





# Report on the activities pursued by IVASS in the year 2019

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#### **WARNINGS**

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

The tables do not generally 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 supervisors..

The terms defined in the Glossary at the end of the Report are highlighted in blue in the text. The Glossary is published on https://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/relazione-annuale/2020/index.html.

#### THE COVID-19 EMERGENCY

The epidemiological emergency has changed the way people live and work and has had an unprecedented impact on the country's economic system. Since the issue of the first government measures to contain the spread of COVID-19 contagion, IVASS has taken measures to protect its employees while ensuring the continuity of its functions for consumer protection and the safeguard of financial stability<sup>1</sup>.

The increased price volatility of financial assets triggered by the COVID-19 pandemic affects the solvency position of insurance companies. IVASS estimates, based on prudential financial statement values at the end of 2019, indicate that the decline in share prices and the widening of credit spreads on debt securities in the first quarter of 2020 led to an average reduction in the value of the assets of Italian insurance companies equal to -7%. The net implicit capital gains on securities in the portfolio recorded in the statutory financial statements decreased by -39%. The sector's average solvency ratio fell by 35 percentage points in the first quarter of 2020, to around 200%, while still remaining above the regulatory minimum of 100%.

The pandemic will likewise have significant effects on the liquidity and the profitability of the undertakings, mainly due to the rise in requests for reimbursements made by policyholders for travel cancellation, interruption of work activities, enforcement of the coverage of credit, suretyship, health and assistance policies. For the Italian undertakings, premium income for the coverage of these risks represents a portion of the total of the non-life classes much lower than the average of the European insurance companies (14% compared with 29%). Negative effects may also manifest on the premiums and on the requests for the early termination of the insurance investment products.

IVASS has adopted remote working on a vast scale: nearly all the personnel have used smart working. The supervisory action continued in an ordinary manner but taking into account the new informational requirements associated with the pandemic: specific monitoring plans, stress test and sensitivity analysis have been activated with regard to the changes in the market parameters on the insurance market and undertakings. Dialogue continued with supervised entities, including undertakings already subject to inspections at the time of activation of the contingency measures.

As from the beginning of March, IVASS launched a daily monitoring of the reports and the requests received from the customers via the Contact Center and the complaints, for the purpose of intercepting the most common difficulties and needs and providing a contribution to their solution. The requests of the customers were taken into account in the supervisory action and, when required, to provide a contribution to the legislative measures.

Cooperation with other Supervisory authorities so as to deal with the COVID-19 emergency was intense.

<sup>&</sup>lt;sup>1</sup> The provisions issued by IVASS during the emergency are available at the page https://www.ivass.it/covid-19/index.html

# 1. - LEGISLATIVE MEASURES, RECOMMENDATIONS AND OTHER ACTION FOR THE INSURANCE MARKET AND CONSUMER PROTECTION

## 1.1. - Measures adopted by the Government

The legislative measures adopted during the health emergency period affected the insurance market with regard to various aspects. A summary of the main ones follows:

- temporary suspension of the deadline for the payment of premiums due between 21 February and 30 April 2020 for the residents in the "red zone" of Lombardy and Veneto<sup>2</sup>;
- the possibility, also by way of departure from the statutory provisions, to intervene by means of tele-communication facilities and to express the vote electronically or by mail in the share-holders' meetings of insurance companies incorporated in the form of joint stock companies or mutual insurance companies<sup>3</sup>; it is also envisaged that, by way of departure from the specific provisions of the Italian Civil Code or the other statutory provisions, the ordinary share-holders' meeting for the approval of the financial statements for 2019 be called within one hundred and eighty days from the end of the financial year<sup>4</sup>;
- suspension as from 23 February until 15 May 2020 of the deadlines of the administrative proceedings, or stages of the same, under the remit of IVASS<sup>5</sup>;
- 60 day extension of the deadlines for the formulation of the offer or the justified challenging
  of the damage compensation procedures for claims pertaining to the circulation of motor
  vehicles and craft (Art. 148 of the CAP- Code of Private Insurance)<sup>6</sup>;
- 30 day extension, after the expiry of the deadline, of the validity of the MTPL coverage (Art. 170 bis, para. 1, of the CAP)<sup>7</sup>;

Decree Law No. 9 dated 2 March 2020, containing specific urgent measures to support households, workers and businesses resident or with registered offices in the Municipalities as per enclosure 1 to the Prime Ministerial Decree dated 1 March 2020, converted by Law No. 27 dated 24 April 2020.

Decree Law No. 18 dated 17 March 2020, converted by Law No. 27 dated 24 April 2020, containing measures to strengthen the National health service and provide economic support for households, workers and businesses associated with the COVID-19 emergency valid for the whole of Italy. The provisions aim to further the holding of general shareholders' meetings of companies. The Decree extended the rules of the appointed representative envisaged for listed companies (Art. 135 *undecies* of the Consolidated Law on Finance - TUF) to mutual insurance undertakings, allowing participation in the general meeting to take place exclusively via the same. The Decree also envisaged that the ordinary shareholders' meeting for the approval of the 2019 financial statements can be called within one hundred and eighty days of the end of the financial year.

<sup>4</sup> These provisions apply to meetings called by 31 July 2020 or rather by the date, if subsequent, until when the state of emergency throughout Italy is in force, relating to the health risk associated with the COVID-19 epidemic.

Decree Law No. 18/2020, converted by Law No. 27/2020 and Decree Law No. 23 dated 8 April 2020, containing urgent measures regarding access to credit and tax fulfilments for undertakings, which extended the suspension period originally envisaged by Decree Law No. 18/2020 until 15 April to 15 May; see https://www.ivass.it/media/avvviso/sospensione-procedimenti/.

<sup>&</sup>lt;sup>6</sup> Decree Law 18/2020, converted by Law 27/2020

Decree Law 18/2020, converted by Law 27/2020. The extension applies to contracts which have expired and have not yet been renewed and to those which expire in the period running between 21 February 2020 and 31 July 2020.

- suspension of the mandatory insurance contracts for civil liability deriving from the circulation of motor vehicles and craft, for the period requested by the policyholder and until 31 July 20208;
- strengthening of the State guarantee system for insurance commitments undertaken by SACE, whose tasks are extended and enhanced with the aim of furthering the internationalisation of the Italian production sector, giving priority to commitments in strategic sectors for the Italian economy, as well as commitments for operations destined for countries strategic for Italy; within this system of granting State guarantees, the advisory role of IVASS is envisaged, with reference to specific profiles<sup>9</sup>;
- introduction of temporary regulations on the accounting principles for the drawing up of financial statements underway as of 31 December 2020 which envisage the faculty to depart from the going-concern principle, under certain conditions<sup>10</sup>;
- inclusion of the insurance sector within those of strategic importance, according to (EU)
   Regulation No. 452/2019, for the purpose of application of the golden power rules <sup>11</sup>;
- provision of simplified operating procedures for underwriting and communications relating to insurance contracts until the end of the state of emergency<sup>12</sup>;
- introduction of a State guarantee system for the insurance undertakings authorised to carry out credit class business with the involvement of SACE<sup>13</sup>;
- provisions concerning the transfer to other parties including banks and other financial intermediaries of the tax credits arising from various activities or maintenance measures, including those for greater energy efficiency, disciplined by the Decree Law<sup>14</sup>;
- provisions aimed at encouraging investment in the real economy by means of long-term savings plans (PIR)<sup>15</sup>.

 $<sup>^{8}\,\,</sup>$  Decree Law 18/2020, converted by Law 27/2020.

<sup>&</sup>lt;sup>9</sup> Decree Law No. 23 of 8 April 2020.

<sup>&</sup>lt;sup>10</sup> Decree Law 23/2020.

<sup>&</sup>lt;sup>11</sup> Decree Law 23/2020.

<sup>12</sup> Decree Law No. 34 dated 19 May 2020, Urgent measures in respect of health, support for employment and the economy, as well as social policies associated with the COVID-19 emergency.

<sup>&</sup>lt;sup>13</sup> Decree Law 34/2020.

<sup>&</sup>lt;sup>14</sup> Decree Law 34/2020.

<sup>&</sup>lt;sup>15</sup> Decree Law 34/2020.

## 1.2. - Measures adopted by EIOPA

During the emergency period, the European authority took steps to mitigate the impact of COVID-19 on the European insurance sector with measures aimed at ensuring business continuity, preserving the capital and solvency of the undertakings.

EIOPA granted the undertakings extensions for the Solvency II reporting fulfilments; it invited the same to provide consumers with clear and prompt information on the contractual rights and to guarantee flexibility in the fulfilment of the contractual obligations; it permitted extensions and deferrals of the deadlines for public consultations and the forwarding of data; it recommended the temporary suspension of the distribution of dividends and the payment of the variable component of the remuneration to the shareholders<sup>16</sup>.

# 1.3. - Measures adopted by the IAIS

On 27 March 2020 the IAIS Executive Committee adjusted its work programme to provide operational assistance to supervisors, insurers and other stakeholders during the emergency<sup>17</sup>.

# 1.4. - Measures adopted by IVASS

Since the beginning of the health emergency, the Institute has worked very closely with the European and Italian supervisory authorities for the banking and financial sectors.

Having taken into account the restrictions imposed by the emergency, IVASS supported the market operators by extending the deadlines of a number of fulfilments envisaged by its Regulations<sup>18</sup>, including the deadlines for the Solvency II<sup>19</sup>reporting.

In line with EIOPA statement on dividends distribution of 17 March 2020, IVASS has requested insurance and reinsurance undertakings to use extreme caution, at solo and group level, in the distribution of dividends and in the payment of the variable remuneration component of key managers.

Again in line with the EIOPA, the Institute recommended the supervised entities to provide clear information to their customers on the organisational measures adopted for the continuity of the services and to take into due consideration the difficulties which the consumers will come across when meeting their obligations.

The issue of IT security took on particular relevance with the emergency, which saw the massive spread of remote work and the dematerialisation of economic dealings and contracts. The business continuity procedures are fundamental for ensuring operations of the IT and

Measures to mitigate impact of COVID-19 of 17 March 2020; recommendations on the deadlines for the supervisory and public disclosure dated 20 March 2020; recommendations to mitigate the impact of the virus on consumers dated 1 April 2020; up-date on the measures relating to the emergency dated 2 April 2020; press release on the distribution of dividends dated 2 April 2020; See. <a href="https://www.ivass.it/normativa/internazionale/internazionale-ue/linee-guida-eiopa/opinioni-supervisory-statement/EI-OPA\_Recommendations\_Coronavirus.pdf">https://www.ivass.it/normativa/internazionale/internazionale-ue/linee-guida-eiopa/opinioni-supervisory-statement/EI-OPA\_Recommendations\_Coronavirus.pdf</a>.

https://www.ivass.it/media/avvisi/documenti/2020/27\_March\_2020\_\_Media\_Release\_-\_IAIS\_Executive\_Committee\_takes\_steps\_to\_address\_impact\_of\_COVID-19\_on\_the\_insurance\_sector.pdf.

<sup>&</sup>lt;sup>18</sup> IVASS Regulations 40/2018 (Insurance Distribution) and 41/2018 (home insurance); ISVAP Regulation n. 24/2008 (Complaints).

<sup>19</sup> https://www.ivass.it/media/avviso/covid-dividendi/.

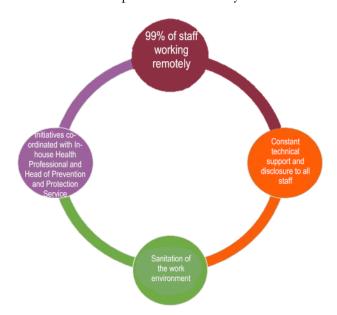
connection systems under conditions of particular stress. IVASS has taken part, together with the Bank of Italy, in international and European technical working groups and encouraged public-private cooperation for the sharing of information and the development of defence skills. The Institute also intervenes in the work of the structure for the coordination of the Italian financial sector (CERTFin). IVASS monitors e-mail messages which may have fraudulent ends (phishing) or in any event generate confusions among the general public and is involved in raising awareness of the risk (security awareness) with regard to its personnel and the public.

#### 2. - IVASS OPERATIONS

The health and safety of employees has been the priority of the Institute which, from the very beginning, has acted in close collaboration with the In-house Health Professional and the Head of the Prevention and Protection Service in order to adopt all the necessary measures.

The Institute has intervened in terms of hygiene and safety in the workplace, has furthered the extensive use of flexible work services, has provided technical support and continuous information to all staff.

The possibility of working remotely under full operations has made it possible to reduce in just a few weeks the presences care of the institutional headquarters to less than 1% of staff (in the three-year period 2017-2019, only 5% of employees had benefited from smart working).



The operations of the IVASS Structures have not been significantly slowed down and the continuity of institutional action has been fully guaranteed, with the performance of all essential and high-priority activities and almost full maintenance of ordinary operating levels.

In a 17 March 2020 communication<sup>20</sup> IVASS informed users about recourse to smart working, as a result of the COVID-19 emergency, guaranteeing the full provision of the services foreseen by the institutional mission.

The results achieved and the level of organisational performance are continuously monitored through a self-assessment system by the Institute's management.

<sup>&</sup>lt;sup>20</sup> https://www.ivass.it/media/avviso/covid-informazioni-utenti/.

#### 3. - THE DECREASE IN ROAD ACCIDENTS IN ITALY DURING THE LOCKDOWN

Using the Claims Data Base managed by IVASS, it is possible to estimate the change in road accidents in the first months of the year, so as to assess the impact of legislative measures that have reduced the mobility of citizens, and therefore also the circulation of vehicles, in order to limit the spread of COVID-19.

Claims occurring between 1 February and 15 May 2020 and recorded in the CDB until 8 June were taken into account. The estimate takes into account the late reporting of part of the claims (late claims) to the CDB, applying an average increase of 4% on the observed data. The table compares the number of claims thus obtained with claims that occurred in the same period of the previous year (Table 1).

Table 1

	Distri	ibution of c	laims by re	egion betw	een 1 Febi	ruary and 1	15 May 2019	and 2020		
(Numbers)									lumbers)	
Area of oc- currence of	Claims in the CDB occurred between 1 February and 15 May 2019				Claims in the CDB occurred between 1 February and 15 May 2020*					
the claim	Total	February	March	April	1-15 May	Total	February	March	April	1-15 May
Piedmont	63,123	18,089	20,314	15,994	8,726	25,821	13,762	5,678	3,108	3,274
Valle D'Aosta	1,482	429	454	384	215	854	471	237	71	75
Lombardy	134,022	35,828	41,127	36,862	20,205	55,245	31,603	10,485	6,022	7,134
Trentino Alto Adige	12,140	3,757	3,492	3,278	1,613	5,891	3,026	1,373	698	794
Veneto	54,324	14,521	16,325	15,671	7,807	24,460	12,973	5,171	3,139	3,178
Friuli-Venezia Giulia	11,510	3,041	3,522	3,267	1,680	5,284	2,738	1,119	693	735
Liguria	25,505	6,723	7,614	7,436	3,732	12,259	6,148	2,801	1,661	1,649
Emilia Romagna	56,911	14,939	17,601	15,954	8,417	25,396	13,672	5,213	3,150	3,361
Tuscany	54,173	14,040	16,232	15,911	7,990	25,680	13,597	5,550	3,142	3,392
Umbria	10,468	2,680	3,254	3,055	1,479	5,104	2,791	1,064	643	607
Marche	17,131	4,491	5,071	5,004	2,565	7,788	4,220	1,631	910	1,027
Latium	89,140	23,343	26,545	25,836	13,416	41,333	22,524	8,750	5,027	5,032
Abruzzo	12,942	3,390	3,776	3,805	1,971	6,205	3,468	1,281	705	752
Molise	2,201	584	594	688	335	1,041	528	216	142	154
Campania	85,746	22,593	25,382	25,099	12,672	46,118	22,845	10,297	6,037	6,940
Puglia	36,764	9,648	11,047	10,760	5,309	19,565	9,698	4,374	2,872	2,621
Basilicata	4,065	1,035	1,203	1,255	572	2,022	1,025	460	283	254
Calabria	14,071	3,677	4,280	4,021	2,093	7,338	3,701	1,643	953	1,041
Sicily	56,430	14,747	16,944	16,237	8,502	28,031	14,042	6,104	3,955	3,931
Sardinia	21,446	4,950	5,195	7,396	3,905	13,666	7,145	2,987	1,779	1,755
Total claims occurred in Italy (A)	763,594	202,505	229,972	217,913	113,204	359,101	189,977	76,434	44,990	47,706
Claims oc- curred abroad (B)	3,560	948	1,016	1,123	473	1,613	833	442	210	128
Grand Total (A) + (B)	767,154	203,453	230,988	219,036	113,677	360,715	190,809	76,874	45,200	47,832
% Claims with injuries	14.7	14.4	15.1	14.6	14.6	11.8	13.6	10.6	7.9	9.9

Source: Claims Data Base managed by IVASS - \* Includes the estimate of the IBNR claims equal on average to 4% of the claims actually reported as at 8 June 2020. The estimate is obtained at regional level on the basis of the claims for 2018 reported late.

In the 2020 period considered, 361 thousand claims were reported, down by -53% compared with the 767 thousand in the previous year. The decrease is very limited in February (-6%) and intensifies in March and April (-67% and -79%), as a result of traffic restrictions initially limited to certain areas of the North of Italy and progressively more severe in all regions. In February, the largest decreases in claims were recorded in Piedmont, Trentino and Lombardy (-24%, -20% and -12% respectively), but the differences between the regions tend to diminish in subsequent periods. Despite the easing of restrictions since 3 May, there was also a decrease in claims in the first half of May compared to the same period in 2019 (-58%).

Increased law enforcement controls may have led the few drivers to drive more cautiously. The share of claims with bodily injury decreased from 15% of total CDB claims to 12%, with a more pronounced reduction in April when accidents with injuries accounted for 8% of the total compared to 15% in the same period in 2019.

An estimate was also made by associating the reduction in the frequency of claims with the relative lower cost for compensation. Table 2 is based on the average cost of claims and the number of insured vehicles in Italy for 2019<sup>21</sup>. In order to take into account the uncertainty in the estimates, a range of magnitudes considered is presented, assuming, on the one hand, a possible minor reduction in the number of claims compared to the previous Table 1 following a doubling of the average delay in reporting claim and, on the other hand, a 10% lower average cost of the claim, in order to include the possible effect of the lower incidence of claims with injuries.

For the period observed, the overall cost borne by insurance companies for claims compensation would decrease between 1,677 and 1,893 million euro compared to the same period in 2019, with savings in the pure risk premium component between 35.6 and 41.1 euro per policy.

Table 2

Claims trend and cost between 1 February and 15 May 2019 and 2020								
						(%, m	illion euro, euro)	
		February	March	April	1-15 May	Total	Total per year	
					2019			
Claims frequency * (%)		0.46	0.52	0.49	0.26	1.73	5.90	
Total cost of claims** (ml. euro)		865	982	931	501	3,279	11,217	
					2020		_	
Claims frequency *,*** (%)	min	0.43	0.17	0.10	0.11	0.81		
Claims frequency , (%)	max	0.44	0.18	0.11	0.12	0.84		
Total cost of claims**,****	min	733	295	174	184	1,386		
(ml. euro)	max	836	340	204	222	1,602		
Decree of a superior state and a first and a superior of the s	min	0.7	13.6	15.4	5.9	35.6		
Decrease in pure risk premium per vehicle (euro)		1.3	15.4	17.4	7.0	41.1		

<sup>\*</sup> Estimated infra-annual values based on annual frequency of vehicles insured by undertakings supervised by IVASS and monthly distribution of claims recorded in the CDB. - \*\* Estimates for all insured vehicles circulating in Italy, based on the frequency and average cost of 2019 claims for undertakings supervised by IVASS. - \*\*\* Minimum values obtained from an estimate based on reporting delays in 2018, maximum values obtained from a delay twice as long with respect to 2018. - \*\*\*\* Minimum values obtained assuming a decrease of -10% in the average cost per 2019 claim.

<sup>21</sup> The number of vehicles for 2020 has been estimated on the basis of the 2019 figures, assuming a growth rate half that between 2019 and 2018.

The estimates indicated here are preliminary and partial, given that a conclusive assessment of the actual savings for insurance undertakings due to the reduction in claims will only be possible at the time of the 2020 final balance sheet, when data on the frequency of claims for the entire year will be available, as well as data on the average cost, taking into account the duration of the emergency and the effects on claims of the resumption of traffic at the end of the emergency.

#### 4. - INSURANCE PRODUCTS COVERING THE PANDEMIC RISK

The insurance industry has activated measures to provide support for the COVID-19 emergency. These include the suspension, extension and deferral of premiums for life insurance policies, non-life other than MTPL and motor insurance coverage, the blocking of all action to recover unpaid premiums and deductibles, the extension of existing coverage with tailored-made clauses, the inclusion of daily allowances or lump-sum compensation in policies and the offer of additional services and new products.

The insurance companies have also tackled the health emergency by adapting their offer and introducing new products for businesses and households to cope with the consequences of the spread of the pandemic.

Some companies have granted their customers free extension, on a temporary basis, of the guarantees and services already provided by their policies, be they individual or collective policies. Other undertakings have offered their customers, who already benefit from a health coverage providing an allowance for hospitalisation, a daily allowance also in the event that they are forced into quarantine after having been tested positive for COVID-19. In order to protect the age group currently most affected by the virus, one company has extended the maximum insurable age for health coverage from 65 to 75 years. In the travel sector, some companies have extended the guarantees to include the reimbursement of costs or penalties for the cancellation of booked travels due to the suspension of activities imposed by airport authorities following the COVID-19 emergency, including quarantine.

For business owners who have taken out commercial policies providing a daily allowance in case of business interruption, some companies have granted a temporary free extension of the coverage also to the case of lockdown of all the commercial businesses, imposed by the Authority as part of the measures for prevention of COVID-19.

In general, discounts were granted when renewing policies. There is no lack of initiatives aimed at offering ancillary services to the insurance policy, including:

- legal advice offices that can be reached by telephone or video conferencing, for first free consultation, with information on the measures supporting businesses and on the governance of smart working;
- the provision of a medical teleconsultation service to customers;
- the possibility of carrying out remote appraisals for damages in the motor, property and liability sector.

#### I. - THE INSURANCE MARKET

Globally, the insurance industry disclosed overall premium income growth in real terms in 2019, particularly in the non-life sector. In Italy, the incidence of life premiums on GDP is in line with the average of the most developed countries, while in non-life business a substantial and stable penetration gap has been seen in recent years. In Europe, the Italian market is the fourth most developed in terms of assets held, after France, the UK and Germany.

Overall premiums in the Italian market pertain for 43% to foreign-owned entities, up over the last five years. More than 70% of this amount relates to companies with registered offices in Italy. Last year the growth of the degree of internationalisation of Italian companies slowed down.

In the life business, net premium income (+3.6%) showed an increase in premiums greater than the increase in claims burden. The ratio of claims to premiums remained stable while the ratio of surrenders to premiums was down. The non-life business grew by +3.2%, strengthening the positive impact of the sectors of health (accident and sickness, +7.5%) and *property* (fire and other damage to property, +4.5%), which in 2019 account for 37% of the non-life Italian direct business.

Total life and non-life investments grew by 12% to 950 billion euro (over 50% of GDP), with a portfolio largely composed of government bonds, followed by corporate bonds and UCIT units.

The solvency capital requirements (SCR ratio) remains 2.3 times higher than the required minimum, with diversified situations between the various undertakings (higher for those operating in both the life and non-life sector and lower for those operating only in the non-life sector). A number of factors that may influence the value of the SCR ratio are analysed, including the ownership structure and the method for calculating the requirement using a standard formula or internal model.

The main figures of the statutory and Solvency II financial statements are commented on in detail below, with evidence of the levels of profitability, efficiency and solvency of Italian insurance undertakings. Specific analysis shows the growing importance of "direct" or "telephone" undertakings, particularly in ancillary and MTPL coverage, comparing average premiums, managed claims, operating expenses and profitability with traditional insurance undertakings.

#### 1. - THE INTERNATIONAL INSURANCE MARKET

# 1.1. - The global insurance market

The information gathered by the Organisation for Economic Co-operation and Development - OECD<sup>22</sup>, available for 2018, provides an overview of the global insurance market and offers assessment of the Italian market positioning.

Although with differentiations, due to the different development of the insurance market and as a result of external factors such as economic growth and changes in fiscal and taxation policies, gross premiums continued to increase in most countries, particularly in non-life insurance.

Despite a decline in investment returns, the insurance sector remained profitable globally, with positive returns on equity (ROE) in most countries.

#### 1.1.1. - Premiums

Gross premiums in the life and non-life insurance sectors grew by 2.5% and 3.5%, respectively, in real terms (after adjustment for inflation) in all 50 reporting countries.

In the individual countries (Figures I.1 and I.2), gross premiums increased in 27 cases for both life and non-life sectors (more than half of the sample, including Italy with +2.6% in life and +2.5% in non-life), in 13 cases in non-life only and in 6 cases in life only. Four countries reported a decrease in premium income in both sectors (Ireland, Korea, Luxembourg and Turkey).

-

<sup>22</sup> The data provided in the present paragraph are excerpted from the public database of the OECD (http://stats.oecd.org, in the Finance section) as well as from the publication entitled Global Insurance Market Trends by the same body. The OECD report involves, in addition to its member countries, also several Latin American countries and a group of African, Asian and European countries.

Figure I.1



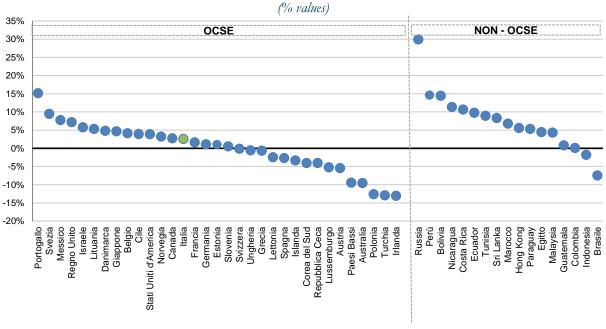
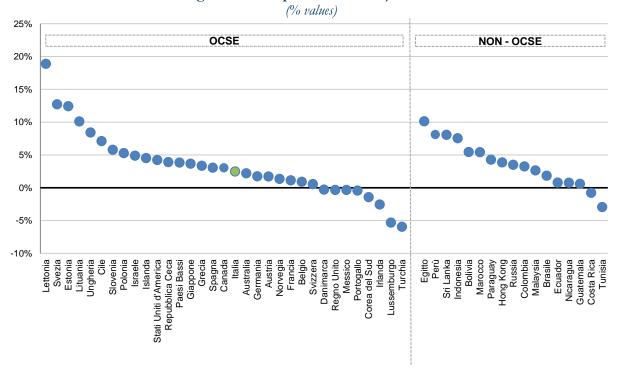


Figure I.2

#### Annual change in non-life premiums in major countries - 2018

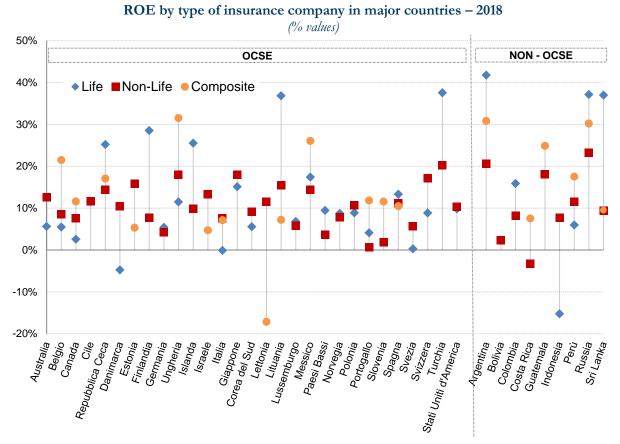


Source: calculation on OECD data. OECD countries reporting data along with a sample of non-OECD countries. Some values take into account adjustments applied by the OECD in the absence of observations.

#### 1.1.2. - Profitability

The aggregate ROE per country was positive for all types of insurers (life, non-life and composites) in 33 out of 38 reporting countries (Figure I.3). Compared to the previous year, the ROE decreased in 2018 in 18 out of 29 reporting countries for life insurers, in 20 out of 36 countries for non-life insurers and in 8 out of 17 countries for mixed insurers. The highest ROE was achieved by life insurers in Argentina (41.8%) while the lowest was reported by composite insurers in Latvia (17.2%). The Italian insurance sector recorded an overall average life and non-life ROE of 6.4%.

Figure I.3



Source: calculation on OECD data. OECD countries reporting data along with a sample of non-OECD countries. Some values, including the average, take into account adjustments applied by the OECD in the absence of observations.

# 1.1.3. - Percentage on GDP

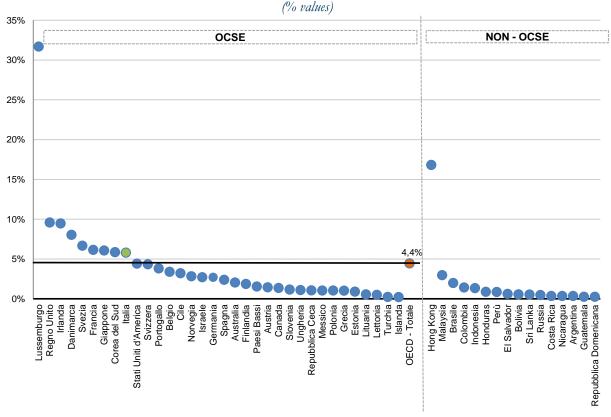
Life and non-life premium income as a percentage of GDP, in nominal terms, was 8.9% in all OECD countries (unchanged from 2017). The insurance sector is particularly strong (more than 10% of GDP) in the US, the UK, France, Ireland, South Korea, Denmark and Luxembourg, while it remains below 3% in 8 countries including Mexico, Poland, Greece and Turkey. The value for Italy is 7.7%.

Among the main non-OECD countries, the extreme cases are 18.2% in Hong Kong and 1.2% in Guatemala, with intermediate values for Brazil and Colombia.

The life insurance premiums of OECD countries accounted, on average, for 4.4% of the GDP (penetration rate; Figure I.4), a stable value compared to previous years. Penetration in the life insurance business in Italy (5.8%) is higher than the OECD average and similar to the previous year (5.7%). Higher than average values were recorded in Japan, South Korea, France, Sweden, Denmark, the United Kingdom, Ireland and Luxembourg.

Figure I.4

Premium incidence over GDP in the life business in major countries – 2018

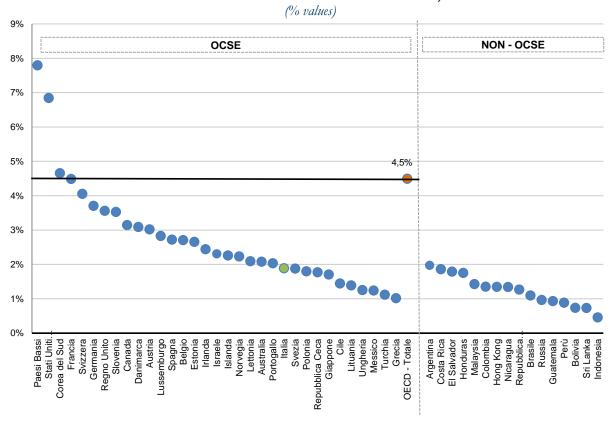


Source: calculation on OECD data. OECD countries reporting data along with a sample of non-OECD countries. Some values, including the average, take into account adjustments applied by the OECD in the absence of observations.

In the non-life sector, the incidence on the GDP of OECD countries stood at 4.5% overall (Figure I.5), affected by the weight of the sector in the United States and the Netherlands which record values much higher than the average. France recorded an average value, whereas - unlike for the life sector - the Italian figure was decidedly below average (1.9%, same value of 2017).

Figure I.5

Premium incidence over GDP in the non-life business in major countries – 2018



Source: calculation on OECD data. OECD countries reporting data along with a sample of non-OECD countries. Some values, including the average, take into account adjustments applied by the OECD in the absence of observations.

# 1.2. - The European insurance market

At the third quarter of 2019<sup>23</sup>, for the set of countries belonging to the European Economic Area (EEA) the size of the life and non-life insurance sector amounted, in terms of total assets, to 12,621 billion euro, in terms of technical provisions to 11,134 billion euro and in terms of capital reserves (excess of assets over liabilities) to 1.486 billion euro.

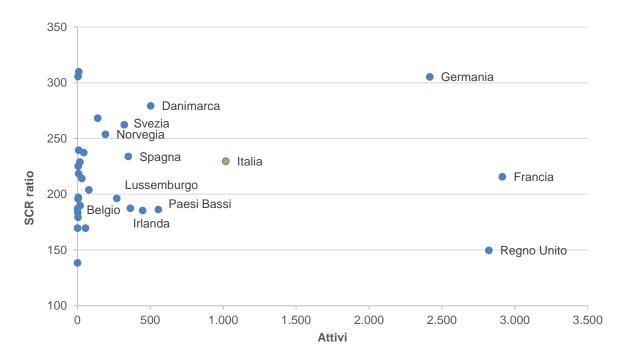
22

<sup>23</sup> Latest data available from the EIOPA quarterly statistics. At the time of publication of this Report EIOPA had not published updated statistics for premiums, claims and expenses of the life business.

Figure I.6

Total assets held by the insurance sector and SCR ratio by Country - Q3 2019

(billion euro; % values)



Source: calculation based on EIOPA data.

Investments with respect to non-life products and life contracts with guaranteed financial performance amount to 7,907 billion euro (63.3% of total assets). Investments with respect to products whose financial risk is borne by the policyholders amount to 3,085 billion euro (24.5% of the total).

The countries with the highest incidence of investments with respect to policies with guaranteed financial performance are Germany (83%), Spain (79%), France (77%) and Italy (76%) while Luxembourg and Ireland had a very low percentage of traditional policies, equal to 21%.

On the whole, in the life and non-life investment portfolio there is a prevalence (Table I.1; see I.5.3 for a detailed analysis of the major countries) of the fixed income sector (58.9% of the total), divided between Government bonds and corporate bonds. Investments in shares, holdings and units in UCITS account for 34.6%. Derivative positions have a marginal role (2.8% of the total, on the rise compared to 1.6% in the third quarter of 2018).

Table I.1

European market - composition of investments					
		(% values)			
Sector	Category	Incidence			
Fixed income	government bonds	30.8%			
	corporate bonds	28.1%			
Shares	UCITS	19.2%			
	participations	11.2%			
	shares	3.5%			
Derivatives	derivatives	2.8%			
	structured notes	1.2%			
	collateralization	0.6%			
Property	real estate	1.6%			
Cash	deposits	0.8%			
Other investments		0.2%			
Total investments		100.0%			

Source: Calculations on EIOPA statistics, third quarter of 2019 – excluding investments for *index and unit-linked policies*.

The total liabilities of the European insurance sector as at the third quarter of 2019 reached 11,134 billion euro. Of these (Table I.2), 835 billion euro are the technical provisions for the non-life business (including products covering sickness risks), 5,973 billion euro the provisions for the life insurance business for traditional products excluding *index and unit-linked* policies, and 3,085 billion euro for *index and unit-linked* products. The sum of the technical provisions represents 88.8% of total liabilities.

Table I.2

European market - technical provisions Portion of total liabilities							
					(% values)		
		Life		No	n-life		
Category	traditional policies	index- and unit- linked products	coverage for sickness (life)	non-life policies	coverage for sickness (non- life)		
incidence	49.6%	27.7%	4.1%	7.4%	0.9%		

Source: Calculations on EIOPA statistics, third quarter of 2019.

The excess of assets over liabilities for the entire European insurance sector totals 1,486 billion euro. Own funds eligible for coverage of the capital requirement amount to 1,597 billion euro, while the capital requirement (SCR) in aggregate terms reaches 704 billion euro. The resulting weighted average SCR ratio is equal to 227%.

The profitability ratios for the second quarter of 2019 for a sample of European companies and groups that are important for life and non-life business financial stability<sup>24</sup> (Table I.3) saw a median ROE (the return on excess of assets over liabilities) of 5.3% and a median ROA of 0.3%.

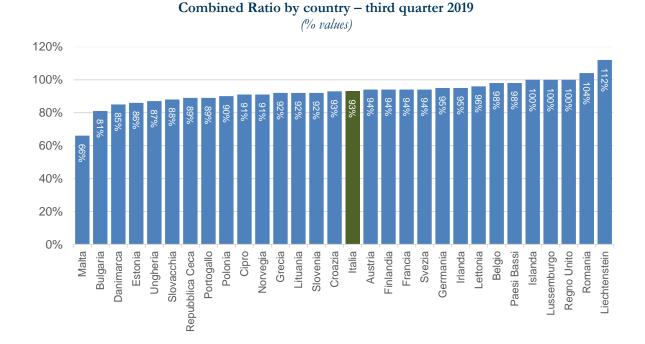
Table I.3

Profitability ratios - percentiles - second quarter 2018 and 2019							
					(% values)		
	10th percentile	25th percentile	median	75th percentile	90th percentile		
		RC	ÞΕ				
Q2 2018	0.25%	1.50%	2.80%	5.20%	7.60%		
Q2 2019	1.80%	3.00%	5.25%	7.80%	10.25%		
		RC	)A				
Q2 2018	0.02%	0.12%	0.25%	0.45%	0.95%		
Q2 2019	0.08%	0.16%	0.32%	0.60%	1.12%		

Source: EIOPA.

In the non-life business, the average combined ratio is 96%, indicating that the underwriting process is, on average, profitable. Fig. I.7 shows the distribution by country.

Figure I.7



Source: calculation based on EIOPA data.

<sup>&</sup>lt;sup>24</sup> EIOPA Financial Stability Report (18 December 2019); the ratios are based on the quarterly financial stability reporting and on EIOPA Risk Dashboard (29 January 2020).

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

Table I.4

	Balance s	heets of	insurance	compa	nies in ma	jor Euro	pean Co	untries*		
									(millio	on euro)
	Italy		Fran	се	Germ	any	Sp	ain	United Ki	ngdom
	Q4 20 <sup>-</sup>	19		Q3 20			19			
Assets										
Deferred tax assets	6,357	0.6%	14,981	0.5%	20,611	0.9%	18,836	5.4%	918	0.03%
Investments (excluding as- sets for index- and unit-linked)	767,519	75.3%	2,240,443	76.9%	2,009,716	83.1%	274,194	78.6%	1,003,812	35.4%
Assets held for index- and unit- linked	179,212	17.6%	373,712	12.8%	111,381	4.6%	20,902	6.0%	1,311,216	46.5%
Secured and unsecured loans	6,797	0.7%	34,086	1.2%	107,190	4.4%	2,221	0.6%	112,726	4.0%
Recoverable amounts from reinsurance	11,087	1.1%	114,859	3.9%	1,860	0.1%	1,876	0.5%	267,883	9.5%
Cash and cash equivalents	7,788	0.8%	25,517	0.9%	11,390	0.5%	13,969	4.0%	13,120	0.5%
Other assets	40,568	4.0%	111,031	3.8%	84,806	3.5%	11,981	3.4%	112,949	4.0%
Total assets	1,019,328	100.0%	2,914,629	100.0%	2,417,333	100.0%	349,049	100.0%	2,822,624	100.0%
				Liabil	ities					
Non-life tech- nical provisions	52,049	5.8%	165,609	6.3%	218,633	11.2%	27,453	9.4%	143,962	5.5%
Life technical provisions - ex- cluding linked policies	599,998	66.9%	1,754,413	66.5%	1,361,413	69.7%	191,637	65.3%	780,597	29.6%
Unit- and index- linked technical provisions	172,979	19.3%	363,332	13.8%	133,187	6.8%	20,386	6.9%	1,429,046	54.2%
Deferred tax li- abilities	12,295	1.4%	31,675	1.2%	55,622	2.8%	24,860	8.5%	7,590	0.3%
Other liabilities	59,466	6.6%	323,644	12.3%	183,009	9.4%	29,096	6.8%	275,387	10.4%
Total liabilities	896,788	100.0%	2,638,673	100.0%	1,951,864	100.0%	293,432	100.0%	2,636,582	100.0%
Excess assets over liabilities	122,540		275,955		465,470		55,617		186,042	

<sup>\*</sup> Last available figure (fourth quarter 2019 for Italy, source: *Solvency II* Reporting; third quarter 2019 for the other countries, source: EIOPA, Insurance Statistics).

The comparison highlights the lower weight, compared to the United Kingdom, of index and unit-linked products in the major EU countries, including Italy, in which traditional insurance products are the main activity.

## 2. - THE ITALIAN INSURANCE MARKET: STRUCTURAL ASPECTS

#### 2.1. - Market structure

As at 31 December 2019 the undertakings authorised to pursue insurance and reinsurance business in Italy under the prudential supervision of IVASS were 101 (100 in 2018), 98 of which domestic and 3 branches of foreign undertakings with head office in a non EEA country (tab. I.5).

In addition to these, there are 113 companies with registered offices in another EEA country operating through branches in Italy and 1,049 companies authorised to operate under fos, subject to prudential supervision by the authority of the country of origin<sup>25</sup>.

Table I.5

	Domestic under- takings	Non-EEA under- takings under the right of establishment	EEA insurance undertakings under the right of establishment	EEA reinsur- ance undertak- ings under the right of establishment	EEA undertak- ings under the freedom of ser- vices
2010	151	2	82	7	959
2011	142	2	87	8	977
2012	135	2	91	7	991
2013	131	2	93	7	979
2014	122	2	91	7	1,005
2015	114	3	96	7	1,007
2016	108	3	97	7	1,008
2017	100	3	103	7	985
2018	97	3	110	7	1,055
2019	98	3	107	6	1,049

From 2010 to 2019 the number of domestic undertakings gradually dropped from 151 to 98, down by 35% in the ten-year period (Fig. I.8).

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<sup>&</sup>lt;sup>25</sup> The number of undertakings carrying on business under fos refers to entities that notified their intention to operate in Italy, some of whom may not have concluded any contracts in 2019 or may have operated to a marginal extent (Table I.9 for fos income in Italy). More than three quarters of them are active in the non-life business only.

Figure I.8





Since 2009 there are no more Italian specialist reinsurers for both life or non-life business. In 2019, no domestic undertaking ceased insurance business and one non-life undertaking was authorised to pursue business.

Between 2009 and 2019, EEA undertakings authorised to operate in Italy under the right of establishment and fos increased, respectively, by 30% (+25 undertakings) and by 9% (+90).

Table I.6

Breakdown of undertakings authorised to pursue business in Italy by type of activity – 2019						
				(units)		
	Non-life	Life	Hybrid	Total		
Supervised by IVASS						
Domestic insurance undertakings	52	33	13	98		
Branches of insurance undertakings of non-EEA States	3	0	0	3		
Supervised by the home supervisory authority						
Branches of insurance undertakings of EEA States	71	22	14	107		
Insurance undertakings/establishments of EEA States under fos	818	174	47	1,049		
Branches of reinsurance undertakings of EEA States	0	0	6	6		

78% of branches in Italy have their head office in France, Germany, Ireland, United Kingdom and Luxembourg (Table I.7).

Table I.7

Geographic breakdown of the EEA insurance undertakings authorised under the right of establishment, by country of the head office						
, , , , , , , , , , , , , , , , , , ,	•	(units)				
	2018	2019				
Number of undertakings	110	107				
Head office country:						
France	18	18				
Germany	15	17				
Ireland	15	17				
United Kingdom	25	17				
Luxembourg	12	14				
Belgium	9	8				
Spain	6	5				
Austria	4	3				
Liechtenstein	4	4				
Others	2	4				

In 2019, 13 EEA undertakings were licensed to operate in Italy under right of establishment: three from Ireland and Luxembourg, two from France, two from Germany, one from Croatia, Romania and Spain. The number of branches of specialist reinsurers with head offices in the EEA dropped to six (seven in 2018), all composites. Furthermore, 83 undertakings or branches of undertakings with head office in another EEA member state were licenced to carry on business under fos (119 in 2018), of which 14 from Germany, 12 from Ireland, 10 from France, 8 from the Netherlands, 5 from the United Kingdom and 5 from Sweden (Table I.8). There were 367 companies with registered office in an EEA country that actually operated in Italy writing premiums via fos (the latest EIOPA data referring to 2018).

Table I.8

Geographic breakdown of the EEA undertakings/establishments authorised under fos in Italy							
	-	(units)					
	2018	2019					
Number of undertakings	1,055	1,049					
Country of origin:							
United Kingdom	148	136					
Germany	126	132					
Ireland	116	123					
France	103	107					
Netherlands	80	82					
Luxembourg	53	54					
Belgium	46	45					
Spain	47	43					
Sweden	38	39					
Austria	35	34					
Malta	31	33					
Denmark	28	28					
Liechtenstein	28	24					
Norway	21	20					
Others	155	149					

#### Master data management via RIGA

On 16 March 2020, the operational parallel of the new "Register of insurance undertakings and groups" (RIGA) procedure, carried out in collaboration with the Information Technology Department of the Bank of Italy, was launched. The procedure, in addition to an overall review of the master database, has completely renewed the procedures for the population of the archives by IVASS and the undertakings and the inquiry on the website, fostering greater completeness and promptness of information to the market.

As part of the upgrading maintenance, the historical data is being further refined, removing the inconsistencies accumulated in the old registry, and preparing the advanced methods of data extraction that will be available in the "download" area of the RIGA portal on the IVASS website, as well as excerpts with summary data used for internal exploitation within the Institute.

Finally, a review of the IVASS rules on the reporting of master data is planned, with a view to issuing a systematic Regulation on the subject and ending the current phase of operational parallel.

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

In 2018<sup>26</sup>, life and non-life premiums collected by all the companies, regardless of nationality, from Italian customers amounted to 160.7 billion euro, a slight increase (+1.3%) compared to 2017, but below the values of the two-year period 2014-2015.

The value of premiums collected in Italy by foreign companies is growing compared to 2017 (68.9 billion compared to the previous 61.4 billion). The expansion of foreign companies took place mainly in the life business. 71% of foreign premiums in Italy are written by companies with registered offices in Italy supervised by IVASS, a percentage that has increased over the 5 years considered.

Foreign-owned undertakings wrote direct premiums in Italy amounting to 52.5 billion euro in life business (+16.6% compared to 2017, Table I.9). Of this business, 14.2 billion was attributable to operations under right of establishment or fos, mainly by companies based in Ireland and Luxembourg (tables 2 and 3 in the Appendix). Premiums collected in Italy by foreign undertakings controlled by Italian entities and pursuing business under fos remain significant (although down by -35% compared to 2017), with premiums for 5.9 billion euro, coming mainly from the placement of unit- and index-linked products.

In the non-life business, the direct premium income in Italy of foreign undertakings was 16.4 billion euro in 2018 (+2.7% compared to the previous year), of which 6 billion euro under the right of establishment or fos. The activities of foreign undertakings under Italian control were negligible. 62% of the premium income was achieved by UK or Irish undertakings, the remainder by undertakings mainly based in Germany or France (Tables 4 and 5 in the Appendix).

<sup>&</sup>lt;sup>26</sup> Latest figure published by EIOPA.

Table I.9

Direct insu	rance premiur	ns coll <u>ected</u> i	in Italy		
			,	(n	nillion euro)
	2014	2015	2016	2017	2018
	Life assura	ance			
Italian undertakings (1)	82,013	86,383	77,681	75,461	69,503
of which: with head office abroad (2)	6,569	6,956	9,698	9,045	5,866
Foreign undertakings (6)	51,600	53,760	48,551	45,440	52,491
of which: establishments of EU under- takings	5,004	5,724	5,454	5,291	4,957
of which: operating under fos	11,624	12,610	8,827	8,066	9,248
of which: with head office in Italy (3)	34,972	35,426	34,270	32,083	38,286
Premiums from Italian direct business (4=1-2+3)	110,415	114,852	102,253	98,499	101,923
% direct insurance related to foreign entities (5=3/4)	31.7	30.8	33.5	32.6	37.6
% total income in Italy related to foreign entities (6/7)	38.6	38.4	38.5	37.6	43.0
Total (7=1+6)	133,613	140,143	126,232	120,901	121,994
	Non-life bus	siness			
Italian undertakings (1)	23,082	21,380	21,516	21,631	22,284
of which: with head office abroad (2)	0	0	5	7	6
Foreign undertakings (6)	16,808	17,360	15,677	15,985	16,416
of which: establishments of EU under- takings	4,626	4,919	4,580	4,734	4,945
of which: operating under fos	2,464	1,819	654	929	1,056
of which: with head office in Italy (3)	9,718	10,622	10,443	10,322	10,415
Premiums from Italian direct business (4=1-2+3)	32,800	32,002	31,954	31,946	32,693
% direct insurance related to foreign entities (5=3/4)	29.6	33.2	32.7	32.3	31.9
% total income in Italy related to foreign entities (6/7)	42.1	44.8	42.2	42.5	42.4
Total (7=1+6)	39,890	38,740	37,193	37,616	38,700
life	e and non-life	business			
Italian undertakings (1)	105,095	107,763	99,197	97,092	91,787
of which: with head office abroad (2)	6,569	6,956	9,703	9,052	5,872
Foreign undertakings (6)	68,408	71,120	64,228	61,425	68,907
of which: establishments of EU under- takings	9,630	10,643	10,034	10,025	9,902
of which: operating under fos	14,088	14,429	9,481	8,995	10,304
of which: with head office in Italy (3)	44,690	46,047	44,713	42,405	48,701
Premiums from Italian direct business (4=1-2+3)	143,215	146,854	134,207	130,445	134,616
% direct insurance related to foreign entities (5=3/4)	31.2	31.4	33.3	32.5	36.2
% total income in Italy related to foreign entities (6/7)	39.4	39.8	39.3	38.7	42.9
Total (7=1+6)	173,503	178,883	163,425	158,517	160,694

The total premium income earned abroad by companies with head office in Italy and supervised by IVASS, collected almost entirely through foreign subsidiaries, remained stable, with a slight increase in the life sector (+1%) and a moderate fall in the non-life classes (-1.5%, Table I.10). Between 2014 and 2018, growth in premiums written abroad was higher in life than in non-life business (+9.8% compared to +4.9%).

Overall, in 2018 Italian-owned undertakings supervised by IVASS collected 46.1 billion euro in premiums abroad (of which 30.5 billion euro in life and 15.6 billion euro in non-life), corresponding to one third of their total premium income. The share is up by 4 percentage points compared to 2014.

Table I.10

Direct premium income collected abroad								
				(mi	illion euro)			
	2014	2015	2016	2017	2018			
Life assurance								
Italian undertakings	27,781	29,387	27,712	30,195	30,504			
of which: with head office abroad	27,599	29,139	27,224	29,968	30,295			
% of international opening*	25.3%	25.4%	26.3%	28.6%	30.5%			
Foreign undertakings	0.6	2.9	3.0	3.0	2.0			
Total	27,782	29,390	27,715	30,198	30,506			
	Non-life bu	ısiness						
Italian undertakings	14,895	15,326	15,382	15,854	15,622			
of which: with head office abroad	14,132	14,680	14,777	15,267	14,996			
% of international opening*	39.2%	41.8%	41.7%	42.3%	41.2%			
Foreign undertakings	6.5	7.3	8.0	9.0	8.0			
Total	14,901	15,333	15,390	15,863	15,630			
life	and non-lif	e business						
Italian undertakings	42,676	44,713	43,094	46,049	46,126			
of which: with head office abroad	41,731	43,818	42,001	45,235	45,291			
% of international opening*	28.9%	29.3%	30.3%	32.2%	33.4%			
Foreign undertakings	7.1	10.2	11.0	12.0	10.0			
Total	42,683	44,723	43,105	46,061	46,136			

<sup>\*</sup> Portion of the premiums collected abroad out of total premiums collected abroad and in Italy.

# 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 (in the hierarchical sense) parent entity is shown in Table I.11.

Table I.11

Premium income and investments by shareholdings and parent group of the supervised undertakings -
2019

(million euro and percentage values)

		(	mon can cana porconnage i	u.u.u,
	<b>premiums</b> (Italian direct business)	%	Investments class C and D	%
Foreign undertakings	50,129	35.7	257,069	30.0
EU and non-EU foreign undertakings insurance sector + Non-EU branches	37,018	26.4	180,396	21.1
EU and non-EU foreign undertakings financial sector	13,111	9.3	76,133	8.9
Italian undertakings	90,167	64.3	599,359	70.0
Controlled by the State and by Public Bodies	18,823	13.4	132,278	15.4
Insurance sector control	52,694	37.6	308,862	36.1
Financial sector control	17,914	12.8	157,970	18.4
Control of other private entities	736	0.5	249	0.0
Grand total	140,296	100.0	856,428	100.0

At the end of 2019, 50.9% of the premium income and 54.5% of class C and D investments referred to Italian private entities - hence excluding foreign undertakings or those controlled by the State and by public bodies - these percentages are substantially unchanged compared to 2018 (51% and 55.1%).

For foreign entities, the share in terms of premium income has virtually remained unchanged, from 36.1% in 2018 to 35,7%, while the share of class C and D investments increased slightly from 29.1% to 30%.

Among Italian private entities, those of the financial sector have a prevailing weight, after the insurance sector, with 12.8% of income and 18.4% of class C and D investments (respectively 13.8% and 18.1% in 2018). The financial institutions that control insurance undertakings are mostly banks and, to a lesser extent, financial companies.

## 3. - PREMIUM INCOME AND COSTS

#### 3.1. - Market concentration

The premium income in Italy of the first five and ten insurance groups relative to the total Italian insurance market (Table I.12 for companies supervised by IVASS) represents a significant share, in the life sector equal to 59.5% for the first five groups and to 79.4% for the first ten. For non-life business, the share of the first five groups is 67.6% and 84.2% for the first ten<sup>27</sup>.

<sup>&</sup>lt;sup>27</sup> In the banking sector, in 2018 the first 5 groups represent 50.3% of total deposits of residents and bonds issued (see www.bancadita-lia.it/pubblicazioni/relazione-annuale/2018/app\_2018\_totale.pdf, page 67).

Table I.12

	Conce	entration ra	tios for the	top 5 and	10 groups -	- Life and n	on-life bus	iness	
								(%	% values)
	2011	2012	2013	2014	2015	2016	2017	2018	2019
				First 5	groups				
Life	55.2%	51.7%	58.6%	58.6%	60.0%	59.8%	65.6%	62.8%	59.5%
Non- life	68.9%	68.3%	72.5%	71.7%	70.7%	69.2%	68.9%	68.2%	67.6%
Total	52.9%	52.9%	59.8%	59.0%	59.9%	59.5%	62.9%	59.5%	58.7%
				First 10	groups				
Life	70.2%	66.4%	71.9%	73.4%	74.0%	73.3%	80.9%	79.1%	79.4%
Non- life	83.4%	85.6%	86.5%	86.5%	83.9%	83.3%	85.5%	85.0%	84.2%
Total	71.1%	69.2%	73.3%	74.4%	74.5%	74.2%	79.9%	78.1%	78.1%

With reference to the premium income of individual undertakings, the market shares have changed in the ten-year period considered, both as a result of extraordinary operations (mergers by incorporation, portfolio transfers, transfers of lines of business) and as a result of developments in the portfolio following the launch of new products. The first five undertakings operating in the life business collected 43.3% of the premiums in 2019 (46.0% in 2018); in the non-life market, the share amounted to 55.5% (56.2% in 2018).

#### 3.2. - Overview

In 2019, gross premiums written recorded for the Italian and foreign portfolio of undertakings supervised by IVASS <sup>28</sup> were 144.2 billion euro, with an increase of +3.9% compared to 2018 (Table I.13). Premiums of the Italian direct and indirect insurance portfolio amounted to 141.2 billion euro (+3.7%).

<sup>&</sup>lt;sup>28</sup> For an overview of the premium income in Italy, including foreign undertakings under the right of establishment and fos, please refer to par 2.2.

Table I.13

					(million euro and	percentage variation
Year	Italian direct por Life Non-life		rtfolio Total	Total for Italy (direct and indirect portfolio)	Total foreign undertakings (direct and indirect portfolio)	Total portfolio Italy and abroad (direct and indirect portfolio)
2010	90,114	35,606	125,720	126,951	1,904	128,855
<b>2011</b> 73,869 36,358 11		110,227	111,562	1,957	113,519	
2012	69,715 35,413 105,129 85,100 33,687 118,787		105,129	106,126	2,236	108,362
2013			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	32,338	130,948	131,822	2,763	134,599
2018	102,048	33,097	135,145	136,062	2,533	138,596
2019			140,296	141,178	2,981	144,159
Var. 2019/2018*	3.9	3.2	3.7	3.7	17.7	3.9
Var. 2019/2010*	17.6	-3.7	11.6	11.2	56.6	11.9

<sup>\*</sup> Variations within homogeneous undertakings.

The ratio between the premiums of the Italian direct insurance portfolio and the  $GDP^{29}$  increased from 7.7% in 2018 to 7.8% in 2019. The premiums/GDP ratio for the non-life business remained stable at 1.9%, while the ratio for the life business increased (from 5.8% to 5.9%, Table I.14<sup>30</sup> and Table 7 in the Appendix).

Table I.14

	Insurance penetration rate (Incidence of premiums of the Italian direct portfolio over Gross Domestic Product - GDP)												
	(% values)												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019			
Life	5.6%	4.5%	4.3%	5.3%	6.8%	6.9%	6.0%	5.7%	5.8%	5.9%			
Non-life	2.2%	2.2%	2.2%	2.1%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%			
Life and non-life	7.8%	6.7%	6.5%	7.4%	8.8%	8.9%	7.9%	7.5%	7.7%	7.8%			

## 3.3. - Premiums for life business

## 3.3.1. - General performance of life premium income

The class I products (assurance on the length of human life) have increased for the second consecutive year (+5.5% in 2018 and +9.7% in 2019), after three years of decline in the period

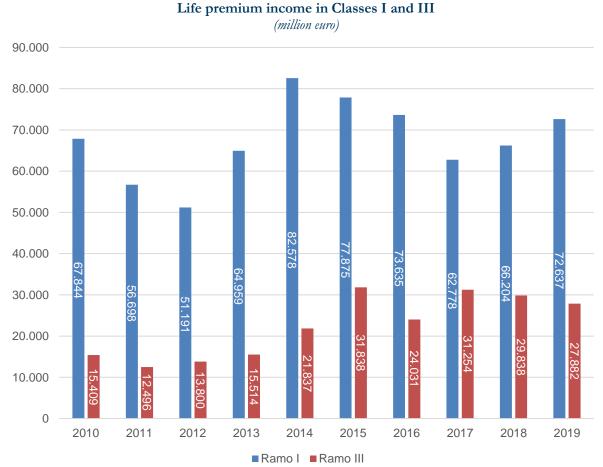
<sup>&</sup>lt;sup>29</sup> GDP at year end at market prices: Source: ISTAT, data revised as at April 2019

<sup>&</sup>lt;sup>30</sup> See Chapter I.1.1.3 for an international comparison based on OECD data at 2018.

2015 - 2017, whilst class III products (index- and unit-linked) recorded a -6.6% decrease (-4.5% in 2018), the opposite of the strongly positive performance of 2017 (Table 10 in the Appendix). Overall, premium income in Classes I and III amounted to 100.5 billion euro for 2019 (94.8% of total life premium income, Fig. I.9).

Concerning the other classes, Class V (capital redemption policies, Table 10 in the Appendix) recorded a slowdown (-32.9%), after the sharp increase in 2018, while Class VI (pension funds), which still represents a limited market share (2.6% of life premium income), continues to increase, for the sixth consecutive year.

Figure I.9



Net premium income (the balance between premiums and claims incurred) increased in 2019 compared to the previous year, due to the increase in premiums being higher than the increase in claims incurred (Table I.15). The ratio of claims incurred over premiums remained stable at 71.8% in 2019, while the ratio of surrenders (a component of claims incurred) over premiums decreased slightly, from 44.3% in 2018 to 39.9% in 2019.

Table I.15

	Life business - premiums and claims burden - Italian direct business											
							(million	euro and	percentag	e values)		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
Life premi- ums (A)	90,114	73,869	69,715	85,100	110,518	114,947	102,252	98,611	102,048	106,012		
Claims in- curred (B)	66,801	73,971	75,022	66,788	64,577	71,196	62,932	71,155	73,223	76,158		
Net income (A)-(B)	23,313	-102	-5,306	18,312	45,941	43,751	39,320	27,456	28,825	29,854		
Claims/pre- miums (B)/(A) %	74.1	100.1	107.6	78.5	58.4	61.9	61.5	72.2	71.8	71.8		
of which: Surren- ders/premi- ums	40.5	62.9	67.7	47.4	34.1	37.2	39.0	44.7	44.3	39.9		

## 3.3.2. - The premiums of individual life assurance products

In 2019, premium income for individual policies accounted for 93.8% of the total life assurance income (Table 11 in the Appendix).

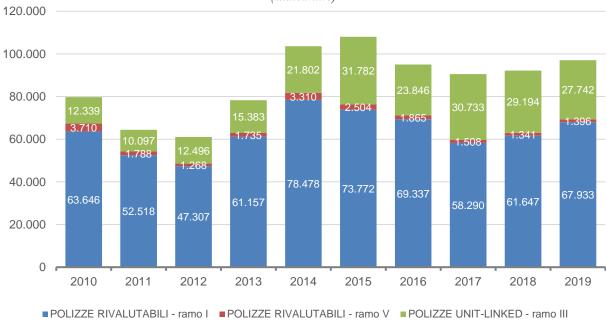
The composition of life assurance products among traditional Class I and V products (respectively, assurance on the length of human life and capital redemption operations) and class III products<sup>31</sup> has slightly changed (Figure I.10): at the end of the year, the first of these stood at 69.7% of the total individual products (66.4% in 2018), while the second had a 28.0% impact (31.4% in 2018).

<sup>31</sup> From 2013, linked policies have been almost exclusively composed of unit products, which represent 99.6% of the total linked policies at the end of 2019.

Figure I.10



(million euro)



## 3.3.3. - Premiums of hybrid policies

Evidence of the premium income at the end of 2018 relating to hybrid policies of the life sector can be found in the reporting concerning self-assessment of the risks of money laundering and terrorist financing. Hybrid policies are particularly important to the Italian undertakings with 31.5% of life premiums, second only to the traditional class I policies (46.5%; Table I.16).

Table I.16

Pr	Premiums mediated by Italian and foreign undertakings broken down by type of contract												
					(amount	s in million euro)							
Under- takings	Premiums mediated	of which for collective pol- icies	Premiums for Class I indi- vidual poli- cies	Premiums for Class III indi- vidual poli- cies	Premiums for hybrid indi- vidual poli- cies	Other types							
Italian	95,462	1,479	44,344	16,406	30,102	3,131							
under- takings	100.0%	1.5%	46.5%	17.2%	31.5%	3.3%							
Foreign	17,224	635	216	11,339	191	4,842							
under- takings	100.0%	3.7%	1.3%	65.8%	1.1%	28.1%							
Total	112,686	2,114	44,560	27,745	30,293	7,973							
Total	100.0%	1.9%	39.5%	24.6%	26.9%	7.1%							

Source: premiums for 2018 reported in the annual survey introduced by the Letter to the Market regarding "Self-assessment of the risks of money laundering and terrorist financing" dated 5 June 2017.

By contrast, the aforementioned types of contracts are almost absent in the portfolios of foreign undertakings (1.3% for class I products and 1.1% for hybrid products) specialised, above all, in the marketing of unit-linked class III products (65.8%).

#### 3.4. - Premiums for non-life business

The non-life business (direct Italian business) grew by +3.2% in 2019 (Table I.17 and Table 12 in the Appendix), strengthening the positive change of 2018 (+2.3%). The recovery in premium income is mainly due to the sectors of health (+3.5% in 2018 and +7.5% in 2019) and property (+3.7% and +4.5%), which account for 36.7% of premium income in the non-life classes of Italian direct business in 2019.

The following sectors also increased: legal expenses and assistance (+10%), credit and suretyship (+6.9%) and general liability (+5.9%). The motor insurance sector recorded a slight increase for the second consecutive year (+0.1% compared to 2018) after six consecutive years of decreases. The transport sector began to grow again (+3%), after the decline (-4.6%) in 2018.

Table I.17

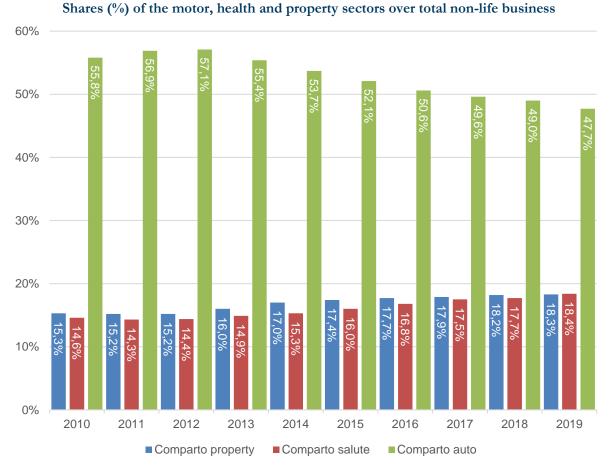
Non-li	fe premium income (premit	ıms writt	ten of Itali	an direct	business	5)	
				(million	euro and	percentag	e values)
Sector	Insurance class	2018	%	Δ%	2019	%	Δ% *
	Accident	3,096	9.4%	0.3%	3,242	9.5%	4.6%
Health	Sickness	2,763	8.3%	7.4%	3,057	8.9%	10.7%
	Total	5,858	17.7%	3.5%	6,300	18.4%	7.5%
	MTPL	13,220	39.9%	0.1%	13,211	38.5%	-0.8%
Motor insurance	Liability for ships	32	0.1%	3.5%	33	0.1%	2.2%
Wiotor misurance	Land vehicles	2,967	9.0%	5.9%	3,112	9.1%	4.4%
	Total	16,219	49.0%	1.1%	16,356	47.7%	0.1%
	Railway rolling stock	8	0.0%	20.3%	10	0.0%	25.4%
	Aircraft	9	0.0%	-33.8%	10	0.0%	14.1%
Transport	Ships	204	0.6%	-10.2%	218	0.6%	6.6%
Transport	Goods in transit	176	0.5%	4.1%	172	0.5%	-2.7%
	Aircraft liability	8	0.0%	1.6%	8	0.0%	2.1%
	Total	406	1.2%	-4.6%	418	1.2%	3.0%
	Fire and natural forces	2,469	7.5%	2.8%	2,593	7.6%	5.0%
Property	Other damage to property	2,938	8.9%	5.0%	3,029	8.8%	3.1%
Troperty	Financial loss	612	1.8%	1.5%	666	1.9%	9.0%
	Total	6,018	18.2%	3.7%	6,288	18.3%	4.5%
General liability		3,021	9.1%	3.3%	3,201	9.3%	5.9%
Credit and	Credit	71	0.2%	7.5%	77	0.2%	8.9%
Suretyship	Suretyship	397	1.2%	3.8%	423	1.2%	6.6%
	Total	467	1.4%	4.3%	500	1.5%	6.9%
Legal expenses	Legal expenses	381	1.2%	5.1%	422	1.2%	10.6%
/ Assistance	Assistance	726	2.2%	6.3%	801	2.3%	9.7%
	Total	1,107	3.4%	5.9%	1,223	3.6%	10.0%
	Total Non-life	33,097	100.0%	2.3%	34,285	100.0%	3.2%

<sup>\*</sup> Variations within homogeneous undertakings.

Fig. I.11 shows, for the main insurance sectors (motor, health and property), their share in terms of premium income over total non-life business from 2010 to 2019. In the ten-year time

interval, the share of the motor sector declined by almost 8 percentage points, almost all this percentage was absorbed by the health and property sectors, whose weight grew, respectively, by 3.8 and 3%.

Figure I.11



In the general liability business, medical liability insurance is particularly important for its social role in protecting patients harmed as a result of healthcare procedure errors. The premium income in Italy to cover this risk amounts to 613.3 million euro (up slightly compared to 585.5 million euro in 2017). The number of units insured within private healthcare structures and healthcare professionals has increased. At the same time, the decrease continues in the number of public structures insured, which show an increasing tendency to add self-retention measures to the insurance (allocations for this purpose amounted to 592.4 million euro in 2017, an increase of 16% compared to the previous year).

#### 3.5. - Distribution

#### 3.5.1. - Distribution in life business

In 2019, the share of sales through banks and post offices remained stable (60.7% compared to 60.8% of 2018; Table I.18) which constitute the channel most used in the life sector.

The share of agencies increased from 22.8% in 2018 to 23.8%, while the significance of financial promoters decreased from 14.3% to 13.6%.

Table I.18

Distribution channels in life business											
											values)
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Banks and post of- fices	58.8	60.3	54.7	48.6	59.1	62.0	63.1	62.3	61.0	60.8	60.7
Agencies	23.7	22.6	25.6	26.6	23	20.2	19.8	22.1	22.4	22.8	23.8
Financial promoters	16.3	15.8	18.3	23.3	16.7	16.8	16.3	14.4	15.3	14.3	13.6
Direct sales and brokers	1.2	1.3	1.4	1.5	1.2	1.0	0.8	1.2	1.3	2.2	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

## 3.5.2. - Distribution in non-life business

The performance recorded in previous years in the distribution of non-life policies continued in 2019, with a steady decrease in the percentage brokered by the agencies channel - which in any event remains prevalent (Table I.19).

There was an increase in the share of premiums collected through direct sales and banks (including financial promoters), respectively from 5.7% in 2018 to 6.0% and from 6.7% to 7.7%.

Table I.19

	Distribution channels in non-life business												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
Agencies	85.0	84.4	83.7	84.1	83.2	81.7	81.1	79.9	78.9	78.1	77.1		
Brokers	8.4	8.0	8.0	7.4	7.6	8.5	8.2	9.2	9.4	9.6	9.2		
Direct sale	3.9	4.1	4.7	5.2	5.5	5.7	5.8	5.3	5.2	5.7	6.0		
Banks and financial promoters	2.7	3.5	3.6	3.3	3.7	4.1	4.9	5.7	6.4	6.7	7.7		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

## 4. - STATUTORY FINANCIAL STATEMENTS (LOCAL GAAP)

Statutory financial reporting, based on criteria defined by national regulations (*local gaap*), coexists with market-consistent asset and liability measurements as required by Solvency II, which entered into force in 2016, and with the rules introduced by the IASB for the insurance market, where applicable (see III.1.5).

This paragraph (*local gaap*) and the next (*Solvency II*) provide data relating to companies supervised by IVASS in reference to the two different measurement systems<sup>32</sup>.

## 4.1. - Balance Sheet

At the end of 2019, the investments of the Italian insurance market measured according to local gaap amounted to 856.4 billion euro, of which 90% (89.3% in 2018, Table I.20) in the life business (770.7 billion euro) and the remaining 10% (85.7 billion euro) in the non-life business. The investments were up by 7.2% when compared with 2018.

Table I.20

	Summ	ary of the	Balance S	heet (local gaap)			
				(mill	ion euro a	nd percent	age values)
Item	2018	2019	Var. 2019 /2018	Item	2018	2019	Var. 2019 /2018
As	sets		liabilities a	ınd sharel	nolders' e	quity	
Amounts owed by share- holders for subscribed capi- tal not yet paid	0	0	0.0%	Non-life tech- nical provisions	58,872	58,781	-0.2%
Intangible assets	6,095	5,746	-5.7%	Class C life tech- nical provisions	538,369	563,261	4.6%
Non-life investments	85,241	85,726	0.6%	Class D life tech- nical provisions	152,004	179,226	17.9%
Class C life investments	561,424	591,288	5.3%	Provisions for other risks and charges	2,127	2,312	8.7%
Life (class D) investments	152,252	179,414	17.8%	Deposits re- ceived from rein- surers	6,894	5,739	-16.8%
Reinsurers' share of non-life technical provisions	6,496	6,539	0.7%	Creditors and other liabilities (including accru- als and defer- rals)	26,608	30,974	16.4%
Reinsurers' share of life technical provisions	6,298	5,870	-6.8%	,			
Credits	31,274	33,958	8.6%	Net assets	65,458	69,907	6.8%
Other assets (including accruals and deferrals)	18,795	18,112	-3.6%	Subordinated liabilities	17,552	16,453	-6.3%
Total assets 867,784 926,653		6.8%	Total liabilities and shareholders' equity	867,784	926,653	6.8%	

The life and non-life technical provisions amounted to 801.3 billion euro versus 749.2 billion euro at the end of 2018 (see Table 32 in the Appendix). In life business, the overall technical provisions amounted to 742.5 billion euro (690.4 in 2018), with a share of the provisions for contracts other than unit and index-linked or deriving from the management of pension funds

<sup>32</sup> Solvency II metrics do not include the income part (profit and loss account) which instead is present in the 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 assessments (ultimate cost for non-life provisions and 1st order technical bases for life provisions, with the exception of linked policies, already measured at market values).

amounting to 75.9%. The provisions of the non-life business amount to 58.8 billion euro, stable compared to 2018.

## 4.2. - Shareholders' equity

At the end of 2019, the shareholders' equity of life and non-life undertakings in the statutory accounts amounted to 69.9 billion euro (65.5 billion euro in 2018), including own funds for 58.1 billion euro (57.8 billion euro in 2018), of which capital provisions for 42.1 billion euro and share capital, endowment and guarantee funds for 16.0 billion euro (Table 13 in the Appendix).

Also for the financial year 2019, IVASS confirmed the option, introduced by IVASS Regulation No. 43 of 12 February 2019<sup>33</sup>, of extraordinary derogation from the valuation criteria, in the local gaap financial statements, for securities not held to maturity among the insurance company's assets (see III.3.3.1).

## 4.3. - Economic-financial operations

In 2019 insurance companies recorded, overall, a profit of 8.6 billion euro (4.2 billion in 2018, Table I.21); the marked increase over the previous year is mainly due to life business.

Both sectors ended the year with an increase in profit.

#### In detail:

- in the life business, a profit for the year of 6 billion, higher than that in the previous year (2), equal to 5.6% of gross premiums written (1.9% in 2018);

- in the non-life business, a profit of 2.7 billion, higher than that in the previous year (2.2 billion), equal to 7.2% of gross premiums written (6.2% in 2018).

<sup>33</sup> IVASS Regulation No. 43 of 12 February 2019, as amended and supplemented by IVASS order No. 92 of 19 November 2019, concerning the implementation of measures on the temporary suspension of capital losses on securities held for trade introduced by Decree Law No. 119 of 23 October 2018, containing urgent tax and financial measures, converted into Law No. 136 of 17 December 2018. Some undertakings have made use of the option for the 2019 financial year, but complete data is not available at the date of closure of this Report, also taking into account that several undertakings have requested an extension until the end of June 2020 for the approval of the 2019 financial statements.

Table I.21

		Profit	/ loss for	the financ	ial year - l	ife and n	on-life bus	iness		
					(million euro and percentage values)					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Life	296	-2,636	5,129	3,105	3,498	3,753	3,587	3,519	1,983	5,978
% of premi- ums	0.3%	-3.5%	7.2%	3.6%	3.1%	3.2%	3.4%	3.5%	1.9%	5.6%
Non-life	-998	-1,016	640	2,125	2,446	1,956	2,114	2,445	2,183	2,653
% of premi- ums	-2.7%	-2.7%	1.7%	6.0%	7.1%	5.8%	6.2%	7.1%	6.2%	7.2%
Total	-703	-3,653	5,770	5,231	5,945	5,709	5,701	5,965	4,165	8,631
% of premi- ums	-0.5%	-3.2%	5.3%	4.3%	4.1%	3.8%	4.1%	4.4%	3.0%	6.0%

The ROE (life and non-life) was 12.3%, the highest value in the last ten years (Table. I.22; see I.4.4.3 for details on the breakdown of the ROE by type of company). In the life business, the ROE stood at 14.5%, a marked growth compared to 2018 (5.3%), likewise, for the non-life business the ratio increased to 9.3% (7.8% in 2018).

Table I.22

	ROE of life and non-life business												
	(%												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019			
Life	0.9%	-9.3%	15.2%	8.0%	9.2%	9.4%	9.2%	9.0%	5.3%	14.5%			
Non-life	-4.8%	-5.1%	2.2%	8.2%	9.2%	6.9%	7.7%	8.8%	7.8%	9.3%			
Total	-1.4%	-7.6%	10.3%	8.1%	9.2%	8.4%	8.6%	8.9%	6.4%	12.3%			

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

# 4.4.1. - Measurement of the value added and insurance employees in the National Accounts for the insurance and pension funds sector

The available data for international comparison of value added by sector are updated to 2017, when the insurance sector (including the limited contribution of pension funds) <sup>34</sup> represented 0.63% of the total value added in Italy (slightly down compared to 0.71% in 2016). The value was below the average of EU countries (0.93%, Figure 1a in the Appendix) and was positioned at a level similar to Spain (0.66%), above France (0.45%) and below Germany (0.97%) and the United Kingdom (1.68%).

The value added per worker stood at 219,000 euro (Figure 1.b in the Appendix), recording a slight decline compared to the 224,000 euro recorded in 2016, after a period of uninterrupted

<sup>34</sup> Please refer to the IVASS 2016 Report (page 56) for a definition of the value added of the insurance sector (http://www.ivass.it/pub-blicazioni-e-statistiche/pubblicazioni/relazione-annuale/2017/Relazione\_IVASS\_2016.pdf).

growth started in 2010. This value, 61.1% higher than the average EU value (equal to 136,000 euro) is the highest among the larger countries in continental Europe.

## 4.4.2. - The added value of Italian insurance undertakings by ownership structure and company size

The added value of the Italian insurance companies (net of pension funds), measured at current prices, amounted to 11.1 billion euro in 2018 (Fig. 3 in the Appendix), with the non-life business contributing 54.7% to the total<sup>35</sup>. Compared to the previous year, the value added rose by +13%, with a stronger increase in the life component (+22.3) than in non-life (+6.4%). In the period 2009-2018, the indicator only dropped in 2017.

As to the breakdown of value added by type of control, 78.9% refers to companies under insurance control, 12.6% to those controlled by financial groups and the remaining 8.5% by other entities, among which publicly controlled companies are dominant. Compared to 2017, the share relating to financial undertakings is increasing at the expense of insurance undertakings.

The value added per worker in the life business was 450,000 euro in 2018, growing significantly both compared to 2017 (+23%) and to 2010 (+95.3%). The structural gap between the value added for companies under financial control and that of companies under insurance control has widened compared to the previous years (respectively 695,000 and 365,000 euro, Figure 3.a.1 in the Appendix). In terms of size, the high rise in the value added per worker has mainly concerned medium-large companies: it went from 242,000 euro to 423,000 euro (Figure 3.a.2 in the Appendix), reaching the level of large-sized companies.

The per capita profitability in the non-life business is structurally lower than that of life business, with a value added per worker of 202,000 euro in 2018 (+4.7% compared to 2017, Figure 3.b.1 in the Appendix). The increase in per capita productivity is higher for companies under financial control (170,000 euro, +22.3% compared to the previous year, Figure 3.b.1 in the Appendix), thus narrowing the persistent productivity gap compared to companies under insurance control. In terms of size, the higher productivity per worker of large or very large companies has persisted over the years (226,000 euro, Figure 3.b.2 in the Appendix), despite the increase versus 2017 in the productivity of smaller companies.

#### 4.4.3. - Structure, profitability and efficiency of Italian insurance companies

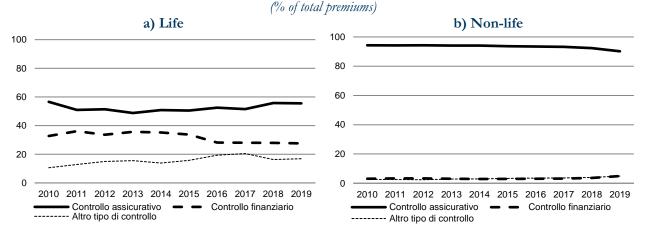
In 2019 companies under insurance control collected 55.5% of the premium income in the life business, against 27.6% in the share of income from companies under financial control and 16.9% in that of other companies (where publicly-controlled companies dominate). The breakdown remained stable compared to the previous year (Figure I.12.a).

In the non-life classes, undertakings under insurance control account for nine-tenths of premiums written (Figure I.12.b), while the share of undertakings under financial control writing premiums through bank branches continues to grow, although limited to only 4.9% in 2019.

<sup>35</sup> Although premium income is much lower than for life business, the value added of non-life business is higher because the change in provisions is very high in life business, which contributes negatively to the formation of value added.

Figure I.12

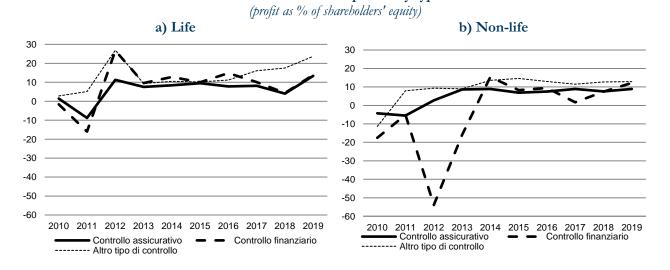
Breakdown of the premiums of Italian insurance companies by type of control



The return on equity, ROE, strongly increased in 2019 compared to 2018. The most marked increase was recorded in the life sector among undertakings under insurance control (from 4% to 13,4%, Figure I.13.a) and under financial control (from 4.4% to 13.9%). The increase of the indicator in non-life business is more limited (Figure I.13.b), with the exception of that recorded for undertakings under financial control, for which the ROE passed from 7.4% to 12.2%.

Figure I.13

ROE of Italian insurance companies by type of control



A general ratio is considered to measure the operating efficiency of insurance companies (the expense ratio), i.e. the ratio between operating expenses and premiums, and a specific ratio for distribution efficiency, measured as the ratio between commission costs (which form part of operating expenses) and premiums.

The total expense ratio for the life business decreased slightly for the second straight year (3.8% compared to 3.9% in 2018, Figure I.14.a), due to a containment of 10 bps in the operating expenses/premiums ratio achieved by companies not under an insurance control (from 2.6% al 2.5%).

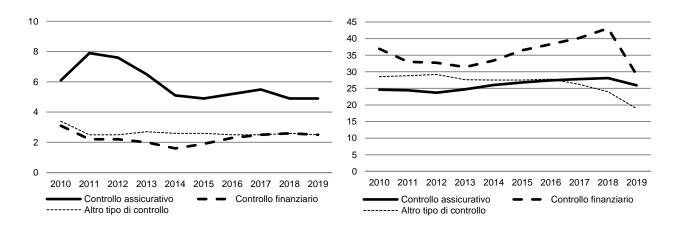
Operating expense containment was higher in the non-life business, (25.9% compared with 28.1% in 2018) and implemented to a different extent by all the types of undertakings, to a more accentuated extent by those under financial control (29.1%, compared with 43.1% in 2018, Figure I.14.b, mainly due to the lower costs for commissions due to greater use of bank branches). The expense ratio for companies not under a financial control continues to stand at lower levels.

Expense ratio of Italian insurance undertakings by type of control

(operating expenses as a % of premiums)

a) Life

b) Non-life

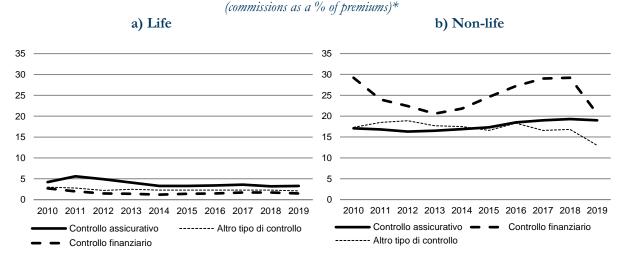


In the life classes the cost for commissions came to 2.6% of the premiums. The greater ability of undertakings under financial control to contain this expense item (1.5% of premiums, Figure I.15.a) compared to other undertakings remains.

In the non-life business commissions over premiums are higher (20%). A containment of this cost item between 2018 and 2019 was achieved mainly by undertakings under non-insurance control (Figure I.15.b).

Figure I.15

Commissions on premiums of Italian insurance companies by type of control



<sup>\*</sup> In order to take into account the different duration of life contracts in respect of non-life business, life commission are only placed in relation to the first annual premium and to single premiums.

## 4.5. - Management of life business

The life business (Italian and foreign, insurance and reinsurance portfolio) disclosed a positive balance on the technical account of 6.4 billion euro in 2019 (0.8 billion euro in 2018; Table I.23).

The balance on the technical account for the life business represents 67% (22.4% in 2018) of the total balance on the technical account for the life and non-life business, which stood at 9.5 billion euro (3.7 billion euro in 2018).

Table I.23

Profit and loss account of the life business - domestic undertakings and branches of non-EU undertakings*												
(	Italian and	d foreign	portfolio	– insurai	nce and re	einsuranc	e busines	s)				
							(million	euro and	percentag	ie values)		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
premiums for the current financial year	90,592	74,368	70,376	85,756	110,963	115,504	103,177	99,280	102,609	106,654		
Investment income (net of charges)	9,279	6,404	18,248	15,390	16,717	16,556	16,876	16,681	13,762	19,550		
Net class D income and gains	4,574	-2,801	9,197	4,860	6,366	1,748	2,079	3,867	-11,100	17,134		
Other technical items	-146	-240	-322	-391	-443	-403	-381	-407	-369	-361		
Claims charges	-66,999	-74,177	-75,296	-66,999	-64,651	-71,239	-63,383	-71,749	-73,190	-76,117		
Changes in class C tech- nical provisions	-37,359	-15,794	-9,996	-30,426	-49,913	-37,087	-38,057	-23,877	-24,845	-27,080		
Changes in class D technical provisions	5,030	13,150	-129	283	-10,374	-16,429	-10,792	-14,627	-597	-27,171		
Operating expenses	-4,399	-3,961	-3,521	-3,684	-3,884	-4,064	-3,994	-4,033	-4,002	-4,046		
Allocated investment return transferred to the non-technical account	-839	-265	-1,626	-1,444	-1,917	-1,821	-1,824	-1,773	-1,442	-2,203		

Profit and loss account of the life business - domestic undertakings and branches of non-EU undertakings*
(Italian and foreign portfolio – insurance and reinsurance business)

							(million	euro and p	percentage	e values)
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
BALANCE ON THE TECHNICAL ACCOUNT	-266	-3,316	6,931	3,344	2,864	2,765	3,701	3,362	826	6,361
Allocated investment return transferred from the technical account	839	265	1,626	1,444	1,917	1,821	1,824	1,773	1,442	2,203
Other net income	-578	-603	-627	-828	-563	-636	-814	-886	-913	-1,034
PROFIT OR LOSS ON										
ORDINARY BUSINESS	-5	-3,654	7,930	3,960	4,219	3,951	4,711	4,249	1,356	7,529
EXTRAORDINARY PROFIT OR LOSS	396	93	-29	841	511	939	87	250	365	264
Tax on profit or loss	-96	925	-2,772	-1,696	-1,231	-1,136	-1,211	-950	262	-1,815
PROFIT OR LOSS FOR THE FINANCIAL YEAR	296	-2,636	5,129	3,105	3,498	3,753	3,587	3,519	1,983	5,978
Claims incurred as a % of premiums (a)	74.0	99.7	107.0	78.1	58.3	61.7	61.4	72.3	71.3	71.4
Expense ratio in % (b)	4.9	5.3	5.0	4.3	3.5	3.5	3.9	4.1	3.9	3.8
Combined ratio in % (a)+(b)	78.9	105.1	112.0	82.4	61.8	65.2	65.3	76.3	75.2	75.2

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

Income from ordinary financial operations, net of financial charges, amounted to 19.6 billion euro, an increase of six billion euro compared to the previous year, thanks to the favourable performance of the financial markets and contributed in a decisive manner to the net growth of both the interim results and the overall operating result for the life business.

As regards ordinary financial operations, financial charges decreased by -41.5% to 4 billion euro, versus 6.8 billion euro in 2018 (Table I.24), and value adjustments on investments declined by -69%, from 4.2 billion euro (61.4% of investment expenses) to 1.3 billion euro (32.6% of the expenses).

Table I.24

Life business -	Life business - Financial charges and value adjustments												
(million euro and percentage values,													
	2013 2014 2015 2016 2017 2018 2												
Financial charges	3,809	3,508	4,759	4,316	4,157	6,821	3,988						
of which: value adjustments	1,496	1,367	1,901	1,832	1,921	4,187	1,299						
Ratios of adjustments/charges	39.3	39.0	39.9	42.5	46.2	61.4	32.6						

The claims incurred, amounting to 76.2 billion euro, grew by +4% compared to 2018. The claims burden of just the Italian direct portfolio was attributable, for 55.6%, to surrenders (61.7% in 2018) and 30.3% to capital and accrued annuities (it was 24.4%)

Table I.25

		Clair	ns burd	den and	surrende	ers over	premiun	าร			
			Life bu	siness -	Italian d	irect por	tfolio				
							(m	illion eur	o and pe	rcentage	values)
Insur- ance class	Item	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Class I	Claims incurred/pre- miums	52.6	77.6	88.5	64.5	51.3	63.2	59.3	73.4	75.9	69.9
	of which: Surren- ders/premiums	31.0	52.7	62.1	41.1	30.3	37.0	35.1	44.6	43.5	34.4
Class III	Claims incurred/pre- miums	160.3	187.9	166.7	133.1	82.4	54.7	64.0	63.4	61.4	66.4
	of which: Surren- ders/premiums	82.7	99.0	84.9	69.6	46.0	35.8	48.8	40.3	45.2	50.1
Class V	Claims incurred /premiums	112.7	193.6	190.9	101.1	75.2	104.4	104.3	140.6	93.3	219.8
	of which: Surren- ders/premiums	47.0	122.4	115.8	75.3	45.2	53.0	61.0	109.4	55.3	96.5
Class VI	Claims incurred /premiums	36.1	27.3	72.1	69.8	50.8	54.7	58.6	82.2	51.9	43.6
	of which: Surren- ders/premiums	19.5	26.1	24.4	30.3	33.2	46.0	38.2	37.6	38.7	33.3
Total	Claims incurred /premiums	74.1	100.1	107.6	78.5	58.4	61.9	61.5	72.2	71.8	71.8
	of which: Surren- ders/premiums	40.5	62.9	67.7	47.4	34.1	37.2	39.0	44.7	44.3	39.9
	net income*	23,313	-102	-5,306	18,312	45,941	43,751	39,320	27,456	28,825	29,854

<sup>\*</sup> Net income = premiums - claims burden.

Acquisition commissions accounted for 52.5% of operating expenses (54.5% in 2018), the other acquisition costs for 18.6% (17.1% in 2018), while the incidence of collection commissions was 5.9% (6.8% in 2018).

In 2019 Class C technical provisions (Table 32 in the Appendix) amounted to 562.3 billion euro, recording an increase of 27.1 billion euro compared to the previous year (they grew by 22.9 billion euro in 2018). Compared to 2010 growth in these provisions nears 80%.

In 2019, Class D technical provisions came to 179.2 billion, thanks to an increase of 27.2 billion euro compared with the previous year (Table I.23), and have once again started to grow, after the stagnation in 2018 and the sharp rise between 2014 and 2017, when a considerable increase of 40 billion euro was seen. The total increase in these provisions since 2010 is 60%.

The result from ordinary activities, which was positive at 7.5 billion euro in 2019, more than quintupled compared to the previous year and its incidence over premiums for the year increased from 1.3% to 7%, which is the maximum value of the indicator during the period.

The extraordinary income, net of charges, recorded a positive balance of 0.3 billion euro (0.4 in 2018).

With reference to the technical accounts of the main life classes in terms of premium income:

Class I disclosed a technical result of 5 billion euro in 2019, up sharply compared to the
previous year (0.3 billion euro), thanks to the favourable performance of the financial markets
and the reduction in the sovereign debt spread. In relation to the previous years, we note that

in 2010 and especially in 2011, years characterised by the sovereign debt crises, the Class I technical result was markedly negative (a loss of 3 billion euro in 2011), whereas during the following periods (2012-2017) it was very positive (going from a minimum of 1.9 billion of 2014 and 2015 to a maximum of 5.8 billion in 2012), corresponding with the downward trend in sovereign spreads and with the general recovery of the financial markets;

- for Class III, the balance on the technical account was positive in 2019 (0.8 billion euro), reaching the highest values in a decade where positive results were always recorded;
- Class V exhibited a moderately positive result of 0.3 billion euro, compared to the slightly negative result in 2018, equal to -0.1 billion euro. The technical account of the class had positive results in 2009 and in the 2012-2015 time interval, i.e. in periods of recovery after the financial crisis and the sovereign debt crisis, followed in 2016 by a moderate technical loss of 24 million euro.

#### 4.5.1. - Separately managed accounts

Life policies connected to separately managed accounts (so-called with-profit policies) make up the majority of life business. Table I.26 shows the historical series of the breakdown of assets assigned to the separately managed accounts.

Table I.26

Breakdown of as	Breakdown of assets assigned to the separately managed accounts in euro - carrying amounts (market total)											
	(billion euro and percentage value											
	2009	2010	2011	2012	2013	2014*	2015*	2016*	2017*	2018	2019	
Fixed-income securities and bonds (a)	214.7	252.6	267.9	280.7	290.7	340.9	370.8	401.4	419.5	436.4	451.2	
of which: listed corpo- rate bonds in euro	70.2	73.7	67	64.4	84.2	87.7	108	112.4	115.4	116.6	117.4	
Equity	10.9	10.9	10.2	11.3	12.8	13.8	8.1	8.2	8.4	8.3	8.8	
Other assets	22.5	22.1	27.3	29.2	28.5	33.3	51.7	61.8	74.5	82.8	91.4	
of which: units in UCITS	12.6	14.3	16.4	17.3	17.1	20.4	41.7	52.6	64.8	72.8	82.4	
Total assets (b)	248.1	285.5	305.3	321.2	331.9	338	430.6	471.4	502.4	527.5	551.4	
Change in total assets	17.0%	15.0%	6.9%	5.2%	3.3%	17%	11.0%	9.5%	6.6%	5.0%	4.5%	
(a) / (b)	86.5%	88.5%	87.7%	87.4%	87.6%	87.9%	86.1%	85.2%	83.5%	82.7%	81.8%	

<sup>\*</sup> estimated data.

The increase in the carrying amount of the assets in separately managed accounts was 4.5% in 2019. There was 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.

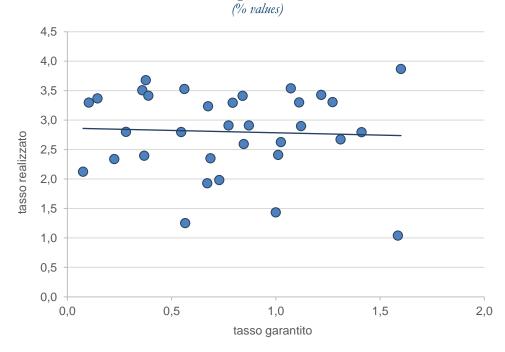
The average gross return (Table I.27) has remained above 3%. The spread with the return of BTP increased. Fig. I.16 shows the average for each individual company of the guaranteed and realised returns in 2018.

Table I.27

Return on separately managed accounts												
(% values)												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
Gross average return (a)	3.87	3.84	3.87	3.91	3.77	3.56	3.24	3.13	3.03	3.08		
10-year guiding return of long-term Treasury bonds (%)	4.60	6.81	4.54	4.11	1.99	1.58	1.89	2.11	2.61	1.95		
(a) - (b)	-0.73	-2.97	-0.67	-0.20	1.78	1.98	1.35	1.02	0.42	1.13		

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

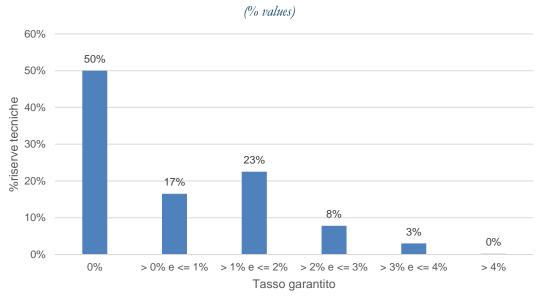
Figure I.16
Separately managed accounts: guaranteed and realised return - average for individual undertakings - 2019



In terms of volumes, at the end of 2019 43 companies established 299 separately managed accounts, totalling 539 billion euro in mathematical provisions (including any additional technical provisions, with the exclusion of the additional provision for guaranteed interest rate risk).

Of note (Fig. I.17) is the strong prevalence of the portion of technical provisions originated from products with a 0% guaranteed return (guaranteed repayment of capital), accounting for nearly 50%. Products with a guaranteed return of between 1% and 2% retained a consistent share, over 25% in terms of technical provisions.

Figure I.17 Breakdown of technical provisions between guaranteed capital and guaranteed rate brackets - 2019\*



<sup>\*</sup> Figure relating to 90% of with-profit policies in terms of technical provisions.

The profit fund introduced by IVASS Order No. 68/2018 was adopted by eight companies. These are five managed accounts, set up in 2018, with first annual certification in 2019 and three managed accounts set up in 2019.

## 4.5.2. - Portion retained on average rate of return of separately managed accounts

The undertakings retain a percentage of the rate of return by way of loading for operating expenses or, in the case of more recent products (see I.4.5.3), recognise the entire return and subsequently apply a fixed withholding. Overall, the portion withheld is up from 27.8% in 2013 to 39.4% in 2019 (Table I.28), also in the presence of a drop in rates of return on separately managed accounts (from 3.9% to 3.1%).

Table I.28

Return realised and withheld by the se	parately	mana	ged ac	count							
	(Ur	nits, am	ounts ii	n billion	euro a	nd % va	alues)				
2013 2014 2015 2016 2017 2018 2											
Number of separately managed accounts (units)	374	363	345	303	305	299	293				
Return withheld (billion euro)	3.7	4.4	4.5	4.6	5.4	5.4	6.5				
Mathematical provisions (billion euro)	341	398	433	465	496	516	530				
Average rate of return withheld (% mathematical prov.)	1.1	1.1	1.0	1.0	1.1	1.0	1.2				
Average rate of return (% mathematical provisions)	3.9	3.8	3.6	3.2	3.1	3.0	3.1				
Rate of return withheld / Average rate of return (%)	27.8	28.6	28.9	30.6	34.8	34.5	39.4				

## 4.5.3. - Premium rates of new life products<sup>36</sup>

Table I.29 shows the trends of the new type of policies (hereafter: premium rates) relating to with-profit insurance policies sold from 2015 to 2019, divided up between the payment of an annual instalment premium, a single premium and a periodic premium in which there is no obligation for the policyholder to pay it (recurrent premium). Individual and collective premium rates are included, along with the individual pension plans under Article 13 of Legislative Decree 252/2005.

Table I.29

New with-profit premium rates sold												
(% values												
	2015	2016	2017	2018	2019							
Annual premium products	17.1	4.8	9.3	4.9	8.3							
Single premium products	70.1	78.2	80.0	85.2	82.1							
Recurring premium products	12.7	17.1	10.7	9.9	9.6							

Among the new with-profit premium rates marketed, single premium forms continue to prevail (82% in 2019 compared to 85% in 2018), recurring premium forms remain essentially unchanged (9.6% vs. 9.9%) and annual premium forms record an increase (8.3% compared to 4.9%).

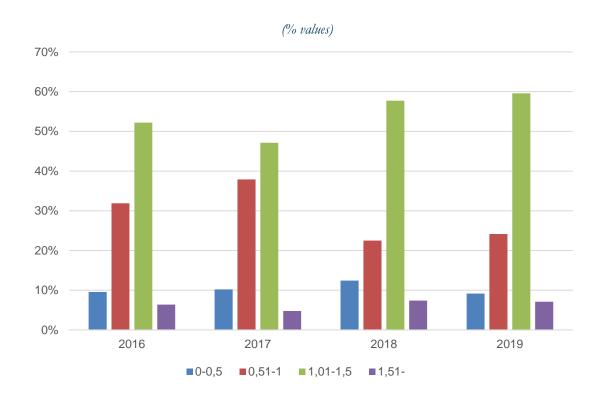
Examining the technical characteristics of the new with-profit premium rates placed on the insurance market, there is the introduction of a clause which envisages the recognition of a share of the financial profit, generated by the gap between the gross rate of return and the technical interest rate, which increases the technical provisions. Taking into account the low interest rates on the market, a profit-sharing mechanism has been introduced over the past few years, which involves recognition of the entire return achieved to the policyholder, net of a fixed percentage.

The new premium rates at a technical rate of 0% remain the most widespread, with a share of 82.5%, down from 86.6% in 2018. In 2019, 96% of the premium rates at a technical rate of 0% envisages the recognition of the entire return achieved to the policyholder, net of a fixed percentage. In view of the very low market rates, this method guarantees undertakings a margin by way of operating expenses (see I.3.5.1). The remaining 4% of the contracts envisage the adoption of a minimum retrocession rate, of between 50% and 98%, to be applied to the gross rate of return. 60% of undertakings withholds a return rate of between 1.1% and 1.5% (it was 58% in 2018).

Reference is made to the systematic notifications of the new premium rates relating to with-profit insurance policies transmitted as a result of IVASS Order No. 3/2013.

Figure I.18

Premium rates marketed for the new with-profit life products with a technical rate of 0%, broken down by classes of minimum return withheld



## 4.6. - Management of non-life business

The non-life business (Italian and foreign insurance and reinsurance portfolio) disclosed a technical profit of 3.1 billion euro (up compared to 2.9 billion euro in 2018), accounting for 33% (77.6% in 2018) of the total balance of the technical account for life and non-life business, amounting to 9.5 billion euro.

The ratio of the technical operating result to premiums earned was 10.1% (9.6% in 2018). In the decade under review it fluctuated from a minimum of -1.2% in 2010 to a maximum of 12.2% in 2015.

The profit for the year amounted to 2.7 billion euro (2.2 billion in 2018), positive for the eighth consecutive year (Table I.30), which reached its highest value of the period. The growth in profit from 2012 onwards was primarily due to the decline in the claim rate and in expenses, measured by the combined ratio, which, despite the slight deterioration in 2019, was more than offset by the growing and decisive contribution of the ordinary return on investments.

Table I.30

Profit and loss a				ta	kings	undertakir and reinsu	Ī		of non-EU	under-
	rtana	ir aria ro	roigii poi	tiono in	our arroo			euro and p	percentage	e values)
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Premiums earned	32,458	33,590	33,257	32,241	31,353	30,675	29,587	29,571	29,875	31,032
Var. %	-4.0%	3.5%	-1.0%	-3.1%	-2.8%	-2.2%	-3.5%	-5.4%	1.0%	3.4%
Investment return transferred from the non-technical account	1,095	640	1,660	1,262	1,346	1,288	1,161	1,278	825	1,346
Claims charges	-25,106	-25,199	-23,480	-21,323	-20,187	-19,291	-18,826	-18,769	-18,745	-19,757
other technical items	-662	-588	-651	-581	-509	-588	-599	-598	-565	-579
Change in other technical provisions	5	0.2	0.5	2	1	0	-1	-2	-6	-10
Operating expenses	-8,141	-8,322	-8,018	-8,041	-8,245	-8,318	-8,219	-8,310	-8,510	-8,889
Change in equali- sation provisions	-23	-18	-4	-14	-12	-15	-14	-11	-16	-11
BALANCE ON THE TECHNICAL ACCOUNT	-375	106	2,765	3,546	3,747	3,751	3,089	3,157	2,858	3,132
Investment income (net of charges)	1,296	-93	1,754	2,087	2,270	2,149	2,283	2,673	2,144	3,002
Investment return transferred to the technical account	-1,095	-640	-1,660	-1,262	-1,346	-1,288	-1,161	-1,278	-825	-1,346
Other net income	-1,185	-948	-1,295	-1,354	-1,502	-1,469	-1,437	-1,471	1,571	-1,654
RES. ON ORDI- NARY BUSINESS	-1,359	-1,576	1,563	3,018	3,170	3,143	2,773	3,081	2,606	3,133
Extraordinary net income	218	386	1	473	450	72	137	208	176	269
Tax on profit or loss	143	174	-924	-1,365	-1,173	-1,259	-795	-844	-599	-750
PROFIT OR LOSS FOR THE FINANCIAL YEAR	-998	-1,016	640	2,125	2,446	1,956	2,114	2,445	2,183	2,653
Loss ratio	77.4%	75.0%	70.6%	66.1%	64.4%	62.9%	63.6%	63.5%	62.7%	63.7%
Expense ratio	25.1%	24.8%	24.1%	24.9%	26.3%	27.1%	27.8%	28.1%	28.5%	28.6%

Ordinary financial operations continue to record conspicuous and growing net investment income, which stood at 3 billion euro, up by 50% compared to 2.1 billion euro in 2018. The higher income recorded in 2019 is due to a reduced market volatility, the narrowing of the spread on Italian government bonds and the recovery in stock prices that led to gains on disposals and a general revaluation of investments held for trading, previously written down.

90.7%

90.0%

91.4%

91.6%

91.2%

92.3%

91.0%

The profit from ordinary operations, this too positive for the eighth consecutive year, amounted to 3.1 billion euro, half billion higher than in 2018. The incidence of this result on earned premiums is 10.1% (8.7% in 2018) and over the decade it fluctuates between a minimum of -4.7% in 2011 and a maximum of 10.4% in 2017.

Combined ratio

102.4%

99.8%

94.7%

In the last year, the loss ratio rose to 63.7% (62.7% in 2018, the lowest value of the decade), remaining considerably below the peak value for the period (77.3% in 2010). Operating expenses continued to rise both in absolute value (8.9 billion euro, versus 8.5 billion in 2018), and in terms of premiums earned resulting in an increase in the expense ratio for the seventh consecutive year to reach 28.6% (the lowest value in the decade was 24.1% in 2012). The combined ratio, a synthesis of the two previous components, is 92.3%, up by one percentage point compared to 2018 and marks the maximum value since 2013, but remaining below the maximum levels, above or close to 100% recorded in 2010 and 2011 (102.4% and 99.8% respectively).

The non-life technical provisions (Table I.20 and Table 32 in the Appendix) amounted to 58.8 billion euro in 2019, unchanged compared to the previous year, yet recording a decrease of more than 10% compared to amount at the end of 2010. The main components of these provisions continue to be the provision for claims outstanding and the premium provision (respectively 71.2% and 28.1% of the total).

The contribution to the operating result from extraordinary income, net of charges, remained positive and amounted to 0.3 billion euro (0.2 billion euro in 2018).

## 4.6.1. - Motor vehicle liability and Liability for ships (sea, lake and river and canal vessels)

Premiums earned in the mandatory civil liability classes (motor vehicles and ships, Table I.31), of 13.3 billion euro, were substantially unchanged compared to the two previous years.

Table I.31

MTPL and lia		for ship								panies	
				•					and per	rcentage	values)
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Premiums earned		16,607	17,495	17,697	16,835	15,559	14,450	13,689	13,251	13,235	13,260
% Change*		-2.4%	5.3%	1.2%	-4.9%	-7.6%	-7.1%	-5.3%	-3.2%	-0.1%	0.2%
Claims incurred	ance	-14,467	-14,791	-13,110	-11,563	-10,818	-10,421	-10,421	-10,053	-10,073	-10,110
of which claims incurred in the financial year	insurance	-13,865	-13,444	-12,108	-11,539	-11,176	-11,032	-11,022	-10,773	-10,631	-11,665
Balance on other technical items	direct	-244	-202	-272	-248	-143	-127	-172	-185	-186	-194
Operating expenses	Ü	-3,116	-3,236	-3,233	-3,167	-3,187	-3,060	-2,900	-2,805	-2,795	-2,815
Technical balance of di- rect business		-1,221	-735	1,083	1,857	1,410	842	196	208	180	140
Profit or loss - outward re- insurance	-ie	-20	-26	-28	-44	-4	12	-1	-43	-34	-6
Net profit or loss - reinsur- ance	and rein-	-6	3	26	-7	0	-8	-18	5	7	2
Variation in the equalization provisions		0	0	0	0	0	0	0	0	0	0
Part of the investment re- turn transferred from non- technical account	direct insurance surance	504	275	802	617	658	609	503	532	313	509
Balance (net of reinsurance)	dire	-744	-482	1,887	2,423	2,064	1,452	680	702	466	645
Loss ratio		87.1%	84.5%	74.1%	68.7%	69.5%	72.1%	76.1%	75.9%	76.1%	76.2%
Expense ratio		18.8%	18.5%	18.3%	18.8%	20.5%	21.2%	21.2%	21.2%	21.1%	21.2%
Combined ratio		105.9%	103.0%	92.3%	87.5%	90.0%	93.3%	97.3%	97.0%	97.2%	97.5%

<sup>\*</sup> Percentage variation calculated within homogeneous undertakings.

The technical balance of direct business in 2019, amounting to 140 million euro, was positive for the eighth consecutive year, stable since 2016 and, therefore, markedly smaller than in the 2012-2015 time interval, when it went from a minimum of 842 to a maximum of 1,857 million. The balance on the technical account, net of reinsurance, which benefited above all from the positive contribution of financial income from investments covering technical provisions, closed with an increase compared to the previous year and remains positive for the eighth consecutive year, at 645 million.

The contribution of the portion of profit from investments transferred from the non-technical account rose by 63% compared to 2018 (from 313 million to 509 million euro) due to the favourable trend of the financial markets.

Operating expenses in 2019 amounted to 2.8 billion euro, stable compared to the previous year, both in absolute value and in terms of their incidence on premiums earned (expense ratio), which stood at 21.2% (21.1% in 2018). This indicator, which has been growing over the last eight years, reached the highest value in the decade considered, almost 3 percentage points higher than the minimum (18.3% of premiums) recorded in 2012.

The loss ratio, amounting to 76.2% in 2019, remained stable compared to the three previous years, reaching the peak value of the last eight years, although still considerably below the levels of 2010 and 2011. The combined ratio, the synthesis of the loss and the expense ratio, is also at the highest level in the last eight years (97.5%), with slight growth compared to 97.2% in 2018 and the values for 2016 and 2017. However, it still records values significantly lower than the peak levels reached in the period 2010-2015.

With reference only to the claims occurred in 2019 (current claim generation), the loss ratio stood at 80.4%, stable compared to 2018 (80.3%) albeit three percentage points below the peak level reached in 2010 but 12 percentage points above the minimum value (68.4%) recorded in 2012. This trend influenced the combined ratio, calculated considering only the expenses for claims that occurred during the year, which was 101.7% (101.4% in 2018), 15 percentage points above the minimum of 86.7% recorded in 2012.

Table I.32 shows the time series of the savings/shortfall ratio of the provision for claims outstanding, gross and net of the balance of recoveries (recourses, etc.) at year end<sup>37</sup>, to be compared with the combined ratio in Table I.31.

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<sup>&</sup>lt;sup>37</sup> 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.32

Balance on the provision for claims outstanding (PCO) over premiums earned										
									(%	values)
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
PCO saving/lack - gross of balance on sums recoverable	-4.8%	-8.6%	-6.5%	-0.9%	0.9%	3.2%	3.4%	4.4%	3.2%	3.0%
PCO saving/lack - net of balance on sums recoverable	-3.6%	-7.7%	-5.7%	-0.1%	2.3%	4.2%	4.4%	5.4%	4.2%	4.2%

The balance of the provisions for claims outstanding in previous years shows a saving increasing for the sixth consecutive year, equal to 4.2% of the premiums earned in 2019. This shows that the provisions for claims outstanding for MTPL have, for the last six years, proven to be more than sufficient overall for the payment of the claims relating to the old generations (prior to that for the year of the financial statements).

The time series (Table I.33), broken down by generation relating to the current year and to the previous ones, of the average reserve/average cost ratio 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.

Table I.33

Average reserve/average cost ratio*										
										alues)
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Generation in previous financial years	2.68	2.77	2.64	2.61	2.69	2.62	2.77	2.88	2.91	2.84
Generation in current financial year	3.27	3.53	4.02	4.13	3.97	3.99	3.88	3.71	3.73	3.67
Total	3.09	3.25	3.36	3.45	3.56	3.59	3.69	3.70	3.72	3.68

<sup>\*</sup> Average reserve/average cost ratio = Average reserve/average paid. IBNR claims excluded.

The total average reserve/average cost ratio was 3.7, stable in the last three years, after the growth in the 2011-2016 time interval. In particular, compared to 2017 the average reserve/average cost ratio for the provision relating to claims occurring during the year and the ratio for claims occurring in previous years remain unchanged.

#### Direct or telephone undertakings in the motor insurance sector

The two expressions "direct undertakings" or "telephone undertakings" commonly refer to insurance companies (from now on "telephone companies") which, in the motor sector, mainly write premiums without using traditional insurance intermediaries (agencies, brokers, bank branches or post office counters), but prefer to use web and telephone channels for contact with the customer and the subsequent signing of the contract. Between 2010 and 2019, six undertakings specialised in this type of distribution operated in Italy, all belonging to large insurance groups.

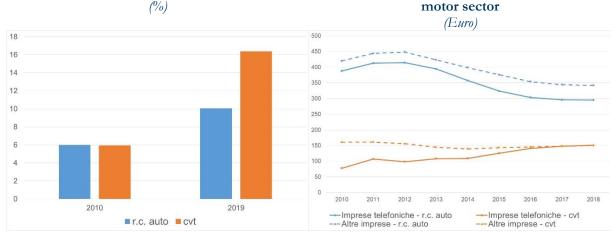
The comparison between the performance of telephone undertakings compared to other undertakings supervised by IVASS is made with reference to insurance coverage on all vehicles (cars, motorcycles, industrial vehicles, etc.) and taking into account the gross premiums written, lower than those actually paid by policyholders, which also include taxation and the contribution to the National Health Service.

#### **Premiums**

The share of telephone undertakings in terms of MTPL premiums increased from 6.1% to 10.1% between 2010 and 2019 and from 5.9% to 16.4% in the non-compulsory classes ancillary to MTPL (Land Vehicles - LV, Figure I.19.a).

For the MTPL coverage, the average gross premium written per vehicle of the telephone undertakings is on average lower than that of the other undertakings (295 euro compared to 342 in 2019, Figure I.19.b, and on average 14% lower in the period 2015 - 2019 <sup>38</sup>), while for LV contracts it remained lower than the other undertakings until 2015 and then aligned in 2018 to the average market value (150 euro).

a) Telephone undertakings: market shares in the b) Average gross premium written of telephone undertakings and the other undertakings in the



#### Frequency and costs of the claims handled

In 2018, telephone undertakings reported a frequency of claims handled, including claims caused by their policyholders and those suffered and reimbursed directly by the undertaking through the CARD <sup>39</sup> agreement, equal to 7.12%, table I.34, higher than that of other undertakings (5.84%). The average cost of the claim is lower for telephone undertakings (4,034 euro compared with 4,518 euros) <sup>40</sup>. In LV contracts, the opposite is true, with the claims frequency of telephone undertakings at 4.15% (6.03% for other undertakings) and an average cost of 1,688 euro (1,514 for other undertakings).

As a result, the annual cost of claims for the year per insured vehicle (pure premium) is consistently higher in the MTPL class for telephone undertakings (287 euro compared to 262 for other undertakings in 2018), while for LV it is lower (70 euro compared to 91 in 2018).

Table I.34

<sup>&</sup>lt;sup>38</sup> See chapter II.1.3.3. for a similar comparison of the distribution channels for MTPL, taking into account the actual premiums paid by the policyholder only for cars for private use.

<sup>&</sup>lt;sup>39</sup> The claims frequencies incorporate the component of claims reported late (IBNR).

<sup>40</sup> Costs referring to claims occurring in the same year, including the IBNR component.

Motor insurance: Claims	frequency	indicator	s for tele	ohone un	dertaking	s and oth	er undert	akings		
								(	%, euro)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	
			МТ	PL - telep	ohone un	dertaking	s			
Frequency of claims with indemnification * (A) (%)	9.22	8.65	7.83	7.69	7.52	7.37	7.54	7.36	7.12	
Total average cost of claims * (B) (euro)	4,036	4,369	4,579	4,468	4,248	4,084	4,069	3,985	4,034	
Pure premium = (A)x(B) (euro)	364	372	378	344	320	301	307	293	287	
	MTPL - other undertakings									
Frequency of claims with indemnification * (A) (%)	8.26	7.29	6.35	6.03	5.89	5.94	6.03	5.98	5.81	
Total average cost of claims * (B) (euro)	4,095	4,435	4,600	4,717	4,695	4,649	4,528	4,497	4,518	
Pure premium = (A)x(B) (euro)	338	324	292	285	277	276	273	269	262	
			L	V - teleph	one unde	ertakings				
Frequency of claims with indemnification * (A) (%)	3.38	3.78	3.59	4.32	4.11	4.15	4.13	4.22	4.15	
Total average cost of claims * (B) (euro)	1,467	1,554	1,660	1,620	1,608	1,599	1,600	1,709	1,688	
Pure premium = (A)x(B) (euro)	50	59	60	70	66	66	66	72	70	
				LV - oth	er undert	akings				
Frequency of claims with indemnification * (A) (%)	6.84	7.08	6.60	6.91	6.14	6.01	5.80	5.98	6.03	
Total average cost of claims * (B) (euro)	1,513	1,513	1,533	1,490	1,456	1,451	1,494	1,536	1,514	
Pure premium = (A)x(B) (euro)	104	107	101	103	89	87	87	92	91	

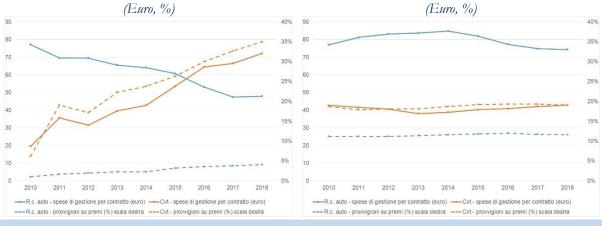
<sup>\*</sup> Total values of the estimate for IBNR claims

## Operating expenses

In the MTPL class, the operating expenses per policy for telephone undertakings decreased steadily between 2010 and 2018 (for the latter year they amounted to 48 euro, Figure I.20.a), compared to substantial stability for other undertakings (74 euro in 2018, Figure I.20.b). Telephone undertakings reported reduced commission and other relatively high, albeit decreasing, acquisition costs. For LV contracts, telephone undertakings reported a steady increase in other acquisition costs, which led to a sharp increase in operating expenses (in 2018 they were 72 euro compared to 43 euro for other undertakings).

Figure I.20

- a) Telephone undertakings: contract operating expenses and commissions on premiums
- b) Other undertakings: contract operating expenses and commissions on premiums



#### **Profitability**

All the telephone undertakings generated profitability lower than that of other undertakings. In the MTPL class, the premiums paid by policyholders do not fully cover the burden of claims handled, which is higher than that of other undertakings, despite lower operating costs. In the LV class, lower claims burden was eroded by higher operating expenses, which more than tripled between 2010 and 2018. The combined operating ratio for telephone undertakings was 111.1 for MTPL in 2018 (100.4 for other undertakings) and 98.9 for LV (90.4 for other undertakings, Table I.35).

The gap is more evident in terms of profitability per insured vehicle, which is measurable:

- on final balance through the balance on the technical account, subtracting from the premiums earned
  the total cost of claims (including annual operating expenses), relating both to the generation of claims
  for the year and to previous years;
- 2) via the expected technical margin, subtracting from the premiums earned the annual operating expenses and the costs to be incurred for claims incurred during the year (including provisions, which represent a cost forecast).

In the MTPL class, both indicators, equal respectively to -12.5 and -39.9 euro for telephone undertakings in 2018, compared with 14.5 and 5.6 euro for other undertakings, disclose a technical loss per policy in the last three years. The difference compared to other undertakings can also be seen in the LV class, despite an expected positive margin (9.1 euro) for telephone undertakings in 2018.

								Tal	ble I.3
Motor insurance: profit	ability ind	licators fo	or telepho	ne under	takings a	nd other	undertaki	ngs	
								(	%, euro
	2010	2011	2012	2013	2014	2015	2016	2017	2018
			MI	PL - telep	hone und	dertaking	S		
Combined ratio for the financial year (%)	115.3	110.0	102.4	100.8	102.0	106.9	112.8	111.8	111.1
Balance of technical account per policy * (euro)	-11.9	-19.3	29.1	25.3	30.1	22.7	-12.4	-13.1	-12.5
Expected technical margin per policy (euro)	-52.8	-29.1	-32.8	-14.7	-25.9	-38.1	-56.4	-44.5	-39.9
			ı	MTPL - ot	her unde	rtakings			
Combined ratio for the financial year (%)	101.1	94.0	85.5	86.8	91.8	97.0	100.8	101.5	100.4
Balance of technical account per policy * (euro)	-18.9	-11.5	48.7	66.6	56.0	39.7	21.5	21.5	14.5
Expected technical margin per policy (euro)	4.8	39.2	72.9	55.4	37.7	17.9	3.9	0.9	5.6
			L	V - teleph	one unde	ertakings			
Combined ratio for the financial year (%)	93.5	95.1	95.9	107.5	101.5	100.3	98.0	99.4	98.9
Balance of technical account per policy * (euro)	4.4	3.3	7.8	-2.2	1.2	-1.1	-1.0	-2.6	-0.6
Expected technical margin per policy (euro)	9.1	12.7	7.7	-1.4	0.2	5.8	10.6	9.4	9.1
				LV - oth	er underta	akings			
Combined ratio for the financial year (%)	90.0	90.9	88.4	94.1	90.9	89.4	88.6	91.8	90.4
Balance of technical account per policy * (euro)	17.7	18.0	23.8	13.3	16.8	17.7	15.2	12.1	13.2
Expected technical margin per policy (euro)	14.6	12.5	14.4	3.6	11.6	16.1	18.1	14.4	16.0

# 4.6.2. - Other non-life classes

In 2019, the non-life classes, other than MTPL and liability for ships, achieved a positive balance on the technical account overall of 2.3 billion euro, in line with the previous year (Table I.36), thus making a significant contribution (for around 75%) to the balance of the non-life technical account.

Table I.36

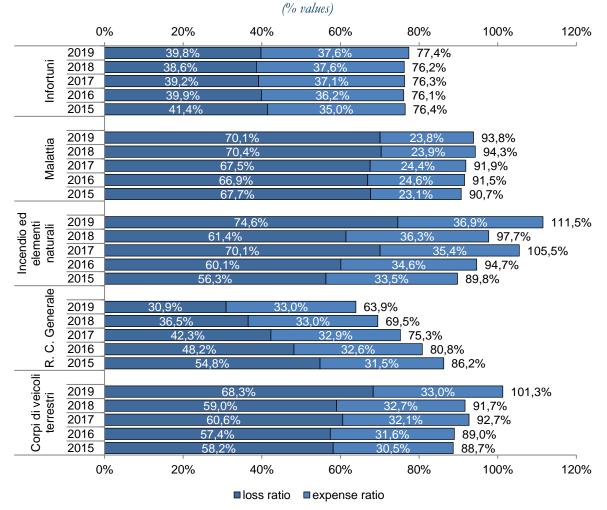
	Τe	echnical pe	rformance	other nor	-life class	es - Italian	portfoli	0		
						(n	nillion eu	ro and pe	ercentage	values)
		oremiums ed (A)*	pens premi	Operating ex- penses/ premiums earned (B)*		Combined Ratio (C)* = (A) + (B)		cal bal- ce*	Profit or loss on the technical account (insurance and reinsurance)	
Insurance class	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
				Health s	ector					
Accident	38.6%	39.8%	37.6%	37.6%	76.2%	77.4%	676	651	680	685
Sickness	70.4%	70.1%	23.9%	23.8%	94.3%	93.8%	74	98	61	120
Total	53.3%	54.3%	31.2%	31.0%	84.6%	85.3%	750	749	740	806
Motor sector – only land vehicles**										
Land vehicles	59.0%	68.3%	32.7%	33.0%	91.7%	101.3%	229	-49	217	112
				Transp	ort					
Railway rolling stock	49.1%	65.1%	22.3%	14.8%	71.4%	80.0%	2	2	2	2
Aircraft	38.9%	9.5%	15.0%	9.9%	53.9%	19.4%	4	8	2	3
Ships	150.0%	88.1%	19.6%	19.6%	169.7%	107.7%	-147	-19	-47	-14
Goods in transit	60.0%	51.2%	30.4%	31.5%	90.4%	87.2%	11	23	32	11
Aircraft liability	28.4%	54.5%	12.9%	14.6%	41.3%	69.1%	5	2	1	1
Total	104.3%	70.1%	24.1%	24.0%	128.4%	94.1%	-125	16	-10	3
				Property	sector					
Fire and natural forces	61.4%	74.6%	36.3%	36.9%	97.7%	111.5%	-6	-334	67	-209
Other damage to property	67.1%	68.6%	32.3%	32.8%	98.9%	101.4%	-23	-86	-144	-91
Financial loss	27%	30.7%	41.3%	43.9%	68.2%	74.6%	157	133	133	129
Total	60.9%	67.2%	34.8%	35.5%	95.7%	102.8%	128	-287	56	-170
				General li	ability					
General liability	36.5%	30.9%	33.0%	33.0%	69.5%	63.9%	847	1,058	1,008	1,205
				Credit/Sur	etyship					
Credit	38.1%	83.6%	35.1%	38.8%	73.1%	102.5%	11	-7	5	9
Suretyship	36.2%	22.8%	35.3%	36.8%	71.5%	59.6%	74	129	45	71
Total	36.4%	28.7%	35.3%	37.1%	71.7%	65.8%	85	122	50	80
			Lega	l expenses	/ Assistance	е				
Legal expenses	22.9%	18.9%	38.5%	39.4%	61.4%	58.3%	141	164	126	144
Assistance	37.5%	34.8%	35.6%	37.0%	73.0%	71.9%	183	208	136	165
Total	32.4%	29.4%	36.6%	37.8%	69.0%	67.2%	325	372	262	309
Grand total	53.4%	54.9%	33.0%	33.3%	86.4%	88.2%	2,239	1,981	2,324	2,344

 $<sup>^{\</sup>star}$  Direct insurance –  $^{\star\star}$  Excluding MTPL and liability for ships.

Among the relevant classes for premium income, general liability insurance reported a positive technical result of 1.2 billion euro, the health sector (accident and sickness) of 806 million euro, legal protection and assistance of 309 million euro, the land vehicle class of 112 million euro and, lastly, the property sector reported a loss of 170 million euro.

As regards the combined ratio, compared to the overall average figure of 88.2% in 2019 (up compared to 86.4% of 2018), significantly higher values were recorded in the fire insurance (111.5%; Figure I.21), other damage to property (101.4%) and land vehicles (101.3%). For the eighth consecutive year, the combined ratio for general liability continues to decline, reaching 63.9% in 2019 (69.5% in 2018), compared to a peak for the decade of 120.9%, recorded in 2011.

Figure I.21
Combined Ratio and its components (loss and expense ratios)



In the last five years, the fire insurance business and general liability were characterised by higher volatility of costs for current claims paid and reserved with respect to the premiums earned (loss ratio). In particular, for the former class the loss ratio grew again in 2019, after the reduction in 2018, while the latter has seen a gradual decline in the ratio.

#### Accident insurance: INAIL coverage

The insurance coverage taken out with INAIL envisages the obligation for any employer to insure the employee against economic and physical damage resulting from accidents, injuries and occupational diseases caused by the work activities. INAIL's mandatory insurance coverage is equal to 95% of employees in employment.

The premiums, broken down for the four business lines, represent the most significant weight of the Industry Business, which was 89% in 2018.

Table I.37

Premium	Premium performance per Business line									
				(in ı	million Euro)					
	2014	2015	2016	2017	2018					
Industry Business	6,732	6,938	7,118	7,270	7,501					
Agricultural Business	852	832	823	832	848					
Doctors Radiologists Business	18	18	17	17	18					
Navigation Business	68	70	76	69	69					
Total	7,670	7,858	8,034	8,189	8,436					

Source: INAIL final financial statements

The frequency of the claims highlights a decreasing trend in damages between 2014 and 2018.

Table I.38

Claims frequency and amount of compensations										
			(compensations in million euro							
	2014	2015	2016	2017	2018					
Claims reported (number)	663,037	636,675	641,149	646,940	645,390					
Claims paid (number)	369,190	353,537	356,656	355,675	349,591					
Frequency of claims paid (%)	2.4	2.2	2.2	2.1	2.1					
Amount of compensations	632	618	621	628	620					

Source: INAIL final financial statements

The trend in compensation, disbursed for various reasons <sup>41</sup>, reported in Table I.39, shows that the "Industry" business is the prevailing one, up from 91.7% of total compensation in 2014 to 92.5% in 2018.

Table I.39

Trend of com	Trend of compensations reported per business line										
				(in	(in million Euro)						
	2014	2015	2016	2017	2018						
Industry Business	580	567	571	581	574						
Agricultural Business	45	46	45	43	42						
Doctors Radiologists Business	0.1	0.1	0.0	0.0	0.0						
Navigation Business	7	5	5	4	4						
Total compensations	632	618	621	628	620						

Source: INAIL final financial statements.

The financial strategies adopted by INAIL are diversified on the basis of the business concerned. With regard to the Industry business, INAIL has selected the method of allocation of coverage capital, i.e. the system which ensures a balance between the liabilities represented by the current value of the new pensions for the injured persons which will be paid out in the year and the total annual contributions of existing workers. The approach in question is based on the assumption that the required contribution must be equal to the pension costs (pay-as-you-go financing), thanks to the condition of the compulsory nature of said

<sup>&</sup>lt;sup>41</sup> The compensation is usually paid in the form of an annuity, therefore the annual outlay represents just the annual portion of the total compensatory flow acknowledged. Capital is rarely paid in the event of the death of the policyholder.

contribution. In the event that the compulsory contribution ceases to apply, the actuarial balance of the methodology would no longer be guaranteed.

The coverage capital calculation system determines a general average premium for the various years of operation such as to ensure proportionality between the current value of the future flows of new pensions (value of the coverage capital) and the annual salaries of the insured parties still working.

By means of this approach it is necessary to set up a mathematical provision for each generation of pensioners, as annuities are paid periodically provided that the beneficiary or their heirs (if there is coverage for family members) are alive. The provision set aside therefore represents the capital required to cover the costs of all pensioners in existence. There is no allocation for a mathematical provision for active workers, as there is no coverage for them. In the event of the insurance coverage being terminated, the provision therefore provides protection for pensioners, while there is no coverage for active workers.

Table I.40 provides evidence of the trend of the capital covering annuities for injured persons, comparing the annual change on premiums.

Table I.40

Industry Business: coverage capital										
	2014	2015	2016	2017	2018					
Coverage capital	26,427	26,963	31,183	31,694	32,281					
Capital increase vs previous year	738	535	4,220	511	587					
Capital increase / premiums (%)	11.0	7.7	59.3	7.0	7.8					

Source: INAIL final financial statements.

## 5. - SOLVENCY II REPORTING

## 5.1. - Highlights of the financial statements for domestic companies

The balance sheet prepared according to Solvency II (Table I.41) is drawn up on a market-consistent basis. The following paragraphs provide details with reference to investments, to technical provisions, to the capital requirement and to own funds.

Between 2018 and 2019 both the assets (+11.9%) and the liabilities (+11.8%) increased considerably.

Table I.41

Solvency II –	Balance s	sheet of do	omestic co	ompanies	2018-201	19		
							(n	nillion euro)
	Life		Non	-life	Comp	osites	Total	
	2018	2019	2018	2019	2018	2019	2018	2019
Assets								
Deferred tax assets	1,748	4,683	407	410	1,477	1,265	3,632	6,357
Investments (excluding assets for indexand unit linked)	389,124	439,605	15,632	16,893	285,621	311,021	690,376	767,519
Assets held for index- and unit linked	130,902	153,209	0	0	21,317	26,003	152,219	179,212
Secured and unsecured loans	438	484	60	82	6,876	6,231	7,374	6,797
Recoverable amounts from reinsurance	1,697	1,138	1,823	1,856	7,681	8,092	11,201	11,087
Cash and cash equivalents	4,285	4,336	586	559	3,800	2,893	8,671	7,788
Other assets	11,914	12,308	2,663	3,377	23,042	24,883	37,619	40,568
Total assets	540,108	615,763	21,170	23,177	349,814	380,387	911,093	1,019,328
Liabilities								
Non-life technical provisions	6	6	11,946	12,600	39,775	39,444	51,728	52,049
Life technical provisions - excluding linked policies	370,812	413,680	0	0	168,155	186,318	538,966	599,998
Index- and unit-linked technical provisions	127,446	149,231	0	0	19,527	23,748	146,973	172,979
Deferred tax liabilities	4,193	8,329	364	467	3,109	3,499	7,666	12,295
Other liabilities	12,178	12,871	2,508	2,892	41,928	43,704	56,615	59,466
Total liabilities	514,635	584,117	14,819	15,959	272,494	296,712	801,948	896,788
Excess assets over liabilities	25,473	31,647	6,351	7,218	77,320	83,675	109,145	122,540

## 5.2. - Highlights of the financial statements for domestic groups<sup>42</sup>

The market value of assets held by the groups against policies where the risk is borne by the insurance undertaking reduced in 2019 by -3.7% (decrease of -2.5% in the previous year). An opposite trend was recorded for assets held for index- and unit-linked policies, which rose by 3.2% in 2019, after the strong decrease of 7.9% in 2018 (Table I.42)

The decline in assets held by the groups for index- and unit-linked products is lower than that of domestic undertakings, which show a 17% growth, highlighting the decrease in foreign components.

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<sup>42</sup> 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.

Table I.42

Solvency II – Balance	sheet of domestic q	roups	
	<u> </u>	(million euro and perce	ntage values)
	2018	2019	% var.
Assets			
Deferred tax assets	4,781	6,963	45.6
Investments (excluding assets			
for index- and unit linked)	753,303	725,338	-3.7
Assets held			
for index- and unit linked	206,872	213,559	3.2
Secured and unsecured loans	8,722	6,333	-27.4
Recoverable amounts			
from reinsurance	7,438	7,334	-1.4
Cash and cash equivalents	12,550	10,422	-17.0
Other assets	39,545	42,265	6.9
Total assets	1,033,212	1,012,214	-2.0
Liabilities			
Non-life technical provisions	55,505	52,684	-5.1
Life technical provisions - excluding linked poli-			
cies	627,424	606,613	-3.3
Index- and unit-linked technical provisions	209,536	203,988	-2.6
Deferred tax liabilities	13,768	17,693	28.5
Other liabilities	57,147	57,157	0.0
Total liabilities	963,380	938,134	-2.6
Excess assets over liabilities	69,831	74,080	6.1

### 5.3. - Investments

At the end of 2019, the investments managed by Italian insurance undertakings, net of assets intended for the linked sector, amounted to 767.5 billion euro (Table I.43), with a +11.2% increase compared to the previous year. Overall, the market value of bonds (government bonds, corporate and structured bonds) decreased slightly from 73.6% to 73.2%.

Table I.43

life and non-life investmen	ts				
	(million euro and percentage va				
	2018	%	2019	%	% var. 2019/2018
Life and non-life investments of assets not intended for index- and unit-linked contracts					
Government bonds	359,751	52.1	401,249	52.3	11.5
of which: Italian Government bonds	297,301	43.1	323,986	42.2	9.0
Corporate bonds	138,187	20.0	150,161	19.6	8.7
Listed equity instruments	8,057	1.2	10,627	1.4	31.9
Unlisted equity instruments	2,857	0.4	3,143	0.4	10.0
Undertakings for collective investment	80,106	11.6	96,995	12.6	21.1
Structured bonds	10,140	1.5	10,325	1.3	1.8
Guaranteed securities	2,537	0.4	2,447	0.3	-3.5
Deposits other than cash equivalents	361	0.1	359	0.0	-0.6
Real estate (other than those held for own use)	4,691	0.7	4,910	0.6	4.7
Other investments	17	0.0	17	0.0	0.0
Derivatives	469	0.1	639	0.1	36.2
Shares held in related undertakings, including holdings	83,205	12.1	86,646	11.3	4.1
Total (A)	690,376	100.0	767,519	100.0	11.2
Investments held for index- and unit linked contracts (B)	152,219		179,212		17.7
Grand total (A+B)	842,595		946,731		12.4

The market value of investments in Government bonds increased slightly, from 52.1% to 52.3%, with a progressive reduction in the value of Italian Government bonds from 43.1% to 42.2% of total investments. Corporate bonds recorded a modest decrease from 20.0% to 19.6%, while investments in UCITS continue to grow (from 11.6% to 12.6%).

The value of the assets dedicated to linked contracts increased by +17.7% in 2019, with an amount of 179.2 billion euro at the end of the year.

In the breakdown of the government bonds by ownership structures of the undertaking which holds them (Table I.44), divided up between Italian control (belonging to the State, to parties in the insurance, financial sector and others) or foreign control (insurance and non-insurance control), the share of investments in government bonds and Italian government bonds of undertakings controlled by the state or by public bodies has dropped (respectively from 65% to 62.6% and from 63.3% to 60.8% between 2018 and 2019). The trend is the opposite for undertakings with a financial ownership structure or owned by other private entities, for which the portions of government bonds and Italian government bonds held increased compared to 2018.

Overall, the portion of government bonds among the assets of undertakings controlled by Italian entities increased slightly (from 52.1% to 52.5%), while the portion of government bonds issued in Italy decreased from 44.5% in 2018 to 43.9% in 2019. Subsidiaries of foreign entities showed a lesser recourse to investments in government bonds issued in Italy, from 39% in 2018 to 37.4% in 2019.

Table I.44

Assets under the form of government bonds held by undertakings supervised by IVASS broken down by ownership structure (% values) 2018 2019 % breakdown % breakdown of which: % Governof which: Ital-Italian Gov-% Govern-Italian Govern-Italian Govian Government bonds ment ernment ment ernment bonds held bonds ment bonds bonds held by superbonds over total over total asby superover total vised underover total assets \* sets vised underassets \* takings assets takings Italian undertakings 44.5 43.9 52.1 76.5 52.5 76.6 Controlled by the State and 65.0 63.3 27.0 62.6 60.8 26.6 by public entities Under insurance control 43.4 32.7 32.6 43.9 32.3 32.5 Under financial control 63.0 56.9 16.8 66.5 58.4 17.4 Controlled by other private 81.6 78.2 0.1 84.5 78.7 0.1 entities Foreign undertakings 52.0 39.0 23.5 51.6 37.4 23.4 Controlled by EU and non-EU entities of the insurance 50.6 39.9 16.6 49.8 37.7 16.1 Controlled by EU and non-EU entities of the financial 55.1 36.9 6.9 55.5 36.8 7.3

sector

Total

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

100.0

52.3

42.2

100.0

43.1

<sup>52.1</sup> \* Excluding investments held for index-linked and unit-linked contracts.

Table I.45

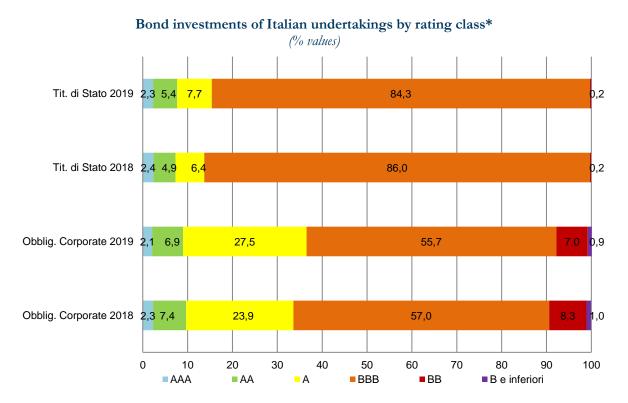
		Life* a	and non-life i	nvestme	nts of the ma	ain Europ	ean Countrie	es		
									nd percentage	e values)
Invest-	Ital	у	Franc	e**	Germa	ny**	Spair	1**	United Kingdom**	
ments	Dec. 2019	%	Sept. 2019	%	Sept. 2019	%	Sept. 2019	%	Sept. 2019	%
Government bonds	401,249	52.3%	763,861	34.1%	391,137	19.5%	165,995	60.5%	198,388	19.8%
Corporate bonds	150,161	19.6%	703,467	31.4%	535,333	26.6%	56,291	20.5%	353,974	35.3%
Listed and unlisted eq- uity instru- ments	13,770	1.8%	86,946	3.9%	11,101	0.6%	4,048	1.5%	73,123	7.3%
Undertak- ings for col- lective in- vestment	96,995	12.6%	425,588	19.0%	619,966	30.8%	12,675	4.6%	116,903	11.6%
Structured bonds	10,325	1.3%	52,921	2.4%	19,693	1.0%	4,070	1.5%	240	0.0%
Guaranteed securities	2,447	0.3%	4,111	0.2%	6,203	0.3%	1,180	0.4%	21,775	2.2%
Deposits other than cash equiva- lents	639	0.1%	13,093	0.6%	9,768	0.5%	5,597	2.0%	11,985	1.2%
Real estate (other than those held for own use)	4,910	0.6%	32,064	1.4%	29,672	1.5%	6,542	2.4%	19,194	1.9%
Other in- vestments	17	0.0%	4,024	0.2%	685	0.0%	0	0.0%	833	0.1%
Derivatives	359	0.0%	6,530	0.3%	4,531	0.2%	6,518	2.4%	94,935	9.5%
Shares held in related undertak- ings, includ- ing holdings	86,646	11.3%	147,839	6.6%	381,627	19.0%	11,277	4.1%	112,462	11.2%
Total	767,519	100.0%	2,240,443	100.0%	2,009,716	100.0%	274,194	100.0%	1,003,812	100.0%

<sup>\*</sup> Excluding assets intended for index- and unit-linked contracts. - \*\* Source: For foreign countries, EIOPA, Insurance Statistics, last data available third quarter 2019.

The presence of government bonds in the portfolio is significant not only for Italian undertakings but even more for Spanish undertakings (60% of investments). The share of investments in government bonds is smaller in France, United Kingdom and Germany. Corporate securities account for a significant share of investments for French undertakings, and investment the represent the main in United Kingdom Germany. The exposures in UCITS funds of European undertakings are smaller but not negligible, in particular for German undertakings which continue to have a share in UCITS equal to 30.8% in the third quarter of 2019. Investments in shares represent a significant investment item in Italy, Germany and the United Kingdom and less frequent for Spanish undertakings.

With reference to the breakdown of bond investments by Italian undertakings by rating class for the two-year period 2018-2019 (Figure I.22), the predominant class of government bonds was rated BBB, with an incidence over the total market value of bonds going from 86% in 2018 to 84.3% in 2019, against an increase in the percentage of A-rated bonds from 6.4%, to 7.7%. For corporate bonds, the percentage for the BBB class fell from 57% to 55.7%, while class A increased significantly (from 23.9% to 27.5%).

Figure I.22

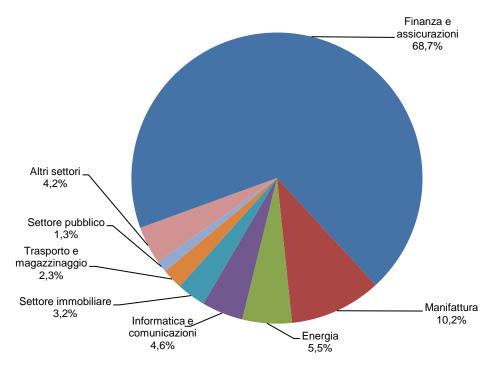


<sup>\*</sup> Excluding assets intended for linked contracts. - Corporate bonds include structured bonds and guaranteed securities.

Investments in corporate securities of life policies (with profit) and those covering a risk (excluding those for index and unit-linked policies) show (Figure I.23) a significant concentration in the financial and insurance sector (68.7% compared to 68.1% in the previous year) and a significant use of securities in the manufacturing sector (up from 9.9% to 10.2%). The importance of the energy sector remained unchanged (5.5%). Investments for linked policies are characterised by the almost total presence of securities from the financial and insurance sectors (95.4% compared to 95.9% in 2018).

Figure I.23





<sup>\*</sup> Excluding assets intended for index- and unit-linked contracts.

### 5.4. - Technical provisions

The definition of technical provisions under the Solvency II regime envisages an allocation that adds the provisions calculated as best estimates (BE) and as risk margin. BEs 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, without distinguishing between the two components, if it is possible to replicate this commitment with financial instruments for which a reliable market exist<sup>43</sup>.

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

- 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 behaviour, replicating the behaviour of the policyholder in the years of the projection. The
  policyholder can decide to suspend payment of the premiums, requesting surrender (Article 26 of the

<sup>&</sup>lt;sup>43</sup> Article 40 of the Delegated Acts.

Delegated Acts) as a result of assessments independent of the performance of financial markets (non-dynamic surrender) or dependent on their evolution (dynamic surrender).

Pursuant to Article 344 *decies* of the CAP, which transposed Article 308-d of the Solvency II Directive, and IVASS Regulation No. 26/2016, the life insurance market uses transitional measures for the calculation of technical provisions. Insurance companies, from 1 January 2016 until 31 December 2031, may apply a provisional deduction to the technical provisions calculated at the end of the financial year, for a portion of the (positive) difference between the Solvency II technical provisions at the beginning of 2016 and those in the Solvency I financial statements at the end of 2015. This measure results in a reduction of the solvency requirement. IVASS verifies that the benefit is not dissipated or mitigated over several years by management, shareholder remuneration and product pricing policies.

In 2019, taking into account both direct and indirect business, the life technical provisions recorded a significant growth of +12%, while the increase in non-life technical provisions was only +0.6%.

The increase in life technical provisions is due to the growth in its main component (best estimate; +12.2%) while the risk margin decreased (-11.5%) compared to the previous year (Table I.46) and the residual component, calculated as a whole, rose by +17.1%.

With reference to the non-life technical provisions, amounting to 6.4% of the total, a slight decrease was seen in the BE-claim (-0.8%), while the BE-premium increased (+5.2%). The *risk* margin, of little importance for the non-life technical provisions, recorded a slight increase (+0.7%).

Table I.46

	Technical p	rovisions life a	nd non-life		
					(million euro)
	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Life					
Best Estimate	678,474	710,131	734,543	769,901	760,919
Risk Margin	6,110	6,142	6,084	6,687	5,407
TP calculated as a whole	899	952	958	1,005	1,053
Total	685,414	717,156	741,517	777,524	767,379
Non-life					
BE-claims	38,033	38,046	38,420	39,457	37,731
BE-premium	11,662	11,673	12,063	11,147	12,271
Risk Margin	2,031	2,091	2,115	2,164	2,045
TP calculated as a whole	2	4	4	2	2
Total	51,728	51,814	52,602	52,770	52,049
Life and non-life Total	737,142	768,970	794,119	830,294	819,428

### 5.4.1. - Life technical provisions

The technical provisions for the two main types of life contracts - with-profit and index- and unit-linked - represented 997% of the total life technical provisions at the end of 2019. Table I.47 shows the breakdown of technical provisions by type of contract and estimation method, illustrating in greater detail how the BE component is prevalent

Table I.47

	Life technical provisions *								
					(million euro)				
		TP. calculated as a whole	Best Estimate	Risk Margin	Total				
Q4 2018	With profit	0	525,258	4,582	529,771				
Q4 2010	Index- and Unit- linked	859	145,208	884	146,951				
Q1 2019	With profit	0	547,227	4,529	551,687				
Q1 2019	Index- and Unit- linked	909	154,671	940	156,519				
02 2040	With profit	0	568,172	4,471	572,575				
Q2 2019	Index- and Unit- linked	916	157,982	974	159,871				
02 2040	With profit	0	598,611	5,012	603,554				
Q3 2019	Index- and Unit- linked	970	163,291	988	165,249				
04 2040	With profit	0	587,677	3,754	591,431				
Q4 2019	Index- and Unit- linked	1,021	170,847	1,084	172,952				

<sup>\*</sup> Only With Profit, 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 for premiums and claims outstanding (Table I.48), shows a modest reduction in the technical provisions for claims outstanding (-0.9%), an increase of +5.2% in technical provisions for premiums and +0.7% in the risk margin. Overall, the total technical provisions increased by +0.5%.

Table I.48

	Non-life to	echnical provisions	S		
		•			(million euro
	TP. calculated as a whole	Technical provisions premiums (BE)	Technical provisions claims (BE)	Risk Margin	Total
		2018			
Medical expenses	0	711	1,161	66	1,938
Income protection	2	1,022	1,805	144	2,974
Motor vehicle liability:	0	4,205	18,279	789	23,273
Other insurance	0	1,122	501	62	1,685
Marine, aviation and transport	0	141	827	27	995
Fire and other damage to property	0	2,400	3,715	256	6,371
General liability	0	904	9,531	505	10,941
Credit and Suretyship	0	426	969	75	1,469
Legal expenses	0	60	424	22	507
Assistance	0	138	136	14	289
Miscellaneous financial loss	0	516	281	45	843
Total	2	11,645	37,629	2,008	51,284
		2019			
Medical expenses	0	832	1,216	72	2,121
Income protection	2	1,043	1,881	163	3,088
Motor vehicle liability:	0	4,244	17,848	760	22,852
Other insurance	0	1,242	658	68	1,968
Marine, aviation and transport	0	136	786	32	953
Fire and other damage to property	0	2,664	3,970	268	6,902
General liability	0	934	9,095	488	10,517
Credit and Suretyship	0	409	955	84	1,448
Legal expenses	0	71	426	20	517
Assistance	0	155	143	18	316
Miscellaneous financial loss	0	524	300	49	873
Total	2	12,254	37,277	2,022	51,554

<sup>\*</sup> The "workers' compensation" LoB is not shown as such business does not apply in Italy.

## 5.5. - Assets representing technical provisions

The required Solvency II technical provisions relating to Italian and foreign direct business of domestic undertakings and branches of non-EEA undertakings amounted to 824 billion euro<sup>44</sup>, while the related representative assets amounted to 830 billion euro, with a coverage index of 101%. 93.8% of these assets are related to the life business as a whole.

Assets representing technical provisions of the life direct portfolio, excluding linked policies and pension funds (Table I.49), amounted to 600 billion euro and were mainly made up of debt securities (94%, mostly represented by government bonds with 60.4% of the total, up slightly compared to 2018). Units in UCITS amounted to 13.1% of the required provisions, in line with the previous years, and were primarily represented by bonds, equal to 71.4% of the total (Table 28 in the Appendix).

<sup>&</sup>lt;sup>44</sup> Quarterly communication at 31 December 2019, prepared according to IVASS Regulation No. 24 of 6 June 2016.

Table I.49

Assets representing technical provisions of the life direct portfolio (excluding linked policies and pension funds) and non-life at the end of 2019									
					(mi	llion euro)			
	Life	%	Non-life	%	Total	%			
Government bonds	362,255	60.4	18,770	36.6	381,025	58.5			
Corporate bonds	141,091	23.5	15,297	29.8	156,388	24.0			
Equity instruments	9,624	1.6	4,070	7.9	13,694	2.1			
Undertakings for collective investment	78,768	13.1	4,012	7.8	82,780	12.7			
Real estate	319	0.1	4,966	9.7	5,285	0.8			
Secured and unsecured loans	155	0.0	300	0.6	455	0.1			
Credits	4,477	0.8	2,176	4.2	6,653	1.0			
Cash and deposits	1,971	0.3	234	0.5	2,205	0.4			
Other assets	1,279	0.2	1,485	2.9	2,764	0.4			
Total	599,939	100.0	51,310	100.0	651,249	100.0			

The technical provisions of the non-life business amounted to 50.8 billion euro and were covered by 51.3 billion euro of assets with a 101% coverage rate. 71% of these assets are debt securities (37% government bonds). The real estate sector accounts for 9.7% of the required provisions and equity instruments account for 7.9% (Table 31 in the Appendix).

The composition of assets representing technical provisions denotes a reduced focus by insurance undertakings on real economy funding instruments (direct unsecured loans granted to entities other than natural persons and microenterprises, alternative investments, etc.) and those associated with infrastructures, in recent years accounting for less than 1% of the total.

The prolonged phase of low interest rates has encouraged undertakings to remodel the composition of their portfolios with a view to yield enhancement, increasing the weight of financial instruments with less liquidity and greater risk/return/diversification. In 2019, the figures revealed a slight rise in this type of investment with an increase of 13 billion euro, due essentially to the purchase of UCIT units (11 billion).

The technical provisions and the related representative assets of linked policies (160 billion euro) and pension funds (18.7 billion) represent respectively 19.5% and 2.3% of the total assets in classes C and D (Table I.50 and Tables 29 and 30 in the Appendix).

Table I.50

Technical provisions of the direct life portfolio (only linked policies and pension funds) and corresponding representative assets by type of activity as at 31 December 2019

(million euro)

			(IIIIIIIOII EUIO)
	Technical provisions	Repre- sentative assets	% of grand total*
Contracts linked to the value of units in UCITS	70,794	70,907	8.6
Unit-linked contracts	89,567	89,666	10.9
Index-linked contracts	74	74	0.0
Total provision for class D.I	160,435	160,647	19.5
Open pension funds	13,164	13,182	1.6
Pension funds	5,490	5,490	0.7
Total provision for class D.II	18,654	18,672	2.3
Grand total class D	179,089	179,319	21.8

<sup>\*</sup> Percentages referred both to Technical provisions and to Representative 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, requires the insurance company to calculate the Solvency Capital Requirement (SCR) adopting the EIOPA standard formula or implementing an internal model with partial or total coverage of the risks assumed. Internal models are subject to a preventive validation test and authorisation from the Supervisory Authority (see IV.1.4.3). The insurance undertaking that adopts the standard formula can, in calculating the underwriting risk modules for life, non-life and sickness insurance, use the undertaking-specific parameters (USP) instead of the standard ones, subject to the approval of the Supervisory authority.

The total 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% over a time horizon of one year).

Compliance with a Minimum Capital Requirement (MCR), which represents the threshold below which immediate supervisory actions alternative to winding up will take place, is also required.

Until mid-2019, the average SCR ratio of Italian undertakings remained slightly below that of the other European countries, reaching similar values in the third quarter (Table I.51). The SCR ratio of the main EU countries is characterised by considerable heterogeneity, also in view of the different application of the LTG measures (see chapter III.2.2.1): the maximum values are found for German undertakings, the minimum ones for the United Kingdom while France and Spain present intermediate values, similar to Italy.

Table I.51

	SCR ratio in EU countries										
						(% values)					
		Other EU		of wh	ich:						
	Italy	Countries *	Germany	France	Spain	United King dom					
2nd quarter 2018	224.8	240.5	336.1	241.0	236.1	161.8					
3rd quarter 2018	221.6	244.5	341.4	242.8	237.8	162.6					
4th quarter 2018	221.3	244.0	351.5	240.2	234.7	154.3					
1st quarter 2019	212.7	238.9	336.2	235.1	236.4	152.1					
2nd quarter 2019	218.4	235.4	325.7	225.4	236.9	155.4					
3rd quarter 2019	227.9	226.6	304.3	214.3	233.8	149.5					
4th quarter 2019	235.3	n.a.	n.a.	n.a.	n.a.	n.a.					

<sup>\*</sup> including the United Kingdom. Source: For foreign countries, EIOPA, *Insurance Statistics*, latest data available third quarter 2019.

The SCR ratio of the undertakings supervised by IVASS, divided up by type of control (Table I.52), shows that the values of the indicator of the Italian-owned undertakings are considerably higher (by 50%) than those of the foreign-owned undertakings. Among the undertakings subject to Italian control, those of a financial nature have a capital endowment slightly lower than that of the undertakings with another structure.

Table I.52

SCR ratio of undertakings supervised by IVAS	S broken down by owner	rship structure
		(% values)
	4th quarter 2018	4th quarter 2019
Italian undertakings	236.8	253.6
Controlled by the State and by public entities	217.0	306.4
Under insurance control	243.1	251.5
Under financial control	206.8	225.4
Controlled by other private entities	186.5	253.6
Foreign undertakings	158.9	165.4
Controlled by EU and non-EU entities of the insurance sector	162.2	168.3
Controlled by EU and non-EU entities of the financial sector	146.7	155.1
Total	221.3	235.3

At the end of 2019, Italian undertakings had a total SCR of 58.9 billion euro, up by +6.8% with respect to end 2018 (Table I.53), while eligible funds, equal to 138.7 billion euro recorded a +13.6% increase.

Table I.53

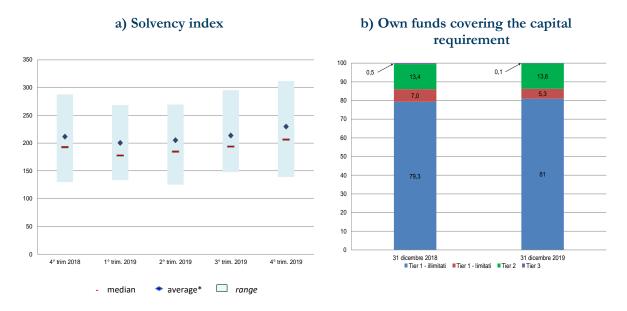
	Capital Requirements								
					(million euro)				
	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019				
SCR	55,177	57,369	56,544	56,794	58,929				
MCR	20,517	21,340	21,051	21,114	21,998				
Eligible own funds to satisfy the SCR	122,120	122,034	123,500	129,431	138,683				

With reference to the eight Italian insurance groups relevant for financial stability, the average value of the solvency ratio stood at 229.8% as at December 2019 (it was 211.8% in December 2018, Figure I.24.a). The percentage of higher quality capital (tier 1 own funds) at the end of 2019 was 86.3%, up slightly compared to the previous year (Figure I.24.b).

Figure I.24

Main indicators of the Italian groups relevant for financial stability

(% values)



<sup>\*</sup> Weighted average with the weights equal to the denominator of each ratio.

### 5.7. - Own funds

Total own funds covering the SCR at 31 December 2019 amounted to 138.7 billion euro, with a 16.6 billion euro decrease compared to the end of 2018 (Table I.54).

A high quality of the own funds of Italian insurance undertakings is noted. Tier 1 funds amounted to 90.2% of the total own funds, slightly up compared to the previous years, while the

weight of lower quality elements (Tier 3) remained below 1%, far lower than the 15% allowed by the regulations<sup>45</sup>.

Table I.54

	Eligible own funds to satisfy the Solvency Capital Requirement (SCR)								
						(millio	n euro and	d percent	tage values)
	Tier 1 unlimited	% total	Tier 1 limited	% total	Tier 2	% total	Tier 3	% to- tal	Total
Q4 2018	103,209	84.5	6,610	5.4	11,387	9.3	915	0.7	122,120
Q1 2019	101,901	83.5	5,960	4.9	13,212	10.8	961	8.0	122,034
Q2 2019	103,306	83.6	6,002	4.9	12,975	10.5	1,218	1.0	123,500
Q3 2019	109,894	84.9	5,776	4.5	12,938	10.0	823	0.6	129,431
Q4 2019	119,363	86.1	5,676	4.1	12,974	9.4	671	0.5	138,683

The reconciliation reserve represents the reserve net of adjustments (e.g. ring-fenced funds) and is the result of the differences between the statutory accounting measurement and the measurement based on Solvency II criteria<sup>46</sup>. This reserve is the most significant item of Tier 1 (68.5% as at 31 December 2019, Table I.55), up by +5,7% compared to 2018. The expected profits included in future premiums - EPIFP<sup>47</sup> account for 13% of the reconciliation reserve, down by -4.9% compared to 2018 and refer almost entirely to the life insurance business.

Table I.55

Reconciliatio	n reserve an	d EPIFP			
				(m	illion euro)
	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Excess assets over liabilities	109,145	108,349	105,702	112,422	122,540
Own shares	162	198	182	191	73
Dividends, distributions	A 511	4 627	457	910	1,962
and foreseeable expenses	4,511	4,627	457	910	1,962
Other elements of own funds	35,467	35,843	35,187	34,792	34,772
Adjustment for own funds items					
subject to restrictions in relation to the matching	48	88	51	87	127
portfolio and the ring fenced funds	40	00	31	07	127
Reconciliation Reserve	68,957	67,594	69,826	76,442	85,606
EPIFP life business	11,691	10,393	10,019	7,521	10,331
EPIFP non-life business	641	649	631	643	771
EPIFP total	12,332	11,042	10,650	8,164	11,103
Reconciliation reserve/total Tier 1	62.8%	62.7%	63.9%	66.1%	68.5%
EPIFP/Reconciliation reserve	17.9%	16.3%	15.3%	10.7%	13.0%

Own funds consist 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

<sup>&</sup>lt;sup>46</sup> Article 75 of the Solvency II Directive.

<sup>&</sup>lt;sup>47</sup> The Expected profits included in future premiums (EPIFP) is the expected profit of future premiums on contracts in force.

### 5.8. - Solvency Capital Requirement Ratio

The ratio between own funds and SCR (SCR ratio; Table I.56) at market level increased compared to the end of the previous year, from 221.3% at the end of 2018 to 235.3%. The ratio of undertakings adopting the standard formula increased by +18%, much more than that of undertakings using the internal model or the *standard formula* with USP.

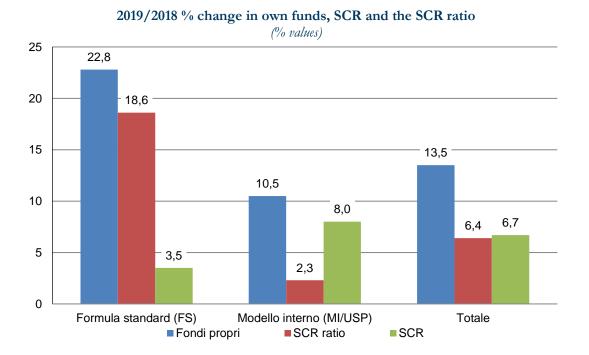
Table I.56

SCR ratio by calculation method and activity of the undertaking										
							(%	values)		
	Life	<b>)</b>	Non-	life	Compo	sites	Market	total		
	2018	2019	2018	2019	2018	2019	2018	2019		
Standard Formula *	191.5	230.8	174.9	188.0	108.3	128.5	185.5	219.7		
Standard Formula - USP			235.1	241.3	197.0	179.5	204.6	191.9		
Internal Model	159.2	164.5	173.8	177.1	244.5	251.4	238.2	244.6		
Market total	186.6	219.7	182.7	193.4	239.6	245.8	221.3	235.3		

<sup>\*</sup> The values for 2018 and 2019 for composite undertakings relate to a single undertaking.

Fig. I.25 shows the changes in the SCR, in eligible own funds and in the SCR ratios, by distinguishing between undertakings that in 2018 and 2019 maintained the same calculation methods from those that in 2019 were authorised to adopt a partial internal model or the USP instead of the standard formula. In general, the overall improvement in the SCR ratio in 2019 is due to the 13.5% increase in eligible own funds and to a lower increase (+6.7%) in the capital requirement. The most significant increase in the SCR ratio was recorded by undertakings adopting the standard formula (+18.6%), while that of undertakings adopting the internal model was more limited (+2.3%).

Figure I.25



For insurance groups with an ultimate Italian parent undertaking, the SCR ratio increased between the end of 2018 and 2019 (from 196.6% to 210,3%, Table I.57).

Table I.57

Data on the gro	Data on the group solvency											
	(million euro and % values											
	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019							
Consolidated group SCR	39,476	37,625	36,997	37,127	36,983							
Minimum consolidated group SCR	24,595	24,628	24,628	24,628	24,628							
Ratio between eligible own funds and consolidated group SCR (excluding other financial sectors and the undertakings included via D&A - deductions and aggregations)	196.6	210.3	210.3	210.3	210.3							
Ratio between eligible own funds and minimum consolidated group SCR	293.5	302.8	302.8	302.8	302.8							

## 5.9. - Solvency II data for the first quarter of 2020 - initial results

An initial processing of data for the first quarter of 2020 is presented with reference to premiums written in the life and non-life business and for the main LoB and the SCR ratio.

Life premiums were down compared to both the first quarter of 2018 and 2019 and the fourth quarter of 2019. Compared to the first quarter of 2019, the reduction in premiums in 2020 is significant in with profit policies, not offset by the increase in linked policies.

In non-life classes, premiums are in line with the first quarter of the previous two years and the reduction compared to the fourth quarter of 2019 is largely due to seasonal factors. Compared to the same period in 2019, premiums in the motor LoB decreased in the first quarter of 2020 and increased for health policies.

Figure I.26

### Gross premiums written per quarter

(direct insurance of domestic undertakings - in billion euro)

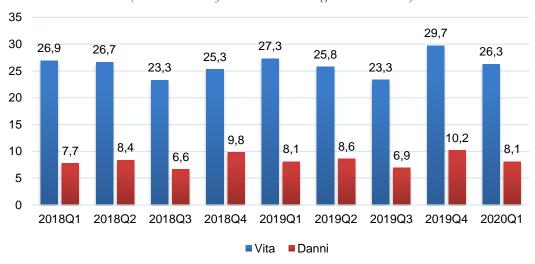
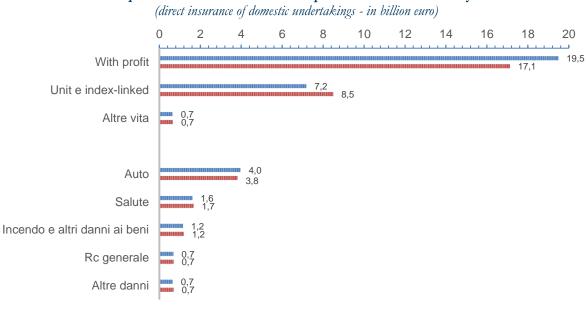


Figure I.27

# Gross premiums written in the first quarter 2019 and 2020 - by LoB

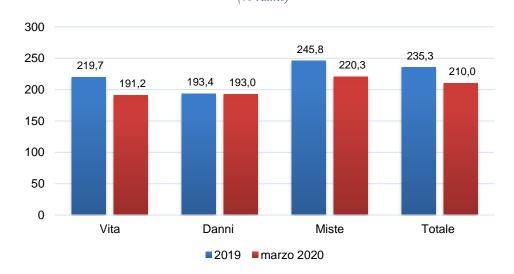


The performance of the SCR ratio between the end of 2019 and March 2020 shows an overall reduction, largely due to life insurance undertakings suffering the financial effects of the rise in interest rates, resulting in a reduction in the value of fixed-income securities, and the increasing underwriting risk due to the pandemic in the presence of financial return guarantees on with-profit policies. Composite and pure non-life undertakings show a lower reduction in the

■2019Q1 ■2020Q1

ratio, having taken into account that non-life policies are of a shorter duration and do not have guaranteed returns.

Figure I.28 SCR ratio in the fourth quarter 2019 and in the first quarter 2020  $(\% \ values)$ 



# II. - STUDIES AND RESEARCHES

The section includes, in addition to an update on the detailed data of the MTPL class, an analysis of risk management in agriculture and of European and national activities in terms of technological innovation in the insurance sector (Insurtech).

With regard to MTPL, the comparison with the leading European countries shows a higher average price in Italy of 90 euro, due to higher cost of claims and, to a lesser extent, higher expenditure. The gap with other countries has been narrowing for several years.

Analysis is presented on the CARD direct compensation system, which at the end of 2018 was the subject of a review of the calculation of incentives and penalties, and the actual prices of MTPL at geographic level, by distribution channel and between undertakings. A focus is presented on the protected bonus clause, the company switch rate by policyholders, market concentration and the level of litigation. It also takes into account the analyses carried out by IVASS for the purpose of defining a single national table for the settlement of serious injuries.

The Institute's activities to promote the anti-fraud activities of undertakings concerned improvements in the quality and use of databases and indicators of suspected fraud, as well as the development of digital document exchange systems between undertakings. The assessment of anti-fraud activities of the undertakings continues, in terms of organisation and results: in 2018, savings from foiled fraud exceeded 253 million euro (1.9% of MTPL premiums).

With regard to risk management in agriculture, IVASS pursues the objective of encouraging the spread of advanced forms of risk management, including specific insurance coverage, also through participation in ministerial committees, having taken into account climate change, which, also in Italy, has amplified the frequency and catastrophic extent of extreme natural events.

The benefits of new products and distribution methods using innovative technologies (Insurtech) and the risks in terms of security and customer protection are potentially significant and subject to analysis at European level and by IVASS. Trials have been launched and dialogue with operators has been strengthened. The COVID-19 emergency has increased the need for dematerialisation of dealings and contracts also in the insurance sector, strengthening the regulatory action launched by the Institute in the past and the assessment of the impact on the distribution network and on contractual and operational practices.

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

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

For the 2014-2018 time interval, the average MTPL premiums, net of tax and contribution charges, paid by policyholders in five major EU countries (Italy, France, Spain, Germany, United Kingdom) were compared, with further study of the related components (cost of claims, expenses, technical margin). The Countries considered account for 63% of the population and

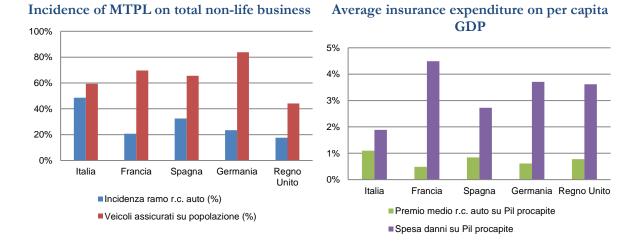
74% of the gross domestic product of the European Union. The data were acquired by the respective Supervisory Authorities and supplemented, when necessary, with other official information<sup>48</sup>.

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).

Lastly, the different degree of penetration of non-life insurance should be taken into account, because higher premium income in non-motor insurance allows insurers to offer lower rates in the motor business, using any higher profits from other non-life business. In 2018, Italy remained the last of the five Countries in terms of per capita expense for non-motor non-life policies and the first one in MTPL (Fig. II.1)

Figure II.1
Non-life business and MTPL business – 2018

(% values)



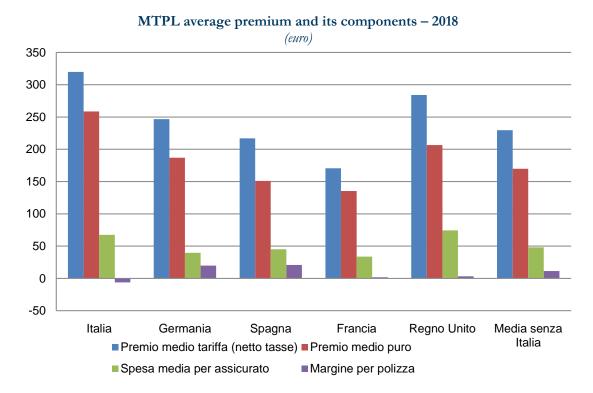
Source: Calculations on the basis of Eurostat, OECD, Supervisory Authority, ABI, FFA data.

# Structure of MTPL prices: the various components

At the end of 2018, the average premium of MTPL in Italy (premium rate net of taxes) was higher by 90 euro than the average of the four main European countries (Fig. II.2).

The research pertains only to the mandatory liability coverage. For the United Kingdom, where policies are distinguished between motor-comprehensive (also including all risks insurance) and non-comprehensive (also including fire and theft), data for the liability guarantee alone are not available. Therefore, an estimate was calculated on the basis of data provided by the ABI (Association of British Insurers) for the part relating to the minimum third party only guarantee normally included in motor policies. The following rate sectors were 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, the private car sector; and for Spain and Germany, the entire MTPL business. Furthermore, for the United Kingdom, the conversion into Euro of premiums in pounds sterling at the nominal exchange rates would accentuate price differences not due to the real cost of the MTPL coverage. To limit this effect, therefore, the conversion from GBP to Euro was based on conversion rates that assume equal purchasing power.

Figure II.2



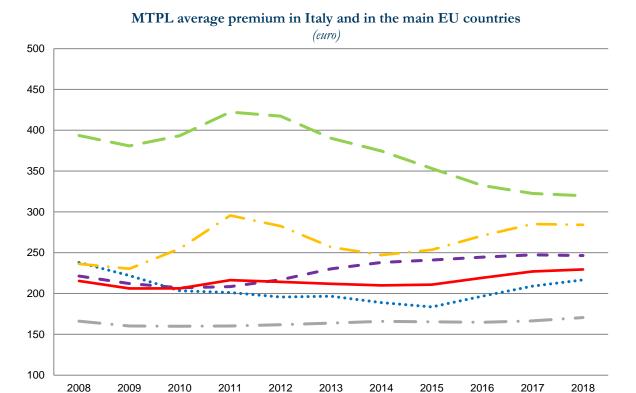
Source: Calculations on the basis of Supervisory Authority, ABI, FFA data.

The higher price for Italian consumers is explained by the higher cost of claims (pure premium) by 89 euro and by the cost of expenses (acquisition and management as a whole) by 19 euro; 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 2018 generation) was negative in Italy (-6 euro; it was -18 euro the previous year) and positive in the average for other countries (by 11 euro). The discounted pricing policy of Italian undertakings therefore continued.

In relative terms, in Italy the percentage represented by the cost of claims (pure premium) remained above 80%, higher than the 74% average of other countries; the cost of acquisition commissions and administrative costs was nearly the same (21.1% in Italy, 21.0% in the other countries).

In 2018, the reduction in the gap between Italian premiums and those of other countries, recorded since 2012, continued (Fig. II.3). The gap more than halved in six years (-55% by 113 euro, Table II.1).

Figure II.3



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

Table II.1

Gap of MTPL average premium in Italy and in the main EU countries											
											(euro)
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gap	178	175	187	206	203	178	165	142	113	96	90

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

### 1.2. - Main ratios of the MTPL market

Tables II.2, II.3, II.4 show, for the MTPL business as a whole (including ships) and, separately, for the automobile and two-wheel (mopeds and motorcycles) sectors, trends in the frequency and the average cost of claims (analysed between paid and reserved, including the estimate of claims incurred but not reported - IBNR), in the pure premium (i.e., frequency multiplied by total average cost) and in the gross average premium or average price actually paid (pure premium plus expenses, taxes, contributions and profit margin). The data refer to all undertakings present on the Italian market (supervised by IVASS and under foe or fos in EU/EEA).

Table II.2

				Total	MTPL and liab	ility for ship	s (gros	s of IB	NR)			
									(thous	ands of u	nits, euro	and % values)
		Claims	Claim	s paid	Claims written in	the provisions	Total	claims	Pure p	remium	Gross av	erage premium
Year	Risk unit	fre- quency	Aver- age cost	% Varia- tion	Average cost	% Variation	Aver- age cost	% Varia- tion	Value	% Vari- ation	Value	% Variation
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	-10.0%	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	40,787	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%
2018	42,169	5.9%	2,566	2.1%	8,469	1.5%	4,457	0.5%	265	-3.8%	426	-0.7%
2019	42,422	6.0%	2,583	0.6%	8,366	-1.2%	4,428	-0.7%	265	0.1%	420	-1.4%
% Change 2010- 2019	4.4%			6.4%		19.3%		8.3%		-22.3%		-21.6%
% Change 2016- 2019	3.5%			4.6%		-1.6%		-0.8%		-4.9%		-6.7%

Table II.3

	Automobile sector (gross of IBNR)												
									(thousa	nds of u	nits, euro a	and % values)	
Year	Risk	Claims fre- quency	Claim	s paid	Claims written in	the provisions	Total	claims	ms Pure premium		Gross average premium		
	unit		Av- er- age cost	% Vari- ation	Average cost	% Variation	Av- er- age cost	% Vari- ation	Value	% Var- iation	Value	% Variation	
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	-10.8%	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	30,579	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	31,303	6.6%	2,450	2.1%	8,024	-2.1%	4,163	-0.7%	276	-2.3%	425	-5.2%	
2018	31,887	6.2%	2,490	1.7%	8,181	2.0%	4,193	0.7%	261	-5.3%	422	-0.8%	
2019	32,068	6.4%	2,518	1.1%	8,077	-1.3%	4,186	-0.2%	268	2.5%	414	-1.8%	
% Change 2010- 2019	9.5%			6.7%		17.9%		7.8%		-24.1%		-23.6%	
% Change 2016- 2019	3.8%			4.9%		-1.4%		-0.1%		-5.1%		-7.6%	

Table II.4

			M	oped and	motorcy	cle sector	(gross of	IBNR)				
								(thou	sands c	of units, eu	ro and 9	% values)
Veer	Risk	Claims	Claim	s paid		ritten in the risions	Total	claims	Pure p	oremium		average mium
Year	unit	frequency	Average cost	% Variation	Average cost	% Variation	Average cost	% Variation	Value	% Variation	Value	% Variation
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%
2018	4,002	3.4%	3,289	1.5%	9,999	0.8%	6,460	0.4%	220	-8.5%	265	-1.4%
2019	4,058	3.5%	3,289	0.0%	9,968	-0.3%	6,302	-2.4%	220	0.0%	271	2.3%
% Change 2010-2019	-18.3%			3.5%		24.0%		11.0%		-18.8%		-3.9%
% Change 2016-2019	1.0%			3.8%		1.7%		-2.5%		-8.0%		-1.5%

In 2019:

- the number of risk units reached 42.4 million;
- the claims frequency remained substantially stable;
- the average total cost of the claims paid and written in the provisions decreased again, while pure premium remained largely stable (on the rise for cars);
- the gross premium (inclusive of the pure premium, expenses, margins and taxes) continued to decline for the whole sector and for automobiles, while it increased in the two-wheel sector.

### 1.3. - The direct compensation system

### 1.3.1. - The CARD numbers

The CARD agreement, set up in 2007, allows undertakings to settle the damages suffered by their policyholders who are not responsible for the claims, thus speeding up the settlement of damages. The portion of CARD claims (Table II.5) increased in terms of number of claims up to 2016, then it remained stable around 81% of the total; in terms of amount of compensations, the percentage of CARD claims was around 47% in the last few years, while until 2011 it was above 50% of the total. The significant reduction observed in the following years is attributable to the contraction of charges for compensation for slight disabilities essentially due to the provisions of Decree Law No. 1/2012<sup>49</sup>, together with a general improvement in the efficiency of the claims

<sup>&</sup>lt;sup>49</sup> Decree Law No. 1 of 24 January 2012 laying down urgent measures in favour of competition, the development of infrastructures and competitiveness, converted, after amendment, by Law No. 7 of 24 March 2012, amended and supplemented the CAP, establishing that "minor injuries that are not susceptible of objective instrumental clinical surveillance may not give rise to compensation for permanent biological damage". Moreover, under the system of direct compensation, "the values of costs and of any excess on the basis of which compensations between companies are defined shall be calculated annually, according to a criterion that fosters companies' efficiency of production and in particular the control of refund and fraud detection costs."

settlement processes by undertakings.

Table II.5

CARD and	NO CARD portfolio	over TOTAL (net	of IBNR)*	
Year of	CA	RD	NO C	CARD
generation	Numbers	Amounts	Numbers	Amounts
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	81.0%	46.9%	19.6%	53.1%
2018	80.8%	46.7%	19.9%	53.3%
2019	81.0%	47.3%	19.8%	52.7%
% Change 2019-2010	+0.4	-5.8	-0.3	+5.8

<sup>\*</sup> 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.6 shows the claims settlement time for managed claims, measured in terms of number of claims and amount of compensations, compared with claims with payment, at the end of 2019, with reference to the MTPL business as a whole.

Table II.6

Year of	CA	RD	NO CARD		
generation	Numbers	Amounts	Numbers	Amounts	
2010	70.4%	56.8%	38.4%	18.3%	
2011	71.8%	58.6%	39.6%	18.6%	
2012	72.1%	58.9%	39.9%	17.4%	
2013	72.9%	59.4%	40.6%	17.5%	
2014	73.2%	59.7%	41.2%	18.1%	
2015	74.3%	61.2%	40.6%	17.9%	
2016	74.9%	61.6%	41.5%	18.6%	
2017	74.9%	62.1%	42.0%	19.1%	
2018	75.6%	63.7%	43.3%	19.4%	
2019	75.8%	64.0%	42.5%	20.9%	
% Change 2019-2010	+5.4	+7.2	+4.1	+2.6	

The claims managed on the CARD system show a progressively increasing claim settlement time, with a share of claims paid in the year of occurrence much higher than for NO CARD.

The average cost of paid claims handled (CARD and NO CARD), considering the development in claims only in the year of occurrence, was up in nearly all the last few years, with a change of +7.5% in the ten-year period (Table II.7). The total average cost (paid and reserved, gross of IBNR), in the ten-year period rose overall by 9.2%, despite disclosing a variable trend: between 2010 and 2013, when it reached the maximum period value, it increased by 14.6%; between 2013 and 2017 it fell by -5.5%, while in the last two years it registered +0.9%.

Table II.7

		Aver	age cost of	generation (	Total mana	ged)		
								(euro)
Year of generation	Paid *	% Change	Reserved (net of IBNR)	% Change	Paid + Reserved (net of IBNR)	% Change	Paid + Reserved (gross of IBNR)	% Change
2010	2,428	3.0%	7,939	8.9%	4,058	4.3%	4,091	4.3%
2011	2,497	2.9%	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	2.1%	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%	9,332	-2.8%	4,326	-1.1%	4,432	-0.8%
2018	2,566	2.0%	9,567	2.5%	4,361	0.8%	4,457	0.6%
2019	2,611	1.8%	9,579	0.1%	4,348	-0.3%	4,469	0.3%
% Change 2019/2010		7.5%		20.7%		7.1%		9.2%

<sup>\*</sup> Partial payments included.

The average costs of CARD claims paid (Table II.8), with reference only to the year of occurrence of the claims, grew by +4.7% in the ten-year period. After having reached the lowest values in 2012 and 2013, following the entry into force of Decree Law No. 1/2012, average payout costs showed significant recovery, reaching a maximum value of 2,148 euro in 2019 (+7.7% compared to 2013), also due to the increasing claim settlement time of more complex claims featuring a greater damage amount (Table II.2). On the contrary, the average cost of reserved claims, net of IBNR, recorded a fall of -11.2% in the last ten years, reaching its lowest value of 4,131 euro in 2018. After having achieved the maximum value in 2013, in fact, this average cost fell in the following years (-16.8% compared to the average cost in 2013), due to the improvement in the settlement processes of the undertakings.

Table II.8

			Average cos	t of generat	ion (CARD)			
								(euro)
Year of generation	Paid *	% Varia- tion	Reserve (net of IBNR)	% Varia- tion	Paid + Reserved (net of IBNR)	% Varia- tion	Paid + Reserved (gross of IBNR)	% Varia- tion
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	-2.7%
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%	4,154	-4.9%	2,502	-0.8%	2,504	-0.7%
2018	2,102	2.0%	4,172	0.4%	2,519	0.7%	2,520	0.6%
2019	2,148	2.2%	4,131	-1.0%	2,539	0.9%	2,546	1.1%
% Change 2019/2010	4.7%		-11.2%		-4.9%		-4.6%	

<sup>\*</sup> Partial payments included.

The direct compensation procedure, together with Decree Law No. 1/2012, seems to have generated a containment of costs of the Italian MTPL market despite still not having reached full efficiency level, which can be achieved through the optimisation of claim settlement times, the reduction of disputes and litigation settlement times and improvements in the anti-fraud systems adopted by undertakings (see chapters I.5 and I.7).

NO CARD claims (Table II.9), settled according to the ordinary MTPL scheme (damages caused by one's policyholders to third parties), are generally characterised by a higher cost and degree of complexity than CARD claims. With reference to the development in the year of occurrence alone, in 2019 the average cost of the pay-out was 5,401 euro, an increase of +12% over the decade, with essential stability from 2016 onwards. The average cost reserved (net of IBNR claims) amounted to 18,508 euro, an increase of +1.2% compared to the previous year and +36.4% over the ten-year period. The total average cost, gross of the IBNR, which is a summary of the previous components, shows a variable trend: up from 2010 to 2015, down from 2016 to 2018 and again slightly up +0.5% in the last financial year for an overall increase in the ten-year period of +22.5%. Again with regard to NO CARD claims, containment of the costs, which are by their nature higher as they largely consist of compensation for major personal injury ("macro-permanent" injuries), also requires action similar to that indicated for CARD claims.

Table II.9

		F	Average cost	of generation	on (NO CARD c	laims)		
								(euro)
Year of genera-tion	Paid *	% Chang e	Reserved (net of IBNR)	% Change	Paid + Re- served (net of IBNR)	% Change	Paid + Re- served (gross of IBNR)	% Change
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	5,408	-0.8%	17,950	-2.2%	11,698	-2.9%	10,980	-2.0%
2018	5,422	0.3%	18,292	1.9%	11,695	0.0%	10,935	-0.4%
2019	5,401	-0.4%	18,508	1.2%	11,587	-0.9%	10,993	0.5%
% Change 2019/2010	12.0%		36.4%		22.0%		22.5%	

<sup>\*</sup> Partial payments included.

### 1.3.2. - Compensation for CARD-CID component

Starting from the 2015 financial year, the Institute, following the indications of the legislator, has defined and implemented a model of incentives to establish competition among the undertakings participating in Direct Compensation (CARD) in order to improve their efficiency. The model was introduced by means of IVASS Orders No. 18/2014 and 43/2016 and reformulated by means of Order No. 79 dated 14 November 2018.

The assessment system measures the performances of the undertakings in relation to the cost of compensation for material damage and personal injuries, the claim settlement time, the timing dynamics of the cost of compensation for material damage and the results of the anti-fraud activities carried out in the claim settlement phase.

The **calculation of incentives,** carried out by year of occurrence of claims, spans three years: in the year following the reference generation an initial settlement is made, then in the following two years balancing adjustments<sup>50</sup> are made to what was settled in the first year for the cost and time components. The total amount of compensations for each generation is determined at the end of the third year after the year of generation (e.g. 2018 for claims generated in 2015).

The system envisages annual calibration to:

- select the undertakings bidding with sufficiently extensive portfolios (statistics robustness);
- stabilise the set of undertakings accessing the tender procedure;
- cut the distribution tails used to calculate average costs (estimate robustness);
- modulate the power of individual drivers.

<sup>&</sup>lt;sup>50</sup> 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.

The annual calibration, set by IVASS before the start of each generation, is based on three parameters. The calibration parameters applied to the generations of claims since the start-up of the incentive system are shown in Tables II.10 and II.11.

Table II.10

Calibration parameters for motor vehicles and incentive values										
				Maximum differentials (%)						
Year	Premium threshold (millions)	Percen- tiles	Total incen- tives (millions)	Cost	Dynam- ics	Time	Anti- fraud			
2015*	20	10 – 98	18.8	15	0	5	-			
2016	40	10 – 98	22.1	8	6	4	-			
2017	40	10 – 98	27.5	8	6	4	-			
2018	40	13 – 98	17.2	7	7	1	-			
2019**	40	10 – 98	n.a.	4	9	3	4			
Total			85.6							

Table II.11

Calibration parameters for mopeds and motor cycles and incentive values										
				Maximum differentials (%)						
Year	Premium threshold (millions)	Percen- tiles	Total incen- tives (millions)	Cost	Dynam- ics	Time	Anti- fraud			
2015*	2.5	10 – 98	0.9	7	0	7	-			
2016	5	10 – 98	1.5	9	7	5	-			
2017	5	10 – 98	1.4	9	7	5	-			
2018	5	12 – 98	0.4	7	5	1	-			
2019**	5	10 – 98	n.a.	5	-	2	-			
Total			4.2							

<sup>\*</sup> The dynamics were not applied for 2015 – \*\* Estimated maximum differentials.

The total incentives distributed until October 2019 (for the generations from 2015 to 2018) are 80 million for the motor vehicles macro-class and 5 million for the mopeds and motorcycles macro-class.

### 1.3.3. - Automobile sector - the price of MTPL insurance and the contractual clauses (IPER)

### Prices over the territory

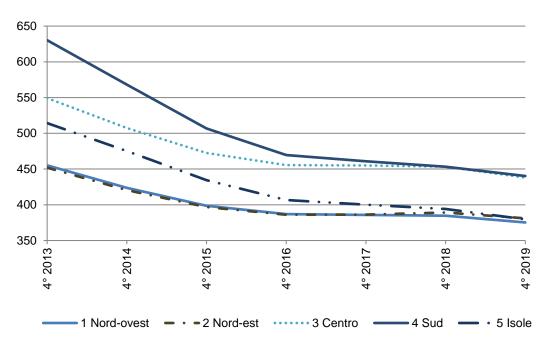
Figure II.4 shows the trend of the price paid for the MTPL coverage in the five macro-areas of Italy. In the fourth quarter of 2019, the differential between the most expensive macro-area (South) and the least expensive (North West) was equal to 65 euro (375 euro compared to 440 euro). The differential is down by -21.1% compared to the 175 euro in 2013, with a particularly significant compression of the gap until 2016.

The second macro-region by price level is the Centre which, from 2013 to 2019, recorded a reduction in prices of -20%.

In the remaining macro-areas, the price paid in the three-year period 2016-2018 is stable at around an average of 455 euro.

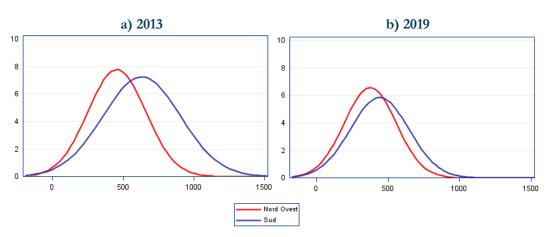
Figure II.4

Price performance for MTPL coverage by macro-area



In the fourth quarter of 2013, prices applied in the Southern provinces were higher and more heterogeneous than in the North West (Figure II.5.a). The comparison with the fourth quarter of 2019 (Figure II.5.b) shows a clear process of convergence between the two curves, not only in terms of price levels but also in terms of price dispersion.

Percentage distribution of premiums in North West and South Italy in Q4 of 2013 and 2019



The relationship between prices and distribution channel

The price level for the MTPL coverage is disparate among the different distribution channels<sup>51</sup> (Figure II.6).

In the fourth quarter of 2019, 82% of MTPL contracts were entered into through the traditional channel, 14.5% by direct and telephone undertakings and 3.4% through bank or post office branches.

The prices charged by telephone undertakings (369 euro) are 10% and 4% lower than the prices of contracts entered into through the traditional channel or bancassurance undertakings (410 euro and 385 euro).

The change related to the bancassurance channel is in contrast to the general reduction in premiums in the three-year period 2017-2019, with an increase of +1.0% in the fourth quarter of 2019. In the same period, the change in prices of undertakings using traditional and telephone networks was -3.3% and -1.8%.

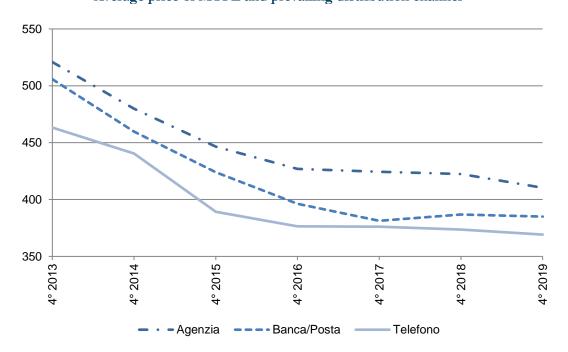
The price differential between undertakings that mainly subscribe to MTPL contracts through traditional networks and telephone undertakings, respectively the most and least expensive distribution channels, was stable between 12 and 13%.

Figure II.5

<sup>51</sup> The prevailing distribution channel is defined on the basis of the "quarterly premiums" survey. Agencies with mandates, financial promoters, brokers, tied agents and subsidiary agencies are aggregated in the "traditional" channel. Bank and post office branches (bancassurance undertakings) and Other forms of direct sales ("telephone" undertakings and/or undertakings with an online sales channel) are considered separately.

Figure II.6

Average price of MTPL and prevailing distribution channel



# Price diversification between undertakings

The MTPL price from 2013 to 2019 (Figure II.7) is widely diversified among the top five undertakings and compared to the rest of the market. Small and medium-sized undertakings have contributed decisively to the reduction in prices, with a 25% decrease over the five-year period.

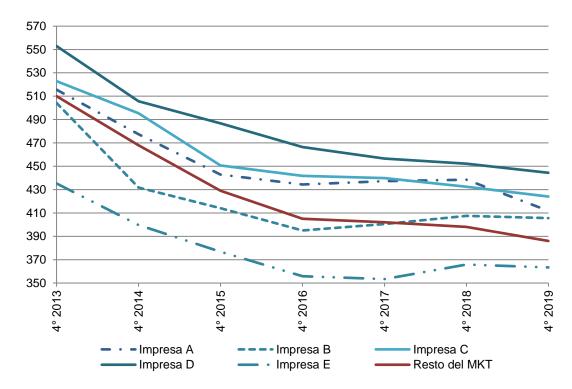
Comparing the development of the MTPL price for the top five undertakings per market share and the rest of the market<sup>52</sup>, it emerges that:

- only undertaking E applies prices below the market average for the whole period (-6.0% in the fourth quarter of 2019);
- the prices paid by the covered policyholders of undertaking B are above the average level, starting from the fourth quarter of 2017 with a price differential of +5.1% in 2019;
- the price differential with respect to the market average rose for undertaking C from +2.5% in 2013 to +9.9% in 2019 and for undertaking A from +1.1% to +6.7%;
- in the fourth quarter of 2019, policyholders of undertaking D (the most expensive) paid a premium 20% higher than undertaking E (the least expensive) and 15% higher than the average.

<sup>52</sup> The letters used to indicate the undertakings are casual and not related to the market share held.

Figure II.7

Average price of MTPL - Top 5 undertakings by market share and remaining undertakings



# Price disparity between insurance undertakings

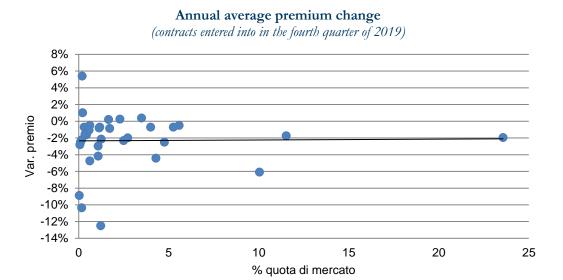
Figure II.8 shows that the correlation between the market share of each undertaking and the percentage change in its average prices in the fourth quarter of 2019, compared to the fourth quarter of 2018, is weak. The change is different among insurance undertakings<sup>53</sup> and ranges between +5.4% and -12.5%. Only five companies have experienced negligible price changes within a range of  $\pm 0.5\%$ .

The prices charged by 26 undertakings out of 33 analysed are characterised by a negative change over the year: the reduction does not reach -3% for 18 undertakings, it is between -3 and -9% for six undertakings and exceeds -10% for the remaining two.

However, the top five undertakings with the largest price reductions in the fourth quarter of 2019 include four with market shares between 0.03% and 1.22% and only one among the top three companies in terms of market share.

 $<sup>^{53}</sup>$  This analysis was carried out on the undertakings with more than 1,000 contracts.

Figure II.8

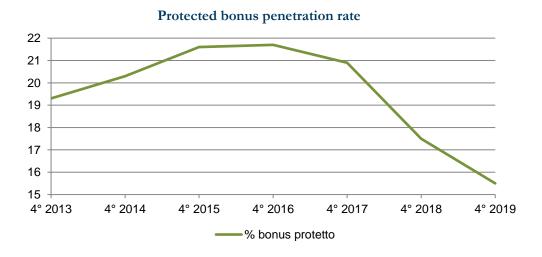


## The protected bonus

15.5% of contracts concluded in the fourth quarter of 2019 include the protected bonus clause under which, in the bonus classes envisaged by the undertaking, the trend in *malus* resulting from the payment of claims with fault is cancelled or mitigated.

Figure II.9 shows the portion of the contracts concluded from 2013 to 2019 in which this clause is present. At the beginning of the period it was reported for 19.3% of the contracts and continued to spread until 2015 (+2.3%), and then disclosed a first phase of decrease in the following two years (0.7%) and a further decrease, accelerating, from 2017 to 2019 (-5.4%).

Figure II.9



The premium associated with protected bonus contracts is on average 10% lower than the premium paid for a contract without such a clause (Figure II.10), although it implies a higher

degree of coverage. It can be assumed that the protected bonus is used by distribution networks to reward virtuous policyholders.

The price differential is maximum in 2013 (13.0%) and minimum in 2016 (10.5%). In the fourth quarter of 2019, policyholders with a protected bonus paid on average 11.2% less than other policyholders (365 euro versus 411 euro).

There is a positive but very weak correlation at provincial level between the penetration rate of the protected bonus and the average premium (Figure II.11).

Figure II.10

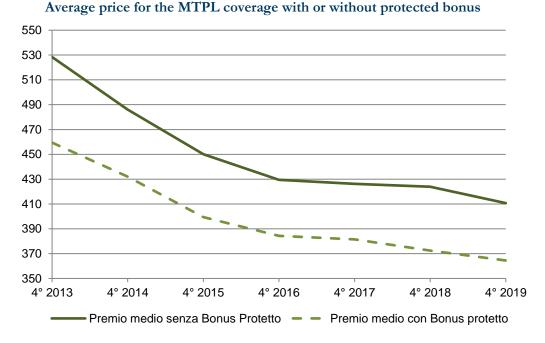
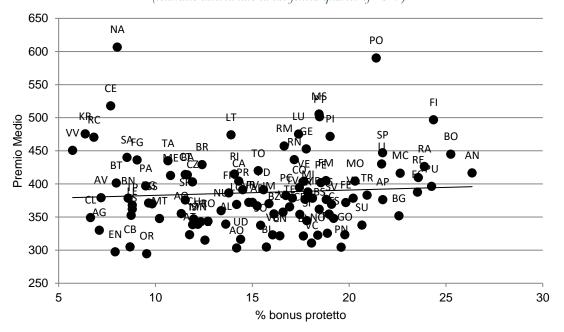


Figure II.11

Average price for the MTPL coverage and % of contracts with protected bonus

(contracts entered into in the fourth quarter of 2019)



# Company switch rate

Fig. II.12 shows the trend in the company switch rate, defined as the percentage of contracts stipulated in one quarter with an undertaking other than that initially chosen a year earlier, and the price trend. The company switch rate was 9.9% in the fourth quarter of 2019, when, in the presence of mobility slightly higher than in the previous year (+0.3%), a decrease in prices was seen (-2.8%). The correlation between the mobility of the policyholders and the average prices is significant and equal to 0.77, indicating greater mobility when prices are higher.

Figure II.12

10%

9%

4° 2019

4° 2018



4° 2017

% Tasso di cambio (scala di destra)

# 1.4. - MTPL market concentration

4° 2014

4° 2015

Premio medio

520

500

480

460

440

420

400

The Herfindal-Hirschman Index (HHI) is commonly used to measure market concentration. High HHI values<sup>54</sup> indicate that the market is barely competitive. The HHI value for the Italian MTPL market in 2019 was 907, suggesting that the MTPL market has a weak concentration according to the standards commonly adopted by the antitrust authorities.

4° 2016

Fig. II.13 shows a positive association between the HHI trend and prices over time, in particular since mid-2016.

<sup>&</sup>lt;sup>54</sup> The HHI range is 0-10,000.

Figure II.13

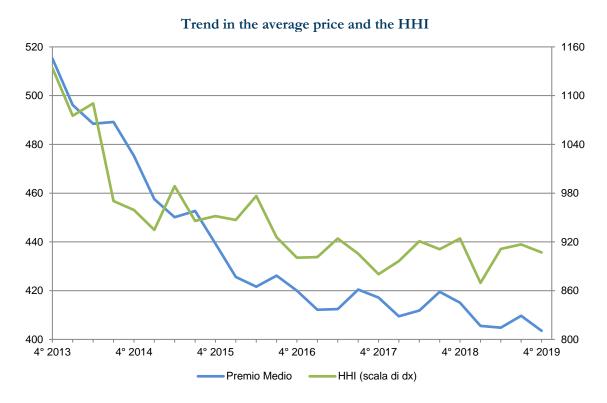
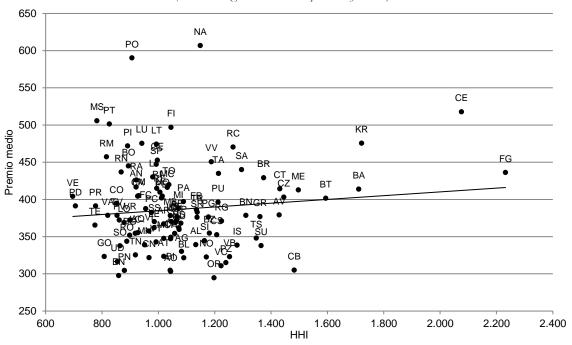


Fig. II.14 shows the correlation between the average price and the HHI among the provinces. The correlation is slightly positive with some provinces with high prices and relatively high values in the national comparison of the concentration index (Caserta and Crotone) while in Naples, the most expensive province, there is a low HHI of 1,148.

Figure II.14

# Ratio between average price and HHI by province

(contracts signed in the 4th quarter of 2019)



# 1.5. - Litigation regarding motor liability and liability for ships

Data for 2019<sup>55</sup> was received from a sample of 30 national insurance undertakings and branches in Italy of non-EEA undertakings, including the leading three in the market, representing 80% of the market, out of a total of 44 undertakings operating in the MTPL class. The observed sample continues to disclose a high level of insurance litigation pending before the Italian Courts. This has an impact on the legitimate expectations of injured parties that have brought claims for compensation, on the exercise of the right to justice and on undertakings that oppose the counterparty claims in an and quantum terms. The excessive duration of proceedings has a negative effect on the closure of insurance litigation, and settlement agreements represent the most commonly used means of resolving cases.

The territorial distribution of proceedings in Italy is not even, with a strong concentration in the areas of Naples and Rome where we find 37% of the number of pending proceedings and 25% of the amount of provisions. In these areas there is a marked correlation with the high number of claims exposed to fraud risk. In Naples, the ratio of the number of pending lawsuits reserved to total claims outstanding stood at 46%, compared to a national average of 21%. In the same areas, the claim settlement time is below the national average (69% in terms of number), with values of 51% in Naples and 67% in Rome.

<sup>&</sup>lt;sup>55</sup> See IVASS Statistical Bulletin 19/2019 for detailed data in the period 2010-2018. The 2019 figures are based on preliminary data. Litigation resulting from the anti-fraud activities is excluded (see II.1.6.2).

7The total number of pending civil and criminal cases at the end of 2019 was 183,953 (196,189 at the start of 2019), down by -6.2% due to the decrease in 1st degree civil cases. The decline in litigation is -5.5% in Naples and -7.5% in Rome. The decrease in pending litigation cases results in a saving in their social cost, a decrease in amounts allocated to claims provisions and in business risks, as well as a potential saving in proceedings times.

The 1st degree civil cases managed (cases pending at the start of 2019 plus cases initiated during the year) were 269,570, of which 84,542 brought during the year. The corresponding closed cases were 95,985, accounting for 36% of those managed. The related average provision is 23 thousand euro, over twice the average amount paid. At the end of 2019, the total provisions were: for 1st degree civil cases, 3.9 billion euro, of which 3,2 billion for proceedings with personal injuries and 49% referring to claims occurring more than five years previously; for 2nd and 3rd degree civil cases, 356 million euro (314 million euro for pending personal injury proceedings), of which 95% refer to claims occurring more than five years previously; for criminal cases, 197 million euro.

The top four undertakings for number of 1st degree litigations managed 175,877 cases in 2018, of which 88% before Justices of the Peace. For these undertakings, the cases pending reduced in number by -8,4% and in amount terms by -8.9%, with average provisions of 23,000 euro. The total provisions for cases pending amount to 2.5 billion euro, of which 50% refers to proceedings relating to claims occurring more than five years previously. This incidence reaches 95% for 2nd and 3rd degree proceedings. As regards 1st degree civil cases, we note that:

- 14,339 new cases were brought in relation to claims with year of occurrence as 2016 or earlier;
- advances were paid amounting to 17% of total pending proceedings in terms of number and to 28% in terms of amount, down compared to 2018. Considering that the malus application and subsequent premium increase only happens when a payment is recorded, for cases with no payment on account the procedural duration of a with-fault claim also delays the contractual penalisation;
- the clearance speed for litigation, measured by the fraction of claims proceedings closed during the year over total cases managed, is 37%.

The undertakings in the sample have closed with a settlement agreement 48% of the total cases closed in 2019, 23% with liability of the undertaking, 14.7% with judgement waiver and 14.7% with decisions in favour of the undertaking. The latter recorded significant savings, achieved by undertakings by opposing the compensation claims.

The total provisions include amounts for cases closed with a settlement agreement or with liability of the undertaking still to be paid at year end for 168 million euro, highlighting delays in making the payments.

With the publication since 2018 of the IVASS statistical bulletins on litigation, detailed information has been provided to the market in order to analyse the phenomenon in a prospective way, so as to achieve a sustainable level of litigation for both undertakings and the community.

# 1.6. - The national single table for non-financial damage for serious injuries

On the initiative of the Ministries of Economic Development, Health and Justice, IVASS carried out a study on the dynamics of compensation for macro-injuries (disability between 10 and 100 percentage points) and on the most recent case law decisions, the result of which led to the hypothesis of a single national table that could combine regulatory principles <sup>56</sup>, full compensation for non-financial damage and a rationalisation of the costs borne by the insurance system and consumers.

The law envisages that the table, once introduced by decree of the competent Ministries, will have to be applied for the quantification of damages deriving from the circulation of motor vehicles and craft (Article 138 of Legislative Decree 209/2005) and for those deriving from professional healthcare liability (Article 7 of Italian Law No. 24/2017 - Gelli Law).

An estimate of the cost borne by the MTPL sector in 2018 to compensate injured parties with serious injuries was used as an external constraint of the model for the calculation of the compensation components. The estimates were based on the data collated in July 2019 on the settlements of claims closed by final settlement in 2018 and which had resulted in serious personal injury with liability assigned exclusively to one of the drivers of the vehicles involved in the event. 29 undertakings representing 97% of the risk units in the reference year participated in the survey.

The construction of the table values contained in the proposal has been carried out in accordance with legislative data and recent legitimacy and merit case law. Going into detail:

a) the two components of non-financial damage are assessed separately: biological damage (understood as injury to physical integrity) and non-material damage (understood as psychological and dynamic-relational damage), also taking into account the recent case law on legitimacy relating to the subject (Civil Cassation section III Order No. 8755/2019 and 7513/2018, as well as Sentence No. 901/2018);

In particular, the Court of Cassation reaffirmed that the joint allocation of a sum of money as compensation for biological damage and a further sum as compensation for non-material damage does not constitute compensatory duplication.

In accordance with the legislative requirements compensation for non-material damage is represented by a percentage (multiplier for non-material damage) increasing that of the biological damage, rising with the increase of each point of disability, from 18% to 36% for 10 and 100 points of permanent disability respectively.

In determining this increase, account has been taken of the values envisaged by the tables on disability applied in the judicial districts of Milan.

b) the economic values of the disability points are determined using the variable point system according to the age and degree of disability, with a consequent increase in the economic value of the point as the invalidity increases, and decrease as the age of the injured party increases;

<sup>&</sup>lt;sup>56</sup> Article 138 of the CAP amended by Law No. 124 dated 4 August 2017 ("competition").

- c) the economic value of the point increases with respect to the percentage of disability with an incidence more than proportional to the increase in the degree of disability ("biological multiplier" of the value of the base point), with the aim of making the multiplication factor:
- compatible with the legislative requirements (more than proportionality of the compensation as the degree of disability increases);
- adequate with respect to that envisaged by law for micro-permanent injuries (taking into account the lower limit imposed by the regulations for micro-permanent injuries and avoiding an excessive difference in level in correspondence with the ninth and tenth degree of disability);
- not onerous for the insurance market and consumers (avoid explosive effects at the tail end
  of the curve more than proportional for higher degrees of disability in compliance with the
  quantitative data of compensation found in the statistical survey carried out);
- d) the economic value of the point decreases in relation to the person's age, on the basis of the mortality tables drawn up by ISTAT, with a revaluation rate equal to the legal interest ("demographic de-multiplier" of the value of the base point);
- e) the biological damage component referred to in points a) and d) is increased in percentage terms and progressively per point ("multiplier for non-material damage"), in order to consider the non-material damage component for the purposes of the overall customisation of the settlement;
- f) the base point is assigned the same value as that envisaged by the primary standard for minor injuries;
- g) the latest tables applied by the judicial districts of Milan and Rome are assessed in quantitative and qualitative terms.

The consistency of the assumptions underlying the proposed model has been ascertained by comparing the total amount settled, obtained from the sample survey, with that which would be determined on the basis of the same claims distribution in accordance with the new table. The comparison did not provide significant differences in economic terms.

#### 1.7. - Anti-fraud activity

In 2019, IVASS paid particular attention to the management and development of databases, both those directly managed (Claims Data Base - CDB and Anti-Fraud Information Database-AIA) and those entrusted to external parties and governed by the Institute's regulations, such as the Claim History Statement Database. Numerous IT projects have been launched and the investments involved were substantial, both in economic and HR terms.

The AIA portal has been enhanced with the possibility for undertakings to directly manage the accesses of their collaborators for consulting the databases and with a platform for the exchange of information in the event of claims management. A project for the evolution of the CDB has been launched, which envisages the collation of additional information, the re-engineering of the system and the securing of the archives, which by now are almost twenty years old.

# 1.7.1. - IVASS anti-fraud activities and the Anti-Fraud Integrated Database

The Claims Data Base is the primary tool in the fight against insurance fraud in the MTPL sector by public authorities and judicial bodies. In addition, the CDB can be consulted by the parties directly concerned (data subjects) in order to obtain data and information relating to their person or vehicles.

In 2019, IVASS received 92 reports from individuals (157 in 2018) and 2 reports by foreign undertakings on alleged unlawful behaviours. 20 requests for information on individuals or vehicles under investigation submitted by Authorities were handled (17 in 2018) and 201 requests to ascertain MTPL insurance coverage (174 in 2018) from Authorities which, upon verifying the insurance documentation on the road, noted the absence of a contract in the Coverage Database. As in 2018, only one report concerned the Claim History Statement Database.

667 requests were received (468 in 2018) for access to the Claims Data Base (CDB), Register of Witnesses and Register of Injured Parties, of which 416 from the direct owners of the data, 139 from Judicial Authorities and Law Enforcement Agencies (54 in 2018), and 112 from third parties, including attorneys and Justices of the Peace. A considerable increase was observed in the requests for access to documents submitted by Authorities (+154%) and policyholders (+60%). Aside from those coming from the directly involved parties, in their capacity as owners of the data, access requests are allowed only for the purpose of preventing and combating insurance fraud.

419 authorisations were granted to new users for consultation of the Claims Data Base, at the request of undertakings and of 34 judicial and local police organisations (292 in 2018). 134 requests by undertakings for the reactivation of expired users were processed, along with 93 requests by other Entities (393 and 197, respectively, in 2018). Technical assistance was provided to numerous users who requested support for their access.

74 sanctioning procedures were initiated, of which 28 against undertakings that failed to correctly provide data to the Claims Data Base and 46 relating to the late provision of data to the Claim History Statement Database.

#### Phantom claims

Every year, the Institute receives complaints about claims from users who complain that they have not actually caused accidents. These "phantom" claims and the handling of the reports of the users by the undertakings are kept under constant observation, although they are limited compared to the total number of claims reported and decreased in 2019 with 34 cases compared to 102 the previous year. In 12 cases the undertaking cancelled the claim, restoring the previous bonus class.

In the absence of witnesses or other elements (black box, telepass - electronic toll payment) to substantiate the claim, the denial of the event by the policyholder ("denial-event") prompts

the undertakings to carry out specific investigations. In support of these investigations, the new CDB provides specific information on denial-events managed within the CARD sphere.

# Dynamic statement

Since its creation by means of IVASS Regulation No. 9 dated 19 May 2015, the Claim History Statement Database has streamlined the collection and storage of information on the insurance history of each policyholder and introduced administrative simplification through the abolition of paper certification.

As a result of IVASS Order No. 71 dated 1 June 2018, insurance undertakings populating the database are also required to transmit information on claims paid after the expiry of the observation period or after the expiry of the contract, as well as on claims relating to temporary cover, when the policyholder has changed insurance company. Previously, the failure to report these claims did not make it possible to assign the *malus* to the party responsible, whereas now such claims can be entered in the claim history statement within five years of receipt of the report of the claim or the request for damage compensation. The provision intervenes on the opportunistic behaviour of policyholders who, after having caused a claim with fault, change insurance company to avoid the registration of the claim on the claim history statement and, consequently, the application of the *malus*.

The effects of the new population of the Database will affect the tariff requirement of the undertakings, contributing to the containment of tariffs for honest policyholders and the deterioration for those prone to moral hazard.

In the first year of observation of the new system (June 2019 - May 2020), 457,184 late claims were recovered under the system, of which 312,911 (10% of total claims) related to coverage in place at the end of the year and led to the application of the *malus*. The remaining 144,273 relate for 80% to cases of non-renewal of coverage and the remaining 20% to coverage about to expire, underwriting of temporary policies, etc.

#### Report on Data quality of the Claims Data Base (DQCDB)

IVASS provides undertakings uploading data to the CDB with a monthly statistical analysis on the quality of the data reported, to facilitate the analysis of the data sent pursuant to Article 135 of the CAP. The report contains various data quality and completeness indicators relating to the claims transmitted by each undertaking, compared with those of the entire market.

In addition to the use of the CDB for anti-fraud purposes, the information contained therein is used to determine the AIA indicators, calculated by IVASS pursuant to Article 21 of Decree Law No. 179 dated 18 October 2012, and therefore the integrity and completeness of the data must be considered objectives of primary importance for the market.

In 2019, the Institute enhanced the existing 11 sections of the DQCDB report and added three new sections dedicated to the role of parties involved in claims, the promptness of reporting and the reasons for dealing with them. In addition, for the designated undertakings of the Guarantee Fund for Victims of Road Accidents (FGVS), managed by Consap, specific reporting on the related claims is provided.

## New Comparator

In August 2019, with the activation of the Consip procedure for the acquisition of technological services by the Public Administrations, the executive contract for the creation of the New Public Online IVASS/MISE Comparator was entered into with the Temporary Joint Venture (TJV), comprising the companies Almaviva S.p.A., Almawave S.r.l., Indra Italia S.p.A. and PWC Advisory S.p.A.

Design and development activities, which began in September 2019, have slowed down due to the repercussions that the initiatives taken by the Government to deal with the COVID-19 emergency have had on the management processes of insurance undertakings. At present, the launch of the new procedure is scheduled for January 2021.

#### The AIA Portal

In the second half of 2019 the portal for the consultation of the databases for the fight against MTPL fraud, created in collaboration with the Bank of Italy, was launched.

By means of the anti-fraud portal, it is possible to consult both the Claims Data Base (CDB) and the indicators of the integrated anti-fraud database (AIA) in an integrated and interactive way; the new functions make a complex set of data available to users for the fight against fraud, which will soon be enhanced by another important source of information represented by the platform for the exchange of documents between undertakings for claims with high AIA scores.

The new portal not only has an informative impact, but also technological and organisational impacts with a view to improving the efficiency of fraud prevention activities.

With regard to organisational aspects, the new procedure for decentralising authorisation granted to undertakings for access to the portal should be pointed out. The process for requesting and issuing authorisations has been rendered entirely digital, significantly reducing the activities to be carried out by the undertakings and IVASS.

From a technological standpoint, the new portal has been created with the latest software and hardware solutions, paying particular attention to security and confidentiality aspects. Access to the AIA portal with a SPID user account facilitates user recognition and has an indirect impact on the diffusion of secure authentication tools that can be used for other services of the Public Administration.

## The Anti-Fraud Integrated Database

The development of the platform for data exchange between insurance undertakings and the network analysis model in support of anti-fraud activity continued.

The prototype of the AIA internet portal, which will be used by undertakings to exchange elements useful for carrying out anti-fraud activities on specific claims, was presented in July 2019 and will be brought into production in 2020.

The system will permit the exchange of documents relating to claims with a high anomaly score, making it possible to create an electronic file of the claim forming the subject matter of specific investigations and subject to enhanced anti-fraud activities.

The volumes of information processed by AIA are increasing compared to previous years, with 12.5 million reports processed in 2019 compared to 9 million in the previous year. New claims are almost 3.2 million, also up compared to 2018.

The distribution of claims in the four classes by AIA summary score confirms relative stability: 17% of the reports have an average or high anomaly indicator (score greater than or equal to 20), 26% have a low value (score less than 20) and the remaining 57% have a zero score.

The Institute periodically monitors the effectiveness of parameters which contribute to the summary score and calibrations, also on the basis of market reports, arranging their review as necessary to prevent or remove any data distortions. The quality of the AIA anomaly scores stands at satisfactory levels, with an average value of the QScore indicator on the completeness of the information available, equal to 85%. The response times to undertakings are, on average, about two business days from the date a claim is reported to IVASS.

Initial evidence of AIA scores for claims which occurred in the period 2015-2019 shows an average of 6.2 for claims occurring in 2019, essentially unchanged with respect to the previous year (6.1), as represented by the middle line in Figure II.15. The lower and upper lines identify the 5th and 95th percentile of the distribution per year; also the variability is more or less constant since 2016.

Figure II.15

Trend in the average AIA score and of the 5th and 95th percentile

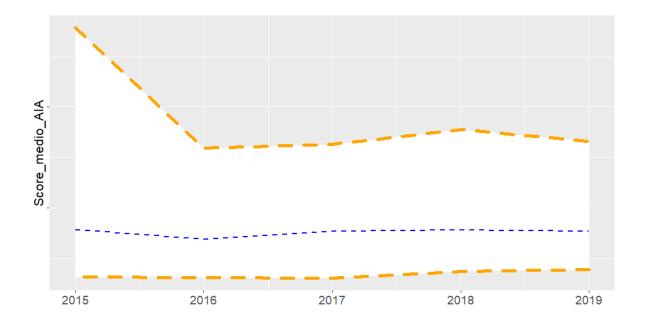
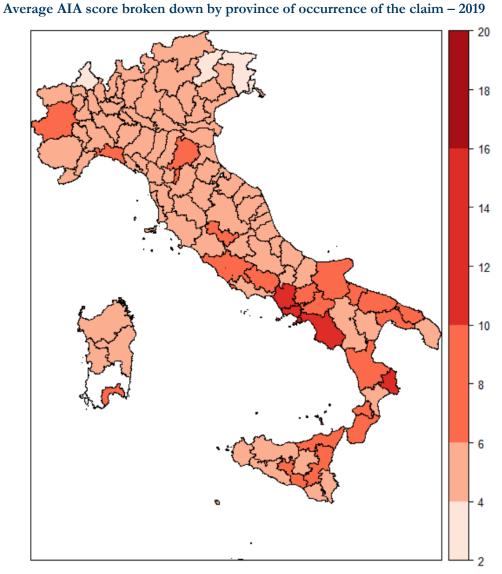


Table II.12

Average AIA score calculated on claims broken down by year of occurrence						
	2015	2016	2017	2018	2019	
Average score	7.0	5.9	5.7	6.1	6.2	

Figure II.16 shows the detail of the average score at provincial level for claims that occurred in the last year.

Figure II.16



The map shows the areas with the highest average, in some cases outside the provinces traditionally under particular observation for fraud risk.

During 2019, in relation to the evidence on FGVS claims communicated to the CDB, the Institute asked the designated undertakings to carry out specific verification activities which, for some of them, highlighted the need to intervene in the solution of some problems. Similarly, the Institute asked all undertakings with open CDB claims of very old generations to carry out an audit, which again involved corrective action. Two undertakings with significant reporting problems were summoned for further investigation.

# 1.7.2. - Anti-fraud activities of undertakings – 2018

The 2018 annual anti-fraud reports submitted by the undertakings to the Institute in May 2019 confirm the improvements already registered in previous years.

Compared to 2017, reported claims were down slightly, despite the increase in insured RUs. The improvement in the results of anti-fraud activities, in terms of improved selectivity of the risk and claims to be investigated, can be seen in the substantial growth in the latter, as well as in claims without follow-up after investigation for fraud risk.

The savings obtained by undertakings thanks to the anti-fraud activities were essentially unchanged compared to the previous year (253 million euro), equal to 1.9% of MTPL premiums in 2018.

# Anti-fraud numbers in Italy during 2018

The total number of claims reported was 2,813,191, down -1.6% on a national basis and in particular in the Centre (-2.9%), South (-2.7%) and Islands (-3.2%).

The Risk Units (RUs) insured rose by +1.6%, to 42,033,452, with generalised growth in all geographic areas: North (+2.2%), Centre (+1.1%), South (+1.4%) and Islands (+0.4%).

As in the previous two years, the reduction in claims classified as at risk of fraud continued (628 thousand), down -1.9% on the previous year. There was, however, a significant increase in the incidence of claims exposed to fraud risk in the provinces of Caserta ( $\pm$ 12%), Crotone and Isernia ( $\pm$ 6%).

A total of 374,966 claims were investigated for fraud risk (compared to 335,102 in 2017; +11.9%). Among the provinces with the highest incidence of the phenomenon, indication is made of Caserta and Naples, as in 2018 but with inverted positions.

The number of claims closed without payment after anti-fraud activities increased once again (+10.6%) to 55,772 (50,438 the previous year).

The savings achieved by fraud foiled come to just over 253 million euro, down slightly on 2017 (-0.5%) but stable if taken as a ratio of total premium income for the year (1.9%).

Claims subject to reporting/legal action decreased slightly compared to the previous year (-1.7%, 4,515 compared with 4,591). With reference to the individual geographic areas, there was an increase in this type of claims in the South (+7.2%).

Table II.13

	201	8 reports - I	SVAP Regu	ılation n.	44/ 2012		
							(units)
Territorial Macro- zones	Regions	Risk Unit	Claims Reported	Claims ex- posed to fraud risk	Claims investi- gated in re- lation to fraud risk	Claims investigated in relation to fraud risk that were closed with- out payment	Claims subject to Reports/Le- gal Action
	EMILIA ROMAGNA	3,421,692	208,601	41,020	24,707	3,140	203
	FRIULI VENEZIA GIULIA	967,913	43,932	7,632	3,275	458	23
	LIGURIA	1,136,181	89,457	18,243	9,988	1,171	87
	LOMBARDY	7,167,041	480,161	79,656	43,825	5,881	418
NORTH	PIEDMONT	3,285,797	222,909	42,060	22,635	3,367	278
	TRENTINO-ALTO ADIGE	1,230,831	75,495	14,474	3,074	482	25
	VALLE D'AOSTA	184,304	6,158	903	415	105	12
	VENETO	3,784,503	197,535	29,094	15,324	1,988	93
	North - Total	21,178,263	1,324,248	233,082	123,243	16,592	1139
	LAZIO	4,333,378	369,978	78,737	47,894	7,504	485
	MARCHE	1,180,395	65,015	11,718	6,365	797	34
CENTRE	TUSCANY	2,929,938	200,524	37,314	21,180	2,841	237
	UMBRIA	719,399	40,568	7,685	4,367	634	67
	Centre - Total	9,163,110	676,085	135,454	79,806	11,776	823
	ABRUZZO	935,400	53,319	11,029	5,800	887	78
	BASILICATA	382,739	18,782	4,879	3,208	530	47
	CALABRIA	1,065,849	56,693	16,805	11,178	1,882	207
SOUTH	CAMPANIA	2,728,267	266,437	127,938	88,263	14,663	1,644
	MOLISE	229,106	11,699	4,171	2,808	477	70
	PUGLIA	2,289,652	137,826	37,448	24,572	3,552	214
	South -Total	7,631,014	544,756	202,270	135,829	21,991	2,260
ISLANDS	SARDINIA	1,073,034	65,108	10,628	5,712	814	29
	SICILY	2,988,030	202,994	46,942	30,376	4,599	264
	Islands - Total	4,061,065	268,102	57,570	36,088	5,413	293
Domestic To	otal	42,033,452	2,813,191	628,376	374,966	55,772	4,515

# Criminal proceedings initiated by undertakings

In the claims settlement phase in 2018, insurance companies initiated 2,850 criminal proceedings, down by -8% compared to the previous year.

23,527 criminal proceedings were brought by the undertakings from 2012 to 2018, of which 35% with final outcomes (8,157).

Table II.14

	Reports/legal actions pertaining to the settlement phase							
						(units)		
		Final outcome Fina						
Year	Reports/ Legal Actions	Dismissal	Acquittal	Conviction	Other *	out- come -		
	J		•			Total		
2012	3,287	838	90	333	565	1,826		
2013	4,278	890	98	351	457	1,796		
2014	3,379	796	79	277	294	1,446		
2015	3,607	1,046	54	163	332	1,595		
2016	3,029	466	29	93	144	732		
2017	3,097	310	12	44	124	490		
2018	2,850	123	12	38	99	272		
Total	23,527	4,469	374	1,299	2,015	8,157		

<sup>\*</sup> Includes residual cases including withdrawn reports, indictments, dismissal through oppositions and transfers to other Offices of the State Prosecutor.

With regard to the underwriting or pre-underwriting phase, we observe a significant increase (+46%) in the number of reports/legal actions initiated by undertakings.

Table II.15

Reports/legal actions pertaining to the underwriting phase								
						(units)		
			Final outo	come		Final		
Reference years	Reports/legal actions	Dismissal	Acquittal	Conviction	Other	out- come - Total		
2012	3,070	488	109	176	251	1,024		
2013	4,086	566	109	121	289	1,085		
2014	3,807	949	55	110	340	1,454		
2015	3,255	951	44	99	333	1,427		
2016	830	273	33	34	20	360		
2017	525	76	9	6	21	112		
2018	771	33	6	8	31	78		
Total	16,344	3,336	365	554	1,285	5,540		

The adequacy of corporate organisations in combating fraud

The 2018<sup>57</sup> anti-fraud assessment procedure covered 53 undertakings.

In the first bracket (which includes the undertakings with the best anti-fraud performance) there are 12 undertakings compared to 8 undertakings in the previous year, with a decline in the market share measured on the Risk Units insured (44 % compared to 53%). The market share of the 16 undertakings (they were 14) in the second bracket rose significantly to 46%, compared to 23% in 2017.

<sup>&</sup>lt;sup>57</sup> Some EU undertakings, representing 0.03% of the market, were excluded due to the unavailability of all the data needed to calculate the anti-fraud indicators.

Only 3 undertakings, eight less than in the previous year, were positioned in the fifth (and less favourable) bracket, with a market share below 1%.

Table II.16

		Assess	ment brackets l	y final score		
					(unit	s and % values)
Assess- ment bracket	Number of undertak- ings	Total Risk Units	RU market share	Claims reported	% over total claims reported in Italy	Loss ratio
			2017			
ı	8	22,793,726	55.1%	1,550,323	54.2%	6.8%
II	14	9,387,834	22.7%	673,596	23.6%	7.2%
III.	16	7,780,689	18.8%	506,011	17.7%	6.5%
IV.	14	1,149,890	2.8%	107,860	3.8%	9.4%
V.	11	233,175	0.6%	20,093	0.7%	8.6%
Total	63	41,345,314	100.0%	2,857,883	100.0%	6.9%
			2018			
I	12	18,639,719	44.4%	1,230,317	43.7%	6.6%
II	16	19,584,122	46.6%	1,317,589	46.9%	6.7%
III.	12	3,347,943	8.0%	230,770	8.2%	6.9%
IV.	10	335,267	0.8%	23,675	0.8%	6.9%
V.	3	114,299	0.3%	9,839	0.3%	7.9%
Total	53	42,021,350	100.0%	2,812,190	100.0%	6.7%

The estimated reduction in the cost of claims deriving from fraud investigations recorded a decrease of -0.5%.

Table II.17

Assessment bra	ckets and estimated	reduction in the cost o	of claims resulting from	anti-fraud activities	
			(amounts in milli	on euro and % values)	
Assessment	20°	17	2018		
bracket	Amounts	%	Amounts	%	
ı	175.8	69.1%	134.6	53.2%	
II	51.0	20.1%	108.6	42.9%	
III.	23.2	9.1%	7.1	2.8%	
IV.	4.0	1.6%	2.3	0.9%	
V.	0.4	0.2%	0.6	0.2%	
Total	254.4	100.0%	253.1	100.0%	

# 1.7.3. - Anti-fraud activities of undertakings — 2019 forecasts

Following the COVID-19 health emergency, IVASS granted the undertakings a 60-day extension of the deadline for submitting the anti-fraud reports referred to in ISVAP Regulation No. 44/2012, with respect to the natural deadline of 30 May 2020.

Therefore, on closure of this report, no adequate aggregate information is available to provide the usual initial indications drawn from the anti-fraud reports on the performance of the activities carried out in 2019.

## 2. - RISK MANAGEMENT IN AGRICULTURE

IVASS participates in the Monitoring Committee of the National Rural Development Programme (NRDP) for 2014/2020 and in the Technical Committee for the Annual Risk Management Plan (ARMP) and intervenes in the national coordination forums promoted by MIPAAF.

The NRDP programme promotes, among other things, support for risk prevention and risk management in the agricultural sector through EU contributions on premiums for harvest, animal and plant insurance against the risk of economic losses for farmers caused by adverse weather conditions, animal or plant diseases, parasite infestations or the occurrence of an environmental emergency.

The ARMP governs public support for risk management in agriculture by means of preventive measures, including EU and national contributions to insurance premiums for crop and animal production, livestock farming and farm structures.

The 2020 ARMP envisages coordinated action between traditional insurance instruments, innovative policies, mutual funds, sectoral instruments for income stabilisation and *ex-post* compensatory interventions. In addition, it sets the damage threshold<sup>58</sup> in subsidised policies with EU contributions equal to 20% and the percentage of public contribution on the premium up to 70%. The aim is to expand the farms and agricultural land insured, favouring a better territorial and sectoral distribution.

Based on data collected by ISMEA, the total insured value is growing over the decade, from 5.9 billion in 2010 to 8.3 billion in 2019, the all-time high<sup>59</sup>. With regard to plant crops, premiums for subsidised policies reached 486.5 million euro (+5.9% compared to 2018), while premiums for livestock amounted to 22 million euro (+0.4%).

IVASS' interest in risk management in agriculture should be sought in the objective of encouraging the reduction of the protection gap also in the agricultural sector and increasing attention to climate change which, also in Italy, has amplified the frequency and catastrophic extent of extreme natural events such as anomalous temperatures, storms, floods and flooding. The new risks can have high and, in part, unexpected costs with new threats for farmers, making advanced forms of management increasingly necessary.

The use of subsidised insurance instruments for risk management requires adequate and clear rules, transparency in contracts and correctness in terms of conduct when underwriting

<sup>58</sup> In the subsidised agricultural sector, the damage threshold is the minimum percentage of damage to crops or livestock, above which compensation can be paid. The damage threshold envisaged by the Plan for risk management in agriculture is currently 20%. Its functional mechanism is similar to that of a deductible.

<sup>&</sup>lt;sup>59</sup> http://www.ismea.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/11025; ISMEA 2020 Agricultural Risk Management Report.

risks and in the timely settlement of damages. In estimating damages, the objectivity of appraisals is of fundamental importance, through the standardisation of damage determination procedures on the basis of common and shared guidelines. The 2020 ARMP reinforces the duty of insurers to formally recognise the occurrence of an event, to ascertain that the damage has exceeded the threshold, and to facilitate control procedures. The safeguards on the settlement of agricultural damages deriving from adverse events envisage the harmonisation of the damage appraisals as from 2020, based on the results of the project managed by ISMEA. The agricultural loss adjusters appointed by insurers to estimate damages as from 2020 have a standard campaign bulletin attached to the ARMP to be used on an optional basis.

In agricultural risk insurance, prevention measures based on "good agricultural techniques" and crop protection structures (irrigation systems, anti-hail nets, anti-freeze and anti-frost fans, etc.) are an essential condition for risk mitigation, correct risk pricing and fair compensation to farmers.

Of particular interest is the introduction of innovative policies, such as the revenue policies (to cover the loss of revenue from insured production) and parametric or index-linked policies, which cover the loss of insured production due to damages in quantity and quality as a result of adverse weather conditions, determined on the basis of biological or meteorological indices.

The structure of a parametric insurance policy can be more complex than other insurance products, requiring insurers and the network to make a special effort to prevent problems arising from misunderstandings on the benefits envisaged by the policy and the real needs of the customers and project sponsors.

The development of increasingly efficient and effective catastrophic coverage in agriculture will need to be achieved through a balanced set of risk management systems and financial instruments.

The COVID-19 pandemic has highlighted the relevance of the agricultural supply chain for food self-sufficiency in critical situations.

The continuity of agricultural production must also be guaranteed with insurance tools suitable for managing the consequences of climate change, especially in the Central and Southern areas of the country, which are experiencing a financial imbalance of the subsidised insurance system. At geographical level, with reference to wine grapes and other crops, the data of the ISMEA 2020 Agricultural Risk Management Report <sup>60</sup> shows that the insured values are concentrated in the northern regions, for 81.4% of the total.

The use of agricultural risk insurance, reducing the risk of a decline in the farmer's income, can also contribute towards facilitating access to credit at more favourable conditions for the farmer when assessing creditworthiness.

The aim of the 2020 ARMP is to extend the number of farms participating in the scheme for subsidised risk management, the values and the areas insured as well as the spread of insurance products in the Centre, South and Islands. The geographic analysis of the spread of subsidised

<sup>60</sup> http://www.ismea.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/11043.

policies in agriculture of ISMEA, revealed the need to establish new risk management tools, also in order to mitigate some imbalances in the distribution of public financial resources and compensation between geographic areas and production chains.

Finally, the 2020 ARMP refers to the application of the CAP rules, among which the provisions regarding innovation of the contents and methods of risk coverage, responsible management of potential conflicts of interest, safeguards for the clarity and transparency of contracts and the management of the risk of conduct of insurance distributors - who must act according to the rules of fairness and professional diligence - are particularly relevant. Failing this, the new sanctioning regime would apply and violations of insurance legislation could also be assessed for the purpose of observance of the requirements for receiving public grants.

# 3. - Insurtech: European and National Activities, sandbox, market requirements

IVASS closely monitors the impact of technological innovation on the insurance market (Insurtech), identifying the benefits and risks for market stability and consumers. In addition, initiatives have been launched to expand the use of technology for compliance action by operators (Regtech) and for the supervisory and analytical activities carried out by the Institute (Suptech).

The Institute has started dialogue with operators (undertakings, intermediaries, trade associations, technology operators, start-ups) to analyse the innovative projects implemented or planned and to verify the compliance of the solutions and the entry of new players in the market. Among the experiments underway are innovative insurance mediation models, including policies offered in combination with consumer goods sold through online portals or apps. There are also policies with limited time effectiveness that can be purchased through IT platforms or smartphones, aimed at immediately meeting specific and temporary customer needs (on-demand or push policies, proposed by the operator following profiling through big data analytics).

The COVID-19 emergency has highlighted an important need for further dematerialisation of relationships and contracts also for the insurance sector. In this sphere, the Institute has been active for some time, for example by promoting the digitisation of MTPL documentation, and carefully evaluates the new possibilities and risks in terms of customer safety and protection, impact on the distribution network and on contractual and operational practices.

#### 3.1. - European and national initiatives

IVASS actively participates in European initiatives on technological innovation in the insurance sector, including the activities carried out in the EIOPA Insurtech Task Force and in the European Forum of Innovation Facilitators promoted by the European Commission<sup>61</sup>, based on the report published in 2019 by the three European authorities EIOPA, EBA and ESMA on the regulatory sandboxes and innovation hubs<sup>62</sup>. In both these areas, a fruitful discussion has

<sup>61</sup> https://esas-joint-committee.europa.eu/Pages/Activities/EFIF/European-Forum-for-Innovation-Facilitators.aspx.

<sup>62</sup> https://www.eiopa.europa.eu/content/2019-joint-esas-report-regulatory-sandboxes-and-innovation-hubs.

been activated between the authorities, along with the relationships with innovative players operating at European level and the dialogue with academic and associative entities. The two initiatives are part of the Digital Strategy 63 and the Fintech action plan 64 fostered by the Commission.

In 2019, EIOPA published a report on Big Data Analytics in motor and health insurance<sup>65</sup> and on the Best Practices on Licencing Requirements, Peer-to-Peer Insurance and the Principle of Proportionality in an Insurtech Context<sup>66</sup>. The European authority has also activated a Consultative Expert Group on digital ethics<sup>67</sup> to address aspects relating to ethics in the digital world and the treatment of big data for insurance purposes, including the aspects of exclusion of market segments from new digital products. Specific strategies have been defined in terms of supervisory technology<sup>68</sup> and supervision of cyber underwriting practices<sup>69</sup>. A public consultation has been launched on the insurance value chain and new business models resulting from digitisation<sup>70</sup>.

EIOPA is also defining a body of indications for European undertakings and supervisors on Information and Communication Technology, issuing guidelines on outsourcing to cloud service providers <sup>71</sup>, launching a consultation on a proposal for guidelines on cyber security and governance<sup>72</sup> and concluding a thematic review on challenges and opportunities in cyber risk<sup>73</sup> assurance.

In 2020, EIOPA will focus on the definition of a supervisory approach to artificial intelligence and machine learning algorithms, open insurance<sup>74</sup> and blockchain technology (see II.3.2).

At a national level, Article 36 of the Growth Decree (see III.3.2.3) envisages a regulatory sandbox, to be implemented with MEF regulations, after consultation with the Bank of Italy, CONSOB and IVASS, which will define the conditions and methods for carrying out experimentation relating to techno-finance activities (Fintech). The experimentation will have the

<sup>63</sup> https://ec.europa.eu/info/publications/EC-Digital-Strategy\_en.

<sup>64</sup> https://ec.europa.eu/info/publications/180308-action-plan-fintech\_en.

<sup>65</sup> https://www.eiopa.europa.eu/content/big-data-analytics-motor-and-health-insurance.

<sup>66</sup> https://www.eiopa.europa.eu/content/report-best-practises-licencing-requirements-peer-peer-insurance-and-principle.

<sup>67</sup> https://www.ciopa.eu/content/call-expression-interest-eiopa-consultative-expert-group-digital-ethics.

<sup>68</sup> https://www.eiopa.europa.eu/content/supervisory-technology-strategy.

<sup>69</sup> https://www.eiopa.europa.eu/content/cyber-underwriting-strategy.

<sup>70</sup> https://www.eiopa.europa.eu/content/eiopa-consults-reinsurance-value-chain-and-new-business-models-arising-digitalisation\_en.

<sup>71</sup> https://www.eiopa.eu/content/guidelines-outsourcing-cloud-service-providers; see also https://www.eiopa.eu-ropa.eu/content/report-outsourcing-cloud-0.

<sup>72</sup> https://www.eiopa.eu/content/consultation-proposal-guidelines-information-and-communication-technology-ict-security-and.

<sup>73</sup> https://www.eiopa.europa.eu/content/cyber-risk-insurers-challenges-and-opportunities.

Open insurance is about accessing and sharing personal and non-personal insurance data through application programming interfaces (APIs) or other standards. By way of similarity, reference is made to the concept of open banking furthered by the PSD2 Directive, see also point 3.3.

characteristics of a sandbox, in a simplified regulatory context to facilitate the introduction of new organisational or commercial solutions that will also affect the undertakings in the insurance sector. The decree has envisaged the establishment of a Fintech Committee care of the MEF, in which the Authorities of the banking and financial sector, including IVASS, will take part. The Committee has the task of identifying objectives, defining programmes and implementing action to further the development of techno-finance, as well as formulating regulatory proposals and facilitating contact between operators in the sector.

The public consultation on the outline of the Ministerial Regulation was completed on 31 March 2020.

# 3.2. - Blockchain experimentation

Blockchain technology makes it possible to transfer information, assets, documents, ownership deeds, contracts and capital in a secure manner<sup>75</sup>, between parties accredited by the system without the intervention of a central authority or body with transaction certification functions. The applications in the insurance field concern the management of processes between undertakings (e.g. flows tied to coinsurance and reinsurance or to anti-fraud activities), undertakings and intermediaries (handling of the remittance system), and undertakings and consumers (innovative products and distribution methods such as peer to peer insurance or smart contracts, capable of running automatically upon the occurrence of certain events detected by external sources and on the basis of rules established in advance).

IVASS participates as a member of the Scientific Committee for the Insurance Blockchain Sandbox, an experimental initiative furthered by CeTIF, the Research Centre in Technology, Innovation and Financial Services of Università Cattolica del Sacro Cuore in Milan, with the participation of undertakings and operators in the IT and insurance sectors.

The experimentation takes place in a controlled environment (sandbox) in which simulation of the various use cases is carried out by entering into real contracts, and produces an analysis of the results useful for verifying the operational, regulatory and consumer protection implications of the products and processes tested. The projects taken into consideration, besides foreseeing the use of the blockchain technology in the insurance sphere, must present innovative features and promote benefits for customers in terms of greater transparency and protection, ease of use and security in the utilisation of goods and services, and increased market competition.

IVASS's participation does not envisage the validation of the commercial solutions under experimentation but makes it possible to follow in the inception stage the possible blockchain applications in the insurance field, anticipating market development factors, the points of attention and any regulatory needs and the repercussions on customer protection and supervisory activities.

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<sup>&</sup>lt;sup>75</sup> System security is based on decentralisation and the use of cryptography. The transactions, after the validation of the persons in charge (data miners), are stored in succession, without possibility of modification, in a register distributed to the community (distributed ledger). The system automatically generates a mathematical problem for each transaction, by starting a resolution race between the miners; the winner of the race, not known in advance, will validate the transaction by entering it in the register.

An initial trial, completed at the end of 2018, involved the digitisation of the process and the standardisation of the data format for assisted negotiation in the MTPL class, disciplined by Decree Law No. 132/2014. The system manages the relationships between the customer (represented by their lawyer) and the undertaking (represented by the claims settler) following the various phases of the negotiation via "blind" auction and, in the event of agreement, the definition of the smart contract that disciplines the dispute.

The experiment has shown that limited measures on primary legislation would make the digital process more fluid and remove the obstacles associated with limitations of the procedure, currently designed on the physical interaction between the parties. Claims settlers and lawyers participating in the test appreciated the efficiency of the digital process and the automatic production of legally valid documents. The system was perceived as secure, transparent and fair and possible improvements were identified in the event of a switch to production (e.g. greater transparency in the treatment of legal fees).

In 2019, a second trial was completed in relation to the production of smart contracts in the non-life classes with specific reference to weather coverage (risk of bad weather), flight delays and delayed baggage delivery. Interaction with the customer, in the distribution and claim reporting and management phases, takes place using completely digital methods, utilising an infrastructure<sup>76</sup> that allows automation and control over the policy issuance and management process.

The experiment involved bank distributors and insurance undertakings and concerned products that use a parametric logic: these are insurance contracts in which the parties have predetermined the amount of the damage with which the company compensates the insured party when an event occurs. This has favoured the digitalisation and automation of smart contracts which envisage automatic settlement following the system's verification that the thresholds set by the contract have been exceeded on the agreed parameters. The deviation is detected directly from the information source indicated in the contract (oracle) or following the upload of the documentation with the characteristics indicated in the contract.

The assessment following the trial showed a significant reduction in the time taken to issue policies and settlement times compared with the average for similar products, as well as a general improvement in the customer experience. From a regulatory standpoint, attention was focused on the application of insurance distribution regulations in the digital sphere, with reference to POG requirements, the simplification of PID and additional PID information documents, the supply to the customer of the demands & needs questionnaire and the way the contract is signed through apps. Useful insights have emerged regarding the process of customer identification through registration on the digital platform, the correct definition of the terms and conditions of operation of the platform, the internal reporting to be produced, the determination of technical provisions for parametric products with high run-off speed.

In the first few months of 2020, a third use case was launched on the digitalisation of suretyship management thanks to blockchain technology. The project involves more than thirty businesses from the insurance, banking and financial sector (including SIA S.p.A.), the Public

<sup>&</sup>lt;sup>76</sup> Access to the platform is subject to permission by the manager (blockchain permissioned).

Administration Authorities and the undertakings, as well as associations and institutions, including the Guardia di Finanza (customs and finance police) and the Bank of Italy.

Once the design phase has been completed from a functional, legal and technological point of view, the tests of the blockchain platform will take place between July and October 2020 via the uploading and management of real and legally valid suretyship. When fully operational, the platform will be able to offer guarantors and beneficiaries greater efficiency, transparency and disclosure certainty throughout the entire surety management process, with the aim of reducing potential fraud and simplifying issuance.

# 3.3. - The IVASS Innovation Hub - dealings with start-ups

In order to support market operators in the digital innovation process, IVASS has set up an Innovation Hub as a contact point for parties interested in discussing issues related to innovation in the insurance industry and regulatory, prudential supervision and conduct, and market analysis implications. Since 2017, the Hub has been managed by a work group that coordinates all of the Institute's structures interested in the subject and has met with insurance undertakings, start-ups, technology operators, associations and consultants with technological expertise, who have had the opportunity to illustrate the projects in progress, to present interpretative doubts about sector regulations, to formulate requests for clarifications and to propose measures on secondary regulations which the Institute is responsible for.

In recent months, in-depth analysis of the start-up market has been launched, in collaboration with Fintech District, a community of over 150 technology companies, several of which with interest in the insurance market. The analysis, which can be usefully developed with other operators who may show interest, focused in this stage on possible regulatory barriers to innovation, open insurance, artificial intelligence and the characteristics of a regulatory sandbox.

Problems of regulatory convergence have been reported that may lead to the need to define different insurance products in different European countries, even taking into account the minimum harmonisation furthered by the IDD Directive. It was discussed whether to envisage *ad hoc* rules for digital segments, for example on IDD documentation on smartphones and tablets, with the possibility of simplification and greater flexibility in how to use them, while maintaining a high level of consumer protection. The introduction of rules that encourage the development of innovation may be considered at European level.

Assessing the effects of the introduction of open banking in the banking sector, in particular following the PSD2 Directive, it was discussed whether to envisage a transposition of these principles in the insurance sector (open insurance). Reference is made, among other things, to the development of national or European standards, proposed by the authorities, to encourage the portability of data and to the possibility of implementing a regulatory framework that allows - under certain conditions and with specific authorisation - the access of third parties to the data of the "insurance locker" for purposes of aggregation and analysis also through machine learning techniques.

With reference to the artificial intelligence tools, the proposals to guarantee greater transparency and explainability of the adopted models should be examined in depth, avoiding

uses without adequate governance. The problem of the fairness of the models has also been raised, which must not lead to discrimination of customer groups or individual persons through pre-selection of policyholders. The completeness and quality of data for the calibration and operation of the tools require particular attention, also with initiatives to promote greater data circulation, in compliance with regulations for the protection and control of access.

Several authorities have activated regulatory sandbox initiatives to test, under supervisor-controlled conditions, the offer of insurance products and the automation of processes with innovative techniques, also by way of departure - where possible - from the restrictions of the regulations in force. Among the various options for a national sandbox (see II.3.1), start-ups seem to favour an informal approach and consultation with the regulator, with collaboration that can be usefully activated even if no specific regulatory exemptions are requested. This confirms the validity of the Institute's approach of open dialogue with the market, to be reinforced by activating specific expertise and projects of general interest.

#### 4. - NATURAL DISASTER INSURANCE

Italy is characterised by heavy exposure to natural risk, mainly of seismic nature. Some areas of the country are also affected by a high risk of flooding, which will become more insidious with the ongoing climate change<sup>77</sup>. However, only a limited percentage of Italian homes are insured against these dangers, partly as a result of citizens' confidence in public intervention, which has traditionally financed a large part of the compensation for damages after a disaster.

The legislator's focus on measures to stimulate demand for insurance coverage has increased in recent years. Law No. 205/2017 envisaged an IRPEF (personal income tax) deduction of 19% on the price of home protection policies against natural disasters.

These measures, combined with the increased perception of risk (induced by the seismic events that hit central Italy in 2016), may have contributed to increasing the share of housing units insured against natural disasters (from 2.4% to 3.9% of the total between 2016 and 2019, Figure II.17). The most significant growth was recorded for units covered against earthquake damage (from 1.6% to 3.4%). It is estimated that in early 2019 about 1.3 million Italian housing units had some form of protection against earthquake or flooding risk (limited to the latter risk in only 13% of cases).

<sup>77</sup> The IVASS 2018 annual report (https://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/relazione-annuale/2018/in-dex.html) extensively analyses the main characteristics of the natural risk in Italy.

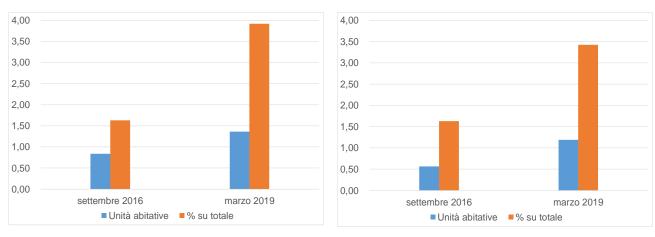
Figure II.17

# Number of homes covered against natural risks in Italy

(million units, %)

## a) Coverage against the seismic or flood risk

# b) Coverage against the seismic risk alone



Source: processing from IVASS, ANIA and Italian Revenue Agency (Real Estate Market Monitoring Unit) data sources

Natural risk protection policies for homes present a considerable variety of contractual options for the consumer and are marketed by a relatively large number of companies, although the 5 largest groups write 70% of premiums.

However, the positive elements of market expansion and diversification of supply should not make us overlook the relatively small premiums written and the coverage in the sector, with respect to the actual need to protect Italy's residential property.

#### III. - THE EVOLUTION OF THE REGULATORY ENVIRONMENT

The consolidation of the European and domestic insurance sector continues, driven by changes in the macroeconomic environment, the evolution of the main financial and demographic variables and regulatory and technological innovation. The number of insurance companies continues to decline, the major global players are strengthening and reorganising, and competitive pressure is increasing on the domestic insurance market, which is increasingly open to international competition and competition with the non-insurance sectors.

From a supervisory perspective, there is a growing need to harmonise national supervisory practices, consolidate cooperation between the supervisory authorities of home and host countries, making available regulatory and supervisory tools that promptly capture and effectively mitigate risks to undertakings' stability and reinforce the consumer protection in an increasingly digitalised environment.

The IVASS 2018-2020 strategic plan adopts these objectives. The action taken by the Institute in the main national and international bodies aims to drive and steer regulatory developments, and supervisory standards that take into account the specific features of the Italian market.

Particularly important in the field of prudential regulations is the review of the Solvency II framework - initiated in 2019 - that involves the redefinition of key aspects of the regulatory framework which supervises over the functioning of the European insurance market, including the supervision of the cross-border activity, the application of the proportionality principle, the measures for crisis prevention and management of undertakings and the synergic interaction between micro- and macro-prudential instruments. On these issues, IVASS's positions in international fora are supported by experience gained in national-level regulations, which in the last few years have governed aspects not fully harmonised at European level.

In terms of consumer protection and market transparency, following the implementation of the European Insurance Distribution Directive (IDD), in 2019 discussions continued between national and European supervisory authorities to ensure higher harmonisation, including on the creation, distribution and information that accompanies the sale of insurance products, also in a cross-border context. In addition, IVASS's efforts to define the rules that will govern the operations of the Arbitrator for Insurance Disputes continue.

The regulatory development increases the choices open to policyholders and the associated rights. As regards supplementary pension schemes, the Regulation on creating a specific Pan-European Personal Pension product (PEPP) was issued in 2019.

IVASS has actively participated in international and national work concerning sustainable finance; within the EU, several regulations have been issued and amendments to the European Solvency II and IDD directives are being finalised to strengthen the integration of environmental, social and corporate governance (ESG) factors in the design of insurance products, investment policies, customer distribution practices, and corporate risk management.

Work continues at international level to define new crisis management tools.

The macro-prudential supervisory powers available to IVASS in terms of safeguarding the stability of the insurance system as a whole and countering systemic risks<sup>78</sup>, exercised by the Institute in synergy with the aims pursued and the analyses carried out by micro-prudential and conduct-related supervision, have been enhanced. In order to ensure the exercise of the new powers in close coordination with the Bank of Italy, CONSOB and COVIP, IVASS has provided extensive cooperation to promote a primary regulatory framework that envisages the establishment of a Committee for macro-prudential policies, in compliance with the recommendations of the ESRB.

#### 1. - THE ACTIVITIES OF THE INTERNATIONAL BODIES

In 2019, IVASS's commitment to the work of the International Association of Insurance Supervisors (IAIS) continued, a body which sets out to further cooperation and the convergence of supervisory standards at global level. IVASS top management is directly involved in IAIS committees responsible for the definition of prudential rules (Policy Development Committee), financial stability and the assessment of systemic risk (Macroprudential Committee, chaired by IVASS since its establishment in 2018), and matters tied to the implementation of prudential rules and supervisory practices (Implementation and Assessment Committee). Since 2018, IVASS has also been a member of the Executive Committee, IAIS' decision-making body.

The issues relating to systemic risk management were also discussed by the Financial Stability Board (FSB).

The work of the International Accounting Standards Board (IASB) continued on the accounting standards relating to insurance contracts and financial instruments.

# 1.1. - Definition of a framework for the supervision of international insurance groups

After an in-depth and extensive consultation phase, on 14 November 2019 the IAIS adopted the Common Framework for the Supervision of Internationally Active Insurance Groups (Comframe) which sets the standards and guidelines for the supervision of large internationally active insurance groups (IAIGs).

The Comframe aims to increase the global convergence of supervisory practices and strengthen coordination and information exchange among supervisors, developing the qualitative

Within the scope of prudent supervision, Decree Law No. 34/2019, with the amendment of Article 188 of the CAP, specified that the powers of intervention granted to IVASS as a result of the prudent control process may also be exercised for macro-prudential purposes. With regard to the supervision of conduct, Decree Law No. 224/2016 and the amendment of Article 4 sexies, section 3, of the Consolidated Law on Finance (CLF), grant IVASS powers to prohibit or restrict the marketing of PRIIP products also for purposes related to the integrity of the markets and the stability of the whole or part of the financial system.

and quantitative supervisory requirements appropriate to the international activities and size of IAIGs.

The supervisory authorities have undertaken to publish the list of IAIGs with parent companies located in their jurisdiction in order to provide transparency on the scope of the Comframe. In May 2020, IVASS identified Assicurazioni Generali S.p.A. as an IAIG, following the criteria of size and volume of international activity provided by Comframe<sup>79</sup> itself.

# 1.1.1. - The quantitative capital requirement

The core element of the Comframe is the definition of a risk-based quantitative capital requirement (Insurance Capital Standard, ICS), applicable at consolidated level to the IAIGs; the ICS will be an internationally comparable measure of the capital adequacy of IAIGs.

The agreed on definition of the ICS was based on five exercises (Field Testing, FT), carried out between 2015 to 2019, which assessed the impact of applying the standard on the balance sheet and financial position of insurance groups; the world's largest groups participated in the FT on a voluntary basis. IVASS collaborated in all the FT, contributing to the definition of the policy lines to achieve an ICS that is consistent and compatible with Solvency II.

The version of the ICS approved in November 2019 will be used in a five-year monitoring exercise from 2020 to 2024 carried out by the Authority responsible for supervising the group. Any failure to comply with the ICS will not trigger supervisory action. In the monitoring phase it will be possible to streamline the calibrations and correct any application dysfunctions. At the end of the five-year period, the ICS will become a regulatory requirement of consolidated capital for the IAIGs.

#### 1.1.2. - Review of the Insurance Core Principles

The review of the Insurance Core Principles (ICP) continued in 2019: these are quantitative standards, corporate governance requirements and reporting obligations to the supervisory authority and the public, directed at increasing convergence on insurance supervision at international level.

The activities, to which IVASS has actively contributed, were concluded in November 2019 with the adoption by the General meeting of the IAIS of the ICPs, at the same time as the Comframe.

#### 1.2. - The global framework for the definition and mitigation of systemic risk

On 14 November 2019, the IAIS adopted the new rules for the assessment and mitigation of systemic risk in the insurance sector (Holistic Framework), applied internationally since 1 January 2020. The new framework is based on the awareness that systemic threats can arise both from crisis situations of individual large insurers, due to their interconnectedness, complexity and non-immediate substitutability in the event of an operational block, and from the activities or collective exposures of several insurers operating in the same market segments or exposed to the

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<sup>79</sup> https://www.ivass.it/media/avviso/generali-iaig/.

same risks, regardless of their size and solvency. The approach, initially adopted by the IAIS to counter the spread of systemic risk, whereby some measures were only applied to a limited group of insurers (the G-SIIs publicly identified by the FSB as systemically relevant insurance entities), is therefore outdated in favour of a proportional application of enhanced macro-prudential policy measures to a potentially much wider range of undertakings.

The core elements of the new holistic framework proposed by the IAIS are:

- the proportionate application of supervisory measures aimed at increasing the resilience of the insurance sector, preventing vulnerabilities and countering exposures to potentially systemic risks. These include, in particular, supervisory requirements, to be applied on an ongoing basis, to mitigate liquidity, counterparty and macroeconomic risks;
- the strengthening of supervisory powers for macro-prudential purposes, including through the introduction of powers of intervention by the supervisor that make prompt and appropriate responses possible;
- the performance of an annual monitoring exercise (Global Monitoring Exercise, GME) at individual cross-border and industry-wide insurance group level to observe trends and developments in the global insurance market and identify potential sources of risk accumulation in due time;
- the assessment by the IAIS and Supervisor Authorities of potential global systemic risk and the adoption of forms of coordination for a unified supervisory response, where necessary, while recognising that the application of measures is the responsibility of national Authorities.

In light of the finalisation of the Holistic Framework, the FSB, in consultation with the IAIS and the national Authorities, suspended the public identification of the G-SIIs as of 2020; in November 2022, based on the results of the first years of implementation of the new framework, the FSB will consider whether the annual identification of G-SIIs should be permanently abandoned or re-established.

In order to lighten the operational burden associated with the adoption of the Framework in the face of the COVID-19 pandemic, the IAIS, in coordination with the FSB, has decided to postpone the annual monitoring exercise planned for 2020 until 2021, replacing it with data collection aimed at assessing the impact of the epidemiological crisis on the insurance sector.

# 1.3. - Convergence of supervisory practices in the international arena

The Institute has long been committed to adopting and applying the principles developed by the IAIS for effective global insurance supervision. The IAIS encourages the implementation of its principles in all jurisdictions and assesses compliance and observance via a program for checking the degree of compliance with the ICPs by Member Countries involving appropriate peer reviews.

IVASS participated in this assessment process by adhering to the peer review performed by the IAIS on ICP 1 (Objectives, Powers and Responsibilities of the Supervisory Authority) and ICP 2 (Supervisory Authority) concluded in 2019, as well as the peer review launched in 2019 on ICP 4 (Licensing), ICP 5 (Suitability of persons), ICP 7 (Corporate governance) and ICP 8 (Risk management and internal control). The degree of compliance was among the highest for all the principles examined.

Compliance with the ICPs is also monitored by the International Monetary Fund (IMF) and the World Bank through the Financial Sector Assessment Programme (FSAP), which covers all Core Principles. The IMF's latest assessment of the Italian financial system, launched at the end of 2018, was completed in March 2019. The analysis showed a high degree of observance of the ICPs by the Institute, thanks in part to the update of the legislative and regulatory framework that IVASS has implemented following the entry into force of Solvency II and the IDD.

# 1.4. - Work pertaining to Effective Resolution Regime

IVASS participates in the international works on insurance entity resolution, which continued in 2019.

The FSB is currently engaged in finalising a methodology also applicable to the insurance sector (assessment methodology) for verifying the compliance of national laws with the Key Attributes of Effective Resolution Regimes for Financial Institutions, adopted in 2014.

Account is also taken of the document Developing Effective Resolution Strategies and Plans for Systemically Important Insurers (June 2016) that identifies the main aspects of the resolution strategy for insurance groups with systemic relevance. The assessment methodology - subject to public consultation in early 2018 - was the subject of a pilot assessment carried out by the IMF in France in 2019, where a national resolution regime for insurance entities is in place; final adoption is expected by the end of 2020.

Within the IAIS, the amendments to the ICPs and the introduction of standards within the Comframe sphere (see 1.1.2) complete the international framework regarding handling of the crisis in the insurance sector. Specifically, ICP 12 (Exit from the market and resolution) was reviewed, up-dating the recommendations pertaining to crisis management of insurance undertakings and introducing a set of rules relating to the resolution phase. ICP 16 (Enterprise Risk Management for Solvency Purposes) was integrated with the provision of a set of rules proportionate to the risks, size and operational-organisational complexity of undertakings with regard to recovery plans<sup>80</sup>.

#### 1.5. - Review of international accounting regulations

In June 2019 the IASB issued the Exposure Draft Amendments to IFRS 17 (ED), containing proposals for amendments to IFRS 17 Insurance contracts dated May 2017. The proposed amendments are intended to address the concerns of undertakings, without calling into question

<sup>80</sup> The IAIS has adopted an Application Paper on recovery plans to support both the insurance entities involved in drawing up the plans and the national supervisors responsible for verifying their content.

the underlying principles or affecting the implementation already initiated by users of the accounting standard. The IASB has proposed to:

- make changes to some aspects considered particularly critical by stakeholders<sup>81</sup>;
- postpone the entry into force of the standard from 2021 to 2022; in March 2020 a further year of postponement was approved, bringing the entry into force of IFRS 17 to 1 January 2023;
- extend until 2022 the temporary exemption for insurance companies from the application of IFRS 9 (Financial Instruments), to align the entry into force of the two standards; this exemption was also subsequently deferred until 2023<sup>82</sup>.

IFRS 17 will have significant impacts, mainly due to the rules to be applied to contracts in place at the time of transition and to the level of aggregation for the recognition of contracts based on the annual cohort principle whereby, for the purposes of liability measurement and profit recognition, the contracts of each portfolio must be divided into three groups (onerous, probably not onerous, profitable) within which it is not possible to group contracts entered into in different years. The principle has been the subject of numerous comments on the lack of consistency with the insurance business model and the onerousness of implementation. The EFRAG suggested an exception to the principle of annual cohorts for life contracts that envisage an intergenerational mutuality and was willing to provide support to the IASB for a robust technical solution consistent with the characteristics of the industry.

#### 2. - THE EVOLUTION OF EUROPEAN REGULATIONS

#### 2.1. - The measures under discussion or approved

# 2.1.1. - Negotiations on the review of the MTPL Directive

In December 2019, within the EU Council, a political agreement was reached on the review of the MTPL Directive. As from January 2020, the Trilogue between the European institutions began in order to include the agreement reached in a shared version. In particular, it was clarified that:

 insurance coverage is provided irrespective of the nature of the area on which the vehicle is found and that a Nation may depart from the obligation to insure vehicles in areas with restricted access or not in use, provided that the national legal system guarantees the intervention of the Guarantee Funds in the event of a claim;

<sup>81</sup> The main changes proposed by the IASB can be traced back to three main lines:

a. Transition, with changes made to the retrospective approach;

b. Reinsurance, to reduce the accounting mismatch with particular reference to the offsetting of the losses on contracts entered into;

c. Contractual Service Margin, with particular reference to the allocation of the profits for the investment contracts.

<sup>82</sup> See <a href="https://www.ifrs.org/news-and-events/2020/03/ifrs-17-effective-date/">https://www.ifrs.org/news-and-events/2020/03/ifrs-17-effective-date/</a>.

- electric vehicles with a maximum speed not exceeding 25 kilometres per hour or weighing less than 25 kg are excluded from the insurance obligation;
- wheelchairs for differently-abled persons are not considered vehicles;
- member state may extend the insurance obligation to vehicles excluded from the scope of the Directive;
- the ultimate responsibility for compensation will lie with the guarantee fund of the insurer's home country, while the fund of the injured party's host country of residence will act as the front office for the injured party.

# 2.1.2. - Initiatives on sustainable finance

Further to the European Commission's Action Plan to finance sustainable growth published on 8 March 2018<sup>83</sup>, the legislative initiatives launched by the European institutions on sustainable finance were finalised in 2019, as part of the European Union's efforts to bring finance in line with the objectives of the Paris Agreement on Climate Change and the 2030 United Nations Agenda for sustainable development.

- (EU) Regulation No. 2088 dated 27 November 2019 (Disclosure Regulation), on sustainability reporting in the financial services sector, establishes harmonised transparency rules for issuers or for managers of financial products. The Regulation introduces specific rules regarding information relating to the sustainability of financial products, to be included in precontractual documentation and envisages that the European Supervisory Authorities develop RTS to implement certain provisions of the Regulation.
- (EU) Regulation No. 2089/2019, amending (EU) Regulation No. 1011/2016 (Benchmark Regulation), identifies the EU sustainability reference indices to be used in financial instruments and contracts or to measure the performance of investment funds in the Union<sup>84</sup>.
- The (EU) "Taxonomy" Regulation, approved but awaiting publication, introduces a harmonised system for classification of the sustainable activities, foreseeing specific technical criteria to determine the degree of environmental sustainability of economic activities related to investments by financial operators.

In follow-up to the Action Plan, the European Commission launched an integration of the Delegated Regulations relating to the Solvency II Directive and the IDD with reference to ESG factors and risks.

https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52018DC0097&from=IT.

<sup>84</sup> These are two categories of financial reference indices linked to sustainability, derived from the objectives of the Paris Agreement, approved by the European Union in 2016: the "climate transition" indices measure the performance of investment portfolios of low-carbon activities and those "aligned with the Paris Agreement" measure the achievement of the carbon reduction objectives envisaged by the agreement.

In relation to Solvency II, the action targets greater awareness by management in the identification and assessment of such risks in the underwriting and investment areas; with regard to the IDD, the aim is to guarantee adequate consideration of the ESG aspects, avoid conflicts of interest when providing advice on insurance products and ensure that the ESG preferences of customers are taken into account in the product oversight and governance process (POG).

The Institute has actively contributed to EIOPA's work in response to requests from the European Commission to implement the first three objectives of the 2018 Action Plan<sup>85</sup>, by participating in the preparation of an Opinion on sustainability and climate change risks within the sphere of the Pillar 1 Solvency II<sup>86</sup> prudential requirements and the Report on potential undue short-term financial market pressure on insurers' behaviour<sup>87</sup>. The surveys carried out provided important information on the inclusion of environmental risks and sustainability factors in Solvency II, with specific regard to investment and insurance risk-taking policies and practices as well as pricing and reservation policies. In line with IVASS Regulation No. 38/2018, it is necessary that the governance and risk management activities of insurance undertakings are geared towards long-term risk management, capable of including ESG sustainability factors in strategic planning and risk measurement<sup>88</sup>.

# 2.2. - The European Supervisory Authorities

# 2.2.1. - The revision of Solvency II

Work is underway in EIOPA to review several aspects of the Solvency II prudential framework, following the European Commission's request for technical advice<sup>89</sup>.

In its request for an opinion made to EIOPA, the Commission stressed the importance of a comprehensive review of the regulatory framework, in light of supervisory experience gained, the needs expressed by the market, also taking into account the changed economic environment with regard, in particular, to interest rate developments.

The European Commission recognising that the Solvency II framework has worked well on the whole, has requested to carry out an evolutionary type review in compliance with the fundamental principles of the Directive, such as the confidence level underlying the adjustment of capital requirements and the assessment in accordance with market consistency criteria.

The Directive itself envisages that some areas are to be reviewed:

<sup>85</sup> This involves: (i) redirecting capital flows towards sustainable investments, (ii) managing financial risks arising from climate change, and (iii) promoting transparency and long-term vision in economic and financial activities.

<sup>86</sup> EIOPA-BOS-19-241, Opinion on Sustainability within Solvency II, 30 September 2019, <a href="https://www.eiopa.europa.eu/sites/default/files/publications/opinions/2019-09-30">https://www.eiopa.europa.eu/sites/default/files/publications/opinions/2019-09-30</a> opinionsustainabilitywithinsolvencyii.pdf.

<sup>87</sup> EIOPA-BOS-19-537 Potential undue short-term pressure from financial markets on corporates: Investigation on European insurance and occupational pension sectors, 18 December 2019, <a href="https://www.eiopa.eu/sites/default/files/publications/re-ports/eiopa-bos-19-537">https://www.eiopa.eu/sites/default/files/publications/re-ports/eiopa-bos-19-537</a> report on investigation undue short term pressure.pdf.

<sup>88</sup> Article 4 of IVASS Regulation No. 38 dated 3 July 2018 lays down that the governance and control system of undertakings must consider all types of business risks, including those of an environmental and social nature, generated or suffered.

<sup>89</sup> https://ec.europa.eu/info/sites/info/files/business economy euro/banking and finance/documents/190211-request-eiopa-technical-advice-review-solvency-2.pdf.

- the measures relating to insurance products with long-term guarantees and measures relating to equity risk (see box "The Revision of Solvency II - The impact of LTG measures and the VA");
- the methods, assumptions and parameters used for the calculation of the Solvency Capital Requirement (SCR) using the standard formula;
- the supervisory rules and practices relating to the calculation of the Minimum Capital Requirement (MCR);
- group supervision and the capital management of groups of insurance or reinsurance companies.

In addition to these areas, the Commission has identified other parts of Solvency II to be reviewed, among these:

- the supervision of cross-border activities and the balancing of powers between home and host Authorities;
- the enhancement of the principle of proportionality, in particular as regards public disclosure and supervisory reporting requirements;
- the need to include guidance on recovery and resolution and on guarantee schemes to be activated in case of failure of an insurance undertaking;
- review of a number of tools from a macro-prudential point of view, such as for example the ORSA or the prudent person principle (PPP).

Given the strategic importance of the review of the prudent framework, the Institute participates in all the round tables set up for this purpose and chairs two work groups, which are respectively responsible for reviewing the parameters for calculating the capital requirement in accordance with the standard formula and updating the principles of group supervision.

IVASS participated in the definition of the draft technical opinion of the review, which was submitted for public consultation by EIOPA<sup>90</sup> between 15 October 2019 and 15 January 2020, also on the basis of an impact analysis on the Italian market.

The data collection for the impact assessment on the proposals to be included in the final opinion should have been completed by March 2020. However, within the sphere of the provisions and measures to address the health emergency, EIOPA postponed the deadline for the submission of information to 1 June and agreed with the European Commission to postpone the delivery of the opinion until December 2020, also to assess the impact of the COVID-19 pandemic on the proposals to amend the prudent framework.

<sup>90</sup> https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-bos-19-465 cp opinion 2020 review.pdf.

# a) The review of the SCR and MCR calculation

EIOPA's SCR analysis focuses primarily on the prudent treatment of interest rate risk, given current market conditions, which for several years have seen nominal and real rates very close to zero. The current calibration of the requirement in relation to interest rate risk, in fact, underestimates the exposure of insurance undertakings, as it does not take into account the fact that rates may become negative.

With regard to the MCR, the amendment under discussion aims to update some risk factors for non-life and health (re)insurance obligations with regard to technical provisions and premiums written.

#### b) The strengthening of cross-border supervision

The occurrence of several problematic cases in cross-border operations in recent years has highlighted the potential inadequacy of the supervisory powers available to Host Authorities and EIOPA. The request for review made by the European Commission is based on the assessments on group supervision and cross-border activities taken from the Report on group supervision and Capital management submitted by EIOPA on 19 December 2018.

EIOPA is considering how to strengthen the supervisory powers and their balance between home and host Authorities in order to prevent crises of insurance companies operating cross-border under the freedom to provide services or establishment regime and to allow a standard assessment in all member states of the fitness & propriety requirements of corporate management.

# c) Supervision over insurance groups

The Solvency II review also aims to clarify the uncertainties that have emerged in the application of insurance group supervision legislation.

The definition of a group, the scope of application of consolidated supervision, the treatment of intra-group transactions, the calculation of solvency (including the classification and availability of own funds at group level), the interaction with the Financial Conglomerates Directive, and governance requirements are analysed and reviewed.

# d) Enhancement of the principle of proportionality

The Commission proposes to review the volume, frequency and timing of the information to be provided to the supervisor and the market, with full implementation of the proportionality principle. EIOPA will have to verify the appropriateness of the criteria for exempting undertakings from the application of Solvency II and the possibility for undertakings to adopt simplified calculation methods of requirements for sub-modules of no material risk in relation to their specific business.

# e) The Recovery and Resolution measures

EIOPA's technical proposal for the strengthening of crisis management tools in the insurance sector is based on an initial Opinion addressing the European Institutions in July 2017, which outlined a European minimum harmonisation framework for recovery and resolution.

In the Solvency II review, EIOPA is also defining a minimum harmonisation regime for national schemes for the policyholders protection intervening in the event of the bankruptcy of an insurance undertaking. The technical proposal submitted by EIOPA for market consultation aims at removing important inconsistencies in the different rules for the functioning of protection schemes established by national jurisdictions. By pursuing the home country approach, the proposal aims at fostering greater accountability of national supervisors by charging the costs of intervention to protect policyholders resident in other member states to the protection scheme of the state where the undertaking has its head office.

# f) Macro-prudential measures

In its request for an opinion on the Solvency II review, the European Commission asked, *inter alia,* to: i) assess whether the existing provisions allow for adequate macro-prudential supervision; ii) provide suggestions in order to improve the processes and principles already included in Solvency II (ORSA and PPP); iii) assess the introduction of Systemic Risk Management Plans and the strengthening of liquidity management and reporting requirements.

The EIOPA proposals, in line with the IAIS Holistic Framework, go in the direction of incorporating the macro-prudential perspective into the current supervisory approach, providing national Supervisory authorities with tools to measure systemic risk and to implement additional intervention measures. The ESRB has also provided guidance to strengthen the synergy and complementarity of micro- and macro-prudential views in Solvency II and to establish a harmonised framework for resolution of the crises<sup>91</sup>.

# The revision of Solvency II - The impact of LTG measures and the VA

In order to inform the regulatory review envisaged by the European legislator92, EIOPA is required to draw up a report to the Commission, the Council and the European Parliament on the use and impact of LTG measures.

The fourth EIOPA Report 93, referring to December 2018 data, has highlighted that:

i) European insurance companies make extensive recourse to LTG measures (699 companies used at least one of the optional measures, with a market share of 75% in terms of technical provisions);

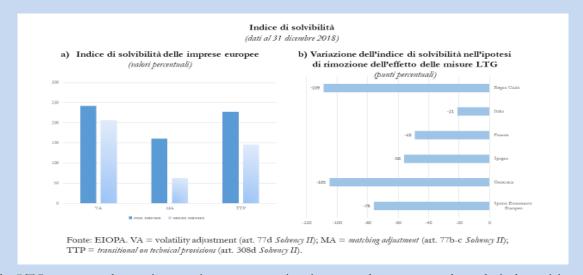
<sup>91</sup> On 26 February 2020, the ESRB published the report on the macro-prudential policy for the insurance sector "Enhancing the macro-prudential dimension of Solvency II" in which it suggests the adoption of instruments to: i) prevent and mitigate pro-cyclical behaviour; ii) ensure that liquidity needs are met on both the asset and liability sides; iii) address the risks arising from lending to the economy to ensure consistency with risk management in similar transactions in the banking system.

<sup>92</sup> Article 77, septies, section 1 of the Solvency II Directive, introduced by the Omnibus II Directive.

<sup>&</sup>lt;sup>93</sup> The analysis was conducted on quantitative information gathered from Solvency II supervisory reporting (2,797 companies, 98 of which Italian) and from a sample survey targeting the insurance undertakings and European national authorities (286 companies, 19 of which Italian). Report on long-term guarantees measures and measures on equity risk 2019, 17 December 2019; <a href="https://www.ciopa.europa.eu/sites/default/files/publications/reports/eiopa-ltg-report2019.pdf">https://www.ciopa.europa.eu/sites/default/files/publications/reports/eiopa-ltg-report2019.pdf</a>.

- ii) considerable difference is reported among the insurance companies of EU countries in terms of the type and number of measures used and for their impact on the solvency position;
- iii) the most used optional measure is the volatility adjustment (VA), adopted by 660 undertakings;
- iv) excluding the benefit deriving from application of all the LTG measures, the average solvency ratio of European undertakings would decrease by 76 percentage points (Figure under b) below);
- v) some insurance companies from member states other than Italy also use other LTG measures, including the matching adjustment (Spain and the United Kingdom) and the transitional measures on the technical provisions; in such cases the benefit on the average solvency ratio is 98 p.p. and 81 p.p. respectively (Figure III.1.a).





The LTG measures also envisage an interest rate estimation procedure to assess the technical provisions in the maturities for which there are no sufficiently representative market rates. The Report shows that the lengthening of the maturities considered liquid for the purpose of the calculation of the interest rates curve leads to a decrease in the average solvency ratio, in particular in countries where the liabilities have a much more protracted maturity (Germany and the Netherlands). Finally, the Report showed a general tendency for insurance companies to distribute new life products without guaranteed return (mainly unit-linked) or traditional products with a lower level of guaranteed return than in the past.

The VA is the measurement most commonly used in Italy (adopted by 67 undertakings, 98% of the market in terms of technical provisions). The benefit deriving from the application of the VA on the average solvency ratio of Italian insurance companies was 21 p.p. In 2018, despite the high volatility of Italian government security prices as from May, the national component of the VA was activated only occasionally due to excessively stringent conditions of applicability. In 2019, the European legislator changed a condition for the activation of the VA, lowering from 100 to 85 bps the minimum level that the country spread must reach for the national component of VA to be activated. This change, although made in the right direction, still does not seem sufficient to ensure the effectiveness of the measure, as furthermore demonstrated in the first few months of 2020.

As part of the Solvency II review, EIOPA is carrying out analyses and impact assessments on two possible approaches to review the application of the VA, mainly to make the measurement more effective in the event of excessive volatility of European and national financial parameters and to mitigate its pro-cyclical effects. The Institute has provided technical input to EIOPA's analyses.

## 2.2.2. - Consumer protection

In the EIOPA Committee for the Protection of the Consumer and Financial Innovation, IVASS contributed towards the drafting of a report on regulations of general interest, published by member states pursuant to Article 11 of the IDD Directive and applying to the exercise of distribution activities under right of establishment or fos arrangements.

The EIOPA report on the Thematic Review of travel insurance policies was published, aimed at identifying potential risks of detriment for the consumer. As a result of the investigation, EIOPA issued a warning to draw the attention of the travel industry to the problems that have emerged and, in agreement with the national Authorities, committed to ensuring the convergence of supervisory action, including by monitoring the implementation of the warning by the industry.

IVASS took part in the work aimed at publication of the second EIOPA report on the costs and performances of long-term retail investments and pension products<sup>94</sup>, for a verification of the transparency and comparability of the main products, to the benefit of consumers.

The Institute has contributed to the report on the application of the IDD Directive, which will be followed by a review of the Directive, as required by Article 41 of the IDD. Areas of analysis have been identified, which will focus on the market structure of the intermediaries and cross-border activities, a general impact assessment of the IDD, with a particular focus on the effects for SME intermediaries and the analysis of the availability of adequate resources of the national supervisory Authorities. The main challenges faced by the various countries in the implementation of the IDD and in the exercise of supervision, with a particular focus on cross-border cases, will then be analysed in more detail.

The drafting of the questions and answers continued, to facilitate convergence in the interpretation of EU regulations on insurance distribution and in the exercise of the national supervision. The replies formulated by EIOPA together with the national Authorities, though not binding for the member states, which maintain discretion on the implementation of EU legislation with minimum harmonisation, provide useful indications for the standardised application of European regulations.

Work began in 2019 on the drafting of the EIOPA Handbook for the supervision of the market conduct of supervised entities. The Handbook aims to provide national Authorities with examples and supervisory practices to increase supervisory convergence.

### 2.2.3. - EIOPA initiatives on the convergence of supervisory practices

The implementation of the 2018-2019 supervisory convergence plan has involved several EIOPA initiatives, with the active involvement of national Authorities including IVASS.

#### a) Peer review

Activities concerning the following continued in 2019:

<sup>94</sup> https://www.eiopa.europa.eu/content/cost-and-past-performance-2020-report\_en.

- the follow-up of the three peer reviews carried out in previous years on internal models, board of supervisors and the freedom to provide services, concluded with the approval in November of the Report by the Board of Supervisors of EIOPA;
- the review of supervisory information (Regular Supervisory Report, RSR), currently being finalised, aimed at assessing the practices adopted by the national Authorities with regard to the frequency of transmission by the insurance companies of the RSR;
- the peer review, underway under the coordination of IVASS, to assess the adaptation of the European Supervisory Authorities to the provisions introduced in the Cooperation Protocol in 2017 (now EIOPA Decision) on cooperation between supervisory authorities to strengthen cooperation in cases of cross-border activities.

## b) Opinion on Remuneration

The Institute participated in the drafting of an EIOPA Opinion to strengthen supervisory convergence on the remuneration principles adopted by undertakings with regard to their employees.

The Opinion is targeted at the Authorities and provides guidance with regard to: (i) adequate balancing of the fixed and variable components of remuneration; (ii) deferral of a significant part of the variable component; (iii) adequate balance between financial and non-financial indicators that determine the amount of remuneration; (iv) correction mechanisms that permit the adequate alignment to the risks of the remuneration systems through *ex-post* adjustments; (v) bonuses recognised in case of early termination of employment.

The opinion restricts the application of the principles to a small number of employees, identified as potential persons with a higher risk profile. The EIOPA indications do not establish mandatory thresholds for the intervention of the Supervisory Authorities but, in the event of misalignment by a supervised undertaking, they establish that a comparison between the undertaking and the Supervisor is initiated to verify the reasons for the misalignment.

#### 2.2.4. - The Regulation on Pan-European Pension Products (PEPP)

On 25 July 2019, (EU) Regulation No. 1238/2019 on Pan-European Personal Pension Products was published in the Official Journal of the European Union, coming into force on 14 August 2019 and which will apply as from 12 months after the publication of the relevant delegated acts.

The Regulation requires EIOPA to provide, within 12 months of its issuance, regulatory technical standards (RTS) on the following issues: (i) costs that must fall within the sphere of a cap (Cost Cap) provided for the basic PEPP; (ii) the PEPP Key Information Document (KID); (iii) the risk mitigation techniques; (iv) performance projection; (v) cooperation and exchange of information between competent Authorities and with EIOPA. Within the same timeframe, EIOPA must provide technical advice to the European Commission regarding the additional information necessary to ensure the convergence of PEPP providers' reporting to national Authorities and the identification of the criteria and assumptions for the exercise of EIOPA's

power to intervene on the product. On 2 December 2019 and 20 February 2020, EIOPA submitted two documents aimed at defining these standards for public consultation.

# 2.2.5. - Joint Committee of the European Supervisory Authorities

IVASS participates in the work of the Joint Committee of the ESAs, with particular attention to the review of the RTS governing the content and form of the KID, a document to be handed over when pre-assembled insurance and retail investment products (PRIIP), including insurance investment products (IBIP), are sold. The Joint Committee is in the process of approving the final report on the review to be sent to the European Commission for final adoption.

The proposed reviews cover performance scenarios, cost transparency and the regulation of multi-option products (investment insurance products that make it possible to invest in multiple funds or combinations of funds). In detail:

- for UCIT (Undertakings for Collective Investment in Transferable Securities) and unit-linked products, the general model for the processing of the scenarios is replaced by more flexible assumptions based on historical product data over a period twice the recommended holding period;
- with regard to costs, the breakdown of the product costs is simplified and made more flexible, in order to adapt it to the different types of products and give separate indication of the maximum distribution costs;
- for multi-option products, a change in the KID has been introduced to distinguish between general contract costs and specific costs related to investment options.

#### 3. - THE EVOLUTION OF NATIONAL REGULATIONS

# 3.1. - The transposition of EU regulations

### 3.1.1. - The Insurance Distribution Directive

#### a) The IDD corrective

The Institute has cooperated with the MISE for the preparation of a Legislative Decree scheme, which amends the regulations implementing EU Directive No. 2016/97 on insurance distribution and introduces the following major amendments:

- disclosure obligations have been strengthened in case of cross-selling of an insurance product with a product or service of another nature;
- the role of the arbitrator for the insurance sector has been strengthened and the coverage of the arbitrator's operating expenses by foreign operators has been regulated;
- sanctioning procedures have been made clearer and more consistent.

### b) The MIFID2 corrective

Italian Legislative Decree No. 165 dated 25 November 2019, partially amended the TUF, already amended due to the implementation of the MIFID 2 Directive in 2017, in order to introduce significant innovations for the insurance sector:

- two new clauses have been inserted in Article 25 ter of the TUF that clarify the supervisory powers of the OCF with respect to financial advisors licensed to offer door-to-door products registered in section e) of the register of insurance intermediaries distributing insurance investment products (IBIPs) on behalf of parties licensed to distribute insurance products (banks, SIM, investment firms). As a consequence, Article 121 quater of the CAP has been amended and the cooperation between IVASS, ORIA and OCF has been formalised, also through exchanges of information, for the exercise of their respective functions;
- the obligation of prior delivery of the KID to CONSOB has been removed. The entry into force of such elimination is subject, by virtue of the transitional provisions, to the adoption of the CONSOB<sup>95</sup> Regulation that will regulate the procedures for access to KIDs before the PRIIPs are marketed in Italy;
- section 2, letter b) of Article 190 has been amended, clarifying that the sanctions of the TUF
  are also applicable by CONSOB in the event of violation of the rules of the CAP and the
  delegated acts of European regulations directly applicable.

## c) The whistleblowing regulation

The Institute has submitted for public consultation the Draft Regulation on the reporting of violations concerning distribution and insurance activities. This Draft Regulation implements the rules of the CAP<sup>96</sup>, regulating the procedural and organisational safeguards to be taken by undertakings and intermediaries to enable their staff to report events or facts which may constitute a breach of the rules governing the activities.

The Regulation sets out the minimum and essential requirements of the systems for reporting violations, leaving operators free to choose the most suitable and effective technical and organisational solutions based on the characteristics of their structure and the activities carried out. In implementation of the principle of proportionality, depending on the size and characteristics of the operators, the Regulation provides for two different internal reporting regimes (basic and reduced regime) or exemption from the application of the discipline, without prejudice to the possibility of reporting directly to IVASS.

The Institute is currently examining the comments received in view to the final adoption of the Regulation.

<sup>95</sup> The Regulation is subject to IVASS's opinion.

<sup>&</sup>lt;sup>96</sup> Articles 10 quater and 10 quinquies.

#### d) The insurance Arbitrator

With regard to the activities implementing Article 187 ter of the CAP, which sets up an out-of-court redress system in the insurance sector, see chapter V.6.

## e) Further implementation fulfilments and IVASS-CONSOB cooperation

IVASS and CONSOB are in the process of adopting the regulations that complete the implementation of the IDD Directive according to the distribution of responsibilities set forth in Decree Law No. 68/2018.

The regulatory measures of the two Authorities aim to regulate the matter in a standardised manner, ensuring equal treatment for operators and maximum protection for consumers. The two Authorities have closely cooperated starting from the drafting of the consultation documents, published in September 2019, and continuing during the public consultation also via joint meetings with the market, until the examination of the comments received and the adoption of the final measures.

In particular, with regard to IVASS, the following acts are in the process of being adopted:

- the Regulation implementing the POG regulations set forth in the CAP with reference to the governance safeguards of the producer and distributors subject to IVASS supervision. The intervention strengthens the role of the compliance unit and the controls on the distribution network, also through a more correct articulation of information flows between producer and distributor. The protection of the policyholder is also strengthened by the prohibition of sales to the customer segment for which a product is considered unsuitable (negative target), as well as by the rules established for sales outside the reference market;
- a Provision amending regulatory instructions. A new Section III bis on the distribution of insurance investment products has been introduced in IVASS Regulation No. 40/2018, integrating the general rules for insurance distribution. Provisions have been introduced to strengthen the protection of policyholders and to make the obligations for operators more systematic. In particular, a declaration of suitability in line with the needs and requirements of the customer is provided, by which the distributor certifies that the product meets insurance requirements. IVASS Regulation No. 41/2018 has been amended by envisaging the DUR, a single reporting document, which for IBIP products must include all the annual costs borne by the customer, including those relating to the distribution activities.

# 3.1.2. - The Shareholder Rights Directive

Together with other financial sector Supervisory Authorities, IVASS participated in the implementation of the (EU) Directive No. 828 dated 17 May 2017 (Shareholder Rights Directive 2 - SHRD2), which amends Directive No. 2007/36/EC (SHRD1) on the exercise of certain rights of shareholders' listed companies, to encourage the long-term commitment of the shareholders. By means of the SHRD2, the EU legislator introduced transparency requirements to promote the long-term orientation of institutional investors (insurance companies and pension

funds) and asset managers and to ensure adequate information flows in the contractual relationship between these parties.

The Directive has been implemented in Italy by means of Italian Legislative Decree No. 49 dated 10 May 2019, which introduced the necessary amendments to the TUF, contemplating the adoption and communication to the public of a commitment policy for institutional investors with regard to subsidiaries and the publication of information on the consistency of the investment strategy in shares with the profile and duration of liabilities. The decree introduced provisions in the CAP (Article 47 *duodecies*) and Italian Legislative Decree 252/2005 that, in conjunction with the provisions of the TUF, require compliance with the IVASS and COVIP implementing regulations. The Institute will adopt secondary regulations for insurance and reinsurance undertakings in the capacity of institutional investors, regarding the definition of terms and methods of publication and communication of information on the commitment policy, the share investment strategy and the agreement entered into with the asset manager.

Cooperation also continued with the MEF for the full implementation of the SHRD2 Directive - only partially implemented by Italian Legislative Decree No. 49/2019 - following the promulgation of the 2018 European Delegation Law (Law No. 117 dated 4 October 2019). Such Law lays down, among other things, specific delegation criteria for the integration of the CAP for the strengthening of the regulatory framework regarding the eligibility of company representatives and shareholders (Articles 76 and 77 of the CAP) and the related removal powers assigned to IVASS (Article 188 CAP).

### 3.1.3. - The IORP II Directive

Italian Legislative Decree No. 147 dated 13 December 2018 implemented (EU) Directive No. 2341 dated 14 December 2016, relating to the activities and supervision of corporate or professional pension funds (IORP II Directive), and introduced significant amendments to Italian Legislative Decree No. 252 dated 5 December 2005. The most important innovations concerned the governance system of pension funds and information to potential members and beneficiaries. The amendments also affect the insurance undertakings which participate, together with other authorised entities, in the management of negotiated pension funds, the setup and management of open pension funds and which create on an exclusive basis individual pension plans through life insurance contracts (PIP).

In March 2019, COVIP submitted for public consultation the directives addressing supplementary pension schemes in implementation of the regulatory framework, after having launched the necessary discussions 97 with the Bank of Italy, CONSOB and IVASS for the drafting of supervisory instructions on the governance system for companies managing open pension funds. These directives aim to ensure uniform application of the regulatory provisions by all pension funds. In its dealings with COVIP, IVASS has helped to identify the main aspects on which it believes there is a need for coordination of the regulatory provisions and the possible

<sup>97</sup> See Article 5 decies of Italian Legislative Decree No. 252 dated 5 December 2005.

overlaps or duplications with fulfilments already provided in the sector regulations for companies authorised to set up and manage open pension funds<sup>98</sup>.

# 3.1.4. - The consumer protection Regulation

(EU) Regulation No. 2394/2017 (Consumer Protection Cooperation Network, hereinafter the CPC Regulation), applicable from 17 January 2020, contains a cross-cutting regulation, including the insurance sector, which - through harmonised provisions on cooperation between national Authorities - aims to protect consumers from cross-border infringements of European consumer rules, ensuring that the national measures can cover the whole single market.

The provisions modernise and make cooperation on consumer protection more efficient between national Authorities and with the European Commission, which can take on a coordinating role of joint action which reduces the harm caused to consumers by cross-border infringements of EU rules.

The European legislator provides national Authorities with the necessary instruments to undertake effective actions in the event of infringements within the Union, also taking into account the evolution of the digital market. The powers of investigation and the establishment of a new alert system, open to external bodies, have been extended to facilitate an effective exchange of information within the Union and ensure mutual assistance.

One of the new investigative powers given to national authorities is mystery shopping, i.e. "the power to purchase goods or services by making sample purchases, where necessary anonymously"<sup>99</sup>. Mystery shopping is a fundamental control instrument, making it possible to intercept, in a preventive manner, any incorrect and non-transparent behaviour in the supply and sale of insurance products to customers.

IVASS is working with the competent institutional venues to ensure the adequacy of the regulatory framework within which to regulate the recourse to this investigation instrument.

## 3.1.5. - The assimilation of the Vth Anti-money Laundering Directive

In 2019, IVASS participated, together with the other Authorities involved in the management and monitoring of the risk of money laundering and terrorist financing, in the technical round table set up to assist the MEF in the implementation of EU Directive No. 2018/843 (Vth AML Directive). The most important innovations concern the cooperation between the financial intelligence units (FIU) and the strengthening of controls on transactions with high risk third countries. Maximum cooperation between FIUs and with supervisors is encouraged, in awareness of the fundamental importance of FIUs in identifying criminal transactions and activities. Cooperation is mentioned as one of the key points of the new Action Plan presented by the European Commission on 7 May 2020, which envisages a new legislative initiative on this aspect in 2021.

On 1 April 2020, COVIP submitted for public consultation the Draft of the "Supervisory Instructions for companies managing open pension funds, adopted pursuant to Article 5 decies, section 1 of Italian Legislative Decree No. 252 dated 5 December 2005": on conclusion of the consultation all the Authorities concerned will be asked to comment on the final version.

<sup>&</sup>lt;sup>99</sup> See Article 9, section 3, letter d) of the Regulation.

The implementation ended with the approval of Italian Legislative Decree No. 125 dated 4 October 2019, which entered into force on 10 November 2019. The text introduces further amendments and integrations to Italian Legislative Decree No. 231/2007, which had transposed the provisions implementing the fourth Directive two years earlier (Italian Legislative Decree No. 90/2017).

#### 3.2. - National initiatives

### 3.2.1. - The decrees for the implementation of the law on medical liability

Italian Law No. 24 dated 8 March 2017 (the "Gelli Law") has profoundly innovated and reorganised the regulation of medical liability. It envisages four implementing decrees affecting the insurance sector and the activities of IVASS. The Institute has provided collaboration to the competent Ministries, participating in the technical work groups care of the MISE and the Ministry of Health for the finalisation of secondary legislation.

## 3.2.2. - The evolution of MTPL legislation

The regulations on MTPL have been affected by important changes to the regulations introduced by Italian Law No. 40 dated 2 April 2007 ("Bersani bis").

Article 55 bis of Decree Law No. 124 dated 26 October 2019 ("2019 Tax" Decree), converted with amendments by Italian Law No. 157 dated 19 December 2019, laid down - by amending section 4 bis of Article 134 of the CAP, concerning the certification of the state of risk - the obligation for insurance undertakings to assign the most favourable bonus class achieved by one of the members of the family, also for vehicles of different types compared to those already insured, when the specific conditions expressed by the law are met.

In order to adapt the IVASS provisions to the innovations of primary importance, the Institute adopted the Order No. 95 dated 14 February 2020, containing amendments to the regulations regarding the identification criteria and the evolutionary rules of the bonus class for the universal conversion of MTPL insurance provided by IVASS Order No. 72/2018, as well as the technical methods of data transmission and access to the risk certificate database as per enclosure 1 to the IVASS Order No. 35/2015.

Decree Law No. 162 dated 30 December 2019, ("Milleproroghe" decree), converted, with amendments, by Italian Law No. 8 dated 28 February 2020, made further amendments to the regulations introducing the new section 4 ter.2. This provision establishes that insurance undertakings may provide, on the first expiry of the contract, an additional downgrading up to five bonus classes for the sole vehicle of a different type involved in the claim, in the event of a claim for which a driver, placed in the most favourable bonus class for the vehicle of a different type, has been declared exclusively or mainly liable in accordance with the provisions of section 4 bis and which led to the payment of compensation in total in excess of 5 thousand euros. Adjustments are currently being made to the relevant sector regulations.

The implementation and effects of the discipline introduced by the *Milleproroghe* decree will be the subject of a report that IVASS will forward to the MISE, the MEF and the Chambers by 30 October 2020.

#### 3.2.3. - The "Crescita" Decree

Article 7, section 1 *bis* of Decree Law No. 34 dated 30 April 2019 ("*Crescita*" decree), converted into law with amendments by Italian Law No. 58/2019, supplemented Article 188 of the CAP containing IVASS's powers of intervention in relation to supervised parties. The additions have considerably modified the assumptions, the subjective and objective scope of the Institute's powers of intervention. Specifically:

- on a general basis, "safeguarding the stability of the financial system as a whole and contrasting systemic risks" have been included among the assumptions that legitimate the activation by IVASS of the preventive or corrective measures provided by the regulation, in addition to the purpose of supervision of individual undertakings;
- the adoption by the Institute of the mentioned measures now addresses not only the individual supervised entities, but also the insurance market as a whole;
- the list of the specific measures that the Institute can adopt on a preventive or corrective basis has been extended to also include the imposition of "limitations, temporary restrictions or deferrals for certain types of transactions or powers that can be exercised by policyholders". In order to overcome the difficulties in applying the regulation, IVASS has worked together with the MISE and the MEF, hoping for a regulatory intervention aimed at circumscribing the objective sphere of the new powers and ensuring their full coordination with national and European law, and representing the opportunity for the establishment of the Authority for macro-prudential policies in compliance with the recommendations of the ESRB<sup>100</sup>, which have not yet been implemented in Italy.

#### 3.3. - Other regulations and regulatory interventions by IVASS

### 3.3.1. - Measures

a) Order No. 92 of 19 November 2019

The Order contains the amendments to IVASS Regulation No. 43/2019 implementing the provisions of the MEF decree dated 15 July 2019, published in the Italian Official Journal No. 233 dated 4 October 2019, resulting from the extension to 2019 of the provisions on the temporary suspension of capital losses in non-permanent securities, already envisaged by the previous Decree Law No. 119 dated 23 October 2018, containing urgent provisions on tax and financial matters, converted by means of Law No. 136 dated 17 December 2018.

The provision makes it possible to depart, also for 2019, from the rules of the Italian Civil Code regarding the measurement criteria for non-permanent securities for insurance undertakings that prepare their financial statements according to local GAAP.

For undertakings that make use of the faculty for 2019, the provisions regarding: the transmission of additional information to IVASS remain unchanged; the allocation to a restricted

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 $<sup>^{100}</sup>$  Recommendation ESRB/2011/3.

reserve of profits resulting from the exercise of the faculty; the public disclosure requirements (management report, explanatory notes to the financial statements), with specific indication of the measurement criteria adopted and the amounts of accounting items affected by the exercise of the option; the adoption of the derogation by means of resolution of the management body, which takes into account a specific report signed by the heads of the risk management and actuarial units and forwarded to the executive responsible for drawing up the corporate accounting documents, where established by the Articles of Association.

# b) Order No. 94 of 30 December 2019

Order No. 94/2019 - in continuity with IVASS Order No. 83 dated 29 January 2019 - implements the provisions of Decree Law No. 148 dated 16 October 2017, in Article 2 *bis*, sections 24 and 25, as amended by Decree Law No. 123 dated 24 October 2019, converted into Italian Law No. 156 dated 12 December 2019.

#### The Order:

- further postpones to 31 December 2020 the deadline for the payment of the premium in favour of injured parties who have declared their building, home, professional studio or company to be unfit for occupation in the Abruzzo, Lazio, Marche and Umbria regions affected by the seismic events of 24 August 2016;
- postpones to 31 December 2020 the suspension of the obligation to pay the insurance premium in favour of injured parties who have declared the unfitness of the assets located in the municipalities of Casamicciola Terme, Lacco Ameno and Forio on the Island of Ischia, affected by the seismic events that occurred on 21 August 2017;
- in continuity with IVASS Order No. 83 dated 29 January 2019, regulates the methods for the division into instalments of premiums at the end of the period of suspension of the obligation to pay as well as the payment of claims occurring during that period.
- c) Other Orders issued in 2019
- Order No. 84 dated 13 February 2019, concerning the methods and terms for the communication to IVASS of information on shareholdings and close links to those enrolled in the RUI (Register of insurance intermediaries), pursuant to Article 3.1 of Italian Legislative Decree No. 68/2018 and Article 105 of IVASS Reg No. 40/2018;
- Order No. 86 dated 14 May 2019, concerning amendments to IVASS Regulations No. 1 dated 8 October 2013 and No. 39 dated 2 August 2018, respectively concerning the procedure for the imposition of administrative fines and the implementing provisions as per Section XVIII (sanctions and sanctioning procedures) of the CAP;
- Order No. 87 dated 23 July 2019, which makes amendments to IVASS Order No. 39 dated 4 December 2015 concerning the formalities and deadlines for the payment of the supervisory fee by insurance and reinsurance undertakings;

- Order No. 90 dated 5 November 2019, containing amendments to IVASS Regulation No. 39/2018, concerning the procedure for the imposition of administrative fines and the implementing provisions, and to Regulations No. 1 and 2/2013;
- Order No. 91 dated 7 November 2019, which concerns the fixing of the rate for the calculation of the operating expenses to be deducted from insurance premiums collected in 2020 so as to determine the supervisory fee contribution on insurance and reinsurance activities;
- Order No. 93 dated 23 December 2019, containing limits for the calculation of incentives and penalties pursuant to Article 6 of IVASS Order No. 79 dated 14 November 2018.

### 3.3.2. - Regulatory Impact Analysis and Checks (RIA and RIC)

IVASS bases its regulatory activities on the principles of transparency and proportionality in order to achieve its institutional objectives, with the least possible burden on the recipients of the regulation<sup>101</sup> and by consulting the parties concerned, except in the case of regulatory acts of a purely applicative nature or for which the conditions of necessity and urgency exist.

In 2019, two Regulations were issued, nine regulatory Orders, three of which amending existing Regulations, and 14 letters to the market were published, all of which are exclusively for interpretation or application purposes. Four RIAs and one RIV relating to regulatory initiatives in the consultation phase were carried out.

The two Regulations were preceded by public consultation, but were not subject to RIA as they implemented national or European regulations and were characterised by narrow margins of discretion.

The nine Regulations innovated the provisions in force following the assimilation of national regulations and since they are acts of a purely applicative nature or for which the conditions of necessity and urgency were met, the public consultation was not carried out nor were they subject to RIA or RIC.

Four public consultations were launched in 2019, two of which related to new regulations and two to measures amending existing rules. Given the importance of the aspects dealt with and the innovations introduced, the Institute carried out preliminary RIAs on each of them and, in one case, also the preliminary assessment of the continuing usefulness, effectiveness and efficiency of the regulations in force (RIV).

From an organisational standpoint, the updating and extension of the scope of application of the Methodological Guide to the RIAs and RIVs continued in 2019 with the aim of improving the quality of regulatory acts in terms of the dimensions of uniformity and transparency. The dedicated team (RIA team) continued to carry out training, updating and support tasks in the performance of analyses and impact assessments in line with internal methodological guidelines.

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<sup>101</sup> See in particular Article 191 of the CAP and IVASS Regulation No. 3 dated 5 November 2013 implementing Law No. 262/2005.

### 3.3.3. - Frequently Asked Questions

The amendments to Title IX and Title XIII of the Insurance Code, introduced by Legislative Decree No. 68 of 21 May 2018 implementing the IDD, the subsequent issue of IVASS Regulations No. 40 of 2 August 2018 and No. 41 of 2 August 2018, as well as of IVASS Order No. 84 of 13 February 2019, led to numerous requests for clarification from market operators on application of the new aspects of the rules on insurance and reinsurance distribution and on pre-contractual and contractual transparency

IVASS facilitates full understanding and standardised application of the new European provisions, by publishing on its web site specific FAQs designed to facilitate the implementation and interpretation of the new rules.

In 2019, answers were published to questions concerning the exercise of the insurance distribution activities as well as the distribution activities carried out on an ancillary basis pursuant to Articles 1.1, letter cc) *septies* and 107.4 of the CAP which, respectively, define the ancillary activities and lay down the conditions under which such activities may be considered exempt from the scope of application of the rules on distribution, in line with the new EU provisions.

Applicative clarifications have been published regarding IVASS Order No. 84 dated 13 February 2019, concerning the methods and deadlines for the communication to the Institute of information on shareholdings and close links in relation to those enrolled in the RUI, pursuant to articles 3.1 of Legislative Decree No. 68/2018 and 105 of IVASS Reg. No. 40/2018.

In conclusion, indications were provided to the market regarding the rules applicable to the obligation to draw up the report on the distribution organisation, management and control policies envisaged by Article 46 of IVASS Regulation No. 40/2018.

With regard to IVASS Regulation No. 41/2018, a set of FAQs has been published relating, in particular, to: use of the reserved area (home insurance) for the payment of the MTPL premium; fulfilment of the disclosure obligations in the event of tacit renewal of the contract; obligation to publish the unit of the internal fund or the unit or share of the UCITS in newspapers; methods and timing of publication of the prospectus and the periodic statement of the internal fund or UCITS to which the products are linked; types of costs and expenses indicated on the annual statement of account of unit-linked products.

### IV. - PRUDENTIAL SUPERVISION

#### 1. - PRUDENTIAL SUPERVISION

In 2019, the focus of supervisory activity was on the two pillars that constitute the cornerstones of checks regarding the sound and prudent management of groups and undertakings: the assessment of corporate governance systems and the verification of risk profiles.

Well-structured governance structures are essential to ensure proper business management and effective risk taking, measurement and control. The year just ended was central to the implementation of Regulation No. 38/2018, with intense early dialogue aimed at guiding undertakings and groups towards the adoption of governance and control systems that are as close as possible to their risk and complexity profile.

The macroeconomic context in which the supervisory action was carried out sees a scenario of low interest rates with the main market variables, even before the epidemiological crisis, marked by particular volatility, capable of affecting the level of the supervisory requirement, the business objectives and the capital management policies of the insurance companies.

The Supervisory Review Process has supplemented quantitative and qualitative checks, which determine the supervisory rating and the intensity of the consequent supervisory action, with analyses of the business model that provide a more complete picture of the interconnections between the core activities of undertakings and the evolution of the risk profile.

The search for yield, determined by the level of interest rates, has led some undertakings to more aggressive investment strategies and increasing exposure to complex assets and low-rated issuers. In-depth analysis of these instruments, in some cases difficult to assess on the basis of market data, has been launched, which in certain cases has revealed a reduction in the liquidity of the portfolio, associated with an incorrect quantification of capital absorption for prudent purposes. The search for higher returns cannot ignore asset management and measurement systems that are able to take into account all the underlying risk factors, without which the correct determination of the solvency position is jeopardised.

If technical and financial risk analyses are a constant feature of Pillar 1 requirement assessments, the aspects of the ICT innovations, data governance and cyber security have given impetus to new initiatives. A survey was carried out on the implementation of new regulatory standards. Areas of delay on data quality processes and system weaknesses to cyber attacks are the subject of adaptation plans, which are being followed up by IVASS with particular attention also through on-site access.

In the first few months of 2020, the significant tensions on the financial markets consequent to the epidemiological emergency made it necessary to intensify supervision, also by monitoring the solvency position of undertakings and groups at close intervals with respect to ordinary quarterly flows. The adequacy of dividend pay-out choices was assessed in line with the Institute's

recommendations on the need to safeguard solvency levels through the adoption of extreme prudence in dividend distribution.

The COVID-19 emergency confirmed the resilience of Italian insurance companies to major stress and brought to the fore the robustness of the enhanced Contingency Plans that groups relevant for financial stability must draw up, identifying in advance appropriate and practicable measures to restore financial soundness in the event of adverse events. Supervision measures for certain groups, required to provide greater severity in the event of stress or in the feasibility of recovery actions, have improved the quality of the planning documents useful for the rapid and orderly management of possible crises.

## 1.1. - Supervision on the shareholdings and on the structure of groups

As part of its investigations into the ownership set-ups and structure of the groups, IVASS has taken action several times to assess the existence of the requirements capable of ensuring the sound and prudent management of the target undertaking, including the integrity and reputation requirements of the potential acquirer and the financial soundness of the proposed acquisition. These aspects are, in fact, important regulatory prerequisites for the authorisation procedure.

The proceedings have also been prepared in accordance with the guidelines issued jointly by the European Supervisory Authorities (EBA, ESMA, EIOPA) aimed at harmonising the measurement criteria and supervisory procedures.

# 1.1.1. - Changes in ownership structure of controlling or qualified interests

In 2019, the Institute examined five projects for the acquisition of controlling or qualified interests in insurance undertakings in the sphere of the applications submitted pursuant to Article 68 of the CAP. The assessments focused on the verification of the regulatory requirements, taking into account, among others, the conditions capable of ensuring the sound and prudent management of the undertaking, the possible effects of the transaction on the protection of policyholders and on the production capacity, capitalisation and profitability of the insurance undertakings involved. In two transactions, private equity funds, already present as shareholders of Italian insurance undertakings, strengthened their presence through further acquisitions of controlling interests.

The following transactions were authorised:

- the acquisition by Nobis Compagnia di Assicurazioni S.p.A. of the 100% interest in Apulia Previdenza S.p.A. This transaction is part of the Nobis Group's wider development project aimed at supplementing the catalogue of non-life products offered to its distribution network with a range of life products;
- the acquisition by IBL Istituto Bancario del Lavoro S.p.A. of a qualified interest in Net Insurance S.p.A. The operation consolidated the business partnership to create synergies and reduce the cost of loans granted to customers;

- the acquisition of control of Pramerica Life S.p.A. by the private equity fund Cinven. The
  transaction is part of the investment strategy of the Fund, which has already made acquisitions in Italy of small and medium sized insurance undertakings, using the Eurovita insurance
  group platform;
- the acquisition of control of DARAG Italia S.p.A. by the private equity fund Crestview Partners III Fund, already a qualified shareholder of said insurance company. The investment in the DARAG insurance group must be viewed within the Fund's strategic choice to enter the run-off insurance portfolio management market.

The Institute has also authorised Caisse des Dépôts et Consignations (CDC) to acquire indirectly, through CNP Assurances, the controlling interest of 57.5% in the share capital of CNP Unicredit Vita S.p.A. The transaction is part of the French Government's wider project to reorganise the chain of CNP Assurances' holdings.

With regard to the transactions involving parties resident in other countries or cross-border groups of companies, the preliminary assessment also availed itself of the collaboration of the foreign Supervisory authorities.

## 1.1.2. - Evolution of the structure of groups

The reorganisation of a number of insurance groups continued, also with mergers between undertakings, to rationalise the business structure, simplify the shareholding chains and pursue synergies and economies of scale with a reduction of the structure overheads and greater operating efficiency.

In implementing the contractual agreements entered into with the BPER Group, the Unipol Group sold its entire interest in Unipol Banca - subsequently merged via incorporation into BPER - to BPER Banca and increased its interest in BPER Banca to 19.87%. By means of this transaction, the Unipol Group lost control of a banking group. In addition, the group achieved a simplification of the shareholding chain in the control of a number of insurance undertakings.

With a view to rationalising and simplifying the corporate structure, the Institute authorised the merger of Chiara Assicurazioni S.p.A. into Helvetia Italia Assicurazioni S.p.A.

Assicurazioni Generali, in addition to simplifying the shareholding chain, continued its expansion with acquisitions of interests with strategic value, aimed at extending the distribution of its products and services offered, launching new partnerships. The main acquisitions in the financial sector were made by the subsidiary Banca Generali (Nextam Partners S.p.A., Valeur Fiduciaria S.A., BG Saxo SIM S.p.A.) and by Generali Investments Holding S.p.A. (ThreeSixty Investments SGR S.p.A.). In the insurance sector, the Group strengthened its presence in the Portuguese market with the acquisition of Seguradoras Unidas S.A.

#### 1.1.3. - Access and extension of insurance business

The Institute authorised the transfer of part of the insurance portfolio represented by individual and supplementary pension schemes from Aviva S.p.A. to Aviva Life S.p.A. As part of this transaction, it authorised Aviva Life S.p.A. to extend its business to life insurance class

VI. CF Assicurazioni S.p.A. was authorised to extend its insurance business to other non-life classes to enhance the range of products offered.

Some Italian undertakings continued to expand their presence in foreign markets in order to expand the geographic area in which they offer insurance services. The Institute assessed 12 communications to carry out insurance business under fos arrangements in EEA countries and in third countries.

## 1.2. - Supervision of the corporate governance system

In 2019, insurance undertakings and groups continued the self-assessment process aimed at identifying the corporate governance structure (enhanced, ordinary or simplified) most suitable for their size, complexity and risk profile, as required by the provisions introduced by IVASS Regulation No. 38 dated 3 July 2018 ("Regulation") as supplemented by the IVASS Letter to the market dated 5 July 2018 ("Letter").

This process has engaged the supervisory authorities in intensive early dialogue activities, functional for the implementation of the regulatory framework. In addition to a careful analysis of the declination of the principle of independence of directors, including via amendments to the articles of association, the Institute constantly verified the eligibility requirements for the office of member of management bodies, in order to encourage insurance companies to increase the number of board members with professional expertise suited to their technical and management complexity. Particular importance was also given to the analysis of the organisation of the fundamental functions in order to verify essential compliance with the principle of independence in the performance of these functions.

#### 1.2.1. - The governance structure of undertakings

The identification of the governance structure is preparatory to most of the fulfilments envisaged by the Regulation which, based on the principle of proportionality, have been tailored differently also according to the governance system adopted by the undertakings. In particular, 42 undertakings (39% of the total) have adopted the enhanced corporate governance regime, 29 undertakings (27% of the total) the ordinary regime and 37 undertakings (34% of the total) the simplified regime.

The governance models adopted by undertakings were identified on the basis of the quantitative and qualitative criteria set out in the Letter and were in line with the Institute's expectations.

The enhanced regime was adopted by large undertakings, all composite undertakings and undertakings which, while not reaching the quantitative thresholds indicated in the Letter, have elements of complexity, as the adoption of an internal model. For some groups the decision to achieve a single governance system for all undertakings was also relevant.

The ordinary regime has been adopted by companies of medium size or belonging to groups which, taken as a whole, do not exceed the thresholds which would make it appropriate for the ultimate Italian parent company to adopt an enhanced regime. A significant number of non-life undertakings have also chosen the ordinary regime, which, while falling under the simplified

regime from the standpoint of size, have made use of qualitative parameters in the assessment process, such as the structure of the ownership set-up or the complexity of the risks undertaken, such as to make it appropriate to adopt more complex and stringent organisational controls.

The simplified scheme has been adopted, among others, by 28 small non-life undertakings, some of which have also adopted safeguards typical of the ordinary regime, such as the article of association provision for the non-executive role of the chairman and the establishment of internal board committees.

The corporate governance system is subject to different fulfilments that require, in some cases, specific amendments to the articles of association, such as the definition of the independence requirement for directors, the non-executive role of the Chairman and the establishment of internal board committees.

At the end of 2019, 65 companies (60% of the total) had approved the relevant amendments to the articles of association in accordance with the rules set out in the Regulation.

With regard to the independence requirement, the article of association amendments followed an approach that was not always uniform and sometimes generic. The Institute took steps to request a precise definition of the concept, identifying as a reference the provisions of Article 148 of the Consolidated Law on Financial Mediation, to which most of the companies have essentially referred. Some companies have adopted the strictest concept of independence in the Code of Corporate Governance for undertakings with listed securities.

The Institute's expectations regarding the role of the chairman have been expressed in relation to the type of corporate governance adopted and the insurance companies' membership of a group pursuant to Article 210 *ter* of the CAP. For companies with an enhanced system, the Institute requested a non-executive role for the chairman of the management body, while for companies with ordinary or simplified governance, the possibility of executive functions was abstractly envisaged, with the adoption of safeguards to mitigate the risks arising from excessive concentration of powers. The market has implemented these expectations in the manner most suited to the role of impartiality and guarantee that the chairman of the collective body must ensure. Most companies have introduced, if not already present, an express article of association provision on the non-executive nature of the chairman of the decision-making body.

With regard to the functioning of the board of directors, legislation leaves the establishment of the Internal Control and Risk Committee and the Remuneration Committee to the discretion of the management body, which will set them up if it deems them appropriate to the nature, scope and complexity of the undertaking's business and the inherent risks. There was a general adjustment to the Institute's expectations on the part of the undertakings that set up the above mentioned Committees, making the consequent article of association amendments.

The new regulatory framework, which follows the approach of ISVAP Regulation No. 20 dated 26 March 2008, envisages that the organisational position of the fundamental functions shall be left to the autonomy of the undertaking, in compliance with the minimum separation safeguards with the operating functions, in order to guarantee their independence, autonomy, objectivity of judgement and the possibility of reporting directly to the management body. Article

28.1 of the Regulation also establishes that the holder of each fundamental function "shall not be the head of operational areas, nor be hierarchically dependent on persons in charge of such areas".

The solutions adopted by the main insurance groups are broken down as follows: a) hierarchical and functional reporting to the management body; b) functional reporting to the management body and hierarchical reporting to non-operational corporate functions, in particular to the Chief Risk Officer (CRO); c) functional reporting to the management body and hierarchical reporting to senior management. In the latter case, IVASS has in any case requested the presence of appropriate controls to ensure compliance with the principle of separation between operational and fundamental functions.

# 1.2.2. - Supervisory action on corporate governance

The analysis of the organisational structures and fundamental functions of the insurance companies was carried out on an ongoing basis on the basis of off-site assessments and on-site visits, in order to verify the consistency and adequacy of the solutions adopted with the regulatory provisions and expectations of the Institute. The checks concerned the organisational procedures and the corporate position of the fundamental functions, the article of association definition of the independence requirement, the role and functions of the corporate bodies, the internal control systems, the suitability of corporate representatives and those who perform the fundamental functions and the remuneration policies.

In some cases, the Institute intervened to request specific initiatives aimed at overcoming structural weaknesses or problems in the internal control system. An incisive measure was necessary in a line of business transfer transaction in favour of an Italian insurance company, as the transferee had not foreseen the adaptation of the governance and control system to the new dimensional context and the risk profile resulting from the acquisition of the portfolios.

Other measures concerned the organisation of fundamental functions:

- with regard to certain groups, to urge full regulatory compliance, since the hierarchical reporting to owners of operating areas did not comply with the principle of independence;
- for an ultimate parent company, also considering the activities outsourced to the insurance subsidiaries, in order to assess the adequacy, also in terms of appropriateness of the structure, of the established fundamental functions;
- in relation to several groups, to verify that the holder of the function at the outsourcing undertaking can also be the supplier of the outsourced function. This coincidence is admissible only in the presence of intragroup outsourcing and a simplified corporate regime of the outsourcing company.

The management and co-ordination role of the ultimate parent company must be exercised in full compliance with the provisions of Article 215 bis of Italian Legislative Decree No. 209/2005 and Article 70 of the Regulation. The ultimate parent company must provide the group with a corporate governance system that includes mechanisms suitable for verifying, *inter alia*,

that the conduct of the group companies complies with the guidelines laid down and that the provisions on corporate governance are consistently applied.

One parent company was rebuked on the persistence of the numerically excessive nature of the management bodies of four subsidiaries, not consistent with the size and characteristics of the undertakings, characterised by extremely low production levels, governance structures with extensive use of outsourcing and particularly small workforces. The Institute has reiterated that the high number of directors does not guarantee a greater level of efficiency in board activities nor a better collective assessment of the risks inherent to the insurance business, leading by contrast to excessive liabilities compared to the corporate structures.

A cooperative company has adopted the one-tier administration and control system, instead of the traditional one, in the context of strengthening governance structures. The one-tier model, which is widely used internationally, allows for the concentration of the management and control functions in a single management body, within which a special control committee is set up. In the case in question, the choice of the one-tier system, inspired by the need for greater speed, concentration and rationalisation of governance functions, was accompanied by a reduction in the overall number of company representatives, which was repeatedly requested by the Institute.

With reference to the requirements of professionalism and good standing, checks were carried out to ascertain the existence of these requirements for company representatives, holders of qualified interests, the holders of the fundamental functions and the anti-money laundering function. It was sometimes necessary to reiterate the request to strengthen the presence within the Board of professional skills and experience with an adequate variety of profiles, with particular attention to those relating to the core management of the undertaking and the group, and to strengthen measures to avoid concentration of appointments and conflicts of interest.

With regard to remuneration policies, the measures concerned inconsistencies between the principles established in the policies on the variable remuneration of control functions and what was actually implemented, in order to bring the payment of variable remuneration into close compliance with the policy resolved and communicated to the Institute. Supervisory measures were also carried out with regard to the effective operations of the Remuneration Committee so that the work would fall within the sphere identified by the management body.

### 1.2.3. - Data governance and IT plans of the undertakings: survey results

In order to strengthen the supervision on governance of information and communication technology (ICT) by the undertakings and on a consistent basis with the objectives set out in the IVASS 2018-2020 Strategic Plan, a survey was launched in June 2019 on the state of implementation of the provisions applicable to ICT of the Regulation, asking undertakings to self-assess their situation with respect to regulatory requirements (gap analysis).

The questionnaire, to which 95 undertakings, three representatives of foreign undertakings and eight non-insurance ultimate parent companies replied, was aimed at gaining awareness of the state of implementation of the ICT requirements envisaged by the Regulation, analysing their impact and carrying out comparative analyses. Information was collected on cloud outsourcing, to assess the diffusion of this technology and to detect potential concentration risks (single point of failure) outside the undertakings.

Many insurance companies feel that they are already in line with most of the requirements. According to the undertakings, 82% of the regulatory requirements were already met (12% partially met, 5% not met). This figure is 87% for the companies in the first size range (among the 22 largest companies). 18 undertakings have shown that they are not yet fully compliant with more than one third of the requirements.

In general, it came out that the attention of undertakings was focused on the implementation of corporate governance and control fulfilments (e.g., policy decisions, integration of ICT aspects in the activity plans of fundamental functions). On the other hand, there is a lower degree of implementation of operational requirements: only 38% of undertakings report, for example, that they have documented and oversee the procedures for the extraction, control, management, aggregation and use of data in order to verify the quality of information.

These results are consistent with the impacts declared by undertakings deriving from compliance with regulatory requirements: more than 60% of undertakings indicate a zero or low impact for corporate governance and control fulfilments, while 84% consider the necessary adjustments to information assets and ICT and cyber security requirements to have a medium/high impact.

The fulfilments with regard to IT systems and cyber security are deemed adequate by 83% of undertakings, with a large majority (90%) having approved the ICT Plan. There are initiatives to strengthen the cyber safeguards planned beyond the end of 2019.

Almost all undertakings report forms of outsourcing of essential ICT functions or activities and use of cloud technology. The location of providers was mainly in Italy (77%) and, for the remainder, in European countries. There was an adequate diversification of ICT providers and cloud providers.

# 1.2.4. - Analysis of the enhanced contingency plans

In 2019, the obligation to draw up an enhanced contingency Plan (Plan) came into force for insurance groups that are significant for the purpose of financial stability, which, once approved by the management body, must be forwarded to IVASS on an annual basis.

With the preparation of the Plan, groups are required to foresee prompt and informed management of possible crisis situations by identifying measures to restore capital and financial adequacy in the event of deterioration in situations of technical or economic stress. The drawing up of the Plan activates an informed and effective decision-making process for the prior identification of *ad hoc* measures that undertakings may be called upon to employ in the presence of real crisis situations, anticipating the identification of the action to be taken, for example, as part of the Recovery Plan pursuant to Article 222 of the CAP.

Pursuant to Article 84.1 of the Regulation, the Institute carried out an examination of the Plans submitted by the main insurance groups, verifying their consistency with the regulatory requirements and with the governance system, the Risk Appetite Framework, the contingency plan and the capital management policy.

Prompt action was identified to restore sound and prudent management conditions, in the presence of adverse scenarios in terms of solvency and liquidity, and an adequate level of integration of the Plans into the risk management system and of consistency with the capital management policy was noted. The use of early warning indicators was found, based on financial and technical variables, which activate escalation processes for the adoption of remedial action when predefined recovery triggers are reached.

Recovery options, assessed by the groups on the basis of their feasibility, involve capital measures, management initiatives (cost containment, change in strategic asset allocation, recourse to reinsurance, etc.) and extraordinary transactions (sale of participations and lines of business).

Possible areas for improvement concern, among other things, measures aimed at maintaining lines of business in crisis situations, the intensity of stress used to assess liquidity risk and the adoption of more effective early warning indicators. The Institute intervened on the groups concerned to ensure that the enhanced contingency plans, which will be presented in 2020, acknowledge the observations.

## 1.3. - The supervisory review process (SRP)

The Supervisory Review Process includes the activities that enable the Institute to reach an opinion on the risks to which insurance undertakings and groups are exposed and on the capital and organisational safeguards against the risks undertaken.

The first phase of the process is dedicated to assessing the risks to which the undertaking is exposed through the quantitative approach (Risk Assessment Framework - RAF) based on KRI (Key Risk Indicators), referring to the areas of performance, governance, technical/financial management and capital adequacy. This method makes it possible to make a preliminary selection of undertakings which present a higher risk profile for each area.

The process also includes a qualitative phase that makes it possible to include in the risk assessment factors that cannot be automatically captured by KRIs and to take into account the Institute's overall information assets, including assessments of the management of underwriting and settlement processes, technical provisions, financial and liquidity risks on the basis of monthly monitoring of investments, premiums and surrenders.

This qualitative phase was also strengthened in 2019 by analyses of the business model of life undertakings, also to assess the consistency of strategic and organisational choices with the risk profile and the related effects on the solvency situation. An analysis method was developed that identified specific areas of in-depth analysis: a) commercial strategy, in particular market positioning and related strategic objectives; b) supply strategy, in terms of distribution channels, type of products marketed and guarantees offered; c) investment strategy, with regard to the strategic asset allocation, duration and profitability of investments; d) business performance and profitability, with regard to the sustainability of the business model adopted; e) specific risk profile and main vulnerability factors; f) digital innovation, in terms of the development of new technologies in the business chain.

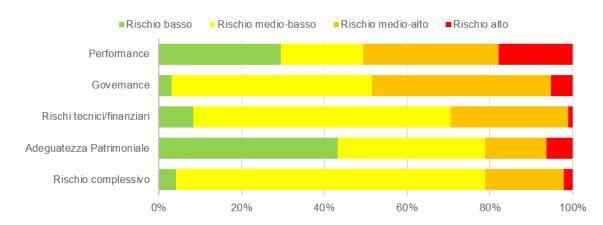
In 2019, the application of the above method made it possible to assign to all the undertakings of the market an opinion on the individual areas of analysis (performance, governance, technical/financial management and capital adequacy) and on the overall riskiness (Figure IV.1).

The situation of supervised undertakings is not particularly worrying in terms of overall risk. With regard to the individual areas, the situation is generally positive in terms of capital adequacy and technical-financial riskiness, where 80% and 70% of undertakings have a low/medium risk profile.

In the other areas, there is greater risk, even if the situations characterised by high risk are limited, carefully monitored by the Institute and often subject to specific supervisory measures. In the performance area, the classification of high risk pertains to undertakings with negative financial or technical results, such as to have determined an operating loss for the period; in the governance area, the classification of high risk relates to undertakings that are subject to specific inspections or that are in the process of implementing a remedial plan to comply with the requirements of IVASS Regulation No. 38/2018; in the capital adequacy area, the classification of high risk relates to undertakings with a low solvency ratio (SCR ratio below 120%).

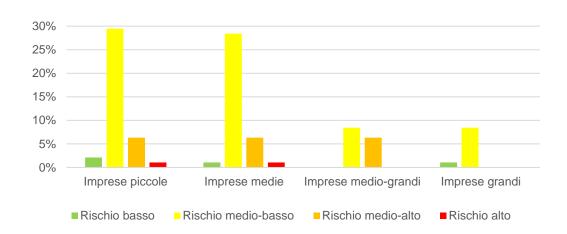
Figure IV.1

## Risk areas and overall riskiness



Overall high risk positions refer to medium and small undertakings (Figure IV.2).

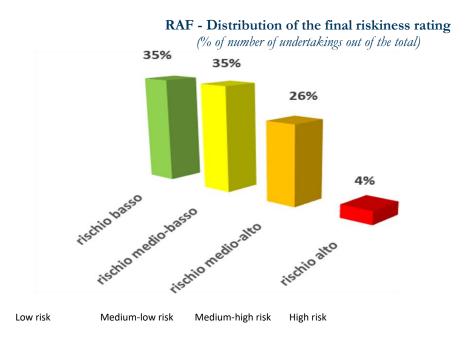
Figure IV.2 Distribution of the overall riskiness of undertakings by size



In conclusion, each undertaking is assigned a final rating that takes into account, to a significant extent, the size of the undertaking and the impact on the market and policyholders of its possible crisis (risk/size approach). The distribution of supervisory ratings (Figure IV.3) confirms that 70% of undertakings have a low and medium-low risk profile and that only a limited part of the market falls within the high risk range.

On the basis of the ratings, appropriate supervisory initiatives are adopted in terms of priority and timing of measures. When planning interventions account is also taken of medium-high and high risk situations found in the individual areas of analysis.

Figure IV.3



## 1.4. - Checks on the stability of undertakings and of groups

### 1.4.1. - The checks on the approved internal models

The ongoing appropriateness of the internal models authorised by the Institute is verified by analysing the annual adjustments of the risk factors underlying the determination of the capital requirement, using the validation reports that the undertakings are required to produce.

For all approved models, backtesting analysis was carried out on the interest rate risk and spread risk sub-modules in order to verify their forecasting capacity on the basis of the related time series. In cases where the backtesting did not provide satisfactory results, the Institute intervened vis-à-vis the undertakings to ask them to adapt the methodological and adjustment processes appropriately in order to ensure that the test was passed.

The Institute also intervened on a number of undertakings to ask for measures to strengthen the governance of the model, through the implementation of processes that clearly define roles, responsibilities and methods for backtesting, as well as adequate disclosure of the results achieved. Attention was drawn to the importance of the role played by the internal validation unit within the companies that were asked to express, through their own independent analyses, an opinion on the backtesting activities, also by developing different analyses useful for grasping the predictive capacity of the models subject to validation (so-called backtesting out of sample).

With regard to one internal model, the analyses revealed inconsistencies in the time series of the data used, which was not suitable for representing the risk being calibrated, as well as inefficiencies in the data quality and governance process of these processes. The undertaking was asked to replace the reference time series and to automate the data feeding process as well as to introduce consistency checks on input and output data.

Inspections were carried out at two undertakings to verify the adequacy of the reserve risk capital calculated using the internal model. Within the sphere of this activity, backtesting was implemented to investigate, with specific reference to reserve risk, the model's one-year predictive capacity. As a result of the analysis, the undertakings were asked to modify the assumptions underlying the model's calibration and the method framework, to ensure adequate representation of the claims settlement dynamics.

With reference to market risk and credit risk, the Institute took part in the 2019 edition of the EIOPA Market and Credit Risk Comparative Study. The two Italian groups already participants in the previous study were joined by a group and an individual undertaking. The survey found differences in the risk assessment among undertakings in the European sample, attributable to differences in terms of risk and business profile, but also to the different calibrations adopted.

The most significant differences were recorded in the risk assessments of government and corporate securities with lower credit quality and the portfolios consisting of a significant percentage of such securities. The activation of the Dynamic Volatility Adjustment on the liabilities not only reduces the level of stress applied to portfolios but also their volatility, significantly reducing the differences between the values reported by undertakings.

With reference to the Italian undertakings, the study revealed the need for more in-depth analysis, for some of them, on the calibrations of the interest rate risk, spread risk and their correlation, as well as on the adjustments of the real estate risk. The results of the analysis were discussed with the undertakings of the sample in specific meetings.

The first edition of the Non-Life Comparative Study furthered by EIOPA on non-life risks, launched in 2017 and addressing the main business segments (motor third party liability, other motor, general third party liability, fire and other damage to property), was completed during the year. The results were presented by EIOPA and the national Authorities to the 35 participating companies, providing specific feedback to the 16 groups they belong to. The effects of the different modelling on capital requirements were compared on the basis of risk indicators estimated by the models compared to the standard formula, taking into account the significant differences in modelling. By 2020, further analysis on the individual undertakings is planned by each national Authority, made necessary by the lack of homogeneity in the approaches adopted by some undertakings, even within the same group. The need to extend the analyses to catastrophic risk and diversification aspects has also been highlighted.

IVASS participates in the EIOPA Expert Network on Internal Models, made up of representatives of European authorities with elevated expertise on internal models. In this context, case studies on the management of internal models are discussed to define common supervisory standards. The first appropriateness indicators (Internal Models On-Going Appropriateness Indicators - IMOGAPI) have been established to support on-going verification of approved internal models. Templates were also prepared for the new standardised reporting on the supervisory requirement for undertakings adopting an internal model (QRTs for PIMs). The Expert Network reports to the Internal Model Forum, set up to support the strategic choices of the Board of Supervisors regarding internal models.

At the end of 2019, EIOPA launched a new project, in which IVASS is involved with other European Authorities, on risk diversification in internal models. The project aims to assess the approaches currently adopted, to facilitate their understanding and to analyse and, if necessary, to enhance transparency on the benefits of diversification.

### 1.4.2. - The activities on model changes and on the implementation of remedial plans

The pre-application and application activities carried out on model changes concluded with the issue of the authorisations to two groups, one cross-border and one whose group supervisor is IVASS. The assessments were carried out in close coordination with the other European Authorities with a view to a shared decision. The changes to the models concerned improvements in the method adopted, also as a result of specific requests from the Supervisory Authorities, as well as the extension to group companies previously excluded from the scope of calculation.

The Institute has begun pre-application for significant changes to the internal models of three insurance groups for which it acts as group supervisor, with reference to the extension of the internal model to risks, at the moment, assessed using the standard formula.

The checks on catastrophic risks have highlighted significant aspects regarding the governance of the capital requirement calculation process, since the use of outsourced external

models (vendor model) requires the undertaking's full awareness of the results provided by the outsourcer as well as the continuity of dealings with the supplier to feed the model.

## 1.4.3. - Verification of the adequacy of the standard formula and the specific parameters (USP)

The appropriateness of the standard formula continued to be checked for seven undertakings for which a supervisory initiative had been launched following significant deviations in the risk profile from the standard formula assumptions underlying the calculation of the capital requirement for non-life and health insurance premium & reserve risk (health not similar to life technique).

Discussions with the undertakings highlighted aspects relating to the assessment of pricing and reservation risks that required specific guidance from the Institute. It was specified that the use of specific parameters for the calculation of the capital requirement (USP) must take place using the methods and techniques envisaged by legislation and that inclusion of positive technical balances in the calculation of specific parameters is not permitted, nor the use of technical items valued using management criteria other than those expressly indicated by the legislation.

Of these undertakings, five have started the activities necessary to apply for authorisation to use the specific parameters and, over the mid-term, have defined and applied a conservative margin on the solvency capital requirement at the request of the Institute.

For undertakings and groups authorised to use the specific parameters, the analysis of communications sent to IVASS on the basis of the management policies continued in the event of significant changes in the technical aspects and governance of the process.

With regard to the calibrations for 2019, one group and three undertakings, at consolidated and individual level respectively, reported failure to pass the tests to verify the assumptions underlying the authorised methods for certain risks or segments without, however, the management body being aware of the effects produced on the determination of the capital requirement. Specific action was necessary vis-à-vis the board of directors to request its assessment of the ability of the USPs to continue to adequately represent the risk profile; at the same time, in view of the failure to pass the hypothesis tests, the need to set aside a conservative margin on a prudent basis in the quantification of the solvency requirement was indicated.

One group was found to have failed to comply with the disclosure obligations envisaged for the continuous management of specific parameters, with regard to significant changes made to the calculation process which, in some cases, were not fully consistent with current legislation. The changes concerned the change in the calculation method, for which the regulatory provisions require a new authorisation by IVASS, and the use of the parameters of the standard formula in the event of failure to pass the hypothesis tests, not envisaged by the regulations unless the authorisation is withdrawn by IVASS. This assessment was followed by an intervention vis-à-vis the group to detect non-compliance with disclosure obligations and the need to make the changes fully consistent with the provisions in force.

### 1.4.4. - Investment analysis

In the current economic and financial environment, undertakings are called upon to combine the search for returns from investment management with their quality, security and liquidity, as required by the "prudent person" principle. Particular emphasis is placed on organisational safeguards to quantify and adequately assess the risk profile, with particular regard to the financial instruments in the portfolio. The Institute analyses investment policies and their consistency with actual management operations, also with reference to the concentration by type, issuer, sector and liquidity of assets.

The analyses also make use of risk indicators within the RAF to quantify the incidence of illiquid assets or assets that are difficult to measure and to detect the presence of low-rated assets and the degree of portfolio diversification. The indicators are combined with monthly analyses on the monitoring of investments, also in terms of hidden capital losses/gains.

In general, the Institute's in-depth analysis has shown that the asset allocation of undertakings is stable compared with previous years. For some of them it was noted that the search for an increase in financial returns has led to an increase in the portion of alternative instruments that are complex or characterised by low liquidity (private equity, private debt).

Some companies have changed their asset allocation by increasing the portion of longerterm securities to reduce the duration mismatch between assets and liabilities and to contain the financial risk arising from maturity mismatch. This permitted, in some cases, higher returns than those through short-term investments, increasing liquidity risk.

The asset allocation of some companies shows a trend towards an increase in real estate investments, also through the purchase of units of real estate funds, with a geographical diversification of the related exposures achieved mainly by companies in international groups.

The need to increase the efficiency of financial management has led some undertaking to create partnerships with selected independent professionals and fund managers highly specialised in particular market segments (real estate, private debt, infrastructure debt). The agreements have made it possible to increase the undertakings' investment capacity and reduce the burden of commissions paid to third party operators.

The Institute has carried out in-depth analysis on five undertakings with a significant incidence of complex assets in the portfolio, classified in levels 2 and 3 of the fair value hierarchy.

In the case of one insurance group, the off-site and inspection supervisory measures revealed inadequate safeguards and risk assessment systems that did not make it possible to manage investments made in complex financial instruments in an informed manner and to correctly determine their capital absorption.

The importance and depth of the problems detected made it necessary to urge the group's insurance companies to equip themselves with professionalism and tools capable of independently assessing the pricing of complex assets, avoiding uncritical reliance on the assessments made by fund managers. In this regard, the Institute intervened to inhibit

investments in structured securities of great valuation complexity and to request the appointment of an independent company of high standing to evaluate the complex assets in the portfolio.

# 1.4.5. - Own funds assessment

The Institute assesses the own funds of the undertakings and groups with regard to qualitative and quantitative profiles in order to verify compliance with prudent supervisory requirements.

The checks are carried out on a forward-looking basis and are aimed at assessing that the own funds of the undertaking or group are always sufficient to meet the undertaking's capital requirement and all the risks undertaken. In the assessments, the comparison between the capitalisation and the target solvency requirement of the undertakings and groups is particularly important, together with the action identified to ensure observance of the thresholds set out in the Risk Appetite Framework.

The eligibility of capital items to cover the solvency requirement and the correct classification in the various levels is also assessed. With regard to groups, the checks extend to the eligibility of the own funds of the group undertakings belonging to other sectors, with particular attention to undertakings in the banking and financial sector.

The measures to strengthen own funds, through capital payments or capital reserves or the issue of subordinated liabilities, involved 25 undertakings for a total amount of 1,025 million euro. In 16 cases, the initiatives were aimed at supplementing capitalisation levels in response to solvency shortfalls or in cases where the solvency ratio fell below the limits set in the Risk Appetite Framework. In the other 9 cases, recapitalisation interventions were carried out by undertakings to support production development or to carry out extraordinary transactions.

The Institute intervened vis-à-vis seven other undertakings to request capital reinforcements on the basis of solvency requirements identified as part of the prudent control process and in inspections. For one of them, recapitalisation became necessary as part of the request for a recovery plan. The measures resulted in an overall increase in capitalisation of approximately 300 million euro.

The Institute's review also focused on capital management initiatives aimed at optimising the debt structure via the early repayment of subordinated bonds and the simultaneous issuance of new liabilities, which allowed borrowers, given market conditions, to benefit from more favourable conditions for financial charges. These liability replacement transactions also permitted a better balance of debt maturities and, in some cases, a reduction in financial leverage.

The replacement of subordinated loans, in some cases, was a direct consequence of changes in control structures. The target undertaking repaid the subordinated loans taken out by the shareholders who ceded control by replacing them with the financial resources obtained from the issue of liabilities subscribed by the successor shareholders. The assumptions of sound and prudent management underlying the transaction described above were assessed as part of the authorisation processes for the acquisition of control pursuant to Article 68 of Italian Legislative Decree No. 209/2005.

### 1.4.6. - The measures taken on the statutory and consolidated financial statements

The Institute has audited the statutory and consolidated financial statements (see chapter I.4 for the main data), with particular regard to the technical, financial and asset management of the individual undertakings and groups. Said activities are part of the more extensive supervision process related to the control, analysis and evaluation cycle, the results of which are represented and formalised in the AVG report (Risk Analysis, Overall Assessment and Judgement Summary).

The technical management analysis was aimed at verifying the technical balance as a whole and for each insurance class and was also carried out using indices referring to the undertaking and the market. Particular attention was paid to companies with anomalous technical indices to ascertain any critical situations or shortfalls in management procedures and data quality.

Such analyses are carried out by the Institute also by examining the reports and analytical accounts drawn up by the auditing firms and also take into account the results of the actuarial pre-review on the provisions for claims outstanding of the MTPL and general TPL classes. This examination is carried out using a standard statistical-actuarial method that provides qualitative elements of attention on the undertaking's reservation risk on the basis of which technical-actuarial analysis is carried out.

The in-depth analysis became necessary on the allocations for the provision for claims outstanding for seven undertakings, the results of which revealed shortfalls in data quality and in the management system, with consequent inaccurate information in the supervisory forms intended for the Institute, shortfalls in the reservation process, with practices not in line with international best practices, and violation of the principle of measurement at the ultimate cost, sanctioned by ISVAP Regulation No. 22/2008.

In all cases examined, the undertakings were asked to submit action plans aimed at removing the problems identified in the supervisory analysis.

Particular attention was paid to the analysis of asset, financial and investment management. Analyses of the financial statement information on investments focused on the overall profitability achieved, the contribution of financial management to the technical balance of the undertakings and the consistency of the investments made with the technical commitments arising from the insurance contracts in the portfolio.

For three companies belonging to the same group, action had to be taken on the strategy to reduce interest rate risk, pursued through the subscription of long-term hedging derivatives and the purchase of structured securities, which had a negative impact on the result of technical and financial management. The company's ability to meet the contractually guaranteed minimum financial returns over the medium and long term was ascertained.

The analysis of the investments in the portfolio led to the need to ask for clarifications from an international group, in the face of a high incidence of securities classified as L2 in the fair value hierarchy. This aspect is being examined in greater detail for other market operators.

As part of the review of the individual and consolidated financial statements, strategic risk was taken into account, analysing the results achieved by individual undertakings and groups and

their consistency with the objectives set out in the strategic plan. This examination led to a company being asked to review its business objectives in view of the changed economic context, the reduced company structure and its effective possibility of growth in the reference market.

# 1.5. - Supervision of Solvency II reporting

### 1.5.1. - Supervision of the ORSA (Own Risk and Solvency Assessment) process

The usual review of the ORSA reports revealed further spheres of intervention for the enhancement of the process and the improvement the reliability of estimates. Following the analysis carried out by the Institute, also as a result of inspections, work was carried out on 16 undertakings and eight groups.

In order to raise the quality standard of internal risk and solvency assessments, the undertakings were asked to strengthen the integration between the ORSA process and strategic planning and capital management activities, also using backtesting analysis to assess the sustainability of the forecasts made.

Several undertakings were asked to improve the stress analysis by using more stringent assumptions with a greater impact on the main risk drivers, combining several risk factors and resorting to reverse stress testing. In a number of measures, the Institute asked companies to use the results of the ORSA analysis for a prudent review of the risk tolerance thresholds and the identification of more effective action in the event of violations of these thresholds as a result of stress situations.

The analysis of the ORSA process continued for the undertakings for which IVASS acts as group supervisor, submitting a questionnaire to the Authorities involved in the College in order to look in greater depth at the risk profiles of the groups with standard measurement criteria and taking into account the feedback received from the College, the results of which were discussed by the Supervisors and presented to the groups.

### 1.5.2. - Analysis on the SFCR and the reporting pursuant to Article 12 of Regulation No. 42/2018

The Solvency and Financial Condition Report (SFCR) is prepared by the undertakings at individual level and by the ultimate Italian parent company at group level to provide adequate information to the general public and the Supervisory Authority.

The content of the Report is governed, at national level, by IVASS Regulation No. 33/2016, adopted in implementation of national rules and implementing the EIOPA Guidelines. In the SFCR, the undertakings are required to provide adequate information on their operations and results, on the governance system, risk profile, solvency assessment of assets and liabilities and capital management. The SFCR report is an important document for ensuring transparency visà-vis third parties (see also IV.2.3.2 for benchmarking between undertakings).

In the context of the in-depth analysis of the SFCR reports for 2018, it was necessary to take action vis-à-vis two undertakings for which the report was found to lack the minimum information required by the regulations, with particular regard to the governance system, the criteria for identifying essential areas of activities, the correct representation of outsourced

services and the way in which the compliance function is implemented. The undertakings have made the necessary additions.

IVASS Regulation No. 42/2018 envisaged the obligation of external review of the quantitative elements contained in the SFCR, both individual and group, according to the formalities envisaged in the Regulation itself. The opinion and conclusions of the external review of the SFCR are indicated in a specific report prepared by the auditing firm and forwarded to the management body of the undertaking. Article 12 of said Regulation envisages that the appointed auditor must inform the insurance company's control body and IVASS of any technical-operational difficulties that may arise in carrying out the external audit and the aspects that merit attention, with reference to the internal control and risk management system.

In this connection, IVASS received communications from six auditing firms for 44 undertakings concerning issues worthy of attention in relation to:

- documentary shortfalls in the mapping of certain risk quantification processes;
- data quality improvement needs, with the integration and automation of controls aimed at the accuracy and adequacy of flows for the Best estimate of Liabilities and for the calculation of the Solvency Capital Requirement;
- strengthening of the Best estimate of Liabilities calculation process with particular focus on the definition of evolutionary assumptions, also in relation to the use of expert judgement, and integration with backtesting or sensitivity analysis to support the estimates;
- strengthening of governance and internal control, with greater independence in second-level
  checks by risk management and in the processes for the calculation and validation of technical
  provisions to be implemented with improvements to the organisational structure.

The aspects worthy of attention reported by the auditing firms are, in many cases, described in a generic way or expressed only in terms of improvement of macro-areas. These reports have led the Institute to take action against 19 undertakings in order to obtain information suitable for assessing the relevance of the observations made by the auditor in terms of potential problems and impacts on the internal control and risk management system. The action planned and implemented by the undertakings to resolve the reported issues, together with the observations of the Board of Statutory Auditors, were requested.

All the companies responded to the Institute's requests, illustrating the activities undertaken or planned to resolve the aspects observed by the auditor, activities which will be followed up during the external audit of the 2019 SFCR.

The Institute has also initiated a discussion with representatives of the auditing firms, through Assirevi, on the content that the reports in the sphere of the external audit of the SFCR must present in order to provide the Institute with an effective verification tool.

#### 1.6. - Coordination with other Authorities and Institutions

## 1.6.1. - Supervision of groups and financial conglomerates: the College of Supervisors

IVASS acts as group supervisor for six groups with cross-border operations. These activities are carried out in close coordination with the other Authorities that are part of the relevant Colleges of Supervisors and according to the lines indicated in the work plan defined annually for each college, based on the characteristics of the group and the principle of proportionality.

All the action set out in the 2019 work plan has been implemented, including, in addition to the usual Risk Assessment and the exchange of quantitative information, in-depth analysis of the Risk Appetite Framework and the business model, as well as the remuneration policies, the ORSA and the technical provisions. The results were analysed during the College meetings, to which representatives of the groups were also invited. As a result, feedback was provided to the groups once again this year, indicating any areas for improvement.

For the two groups with companies located in non-EU countries, for which IVASS is the group supervisor, consultations continued for inclusion in the college of the competent local supervisory Authorities. In one case, the process concluded with the signing of Coordination Arrangements with the Serbian Authority.

As host supervisor, IVASS participated in 17 colleges coordinated by foreign Supervisory authorities, four of which were from third countries compared with the three of the previous year. A Multilateral Memorandum of Understanding (MMoU) was signed with the Delaware Department of Insurance. Within these boards, IVASS contributed not only to the assessment of the group's risks, but also to the implementation of the activities envisaged in the work plans, with in-depth analysis of the Risk Appetite Framework, transferability of own funds, ORSA, group recovery plan, cyber risk.

Supervision continued for the three sub-groups of EEA groups for which the option to supervise the Italian sub-group was exercised (AXA Italia, Aviva and Assimoco), taking into account the differences in terms of insurance business, organisation and risk profile compared to the overall group. The supervision was carried out in close coordination with the related group supervisors and the results were discussed at Colleges and in specific dedicated sessions, which delved further into the financial and solvency situation as well as into the governance and risk management of the Italian sub-groups.

The Institute continued the enhanced reporting exchange with BaFin for two cross-border groups.

The branches of Swiss companies are the only branches of non-EU undertakings pursuing business in Italy and continue to be subject to special treatment in application of the Agreement between the European Economic Community and the Swiss Confederation of 10 October 1989, amended by Decision of the EU-Swiss Joint Committee on 3 July 2018. IVASS has continued to apply second pillar controls to these undertakings, to the extent they are compatible, and has examined the individual ORSA reports to verify the solvency requirements defined using internal metrics.

A number of insurance groups are members of Italian financial conglomerates, the list of which is updated each year jointly by the Bank of Italy, CONSOB and IVASS. In 2019, two insurance-led conglomerates and one banking-led conglomerate<sup>102</sup> were confirmed in the list. Furthermore, among the conglomerates engaging "significant" banking intermediaries, for which the ECB is responsible for identification as part of the Single Supervisory Mechanism, two banking-led conglomerates were confirmed. The results of supervision on the conglomerates were discussed in the Colleges of Supervisors, in which the European Authorities of the banking and insurance sectors participate.

## 1.6.2. - Supervisory activities within Crisis Management Groups

As Host Supervisor, in 2019 the Institute continued enhanced supervision activities of the Allianz sub-group in Italy - whose German ultimate parent company has been included in the list of the G-SII since 2013 - and activities for the application of international enhanced supervision measures for the Generali Group, qualified as G-SII in 2013 and 2014.

The enhanced supervision of said groups was also carried out in the Crisis Management Group (CMG), in which the Supervisory authorities of the main countries in which the groups operate participate. The CMG has assessed areas for improvement in the crisis management plans (Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan) updated annually by the groups taking into account the observations made by the Supervisors, allowing the plans to be strengthened in terms of effectiveness, with reference to the action to be taken in the event of a crisis and the reduction of potential effects on the market and on policyholders' interests.

Within the CMG, discussions continued on possible improvements to the Resolution Plan, drawn up by the group supervisor, also taking into account the procedures to ensure an effective exchange of information between members, as early as from the pre-crisis phase.

#### 1.6.3. - Relations with the MEF, Consob and Antitrust

Collaboration continued with the Ministry of Economy and Finance in relation to the granting by the State of guarantees in favour of SACE S.p.A. for non-market transactions aimed at strengthening support for exports and the internationalisation of undertakings. IVASS issued 9 opinions to the MEF about 12 transactions regarding the fairness of the allocation of the premium between the State and SACE, and participated as a technical member, without voting rights, in a meeting of the interministerial Committee for the analysis and control of SACE's portfolio (art. 3 of Prime Ministerial Decree 19 November 2014).

The collaboration with CONSOB and the Antitrust authority continued and concerned 5 transactions involving the sale of bonds to the public and acquisition projects that can determine concentration situations.

https://www.ivass.it/normativa/nazionale/convenzioni-nazionali/documenti/doc-congiunti/ELENCO CONGLOM-ERATI AL 31 12 2018.pdf.

#### 2. - MACRO-PRUDENTIAL SUPERVISION

The need to combine micro-prudential supervisory action with in-depth analysis of the evolution of the economic and social context of reference, systemically relevant risk analysis and assessments of the resilience of the insurance market has guided the development and strengthening of macro-prudential analysis, aimed at monitoring the main sources of risk, studying how it is transmitted between financial market operators and assessing its impact on the stability of the system.

IVASS carries out macro-prudential analysis at predetermined points, aimed at identifying elements of vulnerability in the sector and drawing up a Risk Dashboard summarising risk exposure. In 2019, the Institute strengthened its market intelligence tools, also using on an ongoing basis the qualitative/quantitative analysis carried out by specialised market operators/stakeholders including consulting firms and rating agencies. These are flanked by annual theme-based surveys, such as the comparative analysis of ORSA and SFCR reports or the use of derivative instruments by the undertakings and insurance groups.

The Institute carries out, independently or in close coordination with EIOPA, stress test exercises for the Italian insurance sector. In 2019, since there are no plans for a stress test at European level, IVASS carried out several sensitivity analysis exercises to assess the effect of increased exposure to financial and insurance risks.

Again in 2019, IVASS contributed to the preparation of the section of the Bank of Italy's Financial Stability Report dedicated to the insurance market, published twice a year.

#### 2.1. - Macro-prudential activity at international level: the works of EIOPA and ESRB

In 2019, European work on systemic risk and macro-prudential policies in the insurance sector continued care of EIOPA and the European Systemic Risk Board (ESRB), with the aim of contributing to the review of the Solvency II provisions, which envisages macro-prudential instruments and measures to complement micro-prudential ones (see chapter III.2.2.1).

IVASS has contributed to the work of the EIOPA work group tasked with defining the methodological principles for carrying out European insurance stress testing exercises. The Discussion Paper<sup>103</sup> defines the main objectives of the exercises, the criteria for defining the scope and the scenarios, how the shocks are to be applied and the templates for reporting.

The work of the national expert group for the production of the European Risk Dashboard continued. The method for implementing the indicators based on Solvency II reporting was reviewed to test the robustness of the adjustments defined in 2016 and assess the impact of Brexit on sample size. Further reviews are being studied to include emerging risks (cyber, climate and pandemic) among the main vulnerability factors.

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<sup>&</sup>lt;sup>103</sup> https://www.eiopa.eu/content/methodological-principles-insurance-stress-testing\_en\_

#### 2.2. - Risk identification tools for the Italian insurance sector

#### 2.2.1. - The Risk Dashboard

In 2019 the quarterly analysis of financial stability risks of the national insurance sector continued, represented in the Risk Dashboard, which includes indicators defined at European level, used also in the EIOPA Dashboard, and adapted to the specificity of the domestic market. Seven risk areas are considered (macroeconomic, market, credit, liquidity, profitability and solvency, interlinkage and 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<sup>104</sup>, with the related change compared to the previous quarter (trend).

The processing is based on historical information referring to the date of detection (e.g. for solvency and profitability risks) while some profiles (e.g. macro and market risks) also take into account the estimates inherent in the trend of market indicators<sup>105</sup>.

The Risk Dashboard for the fourth quarter of 2019 shows an increase in the overall riskiness faced by the Italian insurance sector, induced by the effects of the COVID-19 pandemic, which had a more immediate impact on macroeconomic, credit and market risks. The already high riskiness of the macroeconomic environment<sup>106</sup> was affected by the shock on the real economy generated by the measures to contain the virus, with a consequent negative impact on GDP and inflation forecasts. National measures to support the economy generate growth in public expenditure that may further increase the burden of public debt, as well as doubts about its sustainability, triggering further pressure on prices and returns on financial assets<sup>107</sup>.

Interconnection risks have increased, mainly as a result of the correlation between the shares indexes of the insurance and banking sectors, which are gradually increasing due to the impact of the pandemic on financial markets. The areas of liquidity, solvency and insurance risks, based on quarterly supervisory information as at the fourth quarter of 2019 and thus prior to the emergency, were stable compared to the previous quarter. It is expected that the pandemic will also affect these areas, due to the reduction in premium income and the potential increase in surrenders. A targeted survey of the pandemic's impact on the solvency position of insurance companies showed a 35-percentage-point decrease in the average solvency ratio in the first quarter of 2020 to about 200%, but still well above the regulatory minimum of 100% 108.

For the first time since the launch of the Risk Dashboard, the risk profile of the Italian insurance sector in the fourth quarter of 2019 differs from that indicated by EIOPA for the European companies (Table IV.1). Due to the COVID-19 emergency, EIOPA changed its usual

<sup>&</sup>lt;sup>104</sup> The risk level is identified by the following colours: green = low, yellow = medium-low to medium, orange = medium-high to high and red = very high.

<sup>105</sup> The reference date of the Solvency II information is 31 December 2019 (Q4) while the market information is up-dated as at 31 March 2020.

<sup>&</sup>lt;sup>106</sup> Bank of Italy, Economic Bulletin No. 2-2020.

<sup>107</sup> In the first quarter of 2020, the increase in credit risk was mainly due to the rapid rise in yields and premiums on corporate bond and government security Credit Default Swaps (CDSs); market risks also increased as a result of the expected rise in volatility in bond and share returns, only partly mitigated by the new Pandemic Emergency Purchase Programme (PEPP) for public and private securities introduced by the Governing Body of the ECB on 18 March 2020.

<sup>&</sup>lt;sup>108</sup> See Bank of Italy Financial Stability Report No. 1/April 2020.

method for calculating risk exposures, basing the Risk Dashboard for the European market on prospective judgemental assessments. Therefore, the risk level assessments of the two analyses are not directly comparable.

Table IV.1

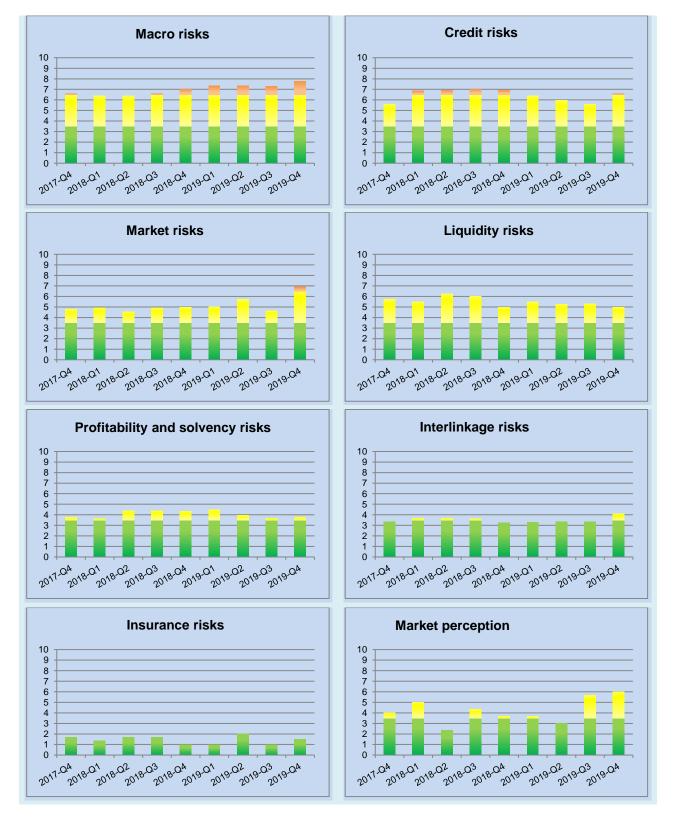
	Risk Dashboard (1) (4th quarter 2019))			
	IVASS		IVASS	
	Level	Trend 109	Level *	Trend
1. Macro Risks	high	71	very high	<b>^</b>
2. Credit Risks	medium-high	<b>^</b>	medium-high	<b>^</b>
3. Market Risks	medium-high	<b>^</b>	very high	<b>^</b>
4. Liquidity and funding Risks	medium	<b>→</b>	medium-high	7
5. Profitability and Solvency Risks	medium-low	<b>→</b>	medium-high	71
6. Interlinkages and imbalances Risks	medium	7	medium	<b>→</b>
7. Insurance (underwriting) Risks	low	<b>→</b>	medium-high	71
8. Market perception	medium	<b>→</b>	medium	7

Source IVASS and EIOPA - \* In this edition EIOPA has applied expert judgment to the scores of the risk areas.

The arrows indicate the change relative to the previous quarter: ( $\uparrow$  = significant increase (>1), 7 = increase (>0.5),  $\Rightarrow$  = constant,  $\Rightarrow$  = decrease (>0.5),  $\psi$  = significant decrease (>1).

Figure IV.4

# Risk trend by risk area

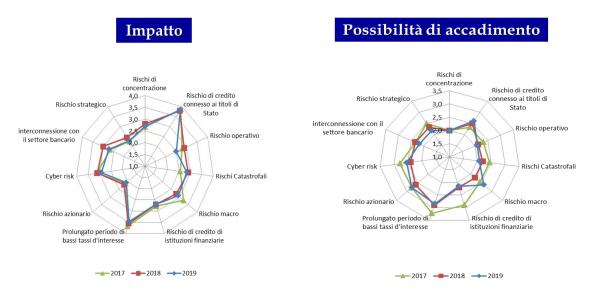


#### 2.2.2. - Market Intelligence

The Institute has strengthened its market intelligence tools to monitor the evolution of the main financial and insurance risks. Since 2019, macro-prudential supervision has been continuously implementing the information provided by qualitative/quantitative analysis carried out by the stakeholders on current and future risks in the insurance sector.

In-depth analysis of the issues discussed at the main national and foreign round tables have been carried out, making use of analyses provided at international level by specialised stakeholders as well as surveys and analyses carried out by IVASS at the annual Risk Panel with leading consulting firms and rating agencies. Figure IV.5 shows the perception of these stakeholders on the main risks of the Italian insurance sector. The topics most discussed in 2019 concerned the sector's ability to cope with emerging risks due to higher and more volatile credit spreads, the insurance business's increased dependence on technology and the prospects for sustainable and alternative investments.

Figure IV.5



The main source of concern for operators is the credit risk associated with government bonds and they look at the volatility of the BTP-BUND spread as a factor of uncertainty that may affect the capitalisation of the undertakings and increase strategic and liquidity risks. They also identify among the emerging risks the growing exposure to technological, ESG and business interruption risks.

The analysis of the Italian market shows results in line with those of Europe, with the exception of the risk associated with government bonds, which is affected by the increased exposure of Italian insurance portfolios to domestic sovereign debt and the volatility of the spread on government bonds.

At European level, the analyses carried out<sup>110</sup> on three-year scenarios highlight among the main challenges faced by insurers the ability to maintain and increase market shares in a recessionary economic environment with extraordinarily low interest rates, customers' expectations for innovation and improvement of the products and services offered, the intensification of competition also from non-traditional operators and the increase in the costs of regulation and controls. Innovation in the product portfolio brings out new vulnerabilities (in particular cyber risks) and some key factors for survival and growth in the new business environment (ability to adapt to technological innovations, cost containment and flexibility, recourse to artificial intelligence techniques, attention to climate and financial sustainability).

# 2.2.3. - Monitoring of vulnerabilities

The quarterly monitoring of the vulnerabilities for the insurance sector<sup>111</sup> continued in 2019; the monitoring is aimed to collect and analyse information on aspects that can have repercussions on stability and to carry out in-depth studies on innovative or emerging issues.

Confirming what has emerged in previous years, the undertakings in the sample declare that they have not invested in debt securities related to securitisation transactions and have made limited direct investments in minibonds (0.12% of investments). The use of term structured repo, short term funding and securities issued by Special Purpose Vehicles remains limited. The use of reinsurance coverage remains moderate, but it is the main instrument for mitigating higher exposures, especially in non-life business.

Premium income from hybrid (multi-class) products in the sample increased by +19%, reaching 36% of total life production (it was 31% at the end of 2018<sup>112</sup>). The internal composition of products saw premiums in class I higher than those in class III and with an increasing trend (64%, up from 57% the year before). For hybrid products, the ratio of expenses to premium income was 3.3%<sup>113</sup>, lower than for other life contracts (4.9%). On average, commission charged to policyholders accounted for 7.1% of premium income<sup>114</sup>, while it stood at 8.2% for other life contracts. An analysis of the composition of investments for hybrid products shows a clear preference for investing in funds<sup>115</sup>. The undertakings in the sample indicated their intention to continue to incentivise this line of business which meets the needs of: (i) diversifying the offer by proposing products with greater potential for returns while respecting the client's risk appetite; (ii) seeking the best balance between guaranteed and non-guaranteed returns, in order to achieve

<sup>&</sup>lt;sup>110</sup> World Economic Forum, The Global Risks Report 2020, 15th Edition, January 2020.

<sup>111</sup> The analyses of the vulnerabilities are conducted on a sample consisting of eleven groups and five individual undertakings representing 85% of the domestic market.

<sup>112</sup> See I.3.3.3 for the overall data on composite products referring to Italian and foreign undertakings in the life sector in Italy.

<sup>113</sup> The most significant expense items are acquisition (64%) and administration (19%).

<sup>114</sup> Management fees, including those related to contractual switch clauses, account for 85% of the total; the remaining 15% is attributable to the subscription and reimbursement fees.

<sup>115 93%</sup> of the investments in the class III component of hybrid products are in funds (85% for non-composite class III products); for class I, the portion invested in funds is 21% for composite products and 11% for non-hybrid products.

a better management of financial risks in the presence of low interest rates; (iii) directing funding towards products that lead to a lower absorption of capital.

The marketing of Individual Savings Plans (Piani Individuali di Risparmio or PIRs) has come to a sharp halt, due to the uncertainty generated by the introduction of new minimum investment requirements in financial instruments qualified for the PIRs in the 2019 Budget Law<sup>116</sup>. These minimum investment requirements were amended by a special decree issued at the end of 2019<sup>117</sup>.

A specific analysis of the liquidity risk in life sector showed that the undertakings in the sample have, on the one hand, a limited exposure to this risk, as evidenced by a limited duration mismatch between assets and liabilities relating to life contracts<sup>118</sup>, and on the other hand, a certain vulnerability linked to the presence of a significant proportion of life contracts without penalty for surrender options<sup>119</sup>.

A limited exposure of almost all the undertakings in the sample in alternative investment instruments (private equity, hedge funds, renewables, infrastructures) is confirmed, with percentages from a minimum of 1% to a maximum of 5.9% of total assets. Moreover, there are no cases of concentration towards specific assets, although some undertakings have reported an increased interest in mortgage loans.

Risk perception assessments in terms of impact and probability of occurrence show that financial risks continue to be considered more significant; macroeconomic risk remains high; the sensitivity of the undertakings to operational risks is increasing, including the risk of cyber attacks and business interruption.

# 2.2.4. - Monthly monitoring of investments and net premiums of life insurance undertakings

IVASS carries out a monthly monitoring of the investments of insurance companies and the related unrealised capital gains and losses. For life insurance companies, the controls are extended to premiums and claims.

At the end of 2019, the net unrealised capital gains amounted to 71 billion euro, an amount significantly higher compared to end 2018, due to the drop in the spreads on Government bonds, which produced 66% of the net unrealised capital gains, equal to 47 billion euro. In the first quarter of 2020, the sharp fall in the prices of financial assets and the increase in their volatility, triggered by the COVID-19 pandemic, generated a drop in net capital gains which reached 43 billion euro, -39% compared to December 2019 (Figure IV.6.a).

The surrenders to premiums ratio, an indicator also used to monitor the liquidity position of insurance companies, was 40% in December 2019, down slightly compared to the previous

<sup>116</sup> Law No. 145 dated 30 December 2018

<sup>&</sup>lt;sup>117</sup> Law No. 157 dated 19 December 2019

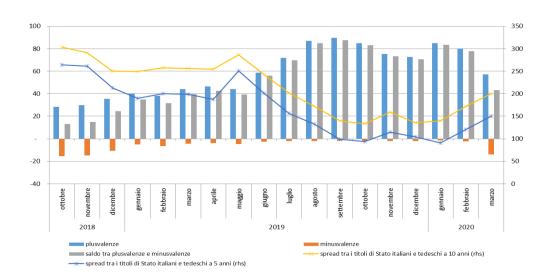
<sup>&</sup>lt;sup>118</sup> The duration mismatch between assets and liabilities is limited for the entire sample (-1.7 years) and essentially unchanged compared to the previous year, although there has been a slight increase in the average duration between 2017 and 2018, both for the liabilities (from 7.3 to 7.6 years) and for the assets (from 5.6 to 5.9 years).

<sup>&</sup>lt;sup>119</sup> Almost all the life contracts envisage a surrender option of which 60% without the application of a penalty.

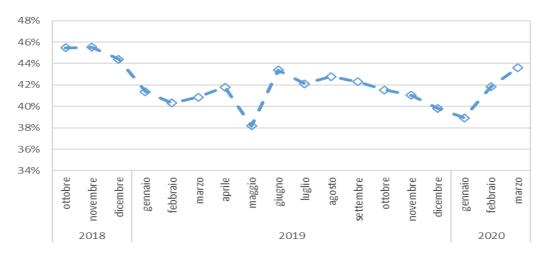
months. In the first quarter of 2020, the indicator increased to 44%, mainly as a result of the decline in life premium income due to the pandemic (Figure IV.6.b).

Investments and surrender to premium ratio

a) Unrealised capital gains and losses (monthly data; billion euro – left scale and basis points – right scale)



# b) Surrender to premium ratio \* (monthly data; % values)



<sup>\*</sup> The indicator was calculated as the ratio between the value of surrenders and the value of premiums.

Figure IV.6

#### 2.2.5. - Derivative financial instruments

Since 2019, the Institute has carried out periodic monitoring of derivative financial instruments to assess their impact in terms of liquidity, credit and operational risk. The monitoring is based on the Solvency II reporting of all groups and undertakings and on a qualitative survey on the mitigation techniques for the aforementioned risks, carried out on a representative sample of the market<sup>120</sup>.

As of June 2019, the market value of derivative financial instruments in the insurance undertakings' portfolio amounted to 0.2% of total investments, significantly lower than the European average (2.4%); 88% of derivatives are traded on non-organised OTC markets, almost all of which are not centrally offset.

The volatility of financial markets has generated a great deal of international attention on changes in margin requirements<sup>121</sup> to guarantee transactions on derivative financial instrument traded in OTC markets and their impact in terms of liquidity risk.

An analysis of the Italian market reveals a limited use of these instruments, in most cases accompanied by prudent management practices for the guarantees (collateral) and through trading with counterparties with high credit standing (at 30 June 2019, 63% of counterparties had a rating from AA+ to A-). According to the matters illustrated, the small amounts committed in derivatives make it possible to plan the related liquidity requirements even under highly volatile market conditions. In conclusion, the undertakings declare that the limited use of derivatives cleared with central counterparties (CCPs) is due to high costs (operational, administrative and capital costs), which are not considered consistent with efficient investment management.

At European level, the results of similar surveys<sup>122</sup>, to which IVASS has contributed, show the prevalence of the use of OTC derivatives - specifically interest rate swaps (IRS) - not subject to CCP clearing. As a result, there is a potential systemic vulnerability, linked to the liquidity needs to cover the bilateral margin requirements that European companies that make greater use of IRSs would face under certain stress scenarios. 88% of the nominal value of derivative securities is concentrated in five countries (the UK, Denmark, the Netherlands, France and Germany) and in 30 insurance undertakings, none of which operate in Italy.

#### 2.3. - Risk assessment tools

#### 2.3.1. - Own risk and solvency assessment (ORSA)

Every year IVASS conducts a comparative analysis of ORSA reports from a sample of undertakings and groups, representing more than 75% of the Italian insurance market

<sup>&</sup>lt;sup>120</sup> This is the same sample used for the vulnerability monitoring analysis (see above).

<sup>&</sup>lt;sup>121</sup> The change in margins reflects the change in the market value of the derivatives portfolio including the change in the composition of the portfolio itself.

<sup>122</sup> See EIOPA, Financial Stability Report, December 2019, pages 90 et seq. and EIOPA, Financial Stability Report, December 2018, page 60 and ESRB, Enhancing the macroprudential dimension of Solvency II, February 2020, pages 46 et seq.

The analysis allows to identify the presence of risk concentrations, common conduct or use of similar tools, methodologies, assumptions and processes.

Over the last three years there has been a gradual increase in the level of awareness of the risks taken. This is demonstrated by a methodological improvement in the development of prospective scenarios, increasingly linked to sensitivity analysis and stress tests and able to consider the specificities of the business model adopted as well as events that pose a threat to the stability of the undertaking and the group. In the ORSA analysis relating to the definition of risk appetite targets, the undertakings disclose an attitude based on prudent criteria and declare that they have set up processes capable of triggering risk containment measures when certain attention thresholds are exceeded. With reference to prospective capital planning, for the three-year period 2019-2021, there is an increasing trend in the average level of the expected solvency ratio.

Figure IV.7

ORSA assessments - Risk appetite target and prospective Solvency

(averages of a sample of undertakings and groups)



Source: ORSA 2018 – projections for the three-year period 2019-2021.

The groups have strengthened the ORSA analysis, making the shocks considered for placing financial and business dynamics elements under stress more severe to a large extent.

Table IV.2

Shocks applied to the stress analysis - 2019 ORSA referring to the situation at the end of 2018			
Shocks applied (individually or combined)	Shock range	Most frequent value	Changes with respect to past shocks
spread up BTP	80 bps < x < 335 bps	100 bps	lower that max shock value
corporate spread	20 bps < x < 320 bps	50 bps	higher than the max value
interest rate up	50 bps < x < 500 bps	100 bps	higher than the max value
interest rate down	-103  bps < x < -10  bps	-50 bps	stable
equity down	-100 bps < x < -13 bps	-25%	lower that max shock value
property down	-31  bps < x < -10  bps	-25%	lower that max shock value
mass surrenders	9 bps < x < 100 bps	20%	stable

As requested by the Institute, the focus on second pillar risks, for which no solvency requirement is envisaged, shows a growing sensitivity to liquidity aspects and emerging risks (climate change, technological risks, business continuity). On the other hand, there are shortfalls in the ORSA reports with regard to the response process of the undertakings on occurrence of certain negative events: the remedial actions prepared, the conditions for their activation, the manner in which they will escalate and the expected timing of their implementation must be clearly specified.

# 2.3.2. - Solvency and financial condition reports (SFCR)

The Institute carries out an annual comparative analysis of the reports on the Solvency and Financial Condition (SFCR) of the undertakings and assesses the information that is useful for the stability profiles of the financial market as a whole (also see IV.1.3.2 for supervisory measures, also following reports from auditing firms).

The horizontal analysis was carried out on the SFCRs published by insurance groups significant for financial stability purposes<sup>123</sup>; the sample examined represents more than 90% of national insurance output.

A gradual improvement is seen in the comparability of the qualitative information generated. The allocation and distribution of disclosures are formally compliant with the provisions of reference regulations. References made to multiple sections of the document or to other corporate documents (e.g. ORSA, Risk Appetite Framework, investment policy) have reduced considerably. On the other hand, there are still aspects in numerous SFCR on which IVASS highlights the need to improve disclosure by reporting all essential information<sup>124</sup>. In addition, the sections "Summary", "Activities and Results" and "Capital Management" appear in a number of cases to be generic, not adapted to the specific characteristics of the company and which can be improved for completeness and quality of representation.

#### 2.3.3. - Sensitivity analysis

IVASS carries out periodic simulations based on adverse changes in one or more risk factors to monitor the vulnerability of the insurance sector and strengthen supervisory action in areas particularly important in terms of market stability.

In 2019, the Institute made extensive use of sensitivity analysis, carrying out simulations based on a simplified method to represent the potential impact on the own funds of the undertakings (average duration of securities and technical provisions) and not taking into account possible mitigation action that the insurance companies may activate in adverse situations.

The sensitivity analysis to assess the impact on the Italian insurance market of a prolonged low interest rate environment was based on two scenarios:

<sup>123</sup> By means of a Letter to the Market regarding financial stability disclosure, IVASS annually communicates the list of the insurance groups, which exceed the size threshold of 12 billion euro of total assets, obliged what is more to produce the additional quantitative reporting for financial stability purposes. This list is up-dated on the basis of the criteria as per IVASS Regulation No. 21 dated 10 May 2016.

<sup>124</sup> The information is deemed essential if its omission or inaccuracy could influence the decision-making or the judgement of the users of that report, including the Supervisory Authorities (Article 291 of (EU) Delegated Regulation No. 35/2015).

- in the hypothesis of a reduction in the risk-free interest rate curve of 100 bps and a simultaneous decrease in the bond yield curve of 50 bps, applied to the June 2019 data, a 36% reduction in the average value of own funds is registered;
- in the second scenario, which hypothesises a reduction of 100 bps for both curves, decreases are seen in the average value of own funds of -17% in June 2019 and -7% in September. In none of the cases analysed is there any risk to the stability of the sector.

# 2.4. - Ad hoc analysis on the liquidity risk

An in-depth analysis of liquidity risk for the insurance industry was performed in 2019. The objective of the study is to analyse the main sources of liquidity risk and identify a set of indicators for macro-prudential risk monitoring, in line with the work of EIOPA, IAIS, ESRB and some European Supervisory Authorities<sup>125</sup>.

The monitoring system being studied is based on indicators divided into four areas (Figure IV.8) in which the following is assessed:

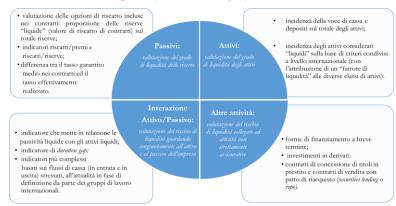
- 1. the degree of liquidity of the liabilities, in relation to the contractual characteristics which may oblige the undertaking to liquidate the insurance products<sup>126</sup>;
- 2. the degree of liquidity of the assets, depending on their ability to be readily converted into cash without or with limited loss of value;
- 3. the interaction between assets and liabilities, comparing the liabilities that can be liquidated with available sources of liquidity;
- 4. the liquidity risk arising from non-insurance activities, such as short-term financing transactions, derivative transactions, potential for margins or mobilisation of collateral.

<sup>125</sup> The PRA in the United Kingdom (https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-state-ment/2019/ss519.pdf?la=en&hash=A6691891B85E8C50198E196DF79F40C7A7EC8795) and the NBB in Belgium (https://www.esrb.europa.eu/pub/pdf/reports/esrb.200226\_enhancingmacroprudentialdimensionsol-vency2~1264e30795.en.pdf?b3677f92bbd6d1c6024a66d36632456a; Annex 2).

 $<sup>^{126}</sup>$  Due to the presence of surrender options and their convenience for the policyholder.

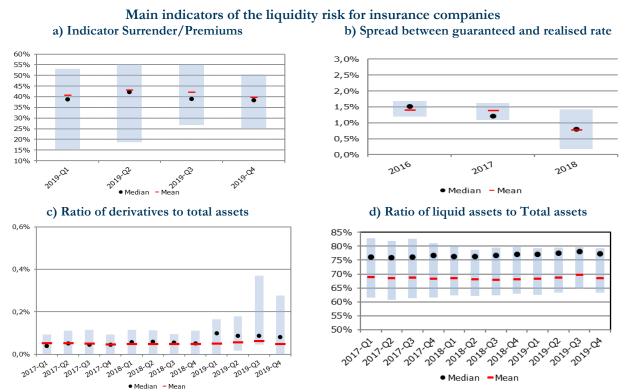
Figure IV.8





The initial analysis carried out on the basis of some of the indicators included in the macro-prudential supervisory system (Figure IV.9) shows: a) essential stability of surrenders in 2019; b) a reduction, from 2016 to 2019, in the spread between the average guaranteed rate in contracts and the rate actually realized with investments by insurance undertakings; c) a stable share of assets which can be readily liquidated, from 2017 to 2019, around an average level of just under 70%; and d) limited recourse to derivative investments, which has not exceeded 0.2% of total assets on average over the last three years.

Figure IV.9



Source: a) Monthly monitoring of the investments and the liquidity; b) Statutory financial statements; c) and d) Solvency II reporting.

#### 3. - Inspections

In 2019, 30 inspections were carried out, 24 of which at undertakings and six at intermediaries registered in the RUI: other five on-site checks started in 2019, three of which at undertakings, were completed in 2020.

Five inspections on undertakings were arranged outside the plan; in the other cases, 22 entities inspected were classified as high priority. The total commitment was 3,149 man days.

Almost 80% of the inspections at the insurance companies concerned prudent supervision profiles; the results - especially with regard to non-life BEL - triggered fruitful dialogue with the off-site supervisory division in order to identify the areas on which the Institute considers it necessary to raise awareness among supervised undertakings. Attention was paid to the robustness of the processes for the estimate of provisions. It is worth noting that the first check was carried out on ICT risks, an area of strategic importance for the industry and for the supervisor.

With regard to anti-money laundering (six inspections), the methods included in the inspection analysis process were consolidated, in particular with regard to the sampling techniques adopted to examine the process of customer due diligence and to ensure compliance with the obligation to cooperate actively (see IV.3.3).

As part of the strengthening of the inspection methods, envisaged by the current Strategic Plan, the drafting of five inspection analysis processes has been started, with the involvement of almost all the resources. In conclusion, possible streamlining has been identified with reference to the current Inspection Handbook, in light of the experience gained in the first year of application.

#### 3.1. - Insurance undertakings

In 2019, 24 inspections of undertakings were carried out, three of which started at the end of 2018. In five cases, the checks were arranged on an exceptional basis, outside the plan; of the remaining inspections, 16 had been classified as high priority at the planning stage, and only three as medium priority.

Issues relating to prudential supervision continued to carry significant weight, with 13 inspections in this area for a total of 2,225 man days.

The companies inspected were selected on the basis of the prudential assessment process, which incorporates the results of the risk analysis system used by IVASS.

The system coverage criteria indicated also by the International Monetary Fund, were taken into account 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 established in the inspection guidelines, modified at the end of 2018, which focus investigations on the risks and the effectiveness of safeguards, through analysis of the governance and management

processes, consistent with the supervisory handbook which lays down the rules for the supervisory activity, harmonized in all the EU countries, and with the application of the new criteria for expressing an opinion on an assessment scale from 1 to 4.

Three inspections were focused on the correctness and consistency of the assumptions used to calculate the best estimate of the technical provisions, also with regard to lines of business other than MTPL, on the assumptions underlying the calculation of the Solvency Capital Requirement, also with a forward-looking approach, and the process for preparing the ORSA.

The complexity of the projections on which the best estimate of liabilities (BEL) calculations are based required accurate analyses on the consistency of the assumptions used with the actual risk profiles of the undertakings and checks on the corporate data quality, which benefited from the methodological system of *ad hoc* analysis processes that the Institute is implementing. The presence of an effective risk identification and assessment system, also forward-looking, was assessed.

An approach proportionate to the nature, scale and complexity of the undertakings' risks was used in on-site activities. The experience gained has made it possible to further consolidate the verification methods in this area, which is an essential prerequisite for the effective drafting of the related inspection analysis process.

The other audits on issues related to prudential supervision have concerned:

- the effectiveness of the remediation plans linked to the authorisations granted for the use of internal models in calculating the capital requirement (see IV.1.4.2);
- governance systems and control of financial risks;
- the follow-up of previous inspections on the application of the Solvency II framework, with particular regard to the activities of the internal control and risk management functions by the ultimate Italian parent company, as well as controls on outsourced activities;
- the effectiveness of action to remove shortfalls on governance aspects, which had imposed a capital add-on for one undertaking;
- the correct implementation of USPs (Undertaking Specific Parameters) for the calculation of the capital requirement;
- governance, management and control of risks related to information and communication technology (ICT risks) and cyber security. In this case, this was the first audit on these aspects, carried out by a team led by a resource with a strong specific background. The assessment, which complies with an objective set out in the Institute's strategic plan, made it possible to initiate profitable interaction with the undertaking and with the off-site supervisory division on a topic of strategic importance for the industry, as well as to apply and share certain methodological approaches, useful for optimising the assessments planned for 2020 and developing inspection procedures dedicated to this type of risk.

Collaboration continued on on-site audits at the request of European Authorities, with IVASS participating in an inspection led by the Irish Supervisory Authority at an Italian branch office, focused on IT systems.

In conclusion, five on-site actions were focused on:

- the correctness of the settlement process for the MTPL class;
- the correctness of conduct vis-à-vis MTPL policyholders in the application of recent legal provisions and the way the CARD Agreement operates in relation to the system of penalties and incentives;
- the reconstruction of the accounting situation relating to the statement of accounts and final balance sheet of an undertaking in administrative compulsory liquidation;
- the correctness of the data sent with the 2018 financial statement forms relating to the development of motor vehicle and general liability claims.

Without prejudice to the anti-money laundering audits (see IV.3.3), unfavourable opinions were issued for six audits.

Two audits with an unfavourable judgement on the BEL of the non-life undertakings revealed shortcomings relating to Pillar I and Pillar II methodological aspects, due to simplified approaches inconsistent with the characteristics of the portfolio of the undertakings or shortfalls in the governance, management and control process for the calculation of the capital requirement. In particular, the checks, which also concerned the correct determination of the technical provisions of the statutory financial statements, revealed:

- an excessive use, in particular for those parts of the Solvency II framework most affected by margins of discretion, of assumptions, in fact determined by expert judgement, not sufficiently supported by historical experience data;
- calculation of BELs characterised by a high degree of manual activity and forecasting of future developments in liabilities on the basis of not very prudent assumptions and with calibration of data non-homogeneous over time;
- in analyses characterised by data projections with a high extension of the tail of the provision,
   a limited robustness of the assumptions adopted in order to minimise the estimation error;
- methodological and procedural weaknesses in the calculation of the claims provision and assumptions based on hypotheses that are not very consistent with the dynamics of the portfolio, characterised by a worsening of the technical indicators, due to a reduction in the average premium and an increase in the cost of claims;
- limits in the ORSA process, which has been developed in a manner inconsistent with the main technical and financial risks and with not very prudent forecasts on the undertaking's prospective solvency;

- the incorrect classification of some financial instruments, through inappropriate choices of qualification and selection of the applicable shocks, with a consequent minimisation of the capital requirement for market risks and an incorrect assessment of the correspondence of the risk profile of the investments with respect to that of the liabilities.

In two cases the unfavourable results are due to shortcomings, one in the procedure for the settlement of MTPL claims, and the other in the inadequate supervision of the production process of the supervisory forms resulting from the weaknesses found in the corporate data quality.

In the remaining two cases, the negative opinion was attributable to significant shortcomings in the processes, control functions and in the assessment of financial risks.

For five undertakings, sanctioning proceedings were initiated in relation to the inadequacy of the processes and procedures for identifying, measuring and monitoring risks on an ongoing basis, to significant weaknesses in the methodology and procedures for determining the provision for claims outstanding in the financial statements and to delays in the settlement of MTPL claims (see chapter VI).

# 3.2. - Insurance intermediaries and other supervised entities

In 2019, six on-site inspections regarding compliance with insurance sector regulations were conducted at six insurance intermediaries registered in the RUI. All the checks had been classified as a high priority in the 2019 inspection plan. The checks, to be included in the supervision of market conduct and consumer protection concerned, in essence:

- 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;
- compliance with legal and regulatory provisions on the sale of insurance individual pension plans (PIP) and term life insurance (TCM).

The checks revealed a lack of transparency on the remuneration paid to the sales network, shortfalls in the preventive checks on the completeness and correctness of the contractual documentation, the use of IT applications with the exercise of non-delegable powers of representation and shortcomings in the controls on the distribution of products by employees. In addition, an inspection was launched at an outsourcer of the functions included in the operating cycle, with regard to insurance aspects, of an undertaking specialising in health insurance, concluded in early 2020.

#### 3.3. - Anti-money laundering

The insurance companies to be audited were selected on the basis of the results of the analysis and assessment of inherent risk, following a risk-based approach as outlined in the FATF

recommendations and envisaged by the provisions of national legislation implementing EU directives.

For the third year in a row, Italian companies and establishments in Italy of foreign companies were asked to carry out a self-assessment exercise on money-laundering risk, also using a standardised set of quantitative information on new contracts, benefits settled and distribution channels. Companies established in EEA member states operating under fos were asked to send a reduced set of information on distribution via insurance intermediaries. The priority of the inspections was defined on this basis.

In 2019, two inspections initiated in 2018 at one branch and one bank were concluded and four inspections were carried out at Italian insurance undertakings.

The shortfalls identified in the inspections concerned the performance of customer due diligence activities. Specifically, it was found that there was a lack of information suitable for identifying and assessing high-risk cases, with regard to the consistency between the economic or asset situation of the customer or the beneficial owner and the amount of premiums paid. In addition, insufficiencies were found in the in-depth analysis of the purpose pursued by the customer other than a natural person, when designating a beneficiary other than the policyholder, of the customer or beneficiary using asset interposition vehicles (trust companies), of the settlement of benefits on current accounts held abroad. In one case, a request was made to change the structure of the anti-money laundering function within thirty days of notification of the inspection report.

Institutional collaboration continued to be fruitful with the Guardia di Finanza (Finance Police), which reported to IVASS facts of possible significance for sanctioning purposes, found during inspections carried out by the area divisions at three insurance intermediaries. In the case of two of them, the Institute notified violations for failure to apply enhanced measures, with particular regard to the analysis of the customer's economic and financial situation and the indepth analysis of the origin of the funds used to pay the policy premiums. In one case, the assessment of the rebuttal arguments led to the proposal to impose an alternative sanction to the administrative fine consisting of the order to adopt specific corrective measures, pursuant to Article 62.4 of Legislative Decree No. 231/2007.

#### 3.4. - Development of on-site supervisory tools

2019 was the first year of implementation of the new Inspection Handbook, approved in June 2018. The inspections carried out provided useful elements to test the functionality of the innovations introduced and to identify possible areas for improvement.

The lines of action of the 2018-2020 Strategic Plan envisage - with a view to increasing the efficiency of the action - that the Institute strengthen the methodological tools, with the release of autonomous inspection analysis processes (non-life BEL, financial risks and market conduct). In October 2019, five work groups<sup>127</sup> were set up to consolidate the inspection experiences,

<sup>&</sup>lt;sup>127</sup> The work groups are tasked with drawing up the inspection processes relating to: 1) Financial risks/investments; 2) life and non-life Technical Provisions, USP; 3) IDD/POG Manufacturer; 4) IDD/POG Distributor; 5) Anti-fraud and Claims Databank.

strengthen the technical background, carry out a thorough review of the regulatory framework and market best practices; a model process was developed, also providing objectives and drafting criteria. In March 2020, once the preparatory work was completed, the drafting of the processes and methodological comparison with the off-site supervision division was started in order to guarantee the overall consistency of the supervision process.

Particular importance was assigned to the analysis of market conduct, to increase the effectiveness of the supervisory action in the face of the challenges posed, also to the Supervisory Authority, by the implementation of the IDD.

#### 4. - COMPULSORY WINDING UP

The supervision of undertakings undergoing administrative compulsory winding up continued, with the aim of verifying the regular performance of asset realisation, determination of liabilities and distribution of related amounts to creditors. In 2019, 367 measures were issued, including the reappointment and replacement of commissioners and of members of the supervisory committee whose term of office expired.

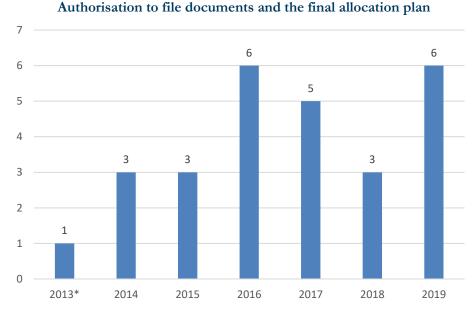
The Institute's commitment to accelerating the closure of liquidations made it possible to achieve the following results:

- cancellation from the register of companies of Nordest S.p.A. and of Apta Immobilare s.r.l.
  of the Arfin group, that had previously filed their cash flow statement, financial statements
  and final allocation plan;
- deposit of the final documents and cancellation from the register of companies of Sicaminò s.r.l., a company of the Previdenza group;
- filing of the cash flow statement, financial statements and final allocation plan of Alpi S.p.A.,
   Trans Atlantica S.p.A., Siac S.p.A., San Giorgio S.p.A. and Sequoia Partecipazioni S.p.A. of the Sequoia / Novit group.

Between 1 January 2013 (establishment of IVASS) and 31 December 2019, also as a result of the measures adopted and the supervisory action, two previously authorised winding up proceedings completed payments with deletion from the companies' register and 27 liquidations (Figure IV.8) were authorised to file the final documents with the execution of the final allocation and further formalities. In the same period IVASS authorised the disbursement of a total of 235.4 million euro to creditors.

As of 2013, measures have been taken to encourage a faster closure of liquidations. IVASS Regulation No. 4/2013 was issued, which gave more operational autonomy to the liquidators; in 2014 and 2015 a large turn-over among liquidators was implemented and, finally, IVASS Order No. 66/2017 on the remuneration of the bodies administering winding-up proceedings was adopted, which introduced important incentives for closure. Given the difficulties of selling the real estate assets, attention has long been paid to auction sales and related advertising. The adoption of new sales procedures made it possible to sell 18 real estate assets during the year, bringing the total number of properties sold between 2015 and 2019 to 63.

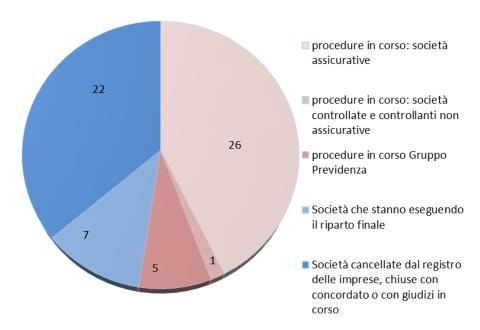
Figure IV.10



<sup>\*</sup> In 2013, two proceedings authorised for final filing prior to the establishment of IVASS completed payments with deletion from the companies' register.

At the end of 2019 there were 32 liquidations in progress compared with 61 at the beginning of 2013.

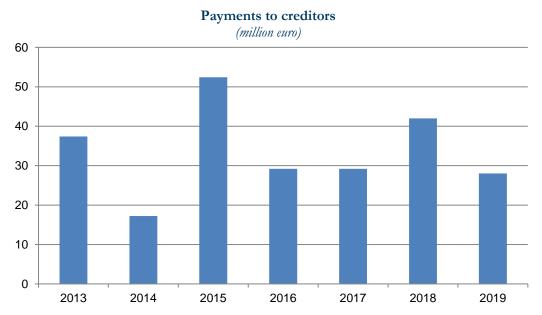
Figure IV.11
Status as at 30 December 2019 of liquidation proceedings since the establishment of IVASS (2013)



Based on the data provided by Consap – Fondo di Garanzia per le Vittime della Strada (the national guarantee fund), in 2019 damages amounting to 15.7 million euro were paid for MTPL claims caused by policyholders insured with undertakings placed under administrative compulsory winding up.

In 2019 IVASS also authorised the disbursement of 27.9 million euro to creditors in proceedings based on final allocation plans (Alpi S.p.A., Trans Atlantica S.p.A., Siac S.p.A. and San Giorgio S.p.A), partial allocation plans (D'Eass S.p.A. and Comitas S.p.A) and advances (SIDA S.p.A. and Arfin S.p.A.). Among the creditors who benefited from the payments are included Consap and the designated undertakings, inasmuch as they have the right of recourse for the compensation of the claims referred to in the previous paragraph.

Figure IV.12



The Institute kept contact with the European Supervisory Authorities responsible for the control of undertakings operating in Italy under freedom to provide services in liquidation, and with the related liquidators, to provide correct disclosure to users about the procedures whereby policyholders and injured parties can enforce their rights.

With regard to foreign undertakings, in 2019 the undertaking Lamp Insurance Company Limited, based in Gibraltar and operating in Italy under freedom to provide services, was placed in liquidation. Two other companies operating in Italy on an establishment basis, mainly in the suretyship sector, have been subject to administration measures by their respective Supervisory Authorities, the Elite Insurance Company Limited of Gibraltar and the Irish CBL Insurance Europe DAC (CBLIE).

For the evolution of European legislation on resolution see Chapter III.2.2.1.f.

# V. - MARKET CONDUCT SUPERVISION AND CONSUMER PROTECTION

In 2019, IVASS implemented a major organisational reform, triggered off by the transposition of the Insurance Distribution Directive (IDD) and aimed at making its structure more in keeping with the resulting needs.

To ensure more effective enforcement of the new rules, the Institute has radically overhauled the entire area of consumer protection, envisaging specific supervision of the market conduct of insurance undertakings and intermediaries - which goes hand in hand with prudential supervision - and strengthening its mission to protect customers by entrusting a dedicated structure with a wide range of synergistic activities, ranging from complaint handling to insurance arbitration and insurance education.

The establishment of the Market Conduct Supervision Directorate has the aim of creating a sole control body for the design and distribution of products and for the correct market conduct of all operators, with sharp focus on preventive supervisory action.

One of the first initiatives implemented by the new Directorate was a series of bilateral meetings with 14 Trade associations representing the world of insurance distribution: agents, brokers and their staff, banks and financial intermediaries and so-called ancillary distributors, as well as ANIA. The purpose of the meetings was to i) present the new Structure with its related supervisory powers and purposes, ii) take note of the issues that the Associations consider relevant for the effective operation of the business, with a particular focus on the conduct risks and iii) discuss how to set up constant forms of discussion with IVASS.

The meetings provided very interesting insights, with the Associations giving ample availability to a more structured dialogue, with preference, from a methodological point of view, for the creation of theme-based round tables with variable participation according to the topics.

The Consumer Protection Directorate is entrusted with the protection of individual policyholders and damaged parties through the handling of complaints, a traditional strength of the Institute, the implementation of insurance education programmes and the handling of relations with consumer Associations. In addition, it will have to set up and manage, through the technical support secretariats, the new body for the out-of-court resolution of insurance disputes (Insurance Arbitrator).

In this overall design, the synergies between the activities supporting the Insurance Arbitrator and the consolidated management of consumer complaints will be crucial, as will the optimum exploitation and sharing with the other structures of the Institute (first and foremost, the Market Conduct Supervision Directorate) of the wealth of information generated by the two insurance dispute management processes (appeals and complaints) vis-à-vis insurance undertakings and intermediaries.

The Consumer Protection Directorate was also entrusted with the coordination and direction of the new unified Contact Centre, aimed at consumers and intermediaries.

#### 1. - THEMATIC SURVEYS

# 1.1. - "Unrelated" policies linked to loans

Cooperation continued with the AGCM on the so-called unrelated policies, covering sickness, accident, disability, home and death, sold by financial intermediaries to individuals requesting personal loans, with no connection to the loan.

An IVASS investigation brought to light a possible aggressive selling phenomenon: financial companies required underwriting of the policy for disbursement of the loan, with a single premium to be paid in advance and financed by the intermediary, which therefore then received interest on the financed premium as well as on the loan.

The three proceedings launched by AGCM in 2018, on the basis of IVASS reports for aggressive marketing practices against three finance undertakings and against nine partner insurance undertakings (of which six foreign undertakings) for unfair trading practices, were concluded in 2019.

In the three proceedings, the operators presented commitments to resolve the root causes of the problems, envisaging: i) for the future, the separation between the policy and the financing (between the two draftings a minimum of seven days must elapse and the insurance premium cannot be included in the financing); ii) for customers who have already purchased these policies, the transmission of a letter informing them of the possibility of obtaining the termination of the policy and the reimbursement of the part of the premium not enjoyed from the date of the request or the presentation of the complaint, if they did not understand that the policy taken out was optional and not connected with the financing.

Only in one case did the AGCM fine the finance undertaking for 4.7 million euro, deeming, after consulting IVASS, that the commitments presented were not suitable to put an end to the incorrect practice<sup>128</sup> and in May 2020 it initiated proceedings for non-compliance.

#### 1.2. - Dormant life assurance policies

IVASS continued its actions to revive uncollected dormant life assurance policies, held by undertakings pending expiration of the limitation period.

Action was taken against five Italian insurance undertakings that had a high incidence of policies to be investigated as at 31 January 2019 (around 11 thousand), calling for recovery action as a result of which another 730 policies were awakened for a total of 8.6 million euro.

A similar survey concerning 83 foreign companies pursuing business in Italy has until now allowed to cross-check 6.3 million tax codes with the taxpayers' database. The checks have made it possible to "wake up" 6,505 policies, for a total of 426 million euro.

 $<sup>^{128}</sup>$  Measure no. 28011, published in the AGCM Bulletin, year XXIX, no. 52 of 30 December 2019.

The obligation for Italian insurance undertakings and foreign undertakings operating in Italy to verify, by 31 December each year and in cooperation with the Italian Revenue Agency, that the holders of life and accident insurance policies were still alive and to take action to pay the amounts to beneficiaries if the policyholders had died, as envisaged by art.3 of Presidential Decree no. 116 of 22 June 2007, as amended by law n. 136 of 17 December 2018, represents a structural solution to prevent the phenomenon of dormant policies. This solution will be operational with the issuance of a measure by the Italian Revenue Agency, in relation to which IVASS has offered its support for prompt implementation.

Collaboration with the MEF continued, with the reporting of data relating to the policies that have in the meantime fallen into prescription (7,533 policies for an estimated 72 million euro) so as to allow the verification of the conferral of the sums to the Dormant Accounts Fund.

# 1.3. - Subrogation of secured loans and demand for home fire and explosion policies

IVASS concluded the investigation launched at the beginning of 2019 against 10 banks on policies linked to real estate mortgage loans, following the report of a consumer association, also sent to AGCM and the Bank of Italy.

The report highlighted possible unfair practices by some banks when granting subrogations of real estate loans, also with regard to the insurance component by means of the requirements of a new fire and explosion policy on the property, in many cases distributed by the same banks, although the borrower had already taken out one when taking out the original loan.

The investigation revealed widespread behaviour by the banks to exert undue pressure on borrowers to take out a new contract. Although all banks, except one, had envisaged in their operating manuals the possibility for the customer to maintain the pre-existing policy, most of the subrogations (over 70%) were accompanied by newly issued policies distributed by said banks. Also for the three institutions that accepted pre-existing policies, this had concerned the minority of subrogations in the two-year period (between 15% and 43%). In conclusion, the precontractual documentation relating to the financing did not contain any reference to the insurance commissions received by the banks.

According to the Memorandum of Understanding between IVASS and AGCM, the results of the investigation were communicated to AGCM in support of the proceedings for unfair commercial practices initiated in the meantime against four banks (three of which were the subject of IVASS investigation).

On the conclusion of the proceedings, by means of resolutions dated February 2020, AGCM, after obtaining the opinion of IVASS pursuant to Article 27.1-bis, of the Consumer Code, qualified the conduct as unfair commercial practices, due to the fact that the banks (Unicredit S.p.A., Intesa SanPaolo S.p.A., UBI Banca S.p.A. and BNL S.p.A.) had unduly conditioned consumers to purchase insurance policies of various kinds (fire and explosion or loan protection), issued by insurance undertakings of the same corporate Group or placed by the same banks, in conjunction with loans taken out also through subrogations, placing such underwriting as a de facto condition for the granting of loans. The AGCM inflicted fines totalling 20.7 million euro on the four banks.

#### 1.4. - Policies linked to loans and to other loan contracts

Again with reference to the insurance products offered in combination with mortgages and loans, on 17 March 2020<sup>129</sup> IVASS and the Bank of Italy issued a joint communication indicating to banks, financial intermediaries and insurance undertakings lines of conduct aimed at guaranteeing substantive fairness in dealings with customers and full awareness of customers with regard to the characteristics, obligations and advantages deriving from the combination of banking and insurance products offered.

Banks and financial intermediaries will have to check the offer policies and the methods of contextual placement of other products together with a loan; insurance undertakings will have to check the design and offer policies for insurance products to be sold in combination with other products. The parties concerned will have to inform the Bank of Italy and IVASS, respectively, if significant shortcomings should emerge, and submit a redress plan.

Problems associated with the distribution by banks of policies linked to mortgages and loans are common to other national markets and are the subject of attention by European Supervisors. In February 2020, EIOPA launched a thematic review on mortgage life and other credit protection insurance sold through banks, in which IVASS actively participates, with the aim of identifying the main sources of detriment for the consumer in the various European countries, highlighting their common profiles, and identifying suitable supervisory action to overcome them.

The aim is to verify the characteristics of the distribution through the bancassurance channel, sales practices, potential cases of misselling due to inappropriate performance of the demands and needs test. The criticalities of the business models will be assessed, focusing on the offer by the credit institution of insurance products of undertakings belonging to the same financial conglomerate or group, the level of commission received by the distributor and collective policies in which the distributing bank is also the beneficiary of the policy. In addition, high commissions paid to the distributing banks will be analysed in the presence of a low quality - price ratio for consumers and problems in the after-sales handling of claims and complaints.

#### 1.5. - Travel insurance policies

The thematic survey coordinated by EIOPA on travel policies, in which IVASS participated together with the other insurance Supervisors, has been completed. In Italy, the survey involved 14 insurance undertakings (nine Italian and five foreign). In December 2019, EIOPA published the final report<sup>130</sup> and a warning to insurance undertakings inviting them to remedy the main critical issues:

 unclear policy conditions that contain excessive or not very clear exclusions and limitations of coverage;

https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2020/17-03/Comunicazione BI IVASS Polizze abbinate 17.3.20.pdf.

<sup>130</sup> https://www.eiopa.europa.eu/content/consumer-protection-issues-travel-insurance\_en.

high commissions for distributors which, combined with a very low ratio between compensations paid to customers and premiums paid, are indicators of the low value of policies for customers.

In light of these findings, IVASS is preparing specific supervisory action, in coordination with EIOPA and the Supervisory authorities of other member States.

# 1.6. - Mystery surfing survey into comparison websites

A mystery surfing survey was carried out on comparative websites to check whether, on the basis of partnership agreements between the websites themselves and foreign undertakings that are not members of the CARD system, clear and transparent information was provided on the impossibility for those taking out said policies to benefit from the direct compensation system that offers injured policyholders the possibility of contacting their own insurance undertaking directly for the handling of the claim and settlement of damages.

The absence, inadequacy or poor accessibility, within some comparative websites, of the disclosure concerning insurance undertakings that are not members of the CARD system has been ascertained, as well as the direct consequences of purchasing policies issued by these undertakings, which entail greater costs for the policyholder who, in the event of a no-fault claim, is obliged to contact the counterparty insurance undertaking, which is likely to lengthen the time taken to handle the claim.

Measures have been carried out on six comparative websites aimed at requesting maximum transparency. All the websites have clarified the information concerning the CARD system, indicating which insurance undertakings are not members and the different methods of claims management in direct or ordinary compensation schemes. This evidence has been included on the home page and in the comparison outputs, to enable the user to make an informed choice on the policy to be taken out.

#### 2. - SUPERVISION OF THE MARKET CONDUCT OF ITALIAN UNDERTAKINGS

# 2.1. - The measures on the settlement processes

IVASS continued its activities with regard to an undertaking which, following on-site inspections, had been asked to draw up an action plan for the removal of important anomalies found in the MTPL settlement processes with delays in the opening of claims and in their settlement, as well as unjustified denials. In 2019 a request was made:

- to submit an updated action plan, both with regard to objectives and timescale, with details
  of the corrective action implemented by the undertaking;
- to the compliance function, to carry out an analysis of a sample of MTPL claims settled or rejected from 1 October 2018 to 28 February 2019 (equal to at least 10% of the total), representative of the geographical distribution of the undertaking's business and the type of claim,

in order to verify compliance with the legal deadlines and the adequacy of the justification in the event of denial of compensation;

 to the internal audit function, to review the results of the analysis carried out and report back to the Board of Directors.

Following the analysis of a sample of 4,500 MTPL claims for 5,073 claims items, numerous delays in settlements and unjustified denials emerged. IVASS therefore intervened once again to ask the undertaking to oversee the claims settlement process and monitor the timescales of the process more closely, as well as to provide an update on the status of the activities envisaged in the redress plan adopted. The compliance and internal audit functions were asked to continue monitoring processes to verify the implementation of the new plan, reporting to IVASS, the Board of Directors and the Board of Statutory Auditors.

The Institute has been in constant contact with an undertaking specialising in health insurance policies, which between 2018 and 2019 had registered a significant increase in complaints about the complexity and lack of clarity of the policy conditions and a dilatory claims handling that did not comply with contractual requirements. The dialogue also involved the outsourcer that handles and settles claims on behalf of the undertaking. The undertaking was asked to review its settlement policy to remove the underlying causes of the reports and inspections were carried out on the undertaking and the provider, following which the undertaking presented an action plan with corrective measures to remove the regulatory, organisational and IT criticalities detected. The corrective measures also concern the strengthening by the undertaking of controls on the activities carried out by its provider. The Institute will check whether the measures planned by the undertaking, some of which have already been adopted, are suitable for overcoming the problems identified.

# 2.2. - Use of new supervisory tools

Supervision over market conduct<sup>131</sup> at European and Italian level is increasingly oriented towards the use of risk-based analysis models in order to intercept, also as a preventive measure, any phenomena detrimental to policyholders. In this context, IVASS has equipped itself with analysis tools developed in-house or acquired from external providers.

a) RRI (Retail Risk Indicators) and CRAF (Conduct Risk assessment framework)

The RRI tool has been further refined by introducing new indicators and defining thresholds for each of them, thresholds which once exceeded lead to the undertaking being monitored.

The tool is based on indicators constructed mainly on data extracted from Solvency II reports interpreted in terms of market conduct, broken down by type of activity, life and non-life. There are five indicators for the non-life segment (including loss ratio, incidence of acquisition costs on premiums and incidence of claims closed without payment) and 10 for the life segment (including the premium growth rate, incidence of new contracts, incidence of acquisition costs on premiums, surrender rates and indicators based on the profitability of

<sup>&</sup>lt;sup>131</sup> These analyses of undertakings are carried out alongside the model for the supervision of intermediary conduct (see box in V.3).

segregated funds). For each indicator, a ranking of the undertakings is obtained from the worst to the best, making it possible to assess, by line of business, the situation of the individual undertaking and its positioning with respect to the market.

Following the examination of the 2018 indicators, notes were sent to four non-life undertakings to investigate the causes of anomalous data with respect to the threshold value.

The RRI, with the necessary adjustments to take account of the more limited availability of data, are available also for the business pursued in Italy by foreign undertakings.

The implementation of the CRAF, aimed at guiding priorities for supervisory action, continued. The tool, separated between life and non-life management, combines several risk indicators, including RRIs, allowing a summary representation of each undertaking's risk in terms of market conduct, measured by the assignment of an overall rating.

# b) Database on the KIDs of the IBIPs

As part of the strengthening of preventive supervision on insurance products, a service for the collection, monitoring and updating of the data contained in the KIDs (Key Information Documents) of insurance-based investment products (IBIPs) marketed by all Italian and major foreign insurance undertakings has been acquired, after preliminary market consultation<sup>132</sup>.

Starting off from the data in the KIDs, it is possible to obtain indications on the level of complexity, risk and cost of the product and on the target market, making it possible to set up an analysis model to guide supervision of products that appear less profitable for clients.

The database contains, for each underlying product and financial option, the synthetic risk indicator (SRI), the recommended holding period of the investment (RHP), the reduction in percentage terms of the expected annual return on investment (RYI) and the annual performance expected for the customer from the investment in different scenarios. For example, products can be identified that, with the same RHP as other products, are less profitable for the customer because they have a higher impact of costs on returns, measured in terms of RYI.

The model made it possible to detect problems with regard to a foreign undertaking, already under observation at European level. The results of the analysis have been forwarded to EIOPA, which is currently evaluating the action to be taken.

#### c) Platform for monitoring the internal investment funds underlying unit-linked and hybrid products.

IVASS adopted a tool to monitor the performances of investment funds within the undertakings (around 4 thousand) to which unit-linked and composite policies are linked. The tool makes it possible to identify funds with particularly unfavourable or anomalous trends, enabling in-depth analysis of the financial management policies of the undertakings and the robustness of the controls carried out on fund managers.

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 $<sup>^{\</sup>rm 132}$  Art. 66 of Legislative Decree No. 50/2016.

# 2.3. - The mystery shopping project

In 2019, the Institute continued its studies to include mystery shopping among the supervisory tools used to to field-test the quality of the market conduct of insurance undertakings and intermediaries when offering insurance products. This is also an issue of great interest for the harmonisation of supervision at EU level, as demonstrated by the powers of coordination of national supervisory initiatives on insurance mystery shopping that the ESA reform has attributed to EIOPA.

Since this is a structural innovation of European scope and of significant purport for operators in the sector and for its own activities, the Institute, with the support of the Italian Government, has obtained the financial support of the European Commission (Structural Reforms Support Program) to develop a methodology aimed at integrating mystery shopping in the supervision of market conduct. The project, recently launched, will take place over the course of about a year with the collaboration of consultants selected by the European Commission and EIOPA in close contact with IVASS resources. Two pilot exercises - for face to face and on-line sales - will be carried out to test the robustness of the methodology developed. The final methodology will be integrated into the Institute's supervisory procedures and into the European works on the harmonisation of market conduct supervisory practices that European Insurance Supervisors are developing under the aegis of EIOPA.

For the overall effectiveness of the project, it will be essential that when fully operational the use of mystery shopping is framed within a primary regulatory framework that allows its safe use for consumer protection. In assigning support to the project, the European Commission has emphasised the responsibility of the competent Italian legislative bodies to which the Institute has immediately provided the necessary availability and technical support.

# 3. - SUPERVISION OVER PRODUCTS

# 3.1. - Product oversight and governance arrangements (POG)

The discipline of Product Oversight and Governance (POG), introduced by the IDD, required market operators to thoroughly review the processes for product design, distribution and monitoring throughout the whole life of the contracts, focusing on the needs, demands and interests of the customer.

On a consistent basis with the new legislative and regulatory framework, IVASS has revised its organisational structure, combining prudential supervision with supervision of the market conduct of insurance undertakings and intermediaries, which is also called upon to supervise POG processes.

In 2019, fact-finding visits to undertaking and intermediaries continued, involving six insurance groups selected in relation to the type of business and distribution model (see box).

At the same time, work began on drafting the chapters of the EIOPA Supervisory Handbook dedicated to market conduct, with the aim of creating a uniform supervisory culture and practices in the EU and providing a reference for the individual Supervisory authorities in the context of the IDD and POG. IVASS participated in the drafting of the first chapter dedicated to the POG, approved in April 2020. The chapter, which addresses supervisors only, gathers indications and suggestions on how to implement a risk-oriented and proportionate supervision of the POG safeguards implemented by undertakings and intermediaries, based on the business models adopted and the risks undertaken by the individual operators.

The fact-finding visits involve both undertakings and distributors, with the aim of assessing the action undertaken by the individual operators to adapt internal processes to the new operational and regulatory framework, in the various phases and aspects of the POG process.

The six insurance groups involved in the first phase were also selected in relation to the different types of business and distribution model: three insurance groups working with banking networks, two groups working mainly or exclusively with sole agents or banking networks and one group working with non-exclusive networks.

The following points of attention emerged from the visits:

- the definition of the target market was in some cases more influenced by marketing strategies than by the logic of identifying customer needs; there are areas of improvement in the consideration of the customer view in product design. It is important that the target market, both positive and negative, is clearly identified, avoiding generic definitions with an insufficient level of granularity. During the placement phase, this also facilitates the identification of customers for whom the product may not be suitable;
- the assessment of the product's suitability for the target market, already during the product design phase, must guarantee that the product has an effective value for the customer, proven by adequate tests aimed not only at assessing the sustainability of the offer by the undertaking but also the adequate profitability and usefulness for the consumer. In addition to the tests, consumer focus groups can also support these analyses, in order to check whether the offer is actually tailored to the customer segment to which it is addressed, whether the coverage envisaged by the contract is clear and whether the exclusions are not so extensive as to render the coverage void of content. The need has emerged for further efforts by the market to define indicators, including quantitative ones, that consider the value and profitability of the products for the customer, and to identify the thresholds which if exceeded mean that the product cannot be considered adequate for the target. These may be, for example, indicators such as the expected loss ratio for non-life products or, for insurance-based investment products, assessments of the break-even timeframe for cost recovery and the probability of generating returns in realistic performance scenarios;
- a set-up of after-sales control systems aimed at verifying that the product remains consistent over time with the needs and characteristics of the market for which it is intended and is actually sold to customers who fall within the target market. Also in this case, it seems necessary to strengthen the analysis tools through the definition of indicators (for example, recurring loss ratio values that are too low, high percentages of claims closed without payment with respect to claims reported, high number of surrenders or complaints) and automatic reporting thresholds which if exceeded trigger remedial action by the undertaking;
- processes relating to the exchange of information flows between manufacturer and distributor.
   The methods defined by the undertakings to involve second level networks in the definition of the POG and in the periodic verification of its effectiveness (a theme that also emerged in the meetings that IVASS had with Trade associations) need to be improved;

training for the sales network, often provided too close to the launch of a new product, almost always
in e-learning mode, in the absence sometimes of computer blocks on the sale of the product if the
courses are not attended.

# 3.2. - Trend analysis of products offered

IVASS's six-monthly analyses of the trends in the offer of insurance products<sup>133</sup> in 2019 showed the consolidation, in the non-life sector, of the trend of insurance undertakings towards partnerships with external providers, technology suppliers and platforms, but also the orientation of a part of the market to free itself from the role of user to take on that of direct supplier of technological services, including non-insurance services, or to set up technological start-up incubators directly to support the digital offer.

In particular, in the non-life sector the following was seen:

- an upgrading, especially in the mobility sector, of traditional products with digital devices and with assistance and safety services, also in response to legislative provisions (for example, to avoid abandonment of children on-board). There has been an increase in the offer of customisable products, through coverage extensions, additional services and assistance, and coverage dedicated to all means of transport and to be shared with family or friends; in the travel sector, there has been an increase in the offer of instant insurance coverage, which can be purchased online, and experimentation with claims management in entirely digital mode has spread;
- the development of modular and flexible insurance coverage in combination with MTPL insurance for cars and motorbikes, in the field of risks related to property, natural disasters, digital activities and household liability;
- the enhancement of cyber coverage, also stand alone, aimed at families (for example, in defence against cyberbullying), professionals and undertakings, against the risks of cyber attacks, fraud, data and information theft;
- the growth of the offer of coverage linked to the possession of animals;
- the extension of the range of health policies, not only to cover family members but also
  extended to third parties, regardless of whether they are family members or cohabitate, and
  with coverage dedicated to elderly customers or foreigners travelling in Italy;
- the emergence of products aimed at protecting the insurance needs of voluntary, charitable, cultural, sports and recreational activities, and products for the agricultural sector, intended for specific crops (valuable grapes or fodder production) monitored by remote sensing methods that use satellite technology and make the policy parametric;

https://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/altre-pubblicazioni/2019/prodotti-I-sem-19/index.html and https://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/altre-pubblicazioni/2020/prodotti-ii-sem-19/index.html.

- the growing offer for medium and small-sized companies, with coverage for the joint and several liability of the principal and contractor, for economic damage caused to the undertaking by the withdrawal of the driving licence of employees who use the car to carry out their work tasks, coverage for real estate, assets and company property, and third party liability policies to protect against libel claims made vis-à-vis publishers and newspapers.

In 2019 there were seven new with-profit life products launched on the market for which the setting aside of the net capital gains realised in the observation period to the profit fund is envisaged, allowing them to be released to policyholders within a maximum of eight years as from the date on which the gains are set aside<sup>134</sup>.

# 3.3. - Measures on individual products

a) Supervision on the products of Italian undertakings

One of the most relevant issues for consumer protection and preventive supervision on market conduct concerns the complexity, financial risks and costs of IBIP products. More than 60% of the products marketed in Italy by Italian and foreign undertakings relate to unit-linked and hybrid products, often very complex due to the presence of multiple underlying financial options and high cost levels, which IVASS is looking into.

In agreement with CONSOB, the competent Supervisory authority for the KIDs, in early 2020 analyses were launched on the first three IBIPs sold by the top 10 Italian insurance undertakings in terms of premium income in 2019.

The analysis focused on contractual conditions and pre-contractual information (KID and Additional PID), with the objective of looking in greater depth at: i) the characteristics of the products in terms of risk profiles, costs and expected performance levels for the customer, ii) the consistency of the definition of the reference market, iii) the robustness of the POG processes, with a particular focus on the *ex-ante* assessment, in the test phase, to ascertain the value for money for customers, and on the main phases of the process and related governance.

Meetings will be held between IVASS, CONSOB and representatives of the undertakings (senior management, units involved in the POG process and control functions) to discuss the results of the analysis.

b) Supervision on the products of foreign undertakings

Action continued on life products marketed in Italy by two foreign undertakings operating through a network of Italian intermediaries, which have been subject to onsite inspections in past years. In both cases, following measures taken by IVASS and in one case also by EIOPA, the insurance undertakings have replaced or made changes to the insurance-based investment products offered, but problems continue to exist also for the new products, particularly because of the very high costs. Further analysis is underway on these and other products.

 $<sup>^{134}\,\</sup>mathrm{See}$  articles 7-bis and 7-ter of ISVAP Regulation no. 38/2011.

# c) Policy covering the risks of insolvency of tour operators

Based on the reports by a number of associations of travel agencies and tour operators, a policy covering the risks of insolvency of tour operators was examined, noting that the contract terms in fact limited the possibility for insured travellers to have full access to the coverage envisaged by Article 47 of the Tourism Code. Following the intervention of IVASS, the undertaking stopped marketing the product.

# d) Communication in the event of loss for customers on unit-linked policies

As from 1 January 2019, pursuant to Article 26 of IVASS Regulation No. 41/2018, insurance undertakings must notify IVASS of cases in which the reduction in the value of the units of unit-linked policies leads to a loss for the customers of more than 30% of the premiums paid.

IVASS monitors these communications, requesting additional information when necessary to investigate the causes of the losses.

Measures have been adopted in respect of six foreign undertakings, which have been asked to indicate any initiatives undertaken, generally in terms of investment policies and, specifically, in respect of customers penalised by the particularly negative performance of the funds. In some cases, the undertakings have implemented initiatives to protect their policyholders, either by taking direct responsibility for the economic damage suffered by customers or by making corrections to financial management strategies aimed at mitigating losses.

#### Suretyship policies

In 2019, IVASS continued to address critical issues related to the market of suretyship policies issued to allow economic operators to access an activity or participate in a public procedure.

Often, in fact, the regulations require the presentation of a financial guarantee for this purpose which can be established in secured form or as a bank guarantee, but also with the issue of a suretyship policy, which can be referred to class 15. The beneficiaries of these policies are often the public administrations (authorities granting authorisations or contracting authorities), which are thus covered against the risk of default by the business operator requesting authorisation or participating in the procedure.

In practice, problems have emerged for public administration authorities benefiting from this coverage, including:

- the unreliability of some foreign insurance undertakings issuing these policies leads to a lack of effective coverage for the public administrations benefiting from these policies, due to the obstacles that arise during enforcement (delays, refusals justified often on the basis of special clauses added to the policy and construed in such a way as to make enforcement more difficult) or due to the insolvency of the guarantor since several foreign undertakings operating in the sector in recent years have been placed into liquidation or subject to recovery measures;
- cases of unauthorised pursuit of business with coverage issued by unlicensed parties or forged policies
  using the trademark or corporate name of insurance undertakings, often based in other EU countries,
  regularly licensed in the Suretyship class and sometimes not operating in this sector.

The activities carried out by IVASS to tackle these problems are diverse:

activating enhanced supervision of foreign undertakings active in Italy in the field of surety policies in cooperation with the home Authorities, which are responsible for prudential supervision on the basis of the Solvency II Directive;

- combating the phenomenon of unauthorised pursuit of business and counterfeiting, in particular by notifying the public by means of notices on the institutional website<sup>135</sup> when a policy is found to be false and by cooperating with the investigating authorities. This collaboration has been particularly intense with reference to suretyship policies issued in the waste sector. On the critical issues in this specific sector, IVASS reported to the Parliamentary Inquiry Committee on illegal activities connected with the waste cycle and related environmental offences (hearing of 3 February 2020<sup>136</sup>);
- cooperating with the other Authorities concerned (ANAC, AGCM and the Bank of Italy) to address the problems emerging from this market in a coordinated manner.

As part of this work, on 28 May 2020, IVASS, the Bank of Italy, ANAC and AGCM published a set of suggestions in favour of contracting authorities and beneficiaries of suretyship guarantees to strengthen the adjudication processes and prevent the main risks associated with the acceptance of financial guarantees, including issuance by unlicensed parties, counterfeiting, enforcement problems due to the issuer's insolvency or ambiguous contract terms.

This is solid help from the four Authorities provided to public administrations to facilitate their control activities before accepting guarantees, to avoid losing protection or incurring litigation and disputes.

Among the suggestions provided are how to ascertain whether the guarantee is issued by a legitimate party, how to understand whether the proposed coverage is false, the checks that should be carried out on the financial soundness of the guarantor, the compliance of the contractual conditions with the provisions of the regulations and/or the call for tenders.

#### 4. - CONDUCT SUPERVISION ON FOREIGN UNDERTAKINGS

In 2019, the exploitation of the information flows transmitted by EIOPA under the new Protocol of cooperation between Authorities was strengthened, developing a Retail Risk Indicator evaluation system also for foreign insurance undertakings operating in Italy, for a more efficient planning and identification of priorities for the supervisory activity.

In 2018 (the most up-to-date EIOPA data), there were 411<sup>137</sup> foreign undertakings operating in Italy with branches or under fos, with a premium income of 26.1 billion euro (20.1 billion euro in the life and 6.0 billion euro in the non-life sector), for a 16% share of the Italian market.

The business is largely centred on life insurance (81%) and focuses on unit-linked and indexlinked products (83% of premiums), with a highly significant concentration by country of origin: the first 10 life undertakings have head offices in Ireland and Luxembourg. With regard to these undertakings enhanced cooperation is in place with the supervisory authorities of Ireland and Luxembourg to monitor products sold in Italy and to coordinate supervisory action, especially

<sup>135</sup> As from 2013 to-date 31 press releases have been issued on these cases.

<sup>136</sup> https://www.ivass.it/media/interviste/intervista/le-garanzie-finanziarie-nel-settore-dei-rifiuti/.

<sup>137</sup> The foreign undertakings licensed to operate in Italy with an establishment or under fos at the end of 2019 came to 113 and 1,049 respectively (see Chapter I.2.1). According to EIOPA data, in 2018, 367 undertakings operating under fos and 98 with an establishment wrote premiums on the Italian market, with some undertakings active under both systems.

on POG processes. A significant portion of premiums are collected by undertakings resident in Ireland which are members of Italian banking or insurance groups.

A meeting was held at IVASS with the Irish Authority in December 2019 to discuss Irish undertakings that require special attention and to share their respective supervisory practices, with the aim of verifying that adequate products are designed for Italian customers, that there are adequate controls on the underwriting process, the distribution network and the financial management of unit-linked policies.

With reference to the non-life sector, the top 15 undertakings come mainly from the UK, France, Ireland and Germany, with activities in MTPL, general liability, fire and other damage to property, credit and suretyship classes. For all the major non-life undertakings in these countries, coordination activities are underway with the home Authorities and within the College of Supervisors.

# 4.1. - Entry of new EU undertakings

83 new authorisations for entry into Italy were granted to EU undertakings for the pursuit of business by way of fos, 14 to undertakings operating under the right of establishment, and 52 extensions into other classes of business were granted to companies already present in the Italian market.

This year too there has been an increase in new entries (+8% for establishments), mainly due to Brexit and the measures adopted by UK undertakings for relocation to other EU member states in order to continue operating in Italy under the single passport system.

Thanks to the fruitful prior collaboration with the home authorities, the entry into the Italian market in particularly delicate sectors (suretyship, general liability and salary-backed loans) of two operators for which problems had been encountered was avoided.

Opinions were issued to EU Supervisory Authorities in relation to 29 portfolio transfers between foreign undertakings operating in Italy under right of establishment or fos.

#### 4.2. - Supervision following entry into Italy

In 2019, 10 files of foreign undertakings were followed, mostly operating in the life and suretyship classes, in one case in the MTPL class, which showed critical aspects in market conduct towards Italian policyholders or doubts about the reputation of shareholders and key managers. With regard to these cases, IVASS asked the home authorities, in some cases also involving EIOPA because of the presence of cross-border business in other European countries, to activate more stringent monitoring and adopt corrective measures. Of these cases, the most relevant are:

 an Irish undertaking, active until October 2018 in the unit-linked policies sector and now in run-off, for which several complaints were received for failure to settle policies and surrenders due to the illiquidity of the underlying investment funds. IVASS, in collaboration with the home Authority, has asked the undertaking to take remedial action for the benefit of Italian policyholders, which is currently being defined;

- a Croatian undertaking operating in the MTPL sector with temporary policies, for which
  dysfunctions in the underwriting and settlement processes were detected; following the joint
  intervention of IVASS and the home Authority, the undertaking suspended operations in
  Italy in March 2019;
- two Bulgarian undertakings for which problems were found in the payment of MTPL claims incurred abroad with Italian injured parties, for which solutions are being sought at international level. Given these critical issues and the intention expressed by the undertakings to start issuing non-life policies in Italy as well, contacts with the home Authority were intensified in 2019 and cooperation was strengthened to prevent possible problems for the Italian market;
- two sister undertakings, one from the United Kingdom and the other from Ireland, which
  are very active in Italy in the medical liability sector and which, following IVASS's intervention, have improved their claims management;
- an Irish undertaking, for which irregularities have been identified in the process of selling policies placed over the telephone by a financial intermediary and misselling problems. As a result of IVASS's intervention, the financial intermediary has taken corrective action on the sales process and the undertaking is proceeding to review the portfolio and offer policyholders termination of the contract and return of premiums in the case of misselling. The undertaking must complete the remedial action and provide IVASS with a follow-up by 1 September 2020;
- a Luxembourg undertaking, which markets life products with problematic aspects in Italy and other EU countries. As cases of misselling have been found, IVASS has again asked for the portfolio to be reviewed and policyholders to have the opportunity to have their premiums reimbursed. The undertaking must complete the required remedial action and provide a follow-up by 30 July 2020. At international level, a platform for cooperation between Supervisory authorities has been set up under the auspices of EIOPA (see V.3.3), within this framework coordinated supervisory action is being considered;
- a Slovak undertaking that markets life products with problematic aspects in Italy and other EU countries. Again in this case EIOPA organised a platform of cooperation among Supervisors, to deal in a coordinated way with the problems common in various European countries with reference to the business model and products marketed.

In 2019, IVASS participated in nine collaboration platforms between Supervisors<sup>138</sup>, four of which related to undertakings in liquidation and one to a Danish undertaking in financial crisis, active in the assistance and general liability classes, with policies linked to sporting activities and

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<sup>138</sup> EIOPA collaboration platforms between Supervisors aim to strengthen and coordinate the supervision of insurance undertakings with critical issues operating cross-border, allowing the various Supervisory authorities involved to have a complete overview of the undertaking and to address business problems in their own country with more effective action.

veterinary assistance for animals (pet insurance). On 24 March 2020, the latter undertaking was prevented from commencing new business.

IVASS has attended seven colleges of supervisors on cross-border groups operating in Italy with particularly significant branches. In such contexts, the Institute has also discussed with the other host Authorities and the Group Supervisors issues relating to market conduct in Italy, including unrelated policies, PPI, dormant policies, assessment of the adequacy of insurance-based investment products and products sold over the telephone.

# 4.3. - Brexit - action to ensure service continuity to Italian policyholders

IVASS's activities at European level continued, for the purpose of dealing - in a coordinated manner with the Supervisory authorities of the United Kingdom and of the other member States and EIOPA - with the withdrawal of the United Kingdom from the EU (Brexit) and ensure service continuity for EU policyholders.

The transition from the hard Brexit scenario to the negotiated withdrawal has determined the need to readjust the measures<sup>139</sup>. In this context, the contingency plans drawn up by 53 UK insurance undertakings operating in Italy were analysed, undertakings with a portfolio that includes 680 thousand Italian policyholders and technical provisions for 2 billion euro.

Cases were brought to the attention of the UK Supervisory Authority (Prudential Regulation Authority, PRA) where it was found that no suitable plan had been adopted to ensure the continuity of insurance services after Brexit (contingency plan missing or inadequate in terms of timing or measures). The problem, based on data as at September 2019, concerns 28 UK insurance undertakings with a portfolio that includes 9 thousand Italian policyholders and technical provisions for 470 million euro. The PRA has been asked to intervene on these undertakings so that they promptly adopt and implement by the end of the transitional period (31 December 2020) an adequate contingency plan to avoid problems for Italian policyholders. The new plans that UK undertakings are submitting to IVASS after the intervention of the PRA on 28 February 2020 are currently being examined.

At national level, IVASS participates in the inter-institutional Committee coordinated by the Presidency of the Council of Ministers to manage Brexit-related issues that affect the various economic sectors across the board and to protect Italian citizens.

#### 5. - HANDLING OF COMPLAINTS

Under ISVAP Regulation No. 24/2008, in the event of dissatisfaction with the service provided by insurance undertakings or intermediaries, consumers who have already approached the operator concerned without success may submit a complaint directly to IVASS after 45 days.

<sup>139</sup> At midnight on 31 January 2020, the withdrawal agreement reached on 17 October 2019 entered into force after completion of the ratification procedures by the United Kingdom and the European Union. Therefore, as from 1 February 2020, the United Kingdom is no longer an EU Member State and will no longer be represented in the European institutions. The withdrawal agreement envisages a transition period until 31 December 2020 during which the EU legislation will continue to apply as if the United Kingdom were still a Member State.

The IVASS investigation aims to ascertain whether the conduct of insurance undertakings or intermediaries has been irregular or incorrect and to take appropriate supervisory action, including sanctions if violations are found, in the more general interest of consumer protection in the insurance sector. An important part of the action carried out by IVASS is to encourage the settlement of cases that are the subject of complaints, even when they do not indicate any real irregular or unfair behaviour, urging a substantive response that is oriented as closely as possible towards careful consideration of customer requests.

This is a task that the Institute has carried out since the beginning of its activities and which has gradually expanded from the protection of legitimacy to substantial protection, based not only on the resolution of individual cases but also on the analysis of aggregate data and the adoption of the most appropriate measures to resolve shortfalls at the level of the individual undertaking or of the entire market.

Listening to consumers, the real added value on which the traditional supervisory activities are based through the handling of complaints, is also achieved through reports made to the Institute's Contact Centre, the contribution of Consumer Associations, and the monitoring of social networks; in the future, it can be further enhanced with the use of new work tools (Suptech, mystery shopping) capable of promptly intercepting anomalous behaviour by insurance industry operators and initiating the necessary corrective action.

## 5.1. - Main types of complaints

The highest number of reports received in 2019 concerned, as in previous years, delays and inefficiencies in the handling of MTPL claims, and, more generally, failure to comply with contractual terms for the provision of benefits to policyholders and beneficiaries. Consumers' dissatisfaction often stems from misunderstandings, caused by an inadequate level of transparency in the description of insurance products, both in the pre-contractual phase and during the relationship, if it is the policyholder who requests changes to certain conditions or, on the contrary, if the undertaking proposes new insurance solutions.

The complaints received as part of the management of supplementary health policies taken out through the health Funds to which they belong have undertaken particular importance. In this context, there are often difficulties on the part of consumers in understanding the content of the guarantees and how to obtain benefits, both because of the complexity and lack of clarity of the contractual conditions and the cumbersome and bureaucratic procedures imposed on consumers to obtain benefits and refunds.

## 5.2. - Complaints handled by IVASS

The complaints received by IVASS during the year confirm the decreasing trend of recent years. In 2019, 16,294 complaints were received, 11.1% compared to 2018, with a more marked decline compared to the previous year (-8.7%, Table V.1).

The decreasing trend regards in particular the MTPL sector (-15.1%, amounting to 1,659 fewer complaints). Life insurance complaints also fell (down 9.6%, with a small decrease in absolute terms of -219 complaints).

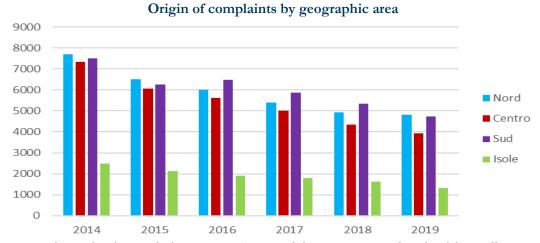
57% of complaints regards the MTPL sector, 30% other non-life classes and 13% life business.

Table V.1

	Complaints received by IVASS: distribution by sector								
Year	MTPL	Other non-life classes	Total Non-life	Life	Grand total				
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				
2018	10,965	5,083	16,048	2,284	18,332				
2019	9,306	4,923	14,229	2,065	16,294				
Var. 2018/2017	-7.5%	-9.2%	-8.0%	-13.3%	-8.7%				
Var. 2019/2018	-15.1%	-3.2%	-11.3%	-9.6%	-11.1%				

The progressive decrease in complaints relates to all geographic areas.

Figure V.1



In 2019, investigations relating to 16,251 complaints were completed, with totally or partially favourable outcomes for policyholders in 42.4% of the cases (Table V.2). These are basically complaints opened in the same year or in 2018; only 2% pertains to investigations started in previous years.

Table V.2

investigations concluded by IVASS in 2019							
	Number	%					
Totally upheld by the undertaking	3,800	23.40%					
Partially upheld by the undertaking	3,083	19.00%					
Not upheld by the undertaking	3,826	23.50%					
Sent to the undertakings for direct handling first	5,440	33.50%					
Complaint transmitted to a different Authority with jurisdiction	102	0.60%					
Total	16,251	100,0%					

With the implementation of the IDD Directive, in 2019 the principles of the new sanctioning system were applied for the first time to complaints that showed breaches of insurance legislation, based on the unitary assessment of irregularities of the same nature detected in the six-month period, to be assessed according to predefined relevance criteria.

#### 5.2.1. - Complaints in the non-life classes

65.4% of complaints in the non-life sector are concentrated in the MTPL sector. The problematic aspects reported mainly concern (81.7%) the claims area, due to criticalities in the management or failure to comply with legal deadlines for the payment of compensation.

In the contractual area, there was a very limited increase in complaints, +15 in absolute terms. This trend was affected by a 15% increase in complaints (+65) relating to the assignment of the bonus class in the bonus/malus system and a decrease of -30% (-74 complaints) in "phantom claims" reports, on which IVASS has been taking action for some time now to allow the policyholder deemed liable to be informed and formally disown the claim.

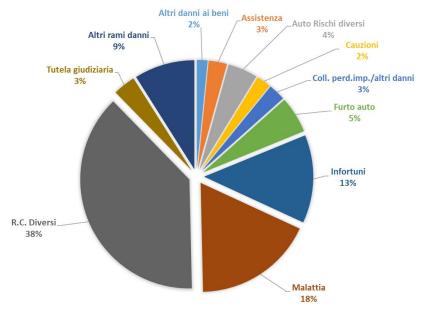
Table V.3

MTPL complaints - distribution by area								
Area	2015	2016	2017	2018	2019			
Claims	10,468	10,994	10,224	9,239	7,607			
Contractual	2,735	1,670	1,531	1,634	1,649			
Commercial/Other	36	48	99	92	50			
Total	13,239	12,712	11,854	10,965	9,306			

The complaints pertaining to non-life business other than MTPL recorded a reduction of - 3.2% compared to 2018, reaching 4,923. The decrease is limited compared to last year (-9.2%), taking into account the +16.1% increase recorded by complaints relating to accident and health policies.

<sup>&</sup>lt;sup>140</sup>These are MTPL claims assigned to policyholders which have never occurred, resulting in a contractual penalty (malus).

Figure V.2 Complaints in non-life insurance classes other than MTPL -% breakdown – 2019



The complaints in the other non-life insurance classes are mainly concentrated in the area of claims (quantification and settlement, 79% of the total) and confirm the need for insurance companies to maintain a high level of attention and take incisive action to improve settlement processes, which are the litmus test for the quality of service provided to consumers. Still numerous, although down by -18%, are the complaints relating to the contractual area, which essentially concern the interpretation of contract terms, demonstrating the need for further measures to simplify contracts by undertakings.

Table V.4

Other non-life insurance complaints: distribution by area									
Area	2015	2016	2017	2018	2019				
Claims	4,447	4,356	4,076	3,810	3,883				
Contractual, Commercial and Other Areas	2,026	1,631	1,519	1,273	1,040				
Total	6,473	5,987	5,595	5,083	4,923				

#### 5.2.2. - Complaints in the life assurance classes

In 2019 the complaints filed by consumers pertaining to life business numbered 2,065, with a reduction of 9.6% with respect to 2018 (-13.3% in the period 2018/2017). The decrease affected only the contractual area, while the number of complaints relating to claims remained substantially unchanged.

The main problems concern the underwriting phase of the contract and in particular the conduct of the intermediaries when placing the policies (failure to deliver all or part of the required documentation to those entitled, inadequate illustration of the content of the contracts

with a consequent incorrect understanding by the customer of the conditions and coverage envisaged in the policy).

With regard to the settlement area, complaints have revealed anomalous conduct on the part of undertakings that reiterate requests for additional documentation already submitted or which is superfluous and complaints regarding a not always adequate level of attention and assistance to customers.

Table V.5

Life complaints: distribution by area									
Area 2015 2016 2017 2018 20									
Claims	1,627	1,304	1,029	848	855				
Contractual, Commercial and Other Areas	1,305	1,429	1,606	1,436	1,210				
Total	2,932	2,733	2,635	2,284	2,065				

#### 5.2.3. - Complaints against intermediaries

Complaints against intermediaries mainly concerned the underwriting moment. Policyholders complain of shortcomings both in explaining the characteristics of the proposed contract and in the often unsatisfactory assessment by the intermediary of whether the product meets the customers' requirements and needs.

Life products are those most affected by these reports. The problem of the policyholder's lack of understanding of the technical characteristics of the contract is especially relevant for products with a high financial content, for which the intermediary's representation is inadequate with regard to the lack of a guarantee of return of the invested capital on maturity and the penalties, sometimes substantial, in case of early surrender of the policy.

Complaints against intermediaries are also recorded in the non-life sector, especially for more complex coverage, for example, on professional liability risk. The most frequent complaints relate to inadequate knowledge of contractual mechanisms, generally reported during the handling of the claim, and the identification of the insurer required to provide coverage in cases where the policyholder has changed insurance undertaking. In addition, the contractual mechanisms envisaged in the various policies of the same type that follow one another must be able, when considered as a whole, to include all the claims that the policyholder may incur, who must be able to rely on the certainty of continuity of coverage, having prudently insured themselves continuously over the years.

The Institute's approach to dealing with complaints relating to intermediaries is focused, if the intermediary operates on the basis of an appointment received from an insurance undertaking, on handling the complaint not only vis-à-vis the intermediary but also the undertaking. In this way, the intermediary is made responsible for complying with the increasingly stringent rules of conduct set out in Italian and EU legislation on the adequacy of the contracts proposed and compliance with the target market to which the various types of policies are offered. On the undertaking side, the aim is to enhance the undertaking's responsibility for the work of the distribution network it uses.

Complaints relating to a broker, who is not bound by a collaboration relationship with an undertaking and who acts solely on behalf of the customers, are handled with the intermediary itself as the sole point of contact, whose correctness is verified and assessed in relation to the compliance of the proposed insurance solution with the customer's needs.

There have been cases of incorrect handling of the complaint by brokers, from the point of view of compliance with the deadline for providing feedback to the complainant and identification of the party who is responsible for the final decision on the outcome of the complaint and the related liability. In some cases where complaint handling is outsourced, the final feedback to the complainant has been provided by the outsourcer. Outsourcing of the entire complaint management or individual steps is permitted but does not mitigate the responsibility of the intermediary, who is responsible for communicating with the complainant and for providing a final response on the outcome of the complaint. The use of specialised external parties must not weaken the function of the complaint as an instrument of protection for the policyholder and an indicator of criticality in the intermediary's activities and its relationship with the customers, which is useful for identifying corrective measures.

## 5.3. - Complaints received by insurance undertakings

In 2019, the Italian and foreign insurance undertakings operating in Italy received 91,631 complaints, with a -5.8% decrease compared to the previous year. 80,822 complaints were filed with Italian undertakings (-2.8%), whilst EU undertakings received 10,809 complaints (-23.4%).

The sector receiving most complaints was compulsory MTPL insurance: the weight of this sector, although reducing by -9.1% compared to the previous year, accounts for 45.5%, of the total (50% in 2018). 82.9% of complaints (83.7% in 2018) pertains to the whole non-life sector, while the weight of life business (17.1%) increased compared to the previous year (16.3%).

As regards the Italian undertakings alone, 48% of complaints relates to MTPL insurance, down by -6.6% compared to 2018, with a limited increase in the other non-life classes (+0.8%) and in life business (+1.4%).

If we consider the complaints received by foreign undertakings, those relating to non-life business other than MTPL account for 51.9% (50.6% in the previous year), while those relating to MTPL for 26.7% (it was 30.7%). Life business increased by nearly three percentage points compared to the previous year (from 18.7% to 21.4%).

Table V.6

Complaints of undertakings operating in Italy: distribution by sector (year 2019)							
	Italian undertakings	Foreign undertakings	Total complaints	% Total	Total % change 2019 / 2018		
MTPL	38,821	2,881	41,702	45.5	-9.1		
Other non-life classes	28,636	5,611	34,247	37.4	-3.7		
Total Non-life	67,457	8,492	75,949	82.9	-6.8		
Life	13,365	2,317	15,682	17.1	-0.9		
Total	80,822	10,809	91,631	100.0	-5.8		

As to the outcome, 29.7% of complaints were upheld, 10.2% were settled and 55.4% were rejected (in 2018 they were respectively 28.6%, 10.4% and 56.4%). As at 31 December 2019 4.7% of the complaints received during the year was still undergoing investigation.

The average response time to complainants by insurance undertakings was 21 days (22 in 2018), well below the 45 days envisaged by ISVAP Regulation 24/2008.

Table V.7

Complai	Complaints of undertakings operating in Italy: distribution by sector (2016*-2019)								
Year	MTPL	Other non-life classes	Total Life non-life		Total				
2016	55,618	39,983	95,601	24,834	120,435				
2017	49,896	34,694	84,590	19,384	103,974				
2018	45,896	35,561	81,457	15,822	97,279				
2019	41,702	34,247	75,949	15,682	91,631				
Var. 2018/2017	-8.0%	2.5%	-3.7%	-18.4%	-6.4%				
Var. 2019/2018	-9.1%	-3.7%	-6.8%	-0.9%	-5.8%				

<sup>\*</sup> For EU undertakings, data is available from 2016 onwards.

#### 5.3.1. - Publication on the IVASS website of data on complaints received by undertakings

The half-yearly publication on the IVASS website of data on complaints received by insurance undertakings continues to produce positive effects for consumers, steering them towards a more informed and unbiased choice of the operators who can better respond to their insurance needs.

The publication of data also continues to have a knock-on effect on businesses, inducing undertakings to comparing their results with competitors and adopting initiatives to improve the processes and quality of the service offered to consumers, encouraging measures to remove the root causes of complaints.

#### 5.4. - Measures on the undertakings arising from complaints

In 2019, 13 letters to resolve the root causes of complaints were issued and 6 meetings were called with officers of insurance undertakings to discuss the reasons underlying the difficulties reported by customers, assess the corrective measures planned or implemented by the undertakings or follow up on the results of actions already adopted.

Two in-depth thematic studies focused on particularly sensitive issues relating to the health sector and the marketing of counterfeit policies in the suretyship sector.

Three corrective measures were arranged vis-à-vis Italian and EU operators in cases of anomalies in the conduct of the undertakings and their distribution network. Where necessary, the home supervisory authority was involved for EU undertakings.

Problems arising from complaints are brought to the attention of the company units concerned, which are asked to put in place the necessary controls on the parties and processes involved, including the distribution chain, call centres and settlement structures, in order to identify critical areas and adopt appropriate measures, increasing the level of awareness and encouraging a process of self-correction.

#### 5.4.1. - Problems in the life segment

In 2019, supervisory action continued vis-à-vis an undertaking in relation to problems connected with life policy transformation operations. Analyses and simulations have been carried out on the operations in question performed by the undertaking over the last ten years and the adoption of an action plan to protect policyholders has been requested.

One supervisory measure involved an undertaking that placed life policies with a high financial component in a non-transparent manner, with investment risks borne by the policyholder. The policies had been taken out with customers who had expressed mainly insurance needs and the need to protect the sums paid out; policyholders complained of a lack of information on the purpose and long duration of the contract and the significant penalties in the event of early termination. The undertaking was made aware of the need to adopt initiatives aimed at restoring the interests originally expressed by the policyholder and promoting more effective controls on the distribution network, in order to prevent a repetition of similar behaviour.

An in-depth discussion with an undertaking has furthered virtuous conduct aimed at the best interest of customers, in relation to policies placed at the end of the 1990s that envisaged, with reference to a non-life component, a revaluation of the annual premium not adequately indicated by the intermediary at the time of sale. Also due to the lack of clear annual information on the policy's performance, customers were dissatisfied with the fact that, when the policy matured, the sums paid out were lower than expected. The undertaking was asked to review the contractual positions and provide more accurate information to customers to limit the reasons for dissatisfaction. The Institute's requests were accepted.

The Institute once again intervened vis-à-vis an undertaking and its intermediary in relation to anomalies found in the intermediary's IT system, which had been the subject matter of previous measures: the malfunctioning of an algorithm had led to the sale of products to people who could not be insured due to their age. The undertaking and the intermediary complied with the Institute's requests by reviewing the planned action and implementing more effective remedial solutions, with a view to protecting the consumer.

#### 5.4.2. - Problems in the non-life segment

The investigation into health policies, launched by the Institute in 2018, continued in order to provide consumers with maximum protection in a particularly sensitive area such as health. The analysis focused mainly on the contractual conditions relating to agreements between supplementary health Funds and insurance undertakings.

With regard to the products offered by the three most representative insurance undertakings, the reasons for the dissatisfaction of policyholders and members of health policies and the most

frequent causes of complaints were investigated. In particular, data was acquired on three collective policies that are significant in terms of number of parties insured, with an indication of the percentage relevance on the premium portfolio, the number of claims reported and the complaints handled.

The result was supervisory action on a leading operator for which there was a significant increase in the number of complaints, with particular reference to the management of a health fund to which millions of policyholders belong. The main critical issues, concerning the lack of compensation due to the lack of contractual clarity on the sphere of operation of the coverage were also reported by consumers through social networks and Associations. The Institute immediately directed requests to the undertaking to raise prompt awareness of the problems reported, initiating discussions with the undertaking, with representatives of the health Fund and the external claims management company on behalf of the undertaking, which led to a request for intervention on contracts with a view to transparency and simplification, a review of critical settlement processes and related policies, as well as the adoption of remedial action for the future and for pending claims. Following an inspection of the undertaking and the provider, completed in early 2020, the insurance undertaking submitted an Action Plan with initiatives aimed at improving the corporate organisation, relations with policyholders and the monitoring of outsourced claims management services. The corrective measures are closely monitored by the Institute to verify the effectiveness of the solutions in terms of overcoming the inefficiencies complained of by policyholders.

Again on the subject of health insurance, dialogue continued with Consumer Associations and the health sector (doctors, private health facilities, dentists) aimed at overcoming problems in dealings between patients, doctors, facilities, insurance undertakings and health Funds. Among these, it is worth noting the delay in the payment of invoices issued by health facilities or doctors affiliated to insurance undertakings for treatment provided to policyholders under direct assistance. This delay could be important for the protection of the rights of the policyholders, should the healthcare services authorised under direct assistance be limited or refused by the healthcare facilities, as a result of the delays accumulated by the undertakings in the payment of the amounts they are due.

In relation to the complaints received by the Institute on the MTPL settlement processes, an inspection has been initiated against one undertaking, with a consequent request for a remedial plan, while measures have been taken against another market leader to resolve problems connected with the incorrect use of the anti-fraud tool.

With regard to the countering of the marketing of fake suretyship policies, the Institute began discussions with an undertaking that is particularly active in the field of insurance suretyship, following sales of contracts that turned out to be fake using forged policy printouts. In-depth studies were carried out on the prevention actions taken by the undertaking and the measures adopted to protect the consumer.

Corrective action was taken against an undertaking regarding the marketing of policies to cover home risks in conjunction with the supply of domestic utilities. The number of complaints and their content have highlighted a lack of awareness on the part of contracting parties regarding the simultaneous stipulation of the contract for the supply of utilities and insurance coverage,

with payment of the premium included in the bill. The transaction, which was entirely optional, took on the character of automatism, not in line with the rules of correctness and transparency vis-à-vis users.

The examination of complaints has led to targeted action being taken against undertakings operating in the professional liability policy sector, in order to guarantee, first and foremost, correct, scrupulous and as timely as possible management of the claim, ensuring ample protection also for third parties with respect to the contract entered into between the professional and the insurance undertaking, interested in adequate compensation protection. Undertakings were asked to intervene promptly upon receipt of the claim, in order to carry out all preliminary investigation activities; thus also in cases where liability is contested, so as to achieve a complete reconstruction of the claim and avoid unjustified denials, with a consequent increase in litigation. The need has been reiterated that, in compliance with the general principles of fairness and transparency towards policyholders and injured parties, any denial of compensation must always be justified and supported by appraisals and documentary evidence.

## 5.5. - Reports to AGCM on unfair contract terms

Following a report from the Consumer Associations, discussions continued with AGCM in relation to the need to verify the unfair nature of certain clauses on the assignment of claims in motor contracts (TPL and other risks).

During the year, the contractual conditions of a product with CVT coverage (land vehicles: comprehensive insurance and vandalism) were brought to AGCM's attention, as it had clauses for compensation in a specific form (repair at approved body shops) with possible unfair profiles. The analysis was also extended to the car glass coverage, which envisages a penalty mechanism in the event of non-compliance with contractual terms, with negative consequences for the policyholder.

#### 5.6. - The Contact center

As from September 2019, with the new organisational structure of IVASS, the Contact Centre services benefiting consumers and intermediaries were unified under the coordination and direction of the Consumer Protection Service (previously, support for intermediaries was provided by another Service of the Institute).

Since December 2019, the service has been enhanced in terms of resources and user interface solutions.

The telephone assistance service dedicated to consumers continues to represent an important means of support for citizens, offering insurance guidance and a useful aid to IVASS for rapidly intercepting problems requiring supervisory action.

Equally important is the telephone service for intermediaries, which provides assistance to more than 240 thousand intermediaries registered in the Single Register of Intermediaries and the Annexed List. It is a valid tool for providing information and support to operators in the handling of administrative problems in the multiple requirements envisaged by sector regulations.

In 2019, 54,987 telephone calls reached the Contact Centre, 28,340 from consumers and 26,647 from intermediaries, for an average of 4,582 calls per month and 217 per day.

The 31,702 calls received from consumers are down by -3.6% compared to 2018. 90% of the calls were dealt with, for an average of 112 calls per day (130 in 2018) and an average operator response time of 1.48 minutes.

Table V.8

Data on the activities of the IVASS Consumer Contact Centre – 2019					
	(units and % values)				
Total calls received	31,702				
Total calls dealt with	28,340				
% received/ dealt with	89.4%				
Calls dealt with on average per month	2,362				
Calls dealt with on average per day	112				
Average waiting time (minutes)	1:48				
Average duration of telephone conversation (minute	s) 4:00				

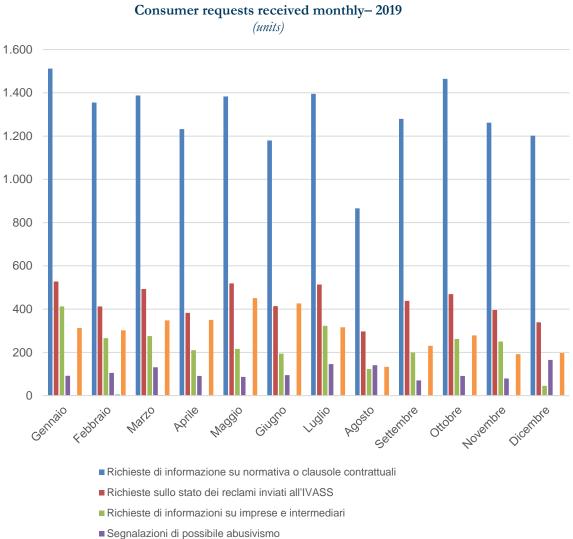
Table V.9

Activities of IVASS Consumer Contact Centre							
							(units)
	2013	2014	2015	2016	2017	2018	2019
Calls received	49,926	43,550	44,069	34,873	30,630	32,871	31,702
Calls dealt with	48,027	42,083	35,250	32,808	28,114	29,512	28,340
% dealt with/received	97.4%	96.6%	78.0%	93.9%	96.9%	90.0%	89.4%

Consumer requests for information mainly required clarification of insurance regulations and contractual clauses (55%), particularly for MTPL policies and information on the regular authorisation of insurance undertakings (10%). 18% of the calls concerned requests for information on complaints made to the Institute, while 4% of the calls concerned possible cases of unauthorised pursuit of insurance business.

The above reports also include numerous calls from public and law enforcement bodies to check the authorisation of insurance undertakings in the suretyship and MTPL classes. These requests allowed the prompt interception of cases of unauthorised operations, irregular websites and marketing of counterfeit policies.

Figure V.3



# 6. - THE INSURANCE ARBITRATOR

Article 187-ter of the CAP envisages an out-of-court redress system for disputes in the insurance sector, similar to that already implemented for the banking (ABF) and financial (ACF) sector. A decree of the MISE, together with the Minister of Justice and on the proposal of IVASS, will determine the criteria for the composition of the decision-making body and the dispute resolution procedures. The funding of the Arbitrator comes from the supervisory contribution paid by insurance undertakings and intermediaries in accordance with Articles 335 and 336 of the CAP.

Segnalazioni di comportamenti scorretti di imprese e intermediari

Altro (tra cui telefonate interrotte perché cade la linea durante la conversazione)

The launch of the Insurance Arbitrator is involving the Institute in a structured range of fulfilments, in the knowledge that its implementation is a strategic priority, due to the positive

implications for insurance customers, who will be provided with an additional tool to protect their rights and with a desirable deflating effect on the judicial litigation, reinforcing consumer confidence in the insurance system with a view to solidity and stability.

The following activities have been put in place to launch the Arbitrator:

- organisational activities, including the provision of operational units in the new Consumer Protection Service for the tasks of Technical Secretariat, with the necessary logistical and human resources. The recruitment procedure for the staff to be assigned to the Secretariat has been completed and the premises where staff can be allocated have been identified, while a suitable location for the needs of the new structure is currently being searched;
- IT, with work on setting up an IT system and a website for easy interaction between the Insurance Arbitrator and claimants, undertakings and intermediaries. On the basis of many years of experience in the handling of consumer complaints, with the collaboration of the Bank of Italy, the technological infrastructure in use at the Banking and Financial Arbitrator (ABF) will be adapted to the needs of the newly established Insurance Arbitrator. The peculiarities of the insurance sector, from a contractual and distribution standpoint, have been taken into account, with the provision also of *litisconsortio* where justified by the claim, i.e. in cases where the plaintiff lodges an appeal with the Arbitrator against both the insurance undertaking and the intermediary who placed the product. The website dedicated to the Insurance Arbitrator, separate from that of IVASS, will make available to the citizen all the information useful to guide him/her in the process of submitting disputes, allowing the appeal to be uploaded and the procedure to be followed until the publication of the rulings and any fulfilments;
- regulations, managing the discussion with the competent Ministries for the definition of primary regulations, in parallel with the drafting of detailed secondary regulations.
   The regulations must ensure that out-of-court dispute resolution techniques are in line with the specific nature of the insurance sector as regards the types of disputes that can be appealed and the structure of the distribution system.

#### 7. - SUPERVISION OF INSURANCE DISTRIBUTION

#### 7.1. - Preventive supervision actions

Consumer protection is at the centre of IVASS' institutional mission. Accordingly, also in 2019, in view of the European regulatory framework outlined by the IDD Directive, the Institute continued to strengthen its analysis tools and develop lines of action aimed at monitoring, also in advance, the risks associated with the offer of insurance products and their distribution, including through non-traditional channels.

In addition to a traditional line of supervision <sup>141</sup>, IVASS is also developing a model of preventive supervision and mitigation of market conduct risks. In this context, initiatives are being taken to promptly intercept possible critical issues in operators' distribution models and to direct conduct towards the best practices required by the IDD framework.

Among the main initiatives in 2019, in addition to the cycle of meetings with the Trade associations of the insurance intermediaries:

- the analysis of the reports on the control of distribution networks<sup>142</sup> provided interesting ideas for supervisory measures by IVASS, aimed at improving the structure of controls on the distribution network. Also in light of the IDD, it is increasingly important to assess the ability of insurance undertakings, both domestic and foreign, to implement policies and procedures suitable for the organisation, management and control of distribution networks and to implement continuous monitoring action on distribution channels for the placement of products on the domestic market, in order to promptly identify possible risks deriving from anomalous conduct, detecting irregular behaviour and removing its effects, through action to mitigate the misconduct risks of the distributors;
- the results of the analysis and further feedback requested from insurance undertakings will be used for the preparatory work of the IVASS Order that will regulate the contents of the aforementioned reports, replacing the now obsolete ISVAP Order No. 2743/2009; the acquisition of quantitative data on the activities of each intermediary, also with reference to non-life classes. In order to plan the supervisory activities on the conduct of insurance intermediaries, according to a quantitative risk-based approach, IVASS has also extended the request for information on the insurance business (policies and premiums) carried out in Italy with detailed evidence of the distributor used, to undertakings operating in Italy in the non-life classes, both Italian and foreign. Undertakings were asked to provide information on the non-life premiums referring to each intermediary, with particular emphasis on premiums in the MTPL, general liability and suretyship, sectors considered particularly sensitive for the Italian market. This request is in addition to that which has already been made with reference to the life business and used until now for combating money laundering and terrorist financing;
- the clarifications on the questions received from operators allow IVASS to strengthen its action for preventing non-compliant conduct and directing operators towards market best practices. In 2019, many requests for opinions concerned the application of IVASS Regulation No. 40 of 2 August 2018 and, in particular:
  - o separate accounts and methods for premium payment (e.g. via PayPal);

<sup>&</sup>lt;sup>141</sup> These are the activities launched following external reports from consumers, undertakings, intermediaries, Consap, the police and other authorities, and consist of targeted initiatives towards individual operators (interventions, also of a sanctioning nature), contributions in favour of regulatory measures, and the issuing of opinions on issues of interest to intermediaries and consumers.

<sup>&</sup>lt;sup>142</sup> Drawn up by the undertakings in accordance with Article 46 of IVASS Regulation No. 40/2018.

- the appointment of the person responsible for the insurance distribution of banks or those enrolled in section D of the RUI outside or inside the undertaking and the accumulation of offices;
- o information to be provided to the public about the intermediary and its employees;
- the intermediary on an ancillary basis, the registration procedures and pre-contractual information obligations, even in case of exemption;
- o training and professional updating of intermediaries (periodic updates, or in the case of re-registration, completion of professional updating and consequences in case of non-compliance, requirements of the training parties, refresher training to collaborators in case of multiple assignments or horizontal collaborations pursuant to Article 22 of Law No. 221/2012).

In view of the relevance of the queries and the interest to all operators in the sector, the Institute has published a specific section of FAQs on its web site, updated continually with new questions and the related answers.

## 7.2. - Inspections

The high number and heterogeneity of forms for exercising insurance distribution activities (natural or legal person, single or multi-mandate, independent broker, "horizontal" forms of collaboration, wholesale or retail distributor, etc.) do not normally allow the direct acquisition of data and information from supervised parties and their processing for the purposes of planning inspections on insurance intermediaries.

At the moment, the main sources of data, news and information functional for the elaboration of inspection proposals for intermediaries and their collaborators come from sources outside the Institute, such as consumer complaints and reports of operational and management problems and anomalies and profiles of non-compliant conduct, communications transmitted by the Judicial Authorities or Police force, reports transmitted by other Supervisory Authorities (including OAM, Bank of Italy and CONSOB) or by Consap.

This flow of information is not foreseeable and involves the need for the Institute to assess the relevance of the facts as a whole and to identify possible supervisory tools, including the possibility of carrying out on-site inspections in the presence of certain conditions and specific circumstances, in relation to the degree of priority.

The definition of the priority of intervention considers information such as: source of the report; type of irregular conduct and its relevance, in terms of possible prejudice to consumers; size of the intermediary in terms of turnover and organisational model, for example, by number of employees; frequency and number of reports and complaints received by the Institute; distribution model and predominant portfolio; shareholdings and other close links and suspected situations of conflict of interest; presence of supervisory precedents.

In 2019, 11 intermediaries were identified in relation to which to propose the execution of inspections: seven with high priority, two with medium priority, two with low priority.

The on-site inspections concerned specific aspects of the distribution model, the way the products are offered, also in combination with other credit or financial products, the adequacy of the contracts offered, suspected situations of conflict of interest, the management and control of the sales networks, including the methods and criteria for quantifying remuneration and its disclosure to clients.

The results of the inspections confirmed the appropriateness of the on-site measure. In some cases, in parallel with the initiation of sanctioning procedures, the Institute has activated off-site supervisory initiatives with requests to intermediaries to adopt redress plans to mitigate and remove the criticalities detected.

In some cases, after completing the inspection, the Institute launched follow-up initiatives with the summons of company representatives or requests for periodic information reports, in order to verify the effective implementation of remedial action by those inspected and the appropriateness of the solutions identified by them in order to bring their conduct in full compliance with the general rules of conduct.

## 7.3. - Supervisory actions resulting from reports

In 2019, 732 reports of possible misconduct by intermediaries or cases of abuse were received from consumers, insurance undertakings, the police and other parties, down -36% compared to 995 in 2018.

The lawful revocations of agency mandates, communicated by insurance undertakings, decreased (45 compared to 56 in 2018).

Table V.10

	Reports received by type of intermediary							
	(units)							
Intermediary	2019	%	2018	%				
Agents (sect. A)	177	24.1	264	26.6				
Brokers (sect.B)	109	14.9	162	16.3				
Canvassers (sect. C)	-	-	1	-				
Banks/other (sect. D)	42	5.7	64	6.4				
Collaborators (sect. E)	233	31.8	358	36.0				
Unauthorised/not registered	161	22.1	131	13.2				
Other operators	10	1.4	15	1.5				
Total	732	100.0	995	100.0				

There was an increase in the number of reports of unauthorised subjects (mainly irregular websites) and a decrease in those referring to intermediaries registered with the RUI.

The reports gave rise to supervisory measures gauged according to the seriousness and nature of the irregularities detected:

- for numerous cases of misselling by two complex networks, made up of numerous resources with high turnover and inappropriate economic incentive systems, the intermediary was required to take important remedial action, including a review of remuneration policies, training and client profiling procedures and assessment of the suitability of the contracts offered, rewriting the questionnaires used and reviewing, where appropriate, the contracts proposed or sold. At the same time, the letters of formal notice were sent;
- inspections were carried out on a number of brokers who marketed MTPL products and suretyship products of foreign undertakings, which revealed significant critical issues, to the detriment of policyholders and beneficiaries;
- 174 sanction proceedings were initiated, a sharp reduction compared to the previous two-year period (254 in 2018, 357 in 2017). Of these, 146 relate to violations committed before 1 October 2018 date of enforcement of IDD (43 pecuniary sanctioning proceedings and 103 disciplinary proceedings). The remaining 28 proceedings relate to offences detected in application of the single pecuniary/disciplinary procedure envisaged by IVASS Regulation No. 39/2018;
- the off-site supervisory measures concerned the undertaking's organisation and sales processes, in order to promote the adoption of correct distribution practices, by strengthening controls on conduct and paying greater attention to the quality of intermediaries' training courses;
- for some cases of underwriting anomalies in MTPL and extraordinary transactions on life
  policies to the detriment of consumers, the principal undertakings have been requested to
  carry out *ad hoc* checks on distributors;
- in the event of conduct that does not fully comply with legal and regulatory requirements but is in any case of minor importance, notes were sent to recommend compliance with the general rules of conduct in the offer of insurance contracts.

## 7.4. - Main types of violation and measures adopted

The forms of irregular conduct occurring most frequently relate to the non compliance with the rules of conduct envisaged by article 117 et seq. of the CAP and concern, in particular, the obligation to keep segregate assets, the terms for premium collection and transfer to the principal undertakings, the delivery of precontractual and contractual information, adequacy assessment, transparency of the remuneration received and conflicts of interests.

There are still frequent cases of omitted or late notification to IVASS by intermediaries enrolled in sections A, B and D of the RUI of the information necessary to update the Register, including changes in the information provided at the time of registration, particularly with regard

to the place of business, residence and PEC, and terminations of collaboration with the intermediaries they use, enrolled in section E of the RUI.

These fulfilments are fundamental for the correct keeping of the Register, in terms of disclosure and completeness of the data made available to the public regarding the parties authorised to carry out insurance distribution activities, and therefore many measures have been adopted with regard to intermediaries, who are reminded of the precise observance of the communication obligations.

Confirmed among the violations of the obligation to keep segregate assets were:

- failure to deposit the premiums collected by the intermediaries in the separate account, connected in
  most cases to failure to register the collected premiums, or to the undue offsetting of the amounts of
  the premiums to be remitted to the principals against the commission due;
- use of prepaid cards to receive premium payments from policyholders;
- recourse to current accounts that do not meet the segregation requirements to receive the premiums paid by policyholders.

The misappropriation of premiums has sometimes been accompanied by the deduction of sums paid to the policyholder by the undertaking when life policies expire or following surrenders, even fictitiously requested, facilitated by the policyholder's domiciliation at the intermediary.

Sanction proceedings were initiated as a consequence of such conduct.

There have also been cases of anomalous underwriting of MTPL contracts on the basis of forged documents or with the indication of data that does not correspond to the real data, as well as reports by Police Authorities of vehicles circulating without insurance coverage, without the knowledge of the driver who had paid the premium. The Institute intervened on the intermediaries and the principal undertakings, requesting the control function of the undertakings to increase controls to guarantee the correct issue of the policies.

Supervisory measures have been stepped up to ensure that intermediaries supplement the contents of websites and pages on social networks lacking the requirements and information envisaged by Article 79 of IVASS Regulation No. 40/2018.

Misselling cases and conflicts of interest in distribution networks acting in the dual role of insurance intermediaries and credit brokers have been detected, resulting in the request for excessively onerous fees for services and advice offered when offering Payment Protection Insurance solutions.

Although the legal and regulatory framework introduced by the IDD entered fully into force, there are still cases of violation of the obligations of precontractual information and assessment of the adequacy of the contracts, especially in proposing policies replacing or transforming previous contracts concluded with the same or with another undertaking, with the absence of correct information on the new product and on any penalties applying to customers as a result of the replacement. The phenomenon was noted mainly in unit-linked and index-linked life products offered by second level intermediaries, acting as collaborators of agencies provided with a sizeable customer portfolio and with a broad distribution network.

Sanction proceedings were initiated as a consequence of such conduct.

#### 8. - CONTRASTING UNAUTHORISED PURSUIT OF BUSINESS

## 8.1. - Contrasting unauthorised operators - fake websites

Among the risks associated with the spread of new technologies and remote communication systems is the particularly insidious one for consumers, linked to Internet fraud.

The insurance sector is not immune to cyber fraud, carried out by people who, using well-packaged websites that can apparently be traced back to agents or brokers, offer consumers fake policies, mainly MTPL policies, at apparently convenient prices.

This is the phenomenon of fake or ghost insurance websites, which, in addition to fraud, has serious consequences for victims who, deceived by attractive savings prospects, find themselves without insurance coverage and exposed to the risk of paying the damage caused, incurring fines, vehicle seizure and suspension of their driving licence.

In 2019, IVASS Consumer Contact Centre recorded a significant increase in the number of reports on the phenomenon, in many cases not from defrauded customers but from people who had not yet fallen victim to the scam and who, suspicious of the way in which they were in contact with self-styled insurers, contacted the Institute in advance.

IVASS has adopted a strategy that focuses on two clear objectives: intercepting irregular situations and ensuring continuous and timely communication to consumers (the summary list of these websites<sup>143</sup> is constantly updated on the IVASS website), but also promoting initiatives to prevent and crack down on the phenomenon of fake websites. Particularly important for these purposes is the work of informing public opinion carried out by the media, which has paid attention to the problem and in this way has made a decisive contribution to making citizens more aware of the risk.

Preventive investigation tools led in 2019 to the reporting of 168 irregular websites, an increase compared to the 103 sites identified in 2018 and 50 in 2017. In 90% of cases, the web sites were taken offline as a result of the Institute's action.

In view of the criminal conduct that characterises the phenomenon, ranging from fraud (advertising and trading of counterfeit policies) to unauthorised pursuit of insurance mediation, theft of the identity of insurance intermediaries duly registered and operating, and forgery of documents, IVASS has implemented forms of close cooperation with the Judicial Authorities and investigative bodies.

In July 2019, the Fake Insurance operation carried out by the Public Prosecutor's Office of the Court of Milan led to the identification and seizure of more than 220 irregular websites and the identification of about 50 people responsible for criminal conduct in various ways. In early 2020, IVASS provided the investigating authorities with a further list of over 130 fake websites and continues to update the list on the basis of the reports received.

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<sup>143</sup> www.ivass.it/consumatori/proteggi/ELENCO SITI WEB DI INTERMEDIAZIONE ASSICURATIVA IRREGO-LARL.pdf.

IVASS has continued to raise awareness among the main Italian providers of web hosting services to adopt measures to verify in advance the actual identity and possession of the qualification requirements for persons requesting the assignment of an internet domain. Fruitful contacts have been established with the anti-fraud units of the insurance undertakings and intermediaries affected by the phenomenon in order to promptly intercept fake websites and mitigate negative reputational impacts for operators.

IVASS has published a handbook<sup>144</sup> and a video clip<sup>145</sup> for consumers with advice on how to avoid fraud, also using social and mass media.

## 8.2. - Cases of policy forgery

In 2019, ten cases of forged policies were detected, thanks to reports by consumers or by the insurance undertakings themselves, in relation to which IVASS published ten notices on the website. The phenomenon mainly concerned suretyship policies (see box in V.3.3).

Half of the cases concerned policies (four suretyship policies and one MTPL policy) in the name of undertakings authorised to carry out insurance business in Italy from other member States, which denied that the policies were attributable to them. In one of these, the undertaking, although authorised to carry out insurance business in Italy in the suretyship class, was in fact not operational.

In the other five cases, the policies (four collective policies combined with loans and one suretyship policy) were in the name of undertakings that were not authorised or not qualified to carry out insurance business in Italy, but which reproduced, with some changes, the names of duly authorised or licensed undertakings, which have always excluded any relationship with these companies.

#### 9. - MANAGEMENT OF THE SINGLE REGISTER OF INTERMEDIARIES

At the end of 2019, 239,204 parties were registered in the Single Register of Intermediaries (RUI), including 6,407 foreign intermediaries registered in the enclosed List (at the end of 2018 they were 235,065 and 8,328 respectively).

Table V.11

	Number of in	ntermediarie	s registered	in the sectio	ns of the RU	II since 2013	
Sections	2013	2014	2015	2016	2017	2018	2019
Α	35,942	35,048	34,416	29,831	28,713	27,979	27,441
В	5,285	5,573	5,752	5,723	5,564	5,710	5,735
С	8,563	7,252	6,121	5,115	4,359	3,669	3,246
D	653	642	611	563	496	467	452
Е	193,056	195,720	197,788	195,365	189,544	197,240	195,923
Enclosed list	8,022	7,833	7,914	8,053	8,211	8,328	6,407
Total	251,521	252,068	252,602	244,650	236,887	243,393	239,204

<sup>144</sup> https://www.ivass.it/media/newsletter/documenti/Siti\_irregolari\_situazione\_marzo\_2020.pdf.

<sup>145</sup> https://www.youtube.com/watch?v=9izD8L-IKbY.

The breakdown by gender for natural persons included under sections A or B at end 2019 is shown in Table V.12.

Table V.12

Breakdown by gender and age group of natural persons included under sections A or B of the Register								
		Male		Female	Total			
Age group	Num- ber	% over total M+F	Num- ber	% over total M+F	Number			
Up to 40 years	1,501	6.6%	655	2.9%	2,156			
From 41 to 55	8,448	37.2%	2,647	11.7%	11,09 5			
From 56 to 65	5,469	24.1%	1,249	5.5%	6,718			
Over 65	2,322	10.2%	429	1.9%	2,751			
Total	17,74 0	78.1%	4,980	21.9%	22,72 0			
% subjects registered in Sect. A and B	53.5 %		15.0 %		68.5 %			

Table V.13 shows the distributed throughout Italy of agents and brokers registered in the RUI, with reference to the residence of individuals and the registered office of the companies.

Table V.13

Distribution across the national territory of agents and brokers registered in the RUI										
		·	·		(ι	ınits and % values)				
Region	Agents	% over total agents	Brokers	% over total brokers	Agents and bro- kers per 10,000 inhabitants*	Agents and bro- kers per billion euro of GDP**				
Valle D'Aosta	77	0.28	10	0.17	6.9	17.7				
Piemonte	2,524	9.22	422	7.38	6.8	21.4				
Liguria	911	3.33	305	5.34	7.8	24.3				
Lombardy	5,100	18.63	1,347	23.57	6.4	16.5				
Nord Ovest	8,612	31.46	2,084	36.47	6.6	18.4				
Veneto	2,480	9.06	419	7.33	5.9	17.8				
Trentino-Alto Adige	550	2.01	89	1.56	6.0	14.0				
Friuli-Venezia Giulia	590	2.16	121	2.12	5.9	18.6				
Emilia Romagna	2,087	7.62	305	5.34	5.4	14.8				
Nord Est	5,707	20.85	934	16.34	5.7	16.3				
Tuscany	2,091	7.64	341	5.97	6.5	20.7				
Marche	745	2.72	80	1.40	5.4	19.2				
Umbria	503	1.84	66	1.15	6.5	25.5				
Latium	2,606	9.52	951	16.64	6.1	18.0				
Centre	5,945	21.72	1,438	25.16	6.1	19.4				
Abruzzo	674	2.46	70	1.22	5.7	22.1				
Molise	144	0.53	18	0.31	5.3	25.5				
Campania	1,467	5.36	547	9.57	3.5	18.6				
Basilicata	270	0.99	28	0.49	5.3	24.1				
Puglia	1,432	5.23	190	3.32	4.0	21.5				

Distributio	Distribution across the national territory of agents and brokers registered in the RUI										
					(L	ınits and % values)					
		%		%	Agents and bro-	Agents and bro-					
Region	Agents	over total agents	Brokers	over total brokers	kers per 10,000 inhabitants*	kers per billion euro of GDP**					
Calabria	769	2.81	57	1.00	4.2	24.9					
South	4,756	17.37	910	15.92	4.1	21.1					
Sicily	1,706	6.23	288	5.04	4.0	22.5					
Sardinia	649	2.37	61	1.07	4.3	20.6					
Islands	2,355	8.60	349	6.11	4.1	22.0					
Total for Italy	27,375	100.00	5,715	100.00	5.5	18.7					

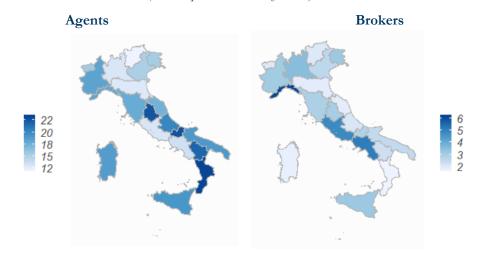
<sup>\*</sup>Source: ISTAT, Population resident in Italy on 1 January 2019. – \*\*Source:: ISTAT, GDP production side 2018, January 2020.

The region with the greatest presence of agents and brokers is confirmed to be Lombardy, followed by Lazio, Piedmont, Veneto, Tuscany and Emilia Romagna. Fig. V.4 shows the distribution by Italian region of the number of intermediaries as a ratio of GDP, with the distinction between agents and brokers.

Figure V.4

Distribution across the national territory of agents and brokers registered in the RUI– 2019

(number per billion euro of GDP)



<sup>\*</sup>Source: ISTAT, GDP production side 2018, January 2020.

Almost all (over 98%) the intermediaries with a European passport operate in Italy under the freedom to provide services. 25% of these intermediaries come from the United Kingdom, 22% from Austria, 12% from Luxembourg, 10% from France and 9% from Germany.

## 9.1. - Investigations handled

As part of the management of the Single Register of insurance intermediaries, in 2019 105,189 applications for registration, variation and removal were processed, with an average processing time of two days, an improvement on the three days of 2018.

Management is largely digitalised: applications are sent by e-mail by filling in and digitally signing a form available on the IVASS website; for the Institute's communications with intermediaries entered in sections A, B and D of the Register, certified electronic mail is used almost exclusively.

Table V.14 shows the changes of the RUI, incoming and outgoing, broken down by type of investigation completed in 2019.

Table V.14

Proc	eedings co	mpleted in	2019 by ty	pe of inves	tigation		
							(units)
	Sect. A	Sect. B	Sect. C	Sect. D	Sect. E	Enclo- sed List	Total
Registrations*	423	175	4271	10	38,858	368	44,105
Removals**	968	381		28	15,184	270	16,831
Reinstatements	107	96	254	2			459
Moving from one section to another	532	121	1,410		531		2,594
Extension of business abroad	78	536		1			615
Measures for the activation of operations or inactivity	13,680	2,510		14			16,204
Annotations on the register by effect of disciplinary proceedings	53	51			110		214
Changes in personal data	18,980	2,955	1	1,268	936	27	24,167
Total	34,821	6,825	5,936	1,323	55,619	665	105,189

<sup>\*</sup> The investigations for section E registration include the starts and terminations of collaboration agreements. For each investigation, 6 changes in registrations are made on average, for a total number of interested parties exceeding 200 thousand in the year. - \*\* Investigations for removal from section E determine the deletion of registered intermediaries in the following cases: termination of the last collaboration agreement, loss of registration requirements, striking off from the Register.

#### 9.2. - Automatic updating of the RUI

Automatic registration of inactivity was arranged for 324 intermediaries registered in Sect. A (126 individuals and 198 companies) which were not in possession of individual distribution agreements or were not responsible for the mediation of companies registered in Section A with at least one active mandate.

Pending the new application for the management of the Register, the data to be collected following the implementation of the IDD<sup>146</sup> Directive is published weekly on the IVASS website.

Monitoring continued of the positions of registered parties who fail to comply with the obligation to pay the supervisory fee or have been inactive for over three years, and the appropriate measures were adopted. A massive cancellation procedure has been initiated for 193 intermediaries not operating for more than three years registered in Section A (Agents) and 49 in Section B (Brokers).

RUI update activity, in collaboration with Consap, was extended to the management of the numerous positions non-compliant with the obligation of payment of the contribution to the broker fund (managed by Consap).

A total of 794 checks have been carried out on the possession of the self-declaration registration requirements (591 in 2018), with random checks on compliance with the requirements of good repute, training, and the taking out of the professional liability policy, pursuant to Article 71 of Italian Presidential Decree No. 445 of 28 December 2000 and Article 35 of IVASS Regulation No. 40/2018.

## 9.3. - Ancillary intermediaries

The figure of the ancillary intermediary was introduced into Italian law with the implementation of the IDD Directive. Pursuant to Article 1.cc-*septies* of the CAP, the ancillary intermediary mainly carries out an activity other than insurance distribution (e.g. car dealerships), distributes only insurance products that are complementary to a good or service, with the exclusion of life insurance and third party liability, unless such coverage supplements the good or service that the intermediary provides as part of their main professional activities.

At the end of the first quarter of 2020, the number of ancillary intermediaries on the list published on the Institute's website to supplement the RUI was 7,977 (6,525 individuals and 1,452 legal entities). They work as collaborators of 1,052 intermediaries registered in the various sections of the RUI, in particular banking or financial intermediaries enrolled in section D (59%), agents enrolled in section A (20%) or brokers in section B (13%) or operating in Italy under the European passport regime (8%).

# 9.4. - The new RUI project

The activities of the IVASS and Bank of Italy work group continues in order to adapt the RUI management IT system to the new regulatory environment designed by the IDD Directive,

<sup>&</sup>lt;sup>146</sup> These are data relating to:

<sup>1)</sup> ancillary insurance intermediaries who operate under assignment of another intermediary registered in sections A, B, C or F, as well as the staff of intermediaries registered in Sect. E who work outside the premises of the latter;

<sup>2)</sup> the names of insurance and reinsurance distribution managers of insurance and reinsurance undertakings and intermediaries registered in Sect. D of the Register.

The list of collaborators of foreign intermediaries was published separately until November 2019 and then merged into the RUI.

which requires simplified systems for the management of national registers and the supervision of intermediaries.

A system of direct submission of applications for registration and variation by intermediaries via the Internet will be implemented. The portal will also make it possible to manage new information (e.g. significant shareholdings, close corporate links) through a system of reports and statistics to support the Supervision Directorate in identifying situations that are symptomatic of potential anomalies.

## 9.5. - The qualifying examination for registration in the RUI

The qualifying examination for registration in Sections A and B of the Register - 2018 session - announced through IVASS Order no. 78 of 30 October 2018, was concluded in July 2019.

2,992 candidates participated out of 5,231 admitted, 31% were women. 1,313 passed the examination, equal to 44% of attendees (compared to 33% in the previous session). The pass rate in the last examination sessions sees a continuous increase from the 12% recorded in 2014.

The qualifying examination for the 2019 session was announced through order no. 89 of 9 October 2019, with two important new aspects:

- candidates were required to submit beforehand their applications for admission (from 30 October 2019 to 5 December 2019), to allow the Institute to know the actual number of candidates further in advance and plan the logistics in the most efficient manner;
- the payment of a fee of 70 euro, in accordance with the provisions of art. 336, para.3-bis, of the CAP.

There were 3,853 applications, 93% of which referred to the insurance module and the rest to the reinsurance module; the percentage of applications referring to the combination of the two modules is negligible.

The health emergency has imposed a reflection on the most appropriate way to proceed with the performance of the test.

#### 10. - Insurance Education

The promotion of insurance education forms part of the objectives of the Institute's 2018-2020 Strategic Plan. The dissemination of knowledge and skills in the insurance field is in fact one of the fundamental pillars on which consumer protection is based, as it is able to allow rational and informed choices, based on the ability to understand and compare products and to assess their compliance with actual needs.

The activities carried out on this front have been oriented along two lines of intervention. On the one hand, initiatives have been implemented to involve an increasingly wider range of citizens (young people and adults) in training programmes; on the other hand, traditional and innovative tools have been used to take into account both the complexity of adult training (given the heterogeneity of knowledge and behaviour) and the ongoing digital revolution, which particularly affects young people.

They go in the direction of reaching a wide audience of people, also through the use of innovative approaches:

- the creation of four new tutorials (for a total of seven available) in the form of video clips, which can be consulted online on the Institute's website, intended for the general public and relating to topics obtained from the reports of consumer associations or citizens or emerging in the context of IVASS activities. The initiative was made possible thanks to funds made available by MISE;
- the creation of an interactive quiz, available on the Institute's website, aimed at stimulating understanding of the basic functioning mechanisms of insurance and spreading knowledge of the characteristics of the most common policies;
- the publication of 13 newsletters to raise awareness of IVASS and the activities it carries out (including 3 in early 2020).

In the same direction is the training initiative aimed at the operators of the Consumer Associations to support them in their guidance and information activities on insurance issues, as part of the more general activity of constructive collaboration with the Associations. The initiative was divided into five one-day, monthly meetings, starting in September 2019 and continuing until January 2020.

The need for insurance training for sector managers had been expressed several times by the Associations in their periodic meetings with the Institute, which identified, also based on indications from the Associations, the topics to be dealt with in areas of general interest for consumer protection (the insurance contract, insurance distribution, MTPL contract, damage compensation, third party liability insurance, non-life insurance and life insurance). The meetings were organised by IVASS lecturers, who enriched the discussion of the topics of competence with comments on the operational profiles deriving from their own supervisory experience.

The IVASS project, financed by MISE, for the implementation and administration of an insurance literacy test to a representative sample of the Italian population deserves special

mention in the context of innovative activities. The initiative, whose work has intensified during the year, aims to make up for the absence, even at an international level, of a system for measuring the level of insurance knowledge and skills of the population.

The test is in line with the objectives of the Committee for the Planning and Coordination of Financial Education Activities (EDUFIN, appointed by the MEF) to improve the level of knowledge and financial skills of Italian citizens and to measure the effectiveness of the educational initiatives implemented. The questionnaire aims to capture the insurance skills of Italians, their awareness of insurable risks, their knowledge of the products provided by the market and their ability to find their way around the various solutions offered. The survey also aims to identify the areas of greatest criticality in the various segments of the population. Moreover, by virtue of the cognitive-behavioural and psychometric approach adopted, the initiative also aims to predict insurance behaviour and provide the basis for identifying the most effective strategies for promoting insurance culture. The questionnaire, if repeated periodically, will provide a tool for measuring the results and effectiveness of insurance education action in the future.

Among the traditional initiatives, IVASS continued commitment to the "Experimental project for economic and financial education for schools" set up some time ago by the Bank of Italy in partnership with the MIUR. IVASS representatives participated in six seminars organised by the Bank of Italy in various Italian cities to provide insurance education to school teachers and illustrate introductory materials (guides and issue-specific papers) created by the Institute for students, available from the dedicated portal <a href="https://www.educazioneassicurativa.it">www.educazioneassicurativa.it</a>.

The Institute's activities are consistent and synergic with the national strategy for Financial Education, coordinated by the EDUFIN Committee headed by Prof. Annamaria Lusardi and of which IVASS is a member along with the Bank of Italy, CONSOB, COVIP, CNCU, OCF, MEF, MIUR, MISE and the Ministry for Labour and Social Policy.

The Committee's activities, carried out with the contribution of IVASS, include the second Month dedicated to financial, insurance and social security education (October 2019) with more than 500 information and awareness-raising events aimed at children, students and teachers, adults, women, families and small entrepreneurs (seminars, lessons, workshops, games and free shows). As part of the Month, the "National Insurance Education Day" was introduced, the first edition of which (9 October 2019) saw institutional presentations by the Chairmen of IVASS and ANIA and presentations by academics, consumer representatives and the insurance industry.

Also within the EDUFIN Committee, IVASS contributed to the definition of guidelines for the design and implementation of financial, insurance and social security education initiatives for adults, the updating of the portal <a href="www.quellocheconta.gov.it">www.quellocheconta.gov.it</a> and the development of a self-assessment questionnaire on financial literacy.

In addition to the above activities, there are also those related to the projects that the Institute intends to achieve, for the benefit of the youngest, using new funds set aside by the MISE. The aim is to stimulate a more conscious use of insurance products, using communication techniques close to the millennials, diversifying communication according to the type of consumer (storytelling, interactive quizzes/games, gamification and emotional-graphic techniques, etc.).

#### VI. - SANCTIONS

In May 2019, the institution of enhanced cross-examination was extended to all sanctioning proceedings for which the recipient of the notification participated in the preliminary investigation phase. The only proceedings excluded are those against intermediaries for which the preliminary investigation phase was concluded with a reproach or censure proposal, from the point of view of proportionality and consistency with the principle of effectiveness of administrative action, since they are less severe sanctions.

The enhanced cross-examination allows the recipients to submit further observations on the proposal concluding the preliminary investigation phase to the decision-making body (Joint Directorate or the subjects delegated by the latter). During the year, it was activated in 43 cases (10 disciplinary proceedings and 33 pecuniary proceedings), in the presence of 119 sanction proposals.

The evolution of the IVASS organisational structure in force since 16 September 2019 (see VIII.2.1) also affected the sanctioning process. The new Sanction and Winding up Directorate is responsible for all sanctioning procedures and is in charge of the preliminary investigation of those involving insurance undertakings and, as far as anti-money laundering is concerned, also intermediaries. The Secretariat of the Guarantee Committee, i.e. the body responsible for investigating the remaining proceedings against intermediaries, has been set up at the same Directorate.

The first sanctioning proceedings falling under the regime introduced in the CAP by Legislative Decree No. 68 of 21 May 2018 were initiated, giving a clear start to the reform of the sanctioning system.

Among the new features of the sanctioning system<sup>147</sup> are the proceedings initiated following the unitary assessment of specific violations in a predetermined period of time to which a single sanction corresponds. These include measures for violation of the obligations to report MTPL claims to the Claims Data Base, ascertained every six months and notified in a single act as a result of the amendments referred to in Law No. 124 of 4 August 2017 (the "competition" law), in force for the period from 30 August 2017 to 30 September 2018.

With regard to anti-money laundering, the alternative sanction to the pecuniary sanction, involving a cease and desist order, introduced by Legislative Decree No. 90 of 25 May 2017, was applied for the first time in the presence of violations characterised by low offensiveness or danger. On this occasion, the undertaking was asked to take specific measures to improve its organisational and control structures in order to overcome the causes of the violations and ensure full compliance with anti-money laundering legislation.

The cease and desist order is a measure that can also be applied to other violations and may constitute a useful tool for integrating the supervisory action, as it furthers the adoption of the remedial measures identified for the effective case, with effects that restore correct management,

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 $<sup>^{\</sup>rm 147}$  For more details see the IVASS Annual Report for 2018, chapter VI.

and adjusts the penalty severity in case of failure to comply with the order: in the event of non-compliance with the order, IVASS applies the penalties envisaged by increasing the amount up to one third of that envisaged by the original violation.

For proceedings initiated for pecuniary or disciplinary administrative violations committed up to 30 September 2018, the previous sanctioning rules and procedures of IVASS Regulations No. 1 and 2 of 8 October 2013 continue to apply.

#### 1. - SANCTIONS

Orders imposing sanctions issued by the Institute fell in 2019 by -46.8%. The decrease was seen for both the injunction ordinances (-47.9%) and for dismissals of proceedings (-35.5%). Specifically, 767 ordinances (1,442 in 2018) were issued, comprising 687 injunction ordinances (1,318 in 2018) and 80 dismissals (124 in 2018). The decrease in injunction ordinances is mainly due to the introduction of the consolidated assessment which makes it possible to jointly assess several violations over a pre-established period of time.

The total sanctions imposed amounted to 4.6 million euro (10.4 million euro in 2018), down by -55.8% compared to the previous year.

As for the previous year, most of the sanction proceedings were recorded for violations of rules safeguarding the rights of policyholders and injured parties, particularly due to failure to comply with MTPL provisions.

Sanctions imposed on intermediaries decreased, with 187 ordinances for 1.6 million euro (266 ordinances for 3.4 million euro in 2018).

#### 1.1. - Ordinances issued

Sanctions were imposed on 62 companies and 199 intermediaries.

Table VI.1

Ordinances issued										
			(Number o	of ordina	nces in u	ınits, amou	nts in n	nillion e	uro and % \	values)
	2019			Variat	ion					
	N.	%	Amount	N.	%	Amount	N.	%	Amount	%
Ordinances Injunctions	687	89.6	4.6	1,318	91.4	10.4	-631	-47.9	-5.8	-55.8
Orders to terminate proceedings	80	10.4		124	8.6		-44	-35.5		
<b>Total Ordinances</b>	767	100.0	4.6	1,442	100.0	10.4	-675	-46.8	-5.8	-55.8

Table VI.2

Injunctions in 2019 by recipients			
	(Number of recipients	in units, amounts in millio	on euro and % values)
	Undertakings	Intermediaries	Total
Number of injunctions	500	187	687
%	72.8	27.2	100.0
Amount of ordinances	3.0	1.6	4.6
%	64.9	35.1	100.0

Table VI.3

Appeals against injunctions and comparison		
		(units)
	2019	2018
Injunctions issued	687	1,318
Appeals to TAR or extraordinary appeal to the Head of State	10	15
% over total injunctions	1.4	1.1

Appeals are referred to sanctions against intermediaries (0.9% of the total injunctions) and undertakings (0.1%). For the latter, the highest number of appeals concerned ordinances on violation of obligations relating to the settlement MTPL claims.

# 1.2. - Types of violations found

As in previous years, of the injunctions issued for violations in the MTPL sector, the impact of violations relating to claims settlement remained significant (Table VI.5).

Table VI.4

	Violation of MTPL provisions										
	(Number of ordinances in units, amounts in million euro and % values)										
		2019 2018 Variation									
	N.	% over total or- di- nances	Amount	% over total or- di- nances	N.	Amount	N.	%	Amount	%	
Injunctions	423	61.6	2.4	51.6	901	4.6	-478	-53.1	-2.2	-47.8	

Table VI.5

	Violation of the rules on settlement times for MTPL claims										
	(Number of violations in units, amounts in million euro and % values)										
Ordinances		% motor	%	% mo- %				f which direct compensation direct compensation			
Injunctions	Number	liabil- ity	total	Amount	tor li- abil- ity	total	Number	% total	Amount	% total	
2019	271	64.1	39.4	1.5	62.5	33.0	117	43.2	0.4	26.7	
2018	599	66.5	45.4	3.1	67.4	29.5	267	44.6	0.9	29.0	

In 2019, the injunction orders concerning the settlement of MTPL claims refer to 33 undertakings, decreasing considerably in terms of number and amount.

Table VI.6

	Other violations of motor liability provisions (Number of violations in units and amounts in million euro)										
to	aims his- ry state- ments	Cla	iims Data Base	claii	2019 tabase of ms history atements	I	er infringe- ments		Total		2018 Γotal
N.	Amount	N.	Amount	motor liability  N. Amount N. Amount		N.	Amount	N.	Amount		
28	0.1	2	0.05	65	0.4	57	0.3	152	0.9	302	1.5

Table VI.7

	Violation of other provisions										
	(Number of ordinances in units, amounts in million euro and % values)										
	2019 2018 Variation										
	% %  N. over mar- Amount over ma ket total ket tota				N.	Amount	N.	%	Amount	%	
Injunctions	264	38.4	2.2	48.4	417	5.8	-153	-36.7	-3.6	-62.1	

Injunctions issued for violations other than MTPL refer to violations pertaining to the settlement of life insurance benefits, to failure to comply with the obligation to reply to complainants, reporting obligations to IVASS for supervisory purposes and with provisions concerning management of the undertaking, as well as violations concerning mediation activities.

The majority of the non-motor sanctions refer to violations registered by intermediaries (70.8% in terms of number and 72.5% in terms of amount). Sanctions amounting to 1.6 million euro (187 ordinances) were imposed on agents, brokers and their collaborators, down compared to 2018 (3.4 million euro and 266 orders). Most of these sanctions pertain to violation of the rules of conduct with respect to policyholders and insured parties or of rules on the segregation of assets (120 injunctions for 1.2 million euro). A significant number of injunctions pertained to the violation of the obligations to notify IVASS of changes to the information provided upon registration: 41 injunctions were issued for 76,500 euro.

#### 1.3. - The sanctions paid

The amounts of the sanctions paid during the year also refer to injunctions issued by the Institute in previous years. In some cases, they are payments of surcharges on sanction amounts made after the time-limit (of 30 or 60 days, depending on whether the recipient resides in Italy or abroad), or payments pertaining to injunctions for which monthly instalments were allowed, having satisfied the conditions envisaged by art. 26 of Law no. 689/1981 (up to a maximum of 30 monthly instalments to the recipient "who is in economic hardship"). In 2019, IVASS accepted 75% of the requests for instalments with the maximum extension allowed.

Table VI.8

	Sanctions paid										
	(thousand euro and % values)										
2019 2018 Variation 2019/2018											
Amount paid		3,66	2.2	8,384.2	-56.3%						
by year in which the injunctions were issued											
	2019	2018	2017	2016	Total						
Amount paid	3,204.7	396.1	45.3	16.1	3,662.2						
	В	y sanction bene	eficiary - 2019								
Cons	sap – FGVS		NATIONAL RE	VENUE	Total						
(Violation o	f MTPL legislation)		(Other violat	ions)	iotai						
Amount pa	id % total	Amou	ınt paid	% total							
2,543.7	69.5	1,1	18.5	30.5	3,662.2						

#### 1.4. - Trend in sanctions 2008-2019

The time series of the sanctions imposed in the period 2008-2019, is shown below, broken down by number of injunctions issued, total and average amount.

The decrease in injunctions against undertakings is closely linked to the decrease in complaints submitted to the Institute regarding the settlement of MTPL claims, a matter that represents the predominance of the violations which incurred sanctions. In the case of intermediaries, the notification of the violation by the Directorate which has ascertained it, which determines the progress of the injunctions, is also linked to the reports made by the undertakings following checks carried out by them on the intermediaries.

Table VI.9

	Trend in sanctions 2008 – 2019													
		Total issue	d	ı	Jndertaking	akings Intermediaries					Other subjects			
Year	No.	Amount (in million euro)	Average amount (in euro)	No.	Amount (in million euro)	Average amount (in euro)	No.	Amount (in million euro)	Average amount (in euro)	No.	Amount (in million euro)	Average 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		

Trend in sanctions 2008 – 2019												
	Total issued			Undertakings			Intermediaries			Other subjects		
Year	No.	Amount (in million euro)	Average amount (in euro)	No.	Amount (in million euro)	Average amount (in euro)	No.	Amount (in million euro)	Average amount (in euro)	No.	Amount (in million euro)	Average amount (in euro)
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
2018	1,318	10.368	7,867	1,052	6.978	6,633	266	3.390	12,744	0	0	0
2019	687	4.650	6,769	500	3.017	6,035	187	1.633	8,733	0	0	0
Total	35,805	347.309	9,700	33,177	299.314	9,022	2,590	47.131	18,197	38	0.864	22,731

#### 2. - DISCIPLINARY SANCTIONS

# 2.1. - Preliminary investigation of disciplinary proceedings and activities of the Guarantee Committee

The Guarantee Committee, made up of two sections and assisted by the Secretariat of the Sanction and Winding up Directorate, evaluates the results of the preliminary investigations, examines the defences of the parties concerned, arranges for their hearing and decides the proposed sanction to the competent bodies of IVASS, or the dismissal of the proceedings started against intermediaries, except for those related to breaches of anti-money laundering laws.

In 2019, 103 disciplinary measures were started relating to violations committed before 1 October 2018 - date of enforcement of the IDD – and 28 sanctioning measures for violations committed as from said date.

Based on the decisions of the Committee, which also examined the proceedings started in the previous years, the Institute adopted 147 disciplinary measures, down -34.7% compared to the 225 of 2018.

Table VI.10

- 2019							
					(units a	nd % values)	
Outcome	Sect. A	Sect. B	Sect. E	Total	% in 2019	% in 2018	
Outcome	Agents	Brokers	Collaborators	iotai	/6 III 2019		
Dismissal	7	7	11	25	17.0	15.1	
Reprimand	8	1	4	13	8.9	16.0	
Censure	14	10	31	55	37.4	35.6	
Striking off	7	13	34	54	36.7	33.3	
Total	36	31	80	147	100.0	100.0	

Striking-offs and censures represent the most sizeable portion of disciplinary measures, 74.1% versus 68.9% in 2018.

## 2.2. - Types of sanctioned violations

Among the conducts that gave rise to the striking off of intermediaries, most were:

- 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 segregate 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, i.e. 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 requiring transparency, diligence, correctness and professionalism with respect to policyholders;
- acceptance of cash in violation of regulations on allowed payment means, in particular in the life business;
- failure to comply with provisions on the adequacy of contractual proposals and pre-contractual disclosure obligations.

In some cases, consistent with the established approach adopted by the Guarantee Committee and in application of art. 62, para 3 of ISVAP Regulation no. 5/2006, the immediately less severe sanction was imposed, having regard for the subjective and objective circumstances such as the modest scale, in terms of number or amount, of the violations identified or corrective behaviour by the intermediary, designed to remedy the irregularities found. In very few cases the immediately more severe sanction was imposed, having regard to any previous convictions of the accused or supplementary investigation relevant to the proof of liability.

#### VII. - LEGAL ADVICE

#### 1. - ADVICE

In 2019 the legal advice activities of IVASS handled 260 opinions, providing the Governing Bodies and Directorates of the Institute with assistance and legal support, protecting the consistency of operating decisions with the reference legal framework.

Table VII.1 classifies the opinions provided on the basis of the requesting entity.

#### Table VII.1

Entities requesting advice - 2019	
	Number
Governing Bodies and Secretariat Office of the President and	27
the Board of Directors	21
Consumer protection	49
Intermediary supervision	43
Management of resources	37
Supervisory regulations and policies	22
Sanctions	18
Inspectorate	11
Prudential supervision	9
Compulsory winding up	7
Research and data management	6
Body responsible for corruption prevention and transparency	1
EU Court of Justice (questions for preliminary ruling)	12
External experts	8
Automatic	5
Other requesting entities	5
Total	260

#### 2. - LITIGATION

As prescribed in the Statute, the Legal Services Office represents and defends the Institute before the courts using its own attorneys, registered in the special list of publicly-employed lawyers kept by the Bar association of Rome.

In 2019, 35 new cases of litigation were initiated, including extraordinary appeals to the Head of State and cases for which appeal was filed.

Table VII.2 shows the appeals by subject matter, further distinguishing those in relation to pecuniary administrative sanctions according to the recipients.

Table VII.2

Litigation cases initiated in 2019 - by subject matter				
(n	(number)			
Supervisory measures (undertakings)	1			
Pecuniary administrative sanctionse <sup>148</sup>	16			
of which: Sanctions imposed on undertakings	9			
Sanctions imposed on intermediaries	7			
Disciplinary sanctions on intermediaries	8			
Personnel	7			
Others	3			
Total <sup>149</sup>	35			

## 2.1. - Significant decisions confirming precedents or with new profiles

a) Pecuniary administrative sanctions - Arts. 183 of the CAP and 28 and 29 of ISVAP Regulation No. 35/2010 - violation of the rules of conduct with regard to unit-linked contracts - failure to send annual statements of account and notices of losses in value of more than 30% with respect to the total amount of premiums invested - atomistic consideration of individual failings, not applicable - violation of general good rules by an EU undertaking operating in Italy under the right of establishment - duties and role of the home authority and host authority pursuant to Art. 193 of the CAP in the event of a pecuniary sanction being inflicted

Although they relate to multiple policy years, the failure to send annual statements of account and notices of loss of value laid down by Arts. 28 and 29 of ISVAP Regulation No. 35/2010, constitute individual instances of the same conduct that fails to meet the requirements of diligence, fairness and transparency laid down by Art. 183 of the CAP. The atomistic consideration of the individual omissions appears unreasonable in that it implies the establishment for each of them of a separate procedure and the imposition of separate sanctions with a far more serious overall penalty treatment.

Also in the absence of specific requirements on the sending formalities and on the proof of receipt of the communications by the customer, the effectiveness of obligations to send communications envisaged by Articles 28 and 29 of ISVAP Regulation No. 35/2010, has to form part of the onus upon insurance undertakings to prove their related compliance.

With reference to EU undertakings, Article 193 of the CAP envisages the involvement of the home State only if the Supervisory authority intends to adopt measures which affect the operations of said undertaking (Article 193, paragraphs 2-4 of the CAP). The application of a pecuniary sanction on the branch office, on the other hand, is not subject to any communication

<sup>&</sup>lt;sup>148</sup> The total includes 4 cases for which appeal was filed.

<sup>&</sup>lt;sup>149</sup> The total includes 7 cases for which appeal was filed.

requirement to the home member state as it cannot, on penalty of violation of EU and constitutional principles of equality and competition, envisage a different system for the application of sanctions for EU and Italian undertakings; as proof of this, Article 193 (5) of the CAP does not mention, for this purpose, any involvement of the home member state and thus contrary to the provisions of the preceding paragraphs <sup>150</sup>.

b) Pecuniary administrative sanctions - principle of the right to be heard — the need for defence guarantees even in the decision-making stage exists

The pecuniary administrative sanctions which IVASS may impose have - despite the fact that the law does not classify them as such - the essential nature of criminal sanctions under the ECHR and in particular the so-called Engel criteria, developed by the ECHR in the judgment dated 8 June 1976, Engel and Others v. The Netherlands by the nature of the rules, which are designed to ensure the smooth running of a significant market such as the insurance market and thus the protection of the general interests of the company normally defended by criminal law, as well as by the nature and particular severity of the penalties applicable, which are likely to damage the claims of the parties concerned and produce significant financial consequences.

There is no complete guarantee that the parties will be heard when the party on whom the sanctions are imposed does not have the opportunity to comment on the conclusions reached in the sanction proposal formulated at the end of the preliminary investigation phase, since the proposal itself may contain evaluations, in particular the final legal classification of the contested facts, which are not necessarily the subject of the discussion during the preliminary investigation phase. The establishment of a hearing procedure with the body which, upon receipt of the preliminary investigation report, is competent with regard to imposing the sanction is an essential defence of the party concerned<sup>151</sup>.

c) Pecuniary administrative sanctions - obligation to make the offer pursuant to Article 148 of the CAP - obligation to communicate the reasons for not making an offer - scaling of the sanction pursuant to Article 315 of the CAP on the basis of the delay

In the event of a claim for compensation, the insurance company is still obliged to make the offer or to communicate the reasons for not making an offer. With respect to this procedural obligation, which is intended to protect the rights of the injured party, it is completely irrelevant whether the claim for compensation is unfounded or inadmissible, since this relates to the merits of the claim<sup>152</sup>.

The quantification of the sanction cannot be based on the factual circumstances of the claim and on the conduct of the parties, since in this case too it is a question of the merits of the case, which are not relevant to the procedural nature of the violation ascertained. The only profile that the Authority must take into account when assessing the seriousness of the conduct - and

<sup>150</sup> Lazio Regional Administrative Court, Sect. II ter, 21 January 2019 no. 794/2019, confirming the approach of the judgements of the Lazio Regional Administrative Court, Sect. II ter, no. 12339, 12340 and 12341/2018 of 18 December 2018.

<sup>&</sup>lt;sup>151</sup> Council of State, Sect. VI, 28 March 2019, No. 2042/2019 and 2043/2019 on the basis of the previous decision of the Council of State, Sect. VI, 26 March 2015, No. 1595. Versus: Court of Cass., II civ. Sect., 9 August 2018, No. 20689/2018 and Court of Cass., II civ. Sect., 21553/2018.

<sup>&</sup>lt;sup>152</sup> Lazio Regional Administrative Court, Sect. II ter, 26 February 2019, no. 2578

therefore the extent of the sanction - relates to the duration of the delay in making an offer for compensation, or the time elapsed after the expiry of the deadline envisaged by law as the maximum time limit for making an offer.

The assessment of the extent of the delay as an indicator of the seriousness of the conduct is consistent with the particular importance of the public interest in the rapid definition of the settlement procedures on which the obligation set out in Article 148 of the CAP is based and is also consistent with the principles governing the system of sanctions in insurance matters and, in particular, with Article 11 of Law No. 689/1981, referred to in Article 326 (5) of the CAP<sup>153</sup>.

d) Pecuniary administrative sanctions for violation of Article 148 of the CAP – the discretion in assessing the seriousness of the facts exists - quantification of the sanction as an expression of discretion - assessment for the first time, during the proceedings, of documents or facts and circumstances, the evidence of which was fully available to the claimant

The assessment of the gravity of the facts alleged in relation to the application of a sanction constitutes an expression of administrative discretion, generally not susceptible to review by the court except in cases of excess of power, in its various symptomatic forms, such as manifest illogicality, manifest unreasonableness, obvious disproportion and misrepresentation. The scaling of the sanction, therefore, proceeds in relation to the seriousness of the violation, to be appreciated on the grounds of both the delay in the formulation of the offer and the superfluity of the insurance company's documentary requests.

The Legislator establishes a prescribed minimum and maximum amount of the sanction in order to leave to the power of the Authorities the determination of the amount of the pecuniary sanction within these limits, commensurate with the effective gravity of the unlawful act, without the need to specify the criterion specifically followed since the commensuration of the sanction - in the face of a precise and detailed notification - is an expression of the seriousness assessment made by the body that proceeds and absorbs any further profile<sup>154</sup>.

It is not possible to assess for the first time, in the course of proceedings, a document or in any case facts and circumstances allegedly leading to the denial of liability for administrative sanctions, the evidence of which was at the applicant's full disposal and which the latter has kept silent by its own choice or in any case by omission not dependent on the Authority<sup>155</sup>.

<sup>&</sup>lt;sup>153</sup> Lazio Regional Administrative Court, Sect. II ter, 26 February 2019, no. 2578. mentioned previously; Lazio Regional Administrative Court, Sect. II ter, 10 April 2019, no. 4719; Lazio Regional Administrative Court, Sect. II ter, 10 April 2019, no. 4721; Lazio Regional Administrative Court, Sect. II ter, 8 April 2019, no. 4528; Lazio Regional Administrative Court, Sect. II ter, 8 April 2019, no. 4529; Lazio Regional Administrative Court, Sect. II ter, 8 March 2019, no. 3070/2019; 3091/2019; 3087/2019 and 3103/2019.

<sup>&</sup>lt;sup>154</sup> Lazio Regional Administrative Court, Sect. II ter, 2 April 2019, no. 4308.

<sup>155</sup> Lazio Regional Administrative Court, Sect. II ter, 2 April 2019, no. 4308, mentioned previously, confirming on this specific issue Lazio Regional Administrative Court, Sect. II ter, 9 February 2018, no. 1598/2018.

e) Pecuniary administrative sanctions for breach of Article 148 of the CAP - irrelevance of the telephone offer for the purposes of interrupting the deadline for making an offer - exhaustive nature of the cases of interruption of the offer period — no influence of the settlement agreement of a pending trial on the administrative offence notified

No relevance, for the purposes of interrupting the deadline for making an offer pursuant to Article 148 of the CAP, can be assigned to the telephone offer. It is irregular due to its verbal form, whereas the law envisages its formulation in writing<sup>156</sup>.

The provisions of Article 148 of the CAP define the cases of suspension or interruption of the deadline for the offer of compensation in terms of absolute exhaustiveness and exceptionality: the interruption governed by paragraph 5 of the same provision only results from the timely formulation of a request, addressed to the injured party, to supplement the request for compensation in case of its incompleteness; the suspension, governed by paragraph 3 of the same provision, occurs only in the case of the refusal of the injured party to undergo the checks strictly necessary for the assessment of the damage<sup>157</sup>.

The settlement agreement of a pending lawsuit does not affect the administrative offence notified and the applicability of the related sanctions. The obligation of the insurance undertakings to make an offer is irrelevant with respect to the subsequent proposition of a lawsuit for the same events<sup>158</sup>.

f) Pecuniary administrative sanctions for breach of the obligations to communicate data to the Motor Liability Claims Data Base pursuant to Articles 135 and 316 of the CAP - promptness of the notification with dies a quo as from the end of the period of detection

The rationale of the obligation to communicate data on claims to the Claims Data Base set up at IVASS cannot be limited to the interest of insurance companies in containing policy costs through fraud prevention; the obligation itself is established to protect the users and complies with requirements of the general good, to ensure that the insurance guarantee is effective and that the related costs correspond to adequate levels of risk assessment and remuneration of insured values. Therefore, insurance companies, while benefiting from effective fraud prevention action, participate in the Claims Data Base system as owners of a disclosure responsibility (and a corresponding obligation), which derives from their being rooted in a position of proximity with the data that is necessary to effectively exercise the preventive action against fraud. They are therefore under an obligation of loyal cooperation and collaboration.

Despite the monthly scanning of the obligation to report claims data, it is not beyond the deadline to notify infringements relating to the accuracy and completeness of the data sent to the undertakings only at the end of the observation period - with the consequent start of the period

<sup>&</sup>lt;sup>156</sup> Lazio Regional Administrative Court, Sect. II ter, 8 April 2019, no. 4529, mentioned previously

<sup>157</sup> Lazio Regional Administrative Court, Sect. II ter, 8 April 2019, no. 4528, confirming the approach already followed by Lazio Regional Administrative Court, Sect. II ter, 9 February 2017, no. 2232/2017, by Lazio Regional Administrative Court, 4 November 2013, no. 9365/13 and by Lazio Regional Administrative Court, 11 October 2011, no. 7864/11.

<sup>&</sup>lt;sup>158</sup> Lazio Regional Administrative Court, Sect. II ter, 10 April 2019, no. 4721, mentioned previously; Lazio Regional Administrative Court, Sect. II ter, 10 April 2019, no. 4944, mentioned previously, cases relating to the provisions introduced by art. 3 of law decree no. 857/1976.

of 120 days as from 31 December of the reporting year - in relation to the need, for the Supervisory authority, for an overall assessment of the data transmitted, which must therefore necessarily be carried out at the end of the observation period, since missing or incorrect data can be completed or corrected later; the need, again, to assess the impact of claims on the entire MTPL portfolio of the undertaking; finally, the need to ascertain whether the errors and incompleteness of the data are of an occasional or structural nature, with a consequent assessment of the internal procedures set up by the undertaking to fulfil the reporting obligations, which are also relevant for the scaling of the sanctions<sup>159</sup>.

g) Disciplinary sanctions - striking off — the qualification of the achievement of unfair profit to the detriment of third parties is not a constituent element of the disciplinary offence - value of the judgment for application of the penalty at the request of the parties pursuant to Articles 444 et seq. of the Italian Code of Criminal Procedure - "atypical" proof of the holographic declarations made by the insured parties - unrestricted appreciation by the judge of its demonstrative effectiveness in the framework of all investigative means

Disciplinary violations committed by an insurance intermediary are sanctioned by the insurance legislation regardless of the achievement of a tangible economic advantage of the agent, without requiring as a constitutive element of the offence the achievement of an unfair profit to the detriment of third parties<sup>160</sup>.

The judgment applying the penalty at the request of the parties pursuant to Articles 444 *et seq.* of the Code of Criminal Procedure, even if not having the force of *res judicata*, is still an important element of evidence for corroborating the preliminary material collected in the non-criminal judgment (civil or administrative), as it presupposes an admission of guilt by the party to whom the conduct of disciplinary importance is ascribed.

Unlike in the case of disallowance of the signature in disputes between private parties - in which those who intend to avail themselves before the courts of the disallowed signature are required to ask for it to be verified by the courts in accordance with Articles 214 *et seq.* of the Code of Civil Procedure - in the differing case of disputes between the Supervisory Authority and a professional operator in the relevant sector, written declarations by customers that they have not signed certain policies and surrender requests constitute atypical evidence freely appreciated by the judge, who must examine the demonstrative effectiveness of the same in the context of all the investigative means tested during the trial<sup>161</sup>.

<sup>159</sup> Lazio Regional Administrative Court, Sect. II ter, 8 March 2019, no. 3070/2019; 3091/2019; 3087/2019 and 3103/2019, mentioned previously

<sup>160</sup> Lazio Regional Administrative Court, Sect. II ter, 17 June 2019, no. 7839/2019.

<sup>&</sup>lt;sup>161</sup> Council of State, Sect. VI, 5 August 2019, no. 5566/2019.

h) Disciplinary sanctions - striking off - failure to remit insurance premiums after revocation of the mandate - surety pursuant to Article 117 (3-bis) of the CAP - offsetting between amounts payable and receivable - relationships between disciplinary and criminal proceedings

Even after the revocation of the mandate, the retention of sums collected by way of premiums is in any case a disciplinary offence, considering that the reason for the obligation to remit the collected premiums to the insurance company - as well as the principle of direct attributability to the latter of the premiums pursuant to Article 118 (1) of the CAP - does not depend on the existence of an agency mandate<sup>162</sup>.

The possession of a suretyship policy pursuant to Article 117 (3 bis) of the CAP exempts the insurance intermediary only from the instrumental obligation to keep a separate account dedicated to the exercise of the mediation activities, but does not affect the restriction on the allocation to reserves of the amounts collected by way of premium or their nature as "independent assets", with consequent impossibility of seizure and prohibition of offsetting. Article 117 (3 bis) of the CAP, in fact, envisages the exemption from just the obligations referred to in Article 117 (1) (obligation to keep a separate account) while the prohibition to offset premiums is enshrined in paragraph 3. The prohibition to offset the premiums collected with alleged credits of the intermediary vis-à-vis the undertaking is confirmed by Articles 54 of ISVAP Regulation No. 5/2006 and by the subsequent Article 63 of IVASS Regulation No. 40/2018.

The continuation over time of the omission to pay the premiums to the undertaking, the amount of the sums involved and the particular importance of the public interest violated are symptomatic of the seriousness of the offences committed and justify the application of the sanction of striking off.

The possible absence of any criminal profiles does not affect in any way the historic nature of the facts and the administrative relevance of the same as a disciplinary offence<sup>163</sup>.

# 3. - LEGAL TRAINING

Mandatory training for in-house attorneys continued through seminars and specialist legal seminars, also in mandatory ethics, with attribution of the related educational credits in accordance with the current *Regulation on continuous training* issued by the Rome Bar.

Training and refresher courses were also held by professors and State Advisors on administrative law issues and in particular on independent administrative Authorities.

<sup>&</sup>lt;sup>162</sup> Lazio Regional Administrative Court, Sect. II ter, 8 April 2019, no. 4522; Lazio Regional Administrative Court, Sect. II ter, 17 June 2019, no. 7839/2019, mentioned previously. They confirm the approach of Lazio Regional Administrative Court – Rome, 19 January 2012, no. 619/12 and of the Council of State, Sect. VI, 20 September 2012, no. 4996/2012.

<sup>163</sup> Lazio Regional Administrative Court, Sect. II ter, 8 April 2019, no. 4522, mentioned previously. The principle according to which the possession of a suretyship policy pursuant to Article 117 (3 bis) of the CAP provides exemption only from the instrumental obligation to keep a separate account dedicated to the exercise of the intermediation activities, but does not affect the "independent asset" nature of the sums collected by way of premiums is in conclusion confirmed by the Council of State, Sect. VI, No. 2184 dated 31 March 2020.

## VIII. - ORGANIZATION

In an ever evolving reference environment characterised by increasing institutional duties, the Institute, also with support from the Bank of Italy, has pursued a path to innovation to enhance the effectiveness of the action and the agility of the organisation, also through simplification initiatives, implementing actions on structures, processes and technological infrastructure.

In 2019 important organisational changes were implemented to take account of the new legal framework resulting from the issue of Legislative Decree n. 68 of 21 May 2018, implementing the IDD, which extended the duties and powers of IVASS, envisaging the extension of entities supervised, stronger and more incisive mechanisms for action and sanctioning, the setup of an out-of-court redress system for disputes between customers and operators and new supervisory powers over manufacturers and distribution networks.

In addition, the first cycle of the operational risk monitoring, the introduction of new management control methods and activities aimed at ensuring compliance in terms of ethics, transparency, corruption and protection of personal data have been completed. The integration of the ICT services of IVASS with those of the Bank of Italy proceeds as planned.

#### 1. - IVASS BODIES

In accordance with Article 2 of the Statute, the following are IVASS bodies:

- 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 authorities.

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 the 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 2019, 20 meetings were held, 104 resolutions were passed and 21 information notices were examined.

The Board of Directors is a collegial body made up of the President and two Directors <sup>164</sup>. It is the body responsible for the general administration of IVASS, without prejudice to the

<sup>&</sup>lt;sup>164</sup> In 2019 Alberto Corinti (by Presidential Decree of 19 February 2019) and Riccardo Cesari (by Presidential Decree of 20 June 2019) were confirmed as Director of the Institute for a term of six years. Daniele Franco became the President of IVASS on 1 January 2020, following his appointment as Senior Deputy Governor of the Bank of Italy (Italian Presidential Decree of 10 January 2020).

functions assigned to the Joint Directorate by the Statute. In 2019, 27 meetings were held, 140 resolutions were passed and 7 information notices were examined.

The Secretary General is responsible for the coordination and supervision of the activities of the structures.

# 2. - ORGANISATIONAL CHANGE AND OPTIMISATION

# 2.1. - Changes in the organisational structure

The new organisational structure of the Institute, decided by the Board as part of a reform aimed at ensuring a better match between the new institutional tasks assigned to the Institute by the Directive on insurance distribution (IDD) and the organisational design, began on 16 September 2019. The main organisational measures concerned:

- the establishment of the Market Conduct Supervisory Directorate, to oversee the governance and distribution of the insurance products and the correct conduct of all operators, divided into four Divisions (Product Supervision, Distribution Supervision I and II, Management of the RUI (Single Register of Insurance Intermediaries);
- the focus of the Consumer Protection Directorate on consumer protection activities, also via support to the Insurance Arbitrator for the out-of-court settlement of disputes, with a separation into three Divisions (Complaints Management, Technical Secretariat for Insurance Arbitrator I and II) and an Insurance Education Sector;
- the merging of the Sanctions and Winding up Directorates into a single structure; the new Directorate is divided into two Divisions responsible for sanctioning procedures and winding up procedures respectively.

The measures have created a more streamlined structure of the Institute (the Structures with the rank of Directorate/Office have decreased from 12 to 11) and more articulated at the level of basic units operating in the area of consumer protection<sup>165</sup>.

# 2.2. - Strategic planning

On a consistent basis with the aforementioned organisational reform, in the second half of 2019 the 2018-2020 Strategic Plan was amended by redefining the action plans in collaboration with the Structures concerned in order to maximise management involvement and increase the sharing of objectives<sup>166</sup>.

The annual monitoring of the stage of implementation of the Strategic Plan as of 15 September 2019 made it possible to check the due performance of the activities.

<sup>165</sup> https://www.ivass.it/chi-siamo/organizzazione/Struttura-organizzativa/index.html.

<sup>166</sup> https://www.ivass.it/chi-siamo/organizzazione/Struttura-organizzativa/Piano strategico 2018-20.pdf.

## 2.3. - Management control and rationalisation of work processes

In 2019, new management control methods were introduced to strengthen analysis and contain costs, as envisaged in the law establishing IVASS, by optimising the use of human, financial and technical resources.

In order to capitalise on the experience gained from the first monitoring exercise and increase cost containment, the allocation of the main cost items to the Budget Structures continued.

In line with the process of decentralisation of decision-making and greater responsibility for expenditure, the Heads of the Structures have been given the power to authorise mission expenses and justified exceptions to the travel policy. In order to facilitate the handling of the spending budgets, every two-months the Structures are provided with feedback on the related levels of consumption.

A number of work processes have also been rationalised with the simplification of the travel policy and indirect joining of the PagoPA system, pursuant to Article 5 of the Electronic Administration Code.

Lastly, the constant monitoring of the settlement phase in terms of efficiency has made it possible to further reduce the time lapse between the due date of invoices received from suppliers and their payment date.

#### 2.4. - Procurement

In 2019 the Institute joined the Memorandum of Understanding, pursuant to Article 15 of Law No. 241/1990, already entered into by the Bank of Italy, AGCM and CONSOB, aimed at the shared handling of joint procurement procedures for the acquisition of goods, services and works, according to the provisions of Legislative Decree No. 50 of 18 April 2016. The Memorandum of Understanding will expire on 27 November 2023 and may be subject to renewal.

Joint procurement with the Bank of Italy continued as part of the gradual integration, also through the close coordination of two-year plans for the purchase of services and supplies in excess of 40 thousand euro.

The Institute participated in the Panel of Independent Authorities organised by CONSIP to coordinate procurement needs and share experiences and key issues related to the use of the centralised procurement tools offered by CONSIP.

In December 2019 IVASS' Board of Directors approved the Regulation establishing the List of IVASS providers; this list, effective since 2 January 2020, is managed through IVASS' Procurement Portal and guarantees maximum transparency and equal treatment of operators, while simplifying the administrative processes for the purchase of goods and services.

## 2.5. - Risk management and internal controls

The Institute uses a system of internal controls aimed at improving the pursuit of strategic objectives, the quality of services and the efficiency in the use of resources and at monitoring operational risk and compliance with internal and external regulations.

In 2019, 3 reviews were carried out on macro-processes, some of which were transversal in nature on several Structures. Following the reviews, action plans were adopted to increase the efficiency of the processes, the implementation of which is currently underway. An audit was carried out on a project in the implementation stage as well as a number of surveys in the IT sphere, also by means of measures in the field.

The internal audit process has been supplemented with the aim of stimulating reflection on the corrective action identified in the action plans, making the responses to risks more effective and optimising the effects on processes. In-depth studies were carried out in order to allow the Institute's processes to be properly aggregated into macro-processes that are more significant and consistent for audit purposes. This aggregation permitted the implementation of the analysis and valuation tools for the macro-processes on the basis of the risks.

Operational risk represents the risk of negative impacts on the assets, reputation or duties of IVASS due to inadequate or dysfunctional processes, systems, human resources or external events. At company level, a system for integrated operational risk management (Operational Risk Management, ORM) is in place within which each organisational unit identifies and assesses the risks inherent in work processes, taking into account the adequacy of the related controls.

The system is subject to continual monitoring, with checking of the up-dating status and periodic disclosure to the Board. As a result of the work carried out in the three-year period 2017-19, the risks associated with each work process, including corruption risk, have been identified and risk mitigation plans have been drawn up for processes with a high or medium risk level.

In July 2019 the operational risk management method was updated to align the Institute's risk tolerance policy with that of the Bank of Italy and the Eurosystem.

With a view to greater efficiency in monitoring and sharing information assets, information exchanges between the second and third level control functions (the Internal Audit Office, the Organisational Planning and Management Division, the Head of Corruption Prevention and Transparency and the Head of Data Protection) have been encouraged in order to strengthen synergies and avoid duplication of activities and information asymmetries.

### 2.6. - Ethics, prevention of corruption, transparency, data protection

The establishment of the Ethics Committee originates from the Statute of IVASS which, in Article 12, assigns to the same the purpose of supervising the correct application of the Codes of Ethics in force.

In addition, the Committee has the following functions:

- providing opinions on specific cases submitted for its attention for ethical issues, with the aim of guiding the conduct of the recipients of the Codes;
- assessing, with reference to the continuation of the duties following the termination of the mandate of the parties referred to in Law No. 262 dated 28 December 2005, and the Prime Ministerial Decree of 29 January 2015, the existence of the conflict of interest and the duration of the incompatibility, also with a view to reducing the two-year period provided for by the same legislation;
- providing the opinion, mandatory but not binding, to the Party responsible for the prevention of corruption and transparency, with reference to the reports made pursuant to Article 54 of Legislative Decree No. 165/D dated 30 March 2001 (whistleblowing);

In 2019, amendments and additions to the Code of Ethics of the Institute's bodies were approved, in line, insofar as possible, with the provisions in force for the members of the Bank of Italy's Directorate. The measures concerned the regulation of gifts and other benefits, conflict of interest, confidentiality of information and financial investments. The Regulation for the functioning of the Committee was amended, taking into account the new provisions.

The Institute continued the activity to prevent and combat corruption and promote transparency, with the consolidation of safeguards and measures required by current regulations and envisaged in the three-year Plan for the Prevention of Corruption and Transparency referring to the 2017-2019 period, available on IVASS' website

In 2019, also in view of the organisational reform, job rotation between Structures involved 8.5% of staff in service (a significant increase compared to 3.8% in 2018).

The annual statements on the absence of situations of incompatibility for the holders of managerial positions are published on the website.

With regard to the protection of personal data, activities aimed at ensuring compliance with the provisions of (EU) Regulation No. 679/2016 (GDPR) continued. In particular, internal procedures and regulations were reviewed, with the collaboration of all the Structures, and the register of data processing activities was revised.

#### 3. - STAFF

### 3.1. - Regulations on careers

In 2019, the implementation of the arrangements envisaged in the career system approved in December 2016 continued. In detail:

- the second staff appraisal session was carried out, with reference to performances in 2018;
- internal progress procedures were carried out, aimed at enhancing professional qualifications and recognising merit and individual contribution to the achievement of institutional objectives, through a comparative check among candidates;

- vacancy procedures were launched to fill 9 managerial positions (1 Deputy Head of Directorate and 8 Heads of Division). The new positions were filled with effect from 1 January 2020;
- an internal job posting procedure was carried out to meet professional needs not related to the conferment of managerial positions.

#### 3.2. - The number of staff

As at 31 December 2019 there were 352 permanent staff, compared to the staff number recognised by law of 355, later expanded by 45 positions as a result of art. 4, paragraph 5 of Legislative Decree no. 68/2018 to meet the start-up needs of the Insurance Arbitrator (see paragraph V.6). Added to these were 5 fixed-term staff (down by 8 compared to 2018).

Table VIII.1

Distribution of IVASS staff by professional area									
									(units)
Area	Permanent staff			Fixed-term staff			Total		
	31 Dec. 2018	31 Dec. 2019	15 Jun. 2020	31 Dec. 2018	31 Dec. 2019	15 Jun. 2020	31 Dec. 2018	31 Dec. 2019	15 Jun. 2020
Professional/Mana- gerial									
Directors/ Central Direc- tors	30	31	31	1	1	1	31	32	32
Specialists/ Experts	256	256	274	12	1	1	268	257	275
Operational									
Operational staff	66	65	65	_	3	3	66	68	68
Total	352	352	370	13	5	5	365	357	375

At the end of 2019, there were 32 holders of managerial positions (Directors and Specialists), of which 53% women, with an average age of 54.

IVASS continued to make use of staff seconded from the Bank of Italy (at the end of 2019, 27 staff, of which 7 directors, 18 professionals and 2 operational staff), in turn seconding 2 employees to the Bank of Italy and one to the European Commission. In addition, two Directors are awaiting assignment to positions with EIOPA.

Collaboration continued with the universities in Rome for the activation of 20 training and orientation internships.

In 2019, in view of the terminations of service and of the expansion of the Institute's human resources in accordance with Legislative Decree no. 68/2018, two competitions were announced

for the recruitment of 5 ICT graduates and 15 law graduates. The selection for ICT experts ended in October 2019 and the winners took up their posts in December 2019. The call for experts in law ended in February 2020 and most of the winners took up their posts in March 2020. These procedures, completed in 9-12 months, significantly reactivated staff turnover (+10%), which had so far been essentially blocked due to legal constraints.

# 3.3. - Training

IVASS staff participated in 184 training initiatives. 331 employees were involved, i.e. 92% of staff. 11,364 hours of training were provided, equal to an average of 34 hours per capita.

59 training initiatives were held on matters relating to insurance supervision, for which accredited consulting firms and in-house professionals (in 17 cases) were used. These activities involved 220 staff for a total of 4,140 hours.

In the IT field, 624 hours of training were administered to 61 persons on issues relating to cyber security, use of the SAS Language and basic training in Excel and Outlook.

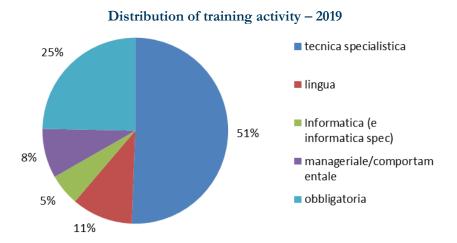
The individual coaching programme activated in 2018 and dedicated to top management figures was completed. The heads of the basic units attended a meeting on feedback issues. A training initiative on the work environment and managerial action was also organised, involving all the holders of managerial positions.

Written communication, team building, negotiation and project management initiatives were implemented for a total of 10 days of training.

Language training involved 124 resources (35% of personnel), for a total number of 1,210 hours of lessons. Mandatory training on health and safety continued through five initiatives, for a total of 1,076 hours of training.

E-learning courses were delivered on privacy and on ethics and legality, for a total of 1,728 hours of training. As of 31 December 2019, training on ethics and legality was completed by 83% of staff.

Figure VIII.1



### 4. - IT SYSTEMS

The integration of IVASS ICT services with those of the Bank of Italy is still ongoing, according to the provisions of the framework agreement <sup>167</sup> regulating the ICT collaboration between the two authorities and in line with the Institute's strategic planning.

# 4.1. - The ICT planning process

Utmost attention was paid to issues relating to cyber security and the priorities assigned to re-engineering the various IT services were reviewed, in accordance with their compliance with the Institute's core business and with the changes in the external context.

The main IT projects in progress with the Bank of Italy, on which continuous monitoring of the progress of the work is carried out, are

- Supervisory Data-warehouse, to build an integrated IT system based on the Infostat software platform;
- AIA Phase II, directed at supplementing the Anti-Fraud Integrated Database of IVASS with additional external archives and provide a portal for management activities;
- Complaints information system, directed at replacing the current application with a new, better performing one, and provided with adequate safeguards for the protection of cyber security and operational continuity;
- Register of Insurance Undertakings and Groups, with the aim of implementing an updated information system that meets the database needs of internal and external users;

<sup>&</sup>lt;sup>167</sup> The agreement for the use by IVASS of IT services provided by the Bank of Italy was signed in 2014 and was renewed, for a further 5-year period, in August 2019.

- Evolution of the Claims Data Base, to make it compliant with the recent innovations in regulations and with the new operational needs;
- Migration of the statistical software to the server of the Bank of Italy, so as to achieve the necessary redundancy of data and infrastructures;
- Insurance Arbitrator, to implement an information system supporting the out-of-court settlement of disputes relating to insurance contracts (see V.6);
- Single Register of Intermediaries (RUI), designed to merge the RUI into a single database and single tool.

# 4.2. - ICT development

The evolution of IVASS ICT services aims to improve the procedures and services available to users to best perform the institutional duties of IVASS, to give continuity to the technological modernisation and to meet the needs originating from the external context.

The development of new IT services in 2019 allowed the following important results to be achieved:

- the creation of the Newsletter service, with the aim of making the public aware of the activities for consumer protection, regulation and supervision of the insurance market, as well as providing information on the main insurance issues;
- the creation of an insurance quiz game on the website, as part of the initiatives to promote insurance education;
- the implementation of software development activities for the outsourcing of the Contact Center;
- the migration of work stations, with the replacement of almost all fixed PCs with laptops, equipped with new operating systems and software suites, with significant advantages in terms of flexibility and smart working.

# 4.3. - Management of IT services

Development activities in 2019 led to a growth in the services included in the IT catalogue of IVASS, which thus reached 52 services; the management charges of 34 services (equal to 65%) are managed by the Institute and those of 18 services (35%) by the Bank of Italy.

The infrastructures hosting the IT services of IVASS were included in the Bank of Italy's disaster recovery plan. Disaster recovery testing was carried out, making use of the functions of the secondary data centre.

4,500 IT support requests were fulfilled, with a 18% increase compared to 2018. The increase is also due to the digital transformation underway, with the renewal of work stations and the introduction of new software for individual productivity.