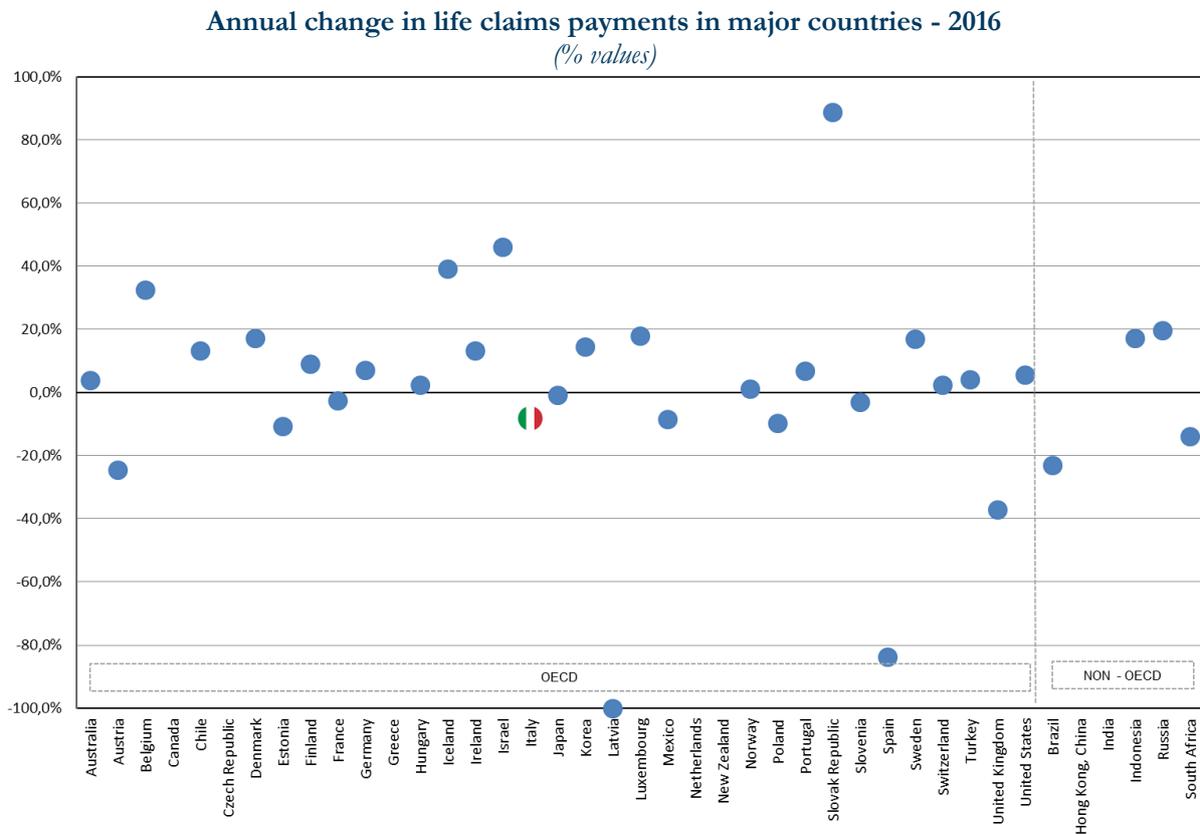


Source: calculation on OECD data. All OECD countries were indicated (even when no data were available) along with a sample of non-OECD countries selected on the basis of the relevance of the respective economies and of the overall availability of the data.

Claims payments

Claims payments of the life business increased in over half of the OECD countries (Fig. I.2); particularly high growth rates were recorded in Belgium (32.5%), Iceland (39.2%), Israel (45.9%) and Slovakia (88.7%) while there were marked declines in Austria (-24.7%), United Kingdom (-37.3%), Spain (-83.8%) and in Latvia, where in 2016 they were reported as practically nil.

Figure I.2



Source: calculation on OECD data. All OECD countries were indicated (even when no data were available) along with a sample of non-OECD countries selected on the basis of the relevance of the respective economies and of the overall availability of the data.

Investments

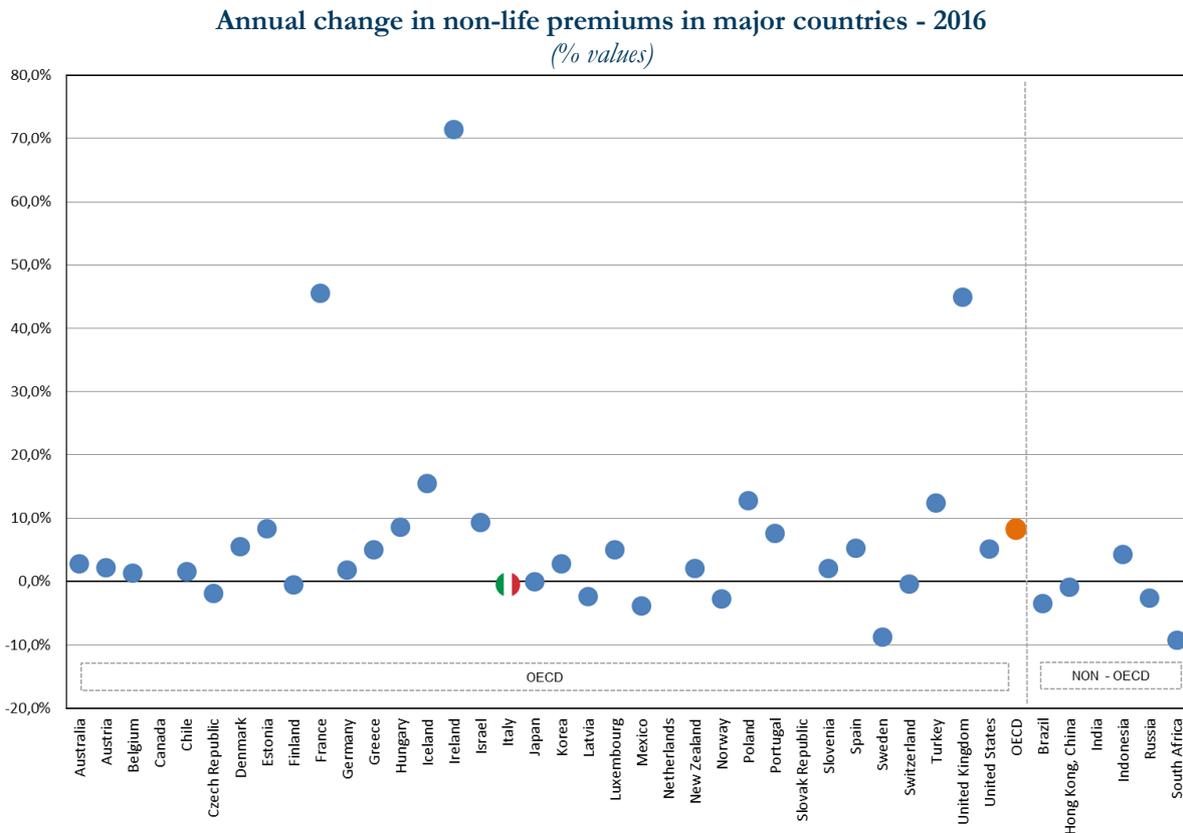
In 2016, the investment structure of life insurance companies did not undergo significant changes, continuing to be oriented towards fixed income securities (bonds issued by public and private institutions): in the OECD countries, including Italy, approximately half of the resources of insurance companies generally went to these securities: in Spain and the United States, they account for almost 75% of investments, in Germany (35.7%) and United Kingdom (16.9%) they were well below average, by effect of the greater development of mutual funds in these countries. The profitability of the investments is near 1% on average in the OECD countries, with a negative rate only in Israel (-1.9%) and particularly high in Turkey (+12.7%).

1.1.2. - Non-life business

Premium income

In the OECD area, the average growth in non-life premium income amounted to 8.3% in 2016 (Fig. I.3); it was positive in three quarters of the countries, with increases above +10% in 6 countries, in particular reaching +45% in the United Kingdom and France and +71.4% in Ireland. In the non-OECD countries, the income in this business instead was mostly negative, with the exception of Hong-Kong (+4.7%).

Figure I.3

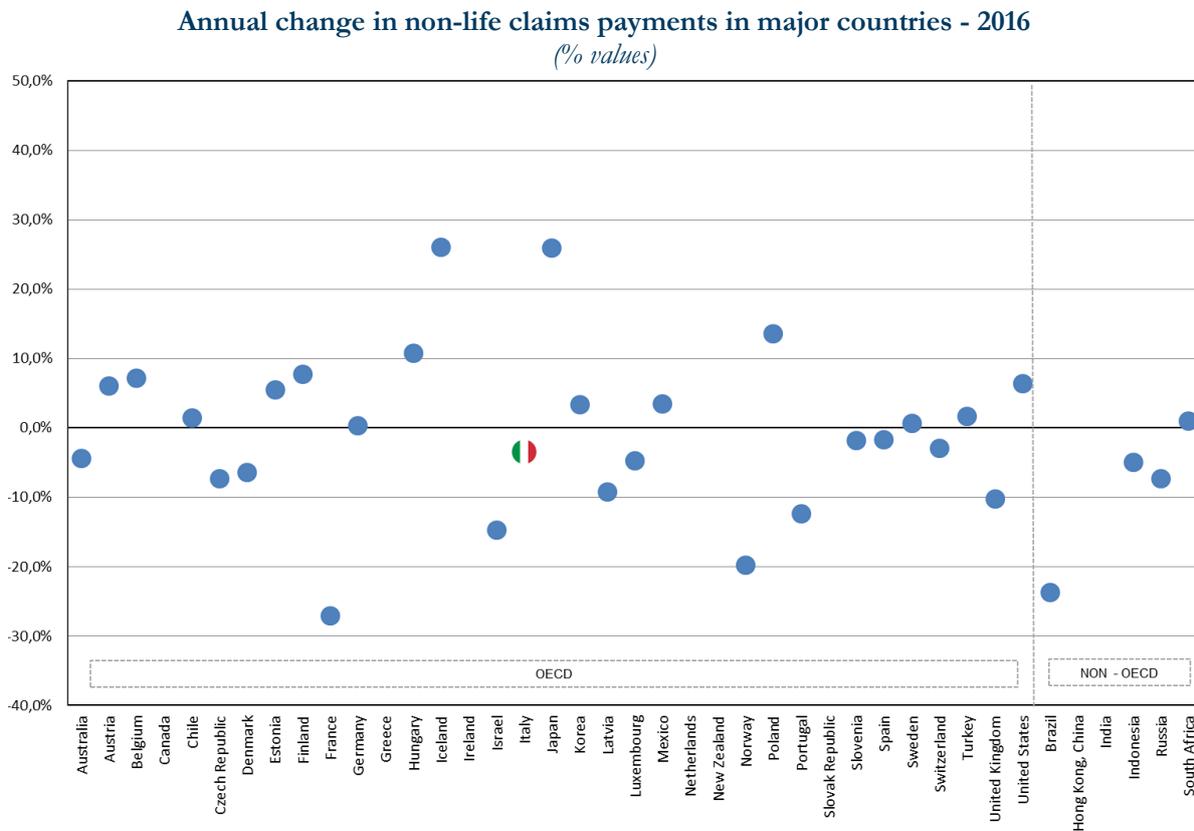


Source: calculation on OECD data. All OECD countries were indicated (even when no data were available) along with a sample of non-OECD countries selected on the basis of the relevance of the respective economies and of the overall availability of the data.

Claims payments

In 2016 outlays for claims payment in the non-life business decreased for half of the OECD countries (Fig. I.4): the decline exceeded -10% in five countries including France (-27.1%), Norway (-19.7%) and the United Kingdom (-10.2%). Payments increased by over 10% in five countries and in particular in Ireland, where they nearly tripled.

Figure I.4



Source: calculation on OECD data. All OECD countries were indicated (even when no data were available) along with a sample of non-OECD countries selected on the basis of the relevance of the respective economies and of the overall availability of the data. Off-scale values are excluded (Ireland +197%).

In 2016 the combined ratio (which combines the two effects of the loss ratio and of the expense ratio) of the non-life business remained below 100% in all OECD countries with the exception of Hungary (101.3%) and, according to preliminary estimates, in the United States (100.2%).

Investments

As in the life business, in the non-life business the investment structure of companies did not undergo any significant changes in 2016; over half of the resources remained invested in bonds.

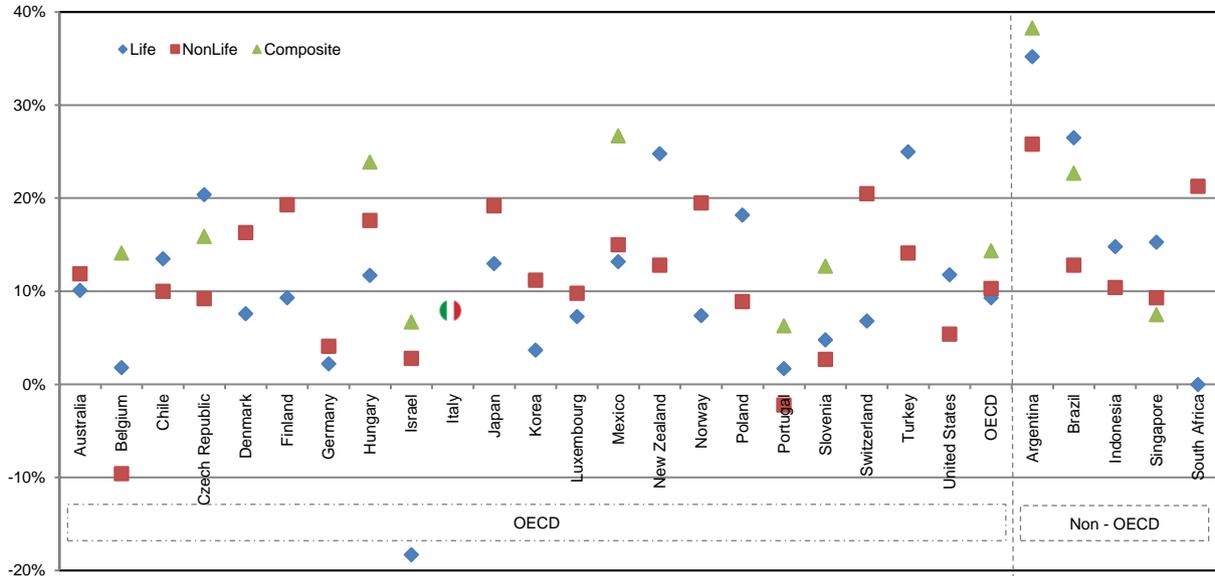
The profitability of investments, on average, is at higher values than that of the life business, albeit with diversified values in the various countries.

1.1.3. - Profitability

With the exception of Israel, return on equity (ROE) was always positive in the OECD countries (Fig. I.5), nearly reaching 9% in Italy (for all three classes) and above 10% in half of the countries.

Figure I.5

ROE by type of insurance company in major countries – 2016
(% values)

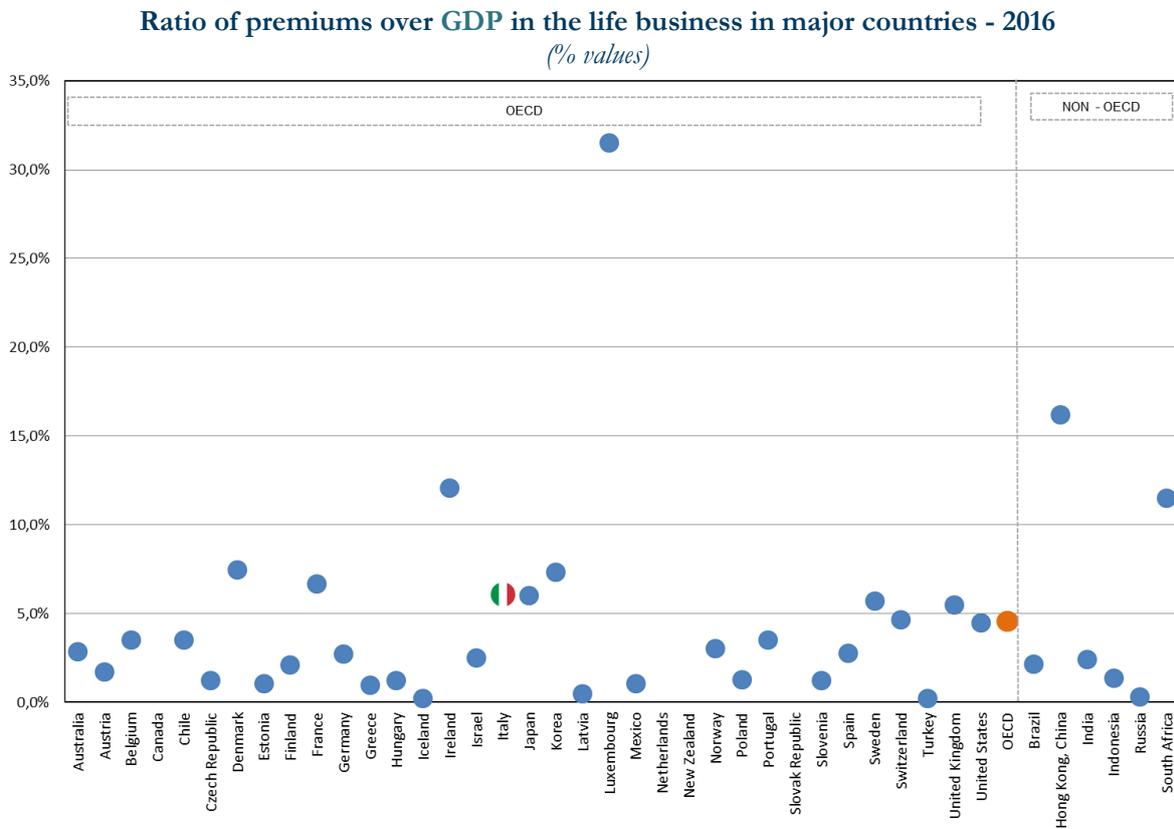


Source: calculation on OECD data. The OECD countries that reported the data were indicated along with a sample of non-OECD countries selected on the basis of the relevance of the respective economies and of the overall availability of the data.

1.1.4. - Percentage of GDP

In 2016, the life insurance sector of OECD countries accounted, on average, for 4.6% of the GDP (penetration rate) (Fig. I.6), a stable value compared to previous years. In spite of the reduction by nearly 1%, the penetration level of the life insurance business recorded in Italy remained well above the OECD average (from 7% in 2015 to 6.1% in 2016) and lower than only five countries in the area: France (6.7%), South Korea (7.3%), Denmark (7.5%), Ireland (12.1%) and Luxembourg (31.5%).

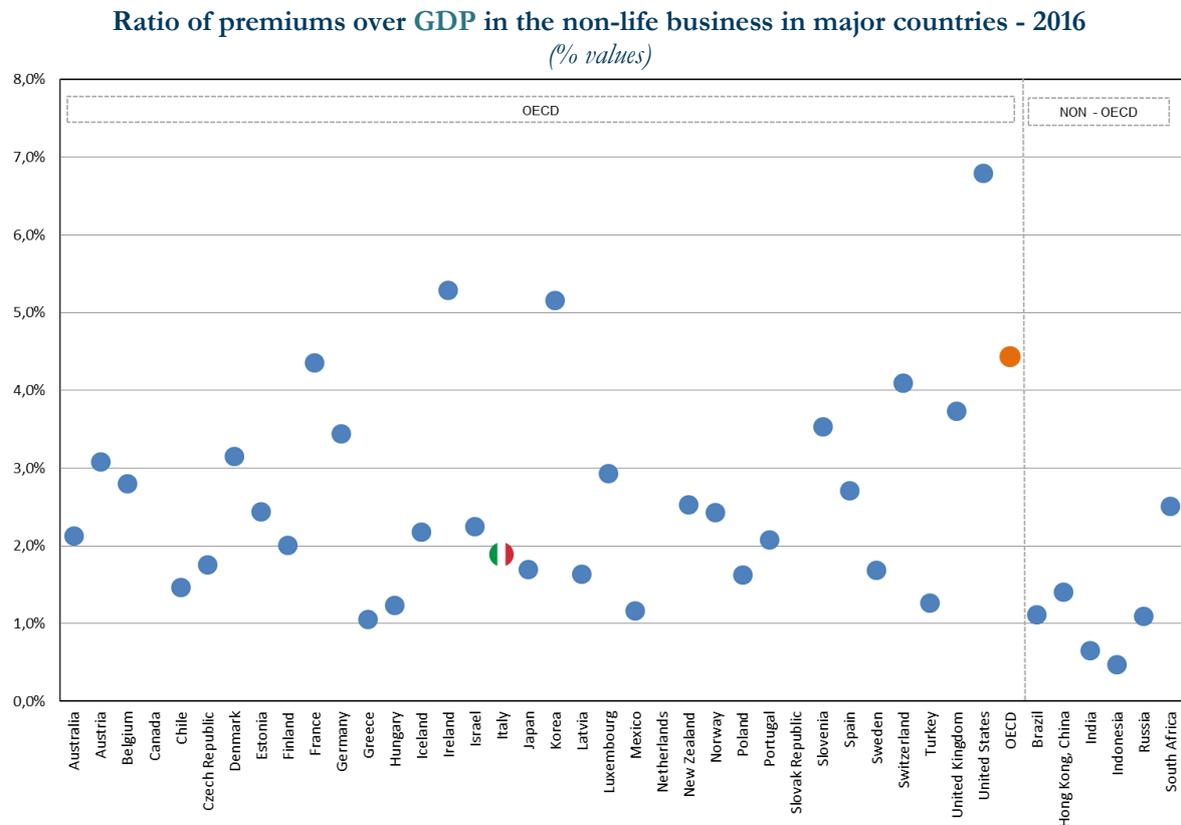
Figure I.6



Source: calculation on OECD data. All OECD countries were indicated (even when no data were available) along with a sample of non-OECD countries selected on the basis of the relevance of the respective economies and of the overall availability of the data.

In the non-life insurance sector, the average percentage of GDP in OECD countries was 4.4% (Fig. I.7); the weight of the sector in the United States is particularly significant (6.8%); above-average values were recorded only South Korea (5.2%) and Ireland (5.3%). Unlike the life business, the Italian figure is lower than average: in 2016, non-life premiums accounted for 1.9% of the nominal GDP.

Figure I.7



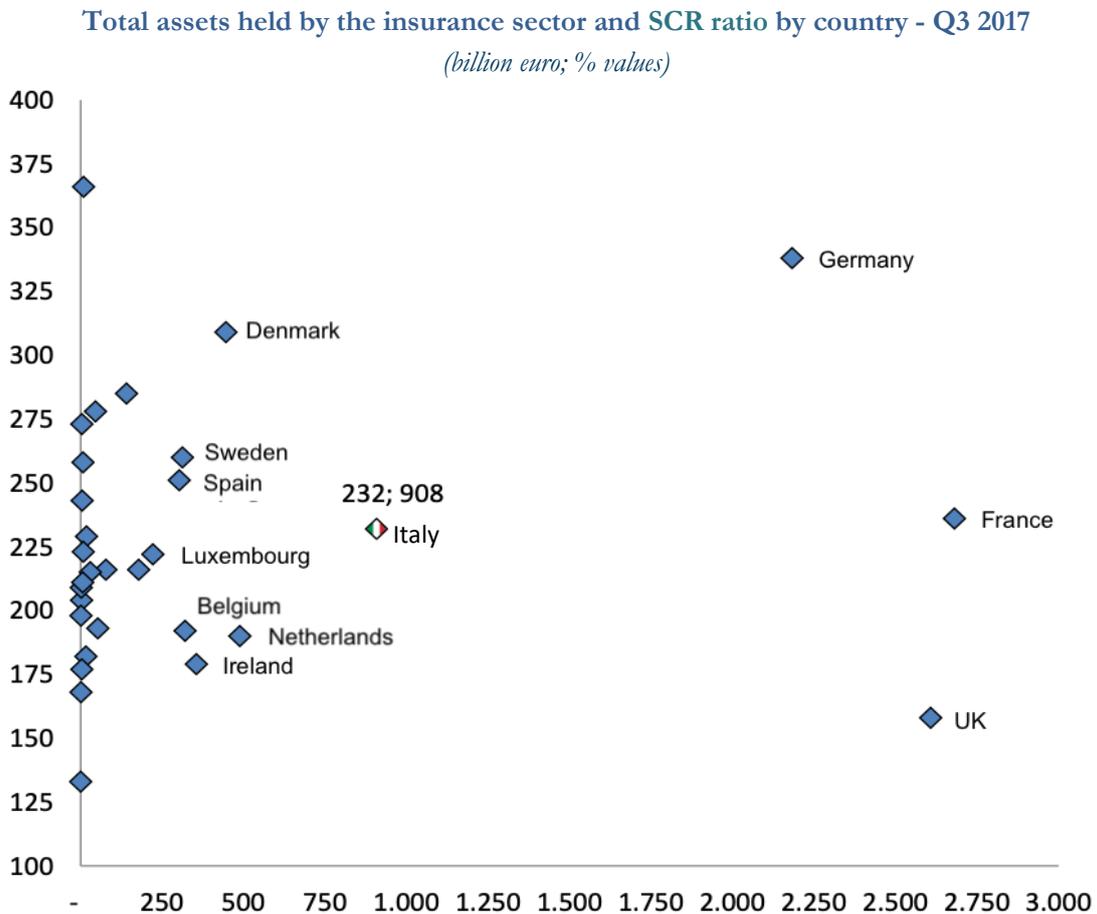
Source: calculation on OECD data. All OECD countries were indicated (even when no data were available) along with a sample of non-OECD countries selected on the basis of the relevance of the respective economies and of the overall availability of the data.

1.2. - The European insurance market

At the third quarter of 2017², for the European Economic Area (EEA) countries the size of the life and non-life insurance sector, amounted, in terms of total assets, to 11,445 billion euro, in terms of technical provisions to 9,947 billion euro and in terms of capital provisions to 1,498 billion euro.

² The analysis set out herein originate from the EIOPA quarterly statistics published on 22 March 2018 with reference date 30 September 2017. At the time of this publication EIOPA had not published the statistics for premiums, claims and expenses of the life business.

Figure I.8



Source: calculation on EIOPA data.

Investments with respect to non-life products and life contracts with guaranteed financial performance amount to 7,729 billion euro (63.2% of the total amount). Investments with respect to products whose financial risk is borne by the policyholders amount to 2,713 billion euro (23.7% of the total).

The countries with the highest incidence of investments with respect to policies with guaranteed financial performance are Germany (83%), Spain (82%) and Croatia (80%) while Liechtenstein, Luxembourg and Ireland had a very low percentage of traditional policies, respectively equal to 10%, 21% and 22%.

In the investment portfolio there is a prevalence (Table I.1) of the fixed income sector (60% of the total), itself equally divided between government and corporate bonds. On the other hand, the value of the positions in derivatives (2% of the total) is marginal at the aggregate level.

Table I.1

European market - composition of investments		
(% values)		
Sector	Category	Incidence
Fixed income	government bonds	30.6%
	corporate bonds	29.3%
Equity	UCITS	18.3%
	equity investments	11.5%
	shares	4.0%
Derivatives	derivatives	1.7%
	structured notes	1.4%
	collateralization	0.7%
Real estate	property	1.7%
Cash	deposits	0.8%
Total investments		100.0%

Source: Calculations on EIOPA statistics, third quarter of 2017.

The total liabilities of the European insurance sector as at the third quarter of 2017 reached 9,947 billion euro.

Of these (Table I.2), 782 billion euro are the reserves of the non-life business (including products covering sickness risks), 5,315 billion euro the reserves of the life insurance business for traditional products excluding index and unit-linked policies, and 2,798 billion euro for index and unit-linked products. The sum of the technical provisions represents 89.4% of total liabilities.

Table I.2

European market - technical provisions					
% of total liabilities					
(% values)					
Category	Life			Non-life	
	traditional policies	index- and unit-linked products	coverage for sickness (life)	non-life policies	coverage for sickness (non-life)
Incidence	49.4%	28.1%	4%	6.9%	1.0%

Source: Calculations on EIOPA statistics, third quarter of 2017.

In the calculation of technical provisions, the best estimate (BE) component represents 95% in the non-life business, and for the life business, 97% in traditional policies and 86% in linked policies.

In terms of exceedance of assets over liabilities, the European insurance sector totals 1,498 billion euro. Own funds eligible for coverage of the capital requirement amount to 1,555 billion euro, while the capital requirement (SCR) in aggregate terms reaches 650 billion euro. The resulting average SCR ratio is equal to 2.39.

EIOPA makes available the profitability ratios as at 2016 on a sample of 114 large participating life and non-life groups³ (Table I.3). The median ROE (return on excess of assets over liabilities) amounts to 6.07% while the median ROA is 0.45%.

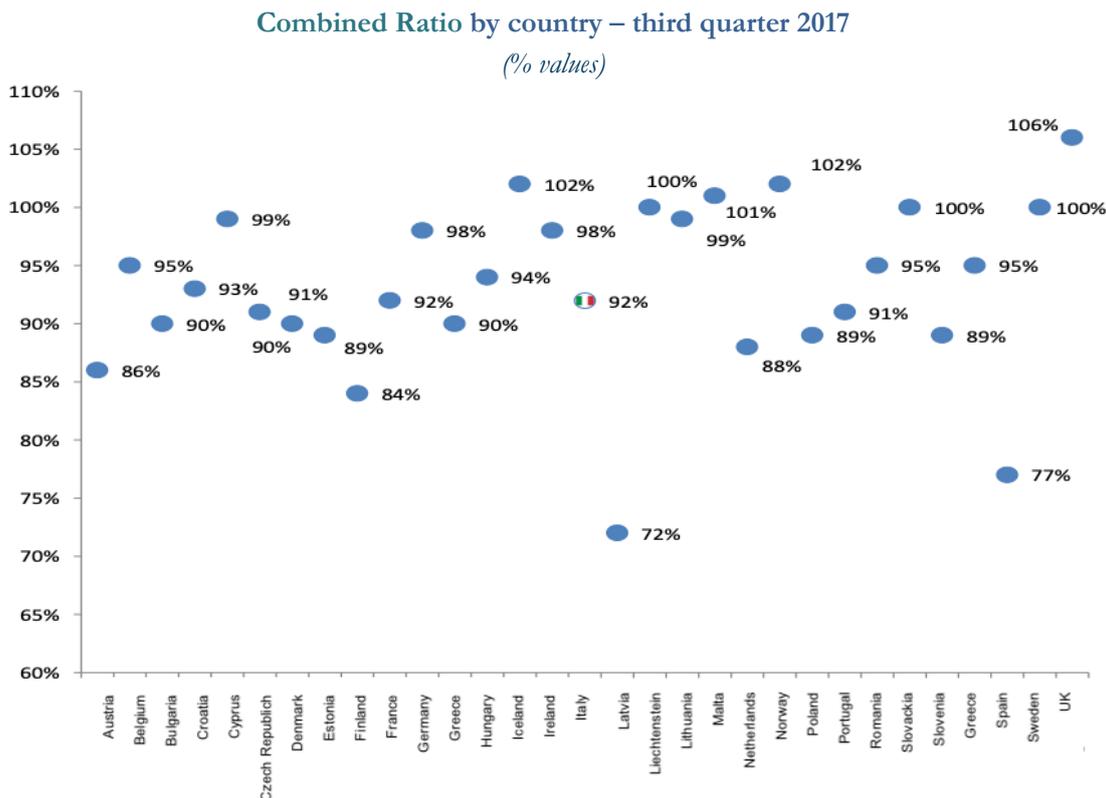
Table I.3

Profitability ratios - percentiles - fourth quarter 2016					
	10 th Percentile	25 th Percentile	median	75 th Percentile	90 th Percentile
ROE	0.58%	3.27%	6.07%	10.16%	13.04%
ROA	0.03%	0.21%	0.45%	0.90%	2.38%

Source: EIOPA

In the non-life business, the average combined ratio is 93%, indicating that the subscription process is, on average, profitable. Fig. I.9 shows the distribution by country.

Figure I.9



Source: calculation on EIOPA data.

The main balance sheet aggregates are set out below, as calculated according to Solvency II criteria, homogenous among the various countries.

³ The ratios are based on the annual financial stability reporting, published by EIOPA on 18 September 2017.

Table I.4

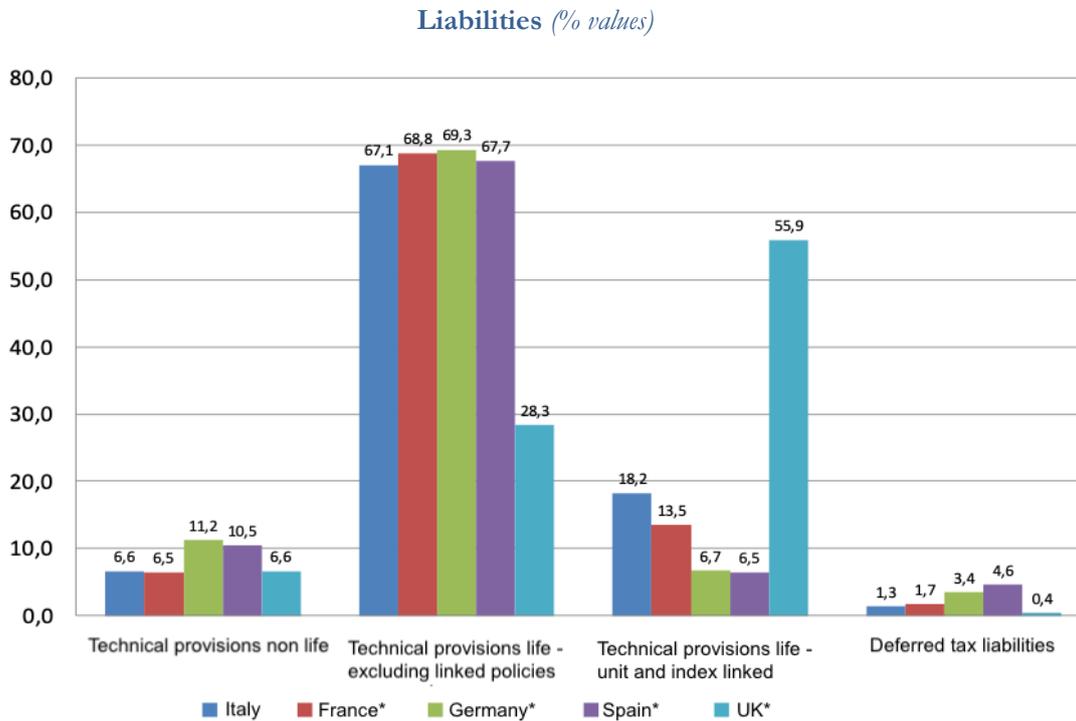
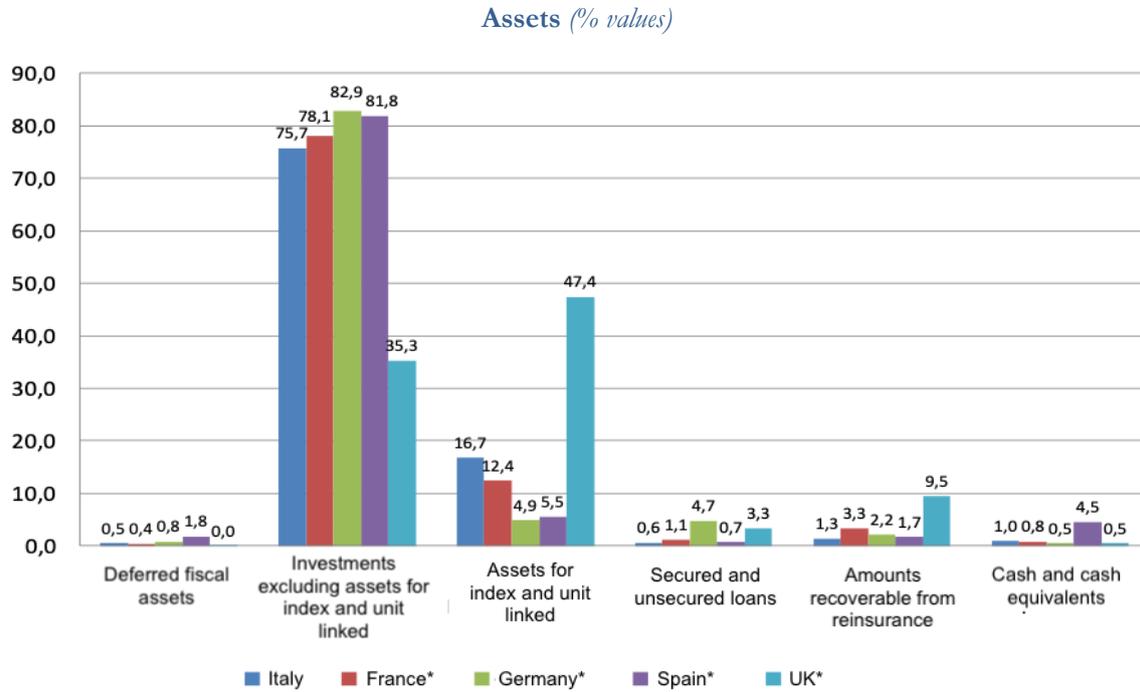
Balance sheets of insurance companies in major European countries										
(million euro)										
Italy 31/12/2017			France*		Germany*		Spain*		United Kingdom*	
			30/09/2017							
Assets										
Deferred tax assets	4,503	0%	10,910	0%	17,300	1%	5,366	2%	1,151	0%
Investments (excluding assets for index and unit linked)	696,659	76%	2,093,441	78%	1,809,195	83%	248,016	82%	920,000	35%
Assets held for index and unit linked	154,217	17%	333,610	12%	107,292	5%	16,706	6%	1,237,272	47%
Secured and unsecured loans	5,301	1%	29,959	1%	103,679	5%	2,053	1%	85,402	3%
Amounts recoverable from reinsurance	12,134	1%	89,779	3%	48,795	2%	5,215	2%	248,888	10%
Cash and cash equivalents	9,332	1%	21,585	1%	11,065	1%	13,604	4%	13,883	1%
Other assets	38,692	4%	102,079	4%	85,833	4%	12,295	4%	101,512	4%
Total assets	920,838	100%	2,681,364	100%	2,183,159	100%	303,256	100%	2,608,108	100%
Liabilities										
Non-life technical provisions	52,860	7%	154,385	6%	193,634	11%	26,135	10%	159,647	7%
Life technical provisions – excluding linked policies	538,822	67%	1,643,588	69%	1,199,150	69%	168,783	68%	683,231	28%
Unit and index linked technical provisions	146,073	18%	321,641	13%	115,509	7%	16,146	6%	1,347,669	56%
Deferred tax liabilities	10,697	1%	39,792	2%	58,994	3%	11,444	5%	9,945	0%
Other liabilities	55,111	7%	230,606	10%	161,892	9%	26,954	11%	210,960	9%
Total liabilities	803,562	100%	2,390,011	100%	1,729,180	100%	249,463	100%	2,411,452	100%
Excess of assets over liabilities	117,276		291,565		453,979		53,793		196,656	

* Latest available figure (fourth quarter 2017 for Italy, third quarter 2017 for the other countries, source: EIOPA, Insurance Statistics).

The comparison highlights the higher weight of index and unit products in the United Kingdom, compared to the other countries in which traditional insurance products are the main activity. The Italian capital structure has a higher portion of the assets held for index and unit linked products than in France, Spain and Germany.

Figure I.10

Main 2017 assets and liabilities over the total by country



* Latest available figure (fourth quarter 2017 for Italy, third quarter 2017 for the other countries (the source for these is EIOPA, Insurance Statistics).

2. - THE ITALIAN INSURANCE MARKET: STRUCTURAL ASPECTS

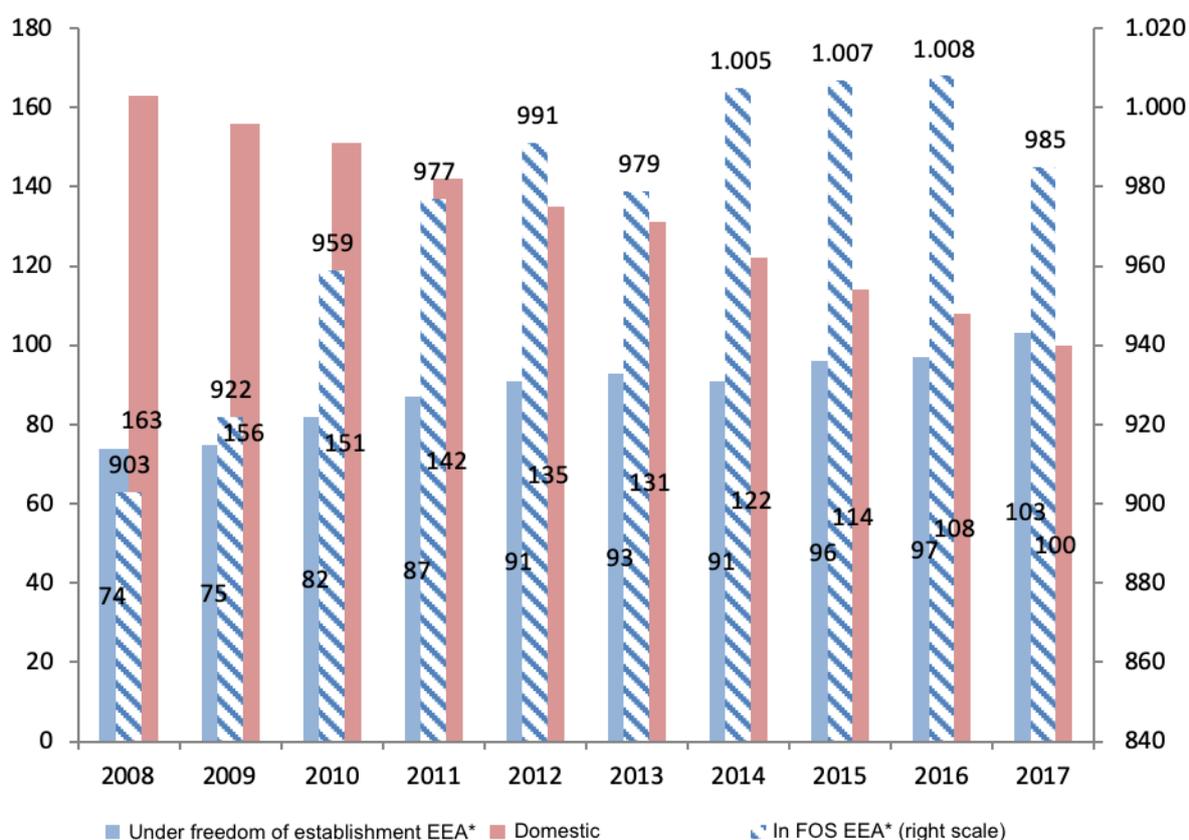
2.1. - Market structure

As at 31 December 2017 the undertakings authorised to pursue insurance and reinsurance business in Italy under the prudential supervision of IVASS were 103 (111 in 2016), 100 of which domestic and 3 branches of foreign undertakings with head office in a non EEA country.

From 2008 to 2017 the number of domestic undertakings gradually declined, from 163 to 100, contracting by -39% in the ten-year period (Fig. I.11).

Figure I.11

Number of undertakings: domestic, under freedom of establishment EEA and in FOS EEA
(units)



* excluding reinsurance undertakings

Since 2009, there have been no Italian specialist reinsurers for life and non-life business. In 2017, 8 companies ceased exercising the insurance business due to merger by absorption (5 life and 3 non-life undertakings) and no new authorisations to exercise the insurance business were granted.

Undertakings with head office in another European Economic Area (EEA) state are authorised to operate in the Italian territory and are supervised by the supervisory authorities of their respective countries of origin. Among them, 103 branches are authorised with right of establishment and 984 undertakings⁴ are allowed to operate in Italy by virtue of the freedom to provide services (fos) (Table I.5).

Between 2008 and 2017, EEA undertakings authorised to operate in Italy under right of establishment and fos increased, respectively, by 39.2% (+29 undertakings) and by 9.1% (+82 undertakings, Fig. I.11).

Table I.5

Breakdown of undertakings authorised to operate in Italy by type of activity – 2017				
	Non-life	Life	Composites	Total
Domestic insurance undertakings	52	35	13	100
Branches of insurance undertakings of non-EEA States	3	-	-	3
Branches of insurance undertakings of EEA States	68	22	13	103
Insurance undertakings/ establishments of EEA States under fos	757	174	53	984
Branches of reinsurance undertakings of EEA States	1	1	5	7

26% of branches licensed to operate on the Italian territory have their head office in the United Kingdom, and French, Irish and German undertakings have a significant presence (Table I.6).

Table I.6

Geographic breakdown of the EEA undertakings authorised under the right of establishment by country of the head office		
	2016	2017
Number of undertakings	97	103
Head office country:		
United Kingdom	29	27
France	15	16
Ireland	15	15
Germany	13	15
Luxembourg	6	8
Belgium	6	6
Spain	4	6
Austria	4	4
Others	5	6

⁴ The number of fos undertakings pertains to firms that communicated their intention to operate in Italy, some of whom may not have concluded any contracts in 2017 or may have operated to a marginal extent (Table I.8 for fos income in Italy). Three quarters of them are active in the non-life business.

In 2017, 8 additional EEA undertakings were licensed to operate in Italy under right of establishment: two from Spain, two from Luxembourg, one each from Malta, France, United Kingdom and Germany. The number of branches of specialist reinsurers with head offices in the EEA remained at seven, unchanged since 2013 (one in the non-life business, one in the life business and 5 composites).

In 2017, 43 undertakings or branches of undertakings with head office in another EEA member state were licensed to pursue insurance business by way of freedom to provide services (76 in 2016), of which 6 in the United Kingdom, 5 in the Netherlands and 3 each in France, Germany, Ireland, Malta and Spain (Table I.7).

Table I.7

EEA undertakings/establishments authorised under fos in Italy		
	<i>(units)</i>	
	2016	2017
Number of undertakings	1,002	984
Head office country:		
United Kingdom	159	143
Germany	117	114
Ireland	111	110
France	96	93
Netherlands	70	73
Luxembourg	52	51
Spain	38	39
Belgium	37	37
Austria	37	36
Sweden	42	36
Liechtenstein	29	30
Malta	24	27
Denmark	26	26
Norway	20	20
Others	144	149

2.2. - The premium income of foreign undertakings in Italy and the international activity of Italian undertakings

On the basis of the most recent data available from EIOPA⁵, in 2016 228 fos Italian undertakings (out of 1,002 authorised ones) and 84 under right of establishment (out of 97) reported premiums collected in Italy (Table 1 in the Appendix).

The undertakings with their head office in Ireland, the United Kingdom, Luxembourg and France had the most substantial portions of the premiums in Italy under right of establishment

⁵ The figure on the operations of the fos undertakings and of EU establishments in Italy are calculated from EIOPA archives. At the time of publication of this Report, the most up to date figure referred to the end of 2016.

or fos. A significant part of the premiums in the life business was collected by undertakings located abroad that are subsidiaries of Italian entities (Table I.8).

The non-life business with the greatest foreign presence were those of general liability, of MTPL and of fire and other natural elements, with a value of inward premiums collected respectively equal to 1,285, 1,004 and 825 million euro, corresponding respectively to 44.3%, 7.4% and 34.7% of the total (Tables 4 and 5 in the Appendix). In the life business, foreign undertakings were active almost exclusively in the placement of unit and index linked products with 19,427 million euro of premiums collected, accounting for 80.8% of the total (Tables 2 and 3 in the Appendix).

Total premium income in Italy - including foreign undertakings not supervised by IVASS, operating under fos and establishment - for 2016 amounted to 162,109 million euro and recorded for the first time, in the five-year interval considered, a reduction by -9.4% relative to the previous year.

Table I.8

Inward premiums collected in Italy					
	(million euro)				
	2012	2013	2014	2015	2016
Life business					
Italian undertakings (1)	55,075	66,904	82,013	86,383	77,681
<i>of which: with head offices abroad (2)</i>	3,019	3,614	6,569	6,956	9,698
Foreign undertakings (6)	28,470	35,158	51,600	53,760	47,341
<i>of which: establishments of EU undertakings</i>	2881	3,782	5,004	5,724	5,475
<i>of which: fos</i>	8,035	9,655	11,624	12,610	7,597
<i>of which: with head office in Italy (3)</i>	17,554	21,721	34,972	35,426	34,269
Premiums from Italian direct business (4=1-2+3)	69,610	85,011	110,415	114,852	102,252
<i>% direct insurance related to foreign entities (5=3/4)</i>	25.2	25.6	31.7	30.8	33.5
<i>% total income in Italy related to foreign entities (6/7)</i>	34.1	34.4	38.6	38.4	37.9
Total (7=1+6)	83,545	102,062	133,613	140,143	125,022
Non-life business					
Italian undertakings (1)	24,849	23,642	23,082	21,380	21,515
<i>of which: with head offices abroad (2)</i>	0	0	0	0	5
Foreign undertakings (6)	15,674	15,830	16,808	17,360	15,572
<i>of which: establishments of EU undertakings</i>	4,239	4,576	4,626	4,919	4,580
<i>of which: fos</i>	871	1,205	2,464	1,819	549
<i>of which: with head office in Italy (3)</i>	10,564	10,049	9,718	10,622	10,443
Premiums from Italian direct business (4=1-2+3)	35,413	33,691	32,800	32,002	31,953
<i>% direct insurance related to foreign entities (5=3/4)</i>	29.8	29.8	29.6	33.2	32.7
<i>% total income in Italy related to foreign entities (6/7)</i>	38.7	40.1	42.1	44.8	42.0
Total (7=1+6)	40,523	39,472	39,890	38,740	37,087

continued

Inward premiums collected in Italy					
<i>(million euro)</i>					
	2012	2013	2014	2015	2016
Life and non-life business					
Italian undertakings (1)	79,924	90,546	105,095	107,763	99,196
<i>of which: with head offices abroad (2)</i>	3,019	3,614	6,569	6,956	9,703
Foreign undertakings (6)	44,144	50,988	68,408	71,120	62,913
<i>of which: establishments of EU undertakings</i>	7,120	8,358	9,630	10,643	10,055
<i>of which: fos</i>	8,906	10,860	14,088	14,429	8,146
<i>of which: with head office in Italy (3)</i>	28,118	31,770	44,690	46,047	44,712
Premiums from Italian direct business (4=1-2+3)	105,023	118,702	143,215	146,854	134,205
<i>% direct insurance related to foreign entities (5=3/4)</i>	26.8	26.8	31.2	31.4	33.3
<i>% total income in Italy related to foreign entities (6/7)</i>	35.6	36.0	39.4	39.8	38.8
Total (7=1+6)	124,068	141,534	173,503	178,883	162,109

The market share of undertakings with foreign parent companies, which had premium income of 62,913 million euro (of which 44,712 million euro through subsidiaries in Italy) accounted for 38.8% of the total (33.3% on the total premiums of Italian direct business), with a slight contraction from the previous year (39.8% in 2015). In the five-year time interval, a progressive increase was observed in the total market share of foreign owned undertakings, which rose from 35.6% of 2012 to 39% in 2016.

The presence in the non-life business of foreign owned companies is significant, with 42% of the total income, in line with the historical data that indicate a preference in the non-life business compared to life business (37.9% share of the life market).

The total income in Italy of the Italian undertakings (also including the production collected by foreign subsidiaries, amounting to 9,703 million euro or 6% of the total, up by 39.4% compared to 2015) amounted to 99,196 million euro (61.2% of total income in Italy) and declined by 8% from the previous year, entirely due to the life business.

Table I.9 reports the amount of the production collected abroad by insurance undertakings under Italian control, highlighting their international opening. In 2016, Italian undertakings collected premiums of 43,094 million euro, with a decline of 3.6% compared to the previous year, due to the income reduction in the life business (-5.7%).

Table I.9

Inward premiums collected in Italy					
(million euro)					
	2012	2013	2014	2015	2016
Life business					
Italian undertakings	29,672	27,858	27,781	29,387	27,712
<i>of which: with head offices abroad</i>	29,541	27,698	27,599	29,139	27,224
degree of international opening*	35.0	29.4	25.3	25.4	26.3
Foreign undertakings**	0.0	0.0	0.6	2.9	3.0
Total	29,672	27,858	27,782	29,390	27,715
Non-life business					
Italian undertakings	15,791	14,894	14,895	15,326	15,382
<i>of which: with head offices abroad</i>	15,224	14,290	14,132	14,680	14,777
degree of international opening*	38.9	38.6	39.2	41.8	41.7
Foreign undertakings**	6.0	8.0	6.5	7.3	8.0
Total	15,797	14,902	14,901	15,333	15,390
Life and non-life business					
Italian undertakings	45,463	42,752	42,676	44,713	43,094
<i>of which: with head offices abroad</i>	44,765	41,988	41,731	43,818	42,001
degree of international opening*	36.3	32.1	28.9	29.3	30.3
Foreign undertakings**	6.0	8.0	7.1	10.2	11.0
Total	45,469	42,760	42,683	44,723	43,105

* Premiums collected abroad out of total premiums collected abroad and in Italy.

** Undertakings with head office in Italy and operating abroad under fos.

The degree of international opening in 2016 of the subsidiaries of Italian entities, represented by the portion of premiums collected abroad out of the total, was equal to 30.3%, compared to 29.3% in 2015. The degree of international opening was higher in the non-life business (41.7%) than in the life business (26.3%); in the historical series considered (2012-16) the corresponding operations recorded opposite trends, with an 8.7 point reduction of the market share of the life business and a 2.8 point increase in non-life business.

2.3. - Premium income and investments of the undertakings supervised by IVASS based on shareholdings and on the main activity of the parent group

The structure of the undertakings supervised by IVASS with regard to the nationality and the economic sector of the ultimate controlling entity is shown in Table I.10.

Table I.10

Premium income and investments by shareholdings and parent group of the supervised undertakings – 2017				
	<i>(million euro and % values)</i>			
	premiums (Italian direct business)	%	class C and D investments	%
Foreign undertakings:	42,417	32.4	168,473	28.7
EU and non-EU foreign undertakings insurance sector + Non-EU branches	31,516	24.1	157,229	20.2
EU and non-EU foreign undertakings financial sector	10,901	8.3	66,092	8.5
Italian undertakings:	88,503	67.6	555,648	71.3
Controlled by the State and by Public Bodies	21,128	16.1	118,900	15.2
Insurance sector control	47,229	36.1	291,390	37.4
Financial sector control	19,610	15.0	145,139	18.6
Control of other private entities	536	0.4	219	0.0
Grand total	130,920	100.0	778,969	100.0

At the end of 2017, 51.5% of the premium income and 56% of class C and D investments referred to Italian private entities - excluding foreign undertakings or those controlled by the State and by public Bodies - which was in line with 2016 (respectively, 51.3% and 56.2%).

For foreign entities, the share declined both in terms of premium income from 33.3% to 32.4%, and in terms of class C and D investments, from 29.3% to 28.7%.

Among Italian private controlling entities, those of the financial sector have a prevailing weight, after the insurance sector, with 15.0% of income and 18.6% of class C and D investments (respectively 14.8% and 18.7% in 2016). The financial institutions that control insurance undertakings are mostly banks and, to a lesser extent, non-bank financial companies.

2.4. - Insurance and reinsurance intermediaries

2.4.1. - Intermediaries registered in the Single Register (RUI)

As at 31 December 2017, there were 228,676 Italian intermediaries registered in the Single Register, which add to the 8,211 foreign intermediaries registered in the Annexed List (at the end of 2016 they were respectively 236,597 and 8,053).

Table I.11

Number of intermediaries registered in the sections of the Single Register at the end of 2017				
(units)				
Sections	Type of intermediary	Natural Persons	Companies	Total
A	Agents	19,728	8,985	28,713
B	Brokers	3,894	1,670	5,564
C	Direct canvassers	4,359		4,359
D	Banks, financial intermediaries, stock brokerage companies, Poste Italiane s.p.a. - divisione servizi di bancoposta		496	496
E	Staff providing mediation business outside the premises of the intermediary, registered in section A, B or D, for which they conduct business, including their employees and collaborators	176,991	12,553	189,544
Annexed list	Intermediaries having their residence or head office in another EEA Member State	8,211		8,211
Total		213,183	23,704	236,887

The number of agents and brokers continues to decrease: in the last three years, it went from 40,162 in 2015, to 35,554 in 2016, to 34,277 in 2017. This contraction is partly due to the monitoring action on the possession of the requirements for registration of intermediaries, with consequent massive deletion resulting from loss of the requirements (the parties were either non-operating or late with the payments of the supervision contribution, see V.2.7.2).

Table I.12

Distribution across the national territory of agents and brokers registered in the RUI						
(units and % values)						
Region	Agents	% of total Agents	Brokers	% of total Brokers	Agents and Brokers out of 10 thousand inhabitants*	Agents and Brokers out of 1 billion euro of GDP**
Valle D'Aosta	83	0.3	11	0.2	7.4	21.2
Piedmont	2,629	9.2	406	7.3	6.9	23.4
Liguria	984	3.4	298	5.4	8.2	26.3
Lombardy	5,345	18.6	1,327	23.8	6.7	18.1
Northwest	9,041	31.5	2,042	36.7	6.9	20.1
Veneto	2,599	9.1	422	7.6	6.2	19.4
Trentino-Alto Adige	593	2.1	95	1.7	6.5	16.8
Friuli-Venezia Giulia	608	2.1	125	2.2	6.0	19.8
Emilia-Romagna	2,201	7.7	312	5.6	5.6	16.3

continued

Distribution across the national territory of agents and brokers registered in the RUI

(units and % values)

Region	Agents	% of total Agents	Brokers	% of total Brokers	Agents and Brokers out of 10 thousand inhabitants*	Agents and Brokers out of 1 billion euro of GDP**
Northeast	6,001	20.9	954	17.1	6.0	17.9
Toscana	2,171	7.6	340	6.1	6.7	22.3
Marche	813	2.8	72	1.3	5.8	21.7
Umbria	535	1.9	61	1.1	6.7	28.1
Lazio	2,773	9.7	909	16.3	6.2	19.7
Centre	6,292	21.9	1,382	24.8	6.4	21.3
Abruzzo	712	2.5	66	1.2	5.9	24.6
Molise	155	0.5	17	0.3	5.5	28.1
Puglia	1,477	5.1	181	3.3	4.1	23.4
Basilicata	283	1.0	32	0.6	5.5	27.2
Campania	1,514	5.3	523	9.4	3.5	19.1
Calabria	781	2.7	54	1.0	4.2	25.5
South	4,922	17.1	873	15.7	4.1	22.3
Sicily	1,740	6.1	265	4.8	4.0	23.1
Sardinia	717	2.5	48	0.9	4.6	23.0
Islands	2,457	8.6	313	5.6	4.1	23.1
Total for Italy	28,713	100	5,564	100	5.7	20.4

*Source: ISTAT, Population residing in Italy as at 1 January 2017.

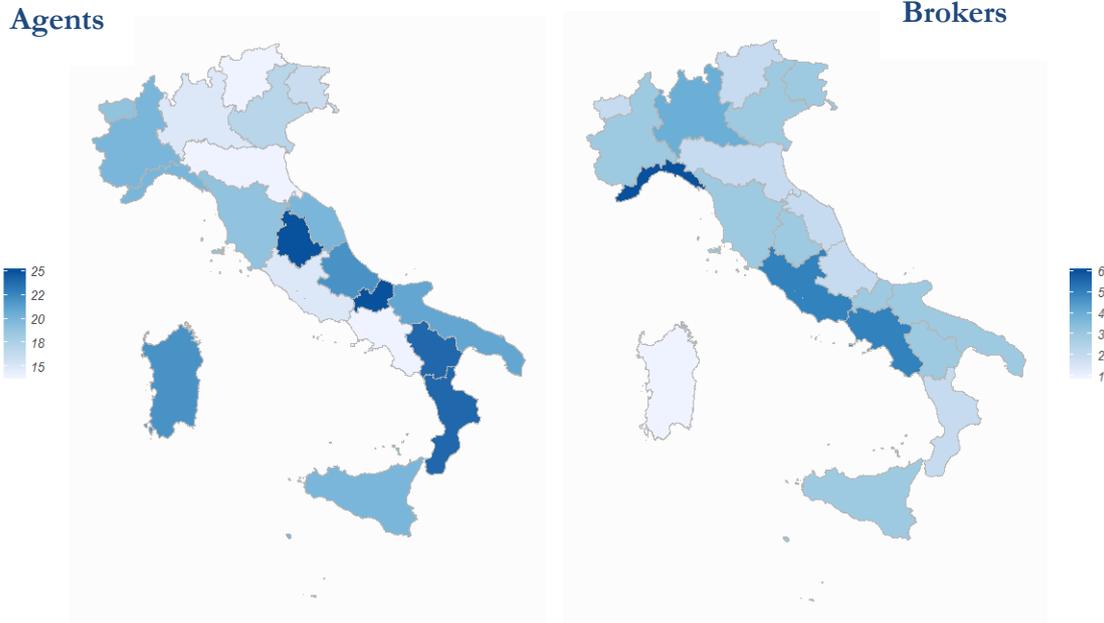
** Source: ISTAT, 2016 regional GDP production side, December 2017.

The region with the greatest presence of intermediaries (agents and brokers) is confirmed to be Lombardy, followed by Lazio, Piedmont, Veneto, Emilia Romagna, Toscana, Campania and Sicily.

Fig. I.12 shows the distribution in Italian regions of the number of intermediaries per billion euro of GDP, with the distinction between agents and brokers. In relative terms, agents are numerous in Umbria, Molise, Basilicata and Calabria and brokers are numerous in Liguria, Lazio and Campania.

Figure I.12

Distribution across the national territory of agents and brokers registered in the RUI
(number of intermediaries per billion euro of GDP)*



*Source: ISTAT, 2016 regional GDP production side, December 2017.

The gender data on the breakdown of intermediaries (natural persons) registered as at 31 December 2017 in sections A and B of the RUI (Table I.13 also defines the age classes) indicate that the intermediary profession is still characterised by a strong prevalence of males (78%). The figure remained unchanged compared to 2016.

Table I.13

Breakdown of the intermediaries registered in sections A and B of the RUI by gender and age brackets				
<i>(units and % values)</i>				
	MALES		FEMALES	
Age bracket	Number	% of total M+F	Number	% of total M+F
Up to 40	1,726	7.3	755	3.2
From 41 to 55	9,419	39.9	2,846	12.0
From 56 to 65	4,945	20.9	1,197	5.1
Over 66	2,337	9.9	397	1.7
Total	18,427	78.0	5,195	22.0

3. - PREMIUM INCOME AND COSTS

3.1. - Market concentration

Taking into consideration the undertakings supervised by IVASS, the income of the top five and ten insurance groups relative to the total Italian insurance market (Table I.14) represents a significant portion, which in the life business amounts to 65% for the top five groups and to 80% for the top ten): in the non-life business, the market share of the top five groups is 67% (85% for the top ten groups)⁶.

Table I.14

Concentration ratios for the top 5 and 10 groups – Life and non-life business*									
	(% values)								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
top 5 groups non-life	61.7%	63.2%	69.6%	76.0%	72.7%	72.3%	69.7%	69.4%	66.8%
top 5 groups life	44.8%	50.3%	55.2%	53.5%	58.0%	58.6%	57.7%	59.4%	65.0%
top 5 groups non-life+life	47.9%	51.5%	53.0%	58.7%	56.3%	59.2%	57.9%	59.2%	61.8%
top 10 non-life groups	76.0%	74.0%	84.1%	89.0%	86.9%	86.7%	82.5%	83.4%	85.2%
top 10 life groups	55.9%	66.7%	70.2%	68.1%	71.6%	73.4%	74.1%	72.7%	80.1%
top 10 groups non-life+life	60.0%	66.0%	71.2%	73.0%	73.7%	74.6%	73.7%	73.8%	78.4%

* The historical series starts from 2009 due to lack of homogeneity in the definition of the groups and in the calculation criteria in the previous years.

With reference to the concentration of the premium income of the individual undertakings, the market shares changed with respect to the previous two years for mergers and/or portfolio transfers often within the groups: the top five undertakings operating in the life business collected 48.7% in 2017 (47.1% in 2016) of the premiums; in the non-life market, the share amounted to 57.6% (59.0% in 2016).

For more detailed information on the concentration of the life business at the territorial level, please refer to II.2.

3.2. - Overview

In 2017 gross premiums written of the Italian and foreign portfolio of IVASS⁷ supervised undertakings are 134.6 billion euro, with a decrease of -2.6% compared to 2016 (Table I.15).

Premiums of the Italian direct and indirect insurance portfolio amount to 131.8 billion euro (-2.5% compared to 2016).

⁶ In the banking sector, in 2017 the first 5 groups account for 51.2% of the total deposits of residents and of the bonds issued (http://www.bancaditalia.it/pubblicazioni/relazione-annuale/2017/app_2017_totale.pdf, page 70).

⁷ For an overview of the premium income in Italy, including foreign undertakings under foe and fos, please refer to par. 2.2.

Table I.15

Premium income of the Italian and foreign portfolio, direct and indirect						
<i>(million euro and % changes)</i>						
Year	Direct portfolio Italy			Total for Italy (direct and indirect portfolio)	Total abroad (direct and indirect portfolio)	Total portfolio Italy and abroad (direct and indirect portfolio)
	Life	Non-life	Total			
2008	54,565	37,453	92,018	93,389	1,604	94,993
2009	81,116	36,685	117,801	119,095	1,632	120,727
2010	90,114	35,606	125,720	126,951	1,904	128,855
2011	73,869	36,358	110,227	111,562	1,957	113,519
2012	69,715	35,413	105,128	106,126	2,236	108,362
2013	85,100	33,687	118,787	119,782	2,398	122,180
2014	110,518	32,800	143,318	144,248	2,276	146,524
2015	114,947	32,007	146,954	147,878	2,484	150,362
2016	102,252	31,954	134,206	135,123	3,066	138,189
2017	98,611	32,310	130,921	131,794	2,763	134,557
<i>Change 2017/2016</i>	-3.6	1.1	-2.4	-2.5	-9.9	-2.6
<i>Change 2017/2008</i>	80.7	-13.7	42.3	41.1	72.3	41.6

The ratio between the premiums of the Italian direct insurance portfolio and the gross domestic product (GDP⁸) decreased, from 8% in 2016 to 7.6% in 2017. The premium / GDP ratio for the non-life business remained stable, while the ratio of the life business decreased (from 6.1% to 5.7%, Table I.16).

Table I.16

Insurance penetration rate										
<i>Incidence of premiums of the Italian direct portfolio over GDP</i>										
<i>(% values)</i>										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Percentage of life premiums over GDP	3.3%	5.2%	5.6%	4.5%	4.3%	5.3%	6.8%	7.0%	6.1%	5.7%
Percentage of non-life premiums over GDP	2.3%	2.3%	2.2%	2.2%	2.2%	2.1%	2.0%	1.9%	1.9%	1.9%
Percentage of GDP of total life and non-life premiums	5.6%	7.5%	7.8%	6.7%	6.5%	7.4%	8.8%	8.9%	8.0%	7.6%

⁸ GDP at year end at market prices: Source: ISTAT, data revised as at April 2018.

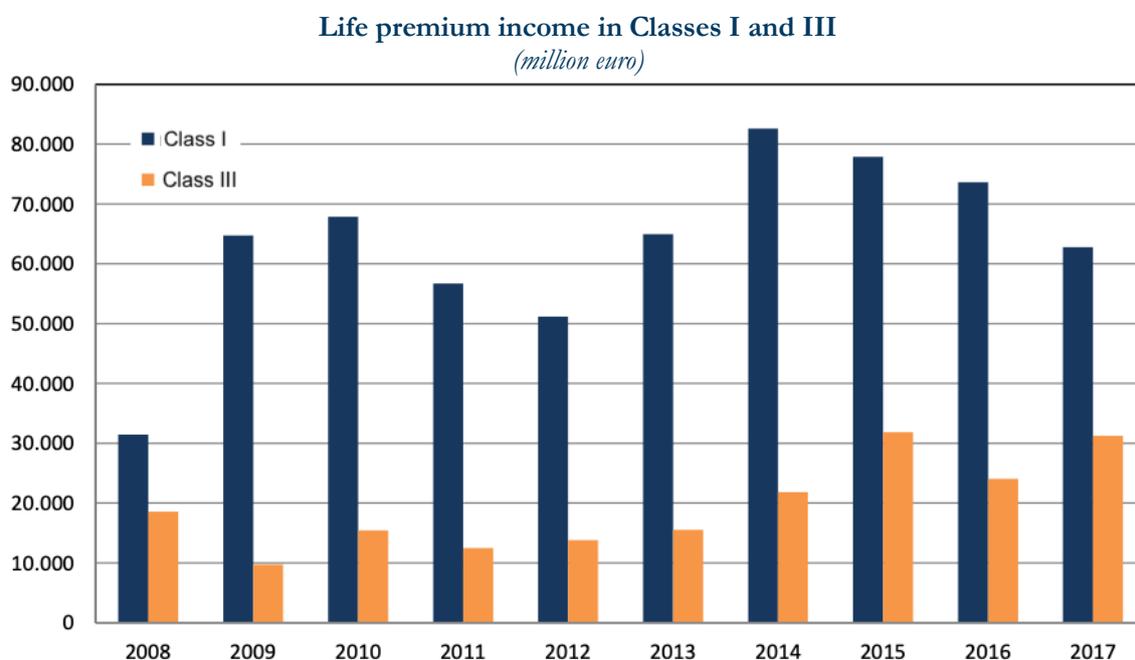
3.3. - Premiums for life business

3.3.1. - General performance of life premium income

Class I products (insurance on the duration of human life) declined by -14.7%, greater than that of the previous year (-5.4%), while Class III products (unit or index linked) increased by 30.1%, as opposed to the negative performance of the previous year (-24.5%). Overall, premium income in Classes I and III amount to 94,032 million euro for 2017 (95.4% of total life premium income, Fig. I.13).

Concerning the other classes, Class V declined (capitalisation policies, Table 10 in the Appendix) for the third consecutive years, while Class VI (pension funds) grew, although it still represents a small market share (2% of life premium income).

Figure I.13



Net income (balance between premiums and charges related to claims) contracted again in 2017 compared to the previous year, as a result of the decline in premium income and a concurrent increase in charges related to claims (Table I.17). This led to an increase in the loss ratio from 61.5% in 2016 to 72.2% in 2017. The ratio of surrenders (a component of claims) over premiums increased by 39% in 2016 to 44.8% in 2017. The values of the two ratios are lower in 2017 than in 2008, the year of the crisis in financial markets, and than in the 2011-13 time frame, characterised by the crisis of the public debt securities of some Euro area countries.

Table I.17

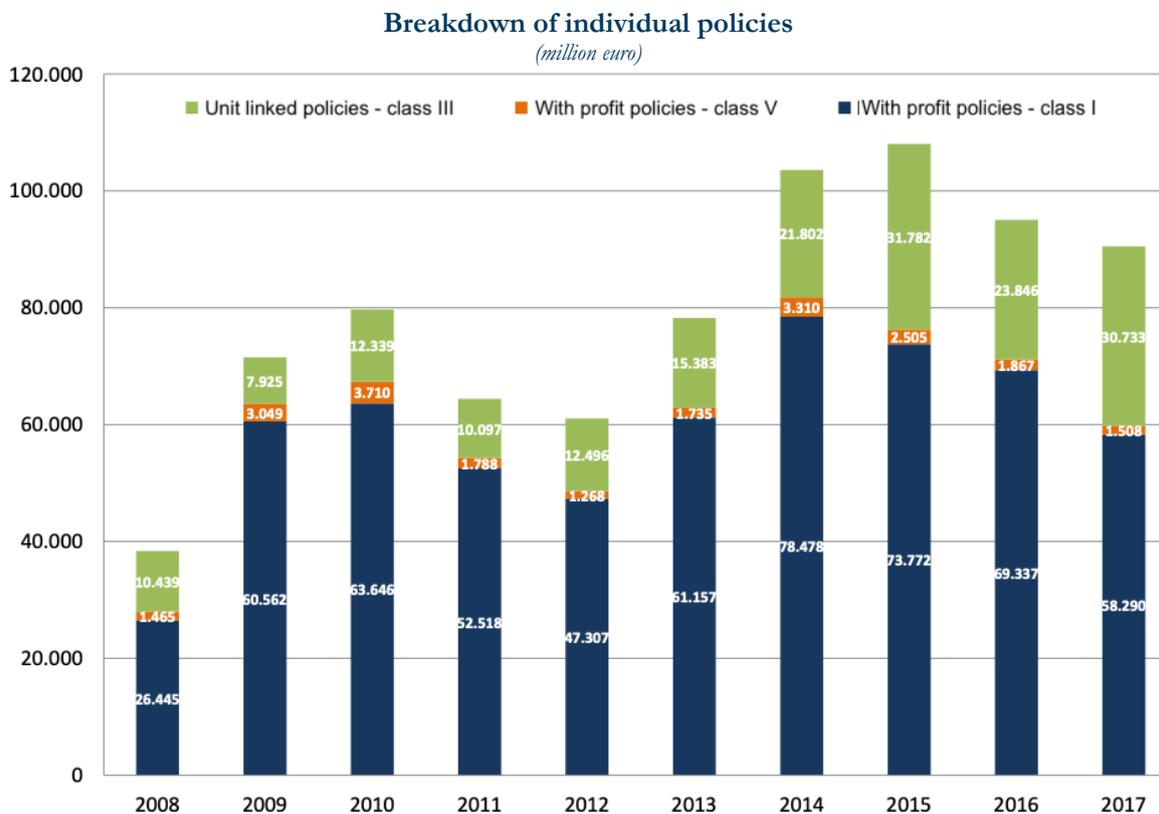
Life business - premiums and charges - Italian direct business										
<i>(million euro and % values)</i>										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Life premiums (A)	54,565	81,116	90,114	73,869	69,715	85,100	110,518	114,947	102,252	98,611
Charges relating to claims (B)	65,547	57,198	66,801	73,971	75,022	66,788	64,577	71,196	62,932	71,155
Net income (A)-(B)	-10,982	23,918	23,313	-102	-5,306	18,312	45,941	43,751	39,320	27,456
Claims/premiums (B)/(A) %	120.1	70.5	74.1	100.1	107.6	78.5	58.4	61.9	61.5	72.2
of which: surrenders/premiums	76.5	39.5	40.5	62.9	67.7	47.4	34.1	37.2	39.0	44.8

3.3.2. - The premiums of individual life assurance products

In 2017, premium income for individual policies accounted for 94.2% of life assurance income (Table 11 in the Appendix).

During the year, reallocation of life assurance products continued between traditional Class I products (insurance on the duration of human life) and Class III products (linked policies). Because of the decline in with-profit policies, which stood at 64.4% of total individual products (73.6% in 2016), traditional linked policies at the end of 2017 account for 33.6% (24.8% in 2016). Linked policies, starting from 2013, comprise almost exclusively unit products (98.3% of total linked policies in 2017).

Figure I.14



3.4. - Premiums for non-life business

The non-life business (direct Italian business) grew by 1.1% in 2017, reversing the downwards trend in 2012-2016 (-0.2% in 2016, -2.4% in 2015, -2.6% in 2014, -4.9% in 2013 and -2.6% in 2012). The recovery in premium income is mainly due to the sectors of health (+5.6%) and property (+2.2%), which account for 35.4% of premium income in the non-life classes of Italian direct business. Legal expenses and assistance grew (+6%), while all other main segments contracted relative to 2016; particularly important was the decline of motor insurance⁹ (-0.8%).

Table I.18

Non-life premium income (premiums written of Italian direct business)							
(million euro and % values)							
Sector	Insurance class	2016	Per-centage %	Δ%	2017	Per-centage %	Δ%
Health	Accident	3,009	9.4%	1.6%	3,085	9.5%	2.5%
	Sickness	2,349	7.4%	9.6%	2,571	8.0%	9.4%
	Total	5,357	16.8%	4.9%	5,656	17.5%	5.6%
Motor insurance	MTPL	13,494	42.2%	-4.9%	13,203	40.9%	-2.2%
	Liability for ships	32	0.1%	0.7%	31	0.1%	-2.0%
	Land vehicles	2,634	8.2%	7.3%	2,796	8.7%	6.1%
	Total	16,160	50.6%	-3.1%	16,030	49.6%	-0.8%
Transport	Railway rolling stock	6	0.0%	56.2%	6	0.0%	-0.2%
	Aircraft	18	0.1%	0.1%	14	0.0%	-25.2%
	Sea vessels	232	0.7%	1.0%	227	0.7%	-2.3%
	Goods in transit	166	0.5%	-0.8%	169	0.5%	2.4%
	Aircraft liability	11	0.0%	10.0%	8	0.0%	-30.3%
	Total	434	1.4%	1.0%	425	1.3%	-2.2%
Property	Fire and natural forces	2,377	7.4%	3.8%	2,400	7.4%	0.9%
	Other damage to property	2,759	8.6%	1.2%	2,788	8.6%	1.0%
	Financial loss	527	1.6%	-4.3%	601	1.9%	14.0%
	Total	5,663	17.7%	1.7%	5,788	17.9%	2.2%
General liability		2,899	9.1%	0.7%	2,918	9.0%	0.7%
Credit and surety-ship insurance	Credit	67	0.2%	12.1%	66	0.2%	-2.6%
	Suretyship	387	1.2%	6.9%	382	1.2%	-1.3%
	Total	455	1.4%	7.6%	448	1.4%	-1.5%
Legal expenses and assistance	Legal expenses	341	1.1%	4.3%	362	1.1%	6.3%
	Assistance	645	2.0%	6.9%	683	2.1%	5.9%
	Total	986	3.1%	6.0%	1,045	3.2%	6.0%
Total Non-life		31,954	100.0%	-0.2%	32,310	100.0%	1.1%

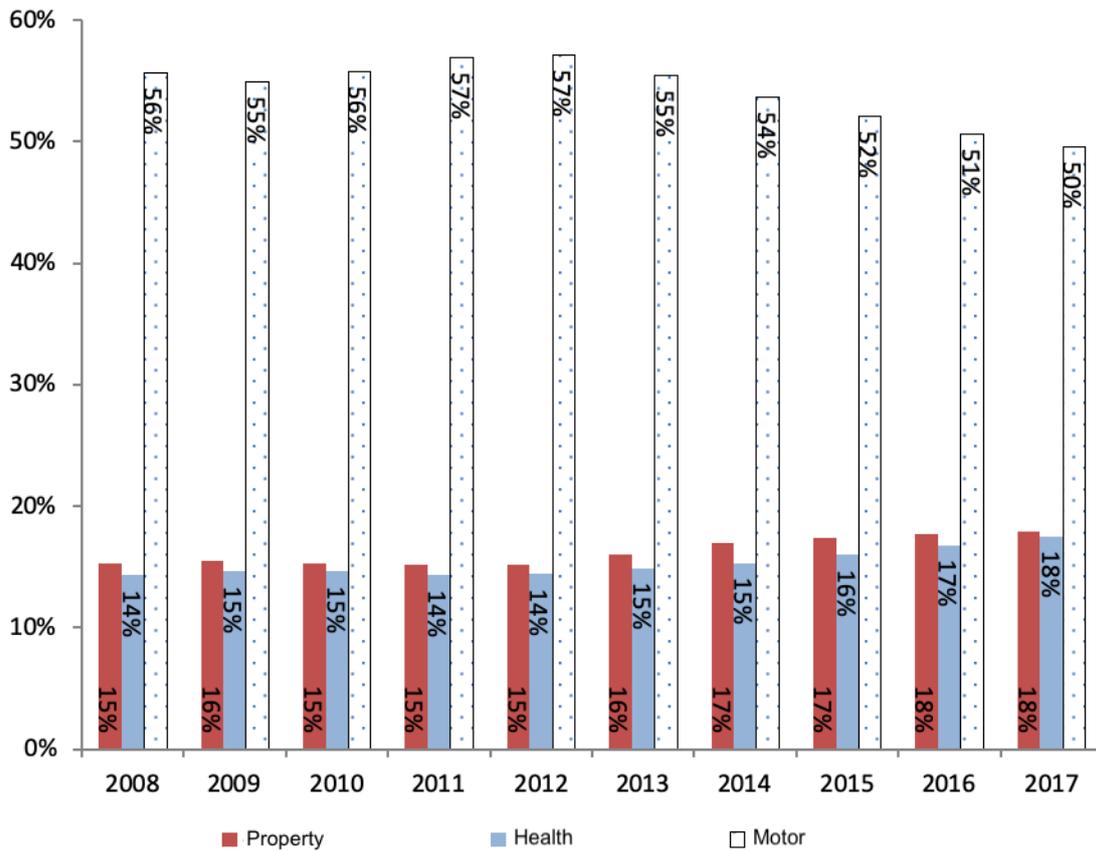
Fig. I.15 shows, for the main insurance sectors (motor, health and property), their share in terms of premium income relative to total non-life business from 2008 to 2017. In the ten-year

⁹ Motor insurance comprises MTPL, liability for ships and land vehicles insurance.

time interval, the share of the motor sector declined by -6%, to the benefit of the health and property sectors, whose weight grew, respectively, by +3.2% and +2.6%.

Figure I.15

Shares (%) of the motor, health and property sectors relative to total non-life business - 2007-2016



Medical liability

In the early months of 2018, IVASS carried out a survey to monitor the market for the coverage of medical liability in 2017, the year of entry into force of Italian Law no. 24 of 8 March 2017 “Provisions for the safety of health care and of the patient, and regarding the professional liability of those exercising health care professions” (so called “Gelli Act”). The survey has reached its fourth edition.

There were 69 undertakings that collected premiums for medical liability insurance in 2017, of which only 17 were active with public health care facilities, characterised by more complex insurance contracts and greater risk complexity. There were 20 undertakings that offered products to private health care facilities, and 34 that insure health care professionals.

The premiums collected during the year amounted to 582.6 million euro (Table I.19), slightly lower (-1.5%) than in 2016, because of the lower income for the coverage of public health care facilities (272 million, versus 284 million in 2016).

The market is characterised by high specialisation between types of undertakings. In fact, 94% of premiums for public health care facilities is collected by foreign undertakings operating in Italy under right of establishment. Domestic undertakings are more active in the offering of coverage for private facilities and health care professionals, with a very small presence of foreign owned domestic undertakings.

Table I.19

Premiums collected for medical liability insurance for risks located in Italy by type of structure and undertaking characteristics, 2017				
<i>(numbers of policyholders, amounts in million euro)</i>				
	Italian owned domestic undertakings	Foreign owned domestic undertakings	Establishments of Foreign undertakings*	Total
Public health care facilities				
Number of policyholders	371	151	163	685
Premiums	16.0	0.3	255.5	271.9
Private health care facilities				
Number of policyholders	3,643	155	269	4,067
Premiums	58.3	1.6	36.3	96.1
Health care professionals				
Number of policyholders	171,638	34,671	50,414	256,723
Premiums	138.1	26.6	49.9	214.6
Total				
Number of policyholders	175,652	34,977	50,846	261,475
Premiums	212.5	28.5	341.7	582.6

* This includes the premiums of a single foreign undertaking

A significant aspect of the law (Article 10, Paragraph 3) is the prescription for health care professionals¹⁰, working in any capacity for public or private facilities, to stipulate at their own expense an insurance policy for gross negligence, to guarantee the effectiveness of any recourse action initiated against them by the facilities (Article 9, Paragraph 1) or by the insurance undertakings that offer them coverage (Article 12, Paragraph 3). IVASS asked undertakings to report the number of policies that in 2017 were placed and charged separately for this type of risk and the related premiums, even if they were sold to the policyholder

¹⁰ At the end of 2014, 387 thousand physicians and 30 thousand dentists were registered with professional associations.

together with the traditional guarantee for medical liability insurance. Approximately 66 thousand policies emerged, corresponding to 30.8 million euro of premiums (Table I.20) of which 40% were collected from establishments of foreign undertakings.

Table I.20

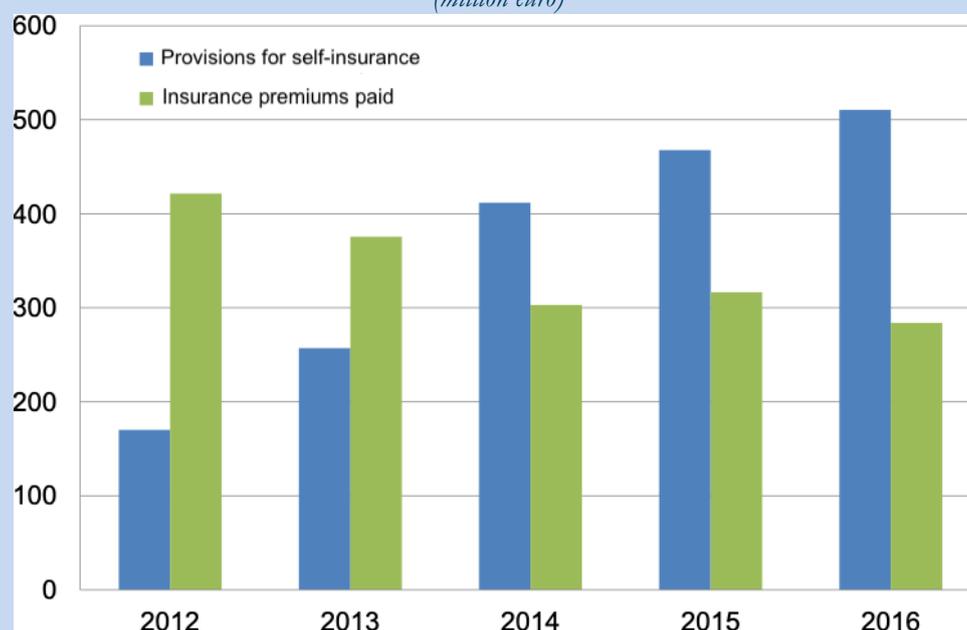
Premiums collected for the specific policies for willful misconduct or gross negligence of Italian health care professionals by characteristics of the undertaking, 2017				
<i>(number of policyholders and millions of euro)</i>				
	Italian owned domestic undertakings	Foreign owned domestic undertakings	Establishments of Foreign undertakings*	Total
Number of policyholders	22,016	127	44,239	66,382
Premiums	18.25	0.04	12.52	30.81

*This includes the premiums of a single fos foreign undertaking

Lastly, the Gelli act, in continuity with the previous regulations, allows for the possibility of fulfilling the obligation to obtain insurance coverage for third-party liability also “with other similar measures” (Article 10, Paragraph 1), i.e. self-insurance. Fig. I.16 shows the growing preference of public health care facilities for this latter risk management method.

Figure I.16

Medical liability of public health care facilities - provisions for self-insurance and premiums paid to insurance undertakings
(million euro)



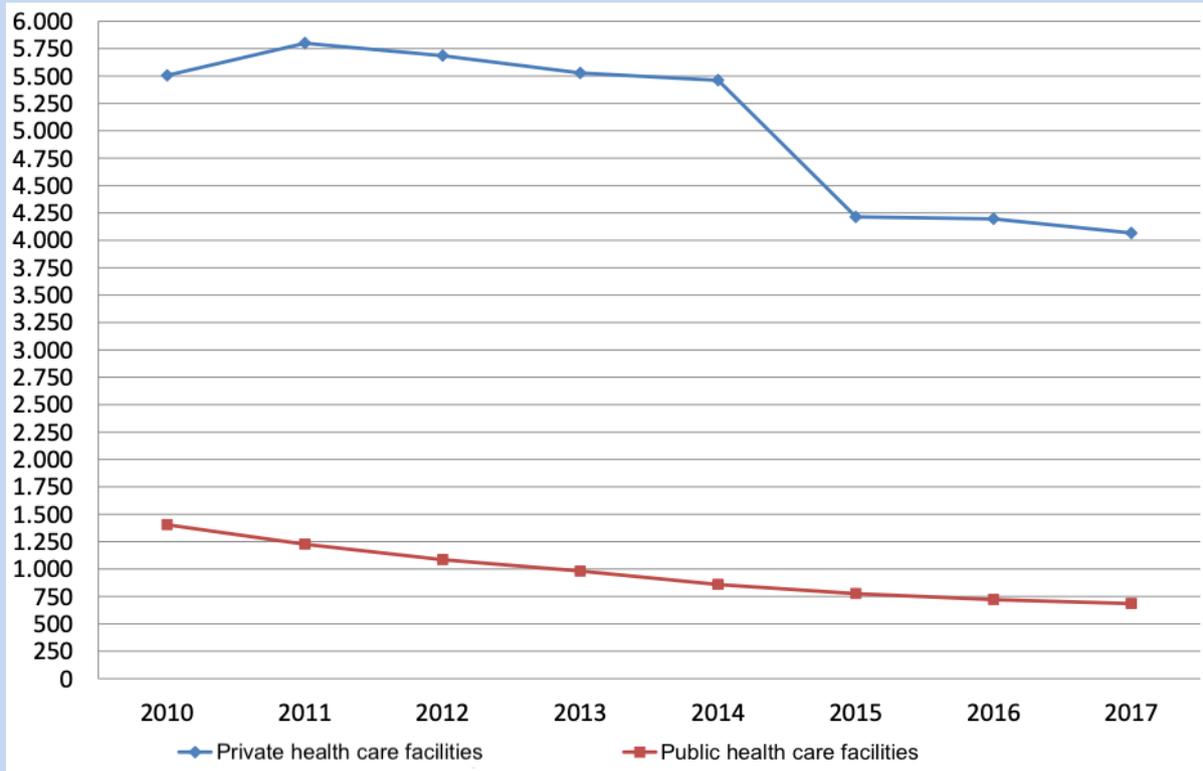
Source: Ministry of Health for the provisions, IVASS for the premiums.

Typically, self-insurance coexists with traditional insurance protections in the same health care facility and in general the insurance compensation intervenes for damages exceeding a contractually predefined value, below which only self-insurance applies. However, the number of health care facilities that use exclusively self-insurance measures, without coverage from insurance undertakings, increased. The most marked

contraction involves public facilities (685 facilities insured in 2017, -51.8% compared to 2010) rather than private ones (4,067 insured facilities, -26.1% compared to seven years before, Fig. I.17).

Figure I.17

Number of insured public or private health care facilities for medical liability insurance
(units)



3.5. - The distribution and the related costs

3.5.1. - The distribution and costs of life business

While banks and post offices continue to be the most relevant distribution channel in the life sector, they contracts slightly, with premiums written decreasing in the three-year time interval from 63% in 2015 to 61% in 2017.

The weight of the banking channel decreases slightly in the premium income of individual class I products, 68% in 2017 versus 68.9% in 2016, in view of a higher share in individual class III products distributed by the banking channel, 54.6% in 2016 and 57.5% in 2017.

For financial promoters¹¹, the distribution of class I life products decreases slightly, from 8.1% in 2016 to 8.0% in 2017, while class III premium income declines from 36.8% of 2016 to 32.4% in 2017.

The agencies' portion of the life business increases from 22.1% in 2016 to 22.4% in 2017, due to the decline of the other channels in absolute terms, with the exception of tied agents for class III.

Table I.21

Distribution channels in life business										
	(% values)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Banks and post offices	53.7	58.8	60.3	54.7	48.6	59.1	62	63.1	62.3	61.0
Agencies	34.3	23.7	22.6	25.6	26.6	23	20.2	19.8	22.1	22.4
Financial promoters	10.1	16.3	15.8	18.3	23.3	16.7	16.8	16.3	14.4	15.3
Direct sales and brokers	1.9	1.2	1.3	1.4	1.5	1.2	1	0.8	1.2	1.3
Total	100.0									

As to the costs of the Italian direct portfolio, there was a slight increase in acquisition commissions, relative to premiums, that confirmed the resumption of the incidence that started in 2016 (Table I.22; refer to I.4.5.3 for details of the ratio of commissions over premiums by type of company). In the past year, the other acquisition costs in relation to the premiums written increased slightly, after the ratio halved between 2012 and 2015. This ratio includes the emission costs of the policies, for physical examinations if paid by the companies, the advertising expenses and the incentives to the network connected with achievement of the production targets. The expenses for collection of the subsequent instalments of annual premium products in 2017 grew, as a result of the reduction in production, mostly in class I.

¹¹ Hereafter, the term "Financial promoters" refers to "Financial advisors authorised to carry out out-of-office canvassing" per Italian Law no. 208 of 28 December 2015 ("Stability Law for 2016"), in force since 1 January 2016.

Table I.22

Indicators of costs/life premiums						
	(% values)					
	2012	2013	2014	2015	2016	2017
Acquisition commissions (1st annual premium and single premiums)	2.76	2.45	2.12	2.16	2.33	2.42
Other acquisition costs (1st annual premium and single premiums)	1.18	0.94	0.7	0.63	0.77	0.80
Collection commissions (subsequent years)	1.80	1.98	1.89	2.28	1.58	1.74
Total costs/life premiums	5.74	5.37	4.71	5.07	4.68	4.96

The proportion of the acquisition commissions to premiums is higher for traditional policies than for unit linked policies. Compared to 2016, these expenses increased for traditional policies (also because of the reduction in the premiums in the denominator compared to 2016) while for class III policies there was a modest reduction.

Table I.23

Costs / premiums* - main life classes						
	(% values)					
	2012	2013	2014	2015	2016	2017
Acquisition commissions						
Class I	3.10	2.70	2.30	2.40	2.60	2.80
Class III	2.10	1.70	1.70	1.80	1.90	1.86
Other acquisition costs						
Class I	1.40	1.00	0.80	0.80	0.90	1.00
Class III	0.60	0.40	0.30	0.30	0.50	0.42
Total						
Class I	4.50	3.70	3.10	3.20	3.50	3.80
Class III	2.70	2.10	2.00	2.10	2.40	2.28

* Collection commissions are not included because they are very low in the two life classes considered.

3.5.2. - The distribution and costs of non-life business

During the ten-year period 2008-2017, the progressive albeit slow growth of the direct sales channels, bank branches and financial promoters eroded the share of the agency channel.

The breakdown of the distribution channels of the non-life business (Table I.24) shows yet a further contraction of the portion mediated by agencies compared to 2016 by a little more than one percentage point, from 79.9% to 78.9%, in view of modest increases of the portion collected through brokers, from 9.2% to 9.5% and the bank branches and financial promoters, which reached 6.4% from 5.7%.

Table I.24

Distribution channels in non-life business										
	(% values)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agencies	86.4	85	84.4	83.7	84.1	83.2	81.7	81.1	79.9	78.9
Brokers	7.5	8.4	8.0	8.0	7.4	7.6	8.5	8.2	9.2	9.5
Direct sale	3.8	3.9	4.1	4.7	5.2	5.5	5.7	5.8	5.3	5.2
Banks and financial promoters	2.3	2.7	3.5	3.6	3.3	3.7	4.1	4.9	5.7	6.4
Total	100.0									

The breakdown of distribution costs for the Italian direct portfolio (Table I.25) shows no change in the ratios between acquisition commissions and collection commissions on the premiums written between 2016 and 2017. Only the proportion of the other acquisition costs (advertising costs, incentives connected to the achievement of productivity targets and the remuneration of employees not commensurate with the acquisition of the contracts) decreased slightly in the past year compared to 2016.

Table I.25

Indicators of costs/non-life premiums						
	(% values)					
	2012	2013	2014	2015	2016	2017
Acquisition commissions/ non-life premiums	12.8	13.2	13.5	14.3	14.9	14.9
Other acquisition costs/ non-life premiums	4.0	4.4	4.9	5.0	4.7	4.6
Collection commissions/ non-life premiums	2.7	2.8	2.7	2.5	2.4	2.4
Total	19.5	20.4	21.1	21.8	22.0	21.9

Table I.26 shows, for the 2012-2017 time interval, the ratio of costs over premiums for the main business lines (2017 premium income above 2 billion euro).

Costs increased in all main non-life business classes except for the sickness and land vehicles coverages, where expenses decreased markedly compared to 2016. In addition, in general liability the charges increased by almost one percentage point, although premium income was nearly unchanged from 2016.

Table I.26

Proportion of the commission and other charges for the main non-life classes						
	<i>(% values)</i>					
	2012	2013	2014	2015	2016	2017
Accidents	22.9	23.9	24.5	25.2	26.2	26.3
Sickness	16.9	16.4	16.7	16.9	18.0	17.0
MTPL	12.8	13.7	14.7	14.8	14.6	14.5
Land vehicles	20.2	20.8	22.4	23.0	23.5	20.4
Fire	20.6	21.5	21.8	23.3	24.0	24.6
Other damage to property	19.7	20.3	20.2	22.9	23.5	23.8
General liability	20.2	20.7	21.3	22.6	23.1	24.0

The distribution channels used by Italian households to purchase insurance products

Since the mid-Sixties, the Bank of Italy has carried out a biannual survey on a representative sample of Italian families, measuring also the market penetration of the main forms of insurance. The 2016 survey also recorded the acquisition channels used by the interviewed households who stated they held insurance instruments¹².

According to the survey, 8.2% of Italian households holds life insurance policies and 6.9% supplements the national health service with health insurance policies (Table I.27).

Table I.27

Proportion of households holding an insurance policy, by type of policy									
<i>(% values)</i>									
	Life assurance policies			Health insurance policies			Non-life policies other than Motor Third Party Liability		
	8.2			6.9			15.5		
Breakdown of households holding policies by policy acquisition channel (%)									
Head of household	Internet or phone	Trad. channels	Other channels	Internet or phone	Trad. channels	Other channels	Internet or phone	Trad. channels	Other channels
Level of education									
Up to middle school	0.8	91.9	7.3	1.4	48.5	50.1	2.5	95.8	1.7
High school	0.0	91.8	8.2	2.7	65.2	32.1	6.0	92.5	1.5
University degree	3.6	81.7	14.7	2.5	56.2	41.3	5.5	89.3	5.1
Employment									
Employee	1.0	82.4	16.6	1.5	45.9	52.6	6.5	92.1	1.5
Self-employed	3.4	95.6	0.9	2.6	89.3	8.1	1.2	97.0	1.8
Unemployed	0.1	94.6	5.3	4.0	63.8	32.2	3.7	92.5	3.8

continued

¹² For additional details on the characteristics of the survey, please refer to the Supplement to the Bank of Italy Bulletin with the main results for 2016, available at the web page: <http://www.bancaditalia.it/publicazioni/indagine-famiglie/bil-fam2016/index.html>.

Proportion of households holding an insurance policy, by type of policy									
Age									
Up to 44	2.0	87.6	10.3	2.2	38.9	59.0	8.0	90.4	1.5
Between 45 and 64	1.5	86.5	12.0	2.1	62.2	35.6	4.6	92.3	3.1
65 and older	0.0	98.7	1.3	2.7	67.3	30.0	1.8	96.3	1.9
Geographic area									
North	0.4	90.1	9.5	1.5	63.8	34.7	4.5	93.8	1.6
Centre	2.3	86.9	10.7	3.6	42.0	54.3	3.0	86.1	11.0
South and Is-lands	2.8	86.7	10.5	3.4	47.0	49.6	1.4	98.2	0.5
Total	1.4	88.6	10.0	2.2	56.6	41.2	4.3	93.2	2.5

Source: Bank of Italy, Survey on Italian Household Income and Wealth in 2016.

Lastly, 15.5% of households holds non-life insurance products other than the mandatory coverage for MTPL¹³.

The survey confirmed the modest use of direct acquisition channels, based on the telephone and on the Internet. Only 1.4% of households acquires life insurance policies in this way and the percentage rises to 2.2% for health insurance policies and to 4.3% for non-life coverage other than MTPL. If one looks at this latter type of policies, use of the Internet or of the telephone rises with the level of education of the head of the household, but decreases as his/her age increases. Although it is weaker, the effect of education is still felt for life and for health insurance policies.

The distribution of insurance products through “Other channels” is residual and it is more significant for the purchase of life and health insurance policies (respectively 10% and 41.2% of households holding policies of this kind). Since this channel is more widespread among households whose head is an employee, it seems mostly to refer to policies offered by employers as a form of company benefit.

In conclusion, among households there is as yet no widespread utilisation of the direct channel in Italy, mainly used to purchase non-life insurance products, which are more standardised than life insurance products and thus more suitable for selling via telephone or digital channels.

¹³ The percentages for 2014, reported in the previous edition of the survey, were 8.5%, 3.3% and 20.1% (http://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/relazione-annuale/2016/Relazione_IVASS_2015.pdf)

4. - FINANCIAL ACCOUNTS (LOCAL GAAP)

The year 2017 is the second year since the entry into force of the new Solvency II regime, which is strongly innovative both in terms of asset and liability measurement (market consistent, hence with values updated on the basis of market prices) and in terms of scope and classification of the accounting entries. At this time, Italian insurance undertakings still have a “dual track” for information about financial statement entries, one for local gaap purposes and one solely for solvency purposes. Paragraphs 4 and 5 below show the data of the companies supervised by IVASS and refer to the two different measurement systems.

Solvency II metrics do not include the income part (profit and loss account) which instead is present in local gaap financial statements. The latter are based on the cost principle for assets, while liabilities and especially technical provisions are also determined on the basis of prudential measurements (final cost for damage reserves and 1st order technical bases for life insurance reserves, with the exception of linked policies, already measured at market values).

Below are presented the data on the capital and income results excerpted from the financial statements in section 4 and the data excerpted from Solvency II in section 5, particularly highlighting investments. No direct comparison is proposed between the two different metrics on the asset and liability entries of the financial statements, as it would not be significant because of the indicated differences.

4.1. - Balance Sheet

At the end of 2017, the investments of the Italian insurance market measured according to local gaap amount to 778 billion euro, of which 89% (88.6% in 2016, Table I.28) in the life business (693.6 billion euro) and the remaining 11% (85.3 billion euro) in the non-life business. The investments are up by 5.1% when compared with 2016, with a particular increase for credits (+5.5%).

The life and non-life technical provisions amount to 729.4 billion euro versus 693.9 billion euro at the end of 2016. In life business the overall technical provisions amount to 669.5 billion euro (632.5 in 2016), with the proportion of the reserves for contracts other than unit and index-linked or deriving from the management of pension funds amounting to 77%. The reserves of the non-life business decrease by -2.4%.

Table I.28

Balance Sheet Highlights (local gaap)							
<i>(million euro and % values)</i>							
Item	2016	2017	% Change 2016/2017	Item	2016	2017	% Change 2016/2017
Assets				Liabilities			
Amounts owed by shareholders for subscribed capital not yet paid in	0	0	-	Shareholders' equity	66,361	66,793	0.7%
Intangible assets	6,521	6,374	-2.3%	Subordinated liabilities	15,061	16,281	8.1%
Non-life investments	84,360	85,359	1.2%	Non-life technical provisions	61,384	59,918	-2.4%
Class C life investments	517,326	539,368	4.3%	Class C life technical provisions	493,289	515,451	4.5%
Class D life investments	139,521	154,243	10.6%	Class D life technical provisions	139,237	154,077	10.7%
Technical provisions non-life - reinsurers' share	6,003	6,514	8.5%	Provisions for other risks and charges	2,271	2,189	-3.6%
Reinsurers' share of life technical provisions	7,731	7,090	-8.3%	Deposits received from reinsurers	2,271	7,673	-5.0%
Credits	28,200	29,743	5.5%	Creditors and other liabilities (including accruals and deferrals)	8,076	26,207	6.7%
Other assets (including accruals and deferrals)	20,579	19,898	-3.3%				
Total assets	810,241	848,588	4.7%	Total liabilities and shareholders' equity	810,241	848,588	4.7%

4.2. - Shareholders' equity

At the end of 2017, the shareholders' equity for life and non-life business amount to 66.8 billion euro (66.4 billion euro in 2016, Table 13 in the Appendix). Own funds amount to 57.9 billion euro (57.6 billion in 2016). Capital provisions represent 74% of undertakings' own funds, while the remaining 26% are undertakings' share capital and endowment and guarantee funds. Subordinated liabilities grow by 8.1%.

4.3. - Dividend distribution

As at 31 December 2017, distributed dividends increase from 4 billion euro in 2016 to 5 billion euro. Approximately 80% of the dividends relate to the first seven companies by distributed dividends. The total amounts distributed account for 4.3% of total excess assets over liabilities of the Solvency II financial statements, while in 2016 they accounted for 4%. The weight of the dividends with respect to own funds eligible to cover the SCR are 3.8%.

Italian listed companies (Assicurazioni Generali, UnipolSai, Cattolica Assicurazioni and Vittoria Assicurazioni) report an amount of dividends equal to 1.8 billion euro (1.7 billion euro in 2016).

4.4. - Economic-financial operations

In 2017 insurance companies record, overall, income of 5.9 billion euro (5.7 billion in 2016, Table I.29); the increase over the previous year is due to non-life business.

Both sectors end the year with a profit. In detail:

- in the life business, a profit for the year of 3.5 billion euro is reported in 2017, stable compared to the previous year (3.6 billion euro) and equal to 3.5% of gross premiums written (3.4% in 2016);
- in the non-life business, a profit for the year of 2.4 billion euro is reported, a significant increase (+16%) compared to the previous year (2.1 billion euro) and equal to 7.1% of gross premiums written (6.2% in 2015).

Table I.29

Profit / loss for the financial year - Life and non-life business										
	<i>(million euro and % values)</i>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Life	-1,813	3,807	296	-2636	5,129	3,105	3,498	3,753	3,587	3,536
as % of premiums	-3.2%	4.6%	0.3%	-3.5%	7.2%	3.6%	3.1%	3.2%	3.4%	3.5%
Non-life	-167	63	-998	-1016	640	2125	2,446	1,956	2,114	2,444
as % of premiums	-0.4%	0.2%	-2.7%	-2.7%	1.7%	6.0%	7.1%	5.8%	6.2%	7.1%
Total	-1,980	3870	-703	-3653	5,770	5231	5,945	5,709	5,701	5,980
as % of premiums	-2.1%	3.2%	-0.5%	-3.2%	5.3%	4.3%	4.1%	3.8%	4.1%	4.4%

ROE (life and non-life) in 2017 amounts to 9%, up compared to the two previous year (see I.4.5.3 for details on the breakdown of the ROE by type of company). In the life business, ROE stands at 9.1%, stable relative to 2016 (9.2%), whereas for the non-life business the ratio increases to 9% (8.6% in 2016).

Table I.30

ROE of life and non-life business										
	<i>(% values)</i>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Life	-8.2%	11.8%	1.0%	-9.3%	15.2%	8.0%	9.2%	9.6%	9.2%	9.1%
Non-life	-0.9%	-0.1%	-4.8%	-5.1%	2.2%	8.2%	9.2%	7.2%	7.8%	8.7%
Total	-4.8%	6.8%	-1.4%	-7.6%	10.3%	8.1%	9.2%	8.6%	8.6%	9.0%

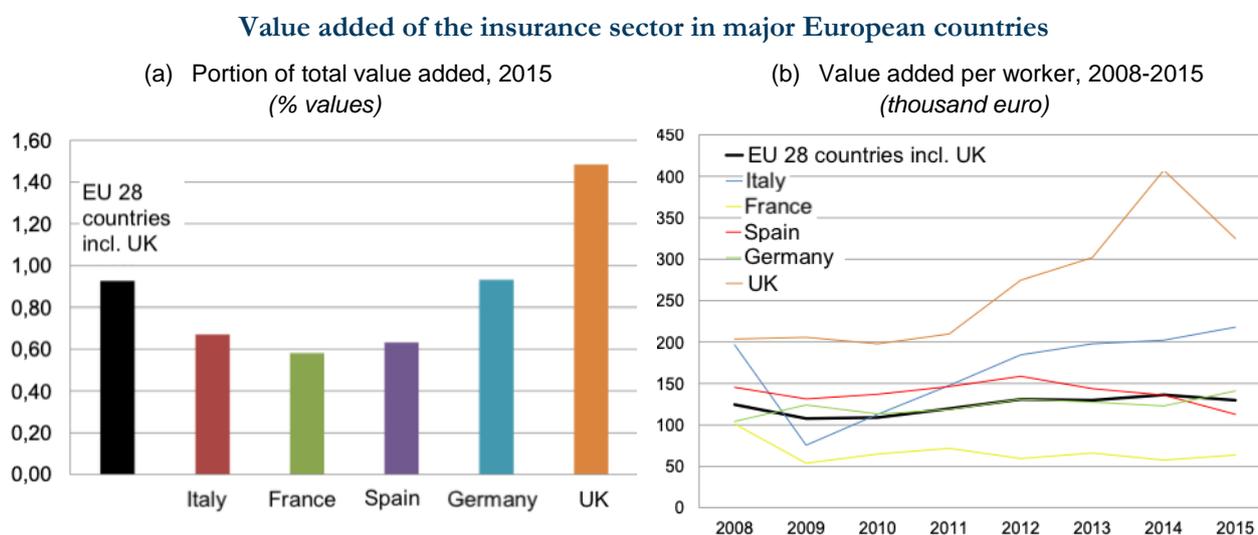
4.5. - Added value, profitability and efficiency by ownership structure and size of the insurance companies

4.5.1. - Measurement of the sector's insurance value added and employees in the National Accounts

In Italy, the value added of the insurance sector including pension funds (a very limited portion of the total aggregate) represents a reduced percentage of the value added of the economy as a whole (0.67% for 2015, latest year made available by ISTAT)¹⁴. In the European landscape, the percentage is in line with the one measured in France and Spain, but it is lower than in Germany (0.92%) and especially than in the United Kingdom (1.48%) (Fig. I.18.a).

In the same group of countries, in 2015 Italy recorded the highest value added per worker (i.e. 284 thousand euro, Fig. I.18.b) after that of the United Kingdom (325 thousand euro). Since 2009 (when it amounted to 75 thousand euro), the indicator has constantly grown.

Figure I.18



Source: Eurostat, database of National Accounts.

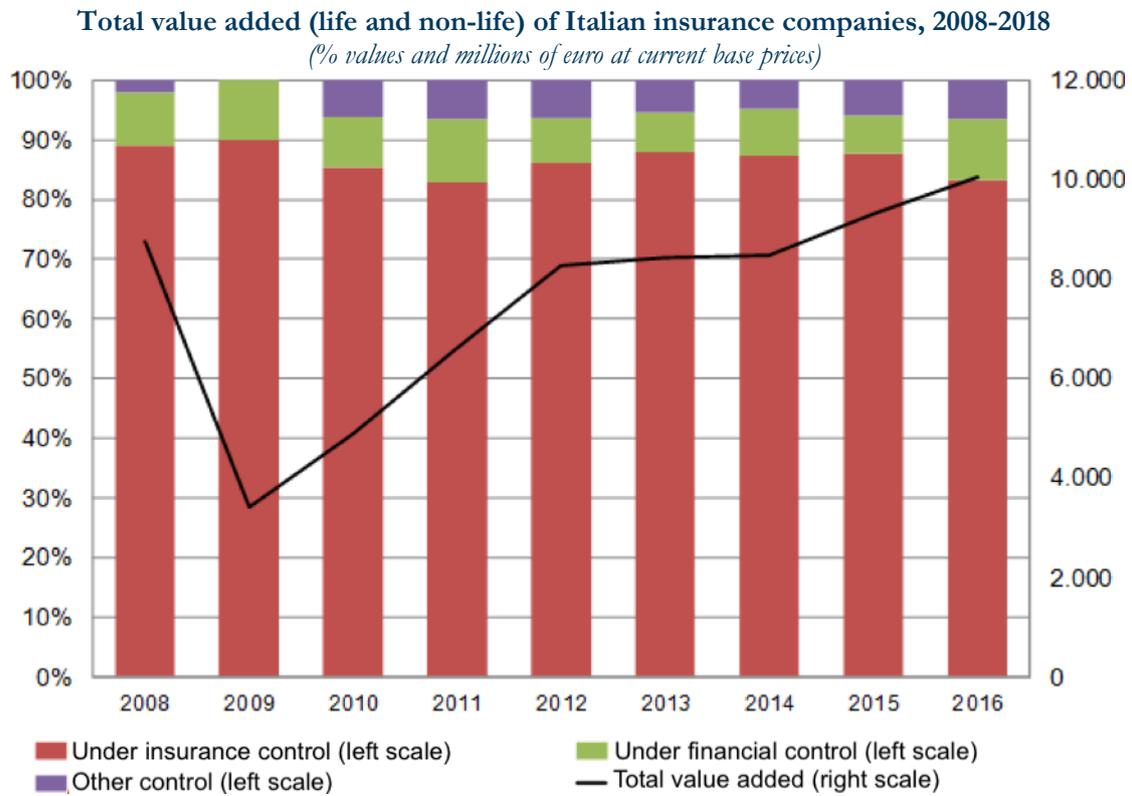
4.5.2. - The insurance value added by ownership structure and company size

The value added of the Italian insurance sector, measured at current prices, amounted to 10.1 billion euro in 2016 (+8% compared to 2015, Fig. I.19), of which 57.8% in the non-life business. The indicator has grown since 2009, after the severe contraction at the start of the economic crisis.

Considering the ownership structure of insurance companies, in 2016 those under insurance control account for 83.3% of the value added of the sector, versus 10.3% of companies under financial control and the residual 6.4% by companies with other forms of control. Since 2008 the share of the value added produced by the companies under insurance control has declined slightly.

¹⁴ Please refer to IVASS report on 2016 (page 56) for a definition of the value added of the insurance sector (http://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/relazione-annuale/2017/Relazione_IVASS_2016.pdf).

Figure I.19

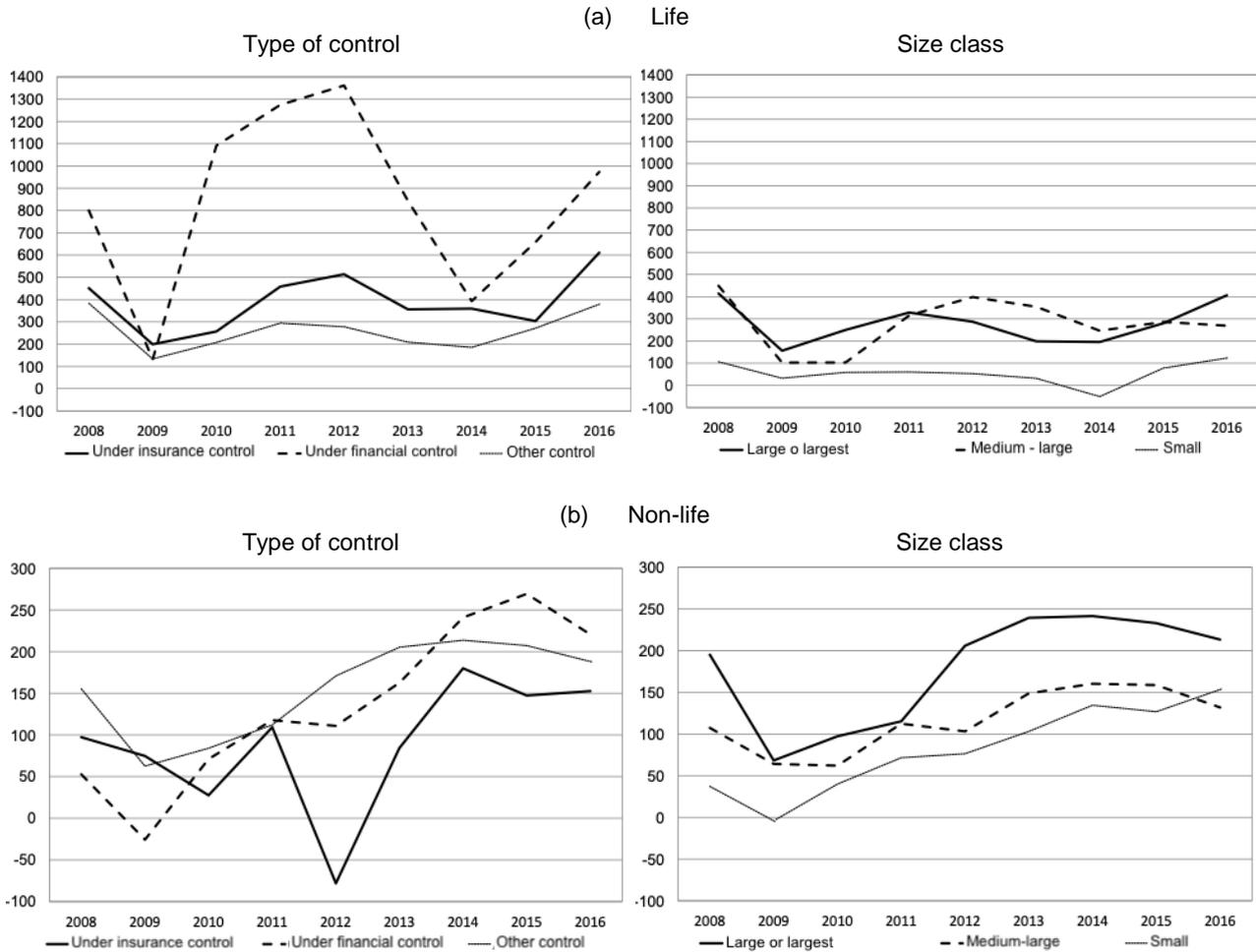


The value added for each worker in the life business amounted to 379 thousand euro in 2016. For this year, too, a higher per capita value was confirmed for companies under financial control (611 thousand euro, Fig. I.20.a) than those under insurance control (316 thousand euro). In terms of size, there is a very large gap between minor companies and those of greater size, since the average for the former is less than one fifth of the second group in the 2008-2016 time interval (Fig. I.20.b).

The value added for each worker in the non-life business amounted to 188 thousand euro in 2016 (half the figure of the life business). Looking at differences between companies of different dimensions, in 2016 the average for minor companies exceeded that of medium-large companies (153 thousand euro versus 132 thousand euro) for the first time since 2008, but both groups remained, as in previous years, below very large companies (213 thousand euro).

Figure I.20

Value added per worker by type of control and size of Italian insurance companies
(thousands of euro at current base prices)



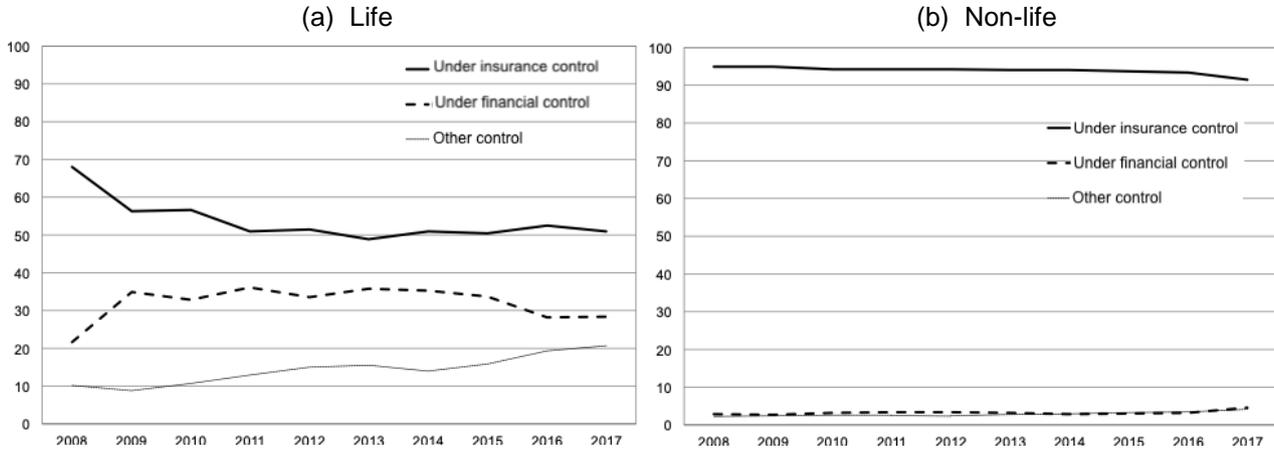
4.5.3. - Structure, profitability and efficiency of Italian insurance companies, 2008-2017

In 2017, 51% of the life premiums of Italian direct business was collected by companies under insurance control (Fig. I.21.a) and 28.4% by companies under financial control. These latter companies' contribution decreased markedly from 2015 to 2016 (from 33.7% to 28.2%), while that of companies under insurance control has not reported significant changes since 2011.

In the non-life business, companies under insurance control collected 91.4% of premiums in 2017 (Fig. I.21.b). While the share of companies under financial control is small, it did increase from 2016 (from 3.1% to 4.5%).

Figure I.21

Breakdown of the premiums of Italian insurance companies by type of control
(percentage of total premiums)

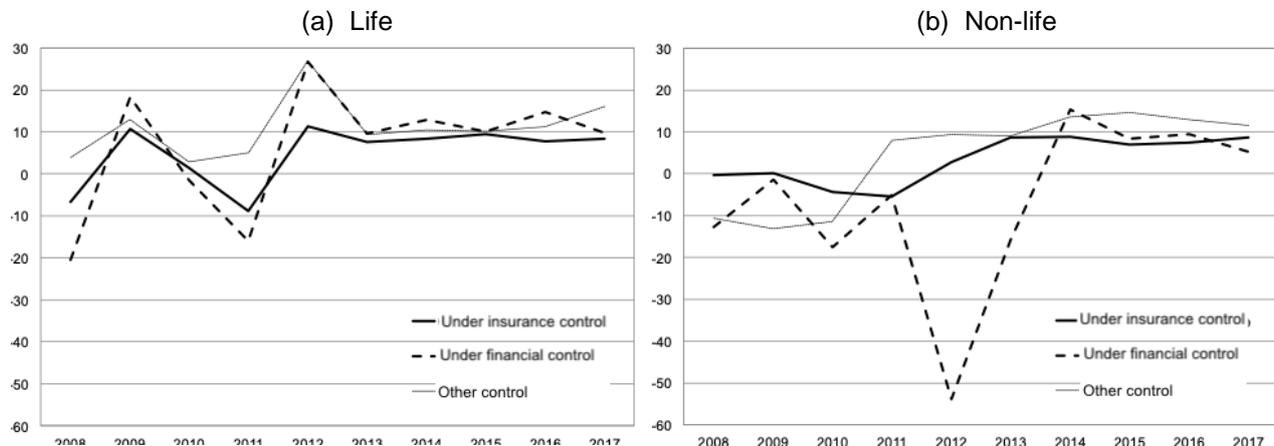


With regard to the performance of the companies, profitability measured by ROE contracted sharply in the life business (Fig. I.22.a) for companies under financial control (9.7% compared to 14.8% in 2016), however the values were above 8.3% for companies under insurance control (up from 7.8% of the previous year).

In the non-life business (Fig. I.22.b), ROE of companies under insurance control increased (8.7% versus 7.5% in 2016); these companies represent over nine tenths of the premium income. In the sector, where they are present in a marginal manner, the ROE of companies under financial control contracted sharply (5.3% from 9.4% in 2016).

Figure I.22

ROE of Italian insurance companies by type of control
(profit as a percentage of shareholders' equity)



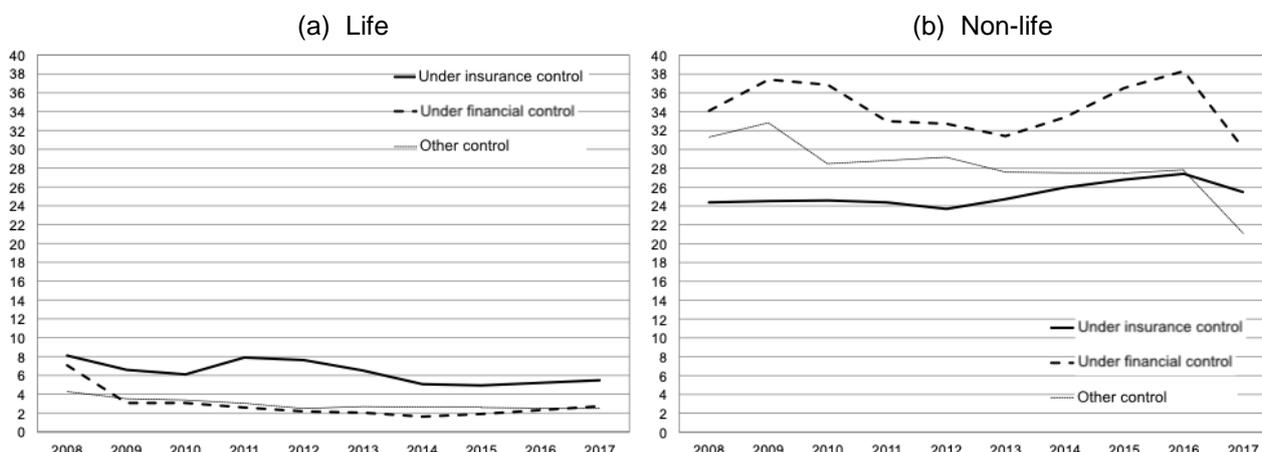
The expense ratio is a measure of the distributive efficiency of insurance products, expressed by the ratio between commission costs and premiums.

In the life business, the expense ratio increased slightly overall (to 4.1% in 2017 versus 3.9% in 2016). For companies under insurance control, this expense category is higher than that of companies under financial control (5.5% versus 2.7%, Fig. I.23.a). The gap of 2.8 percentage points has long-term structural characteristics, but it has been decreasing since 2013.

For the non-life business, operating expenses generally decreased between 2016 and 2017 (from 27.8% to 25.5%), with a more marked contraction for companies under financial control (30.2% versus 38.3% in the previous year, Fig. I.23.b).

Figure I.23

Expense Ratio of Italian insurance undertakings by type of control
(operating expenses in terms of percentage over premiums)

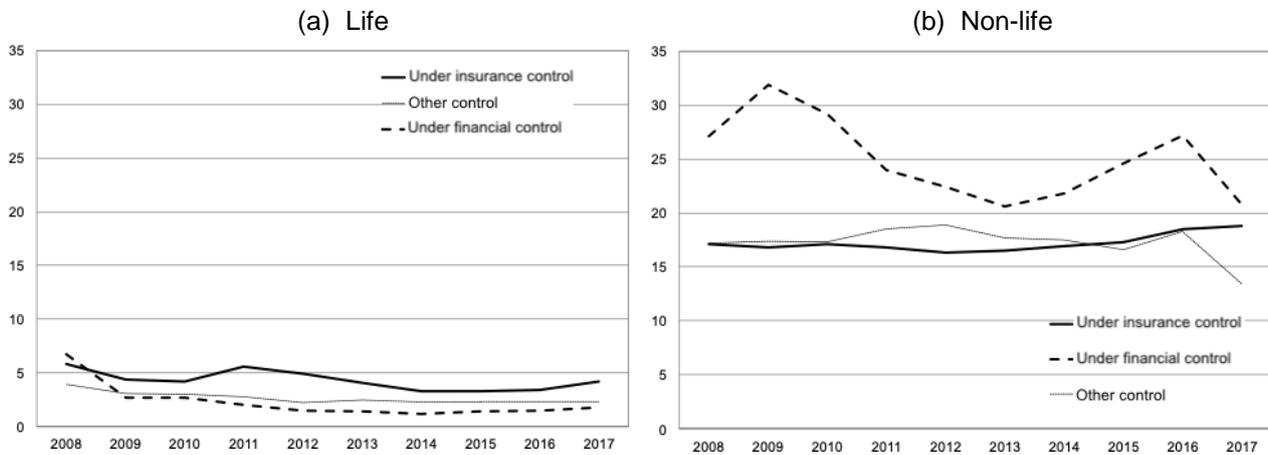


In the life business, commissions, like the operating expenses of which they are a part, increased relative to premiums between 2016 and 2017 (from 2.6% to 3%). For companies under insurance control (Fig. I.24.a), the increase was by 8 tenths of a percentage point (from 3.4% to 4.2%), greater than for companies under financial control (from 1.5% to 1.8%).

The commission expenses of the non-life business are stable relative to the premiums and they amount to 18.7% in 2017. The indicator has remained the same between 2016 and 2017, in spite of the marked decline in the commissions of companies under financial control (from 27.2% to 20.8%, Fig. I.24.b), because of the modest relevance of the companies of this group in the business.

Figure I.24

Commissions on premiums of Italian insurance companies by type of control
(commissions as a percentage of premiums)



Italian family businesses in the insurance sector

Businesses under family control are those that are (directly or indirectly) owned by a natural person or by an owner or controlling family. In Italy, they are very common in the manufacturing sector, where they are approximately 60% of those with at least 20 workers¹⁵, and presumably even more numerous among the smaller ones.

With reference to economic sectors other than finance and insurance, a part of economic literature stressed that the corporate model centred around one or more shareholders belonging to the same family is “second best”, resulting from distortions in economic mechanisms that derive from deficient laws with respect to the protection of property rights for minority shareholders.

Another recent empirical analysis highlighted that, in the United States and in Europe, the concentrated and stable structure of the ownership structures and the frequent direct involvement of the owners in the management of operations drastically reduce, in family businesses, the agency conflicts that arise from the separation of the owners from control and management, generating higher than average economic results.

Family businesses are less common among banks and insurance companies, traditionally characterised by complex ownership structures.

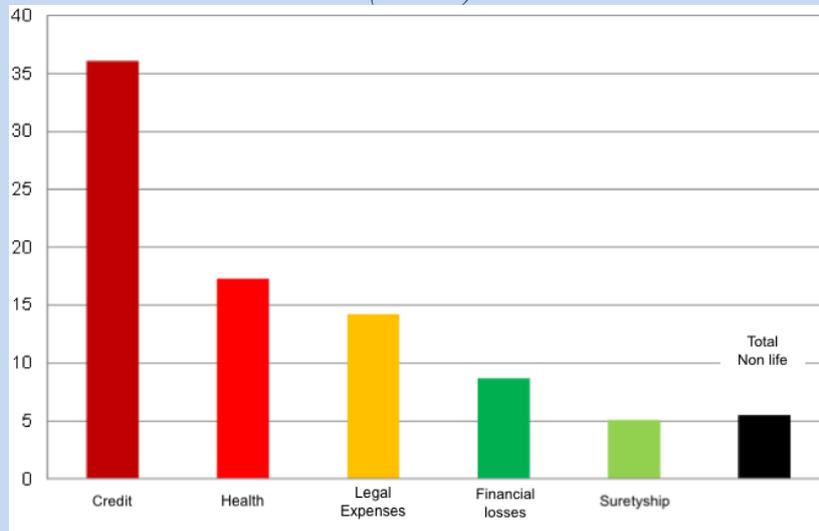
In the Italian insurance sector, this type of control is present in 2017 in 11% of companies, active mostly in the non-life business (where they collect 5.5% of premiums, for a total amount of 1,775 million euro) and with a negligible role in the life business (191 million euro). For the most part they are small companies, whose operations are often concentrated in individual non-life classes other than MTPL (health, suretyships, legal expenses, etc.).

Even in the classes where they are more specialised, however, family businesses hold a limited share of total premium income (Fig. I.25).

¹⁵ http://www.bancaditalia.it/pubblicazioni/indagine-imprese/2008-indagini-imprese/suppl_38_09.pdf

Figure I.25

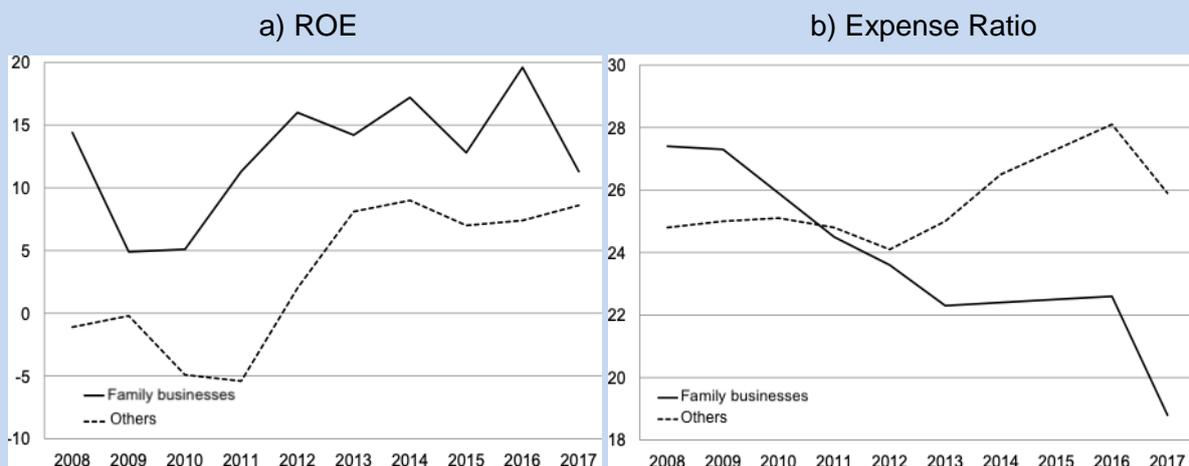
Share of premiums of family-controlled businesses in the main non-life classes, 2017
(% values)



In 2005-2017, family insurance business exhibited, in the non-life business, higher than average levels of ROE (Fig.I.26.a), with a constantly declining expense ratio (Fig. I.26.b), mostly as a result of the containment of commission costs. No significant differences instead emerged between the loss ratio of family businesses and that of the other companies.

Figure I.26

Non-life ROE and expense ratio of family businesses
(% values)



A simple linear model shows that the high profitability of family businesses remains, even taking into account the sector specialisation, in spite of the marked heterogeneity of operating costs between different companies.

The picture that emerges, therefore, is that family businesses in Italy are active and profitable in the insurance sector as well and they are mostly small in size and specialised in niche non-life classes, where they are able to compete against much larger competitors.

4.6. - Management of life classes

Management of the life business (Italian and foreign portfolio, direct and indirect) discloses a positive balance on the technical account of 3.3 billion euro (3.7 billion euro in 2016, Table I.31). The balance on the technical account for the life business represents 56.2% of the total operating result for the two classes (64.9% in 2016).

Table I.31

Profit and loss account of the life business - domestic undertakings and branches of non-EU undertakings*										
(Italian and foreign portfolio – insurance and reinsurance business)										
<i>(million euro)</i>										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Premiums earned	54,829	81,409	90,592	74,368	70,376	85,756	110,963	115,504	103,177	99,280
Investment income (net of charges)	4,785	12,554	9,279	6,404	18,248	15,390	16,717	16,556	16,876	16,680
Net class D income and gains	14,965	13,029	4,574	-2,801	9,197	4,860	6,366	1,748	2,079	3,867
Other technical items	154	-88	-146	-240	-322	-391	-443	-403	-381	-407
Claims charges	-	-	-	-	-	-	-64,651	-71,239	-63,383	-71,749
Changes in class C technical provisions	2,038	40,865	37,359	15,794	-9,996	30,426	-49,913	-37,087	-38,057	-23,877
Changes in class D technical provisions	20,468	-109	5,030	13,150	-129	283	-10,374	-16,429	-10,792	-14,627
Operating expenses	-4,111	-4,169	-4,399	-3,961	-3,521	-3,684	-3,884	-4,064	-3,994	-4,033
Allocated investment return transferred to the non-technical account	-462	-1,177	-839	-265	-1,626	-1,444	-1,917	-1,821	-1,824	-1,774
BALANCE ON THE TECHNICAL ACCOUNT	-2,948	3,242	-266	-3,316	6,931	3,344	2,864	2,765	3,701	3,361
Allocated investment return transferred from the technical account	462	1,177	839	265	1,626	1,444	1,917	1,821	1,824	1,774
Other net income	-913	-83	-578	-603	-627	-828	-563	-636	-814	-891
PROFIT OR LOSS ON ORDINARY BUSINESS	-3,399	4,336	-5	-3,654	7,930	3,960	4,219	3,951	4,711	4,244
EXTRAORDINARY PROFIT OR LOSS	427	807	396	93	-29	841	511	939	87	250
Tax on profit or loss	1,160	-1,336	-96	925	-2,772	-1,696	-1,231	-1,136	-1,211	-959
PROFIT OR LOSS FOR THE FINANCIAL YEAR	-1,813	3,807	296	-2,636	5,129	3,105	3,498	3,753	3,587	3,536
<i>Claims incurred over premiums (a)</i>	<i>120.1</i>	<i>70.5</i>	<i>74.1</i>	<i>100.1</i>	<i>107.6</i>	<i>78.5</i>	<i>58.4</i>	<i>61.9</i>	<i>61.5</i>	<i>72.2</i>
<i>Expense ratio (b)</i>	<i>7.5</i>	<i>5.1</i>	<i>4.9</i>	<i>5.3</i>	<i>5</i>	<i>4.3</i>	<i>3.5</i>	<i>3.5</i>	<i>3.9</i>	<i>4.1</i>
<i>Combined ratio (a) + (b)</i>	<i>127.6</i>	<i>75.6</i>	<i>79</i>	<i>105.4</i>	<i>112.6</i>	<i>82.8</i>	<i>61.9</i>	<i>65.4</i>	<i>65.4</i>	<i>76.3</i>

* The negative sign in front of the change in the provisions indicates their increase; vice versa, the positive sign indicates a decrease.

In particular, income from ordinary financial operations, net of financial charges, amounting to 16.7 billion euro, is stable relative to the levels achieved the previous year. In addition, financial charges decreased by -3.7% and amounted to 4.1 billion euro in 2017, versus 4.3 billion euro in 2016 (Table I.32), and value adjustments on investments increased by +4.9%, from 1.8 billion euro in 2016 (42.5% of investment expenses) to 1.9 billion euro (46.2% of the expenses).

Table I.32

Life business - Financial charges and value adjustments							
<i>(million euro and % values)</i>							
	2011	2012	2013	2014	2015	2016	2017
Financial charges	9,838	3,683	3,809	3,508	4,759	4,316	4,157
of which: value adjustments	7,787	1,896	1,496	1,367	1,901	1,832	1,921
Ratios of adjustments/charges	79.1	51.5	39.3	39.0	39.9	42.5	46.2

The claims incurred, amounting to 71.7 billion euro, grow by +13% relative to 2016. The claims burden of just the Italian direct portfolio is attributable, for 62.1%, to surrenders (63.4% in 2016) and 24.7% to capital and annuities accrued (it was 24.2%).

Table I.33

Claims burden and surrenders over premiums											
Life business - Italian direct portfolio											
<i>(million euro and % values)</i>											
Insurance class	Item	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Class I	claims incurred/premiums (%)	94.6	44.8	52.6	77.6	88.5	64.5	51.3	63.2	59.3	73.4
	of which: surrenders/premiums (%)	54.3	23.9	31.0	52.7	62.1	41.1	30.3	37.0	35.1	44.8
Class III	claims incurred/premiums (%)	124.8	232.0	160.3	187.9	166.7	133.1	82.4	54.7	64.0	63.4
	of which: surrenders/premiums (%)	77.4	133.4	82.7	99.0	84.9	69.6	46.0	35.8	48.8	40.3
Class V	claims incurred/premiums (%)	391.0	107.6	112.7	193.6	190.9	101.1	75.2	104.4	104.3	140.6
	of which: surrenders/premiums (%)	319.3	68.2	47.0	122.4	115.8	75.3	45.2	53.0	61.0	109.5
Class VI	claims incurred/premiums (%)	10.7	11.3	36.1	27.3	72.1	69.8	50.8	54.7	58.6	82.2
	of which: surrenders/premiums (%)	10.3	10.9	19.5	26.1	24.4	30.3	33.2	46.0	38.2	37.6
Total	claims incurred/premiums (%)	120.1	70.5	74.1	100.1	107.6	78.5	58.4	61.9	61.5	72.2
	of which: surrenders/premiums (%)	76.5	39.5	40.5	62.9	67.7	47.4	34.1	37.2	39.0	44.8
	net income	-10,982	23,918	23,313	-102	-5,306	18,312	45,941	43,751	39,320	27,456
	% Change	14.7	317.8	-2.5	-100.4	-5,084	445.1	150.9	-4.8	-10.1	-30.2

The expense ratio grows by 4.1% (3.9% in 2016). Acquisition commissions account for 56.2% of operating expenses (58.7% in 2016), the other acquisition costs for 16.9% (17.5% in 2016), while collection commissions represent 6.4% (5.4% in 2016).

Class C provisions record an increase of 23.9 billion euro compared to the previous year (they grew by 38.1 billion euro in 2016).

Since 2014, Class D technical provisions have grown constantly (10.4 billion euro in 2014, 16.4 in 2015, 10.8 billion euro in 2016 and 14.6 billion euro in 2017), for a total increase of 52.2 billion euro.

The result from ordinary activities - in 2016 a profit of 4.7 billion euro - decreases by 10%, to 4.2 billion euro. The ratio between the result on ordinary activities and premiums earned in 2017 reaches 4.3% (4.6% in 2016).

The extraordinary income, net of charges, records a positive balance of 250 million euro (87 in 2016).

With reference to the technical accounts of the individual life classes:

- during the periods characterised by the financial markets and sovereign debt crises (2007-08 and 2011), the class I results were markedly negative, whereas during the periods immediately following (2012-2017) they were positive (2.7 billion euro), during the recovery of the financial markets which led to a substantial contribution of profits from investments into the technical account;
- for Class III, the balance on the technical account is positive in 2017 (427 million euro), albeit down by -21% compared to the previous year;
- class V exhibited a moderately positive result in 2017, i.e. 27 million euro, with a further decline of income in the year, i.e. -6.9%, less marked than in the two previous years (-24.1% in 2015 and -21.9% in 2016); the technical account of the class had positive results in 2005, 2009 and in the 2012-2015 time interval, i.e. in periods of recovery after the financial crisis and the sovereign debt crisis.

4.6.1. - Segregate funds

Life policies connected to segregate funds (with-profit policies) make up the majority of life business, together with policies of class III. Table I.34 shows the historical series of the breakdown of assets assigned to the segregate funds in euro.

Table I.34

Breakdown of assets assigned to the segregate funds in euro - carrying amounts											
Market total											
	(million euro and % values)										
	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*	2016	2017
Fixed-income securities and bonds	188.9	179.2	214.7	252.6	267.9	280.7	290.7	340.9	370.8	401.4	419.5
of which: listed corporate bonds in euro	50.1	58.9	70.2	73.7	67	64.4	84.2	87.7	108	112.4	115.4
Equities	13.6	13.3	10.9	10.9	10.2	11.3	12.8	13.8	8.1	8.2	8.4
Other assets	14.6	19.4	22.5	22.1	27.3	29.2	28.5	33.3	51.7	61.8	74.5
of which: units of UCITS	9.5	10.1	12.6	14.3	16.4	17.3	17.1	20.4	41.7	52.6	64.8
Total Assets	217.1	211.9	248.1	285.5	305.3	321.2	331.9	388.0	430.6	471.4	502.4
% Change of total assets (carrying amounts)	-2.1%	-2.4%	17.1%	15.1%	6.9%	5.2%	3.3%	16.9%	11.0%	9.5%	6.6%
% of fixed-income securities and bonds	87.0%	84.6%	86.5%	88.5%	87.7%	87.4%	87.6%	87.9%	86.1%	85.2%	83.5%

* estimated data.

The increase in the carrying amount of the asset portfolio in segregate funds slows down yet further, from +9.5% in 2016 to +6.6% in 2017. There is a significant presence of bonds which still recognise sufficient returns to reach the guaranteed minimum rates, taking into account that the technical commitments (mathematical provisions) move on a multi-year horizon with a process of gradual emersion of the realised capital gains.

The gross average return (Table I.35) has declined in recent years, but it is still above 3%. The spread with the return of BTPs is reducing. Fig. I.27 shows the average for each individual company of the guaranteed and realised return in 2017.

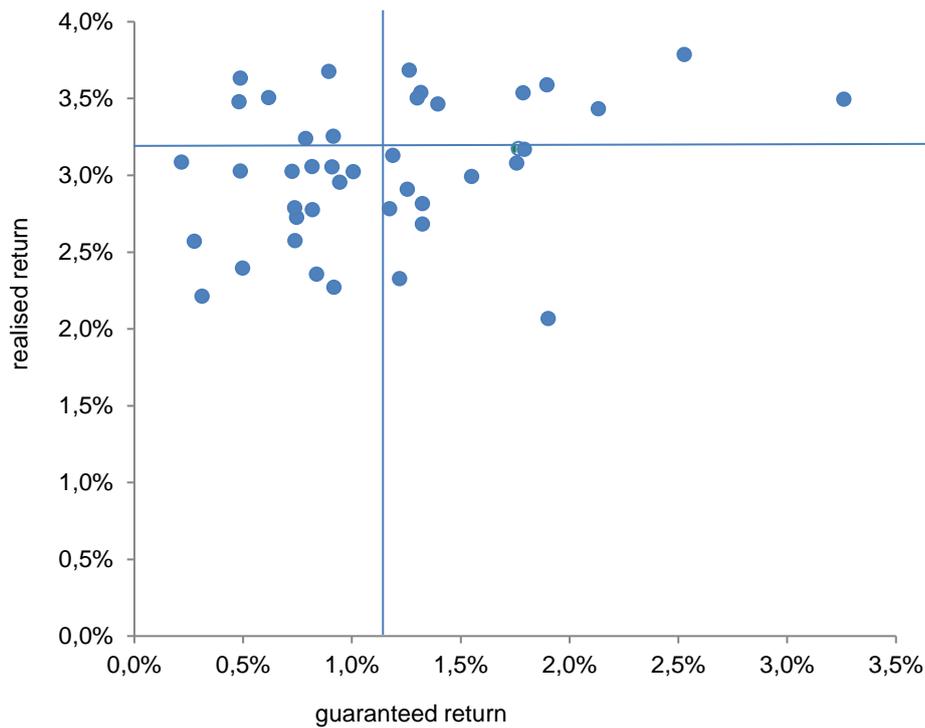
Table I.35

Return of separately managed accounts										
	(% values)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average gross return (%)	4.34	4.03	3.87	3.84	3.87	3.91	3.77	3.56	3.24	3.13
10-year guiding return of long-term Treasury bonds (%)	4.47	4.01	4.60	6.81	4.54	4.11	1.99	1.58	1.89	2.11

* Source: Statistical Bulletin of the Bank of Italy, Financial Market, Series [BMK0100] guide Government Bonds: gross returns at maturity.

Figure I.27

Segregate funds: guaranteed and realised return - average for individual undertakings
(% values *)



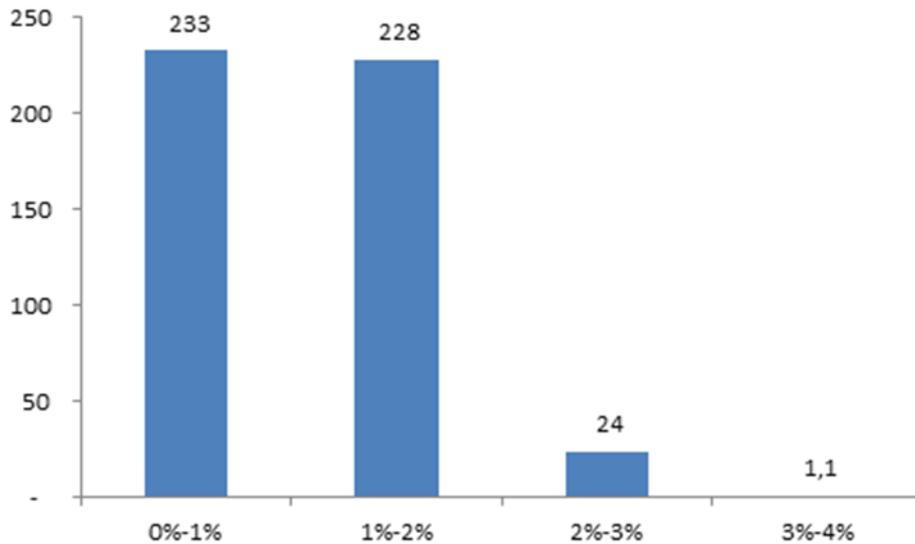
* The vertical and horizontal lines represent the average of the Italian market.

In terms of volumes, 44 companies established 284 segregate funds, totalling 486.5 billion euro in mathematical provisions (including any additional technical provisions, with the exclusion of the additional provision for guaranteed interest rate).

Of note (Fig. I.28) is the strong prevalence of the portion of actuarial reserve originated from products with less than 2% guaranteed rate with nearly 50% allocated in the guarantee range between 0 and 1%.

Figure I.28

Breakdown of mathematical provisions by range of guaranteed rate - 2017
(billion euro)



4.6.2. - The new life assurance premium rates

Table I.36¹⁶ shows the trends of the new premium rates relating to with-profit insurance policies sold from 2015 to 2017, divided according to the type of premium. Individual and collective premium rates are included, along with the individual pension plans under Article 13 of Italian Legislative Decree 252/2005.

Table I.36

New with-profit premium rates sold			
	(% values)		
	2015	2016	2017
Annual premium products	17.1	4.8	9.3
Single premium products	70.1	78.2	80.0
Recurring premium products	12.7	17.1	10.7
Total	100.0	100.0	100.0

Among the new with-profit premium rates sold in the last three years, the reduction of annual premium forms emerges, albeit with a recovery in 2017. Single premium coverages are confirmed as prevalent.

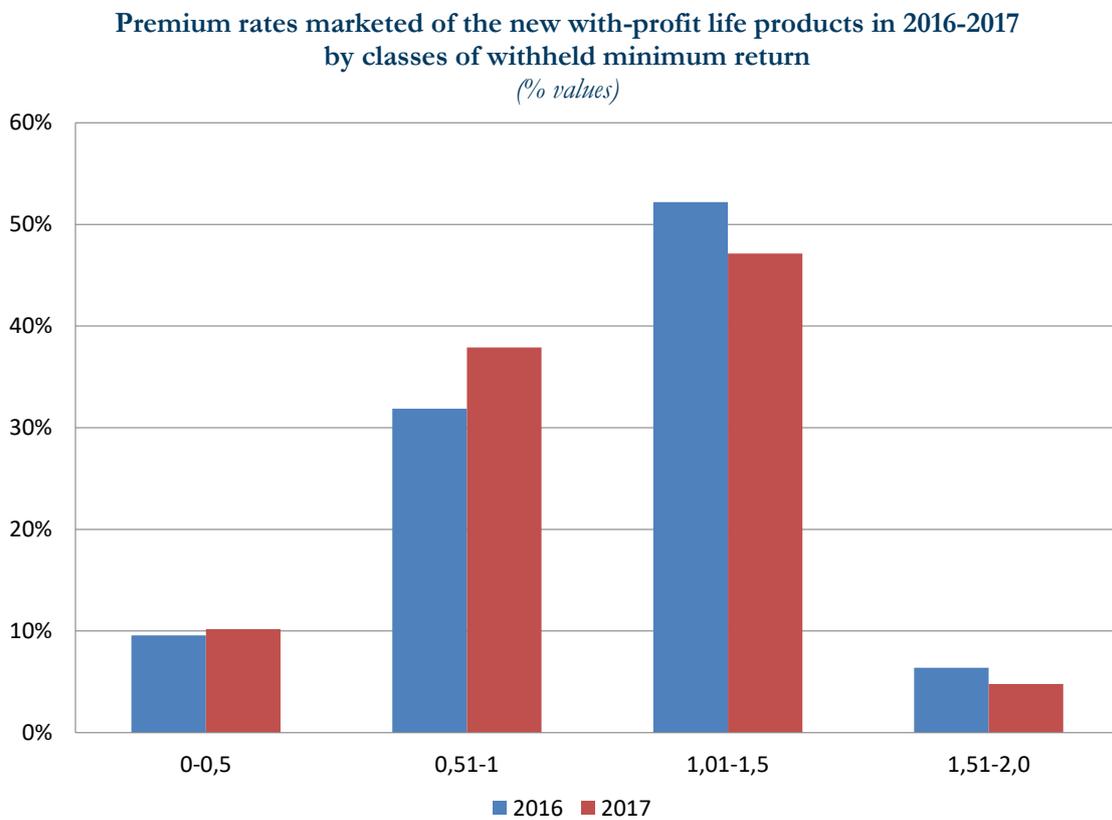
Examining the technical characteristics of the new with-profit premium rates placed on the insurance market, it is noted that the growing trend of a technical rate of 0% stopped, with a

¹⁶ Data are extracted from the “systematic notifications” of the new premium rates relating to with-profit insurance policies transmitted as a result of IVASS Order no. 3/2013.

decrease from 86% of the new premium rates to 76%. In 2017, among the new premium rates with 0% utilisation rate, 96% provides recognition of the entire revaluation net of a minimum withheld return while the remaining 4% provides a minimum retrocession rate, variable between 80% and 99%, to be applied to the rate of return.

With specific reference to the minimum return withheld for the new with-profit premium rate at technical rate 0% (Fig. I.29), the companies that withhold from the realised revaluation rate a portion between 0.5% and 1% increase by 32% in 2016 to 38% in 2017 while those withhold a rate between 1.1% and 1.5% decrease from 52% in 2016 to 47% in 2017. In general, the companies confirm their commercial policy of recognising the retrocession of 100% of the rate of return to the customer, coupled with the adoption of a significant margin withheld in favour of the company.

Figure I.29



4.7. - Management of non-life classes

The non-life business (Italian and foreign portfolio – insurance and reinsurance business) records a profit for the sixth consecutive year (Table I.37). In particular, in 2017 the profit for the year amounts to 2.4 billion euro (2.1 billion in 2016), with a positive balance on the technical account of 3.2 billion euro (3.1 billion euro in 2016). The ratio between the technical account of the non-life business and that of the life business is 48.4% (45.5% in 2016).

Table I.37

Profit and loss account of the non-life business - (Domestic undertakings and branches of non-EU undertakings) <i>(Italian and foreign portfolio – insurance and reinsurance business)</i>										
	<i>(million euro and % values)</i>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Premiums earned	34,063	33,811	32,458	33,590	33,257	32,241	31,353	30,675	29,587	29,571
% Change	0.2%	-0.7%	-4.0%	3.5%	-1.0%	-3.1%	-2.8%	-2.2%	-3.5%	-5.4%
Investment return transferred from the non-technical account	829	2,439	1,095	640	1,660	1,262	1,346	1,288	1,161	1,278
Claims charges	-25,403	-26,865	-25,106	-25,199	-23,480	-21,323	-20,187	-19,291	-18,826	-18,769
Other technical items	-723	-680	-662	-588	-651	-581	-509	-588	-599	-598
Change in other Technical provisions	0.4	3	5	0.2	0.5	2	1	0	-1	-13
Operating expenses	-8,462	-8,465	-8,141	-8,322	-8,018	-8,041	-8,245	-8,318	-8,219	-8,310
Change in equalisation provisions	61	-16	-23	-18	-4	-14	-12	-15	-14	-11
TECHNICAL ACCOUNT PROVISION	365	228	-375	106	2,765	3,546	3,747	3,751	3,089	3,158
Investment income (net of charges)	413	3,378	1,296	-93	1,754	2,087	2,270	2,149	2,283	2,673
Investment return transferred to the technical account	-829	-2,439	-1,095	-640	-1,660	-1,262	-1,346	-1,288	-1,161	-1,278
Other net income	-688	-1,161	-1,185	-948	-1,295	-1,354	-1,502	-1,469	-1,437	-1,473
PROFIT OR LOSS ON ORDINARY BUSINESS	-739	6	-1,359	-1,576	1,563	3,018	3,170	3,143	2,774	3,079
Extraordinary net income	324	33	218	386	1	473	450	72	137	208
Tax on profit or loss	248	-24	143	174	-924	-1,365	-1,173	-1,259	-796	-844
PROFIT OR LOSS FOR THE FINANCIAL YEAR	-167	63	-998	-1,016	640	2,125	2,446	1,956	2,115	2,444
<i>Loss ratio</i>	<i>74.6%</i>	<i>79.5%</i>	<i>77.3%</i>	<i>75.0%</i>	<i>70.6%</i>	<i>66.1%</i>	<i>64.4%</i>	<i>62.9%</i>	<i>63.6%</i>	<i>63.5%</i>
<i>Expense ratio</i>	<i>24.8%</i>	<i>25.0%</i>	<i>25.1%</i>	<i>24.8%</i>	<i>24.1%</i>	<i>24.9%</i>	<i>26.3%</i>	<i>27.1%</i>	<i>27.8%</i>	<i>28.1%</i>
<i>Combined ratio</i>	<i>99.4%</i>	<i>104.5%</i>	<i>102.4%</i>	<i>99.8%</i>	<i>94.7%</i>	<i>91.0%</i>	<i>90.7%</i>	<i>90.0%</i>	<i>91.4%</i>	<i>91.6%</i>

Ordinary financial operations, thanks to the positive performance of the financial markets, report net investment income of 2.7 billion euro (2.3 in 2016).

The profit from ordinary operations in 2017 amounts to approximately 3.1 billion euro, up compared to 2.8 billion in 2016.

The loss ratio is stable after six consecutive years of decline (2010-15), standing at 63.5% (63.6% in 2016).

Operating expenses also remain stable (8.3 billion euro, versus 8.2 billion in 2016), whereas their proportion of premiums earned increases for the fifth consecutive year, reaching 28.1% (27.8% in 2016) because of the reduction in premium income.

Also the contribution to the profit or loss for the financial year from extraordinary income, net of charges, is positive and amounts to 208 million euro (137 in 2016).

4.7.1. - MTPL and liability for ships (sea, lake and river and canal vessels)

Premiums written in the mandatory civil liability classes (motor vehicles and ships, Table I.38), of 13.2 billion euro, fall for the fifth consecutive year (-0.2% compared to 2016).

Table I.38

MTPL and liability for ships technical account - national undertakings and branches of non-EU undertakings Italian portfolio – insurance and reinsurance business										
(million euro and % values)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Premiums earned	17,804	16,999	16,607	17,495	17,697	16,835	15,559	14,450	13,689	13,251
% Change	-2.4%	-4.5%	-2.3%	5.3%	1.2%	-4.9%	-7.6%	-7.1%	-5.3%	-3.2%
Claims incurred	-14,672	-15,106	-14,467	-14,791	-13,110	-11,563	-10,818	-10,421	-10,421	-10,053
(of which claims for the financial year):	-14,761	-14,912	-13,865	-13,444	-12,108	-11,539	-11,176	-11,032	-11,022	-10,773
Balance on other technical items	-290	-267	-244	-202	-272	-248	-143	-127	-172	-185
Operating expenses	-3,275	-3,208	-3,116	-3,236	-3,233	-3,167	-3,187	-3,060	-2,900	-2,805
Technical balance of direct insurance	-433	-1,583	-1,221	-735	1,083	1,857	1,410	842	196	208
Profit or loss outward reinsurance	-3	22	-20	-26	-28	-44	-4	12	-1	-41
Profit or loss of reinsurance	-7	-48	-6	3	26	-7	0	-8	-18	5
Change in the equalisation provisions	-6	0	0	0	0	0	0	0	0	0
Part of the investment return transferred from the non-technical account	346	1,228	504	275	802	617	657	607	503	532
Balance on the technical account net of reinsurance	-91	-381	-744	-482	1,883	2,423	2,063	1,452	680	703
Loss ratio	82.4%	88.9%	87.1%	84.5%	74.1%	68.7%	69.5%	72.1%	76.1%	75.9%
Expense ratio	18.4%	18.9%	18.8%	18.5%	18.3%	18.8%	20.5%	21.2%	21.2%	21.2%
Combined ratio	100.8%	107.8%	105.9%	103.0%	92.4%	87.5%	90.0%	93.3%	97.3%	97.1%

The technical balance of direct business in 2017, amounting to 0.2 billion euro, is positive for the sixth consecutive year, although markedly smaller than in the 2012-2015 time interval. The balance on the technical account, net of reinsurance, ends positive for the sixth consecutive year.

The contribution of the portion of profit of the investments transferred from the non-technical account grow by 5.7% with respect to the amount for the previous year (from 503 million euro in 2016 to 532 million euro in 2017).

Operating expenses amount to 2.8 billion euro in 2017 and contract slightly compared to 2016 (2.9 billion euro).

The loss ratio is stable in 2017, amounting to 75.9% (76.1% in 2016). The proportion of operating expenses for the entire market over premiums earned (expense ratio) is 21.2% (stable compared to 2016). The combined ratio is also stable at 97.1% (97.3% in 2016), after growing in the four previous years.

With reference only to the claims of 2017 (current generation claims), the loss ratio is stable at approximately 80% (80.5% in 2016), confirming the growing trend for the fourth consecutive year (smallest value of 68.4% in 2012). This trend influenced the combined ratio calculated considering only the expenses for the claims that occurred during the year, which increases for the fourth consecutive year, reaching 101.3% in 2017 (101.7% in 2016).

Table I.39 shows the time series of the balance sheet combined ratio and the savings/shortfall index of the provision for claims outstanding gross and net of the balance of the recoveries (recourses, etc.) at year end¹⁷.

Table I.39

Combined ratio and balance on the provision for claims outstanding (PCO) over premiums earned										
	(% values)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PCO saving/lack - gross of balance on sums recoverable	-2.1%	-4.2%	-7.4%	-14.4%	-6.5%	-0.9%	0.9%	3.2%	3.4%	4.4%
PCO saving/lack - net of balance on sums recoverable	0.5%	-1.1%	-3.6%	-7.7%	-5.7%	-0.1%	2.3%	4.2%	4.4%	5.4%
Combined Ratio in the financial statements*	100.8%	107.7%	105.9%	103.0%	92.3%	87.5%	90.0%	93.3%	97.3%	97.1%

* Sum of the loss ratio and of the expense ratio, the latter calculated on premiums earned.

The balance of the provisions for claims outstanding in previous years shows a saving for the fourth consecutive year, equal to 5% of the premiums earned in 2017. The provisions for claims outstanding for MTPL have been proven to be, every year, more than sufficient for the payment of the claims relating to the old generations (preceding the one for the year of the financial statements). Provisions were therefore well measured, also bringing a positive contribution to the technical account of the business.

The time series (Table I.40), divided up by the generation relating to the current year and to the previous ones, of the ratio between average reserve and average cost expresses how many times (in prospect, also considering the time necessary for the payment and any future increase in costs) the average cost of the claims paid in the year is covered by the estimated average reserved claims on closure of the insurance company's financial statements.

¹⁷ The savings/shortfall ratio gross of the balance of the recoveries indicates the pure sufficiency/insufficiency of the provision for claims outstanding due to the payments and the revaluation of the residual provision at year end. The same index, net, by contrast includes the positive contribution of the recoveries.

Table I.40

Average reserve/average cost ratio*										
	(% values)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Generation in previous financial years	2.94	2.91	2.68	2.77	2.64	2.61	2.69	2.62	2.76	2.87
Generation in current financial year	3.14	3.10	3.27	3.53	4.02	4.13	3.97	3.99	3.88	3.71
Total	3.19	3.14	3.09	3.25	3.36	3.45	3.56	3.59	3.69	3.69

* Average reserve/average cost ratio: Average reserved claim / Average paid claim. IBNR claims excluded.

The total average reserve/average cost ratio, amounting to 3.7 in 2017, confirms the stable trend exhibited in recent years, after the growth between 2011 and 2014. In particular, a decline in the average reserve/average cost ratio for the provision relating to claims occurred during 2017 is offset by an increase in the ratio for claims in previous years.

4.7.2. - The other non-life insurance classes

In 2017, the non-life business, other than MTPL and liability for ships, exhibits as a whole a positive balance on the technical account of 2.3 billion euro, up with respect to 2016 (2.2 billion euro; Table I.41).

Table I.41

Technical performance other non-life classes - Italian portfolio										
(million euro and % values)										
Insurance class	Claims/premiums earned (A)*		Operating expenses/premiums earned (B)*		Combined Ratio (C)* = (A) + (B)		Technical balance*		Balance on the technical account (direct and indirect)	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Health sector										
Accident	39.9%	39.2%	36.2%	37.1%	76.1%	76.3%	651.8	652.7	674.8	691.5
Sickness	66.9%	66.5%	24.6%	24.4%	91.5%	90.9%	118.0	120.8	140.8	142.1
Total	51.6%	51.8%	31.2%	31.4%	82.8%	83.2%	769.8	773.5	815.6	833.6
Automobile sector - only land vehicles**										
Land vehicles	57.4%	60.6%	31.6%	32.1%	89.0%	92.7%	267.6	184.9	236.6	187.3
Transport										
Railway rolling stock	159.1%	9.3%	15.0%	13.4%	174.1%	22.7%	-4.0	5.2	-4.1	3.1
Aircraft	11.0%	64.5%	18.5%	17.2%	29.5%	81.7%	10.6	1.7	2.6	-1.2
Sea vessels	69.3%	78.2%	18.1%	20.4%	87.4%	98.6%	29.2	3.8	-5.0	-9.4
Goods in transit	42.2%	33.9%	30.9%	30.4%	73.1%	64.3%	36.1	56.2	19.2	37.7
Aircraft liability	15.8%	46.2%	15.0%	11.6%	30.8%	57.8%	7.5	3.5	3.1	-2.5
Total	56.4%	57.5%	22.8%	24.1%	79.2%	81.6%	79.4	70.5	15.8	27.7
Property sector										
Fire and natural forces	60.1%	70.1%	34.6%	35.4%	94.7%	105.5%	47.6	-199.5	37.1	-52.9
Other damages to property	62.8%	74.2%	32.4%	32.5%	95.2%	106.7%	85.9	-229.2	26.4	-79.1

continued

Financial accounts (Local gaap)

Financial loss	29.1%	26.7%	38.2%	41.5%	67.3%	68.2%	152.5	153.4	151.4	152.1
Total	58.6%	57.5%	33.8%	34.6%	92.4%	92.1%	286.0	-275.3	215.0	20.2
General liability										
General liability	48.2%	42.3%	32.6%	32.9%	80.8%	75.2%	484.7	655.7	660.5	883.7
Credit/Suretyship										
Credit	66.0%	25.0%	29.9%	25.0%	95.9%	50.0%	-3.1	23.8	2.6	12.5
Suretyship	41.3%	35.4%	32.9%	35.4%	74.2%	70.8%	60.9	78.7	40.6	47.1
Total	44.3%	33.8%	32.5%	34.0%	76.8%	67.8%	57.8	102.5	43.2	59.6
Legal expenses/Assistance										
Legal expenses	24.8%	24.7%	38.2%	38.2%	63.0%	62.9%	117.4	127.7	103.2	116.3
Assistance	32.9%	37.4%	33.0%	34.6%	65.9%	72.0%	203.9	180.0	150.1	133.7
Total	30.1%	33.0%	34.8%	35.8%	64.9%	68.8%	321.3	307.7	253.3	250.0
Grand total	52.8%	55.0%	32.3%	32.9%	85.1%	87.9%	2,266.8	1,819.9	2,239.9	2,262.0

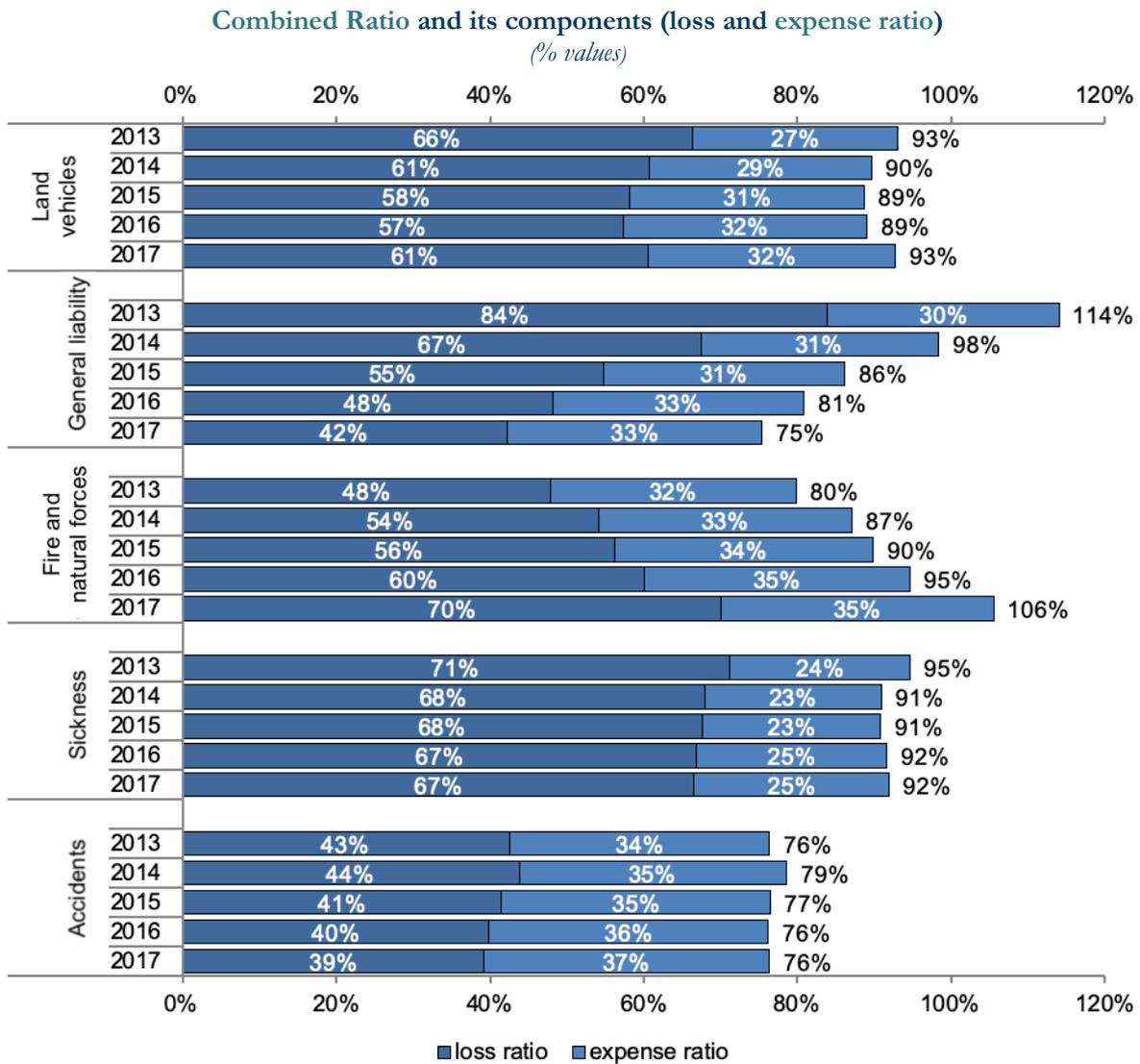
* Direct insurance.

** Excluding MTPL and liability for ships.

Among the relevant classes for premium income, the health sector (accident and sickness) reports a positive technical result of 834 million euro, general liability insurance of 884 million euro, legal protection and assistance of 250 million euro, the land vehicles class of 187 million euro and, lastly, the property sector stand at 20 million euro.

With reference to the combined ratio, values are higher than 100% in fire insurance (106%) and other damages to property (107%) and particularly high values are recorded in sea vessels (99%), sickness (92%). The combined ratio of the general liability class (54.5%) decreases markedly, i.e. by 40 percentage points, with respect to the previous year.

Figure I.30



In the last five years, the fire insurance business and general liability were characterised by higher volatility of costs for claims paid and reserved current with respect to the premiums earned, which determined respectively a progressive increase of the loss ratio of fire insurance and a progressive decline of the loss ratio of general liability.

5. - SOLVENCY II REPORTING

5.1. - Highlights of the financial statements for domestic companies

The table below (Table I.42) shows the main figures in the financial statements of domestic companies at the end of 2016 and 2017, measured according to market consistent prudential criteria. The following paragraphs provide details with reference to investments, to technical provisions, to the capital requirement and to own funds.

Table I.42

Solvency II – Balance sheet of domestic companies 2016 – 2017								
<i>(million euro)</i>								
	Life		Non-life		Composites		Total	
	2016	2017	2016	2017	2016	2017	2016	2017
Assets								
Deferred tax assets	4,103	3,022	476	424	1,674	1,057	6,254	4.5
Investments (excluding assets for index and unit linked)	377,601	391,582	14,500	15,434	279,479	289,643	671,580	696,659
Assets held for index and unit linked	118,680	131,484	0	0	20,784	22,733	139,464	154,217
Secured and unsecured loans	108	117	27	29	3,983	5,155	4,117	5,301
Recoverable amounts from reinsurance	2,494	2,274	1,684	1,755	8,600	8,105	12,778	12,134
Cash and cash equivalents	6,041	4,544	942	825	3,226	3,964	10,209	9,332
Other assets	9,762	10,978	2,398	2,560	26,619	25,154	38,778	38,692
Total assets	518,787	544,001	20,028	21,026	344,366	355,811	883,181	920,838
Liabilities								
Non-life technical provisions	5	5	12,083	12,056	43,720	40,798	55,809	52,860
Life technical provisions - excluding linked policies	358,355	369,036	15	10	166,912	169,776	525,282	538,822
Unit and index linked technical provisions	116,120	128,252	0	0	17,319	17,821	133,438	146,073
Deferred tax liabilities	6,950	6,536	360	399	2,825	3,762	10,135	10,697
Remaining liabilities	11,994	12,603	2,018	2,259	39,774	40,249	53,785	55,111
Total liabilities	493,423	516,432	14,476	14,724	270,551	272,406	778,450	803,562
Excess assets over liabilities	25,364	27,569	5,552	6,302	73,816	82,468	104,732	117,276

5.2. - Highlights of the financial statements for domestic groups¹⁸

Along with a modest increase (+4%) of investments relating to the traditional business, there is a significant growth in the assets held for index and unit linked, amounting to 14.6% (Table I.43), consistently with the changes in technical provisions in the two business lines. The increase in the assets held for index and unit linked by groups is higher to that of domestic companies

¹⁸ In accordance with Articles 215 and 216 of the Solvency II Directive, the groups with the parent company situated in Italy are included along with those with the parent company in a EU country but subject to IVASS supervision through an Italian sub-holding.

(10.6%), highlighting the higher weight of these components for foreign subsidiaries included in Italian groups.

Table I.43

Solvency II – Balance sheet of domestic groups			
<i>(million euro and % values)</i>			
	31/12/2016	31/12/2017	% change
Assets			
Deferred tax assets	7,534	5,784	-23.20%
Investments (excluding assets for index and unit linked)	686,397	714,569	4.10%
Assets held for index and unit linked	180,510	206,794	14.60%
Secured and unsecured loans	7,863	7,399	-5.90%
Recoverable amounts from reinsurance	7,086	7,828	10.50%
Cash and cash equivalents	13,661	12,958	-5.10%
Other assets	36,530	37,441	2.50%
Total assets	939,582	992,772	5.70%
Liabilities			
Non-life technical provisions	55,103	53,490	-2.90%
Life technical provisions - excluding linked policies	572,937	592,028	3.30%
Unit and index linked technical provisions	180,737	205,226	13.50%
Deferred tax liabilities	14,475	15,990	10.50%
Remaining liabilities	54,435	56,210	3.30%
Total liabilities	877,687	922,945	5.20%
Excess assets over liabilities	61,894	69,828	12.80%

5.3. - Investments

At the end of 2017, the investments managed by Italian insurance undertakings, net of assets intended for the linked sector, amount to 697 billion euro (Table I.44), with a 3.7% increase. Overall, the portion of bonds (government bonds, corporate and structured bonds) decreases from 76.9% to 74.4%.

The composition of the investments declines slightly in the portion of government bonds (from 53.6% to 52% the previous year), also due to the reduction of Italian government bonds (from 47.8% to 44.6%). The value of investments in undertakings for collective investment, instead, increases (from 8.9% to 10.5%).

Table I.44

Life and non-Life investments					
<i>(million euro and % values)</i>					
	31/12/2016	%	31/12/2017	%	% Change 2017/2016
Investments not intended for index linked and unit linked contracts					
Government bonds	360,072	53.6	362,299	52.0	0.6
<i>of which: Italian government bonds</i>	320,835	47.8	310,752	44.6	-3.1
Corporate bonds	133,113	19.8	140,608	20.2	5.6
Listed equity instruments	7,600	1.1	8,855	1.3	16.5
Unlisted equity instruments	2,328	0.3	2,595	0.4	11.4
Undertakings for collective investment	59,569	8.9	73,344	10.5	23.1
Structured bonds	23,173	3.5	15,204	2.2	-34.4
Guaranteed securities	2,145	0.3	2,415	0.3	12.6
Deposits other than cash equivalents	1,009	0.2	996	0.1	-1.3
Real estate (other than those held for own use)	4,536	0.7	5,262	0.8	16.0
Other investments	50	0.0	17	0.0	-66.9
Derivatives	344	0.1	416	0.1	20.9
Shares held in investees, including equity investments	77,641	11.6	84,646	12.2	9.0
Total (A)	671,580	100.0	696,659	100.0	3.7
Investments held for index linked and unit linked contracts (B)	139,464		154,217		10.6
Grand Total (A) + (B)	811,044		850,876		4.9

The value of the assets dedicated to linked contracts also grows in 2017 (+10.6%), with an amount of 154 billion euro at the end of the year.

Table I.45 provides the comparison between total investments (non-life and life) not connected to the linked products of Italian undertakings with those of the main European countries.

Table I.45

Life* and non-life investments of the main European countries										
<i>(million euro and % values)</i>										
Investments	Italy		France**		Germany**		Spain**		United Kingdom**	
	Dec. 2017	%	Sep. 2017	%	Sep. 2017	%	Sep. 2017	%	Sep. 2017	%
Government bonds	362,299	52.0	685,637	32.8	346,168	19.1	140,841	56.8	200,781	21.8
Corporate bonds	140,608	20.2	686,259	32.8	526,955	29.1	55,525	22.4	319,363	34.7
Listed and unlisted equity instruments	11,450	1.6	83,363	4.0	12,941	0.7	4,210	1.7	81,204	8.8
UCITS	73,344	10.5	388,553	18.6	518,675	28.7	12,477	5.0	103,230	11.2
Structured bonds	15,204	2.2	56,857	2.7	22,665	1.3	3,345	1.3	299	0.0
Guaranteed securities	2,415	0.3	3,938	0.2	6,659	0.4	1,028	0.4	22,668	2.5
Deposits other than cash equivalents	996	0.1	11,580	0.6	10,025	0.6	7,306	2.9	8,739	0.9
Real estate (other than those held for own use)	5,262	0.8	31,317	1.5	26,499	1.5	6,201	2.5	23,747	2.6
Other investments	19	0.0	4,540	0.2	492	0.0	0	0.0	681	0.1
Derivatives	416	0.1	4,669	0.2	3,116	0.2	5,910	2.4	45,481	4.9
Shares held in investees, including equity investments	84,646	12.2	136,729	6.5	334,999	18.5	11,173	4.5	113,806	12.4
Total	696,659	100.0	2,093,441	100.0	1,809,195	100.0	248,016	100.0	920,000	100.0

* Excluding assets intended for index and unit linked contracts

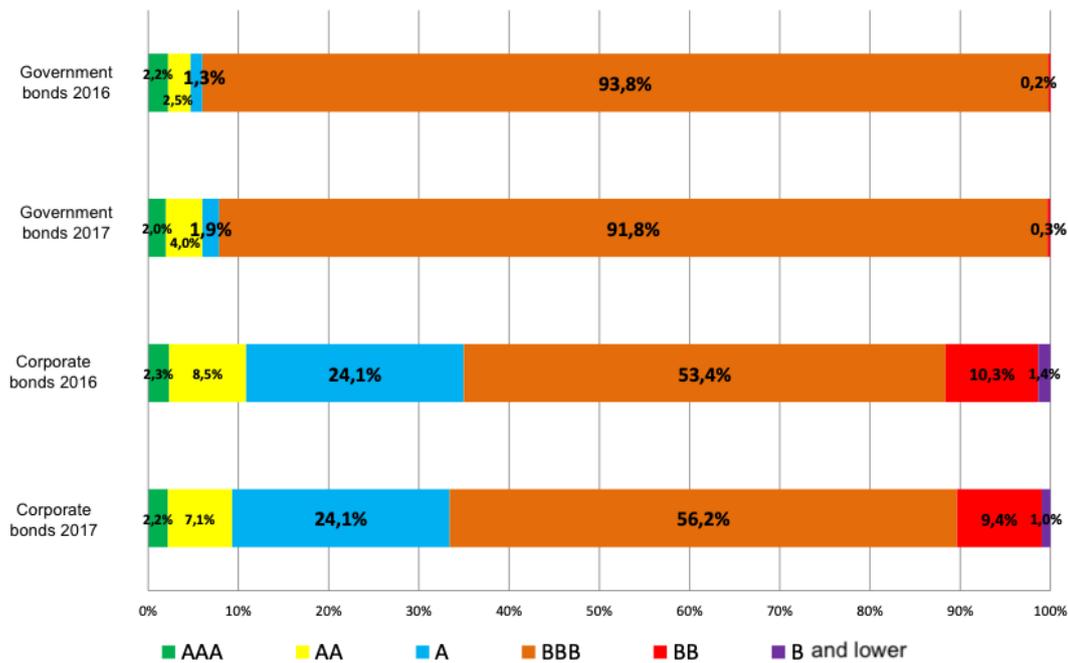
** Source: For foreign countries, EIOPA, Insurance Statistics, latest data available third quarter 2017.

The presence of government bonds in the portfolio is significant for Italy and Spain, with smaller portions in France, United Kingdom and Germany. Corporate securities instead represent the main investment for British, German and French undertakings. The exposures in funds (UCITs) of European undertakings are smaller, with the exception of German undertakings.

Considering the allocation of the bond investments of Italian undertakings by rating class in 2016 and 2017 (Fig. I.31), the predominant class of government securities has triple B rating. With reference to corporate bonds, the main classes are triple B (56.2% in 2017 and 53.4% in 2016) and A (24.1% for both years).

Figure I.31

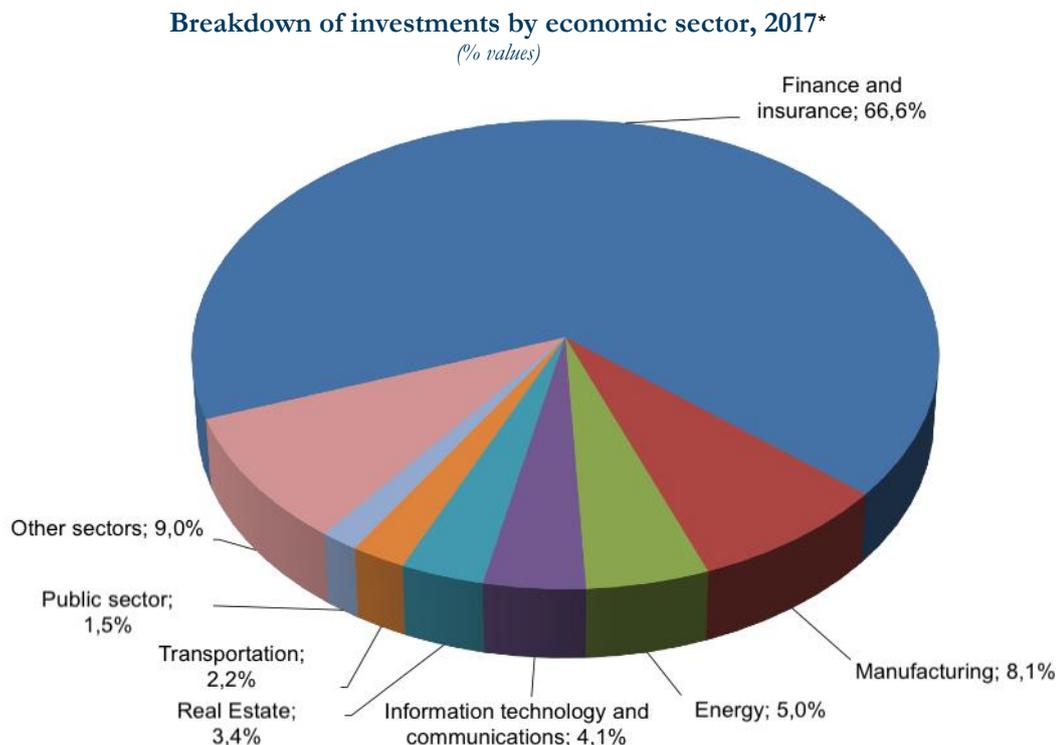
Bond investments of Italian undertakings by rating class, 2016-2017*
(% values)



* Excluding assets intended for linked contracts. Corporate bonds also comprise structured bonds and secured instruments.

The analysis of the breakdown of investments by economic sector as at 31 December 2017, with the exclusion of government bonds only, points to a significant concentration in the financial and insurance sector (66.6%, Fig. I.32), with a smaller presence in the manufacturing sector (8.1%) and in the energy sector (5%).

Figure I.32



* Excluding assets intended for unit and index linked contracts.

5.4. - Technical Provisions

The definition of the technical provisions under the Solvency II regime envisages an allocation that adds the provisions calculated as best estimates (BE) and as risk margin. BE are a projection of the difference between outgoing cash flows (for benefits at maturity, claim or surrender) and incoming cash flows for future premiums, discounted according to a risk-free interest rate structure.

The purpose of the risk margin is to assure that, if the policy portfolio is transferred to another company, technical provisions are sufficient and equivalent to the price this company would pay in a regulated market of such liabilities.

Alternatively, technical provisions as a whole can be calculated, not distinguishing between the two components, if it is possible to replicate this commitment with financial instruments for which a reliable market exists¹⁹.

In calculating the BE, life undertakings shall take into account the Time Value of Options and Guarantees - TVOG. The TVOG can be calculated with stochastic models, whereby the following are determined:

¹⁹ Article 40 of the Delegated Acts.

- management actions (Article 23 of the Delegated Acts), replicating the management's discretion in selecting investments and in the disposal time line in the years of the projection;
- policyholder behavior, replicating the behavior of the policyholder following the decisions made by the management in the years of the projection. The policyholder can decide to suspend payment of the premiums, requesting surrender (Article 26 of the Delegated Acts) as a result of an assessment made by the policyholders who decided independently of the performance of financial markets (non dynamic surrender) or an assessment that depends on the evolution of financial markets (dynamic surrender).

In 2017, life technical provisions grow, with an inverse trend to the decrease of technical provisions of the non-life business.

The main component of life technical provisions (best estimate) increases by 3.8% while the risk margin decreases by 1.4% (Table I.46). Technical provisions calculated as a whole, residual component, increases by 3.7%.

With reference to the non-life technical provisions, a decrease for all components is observed. Specifically, the main component (BE-claim) decreases by 6.5% while the BE-premium remains unchanged with the risk margin decreasing by 17.8%.

Table I.46

Technical provisions life and non-life					
	(million euro)				
	31/12/2016	31/03/2017	30/06/2017	30/09/2017	31/12/2017
Life					
<i>Best Estimate</i>	653,480	656,321	660,930	666,737	678,590
<i>Risk Margin</i>	4,986	4,575	4,833	5,005	4,918
<i>TP calculated as a whole</i>	908	949	959	924	942
Total	659,374	661,845	666,722	672,666	684,450
Non-life					
<i>BE - claim</i>	41,914	41,600	41,034	41,710	39,342
<i>BE - premium</i>	11,408	11,358	11,628	10,512	11,401
<i>Risk Margin</i>	2,484	2,554	2,516	2,433	2,109
<i>TP calculated as a whole</i>	1	1	0	0	0
Total	55,807	55,513	55,177	54,656	52,852
Life and non-life Total	715,181	717,358	721,899	727,322	737,302

5.4.1. - Life technical provisions

Table I.47 shows the breakdown of the technical provisions for the two main types of business - with profit and index and unit linked - which account for 98% of the total value. The BE component is prevalent.

Table I.47

Life technical provisions*				
	<i>(million euro)</i>			
	TP calculated as a whole	Best Estimate	Risk Margin	Total
31/12/2016				
<i>With Profit</i>	34	521,507	4,278	525,819
<i>Index and Unit Linked</i>	874	131,973	707	133,554
31/03/2017				
<i>With Profit</i>	0	509,467	3,309	512,776
<i>Index and Unit Linked</i>	919	132,444	700	134,062
30/06/2017				
<i>With Profit</i>	0	511,533	3,579	515,111
<i>Index and Unit Linked</i>	924	135,057	711	136,692
30/09/2017				
<i>With Profit</i>	0	517,269	3,737	521,006
<i>Index and Unit Linked</i>	890	135,757	718	137,365
31/12/2017				
<i>With Profit</i>	0	524,301	3,592	527,893
<i>Index and Unit Linked</i>	895	141,306	738	142,940

* Only With Profit and Index and Unit Linked products.

5.4.2. - Non-life technical provisions

The comparison, according to the classification by non-life lines of business (LoB) of direct risks adopted by Solvency II, among technical provisions premiums and claims, respectively, as at 31 December 2016 and as at 31 December 2017 (Table I.48), shows an overall reduction in the technical provision for claims outstanding (-6.5%) and a stability of the premiums technical provision which entailed a slight increase in the weight of the premiums component from 21.5% to 21.7%.

Table I.48

Non-life Technical Provisions				
	<i>(million euro)</i>			
	Technical Provi- sions premiums (BE)	Technical Provi- sions claims (BE)	Risk Margin	Total
31/12/2016				
Medical expenses	601	968	54	1,624
Income protection	990	1,864	155	3,009
Workers' compensation	0.02	0.05	-	0.07
- Motor third-party liability	4,364	20,120	1,039	25,523
Other insurance	918	510	62	1,490
Marine, aviation and transport insur- ance	140	926	43	1,109
Fire and other damage to property	2,308	3,602	289	6,199
General liability	904	11,500	780	13,184
Credit and suretyship	505	1,163	61	1,729
Legal expenses	56	412	19	487
Assistance	119	139	12	270
Miscellaneous financial loss	476	334	39	849
Total	11,381	41,538	2,553	55,473

continued

Non-life Technical Provisions				
(million euro)				
	Technical Provisions premiums (BE)	Technical Provisions claims (BE)	Risk Margin	Total
31/12/2017				
Medical expenses	641	1,019	55	1,722
Income protection	929	1,809	143	2,881
Workers' compensation	0	0	0	0
- Motor third-party liability	4,296	19,112	870	24,279
Other insurance	1,031	526	60	1,618
Marine, aviation and transport insurance	143	726	24	893
Fire and other damage to property	2,325	3,678	247	6,251
General liability	876	10,236	546	11,659
Credit and suretyship	472	1,067	62	1,602
Legal expenses	60	428	22	511
Assistance	133	138	14	285
Miscellaneous financial loss	480	257	47	784
Total	11,387	38,996	2,092	52,483

5.5. - Assets representing technical provisions

The Solvency II technical provisions relating to Italian and foreign direct insurance amount to 729 billion euro²⁰ while the related covering assets amount to 737 billion euro, with a coverage index of 101%. 92.9% of these assets are related to the life business as a whole.

For covering assets that do not include linked policies and pension funds (Table I.49), the weight of debt securities amount to 85% (mostly represented by government securities with 59% of the total, down compared to 61.2% in 2016) while the remaining part is mainly referred to undertakings for collective investments (11%, up by 8.6%).

Table I.49

Assets representing technical provisions of the life direct portfolio (excluding linked policies and pension funds) and non-life by type of activity as at 31 December 2017						
(million euro)						
	Life	%	Non-life	%	Total	%
Government bonds	328,438	61.6	18,984	36.1	347,422	59.3
Corporate bonds	132,408	24.8	16,866	32.1	149,274	25.5
Equity instruments	7,790	1.5	3,439	6.5	11,230	1.9
Undertakings for collective investment	59,615	11.2	5,072	9.6	64,687	11.0
Real estate	293	0.1	5,641	10.7	5,934	1.0
Loans and mortgages	110	0.0	228	0.4	338	0.1
Credits	1,986	0.4	1,895	3.6	3,881	0.7
Cash and deposits	2,006	0.4	397	0.8	2,403	0.4
Other assets	336	0.1	48	0.1	385	0.1
Total	532,981	100.0	52,571	100.0	585,552	100.0

²⁰ Quarterly communication as at 31 December 2017, prepared according to IVASS Regulation no. 24 of 6 June 2016.

The technical provisions of the non-life business amount to 52 billion euro and are covered by 52.6 billion euro of assets (7.1% of the grand total), 68% of which are debt securities (36% government bonds). The real estate sector accounts for 11% and equity instruments account for 6.5% (Table 32 in the Appendix).

With reference separately to linked policies and to pension funds, both the technical provisions and the related covering assets amount to 136 and 15 billion euro and represent 18% and 2% of the total amounts referred to the complex of classes C and D (Table I.50).

Table I.50

Technical provisions of the life direct portfolio (only linked policies and pension funds) and corresponding covering assets by type of activity as at 31 December 2017			
	<i>(million euro)</i>		
	Technical provisions	Covering assets	% of grand total*
Contracts linked to the value of units in UCITS	57,130	57,265	7.8
Unit-linked contracts	75,819	75,888	10.3
Index-linked contracts	2,575	2,611	0.4
Total class D I	135,524	135,764	18.4
Open pension funds	11,109	11,114	1.5
Closed pension funds	4,361	4,361	0.6
Total class D II	15,470	15,475	2.1
Grand total class D	150,994	151,240	20.5

* Percentages referred both to Technical provisions and to covering Assets.

5.6. - Solvency capital requirement and minimum capital requirement

The Solvency II Directive, Articles 103 et seq., referenced in Articles 45-bis et seq. of the CAP, require the insurance company to calculate the Solvency Capital Requirement (SCR) adopting the standard EIOPA formula or implementing an internal model with partial or total coverage of the risks assumed. Internal models are subject to preventive validation test and authorisation by the supervisory authority (see IV.1.4.2). The insurance undertaking that adopts the standard formula can use, in calculating the underwriting risk forms for life, non-life and sickness insurance, the specific parameters of the undertaking-specific parameters (USP) instead of the standard ones, with the approval of the Supervisory authority.

The amount of the SCR is determined on the basis of the value at risk of basic own funds, according to a confidence interval of 99.5% (probability of default of 0.5% on a time horizon of one year).

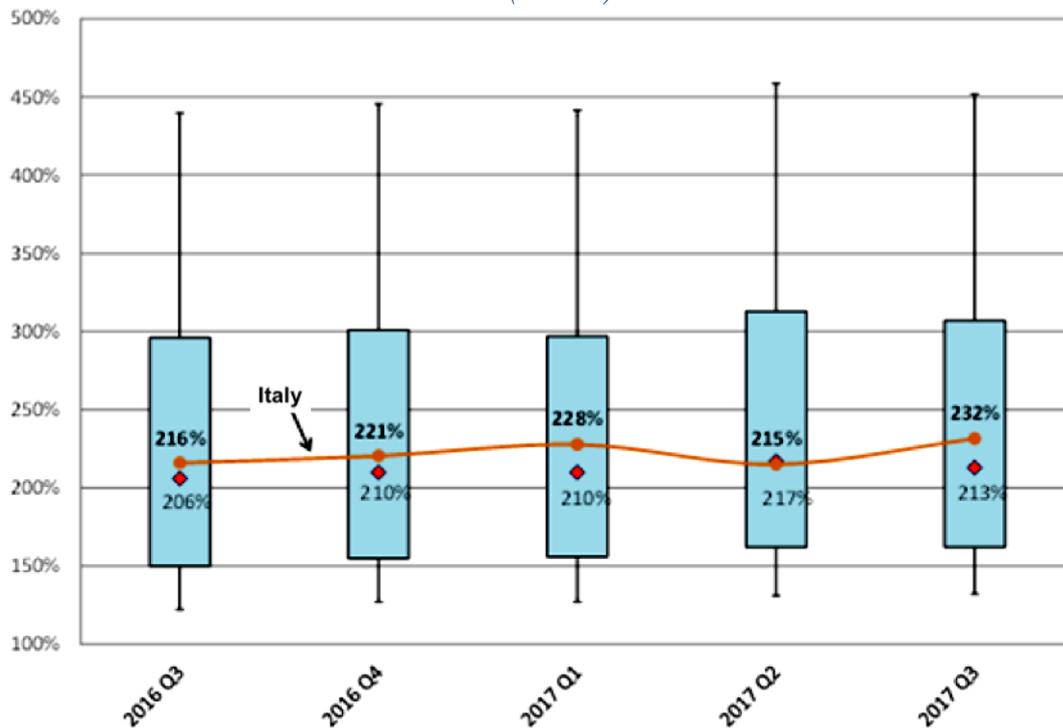
Also required is compliance with a Minimum Capital Requirement (MCR), which represents the threshold below which immediate supervisory actions will take place.

The solvency risk of Italian undertakings remains low, even in comparison to the rest of Europe, thanks to the continuous improvement of solvency ratios.

From EIOPA surveys on the European market in the third quarter of 2017, it emerges that the distribution of the SCR ratio has a median value of 213%, slightly higher than the third quarter of 2016, when it amounted to 206% (Fig. I.33). The average value of Italian undertakings is still higher than the median European value, with the exception of the second quarter of 2017.

Figure I.33

European market - SCR ratio (Median, interquartile deviation, 10th and 90th percentile) vs. Italian average (% values)



At the end of 2017, Italian undertakings have a total SCR of 53.3 billion euro, slightly down (-2.4%) with respect to 31 December 2016 (Table I.51).

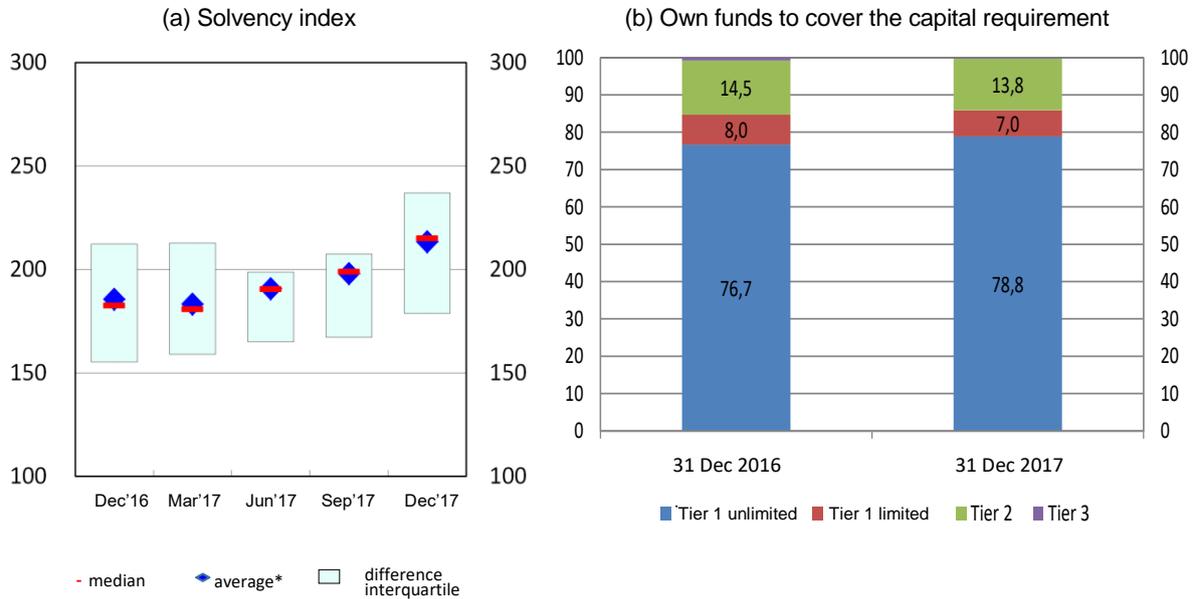
Table I.51

Capital Requirement					
	(million euro)				
	31/12/2016	31/03/2017	30/06/2017	30/09/2017	31/12/2017
SCR	53,585	54,639	54,572	55,503	53,313
MCR	19,873	20,242	20,123	20,354	20,022
Eligible own funds to satisfy the SCR	116,157	117,427	124,528	128,581	128,643

With reference to the seven Italian insurance groups relevant for financial stability, the average value of the solvency index stand at 213% as at December 2017 (it was 186% in December 2016 - Fig. I.34.a). The best quality capital (own funds Tier 1) amounts on average to 86% of total own funds (Fig. I.34.b).

Figure I.34

Main indicators of the relevant Italian groups for financial stability
(% values)



* Weighted average with the weights equal to the denominator of each ratio.

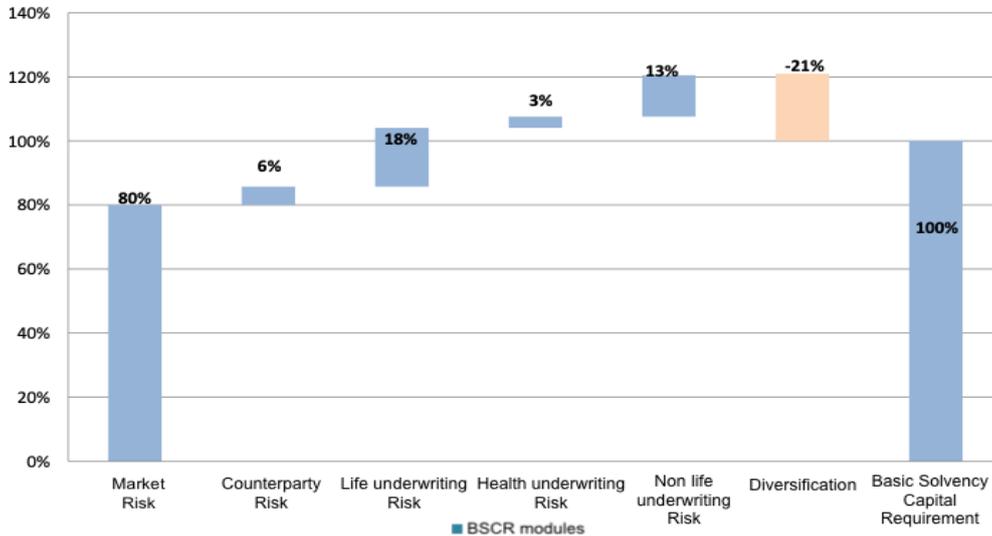
The aggregate breakdown for the entire market of the basic solvency capital requirement (BSCR) calculated with the standard formula as at 31 December 2017, broken down by source of risk (Fig. I.35), highlights the following:

- the market risk, tied to the volatility of the financial market, represents by far the main source of risk of the Italian insurance sector, with a gross percentage of 80%, slightly higher than 79% in 2016.
- the technical underwriting and reserving risk of the life business and non-life business represent respectively 18% and 13% of the BSCR (compared to 17% and 16% of 2016);
- the counterparty risk, which measures the vulnerability of the different categories of assets of the undertakings to the default of issuers and other counterparties, accounts for 6% of the BSCR;
- the benefit deriving from risk diversification²¹ amounts to 21% of the BSCR (same percentage as in 2016).

²¹ The diversification benefit derives from the assumption that an undertaking with portfolios including different kinds of assets/investments, that are dispersed (also geographically) over various markets, is not affected by concurrent events with opposite signs, but can exploit the negative correlation between the risks, so as to reduce, by effect of offsets, the solvency requirement.

Figure I.35

Composition of the Basic Solvency Capital Requirement as at 31 Dec. 2017
(% values)

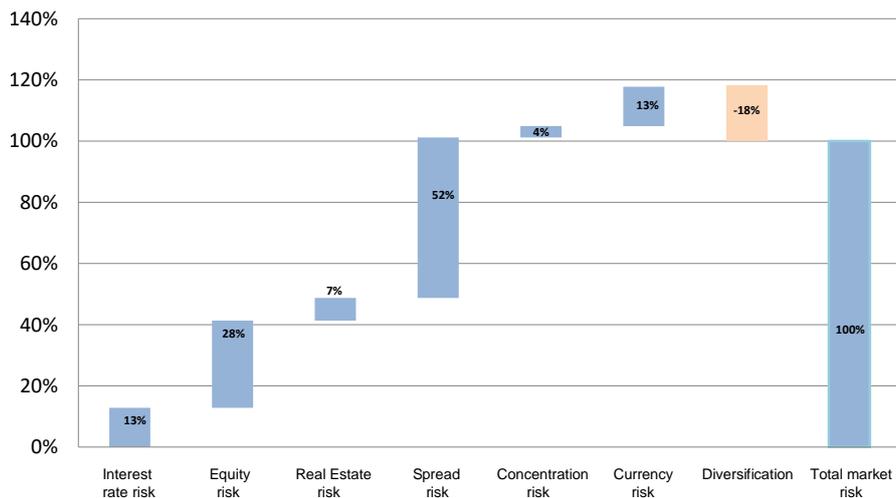


BSCR = 100%; the diversification component has negative value.

Analysing the components of the market risk, the most significant in 2017, shows the relevance of the spread component, amounting to over 50% (Figure I.36) and of the equity risk, amounting to 28%, whereas the interest rate risk remains at a lower level (13%).

Figure I.36

Breakdown of the Basic Solvency Capital Requirement (only market risk) as at 31 Dec. 2017
(% values)



The Loss Absorbing Capacity - LAC is distinguished in the absorption capacity deriving from technical provisions²², typical of life with-profit contracts, and that of deferred taxes²³, which constitutes an amount to deduct from the BSCR. The amount of the LAC for technical provisions increased between 2016 and 2017, whereas the amount for deferred taxes has remained nearly unchanged. The reduction of the BSCR thanks to the intervention of the Loss Absorbing Capacity is, respectively, equal to 35% for LAC of the technical provisions (slightly up from 2016) and to 12% for LAC of deferred taxes.

5.7. - Own funds

Total own funds to cover the SCR as at 31 December 2017 is equal to 129 billion euro, with a 14 billion euro increase relative to the end of 2016 (Table I.52).

A high quality of the own funds of Italian insurance undertakings is noted. The weight of lower quality elements (*Tier 3*) decreases from 1% at the end of 2016 to 0.4% at the end of 2017, far lower than 15% allowed by the regulation²⁴.

Table I.52

Eligible own funds to satisfy the solvency capital requirement (SCR)									
<i>(million euro and % values)</i>									
	Tier 1 unlimited	% total	Tier 1 limited	% total	Tier 2	% total	Tier 3	% total	Total
31/12/2016	99,050	85.3	5,839	5.0	10,154	8.7	1,111	1.0	116,154
31/03/2017	100,493	85.6	5,824	5.0	9,993	8.5	1,116	1.0	117,427
30/06/2017	107,931	86.7	6,798	5.5	9,021	7.2	777	0.6	124,528
30/09/2017	111,438	86.7	5,738	4.5	10,727	8.3	678	0.5	128,581
31/12/2017	111,103	86.4	5,709	4.4	11,207	8.7	624	0.5	128,643

Tier 1 funds increase markedly, reaching 116.8 billion euro versus 104.9 billion euro at the end of 2016. The weight of Tier 2 and Tier 3 funds as at 31 December 2017 for the coverage of the SCR confirms a modest reduction in favour of the Tier 1 segment, amounting to 11.8 billion euro (11.2 billion euro at the end of 2016).

The reconciliation reserve represents the reserve net of the adjustments (e.g. ring-fenced funds) and it is the result of the differences between the accounting measurement of the financial statements and the measurement based on Solvency II²⁵ criteria. This reserve is the most

²² The Loss Absorbing Capacity relating to technical provisions is determined in such a way that the maximum possible adjustment must never exceed the allocation of the technical provisions for the discretionary benefits of with-profit life contracts, taking into account the mitigating effect for the risk constituted by the non-mandatory component of the return measurement.

²³ The LAC pertaining to deferred taxes is set equal to the change of the deferred taxes deriving from a reduction of the SCR to recognise the effects of deferred taxes consequent to the shocks assumed in the calculations underlying the capital requirement.

²⁴ Own funds consists of the sum of basic and ancillary own funds and are classified in three tiers, according to the characteristics of permanent availability to absorb unexpected losses connected with the exercise of the activity and of subordination in case of liquidation of the undertaking.

²⁵ Article 75 of the Solvency II Directive.

significant item of Tier 1 (66% as at 31 December 2017). The weight of the reconciliation reserve increases by 7 percentage points in 2017. At the same date, 13% of the reserve consists of expected profits included in future premiums - EPIFP²⁶, almost entirely attributed to the life insurance business.

Table I.53

Reconciliation reserve and EPIFP					
	(million euro)				
	31/12/2016	31/03/2017	30/06/2017	30/09/2017	31/12/2017
Excess assets over liabilities	104,105	106,436	109,879	114,382	117,638
Own shares	194	209	202	216	177
Dividends, distributions and foreseeable expenses	1,414	4,254	676	1,776	2,067
Other elements of own funds	39,291	38,383	37,388	37,324	35,600
Adjustment for own funds items subject to restriction in relation to the matching portfolio and to the ring fenced funds	48	44	27	19	32
Reconciliation reserve	63,157	63,547	71,586	75,047	79,763
Expected profits included in future premiums (EPIFP) – life insurance business	6,952	6,947	8,703	9,043	9,989
Expected profits included in future premiums (EPIFP) – non-life insurance business	249	344	404	377	424
Expected profits included in future premiums (EPIFP) – Total	7,201	7,291	9,106	9,421	10,413
Reconciliation reserve/Tier 1	58.6%	59.3%	61.8%	63.5%	66.4%
EPIFP/Reconciliation reserve	11.0%	10.9%	12.2%	12.1%	12.5%

5.8. - Solvency Capital Requirement Ratio

The ratio between own funds and SCR (SCR ratio; Table I.54) grows strongly in 2017, from 217.6% at the end of 2016 to 241.3%.

Table I.54

SCR ratio by calculation method and activity of the undertaking								
	(% values)							
	Life		Non-life		Composites		Total	
	2016	2017	2016	2017	2016	2017	2016	2017
Standard Formula*	213.1	231.1	157.4	170.3	239.5	148.3	207.7	217.6
Standard Formula – USP	0.0	0.0	214.9	238.8	211.7	230.0	212.5	231.8
Internal Model	135.3	178.0	161.6	176.2	228.3	257.1	221.0	251.4
Market total	199.2	222.6	165.2	179.6	228.3	254.2	216.8	241.3

* The value of 148.3% referred to composite undertakings in 2017 relates to one undertaking, because during the year two undertakings were authorised to use a partial internal model, and one to use the USP.

²⁶ The Expected profits included in future premiums (EPIFP) is the expected profit of future premiums on contracts in force.

For insurance groups with an Italian ultimate parent undertaking, the figure for the SCR ratio increase constantly, starting from 179% to 31 December 2016 in the subsequent four quarters, reaching 202.3% as at 31 December 2017.

Fig. I.37 shows the changes in the SCR, in eligible own funds and in the SCR ratios, distinctly for the undertakings that in 2016 and 2017 maintained the same calculation methods and for those that in 2017 were authorised to adopt a partial internal model or the USP instead of the standard formula. In general, the improvement of the SCR ratio is due to the increase of eligible own funds (10.7% overall, 9.2% for undertakings using the standard formula and 11.6% for undertakings adopting an internal model or the USP). For the undertakings that in 2017 changed from the standard formula to the partial internal model or to the USP, the improvement of the SCR ratio is also due to the reduction of the capital requirement (-6.9%).

Figure I.37

2017/2016 variation in own funds, in the SCR and in the SCR ratio
(% values)

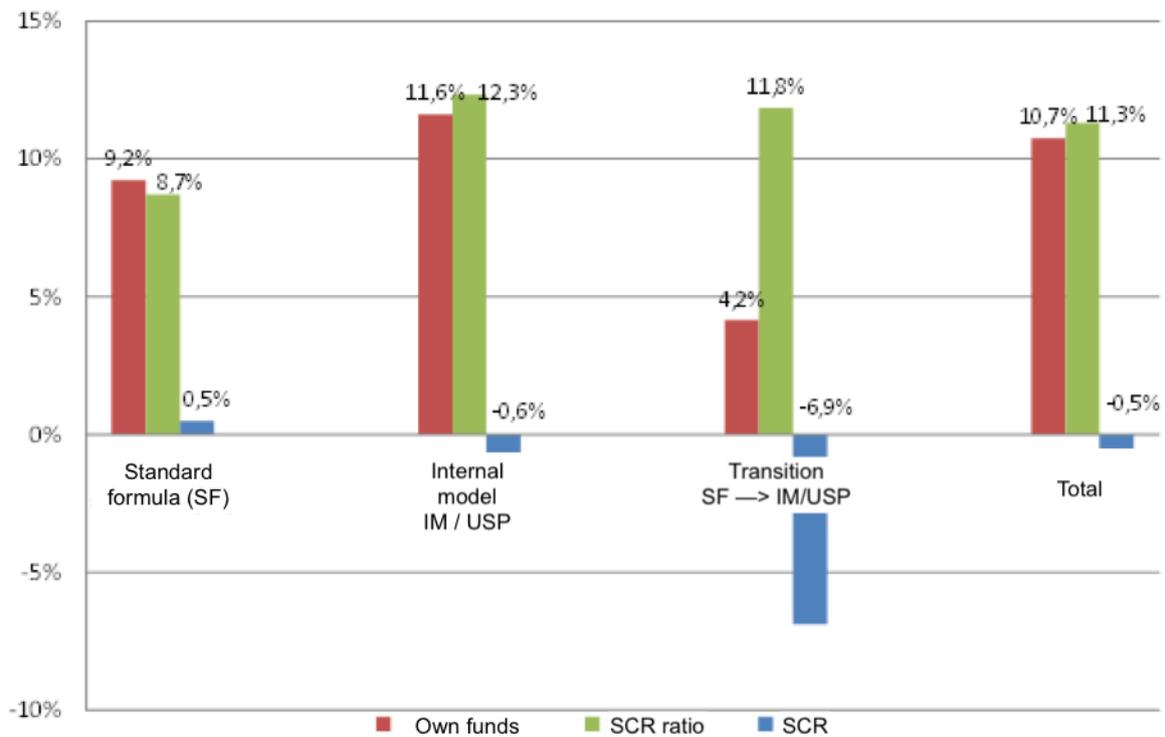


Table I.55

Solvency of Italian insurance groups					
	<i>(million euro and % values)</i>				
	31/12/2016	31/03/2017	30/06/2017	30/09/2017	31/12/2017
Consolidated group SCR	38,367	39,614	39,771	39,479	38,609
Minimum consolidated group SCR ²⁷	24,870	25,820	26,138	25,962	25,683
Ratio between eligible own funds and consolidated group SCR (excluding other financial sectors and the undertakings included via D&A - deductions and aggregations ²⁸)	179.0%	178.5%	186.8%	191.2%	202.3%
Ratio between eligible own funds and minimum consolidated group SCR	259.0%	258.2%	269.8%	273.4%	286.0%

Long-Term-Guarantee (LTG) measures

As a result of the problems connected with the high volatility of the financial markets as a consequence of the crisis and due to the difficulty of obtaining a valid rates curve for the typical long maturities for life business, EU lawmakers have allowed adjustments to the basic interest rate curve with measures known as Long Term Guarantees (LTG). LTGs generally consist of the reduction of the technical provisions, as a consequence of the upwards displacement of the rates curve, determining effects both on the capital requirement and on own funds.

Among the main measurements allowed at the EU level:

- extrapolation determines the rates between the last date derived on the liquid market and the ultimate forward rate, according to an ad hoc methodology applied to the structure of the risk-free rates obtained with the currency swap rates, adjusted for the credit risk and calculated from EIOPA on the markets in which liquid, reliable and transparent data exist;
- the Volatility Adjustment²⁹ applies to the curve of the risk-free rates used for fair value measurement of technical provisions, directed at attenuating the artificial volatility of the financial statements due to anomalous changes in the rate spread. This measure is deemed to be the one with lower impact on the technical provisions and on the solvency ratio;
- the Matching Adjustment pertains, specifically for each undertaking, to the curve of the risk-free rates used for the fair value measurement of the technical provisions and is calculated as the difference between the internal rate of return (IRR) which, applied to the cash flow of the assets of a specific portfolio, returns the value of that portfolio and the IRR that, applied to the cash flow of insurance obligations, returns the value of the related best estimates;
- transitional measures on the technical provisions or on the interest rates are applied (up to 16 years from 2016) on the difference of the Solvency II and Solvency I estimates in decreasing portion until 2032;
- the Symmetric Adjustment is applied to the parameters for calculating the capital requirement in view of the equity risk.

²⁷ Article 230 of the Solvency II Directive.

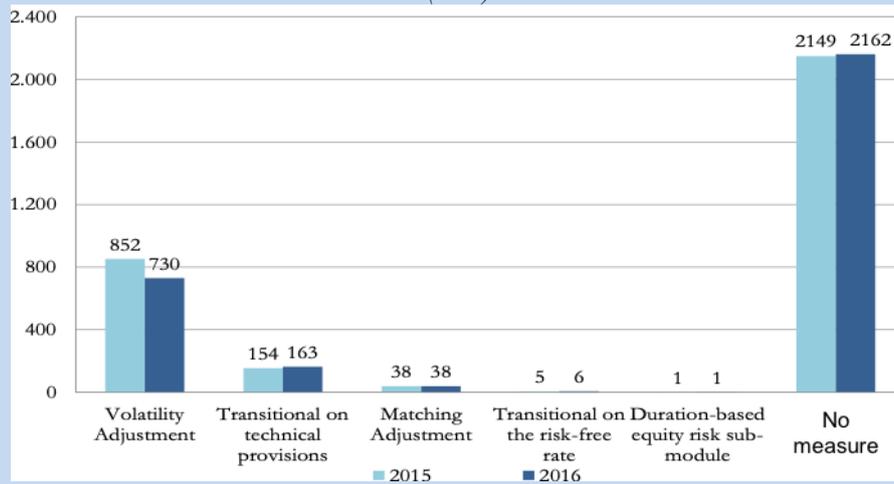
²⁸ Article 233 of the Solvency II Directive.

²⁹ For the details on the calculation of the volatility adjustment, please refer to Article 77d of the Solvency II Directive.

Application of the LTGs adopted by EU lawmakers is monitored annually in an EIOPA Report. In 2016, 938 European undertakings adopted these measurements (the most common being the volatility adjustment, used by 730 undertakings, Fig. I.38).

Figure I.38

Number of European insurance undertakings that have adopted the Long-Term-Guarantee measures
(units)

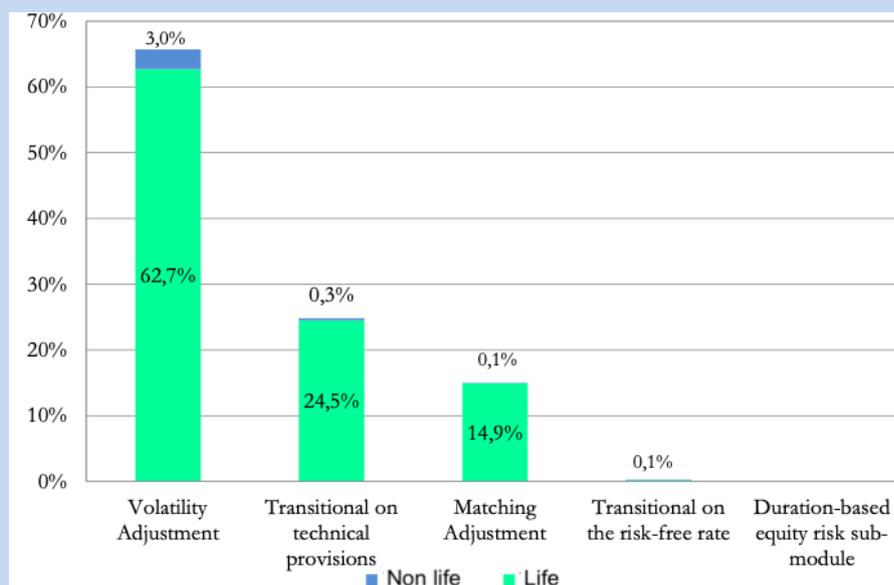


Source: EIOPA, Insurance Statistics.

In 2016, the market share in terms of technical provisions of the European undertakings that adopted the Volatility Adjustment was 65.7% (of which only 3% in the non-life business, Fig. I.39).

Figure I.39

European insurance undertakings that adopt the LTG measures - 2016
(percentage values over total technical provisions)



Source: EIOPA, Insurance Statistics.

Italian insurance undertakings adopt exclusively the volatility adjustment, mainly by life and composite undertakings (Table I.56).

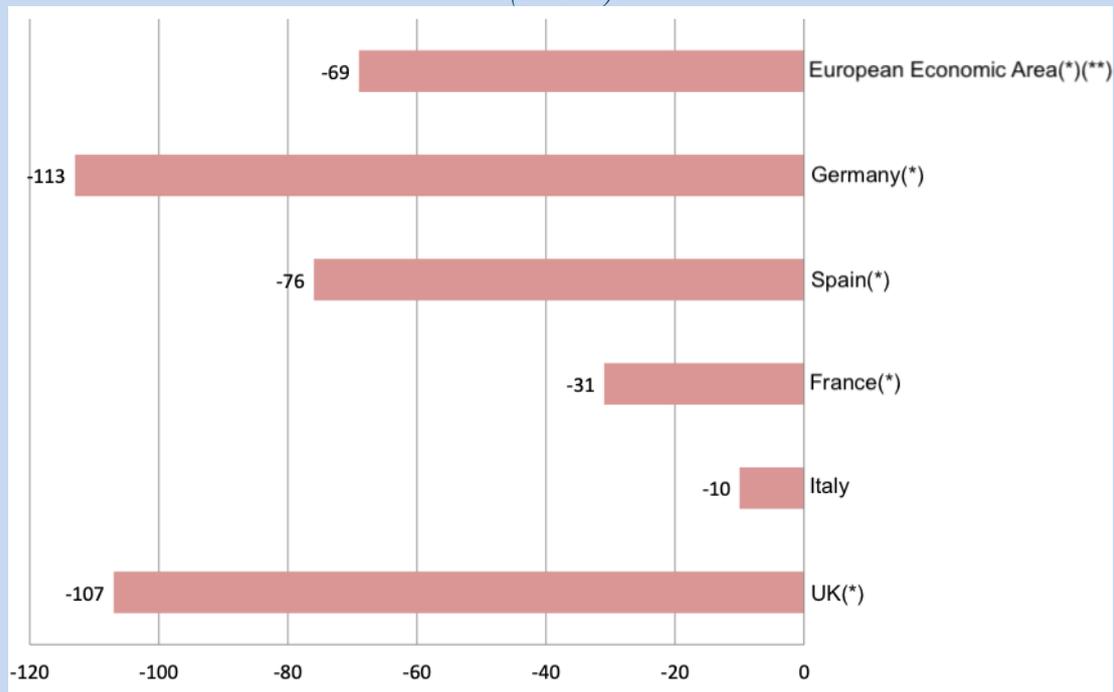
Table I.56

Use of Volatility Adjustment by Italian undertakings in 2017			
<i>(number of undertakings)</i>			
	VA	No measure	Total
Non life	23	27	50
Life	25	3	28
Life, accidents and sickness	5	3	8
Composite	12	-	12
Total	65	33	98

The SCR ratio of Italian undertakings decreases by only 10 percentage points if the Volatility Adjustment effect is removed, highlighting a modest advantage with respect to major European countries (Fig. I.40).

Figure I.40

Reduction of the *SCR ratio* in case of removal of the Volatility Adjustment effect, 2016
(% values)



*Source: EIOPA, Insurance Statistics.

** European Union countries, plus Norway, Iceland, Liechtenstein.

II. - STUDIES AND RESEARCHES

1. - MTPL INSURANCE: CLAIMS, PRICES AND TERRITORIAL ANALYSIS

1.1. - MTPL insurance: comparison between Italy and some EU countries on premiums and costs

This paragraph presents, for the 2012-2016 time interval, the comparison between the average MTPL premiums, net of tax and contribution charges, paid by policyholders in five major European Union countries (Italy, France, Spain, Germany, United Kingdom) and the related structure (cost of claims, expenses, technical margin). The five countries account for 63% of the population, 2/3 of the vehicles circulating in the EU, and 71% of the Union's GDP. The data were acquired with a specific questionnaire addressed to the respective Supervisory Authorities and supplemented, when necessary, with other available official information.

As in the previous Report³⁰, the United Kingdom is also included for the part relating to the minimum third party only guarantee normally included in motor policies^{31,32}.

In addition to the different cost of living, other relevant factors in price differentials between countries are the characteristics of the national compensation, health and welfare systems, in particular in the treatment of personal injury (biological and financial damage)³³.

Lastly, the different degree of penetration of non-life insurance should be taken into account, because the presence of higher premium income in non-motor insurance allows insurers to offer lower rates in the motor business, using the higher profits of the other non-life business. In 2016, Italy remained the last of the five countries in terms of per capita expense for non-life policies and the first one in MTPL (Fig. II.1).

³⁰ See Report on the Activities carried out by the Institute in 2016 (II.1.1).

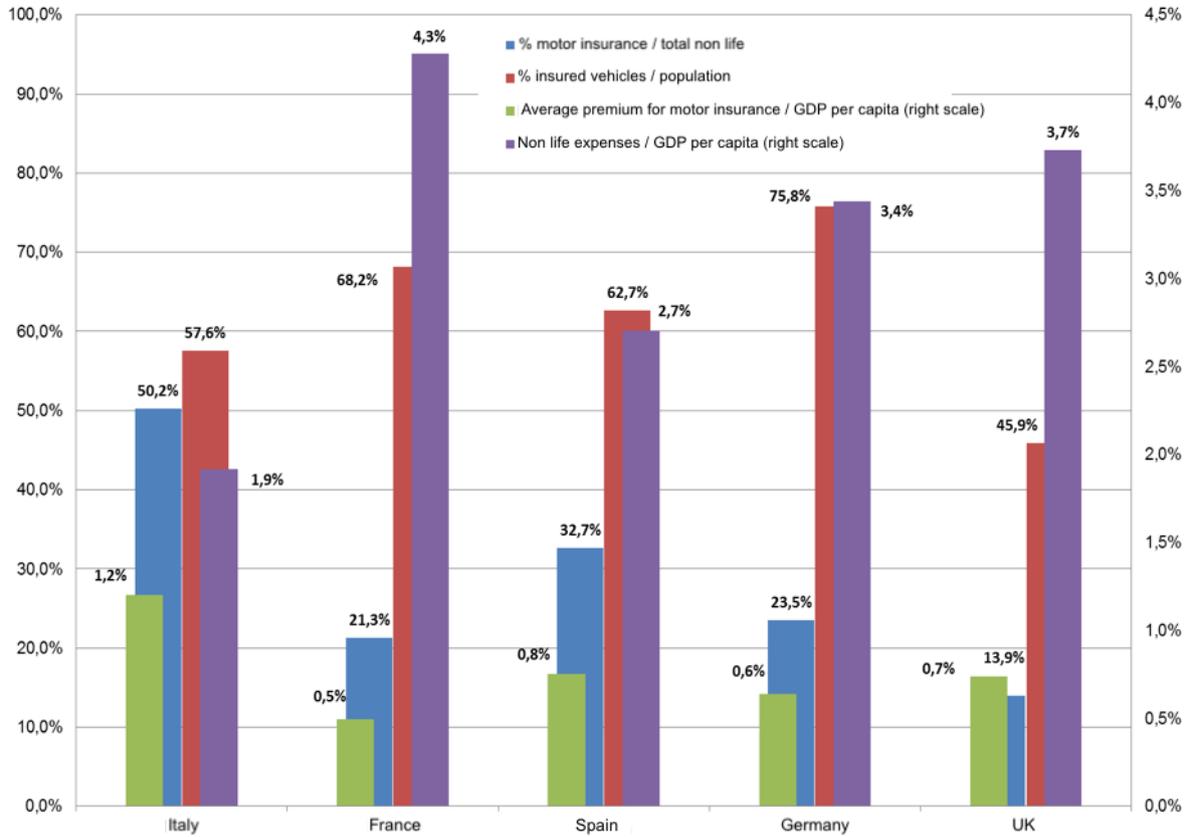
³¹ The research pertains only to the mandatory liability guarantee. With respect to the United Kingdom, for which policies are distinguished between motor-comprehensive and non comprehensive (which does include theft and fire), the data for the liability guarantee alone are not available. Therefore, an estimate was calculated on the basis of the data provided by the ABI (Association of British Insurers). With reference to the rate sectors, the following are considered: for Italy, automobiles, mopeds and motorcycles; for France, automobiles, motor vehicles for mixed transport up to 3.5 tonnes and 2 wheels; for the United Kingdom, only the private car sector, while for Spain and Germany the entire MTPL business.

³² For the United Kingdom, the conversion into Euro of the premiums in Pounds at the nominal exchange rates would accentuate price differences not due to the real cost of the MTPL coverage. To limit this effect, the conversion from Pound to Euro took place on the basis of conversion rates at purchasing power parity.

³³ On this matter, please refer to IVASS Notebook no. 1 "MTPL insurance: comparison between Italy and some EU countries on premiums, claims and compensation systems for personal injury".

Figure II.1

**Non-life business and MTPL business:
incidence of MTPL out of the total and average insurance expenditure on per capita GDP in 2016**
(% values)



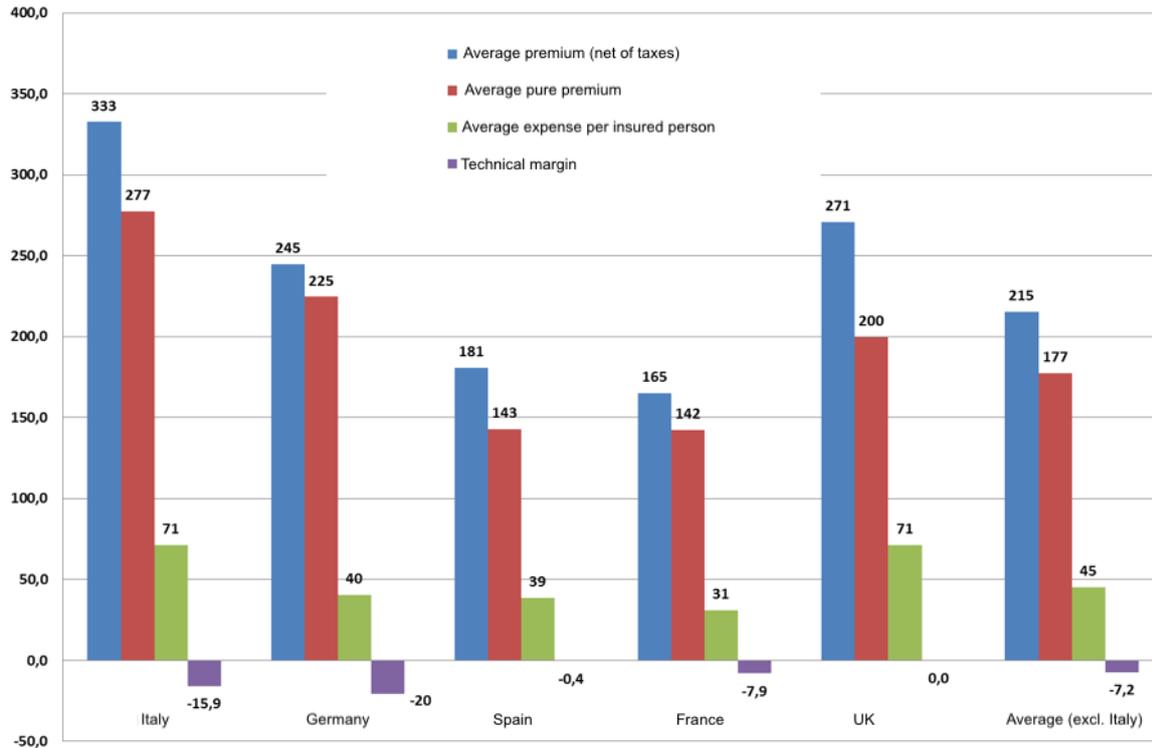
Source: Calculations on the basis of Eurostat, OECD, Supervisory Authority, ABI, FFA data.

Structure of MTPL prices: the various components

At the end of 2016, the average premium of MTPL in Italy (premium rate net of taxes) was higher by 117 euro than the average of the four main European countries (Fig. II.2).

Figure II.2

MTPL insurance average premium in euro and its components in 2016
(euro)



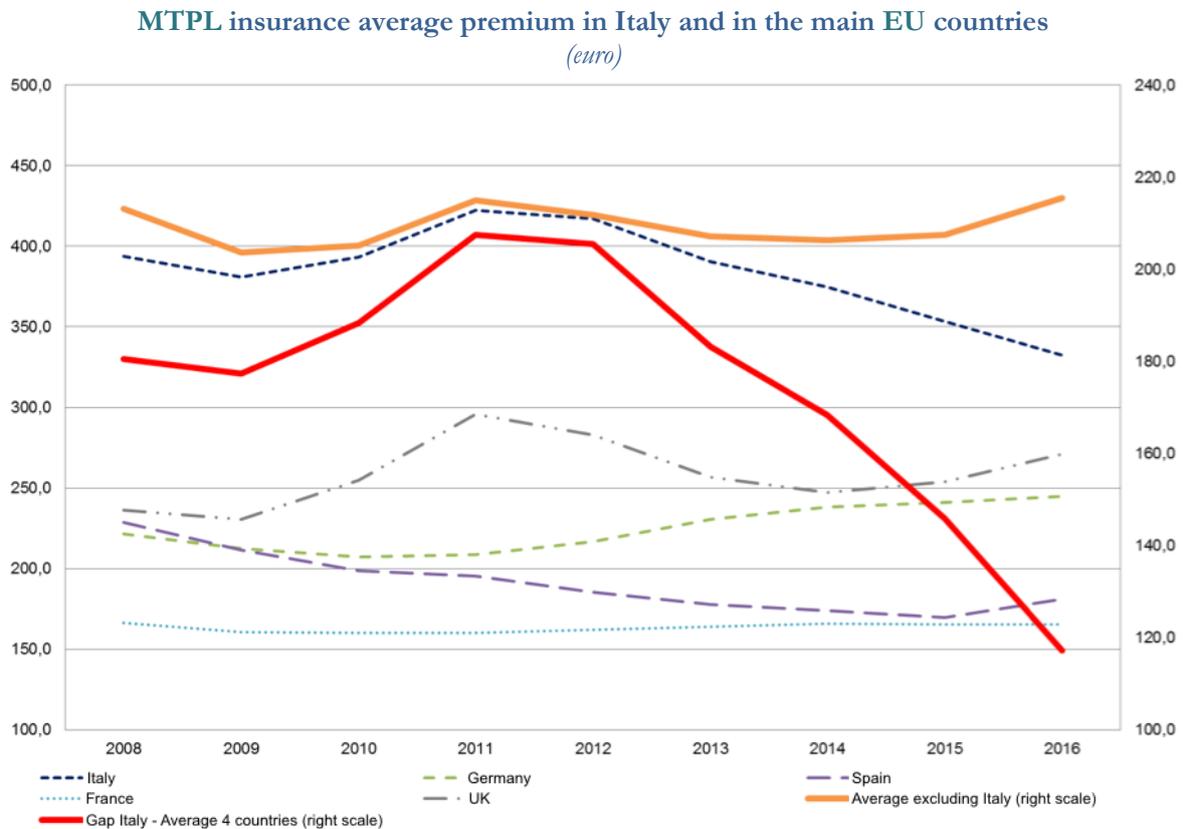
Source: Calculations on the basis of Supervisory Authority, ABI, FFA data.

The higher price in Italy is explained by the higher cost of claims (pure premium) by 100 euro and by the cost of expenses (acquisition and management as a whole) by 26 euro, while the expected technical margin per policy (net of financial income and inclusive of the future result of the run-off of the provision for claims outstanding of the 2016 generation), was found for the first time to be markedly more negative (by 9 Euro) in Italy (-16 euro) than in the average of the compared countries (-7 euro). This latter result derived from a policy of discounted prices in recent years by Italian undertakings, which over time is reducing the expected technical margin.

In relative terms, both the portion represented by the cost of claims (pure premium), equal to 83.4% of the average premium, and the portion represented by the cost of the acquisition fees and administrative expenses (21.4%) were found to be, for Italy, not unlike the average of the other countries (respectively 82.0% and 21.3%); at the extreme ends are Germany (pure premium of 91.8% of the total and expenses 16.5%) and the United Kingdom (pure premium of 73.6% of the total and expenses 26.4%). The technical margin was generally negative or nil.

Fig. II.3 compares the trend of the gap in Italian premiums relative to the other countries; after the peak reached in 2011-2012, the difference progressively decreased: at the end of 2016, the gap had contracted by 88 euro compared to 2012 (-43%); the reduction is due to the decrease in the cost of claims (30 euro), in operating expenses (9 euro) and in the technical margin per policy (73 euro).

Figure II.3



Source: Calculations on the basis of Supervisory Authority, ABI, FFA data.

1.2. - Main ratios of the MTPL market

Tables II.1, II.2, II.3 show, for the MTPL business as a whole (including ships) and, separately, for the automobile and two-wheels (mopeds and motorcycles) sectors, trends in the frequency and the average cost of claims (further analysed between paid and reserved), the pure premium (i.e., frequency multiplied times total average cost) and the gross average premium or average price actually paid (pure premium plus expenses, taxes, contributions and profit margin). The data on the cost of claims include the estimate for the IBNR claims (numbers and amounts). The data refer to all undertakings present on the Italian market (supervised by IVASS and under establishment or for EU/EEA).

Table II.1

Total MTPL and liability for ships (gross of IBNR)												
<i>(thousands of units, euro, % values)</i>												
Year	Number of policies (Thousands)	Claims frequency	Claims paid		Claims written in the provisions		Total claims		Pure premium		Gross average premium	
			Average cost	% Variation	Average cost	% Variation	Average cost	% Variation	Value	% Variation	Value	% Variation
2008	42,426	8.7%	2,376	9.5%	6,541	4.8%	3,915	4.0%	342	1.8%	533	-3.7%
2009	42,436	8.8%	2,362	-0.6%	6,538	0.0%	3,934	0.5%	346	1.1%	513	-3.7%
2010	40,649	8.3%	2,427	2.8%	7,010	7.2%	4,087	3.9%	341	-1.6%	536	4.4%
2011	40,295	7.4%	2,500	3.0%	7,901	12.7%	4,435	8.5%	327	-4.0%	566	5.6%
2012	39,631	6.4%	2,411	-3.5%	8,628	9.2%	4,612	4.0%	295	-	568	0.3%
2013	38,352	6.2%	2,415	0.2%	8,913	3.3%	4,711	2.2%	291	-1.4%	542	-4.4%
2014	40,571	6.0%	2,455	1.7%	8,676	-2.7%	4,641	-1.5%	281	-3.4%	506	-6.7%
2015	40,801	6.2%	2,452	-0.1%	8,631	-0.5%	4,556	-1.8%	281	0.1%	479	-5.4%
2016	40,993	6.2%	2,468	0.7%	8,503	-1.5%	4,464	-2.0%	279	-0.9%	450	-6.0%
2017	41,402	6.2%	2,515	1.9%	8,347	-1.8%	4,435	-0.7%	275	-1.3%	429	-4.7%
% Change 2006-2017	-1.7%			21.8%		27.1%		11.6%		-	19.7%	-23.2%
% Change 2014-2017	2.0%			2.4%		-3.8%		-4.4%		-2.0%		-15.3%

Table II.2

Automobile sector (gross of IBNR)												
<i>(thousands of units, euro, % values)</i>												
Year	Number of policies (Thousands)	Claims frequency	Claims paid		Claims written in the provisions		Total claims		Pure premium		Gross average premium	
			Average cost	% Variation	Average cost	% Variation	Average cost	% Variation	Value	% Variation	Value	% Variation
2008	30,195	9.3%	2,321	8.7%	6,517	4.8%	3,765	3.7%	351	3.0%	548	-4.8%
2009	30,326	9.5%	2,302	-0.8%	6,484	-0.5%	3,767	0.1%	358	2.1%	527	-3.9%
2010	29,274	9.1%	2,360	2.5%	6,852	5.7%	3,882	3.1%	353	-1.4%	542	2.8%
2011	30,729	8.1%	2,435	3.2%	7,661	11.8%	4,192	8.0%	338	-4.3%	578	6.6%
2012	28,717	7.0%	2,334	-4.2%	8,405	9.7%	4,323	3.1%	301	-	573	-0.9%
2013	28,289	6.6%	2,350	0.7%	8,593	2.2%	4,396	1.7%	292	-2.9%	533	-6.9%
2014	30,587	6.5%	2,380	1.3%	8,390	-2.4%	4,365	-0.7%	286	-2.3%	507	-4.9%
2015	30,666	6.6%	2,386	0.3%	8,338	-0.6%	4,274	-2.1%	284	-0.7%	478	-5.7%
2016	30,903	6.7%	2,399	0.5%	8,196	-1.7%	4,192	-1.9%	282	-0.7%	448	-6.2%
2017	31,296	6.6%	2,450	2.1%	8,024	-2.1%	4,163	-0.7%	276	-2.3%	425	-5.2%
% Change 2006-2017	5.8%			11.9%		16.0%		-1.4%		-	20.8%	-27.7%
% Change 2014-2017	2.3%			2.9%		-4.4%		-4.6%		-3.6%		-16.2%

Table II.3

Moped and motorcycle sector (gross of IBNR)												
<i>(thousands of units, euro, % values)</i>												
Year	Number of policies (Thousands)	Claims frequency	Claims paid		Claims written in the provisions		Total claims		Pure premium		Gross average premium	
			Average cost	% Variation	Average cost	% Variation	Average cost	% Variation	Value	% Variation	Value	% Variation
2008	5,421	5.1%	3,036	19.8%	7,651	1.0%	5,294	5.5%	270	9.9%	260	3.6%
2009	5,340	5.3%	3,067	1.0%	7,590	-0.8%	5,406	2.1%	285	5.5%	267	2.7%
2010	4,964	4.8%	3,177	3.6%	8,037	5.9%	5,675	5.0%	271	-5.2%	282	5.8%
2011	4,680	4.4%	3,195	0.6%	8,769	9.1%	6,047	6.6%	264	-2.6%	301	6.8%
2012	4,510	3.6%	3,064	-4.1%	9,511	8.5%	6,414	6.1%	230	12.9%	294	-2.4%
2013	4,163	3.4%	3,131	2.2%	10,275	8.0%	6,900	7.6%	237	3.1%	276	-6.1%
2014	4,152	3.4%	3,285	4.9%	10,127	-1.4%	6,824	-1.1%	233	-1.5%	293	6.0%
2015	4,087	3.5%	3,222	-1.9%	9,716	-4.1%	6,501	-4.7%	229	-1.6%	283	-3.4%
2016	4,016	3.7%	3,169	-1.6%	9,800	0.9%	6,465	-0.5%	239	4.2%	275	-2.8%
2017	3,971	3.7%	3,239	2.2%	9,916	1.2%	6,437	-0.4%	240	0.6%	268	-2.4%
% Change 2006-2017	-28.5%			101.4%		42.9%		57.5%		53.1%		9.5%
% Change 2014-2017	-4.4%			-1.4%		-2.1%		-5.7%		3.2%		-8.4%

For 2017, the data show that:

- the number of policies exceeds 41.4 million;
- the claims frequency remains stable in the two sectors;
- the average total costs of the claims paid and written in the provisions has declined since 2014 and this is reflected on the trend of the pure premium;
- the gross premium (inclusive of the pure premium, expenses, margins and taxes) shows an even more accentuated declining trend.

Claims and personal injuries from 2008 to 2016

The time series of the number of MTPL claims from 2008 to 2016 is provided below, highlighting claims with damages only to property or only to persons (including also the personal injury part of mixed claims) for companies supervised by IVASS. The number of deaths and injuries measured by ISTAT is also indicated. While claims with personal injuries also include light injuries, the ISTAT data refer to serious road accidents (with deaths and injuries) for which the Police Authority intervened.

Table II.4

Number of claims and road accidents									
	<i>(units and % values)</i>								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of claims with payment, net of IBNR (a)	3,355,842	3,377,024	3,053,073	2,701,734	2,318,552	2,161,808	2,112,626	2,122,875	2,185,078
<i>Annual percentage variation</i>	2.4%	0.6%	-9.6%	-11.5%	-14.2%	-6.8%	-2.3%	0.5%	2.9%
Number of claims with payment, net of IBNR with only damages to property (a)	2,641,483	2,639,147	2,361,295	2,097,642	1,852,610	1,750,954	1,699,898	1,747,731	1,806,828
<i>Annual percentage variation</i>	-0.1%	-10.5%	-11.2%	-11.7%	-5.5%	-2.9%	2.8%	3.4%
Number of claims with payment, net of IBNR with mixed damage and personal injuries only (c) = (a) - (b)	714,359	737,877	691,778	604,092	465,942	410,854	412,728	375,144	378,250
<i>Annual percentage variation</i>	3.3%	-6.2%	-12.7%	-22.9%	-11.8%	0.5%	-9.1%	0.8%
<i>of which: number of claims with payment (net of IBNR) with personal injuries only</i>	541,477	563,135	565,978	474,599	392,126	342,472	333,419	298,122	308,537
<i>Annual percentage variation</i>	-4.2%	4.0%	0.5%	-16.1%	-17.4%	-12.7%	-2.6%	-10.6%	3.5%
Number of deaths**	4,725	4,237	4,114	3,860	3,753	3,401	3,381	3,428	3,283
<i>Annual percentage variation</i>	-7.9%	-10.3%	-2.9%	-6.2%	-2.8%	-9.4%	-0.6%	1.4%	-4.2%
Number of injuries**	310,745	307,258	304,720	292,019	266,864	258,093	251,147	246,920	249,175
<i>Annual percentage variation</i>	-4.6%	-1.1%	-0.8%	-4.2%	-8.6%	-3.3%	-2.7%	-1.7%	0.9%
Total deaths and injuries**	315,470	311,495	308,834	295,879	270,617	261,494	254,528	250,348	252,458
<i>Annual percentage variation</i>	-4.7%	-1.3%	-0.9%	-4.2%	-8.5%	-3.4%	-2.7%	-1.6%	0.8%

* Claims with only personal injuries and the part of the mixed claims relating to personal injuries.

** Source: ISTAT - Survey of road accidents with personal injuries.

For the 2008-2016 period:

- the number of total claims with payments (net of IBNR) decreased by -34.9%;
- the number of personal injuries decreased by -43.0%;
- the number of deaths decreased by -30.5%, while presumably serious injuries decreased by -19.8%.

The number of claims with personal injuries recorded by IVASS progressively approaches the sum of the number of deaths and injuries recorded by ISTAT. In 2008, this difference was equal to 41.7% of claims with personal injuries, while in 2016 it contracted to 18% (-56.5% in the period). The decline can be attributed to the significant reduction of claims with light personal injuries (which do not always entail an intervention by the Police Authorities), in particular after 2012, the year when Italian Law Decree no. 1 of 24 January 2012 (the "Monti Decree") on the medical verification of micro-lesions entered into force. This contributed to the reduction in the claims rate and in the related costs and hence in the price of MTPL coverage (Table II.1).

The vehicle fleet in Italy

The ACI makes available the number of vehicles registered at the end of each year in the Public Motoring Register (PRA). In turn, the IVASS collects in the survey on motor liability Technical Data the number of vehicles in the register that are provided with insurance coverage for MTPL.

Table II.5 shows the balance between vehicles registered in the PRA and insured vehicles, for the three fundamental components.

Table II.5

Vehicles registered in the Public Motoring Register (PRA) and insured vehicles

(thousands of units and percentages)

	Automobiles	Mopeds and motorcycles	Vehicles other than ships*	Total vehicles
Vehicles registered in the Public Motoring Register (PRA) at year end (1)				
2014	37,081	6,506	5,564	49,150
	75.4%	13.2%	11.3%	100.0%
2015	37,351	6,544	5,594	49,488
	75.5%	13.2%	11.3%	100.0%
2016	37,876	6,607	5,699	50,182
	75.5%	13.2%	11.4%	100.0%
Insured vehicles (2)				
2014	30,587	4,152	5,396	40,135
	76.2%	10.3%	13.4%	100.0%
2015	30,666	4,087	5,513	40,266
	76.2%	10.2%	13.7%	100.0%
2016	30,903	4,016	5,626	40,545
	76.2%	9.9%	13.9%	100.0%
Balance between vehicles registered in the PRA and insured vehicles (1) - (2)				
2014	6,494	2,354	168	9,015
2015	6,685	2,457	81	9,223
2016	6,973	2,591	72	9,636

Source: ACI for PRA registrations, IVASS survey on Technical Data for MTPL coverage

* Trucks, buses, special motor vehicles, tractors, etc.

Automobiles have the largest number of vehicles and they represent three quarters of all vehicles registered in the PRA and of those insured. Mopeds and motorcycles represent 13.2% of the vehicles registered in the PRA, but only one tenth of insured ones, while vehicles other than ships have a higher percentage of insured vehicles compared to the PRA (13.7% versus 11.3%).

The balance, which for automobiles amounts to nearly 7 million in 2016, grew in the 2014-2016 time interval, both in total terms and in its components, with the exception of the residual category of the other vehicles.

The balance comprises:

- 1) vehicles registered in the PRA and lawfully uninsured, including vehicles owned by car dealers, new (“zero kilometres”) or used (at the end of 2016, amounting to 1.3 million according to the ACI), vehicles insured only temporarily and uninsured at year end (e.g. historic cars or mopeds and motorcycles driven only in the summer), impounded vehicles;
- 2) vehicles not circulating, still registered in the PRA due to missed or late removal;
- 3) vehicles registered in the PRA, circulating but not compliant (insurance evasion).

A reliable assessment of insurance evasion requires the most accurate possible measurement of the numerosness of the other categories. In this regard, a draft estimate was initiated, using information managed by other Institutions (ACI, public register of motor vehicles, police authorities, etc.).

1.3. - The direct compensation system

1.3.1. - The numbers of the CARD

The portion of the claims falling within the CARD agreement (table II.6), set up in 2007, increased progressively in terms of numbers (from 73% in 2007 to 81.4% in 2016, whereas in 2017 there was a slight contraction to 81.2%); in terms of amounts, it decreased from 47.9% in 2008 to 46.9% in 2017, with a significant contraction from 2011 to 2015, also due to the contraction of the charges for compensation for slight disabilities essentially due to the provisions of Law Decree no. 1/2012³⁴

Table II.6

CARD and NO CARD portfolio over TOTAL motor liability claims (net of IBNR)*				
(% values)				
Year of generation	CARD		NO CARD	
	Numbers	Amounts	Numbers	Amounts
2008	73.1%	47.9%	27.5%	52.1%
2009	79.4%	52.0%	21.2%	48.0%
2010	80.6%	53.1%	20.1%	46.9%
2011	79.7%	50.5%	21.1%	49.5%
2012	79.4%	47.0%	21.5%	53.0%
2013	79.2%	46.3%	21.6%	53.7%
2014	80.1%	45.9%	20.7%	54.1%
2015	81.2%	45.7%	19.4%	54.3%
2016	81.4%	46.9%	19.3%	53.1%
2017	81.1%	46.9%	19.8%	53.1%
% Change 2008-2017	8.0%	-1.0%	-7.7%	1.0%

* the sum of the numbers and amounts of CARD claims and NO CARD claims may exceed 100 because a claim can have both CARD and NO CARD components.

Table II.7 shows the claims settlement time for managed claims (numbers and amounts) compared with claims with payment, at the end of 2017, calculated with reference to the MTPL business as a whole.

Table II.7

Claims paid in the year of occurrence over claims without indemnification (gross of IBNR)				
(% values)				
Year of generation	CARD		NO CARD	
	Numbers	Amounts	Numbers	Amounts
2008	68.7%	55.9%	46.2%	20.7%
2009	68.7%	54.9%	39.1%	17.8%
2010	70.5%	56.7%	38.5%	18.2%
2011	71.9%	58.5%	39.8%	18.4%
2012	72.2%	58.7%	40.2%	17.3%
2013	73.0%	58.9%	41.0%	17.3%
2014	73.2%	59.2%	41.4%	17.9%
2015	74.3%	60.4%	40.4%	17.6%
2016	74.9%	60.9%	41.0%	18.3%
2017	74.6%	61.4%	39.6%	19.6%
% Change 2008-2017	5.9%	5.5%	-6.6%	-1.1%

³⁴ Law Decree no. 1 of 24 January 2012. Urgent measures in favour of competition, the development of infrastructures and competitiveness. Converted, after amendment, by law no. 57 of 24 May 2012.

With regard to the CARD system, there was a significant increase of claims settled in the year of occurrence since the date of introduction of the regime (2007).

The average cost of the claims settled (considering the development of the claims managed in the year of occurrence only, Table II.8) has grown moderately in recent years, i.e. +0.2% in 2015, +0.7% in 2016 and +1.6% in 2017.

The reduction in total average cost (paid and reserved, gross of IBNR) continues for the fourth consecutive year and in 2017 it amounts to -0.8%.

Table II.8

Average cost of generation (Total managed)								
(euro)								
Year of generation	Paid*	% Variation	Reserved (net of IBNR)	% Variation	Paid + Reserved (net of IBNR)	% Variation	Paid + Reserved (gross of IBNR)	% Variation
2008	2,371	6.4%	7,472	0.5%	3,919	0.3%	3,928	1.4%
2009	2,356	-0.6%	7,289	-2.4%	3,890	-0.7%	3,922	-0.2%
2010	2,428	3.1%	7,939	8.9%	4,058	4.3%	4,091	4.3%
2011	2,497	2.8%	8,827	11.2%	4,340	6.9%	4,431	8.3%
2012	2,396	-4.0%	9,647	9.3%	4,494	3.5%	4,600	3.8%
2013	2,406	0.4%	9,932	3.0%	4,564	1.6%	4,689	1.9%
2014	2,455	2.0%	9,757	-1.8%	4,532	-0.7%	4,641	-1.0%
2015	2,460	0.2%	9,817	0.6%	4,467	-1.4%	4,578	-1.4%
2016	2,476	0.7%	9,604	-2.2%	4,374	-2.1%	4,469	-2.4%
2017	2,516	1.6%	9,331	-2.8%	4,326	-1.1%	4,433	-0.8%
% Var. 2008-2017		6.1%		24.9%		10.4%		12.9%

* Partial payments included.

The average costs paid of the CARD claims (Table II.9), with reference only to the year of occurrence of the claims, grew by +3.4% in the 2013-2017 time interval (+1.6% in 2017 alone). The cost reserved, net of IBNR, decreased by -16.6% in the five years (-5.1% in 2017 alone), while the total average cost paid and reserved gross of IBNR decreased by -6.4% (-0.7% in 2017 alone).

Table II.9

Average cost of generation (CARD)								
(euro)								
Year of generation	Paid*	% Variation	Re-served (net of IBNR)	% Variation	Paid + Re-served (net of IBNR)	% Variation	Paid + Re-served (gross of IBNR)	% Variation
2008	2,024	10.8%	4,267	2.4%	2,570	5.3%	2,570	5.6%
2009	2,011	-0.6%	4,168	-2.3%	2,555	-0.6%	2,574	0.2%
2010	2,052	2.0%	4,650	11.6%	2,671	4.5%	2,667	3.6%
2011	2,097	2.2%	4,930	6.0%	2,751	3.0%	2,754	3.3%
2012	1,996	-4.8%	4,905	-0.5%	2,661	-3.3%	2,674	-2.9%
2013	1,994	-0.1%	4,968	1.3%	2,666	0.2%	2,674	0.0%
2014	2,010	0.8%	4,600	-7.4%	2,594	-2.7%	2,604	-2.6%
2015	2,003	-0.3%	4,376	-4.9%	2,514	-3.1%	2,522	-3.1%
2016	2,028	1.2%	4,369	-0.2%	2,521	0.3%	2,522	0.0%
2017	2,061	1.6%	4,145	-5.1%	2,500	-0.8%	2,504	-0.7%
% Var. 2008-2017		1.8%		-2.9%		-2.7%		-2.6%

* Partial payments included.

With reference to NO CARD claims (Table II.10), in 2017 the average cost paid decreases by -0.8% which confirms the trend reversal of the previous year (-1.2% relative to 2015), while in the 2012-2015 time interval there was an increase by 17.9%. The average cost reserved decreases for the second consecutive year (-3.4% in 2017 and -2.6% in 2016), after a long period of growth (+11.5% in 2012-2015). Consequently, for two consecutive years the total average cost, gross of IBNR, decreases by -3.5% after continuous increases (+12.8% in the 2012-2015).

Table II.10

Average cost of generation (NO CARD)								
(euro)								
Year of generation	Paid*	% Variation	Reserved (net of IBNR)	% Variation	Paid + Reserved (net of IBNR)	% Variation	Paid + Reserved (gross of IBNR)	% Variation
2008	3,630	13.9%	11,665	6.3%	7,388	11.8%	7,126	12.1%
2009	4,423	21.8%	12,592	7.9%	8,841	19.7%	8,283	16.2%
2010	4,822	9.0%	13,567	7.7%	9,499	7.4%	8,971	8.3%
2011	4,857	0.7%	14,924	10.0%	10,165	7.0%	9,841	9.7%
2012	4,680	-3.6%	16,909	13.3%	11,066	8.9%	10,508	6.8%
2013	4,739	1.3%	17,446	3.2%	11,337	2.4%	10,750	2.3%
2014	5,177	9.2%	17,904	2.6%	11,854	4.6%	11,108	3.3%
2015	5,518	6.6%	18,848	5.3%	12,480	5.3%	11,607	4.5%
2016	5,451	-1.2%	18,356	-2.6%	12,049	-3.5%	11,206	-3.5%
2017	5,409	-0.8%	17,729	-3.4%	11,627	-3.5%	10,917	-2.6%
% Var. 2008-2017		49.0%		52.0%		57.4%		53.2%

* Partial payments included.

The direct compensation procedure then caused a containment of the costs of the Italian MTPL market with consequent decrease of the prices, although it still has not reached full efficiency level.

1.3.2. - Compensations for the CARD-CID component

The CARD-CID component is based on a system of incentives and penalties (hereafter, incentives) introduced by IVASS Order no. 18 of 2014, implementing the primary regulation (Law Decree no. 1 of 24 January 2012, converted by Law no. 27 of 24 March 2012) concerning the productive efficiency of direct compensation. This system is in addition to lump sum-based reimbursements, already operating in the direct compensation procedures since 2007. The Order, with reference to the preponderant component, the CID³⁵ has defined a statistical model on the basis of which the amounts exchanged between the undertakings³⁶ are calculated.

The calculation of incentives comprises the following components:

- cost for material damage;
- cost for personal injuries;
- dynamics of the cost for material damage;
- claim settlement time.

The calculation of incentives, carried out for each generation of claims, spans three years: the year following generation a first calculation is made and in the following two years adjustments are made³⁷ of what was settled on the first year for the cost and time components. The total amount of compensations for each generation is determined on the third following year (e.g. 2018 for the 2015 generation).

The algorithm calculates the incentives on the basis of the calibration parameters established by IVASS before generation starts.

Table II.11 summarises the calibration parameters of the generations affected by the model: the premium threshold selects the undertakings to be included in the incentive mechanism, the percentiles identify the range of amounts to be considered for the calculation of the average cost and the deltas the maximum differential of the parameters of the undertakings (maximum value - minimum value).

³⁵ Convenzione Indennizzo Diretto (Direct Compensation Agreement) of damages, absorbs approximately 90% of the cost of CARD claims.

³⁶ See IVASS Pamphlet no. 2/2015 - The CARD reform: claim cost and incentives for efficiency in MTPL direct compensation.

³⁷ In the CARD model, the total measurement of the cost is approximated to the third year (duration 2); for which the historical data indicate a 98% level of completeness.

Table II.11

Incentives and penalties - calibration parameters							
generation	macroclass	minimum percentile	maximum percentile	delta cost	delta dynamics	delta time	premium threshold
2015	motor vehicles	10%	98%	15%	-	5%	20 mln
	mopeds and motorcycles	10%	98%	7%	-	7%	2.5 mln
2016	motor vehicles	10%	98%	8%	6%	4%	40 mln
	mopeds and motorcycles	10%	98%	9%	7%	5%	5 mln
2017	motor vehicles	10%	98%	8%	6%	4%	40 mln
	mopeds and motorcycles	10%	98%	9%	7%	5%	5 mln

Table II.12 shows the values of the incentives determined at the end of 2017 for the “motor vehicles” macroclass. The “total” column indicates the total value (algebraic balance of the values of individual components) relating to the undertakings that have received incentives. The total of the incentives is lower than the sum of the incentives of the individual components by effect of the compensations, within the scope of the individual undertakings, among the various components.

Table II.12

Value of the incentives of the Motor Vehicles macroclass as at 31.12.2017						
<i>(million euro)</i>						
	Number of undertakings receiving incentives (competitors)	Total	Time	Dynamics	Cost material	Cost personal
2015	15 (34)	18.8	4.3	-	14.2	1.5
2016*	12 (30)	20.0	5.3		14.8	0.8
2017*	9 (30)	24.0	7.2	8.9	12.1	0.4

* For these generations, the time and cost incentives are provisions and will be consolidated with future adjustments.
Source: Consap.

The incentives shown in Table II.12 pertain to different durations (2015 definitive data, 2016 duration 1 and 2017 first adjustment) and they are calculated on the basis of different calibrations (Table II.11).

1.3.3. - *Claims with concurrent liability*

On the basis of the reports in the Claims Data Bank, considering the claims that occurred in 2017 and defined with payment until May 2018, Table II.13 shows that the cases of compensation for which no contributory negligence of the injured party in the event was recognised are 91.1% of the total.

On the remaining claims, the percentage of contributory negligence attributed is lower than 50% in 4.5% of the cases; it is equal to 50% in 74.0% of the cases; it is higher than 50% in the remaining cases.

Table II.13

Reports to the BDS - Claims without and with concurrent liability, by range of percentage of liability attributed to the injured party		
<i>(number of claims of 2017 generation defined in May 2018)</i>		
Total	2,035,066	
<i>of which</i>		<i>% on total number of claims</i>
Without concurrent liability	1,853,345	91.1%
With concurrent liability	181,721	8.9%
<i>of which</i>		<i>% on claims with concurrent liability</i>
<i>up to 50%</i>	8,095	4.5%
<i>equal to 50%</i>	134,495	74.0%
<i>above 50%</i>	39,131	21.5%

1.4. - The automobile sector

IVASS monitors the prices of liability coverage of the automobile sector, which accounts for 75.5% of MTPL premium income in 2017, through two surveys, a sample-based one with quarterly periodicity (IPER) and a yearly one that pertains the entire universe of automobile contracts (MTPL technical data).

The survey on MTPL technical data reports the average annual premium recorded net of taxes and parafiscal charges, whereas IPER reports the premium actually paid including these charges³⁸.

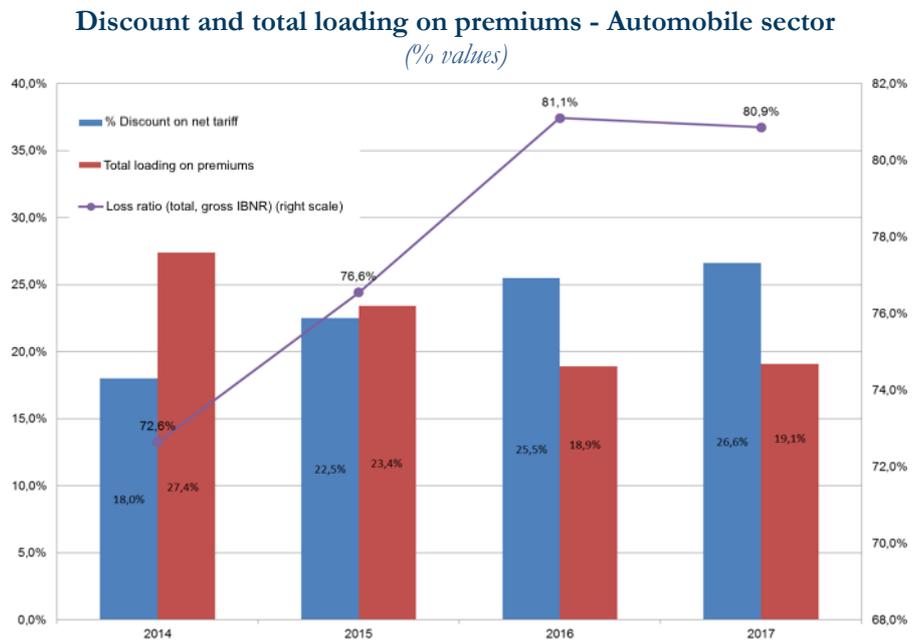
1.4.1. - *Automobile sector - discounts and total loading*

Fig. II.4 shows, for the automobile sector alone, the historical trend of the percentage of total loading, which includes the expenses and the expected technical margin on premiums and the average discount percentage on the net tariff³⁹. From 2014 to 2017, the growth of the average annual discount on premiums underwritten/renewals of policyholders was followed by a progressive reduction of total loading on the premiums which includes the contract acquisition and management costs and the expected technical margin.

³⁸ Both surveys are published on the IVASS Statistical Bulletins.

³⁹ The average discount percentage is measured net of the tax on insurance and of the contribution to the Italian National Health Service.

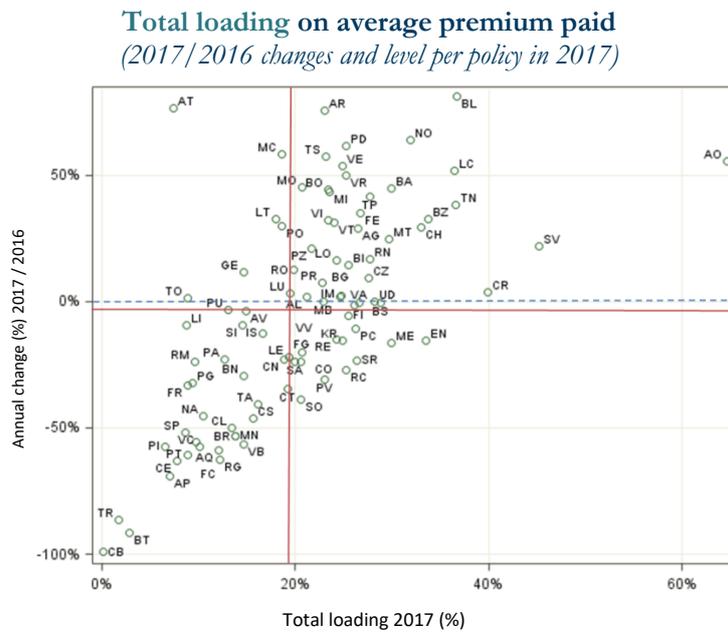
Figure II.4



Source: IPER; Survey of MTPL technical data.

Figure II.5 showcases, for each province, the connection between the change in total loading that occurred between 2016 and 2017 and the percent level of the loading itself in 2017.

Figure II.5



* The provinces of Sardinia are excluded due to recent changes in their territory, as are some provinces with outlier values. The horizontal and vertical red lines indicate the average of the two represented phenomena.

The reduction of the loading involves half of Italian provinces. Loading remains higher in the South, corresponding to higher average prices, and at the national level, in 2017, it is equal to 19.1% (19.5% in 2016, 23.9% in 2015). After deducting the average rate of contract management expenses (21.2% for acquisition and administration), the residual loading (proxy of the expected technical margin/expected industrial profit) becomes negative and equal to -2.1% of the average price paid⁴⁰.

With reference to the loss ratio⁴¹ - gross of the IBNR estimate - and to loading per policy, the 2017 data confirm that:

- high loss ratios are set against total loadings lower than the national average and potentially in technical loss (Fermo, Campobasso, Terni, Cagliari, Barletta-Andria);
- in mirror-like fashion, the provinces of Aosta, Savona, Cremona, Gorizia, Belluno, Trento, which are widely below the national loss ratio, show higher total loadings.

Territorial mutuality between claims ratio and total loading on the average premium

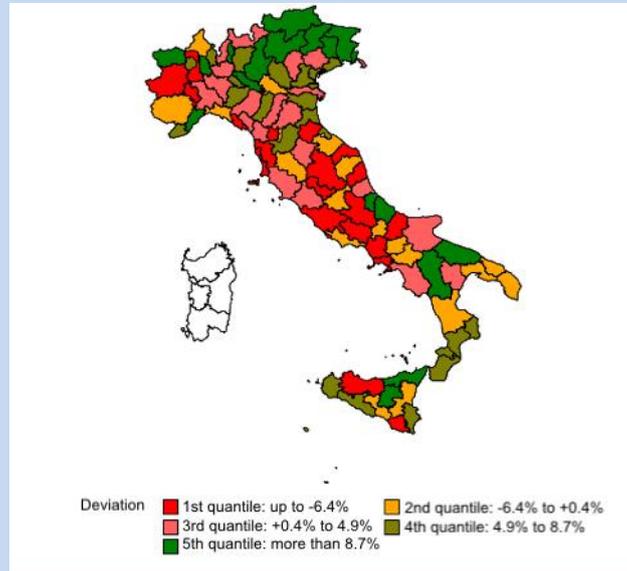
The following chart shows the territorial mutuality in the prices of 2017 between the provincial claims ratio (measured by a proxy of the loss ratio) and the total loading (which includes expenses and expected technical margin net of financial income) which insurance undertakings allocated to the price (net of taxes and parafiscal charges). Setting to one hundred the premium paid (loss ratio plus total loading), for each province, by difference, the portion of premium consisting of the total loading alone was determined and compared with the similar national average rate of loading on the premium (19.1%). From the chart, it is evident that global loading decreases as the claims ratio increases, i.e. undertakings draw higher resources, to cover expenses and expected technical margin of the automobile sector, from those provinces with low claims ratio, whereas they allocate much lower (or even negative) loadings where provinces have a high incidence of cost of claims on premiums. For example, Aosta is the province with the lowest cost of claims (loss ratio at 35.3%) and has very high total loading (65%, higher than the average by 46 points); on the contrary, in Fermo, where the claims ratio exceeded 100% of the price to pay, a negative total loading (-2.9%) is allocated.

⁴⁰ Concerning financial margin, in 2017 the profit of the investments transferred from the non-technical account amounted to 4.0% of the motor vehicle liability premiums written (class 10). Estimated rates on the basis of provisional balance sheet data 2017.

⁴¹ A proxy of the loss ratio at the provincial and regional level (calculated on premiums earned) was taken into account because the MTPL technical Data survey does not include the premiums reserve per province.

Figure II.6

Automobiles - deviation of total loading from the national average by province*
(% values -2017)



* Excluding Sardinia.

Profile of the claims portfolio and payment time

Table 38 in the Appendix shows, by number and amount, the percentage breakdown of the portfolio of claims, occurred and reported in 2017, by individual province and by type of claim (only personal, only material and mixed).

It is clear that:

- based on the average breakdown of the motor vehicle claims portfolio, 1.4% of claims handled pertains to persons (7.4% of the amounts), 92.0% to vehicles and property (68.0% of the amounts) and 6.6% to mixed claims (24.6% of the amounts). 9.1% of claims reserved are personal injury claims (34.6% of the amount reserved), 62.8% to vehicles and property (16.9% of the amount) and 28.0% to mixed claims (48.5% of the amount);
- at the regional level, the proportion of the number of claims paid to persons alone is generally higher than the national average (1.4%) in the southern regions, with rates per province, with the exception of Sardinia (1.0%), above 2% and reaching 3.6% in Calabria.

Concerning the payment time for automobile claims, in 2017:

- 75.3% of claims with payment were paid during the year (45.4% in terms of amount); payment time is longer for claims with personal injuries only (32.1% by number and 15.1% by amount) and shorter for those involving only vehicles and property (81.7% by number and 77.0% by amount). In case of mixed damages, the claim settlement time amounts to 41.8% (29.7% in terms of amounts);

- as in the past two years, Aosta remained the province where claims are settled fastest (83.4% by number, 60.7% by amount) and Naples is the one with the longest delays (61.9% and 44.0%);
- Campania maintained a level of estimated provisions for claims incurred but not reported (IBNR; 21.9% of the total cost of the claims) that was more than double the national average (10.0%), in part due to the long times taken by the policyholders/injured parties, over one year from their occurrence. This delay forces undertakings to allocate to provisions, at year end, amounts for unreported claims at twice the national average rate.

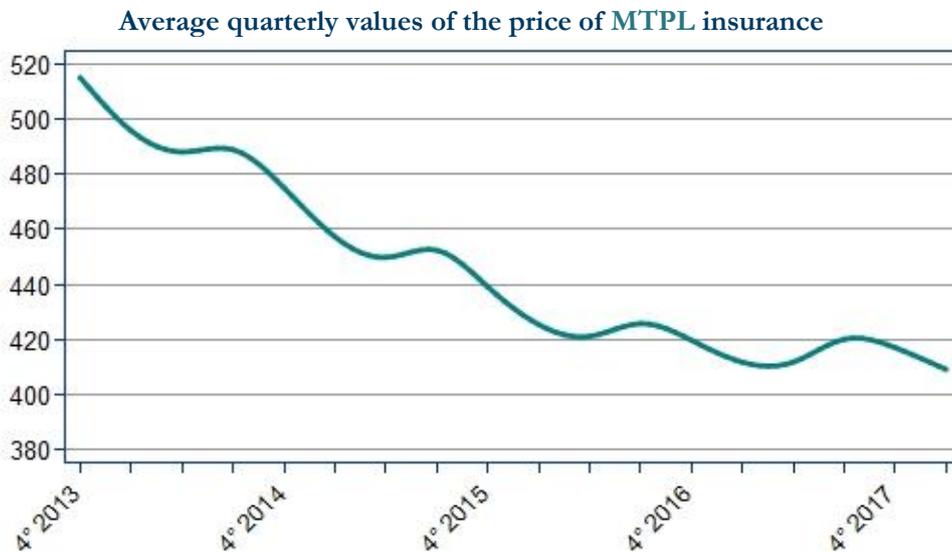
1.4.2. - *The price of MTPL insurance and the contractual clauses (IPER)*

The average premium paid for MTPL coverage referred to contracts signed or renewed in the first quarter of 2018 amounted to 409 euro, 50% of policyholders pay less than 369 euro, 10% of insured parties pay a premium of more than 629 euro and 10% of policyholders pay a premium of less than 233 euro (Table 42 in the Appendix).

Prices (fig. II.7) declined, with a trend that is not constant and tied to seasonality (on a monthly/quarterly basis).

The contraction in prices continues to decelerate: the average price of the contracts signed in the 1st quarter of 2018 decreased by -0.6% year on year (the reduction in the 1st quarter of 2017 had been -3.2%).

Figure II.7



Black box dynamics

IPER contains information about the inclusion, in the MTPL insurance contract, of clauses providing for a reduction in the premium in the presence of the “black box”, i.e. telematic systems installed on the vehicle to record data pertaining to the kilometres travelled and driving

styles. Hereafter, reference to such contracts shall be made indifferently with the expressions “contracts with black box” or “telematic policies”.

20.5% of the policies stipulated in the fourth quarter of 2017 provides for a black box with premium reduction effects⁴² (fig. II.8). The penetration of telematic policies continues, albeit at a slower rate; devices that record driving styles and/or the kilometres travelled increased by 1.5% in the past 12 months. Caserta is the province with the highest penetration (60%) and the highest annual increase (8.3%)⁴³.

Figure II.8

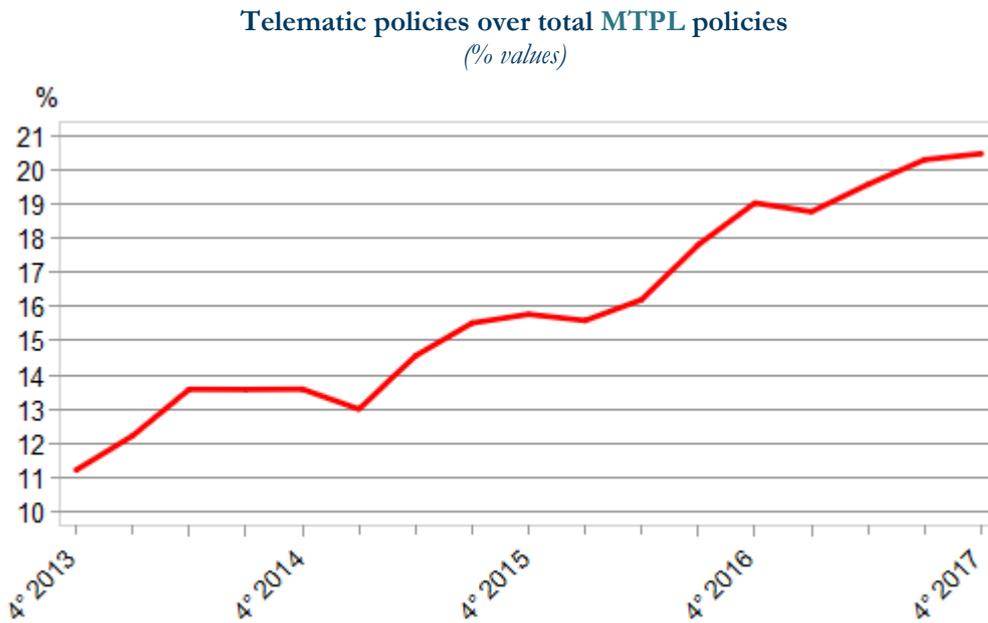


Fig. II.9 shows the penetration rate of the black box (percentage of contracts containing a premium reduction clause tied to the black box) by premium bracket in the 4th quarter of 2013 and of 2017. On average, the penetration rate in fact doubled from 11.2% to 20.5% nationwide.

⁴² See IVASS Statistical Bulletin no. 4/2018.

⁴³ Table A19 of IVASS Statistical Bulletin no. 4/2018.

Figure II.9

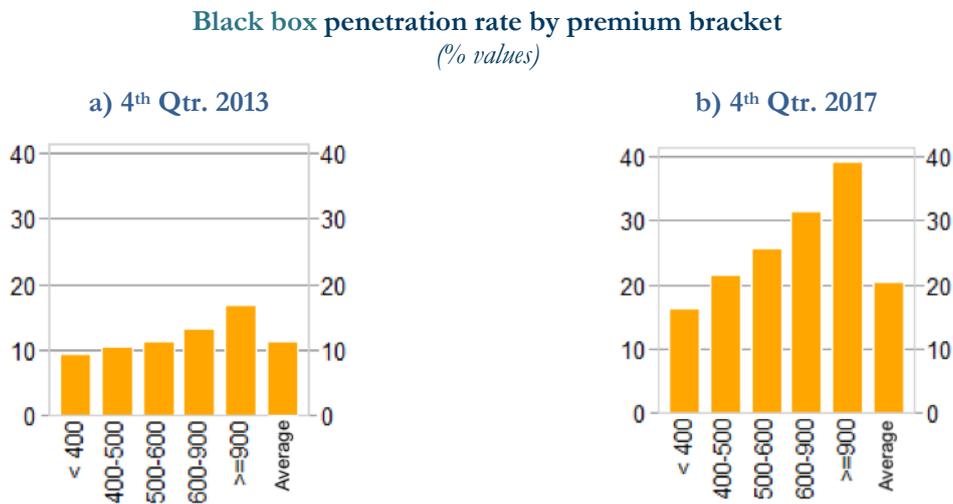


Fig. II.9 illustrates some phenomena underlying these dynamics. First of all, black boxes are adopted even by policyholders with relatively low premiums (below 400 euro)⁴⁴. In addition, as the premium increases so does the penetration rate. The fact that policyholders who are riskier *ex ante* find it more economical to adopt the black box is consistent with non-linear (and rising) discounts on the level of the basic premium.

Compared to 2013, the differential in the penetration rate between the lowest and the highest premium categories - i.e. the difference between the adoption rate in contracts with premiums below 400 euro with respect to those with premiums above 900 euro - increases by +16%. This figure is influenced by the +22% increase of the penetration rate in contracts with premiums above 900 euro.

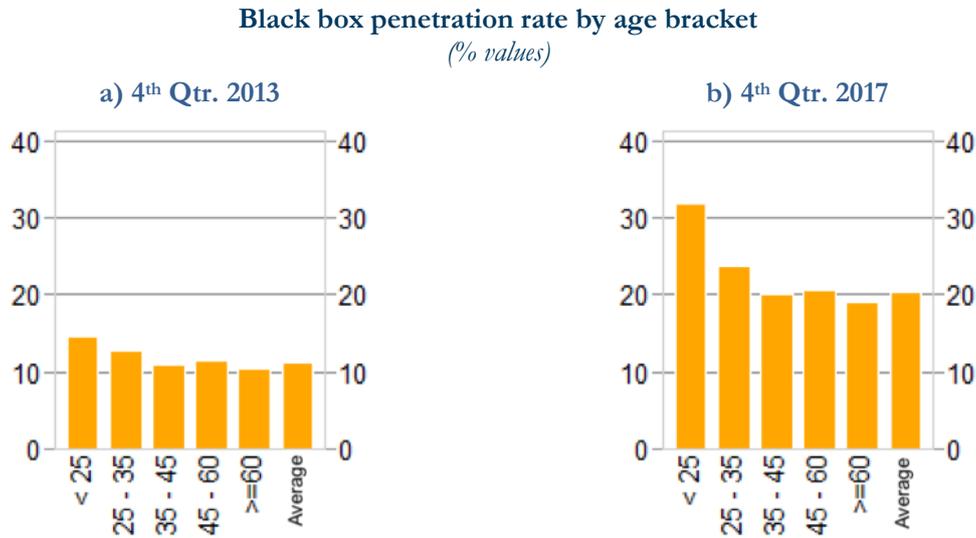
These data attest that the decisions of the policyholders with the highest premiums have given a decisive contribution from the quantitative viewpoint to the increase in black box utilisation.

Fig. II.10 shows a negative correlation between policyholder age and black box adoption rate. This observation is not surprising: on one hand, younger policyholders typically show higher propensity to acquire products with more marked technological innovation, on the other hand age tends to be inversely correlated to the premium; this phenomenon is a further manifestation of the correlation between penetration and premium level.

⁴⁴ The average premium in the 4th quarter of 2013 was 515 euro while in the 4th quarter of 2017 it was 417 euro.

The presence of the black box increased more markedly among the youngest policyholders (the penetration rate doubled for policyholders below 25 years of age) and to a lesser extent among over-sixty policyholder (10.3% in the 4th quarter of 2013 and 19.1% in the 4th quarter of 2017).

Figure II.10



The correlation between black box penetration and vehicle age in the two reference quarters seems less immediate (Fig. II.11). Even in vehicles older than 15 years, the penetration rate is relatively high (19.0%).

Figure II.11

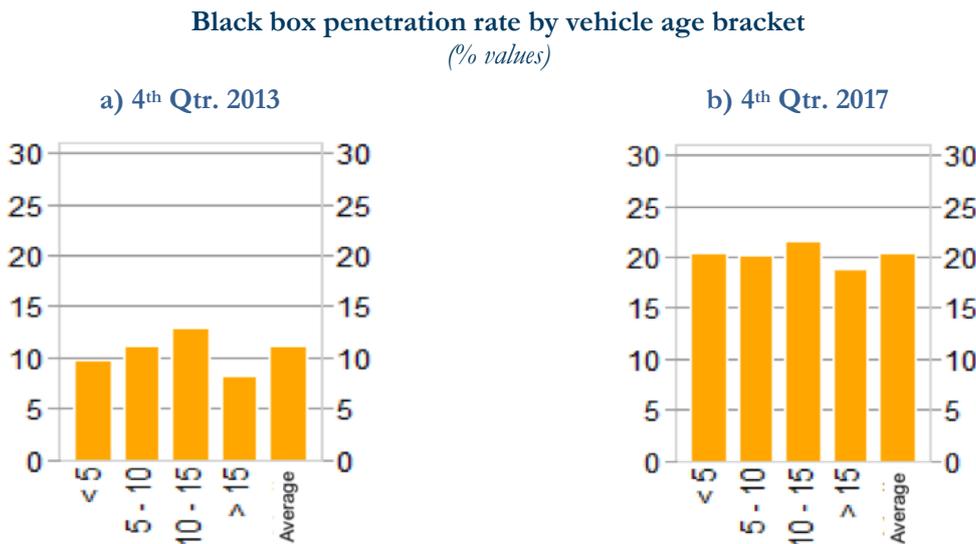
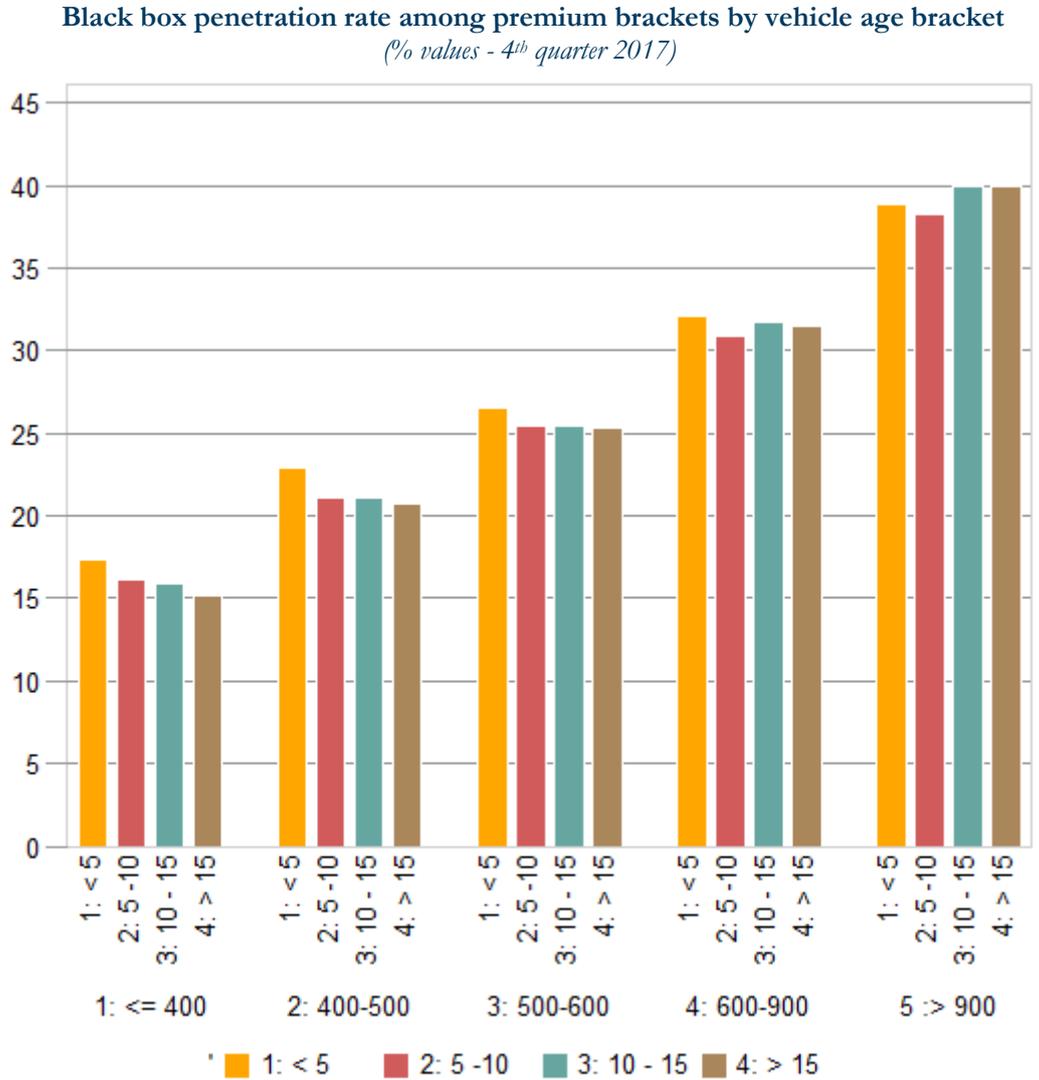


Fig. II.12 shows black box penetration versus vehicle age for each premium bracket. The correlation tends to decrease for premium brackets below 600 euro, while it is not constant in contracts with premiums above 600 euro⁴⁵.

Figure II.12

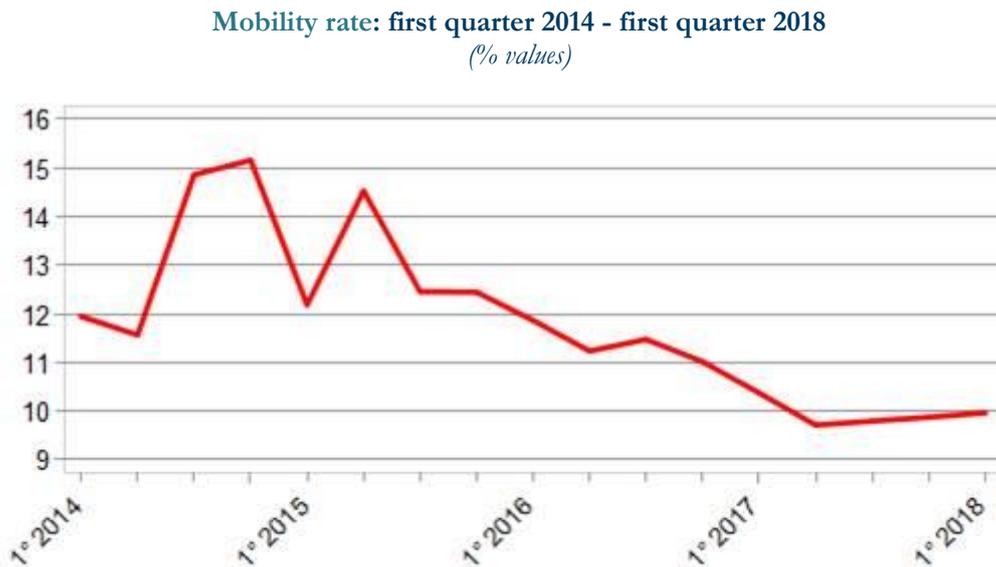


⁴⁵ Penetration differentials are actually small, i.e. below 2%.

Mobility rate, distribution channel and black box

From the policyholder panel followed in IPER it emerges that the mobility rate, the percentage of contracts expiring in a given quarter renewed with a different company, has exhibited a declining trend starting from the second quarter of 2015 (Fig. II.13).

Figure II.13



Approximately 12% of the contracts stipulated in the first quarter of 2013 (expiring in the first quarter of 2014) was renewed with a different company. Policyholders' propensity for mobility reached high values in 2014 and in 2015 (15% in the 4th quarter of 2014 and 14% in the 2nd quarter of 2015) and it seems to have stabilised around 10% in recent periods. Between 2014 and 2016, the mobility rate exhibited a certain level of seasonality, which, however, was not observed in 2017.

The percentage of policyholders who do change companies is differentiated by distribution channel: on average, in the observed period, it amounted to 11.2% for companies using traditional distribution channels and to 18.4% among those using Internet/telephone ("telephone" companies; Fig. II.14).

Figure II.14

Average mobility rate from 2013 to the third quarter of 2017⁴⁶ - by type of company
(% values)

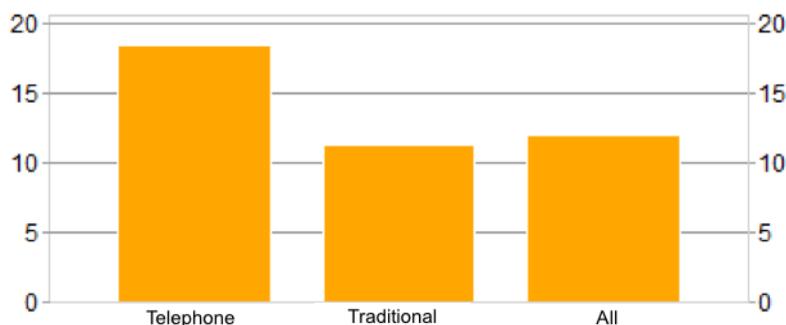


Fig. II.15 shows the correlation between the mobility rate and the presence or absence of the black box, by distribution channel. Policyholders who have the black box are less likely to change company, with a switching rate that is lower by two percentage points than for contracts without black box, by virtue of the expected discount in case of virtuous behaviours.

The data show that the positive effects on market efficiency brought about by the black box - the reduction of information asymmetries - are attenuated by the loss of premium reductions upon changing companies (typically, flat discounts are offered to new policyholders). Thus, to incentivise black box adoptions, it is necessary to take into account that there is a trade-off between the increased discounts tied to the virtuous behaviours recorded by the black box and the premium reductions generated by changing companies. It is therefore important for the black box data to be portable, to maintain policyholder mobility.

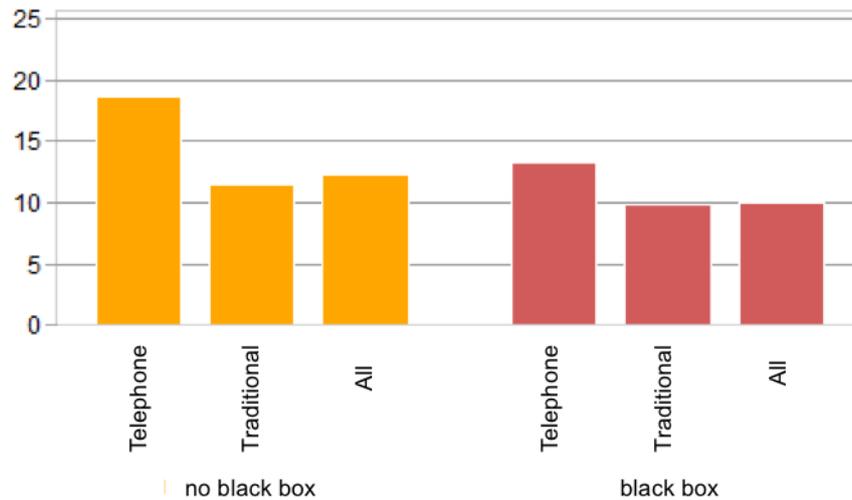
It is also interesting to note that the lock-in phenomenon is more evident among telephone companies: the mobility rate differential between those who do not adopt the black box and those who do is 5.3%, whereas among traditional companies it is 1.6%.

This evidence supports the idea that telephone companies' policyholders are more sensitive to price changes because they manage to be better informed on how to obtain premium reductions and/or because their switching costs are lower.

⁴⁶ The mobility rate in the 2013-Q3:2017 time interval expresses the average mobility rates of each quarter from 2013 to the third quarter of 2017.

Figure II.15

Mobility rate and presence of black boxes
(% values - 2013-17)



Contracts with black box show a relatively high retention rate: 86.5% of those who have the black box for the current contractual year continue to have it in the subsequent year as well, regardless of whether they renew the contract with the same company. These contracts are thus relatively effective in retaining customers.

Specific arrangements for compensation

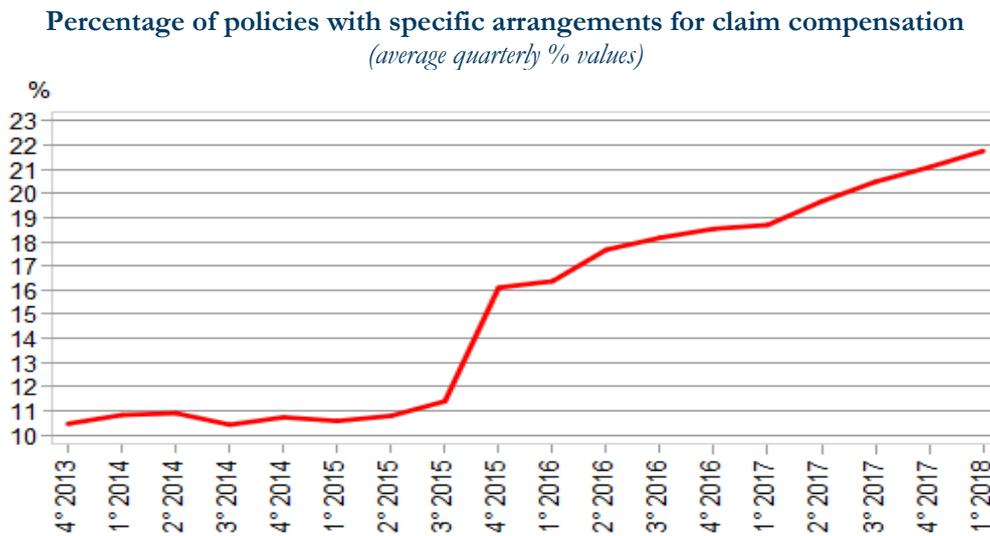
In the case of claims without contributory negligence⁴⁷, this clause requires vehicle owners to have damage repaired by a garage approved by their own insurance company.

The specific compensation clause (Fig. II.16) is included in 21.8% of the policies stipulated in the 1st quarter of 2018. After the significant increase in the 4th quarter of 2015⁴⁸, adoption of the clause consolidated further in the past two years. The growth rate is not consistent in the market: in the last 12 months, while it grew by 3% at the national level, its increase in individual undertakings reached 8%.

⁴⁷ This compensation mode is not applicable in case of concurrent liability.

⁴⁸ The reason for this growth is that a large undertaking started to offer the specific claim compensation clause (see IVASS Statistical Bulletin no. 12/2017).

Figure II.16



A strong increase (Fig. II.17) emerged in the stipulation of this clause⁴⁹, associated with a broad diversification in the provincial penetration rate. The data show a strong propensity to the adoption of this clause in the South of Italy, with an adoption rate above 50% in Foggia, the only case in Italy, followed by the provinces of Crotona, Caserta and Caltanissetta (respectively 48%, 46% and 43%). In 57 provinces, the clause is present in more than 20% of the policies.

The progressive adoption of the specific claim compensation clause shows different speeds (Fig. II.18). In the past 12 months, the percentage of policies with the clause rose by over 5% in 12 provinces, all located in Southern Italy. The highest value was in Crotona (+9.5%), while smaller percentage changes, i.e. less than 4%, are observed in the provinces of the Centre and North, with exceptions like Viterbo, Ancona, Vercelli and Novara (+6.0%, +4.8%, +4.7%, +4.3%). The growing popularity of the specific claim compensation clause is evident in the provinces of Naples and Salerno in Campania (+7.1% and +5.8% compared to 2017) and it is associated with a slight decrease in premiums (respectively -1% and -2%).

Fig. II.18 shows the inverse correlation existing between the increase in specific claim compensation and the percentage change of the average premium. This (statistically significant) correlation shows that the more common adoption of the compensation clause, in parallel to the ever more common black box can be considered a driving factor for premium reductions. Intuitively, increases in the penetration rate of this clause coincide with a declining trend of the policy price.

⁴⁹ IVASS Statistical Bulletin no. 12/2017.

However, the dynamics are consistent with a rational behaviour of the policyholder, directed at changing the premium to his/her advantage, benefiting from the discount in areas characterised by higher than average premium levels.

1.5. - MTPL Litigation

The data collected by IVASS with regard to the state of insurance litigation in the MTPL and liability for ships business in 2010-16 as well as in 2017⁵⁰, of domestic Italian insurance undertakings and of non EEA branches in Italy, contribute to:

- assess the scale and evolution of litigation over time, through new information allowing more detailed analyses;
- understand the impact of inefficiencies within and outside the undertakings, with reference not only to the numbers, but also to information about the allocated provisions for pending cases by type of case, the details on personal injuries of 2nd and 3rd degree civil cases and on criminal cases, and for 1st degree cases, on the details of the cases at the provincial level, of their outcome, etc.;
- identify potential actions to overcome critical issues concerning litigation management and make its management more efficient.

In 2017, the cases ending with a favourable decision with the company, plus those ended by discontinuance of action, account for one third of the total. The cases pending at the end of 2017 are concentrated in the cities of Naples and Rome (one third of the total), where significant amounts are allocated to provisions for cases closed with settlement or loss of the companies, still to be paid at year end.

For the undertakings examined, the total number of pending civil and criminal cases at the end of 2017 is 242,383 (-1.2% compared to 2016). The number and the amount of the pending cases is equal respectively to 23% and 30% of the total provision for claims outstanding.

The number of 1st degree civil cases managed (cases pending as at 1 January 2017 plus cases initiated in 2017) is 354,061. The corresponding closed cases are 129,107, accounting for 36% of those managed, while 127,005 cases represent the express demand for civil justice, with a slight decrease in the pending stock. The average provision is 23 thousand euro, over twice the average amount paid.

Closed civil cases over those managed in 2017 relating to claims occurred more than 5 years previously amount to 40% for 1st degree cases and 29% for 2nd and 3rd degree cases.

At the end of 2017, total provisions for 1st degree civil cases amount to 5.2 billion euro, of which 47% refers to cases relating to claims occurred more than five years previously.

⁵⁰ Published for the 2010-2016 time interval with IVASS Statistical Bulletin no. 6/2018 and deriving from the preliminary examination of the 2017 survey, thus incomplete for the two companies authorised to approve their financial statements after 30 April.

On the 1st degree civil cases pending at the end of 2017, advances amounting to 20% of the total by number and to 28% by amount were paid. For these cases, the *malus* and the consequent premium increase is not attributed promptly, in part because of the time required to establish the litigation, which delays penalisation in case of claim with fault.

For 2nd and 3rd degree civil cases, total provisions amount to 520 million euro, of which 95% refer to claims occurred more than five years previously and relating mainly to pending cases with personal injury, amounting to 466 million euro. These cases are an indication of the complexity of the demand for justice, due to the quantification of the personal injuries.

For criminal cases, total provisions in 2017 are 392 million euro.

Briefly, one observes a high number of pending cases before judicial Authorities and in particular Justices of the Peace, a slow establishment and closure of the litigation, excessive duration of cases, in terms of reasonable duration of the proceedings.

There are ample spaces for a deflation of pending litigation and for the containment of the social cost that derives from it, in term of delays in the payment of the amounts allocated to provision for claims outstanding, and for the reduction of the times required to obtain justice.

A priority of insurance undertakings should be to boost effectiveness and efficiency in the ability to rapidly address the demand for justice, pending and new, also to meet the need to attribute, as rapidly as possible, the claims rate to the year of occurrence of the claim. It should also be considered that the claims portfolio has to contain all existing risks, including the physiological and timely flow relating to claims incurred but not reported.

In the undertakings' management of litigation, there is a need to offer a simple and ever effective proximity service, which becomes even more important in contexts with high crime rates, through the adequacy of the organisational structures of the claims area.

1.6. - Anti-fraud activity

1.6.1. - IVASS anti-fraud activities and the Anti-Fraud Integrated Computer Database

Dynamic claims history certificate and new criteria of attribution of MTPL bonus classes. The second phase, launched in 2016, completed the process for the dematerialisation of claims history certificates initiated with the establishment of the Claim History Certificate Database prescribed with IVASS Regulation no. 9 of 15 May 2015. The computerised system for managing and issuing claims history certificates, in addition to simplifying the underwriting procedures of MTPL contracts, is also valuable for anti-elusion and anti-fraud purposes to the benefit of virtuous behaviours.

With IVASS Order 71/2018, amendments were made to Regulation 9/2015 to revise the secondary regulations and the technical rules of the Claim History Certificate Database in view of the need to correctly assess the policyholder's claims rate, updating each policyholder's position also with any claims paid outside the observation period or otherwise after contract expiration. For this purpose, the IUR - Unique Risk Identifier - was established: it identifies the licence plate/owner pair and it allows to uniquely identify each risk unit. The IUR allows to manage in the Claims History Certificate Database the movements that enable to update the certificate and that hitherto were still managed by insurance undertakings manually.

With IVASS Order 72/2018, the attribution criteria were identified along with the universal conversion bonus class and transition rules, revising the provisions dating back to 2006. In addition, the table of previous claims was expanded from the current 5 years to 10 years: this is the insurance history on the presence or absence of claims, while the 5 year validity of the claims history certificate was confirmed.

The new regulation of the claims history certificate was extended to all types of contracts, including contracts with deductibles and fixed premium rate, stipulated both for consideration and free of charge and with temporary duration.

New MTPL comparator. As part of the activities for developing and improving databases in use, activities started to provide the new MTPL comparison service, which will replace the one currently present in the IVASS site and operational at the Ministry of Economic Development.

In 2017, a negotiated procedure was carried out for contracting advisory services for the establishment of the new estimation system and a technical workshop was started to identify the operating specifications and technological solutions necessary to complete the development, maintenance and assistance phases.

Anti-fraud activity. In 2017, IVASS received 40 reports (42 in 2016) on alleged unlawful behaviours, 38 from users and 2 from undertakings.

30 requests for information by Authorities were handled (12 in 2016), as well as 12 requests for verification of the contractual documentation and consequent request of IVASS to insurance undertakings to file a criminal complaint and 192 requests to ascertain MTPL insurance coverage by Authorities which, upon verifying the insurance documentation on the road, noted the

absence of a contract in the Coverage Database (149 in 2016). Concerning the Claim History Certificate Database, the Institute received 6 reports (8 in 2016).

Requests for access to the Claims Data Bank, Register of Witnesses and Register of Injured Parties increased by +46%. 389 requests were received (267 in 2016) of which 239 from the direct owners of the data, 65 from Judicial Authorities and Law Enforcement Agencies, and 85 from third parties (attorneys, Justices of the Peace). In 2016, they were respectively 164, 46 and 57. Aside from those coming from the directly involved parties, access requests are allowed only for insurance fraud prevention and contrast purposes.

351 authorisations were granted to new users for consultation of the Claims Data Bank, at the request of 26 undertakings and of 27 judicial and local Police organisations (318 in 2016). 148 user accounts were disabled (121 in 2016) and 305 reactivation requests by undertakings were processed, along with 53 by other Entities. Technical assistance was provided to numerous users who requested support for their accesses or the issue of new passwords.

105 sanctioning procedures were initiated, of which 44 against undertakings that fail to correctly provide data to the Claims Data Bank and 61 relating to the late provision of data to the Claim History Certificate Database. The declining trend of the sanctions indicates an improvement of the quality of the data provided, especially for the Certificate Database, more recently established, with 40 fewer sanctioning procedures than in the previous year.

2 inspections were carried out on as many undertakings to verify that CARD claims are correctly entered.

IVASS provides a monthly report on the data quality by undertakings that contribute to the Claims Data Bank. It is a statistical analysis of the flows received, useful to highlight problems in terms of quality and completeness of the flows.

With reference to the 1st half of 2017, analyses were carried out on the trends of the indicators of a sample of 31 undertakings, compared with the entire market. An undertaking showing significant reporting problems was summoned for further investigation.

The Anti-Fraud Integrated Database

In 2017, the activities pertaining to the Anti-Fraud Integrated Database (AIA) developed along two directions: consolidation of the application in operation and expansion of the information assets and of the available functionalities; according to the indications of the undertakings, AIA has now become a fully integrated instrument, widely used in the companies' anti-fraud systems.

In 2017, the AIA procedure managed 3 million reports relating to claims communicated for the first time; taking into account corrections or additions to the information already transmitted, this number is close to 9 million.

AIA assigns to every processed claim an anomaly score that can be zero, low, medium or high. 18% of reports have medium-high anomaly score; this value and, complementarily, that of claims with zero or low score, represents an adequate result in terms of trade-off between

pervasiveness of the analysis, number of events to be investigated and available resources. The quality of the AIA scores stands at satisfactory levels: for 95% of the reports provided to the undertakings, the completeness of the information on which the score is calculated is high.

IVASS and Bank of Italy advanced the implementation of the new IT application, residing on the Bank's system; the new procedure has been operational since 20 June. Work continued for the analysis and development of the AIA portal, an instrument for on-line consultation by IVASS users, undertakings and other authorised parties.

Use of network analysis for anti-fraud purposes

At the end of 2016, IVASS launched a project, with the scientific advice of the University of Palermo, for the use of network analysis methods to contrast insurance frauds in the MTPL business. The main objective is to highlight the claims, difficult to identify with traditional techniques, that are connected to each other and represent anomalous events with a view to combating fraud.

In 2017, a first prototype of this application was developed, to be completed with the necessary functions for appropriate inclusion in work processes and providing a structured information flow with Law Enforcement Agencies. In addition, the information details to be provided to undertakings will be defined, offering additional instruments to contrast frauds, especially organised ones.

The study will be completed with the identification of robust synthetic indicators with high information power, among those suggested by statistical theory and by empirical analysis (connectivity, centrality, robustness indicators and those descriptive of the role of the parties in the investigated communities). In this way, the results of the network analysis can effectively direct investigations, reconciling the large quantity of data to be considered with the limited resources available for further investigation.

1.6.2. - Undertakings' anti-fraud activities – FY 2016

Pursuant to ISVAP Regulation no. 44/2012, IVASS received annual reports on anti-fraud activity pertaining to the year 2016 of the undertakings operating in Italy in the MTPL business.

The total number of claims reported in 2016 increased to 2,844,383, growing by nearly 2% on a national scale compared to 2015. The increase was concentrated in Southern Italy and the Islands, where it reached, respectively, 6.6% and 6%. In Central Italy, there was a decrease (-1.33%), while in the North the situation was stable (-0.5%).

The Risk Units (RUs) insured in 2016 grew by +0.4% compared to the previous year, reaching 40,863,243 units. Similarly to the claims reported, the most significant increase involved Southern Italy (+2.3%), versus a small reduction of insured units in Northern Italy (-0.3%) and of a slight growth in the Centre (+0.6%) and more significant growth in the Islands (+1.9%).

Anti-fraud numbers in Italy

In 2016, 668,341 claims were identified to be under fraud risk, up by 70,484 compared to 2015 (+12%), attesting the greater effectiveness of the action carried out by the undertakings.

The claims subject to specific investigation because of possible fraud profiles numbered to 339,550, with an increase by 14% compared to the previous year.

Claims without payment due to anti-fraud activity reached 50,757, with a percentage higher by nearly 18% compared with 2015 data.

These increases are confirmed by the savings for averted fraud, whose amount reached 250 million euro in 2016, significantly higher, i.e. by 15%, compared with the previous year. This value represents 1.9% of premiums during the year.

A reverse trend is instead recorded analysing the claims for which undertakings filed a criminal or civil complaint: in 2016, there were 4,578 of these cases. Compared to 2015, when there had been 6,172, they decreased by -26%.

Table II.14

Regulation no. 44 - claims generated in 2016							
(units)							
Territorial Macro-zones	Regions	Risk Unit	Claims Reported	Claims exposed to fraud risk	Claims Investigated in relation to fraud risk	Claims Investigated in relation to fraud risk that were closed without payment	Claims subject to Reporting/Legal Action
NORTH	EMILIA ROMAGNA	3,339,524	207,466	44,682	22,582	3,118	188
	FRIULI-VENEZIA GIULIA	941,692	45,003	8,962	4,301	564	33
	LIGURIA	1,128,622	93,575	22,535	9,697	1,357	142
	LOMBARDY	6,887,390	490,221	90,108	36,651	5,473	402
	PIEDMONT	3,223,048	224,846	46,522	19,419	2,783	285
	TRENTINO-ALTO ADIGE	999,863	66,502	11,458	3,351	342	18
	VALLE D'AOSTA	168,218	7,759	1,231	545	135	10
	VENETO	3,718,678	200,872	34,995	16,069	2,046	101
	North - Total	20,407,033	1,336,244	260,493	112,615	15,818	1,179
CENTRE	LAZIO	4,200,092	370,805	84,175	42,185	7,047	484
	MARCHE	1,163,607	67,600	14,448	7,507	862	46
	TUSCANY	2,955,265	201,459	44,182	22,089	2,741	248
	UMBRIA	706,996	42,268	8,724	4,258	561	37
	Centre - Total	9,025,961	682,132	151,529	76,039	11,211	815
SOUTH	ABRUZZO	917,231	54,598	13,141	6,239	881	82
	BASILICATA	371,797	18,994	4,735	2,554	415	53
	CALABRIA	1,042,394	58,413	16,919	10,323	1,417	364
	CAMPANIA	2,681,722	265,598	115,401	71,310	12,145	1,516
	MOLISE	227,792	13,305	4,212	2,581	441	61
	PUGLIA	2,213,277	138,479	39,874	24,414	3,308	205
South - Total	7,454,212	549,387	194,282	117,416	18,607	2,281	
ISLANDS	SARDINIA	1,051,393	67,667	12,613	5,960	945	44
	SICILY	2,924,645	208,953	49,424	27,515	4,176	259
	Islands - Total	3,976,038	276,620	62,037	33,475	5,121	303
Domestic Total	40,863,243	2,844,383	668,341	339,550	50,757	4,578	

Criminal proceedings initiated by the undertakings in relation to cases connected with the settlement activity

In the claims settlement phase in 2016, insurance companies initiated 2,966 criminal proceedings, with a reduction by 17% compared with 2015.

The total number of criminal proceedings initiated by the undertakings between 2012 and 2016 was 17,513, of which 20% were completed (3,535).

Table II.15

Reports/legal actions pertaining to the settlement phase						
Year	Reports/ Legal Actions	Final Outcome				Total Final Outcome
		Dismissal	Acquittal	Conviction	Other*	
2012	3,288	583	51	187	227	1048
2013	4,275	594	41	167	242	1044
2014	3,384	458	30	126	105	719
2015	3,600	428	16	35	83	562
2016	2966	103	11	25	23	162
Five years	17,513	2,166	149	540	680	3,535

* Includes residual cases including withdrawn report, indictment, dismissal through oppositions and transfers to other Offices of the State Prosecutor.

Criminal proceedings initiated by the undertakings in relation to cases connected with the underwriting activity (contracts, contractual and precontractual documentation)

The number of reports and/or legal actions initiated by the companies during the underwriting or pre-underwriting phase decreased significantly in 2016 to 827 cases, versus 3,255 in 2015, with a decrease of nearly 75% in percentage terms.

Table II.16

Reports/legal actions pertaining to the underwriting phase						
Reference years	Reports/Legal Actions	Final Outcome				Total Final Out- come
		Dismissal	Acquittal	Conviction	Other	
2012	3,085	298	80	148	93	619
2013	4,089	398	71	95	78	642
2014	3,819	657	40	66	67	830
2015	3,255	646	26	36	29	737
2016	827	182	25	13	10	230
Five years	15,075	2181	242	358	277	3,058

This trend is also due to the dematerialisation of the insurance sticker and of the certificate of claims experience in 2015, which will produce additional effects in the years to come.

The adequacy of corporate organisations in combating frauds

The assessment procedure on the undertakings' anti-fraud activities in 2016 provides indications of changes compared to the previous year.

The innovative measures adopted by some medium-size companies and the consequent improved operating efficiency changed the existing standings.

In 2016, there was a partial turnover of the companies that reached the first of the four assessment brackets⁵¹, which includes the undertakings with the best score. It contains 15 undertakings, versus 16 in 2015, to which corresponds little more than 46% of total insured Risk Units and a portion of claims managed equal to approximately 45% of the total. In 2015, first bracket undertakings held a portion of insured Risk Units equal to 73% of the market total and a portion of claims of 72%.

In the second bracket, too, there was a change in 2016, due to the aforementioned dynamics as well as to the mergers by absorption in the insurance market.

In 2016, the number of companies in the second bracket declined to 12 (4 fewer than in 2015) but compared to the previous year their market shares grew considerably, approximately to 39% of the total in terms of Risk Units insured and of claims managed.

9 companies were classified in the third assessment bracket, the same number but a markedly different composition than in the previous year. In 2015, the market shares of the 9 undertakings totalled, both in terms of Risk Units insured and of claims processed, approximately 11%, whereas in 2016 the insured Risk Units are fewer than 2% and claims are approximately 3%. Proof of the lower effectiveness of the operating models adopted by these 9 undertakings also comes from the total amount of the savings achieved, 1.1% of the market total. Inclusion in the third bracket documents, therefore, volumes of activities that were not followed by adequate results.

Most companies were classified in the fourth assessment bracket in 2016, 2 more than in 2015. Among them, as in past years, there are companies with very strong territorial connections, at the regional or even provincial level: this characteristic, in relation to the reference territory, can justify lower volumes and fewer organisational safeguards in terms of anti-fraud activity. This year, the total reference market share also grew, to 11.9% of insured Risk Units and 13.3% of claims managed, respectively versus 4.9% of Risk Units and 6.3% of claims last year.

Instead, the number of undertakings classified in the fifth and last bracket continues to decrease: they were 9 in 2014, they declined to 6 in 2015, and they further decreased to 5 in 2016, with a total percentage on the total insurance market of 0.3% in terms of Risk Units and claims processed.

⁵¹ For 6 of the 68 undertakings examined in 2015 (with a total market share of 0.004%), no assessment scores had been calculated since their volumes were negligible. For the same reason, in 2016, 4 undertakings (with a total market share of 0.002%) were not assessed, out of the 62 undertakings operating in the MTPL business (42 Italian and 20 EU).

Table II.17

Assessment brackets by final score						
<i>(units and % values)</i>						
Assessment bracket	Number of undertakings	Total Risk Units	RU market share	Claims Reported	% over total claims reported in Italy	Loss ratio
2015						
I	16	29,834,634	73.31%	2,009,221	72.01%	6.73%
II	16	4,032,854	9.91%	287,362	10.30%	7.13%
III	9	4,657,747	11.45%	304,674	10.93%	6.54%
IV	15	1,989,288	4.89%	175,079	6.27%	8.80%
V	6	179,349	0.44%	13,807	0.49%	7.70%
Total	62	40,693,872	100.00%	2,790,143	100.00%	6.86%
2016						
I	15	18,844,438	46.12%	1,288,172	45.29%	6.84%
II	12	16,299,718	39.89%	1,086,602	38.20%	6.67%
III	9	729,152	1.78%	81,776	2.87%	11.22%
IV	17	4,866,239	11.91%	377,576	13.28%	7.76%
V	5	123,571	0.30%	10,244	0.36%	8.29%
Total	58	40,863,118	100.00%	2,844,370	100.00%	6.96%

Estimates on the reduction of the claim costs deriving from the ascertainment of frauds confirm, lastly, the considerable increase in 2016, equal to 249.8 million on a national basis (1.8% with respect to MTPL premiums), which further grew by +15% relative to 2015 (217.6 million, 1.5% of the premiums), year in which, in turn, an increase of +15.3% relative to 2014 (188.7 million, 1.2% of premiums).

Table II.18

Assessment brackets and estimated reduction in the cost of claims resulting from anti-fraud activities				
<i>(euro and % values)</i>				
Assessment bracket	2015		2016	
	Amounts	Market share	Amounts	Market share
I	179,470,515	82.46%	139,502,249	55.84%
II	21,129,549	9.71%	96,646,572	38.68%
III	12,124,565	5.57%	2,737,077	1.10%
IV	4,643,532	2.13%	10,739,816	4.30%
V	279,392	0.13%	202,650	0.08%
Total	217,647,553	100.00%	249,828,363	100.00%

Anti-fraud activities in 2017. Provisional data

The data transmitted in the annual report per Regulation no. 44/2012 by the undertakings provide a first indication on the conduct of anti-fraud activities in the past year.

Insured Risk Units increases by +1.2% on a national basis (482,071 additional insured units) while the reported claims increases by +0.5%.

Table II.19

2017 Data per Regulation no. 44							
(units)							
Territorial Macro-zones	Regions	Risk Unit	Claims Reported	Claims exposed to fraud risk	Claims Investigated in relation to fraud risk	Claims Investigated in relation to fraud risk that were closed without payment	Claims subject to Reporting/Legal Action
NORTH	EMILIA ROMAGNA	3,358,419	209,145	40,568	21,124	2,612	204
	FRIULI-VENEZIA GIULIA	947,442	43,774	7,535	3,371	475	26
	LIGURIA	1,148,892	91,472	20,439	10,600	1,194	96
	LOMBARDY	7,043,100	486,514	83,438	41,291	5,322	466
	PIEDMONT	3,248,189	224,929	46,995	20,697	2,718	306
	TRENTINO-ALTO ADIGE	1,039,232	62,000	11,548	3,169	320	28
	VALLE D'AOSTA	177,950	6,751	1,006	423	131	2
	VENETO	3,749,314	199,886	29,472	14,415	1,823	85
	North - Total	20,712,538	1,324,471	241,001	115,090	14,595	1,213
CENTRE	LAZIO	4,308,120	383,343	86,148	47,711	7,468	552
	MARCHE	1,173,769	68,652	12,649	6,465	810	50
	TUSCANY	2,866,167	202,066	39,487	20,509	2,577	235
	UMBRIA	714,902	42,303	7,794	4,202	537	79
	Centre - Total	9,062,959	696,364	146,078	78,887	11,392	916
SOUTH	ABRUZZO	927,209	55,330	11,954	6,094	936	62
	BASILICATA	375,156	18,862	4,740	2,889	409	30
	CALABRIA	1,058,432	58,661	16,427	10,540	1,668	270
	CAMPANIA	2,689,388	275,886	121,283	81,285	12,855	1,440
	MOLISE	226,720	12,454	4,135	2,806	424	70
	PUGLIA	2,249,892	138,792	36,511	23,148	3,286	236
	South -Total	7,526,797	559,985	195,050	126,762	19,578	2,108
ISLANDS	SARDINIA	1,062,538	66,870	11,077	5,578	824	48
	SICILY	2,980,482	210,193	46,734	28,785	4,049	306
	Islands - Total	4,043,020	277,063	57,811	34,363	4,873	354
Domestic Total	41,345,314	2,857,883	639,940	355,102	50,438	4,591	

The numbers on the volumes and on the effectiveness of the anti-fraud activity, instead, show differentiated trends.

Claims identified to be at risk of fraud decreases compared to 2016 (-4.2%) while those subjected to specific investigation because of possible fraudulence increases (+4.6%) in the same reference period.

Claims closed without payment for anti-fraud activity, instead, record a slight decline (-0.6%) while an equally small change, but increasing, is noted for claims subject to reporting and/or legal action (+0.3%).

These data stand at the volumes reached in the previous year, after years of constant growth. An additional confirmation of this trend also comes from the total amount of the savings obtained from the averted frauds in 2017, for an amount of 246.8 million euro (equal to 1.9% on premiums earned), decreases by -1.2% compared to 2016.

2. - LIFE PREMIUM INCOME: THE DEGREE OF CONCENTRATION AT THE TERRITORIAL LEVEL

Table II.20 shows the breakdown of the production for life business in Italy by geographic area. Comparison with 2015 highlights a significant share of the premium income in Northern Italian provinces, i.e. 60%, relative to 18.9% in the Centre and 13.2% in the South. The territorial breakdown of the premiums in the 5 macro-areas is similar to that of the GDP⁵².

Of the reduction in life premiums at the national level in 2016, 80% is due to the contraction in Northern Italian provinces, resulting from a sharper decline of the premiums in the area (-14.2%) than in the rest of Italy (-5.4%).

Table II.20

Life premiums collected by geographic area					
<i>(million euro and % values)</i>					
	2015		2016		Change
	Premiums of direct insurance	%	Premiums of direct insurance	%	2016-15
					%
Northwest	44,365	38.6	36,822	36.0	-17.0
Northeast	27,070	23.5	24,491	24.0	-9.5
Centre	19,732	17.2	19,353	18.9	-1.9
South	14,651	12.7	13,479	13.2	-8.0
Islands	5,916	5.1	5,298	5.2	-10.4
General Management Offices ^(a)	3,213	2.8	2,809	2.7	-12.6
Total	114,947	100.0	102,252	100.0	-11.0

(a) Premiums relating to contracts stipulated directly with the General Management Offices of the undertakings, not classifiable by territory.

In some provinces, there are undertakings with strong local roots which, also through existing distribution agreements with banking partners, are able to maintain higher market shares, at the local level, than national big players⁵³. For 2016, this phenomenon is observed in the provinces of Biella, Genoa, Trento and Bolzano, Reggio Emilia and Siena and, to a lower extent, Brescia and Monza.

Another indicator of interest is the difference between the share collected by the first 5 groups in the province and the share in the same province collected by the first 5 groups at the national level. In 2017, on a national scale, the latter amounted to 59.4%, slightly higher than in 2016 (57.7%). High negative or positive values of this difference indicate the local presence of different market factors from the average national conditions.

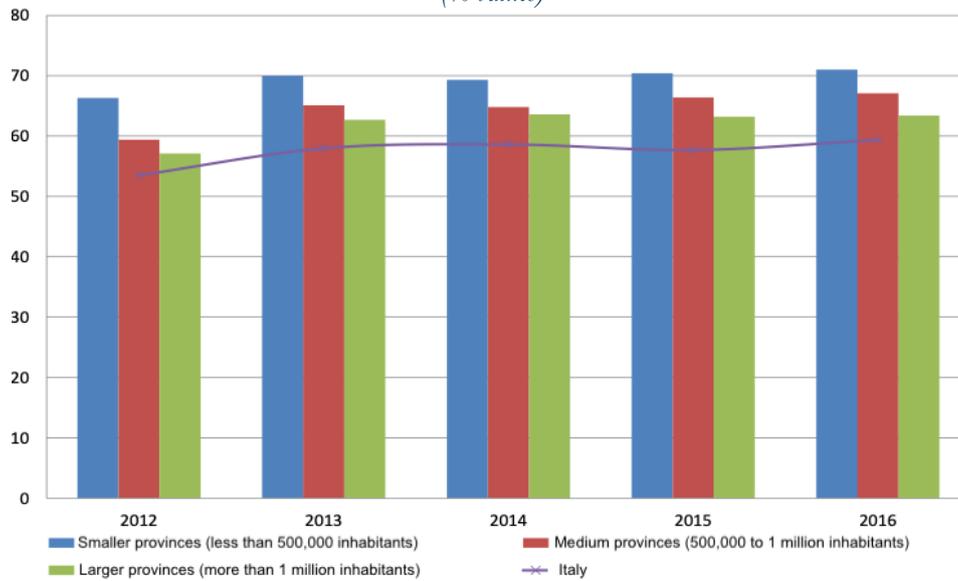
⁵² According to Istat, the GDP at 2016 market prices for Italy is territorially distributed as follows: Northwest (32.8%), Northeast (23.1%), Centre (21.5%), South (15.4%), Islands (7.1%).

⁵³ For each province, this effect is measured by the average difference between the position in the local and national standings of the first five groups in the province. Strongly negative values indicate that nationally secondary groups are particularly relevant at the local level.

In the years between 2012 and 2016, the share collected by the first 5 groups is higher in small provinces. The concentration, instead, tends to decrease as the demographic size of the province increases (Fig. II.19).

Figure II.19

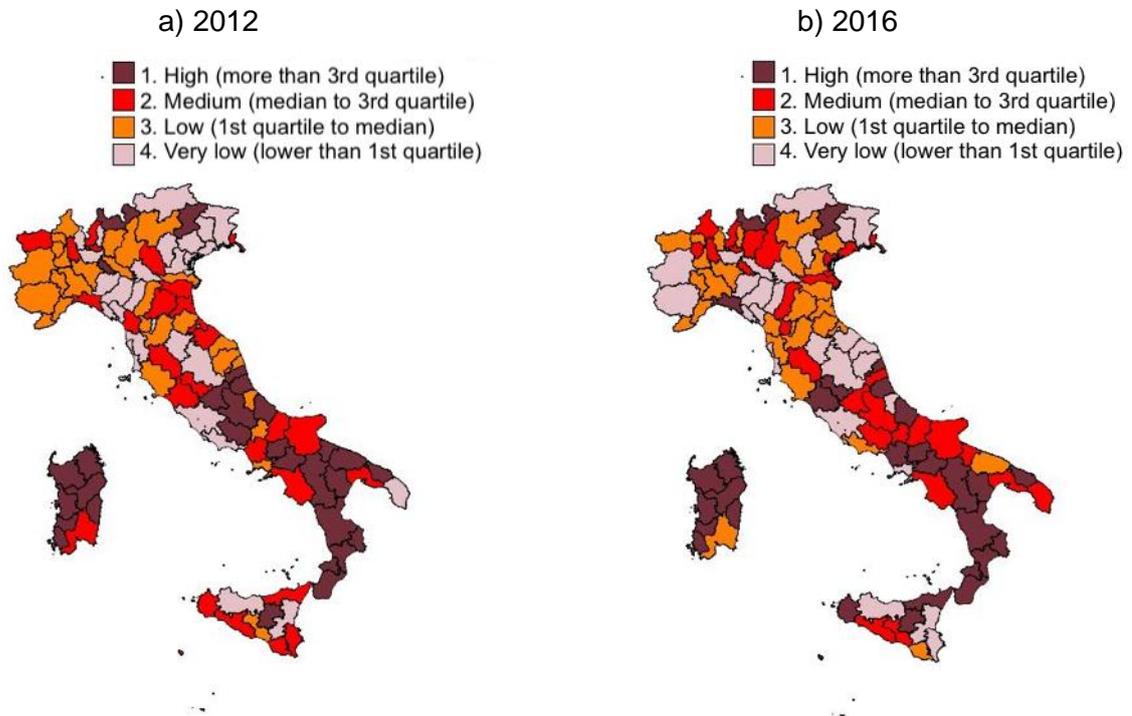
Average life premium income for the top 5 groups at the provincial and national level
(% values)



The distribution of the share of the first 5 groups at the provincial level identifies territorial patterns of the concentration of life premium income. In 2012 and 2016, high concentrations (higher than the third quartile of distribution, Fig. II.20.a and II.20.b) were mostly observed among the provinces of the Centre and of the South and Islands, more rarely those of the North (among them, the most concentrated are Belluno, Trieste, Sondrio). The provinces containing large urban areas with more than 500,000 inhabitants, with the exception of Genoa, tend to have a less concentrated supply.

Figure II.20

Life premiums - Share of the first 5 groups at the provincial level by position in the distribution



The geographic representation allows to appreciate the high stability of the shares of the main insurance groups in local life insurance markets⁵⁴. This is a possible effect of the medium-long term horizon of distribution agreements with financial intermediaries, which market a growing share of life insurance products (77% of the value of the premiums in 2016).

⁵⁴ Evidence of this phenomenon is provided by the high correlation (0.85) between the shares collected at the provincial level by the first 5 groups in 2012 and in 2016.

3. - TECHNOLOGICAL INNOVATION IN THE INSURANCE SECTOR AND CYBER RISK

IVASS has long had an ongoing dialogue with the insurance market, consumers, service providers, academia, to assess the causes and forecast the effects of technological innovation. Among the issues of particular relevance for the future of the insurance market are cyber insurance, the use of devices and sensors connected in the Internet of Things, big data, machine learning and robo-advisory techniques, the cyber security of intermediaries, the governance of undertakings.

The Institute intends to stimulate and promote innovation, leaving initiative to the market, closely following ongoing processes and selectively intervening in certain and short times, when there are risks to consumer protection, market stability and the quality of the insurance supply. The impact on insurance distribution is being assessed in terms of risks and opportunities for the simplification of procedures and the spread of digital channels.

IVASS held seminars and meetings with the main operators of the Insurtech and start-ups and it participated in coordination initiatives at the national level (including the Fintech Committee with the MEF) and at the international level (FSB, IAIS, EIOPA and ESRB). In December 2017, a conference on technological innovation in the insurance market was organised⁵⁵.

Innovation has significant effects on all sections of the insurance value chain, leading to changes to the business model of traditional operators and to the emergence of new operators on the market. The new risks can be high and, in part, unexpected with new threats by hackers to undertakings' operations and to the confidentiality of personal data.

The opportunities for undertakings, created by the new digital paradigm, must be translated into actual benefits for consumers, with premium reductions, more flexible markets and better assistance services ancillary to the policies. The new products can incentivise virtuous behaviours, reducing claims and covering claims that hitherto had not been considered.

The new technological entities introduce competition in the market, collaborate with existing operators but must not create areas of shadow insurance, not adequately regulated and without protections for consumers.

Cyber risk monitoring continued in 2017, involving a sample of large insurance undertakings, delving deeper on cyber insurance policies, on the impact of the General Data Protection Regulation (GDPR), on accumulation risk and on exposure to virtual currencies.

On the front of undertakings' **internal preparation** to cyber risk, higher awareness is observed with respect to the monitoring relating to the third quarter of 2016, with different levels according to the dimensions of the insurance group. The processes of risk mitigation, control and management are proportionate to the nature, dimension, and operational complexity of the undertaking. Undertakings have implemented risk minimisation processes and measures through

⁵⁵ <https://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/att-sem-conv/2017/conv-1512/index.html>.

both internal and external perimeter defence systems. In many cases, risk is the subject of dedicated internal reports, with the involvement of the risk governance committees.

In the management of cyber risk, there is progressively more extensive cooperation with cyber security organisations at various levels (including governmental), as well exchange of information with the Postal Police and with business associations. Not all monitored undertakings reported attempted cyber attacks; those that reported them stated that existing systems were sufficient to block intrusion attempts.

The introduction of the GDPR (May 2018) requires new solutions for the management of corporate processes, with an increase in the insurer's costs and liabilities, to which must be added the high cost of sanctions in case of failure to comply with the regulation. Application problems were noted, caused by potential differences of treatment between regulated undertakings and technological firms that can elude regulatory obligations.

The Institute is engaged in the revision of the reference regulations for undertakings, pertaining to internal controls, risk management, compliance and outsourcing of the undertakings' activities. A set of requirements is about to be promulgated for cyber security and operational continuity of the undertakings, which includes an obligation to report severe security incidents involving critical operations.

Within the process of ongoing supervision of undertakings, monitoring continued on the operational risks originated by technological innovation and on the safeguards adopted by the undertakings, in terms of organisational structures and internal controls. It was found that undertakings are progressively more aware of these risks, in view of the potential impacts on business processes and on reputational aspects, which requires strengthening governance for cyber security and the techniques for assessing the connected risk, even in the ORSA process.

With regard to **cyber insurance policies**, in the corporate segment, coverage needs are different according to the type and dimension/complexity of the activity carried out by the customer. The most exposed sectors are those that process sensitive data as in the case of finance, telecommunications, IT and the health care sector. The supply of coverage is mainly directed to civil liability (e.g. for privacy violation, security incidents, malware infiltration with the policyholder's liability), to coverage on e-payments, identity theft, to include legal expenses, consultants' and forensic experts' fees, archive reconstruction expenses, damages from interruption and cyber extortions.

For retail customers, the undertakings in the sample noted a low level of awareness and low demand for insurance coverage, whether stand-alone or ancillary in multi-risk policies. Coverage tied to identity theft with damage to family assets, to damages to relationships and to reputation, also tied to minor children's behaviours on social networks are reported to be of interest.

In relation to cyber insurance policies, their pricing is a target of attention, taking into account the heterogeneity and peculiarity of the insurable risks and of the still limited availability of historical data on loss events that can also require significant use of reinsurance.

Accumulation risk. - Cyber risks are highly interdependent, at the level of individual policyholder (an attack on a system, even a peripheral one, can compromise the functionality of other systems that are critical for corporate operations) or at the systemic level (the attack can involve an operating system, widely used processors or software, with impacts on most policyholders and highly correlated losses). The trend to migrating IT services to clouds can increase the common vulnerability of a high number of policyholders, but also reduce the points of attack and allow more concentrated and effective defences.

Accumulated losses can be an obstacle to the widespread adoption of stand-alone policies or to the inclusion of cyber coverage in traditional policies. The difficulty in obtaining quantitative models for the assessment of these exposures can lead to deem the cyber risk uninsurable, if it is not possible to correlate the losses deriving from an event impacting a single policyholder to those incurred by a higher number of parties. The accumulation risk is mostly felt in the corporate segment, because of the cascade effects that can cause business interruptions on other connected companies, customers, suppliers. It is necessary to consider both explicitly included risks and hidden ones (i.e. not explicitly excluded) in traditional policies and in specific coverage for cyber risk.

The undertakings of the sample lamented the lack, on the market, of historical data and models that can be used (unlike, for example, what takes place for natural disasters) to assess risks, in particular hidden ones. Some large undertakings have relied on sensitivity analyses based on worst case assumptions and scenarios that refer to historical events that occurred in the past.

The limitations in available information clash with the sophistication and constantly changing nature of cyber threats. The data must also discount the restraints of affected parties in disclosing information about hacker attacks and the related consequences.

The undertakings of the sample report as a primary need, for the purposes of developing supply, the activation of information collection and sharing initiatives, also through the establishment or enhancement of national or European agencies for monitoring the cyber risk. The preparation of guidelines, of common taxonomies of the incidents and of reference standards is desirable; the timely management of communications on cyber incidents is also achieved through rationalisation and coordination among the recipients of the communications.

Crypto currencies. - The growing concerns on the use of virtual currencies in the financial sector and on the possible development of a speculative bubble led to a closer look of the use of crypto currencies in the insurance field. The European Commission asked the three European Supervisory Authorities (ESAs) to conduct an assessment of recent market developments and of possible risks for consumers. The ESAs then published a Joint Warning on Virtual Currencies to alert customers and operators. The risks connected with the acquisition and exchange of crypto currencies were commented highlighting that crypto currencies expose consumers to significant price volatility (including the risk of complete loss of investments), with the possibility of speculative bubbles, in the absence of a robust secondary market, and the likelihood of interruptions in operations and with reduced price transparency. The ESAs have referenced the lack of regulation on virtual currency platforms in EU law, warning that consumers do not benefit from the guarantees and legal protections associated with regulated financial services.

IVASS asked Italian undertakings to provide indications on the presence in the assets covering technical provisions or in the free capital of investments in virtual currencies and on the current or expected marketing of products with coverage connected, even indirectly, to the use of a virtual currency. At this time, no investments in virtual currency have emerged and Italian undertakings do not count virtual currencies among the categories of assets in which investments may be made according to company policy.

At this time, no insurance solutions to cover risks connected with cyber currencies are marketed or even expected to be offered. An exception is a primary market operator which, limited to a narrow portion of the corporate & commercial segment, stated that it has not explicitly excluded crypto currencies and that it is about to launch a product that, among the guarantees provided, covers the “theft of electronic currency”.

During a **seminary on regulatory barriers** and on proposed regulatory interventions, held at IVASS in May 2018, insurance undertakings highlighted useful points for reflection on the need for:

- reduction of regulatory layers, simplifying customer relations in particular in case of offering on digital channels, taking into account the minimum requirements for transparency, consumer protection and data protection;
- continuation of the process for the dematerialisation of insurance documentation, also revising the primary regulation that requires the production of hard copy documents;
- clarifications on the management and use of insurance data, also when collected on the Web or through apps and smart devices, for the benefit of customers with more accurate profiling, offering of customised products and services, more precise pricing⁵⁶; the issue of extending the data processing authorisation was examined, along with the level of anonymisation or aggregation that make it no longer necessary;
- removal of regulatory rigidity on the outsourcing of production processes, to promote partnerships with technological companies even by means other than normal outsourcing, maintaining an adequate level of liability for the insurance undertaking;
- monitoring all parties between the insurance company and customers, including those who are not authorised intermediaries, with particular reference to technological undertakings and platform managers; these parties are increasingly shifting merely managing systems and software to providing supports in terms of content and hence to offering insurance;
- greater participation in EU workshops, in particular on the matter of connected and self-driving vehicles;
- possibility of testing new products and processes in protected environments (“sandbox”);

⁵⁶ It is necessary to assess the effects of an ever more profiled and segmented offering on the consumer’s ability to compare the various products and prices on the market.

- participation of IVASS and of the undertakings in initiatives coordinating the financial system or governmental initiatives (CERTFin, CERT National or National IT Anti-crime Centre for the Protection of Critical Infrastructures - CNAIPIC with the Postal Police).

Technological development in distribution processes allows continuously to intercept the contingent needs of web users and to exploit available information to offer products that are calibrated on users' specific requirements, e.g. with short-duration policies at very low prices which meet consumers' temporary needs. At the same time, new threats are emerging and the pervasiveness of cyber attacks increases.

IVASS has dedicated increasing attention to the issue of the prevention of cyber risks - in particular of the risks of intrusion and data theft - and of the cyber security of intermediaries.

In 2017, meetings were held with trade Associations to gather a general overview on the impact of technological innovation on insurance distribution, on the new distribution models through the Web and on the main security measures put in place by intermediaries.

With the collaboration of trade Associations, a survey was initiated on the safeguards adopted by agents and brokers in the management of information and the prevention of IT risks. The intention was to investigate risk awareness, knowledge of vulnerabilities, the adoption of measures to enhance corporate cyber security.

A letter to the market of December 2017⁵⁷, reporting the results of the survey, provided indications of a general nature on actions to increase protection against cyber risks, under both profiles of prevention and protection, with a view to self-enhancement of security levels.

The survey showed that there is a fairly high level of awareness of cyber risks and that intermediaries have adopted certain basic protections. However, the distribution sector does not yet seem to have adopted advanced policy for risk prevention and recovery in case of attacks. Attention to the matters introduced by European Regulation no. 2016/679 on the protection of personal data was still limited, with low awareness of the obligations deriving from the new Regulation, which entered into force six months after the survey. It was found that the insurance instrument is rarely used to cover the residual risk.

Some of the recommended actions are:

- adopting, after an assessment of the IT processes and systems in use, of a cyber risk policy, commensurate to the complexity of the activity of the company and to risk exposure, and of a plan for the management of any crises, relying also on the support offered by trade Associations;
- expanding intermediaries' IT knowledge, allocating to these matters 20% of the total hours of the mandatory two-year training to upgrade professional skills;

⁵⁷ https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2017/lm-29-12/Lettera_mercato_29_12_17.pdf.

- increasing data backup frequency, at least daily;
- adopting monitoring systems and using anti-intrusion tests;
- use of the insurance instrument for residual risk, correlated with the development of a specific segment of insurance supply by the companies.

A new survey, to be completed by 2019, will assess the intermediaries' adoption of the recommended measures, verifying the evolution of the distribution sector in this regard.

In assessing the **evolution of MTPL**, several innovative factors need to be taken into account; some are far in the future, some have already come to the authorities' attention:

- the growing presence of technologies that allow to monitor driving style, actual use of the car and the localization of the vehicle, in particular in case of claims (black box);
- the trend to promote the use of shared vehicles with respect to ownership, with the adoption of new forms of mobility (car sharing and car pooling, peer-to-peer taxis);
- the release of semi-autonomous vehicles and, after the current testing phase, of autonomous vehicles.

This entails the need for insurance undertakings to revise their business models with:

- use of big data coming from devices for pricing and claims management purposes;
- use of artificial intelligence techniques, including machine learning and robo-advisory, to manage contact with customers and claims;
- the shift from insuring the owner of the car to insuring the car sharing operator or the driver or, for autonomous vehicles, the manufacturer.

With reference to the impact of innovation on the level of premiums, the first studies postulate a reduction of claims as a result of the introduction of autonomous driving, set on more prudent behaviours, considering that the main cause of accidents is human error. It is necessary to consider the transition period in which traditional and autonomous cars are present, with risks of litigation in case of “mixed” accidents also tied to the assessment of liability (of the driver or of the autonomous drive system).

The increasing availability of data about driving style and the possibility of monitoring vehicles nearly in real time may decrease the exclusion from the insurance market (and probably prices as well) of persons about whom more limited information was available in the past, e.g. young novice drivers. The combination of big data, dematerialisation of insurance documents and greater contact flexibility between undertaking and policyholder, e.g. through smartphone apps, will allow to design policies that are ever more accurately customised for individual policyholders and dynamic over time (pay-as-you-drive and pay-how-you-drive rates), with

possibility for the policyholder to select insurance solution that offer savings relative to current generalist policies.

Instant insurance is a new offering method, based on technologies such as artificial intelligence and machine learning, that allow to identify, through the contextual data collected on the web or from the smartphone, consumers' coverage needs at the time they arise, proposing customised insurance solutions for each specific situation.

On the Italian market, the phenomenon is still limited, with first examples of products meant for digital communities and of specialised platforms in the distribution of micro-insurance.

Through apps or websites, potential customers receive push notifications (hence at the initiative of the undertaking or intermediary) with the proposal of insurance solutions specifically selected such as a travel policy intended for the foreign country where the user's presence is detected or injury coverage if the user is determined to be close to sports facilities or ski resorts. What these products have in common is the simplicity of the offering and acquisition process as well as the high level of customisation. It all takes place directly on the smartphone or on the website with a few clicks and in a few seconds: presentation of the offer, selection of the policy, confirmation of the purchase, activation of the coverage, transmission of the contract via email, management of the claim.

It should be noted that instant insurance reduces the mutual-type functionality inherent in the extension of the insured period and produces higher anti-selection risks (the insurance is activated only in proximity to the manifestation of the risk) and of fraud (with possible controversy on the time of occurrence of the claim, since the speed of activation of the policy can favour its underwriting immediately after the accident).

The correct operation of the system requires that algorithms used to select and identify the type of offer are correctly calibrated, that the data measured are those necessary to select the best suited product for the customer's needs and that the transparency of the offer is assured. Regardless of the distribution methods, consumers must be able to understand the suitability of the product for their needs, which events are covered and, above all, any exclusions or limitations to the services, how the coverage works and the procedures to request compensation or file a complaint. In addition, procedures must be provided to prevent a product from being offered if the customer does not belong to the reference target. In essence, the customer must be afforded full protection in accordance with the new regulations on the protection of personal data and on insurance distribution (IDD), focused on the centrality of the consumers and on bolstering their protection.

The simplicity of the procedure, the low cost of coverage, tied to their limited period of effectiveness, can increase the risk of misunderstanding of the characteristics of the coverage purchased and of their adequacy to a customer's risk profile.

From the side of the undertaking, inasmuch as the amounts of these contracts are very small, to be profitable the underlying operating processes must be automated and with low compliance cost (documentation, verification of identity, transparency, etc.).

The expectation is that the simplicity in the policy purchase and activation phase will also be extended to the subsequent phases of any utilisation of the coverage: request for compensation, management of the claim, customer care, characterising the entire lifecycle of the product.

Blockchain is one of the innovative technologies to which the financial and insurance market is paying most attention. It is the technological layer on which virtual currencies are based but it can be used for many other purposes, such as the definition of electronic contracts, the transmission of information, goods, documents, ownership titles, contracts and capital in a secure and interoperable way and the storage of data originating from the devices connected in the Internet of Things.

Its applications in the insurance field can pertain to the management of processes between undertakings (e.g. flows tied to coinsurance and reinsurance or to anti-fraud activities), undertakings and intermediaries (e.g. the management of the remittance system), undertakings and consumers (with innovative products such as peer to peer insurance).

Of particular interest are smart contracts, which have significant potential for the insurance sector. These are digital contracts, valid from the legal standpoint at determined conditions (e.g. if signed with legally recognised digital signature) and that are performed automatically upon occurrence of an event. For example, policies covering the delay of an airline flight, which are automatically paid as soon as the system receives notification of the delay from a certain source (“oracle”).

Experimentation on the use of blockchain, and of other technologies, can take place within a sandbox, i.e. a secure, monitored environment where companies can test innovative products, services and business models.

IVASS is participating in testing on the use of blockchain in the insurance sector, in collaboration with the private sector⁵⁸. The initiative is directed at developing functioning prototypes with the participation of Italian insurance companies and of a limited sample of customers who will be able to conduct tests, for a short time interval, on innovative products, services, business models and distribution practices.

On the consumers’ side, it will be necessary to assess the technology’s ability to promote real benefits for customers in terms of greater transparency and protection, ease of use and security in the utilisation of goods and services, increased market competition.

IVASS follows the initiative with interest, given the undoubted advantages of being able to follow from the inception the possible implementations of blockchain in the insurance field, anticipating market development factors, any regulatory needs and the repercussions on customer protection and supervisory activities.

⁵⁸ CETIF (the research centre on technologies, innovation and financial services of the Catholic University of Milan), ANIA, major insurance undertakings and the technological partner REPLY participate in the initiatives in various capacities.

III. - THE EVOLUTION OF THE REGULATORY ENVIRONMENT

The insurance sector is undergoing profound transformations, induced by the evolution of the regulatory framework, of macroeconomic and demographic conditions, by rapid technological progress; globalisation and market interconnections strengthen the need for a more intensive harmonisation of supervisory practices. This environment makes it even more urgent for Supervisory Authorities to adopt a proactive approach, able to promptly identify the accumulation of risks at both individual and market level and to adopt quick, coordinated and effective actions to strengthen the capital stability of undertakings and to assure high consumer protection standards.

These objectives inspired IVASS' action also within the international context, providing impulse and direction to the development of laws and regulations, enhancing its presence in different European and international bodies (EGBPI, EU Commission and Council, EIOPA, ESRB, IAIS). IVASS exercises constructive influence on the evolution of the works with greater relevance and impact, with reference to microprudential standards, to international accounting standards, to macroprudential monitoring of the insurance market vulnerabilities, to consumer protection and to the crisis management of insurance entities.

In 2017, IVASS was engaged in the complex process of transposing in the Italian regulation the Insurance Distribution Directive (IDD), which is the second most important initiative for the modernisation of the insurance sector in Europe after the introduction of the Solvency II regime. The strengthening of the capital stability of undertakings is now accompanied by the redesign of the insurance product distribution models, with the primary objective of raising the level of consumer protection. The implementation of the IDD has also provided the opportunity for an overall revision of the sanctioning system, directed at assuring higher effectiveness, dissuasiveness and deterrence of the sanction and the establishment, at IVASS, of an Insurance Arbitrator who will be able to contribute to enhance consumer protection; both interventions promote the alignment of insurance supervisory instruments with those in use in the banking and financial sectors.

The revision of the secondary regulation significantly engaged IVASS on other areas as well: the definition of the safeguards on corporate governance of undertakings and groups continued, to align them to the Solvency II provisions, the financial statements of insurance companies required to adopt international accounting standards were updated, the regulations on segregate funds to which traditional life policies are connected were revised, the implementing provisions of the annual Law for the market and competition pertaining to MTPL discounts were promulgated, as well.

1. - THE ACTIVITY OF THE INTERNATIONAL BODIES

IVASS increased its international strategic weight in the decision-making and coordinating committees of the IAIS, taking on a significant role within this Organisation in the delivery of the international insurance standards. In addition to being represented in the top-level committees responsible for matters tied to the definition of prudential rules (*Policy Development Committee*), of the activities relating to financial stability and to the assessment of systemic risk (*Macroprudential Committee*), chaired by IVASS, and of issues tied to the implementation of prudential rules and to supervisory practices (*Implementation and Assessment Committee*), starting from 2018 IVASS has been a part of the Executive Committee of the IAIS. Below is a summary of the main activities followed by the Institute within the IAIS.

1.1. - The global capital standard for groups operating at the international level

In 2017 IVASS took part in the impact assessment carried out by the IAIS to assess, under a qualitative and quantitative perspective, the effects of the introduction of a global risk-based capital standard (Insurance Capital Standard - ICS) applicable to all internationally active insurance groups.

The year 2017 saw a larger participation, compared to past years, of internationally active insurance groups and laid out the conceptual foundations to develop, by 2019, a stable version of the capital requirement.

IVASS participated in the ongoing definition of the three key components of the ICS: the assessment of assets and liabilities, the classification of capital resources and the standard method to determine the capital requirement. On 21 July, the IAIS published the conceptual paper *Risk-based Global Insurance Capital Standard Version 1.0 for Extended Field Testing* which describes the progress status of the project, the assumptions underlying the design and the calibration of the ICS and the technical options still subject to approval because of the diverging positions still persisting among the different jurisdictions. Work is now concentrated on completing the final version of the ICS (by the end of 2019), which should include a standard methodology for deriving the requirement, so that the results obtained in the various jurisdictions are mutually comparable (substantially equivalent).

Taking into account the political difficulties, due to the reluctance of some jurisdictions to harmonise the capital requirement on a worldwide basis, a compromise has been reached within the IAIS that emphasised convergence in the definition of the standard rather than on the implementation of the ICS in the different jurisdictions adhering to the IAIS. The position that prevailed is that a capital standard cannot be a compilation of divergent approaches that could be implemented without any impact on existing legal frameworks. Although some technical components of the ICS are still to be defined, in November 2017, during the Annual Conference of the IAIS, the agreement concerning a gradual plan for the implementation of the ICS was announced; the plan will take place in two phases:

1. during the first phase, lasting 5 years (“monitoring period”), the standard shall be calculated and transmitted to the group supervisor and used for discussion within the colleges of supervisors. Any infraction of the ICS shall not trigger supervisory actions. The monitoring period will start after the field testing phase, to be completed in 2019;
2. in the second phase, at the expiration of the monitoring period, the ICS will have the characteristics to be implemented as a capital requirement at the group level.

In addition to that of 2018, currently ongoing, the IAIS expects to carry out an additional impact assessment in 2019, before the final adoption of the ICS, for confidential reporting purposes which the supervisors will receive in 2020 on the basis of the data as at 31 December 2019.

1.2. - Revision of the Insurance Core Principles and of the ComFrame by the IAIS

IVASS follows the revision of the Insurance Core Principles (ICP), directed at increasing convergence on global insurance supervision in terms of quantitative requirements as well as corporate governance and organisation. The revision of the ICP is also based on the results of the self-assessment and peer review processes, carried out within the IAIS since 2013.

In the definition of these principles, the IAIS also takes into account the other two levels of measures, which are based on and added to the ICP requirements:

- the Common Framework for the Supervision of Internationally Active Insurance Groups (*ComFrame*) is a set of qualitative and quantitative supervisory requirements on the supervision of internationally active insurance groups. Taking into account the higher degree of complexity, the ComFrame foresees an enhanced supervision for such groups, also through greater coordination and the exchange of information between supervisors;
- *G-SIIs Policy Measures*, specific principles for the supervision of groups with global systemic relevance.

In 2016 the ComFrame principles were integrated within the individual ICP in an organic set and subsequently a public consultation launched by the IAIS in the first part of 2017. This consultation was followed, in November, by the publication of the text of some ICPs (1, 2, 3, 9, 10, 12, 25) while the related text of the ComFrame will be the subject of a new public consultation, planned for the second part of 2018. The revision on ICP, for all principles, and ComFrame will be completed in 2019, when the adoption of both sets of requirements is expected.

1.3. - Work pertaining to Effective Resolution Regime

In 2017, the international work on the resolution of insurance entities continued, taking as a starting point the insurance appendix to the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (KAs) finalised by the Financial Stability Board in 2014. The appendix had been followed, in June 2016, by the publication of a document (*Developing Effective Resolution Strategies and Plans for Systemically Important Insurers*) that identifies the significant aspects of the resolution strategy of systemically important insurance groups. In 2017 the FSB focused on the preparation, also for the insurance sector, of an assessment methodology to evaluate the level of compliance of national regulations with the KAs. A public consultation on the assessment methodology was launched on 21 December 2017, to be followed by the adoption by the end of 2018.

Along with other international initiatives, like the establishment of the Crisis Management Group for systemically important insurance entities (GSII), in 2017 work on the resolution continued within the IAIS. The changes to the ICP and the introduction of standards within the ComFrame (see III.1.2) complete the crisis management international framework of the insurance sector. ICP 10 and 12 were revised; the need for a proportionate approach to risks, dimensions and operational-organisational complexity in the preparation of recovery plans was stressed. The recommendations pertaining to crisis management in insurance undertakings were updated and a set of rules relating to the resolution phase was introduced. The new ICP, published in November 2017, will presumably enter into force by 2019.

1.4. - The international activity relating to the assessment of systemic risk

In 2017, IVASS continued to contribute, also by chairing the related committees, to the works at the IAIS for the development and monitoring of a holistic framework for assessing and measuring systemic risk in the insurance field, which include the activities connected with the designation of systemically important insurance entities (see IV.2.1).

1.5. - The international accounting standards

IVASS follows the activities of the IASB (International Accounting Standard Board), at the national and international level, on the matter of accounting standards.

In May 2017, the IASB issued IFRS 17 (Insurance Contracts) pertaining to insurance contract accounting, which will replace IFRS 4⁵⁹ starting from the 2021 financial statements⁶⁰. The promulgation of IFRS 17 ended a long project, started in 1997, directed at a more effective representation in the financial statements - in terms of transparency and comparability - of insurance liabilities (technical provisions) and at the reduction of the accounting mismatch between assets and liabilities⁶¹.

⁵⁹ IFRS 4, issued as an interim standard, did not introduce any substantial changes to the accounting for insurance contracts, which takes place with the use of national accounting standards (local gaap).

⁶⁰ Early adoption is allowed for undertakings already applying IFRS 9. The regulations prescribe use of IAS for the consolidated financial statements and for the individual financial statements of listed undertakings not belonging to groups.

⁶¹ The accounting mismatch is caused by the different accounting of financial investments, generally measured at fair value, and of the technical provisions, usually measured at cost, according to local gaap.

The differences with current practices are broad, with important organisational and process consequences that will involve the entire corporate organisation (from strategic decisions to business processes, from managing the increased volatility of the economic results, to the intervention on the IT systems and personnel training).

The EFRAG has started the process for the endorsement of IFRS 17, expected, after the European Commission releases its opinion, by the end of 2018.

Of particular importance, from IVASS' supervisory viewpoint, is the level of consistency between the measurements of insurance liabilities for IFRS 17 purposes and the corresponding market consistent measurements for prudential purposes (Solvency II). While there is an overall convergence in the general measurement criteria, there are still considerable differences, not always justified by the different purposes.

Moreover, at the end of 2017 the European Commission transposed amendments to the insurance accounting standard IFRS 4⁶², to address the misalignment between the entry into force of IFRS 9 (Financial Instruments) and IFRS 17. Regulation (EU) 2017/1988 introduced, in addition to the options that allow insurance undertakings meeting determined criteria not to fully apply IFRS 9⁶³, the additional possibility of jointly utilising IAS 39 / IFRS 9 for financial conglomerates (respectively for the insurance and banking part).

2. - THE EVOLUTION OF EUROPEAN REGULATIONS

2.1. - The measures under discussion

2.1.1. - *The European supervisory authorities reform project*

In 2017, the European Commission launched a public consultation on the operation of the European Supervisory Authorities EIOPA, EBA, ESMA (ESAs) established in 2010 and operational since 1 January 2011 to determine, as provided in the De Larosière Report of 2009, whether there are any needs to revise the institutional set-up after the first period of activity.

On 20 September 2017, the final proposal of the European Commission on the reform of European Supervisory Authorities was published and the text is currently under discussion in the EU Council and the European Parliament. IVASS, which participated in the Commission public consultation, provides technical support to the Ministry of Economy and Finance (MEF) for matters under its competence.

⁶² In September 2016, the IASB released the document *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* making amendments to IFRS 4 to allow insurance undertakings to limit negative consequences, such as a greater volatility of the economic results and the increase in operating costs, deriving from the non-concurrent application of the two standards.

⁶³ These options refer to technical solutions proposed by the IASB and provide two alternative approaches: a) temporary exemption from IFRS 9: allows companies whose activities are predominantly connected with insurance an optional temporary exemption (until 2021) from the application of IFRS 9 and parallel use of IAS 39 rules; b) overlay approach: all issuers of insurance contracts are allowed to exercise the option to use IFRS 9 and concurrently reclassifying from profit or loss to other comprehensive income (OCI), with the consequent reduction of volatility.

In general, the Commission's proposal is directed at strengthening the European Authorities, also through greater independence in decision-making processes and in the budget: at present, these areas directly involve all the national authorities of the 28 countries of the Union.

The main areas of the reform proposal, of interest for IVASS, pertain to:

Governance of the EIOPA

The Commission provides for the governance of European authorities to be ever less dependent on national authorities, centralising within the EU significant regulatory and control powers, hitherto exercised in collaboration with national supervisors.

EIOPA financing mechanisms

The envisaged system will replace the current contribution of the national Authorities with financing by the insurance undertakings, in addition to a contribution not exceeding 40% of all expenses to be charged to the Commission's budget.

New powers of the EIOPA

EIOPA is attributed the power of promulgating, every three years, a Strategic Supervision Plan that identifies the objectives and priorities of the supervisory activities for national Authorities.

EIOPA assumes an important decision-making role on the conduct of stress tests and, in cases where the Authority deems it appropriate, individual results of the test can now be published. In the proposal of the Commission, the EIOPA acquires an enhanced role in the approval on the use of an internal model for calculating group solvency. Lastly, EIOPA is given full authority on the assessment of the convergence of supervisory practices and on the ability of the supervisory authorities to achieve high quality results, which currently are carried out by peer working groups.

IVASS agrees with the purpose of strengthening the EIOPA action pursued by the Commission's proposal, although it deems that it can be achieved facilitating the effective and concrete utilisation of the powers already available to the European authorities, rather than creating new powers or experimenting with new forms of governance. An area for which the Institute promotes enhancing the powers of EIOPA is the one pertaining to the coordination between the national Authorities as regards supervision on the cross-border activity carried out by EU undertakings, with the goal of making more timely interventions in case of critical issues, increasing policyholder protection.

2.1.2. - The proposed regulation on a pan-European pension product (PEPP)

On 29 June 2017, the European Commission presented a draft Regulation for the establishment of a second pension scheme based on an individual European product (Pan-European Personal Pension Product) to be added to the individual pension schemes existing in the various member States. The PEPP is a pension savings product:

- promoted by a broad range of providers authorised to operate in accordance with their respective EU-derived regulations (banks, insurance undertakings, asset management companies, corporate or professional pension funds - IORP etc.);
- subject to the prior authorisation or revocation of EIOPA, on the basis of defined conditions and with the prior opinion of the provider's national supervisory authority. The authorisation by EIOPA attributes to the PEPP the European passport, whereby it may be distributed under freedom of establishment or freedom to provide services in all EU countries;
- that provides an investment line which guarantees capital protection;
- that can provide the hedging of biometric risks;
- with pension benefits in the form of annuity, capital, down payment under redemption.

Briefly, the PEPP is an individual pension product offered by a broad range of operators competing on the market and portable in European Union countries.

The draft Regulation is based on the EIOPA technical advice of July 2016, which suggested to define the salient characteristics of a European pension product instead of harmonising the market of individual products, also taking into account the considerable differences existing in the tax regimes of the different member States.

The proposal of the Commission is under review by the European Council working group; for Italy, the Ministry of Economy and Finance participates with the technical support of IVASS and COVIP.

2.1.3. - *The motor insurance Directive*

The revision of the UE Directive on motor vehicle insurance (Directive 2009/103/EC) is one of the qualifying points of the Consumer Financial Services Action Plan of 23 March 2017 and of the Green Paper on retail financial services of 2015 and is a part of the European Commission REFIT programme for the simplification of European Union legislation.

The European Commission has carried out preparatory analyses involving the national Authorities and the stakeholders, to whom specific questionnaires were addressed. On 24 May 2018, the draft Directive was presented; it is intended to strengthen the protection of victims of road accidents and policyholders' rights.

In detail, the main changes in the Commission's proposal are as follows:

- *extension of the intervention of the Guarantee fund to the insurer's insolvency.* In cross-border situations, if the insurer of the vehicle of the party responsible for the claim is insolvent, the damaged parties will be reimbursed by the Fund of their country of residence, but the definitive financial burden will be borne by the Fund of the State of the registered office of the insolvent insurer;

- *portability of claims history certificates*: insurers shall treat the claims history certificates issued by an insurer of another member State the same way as those issued by the insurers of their own State;
- *levelling the amounts of the minimum amounts of cover in all EU states*: the European Commission acknowledged that, by effect of the transitory periods prescribed by the motor vehicle Directive, the mandatory minimum amounts of cover are not equal in all EU States. The proposal is directed at harmonising the minimum amounts of cover and the inflation adjustment procedure in the entire EU;
- *stronger contrast to the circulation of uninsured vehicles* through additional border checks, but without hampering the flow of vehicles;
- clarifications on the scope of the insurance obligation in line with the EU Court of Justice's case-law.

2.1.4. - Law-making initiatives on sustainable finance

On 24 May 2018, the European Commission presented three draft regulations on sustainable finance, which also pertain to insurance undertakings and distributors, thereby following up on the January report of the High Level Expert Group and on the Action Plan of March 2018. On 29 May, the European Parliament promulgated a resolution to recommend a binding, proportional labelling system, initially on a voluntary basis, for undertakings that offer financial services, in order to indicate to what extent the assets are in line with environmental, social and governance (ESG) objectives.

In particular, the draft regulations create a unified classification at the EU level about the environmental objectives and identify the criteria to determine whether an economic activity is eco-sustainable, making consistent the procedures whereby institutional investors (including insurance undertakings) integrate ESG factors in their decision-making processes and define indicators to determine investments with low carbon impact.

The Commission also announced that it will shortly submit further draft delegated regulations to amend Regulations no. 2017/2359 implementing the IDD, pertaining to information obligations and rules of conduct, as well as the MIFID2 implementing Regulation, integrating ESG elements in the advice provided by investment and insurance undertakings. For its concrete application, a period of 18 months from the date of entry into force would be granted.

2.2. - The activity of the European Supervisory Authorities

2.2.1. - Monitoring and development of the Solvency II regulation

a) The revision of the standard formula for calculating the solvency capital requirement

In 2017, IVASS actively participated in EIOPA's works on the revision of the standard formula for calculating the solvency capital requirement and contributed to define the technical recommendations and the regulatory proposals to amend the delegated Regulation officially sent

by EIOPA to the European Commission in November 2017. A second part of the work, based on studies and analyses of the data of national undertakings, ended in February 2018.

The Institute worked on the project, following the key principles defined by the European Commission (promoting the simplification of the calculation of the standard formula to assure proportionality; eliminating inconsistency in the technical framework of the regulations; removing obstacles to the development of long-term investments), ensuring that the specific features of the Italian insurance market were well represented in the EIOPA final recommendations.

b) *The annual report on the measures for products with long-term guarantees (LTG)*

In 2017, IVASS collaborated on the five-year EIOPA project, launched in 2016, on the use of LTG measures by insurance companies⁶⁴.

The results of the analyses, published by EIOPA in December 2017⁶⁵ and referred to data as of December 2016, show that a wide use of the LTG measures persists. The market share of the undertakings that use them, in terms of technical provisions, stands at 70% in Europe and at 96% in Italy. Volatility Adjustment (VA) was confirmed to be the most widely applied measure in Europe and the only one used by Italian undertakings (see box in I.5.8).

The measures that produce the greatest effects for undertakings, in terms of reduction of the capital requirement, are the transitory rules on technical provisions (used in the United Kingdom, Germany, France, Spain, Portugal, Finland and Norway) and the Matching Adjustment (applied only in Spain and the United Kingdom).

The LTG measures produce greater impacts for undertakings that use more than one measure concurrently (in countries like Germany, United Kingdom, Spain and Denmark). For some countries the average solvency ratio would be lower than 100% without application of the measures. Italy is among the countries that least benefit from LTG measures.

c) *The determination of interest rate curves to calculate technical provisions*

IVASS participates in EIOPA's work for the determination of the risk free interest rate term structures and of the related matching and volatility adjustments. These structures constitute the discount curves that, in the Solvency II regime, should be used to calculate technical provisions.

After the Solvency II preparatory phase, during which these curves were informally disclosed to assist European insurance undertakings and groups in the shift to the new framework, since 2016 EIOPA has published, on a monthly basis, the curves for 33 currencies in 52 States and the volatility adjustments for 36 States. Every three months they are communicated to the European

⁶⁴ The multi-year monitoring is directed at providing European bodies with information for a possible regulatory revision of LTG measures expected for 2021. Of these measures, the Volatility Adjustment and the Matching Adjustment attenuate the artificial short-term volatility due to exceptional variations in interest rates. The transitional measures on technical provisions and on interest rates have the purpose of making the shift of the calculation of technical provisions between the Solvency I and II regime gradual. The analysis was carried out on the basis of quantitative information obtained from supervisory reporting and on other data requested to undertakings (see Letter to the market of 9 March 2017 https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2017/lm-09-03/Lettera_al_mercato_del_9_marzo_2017_Impatto_misure_LTG.PDF).

⁶⁵ <https://eiopa.europa.eu/Publications/Reports/2017-12-20%20LTG%20Report%202017.pdf>.

Commissions that transposes them with its own regulatory act (Implementing Regulation) published on the European Official Journal.

On 31 January 2018, EIOPA published a revision of the technical documentation on the calculation of the risk-free interest rate curve, in particular for the derivation of the Ultimate Forward Rate (UFR), starting from the calculations of the curve at the end of January 2018.

2.2.2. - Consumer protection

IVASS follows the work of the Committee on Consumer Protection and Financial Innovation within the EIOPA.

With reference to market monitoring, the proposal for the half-yearly exchange of information between Authorities based on early warning signals was completed. The monitoring, already prescribed by the PRIIP Regulation in relation to investment products (IBIP), was extended by the IDD to all insurance products, attributing a coordinating role to EIOPA.

The Commission launched a survey on the costs and performance of the main categories of long term retail investments and pension products, for a verification of the transparency and comparability of the main products to the benefit of consumers.

In 2017 EIOPA launched the publication of Q&As to facilitate convergence in the interpretation of EU regulations on insurance distribution and in the exercise of the national supervisory activity. Two questionnaires, addressed to national Authorities and stakeholders, collected the main interpretative questions on the issues in Delegated Regulations no. 2358/2017 and 2359/2017 on product oversight and governance (POG) and insurance based investment products (IBIP). The replies by EIOPA are not binding for the member States, which maintain discretion on how to implement EU legislation.

EIOPA issued an Opinion at the end of the Thematic Review on monetary and remuneration incentives between providers of asset management services of unit-linked policies and insurance undertakings. The survey highlighted potential sources of detrimental effects for consumers deriving from the relationship between insurance undertakings and fund managers in the construction of unit-linked policies, with particular reference to the way in which the remunerations of fund managers can influence the composition of the portfolios of insurance undertakings and hence impact the correct application of the principle of consumers' best interest.

The reference European legal framework (IDD, PRIIP Regulation, Solvency II Directive) contains general principles on conflicts of interest and the obligation to act in the customer's best interest, but does not address in detail the measures to be adopted in the management of monetary practices. The Opinion, taking into account the national measures already adopted by some member States (including Italy), intends to promote the highest level of convergence of the supervision on the procedures for applying the principles referenced in the regulations.

In 2017 the EIOPA Guidelines on the IBIP were approved; these products incorporate a structure that makes it difficult for the customer to understand their underlying risk. The Guidelines apply only to the countries that intend to exercise the option provided in the IDD to

allow the distribution of non-complex products without advice, i.e. without carrying out an investigation on the type of product that best meets the policyholder's needs (execution only regime).

2.2.3. - The revision of the Protocol between the Supervisory Authorities for the application of the IDD

Work continued for the revision of the Luxembourg Protocol on the cooperation between EU countries on insurance distribution. An agreement was reached to employ the same structure used for the General Protocol - approved by EIOPA in 2017 - with the publication of a Decision whereby EIOPA enacted the content of the Protocol in the form of an annex.

Among the issues of relevance are the alignment of the contents of the Luxembourg Protocol to those of the General Protocol, in consideration of the similarities that exist between the cross-border activity of insurance undertakings and of intermediaries, with particular reference to supervisory activity and to the exchange of information on the integrity of intermediaries.

2.2.4. - EIOPA initiatives on the convergence of supervisory practices

a) Peer reviews

IVASS actively participates in the Review Panel of EIOPA, within which, in 2017, two peer reviews continued on the issues related to proportionality applied to the corporate key functions of insurance undertakings and of the requirements of integrity and reputation of the directors (propriety) of insurance undertakings and of shareholders (see IV.1.2.1).

The peer review on key functions observed homogeneous approaches among EU Supervisory Authorities in the application of the proportionality principle whereas the view on the eligibility of the combination between the internal audit function and the operational functions is not always in agreement. In general, no conflicts of interest are deemed to exist in the cases of combination between the legal function (deemed a non risk-taker), although operational, and the compliance function. The need for more focused ongoing audits on the adequacy requirements of the heads of the key functions is highlighted, in particular for those appointed before 2016.

With reference to the peer review on the directors' requirements, the analyses highlighted the need for greater uniformity in the definition of the integrity and reputation requirements and for an enhanced harmonisation among the Authorities in case of cross-border activities.

b) Assessment of the internal models with dynamic volatility adjustment

IVASS participates in EIOPA work for the preparation of an Opinion directed at harmonising the supervisory practices of European supervisors towards undertakings or groups that use an internal model for the calculation of the solvency capital requirement (SCR) and that opted for the "Dynamic Volatility Adjustment" (DVA). The Opinion contains recommendations about technical modelling profiles, good risk management practices and public disclosure by the undertakings that use a DVA.

c) *The EIOPA supervisory handbook and the IVASS supervisory guidelines*

Work continued on the preparation of the EIOPA Supervisory Handbook, with the dual purpose of contributing to the creation of a uniform supervisory culture and practice in the European Union, an institutional objective for EIOPA, and of serving as a reference for the individual Supervisory Authority in the new Solvency II context.

In 2017 and in early 2018, a first phase of the works - started in 2013 - was completed with the approval of the following chapters: risk assessment framework and recommendations for first pillar supervision (technical provisions, own funds and solvency capital requirement) and second pillar (administrative body, key functions, investments and ORSA), group supervision and internal models. Together with the handbook, which at the moment is intended only for supervisors, EIOPA published a document (*A common supervisory culture - Key characteristics of high-quality and effective supervision*) containing the fundamental principles and characteristics of effective, high quality supervision. In particular, authorities are recommended to adopt a supervisory approach that is risk-oriented and proportional, prospective so as to be proactive and forward-looking, characterised by the proper critical and intrusive attitude (respecting entrepreneurial freedom), complete (with a view to the range of risks to which the supervised undertaking is exposed), able to reach adequate and timely conclusions. In addition, the importance of adequate governance of the supervisory process is specified.

IVASS continued its work on the new supervisory Guidelines, to adapt supervisory methods and procedures to the new context, also taking into account the recommendations of the EIOPA Supervisory Handbook and the initial supervisory experiences. In particular, a new procedure was introduced for the pre-assessment of supervised undertakings (rating), to orient subsequent off-site evaluation and on-site inspections; the chapters on technical provisions were revised and supplemented, as well as those about corporate governance, to take into account the changes to the regulatory framework, updating the related supervisory procedures.

2.2.5. - EIOPA and ESRB activities pertaining to the management of insurance crises

The creation of a European harmonized framework for the management of insurance crises is a matter of attention for EIOPA and for ESRB, which continued the work started respectively in 2015 and in 2016.

In July 2017, EIOPA published an Opinion addressed to the European Commission, whereby, on the basis of a qualitative impact assessment, it recommends the definition of a European minimal harmonisation framework on resolution, specific for the insurance sector.

The work of the ESRB on the implications of a European framework for the insurance sector resolution, led in 2017 to the publication of a Report that analyses resolution issues in macroprudential terms, anticipating - in this case as well - the establishment of a European harmonized resolution framework, to be applied to all insurance undertakings.

2.2.6. - Joint Committee of the European Supervisory Authorities (ESAs)

In 2017, the Joint Committee, a forum for cooperation between the European Authorities EBA, EIOPA and ESMA, has dealt with questions pertaining to consumer protection and the activity for the regulation and monitoring of the financial sector.

The most relevant activities involved packaged retail investment and insurance products, in which the amount due to retail investors is subject to market fluctuations (see III.3.1.2), for which the Committee published Q&As directed at facilitating a uniform interpretation of the provisions of the implementing rules for Delegated Regulation (EU) 2017/653 concerning the Key Information Document (KID) to be delivered, in accordance with Regulation 1286/2014, to retail buyers of PRIIPs.

The Joint Committee also prepared a technical Opinion for the European Commission on products with environmental or social purposes (PRIIP EOS), to set the minimum requirements to be met by PRIIP EOS producers in order for these products to meet the needs of retail investors. Based on this Opinion, the EU Commission will adopt the related delegated act as provided by Article 8.4 of Regulation (EU) 1286/2014 on the PRIIP.

For consumer protection purposes, further study was carried out on the use of big data and of personal data by financial institutions to profile consumer categories, typify behaviours and propose products designed for specific market segments. The study led to assessments on opportunities and risks generated by use of big data, as well as considerations on the existing sectoral regulation and on any regulatory and supervisory measures.

The Committee contributed with an Opinion to the work of the European Commission on the assessment of the risks connected with money laundering and with monitoring the funding of terrorism in the European financial sector. Guidelines were prepared on the disclosure and on the procedures in the fund transfer activity, as well as on the factors to be considered in the assessment of the risks of money laundering and terrorist financing associated with individual continuous dealings and with occasional transactions (see IV.3.3).

Other contributions pertained to the periodic monitoring of market conditions, the assessment of inter-sectoral risks and of the vulnerabilities of the financial system, as well as the revision of the Implementing Technical Standards - ITS on the assignment of the external ratings of certified rating agencies (ECAI) in the Credit Quality Steps (CQS) of Solvency II and of the banking capital requirements regulation to include the ECAI registered after the promulgation of the ITS.

The Committee, in addition to overseeing the annual revision of the list of conglomerates with financial parent companies in the European Union and in the European Economic Area, launched a project for the development of the implementing technical standards for harmonised reporting to transmit supplementary supervisory information on intra-group transactions, risk concentration and capital adequacy.

3. - THE EVOLUTION OF NATIONAL REGULATIONS

3.1. - The transposition of EU regulations

3.1.1. - The Insurance Distribution Directive (IDD)

In 2017, work started for the transposition in the national regulations of Directive 2016/97/EU on insurance distribution, of crucial relevance for the sector. IVASS devoted significant effort to assure technical support to law-making bodies in the preparation of the draft legislative decree implementing the Directive and amending and integrating the current text of the CAP.

Based on the delegated criteria prescribed by European Delegation law 2016 , no. 163 of 25 October 2017 (Official Journal General Series no. 259 of 6 November 2017), Legislative Decree no. 68 of 21 May 2018 was adopted, introducing amendments to the CAP and to the TUF in compliance with the Directive.

The main changes pertain to:

- enhancement of consumer protection through more complete disclosure, to avoid providing distorted advice and recommending products that are remunerative for the seller but are not in the consumer’s best interest;
- extension of the scope of the provisions; the emphasis is on the notion of “distribution” rather than on pure “mediation” and the parties required to comply with placement provisions were expanded, extending them to the direct sale by insurance undertakings and reducing exemptions;
- inclusion in the notion of insurance distributor of ancillary insurance intermediaries, subjected to the provisions pertaining to rules of conduct, professional requirements, and registration obligation;
- more detailed regulations on the cross-border activity of intermediaries, with particular reference to the licensing procedure and to the allocation of powers between *Home* and *Host* authorities;
- accountability of undertakings since the product design phase (POG) which must include the assessment of the policyholder’s needs, hitherto carried out by the distributor only during the sale phase (product suitability test). There is a request to define internal organisational procedures to identify, with a sufficient level of granularity, the different types of customers for which the products will be intended;
- provision of a supplementary set of rules to be observed for the sale of insurance-based investment products (IBIPs);
- revision and rationalisation of precontractual disclosure. In particular, the new disclosure is aligned to the standardised precontractual disclosure prescribed at the European level for

non-life products and IBIPs (Regulation EU no. 1286/2014, relating to the KID supplemented by the provisions of delegated Regulation EU 2017/653 of the Commission of 8 March 2017, mandatory since 1 January 2018).

The provisions on POG and IBIP prescribed by the CAP are, moreover, supplemented by the detailed rules prescribed by the directly applicable European regulations, per the Delegated Regulations of the European Commission no. 2017/2358 and no. 2017/2359.

On the occasion of the implementation of the IDD, the Consolidated Law on Finance was amended again, after the 2016 interventions with the entry into force of the EU PRIIPs Regulation and in 2017 on the occasion of the implementation of the MIFID2 Directive. The new text eliminates the allocation of competences on Class III and V products, and it provides that CONSOB shall be competent for all IBIPs sold through intermediaries registered in section D of the RUI, while IVASS shall be competent for the IBIP distributed through all the other channels, as well as for product governance profiles. In any case the TUF provides that the regulatory power of CONSOB shall be exercised after consulting IVASS, in compliance with the rules of the CAP and of the delegated Regulations, to assure uniformity to the applicable regulations for all distribution channels regardless of the competent authority.

On 8 June 2018, IVASS launched the public consultation on two draft Regulations on distribution and transparency of insurance products.

The draft Regulation on distribution introduces comprehensive provisions with reference to rules for accessing the market, for exercising the activity, for the conduct of operators in the sale phase, as well as for training and professional updates.

The draft regulation on transparency, advertising and product design introduces the pre-contractual information documents (DIP) with uniform format and with standardised content in order to facilitate the understanding and comparability of products, both life and non-life, by consumers. The transposition of the IDD also provided the opportunity for a comprehensive revision of the sanctioning system (see III.3.2.4), for the introduction, in the insurance field as well, of a system for the out-of-court settlement of disputes (see III.3.2.3) and for the inclusion in the CAP of a comprehensive set of rules, in the insurance sector, for the reporting of unlawful acts or facts by employees or collaborators of insurance undertakings or insurance mediation companies (whistleblowing).

3.1.2. - The Directive on non-financial reporting of large companies and of large groups

In the 2016 IVASS Annual Report, reference was made to the legislative decree transposing the MIFID2 Directive on the obligation to disclose non-financial information, i.e. environmental, social, pertaining to personnel, to the respect for human rights, to combating corruption. In 2017, IVASS provided CONSOB with the prescribed opinion on the implementing regulation adopted with the resolution of 19 January 2018 (Official Journal of 26 January 2018). The CONSOB regulation clarifies, *inter alia*, the advertising regime for the non-financial statement, the procedures and terms for the control under its competence, the definition of the concept of turnover.

3.1.3. - The Directive on shareholders' rights

On 20 May 2017, the Official Journal of the European Union published Directive 2017/828/EC of 17 May 2017 (SHRD2) that amends Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies (Shareholders' Rights Directive - SHRD).

The SHRD2, aiming at encouraging shareholders' long-term commitment, introduces obligations and rights of shareholders in the corporate governance of listed companies and introduces more detailed provisions on the transparency of remuneration and on related party transactions.

The insurance or reinsurance undertakings that exercise the life business shall be required, in their capacity as institutional investors, to define and communicate the policy lines on their commitment as shareholders, while also communicating the procedures whereby they implement these lines (voting behaviours; consistency between the investment strategy and the profile and duration of liabilities; the content of the agreement with the asset manager, when relevant).

A technical working group was activated at the Ministry of Economy and Finance with IVASS and the other supervisory authorities involved in the transposition of the Directive in the national legislation.

3.2. - National initiatives

3.2.1. - The law on medical liability

Law no. 24 of 8 March 2017 redesigned the system of liabilities and guarantees for physicians and health care facilities with respect to patients, to reduce litigation on this matter that contributed, in recent years, to raise the cost of insurance coverage for professionals and for health care facilities.

The law regulates insurance obligations for:

- health care facilities, for civil liabilities to third parties and to workers, also for damages caused by personnel working for any reason at the facilities, including alternative solutions to the stipulation of policies, such as self-insurance or the establishment of a compensation fund;
- health care professionals who carry out their activities outside a facility or as self-employed professionals, for the stipulation of a policy for third-party civil liability;
- health care professionals working at public or private facilities, for the stipulation of a policy to cover gross negligence.

The law provides for four implementing ministerial decrees of direct interest to IVASS, aiming at defining:

- the minimum requirements of these policies;

- criteria and procedures for IVASS’ supervision on the undertakings that offer the coverage regulated by law;
- the procedures for collecting data on the operation of the market;
- the procedures for contribution and functioning of the Guarantee Fund established by the law for damages deriving from health liability to safeguard damaged parties and health care professionals, which will be managed by Consap and funded by an annual contribution paid by undertakings.

For the implementation of the decrees, two working groups were established, one at the Ministry of Economic Development and the other one at the Ministry of Health, to which IVASS provides its technical contribution.

3.2.2. - *The law on competition*

Law no. 124 of 14 August 2017, entered into force on 29 August 2017, introduces provisions aiming at removing obstacles to the opening of markets, at promoting the development of competition and at guaranteeing customer protection, also in application of the European principles of free circulation, competition and opening of markets.

The law introduced relevant rules pertaining to insurance, mainly MTPL in the phase of stipulation and management of the contract and in the phase of loss assessment and settlement in addition to professional liability insurance and policies linked to mortgages and consumer loans.

a) *MTPL*

Obligation to insure (Article 132 CAP): insurance undertakings may decide not to accept proposals to stipulate MTPL contracts if the checks performed (also by consulting sector databases and the integrated electronic database at IVASS) show that the information provided by policyholders are not correct or truthful. In this case, undertakings are required to recalculate the premium on the basis of the correct information and to send a new estimate to the policyholder. If a breach of the obligation to insure is reported, the regulatory deadlines for handling complaints by IVASS shall be reduced by half.

Intermediaries' duties to provide information (Article 132-*bis* CAP): insurance intermediaries are required, before stipulating the MTPL policy, to inform consumers in a transparent, correct and exhaustive manner about the premiums offered by all insurance undertakings of which they are representatives in relation to the “basic contract”, or the contract shall be declared void only in favour of the customer. The information is disclosed through the IVASS-MISE estimator; IVASS shall adopt the implementing provisions to assure the access and electronic reply to consumers and to intermediaries.

Mandatory discounts (Article 132-*ter* CAP): introduction of significant mandatory discounts in view of the execution of certain contractual clauses (preliminary inspection of the vehicle; installation of black boxes or similar devices; alcohol-lock) and mandatory additional discounts

for policyholders who installed the black box, who have not caused accidents in the past 4 years and who reside in the areas under greater accident risk (see III.3.3.1).

Bonus-malus system (Article 133 CAP): a prohibition is introduced to prevent undertakings from differentiating the progression and assignment of the internal bonus class on the basis of the duration of the contractual relationship between the policyholder and the undertaking, or on the basis of parameters that may be an obstacle to mobility between different insurance undertakings.

Tacit renewal prohibition (Article 170-*bis* CAP): the tacit renewal prohibition, until now prescribed exclusively for MTPL contracts, is extended, to the insurance of ancillary risks (driver's injuries, fire and theft, etc.) if the same contract, or another contract stipulated concurrently, simultaneously guarantees the main risk (MTPL) and the ancillary risks themselves.

IVASS databases (Article 135, paragraph 2 CAP): the obligations to feed the IVASS databases are extended to additional categories of claims (claims managed by the undertakings designated on behalf of the Guarantee Fund for Victims of Road Accidents; claims managed by the Ufficio centrale italiano) and the feeding obligation is prescribed also for undertakings operating in Italy under the freedom of establishment or the freedom to provide services.

Mandatory minimum amounts of cover: for motor vehicles to be used to transport persons (e.g. buses and the like), the minimum amounts of cover prescribed by the law are increased (15,000,000 euro per claim, for personal injuries and 1,000,000 euro per claim, for material damage, amounts doubled from 1 January 2018).

Non-financial damage - Single table for macro-injuries: the law partly reformulates Articles 138 and 139 of the CAP relating to the compensation for the non-financial damage consequent to road accidents, providing for the compensation of non-minor injuries (10-100% of permanent disability) a single national table, to be adopted with Presidential Decree within 120 days from the entry into force of the law. This guarantees the right of accident victims to full compensation of the non-financial damage actually incurred and allows the rationalisation of the costs bearing on the insurance system and on consumers. The main changes pertain to:

- express reference to the consolidated case law for the single national table;
- the explicit introduction of the principle of exhaustiveness of the settlement of the damage;
- express reference to the component of “non-material damage” included in the Table as a part of the biological damage and determined with an increase expressed as a percentage and progressive by point;
- documentation and objective ascertainment of the personal dynamic-relational aspects on which the ascertained disability may have had a significant impact.

Probative value of the black boxes and new procedures for identifying witnesses: black boxes are expected to fully serve as evidence in civil proceedings, unless the counterparty demonstrates that they were inoperative or tampered with. The identification of any witnesses on the accident

site must be part of the first formal act of the damaged party with respect to the insurance undertaking; late identification entails the inadmissibility of the testimony in the proceeding.

b) *Professional liability insurance*

The law introduces, for the insurance coverage relating to professional liability, the obligation for undertakings to provide, in the general conditions of the insurance policies, the offer of extended cover for claims for compensation presented for the first time within the period of ten years following the expiration of the policy and referred to facts generating the liability that occurred during the period when cover was provided. The extended coverage obligation applies to policies valid when the law entered into force; therefore, if the policyholder requests it, undertakings propose the renegotiation of the contract, on the basis of the new premium conditions.

c) *Policies linked to mortgages and consumer credit loans*

The law provides the obligation, for credit institutions and financial intermediaries, to accept life and non-life policies chosen from the market by the customer, when if the granting of the mortgage loan or of the consumer credit is conditional upon the stipulation of an insurance contract, or when the offer of an insurance contract is connected or ancillary with respect to the granting of the loan or credit. The policy presented by the customer must have minimum contents corresponding to those required by the credit institution or by the financial intermediary. If the customer selected the policy independently, it is not possible to change the conditions offered for the granting of the mortgage loan or of the consumer credit.

For policies underwritten upon stipulating the loan and proposed by the credit institution, by financial intermediaries or by their appointees, the customer shall be entitled to withdraw within 60 days from stipulation; the loan agreement remains valid and effective.

In terms of the disclosure obligation in the customer's favour, the law prescribes that institutions granting credit and insurance undertakings shall inform the customer of the above with separate communication with respect to the contractual documentation; banks and financial intermediaries shall also inform the customer of the commission received and of the amount of the commission paid by the insurance company to the intermediary.

3.2.3. - *The insurance Arbitrator*

The transposition of the IDD in the Italian legislation allowed the introduction, in the insurance field as well, of a system for the out-of-court settlement of disputes, aligning the sector to the banking and financial laws and regulations.

IVASS already performs an important role in preventing insurance disputes and in facilitating their solution, in managing consumers' complaints, where it intervenes not only to ascertain compliance with the law (sanctioning profiles) but also to facilitate the resolution of disputes (moral suasion). However, this system has readily apparent limits in the lack of the Institute's decision-making power.

The need to provide an insurance Arbitrator, along the lines of the ABF of the banking sector and of the ACF of the financial sector, was pointed out by IVASS on various occasions,

also through proposals to the Government and the Parliament, where IVASS declared its willingness to have the Arbitrator established at the Institute.

Considering the high level of litigation in the insurance sector, the presence of an effective ADR offers consumers a rapid and economic alternative to lodging a complaint before a judge and can reduce in court and out of court disputes and the related costs, with positive effects for the system, on the level of the premiums required from policyholders.

To implement the provisions of the IDD and of the delegation law, the draft legislative decree supplements the CAP, introduces the concept of “out-of-court redress systems” and prescribes the obligation for parties under IVASS supervision to comply with the procedures for the out-of-court settlement of disputes, subordinating the start of the new system to the overcoming of the current cap on the number of IVASS’ staff, as well as to the provision of an adequate mechanism for financing the new body.

A decree of the Minister of Economic Development, with the Justice Minister, at the proposal of IVASS, is to define the organisation, the operation of the out-of-court redress systems, to identify its area of competence, as well as the procedures and criteria for selecting parties that concretely will have to examine and resolve insurance disputes. The regulation identifies the financing sources of this activity in the resources deriving from the contributions for supervision paid by insurance undertakings and by intermediaries in accordance with Articles 335 and 336 of the CAP.

Lastly, in view of the new responsibilities attributed to IVASS, the number of staff necessary to perform such activities is to be increased and a decree by the Ministry of Economic Development, at the proposal of IVASS, is to determine the procedures whereby users shall contribute to the cost of out-of-court redress systems.

The provisions do not prejudice use of other instruments for the protection of the rights prescribed by law. The link with current regulations on assisted mediation is assured (Article 5, Paragraph 1-*bis*, of Legislative Decree no. 28 of 4 March 2010), providing that initiating the proceeding before the insurance Arbitrator equates, for the purposes of the subsequent exercise of the action in court (precondition for bringing legal proceedings), to the recourse to assisted mediation.

3.2.4. - The new sanctioning system

The sanctioning system of the CAP pertaining to the violation of rules other than insurance distribution had remained unchanged even after the transposition of the Solvency II Directive and, hence, it continued to be characterised by only pecuniary sanctions of small amounts, which proved to be weak and ineffective deterrents. The transposition of the IDD in the national legislation provides the opportunity to carry out a significant revision and rationalisation of the sanctioning system for the violation of insurance distribution rules to be implemented with the provision of both pecuniary administrative sanctions for natural persons as well as for legal persons, that are more effective and dissuasive, as well as other non-pecuniary sanctioning measures. With the comprehensive revision of the sanctioning system, new rules are also identified in relation to violations concerning the general exercise of the business activity, with

respect to failure to comply with the provisions safeguarding sound and prudent business management and protecting policyholders.

The delegated law was aimed at achieving a dual objective:

- to create, moving from a unitary and comprehensive vision of the system, an insurance sanctioning apparatus that is balanced, comprehensive, proportional and incisive, adequately effective for dissuasion and deterrence purposes;
- to harmonise insurance regulations, maintaining their specificity, with current banking regulations, in line with the provision of the law establishing IVASS.

In this perspective, the intervention on the CAP fully reconsidered Title XVIII (*Sanctions and sanctioning proceedings*) providing significant changes: the possibility to impose direct sanctions, in the presence of specific conditions, on natural persons (corporate representatives and other parties included in the organisation of the undertaking in any capacity); higher limits to pecuniary sanctions but at the same time new criteria for scaling the sanctions; non pecuniary measures (temporary ban with the temporary suspension for exercising functions at the companies, enforceable as a measure in addition to the pecuniary one with respect to natural persons for violations of particular severity; cease and desist order, i.e. an administrative sanction alternative to the pecuniary one consisting of the order to cease the violations); new forms of publication of the sanctioning orders.

The delegated law introduces specific measures for deflating sanctioning proceedings, whose number is now particularly high (over 2,000 per year), especially if compared to the banking and financial sectors, and hitherto focused on individual violations, often of little relevance, instead of on the observation of the overall behaviour of the supervised party. Multiple violations of the same kind perpetrated in a given time interval shall be assessed on a unitary basis by IVASS and shall be notified with a single act (“consolidation”). This assessment procedure is expressly referred to massive, recurring violations by undertakings (e.g. on the matter of MTPL claims settlement, claims history certificates, insurance certificates, omitted or late responses by undertakings to the complaints of policyholders/damaged parties) and by intermediaries (e.g. for violations of the rules of conduct and conflict of interest, precontractual information and transparency of the premiums and of the contractual conditions).

In the overall revision of the sanctioning system of the insurance sector and similarly with the provisions for the banking sector, it was deemed necessary to replace the principle of the absolute lack of prejudice (Article 326, Paragraph 1 of the CAP), that is difficult to define and demonstrate in legal proceedings, with the more concretely identifiable principle of the “relevance of the violation”, assessed on the basis of requirements to be defined by IVASS with a regulation. Concerning violations pertaining to sound and prudent business management, similarly to the banking sector, if they are not highly offensive or dangerous, instead of pecuniary administrative sanctions, the cease and desist order may be issued.

The revision of the system affects procedural aspects relating to the imposition of the sanction; in this area, one of the most important changes is the overcoming of the current

coexistence, for violations perpetrated by insurance intermediaries, of a pecuniary sanctioning proceeding and a disciplinary proceeding for the same offence.

On 8 June 2018 IVASS launched a public consultation on the draft Regulation for sanctioning proceedings, completing the regulatory reform of the sanctioning system introduced by lawmakers in the new CAP upon transposing the IDD.

The draft Regulation thus intervenes on the criteria of application of the principle of the relevance of the violation, on the identification of the reference time interval for the unitary assessments of violations of the same kind, on the notion of turnover and on amendments to the procedures.

3.2.5. - The new IVASS rules on the corporate governance system of undertakings and groups

IVASS continued to define safeguards on the corporate governance of insurance and reinsurance undertakings and groups. In July 2017, a public consultation on the draft regulation no. 2/2017 was launched: it operated a profound revision of the rules on this matter, implementing Articles 30 and 215-*bis* of the CAP and proposed a first, concrete application of the proportionality principle.

The document transposes the EIOPA Guidelines on the corporate governance system, in accordance with the Solvency II Directive and confirms, when compatible with the new European and national regulatory framework, the provisions of ISVAP Regulation no. 20 of 26 March 2008, introducing provisions on internal controls, risk management, compliance and outsourcing, of ISVAP Regulation no. 39 of 9 June 2011 on remuneration policies, as well as of ISVAP Circular no. 574/2005 on outward reinsurance.

The public consultation saw a very broad participation by the market (over 350 comments by 17 stakeholders). The final text safeguards what was anticipated by the IVASS Letters to the market of 15 April 2014 and 28 July 2015, as well as the framework of Regulation no. 20/2008, eliminating provisions that were inconsistent with the new regime and framing the new provisions within the regulations of the CAP and of the Delegated Acts.

The qualitative management requirements were strengthened; together with the quantitative prudential requirements, they are safeguards protecting the stability of undertakings and groups, through the definition of a comprehensive set of rules pertaining to:

- the corporate governance system, with particular reference to the role of corporate bodies, to the adequacy of the organisational structure, to internal control and risk management systems and to the eligibility for office of corporate representatives and of those who carry out key functions;
- the key functions of corporate governance and outsourcing;
- the remuneration policies, in line with international and European guidelines, to enhance their consistency with medium-long term objectives;

- the group corporate governance, through the implementation of the EIOPA guidelines, referred directly to the group and the explicit definition of what the primary European and national regulation leaves in most cases in implicit form, through the reference to the *mutatis mutandis* principle, including detailed rules of the emergency plan of groups reporting for financial stability purposes.

3.3. - Other regulations and regulatory interventions by IVASS

3.3.1. - Regulations

Regulation no. 37 of 27 March 2018 identifies the criteria and procedures on the basis of which insurance undertakings apply the mandatory discounts on the MTPL premium under Article 132-ter, Paragraphs 2 and 4 of the CAP, introduced by the market and competition act no. 124/2017, in favour of:

- policyholders who accept the prior inspection of the vehicle or who install or have installed electronic mechanisms that record its activity (black box or equivalent) or that prevent the engine from starting if the driver's blood alcohol content exceeds the legal limits for driving motor vehicles ("alcolock");
- policyholders who, in the past four years, have caused no accidents with exclusive or principal or equal responsibility, provided they have installed or they install the black box and reside in provinces with a high claim rate, identified by the Institute in a dedicated list annexed to the Regulation.

The Regulation also lays the groundwork for the execution of the future enforcement activities the Institute is called upon to carry out on compliance with the criteria and procedures for the application of the discount introducing, for this purpose, specific obligations for undertakings and, in particular, for the actuarial function and for the compliance function.

The provisions of the Regulation will be fully implemented once the regulatory framework for black boxes and similar devices is completed.

3.3.2. - Measures

IVASS Order no. 68 of 14 February 2018 amends ISVAP Regulations no. 14/2008, no. 22/2008 and no. 38/2011 on segregate funds. Regulation no. 38 provided for the attribution at the end of the observation period of the realised gains and losses incurred and did not allow undertakings to set aside the profits obtained in favourable economic periods to attribute them to policyholders in less favourable periods.

The Order allows, for new contracts, the determination of the average rate of return taking into account the allocation of the realised net capital gains in a dedicated profit fund. This fund, which is by nature a mathematical provision, entirely contributes to the determination of the average rate of return in a time of up to eight years from the date of allocation of the net capital gains.

The new rules for determining the average rate of return can also be introduced for segregate funds already established at the date of entry into force of the Order, only for contracts stipulated after the amendments

to the regulations of the funds. Therefore, contracts to which different rules apply for the determination of the average rate of return, may coexist in the same segregate fund depending on whether the respective contractual conditions provide for the profit fund or not.

In case of coexistence in a same segregate fund of cohorts of policyholders whose benefits are revaluated according to rates of return determined with different rules (with and without profit fund), the Order identifies the procedures for determining the net realised capital gains that can be allocated to the profit fund; the operational complexity of keeping double accounting records, which the concrete implementation of this provision necessarily implies, is directed at assuring full compliance with the obligations assumed towards the different cohorts of policyholders (old without profit fund and new with profit fund). Therefore, such operational complexity does not exist in case of new segregate funds, open solely to contracts that provide the profit fund, taking into account that the profit fund acts on the segregate fund and is attributed to policyholders' return in compliance with the safeguards prescribed by the Order itself.

Another important change is the introduction of an exemption that allows to suspend accounting for the profits and losses deriving from the periodic trading (typically, intra-annual) of particular types of derivatives, allocating net income in an adjusted item of the financial result of each period of observation of the segregate fund until the transaction closing date.

The exemption allows to link the use of derivatives on securities recorded in the segregate fund with the effects on the return of the fund itself, correlated to the duration of the strategy used instead of the duration of the derivative financial instrument, if said instrument is a part of documented strategy, approved by the administrative body. The exemption entails an amendment to the regulations of existing segregate funds and of the contractual conditions currently in force. If the undertaking intends to opt for the exemption, it will be required to notify the holders of existing contracts.

Order no. 69 of 27 March 2018 implements, in continuity with order no. 56 of 9 February 2017, the provisions of Law Decree no. 148 of 16 October 2017, in Article 2-*bis*, Paragraphs 24 and 25, introduced by conversion law no. 172 of 4 December 2017, which provides additional measures in favour of the populations of the areas in the Abruzzo, Lazio, Marche and Umbria regions where the earthquakes of 24 August 2016 took place. Suspension of payment of the insurance premiums is extended to 31 May 2018. It had already been prescribed by Law Decree no. 189 of 17 October 2016, converted after amendments by law no. 229 of 15 December 2016. The Order provides, for premiums whose due date is deferred by effect of the law to 31 May 2018, payment in at least 36 monthly instalments. The parties are allowed to agree a different repayment period that more closely meets policyholders' needs. This additional concession applies solely to the damaged parties who declared the uninhabitable condition of the building, home, professional offices or business site.

3.3.3. - Frequently Asked Questions

To facilitate access to the Italian insurance market, the Institute has published on the institutional website, in the "Focus" Section, a list of FAQs, meant for the new undertakings and operators originating from countries of the European Economic Area and from third countries intending to carry out the activity on the territory of Italy. These short guides, in Italian and English, use an informal language and, answering the questions received concerning access, they illustrate the regulatory and procedural steps to operate in Italy.

IV. - PRUDENTIAL SUPERVISION

1. - MICRO-PRUDENTIAL SUPERVISION

1.1. - Supervision on the shareholdings and on the structure of groups

Prudential supervision on the shareholdings and on the structure of groups is exercised according to a risk-based approach to verify, continuously, whether there are suitable conditions to assure the sound and prudent management of undertakings and groups. In this context the Institute has examined the changes made by groups to their organisational models with the intent to pursue greater efficiency in capital management and structure.

In 2017, there was an acceleration of the process for the rationalisation and concentration of insurance groups, initiated some years ago to make the cost structure more efficient and create dimensional synergies, which has led to a reduction in the number of insurance undertakings on the national market. A push in this sense also came from the new Solvency II regulatory regime.

Only one new economic entity has entered the insurance market, with the acquisition of an already authorised undertaking, while no new companies were authorised to operate in the insurance business.

The growing intersection of the areas of activities of the banking and insurance sectors was monitored by the Institute, also taking into account the crisis situations that involved some national banking groups. In this context, particular attention was paid to the changes in bancassurance dealings, with the search for new sources of profitability or for solutions to the crisis of partner banking intermediaries in insurance joint ventures.

The changes made to the ownership structure have required an incisive supervisory action on a multiplicity of profiles, such as the verification of the sustainability of business plans, even in adverse scenarios, the assessment of the financial soundness of potential buyers and of the related acquisition project, the reputational requirements. The procedures used by the Institute to verify shareholder requirements were also assessed positively by EIOPA, within the scope of a peer review in 2017 which involved all European Supervisory Authorities.

1.1.1. - Shareholdings

In 2017, private equity Funds continued to exhibit a strategic interest for the life insurance sector, strengthening their presence in the Italian market. When assessing acquisitions by private equity Funds, particular attention is paid to the shareholding chain, often characterised by high complexity and with entities located in different jurisdictions, and to the business plan presented within the scope of the acquisition project. The purpose is to assess the sustainability of the plan and the solvency of the undertaking also in the medium-long term, as well as the consistency with the strategic objectives of the fund.

A significant acquisition completed by the Cinven private equity Fund was assessed; the Fund, already present in the Italian market with Ergo Previdenza S.p.A. (now Eurovita S.p.A.),

increased its position through the acquisition of Eurovita Assicurazioni S.p.A., after acquiring Old Mutual Wealth Italy S.p.A. The latter entities were subsequently absorbed in the subsidiary undertaking of the same Fund, with the goal of rationalising the organisational structure. This operation caused the exit from the market of J.C. Flowers III, first private equity Fund authorised in 2014 to control an Italian insurance undertaking.

Also significant was the assessment of the changes that took place among banking partnerships, with the formalisation of a new bancassurance agreement between Banco BPM and the Cattolica group. The new agreement was stipulated at the completion of the process of rationalisation of the partnerships of the banking group, after the closure of the previous agreements both with the Unipol group, which exercised the put option on the controlling interests held in Popolare Vita, and with the Aviva group. In 2018, the new partnership entailed a change of the shareholdings of the insurance undertakings Popolare Vita S.p.A., Avipop Assicurazioni S.p.A. and Avipop Vita S.p.A., with the passage of the control to the Cattolica Group. These operations required an intense investigative activity by the Institute with regard to the bancassurance agreement, which entailed the payment of a goodwill, whose effects were monitored within the scope of the assessment of the solvency requirements of the Cattolica insurance group. The new agreement followed the exercise of the put options by Cattolica on the shares held in Berica Vita and ABC Assicura, a joint venture with Banca Popolare di Vicenza, a bank undergoing administrative compulsory winding up whose procedure has not yet allowed the definition of the shares in the capital of insurance undertakings.

The crisis of two banking intermediaries, Banca Etruria and Veneto Banca, holders of shares in insurance companies, entailed additional changes to shareholdings. In the case of Banca Etruria, involved by the resolution process approved by the MEF, control of BancAssurance Popolari S.p.A. and BancAssurance Popolari Danni S.p.A. was transferred to UBI Banca. With regard to Veneto Banca S.p.A., subjected to administrative compulsory winding up, there was the sale, in 2018, of the qualifying holding indirectly held in BIM Vita S.p.A. to the private equity Fund Attestor, as a result of the acquisition by the fund of the controlling interests in BIM - Banca Intermobiliare di investimenti e gestioni S.p.A., which directly held the qualifying holding in the company.

In managing the crisis of ARISCOM S.p.A. (for additional details see IV.1.7), a small non-life undertaking, two acquisition projects by foreign groups not operating in Italy were assessed successively. With respect to the first project, it was noted that the conditions that would assure the sound and prudent management of the company were not met, having regard to the quality of the potential buyer and to the financial soundness of the presented project; a measure was promulgated to deny authorisation to acquire control. The second project, which entailed the acquisition of control by the multinational insurance and reinsurance group ARGO, was assessed positively in early 2018 and allowed the undertaking to resume regular operations.

1.1.2. - Evolution of the structure of the groups

The new regulatory framework introduced a significant innovation with regard to groups as independent economic entities to which the requirements on the corporate governance system are applied. The regulations, differently from the previous rules, no longer provides for the

option of identifying as ultimate parent undertaking an entity other than the ultimate Italian parent undertaking.

The new provisions include a transitional measure used by the groups that had not identified, in accordance with the previous provisions, the ultimate Italian parent undertaking as the ultimate parent undertaking. In 2017, the three groups that applied this rule carried out the reorganisation for compliance with the new provisions. The corporate reorganisations assessed by IVASS simplified the shareholding chain in all cases, eliminating intermediate levels and complex inter-relations in the corporate structures of the group.

For the Unipol financial conglomerate, whose main business is insurance, the reorganisation entailed the elimination, by splitting, of the investment holding at the top of the conglomerate (Finsoe S.p.A.). As a result of the operation, the role of ultimate Italian parent undertaking was assumed by the intermediate holding (UG S.p.A.), which already served as ultimate parent undertaking, by virtue of the delegation option prescribed by the previous regulations. The Institute examined the new shareholdings of the conglomerate resulting from the split. The assessments pertained to the set of direct and indirect shareholders that jointly hold, by effect of a shareholder agreement, a qualifying holding in UG S.p.A.

With reference to the other two reorganised groups (Gruppo Assicurativo Modena Capitale and Gruppo Vittoria Assicurazioni), the Institute assessed the adequacy of the initiatives directed at assigning to the ultimate Italian parent undertaking the management and coordination tasks, eliminating intermediate holdings, when present.

Strategic group restructuring operations were examined; their purpose was to rationalise the organisational structures, simplifying the number of subsidiaries and concentrating the business in strategic companies. In this context, five mergers and a partial split were approved.

1.1.3. - Taking-up and extension of the insurance business

In 2017, no new authorisation to exercise the insurance business was granted. Italian companies continued to manifest interest in expanding their business, widening the range of the products offered and the reference market to meet customer demands more completely and to further diversify their business. Four authorisations were granted to extend the exercise of the insurance business to non-life business and nine communications by Italian undertakings to pursue business in other countries under fos were verified. Particular attention was paid to the scheme of operations presented to assess its impacts in terms of solvency and risk profile of the undertaking requesting the extension.

With reference to the insurance and reinsurance business carried out by Italian undertakings in the United Kingdom, the Institute participates in the ongoing debate between EIOPA and the other European Supervisory Authorities to discuss the effects of Brexit on the cross-border business between the United Kingdom and European Union countries (see V.1.6.3).

1.2. - Supervision of the corporate governance system

Supervisory activities continued on the adequacy of the corporate governance system at the individual and group level, which is a key element of Solvency II. A careful examination was

made not only of the role and composition of corporate bodies but also of the adequacy of the organisational set-up and of the key functions. Particular attention was paid to the suitability of the governance system to adequately control all the risks of the undertaking and of the group and to assure the existence of the conditions for sound and prudent management.

The corporate governance system was examined within the scope of the assessments carried out on the amendments made to 77 company articles of association.

1.2.1. - Supervision on the administrative body and on the board committees

The supervisory activity on the administrative body was focused on verifying the centrality of its role as the body bearing ultimate responsibility for the corporate governance and for direction and control. The action was directed at overseeing undertakings in search of a correct balance of competencies and professional skills, necessary for the effective understanding of the risk profiles of the insurance business. The number of directors was curtailed, to prevent overly numerous boards from hindering the effective functionality of the body. The presence of independent directors able to assure constructive dialectics was promoted, along with the establishment of committees within the Board and balancing management powers.

For 7 undertakings, deficiencies were noted in the functionality of the administrative body, of the board and technical committees, of the delegated power system and of controls over the exercise of the delegated powers. Corrective actions were requested to ensure greater involvement of the Board, adequate information flows and an attribution of powers that would avoid their excessive concentration.

Deficiencies were noted in the controls established by undertakings on the work of outsourcers, also within the undertakings' groups, necessary to avoid an unjustified increase in operational risk.

With respect to an undertaking whose top managers are involved in judicial proceedings, an intense activity was carried out on the corporate governance and on the system of internal controls. Prescriptions were promulgated with respect to the supervised undertaking, directed at determining structural changes in the governance and in the procedures for the formation of shareholder meeting decisions.

In the presence of deficiencies in the corporate governance system for which the prescribed and necessary corrective actions were not adopted, the Institute required, for the first time, an increase of the regulatory capital. This measure, exceptional and temporary by nature, requires the company to have sufficient capital to cover the incremental risks of an inadequate governance system, until the observed problems are removed.

On the occasion of the new appointments of members of administrative and control bodies, possession of the integrity, professionalism and independence requirements was verified, after they were positively evaluated by the administrative body. The checks were implemented on a sampling basis, asking information from other authorities and querying external databases. At the end of these inquiries, the Institute intervened in six cases to ask for additional information. One director resigned due to the observations thus formulated.

The verifications of compliance with the conflict of interest regulations for members of the corporate bodies of insurance undertakings (“interlocking”), on the basis of the criteria set by the Memorandum of Understanding with Bank of Italy, CONSOB and AGCM determined the resignation of a director from the company operating in the financial sector.

As promoted also by the Solvency II Directive, with the purpose of incentivising effective and diversified risk management and promoting a corporate culture of the top managers oriented to a medium-long term time horizon, the Institute paid particular attention to the remuneration policies for top managers. Individual incentives must be less oriented to reward short-term economic performance and increasingly take into consideration capital, liquidity and asset quality, with indicators that encourage long-term growth logic.

In this context, the Institute intervened with respect to eight undertakings requiring changes to their policies to make them compliant with regulatory provisions.

Considerable progress and greater sensitivity of undertakings were observed in terms of remuneration. Margins of improvement are possible with the introduction of performance indicators, including non-financial ones, such as the level of satisfaction and the correct treatment of customers.

1.2.2. - Supervision of key functions

The strengthening of the corporate governance system resulting from the introduction of the Solvency II Directive is based on an internal control system comprising the four fundamental corporate functions (risk management, compliance, actuarial and internal audit), all under the ultimate responsibility of the board of directors.

Considering the relevance of these functions, the activity carried out by the Institute to assess, in compliance with the proportionality principle, the adequacy of the choices made by the undertakings was particularly intense.

It was verified that the hierarchical relations within the organisational structures assured the actual independence of the key functions from influences able to compromise the performance of their duties in an objective and correct manner. The key functions must carry out their role under the ultimate responsibility of the administrative body to which they must be able to report directly.

With regard to independence, to coordination and to the information flows adopted by the key functions, the Institute carried out interventions on undertakings and initiated direct exchanges with the heads of the functions and with the audit firms to further delve into the activity carried out and the processes followed. In the assessments, consideration was given to possession of the requirements of integrity and professionalism of the persons to whom responsibility for these functions was assigned, as well as to the adequacy of resources. In some cases, the assessments brought to light the lack of independence of the control functions, the inadequacy of the reporting lines and the absence of separation between control functions and operating functions, especially with reference to the actuarial function.

On these issues, 14 interventions and 10 meetings with the heads of the aforementioned functions were carried out in all. Supervisory actions required strengthening the resources assigned to the structures and the related competencies.

Among them, particular attention was paid to the actuarial function, in the second year of observation of its inclusion in the key functions of the undertaking: the supervisory activity assessed the level of competencies and professional skills, the adequacy of the resources, as well as the choices made by undertakings on the organisational positioning of the function to verify the separation of the activity of validating the technical provisions from the more directly operational calculation activities.

13 prior notifications from undertakings that decided to outsource the key functions were examined. The reason for the decision to identify external parties was verified, taking into account the principle of proportionality, as well as the existence of safeguards to maintain control over outsourced activities. These safeguards, together with adequate information to the administrative body, are essential to assure the quality provided by the key functions, whatever their position.

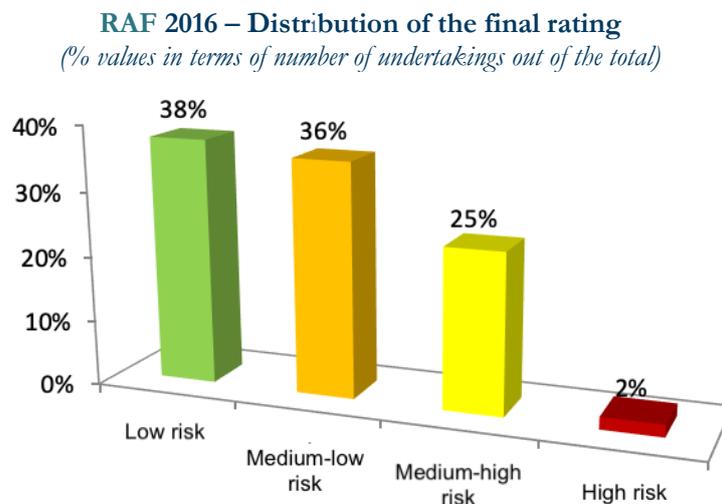
1.3. - The new supervisory review process (SRP)

In 2017, the Supervisory Review Process was changed to take into account Solvency II and transpose the EIOPA guidelines and recommendations. The SRP allows, following a risk-based approach, to express a judgement on undertakings and on insurance groups and to ascertain that the capital and organisational safeguards put in place are appropriate for the risks assumed. In particular, the first phase of the SRP, called Risk Assessment Framework (RAF) was strengthened; it is dedicated to assessing the current and prospective risks to which the undertaking is exposed. This phase, at the completion of which a supervisory rating is assigned, allows to carry out a preliminary audit on all undertakings in the market and to plan the most incisive supervisory actions with respect to those that have a higher risk profile. These instruments allow to address supervisory actions, identifying the priorities of action both in terms of times and effort to be expended. To the initial risk assessment phase the control, analysis and evaluation and correction/follow-up phases are added.

The RAF allows to classify undertakings and groups on the basis of an analysis based on specific KRI (key risk indicators) referred to four areas (performance, governance, technical/financial management and capital adequacy) and supplemented by qualitative assessments by the analyst, based on the comprehensive information available. The qualitative component (supervisory judgement) is an essential moment of the process for the assessment of the undertaking because it allows to consider, in the supervisory rating, factors not fully caught by the quantitative KRI.

In the assignment of the supervisory ratings, consideration is also given to the size of the undertaking to associate the impact of the KRI to the relevance of the insurance operator. In 2017, the following supervisory rating distribution was obtained among the supervised undertakings (Fig. IV.1).

Figure IV.1



75% of undertakings have a low and medium-low risk profile. Only 2% of the market is in the highest rating class, corresponding to a serious deterioration of the operating/capital position of the undertaking. For these situations, already noted by the Institute, the following supervisory measures were taken.

The results of the RAF highlight the adequacy of the capital of Italian undertakings, in relation to the dimensions and characteristics of the business of each company. The soundness is also confirmed by the EIOPA survey on the use of Long-Term Guarantees (LTG), which in fact the Italian market used less than the European competitors.

The distribution of ratings also reflects the pattern of the undertakings' performance in 2017, assessed on the basis of the results of technical and financial operations and of the ROE, and shows that only 14% of undertakings have significant risk profiles on their earning capacity.

1.4. - Checks on the stability of undertakings and of groups

At the completion of the SRP, the Institute carried out audits on stability for all supervised undertakings, with particular attention on technical and financial risk and capital adequacy.

The methodologies for calculating the capital requirement were assessed, to verify their adequacy to the risk profile, as well as the level and quality of own funds covering the requirement. Particular attention was paid to the assessment of the adequacy of the solvency situation, also with a prospective view, taking into account the undertakings' vulnerability to specific risk sources.

The Institute took measures against 41 undertakings. The measures involved capital and solvency aspects including the volatility of the solvency ratio, the benefits in terms of reduction of the capital requirement deriving from deferred taxes and the performance of the technical and financial operations. Technical issues were studied, including the consistency of the process and of the procedures of application of the volatility adjustment, the reconciliation of the evaluation differences of technical provisions according to the Solvency II and local gaap principles and the correct determination of provisions for claims outstanding.

Within the assessments on the volatility of the solvency ratio for an insurance group, an investigation was started on the adequacy of the calibration of the internal model and of the model change policy to identify the relevant changes to the model. This study ended with a request to the undertaking for corrective actions on the calibrations and on the model change policy.

In 2017, 10 undertakings, of which four in response to IVASS requests, increased their own funds by 920 million euro. Four other undertakings enhanced their capital level with the issue of subordinated loans, amounting to 760 million euro. The purpose of these issues was to assure an adequate level of own funds in the time horizon of the strategic plan or to finance new acquisitions.

1.4.1. - Adequacy of the standard formula /USP/GSP

Within the scope of the prudential supervisory process, in 2017 an investigation was started to verify the appropriateness of the standard formula for the purposes of calculating the capital requirement of the premium & reserve risk for non-life and health Non Similar to Life Technique (NSLT) insurance. The investigation was carried out estimating the specific volatility parameters of each undertaking and comparing them with those envisaged by the standard formula.

For four undertakings, the risk profile was found to deviate significantly from the assumptions underlying the solvency capital requirement, as calculated using the standard formula. After intense communication with the undertakings, the significance of the deviations was ascertained, also in terms of impact on the capital requirement. The involved undertakings initiated a more punctual quantification of the capital requirement by using specific parameters, which needs IVASS authorisation. While awaiting authorisation, the undertakings will apply a conservative margin calculated on the difference between the premium & reserve non-life and health NSLT requirements, and the respective values calculated with the standard formula.

The Institute monitored the adequacy of the Undertaking-Specific Parameters (USP) for the undertakings authorised to use them. IVASS verified the sensitivity of the parameters to the introduction of the Best Estimate Liabilities (BEL) of the provisions for claims outstanding in the calculation of the USP, replacing local gaap statutory provisions. The use of the latter had been allowed in the phase of approval of the USP, in consideration of the absence of a regulatory obligation that would impose calculating the BEL for the years preceding the entry into force of Solvency II and of the fact that statutory provisions are subject to revision.

The audits highlighted a limited impact of the use of BEL in lieu of local gaap technical provisions, so from 2017 onwards the authorised undertakings will calculate specific parameters on the basis of the BEL.

One group and three undertakings were authorised to use, respectively, Group Specific Parameters (GSP) and USP to calculate their capital requirement.

The Institute also audited the policy adopted by undertakings to meet the obligation to verify compliance with the requirements for using USP and GSP continuously.

1.4.2. - *Internal models*

With reference to the continuous supervision on the appropriateness of internal models, the Institute monitored the impact of the negative trends of interest rates on approved models. The interest rate model of the main groups was backtested, to verify its forecasting ability on the basis of historical observations of rates. Weaknesses were noted in the period between March and September 2009, subsequent to the sharp interest rate reduction in the wake of the financial crisis of 2008. Overall, the outcome is satisfactory, taking into account that rate variations are due to extreme events, resulting from monetary policy decisions and hard to interpret in the estimation models.

For models approved conditionally subject to remedial plans, directed at improving specific aspects of lesser relevance, of which two were authorised in early 2017, the Institute, as in previous years, monitored the progress of the planned actions. Three inspections were carried out to verify the status of implementation and the effectiveness of the remedial actions. In many cases, the actions taken were in line with the supervisor's expectations and decisive. In some cases, the need for additional actions emerged, with the maintenance of the conservative margins until the full implementation of the required actions.

IVASS defined a report on the results produced by the internal models, not unlike the one required from undertakings that adopt the standard formula. This activity defines a set of information and documents which companies authorised to use an internal model will have to produce every year and will allow to calculate indicators that will make comparable the results relating to all undertakings in the market.

An additional analysis was conducted on the modelisation of market and credit risks, comparing the internal models that Italian undertakings were authorised to use on an individual

basis⁶⁶. The main differences in the assessment of market and credit risks are due to the modelisation of the spread risk of corporate and government bonds, as well as to the estimate of negative interest rates. These aspects were discussed with the undertakings and in some cases they determined model changes in 2017.

1.4.3. - Internal model pre-application

The Institute continued the activities connected with the pre-applications relating to new requests for authorisation to use a partial internal model to calculate the capital requirement and to significant changes to approved models.

The activity, started in 2016, for 2 groups and 3 undertakings, ended in the early months of 2018 with the granting of the authorisations to the Unipol and Reale Mutua groups for use of the partial internal model for the calculation of the group capital requirement and to the undertakings Italiana Assicurazioni, SACE BT and Reale Mutua for the calculation of the capital requirement at the individual level.

For the pre-applications relating to significant changes to the internal model, the Institute conducted the assessments, also with other European Authorities in accordance with the Solvency II Directive, for 4 insurance groups (2 of which in the Group Supervisor role).

The changes pertained to the calibration of the internal models to capture the effects generated by the negative trend of interest rates and involved the Generali, Allianz and AXA groups. The assessments were conducted jointly with the other European Supervisory Authorities interested in the internal group model.

For the Allianz group, the change to the model change policy for the alignment due to the introduction of the modelisation of negative interest rates was approved, jointly with seven European Authorities.

For the Generali group, the Institute approved, jointly with three involved European Authorities, two additional changes relating to non-life underwriting risks and to the calculation models for life provisions.

Lastly, analyses were conducted on minor changes to the models, not subject to approval.

⁶⁶ The investigation involved undertakings for which the process of pre-application of the internal model for market and credit risks was still in progress. The discussion pertained, with reference to the end of 2015 and 2016, the assessment of the VaR-Asset of a set of financial instruments and of four benchmark portfolios.

1.4.4. - *Risk assessment*

The Institute continued to devote attention to risk management and risk mitigation techniques, considering their relevance in the determination of the risk-based capital requirement. The activity also focused on the assessment of the capital management policy, which takes on particular relevance in an economic environment of low interest rates and high market volatility.

In 2017, two operators carried out significant de-risking operations, modifying their asset allocation in the search for greater diversification and reducing the volatility of the solvency ratio. The Institute assessed the operations taking into account their effects on the returns to be paid to policyholders for increasing benefits life policies and on the capital requirement, by effect of the changes to the composition of the investments.

Analyses were conducted on the reserving risk, examining the Solvency II technical provisions (BEL), having regard to the methodologies applied and to the assumptions underlying their calculation. The audits were carried out for six undertakings, also with further on-site visits.

In relation to the assessments carried out on technical risks, meetings were held with three companies on the process for the definition of the Risk Appetite, also in relation to the determination of the solvency target, of the related tolerance thresholds and of the effects on capital management.

Risk assessment and management were monitored with reference to the mitigation techniques implemented by reinsurance. This aspect takes on significant relevance, because the Institute is observing a growing orientation of the market to use reinsurance coverage for capital optimisation purposes.

For three undertakings, which presented particular reinsurance solutions, the Institute did not agree with the envisioned decisions because they lack an actual transfer of the risk on the reinsurer, which is an essential factor in the assessment of mitigation instruments.

1.5. - **Supervision of the ORSA (Own Risk Solvency Assessment) process**

In 2017, the ORSA reports transmitted by the undertakings were examined, delving more deeply into the governance of the ORSA process, into the definition of the Risk Appetite Framework, into the assessment methods and into the assumptions underlying the projections of the solvency requirement and of the stress test analyses as well as into the degree of interaction with the strategic planning and capital management processes.

In this context, the Institute intervened in 15 cases, also through meetings with the risk managers and the top management, to examine the consistency of the assumptions in the risk scenarios with those underlying the industrial plan as well as the reasons for the selection of the stress scenarios in the ORSA assessment. In many cases, the request was formulated for more severe stress tests, calibrated on the technical and financial risks to which the companies are actually exposed. For some undertakings, the need emerged to carry out assessments of the adequacy of the standard formula to the related risk profile and the advisability of a greater integration of the ORSA process with strategic planning and with the capital management policy.

In relation to the cross-border groups for which IVASS acts as Group Supervisor, an analysis of the process and of the ORSA report was carried out, using a questionnaire. The results were the subject of a discussion within the Colleges of Supervisors and the related feedback was communicated to the groups. This activity allowed to strengthen the supervision of the ORSA process, following a consistent approach for all group companies located in different countries.

1.6. - Coordination with other Authorities and Institutions

1.6.1. - Group supervision: the college of supervisors

In 2017, activity continued on the six cross-border groups for which IVASS acts as Group Supervisor, implementing the actions identified by the supervisors within the workplans approved by the Colleges in the previous year. Particular effort was expended on revising the information flow exchanged between the supervisory authorities based on the new EIOPA tool.

In the case of groups with subsidiaries located in third party countries, their relevance on the Group's risk profile was assessed for any participation in the Colleges of the competent Supervisory Authorities.

Within the Colleges, the Institute coordinated the work to implement the issues and priorities promoted by EIOPA (*Themes for Colleges 2017*), to carry out the joint risk assessment and to further delve into aspects of interest for supervisors. The tool for the joint risk assessment was updated expanding the information content and the set of indicators for the assessment of the risks. Within the Colleges managed by IVASS, specific surveys were conducted to compare the state of implementation of Solvency II in the various jurisdictions, with questionnaires prepared by IVASS on the assessment of the ORSA report and on the analysis of some items of the Solvency II balance sheet (own funds, life and non-life technical provisions, capacity to absorb deferred taxes). This facilitated the understanding of local specificities and allowed to identify the best practices and possible areas of improvement.

IVASS organised eight meetings relating to six cross-border groups for which it acts as Group supervisor and participated, as host supervisor, in 23 meetings of Colleges coordinated by foreign Authorities. In these meetings, the following issues were examined: the structure of the groups, the corporate governance, the financial and economic situation, the adequacy of the capital and its allocation, the outcomes of the joint risk assessment and of the surveys.

To enhance the transparency of the activity of the Colleges, the main aspects emerged in the meetings were the subject of feedback to the supervised group.

1.6.2. - Supervision on groups with systemic relevance

Enhanced supervision continued on insurance entities with systemic relevance (G-SII), as prescribed by the recommendations of the Financial Stability Board (FSB).

The FSB decided, for 2017, not to publish a new list of the G-SII in consideration of the revision of the methodology. The nine groups identified in the list published on 21 November 2016 were confirmed as systemic.

The entity with systemic relevance for which the Institute is involved is the Allianz group, for which IVASS acts as host supervisor. With the agreement of the Generali group, no longer included in the list of the G-SII, the Institute continued to apply the international enhanced supervision measures.

In 2017, the enhanced supervision on insurance groups with systemic relevance was carried out, as usual, in the Crisis Management Group (CMG), with the participation of the national supervisors of the main countries involved, on the basis of the Coordination Agreements executed by the members of the CMG.

In the meetings of the CMG, some of which were also attended by the representatives of the undertakings, the annual plans for preventive crisis management were analysed and discussed (Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan). In addition, the Authorities shared the updates and the possible improvement areas to be made to the plans. In particular, the request was made to identify possible more severe crisis scenarios and enhance the related intervention actions.

Within the CMG, work continued on the preparation of the Resolution Plans, which must assure a more effective and timely intervention action by the Supervisory Authorities in the management of any crises, to contain possible negative impacts on the stability of financial markets and on the policyholders' interests.

1.6.3. - Supervision of financial conglomerates

Like every year, the Institute, together with Bank of Italy and CONSOB, worked on updating the list of Italian financial conglomerates.

At the conclusion of the works, the insurance-led conglomerates Generali and Unipol were confirmed in the list, along with the bank-led conglomerate Mediolanum.

To this list are added the conglomerates pertaining to the "significant" banks, identified by the European Central Bank within the Single Supervisory Mechanism, with the addition of the Credem group as a new mainly banking financial conglomerate and the confirmation of the Intesa Sanpaolo conglomerate. Monte dei Paschi and Unicredit, both bank-led conglomerates, instead continue to be exempt, in accordance with Article 4, Paragraph 1, Letter a) of Italian Legislative Decree no. 142/2005, from supplementary supervision. For the aforesaid conglomerates the Institute collaborates with the European Central Bank and the Bank of Italy for supervisory activities.

The results of the supervisory activity carried out by the Institute on the conglomerates were presented and discussed in the Colleges of Supervisors, in which the European Authorities of the banking and insurance sectors participate. In these meetings, organised by IVASS for insurance-led financial conglomerates, the most significant risks were examined, along with the governance system, the capital adequacy and the correct allocation of capitals within the entities belonging to the conglomerate.

1.6.4. - Sub-group supervision

2017 was the first year in which IVASS exercised supervision for the 3 sub-groups (AXA Italia, Aviva and Assimoco) which in 2016 had been notified of the decision to apply group supervision, taking into account their specificity in terms of insurance business, organisation and risk profile. As agreed with the Group supervisor, duplications and overlaps in the supervision activity were avoided. In particular in terms of reporting, the ORSA report was examined along with a limited set of quantitative templates (QRT), sent only with yearly periodicity. Particular attention was also paid on the definition of the risk appetite and capital management process carried out, for the first time, at the sub-group level as well.

The results of this activity were discussed in the Colleges of Supervisors of the groups of origin and in specific dedicated sessions (specialised teams), which delved further into the financial and solvency situation of the sub-groups as well as the aspects relating to governance and to risk management.

1.6.5. - Supervision of Swiss branches

The entry into force of the Solvency II Directive raised the question of its applicability, with reference to the capital requirement, to the three Branches of Swiss companies, which are the sole branches of undertakings of Third Party States operating in Italy. These Branches are subject to particular treatment in application of the Agreement between the Helvetic Confederation and the European Economic Community of 10 October 1989, which is not amended by Solvency II.

According to the European common orientation, the Agreement does not allow the European Authorities to supervise the capital requirement of the Swiss non-life Branches and therefore the Swiss Authority is responsible for verifying their solvency.

The IVASS, awaiting a definition on the allocation of competence between Switzerland and the EU within the scope of Solvency II, decided to continue to apply, with reference to these undertakings, the Pillar II safeguards, insofar as they are compatible. Therefore, the Branches are obligated to transmit their individual ORSA report that contains the assessment of the risk profile and of the solvency requirement, also defined with internal metrics (Swiss Solvency Test).

1.6.6. - Relations with CONSOB, Antitrust, MEF

Collaboration continued with the Ministry of Economy and Finance within the scope of the activity relating to the granting by the State of guarantees in favour of SACE S.p.A. for non-market transactions aimed at strengthening support to exports and to the internationalisation of undertakings. Eleven opinions were issued by IVASS to the MEF.

This activity required numerous discussions with the MEF and SACE to further study and assess the transactions, also from a technical viewpoint. The implementing provisions of Article 32 of Law Decree no. 91/2014 require the Institute to issue an opinion to the MEF about the fairness of the allocation of the premium paid to the State and to SACE. Within this activity, IVASS also participated as a technical member, without voting rights, in the meetings of the portfolio analysis and control Committee of SACE, established in accordance with Article 3 of the Decree of the President of the Council of Ministers of 19 November 2014. In 2017, the interministerial Committee met twice.

The Institute continued its collaboration with CONSOB and the Antitrust authority within the scope of the preparatory activity relating to 15 transactions involving insurance companies pertaining to capital strengthening, related party transactions and acquisition projects that can determine concentration situations.

1.7. - Safeguards, reorganisation and winding up measures

Within the management of the corporate crisis that affected ARISCOM, the company was charged with severe violations of the provisions pertaining to technical provisions and coverage of capital requirements. In accordance with Articles 222 and 222-*bis* of the CAP, initially the presentation of a recovery plan and, subsequently, of a short-term financing plan was required. In considering the adequacy of the financing plan, IVASS assessed the provisions for claims outstanding in the 2016 financial statements and pointed out that the provisions were deficient, with consequent deterioration of the level of coverage of capital requirements. The worsening of the situation, the inadequacy of the financing plan presented by the shareholders and their unwillingness to recapitalise the undertaking made it impossible to put off the adoption of the reorganisation measure of special administration. The Institute carried out an intense activity in coordination with the special administrators, with particular reference to the actions to contain the portfolio loss, reduce management costs and improve the efficiency of processes. The process for the search for operators interested in acquiring control of the company was monitored. These activities were completed successfully with the inclusion among shareholders of the international reinsurance group ARGO, according to a strategic plan to be assessed by the Institute (see IV.1.1).

In the early months of 2018, the recapitalisation of the company carried out by the new shareholder made it possible to restore the operating conditions. Therefore, the Institute authorised the early close-out of the special administration procedure and the sale of the undertaking to the new sole shareholder. The Minister of Economic Development, at the request of IVASS, issued the decree of closing of the special administration.

2. - MACRO-PRUDENTIAL SUPERVISION

2.1. - Macro-prudential activity at international level

In 2017, the International Association of Insurance Supervisors (IAIS) established a Task Force (Systemic Risk Assessment Task Force, SRATF) with the purpose of developing a holistic framework for the assessment and measurement of systemic risk in the insurance sector. The SRATF, benefiting from the work carried out by two IAIS⁶⁷ operating units, was tasked with: developing an Activity Based Approach (ABA) for the assessment of systemic risk; assessing the consistency between banking and insurance methodology for the identification of global systemically important entities within financial conglomerates; identifying changes to the criteria for designating systemically important insurance entities on the occasion of the planned triennial revision. In December 2017, the Task Force published a consultation document⁶⁸ on the status of the work to provide information to stakeholders and obtain useful comments for the development of the new macro-prudential framework.

The consultation document summarizes the previous IAIS works for assessing and mitigating the systemic risk in the insurance sector, an assessment of the ABA highlighting the differences with respect to the current Entity Based Approach and a short review of other standards in this area. The ABA approach outlines three different phases: identification of potentially risky activities at the systemic level; assessment of the systemic risk mitigation measures already existing in the IAIS framework; assessment of the residual risks (gap analysis) or of the supervisory aspects that can require additional measures.

Based on the feedback and on further studies, the IAIS will continue its work with the publication of a final document, expected at the end of 2018.

At the European level, after the publication in November 2016 of the report on the consequences of the prolonged phase of low interest rates, the risk analysis by the European Systemic Risk Board (ESRB) continued, with a focus on the implications of the use of the curve of risk-free rates and the development of a Recovery and Resolution regime for the insurance sector. In August 2017, the Insurance Expert Group (IEG) published a report to contribute to the debate on the strengthening of the prudential framework.

⁶⁷ The two operating units completed their work in the summer of 2016, with regard to the triennial revision of the methodology for identifying systemically important insurance entities and to the examination of the systemic risk deriving from the characteristics of insurance products.

⁶⁸ <https://www.iaisweb.org/page/consultations/closed-consultations/2018/activities-based-approach-to-systemic-risk>.

The Report on regulatory yield curves and macroprudential consequences⁶⁹ contains some proposed changes to the procedure for estimating long-term interest rates used by the companies to assess their insurance liabilities (technical provisions), directed at increasing the resilience of the insurance sector. The estimation procedure is applied to the maturities for which there are no sufficiently representative market rates. The report of the ESRB suggests using a greater quantity of market information and reconsidering some assumptions of the estimation procedure, such as the Last Liquid Point (LLP), taking as a reference for the Euro the thirty-year maturity instead of twenty-year as the maturity beyond which the estimate is applied as well as the extension of the convergence period of the curve from 40 to 100 years, to increase the weight of the liquid part of the curve reducing the extrapolated part.

With the Report on Recovery and Resolution for the insurance sector (RR)⁷⁰ the ESRB supports the establishment of a harmonised recovery and resolution framework for insurers through the European Union, on the basis of the following proposals:

- coverage of the entire insurance sector (insurance and reinsurance undertakings of all sizes and of all business models), taking into account the proportionality principles;
- recognition of financial stability and policyholder protection as relevant objectives of the harmonised RR framework;
- expansion of the RR instruments available to Authorities to address distressed insurers with more flexibility;
- analysis of the procedures for financing the crisis resolution process.

EIOPA intensified the work on macro-prudential policies for the insurance sector starting a dedicated working group and publishing, in the early months of 2018, a first document on systemic risk and on the macro-prudential policy. The document focuses on the lessons of the financial crisis and on the experience of the banking sector, for matters of interest for insurance undertakings, providing updates on the status of the macro-prudential debate.

In addition, the document includes a proposed macro-prudential framework for insurance companies, identifying the potential sources of systemic risk and specifying intermediate objectives for the sector: assuring capacity to absorb losses and sufficient reserving; discouraging excessive involvement in specific products and activities as well as disproportionate concentration in individual direct and indirect exposures; limiting pro-cyclicality; discouraging risky behaviours.

Publications about the analysis of the instruments with macro-prudential characteristics in the regulatory framework will follow, with suggestions of enhancements through additional macro-prudential measures at the European level.

IVASS also provided contributions to some investigations promoted and coordinated by the Financial Stability Board (FSB), tasked by the G20 to promote and coordinate at the international level the policies to prevent and reduce risks for financial stability worldwide.

⁶⁹ ESRB, Regulatory risk-free yield curve properties and macroprudential consequences, https://www.esrb.europa.eu/pub/pdf/reports/esrb.reports170817_regulatoryriskfreeyieldcurveproperties.en.pdf?bf7c2cf34637cbe5a755b50b2d96659.

⁷⁰ ESRB, Recovery and resolution for the EU insurance sector: a macroprudential perspective, https://www.esrb.europa.eu/pub/pdf/reports/esrb.reports170817_recoveryandresolution.en.pdf?2482b63192aa290441664f8acc92e6b8.

The analysis concerned the behaviour of non-banking institutional investors (including insurance undertakings), the peculiarities of their business models, the vulnerabilities that can cause a systemic impact as well as the factors that can generate stabilisation effects on financial markets and the economy (shock absorbers) or pro-cyclical effects.

2.2. - The EIOPA 2018 stress test exercise

In May 2018, EIOPA initiated a new stress test exercise to assess the vulnerability of the European insurance market to unfavourable changes in financial and insurance variables, on the basis of three adverse scenarios characterised by:

- a rise in returns, with an increase in risk-free interest rates and rise in risk premiums, concurrently with an increase in surrenders of life insurance policies and in the claim settlement cost of the non-life business due to a rise in inflation (“yield curve up”);
- a reduction in returns, with reduction in risk-free interest rates on the longer maturities and in risk premiums, concurrently with a change in the longevity risk (“yield curve down”);
- the occurrence of natural catastrophic events that simultaneously hit Europe (“Nat-Cat”).

The exercise also requires qualitative information on the implications of the cyber risk.

The reference date is the end of 2017 and the scope comprises forty-two larger European insurance groups, of which four are Italian (Assicurazioni Generali, Unipol Gruppo, Intesa Sanpaolo Vita and Poste Vita).

As in past years, in January 2019 EIOPA will publish the aggregate results. To increase the transparency of the sector, EIOPA will also request the voluntary publication of the individual results by the participating groups.

2.3. - The risks and vulnerabilities of the Italian insurance sector

IVASS contributes with its own analyses on the risks and vulnerabilities of the Italian insurance sector to the Financial Stability Report (FSR) of the Bank of Italy in the chapter on the risks of the financial system⁷¹.

2.3.1. - The Risk Dashboard

The IVASS Risk Dashboard represents the quarterly evolution of the risks and vulnerabilities of the national insurance sector, through indicators based on methodologies defined at the European level and adapted to the specificity of the domestic market.

Seven risk areas are considered (macroeconomic, market, credit, liquidity, profitability and solvency, interconnection, insurance risks) as well as an additional area to take into account the perception of the risks on the part of the market.

The riskiness of each area is summarised in an absolute level (low, medium, high) with the related change compared to the previous quarter (trend). The calculations are based on the information referred to the quarter to be analysed⁷² for the insurance indicators and on the most up-to-date information for market indicators which, in some cases, also take into account forecasts aimed at strengthening the prospective view.

The following summary compares the results as at the fourth quarter 2017 of the IVASS Risk Dashboard for the Italian market compared with the EIOPA⁷³ Risk Dashboard relating to the same period for the European market.

Q4-2017 Risks	IVASS		EIOPA	
	Level	Trend ⁷⁴	Level	Trend
1. Macro-economic Risks	medium - high	→	medium - high	→
2. Credit Risks	medium	→	medium	→
3. Market Risks	medium	→	medium	→
4. Liquidity Risks	medium	→	medium - low	→
5. Profitability and Solvency Risks	medium - low	→	medium	→
6. Interconnection Risks	low	→	medium	→
7. Insurance Risks	low	↘	medium - low	→
8. Risk perceived by the Market	medium - low	↑	medium	→

The main risk factors for the Italian insurance sector, as well as of the European one, relate to the macroeconomic area while other risk areas (credit, market, liquidity and solvency) have a medium vulnerability level. Insurance and interconnection risks are at a low risk level, lower than in the European assessment. The improvement noted in this area is due both to the attenuation of the negative trend in premium income in the life sector and to the lower use of reinsurance in the Italian market compared to the European average.

⁷¹ <http://www.bancaditalia.it/pubblicazioni/rapporto-stabilita/index.html>.

⁷² For example, at 31 December the Risk Dashboard uses fourth quarter information.

⁷³ EIOPA, <https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Risk-Dashboard.aspx>.

⁷⁴ The arrows indicate the change relative to the previous quarter: ↑ = significant increase (>1), ↗ = increase (>0.5), → = constant, ↘ = decrease (< -0.5), ↓ = significant decrease (< -1).

On the contrary, the Italian insurance market sees a greater concentration of investments compared to European competitors. With reference to the risk perceived by the market, an increase is observed due to the lower growth in the profits expected by Italian insurance companies with respect to those of the Euro area.

2.3.2. - *Monitoring vulnerabilities*

In 2017, IVASS continued to monitor the main sources of risk and vulnerabilities for the insurance sector also through the quarterly survey on a representative sample of the domestic market consisting of ten groups and six individual undertakings; the monitoring collects and analyses standardised information on recurring cases, in addition to obtaining data and further delving into innovative or emerging themes.

The surveys confirmed the Italian companies' low interest in investing in minibonds and in innovative financial instruments. Investments in term structure repo and in securities issued by Special Purpose Vehicles and short term funding continue to be little used, as are liquidity swaps and investments in securities relating to securitisations. Signs of interest for alternative investment forms originate within the scope of strategic asset allocation decisions to diversify and optimise the portfolio.

As to the emerging risks monitored in the course of the survey, of note are the following:

- 1) *Risk of a sudden rise of interest rates.* – Undertakings pay a high level of attentions to the risks tied both to the prolonged phases of low interest rates and to a sudden rise of the credit spread of government bonds. The risks are the subject of contingency plans and of dedicated policies and capital management plans with various mitigation measures. The risk of a sudden rise of the credit spreads of government bonds is the one with the greatest impact on the solvency index of undertakings. Nearly all undertakings examined consider the application of the Volatility Adjustment as the most effective risk mitigation measure. Many companies have also started or continued diversifying the asset portfolio in terms of geography and of asset class, addressing the corporate sector. Government bonds still remain the most widely used instruments because they are deemed more suited to fulfil commitments to policyholders.
- 2) *Cyber risk and accumulation risk.* – In this regard, please refer to Chap. II.3.
- 3) *Exposure to derivative financial instruments and related counterparty risk.* – Use of derivative financial instruments is generally directed at managing the risk deriving from interest rates and from exchange rates, consistently with international practices. Specifically, among the 10 companies of the sample that stated they use derivatives, only 3 carry out clearing with a central counterparty.
- 4) *Marketing of Individual Savings Plans (PIR)⁷⁵.* – In the first nine months of 2017, 12 companies of the sample offered life products in accordance with the regulations on PIR for an amount of 458 million Euro. Marketing took place mostly by means of composite policies⁷⁶ in which the Class III component is represented by an insurance internal fund invested in accordance with the requirements of Italian Law no. 232/2016.

2.3.3. - *The risk workshops*

The evolution of the main financial and insurance risks, as well as the trends that characterise the insurance sector, were delved into by the Institute on two different occasions: one with ANIA

⁷⁵ PIRs were introduced by the Italian budget law for 2017 with the goal of promoting, through tax incentives, savers' investments in financial instruments issued by Italian undertakings. PIRs can be activated through investment in unit trusts, asset management, insurance or securities deposit contracts subject to constraints on portfolio composition (see Ministry of Finance, <http://www.finanze.it/export/sites/finanze/it/.content/Documenti/Varie/LINEE-GUIDA-PIR.pdf>).

⁷⁶ Products combining Class I policies with Class III policies.

and the main insurance groups and the other one with the primary advisory companies and rating agencies.

This year's meetings, in addition to the sharing of the main risks perceived by the sector, focused on challenging, innovative aspects for the evolution of the sector, including the offering of new insurance products, insurtech, cyber risk and reinsurance techniques.

Italian companies remain more sensitive to financial and macroeconomic risks than to those closely connected with the insurance business. Risks tied to the investment management business remain high and mainly due to the prolonged period of low interest rates, to credit risks and to macroeconomic risks. Operational risks seem to be particularly relevant, because of the cyber risk component.

There is a general need to preserve the specificity of the insurance market that instead tends, especially for the life business, to approach financial products undermining the competitiveness of insurance undertakings. In this regard, both on the part of large companies and of other operators, the need emerged to enhance the value of traditional life insurance policies and for greater attention to consumers' multiple insurance needs.

Lastly, insurance undertakings continue to pay progressively more attention to the strategic risk deriving from possible loss of competitiveness for the entry into the insurance market of new entities, including undertakings with strong Internet presence (e.g. companies active in social media or in electronic trading) and traditional non-insurance undertakings that enter into the sector (e.g. automotive manufacturers).

2.4. - ORSA and SFCR reports

2.4.1. - *Main risk factors discussed in the reports on own risk and solvency assessment (ORSA)*

IVASS carried out a comparative analysis, in a macro-prudential perspective, on the ORSA reports of a sample of undertakings that represent over 80% of the Italian insurance market. The sample includes the relevant groups for financial stability purposes and other companies deserving to be further delved into due to specific technical / organisational structures.

In the ORSA reports, the companies provide indications on the main perceived risks as well as on the methodologies and assumptions for their current and forward-looking assessment of risks, also through sensitivity studies, stress tests or reverse stress tests. This makes it possible to identify market expectations with respect to potential economic scenarios and to understand the strategic actions and decisions the companies could adopt or plan for the development of the insurance business. A general picture is obtained, useful to assess the effectiveness, in terms of pursuit of the objectives and of the regulatory provisions, facilitating the verification of regulatory impacts.

The studies have shown a gradual alignment of the content and of the format of the ORSA reports to regulatory provisions, with an improvement, of different intensity between various undertakings, of disclosure on organisational structures and on risk analysis and management, as well as on capital planning techniques.

The financial risks tied to the structure of the asset portfolio are confirmed as the main critical issues. Stresses on the risk factors assumed by the companies nearly always include decreased stock prices, increased credit spreads and mass surrenders in life insurance policy, generally assessed individually and rarely in a combined manner. There are considerable differences between the undertakings that adopt internal models for the calculation of the capital requirement and those that use the standard formula: the former have raised attention also on the liquidity, reputational and strategic risk.

The Institute published a letter to the market (12 January 2018), stating the expectations of a constant improvement of the ORSA process, with a more truthful representation of the main risks to which the undertaking is exposed, of the measures adopted or planned to manage such risks and of the integrated planning of the corporate strategies (sales, risks and capital). An improvement is also required to the processes for the development of integrated risk scenarios, in particular in the definition of the metrics used to assess exposure to these risks and in the technologies to conduct sensitivity analyses and stress tests.

2.4.2. - Solvency and financial condition reports (SFCR)

IVASS published the results of the comparative analyses on the solvency and financial condition reports (SFCR) of the undertakings and of insurance and reinsurance groups published in 2017. The letter to the market of 28 March 2018 pursues the goal of the Institute of increasing transparency on supervisory analyses and of divulging the expectations about the adequacy of public disclosure to the market.

The third pillar of the Solvency II prudential regime prescribes, *inter alia*, the obligation for insurance and reinsurance undertakings and groups to annually publish the SFCR, which is the main vehicle for representation of the financial and capital situation to the market.

The SFCR shall provide the extended audience of potential interested parties - including policyholders, insured parties and beneficiaries - with a clear, understandable and as complete as possible set of information about the business and the results achieved by the undertakings and the groups, the related organisational structure and the governance system, the risk profile, the assessments for the purposes of the solvency balance sheet and capital management.

The descriptive part of the SFCR does not always contain complete information easily understandable to readers, as hoped by European and national lawmakers. The quantitative disclosure (Quantitative Reporting Templates, QRTs) attached to the reports, instead allows detailed, comparable assessments pertaining to solvency requirements, own funds, insurance productions and macro categories of assets and liabilities.

The improvement areas pertain to the methods for representing relevant information, the content and the granularity of information (quantification of risk exposure, sensitivity analysis and impact on the risk profile). They are substantially similar to those observed in the SFCR of the other European undertakings, as highlighted by the comparative analyses carried out by EIOPA, IAIS and by other national Authorities.

IVASS requested domestic insurance and reinsurance undertakings and groups to remove the observed deficiencies and to align the SFCR reports of upcoming years to best market practices.

3. - INSPECTIONS

3.1. - Insurance undertakings

Following the 2015-2017 Strategic Plan, in 2017 Solvency II inspections increased in quantitative and qualitative terms. Out of 27 inspections conducted at insurance undertakings, 19 pertained to first and second pillar issues.

The inspected companies were selected on the basis of the results of the Supervisory Review Process and to achieve adequate system coverage, with a view to integration and optimisation of off-site and on-site activities.

The inspections were carried out on the basis of the methodological standards prescribed by the inspection Guidelines, which focus the investigations on the risks and on the effectiveness of the safeguards, through an analysis of the governance and management processes.

Eight inspections (involving seven life and one non-life undertakings) were focused on the correctness and consistency of the assumptions used to calculate the best estimate of technical provisions, on the financial assumptions at the basis of the Solvency Capital Requirement, also with a prospective view, and on the process adopted to prepare the *ORSA*.

The complexity of the projections on which the calculations of the best estimate of liabilities are based required accurate analyses on the consistency of the assumptions used by undertakings with their actual risk profiles. Also assessed was the presence of an effective system for identifying and evaluating, also with a prospective view, the risks on which the new solvency regime is based.

Ten inspections verified the effectiveness of the remediation plans connected with the needs identified when authorising the use of internal models for calculating the capital requirement (see IV.1.4.2).

An inspection focused exclusively on the governance, internal control and risk governance profiles of the Italian ultimate parent undertaking of an internationally-oriented insurance group as well as on the outsourcing policy in their group.

A joint inspection was conducted, with the participation of EIOPA and of the home Supervisory Authority, of an undertaking with head office in an EU State that had sought authorisation to pursue business in Italy, with particular attention to the corporate structure and to governance profiles.

Two broad-spectrum actions were taken on small undertakings with businesses in niche sectors. In one case, severe deficiencies were noted in the organisational, managerial and capital safeguards that led to the first insurance company to go into special administration since IVASS was established.

Five on-site actions were focused on:

- the management of CARD claims (IVASS Order no. 18 of 5 August 2014);

- the MTPL settlement procedures and connected governance aspects;
- the risk of money laundering and terrorism financing (AML) at three undertakings (see IV.3.3.).

Subject to anti-money laundering audits, unfavourable outcomes emerged for six undertakings, including two life insurance undertakings on BEL themes.

The BEL inspections of life insurance undertakings have, in general, highlighted some deficiencies and delays in the implementation of the new regulations, which require undertakings to set up new structures, complex methodologies and suitable data bases. The role of the administrative bodies and of governance and control functions must be strengthened, starting from the actuarial function, which is responsible for sensitive audit functions. In particular, the audits uncovered:

- the implementation of future management actions in a simplistic manner, occasionally inconsistent with actual company operations (financial assumptions), with poor granularity of asset modelling, unchanged asset allocations in different economic scenarios and target returns of segregate funds not aligned to financial strategies;
- a non-punctual calibration of surrender curves and occasionally the failure to model dynamic factors (technical assumptions);
- limits in the mapping of the options and guarantees contained in insurance contracts, with consequent impacts on the reduced modelling of additional payments.

The unfavourable outcome for a non-life undertaking is due to critical issues in the calculation of the BEL, in the ORSA process and in data quality. For the same company, it was also observed the use of reinsurance with cession of additional premiums to existing treaties which, for the related technical implementation procedures (absence of money movements and of an effective transfer of risk), was considered ineffective for the calculation of the capital requirement.

In other two cases, the unfavourable results are due to significant deficiencies in the action for the governance, management and control of the property, counterparty and underwriting risks not addressed by adequate organisational, managerial and capital safeguards. In one case, a specific action became necessary to require timely corrective measures pertaining to the functionality of the administrative body, of the internal control functions and of risk governance, and to the outsourcing policy.

For five undertakings, sanctioning proceedings were initiated in relation to the inadequacy of the processes and of the reporting procedures for identifying, measuring and monitoring risks on an ongoing basis, to the adequacy of technical provisions, to investment decisions not calibrated to the risk profile and to the lack of technical assessments preliminary to the approval of the new tariffs (see VI.1 for the sanctions imposed).

3.2. - Insurance Intermediaries

In 2017, nine on-site inspections were carried out on compliance with sector regulations at the insurance intermediaries registered in the RUI, of which two agents (section A of the RUI), five brokers (sect. B) and two collaborators (sect. E).

The inspections were directed at consumer protection and they pertained to:

- compliance with legal and regulatory provisions on precontractual and contractual disclosure to customers, complaints management, control and training of the sales network, segregated accounts and timely remittance of the premiums to the principal undertakings;
- suitable internal control procedures to prevent improper behaviours of sales networks consisting of a high number of personnel distributed over a vast territory;
- identification, for some intermediaries operating also as loan brokers, of any forced sale practices of insurance products (tie-in);
- compliance on the occasion of life insurance contract surrender and settlement.

3.3. - Anti-money laundering

In 2017, anti-terrorism and anti-money laundering inspections were carried out on two undertakings with registered office in Italy, whose premiums account for 14% of the life insurance market, and a branch of an undertaking with head office in a EU member State, belonging to a group with core business in private life insurance operating in Italy under the right of establishment.

The weaknesses noted pertained to the due diligence procedures for profiling customers, not matching the actual risk profile, because of inappropriate weighing of anomaly indicators, of the lack of value quantification of others and of the poor collaboration of the distributor.

IVASS stressed the need to adopt timely corrective interventions and to revise the remedial plans implemented and, for two undertakings, violations were charged that can be subject to administrative sanctions in relation to the missing quantification and inappropriate weighing of some risk factors used to profile customers and insufficient documentation on the relations between policyholder and policy beneficiary.

In addition, 10 inspections were conducted at intermediaries registered in section A of the RUI (agents) within the collaboration project for anti-money laundering audits on insurance intermediaries, started by the Institute with the involvement of the Bank of Italy. In limited cases, partial compliance was observed with adequate verification obligations with regard to the punctual identification of customers and recording of banking data.

The close cooperation between IVASS and UIF continued.

With reference to the assessment of the money laundering risk, the following letters to the market were issued:

- 5 June 2017 – self-assessment of the risks of money laundering and terrorist financing; annual report of the anti-money laundering function;
- 12 July 2017 – assessment of money laundering risks; request for information on the activity carried out in Italy in the life business under fos;
- 28 March 2018 – anti-money laundering obligations for insurance undertakings and for insurance intermediaries until the entry into force of the new regulations implementing the Fourth Anti-money Laundering Directive.

4. - COMPULSORY WINDING UP

In 2017, IVASS supervised undertakings undergoing administrative compulsory winding up, verifying the regular performance of asset realisations, determination of liabilities and allocation of the amounts to creditors. 598 measures were issued, including the confirmations of commissioners and of the members of the supervisory committee whose term of office expired.

On 18 December 2017, IVASS order no. 66 was promulgated, amending the rules for the indemnities to be paid to liquidators and to the components of the supervisory committee for insurance undertakings, set by the previous ISVAP order no. 2509 of 2007.

The rules previously in force prescribed, in favour of the bodies, a fixed annual indemnity and a variable portion tied to the amounts distributed to creditors.

The new rules are meant to contain duration and costs of the procedures, removing the fixed component. In addition, the choice was made to determine compensation on the basis of the volumes of assets and of liabilities, as prescribed by the bankruptcy law, with the application of correctives to adequately remunerate the bodies without burdening creditors with excessive costs with respect to the provisions contained in the repealed order.

The procedures already open upon entry into force of the order follow a transitional regime, entailing the elimination of the annual portion due to the liquidators and to the members of the supervisory committee from the year 2018 onwards, while the variable portion remains in force.

To incentivise closure of existing liquidations and make the new regime gradual, the bodies of liquidations opened prior to 1 January 2010, that successfully close the procedures by 1 January 2021, can be paid a bonus compensation up to three predetermined portions, as calculated in accordance with ISVAP order no. 2509/2007.

In view of the strategic nature of the sale of the real estate assets in the liquidations, the sector was followed with particular attention. The frequency of the auctions for the sale of the assets was intensified, with a modulation of the reductions to accommodate the need to avoid the market's price decline expectations as well as that of facilitating the award of the assets. Attention was paid to advertising the auctions, devising customised solutions according to the type of assets as well as to the consolidated presence on the web. The results in the past three years are significant, with the sale of 29 properties; this circumstance made it possible to close 11 liquidations with the consequent cancellation from the registrar of companies or initiation of the related procedure.

A detailed analysis showed that the operating costs for 20 liquidations were excessive compared to the activities still to be performed. Initiatives directed at reducing these costs were therefore carried out, in one case also employing a primary corporate consultancy firm appointed in accordance with Article 10-*bis* of IVASS Regulation no. 4/2013. The initiatives pertained to the costs incurred for employees, consultants, collaborators as well as the rent for the offices.

At the end of this activity, the liquidators reduced the number of employees and collaborators, changed the parameters of consultants' compensation, moved the offices to spaces

with lower costs, preferring the offices of other liquidations not expected to be closed immediately or simply by setting the address for service at the offices of the liquidators themselves.

At the end of 2017, operating costs decreased by 30% compared to 2015. Some cost reduction initiatives were carried out in 2017 and, therefore, the results will be even more appreciable next year.

The Institute's constant effort to accelerate the closure of the liquidations made it possible to achieve, in 2017:

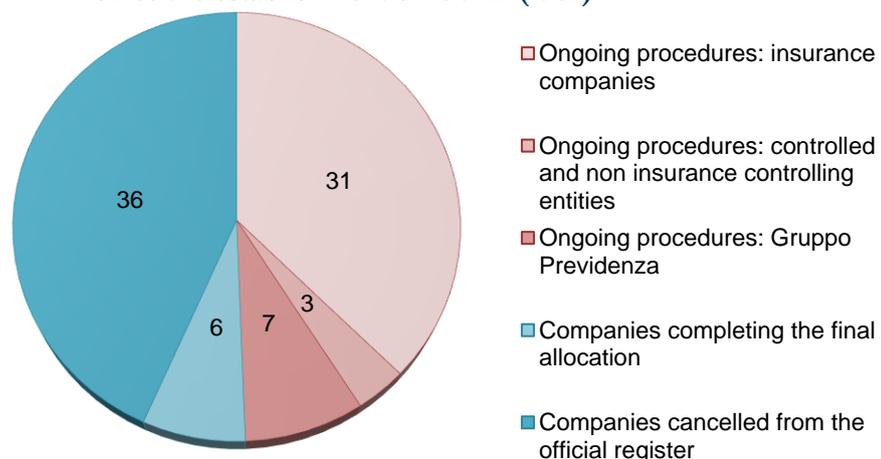
- cancellation from the registrar of companies of a procedure that had previously deposited its cash flow report, the financial statements and the final allocation plan (Centrale s.p.a.);
- deposit of the final documents and cancellation from the registrar of companies of Apal s.m.a., Forte Filippo s.r.l. and Casalone s.r.l. (the latter two were in the Previdenza group);
- deposit of the cash flow report, of the financial statements and of the final allocation plan of Novit s.p.a. and of Ambra s.p.a.

At year end, liquidation activities are still ongoing for 41 companies (versus 46 companies at the end of 2016).

Examining the 2012-2017 period, 18 companies in liquidation, including 6 in 2016 and 5 in 2017, deposited the final documentation and initiated or carried out the final allocation plan and the last formal obligations.

Figure IV.2

Status as at 31 December 2017 of liquidation procedures since the establishment of ISVAP (1982)

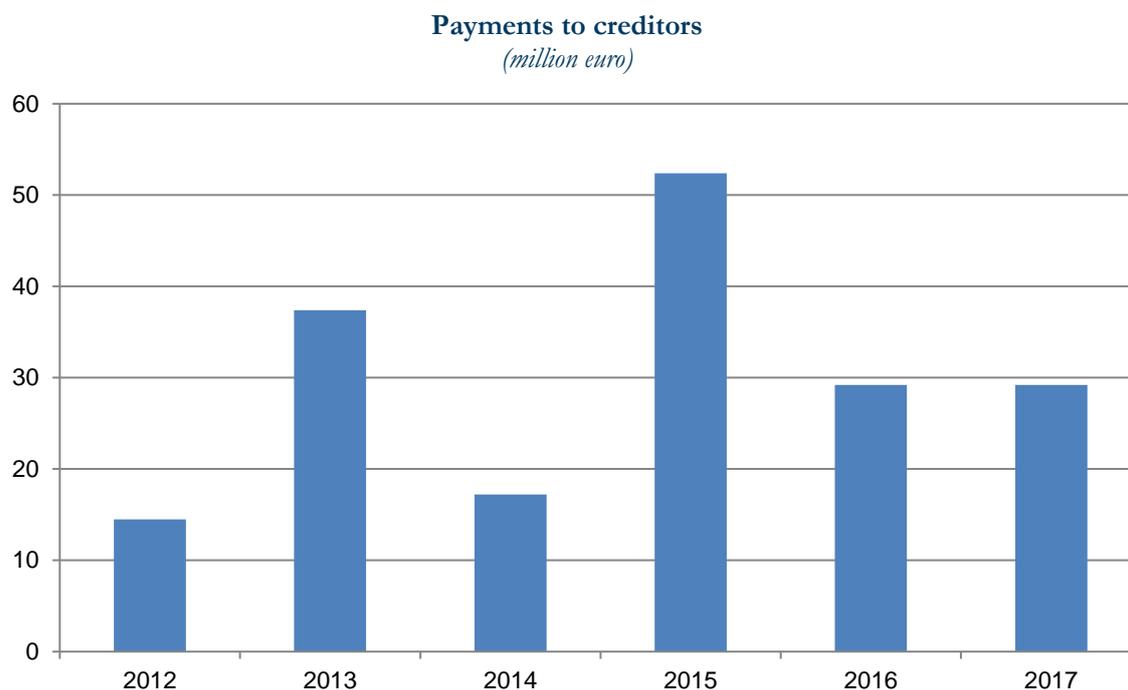


In relation to the distribution of amounts in favour of the creditors of undertakings placed under administrative compulsory winding up based on the data provided by Consap – Fondo di Garanzia per le Vittime della Strada (the national guarantee fund), in 2017 damages for MTPL

claims caused by policyholders with the undertakings in question amounting to 26.8 million euro were paid.

IVASS also granted authorisations to the disbursement of a total amount of 29.2 million euro in favour of creditors admitted to the statement of liabilities of the Novit s.p.a. and Ambra s.p.a. procedure (final allocations) and of the Italian Branch of Rhône Méditerranée and S.I.D.A. s.p.a. (partial allocations). Among the creditors are included Consap and the designated undertakings, inasmuch as they have the right of recourse for the compensation per the previous point.

Figure IV.3



With regard to cross-border activity, the Institute kept contact with the Supervisory Authorities and with the liquidators of the foreign undertakings operating in Italy under the freedom to provide services placed in liquidation, to provide disclosure to users about the procedures whereby policyholders and injured parties can enforce their rights.

In 2017, the undertaking Forte Asiguari Reasigurari S.A. (a Romanian company) was placed in liquidation; it operated in Italy under fos in the non-life business.

V. - CONSUMER PROTECTION

1. - CONSUMER PROTECTION SUPERVISORY ACTION

The consumer protection action has a central role in the activity of the Institute, in line with the purposes of the insurance supervision indicated in Article 3 of the CAP, with the IVASS Strategic Plan and with the action of EIOPA which sees the strengthening of this aspect as the first point of its own plan of activities for 2018⁷⁷.

The Institute's effort is directed at continuous improvement of the ability to promptly catch signals of dysfunctions from the market - to prevent them from actually prejudicing a broader range of policyholders - and to address them with effective actions, market-wide or directed towards individual undertakings.

For this effort to be successful, the periodic contacts with consumers' Associations, the Consumer Contact Centre - which offers a daily view on the relations between policyholders and undertakings - are essential, as is the presence of the Institute on social media, in addition to the analysis of available information about complaints and the market conduct of undertakings and Italian and foreign distributors, performed, for the latter, in collaboration with the Home supervisors.

To further refine its activity, orientating it ever more closely to an *ex-ante* protection, the Institute has initiated internal in-depth studies to improve the available analytical tools, also drawing from risk-based methodologies for supervision on the stability of the undertakings and from the legal changes pertaining to POG that regulate the activities of the undertakings in the product design stage and when planning product distribution.

1.1. - The complaints handled by IVASS

The objective that IVASS intends to achieve through its handling of complaints is to improve relationships between companies, their intermediaries and customers, intervening on the contracts, to assure adequacy, simplicity and clarity of the offer, and on the moment of payment of the benefits, to assure punctuality and correctness.

Through its handling of the complaints, IVASS obtains a picture of the quality of the services offered to customers and can intervene on corporate policies and processes to remove imbalances in the dealings with customers.

In 2017, 20,084 complaints were received, 87% of which pertain to the non-life business (17,449) and 13% to the life business (2,635). The percentage of the two segments remained substantially stable compared to the previous year, as in the case of MTPL, to which 59% of total complaints refer (11,854 complaints).

⁷⁷ <https://eiopa.europa.eu/Publications/Administrative/EIOPA%20SPD%202017-2019%20including%20AWP%202018.pdf>

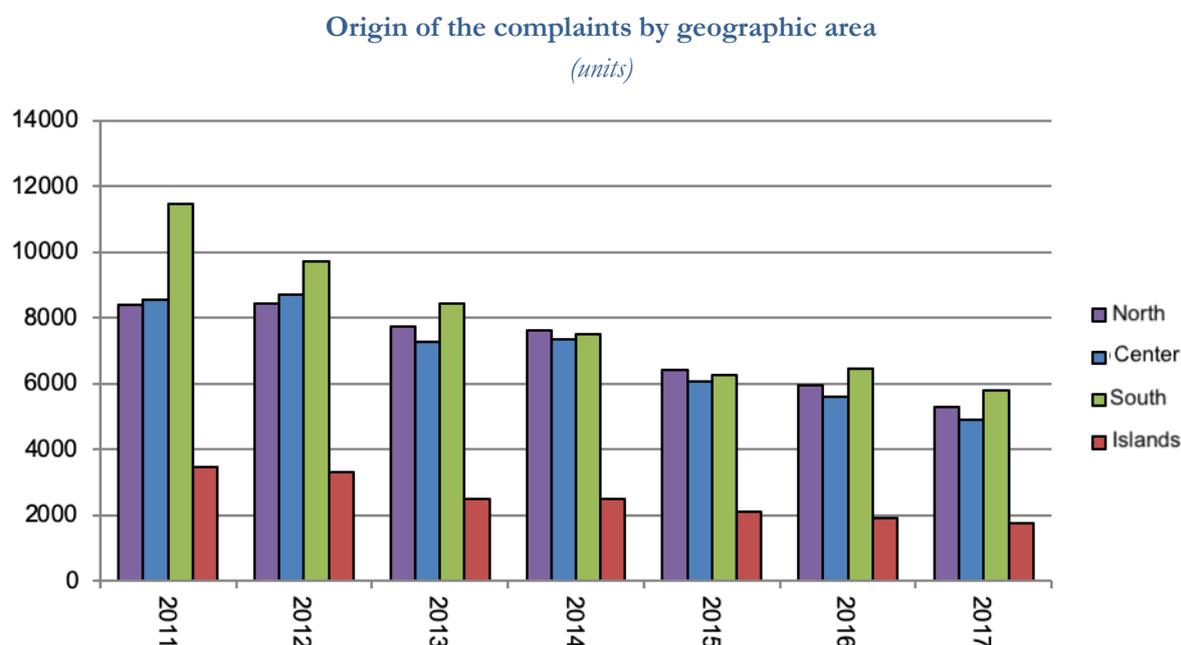
In comparison with 2016, the total number of complaints declined by -6.3%, confirming the decreasing trend of recent years (Table V.1). The reduction pertains, in particular, to the MTPL business, with 860 fewer complaints than in 2016.

Table V.1

Complaints to IVASS: distribution by sector					
	Motor Third Party Lia- bility	Other non- life classes	Total Non-life	Life	Grand total
2011	24,506	5,965	30,471	2,652	33,123
2012	21,955	6,655	28,610	2,656	31,266
2013	17,462	6,575	24,037	2,597	26,634
2014	16,464	6,551	23,015	2,621	25,636
2015	13,239	6,473	19,712	2,932	22,644
2016	12,712	5,987	18,699	2,733	21,432
2017	11,854	5,595	17,449	2,635	20,084
% Change 2017/2016	-6.7%	-6.5%	-6.7%	-3.6%	-6.3%

The decrease in the number of complaints concerns all geographic areas in a homogeneous manner (Fig. V.1).

Figure V.1



In 2017, the inquiries related to 22,561 complaints were completed, with outcomes totally or partially favourable for consumers in 51.4% of the cases.

Table V.2

Outcome of complaints filed with IVASS		
	(units)	
Outcome	2016	2017
Totally upheld by the undertaking	6,971	8,124
Partially upheld by the undertaking	3,163	3,469
Not upheld by the undertaking	5,890	7,116
Sent to the undertakings for direct handling first	2,905	3,516
Complaint transmitted for competence to another Authority	83	336
Total	19,012	22,561

67% of the complaints handled, equal to over 15,000 positions, were received in 2017; the remaining part pertained to the conclusion of positions opened in the previous year.

1.1.1. - *Complaints in the non-life classes*

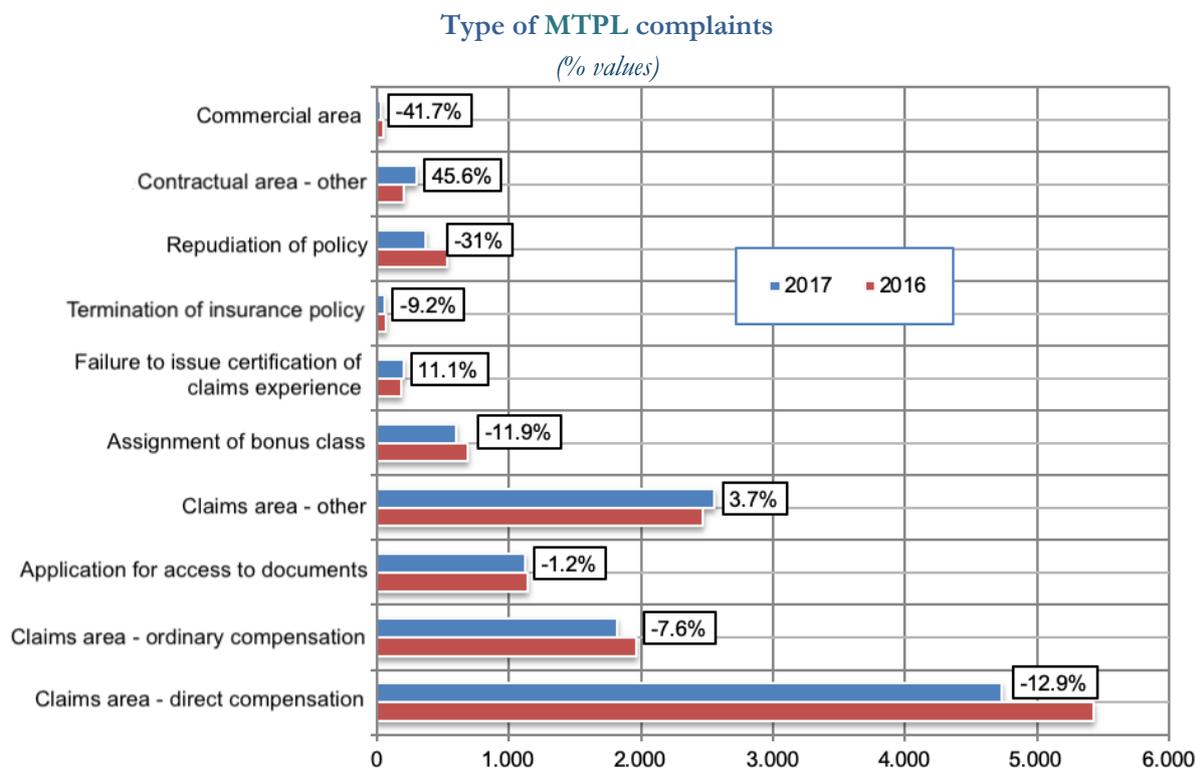
68% of complaints in the non-life sector is concentrated in the MTPL sector, with a prevalence of the claims area. Less numerous are the complaints concerning the contractual area, mostly referred to the attribution of penalties (*pejus*) in the presence of claims (Table V.3).

Table V.3

MTPL complaints: evolution of distribution by area							
	(units)						
	2011	2012	2013	2014	2015	2016	2017
Claims Area	17,934	15,808	12,712	12,621	10,468	10,994	10,224
Contractual Area	6,341	5,980	4,617	3,787	2,735	1,670	1,531
Commercial Area/Other	231	167	133	56	36	48	99
Total	24,506	21,955	17,462	16,464	13,239	12,712	11,854

For cases of ascertained violation of the CAP provisions on the terms of offer or payment, or of delays in replying to the request for access to the undertaking's files relating to MTPL claims, undertakings were served 1,071 formal notices for the purpose of applying the pecuniary administrative sanctions.

Figure V.2



The complaints pertaining to claims in direct compensation (CARD) procedure decreased by -12.9%, from 5,424 to 4,727; those referred to the ordinary compensation procedure declined by -7.6%, from 1,964 in 2016 to 1,814 in 2017.

The complaints pertaining to non-life business other than MTPL numbered 5,595, with a reduction of -6.5% with respect to 2016. The decrease involves nearly all classes and in particular the suretyship class. There was an increase, albeit not very significant in absolute terms, of complaints pertaining to legal expenses (+31%, 42 cases) and non-auto theft (+12.7%, 14 cases). In the non-life business other than MTPL, in 73% of the cases the reasons for complaint pertain to the settlement area and the quantification of damages. The other complaints pertain mainly to the contractual area (e.g. interpretation of the policy conditions).

Table V.4

Other non-life insurance complaints: distribution by area							
	2011	2012	2013	2014	2015	2016	2017
							(units)
Claims Area	4,262	5,000	4,541	4,624	4,447	4,356	4,076
Contractual Area							
Commercial Area	1,703	1,655	2,034	1,927	2,026	1,631	1,519
Other							
Total	5,965	6,655	6,575	6,551	6,473	5,987	5,595

1.1.2. - *Complaints in the life business*

In 2017, the complaints received in the life business totalled 2,635, down by -3.6% compared to 2016.

Compared to the previous year, there is a reduction in complaints relating to the settlement area, which pertain to delay in the settlement of the claims, of surrenders and of capital at maturity.

Table V.5

Life complaints: distribution by area							
	(units)						
	2011	2012	2013	2014	2015	2016	2017
Settlement Area	1,572	1,483	1,373	1,391	1,627	1,304	1,029
Contractual/Commercial Area/Other	1,080	1,173	1,224	1,230	1,305	1,429	1,606
Total	2,652	2,656	2,597	2,621	2,932	2,733	2,635

1.2. - *Complaints received by insurance undertakings*

In 2017, the Italian and foreign insurance undertakings operating in Italy received from Italian consumers a total number of 103,984 complaints, mostly relating to the MTPL and to the other non-life classes.

Table V.6

Complaints of undertakings operating in Italy: distribution by sector - 2017			
	(units and % values)		
	Number	% over total	% change 2017/2016
MTPL	49,896	48.0	-10.3
Other non-life classes	34,694	33.4	-13.2
<i>Total Non-life</i>	<i>84,590</i>	<i>81.4</i>	<i>-11.5</i>
Life	19,384	18.6	-21.9
Total	103,974	100.0	-13.7

Overall, 29.8% of complaints were upheld, 11.4% were settled and 54% were rejected. The remaining 4.8% was undergoing investigation as of 31 December.

In general, the average reply time was in compliance with Regulation no. 24/2008 (45 days from receipt of the complaint).

1.2.1. - Publication on the IVASS website of the data about the complaints received by undertakings

The half-yearly publication on the IVASS website of the data on complaints received by insurance undertakings produces positive effects for consumer protection, inducing undertakings to compare themselves with competitors on the quality of the service offered, of which complaints are an important indicator. In this sense, the Institute observed a greater commitment of the governing bodies of undertakings in following the complaints and investigating their underlying causes.

Starting from June 2017, the half-yearly publication includes indicators of the percentage of complaints out of the number of contracts by line of business, which are added to those referred to the premiums.

The complaints/contracts and complaints/premiums indicators provide the value of different phenomena and allow - in a combined manner - a better comparison between the undertakings. In fact, the use of the complaints/premiums indicator alone penalises the insurance undertakings whose activity comprises many contracts of limited value and favour rapidly growing undertakings; the complaints/contracts indicator allows to offset these anomalies.

1.3. - The Consumer Contact Centre

The Contact Centre continues to support citizens, through guidance and assistance on insurance products, as well as a useful aid for the supervisory functions of IVASS.

Through the Contact Centre it is possible to be rapidly informed of difficulties in dealings between undertakings and policyholders and consequently to intervene in a timely manner with the necessary supervisory initiatives.

In 2017, 30,630 telephone calls reached the Contact Centre (34,873 in 2016), for an average of 116 calls per day.

Table V.7

Data on the activities of the IVASS Contact Centre - 2017	
<i>(units and % values)</i>	
Total calls received	30,630
Total calls dealt with	28,114
% dealt with / received	96.86%
Calls dealt with on average per month	2,342
Calls dealt with on average per day	116
Average waiting time	1 minute
Average duration of telephone conversation	4.8 minutes

Table V.8

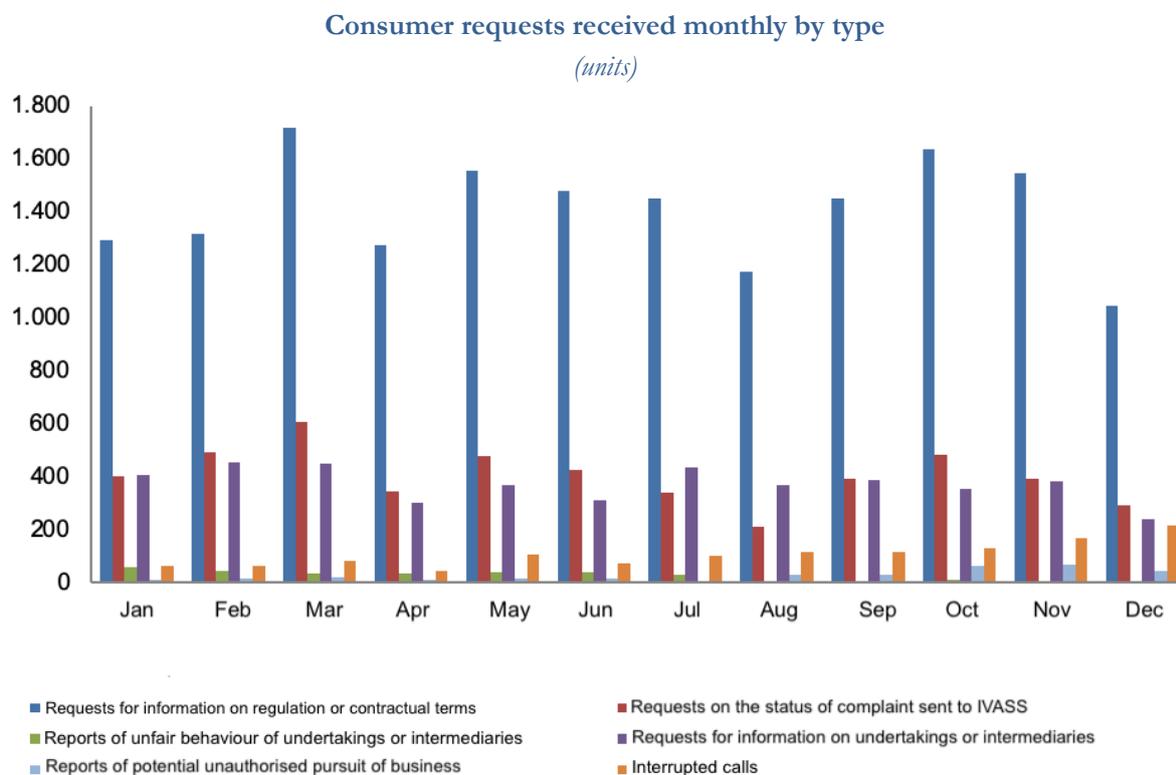
Activities of the IVASS Contact Centre						
	2012	2013	2014	2015	2016	2017
Calls received	47,923	49,296	43,550	44,069	34,873	30,630
Calls dealt with	45,500	48,027	42,083	35,250	32,808	28,114
% dealt with/received	94.94%	97.43%	96.63%	78.00%	93.86%	96.86%

Consumers' requests mainly pertained to clarifications about insurance regulations and about contractual clauses, in particular in MTPL (55.30%), with questions on the cases of enforcement of the "Bersani" Law, on the 2017 Competition Law and in particular on MTPL discounts for installation of the black box. In consideration also of frequent cases of illegal pursuit of insurance business online, consumers' calls to verify the license of parties offering policies on the Internet grew to 14.52%.

Many consumers called the Contact Centre to obtain confirmation on the regular operations in Italy of some foreign undertakings whereof they had become aware from comparative sites, as well as for indications on what to do in case of crisis situations of foreign undertakings authorised to operate in Italy.

Following the entry into force of the annual law for competition and the market (29 August 2017), the Contact Centre received requests for clarification on the abolition of tacit renewal for policies ancillary to the MTPL policy, on the costs of installation/removal of black boxes incurred by the insurance undertaking, on the methods and levels of discounts for MTPL policies in case of installation of the black box and of discounts for parties residing in the provinces with the highest claim rate.

Figure V.3



1.4. - Supervision on the correctness and transparency in the conduct of the undertakings

Consumer complaints, together with telephone reports to the Contact Centre and with the reports on the complaints received by the undertakings transmitted every six months to IVASS, are important instruments for the Institute's assessments of the degree of customer satisfaction and of the problems in the undertakings' corporate policies and processes.

This activity allows IVASS to intervene with focused supervisory actions on the undertakings, calibrated on the type and complexity of the problem and intended to solve recurring dysfunctions. Moreover, in case of difficulties spreading across the entire market, system-wide interventions are carried out.

1.4.1. - Interventions with regard to individual undertakings

In 2017, letters were sent to 16 undertakings, with the request to remove the underlying causes of the complaints through the revision of corporate policies and processes, or their representatives were summoned.

In the non-life sector:

- with regard to two companies, inspections were ordered due to problems tied to the MTPL settlement processes;
- for two other undertakings, the interventions pertained to delays and inefficiencies in the management of MTPL claims. The remedial actions adopted allowed to improve the settlement processes and to strengthen the controls;
- in view of hundreds of complaints reporting deficiencies in the management of the policyholders' requests to access the MTPL claim files, IVASS encouraged two undertakings to revise their operating processes; the undertakings communicated the adoption of corrective actions, whose effect shall be audited in upcoming months;
- an undertaking was involved in relation to the settlement policy that did not recognise to the policyholder the cumulated value between the compensation of the MTPL damage for bodily injuries and the indemnity resulting from the accident policy. The undertaking revised the policy, allowing the cumulation;
- for another undertaking, the intervention pertained to the change in the policy for non-acceptance of the terminations of non-life policies (driver injuries) sold as ancillary to MTPL products and the revision of credit collection processes, which determined the erroneous transmission of requests for payment to customers due to missed payment of premiums, even though the customers in fact had regularly paid to agents;
- concerning policies sold concurrently with the granting of loans, IVASS intervened on an undertaking that systematically denied the refund of the portion of premium not enjoyed as a result of the early repayment of the loan, objecting that the right had lapsed after two years. As a result of the intervention by IVASS, also based on case law on this matter, the undertaking amended the policy, recognising the application of a ten-year limitation period.

With reference to the life insurance business, the interventions pertained to the settlement phase for three undertakings and, for another company, the erroneous accounting of premiums paid and the customers' difficulty in obtaining a timely response to the requests for information on their contractual position. IVASS requested an in-depth analysis of the underlying causes of the complaints and appropriate corrective measures.

With regard to two undertakings, for which delays in the payment of policies at maturity had been noted, it was observed that the content of the reminder letters to be sent to customers as maturity approached was not compliant with the provisions of Article 17 of Regulation no. 35/2010 (the failure to indicate the documents to be filed led to lengthy bureaucratic delays). IVASS required that the letters be revised and initiated sanctioning proceedings in accordance with Article 183 of the CAP for the violation of the rules requiring transparency and correctness in the performance of contracts.

As part of the activity to follow up the state of implementation of the plans directed at making PPI products and the procedures for offering and performing contracts compliant with the recommendations of the IVASS-Bank of Italy letter to the market of 26 August 2015, actions were taken against six Italian and four foreign undertakings, in relation to still unresolved aspects.

1.4.2. - *Interventions on the entire market*

Letter of 3 April 2017 - policies linked to loans - PPI - refund of the premium not enjoyed in case of early partial repayment of the loan

IVASS has taken measures with regard to insurance undertakings, banks and financial companies distributing policies linked to loans, to ensure that also in case of partial (and not only total) early repayment the part of the insurance premium corresponding to the risk that has ceased to exist is refunded to the policyholder.

The action became necessary as a result of the observation that not all operators adopted procedures that ensure the automatic refund to the policyholder of the premium not enjoyed.

Letter of 24 July 2017 - clauses on the assignment of claims and specific arrangements for claim compensation included in the MTPL policy conditions

IVASS took action in July 2017 directing the attention of the insurance undertakings that exercise the MTPL business to clauses that, for claims managed under direct compensation (CARD) regime, prohibit or limit assignment of the claim or limit compensation if policyholders do not employ repair shops having standing agreements with the undertaking.

The undertakings were requested to revise the clauses in question because they are potentially unfair, and, as such, they should be reported by IVASS to AGCM. The undertakings were also invited to rapidly manage the claims whose compensation is subject to claim assignment for which - because of the nature of involved party, who is no longer the policyholder but the entrepreneur who is the assignee of the claim - the regulatory framework in terms of time limits, prescribed by lawmakers to protect damaged parties only, does not seem applicable.

The 2017 Competition Law, prescribing the right to full compensation, upon presentation of the invoice, when the damaged party employs a body shop in his/her trust, made further additions to the regulatory framework concerning compensation in specific form and claim assignment for MTPL claims. The Consumer Associations once again brought the matter to the attention of the Institute, stressing the impossibility to provide limitations to compensation for the claim. Appropriate further in-depth studies on the matter are ongoing.

Letter of 28 February 2018 - accident and sickness insurance contracts - procedures for determining disability and non-transferability to the heirs of the right to damages

IVASS observed the presence on the market of accident and sickness insurance policies containing clauses limiting the transferability to the heirs of the compensation in case of death as a result of permanent disability. These clauses establish terms, including highly expanded ones, starting from the time of filing of the claim, for policyholders' physical examination and for the assessment of any invalidating sequelae. In case of premature death of the policyholder, even for reasons other than the accident or the sickness for which the claim was filed, if the medico-legal assessment by the undertaking has not yet been carried out and the terms for its execution have not elapsed, there will be no compensation to the heirs of the deceased party or to any entitled party, even if they are in possession of medical documentation attesting the invalidating sequelae.

IVASS, with a coordinated action with AGCM which deemed these types of clauses unfair in relation to a specific policy of an undertaking, issued a letter to the market asking all undertakings to amend the contractual conditions relating to accident and sickness products that contain the clauses in question. For contracts already stipulated, the undertakings were invited to adopt settlement policies in line with the indications given.

1.4.3. - *Reports to AGCM*

For several cases, pertaining both to foreign and Italian undertakings, IVASS reported to AGCM contractual clauses in motor vehicle products (civil liability and other risks) that are potentially unfair because they provide that the compensation is reduced if the policyholder chooses to have the vehicle repaired by a body shop in his/her trust or limit the right to assign the claim, allowed only in favour of body shops authorised by the undertaking or subordinated to the undertaking's consent.

Another report, pertaining to a foreign undertaking, concerned a potentially unfair contractual clause that provides for the inadmissibility, for an accident policy, of legal action if the contractual appraisal has not been completed.

A potentially unfair commercial practice was reported in relation to the sale of “unrelated” insurance policies, sold concurrently but without functional connection to the loan for the purchase of consumer goods. These are, for example, sickness, accident or home policies but presented to customers as a condition to obtain the loan and with the premium included in the loan itself (see V.1.5.5).

1.5. - **Supervision of products and selling practices**

1.5.1. - *Dormant policies*

IVASS continued with its actions to reduce dormant life assurance policies, i.e. policies that have not been collected and lie dormant with undertakings, awaiting the expiration of the limitation period.

From the survey on a sample of policies⁷⁸, published in August 2017, an extensive phenomenon emerged of potentially dormant policies (approximately 4 million) for which the undertakings have stated that they are not able to ascertain whether the policyholder has died or is still alive. In addition, the widespread use of the designation of beneficiaries with generic formulas (e.g. lawful heirs, children already born and yet to be born) emerged, along with deficiencies in the information collected to be able to contact them.

As a result of the request by IVASS to proceed with more in-depth checks on 4 million policies, as at 31 May 2018 187,493 of them had been “awakened” for a total amount of 3,535 million euro, already paid or being paid to the legitimate beneficiaries.

⁷⁸ Policies expired from 2012 to 2016 and whole life policies in force at the end of 2016.

Of these, 71,437 policies (38%) were found to be payable due to policyholder death, for an amount of 1,970 million euro and 116,056 (62%) due because they reached maturity, for an amount of 1,566 million euro.

The high number of policies that reached maturity and were not collected by living policyholders highlights that there is a risk that the policyholders could, for the most disparate reasons, neglect to collect the amounts due. In these cases, since the maturity date of the policy and the emergence of the payment obligation are known to the undertakings, it is altogether necessary for undertakings to act autonomously and rapidly, should the entitled person fail to request payment, seeking direct contact.

For 3 million other potentially dormant policies, the undertakings ascertained the correctness of the status of the policy, finding, among others, cases of deaths that took place outside the term of contractual validity and of termination of the policy due to failure to pay the minimum annual premiums. Therefore, there are 900 thousand remaining policies that have to be further investigated.

The checks carried out were made possible also thanks to the collaboration between IVASS and the Italian Revenue Agency, which allowed to cross check the tax code of the policyholders with the death data in the Revenue Agency's Database and to return this information to the undertakings. A first cross check had been carried out in September 2017, on a sample of 12 undertakings and 101 thousand whole life policies with policyholders above 90 years of age and had led to reawaken 15,789 policies for which the insured party's death had already taken place. Subsequently, the checks were extended to a broader portfolio⁷⁹, for a total of almost 6.9 million policyholders. The cross-check led to the emergence of 153,000 cases of deaths, communicated to the undertakings in April 2018⁸⁰.

To seek more structural solutions to the phenomenon of dormant policies, IVASS asked undertakings, with its letter to the market of 29 December 2017⁸¹, to define, by 1 April 2018, an action plan to be implemented by September 2018, with appropriate initiatives to periodically verify policyholders' deaths and find the beneficiaries. In the letter, to lead undertakings and their intermediaries to improve the processes, possible lines of action and best practices were indicated.

Upon examination of the first plans, significative needs to strengthen the actions emerged, which were brought to the attention of the board of directors of the undertakings.

IVASS made available on the website information about dormant life assurance policies, with advice to be followed when designating the beneficiaries in the stipulation of a life assurance policy and for verifying whether a deceased family member has subscribed such policies. In addition to the indication of the possibility to activate the ANIA search service for insurance coverage, a fac-simile is available to ask for information from the insurance intermediary, from the bank or from the insurance undertaking used by the deceased family member. All

⁷⁹ https://www.ivass.it/operatori/imprese/raccolta-dati/ricieste-dati/2017/Lettera_mercato_dormienti_14_12_17.zip.

⁸⁰ <https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2018/lm-06-04/index.html>.

⁸¹ https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2017/lm-29-12-2/Lettera_al_mercato_aggiornamento_polizze_residue_1.pdf.

undertakings also made available on their website, from 1 April 2018 onwards, a contact point for the possible beneficiaries' requests for information about the existence of life assurance policies in their favour.

1.5.2. - *Simplification of the contracts*

In 2017, the activities to simplify insurance contracts, started under the impulse of IVASS in conjunction with Consumers' Associations, continued. ANIA, responding to the Institute's invitation, coordinated a technical workshop with undertakings, intermediaries and consumers, which in February 2018 produced Guidelines for the revision of the structure and of the language of insurance contracts.

For the first time, with the concurrence of all stakeholders, the issue of the lack of clarity of the contractual texts was addressed; it is a matter that the supervision of the Institute, based also on the management of policyholders' complaints, records as a frequent cause for disputes.

The Guidelines refer to the principles of the definition of the contract as a single and coherent body of clauses, overcoming the old distinction between general and special policy conditions, which occasionally had been the source of misunderstandings. In addition, undertakings were invited to write contractual conditions according to consistency and transparency criteria, indicating what is included in the coverage or is excluded to avoid "grey areas" that are difficult to interpret, to provide clear criteria for damage quantification, pertinent with respect to the type of damage, and to use commonly understood terms.

To support the implementation of the Guidelines, in March 2018 IVASS issued a letter to the market⁸², in which it indicated to undertakings, taking into account proportionality and significance criteria, the timeline for revision of the contracts. For newly marketed insurance products, undertakings were asked to adopt the Guidelines no later than 1 January 2019; for the main products already on the market, they were asked to complete the revision in 2019. The letter also prescribes public disclosure: undertakings are required to indicate on the cover of the products as they are revised that they were prepared in accordance with the Guidelines and to communicate the information to IVASS on a quarterly basis, until completing the revision process, to allow the Institute to notify it on the website, also to stimulate operators' proactiveness.

IVASS also asked undertakings to indicate in the contracts of the non-life business other than MTPL a sure date by which the undertakings commit to pay the benefit to the policyholder. The absence of the date today is a limitation of policyholders' rights and it is the source of many complaints.

1.5.3. - *Simplification of the Information Note for non-life insurance*

In 2017, the process for the simplification of precontractual disclosure of the non-life business continued, leading to a first public consultation on the revision of Regulation no. 35/2010 which introduces a new simplified Information Note. The work, that already took

⁸² <https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2018/lm-14-03/index.html>. The provision was extended to the foreign undertakings operating in Italy under the right of establishment or the free provision of services (<https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2018/lm-18-04/index.html>).

into account the principles underlying the IPID (the new non-life precontractual information document that was being constructed in parallel in Europe) had then been suspended awaiting consolidation of the rules at the European level. With the publication of the draft IPID *Implementing Technical Standard* by EIOPA in February 2017⁸³ and then of the final ITS in August 2017⁸⁴, the European regulatory framework was progressively and significantly defined, making it possible for the simplification process to continue.

In this context, a second public consultation was launched on a new proposed amendment to ISVAP Regulation no. 35/2010 which, at the end of the consultation and in accordance with the EU prescriptions, provides a binary information format hinging on the concurrent delivery, to the potential policyholder, of the European IPID and of an additional document (additional Precontractual Information Document; additional-PID) regulated by IVASS⁸⁵ and intended to collect additional information necessary for exhaustive disclosure to the consumer.

1.5.4. - *Product oversight and governance arrangements (POG)*

At the end of the public consultation, on 4 September 2017 IVASS issued a letter to the market transposing the EIOPA Guidelines for product oversight and governance.

Operators shall carry out a gap analysis of the processes, procedures and organisational structures and initiate the actions for compliance with European provisions, in order to be fully prepared when they become binding with the implementation of the IDD in October 2018.

In addition to inviting undertakings to define the procedures for identifying the reference target market before launching new products, the letter asks them to prepare monitoring the products after the launch, to verify that they remain adequate to the needs of the target to which they were placed.

Distributors are asked to assess the existing information flows to identify additional information that need to be obtained from the manufacturer to comply with the POG indications, defining efficient channels to manage communications both with the producer and with the network of collaborators, to ensure that the network will also comply with the POG regulations for the placement of the products.

1.5.5. - *Survey on “unrelated” policies*

A survey was initiated on the placement of products that, sold concurrently with the granting of a loan for the purchase of a consumer good, showed no relation either with the good or with the loan. The survey involved 3 Italian undertakings, 3 foreign ones and 2 distributors (financial companies).

⁸³ Draft Implementing Technical Standards concerning a standardised presentation format for the Insurance Product Information Document of the Insurance Distribution Directive, 7 February 2017.

⁸⁴ The Implementing Regulation (EU) 2017/146984 of 11 August 2017 defined a standard non-modifiable IPID format in all EU countries, whose Italian name is *Documento informativo relativo al prodotto assicurativo* (Insurance Product Information Document). The format, of the maximum length of two pages, exceptionally three, shall comprise questions headed by specific icons.

⁸⁵ The member States' option to require that the insurance product information document be delivered concurrently with the information required in accordance with other pertinent Union or domestic laws is provided for by Article 20, Paragraph 7, of the IDD Directive.

These policies, which according to consumers' reports are proposed as a condition for the granting of the loan, are intended to cover events extraneous to the underlying contract (e.g. accidents, sickness, assistance, home damages). Undertakings and intermediaries were asked to provide information about the product type, the procedure for their sale/purchase and about the instructions provided to the network sale in relation to the product placement procedures. The investigation is ongoing.

The question, in relation to two undertakings and three distributors (two financial companies and a bank) was also reported to AGCM as a possible case of unfair commercial practice (see V.1.4.2).

1.5.6. - *Analysis of the offer trend*

Since the first half year of 2017 IVASS has published, with half-yearly periodicity, the results of the analysis of the trends of the offer of life and non-life insurance products, using the databases of the Institute and public sources (undertakings' websites, specialised portals and press).

In the life assurance policy sector, the widespread adoption of hybrid products (combinations of Class I and Class III) was confirmed. Launches of new unit linked policies were rising, in particular in the second half of the year. In addition, insurance Individual Saving Plans⁸⁶ are increasingly included in the offer, mostly through unit linked life assurance products.

In the non-life business, modular insurance solutions are introduced, in general through online configurators with purchasing procedures similar to the electronic cart widely used in e-commerce, to combine a plurality of multi-risk coverages and insurance services in a single contract, with a premium that is often paid monthly as a subscription. The ever more common use of smartphone or tablet apps contributes to innovate customer contacting procedures and access to insurance coverage and ancillary services as well as assistance in solving problems connected with the insurance coverage. Growing forms of instant insurance are present, especially with reference to amateur skiing and to travels, based on the sale of micro insurance with reduced premiums for short periods, which can be activated when the need arises (See II.3).

In the MTPL sector, companies continue to show interest in the activation of digital services connected with the policies, based on the monitoring of what takes place inside and outside the vehicle. The trend is towards increasingly sophisticated connected electronic devices that check the blood alcohol level or provide virtual assistance.

Together with insurance coverage for individuals (long term care, accidents and sickness) in compensatory form, services are provided to facilitate the daily life of the policyholder and of family members in case of need: from the completion of bureaucratic procedures, psychological support and medical tutoring, advice to adapt the home and the vehicle in case of disability, to concierge services to improve the lifestyles of elderly persons, etc.

In the home policy, there is still a trend to offer, in combination with traditional insurance coverage, connected home automation devices for alarm management and remote control as well

⁸⁶ The Individual Saving Plans introduced with Law no. 232 of 11 December 2016 allow to benefit from tax incentives.

as prevention, enhanced with check-up services to measure environmental quality within the home walls. Included in multi-risk home policies, there is an increasing number of cyber risk insurance coverage options to protect individuals against risks deriving from purchases/sales of goods on line, from identity thefts, phishing or malware on one of the policyholder's devices.

1.5.7. - *Supervision on Insurance Based Investment Products (IBIP) distributed by traditional networks*

Legislative Decree no. 224/2016, in transposing the provisions of Regulation EU no. 1286/2014 on packaged retail and insurance-based investment products (PRIIPs), including IBIP, tasked IVASS, from 1 January 2018, to perform consumer protection duties in relation to the IBIP distributed by agents, brokers and their personnel. CONSOB has similar duties when the IBIP are distributed by banks, SIM (stock brokerage companies) or Post Offices. The goal of the new rules is to insure that products that, by level of risk, complexity and costs, can cause damage to consumers are not placed to the public.

IVASS has launched this supervisory activity starting from sampling some KIDs (relating to products sold through traditional networks), taken as basic elements to analyse the complexity and risk of the product and its cost.

The levels of transparency, clarity of language and understandability for the average user of the observed KIDs were not entirely satisfactory, as was product comparability:

- information is reported, as prescribed, in 3 sides of an A4-sized paper, but not always with easily readable characters or with underlinings and colours facilitating reading. In some cases, characters are nearly illegible;
- in case of policies providing more than one financial option (typically hybrid and unit linked), undertakings are oriented towards one of the two possibilities offered by the regulations:
 - 1) prevalently, they prefer to complete a generic KID, accompanied by as many specific attachments as are the options provided; in this case, however, the total number of pages can be very high (even thousands of pages). Moreover, the “comprehensive” risk indicator of the policy is not a unique number, in the prescribed scale from 1 to 7, but is indicated within even very extensive ranges, with negative effects in terms of clarity;
 - 2) single KID for each option: in this case, the information is more streamlined but it requires the prior identification of target customers, a decision made by few undertakings;
- the rules prescribe that in case of policies that are hard to understand for an average consumer, the KID shall include an alert about the complexity of the policy (*comprehension alert*). This indication is not always present when it should be or, on the contrary, it is included for simpler policies, such as with-profit;
- often, there are highly technical definitions and expressions.

These results were communicated to CONSOB, as the competent Authority on KID, for the appropriate initiatives. IVASS has ongoing contacts with CONSOB to pursue the new policyholder protection objectives as effectively as possible. It is essential for the two Authorities to share the analysis and assessment criteria to ensure timely, consistent and harmonised supervisory actions, especially in the case of a same IBIP sold both by banks and financial companies and by agents and brokers.

1.6. - Supervision of foreign undertakings operating in Italy

1.6.1. - *Entry of new EU undertakings*

In 2017, 44 new authorisations to operate in Italy were granted to EU undertakings under fos and to 10 under the right of establishment, while 9 extensions into other classes of business were granted to operators already present in the Italian market.

Opinions were issued to EU Supervisory Authorities in relation to 49 portfolio transfers between foreign undertakings operating in Italy under right of establishment or fos.

International cooperation with EIOPA and the other EU insurance Authorities supervising over foreign undertakings was further intensified, both during the entry of new operators in the Italian market and in relation to the market conduct of the undertakings already present in Italy.

The significant strengthening of the international cooperation is a consequence of several factors: growth in the activity of foreign operators in the domestic market, especially in sensitive sectors (e.g. suretyships, medical liability, MTPL), some crisis or pre-crisis situations of foreign undertakings with cross-border activity and the entry into force of the new collaboration Protocol between Supervisory Authorities. Since May 2017, the Protocol has prescribed new and greater cooperation obligations between Supervisors, especially in case of significant activity of undertakings outside their country of origin, requiring enhanced information exchanges before a new undertaking is authorised to operate or cross-border activity is started, and in case of crisis or pre-crisis.

In 2017, IVASS dealt with some sensitive dossiers of EU undertakings intending to operate in the Italian market. In some cases, cooperation with the Home Authority brought to light critical issues and prevented the entry of these operators in Italy; in other cases, an enhanced exchange of information was started, after the beginning of the cross-border activity, to monitor the potential emergence of problems in a timely manner.

1.6.2. - *Supervision following entry in Italy*

In 2017, within the Collaboration Platforms between the European Supervisory Authorities established, in accordance with the new collaboration Protocol, under the auspices of EIOPA, IVASS addressed three cases of EU undertakings in difficulty operating cross-border in Italy experiencing hardship, active in the suretyship class. These are:

- a) Elite Insurance Company Limited, with its head office in Gibraltar, which on 5 July 2017, following the intensification of the supervisory action stemming from the Platform, decided to cease commencing new contracts and renewing existing ones;

- b) CBL Insurance Europe Dac, based in Ireland, for which the Irish Supervisory Authority (CBI) prescribed, in February 2018, the prohibition to commence new business and applied to the Irish High Court for appointment of a provisional administrator;
- c) Alpha Insurance A/S, based in Denmark, against which the Danish Supervisory Authority (DFSA) adopted, in February 2018, certain restrictive measures and, on 4 March 2018, issued the prohibition to commence new business; since 8 May, Alpha Insurance has been declared bankrupt.

IVASS followed these situations in close cooperation with the other Authorities and with EIOPA, to protect Italian policyholders and beneficiaries, and kept the public constantly informed.

For another undertaking, Insurance Company Nadejda AD, based in Bulgaria, very active in the market of suretyship insurance policies, IVASS intensified collaboration with the Bulgarian Supervisory Authority (FSC), which, having noted a capital deficit, required safeguard measures from the undertaking in June 2017, and in August 2017 issued the order withdrawing the authorisation to pursue business.

In 2017, partly on the basis of the complaints managed by IVASS, 15 foreign undertakings were summoned, to require the adoption of corrective measures directed at improving the transparency and correctness of the undertakings' behaviours towards Italian policyholders and injured parties. Undertakings were asked to improve the sale and claim management processes and to implement controls on the distribution network, assuring better assistance to consumers.

There were two significant files relating to EU undertakings, active in past years in the sector of unit-linked policies with high financial content. Both undertakings have not sold any new contracts in the Italian market for some years, but examination of the complaints led to the emergence of problems pertaining to the failure to pay benefits/surrenders, because of the lack of liquidity of the investment funds underlying the policies, suspended and/or in liquidation. IVASS summoned the undertakings, in collaboration with the Home Authorities, to urge them to adopt measures directed at paying benefits to Italian policyholders. An undertaking reached out-of-court agreements with partial payments to Italian customers, in the other case the undertaking adopted an action plan to protect Italian consumers, to be examined by the Home Authority. The files continue to be followed with attention.

1.6.3. - Brexit

After Brexit, UK undertakings will lose their single EU passport and will no longer be able to perform their activity directly in the European Union; the main objective of the work is to assure service continuity to the European policyholders who entered into contracts with undertakings located in the United Kingdom.

The starting scenario used is "hard Brexit", based on instruments and measures of the current regulatory framework, without taking into account agreements negotiated between the UK and the EU.

In 2017, IVASS participated in the European works to address in a coordinated manner with the other European Authorities and EIOPA the exit of the United Kingdom from the EU (Brexit) set for 29 March 2019.

To minimise the impact on European consumers, in December 2017 EIOPA asked undertakings with cross-border activities from and to the United Kingdom to adopt action plans to ensure service continuity after Brexit.

IVASS is actively participating in the works, taking into account the significance of the United Kingdom for the Italian market in terms of number of policyholders and of amount of technical provisions of the non-life business.

A particular focus is on the disclosure to be provided to policyholders to make them aware of the changes their contracts will undergo after Brexit.

IVASS started a series of meetings with the representatives of the 10 most relevant UK undertakings in the Italian market, to discuss activities in view of the Brexit to protect Italian policyholders.

1.7. - Supervision of unauthorised intermediaries

In 2017, several cases of fake policies were reported, especially in the sector of suretyships and MTPL, released with the brand of 7 EU undertakings duly authorised to operate in Italy. Therefore, alerts were published on the IVASS site to report the cases ascertained with the collaboration of the defrauded companies, providing the addresses of the company to check the authenticity of the policies.

1.8. - Opinions to other Institutions

In 2017, IVASS provided an opinion to the Antitrust Authority, in accordance with Article 27, Paragraph 1-*bis*, of the Consumer Code, with regard to a proceeding initiated for unfair commercial practices against the manager of a website comparing various products, including insurance products.

1.9. - Meetings with Consumer Associations

In the usual quarterly meetings with the Consumer Associations participating in the CNCU (National Council of Consumers and Users), contributions and recommendations for supervisory and regulatory actions were collected. In particular, the following issues were addressed:

- a) dormant life assurance policies: the initiatives taken by IVASS were discussed (see V.1.5.1);

- b) contract terms limiting the transferability of the compensation to heirs in case of death for permanent disability in the accident and sickness products: as a result of the meeting, the need emerged to issue a letter to the market pertaining to the ascertainment of the disability and to the non transferability to the heirs of the right to compensation (see V.1.4.2);
- c) travel policy covering the insolvency of tour operators: after the actions of IVASS against two undertakings, directed at requiring a critical review of the contractual conditions to overcome contractual limits and guarantee exclusions that unduly weakened the content of the guarantee in customers' favour, a letter to the market⁸⁷ was issued in consideration of the scope of the interests involved and of the impact on the entire market of the policies for tour operators.

In addition, focused meetings were held on themes of particular interest:

- simplification of the information note of non-life policies, in the presence of the representatives of undertakings and of intermediaries of the working group chaired by AIBA. The simplification scheme presented in the first public consultation was discussed and the need for a second public consultation was pointed out in light of the evolution of the European regulations on the IPID (Insurance Product Information Document) (see V.1.5.3);
- simplification of the contracts, in the presence of the representatives of undertakings and intermediaries who - with the consumers - took part in the working group chaired by ANIA. ANIA presented the guidelines on the simplification of the contracts and the still open issues for which no shared solution had been found on that occasion. IVASS collected the suggestions to use them as indications in its own endorsement letter of 14 March 2018 (see V.1.4.2);
- clauses limiting the compensation for MTPL insurance, in particular in case of claims managed in the direct compensation regime. Aspects pertaining to interpretation of the rules were examined and possible solutions, to be further studied, were explored (see V.1.4.2).

1.10. - Insurance Education

In the implementation of Law no. 15 of 17 February 2017, by decree of the MEF of the following 3 August, the Committee for the coordination and planning of initiatives on Financial Education was established; it is chaired by Prof. Annamaria Lusardi and comprises 11 members, representing Central Administrations of the State, consumer associations and independent authorities,⁸⁸ including IVASS.

The task of the Committee is to plan and promote financial awareness and education initiatives to improve in a measurable manner the competencies of Italian citizens with regard to savings, investments, pensions, insurance.

⁸⁷ <https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2017/lm-16-03/index.html>.

⁸⁸ Ministry of the Economy and Finance, Ministry of Education, University and Research, Ministry of Economic Development, Ministry of Labour, Bank of Italy, CONSOB, IVASS, COVIP, National Council of Consumers and Users, Body for supervision and keeping of the register of financial advisers.

In April 2018, the Committee launched the public national portal “*Quello che conta*” (www.quellocheconta.gov.it). The portal is meant to provide citizens with a simple, rigorous and independent source of information, to help them make well-informed decisions in the field of personal and family finance, insurance and pensions. The portal provides 5 basic pieces of advice to reduce risk in the use of financial resources, 7 things to know without which every decision can be insufficiently informed and 12 practical guides that help understand risks and opportunities in specific circumstances. The content is accompanied by a finance, insurance and pension glossary and by the description of the different banking, financial, pension and insurance instruments accessible on the market. Access to the content is guided through examples of six moments that matter in life and of basic notions useful when making everyday decisions.

For the insurance contents of the portal, IVASS prepared a rich quantity of material on the main policies (product sheets), in addition to the various texts for the different sections of the Portal (glossary, guides, advice, etc.); IVASS experts participated in the working groups set up by the Committee, to share common solutions in the selection of the themes to be published and in the harmonisation of the presentation procedures, with a view to simplification and clarity.

In the future, the portal will include simulation and self-learning instruments and will provide information about the initiatives promoted by the Committee.

The Committee also worked on the proposal for the first national Strategy for financial, insurance and pension education, submitted for public consultation on the websites of the Government and of the MEF, which ended on 31 May 2018, and it prepared the related implementation Plan for the 2017-2019 period.

The plan indicates the main activities for the promotion and coordination of the initiatives in the three-year time frame, according to the target (youth, adults, small entrepreneurs, vulnerable groups of the population).

The Committee will have to assure the measurability of progress in the level of financial, insurance and pension literacy to monitor the effectiveness of the Strategy over time.

In this regard and in the absence, also internationally, of a system for measuring the specific level of knowledge and competence for the insurance sector, IVASS launched a project for 2018 for the development and administration of an insurance literacy test. The Committee may use the results of this work.

IVASS participated, with the other Institutions members of the Committee, in the work for the execution of the second Census of the financial education programmes currently present in Italy, directed at collecting information about the available education offer, its characteristics and its evolution with respect to the previous census, relating to the 2012-2014 three year time frame.

In this way, it will be possible to identify good practices and overlap areas needing to be acted upon, to facilitate the comparison and coordination of the initiatives and to acquire the availability of the individual promoters to collaborate with the Committee. This may set off a virtuous process that promotes the effectiveness of the education activities and an efficient allocation of the resources deployed on the field. The information collected will also be available

to the public by the end of 2018 and will represent a reference point to know and make use of the initiatives in Italy.

Within the “Experimental project for economic and financial education for schools” implemented by the Bank of Italy/IVASS in consultation with the MIUR, IVASS also revised the educational papers for primary and secondary schools in light of the regulatory changes introduced by the Competition Law and increased the number of its own participations in seminars organised in various Italian cities to train teachers on insurance matters.

Within the scope of the specific initiatives in favour of women, IVASS participated in training meetings, organised by GLT Foundation and Assiom Forex for the *Donne al Quadrato* (Women Squared) association.

2. - SUPERVISION OF INSURANCE INTERMEDIARIES

The significant changes in insurance distribution stand for a difficult challenge for IVASS in its supervisory action on intermediaries to protect consumers, according to an approach essentially focused on the prevention of improper behaviours.

Of importance are the evolution of the EU and domestic regulatory framework, the socio-economic context and the technological revolution. The new business models of the companies (product, process and channel innovations) are directed at addressing the higher levels of competitiveness of the sector and at best meeting customers' demand for insurance.

The transposition of the IDD has a strong impact on the insurance industry, on the evolution of distribution processes and on the dealings between companies, intermediaries and customers. For undertakings and intermediaries, the product manufacturing and sale process changes, the operating models are modified, the levels of responsibility are raised. Distributors will be called upon to provide strategies consistent with the reference market identified by the producer and with its distribution policies and to serve the customer's best interest, taking into account both the offered product and the needs and characteristics of the consumer.

The technological revolution allows an extensive use of the web channel and the exploitation of available information (big data) to propose products tied to needs, including contingent ones.

The widespread use of the Internet and of digital services have also promoted the creation of new market environments (social networks) and of remote sale and information tools which have introduced both new business opportunities and new risks. There are recurring cases of unauthorised operators pursuing insurance distribution, using irregular websites, growing risks of intrusion and data theft, problems with the understandability of the content of the policies offered and placed through the web, with compliance of the operating models with the sector regulations.

The action taken by IVASS was directed at incentivising the development of mechanisms to increase the accountability and self-regulation of the supervised parties - numerous and heterogeneous by nature and dimensions - in order to make the *ex ante* supervision activity more effective. To prevent irregular behaviours, initiatives were implemented with the purpose of enhancing operators' professionalism, developing a good organisation and putting in place effective control systems, as well as promoting virtuous practices and behaviours.

Consumer protection was also provided through a major action to contrast the illegal pursuit of insurance activities and to safeguard consumer confidence in insurance distribution via web.

The traditional repressive action carried out, initiated *ex post* under the impulse of consumers, of undertakings, of Police Bodies and other Authorities, was directed at contrasting and punishing unlawful activities, accompanying and supplementing preventive action.

The framework outlined above also includes:

- the numerous meetings organised with trade associations to direct insurance distributors towards operations that are consistent with the new legal and regulatory framework on IDD and POG and towards issues of strong interest for the protection of consumers and of the market, which led to compliance indications and/or the publication of FAQ on the website of the Institute;
- the convening of intermediaries with critical profiles or for which preliminary investigations were ongoing to acquire useful information for the consequent supervisory actions, as well as the meetings with new operators that enter the insurance market proposing innovative products and solutions and the use of digital channels and of emerging technologies for their placement;
- the intense preventive and systematic supervisory action through thematic reviews, actions to raise awareness and refine the instruments for analysing the available information (see V.2.1).

Prospectively, the - primary and secondary - regulations transposing the IDD are going to have a significant impact on the activities of the Institute, not only on the front of operators' behaviour and on supervision pertaining to adequacy in product construction and sale, but also as a consequence of the provision of a Body for the keeping of the Single Register of Insurance and Reinsurance Intermediaries, under IVASS control.

The transfer of competence from IVASS to the Body shall be preceded by a preliminary phase, to be defined by a ministerial Regulation and directed at defining the organisational structure of the Body.

IVASS was given the task of establishing with its own regulation the procedures for the performance of the functions assigned to the Body, as well as the procedures for exercising control over the Body, including information flows and inspection powers.

Lastly, the United Kingdom's exit from the EU raises significant questions in relation to the cross-border activity of UK operators with a view to consumer protection with regard in particular: to verification of possession of requirements for access to the mediation activity within the EU and the rules of conduct to be followed; to the exercise of the mediation activity through remote communication techniques; to the regulation of pending legal cases (effects on existing contracts, such as duration, geographic scope of the coverage, jurisdiction, legal regime). The matter is the subject of attention and coordination within EIOPA (see V.1.6.3).

2.1. - Preventive supervisory actions and initiatives of a general nature

Preventive supervision and guidance continued to be provided to intermediaries through dialogue with trade associations, the release of opinions, the performance of sampling surveys and the direct acquisition of data and information.

The following were carried out:

- a thematic review on the organisational safeguards of large brokers for the management of complaints, directed at guiding the sector towards operating practices and models consistent with sector regulations;
- an action to raise awareness of traditional intermediaries (agents and brokers) on the prevention of IT risks, closely tied to the digitalisation of the economy and to growing use of technology (see II.3);
- numerous meetings with new operators in the sector of web-based insurance distribution, to know their operating models and assess possible impacts on consumer protection and on the adequacy of the regulatory framework;
- initiatives to refine the analysis instruments, using the information available to build early warning indicators, symptomatic of potential anomalies, in order to intervene with suitable corrective actions.

The on-site inspections on intermediaries pertaining to anti-money laundering were carried out employing also Bank of Italy personnel trained by IVASS. Periodic remote monitoring activities involved a selected sample of intermediaries (in particular, brokers) that have dealings with problematic foreign undertakings.

2.2. - The action against unauthorised mediation sites and insurance phishing

In 2017, IVASS strongly intensified its action contrasting fake websites and social network profiles not connected to insurance intermediaries registered in the RUI and that promote false MTPL policies, mostly temporary ones.

This phenomenon is particularly dangerous for consumers and highly harmful to the public's confidence and for the healthy and correct performance of the market. It manifests itself in an insidious way, through the deviant use of the web with several unlawful profiles: from fraud (advertising and selling fake policies), to the unauthorised exercise of the mediation activity, to identity theft against duly registered and operating insurance intermediaries⁸⁹.

Preventive investigation instruments, ever more refined and comprehensive, led in 2017 alone to the identification of 57 irregular sites, and in 47 cases to their shutdown. Comparison with the eight reports in the 2015-2016 two-year time interval provides the measure of the danger of the phenomenon.

⁸⁹ Specifically, these are websites - occasionally also social network pages - managed by parties who pass themselves off as intermediaries using made-up names or, in the worst cases, using names of intermediaries duly registered in the RUI, to mislead users about the authenticity of the website. The lack of connection between the websites and authorised and identifiable insurance intermediaries makes their content non-compliant with the regulations promulgated by the Institute with reference to the promotion and placement of insurance policies through the Internet. Since these are fake policies, the victim of the scam has no actual coverage.

The Institute activated collaboration channels with the companies that offer on the market information society services such as the Italian Domain Register - NIC (database of “.it” domains), the Internet Service Provider - ISP (domain registrar) and the main search engines.

Next to the institutional public information instruments, with the publication on the website of notices on the irregular sites identified from time to time and of a list summarising them⁹⁰, ample use of the media was made to reach consumers more easily.

Precautions to be followed before purchasing policies on line

It is necessary to verify that the websites or the social network profiles of the intermediaries who exercise the activity through the Internet indicate, as they are obligated to do:

- the data identifying the intermediary;
- the address of its head office, its telephone and fax number and e-mail address;
- the number and date of registration in the Single Register of Insurance and Reinsurance Intermediaries - RUI, and the indication that the intermediary is subject to IVASS supervision.

Moreover, additional precautions are suggested for each consumer to implement:

- on the intermediary’s website, identify the name and the RUI registration number and verify that they match the data in the Register on the IVASS website;
- distrust contracts executed exclusively via e-mails or mobile apps, not accompanied by the general insurance conditions and by the pre-contractual information which the intermediary is required to provide;
- distrust contracts that still provide the “yellow card” to be exhibited on the windshield, because this obligation was abolished in October 2015;
- distrust contracts that refer to obsolete rates and very high deductibles (even equal to or higher than 2,500 euro);
- avoid paying the premium to on-line accounts or prepaid cards in the name of persons other than the intermediary registered in the RUI;
- verify the existence and validity of your own MTPL insurance coverage on the website www.ilportaledellautomobilista.it managed by the Ministry of Infrastructure and Transports;
- contact insurance companies authorised to sell MTPL policies (see the lists published on the IVASS site) if you still have doubt after the purchase.

⁹⁰

www.ivass.it/consumatori/proteggi/ELENCO_SITI_WEB_DI_INTERMEDIAZIONE_ASSICURATIVA_IRREGOLARI.pdf

2.3. - Management of complaints on intermediaries

As a result of the changes made with IVASS Order no. 46/2016 to ISVAP Regulation no. 24/2008 – which transposed the EIOPA guidelines for managing complaints for intermediaries (November 2016) – in 2017 the Institute launched an investigation addressed to brokers, with the goal of verifying their level of compliance and the adopted organisational solutions.

The survey was carried out with the collaboration of the two main trade Associations (AIBA and ACB) and brought to light problems concerning:

- the organisational placement of the complaints function, which is not always in a situation of neutrality and impartiality;
- the absence of operational instruments for recording, filing and reporting complaints, functional to an efficient management of the monitoring on the distribution network;
- the lack of adequate and proportionate organisational measures for the analysis, which may be outsourced, of the complaints received;
- failure to revise the precontractual information (form 7B) with the information useful for filing the complaint and for identifying the party competent for its management.

The Institute wrote a letter to the market (16 February 2018), providing indications on the organisational and operating solutions in line with the new regulatory framework. The intent was to incentivise the adoption of good practices and to enhance the analysis of complaints with a view to improving customer relations.

2.4. - Supervisory actions resulting from reports

The *ex post* supervision originates from the examination of outside reports, received from insurance undertakings, consumers, intermediaries, Consap and Police bodies or other public Authorities.

In 2017 IVASS received a total of 1,061 reports, a sharp increase compared to 803 in 2016 and 720 in 2015.

A reverse trend was recorded on the front of the lawful revocations of agency mandates communicated to IVASS by insurance undertakings, amounting to 52 (4.9% of all reports received), down from 71 in 2016 and 89 in 2015.

Table V.9

Reports received by type of intermediary				
	(units)			
Intermediary	2017	%	2016	%
Agents (sect. A)	359	33.8	294	36.6
Brokers (sect. B)	162	15.3	156	19.4
Canvassers (sect. C)	1	-	-	-
Banks/other (sect. D)	54	5.1	24	3.0
Collaborators (sect. E)	373	35.2	272	33.9
Unauthorised / not registered	75	7.1	37	4.6
Other operators	37	3.5	20	2.5
Total	1,061	100.0	803	100.0

Of note, in particular, are the increases of investigations on unregistered intermediaries (mainly, unauthorised sites) and banks, countered by changes with opposite sign, in percentage terms, of the reports referred to agents and brokers.

Ascertainment of improper behaviours leads to the initiation of pecuniary and/or disciplinary sanctioning proceedings (see VI.2). In 2017, off-site monitoring of intermediaries determined the initiation of 357 pecuniary administrative proceedings, with an increase by +29% compared to 2016.

2.5. - Main types of violation, phenomena observed and measures adopted

The most common irregular behaviours involved the violation of the obligation to keep separate accounts (non-remittance of premiums to the principal undertakings), the violation of the rules of conduct connected with the failure to register contracts, the violation of precontractual information and adequacy obligations, the failure to comply with the obligations regarding notifications to IVASS under Article 36 of Regulation 5/2006 by intermediaries registered in the RUI.

Worthy of mention are cases of fake policies (mainly life business and suretyship), apparently in the name of Italian or foreign companies, introduced into the market by intermediaries regularly registered in the RUI, within the scope of a parallel activity with criminally relevant profiles. The Institute has long activated the collaboration with the Judicial Authorities and, in case of foreign undertakings, with the Home Supervisory Authority in order to assure adequate protection to policyholders and the correct operation of the market.

The cases of omitted or late communication to IVASS by intermediaries registered in sections A, B and D of the RUI of the information necessary to update the Register are frequent and growing, and include:

- changes in the information provided when applying for registration, in particular with respect to the operating premises, residency, PEC (certified electronic mail), etc.;

- termination of the collaborations with the intermediaries they employ, registered in section E of the RUI.

These obligations are fundamental for the correct keeping of the Register of intermediaries, in terms of the publicity and completeness of the data provided to the market and to consumers about parties authorised to perform the insurance distribution activity.

Violations of the obligations for intermediaries registered in the RUI

Among the most frequent **violations of the obligations to keep separate accounts**, the following are confirmed:

- failure to pay the premiums collected from the intermediaries on the separate account, connected in most cases to the failure to register the collected securities;
- use of prepaid cards to receive payment of the premiums by policyholders;
- use of current accounts that do not meet the segregation requirements to receive the premiums paid by policyholders, violation observed mainly among the collaborators of “first level” intermediaries.

A letter to the market of 6 November 2017 provided intermediaries and insurance undertakings with indications for a correct interpretation of the principle of separate accounts, as well as precise instructions on transactions allowed on the separate account.

With reference to the **information content of the websites of the intermediaries**, incomplete or inaccurate information was observed. The actions are directed to obtain additions or corrections to the information, in accordance with the legal and regulatory provisions (identifying data of the intermediaries, clear indication of the activity exercised, details of the registration in the Register, indication of the control of IVASS, complete addresses, etc.).

There are still **numerous cases of violation of the obligations of precontractual information and assessment of the adequacy** of the contracts, especially in proposing policies replacing previous contracts stipulated with the same undertaking or a different undertaking with the absence of correct information on the new product and on any penalties deriving to customers by effect of the replacement.

The phenomenon was noted mainly in unit/index linked life products offered by 2nd level intermediaries, who act as collaborators of agencies provided with a sizeable customer portfolio and with a broad distribution network.

Misselling issues were also observed in the placement of insurance products by credit institutions and intermediaries registered in section D of the RUI, on the occasion of the granting of loans (Payment Protection Insurance or stand-alone policies).

Situations of conflict of interest involving insurance intermediaries manifest themselves in excessively costly advisory services, incurred for the purchase of insurance guarantees relating to personal protection on the occasion of the granting of loans, even if they are not formally connected with them (“stand-alone policies”). The phenomenon involves the expanding market of the coverage in combination with retail loans, proposed by parties acting in the dual capacity of insurance intermediaries and loan brokers.

2.6. - Queries and requests for opinions

In 2017, there were 207 queries and requests for opinions (251 in 2016) originating from operators and third parties (professional firms, training agencies).

Many queries pertain to the enforcement of IVASS Regulation no. 6 of 2 December 2014 with regard to the training and professional updating of intermediaries (completion of professional updating and consequences in case of non-compliance, requirements of the trainers, conduct of tests, training of collaborators in case of horizontal collaborations under Article 22 of Law no. 221/2012).

Other queries pertain to separate accounts and the management of the complaints of brokers and banks, after the entry into force, in November 2016, of the amendments to ISVAP Regulation no. 24/2008, introduced with IVASS Order no. 46/2016, as well as the possible collaborations between intermediaries in accordance with Article 22, Paragraph 10 of Law no. 221/2012.

In view of the relevance of the questions and the interest for all operators in the sector, IVASS published these FAQs in a dedicated section of the site or issued letters to the market on specific topics.

Replies to significant queries

With regard to the procedure for the **recording of mixed complaints** on the behaviour of the undertaking and of the agent who mediated the insurance contract, IVASS confirmed that principal undertakings are entitled to manage complaints against the agents they use, including their employees and collaborators. A mixed complaint is filed in the computer database both as a complaint against the undertaking, pertaining to a specific corporate function, and as a complaint against the intermediary, with each component managed according to the procedure prescribed by ISVAP Regulation no. 24/2008. To avoid statistical duplications, the mixed complaint will be reported only once in the half-yearly prospectus per Article 9, Paragraph 2 of the same Regulation. The undertaking retains communication obligation with respect to agent (Article 10-ter, Paragraph 5), to allow the intermediary, *inter alia*, to provide information for the annual statistical prospectus and comply with any requests by IVASS.

With regard to **separation of assets**, based on Article 117, Paragraph 3-*bis*, of the CAP, the intermediary is not subject to the related obligations if, instead of the separate current account, he stipulates a **bank guarantee** that permanently documents a financial capacity of 4% of net premiums earned, with a minimum of € 15,000. Article 54-*bis*, Paragraph 3, of ISVAP Regulation no. 5/2006 prescribes that “for the purposes of the issue of the suretyship, the amount of premiums earned as at 31 December of the year prior to the year of the stipulation shall be taken as the reference point”. It was definitively specified that the 4% calculation in case of non-exclusive agents shall be executed on the total net premiums earned by the intermediary, regardless of the portion pertaining to the individual mandates as at 31 December of the previous year.

Clarifications were provided on **how to fill in Annex 7B**, part III c) pertaining to the procedure for submitting complaints in case of non-exclusive agent or intermediary who stipulated multiple collaboration agreements (Article 22, Paragraph 10, of Decree Law no. 179/2012, converted into Law no. 221/2012). If the intermediary who comes into contact with the customer has multiple agency mandates, or collaboration agreements, in place, the completeness of the information on complaints should be reconciled with the efficiency and effectiveness of the information, and at the same time should not unduly burden the intermediary. Parties who have a plurality of agency mandates or collaboration agreements in place may provide in the annex a standard disclosure on the procedures for filing complaints, leaving a space to be filled once the customer chooses the product to be purchased and identifies the party responsible for managing complaints, whose contact details shall be indicated.

The question was asked whether the current regulations allow **collaboration under Article 22, Paragraph 10, of Decree Law no. 179/2012 between a party registered in section A of the RUI – to whom the mandate would be given solely and exclusively– and a bank without mandate.** In this regard, it should be taken into account that:

- banks may be registered only under section D of the RUI;
- Article 119 of the CAP in conjunction with Article 41 of ISVAP Regulation no. 5/2006 (limits to the exercise of the distribution activity of a bank) require possession of a direct distribution mandate for a bank to maintain registration in section D of the RUI;
- the agreements stipulated in accordance with Article 22 of Decree Law no. 179/2012 can be exclusively between parties on an equal footing and holders of a distribution mandate (agent and bank); otherwise, the collaboration agreement would be similar to a sub-agency mandate;
- Article 22, Paragraph 10 does not provide exemptions to the limits imposed by the general rules for the exercise of the mediation activity by a bank (Articles 109 and 119 CAP and 41 of ISVAP Regulation no. 5/2006).

Therefore, the **assumed distribution model is not consistent with the regulations** because it treats the bank as a mere collaborator of the intermediary registered in Section A of the RUI, thus circumventing the prohibition on parties in section D to carry out mediation activities, which applies to parties in section E.

Lastly, without neglecting the need for rationalisation of the distribution activity expressed by the requesting company, the need was represented to supplement the assumed model with conferral of the distribution mandate also to each of the banks involved in the reorganisation of bancassurance, since there are no limitations to the possibility that intermediaries, parties of an agreement in accordance with Article 22, Paragraph 10, of Decree Law no. 179/2012, can each hold a distribution mandate of the same undertaking, provided that:

- the agreement provides the joint and several responsibility of intermediaries for the damages caused to policyholders;
- correct precontractual information is assured with the implementation of the form 7B of both operators of the indication of the data and of the role played by each of the intermediaries and of the information about potential conflicts of interest (in particular the information per letter c) of part II of the model).

2.7. - Management of the Register and dematerialisation of applications and communications pertaining to the RUI

2.7.1. - Investigations handled

Table V.10 shows the changes to the RUI (entries and exits), by type of investigation completed in 2017.

Table V.10

Proceedings completed in 2017 by type of investigation							
	Sect. A	Sect. B	Sect. C	Sect. D	Sect. E	Annexed List	Total
Registrations	464	167	5,852	12	35,554*	306	42,355
Removals	1,637	527	3	80	5,577**	158	7,982
Reinstatements	134	82	251	2		1	470
Moving from one section to another	563	112	1,845		600		3,120
Extension of the activity abroad	148	648		1			797
Measures for the activation of operations or inactivity	3,626	151		22			3,799
Annotations on the register by effect of disciplinary proceedings	64	43	1		133		241
Changes in identifying data	4,100	1,241	1	205	1,292	22	6,861
Total	10,736	2,971	7,953	322	43,156	487	65,625

* The investigations for registration in section E include the start and termination of collaboration agreements. For each investigation, 6 changes of registered parties are made on average, for a total number of interested persons of over 200 thousand in the year.

** Investigations for removal from section E determine the deletion of the identifying data of the registered intermediaries in the following cases: termination of the last collaboration agreement; loss of registration requirements; striking off from the Register.

2.7.2. - Update of the RUI and rationalisation actions

In 2017, monitoring continued on the positions of parties in the Register who fail to comply with the obligation to pay the supervisory fee and/or have been inactive for over three years, for which the automatic removal order was issued.

696 intermediaries who were inactive or in default of payment were removed during the year, versus 4,355 in the previous year.

The updating of the RUI was extended to the management of numerous positions not in compliance with the obligation to pay the contribution to the broker Fund managed by Consap.

In addition, a check was carried out on the companies registered under section E of the RUI lacking the requirements for registration in accordance with article 22 of ISVAP Regulation no. 5/2006. 179 companies were removed automatically.

Subsequent initiatives for systematic verification of compliance with the registration requirements were launched in 2017, including checks carried out in accordance with Article 71 of Presidential Decree no. 445 of 28 December 2000 and with Article 30 of ISVAP Regulation no. 5/2006.

2.7.3. - *Dematerialisation of the RUI applications and communications*

Since mid-June 2017, the transmission of the applications pertaining to changes in the RUI is only allowed forwarding the electronic form prescribed by IVASS Order no. 58/2017, signed digitally, to the dedicated e-mail box of the Institute.

From 1 January 2017 to 31 December 2017, 65,625 applications were processed with an average processing time of 7 days, whereas the estimated average time in the previous year was 15.9 days.

If the figure since June is considered, the average time for processing the electronic documents drops to 3 days with a saving of 80%.

Achievement of the aforesaid results was also facilitated thanks to an intense assistance activity including:

- the revision of the guide for intermediaries published on the IVASS website;
- the dissemination, through trade Associations, of a manual of instructions for correctly filling out the form;
- the completion of a guide for the correct configuration of the digital signature.

2.7.4. - *The qualifying examination for registration in the RUI*

The qualifying examination for registration in Sections A and B of the Register - 2016 session - was concluded in October 2017. 3,279 candidates participated in the exam out of 5,769 admitted: 825 were judged suitable, i.e. 25.2% of those present (versus 19.3% for the previous session).

The qualifying examination for the 2017 session was announced through order no. 65 of 12 December 2017.

The applications, which could be submitted exclusively online using a special application accessible from the IVASS site, totalled 5,946 (in the previous session, they were 5,823).

Table V.11

Qualifying examination for registration in the RUI – 2017 session distribution of applications by form		
<i>(units and % values)</i>		
Form	Applications	%
Insurance	5,495	92.4
Reinsurance	74	1.3
Insurance and Reinsurance	377	6.3
Total	5,946	100.0

There was a significant prevalence of male participation (3,948 candidates, i.e. 66.4%) over female participation (1,998 candidates, 33.6%, in line with the previous session).

VI. - SANCTIONS

1. - SANCTIONS

In 2017, the sanctions imposed by IVASS decreased by -18.8% compared to the previous year. The reduction pertains both to the orders imposing the sanction (-19%) and dismissals of proceedings (-16.5%). In total 1,889 orders were issued (2,326 in 2016), comprising 1,722 injunction orders (2,126 in 2016) and 167 dismissals (200 in 2016).

The total sanctions imposed amounted to 12.8 million euro (14.6 million in 2016), shrinking compared to the previous year (-12.5%).

The reduction in the number of sanctions is mostly due to the criterion of the consolidation of proceedings, followed by IVASS for the first time in 2017: distinct proceedings opened with individual notification of charges, after assessing the reference factual and regulatory conditions for homogenous violations pertaining to the same undertaking, were joined to form a single conclusive sanction. Consolidation was used mostly for proceedings relating to massive and repetitive violations regarding the late payment of life benefits and the late or erroneous feeding of the claims data bases and claims history certificates. Overall, therefore, the 1,889 sanctions imposed refer to 2,251 proceedings.

The sanctioning actions pertained mostly to violations of rules safeguarding the rights of policyholders and damaged parties, especially with reference to the failure to comply with MTPL provisions (among which, of particular significance are the ordinances notified for violations pertaining to claims settlement). An innovative element consists of the sanctions that hit undertakings for the late transmission of the claims history certificates to the SITA-ATRC data base (data base of certificates under Article 134, Paragraph 2, of Legislative Decree no. 209/2005 and under IVASS Regulation no. 9/2015).

This year, too, injunction ordinances were issued pertaining to life insurance undertakings for the violation of the rules of conduct laid down in Article 183, Paragraph 1, Letter a) of the CAP on the late payment of benefits with respect to the deadline set by the contractual conditions. In 2017, 34 injunction ordinances were issued for these violations, for a total amount of 1.6 million euro, deriving from sanctioning proceedings initiated in 2015 (9), 2016 (186) and 2017 (73) which involved 21 undertakings (51% of the proceedings involved only two companies belonging to the same group).

Also with reference to life insurance undertakings, sanctions were issued with regard to the failure to send to policyholders, at least 30 days before the expiration of the contract, a written communication containing the description of the documents the beneficiary has to send to the company to obtain payment of the benefit (Article 183, Paragraph 1, Letter a) in conjunction with Paragraph 2 of the CAP and of Article 17, Paragraph 1, of the ISVAP Regulation no. 35/2010). In 2017, a proceeding was concluded, that had been opened according to the special sanctioning procedures prescribed by Article 327 of the CAP (serial offence) and defined with

the imposition of the substitute pecuniary sanction on an undertaking that had not complied with regulatory prescriptions for over 128,000 policies.

Sanctions were imposed as a result of inspections regarding the adequacy and effectiveness of the safeguards and internal control procedures of the undertakings, directed at contrasting money laundering: they are two injunction ordinances entailing total sanctions of approximately 241,000 euro (in 2016, there had been 5 orders for 682,000 euro).

Of note are the sanctions imposed on intermediaries, although their number and amount decreased, with 271 orders for 3.5 million euro (in 2016, 326 orders for 4.4 million euro).

2. - PECUNIARY ADMINISTRATIVE SANCTIONS

2.1. - Ordinances issued

The sanctions affected 79 undertakings and 263 intermediaries.

Table VI.1

Ordinances issued										
<i>(million euro and % values)</i>										
	2017			2016			Variation			
	No.	% over total	Amount	No.	% over total	Amount	No.	%	Amount	%
Injunction ordinances	1,722	91.2	12.8	2,126	91.4	14.6	-404	-19.0	-1.8	-12.5
Orders to terminate proceedings	167	8.8		200	8.6		-33	-16.5		
Total Ordinances	1,889	100.0	12.8	2,326	100.0	14.6	-437	-18.8	-1.8	-12.5

Table VI.2

Injunctions in 2017 by recipients			
<i>(million euro)</i>			
	Undertakings	Intermediaries	Total
Number of Injunctions	1,451	271	1,722
%	84.3	15.7	100.0
Amount of Injunctions	9.3	3.5	12.8
%	72.9	27.1	100.0

Table VI.3

Appeals against injunctions and comparison		
	(units)	
	2017	2016
Injunctions issued	1,722	2,126
Appeals to TAR or extraordinary appeal to the Head of State	17	13
% over total injunctions	1.0	0.6

Appeals, which increased slightly compared to the previous year, were filed by insurance intermediaries (0.4% of total injunctions) and by undertakings (0.6%). For undertakings, appeals pertained to ordinances relating to claims settlement (0.2%), to violations of the obligations relating to the settlement of life benefits (0.3%) and to irregularities/deficiencies of the procedures and internal controls to contrast money laundering (0.1%).

2.2. - The violations observed

Within the injunctions for MTPL violations, the percentage of violations regarding claims settlement was still significant (Table VI.4).

Table VI.4

Violation of MTPL provisions										
(million euro and % values)										
	2017				2016		Change			
	No.	% total	Amount	% total	No.	Amount	No.	%	Amount	%
Injunction ordinances	1,309	76.0	6.2	48.5	1,680	7.9	-371	-22.1	-1.7	-22.2

Table VI.5

Violation of the rules on claims settlement times											
(million euro and % values)											
Injunction ordinances	Number			Amount			of which direct compensation proceedings				
	No.	% MTPL	% Total	ml. euro	% MTPL	% Total	Number		Amount		
							No.	% Total	ml. euro	% Total	
2017	986	75.3	57.3	4.4	70.8	34.3	447	45.3	1.6	36.8	
2016	1,263			6.0			594	47.0	2.1	35.0	

The injunctions concerning the settlement of MTPL claims refer to 41 undertakings and they show a decrease in the sanctions in terms of number and amount.

Table VI.6

Other violations of MTPL provisions										(million euro)	
Claim history certificates		Claims Data Bank		2017 Certificates Database		Other MTPL infringements		Total		2016 Total	
No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
45	0.2	19	0.1	47	0.6	212	0.9	323	1.8	417	1.9

Table VI.7

Violation of other provisions										(million euro and % values)	
	2017				2016		Variation				
	No.	% over market total	Amount	% over market total	No.	Amount	No.	%	Amount	%	
Injunction ordinances	413	24.0	6.6	51.5	446	6.6	-33	-7.4	0.07	-1.1	

Injunction ordinances for violations other than MTPL refer to violations pertaining to the settlement of life insurance benefits, to failure to comply with the duties of notification to IVASS for supervisory purposes and with provisions concerning the management of the undertaking (including the irregularities penalised for inadequacy and deficiencies in the safeguards and procedures to contrast money laundering and terrorist financing), as well as violations concerning mediation activities.

The mediation area recorded most of the sanctions referred to non-MTPL matters (65.6% in terms of number and 52.6% in terms of amount). With respect to agents, brokers and their collaborators, sanctions amounting to 3.5 million euro were imposed (271 ordinances), down compared to 2016, when sanctions amounted to 4.4 million euro for 326 proceedings. Most of these sanctions pertain to the violation of the rules of conduct with respect to policyholders and insured parties and of rules on the separation of assets (162 injunction ordinances for 2.9 million euro which, on the total measures referred to non-MTPL matters, have an incidence of 39.2% in terms of number and 44.2% in terms of amount). A considerable number of injunctions pertain to the violation of the obligations to notify IVASS of changes to the information provided upon registration: they are 89 injunctions for 175 thousand euro.

2.3. - The sanctions paid

The amounts of the sanctions paid in 2017 refer to the injunctions issued by IVASS in the four previous year. In some cases, they are payments of surcharges due to payments made after the 30 day time-limit, or payments pertaining to injunctions for which the monthly instalments were allowed, since the conditions envisaged by Article 26 of Law no. 689/1981 were satisfied.

Table VI.8

Sanctions paid						
<i>(thousands of euro and % values)</i>						
	2017		2016		Change 2017/2016	
Amount paid	9,107.00		10,684.40		-14.8%	
By year in which the injunctions were issued						
	2017	2016	2015	2014	2012	Total
Amount paid	8,339.20	695.50	14.70	18.20	39.40	9,107.00
By recipient of the sanctions						
Consap – FGVS (Violation of MTPL legislation)			NATIONAL REVENUE (Other violations)			Total
Amount paid	% over total		Amount paid	% over total		
6,030.40	66.2		3,076.60	33.8		9,107.00

2.4. - 2008-2017 trend in sanctions

The historical series of the sanctions imposed is shown below by number of injunctions issued, total and average amount in the last 10 years (2008-2017).

Table VI.9

2008-2017 trend in sanctions												
Year	Total issued			Undertakings			Intermediaries			Other parties		
	No.	Amount (in million euro)	Average amount (in euro)	No.	Amount (in million euro)	Aver- age amount (in euro)	No.	Amount (in million euro)	Aver- age amount (in euro)	No.	Amount (in mil- lion euro)	Aver- age amount (in euro)
2008	3,414	39.553	11,585	3,393	39.390	11,609	18	0.114	6,354	3	0.048	15,985
2009	4,892	59.483	12,159	4,833	55.907	11,568	56	3.538	63,186	3	0.038	12,778
2010	4,514	43.372	9,608	4,417	40.746	9,225	94	2.611	27,780	3	0.015	5,000
2011	4,867	49.590	10,189	4,504	39.004	8,660	355	10.518	29,628	8	0.068	8,542
2012	4,471	50.819	11,366	4,284	45.922	10,719	172	4.303	25,017	15	0.594	39,611
2013	3,184	25.547	8,024	2,973	21.393	7,196	210	4.080	19,427	1	0.075	75,000
2014	2,792	23.085	8,268	2,457	19.017	7,740	330	4.044	12,254	5	0.025	5,000
2015	1,818	13.468	7,408	1,513	8.466	5,596	305	5.002	16,402	0	0	0
2016	2,126	14.601	6,868	1,800	10.168	5,649	326	4.433	13,599	0	0	0
2017	1,722	12.770	7,416	1,451	9.306	6,414	271	3.464	12,781	0	0	0
Total	33,800	332.290	9,831	31,625	289.318	9,148	2,137	42.108	19,704	38	0.864	22,731

3. - DISCIPLINARY PENALTIES

3.1. - Preliminary investigation of disciplinary proceedings and activities of the Guarantee Committee

The Guarantee Committee on disciplinary proceedings, made up of two sections and assisted by the Secretariat of the Intermediaries Supervision Directorate, evaluates the results of the preliminary investigations, examines the defences of the parties concerned, arranges for their hearing and proposes to the competent bodies of IVASS, either the adoption of a disciplinary penalty or dismissal of the proceedings.

In 2017, 247 new disciplinary proceedings were started. The two Sections of the Committee held a total of 54 meetings.

On the basis of the resolutions of the Committee, IVASS adopted 241 disciplinary measures (+20.5% compared to 200 in 2016).

Table VI.10

Outcome of the proceedings - by type of measure and by section of the recipient intermediaries (year 2017)						
<i>(units and % values)</i>						
Outcome	Sect. A Agents	Sect. B Brokers	Sect. E Collabo- rators	Total	% 2017	% 2016
Dismissal	26	8	20	54	22.4	13.0
Reprimand	14	6	12	32	13.3	15.5
Censure	16	19	58	93	38.6	30.5
Striking off	23	15	24	62	25.7	41.0
Total	79	48	114	241	100.0	100.0

Striking-offs and censures are the most sizeable portion of disciplinary measures, i.e. 64.3% versus 71.5% in 2016.

3.2. - Types of sanctioned violations

Among the conducts that gave rise to the striking off of intermediaries, the following remained the most common ones:

- non-remittance of the amounts collected as premiums to undertakings or relevant intermediaries, often also accompanied by the failure to record the collections;
- violation of the obligation to keep separate accounts deriving from the failure to establish a separate current account or its incorrect management;
- falsification of contractual documentation;

- forging of the signatures of policyholders;
- communication to policyholders of untrue circumstances, or the issue of false attestations at the time of the contractual offer.

Censure measures were imposed as a result of the following main violations:

- failure to comply with the rules on transparency, diligence, correctness and professionalism with respect to policyholders;
- acceptance of cash in violation of regulations on allowed means payment, in particular in the life business;
- failure to comply with the provisions on the adequacy of contractual proposals and pre-contractual information obligations.

In some cases, consistent with the established approach adopted by the Guarantee Committee and in application of Article 62, Paragraph 3 of ISVAP Regulation no. 5/2006, the immediately less severe sanction was imposed, having regard to subjective and objective circumstances identified such as the modest scale, in terms of number or amount, of the violations identified or corrective behaviours by the intermediary, designed to remedy the irregularities found.

Given the established approach, some disciplinary measures were started and adopted against intermediaries who, although they were no longer registered in the Single Register of Intermediaries when the violation was reported to IVASS (because they had been removed upon request or as a result of a previous disciplinary sanction imposing the striking-off), were nevertheless still registered at the time of the violation.

VII. - LEGAL ADVICE

1. - ADVICE

In 2017, the legal advice activity in IVASS had a significant increase in the number of cases (+23% compared to 2016). The 357 opinions given provide the Governing Bodies and the Directorates of the Institute with assistance and legal support in the performance of their respective institutional activities, protecting the consistency of the operating decisions with the reference legal framework.

Table VII.1

Subject matters of advice (2017)		
	Number	% over total
Supervision over undertakings	47	13.3
Supervision over intermediaries	101	28.3
Consumer protection	50	14
Internal administration	54	15.1
Sanctions	20	5.6
Winding-up	8	2.2
Other matters	77	21.5
Total	357	100.0

2. - LITIGATION

As prescribed by the Statute, the Legal Services Office assures the representation and legal defence of IVASS with its own attorneys, registered in the special list of civil servant lawyers kept by the Bar association of Rome.

In 2017, 40 new cases of litigation were handled, including extraordinary appeals to the Head of State and cases for which appeal was filed.

Table VII.2

Litigation cases initiated in 2017 - breakdown of the litigation by subject matter	
	(number)
Supervisory measures	1
Pecuniary administrative sanctions	14
Disciplinary penalties	13
Access to documents	1
Personnel	5
Winding-up	0
Other	6
Total	40

Table VII.3

Appeals against pecuniary administrative sanctions by recipient (year 2017)	
	(number)
Sanctions imposed on undertakings	8
Sanctions imposed on intermediaries	6
Total	14

Significant opinions rendered in 2017 to confirm precedents or for new relevant principles

Pecuniary administrative sanctions - interruption of the term for the formulation of the offer - lateness of the request for additional documentation Article 315 CAP

In remembering that the regulations for the damage compensation proceedings in MTPL claims obligate undertakings to comply with stringent time-limits, protecting the damaged party with rapid times and transparent procedures, the Lazio Regional Administrative Court⁹¹ confirmed the orientation whereby the cases of suspension (Article 148, Paragraph 3, CAP) or interruption (Article 148, Paragraph 5, CAP) of the settlement times are absolutely mandatory and exceptional. The interruption follows solely the timely formulation of a request for additional documentation submitted to the damaged party in case of incomplete claim for compensation⁹². The suspension instead is justified with the damaged party's refusal of the checks strictly necessary to assess the damage; the undertaking identifies the nearest physician to the residence of the person requesting compensation, without passing on its own organisational choices to the damaged party.

Pecuniary administrative sanctions - proportionality of the sanctioning action – Article 11 Law 689/1981 – material and legal cumulation – Article 327 CAP

⁹¹ Lazio Regional Administrative Court, Sect. II *ter*, 2232/2017 of 9 February 2017.

⁹² The principle is confirmed by the Council of State, Section VI, no. 3006/2017 of 21 June 2017 whereby any incompleteness of the documentation, far from justifying a delay in making the offer of compensation, rather obligates the company to promote communications with the requesting party and to request the necessary additions, which represents the pre-requisite for the interruption of the deadline for making the offer.

Given that the sanction system outlined by the CAP with regard to insurance intermediaries is characterised - in case of concurrence between violations perpetrated with multiple actions or omissions - by the regime associated with the material cumulation rules, the Lazio Regional Administrative Court⁹³ confirmed its orientation according to which, based on the regulatory and natural plurality of the offences perpetrated by the wrongdoer, the inevitable consequence is the applicability of a sanction for each violation.

The legal cumulation of sanctions instead is applicable solely in case of formal concurrence, i.e. for cases of multiple violations perpetrated with a single action or omission, without the applicability either of Article 8 of Law no. 689/1981 – barring the case of offences pertaining to mandatory pension and social security – or of the rules prescribed by Article 81 of the Italian Criminal Code with regard to continuation between offences.

Article 327, Paragraph 1, CAP prescribes that if multiple violations are ascertained of the same provision through a plurality of reiterated actions or omissions depending on the same dysfunction in the organisation of the undertaking or of the intermediary, a single pecuniary administrative sanction, replacing the individual ones, shall be applicable. This confirms the soundness of the legal cumulation, in accordance with an approach that is not merely repressive, but has corrective and conservative aims, orientated to the removal of the cause generating the offences.

Disciplinary penalties - non replaceability of the discretionary appreciation of IVASS with the assessments of the Administrative Judge - judicial review limited to unreliability, logical flaws or misrepresentation of the facts – Possession and maintenance of the integrity and professional qualification requirements of intermediaries and regulations governing dealings with customers

Confirming a consolidated orientation, the most recent administrative case law⁹⁴ confirmed that the imposition of disciplinary penalties in the sector of insurance mediation reflects areas of broad technical discretion, only disputable in the aspects of correctness of the proceeding, exactness of the facts and of the logical correlation of the sanctioning consequences. The appreciation of the bodies of IVASS tasked with exercising the disciplinary function thus cannot be replaced with the assessment of the administrative judge, or disputed by its nature in the proceeding, barring unreliability, logical flaws or misrepresentation of the facts.

In view of the particular specialisation or technical complexity of the matter of insurance products, the customer – whose protection is the focal centre of the rules for ascertaining possession and maintenance of integrity and professionalism of intermediaries and prescribes their organisation in a Register – must be guaranteed as to the full reliability of the data and of the information on which the product and its guarantees are based, because the customer is not on average able to make autonomous assessments in this regard. The information asymmetry between undertaking and consumer justifies the mediation of a professional, obligated to exercise his/her own activity with the highest possible levels of diligence and faithfulness.

ISVAP Regulation no. 5/2006 justifies application of the striking off sanction for the cases in which the conduct of the intermediary is such as to cast doubt on his/her reliability towards third parties and towards the other collaborators, because a foundation of the system is the essential need to safeguard the certainty

⁹³ Lazio Regional Administrative Court, Sect. II *ter*, 232/2017 of 9 January 2017.

⁹⁴ Council of State, Sect. VI, 4012/2017 of 16 August 2017; Council of State, Sect. VI, 1858/2017 of 20 April 2017; Lazio Regional Administrative Court, Sect. II *ter*, 232/2017 of 9 January 2017; Lazio Regional Administrative Court, Sect. II *ter*, 6642/2017 of 6 June 2017; Lazio Regional Administrative Court, Sect. II *ter*, 6817/2017 of 9 June 2017.

of information in the circulation of the guarantees; such a violation must be assessed comprehensively as a whole on the level of its effects, without dividing it in the single events that took place⁹⁵.

Disciplinary penalties - guarantor position and function of the person in charge of the mediation activity - coverage in the absence of payment of the premiums - observation of the failure to pay even a single premium

The guarantor position and function of the person in charge of the mediation activity in intermediaries that are not natural persons implies personal, direct disciplinary liability – in accordance with Articles 330 CAP and 62 ISVAP Reg. no. 5/2006 – if the person in charge fails to meet the specific obligation to work diligently and concretely to set up adequate safeguards for the prevention and/or removal of any irregularities noted⁹⁶.

The guarantor function of the person in charge of the mediation activity within the company is the basis for personal liability also for the failure to pay premiums. Personal liability remains even if the person in charge neglects any accounting or financial matter to handle exclusively other activities, remaining inherent in the assumed guarantor position, even if it has no concrete safeguards, suitable to ensure its effectiveness (e.g. delegation to carry out banking transactions or special administration powers) for compliance with legal obligations. The exemption instead requires proof positive of having taken specific organisational measures in spite of which the offence took place, while the merely nominal assumption of the role as person in charge and the failure to activate the safeguards is a determining cause of the failure to pay the earned premium.

Omitted or late remittance to the undertakings of amounts collected as insurance premiums is a very serious and inexcusable violation of the primary obligation of the insurance intermediary which justifies the adoption of disciplinary penalties of a particularly afflictive nature⁹⁷.

The offence of omitted remittance to the undertakings of amounts collected as insurance premiums is committed every time the insurance policy starts running without concurrent payment of the premiums to the insurance companies, regardless of whether they were paid or not by the policyholder to the agent. Coverage of the policy by the agent, generating the guarantee obligation of the undertaking, requires the simultaneous fulfilment of the obligation to pay the premium. Guaranteeing the insured risks without collecting the premiums to be set aside as provisions harms the insurance system as a whole⁹⁸. What matters for the purposes of the perpetration of the offence is not, therefore, the actual payment of the premium by the policyholder, but activation of the insurance coverage, for which the intermediary is liable, to which must necessarily correspond payment of the related premium to the undertaking.

Disciplinary penalties - participation in the proceeding – intermediary's obligation to notify any changes to the information provided upon registration - change of residence

According to the principle of proximity of proof - based on the concrete possibility for the involved party to prove the circumstances that fall within its sphere of action - the objection of a failure to make inquiries formulated by an intermediary subjected to disciplinary measure to remedy the deficiency of its own defence in the proceedings is groundless.

Both in Article 331, Paragraph 1, CAP and in Article 3, Paragraph 6, of ISVAP Regulation no. 6 of 2006, the residence criterion is explicitly stated in the text for the purposes of the letter of formal notice of the

⁹⁵ Lazio Regional Administrative Court, Sect. II *ter*, 1358/2017 of 26 January 2017; Lazio Regional Administrative Court, Sect. II *ter*, 6642/2017 of 6 June 2017.

⁹⁶ Lazio Regional Administrative Court, Sect. II *ter*, 6817/2017 of 9 June 2017.

⁹⁷ Council of State, Sect. VI, 4012/2017 of 16 August 2017.

⁹⁸ Lazio Regional Administrative Court, Sect. II *ter*, 7651/2017 of 3 July 2017.

disciplinary charges. In accordance with Article 36, Paragraph 1, Letter b), no. 2 of said Regulation the intermediary registered in the RUI is obligated to notify the Institute of any changes to the information provided upon registration, including residence.

The Administration shall not be liable for the late or omitted participation of the intermediary in the disciplinary proceeding if the intermediary failed to communicate the change in residence. If – by such omission – an insurance intermediary were allowed to make it difficult for the Administration to notify the documents of the proceeding, there would be a substantial neutralisation of the supervisory function⁹⁹.

Concerning the participation of the involved party in the proceeding, it is a general rule – validated by consolidated case law – that defence arguments and documents shall be assessed by the proceeding Authority without need for the final measure to contain a point by point rebuttal of the arguments set forth, as an exposition that makes understandable the overall reasons why the defences of the party subjected to the proceeding were not allowed¹⁰⁰ is sufficient.

Disputes on employment of the employees – fixed-term employment contract – demotion or deskilling – Article 3 Legislative Decree no. 165/2001 – exclusive jurisdiction of the Administration Judge

Of great and innovative relevance is a decision¹⁰¹ rendered within the scope of a proceeding initiated before the Court of Rome, Labour Section by a former manager of IVASS, hired with private fixed-term employment contract.

Concerning employment relationship with IVASS, even if they are established by private agreement, the administrative Judge and not the ordinary Judge has jurisdiction. Decisive relevance, in this regard, was recognised to the circumstance that IVASS employees are exempted from the rules contained in Legislative Decree 165/2001 (Consolidated Law on privatised public employment) in favour of an entirely public set of rules on the employment agreement, as confirmed by the rules of the code of the administrative procedure that attribute to the exclusive jurisdiction of the administrative judge the employment relationship of IVASS employees and, more in general, all the measures of some Agencies and Authorities (including IVASS) with the exception of privatised employment relationships.

Allowing the defensive arguments of the Institute, the labour judge decided that “private employment” means solely the employment relationship subjected by law to the so-called privatisation of public employment and not private employment relationships stipulated within the scope of a more general public regime, like that of IVASS employees and, therefore, established the jurisdiction of the administrative Judge¹⁰².

3. - LEGAL TRAINING

In 2017, mandatory training for internal attorneys continued with a cycle of seminars, held by academics and by internal professionals, carried out in 3 days with a total duration of 11 hours with attribution of the related educational credits. 3,960 training hours were administered to participants.

⁹⁹ Council of State, Sect. VI, 4012/2017 of 16 August 2017.

¹⁰⁰ Council of State, Sect. VI, 1858/2017 of 20 April 2017.

¹⁰¹ Civil Court of Rome, Labour Section, no. 3038/2017 of 29 March 2017.

¹⁰² An appeal was filed against the decision.

The attorneys of the Office also participated in free specialist legal seminars, also in mandatory ethics, accredited by the Rome Bar.

VIII. - ORGANISATION

IVASS, in an evolving reference environment, characterised by increasing institutional duties, has pursued, also with the support of the Bank of Italy, a path to innovation directed at enhancing the effectiveness of the action and the agility of the organisation, implementing actions on structures, processes, technological infrastructure and personnel management systems.

In 2017, the main action lines pertained to the restructuring of the strategic planning process, the monitoring and management of the operational risk, the completion of career reform and the process of integrating the ICT services of IVASS with those of the Bank of Italy.

1. - IVASS BODIES

In accordance with Article 2 of the Statute, IVASS bodies are the following:

- The President;
- The Board of Directors;
- The Joint Directorate.

The President of IVASS is the Senior Deputy Governor of the Bank of Italy, due to the institutional link between members of the governing bodies of the two Institutions.

The Joint Directorate is a collegial body made up of the Governor of the Bank of Italy, who holds the chair, the Senior Deputy Governor of the Bank of Italy - President of IVASS, the three Deputy Governors of the Bank of Italy and the two members of IVASS' Board of Directors. It sets guidelines and strategic targets and adopts the acts with high external importance relating to the performance of the institutional functions in matters of insurance supervision. In 2017, 21 meetings were held, during which 106 resolutions were passed and 26 information notices were examined.

The Board of Directors is a collegial body made up of the President and two Directors. It is the body responsible for the general administration of IVASS, without prejudice to the functions assigned to the Joint Directorate by the Statute. In 2017, 36 meetings were held, during which 116 resolutions were passed and 7 information notices were examined.

2. - ORGANISATIONAL CHANGE AND OPTIMISATION

2.1. - The strategic planning process

In the second half of 2017, the second monitoring was carried out on the state of implementation of the 2015-2017 three-year IVASS plan and the second strategic planning cycle for the 2018-2020 three-year time interval was started.

To obtain a more efficient structuring of the new planning process and to enhance the management function, actions were carried out for the purpose of:

- greater management involvement in the identification of the strategic priorities for the 2018-2020 time interval - with a bottom-up perspective - through the acquisition of information on the evolution of the reference context, the main strengths and weaknesses in the performance of the activities and the priority areas of intervention;
- the identification of areas of convergence with the strategic objectives of the Bank of Italy, within the integration of practices and operating procedures of the two Institutions;
- the enhancement of control systems to ensure greater adaptability of the plan to changes in the external context.

2.2. - Work on the organisational structure

The growing complexity of institutional duties, also deriving from new European and domestic regulations, and the increasing specialisation of the activities carried out determine a need for greater adaptability of the organisational model, a continuous development of the interdependence between the Structures and a greater need for horizontal connections.

In consideration of these evolutionary trends, in 2017 IVASS launched several projects and initiatives to meet these needs. To assure greater consistency between the institutional duties and the internal set-up as well as managerial efficiency recovery, structural initiatives were carried out on the Prudential Supervision and Intermediary Supervision Directorates. Greater organisational flexibility was achieved with the enhancement of cross-collaborations, such as working groups, task forces and internal networks, used mostly for the transposition of legal changes having an impact on multiple structures.

To implement the Regulation EU 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data, in February 2018 the Data Protection Officer (DPO) was established, who will operate with a network of internal contact persons in the various structures in compliance with European regulations and with the implementing guidelines.

2.3. - Document dematerialisation and rationalisation of work processes

In 2017, activities continued to improve the digital document management processes of the Institute that, started in 2015, allowed for a drastic reduction of paper documentation.

The Business Project Reengineering of work processes and the effort for their automation, in particular in the management of the Single Register of intermediaries (RUI), allowed to obtain significant results. Investment for the digitalisation of the RUI registration forms, in production in 2017, allowed, already in the second half of the year, to reduce paper documentation to just 10% of the total, with benefits for processing times, for the FTE used and for the need for space to store the documentation.

At the end of 2017, of the 136,557 documents recorded as incoming, 75% are native digital (56.2% in 2016). If only the second half of 2017 is considered, the percentage of paper documents received in IVASS decreases to 13.6%. 99.8% of outgoing documents are native digital and the percentage for certified electronic mail (PEC) exceeds 60%.

2.4. - Expense rationalisation policies

As in the previous years, IVASS performed its activity with limited resources and carefully managing costs. The financial statements were closed with a slightly lower level of expense compared to the previous year, reaching 59.8 million euro (-1.4%).

The statements were positively affected by the reduction in transfers to other Authorities due to the elimination of the contribution due until last year to the Authority for the protection of personal data (2 million euro) as well as by the expense savings in rental fees (-519 thousand euro) and in the expenses for translation services, publications and advisory services (-112 thousand euro).

2.5. - Joint procurement activity with the Bank of Italy

In line with the provisions of the new Code for Contracts (Legislative Decree no. 50/2016), which promoted cooperation between administrations to exploit the professionalism and experience of larger, more qualified contracting authorities, IVASS continued integration with the Bank of Italy also with reference to the activation of joint contracting procedures to optimise its own negotiating activity, exploiting the greater purchasing volumes of the Bank and obtaining, in the process for the acquisition of goods and services, economies that would be difficult to achieve through independently conducted tenders.

In 2017, a first phase of two-year purchase planning was started to identify the areas of joint activity or align the expiration dates of existing contracts.

Four framework agreements were executed with the Bank of Italy, pertaining to multi-year joint contracts regarding:

- the acquisition of software products for servers and ADOBE services;
- the supply of electricity for the building where IVASS has its head office, for the 2018-2020 interval;
- the supply of paper for printing, copying, photoreproduction and multifunction apparatuses, for the 2019-2022 interval;
- the acquisition of English training services for the 2019-2022 interval.

Collaboration on the front of acquisition processes entailed training personnel with the aim of integrating operating practices.

2.6. - Monitoring and management of operational risk

The 2015-17 Strategic Plan identified, among the objectives of IVASS, the implementation of a system for monitoring operational risk (ORM). The project, with high complexity and impact IVASS-wide, required the full involvement of all organisational Units and the development of a risk-sensitive corporate culture.

The plan of action comprised two phases, the first of which ended at the end of 2016 with the execution of the complete mapping of IVASS processes.

The second phase, relating to the implementation of the ORM system, started at the end of 2016 with the preliminary identification of processes that are critical or relevant for anti-corruption purposes of the entire IVASS.

In 2017, these processes were subjected to careful analyses directed at assessing the presence of operational risks that remain even after considering existing safeguards (residual risks). This activity was completed in the first months of 2018.

An internal Circular was issued on the operational risk management system (16 April 2018), for the punctual identification of the duties, roles and responsibilities within IVASS.

2.7. - The Three-year Anti-corruption Plan

The Institute continued the activity to prevent and contrast corruption and promote transparency, with the use of the safeguards and of the measures adopted on the basis of current regulations, and with the approval of the 2017-19 Plan.

Personnel turnover

The job rotation activity continued, to a lesser extent than in the past. In the current year, 3.4% of staff serving in January 2017 changed their assigned Structure versus 10% of 2016.

Training of staff

The administration of the training plan on ethics and legality was completed for all employees. The anti-corruption officer participated in the third national meeting with RPCT Officers, held at the Bank of Italy Convention Centre.

Rules pertaining to incompatibility and non-appointability

The statements on the absence of situations of non-appointability were acquired and published on the website upon assigning responsibilities in organisational Structures and Divisions.

3. - PERSONNEL

3.1. - Career reform

In 2017, new rules were implemented for the careers and the remuneration of IVASS staff; they had been approved by the Board of Directors on 7 December 2016.

The reform provides more space to individuals in the selection of their own professional path and rewards individual merit, eliminating automatic remuneration schemes.

The new career rules, upon first adoption, seem capable of achieving the fundamental objectives they intend to attain: the simplification of the job definition structure, the modernisation of staff management and remuneration systems, the accountability of persons holding managerial positions, the improvement of organisational well-being and the accommodation of work-life balance needs.

The following activities were carried out:

- the detailed and application aspects of the reform of management systems were defined, with the issue of the internal circulars on the staff advancement system (14 July 2017) and on the annual assessment and merit recognition (30 January 2018);
- internal advancement procedures were carried out based on the new rules, directed at recognising possession of the qualification required for the performance of the functions and duties of each position, through a comparative check among the various candidates;
- a communication and training action was promoted, involving progressively all personnel, to accompany the start of the reform and to promote the required cultural change;
- vacancy procedures were carried out to cover 11 managerial positions (Heads of Department, Division and their Deputies), also with the collaboration of an external expert to assess the managers' aptitude;
- testing was started on new specific working schedules and home working; their purpose is to improve the life/work balance of personnel not holding managerial positions.

3.2. - The number of staff

As at 31 December 2017, there were 355 permanent staff (number recognised by law); to these are added 15 fixed-term staff.

Table VIII.1

Distribution of IVASS staff by professional area			
<i>(units)</i>			
Area	Permanent staff	Fixed-term staff	Total
Professional/Managerial			
Directors/Central Directors	25	1	26
Specialists/Experts	253	14	267
Operative staff			
Operative staff	77	0	77
Total	355	15	370

At the end of 2017, 50% of the 32 managerial positions of IVASS were held by women. The average age of the holders of managerial positions is 53 years.

IVASS continued to rely on a sizeable number of persons seconded from the Bank of Italy (23 of which 8 directors, 12 professionals and 3 operative staff) and seconded 2 persons to the Bank of Italy and one to the Ministry of Economic Development, while one director is on leave for appointment with EIOPA.

Upon completion of a public competition for the permanent hiring of graduates in economics and business administration, 7 persons were hired in the entry level of the Professional/Managerial Area.

Collaboration continued with leading universities in Rome for the activation of work experience and orientation internships. The internships, with a duration of 6 months, facilitate contacts with the universities and offer on-the-job learning opportunities to new graduates.

3.3. - Training

IVASS invested in staff professional training, in consideration of the need to consolidate new and updated professional skills.

In 2017, IVASS staff participated in 179 training initiatives. 281 employees were involved in the training, i.e. 72% of staff. Overall, 11,948 hours of training were provided, equal to approximately 30 hours per capita.

In the Solvency II area, 26 training initiatives were organised, of which 15 in-house, employing accredited advisory companies, for 119 employees and a total amount of 1,439 hours, equal to 23% of technical-specialist initiatives. The training offer also included seminars at the Bank of Italy, attended by 11 employees, for a total number of 47 training days.

IVASS continued administering managerial and behavioural training courses, involving 48 resources, for a total amount of 1,643 hours, of which 408 at the Bank of Italy.

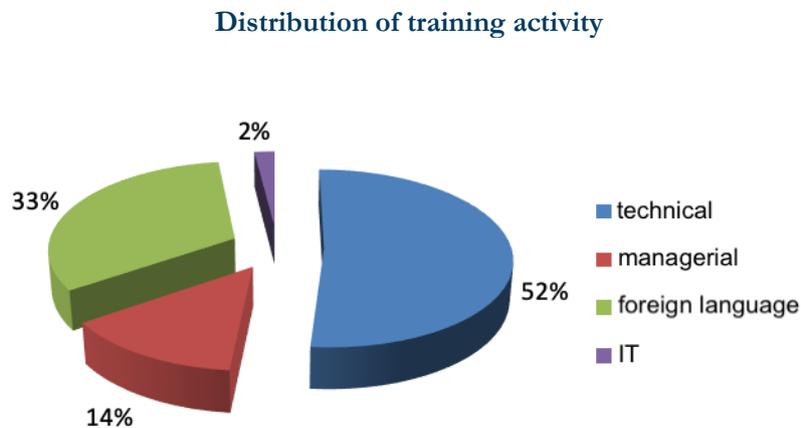
To update the specialist skills of a narrower set of users and with the purpose of supplementing the internal training offer, external training continued to be used with participation in courses and workshops.

Language training involved 145 resources (37% of personnel), for a total number of 3,914 hours administered.

In the IT field, 220 hours were administered to 20 persons on the main statistical programming languages.

Mandatory training updates were administered on workplace safety with reference to the liability of the employer, manager and supervisor.

Figure VIII.1



Two conferences were organised, to stimulate the debate with other players in the banking and industrial world on issues connected with career paths and corporate welfare.

3.4. - Workplace health and safety requirements

In 2017, activities continued with the Prevention and Protection Service of the Tor Vergata University of Rome, to assure the overall efficiency of the corporate workplace safety system and the renovation work on the building where IVASS is located included measures to improve workplace health levels with particular reference to microclimate comfort and noise reduction.

Activities directed at improving the psychological and physical well-being of employees continued through a plan of initiatives aimed at improving relations between colleagues and promoting healthy lifestyles and adopting smart working initiatives.

Concerning health surveillance, 158 medical visits were carried out.

4. - ICT SYSTEMS

The process for the integration of the ICT services of IVASS with those of the Bank of Italy, with the progressive adoption of the IT security policies, continued according to the provisions of the framework agreement regulating the ICT collaboration between the two Authorities and the overall plan of activities of the 2015-2017 interval.

4.1. - The ICT planning process

An ICT strategy was formulated for the 2017-2018 interval, approved by IVASS Board; it assigned the priorities on the revamping of the ICT services, on the basis of the complexity of the project and of adherence to the core activities of IVASS.

Based on the identified priorities, the path towards technological integration with the Bank will continue; after completion of the activities on the infrastructure front, the focus will be on application services.

The main projects included in the IT portfolio of 2018, particularly relevant also from the viewpoint of data security, are:

- Supervisory data warehouse, to build an integrated IT system based on the Infostat software platform. Completion of the project will allow to dispose of the IVASS mainframe platform consistently with the evolutionary lines on the IT architectures of the Bank;
- AIA - Phase II, initiative directed at supplementing the Anti-Fraud Integrated computer database of IVASS with additional external archives and provide a portal for management activities;
- College of Supervisors, for the construction of an infrastructure for the secure exchange of information with the other European Authorities involved in the supervision of cross-border groups;
- Complaints information system, directed at replacing the current application with a new, better performing one, provided with adequate safeguards for the protection of cyber security and operational continuity;
- Database of Insurance Undertakings and Groups, to implement an information system that meets the database needs of internal and external users;
- Evolution of the Claims Data Bank, to comply with the recent innovations prescribed by primary laws and with the new operational needs, and to migrate the procedure on equipment owned by the Bank.

4.2. - ICT development

The goal of the evolution of the IVASS ICT services is to improve the procedures and services available to users to best perform the institutional duties of IVASS, to give continuity to the technological modernisation process and to meet the new needs originating from the external context.

These initiatives allowed to reach levels of continuity and security that are substantially similar to those of the Bank of Italy for ICT infrastructure, procedures and services, as well as for IVASS workstations and personal devices, also with reference to cyber security. In detail: i) concerning infrastructure for the integration of the centres, in 2017, work was done on the integration of the former ISVAP application pool within the management environment of the Bank's data centre; ii) for the activities to develop new ICT services, the following objectives were reached:

- migration of the software of all IVASS PCs, aligning them to the Bank's levels of updating, security and management policy;
- extension to IVASS of the personnel File procedure, adopting the measures prescribed by the Bank for sensitive and confidential data;
- integration of the IVASS telephone services with the voice network of the Bank, using advanced telephone systems and the related security measures;
- securing IVASS applications through migration to the Bank's server farm;
- access to the extranet for IVASS personnel on mobility, making smart working possible.

4.3. - Management of IT services

Last year's development activities caused the growth of the number of services included in the IT catalogue of IVASS, which reached 37 units; of these services, 23 are managed by IVASS and 14 by the Bank.

The infrastructures that house the IT services in support of the critical processes of IVASS were included in the Bank's disaster recovery plan. This allowed to test service continuity, in a disaster situation, relying on the functionalities of the secondary data centre.

Service requirements fulfilled during the reference period totalled approximately 4,600 with a marked decrease (-33%) compared to 2016 in part as a result of the stabilisation of the IT services for technological integration with the Bank of Italy.

5. - INTERNAL AUDIT

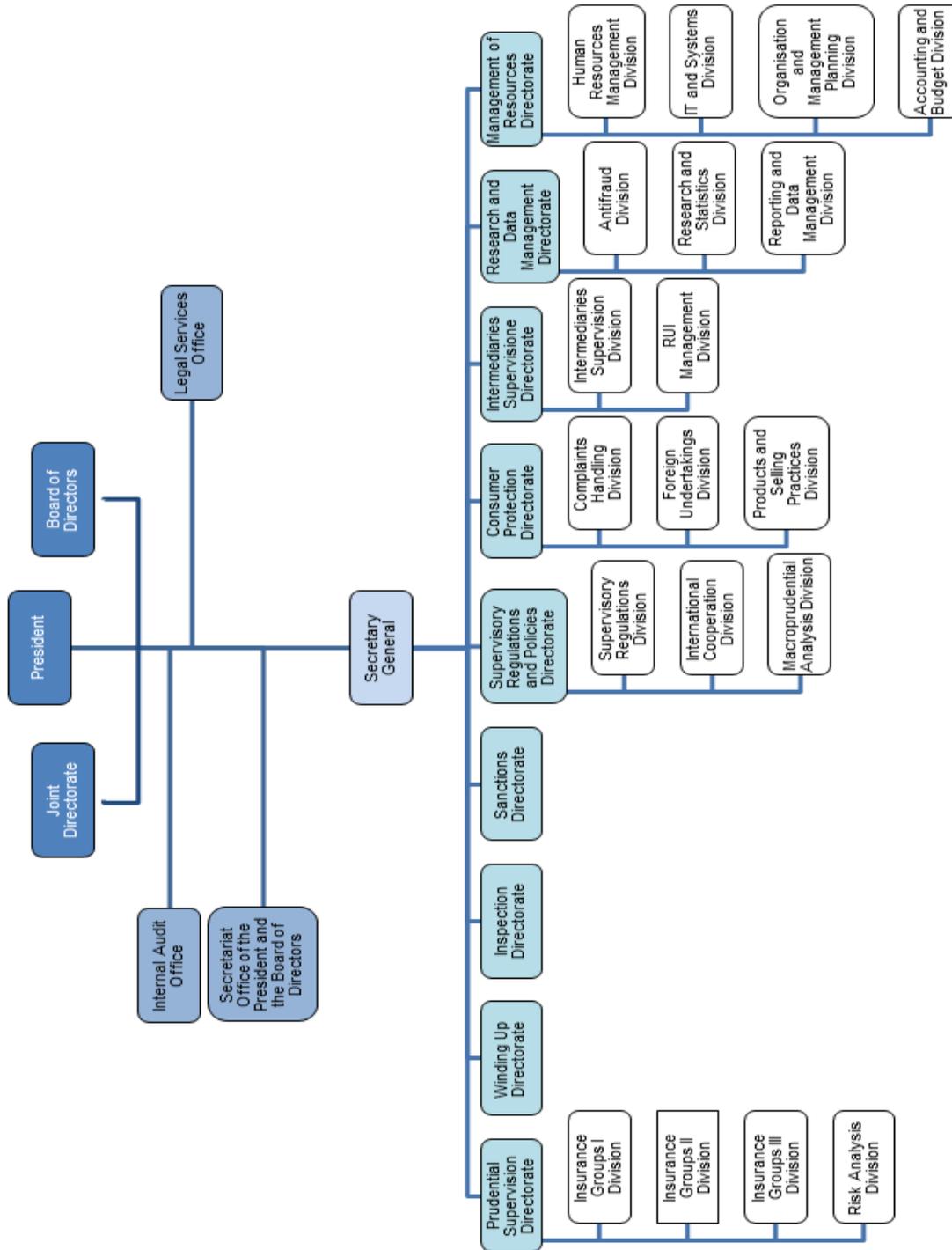
In 2017, audits involved three organisational Units of IVASS selected on the basis of risk and pertained to the analysis of all processes managed by the Structures involved in the audits.

The audits focused on assessing the adequacy of internal controls and the functioning of the organisational structure as a whole. The audit work addressed the effectiveness and efficiency of work processes, the reliability of the information system, the ability to manage risks and regulatory compliance. The 2017 audits were particularly complex in consideration of the fact that the audited Structures are characterised by numerous activities, particularly sensitive for IVASS both in terms of the duties and of the related risks.

Following the audits, the organisational Units started several initiatives directed at improving organisation, refining internal and external coordination mechanisms, better outlining roles and responsibilities, strengthening efficiency and risk control, improving and stimulating forms of collaboration with the other Structures of IVASS. This will be accomplished by implementing dedicated action plans required as a result of the audits.

The Internal Audit Office also carried out follow-up analyses and remote monitoring, to prevent the interruption of the mechanisms started with the audits due to organisational inertia and to acquire useful indications to strengthen the internal control system. It was observed that most of the corrective measures adopted were found suitable for risk mitigation.

ORGANISATIONAL CHART AS AT 27 JUNE 2018



GLOSSARY OF INSURANCE TERMS¹⁰³

acquisition commissions	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
adequacy of technical provisions	technical provisions are considered to be adequate when they are determined according to correct actuarial techniques, which lead to a prudent assessment of whether an undertaking can meet any liabilities arising out of insurance contracts as far as can reasonably be foreseen.
administrative body	the board of directors or, for undertakings which have adopted the system referred to in article 2409 octies of the civil code, the management board and the authorised agent for the Italian branches of insurance undertakings having their head office in a third State
agency with brief	peripheral offices of the insurance undertaking managed by subjects whose collaboration relationship is regulated by art. 1742 and foll. of the Civil Code. (Insurance contract) and, in particular, art. 1753 of the Civil Code (Insurance agents); they are the real entrepreneurs referred to in art. 1903 of the Civil Code (Insurance agents). The agent with a brief is therefore a professional collaborator of the entrepreneur, who pursues insurance business, bears his own business risk (autonomous organization) and revenue uncertainty (commissions commensurate with the turnover) in compliance with article 106 of the CAP. Moreover, the agent must be registered in the Single Register of Insurance Intermediaries, as defined in article 109 (2) of the CAP
anti-fraud integrated computer database (AIA)	<p>database set up care of IVASS under article 21 of decree-law no. 179 of 18 October 2012, converted with amendments into law no. 221 of 17 December 2012, to prevent insurance fraud in motor liability. AIA is connected to the following data banks:</p> <ul style="list-style-type: none">– claims data bank, register of witnesses and register of injured parties kept by IVASS– national vehicle file held by the public register of motor vehicles– national database of those licensed to drive held by the public register of motor vehicles– data bank of insurance stickers held by the public register of motor vehicles– Public Motoring Register (PRA) held by Automobil Club d'Italia– database of loss adjusters held by Consap– SITA database held by Ania <p>The information of interest for the anti-fraud activity collected by the interconnected databases is integrated and used for the calculation of anti-fraud indicators available to law enforcement officials, judicial authorities and insurance companies</p>
anti-fraud report	report on the anti-fraud activity referred to in article 30 of decree-law no. 1 of 24 January 2012 converted, after amendment, into law no. 27 of 24 March 2012
audit firm	a company registered in the special registry envisaged by legislative decree no. 58 of 24 February 1998 and charged with the accounting audit of the financial statements

¹⁰³ Definitions are mainly taken from the Private Insurance Code - CAP (Legislative decree No. 209 of 7 September 2005), from ISVAP Regulations no. 22 of 4 April 2008 and no. 44 of 9 August 2012 and from the glossary published on the portal <http://www.educazioneassicurativa.it>.

authorized central counterparty	a central counterparty that has obtained an authorization in accordance with Article 14 of Regulation (EU) no. 648/2012 or that has been recognized based on Article 25 of the same Regulation
average balance	the average of the accounting balances of the assets invested in the separately managed account during the observation period expressed in actual days
average insurance expenses (non-life)	gross premiums written in the non-life business in relation to the resident population (density index)
average premium rate	the total expected losses divided by the number of risks which will be presumably covered during the period of validity of the premium rate
bancassurance	participation or distribution agreements between banks and insurance undertakings for the creation and sale of products that combine insurance and investment features
bankruptcy law	royal decree no. 267 of 16 March 1942 and subsequent modifications
black box	satellite meter installed on the insured vehicle, which can connect through the telephone network GSM and/or GSM-GPRS to a control room/service centre and can provide specific geo-referenced info-telematic services. In particular it allows to track the path followed, the average and the instant speed of the vehicle, its technical-mechanical conditions, the driving behaviour, and to reconstruct the dynamics of an accident
bonus class ((internal)	the position assigned by the companies to each policyholder on the basis of their past driving behaviour, as part of the bonus-malus system of compulsory motor liability insurance covers
bonus/malus	the type of premium rate of motor liability contracts which envisage, on each annual expiry date, a decrease (bonus) or increase (malus) in the premium, respectively in case of no accident or following the occurrence of accidents during a certain time period (observation period)
branch	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
business pursued under the freedom to provide services or risk accepted under the freedom to provide services	the business pursued by an undertaking from an establishment situated in the territory of a member State by accepting commitments with policyholders having their domicile or – if legal persons – their head office in another member State or the risk that an undertaking accepts from an establishment situated in the territory of a member State other than that where the risk is situated
business pursued under the right of establishment or risk accepted under the right of establishment	the business pursued by an undertaking from an establishment situated in the territory of a member State by accepting commitments with policyholders having their domicile or – if legal persons – their head office in the same State or the risk that an undertaking accepts from an establishment situated in the territory of the member State where the risk is situated
capital redemption contract	the contract with which an insurer undertakes to pay, irrespective of the duration of human life, predefined amounts after the lapse of an agreed period of time of at least five years as consideration for the payment of single or periodic premiums
CARD	the agreement between insurers for direct compensation and the regulation of the reimbursements and compensations ensuing from damages as per articles 141, 149 and 150 of the CAP and presidential decree no. 254 of 18 July 2006
CARD claims	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). This also

	covers claims settled using the direct compensation procedure and involving vehicles insured by the same company that occur after 1 January 2009
CARD-CID	part two of the CARD for the direct compensation of damages related to drivers, vehicles and the transported goods owned by vehicle drivers or vehicle owners
CARD-CTT	part three of the CARD for exercise of the right of recourse for damages to transported third parties and to the property of transported third parties
certificates of claims experience	an electronic document which, in motor liability insurance, contains the history of claims (paid by the insurance company) caused by the insured vehicle in the last five years irrespective of the driver, the indication of the internal bonus class of each undertaking and the universal conversion class (CU), both of origin and of destination
claim	the occurrence of the event for which the company is required to provide the benefit as cover of the insured risk
claim closed without payment	claim for which no payment for damages has been made
claim exposed to the risk of fraud	the claim for which there is at least one fraud risk indicator
claim to be investigated	the claim exposed to the risk of fraud for which further investigation - in addition to the ordinary investigation - needs to be carried out
claims data base	the claims data bank established in accordance with article 135 of the CAP for preventing and combating fraudulent behaviours in compulsory insurance for motor vehicles registered in Italy; it is governed by IVASS Regulation no. 23 of 1 June 2016, collects data about claims regarding motor vehicles registered in Italy, as well as data on witnesses and injured parties relating to the same claims, with a view to preventing and combating fraudulent behaviours in compulsory insurance for motor vehicles
claims settlement costs	external and internal costs incurred by undertakings in claims management, as defined by art. 48 (3) of decree no. 173 of 26 May 1997
claims settlement velocity	ratio between the number or amount of claims handled in a given financial year and the number or amount of claims closed with payment (paid and reserved) in the same financial year
claims/premiums ratio	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
class C investments	investments of insurance undertakings excluding those in class D; includes separately managed accounts
class D investments	investments for the benefit of life-assurance policyholders who bear the risk and arising from pension fund management
college of supervisors	a permanent but flexible structure for cooperating, coordinating and assisting in the decision-making process within the scope of the group supervision
combined ratio	sum of expense ratio and loss ratio
compulsory insurance against civil liability in respect of the use of motor vehicles	compulsory insurance against civil liability in respect of the use of motor vehicles for the risks classified in class 10 of the non-life classes envisaged in the CAP
consolidated banking law	legislative decree n. 385 of 1 September 1993 and subsequent modifications
consolidated law on financial mediation	legislative decree no. 58 of 24 February 1998 and subsequent modifications

consolidated law on insurance against industrial injury and occupational diseases	legislative decree no. 38 of 23 February 2000 and subsequent modifications
control body	the statutory board of auditors, or, in undertakings which have adopted the system referred to in article 2409 octies of the Italian Civil Code, the board of surveillance or the management control committee
control of insurance undertakings	<p>the following type of control are considered:</p> <ul style="list-style-type: none">- foreign ownership - control by foreign EU or non-EU entities in the insurance sector: includes national insurance companies controlled by foreign insurance companies- foreign ownership - non-EU establishments: includes establishments of foreign insurance companies with headquarters outside the EU- foreign ownership - control by foreign EU or non-EU financial sector entities: includes foreign national insurance companies controlled by financial institutions (banks, financial companies, etc.)- Italian ownership - control by the State or other public bodies: includes national insurance companies controlled directly or indirectly by public institutions- Italian ownership - control by insurance firms: includes national insurance companies controlled by another national insurance undertaking; insurance companies at the top of the control chains are also included, for which there is no single controlling entity, and those having a natural person as the controlling entity- Italian ownership - control by financial sector entities: includes national insurance companies controlled by financial institutions (banks, financial companies, etc.)- Italian ownership - control by other private subjects: includes national insurance companies controlled by national companies operating in the industrial sector or in the non-financial private services sector
correct actuarial techniques	actuarial methods generally applied by actuaries, according to the best practices and principles recognised at the international and national level
cost of claims	the amounts paid and written in the provisions including the relevant claims settlement costs
craft	any watercraft intended for navigation at sea, lake and river and canal vessels and propelled by mechanical means
credit risk	the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentration
critical illness (or dread disease)	insurance covering the needs arising when one of the critical illnesses expressly specified in the policy is diagnosed (heart disease, cancer, blindness, stroke, kidney failure, etc.) with the payment of a predetermined capital
day-one reporting	with the entry into force of Solvency II on 1 January 2016, insurance undertakings and groups have been required to report the initial situation, assessed on the basis of the new criteria
debtor lump sums	lump-sums and reimbursements owed by the undertaking (in accordance with the CARD) as the undertaking liable for payment of the claims and/or claims items managed by other undertakings and for which its policyholders are liable, in full or in part
deductibles	contractual clause on the basis of which, for payment of a lower premium, the policyholder shall pay out of his own pockets part of the damages. In relation to motor liability claims the policyholder shall repay to the undertaking part of

	the damages paid by the latter to the injured party, this part corresponding to the deductible. In the policies linked to mortgages and loans it is that part of the loan, established in the contract, which is charged to the policyholder
demographic bases	any statistic on the mortality/longevity of the insured persons used for calculating the premium or for calculating the technical provisions
derivative financial instruments	instruments as defined in article 1 (3) of Legislative Decree no. 58 of 24 February 1998, and subsequent amendments and additions
designated undertaking	undertaking designated by IVASS pursuant to article 286 of the CAP
direct compensation	the procedure for the settlement of damages envisaged by articles 141, 149 and 150 of the CAP and by presidential decree no. 254 of 18 July 2006
direct expenses	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
direct insurance and reinsurance	See Italian direct insurance and reinsurance portfolio
diversification effects	the reduction in the risk exposure of insurance and reinsurance undertakings and groups related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated
ECAI or external credit assessment institution	a credit assessment institution which is registered or certified in compliance with Regulation (EC) no. 1060/2009 of the European Parliament and of the Council or a central bank which issues credit ratings exempted from the application of such regulation
effective date of the cover	the date when the policy becomes effective
eligible own funds to cover the capital requirement	they mainly include ordinary share capital, capital reserves and, with specific limits, preferred shares and subordinated liabilities. Own funds are classified into three levels (tier 1 unlimited and limited, tier 2 and tier 3) based on the extent to which they can be used to absorb the company's losses, taking into account their degree of subordination and their duration. The unlimited tier 1 funds mainly include ordinary share capital and capital reserves, while limited tier 1 funds include preference shares and subordinated liabilities
ESFS or SEVIF	the European System of Financial Supervision, consisting of the following parts: EIOPA: European Insurance and Occupational Pensions Authority, established by Regulation (EU) No 1094/2010 EBA: European Banking Authority, established by Regulation (EU) No 1093/2010 ESMA: European Securities and Markets Authority, established by Regulation (EU) No 1095/2010 Joint Committee: the Joint Committee of the European Supervisory Authorities, envisaged by article 54 of Regulation (EU) No 1093/2010, Regulation (EU) No 1094/2010, Regulation (EU) No 1095/2010 ESRB: European Systemic Risk Board, established by Regulation (EU) No 1092/2010 Supervisory authorities of the Member States: the competent or supervisory authorities of the Member States as specified in the Union acts referred to in article 1 (2) of Regulation (EU) No 1093/2010, Regulation (EU) No 1094/2010 and Regulation (EU) No 1095/2010;
establishment	the head office or branch of an insurance or reinsurance undertaking
EU insurance undertaking	the undertaking with head office and central administration in a member State of the European Union other than Italy or in a State belonging to the European

	Economic Area, authorised according to the provisions in EC directives on direct insurance
expense ratio	ratio between operating expenses and premiums
fiduciaries	loss adjusters, doctors and lawyers who contribute to the assessment of damage and the estimate of compensation costs
financial assumptions	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
financial bases	the technical interest rate used for calculating the premium and any other financial assumption used for calculating the premium or for calculating the technical provisions
financial insurance products	the products referred to in article 1 (1, w-bis) of legislative decree n. 58 of 24 February 1998, and subsequent modifications and integrations
financial undertaking	an undertaking set up by one of the following subjects: <ul style="list-style-type: none">- a credit institution, a financial institution or an instrumental company as per article 4 no. 18 of regulation (EU) 575/201324;- an insurance undertaking, a reinsurance undertaking or an insurance holding company within the meaning of article 1 (1) (t) (aa) and (cc) of the CAP;- an investment firm within the meaning of article 4 (2) of Regulation no. 575 of the European Parliament and of the Council of 26 June 2013;- a mixed financial holding undertaking within the meaning of article 1 (1, bb-bis) of the CAP
finite reinsurance	reinsurance under which the explicit maximum loss potential, expressed as the maximum economic risk transferred, arising both from a significant underwriting risk and timing risk transfer, exceeds the premium over the lifetime of the contract by a limited but significant amount, together with at least one of the following two features: explicit and material consideration of the time value of money contractual provisions to moderate the balance of economic experience between the parties over time to achieve the target risk transfer
foreign insurance portfolio	contracts concluded by branches of Italian insurance companies established in third countries
fraud risk	the risk of an economic damage arising from conducts, including mere deceptions, to the detriment of the insurance undertaking, both during the contractual process and during the management of the claim
fraud risk indicator	parameter defined by the undertaking to indicate the potential exposure to the risk of fraud
function	within a system of governance, an internal capacity of the insurance or reinsurance undertaking to undertake practical tasks; a system of corporate governance includes the risk-management function, the compliance function, the internal audit function and the actuarial function
general protocol	cooperation protocol between the EEA Supervisory Authority on the supervision of insurance and reinsurance undertakings
global loading on gross premium written (also known as expected technical margin gross of expense loading)	difference between the amount of gross premiums written and that of claims paid and reserved for the year. The difference, globally, includes the expense loading (acquisition and management) and the technical / profit margin. The inclusion, in the claims cost, of estimated components of the analytical and statistical reserve of IBNR claims, means that the technical / profit margin is

	only an expected value at the end of the year for the generation of competence. In order to know the true final claims cost it is necessary to wait for the claims reserve to be dismantled over time (analytical and IBNR claims). The technical / profit margin is also net of financial income charged to the technical account as well as of fiscal and parafiscal charges
green card	an international certificate of insurance issued on behalf of a national bureau in accordance with Recommendation no. 5 adopted on 25 January 1949 by the Road Transport Sub-committee of the Inland Transport Committee of the United Nations Economic Commission for Europe
gross premium	the amount that the policyholder shall pay to the undertaking, which is obtained by adding taxes to the premium rate. In motor liability insurance it also includes the contribution to the National Health Service
group supervisor	the group supervisor as established in accordance with article 207-sexies of the CAP
groups active at international level	groups that have at least one subsidiary insurance or reinsurance company abroad (cross-border groups)
groups relevant for purposes of financial stability	groups whose balance sheet assets, calculated according to the Solvency II criteria, exceed the threshold of 12 billion euros; these entities are identified in IVASS Regulation n. 21 of 10 May 2016
guarantee fund	a body set up by a member State which has at least the task of providing compensation, up to the limits of the insurance obligation, in the event of damage to property or personal injuries caused by an unidentified or an uninsured vehicle
guarantee fund for hunting victims	the fund set up within Consap and envisaged by article 303 of the CAP
guarantee fund for victims of road accidents	the fund set up within Consap and envisaged by article 285 of the CAP
guarantee schemes	systems for performing - in Italy or abroad - the functions of safeguarding the financial stability of undertakings, in particular for crisis management and resolution
guaranteed interest rate	the guaranteed return contractually agreed upon and provided directly by the undertaking
half-yearly report	the report on the undertaking's performance for the first half-year of business
holding in insurance undertaking	the ownership, direct or by way of control, of 20% or more of the voting rights or capital of a company, including through subsidiaries, trust companies or third parties, or a percentage which makes it possible to exercise a significant influence over that company
home member State	the member State of the European Union or the State belonging to the European Economic Area in which the head office of the insurance undertaking accepting the commitment or risk is situated or of the reinsurance undertaking
host member State	the member State, other than the home member State, in which an insurance or a reinsurance undertaking has a branch or provides services
IBNR claim	claim incurred but not reported
increasing benefits contracts	the insurance contract on the length of human life or the capital redemption contract whose benefits increase in relation to the return of a separately managed account
index linked contracts	the contracts referred to in article 41 (2) of the CAP, whose benefits are directly linked to indexes or other reference values

individual insurance pension plans	the individual occupational retirement provisions implemented through the life assurance policies referred to in Article 13 (1) b) of Legislative Decree no. 252 of 5 December 2005
individual pension plans	the individual pension plans as referred to in article 13 (1) a) and b) of legislative decree no. 252 of 5 December 2005
insurance business	the taking up and management of risks by an insurance undertaking
insurance claim	any amount which is owed by an insurance undertaking to insured persons, policyholders, beneficiaries or to any injured party having direct right of action against the insurance undertaking and which arises from an insurance contract or from any operation provided for in article 2(1) and (3), in direct insurance business, including amounts set aside for the aforementioned persons, when some elements of the debt are not yet known. The premiums owed by an insurance undertaking as a result of the non-conclusion or cancellation of these insurance contracts and operations in accordance with the law applicable to such contracts or operations before the opening of the winding-up proceedings shall also be considered insurance claims
insurance class	a classification by a homogeneous set of risks or operations describing the activities that the undertaking may pursue subject to authorization
insurance group	a group made up of a participating or parent company, its subsidiaries or other entities in which the participating or parent company or its subsidiaries hold a participation, as well as of companies linked by management on a unified basis as set out in art. 96 of the CAP; or based on the establishment, contractually or otherwise, of strong and sustainable financial relationships among those undertakings, that may also include mutual insurance undertakings or mutual-type associations, provided that: one of those undertakings effectively exercises, through centralised coordination, a dominant influence over the decisions, including financial decisions, of the other undertakings that are part of the group; and the establishment and dissolution of such relationships for the purposes of title XV are subject to prior approval by the group supervisor; where the undertaking exercising the centralised coordination shall be considered as the parent or participating undertaking, and the other undertakings shall be considered as subsidiaries or related undertakings
insurance holding company	a parent undertaking the sole or main object of which is to acquire controlling interests and to manage such holdings and turn them to profit, where those subsidiary undertakings are either exclusively or mainly insurance undertakings, reinsurance undertakings, non-EU insurance or reinsurance undertakings, one at least of such subsidiary undertakings being an insurance or reinsurance undertaking with head office in the territory of the Italian Republic, provided that it is not a mixed financial holding undertaking pursuant to art. 1,(1, bb-bis) of the CAP;
insurance products	all the contracts issued by insurance undertakings in the pursuit of the activities falling within the life classes or non-life classes as defined in article 2 of the CAP
insurance undertaking	an undertaking authorised according to the provisions laid down in EC directives on direct insurance
insurance undertaking - breakdown by size	non-life undertakings are classified according to their gross premiums into: <ul style="list-style-type: none">– very large, if the amount of gross premiums exceeds 4 billion euro;– large, with an amount of gross premiums ranging between 1 and 4 billion euro;– medium-large, with an amount of gross premiums ranging between 100 million and 1 billion euro;– small, with an amount of gross premiums lower than 100 million;

	<p>life undertakings are classified according to the value of their technical provisions into:</p> <ul style="list-style-type: none"> – very large, if the amount of technical provisions exceeds 25 billion euro; – large, with an amount of technical provisions ranging between 10 and 25 billion euro; – medium-large, with an amount of technical provisions ranging between 2 and 10 billion euro; – small, with an amount of technical provisions lower than 2 billion.
insurance undertaking authorised in Italy or Italian insurance undertaking	the undertaking with head office in Italy and the Italian branch of an insurance undertaking with head office in a third State, authorized to pursue insurance business or operations according to article 2 of the CAP;
intermediaries	any natural or legal person, registered in the single electronic register of insurance and reinsurance intermediaries referred to in article 109 of the CAP, who pursues insurance mediation for remuneration
internal fund	the investment portfolio, managed separately from the other assets held by the undertaking and denominated in units
international accounting standards	the international accounting standards and the relevant interpretations adopted according to the procedure set out in article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002
intra-group transaction	any transaction by which an insurance or reinsurance undertaking relies, either directly or indirectly, on other undertakings within the same group or on any natural or legal person linked to the undertakings within that group by close links, for the fulfilment of an obligation, whether or not contractual, and whether or not for payment
investment fund	the UCITS set up as independent assets, divided into parts, created and managed by a manager
Italian business	See Italian direct insurance and reinsurance portfolio
Italian compensation body	the body set up within Consap and envisaged by article 296 of the CAP;
Italian direct insurance portfolio	contracts concluded by Italian insurance undertakings, except for those concluded by their branches located in third States
Italian reinsurance portfolio	reinsurance contracts, regardless of where they are concluded, by Italian undertakings or establishments in Italy of undertakings with head office in another State, if the ceding undertaking itself is an Italian undertaking or an establishment in Italy of undertakings with head office in another State The foreign portfolio also includes the contracts, regardless of where they are concluded, in case the ceding undertaking has its head office in another State
IVASS	Istituto per la vigilanza sulle assicurazioni, pursuant to article 13 of decree-law no. 95 of 6 July 2012 converted, after amendment, by law no. 135 of 7 August 2012
land vehicles	a guarantee relating to motor insurance covering risks (fire, theft, etc ...), other than motor vehicle liability
large risks	the risks referred to in article 1 (1) (r), of the CAP
life annuity	periodic benefit in cash that the undertaking is required to pay to the person entitled for the whole length of the insured's life
life assurance	the assurance and operations referred to in article 2 (1) of the CAP
life assurance products	the contracts issued by insurance undertakings in the pursuit of the activities falling within the life classes as defined in article 2 (1) of the CAP, excluding the financial products issued by insurance undertakings as defined in article 1 (1), w-

	bis) of legislative decree n. 58 of 24 February 1998 and subsequent modifications and integrations, and the insurance products for pension purposes referred to under legislative decree n. 252 of 5 December 2005;
life business	<p>the life insurances as referred to in article 2 (1) of the CAP, including the following classes:</p> <ol style="list-style-type: none"> I. assurance on the length of human life II. marriage assurance, birth assurance III. assurance referred to in classes I and II, whose main benefits are directly linked to the value of units of a UCITS (undertakings for collective investment in transferable securities) or the value of the assets in an internal fund or else to an index or other reference values IV. health insurance and insurance against the risk of dependency that are covered by permanent health insurance contracts not subject to cancellation, against the risk of serious disability resulting from accident or sickness or longevity V. capital redemption operations VI. management of group pension funds that effect payments on death or survival or in the event of discontinuance or curtailment of activity
limitation period	extinction of a right not exercised by its holder for a period of time established by law. The limitation period for exercising the rights resulting from a non-life insurance contract is 2 years; 10 years for life covers
liquidity risk	the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial commitments when they fall due
loading	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
local gaap	accounting criteria used at national level (generally accepted accounting practices), this term is generally used in opposition to international accounting standards (IAS/IFRS)
localization	the existence of assets, whether movable or immovable, within the territory of a given State. Claims against debtors shall be regarded as situated in the State where they are realizable
long term care or LTC	insurance policy covering the risk of dependency in the performance of daily tasks, classified within the life assurance branch, providing regular pension payments in the form of annuities
loss ratio	ratio between claims burden and premiums earned
Luxembourg protocol	collaboration protocol between the EEA Supervisory Authority concerning the supervision of intermediaries
managing undertaking	the undertaking which pays compensation on behalf of the insurer of the vehicle liable, in full or in part, for the accident
managing undertaking lump sums	lump-sums and reimbursements owed to the undertaking (in accordance with the CARD) for the claims and/or claims items managed as a managing undertaking on behalf of other undertakings
market risk	the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments
maximum amount of cover	maximum agreed amount that the undertaking shall be required to pay in the event of a claim. If the damage caused or suffered exceeds this amount, the difference shall be borne by the policyholder. In motor liability insurance, the

	CAP has established the limits below which undertakings may not offer coverage
member State	a member State of the European Union or a State belonging to the European Economic Area and, as such, treated on a par with the member State of the European Union
member State of establishment	the member State where the establishment from which the undertakings pursues business is situated
member State of provision of services	the member State of the commitment or the member State in which the risk is situated, when such commitment or risk is accepted by an establishment situated in another member State
member State of the commitment	the member State where the policyholder has his/her domicile or – if the policyholder is a legal person – the member State where the legal person referred to in the contract has its head office
member State where the risk is situated	the member State: <ul style="list-style-type: none"> - in which the property is situated, where the insurance relates to buildings or to buildings and their contents, in so far as both are covered by the same insurance contract - of registration, where the insurance relates to vehicles of any type subject to registration, irrespective of whether it is a permanent or a temporary plate - where the policyholder took out the policy in the case of policies of a duration of four months or less covering travel or holiday risks - where the policyholder has his/her habitual domicile or, if the policyholder is a legal person, the State where the latter's head office, to which the contract relates, is situated, in all cases not explicitly covered by the CAP; - of destination where a vehicle is dispatched from one member State to another immediately upon acceptance of delivery by the purchaser for a period of thirty days, even though the vehicle has not formally been registered in the member State of destination - in which the accident occurred if it is a vehicle without a registration plate or bearing a registration plate which no longer corresponds to the vehicle
mixed financial holding undertaking	the undertaking as referred to in article 1 (1, v) of legislative decree no. 142 of 30 May 2005
mixed-activity insurance holding company	a parent undertaking other than an insurance undertaking, a non-EU insurance undertaking, a reinsurance undertaking, a non-EU reinsurance undertaking, an insurance holding company or a mixed financial holding undertaking pursuant to art. 1, (1, bb-bis) of the CAP, one at least of its subsidiary undertakings being an insurance undertaking or a reinsurance undertaking with head office in the territory of the Italian Republic
motor liability	see compulsory insurance against civil liability in respect of the use of motor vehicles
National insurers' bureau (Ufficio Nazionale di Assicurazione)	the professional organization constituted in accordance with Rec. No 5 adopted on 25 January 1949 by the Road Transport Sub-committee of the Inland Transport Committee of the United Nations Economic Commission for Europe; it groups insurance undertakings which, in a State, are authorized to conduct the business of motor vehicle insurance against civil liability
natural premium	annual pure premium, it refers to the risk of the reference year.
no CARD claims	claims and/or claims items regulated by the ordinary system and not falling within the scope of CARD. This also covers claims settled using the direct compensation procedure and involving vehicles insured by the same company and that occur up until 31 December 2008

non-EU insurance undertaking	the insurance undertaking with head office and central administration in a State not belonging to the European Union or to the European Economic Area, authorised to pursue insurance business or operations according to article 2 of the CAP;
non-EU reinsurance undertaking	the undertaking with head office and central administration in a State not belonging to the European Union or to the European Economic Area, authorised to pursue reinsurance business
non-life business	<p>the non-life insurances as referred to in article 2 (3) of the CAP</p> <ol style="list-style-type: none">1. Accident (including industrial injury and occupational diseases); fixed pecuniary benefits; benefits in the nature of indemnity; combinations of the two; injury to passengers2. Sickness: fixed pecuniary benefits; benefits in the nature of indemnity; combinations of the two3. Land vehicles (other than railway rolling stock): all damage to or loss of: land motor vehicles; land vehicles other than motor vehicles4. Railway rolling stock: all damage to or loss of railway rolling stock;5. Aircraft: all damage to or loss of aircraft6. Ships (sea, lake and river and canal vessels): all damage to or loss of: river and canal vessels; lake vessels; sea vessels7. Goods in transit (including merchandise, baggage, and all other goods): all damage to or loss of goods in transit or baggage, irrespective of the form of transport8. Fire and natural forces: all damage to or loss of property (other than property included in classes 3, 4, 5, 6 and 7) due to: fire; explosion; storm; natural forces other than storm, nuclear energy; land subsidence9. Other damage to property: all damage to or loss of property (other than property included in classes 3, 4, 5, 6 and 7) due to hail or frost, and any event such as theft, other than that included in class 810. Motor vehicle liability: all liability arising out of the use of motor vehicles operating on the land (including carrier's liability)11. Aircraft liability: all liability arising out of the use of aircraft (including carrier's liability)12. Liability for ships (sea, lake and river and canal vessels): all liability arising out of the use of ships, vessels or boats on the sea, lakes, rivers or canals (including carrier's liability)13. General liability: all liability other than those forms mentioned under numbers 10, 11 and 1214. Credit: insolvency (general); export credit; instalment credit; mortgages; agricultural credit15. Suretyship: suretyship (direct); suretyship (indirect)16. Miscellaneous financial loss: employment risks; insufficiency of income (general); bad weather; loss of benefits; continuing general expenses; unforeseen trading expenses; loss of market value; loss of rent or revenue; indirect trading losses other than those mentioned above; other non-trading financial loss; other forms of financial loss17. Legal expenses: legal expenses18. Assistance: assistance to persons who get into difficulties
non-life insurance	the insurance referred to in article 2 (3) of the CAP
non-life insurance products	the contracts issued by insurance undertakings in the pursuit of the activities falling within the non-life classes as defined in article 2 (3) of the CAP
open pension funds	the pension funds established by insurance undertakings and regulated in accordance with article 12 of legislative decree no. 252 of 5 December 2005,

	designated for the management of complementary pension plans open to individual and collective membership
open-ended investment company (SICAVs)	a joint stock company with a variable share capital which has as its exclusive purpose the collective investment of the assets collected through the medium of a public offering of their shares
operational risk	the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events
other acquisition costs	the costs arising from the conclusion of an insurance contract other than the acquisition commissions, as defined in article 52 of legislative decree no. 173 of 26 May 1997
other technical bases	any other statistical analysis, other than the demographic basis, used for calculating the premium or for calculating technical provisions
outsourcing	an arrangement between an insurance or reinsurance undertaking and a service provider, even if the latter is not authorised to pursue insurance or reinsurance business, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurance or reinsurance undertaking itself
parameters of significance	the fraud risk indicators indicated in ISVAP order no. 2827 of 25 August 2010
parent undertaking	a company which exercises control pursuant to article 72 of the CAP, also through subsidiaries, trust companies or third parties
participating company	the company which holds a participation
participations	the shares, capital parts and other financial instruments that confer administrative rights or in any case the rights provided for by article 2351, last paragraph of the civil code
pension funds	the institutions for occupational retirement provision established within the meaning of article 3 (1) from a) to h) and within the meaning of article 9 of Legislative Decree No 252 of 5 December 2005, as well as the institutions for occupational retirement provision established at the date of entry into force of Law No 421 of 23 October 1992
percentage of the rate of return recognised to policyholders	percentage of the return realised by the separately managed account, in which premiums are invested, that the undertaking recognises to the policyholder on an annual basis
personal data protection code	legislative decree no. 196 of 30 June 2003
premium rate	the pure premium plus loadings
probability distribution forecast	a mathematical function that assigns to an exhaustive set of mutually exclusive future events a probability of realisation
pure premium	the basic cost of the insurance coverage that the policyholder must pay as consideration for the technical risk assumed by the undertakings
pure risk contract	an insurance contract whose benefits are exclusively linked to the occurrence of events such as death, disability and incapacity of the policyholder
qualifying central counterparty	a central counterparty that has been either authorised in accordance with article 14 of Regulation (EU) no. 648/2012 or recognised in accordance with article 25 of that Regulation;
qualifying holding	a direct or indirect holding in an insurance or reinsurance undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking

recreational craft	the craft defined in article 1 (3) of legislative decree n. 171 of 18 July 2005 introducing the recreational marine code
regulated market	a financial market authorised or recognized in accordance with Part III, Title I of the Consolidated Law on Financial Mediation, as well as the markets of OECD States which have been set up, organized and regulated by provisions adopted or approved by the competent national authorities and which satisfy requirements similar to those envisaged for the regulated markets falling within the scope of the consolidated law on financial mediation
reinsurance business	the taking up and management of the risks ceded by an insurance undertaking or retroceded by a reinsurance undertaking, also from a third State
reinsurance undertaking	an undertaking exclusively authorised to the pursuit of reinsurance, other than an insurance undertaking or a non-EU insurance undertaking, the main business of which consists in accepting risks ceded by an insurance undertaking, an insurance undertaking with head office in a third State or other reinsurance undertakings
related undertaking	the company in which a participation is held
retrocession	cession of risks accepted by a reinsurer
risk concentration	all risk exposures implying a loss potential which is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings
risk measure	a mathematical function which assigns a monetary amount to a given probability distribution forecast and increases monotonically with the level of risk exposure underlying that probability distribution forecast
risk unit	the single insurance policy relating to compulsory insurance against civil liability in respect of the use of motor vehicles when there is only one insured vehicle or the single insured vehicle in case of a collective policy
risk-mitigation techniques	the techniques which enable insurance and reinsurance undertakings to transfer part or all of their risks to another party
road code	legislative decree no. 285 of 30 April 1992 and subsequent modifications
ROE	return on equity, ratio between the economic result of the financial year and the amount of assets
SCR ratio	the ratio between own funds and Solvency Capital Requirement
senior management	the managing director, the director general as well as the senior management which carries out management supervision duties
separately managed account	the investment portfolio managed separately from the other assets held by the undertaking, the return of which forms the basis for the re-evaluation of the benefits provided by the contracts connected thereto
Solvency I	Directive 73/239/EC, as amended by Directive 2002/13/EC (non-life) and Directive 2002/83/EC (life)
Solvency II	Directive 2009/138/EC
special purpose vehicle	any undertaking, whether incorporated or not, other than an insurance or reinsurance undertaking, which assumes risks from insurance or reinsurance undertakings and which fully funds its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers are subordinated to the reinsurance obligations of such a vehicle

State belonging to the European Economic Area	a State that is a contracting party to the agreement extending the regulations of the European Union on, among other things, the free movement of goods, services and capital to the States of the European Free Trade Association signed in Porto on 2 May 1992 and ratified by law n. 300 of 28 July 1993
subsidiary undertaking	a company which is controlled pursuant to article 72 of the CAP, also through subsidiaries, trust companies or third parties
supervisory authority	the national authority charged with supervising over undertakings and intermediaries and other insurance market participants
surrender of the claim	the right of the policyholder civilly liable to reimburse the sums claimed according to tariff formulas with variations in the premium in relation to whether claims occur
surrender value of the contract	the right of the policyholder to request early payment of the accrued capital of a life contract in accordance with article 1925 of the Italian Civil Code
switching rate	percentage of contracts expiring in a given quarter that are renewed with a different company. The switching rate in a given period is calculated as a weighted average of quarterly rates
tariff	See premium rate
technical assumptions	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
technical bases	any statistical, demographic and financial element and any other assumption used for calculating the premium or for calculating the technical provisions
technical provisions	the technical provisions referred to in article 90 (1) c) of the CAP
technical rate	the minimum rate of return recognized by the undertaking upon conclusion of the contract during the fixing of the premiums
third State	a State which is not member of the European Union or does not belong to the European Economic Area
tied agency	offices of insurance companies which promote insurance contracts, located on the Italian territory and using the insurance undertaking's own staff. The tied agency is managed by the so-called "tied agent", not registered in the Single Register of Insurance Intermediaries, Agents section, but appointed as proxy, linked to the insurance undertaking by an employment relationships and charged with its management
tier	see eligible own funds to cover the capital requirement
total expected losses	the estimate of the overall cost of the risks which will be presumably covered during the period of validity of the premium rate
Ufficio centrale italiano	the body which has been set up by insurance undertakings authorized to conduct the business of motor vehicle insurance against civil liability and has been licensed to perform the functions of national insurers' bureau in the territory of the Italian Republic and the other tasks envisaged by Community and Italian law
undertaking liable for payment	the undertaking for which the damages caused, in full or in part, by its policyholders are reimbursed by other undertakings on its behalf
undertaking supervised by IVASS	national undertakings and establishments in Italy of non-EEA companies subject to IVASS stability supervision
undertakings for collective investment in transferable securities (UCITS)	unit trusts and SICAVs

underwriting risk	the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and technical provisioning assumptions
unit linked contracts	the contracts referred to in article 41 (1) of the CAP, whose benefits are directly linked to shares held in an UCITS or to the value of assets contained in an internal fund
universal conversion class	the bonus class mandatorily assigned to motor liability contracts on the basis of unequivocal rules envisaged in IVASS Regulation no. 9 of 19 May 2015
vehicle	any motor vehicle intended for travel on land and propelled by mechanical power, but not running on rails, and any trailer, whether or not coupled with a tractor.
waiting period	the initial period, starting from the validity date of the contract, during which the claim is not covered
with-profit contracts	a life assurance or capital redemption contract characterised by mechanisms for increasing benefits, for example by accruing the yield of a separately managed account or profit-sharing with respect to a technical account

ACRONYMS

ABA	Activity Based Approach (IAIS)
ABF	Financial and Banking Arbitration
ABI	Association of British Insurers
ACF	Arbitration for Financial Controversies
ACI	Italian Autovehicles Club
ACPR	Autorité de contrôle prudentiel et de résolution (French supervisory authority)
AEEGSI	Electricity, Gas and Water Supply Authority
AGCM	Antitrust Authority
AIA	Anti-Fraud Integrated computer database
AIBA	Italian Association of Insurance and Reinsurance Brokers
AML	Anti Money Laundering
ANAC	National Anti-Corruption Authority
ANIA	National Association of Insurance Undertakings
ASC	Advisory Scientific Committee (ESRB)
ASF	Autoritatea de Supraveghere Financiară (Romanian supervisory authority)
ATC	Advisory Technical Committee (ESRB)
AUI	Single Computerised Data Bank (UIF)
AVG	Supervisory report on risk Analysis, Overall assessment and summary of the Judgments
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German supervisory authority)
BDS	Claims data bank
BEL	Best Estimate of Liabilities (Solvency II), also BE = Best Estimate
BSCR	Basic Solvency Capital Requirement
BTP	Pluriannual Italian Government Bonds
CAD	Electronic Administration Code
CAP	Code of Private Insurance (Legislative decree No. 209 of 7 September 2005)
CARD	Direct Compensation Convention
Catnat	Cover against damage due to earthquake and flood (insurance contract)
CCPFI	Committee on Consumer Protection and Financial Innovation (EIOPA)
CdA	Board of directors
CDS	Credit Default Swaps
CERT	Computer Emergency Response Team
CID	Direct Compensation Convention (see CARD-CID in Glossary)
CMG	Crisis Management Group
CNAIPIC	National Anti IT Crime Center for the Protection of Critical Infrastructure
COAG	Coordination Agreement
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups

Consap	Concessionaire for Public Insurance Services
CONSOB	National Commission for Listed Companies and the Stock Exchange
COVIP	Supervisory Commission on Pension Funds
CPI	Consumer Price Index
CPMI	Committee on Payments and Market Infrastructures
CTT	Convencion on Transported Third Parties (see CARD-CTT in Glossary)
CU	Universal conversion class
CVT	Land vehicles (insurance contract)
D&A	Deductions and Aggregations (Solvency II)
D.d.l.	Bill
D.l.	Decree-law
D.lgs.	Legislative decree
D.M.	Ministerial decree
D.P.R.	Decree of the President of the Republic
DPCM	Decree of the President of the Council of Ministers
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
ED	Exposure Draft
EEA	European Economic Area
EFRAG	European Financial Reporting Advisory Group (IASB)
EGBPI	Expert Group on Banking Payments and Insurance
EIOPA	European Insurance and Occupational Pensions Authority
EPIFP	Expected Profits Included in Future Premiums
ESA	European Supervisory Authority
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
FAQ	Frequently Asked Questions
FFA	Fédération Française de l'Assurance
FGVS	Guarantee Fund for Victims of Road Accidents
FLAOR	Forward-Looking Assessment of Own Risks (Solvency II)
FPS (also FOS)	Freedom to provide services
FSB	Financial Stability Board
FSC	Financial Stability Committee (ESRB)
FTSE MIB	Financial Times Stock Exchange Milan Stock Exchange Index
GAAP	Generally Accepted Accounting Practices (see <i>local gaaps</i> in Glossary)
GB	General Board (ESRB)

GDP	Gross Domestic Product
GDPR	General Data Protection Regulation (Reg. UE n. 679/2016)
GHQ	General Health Questionnaire
GLT Foundation	Global Tinking Foundation
G-SIBs	Global Systemically Important Banks
G-SIIs	Global Systemically Important Insurers
GSP	Group Specific Parameters (Solvency II)
HICP	Harmonised Index of Consumer Prices
HLA	Higher Loss Absorbency
IAIG	International Active Insurance Groups
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBIP	Insurance Based Investment Products
IBNR	Incurred But Not Reported (claims)
ICP	Insurance Core Principles
ICS	Insurance Capital Standard
ICT	Information and Communication Technology
IDD	Insurance Distribution Directive (directive 2016/97/EC)
IEG	Insurance Expert Group (ESRB)
IFRS	International Financial Reporting Standards
IMD	Insurance Mediation Directive (directive 2002/92/EC)
IMF IFS	International Financial Statistics of the International Monetary Fund
IORP	Institution for Occupational Retirement Provisions
IOSCO	International Organization of Securities Commissions
IPER	Statistical survey on the actual prices for motor liability insurance
IPID	Insurance Product Information Document
ISP	Internet Service Provider
ISTAT	Italian National Statistical Institute
ITS	Implementing Technical Standard
IUR	Unique Risk Identifier
JC	Joint Committee of the European Supervisory Authorities
KAs	Key Attributes of Effective Resolution Regimes for Financial Institutions (FSB)
KID	Key Information Document (IDD)
KRI	Key Risk Indicator
LAC	Loss Absorbency Capital
LIRE	Low Interest Rate Environment (ESRB)
LOB	Line of business (Solvency II)
LRMP	Liquidity Risk Management Plan

LTC	Long Term Care
LTG	Long Term Guarantees measures (EIOPA)
MCR	Minimum Capital Ratio (Solvency II)
MEF	Ministry of Economy and Finance
MIFID2	Markets in Financial Instruments Directive 2 (directive 2014/65/EC)
MISE	Ministry of Economic Development
MIT	Ministry of Infrastructure and Transport
MIUR	Ministry of Education, University and Research
MTPL	Motor Vehicle Liability (insurance contract)
NCA	National Competent Authority
NIC	Internet Dominions Registers
NSLT	Non Similar to Life Technique (health insurance)
NTNI	Non Traditional Non Insurance (activities)
O.J. (G.U.)	Official Journal of the Italian Republic.
O.J. EU	Official Journal of the European Union
OIC	Italian Accounting Standard Setter
OECD	Organisation for Economic Co-operation and Development
OICR	Undertakings for collective investment in transferable securities
ORM	Operational Risk Management
ORSA	Own Risk and Solvency Assessment (Solvency II)
PEC	Certified Electronic Mail
PEPP	Pan-European Personal Pension Product
PID	Product Information Document (IDD)
PIR	Individual Savings Plans
POG	Product Oversight Governance
PPI	Payment Protection Insurance
PRA	Public Motoring Register
PRIIP	Packaged Retail and Insurance-based Investment
PSD2	Payment Systems Directive 2 (directive 2015/2366/EC)
QRT	Quantitative Reporting Template (EIOPA)
RAF	Risk Assessment Framework
REFIT	European Commission's Regulatory Fitness and Performance Programme
ROA	Return On Assets
ROE	Return On Equity
RP	Recovery Plan
RPCT	Responsible for Prevention, Anti-corruption and Transparency
RR	Recovery and Resolution (IAIS)
RSR	Regular Supervisory Report
RTS	Regulatory Technical Standard

RUI	Single Register of Intermediaries
SCR	Solvency Capital Requirement (Solvency II)
SCRR	Solvency Capital Requirement Ratio (ration between own funds and SCR – Solvency II)
SFCR	Solvency and Financial Condition Report
SHRD2	Shareholders' Rights Directive 2 - Directive (EU) n. 2017/828
SICAV	Open-Ended Investment Company
SIM	Stock brokerage company
SRATF	Systemic Risk Assessment Task Force
SRMP	Systemic Risk Management Plan
SRP	Supervisory Review Process
TAR	Regional Administrative Court
TFR	Severance pay regulated by Article 2120 of the Civil Code
TFUE	Treaty on the Functioning of the European Union
TMG	Guaranteed maximum rate (separately managed account)
TMO	Average rate of return of government bonds
TP	Technical Provisions
TUB	Consolidated Banking Law – d.lgs. n. 385 / 1993
TUF	Consolidated Financial Law – d.lgs. n. 58 / 1998
TVOG	Time Value of Options and Guarantees
UCI	Italian Central Office
UdR	Risk units
UFR	Ultimate Forward Rate
UIF	Financial Intelligence Unit
USP	Undertaking Specific Parameters (Solvency II)

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Salvatore ROSSI

SENIOR DEPUTY GOVERNOR OF THE BANK OF ITALY

BOARD OF DIRECTORS

Salvatore ROSSI

PRESIDENT

Riccardo CESARI

BOARD MEMBER

Alberto CORINTI

BOARD MEMBER

JOINT DIRECTORATE

Ignazio VISCO

GOVERNOR OF THE BANK OF ITALY

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SENIOR DEPUTY GOVERNOR OF THE BANK OF ITALY

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SECRETARY GENERAL

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