Generali Group

INSURANCE DOSSIER 2017

ITALIAN MARKET TRENDS - FLASH 2016/17

Group Insurance Research

generali.com

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GENERALI

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1 Executive summary

In most of the core European markets the trend of the life insurance was mainly negative in 2016, with the only notable exception of Spain and Hungary, given that the macroeconomic scenario continued to be characterized by very low bond yields. The shift towards Unit linked products was not able to recover the falling down of traditional products and now insurers are mainly pushing for hybrid products. Non-life insurance premium collection posted a far better result than the life one, in line with the previous year, thanks in particularly to the good performance of the motor insurance where we are seeing a recovery after years of low profitability.

2016 was not a remarkable year for the Italian insurance industry: the overall premium income showed a 8% decline to 143 billion but we have to bear in mind that 2015 was a record year with more than €155 billion of premium income.

After three consecutive years of growth, premium income in the life segment suffered a decrease by 10.2%. The current low (or even negative) interest rate environment has negatively affected the appeal of guaranteed products and, also in the light of the stringent requirements imposed by Solvency II, insurance companies, which try to reduce their financial risk, have rapidly shifted the product mix in favor of multiline (hybrid) products absorbing less capital as compared to traditional products. The wave of uncertainty that affected financial markets in the first half of the year implied a decline in the demand for these products due to a lack of consumer trust.

With respect to distribution channels, the turnover of Bancassurance - which includes Post Offices - fell by 10.8% (-8.4% taking into account the offshore business) accounting for 61.5% of the overall premium income (62% in 2015). Agents sold products with a share of 13.9% whereas the share of the Agencies reached 7.8%. The turnover of financial advisors fell from 17.9 % to 15.8%; therefore their market share fell by 20.8%.

In 2016 the non-life sector experienced a further decrease in gross direct premiums confirming the trend already seen in the past years. This was largely due to the poor trend in the motor sector (-3.7%), affected by the strong competition between operators: notably MTPL premiums were down by 5.5% as against -6.5% in 2015,-7% in 2014 and -7.1% in 2013.

Premiums in the land vehicle line increased (+6.1%), confirming the positive trend seen last year, mainly due to a growth in new car registrations, which improved to 15.9% (+15.8% in 2015). The growth of this branch was sustained by fleet replacement of rental service and lease companies which always provide to protect their vehicles against damages buying “Casco” insurance. The non-motor segment grew, although slowing down slightly with respect to the last years, (1.5% as against 2.1% posted in 2015 and 2014).

Generali Group confirmed its market leadership in terms of global business, with a 16.7% market share followed by Poste Italiane Group (first life insurance group with a 18.6% market share) and Intesa San Paolo Group. Unipol remains the leading group in the non-life business (21.3%) followed by Generali Group (16.2%).

2 The european insurance markets

In 2016 the increase of gross written premiums was positive in the majority of the key insurance markets in which Generali operates, with the exception of Austria. Life gross written premiums were mainly lower than the previous year with the notable exception of Spain and Hungary, while non-life continued the positive performance of the previous year.

EUROPEAN INSURANCE MARKET TRENDS												
	Total				Life				Non Life			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
AT	1,8	3,5	1,5	-2,6	-0,2	4,1	0,0	-9,1	3,2	3,1	2,5	1,7
CH	3,2	0,0	0,2	0,5	5,4	-0,1	0,0	-6,0	1,1	0,0	0,5	1,1
CZ	-0,6	0,9	1,0	2,1	-1,2	-0,6	-3,6	-1,8	0,0	1,9	4,0	4,5
DE	3,1	2,7	0,7	0,1	3,9	3,1	-1,1	-1,7	3,3	2,3	2,5	2,8
ES	-2,6	-0,6	2,1	12,4	-3,0	-2,6	1,7	21,8	-3,8	1,1	2,4	4,7
FR	4,0	6,1	3,9	0,9	6,1	7,0	5,0	3,0	1,7	1,8	1,6	1,9
HU	5,5	4,9	2,5	5,7	8,5	4,7	-2,6	3,3	2,3	5,1	8,3	8,1
PL	-7,8	-3,9	-0,2	1,3	-14,1	-8,2	-4,0	-13,3	1,1	-0,9	0,6	17,0
SK	2,6	0,4	1,4	1,4	6,1	-1,5	-0,6	-2,0	-1,8	3,0	3,8	5,5

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

The trend of the life insurance was mainly negative, given that the macroeconomic scenario continued to be characterized by very low bond yields, especially in the core European markets. The shift towards Unit linked products was not able to recover the falling down of traditional products and now insurers are mainly pushing for hybrid products.

The only notable exception was Spain, where gross written premiums markedly increased versus the previous year (+21.8%): the risk business (+11.4%) was driven by the recovery of credit to households, while savings and pensions products, which amount to 85% of the life insurance, showed a rise of 23.6%, thanks to individual pension products and unit linked products.

In Germany single premiums continued to contract (-4.4%), while recurrent premiums bottomed out (-0.4%) after the bad performance of 2015. From the demand side, life premiums continued to be negatively influenced by the low yield coming from the bond market, while, from the supply side, they are less attractive because of the low profitability they take by. For the same reasons single premiums collapsed in Austria (-33.3%).

In France the stagnation of the 2016 result was mixed: the good performance in the first half of the year was counterbalanced by a decrease in the second half of the year, with the beginning of the discussion on the Sapin2 law proposal. The strong increase in UL products seen in 2015 did not continue in 2016.

The negative trend of life gross written premiums in Poland and in Czech Republic continued, with severe drawbacks in the life insurance linked to the investment funds in Poland (-20.6% yoy).

The non-life insurance premium collection posted a far better result than the life one, in line with the previous year, thanks in particularly to the good performance of the motor insurance where we are seeing a recovery after years of low profitability.

In Germany non-life lines grew satisfactorily: Motor grew by 2.8%, Property by 3.5% and Liability by 2%. The evolution of insured risks goes ahead with a growth rate of 1% in a mature market; the remaining part of premiums growth is explained by a moderate inflation, in a context of satisfactory profitability where increases of tariffs cannot be too high.

2016 – INSURANCE PENETRATION RATE			
	Total	Life	Non Life
AT	4,9	1,8	3,1
CH	9,1	5,0	4,1
CZ	3,2	1,2	1,9
DE	6,2	2,9	3,3
ES	5,7	2,8	2,9
FR	9,6	6,2	3,4
HU	2,6	1,3	1,3
PL	2,9	1,3	1,6
SK	2,8	1,5	1,3

In France there was a sharp increase of costs in the motor sector, due to higher frequency of bodily injured accidents and of road fatalities. The price cap strategy adopted by insurers has come to an end, given also the level of inflation and the low profitability of investments.

In Spain the non-life premiums went up by 4.7%; premiums in all lines increased, in particular: Property grew by 5.5%, Motor and Health insurance by 5.1%.

In Austria the good performance of premiums in the motor segment was counterbalanced by the mild performance of the Property one (1.0%), because of the unavoidable moderation of tariffs after two years of contractions in claims. Overall claims are benign (-0.5%), helping profitability and thus the overall result given the bad situation of the life segment.

In the CEE countries non-life gross premiums were robust, particularly in Poland, thanks to price increases in tariffs.

3 The Italian insurance market: volume and business breakdown

LIFE INDIVIDUAL NEW BUSINESS

National, extra UE and UE companies (change %)

Line of business	2016 Mln Euro	Ch. % 16/15	Ch. % 15/14	Ch. % 14/13
Lob I	61.298	-4,5	-4,1	42,4
Lob III	38.388	-20,2	28,4	44,7
of which Unit	*38.388*	*-20,2*	*28,5*	*45,2*
Index	*-*	*-100,0*	*-99,6*	*-74,4*
Lob V	1.745	-25,7	-20,7	100,5
Other	138	-3,3	30,9	20,5
Total	**101.569**	**-11,5**	**6,4**	**44,4**

Source: ANIA

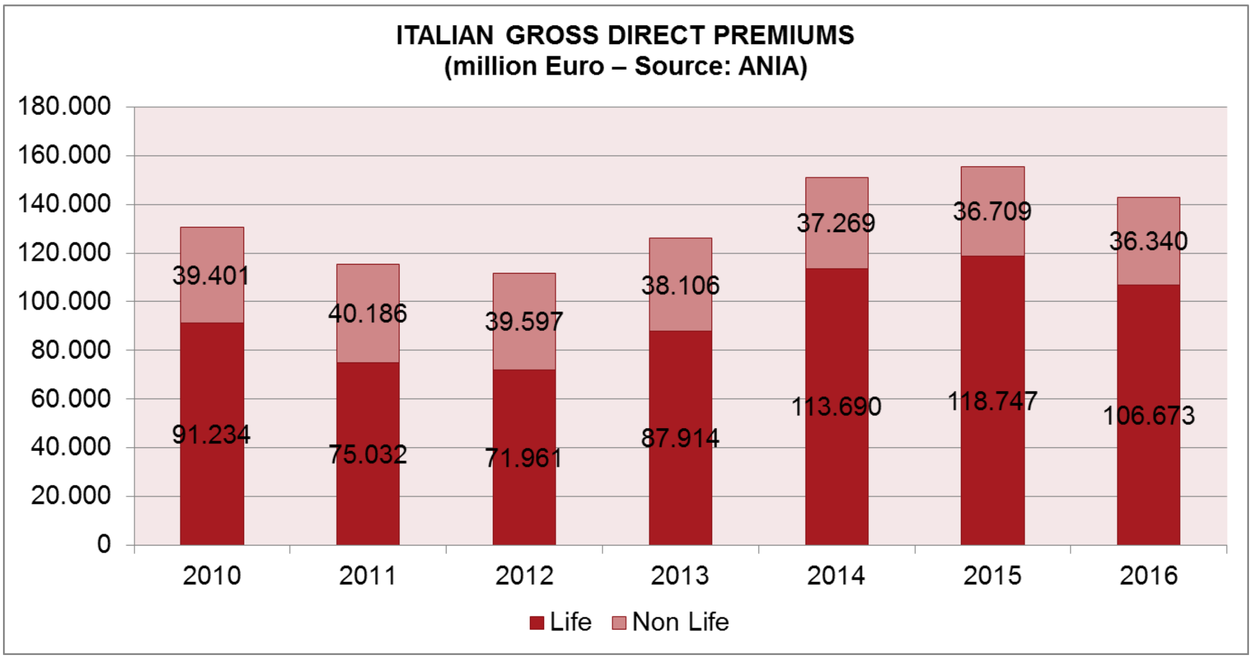
2016 was not a remarkable year for the insurance industry: the overall premium income showed a 8% decline to 143 billion but we have to bear in mind that 2015 was a record year with more than € 155 billion of premium income.

After three consecutive years of growth, premium income in the life segment suffered a decrease by 10.2% (considering gross direct business written by Italian companies).

Direct Italian premium income inclusive of UE companies also showed a decline by 11.5% during 2016.

The reduction in non-life gross premiums continued for the fifth year in a row (-1.0%), but technical profitability remained quite acceptable, albeit falling.

Due to the decline in life insurance premium income, insurance penetration (premiums to Gross Domestic Product) decreased from 7.2% last year to 6.4%.



The current low (or even negative) interest rate environment has negatively affected the appeal of guaranteed products and, also in the light of the stringent requirements imposed by Solvency II, insurance companies, which try to reduce their financial risk, have rapidly shifted the product mix in favor of multiline (hybrid) products absorbing less capital as compared to traditional products. The wave of uncertainty that affected financial markets in the first half of the year implied a decline in the demand for these products due to a lack of consumer trust (-22.5% in Class III policies).

The contraction in premium income with respect to traditional life policies (Class I) reflects the companies' decision to refocus on products which are less capital intensive; at the same time it should be noted that important companies such as Poste Italiane, Aviva, Axa and CNP have continued to target their sales strategy in favor of traditional products with guarantees, thus increasing their market shares.

Class III policies, constituted mainly by unit-linked policies, accounted for only 26% of the premium income whereas in 2015 it was 30%. The majority of these "investment contracts" are sold through banks and financial advisors which represent the most significant

DISTRIBUTION CHANNEL MARKET SHARE
LIFE BUSINESS (percentage)

Distribution channel	2012	2013	2014	2015	2016
Banks	33,1	43,0	47,8	46,7	43,0
Post Offices	14,6	15,0	13,6	15,3	18,6
Tied agents	16,0	14,1	12,5	12,5	13,9
Company staff	10,4	8,6	7,7	7,1	7,8
Financial advisors	24,8	18,3	17,9	17,9	15,8
Brokers	1,2	1,0	0,6	0,5	0,8
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: ANIA

distribution channels in this sector. Traditional products (I and V) recorded a 4% increase as compared to 2015 and accounted for 73% of the life premium income.

With respect to distribution channels, the turnover of Bancassurance - which includes Post Offices - fell by 10.8% (-8.4% taking into account the offshore business) accounting for 61.5% of the overall premium income (62% in 2015). Agents sold products with a share of 13.9% whereas the share of the Agencies reached 7.8%. The turnover of financial advisors fell from 17.9 % to 15.8%; therefore their market share fell by 20.8%.

During the first quarter of 2017 the stabilization of financial markets has been driving insurance companies' preferences towards multi-line products; consequently class III products are on the rise but their good performance has been someway offset by the contraction in premium income of products with guarantees (Class I). As a result, the collection of life premiums was down by 13.4% in the first quarter of the year according to data on inflows and technical reserves provided by ANIA.

ITALIAN GROSS DIRECT PREMIUMS

National, extra UE and UE companies (million Euro)

Lines of business	2016	Share %	Ch. % 16/15	Ch. % 15/14	Ch. % 14/13	Ch. % 13/12
Accident	3.420	2,4	0,8	0,4	0,3	0,2
Health	2.474	1,7	8,3	2,2	1,2	-3,4
Motor other risk	2.852	2,0	6,1	3,4	-1,2	-8,4
Marine, Aviation & Transport	713	0,5	-1,9	3,2	-2,9	-6,6
Fire	2.674	1,9	0,9	0,1	0,7	-0,5
Other damages	3.111	2,2	0,5	-0,9	3,8	1,2
Motor TPL	14.124	9,9	-5,5	-6,5	-7,0	-7,1
General Liability	4.125	2,9	-0,4	5,3	2,3	1,6
Credit / Suretyship	1.037	0,7	5,3	1,9	0,7	1,3
Others	1.811	1,3	0,8	6,0	9,5	5,7
Total NON LIFE	**36.340**	**25,4**	**-1,0**	**-1,5**	**-2,2**	**-3,8**
of which motor	***16.976***	**11,9**	**-3,7**	**-5,1**	**-6,2**	**-7,3**
non-motor	***19.364***	**13,5**	**1,5**	**2,1**	**2,1**	**0,3**
Totale LIFE	**106.673**	**74,6**	**-10,2**	**4,4**	**29,3**	**22,2**
Total	**143.013**	**100,0**	**-8,0**	**3,0**	**19,8**	**13,0**

Source: ANIA

The non-life lines contracted for the fifth year in a row and turnover was down 1.0%. As a result, insurance penetration, namely the premium to GDP ratio, fell further, albeit slightly, from 2.23% in 2015 to 2.22%.

In 2016 the non-life sector experienced a further decrease in gross direct premiums confirming the trend already seen in the past years. This was largely due to the poor trend in the motor sector (-3.7%), affected by the strong competition between operators which had experienced good technical results: notably MTPL premiums were down by 5.5% as against -6.5% in 2015,-7% in 2014 and -7.1% in 2013. Data for the current year released by listed companies seems to have worsened as far as technical results are concerned.

Premiums in the land vehicle line increased (+6.1%), confirming the positive trend seen last year, mainly due to a growth in new car registrations, which improved to 15.9% (+15.8% in 2015). The growth of this branch was sustained by fleet replacement of rental service and lease companies which always provide to protect their vehicles against damages buying “Casco” insurance. The non-motor segment grew, although slowing down slightly with respect to the last years, (1.5% as against 2.1% posted in 2015 and 2014). With the exception of the General Liability line and the Transport sector, which declined by 0.4% and 1.9% respectively, all other non-life segments continued to grow: health recorded a growth of 8.3% benefiting from the measures included in 2016 Economic and Financial document which introduced tax relief on performance-related bonuses/benefits if diverted into private pensions schemes or complementary health products and if exceeding the deducibility threshold (€5,164.57); the property sector (Fire and other property damage) expanded by 2.0%%, while credit and suretyship posted strong growth (+5.3%). Other small lines such as legal insurance, assistance and financial loss services reported modest growth.

Premiums collected by EU firms that sell their products in Italy under freedom of services (FOS) decreased by 0.8% (-0.5% in the non-motor) after years of positive trend in which they had performed better than Italian Companies.

Data recently released by ANIA show that the share of the Italian Branches of EU Companies operating in the non-life sector remained at substantially the same level as last year (12,1% with a homogeneous perimeter).

DISTRIBUTION CHANNEL MARKET SHARE

NON LIFE BUSINESS (percentage)

Distribution channel	2012	2013	2014	2015	2016
Tied agents	77,6	76,3	75,1	73,6	72,3
Brokers	11,3	12,1	12,4	12,8	13,2
Company staff	2,6	2,0	2,2	2,4	2,4
Direct selling (phone, internet)	5,1	5,7	5,8	6,0	6,0
Banks	3,3	3,7	4,3	5,0	5,8
Financial advisors	0,1	0,1	0,2	0,3	0,3
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: ANIA

Agencies, which still represent the most significant distribution channel, posted 74.7% against 76% in 2015 and 77.3% in 2014. They are followed by brokers (13.2%) specialized in commercial risks.

The weight of direct channel remained stable at 6% (reaching 8.1% in the motor segment).

The banking channel, mainly focusing on non-motor insurance products, also continued to grow (5.8% against 5% in 2015). Its market share has increased from 2.6% in 2015 to 3%.

4 Ranking of Groups - all segments

During 2016 the most significant operations involved Reale Mutua, which closed a deal for the acquisition of UNIQA Assicurazioni; the Italian insurer HDI, which acquired a majority stake in life insurer CBA Vita; Cinven, which agreed to acquire ERGO Italia, Ergo Previdenza and Ergo Assicurazioni (sold in November to DARAG, then renamed DARAG Italia). Another transaction involved Old Mutual Wealth Italy (former Skandia) acquired, again, by Cinven. During 2016 the Italian branches of Royal & Sun Alliance and Sun Insurance Office were sold to ITAS Mutua.

Internal reorganization within the main insurance groups continued in order to streamline company structures and reduce their management costs: Nationale Suisse Vita was merged by incorporation into Helvetia Vita (Helvetia Group), Aviva Assicurazioni Vita S.p.A. was incorporated into Aviva Vita S.p.A, Itas Assicurazioni into Itas Mutua (ITAS Group) and finally Allianz incorporated Antoniana Popolare.

LIST OF THE TEN LEADING GROUPS

Italian direct premiums in 2016 (million Euro)

Rank 2016	Rank 2015	Group	TOTAL	Share %	LIFE	Share %	NON LIFE	Share %
1	1	Generali	23.905	16,7	18.016	16,9	5.899	16,2
2	2	Poste Italiane	19.939	13,9	19.820	18,6	119	0,3
3	4	Intesa San Paolo	15.341	10,7	14.947	14,0	394	1,1
4	3	Unipol	14.060	9,8	6.323	5,9	7.737	21,3
5	5	Allianz	11.894	8,3	6.940	6,5	4.953	13,6
		FIRST FIVE GROUPS	**85.139**	**59,5**	**66.047**	**61,9**	**19.092**	**52,5**
6	8	AXA	5.266	3,7	3.402	3,2	1.864	5,1
7	12	Aviva	5.163	3,6	4.659	4,4	504	1,4
8	6	Cattolica	4.700	3,3	2.726	2,6	1.974	5,4
9	9	Cardif/BNP	4.386	3,1	4.233	4,0	153	0,4
10	10	Zurigo	3.714	2,6	2.412	2,3	1.301	3,6
		SECOND FIVE GROUPS	**23.299**	**16,2**	**17.433**	**16,3**	**5.796**	**15,9**
		TOTAL	**143.013**	**100,0**	**106.673**	**100,0**	**36.340**	**100,0**

Source: ANIA

Generali Group confirmed its market leadership in terms of global business, with a premium income of €23,905 million and a 16.7% market share.

Poste Italiane confirmed its second place with a premium income of € 19,939 million and a 13.9% share, while Gruppo Intesa San Paolo ranked third with a 10.7% share and a premium income of €15,341 million.

Unipol fell to fourth place, with a 9.8% market share, followed by Allianz, which remained in fifth place, with a 8.3% market share.

Market concentration decreased in 2016: the market share of the top five groups fell from 61.2% in 2015 to the current 59.5%; the overall market share held by the ten leading groups also slightly fell from 76.4% in 2015 to 75.7%.

5 Ranking of Groups: Life segments

Poste Italiane became the first-largest Italian group operating in life insurance, with a 18.6% market share (15.3% in 2015) and a premium income of €19,820 million.

Generali remained second with a 16.9% market share and a premium income of €18,016 million, followed by Intesa Sanpaolo which fell by two places to become the third largest group in Italy (14% market share). Allianz ranked fourth with a premium income of € 6,940 million and a market share of 6.5%) ahead of Unipol (€ 6,320 million and a market share of 5.9%). Aviva jumped for 4 positions, climbing to sixth from tenth place (+42.9% change). Cardif/BNP remained in seventh place with a 3.6% market share, and AXA rose to eighth place posting a +19.8% in its market share.

LIST OF THE TEN LEADING GROUPS IN LIFE SECTOR

Rank 2016	Rank 2015	Group	LIFE	Share %	Change %
1	3	Poste Italiane	19.820	18,6	9,2
2	2	Generali	18.016	16,9	-7,6
3	1	Intesa San Paolo	14.947	14,0	-31,1
4	4	Allianz	6.940	6,5	-19,5
5	5	Unipol	6.323	5,9	-18,2
		FIRST FIVE GROUPS	**66.047**	**61,9**	**-12,7**
6	10	Aviva	4.659	4,4	42,9
7	7	Cardif/BNP	4.233	4,0	-2,0
8	11	AXA	3.402	3,2	19,8
9	8	Credit Agricole	3.124	2,9	-15,4
10	6	Mediolanum	3.079	2,9	-37,5
		SECOND FIVE GROUPS	**18.498**	**17,3**	**-5,4**
		OTHERS	**22.129**	**20,7**	**-5,9**
		TOTAL	**106.673**	**100,0**	**-10,2**

Source: ANIA

Market concentration declined in 2016: the market share of the top five groups fell from 63.7% in 2015% to 61.9%; the share of the top ten operators has also slightly fallen, from 80.2% to 79.2%.

6 Ranking of Groups: Non-Life segments

LIST OF THE TEN LEADING GROUPS IN NON LIFE SECTOR

Rank 2016	Rank 2015	Group	NON LIFE	Share %	Change %
1	1	Unipol	7.737	21,3	-1,0
2	2	Generali	5.899	16,2	-3,1
3	3	Allianz	4.953	13,6	-3,6
4	4	Cattolica	1.974	5,4	-2,8
5	5	Reale Mutua	1.945	5,4	-0,7
		FIRST FIVE GROUPS	**22.498**	**61,9**	**-2,3**
6	6	AXA	1.864	5,1	0,9
7	7	Zurigo	1.301	3,6	-5,1
8	8	GAN/Groupama	1.092	3,0	-2,9
9	9	Vittoria (Acutis)	1.081	3,0	1,1
10	12	ITAS	770	2,1	58,4
		SECOND FIVE GROUPS	**6.108**	**16,8**	**2,1**
		OTHERS	**7.734**	**21,3**	**0,3**
		TOTAL	**36.340**	**100,0**	**-1,0**

Source: ANIA

Unipol was again the leading company in the non-life sector, with a premium income of €7,737 million and a 21.3% market share. Generali took again second place (16.2% and € 5,899 million); Allianz ranked third with a premium income of €4,953 million and a 13.6% market share, ahead of Cattolica (5.4%), Reale Mutua (5.4%) and AXA (5.1%).

Non-life segments showed a further reduction in market concentration: the top five groups held 61.9% of the market, against 62.7% in 2015. The concentration of the top ten companies also fell from 79% to 78.7%.

7 Demographics and inequality: the role of the insurance industry

The slowdown of demographic growth and the aging of population are progressing rapidly: Africa is the only continent currently experiencing a huge population growth, whereas from a demographic point of view Asia can be compared to the developed world to the extent that the three lowest fertility are now in Asia. In the seventies the lowest rates were on the contrary recorded in three European countries, i.e. Germany, Finland and Luxemburg. From a global perspective, slowdown of demographic growth and the aging of population are a direct result of the decrease in the fertility rate (i) and morbidity (ii); at the country level, however, different net migration flows (iii) explain dramatic differences between countries.

i) The declining birth rate in developed countries is due to both economic and social reasons: women tend to postpone childbearing to an older age when it is well known [1] that fertility naturally decreases with age, as shown in figure 1. Also, environmental factors such as pollution are likely to affect the capacity for reproduction leading to lower birth rates. It should also be pointed out that in highly developed economies there is a relationship between gender roles and fertility: fertility [2] decreases with increasing gender inequality.

ii) Life expectancy keeps rising: projections suggest that average life expectancy will exceed 76 years [3] by 2040 worldwide, but there is no scientifically proven correlation between higher life expectancy and better quality of life (health).

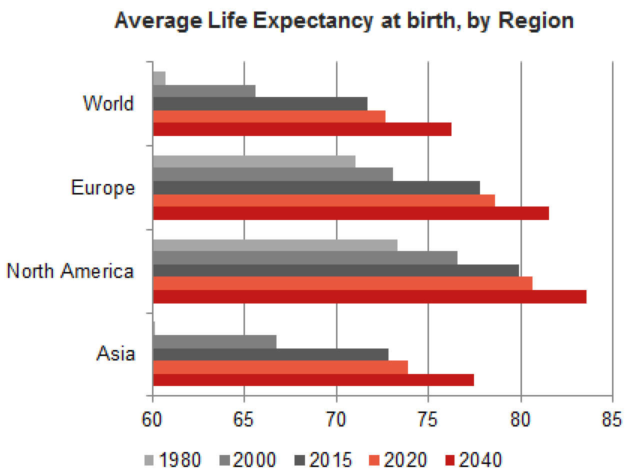


Figure 1

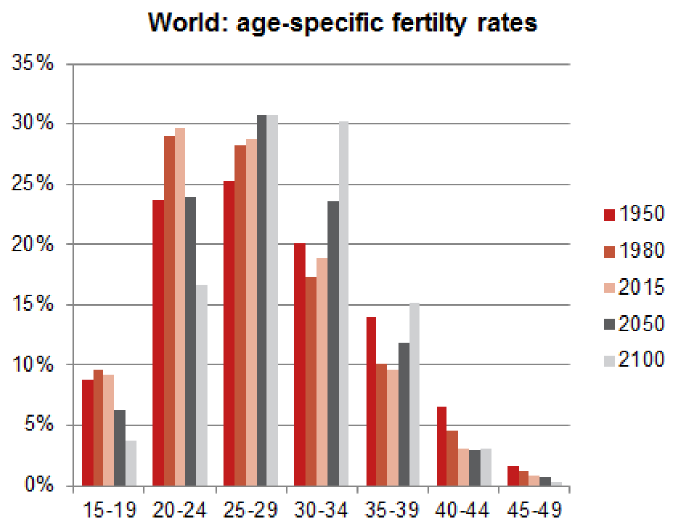


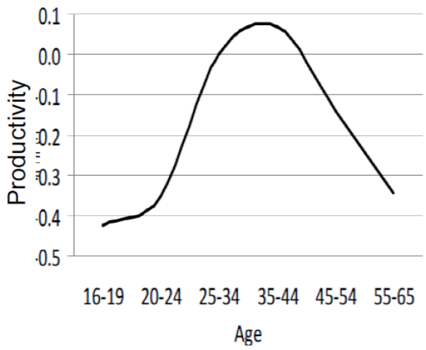
Figure 2

iii) National governments are beginning to realise that they can no longer rely primarily on international immigration to counteract their shrinking and aging populations. For example, if the current trend persists, immigration towards Europe will not compensate for the negative natural decline of the population, therefore most European countries will inevitably have to face a smaller and older population in the future.

[1] Our elaborations based on UN data
[2] Measured as the number of children per woman
[3] See Note 1

But what are the economic and social implications of the aging of our societies? Although by no means complete, we would like to examine here how population aging affects the insurance industry by focusing on some of the more important consequences:

i) a slowing of economic growth due to the lower productivity level of older workers who are likely to experience decreased intellectual capacities, according to some studies. For instance Skribbek in 2008 argued that, on average, employee productivity peaks at 35 and then declines.



Source: Skribbek, 2008

ii) Another obvious implication of an older population is the likely concentration of disposable income in the hands of the over-60s [4] which would significantly change the structure of consumption and economic development. Domotics, medical tourism, cosmetic and pharmaceutical industries etc. are likely to grow rapidly.

iii) The distribution of wealth and the slowdown in economic growth would influence health care and expenditures, such as public pensions and welfare, might be cut, thus spurring the development of alternative privately funded welfare. The global pension and welfare gap is broadening and may have reached as much as 41 USD Trillion according to some recent studies [5].

iv) Due to their negative economic trend, some countries like China would begin to see a change in their economic structures: a move away from low wage labour-based to higher innovation and digital-based. In this new scenario, economic competition based on a low wage workforce would be less effective worldwide.

It is necessary to be aware of the current demographic trends and of their impact on the world economy in order to address the issue and come up with suitable polices to deal with the problem. Firstly, reducing the gender gap could lead to increased fertility. Secondly, in this context, the Scandinavian example could be used to achieve equality of wages which usually worsens in proportion to the age of workers. There is also evidence which supports the theory of the rise of populism being strongly related to aging and inequality. The redistribution of wealth would have a positive effect on employment and economic growth thus discouraging the surge of populism.

The insurance sector can play a vital role in helping societies care for aging populations in three different ways:

i) **Social function/value and & shared value approach**: Re-thinking products and markets in order to motivate customers to adopt a healthy lifestyle (for instance new types of health policies); better development and promotion of these products clearly would have an impact on the value and profitability of a company and on its customers' health, resulting in reduced costs of social security.

ii) **Socially responsible investing**: increased longevity could become an economic opportunity for companies which focus on the specific sectors which boom as a result of older populations.

[4] According to the literature this phenomenon is defined as "Grey Power".
[5] Marin R., «Global Pension Crisis,: Unfunded Liabilities and how we can fill the gap», 2013.

iii) ***New forms of work organization**: insurance companies can also develop strategies which respond to an aging workforce by introducing different forms of work organization; rethinking the traditional career paths and by offering new tasks and longer career opportunities to older employees.*

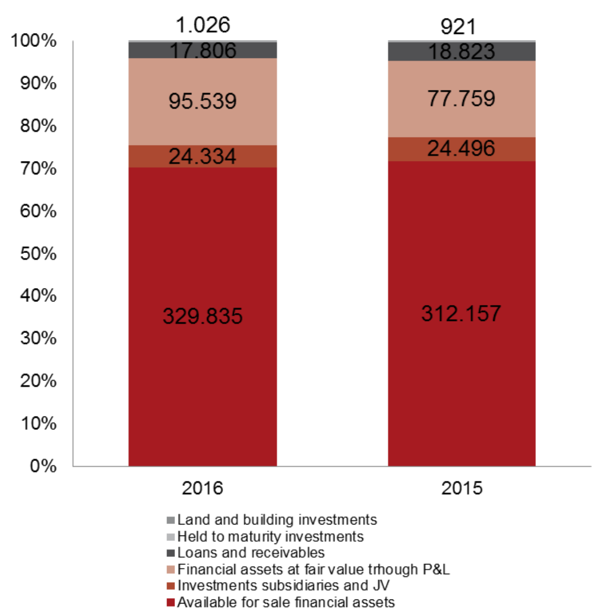
8 Assets held by insurance companies

According to the financial statements of the main insurance groups listed on the Italian Stock Exchange (Generali, Unipol, Intesa San Paolo Group including Fideuram Vita, Cattolica, Poste Vita Group, Reale Mutua and Vittoria), their total assets grew by 6.2% in 2016, having benefited from a low interest rate environment and from fluctuations of equity markets which led to an overall increase in asset prices.

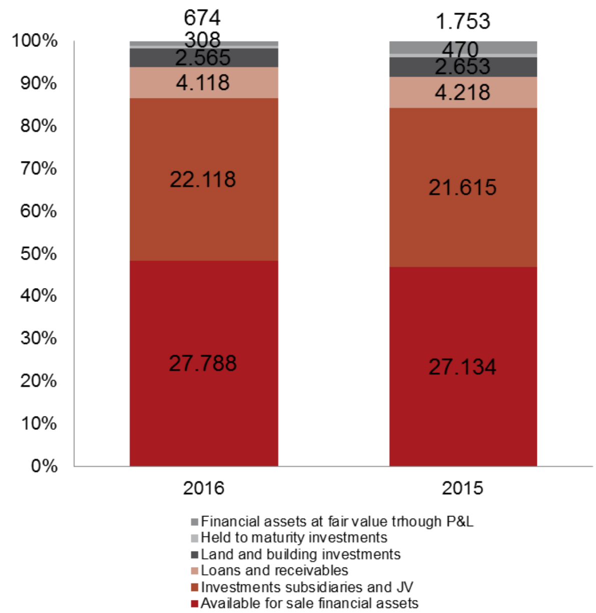
92.1% of assets are linked to financial investments (against 91.5% in 2015). Of the remaining categories, 3.3% is related to loans and receivable (including reserves held by reinsurers), 2.2% is split between tangible/intangible and liquid assets, and the remaining 2.4% consists of "other assets". In the life insurance business, assets under management grew by 7.3% as compared to 2015. Financial investments accounted for 95% (94.5% last year) of the total, broken down as follows: 71.8% is represented by financial assets available for sale, 5.6% by shareholdings in controlled and associated companies and joint ventures 17.9% by financial assets accounted at fair value in the Profit and Loss Account, 4.3% by loans and receivable, and the remaining 0.3% by real estate investments and investments held to maturity.

In the non-life lines, assets under management decreased by 0.7% as compared to 2015. Financial investments accounted for 74% (73.8% in 2015) of the total, broken down as follows: 48.3% is represented by financial assets available for sale (46.9% last year), 38.4% by shareholdings in controlled and associated companies and joint ventures (37.4% in 2015), 1.2% by financial assets accounted at fair value in the Profit and Loss Account, 7.2% by loans and accounts receivable, and the remaining 5 % by real estate investments and investments held to maturity.

Life insurance – Main asset classes
(million Euro)



Non Life insurance – Main asset classes
(million Euro)



9 Profit and Loss Accounts of listed Groups

Profit and loss accounts of listed companies, which account for almost 62% of the non-life insurance market and even 65% of the life market, enable us to draw some conclusions about the technical trend on the Italian insurance market.

Despite lower profit from financial investments, in 2016 profitability of insurance companies improved from the previous year. Rather good results were recorded both in the life and non-life lines; in the life business thanks to the improvement of all technical indicators of the sector, whereas the non-life segment was negatively affected, albeit to a limited extent, by the Central Italy earthquake. The loss however was due above all to the motor insurance sector which experienced a decrease in the average premium with an increase in both the average cost of claims and in the number of claims.

The "return on equity" (ROE) therefore increased to 10.5% from 10.1%.

10 Profit and Loss Accounts of listed Groups: Life

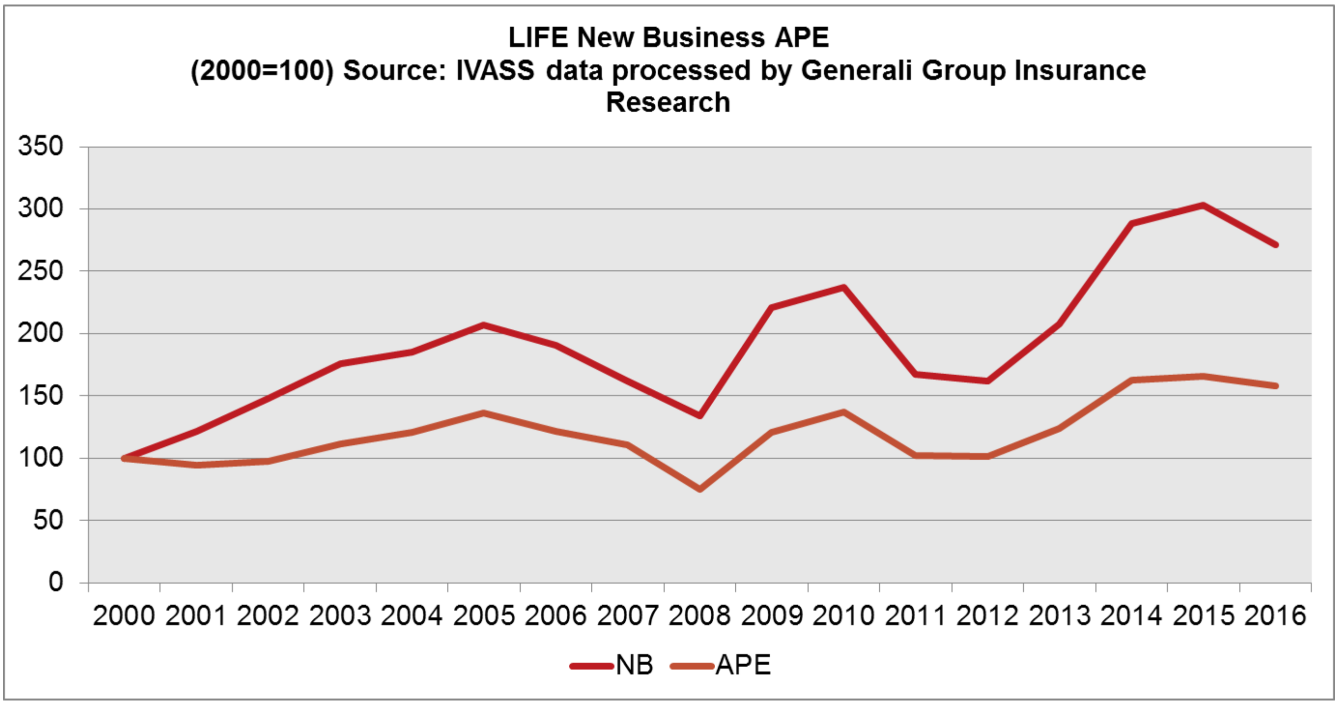
The 9.7% decrease in the premium income is due to the application of some international accounting standards which provide that "investment contracts" be excluded from the gross written premiums (-12.8% is the actual growth). The ratio of general expenses to premiums rose to 4.8%, from 4.4% in 2015. Administrative costs (0.9%) were in line with the previous year and acquisition costs have increased (3.7%% as against 3.4% last year). Claims paid, including variations in technical reserves, decreased by 10.6%, from € 77.7 billion in 2015 to € 64.1 billion in 2016. Pre-tax profits were up by 9.1%; the return on assets (ROA) remained stable at 0.8%.

RECLASSIFIED PROFIT AND LOSS ACCOUNT – LIFE

Italian portfolio (million Euro)

	2016	2015
Gross written premiums	59.339	65.735
Net earned premiums	**58.596**	**64.938**
Income from financial instruments at fair value entered in P&L account	**1.301**	**410**
Income from other financial instruments	**11.838**	**12.888**
Income from subsidiaries	**913**	**1.601**
Claims paid and change in insurance provisions	**64.146**	**77.715**
Charges deriving from other financial instruments	**1.832**	**1.716**
Net operating expenses	**2.848**	**2.904**
Earnings before tax	**4.043**	**3.707**

Source: P&L accounts of listed companies processed by Generali Group Insurance Research



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

The sample of listed companies ended the 2016 financial year with a pre-tax profit of € 1,596 billion.

The combined ratio fell, albeit slightly, from 92.1% to the current 93.5% and if we include Allianz it rose from 90.3% to 91.8%. The reduction of the number of claims paid (-0.2%) has more than made up for the contraction in premium income (-1.2%).

Data released in the first quarter of 2017 by listed companies confirmed the positive trend already seen in the past years in the non-life segment thanks to the lack of exceptionally bad weather which is usually a cause of major damages.

A cause for worry are the bad technical results in the motor insurance sector. The combined ratio is expected to exceed

RECLASSIFIED PROFIT AND LOSS ACCOUNT – NON LIFE
Italian portfolio (million Euro)

	2016	2015
Gross earned premiums	21,351	21,612
Premiums ceded to reinsurers	1,991	2,015
Net earned premiums	**19,359**	**19,597**
Income from financial instruments at fair value entered in P&L account	**-104**	**160**
Income from other financial instruments	**1,618**	**1,781**
Income from subsidiaries	**1,040**	**735**
Claims paid and change in insurance provisions	**12,785**	**12,816**
Charges deriving from other financial instruments	**1,079**	**1,163**
Net operating expenses	**5,306**	**5,224**
Other costs	**2,226**	**2,244**
Earnings before tax	**1,596**	**1,687**

Source: P&L accounts of listed companies processed by Generali Group Insurance Research; figures do not include Allianz since a P&L account for Italy has not been published yet, 100% by the end of 2016 and, at the end of March 2017, suffered an additional decrease of 3.1% in the average premium while the average cost as well as the frequency of claims were on the rise.

The operating expenses to premiums ratio further increased and reached 27.4% from 26.7% in 2016 mainly due to lower premiums. The acquisition costs to premiums ratio reached 22.2% (21,6% in 2015), while the administration costs to premiums ratio rose from 5% last year to the current 5.2%.

Accordingly, the profitability of the non-life lines worsened in 2016. The Return on Assets slightly fell from 2.2% to 2.1%.