



**IVASS**  
ISTITUTO PER LA VIGILANZA  
SULLE ASSICURAZIONI



Insurance  
Supervisory  
Authority  
2019 Annual Report

Remarks by the President  
**Daniele Franco**

Rome, 18 June 2020





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# Insurance Supervisory Authority 2019 Annual Report

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The seventh Report on the Activities of IVASS occurs during a difficult time in our Country's history: the spread of the coronavirus has resulted in a great number of victims, triggered a profound economic crisis and changed the habits and social behaviours of citizens.

And the insurance industry has suffered the consequences as well. In the short-term, the pandemic imposed a rapid change in the organisation of work, and the resulting economic crisis had substantial effects on the financial stability of companies and on the protection of consumers. We envisage new challenges for the future, for the industry as well as for the regulatory framework.

A careful analysis of the lessons learned from the crisis must guide us in identifying measures useful in developing the economic and social role of the insurance system, optimising on its function as qualified institutional investor and on its capacity to offer companies, households and individuals a broad and competitive protection system.

The efforts made in recent years for digital transformation of the work processes and use of new technologies have enabled nearly all IVASS staff to work from home, ensuring from the outset full operations continuity of the business and services conducted in favour of the community. It is an important achievement, made possible through close collaboration with the Bank of Italy.

The capacity of personnel to adapt to new working methods was exemplary and will constitute, even at the end of the pandemic, a precious wealth of knowledge to redesign working practices and procedures.

This year, the format of our annual appointment with institutions, insurers, intermediaries, consumer associations and other stakeholders has been adapted to the requirement of avoiding possible situations of contagion. These considerations are made available on our corporate site, along with the Report on the Activities carried out by IVASS in 2019, submitted today to Parliament and to the Government.

As soon as possible, we will organise a meeting to discuss the current status of the insurance system with the parties involved in it.

Last 1 January, as senior Deputy Governor of the Bank of Italy, I assumed the role of President of IVASS. Here, I found a solid and authoritative institution, supported by highly qualified and motivated human resources.

I would like to extend my personal thanks to the Presidents before me, namely Salvatore Rossi and Fabio Panetta; to Board Members Alberto Corinti and Riccardo Cesari and to the Secretary General. They deserve the credit for having guided the Institute towards the achievement of important results. An affectionate mention also goes to Fabrizio Saccomanni, first President of IVASS, who suddenly passed away last summer.

### ***Solidity of the insurance system***

The Italian insurance sector was in good health at the end of 2019. Total premium income, equal to over 140 billion euro, recorded an increase of approximately 4 percentage points compared to 2018, amounting to 7.8% of the GDP.

In the Life insurance business, premiums grew by 4%: the strong expansion of Class I products, namely insurance on the length of human life (9.7%), more than offset the decline, for the second straight year, of Class III products, i.e. contracts where the investment risk is transferred to policyholders (unit-linked, -6.6%).

Premium income in the non-life classes recorded an increase of 3.2%. It was driven by the accident and sickness classes (health sector) and fire and other damage to property, up respectively by 7.5% and 4.5%; conversely, premiums in motor vehicle liability insurance declined by nearly one percentage point (MTPL).

In 2019, the profitability and solvency indicators recorded improvements. ROE was just over 12%, showing considerable growth compared to 6.4% in 2018, and exceeding the result of the prior two years as well. The amount of own funds held on average by Italian insurance undertakings was approximately 2.4 times the capital requirement.

However, the recession triggered by the pandemic has modified this scenario. Sharp tensions on the financial markets and uncertainty with regard

to the unfolding of the economic and financial scenario immediately called for extreme caution.

The solvency position of insurance undertakings recorded an average decline of 25 percentage points at the end of March compared to the end of December (from 235 to 210 percent). Since mid-March, IVASS has integrated the supervisory reporting flows by initiating periodic monitoring of the solvency situation (weekly for the main operators); this monitoring has recently been extended to the liquidity position as well.

In the event of a significant reduction in the solvency ratios or situations of weakness in capital requirements on prospective risk factors, intense dialogue was initiated with the companies. This was followed by specific measures aimed at implementing the capital strengthening initiatives required in order to restore the solvency ratios set as objectives. In particular, measures were implemented for companies which, during monitoring, showed solvency ratios of less than 130 percent. In the current scenario, characterised by high volatility, it is fundamental that the own funds of companies remain adequate with respect to the risks taken, even in situations of market tension.

As early as March, in line with the guidelines issued by the European supervisory authorities, IVASS recommended that the undertakings and groups adopt extreme caution in the distribution of dividends and in payment of the variable component of remuneration to company managers. Thanks to this recommendation, insurance undertakings and groups can count on additional capital resources: approximately 4.4 billion euro in dividends were either not distributed or postponed or suspended.

The pandemic will likely have significant effects on the performance of the technical management of companies as well, following growth in requests by policyholders which could occur in certain business lines, such as reimbursements for trip cancellations, enforcement of guarantees in the credit and suretyship segments, and benefits pertaining to sickness and assistance policies.

The events during these initial months of 2020 once again confirmed the importance of the rules and governance structures of the groups and companies for the solidity and proper functioning of the insurance system.

In the first instance, work for the review of the regulatory framework of the Solvency II regime is particularly important. The Institute follows developments closely and actively participates in the key European worktables.

Revision of the Solvency II framework, which became effective in 2016, will necessarily have to take into account the different economic conditions in which the European insurance market operates, particularly the persistently of low interest rates environment. The areas that did not function as expected must also be reviewed. These include the Risk Margin in the determination of technical provisions, so as not to penalise longer-term liabilities, Long Term Guarantee measures (LTG), to mitigate the short-term volatility of the capital requirement, and the calibrations of certain risk modules.

The strong and sudden fluctuation in the solvency ratio in the early stages of the recent crisis was affected by the inadequate functioning of the volatility adjustment, which we have repeatedly reported. Indeed, despite the limited interventions in 2019, further changes are needed – which we are working on at European level – to make it more effective.

Without appropriate measures, the ability of the industry to continue to offer long-term products and the very role of insurance companies as institutional investors could suffer.

The postponement to December 2020 of EIOPA's technical opinion to the European Commission on the reform project, although prompted by contingent factors, will make it possible to assess the soundness and assumptions underlying the revision of the regulatory framework also in light of the impacts of the pandemic.

In recent months, it has also become clear that the tools provided under Solvency II are inadequate to deal with emergency situations quickly and effectively. IVASS is in favour of defining a limited package of measures at European level, in collaboration with EIOPA, that can be promptly activated in the event of a generalised crisis and which can temporarily mitigate the volatility and automatism inherent in regulations, thus avoid pro-cyclical effects.

Regulations are not enough to ensure innovation, solidity and efficiency; clear strategic vision, financial strength and robust governance systems are fundamental in each company.

A strong and transparent shareholder structure is particularly important, with a medium/long-term horizon, aware of the need to provide companies with solid governance and control processes, as well as directors and managers with adequate professionalism, attentive to innovation, especially technological innovation, and to the sustainability of strategic and operational guidelines. This is important in order to grow businesses and improve supply, particularly in the segment of coverage for individuals, households and businesses, which has considerable room for growth in our Country.

Companies have launched a major governance structure strengthening process in the last few years, driven by the regulations issued by IVASS. However, off-site supervision and inspections still show gaps in the risk governance processes, which must be removed also through the introduction of new professional resources and strengthening of collaboration and interaction between corporate bodies and management.

In particular, we have observed over-simplified or even inadequate approaches to the calculation of technical provisions, which represent the commitments towards customers, and situations of poor data quality, mostly due to age or to the low degree of integration of companies' IT systems. We are increasing our commitment to the IT security of companies, including through the request for adaptation plans.

Attention of supervision in these areas is high, and IVASS expects the managers of the companies to attribute the same importance to said matters.

### ***Consumer protection***

The spread of the pandemic and the effects of the social distancing provisions have led to the emergence of new and specific needs for the protection of insurance users, which IVASS is handling by seeking intensive discussions with companies, intermediary associations and consumer associations. Particularly useful in this phase has been the work of the Contact Centre, a point of contact available to citizens to directly report any needs and difficulties and receive assistance.

Listening to the various requests has allowed the Institute to accompany the insurance system in this difficult phase. We have adopted, and where appropriate proposed to the competent authorities, measures to deal with the emergency, seeking the best balance between consumer expectations and the operational and safety constraints of insurance operators. Companies and intermediaries have been asked to inform the public on the methods to access services, facilitate their use and take into account customers' difficulties in fulfilling their contractual obligations.

In the management of complaints and reports, we called for substantial consumer protection, particularly in the presence of margins of uncertainty in the identification of risks included or excluded from contracts or in the ways in which to manage, within existing coverage, the changes introduced by national regulations aimed at managing the epidemiological crisis.

The forced suspension of economic activities, the consequent repercussions on the income and liquid assets of citizens and the limitations

on the use of vehicles have raised several issues on the insurance side: some with a contingent and immediate value, such as the temporary failure to benefit from the guarantees provided in the contract; others of a structural nature and prospective value, such as the reduction in policies to protect the income of households and businesses and the exclusion of certain catastrophic events, such as pandemics, in existing coverage.

Many companies have provided initial responses and taken measures to support customers, including suspending or extending premium payments, blocking the recovery of unpaid premiums and deductibles, extending guarantees, offering additional services and, most recently, returning part of the MTPL premium.

The forced reduction in traffic has had an impact in terms of reducing the frequency of claims, which our studies have estimated at around 50%, with average savings for companies of between 36 and 41 euro per policy.

These are the initial estimates made on the figures of the Claims Data Bank managed by IVASS and referring to the period 1 February-15 May 2020, which we will continue to update over the next few months. If the data confirm the reduction in claims and, therefore, in costs for the undertakings, we expect a wider dissemination of the recovery measures for policyholders.

Once again this year, the sector of motor vehicle liability coverage represents a major theme for the Institute: important results have been achieved, but additional work is necessary.

The trend of declining prices continued in 2019, down by 2.7%, bringing the total decrease over the last six years to approximately 22 percent. Prices are gradually approaching the levels of European countries similar to Italy in terms of market characteristics. Between 2012 and 2018, the latest available figure in the international comparison, the gap went from over 200 to 90 euro. Nevertheless, in some areas of the Country, prices continue to remain high, particularly for younger consumers.

We believe that reorganisation of the sector's regulations can no longer be postponed, not only because in recent years it has been the subject of frequent and fragmented interventions, which have reduced its consistency, but also to take into account the significant changes in technology and in mobility itself.

IVASS is ready to make a technical contribution in order to identify solutions that can increase market efficiency and promote better distributed price reductions, better quality of supply and more timely compensation.

An initial contribution on this front is the recent proposal by IVASS to the Ministry of Economic Development to revise the criteria for compensation for major bodily injury, by defining a single national table capable of combining adequate compensation for non-economic damage with greater predictability of the costs borne by the insurance system and, ultimately, by consumers.

Consumer protection is at the heart of insurance legislation in the European Union. And it is primarily the responsibility of operators in the sector. Market conduct supervision and consumer protection, which IVASS strengthened during 2019 with a challenging organisational reform, do not replace the diligence duties of companies and intermediaries, but aim to intervene to substantially achieve the principle of customer centrality.

At this stage, IVASS has paid close attention to consolidation of the product oversight and governance processes required of operators by the Insurance Distribution Directive (IDD), as well as to the correctness of behaviour during distribution. Our commitment will focus on the objective of promoting product and cost comparability when placing products and, when settling claims, proper application of the contract and timely compensation for damages.

The IVASS Regulations to complete implementation of the IDD in terms of insurance products oversight and governance (POG) and the supplementary requirements for the distribution of Investment-based Insurance Products (IBIPs) will be issued as soon as possible. Public consultation of the Institute's regulations recorded over 570 comments.

Given the division of responsibilities between IVASS and CONSOB in matters of supervision of the distribution of investment-based insurance products, the two Authorities have worked together to ensure equal treatment of operators and protection of consumers. A largely uniform set of rules has been drawn up to supplement the IDD with controls and rules taken from the financial product distribution framework, consistent with the European regulations on the distribution of insurance products. The collaboration is also gradually extending on the enforcement front.

We are making a similar commitment to expanding the instruments for the protection of consumers.

Dialogue with the relevant institutions is continuing to make sure that Italian laws and regulations allow IVASS to use the mystery shopping in order to check on-the-spot processes and behaviours adopted during the distribution phase and to immediately detect unfair behaviours. IVASS has obtained the financial support of the EU Structural Reform Support Programme for the development of a methodology aimed to integrate mystery

shopping into market conduct supervision. This project, recently launched, will be implemented within a period of one year; two pilot exercises have been envisaged – one for face to face sales and one for on-line selling – to test the robustness of the methodology worked out. The results of the project will be incorporated into IVASS' supervisory procedures and in the European works for the harmonization of market conduct supervisory practices that European insurance supervisors are developing under the auspices of EIOPA.

Despite the difficulties of this last period, the activities to implement the new insurance Arbitrator are continuing. The out-of-court settlement of disputes system will accompany those of the banking sector (ABF) and financial sector (ACF). There are many open fronts: the regulatory one, through collaboration and discussion with the competent ministries to define the regulatory system; the technological one, aimed at setting up, with the support of the Bank of Italy, an information system and website that allow consumers to easily access the Arbitrator and to interact in a streamlined manner with applicants, companies and intermediaries; the organisational-logistics one and, last but not least, the staff training one, selected via specific competition.

We aim to create an agile tool, in the belief that an effective alternative dispute resolution system can lead to multiple benefits. These range from a rapid and cost-effective way of protecting citizens to a strengthening of confidence in the insurance system, achieving a deflationary effect on part of the considerable volume of disputes.

### ***The lessons of the crisis***

The COVID-19 epidemic shocked the international scene, affecting people in all areas of their lives, as well as the entire economy. Households, businesses and professionals experienced a crisis that was unique in terms of size and extent, and often found themselves without the necessary protection.

In Italy too, the Government and Parliament have implemented unprecedented support measures, having to intervene in many areas, including those in which a more adequate spread of insurance coverage to protect the income of families and businesses could have guaranteed greater speed of intervention and initial support to large groups of beneficiaries.

We must now learn from the lessons of the crisis and ask ourselves how the insurance industry can contribute to a new phase of development in the post-COVID economic system.

There are a number of strategic levers to be activated, involving institutions, the business world and consumers. They regard the rules and models of public-private cooperation, technology, insurance product range, distribution networks and insurance education itself.

When evaluating the changes to be introduced, it is useful to recall the results achieved in recent years by the Italian insurance system. In March, the International Monetary Fund published the results of the periodic assessment of the Italian financial system (Financial Sector Assessment Program – FSAP), which also contain some initial assessments specifically related to the insurance sector and to IVASS supervision. The Fund found that, also thanks to the implementation of the Solvency II Directive, most of the weaknesses identified at the end of the previous visit in 2013 have been overcome, and the regulatory framework for insurance supervision has been strengthened, with particular reference to corporate governance and risk management of companies.

### *Rules and models of public-private cooperation*

In line with the European Commission's commitment to the new "green deal", the revision of several important sections of the regulatory framework can be a useful opportunity to better define the long-term nature of insurance investments and their role in the transition to a sustainable economic framework, including from the environmental standpoint. The decisions that will be made may gradually affect the allocation of investments that at European level reach about 11,000 billion, nearly 950 billion of which regard the Italian insurance system.

Precisely at this stage, during which the economic and industrial fabric must be redesigned, the need to move towards an innovative, sustainable and environmentally friendly economy must be taken into account. At the European level, changes to the Solvency II and IDD directives are being defined to strengthen the integration of environmental, social and corporate governance factors (the so-called ESG factors) in the design of insurance products, investment policies, customer distribution processes and corporate risk management.

New avenues must be explored, starting with the possibility of identifying forms of public-private cooperation in the management of risks that can take on catastrophic connotations, such as those arising from natural disasters and pandemics.

The latter can have a prolonged duration and unforeseeable impacts, thereby making a prior risk assessment very complex. Initial surveys conducted in Europe have shown that there is currently no market capable

of mitigating the risk of a pandemic, especially when it comes to adequately covering its indirect effects, such as those of business interruption.

In many countries, the factors underlying this lack of protection are being examined in order to determine whether innovative solutions can be introduced at the national and possibly even continental level. These are cooperation models that combine risk assessment and risk prevention with the transfer of residual risk between private (insurance and reinsurance market) and public (national and European) players at market conditions.

Such a model could extend from pandemics to other types of risks that can have catastrophic effects, including supranational ones, such as cyber risks.

The scientific conference organised by IVASS on the subject of insurance management of natural disaster risks, which we have postponed for obvious reasons and are re-planning for the coming year, will be an important opportunity to discuss these issues.

The search for renewed collaboration between the public and private sectors is also necessary in the field of supplementary health care, which requires organic and realistic measures to reorganise the services supplementary and ancillary to the National Health Service, as well as the structure of rules and controls on the different types of undertakings that operate within it.

We are following the developments of medical liability insurance closely, for its social role in protecting patients damaged as a result of errors in the implementation of treatment protocols. Our surveys highlight an increase in the use of insurance by private healthcare facilities and healthcare professionals, while public facilities increasingly make use of self-retention measures integrated only residually by policies to cover large claims.

### *Technology*

IVASS is closely monitoring the impact of technological innovation on the insurance market (InsurTech), with a view to fostering solutions that can expand and improve the offer in a framework of modern consumer protection.

To this end, we promote the conditions, including regulatory, for development of technological innovation in the insurance field, within a framework that avoids unjustified unequal treatment between traditional and innovative operators and ensures consumer protection. The latter must also be effective with respect to the more sophisticated algorithm-based customer profiling techniques, the proper use of which is under the responsibility of companies. No less important is the attention paid by IVASS to the robustness

and security of IT infrastructures in this area as well, due to the obvious links with InsurTech developments and cyber risk governance.

In this light, in addition to actively participating in European initiatives, including the EIOPA InsurTech Task Force, we have provided, in close collaboration with the Bank of Italy and CONSOB, our contribution to the Ministry of Economy and Finance for the definition of the national sandbox regulation to test innovative ways of offering financial, banking and insurance services and products.

In order to facilitate digital operators, an Innovation Hub is active in the Institute and we have recently further strengthened it. The Hub is a contact point for stakeholders to discuss issues related to technological innovation in the insurance sector and to the relative regulatory, prudential supervision and market conduct aspects. Experimental projects are underway with the industry, academic world and public administration to offer fully digital policies through blockchain and smart contracts.

An important economic and organisational commitment has been made to innovate the IT equipment and technological infrastructure of the Anti-Fraud Integrated Computer Database and the Claims Data Bank; these are services that IVASS provides to the market, also thanks to the financial contribution of the Ministry of Economic Development.

The process of dematerialising insurance contracts and documents, which has already been underway for some years, has found new impetus in the current emergency situation. In collaboration with Agenzia per l'Italia Digitale, we are promoting the dissemination of digital identity tools (SPID) and electronic signature for the benefit of remote identification processes.

Technology can allow, also in the insurance sector, faster and more immediate access to products and services by customers, and it is expected to increasingly establish itself as a method of acquiring and interacting with users. The digital leap that the pandemic has forced us to take also reinforces the current trend. A wide audience is certainly more inclined to use digital techniques as a result of the crisis, and this will have to be taken into account for the innovation of business models.

### *Offer of insurance products and importance of the distribution networks*

The pandemic may be a driver of product innovation. Beyond the extraordinary measures taken, the insurance industry needs to build on the protection gaps identified, the changes in financial and macroeconomic risks and the evolution of operational risks, in order to respond to the savings and protection needs of customers.

We ask companies to define clear products with respect to what they offer and do not offer, free of excessive complexity and not weakened by loopholes and exclusion clauses.

The development and roots of the insurance industry also depend on the quality and effectiveness of its distribution networks.

A distribution model based on personal contact and trust still prevails in Europe; the value of personal relationships is also recognised in distribution systems based on digital platforms. The multi-channel logic and the growing role of banking networks do not diminish the importance of agents and brokers, custodians of a rich professional background and knowledge of the insurance needs of customers.

However, solutions must be identified, including organisational ones, to increase the operating capacity and innovative strength of the over 33,000 agents and brokers registered in sections A and B of the Single Register of Intermediaries (mostly micro-enterprises, about 70% of which are individual entrepreneurs), also in order to encourage better use of digital technologies to support the development of customer relations.

IVASS is ready to discuss these issues in order to reduce under-insurance and strengthen the sector's prospects.

### *Insurance education*

Disseminating financial and insurance knowledge and skills is a key lever for development and social inclusion, especially in light of the unsatisfactory data recently published in the OECD-PISA study on the financial knowledge of our young people. Twenty countries, including Italy, participated in this initiative in 2018. In the sample, Italy ranked between 12th and 13th place, with a result below the average of OECD countries. Essentially, it depicts a country lagging behind, with considerable shortcomings marking geographical, gender and socio-economic gaps.

The pandemic has brought the risks of under-insurance to the attention of the general public: the emergence of widespread needs for protection must be rapidly accompanied by insurance education, in order to enable consumers to assess which products meet their specific needs and which operators can legitimately provide them.

In line with the “National Strategy for Financial, Insurance and Social Security Education”, IVASS is directing its activities in two directions: the involvement of an increasing number of citizens in training programmes and the use of both traditional and innovative tools. We intend to pay particular

attention to young people, implementing dissemination tools that speak their language and use the communication methods they prefer.

The results of the Insurance Literacy Test that we are conducting with the financial support of the Ministry of Economic Development will be of great assistance in best directing our efforts and resources.

## **Conclusions**

Thanks to the efforts of health workers and to the observance by citizens of the containment measures, the Country has achieved important results in managing the epidemiological crisis. A special thought goes out to all the victims of the pandemic and their families and to the many others who have been impacted, and our gratitude goes out to those who have worked with dedication in recent months to serve the community.

The serious economic crisis that we are undergoing has exacerbated the Country's already low rates of development. In addition to mitigating the impact of the crisis, the insurance sector must contribute to bringing the economy back to higher growth rates.

It can do so in its role as institutional investor, as well as by offering businesses and households a broad and competitive system of protection, which is all the more effective if it works in synergy with public intervention. Many areas are in need: infrastructure, the transition to the green economy and digitisation, and the coverage of risks that threaten the natural and cultural heritage and productive fabric of our Country.

Combined and transparent action could make it possible to spread risks more rationally, speed up restoration and support measures and make social policies more manageable.

We will be sure to make our contribution to these issues, to the projects to make the offer of MTPL contracts more competitive, and to the work for the Solvency II review that is entering its final phase.

Consumer protection, which we have strengthened, will be enriched with new instruments capable of improving its effectiveness.

The next strategic plan will give way to initiatives aimed at encouraging the use of artificial intelligence for the verification of compliance with regulations by operators (RegTech) and for the performance of controls and supervisory analysis of the Institute (SupTech). We aim to rationalise and simplify the requirements, increasing the effectiveness of controls and reducing administrative burdens.

The pandemic has taught us that we must be better prepared to deal with emergencies, but at the same time it has reminded us that when faced with the most dramatic situations, we are capable of an effective collective reaction. Sharing the risks together is a useful response. And we have had further confirmation of this.



