Generali Group

INSURANCE DOSSIER 2019

ITALIAN MARKET TRENDS - FLASH 2018/19

Insurance & AM Research

generali.com

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1 Executive summary

Europe

Insurance market trends are positively shaped by the peculiar economic situation characterizing the euro area. In the current environment, the profitability of Life is squeezed between the very low returns on assets and the often substantial minimum rate guarantees of traditional products in force. A rearrange towards products where the return volatility risk is shifted to the policyholder is taking place all over the industry. The persistent effect of low financial returns is in fact still triggering a strong repositioning of market players towards unit-linked business, the effects of which have so far been negative on global turnover due to the high volatility of the stock markets. During the recent difficult times characterized by almost negligible financial returns, combining in some countries with stagnating economies, Non-Life lines were responsible for keeping the insurance sector afloat, both from the point of view of turnover and from that of profitability.

Italy

In 2018 the overall premium income in the insurance industry started to grow again (+2.7%) amounting to more than 140 billion. Premium income in the life segment amounted to almost 106 billion posting a 2.7% increase (considering gross direct written business).

Hybrid policies remain the most important products in terms of premiums income, since they ensure capital protection and higher returns provided that stock market performance stays in positive territory in the mid-long run. By contrast, unit-linked policies decreased their weight but this has been someway - counterbalanced by the increasing demand for traditional policies notwithstanding the problematic financial context of low yields.

With respect to distribution channels, the turnover of Bancassurance - which includes Post Offices – increased slightly by 3.1%, accounting for 59.7% of the life premium income (59.5% in 2017). The market share of Agents fell to 13%, whereas that of the direct sales reached 9.6% (8.5% in 2017). The turnover of financial advisors fell by 8.8% and as a result their market share dropped from 17.1% to 15.2%.

The non-life insurance sector showed growth for the second year in a row and turnover was +2.7%. In the non-life segment gross direct premiums grew: this was driven by the good performance of the motor sector (+1.5%), after the bad results of the last six years, and by the increase in MTPL premiums (+0.6%). Premiums in the land vehicle line continued to increase substantially (+6%) despite the decrease in car registrations (-3.1% in 2018).

The non-motor segment showed a steady increase of +3.7% as against the +2.7% posted in 2017 and +1.5% in 2016. With the exception of the Maritime Aviation and Transport sector, which declined by 2%, all other non-life segments continued on the rise. Health continued its growth in 2018 (+7.3%) in line with the outstanding results of 2016 (8.3%) and 2017 (9.3%).

Generali Group confirmed its market leadership in terms of global business, with a premium income of €24,202 million and a 16.8% market share. Generali Group regained its leadership of the life business with a 17.4% market share (16.9% in 2017) and a premium income of € 18,452 million.

Unipol was again the leading company in the non-life segments with a premium income of € 7,872 million and a 20.9% market share.

2 The European insurance markets

Insurance market trends were positively shaped by decent nominal GDP growth experienced by the euro area. The historically low interest rates prevailing in most markets depress the returns on both Life and Non-Life reserves. Non-Life business always has a second, but most important, lever - tarification - at its disposal, potentially offsetting the lack of financial gains with technical profitability. But Life is crucially dependent on nominal rates being substantially positive.

In the current environment, the profitability of Life is squeezed between the very low returns on assets and the often substantial minimum rate guarantees of traditional products in force. Non-life tariffs have been called, where possible, to the relief of the insurance sector as a whole.

The year 2015 marked the beginning of a downward trend in European Life insurance, with premium income starting to contract in most countries. The tendency developed in its full strength in 2016, driven by diminishing profitability of the traditional business which still represents the bulk of Life turnover.

In fact, the continuing effect of declining yields has lowered financial returns putting Life profitability under severe strain. As a result, the traditional Life business is facing serious sustainability problems which have led to a general reduction in supply. Indeed nominal minimum return guarantees on older policies are still high, requiring also a relatively high capital absorption.

EUROPEAN INSURANCE PREMIUMS MARKET TRENDS												
	Total				Life				Non Life			
	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
AT	1,5	-2,1	0,4	1,3	0,6	-6,0	-2,8	-1,5	2,5	1,8	3,4	3,7
CH	0,1	-3,9	-2,1	0,9	0,0	-6,0	-3,5	0,6	0,1	0,4	0,7	1,4
CZ	-2,8	-4,3	0,6	-0,1	-12,3	-5,1	-3,3	-2,5	5,0	-3,7	3,3	1,5
DE	0,8	0,2	1,8	2,2	-0,4	-1,1	1,2	1,6	3,3	2,9	3,0	3,4
ES	2,5	12,3	-0,7	1,5	2,9	21,8	-5,6	-1,4	2,1	4,5	4,0	4,1
FR	5,6	4,7	0,6	4,0	6,4	5,4	-0,0	4,3	3,4	2,5	2,3	2,9
HU	2,5	5,4	7,2	7,1	-2,6	3,1	5,0	3,5	8,2	7,7	9,5	10,5
PL	-0,2	-1,3	11,6	-0,8	-4,0	-13,5	3,0	-11,5	3,9	11,0	18,3	6,6
SK	2,1	0,0	6,6	-0,2	-0,6	-1,9	5,6	-4,7	5,6	2,3	7,8	5,0

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

A rearrange towards products where the return volatility risk is shifted to the policyholder is taking place all over the industry. The persistent effect of low financial returns is in fact still triggering a strong repositioning of market players towards unit-linked business, the effects of which have so far been negative on global turnover due to the high volatility of the stock markets.

During the recent difficult times characterized by almost negligible financial returns, combined with stagnating economies in some countries, Non-Life lines were responsible for keeping the insurance sector afloat, both from the point of view of turnover and from that of profitability.

2018 – INSURANCE PENETRATION RATE			
	Total	Life	Non Life
AT	4,5%	2,0%	2,5%
CH	6,7%	4,3%	2,4%
CZ	2,8%	1,1%	1,7%
DE	5,9%	3,9%	2,1%
ES	5,3%	2,4%	2,9%
FR	9,3%	7,0%	2,3%
HU	2,5%	1,2%	1,3%
PL	3,0%	1,1%	1,9%
SK	2,6%	1,4%	1,2%

In the last years, tariffs have hardened markedly in many markets, taking the combined ratios to historical lows, potentially attracting new competitors. But contrary to expectations, some selected markets have remained very profitable in the years, as for example Switzerland.

The more recent positive momentum of some economies (most importantly, Germany and Czech Republic) and the continuing strength of others (e.g., Poland) have boosted Non-Life activity, relieving some insurance groups in these countries from the hardships of a suffering life business.

Car registrations have been growing throughout Europe, with very few exceptions, for four years in a row. This general upswing in car manufacturing has provided the much-needed fresh demand for coverage, especially in non-mandatory car hull as part of the car pool was substituted with newer, although often smaller, models.

Other notoriously procyclical lines, like transport and liability, are taking advantage of the positive economic moment.

Profitability has been on a favorable path on most Non-Life markets, despite some huge Nat Cat losses and the competitive pressure prevailing in some retail lines, most notably in Italian and German car insurance.

3 Macroeconomic factors and Non-life insurance profitability in the short run

We assess the influence of the main macro drivers on the profitability of some individual Non-life lines of business (LoBs). Macro drivers considered are the three very basic constituents of the "economic climate": GDP growth, inflation and interest rates. The aim of the analysis is in identifying the average statistical association (if any) between changes in the rate of growth of the real economy, the dynamics of prices and that of the basic risk-free return on bonds, and the profit rate Non-life insurers earn on their direct business.

Macro factors and insurance profitability

In a frictionless world with perfect information, premiums should be set according to a markup on expected losses, the markup both reflecting market power and providing for non-claim expenses. If expected losses are perfectly estimated, then there is no effect from changing business conditions as these have been already anticipated when setting the price. Thus, in a "perfect" world, the realized loss *ratio would be constant at a level compatible with the prevailing level of market power by the insurers.*

In turn, an expansion or contraction of the overall market should have no effect on profitability as long as pricing remains correct; on the contrary, if a booming (or a busting) economy brought in (or out) marginal risks which are priced inconsistently because of heterogeneity with respect to the past information used in calculating the tariff, this would manifest under form of an effect of real GDP on profit rates.

Apart from size effects from economic growth, if competitive conditions on the insurance market -- and on the markets for production factors needed by the insurers, labour in primis – are kept constant, then any systematic effect of the macroeconomic context on profit rates should therefore be due to stickiness of tariffs, or other misalignments between expected and realized losses. Unanticipated changes in inflation and interest rates are in fact likely to lead to changes in profitability because they have not been incorporated into the tariff at the time the contract was written; all the more so if they affect the ex-post cost of long-tail business, which is well known to take many years to fully develop.

According to the literature, a number of other factors influence profitability. Many of them are firm-level like size or capital structure. The ratio of reinsurance ceded (i.e., of business retained) also influences profitability. These are obviously averaged out here, where the focus is on the aggregate market profit. The product mix also plays an obvious role. In this sense, while total profits we observe cannot be split by line, we endeavoured in an ancillary analysis of determinants of the main cost driver, the loss ratio, by line of business (not reported here) which confirmed the influence of the product mix.

Earlier studies have found, unsurprisingly, that the market concentration ratio and the share of direct insurers have a significant effect on profit margins. In turn, the market share held by foreign insurers, another indicator of market power, is related to the profit rates, especially in markets which have been opened to foreign competition only recently. A panel analysis considering individual heterogeneity can take into account all these persistent individual characteristics of one single market while stressing the influence of short-term macroeconomic factors through time, for every individual series.

Expected effects of the macroeconomic drivers

"Growth" markets could be hypothesized to yield lower profits, or even losses, for some time as actors concentrate on expanding activity rather than on breaking even; still, this state cannot last too long, and any market will sooner or later reach some sort of economically sustainable steady-state. Commoditized LoBs in "mature" markets can safely be assumed to be in steady-state; as for the rest, it is an open question: but on average across Europe most markets can reasonably be expected to be in economic equilibrium. We therefore do not expect the growth rate of GDP to be a significant determinant of profit rates (while it obviously is for the growth rate of total market revenue).

For the reasons given above, it is unexpected inflation that may have an effect on profitability in the short and medium term. A priori, we hypothesize that inflation may have an impact on the LoBs characterized by longer tails, where unexpected price increases building up over time can increase the final loss ratio (through higher claim costs). On the contrary, short-term inflation affecting short-tail lines will generally have effectively been forecast and incorporated into tariffs, and should not prove significant.

The (future) return on reserves has also in principle been discounted when fixing the price for coverage; although in the long term changes in technical profitability (loss ratios) are observed following swings in fixed income yields, nevertheless, due to a substitution effect between technical and financial sources of revenue, this should balance out when considering total profit ratios. Unexpected increases in fixed *income rates can be expected to affect total profit through the financial revenues' component, less so technical profit.*

Models, results and discussion

The focus of the analysis is on a large number of national markets observed over a relatively short time span. The Non-life technical balance is evaluated as a percentage of GWP (Gross Written Premium), so as to yield a “profit rate”. The dataset comprises 32 European countries over 12 years. The impacts of inflation, GDP and interest rates are assessed in the framework of panel models with two-way fixed effects.

As said, the Non-life technical balance is evaluated as a percentage of GWP, so as to yield a “profit rate”. Alternative specifications are investigated for the sake of robustness, either adding short-term interest rates or the spread of long- vs. short-term interest rates.

```
## ==================================================
##                model1       model2      model3
## --------------------------------------------------
## rgdp           -0.288       -0.211      -0.213
##                (0.227)      (0.263)     (0.262)
## cpi            -1.172 ***   -1.219 **   -1.106 **
##                (0.314)      (0.426)     (0.382)
## irl             0.663 **     0.663 **
##                (0.228)      (0.252)
## irs                         -0.315
##                             (0.583)
## I(irl - irs)                             0.634 *
##                                         (0.246)
## --------------------------------------------------
## R^2             0.143        0.147       0.145
## Adj. R^2       -0.029       -0.050      -0.046
## Num. obs.      210          182         182
## ==================================================
## *** p < 0.001, ** p < 0.01, * p < 0.05
```

```
rgdp:   real gross domestic product
cpi:    consumer price index
irl:    interest rate long
irs:    interest rate short
```

Non-life technical profitability turns out to be negatively related to current inflation, with an elasticity slightly greater than (and not significantly different from) one; positively, and with a lower elasticity, to the nominal long-term interest rate. GDP is not significant.

The results are consistent with prior expectations. The growth rate of the economy, apart from its obvious and well-documented effect on total revenue, turns out not to influence profitability rates. Inflation on the contrary does exert a negative effect of sizeable magnitude. Our interpretation is that the negative impact of inflation on profitability comes from the unforeseen increase in claims costs between the closing of the contracts and the actual payment of the claims. Lastly, increases in long-term interest rates on Govt. bonds have a positive impact on profitability (but below the technical result line, in the financial result): a somehow puzzling conclusion which warrants further research.

4 The Italian insurance market: volume and business breakdown

In 2018 the overall premium income in the insurance industry started to grow again (+2.7%) amounting to more than140 billion.

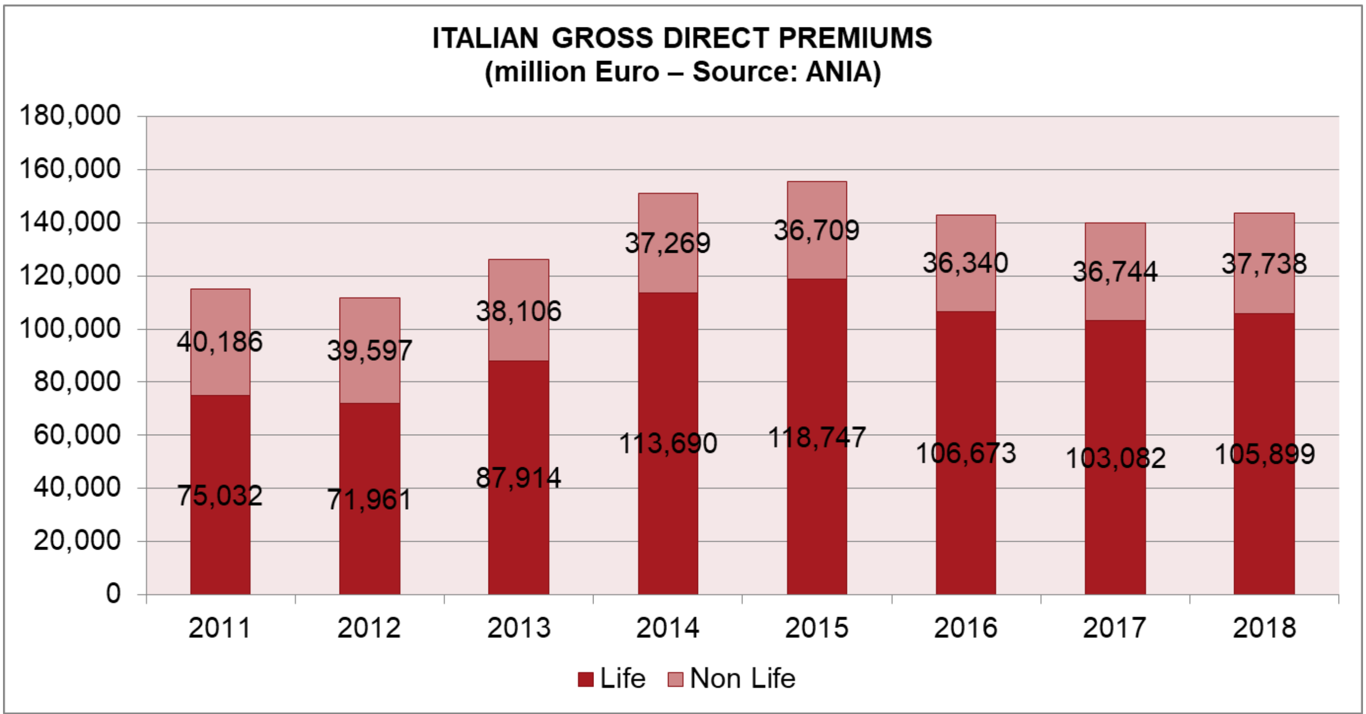
LIFE INDIVIDUAL NEW BUSINESS
National, extra UE and UE companies (change %)

Line of business	2018 Mln Euro	Ch. % 18/17	Ch. % 17/16	Ch. % 16/15
Lob I	54,948	9,1	-18,6	-4,5
Lob III	39,230	-13,1	15,9	-20,2
of which Unit	39,230	*-13,1*	*15,9*	*-20,2*
Index	-	*0,0*	*0,0*	*-100,0*
Lob V	1,240	-14,8	-16,5	-25,7
Other	161	-2,4	20,4	-3,3
Total	**95,579**	**-1,6**	**-5,5**	**-11,5**

Source: ANIA

Premium income in the life segment amounted to almost 106 billion posting a 2.7% increase (considering gross direct business written by Italian companies). By contrast, new business premiums inclusive of UE companies declined by 1.6% during 2018 as a result of the poor performance of the unit-linked products sold by EU companies operating in FOS (Freedom of Service) regime (-24.8%).

In the non-life segment gross direct premiums grew by 2.7% for the second year in a row, driven by the non-motor sector and, after the bad results of the last six years, by the good performance also of the motor sector which finally posted a +0.6% increase.



In spite of the rising premium income in the life sector, insurance penetration (premiums to Gross Domestic Product), was 6.04% almost in line with the previous year (5.97%).

Hybrid policies remain the most important products in terms of premiums income, since they ensure capital protection and higher returns provided that stock market performance stays in positive territory in the mid-long run. By contrast, unit-linked policies decreased their weight but this has been someway counterbalanced by the increasing demand for traditional policies notwithstanding the problematic financial context of low yields.

Premium income of traditional life policies (Class I) increased by 5.9% during 2018, partly mitigated by the decline by 6.6% in premium income for unit-linked policies. In contrast, Poste Vita experienced a drop in premium income for traditional products (-19.6%), while Credit Agricole, CNP and CreditRas (Allianz) prevalently focused their sales on financial products (Class III, unit-linked policies).

Therefore traditional products (Classes I and V) increased their weight and accounted for 67.4.3% of the life premium income (64.3% the previous year), while Class III policies, constituted mainly by unit-linked policies, accounted for 30.6% of the premium income (33.7% in 2017).

The share of “investment contracts”, which are distributed through banks and financial advisors, came down further to 88.1% from 89.5% in 2017 and even 91% in 2016, while traditional distribution channels have been regaining their market share, posting an increase of 1.5%.

With respect to distribution channels, the turnover of Bancassurance - which includes Post Offices – increased slightly by 3.1%, accounting for 59.7% of the overall premium income (59.5% in 2017).

The market share of Agents fell to 13%, whereas that of the direct sales reached 9.6%. The turnover of financial advisors fell by 8.8% and as a result their market share dropped from 17.1% to 15.2%.

According to data of the first quarter of 2019 insurance companies remained focused on multi-line products with a premiums income at 36%; as of March 2018 class III products were down by 14.6% while class I products posted a 45.2% increase. Overall, life premiums grew by 0.5% in the first quarter of the year according to data on inflows and technical reserves provided by ANIA.

DISTRIBUTION CHANNEL MARKET SHARE
LIFE BUSINESS (percentage)

Distribution channel	2014	2015	2016	2017	2018
Banks	47,8	46,7	43,0	39,8	44,0
Post Offices	13,6	15,3	18,6	19,7	15,7
Agents	12,5	12,5	13,9	13,6	13,0
Direct sales	7,7	7,1	7,8	8,5	9,6
Financial advisors	17,9	17,9	15,8	17,1	15,2
Brokers	0,6	0,5	0,8	1,3	2,4
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: ANIA

By contrast, we do not expect that Individual Savings Plans (the so called PIR, i.e. plans that invest in shares of small medium sized companies whose returns are not taxed if the investment lasts at least five years) offered through multi-line policies start to rise again: with a recent Decree, the Italian Government hindering the compliance with the prudential diversification and liquidity requirements for existing PIR plans (all set up in the form of open pension funds), augmented the degree of risk and some investment constraints for PIR.

The non-life insurance sector showed growth for the second year in a row and turnover was +2.7%. Nonetheless, insurance penetration, namely the premium to GDP ratio, remained practically unchanged from 2017 (2.15% in 2018 and 2.13% in 2017).

ITALIAN GROSS DIRECT PREMIUMS

National, extra UE and UE companies (million Euro)

Lines of business	2018	Share %	Ch. % 18/17	Ch. % 17/16	Ch. % 16/15	Ch. % 15/14
Accident	3,543	2,5	0,9	2,7	0,8	0,4
Health	2,901	2,0	7,3	9,3	8,3	2,2
Motor other risk	3,215	2,2	6,0	6,3	6,1	3,4
Marine, Aviation & Transport	683	0,5	-2,0	-2,3	-1,9	3,2
Fire	2,735	1,9	2,4	-0,1	0,9	0,1
Other damages	3,337	2,3	5,3	1,9	0,5	-0,9
Motor TPL	13,897	9,7	0,6	-2,2	-5,5	-6,5
General Liability	4,294	3,0	3,3	0,8	-0,4	5,3
Credit / Suretyship	1,063	0,7	3,7	-1,2	5,3	1,9
Others	2,072	1,4	5,8	8,1	0,9	6,0
Total NON LIFE	**37,738**	**26,3**	**2,7**	**1,1**	**-1,0**	**-1,5**
of which motor	***17,111***	**11,9**	**1,5**	**-0,7**	**-3,7**	**-5,1**
non-motor	***20,627***	**14,4**	**3,7**	**2,7**	**1,5**	**2,1**
Totale LIFE	**105,899**	**73,7**	**2,7**	**-3,4**	**-10,2**	**4,4**
Total	**143,637**	**100,0**	**2,7**	**-2,2**	**-8,0**	**3,0**

Source: ANIA

In the non-life segment gross direct premiums grew: this was driven by the good performance of the motor sector (+1.5%) after the bad results of the last six years and by the increase in MTPL premiums (+0.6%). This came in spite of the still sharp competition between operators (by the end of 2018 the average premium suffered a 1.7% decrease and dropped on average by 1% during 2018), which had experienced good technical results driven by low claims frequency and by a contraction in the average cost of CID claims (direct compensation of damage to the vehicle and to property and physical damage to the driver who is not responsible for the accident occurred). Such positive result was partially compensated by the increase in the average cost of CTT claims (claim related to property and physical damage occurred to the transported person in case of car accident).

Premiums in the land vehicle line continued to increase substantially (+6%) despite the decrease in car registrations (-3.1% in 2018) since incentives (limited to professional people or businesses) to invest in the purchase of new machinery including cars were abolished. On top of that, some of the major car manufacturers changed their commercial strategies no longer offering discounts, promotional sales or the so-called “kilometer zero” cars.

The non-motor segment grew, showing a steady increase over the last two years (+3.7% as against

+2.7% posted in 2017 and +1.5% in 2016). With the exception of the Maritime Aviation and Transport sector, which declined by 2%, all other non-life segments continued on the rise.

Health continued its growth in 2018 (+7.3%) in line with the outstanding results of 2016 (8.3%) and 2017 (9.3%). This is chiefly attributable to the increase in private healthcare funds (ageing population and longer life expectancy are the main drivers) and corporate health insurance benefit plans for employees who through them may access additional family and health services (the so-called welfare). Moreover, companies have started to offer group insurance coverage providing a financial benefit and rehabilitation support to workers getting older and sick /less healthy, thus boosting the sector.

The growth of non-motor segment was also sustained by the Property sector (Fire and other property damage) which expanded by 3.9%. At last, we have seen a revival of Italian housing market during 2018, with the number of building permits, non-residential and even residential buildings, renovations and energy efficiency upgrades increasing. Residential and non-residential property market rose by over 5%.

General liability grew by 3.3%, credit and suretyship expanded by +3.7%. Other small lines such as legal insurance, assistance and financial loss services showed a growth of 5.8%.

Premiums collected by EU firms that sell their products in Italy under freedom of services (FOS) increased by +4.4% (+2.3% Italian and Foreign Companies), which is a good result after having performed worse than Italian Companies lately.

Data recently released by ANIA show that the share of the Italian Branches of EU Companies operating in the non-life sector increased slightly and reached 13.6% (with a homogeneous perimeter) of the overall premium income in the non-life sectors, after the 13.4% posted last year.

With respect to distribution channels, traditional ones (agencies and company staff), which still represent the most significant distribution channel, posted 73.1 % against 73.7% in 2017 and 74.7% in 2016. They are followed by brokers (13.5%) specialized in commercial risks.

The weight of direct channel remained stable at 6.1% (reaching 8.2% in the motor segment).

The banking channel, mainly focusing on non-motor insurance products, also continued to grow (7% against 6.4% in 2017). Its share of total premiums rose from 9.1% in 2017 to 9.7%. It is worth noting that this distribution channel has become an important gateway for selling motor insurance (representing 3.7% of the whole motor insurance market; it was 3.2% in 2017) and MTPL in particular.

DISTRIBUTION CHANNEL MARKET SHARE

NON LIFE BUSINESS (percentage)

Distribution channel	2014	2015	2016	2017	2018
Agents	75,1	73,6	72,3	71,9	71,1
Brokers	12,4	12,8	13,2	13,5	13,5
Company staff	2,2	2,4	2,4	1,8	2,0
Direct selling (phone, internet)	5,8	6,0	6,0	6,1	6,1
Banks	4,3	5,0	5,8	6,4	7,0
Financial advisors	0,2	0,3	0,3	0,4	0,3
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: ANIA

5 Ranking of Groups - all segments

2018 was characterized by a few major operations: the Lawrence Life, operating on a freedom of service basis, was acquired by AXA and then renamed AXA MPS Financial; Cattolica launched Vera Vita, a subsidiary operating on a freedom of service basis; Intergeas acquired Apulia Previdenza, while Monument Assurance completed its acquisition of Aspecta Assurance. Finally, Berkshire took over Faro Insurance, a company that was under liquidation.

Internal reorganization within Reale Mutua Group continued in order to streamline company structures and reduce its management costs: Italiana Assicurazioni, belonging to the Group, incorporated the companies Uniqa Assicurazioni, Uniqa Life and Uniqa Previdenza.

LIST OF THE TEN LEADING GROUPS

Italian direct premiums in 2018 (million Euro)

Rank 2018	Rank 2017	Group	TOTAL	Share %	LIFE	Share %	NON LIFE	Share %
1	1	Generali	24,202	16,8	18,452	17,4	5,751	15,2
2	2	Poste Italiane	16,797	11,7	16,610	15,7	187	0,5
3	4	Allianz	14,220	9,9	9,281	8,8	4,939	13,1
4	3	Intesa San Paolo	14,035	9,8	13,528	12,8	507	1,3
5	5	Unipol	12,100	8,4	4,228	4,0	7,872	20,9
		FIRST FIVE GROUPS	**81,355**	**56,6**	**62,099**	**58,6**	**19,256**	**51,0**
6	7	Aviva	7,180	5,0	6,793	6,4	387	1,0
7	6	Cattolica	5,853	4,1	3,730	3,5	2,123	5,6
8	8	AXA	5,458	3,8	3,488	3,3	1,970	5,2
9	9	Cardif/BNP	4,791	3,3	4,381	4,1	410	1,1
10	10	Reale Mutua	4,120	2,9	1,829	1,7	2,292	6,1
		SECOND FIVE GROUPS	**27,403**	**19,1**	**20,221**	**19,1**	**7,182**	**19,0**
		TOTAL	**143,637**	**100,0**	**105,899**	**100,0**	**37,738**	**100,0**

Source: ANIA

Generali Group confirmed its market leadership in terms of global business, with a premium income of €24,202 million and a 16.8% market share. Poste Italiane ranked again second with a premium income of € 16,797 million and a 11.7% share followed in the third place by Allianz with a premium income of € 14,220 million and a 9.9% share. Intesa San Paolo fell into fourth place with a premium income of almost € 14 million and a 9,8% market share, ahead of Unipol, which held the fifth place with a 8.4% share.

Market concentration further declined in 2018: the combined market share of the top five groups fell from 59.3% in 2017 to 56.6%; the share of the top ten operators has also decreased slightly, from 76.6%% in 2017 to 75.7%, with levels being broadly in line with those of 2016.

6 Ranking of Groups: Life segments

Generali Group regained its leadership of the business with a 17.4% market share (16.9% in 2017) and a premium income of € 18,452 million, ahead of Poste Italiane which recorded a decline of 18% in premiums income and a 15.7% market share (it was 19.7% in 2017). Intesa San Paolo remained third with a 12.8% market share and its premium income falling by 7.3%, ahead of Allianz with a premium income of €8,082 million posting an increasing market share of 14.8%. Aviva held the fifth place (€ 6,800 million and 6.4% share). Cardif/BNP remained in sixth place while Unipol overtook Cattolica to become the seventh largest Group. CNP moved up one position becoming the ninth largest group (3.4%), and Mediolanum fell from ninth to tenth place.

LIST OF THE TEN LEADING GROUPS IN LIFE SECTOR

Rank 2018	Rank 2017	Group	LIFE	Share %	Change %
1	2	Generali	18,452	17,4	6,0
2	1	Poste Italiane	16,610	15,7	-18,0
3	3	Intesa San Paolo	13,528	12,8	-7,3
4	4	Allianz	9,281	8,8	14,8
5	5	Aviva	6,793	6,4	32,0
		FIRST FIVE GROUPS	**64,664**	**61,1**	**-1,2**
6	6	Cardif/BNP	4,381	4,1	7,8
7	8	Unipol	4,228	4,0	16,3
8	7	Cattolica	3,730	3,5	0,6
9	10	CNP Assurances	3,588	3,4	26,2
10	9	Mediolanum	3,537	3,3	5,7
		SECOND FIVE GROUPS	**19,463**	**18,4**	**10,6**
		OTHERS	**21,772**	**20,6**	**8,8**
		TOTAL	**105,899**	**100,0**	**2,7**

Source: ANIA

Market concentration decreased slightly in 2018: the market share of the top five groups fell from 63.5% in 2017 to the current 61.1%; the overall market share held by the ten leading groups also fell from 80.6% to the current 79.5%.

7 Ranking of Groups: Non-life segments

LIST OF THE TEN LEADING GROUPS IN NON LIFE SECTOR

Rank 2018	Rank 2017	Group	NON LIFE	Share %	Change %
1	1	Unipol	7,872	20,9	1,1
2	2	Generali	5,751	15,2	-0,2
3	3	Allianz	4,939	13,1	1,2
4	5	Reale Mutua	2,292	6,1	16,0
5	4	Cattolica	2,123	5,6	0,8
		FIRST FIVE GROUPS	**22,977**	**60,9**	**2,1**
6	6	AXA	1,970	5,2	3,2
7	7	Zurigo	1,286	3,4	1,2
8	8	Vittoria (Acutis)	1,196	3,2	4,2
9	9	GAN/Groupama	1,182	3,1	4,0
10	10	ITAS	889	2,4	8,9
		SECOND FIVE GROUPS	**6,522**	**17,3**	**3,9**
		OTHERS	**8,240**	**21,8**	**3,6**
		TOTAL	**37,738**	**100,0**	**2,7**

Source: ANIA

Unipol was again the leading company in the non-life sector, with a premium income of €7,872 million and a 20.9% market share. Generali took again second place (15.2% and € 5,751 million); Allianz ranked third with a premium income of €4,939 million and a 13.1% market share, ahead of Reale Mutua (6.1%), Cattolica (5.6%) and AXA (5.2%). non-life segments showed a further reduction in market concentration: the top five groups held 60.9% of the market, against 61.2% in 2017.

The concentration of the top ten companies also fell slightly from 78.3% to the current 78.2%.

8 Assets held by insurance companies

According to the financial statements of the main insurance groups listed on the Italian stock change (Generali, Unipol, Gruppo Intesa San Paolo Vita including Fideuram Vita, Cattolica, Gruppo Poste Vita, Reale Mutua and Vittoria), their total assets fell by 1.2% in 2018, given that the global stock market volatility heightened and, in particular, the second half of 2018 experienced a generalized market downturn: as a consequence, investors have become more cautious with their investments leading to a contraction in unit-linked policies: -12.9%.

Financial investments represent the 92.5% of total assets (against 91.1% in 2017). Of the remaining categories, 2.9% is related to loans and receivable (including reserves held by reinsurers), 2% is split between tangible/intangible and liquid assets, and the remaining 2.6% consists of “other assets”.

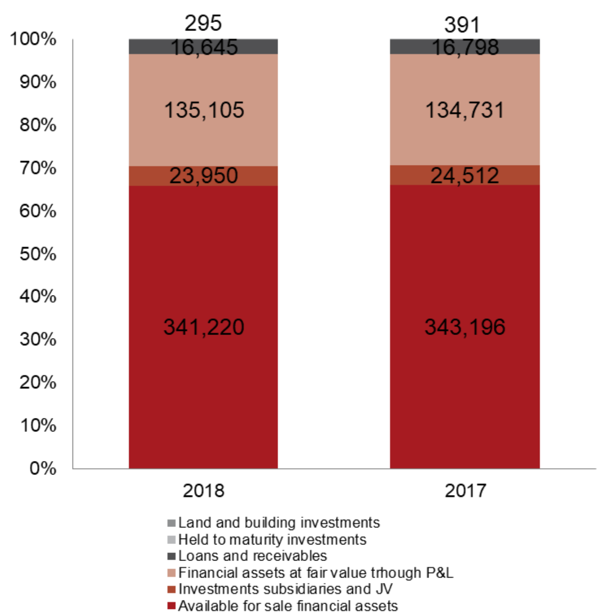
In the life insurance business, assets under management declined by 1.2% as compared to 2017.

Financial investments accounted for 95.1% (93.5% last year) of the total, broken down as follows: 65.9% is represented by financial assets available for sale, 26.1% by financial assets accounted at fair value in the Profit and Loss Account, 4.6% by shareholdings in controlled and associated companies and joint ventures, 3.2% by loans and receivable, and the remaining 0.3% by real estate investments and investments held to maturity.

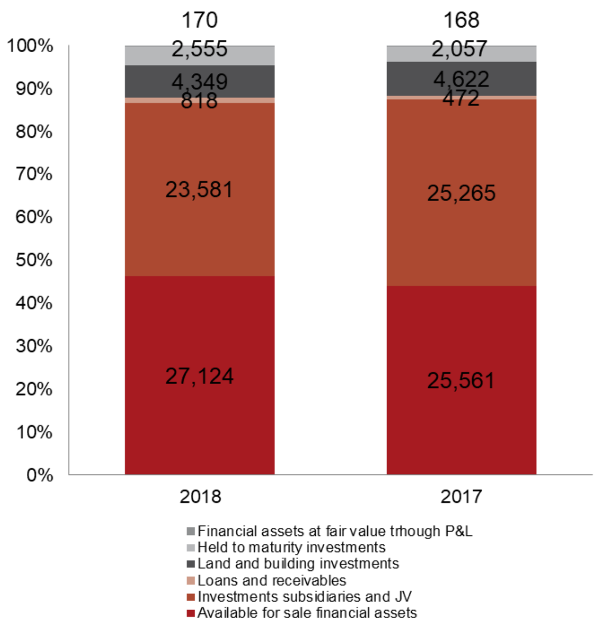
In the non-life lines, assets under management fell by 1% as compared to 2017.

Financial investments accounted for 74% (73.8% in 2017) of the total, broken down as follows: 44.3% is represented by financial assets available for sale (46.2% last year), 43.5% by shareholdings in controlled and associated companies and joint ventures (40.2% in 2017), 0.8% by financial assets accounted at fair value in the Profit and Loss Account, 7.9% by loans and accounts receivable, and the remaining 3.8 % 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

The analysis of the profit and loss accounts of listed companies, which account for 60% of the non-life insurance market and almost 68% of the life market, enable us to draw some conclusions about the technical trend on the Italian insurance market

First of all in 2018 profitability of insurance companies increased.

Despite the negative performance of Asset Management, affected by the instability of financial markets, by the worsening of the global economic outlook and by the escalation of US-China trade war, which depressed stock markets, in particular during the second half of 2018, the life line recorded good results thanks to a fall in surrenders and maturities.

Less exposed than other lines to the impact of the instability of financial markets, non-life segment recorded a decent growth, having benefited by good technical results and by the further reduction in claims frequency.

As a consequence, the “return on equity” (ROE) recorded an increase to 12.8% from 11%.

10 Profit and Loss Accounts of listed Groups: Life

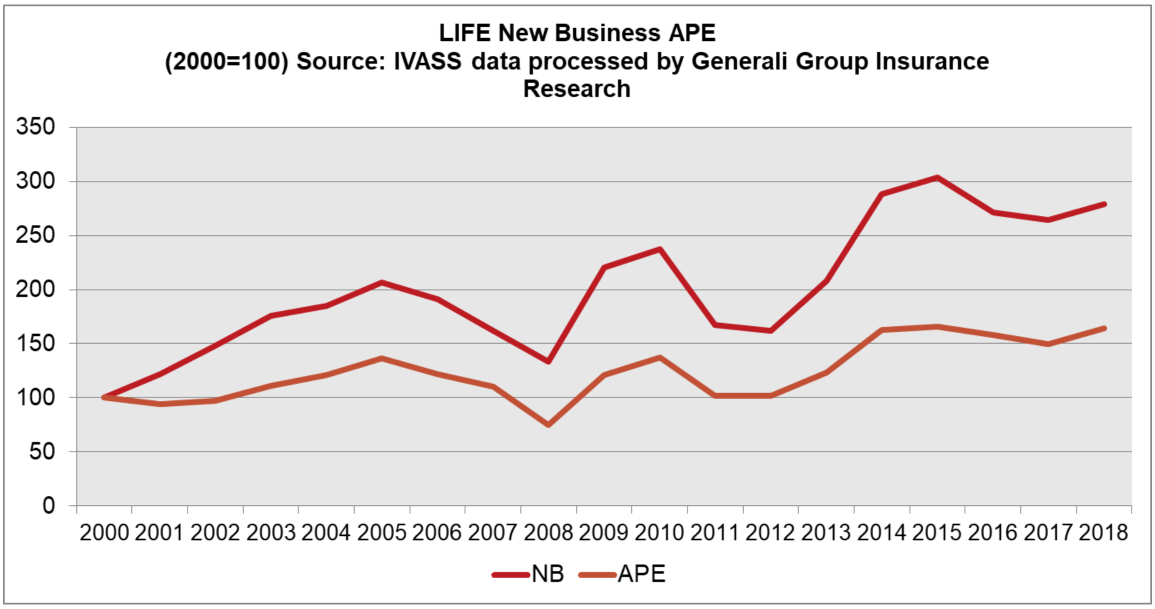
The 0.1% decrease in the premium income is due to the application of some international accounting standards which provide that "investment contracts" are to be excluded from the gross written premiums. Including investment contracts, premium decrease was -5.6%. The expense ratio slightly rose to 4.9%, from 4.8% in 2017: administrative costs (1.2%) were a little higher than in 2017 (1%) and acquisition costs were in line with the previous year (3.7%). Claims paid, including changes in technical reserves, fell by 9.6%, from € 61.8 billion in 2017 to € 55.9 billion in 2018. Pre-tax profits were up by 13.1%; the return on assets (ROA) remained stable at 0.8%.

RECLASSIFIED PROFIT AND LOSS ACCOUNT – LIFE

Italian portfolio (million Euro)

	2018	2017
Gross written premiums	55,972	56,052
Net earned premiums	**55,225**	**55,330**
Income from financial instruments at fair value entered in P&L account	**-2,575**	**1,966**
Income from other financial instruments	**12,135**	**12,054**
Income from subsidiaries	**827**	**1,794**
Claims paid and change in insurance provisions	**55,936**	**61,842**
Charges deriving from other financial instruments	**2,012**	**1,793**
Net operating expenses	**2,760**	**2,708**
Earnings before tax	**4,601**	**4,067**

Source: P&L accounts of listed companies processed by Insurance and AM Research



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

The sample of listed companies ended the 2018 financial year with a pre-tax profit of € 2,413 billion.

The combined ratio performed slightly better than last year, from 93% to the current 92.7% and if we include Allianz it remained almost stable at 90.9%. Premium income was up by 2%, whereas the number of claims paid remained at substantially the same level as last year (-0.1%).

Data released in the first quarter of 2019 by listed companies are encouraging and confirmed the positive trend already seen in the past years in the non-life segment, and notably in the motor sector, thanks to the lack of exceptionally bad weather, which is usually a cause of major damages.

The expense ratio further increased and reached 27.4% from 26.8% last year: acquisition costs to premiums ratio was 22.3% (21.9% in 2017), while the administration costs to premiums ratio rose from 4.9% last year to the current 5.1%.

RECLASSIFIED PROFIT AND LOSS ACCOUNT – NON LIFE

Italian portfolio (million Euro)

	2018	2017
Gross earned premiums	21,835	21,429
Premiums ceded to reinsurers	2,136	1,994
Net earned premiums	**19,698**	**19,435**
Income from financial instruments at fair value entered in P&L account	**-45**	**-25**
Income from other financial instruments	**1,604**	**1,511**
Income from subsidiaries	**1,491**	**1,129**
Claims paid and change in insurance provisions	**12,858**	**12,871**
Charges deriving from other financial instruments	**804**	**820**
Net operating expenses	**5,404**	**5,200**
Other costs	**2,419**	**2,519**
Earnings before tax	**2,413**	**2,023**

Source: P&L accounts of listed companies processed by Insurance and AM Research; figures do not include Allianz since a P&L account for Italy has not been published yet, Accordingly, the profitability of the non-life lines improved in 2018: the return on investment (ROA) increased from 2.5% to 3.1%.