Generali Group

INSURANCE DOSSIER 2014

ITALIAN MARKET TRENDS 2012/13

Research & Development Department

generali.com

EDITED BY:

Raffaella Bagata
Roberto Menegato
Federica Tartara
Paolo Zanghieri

CONTACTS:

Paolo Zanghieri
Research & Development
Paolo.Zanghieri@Generali.com
Assicurazioni Generali S.p.A.
Piazza Duca degli Abruzzi, 2
34121 Trieste
tel. 0039 040 671234

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1 Executive summary

In 2013, the European insurance industry posted overall positive results. Life insurance premiums increased while the performance of non-life insurance was on average in line with that of 2012. In Italy, in 2013, total turnover was up 13.3%. In particular, life premiums (direct Italian business) grew by 22.5%; new business was up 31.3%.

The strong growth of the life sector is explained by the increase in the confidence of investors, which drove them back to longer-term investments, and by the new sales strategies of banks, which have focused on these products also to strengthen revenues from commissions, on account of the stagnation of credit.

Non-life premiums decreased by 3.5%. This was due to the 7.1% drop in the motor business, as a result of the decline in new car registrations (-7%) and in the number of insured vehicles, but above all thanks to the strong competition between operators spurred by the improvement of technical results.

The Generali Group has maintained its leadership in the overall business, with € 20.445 billion premiums and a market share of 16.1%. In second place, with a premium income of 17.375 billion and a market share of 13.7% was Intesa Sanpaolo.

Intesa Sanpaolo Vita Group has become the first operator in the life business with a market share of 19.3% with Generali in the second place (15.1%), while in the non-life lines the Unipol group remains the market leader with a share of 25 5%; in second place is confirmed Generali (18.4%).

Return equity (ROE) of the largest listed insurance groups rose to 10% compared to 9.7% in 2012.

In life insurance profit before tax grew by 48% compared to 2012; the ratio of "operating profit on total assets", or return on assets, (ROA) has slightly increased, from 0.6% to 0.8%. The "value creation" in life has been positively affected by the revaluation of financial assets. Observing the trend of the embedded value of the groups that disclosed it, the value of Italian life insurance companies (also considering the dividends paid and changes in shareholders' equity) was up 29.5% with respect to the previous year.

In non-life, the sample of listed companies closed the year 2013 with an increased profit before tax of € 2,087.2 billion, compared to 1,582.8 billion last year. The excellent results are related to the further improvement of all technical indicators of the sector (with the combined ratio falling from 93.7% to 92.9%) but above all to profit from financial investments.

2 European insurance markets

In 2013 most European economies started to recover. In this context, the insurance sector posted a positive result in many European markets, apart from Spain and some CEE countries. Premium growth was much better than in the previous year in the life business in particular, while the performance of the non-life business was on average more in line with that of 2012.

EUROPEAN INSURANCE MARKET TRENDS												
	Total				Life				Non Life			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
AT	2,0	-1,7	-0,9	1,8	1,8	-7,5	-6,9	-0,2	2,0	2,9	3,6	3,2
CH	2,3	2,5	2,1	3,7	1,8	3,3	1,8	5,5	2,9	1,4	2,4	1,6
CZ	8,4	-0,7	-1,0	-0,6	19,2	0,3	0,1	-1,2	-1,6	-1,6	-1,8	0,0
DE	4,3	-0,4	1,9	3,0	6,0	-3,9	0,6	4,0	0,9	2,5	3,2	2,1
ES	-2,8	4,1	-5,3	-2,8	-6,2	9,5	-8,9	-3,0	-0,7	-0,3	-2,0	-2,7
FR	3,3	-9,0	-5,5	4,5	4,3	-14,0	-8,7	5,6	2,3	4,0	0,5	2,6
HU	2,4	-3,4	-6,5	5,5	8,2	-0,8	-9,3	8,5	-3,5	-6,5	-3,2	2,3
PL	5,4	5,7	9,5	-7,9	3,8	1,5	14,3	-14,5	7,9	11,6	3,4	1,5
SK	1,9	2,0	0,2	2,6	6,1	1,4	1,8	6,1	-2,5	2,5	-1,6	-1,8

Note: Non-Life is not inclusive of Health for Austria, France and Germany.

The stabilization of financial markets and the timid signs of recovery in European economies where able to give some sprint to the life business in Europe.

The strong result of the life business was evident in Hungary and France, where premiums grew by 8.5% and 5.6%, respectively, after a negative reading in 2012 (-9.3% and -8.7% respectively).

In France the good performance was driven by the bancassurance channel. The overall good performance of the stock market lifted the turnover of UC (Unité de Compte) products, while the stabilization in financial markets and the improvement in consumer confidence, continued to slow down withdrawals.

Germany (+4% after +0.6% in 2012), Switzerland (+5.5% after 1.8% in 2012) and Slovakia (+6.1% after +1.8% in 2012) were also able to post very good results; in Germany the positive result was due to single premium policies.

In Austria and in Spain premium growth was still negative in 2013 but much less than it had been in the year before (-0.2% after -6.9% and -3.0% after -8.9% in 2012 respectively). The persistence of a low interest rate environment negatively affected the appeal of traditional life insurance products with guarantees in Austria and in Spain, where the severe recession significantly reduced savings.

Poland and the Czech Republic on the contrary saw a worsening of the performance in the life insurance sector. Polish life insurance business volume's fall was determined by the negative change recorded on

the short-term life insurance class, the so called policy-deposits which are combining the features of a life insurance policy and a bank deposit, a line that witnessed a 33% decrease in GWP most probably because of the uncertainties regarding the statutory amendments taking effect in 2014. In the Czech republic the trend of decreasing insurance penetration in the life risk sphere is continuing.

In Hungary the fastest-growing life insurance line was the “Assurance on death” one, but the main source of gross written premiums (GWP) increase for the life market segment, in absolute terms, was the Unit-Linked line. However most of the increase in premiums was due to single-premium contracts, which may prove to be a temporary trend.

In the non-life business there was an improvement in technical ratios due to the low level of claims and low level of inflation, in particular for the motor sector. New car registrations were observed as increasing around Europe, but they are still below the pre-crisis levels.

Premiums in France grew by 2.6% after the anemic performance of 2012 (0.5%). Growth in the motor sector slowed down from the previous year due to the contraction in new car registrations and in the claims frequency, both results of the weakness of domestic economic activity. The fall in claims frequency was offset by the increase in average costs following legislative changes concerning the compensation of bodily injuries and Motor Combined Ratio (CoR) was up 5 pp to 105%.

In Germany and Switzerland the rate of growth of premiums decreased compared to 2012, when the German non-life insurance sector enjoyed the fastest growth since 1994. In Germany however the premium growth in the motor sector was very dynamic and property was on the rise too, while the health performance was much weaker. Also in Switzerland the performance of the property and motor sectors were particularly good.

Spain closed the year with a negative growth not only in the life but also in the non-life business; this was due to the weak economic situation the country is facing.

Austria posted the fastest premium growth rate in Europe (3.2% after 3.6% in 2012). After several years of increasing rate of growth, the market might have reached the peak of its business cycle. The motor segment has improved during the year due to a slowdown in the fall of new car registrations, but given the strong competition in the market, we expect premium growth to slightly weaken.

In the CEE, Hungary was characterized by a positive performance after the negative one of the year before, as it was in the life business; Premium growth was positive in Poland, but lower than the year before (1.5% versus 3.4%); both in Hungary and Poland the good numbers in the non-life premium growth were mainly due to the good performance of the property sector. In the Czech republic premiums growth was flat after the decrease of 2012 and in Slovakia it was negative almost in line with the previous year.

3 The Italian insurance market: volume and business breakdown

The direct impact of the crisis on insurance was relatively limited as compared to other sectors of Italian economy: in 2013 the overall premium income in the insurance market posted a 13.3% increase.

LIFE INDIVIDUAL NEW BUSINESS

National, extra UE and UE companies (change %)

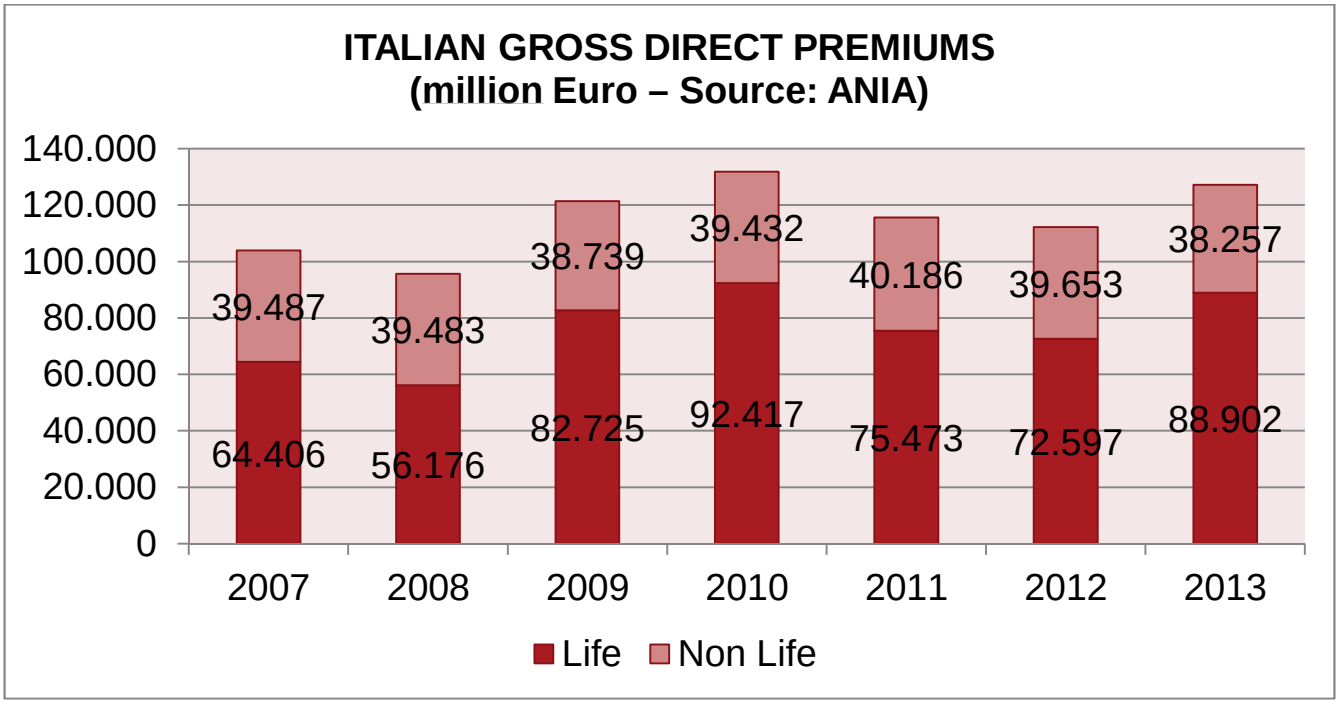
Line of business	2013 Mln Euro	Ch. % 13/12	Ch. % 12/11	Ch. % 11/10
Lob I	47.778	36,4	-15,1	-27,4
Lob III	24.714	22,5	8,1	-11,7
of which Unit	*24.618*	*30,5*	*28,3*	*14,9*
Index	*96*	*-92,7*	*-64,6*	*-6,8*
Lob V	1.565	32,5	-26,3	-55,3
Other	91	-14,2	11,1	-5,4
Total	**74.147**	**31,3**	**-8,8**	**-24,8**

Source: ANIA

Notably, Italian direct life premiums were up 22.5%; the outlook is also positive as far as new business is concerned: according to data provided by ANIA, new business premiums showed a 31.3% increase. In the non-life segment gross direct premiums dropped by 3.5%.

As a result of the rising premium income in the life sector, insurance penetration, namely the premium to Gross Domestic Product (GDP) ratio, increased from 4.6% last year to 5.7%.

On the demand side, investor propensity to invest in life policies asset was favored by the more stable financial outlook and low returns on fixed income instruments.



As far as supply is concerned, banks in particular, which have seen their profits from financial intermediation shrinking, tried to increase their revenues and raise liquidity by refocusing their products on insurance policies even though this move could force them to recapitalize as a result of the forthcoming implementation of the more stringent rules required by Solvency II.

DISTRIBUTION CHANNEL MARKET SHARE

LIFE BUSINESS (percentage)

Distribution channel	2009	2010	2011	2012	2013
Banks	50,1	48,8	41,3	33,2	44,3
Post Offices	8,7	10,3	12,6	14,5	14,8
Tied agents	15,7	16,3	16,7	16,3	14,5
Company staff	8,4	7,3	9,0	9,9	8,2
Financial advisors	16,3	16,2	19,1	24,8	17,1
Brokers	0,8	1,1	1,3	1,3	1,1
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: IVASS and ANIA for Post Offices

Bank and Post Offices' turnover grew by 51.9% (52.5% taking into account the offshore Business) and accounted for 59.1% of overall premium income (47.7% in 2012). As regards other distribution channels, Agencies' market share fell slightly from 16.3% in 2011 to 14.5% like the share of Tied Agents which fell from 9.9% to 8.2% despite a modest growth of 1.6% in turnover during 2013.

Gross premiums written by financial advisors recorded the considerable decline of 15%; therefore their market share fell from 24.8% to 17.1%.

Traditional products (Classes I and V), which offer interesting returns and a low financial risk, grew in 2013 by 26.4% accounting for almost 80% of overall premiums. Unit-linked policies (Class III), mostly sold through banks, showed a good performance (+16%).

The non-life sector experienced a 3.5% decrease in gross direct premiums. The *GDP ratio was 2.45%, down from 2.53%*.This was largely due to the poor trend in the motor sector (-7.1%), which was again affected by the decline in new car registrations (-7%) and in the number of vehicles insured but above all by the strong competitive pressures in the sector which experienced good technical results driven by the positive effects of the coming into force of the new rules contained in the "liberalization" decree to curb fraudulent claims.

The non-motor segment recorded a modest increase (+0.6%) a result which can be seen as positive if we take into account the decline in transport (-4.4%) and health (-1.5%) dragged down by the difficult situation of the corporate sector and the dim outlook for employment.

All other non-life segments were on the rise: General Liability was up by 1.1%, the property sector (Fire and Other Property Damage) fared marginally (+0.6), Credit and Suretyship lines recorded an increase of 2.8%. It is important to highlight the results of legal insurance, assistance and financial loss services which had a sharp increase (+6.3%). It is interesting to note that in some branches (accident and fire in particular) EU firms that sell their products in Italy under freedom of services (FOS) regime continue to play a very important role, growing more than Italian and foreign companies.

IVASS data show that EU companies selling their products in FOS continued their positive trend, writing 11.9% of the overall premium income in the non-life sectors, after the 10.7% posted in 2012.

During 2013 a significant operation involved Quixa Spa belonging to Axa Group which was incorporated and merged in Hilo Direct Seguros and Reasugros spa, a Spanish Company and therefore is no longer subject to the supervision of the Italian Insurance Control Authorithy (IVASS).

ITALIAN GROSS DIRECT PREMIUMS

National, extra UE and UE companies (million Euro)

Lines of business	2013	Share %	Ch. % 13/12	Ch. % 12/11	Ch. % 11/10	Ch. % 10/09
Accident	3.389	2,7	0,6	-0,4	0,2	0,1
Health	2.216	1,7	-3,1	-1,1	-0,8	3,9
Motor other risk	2.637	2,1	-8,2	-8,0	-2,0	-1,4
Marine, Aviation & Transport	744	0,6	-4,5	-6,3	0,6	-3,6
Fire	2.642	2,1	-0,1	-0,1	0,3	3,1
Other damages	3.022	2,4	1,6	0,4	0,5	0,8
Motor TPL	17.228	13,5	-6,9	-1,1	4,7	4,2
General Liability	3.836	3,0	1,1	3,2	-3,1	-3,7
Credit / Suretyship	981	0,8	2,8	-2,0	6,2	2,7
Others	1.561	1,2	6,3	-5,4	2,3	-1,3
Total NON LIFE	**38.257**	**30,1**	**-3,5**	**-1,3**	**1,9**	**1,8**
of which motor	***19.865***	**15,6**	**-7,1**	**-2,1**	**3,6**	**3,3**
non-motor	***18.392***	**14,5**	**0,6**	**-0,4**	**-0,1**	**0,1**
Totale LIFE	**88.902**	**69,9**	**22,5**	**-3,8**	**-18,3**	**11,7**
Total	**127.159**	**100,0**	**13,3**	**-2,9**	**-12,3**	**8,5**

Source: ANIA / IVASS

Agencies are still the most important distribution channel, handling 80.7% of premiums, against 82.4% in 2010. They are followed by brokers (7.6%) specializing in commercial risks. As stated in past issues of the Insurance Dossier, this figure tends to underestimate the brokers' weight, because the IVASS statistics we rely on only refer to direct dealings between brokers and insurance companies, whereas in several cases, the broker contacts the agent, to which the policy is then attributed.

The direct channel continued to grow, rising from 5.2% to 5.5% and almost reached 8% in the motor segment (as opposed to approximately 7.8% in 2012).

DISTRIBUTION CHANNEL MARKET SHARE

NON LIFE BUSINESS (percentage)

Distribution channel	2009	2010	2011	2012	2013
Tied agents	82,3	82,4	81,6	81,3	80,7
Brokers	8,4	8,0	8,0	7,4	7,6
Company staff	3,0	2,0	2,1	2,8	2,4
Direct selling (phone, internet)	3,0	4,1	4,7	5,2	5,5
Banks	2,6	3,4	3,5	3,2	3,6
Financial advisors	0,1	0,1	0,1	0,1	0,2
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: IVASS

The banking channel, which continues to focus on non-motor insurance products, but has started selling motor insurance products at its agencies, improved its performance, posting 3.6% after the 3.2% of 2012.

4 Ranking of Groups - all segments

During 2013 no major merger/acquisition operations was undertaken by the large operators, except for the sale of Chiara Assicurazioni and Chiara Vita by Banco di Desio to the Helvetia Group. Furthermore, Cattolica Assicurazioni signed a binding agreement with the Generali Group for the acquisition of 100% of the share capital of FATA Danni from Generali Group which was finalized in November 2013. Another significant operation was performed in January 2014 when the Company Le Assicurazioni di Roma was taken over by CF Assicurazioni.

LIST OF THE TEN LEADING GROUPS

Italian direct premiums in 2013 (million Euro)

Rank 2013	Rank 2012	Group	TOTAL	Share %	LIFE	Share %	NON LIFE	Share %
1	1	Generali	20.445	16,1	13.410	15,1	7.035	18,4
2	4	Intesa San Paolo	17.375	13,7	17.142	19,3	232	0,6
3	2	Unipol	15.693	12,3	5.936	6,7	9.757	25,5
4	3	Poste Italiane	13.244	10,4	13.172	14,8	71	0,2
5	5	Allianz	10.319	8,1	5.918	6,7	4.401	11,5
		FIRST FIVE GROUPS	**77.075**	**60,6**	**55.579**	**62,5**	**21.496**	**56,2**
6	6	Mediolanum	4.707	3,7	4.660	5,2	47	0,1
7	11	Cardif/BNP	4.488	3,5	4.335	4,9	154	0,4
8	7	Cattolica	4.239	3,3	2.523	2,8	1.716	4,5
9	8	Zurigo	3.385	2,7	1.934	2,2	1.451	3,8
10	9	Aviva	3.330	2,6	2.870	3,2	460	1,2
		SECOND FIVE GROUPS	**20.149**	**15,8**	**16.323**	**18,4**	**3.827**	**10,0**
		TOTAL	**127.159**	**100,0**	**88.902**	**100,0**	**38.257**	**100,0**

Source: ANIA / IVASS

Finally, it is worth mentioning that an important direct Company, Quixa S.p.A., belonging to Axa Group was incorporated and merged into Hilo Direct Seguros y Reasugros S.A., a Spanish Company and therefore is no longer subject to the supervision of the Italian Insurance Control Authority (ISVASS).

Internal reorganization within the main insurance groups continued, in order to streamline company structures and reduce their management costs: Generali Italia was formed in July 2013 and it is currently the second Italy's largest insurance company in terms of overall premium income, it is ranked second in non-life sector, and third in life sector. It is the result of the merger between Ina Assitalia, Assicurazioni Generali and AlleanzaToro. Finally, BNP Paribas Cardif Assicurazioni Vita was merged together with Cardif Assicurazioni, Bentos Assicurazioni was merged into Intesa Sanpaolo Assicura, Duomo Uni One Assicurazioni was merged together with Tua Assicurazioni.

Generali Group confirmed its market leadership in terms of global business, with a premium income of € 20,445 million and a 16.1 % market share.

Unipol fell into third place (12.3%) overtaken by Intesa San Paolo Group, whose premium income amounted to € 17,375 million, with a 13.7% market share. Poste Italiane fell into fourth place with a premium income of 13,244 million and a 10.4% market share, followed by Allianz (8.1%). A significant move involved BNP Paribas Group which rose to the seventh position from the eleventh with a 3.5% market share.

In 2013 market concentration further increased: the five leading groups earned 60.6% of the total premium income against 59% in 2012. The overall market share held by the ten leading groups slightly fell from 77.6%. % to 76.4%.

5 Ranking of Groups: Life Segments

Intesa Sanpaolo became the first-largest Italian life insurance group, with a 19.8% market share (14.8% in 2012) and a premium income of 17,412 million which rose in 2013 by 72.1%. Assicurazioni Generali took second place with a 15.1% market share and a premium income of € 13,410 million.

Poste Italiane fell by one place to become the third largest group in Italy followed by Unipol and Allianz which recorded premium income of €5,94 and € 5,92 billion and a market share of 6.7% respectively.

Mediolanum fell from fourth to sixth place, BNP Paribas remained in seventh place and Aviva in eighth. CNP Assurance moved up three positions, becoming the ninth largest group in Italy.

LIST OF THE TEN LEADING GROUPS IN LIFE SECTOR

Rank 2013	Rank 2012	Group	LIFE	Share %	Change %
1	3	Intesa San Paolo	17.142	19,3	72,1
2	1	Generali	13.410	15,1	7,8
3	2	Poste Italiane	13.172	14,8	25,3
4	5	Unipol	5.936	6,7	10,5
5	6	Allianz	5.918	6,7	16,5
		FIRST FIVE GROUPS	**55.579**	**62,5**	**20,2**
6	4	Mediolanum	4.660	5,2	-41,3
7	7	Cardif/BNP	4.335	4,9	48,5
8	8	Aviva	2.870	3,2	9,2
9	12	CNP Assurances	2.573	2,9	84,6
10	9	Cattolica	2.523	2,8	37,8
		SECOND FIVE GROUPS	**16.961**	**19,1**	**19,9**
		OTHERS	**16.362**	**18,4**	**33,9**
		TOTAL	**88.902**	**100**	**22,5**

Source: ANIA / IVASS

Market concentration declined in 2013: the market share of the top five groups fell from 63.7% in 2012 to 62.5%; the share of the top ten operators has also fallen, from 83.2% to 81.6%.

6 Ranking of Groups: Non-Life Segments

LIST OF THE TEN LEADING GROUPS IN NON LIFE SECTOR

Rank 2013	Rank 2012	Group	NON LIFE	Share %	Change %
1	1	Unipol	9.757	25,5	-7,7
2	2	Generali	7.035	18,4	-7,1
3	3	Allianz	4.401	11,5	-0,5
4	4	Reale Mutua	1.919	5,0	-4,8
5	5	AXA	1.823	4,8	-0,1
		FIRST FIVE GROUPS	**24.935**	**65,2**	**-5,6**
6	6	Cattolica	1.716	4,5	1,8
7	7	Zurigo	1.451	3,8	-3,7
8	8	GAN/Groupama	1.218	3,2	-8,1
9	9	Vittoria (Acutis)	983	2,6	9,4
10	10	ACI/Sara	627	1,6	-3,4
		SECOND FIVE GROUPS	**5.994**	**15,7**	**-1,2**
		OTHERS	**7.328**	**19,2**	**16,9**
		TOTAL	**38.257**	**100,0**	**-1,2**

Source: ANIA / IVASS

The ranking of groups remained virtually unchanged in 2013 as compared to 2012: Unipol was again the leading company in the non-life sector, with premium income of € 9,757 million and a 25.5% market share. Generali took again second place (18.4% and 7,035 million) followed again by Allianz in third place (11.5% and 4,401 million), ahead of Reale Mutua (5.0%) and Axa (4.8%).

Market concentration was lower than in 2012; the top five groups held 65.2% of the market, against 66.6% in the preceding year. The concentration of the top ten companies also fell from 81.9% to 80.9%.

7 Assets held by insurance companies

According to the financial statements of the main insurance groups listed on the Italian Stock Exchange (Generali, Unipol, Intesa San Paolo Vita, Poste Vita, Cattolica, Reale Mutua and Vittoria), the total assets of insurance companies grew by 8.8% in 2013, thanks to the overall increase in asset prices.

87.9% of assets are linked to financial investments (against 87.3% in 2012). Of the remaining categories, 5.1% is related to accounts receivable (including reserves held by reinsurers), 4% is split between tangible/intangible and liquid assets, and the remaining 3% consists of “other assets”.

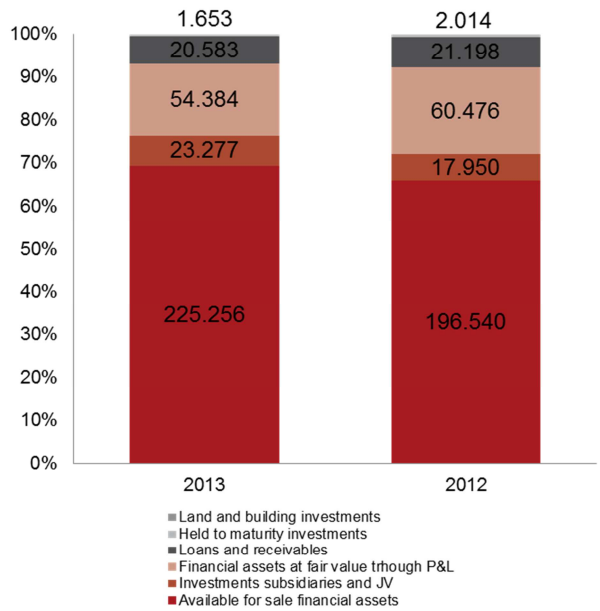
In the life insurance business, assets under management were up 6.4% as compared to 2012.

Financial investments accounted for 91.8% of total assets, remaining at substantially the same levels as last year, and are broken down as follows: 65.9% is represented by financial assets available for sale, 20.3% by financial assets with a fair value recorded in the Profit and Loss Account, 6% by shareholdings in controlled and associated companies and joint ventures, 7.1% by loans, and the remaining 0.7% by real estate investments and investments held to maturity.

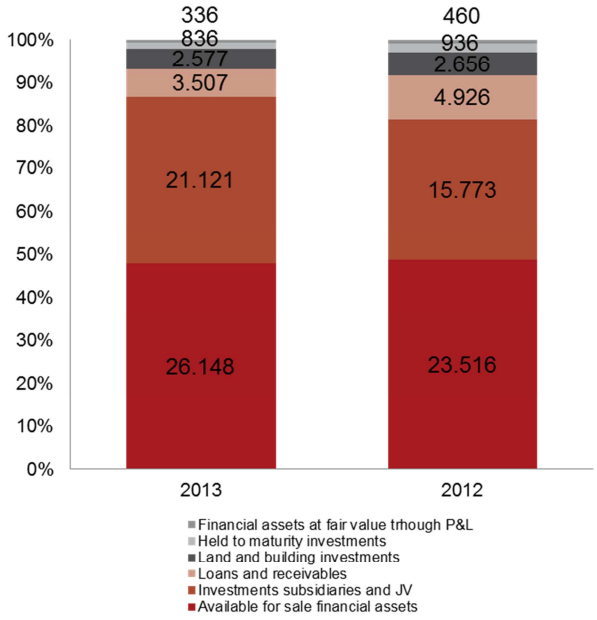
In the non-life lines, assets under management were up by 8.5%, as compared to 2012.

Financial investments accounted for 70.3% of total assets, broken down as follows: 48.0% is represented by financial assets available for sale (48.7% last year), 38.7% by shareholdings in controlled and associated companies and joint ventures (32.6% .in 2012), 0.6% by financial assets accounted at fair value in the Profit and Loss Account, 6.4% by loans and accounts receivable, and the remaining 6.3% by real estate investments and investments held to maturity.

Life insurance – Main asset classes
(million Euro)



Non Life insurance – Main asset classes
(million Euro)



8 Profit and Loss Accounts of listed Groups

The following figures, from which we can sketch a picture of the technical trend of the Italian insurance market, have been taken from the 2013 financial statements of the main groups listed on the Stock Exchange which - in terms of premiums - account for almost 60% of the non-life insurance market and 65% of the life market.

During the second half of the year, P&L accounts of listed companies showed good results with a considerable growth in profitability driven by the positive effects of the measures taken by the European Central Bank in the financial markets. In 2013 the contribution of the non- life sector to the overall financial performance was superior to that, already positive, recorded in 2012 thanks to further improvement of technical results.

The “return on equity” (ROE) increased to 10% from 9.7% in 2012.

9 Profit and Loss Accounts of listed Groups: Life

Due to the significant decline in premium income, the ratio of costs to premiums fell to 5.0%, as against 5.5% in 2012. Administrative costs (1.0% as against 1.3% in 2012) and acquisition costs (4.0% as against 4.2%) have also fallen. Claims paid, including variations in technical reserves, increased by 13.6%, from € 52.4 billion in 2013 to € 59.6 billion in 2013. Pre-tax profits were up by 48%; the return on investment (ROA) increased from 0.3% to 0.5% and return on equity (ROE) grew slightly from 0.6% in 2012 to 0.8%.

RECLASSIFIED PROFIT AND LOSS ACCOUNT – LIFE

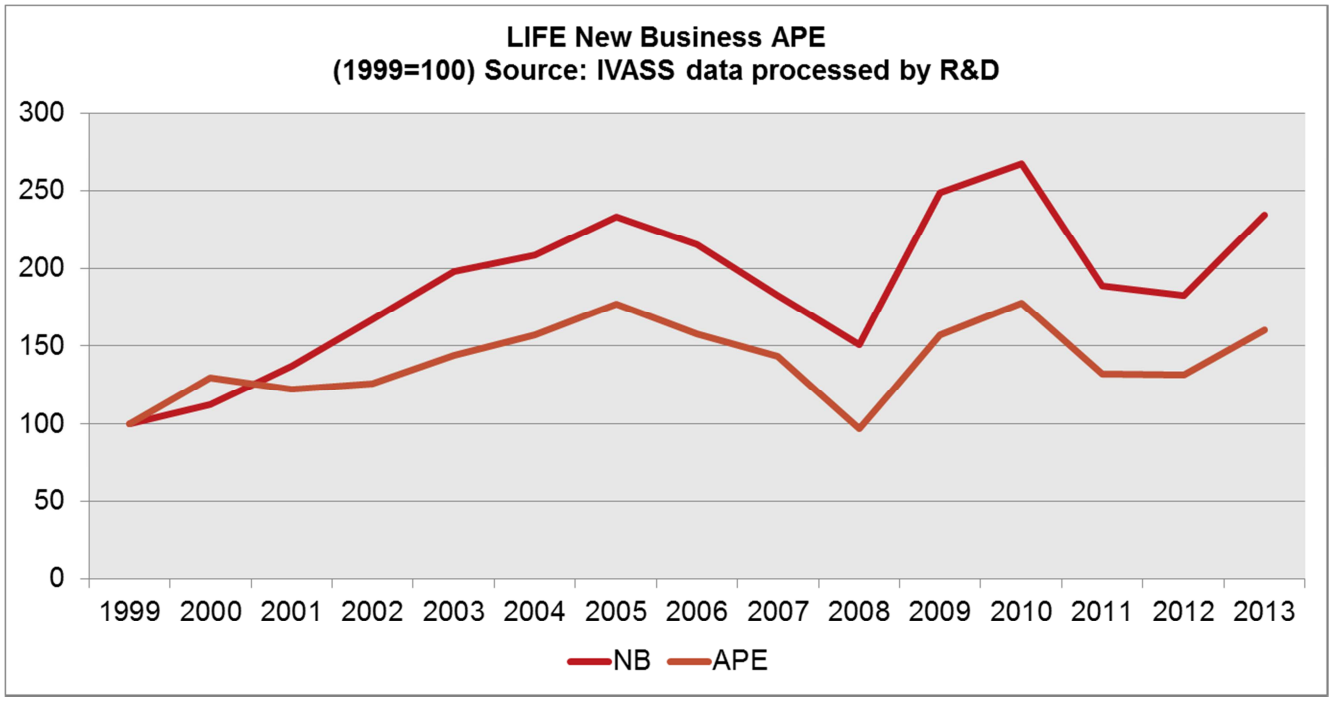
Italian portfolio (million Euro)

	2013	2012
Gross written premiums	54.356	46.054
Net earned premiums	**53.568**	**45.190**
Income from financial instruments at fair value entered in P&L account	**1.808**	**4.347**
Income from other financial instruments	**11.570**	**10.667**
Income from subsidiaries	**807**	**481**
Claims paid and change in insurance provisions	**59.644**	**52.411**
Charges deriving from other financial instruments	**1.551**	**3.460**
Net operating expenses	**2.728**	**2.549**
Earnings before tax	**2.760**	**1.867**

Source: P&L accounts of listed companies processed by R&D

Finally, if we take into consideration how much value was created by the life insurance business we see that the 2013 financial year was positively affected by the revaluation of some financial activities that many companies computed in their profit and loss accounts.

Indeed, in terms of the embedded value trend of the groups which disclose it, it can be observed that the value of Italian life insurance companies, including dividends paid and variations in net equity, grew by 29.5% if compared with 2012.



10 Profit and Loss Accounts of listed Groups: Non-Life

The sample of listed companies ended the 2013 financial year with a pre-tax profit of € 2,087.2 million, a further improvement of the profit of € 1,582.8 recorded in the preceding year, as a result both of the substantial improvement of all technical ratios and most notably of the rising profits deriving from financial investments (+17% as compared to 2012).

The combined ratio fell by almost one percentage point, from 93.7% to 92.9% and even reached 90.7% if we include the Company Allianz; it is worth mentioning that the data released by the main listed companies for the first quarter of 2014 are promising and seem to confirm this positive trend in the sector. This good performance is due to the reduction of the number of claims paid (-5.68%) which has compensated the contraction in premium income (-2.98%).

The operating expenses to premiums ratio increased slightly and reached 24.3% mainly due to lower premiums. The acquisition costs to premiums ratio was 19.6%, while the administration costs to premiums ratio was 4.7%.

The profitability of the non- life lines improved in 2013. The Return on Assets rose from 2.2% to 2.7%.

In the motor segment the loss ratio continued to improve as a result of the further and large reduction in claims frequency, which has dropped to 5.6% and is down by 3.6% as compared to 2012.

RECLASSIFIED PROFIT AND LOSS ACCOUNT – NON LIFE

Italian portfolio (million Euro)

	2013	2012
Gross earned premiums	24.284	25.009
Premiums ceded to reinsurers	2.386	2.338
Net earned premiums	**21.898**	**22.671**
Income from financial instruments at fair value entered in P&L account	**-153**	**35**
Income from other financial instruments	**2.072**	**1.570**
Income from subsidiaries	**907**	**817**
Claims paid and change in insurance provisions	**15.027**	**15.914**
Charges deriving from other financial instruments	**900**	**1.226**
Net operating expenses	**5.316**	**5.317**
Other costs	**2.415**	**2.331**
Earnings before tax	**2.087**	**1.583**

Source: P&L accounts of listed companies processed by R&D; figures do not include Allianz since a P&L account for Italy is not published yet.

It must be noted that the coming into force of the new rules for bodily injuries compensation (minor cervical spine lesions, also known as whiplash), which are now paid only after a certified physician's signed document attesting the injury visually or instrumentally, has had a beneficial effect on the sector: in 2012 there had already been a drop in the average cost of claims (-5.9%) which in 2013 has recorded only a slight increase (0.3%) being estimated at 1,729 Euros.

11 Home insurance policies in Italy

The percentage of Italian households owning this type of coverage is relatively low. Using the findings of the most recent survey (2012) of the Bank of Italy's Survey of Household Income and Wealth we shall attempt to illustrate the socio-economic factors which influence the decision to buy this type of coverage.

According to the data, only 18.7% of Italian households owns a home insurance policy. Among home owners (67% of the total) the percentage rises to 25.5%, while it is as low as 2.9% among tenants. Therefore it is evident that the key factor considered when purchasing a policy is ownership of the home: 92% of those who own an insurance policy are home owners. For the analysis below therefore, we shall only focus on the home owners. As we shall illustrate later, for the vast majority of home owners their home itself represents the bulk of family wealth. Consequently, the absence of any kind of home insurance makes many families very financially fragile.

In many cases the purchase of an insurance policy is mandatory; for example, if taking out a mortgage. 37% of those with a mortgage for the purchase or renovation of a home own home insurance.

Table 1 compares the probability of insuring to the characteristics of the "breadwinner"—defined as the person responsible for financial decisions in the family. The inclination to insure tends to increase until the age of 64 then declines for those over the age of 65. Households where the breadwinner has a higher education and higher professional qualifications are more likely to insure. It is interesting to see that retirees, who represent half of the homeowners, are unlikely to take out insurance policies.

Table 1. The "breadwinner" and his willingness to buy home insurance

Age		Education		Professional category	
18/34	22,1%	Compulsory school	18.1%	Worker	25.9%
35/44	31,5%	High school	32.1%	Employee	30.8%
45/54	29,0%	University degree or higher	34.1%	Manager	32,3%
55/64	29,2%			Entrepreneur/self-employed	45.9%
More than 65	19,6%			Self-employed other	30.1%
18/34	22,1%			Retired	20.8%
				Other/not employed	5.6%

From a geographical point of view, there is a great discrepancy between the different areas of Italy. 37% of home owners living in Northwestern Italy are insured; this percentage rises to 52% in the North East, whereas only 19.9% of the households in Central Italy have home insurance. In the South and Islands only a minority (1.8% and 2.0% respectively) has home insurance coverage. This seems to be partly due to differences in income, but other cultural factors, such as the functioning of the public administration (e.g. the Courts) surely come into play here.

Home insurance is more common in small towns (30.5% in those with less than 20,000 inhabitants) than in big cities (13.2% in those with more than 500,000 inhabitants): the latter having a higher concentration of apartments. Indeed, apartment owners seem less inclined to purchase an individual home policy, given that the condominium policy may considered sufficient even if it only covers the shared property and not individually owned apartments.

The home insurance rate increases with income and wealth (real or financial), as indicated in table 2 (see third and fifth column).

Table 2. Income, wealth and probability of having home insurance

Net household income (thousands of €)	Probability of having home insurance	Value of the home as a % of total assets	Household assets (thousands of €)	Probability of having home insurance	Value of the home as a % of total assets
0-17	4,8%	88,1%	0-196	12,6%	88,9%
17-26	14,3%	85,2%	196-316	20,9%	86,1%
26-40	29,7%	80,4%	316-840	29,6%	79,2%
More than 40	42,1%	67,3%	More than 840	41,6%	59,5%

Homeowners belonging to the most affluent 25% are almost 10 times more likely to insure than those belonging to the poorest 25%.

Table 3. Probabilty of being insured

Regression (marginal values)-	
Age	
18/34	0.167
35/44	0.114
45/54	0.130
55/64	0.039
Professional category	
Worker	0.074
Employee	0.067
Manager	0.188
Entrepreneur/self-employed	-0.010
Otherself-employed	0.122
Retired	-0.044
Education	
High school	0.105
University degree or higher	0.109
Net family income (€)	
17000-26000	0.348**
26000-40000	0.657***
Over 40000	0.796***
Family financial assets, gross(€)	
800- 6000	0.291**
6000-22000	0.355***
Oltre i 22000	0.403***
Value of the home (logarithm)	0.254***
Value of the home as a % of assets	-0.003
Family owns…	
…life policies	0.399***
…health policies	0.068
Noth Easern Italyt	0.338***
Central Italy	-0.427***
South Italy	-1.526***
Islands	-1.463***
Number of inhabitants (thousands)	
20-40	-0.108
40-500	-0.161**
Over 500	-0.802***
N. of Observations	**5669**
* p < 0.05, ** p < 0.01, *** p < 0.001	

As we stated earlier, ownership of the home is for many households the main source of wealth. According to the data released by the SHIW, owning the house where one lives represents on average 78.8% of the total household assets. For one half of the households surveyed the home represents at least 86% of their wealth. The third and sixth columns show for each class of income and wealth the value of the home in percentage of total assets. The weight of the home in total assets is relatively stable in the first three wealth classes and fall dramatically in the richest 25% confirming the strong polarization of income and wealth/assets.

The relative impact of each driver on the propensity to buy insurance can be estimated by means of econometric techniques. The results are displayed in Table 3.

With some exceptions we have taken into account almost all variables considered previously. In the first place, we have evaluated the financial wealth instead of the total one, in order to assess the amount of resources that can be used instead of insurance to protect the home. We also considered the logarithm of the value of the home and its percentage on total assets.

Results are shown in table 3and can be interpreted as the marginal effect of being in a category on the propensity of being insured: by way of example, consider two households which only differ in income: the first one has an annual income of 17,000 €, the second one between 17,000 and 26,000 €. According to the data the latter is 0.348 times more likely to have a home policy than the former.

The disposable income of a household appears to be a very important driver of the decision to get insurance. Counterintuitively, having less resources for self-insurance is negatively correlated with having an insurance. Unsurprisingly and rationally, the higher the home's value is, the higher the odds of being insured: an 1% increment in the house value increases the probability by 0.25%.

Having a life insurance increase the probability of insuring the home, this may be due to understanding insurance product or having been contacted by an intermediary. On the contrary, having health insurance (which is normally made available through labor contracts, without any intermediary) does not seem to affect the purchase of home insurance.

It is worth noting that the econometric analysis confirmed the significant geographic differences in the coverage of policies which findings in other studies have already highlighted. In quantitative terms the geographical area of residence appears to be the most important factor that can explain the tendency to insure.

The most important conclusions of this simple analysis are twofold:

- *Institutional and cultural factor are the key drivers of the low penetration of life insurance*
- *Households which are mostly in the need of a home insurance, since home represent the vast majority of their wealth and they do not have resource to use in case of damages, are less likely to insure.*