IVASS
ISTITUTO PER LA VIGILANZA
SULLE ASSICURAZIONI

Report on the activities pursued by IVASS in the year 2020

Rome, 30 June 2021

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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.

Unless specifically indicated, the tables do not include the data 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/index.html.

I. - THE INSURANCE MARKET

Globally, the insurance industry was affected by the pandemic to varying degrees. Market estimates indicate a significant contraction in premiums in 2020, more marked in the life segment.

On the basis of the latest available data, in 2019, the long-standing trend in the global market towards overall premium income growth in real terms, particularly in the non-life sector, had been further confirmed.

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 the level of underinsurance has remained significant and stable in recent years. In Europe, the Italian market is however the fourth most developed in terms of assets held, after France, the UK and Germany.

In 2020, net income in Italy of undertakings supervised by IVASS in the life sector declined sharply (-16.7%), due to the decrease in premiums (-4.5%) and the slight increase in claims costs (+0.5%). The ratio of claims to premiums has grown from 71.4% to 75.1% while the ratio of surrenders to premiums was slightly up, from 39.9% to 40.9%.

Premium income in the non-life classes recorded a fall of -1.2%, mainly due to a significant decline in motor insurance, which accounts for 46.6% of the non-life classes of Italian direct business.

Total life and non-life investments for Italian undertakings at the end of 2020 grew by 6.8% compared to the previous year, reaching 1,011 billion euro (over 60% of GDP), with a portfolio largely composed of government bonds, followed by corporate bonds and UCIT units.

The solvency capital requirements (SCR ratio) remains above 240% of the required minimum, with diversified situations between the various undertakings (higher for those operating in both the life and non-life sector) and variability during the year (in the first half of 2020 it was 210%) mainly due to the effects of the pandemic. 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 lines of development of the global and European insurance market are commented on in detail below, together with the main figures of the statutory and Solvency II financial statements of Italian insurance undertakings, with evidence of the levels of profitability, efficiency and solvency. A specific in-depth analysis is dedicated to the profitability of the non-life business.

1. - THE INTERNATIONAL INSURANCE MARKET

1.1. - The global insurance market

The impact of the pandemic affected the global insurance market in 2020, with effects that can be fully assessed when globally harmonised data for the full year is available, with evidence of the effect of successive waves of contagions and related preventive measures on the total number of policies purchased, premiums written and the level of disputes and litigation on coverage.

First assessments were conducted by, among others, the IAIS in the Global Insurance Market Report (GIMAR; ref. below Ch. III.1.2)[1], by EIOPA[2] and by market participants[3]. Available evidence shows that claims and compensation trends are similar to those observed in Italy, with a reduction in motor claims and an increase in claims for compensation, for example following the cancellation of events and in travel insurance. Significant impacts may occur in health insurance, business interruption insurance, credit and liability insurance.

1.1.1. - The global market

The information gathered by the Organisation for Economic Co-operation and Development (OCSE)[4] provides an overview of the insurance business on a world scale.

In 2019, last year for which complete OECD data is available, gross premiums continued to increase in most countries, particularly in non-life insurance, with differentiations, due to the different level of development of the insurance market and as a result of external factors such as economic growth and changes in fiscal and taxation policies.

Insurers have benefited from the 2019 stock market recovery (after the financial losses in the last quarter of 2018); the presence of catastrophe losses and the resulting payments[5] did not penalise the insurance industry, which globally experienced positive returns on equity (ROE) in most countries.

1 https://www.iaisweb.org/file/94223/17-december-2020-iais-press-release-gimar-2020-covid-19-edition

2 https://www.eiopa.europa.eu/content/impact-ultra-low-yields-insurance-sector-including-first-effects-covid-19-crisis_en; https://www.eiopa.europa.eu/content/eiopa-financial-stability-report-july-2020_en; https://www.eiopa.europa.eu/content/cost-and-past-performance-report-2021_en

3 Swiss Re - sigma N. 4 /2020.

4 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.

5 According to Swiss Re data (sigma 1/2021 - Natural catastrophes in 2020), since 2010, the number of natural catastrophes has exceeded the number of man-made disasters. In 2020, 274 catastrophic events were detected globally (321 in 2019) of which 189 were natural and 85 were man-made. In terms of economic impact, out of $89 billion in insured losses, $81 billion were due to natural disasters.

1.1.2. - Trends in premiums

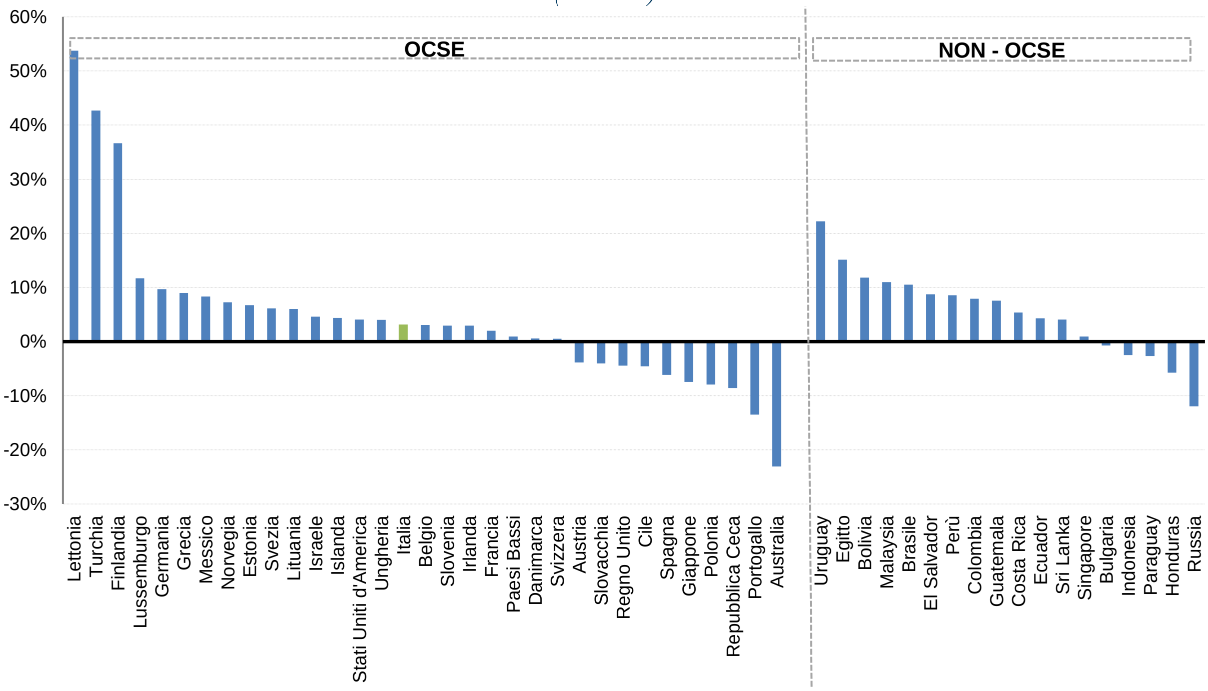
Gross premiums in the life and non-life insurance sectors grew by 4.7% and 3.6%, respectively, in real terms in all 51 reporting countries, following a trend of growth.

In the individual countries (Figures I.1 and I.2), gross premiums increased in 32 cases for both life and non-life sectors (nearly a third of the sample, including Italy with +3.2% in life and +1.7% in non-life), in 12 cases in non-life only and in 4 cases in life only. Three countries reported a decrease in premium income in both sectors (United Kingdom[6], Slovakia and Honduras).

Figure I.1

Annual change in life premiums in major countries – 2019

(% values)

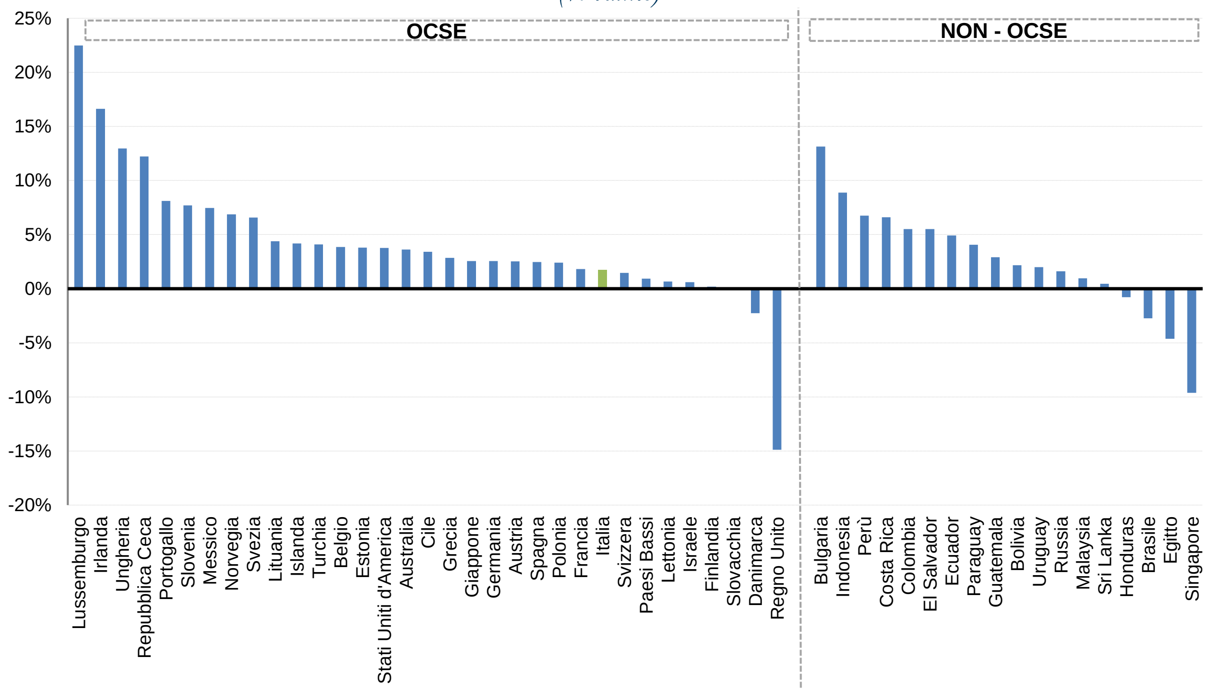


6 As a result of Brexit, some UK companies have relocated their operations to other European countries, notably Luxembourg, Ireland and Belgium: this contributed to the growth in premiums particularly in the non-life business recorded in 2019 in these three countries, and explains the decline in premiums attributed to the UK.

Figure I.2

Annual change in non-life premiums in major countries – 2019

(% values)



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.

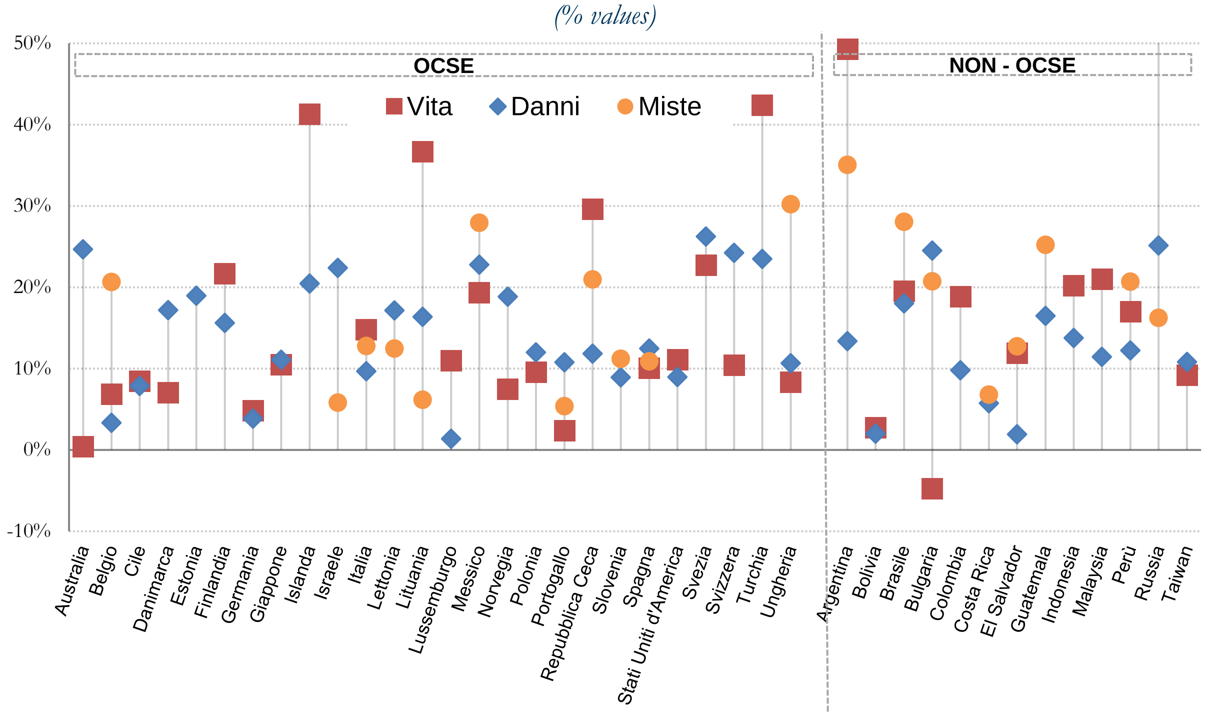
1.1.3. - Profitability

The aggregate ROE per country was positive for all types of insurers (life, non-life and composites) in 38 out of 39 reporting countries (Figure I.3). Compared to the previous year, the ROE decreased in 2019 in 19 out of 29 reporting countries for life insurers, in 24 out of 35 countries for non-life insurers and in 9 out of 17 countries for mixed insurers. The highest ROE was achieved by life insurers in Argentina (49.3%) while the lowest was reported by life insurers in Bulgaria (-4.8%). The Italian insurance sector recorded an overall average life and non-life ROE of 12.3%.

Figure I.3

ROE by type of insurance company in major countries – 2019

(% values)



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.

1.1.4. - Percentage on GDP

Life and non-life premium income as a percentage of GDP, in nominal terms, was 9% in all OECD countries (slightly up from 8.9% in 2018). The insurance sector is particularly strong (more than 10% of GDP) in the US, the UK, France, Ireland, Denmark and Luxembourg, while it remains below 3% in 11 countries including Mexico, Finland, Poland, Greece and Turkey. The value for Italy is 7.8%.

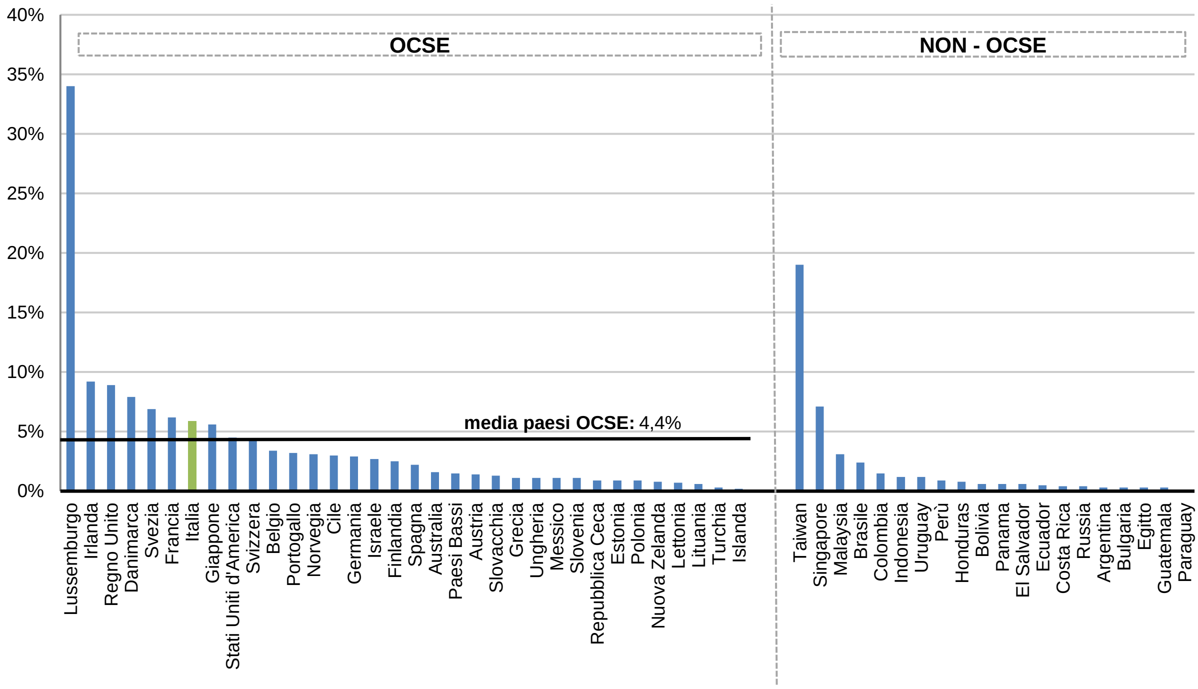
Among the main non-OECD countries, these values range from 20% of Taiwan, followed by Singapore with 9%, to 0.6% for Egypt, with intermediate values for Brazil, Argentina, Russia and Bulgaria.

The life insurance premiums of OECD countries accounted, on average, for 4.4% of the GDP (penetration rate; fig. I.4), a stable value compared to previous years. Penetration in the life insurance business in Italy (5.9%) is higher than the OECD average and similar to the previous year (5.8%). Higher than average values were recorded in Japan, France, Sweden, Denmark, the United Kingdom, Ireland and Luxembourg.

Figure I.4

Premium incidence over GDP in the life business in major countries – 2019

(% values)



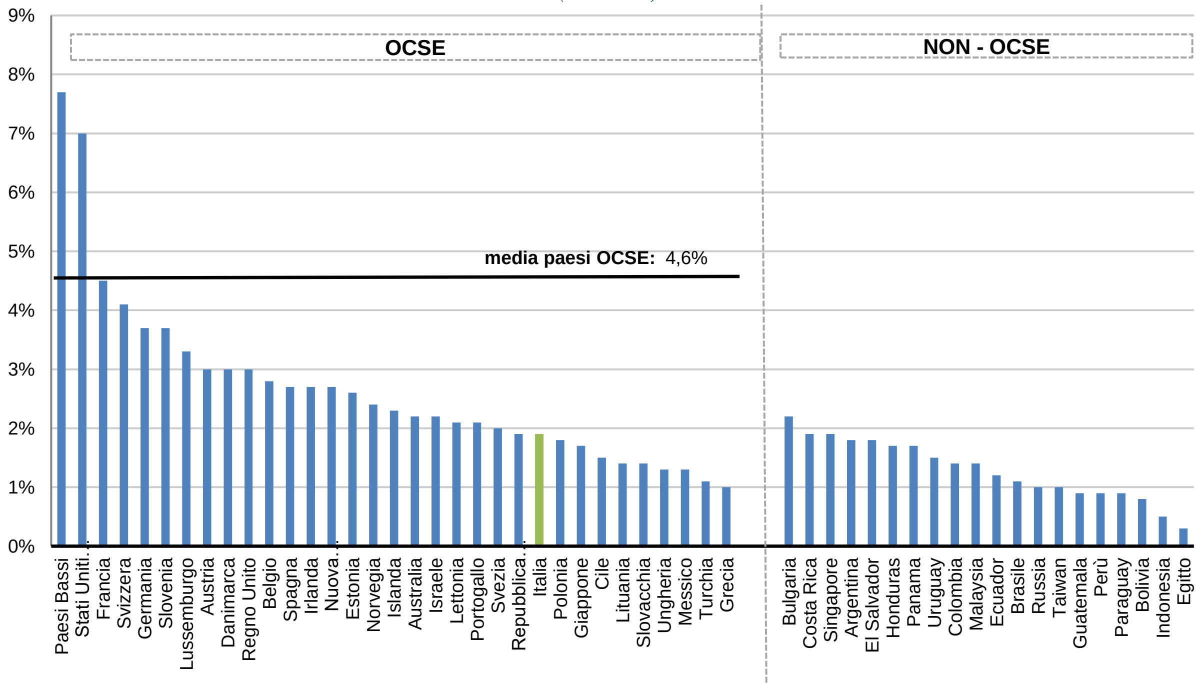
Source: calculation on OECD data. OECD countries reporting data along with a sample of non-OECD countries. Some values, including the average, take into account adjustments applied by the OECD in the absence of observations.

In the non-life sector, the incidence of insurance premiums on the GDP of OECD countries stood at 4.6% overall (fig. I.5), affected by the weight of the sector much higher than the average in the Netherlands and the United States. France recorded an average value, whereas - unlike for the life sector - the Italian figure was decidedly below average and stable at 1.9%.

Figure I.5

Premium incidence over GDP in the non-life business in major countries – 2019

(% values)



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.

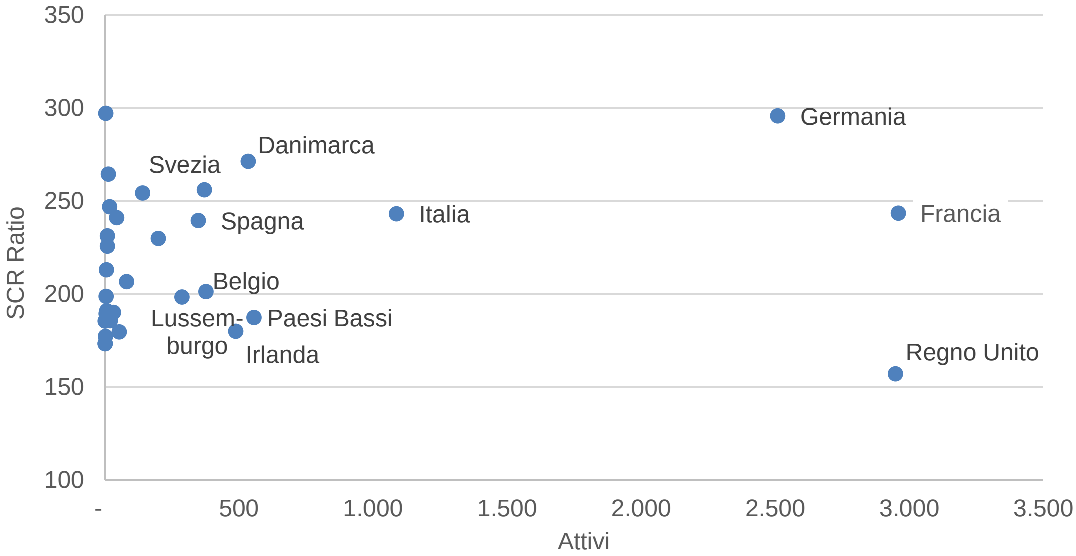
1.2. - The European insurance market

At the end of 2020, for the set of 31 countries belonging to the European Economic Area (EEA)[7], the size of the life and non-life insurance sector amounted to 13,125 billion euro in terms of total assets (91.6% of GDP of EEA countries in 2019), to 11,478 billion euro of technical provisions (80.1% of GDP) and to 1,647 billion euro (11.5% of GDP) in terms of capital reserves (excess of assets over liabilities) . Figure I.6 shows the breakdown by country.

7 2020 data include the United Kingdom, which has been left out of the EEA statistics since 2021.

Figure I.6

Total assets held by the insurance sector and SCR ratio by Country - Q4 2020
(assets in billion euro; SCR ratio in percentage values)



Source: calculation based on EIOPA data. The name is indicated of countries with assets in excess of €200 billion.

Investments with respect to non-life products and life contracts with guaranteed financial performance amount to 8,079 billion euro (61.6% of total assets). Investments with respect to products whose financial risk is borne by the policyholders amount to 3,195 billion (23% of the total assets).

The countries with the highest incidence of investments with respect to policies with guaranteed financial performance are Germany (82.8%), Spain (77.3%), France (75.7%) and Italy (74.9%), while Luxembourg and Ireland had a very high percentage of policies where the financial risk is borne by the policyholder, equal to 52.9% and 54.5% respectively.

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 (59.4% of the total), divided between Government bonds and corporate bonds. Investments in shares, holdings and units in UCITS account for 35.2%. Derivative positions have a marginal role, accounting for 3% of total investments.

Table I.1

European market - composition of investments – 4th quarter 2020		
		(% values)
Sector	**Category**	**Incidence**
Fixed-income	government bonds	30.6%
	corporate bonds	27.0%
Shares	*UCITS*	19.2%
	participations	12.7%
	shares	3.3%
Derivatives	derivatives	3.0%
	structured notes	1.2%
	collateralization	0.6%
Real estate	*real estate*	1.6%
cash	deposits	0.6%
Other investments		0.2%
Total investments		**100.0%**

Source: Calculations based on EIOPA statistics. – excluding investments for *index and unit-linked policies*.

The total liabilities of the European insurance sector reached 11,478 billion euro. Of these (Table I.2), 859 billion are the technical provisions for the non-life business (including products covering sickness risks), 5,987 billion the provisions for the life insurance business for traditional products excluding *index and unit-linked* policies, and 3,330 billion for *index e unit-linked* products. The sum of the technical provisions represents 93.7% of total liabilities.

Table I.2

European market - technical provisions Portion of total liabilities– 4th quarter 2020					
					(% values)
	Life			**Non-life**	
Category	traditional policies	index- and unit-linked products	coverage for sickness (life)	Non-life policies	of which sickness (non-life)
Incidence	52.2%	29.0%	4.1%	7.5%	0.9%

Source: Calculations based on EIOPA statistics.

The excess of assets over liabilities for the European insurance sector totals 1,647 billion euro. Own funds eligible for coverage of the capital requirement amount to 1,767 billion euro, while the capital requirement (SCR) in aggregate terms reaches 750 billion euro (5.2% in terms of GDP in the EEA). The resulting weighted average SCR ratio is equal to 236%.

The profitability ratios for the second quarter of 2020 for a sample of European companies and groups that are important for financial stability[8] (table I.3) saw a median ROE (the return on excess of assets over liabilities) of 5.5% and a median ROA of 0.3%.

Table I.3

Profitability ratios - percentiles - second quarter 2019 and 2020

(% values)

	10th percentile	25th percentile	median	75th percentile	90th percentile
			ROE		
Q2 2019	1.80%	3.00%	5.25%	7.80%	10.25%
Q2 2020	2.00%	4.00%	5.50%	8.00%	12.00%
			ROA		
Q2 2019	0.08%	0.16%	0.32%	0.60%	1.12%
Q2 2020	0.09%	0.21%	0.30%	0.46%	0.60%

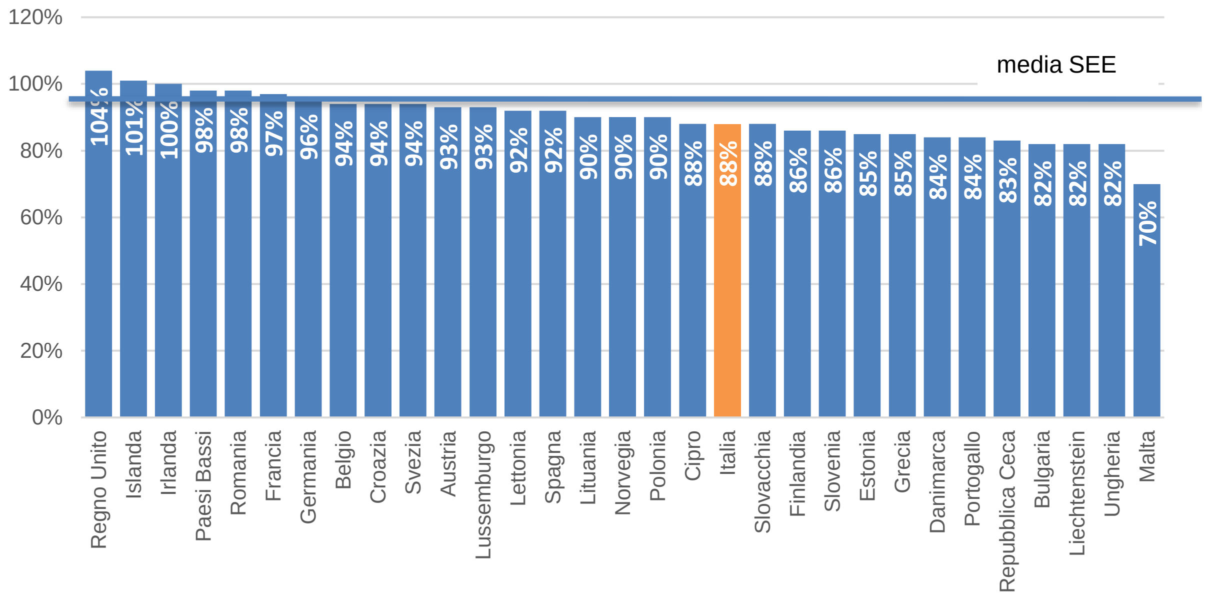
Source: EIOPA.

In the non-life business, the average combined ratio at the end of 2020 (fig. I.7) is 96%, indicating that the underwriting process is, on average, profitable.

Figure I.7

Combined Ratio by country – 4th quarter 2020

(% values)



Source: calculation based on EIOPA data.

[8] Financial Stability Report EIOPA (December 2020); the ratios are based on the quarterly financial stability reporting and on EIOPA Risk Dashboard (January 2021).

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 sheets of insurance companies in major European Countries– 4th quarter 2020

(million euro)

	Italy		France		Germany		Spain		United Kingdom	
Assets										
Deferred tax assets	9,996	0.9%	15,410	0.5%	16,474	0.7%	17,863	5.1%	935	0.03%
Investments (excluding assets for index- and unit-linked)	815,112	74.9%	2,241,403	75.7%	2,077,823	82.8%	269,913	77.3%	1,031,534	35.0%
Assets held for index- and unit linked	196,367	18.0%	410,297	13.9%	120,618	4.8%	25,544	7.3%	1,351,702	45.8%
Secured and unsecured loans	7,223	0.7%	39,305	1.3%	116,813	4.7%	1,931	0.6%	125,407	4.3%
Recoverable amounts from reinsurance	9,847	0.9%	124,103	4.2%	64,547	2.6%	9,982	2.9%	307,236	10.4%
Cash and cash equivalents	8,724	0.8%	20,111	0.7%	12,592	0.5%	11,879	3.4%	17,356	0.6%
Other assets	40,762	3.7%	108,543	3.7%	100,975	4.0%	12,114	3.5%	115,188	3.9%
Total assets	**1,088,031**	**100.0%**	**2,959,172**	**100.0%**	**2,509,842**	**100.0%**	**349,226**	**100.0%**	**2,949,358**	**100.0%**
Liabilities										
Non-life technical provisions	51,434	5.3%	173,557	6.6%	212,698	10.6%	26,939	9.2%	144,444	5.2%
Life technical provisions - excluding linked policies	643,408	66.9%	1,741,303	66.6%	1,393,071	69.7%	184,872	63.2%	791,999	28.7%
Unit- and index-linked technical provisions	189,519	19.7%	397,726	15.2%	134,069	6.7%	24,611	8.4%	1,504,285	54.5%
Deferred tax liabilities	16,181	1.7%	28,462	1.1%	62,697	3.1%	24,442	8.4%	8,428	0.3%
Other liabilities	61,337	6.4%	272,817	10.4%	196,162	9.8%	31,469	10.8%	310,733	11.3%
Total liabilities	**961,879**	**100.0%**	**2,613,865**	**100.0%**	**1,998,697**	**100.0%**	**292,333**	**100.0%**	**2,759,889**	**100.0%**
Excess assets over liabilities	**126,152**		**345,307**		**511,145**		**56,894**		**189,469**	

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 still the main activity.

2. - The Italian insurance market: structural aspects

2.1. - Market structure

As at 31 December 2020, the undertakings authorised to pursue insurance and reinsurance business in Italy under the prudential supervision of IVASS were 99 (101 in 2019), 96 of which domestic and 3 branches of foreign undertakings with head office in a non EEA country (tables I.5 and I.6).

In addition to these, there are 103 companies with registered offices in another EEA country operating through branches in Italy and 1,048 companies authorised to operate under fos, subject to prudential supervision by the authority of the country of origin[9] (see Chap. V.3.2 for changes in the Lists of EU operators after Brexit, with effect from 1 January 2021).

Table I.5

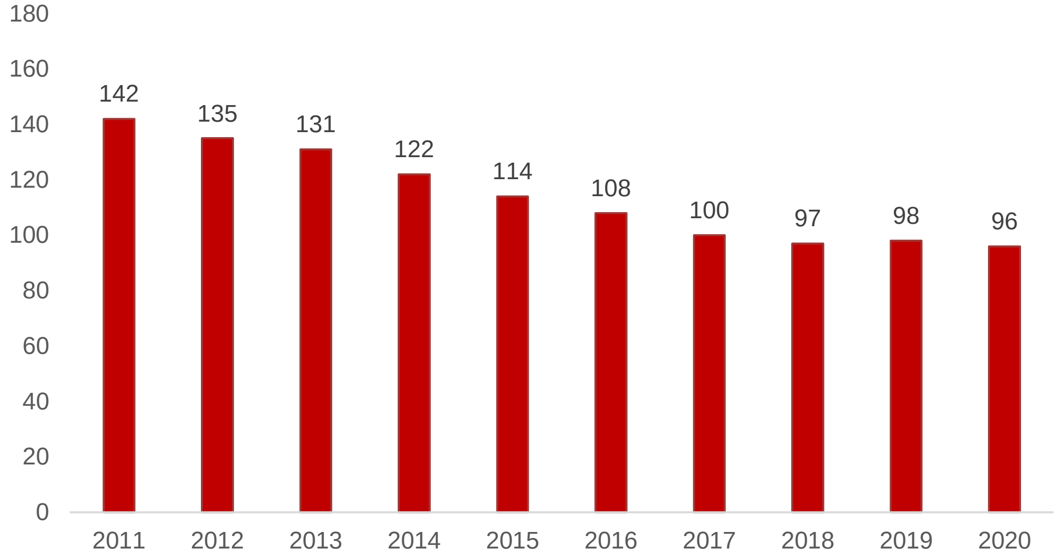
	Domestic under-takings	Non-EEA under-takings under foe	EEA insurance undertakings under foe	EEA reinsur-ance undertak-ings under foe	EEA undertak-ings under fos
2011	142	2	87	8	977
2012	135	2	91	7	991
2013	131	2	93	7	979
2014	122	2	91	7	1,005
2015	114	3	96	7	1,007
2016	108	3	97	7	1,008
2017	100	3	103	7	985
2018	97	3	110	7	1,055
2019	98	3	107	6	1,049
2020	96	3	103	6	1,048

From 2011 to 2020 the number of domestic undertakings gradually dropped from 142 to 96, down by 32% in the ten-year period (Fig. I.8).

[9] 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 2020 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

Number of domestic undertakings
(Units)



Since 2009 there are no more Italian specialist reinsurers for both life or non-life business. In 2020, two domestic undertakings terminated business, after being incorporated into another two Italian undertakings.

Between 2011 and 2020, EEA undertakings authorised to operate in Italy under the right of establishment and fos increased, respectively, by 15% (+14 undertakings) and by 7% (+71).

Table I.6

Breakdown of undertakings authorised to pursue business in Italy by type of activity – 2020

(Units)

	Non-life	Life	Hybrid	Total
Supervised by IVASS				
Domestic insurance undertakings	50	33	13	96
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	29	3	103
Insurance undertakings/establishments of EEA States under fos	826	197	25	1,048
Branches of reinsurance undertakings of EEA States	6	0	0	6

77% of branches in Italy have their head office in France, Germany, Ireland, Luxembourg and the United Kingdom (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)
	2019	**2020**
Number of undertakings	**107**	**103**
Head office country:		
France	18	18
Ireland	17	17
Germany	17	15
Luxembourg	14	15
United Kingdom	17	14
Belgium	8	8
Spain	5	4
Austria	4	4
Liechtenstein	4	4
Others	3	4

In 2020, 4 EEA undertakings coming from Belgium, Ireland, Luxembourg and Malta were licensed to operate in Italy under right of establishment. The number of branches of specialist reinsurers with head offices in the EEA remained stable at six, all pursuing non-life business. 32 undertakings or branches of undertakings with head office in another EEA member state (83 in 2019) were licensed to carry on business under fos, of which 5 coming from France and 3 each from Germany, the Netherlands, Ireland and the United Kingdom (tab. I.8). There were 321 companies with registered office in an EEA country that actually operated in Italy writing premiums via fos (the latest EIOPA data referring to 2019).

Table I.8

EEA undertakings/establishments licensed to write services business into Italy		
		(Units)
	2019	**2020**
Number of undertakings	**1,049**	**1,048**
Country of origin:		
United Kingdom	136	132
Ireland	123	125
Germany	132	124
France	107	108
Netherlands	82	84
Luxembourg	54	52
Spain	43	43
Belgium	45	41
Sweden	39	38
Malta	33	36
Austria	34	35
Denmark	28	30
Liechtenstein	24	25
Norway	20	20
Others	149	155

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

In 2019[10], life and non-life premiums collected by domestic and foreign companies from Italian customers amounted to 165.4 billion (+2.9% compared to 2018), up for the second consecutive year.

The value of premiums collected in Italy by foreign companies continues to increase (70.9 billion, compared to 68.9 in 2018, with an increase of +3%), though with a lower pace compared to the previous year (+12.1%). The incidence of premiums collected by foreign undertakings over the total premium income amounts to 42.9%, up compared to 2015 (39.8%).

In the life business, the direct premium income in Italy of foreign undertakings was 53.5 billion euro (+2.2% compared to 2018, tab. I.9). Of this business, 14.3 billion was attributable to business pursued under the right of establishment or fos, mainly by companies based in Ireland and Luxembourg (92.4% of the total, tables 2 and 3 in the Appendix). Premiums collected in Italy by foreign undertakings controlled by Italian entities and pursuing business under fos amounted to 5 billion euro, coming mainly from the placement of unit- and index-linked products, down (-15%) for the second consecutive year.

In the non-life business, foreign undertakings collected premiums for 17.4 billion euro (+5,6% compared to 2018). Of this business, 6.5 billion was attributable to operations under the right of establishment or fos, half of which were pursued by companies based in Ireland and France (tables 4 and 5 in the Appendix). Premiums collected by companies in the UK, which is no longer part of the European Union from 2021, had fallen sharply between 2018 and 2019 (from €1.8 billion to €0.4 billion).

[10] Latest figure published by EIOPA.

Table I.9

Direct insurance premiums collected in Italy					
					(million euro)
	2015	**2016**	**2017**	**2018**	**2019**
Italian undertakings (1)	86,383	77,681	75,461	69,503	71,611
of which: with head office abroad (2)	6,956	9,698	9,045	5,866	4,985
Foreign undertakings (6)	53,760	48,551	45,440	52,374	53,503
of which: establishments of EU undertakings	5,724	5,454	5,291	4,957	4,850
of which: business under the freedom to provide services	12,610	8,827	8,066	9,131	9,439
of which: with head office in Italy (3)	35,426	34,270	32,083	38,286	39,214
Premiums from Italian direct business (4=1-2+3)	114,852	102,253	98,499	101,923	105,840
% direct insurance related to foreign entities (5=3/4)	30.8	33.5	32.6	37.6	37.1
% total income in Italy related to foreign entities (6/7)	***38.4***	***38.5***	***37.6***	***43.0***	***42.8***
Total (7=1+6)	**140,143**	**126,232**	**120,901**	**121,877**	**125,114**
Non-life business					
Italian undertakings (1)	21,380	21,516	21,631	22,284	22,855
of which: with head office abroad (2)	0	5	7	6	6
Foreign undertakings (6)	17,360	15,677	15,985	16,489	17,418
of which: establishments of EU undertakings	4,919	4,580	4,734	4,945	4,693
of which: business under the freedom to provide services	1,819	654	929	1,129	1,824
of which: with head office in Italy (3)	10,622	10,443	10,322	10,415	10,901
Premiums from Italian direct business (4=1-2+3)	32,002	31,954	31,946	32,693	33,750
% direct insurance related to foreign entities (5=3/4)	33.2	32.7	32.3	31.9	32.3
% total income in Italy related to foreign entities (6/7)	***44.8***	***42.2***	***42.5***	***42.5***	***43.2***
Total (7=1+6)	**38,740**	**37,193**	**37,616**	**38,773**	**40,273**
life and non-life business					
Italian undertakings (1)	107,763	99,197	97,092	91,787	94,466
of which: with head office abroad (2)	6,956	9,703	9,052	5,872	4,991
Foreign undertakings (6)	71,120	64,228	61,425	68,863	70,921
of which: establishments of EU undertakings	10,643	10,034	10,025	9,902	9,543
of which: business under the freedom to provide services	14,429	9,481	8,995	10,260	11,263
of which: with head office in Italy (3)	46,047	44,713	42,405	48,701	50,115
Premiums from Italian direct business (4=1-2+3)	146,854	134,207	130,445	134,616	139,590
% direct insurance related to foreign entities (5=3/4)	31.4	33.3	32.5	36.2	35.9
% total income in Italy related to foreign entities (6/7)	***39.8***	***39.3***	***38.7***	***42.9***	***42.9***
Total (7=1+6)	**178,883**	**163,425**	**158,517**	**160,650**	**165,387**

In 2019, the total premium income earned abroad by companies with head office in Italy and supervised by IVASS was 45.3 billion euro, collected almost entirely through foreign subsidiaries. Premium income for life business accounts for 64.1% of the total premium income earned abroad. The amount has remained substantially stable over the five-year period 2015-2019 (tab. I.10).

If we consider (tab. I.10), separately for the Non-Life and Life business, the share of premiums collected abroad on the total (defined as the "degree of international openness"), it is noted that the Non-Life business, as a proportion of the total premiums collected for each class, are those most open to the insurance market outside the Italian borders: in 2019 41.6% of premiums were written abroad (compared to 28.9% for life business).

Table I.10

Direct premium income collected abroad

(million euro)

	2015	2016	2017	2018	2019
Life assurance					
Italian undertakings	29,387	27,712	30,195	30,504	29,039
of which: with head office abroad	29,139	27,224	29,968	30,295	28,805
*% of international opening**	25.4	26.3	30.3	30.5	28.9
Foreign undertakings	2.9	3.0	3.0	2.0	2.0
Total	**29,390**	**27,715**	**30,198**	**30,506**	**29,041**
Non-life business					
Italian undertakings	15,326	15,382	15,854	15,622	16,290
of which: with head office abroad	14,680	14,777	15,267	14,996	15,501
*% of international opening**	41.8	41.7	41.6	41.2	41.6
Foreign undertakings	7.3	8.0	9.0	8.0	8.0
Total	**15,333**	**15,390**	**15,863**	**15,630**	**16,298**
life and non-life business					
Italian undertakings	44,713	43,094	46,049	46,126	45,329
of which: with head office abroad	43,818	42,001	45,235	45,291	44,306
*% of international opening**	29.3	30.3	32.2	33.4	32.4
Foreign undertakings	10.2	11.0	12.0	10.0	10.0
Total	**44,723**	**43,105**	**46,061**	**46,136**	**45,339**

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

Table I.11

Premium income and investments by shareholdings and parent group of the supervised undertakings – 2020

(million euro and percentage values)

Type of control	premiums (Italian direct business)	%	Investments class C and D	%
Foreign undertakings	**46,771**	**34.7**	**271,835**	**30.3**
EU and non-EU entities of the insurance sector + non-EU branches	32,454	24.1	176,324	19.7
EU and non-EU entities of the financial sector	14,317	10.6	95,511	10.7
Italian undertakings	**88,075**	**65.3**	**624,876**	**69.7**
State and public bodies	17,775	13.2	139,841	15.6
insurance sector	50,874	37.7	320,838	35.8
Financial sector	19,268	14.3	163,932	18.3
Other private entities	157	0.1	265	0.0
Grand total	**134,845**	**100.0**	**896,711**	**100.0**

At the end of 2020, 52.1% of the premium income and 54.1% of class C and D investments referred to undertakings controlled by Italian private entities - hence excluding foreign undertakings or those controlled by the State and by public bodies - the former percentage increased slightly while the latter remained substantially unchanged compared to 2019 (50.9% and 54.5% respectively).

For foreign entities, the percentage in terms of premium income is slightly down, from 35.7% in 2019 to 34,7%, while the share of class C and D investments remains stable, from 30% to 30.3%.

Among Italian private entities, those of the insurance sector have a prevailing weight, with 37.7% of income and 35.8% of investments, as in previous years (respectively 37.6% and 36.1% in 2018); the financial sector comes next, with 14.3% of income and 18.3% of investments (compared to 12.8% and 18.4% in the previous year). 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 62.9% for the first five groups and to 80.9% for the first ten. For non-life business, the share of the first five groups is 67.2% and 85.3% for the first ten.

Table I.12

Concentration ratios for the top 5 and 10 groups – Life and non-life business

(% values)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
					First 5 groups				
Life	51.7%	58.6%	58.6%	60.0%	59.8%	65.6%	62.8%	59.5%	62.9%
Non-life	68.3%	72.5%	71.7%	70.7%	69.2%	68.9%	68.2%	67.6%	67.2%
Total	52.9%	59.8%	59.0%	59.9%	59.5%	62.9%	59.5%	58.7%	60.9%
					First 10 groups				
Life	66.4%	71.9%	73.4%	74.0%	73.3%	80.9%	79.1%	79.4%	80.9%
Non-life	85.6%	86.5%	86.5%	83.9%	83.3%	85.5%	85.0%	84.2%	85.3%
Total	69.2%	73.3%	74.4%	74.5%	74.2%	79.9%	78.1%	78.1%	79.3%

For the motor liability sector, Table I.13 shows the annual trend in concentration which, at the end of the period, was respectively 68.7% for the top five groups and 89.1% for the top ten.

Table I.13

Concentration ratios for the top 5 and 10 groups – motor vehicle liability (classes 10 and 12)

(% values)

2012	2013	2014	2015	2016	2017	2018	2019	2020
				First 5 groups				
68.3%	72.5%	71.7%	70.7%	69.2%	68.9%	68.2%	68.8%	68.7%
				First 10 groups				
85.5%	86.5%	86.5%	83.9%	83.3%	85.5%	85%	89.6%	89.1%

3.2. - Overview

In 2020, gross premiums written recorded for the Italian and foreign portfolio of undertakings supervised by IVASS[11] were 138.8 billion euro, with a decrease of -3.8% compared to 2019 (Table I.14). Premiums of the Italian direct and indirect insurance portfolio amounted to 135.8 billion euro (-3.8%).

Table I.14

Premium income relating to the Italian and foreign portfolio for both insurance and reinsurance

(million euro and percentage variations)

Year	Italian direct portfolio – Life	Italian direct portfolio – Non-life	Italian direct portfolio – Total	Total for Italy (direct and indirect portfolio)	Total foreign undertakings (direct and indirect portfolio)	Total portfolio Italy and abroad (direct and indirect portfolio)
2011	73,869	36,358	110,727	111,562	1,957	113,519
2012	69,715	35,413	105,129	106,126	2,236	108,362
2013	85,100	33,687	118,787	119,782	2,398	122,180

[11] 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.

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	134,559
2018	102,048	33,097	135,145	136,062	2,533	138,596
2019	106,012	34,285	140,296	141,150	3,009	144,159
2020	101,329	33,517	134,846	135,769	2,981	138,750
*Var. 2020/2019**	*-4.4*	*-2.2*	*-3.9*	*-3.8*	*-0.9*	*-3.8*
*Var. 2020/2011**	*37.2*	*-7.8*	*22.3*	*21.7*	*52.3*	*22.2*

* Variations within homogeneous undertakings.

The ratio between the premiums of the Italian direct insurance portfolio and the GDP[12] increased from 7.8% in 2019 to 8.2% in 2020, as a result of the drop in the GDP triggered by the pandemic. The premiums/GDP ratio increased both for the life business (from 5.9% to 6.1%) and for the non-life business, although to a lesser extent (from 1.9% to 2%, tab. I.15[13] and tab. 7 in the Appendix).

Table I.15

Insurance penetration rate

(Incidence of premiums of the Italian direct portfolio over Gross Domestic Product - GDP)

(% values)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Life	4.5%	4.3%	5.3%	6.8%	6.9%	6.0%	5.7%	5.8%	5.9%	6.1%
Non-life	2.2%	2.2%	2.1%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%
Life and non-life	**6.7%**	**6.5%**	**7.4%**	**8.8%**	**8.9%**	**7.9%**	**7.5%**	**7.6%**	**7.8%**	**8.2%**

3.3. - Premiums for life business

3.3.1. - General performance of life premium income

Premium income from life business (Italian direct business) declined in 2020 by -4.4% compared to 2019, mainly due to the sustained decline (-9.5%) in class I (insurance on the length of human life, tab. 10 in the Appendix), after two consecutive years of growth (+5.5% in 2018 and +9.7% in 2019). Class V (capital redemption policies) also contributed to the reduction in life premiums, with -24.1% after -32.9% in 2019. Class III premiums (linked policies) bucked the trend, growing by +6.2% after two consecutive years of reduction (-4.5% in 2018 and -6.6% in 2019). Overall, premium income in Classes I and III amounted to 95.3 billion euro in 2020 (94.1% of total life premium income, Fig. I.9).

[12] GDP at year end at market prices: Source: ISTAT, data revised as at April 2021

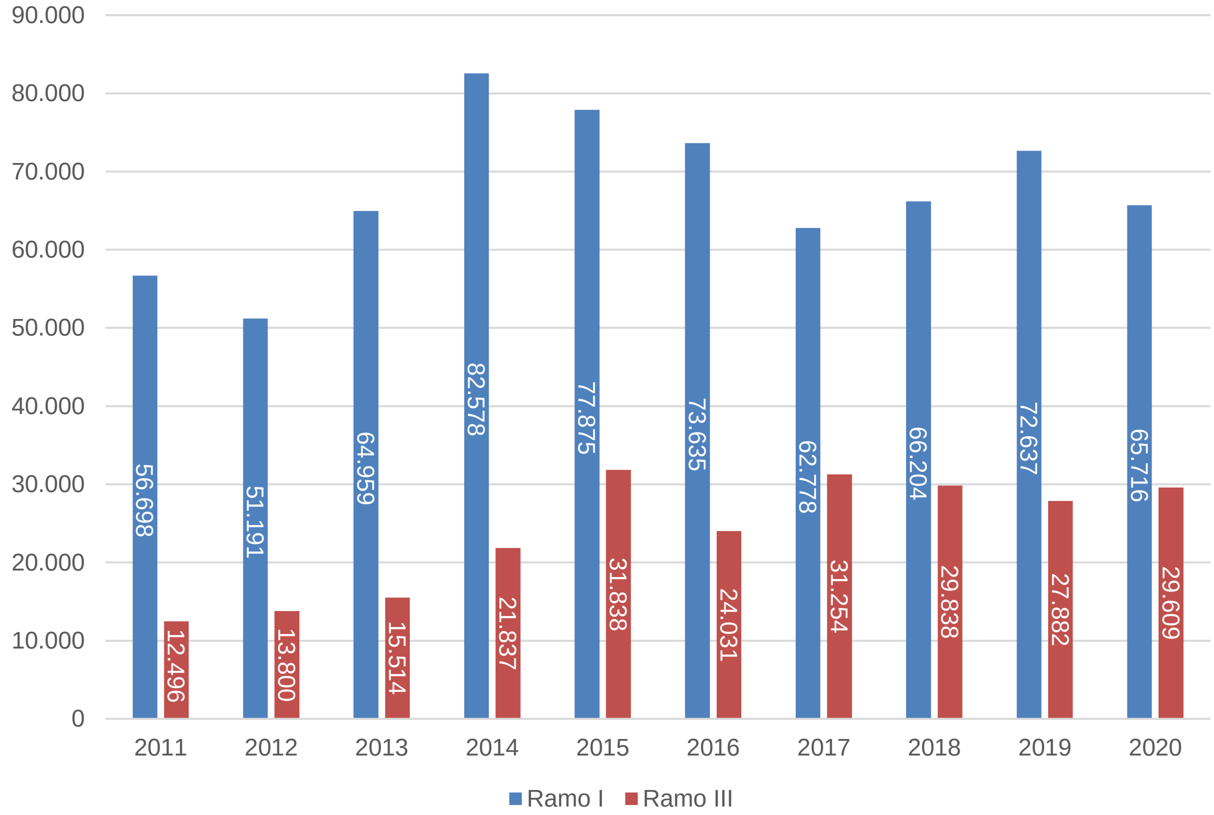
[13] See Cap. I.1.1.3 for an international comparison based on OECD data at 2019.

Class VI (pension funds), which still represents a limited market share of life premium income (3.8%), continues to increase, for the seventh consecutive year.

Figure I.9

Life premium income in Classes I and III

(million euro)



Net premium income (the balance between premiums and claims incurred) decreased in 2020 compared to the previous year, due to the decrease in premium income (Table I.16). The ratio of claims to premiums rose from 71.8% in 2019 to 75.4% in 2020; also the ratio of surrenders (a component of claims incurred) over premiums increased slightly, from 39.9% in 2019 to 40.9% in 2020.

Table I.16

Life business - premiums and claims burden - Italian direct business

(million euro and percentage values)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Life premiums (A)	73,869	69,715	85,100	110,518	114,947	102,252	98,611	102,048	106,012	101,329
Claims incurred (B)	73,971	75,022	66,788	64,577	71,196	62,932	71,155	73,223	76,158	76,446
Net income (A)-(B)	-102	-5,306	18,312	45,941	43,751	39,320	27,456	28,825	29,854	24,882

Life business - premiums and claims burden - Italian direct business										
										(million euro and percentage values)
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Claims/premiums (B)/(A) %	100.1	107.6	78.5	58.4	61.9	61.5	72.2	71.8	71.8	75.4
of which: Surrenders/premiums	*62.9*	*67.7*	*47.4*	*34.1*	*37.2*	*39.0*	*44.7*	*44.3*	*39.9*	*40.9*

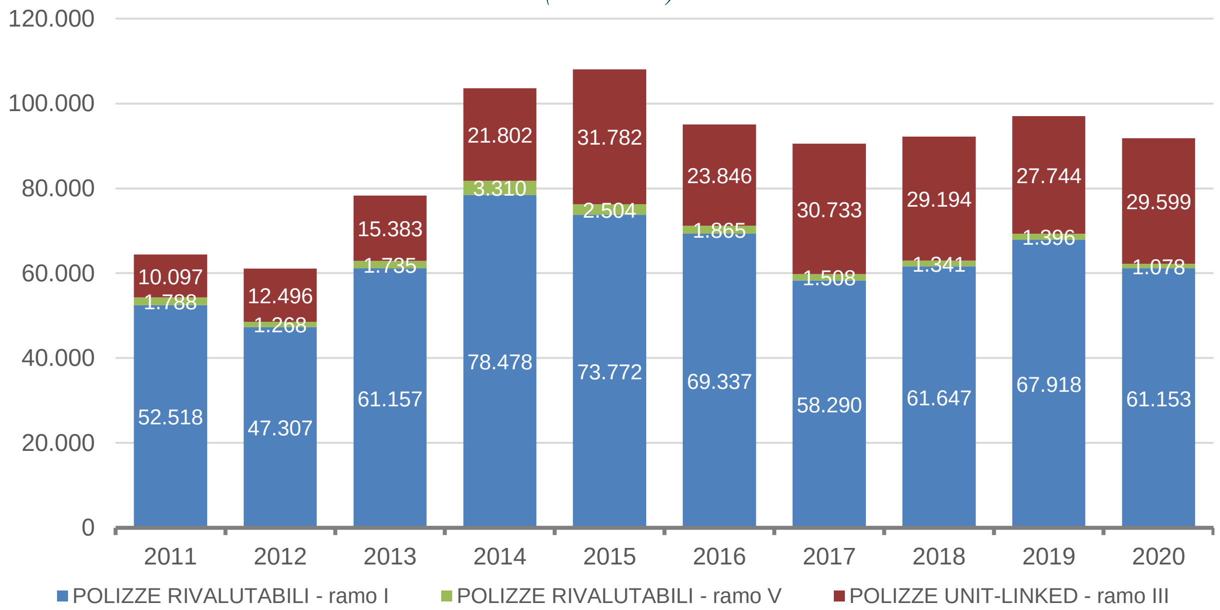
3.3.2. - The premiums of individual life assurance products

In 2020, premium income for individual life policies accounted for 92.8% of the total life assurance income (Table 11 in the Appendix).

The composition of individual life assurance products among traditional Class I and V policies (respectively, assurance on the length of human life and capital redemption operations) and class III products[14] has slightly changed to the benefit of the latter (fig. I.10): at the end of the year, the first of these stood at 66.1% of the total (69.7% in 2019), while the second had a 31.5% impact (28% in 2019).

Figure I.10

Breakdown of individual policies
(million euro)



COVID effects on mortality tables and other insurance parameters

The COVID-19 pandemic resulted in an increase in mortality in 2020, which is clearly detectable on the basis of the data published by ISTAT (tab. I.17).

[14] From 2013, linked policies have been almost exclusively composed of unit products. In 2020, they represented all linked policies at the end of 2020.

Table I.17

Number of deaths in Italy

	2016	2017	2018	2019	2020	Var. 20/ average 16-19	Var. 20/19
North	264,549	277,059	275,813	276,170	376,181	38%	36%
Centre	115,725	123,236	117,311	119,519	157,846	33%	32%
South	184,985	198,803	189,875	193,782	212,561	11%	10%
ITALY	**565,259**	**599,098**	**582,999**	**589,471**	**746,588**	**28%**	**27%**

Source: ISTAT.

The increase in mortality was concentrated in Northern and Central Italy.

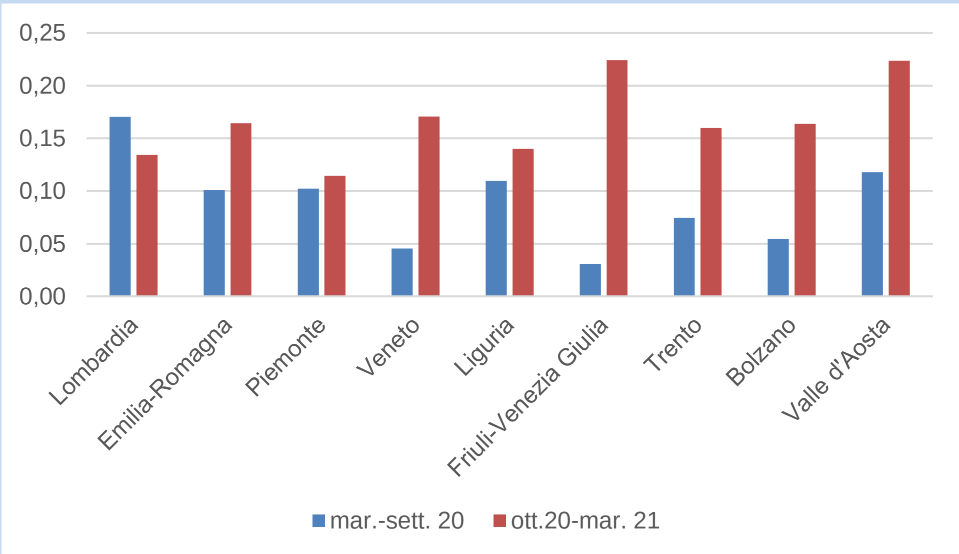
Specific evidence on deaths due to COVID-19 can be obtained from the survey on deceased and positive patients conducted by the Integrated Surveillance System, coordinated by the Istituto Superiore di Sanità - ISS. It should be borne in mind that the procedures for notification, monitoring, verification and updating may vary from region to region and from period to period.

This survey indicates a number of deaths nationwide from causes attributable to COVID-19 as of 30 March 2021 of 106,779.

Figure I.11

Mortality in Northern Italy

(percentage of deaths on total inhabitants by region)



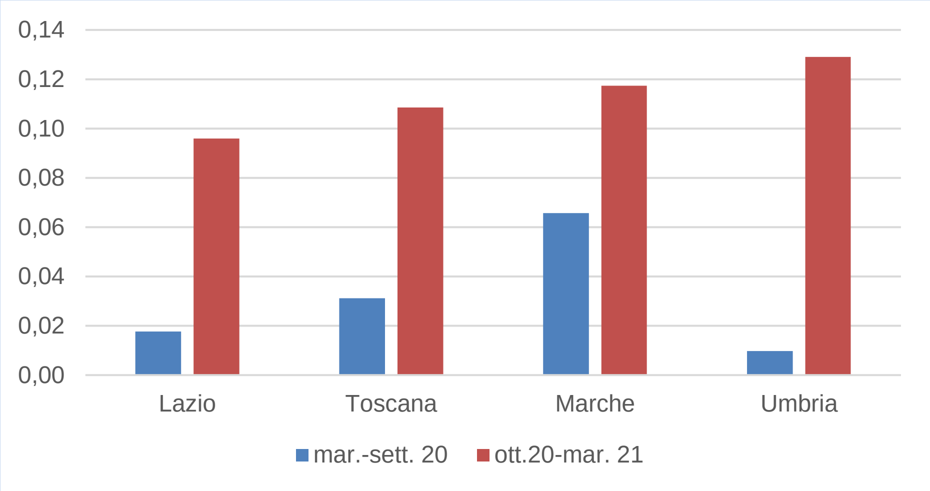
Source: Processed from ISS data, Report “Characteristics of patients who died positive for SARS-CoV-2 infection in Italy” as of 30 March 2021.

Lombardy is the region with the highest lethality in absolute value, with more than 30 thousand deaths, and a mortality rate on the total number of inhabitants decreasing from 0.17% to 0.13% between the first and the second wave (fig. I.11). An opposite trend was recorded in Veneto and Emilia-Romagna, characterised by more than 10 thousand deaths in total, where the second wave had a more significant impact, going from 0.5% and 0.11% to 0.17% and 0.16% respectively. There was a significant increase in the death rate on a regional basis for the smaller regions (Friuli-Venezia Giulia, the Provinces of Trento and Bolzano and Valle d'Aosta) from 0.3% - 0.7% to 0.16% - 0.22% for the second wave.

Figure I.12

Mortality in Central Italy

(percentage of deaths on total inhabitants by region)

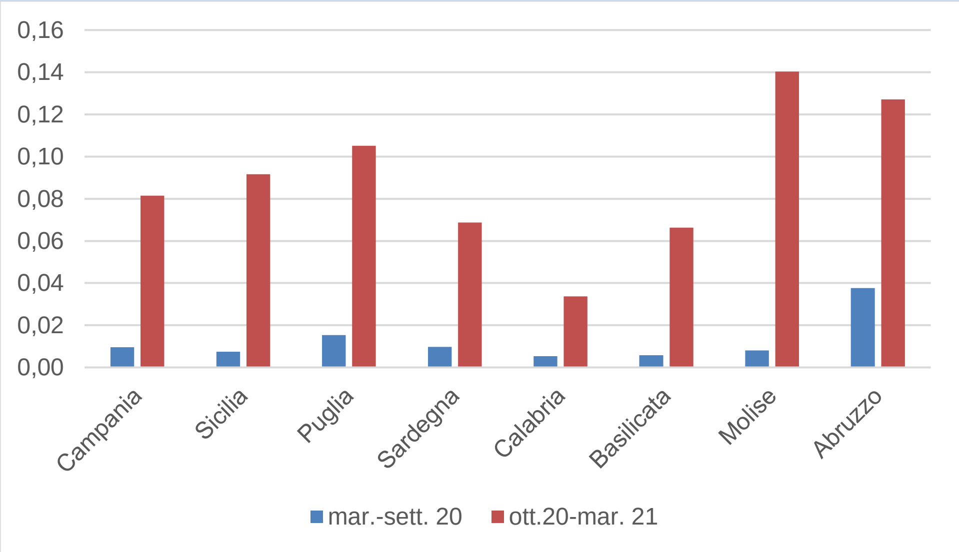


In Lazio the number of deaths in the second phase was about 5 thousand compared to less than a thousand in the first wave. The COVID mortality rate on the resident population for the two largest central regions (Lazio and Tuscany) increased from 0.2-0.3% in March-September 2020 to 0.10-0.11% in October 2020-March 2021 (Fig. I.12). Umbria was little affected by the contagion in the first phase but in the second wave the deaths reached 0.13% of the population.

Figure I.13

Mortality in Southern Italy and Islands

(percentage of deaths on total inhabitants by region)



The most populous regions in the South and Islands (Campania, Sicily and Apulia) showed a limited impact of the pandemic between March and September 2020, while the second phase presented results in absolute value of about 5 thousand per region. The mortality rate shows a relevant growth between the first and second wave, passing from 0.01% for Campania and Sicily and 0.02% for Apulia to 0.8%, 0.9% and 0.11% respectively (fig. I.13).

In order to assess the impact of the pandemic mortality, which is higher than that recorded since the last world war, on the price of life insurance, coverage against the risk of death through a single-premium policy has been considered, based on demographic assumptions deriving from the 2011 ISTAT mortality tables, compared with an integrated demographic base of the number of deaths from COVID, recorded by the Istituto Superiore di Sanità in January 2021 (tab. I.18). The weight of death policies on total life business at the end of 2020 was about 2%. The estimate, broken down by age and gender, takes into account a technical interest rate of 1% for an insured capital of €50,000 with a duration of 10 years.

Table I.18

Pricing of cover in case of death: Female

(in euro)

Age	Duration	Single premium	Single premium adjusted for COVID mortality	Delta %
45	10	498.6	501.1	0.5
55	10	1,266.8	1,274.2	0.6
65	10	2,999.4	3,025.3	1.0
75	10	8,358.5	8,485.7	1.5

Table I.19

Pricing of cover in case of death: Male

(in euro)

Age	Duration	Single premium	Single premium adjusted for COVID mortality	Delta %
45	10	835.6	841.5	0.7
55	10	2,204.2	2,227.7	1.1
65	10	5,702.4	5,803.4	1.8
75	10	14,119.1	14,497.6	2.7

The theoretical incidence of COVID on the single premium remained generally modest, with a maximum value of 2.7% for a 75-year-old male.

3.4. - Premiums for non-life business

The non-life business (direct Italian business) dropped by -2.2% in 2020, after three years of progressive growth (+1.2% in 2017, +2.3% in 2018 and +3.2% in 2019, tab. I.20 and tab. 12 in the Appendix).

The reduction in premium income is mainly due to the effect of the pandemic on the motor sector, which accounts for 46.6% of non-life classes and records a drop in premium income of -4.4% compared to 2019. Overall, the other sectors showed substantial stability (-0.3% compared to 2019), after uninterrupted growth since 2014. In the motor sector, a reduction of -5.7% is recorded in the motor liability class, and a growth of +1% in the land vehicles class.

Among the other most representative sectors in terms of premiums written, the health sector decreased by -2.2% (+3.5% in 2018 and +7.5% in 2019) and the property sector by -0.8% (+3.7% and +4.5%). The two segments together accounted for 37% of non-life business.

The following sectors also increased: general liability (+2.4%), legal expenses and assistance (+3.5%), credit and suretyship (+3.1%) and transports (+2.7%).

Table I.20

Non-life premium income (premiums written of Italian direct business)

(million euro and percentage values)

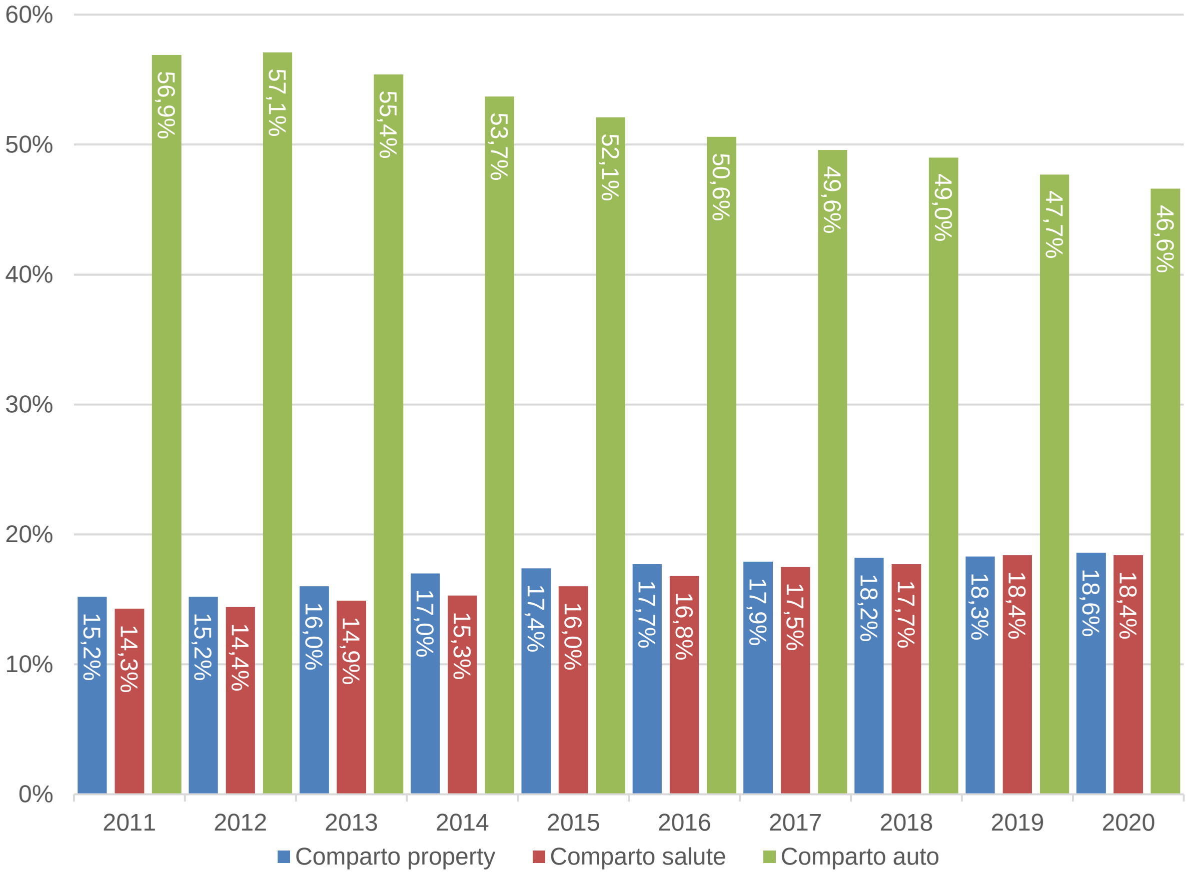
Sector	Insurance class	2019	Per-cent-age %	Δ%	2020	Per-cent-age %	Δ% *
Health	Accident	3,242	9.5%	4.6%	3,173	9.5%	-2.1%
	Sickness	3,057	8.9%	10.7%	2,986	8.9%	-2.3%
	Total	**6,300**	**18.4%**	**7.5%**	**6,159**	**18.4%**	**-2.2%**
Motor insurance	MTPL	13,211	38.5%	-0.8%	12,457	37.2%	-5.7%
	Liability for ships	33	0.1%	2.2%	34	0.1%	4.0%
	Land vehicles	3,112	9.1%	4.4%	3,142	9.4%	1.0%
	Total	**16,356**	**47.7%**	**0.1%**	**15,633**	**46.6%**	**-4.4%**
Transport	Railway rolling stock	10	0.0%	25.4%	9	0.0%	-2.9%
	Aircraft	10	0.0%	14.1%	12	0.0%	13.1%
	Ships	218	0.6%	6.6%	237	0.7%	8.8%
	Goods in transit	172	0.5%	-2.7%	162	0.5%	-5.7%
	Aircraft liability	8	0.0%	2.1%	9	0.0%	10.5%
	Total	**418**	**1.2%**	**3.0%**	**429**	**1.3%**	**2.7%**
Property	Fire and natural forces	2,593	7.6%	5.0%	2,645	7.9%	2.0%
	Other damage to property	3,029	8.8%	3.1%	3,084	9.2%	1.8%
	Financial loss	666	1.9%	9.0%	507	1.5%	-23.9%
	Total	**6,288**	**18.3%**	**4.5%**	**6,236**	**18.6%**	**-0.8%**
General liability		**3,201**	**9.3%**	**5.9%**	**3,277**	**9.8%**	**2.4%**
Credit and Surety-ship	Credit	77	0.2%	8.9%	82	0.2%	6.7%
	Suretyship	423	1.2%	6.6%	433	1.3%	2.4%
	Total	**500**	**1.5%**	**6.9%**	**515**	**1.5%**	**3.1%**
Legal expenses / Assistance	Legal expenses	422	1.2%	10.6%	450	1.3%	6.5%
	Assistance	801	2.3%	9.7%	817	2.4%	2.0%
	Total	**1,223**	**3.6%**	**10.0%**	**1,266**	**3.8%**	**3.5%**
Total Non-life		**34,285**	**100.0%**	**3.2%**	**33,517**	**100.0%**	**-2.2%**

* Variations within homogeneous undertakings.

Fig. I.14 shows, for the main insurance sectors (motor, health and property), their share in terms of premium income over total non-life business from 2011 to 2020. In the ten-year time interval, the share of the motor sector declined by more than 10 percentage points, almost all this percentage was absorbed by the health and property sectors, whose weight grew, respectively, by 4.1 and 3.4%.

Figure I.14

Shares (%) of the motor, health and property sectors over total non-life business



3.5. - Distribution

3.5.1. - Distribution in life business

In 2020, the share of sales through banks and post offices declined (59% compared to 60.7% in 2019; tab. I.21); they remain the channel most used in the life sector but also the most penalised by the pandemic.

The share of agencies increased from 23.8% in 2019 to 25%, and that of financial promoters from 13.6 to 13.9%.

Table I.21

Distribution channels in life business											
											(% values)
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Banks and post offices	60.3	54.7	48.6	59.1	62.0	63.1	62.3	61.0	60.8	60.7	59.0
Agencies	22.6	25.6	26.6	23.0	20.2	19.8	22.1	22.4	22.8	23.8	25.0
Financial promoters	15.8	18.3	23.3	16.7	16.8	16.3	14.4	15.3	14.3	13.6	13.9
Direct sale and brokers	1.3	1.4	1.5	1.2	1.0	0.8	1.2	1.3	2.2	1.9	2.1
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 slight growth in 2020 of the share of non-life premiums written through the agency channel (77.5%, compared to 77.1% in the previous year; tab. I.22) has stopped the downward trend observed in previous years.

There was an increase in the share of premiums collected through direct sales and brokers, respectively from 9.2% in 2019 to 9.6% and from 6.0% to 6.8%. As in the life classes, the share of premiums collected through bank branches and financial promoters fell from 7.7% in 2019 to 6.1%.

Table I.22

Distribution channels in non-life business											
											(% values)
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agencies	84.4	83.7	84.1	83.2	81.7	81.1	79.9	78.9	78.1	77.1	77.5
Brokers	8.0	8.0	7.4	7.6	8.5	8.2	9.2	9.4	9.6	9.2	9.6
Direct sale	4.1	4.7	5.2	5.5	5.7	5.8	5.3	5.2	5.7	6.0	6.8
Banks and financial promoters	3.5	3.6	3.3	3.7	4.1	4.9	5.7	6.4	6.7	7.7	6.1
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 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[15].

4.1. - Balance Sheet

At the end of 2020, the investments of the Italian insurance market measured according to local gaap amounted to 896.7 billion euro (Table I.23), of which 90.2% in the life business and the remaining 9.8% in the non-life business. The investments were up by +4.7% when compared with 2019.

Table I.23

Summary of the Balance Sheet (local gaap)

(million euro and percentage values)

Item	2019	2020	Var. 2020/2019	Item	2019	2020	Var. 2020/2019
Assets				**liabilities and shareholders' equity**			
Amounts owed by shareholders for subscribed capital not yet paid	-	-	-	Non-life technical provisions	58,781	58,804	0.0%
Intangible assets	5,745	5,311	-7.6%	Class C life technical provisions	563,261	581,475	3.2%
Non life investments	85,726	87,699	2.3%	Class D life technical provisions	179,226	196,308	9.5%
Class C life investments	591,288	612,526	3.6%	Provisions for other risks and charges	2,312	2,337	1.1%
Life (class D) investments	179,144	196,486	9.5%	Deposits received from reinsurers	5,739	4,733	-17.5%
Reinsurers' share of non-life technical provisions	6,539	7,299	11.6%	Creditors and other liabilities (including accruals and deferrals)	30,980	30,507	-1.5%
Reinsurers' share of life technical provisions	5,870	4,171	-28.9%				
Credits	33,964	34,474	1.5%	Shareholders' equity	69,906	74,312	6.3%
Other assets (including accruals and deferrals)	18,112	18,857	4.1%	Subordinated liabilities	16,453	18,347	11.5%

15 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).

Summary of the Balance Sheet (local gaap)							
							(million euro and percentage values)
Item	2019	2020	Var. 2020/2019	Item	2019	2020	Var. 2020/2019
Assets				liabilities and shareholders' equity			
Total assets	**926,653**	**966,823**	**4.3%**	**Total liabilities and shareholders' equity**	**926,653**	**966,823**	**4,3%**

The life and non-life technical provisions amounted to 836.6 billion euro versus 801.3 billion euro at the end of 2019 (see Table 32 in the Appendix). In life business, the overall technical provisions amounted to 777.8 billion euro (742.5 in 2019), with a share of Class C technical provisions for contracts other than unit and index-linked or deriving from the management of pension funds amounting to 74.7%. The provisions of the non-life business amount to 58.8 billion euro, stable compared to 2019.

4.2. - Shareholders' equity

At the end of 2020, the shareholders' equity of life and non-life undertakings in the statutory accounts amounted to 74.3 billion euro (69.9 billion euro in 2019), including own funds for 60.3 billion euro (58 billion euro in 2019), of which capital provisions for 44.1 billion euro and share capital, endowment and guarantee funds for 16.2 billion euro (Table 13 in the Appendix).

Also for the financial year 2020, IVASS confirmed the option, introduced by IVASS Regulation no. 43 of 12 February 2019[16], 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 2020 insurance companies recorded, overall, a profit of 8.6 billion euro (stable compared to 2019, Table I.24). The loss of profit of 1.2 billion in life business compared to the previous year is offset by the increase of the same amount in the non-life business.

In detail:

- the life business has recorded a profit for the year of 4.7 billion, equal to 4.6% of gross premiums written (5.6% in 2019);

[16] IVASS Regulation no. 4 of 12 February 2019, as amended and supplemented by IVASS order no. 101 of 12 January 2021, concerning the implementation of measures on the temporary suspension of capital losses on securities held for trade introduced by Law Decree 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 2020 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 2021 for the approval of the 2020 financial statements.

– the non-life business has recorded a profit of 3.9 billion, equal to 10.7% of gross premiums written (7.2% in 2019).

Table I.24

Profit / loss for the financial year - Life and non-life business

(million euro and percentage values)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Life	-2,636	5,129	3,105	3,498	3,753	3,587	3,519	1,983	5,978	4,733
% of premiums	*-3.5%*	*7.2%*	*3.6%*	*3.1%*	*3.2%*	*3.4%*	*3.5%*	*1.9%*	*5.6%*	*4.6%*
Non-life	-1,016	640	2,125	2,446	1,956	2,114	2,445	2,183	2,653	3,850
% of premiums	*-2.7%*	*1.7%*	*6.0%*	*7.1%*	*5.8%*	*6.2%*	*7.1%*	*6.2%*	*7.2%*	*10.7%*
Total	**-3,653**	**5,770**	**5,231**	**5,945**	**5,709**	**5,701**	**5,965**	**4,165**	**8,630**	**8,584**
% of premiums	*-3.2%*	*5.3%*	*4.3%*	*4.1%*	*3.8%*	*4.1%*	*4.4%*	*3.0%*	*6.0%*	*6.2%*

The ROE (life and non-life) was 11.6%, slightly down compared to 12.3% in 2019, which was the highest value in the last ten years (Table I.25; 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 10.9% (14.5% in 2019); in the non-life business it reached 12.4% (9.2% in 2019).

Table I.25

ROE of life and non-life business

(% values)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Life	-9.3%	15.2%	8.0%	9.2%	9.4%	9.2%	9.0%	5.3%	14.5%	10.9%
Non-life	-5.1%	2.2%	8.2%	9.2%	6.9%	7.7%	8.8%	7.8%	9.2%	12.4%
Total	**-7.6%**	**10.3%**	**8.1%**	**9.2%**	**8.4%**	**8.6%**	**8.9%**	**6.4%**	**12.3%**	**11.6%**

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 2018. In that year the insurance sector (including the limited contribution of pension funds)[17] represented 0.73% of the total value added in Italy (down compared to 0.63% in 2017), below the average of 0.93% of EU countries (fig. 1.a in the Appendix). In comparison with the major

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

European countries, the value added for Italy was above France (0.68%) and below Spain (0.85%), Germany (1.19 %) and the United Kingdom (1.68%).

The value added per worker stood at 264,000 euro (fig. 1.b in the Appendix), recording a high rise compared to the 218,000 euro recorded in 2017, resuming the growth observed between 2010 and 2016. The value added per worker in the whole EU is 41.4% lower than the Italian one, which is higher than the value in the big European countries, except the United Kingdom.

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 9.1 billion euro in 2019 (Fig. 3 in the Appendix), with a sharp decrease (-17.3%) compared to the previous year. The drop is more marked in the life sector (-29%) than in the non-life sector (-7.6%).

In 2019, added value in life insurance decreased because the increase in technical provisions (representing a liability, with a negative sign in the formation of added value) was higher than capital gains (which contribute positively to added value), although the latter were much higher than in the previous year.

As to the breakdown of value added by type of control, 76.5% refers to companies under insurance control, 12.6% to those controlled by financial groups and the remaining 11.8% by a composite group of undertakings, among which publicly controlled companies are dominant. Between 2010 and 2019, the contribution of companies under insurance control declined by almost 9 percentage points.

The value added per worker in the life business was 511,000 euro in 2019, growing both compared to 2018 (+12.3%) and to 2010 (+145.1%). The added value of companies under financial control has fallen sharply (€470 thousand compared to €695 thousand in the previous year, see figure 3.a.1 in the Appendix) and the gap with companies under insurance control has decreased accordingly. The rise in the value added per worker is due to very large companies (from 460 thousand to 513 thousand euro between 2018 and 2019), despite a sharp reduction for smaller companies (fig. 3.a.2 in the Appendix).

The per capita profitability in the non-life business is lower than that of life business, due to the different characteristics of the two sectors, and in 2019 it amounted to 196 thousand euro (-3% compared to 2019). In 2020, for the first time since 2010, the indicator for undertakings under financial control (232 thousand euro) is higher than that for companies under insurance control (192 thousand euro, fig. 3.b.1 in the Appendix).

In terms of size, the gap in the productivity per worker between large or very large companies (221 thousand euro, fig. 3.b.2 in the Appendix) and smaller companies has increased (with a sharp drop for small undertakings, from 194 thousand euro to 132 thousand).

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

The health situation caused by the pandemic was accompanied by a decline in premium income in 2020, which was more pronounced in life than in non-life business. Against this backdrop, in contrast to what was observed at aggregate level, companies under financial control recorded a growth in premiums compared to 2019 in both segments, from €29.3 to €32.3 billion in life and from €1.3 to €1.7 billion in non-life.

As a consequence, in the life insurance business, the share of companies under financial control increased from 27.4% to 30.7%, to the detriment of companies under insurance control for which the share decreased from 55.8% to 52.8% (figure I.15.a). Smaller companies, with a market share of less than 3%, reported a sharp decline in premiums (-27.6%, figure I.16.a), while companies with a larger market share grew (+7.6%).

In non-life business, companies under insurance control generated 91.3% of premiums, while companies under financial control collected 5.6% of premiums compared to 4.1% in 2019 (fig. I.15.b). Companies that each collected less than 3% of the segment's premiums saw their premium income decrease by -4.4% compared to 2019 (fig. I.16.b), while that of the largest companies remained stable.

Figure I.15

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

(% of total premiums)

a) Life **b) Non-life**

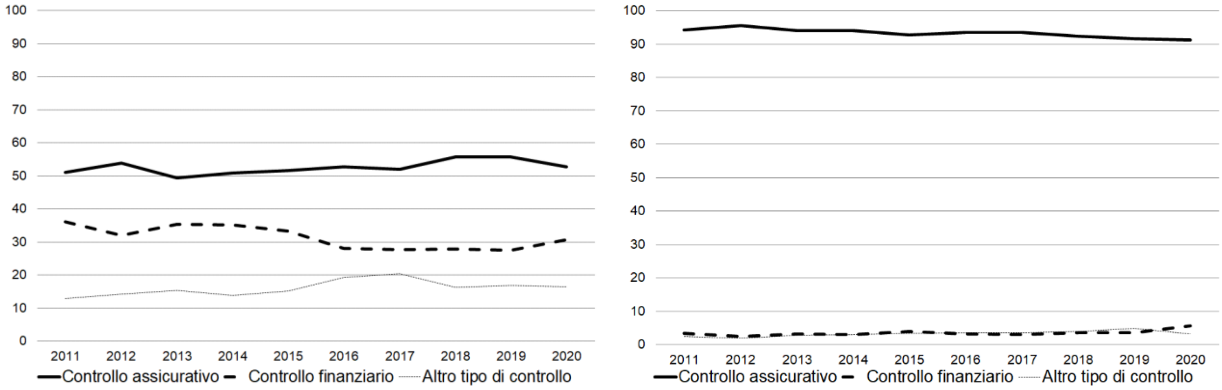
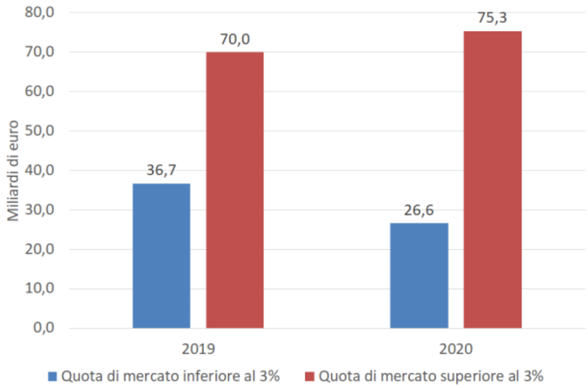


Figure I.16

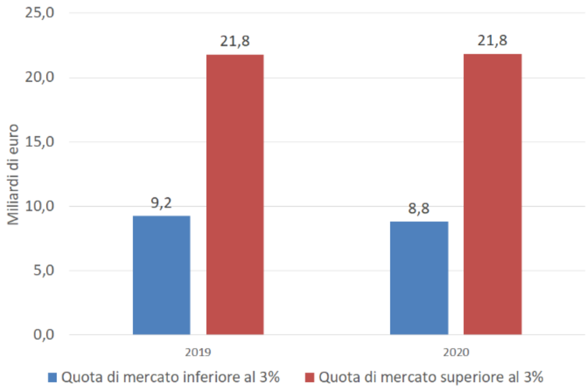
Premium income of Italian insurance undertakings by individual share of premiums over the total for the sector, 2019 and 2020

(billion euro)

a) Life



b) Non-life



ROE, which measures return on equity, was down slightly in 2020 compared to 2019, due to the negative contribution of the life business, while the non-life business showed slight growth.

In life business, the greatest decline in profitability was for companies under financial control and those under control other than insurance or financial (fig. I.17.a). The ROE of companies with a market share of less than 3% remained substantially stable, compared to a sharp decline of -6% for those with a larger share of premium income (fig. I.18.a).

The decline in life ROE for companies under financial control, recorded in the presence of an increase in premium income, was also attributable to the sharp increase compared to 2019 in the loss ratio (from 72.4% to 81.9%), higher than that of companies under financial control (from 68.9% to 73.9%).

In the non-life segment, companies under financial control achieved the largest increase in ROE (17.7%, compared to 12.2% in 2018, fig. I.17.b), with a significant positive change in companies under financial control (from 8.9% to 12.1%), which collected nine-tenths of the segment premiums. There was a growth in ROE for companies with small market shares (less than 3%) as well as for larger ones (fig. I.18.b).

Figure I.17

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

a) Life **b) Non-life**

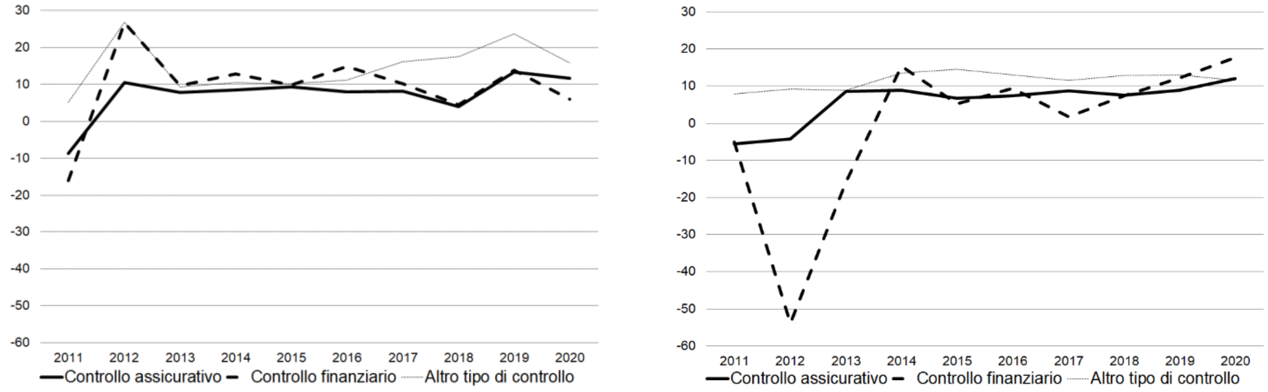
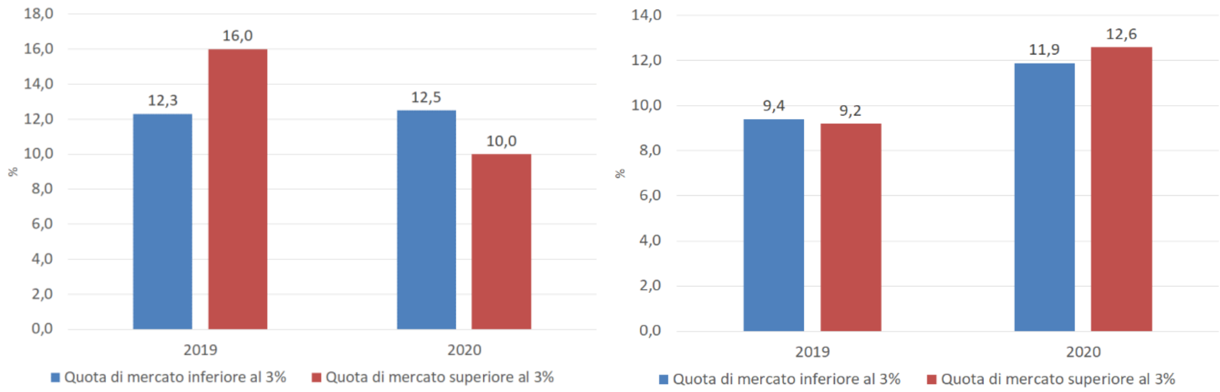


Figure I.18

ROE of Italian insurance undertakings by individual share of premiums over the total for the sector, 2019 and 2020
(profit as % of shareholders' equity)

a) Life **b) Non-life**



If we look at the indicators of the operating efficiency of insurance companies, the overall expense ratio for life business, i.e. the ratio between operating expenses and premiums, is 3.8% of premiums, stable compared to 2019. The gap remained between undertakings under insurance control (4.9%, fig. I.19.a) and undertakings under financial control (2.7%). The figure for companies with other types of control (2.4%) is not entirely comparable, as it essentially measures the costs of distribution through the post office counter channel.

Companies with market shares of less than 3% are characterised by higher operating costs than those with larger shares. In relation to premiums, these costs were slightly higher than in 2019 (from 4.5% to 4.9%, fig. I.20.a).

In the non-life business, there was a slight decrease in operating expenses, with the expense ratio falling from 28.6% to 28.4%. The greatest containment of expenses was achieved by companies under financial control, for which the indicator decreased from 39.3% to 28.6% (fig.

I.19.b), which were aligned for the first time with operating costs of companies under insurance control, historically lower.

The classification of companies by market share held in the non-life segment showed that companies with a share below 3% had higher operating costs, albeit decreasing slightly between 2019 and 2020 (the expense ratio decreased from 30.7% to 29.1%, fig. I.20.b).

Figure I.19

Expense ratio of Italian insurance undertakings by type of control

(operating expenses as a % of premiums)

a) Life **b) Non-life**

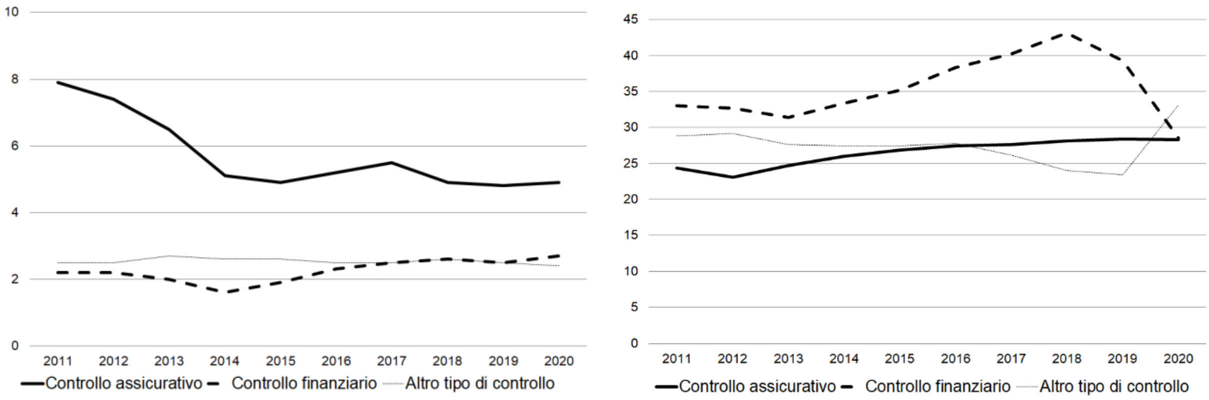
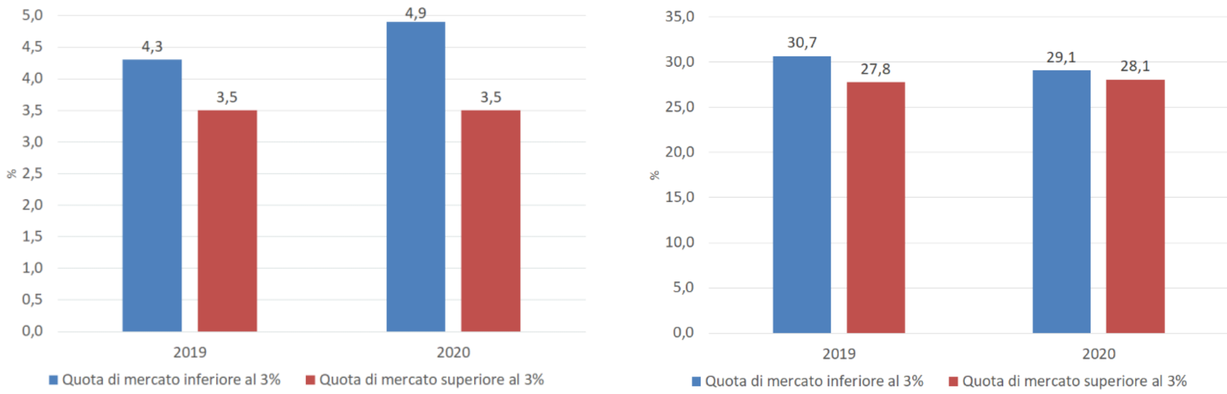


Figure I.20

Expense ratio of Italian insurance undertakings by individual share of premiums over the total for the sector, 2019 and 2020

(operating expenses as a % of premiums)

a) Life **b) Non-life**



An important component of operating expenses is represented by commission expenses, which remunerate the companies' distribution network. In life insurance, commission expenditure amounted to 2.6% of premiums, a slight increase from 2.3% in the previous year, driven by the increase recorded for insurance-controlled companies, from 2.9% in 2019 to 3.4% in 2020 (fig. I.21.a). Over the time period under examination, undertakings under financial control have contained this expense item better than the other undertakings. Companies with market shares of less than 3% had a slightly lower than average commission expenditure, increasing in 2020 (from 2.2% to 2.9%, fig. I.22.a).

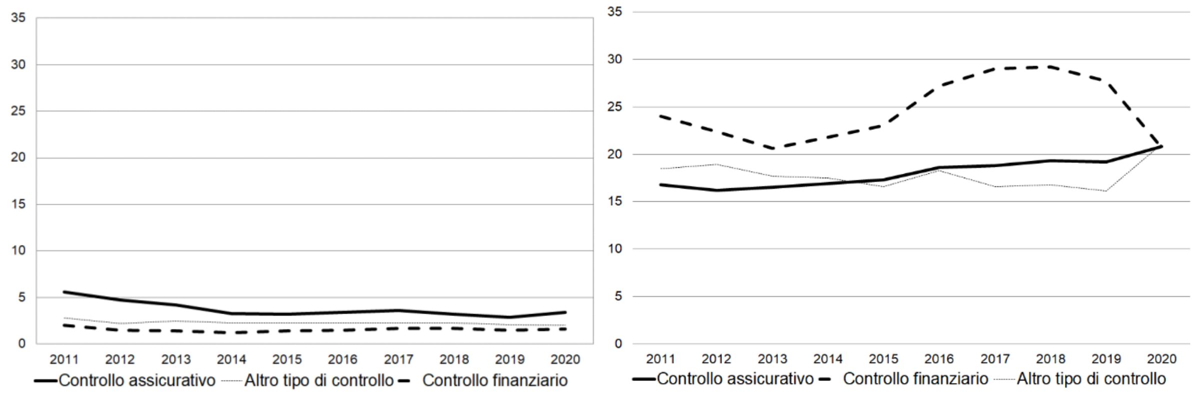
In non-life insurance, commission expenses as a proportion of premiums rose slightly, from 19.4% in 2019 to 20.8%. In contrast, companies under financial control managed to contain this item, from 27.7% to 20.7% (fig. I.21.b). Companies with market shares in the segment below 3% have commissions of 29.1% of premiums (fig. I.22.b), higher than average, but lower than in 2019 (when they amounted to 30.7%).

Figure I.21

Commissions on premiums of Italian insurance companies by type of control

*(commissions as a % of premiums)**

a) Life **b) Non-life**



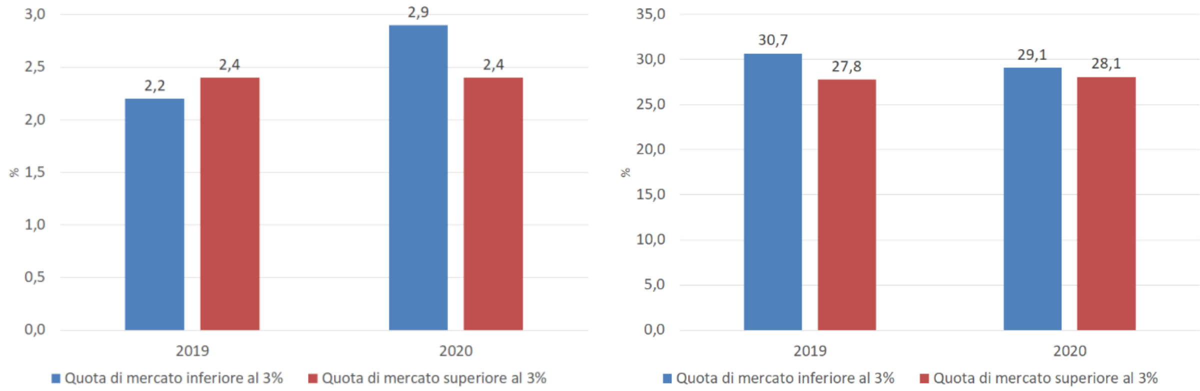
* In order to take into account the different duration of life contracts with respect to non-life contracts, life commissions are related only to first annual premiums and to single premiums.

Figure I.22

Commissions on premiums of Italian insurance companies by individual share of premiums over the total for the sector, 2019 and 2020

*(commissions as a % of premiums)**

a) Life **b) Non-life**



* In order to take into account the different duration of life contracts with respect to non-life contracts, life commissions are related only to first annual premiums and to single premiums.

4.5. - Management of life classes

The life business (Italian and foreign, insurance and reinsurance portfolio) disclosed a positive balance on the technical account of 3.4 billion euro in 2020 (6.4 billion euro in 2019; Table I.26), which represents 44.4% (66,9% in 2019) of the total balance on the technical account for the life and non-life business, equal to 7.7 billion (9.5 billion in 2019).

Table I.26

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 percentage values)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
premiums for the current financial year	74,368	70,376	85,756	110,963	115,504	103,177	99,280	102,609	106,654	101,904
Investment income (net of charges)	6,404	18,248	15,390	16,717	16,556	16,876	16,681	13,762	19,550	16,080
Net class D income and gains	-2,801	9,197	4,860	6,366	1,748	2,079	3,867	-11,100	17,134	4,948
Other technical items	-240	-322	-391	-443	-403	-381	-407	-369	-361	-402
Claims charges	-74,177	-75,296	-66,999	-64,651	-71,239	-63,383	-71,749	-73,190	-76,117	-76,481
Changes in class C technical provisions	-15,794	-9,996	-30,426	-49,913	-37,087	-38,057	-23,877	-24,845	-27,080	-19,612
Changes in class D technical provisions	13,150	-129	283	-10,374	-16,429	-10,792	-14,627	-597	-27,171	-16,761
Operating expenses	-3,961	-3,521	-3,684	-3,884	-4,064	-3,994	-4,033	-4,002	-4,046	-3,909
Allocated investment return transferred to the non-technical account	-265	-1,626	-1,444	-1,917	-1,821	-1,824	-1,773	-1,442	-2,203	-2,373
BALANCE ON THE TECHNICAL ACCOUNT	**-3,316**	**6,931**	**3,344**	**2,864**	**2,765**	**3,701**	**3,362**	**826**	**6,363**	**3,394**
Allocated investment return transferred to the technical account	265	1,626	1,444	1,917	1,821	1,824	1,773	1,442	2,200	2,373
Other net income	-603	-627	-828	-563	-636	-814	-886	-913	-1,034	-991
PROFIT OR LOSS ON ORDINARY BUSINESS	**-3,654**	**7,930**	**3,960**	**4,219**	**3,951**	**4,711**	**4,249**	**1,356**	**7,529**	**4,776**
EXTRAORDINARY PROFIT OR LOSS	**93**	**-29**	**841**	**511**	**939**	**87**	**250**	**365**	**264**	**793**
Tax on profit or loss	925	-2,772	-1,696	-1,231	-1,136	-1,211	-950	262	-1,815	-835
PROFIT OR LOSS FOR THE FINANCIAL YEAR	**-2,636**	**5,129**	**3,105**	**3,498**	**3,753**	**3,587**	**3,519**	**1,983**	**5,978**	**4,733**
Claims incurred as a % of premiums (A)	*99.7*	*107.0*	*78.1*	*58.3*	*61.7*	*61.4*	*72.3*	*71.3*	*71.4*	*75.1*
Expense ratio in % (B)	*5.3*	*5.0*	*4.3*	*3.5*	*3.5*	*3.9*	*4.1*	*3.9*	*3.8*	*3.8*
Combined ratio in % (A)+(B)	*105.1*	*112.0*	*82.4*	*61.8*	*65.2*	*65.3*	*76.3*	*75.2*	*75.2*	*78.9*

* 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 16.1 billion euro, with a reduction of three and a half billion euro compared to the previous year, due to the unfavourable 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 increased by 2 billion euro, reaching 6 billion, versus 4 billion euro in 2019 (Table I.27), and value adjustments on investments rose by 0,7 billion, going from 1.3 to 2 billion euro, equal to 32.9% of the expenses.

Table I.27

Life business - Financial charges and value adjustments

(million euro and percentage values)

	2014	2015	2016	2017	2018	2019	2020
Financial charges	3,508	4,759	4,316	4,157	6,821	3,988	5,985
of which: value adjustments	*1,367*	*1,901*	*1,832*	*1,921*	*4,187*	*1,299*	*1,970*
Ratios of adjustments/charges	39.0	39.9	42.5	46.2	61.4	32.6	32.9

The claims burden, equal to 76.5 billion euro, remained stable compared to 2019 (76.1 billion), although their incidence over premiums rose to 75.1% (71.4% in 2019). The claims burden of just the Italian direct portfolio was attributable, for 54.2%, to surrenders (55.6% in 2019) and 29.4% to capital and accrued annuities (it was 30.3%) Table I.28 shows the ratios for claims burden over premiums and surrender over premiums for the Italian direct life insurance portfolio.

Table I.28

Claims burden and surrenders over premiums Life business - Italian direct portfolio											
											(million euro and percentage values)
Insurance class	**Item**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Class I	claims incurred/premiums(%)	77.6	88.5	64.5	51.3	63.2	59.3	73.4	75.9	69.9	78.6
	of which: Surrenders/premiums(%)	*52.7*	*62.1*	*41.1*	*30.3*	*37.0*	*35.1*	*44.6*	*43.5*	*34.4*	*37.9*
Class III	claims incurred/premiums(%)	187.9	166.7	133.1	82.4	54.7	64.0	63.4	61.4	66.4	59.6
	of which: Surrenders/premiums(%)	*99.0*	*84.9*	*69.6*	*46.0*	*35.8*	*48.8*	*40.3*	*45.2*	*50.1*	*40.3*
Class V	claims incurred/premiums(%)	193.6	190.9	101.1	75.2	104.4	104.3	140.6	93.3	219.8	187.5
	of which: Surrenders/premiums(%)	*122.4*	*115.8*	*75.3*	*45.2*	*53.0*	*61.0*	*109.4*	*55.3*	*96.5*	*90.7*
Class VI	claims incurred/premiums(%)	27.3	72.1	69.8	50.8	54.7	58.6	82.2	51.9	43.6	89.2
	of which: Surrenders/premiums(%)	*26.1*	*24.4*	*30.3*	*33.2*	*46.0*	*38.2*	*37.6*	*38.7*	*33.3*	*42.9*
Total	**Claims incurred/premiums(%)**	**100.1**	**107.6**	**78.5**	**58.4**	**61.9**	**61.5**	**72.2**	**71.8**	**71.8**	**75.4**
	of which: Surrenders/premiums(%)	*62.9*	*67.7*	*47.4*	*34.1*	*37.2*	*39.0*	*44.7*	*44.3*	*39.9*	*40.9*
	net income*	-102	-5,306	18,312	45,941	43,751	39,320	27,456	28,825	29,854	24,882

* Net income = premiums - claims burden.

Acquisition commissions accounted for 49% of operating expenses (52.5% in 2019), the other acquisition costs for 18.3% (18.6% in 2019), while the incidence of collection commissions was 6.9% (5.9% in 2019).

In 2020 Class C technical provisions (Table 32 in the Appendix) amounted to 581.5 billion euro, recording an increase of 18.2 billion euro compared to the previous year (they grew by 27.1 billion euro in 2019). Compared to 2011 growth in these provisions equals 77%.

In 2020, Class D technical provisions came to 196.3 billion euro, thanks to an increase of 17.1 billion euro compared with the previous year The total increase in these provisions since 2011 nears 100%.

The result from ordinary activities, which was positive at 4.8 billion euro in 2020, fell by 2.7 billion compared to the previous year, also in relation to premiums for the year (from 7.1%, in 2019, the maximum value of the indicator during the period, to 4.7%)

The extraordinary income, net of charges, recorded a positive balance of 0.8 billion euro (0.3 billion in 2019).

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

- Class I disclosed a technical result of 2.6 billion euro in 2019, down sharply compared to the previous year (5 billion euro), due to the volatility that characterised the financial markets and to the reduction in bond and share returns;
- for Class III, the balance on the technical account was positive (0.3 billion euro), down compared to in 2019 (0.8 billion euro) , when the highest value in the decade was reached;
- Class V exhibited a moderately positive result of 0.4 billion euro, substantially stable compared to 2019 (0.3 billion euro).

4.5.1. - *Separately managed accounts*

With-profit life policies linked to separately managed accounts make up the majority of life business. Table I.29 shows the historical series of the breakdown of assets assigned to the separately managed accounts.

Table I.29

Breakdown of assets assigned to the separately managed accounts in euro - carrying amounts (market total)

(billion euro and percentage values)

	2010	2011	2012	2013	2014*	2015*	2016*	2017*	2018	2019	2020**
Fixed-income securities and bonds (A)	252.6	267.9	280.7	290.7	340.9	370.8	401.4	419.5	436.4	451.2	459.1
of which: listed corporate bonds in euro	*73.7*	*67*	*64.4*	*84.2*	*87.7*	*108*	*112.4*	*115.4*	*116.6*	*117.4*	*119.5*
Equity	10.9	10.2	11.3	12.8	13.8	8.1	8.2	8.4	8.3	8.8	9.1
Other assets	22.1	27.3	29.2	28.5	33.3	51.7	61.8	74.5	82.8	91.4	97.0
of which: units in UCITS	*14.3*	*16.4*	*17.3*	*17.1*	*20.4*	*41.7*	*52.6*	*64.8*	*72.8*	*82.4*	*91.3*
Total assets (B)	**285.5**	**305.3**	**321.2**	**331.9**	**338**	**430.6**	**471.4**	**502.4**	**527.5**	**551.4**	**565.2**
Change in total assets	*15.0%*	*6.9%*	*5.2%*	*3.3%*	*17.0%*	*11.0%*	*9.5%*	*6.6%*	*5.0%*	*4.5%*	*2.5%*
(A) / (B)	*88.5%*	*87.7%*	*87.4%*	*87.6%*	*87.9%*	*86.1%*	*85.2%*	*83.5%*	*82.7%*	*81.8%*	*82.2%*

* estimated data. – ** Provisional data.

The growth of assets registered in separately managed accounts slowed down in 2020, increasing by 2.5% at book values (+4.5% in 2019). There was a significant presence of bonds which 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. Investments in government bonds continued to prevail, increasing by 1.7% at book value, despite the gradual transition of life companies towards a more diversified investment model. The corporate bond segment was up 2.5%. In particular, within the fixed-income segment, about 3% of the separately managed accounts do not have government securities; while about 15% of these accounts do not invest in corporate bonds.

Gross average return (tab. I.30) was confirmed below 3%, with a reduction of less than the concomitant decrease of 78 basis points on the ten-year BTP yield; the relative resilience of the segment performance reflects, in addition to the realisation of net gains, the tendency to lengthen the investment horizon of the assets, congenial to ALM with slightly negative duration gaps. Fig. I.23 shows the average for the guaranteed and realised returns in 2020.

Table I.30

Return on separately managed accounts

(% values)

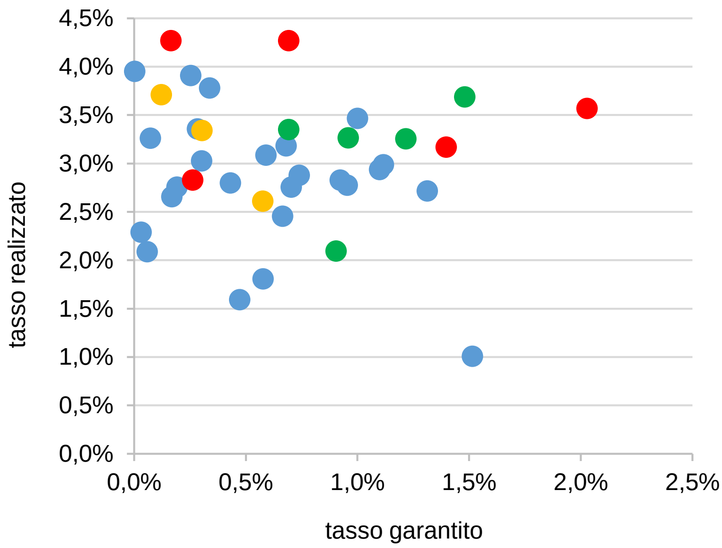
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross average return (A)	3.84	3.87	3.91	3.77	3.56	3.24	3.13	3.03	2.80	2.60
10-year guiding return of long-term Treasury bonds* (B)	6.81	4.54	4.11	1.99	1.58	1.89	2.11	2.61	1.95	1.17
(A) - (B)	*-2.97*	*-0.6*	*-0.20*	*1.78*	*1.98*	*1.35*	*1.02*	*0.42*	*0.85*	*1.43*

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

Figure I.23

Separately managed accounts: guaranteed and realised return - average for individual undertakings - 2020

(% values; green: provisions > 20 billion; blue: provisions between 1 and 20 billion; orange: provisions < 1 billion; estimates in red)

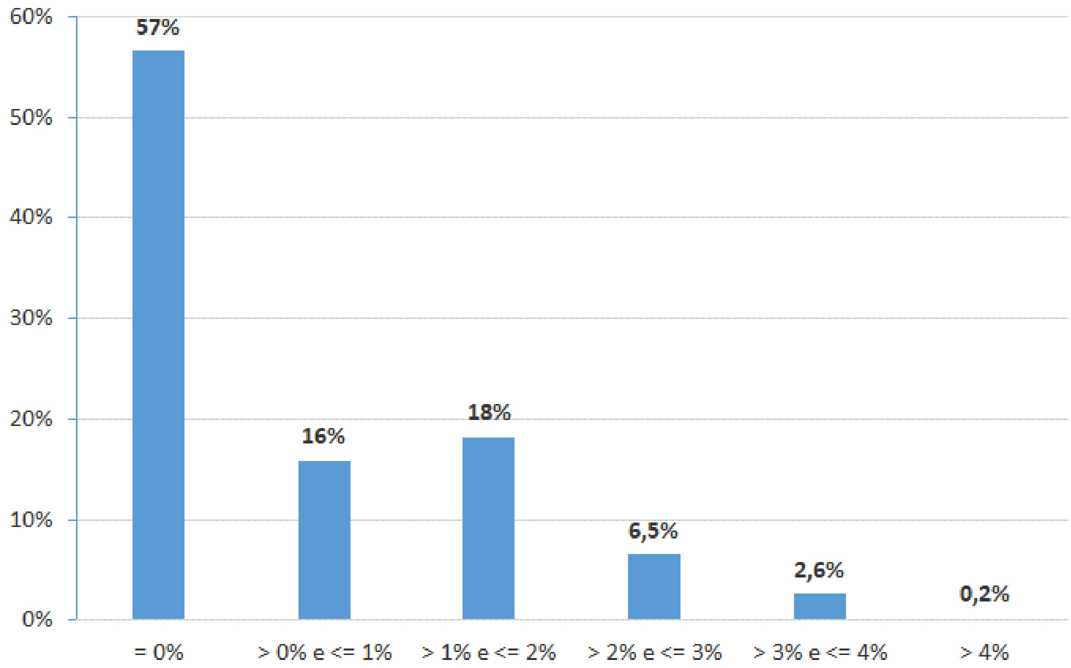


In terms of volumes, at the end of 2020 42 companies established 296 separately managed accounts, totalling 554 billion euro in mathematical provisions (including any additional technical provisions, with the exclusion of the additional provision for guaranteed interest rate risk).

Of note (Fig. I.24) 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 57% of technical provisions. Products with a guaranteed return of between 0-1% (16% of the provisions) and 1-2% (18%) retained a consistent share, equal to 34% in terms of technical provisions.

Figure I.24

Breakdown of technical provisions by guaranteed rate of separately managed accounts – 2020
(% values)



The profit fund introduced by IVASS Order no. 68/2018 was adopted by nine companies. These are five managed accounts set up in 2018, three managed accounts set up in 2019, while in 2020 only one managed account was set up with a profit fund.

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

The undertakings retain a portion 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. The retained portion of the average rate of return, in the different categories, rose from 28.6% in 2014 to 38.5 % in 2020 (tab. I.31). The downward trend in the average rates of return on separately managed accounts continued, while the average share retained remained around 1% of the mathematical reserves.

Table I.31

Indicators of the retained return and of the provisions for separately managed accounts	2014	2015	2016	2017	2018	2019	2020
Number of Separately managed accounts	363	345	303	305	299	293	295
Return withheld (billion euro)	4.4	4.5	4.6	5.4	5.4	5.4	5.7
Mathematical provisions (billion euro)	398.4	433.2	464.7	495.7	516.0	541.1	556.5
Average rate of return withheld *(% mathematical provisions)*	1.1	1.1	1.0	1.1	1.0	1.0	1.0
Average rate of return *(% mathematical provisions)*	3.9	3.8	3.6	3.1	3.0	2.8	2.6
Average rate of return withheld/ Average rate of return*(%)*	28.2	28.9	27.8	35.5	33.3	35.7	38.5

4.5.3. - Premium rates of new life products[18]

Tab. I.32 shows the breakdown of tariffs relating to the new products marketed concerning the entire life business, broken down by insurance class pursuant to article 2, paragraph 1, of the CAP.

Table I.32

New premium rates sold

	2016	2017	2018	2019	2020
Class I	398	488	481	385	333
Class III	98	111	208	92	145
Class IV	12	31	50	39	45
Class V	24	27	27	20	12
Class VI	12	2	1	5	0

The census of new tariffs for hybrid products, split between class I and class III components, has been in place since 2019[19]. Table I.33 shows the trends of the new contract types relating to with-profit insurance policies (classes I and V) sold from 2016 to 2020, 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.33

New with-profit premium rates sold

(% values)

	2016	2017	2018	2019	2020
Annual premium products	4.8	9.3	4.9	8.3	5.1
Single premium products	78.2	80.0	85.2	82.1	85.5
Recurring premium products	17.1	10.7	9.9	9.6	9.4

[18] 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. No. 3/2013.

[19] IVASS Letter to the market dated 22 February 2019.

Table I.34

New with-profit premium rates broken down by insurance class

(% values)

	2016	2017	2018	2019	2020
Class I	86.3	91.6	91.5	90.8	93.9
Class IV	3.1	0.9	0.7	0.8	0.5
Class V	10.6	7.4	7.8	8.3	5.6

The majority of new products are concentrated in Class I tariffs, largely as single-premium policies, while the share for Class V almost halved (Table I.34).

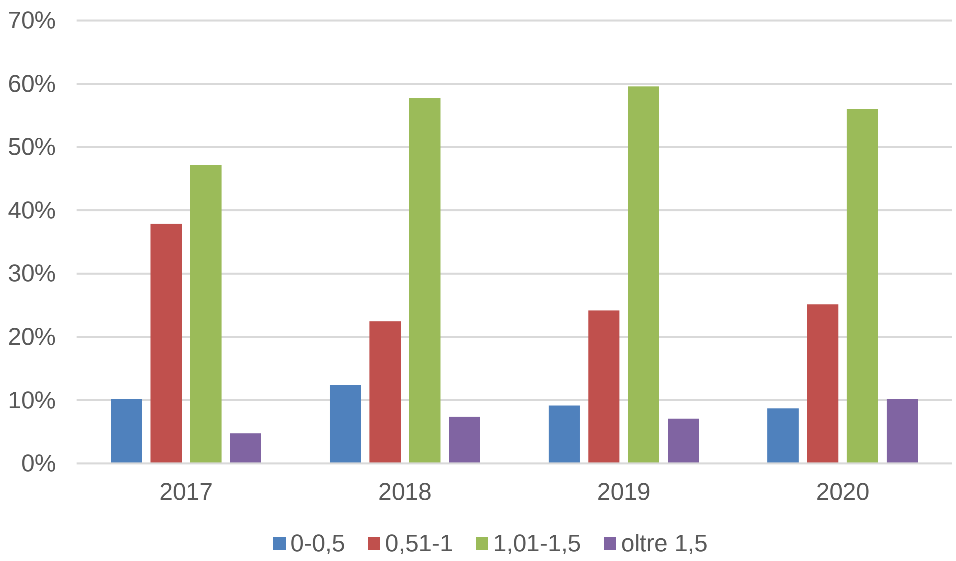
The new premium rates at a technical rate of 0% account for almost all the new products, with a share of 96.7%, up from 78% in 2019.

90.3% 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 significant margin by way of operating expenses (see I.3.5.1). The remaining 9.7% of the contracts envisage the adoption of a minimum retrocession rate (ranging between 80% and 98%), to be applied to the gross rate of return. 66% of undertakings withholds a return rate of over 1%, in line with the trend recorded in 2019 (fig. I.25).

Figure I.25

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

(% values)



4.6. - Management of non-life classes

The non-life business (Italian and foreign insurance and reinsurance portfolio) disclosed a technical profit of 4.3 billion euro, up compared to 3.1 billion 2019, accounting for 55.6% (33.1% in 2019) of the total balance of the technical account for life and non-life business.

The ratio of the technical operating result to premiums earned was 13.9% (10.1% in 2019), the maximum value of the indicator during the decade.

The profit for the year amounted to 3.9 billion euro (2.7 billion in 2019), positive for the ninth consecutive year (Table I.35). The growth in profit since 2012 was primarily due to the decline in the claim rate, measured by the *loss ratio*, and by the return on investments.

Table I.35

Profit and loss account of the non-life business - Domestic undertakings and branches of non-EU undertakings
Italian and foreign portfolio – insurance and reinsurance business

(million euro and percentage values)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premiums earned	33,590	33,257	32,241	31,353	30,675	29,587	29,571	29,875	31,032	30,658
Var. %	3.5%	-1.0%	-3.1%	-2.8%	-2.2%	-3.5%	-5,4%	1.0%	3.4%	-1.2%
Investment return transferred from the non-technical account	640	1,660	1,262	1,346	1,288	1,161	1,278	825	1,346	890
Claims charges	-25,199	-23,480	-21,323	-20,187	-19,291	-18,826	-18,769	-18,745	-19,757	-17,741
other technical items	-588	-651	-581	-509	-588	-599	-598	-565	-568	-809
Change in other technical provisions	0.2	0.5	2	1	0	-1	-2	-6	-10	-8
Operating expenses	-8,322	-8,018	-8,041	-8,245	-8,318	-8,219	-8,310	-8,510	-8,889	-8,717
Change in equalisation provisions	-18	-4	-14	-12	-15	-14	-11	-16	-11	-15
BALANCE ON THE TECHNICAL ACCOUNT	**106**	**2,765**	**3,546**	**3,747**	**3,751**	**3,089**	**3,157**	**2,858**	**3,142**	**4,257**
Investment income (net of charges)	-93	1,754	2,087	2,270	2,149	2,283	2,673	2,144	3,002	2,950
Investment return transferred to the technical account	-640	-1,660	-1,262	-1,346	-1,288	-1,161	-1,278	-825	-1,346	-890
Other net income	-948	-1,295	-1,354	-1,502	-1,469	-1,437	-1,471	1,571	-1,666	-1,654
BALANCE ON ORDINARY BUSINESS	**-1,576**	**1,563**	**3,018**	**3,170**	**3,143**	**2,773**	**3,081**	**2,606**	**3,132**	**4,616**
Extraordinary net income	386	1	473	450	72	137	208	176	269	173
Tax on profit or loss	174	-924	-1,365	-1,173	-1,259	-795	-844	-599	-750	-938
PROFIT OR LOSS FOR THE FINANCIAL YEAR	**-1,016**	**640**	**2,125**	**2,446**	**1,956**	**2,114**	**2,445**	**2,183**	**2,652**	**3,850**
Loss ratio	*75.0%*	*70.6%*	*66.1%*	*64.4%*	*62.9%*	*63.6%*	*63.5%*	*62.7%*	*63.7%*	*57.9%*
Expense ratio	*24.8%*	*24.1%*	*24.9%*	*26.3%*	*27.1%*	*27.8%*	*28.1%*	*28.5%*	*28.6%*	*28.4%*
Combined ratio	*99.8%*	*94.7%*	*91.0%*	*90.7%*	*90.0%*	*91.4%*	*91.6%*	*91.2%*	*92.3%*	*86.3%*

Ordinary financial operations continue to record conspicuous net investment income, which for the second consecutive year stand at 3 billion euro, up by 50% compared to 2.1 billion euro in 2018. The recovery of the financial markets in the last months of the year, together with the further narrowing of the spread on Italian government bonds, the recovery in stock prices in the last quarter which led to increased gains on disposals and a general revaluation of investments held for trading, written down in the first part of the year, had a positive impact on the income recorded.

The profit from ordinary operations, this too positive for the ninth consecutive year, amounted to 4.6 billion euro and reached the highest value in the decade considered, one and a half billion higher than in 2019. The incidence of this result on earned premiums is 15.1% (10.1% in 2019) and reaches the highest value in the decade considered (minimum value of -4.7% in 2011).

The loss ratio fell to a low of 57.9% (63.7% in 2019), more than seventeen points lower than the maximum value for the period (75% in 2011). Operating expenses remained high both in absolute value (8.7 billion euro, versus 8.9 billion in 2019), and in terms of premiums earned resulting in an expense ratio of 28.4% (28.6% in 2019). The *combined ratio*, a synthesis of the two previous components, is 86.3%, down by six percentage point compared to 2019 and marks the minimum value of the decade, 12.5 points below the maximum value of 2011 (99.8%).

The non-life technical provisions (Table 32 in the Appendix) amounted to 58.8 billion euro, unchanged compared to the previous year and recording a decrease of more than 11% compared to amount at the end of 2011. The main components of these provisions continue to be the provision for claims outstanding and the premium provision (respectively 70.3% and 28.9% of the total).

The contribution to the operating result from extraordinary income, net of charges, remained positive and amounted to 0.2 billion euro (0.3 billion euro in 2019).

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.36), of 12.5 billion euro, were down by 0.7 billion compared to 2019.

Table I.36

MTPL and liability for ships technical account - Domestic undertakings and branches of non-EU undertakings
Italian portfolio – insurance and reinsurance

(million euro and percentage values)

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Premiums earned	direct insurance	17,495	17,697	16,835	15,559	14,450	13,689	13,251	13,235	13,260	12,526
Var. % *		5.3%	1.2%	-4.9%	-7.6%	-7.1%	-5.3%	-3,2%	-0.1%	-0.6%	-5.5%
Claims incurred		-14,791	-13,110	-11,563	-10,818	-10,421	-10,421	-10,053	-10,073	-10,110	-8,221
of which claims incurred in the financial year		-13,444	-12,108	-11,539	-11,176	-11,032	-11,022	-10,773	-10,631	-10,665	-8,539
Balance on other technical items		-202	-272	-248	-143	-127	-172	-185	-186	-190	-314
Operating expenses		-3,236	-3,233	-3,167	-3,187	-3,060	-2,900	-2,805	-2,795	-2,815	-2,684
Technical balance of direct business		**-735**	**1,083**	**1,857**	**1,410**	**842**	**196**	**208**	**180**	**144**	**1,292**
Profit or loss - outward reinsurance	direct insurance and reinsurance	-26	-28	-44	-4	12	-1	-43	-34	-11	-36
Net profit or loss - reinsurance		3	26	-7	0	-8	-18	5	7	2	-3
Part of the investment return transferred from the non-technical account		275	802	617	658	609	503	532	313	509	251
Balance on the technical account (net of reinsurance)		**-482**	**1,887**	**2,423**	**2,064**	**1,452**	**680**	**702**	**466**	**644**	**1,503**

MTPL and liability for ships technical account - Domestic undertakings and branches of non-EU undertakings
Italian portfolio – insurance and reinsurance

(million euro and percentage values)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Loss ratio	*84.5%*	*74.1%*	*68.7%*	*69.5%*	*72.1%*	*76.1%*	*75.9%*	*76.1%*	*76.2%*	*65.6%*
Expense ratio	*18.5%*	*18.3%*	*18.8%*	*20.5%*	*21.2%*	*21.2%*	*21.2%*	*21.1%*	*21.2%*	*21.4%*
Combined ratio	*103.0%*	*92.3%*	*87.5%*	*90.0%*	*93.3%*	*97.3%*	*97.0%*	*97.2%*	*97.5%*	*87.1%*

* Percentage variation calculated within homogeneous undertakings.

The technical balance of direct business, amounting to 1.3 million euro, was positive for the ninth consecutive year, markedly higher than the valued recorded in the 2016-2019 time interval, thanks to the reduction in claims. The balance on the technical account, net of reinsurance, was positive for the ninth consecutive year and, despite the reduction in the contribution of financial income from investments covering technical provisions, it increased by nearly 0.9 billion compared to the previous year, reaching 1.5 billion.

The contribution of the portion of profit from investments transferred from the non-technical account fell by -50% compared to 2019 (from 509 to 251 million euro).

Operating expenses amounted to 2.7 billion euro, substantially stable compared to the previous year in absolute value, while their incidence on premiums earned (expense ratio) rose to 21.4% (21.2% in 2019). This indicator, which has been growing over the last nine years, reached the highest value in the decade, more than 3 percentage points higher than the minimum (18.3% of premiums) recorded in 2012.

The loss ratio of the financial statements was 65.6%, down sharply by 10.5 percentage points compared with the previous year, due to the reduction in the number of claims due to the pandemic, reaching the minimum value for the period (maximum value: 84.5% in 2011). The combined ratio too, the synthesis of the loss and the expense ratio, is at the minimum level (87.1%), nearly 16 percentage points below the peak level reached in 2011 (103%).

With reference only to the claims occurred in 2020 (current claim generation), the loss ratio stood at 68.2%, more than 12 points below the level reached in 2019 (80.4%), marking the minimum value of the decade (maximum value: 81.3% in 2017). This trend influenced the combined ratio, calculated considering only the expenses for claims that occurred during the year, which was 89.6% (101.7% in 2019), three percentage points above the minimum of 86.7% recorded in 2012.

Table I.37 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[20], to be compared with the combined ratio in Table I.36.

[20] 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.37

Balance on the provision for claims outstanding (PCO) over premiums earned										
										(% values)
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
PCO saving/lack - gross of balance on sums recoverable	-8.6%	-6.5%	-0.9%	0.9%	3.2%	3.4%	4.4%	3.2%	3.3%	1.4%
PCO saving/lack - net of balance on sums recoverable	-7.7%	-5.7%	-0.1%	2.3%	4.2%	4.4%	5.4%	4.2%	4.5%	2.5%

The balance of the provisions for claims outstanding in previous years shows a saving for the seventh consecutive year, equal to 2.5% of the premiums earned in 2020. The provisions for claims outstanding for MTPL have, for the last seven 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 of the average reserve/average cost ratio (Table I.38), broken down by generation relating to the current year and to the previous ones, 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.38

Average reserve/average cost ratio*										
										(% values)
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Generation in previous financial years	2.77	2.64	2.61	2.69	2.62	2.77	2.88	2.90	2.83	2.92
Generation in current financial year	3.53	4.02	4.13	3.97	3.99	3.88	3.71	3.73	3.67	4.01
Total	**3.25**	**3.36**	**3.45**	**3.56**	**3.59**	**3.69**	**3.70**	**3.71**	**3.67**	**3.73**

* 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 five years, after the growth in the 2011-2016 time interval. However, the current generation ratio increased (from 3.67 to 4.01), reflecting a more prudent approach of companies' reserving policies.

4.6.2. - Other non-life classes

In 2020, the non-life classes, other than MTPL and liability for ships, achieved a positive balance on the technical account overall of 2.4 billion euro, in line with the previous year (Table I.39), thus making a significant contribution (for around 56%) to the balance of the non-life technical account.

Table I.39

Technical performance other non-life classes - Italian portfolio

(million euro and percentage values)

Insurance class	Claims/premiums earned (A)*		Operating expenses/ premiums earned (B)*		*Combined Ratio* (C)* = (A) + (B)		Technical balance*		Balance on the technical account (direct insurance and reinsurance)	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Health sector										
Accident	39.8%	35.3%	37.6%	36.8%	77.4%	72.1%	651	817	686	809
Sickness	70.1%	68.6%	23.8%	22.0%	93.8%	90.6%	98	172	120	169
Total	**54.3%**	**51.4%**	**31.0%**	**29.7%**	**85.3%**	**81.0%**	**749**	**989**	**806**	**978**
Motor sector – only land vehicles**										
Land vehicles	68.3%	55.6%	33.0%	31.9%	101.3%	87.5%	-49	374	112	420
Transport										
Railway rolling stock	65.1%	474.4%	14.8%	15.9%	79.9%	490.3%	2	-39	2	-32
Aircraft	9.5%	-7.4%	9.9%	12.8%	19.4%	5.4%	8	14	3	5
Ships	88.1%	67.2%	19.6%	19.3%	107.7%	86.5%	-19	29	-14	9
Goods in transit	51.2%	43.8%	31.5%	32.0%	82.7%	75.9%	23	36	11	27
Aircraft liability	54.6%	84.0%	14.6%	14.0%	69.1%	98.0%	2	0	1	-8
Total	**70.1%**	**66.4%**	**24.0%**	**23.7%**	**94.1%**	**90.1%**	**16**	**39**	**3**	**0**
Property sector										
Fire and natural forces	74.6%	69.0%	36.9%	36.8%	111.5%	105.9%	-334	-208	-201	-191
Other damage to property	68.6%	62.0%	32.8%	33.0%	101.4%	95.0%	-86	100	-90	-45
Financial loss	30.7%	38.2%	43.9%	37.5%	74.6%	75.7%	133	106	129	91
Total	**67.2%**	**62.8%**	**35.5%**	**34.9%**	**102.8%**	**97.7%**	**-287**	**-1**	**-162**	**-145**
General liability										
General liability	30.9%	36.5%	33.0%	33.2%	63.9%	69.6%	1,059	909	1,208	762
Credit/Suretyship										
Credit	63.6%	64.9%	38.8%	44.5%	102.5%	109.4%	-7	-13	9	-12
Suretyship	22.8%	38.5%	36.8%	36.0%	59.6%	74.5%	129	52	71	19
Total	**28.7%**	**42.0%**	**37.1%**	**37.1%**	**65.8%**	**79.0%**	**122**	**40**	**80**	**7**
Legal expenses / Assistance										
Legal expenses	18.9%	21.0%	39.4%	38.8%	58.3%	59.8%	164	170	144	150
Assistance	34.8%	30.7%	37.0%	35.3%	71.9%	66.0%	208	258	165	215
Total	**29.4%**	**27.3%**	**37.8%**	**36.6%**	**67.2%**	**63.8%**	**372**	**428**	**309**	**366**
Grand total	**54.9%**	**51.6%**	**33.3%**	**32.5%**	**88.2%**	**84.2%**	**1,982**	**2,777**	**2,356**	**2,387**

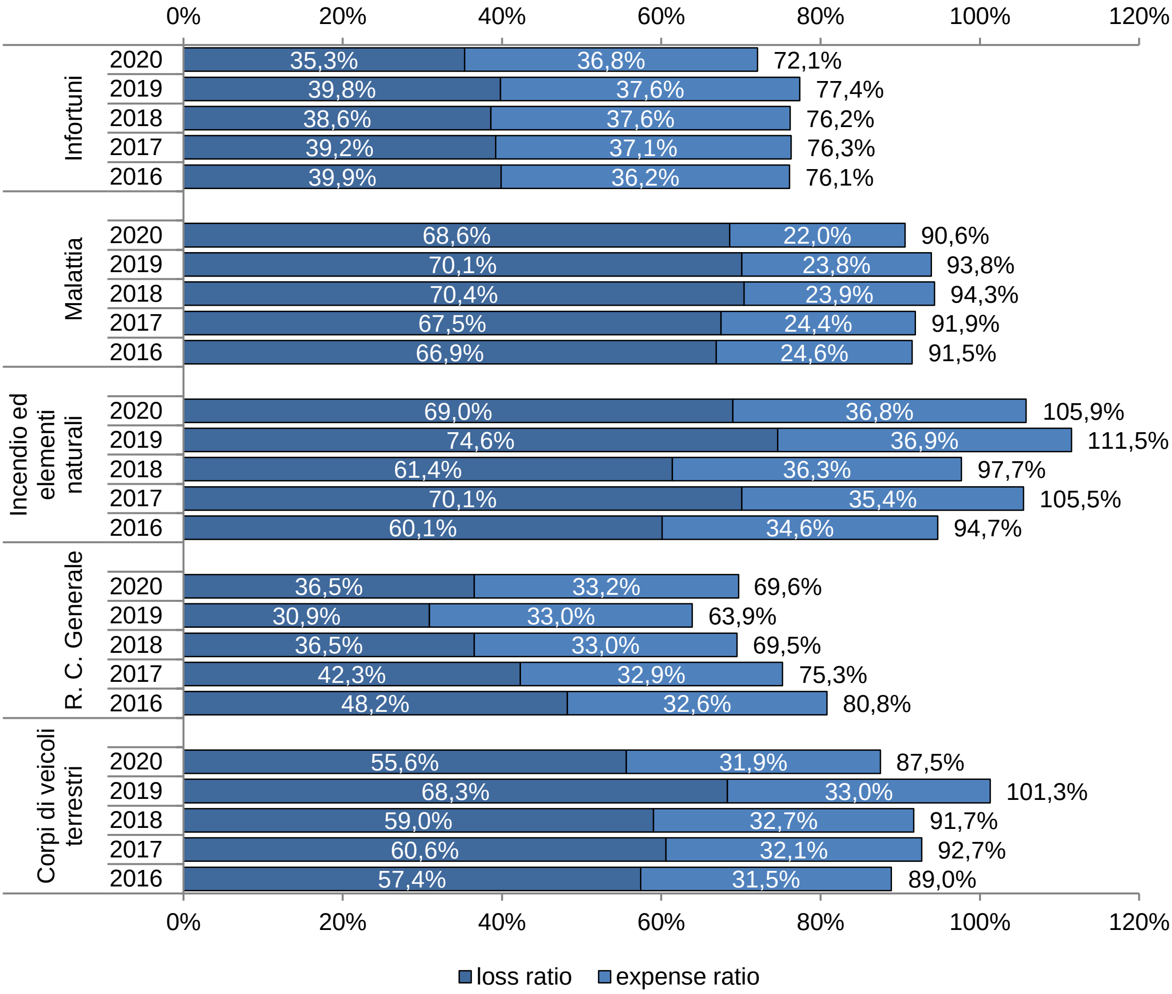
* Direct insurance – ** Excluding MTPL and liability for ships.

Among the most relevant classes for premium income, the health sector (accident and sickness) reported a positive technical result of 978 billion euro, the general liability class of 762 million euro, legal protection and assistance of 366 million euro, the land vehicle class of 420 million euro and, lastly, the property sector reported a loss of 145 million euro.

As regards the combined ratio, compared to the overall average figure of 84.2% in 2020 (down by four percentage points compared to 88.2% of 2019), significantly higher values were recorded in the fire insurance (105.9%; fig. I.26), other damage to property (95%), sickness (90.6%), land vehicles (87.5%), while the general liability class remains significantly below the average (69.6%).

Figure I.26

Combined Ratio and its components (loss and expense ratios)
(% values)



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).

Effects of COVID on non-life companies' financial statements and technical accounts

Non-life operations show an increase in ROE to 12.4% (9.2% in 2019), against a total profit of €3,850 million, up €1,197 million on the previous year[21]: the reduction in claims expenses, also due to the effects of the restrictive measures following the health emergency, had a positive impact on profitability, more than offsetting the decline in premium income.

The individual distribution confirms the evidence at the aggregate level: the median ROE of the non-life business was 11.1%, an increase compared to the previous year (tab. I.40); more than 90% of the companies show a positive value for this indicator.

Table I.40

Roe in non-life business – percentiles

(percentages)

	10th percentile	25th percentile	median	75th percentile	90th percentile
2019	-4.8%	2.3%	9.3%	17.4%	25.7%
2020	0.5%	4.1%	11.1%	19.6%	23.7%

The positive trend of the overall performance of the non-life business presents elements of significant differentiation between the individual segments. With reference to Italian business, for motor liability the balance on the technical account, net of reinsurance, stands at €1,503 million, up €859 million on 2019[22] (fig. I.27). Against a limited reduction in earned premiums (-5.5%)[23], the segment benefited from the drastic drop (-19.9%) in claims expenses for the year (€-2,126 million), a figure which reflects the reduction in road accidents following the traffic restrictions adopted as a result of the pandemic. The trend in the technical account for non-life business other than motor liability was substantially stable.

Figure I.27

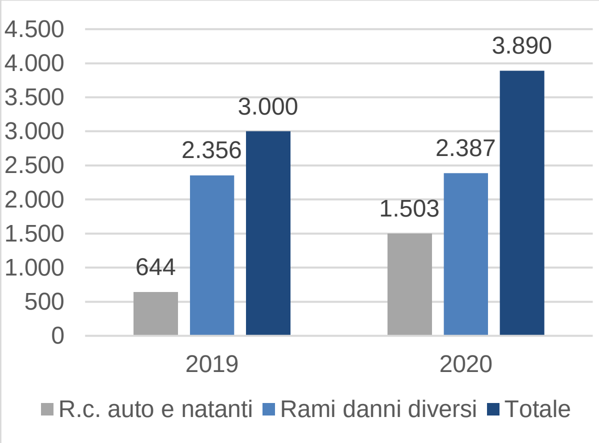
Balance on the technical account for the non-life business - Italian direct and indirect insurance portfolio

(million euro)

[21] See also paragraph 4.3. - *Economic-financial operations*.

[22] The data reported in this section aggregates the results of the motor vehicle liability and liability for ships lines of business and refers to Italian business, in line with the contents of paragraph *4.6.1. - Motor vehicle liability and Liability for ships (sea, lake and river and canal vessels*), to which reference is made.

[23] The decrease in premium income is partly due to the drop in new registrations (535 thousand fewer cars registered in 2020 compared to the previous year), source: European Automobile Manufacturers Association, https://www.federauto.eu/wp-content/uploads/2021/01/Paese-VN-UE27EFTAUK-dic20.pdf).



The balance on the technical account of the main segments other than motor liability[24] (health, Land vehicles, property, general liability) showed a general improvement, with the exception of general liability (€-446 million) which was affected by an increase in claims costs, in contrast to the other market segments[25].

Among the lines of business other than MTPL , there is a sharp decline in the ratio of claims costs to earned premiums for the Land vehicles segment (from 68.3% to 55.6%), property (from 67.2% to 62.8%) and health (from 54.3% to 51.4%), with a more accentuated decline in the accident class (from 39.8% to 35.3%). These values may have been affected by the reduction in mobility due to the pandemic.

The Land vehicle segment recorded a significant increase in the balance on the technical account of €308 million (from €112 million to €420 million).

Motor liability trends

Against the significant improvement in the balance on the motor liability technical account[26], the largest companies[27] in the segment, which collected more than 75% of total premiums, recorded in aggregate an increase in the balance on the related technical account of €549 million (€1,138 million compared to €589 in 2019). Smaller companies see the balance on the technical account increase by a total of €309 million (from €55 million to €364 million), in proportion more than larger companies (fig. I.28).

Figure I.28

Balance on motor liability technical account aggregated by size class

(million euro)

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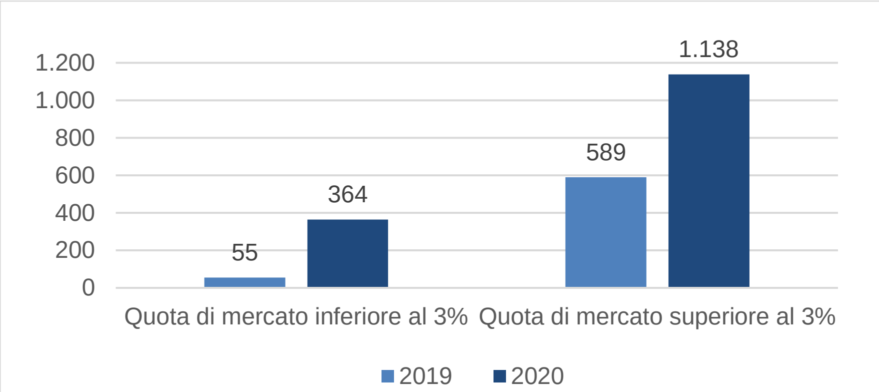
[24] Par. 4.6.2, tab. I.39.

[25] The decrease in the balance on the technical account and the increase in the claims costs for the year follow a five-year period characterised by a positive technical result and a constant decrease in the segment's claims costs.

[26] The data reported in this section aggregates the results of the motor vehicle liability and liability for ships lines of business and refers to Italian business, in line with the contents of paragraph *4.6.1. - Motor vehicle liability and Liability for ships (sea, lake and river and canal vessels).*

[27] For the purposes of the present analysis, companies with a market share, expressed in terms of total premiums, of less than 3% have been considered as small-sized companies; medium-large companies are those with a market share of 3% or more.



The analysis of the individual distribution of the loss ratio and the combined ratio confirms the observations at aggregate level: the contraction of claims expenses is accompanied by a significant reduction in the median levels and quartiles of the two indicators (tab. I.41). The drop in the loss ratio for the year, calculated with reference to claims with a 2020 generation year, was particularly marked: its median value stands at 69.2% (83.5% in 2019). In relative terms, the loss ratio declined from the previous period by more than 10.6 percentage points for half of the companies and by at least 4.4 percentage points for three-quarters of them; similarly, the contraction in the combined ratio was greater than 10.9 percentage points for half of the companies and greater than 3.4 percentage points for three quarters of them (tab. I.42)

Table I.41

Technical indicators for motor liability insurance – percentiles

(percentages)

Year	Loss ratio for the financial year			Loss ratio			Combined ratio		
	25th pct	median	75th pct	25th pct	median	75th pct	25th pct	median	75th pct
2019	78.2%	83.5%	93.0%	68.9%	76.6%	88.9%	91.2%	98.4%	109.6%
2020	64.4%	69.2%	77.6%	58.5%	66.5%	74.3%	81.9%	89.9%	95.2%

Table I.42

Variation in indicators for motor vehicle liability 2020 / 2019 – percentiles

(percentages)

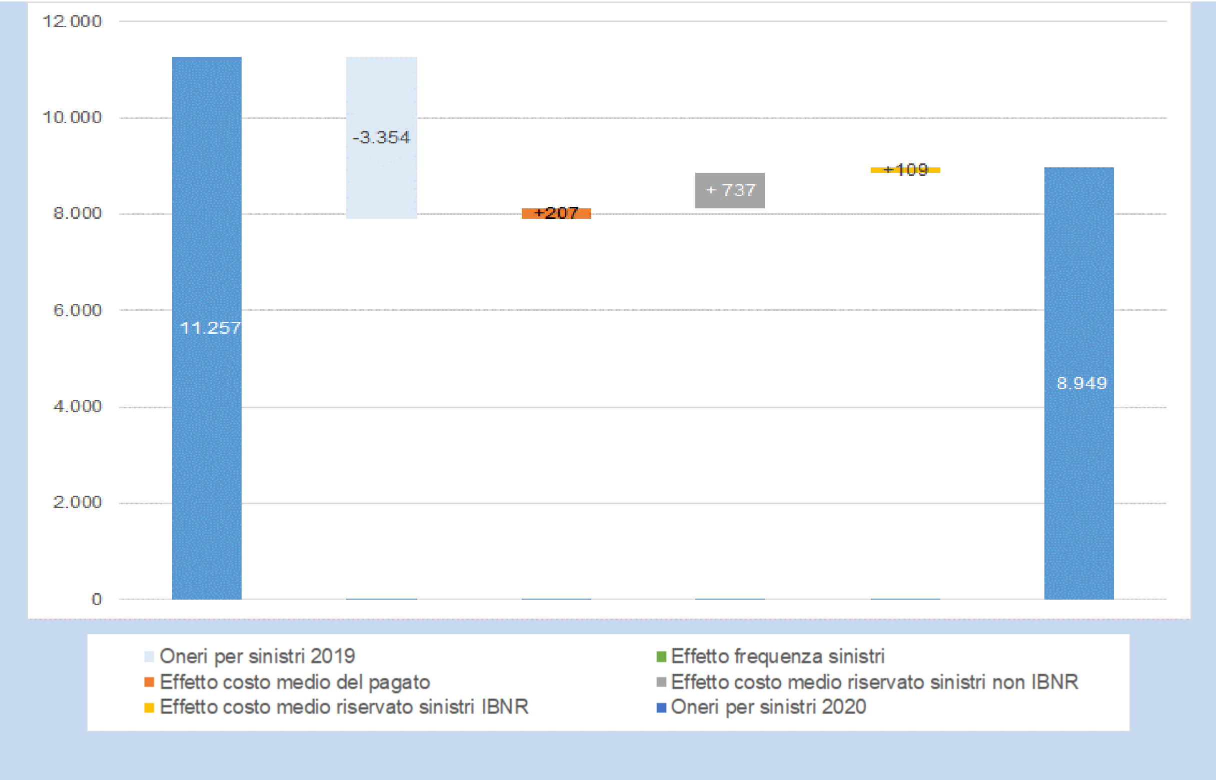
Loss ratio for the financial year			Loss ratio			Combined ratio		
25th pct	median	75th pct	25th pct	median	75th pct	25th pct	median	75th pct
-19.1%	-14.7%	-8.0%	-17.1%	-10.6%	-4.4%	-18.3%	-10.9%	-3.4%

The reduction in road accidents (see "The decrease in road accidents in Italy during the pandemic" in Chap. 2) was reflected in the significant decline in motor liability claims expenses (2.3 billion less than in 2019). Isolating the elements that determine the cost of claims (fig. I.29), the reduction in the frequency of accidents would have entailed a saving of approximately €3,354 million, partially offset by the higher average cost of claims paid (+207 million), by the increase in the average cost of reserved claims net of IBNR (+737 million) and that of IBNR (+109 million).

Figure I.29

Breakdown of savings on claims expenses in 2020

(million euro)


12.000
10.000
8.000
6.000
4.000
2.000
0
11.257
-3.354
+207
+ 737
+109
8.949
Oneri per sinistri 2019
Effetto frequenza sinistri
Effetto costo medio del pagato
Effetto costo medio riservato sinistri non IBNR
Effetto costo medio riservato sinistri IBNR
Oneri per sinistri 2020

Comparison between direct and traditional companies

A comparison of the results observed based on the prevailing distribution channel also shows a general improvement in motor liability profitability for direct insurance companies[28]: in aggregate, these companies realise a balance on the related technical account equal to €55 million (€+69 million compared to 2019), returning to a positive value for the first time since 2016 (tab. I.43).

Table I.43

Motor liability insurance: Balance on the technical account of direct undertakings and other undertakings
Italian insurance and reinsurance portfolio

(percentages)

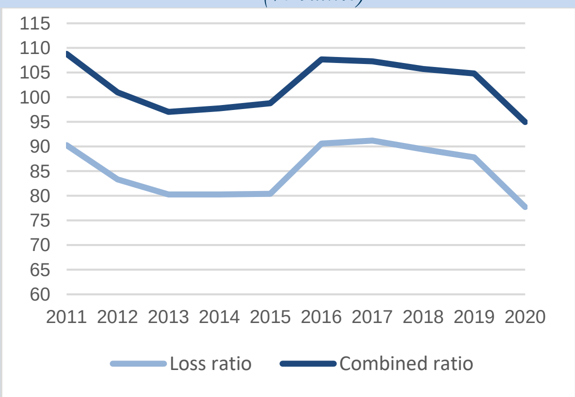
	2015	2016	2017	2018	2019	2020
Direct	91	-50	-54	-52	-14	55
Traditional	1,362	730	756	518	658	1,448
Total	1,452	680	702	466	644	1,503

Similarly to what was observed for the companies operating through the traditional channels, the improvement in the profitability of the direct insurance companies mainly reflects the decrease in claims costs, which translates into an improvement in the combined ratio relating to motor liability, from 104.8% to 95%, for the first time below 100% in recent years (figure I.30.a).

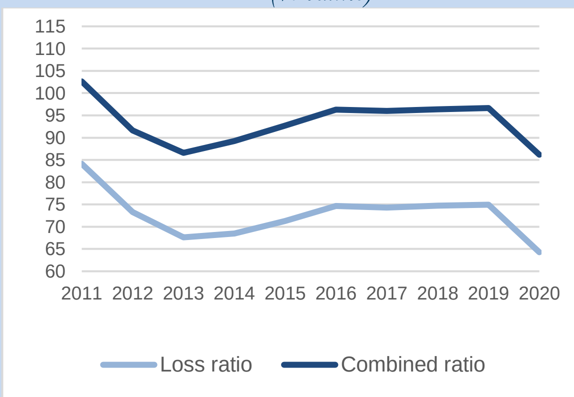
The decrease in the combined ratio for motor liability insurance for direct insurance companies is in line with the decrease observed for traditional companies (figure I.30.b) and therefore the relative differential between the two types of companies remains stable.

Figure I.30

a) Direct undertakings: trend in the *loss ratio* and *combined ratio* of motor liability
(% values)



b) Other undertakings: trend in the *loss ratio* and *combined ratio* of motor liability
(% values)



[28] By direct undertakings is meant those undertakings which, in the motor sector, mainly write premiums without using traditional insurance intermediaries (agencies, brokers, bank branches or post office counters), but use web and telephone channels for contact with the customer and the subsequent signing of the contract.

5. - THE SOLVENCY II REPORTING

5.1. - Highlights of the financial statements for domestic companies

The balance sheet prepared according to Solvency II (Table I.44) 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 2019 and 2020 both the assets (+6.7%) and the liabilities (+7.8%) increased.

Table I.44

Solvency II – Balance sheet of domestic companies 2019-2020

(million euro)

	Life		Non-life		Composites		Total	
	2019	2020	2019	2020	2019	2020	2019	2020
Assets								
Deferred tax assets	4,653	8,204	409	385	1,222	1,412	6,284	10,001
Investments (excluding assets for index- and unit-linked)	439,779	473,662	16,896	18,079	311,521	323,280	768,196	815,021
Assets held for index- and unit linked	153,222	167,513	0	0	26,003	28,862	179,225	196,374
Secured and unsecured loans	484	549	82	70	6,231	6,604	6,797	7,222
Recoverable amounts from reinsurance	1,142	678	1,859	2,526	8,096	6,692	11,098	9,897
Cash and cash equivalents	4,188	4,412	546	862	2,849	3,458	7,583	8,732
Other assets	12,497	13,140	3,335	3,633	24,662	24,125	40,494	40,898
Total assets	**615,966**	**668,158**	**23,128**	**25,555**	**380,584**	**394,433**	**1,019,677**	**1,088,146**
Liabilities								
Non-life technical provisions	6	5	12,571	13,259	39,406	38,208	51,983	51,472
Life technical provisions-excluding linked policies	413,894	446,270	0	0	186,308	196,904	600,202	643,175
Unit- and index-linked technical provisions	148,950	163,012	0	0	23,728	26,495	172,678	189,507
Deferred tax liabilities	8,314	11,611	472	592	3,545	4,026	12,330	16,229
Other liabilities	13,047	13,868	2,870	3,261	43,482	44,518	59,399	61,646
Total liabilities	**584,210**	**634,766**	**15,913**	**17,112**	**296,470**	**310,151**	**896,593**	**962,029**
Excess assets over liabilities	**31,756**	**33,391**	**7,215**	**8,443**	**84,114**	**84,283**	**123,084**	**126,117**

5.2. - Highlights of the financial statements for domestic groups[29]

The market value of assets held by the groups against policies where the risk is borne by the insurance undertaking increased in 2020 by +6.5% (against a decrease of -3.7% in the previous year). A similar trend was recorded for assets held for index- and unit-linked policies, which rose by +5.9% in 2020, (Table I.45).

[29] 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.

The decline in assets held by the groups for index- and unit-linked products is lower than that of domestic undertakings, which show a 9.6% growth, highlighting the decrease in foreign components.

Table I.45

Solvency II – Balance sheet of domestic groups			
	(million euro and percentage values)		
	2019	2020	% var.
Assets			
Deferred tax assets	7,080	11,027	55.7
Investments (excluding assets for index- and unit-linked)	782,665	833,620	6.5
Assets held for index- and unit linked	233,540	247,253	5.9
Secured and unsecured loans	6,477	6,059	-6.5
Recoverable amounts from reinsurance	7,595	7,897	4.0
Cash and cash equivalents	11,051	13,441	21.6
Other assets	44,780	47,822	6.8
Total assets	**1,033,212**	**1,167,118**	**13.0**
Liabilities			
Non-life technical provisions	56,374	56,256	-0.2
Life technical provisions - excluding linked policies	657,121	705,066	7.3
Unit- and index-linked technical provisions	223,099	237,893	6.6
Deferred tax liabilities	18,254	22,193	21.6
Other liabilities	59,401	63,305	6.6
Total liabilities	**1,014,248**	**1,084,712**	**6.9**
Excess assets over liabilities	**78,941**	**82,405**	**4.4**

5.3. - Investments

At the end of 2020, the investments managed by Italian insurance undertakings, net of assets intended for the linked sector, amounted to 815 billion euro (Table I.43), with a +6.1% increase compared to the previous year. The market value of bonds (government bonds, corporate and structured bonds) increased slightly from 73.1% to 73.8%.

Table I.46

life and non-life investments					
	(million euro and percentage values)				
	2019	%	2020	%	% var. 2020/2019
Life and non-life investments of assets not intended for index- and unit-linked contracts					
Government bonds	401,216	52.2	432,772	53.1	7.9
of which: Italian Government bonds	324,966	42.3	336,029	41.2	3.4
Corporate bonds	150,595	19.6	157,508	19.3	4.6
Listed equity instruments	10,615	1.4	7,341	0.9	-30.8
Unlisted equity instruments	3,149	0.4	3,523	0.4	11.9
Undertakings for collective investment	97,163	12.6	105,705	13.0	8.8
Structured bonds	10,325	1.3	11,119	1.4	7.7
Guaranteed securities	2,053	0.3	2,150	0.3	4.7

life and non-life investments					
					(million euro and percentage values)
	2019	**%**	**2020**	**%**	**% var. 2020/2019**
Deposits other than cash equivalents	359	0.0	359	0.0	0.0
Real estate (other than those held for own use)	4,951	0.6	4,010	0.5	-19.0
Other investments	17	0.0	18	0.0	5.9
Derivatives	639	0.1	1,097	0.1	71.7
Shares held in related undertakings, including holdings	87,113	11.3	89,419	11.0	2.6
Total (A)	**768,196**	**100.0**	**815,021**	**100.0**	**6.1**
Investments held for index- and unit-linked contracts (B)	**179,225**		**196,374**		9.6
Grand total (A+B)	**947,421**		**1,011,396**		6.8

The share of investments in Government bonds increased, also as a result of the increase in their market value , from 52.2% to 53.1%, with a progressive reduction in the share of Italian Government bonds from 42.3% to 41.2% of total investments. Corporate bonds remained almost unchanged, from 19.6% to 19.3% and investments in UCITS increased slightly, from 12.6% to 13.0%.

The value of the assets dedicated to linked contracts increased by 9.6%, with a deceleration compared to the growth recorded in 2019 (+17.7%). The amount at the end of the year was 196.4 billion euro.

In the breakdown of the government bonds by ownership structures of the undertaking which holds them (Table I.47), 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 risen (respectively from 62.6% to 63.7% and from 60.8% to 61.7% between 2019 and 2020), and the same is true for undertakings with a financial ownership structure or owned by other private entities.

Subsidiaries of foreign entities showed a slight reduction in investments in Italian government bonds, from 37.4% in 2019 to 37.1% in 2020.

Table I.47

Assets under the form of government bonds held by undertakings supervised by IVASS broken down by ownership structure						
						(% values)
	2019			**2020**		
	% Government bonds over total assets *	*of which: Italian Government bonds over total assets*	% Italian Government bonds held by supervised undertakings	**% Government bonds over total assets ***	*of which: Italian Government bonds over total assets*	% Italian Government bonds held by supervised undertakings
Italian undertakings	52.5	*44.1*	76.7	53.1	*42.7*	76.2
Controlled by the State and by public entities	*62.6*	*60.8*	26.5	*63.7*	*61.7*	28.4
under insurance control	*43.9*	*32.5*	32.7	*44.2*	*29.6*	30.2
under financial control	*66.5*	*58.4*	17.4	*66.6*	*57.9*	17.5
controlled by other	*84.5*	*78.8*	0.1	*85.0*	*78.0*	0.1

Assets under the form of government bonds held by undertakings supervised by IVASS broken down by ownership structure						
						(% values)
	2019			**2020**		
	% Government bonds over total assets *	*of which: Italian Government bonds over total assets*	% Italian Government bonds held by supervised undertakings	**% Government bonds over total assets ***	*of which: Italian Government bonds over total assets*	% Italian Government bonds held by supervised undertakings
private entities						
Foreign undertakings	51.6	*37.4*	23.3	53.2	*37.1*	23.8
Controlled by EU and non-EU entities of the insurance sector	*49.8*	*37.6*	16.0	*50.2*	*35.9*	15.1
Controlled by EU and non-EU entities of the financial sector	*55.5*	*36.8*	7.3	*58.7*	*39.3*	8.7
Total	**52.2**	***42.3***	**100.0**	**53.1**	***41.2***	**100.0**

* Excluding investments held for *index-* and *unit-linked* contracts.

Table I.48 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.

Table I.48

Life* and non-life investments of the main European Countries– December 2020										
										(million euro and percentage values)
Investments	**Italy**		**France****		**Germany****		**Spain****		**United Kingdom****	
		%		**%**		**%**		**%**		**%**
Government bonds	432,772	53.1%	753,713	33.6%	412,533	19.9%	159,883	59.2%	204,765	19.9%
Corporate bonds	157,508	19.3%	692,985	30.9%	495,769	23.9%	56,732	21.0%	357,131	34.6%
Listed and unlisted equity instruments	10,864	1.3%	84,184	3.8%	12,309	0.6%	4,032	1.5%	63,891	6.2%
collective investment undertakings	105,705	13.0%	422,911	18.9%	675,256	32.5%	13,571	5.0%	91,599	8.9%
Structured bonds	11,119	1.4%	59,280	2.6%	18,123	0.9%	3,848	1.4%	371	0.0%
Guaranteed securities	2,150	0.3%	6,861	0.3%	6,692	0.3%	951	0.4%	22,224	2.2%
Deposits other than cash equivalents	359	0.0%	12,326	0.5%	7,610	0.4%	4,297	1.6%	11,212	1.1%
Real estate (other than those held for own use)	4,010	0.5%	34,175	1.5%	28,360	1.4%	6,655	2.5%	16,940	1.6%
Other investments	18	0.0%	5,046	0.2%	798	0.0%	0	0.0%	983	0.1%
Derivatives	1,097	0.1%	6,507	0.3%	4,646	0.2%	6,535	2.4%	113,189	11.0%
Shares held in related undertakings, including holdings	89,419	11.0%	163,414	7.3%	415,726	20.0%	13,408	5.0%	149,229	14.5%
Total	**815,021**	**100.0%**	**2,241,403**	**100.0%**	**2,077,823**	**100.0%**	**269,913**	**100.0%**	**1,031,534**	**100.0%**

* Excluding assets intended for index- and unit-linked contracts. – ** Source: For foreign countries, EIOPA, *Insurance Statistics*.

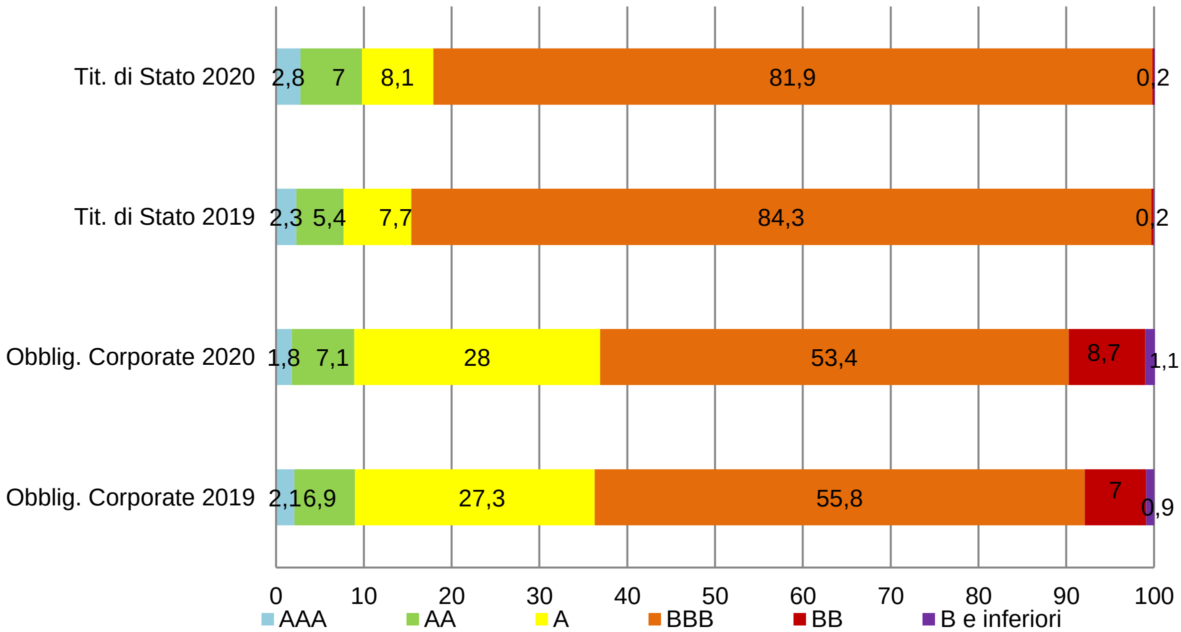
The presence of government bonds in the portfolio is significant not only for Italian undertakings but even more for Spanish undertakings (59% of investments). The share of investments in government bonds is smaller in France (34%) and particularly in Germany and the United Kingdom (20%). Corporate bonds account for a significant share of investments for French and UK undertakings (more than 30%), while this share is lower for German undertakings (24%). The exposures in UCITS funds of European undertakings are smaller but not negligible, in particular for German undertakings (32%). Investments in shares represent a significant investment component in Italy, Germany and the United Kingdom, less significant for French and Spanish undertakings.

With reference to the breakdown of bond investments by Italian undertakings by rating class for the two-year period 2019-2020 (fig. I.31), the predominant class of government bonds was rated BBB, with an incidence over the total market value of bonds going from 84.3% in 2019 to 81.9% in 2020, against an increase in the percentage of bonds rated A (from 7.7% to 8.1%) and AA (from 5.4%, to 7%). Corporate securities also showed a reduction in the weight of BBB rating, from 55.8% to 53.4%, against an increase in corporate bonds rated BB or lower (from 7.9% to 9.8%) and a slight growth in A-rated securities, from 27.3% to 28%.

Figure I.31

Bond investments of Italian undertakings by rating class*

(% values)



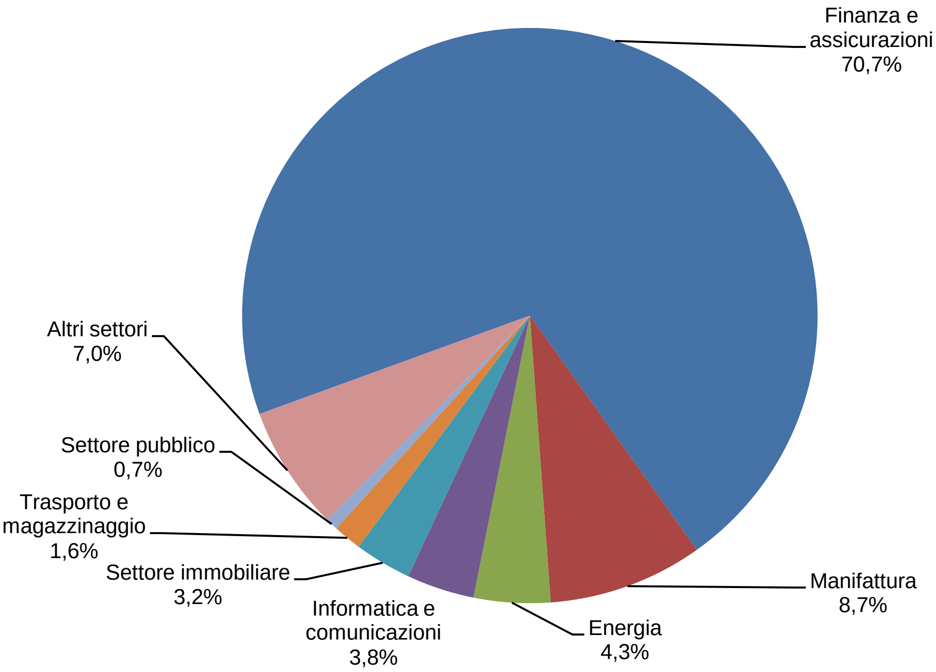
* Excluding assets intended for linked contracts. - Corporate bonds include structured bonds and guaranteed securities.

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.32) a significant concentration in the financial and insurance sector (70.7% compared to 68.7% in the previous year) and a significant use of securities in the manufacturing sector, although down compared to 2019 (8.7% versus 10.2%). The share of the energy sector decreased (4.3% compared to 5.5%). Investments for linked policies are characterised by the almost total presence of securities from the financial and insurance sectors (94.6% compared to 95.2% in 2019).

Figure I.32

Breakdown of investments by economic sector - 2020*

(% values; government bonds excluded)



* 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[30].

[30] Article 40 of the Delegated Acts.

In calculating the BEs, life undertakings must take into account the Time Value of Options and Guarantees (TVOG). The TVOG can be calculated with deterministic models or stochastic models, the latter being more appropriate to describe the risks of with profit products (in Italy "polizze vita rivalutabili").

Particular attention was paid to the assessment of: *management actions* (Article 23 of the Delegated Acts), describing the management's discretion in selecting investments and in the disposal time line in the years of the projection and *policyholder behaviors*, replicating the behaviour of the policyholder in the years of the projection. Policyholders can decide to suspend payment of the premiums, requesting surrender (Article 26 of the 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 be authorised to 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 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 2020, taking into account both direct and indirect business, the life technical provisions recorded a growth of +7.7%, while non-life technical provisions decreased by 1%.

The increase in life technical provisions is due to the growth in the main component of BE (+7,6%) and in the *risk margin*, up by 17,2% compared to the previous year (tab. I.49). The residual component too, calculated as a whole, continues to rise (+11.5%).

With reference to the non-life technical provisions, amounting to 5.8% of the total, a decrease was seen in the BE-claim (-2%), while the BE-premium increased (+1.6%). The *risk margin*, of little importance for the non-life technical provisions, recorded a slight increase(+1.7%).

Table I.49

Technical provisions life and non-life

(million euro)

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Life					
Best Estimate	767,132	742,970	779,791	799,638	825,375
Risk Margin	6,146	6,139	6,458	7,174	7,201
TP calculated as a whole	1,053	989	1,065	1,095	1,174
Total	**772,359**	**748,126**	**785,342**	**805,936**	**831,942**
Non-life					
BE-claims	37,721	36,776	36,685	38,698	36,976
BE-premiums	12,231	12,067	12,046	11,181	12,432
Risk Margin	2,029	2,067	2,007	2,057	2,063
TP calculated as a whole	2	2	2	2	1
Total	**51,983**	**50,912**	**50,740**	**51,938**	**51,472**
Life and non-life Total	**824,342**	**799,038**	**836,082**	**857,874**	**883,414**

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 99% of the total life technical provisions at the end of 2020. Table I.50 shows the breakdown of technical provisions by type of contract and estimation method, confirming how the BE component is prevalent.

Table I.50

Life technical provisions*

(million euro)

	TP calculated as a whole	*Best Estimate*	*Risk Margin*	Total
Q4 2019				
With profit	32	589,140	4,486	**591,690**
Index- and *Unit-linked*	1,021	170,568	1,066	**172,651**
Q1 2020				
With profit	0	579,251	4,554	**581,837**
Index- and *Unit-linked*	958	156,408	989	**158,352**
Q2 2020				
With profit	0	603,879	4,787	**606,698**
Index- and *Unit-linked*	1,019	168,517	1,037	**170,570**
Q3 2020				
With profit	0	618,192	5,387	**621,610**
Index- and *Unit-linked*	1,057	174,560	1,149	**176,763**
Q4 2020				
With profit	49	632,228	5,435	**635,907**
Index- and *Unit-linked*	1,125	187,267	1,109	**189,498**

* 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.51), shows a reduction in the technical provisions for claims outstanding (-2.2%), an increase of +1.6% in technical provisions for premiums and +1.7% in the risk margin. Overall, the total technical provisions decreased by -1.2%. In the motor liability segment, the contraction in technical provisions was more accentuated (-7.3%), also due to the significant reduction in claims in 2020, as a result of the decrease in traffic during the pandemic.

Table I.51

Non-life technical provisions

(million euro)

	TP calculated as a whole	Technical provisions premiums (BE)	Technical provisions claims (BE)	Risk Margin	Total
2019					
Medical expenses	0	830	1,213	73	2,117
Income protection	2	1,041	1,881	162	3,085
Workers' compensation	0	0	0	0	0

Non-life technical provisions					
					(million euro)
	TP calculated as a whole	Technical provisions premiums (BE)	Technical provisions claims (BE)	Risk Margin	Total
Motor vehicle liability:	0	4,226	17,834	743	22,803
Other insurance	0	1230	657	67	1954
Marine, aviation and transport insurance	0	138	785	31	954
Fire and other damage to property	0	2,666	3,968	283	6,917
General liability	0	924	9,108	481	10,513
Credit and Suretyship	0	408	954	79	1,440
Legal expenses	0	70	425	20	516
Assistance	0	158	143	18	320
Miscellaneous financial loss	0	523	297	49	869
Total	**2**	**12,215**	**37,266**	**2,005**	**51,488**
2020					
Medical expenses	0	739	1,389	69	2,197
Income protection	1	1,099	1,857	161	3,119
Workers' compensation	0	0	0	0	0
Motor vehicle liability:	0	4,108	16,309	722	21,139
Other insurance	0	1,245	595	69	1,909
Marine, aviation and transport insurance	0	141	700	27	868
Fire and other damage to property	0	2,805	4,032	307	7,144
General liability	0	1,001	9,775	520	11,296
Credit and Suretyship	0	450	929	79	1,458
Legal expenses	0	75	434	18	528
Assistance	0	165	134	13	311
Miscellaneous financial loss	0	588	263	53	904
Total	**1**	**12,415**	**36,418**	**2,039**	**50,873**

* The “workers’ compensation” LoB is not shown as such business does not apply in Italy.

5.5. - Assets representing technical provisions

Domestic companies and branches of non-EEA companies reported an amount of Solvency II technical provisions to be covered as at 31 December 2020, relating to Italian and foreign direct business, equal to €883 billion. Representative assets totalled 890 billion, with a coverage ratio of 101%. 94.4% of these assets relate to life insurance.

Assets representing life insurance technical provisions, with the exception of linked policies and those arising from pension fund management (tab. I.52), amount to 644 billion. The latter comprised 84% of debt securities and other securities equivalent to debt securities, mostly government bonds (61% of the total), up slightly from 2019. Units of UCITS represent 13.6% of assets, mainly (67%) with underlying investments in bonds.

Table I.52

Assets representing technical provisions of the life direct portfolio (excluding linked policies and pension funds) and non-life at the end of 2020						
						(million euro)
	Life	%	Non-life	%	Total	%
Government bonds	392,745	61.0	17,377	34.7	410,121	59.1

Corporate bonds	146,821	22.8	15,695	31.3	162,516	23.4
Equity instruments	9,098	1.4	3,827	7.6	12,925	1.9
Undertakings for collective investment	87,255	13.6	5,446	10.9	92,701	13.4
Real estate	316	0.0	4,251	8.5	4,567	0.7
Secured and unsecured loans	235	0.0	356	0.7	591	0.1
Credits	4,173	0.6	2,660	5.3	6,833	1.0
Cash and deposits	1,592	0.2	296	0.6	1,888	0.3
Other assets	1,302	0.2	191	0.4	1,493	0.2
Total	**643,537**	**100.0**	**50,100**	**100.0**	**693,636**	**100.0**

The technical provisions of the non-life business amounted to 49.5 billion euro and were covered by 50 billion euro of assets with a 101% coverage rate. 70% of these assets are debt securities and other equivalent securities (35% government bonds). The real estate sector accounts for 8.5% of the assets and equity instruments account for 7.6%, down compared to 2019. Alternative investments amount to 1,054 million (tab. 31 in the Appendix).

During the COVID-19 pandemic, the composition of assets representing technical provisions showed that insurance companies focused on fixed income instruments, due to the strong capital absorption of the equity segment. There remains a low share of business investment in equity instruments, infrastructure and long-term financing of the real economy (ref. equity instruments, direct unsecured loans granted to entities other than natural persons and micro-enterprises, alternative investments, etc.).

Technical provisions and related representative assets, for linked policies, amount to 177 billion, up 10% on 2019; those deriving from pension fund management amount to 19 billion (+3% compared to the previous year) and account for 19.9% and 2.2% of total class C and D assets respectively (tab. I.53).

Table I.53

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 2020

(million euro)

	Technical provisions	Representative assets	% over grand total *
Contracts linked to the value of units in UCITS	83,091	83,195	9.3
Unit-linked contracts	93,603	93,718	10.5
Index-linked contracts	45	45	0.0
Total provision for class D.I	**176,738**	**176,957**	**19.9**
Open pension funds	14,154	14,166	1.6
Pension funds	5,084	5,084	0.6
Total provision for class D.II	**19,238**	**19,250**	**2.2**
Grand total class D	**195,977**	**196,208**	**22.1**

* 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-2020, the average SCR ratio of Italian undertakings remained slightly below that of the other European countries, except for the United Kingdom, and then reached values close to the European average starting from the third quarter (Table I.54). 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 the Italian ones.

Table I.54

SCR ratio in Europe

(% values)

	Italy	Average for other EU Countries*	*of which:* Germany	France	Spain	UK
2nd quarter 2019	218.4	235.4	325.7	225.4	236.9	155.4
3rd quarter 2019	227.9	226.2	304.2	213.4	233.8	149.5
4th quarter 2019	231.0	243.1	307.6	265.8	239.7	159.5
1st quarter 2020	210.0	226.8	274.4	244.4	230.5	148.8
2nd quarter 2020	210.8	227.2	280.7	238.6	232.1	152.2
3rd quarter 2020	224.8	229.9	286.2	237.8	234.8	151.1
4th quarter 2020	239.6	235.2	295.8	243.5	239.6	157.2

* Including UK. - Source: For foreign countries, EIOPA, *Insurance Statistics*.

The SCR ratio of the undertakings supervised by IVASS, divided up by type of control (Table I.55), shows that the values of the indicator of the Italian-owned undertakings are higher by 40% than those of the foreign-owned undertakings, with a less marked difference compared to 47% of 2019. Among the undertakings subject to Italian control, those of a financial nature have a capital endowment slightly lower than that of the other undertakings, including publicly controlled companies, which have higher assets.

Table I.55

SCR ratio of undertakings supervised by IVASS broken down by ownership structure		
		(% values)
	4th quarter 2019	**4th quarter 2020**
Italian undertakings	247.2	254.7
Controlled by the State and by public entities	*307.7*	*297.4*
Under insurance control	*243.5*	*255.5*
Under financial control	*225.3*	*215.2*
Controlled by other private entities	*186.3*	*212.5*
Foreign undertakings	168.6	183.1
Controlled by EU and non-EU entities of the insurance sector	*172.6*	*183.0*
Controlled by EU and non-EU entities of the financial sector	*154.7*	*183.2*
Total	**231.0**	**239.6**

At the end of 2020, Italian undertakings had a total SCR of 58.6 billion euro, slightly down by -0.2% with respect to end 2019 (Table I.56), while eligible funds, equal to 140.4 billion euro, recorded a +3.5% increase compared to end 2019.

Table I.56

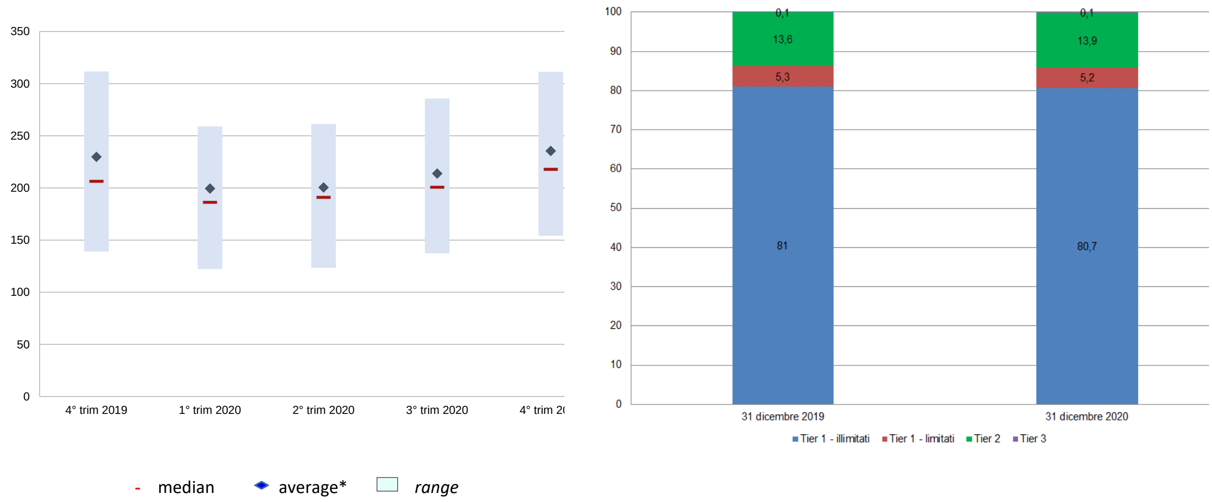
Capital Requirements					
					(million euro)
	Q4 2019	**Q1 2020**	**Q2 2020**	**Q3 2020**	**Q4 2020**
SCR	58,709	56,315	57,452	57,741	58,597
MCR	22,016	21,658	22,114	22,226	22,514
Eligible own funds to satisfy the SCR	135,627	118,253	121,134	129,829	140,417

With reference to the eight Italian insurance groups relevant for financial stability, the average value of the solvency ratio stood at 235.4% as at December 2020 (it was 229.8% in December 2019, fig. I.33.a). The percentage of higher quality capital (tier 1 own funds), which at the end of 2020 was 85.9%, has remained substantially unchanged compared to 2019 (86.3%) (fig. I.33.b).

Figure I.33

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

a) Solvency index **b) Own funds covering the requirement**



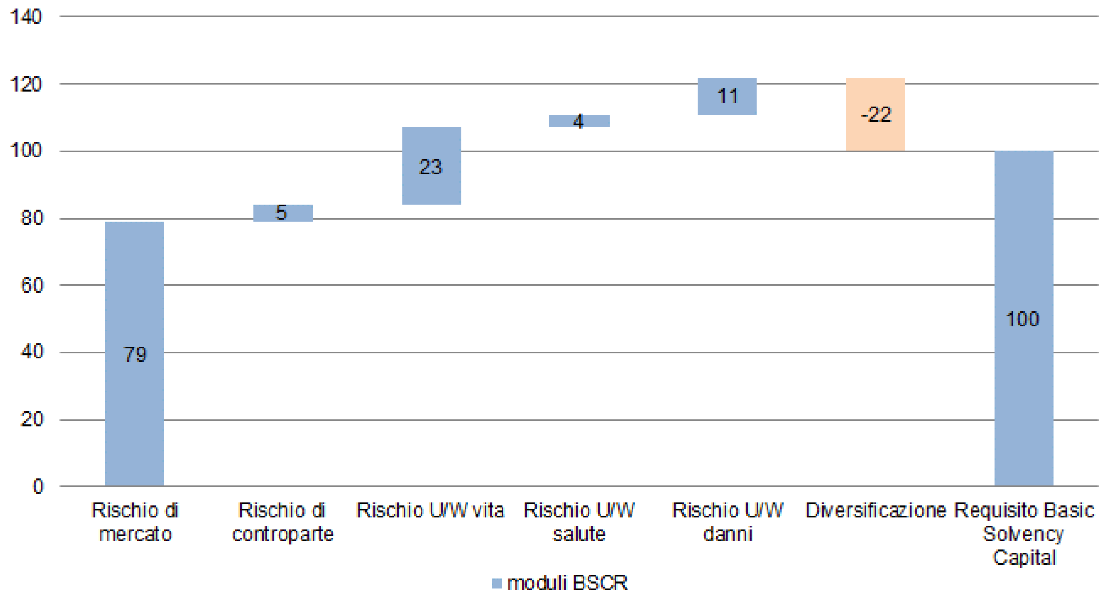
* Weighted average with the weights equal to the denominator of each ratio.

The aggregate market-wide composition of the Basic Solvency Capital Requirement (BSCR), calculated using the standard formula as at 31 December 2020, broken down by risk area (fig. I.34), shows the following:

- market risk, which also reflects financial volatility, represents the main source of risk in the Italian insurance sector, with an incidence of 79% on the BSCR, unchanged in the last three years;
- life and non-life underwriting risks are 23% and 11% of BSCR, respectively, compared to 21.8% and 11% in 2019;
- counterparty risk, at 5%, is influenced by the degree of vulnerability of financial assets other than government bonds and is slightly down from 5.3% in 2019;
- the benefit from risk diversification is 22% of BSCR, unchanged from 2019.

Figure I.34

Composition of the *Basic Solvency Capital Requirement* as at 31 December 2020
(% values)

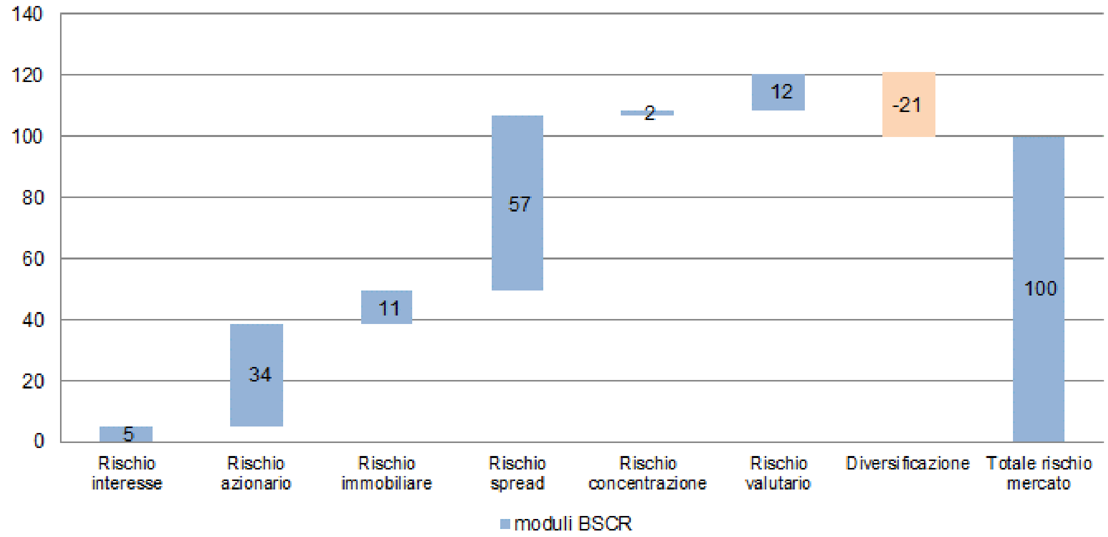


Analysing the components of market risk, the significant incidence of the spread-related component is confirmed, which contributes 57% (fig. I.35) and of the equity component equal to 34%, compared to 58% and 31% in 2019. Real estate and currency risks weigh in at 12% and 11% almost unchanged from 2019. Rate risk is reduced from 7.5% in 2019 to 5%.

Figure I.35

Composition of the *Basic Solvency Capital Requirement* (market risk only) as at 31 December 2020

(% values)



5.7. - Own funds

Total own funds covering the SCR at 31 December 2020 amounted to 140.4 billion euro, with a 4.8 billion euro decrease compared to the end of 2019 (Table I.57).

A high quality of the own funds of Italian insurance undertakings is noted. Tier 1 funds amounted to 89.1% of the total own funds, slightly down compared to the previous year (-0.9%), while the weight of lower quality elements (Tier 3) remained below 1%, far lower than the 15% allowed by the regulations[31].

Table I.57

Eligible own funds to satisfy the Solvency Capital Requirement (SCR)

(million euro and percentage values)

	Tier 1 unlimited	% total	Tier 1 limited	% total	Tier 2	% total	Tier 3	% total	Total
Q4 2019	116,386	85.8	5,676	4.2	13,007	9.6	557	0.4	135,627
Q1 2020	97,747	82.7	5,516	4.7	13,840	11.7	1149	1.0	118,253
Q2 2020	100,635	83.1	5,493	4.5	13,904	11.5	1,102	0.9	121,134
Q3 2020	109,366	84.2	5,579	4.3	14,160	10.9	725	0.6	129,829
Q4 2020	119,088	84.8	6,105	4.3	14,706	10.5	518	0.4	140,417

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

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[32]. This reserve is the most significant item of Tier 1 (68.8% as at 31 December 2020, Table I.58), essentially unchanged with respect to 2019. The expected profits included in future premiums - EPIFP[33] account for 14.2% of the reconciliation reserve, slightly down compared to 14.4% in 2019 and refer almost entirely to the life insurance business.

Table I.58

Reconciliation reserve and EPIFP

(million euro)

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Excess assets over liabilities	123,084	104,527	102,662	111,234	126,117
Own shares	73	78	137	249	361
Dividends, distributions and foreseeable expenses	5,583	5,057	273	408	5,686
Other elements of own funds	34,795	35,412	34,372	33,999	33,938
Adjustment for own funds items subject to restrictions in relation to the matching portfolio and the *ring fenced funds*	50	39	40	43	53
Reconciliation Reserve	**82,584**	**63,940**	**67,841**	**76,535**	**86,078**
Expected profits included in future premiums (EPIFP) - life business	11,144	9,675	7,696	10,190	11,392
Expected profits included in future premiums (EPIFP) non-life business	752	679	741	794	873
Expected profits included in future premiums (EPIFP) - Total	**11,896**	**10,355**	**8,437**	**10,984**	**12,266**
Reconciliation reserve/ Tier 1	**67.7%**	**61.9%**	**63.9%**	**66.6%**	**68.8%**
EPIFP/Reconciliation reserve	**14.4%**	**16.2%**	**12.4%**	**14.4%**	**14.2%**

5.8. - *Solvency Capital Requirement Ratio*

The ratio between own funds and SCR (SCR ratio; Table I.59) at market level at the end of 2020 increased slightly compared to the end of the previous year, from 231.0% at the end of 2019 to 239.6%. The ratio of undertakings adopting the internal model increased by +12.4%, much more than that of undertakings using the standard formula or the standard formula with USP. The market share of companies implementing an internal model in both full and partial versions amounts to 89.6% of total premium income of 2020.

[32] Article 75 of the Solvency II Directive.

[33] Expected profits included in future premiums (EPIFP) are currently being amended by the European Commission. EIOPA issued a favourable opinion on their nature because of the following aspects:

- they do not include loss-generating policies in the calculation;
- reinsurance cession is not taken into account;
- the calculation is made on a gross basis without considering taxation.

Table I.59

SCR ratio by calculation method and activity of the undertaking

(% values)

	Life		Non-life		Composites		Market total	
	2019	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
Standard Formula	230.4	227.1	187.5	220.2	126.3	134.8	219.2	222.5
Standard Formula - USP	.	.	242.9	247.0	176.1	181.9	189.3	194.3
Internal Model	163.7	197.5	182.6	218.8	245.1	255.2	238.6	251.0
Market total	**219.0**	**222.7**	**194.0**	**223.6**	**239.5**	**248.9**	**231.0**	**239.6**

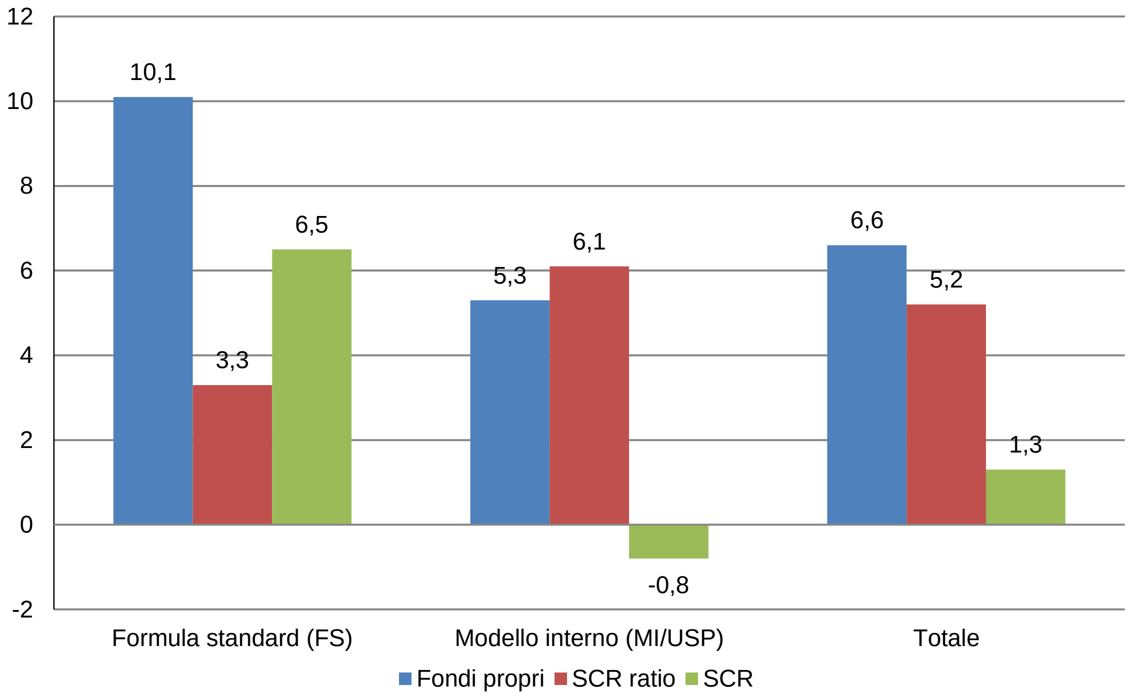
* The values for 2018 and 2019 for composite undertakings relate to a single undertaking.

Fig. I.36 shows the changes in the SCR, in eligible own funds and in the SCR ratios, by distinguishing between undertakings that in 2019 and 2020 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 2020 is due to a higher increase in eligible own funds (+6.6%) compared to the increase in the capital requirement (+1.3%). The most significant increase in the SCR ratio was recorded by undertakings adopting the internal model (+6.1%), while that of undertakings adopting the standard formula was more limited (+3.3%).

Figure I.36

2019/2018 % change in own funds, SCR and the SCR ratio

(% values)



For domestic insurance groups, the SCR ratio increased slightly between the end of 2019 and 2020 (from 213.6% to 216,3%, Table I.60).

Table I.60

Data on the group solvency

(million euro and % values)

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Consolidated group SCR	40,023	37,100	37,445	36,913	40,447
Minimum consolidated group SCR	25,413	23,345	24,007	24,207	26,416
Ratio between eligible own funds and consolidated group SCR (excluding other financial sectors and the undertakings included via D&A - deductions and aggregations)	213.6	191.2	192.4	205.1	216.3
Ratio between eligible own funds and minimum consolidated group SCR	311.1	270.2	269.6	284.0	304.0

* Intra-annual quarterly figures include only groups with the ultimate Italian parent company.

II. - STUDIES AND RESEARCHES

The comparison with the leading European countries on the cost of MTPL continues to show 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 halved in the last decade.

The analyses on the CARD direct compensation system confirm the positive effects on the claims settlement time, especially for more complex claims featuring a greater damage amount. The CARD procedure, together with Decree Law No. 1/2012 on compensation for minor disabilities, has generated a containment of costs of the Italian MTPL market despite still not having reached full efficiency level, which require a further optimisation of claim settlement times, the reduction of disputes and litigation settlement times and improvements in the anti-fraud systems adopted by undertakings.

The survey on actual motor liability prices at territorial level indicates a reduction in the difference in premiums between geographical areas, a trend that has been underway for several years. The focus is on the impact on prices of the protected bonus clause, the company switch rate by policyholders, market concentration and the level of litigation.

The Institute's activities to promote the anti-fraud activities of undertakings have promoted improvements in the quality and use of the Claims Data Bank and of the Integrated anti-fraud database, and of the relevant indicators of suspected fraud, as well as the development of digital document exchange systems between undertakings. In 2019, savings from foiled fraud exceeded 250 million euro (1.9% of MTPL premiums).

A quantitative analysis shows the impact of banks' participation in insurance companies on the distribution channel, premium income and profitability.

The survey on health liability policies indicates a limited impact from the COVID-19 outbreak in 2020. Future studies will assess longer-term effects.

As regards risk management in agriculture, IVASS pursues the objective of encouraging the dissemination of advanced forms of risk management in view of climate change.

Finally, a hypothesis of a generalised contribution to guarantee Long Term Care benefits for the entire Italian population is presented.

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

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

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). At the end of 2019, the Countries considered accounted for 63.4% of the population and 76.3% 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[34].

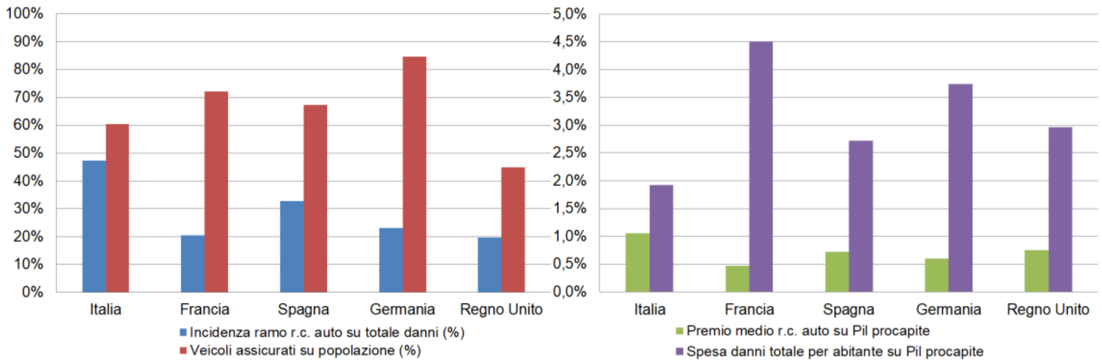
In addition to the different cost of living, other relevant factors in price differentials between Countries are the characteristics of the national compensation, health and welfare systems, in particular in the treatment of personal injury (biological and financial damage).

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 2019 too, 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 – 2019

(% values)



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

[34] 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.

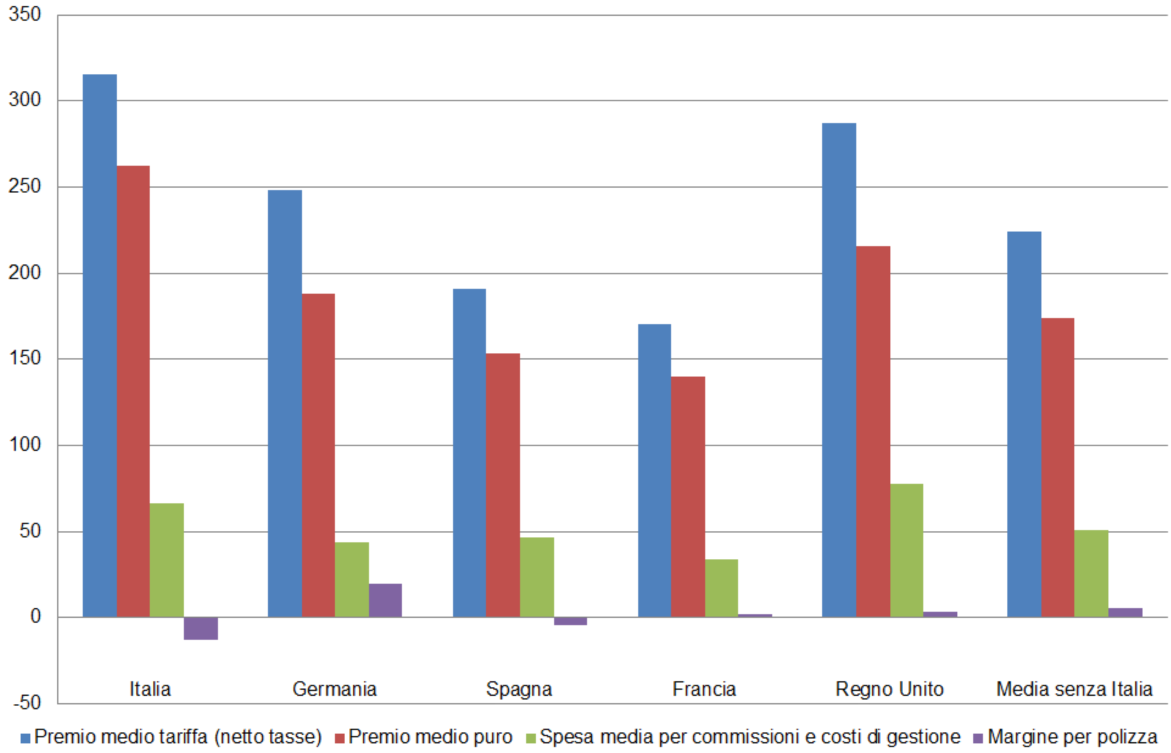
Structure of MTPL prices: the various components

At the end of 2019, the average premium of MTPL in Italy (premium rate net of taxes) was higher by approx. 91 euro than the average of the four main European countries (Fig. II.2).

Figure II.2

MTPL average premium and its components – 2019

(euro)



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

The higher price charged to Italian consumers is explained by the high average cost of claims (pure premium), which is €88 higher than the average for other countries, and by acquisition and operating costs that are €16 higher overall. The expected technical margin per policy (net of financial income and gross of the future result of the run off of the claims reserve of the 2019 generation) remained significantly negative in Italy (€-13) compared to the positive average figure of the other countries (€5.2), indicating a more aggressive discount pricing policy on the part of Italian companies.

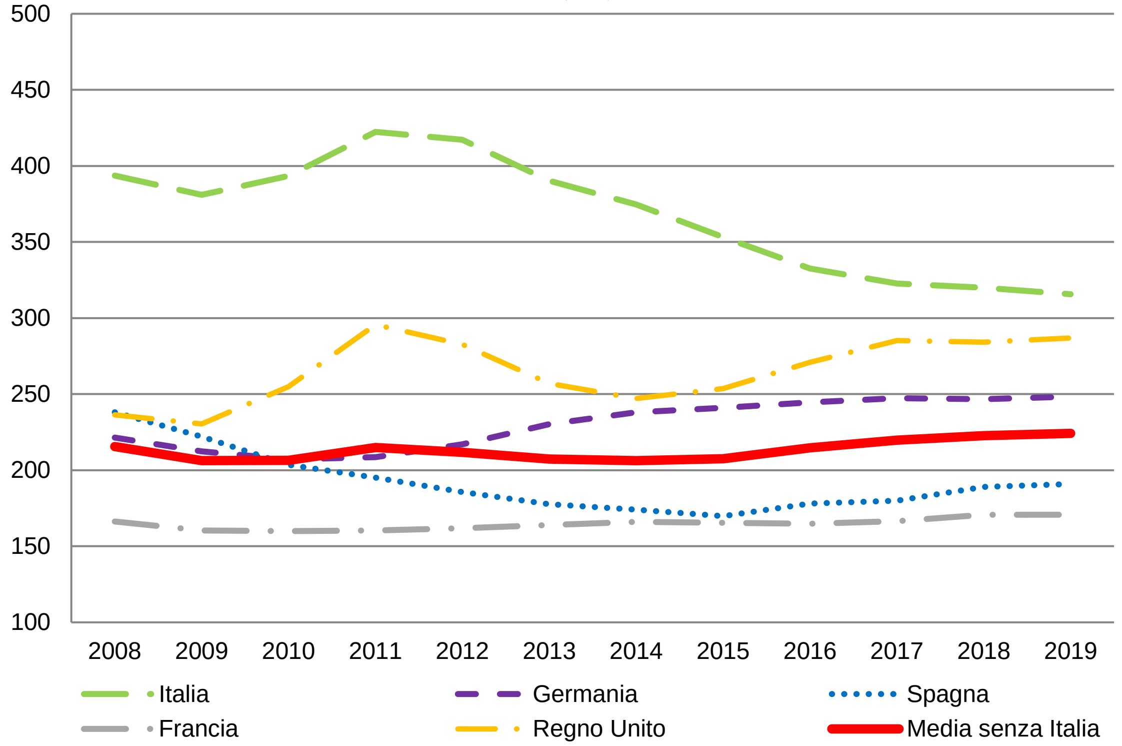
In relative terms, in Italy the contribution of the cost of claims (pure premium) to the determination of the average premium is higher by approximately 5 percentage points compared with the average level of the other countries (83.1% and 77.7%, respectively); the cost of acquisition commissions and administrative costs in relation to premiums was nearly the same (21% in Italy, 22.5% in the other countries).

In 2019, the process of reducing the gap between Italian premiums and those of other countries, under way since 2012, continued (Fig. II.3); this differential has more than halved (-55.5%) in the last seven years, declined by 114 euro (tab. II.1).

Figure II.3

MTPL average premium in Italy and in the main EU countries

(euro)



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	2019
Gap	178	175	187	206	203	183	168	146	118	103	97	91

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 the EEA.

Table II.2

Total MTPL and liability for ships (gross of IBNR)

(thousands of units, euro and % values)

Year	Risk unit	Claims frequency	Claims paid		Claims written in the provisions		Total claims		Pure premium		Gross average premium	
			Average cost	% Variation	Average cost	% Variation	Average cost	% Variation	Value	% Variation	Value	% Variation
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	6.1%	2,454	1.6%	8,674	-2.7%	4,634	-1.6%	282	-3.1%	498	-8.1%
2015	40,787	6.2%	2,452	-0.1%	8,631	-0.5%	4,556	-1.7%	281	-0.4%	468	-6.0%
2016	40,993	6.2%	2,468	0.7%	8,503	-1.5%	4,464	-2.0%	279	-0.7%	440	-6.0%
2017	41,465	6.2%	2,515	1.9%	8,336	-2.0%	4,433	-0.7%	275	-1.4%	428	-2.7%
2018	42,169	6.0%	2,542	1.1%	8,394	0.7%	4,442	0.2%	268	-2.5%	424	-0.9%
2019	42,450	6.0%	2,583	1.6%	8,359	-0.4%	4,426	-0.4%	265	-1.1%	420	-0.9%
2020	42,252	4.2%	2,755	6.7%	9,711	16.2%	5,012	13.2%	212	-20.0%	402	-4.3%
% Change 2020 / 2011	*4.9%*			*10.2%*		*22.9%*		*13.0%*		*-35.2%*		*-29.0%*
% Change 2020 / 2017	*1.9%*			*9.5%*		*16.5%*		*13.1%*		*-22.9%*		*-6.1%*

Table II.3

Automobile sector (gross of IBNR)

(thousands of units, euro and % values)

Year	Risk unit	Claims frequency	Claims paid		Claims written in the provisions		Total claims		Pure premium		Gross average premium	
			Average cost	% Variation	Average cost	% Variation	Average cost	% Variation	Value	% Variation	Value	% Variation
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	6.6%	2,381	1.3%	8,407	-2.2%	4,366	-0.7%	287	-1.7%	498	-6.6%
2015	30,579	6.6%	2,386	0.2%	8,343	-0.8%	4,270	-2.2%	284	-1.0%	468	-6.0%
2016	30,903	6.7%	2,399	0.5%	8,196	-1.8%	4,192	-1.8%	282	-0.7%	438	-6.4%
2017	31,351	6.6%	2,450	2.1%	8,011	-2.3%	4,162	-0.7%	276	-2.1%	424	-3.2%
2018	31,887	6.3%	2,468	0.7%	8,102	1.1%	4,175	0.3%	263	-4.7%	419	-1.2%
2019	32,095	6.4%	2,518	2.0%	8,081	-0.3%	4,188	0.3%	268	1.9%	414	-1.2%
2020	32,104	4.4%	2,678	6.4%	9,366	15.9%	4,696	12.1%	206	-23.1%	397	-4.1%
% Change 2020/2011	*4.5%*			*10.0%*		*22.3%*		*12.0%*		*-39.1%*		*-31.3%*
% Change 2020/2017	*2.4%*			*9.3%*		*16.9%*		*12.8%*		*-25.4%*		*-6.4%*

Table II.4

Moped and motorcycle sector (gross of IBNR)												
(thousands of units, euro and % values)												
Year	Risk unit	Claims frequency	Claims paid		Claims written in the provisions		Total claims		Pure premium		Gross average premium	
			Average cost	% Variation	Average cost	% Variation	Average cost	% Variation	Value	% Variation	Value	% Variation
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%	3,281	4.8%	10,158	-1.1%	6,831	-1.0%	233	-1.7%	283	2.5%
2015	4,087	3.5%	3,222	-1.8%	9,716	-4.4%	6,501	-4.8%	229	-1.7%	277	-2.1%
2016	4,016	3.7%	3,169	-1.6%	9,800	0.9%	6,465	-0.6%	239	4.4%	269	-2.9%
2017	3,973	3.7%	3,239	2.2%	9,914	1.2%	6,436	-0.4%	240	0.4%	268	-0.4%
2018	4,002	3.5%	3,248	0.3%	9,487	-4.3%	6,285	-2.3%	220	-8.3%	273	1.9%
2019	4,060	3.5%	3,289	1.3%	9,967	5.1%	6,302	0.3%	220	0.0%	272	-0.4%
2020	3,926	2.6%	3,424	4.1%	11,258	13.0%	7,025	11.5%	184	-16.4%	258	-5.1%
% Change 2020/2011	*-16.1%*			*7.2%*		*28.4%*		*16.2%*		*-30.3%*		*-14.3%*
% Change 2020/2017	*-1.2%*			*5.7%*		*13.6%*		*9.2%*		*-23.3%*		*-3.7%*

In 2020:

- the number of risk units reached 42.3 million;
- the claims frequency dropped from 6% to 4.2%;
- the average total cost of the claims paid and written in the provisions rose by +13%, while pure premium fell by -20% (-23.1% for cars and -16.4% for the two-wheel sector);
- the gross premium (inclusive of the pure premium, expenses, margins and taxes) continued to decline for the whole sector (-4.2%), for automobiles (-4.1%) and more markedly in the two-wheel sector(-5.1%).

THE DECREASE IN ROAD ACCIDENTS IN ITALY DURING THE PANDEMIC

The detailed data collection in the Claims Database (BDS) managed by IVASS makes it possible to estimate the decrease in road accidents in 2020 and in the first three months of 2021.

The purpose of this measurement is to assess:

1) the effect of legislative measures that have reduced mobility since early 2020 to limit the spread of COVID-19[35];
2) the drop in the number of claims recorded in the latter part of the year due to the decrease in traffic caused by the slowdown in economic activity and social life, localised restrictions and specific restrictions (e.g. the ban on traffic after 10 p.m.).

The number of claims in 2020 and 2021 incorporates an estimate of those that occurred during the period but are not in the BDS because they have not yet been reported. We take account of the uncertainty of this estimate by presenting a minimum and a maximum value[36].

[35] The previous report (page 14) considered the decrease in claims that occurred between 1 February and 15 May 2020.

[36] The minimum estimate includes a number of late claims based on the same frequency of delays as in 2018, while the late claims for the maximum estimate are based on twice the frequency of delays as in 2018. A time lag is considered to take account of the fact that claims must be reported within two years, except in exceptional cases.

During the period of strict lockdown (23 February - 2 June 2020), the number of accidents ranged from 297 thousand to 299 thousand (fig. II.4), about 60 percent fewer (tab. II.5) compared to those occurring in the same period of the previous year. Although less pronounced, the decrease in claims also affected the rest of 2020. Overall, 2020 accidents are estimated at between 1,866 thousand and 1,888 thousand, down -30% from 2019 (2,699 thousand claims).

In the first months of 2021, traffic has not returned to 2019 levels, as evidenced by the decrease in claims from two years earlier, estimated at between -31% and -27%.

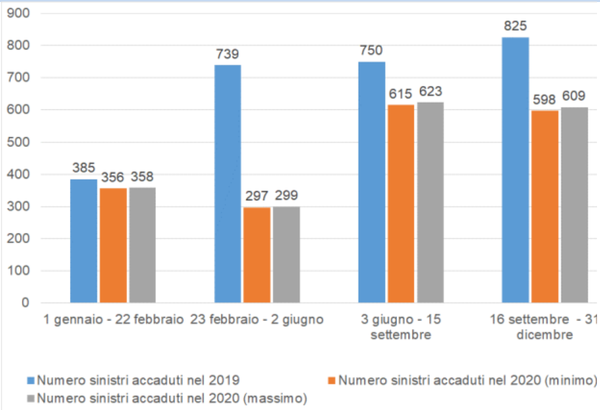
Overall, the share of accidents of greater complexity occurring in 2020-2021 that are not handled through the CARD agreement (NO CARD claims) is slightly up compared to 2018 and 2019 (tab. II.6). In 2020, the number of NO CARD claims amounted to 40.4%, compared to 39.6% in the previous two years. In the first three months of 2021, the share of NO CARD claims was 41.3% while it was less than 40% in the same period in previous years.

The share of accidents in 2020 and 2021 that caused physical injuries to people involved is down from 2019 (tab. II.7), more pronounced than in the previous year. The reduction of one percentage point between 2020 and 2019 compares with a reduction of six-tenths of a point between 2019 and 2018.

In the first three months of 2021, the share of claims involving bodily injury is down significantly compared to 2019 (-2.2%, compared to a decrease of two-tenths of a point in the same period between 2019 and 2018).

Figure II.4

a) Accidents in 2020 compared to 2019
(thousands of units)



b) Accidents in the first three months of 2021 compared to those in the first three months of 2019
(thousands of units)

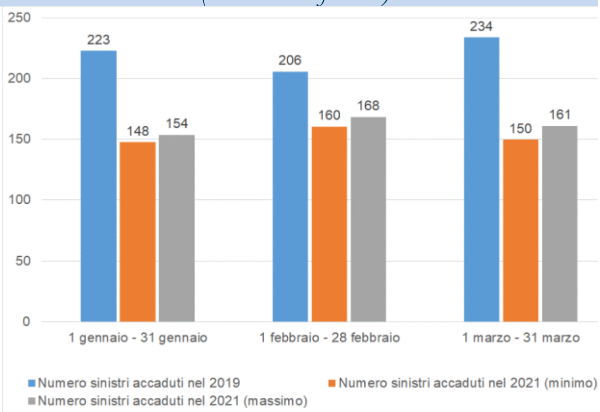


Table II.5

Variation in the number of accidents 2020 - 2021 compared to the accidents in 2019

(percentages)

	Minimum variation	Maximum variation
1 January - 22 February 2020	-7.7%	-7.2%
23 February - 2 June 2020	-59.8%	-59.5%
3 June - 15 September 2020	-17.9%	-16.9%
16 September - 31 December 2020	-27.6%	-26.3%
Total 2020	**-30.9%**	**-30.0%**
1 January - 31 January 2021	-33.7%	-30.9%
1 February- 28 February 2021	-22.0%	-18.1%

1 March - 31 March 2021	-35.9%	-31.1%
Total January - March 2021	**-30.8%**	**-27.0%**

Table II.6

Share of NO CARD claims, 2018 - 2021

(percentages)

	2018	2019	2020	2021
1 January - 22 February	39.2%	40.0%	38.7%	---
23 February- 2 June	39.6%	39.3%	40.4%	---
3 June- 15 September	41.2%	40.0%	41.5%	---
16 September - 31 December	39.9%	38.3%	40.4%	---
Total for the year	**39.6%**	**39.6%**	**40.4%**	**---**
1 January - 31 January	39.4%	40.0%	---	40.9%
1 February - 28 February	39.3%	40.1%	---	41.3%
1 March - 31 March	39.1%	39.5%	---	41.8%
Total January - March	**39.3%**	**39.9%**	**---**	**41.3%**

Table II.7

Share of claims with bodily injury, 2018 - 2021

(percentages)

	2018	2019	2020	2021
1 January - 22 February	15.2%	14.4%	14.4%	---
23 February- 2 June	15.4%	14.9%	12.2%	---
3 June- 15 September	16.6%	16.0%	15.7%	---
16 September - 31 December	15.4%	15.0%	13.0%	---
Total for the year	**15.7%**	**15.1%**	**14.1%**	**---**
1 January - 31 January	15.3%	14.4%	---	12.1%
1 February - 28 February	14.9%	14.5%	---	13.1%
1 March - 31 March	15.2%	15.2%	---	12.3%
Total January - March	**14.9%**	**14.7%**	**---**	**12.5%**

1.3. - The direct compensation system

1.3.1. - The CARD numbers[37]

The CARD agreement, set 2007, allows undertakings to settle the damages suffered by their policyholders who are not responsible for the claims, speeding up the settlement of damages. The portion of CARD claims (Table II.8) remained stable at 80% of the total; in terms of amount of compensations, the percentage of CARD claims was 44% in 2020. The significant reduction compared to 2011 (-50%) is attributable to the contraction of charges for compensation for slight disabilities essentially due to the provisions of Law Decree no. 1/2012[38], together with a general improvement in the efficiency of the claims settlement processes by undertakings. In 2020, the

[37] Numbers referring to companies supervised by IVASS, which in 2020 collected 94.7% of motor liability premiums in Italy.

[38] Law Decree 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."

reduction in the number of vehicles in circulation due to the lockdown led to a reduction in the portion of claims under the CARD regime in terms of both numbers (79.5%) and amounts (44.3%), and resulted in proportionally fewer simple claims falling under the CARD regime.

Table II.8

CARD and NO CARD portfolio over TOTAL (net of IBNR)*

Year of	CARD		NO CARD	
generation	Numbers	Amounts	Numbers	Amounts
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%
2020	79.5%	44.3%	21.4%	55.7%
% Change 2020-2011	*-0.3*	*-6.3*	*+0.3*	*+6.3*

* The sum of the numbers and amounts of CARD claims and NO CARD claims may exceed 100 because a single claim can have damage components managed under either regime.

Table II.9 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 2020.

Table II.9

Claims paid in the year of occurrence over claims with indemnification (gross of IBNR)

Year of	CARD		NO CARD	
generation	Numbers	Amounts	Numbers	Amounts
2011	71.8%	58.7%	39.5%	18.6%
2012	72.1%	58.9%	39.8%	17.5%
2013	72.9%	59.6%	40.6%	17.6%
2014	73.2%	59.9%	41.2%	18.2%
2015	74.3%	61.4%	40.6%	18.0%
2016	74.8%	61.9%	41.6%	18.6%
2017	74.8%	62.5%	42.3%	19.1%
2018	75.5%	63.8%	43.8%	19.5%
2019	76.2%	64.7%	46.1%	20.1%
2020	75.5%	63.6%	42.5%	18.8%

Claims paid in the year of occurrence over claims with indemnification (gross of IBNR)				
Year of generation	CARD		NO CARD	
	Numbers	Amounts	Numbers	Amounts
% Change 2020-2011	*+3.7*	*+4.9*	*+3.0*	*+0.2*

The claims managed on the CARD system show a progressively increasing claim settlement time until 2019, both in terms of numbers and of amounts paid, with a share of claims paid in the year of occurrence much higher than for NO CARD. In 2020, there is a slight slowdown in this speed, which is more marked for claims handled in the ordinary NO CARD regime, which declines by 3.6 percentage points in terms of numbers (42.5% compared to 46.1% in 2019) and by 1.3 percentage points in terms of amounts (18.8% compared to 20.1%).

The average cost of paid claims handled (CARD and NO CARD), considering the development in claims only in the year of occurrence, was up, with a change of +11.7% in the ten-year period (Table II.10) and of +6.8% in 2020. The total average cost (paid and reserved, gross of IBNR), in the ten-year period rose by 14% (+13.1% in 2020) and reached the peak value of 5,053 euro in 2020.

Table II.10

Average cost of generation (Total managed)

(euro)

Year of generation	Paid *	% Change	Reserved (net of IBNR)	% Change	Paid + Reserved (net of IBNR)	% Change	Paid + Reserved (gross of IBNR)	% Change
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	2,610	1.7%	9,582	0.2%	4,347	-0.3%	4,469	0.3%
2020	2,788	6.8%	11,183	16.7%	4,917	13.1%	5,053	13.1%
Var. % 2020/ 2011		*11.7%*		*26.7%*		*13.3%*		*14.0%*

* Partial payments included.

The average costs of CARD claims paid (Table II.11), with reference only to the year of occurrence of the claims, grew by +10.1% 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 pay-out costs showed significant recovery, reaching a maximum value of 2,308 euro in 2020 (+7.4% compared to 2019), also due to the increasing claim settlement time of more complex claims featuring a greater damage amount. The average cost of reserved claims, gross of IBNR, recorded a fall of -0.4% in the last ten years, due to the improvement in the claim settlement processes of the undertakings, reaching 2,742 euro in 2020 (+7.7% compared to the previous year). Since 2018, there has been a recovery in average CARD costs over the past year, attributable to a slowdown in settlement processes due to the difficulties associated with the spread of the pandemic.

Table II.11

Average cost of generation (CARD)								
								(euro)
Year of generation	**Paid ***	**% Change**	**Reserved (net of IBNR)**	**% Change**	**Paid + Reserved (net of IBNR)**	**% Change**	**Paid + Reserved (gross of IBNR)**	**% Change**
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%	4,134	-0.9%	2,540	0.9%	2,546	1.0%
2020	2,308	7.4%	4,481	8.4%	2,739	7.8%	2,742	7.7%
Var. % 2020/ 2011	*10.1%*		*-9.1%*		*-0.4%*		*-0.4%*	

* Partial payments included.

NO CARD claims (Table II.12) 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 2020 the average cost of the pay-out was 5,374 euro, with a decrease of -0.5% over the previous year (-0.4% in 2019), due to a slowdown in payments for more complex and, therefore, more costly claims. The indicator was up by +10.6% over the ten-year period.

The average cost reserved (net of IBNR claims) amounted to 21,239 euro, an increase of +14.8% in 2020 and of +42.3% 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 in the decade and is up by +10.3% in 2020, for an overall increase in the ten-year period of +23.2%. 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.12

Average cost of generation (NO CARD claims)

(euro)

Year of generation	Paid *	% Change	Reserved (net of IBNR)	% Change	Paid + Reserved (net of IBNR)	% Change	Paid + Reserved (gross of IBNR)	% Change
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%	11,586	-0.9%	10,992	0.5%
2020	5,374	-0.5%	21,239	14.8%	12,816	10.6%	12,125	10.3%
Var. % 2020/ 2011	*10.6%*		*42.3%*		*26.1%*		*23.2%*	

* 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 implemented a system 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 re-formulated 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 reference period for the anti-fraud settlement driver is the last financial year, for the other drivers the year in which the claims occurred.

Traffic restrictions led to a sharp reduction in the number of claims in 2020 (see II.1.2). The thinning of the collectives would have led, particularly in small companies, to an increase in the volatility of the indicator on cost dynamics, with the risk of obtaining values that are not representative of the real efficiency of companies.

For a correct determination of premiums and penalties also in the current exceptional context, IVASS has established with Order no. 102/2020 a derogation to the calculation of incentives that provides for the extension of the calculation perimeter to the entire national territory and the adoption of the cut-off distribution of claims amounts[39].

Before the beginning of each year, IVASS shall determine the calibration parameters valid for the following year. The annual calibration allows to:

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

The calibration parameters applied since the start-up of the system are shown in Tables II.13 and II.14.

Table II.13

Calibration for motor vehicles and amount of incentives

Annuity	Premium threshold (millions)	Percen-tiles	Total incen-tives (millions)	Maximum differential (%)			
				Cost	Dynam-ics	Time	Anti-fraud
2015*	20	10 – 98	18.8	15	-	5	-
2016	40	10 – 98	22.1	8	6	4	-
2017	40	10 – 98	26.9	8	6	4	-
2018	40	13 – 98	20.8	7	7	1	-
2019**	40	10 – 98	26.1	4	9	3	4
2020	40	10 – 98	n.a.	3	8	3	4
Total			**114.7**				

Table II.14

Calibration for mopeds and motor cycles and amount of incentives

Annuity	Premium threshold (millions)	Percen-tiles	Total incen-tives (millions)	Maximum differential (%)			
				Cost	Dynam-ics	Time	Anti-fraud
2015*	2.5	10 – 98	0.9	7	-	7	-
2016	5	10 – 98	1.5	9	7	5	-
2017	5	10 – 98	1.2	9	7	5	-
2018	5	12 – 98	0.8	7	5	1	-
2019**	5	10 – 98	0.4	5	-	2	-
2020	5	10 – 98	n.a.	5	-	2	-
Total			**4.8**				

NOTE: The maximum differential expresses the percentage distance between the incentive granted in each driver to the best company and the penalty for the worst company. - * Dynamics applied from 2016 - ** From 2019, maximum differentials are estimated.

The total incentives distributed until 2020 (generations from 2015 to 2019) are 115 million for the motor vehicles macro-class and 5 million for the mopeds and motorcycles macro-class.

[39] This is intended to limit the distorting effect of "peak" claims on a smaller pool of claims due to the observed decline in the loss ratio.

The above tables are subject to adjustment for 2018 and 2019 depending on the cost and speed of settlement; for these two drivers, the calculation of incentives is spread over three years (the first adjustment is made the year after the reference generation and appropriate adjustments are made in the following two years).

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

Prices over the territory

Figure II.5 shows the trend of the price paid for the MTPL coverage in the five macro-areas of Italy.

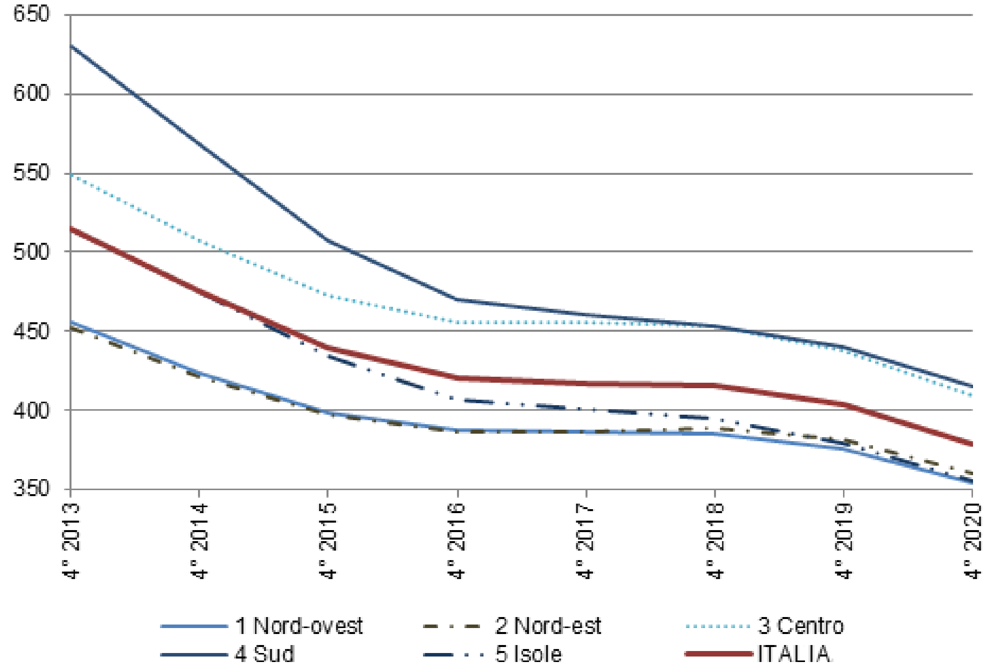
The price differential between the most (South) and least expensive (North West) macro-area in Q4 2020 is 17.3%. Policyholders located in the South pay a premium that is €61 higher than policyholders in the Northwest. This differential decreased by -6.1% compared to the fourth quarter of 2019.

A process of convergence of the Central provinces with respect to the Southern ones has been observed since 2016; both macro-regions were characterised by premiums that were always higher than the national average (+8.1% and +9.4% in the fourth quarter of 2020). The downward trend in prices in the South, which accelerated sharply in the 2013-2016 period, has stabilised in recent years (-5.8% on an annual basis in the last quarter).

The dynamics of price reduction on a national basis since 2016 shows increasingly small price differentials between macro-areas; the nationwide reduction of -26.4% between the fourth quarter of 2013 and the fourth quarter of 2020 is therefore driven largely by national structural factors as opposed to changes in local markets.

Figure II.5

Price performance for MTPL coverage by macro-area

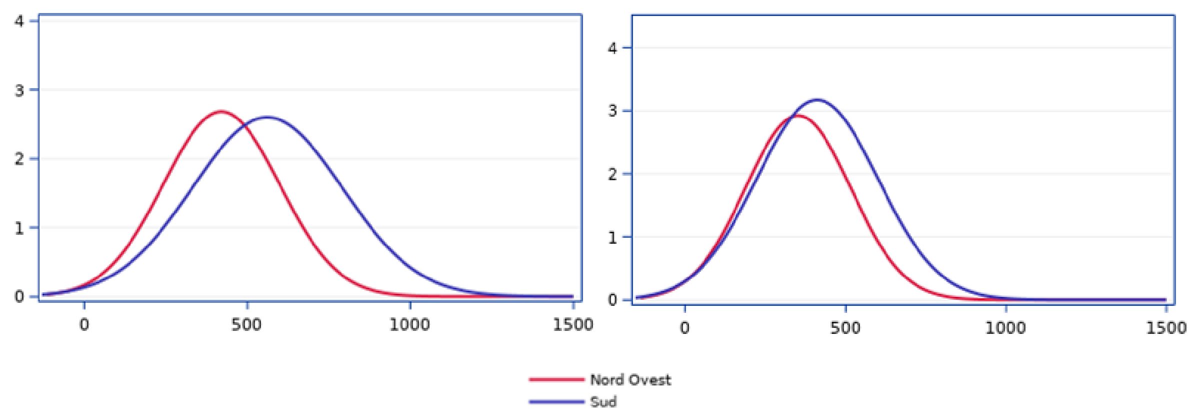


In the fourth quarter of 2014, prices applied in the Southern provinces were higher and more heterogeneous than in the North West (Figure II.6.a). The comparison with the fourth quarter of 2020 (fig. II.6.b) shows a clear process of convergence between the two curves in terms of price (fig. II.5), with a decrease in contract dispersion more pronounced in the South than in the North West.

Figure II.6

Percentage distribution of premiums in North West and South Italy in Q4 of 2014 and 2020

a) 2014 **b) 2020**



The black box trend and the discounts associated with its presence

The Italian motor liability market is characterised by a high black box penetration rate. In the last quarter of 2013 and 2017, the penetration rate increased by almost 9%, from 11.2% to 19.7%.

In order to understand the determinants of black box adoption, estimates have been carried out.

Preliminary estimates, based on multivariate econometric analyses of the price reduction with the same risk factors[40], conducted on a representative sample of contracts stipulated in the period 2013-2017, indicate that the discount on the premium attributable to the presence of the black box alone increases over time, from about 8% to almost 12% (fig. II.7), with a trend correlated with the increase in the penetration rate[41].

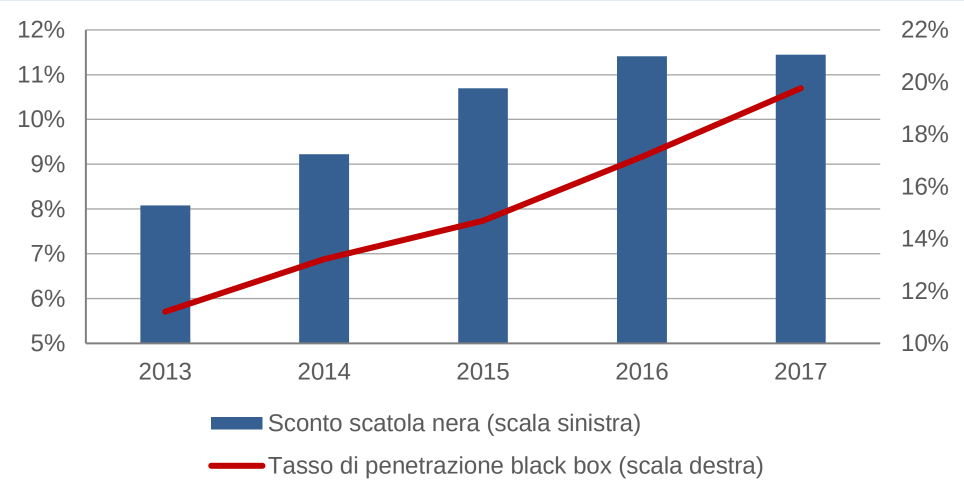
The estimates of discounts linked to the presence of black boxes are consistent with the better technical performance of the portfolios of companies with a higher rate of adoption of the same device[42].

[40] The risk factors considered include the characteristics of the policyholder (age, province of residence), characteristics of the vehicle, and other contractual clauses.

[41] These estimates do not take into account the black box rental fee for which no information is available.

[42] See the IPER statistical bulletin with data to the fourth quarter of 2020.

Figure II.7
The trend of the black box penetration rate and the average discount linked to the presence of the black box



Price diversification between undertakings

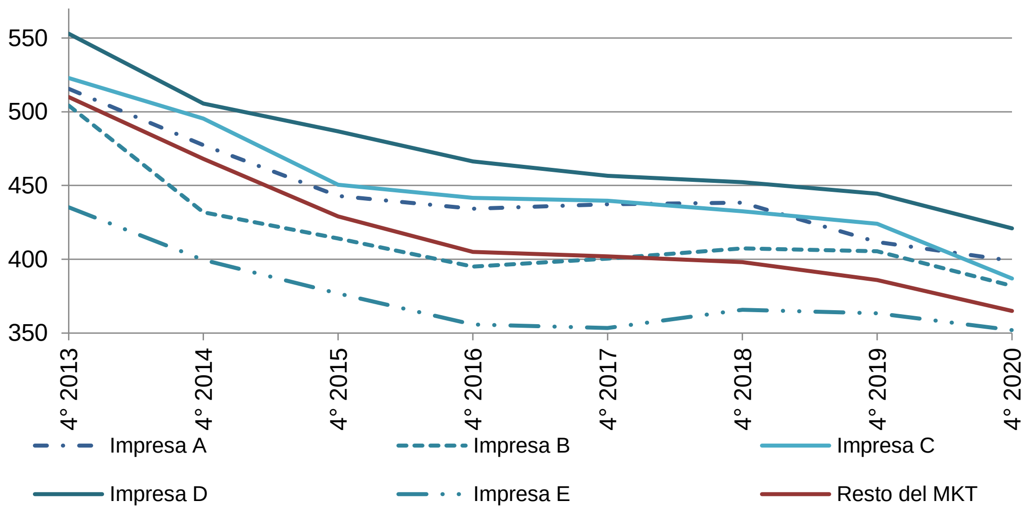
The MTPL price from 2013 to 2020 (Figure II.8) is widely diversified among the top five undertakings in terms of market share[43] and compared to the rest of the market. Over the last seven years, the reduction in the prices charged by the first companies is -32.5% compared to -28.4% for the remaining companies.

It can be seen that a large company always charges prices below the market average and that over the period, only one company sees its price differential widen compared to the rest of the market, with the others converge in recent years.

[43] Market share calculated, for each company, on gross CARD premiums written for the latest available financial year.

Figure II.8

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



Note: The letters used to indicate the undertakings are casual and not related to the market share held.

Price disparity between insurance undertakings

The correlation between each company's market share[44] and the percentage change in its average prices in Q4 2020 compared to the previous year is weak and not statistically significant (fig. II.9).

The change in prices is different among insurance undertakings and ranges between +5.8 and -19.7%. Only 3 companies out of 36 record positive price changes, in contrast with the market (-6.1% on a national basis).

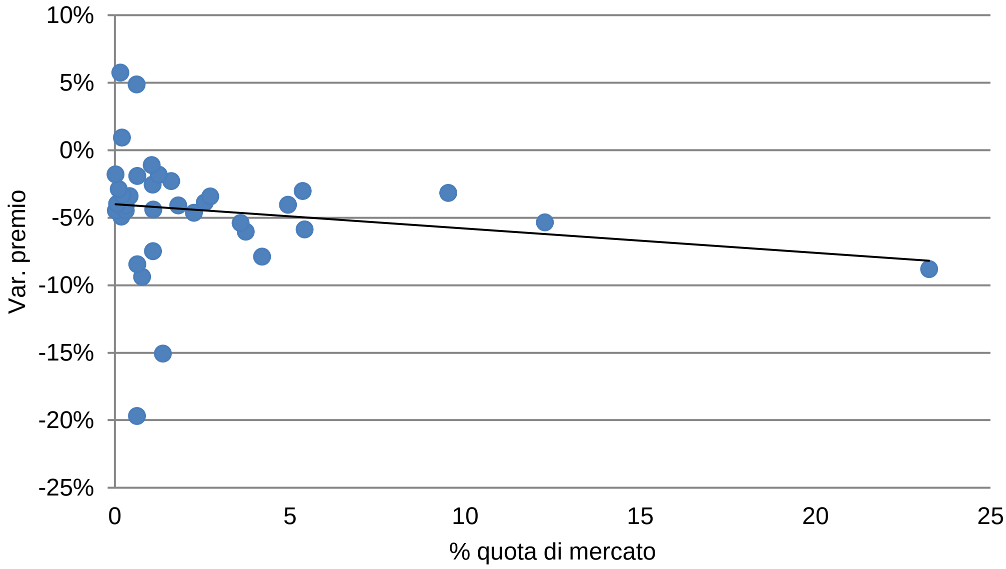
The 11 companies with sharply declining price changes (below -5%) account for 57% of the motor liability market in terms of market share; of these, the first three are companies with a direct or bancassurance distribution channel.

The price reduction is between -1 and -3% for 8 companies and between -3 and -5% for the remaining 14 companies.

[44] In this paragraph, market share means, for each company, the weight in terms of gross CARD premiums written for the latest available financial year.

Figure II.9

Annual average premium change
(contracts entered into in the fourth quarter of 2020)

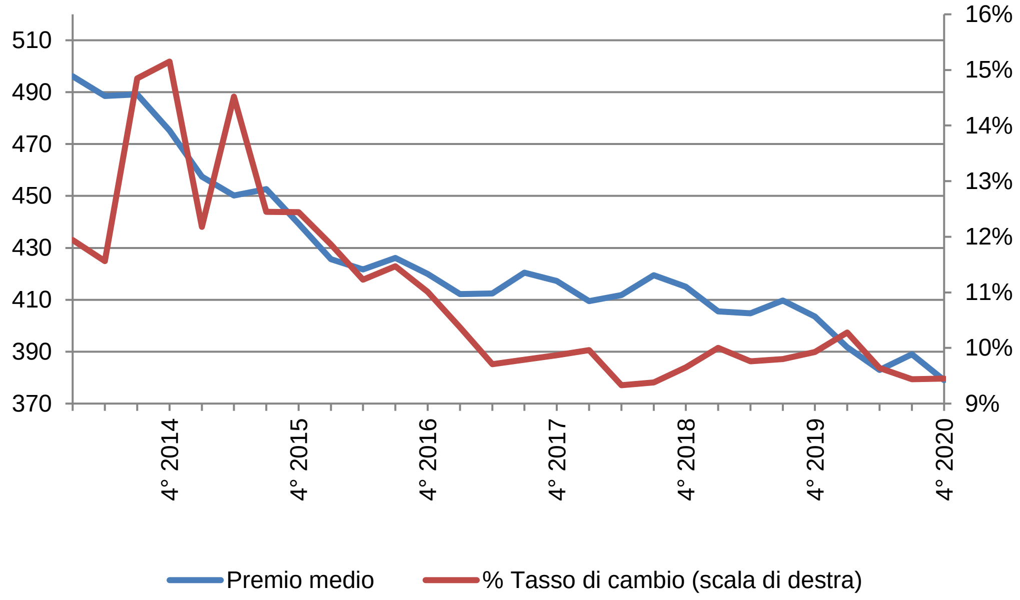


Company switch rate

The company switch rate, i.e. the percentage of contracts entered into in a quarter with a different company than the one chosen a year earlier, is 9.5% in Q4 2020. Analysing the joint development of the company switch rate and the change in prices (fig. II.10), we see that, despite a lower mobility of policyholders (-0.4% compared to the previous year), the decrease in prices is twice as large as in 2019 (-6.1% vs. -2.8%).

Figure II.10

Average price trend and company switch rate



1.4. - MTPL market concentration

The Herfindal-Hirschman Index (HHI) is commonly used to measure market concentration. High HHI values[45] indicate that the market is concentrated and is barely competitive.

The HHI value for the Italian MTPL market in 2020 was 827, with a decrease compared to 907 in the previous year. This value suggests that the MTPL market has a weak concentration, according to the standards commonly adopted by the antitrust authorities.

Fig. II.11 shows a positive association between the HHI trend and prices over time, in particular since mid-2016.

[45] The HHI range is 0-10,000.

Figure II.11

Trend in the average price and the HHI

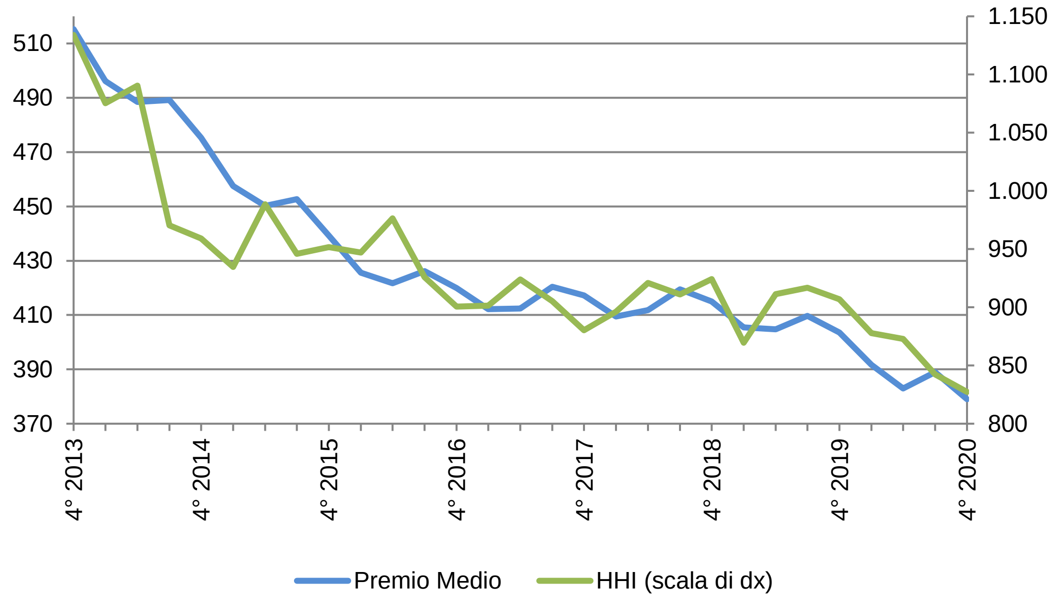


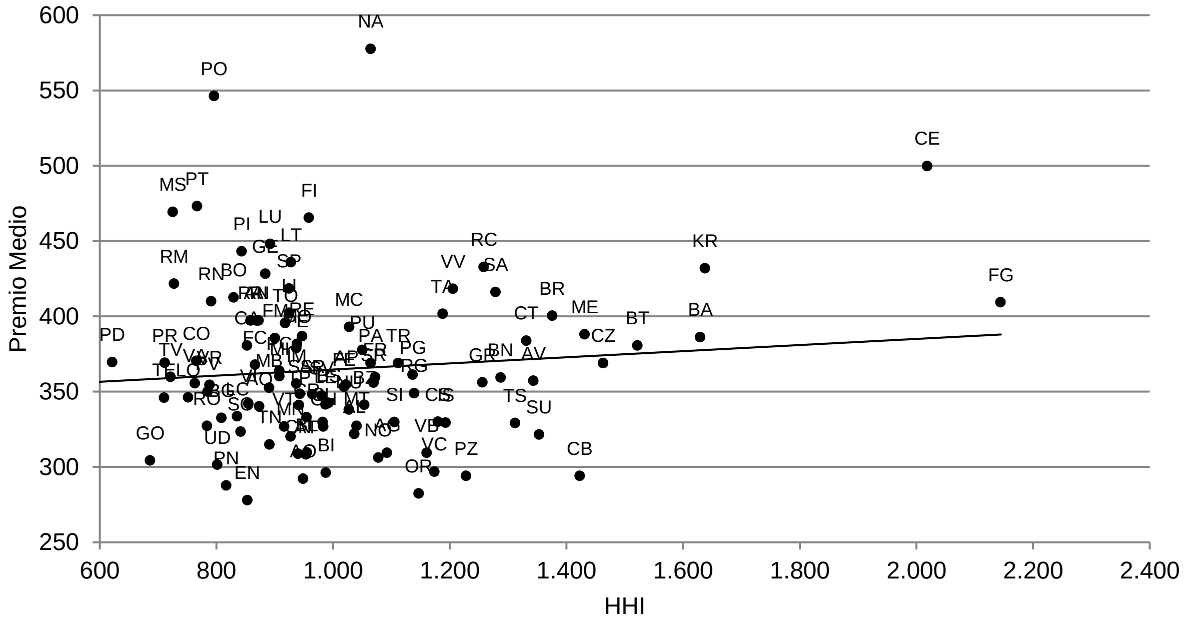
Fig. II.12 shows the correlation between the average price and the HHI among the provinces. The correlation is slightly positive, with some provinces with high prices and relatively high values in the national comparison of the concentration index (Foggia, Caserta and Crotone). In Naples, the province characterised by the highest premiums, there is a low HHI of 1,065.

The provinces with the highest HHI are mainly located in southern Italy[46].

[46] Among the provinces with the highest HHI there are: Foggia 2,145; Caserta 2,019; Crotone 1,638; Bari 1,630; Barletta-Andria-Trani 1,522; Cosenza 1,463; Messina 1,431; Campobasso 1,423.

Figure II.12

Ratio between average price and HHI by province
(contracts signed in the 4th quarter of 2020)



Impact of mergers and acquisitions on the concentration of the motor liability insurance market

The downward trend of the Herfindal-Hirschman Index (HHI), observed since 2013, was also examined in light of the corporate transactions, i.e. mergers and acquisitions, concluded in the reference period, in order to assess their impact on the concentration of the motor liability market[47]. The corporate transactions considered (tab. II.15) are more frequent in the period 2014-2017.

Table II.15

Year	No. corporate transactions
2013	1
2014	5
2015	4
2016	3
2017	4
2018	1
2019	1
Total	**19**

Analysing the dynamics of the HHI in relation to the extraordinary transactions completed between 2013 and 2020, we note that:

- partial portfolio transfers between large companies are reflected in the decrease in concentration between the second and third quarters of 2014 (the HHI is 1,090 versus 970, respectively);

[47] In this paragraph, only mergers by incorporation and portfolio transfers of companies included in the IPER survey are considered corporate transactions.

- in 2016, a merger by incorporation resulted in a slight increase in the market share of the medium-sized acquiring company. However, the HHI continues to decline over the period as a result of competition between companies and the concomitant erosion of the market shares of the top five companies;
- the other transactions considered do not seem to have affected the performance of the concentration: the market share of the absorbing companies did not change significantly as a result of these events.

Market share dynamics between large and medium/small companies

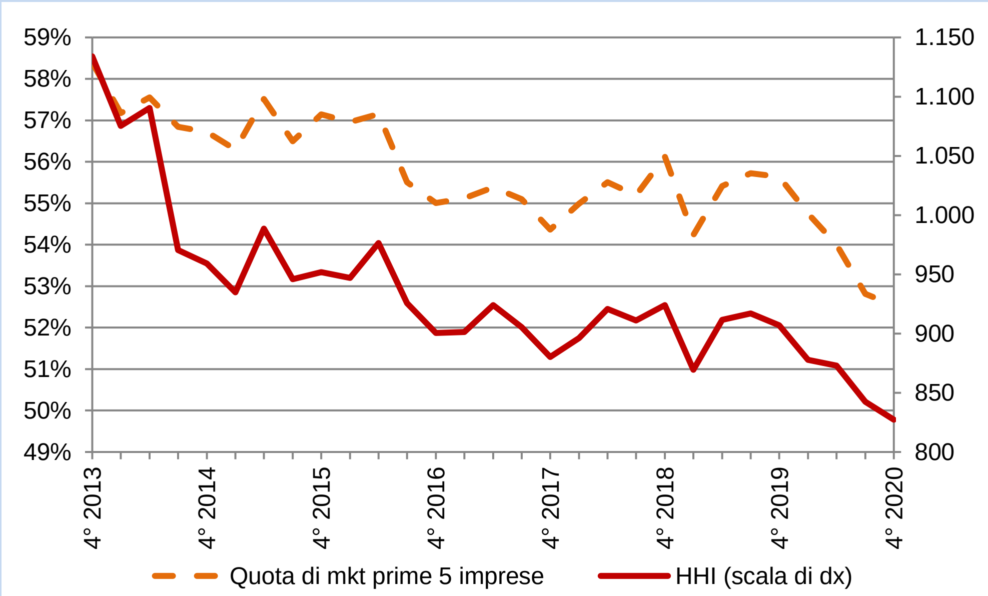
Fig. II.13 shows the trends in the HHI index and in the market shares of the top five companies[48] by number of contracts in IPER.

Market concentration has declined by 5.9 percentage points over the past seven years: in the fourth quarter of 2020, the top five companies had a market share of 52.5% (58.4% in the same period of 2013). The erosion of the market share of the top five companies is particularly high in 2020 and is -3.1% on an annual basis.

Figure II.13

Trend of the market share of the top five companies

(number of contracts in IPER) and the HHI index



The index trend is mainly determined by the redistribution of market shares between the top five companies and the small and medium-sized competitors, the result of lively competition among market operators, rather than the effects of individual corporate transactions.

1.5. - Litigation regarding motor liability and liability for ships

The Institute has been systematically monitoring insurance disputes for years, with the aim of raising market awareness towards the progressive deflation of pending cases and the

[48] The market share is calculated there for each company as the fraction of the number of contracts in the IPER samples compared to the market.

containment of tariff requirements, for the component connected with legal expenses, and the resulting technical and financial risks.

With reference to the 2020 financial year, characterised by the impact of the pandemic, the data relating to a sample of national insurance companies, representative of 80% of the market, show a reduction of -3.4% in the number of first-degree civil disputes pending at Italian Courts (-3.8% in 2019).

For first-degree civil cases brought in 2020, the weight of current generation (claims incurred in 2020) is reduced compared to the prior year. More than 50% of pending cases (in amount) relate to claims whose year of occurrence is more than five years away; in some geographical areas there is still a slow build-up of litigation.

Advances were paid on 18% of the pending first-degree civil cases (by number), down from 23.6% in 2019. 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 1st degree civil cases, measured by the number of cases closed over total cases managed during the year, is 32%, down compared to 35% in 2019. The undertakings in the sample have closed with a settlement agreement 51% of the total cases closed in 2020, 20% with liability of the undertaking, 15% with judgement waiver and 14% with decisions in favour of the undertaking (in 2019 these percentages were respectively 46.9%, 22.5%, 14.1%, 16.5%).

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, equal to 4% of the litigation provision.

The 2020 data do not show any significant impact of the COVID-19 pandemic on the claims settlement organisation, which has seen an acceleration of remote working arrangements, and on the management of litigation. There are backlogs, especially in the months of the beginning of the pandemic, due to the difficulties created by inefficiencies in the functioning of the judicial offices. The slowdown in civil proceedings observed at the beginning of 2020, with numerous postponements (even of one year), new registrations (even of several months) and the suspension of deadlines for the publication of judgements, has negatively affected the management of litigation. The insurance companies have therefore pushed for a review of the open positions, with a view to the amicable settlement of disputes. The normalisation of the activities of the Judicial Offices has allowed companies to close 2020 with the recovery of backlogs and without critical issues from an organisational point of view.

The health emergency contributed to the reduction in pending litigation due to the lower number of cases brought, as a result of the reduction in the number of claims reported, which is not yet measurable due to the delay with which cases are brought with respect to the year in which the claims occurred. In addition, the waiver of court proceedings, largely as a result of action to combat fraud, had a favourable impact.

An efficient management of litigation risks requires insurance companies to have adequate control over the territory and a solid organisation to promptly follow up on the decision to take legal action or not, to monitor the progress of cases, to assess the performance of the trustees, to verify the results obtained compared with initial expectations, to optimise the circulation of information between the settlement and anti-fraud offices and, for example, to speed up the settlement of positions relating to passengers.

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

In January 2021, MiSE published for consultation a draft Presidential Decree for the adoption of the single national table for macro-permanent injuries (between 10 and 100 points of disability), arising from motor or health liability claims.

The draft decree for consultation contains two tables, respectively of the monetary values corresponding to each degree of invalidity, based on the age of the injured party, to which IVASS contributed, and that of the percentages of invalidity relating to each physical impairment, prepared by the Ministry of Health.

The table of monetary values responds to the principles of article 138 of the CAP, i.e. increasing the economic value of the point as the degree of invalidity increases, more than proportionality of the total compensation for biological damage as the after-effects increase, decreasing compensation according to the age of the subject as well as autonomy of moral damage, determined through a progressive percentage increase from 26% to 55% of the biological damage[49] previously identified.

1.7. - Anti-fraud activity

In 2020, important IT projects were carried out to support anti-fraud activities. Development of the new motor liability estimator was started, which has been operational since 3 May 2021, and the related regulatory and technical documentation was prepared.

As part of the Agreement for the use of the Bank of Italy's IT services by IVASS and in close contact with the reporting companies, the project to develop and transfer the Claims Database (BDS) is currently being implemented. In February and December 2020, the first starter kits were released with the technical and data collection guidance necessary for companies to start their own system adaptation and development activities.

The anti-fraud activity takes into account the reports received from the Authorities and from private parties and produces periodic statistical analyses for businesses based on the data transmitted. The BDS data quality report was expanded and new monthly and semi-annual statistics were produced for companies and to support IVASS supervisory activities.

The data banks can be consulted by the parties directly concerned in order to obtain data and information relating to their person or vehicles.

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[49] In this regard, please note the typo indicated in the 2019 IVASS Annual Report "from 18% to 36%".

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

IVASS makes the information in the BDS and in the Integrated anti-fraud Archive (AIA) available to the Public Authorities and the judicial bodies involved in the action of contrasting insurance fraud in the motor liability sector.

In 2020 IVASS received 46 reports from individuals (92 in 2019) on alleged unlawful behaviours.

27 requests for information submitted by Authorities were handled (20 in 2019) and 163 requests to ascertain MTPL insurance coverage from Authorities which, upon verifying the insurance documentation on the road, noted the absence of a contract in the Coverage Database (201 in 2019). The reports concerning the Claim History Statement Database were 4.

528 requests were received (667 in 2019) for access to the Claims Data Bank (BDS), Register of Witnesses and Register of Injured Parties, of which 361 from the direct owners of the data, 114 from Judicial Authorities and Law Enforcement Agencies, in 2018), including 58 requests regarding cases of fictitious ownerships of vehicles, and 53 from third parties (attorneys, Justices of the Peace). After the strong increase in 2019 (+154% accesses to the BDS on 2018), 2020 has seen a smaller number but still higher than previous years, demonstrating a current use of data for the purpose of preventing and combating insurance fraud.

Access requests for witnesses

In 2020, the first requests for access to the witness registry in the BDS were received, pursuant to paragraph 3-*quater* of article 135 of the CAP, introduced by article 1, paragraph 15 of Law no. 124 of 4 August 2017.

The primary regulation establishes that, within the framework of a specific civil proceeding promoted to ascertain responsibility and to quantify damages, any trial party can formulate a request to access the BDS held by IVASS to produce a documented report to the Judge in question, for the purpose of the latter forwarding a report to the Prosecutor's Office in relation to the circumstance that the name of a witness, called in the case, occurs in more than three claims registered in the BDS in the last five years.

The Institute, as controller of the personal information contained in the BDS and guarantor of its proper use, has outlined the perimeter within which to provide feedback to access requests, balancing compliance with the relevant insurance legislation and that arising from the EU Regulation 2016/679 (GDPR) on the protection of personal data. The request for access must refer to a civil proceeding already pending, having as its object the ascertainment of responsibility and the quantification of damages, and to a name already called as a witness to the accident.

If the above-mentioned criteria are met, the Institute will accept the request and provide a response, indicating whether or not the name appears as a witness in more than three claims registered in the BDS, occurring in the last five years prior to the date of consultation of the data.

94 authorisations were granted to new users for consultation of the Claims Data Bank, at the request of 15 undertakings and of 81 judicial and local police organisations (34 in 2019). 700 requests for reactivation submitted by undertakings and by other Entities were processed (227 in 2019). Technical assistance was provided to the users who requested support for their access or for the issuing of new passwords.

30 sanctioning procedures were initiated, of which 20 against undertakings that failed to correctly provide data to the Claims Data Bank and 10 relating to the late provision of data to the Claim History Statement Database.

1.8. - THE NEW MOTOR LIABILITY INSURANCE ESTIMATOR

In the early months of 2020, the design phase of PREVENTIVASS, the new motor liability insurance estimator, was completed and the technical development phase began, which ended with the application becoming operational on 3 May 2021.

The new system is intended to offer a free and impartial on-line comparative estimate service which, unlike commercial services, collects and compares offers from all insurance companies regarding the basic motor liability contract in a transparent manner and in the exclusive interest of the consumer.

The start-up of the activity completes, from an operational point of view, what is provided for by MiSE Decree no. 54 of 11 March 2020 on the basic motor liability contract, containing the minimum clauses necessary to fulfil the obligation of motor liability insurance, and by MiSE Decree of 4 January 2021, which approved the electronic model of the basic motor liability contract, providing for its entry into force on 30 April 2021. The electronic template constitutes the common information standard on which the offers made by companies via their websites and the new public estimation service are based.

These regulatory interventions made it possible to adapt the existing public estimation service ("Your Estimator") to the changed regulatory framework resulting from the entry into force of the aforementioned Law no. 124/2017 and the development of the technological reference framework.

Full entry into force requires the issuance of a Regulation completing the regulatory framework and specifying the reporting requirements. In 2021, the preparation of the IVASS Regulation was started and the related public consultation procedures were initiated.

1.9. - Evolution of the motor liability claims database (EBDS project)

In 2020, the implementation phase of the project for the technological review of the BDS, the witness registry and the damaged parties registry, set up at IVASS pursuant to art. 135, paragraph 1, of the CAP, began. In carrying out the project, IVASS makes use of the IT services of the Bank of Italy.

Among the main objectives of the project is the evolution of the procedures for acquiring, storing and managing data, as well as for processing the information collected; particular attention was paid to IT security aspects.

Action has also been taken on the information content of the survey, supplementing it with variables that recent experience has shown to be useful for improving the effectiveness of anti-fraud action. The assessment by the company of the level of risk attributed to the claim event is introduced, according to the criteria defined by ISVAP regulation no. 44/2012: not exposed to the risk of fraud; exposed to the risk of fraud before verification; exposed to the risk of fraud following the necessary investigations; filed a report/legal action.

Elements that may indicate a risk of fraud include a disavowal of the claim by an involved party or the instrumental detection of inconsistencies by the black box placed on the vehicle. It is therefore asked to indicate the so-called denial of the event and any inconsistency detected by the technological apparatus.

The communication to IVASS of the suspension of the payment to the damaged party pursuant to article 148, paragraph 2-bis, of the CAP is foreseen, and additional information is requested on the litigation and the payments made. Data is acquired on the parties involved and the type of claim events handled, indicating whether they were compensated by management companies authorised to operate in Italy, at the expense of the CONSAP Guarantee fund for Victims of Road Accidents, claims caused in Italy by vehicles insured abroad and compensated by the Italian national bureau.

In June 2020, the first document illustrating the technical characteristics of the project was provided to companies, indicating the main changes concerning technical aspects and information content, followed in December by a second document that took into account the comments made by the market. The companies were asked to plan the necessary evolutionary business activities and to provide suggestions and contributions for the best implementation of the new archives.

The start-up of the new procedure is scheduled for October 2021, with the activation of the infrastructure for the exchange of flows, which envisages data transport, authentication and authorisation systems on protected platforms and with mutual authentication of certificates, which each company will have to have in place.

The files, encrypted and signed, will have a new structure in XML format, which organises the information transmitted more clearly and allows to verify before sending the formal correctness of the flow on the basis of defined rules.

New portal for accessing the claims database (BDS)

The update of the BDS will also have an effect on the way in which claims data can be accessed via the internet by authorised users. The database will be accessible through a portal integrating BDS and AIA (Integrated Fraud Database) information in a single environment. Users enabled to consult claims will also have online access to the AIA estimate of the risk level for anti-fraud purposes.

The portal uses the public digital identity system (SPID) to authenticate employees of insurance companies and law enforcement officers, so as to increase security levels in the use of the anti-fraud information system, significantly mitigating operational risks and simplifying work procedures thanks to the increased digitalisation of processes.

1.10. - Data quality of BDS and AIA

Since 2016, the Institute has provided companies with a tool for assessing the completeness and correctness of their motor liability claims reports, pursuant to article 135, paragraph 2 of the

CAP. In 2020, this reporting was revised, integrating statistics on the fraud risk inherent in the portfolio and analysis of data on claims whose management has been completed.

Among other things, the monthly report includes statistics on claims submitted beyond the observation period or which do not meet the minimum quality requirements to be processed by the AIA system, indicators of the risk of AIA fraud for claims broken down by status (open, closed with or without payment), any anomalies, e.g. on details of doctors, lawyers and body shops, the difference in days between the date of occurrence and the date of the report, the percentage of missing, incorrect or excluded data on involved parties, analyses on the place where the accident has occurred and on the regional distribution of the number of claims and amounts.

The supervisory reports for internal use have also been revised with new tools for checking and comparing the data provided by the companies, allowing for monthly and half-yearly analyses based on comparisons with the market or for groups of homogeneous companies.

In 2020, a project was launched to assess the overall level of correct exploitation of the data used to query the databases interconnected to AIA as well as the reliability and completeness of the claims information provided by insurance companies.

The periodic report envisages quality indicators, such as the level of completeness (Qscore) of the information on claims in AIA, the incidence of claims rejected or retransmitted to AIA with variation of the original anomaly score and the errors produced when querying external databases (MCTC, PRA, ANIA).

1.11. - The Anti-Fraud Integrated Database

The effects of the lockdown to cope with the pandemic emergency, together with the significant reduction in motor liability claims, also had a significant impact on the volume of information processed in AIA. In 2020 these volumes decreased compared to previous years, with 9.1 million reports processed in 2019 compared to 12.5 million in the previous year. The reports relating to new claims are nearly 2.4 million, with a sharp drop compared to 2019 (approx. 3.2 million).

The distribution of claims in the four classes by AIA summary score confirms relative stability: 15% of the reports have an average or high anomaly indicator (score greater than or equal to 20), 20% have a low value (score less than 20) and the remaining 65% 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 data stands at satisfactory levels, with an average value of the QScore on the completeness of information equal to 83% (slightly down compared to 85% in 2018). 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 2016-2020 shows a median of 4.9 for claims occurring in 2020, with a sharp decline with respect to the previous year

(6.1; fig. II.14). The difference between the lower and upper lines (5th and 95th percentile of the distribution per year and undertaking) shows that this variability has remained stable since 2018.

Figure II.14

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

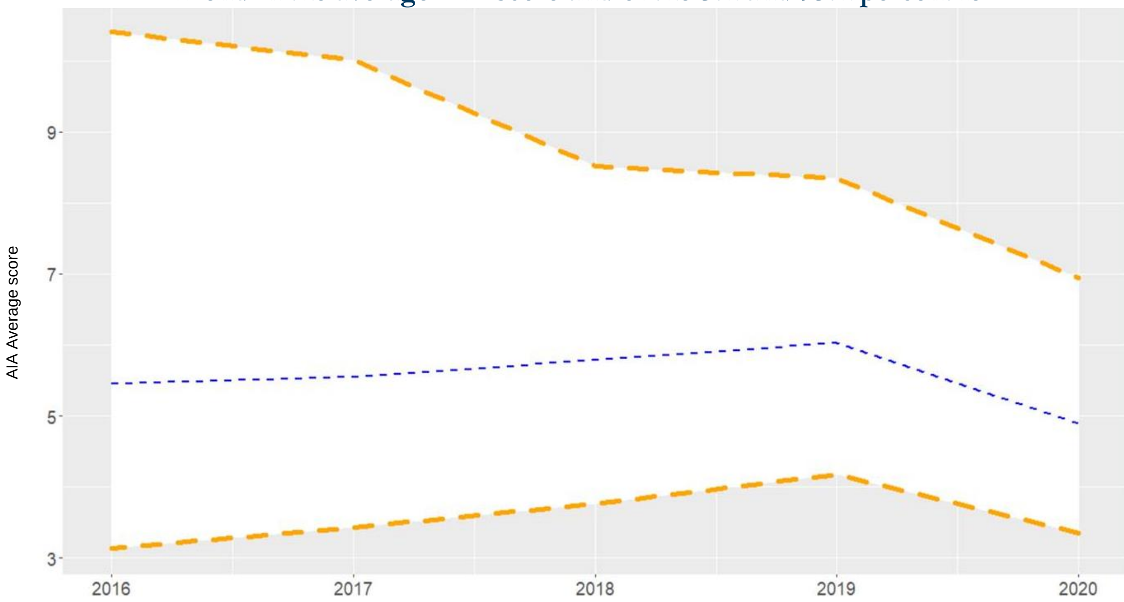


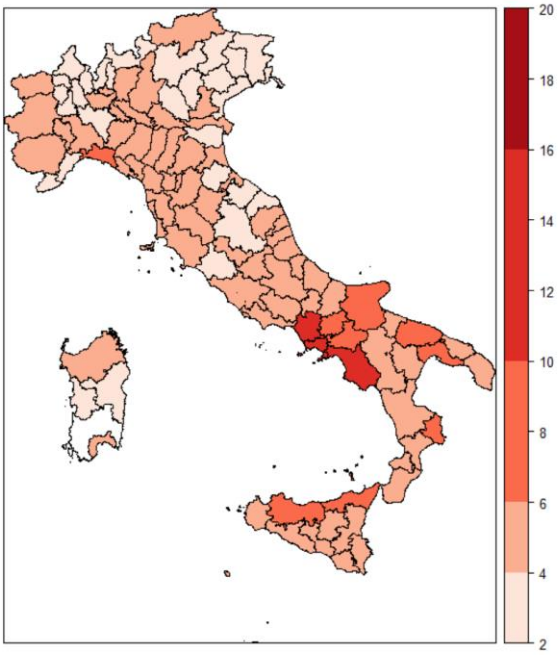
Table II.16

Average AIA score calculated on claims broken down by year of occurrence					
	2016	**2017**	**2018**	**2019**	**2020**
Average score	5.9	5.7	6.1	6.2	4.9

Figure II.15 shows the average scores at provincial level for claims that occurred in the last year.

Figure II.15

Average AIA score broken down by province of occurrence of the claim – 2020



There was significant impact produced by lockdowns on the geographical distribution of AIA scores. Areas in Lombardy and Veneto, affected first and foremost by the "red zone" measures, recorded a significant reduction in the average AIA score of claims (and therefore of claims with higher anomaly scores).

1.11.1. - The AIA information exchange platform

The portal for online consultation of the BDS and the AIA archive was completed, with the creation of the platform for document exchange for anti-fraud purposes for insurance companies, aimed at improving operational coordination between companies and achieving greater effectiveness in anti-fraud activities. Particular attention has been paid to aspects relating to the protection of confidentiality of information. The tool provides for a limited number of shareable documents, strictly related to anti-fraud activities, and can only be activated for claims with a high level of fraud risk. A periodic audit of the companies' operations is planned.

Release into operation is expected, subject to regulatory enactment, in late 2021.

1.12. - Anti-fraud activities of undertakings – 2019

The 2019 annual anti-fraud reports submitted by the undertakings to the Institute in July 2020 confirm the results already registered in previous years.

As in 2018, despite an increase in insured risk units (UDR), reported claims were down very slightly.

The decrease in the number of claims investigated for fraud risk and those closed without follow-up does not affect the savings made by companies thanks to anti-fraud activity, which remained unchanged compared to the previous year.

1.12.1. - Anti-fraud numbers in Italy during 2019

The Insured Risk Units (UDR) rose by +1.9% to 42,818,813 (compared to 42.033 thousand in 2018) and the total number of claims reported was 2,810,303 units (Table II.17), essentially unchanged compared to 2018 (2.813 thousand in the previous year, -0.1%).

Bucking the trend with respect to the previous two years there was an increase also in claims classified as at risk of fraud, around 671 thousand (628 thousand in 2018), up by +6,7% on the previous year.

A total of 363 thousand claims were investigated for fraud risk, with a decline compared to 374 thousand in 2018 (-3.2%). The number of claims closed without payment after anti-fraud activities decreased to 47 thousand units (55 thousand in 2018, -16%)

Claims investigated in 2019 for anti-fraud reasons and subject to reporting/legal action, also relating to previous years, are 4,374 (of which 3,115 claims relating to reporting/legal action opened in the year), a reduction compared to the previous year (-3.1%, 4,515 in 2018).

Table II.17

2019 reports - ISVAP Regulation n. 44/ 2012

(Units)

Territorial Macro-zones	Regions	Risk Units	Claims Reported	Claims exposed to fraud risk	Claims investigated in relation to fraud risk	Claims investigated in relation to fraud risk that were closed without payment	Claims subject to Reports/Legal Action
NORTH	EMILIA ROMAGNA	3,480,336	209,804	42,691	24,218	2,609	191
	FRIULI VENEZIA GIULIA	974,066	43,336	7,766	2,990	396	21
	LIGURIA	1,146,404	86,973	20,258	10,010	1,278	71
	LOMBARDIA	7,321,397	481,558	86,113	39,579	4,543	273
	PIEMONTE	3,348,086	221,134	46,909	20,868	2,878	243
	TRENTINO-ALTO ADIGE	1,177,123	75,907	18,095	3,100	474	156
	VALLE D'AOSTA	189,281	5,801	919	431	72	7
	VENETO	3,841,754	196,085	31,508	13,776	1,518	56
	North - Total	**21,478,447**	**1,320,597**	**254,259**	**114,972**	**13,768**	**1,018**
CENTRE	LATIUM	4,501,246	374,615	88,089	50,315	6,058	452
	MARCHE	1,200,829	64,949	12,155	5,766	665	35
	TOSCANA	2,982,533	198,895	40,749	20,113	2,136	207
	UMBRIA	727,314	39,749	8,759	4,050	516	54
		9,411,922	**678,208**	**149,752**	**80,244**	**9,375**	**748**
SOUTH	ABRUZZO	955,438	52,230	11,561	4,963	727	63
	BASILICATA	388,163	18,437	4,918	2,729	410	39
	CALABRIA	1,088,606	57,155	18,304	11,336	1,727	217

2019 reports - ISVAP Regulation n. 44/ 2012							
							(Units)
Territorial Macro-zones	Regions	Risk Units	Claims Reported	Claims exposed to fraud risk	Claims investigated in relation to fraud risk	Claims investigated in relation to fraud risk that were closed without payment	Claims subject to Reports/Legal Action
	CAMPANIA	2,792,869	259,743	125,750	87,166	12,948	1,605
	MOLISE	232,454	11,647	4,122	2,632	409	82
	PUGLIA	2,330,406	140,013	38,941	23,308	2,949	146
	South -Total	**7,787,935**	**539,225**	**203,596**	**132,134**	**19,170**	**2,152**
ISLANDS	SARDEGNA	1,090,897	69,452	11,551	5,865	715	32
	SICILIA	3,049,612	202,820	51,820	29,980	3,786	424
	Islands - Total	**4,140,509**	**272,272**	**63,371**	**35,845**	**4,501**	**456**
Domestic Total		**42,818,813**	**2,810,303**	**670,978**	**363,195**	**46,814**	**4,374**

1.12.2. - Criminal proceedings initiated by undertakings

In the claims settlement phase in 2019, insurance companies initiated 2,679 criminal proceedings (Table II.18), down by -6% compared to the previous year.

22,644 criminal proceedings were brought by the undertakings from 2013 to 2019, of which around 34% with final outcomes (7,633).

Table II.18

Reports/legal actions pertaining to the settlement phase						
						(Units)
Year	Reports/ Legal Actions	Final outcome				Final outcome - Total
		Dismissal	Acquittal	Conviction	Other *	
2013	4,272	992	144	440	494	2,070
2014	3,323	865	102	371	323	1,661
2015	3,587	1,092	95	241	352	1,780
2016	2,971	529	46	166	151	892
2017	3,050	413	21	119	127	680
2018	2,762	219	14	59	59	351
2019	2,679	113	17	29	40	199
Total	**22,644**	**4,223**	**439**	**1,425**	**1,546**	**7,633**

* 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 (Table II.19), we observe a significant decrease (-42%) in the number of reports/legal actions initiated by undertakings..

Table II.19

Reports/legal actions pertaining to the underwriting phase						
						(Units)
Reference years	Reports/legal actions	Final outcome				Final out-come - Total
		Dismissal	Acquittal	Conviction	Other *	
2013	**4,041**	**612**	**129**	**141**	**290**	**1,172**
2014	3,742	999	84	140	216	1,439
2015	**3,234**	**1,021**	**68**	**147**	**117**	**1,353**
2016	833	305	39	39	33	416
2017	**517**	**98**	**12**	**12**	**28**	**150**
2018	758	72	6	13	26	117
2019	**436**	**26**	**4**	**7**	**12**	**49**
Grand total	**13,561**	**3,133**	**342**	**499**	**722**	**4,696**

1.12.3. - The adequacy of corporate organisations in combating fraud

The 2019 anti-fraud assessment procedure[50] covered 52 undertakings (Table II.20).

In the first bracket (which includes the undertakings with the best anti fraud performance) there are 15 undertakings (compared to 12 undertakings in the previous year), with a significant increase in the market share measured on the Insured Risk Units (73% compared to 44%). The market share of the 15 undertakings in the second bracket dropped significantly (from 46% to 19%).

Only 6 undertakings (3 in 2018) were positioned in the fifth (and less favourable) bracket, with a market share just above 1%.

Table II.20

Assessment brackets by final score						
						(units and % values)
Assess-ment bracket	Number of undertak-ings	Total Risk Units	RU market share	Claims reported	% over total claims reported in Italy	Claims ratio
			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%**
			2019			
I	15	31,416,784	73.4%	2,073,332	74%	6.8%
II	15	8,323,713	19.4%	501,536	18%	5.7%
III	11	1,830,350	4.3%	105,431	4%	6.7%
IV	5	781,486	1.8%	88,990	3%	12.8%
V.	6	451,657	1.1%	30,724	1%	5.6%

[50] Some EU undertakings, representing 0.3% of the market, were excluded due to the unavailability of all the data needed to calculate the anti-fraud indicators.

Total	**52**	**42,803,991**	**100.0%**	**2,800,014**	**100.0%**	**6.9%**

The estimated reduction in the cost of claims deriving from fraud investigations (Table II.21) have remained substantially stable (+0.2% compared to the previous year).

Table II.21

Estimated reduction in the cost of claims resulting from anti-fraud activities by assessment brackets

(amounts in million euro and % values)

Assessment bracket	2018 Amounts		2019 Amounts	
I	134.6	53.2%	205.1	80.8%
II	108.6	42.9%	33.7	13.2%
III	7.1	2.8%	6.9	2.8%
IV	2.3	0.9%	4.3	1.7%
V.	0.6	0.2%	3.7	1.5%
Total	**253.1**	**100%**	**253.7**	**100%**

1.12.4. - Anti-fraud activities of undertakings – 2020 forecasts

Following the transmission by the companies of the annual reports as per Regulation no. 44/2012, preliminary findings on the trend of anti-fraud activities in 2020 have been drawn up (tab. II.22).

Insured risk units were found to have declined on a national basis by 0.7% (approximately 300,000 fewer units insured than in the previous year) while reported claims, partly due to the lockdown periods ordered by the Government, declined by 30% compared to 2019.

Table II.22

2020 reports - ISVAP Regulation n. 44/ 2012

(Units)

Macro-zones	Regions	Risk units	Claims Reported	Claims exposed to fraud risk	Claims investigated in relation to fraud risk	Claims investigated in relation to fraud risk that were closed without payment	Claims subject to Reports /Legal Action
NORTH	EMILIA ROMAGNA	3,416,833	146,708	30,153	14,750	2,044	151
	FRIULI VENEZIA GIULIA	959,947	30,899	5,767	2,144	322	9
	LIGURIA	1,112,353	64,238	13,747	6,624	1,104	196
	LOMBARDIA	7,369,586	336,117	61,186	26,772	3,953	209
	PIEMONTE	3,215,462	149,759	32,652	14,299	2,200	195
	TRENTINO-ALTO ADIGE	1,001,777	41,775	10,756	2,649	495	89
	VALLE D'AOSTA	163,236	3,858	707	314	72	2
	VENETO	3,771,147	139,071	21,395	8,978	1,245	40
	North - Total	**21,010,342**	**912,425**	**176,363**	**76,530**	**11,435**	**891**

2020 reports - ISVAP Regulation n. 44/ 2012

(Units)

Macro-zones	Regions	Risk units	Claims Reported	Claims exposed to fraud risk	Claims investigated in relation to fraud risk	Claims investigated in relation to fraud risk that were closed without payment	Claims subject to Reports /Legal Action
CENTRE	LATIUM	4,308,953	262,510	64,724	38,489	5,564	411
	MARCHE	1,165,939	46,053	9,354	4,631	572	27
	TOSCANA	2,860,822	138,258	28,239	13,935	1,898	198
	UMBRIA	703,417	28,098	6,144	3,203	515	39
	Centre - Total	**9,039,131**	**474,919**	**108,461**	**60,258**	**8,549**	**675**
SOUTH	ABRUZZO	928,883	37,059	8,407	3,771	670	33
	BASILICATA	379,827	13,502	3,796	2,127	338	19
	CALABRIA	1,074,887	42,394	14,263	9,237	1,492	208
	CAMPANIA	2,751,368	194,353	103,230	73,743	13,026	1,767
	MOLISE	224,114	8,549	3,336	2,173	405	24
	PUGLIA	2,306,218	108,069	31,746	19,137	2,325	196
	South -Total	**7,665,296**	**403,926**	**164,778**	**110,188**	**18,256**	**2,247**
ISLANDS	SARDEGNA	1,061,251	50,666	8,705	4,498	660	28
	SICILIA	2,941,712	151,397	38,622	22,568	3,435	276
	Islands - Total	**4,002,963**	**202,063**	**47,327**	**27,066**	**4,095**	**304**
Domestic Total		**41,717,732**	**1,993,333**	**496,929**	**274,042**	**42,335**	**4,117**

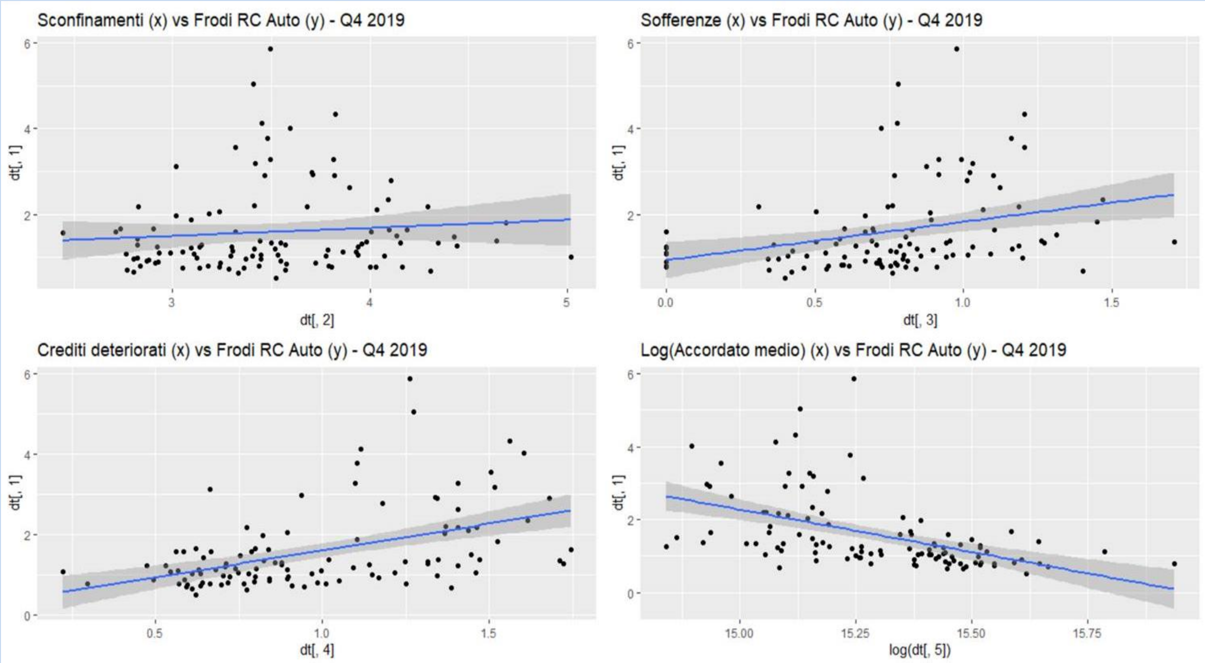
The relationship between financial fragility and fraud in motor liability insurance

An assessment of the relationship between propensity to implement fraud and household liquidity constraints was conducted based on available data on claims investigated for high fraud risk and total claims at the provincial level between 2014 and 2019, on variables indicative of financial fragility obtained from the Bank of Italy's Centrale dei Rischi (CR - Risks Database), and on the risk characteristics of motor liability contracts from IPER[51].

There is a positive correlation between fraud incidence and financial fragility (non-performing loans) across provinces (fig. II.16).

[51] Variables obtained from CR include the percentage of consumer households' non-performing loans and impaired loans, average consumer household overdrafts, average consumer household cash grant, and the volume of new loans surveyed in CR for each quarter. The same variables are being studied, referring to the professional categories involved in the claims management process: doctors, lawyers, appraisers, body shops.

Figure II.16



Similarly, the data show a negative correlation between average grants and claims investigated for fraud risk.

Preliminary estimates, based on multivariate models that use the percentage of non-performing loans as a measure of financial fragility, indicate that, given the same risk factors linked to the claims rate and taking into account social capital and socio-demographic variables, a one percentage point increase in non-performing loans generates a ten percentage point increase in the ratio of claims subject to investigation for high fraud risk and total claims.

Delays in reporting motor vehicle claims

The IVASS Claims Database (BDS) is updated by the reports of road accidents received by insurance companies operating in Italy in the motor liability class. Each claim is assigned a date of occurrence and a reporting date.

No more than two years may elapse between the two dates, except in the case of claims involving injuries or of a judicial nature (a judgement may require a company to handle the claim even after this time limit has elapsed) or determined by exceptional circumstances that may cause the company to decide to accept very late claims.

For claims that occurred between 2017 and 2019, the share of those reported more than two years later is very small (0.21% for the 2017 generation and 0.03% for the 2019 generation, tab. II.23). More than 90% of these very late reports relate to very serious claims that are not handled through the CARD agreement. This percentage does not show a high geographical variability, but increases by approximately five times for claims occurred in Campania. Claims occurring abroad are also characterised by a higher than average proportion of reports received two years after the event.

Table II.23

Road accidents reported after more than two years
Accidents occurred in the years 2017-2019

(Units,%)

	2017		2018		2019	
	Number	% over total	Number	% over total	Number	% over total
CARD claims	5,263	0.48%	3,654	0.33%	724	0.07%
NO CARD claims	466	0.03%	322	0.02%	69	0.00%
Piedmont	161	0.08%	79	0.04%	18	0.01%
Valle d'Aosta	1	0.02%	2	0.03%	0	0.00%
Lombardy	221	0.05%	163	0.04%	36	0.01%
Trentino-Alto Adige	22	0.05%	15	0.03%	2	0.00%
Veneto	114	0.06%	82	0.04%	24	0.01%
Friuli-Venezia Giulia	23	0.06%	34	0.08%	5	0.01%
Liguria	65	0.07%	56	0.06%	12	0.01%
Emilia-Romagna	149	0.07%	118	0.06%	21	0.01%
Tuscany	142	0.07%	147	0.08%	28	0.01%
Umbria	23	0.06%	35	0.09%	11	0.03%
Marche	44	0.07%	41	0.07%	13	0.02%
Latium	301	0.10%	234	0.08%	45	0.01%
Abruzzo	45	0.09%	31	0.06%	5	0.01%
Molise	13	0.15%	6	0.07%	1	0.01%
Campania	3,483	1.11%	2,363	0.77%	439	0.15%
Puglia	202	0.15%	151	0.11%	31	0.02%
Basilicata	14	0.09%	14	0.09%	2	0.01%
Calabria	165	0.29%	107	0.20%	39	0.07%
Sicily	252	0.12%	163	0.08%	39	0.02%
Sardinia	78	0.07%	49	0.05%	12	0.01%
Abroad	211	1.34%	86	0.55%	10	0.07%
Total	**5,729**	**0.21%**	**3,976**	**0.15%**	**793**	**0.03%**

Excluding these outlier claims, the average reporting delay amounted to 20.2 days for claims that occurred in 2017 (tab. II.24), falling to just over 18 days for those in 2019. The estimated average delay of claims incurred in 2020 is between 17.7 and 22.4 days. CARD claims generally have lower delays than NO CARD claims.

The large gap between the mean and median, as well as the fact that the mean is systematically above the third quartile, highlight the significant asymmetry of distribution, characterised by a high proportion of relatively small delays and a limited proportion of much higher delays, which contribute to the increase in the mean.

Table II.24

Delay in reporting accidents occurred in the years 2017-2020*

(days)

		First quartile	Median	Average		Third quartile	90th percentile
2017	CARD claims	1.0	4.0	12.2		10.0	24.0
	NO CARD claims	2.0	7.0	32.2		22.0	77.0
	Total	2.0	5.0	20.2		14.0	39.0
2018	CARD claims	1.0	4.0	11.3		10.0	22.0
	NO CARD claims	2.0	7.0	30.9		22.0	73.0
	Total	2.0	5.0	19.2		13.0	38.0

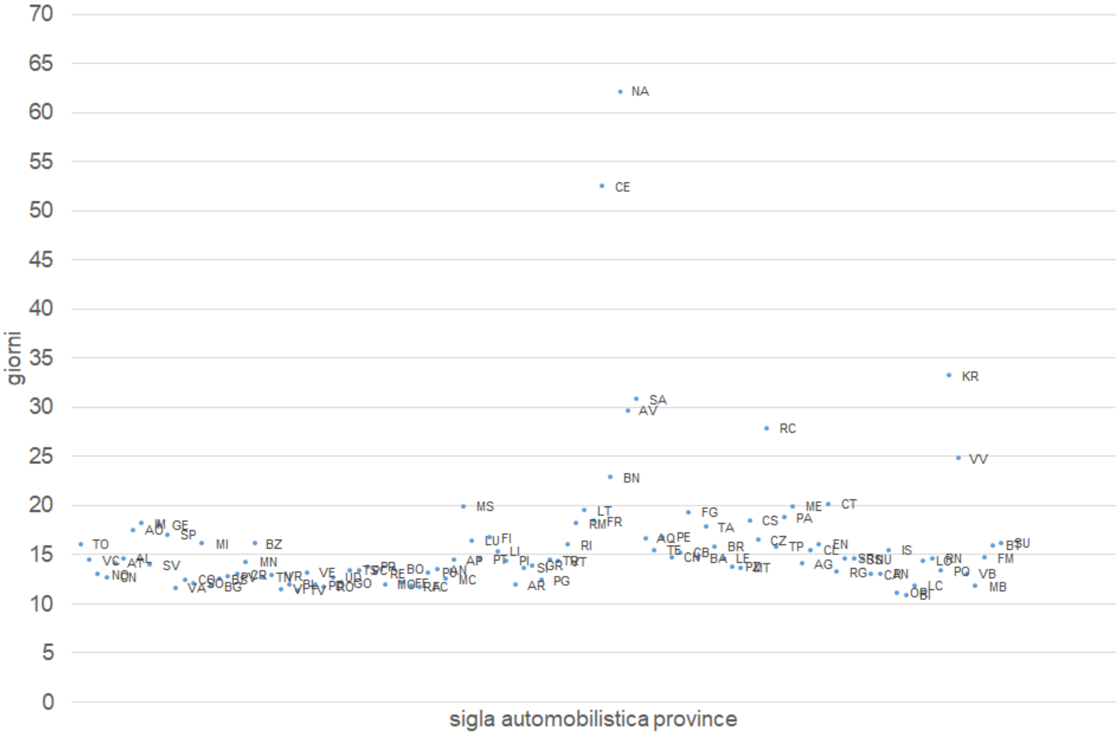
		First quartile	Median	Average		Third quartile	90th percentile
				Minimum	Maximum		
2019**	CARD claims	1.0	4.0	10.8	10.8	9.0	22.0
	NO CARD claims	2.0	6.0	29.5	29.7	20.0	66.0
	Total	2.0	5.0	18.1	18.2	12.0	34.0
2020**	CARD claims	1.0	4.0	11.1	12.6	9.0	22.0
	NO CARD claims	2.0	6.0	27.7	37.1	20.0	71.0
	Total	2.0	5.0	17.7	22.4	12.0	36.0

* Statistics referred exclusively to delays not exceeding two years. - ** Data supplemented with an estimate based on 2017 delays.

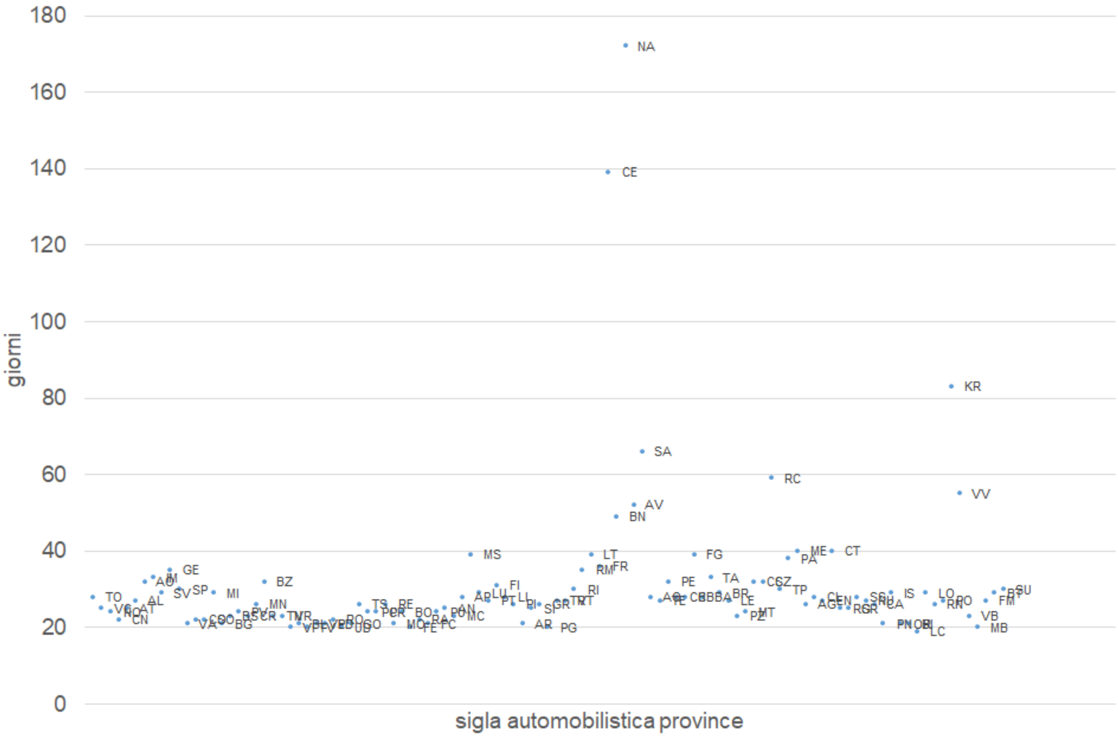
The provincial distribution of the delays in reporting claims that occurred in 2020 shows very similar values for most of the cases. However, some provinces of the South present average values that are decidedly higher than those of the other provinces (fig. II.17.a). The average delays for claims occurred in the provinces of Naples (62.2 days) and Caserta (52.4 days) are more than three times the provincial average, while those in the provinces of Crotone (33.2 days), Salerno (30.8 days) and Avellino (29.6 days) are about twice as long. The provincial distribution of the 90th percentile also shows very high data for the same provinces (fig. II.17.b).

Figure II.17

a) Delays in reporting accidents by province (claims occurred in 2020*): average values



b) Delays in reporting accidents by province (claims occurred in 2020*): 90th percentile



* Statistics referred exclusively to delays not exceeding two years. Data supplemented with an estimate based on 2017 delays. The values presented in the graphs refer to the central value of the estimate.

2. - BANCASSURANCE

The entry of banks into the insurance sector in Italy is a phenomenon that began in the early 1990s, as a consequence of the process of deregulation of the financial sector. The banks took this opportunity to diversify their sources of income, following the progressive contraction of intermediation margins. Banks that place insurance products through their branches can obtain additional sources of income from both commissions and agreements with companies to share the profits of new business[52].

This change in strategy on the part of banks has been fostered over the past decade by an environment of low interest rates, tighter regulation on prudential capital, and increasing competition from non-bank intermediaries. These factors have increased the interest of banks to expand their business by exploiting the branch network.

Synergies between banks and insurance companies have historically been realised in three ways, which are described below, in ascending order of integration.

- *Through equal trade agreements between a bank and a company.* This mode involves a relatively low degree of cooperation, as the two institutions remain separate entities. Typically, the distributing bank places standard insurance products, with little opportunity to adapt the characteristics of these products to the specific needs of its customers.

- *Through the establishment of a joint venture between a bank and a company,* aimed at creating a new insurance company, whose products are distributed through the branches of the intermediary bank.

- *Through the creation of a mixed banking-insurance group* where the dominant component is banking. In this case, the bank acquires a controlling interest in the capital and can determine its offering strategies to insurance customers. This level of integration allows synergies to be exploited between the two entities, for example in the group-wide management of the subsidiary's assets.

The participation of insurance companies in the capital of credit intermediaries is insignificant and concerns a limited number of cases.

From the consumer's point of view, these methods are similar and involve the possibility of purchasing insurance products at bank counters, which become an alternative distribution channel to the traditional agency channel.

Banks may hold purely financial minority shareholdings in the capital of companies for the sole purpose of obtaining income from the increase in the value of the shares and from dividends distributed. Insurance companies may also choose this option.

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[52] Teunissen, M. *Bancassurance. Tapping into the Banking Strength.* The Geneva Papers, 2008.

In 2020, banks held capital in 37 of the 96 companies supervised by IVASS (fig. II.18.a). In particular, in 15 companies the banks held less than 30%, in 12 between 30% and 50%, in 10 more than 50%.

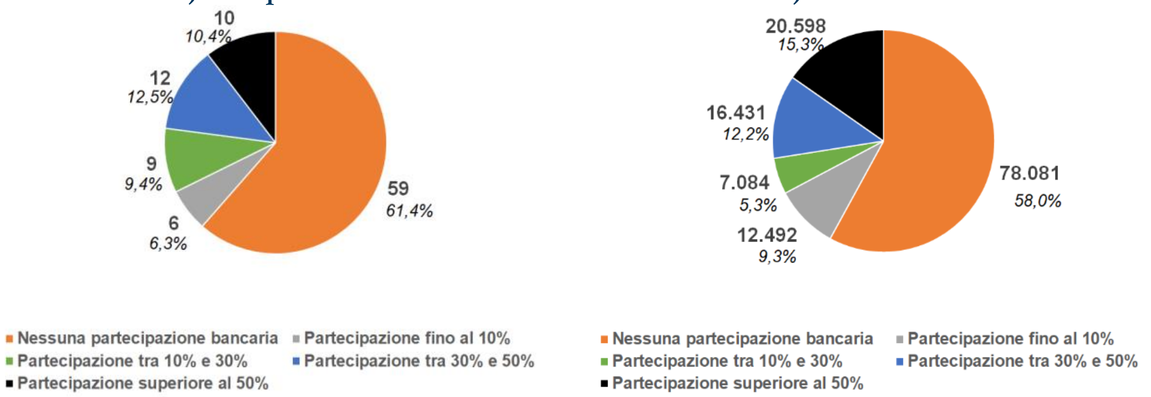
Companies in which banks hold between 30% and 50% of the capital account for 12.2% of premium income, compared to 15.3% for companies with a share of capital held by banks of more than 50% (fig. II.18.b).

Figure II.18

Insurance companies by banks'* share of capital, 2020

(units, million euro)

a) Companies **b) Premium income[53]**



* This includes banking foundations.

The distribution of insurance products through bank branches may also result from joint commercial agreements, for which no structured information is available. The value of this premium income can be approximated by that made, through bank branches, by companies for which banks' participation in the capital is absent or limited (less than 30% of the capital): in 2020, this amounts to €16.2 billion in life business and €1.6 billion in non-life business[54].

The data on premium income broken down by channel makes it possible to measure the overall value of the placement of insurance products through bank branches compared to other distribution methods. In 2020, approximately 33.6% of Italian insurance companies' premiums (amounting to 45.2 billion) were attributable to the banking channel, a share slightly lower than that of insurance agencies (38.1%; fig. II.19.a)[55].

[53] It refers to direct business written in Italy (premiums relating to reinsurance business are excluded).

[54] The conclusion of a commercial agreement, unlike other forms of bank-insurance collaboration, does not lead to an absorption of regulatory capital. The reforms of the banking (Basel) and insurance (Solvency II) prudential regulations have dictated stricter rules for the determination of this capital and, as a result, these types of agreements may in the future be preferable to other forms of collaboration.

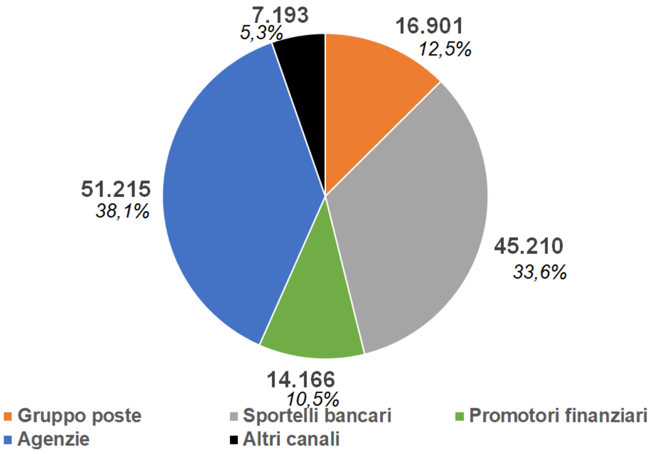
[55] The Poste Group's premium income is kept separate, as it is almost exclusively collected through post offices, which do not distribute products of other companies. Premium income from financial promoters, who in many cases operate in conjunction with bank branches, is also considered separately.

Figure II.19

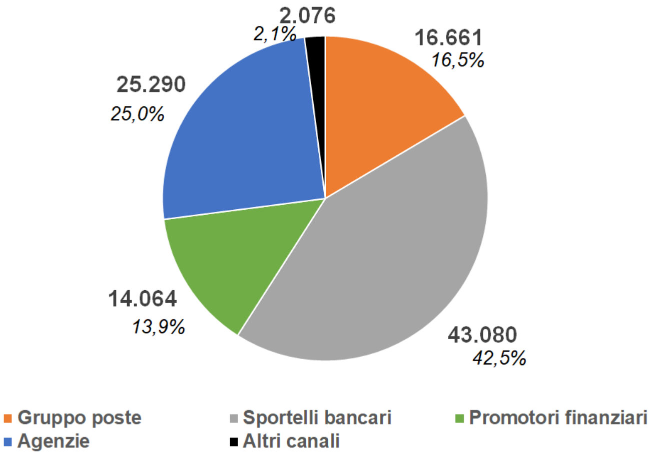
Premiums collected by insurance companies by distribution channel, 2020

(million euro)

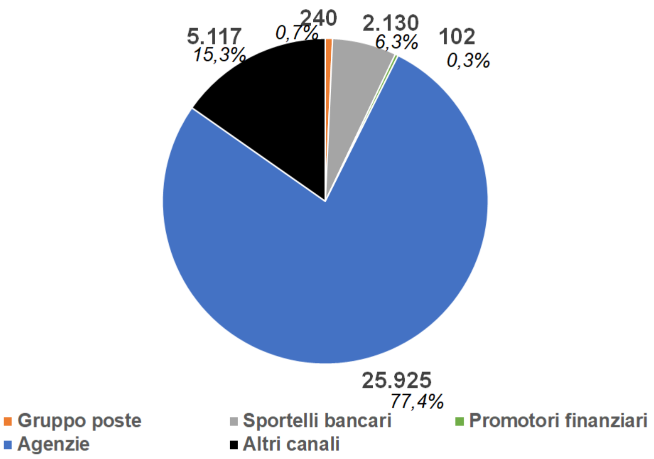
a. Total life and non-life classes



b. Life classes



c. Non-life classes



In the life segment, bank branches are the most widely used (42.5% of premiums, figure II.20.a), while in the non-life segment, the agency channel is the prevalent method, which collects 77.4% of premiums (figure II.20.b), while the bank channel represents only 6.3% of premiums.

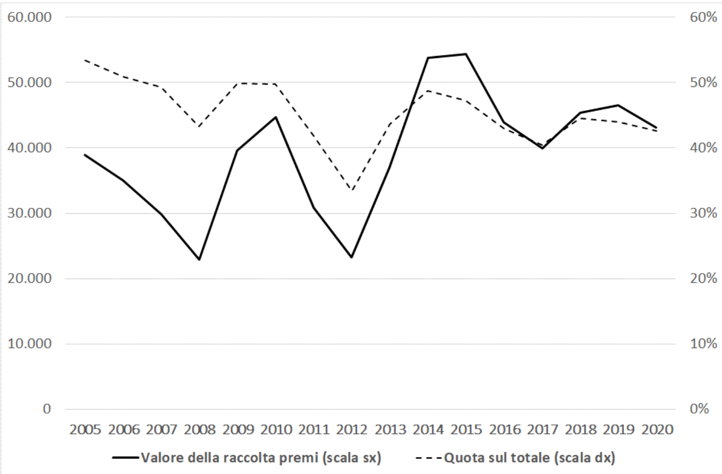
In the 2005-2020 period, life premium income through bank branches has always had a considerable weight (fig. II.20.a), with fluctuations correlated with the different phases of the economic cycle. Non-life premium income from banks, on the other hand, shows an upward trend, although its value is still limited (fig. II.20.b).

Figure II.20

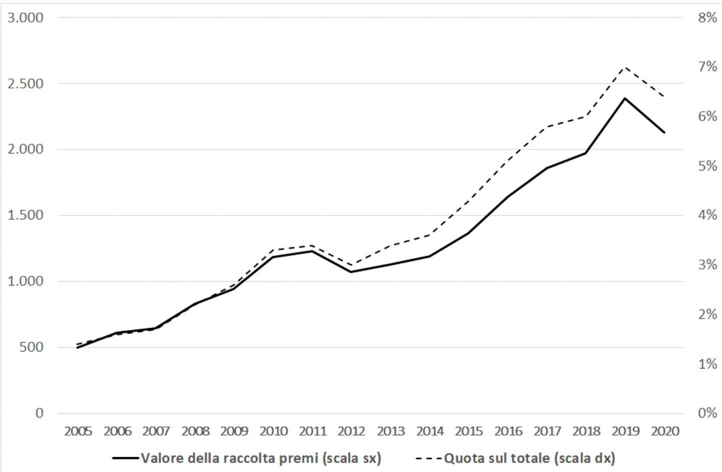
Premiums collected through bank branches, 2005-2020

(million euro,%)

a. Life classes



b. Non-life classes



In the life business, as the degree of bank control increases, there is an increased tendency to place unit-linked insurance products with a high financial content and a limited insurance protection component, which are very similar to the traditional savings products placed by banks. At the end of 2020, the share of life provisions for products of this type exceeds 40% for companies where banks hold an interest exceeding 30% (compared to 10.8% for companies that do not use bank's capital; fig. II.21.a).

In the non-life business, the bank-controlled companies show a greater propensity to collect premiums for insurance products other than motor liability. In fact, the share of provisions for this type of contracts increases to 98.1% for companies with more than 50% of their capital held by banks (fig. II.21.b)[56].

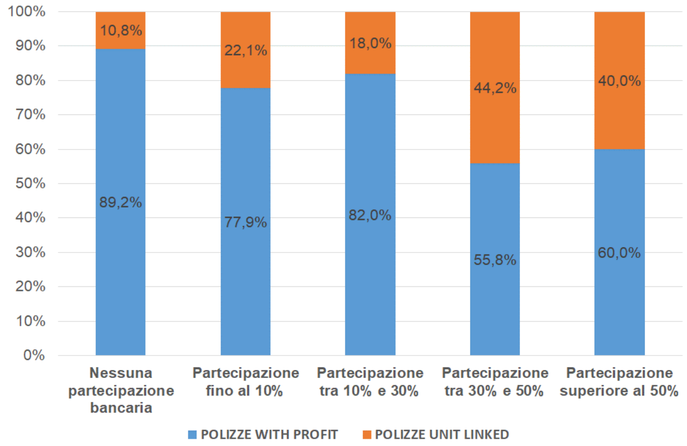
[56] One factor explaining this result is that these products (health, accident, income protection, etc.) are often sold in conjunction with mortgages and loans, to protect the bank customer's ability to repay their debt.

Figure II.21

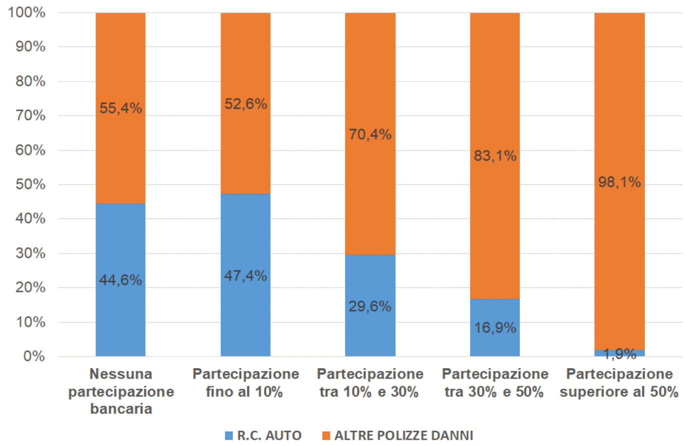
Breakdown of life and non-life provisions assessed according to Solvency II criteria, 31 December 2020

(percentages)

a. Life classes



b. Non-life classes



A greater intensity of banking control is correlated to lower operating costs of life insurance products in relation to premiums, which is a possible consequence of the economies of scale and scope that bank-insurance groups are able to achieve in the distribution of these products. In 2020, the expense ratio was 2.1% for companies with more than 50% of their capital held by banks (figure II.22.a), compared to 4.3% for companies without bank participation.

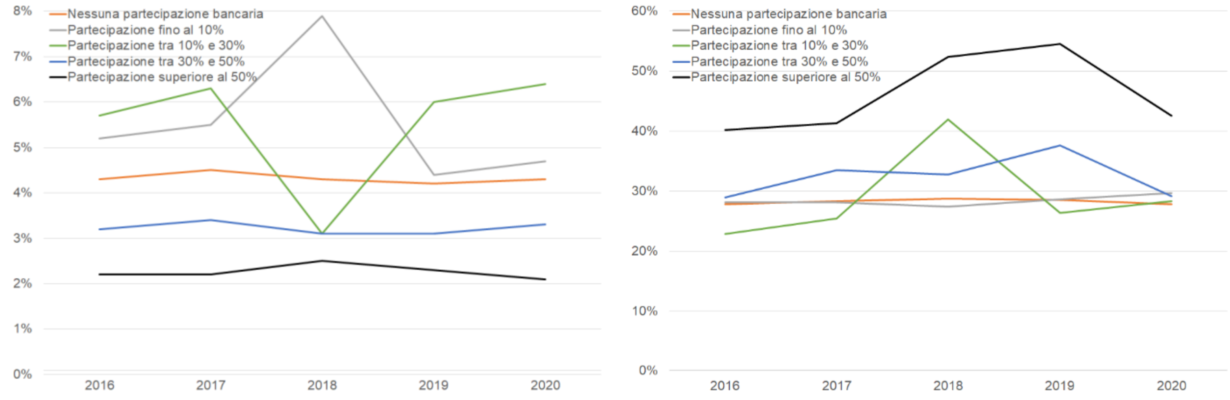
In the non-life business, the operating costs of companies where banks have an absolute majority are significantly higher than those of other insurance companies (figure II.22.b). The expense ratio of companies in which banks hold between 30% and 50% of the capital is also higher than that of companies without bank capital, which are dominant in the non-life sector. The still relatively low value of non-life premiums written by bank-controlled companies, which has not so far allowed to amortise the fixed costs of insurance management, could contribute to explain this result.

Figure II.22

Expense ratio, 2016-2020

(percentages)

a) Life **b) Non-life**



In life business, profitability (as measured by ROE) was until 2019 slightly better for companies where banks hold an interest exceeding 30%. The general decline in profitability in the life business recorded in 2020 was particularly pronounced for companies with more than 50% of their capital held by banks (fig. II.23.a).

Profitability in the non-life business is higher for companies with a strong banking presence in their capital (figure II.23.b), with a result that goes against the trend compared to the higher operating costs of these companies, largely attributable to the lower value of the ratio between claims costs and premiums (loss ratio) that they manage to obtain (figure II.24).

The general increase in non-life profitability recorded in 2020 did not affect companies with a share of capital held by banks of between 30% and 50%, whose ROE nevertheless remained very high compared to that of the others.

Figure II.23

ROE, 2016 -2020

(percentages)

a) Life **b) Non-life**

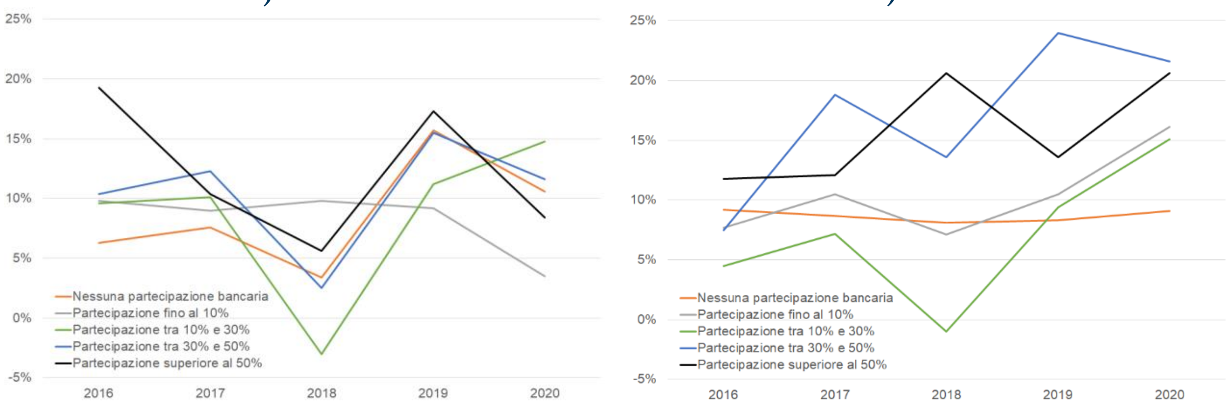
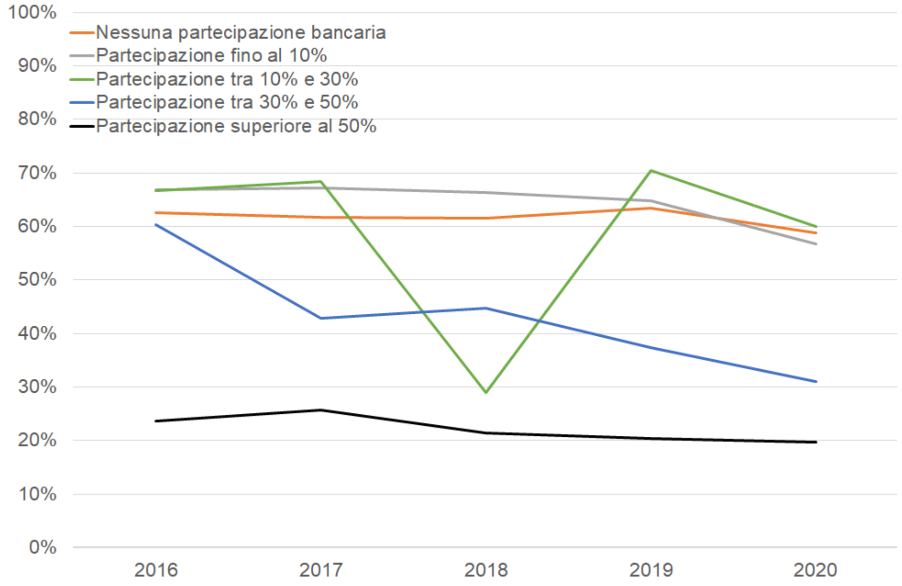


Figure II.24

Loss Ratio in non-life business, 2016-2020

(percentages)



3. - HEALTHCARE LIABILITY - SURVEY RESULTS

The survey conducted annually by the Institute on healthcare liability risks included in 2020 the collection of additional information compared to previous editions, to measure the impact of the health emergency. The aim was, on the one hand, to verify a possible increase in claims management activity to address claims generated by COVID-19 and, on the other hand, to measure the possible change in premium income for healthcare facility coverages as an effect of the rarefaction of supply and demand in a riskier environment for companies and potential policyholders[57].

An additional factor to monitor was the growth in the use, in contracts signed from 2020, of exclusion clauses or aggravating conditions for pandemic risks, which could be invoked to reject COVID claims.

Compensation paid for claims caused by COVID-19 amounts to €184 thousand (all on a partial basis) and represents 3% of the compensation for claims reported during the year. With regard to claims reported and classified as outstanding in anticipation of future compensations, those arising from COVID-19 represent 2.9% in number and 6.4% in amount.

In 2020, companies collected 241 million in premiums for public health facility risks (up 4.2% on 2019) and 128 million for private health facility risks (up 10.4% on the previous year).

With regard to changes in contracts signed in 2020 or to be signed in the future, 14 out of 40 companies state that they have introduced or intend to introduce additional exclusion clauses or aggravating conditions for pandemic risks compared to previous contracts.

[57] Please note that current legislation (Law No. 24 of 8 March 2017, the so-called Gelli Law) allows public and private healthcare facilities to use forms of risk self-retention as an alternative to actual insurance.

4. - Risk management in agriculture

IVASS has been following the insurance coverage market in the agricultural sector for some time, with particular attention to regulatory developments, product and process innovation and advanced forms of risk management. In view of the changed climatic events that can amplify the frequency and scope of extreme natural events, the Institute aims to balance sustainability and innovation and in this perspective contributes to the Monitoring Committee of the National Rural Development Programme and the Technical Committee for the Annual Risk Management Plan at MIPAAF.

The data on insured values, premium trends and average tariff trends, as well as on the number of insured farms contained in the ISMEA 2021 Report on Risk Management in Agriculture, are shown below[58].

Table II.25

Insured values

(million euro)

YEAR	Crops	Structures	Livestock	Total
2010	4,805	520	541	5,866
2011	5,314	628	620	6,562
2012	5,454	696	678	6,828
2013	5,873	729	680	7,282
2014	6,422	804	727	7,953
2015	5,705	861	982	7,548
2016	5,103	804	1,051	6,958
2017	5,156	751	1,461	7,368
2018	5,680	851	1,323	7,854
2019	6,164	1,018	1,328	8,510
2020	6,156	1,078	1,308	8,542
Var. 2020 / 2019	-0.1%	5.9%	-1.5%	0.4%

Insurance coverage of plant crops

YEAR	Number of insured farms	Total premium (million euro)	Average tariffs (premiums / insured values
2010	77,871	277.578	5.78%
2011	79,680	328.304	6.18%
2012	80,790	309.377	5.67%
2013	81,994	362.620	6.17%

58 http://www.ismea.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/11454. ISMEA found that in 2017 and 2019, the ratio of claims paid to premiums collected exceeded 100%, with the value compensated exceeding 500 million.

Insurance coverage of plant crops			
YEAR	**Number of insured farms**	**Total premium** (million euro)	**Average tariffs (premiums / insured values**
2014	82,254	469.637	7.31%
2015	73,930	387.331	6.79%
2016	63,040	337.545	6.61%
2017	58,905	347.885	6.75%
2018	62,909	459.361	8.14%
2019	65,519	502.058	8.14%
2020	65,151	557.821	9.06%
Var. 2020 / 2019	-0.6%	11.1%	

Source ISMEA - 2021 Agricultural Risk Management Report

The trend over the decade is upward, until reaching insured values of €8.5 billion in 2020 (+0.4% compared to 2019) and premiums of €558 million (+11.1%). Insurers' technical performance in relation to agricultural risk coverage have worsened in recent years as a result of climate change, leading to average rates charged by companies exceeding the 9% threshold for the first time, as well as a contraction in reinsurance capacity.

An insurance offer that is in line with the needs of agricultural businesses makes it possible to broaden the insurance base, reduce the costs of coverage against weather risks and stabilise incomes. The presence of EU and national aid to support subsidised policies contributes to the sustainability of agricultural businesses, but has not yet eliminated the problem of under-insurance of risks[59], particularly in central and southern Italy. In addition, there is a need to implement prevention measures based on good agronomic techniques for crop management and careful selection of species and varieties to be grown to ensure proper pricing of risks.

With the Plan for Risk Management in Agriculture 2021 (PGRA 2021), to which all stakeholders contribute, the MIPAAF has introduced new elements in the implementation of public measures on risk management in agriculture:

- on a methodological level, the concept of "standard values"[60] is implemented to determine the value of the historical production, equal to the yield for the price, really obtainable and

[59] In 2019, the hectares covered by policies against weather, climate and health risks (1,246,984) represent less than 10% of the national UAA (Utilized Agricultural Area) of 12,582,651 hectares. Source ISMEA - 2021 Agricultural Risk Management Report

[60] For clarifications on the introduction of Standard Values, see MIPAAF circulars no. 45904 of 1 February 2021 (Information elements regarding the introduction of the methodology of standard values), no. 0150405 of 31 March 2021 (Agricultural Risk Management Plan 2021 - Clarifications on the insurable values with subsidised policies) and no. 221252 of 3 May 2021 (Management of vineyard policy certificates with Valpolicella/Amarone grapes and similar cases).

the maximum insurable values, necessary to calculate the amount to be admitted to the public contribution. The impact of the implementation of the standard values on the underwriting risk of the subsidised policies should be monitored by the companies and the Managing Authority to counter speculative behaviour, especially in the territories with a high frequency of claims;

- "insurance contracts for the taking up of risks not complying with the rules laid down in the Insurance Code" are not eligible for public support. Insurance regulations provide for rules[61], controls and a system of sanctions to ensure the protection of policyholders and the economic sustainability of the commitments undertaken by the insurer;

- if farmers intend to insure values higher than the average annual production or the standard value, they are asked to provide appropriate supporting documents; the expenditure eligible for public contribution is in fact calculated on the premium based on the insured value;

- the mandatory minimum content of the insurance contract is regulated, which is more transparent than in the past;

- assumptions of risk that are not correctly recorded in the companies' information systems or after the period of the risk are not possible; if this is not the case, no application for contribution can be made.

Upon the occurrence of the claim, the value of production declared by the policyholder and reported in the insurance contract shall be specifically verified by the experts appointed by the company to estimate the damage, by ascertaining the production potential in the field, gross of claims.

Insurance companies are responsible for formally acknowledging the occurrence of an event and determining that the loss exceeds the threshold in article 3, paragraph 8 of the 2021 PGRA. They cooperate with the paying agency (AGEA), have formalised risk management policies in place and monitor their proper implementation by the appointed experts. The latter must be enrolled in the specific Register and have adequate professionalism and high diligence, pursuing strict compliance with the ethical-professional principles and ethical standards; ongoing training and a separate role from policy distributors must be ensured.

In the event of non-compliance with the claim settlement rules, the penalty regime of the CAP would apply, and violations of insurance rules are part of the assessment of compliance with the requirements for receiving public contributions on subsidised policies.

In 2020, the MIPAAF recognised the first mutualisation and sectoral income stabilisation (STI) funds in the agricultural sector. There is a need for a convergence of the rules of governance

[61] IVASS Regulation no. 45 of 4 August 2020, in force since 31 March 2021, identifies in relation to governance and control requirements for insurance products precise obligations on the part of the insurer, which is required to identify the reference market of the products, categories of persons to whom the product may not be distributed, adopting appropriate measures to ensure that the product is actually distributed to the identified reference market. Furthermore, it lays down rules on the distribution of insurance products, graduating - in application of the principle of proportionality - the obligations for the intermediaries registered in the various sections of the RUI involved in the distribution activity (https://www.ivass.it/normativa/nazionale/secondaria-ivass/regolamenti/2020/n45/Relazione_regolamento_POG_45_2020.pdf).

and sound and prudent management of the funds, for a harmonised exercise of the supervision of the MIPAAF on the subjects that assume commitments related to the instruments for the management of agricultural risks, also in order to avoid reputational risks and overcompensation with different forms of public support for the same risks.

The dissemination of innovative tools, such as parametric policies, the digitalisation of processes and the administrative simplification, will be able to integrate the climate of trust towards the risk management system.

Finally, there is a need for more widespread insurance education in order to foster a greater culture of covering farm risks. In this regard, the MIPAAF implements an annual awareness campaign on the National Rural Development Programme[62].

62 https://www.psrn.it/

5. - Long Term Care policies

Italy is among the countries with the highest rate of ageing which, together with the reduced number of births, determines an increase in the relative weight of the elderly on the total population.

The phenomenon of demographic ageing inevitably has repercussions on care needs, which are expanding despite the increase in the number of years lived without limitations in activities of daily living after the age of 65. An ISTAT survey on disability in 2018[63] shows that disabled people over 65 years of age are a total of 3,087 thousand (1.3 million men and 1.8 million women) out of a total of 13,395 thousand disabled people, while those over 65 years of age with severe disabilities are 1.97 million, divided between 681 thousand men and 1,286 thousand women.

The State General Accounting Office has been evaluating for many years the Long-term care burden borne by the State[64], distinguishing three items: healthcare component; expenditure on attendance allowances; expenditure on other services. The total burden amounts to 1.75% of 2020 GDP (€31.3 billion), of which 72.8% of the expenditure is paid to persons over 65 years of age. According to projections by the Accounting Office, the ratio of public spending on LTC to GDP could reach 2.8% in 2070.

The dissemination of Long term care insurance coverage is currently limited, equal to 0.14% (€140 million in 2019) for class IV on the total life production, to which we must add the health insurance coverage that provides compensation in the event of dependency (detailed data not available).

In light of the urgent need to set up a solid system capable of providing LTC benefits in a generalised manner, and considering the delay accumulated by our country with respect to countries with a similar distribution of the population (France and Germany), an initial impact analysis of a possible model of compulsory insurance against dependency has been explored, with some simplifications.

The model envisages the adoption of a mandatory system for LTC coverage for the entire national population aged 18 to 90, based on private contribution (for employees, premium payments would be shared between employee and employer). It is assumed that the State will ensure an adequate regulatory framework and allow tax deductibility for the amount paid. The insurance companies would be entrusted with the pool of resources collected with the compulsory contribution, to be managed with a mutual model for the purpose of supplying the benefits within the limit established by law, freeing the public health system from the burdens for the non-self-sufficient[65]. INPS would act as the policyholder of the insurance coverage.

Insurance coverage would apply at the time the insured becomes dependent, until death. The payment of the insurance benefit, fixed in the hypothesis of the study at €10 thousand per annum, would therefore

[63] ISTAT 2018 survey "Disability in figures".

[64] Ragioneria Generale dello Stato (State General Accounting Office), Report no. 21 "The medium-long term trends of the pension and social-healthcare system", 2020.

[65] The provision on universalistic coverage includes limitations or prohibitions on the use of genetic data to limit risk selection, which has nothing to do with this mutual model.

continue for the entire residual life of the insured, taking into account that the possibility of recovery[66] of the physical capacities of the individual who has become dependent is not envisaged.

The required premium would be acquired through the payment of natural premiums[67] established according to age, i.e. with payment of premiums on a one-year basis for the entire duration of the coverage, until the premium payment age of 90 is reached.

The insurance product provides for the payment of a life annuity in the event of the loss of the ability to perform the basic activities of daily living.

Table II.26

Natural premiums for LTC with an annuity of 10,000 euro

Age group	Number of subjects A	Average premium per policyholder (*in euro*) B	Total individual premiums (*million euro*) A x B
	Male		
18 - 30	4,137,248	3.3	13.6
31 - 40	3,556,517	4.9	17.3
41 - 50	4,593,769	17.3	79.6
51 - 60	4,572,512	56.7	259.4
61 - 70	3,481,823	189.4	659.3
71 - 80	2,652,361	563.9	1,495.8
81 - 90	1,434,902	1,034.3	1,484.1
Total	**24,429,132**	**164.1**	**4,226.2**
	Female		
18 - 30	3,852,505	4.1	15.8
31 - 40	3,517,874	6.2	21.7
41 - 50	4,654,605	22.3	103.9
51 - 60	4,775,639	76.0	363.0
61 - 70	3,809,714	270.5	1,030.5
71 - 80	3,184,387	880.3	2,803.2
81 - 90	2,478,026	1,491.6	3,696.2
Total	**26,272,750**	**305.8**	**8,034.2**
	Total		
18 - 30	7,989,753	3.7	29.5
31 - 40	7,074,391	5.5	39.2
41 - 50	9,248,374	19.8	183.5
51 - 60	9,348,151	66.6	622.4
61 - 70	7,291,537	231.7	1,689.8
71 - 80	5,836,748	736.5	4,299.0
81 - 90	3,912,928	1,323.9	5,180.3
Total	**50,701,882**	**237.5**	**12,041.7**

The cost of the LTC guarantee increases as age increases (tab. II.26), but it is strongly influenced by the gender of the policyholder, since the phenomenon of dependency weighs more heavily on female

[66] The multi-state model is adopted, which requires the use of appropriate transition probabilities such that an individual can be assigned from active to dependent and deceased status and remain in dependent status. The discussion of the issues related to the multi-state model is reported in Pitacco E. and Haberman S., Actuarial Models for Disability Insurance, Chapman & Hall, London, 1998.

[67] If the insurer's commitment is exactly covered by the premium income and the insurer is not underfunded, the premium income is called a natural premium. The possibility of availing of natural premium payments would be permitted in light of the mandatory nature of LTC coverage.

individuals, characterised by a lower mortality rate but a higher level of disability that determines the partial or total absence of self-sufficiency.

An alternative approach, widely used in the presence of compulsory insurance coverage extended to the entire group of policyholders, envisages the adoption of a model based on intergenerational mutuality among the members in the insured group. An average value would be applied to the premium rates by gender separated by age, which is the premium rate required for each individual in the national community (tab. II.27).

Table II.27

Collective average premium for LTC

(euro)

	Average premium
Male	174
Female	329
Average	**277**

III. - THE EVOLUTION OF THE REGULATORY ENVIRONMENT

The European Commission's Action Plans on Sustainable Finance, Capital Markets Union and Fintech have initiated a profound transformation of the European and national regulatory framework governing the insurance sector. These legislative initiatives encourage insurance companies and their distribution chains to reorient their production, pricing and distribution methods towards insurance products and services that are socially equitable, not harmful for the planet, able to stimulate long-term sustainable growth of companies and employment, with greater usability, readability and value for the policyholder. The pandemic crisis has made such reforms urgent and reinforced the need for coordinated regulatory action at EU level.

Sustainability, innovation, digitalisation, consumer protection and system resilience are the principles that inspire the review of European regulations governing the insurance sector: the Solvency II framework will be amended by the end of 2021, incorporating experience from the 2020 pandemic events; at the same time, the revision of the IDD, scheduled for 2023, has begun.

In this context, for more than two years, work has been underway at EU level to harmonise the discipline of insurance crisis management, the funds for the protection of policyholders, the macro-prudential intervention instruments for managing systemic risks that may involve or be generated by the European insurance sector.

Innovation is also affecting the insurance sector in terms of the way in which its balance sheet, income statement and financial position are presented to the market. A central pillar for European insurance companies is the new international accounting standard on insurance contracts. After a lengthy international development and review phase, the EU technical bodies started the process of transposing IFRS 17 into European law on 31 March 2021. The financial statements of European companies applying IAS will have to be prepared from 2023 according to the new standard, with the aim of making accounting information more intelligible and comparable.

Since the beginning of the pandemic emergency, IVASS has proposed to the legislative bodies and adopted in its own regulations measures in favour of consumers and to ease administrative burdens for companies and distributors. Initiatives to simplify the procedures for concluding contracts, moratoria on premium payments and the postponement of various reporting/regulatory obligations should be included in this context. Supervisory actions, mainly of a preventive nature, to protect financial stability have been strengthened, including the renewal of provisions on accounting for capital losses on assets and recommendations on dividend distribution policies.

The transposition of European legislation will frame the alignment of IVASS regulations with the EU Taxonomy and Disclosure Regulations, adopted in 2020, which outline the regulatory framework for sustainable finance, partly already anticipated with the IVASS regulations on corporate governance and product disclosure adopted in 2018.

With regard to digital innovation in the insurance sector, the Institute has contributed, together with the other supervisory authorities, to the preparation of the MEF provisions implementing the Growth Decree, which establish the Fintech Committee at the MEF and regulate the launch of national experimentation (sandbox).

In continuity with the EU Commission's plan, which stresses the need to standardise rules on inducements, conflicts of interest, transparency towards clients to ensure a level playing field in the revision of the IDD Directive, the IVASS regulation on Product Oversight and Governance issued in 2020 completes the national regulatory framework relating to the process of design and manufacturing of the insurance product; the regulations on insurance distribution of IBIP products have been defined in close collaboration with CONSOB and take into account, as required by the Delegated Law, the need for coordination with MIFID II.

In terms of strengthening the protection of policyholders, the Institute has provided support to the competent Ministries for the drafting of regulations on the Insurance Arbitrator, whose institution will complete the implementation of consumer protection measures provided for by the IDD Directive, integrating the national framework of out-of-court redress systems in the financial sector, alongside the Banking and Financial Arbitrator and the Arbitrator for Financial Disputes.

1. - THE ACTIVITIES OF THE INTERNATIONAL BODIES

In 2020, 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 participates in the IAIS committees responsible for the definition of prudential rules, the implementation of harmonised rules and supervisory practices, financial stability and the assessment of systemic risk (this Committee was chaired by IVASS from January 2018 to June 2020). Since 2018, IVASS has also been a member of the Executive Committee, IAIS' decision-making body. The issues relating to systemic risk management are also discussed by the Financial Stability Board (FSB). The work of the International Accounting Standard Board (IASB) continued on the accounting standards relating to insurance contracts and financial instruments.

1.1. - Framework for the supervision of international insurance groups

2020 was the first year of implementation of 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), adopted by the IAIS on 14 November 2019.

The Comframe aims to increase the global convergence of supervisory practices and strengthen coordination and information exchange among supervisors, developing common minimum qualitative and quantitative supervisory requirements appropriate to the international activities and size of IAIG. The authorities responsible for group supervision have undertaken to publish the list of IAIGs having their parent companies located in their jurisdiction by the first half of 2020, in order to provide transparency on the national scope of the Comframe. In May 2020, IVASS, jointly with the other European authorities, identified Assicurazioni Generali S.p.A.

as an IAIG, following the criteria of size and volume of international activity provided by the Comframe itself[68].

1.1.1. - The quantitative capital requirement

IAIS is defining a risk-based capital requirement (*Insurance Capital Standard* - ICS), applicable at consolidated level to the IAIG and that will be a globally comparable measure of the capital adequacy of Internationally Active Insurance Groups.

The version of the ICS approved in 2019, in the broader context of the Comframe, is used for a five-year monitoring period (from 2020 to 2024), during which the IAIG will send a confidential report to the Authority responsible for supervising the group (*ICS Version 2.0 for the monitoring period*). Any failure to comply with the ICS does not trigger any supervisory action. During this first phase it will be possible to streamline the calibrations adopted and correct any application dysfunctions which could emerge. During the second phase, at the end of the monitoring period, the ICS will become a minimum consolidated capital requirement for the IAIGs.

To finalise the definition of the ICS 2.0, five annual exercises (*Field Testing* - FT) were conducted, in order to assess the impact of applying the standard that was being defined to the balance sheet and financial position of the IAIG participating on a voluntary basis. IVASS collaborated in all the FT, contributing to the definition of the policy lines, for the purpose of achieving an ICS that is consistent and compatible with the European prudential regulation of Solvency II.

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

At the same time of the Comframe, the IAIS also adopted the new rules for the assessment and mitigation of systemic risk in the insurance sector (Holistic Framework, HF), applied internationally since 1 January 2020.

The HF is based on the awareness that systemic risk in the insurance sector can arise both from the distress or bankruptcy of individual large insurers (due to their interconnectedness, complexity and non substitutability) and from the activities or collective exposures of several insurers operating in the same markets or with the same financial instruments and therefore jointly exposed to given risks, regardless of their size and despite their being solvent. The approach, previously adopted to counter the spread of systemic risk, whereby some measures were only applied to the insurers identified by the FSB as *Global Systemically Important Insurers* (G-SII) is therefore outdated. Based on the HF, the application of enhanced macro-prudential policy measures to a potentially much wider range of undertakings is now envisaged, in accordance with

[68] https://www.ivass.it/media/avviso/generali-iaig/

the principle of proportionality. It was therefore decided to suspend, until the end of 2022[69], the identification and publication of the list of G-SII on an annual basis.

The core elements of the new holistic framework proposed by the IAIS[70] are: 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 trends of systemic risk accumulation in due time.

In view of the COVID-19 pandemic, in order not to burden operators with operational tasks related to the adoption of the framework, the IAIS Executive Board, in coordination with the FSB, decided in late April 2020 to postpone the ordinary GME by one year and to launch an ad hoc exercise to monitor the impact of the health emergency on the global insurance industry, at the individual group and industry-wide level. Compared to the full version, the monitoring has been adapted with reduced information, but with greater frequency than the annual GME, in order to assess the evolution of the situation. The results of the exercise, published in December 2020 in the Global Insurance Market Report (GIMAR)[71], showed the resilience, both financial and operational, of the global insurance industry despite the significant volatility in financial markets experienced in the first half of the year. The most significant impact affected the solvency and profitability of the insurance sector, mainly due to the loss of value of assets; in any case, solvency ratios remained above the minimum required. The impact on the liquidity front was limited and no concerns were raised about the industry's ability to meet its commitments. Due to uncertainties about the duration of the pandemic, vulnerabilities remain, mainly due to potential downgrades of fixed income securities in insurers' portfolios and the continuing low interest rate environment.

Another constitutive element of the Framework is the verification of its implementation in two ways: (i) BaseLine Assessment (BLA), which assesses the compliance of insurance supervisory authorities in 26 jurisdictions worldwide with the HF[72] standards; (ii) Targeted Jurisdictional Assessment (TJA), which will undertake, also taking into account the findings of the BLA, a more in-depth review of compliance with HF requirements and related supervisory practices by supervisors in 10 jurisdictions[73].

The BLA, in which IVASS also participated, was carried out in 2020 and the final report will be made public by the end of 2021. The TJA started in April 2021; IVASS coordinates the

[69] Further to 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 holistic framework, the FSB will consider whether the annual identification of G-SIIs should be permanently abandoned.

[70] This involves: i) the strengthening of supervisory powers for macro-prudential purposes, including through the introduction of powers of intervention by the supervisor that make it possible to implement prompt and appropriate responses, where necessary; ii) the assessment by the IAIS and the competent supervisory Authorities of potential global systemic risk and the adoption of forms of coordination to reach a unified supervisory response, where necessary, iii) the establishment of mechanisms to favour consistent and effective supervisory responses to global systemic risk, while recognising that the application of measures remains at the discretion of national competent Authorities.

[71] https://www.iaisweb.org/file/94223/17-december-2020-iais-press-release-gimar-2020-covid-19-edition

[72] There are 39 standards, 23 related to Insurance Core Principle (ICP) and 16 to ComFrame (CF) related to: role of the supervisor; supervisors' powers of intervention; governance requirements for companies; macro-prudential supervision; planning and crisis management.

[73] Countries are chosen based on the amount of premiums written (at least the top six by gross premium volume based on Swiss Re Sigma ranking 2018 data) and with at least two or more IAIG.

assessment team. The results will be submitted by the end of 2022 to the FSB for a final decision on the identification of GSII.

1.3. - Convergence of supervisory practices in the international arena

The Institute has been committed to adopting and applying the principles developed by the IAIS for effective and coordinated global insurance supervision. The IAIS encourages the implementation of the *Insurance Core Principles* (ICP) in all jurisdictions and assesses compliance and observance by Member Countries via a compliance programme involving peer reviews.

IVASS participated in this assessment process by adhering to the peer review performed by the IAIS on ICP 19 (*Conduct of business*) concluded in 2020, and obtained the highest degree of compliance for all the principles examined (fully compliant). This result was also achieved thanks to the updating of the regulatory framework and the reform of the IVASS organisational structure following the entry into force of Solvency II and IDD. The IAIS assessment revealed that only 15% of participating countries (73 in total) are fully compliant with the requirements aimed at undertakings and 14% with the requirements aimed at intermediaries.

1.4. - Work pertaining to Effective Resolution Regime

The FSB has finalised a methodology applicable to the insurance sector (*key attributes assessment methodology)*, which defines the essential criteria for verifying the compliance of national laws with the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (KA) adopted in 2014. The methodology, revised to ensure its alignment with the Holistic Framework for Systemic Risk in the Insurance Sector, effective from 2020, and the FSB decision to temporarily suspend the identification of G-SII, was published on 25 August 2020.

The FSB is currently engaged in two in-depth reviews regarding *Resolution Funding* and *Internal Interconnectedness in Resolution* [74] which have implications for Key Attributes and their implementation in the insurance industry. The first review is aimed at investigating possible forms of financing resolution, starting from the provisions that may be present in the national legal systems, compatibly with the respective progress of the implementation of the resolution framework. The second review analyses the financial and operational interconnections within insurance groups and financial conglomerates, with the main objective of identifying good practices by national authorities, both in the context of supervision and in the context of recovery and resolution. Both papers will be published as practices papers by 2021.

At the IAIS, following the adoption in November 2019 of amendments to ICP (including ICP 12 Exit from the Market and Resolution), an Application Paper on resolution was submitted for public consultation in November 2020. The aim is to support national supervisors and resolution authorities in planning, practical application of powers and coordination and cooperation between authorities, in accordance with ICP 12 and 25 (Supervisory Cooperation and Coordination) and based on the Comframe resolution standards.

[74] https://www.fsb.org/wp-contexnt/uploads/P250820-1.pdf

1.5. - Review of international accounting standards

On 25 June 2020, the International Accounting Standards Board (IASB) issued an amendment to International Financial Reporting Standard 17 (Insurance contracts), a new international accounting standard applicable to insurance contracts, making limited amendments and postponing its effective date from 1 January 2021 to 1 January 2023[75]. The process of endorsing the accounting standard is underway in Europe. On 31 March 2021, the Board of the European Financial Reporting Advisory Group (EFRAG) published its Final Endorsement Advice in which it expresses the opinion that all the requirements of IFRS 17 meet the criteria for endorsement, except for the requirement to group into annual cohorts life insurance contracts with intergenerational mutualisation or cash flow matching. Therefore, this requirement remains the only critical issue for endorsing IFRS 17 in its entirety.

On 25 June 2020, the IASB amended IFRS 4[76], the current standard on insurance contracts, by extending the temporary exemption from the application of IFRS 9 from 1 January 2021 to 1 January 2023, to align the effective date with the new IFRS 17.

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

Since January 2020, the Trilogue between the European institutions has been ongoing: the Presidency-in-Office of the Council convened meetings to collect the position of the Member States, at which the Institute provided the usual technical support to the competent Ministries. There are still many open points on which political agreement must be reached, including the scope of the Directive.

The European Commission has proposed compulsory insurance for all motor vehicles, whether on public or private land, including electric vehicles and those used in sporting competitions. The Parliament is inclined to limit the coverage to accidents occurring in a public context and to exclude from the obligation electric vehicles intended for public circulation, provided that they are not likely to cause significant damage to persons or property, for fear that the insurance obligation may hinder their diffusion. Finally, it would exclude vehicles intended exclusively for sports competitions within an enclosed area. The Council has an intermediate position and believes coverage is needed regardless of area and would exclude electric vehicles of limited weight and speed. With regard to vehicles that are temporarily or permanently out of

[75] IFRS 17 will replace the current IFRS 4, which was created as an interim standard and did not introduce significant changes to the accounting of insurance contracts, which is done using local GAAP.

[76] In September 2016, the IASB issued the document Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, with amendments to IFRS 4, to enable insurance companies to limit the negative consequences, such as increased volatility in the financial results shown in the financial statements and increased operating costs, resulting from not applying the two standards concurrently. The solutions proposed by the IASB are summarised in two optional approaches: a) *temporary exemption from IFRS 9*: allows companies with prevalence of insurance activities a temporary and optional deferment (initially until 2021 and now, considering the postponement of IFRS 17, until 2023) of the application of IFRS 9 and the parallel use of IAS 39; b) *overlay approach*: allows companies that issue insurance contracts to exercise the option to use IFRS 9 and the simultaneous reclassification from profit or loss to other comprehensive income (OCI), with a consequent reduction in volatility.

circulation, the intention is to give Member States the option of not subjecting them to compulsory insurance as long as coverage is provided by the guarantee fund in the event of an accident. For vehicles used in sporting competition in an enclosed area, the Council would require motor liability coverage or other insurance coverage or financial security.

An amendment proposed by the European Parliament is being discussed with a view to introducing free access for consumers to at least one independent comparison tool ("comparator"), which would allow them to compare the rates of motor liability policies, with characteristics set out in the Directive and specified in a subsequent delegated regulation.

2.1.2. - Initiatives on sustainable finance

The recent European legislative initiatives on sustainable finance are part of the 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.

On 18 June 2020 the European Parliament adopted Regulation (EU) 2020/852 on the establishment of a common framework to facilitate sustainable investment at European level ("Taxonomy" Regulation), supplementing Regulation (EU) 2019/2088 on sustainability reporting in the financial services sector (Disclosure Regulation or SFDR). The two Regulations represent strategic steps towards the implementation of the objectives of the European Commission's Action Plan to finance sustainable growth (2018[77]) and the European Green Deal (2019[78]). The Taxonomy Regulation introduces a harmonised system for classification, foreseeing specific technical criteria to determine the degree of sustainability of economic activities. The aim is to define sustainable economic activities and to establish additional transparency requirements for financial market participants who wish to offer investment products in such activities. The European Commission will have to adopt delegated acts on technical aspects by 2021 to identify economic activities contributing to each environmental objective[79].

The Disclosure Regulation provides for second-level rules of the Joint Committee of the European Supervisory Authorities (EBA, ESMA and EIOPA) for its application. As a result of the public consultation, a Final Report was submitted to the Commission on 4 February 2021, with proposed rules to be adopted by delegated regulation which will become effective on 1 January 2022.

2.1.3. - Initiatives on Digital Finance

On 24 September 2020, the European Commission presented the draft Regulation on Digital Operational Resilience (Digital Operational Resilience Act - DORA) for the financial sector. The ESA are mandated to propose regulatory technical standards to define application

[77] On 8 March 2018, the Commission published the action plan to finance sustainable growth, launching an ambitious global strategy aimed, among other things, at directing capital flows towards investments promoting sustainable and inclusive growth and establishing a unified classification of sustainable activities.

[78] The European *Green Deal* is a growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there will be no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.

[79] The environmental objectives to be pursued are, by way of example: i) pollution prevention and control; ii) protection of marine waters and resources; iii) reduction of greenhouse gas emissions or enhancement of their absorption.

profiles. The Institute provides technical support to the Bank of Italy and the MEF, which are following the negotiations in the EU.

The proposal is part of the digital finance package, which includes acts on crypto asset markets, pilot regime for market infrastructures based on distributed ledger technology (DLT) and amendments to the Financial Sector Directives, including Solvency II, to introduce specific measures to address ICT risks in the governance system.

In order to strengthen the digital resilience of the financial sector, given the growing interdependence of digital products and processes and the relevance of ICT risks, the proposed DORA Regulation will apply, on a proportional basis, to almost all financial sector operators, including insurance and reinsurance companies and insurance and reinsurance intermediaries, excluding minor ones. Operators will need to have a robust and well-documented ICT risk management system and incident management tools in place. Particularly important are also the provisions on ICT outsourcing and the provision of a European framework for monitoring critical ICT service providers (including the so-called *BigTech*).

2.1.4. - The Capital Markets Union Plan

The European Commission presented on 24 September 2020 a new action plan to strengthen the Capital Markets Union (CMU) in the EU, aimed at freeing up resources for investment, especially for small and medium-sized enterprises, attracting capital flows from the rest of the world and making the financial system more stable by diversifying sources of finance.

Among the actions indicated as priorities by the EU Council of 1 December 2020 on the CMU, the following are relevant for the insurance sector:

- strengthen the role of insurance companies as long-term investors, preserving financial stability and investor protection and ensuring appropriate regulatory treatment of long-term investment risks. The revision of the Solvency II Directive is part of this;

- facilitate the access of companies, in particular SMEs, to capital market financing by exploring the advantages and disadvantages of alternative financing channels (including insurance companies) for SMEs that have been denied access to bank credit.

Measures are also envisaged to ensure greater uniformity of EU regulations on inducements, conflicts of interest and transparency towards customers, to ensure a level playing field in the context of the revision of the IDD Directive scheduled for 2023.

Lastly, there is the project to strengthen the convergence of supervisory practices, on which the Commission concluded its consultation in May 2021, which could lead to possible revisions to the Regulations establishing the ESA.

2.2. - The European Supervisory Authorities

2.2.1. - The revision of Solvency II

EIOPA's work continued in 2020 for the drafting of a technical advice on several aspects of the Solvency II prudential framework, following the European Commission's request[80] of February 2019.

On 30 April 2020 EIOPA postponed the delivery of its opinion for six months, to assess the impact of the COVID-19 pandemic on the proposals to amend the Solvency II framework. Data collected from a sample of European companies supported the impact assessment and the need for possible revisions in the light of the pandemic[81] (see box below). The Institute participates in EIOPA's working tables and those responsible for reviewing the parameters for calculating the capital requirement in accordance with the standard formula and updating the principles of group supervision.

EIOPA provided its Opinion[82] on 17 December 2020; the European Commission has started work and intends to finalise the legislative proposal by the third quarter of 2021. In the advice, EIOPA focused on the following areas:

- updating of the micro-prudential framework, based on the experience of the first years of application and changes in the economic context, with the aim of producing an overall neutral impact on the solvency of European companies (balanced package);
- recognition within the framework of the current economic situation, with particular reference to the prolonged scenario of low interest rates; changes are proposed to the calculation of the prudential requirement for interest rate risk in order to also consider negative interest rate shocks, which are not considered in the current standard formula;
- completion of the regulatory toolbox, with instruments aimed at improving policy-holder protection and strengthening financial stability, through Recovery and Resolution (RR) and Insurance Guarantee Schemes (IGS) measures (para. 2.2.2) and measures of a macro-prudential nature.

The proposed amendments include new proportionality criteria in the application of prudential rules and the strengthening of supervision of cross-border activities.

Main contents of the EIOPA technical advice on the revision of the Solvency II framework

Measures for products with long-term guarantees (LTG). With reference to insurance products with long-term guarantees and equity risk measures, EIOPA intervened on the Volatility Adjustment (VA), the most used LTG measure in Europe and in Italy. In order to make the measure more consistent with the objective of

80 https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190211-request-eiopa-technical-advice-review-solvency-2.pdf

81 The request was complementary to the Holistic Impact Assessment (carried out in the period 2 March to 1 June 2020) in which the same combined effect of the most important proposed changes to the regulations was tested, but as at 31 December 2019.

82 https://www.eiopa.europa.eu/browse/solvency-ii/2020-review-of-solvency-ii_en

mitigating artificial volatility in the financial statements, the conditions have been eased for triggering the domestic component, which were not properly applicable to the Italian market.

A benefit would be introduced into the calculation of VA for companies marketing more illiquid products.

In order to reduce the risk of under-reserving (relevant in countries with very long duration liabilities) and to reflect the current conditions of low or negative interest rates, EIOPA proposes to change the methodology for estimating risk-free interest rate curves for maturities for which there are no sufficiently representative market rates. The change increases the influence of market interest rates on the extrapolation of the curves, making the insurance liabilities more realistic and improving incentives for risk-management.

EIOPA also proposes a widening of the corridor to the symmetric adjustment to the equity risk sub-module in order to increase the effectiveness of this countercyclical measure.

Further revisions to the calculation of capital requirements. EIOPA's technical advice is complemented by proposals on prudential treatment: i) counterparty default risk with, among other measures, a revised treatment of outstanding loans and non performing loans, calculating the capital requirement using a loss given default (LGD) approach; ii) risk mitigation techniques, clarifying the exclusion of certain types of contracts (e.g. contingent capital and contingent convertible bonds) and proposing the recognition of specific hedges (adverse development - ADC) under certain conditions; iii) the Minimum Capital Requirement (MCR), with updated risk factors for certain business lines.

Strengthening cross-border supervision. Proposals on cross-border activity are aimed at making cooperation between the Home and Host Authorities more effective and to prevent critical situations to the detriment of the consumer. To this end, EIOPA recommends new reporting requirements for companies at the time of authorisation and in the course of business, and enhanced information exchanges between the Home and Host Authorities (including notifications for risks related to consumer protection).

Supervision of insurance groups. The Solvency II revision aims to remove uncertainties in the application of insurance group regulation and to enhance the convergence of supervisory practices, with regard to: definition of group, scope of supervision, intra-group transactions and risk concentration, calculation of group solvency, interaction with the Financial Conglomerates Directive, governance requirements.

The disclosure to be made to the supervisor and public disclosure. EIOPA is proposing revisions to streamline reporting to the supervisor and public disclosure by eliminating information of limited supervisory utility.

The main changes include the revision of the templates containing the quantitative information that companies must provide to the supervisor[83] and to the structure and content of the information in the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report[84].

Strengthening the principle of proportionality. EIOPA proposes a more extensive application of the principle of proportionality through the definition of homogeneous criteria to foster supervisory convergence. Simplified measures across all three pillars may be adopted semi-automatically by "low-risk" companies, subject to said criteria.

[83] EIOPA's proposals for action on quantitative templates relate primarily to the following issues: a) new models (e.g. on cyber risk and non-life products); b) deletion of data (e.g. on off-balance sheet items and derivative transactions); c) further rationalisation and simplification across all models.

[84] These interventions relate to: a) structure of reports, with fewer sections; b) recipients; c) planned information; d) introduction of a minimum audit requirement for the information included in the SFCR.

Macro-prudential measures. The section on macro-prudential tools in the EIOPA opinion analyses the current tools that exist in the Solvency II framework with respect to different sources of systemic risk, as called for in the 2019 Call for Advice[85]. Also to take into account the risks made more evident by the pandemic, EIOPA stresses the need to incorporate the macro-prudential perspective into the current prudential framework suggesting that supervisors be empowered to require individual groups or companies, where necessary and based on justified reasons and evidence, to take additional measures based on capital, liquidity, risk exposure and concentration levels and forward planning[86].

Impact of the proposals included in the EIOPA's technical advice on the Italian and European markets. An impact test was carried out with two financial years referring to 31 December 2019 and 30 June 2020 on a large sample of European companies. Two different scenarios were considered: the first one (Scenario 1) covering all the proposed changes; the second (Scenario 2) assesses the balanced package of measures proposed, excluding the recalibration of interest rate risk, as this aims to correct an error in the standard formula and better reflect the current market environment of low interest rates.

The package of measures includes:

- *Volatility Adjustment* (VA): EIOPA maintains an approach based on the representative European portfolio, with a "permanent" component and a "macro-economic" component, similar to the current structure, but with adjustments to improve anti-cyclical effectiveness and review the national component, also based on proposals from IVASS. The value of VA is related to the illiquidity characteristics of the companies' liabilities.
- Extrapolation of the risk free curve: EIOPA proposes to revise the methodology for deriving extrapolated interest rate curves for the valuation of insurance liabilities, increasing the influence of market rates and making liabilities more realistic by reducing the risk of under-reserving and improving incentives for sound risk management. A temporary mechanism is foreseen to mitigate the market impact of the introduction of the amendment when interest rate levels are particularly low.
- *Risk Margin* (RM): it is proposed to introduce a factor in the calculation formula (which remains based on the Cost of Capital concept) reducing the RM in proportion to the duration of the liabilities, to take into account the time dependence of the risks and to reduce the sensitivity of the item to changes in interest rates.
- *Equity risk*: the revision of the criteria for classifying equities held with a long-term time horizon in the Long Term Equity category makes it possible to benefit from a lower loading (22%) than the standard for traditional equity investments (39/49%).
- Correlation matrices between the various risk modules: the different correlation between spread risk and interest rate risk is maintained (depending on whether the company is exposed to an upward or

[85] For the first time, the European Commission recalled aspects related to macro-prudential policies, asking to: i) assess whether the Solvency II 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 Prudent Person Principle), assess the introduction of systemic risk management plans and strengthen liquidity management and reporting requirements.

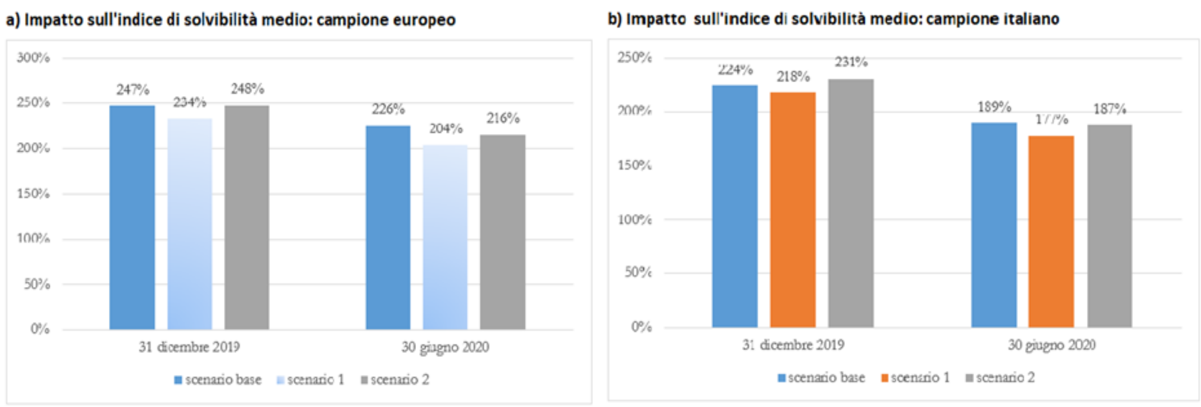
[86] EIOPA is of the view that supervisory authorities should have the power to: i) require a capital surcharge for systemic risk; ii) impose additional measures to reinforce the insurer's financial position (for example, restricting or suspending dividend or other payments to shareholders); iii) define concentration thresholds; iv) expand the use of the *Own Risk and Solvency Assessment* and the prudent person principle to take into account macroprudential aspects; v) establish pre-emptive recovery and resolution planning, as well as systemic risk and liquidity risk management plans; vi) grant national supervisory authorities with additional mitigating measures for liquidity risk in case of vulnerabilities; vii) temporarily freeze the redemption rights in exceptional circumstances.

downward shock to the latter); however, the value is reduced from 0.5 to 0.25 for the downward shock, while the same correlation with the upward shock is kept zero.

The impact in terms of solvency ratio of the transition to the new method of calculating interest rate risk is significant for Italian companies and for the main European markets. To limit the consequences of the impact of the change, EIOPA proposes its phasing in over 5 years and a maximum reduction of -1.25% in "stressed" rates.

As of 31 December 2019 (fig. III.1), there is a reduction in the average solvency ratio of the European sample of 13 p.p. in the scenario with all changes; excluding changes to the interest rate risk calibration, the average ratio increases by 1 p.p., confirming a substantial balance of the EIOPA package. The Italian sample shows an impact of -6 p.p. and +7 p.p. in the two scenarios. At 30 June 2020, in a market context that worsened considerably due to the increase in credit spreads and the reduction in interest rates, the impact on the average solvency ratio is greater, equal to -21 p.p. and -10 p.p. for the European sample and -12 p.p. and -2 p.p. for the Italian sample.

Figure III.1



Fonte: EIOPA

2.2.2. - Development of a framework for the management of insurance crises

In its technical advice on the review of Solvency II, EIOPA proposes a minimum harmonisation framework for recovery and resolution, by strengthening the crisis management tools in the insurance sector. Based on the KA defined by the FSB, EIOPA proposes preventive measures against the occurrence of non-compliance with capital requirements. The proportionate application of a pre-emptive recovery plan and resolution planning is suggested, with a resolvability assessment by the National Authority. EIOPA stresses the need to give the supervisor early intervention powers to act when a structural deterioration of the company's solvency position has been established and before a breach of the Minimum Capital Requirement occurs. The establishment of an Authority for the management of resolution processes and the attribution of a minimum set of powers to be exercised in accordance with the principles of safeguarding the policyholder are recommended. The technical advice promotes cross-border cooperation and coordination arrangements between resolution authorities, using existing tools such as collaboration platforms and crisis management groups.

EIOPA also proposes a minimum harmonisation of national policyholder protection schemes in order to eliminate important differences between Member States and to increase the protection of policyholders in the event of a company's failure. Pursuing the home country approach, the proposal places the costs of intervention to protect policyholders residing in other Member States on the protection scheme of the State where the company has its registered office. The protection is intended to be pursued by attributing to the protection scheme the function of guaranteeing the continuity of insurance coverage or of compensating the losses suffered by the policyholders in the event of insolvency. The technical advice identifies those entitled to benefits and indicates a selection of insurance policies to be included in the national schemes with a minimum level of coverage. To ensure the efficient functioning of the scheme, EIOPA specifies when and how protection schemes should be financed and promotes cooperation between IGS of different countries.

The Commission has started work on recovery and resolution; a legislative proposal is expected by September 2021.

2.2.3. - EIOPA's Action Plan on sustainable finance

The Institute actively contributes to the projects of the EIOPA Action Plan on Sustainable Finance, which is linked to the European Commission's Action Plan and Annual Strategies[87].

In 2020, an Opinion[88] was published that aims to include consideration of climate change risks in business risk management practices and ORSA assessment. The opinion contains recommendations for European supervisors to ensure that companies for which climate risk is significant carry out sensitivity and scenario analyses on a proportional basis. An additional document[89] concerns the monitoring of risks (dashboards) related to the lack of insurance protection for natural disasters. The pilot project aimed to: i) identify the main geographical areas of climate risk and the key drivers of the insurance protection gap; ii) identify common measures for catastrophic risks in relation to insurance protection gaps for EU countries; iii) measure the protection gap with specific indicators; iv) monitor the factors that lead to, mitigate or amplify the protection gap. Another strand of work involved examining climate change risk underwriting practices and underlying premium determination models, the related annual renewal process in the context of climate change, and the key role of the insurance industry in mitigating and adapting to climate change. Finally, work has been directed towards explicitly incorporating climate change into the calibration of the parameters of the standard formula for calculating the capital requirement for underwriting risk.

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[87] The EU Commission adopted in 2018 the Action Plan for Financing Sustainable Growth in which it announces actions to integrate financial sustainability into the financial system, some of which involve the insurance sector. The plan aims to redirect capital flows towards sustainable investments for sustainable and inclusive growth, manage financial risks arising from climate change, resource depletion, environmental degradation and social issues, and promote transparency and long-term vision in economic and financial activities, https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52018DC0097&from=IT.

[88] *Opinion on the supervision of the use of climate change risk scenarios in ORSA* (https://www.eiopa.europa.eu/content/consultation-draft-opinion-supervision-of-use-of-climate-change-risk-scenarios-orsa_en).

[89] *The pilot dashboard on insurance protection gap for natural catastrophes,* https://www.eiopa.europa.eu/content/pilot-dashboard-insurance-protection-gap-natural-catastrophes_en.

2.2.4. - Consumer protection

In the EIOPA Committee for the Protection of the Consumer and Financial Innovation, chaired by IVASS, the latter contributed to the analyses on the impact of the pandemic on conduct risks. The results of these analyses are reported, with reference to the first half of 2020, in the ninth *Consumer Trends Report*[90]. This activity led to the issuance of a Consumer Guide to facilitate understanding of insurance coverage and two statements to draw the attention of companies and intermediaries to the need to contribute to the mitigation of COVID-19-related risks, one of which contains supervisory expectations from a product governance perspective.

Following the publication of the report on the *Thematic Review* on potential risks for the consumer arising from the sale of travel insurance policies, 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. The monitoring of the implementation of the warning by the industry continued, together with the in-depth analyses of the impact of COVID-19 on travel insurance.

A Thematic review was launched in 2020 to investigate the possible risks to the consumer arising from the distribution of insurance products in combination with credit products.

The Institute participated in the thematic platform dedicated to the evaluation of conduct risks in the European market for unit-linked policies, following the definition of a methodology for the evaluation of the value for money of unit-linked and hybrid products. The first case of activation of EIOPA's power to intervene in insurance-based investment products under Regulation (EU) no. 1286/2014 on PRIIP was also followed.

IVASS took part in the drafting of the third EIOPA report on the costs and performances of long-term retail investments and pension products, for a verification of the transparency and comparability of the products, to the benefit of consumers.

The Institute has contributed to the drafting of the first EIOPA report on administrative sanctions and other measures imposed by national authorities for the violation of national provisions implementing the IDD[91] and is actively involved in the drafting of the report on the application of the same Directive. The analysis, conducted also through surveys of national authorities and stakeholders, covers: the market structure of the intermediaries, cross-border activities, as well as the general impact assessment, with a particular focus on the effects for SME intermediaries and on the availability of adequate resources of the national Authorities. EIOPA also manages the drafting of the questions and answers, in consultation with the national authorities, to facilitate convergence in the interpretation of EU regulations and in the exercise of the national supervision.

[90] https://www.eiopa.europa.eu/content/consumer-trends-report-2020_en

[91] https://www.eiopa.europa.eu/sites/default/files/publications/reports/first-annual-report-idd-sanctions_0.pdf

Work continued 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. The Institute contributed to the drafting of the document on the EIOPA's approach to Product Oversight and Governance (POG) supervision[92], to provide input to market participants on supervisors' expectations regarding the implementation of the relevant requirements. Finally, the drafting of the Brexit Guide for consumers who have policies in place with UK companies was followed[93].

2.2.5. - EIOPA initiatives on the convergence of supervisory practices

EIOPA establishes an annual plan to enhance convergence in the supervisory activity carried out by the national competent authorities. The implementation of the 2020 plan has involved several EIOPA initiatives, with the active involvement of national Authorities including IVASS.

Peer reviews concerning the following continued in 2020:

- supervisory information (Regular Supervisory Report - RSR), finalised in April 2020, which assessed the practices of the national Authorities with regard to the frequency of transmission by the insurance companies of the RSR. The findings will be taken into account in the revision of the Solvency II Directive and the related Delegated Acts.

- on cross-border cooperation, coordinated by IVASS and aimed at assessing the compliance of national supervisory authorities with the provisions of the Collaboration Protocol of 2017 (now EIOPA Decision) in cases of cross-border activity. The Report published in December 2020 highlighted the need for prompt forms of cooperation between Home and Host Authorities to prevent and resolve critical issues in cross-border activities mainly to the detriment of consumers.

The 2020 Supervisory Convergence Plan identified priority areas following a risk-based approach and the following criteria: i) material impact on policyholders and financial stability; ii) factors that may affect the fairness, level playing field or proper functioning of the internal market through possible supervisory arbitrage; iii) key areas of supervision where practices differ substantially.

The 2020 interventions in which the Institute participated include:

a) Opinion on Remuneration, published on the EIOPA website on 7 April 2020

The Opinion is aimed at strengthening convergence on compliance with the principles of management remuneration set out in the Solvency II Delegated Acts, in particular article 275. The paper is addressed to supervisors and provides non-prescriptive guidance on how to assess the application of these principles by supervised entities. The Opinion deals with: i) the principle of adequate balancing of the fixed and variable components of remuneration in a 1 : 1 ratio; ii) deferral of a significant part of the variable component; iii) adequate balance between financial and non-financial indicators, with a non-negligible weight of non-financial indicators; iv)

[92] https://www.eiopa.europa.eu/content/eiopa-approach-supervision-product-oversight-and-governance_en

[93] https://www.eiopa.europa.eu/content/consumer-guide-what-should-you-do-if-you-have-life-insurance-policy-or-pension-uk_en

correction mechanisms for the adequate alignment to the risks of the remuneration systems through an *expost* adjustment; v) bonuses in case of early termination of employment. The application of the principles is limited to employees with a higher profile; in the event of misalignment with the principles by a supervised undertaking, a dialogue with the Supervisor is initiated, following a proportional approach.

The Italian market appears to be substantially adequate to the indications contained in the opinion, aligned with the national legislation (IVASS Regulation 38/2018 and letter to the market of 5 July 2018) on corporate governance and application of the principle of proportionality.

b) Supervisory Statement on the use of risk mitigation techniques (RMT) by insurance undertakings

The statement calls on supervisory authorities to carefully assess new reinsurance structures, as the Solvency II regime has actually favoured the use of reinsurance as a capital optimisation tool rather than a risk mitigation tool. Supervisors, in general, must verify the correct balance between reducing the Solvency Capital Requirement (or increasing Own Funds) and transferring risk. It is recommended to assess that the Solvency Capital Requirement adequately reflects the credit risk and other risks arising from the use of RMT (article 101 (5) Solvency II). The document, submitted for public consultation in 2020, will be issued shortly, probably in the form of an opinion.

c) Supervisory Statement on supervisory practices and expectations in case of breach of the SCR

The statement aims to promote supervisory convergence on the recovery plan to be prepared in the event of a breach of the SCR. Where certain thresholds are exceeded, such as non-compliance with the Solvency Capital Requirement (SCR), a convergent approach is needed to ensure equal protection of policyholders and beneficiaries across Europe. The document, submitted for consultation in 2020, will be published by the summer.

2.2.6. - Secondary regulations on Pan-European Pension Products (PEPP)

On 25 July 2019, Regulation (EU) 2019/1238 on Pan-European Personal Pension Products was published in the EU OJ, which will apply as from 22 March 2022. After submission of the technical advice requested by the European Commission, Regulation (EU) 2021/473 was published on 22 March 2021. This Regulation lays down technical rules (RTS) concerning: i) costs, with a cap (Cost Cap) provided for the basic PEPP; ii) the PEPP KID (*Key Information Document*) and its subsequent revision; iii) the risk mitigation techniques; iv) performance projection; v) cooperation and exchange of information between competent Authorities and with EIOPA.

Based on EIOPA's technical advice, on 4 June 2021 the Commission published Regulation (EU) 2021/896 regarding additional information for the purposes of the convergence of supervisory reporting. On the same date, the following Regulations were published: i) Regulation (EU) 2021/895 with regard to product intervention; ii) Regulation (EU) 2021/897 laying down implementing technical standards (ITS) for the application of Regulation (EU) 2019/1238 with regard to the format of supervisory reporting to the competent authorities and the cooperation and EIOPA. At the same time, EIOPA has published Guidelines on the timing of the reporting that PEPP providers will have to make to the National Authorities.

2.2.7. - Joint Committee of the European Supervisory Authorities

In 2020 the cooperation forum between the European Authorities (*Joint Committee*) focused its attention on sustainable finance (par. 2.1.2), *Packaged Retail Investment and Insurance-based Investments Products* (PRIIP) and financial conglomerates.

The works on the PRIIP dealt with the review of the draft technical standards (RTS) governing the content and form of the document to be handed over when pre-assembled insurance and retail investment products, including insurance investment products (IBIP) are sold. 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). The final report of the *Joint Committee* was sent to the European Commission for the final adoption of the amended RTS.

With regard to financial conglomerates, the Committee, in addition to taking care of the annual update of the list of conglomerates with parent companies in EU and EEA countries, continued to draw up the rules on harmonised reporting models for sending supplementary supervisory information on intra-group transactions, risk concentration and capital adequacy. The final report with the proposed technical standards was published on 18 January 2021 and sent to the European Commission for adoption in the form of an Implementing Regulation, with a proposed effective date of 1 January 2022.

3. - THE EVOLUTION OF NATIONAL REGULATIONS

3.1. - The transposition of EU regulations

3.1.1. - The Insurance Distribution Directive

In 2020, work continued on the implementation of EU Directive 2016/97 on insurance distribution.

a) The IDD corrective

With Legislative Decree no. 187 of 30 December 2020, the result of collaboration between the MiSE and IVASS, the supplementary rules for the implementation of the IDD Directive were adopted, introducing:

- clarifications on the alternative relationship between the insurance arbitration procedure and the mediation or assisted negotiation procedures (para. 3.1.1, lett. d);
- extension of the supervisory fee to EU companies and intermediaries operating in Italy under the right of establishment or the free provision of services (f.o.s.);
- reinforcement of the rules of conduct on pre-contractual disclosure, conflicts of interest, sale of insurance products combined with other products, with a strengthening of the precautionary and prohibitory powers of IVASS;

- additions to the regulations relating to the RUI, with the introduction of the obligation to register in section E for employees, collaborators, manufacturers and other appointees of the intermediaries registered in the sections referred to in e) and f) and training obligations for ancillary insurance intermediaries;
- integration of the sanctioning regulations, with the extension of the scope of the alternative sanction of the order to cease the breaches, and the revision of the hypotheses of sanctions imposed on companies for which IVASS does not know the turnover on which the amount is to be calculated.

b) Distribution of insurance-based investment products (IBIP)

With the issuance of IVASS Order no. 97 of 4 August 2020, the regulations on the distribution of IBIPs through the channels under the jurisdiction of IVASS were completed. The Order, effective as of 31 March 2021, introduces, among other things, provisions applicable to all insurance products on: a) rules of behaviour for advised and non-advised sale; b) pre-contractual information; c) obligation to record conversations and electronic communications in the distance distribution activity. With respect to IBIPs, additional guidance is provided on: a) adequacy and appropriateness; b) sale of IBIP products other than non-complex products[94] for which there is a regime of mandatory advice; c) simple, impartial and independent advice; d) incentives, with reference to eligibility conditions, disclosure and the relationship between advice and incentives (ref. FAQ[95]).

With IVASS Regulation no. 45 of 4 August 2020 - which lays down detailed rules on the product approval process, identifying obligations for manufacturers and distributors - the discipline of the governance and control requirements for insurance products (Product Oversight and Governance, POG) has been completed. Specifically, the following are planned: a) the criteria for defining the manufacturer's reference market and the distributor's reference market; b) the identification of the categories of customers to whom the product may not be distributed (negative target market); c) the limits, conditions and cases where the sale of a product outside the customer's reference market may be permitted; d) the role of the top management and the compliance function. e) the information flows.

c) Body for the registration of insurance intermediaries (ORIA)

Article 108-*bis* of the CAP has established a Body for the registration of insurance, reinsurance and ancillary insurance intermediaries (ORIA), having legal personality under private law and with statutory, organisational and financial autonomy, set up in the form of an association, to which the powers and competence regarding the keeping of the Register (RUI) shall be transferred, and charged with promoting the dissemination of the principles of fairness and professional diligence among the intermediaries[96].

[94] Non-complex IBIP products guarantee the recovery of premiums paid minus legitimate costs.

[95] https://www.ivass.it/normativa/nazionale/secondaria-ivass/normativi-provv/2020/provv_97/FAQ_Provv.97-2020.pdf

[96] The Directive on insurance distribution envisages the obligation to register insurance, reinsurance intermediaries and ancillary insurance intermediaries with a competent Authority in the member State of origin, also giving evidence of their operations under the right of establishment or the free provision of services..

A Presidential Decree, to be adopted on the proposal of the MiSE and with the collaboration of the Institute, will regulate: i) the establishment of the Body; ii) the procedure for the appointment of members; iii) the transfer of the functions and powers temporarily attributed to IVASS; iv) the means by which the Body collects and administers the fees to be paid by intermediaries; v) IVASS supervision of the Body. Discussions are underway with MiSE to prepare the decree.

d) The whistleblowing regulation

In 2020 the Draft Regulation on the reporting of violations concerning distribution and insurance activities was submitted for public consultation. This Draft Regulation implements the rules of the CAP, 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 consultation was widely participated by the market and the finalisation of the regulation is underway.

3.1.2. - The Shareholder Rights Directive

Together with other financial sector Supervisory Authorities and in coordination with the MEF, IVASS participated in the full implementation of the (EU) Directive No. 828 of 17 May 2017 (*Shareholder Rights Directive 2*, SHRD2). The Directive introduces 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 particular, insurance institutional investors shall adopt and communicate to the public a commitment policy and shall publish information on the consistency of the investment strategy in shares with the profile and duration of liabilities. IVASS, in coordination with the other financial sector Authorities, issued Regulation No. 46 of 17 November 2020 regarding the definition of the terms and methods of publication and communication of information.

Following the enactment of Legislative Decree No. 84 of 14 June 2020, the implementation of the European provisions was completed, strengthening the primary regulatory framework regarding the eligibility of company representatives and key functions, as well as shareholders (Articles 76 and 77 of the CAP) and the removal powers assigned to IVASS (Article 188 CAP).

With regard to corporate officers and key functions, the new rules will allow for a more in-depth assessment of suitability, combining binding requirements with more discretionary criteria of competence and correctness, in line with the banking sector. An assessment of the adequacy of the time to be allocated to the performance of the task is introduced. The Ministry is receiving the usual technical collaboration on the rules for implementing the primary provisions, which are to be regulated by the MiSE after consulting IVASS.

3.1.3. - Directive (EU) 2016/2341 relating to the activities and supervision of corporate or professional pension funds (IORP II)

In implementation of the changes introduced into the regulations for open pension funds by Legislative Decree no. 147 of 13 December 2018, which transposed the IORP II Directive into Italian law, in January 2021, COVIP issued the Supervisory Instructions identifying the obligations to which companies managing open pension funds, including insurance companies, are required to comply. The COVIP Instructions concern the governance system and the risk management system, the fundamental functions, the professional and good repute requirements, outsourcing, remuneration policy and internal risk assessment.

The Bank of Italy, CONSOB and IVASS have shared responsibility for these matters, and IVASS has provided its opinion and cooperated with the other authorities to ensure coordination with their respective sectoral regulations.

3.1.4. - The consumer protection Regulation

Regulation (EU) 2394/2017 (Consumer Protection Cooperation Network, hereinafter the CPC Regulation), applicable from 17 January 2020, introduced a cross-cutting regulation, including the insurance sector, aimed to protect consumers from cross-border infringements of European rules. The EU provisions make cooperation more efficient between national Authorities and with the European Commission, and allow to coordinate role of joint action which reduces the harm caused to consumers by cross-border infringements of EU rules.

The European legislator widens the powers of investigation granted to national Authorities and establishes 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. Among other things, it is envisaged that national authorities can use mystery shopping for the purchase of goods or services "by making sample purchases, where necessary anonymously". The proposal of transposition of the national legislator consists in an amendment to the Consumer Code (art. 144-bis, paragraph 2) in order to extend the powers of investigation and intervention, contemplated by the EU CPC Regulation, also to the hypothesis of domestic infringements of the collective interests of consumers, and to allow the competent national Authorities to avail, for the investigation activities, of subjects specifically appointed. The definition of the competences and methods of acquisition of data, news and information by the persons in charge is left to the said Authorities. IVASS has commenced the definition of the implementing discipline in close coordination with the other Authorities of the financial sector in order to ensure maximum inter-sectoral consistency.

3.1.5. - National transposition of the amendments to the Solvency II Directive

IVASS provided its contribution to MiSE for the transposition of Directive (EU) 2019/2177 which made, among other things, amendments to Directive 2009/138/EC (Solvency II). The Decree Law no. 18 of 17 March 2020 intervened on art. 36-septies of the CAP in relation to the conditions necessary for the activation of the measure of volatility adjustment (VA) of risk-free interest rates. The reference value of the national risk-adjusted spread was reduced from 100 to 85 basis points, as the threshold for the activation of the national component of VA, for the purposes of calculating the best estimate of companies' technical provisions. The possibility for companies to resort to the application of the measure, aimed at mitigating the artificial short-term volatility on the own funds and solvency requirement, has thus been widened.

3.1.6. - EU Regulation 2019/2088 - Sustainability reporting in the financial services sector

On 27 November 2019, Regulation (EU) no. 2019/2088 on sustainability reporting in the financial services sector was published ("Disclosure" Regulation), effective as of 10 March 2021 but which refers to second-level provisions (RTS), which will apply as of 1 January 2022 (Para. 2.1.2).

IVASS, in coordination with the Bank of Italy and CONSOB, published on 5 March 2021 a communication drawing the attention of national operators to the indications of the Supervisory Statement of 25 February 2021 of the ESA (EBA, ESMA and EIOPA), with the guidelines to be followed in the period between the entry into force of the Disclosure Regulation and the date of application of the RTS[97].

3.2. - National initiatives

3.2.1. - National transitional legislation on Brexit

IVASS worked together with the Bank of Italy, Consob and the competent Ministries to draft the regulatory proposal, which was included in Decree Law no. 183 of 31 December 2020, "Milleproroghe" (converted into law on 23 February 2021), aimed at ensuring continuity in insurance services with respect to contracts underwritten in Italy by UK insurance companies, operating under the right of establishment or free provision of services (f.o.s.).

Following the expiry of the transitional period provided for in the Withdrawal Agreement between the European Union and the United Kingdom (31 December 2020) and the consequent loss of the status of Member State operators, these companies can no longer sign new contracts or renew existing contracts and are removed from the list of EU companies.

The regulation envisages a transitional regime for the insurance sector to ensure the continuity of operations of UK companies limited to the contracts and cover in effect, in relation to which they are called upon to present a plan to IVASS by 29 March 2020 (90 days from the entry into force of the Decree Law) for the management and execution, including the payment of claims[98].

3.2.2. - The decrees for the implementation of the law on medical liability

In 2020, the IVASS activity of supporting the competent Administrations for the preparation of the decrees implementing Law no. 24 of 8 March 2017 (Gelli Law) reforming the healthcare sector continued. The draft implementing decrees have been the subject of constant and in-depth discussions with all the stakeholders identified by the legislation.

Of particular importance is the decree that regulates the minimum contractual requirements for compulsory policies for healthcare facilities and healthcare professionals, as well as an effective system of risk self-retention should healthcare facilities prefer to use this instrument.

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97 Although the Disclosure Regulation is directly applicable in the national legal system, the Italian legislator, given the relevance, innovativeness and transversal nature of the matter, decided to convey its implementation through the 2019-2020 European Delegation Law. Provision has been made for delegating to the Government the task of adopting, within 18 months from the entry into force of the European Delegation Law, one or more legislative decrees for the adjustment of national legislation.

98 The temporary continuation of operations shall be allowed until the expiry of the existing contracts and coverages or any other term indicated by the company in the plan to be submitted to IVASS.

This decree will help to increase the market penetration of policies that provide better protection for injured parties.

3.2.3. - The Growth Decree - FinTech Regulation

In 2020, the Institute continued to work with the MEF and the other supervisory authorities to define the Regulation provided for by article 36, paragraph 2-bis et seq. of Decree Law no. 34 of 30 April 2019, "Growth", which defines the conditions and methods for carrying out experimentation on Fintech activities and the specific powers of the Committee, established at the MEF with the participation of the Authorities of the banking and financial sector, including IVASS, with tasks of guidance, promotion and planning for the development of digital finance.

The Regulation will govern: a) the functioning and tasks of the Committee; b) the communication to the market that supervisors and the Committee are required to carry out through their website, providing a dedicated channel; c) Fintech experiments (including preliminary and informal dialogue with the supervisory authorities and the subsequent phases of preliminary investigation, start-up, revocation, monitoring and termination); d) the role of the supervisory authorities, with regard to the preliminary investigation for the admission of applications to the experimentation, to the admission and withdrawal measures, to the monitoring and closure of the experimentation, and to the information flows between the authorities and the Committee; e) the register of candidates admitted to the experimentation.

3.3. - Other regulations and regulatory interventions by IVASS

3.3.1. - Accounting initiatives

IVASS Order No. 108 of 27 January 2021 – The decree issued by the MEF of 17 July 2020 was implemented: it extends the option to suspend capital losses on securities held for trade in the *local gaap* financial statements for the year 2020. The provision, initially introduced by Decree Law no. 119 of 23 October 2018, and extended by decrees of the Ministry of Economy and Finance also to 2019 and 2020, allows for temporary exceptions to the rules set forth in the Civil Code.

IVASS Order No. 109 of 27 January 2021 – IVASS adjusted the terms envisaged in Regulation No. 7 of 13 July 2007 (Regulation concerning the layout of the financial statements of the insurance and reinsurance undertakings required to adopt the international accounting standards), to take account of the amendments introduced by Regulation (EU) 2020/2097 Regulation (EC) 1126/2008. The expiry date of the temporary exemption from the application of the international accounting standard on financial instruments (IFRS 9) is extended from 1 January 2021 to 1 January 2023 in order to align its entry into force with that of IFRS 17 and to remedy the temporary accounting consequences that could occur if the two standards were to enter into force on different dates.

a) Initiatives on IFRS 17 and other accounting standards

The Institute follows the endorsement of the international accounting standard applicable to insurance contracts (IFRS 17), the latest version of which was published by the International Accounting Standards Board of the IFRS Foundation on 25 June 2020. The Board of the European Financial Reporting Advisory Group (EFRAG) recently published its Endorsement

Advice in which it expressed general support for the endorsement of IFRS 17, except for the grouping into annual cohorts of life insurance contracts with intergenerational mutualisation or cash flow matching (para. 1.5).

IFRS 17 requires insurance contracts written in different years (cohort) to be valued separately. The cohort represents the conventional reference accounting unit for determining profit or loss. Any profit is recorded in the profit and loss account throughout the life of the contracts based on the service rendered. Instead, any loss must be recognised immediately and in full. According to the IASB, the grouping of contracts by year of issue allows their profitability to be shown at an appropriate level of aggregation.

On the topic of annual cohorts, there is no common understanding by the jurisdictions and stakeholders involved (Authorities, accounting standard setters, drafters of financial statements and users of disclosures).

In the Italian insurance market, the application of the principle of annual cohorts is reflected in particular on the presentation in the financial statements of the with-profit life policies linked to separately managed accounts, the traditional insurance products with guarantee that have characterised domestic insurance savings for decades. The subdivision into annual cohorts for these life policies presents an artificial and subjective allocation to the individual annual cohorts of the financial income generated during the year by the securities of the separately managed account considered as a whole.

In the IFRS 17 endorsement process, the Institute, like other European authorities, advocated an exemption from the annual cohort requirement for these life assurance contracts.

In order to fully assess the effects of the transition to IFRS 17 and IFRS 9, and to strengthen, in general, the oversight for the implementation and adaptation of national accounting rules relating to individual and consolidated financial statements, a specific area[99] was set up in 2020.

b) Work of the Coordination Table with the Bank of Italy and Consob

The Institute took part in the work on the application of IAS/IFRS for the drafting of Documents no. 8, which regulates the treatment in the financial statements of transactions involving the sale of non-recourse receivables unlikely to pay (UTP) in exchange for units in unit trusts and no. 9, which regulates the accounting treatment of tax credits connected with the Decree-Laws "Cura Italia" and "Relaunch".

Accounting treatment of tax credits

Decree-Laws no. 18/2020 "Cura Italia" and no. 34/2020 "Relaunch" introduced a 110% tax deduction to support building renovation works (so-called ecobonus and sisma-bonus). Instead of using the deduction directly, the owner of the property may opt to transfer the tax credit to credit institutions and other financial intermediaries including insurance companies.

The peculiarity of the credit transfer transaction made it necessary to define the accounting treatment according to national and international standards. The Institute participated in the Coordination Table

[99] The area also carries out support tasks in adapting the Supervisory Guidelines; the area ensured the link with the most recent developments in the accounting framework with regard to both international and national accounting standards.

on the application of IAS/IFRS with the Bank of Italy and Consob for the drafting of document no. 9, which frames the transaction for the purposes of applying international accounting standards.

IVASS has also published a clarification on the treatment of tax credits for the purposes of covering technical provisions, their use within the sphere of separately managed accounts and their accounting treatment in the financial statements drawn up according to local GAAP.

After recalling the primary rules that prohibit insurance companies from providing direct financing to individuals and micro-enterprises, it is indicated that such credits a) can be acquired by the original beneficiary, also an individual or a micro-enterprise, at the time when they accrue for the transferor; b) may be recorded as assets covering technical provisions and as reference assets for calculating the return on separately managed accounts if the criteria of security, quality, liquidity, profitability and consistency with the risk profile and duration of the insurance liabilities are met; c) are recorded in the financial statements under tax credits and the related income, also for the purpose of determining the average rate of return of the separately managed accounts, is allocated on the basis of the amortised cost criterion.

In 2020, two opinions[100] were issued to the Italian Accounting Board (OIC) in relation to accounting documents concerning National Accounting Standard 33 (“Transition to National Accounting Standards”) and Interpretative Document no. 6 (Decree Law no. 23 of 8 April 2020, “Temporary Provisions on Financial Reporting Standards”).

3.3.2. - Initiatives to simplify and modernise secondary legislation

Transfer of portfolios in run-off – With IVASS Order no. 107 of 12 January 2021, ISVAP Regulation no. 14 of 18 February 2008 was amended to allow the transfer of a portfolio consisting “only of claims” to another insurance or reinsurance company. The regulatory intervention aligns the IVASS guidelines with those of other European countries and offers greater flexibility to the market in organising insurance activities, without prejudice to safeguarding the interests of the policyholders.

Recovery plan and finance scheme – The draft regulation governing the recovery plan and finance scheme of individual insurance companies and groups, implementing article 223-ter of the CAP, has been submitted for public consultation. The new rules, issued on 27 April 2021, are designed to facilitate the timely realignment of capital requirements in the presence of violations of the minimum requirements, identifying the timing, methods and responsibilities for the preparation and approval of these plans.

Capital increases – A public consultation was launched in March 2021 on the draft regulation governing the implementation of the process for the adoption of capital add-ons in the presence of deviations from the governance standards of insurance companies, as per articles 47-sexies and 216-septies of the CAP. The framework aims to ensure that regulatory capital requirements adequately reflect the overall risk profile of the insurance company.

[100] The OIC By-Laws provide for a request for an opinion from the Authorities and Ministries for the areas of their respective competence in relation to the National Accounting Standards or any other document with interpretative and applicative value issued by the OIC.

This regulation, together with the regulation on recovery plans and finance schemes, completes the adaptation of the sector regulation to the Solvency II framework.

Project to reform the regulation of linked products – In 2020, a revision of the regulatory rules on index and unit-linked policies was launched (ISVAP Circular no. 474/2002 for unit-linked policies and IVASS Regulation no. 32/2009 for index-linked policies). The framework requires updating in connection with the evolution of national and EU regulations (Solvency II, IDD, new provisions introduced by primary legislation on PIR).

The most important profiles concern: a) the investments eligible for cover for technical provisions and the corresponding limits which, in line with Solvency II, may not be more restrictive than those provided for in the UCITS regulations and shall take account of the PIR regulations; b) the determination of the expenses also with a view to ensuring that they are clearly represented in the pre-contractual and contractual documents provided for by European and national regulations and comparable with other products; c) the guarantees and the value of the contract over time.

IVASS Order no. 101 of 15 December 2020 – Order 101/2020 eliminated from 5 February 2021 the obligation for intermediaries registered in sections A, B or F of the RUI to communicate the renewal of the compulsory insurance contract covering damages to customers caused in the exercise of the mediation activity. This obligation envisaged the periodic communication to IVASS of the relative documentation[101] by 5 February each year and the indication in the RUI as "not operating" of the intermediaries who had not made the communication within the envisaged terms (90 days from the deadline).

With Order 101, which is part of the measures to support operators and consumers during the period of the health emergency, IVASS has made it possible to anticipate the application of the aforementioned repealing provision contained in Order 97/2020, which would have taken effect from 2022.

3.3.3. - Regulatory Impact Assessment and Verification (RIA and RIV)

IVASS continues to base its regulatory activities on the principles of transparency and proportionality, 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[102].

In 2020, two Regulations were issued, seven regulatory Orders, three of which amending existing Regulations, and 18 letters to the market. Two final RIAs[103] and one RIV[104] were carried out.

[101] Renewal of the third-party liability insurance contract or, in the case of multi-year contracts, confirmation of the validity of the cover.
[102] Article 191 of the CAP and IVASS Regulation No. 3 dated 5 November 2013 implementing Law No. 262/2005.
[103] The final RIAs regarded one Regulation and one regulatory Order.
[104] The RIV concerned one Order amending and integrating IVASS Regulations.

The issued Regulations were preceded by public consultation and, in the case of IVASS Regulation No. 45 of 4 August 2020 on insurance product oversight and governance requirements (POG)[105], given the importance of the aspects dealt with and the effects on the recipients, an impact analysis (RIA) was carried out.

The Orders have mainly innovated the provisions in force, following the implementation of national or EU regulations, and are characterised by narrow margins of discretion or are acts of a purely applicative nature. Only the Order reviewing the distribution of insurance-based investment products (IBIP) was subject, within the sphere of competence of IVASS to the RIA and RIV[106].

The 18 letters to the market were not subject to RIA since they were exclusively for interpretation or application purposes.

Two public consultations were launched on draft orders. Given the importance of the aspects dealt with and the innovations introduced, the Institute carried out preliminary RIA and RIV on the draft Order amending ISVAP regulation No. 14 of 18 February 2008, relating to the transfer of run off portfolios[107].

Discussions with the Directorate for Legislative Legal Affairs of the Presidency of the Council of Ministers and with the RIA Observatory have been intensified. With regard to the better regulation aspects, the Institute RIV and RIA procedure was updated so that documents relating to completed public consultations are also posted on the website[108].

3.3.4. - Frequently Asked Questions

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, confirming the arrangements already adopted for the year 2019 and extending the deadline for sending the report until 30 April 2021 because of the need for coordination with the provisions on for professional updating requirements;

[105] The final RIA is included in the Report on IVASS Reg. No. 45 of 4 August 2020, https://www.ivass.it/normativa/nazionale/secondaria-ivass/regolamenti/2020/n45/Relazione_regolamento_POG_45_2020.pdf.

[106] The RIV and RIA on IVASS Order 97/2020, amending and integrating ISVAP Regulations 23/2008, 24/2008 and IVASS Regulations 38/2018, 40/2018 and 41/2018 (in force since 31 March 2021), are included in the accompanying report, https://www.ivass.it/normativa/nazionale/secondaria-ivass/normativi-provv/2020/provv_97/Relazione_provvedimento_97_2020.pdf.

[107] Order amending ISVAP regulation No 14 / 2008 concerning the definition of the procedures for the approval of changes to the articles of association and to the scheme of operations, for the authorisation of the portfolio transfers and mergers and divisions referred to in title XIV of legislative decree No. 209 of 7 September 2005. The preliminary RIV and RIA are included in the Consultation Paper 5 / 2020, https://www.ivass.it/normativa/nazionale/secondaria-ivass/pubb-cons/2020/05-pc/Documento_di_consultazione_n.5_Revisione_Reg.14-2008.pdf.

[108] The consultation documents are included in the section of the IVASS website where all the elements of the regulatory process can be found, https://www.ivass.it/normativa/nazionale/secondaria-ivass/esiti-pubb-cons/index.html.

- IVASS Order no. 97 of 4 August 2020 and IVASS Regulation no. 45 of 4 August 2020 relating to the distribution of insurance products and POG, with reference to: regulation on advice, treatment of incentives and related disclosures, registration requirements, communication and reporting on complaints, obligations to verify POG procedures;

- 2020 qualifying examination for enrolment in Sections A and B of the RUI, announced by Order no. 103 of 15 December 2020, in order to specify the scope of the contents of the test;

- deadline of 12 June 2020 for the application of the provisions of Regulation (EU) no. 2019/1935 on the adjustment of the amounts of the minimum amounts of cover for professional indemnity insurance and the financial capacity of intermediaries.

3.4. - Relations with other authorities and bodies

As part of the consolidation process in the banking and insurance sector, opinions were issued to the Antitrust Authority on four transactions involving insurance companies in relation to as many acquisition projects.

Technical support was provided to the Ministry of Agricultural Policies which, with a decree dated 23 December 2020, revised the maximum amounts of cover for policies on the exercise of hunting activities.

The Institute has collaborated with the Ministry of Justice in preparing the decrees that establish the model schemes for ten-year surety and indemnity policies required by the regulations on buildings under construction.

4. - INITIATIVES IN RESPONSE TO THE COVID-19 EMERGENCY

The epidemiological emergency since the first quarter of 2020 has been the subject of impact studies, which have been followed by risk mitigation measures to protect the consumer and safeguard financial stability. In addition to the measures and recommendations issued in the European and international contexts, in the forums (EIOPA, IAIS, FSB, Commission, ESRB, OECD) in which IVASS also collaborated to ensure a constant exchange of information, there are also measures adopted by the Institute at a national level.

Compared to the lockdown in early 2020, some measures taken at national level (see 2019 Annual Report), related to the most stringent restrictions adopted at that time, have ceased, while others have been extended or new measures have been adopted to provide economic relief to the categories most affected by the restrictions.

Several measures adopted in the early months of 2020 have been extended and among these, in particular, the provision of simplified operating procedures [109] for underwriting and

[109] Art. 33 of Decree Law 34/2020 "Relaunch" and subsequent amendments thereto.

communications relating to insurance contracts[110] (ref. next box), which is particularly important for the activities of companies and intermediaries, has been extended to 31 July 2021.

Simplification of insurance contracts

The pandemic made it necessary to experiment with emergency methods of managing relations with customers also in the insurance sector, in order to guarantee the continuity of services and insurance activities, taking into account the limitations imposed to deal with the epidemiological emergency.

Article 33 of the "Relaunch" Decree (Decree Law no. 34/2020, converted with amendments by Law no. 77/2020) confirmed, extending its application also to the insurance and financial sectors, what has already been established by article 4 of Decree Law no. 23/2020 for banking contracts, envisaging, for the duration of the emergency state, simplified procedures for the signing of contracts.

As an exception to the general regulations, the provision in question envisages that consent for the execution of insurance and financial contracts may also be given by non-certified e-mail or other suitable means, if specific conditions are met[111]. Similar simplified procedures have been introduced for the exercise of rights provided for by law or by the contract itself. The provision was extended, by three successive legislative interventions, to 30 April 2021.

In order to make the simplification of the signing of contracts in the financial sector structural by means of a coordinated and organic reform, outside of the emergency context, a dialogue has been initiated with the MEF, with the other authorities in the sector and with the most representative associations in the market. It is agreed that amendments to the current legislation on contract underwriting are needed to allow for simplification that supports and encourages the digitalisation of the placement of insurance, banking and financial contracts, in compliance with European and national standards.

The Institute has started reflections to identify regulatory solutions that reconcile the objectives of simplification with the necessary safeguards in terms of customer identification, formation of informed consent, integrity, completeness of information and documentation, and fraud prevention.

The reflections also regard the promotion of the use of digital technologies, to make the relationships between distributors of insurance products and customers simpler and more immediate, by means of regulatory solutions that combine the need for simplification with adequate consumer protection safeguards.

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[110] Initially, Decree Law August, in art. 72 (Decree Law no. 104/2020, converted by Law no. 126/2020) provided for the extension of art. 33 of Decree Law "Relaunch" until 15 October 2020, the date at that time scheduled as the end of the state of emergency. Subsequently, article 1, paragraph 3 of Decree Law no. 125/2020, converted by Law no. 159/2020, extended the same article 33 until 31 December 2020. Lastly, article 33 was extended by the "Milleproroghe" decree (Decree Law 31 December 2020, no. 183, as converted, with amendments, by Law no. 21 of 26 February 2021) until 30 April 2020, the date of termination of the state of epidemiological emergency from COVID-19.

[111] Art. 33 of Decree Law "Relaunch" (Simplified underwriting and communication of financial and insurance contracts as well as provisions on the distribution of insurance products): "*1. Without prejudice to the provisions of article 4 of decree-law no. 23 of 8 April 2020, for banking contracts, for the purposes of article 23 of legislative decree no. 58 of 24 February 1998, and of the provisions implementing articles 95 and 98-quater of the same legislative decree no. 58 of 1998, without prejudice to the provisions on the techniques for concluding contracts by means of information or telematic tools, the contracts concluded in the period between the date of entry into force of the present decree and the end of the state of emergency resolved by the Council of Ministers on 31 January 2020 satisfy the requirement and have the effectiveness referred to in article 20, paragraph 1-bis, first sentence, of Legislative Decree no. 82 of 7 March 2005, even if customers express their consent by means of a communication sent from their non-certified e-mail address or by any other suitable means, provided that the expression of consent is accompanied by a copy of a valid identification document of the contracting party, refers to a contract that can be identified with certainty and is kept together with the contract in such a way as to guarantee its security, integrity and immutability*".

At the international level, in addition to the measures adopted in the first quarter of 2020 (see 2019 Report), the following are of note.

EIOPA has published clarifications on supervisory expectations on the application by companies and intermediaries of POG requirements in connection with the COVID-19 emergency (8 July 2020)[112]. The recommendation, addressed to manufacturing companies, calls for addressing the conduct risks arising from the containment measures for the health emergency, on the basis of weighted product governance assessments of individual products and in the medium to long term.

In addition, EIOPA has outlined the key financial stability risks and vulnerabilities for the insurance and pension industry and recommends that any dividend distributions should not exceed the prudence thresholds (18 December 2020)[113]. The recommendation to companies to use extreme caution in their capital management policies has been reiterated. Any dividend distributions, buy-backs of own shares or variable remunerations should not exceed thresholds of prudence; the potential reduction in the quantity or quality of their capital should not reduce own funds to a level inappropriate to their risk exposure; this with a view to safeguarding insurers' ability to absorb, also in the future, the impacts of the epidemiological emergency on their business models and solvency, liquidity and financial position.

The European Systemic Risk Board has adopted recommendations and measures to mitigate the impact of the COVID-19 pandemic on the financial system[114].

The European Commission published a list of “best practices” in response to the Coronavirus to offer relief measures to consumers and businesses (14 July 2020)[115]. This list clearly defines how the various market participants can support citizens and businesses during the crisis, with moratoria on the repayment of loans to consumers and businesses and deferrals on the payment of insurance premiums, the use of safer cashless payments, the swift provision of loans to mitigate the impact of the coronavirus, the processing and payment of legitimate claims as quickly as possible.

[112] https://www.ivass.it/normativa/internazionale/internazionale-ue/linee-guida-eiopa/opinioni-supervisory-statement/eiopa-pog-statement-july2020.pdf

[113] https://www.eiopa.europa.eu/content/eiopa-outlines-key-financial-stability-risks-and-vulnerabilities-insurance-and-pension_en

[114] https://www.esrb.europa.eu/home/search/coronavirus/html/index.en.html

[115] https://www.ivass.it/covid-19/Risposta_al_coronavirus__la_Commissione_accoglie_con_favore_le__migliori_pratiche__per_fornire_sostegno_ai_consumatori_e_alle_imprese.pdf

https://www.ivass.it/covid-19/200714-best-practices-mitigate-impact-pandemic_en.pdf

IV. - PRUDENTIAL SUPERVISION

1. - PRUDENTIAL SUPERVISION

In an economic and financial context strongly influenced by the effects of the health crisis, specific supervisory initiatives were implemented to verify the potential negative repercussions on the situation of insurance companies and groups.

In fact, the pandemic accentuated the macroeconomic risks to which the country was already exposed with effects on financial stability, particularly in the first part of the year. Financial market conditions experienced prolonged tensions as a result of the continuing epidemic crisis and its worsening in the fourth quarter of the year with further depressing effects on growth capacity.

In the insurance sector, the risks on assets due to the instability of financial markets were associated, especially in the first part of the year, with a negative trend in production. In order to assess the resilience of companies and groups to the effects of the crisis, the Institute, already during the first months of 2020, started specific monitoring at close intervals aimed at verifying both the solvency position of companies (and groups) and the liquidity risk.

With a view to preserving its stability, the Institute has also called on companies to exercise extreme caution in the distribution of dividends and the payment of variable remuneration to top management in order to limit the impact of the pandemic on the economic and solvency situation. These recommendations were formulated in full agreement with similar recommendations issued by the European Systemic Risk Board (ESRB) and EIOPA.

As part of the initiatives taken by the Institute, companies were asked to present their payout policies in advance, which were examined through preliminary discussions with 40 companies. The valuations were conducted by correlating the distribution and measurement of 2020 dividends to the strength of the capital base, the profitability of the company and the relative liquidity position.

These activities are part of the usual Supervisory Review Process in order to obtain an overall judgement on the risks to which insurance companies and groups are exposed and on the capital and organisational safeguards against the risks assumed. The results of the Risk Assessment Framework were examined for all supervised companies, and a supervisory rating was assigned, also taking into account the critical and documented use of supervisory judgement. These analyses also included the verification of the technical provisions for statutory purposes and according to the Solvency II metric, also by means of follow-up checks on the results of the inspection activity.

Particular attention was paid to the corporate governance of companies, with regard to governance structures and internal control systems, to assess their efficiency and full compliance with IVASS Regulation no. 38/2018. In this context, a special methodology was developed to verify the enhanced contingency Plans in line with the provisions of Regulation 38/2018 and with the governance system, contingency plan and capital management policy of the individual groups. Similarly, the study of ICT plans and cyber risk management continued, exploiting the information available from the plans prepared by companies and other available information sources.

The analyses on the stability of companies and groups also involved the verification of the internal models authorised by the Institute, carried out by means of backtesting techniques of the calibrations adopted, which compare the values observed with those estimated by the internal model. Specific analyses have been carried out in parallel in relation to the specific parameters used by certain companies and the adequacy of the standard formula to represent the solvency position of the companies.

Lastly, the information assets used for supervisory activities benefited from the results of the 236 preliminary investigations conducted in relation to proceedings at the request of a party or prior communications required by current regulations.

1.1. - Supervisory actions in the context of the health emergency

In 2020, the intensity of supervisory action was strongly influenced by the COVID-19 outbreak and its effects on all economic sectors, including insurance.

The epidemiological emergency has led to significant tensions on the financial markets worldwide, which can also affect the solvency and liquidity position of insurance companies. The Institute has implemented initiatives aimed at assessing the situation of the entire market, of the different business segments (life, non-life and hybrid) and at identifying possible weaknesses at the level of the individual company and group.

In this context, the solvency situation of all Italian companies and the liquidity situation of a relevant sample of companies were monitored.

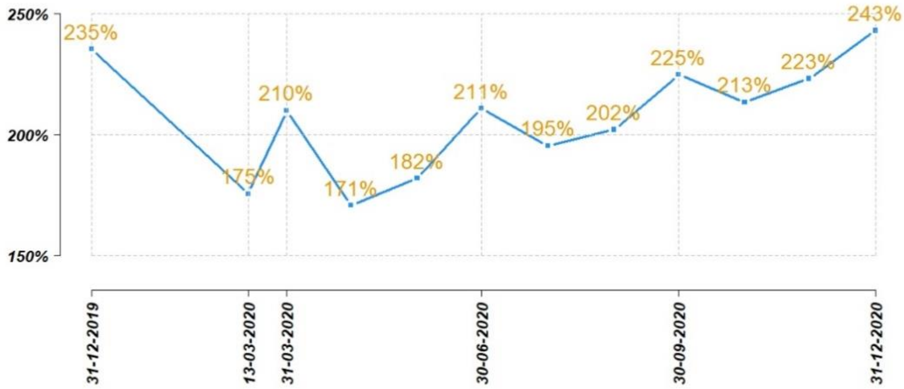
1.1.1. - Monitoring of the Solvency Capital Requirement: results of analyses

Following the shock suffered by the financial markets in March 2020, and the repercussions on the values of the assets and liabilities of insurance companies, the Institute started monitoring the solvency situation from 13 March 2020, on a weekly basis for systemically important companies and groups and monthly for the remaining companies. Since June, the survey has been conducted on a monthly basis for the entire market.

The solvency indicator, as a result of financial market trends and Solvency II market-consistent valuations, showed significant volatility between March and May 2020, before gradually recovering to exceed the previous year's level at the end of 2020.

Figure IV.1

Solvency Ratio



The performance of the solvency ratio was mainly influenced by changes in the spread on Italian government bonds and in the risk-free rate curve in the first half of 2020. Moreover, at times of greatest tension, the volatility adjustment was not able to adequately compensate for the variations in the spread with respect to the Bund.

Life and composite companies have shown a more marked volatility in the solvency ratio, while companies operating in the non-life business only have shown greater stability due to the lower sensitivity of assets and liabilities to market fluctuations.

Companies that were more vulnerable, i.e. with a solvency ratio below 130%, were urged to restore adequate solvency levels. These companies have carried out capital strengthening transactions amounting to €947 million.

1.1.2. - Liquidity monitoring: results of analyses

The Institute has been engaged in the monitoring of the liquidity situation initiated by EIOPA since June 2020, with macro and micro-prudential purposes, through periodic requests to companies for 30- and 90-day cash flows. The monitoring represented a new element for the supervision of the insurance sector, which is structurally less exposed to liquidity risk. For the Italian market, the analysis involved all life and composite companies and some non-life companies characterised by greater vulnerability, covering 80% of the non-life business.

Prospective liquidity risk was assessed by analysing the impact of estimated cash flow movements in and out, and in terms of the company's ability to meet its commitments without having to resort to extraordinary sales of assets impacted by the crisis situation. Particular attention was paid to the liquidity coverage ratio, the ratio between the initial liquidity increased by the estimated inflows (premiums, securities and coupons falling due, etc.) and the estimated outflows (claims, surrenders and management costs, etc.). The indicator is calculated excluding the purchase and sale of securities, in order to assess the company's ability to meet its commitments without resorting to the extraordinary sale of assets (indicator greater than 1). During the observation period, the median value of the 90-day indicator was stable and stood at

2.1 at the end of 2020. Five companies were subject to in-depth investigations due to index values below unity.

The analyses did not reveal any critical situations in the prospective liquidity position. The main items influencing liquidity (premiums, claims and surrenders) did not show unfavourable trends, even during the worst of the crisis. A decrease in premium income was offset by the substantial stability of life portfolios, with surrenders even slightly down, as well as a marked reduction in the loss ratio in some non-life classes, especially motor liability due to the limitations imposed during the pandemic period.

1.1.3. - ESRB recommendation on dividend policy and remuneration of key managers

In line with the recommendation issued by EIOPA, on 30 March 2020 IVASS sent the undertakings a letter requesting them 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 to limit the impacts of the pandemic on the economic and solvency situation. Consistent with guidance from the European Systemic Risk Board (ESRB), on 30 July 2020, the recommendation was extended until the following January.

In order to verify compliance with the recommendations, the Institute initiated discussions with the main Italian groups, as a result of which, with regard to 2019 profits, the companies decided not to distribute or postpone or suspend dividends for an amount equal to 5 percentage points of the average solvency ratio.

On 15 December 2020, the ESRB extended the measure to the end of September 2021. Following this decision, IVASS recommended companies to avoid the qualitative-quantitative reduction of capital also as a result of the distribution of dividends or other elements of capital capable of reducing own funds to a level inadequate to face risks in the medium term.

The approach taken by the Institute in implementing the recommendation made the possibility and extent of dividends dependent on the strength of the capital base, the profitability of the company and its liquidity position. The valuations also took into account the level of exposure in securities issued by banking counterparties with ratings equal to or lower than BBB or relating to sectors particularly exposed to the epidemic crisis.

In the first months of 2021, discussions were initiated with the 40 companies that expressed their intention to distribute dividends (62.5% of premium income). In the case of five companies, the Institute requested a reduction in the dividend pay-out because it considered that the proposed distribution did not meet prudential criteria. Five other companies were recommended to defer payment of part of their dividends until 30 September 2021, subject to verification of the absence of adverse supervisory recommendations.

1.2. - Supervision on the shareholdings and on the structure of groups

In the supervision on the shareholdings and structure of groups, IVASS ascertains whether the conditions guaranteeing a sound and prudent management of insurance undertakings and groups are met. The assessments focused on the quality of the potential purchaser, the financial soundness of the proposed acquisition and the possible impact on policyholder protection. The focus is on the governance structures of the companies following the acquisition. The investigations follow the guidelines issued jointly by EBA, ESMA, EIOPA, aimed at harmonising the evaluation criteria and supervisory procedures.

With reference to the reorganisation of certain insurance groups, including through mergers between companies, the Institute's assessments took into account the effects in terms of simplification of the shareholding chains, efficiency in the allocation of capital and profitability, also due to economies of scale.

1.2.1. - Changes in ownership structure of controlling or qualified interests

The Institute examined four 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 following transactions were authorised:

– the acquisition by Assicurazioni Generali S.p.A. of a qualified interest in Società Cattolica di Assicurazione – Società Cooperativa (now S.p.A.). The transaction is consequent to a Strategic Partnership Agreement signed between the parties, aimed, amongst other things, at strengthening the Cattolica's capital following the requests made by the Institute. The agreement was conditional on the legal form being changed from a cooperative to a joint-stock company and the conclusion of multi-year cooperation agreements in asset management, IT development and health and re-insurance business;

– the acquisition by Intesa Sanpaolo S.p.A. of controlling interests, through Intesa Sanpaolo Vita S.p.A., in RBM Assicurazione Salute S.p.A. (now Intesa Sanpaolo RBM Salute S.p.A.), a leading company in the health insurance market;

– the indirect acquisition, by Intesa Sanpaolo S.p.A., of a controlling interest in Bancassurance Popolari S.p.A. and ofqualified interests in Aviva Vita S.p.A. and in Lombarda Vita S.p.A., through Unione di Banche Italiane S.p.A. The acquisition of these interests is consequent to the outcome of the voluntary public exchange offer on the total shares of Unione di Banche Italiane S.p.A. promoted by Intesa Sanpaolo S.p.A.;

  In March 2021, Intesa Sanpaolo S.p.A. was then authorised to acquire, again through Unione di Banche Italiane S.p.A., full control of Aviva Vita S.p.A. and Lombarda Vita S.p.A.;

– the acquisition by HDI V.a.G., through HDI Assicurazioni S.p.A., of the whole corporate capital of Amissima Assicurazioni S.p.A.

The Institute authorised the introduction into the articles of association of Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. - pursuant to art. 127-quinquies of Legislative Decree no. 58/1998 - of the clause governing the procedures for obtaining an increase in voting rights. This was the first case of application of the rule in the Italian insurance sector.

1.2.2. - Evolution of the structure of groups

The need to expand the quality of products and services offered, also in light of the technological innovation processes underway, has seen several groups engaged in the acquisition of strategic shareholdings or in the establishment of companies specialising in the financial, IT, services (including digital) and automotive sectors.

Seven transactions were assessed, including the establishment by an insurance company of an electronic money institution (IMEL). The operation was carried out, among other things, with the aim of expanding the target market by offering additional services and using customer information in terms of consumption and spending habits through payment analysis.

Acquisitions of shareholdings, including indirect holdings in foreign insurance companies were assessed, aimed at expanding cross-border operations, including through new partnerships with local operators.

In other cases, the reorganisation of insurance groups was aimed at simplifying the shareholding chain and at pursuing cost synergies and economies of scale.

1.2.3. - Access and extension of insurance business

Italian companies continue to show interest in expanding their business, widening the range of products offered and the reference markets, including foreign ones, in order to respond more fully to customer needs.

In this context, the Institute evaluated the plans of 13 companies that have notified their intention to exercise or extend their insurance and reinsurance activities under the free provision of services or the right of establishment in EEA or non-EU countries. The analyses took into account industrial projects and potential impacts on the solvency situation and the related corporate risk profile. Four companies were also allowed to extend their activities into other classes.

IVASS participated in the EIOPA work on Brexit to share its supervisory approach to firms with cross-border operations. Since 1 January 2021, undertakings located in the UK have become undertakings with a registered office in a third state. Consequently, in order to continue to carry on insurance business in Italy under the right of establishment, UK companies must first be authorised by IVASS. In the first half of 2021, only Berkshire Hathaway International Insurance Limited applied for and was authorised to conduct insurance business through its branch office in Italy.

With reference to the 14 Italian companies operating in the UK at the end of 2020, four companies have expressed their intention to continue their activities in the UK by taking advantage of the Temporary Permission Regime; the remaining 10 initiated discussions to verify compliance with run-off management in accordance with local legislation.

These activities are carried out in cooperation with the UK Supervisory Authority, based on a Multilateral Memorandum of Understanding effective from 1 January 2021 signed by all European Authorities.

1.3. - Supervision of the corporate governance system

Supervision of the corporate governance system is an important part of the Supervisory Review Process. The need for companies and groups to adopt an adequate system of corporate governance is, in fact, one of the fundamental prerequisites for ensuring sound and prudent management. The Institute assesses the adequacy and effectiveness of the governance structure of the company and the group, also in consideration of the complexity and nature of the activity carried out, the risk profile and the evolution of the business envisaged in the strategic plans.

In-depth studies continued on the governance structures and internal control systems to assess their compliance with IVASS Regulation no. 38/2018. Particular attention was paid to the adequacy of organisational structures and key functions within the groups. The examination of the solutions adopted by the main groups has highlighted the tendency to centralise key functions, foreseeing their outsourcing to the Parent Company or to the main insurance company.

The Institute has deemed compatible with the Solvency II framework the provision of coincidence between the holder of the actuarial or risk management function in the outsourcing company and the holder of the same function in the outsourcer, in cases of companies belonging to groups that are characterised by the presence of integrated risk management processes. This category includes companies of groups authorised to use an internal model to calculate the capital requirement. In such cases, the single holder is able to ensure the coordination of the activities necessary for the management and assessment of risks within the group. In evaluating the organisational choice to centralise the actuarial and risk management functions, the Institute takes into account the need to provide these functions with an adequate organisational structure, also in terms of number and quality of resources, to effectively carry out the activity also on behalf of the other group companies.

Similarly, the coincidence of the holders of the key functions at the outsourcing company and the holders of the same functions at the outsourcer for companies with a simplified regime within groups was considered consistent with the provisions of Regulation no. 38/2018.

1.3.1. - Supervisory action on corporate governance

The interventions made in 2020 regarding governance structures concerned the functioning of the corporate bodies and key functions as well as the eligibility requirements for the office of the relative representatives. Further actions concerned corporate organisational structures, outsourcing of essential or important activities and remuneration policies.

The Institute intervened against a leading insurance company, also following inspections, requesting a thorough replacement of the administrative body, strengthening of the corporate governance system and of the controls to guarantee the correct functioning of the body and the full and conscious exercise of its prerogatives of direction, management and control.

In the case of a life company, following shortcomings in its corporate governance and in particular in its risk management system, the Institute ordered, pursuant to art. 4 of the Implementing Regulation (EU) 2015/2012, a capital add-on equal to 10% of the value of the

Solvency Capital Requirement. This measure, which is of an exceptional and temporary nature, will continue until the deficiencies found have been completely removed.

In case of outsourcing of critical or important activities to non-EEA suppliers, specific organisational and contractual safeguards are required to ensure that the location of the supplier does not hinder the exercise of IVASS supervisory powers.

In cases of outsourcing of IT functions, the Institute has extended its evaluations to company policies and processes as well as to the content of contractual documentation, in order to assess the existence of organisational and contractual safeguards suitable for allowing effective control over outsourced services, including sub-outsourced services, and of measures to ensure continuity of activities in case of interruption or serious deterioration of service quality.

The analysis of the governance system also covered the remuneration policies for corporate bodies and key personnel approved by the Shareholders' Meetings. The Institute has worked to encourage the full implementation of the EIOPA Opinion of 31 January 2020 aimed at fostering European convergence in the application of the principles to which the remuneration of administrative bodies and risk takers should be subject.

1.3.2. - Data governance and IT plans of undertakings

In 2020, in-depth studies continued on the controls put in place by companies to govern information and communication technology, also through the analysis of ICT Plans.

In order to ensure homogeneity in the assessment of ICT Plans, the Institute has adopted a specific analysis methodology focused on three areas of assessment referring to the completeness of the Plan, the role held by the Administrative Body and the management of IT risks and cyber security.

The Plans of 12 leading companies belonging to seven groups representing 64% of the premiums collected in Italy were examined.

Areas for improvement emerged. In some cases, they called for a more active and informed role of the governing body in approving ICT Plans and a clearer definition of the roles and responsibilities of personnel involved in the governance of such risks. Shortcomings were also found in the processes of managing serious cyber security incidents and in particular in monitoring, assessing, managing and reporting them.

In the case of two insurance groups, it was necessary to intervene in light of the inconsistencies found in the ICT Plan with regard to the lack of development of cyber security issues, the inconsistency of the Plan's time horizon with that of the business plan and the absence of analysis of the architecture, the resources involved and the organisation adopted.

1.3.3. - Analysis of the enhanced contingency plans: action taken

Checks continued on the Enhanced Emergency Plans envisaged by article 83 of IVASS Regulation no. 38/2018 for groups relevant for financial stability purposes. The obligation to draw up the Emergency Plan has not been extended to other groups or entities, an option provided for by article 83, paragraph 5, of Regulation 38/2018.

The Institute, using a special methodology, proceeded to verify the consistency of the Plans with the provisions of Regulation no. 38/2018 and with the governance system, contingency plan and capital management policy of the individual groups.

The controls were aimed at assessing the adequacy of the recovery measures that the companies might be called upon to implement in the presence of crisis situations, the consistency of the recovery thresholds with those established in the risk appetite framework, the severity of the hypothetical scenarios and the feasibility of the remedial actions identified.

An adequate level of integration of the Plans in the risk management system, in the contingency plan and in the capital management policy was found, as well as the adoption of a specific governance system for crisis situations, also through the establishment of specific Committees to support the administrative body.

For six groups, the Institute called for greater severity in stress assumptions, more careful management of liquidity risk even in the event of adverse scenarios and the identification of more appropriate recovery options. For some groups, the inadequacy of early warning indicators to prevent crisis situations was also noted, as well as the failure to extend shock scenarios to individual subsidiaries.

1.4. - 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.

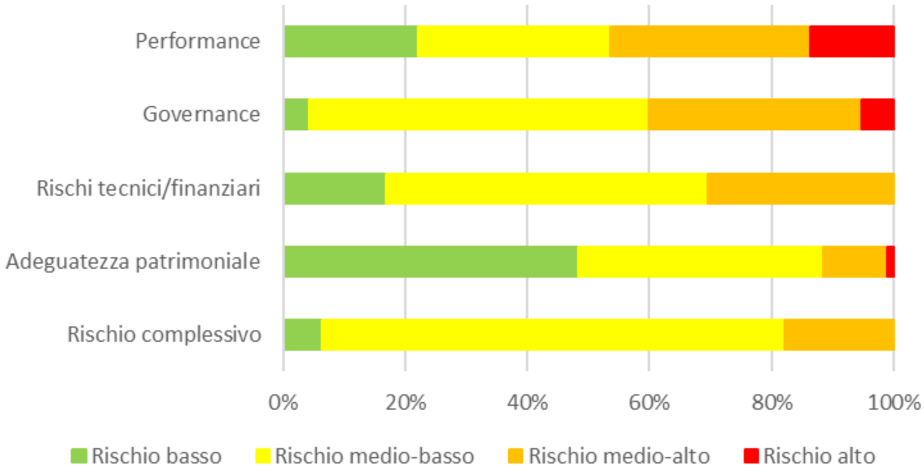
The process also includes a qualitative phase that makes it possible to include in the risk assessment factors that cannot be automatically captured by KRIs and to take into account the Institute's overall information assets, also as regards the management of underwriting and settlement processes, technical provisions, financial and liquidity risks. The assessments were supplemented by the analyses of the business model, for the purpose of verifying the consistency of strategic and organisational choices with the risk profile and the related sustainability.

Each undertaking is assigned a final *rating* that takes account of the size of the undertaking and the impact on the market and policyholders of a possible crisis (risk/size approach).

Based on the assessments carried out in 2020 companies were broken down by each area examined (fig. IV.2).

Figure IV.2

Risk areas and overall riskiness
(% number of undertakings)

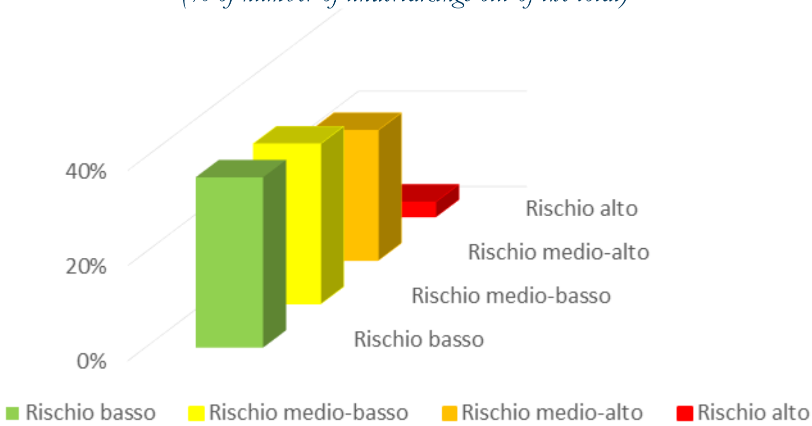


The areas characterised by high risk are limited and have been the subject of supervisory measures and close monitoring by the Institute. In particular, in the governance area, five companies - three of which belonging to the same group - present a high risk. In the performance area, the high risk profile concerns 13 companies and relates to situations of limited technical and/or financial profitability.

Combining the risk score with the impact results, the breakdown of undertakings by final rating described in Fig. IV.3 is obtained.

Figure IV.3

RAF – Distribution of the final riskiness rating
(% of number of undertakings out of the total)



The distribution of supervisory ratings confirms that 75% of undertakings have a low or 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, with adequate priorities and timing of measures. When planning supervisory interventions account is also taken of medium-high and high risk situations found in the individual areas of analysis.

1.5. - Checks on the stability of undertakings and of groups

1.5.1. - The checks on the approved internal models

The ongoing appropriateness of the internal models authorised by the Institute continued to be assessed by analysing the annual adjustments of the specific risk factors underlying the determination of the capital requirement. In this context, the results of the periodic validation analyses that companies are required to carry out have also been taken into account.

In order to monitor the ability of internal models to correctly estimate forward-looking risks and to verify the adequacy of calibrations, the Institute has also employed backtesting techniques, which compare observed values with those estimated by the internal model. All companies and groups authorised to use the internal model have been advised of the need to strengthen backtesting procedures for the main risks modelled, as part of the calibration and validation process.

The methodology adopted by the companies, the results of the tests and any remedial actions are subject to continuous comparison in order to promote a uniform approach and the application of best practices.

For market risks, the analysis focused in particular on interest rate and spread risks. A backtesting analysis was also conducted to verify the adequacy of the reserve risk capital. The results of these activities led to the modification of some assumptions adopted by two companies for the calibration of the model and interventions on the methodological system to improve its predictive capacity.

Another tool adopted for ongoing reviews of the adequacy of internal models is benchmarking, which aims to compare the results of approved internal models.

A benchmarking analysis, comparing the changes over time in the values of the Solvency Capital Requirement for each risk module with the changes resulting from the application of the standard formula, did not reveal any anomalous trends. The differences are mainly attributable to the calibrations used by the internal model, which better reflect the risk profile of the company or group than those underlying the standard formula. The comparative analysis of the movements over time of the capital requirements calculated with the two metrics appears to be substantially stable both in direction and order of magnitude (see also par. 1.5.2).

Further benchmarking analyses are carried out as part of the comparative projects launched by EIOPA in which the Institute participates, on the subject of market and credit risk, non-life risks and diversification between internal models.

The Market and Credit Risk Comparative Study compares internal models approved within Europe for the assessment of market risk and credit risk. For the purposes of a homogeneous comparison, risks are assessed with the various internal models both on specific financial instruments (government and corporate bonds, equity indices, real estate and derivatives) and on standardised benchmark portfolios. Three Italian groups and one company out of a total of twenty-one European companies took part in the exercise. The survey confirmed the differences in assessment especially for risks related to government and corporate bonds with lower credit quality and for portfolios consisting of a significant percentage of bonds. On the benchmark portfolios of assets valued jointly with the liabilities there is still the effect of the activation of the Dynamic Volatility Adjustment, which tends to reduce not only the stress applied on the portfolios but also the variability of the stresses within the sub-sample of European companies adopting the DVA.

The results of the analyses were discussed with the companies during specific meetings. Where deemed appropriate, actions have been initiated to improve model performance.

The Non-Life Comparative Study deals with the comparison of internal models for assessing non-life risks. The second exercise, launched in the first quarter of 2020, extended the scope of the comparison analyses, previously focused on the different modelling approaches for pricing and reserving risks, to catastrophe risk and diversification effects within the non-life underwriting risk module. A specific analysis was introduced for the Credit and Suretyship segment to assess the impacts of the pandemic. The analysis, which is expected to be completed by 2022, involves all Italian companies that have adopted an internal model for non-life risks, covering 40% of the non-life business in Italy.

A further study launched by EIOPA at the end of 2019 concerns the comparison of approaches used in internal models for diversification across risks (Study on Diversification in Internal Models). The project involves most of the approved internal models, at individual and group level, and includes a plan of activities to be implemented in two phases. The first phase, currently underway, is focused on the analysis of diversification between risk categories (market, credit, underwriting and operational). The second phase will instead be aimed at an analysis of further diversification benefits within each risk category.

With the aim of defining common processes for the continuous supervision of internal models, IVASS also participates in the Expert Network on Internal Models (ENW4) of EIOPA.

ENW4 has defined a set of Internal Models On-Going Appropriateness Indicators (IMOGAPI) to support audits of internal models, as well as templates for new standardised reporting. The aim of achieving common supervisory standards has been extended to the scope of application of specific parameters in the calculation of the capital requirement.

In 2020, the Institute also began discussions with the actuaries' associations (National Order of Actuaries and National Council of Actuaries) aimed at dealing with issues relating to the exercise of the profession in the various areas identified by the Solvency II regulations. The subject of the first discussions was the Guidelines on Expert Judgement, which provide good practices for the various areas of assessment provided by Solvency II with the aim of making the expert judgement processes more robust. In this context, the Institute highlighted the need to support the judgement with the use of quantitative analyses, to limit and circumscribe the scope of data adjustments and to define the methods for managing biases and conflicts of interest.

1.5.2. - The activities on model changes and on the implementation of remedial plans

The pre-application and application activities on model changes concluded with the issue of the authorisations to five groups, for three of them the group supervisor is IVASS. The assessments were carried out in close coordination with the other European Authorities involved in the analysis of the internal models, with which the *joint decision*s provided for by the Directive were reached.

The changes to the models concerned improvements in the method adopted or the extension of the scope of the internal model to risks previously assessed using the standard formula. One model change concerned, in particular, the introduction of operational risk modelling, by means of a scenario-based approach. The approach presupposes the definition of methodologies for the management of operational risks and the use in the assessment (frequency and impact in terms of loss) of experts in each area of activity and the involvement of the company's control functions. In this context, the adequacy of the validation controls was verified, together with the implementation of analyses on the adequacy of the data collected over time on losses detected against operational risks.

Pre-application activities continued for significant changes to the internal models of one company and four insurance groups, for three of which IVASS is group supervisor. The changes concern the extension of the internal model to other risks currently assessed using specific parameters, methodological changes concerning the modelling of market risks and the calculation of the loss absorption capacity for deferred taxes.

The verification of the correct implementation of the actions foreseen in the remedial plans assessed by the Institute within the framework of the preliminary procedures for the approved internal models has allowed one cross-border group to conclude the activity with the positive assessment of all implemented actions. In the other cases, activities aimed at resolving most of the areas for improvement indicated in the plans have been completed.

1.5.3. - Verification of the adequacy of the standard formula and the specific parameters (USP)

The appropriateness of the standard formula for the representation of the risk profile of undertakings and groups for the calculation of the non-life and health insurance premium & reserve risk (*Health Non Similar to Life Technique*) continued to be checked. The verification entailed recalculating the capital absorption using the specific parameters estimated for each company on the basis of supervisory data.

As a result of the analysis, six undertakings and three groups will apply for authorisation to use the specific parameters. In the case of two companies and one group, preparatory work for the submission of the application for authorisation has already been started.

Pending authorisation, at the request of the Institute, five companies and three groups have updated the conservative margin applied to the Solvency Capital Requirement to take account of their specific riskiness.

As part of the authorisation processes, a benchmarking analysis was also implemented by adopting models for estimating pricing and reserving risks as alternatives to those defined by the regulations for calculating specific parameters. The analysis provided a useful tool for comparison with companies on calibration choices, with particular reference to the depth of the historical series.

With respect to companies already authorised to use USPs, audits of management processes on an ongoing basis revealed the need to request revisions to adopted policies. This is particularly the case if there are changes to elements that were the subject of the authorisation, such as, for example, failure to pass the tests to verify the assumptions underlying the authorised method. In this context it was also necessary to remind the administrative body of the companies concerned to carry out a more careful ongoing assessment of the ability of the USPs to adequately capture the company's risk profile.

1.5.4. - Investment analysis

In the current economic and financial environment, undertakings are called upon to combine the search for returns with the quality, security and liquidity of investments, as required by the "prudent person" principle. Undertakings must have in place adequate methodologies and organisational safeguards to quantify and adequately assess the risk profile of the financial instruments in the portfolio

The Institute's activities are focused on the analysis of investment policies and their consistency with actual management operations. Particular attention is paid to the concentration of assets by type, issuer, sector and liquidity. The analyses make use of risk indicators defined 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.

Since March 2020, the onset of the pandemic crisis has led to a widening of the spreads of many bond issues, initially affecting corporate bonds rated close to investment grade (rated BBB or lower) and later also financial and sovereign bonds.

The Institute carried out, also through the simulation of financial stress scenarios, a prior assessment of the impact on the market value of assets held by companies in order to identify the most potentially critical situations. These sensitivity analyses under stress conditions highlighted, especially in the first half of 2020, the vulnerability of some companies, on which the supervisory activity was intensified, to the risk of downgrades and widening of corporate and sovereign bond spreads. An in-depth analysis of the investment portfolio was carried out with regard to the composition of corporate securities held by sector, their credit quality, duration and liquidity.

The simulations carried out at the end of 2020 estimated a reduction in their market value of approximately 6% in the event of a downgrade to non-investment grade of corporate bonds rated BBB (belonging to class C). The impact on the market was limited overall in light of the limited yield differentials between BBB corporate bonds and non-investment grade bonds recorded at the end of the year. However, the manufacturing and services sectors, which are at greater risk of downgrading, account for a small share, around 2%, of total assets in the class C market.

The exposure of companies to bonds issued by banks with a rating of BBB or lower, which, although not directly exposed to the consequences of the pandemic, could represent potential vulnerabilities, averaged 2.5% of total assets in the class C market, with maximum values of around 8%.

With regard to companies that are particularly exposed to the sectors most affected by the crisis or to bonds rated BBB or lower, which at the same time recorded a reduction in own funds with negative effects on the solvency position, action was taken to encourage capitalisation initiatives aimed at increasing the company's resilience to market variables (see IV.1.1).

1.5.5. - Own funds assessment

In the process of prudential control, the assessment of own funds, from a qualitative and quantitative point of view, assumes a central role, given the need for companies and groups to always have sufficient means to meet the capital requirement. The valuations were carried out with reference to the current and prospective situation, on the basis of the overall supervisory information assets acquired, also as part of the valuations of extraordinary transactions.

In 2020, the own funds accepted as cover for the capital requirement of companies increased overall by 3.5%, from €135.6 billion to €140.4 billion. 85% of own funds are represented by tier 1 capital items.

Capital strengthening transactions were carried out by 18 companies for a total amount of €1,744 million, including €900 million in subordinated liability issues. The interventions were necessary mainly due to the deterioration of the solvency situation following the epidemic crisis. In the case of 10 companies, the capitalisation measures, amounting to €947 million, were the result of specific supervisory requests.

In two cases, the capital increase was carried out as part of the actions provided for in the short-term finance scheme and in the recovery plan required of the companies following the ascertained violation of the rules on coverage of the solvency requirement.

In one case, however, it was necessary to cover losses incurred as a result of write-downs on complex investments, and in two other cases, it was necessary to re-evaluate the provision for claims outstanding as a result of supervisory findings.

Important capital management operations were aimed at optimising the debt structure also through the redistribution of maturities, encouraged by the favourable market conditions (low interest rates) and the approaching expiry of the transitional regime on subordinated loans envisaged when the Solvency II Directive came into force. These initiatives, designed to finance the early repayment of existing loans, involved the placement of subordinated loans amounting to €1,140 million.

In this context, the first restricted tier 1 issue - fully compliant with Solvency II was completed. The Institute, which does not have the power to authorise issuance, nevertheless held discussions with the companies concerned to verify the stringent provisions relating to the loss-absorption mechanism, which allow them to be classified as tier 1 own funds.

Five transactions involving the redemption of subordinated liabilities and two transactions involving the redemption of capital reserves were examined and subject to the prior approval of the Institute. The assessments involved in-depth analysis to verify the impact on the prospective solvency situation at individual company and group level, including under adverse scenarios on the main risk factors.

1.5.6. - Reinsurance

Supervisory information on reinsurance[116] shows that Italian companies estimate that, in 2020, they will cede to reinsurance premiums of €14.7 billion (-8.2% compared to 2019), of which 8.2 billion through proportional type treaties and 6.5 billion through non-proportional type treaties[117]. Of the premiums ceded, 10.1% came from the life business and 89.9% from the non-life business.

18.5% of non-life reinsurance cessions relate to classes 8 and 9 - fire and other damage to property, 17.3% to class 10 - motor liability, 17.2% to class 1 - sickness, 16.3% to class 2 - accidents and 6.1% to class 3 - land vehicles.

The counterparties to the treaties are 269 companies, of which:

- 156 EEA insurance companies[118], to which €9.7 billion of premiums were ceded (equal to 66% of the total);
- 113 based outside the EEA (premiums of €5 billion, equal to 34%), mainly in Switzerland (full equivalence), Bermuda (full equivalence), USA (provisional equivalence), India (not equivalent) and China (not equivalent).

The top ten reinsurers that are counterparties to Italian companies collect 46.1% of outward premiums and have credit ratings between AA and A.

1.5.7. - The measures taken on the statutory and consolidated financial statements

Audits of statutory and consolidated financial statements are carried out by the Institute as part of the prudential control process and represent important information tools for planning supervisory activities. In-depth analyses of technical, financial and economic management contribute to the assessment of the company's operations, ability to generate capital and financial soundness. This makes it possible to detect any signs of deterioration and promptly promote the necessary interventions.

Particular attention is paid to companies with anomalies in their technical and financial indicators.

The audits of the financial statements carried out in 2020 made it necessary to take action against companies that showed situations of low profitability or economic imbalance due to critical issues in technical management, tariff policies and asset and financial management. A

116 For the actions carried out in relation to data quality and uniformity of the criteria for the compilation of the QRT Solvency II, see par. 1.6.2.
117 Facultative reinsurance operations are not included.
118 This figure includes reinsurers established in Great Britain and Ireland that were part of the EEA at the date of data transmission.

request was made for the timely adoption of initiatives to ensure the achievement of technical and economic balance , also through the adoption of actions of a strategic and organisational nature.

The assessments on the financial statements take account of the examination of the reports and analytical accounts drawn up by the auditing firms and of the results of the actuarial pre-review on the provisions for claims outstanding of the MTPL and general TPL classes. The pre-review analysis 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 in-depth analysis is carried out. As a result of the preliminary analyses, discussions were initiated with 14 companies, which ended with two requests for corrective actions in the valuation of statutory provisions.

Analyses of the information flows provided to the supervisory authorities by the auditing firms through the analytical report on the activities for the issue of the opinion on the sufficiency of the technical provisions, showed that there was a general lack of information on the controls carried out as well as a lack of information necessary to understand the assessments underlying the opinion expressed.

Consequently, a constructive discussion was initiated with Assirevi, as a result of which the association drew up guidelines aimed at establishing criteria for drafting the analytical report. The guidelines recommend the systematic nature of the controls on the insurance portfolios and the related basic data as well as the representation of the assumptions used for the purposes of the checks carried out on the provisions for premiums and claims outstanding. It is important to ensure the consistency of the methods used to relate the results on the individual lines of business to the opinion on the total technical provisions with the criteria to be used in the statutory financial statements, instead of the Solvency II methodologies.

1.6. - Analysis of the ORSA process and the quality of Solvency II reporting

1.6.1. - The ORSA (Own Risk and Solvency Assessment) process

In 2020, the review of risk and solvency assessments carried out by companies as part of the ORSA process continued.

Most of the major groups, which had already prepared their ORSA report for 2020, supplemented their stress analyses with additional, more challenging scenarios to account for the uncertainty and possible continued negative effects of the pandemic.

Supervisory action on the ORSA reports involved various interventions, which highlighted shortcomings in the methodologies used in the estimates, in the stress scenarios assumed, in the determination of the impacts on the solvency or liquidity situation and in the integration between the ORSA process and the capital management process.

In the case of particularly significant extraordinary transactions, the Institute requested an update of the forecasts of prospective solvency in the ORSA if the transactions envisaged resulted in a substantial change in the risk profile of the company or group.

For groups with cross-border activities, the analyses conducted on the ORSA have been discussed in the Colleges of Supervisors, having regard to the adequacy of the analysis of the risk profile, the assumptions used in the solvency projections and the stress scenarios used by the group and their calibration at local level.

In a context of high volatility of own funds, the Institute paid particular attention to the adequacy of the target solvency thresholds established as part of the risk appetite framework by the administrative bodies and reported in the ORSA. This is because in 2020 some companies recorded solvency ratio values below the target threshold, which led to the need to take the necessary steps to restore the levels set in the RAF. In some cases, the target solvency threshold was found to be too close to the regulatory threshold and therefore not adequate to prevent possible misalignments, even temporary, of the solvency requirement, as established by article 18 of IVASS Regulation no. 38/2018. The Institute therefore requested a revision of the RAF by raising the target solvency threshold.

1.6.2. - Data quality on Solvency II supervisory reporting

Analyses on Solvency II reporting have revealed widespread anomalies and inconsistencies in the criteria for compiling the reports on non-life claims and outwards reinsurance.

The Institute initiated discussions with companies to identify the origin of anomalies that, in some cases, result from the non-application or incorrect application of the instructions in the Implementing Regulation (EU) 2015/2450 (ITS). The Institute defined specific validation rules for receiving data and provided further guidance and clarification to the market for compilation.

With regard to claims, the option, envisaged in the ITS, of classifying claims by year of occurrence has been exercised, in line with the criteria envisaged for the local GAAP financial statements. The criteria for representing direct expenses and liquidation expenses have been clarified and the need to reconstruct the corporate perimeter and related data in the case of extraordinary transactions carried out in the past has been recalled.

With reference to the data on outward reinsurance, the Institute has provided guidance on the correct compilation of the code and rating of the reinsurer and the quota ceded. For the analytical data on the assets reported by the companies, the Institute has initiated in-depth studies to assess the level of reliability. The main anomalies were discussed with the companies, which were urged to strengthen the quality controls on the data to be sent to the Institute.

1.7. - Coordination with the other Authorities and Institutions

1.7.1. - Supervision of groups and financial conglomerates: the College of Supervisors

IVASS acts as group supervisor for six groups with transnational operations for which supervisory activities are carried out in coordination with the other Authorities that are part of the Colleges of Supervisors. The activity is planned in the context of the work plans defined annually for each college, determined on the basis of the complexity and specificity of the groups.

The 2020 work plans have been revised in light of the pandemic, which has led to intensified cooperation and information exchange, consistent with the flexible approach that characterises the organisation in crisis situations. Supervisors conducted in-depth reviews of the impacts of COVID-19 and the resulting measures put in place by groups and supervisory authorities. The results were discussed at special meetings organised by the Institute during the year.

During the usual annual meetings, IVASS discussed the results of the joint risk assessment to identify the most relevant risks for groups and individual companies, following both a top-down and bottom-up approach. The results of the questionnaire launched in the colleges were discussed; the questionnaire was aimed at sharing information on the effects of the crisis on the insurance sector and on the individual supervised groups in terms of premium income, solvency and liquidity.

This year too, it was deemed appropriate to maintain a particular focus on ORSA with a survey aimed at assessing specific aspects of the process. The areas examined included overall solvency requirements, board and key function involvement in the ORSA process, assessment of non-quantifiable risks, including cyber risk, and the use of backtesting and reverse stress testing techniques.

At the end of the annual meetings, the groups received feedback from the supervisors recommending that the short- and medium-term effects of the pandemic should be taken into account in the forward-looking solvency assessments and that the impact of the pandemic should also be assessed at a strategic level.

As host supervisor, IVASS participated in 17 colleges coordinated by foreign Supervisory authorities, four of which were from third countries.

A number of cross-border insurance groups are part of Italian financial conglomerates, the list of which is updated each year jointly by the Bank of Italy, CONSOB and IVASS. In 2020 one insurance-led conglomerate (Generali) and one banking-led conglomerate (Mediolanum)[119] were confirmed in the list. Among the conglomerates engaging "significant" banking intermediaries, 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.

Lastly, a collaboration with the ECB was initiated for a leading insurance group pursuant to art. 3, paragraph 1-bis, of Legislative Decree 142/2005 in relation to the significant relationships existing with the banking subsidiary, parent company of a significant banking group. This is done in order to verify whether there is a durable link aimed at developing the parent company's business, which is a prerequisite for the identification of a financial conglomerate.

1.7.2. - Supervisory activities within the Crisis Management Group

As of 1 January 2020, the new approach developed by the IAIS for mitigating systemic risk in the insurance sector (holistic framework) is in force in order to support and make supervision of the insurance sector globally consistent, strengthen the effectiveness of cross-border supervision and contribute to global financial stability.

119 https://www.ivass.it/normativa/nazionale/convenzioni-nazionali/documenti/doc-congiunti/ELENCO_CONGLOMERATI_AL_31.12.2019.pdf

The Holistic Framework has resulted in the proportional application of enhanced macroprudential policy measures to a much broader range of firms (Internationally Active Insurance Groups - IAIG) than the previous approach.

On 12 May 2020, IVASS, on the basis of the criteria of size and volume of international business provided by the Comframe, identified the Generali Group as the only Italian IAIG.

In this context, the Institute continued to apply enhanced supervision and international enhanced supervision measures to the Generali Group and the Italian subgroup of Allianz (as host supervisor).

The activity was carried out within the relative Crisis Management Groups (CMG), within which potential areas for improvement in the crisis management plans (Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan) were discussed and reported to the groups concerned in order to take them into account when updating the plans on an annual basis.

At the CMG, work continued in connection with updating the Resolution Plan, prepared by the group supervisor, based on the provisions of the IAIS Holistic framework (Insurance Core principle 12) and the IAIS Application Paper on Resolution Powers and Planning in public consultation since 12 November 2020 (scheduled for adoption in 2021).

1.7.3. - Relations with the MEF, the Bank of Italy, CONSOB and Antitrust

In 2020 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.

Art. 2 of decree law no. 23 of 8 April 2020 (D.L. Liquidity) introduced new rules as from 1 January 2021 and provided for a transitional regime for commitments undertaken, for operations decided by SACE and for guarantees issued by the State prior to this date. As part of this transitional regime, IVASS issued opinions to the MEF regarding two transactions.

The D.L. Liquidity also changed the role of IVASS, eliminating from 1 January 2021 the mandatory opinion of the Institute, which may still be involved on specific issues and transactions. The scope, methods and timing of the involvement of IVASS are currently being defined.

The new regulatory framework has led to the setting up at the MEF of a "Committee for public financial support for exports", of which IVASS is not a permanent member but to whose meetings it may be invited to participate. As regards cooperation with CONSOB, particularly intense exchanges of information were held on insurance companies with listed securities and for the performance of preliminary investigations on the Information Prospectuses on the capital increases of the companies themselves.

IVASS continued its collaboration with the Bank of Italy and CONSOB on the subject of interlocking, for the monitoring of the positions held by corporate officers in the corporate bodies of banks, insurance companies and financial companies.

Information and documents were exchanged with the Bank of Italy, with particular regard to the activities of financial conglomerates and the investigative procedures in which intermediaries supervised by the Bank were involved.

Collaboration for the purpose of issuing opinions to the Antitrust Authority continued, involving five transactions, four of which related to insurance companies involved in acquisition transactions carried out in the insurance or banking sector. Another transaction involved a proceeding opened by the Antitrust Authority for possible unfair commercial practices against an insurance company.

2. - Macro-prudential supervision

The spectrum of intervention activities to prevent risks to financial stability is not yet as broad, homogeneous and consolidated as that of microprudential interventions, harmonised at EU level by the Solvency II rules. At European level, work is underway to strengthen the macroprudential framework and the instruments for the resolution of insurance crises and for the protection of policyholders in the event of a crisis (Ch. III, par. 2.2.1). At the Italian level, IVASS has recently been granted powers to intervene for financial stability purposes on packaged retail and insurance-based investment products (Delegated Regulation (EU) 2016/1904) and the possibility to impose limitations, temporary restrictions or deferments for certain types of transactions or options exercisable by policyholders (article 188, paragraph 3-bis of the CAP, introduced by Law no. 58 of 28 June 2019). The exercise of such powers, which are very articulated and intrusive, could certainly benefit from prior coordination with the other financial supervisory authorities represented in a Committee or with the Authority for Macroprudential Supervision, the establishment of which is provided for by the Recommendation of 22 December 2011 of the European Systemic Risk Board.

The results of the Institute's macroprudential supervisory analyses were incorporated into the Bank of Italy's Financial Stability Reports published in April and November 2020.

The analytical tools and in-depth factors that IVASS used to monitor national risks and vulnerabilities have taken into account the evolution of the reference context. Through the Risk Dashboard, the Institute has continued to monitor the trend of the main risks in the Italian insurance market, highlighting alignments with the European market and national specificities. The particularly stressful situation of the financial markets following the spread of the pandemic has recommended increasing the frequency of the monitoring of the solvency positions of the companies and starting a systematic collection of data and indicators to monitor the evolution of the liquidity position of the insurers, which has been added to the data traditionally collected on investments, commitments and production trends.

Sensitivity analyses were also refined and made more frequent in order to assess the effects of the financial risks that emerged on the markets following the pandemic, as were market intelligence activities through discussions with important market operators, including rating agencies and leading consulting firms.

2.1. - International macro-prudential activity in the EIOPA, ESRB, IAIS and FSB

IVASS contributed to the final Technical Opinion on the Solvency II Review provided by EIOPA to the Commission in late 2020. The Opinion, inter alia, highlights the need for a richer macroprudential package to reflect risks and vulnerabilities made more evident by the global pandemic.

Participation in the work of the Financial Stability Board (FSB) and the European Systemic Risk Board (ESRB) was aimed at providing insights into the integration of Solvency II from a macroprudential perspective[120]. The aim is to envisage instruments to: i) prevent and mitigate

[120] *Enhancing the macroprudential dimension of Solvency II*, ESRB February 2020, https://www.esrb.europa.eu/pub/pdf/reports/esrb.200226_enhancingmacroprudentialdimensionsolvency2~1264e30795.en.pdf.

pro-cyclical behaviour; ii) ensure that liquidity needs are met on the asset and liability sides; iii) manage the risks arising from lending to the economy to ensure consistency with similar transactions in the banking system[121].

With regard to IAIS, participation in working groups concerned the Global Monitoring Exercise and the IAIS Application Paper on Macroprudential Supervision. On 1 January 2020 the IAIS new rules for the assessment and mitigation of systemic risk in the insurance sector (Holistic Framework, HF), applied internationally, became effective. 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 same risks, regardless of their size and solvency. The Institute also participated in the drafting of the IAIS Application Paper on Macroprudential Supervision, which has been in public consultation since 9 March 2021, outlining guidance for supervisors in the implementation of macroprudential supervision under the International Insurance Core Principle (ICP)[122].

The Institute has provided updates to the International Monetary Fund on the implementation of the recommendations on the Financial Sector Assessment Programme 2018-19.

2.1.1. - The European Stress Test 2021

EIOPA launched a new stress test exercise in May 2021 to assess the vulnerability of the European insurance market to unfavourable changes in financial[123] and insurance[124] variables, based on a scenario of falling interest rates and continued negative effects from the pandemic.

The 2021 stress test exercise is divided into two components, the "traditional" component, which tests the capital position in the adverse scenario (capital component), and the liquidity position, which is designed to assess for the first time in the insurance industry the liquidity position of participants through the analysis of cash inflows and outflows over a 90-day time horizon (liquidity component). Another new element is the possibility of applying, in the calculation of post-stress results, appropriate management measures in response to the assumed stresses (reactive management actions); the assessment of these measures at aggregate level will

[121] These proposals were reiterated by the ESRB in two separate submissions: a letter to EIOPA in January 2020 and a letter to the European Commission in October 2020 on possible measures to be included in the revision of the Solvency II Directive: https://www.esrb.europa.eu/pub/pdf/other/esrb.letter20200117_responsetotheEIOPAConsultationPaperonthe2020re-viewofSolvencyII~505c08ff78.en.pdf?02c8fc7b04c092da6a1fe3fa73429530 https://www.esrb.europa.eu/pub/pdf/other/esrb.let-ter201016_on_response_to_Solvency_II_review_consultation~8898c97469.

[122] The ICP 24 revised in November 2019 in light of the Holistic Framework provides guidance and examples on: i) considerations, development and implementation of a macroprudential supervisory framework in a proportionate manner; ii) how supervisors can adapt data collection requirements to national regulatory and market specificities; iii) the practical application of the elements included in ICP 24.

[123] Rising premiums for risks related to government and corporate bonds, a reduction in risk-free interest rates, and a decline in the stock and real estate markets are considered.

[124] An increase in mortality rates, an increase in surrenders for life policies and in non-life claims costs, a reduction in premiums earned and a reduction in amounts recoverable from reinsurance are considered.

allow a more realistic estimation of the potential implications at systemic level. The reference date is the end of 2020 and the scope includes the main 44 European insurance entities[125], of which four Italian groups (Generali, Unipol, Intesa Sanpaolo Vita and Poste Vita). As in the past, EIOPA will publish aggregate results at the end of 2021 and, for greater transparency, will require voluntary publication of individual results by participating groups.

2.1.2. - ESRB Recommendations

As the pandemic spread, the ESRB focused its attention on identifying and managing its impact on the financial world and the real economy, and took action in five priority areas: i) implications for the financial system of guarantee schemes and other fiscal measures to protect the real economy[126]; ii) impact on markets and financial system entities[127] of large-scale corporate bond downgrades; iii) market illiquidity and implications for asset managers and insurers; iv) liquidity risks arising from margin calls in centrally and non-centrally cleared over-the-counter derivatives markets[128]; v) system-wide restrictions on dividend payments, share repurchases and other variable components[129].

Among the initiatives taken, the following have a direct effect on the insurance industry:

- the ESRB letter to EIOPA of 8 June 2020[130] outlining the need for more data and regulatory safeguards in the Solvency II Directive for the assessment of insurers' liquidity position. The objective is to make the liquidity monitoring framework readily operational in the next revision of the Directive, including by introducing Pillar 2 measures so that national supervisors can require insurers with a vulnerable liquidity profile to hold more liquid assets[131];

- the two ESRB Recommendations on restrictions on dividend payments, share buy-backs and other pay-outs[132], with the objective of maintaining a sufficiently high level of capital, including in prospective terms, to mitigate systemic risk and to contribute to economic recovery,

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125 With a European market share of 75% of assets.

126 ESRB Recommendation no. 8 of 27 May 2020. https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608_on_monitoring_financial_implications_of_fiscal_support_measures_in_response_to_the_COVID-19_pandemic_3~c745d54b59.en.pdf.

127 ESRB Report "*System wide scenario analysis on large scale corporate bond downgrades*", of July 2020. In order to assess the impact of the pandemic on corporate bonds, the ESRB carried out an analysis focused primarily on potential forced sales of securities referred to as fallen angels (corporate bonds first rated investment grade then downgraded to high yield) https://www.esrb.europa.eu/pub/pdf/system_wide_scenario_analysis_large_scale_corporate_bond_downgrades.en.pdf.

128 ESRB Recommendation "*Liquidity risks arising from margin calls*" no. 6 of 25 May 2020 https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608_on_liquidity_risks_arising_from_margin_calls~41c70f16b2.en.pdf.

129 ESRB Recommendation no. 7 of 27 May 2020.

130 https://www.esrb.europa.eu/pub/pdf/other/esrb.letter200608_to_EIOPA_on_Liquidity_risks_in_the_insurance_sector~e57389a8f1.en.pdf and https://www.eiopa.europa.eu/content/eiopa-supports-esrb-call-enhanced-monitoring-liquidity-risks-insurance-sector_en

131 EIOPA shared the ESRB view on the need for enhanced monitoring and an adequate reporting framework on liquidity risks at EU level (https://www.eiopa.europa.eu/content/eiopa-supports-esrb-call-enhanced-monitoring-liquidity-risks-insurance-sector_en).

132 From a prudential perspective, the overall level of supervised entities' distributions should be kept significantly lower than those recorded in the years immediately prior to the crisis due to COVID-19. ESRB Recommendation no. 7 of 27 May 2020 recommended relevant authorities to require financial entities within their supervisory mandate to refrain until at least 1 January 2021 from taking each of the following actions: a) make a dividend distribution or give an irrevocable commitment to make a dividend distribution;

given the potential deterioration in the solvency of firms and households as a result of the pandemic[133]. At national level, IVASS also asked companies to carefully and responsibly assess the impact of any distributions and to contact IVASS in advance to check their compatibility with the recommendations (see Ch. IV.1.1.3).

2.2. - The risks of the Italian insurance sector

The Risk Dashboard. In 2020 the quarterly analysis[134] of financial stability risks of the national insurance sector continued, which includes indicators defined at European level and adapted to the domestic market. The riskiness of each area is summarised in an absolute level[135], with the related change compared to the previous quarter (trend).

As of Q4 2020, uncertainty about pandemic developments remains the insurance industry's main source of vulnerability, albeit slightly mitigated by the positive expectations generated by the start of the vaccination campaign. This was mainly reflected in solvency and profitability risks, insurance risks and the riskiness perceived by the market. Liquidity risks show a slight increase mainly due to the increase of the surrenders-to-premiums ratio at the end of 2020 compared to the previous year (tab. IV.1).

b) buy back own shares; c) create an obligation to pay the variable remuneration component to key managers if this causes a reduction in the quantity and/or quality of own funds. ESRB Recommendation no. 15 of December 2020 extended the ban on distributions until 30 September 2021, except in cases where financial institutions act with extreme caution in making distributions and the resulting reduction does not exceed the conservative threshold established by their competent authority. Financial institutions may therefore make distributions provided that they are decided on the basis of extreme prudence and that the amount of such distributions does not reduce own funds below a conservative threshold set by the competent authorities. The competent authorities will need to engage in a dialogue with supervised institutions wishing to make distributions before such distributions are decided.

https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608_on_restriction_of_distributions_during_the_COVID-19_pandemic_2~f4cdad4ec1.en.pdf; https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation201215_on_restriction_of_distributions_during_the_COVID-19_pandemic~2502cd1d1c.en.pdf?248563cbdc12f1a0e29b3494e2398bc2.

[133] EIOPA supported the ESRB Recommendations (https://www.eiopa.europa.eu/content/eiopa-outlines-key-financial-stability-risks-and-vulnerabilities-insurance-and-pension_en).

[134] The calculations refer to the information for the quarter under analysis for the insurance indicators and to the most up-to-date information for the market indicators which, in some cases, also take account of forecast estimates aimed at strengthening the outlook.

[135] 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

Table IV.1

Risk Dashboard *(4th quarter 2020)*	IVASS		EIOPA	
	Level	Trend	Level	Trend
Macro Risks	high	→	high	↘
Credit Risks	average	→	average	→
Market Risks	medium-low	→	average	↗
Liquidity Risks	average	↗	average	→
Profitability and solvency risks	low	↘	average	→
Interlinkages Risks	low	→	average	→
Insurance Risks	low	↘	average	→
Market perception	low	↓	average	↗

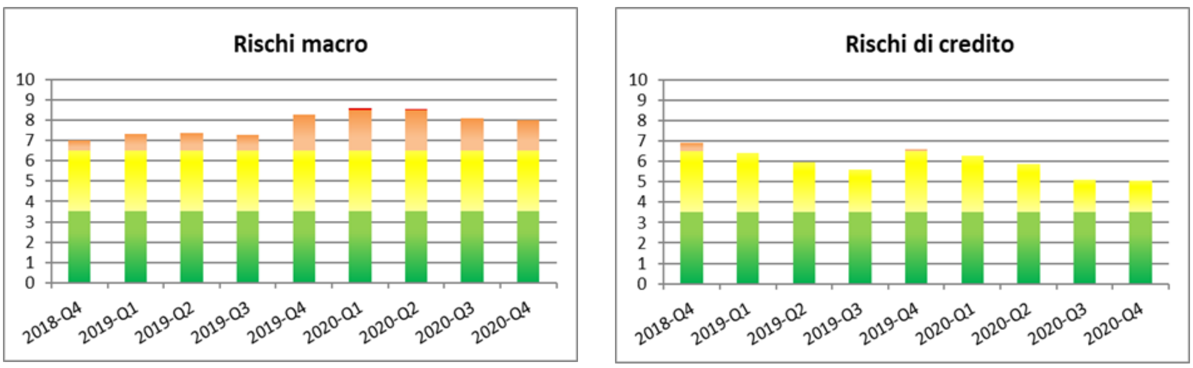
Source: IVASS and EIOPA (European Risk Dashboard Q4-2020). – The arrows indicate the change relative to the previous quarter (↑ = significant increase (>1), ↗ = increase (>0.5), → = constant, ↘ = decrease (>0.5), ↓ = significant decrease (>1).

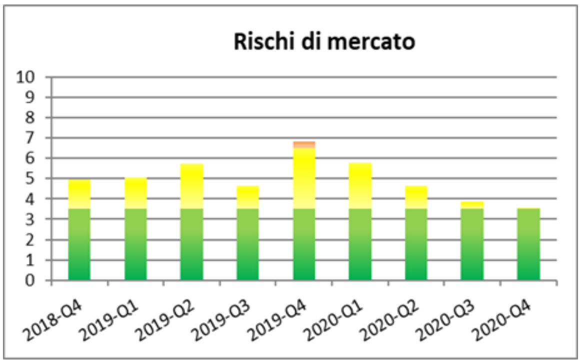
The other risk areas show a stable trend, after the sometimes significant increase observed in the first quarters of the year due to the impact of the pandemic. In the fourth quarter, the reduction in the spread on government bonds, together with the containment of dividend distributions, had a positive impact on equity generating an increase in the solvency position, which reached a higher level than the end of 2019. Insurance risks also showed a slight improvement due to premium income in the life sector, which, although negative compared to the previous year, fell less than expected. The risk perceived by the market decreased significantly thanks to the better performance of the insurance stock index compared to the benchmark index and to the increase in the expected profits of Italian companies, which increased more than the average of the main European companies. The use of reinsurance is still moderate.

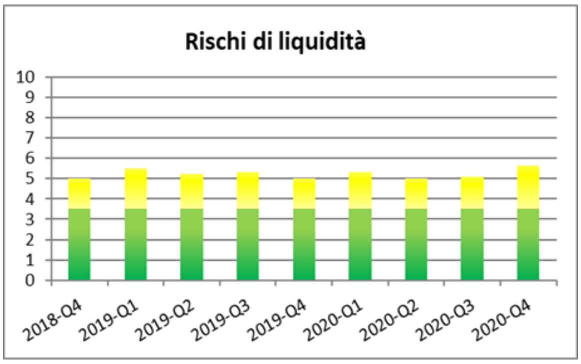
The trend from 2018 to the end of 2020 in riskiness for each area is shown in fig. IV.4.

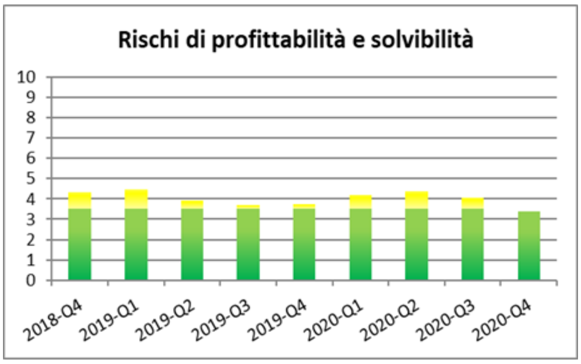
Figure IV.4

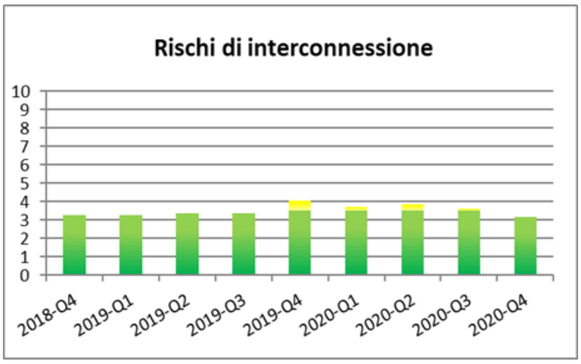
Quarterly risk trends in the Italian insurance sector

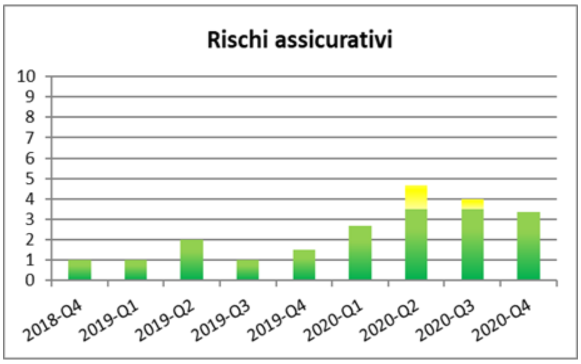


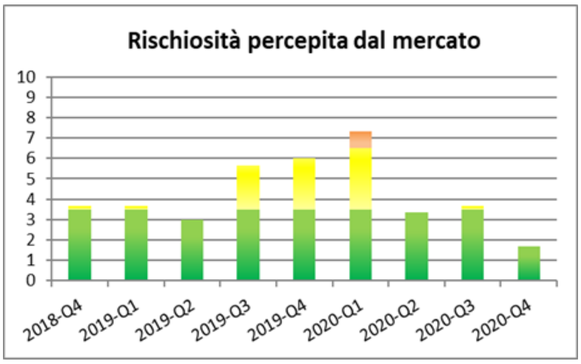












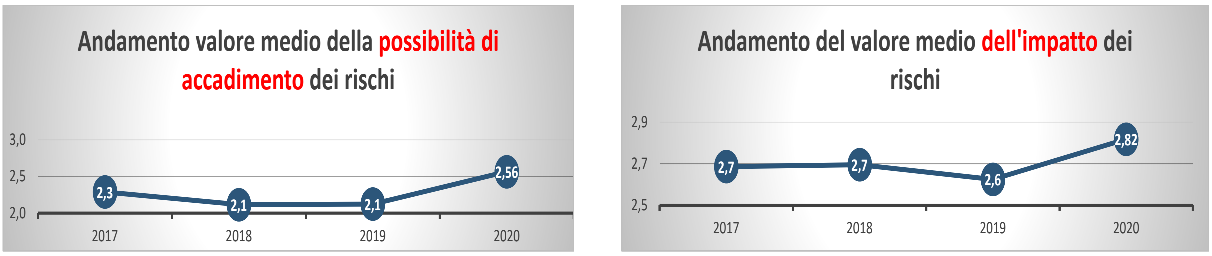
Market Intelligence. The epidemic crisis from COVID-19 has led to a closer examination of the induced effects on the insurance industry and to increased dialogue with rating agencies and leading consulting firms. There were many discussions, in small round tables and bilateral meetings on specific issues and in the usual annual meeting on the main risks.

As early as June 2020, potential risks emerged on the credit, export, catastrophic risk, health, D&O (liability coverage for directors and statutory auditors) and, last but not least, motor liability business lines. Further risks accentuated by the pandemic are related to operational business continuity and to the reputational aspects related to the initiatives, taken or not taken, by operators.

On 8 October 2020, the Institute held its annual meeting with operators, examining in depth the issues under discussion on the main domestic and foreign tables, also on the basis of a preliminary survey of stakeholder expectations, to which leading consulting firms and rating agencies responded. This analysis showed a higher average risk perception in 2020 than in previous years.

Figure IV.5

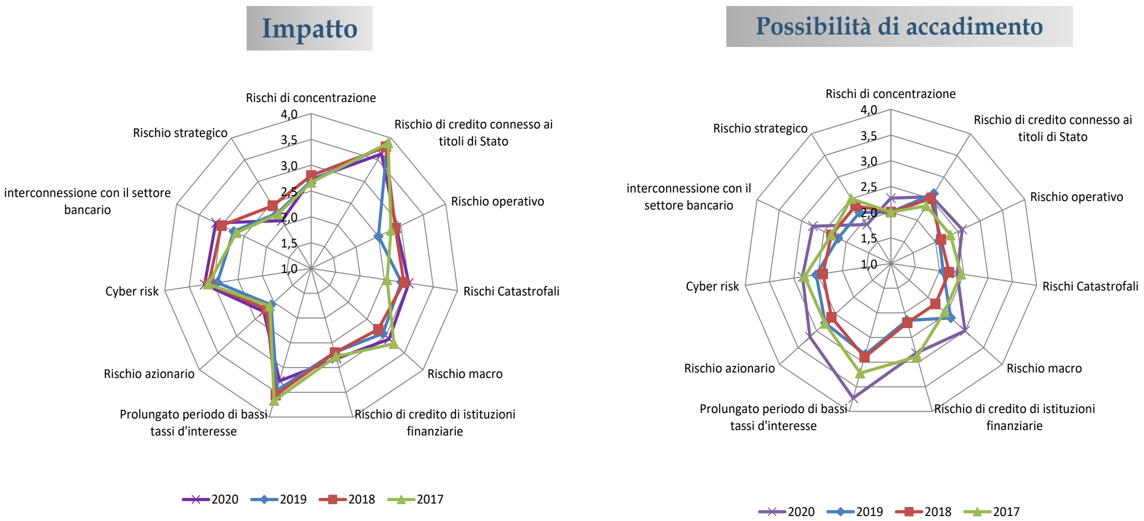
Trend in the average value of the possibility and impact of risks



The perceptions of rating consultants and analysts remain aligned with those of companies, with prevalent concern, in terms of both impact and occurrence, for low interest rate risk, macro risk and cyber risk. The perception of interconnection and credit risks is growing and it is noted that the Italian insurance market also in 2020 remains exposed to the risk associated with government bonds and the high volatility of the spread. The need to call for realistic evolutionary scenarios and what-if scenarios on an ongoing basis for monitoring liquidity risk, especially following a long-term crisis, continues to be stressed.

Figure IV.6

Impact and possibility of risks



In-depth analyses also focused on business development prospects in light of the digital push and sustainability requirements, and the financial challenge in a low interest rate scenario. The outcomes of the analyses point to a tendency to: i) safeguard the competitiveness of the life assurance business; ii) maintain insurance specificities; iii) pay attention to reallocation and de-risking operations. The epidemiological emergency has contributed to accelerate the digital push, which represents the channel to invest in and to leverage the modernisation of the insurance process and the related industry chain.

With regard to the evolution of insurance products, there are requests for simplification in the underwriting of products (smart underwriting), especially if aimed at large segments of the population (mass market), and innovation in pricing, which takes into account stable synergies for the development of ancillary services and the use of micro-services. The need has emerged for insurance solutions that provide greater coverage for risks that are wide-ranging, not always easy to define and with high growth potential, such as pandemic risks, natural disasters and cyber risk.

Monitoring potential vulnerabilities in the insurance industry[136]. The analysis of recurring information[137] requested by the Institute confirmed the trends of past years, characterised by a limited recourse to Special Purpose Vehicles, short-term funding, term structured repo, and direct investments in minibonds. Reinsurance coverages, still little used, were mainly used in peak management and more generally in the non-life business. The offering of Individual Savings Plans (PIR) showed a reduced recovery in 2020, mainly for class III products, after the sharp slowdown in 2019[138].

Sensitivity analysis IVASS carries out periodic simulations (*sensitivity analysis*) on the effects of adverse changes in one or more risk factors, in order to monitor the vulnerability of the insurance sector and strengthen supervisory action in areas particularly important in terms of market stability[139].

The effects of the COVID-19 pandemic

In 2020, IVASS analysed the impacts of the pandemic on the Italian insurance industry. As early as the first quarter, companies were asked to provide impact assessments on solvency, profitability, liquidity, credit and interconnectedness, business model, reputation and cyber risk.

Most respondents to the survey rated solvency risks as high, with the impact mainly attributable to assets held by companies (domestic government bond exposures, downgrade risk of private bonds, investment profitability risks and liquidity)[140]; risks for interconnections with bank exposures are also significant.

As the pandemic spread, special attention was paid to: i) the possible impacts of a potential massive downgrade of private bonds; ii) exposures to sectors particularly affected by the pandemic, which in September 2020, accounted for 22% of the private bond portfolio of Italian insurance companies (5% of investments for which companies bear the risk); iii) the offer of liability coverage for directors, statutory

[136] The monitoring is conducted on a sample consisting of groups and undertakings representing 89% of the market.

[137] The vulnerability analysis consists of a standard part and in-depth analysis dictated by specific macroprudential supervisory needs.

[138] The recovery in PIR is attributable to changes in certain investment requirements made at the end of 2019.

[139] Sensitivity analyses are based on a simplified method aimed to represent the potential impact on the own funds of insurance undertakings. Account is taken of the average financial duration of securities and technical provisions, while possible mitigation action that the companies may activate in adverse situations is not taken into account (which makes the assessments more severe).

[140] The assessment of the risks detected is affected by the composition of the sample that is most exposed in the life business.

auditors and managers (D&O covers) by the entities monitored, which, however, is limited (less than % in terms of premium income).

The Institute also carefully assessed the negative impact of the pandemic on the risk-free interest rate curve. In order to estimate the impact on the Italian insurance market of a prolonged low interest rate environment, a 20 basis point parallel lowering of the risk-free interest rate curve at the end of June 2020 was assumed[141]. In such a scenario, the average value of the own funds covering the capital requirement would decrease moderately (-2%).

The risk of a potential downgrade of private bonds, also as a consequence of the spread of the pandemic, has been monitored at both European and national levels. Based on 2019 financial statements, the ESRB has published an impact analysis on the assets of European insurance companies of a potential downgrade of A- and BBB-rated private bonds to the high yield category (fallen angels securities)[142]. IVASS replicated the study for the Italian insurance market, using data as of 31 March 2020. The exercise considers two alternative scenarios involving reductions in both prices and ratings of private bonds and differing in the extent of downgrades (more or less severe: respectively; medium severe case and severe case). In both cases, two possible reactions of insurers to the bond downgrade were considered: in one case, companies sell one-fifth of their downgraded securities (severe behavioural scenario), while in the other, all fallen angels are sold (extreme behavioural scenario). As a result of the shocks, Italian companies' excess of assets over liabilities (EAOL[143]) would fall by -10 and -13% in the medium severe and severe case, in Europe, the reduction would be -4.9 and -6.9%, respectively. The impact at Italian level would be greater than the European average, due above all to the greater share of bonds with a BBB rating.

For an analysis of the monthly evolution of the system's capitalisation levels even during the health emergency, see Ch. IV.1.1.1 and fig. IV.1.

2.2.1. - European liquidity risk monitoring

IVASS monitors the Italian insurance market's exposure to liquidity risk on a monthly basis, in line with European approaches. The in-depth analysis of liquidity risk in 2020 occurred in parallel with the activity initiated by EIOPA in June, following the spread of the pandemic. The European exercise has assessed since March 2020 the current and prospective liquidity position (at 30 and 90 days) of about 200 European companies (of which 55 are Italian[144]) on a monthly basis. Finding no particular critical issues, EIOPA has reduced the frequency and depth of controls since December 2020[145].

141 With a parallel lowering of 20 basis points, the end-June 2020 risk-free rate curve reaches values similar to those observed in August 2019, the lowest of the June 2017-June 2020 period.

142 *A system-wide scenario analysis of large-scale corporate bond downgrades*, ESRB *technical note* of July 2020 https://www.esrb.europa.eu/pub/pdf/system_wide_scenario_analysis_large_scale_corporate_bond_downgrades.en.pdf.

143 The exercise estimated in a simplified manner the impact on EAOL of asset losses resulting from the downgrade, without taking into account the mitigating effects of loss absorption mechanisms and associated changes in liabilities. Furthermore, the results do not provide estimates of the impact on the solvency ratio of insurance companies.

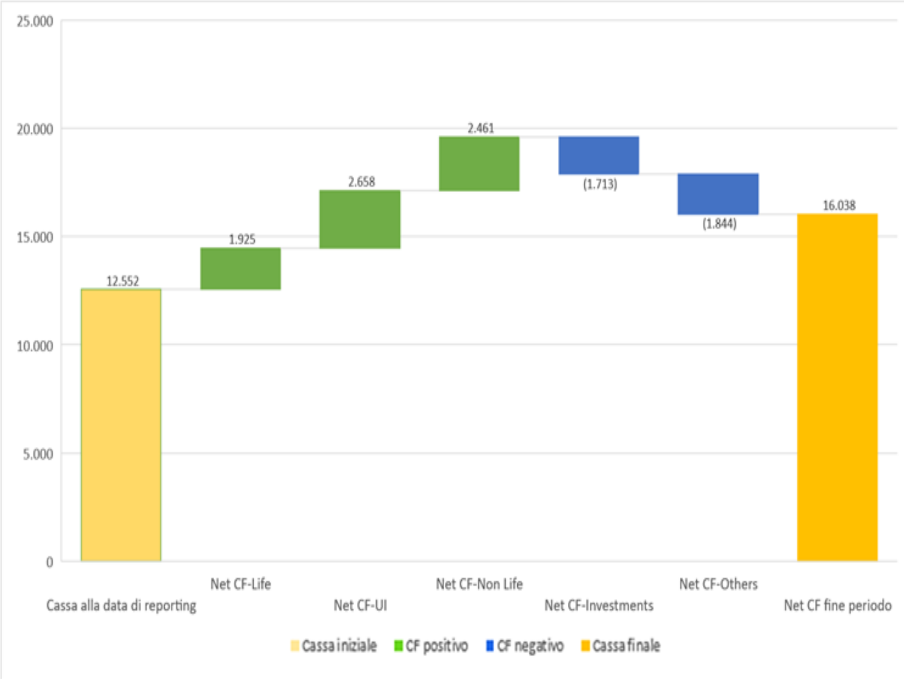
144 The Italian sample is composed of: 12 composite companies, 34 life companies and 9 non-life companies; these represent, in terms of premium income, the entire life sector and approximately 80% of the non-life sector.

145 The frequency of the survey changed from monthly to quarterly, provided for the projection of cash flows only for the 90-day time horizon and included the request for (final) information relating to the 90 days preceding the reference date.

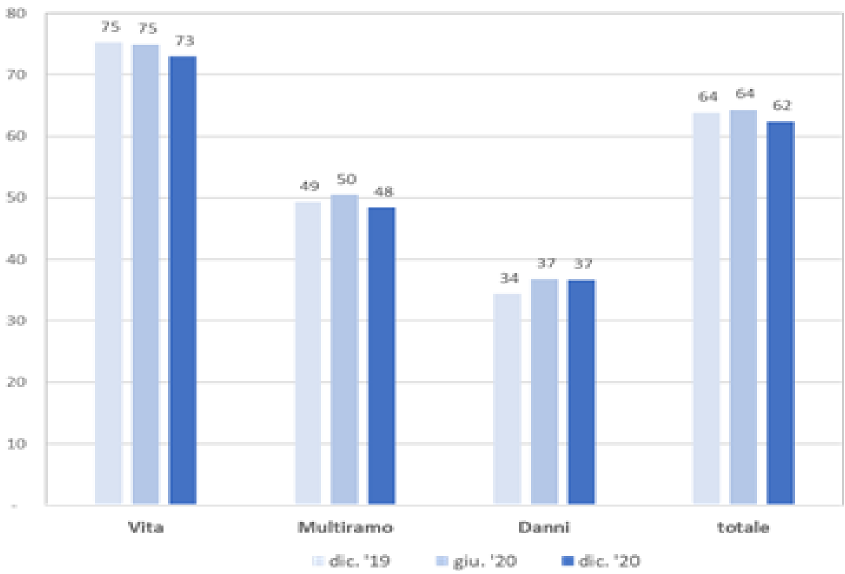
Figure IV.7

Liquidity position of Italian insurance companies *

(a) Breakdown of net cash flows and liquidity position at 90 days**
(Data as at 31 December 2020; billion euro)



(b) *liquid asset ratio*
(% values)



* Data refer to the sample used for the monitoring. – ** Variations contribute positively (green bar) or negatively (blue bar) to the available funds at the reference date, determining the value of the forecast at 90 days. For life business, a distinction is made between net cash flows relating to traditional life products and those relating to *unit-linked* products.

The risks on the three-month net prospective liquidity position, as estimated by Italian insurance companies[146] in December, were contained; the breakdown of cash flows projected by the companies for the next 90 days shows that the technical flows relating to life and non-life insurance business are positive. The main expected outflows relate to the purchase of assets and the payment of operating expenses (fig. IV.7.a). The degree of liquidity of the assets of Italian insurance companies, measured by the ratio of liquid assets to total assets (liquid asset ratio)[147], is on average decreasing compared to June 2020, from 64% to 62% (fig. IV.7.b), substantially due to the increase in total assets, despite the growth in the share of liquid assets.

2.2.2. - Monthly monitoring of investments and net premiums of life insurance undertakings

IVASS carries out a monthly monitoring of the investments and the related unrealised capital gains and losses. For life insurance companies, the controls are extended to premiums and claims.

In the first quarter of 2020, the sharp fall in the prices of financial assets and the increase in their volatility, triggered by the pandemic, had a negative impact on net unrealised capital gains on investments, whose risk is borne by undertakings. However, thanks to the contraction of credit spreads in the second half of 2020, net implicit gains increased to €96 billion at end-2020, more than €25 billion higher than at end-2019 (fig. IV.8.a).

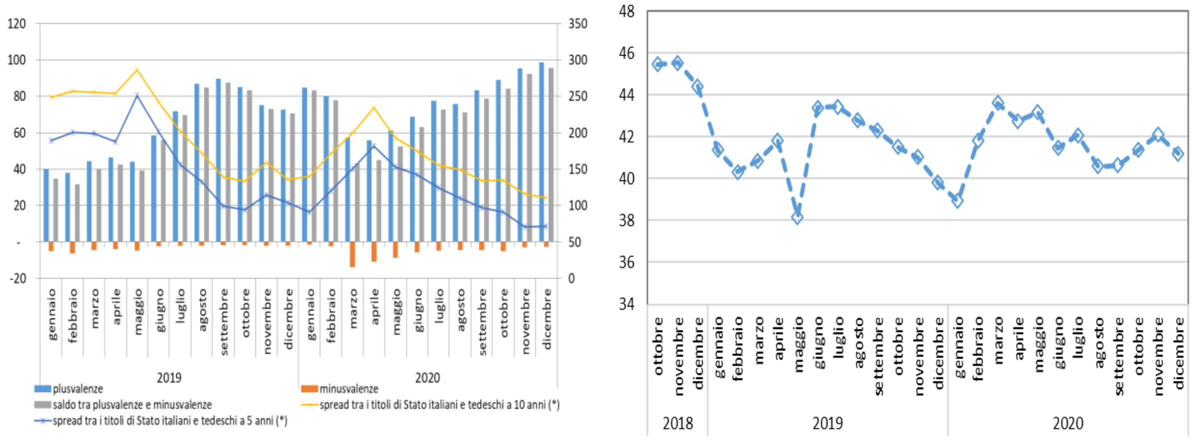
The surrenders to premiums ratio remained low. In December 2020, the weight of surrenders on premiums was 41%, slightly down from the previous month (fig. IV.8.b).

Figure IV.8

Investments and surrender to premium ratio

a) Unrealised capital gains and losses *(monthly data; billion euro and basis points)*

b) Surrender to premium ratio** *(monthly data; % values)*



* right scale –** The indicator was calculated as the ratio between the value of surrenders and the value of premiums.

[146] The prospective net liquidity position is given by the difference, in the reference period, between inflows and outflows; it is calculated including the initial cash on hand for the period.

[147] Liquid assets are determined by applying the haircut coefficients to the different types of assets, by analogy with the provisions laid down for the banking sector in European Commission Implementing Regulation EU/2016/322 of 10 February 2016.

2.2.3. - Activity in financial derivatives

The volatility of financial markets, triggered by the pandemic, has drawn increased attention on changes in margin requirements to guarantee transactions on derivative financial instrument traded in OTC (*over-the-counter*) markets and their impact in terms of liquidity risk[148].

Every year, the Institute carries out a monitoring of exposures in derivative financial instruments to assess their impact in terms of liquidity, credit and operational risk. The monitoring is based on the Solvency II reporting and on the results of a specific qualitative survey[149], to assess the mitigation techniques for the aforementioned risks and compliance with the ESRB Recommendation[150].

In 2020 a limited exposure by Italian insurance companies to financial derivatives is recorded, significantly lower than the European average[151]. The qualitative survey showed the existence of processes for the management of operational, counterparty and liquidity risks associated with the use of OTC derivatives not centralised at a central counterparty (CCP) as well as for margin management, in line with European EMIR regulations and national regulations (IVASS Regulation no. 24 of 2016) that favour the use of these instruments for prudential purposes. In particular, the low exposure to liquidity risk, in relation to margin variation requirements and counterparty risk, would result from the companies' practice of settling collateral with cash on a daily basis as well as the high quality of the ratings of counterparties to derivative contracts (as of 30 June 2020, 63% of counterparties had ratings from AA+ to A-). Moreover, the small amounts invested in derivatives make it possible to effectively manage and plan the liquidity requirements even under highly volatile market conditions.

2.2.4. - Climate change and sustainable finance

In recent years, the cooperation of institutions at international level has been particularly strengthened with regard to the impacts of climate change and the transition to a low-carbon economy, to the benefit of the real economy and financial stability.

The Institute has been a member since 30 October 2020 of the Network for Greening the Financial System (NGFS)[152] and contributes to macroprudential work, relevant to insurance,

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148 The ERSB issued a recommendation (par. 2.1.2) to raise the awareness of the relevant competent authorities of financial and non-financial counterparties entering into OTC derivative contracts and non-centrally cleared securities financing transactions to ensure that their risk management procedures do not result in sudden changes and cliff effects in margin management and collateral practices in the event of credit rating downgrades.

149 The sample is made up of eleven groups and five individual undertakings (Par. 2.2.2).

150 ESRB Recommendation no. 6 of 25 May 2020.

151 As at 30 June 2020 derivatives accounted for 0.2% of total investments while the European average was 2.4% (June 2019; latest date available). 84% of derivatives are traded on OTC markets, almost all of which are not centrally offset. The strong recourse to OTC contracts is mainly due to the need to customise contracts, in terms of duration, amounts and characteristics, to meet the specific coverage needs of insurance companies.

152 NGFS is a cooperative forum open to central banks and supervisory authorities around the world to develop economic scenarios, risk indicators and guidelines for use in stress testing; to define methodologies and best practices on environmental and climate risks in micro- and macroprudential supervision; to gather evidence on the existence of any risk differentials.

which is exposed to climate transition risk[153] and physical risk[154] affecting underwritten contracts. The evidence gathered has been shared in the various forums of the European System of Financial Supervision (e.g. EIOPA, ESRB) and, in particular, in the analyses of the impact of sustainability risks on the prudential requirements governed by the Solvency II rules.

In 2020[155], despite a difficult context marked by the effects of the pandemic, investigations continued on the potential impact of environmental factors and, in general, on the risks related to, financial sustainability[156], focusing attention on issues of strategic management of investments and on the process of sale of non eco-sustainable investments. The survey involved a sample of insurers, representing 90% of the total investments in the national market and took into account the European regulatory system[157] that is currently being defined and the work within EIOPA on financial sustainability[158].

Compared to the 2019 European-wide findings[159], insurers indicate a progressive integration of Environmental, Social and Governance (ESG) factors and risks into the insurance business model, in a rapidly evolving sustainable finance regulatory environment.

The Institute has also conducted comparative analyses at national level to identify evidence on the use of valuation methodologies and climate change impact analysis by companies in internal reporting (Reports on Own-Risk and Solvency Assessment, ORSA report) and in the reports to the public on solvency and financial conditions (SFC Report), required by the Solvency II prudential regulation.

2.3. - The monitoring of hybrid policies

Premium income on hybrid products[160] was €29 billion in 2020, down -2% compared to the end of 2019. However, they held up better than other life products, which showed a more marked decline (-5%). The incidence of premiums for hybrid products on the total life premium income

153 Risk arising from the possibility of a disorderly transition to a low-carbon economy. The transition to a low-carbon economy can create opportunities, but also risks (e.g. in terms of credit, liquidity) and significantly limit economic growth, especially in the event of sudden growth or delayed policy changes.

154 Physical risks refer to extreme climate-related catastrophic events whose intensity and frequency of occurrence is such as to have a negative impact on the economic activity.

155 The previous analysis conducted in the 2018-2019 two-year period had shown: i) a strong interest on the part of large groups in environmental and social risks considered material to their business; ii) difficulties related to the lack of a shared framework on standard definitions and metrics for sustainability risks (e.g. disclosure, taxonomy); iii) lack of data and high know-how costs; iv) uncertainties related to the reliability of ESG ratings and risks of greenwashing.

156 Sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause a significant actual or potential negative impact on the value of the investment.

157 On 18 June 2020 the European Parliament adopted Regulation (EU) 2020/852 on the establishment of a common European framework to facilitate sustainable investment ("Taxonomy Regulation"), supplementing Regulation (EU) 2019/2088 on sustainability- related disclosures.

158 https://www.eiopa.europa.eu/browse/sustainable-finance

159 *Opinion on Sustainability within Solvency II*, EIOPA opinion of 30 September 2019, https://www.eiopa.europa.eu/content/opinion-sustainability-within-solvency-ii.

160 The in-depth study was conducted as part of the vulnerability checks (par. 2.2.3). The results for hybrid policies do not include one group of the sample for vulnerability monitoring due to incomplete data.

of the sample examined increased slightly, from 35.7% to 36.3%, with a prevalence of class I products (fig. IV.9.a)[161]. The cost remains lower[162] than for other life contracts and the commissions charged to the policyholder[163] increase slightly to the level of other life contracts (8.7% of premium income)[164].

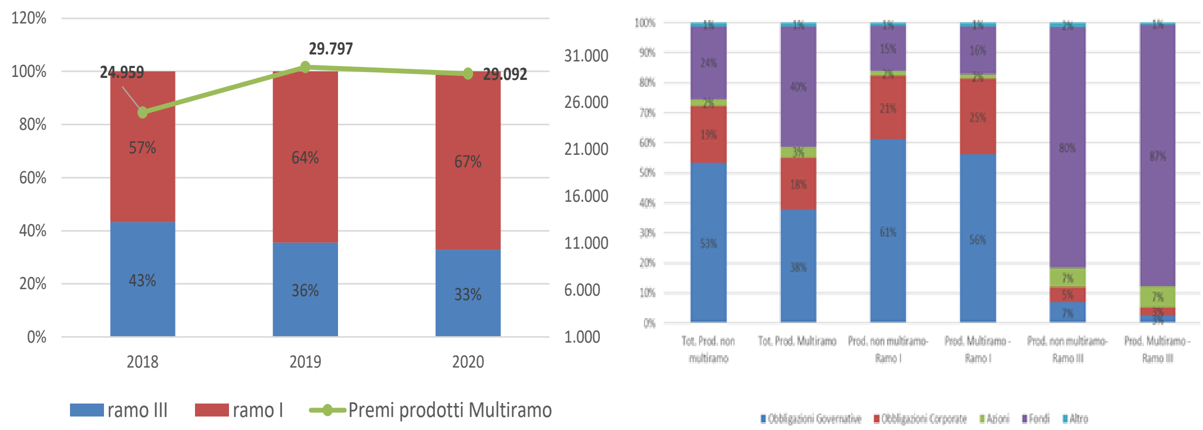
Investments for hybrid products held by the companies involved in the survey amounted to €155 billion, up +21% compared to the end of 2019, with a driving effect on the entire life business of the companies in the sample (+6%). The composition of investments for hybrid products remains characterised by a higher incidence of investments in funds[165] compared to other life contracts[166] (fig. IV.9.b).

Figure IV.9

Hybrid products

(a) Trends in premiums *(million euro and percentage values)*

(b) Investments: breakdown by type *(% values)*



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[161] The internal composition of products saw premiums in class I higher than class III and with an increasing trend (67%, compared to 64% the year before).

[162] The ratio of expenses to premium income was 3.7% (3.3% the year before), lower than for other life contracts (4.8%).

[163] On average, commissions charged to policyholders accounted for 8.6% of premium income, on the increase compared to 7.1% at the end of 2019.

[164] Management fees, including those related to contractual switch clauses, account for 89% of the total; the remaining 11% is attributable to the subscription and reimbursement fees.

[165] 87% of the investments in the class III component of hybrid products are in funds (80% for non-composite class III products); for class I, the portion invested in funds is 16% for composite products and 15% for non-hybrid products.

[166] Although there was a slight decrease from the previous year (from 43% to 40%) in favour of the component relating to investments in bonds (from 52% to 56%).

2.4. - Data quality initiatives

The quality and reliability of the data collected are essential for the activities of IVASS, which with its letter to the market of 15 December 2020[167] intervened on the prudential supervisory reporting required by Directive 2009/138/EC (Solvency II).

The Institute has recommended the systematic use of the LEI code, in line with the recent indications of the European Authorities[168], and given indications to overcome anomalies and inconsistencies in the criteria used by companies for reporting. The indications concern the areas where data quality has been lower so far: claims in non-life business, reinsurance, surrenders in life insurance, identification codes of life products, segregated funds and funds to which the benefits of life products are linked. In implementation of national discretions provided for by EU regulations, it has been requested to represent the claims of all non-life insurance business areas by year of occurrence and to value the amounts of reinsurance covers in Euro.

[167] "Solvency II Reporting: clarification on the criteria to be followed when filling in the annual reporting and use of the LEI code in prudential reporting", IVASS letter to the market of December 2020 (https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2020/lm-15-12/).

[168] https://www.eiopa.europa.eu/content/guidelines-use-legal-entity-identifier_en

3. - INSPECTIONS

In 2020, 20 inspections were carried out, 16 of which at insurance undertakings and four at intermediaries registered in the RUI: other four on-site checks , three of which at undertakings, started in the last quarter of 2019, were completed in the first quarter of 2020.

Inspection activity has been significantly affected by the COVID-19 pandemic; government restrictions meant that inspections were substantially halted from March to mid-June. Subsequently, the activity resumed exclusively remotely and from the beginning of September, a hybrid model was adopted, with the division between off-site approach and on-site presence calibrated in light of factors such as government regulations, the conditions ensured by the company for the safety of workers in attendance, and the issues covered by the inspection.

The adoption of operational solutions such as remote access to corporate archives, where allowed by some inspected companies, allowed to mitigate the impacts, in terms of efficiency and effectiveness, of a model that does not allow the full exploitation of the traditional strengths of on-site presence such as immediate access to the entire company information assets, constant interaction with corporate stakeholders on the profiles subject to investigation, the possibility, essentially precluded with remote methods, to verify the effective application of policies, the effectiveness of processes, the veracity of reports and statements made.

Due to these slowdowns, some of the activity planned for 2020 has been delayed until the following year. Five of the 16 inspections of insurance companies were initiated between mid-November and December and completed in the first quarter of 2021.

Nine inspections of companies (56% of the total) concerned prudential supervision; the others concerned controls to counter the risk of money laundering and aspects related to market conduct (including an initial check on the state of implementation of EU regulations on Product Oversight and Governance - POG), as well as an audit of a company in compulsory winding up.

With regard to anti-money laundering, the five inspections carried out are part of the cycle of checks, which began in 2017, aimed at verifying the alignment of the main Italian insurance conglomerates with the Fourth Anti-Money Laundering Directive and consolidating, on a methodological level, the use of sampling techniques for the analysis of the due diligence process.

Among the strategic objectives assigned to inspection supervision, central to strengthening the quality and information content of the inspection product is the full implementation of the supervision model based on the four eyes principle, with the participation of off-site and on-site supervision units in the assessment of companies, with a view to operational and methodological interaction and in respect of mutual independence.

With this in mind, an articulated action programme has been launched with interventions on all organisational variables: processes, human and technical resources, tools. In particular, with regard to processes, guidelines have been updated on inspection planning, the pre-inspection phase, the conduct of inspections, the content of reports, presentation standards and the sharing of acquired information.

In the annual planning of on-site interventions, the collection of proposals from off-site units is preceded by the quantification, based on available resources, of the inspection capacity by type of investigation, allocated, in line with the strategic objectives, among the commissioning Services. This allows for better coordination between proposals for investigations, the Inspectorate's operational capacity and priorities identified in routine supervisory activities. A margin of flexibility is provided to deal with extraordinary and non-programmable interventions. The intervention aligns the IVASS inspection planning process with international standards and the Bank of Italy's supervision, consistently defining the roles, tasks and responsibilities of the units involved.

3.1. - Insurance undertakings

16 inspections were carried out on insurance undertakings during 2020. in one case, IVASS took part in a joint-inspection, conducted by EIOPA, at a Slovenian company. Except for the two extraordinary inspections, including the foreign one, nine inspections had been classified as high priority at the planning stage, and five as medium priority.

The inspections were carried out on the basis of the methodological standards established in the inspection guidelines, which focus investigations on the assessment of the risks to which the undertaking is exposed and of the effectiveness of safeguards, through analysis of the governance, management and control processes.

With a view to integration of off-site and on-site activities, the selection of the companies to be inspected is made by the off-site Departments on the basis of the outcome of the prudential assessment process, which incorporates the results of the risk analysis system used by IVASS, and of the objective of coverage of the sector. These include the need, also noted by the International Monetary Fund in 2019, to ensure a minimum frequency of on-site assessments. Four out of nine prudential inspections were directed at companies that had not been audited on-site for more than 10 years. A specific methodological approach was followed for these assessments, focused on the areas of greatest importance for the supervisory authorities (governance structures, calculation of SCR premium and reserve risk and of best estimate liabilities, statutory reserves). The perimeter and depth of the checks of a strictly quantitative nature take account of the most significant classes and the weight of each risk.

An inspection concerned the governance structures, with particular regard to the correct functioning of the one-tier system, also in relation to the main issues to be discussed by the corporate bodies, as well as the group's real estate risks.

The other four prudential audits concerned:

- for two companies (including the Slovak company), the correctness and consistency of the assumptions for the calculation of the best estimate of technical provisions and underwriting risk modules for life insurance; for the Italian company, the audit was extended to the risk assessment process (ORSA) and the definition of the Risk Assessment Framework (RAF), as well as the calculation of the additional reserve for interest rate risk;

- in two other cases, the governance and control of financial and investment risks, as well as the assumptions underlying the calculation of SCR market risk.

With the exception of the two audits still in progress, four judgements were issued in the unfavourable area.

The investigations conducted in 2020 revealed issues in the areas of governance, determination of best estimate liabilities (BEL), and identification, measurement and control of financial risks. With regard to the first profile, critical issues emerged regarding the functionality of the administrative body, with decision-making processes that did not respect the duty to act in an informed manner on the part of the directors and insufficient monitoring of the activities of the Board Committees. Other weaknesses emerged with regard to the actions of the Chair of the Board of Directors, which were not in line with the tasks attributed by the regulations, as well as the absence, in capital planning, of the necessary consistency between the risks assumed by the company and the solvency requirements.

With regard to the shortcomings in the processes for calculating life BEL and the underwriting SCR, in addition to unsatisfactory supervision by the Board of Directors, there were numerous methodological weaknesses, often due to simplified approaches that were not consistent with the characteristics of the portfolio. The use of unrealistic surrender rates, based on non-validated expert judgements, and the failure to take into account partial surrender, despite the fact that this option is granted to policyholders without penalty in most of the products sold, were noted. In determining the SCR, it was noted that a BEL obtained by projecting a different and lower target return than the one used in the calculation of the year-end BEL was improperly used to define the post-shock NAV. Capital management activities were sometimes weakened by the lack of attention paid to the structural exposure of own funds to market volatility.

Lastly, with regard to financial risks, it was found that there were no processes and procedures for independent verification of risk profiles and valuations of securities classified in levels 2 and 3 of the fair value hierarchy, for which the company uncritically adopted the prices of issuing counterparties. There are inaccuracies in the methods used to calculate capital absorption with reference to financial instruments such as securities issued by SPV, credit linked notes, securities issued by local authorities and class C funds.

The two market conduct inspections covered, respectively:

- the verification of the process of compliance of a large company with the requirements on Product Oversight and Governance (POG), introduced by the IDD Directive and EU Regulations 2017/2358 and IVASS 45/2020;

- the effectiveness of product distribution controls, with particular reference to hybrid products, as well as the financial management of automatic changes in these products.

For the three domestic companies with an unfavourable opinion, sanction proceedings were initiated in relation to the deficiencies found. It is worth mentioning the first case of initiation of sanction proceedings against individual pro tempore directors, as well as the heads of the risk management and internal audit functions.

3.2. - Insurance intermediaries and other supervised entities

The four inspections conducted at insurance intermediaries registered in the RUI were focused on supervision on market conduct and consumer protection and regarded:

- compliance with legal and regulatory provisions on precontractual and contractual disclosure to customers, complaints management, control of the sales network, segregated accounts and timely remittance of the premiums to the principal undertakings;
- the correct underwriting of suretyship policies on behalf of a company pursuing business by way of free provision of services;
- the correctness of the process of underwriting and managing motor liability policies.

The audits revealed organisational and procedural weaknesses in the two most critical cases:

- during the underwriting phase of motor liability policies, the checks for anti-fraud purposes were often carried out, also due to shortcomings in the management systems, at a time subsequent to the payment of the premium, causing the policyholder to be uncertain as to whether the guarantee was actually effective. In addition, checks on the quality of the data sent to the Claim History Statement Database (SITA) were found to be ineffective, with significant inaccuracies, causing inconvenience to customers who, in the event of checks by the police, risk being notified that they do not have active motor liability coverage, despite regular payment of the premium;
- the lack of certain formal requirements demanded by the provisions on asset segregation and the presence, in products relating to motor vehicle breakdown cover and roadside assistance, of multiple exclusions that limit the possibility of activating the policy.

3.3. - Anti money laundering

IVASS carried out its activity following a risk-based approach as outlined in the FATF recommendations and envisaged by the provisions of national legislation implementing EU directives on anti money laundering. Also in 2020, insurance companies were asked to carry out a money laundering risk assessment, based on the criteria and methodology defined by the Institute in 2017, to which changes were made in subsequent years to ensure greater significance of the analysis and to acquire additional data.

As in previous years, the exercise concerned domestic companies and branches of EEA undertakings; companies operating under fos were asked to send a reduced set of information. The processing of the information provided makes it possible to calibrate the supervisory priorities on the intrinsic risk to which the supervised parties are exposed and to make a correct selection of the companies to be subjected to inspection.

Five inspections were carried out, all at entities belonging to the same financial conglomerate (two companies with registered offices in Italy, two branches of companies with registered offices in the EEA, and the main distributing bank, registered in section D of the RUI). The investigations, which were started remotely and continued on site, consistent with the evolution of the health situation which resulted in a suspension from 31 October to 31 January, were completed in February 2021.

Institutional collaboration continued to be fruitful with the Guardia di Finanza (Italian Finance Police) and cooperation with the UIF as regards inspections on insurance undertakings was strengthened. In this context, the Institute expressed its prior agreement, as per art. 9 of Legislative Decree 231/2007, in relation to four audits planned by the Guardia di Finanza, to which the available information on the subjects to be inspected was provided and cooperation was ensured during the audits in relation to the specific operating features of those subjects.

Sanction proceedings were initiated against two intermediaries, four insurance companies and one bank acting as an insurance intermediary, belonging to the same insurance group, following inspections completed in 2019.

3.4. - Development of on-site supervisory tools

The experience gained in the first two years of application of the "Procedures for Inspection Activities" in the Supervisory Guide, approved in June 2018, has allowed us to verify in the field the scope and effects of the changes introduced, in terms of the overall functionality of inspections, and to identify areas for improvement. This recognition has led to a wide-ranging action plan, which aims to strengthen the quality and information content of the inspection products, increasing the objectivity and transparency of the on-site activity and, in this way, its effectiveness towards all internal and external stakeholders.

One of the key points of the plan is the redefinition of the content of the inspection report. A standard model of inspection report has been defined, aimed at greater clarity and detail in the representation of critical issues and areas for improvement, on which IVASS draws the attention of the inspected company and requests the adoption of remedial actions. The findings are accompanied by additional elements of judgement and references to aspects of the company's operations, which allow the recipients of the report (inspected company, off-site supervision) to understand the weaknesses found in the operating context, for the purpose of a more complete appreciation of the same ("context analysis").

It has been envisaged that the outline of the report will, as a rule, follow the structure of the inspection analysis paths, provided for in the Strategic Plan 2018-2020 with a view to strengthening the methodological tools available to inspectors.

Lastly, the upgrading of IT applications to support inspection activities has been launched with a view to increasing efficiency. The automation of the pre-inspection and inspection analysis models, based on data in the IVASS databases, has been planned.

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 amounts owed to creditors. 373 measures were issued, including the reappointment and replacement of commissioners and of members of the supervisory committee whose term of office expired.

IVASS Order no. 100 of 15 December 2020 was issued whereby, in view of the health emergency, the deadline for filing the final documentation and for the consequent recognition of the bonus compensation to the bodies set in paragraph 4 of article 12 of Order no. 66 of 18 December 2017 was extended to 1 January 2022.

The Institute's commitment to accelerating the closure of liquidations made it possible to achieve the following results:

- filing of the final balance sheet, financial statements and final allocation plan of Etrusca S.p.A., Cosida S.p.A., Rhone Mediterranee Rappresentanza per l'Italia, Arfin Solution S.r.l. of the Arfin group and Fincambi S.p.A. of the Previdenza group;

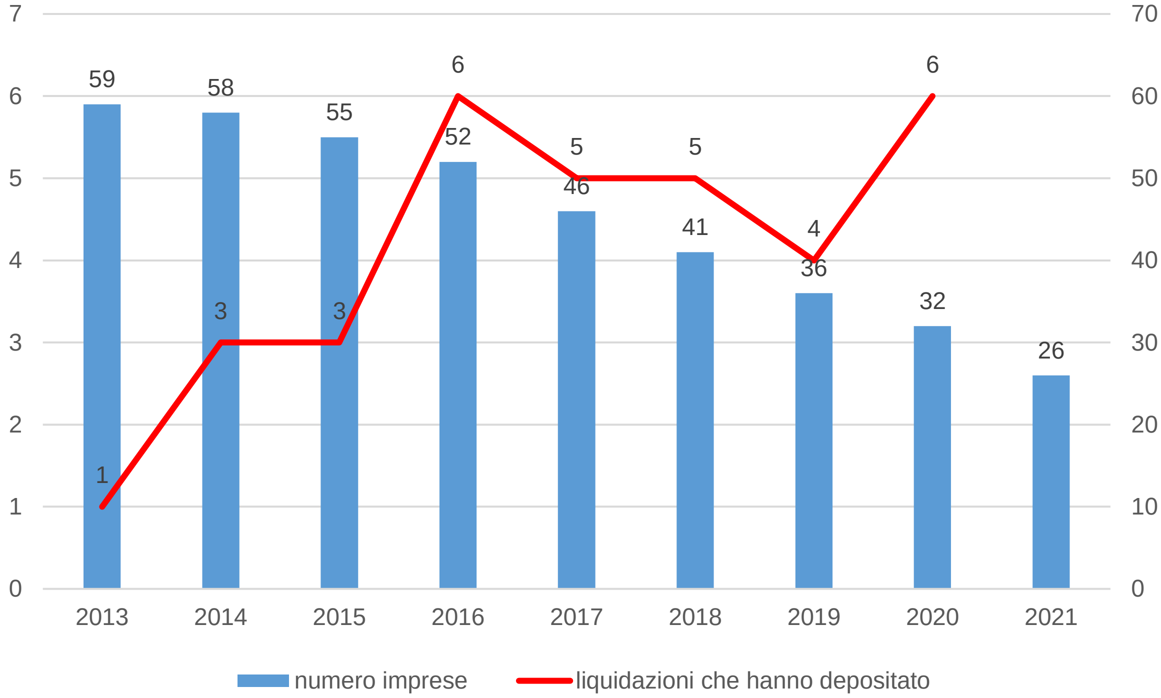
- cancellation from the register of companies of Ambra S.p.A. and San Giorgio S.p.A. that had previously filed their final documents.

In addition, upon receipt of an expression of interest for the closure of NitLloyd S.p.A. under composition with creditors, notification was arranged in order to expand the number of potential bidders and obtain the most economically advantageous offer for creditors. The interested parties carried out the relative due diligence and the liquidation appointed a special advisor to be assisted in assessing the suitability of the proposals for the creditors, pursuant to the provisions of articles 214 and 124 of the Bankruptcy Law and in light of the "no creditor worse off" principle. As a result of these proceedings, a proposal to close the undertaking with a composition with creditors was filed with the Court of Milan.

With regard to the real estate assets of the liquidations, whose presence is often the main obstacle to closure, the attention that has long been paid to the methods of auction sale and the related publicity has made it possible to sell 3 assets in 2020, 2 of which were the last properties of the respective liquidations, whose closing can thus be started. Between 2015 and 2020, 66 properties were sold. In addition, by analogy with the Crisis Code effective as of 1 September 2021 and the Code of Civil Procedure, initiatives have been taken to encourage the sale of the remaining assets of liquidations.

Figure IV.10

Liquidation procedures from the establishment of IVASS to 31 December 2020



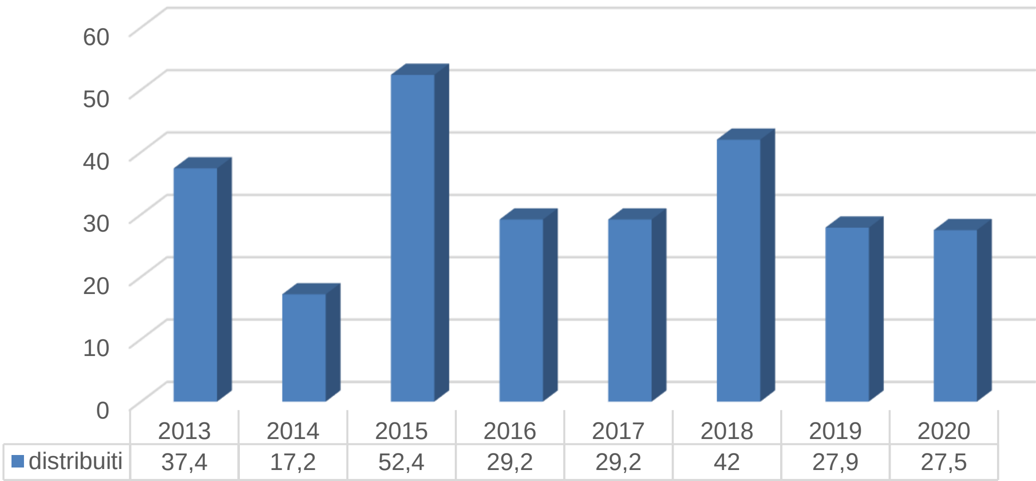
As regards the distribution of the amounts owed to creditors of undertakings undergoing administrative compulsory winding up, based on the data provided by Consap – Fondo di Garanzia per le Vittime della Strada (the national guarantee fund), in 2020 damages amounting to 9.9 million euro were paid for MTPL claims caused by policyholders insured with undertakings placed under administrative compulsory winding up.

IVASS also authorised the disbursement of 27.5 million euro to creditors in proceedings based on final allocation plans (Etrusca S.p.A., Cosida S.p.A., Rhone Mediterranee Rappresentanza per l'Italia, Arfin Solution S.r.l. of the Arfin group and Fincambi S.p.A. of the Previdenza group), advances (Progress S.p.A. and Unione Euro Americana S.p.A.), and in the implementation of the composition (NitLloyd S.p.A.) Among the creditors who benefited from these payments are included Consap and the designated undertakings, inasmuch as they have the right of recourse for the compensation of the claims referred to above.

Figure IV.11

Payments to creditors from the establishment of IVASS to 31 December 2020

(million euro)



The Institute continued to keep contact with the European Supervisory Authorities responsible for the control of undertakings operating in Italy under freedom to provide services or under the right of establishment 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.

In 2020 CBL Insurance Europe DAC (CBLIE) based in Ireland and operating in Italy under the right of establishment mainly in the suretyship sector, and Gefion Insurance A/S, based in Denmark and operating under the freedom to provide services, were placed in liquidation.

V. - MARKET CONDUCT SUPERVISION AND CONSUMER PROTECTION

Consistent with the strategic objective of strengthening supervisory action and the protection of insurance service customers, in 2020, the connection between individual consumer protection and supervision of market conduct was intensified. In order to guarantee substantial protection, through the examination of the efficiency, linearity and correctness of the company processes, the synergy between the verification of the processes underlying the insurance product chain - from its conception to its distribution up to the moment when the promised service is provided - and the information assets deriving from consumer complaints, which constitutes the "litmus test" of the effectiveness of the product itself, has been strengthened.

The integrated approach has increased the incisiveness of the Institute's action in identifying the causes of consumer complaints, making it possible to implement, in addition to the careful and concrete treatment of individual cases, targeted and root cause interventions, with requests to the supervised parties for corrective actions. The wide-ranging action covered the various business areas of Italian and foreign companies operating in Italy, with the aim of guaranteeing an adequate level of protection for policyholders and anticipating current trends.

A point of maximum attention of market conduct supervision concerns IBIPs, i.e. insurance-based investment products and in particular unit-linked and hybrid products, which are sometimes characterised by high costs that do not allow adequate remuneration for customers. Supervision has equipped itself with tools for analysis and monitoring, in order to intercept, on a preventive basis, any critical issues for policyholders. Together with the other European Supervisors at EIOPA, methodologies and models are being identified to measure the value for money for customers, taking into account the characteristics, objectives and needs of the target market for which the products are designed. The measurement of value for money cannot disregard an overall assessment of product performance and costs, in order to verify whether there is a balance between profitability for the company and fair pricing.

As regards the preventive tools that the supervisory authorities can use to assess the conduct of operators when distributing insurance products, a mystery shopping project, financed by the European Commission, is being carried out. Mystery shopping will strengthen the ability to intercept ex-ante critical phenomena for consumers, verifying in the field the quality and adequacy of the interaction of operators with customers, and to more precisely address the interventions of supervision and risk mitigation.

The effects of the pandemic have also affected the insurance industry, manifesting new needs and urgencies for consumers. In 2020, there was an increase in the number of complaints received by IVASS (+16% compared to 2019), as well as an almost doubling in the number of requests for information received.

On this particularly important front, at a time of great difficulty and social tension, the Institute has focused its attention from the outset on consumer complaints related to the COVID-19 issue, urging companies to take a proactive approach in line with the interests of the policyholder, taking into account the current situation and the recommendations of EIOPA to ensure the proper conduct of insurance business in the interests of consumers. The market reacted by initiating in many cases the review of contracts and settlement policies for facts related to COVID-19.

In perspective, the scenario of consumer protection instruments is destined to be enriched with the launch of the Insurance Arbitrator: the intention is to build an integrated and efficient system in which consumers are offered alternative paths of protection, establishing strong interconnections with the management of complaints in order to make the Institute's action efficient and, at the same time, share the information and guidelines that will result from the Arbitrator's decisions.

Insurance education actions will receive new impetus from the results of the survey on Italians' insurance knowledge and behaviour, presented in May 2021. The rich amount of data, made available to the public, intends to provoke a broad debate on methodologies and paths to be activated, in light of the fragilities that have emerged. The Institute promotes comparisons and solutions for the reduction of the protection gap that characterises the national insurance system in the European comparison.

Technological innovation in the insurance sector will have a major impact on consumer protection actions, which will have to take into account the proliferation of new product development initiatives, innovative distribution methods, such as digital platforms, and customer contact.

In order to cope with the increasing complexity of the insurance production and distribution processes and to enable consumers who use the new technologies to choose the product that best suits their needs, it is necessary to strengthen supervision and, at the same time, pay attention to the new subjects, systems and technologies, preventing criticalities in terms of compliance with the regulations.

This requires a strengthening of the supervision of the dynamics of technological development, data governance and cyber risk, with the definition of innovative supervision methods. The supervisor must have information available to analyse the policy production chain and to assess the soundness and sustainability of the business model, especially where parties not belonging to the insurance world and subject to the same rules are involved. Digital innovation must not make the allocation of tasks and responsibilities opaque.

In this context, the Institute has launched an in-depth study of machine learning algorithms to support processes that regulate the relationships of companies and intermediaries with policyholders (including pricing, customer profiling, financial management of life products, claims management). It is important to assess the impact of these algorithms and the risk management safeguards in place to protect policyholders.

1. - SUPERVISION OVER MARKET CONDUCT: METHODOLOGIES AND ANALYSIS TOOLS

The refinement of risk-based analysis involved both Italian and foreign companies and insurance intermediaries, with tools developed independently or acquired from external providers.

The RRI (*Retail Risk Indicators*) tool is based on indicators constructed mainly on data extracted from Solvency II templates, broken down between life and non-life business. The in-depth investigations carried out in 2020 following the interventions against some companies have demonstrated the effectiveness of the tool in detecting criticalities in market conduct, in terms of product design, weaknesses in the POG process and in testing the value for money of the product for policyholders.

The RRI system was also strengthened for foreign insurance companies operating in Italy, developing indicators based on the information flow on cross-border activities transmitted by EIOPA.

The implementation of the CRAF (*Conduct Risk Assessment Framework*) continued: this is an analysis tool combining several risk indicators, including RRIs, allowing a summary representation of the risk in terms of market conduct, measured by the assignment of an overall rating to each undertaking.

An additional set of indicators makes it possible to analyse the performance of separately managed accounts to which the with-profit life policies are linked and to carry out, for each individual company and management, comparisons between the returns achieved and the corresponding rates guaranteed by the contracts, in order to intercept any situations of tension that could have repercussions on policyholders.

For the analysis of IBIPs, an analysis methodology has been refined that is substantially based on the combined analysis of the risk, cost and performance indicators present in the KID of each product.

1.1. - The mystery shopping project

To integrate quantitative tools, IVASS carried out a project to introduce *mystery shopping* among the supervisory tools for market conduct, in line with the European regulatory developments.

Mystery shopping offers the Authority the possibility of verifying live the conduct of operators through the incognito gaze of customers meeting certain profiles identified by the Authority from time to time. In this way, it is possible to monitor market phenomena and, if necessary, identify single incorrect sales practices, allowing to orient and support the supervisory activity on the conduct of operators.

The project, funded by the European Commission, has as its final objective the development of a mystery shopping methodology and manual for IVASS. The methodology will also serve as a basis for the work that EIOPA is conducting to coordinate the mystery shopping activities of European Insurance Supervisors.

To test and refine the methodology, 140 pilot visits were carried out between March and May 2021 at banks and post offices (non-life policies[169]), online comparators (motor liability

[169] CONSOB is responsible for the placement of life insurance policies by banks and post offices.

policies) and agencies (life policies). For each group of visits, sales scenarios, profiles of undercover customers and behaviours to be verified were identified. The questionnaires that mystery shoppers must fill in at the end of the visit to report to IVASS on the experience have also been defined.

For the overall effectiveness of the project, it will be essential that when fully operational the use of mystery shopping by the Authorities is framed within a regulatory framework that allows its safe use for consumer protection. The European Commission has emphasised the responsibility of the Italian jurisdiction so that *mystery shopping*, after the project phase, can be effectively used by IVASS in its supervisory activity; IVASS gave the competent Italian legislative bodies the availability and technical support necessary for the drafting of the regulation.

2. - CONDUCT SUPERVISION ON ITALIAN UNDERTAKINGS

In 2020, activity focused on the conception and design of insurance products (POG; Ch. V.4). Particular attention was also dedicated to verifying the controls carried out by insurance companies on their distribution networks.

A sample analysis[170] of companies' reports on the control of distribution networks[171] was conducted to assess the robustness of the controls on the quality of behaviour towards customers, including the use of management dashboards based on misconduct risk indicators (KRI – Key Risk Indicators). More than 500 indicators were analysed, with the aim of identifying the most significant ones, estimating the effectiveness of company systems and procedures for assessing and monitoring distributor conduct, intercepting the most relevant problems at system level, addressing priorities for supervision, carrying out interventions and providing best practice indications to the market. Following action on the basis of initial evidence, some companies have provided for new KRI and strengthened their network control systems, with positive effects on customer relations.

In the health policy sector, monitoring of a company's settlement processes (when the quality of the insurance products is revealed) continued in order to verify that the corrective measures contained in the action plan presented following inspections were implemented adequately and within the planned timing, taking into account that the epidemiological emergency led to a delay in the implementation of activities already planned.

Another company operating in the same sector was asked about the claims settlement policy and the controls of the Compliance and Internal Audit functions on management and the timing of claims settlement.

The remote verification of the claims settlement processes of a company in the motor liability sector continued, with the analysis of the results of a second monitoring requested from the Compliance and Audit functions and updates on the implementation of the actions planned in the remedial plan.

[170] The sample consists of 45 companies, of which 22 with banking/financial/postal networks and 23 with traditional networks.

[171] Sent annually by companies, in accordance with article 46 of IVASS Regulation 40/2018.

3. - CONDUCT SUPERVISION ON FOREIGN UNDERTAKINGS

In 2020, international cooperation continued with EIOPA and the other insurance authorities of the Member States for the supervision of foreign companies, both during the phase of entry into the Italian market of new operators, and in relation to the market conduct of companies already present in Italy under the right of establishment or the free provision of services.

On the basis of the findings of the RRI, action was taken against three foreign companies, one operating in the life sector and two in the PPI sector, to remove the criticalities found. The responses provided by the companies in relation to the interventions in the PPI segment confirmed the critical points identified and requested actions to increase the value of the product offered, improve the clarity and transparency of contractual information and strengthen controls on the sales network.

In 2019 (the most up-to-date EIOPA data), there were 342[172]foreign undertakings operating in Italy with branches or under fos, with a premium income of 26.6 billion euro (20.8 in the life sector and 5.8 in the non-life sector), for a 16% share of the Italian market. In line with previous years, foreign companies are mainly active in the life sector (78% of total foreign companies), in particular with index and unit-linked policies (81% of life premiums) and come mainly from Ireland and Luxembourg. A significant portion of premiums are collected by undertakings based in Ireland which are members of Italian banking or insurance groups.

There was also a general increase in business in Italy in the non-life sector, with companies coming mainly from Belgium, France, Ireland and Germany and pursuing business in motor liability, general liability, fire and other damage to property, credit and suretyship. For all the major non-life undertakings, there is ongoing coordination with the home Authorities, also within the College of Supervisors.

3.1. - Entry of new EU undertakings into the Italian market and supervision following entry

35 new authorisations for entry into Italy were granted to EU undertakings for the pursuit of business by way of fos, 4 to undertakings operating under the right of establishment, and 40 extensions into other classes of business were granted to companies already present in the Italian market.

Opinions were issued to EU Supervisory Authorities in relation to 35 portfolio transfers between foreign undertakings operating in Italy under right of establishment or fos.

The strengthening of cooperation with the other Supervisory Authorities and with EIOPA, both ex ante and in day-to-day operations, concerned 20 cases, including:

[172] Of which 304 undertakings operating under fos and 98 with an establishment, with some undertakings active under both systems.

- two Maltese companies, for which, thanks to the collaboration with the Home Authority, the critical points identified by IVASS were overcome, including those relating to the distribution network, prior to entry into Italy.

- a Belgian company, on which, following the criticalities detected by IVASS in the preventive phase, the Home Authority intervened by requesting measures aimed at ensuring greater control over the activities of the Italian branch, in particular by strengthening governance;

- a Liechtenstein company, for which enhanced cooperation with the Home Authority was activated, involving EIOPA for the establishment of a collaboration platform, in relation to the possible launch in Italy of a complex and high-cost unit-linked product. The company has suspended the launch of the product in Italy until the criticalities found have been overcome;

- a Liechtenstein company, in run-off for the Italian business, with critical issues related to the marketing in Italy of unit-linked policies with illiquid underlying funds and for which problems have emerged from the management of complaints. Enhanced cooperation with the Home Authority was initiated to ensure the proper management of relations with Italian policyholders and to monitor the resumption of operations.

In 2020, IVASS participated in seven EIOPA collaboration platforms, including those related to:

- a company active in the life sector, with critical issues on products sold in several European countries, for which, thanks to intense international cooperation, the Home Authority has initiated supervisory proceedings, adopting transitional measures in the meantime;

- another company operating in the life sector, with critical issues relating to business models and products, on which an analysis of the products marketed by the company in the various markets was carried out. The analysis confirmed the critical issues identified by IVASS;

- a company active in the field of guarantees, with financial problems, for which the Home Authority decided the final termination of the business in Italy.

IVASS has attended eight colleges of supervisors on cross-border groups operating in Italy with particularly significant branches, as usual discussing with the other host Authorities and the Group Supervisors issues relating to market conduct in Italy.

3.2. - Brexit - action to ensure service continuity to Italian policyholders

As a result of Brexit, on 1 January 2021, IVASS removed 208 insurance companies and insurance intermediaries based in the UK and Gibraltar from the Lists of EU operators licensed to operate in Italy.

Such operators are no longer allowed to underwrite or mediate new business in Italy; companies will only be able to continue to manage the portfolio they have taken on until 31 December 2020.

IVASS has been working with EIOPA and the UK and EU Member State Supervisory Authorities to ensure service continuity to EU policyholders after Brexit. It has been agreed to continue the work also after the end of the transitional period provided for in the withdrawal agreement (31 December 2020), taking into account that there are still companies based in the UK and Gibraltar that have not completed the implementation of their contingency plan (usually portfolio transfer to companies of the same group based in the EU) or that intend to manage the EU portfolio in run-off from the parent company, making use of the transitional regulations adopted in the meantime by the Member States.

In Italy, a regulation has been adopted that allows companies in the United Kingdom and Gibraltar to continue to manage the portfolio from the parent company, without commencing new business, with the obligation to submit to IVASS by 31 March 2021 a plan with the measures for the regular and expeditious execution of the contracts and coverages existing at that date, including the payment of claims as well as an annual report on the state of implementation of the plan.

4. - PRODUCT OVERSIGHT

4.1. - Supervision over product design - POG

The implementation by Italian operators of the discipline of *Product Oversight and Governance* (POG), introduced by the IDD, continued. The fact-finding visits to undertaking and intermediaries, started in 2019 to obtain a firm overview of the actions taken by market operators to adapt their internal processes to POG regulatory measures, continued in the first months of 2020 and were then stopped due to the pandemic. POG activities continued with meetings with the top 10 companies operating in the life sector, conducted together with CONSOB, focusing on IBIP products (par. V.4.2.1). At the same time, inspection activities on the development of POG processes required by the IDD began.

IVASS continued to participate in the EIOPA work for the preparation of the Supervisory Handbook for market conduct, aimed at harmonising supervisory practices among the various national supervisors, and of the documents intended for insurance market operators. For the latter, EIOPA's approach to the supervision of product oversight and governance[173] was published in October 2020, which outlines the Supervisory Authorities' expectations regarding POG.

As part of product supervision, IVASS pays particular attention to product testing which, as part of the POG process, must be carried out by the company prior to launch to verify the value for money of the product for the policyholder, i.e. fairness of the price and value in terms of usefulness and effectiveness of the coverage and services offered and (for IBIP), return expectations.

[173] https:www.eiopa.europa.eu/content/eiopa-approach-supervision-product-oversight-and-governance_en

The IVASS action is in line with the reflections at European level, in particular on the value for money of unit-linked policies, expressed in the work of EIOPA "Framework to address value for money risk in the European unit-linked market" placed in public consultation in April 2021[174], in which the Institute has collaborated. Some unit-linked and hybrid IBIP products are in fact showing critical elements in some markets, including Italy, due to their complexity and high costs.

IBIP: *value for money analysis on the KID database*

As a tool to guide the supervision of IBIP products, IVASS has developed a tool to analyse the data contained in the KID. The tool collects the KID of all IBIP products marketed by Italian companies and major foreign companies and allows extracting information on the level of complexity, risks, costs and target market.

Products are classified in clusters according to a number of variables, such as the type of contract (with profit, unit-linked and hybrid policies), the recommended holding period of the investment (RHP) and the SRI (synthetic risk indicator). In this way, it is possible to compare products and intercept those which, with the same characteristics, are particularly complex, risky or expensive.

The tool was used to test a possible criterion for measuring the value for money of IBIP, by comparing, on the one hand, the costs indicated in the KID in terms of RYI (reduction in Yield)[175] and, on the other hand, the expected return in the moderate scenario[176], thus identifying the products for which there is not an adequate balance between profitability for the company and for the customer.

4.2. - Measures on products

4.2.1. - IBIPs

In 2020, meetings were held with CONSOB and the top 10 life companies to discuss the results of the analyses conducted by the two authorities on the top three IBIP products marketed by each company. The need emerged for improvements to be made to:

- the design of products in terms of risk, costs and expected performance levels for the customer and the definition of the target market;
- POG processes, in particular for the definition of the target market and for the robustness of the tests carried out to measure the value for money for the customer;
- pre-contractual and contractual documentation.

It has been noted that the design of the products, especially unit-linked and hybrid multioption products, often characterised by hundreds of investment options and the presence of algorithms defined by the managers that regulate investment choices and asset allocation, make

[174] https://www.eiopa.europa.eu/content/consultation-framework-address-value-money-risk-european-unit-linked-market_en

[175] Indicator representing the expected reduction, in percentage terms, of the annual returns on the investment due to the costs applied to the product.

[176] Scenario, provided in the KID, which corresponds to the 50th percentile of the distribution of returns constructed on the basis of the product historical performance over the last 5 years, or if not available, at least 2 years. In the absence of such data, the time series of returns of the benchmark or IBIP proxy variable may be used.

it difficult for the policyholder to make an informed choice of the product purchased and risk configuring, in fact, a management mandate for customers' assets.

The definition of the target market for multioptions was too broad and generic, since the products were designed as "containers" that could be sold indiscriminately to everyone. Sometimes, the target market was inconsistent with the product features. For example, a low level of financial knowledge and experience is indicated in the presence of a comprehension alert for a product that is "not simple and difficult to understand" or with many underlying options and complex ways of managing the investment portfolio (automatic reallocations, selective switches, safeguarding and monitoring activities). In some cases, positive return targets over a given time horizon were noted against expected performance of the underlying funds that was negative even in the moderate and favourable scenarios, or very high age limits at subscription that were not compatible with the long recommended holding period of the investment.

The cost of products, especially unit-linked, was particularly high in several cases, also due to the presence of double commissions, in favour of the companies for management activities and of the management companies of external funds, which are added to the loadings on premiums, such as to make the products unprofitable even at the end of the recommended holding period.

Finally, improvements in terms of transparency have been suggested to companies in order to make contractual texts and pre-contractual information clearer.

In some cases, companies were supportive of reviewing products from a POG perspective, including reducing costs to improve the value for money of the product. Several companies have planned to revise their contractual and pre-contractual texts to improve their clarity and comprehensibility for the benefit of consumers.

An intervention was carried out on a foreign company, not yet operative, authorised to pursue life insurance under the free provision of services which had communicated its intention to start marketing a unit-linked product in Italy. Following the examination of the product, it was found that it did not comply with the obligations deriving from the POG regulations, in addition to the excessive complexity of the product design, the very low value for money for customers due to very high costs linked to the remuneration of the sales network, the inconsistent definition of the target market. As a result of the findings, the company has temporarily suspended the marketing of the product.

4.2.2. - Non-life products

Following the examination of the RRIs[177], four Italian and two foreign companies were asked to investigate the causes of some anomalous data, mainly related to PPI products. The examination of the feedback provided by the companies confirmed the anomalies detected by the indicators and resulted in a request to the companies to strengthen the POG process, with particular reference to the tests to verify the value for money of the products or, in one case, to adopt an action plan for a restyling of the products, especially in relation to the costs for

[177] *Retail Risk Indicators*: these indicators are mainly based on data extracted from the Solvency II templates, broken down by life and non-life lines of business, which the Supervisory Authority uses to detect, also on a preventive basis, prejudicial phenomena for policy-holders.

commissions and particularly restrictive exclusion clauses, with the aim of increasing the value of the product offered, as well as to review the contractual information to improve its transparency and the settlement policies of the existing contracts, in a more favourable sense for the policyholder.

4.3. - Trend analysis of products offered

Initiatives concerning the supply of insurance products, with particular reference to the effects of the COVID-19 pandemic and digital transformation, are the subject of a six-monthly analysis published on the Institute's website[178].

To keep pace with other European players, Italian companies have initiated investments and partnerships to integrate data with leading companies in non-insurance sectors (e.g. car manufacturers) for the purpose of developing new products. Fully digital contracts include the launch of a suretyship policy, with an Italian municipality as beneficiary, based on blockchain technology to cover the implementation of redevelopment works in some urban areas. The purpose of using this technology is to prevent the increasing phenomenon of fraud in public procurement.

The new non-life insurance offer has been focused on tailor-made and modular products, increasingly integrated with services of various kinds, often featuring coverages with a digital connotation, including:

- health products that, in addition to covering traditional risks, provide customers with prevention and monitoring tools;
- home products with additional guarantees, such as coverage for environmental damage;
- cyber security products, to protect themselves from the risks linked to the digital world (*malware*, *cybercrime*);
- on-demand policies with integrated solutions, mainly designed for the new alternative forms of mobility to assist people in all their movements by car, motorbike and bicycle, but also on urban transport or on foot;
- multi-guarantee policies dedicated to small and medium-sized companies, aimed not only at protecting the company's assets and employees, but also at offering, for example, assistance services with prompt intervention, even providing coverage for environmental damage caused to third parties;

[178] https://www.ivass.it/consumatori/azioni-tutela/indagini-tematiche/documenti/2020/Analisi_Trend_1_sem_2020.pdf; https://www.ivass.it/consumatori/azioni-tutela/indagini-tematiche/documenti/2021/Analisi_Trend_pubblico_2sem2020.pdf

– coverages for dogs and cats that offer remote veterinary care services, home delivery of medicines, reimbursement of veterinary expenses.

In the life sector, companies continue to offer mainly new individual hybrid products, followed by with-profit products. In 2020, there were only two new with-profit life products for which net realised gains are allocated to the profit fund[179]. The marketing of insurance Individual Savings Plans (PIR) continued with the launch of eight new life unit-linked or hybrid products, while the performance of new offers of stand-alone long-term care policies remained limited.

Policies based on investment selection and management criteria inspired by sustainable finance (ESG - environmental, social and governance) are on the rise. In the second half of the year, nine green hybrid and unit-linked products were launched. Developments may result from the entry into force of Regulation (EU) 2019/2088 on sustainability reporting in the financial services sector.

4.4. - Internal funds and segregate funds

Following prior communications from four companies pursuant to art. 34 of ISVAP Regulation no. 14 of 18 February 2008, the proceedings relating to four extraordinary transactions were prepared, of which two related to separate accounts linked to with-profit life policies and two to internal funds underlying unit-linked life policies.

Amendments to the regulations of 30 Internal Funds and 15 Separate Accounts were examined to ascertain that there was no harm to policyholders and around 90 communications from companies to customers were monitored regarding losses on unit-linked policies, required by article 26 of IVASS Regulation 41/2018.

5. - THEMATIC SURVEYS

5.1. - Dormant policies

IVASS continued its actions to avoid that "dormant" life policies, i.e. those policies that have not been collected by the beneficiaries and lie dormant at insurance undertakings, become time-barred.

In September 2020, the results of the activity carried out on 83 foreign companies operating in Italy, which made it possible to "wake up" more than 23 thousand policies for approximately €490 million, were made public[180]. The companies are proceeding with the payments, under the monitoring of IVASS.

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[179] Articles 7-*bis* and 7-*ter* of ISVAP Regulation no. 38/2011.

[180] https://www.ivass.it/pubblicazioni-e-statistiche/pubblicazioni/altre-pubblicazioni/2020/polizze-dormienti-estere/index.html

While waiting for the activation of the IT cooperation service between the Revenue Agency and the companies that, according to decree-law no. 119 of 23/10/2018[181], will allow the latter to directly access the data on deaths at the Tax Registry, in 2020 too IVASS offered companies the cross-check service on policyholders' tax codes against the Tax Registry[182].

22.8 million tax codes (relating to life and accident policies) reported by all Italian companies and 15 foreign companies that have voluntarily joined the initiative were cross-checked. More than 330,000 deaths were reported to the companies so that they could investigate the individual positions and search for the beneficiaries.

Meetings were organised with eight companies with a significant number of contracts relating to deceased policyholders, to assess the adequacy of the company's processes to avoid the risk of dormancy. Initial evidence indicates the need, especially for postal and banking distributors, to further strengthen the flow of information to companies, taking action as soon as they receive news from family members of the death of a customer, who often holds several financial, banking and insurance positions.

5.2. - Policies linked to mortgages and other loan contracts

IVASS continued to participate in the *thematic review* launched by EIOPA on mortgage life and other credit protection insurance sold through banks (PPI - *Payment Protection Insurance*).

The purpose of the thematic review is to identify the main sources of detriment for European consumers resulting from the sale of policies linked to mortgages and to other loan contracts and, then, to identify the practical tools and rules to remove the shortcomings detected.

To this end, two questionnaires were prepared for a sample of European companies and banks, aimed at collecting information on cost levels and sales practices, as well as data to assess the value for money of products for customers.

5.3. - Travel insurance policies

Following its participation in the EIOPA's *thematic review* on travel insurance policies, which had highlighted the presence in Europe of problematic business models, in 2020 IVASS surveyed the leading undertakings operating in this sector in Italy (13, of which nine Italian and four foreign undertakings) in order to verify the existence of unclear policy conditions that contain excessive or not very clear exclusions and limitations of coverage, and 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.

Analysis of the documents and data acquired resulted in the convening of three companies in 2021 to assess the robustness of the POG (Product and Oversight Governance) processes and

[181] Converted into law no 136 of 17/12/2018181) which amended the Decree of the President of the Republic (D.P.R.) no. 116/2007.

[182] Letter to the market dated 13 October 2020 https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2020/lm-13-10/Lettera_al_mercato_13_10_20.pdf requesting companies to send to IVASS the tax codes of policyholders of all life policies and accident policies providing a lump sum death benefit in the event of accidental death in force on 31 October 2020 in addition to any contracts no longer in force for which companies needed to verify the eventual date of death.

distribution model. Given the significant slowdown in the travel industry due to the pandemic, the intention was also to test the responsiveness of companies, the new initiatives that have since been undertaken at an organisational and process level for business recovery and the changes made to products as a result of COVID-19.

5.4. - Effects of COVID-19 on the motor liability claims rate and initiatives in favour of policyholders

IVASS carried out a survey[183] on the initiatives adopted by insurance companies for the benefit of motor liability policyholders to involve them in the savings achieved following the forced reduction in circulation.

In return for the savings due to lower claims costs, following the containment measures defined by the Prime Ministerial Decree of 9 March 2020 and by subsequent decrees, amounting to 2.3 billion (see the box on the decrease in road accidents in Italy during the pandemic in Ch. II.1.2), the insurance companies declared in November 2020 that they had planned reductions for the policyholders (discounts on renewal, extensions of cover, etc.), which can be estimated overall at €811 million, of which 348 million already paid out at the time of the survey. The types of reductions used and the extent of the financial commitment varied widely among the companies.

6. - Supervision of the market conduct of distributors

6.1. - Preventive supervision actions

The Institute's objective was to strengthen its supervision of the market conduct of distributors by means of new risk-based tools.

Among the initiatives carried out in 2020, the analysis of non-life production is worthy of note, with evidence of premium income in motor liability, general liability and suretyship, broken down by distributor, based on information recently acquired for the first time from Italian companies and EU companies[184]. This information has allowed for more effective supervision of distributors, focusing on those with larger portfolios or with products that are riskier for customers.

[183] Letter to the Market dated 14 October 2020 (https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2020/lm-14-10/index.html) regarding the fact-finding inquiry into insurance companies' initiatives aimed at sharing with policyholders the savings resulting from the reduction in the frequency of road accidents due to the lockdown due to COVID-19.

[184] https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2020/07-02-0043780_20/index.html

https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2020/10-02-0044892-20_/index.html

6.2. - Digital distribution

IVASS has paid particular attention to the digital channel, overseeing the entry of new distributors, many of which are linked to companies operating in the utilities and mobility sectors, which intend to offer insurance products mainly in the non-life business, according to a logic of complementarity with core services.

The Institute has discussed in detail with these operators the methods of product placement, the phase of assessment of the insurance needs of consumers, since it is a distance selling business that requires the analysis of demands and needs, the presence of any opt-out mechanisms[185] (not allowed) that force the consumer to "deselect" the unwanted policies inserted by default, requiring in several cases changes to the processes to ensure transparency and fairness of the placement of contracts.

6.3. - Supervisory actions resulting from reports

In 2020, 344 reports of possible misconduct by intermediaries were examined; these reports were received from consumers, insurance undertakings, the police and other parties, down by 40% compared to 571 in 2019. The lawful revocations of agency mandates, communicated by insurance undertakings, decreased significantly (21 compared to 45 in 2019).

Table V.1

Reports received by type of intermediary

(units and % values)

	2020		2019	
Intermediary	**Number**	**%**	**Number**	**%**
Agents (sect.A)	85	24.7	177	31.0
Brokers (sect.B)	90	26.2	109	19.1
Canvassers (sect. C)	--	--	--	--
Banks/other (sect. D)	13	3.8	42	7.4
Collaborators (sect. E)	137	39.8	233	40.8
Other operators	19	5.5	10	1.8
Total	**344**	**100.0**	**571**	**100.0**

This decrease is counterbalanced by an increase from 161 to 241(+49.6%) in the reports of unauthorised subjects, mainly irregular websites, used for the promotion and sale of fake insurance policies (par. 7.1).

[185] Mechanism that provides for the automatic inclusion of goods or services in the offer, with the consequent burden on the customer to deselect the unwanted good or service.

The reports concerning intermediaries registered in the RUI gave rise to supervisory measures gauged according to the seriousness and nature of the irregularities detected, which concerned:

- three banks and one SIM, asking to strengthen the system of controls on the fulfilment of the good repute requirements of collaborators[186]. It has been suggested to periodically check the IVASS, OAM and OCF supervisory bulletins to verify the presence of any restrictive measures as well as periodically consult the Chamber of Commerce registers to exclude the existence of bankruptcy situations;

- a banking distributor, for critical issues detected on policies placed remotely via telephone, with particular reference to the work of the contact centre and the sales scripts used. As a result of the intervention, the bank changed its processes;

- bank promoters to verify the procedures for the placement of policies, the functioning of the IT platform used and the controls on the distribution network. As a result of the interventions, the bank strengthened controls over its sales network;

- a network linked to credit mediation, requesting corrective action for criticalities in POG processes and in the detection of policyholders' insurance needs;

- a broker's branch offices abroad, achieving better supervision of operations following exchanges of information with local supervisory authorities;

- a portal for comparing motor liability policies, obtaining clearer and more effective information on the role and qualification (company/intermediary) of distributors who offer insurance guarantees through the portal.

93 sanction proceedings were initiated, with a sharp reduction compared to previous years (174 in 2019, 254 in 2018, 357 in 2017), mainly related to failure to remit premiums for significant amounts, forgery of insurance documentation and failure to register policies.

7. - CONTRASTING UNAUTHORISED PURSUIT OF BUSINESS

7.1. - The fight against irregular websites

Mobility constraints as a result of the pandemic have changed consumer behaviour by accelerating the use of digital channels to search for goods and services. At the same time, the risks of cyber fraud have increased, affecting various sectors of the economy, including the insurance industry.

In 2020, there was a significant increase in the number of reports of computer fraud received by the IVASS Consumer Contact Centre and those sent by operators in the sector, Local Police

[186] Pursuant to art. 22 of Regulation no. 40/2018, the intermediaries registered under section E of the RUI must meet the good repute requirements envisaged in art. 110, par.1, of the Insurance Code; it is the responsibility of the intermediary using collaborators to ascertain compliance.

and Judicial Police Units, most of which concerned the promotion and offer of motor liability insurance policies at particularly low prices through websites that could not be traced back to agents or brokers.

The phenomenon, known internationally as ghost insurance or ghost broking, is particularly harmful because, in addition to the fraud, it causes important consequences for the victims who, deceived by attractive prospects of savings, find themselves without insurance coverage, incurring fines, administrative detention of the vehicle and, in the event of an accident, the risk of being called upon to pay for the damage caused.

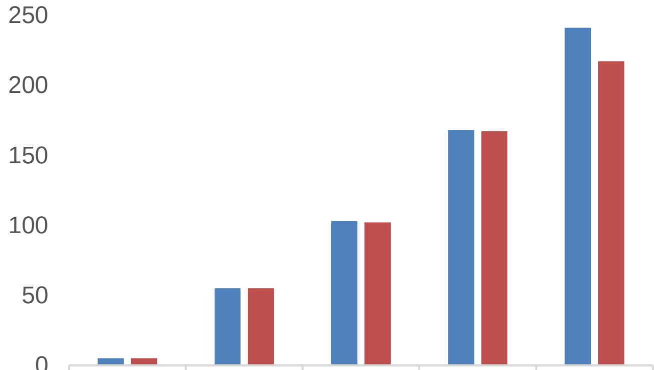
The scam mainly affects the area of compulsory motor liability insurance policies, which are perceived as expensive and easy to purchase via the web. The sites offering these policies use logos and images that are very similar to those of real companies or illegally report the licensing details of intermediaries duly registered with the RUI.

The citizens who fall victim to this are often young people who are used to surfing and interacting on the internet. The cost of the policy offered by the scammer is usually low and coupled with advantageous, but mendacious, offers to lower the consumer's defences.

In 2020, IVASS issued 32 press releases reporting 241 irregular websites, almost all of which are no longer operational.

Figure V.1

Irregular websites reported by IVASS in the period 2016-2020



	2016	2017	2018	2019	2020
siti segnalati	5	55	103	168	241
off-line	5	55	102	167	217

Anno

The action of IVASS, which, unlike other Authorities, does not have a direct power to shutdown these websites, develops along the following lines:

- informing consumers by publishing notices and press releases on the institutional website, the list of irregular sites[187], newsletters, information materials and advice for consumers[188], also by broadcasting audiovisual contributions[189];
- develop synergies with web operators and in particular with web service hosting companies and major search engines to eliminate references to illegal sites;
- collaborate with the anti-fraud structures of the companies, the local police and the investigating authorities.

7.2. - Counterfeiting of policies

In 2020, 11 cases of counterfeit policies, particularly suretyship policies, were reported by consumers and insurance companies.

A particular case involved a foreign company that was not authorised to operate in the suretyship class in its home country, for which it was found that not only false suretyship policies had been issued, but also a false authorisation from IVASS.

IVASS handled these cases in close cooperation with the companies that were the victims of counterfeiting and with the Home Authorities, informing consumers by means of press releases in order to avoid the spread of the phenomenon and actively cooperating with the Judicial Authorities.

The Institute has also handled requests to verify the authenticity of the policies, providing feedback to the beneficiary Public Administrations, the Guardia di Finanza (Italian finance police) and the Public Prosecutor's Offices.

7.3. - Opinions issued to AGCM

Within the framework of the memorandum of understanding with the Antitrust Authority (AGCM) relating to unfair commercial practices in the insurance sector, an opinion was issued pursuant to article 27, paragraph 1-bis, of the Consumer Code, concerning a proceeding commenced by the foregoing Authority against an insurance company in relation to the dissemination, by means of the press and television commercials, of a promotional campaign at the beginning of the health emergency aimed at recognising a discount on the motor liability premium valid for the following year for the vehicle that remains insured with the same company.

An opinion was also issued on an investigation procedure initiated by the AGCM against an insurance intermediary regarding the dissemination on the web of promotional messages on the

[187] www.ivass.it/consumatori/proteggi/ELENCO_SITI_WEB_DI_INTERMEDIAZIONE_ASSICURATIVA_IRREGOLARI.pdf.

[188] https://www.ivass.it/media/newsletter/documenti/Siti_irregolari_situazione_marzo_2020.pdf

[189] https://www.youtube.com/watch?v=9izD8L-IKbY

strong advantage of investing in insurance products in a period of financial instability with the prospect of secure earnings and high profits.

8. - Management of the Single Register of Intermediaries (RUI)

At the end of 2020, 242,936 parties were registered in the Single Register of Intermediaries. Below is a representation of those registered by section and type of legal entity.

Table V.2

Number of intermediaries registered in the sections of the Single Register at end-2020

(units)

Sections	Type of Intermediary	Natural persons	Companies	Total
A	Agents	18.282	8.630	26.912
B	Brokers	3.985	1.717	5.702
C	Direct canvassers	2.476		2.476
D	Banks, financial intermediaries, Sim (stock brokerage companies) and Poste Italiane S.p.A. – divisione servizi di banco posta		439	439
E	Staff involved in mediation outside the premises of the intermediary registered in section A, B or D, for which they conduct business, including their employees and/or collaborators.	186.460	14.424	200.884
Enclosed List	Intermediaries having their residence or head office in another EEA Member State		6.523	6.523
Total		**211.203**	**31.733**	**242.936**

With regard to the natural persons included under Sections A and B, Table V.3 shows the breakdown by gender and age group.

Table V.3

Breakdown by gender and age group of natural persons included under sections A or B of the Register

(units and % values)

	Male		Female	
Age group	**Number**	**% over total M+F**	**Number**	**% over total M+F**
Up to 40 years	1,537	6.9%	639	2.9%

From 41 to 55	8,045	36.1%	2,550	11.5%
From 56 to 65	5,623	25.3%	1,290	5.8%
Over 65	2,185	9.8%	398	1.8%
Total	**17,390**	**78.1%**	**4,877**	**21.9%**

Table V.4 shows the breakdown by province, based on the residence for natural persons and on the head office for legal persons.

Table V.4

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

(units and % values)

Region	Agents	% over total agents	Brokers	% over total broker	Agents and brokers per 10,000 inhabitants*	Agents and brokers per billion euro of GDP**
Valle D'Aosta	73	0.27	9	0.16	6.6	16.8
Piemonte	2,443	9.08	423	7.42	6.6	20.8
Liguria	887	3.30	306	5.37	7.8	23.9
Lombardy	5,012	18.62	1,332	23.36	6.3	15.8
North West	**8,415**	**31.27**	**2,070**	**36.30**	**6.6**	**17.7**
Veneto	2,447	9.09	421	7.38	5.8	17.4
Trentino-Alto Adige	539	2.00	90	1.58	5.9	13.5
Friuli - Venezia Giulia	578	2.15	121	2.12	5.8	18.0
Emilia Romagna	2,049	7.61	296	5.19	5.3	14.3
North East	**5,613**	**20.86**	**928**	**16.27**	**5.6**	**15.8**
Tuscany	2,067	7.68	335	5.88	6.5	20.2
Marche	729	2.71	83	1.46	5.4	19.3
Umbria	492	1.83	68	1.19	6.4	24.2
Latium	2,561	9.52	949	16.64	6.1	17.5
Centre	**5,849**	**21.73**	**1,435**	**25.17**	**6.2**	**18.9**
Abruzzo	649	2.41	72	1.26	5.6	21.9
Molise	147	0.55	18	0.32	5.5	25.8
Campania	1,472	5.47	546	9.58	3.5	18.4
Basilicata	265	0.98	28	0.49	5.3	22.7
Puglia	1,411	5.24	193	3.39	4.1	21.1
Calabria	762	2.84	55	0.97	4.3	24.5
South	**4,706**	**17.49**	**912**	**15.99**	**4.1**	**20.7**
Sicily	1,701	6.32	292	5.12	4.1	22.4
Sardinia	628	2.33	65	1.14	4.3	19.8
Islands	**2,329**	**8.65**	**357**	**6.26**	**4.1**	**21.7**
Total for Italy	**26,912**	**100.00**	**5,702**	**100.00**	**5.5**	**18.2**

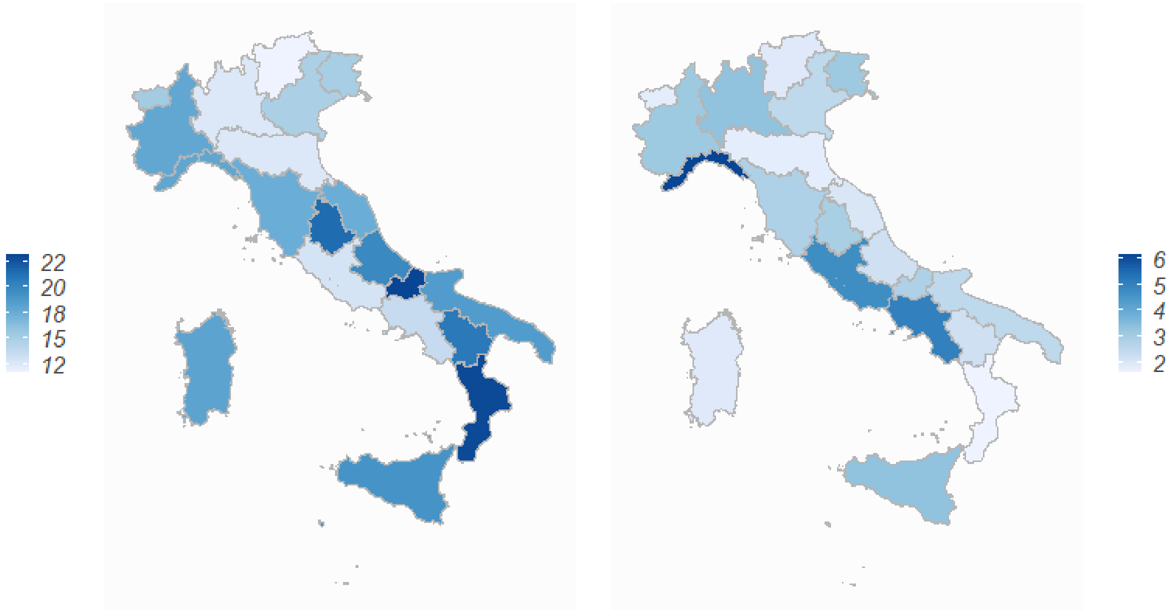
*Source: ISTAT, Population resident in Italy on 1 January 2020. –** Source: ISTAT, 2019 GDP, production side, ed. December 2020.

Figure V.2

Distribution across the national territory of agents and brokers registered in the RUI– 2020

(number per billion euro of GDP)

Agents **Brokers**



98% of the intermediaries with a European passport operate in Italy under the freedom to provide services. 25% of these intermediaries come from the United Kingdom, 21% from Austria, 12% from Luxembourg, 10% from France and 9% from Germany.

Following the UK's exit from the European Union from 31 December 2020, 1,654 UK intermediaries and their network of collaborators operating in Italy were removed from the Enclosed List. Brexit has also meant that 335 Italian intermediaries have ceased insurance mediation in the UK and Gibraltar.

8.1. - Investigations handled

As part of the management of the Register, in 2020 79,129 applications for registration, changes in the information and removal were processed, with an average processing time on the increase compared to 2019; in particular the applications for registration in Sections A and B are processed in approximately 30 days while the applications for registration in Section E have shorter processing times.

The 25% decrease in the number of requests submitted is largely due to the significant decrease in changes in personal data, from 24,167 to 5,363 (-78%), taking into account that in 2019, all intermediaries were required to disclose the existence of any shareholdings of more than 10% of the capital or close links for their collaborators.

There was a 2% decrease in the number of members in section A (agents), driven by massive measures of automatic removal for protracted inactivity and the turnover of agents who ceased their agency assignment due to age limits and remained in the insurance market as collaborators, with the transition from section A to section E (3,529 movements from one section to another compared to 2,594 in 2019).

Table V.5 shows the changes of the RUI, incoming and outgoing, broken down by type of investigation completed in 2020.

Table V.5

Proceedings completed in 2020 by type of investigation (units)	Sect. A	Sect. B	Sect. C	Sect. D	Sect. E	Enclosed List	Total
Registrations*	378	136	3,881	6	34,272	350	**39,023**
Removals**	725	271	2	20	13,329	235	**14,582**
Reinstatements	85	56	293	1			**435**
Moving from one section to another	436	103	2275		445		**3,259**
Extension of business abroad	346	336		1			**682**
Measures for the activation of operations or inactivity	13,082	2,527		14			**15,609**
Annotations on the register by effect of disciplinary proceedings	48	61		2	65		**176**
Changes in personal data	3,593	1,108	3	198	497	26	**5,363**
Total	**18,631**	**4,598**	**6,454**	**227**	**48,608**	**611**	**79,129**

* 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.

8.2. - Automatic updating and support activities for intermediaries

Pending the new application for the management of the Register, the data to be collected following the implementation of the IDD Directive[190] is published weekly in separate lists 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 201 intermediaries not operating for more than three years registered in Section A (Agents), 64 in Section B (Brokers) and 3 in Section D (banks, financial companies).

[190] These are data relating to:

1) 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;
2) 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.

RUI update activity 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 639 checks have been carried out on the possession of the self-declaration registration requirements (794 in 2019), 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.

The activities of maintaining the register continued during the pandemic and assistance to the public was provided regularly through all the channels provided, with the exception of access to the Offices. Approximately 100 requests from intermediaries for information on their position in the register and about 50 requests for access to records and information from law enforcement or prosecutors' offices were given a reply. More than 300 historical certifications and certificates of professional qualifications were issued and information on distribution agreements or agency appointments was processed for a total of approximately 2,800 appointments and 5,000 terminations.

As a result of the pandemic, longer deadlines (31 March 2021) were granted for the fulfilment of reporting requirements related to 2020 professional update.

8.3. - Ancillary intermediaries

The figure of the ancillary intermediary was introduced into Italian law by 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 or sellers of goods and services in commercial establishments), 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.

Such intermediaries may receive a mandate directly from an insurance company[191], however this is still a very limited phenomenon: 3 companies and their managers are registered as ancillary intermediaries: two of these offer technology services and the third is a consulting firm and only one of them is already operational.

Much more relevant is the phenomenon of "ancillary collaborators", i.e. those registered in the RUI that mainly carry out an activity other than distribution (typically, they are car dealers or travel agencies) and that provide their services on behalf of and under the responsibility of another so-called "principal" intermediary: in this case, collaborators are entered in the register in section E, in addition to appearing in a specific list of ancillary collaborators published on the IVASS website.

[191] While waiting for the new application, as provided for by art. 102, paragraph 2, of IVASS Regulation no. 40/2018, intermediaries who declare to operate on behalf of one or more insurance companies, are automatically transferred on a transitional basis to section A of the Register with evidence of the qualification of ancillary insurance intermediary.

At the end of the first quarter of 2021, the number of ancillary collaborators on the list published on the Institute's website to supplement the RUI was 12,317 (+54% compared to the same quarter of the previous year). These collaborators operate upon assignment by 1,549 principal intermediaries, of which 64% are banking or financial intermediaries enrolled in section D of the RUI, 19% agents enrolled in section A, 12% brokers in section B and 5% brokers operating in Italy under the European passport regime.

In 2020, a market survey on the characteristics and business of ancillary collaborators was carried out, covering a sample equal to 60% of the market, for a total of 440 thousand policies sold and more than 1 billion premiums collected. The survey revealed some critical issues for which actions have been taken on individual intermediaries.

Differences in the identification and qualification of a collaborator as ancillary have been highlighted. It has been pointed out that the same collaborator may be considered as an ancillary collaborator by one principal intermediary but not by another. Since many collaborators work with several principal intermediaries, there are constant movements in the classification as ancillary in relation to the same collaborator, sometimes without the knowledge of the other principal intermediaries.

It also emerged that the principal intermediaries do not always carry out autonomous preventive checks (before registration with the RUI) or periodic checks (after registration) and do not establish appropriate information flows for updating with collaborators.

8.4. - The new RUI project

The activities of the IVASS and Bank of Italy work group continues for the creation of a new web portal and the management of the Register of insurance intermediaries. The automated flow will allow for the secure transmission of data, with checks for consistency and correctness of transmissions, automated computerised protocol and digital archiving of data received, the sending of automatic notices with the possible opening of administrative proceedings. Those included in the Register will be able to proceed directly to update the public data of interest.

The portal will allow access to sites displaying services related to RUI, according to the profile and status of the connected party (IVASS, intermediary, citizen).

8.5. - The qualifying examination for registration in the RUI

The qualifying examination for registration in Sections A and B of the Register - 2019 session - announced through IVASS Order no. 89 of 9 October 2019, was concluded in October 2020. The test was held in person in Rome over several days, with the necessary arrangements to manage the COVID-19 emergency.

1,963 candidates participated out of 3,853 admitted. 437 passed the examination, equal to 22% of attendees (compared to 44% in the previous session).

The qualifying examination for the 2020 session was announced through order no. 103 of 15 December 2019. 5,047 applications were submitted, 91% 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.

As for the past session, candidates were required to pay a fee of 70 euro, in accordance with the provisions of art. 336, para.3-*bis*, of the CAP. The organisation of the test will be conditioned by the health emergency still ongoing in the national territory.

9. - HANDLING OF COMPLAINTS

9.1. - Main types of complaints

The year 2020 marks a step change from previous years, with an increase in the number of complaints consumers send to IVASS of +16% compared to 2019. The number of requests for information received almost doubled, with particular reference to the status of foreign companies operating in Italy.

The largest number of complaints received related to motor liability policies and, in particular, to claims management. The motor liability underwriting area also registered numerous complaints, partly related to the application of the new benefits provided by the "family bonus".

In the non-life segment, a smaller number of complaints relating to the management of health policies continued to be received. Consumers continue to experience difficulties in understanding the content of the guarantees and how to obtain benefits, either because of the complexity and lack of clarity of the contractual conditions or because of very cumbersome and bureaucratic procedures.

In the life segment, in addition to complaints relating to delays and disputes on surrenders and the settlement of capital at maturity (claims settlement area), there are still areas of consumer dissatisfaction due to inadequate levels of transparency in the explanation of insurance products by companies and intermediaries, both in the pre-contractual stage and during the term of the relationship.

9.2. - Complaints handled by IVASS

In 2020 18,919 complaints were examined (+16.1% compared to 16,294 in the previous year; tab. V.6). The figure bucked the trend of recent years and the increase related to all segments, particularly non-life business other than motor liability (+21.5%) and life (+20.7%).

Table V.6

Complaints received by IVASS: distribution by sector

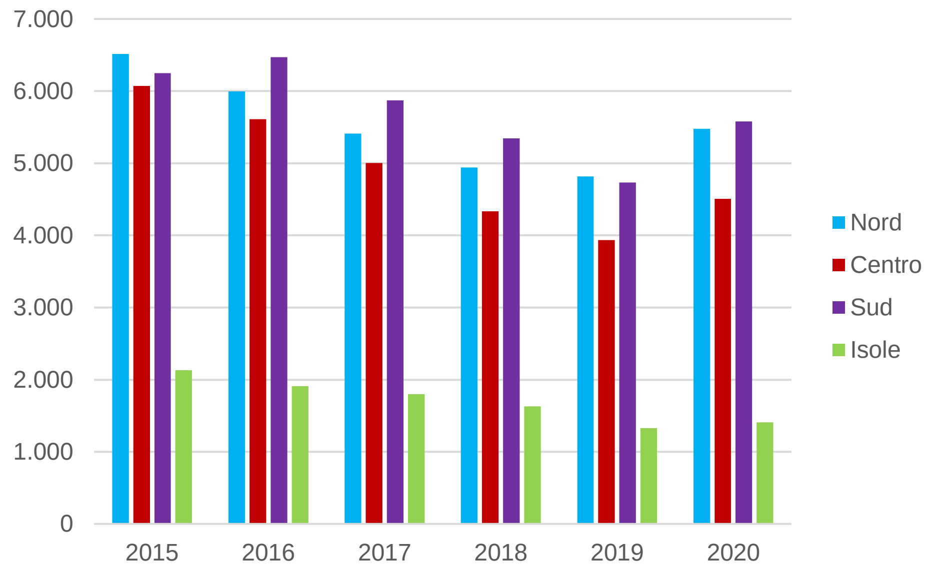
Year	MTPL	Other non-life classes	Total Non-life	Life	Grand total
2013	17,462	6,575	**24,037**	2,597	**26,634**
2014	16,464	6,551	**23,015**	2,621	**25,636**
2015	13,239	6,473	**19,712**	2,932	**22,644**
2016	12,712	5,987	**18,699**	2,733	**21,432**

Complaints received by IVASS: distribution by sector					
Year	MTPL	Other non-life classes	Total Non-life	Life	Grand total
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**
2020	10,444	5,983	**16,427**	2,492	**18,919**
Var. 2019/2018	-15.1%	-3.2%	**-11.3%**	-9.6%	**-11.1%**
Var. 2020/2019	**12.2%**	**21.5%**	**15.5%**	**20.7%**	**16.1%**

With regard to the distribution of complaints by sector, those relating to motor liability fell (55.2% of the total compared with 57.1% in the previous year), while complaints relating to other non-life classes rose (31.6% compared with 30.2%), as did those relating to the life segment (13.2% compared with 12.7%). The increase is generalised in all geographical areas, with the exception of insular Italy (fig. V.3).

Figure V.3

Origin of complaints by geographic area



A significant increase is recorded in the requests for information received (from 458 in 2019 to 906 in 2020), mainly related to the status of foreign companies operating in Italy under the right of establishment or the free provision of services and the verification of the validity of insurance coverage issued by them (with particular reference to the suretyship class). In these cases, the company reported is contacted, involving, where necessary, the Authority of the Home Member State.

In 2020, investigations relating to 22,127 complaints were completed, with favourable outcomes for complainants in 38% of the cases (Table V.7). These files were opened in 2020 or 2019; only 2.6% of the cases concerned positions that were older in time and for which the persons concerned requested the reopening of the complaint position.

Table V.7

Investigations concluded by IVASS in 2020		
	Number	**%**
Totally upheld by the undertaking	5,932	26.8%
Partially upheld by the undertaking	2,518	11.4%
Not upheld by the undertaking	8,055	36.4%
Sent to the undertakings for direct handling first	5,515	24.9%
Complaint transmitted to a different Authority with jurisdiction	107	0.5%
Total	22,127	100.0%

9.2.1. - Complaints in the non-life classes

Complaints received in relation to non-life business totalled 16,427, an increase of +15.5% compared to 2019, when they had decreased by -11.3%.

Motor liability as a percentage of total non-life business declines from 65.4% in 2019 to 63.6% in 2020. 80% of motor liability complaints relate to the handling of claims, mainly due to compliance with legal deadlines for compensation. 19.5% of cases are related to the contractual area, in particular in the application of the bonus malus regime.

Table V.8

MTPL complaints - distribution by area					
Area	**2016**	**2017**	**2018**	**2019**	**2020**
Claims	10,994	10,224	9,239	7,607	8,375
Contractual	1,670	1,531	1,634	1,649	2,032
Commercial/Other	48	99	92	50	37
Total	**12,712**	**11,854**	**10,965**	**9,306**	**10,444**

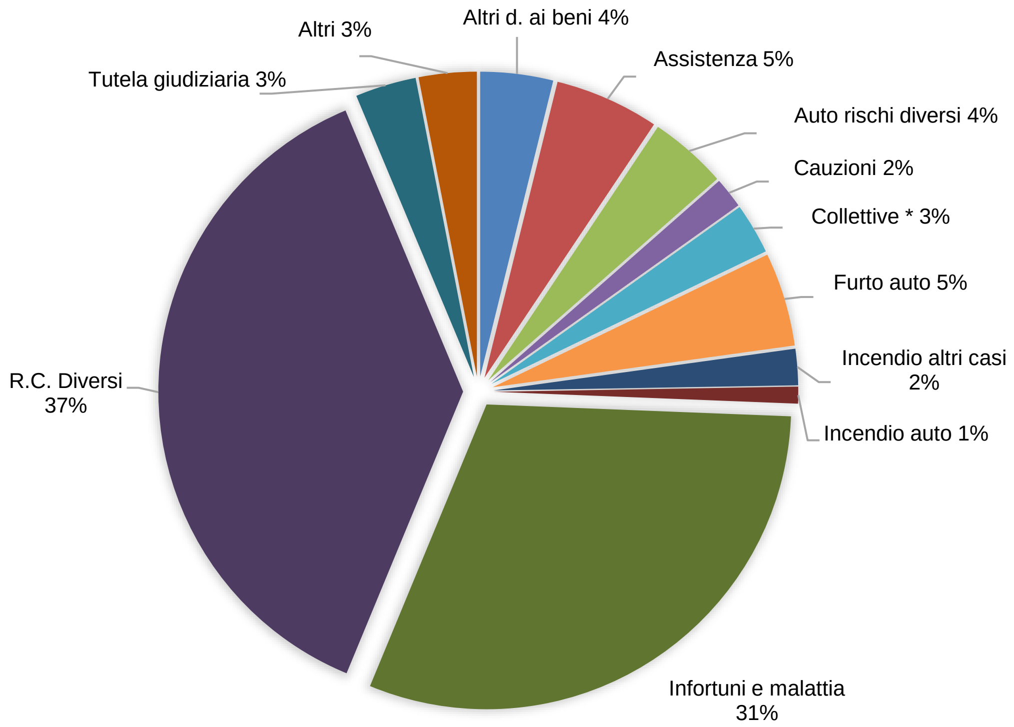
For non-life classes other than motor liability (fig. V.4), complaints handled totalled 5,983, up +21.5% compared to 2019, when they had decreased by -3.2%.

The increase mainly involved the accident and health classes (+16.9%) and general liability (+16.0%), including professional liability coverage for doctors and professionals.

Of note is the increase in disputes relating to the Assistance class, which more than doubled from 133 to 323, partly due to the cancellation of trips as a result of the pandemic emergency, and Other damage to property, from 79 to 225.

Figure V.4

Complaints in non-life insurance classes other than MTPL – 2020



* Loss of employment, Accident and Sickness, other damage

Again with reference to the non-life business other than motor liability (tab. V.9), most of the complaints received relate to claims issues, including delays in settling claims or disputes over the assessment of damages. Complaints relating to the contractual area mainly concern aspects relating to the interpretation and application of the terms and conditions of the contract and the procedures for terminating it.

Table V.9

Other non-life insurance complaints - distribution by area					
Area	**2016**	**2017**	**2018**	**2019**	**2020**
Claims	4,356	4,076	3,810	3,883	4,705
Contractual, Commercial and Other Areas	1,631	1,519	1,273	1,040	1,278
Total	**5,987**	**5,595**	**5,083**	**4,923**	**5,983**

9.2.2. - Complaints in the life assurance classes

In 2020, there were a total of 2,492 complaints received in relation to the life sector, with an increase of +20.7% compared to 2019, when there was a decrease of -9.6%. Complaints related in particular to delays and disputes concerning surrenders and payments of capital at maturity (claims settlement area). In the contractual area, consumers often complain about the opacity or insufficiency of the information they receive when taking out policies; in some cases, complaints relate to the correct application of contractual clauses.

Table V.10

Life complaints - distribution by area					
Area	**2016**	**2017**	**2018**	**2019**	**2020**
Claims	1,304	1,029	848	855	1,330
Contractual, Commercial and Other Areas	1,429	1,606	1,436	1,210	1,162
Total	**2,733**	**2,635**	**2,284**	**2,065**	**2,492**

9.2.3. - Complaints against intermediaries

Complaints received against intermediaries mainly related to a lack of transparency in dealings with policyholders and insured parties, both in the underwriting phase and in the performance of contractual relations. Complaints relating to agents have been handled by directly involving the principal company, while complaints relating to brokers or banks have been handled by directly involving the latter and, if necessary, the insurance company providing the coverage brokered by the distributor.

Frequently, the policyholder reports a discrepancy between the contractual content proposed by the intermediary in the underwriting phase and the content of the contract actually concluded. In some cases, policyholders only become aware of this discrepancy long after the contract has been concluded, when a claim occurs in non-life policies, or when they decide to exercise the right of surrender in life policies.

The management of these complaints highlights the importance of a correct pre-contractual phase to verify the adequacy of the contract in relation to the needs and requests of the policyholder. The distributor is obliged to act in the best interest of the customer, offering a contract that effectively meets the customer's insurance needs, which have been properly collected through a verifiable activity based on the documents.

The discipline of product governance and control, the mandatory identification by the manufacturer of the reference market for each product, as well as the implementation, without exception, of the principle according to which the distributor cannot propose an inadequate contract to the customer, require ever greater attention to the suitability of the contracts distributed to meet the real needs and expectations of customers.

In the course of the contractual relationship, improper conduct was noted in the relationship between distributor and policyholder. The complainants, with reference to life insurance products, report having surrendered, on the advice of the distributor, a policy before its natural expiry date in order to invest the sums paid out in another policy, which subsequently turned out to be less convenient and, above all, less suitable for their own insurance needs. The adequacy of the new contract to meet the needs of the policyholder was often not checked and the negative economic consequences (penalties and charges) for the policyholder resulting from the early termination of the previous contract were not taken into account.

In the non-life insurance policies, some complaints were related to the solutions proposed by the intermediaries following the requests by the policyholder to amend the contents of the contract, which subsequently turned out not to be in line with the needs expressed.

With regard to brokers, there were cases of failure to set up an independent complaints handling function, as required by current legislation, with consequent prejudice to the autonomy and impartiality of the function. In fact, the final decision as to the outcome of the complaint, which is entrusted to the head of the complaints handling function, guarantees impartiality of judgement and protection of the complainant's interests. In addition, the analysis of the causes of complaints, carried out by the same function, is an indispensable tool for identifying inefficiencies or anomalies in business processes. In these cases, the distributor was asked to comply with regulatory requirements.

Effects of COVID-19 on the handling of complaints received by IVASS

Since the beginning of the pandemic, the Institute has focused its attention on consumer complaints related to the COVID-19 issue, implementing protective measures at a time of great difficulty and social tension.

From March to the end of 2020, there were 250 complaints directly attributable to the pandemic, equal to 1.6% of complaints received, mainly relating to travel (64%), motor liability (14%), health (8%), life (8%) and financial loss (6%) policies.

At the same time, the COVID-19-related reports received by the Consumer Contact Centre were carefully evaluated, providing information and taking moral suasion action against companies. The latter have been urged to interpret the contractual clauses in a way that is more in line with the interests of the policyholder, taking into account the current pandemic situation. These actions have resulted in the resolution of many requests that were initially rejected.

One company, also at the request of the Institute, has adapted the settlement process in life policies, reconciling the need for adequate verification and certain identification of claimants with the need to protect individuals from risky physical movements.

In the travel sector, companies were asked to pay utmost attention to consumers, especially in relation to planned trips, inviting them, where possible, to give priority to reimbursements and compensation instead of vouchers to be used when the health situation can be considered normalised.

Companies have been urged to accept alternative documentation proving the injured person's condition, avoiding potentially dangerous requirements for policyholders to access insurance coverage (e.g. access to the emergency room for the purpose of proving the injury).

Some companies have recognised forms of assistance to customers, extending the contents of existing illness or accident contracts and providing daily allowances for home isolation in the event of a positive COVID-19 test. In the early period of the pandemic, when access to the swab was hampered by the shortage of tests, companies were urged to consider the result of the serological test for the verification of the existence of the infection.

In the case of motor liability insurance, the five-year expiry of the risk certificates during the lockdown period and the simultaneous difficulty of purchasing a new vehicle made it difficult to enforce the merit class accrued. In some cases, at the Institute's request, the validity of the certificate has been extraordinarily extended to allow policyholders not to lose their most favourable merit class. Similarly, in order to benefit consumers, companies have accepted certain requests to cancel policies and refund premiums if they were no longer useful because of the pandemic and were too expensive, given the changed economic conditions of the policyholders.

9.3. - Complaints received by insurance undertakings

In 2020 the Italian and foreign insurance undertakings operating in Italy received 93,128 complaints from consumers, up by +1.6% (they had fallen by -5.8% in 2019).

In particular (tab. V.11), Italian companies received 80,708 complaints (essentially stable compared to 2019), EU companies received 12,420, with an increase of +14.9%, compared to a decrease of -23.4% the previous year. For Italian companies, complaints relating to motor liability predominate, while for foreign companies almost 50% relate to other non-life lines of business.

Table V.11

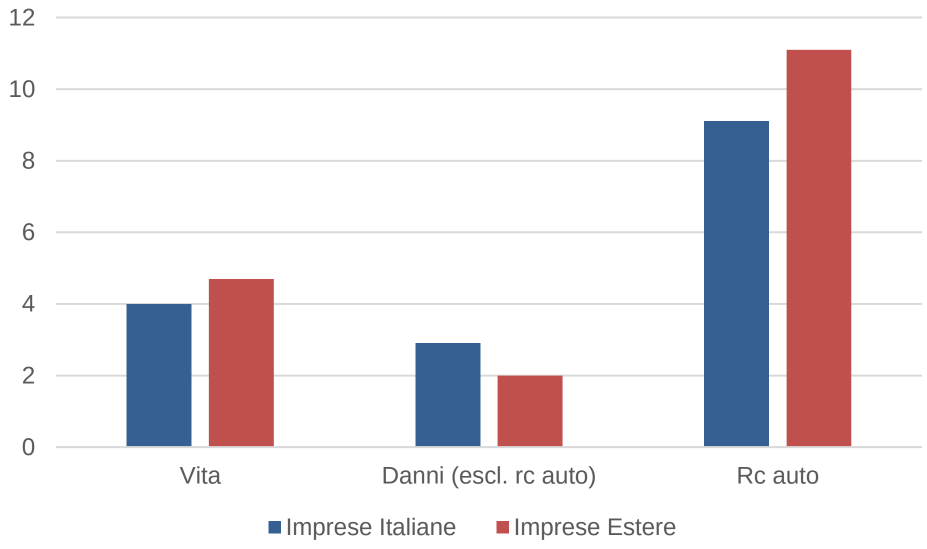
Complaints received by undertakings by insurance class – 2020

	Life and non-life Total		Life business		Non-life business (MTPL excluded)		MTPL	
	No.	2020 / 2019	No.	2020 / 2019	No.	2020 / 2019	No.	2020 / 2019
Italian undertakings	80,708	-0.1%	14,505	8.5%	29,311	2.4%	36,892	-5.0%
Foreign undertakings	12,563	16.2%	2,510	8.3%	5,989	6.7%	4,064	41.1%
Total	**93,271**	**1.8%**	**17,015**	**8.5%**	**35,300**	**3.1%**	**40,956**	**-1.8%**

Figure V.5

Breakdown by sector of the complaints received by undertakings – incidence on the total number of contracts in the sector – year 2020

(number of complaints/10,000 contracts)



The highest number of complaints (40,826, equal to 43.8% of the total) continues to be concentrated in motor liability insurance, with an overall decrease of -2.1%. Complaints against Italian companies decreased (-5%), while there was a sharp increase in complaints against foreign companies, both in percentage terms (+36.5%) and in absolute terms (+1,053).

Non-life business other than motor liability accounted for 37.9% of total complaints. For foreign companies, the weight of this segment in terms of complaints represents 48% of the total (approximately one-third of these are complaints about assistance insurance), while for Italian companies the incidence is 36%.

Finally, the life insurance segment recorded a significant increase in complaints, both for Italian (+8.5%) and foreign (+8.3%) companies.

Table V.12

Complaints of undertakings operating in Italy: distribution by sector (2016-2020)

Year	MTPL	Other non-life	Total 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**
2020	40,826	35,291	**76,177**	17,011	**93,128**
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%***
Var. 2020/2019	*-2.1%*	*+3.0%*	***+0.2%***	*+8.5%*	***+1.6%***

As to the outcome of the complaints against Italian and foreign undertakings, 30.1% were upheld, in line with 2019 (29.7%). 55.9% of complaints were dismissed (it was 55.4%), while settlement agreements led to the closure of 9.3% of cases (it was 10.2%). As in 2019, 4.7% of complaints were still in the investigation phase at the end of 2020.

The average response time to complainants was 21 days, in line with the previous year and well below the 45 days envisaged by ISVAP Regulation 24/2008. For motor liability claims, the average time is even lower at 19 days.

9.3.1. - 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 be a useful tool 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 has a knock-on effect on businesses, inducing undertakings to comparing their results with those of other undertakings and improving the processes and quality of the service offered to consumers, encouraging measures to remove the root causes of complaints.

The published rankings, for their informative and comparative value, represent a reputational lever and are a strong incentive to improve quality and customer satisfaction[192].

Effects of COVID-19 on the handling of complaints received by companies

The spread of the COVID-19 pandemic has prompted companies to provide adequate disclosure on changes to policy placement and benefit settlement processes and, in general, on situations that prevent the ordinary management of customer relations.

In order to guarantee the continuity and quality of services as well as the correct relationship with consumers, initiatives have been taken to reorganise remote activities, to intervene in the workplace in compliance with changing security requirements and, in some cases, to strengthen or convert the workforce.

Particular attention was paid by the supervised parties to accepting customer complaints in view of the extraordinary nature of the situation, taking into account the recommendations of EIOPA and IVASS to ensure that insurance business is conducted correctly in the interests of consumers. Some companies have initiated reviews of contracts and settlement policies for facts related to COVID-19.

In the first few months of the pandemic, at the same time as the business reorganisation, the most recurring reasons for complaints linked to the epidemic were related to inefficient access to IT platforms, the timely use of the compensation products offered with the promotional campaigns, and delays in settling claims, largely due to delays in communicating with policyholders and injured parties and difficulties in carrying out assessment activities.

The trend in complaints related to COVID-19 mainly involved the non-life business and the settlement area, in relation to the changed claims rate in the lines of business directly impacted by the traffic restriction measures, such as the motor and travel sectors. In particular, the former showed a decline in the first half of the year, only to return to growth with the recovery of mobility in the post-lockdown period, with the exception of motor liability policies for rental fleets, which continued to be affected by the pandemic crisis.

With regard to the travel sector, complaints about the interpretation of clauses relating to cancellation coverage for penalties payable increased, following the entry into force of government support measures and the implementation of IVASS recommendations on contractual and policy matters. However, there has been a considerable reduction in the number of complaints about requests for assistance during trips, which are no longer made because of the lockdown.

There have been increasing complaints about non-payment of claims under health insurance policies for COVID-19-related conditions.

For many companies, the epidemiological event has been an incentive to speed up the digitalisation processes already in place, strengthening controls over the entire distribution chain and improving the customer experience, with expected impacts of reduced complaints from customers. Of particular note are the measures to increase the efficiency of procedures or phases of work processes, including greater automation of information flows, the development of web channels or mobile phone apps, the use of chatbots for customer interaction, simplifying the processes for reporting and managing claims and for handling complaints.

[192] https://www.ivass.it/consumatori/reclami/2020/1-sem-20/All.1_Dati_per_singola_impresa-Tavola_reclami_premi.xlsm

9.4. - Action on undertakings arising from complaints

In 2020, further incentives were given to companies to manage complaints in order to identify their root causes, with the aim of taking targeted action at the root, in addition to dealing with individual cases, by requesting corrective action on company conduct and processes with a view to proactivity and greater protection. In this perspective - in accordance with the general regulatory framework and the new internal organisational structure - opportunities for collaboration between the Consumer Protection Directorate and the Market Conduct Supervision Directorate for joint actions have been significantly intensified. In addition to the day-to-day handling of consumer complaints, a wide-ranging action was taken to address the various business areas of Italian and foreign companies operating in Italy, with a view to providing more effective consumer protection.

9.4.1. - Problems in the life segment

In the life segment, complaints continue to be received regarding the inadequacy of insurance contracts, including those with a high financial content, which do not meet consumers' insurance demands and needs. The problems concern the structure of the product and the conduct of the distributor, with shortcomings in the collection of information relating to the needs and demands of the policyholder, in the correct and complete explanation of the characteristics of the product and in the assessment of adequacy (par. 4). These criticalities often originate in the insufficiency of the control and monitoring systems of the distribution network, which represent an important governance tool for companies. In these cases, the Institute intervenes with companies and intermediaries to request the consequent remedial actions in the interest of consumers.

In the liquidation phase of life policies, consumers complain about the complexity of the documentation that companies request in order to provide for the liquidation of the capital in case of expiry, claim or surrender. Some complaints concern requests to customers to submit documentation for verification purposes to combat tax evasion and to improve transparency and compliance with tax obligations (FATCA and CRS regulations). IVASS intervened against a supervised entity, analysing the settlement procedures and the requests for documents and self-certifications on tax matters and customer due diligence, to request the adoption of any possible simplification aimed at avoiding excessive requests.

9.4.2. - Problems in the non-life segment

In the motor liability segment, the issue of the "Family bonus" is of particular importance for consumers, following a recent change in the legislation (article 134, paragraph 4-bis of the CAP), which significantly broadened the scope of protection with regard to the possibility of benefiting from the most favourable merit class in the household, even for vehicles of a different type compared with those already insured. The Institute has taken steps to apply the rules in the most favourable way for the consumer, also giving impetus to the search for solutions for undefined aspects.

Companies have adhered, following targeted interventions, to solutions in favour of consumers on some controversial profiles of the new regulations, in order to apply the most favourable merit class not only to new contracts but also to renewals and to contracts stipulated not only with the same company that covered the risk, but with a different insurance company. A broader interpretation has therefore been favoured, in line with the aims of the legislator, and companies have been asked to take consequential remedial action in the interests of consumers.

For some profiles that have not yet been defined, consumer information solutions have been identified, as in the case of the application of the benefit to vehicles of different categories in the absence of a risk certificate with 5 years without claims. The Institute has published a notice in which it points out that a reading of the rule consistent with the purposes of consumer protection would suggest recognising the benefit even in the presence of an insurance history of the beneficiary vehicle that dates back to less than 5 years, provided that in the absence of claims. However, the wording of the provision does not allow IVASS to request, in the exercise of its supervisory and protection functions, that it be applied in accordance with the reading envisaged. Consequently, the Institute, not being able to substitute itself for the legislator, has represented the issue in the institutional seats in order to promote suitable interventions to overcome the current framework of uncertainty and ensure an application of the rule in the most favourable sense to the consumer.

In the underwriting stage of motor liability policies, the policyholders report delays in activating the coverage and, in some cases, initiatives of unilateral cancellation by the companies of contracts already stipulated. Some companies operating through telematic channels, after authorising the payment of the premium, check the information received from the policyholder during the pre-contractual phase only at a later date and unilaterally cancel the contract in the event that the information contains errors or is reticent, without, however, notifying the interested party in due time. In addition to the inconvenience for the policyholders, in the event of a claim, significant problems may arise for the injured parties, who would be challenged on the grounds of lack of insurance cover. Not being able to make use of the direct compensation procedure, they are in fact forced to take action against the Guarantee Fund for Victims of Road Accidents, facing a more complex management of the claim.

The Institute intervened with the companies to request the consequent remedial actions in the interest of consumers. In many cases, the actions implemented have enabled companies to achieve positive effects in terms of reducing complaints in these areas.

Monitoring of consumer complaints relating to health policies continued; as a result of the targeted interventions of IVASS, there has been a progressive reduction in complaints in a delicate sector such as that of health risk coverage, which is particularly exposed in times of pandemic. Measures have been taken to ensure full equality of treatment for same-gender civil partners in terms of contractual contents (prevention packages) and settlement policies.

With regard to professional indemnity coverage, complaints were received from injured third parties who complained that the insurer had failed to investigate the claim, on the assumption that their policyholder had contested liability. Measures have been taken against the companies involved in order to promote, in any case, a complete preliminary investigation of the claim and contribute to a correct assessment of the actual responsibilities, pursuing an effective protection of innocent victims.

9.5. - The Contact Centre

The Institute's Contact Centre for Consumers and Intermediaries - unified and strengthened since December 2019 in terms of resources assigned and interface with users - has made it possible to effectively meet the requests received, despite the difficulties due to the pandemic.

During the first phase of the health emergency from mid-March to the end of May, call answering activities were carried out entirely remotely, with organisational and technological measures in place to ensure continuity and a high level of service to users. A gradual resumption of face-to-face activities has taken place since the end of May, in full compliance with health safety measures.

The telephone assistance service is an important means of support for citizens, offering replies and insurance guidance and represents a valuable aid to IVASS for rapidly intercepting problems requiring supervisory action.

Equally important is the telephone service for intermediaries, which provides assistance to the 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 and in the multiple requirements envisaged by sector regulations.

In 2020 56,023 telephone calls reached the Contact Centre, 29,869 from consumers and 26,154 from intermediaries. The calls dealt with were 54,853, 29,230 relating to consumers and 25,623 to intermediaries, for an average of 4,570 calls per month (2,435 from consumers and 2,135 from intermediaries) and 215 calls per day (115 and 100).

Telephone calls received from consumers, down by -6% compared to 2019, were dealt with for an average of 98% (it was 90% in 2019), with an average operator response time of 15 seconds (it was 1:48 minutes) and an average duration of conversation of 4 minutes.

Table V.13

Data on the activities of the IVASS Consumer Contact Centre - 2020

	(units and % values)
Total calls received	29,869
Total calls dealt with	29,230
% received/ dealt with	97.8%
Calls dealt with on average per month	2,435
Calls dealt with on average per day	114
Average waiting time (minutes)	00:15
Average duration of telephone conversation (minutes)	04:00

Table V.14

Activities of IVASS Consumer Contact Centre

(Units)

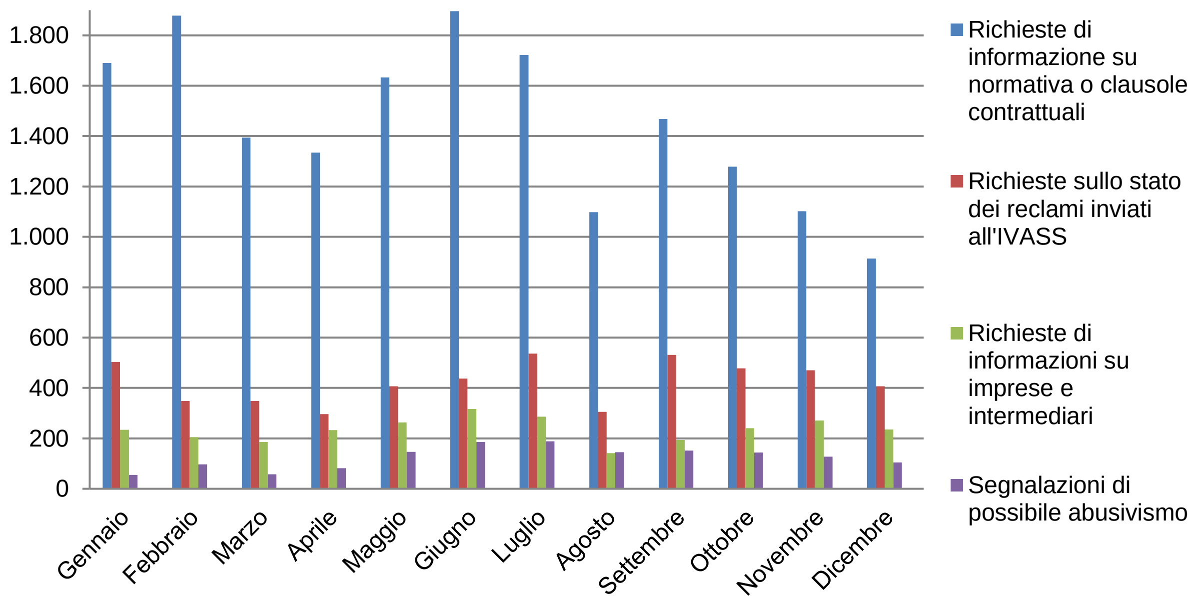
	2014	2015	2016	2017	2018	2019	2020
Calls received	43,550	44,069	34,873	30,630	32,871	31,702	29,869
Calls dealt with	42,083	35,250	32,808	28,114	29,512	28,340	29,230
% received/ dealt with	*96.6%*	*78.0%*	*93.9%*	*96.9%*	*90.0%*	*89.4%*	*97.8%*

59% of the telephone calls dealt with concerned requests for clarification of insurance regulations and contractual clauses, particularly for MTPL policies. 11% of the calls were aimed to obtain information on the progress of the complaints filed with the Institute and 6% information on the due authorisation of insurance undertakings and intermediaries. 5% 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, especially 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.6

Consumer requests received monthly – 2020
(Units)



10. - THE INSURANCE ARBITRATOR (AAS)

In 2020, progress was made in the complex process aimed at setting up an out-of-court dispute resolution system in the insurance sector envisaged by article 187 paragraph 1 of the CAP, similar to what has already been implemented in the banking sector (Arbitro Bancario e Finanziario - ABF) and financial sector (Arbitro per le Controversie Finanziarie - ACF).

The close collaboration between IVASS and the Ministries of Economic Development and Justice continued for the definition of the regulatory framework of the AAS. The inter-ministerial decree provided for by article 187.1 of the CAP must include the main political choices on the criteria for the composition of the deciding body, on the nature of the disputes that can be submitted to the Arbitrator, on the conduct of the dispute resolution procedures.

The Insurance Arbitrator will be operating in a particularly complex sector for:

- the considerable heterogeneity of non-life and life products;
- the large number of disputes on compensations and indemnities for claims, especially in the non-life business, and the need, in order to ascertain the admissibility and amount of compensation, for complex technical assessments, such as expert opinions, which the Arbitrator cannot order[193];
- the heterogeneity of the Italian insurance system, where there are Italian companies, branches of non-EEA companies, EEA companies operating under the right of establishment or the free provision of services, as well as a significant number of intermediaries, mainly self-employed professionals who operate on behalf of the company or on behalf of the customer with vertical and horizontal collaboration schemes;
- the possible coexistence of conducts and responsibilities of the company and the intermediary, with consequences in terms of compulsory joinder and the integration of the cross-examination.

10.1. - Regulatory activities

With the enactment of the IDD corrective (Ch. III.3.1.1.a), the primary regulatory framework concerning the Insurance Arbitrator has been detailed, among other things, specifying that recourse to the system is an alternative to the trial of the mediation and assisted negotiation procedures, as a procedural condition for recourse to the judicial authority.

The collaboration with the competent Ministries continued for the preparation of the implementing regulations, which are broad and articulated, to be issued through a MiSE decree, to be adopted jointly with the Ministry of Justice and upon proposal of IVASS, which is also entrusted with the definition of the detailed profiles. The MiSE regulation will regulate the essential aspects, such as the recourse to the Arbitrator, the nature of the disputes, the composition and functioning of the arbitration panels, the technical secretariat and the criteria for carrying out the procedure, with the different phases of the presentation of the appeal (assessment of admissibility, carrying out of the procedure and assumption of the determination by the deciding body). The Ministry of Economic Development is currently engaged in an informal discussion of the draft decree with trade associations.

The regulations in preparation are aimed at ensuring that the out-of-court dispute resolution mechanism corresponds to the typical specificities of the insurance sector and to the structure of

[193] The AAS will deal with disputes relating to insurance benefits and services arising from insurance contracts of all classes. The Arbitrator may be called upon to decide on a wide range of disputes, relating to life and non-life businesses, the contractual phase (interpretation of clauses), the distribution of the product (pre-contractual information and transparency, rules of conduct) and the settlement phase (delay in settlement). Like the other sector arbitrators, the AAS will not be able to conduct autonomous preliminary investigations, take witness statements or order technical consultations, in view of the need to speed up and expedite the proceedings and given the summary nature of out-of-court proceedings. Decisions will be based on the documentation produced by customers, the company and the intermediary during the investigation.

the distribution system characterised by the frequent involvement of intermediaries in the product placement activity.

10.2. - Organisational and IT activities

On an organisational level, the Technical Secretariat of the Insurance Arbitrator was set up within the Consumer Protection Service. The personnel recruited through public competition (15 resources with a legal profile) underwent an intense training programme with a preliminary tutoring phase and on-the-job training in the management of complaints submitted to IVASS, on issues similar to those that will be dealt with by the insurance dispute resolution system.

An initial census of the work processes and tasks falling within the Technical Secretariat's remit was completed to identify the main operational risks and mitigation measures. In addition, the operating guide for filing the appeal and the contents of the Arbitrator's website were prepared.

The computer system "Il portale del cittadino" (the citizen's portal) through which citizens will be able to lodge appeals and the dedicated website that will allow interaction with customers, companies and intermediaries have been created. The entire process of appeal to the Arbitrator will be digital, with benefits in terms of time and efficiency of the process of filing and conducting appeals. In setting up the IT infrastructure, the experience gained by the Bank of Italy was used, through the re-use of the application used by the ABF. The first phase of testing the front and back office activities supported by the Arbitrator's portal was completed, improving the content, graphics and functionality of the systems.

11. - Insurance education

11.1. - Survey on insurance literacy

The insurance literacy test, commissioned to the Milan University Bicocca and Doxa and financed by the MiSE, continued in 2020 The initiative, addressed to a representative sample of the Italian population made up of 2,000 individuals over the age of 18, aims to make up for the absence, even at an international level, of a system for measuring the level of insurance knowledge and skills and of the results of a strategy designed to strengthen them.

The questionnaire detects basic knowledge of insurance mechanisms, skills in probabilistic reasoning and risk assessment, factors underlying insurance decisions, methods of communication with companies. The objective is to capture the areas of greatest criticality in the various segments of the population and to address future educational actions more effectively with the definition of a general index of assurance, which aggregates information on five specific areas (insurance knowledge, trust towards companies and intermediaries, risk aversion, insurance logic and effectiveness of communication).

The results show that men have higher levels of insurance literacy than women, the young and the elderly are the least literate and the most under-insured, signalling phenomena of exclusion, and the North is more literate than the rest of Italy. The index increases as the educational attainment of respondents increases, particularly those with at least a high school diploma.

The most significant gaps are in insurance knowledge, related to some basic concepts and major products.

Overconfidence on the part of the respondents emerged. 60% of the interviewees claim to be familiar with basic concepts such as premium, deductible and maximum amount of cover but only 14% correctly answer all the questions. 39% claim to know insurance products (accidents, term life insurance, life and supplementary pension) but only one person out of the 2,000 interviewees can answer all the questions correctly. 69% believe that they do not need the advice of the insurer, nor do they rely on external information sources (autonomy bias). This excessive trust, together with overconfidence on their insurance knowledge, may lead the insured to make poor or uninformed choices.

With regard to behaviours:

- there are no gender or age differences in the importance given to trust, except for the over 74 who give more importance to this factor, while trust decreases as schooling increases, in the South and in the Islands. In relation to confidence in companies, 55.5% of the interviewees believe that it would be fairly or even very easy to obtain the compensation due in case of claim; 62% declares to be fairly or very comfortable in facing life's unexpected events after taking out an insurance product. Trust towards intermediaries is more important the elderly and for the less educated, who tend to delegate their choices to others;
- risk aversion is higher in relation to the level of education and it is more pronounced in young people than in older people and in the North East, while the South and the Islands are more prone to risks. There are no gender differences. Respondents, although fearful of the risks they run, do not always access the relevant coverage: for 76.7%, the most felt fears for the present or the future are health problems due to illness or injury and yet a health policy is taken out by 10.6% and an accident policy by 20.2%. The fear of natural disasters is greater in the South and Islands than in the North, however it is in the North that a greater percentage of these policies are taken out (20% vs. 4.1% in the South and 3.5% in the Islands);
- insurance logic, understood as the ability to identify the correct logical connections between concepts in the insurance field, stands at sufficiently adequate levels; it is higher for men and for the population in the 18-34 and 35-54 age groups and is positively correlated with the level of schooling. Scores differ by geographical areas, with the South and the Islands recording the lowest scores. This suggests that Italian citizens, if accompanied to mature a basic and product knowledge, would have the ability to make correct decisions. 65.9% state that they have a good propensity to evaluate different offers before choosing which policy to take out, which is more pronounced among men than women and decreases with increasing seniority and increases with schooling;
- effectiveness of insurance communication, in terms of comprehensibility of the information set of insurance products and clarity in explaining the contractual clauses before taking out policies, shows no differences by gender, age and geographical area. Those with lower education tend to score a higher comprehensibility index than more educated individuals. The information set of insurance products is considered quite comprehensible by 34% of the respondents; while more than 50% express dissatisfaction. The lack of comprehensibility, opaqueness and complexity of policies are reported by

respondents with a high level of education. The lack of comprehensibility is one of the main reasons for not taking out the policy (50%), just after the cost (67.5%) and followed by mistrust of insurance (42.4%) and previous negative experiences (28.7%).

The survey is a snapshot of the state of knowledge and the insurance behaviour of Italians, useful to define precise and reliable tools for measuring the level of insurance literacy. The large amount of information collected has been made available to the institutions, scholars, stakeholders, with a view to stimulating contributions on the working method as well as on the actions to be taken. The insurance literacy policies, to be defined with the Edufin Committee, cannot disregard the active involvement of all the players in the system to provide Italians, right from the first grade, with the basic elements of finance, insurance, pension and digital education, to achieve a fuller and more informed economic citizenship.

11.2. - Initiatives carried out by IVASS

The Institute's insurance education initiatives take into account the heterogeneity of the recipients (e.g. young people or adults) and use different ways and languages to provide training, also through the use of innovative approaches.

The activity carried out in 2020 involved an increasingly broader audience of the population, through greater use of digital tools, to take into account both the technological revolution underway and the difficulties related to the pandemic of using traditional channels.

In addition to numerous webinars attended as speakers by representatives of the Institute, during the year, the following initiatives were carried out for the benefit of adults:

- four information video clips, financed by the MiSE, dedicated to issues that, based on reports from consumer associations and the institutional activities of IVASS, are of particular interest to end users;

- 13 monthly update newsletter to make people aware of the activities carried out by the Institute.

Particular attention was paid to young people, their needs, languages and communication channels. The video game "When travelling: watch out for unexpected events!"[194], aimed at I and II level high school students, has the objective of stimulating, through play, an understanding of the basic mechanisms of insurance and to spread knowledge of some of the characteristics of the most common policies. The video game, published on the Institute's website, can be used in perspective, together with the accompanying information sheets, especially in schools. A special collaboration in this sense has been set up with the ANIA - Consumers Forum for the inclusion of the game and related educational material in the "Io&iRischi" project, which aims to promote greater risk awareness and a culture of risk prevention and management in high schools. The educational materials will be used in the 2021/2022 school year.

[194] https://www.ivass.it/consumatori/imparaconivass/videogame-inviaggio/index.html

11.3. - Participation in the EDUFIN Committee

IVASS actively contributes to the National strategy for financial, insurance and social security education pursued by the Committee for the Planning and Coordination of Financial Education Activities (EduFin), of which IVASS is a member along with the Bank of Italy, Consob, COVIP, CNCU, OCF, MEF, the Ministry of Education, MiSE and the Ministry for Labour and Social Policy.

Among the contributions offered by the Institute, of particular note are the activities for the development and publication on the portal of the Committee[195] of the:

- Youth Guidelines for the development of financial education skills in primary and I and II level high schools; the tool is available to school managers and teachers to include the teaching of financial education in the curriculum;

- Guidelines for the implementation of financial education programs for Adults; the document offers a reference framework for organisations, including associations, institutions and companies, that intend to implement financial, insurance and pension education initiatives dedicated to the adult population, and identifies a set of skills useful for making important economic decisions at different times in life in a conscious and considered manner.

Education/playing initiatives aimed at introducing high school students to financial, insurance and pension issues are in the process of being defined. This is a composite project with initiatives ranging from a self-assessment quiz on knowledge, to the creation of a simple financial planning tool, the development of interactive educational games aimed at young people, the creation of video tutorials and web series on financial and insurance issues.

Memorable among the Committee activities carried out with IVASS' contribution was the third Financial, Insurance and Welfare Education Month (October 2020), with over 600 informative and sensitisation events targeting children, students and adults. Among these events, special mention should be made of the second Insurance Education Day, organised by IVASS.

[195] http://www.quellocheconta.gov.it/it/

VI. - SANCTIONS

The year 2020, while marked by the exceptional nature of the COVID-19 emergency, is the first in which the effects of the reform of the sanctioning system for the insurance sector introduced in the CAP since October 2018 are beginning to be seen. The new regime is characterised by pecuniary sanctions with higher prescribed minimum and maximum amounts applicable not only to legal entities but also to physical persons, by non-pecuniary sanctions as an alternative to pecuniary sanctions (order to cease the breaches) or that can be imposed on an ancillary basis, by the provision for intermediaries of the alternation of pecuniary and non-pecuniary sanctions as well as the introduction of the unitary assessment for certain types of violations of the same nature.

This has led to in-depth reviews for interpretation or application purposes, also in relation to violations already provided for in the CAP, however which take on a different connotation in the new context. Discussions with the Institute's other assessment structures were particularly useful in order to find proportionate and effective solutions.

The application of the new institution of unitary assessment, which consists of a six-monthly assessment for each type of violation of the same nature and which gives rise to notifications of breaches concentrated in two periods of the year, has achieved the set objective of decreasing sanctioning procedures and reducing part of the related administrative activities. This simplification has also benefited market operators, thanks to an overall view of the violations ascertained, resulting in the possibility of targeted remedial action and an organic management of investigations and defences relating to positions in violation.

Another area of innovation was that of the application of the order to cease the notified breaches in order to restore regular management within the company. The potential of the alternative sanction to the pecuniary one has found application in anti-money laundering matters.

The emergency situation did not entail any limitations on the rights of defence of the recipients of the notifications. The deadlines for submitting defences have been suspended in accordance with the provisions of Decree Law no. 18 of 17 March 2020, "Cura Italia" and by Decree Law no. 23 of 8 April 2020, "Liquidity Decree". The hearings were initially held remotely, as prescribed for PA by the emergency decree (DPCM of 18 and 24 October and 3 November 2020 and Ministerial Decree of the Public Administration of 19 October 2020). Subsequently, on the basis of its experience in emergencies and in order to facilitate the exercise of the right of defence in the context of sanctioning proceedings, the Institute has routinely adopted the innovative procedure of hearings by video-conference, which allows for a less onerous participation for the applicant and is particularly useful when a hearing at the office is impossible or more difficult to carry out within the timing normally envisaged (IVASS Order no. 99 of 6 October 2020).

As regards the publication of the sanctioning measure, the reform introduced, in addition to the ordinary publication, alternative forms of publication (anonymous, deferred or excluded). The Institute is therefore called upon to assess the type of publicity to be given to the final sanctioning measure when dealing with the procedure, whereas in the past, it was obliged to publish all the sanctioning measures issued, without any discretion.

The communications to be provided to EIOPA on sanctions relating to distribution, in individual and aggregate form, were started, with the implementation of the obligations to be fulfilled by the Institute.

1. - SANCTIONS

107 ordinances were issued, including 79 pecuniary sanctions, 4 cease and desist orders and 24 dismissals.

The total pecuniary sanctions imposed amounted to 2.7 million euro.

1.1. - Sanctions issued

Sanctions were imposed on 29 undertakings, 24 of which were Italian, accounting for approx. 25% of the market, and 20 intermediaries.

Table VI.1

Sanctions issued

(Number of sanctions in units, amounts in million euro and % values)

	No.	%	Amount
Pecuniary sanctions	79	73.8	2.7
Sanctioning orders	4	3.7	-
Dismissals	24	22.5	-
Total sanctions	**107**	**100.0**	**2.7**

Table VI.2

Pecuniary sanctions by recipients

(Number of recipients in units, amounts in million euro and % values)

	Undertakings	Intermediaries	Total
Number of sanctions	60	19	79
%	*75.9*	*24.1*	*100.0*
Amount of sanctions	2.5	0.2	2.7
%	*92.7*	*7.3*	*100.0*

Table VI.3

Sanctioning orders by recipients

(Number of recipients in units and % values)

	Undertakings	Intermediaries	Total
Number of sanctions	2	2	4
%	*50.0*	*50.0*	*100.0*

Only one case of pecuniary sanction was subject to judicial appeal, which concerned a fine issued to a company operating under the free provision of services for failure to respond within the prescribed time limits to the request for information and documentation made by the Institute in relation to 20 complaints.

1.2. - Types of violations found

The table below shows the pecuniary sanctions issued for violations relating to MTPL.

Table VI.4

Pecuniary sanctions by subject matter

(Number of sanctions in units, amounts in million euro and % values)

	Number	% over total	% over total for motor liability	Amount	% over total	% over total for motor liability
Violation of MTPL provisions	57	72.2%		1.80	66.9%	
of which regarding:						
Claims settlement	*22*	*27.8%*	*38.6%*	*0.80*	*29.6%*	*44.4%*
Claims history statements	*2*	*2.5%*	*3.5%*	*0.01*	*0.3%*	*0.4%*
Claims Data Bank	*18*	*22.8%*	*31.6%*	*0.80*	*29.6%*	*44.4%*
Database of claims history statements	*15*	*19.0%*	*26.3%*	*0.20*	*7.4%*	*11.1%*
Other motor liability infringements	*0*	*0.0%*	*0.0%*	*0.00*	*0.0%*	*0.0%*
Violation of other provisions	22	27.8%		0.90	33.3%	

Pecuniary sanctions issued for violations other than MTPL refer to failure to comply with reporting obligations to IVASS for supervisory purposes and with the provisions concerning the management of the undertaking, as well as violations concerning mediation activities. The majority of the non-MTPL pecuniary sanctions refer to violations registered by intermediaries (86.4% in terms of number and 22.0% in terms of amount). 19 sanctions amounting to 200 thousand euro were imposed on agents, brokers and their collaborators; 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 (17 sanctions for 150 thousand 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 2020, IVASS accepted 92.3% of the requests for instalments with the maximum extension allowed.

Table VI.5

Sanctions paid					
					(thousand euro and % values)
Amount paid					1,974.4
	By year of issue of the sanction				
	2020	**2019**	**2018**	**2017**	**Total**
Amount paid	1,892.9	36.1	28.8	16.6	1,974.4
	By sanction beneficiary - 2020				
	Consap – FGVS (Violation of MTPL legislation)		**NATIONAL REVENUE (Other violations)**		**Total**
	Amount paid	**% total**	**Amount paid**	**% total**	
	1,768.1	89.6	206.3	10.4	1,974.4

1.4. - Trend in sanctions 2010-2019

The time series of the sanctions imposed in the period 2010-2019, is shown below, broken down by number of injunctions issued, total and average amount. This is a homogeneous time series, in which measures treated under the same legislation are reported and therefore comparable.

In 2020, on the other hand, the sanctioning procedures were profoundly modified compared to previous years by the application of the new institution of unitary assessment and the introduction of the principle of relevance and the single sanction for intermediaries.

Table VI.6

Trend in sanctions 2010 – 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)
2010	4,514	43.372	9,608	4,417	40.746	9,225	94	2.611	27,780	3	0.015	5,000
2011	4,867	49.590	10,189	4,504	39.004	8,660	355	10.518	29,628	8	0.068	8,542
2012	4,471	50.819	11,366	4,284	45.922	10,719	172	4.303	25,017	15	0.594	39,611
2013	3,184	25.547	8,024	2,973	21.393	7,196	210	4.080	19,427	1	0.075	75,000
2014	2,792	23.085	8,268	2,457	19.017	7,740	330	4.044	12,254	5	0.025	5,000
2015	1,818	13.468	7,408	1,513	8.466	5,596	305	5.002	16,402	0	0	0
2016	2,126	14.601	6,868	1,800	10.168	5,649	326	4.433	13,599	0	0	0
2017	1,722	12.770	7,416	1,451	9.306	6,414	271	3.464	12,781	0	0	0
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	**27,499**	**248.270**	**9,028**	**24,951**	**204.017**	**8,177**	**2,516**	**43.478**	**17,281**	**32**	**0.777**	**24,281**

2. - Disciplinary sanctions

2.1. - Preliminary investigation of disciplinary proceedings and activities of the Guarantee Committee

The Guarantee Committee (made up of two Sections until June 2020), 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 2020, 24 disciplinary proceedings were started relating to violations committed before 1 October 2018 (date of enforcement of the IDD) and 70 sanctioning proceedings for violations committed as from said date.

Based on the decisions of the Committee, the Institute adopted 61 disciplinary sanctions based on the old regulations and 1 sanction based on the new regulation.

Table VI.7

Outcome of the proceedings - by type of measure and by section of registration of recipient intermediaries - 2020

(units and % values)

Outcome	Sect. A Agents	Sect. B Brokers	Sect. E Collaborators	Total	% in 2020
Dismissal	1	3	9	13	21.0
Reprimand	0	1	3	4	6.4
Censure	7	1	9	17	27.4
Striking off	2	8	18	28	45.2
Total	**10**	**12**	**40**	**62**	**100.0**

2.2. - Types of sanctioned violations

Striking-offs and censures represent the most sizeable portion of disciplinary measures, totalling 72.6%. 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 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.

VII. - LEGAL ADVICE

1. - Advice

In 2020 the legal advice activities of IVASS handled 228 opinions, providing the Governing Bodies and Directorates of the Institute (tab. VII.1) with assistance and legal support in the performance of their institutional activities, protecting the consistency of operating decisions with the reference legal framework.

Table VII.1

Entities requesting advice - 2020	
	Number
Governing Bodies and Secretariat Office of the President and the Board of Directors	15
Prudential supervision	13
Supervisory regulations and policies	21
Market Conduct Supervision	74
Consumer protection	21
Management of resources	32
Sanctions and Winding up	20
Inspectorate	3
Research and data management	9
EU Court of Justice (questions for preliminary ruling)	12
Body responsible for corruption prevention and transparency	2
External experts	6
Total	**228**

2. - Litigation

As prescribed in the IVASS 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 2020, 25 new cases of litigation were initiated, including extraordinary appeals to the Head of State and cases for which appeal was filed (Table. VII.2).

Table VII.2

Litigation cases initiated in 2020 - by subject matter	
	(number)
Supervisory measures (intermediaries)	1
Pecuniary administrative sanctions	2
Tax bills	2
Disciplinary sanctions on intermediaries	4
Criminal affairs	1
Proceedings to claim compensation for supervisory measures	4
Personnel	5
Qualifying examination for registration in the RUI	1
Access	1
Others	4
Total	**25**

2.1. - Significant decisions confirming precedents or with new profiles

a) Measures relating to the compulsory administrative liquidation of the insurance company - appointment and removal of the liquidator - competence of IVASS also with regard to procedures started by ISVAP or the Ministry, applicable.

1) With the repeal of the previous reference legislation, in accordance with art. 246, paragraph 1, CAP, IVASS has the power to appoint and revoke the liquidators with reference not only to the new L.C.A. (compulsory winding up) procedures but also with reference to the procedures initiated under ISVAP operation and still pending when the CAP came into force, up to the time when the appointment of the liquidators was the responsibility of the Ministry, due to a sort of succession between bodies caused by the CAP itself.

2) The "Guidelines for the appointment of the commissioner for the performance of individual acts and of the bodies of the procedures of provisional administration, extraordinary administration, compulsory winding up of insurance and reinsurance companies" constitute "self-binding" instruments for IVASS, with which the Institute has established the behavioural principles to be followed.

3) The appointment of the liquidator is a discretionary act characterised by a very high degree of trust, which remains the exclusive property of the Institute, which can be challenged in court only if affected by macroscopic and evident deficits of legitimacy and reasonableness[196].

[196] Council of State, Sect. VI, 6 April 2020, no. 2251/2020.

b) *Pecuniary administrative sanctions – Article 148 of the CAP, obligation to make the offer to the injured party or to specify the reasons for not making an offer – exhaustive nature of the cases of interruption of the offer period*

4) 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 incomplete request for compensation[197].

5) Faced with the need to fill in specific gaps, the request for integration of the incomplete claim for compensation cannot be formulated with interim forms, unnecessarily diffuse and prolix, almost like guides/vademecum to the settlement of the claim, indeed more appropriate in other phases of the contractual relationship: a generic communication that indiscriminately reports all the data and information that must be provided to the insurer for each type of claim, whether it involves damage to property or personal injury, without any specific indication of which of the elements is actually missing, does not comply with the legal requirements[198].

c) *Pecuniary administrative sanctions - payment of benefits to beneficiaries delayed beyond the contractually established deadline - violation of Article 183 of the CAP) - principle of legality - principle of cooperation in good faith and proximity of the proof - principle of proportionality – accumulation of sanctions.*

6) The sanction imposed for the late payment of the benefit to the beneficiaries in relation to the contractually agreed time limit is consistent with the principles of legality, definiteness and certainty expressed by Law 689/1981. Article 183, paragraph 1, letter a) of the CAP, in fact, contemplates a sufficiently specific, clear and understandable rule of conduct whereby insurance undertakings are required to "act with diligence, fairness and transparency in dealings with policyholders and insured parties". These are in fact general clauses to be applied as standard by all sector operators, corresponding to similar standards established also in civil law, the contents of which can be supplemented through reference to agreements between the parties. The contractual provision for the payment of insurance benefits by the established deadline therefore constitutes a supplementary rule to the principles stated in art. 183 of the CAP, without the need for regulatory provisions to further specify the conduct for sanctioning purposes.

7) If multiple forms of conduct are sanctioned - i.e. individual violations, each identifiable in time and separate from the other, with different content, characteristics, parties and monetary extent, capable of expressing marked factual and legal independence, therefore detectable

[197] Lazio Regional Administrative Court, Rome, Sect. II ter, 26 November 2020, no. 12653/2020; Lazio Regional Administrative Court, Rome, Sect. II ter, 16 October 2020, no. 10617, and Lazio Regional Administrative Court, Rome, Sect. II ter, 5 June 2020, no. 6024, confirming the approach already followed by Lazio Regional Administrative Court, Sect. II ter, 8 April 2019, no. 4528; Lazio Regional Administrative Court, Rome, 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.

[198] Lazio Regional Administrative Court, Rome, Sect. II ter, 05 June 2020, no. 6024/2020, mentioned previously.

separately and autonomously pursuant to art. 183 of the CAP - then each violation of the protected legal interest corresponds to an independent sanction[199].

d) Pecuniary administrative sanctions for breach of the obligations to communicate data to the Motor Liability Claims Data Bank pursuant to Articles 135 and 316 of the CAP - rationale - promptness of the notification with dies a quo as from the end of the period of detection.

8) The rationale of the obligation to communicate data on claims to the Claims Data Bank set up at ISVAP 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 Bank 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.

9) The imposition of the obligation to cooperate in the prevention of unlawful acts in the motor liability claims sector is structured by the legislator on the basis of assumptions which, due to the concrete size and organisation of insurance companies, reasonably require the adoption of measures and the provision of adequate resources that do not exceed the diligence and effort due by specialised companies operating in the sector, which are presumed to be in ordinary possession of the data required by the communication obligation.

10) With regard to pecuniary administrative sanctions of an insurance nature, the legislator identifies a series of cases designed to safeguard procedures and functions and focused on mere conduct, according to a criterion of acting or omitting to act in a dutiful manner, linking the judgement of guilt to regulatory parameters that are extraneous to purely psychological data and limiting the investigation of the subjective element of the offence to the ascertainment of the voluntary nature and awareness of the non-compliant conduct. It follows that, once the supervisory body has integrated and proved the typical case of the illicit act, it is up to the offender, by virtue of the presumption of guilt posed by article 3 of Law 689/1981 - a general provision - to prove to have acted diligently and without guilt.

11) 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 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

[199] Council of State, Sect. VI, 18 September 2020, no. 5468/2020, confirming Lazio Regional Administrative Court, Sect. II ter, 9 February 2018, no. 1598.

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.

12) The statement of objections relating to the inaccuracy or incompleteness of the claims data must be considered to be integrated by reference to the reports produced automatically by the Administration's IT system during the phase of checking the data transmitted by the companies, which is sufficient to guarantee the precise and circumstantial identification of the conduct subject to sanctions.

13) When the law refers the determination of the amount of the sanction between a minimum and a maximum to the power of the Administration, commensurate with the concrete gravity of the illegal act, there is no need to specify the criterion followed because the commensuration of the sanction - in the face of a precise and detailed notification - is an expression of the evaluation of severity made by the Body that proceeds and absorbs any further profile that could therefore be further demanded only by exasperating the formal notion of reason[200].

e) Administrative pecuniary sanctions - recipients - joint and several liability of the company or intermediary with the employee or collaborator in the fulfilment of the pecuniary obligation deriving from an administrative offence pursuant to article 325, paragraph 2, of the CAP.

14) The specific discipline of the business activity in the private insurance sector contemplated, in article 325, paragraph 2, CAP, a form of joint and several liability of the company or intermediary with the employee or collaborator in the fulfilment of the pecuniary obligation deriving from an administrative offence and not a form of civil liability towards third parties referable to the model of article 2049 of the Civil Code (responsibility of the principal).

15) The provision was based on the requirement of "necessary occasionality", a peculiar application of the criteria of causal imputation of offences that exists when the person who committed the offence was able to carry out the violation because part of an entrepreneurial organisation that allowed or facilitated its implementation. This causal relationship is not excluded by the fact that the agent acted for personal or illegal purposes provided that the agent's action was foreseeable, according to a prognostic judgement ex ante, in application of the criterion of adequate causality. The involvement of the jointly and severally liable person is justified not only as a guarantee, but also as a deterrent against the commission of administrative offences and for the personal reconstruction of the penalty system.

16) With the repeal of art. 325, paragraph 2, CAP made by art. 1, paragraph 57, letter b), Legislative Decree no. 68 of 21 May 2018, the legislature wanted to exclude the personal liability of the employee or collaborator, resulting in a re-expansion of the significance of the first

[200] Lazio Regional Administrative Court, Sect. II ter, 15 December 2020, no. 13507, and Lazio Regional Administrative Court, Rome, Sect. II ter, 15 December 2020, no. 12058/2020, unappealed. The principle of necessity and sufficiency, for the infliction of the pecuniary sanction, of the voluntary nature and awareness of the conduct, subject to proof of having acted diligently and in the absence of guilt, has recently been firmly reiterated, following a firm and long-standing approach, also by the Council of State, Sect. VI, 14 September 2020, no. 5444/2020.

paragraph of article 325 CAP and the exclusive liability of the company or intermediary. The person acting for such entities is liable only if committing acts of crime according to the general mechanism envisaged by Legislative Decree no. 231 of 2001[201].

f) Administrative pecuniary sanctions - regime of material accumulation, applicable - inclusion in the procedural investigation of preparatory notes prior to the formal notification of the offences - infringement of the rights of defence, not applicable.

17) The structural autonomy of the individual offences to the legal asset protected by the penalty rules of the CAP implies distinct violations, with the consequent correct application of the regime of material accumulation of sanctions[202].

18) The inclusion in the procedural inquiry of an investigative note with a date prior to the formal notification of the offences, far from having impaired the defensive faculties of the recipient, actually creates a concrete utility for the same, promptly informed of the critical aspects detected for the purposes of the progressive definition of the facts ascribed, having had from that moment onwards the possibility of fully carrying out the defence[203].

g) Disciplinary sanctions against insurance intermediaries - privileged probative value of the inspection acts of the principal company, applicable.

19) As regards offences committed by insurance intermediaries, the administrative minutes of the principal company have a privileged probative value and effectiveness, not affected by the lack of presence of a third body; such minutes constitute objective data that the Supervisory Institute cannot disregard[204].

h) Disciplinary sanctions - striking off - retention of sums collected as premium - suretyship policy pursuant to article 117, paragraph 3-bis of the CAP.

20) The severity of the unlawful diversion of premiums from the legal allocation to reserves - which has a particularly serious impact on the element of trust in relations with the principal company and is detrimental to an essential obligation for the functioning of the insurance system as a whole - justifies, in compliance with the principle of proportionality of the penalty imposed, the adoption of a particularly severe sanction such as striking off.

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[201] Council of State, Sect. VI, 15 April 2020, no. 2425/2020.

[202] Lazio Regional Administrative Court, Sect. II ter, 15 December 2020, no. 13500, and Lazio Regional Administrative Court, Sect. II ter, 1 December 2020, no. 12778/2020, confirming the approach already followed by: Council of State, Sect. VI, 5 August 2019, no. 5566/2019; Lazio Regional Administrative Court, Sect. II ter, 20 November 2018, no. 11240/2018; Lazio Regional Administrative Court, Sect. II ter, 9 January 2017, no. 232/2017; Lazio Regional Administrative Court, Sect. II, 5 May 2014, no. 4635/2014; Lazio Regional Administrative Court, Sect. II, 18 March 2013, no. 2745/2013; Lazio Regional Administrative Court, Sect. II, 20 March 2013, no. 2841/2013; Lazio Regional Administrative Court, Sect. I, 21 July 2011, no. 6570; Lazio Regional Administrative Court, Sect. I, 21 June 2010, no. 19659.

[203] Lazio Regional Administrative Court, Sect. II ter, 15 December 2020, no. 13500/2020, mentioned previously.

[204] Pres. Decree 8 May 2020 (opinion of the Council of State, 24 June 2019, no. 1866 - no. aff. 595/2019, following the approach of C.G.A.R.S.(Consiglio di Giustizia Amministrativa per la Regione siciliana), 9 February 2009, no. 41/2009).

21) 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[205].

i) *Disciplinary sanctions - striking off - qualification of the attainment of an unfair profit to the detriment of others as a constituent element of the disciplinary offence, not applicable.*

22) The counterfeiting or falsification of insurance contractual documentation is sanctioned by the sector regulations without requiring as a constitutive element of the illicit action the attainment of an unfair profit to the detriment of others.

23) The particular specialisation and technical complexity of the subject matter and of insurance products places the customer in a position of cognitive weakness that must be rebalanced with the guarantee that the data and information provided by the intermediary are truthful and accurately reported on the policy. The IVASS regulations correctly contemplate the application of the sanction of striking off for intermediaries' conduct not compliant with incisive standards of correctness and professional loyalty, and which is such as to render the intermediary's reliability towards third parties and other collaborators doubtful, since the insurance system is based on the inescapable need to safeguard the information certainty in the circulation of guarantees and this in view of a fair balance between the position of the customer and that of the insurance company, both depending on the correctness of the intermediary's conduct[206].

j) *Supervisory measures against EU companies pursuing business under the freedom to provide services - judicial annulment and subsequent claim for damages - psychological element under article 2043 of the Civil Code (fault), not applicable - excusable error.*

24) For the purposes of compensation for damage caused by supervisory activities, it is not sufficient that the harmful measure is unlawful, as established in the judgement annulling it; but it is also necessary to demonstrate the subjective element of serious misconduct on the part of the Authority which adopted it. In the present case, even slight negligence was ruled out, as the Authority was found to be excusable.

[205] Council of State, Sect. VI, 31 March 2020, no. 2184/2020.

[206] Council of State, 26 March 2020, no. 2125/2020.

3. - Legal training

In 2020, mandatory training for in-house attorneys continued through on-line seminars and specialist legal seminars, also in mandatory ethics, with attribution of the related educational credits in accordance with the derogations to the current *Regulation on continuous training* issued by the Rome Bar in light of the COVID-19 emergency.

VIII. - ORGANIZATION

On the subject of internal organisation, IVASS continued on the path of managerial and operational innovation started since 2013, investing in its human capital and innovation, while monitoring costs, response times and risks.

The increased investment in technological infrastructure pursued in recent years, as a result of the growing cooperation with the Bank of Italy, and the constant commitment to redesigning and digitalising the organisation and work processes have played a decisive role in the Institute's response to the effects of the pandemic.

Since March 2020, an average of 85% of personnel have worked remotely, managing to maintain the effectiveness of institutional action and carrying out their service to the community with dedication and professionalism.

In terms of health and safety in the workplace, the "Regulatory protocol for preventing, countering and containing the spread of COVID-19 in workplaces" was applied, shared and signed with the trade unions in June 2020, setting out the lines of action and operational methods for countering the epidemic.

The process of strengthening internal risk controls continued and to this end, the second cycle of operational risk monitoring was launched in 2020, new management control tools were introduced and further impetus was given to activities to ensure compliance with regard to ethics, transparency, corruption and the protection of personal data.

1. - IVASS Bodies

In accordance with Article 2 of the Statute, the following are IVASS bodies:

- the President;
- the Joint Directorate and the Board of Directors;

The President of IVASS is the Senior Deputy Governor of the Bank of Italy, due to the institutional link between members of the governing bodies of the two institutions.

The Joint Directorate is a collegial body made up of the Governor of the Bank of Italy, who holds the chair, the Senior Deputy Governor of the Bank of Italy - President of IVASS, the three Deputy Governors of the Bank of Italy and the two members of 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 2020, 19 meetings were held, 126 resolutions were passed and 25 information notices were examined.

The Board of Directors is a collegial body made up of the President and two Directors[207]. It is responsible for the general administration of IVASS, without prejudice to the functions assigned to the Joint Directorate by the Statute. In 2019, 22 meetings were held, 99 resolutions were passed and 12 information notices were examined.

The Secretary General is responsible for the coordination and supervision of the activities of the structures[208].

2. - Organisational change and optimisation

Also in the context of the health emergency, the Institute has intervened on the internal structure, on the organisation of work and space and through a simplification of operational processes, including through a more pervasive use of technology for a control of the growing safety profiles related to the new working methods.

2.1. - Changes in the organisational structure

The evolutionary maintenance interventions of 2020 concerned, first of all, the redefinition of Insurtech competences, with the establishment of a Steering Committee for technological innovation in the insurance sector, aimed at strengthening the internal coordination action among the Structures most involved and at providing an authoritative interlocutor to the outside world.

The role of the Resource Management Directorate in IT planning and development was also strengthened, as was the focus of the Research and Data Management Directorate on the processes of managing and exploiting institutional information.

Lastly, with a view to rationalising internal processes and maximising adherence to the organisational structure, a more functional division of responsibilities was implemented for the production of secondary legislation on motor liability and statistical surveys, assigned to the Research and Data Management Directorate.

2.2. - Strategic planning

In 2020, the third strategic planning cycle was launched, covering the three-year period 2021-2023, with the involvement of management in the process of identifying objectives. To this end, a scenario analysis was carried out on the evolution of the external and internal reference context and on the priority areas of intervention for the next three years.

In May 2021, the new Strategic Plan was approved by the Joint Directorate, with which the Institute aims to complete the action of strengthening institutional activities and promoting an effective contribution of the insurance industry to the economic development of the country, through four strategic objectives:

[207] Further to his appointment as Senior Deputy Governor of the Bank of Italy (Presidential Decree of 12 March 2021), Luigi Federico Signorini has become the President of IVASS.

[208] https://www.ivass.it/chi-siamo/organizzazione/Struttura-organizzativa/index.html

1. strengthen supervisory action and protection of insurance service customers;
2. contribute to national and international regulatory developments also with a view to increasing the insurance industry's contribution to the resilience of the national system and sustainable economic development;
3. promote digital development in a modern consumer protection system;
4. enhancing human capital and innovating the organisation in terms of flexibility and efficiency.

2.3. - Management control and rationalisation of work processes

The management control system has increasingly evolved into a model geared towards monitoring the costs and the outputs of institutional activities. With this in mind, information has been collected on the monthly amount of work dedicated to the processes and activities carried out by each organisational unit, using the activity-based costing method. A specific analytical accounting system was also developed to support the Institute’s decision-making and management processes through the measurement and analysis of costs.

The pandemic and the consequent remote work have demonstrated the effectiveness of the process of digitalisation of documentation through the Digital Document Management System operating in the Bank of Italy, adopted by IVASS in 2015. Further action to reduce paper documentation has resulted in documents received in paper form being limited to only 2.4% in 2020 compared to 4.7% in 2019. With regard to external communications, there were 94,173 recipients reached via certified e-mail, with an increase of +6.4% compared to 2019. All documents produced by IVASS were produced in digital format and those sent externally in paper format to persons not having a PEC (certified e-mail) address accounted for 4.8% of the total documents sent, compared to 5.6% in the previous year.

2.4. - Procurement

Since 2 January 2020 the List of providers, managed through IVASS’ Procurement Portal, has become effective. It guarantees maximum transparency and equal treatment of operators, while simplifying the administrative processes for the purchase of goods and services. About 100 economic operators have been registered in the list, and the same number of preliminary assessments of applications for admission to the list are underway.

Joint procurement with the Bank of Italy continued, also through the close coordination of two-year plans for the purchase of services and supplies in excess of 40 thousand euro and in the implementation of the Memorandum of Understanding, pursuant to Article 15 of Law No. 241/1990, entered into by the Bank of Italy, AGCM, CONSOB and ANAC in November 2019, aimed at the shared handling of joint procurement procedures for the acquisition of goods, services and works.

In 2020, important joint procedures were launched regarding IT services and general services for office management, achieving significant savings in administrative action both in terms of effectiveness and efficiency of institutional activities and n terms of the rationalisation and containment of costs associated with the completion of the procedures themselves.

The supply of essential goods and services for the management of the health emergency, necessary to guarantee the remote operation of the Institute's employees and the possibility for them to work in the office in total safety, was ensured. Amendments were made to a number of current contracts, reshaping the services to ensure that they are also provided in the different ways required by the emergency situation.

3. - 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, monitoring operational risk and compliance with internal and external regulations.

In order to adapt to the operating procedures due to the COVID-19 emergency, the Internal Audit Office has intervened on its own processes, enhancing and encouraging project-based initiatives. The use of remote work was easy, thanks to the complete dematerialisation of office documentation and the adequacy of the ICT infrastructure.

Four audits have been performed on macro-processes and two audits are in progress, initiated in 2019 and 2020, related to the Institute's projects still underway. The monitoring of the action plans submitted by the Structures in the three-year period 2018-2020 continued through periodic follow-ups. The plans identify more than 50 interventions, mainly in the area of processes and systems, aimed at removing criticalities, increasing effectiveness and reducing risks in the various activities.

Lastly, the Office has worked with the functions responsible for second-level controls (Organisation and Management Planning Division, Officer responsible for transparency and prevention of corruption and Data Protection Officer) to strengthen synergies and promote greater efficiency and cost-effectiveness of the internal control system. The collaboration model between the second and third level control functions has been integrated and expanded with the aim of refining information flows, eliminating overlaps, and improving communication and collaboration between the same functions and with the Governing Bodies, by pooling available information and assessments.

In the first quarter of 2020, the first three-year cycle for operational risk monitoring (ORM) was also completed, with the approval of the Governing Bodies, and the second cycle was subsequently launched with the updating of the mapping of processes and the revision of supporting documents and tools.

3.1. - Ethics, prevention of corruption, transparency, data protection

The Ethics Committee has the purpose of supervising the correct application of the Codes of Ethics in force and has been established in accordance with Article 12 the Statute of IVASS.

In 2020 it continued assessing and monitoring ethical issues, with the aim of guiding the conduct of the recipients of the Codes.

The Institute has adopted the three-year plan for the prevention of corruption and the promotion of transparency 2020-2022[209], with measures to strengthen existing safeguards and maintain a high level of attention to these issues.

The annual statements on the absence of situations of incompatibility for the holders of managerial positions are published on the website.

Amendments and additions have been made to the internal regulations on the protection of personal data, in light of the operational indications of the Privacy Guarantor. The amendments concern the introduction of the category of highly personal data, a more precise regulation of the relations between IVASS and data protection officers, a more detailed definition of the methods used to carry out the impact assessment and those governing the data breach procedure, the integration of the information on processing recorded in the processing register, a more precise definition of the security measures to protect privacy.

4. - Staff

4.1. - Regulations on careers

In 2020, the implementation of the arrangements envisaged in the career system approved in December 2016 continued. In detail:

- the third staff appraisal session was carried out, with reference to performances in 2019;
- 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 2 top managerial positions which had remained vacant (Head of Directorate); the health emergency situation has led to the postponement of other planned vacancy procedures.

4.2. - The number of staff

As at 31 December 2020 there were 369 permanent staff, compared to the staff number recognised by law of 400 (355 set by the law establishing IVASS, 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. Added to these were 4 fixed-term staff, down by 1 compared to 2019.

209 https://www.ivass.it/chi-siamo/in-sintesi/amministrazione-trasparente/prevenzione-corruzione/Piano_anticorruzione_2020-2022.pdf

Table VIII.1

Distribution of IVASS staff by professional area at year end						
						(Units)
Area	**Permanent staff**		**Fixed-term staff**		**Total**	
	2019	**2020**	**2019**	**2020**	**2019**	**2020**
Professional/Managerial						
Directors/Central Directors	31	32	1	1	32	33
Specialists/Experts	256	276	1	-	257	276
Operational						
Operational staff	65	61	3	3	68	64
Total	**352**	**369**	**5**	**4**	**357**	**373**

At the end of 2020, the holders of managerial positions were 32 Directors and Specialists, of which 53% women, with an average age of 55.

IVASS continued to make use of staff seconded from the Bank of Italy which, at the end of 2020, included 33 staff, of which 10 directors, 21 professionals and 2 operational staff. In turn, IVASS seconded 4 employees, one to the Bank of Italy and three to Italian and European institutions. In addition, two Directors are on unpaid leave as they have been assigned positions with EIOPA.

In 2020, the Institute, as a result of two competitions launched in 2019, recruited 27 staff members, including 20 graduates in law and 7 graduates in ICT disciplines. In consideration of the provisions of art. 20 of Legislative Decree no. 75 of 25 May 2017, and subsequent amendments and additions on the subject of overcoming precarious employment in public administrations, three resources already hired with fixed-term contracts following an open competition were stabilised. Finally, the Institute hired with a fixed-term contract three resources eligible for the selection reserved for persons with disabilities, announced by the Bank of Italy on 8 June 2018.

4.3. - Training

IVASS staff participated in 94 training initiatives. 303 employees were involved, i.e. 81% of staff, with an average of 27 hours of training per capita.

Training was provided along the following lines:

- training on technical-specialist subjects with particular attention to current topics such as Insurtech, which involved 70 employees of the Institute;

- implementation of the internal training plan on insurance matters to accompany the entry of newly-hired experts and implementation of professional reorientation initiatives, with a view to facilitating the rotation of resources between the Structures and the acquisition of new skills, with the involvement of 64 employees (of whom 28 newly-hired) on consumer protection issues;

- the provision of compulsory training on health and safety, privacy, ethics and legality, which involved most of the staff, and the provision of detailed English language training courses, which involved about half of the staff;

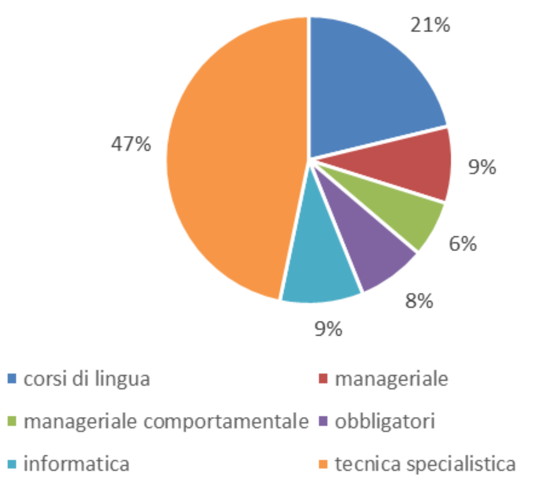
- strengthening of staff soft skills, in particular to support managers in the management of activities in smart working and in "hybrid" mode, following the health emergency;

- rescheduling of remote training initiatives to ensure access to continuing education during the aforementioned emergency.

IVASS personnel took part in an initiative organised by the Data Protection Officers (DPO) of the independent administrative authorities as well as in in-depth discussions at the Bank of Italy on conflicts of interest. Finally, the network headed by the Officer responsible for transparency and prevention of corruption participated in a refresher course on whistleblowing.

Figure VIII.1

Distribution of training activity – hours spent in 2020



5. - IT SYSTEMS

The integration of IVASS ICT services with those of the Bank of Italy is going on, according to the provisions of the framework agreement[210] regulating the ICT collaboration between the two authorities and in line with the Institute's strategic planning.

[210] 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.

5.1. - The ICT planning process

In December 2020, the Board approved the Institute's ICT strategic planning for 2021, drafted on the basis of the IT needs outlined by the Structures when formulating the budget. This document aims to frame all IT initiatives in a unitary logic, to ensure their alignment with the strategic lines of the Institute and to verify their sustainability in terms of human and financial resources needed for their implementation. This includes seven IT projects in progress, ten evolutionary maintenance on existing applications and eight additional IT needs expressed by user services, assessed in order of priority on the basis of a methodology shared with the Bank of Italy, which compares the value of the initiative with its riskiness.

5.2. - ICT development with the Bank of Italy

The main initiatives included in the IT project list with the Bank of Italy were:

- Complaints information system, with the replacement of the current application with a new, better performing one, and provided with adequate safeguards for the protection of cyber security and operational continuity;

- Evolution of the claims database, to adapt it to the recent innovations provided for by primary legislation and the new operational requirements, as well as to migrate the procedure to equipment owned by the Bank of Italy (Ch. II.1.9);

- Insurance Arbitrator, with the implementation of an information system for the out-of-court settlement of disputes relating to insurance contracts (Chap. V.10);

- Single Register of Intermediaries (RUI), designed to merge the RUI into a single database and single tool;

- Sanctions Information System, for the creation of an application to support the Institute's sanctioning process, equipped with adequate IT security and high operating continuity requirements;

- Estimator Data Warehouse, fed with data collected and managed by the New Estimator cloud procedure (Ch. II.1.8);

- CARD (Agreement between Insurers for Direct Compensation; Ch. II.1.3), to manage the IT activities supporting the incentive model and the operations for the calculation, simulation of penalties and incentives and the exchange of information flows with CONSAP.

5.2.1. - Smart working

During the year, initiatives were implemented, on a technological and organisational level, aimed at facilitating the execution of the Institute's work processes, given the continuing pandemic situation, including:

- the enhancement of the company extranet to allow the simultaneous use by all staff of the remote connection envisaged in the Institute's business continuity plan;

- training of staff in the use of the extranet by issuing guides and manuals;
- the progressive adaptation of all applications to be used remotely;
- the release of video-conferencing services to support internal and external communication, integrated into the Bank of Italy's IT management processes;
- the development and release of the SMS Alert service for urgent communications to all staff.

5.3. - Management of IT services

The IT services development process for the Institute saw the completion of the following major initiatives in 2020:

- Register of Companies and Insurance Groups (RIGA) with regard to identifying data;
- access to Osiride, the Bank of Italy's infrastructure for research, information and data analysis;
- Supervisory Data Warehouse, which enabled the disposal of the IVASS mainframe platform in 2021, in line with the evolution of the Bank of Italy's IT architectures;
- adjustment of Infostat procedures in view of the annual review of the EIOPA taxonomy for Solvency II.

The development activities led to the growth in the number of services included in the IT catalogue of IVASS which thus reached 54 units; the management charges of 30 services (equal to 56%) are managed by the Institute and those of 24 services (44%) by the Bank of Italy.

The service agreements relating to the management of the Integrated Anti-Fraud Archive - AIA application were finalised and the agreement relating to the technical infrastructure hosting residual applications managed by the Institute, even though they operate on the Bank's network, was renewed.

The gradual path of integration with the technological infrastructure of the Bank of Italy allowed for the discontinuation in 2020 of important services such as the companies registry, replaced by the RIGA system, the acquisition of financial statements and technical reserves, through the use of the Infostat platform, and the SAS platform, which was definitively migrated to the Bank's data centre.

The infrastructure hosting the Institute's IT services is increasingly integrated into the Bank's disaster recovery plan, the successful test of which took place in November 2020. This made it possible to verify the continuity of service, even in remote work situations given the pandemic situation, using the external connections hosted in the Bank of Italy's secondary data centre. Also in November 2020, the transfer of some IVASS servers to the Bank of Italy's recovery site was completed, to ensure greater operational continuity of important ICT services of the Institute.

The total number of requests for service satisfied during the reporting period was around 5,000, on which constant monitoring was carried out. This amount represents a significant increase (+13%) over 2019, given the growing demand for IT support from users during the pandemic. In March 2020, when smart working was initiated for all staff, requests for support increased by 47% compared to the average monthly value in 2019. Of the management commitment, 49% was undertaken by the Institute, while the remaining 51% was undertaken by the Bank's IT function, which grew significantly (+11%) compared to the previous year, in relation to the greater level of integration achieved.

5.4. - Cyber security

The Cyber Security Coordination Group, set up within the Bank of Italy with the participation of IVASS, has drawn up an integrated operational plan of cyber security initiatives.

With reference to IVASS and the insurance sector, the following are noted in particular:

- within CERTFin, participation in the CyberInsure observatory for in-depth studies on security in the insurance sector and on the subject of counterfeit policies;
- with reference to the policies for access to IVASS systems and databases, a specific security assessment was carried out in accordance with the GDPR, following which the Circular on access to the Institute's processing systems, the Procedure for the management of computer system user profiles and the Operating Procedure in the event of a data breach were issued;
- security awareness initiatives in collaboration with the Bank and CERTBI, for the training of internal and external personnel in the form of courses, seminars and information briefs on cyber security.