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ITALIAN MARKET TRENDS
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ITALIAN MARKET TRENDS 2011/12

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EXECUTIVE SUMMARY

In 2011 the performance of the Italian insurance industry was heavily affected by the difficult financial and economic situation in Europe. Premium income in the life sectors dropped all over Europe compared with the previous year, as the difficult economic conditions facing families seriously hindered their propensity to save. On top of that, the decline in guaranteed returns due to pre-crisis low interest rate environment, combined with the effect of strong competition from other savings products, especially those distributed by banks, contributed to further worsen the life insurance performance. This trend was apparent on the Italian market, where life premium income fell by 12.3% (reaching 18.3% if we take into account direct Italian premium income) and where bancassurance channel recorded an over 25% decline in premiums .

In 2011 there were signs of recovery in terms of non-life premium income on the main European markets, mostly driven by tariff increases in the motor lines implemented in order to re-balance technical accounts, and to offset the low contribution provided by financial results to overall profitability. Italian direct non-life premiums grew by 1.9% due to the good results recorded in the compulsory third-party motor insurance, whose turnover posted a 4.6% growth.

Italian listed companies considerably improved their accounts in 2011; the combined ratio in non-life sector fell by over two percentage points, from 102.9% to 100.6%

Considering the distribution channels in the life sector, the main outlet remains bancassurance which raised 41.3% of premium income. Bancassurance is followed by agencies (16.7%). In the non-life lines, agents collected 81.6% of overall premium income; direct channels (phone and internet) have a 4.7% market share (7% in Motor TPL), but show a very fast growth rates: motor premiums intermediated by this channel grew by as much as 26% in 2011.

The profitability of Italian listed companies was heavily affected by the volatility of the stock market. This is particularly evident in the life sector, where the average return on equity (ROE) fell from 9.2% to 7.4%: The drop in collection pushed down the average embedded value of the companies which disclose it by 6.4% compared with 2010.

By contrast, in the non-life sector, the improvement in the technical results led the average ROE of the listed companies to increase from -10.2% in 2010 to -3%.

The most important regulatory and legislative changes occurred in 2011 were a series of measures enacted at the end of the year, aiming to improve the profits in the compulsory third-party motor insurance and at the same time, to counter frauds. In December 2011 a comprehensive reform of the pension system was approved, with the aim to ensure long-term financial sustainability.

EUROPEAN INSURANCE MARKETS

The fragile economic environment and the persistent financial instability weighed heavily on European insurance markets in 2011. The effect was particularly pronounced in the life industry, which recorded a sizeable premium contraction in almost all the largest markets. Non-life premiums expanded, but this was due to a large extent to the on-going significant rate increases, especially in the Motor lines, needed to restore technical equilibrium.

European Insurance Market Trends												
	Total				Life				Non-Life			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
AT	2,2	1,3	2,0	-1,7	2,2	0,7	1,8	-7,5	1,9	1,3	2,0	2,9
CH	2,7	0,5	2,3	2,5	3,1	-0,6	1,8	3,3	2,1	1,9	2,9	1,4
CZ	5,2	2,9	8,4	-0,7	5,1	5,8	19,2	0,3	5,3	0,6	-1,6	-1,6
DE	0,9	4,2	4,3	-0,2	0,8	7,1	6,0	-3,9	0,3	0,2	0,9	2,7
ES	7,8	1,1	-2,8	4,1	15,3	5,7	-6,2	9,4	1,1	-4,3	-0,7	-1,1
FR	-6,4	9,1	3,3	-8,5	-10,7	12,7	4,3	-13,8	2,5	0,6	2,3	4,4
HU	-4,3	-6,6	2,4	-3,4	-9,1	-10,5	8,2	-0,8	1,7	-2,1	-3,5	-6,5
PL	36,7	-13,5	5,4	5,7	53,0	-22,4	3,8	1,5	13,2	3,8	7,9	11,6
SK	-9,3	-3,9	1,9	2,0	15,7	-4,0	6,1	1,6	4,5	-3,7	-2,5	2,5

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

After an overall very positive 2010, turnover in life insurance fell markedly in most of the main markets, due to a combination of several factors, over and above the weakening in household income and the uncertainty related to labour markets. Firstly, the overall low level of interest rates seen in previous years led to a reduction of guaranteed returns, which adversely affected the appeal of traditional products with respect to low risk alternatives, such as bonds. This was particularly evident in **Germany**, where total life premiums fell by 3.9% due to the sharp contraction in single premium products. The financial market turmoil started to affect heavily the banking sector in several countries, leaving credit institutions in need of funding and capital. This led to a rapid overhauling of their policies towards savers, which started to focus on term deposits and bonds, at the expenses of capital-intensive life insurance products. The effect was particularly evident in countries where bancassurance is the main distribution channel. In **France**,

the surge in savings deposits, such as Livrets A, was to a large extent responsible for the 13.8% fall in life insurance collection. Moreover, the final months of the year saw a noticeable surge in surrenders, which led to negative net collection. In **Spain**, the economic uncertainty, on the contrary, boosted the demand for life insurance policies: premiums were up 9.4% due uniquely to the strong selling of guaranteed savings products. Life insurance premiums fell markedly in **Austria** (-7.5%), due to both a sizeable fall in guaranteed returns and a restriction of tax benefits for insurance products. In **Central Europe**, life insurance premiums grew weakly in the Czech Republic and in Poland and in Slovak Republic, and fell in Hungary, reflecting the difficult economic situation in that country.

The evolution in non-life premiums reflected domestic economic conditions as well as the need to revise upwards tariffs in all the major lines of business in order to offset the marked worsening in profitability experienced between 2007 and 2010.

In **France**, despite the 4.4% decline in car registration, higher rates, needed to reduce a combined ratio (which stood at 106% in 2010), pushed motor insurance premiums up by 4%; this and the 6% increase in property premiums lifted non-life turnover by 4.4%. In **Spain**, the collapse in car sales led motor premiums to shrink by 2.3%, with a persistent worsening of the technical results. Overall non-life turnover, however, fell by 1.1% thanks to the other lines of business remaining flat.

	2008	2009	2010	2011
Premium growth				
<i>Motor</i>				
Germany	-2.0	-1.5	0.5	3.5
France	1.2	-0.2	2.7	4.0
Spain	3.9	-3.1	-0.5	-2.3
<i>Non Motor</i>				
Germany	1.8	1.2	0.9	2.3
France	3.6	1.1	3.5	4.8
Spain	-1.8	-5.5	-0.9	0.0
Combined ratio				
Germany	95	97	98	97
France	100	104	102	-
Spain	92.1	92.3	93.4	-

Non-life premiums were up by a healthy 2.7% in **Germany**, thanks to the

3.5% increase posted by the motor sector, boosted by car registrations and tariff readjustment, and by the overall good performance of the corporate sector. In **Central Europe**, the good performance of investment and consumption lifted premiums in Poland (11.6%) and Slovakia (2.5%) , whereas strong competition in the motor market was responsible for the 1.6% fall posted in Czech Republic. The extreme weakness of domestic demand in Hungary was the main cause of the 6.5% plunge in non-life premiums.

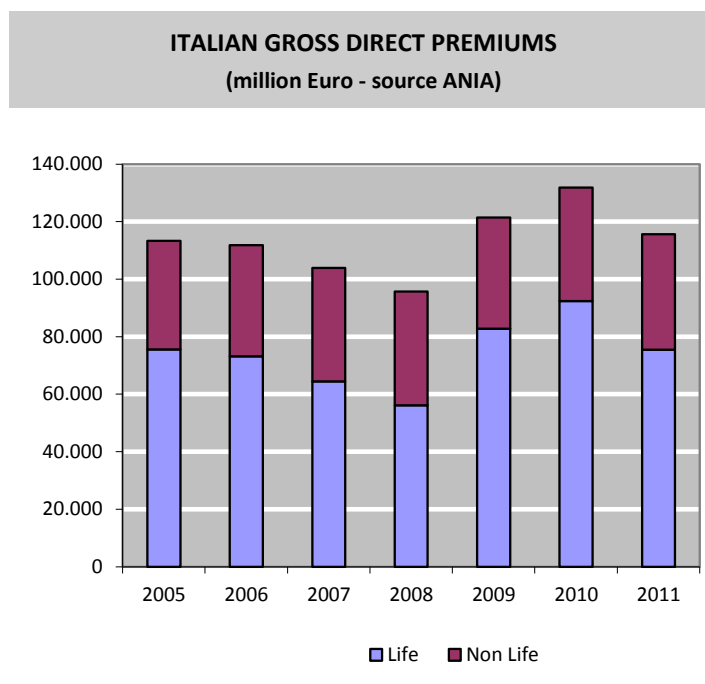
The Italian insurance market: volume and business breakdown

The current global financial crisis and, in particular, the increase in sovereign debt spreads is having a significant impact on the Italian economy.

The banking sector is severely affected by the crisis, being heavily exposed to the Italian sovereign debt; the volatility of interest rates had a large impact on the balance sheets of companies, causing a liquidity shortage on interbank markets.

These factors, combined with regulatory pressure aiming to enhance liquidity and capitalisation, have pushed banks to review their sales' strategy, shifting in favour of deposits and, to a lesser degree, bonds, at the expense of life products.

Therefore, premiums collected by banks, which are the main channel for life products, fell by 25.6%: this contributed to the disappointing results of the whole life market in 2011



(-12,8%).

As a result, insurance penetration, namely the premium to GDP ratio, fell from 8.5% in 2010 to 7.3%.

In terms of direct business written by Italian companies, premiums dropped

LIFE INDIVIDUAL NEW BUSINESS (National, extra UE and UE companies – change %)				
	2011 mln euro	2011 ch.	2010 ch.	2009 ch.
Lob I	41.228	-27,4	-3,0	163,7
Lob III	17.077	-11,7	37,9	-42,3
of which	13.362	-13,0	103,7	-46,7
Unit	3.715	-6,8	-32,4	-36,6
Index				
Lob V	1.603	-55,3	32,0	106,3
Other	95	5,8	60,0	-34,4
Total	60.003	-24,8	5,9	57,5

Source: Ania

by 18.3%. Demand continued to focus on “traditional” products (classes I and V), which offer interesting returns and a low financial risk, and account for 70% of the overall premium income.

The outlook is even more negative as far as new business is concerned. According to data provided by

ANIA, if we take into account direct Italian premium income inclusive of UE companies, premium income showed a 24.8% decline.

Even if the bancassurance channel recorded a considerable reduction in premium income (-25.6% and -22.2% if we take into consideration off shore business), this channel – which includes Post Offices - is still the most important outlet for life products, accounting for 53.9% of the overall premium income (59.1% in 2010). New business written by financial advisors experienced a smaller decline (-5.8%); therefore its market share increased from 16.2% last year to 19.1%. As regards traditional channels (agencies), premium income fell by 13.4% compared to 2010, resulting in a slight increase (25.7% as opposed to 23.6% in 2011). The non-life lines recorded a 1.9% increase in direct premiums, in line

MARKET SHARE PER DISTRIBUTION CHANNEL LIFE BUSINESS (percentage)					
Channel	2007	2008	2009	2010	2011
Banks	48,8	43,6	50,1	48,8	41,3
Tied Agents	21,1	23,8	15,7	16,3	16,7
Company Staff	11,2	11,6	8,4	7,3	9,0
Post Offices	9	10,1	8,7	10,3	12,6
Financial Adv.	8,5	10,1	16,3	16,2	19,1
Brokers	1,4	1,3	0,8	1,1	1,3
Total	100	100	100	100	100

Source: Isvap e Ania, data processed by R&D.

with what observed in 2010.

Non-life premium income was boosted, as in 2010, by the motor segment, which has grown by 3.6% thanks to tariff increases implemented by the insurance companies since the second half of 2010 in order to rebalance technical accounts.

ITALIAN GROSS DIRECT PREMIUMS						
National, extra Ue and UE companies (million Euro)						
Lines of business	2011	Share %	Ch.% '11/'10	Ch.% '10/'09	Ch.% '09/'08	Ch.% '08/'07
Accident	3.386	2,9	0,2	0,1	-1,4	0,8
Health	2.317	2,0	-0,6	3,9	1,5	5,5
Motor other risks	3.120	2,7	-2,1	-1,4	-1,7	-1,8
Marine, aviation & transports	832	0,7	0,6	-3,6	-6,0	7,3
Fire	2.647	2,3	0,3	3,1	1,9	0,1
Other damages	2.964	2,6	0,5	0,8	0,6	7,1
Motor TPL	18.719	16,2	4,6	4,2	-3,7	-3,3
General Liability	3.680	3,2	-3,1	-3,7	0,4	3,0
Credit & suretyship	974	0,8	6,2	2,7	-7,5	-0,4
Others	1.553	1,3	2,3	-1,3	2,6	11,0
Total NON - LIFE	40.191	34,7	1,9	1,8	-1,9	0,0
<i>of which motor</i>	<i>21.839</i>	<i>18,9</i>	<i>3,6</i>	<i>3,3</i>	<i>-3,4</i>	<i>-3,1</i>
<i>non-motor</i>	<i>18.352</i>	<i>15,9</i>	<i>0,0</i>	<i>0,1</i>	<i>-0,2</i>	<i>3,7</i>
Total LIFE	75.473	65,3	-18,3	11,7	47,3	-12,8
Total	115.664	100,0	-12,3	8,5	27,0	-7,9

Source: Ania

The non-motor segment, instead, remained at substantially the same levels as last year in terms of premiums, as a consequence of the difficult economic situation.

Accident lines were basically flat (+0.2%), while the property sector (Fire and Other Property Damage) fared marginally better (0.4%). Transport and Aviation also grew, but mostly thanks to tariff adjustments.

Credit and Suretyship lines recorded a sharp increase in turnover (+6.2%), reflecting tighter credit constraints and the increased difficulties faced by enterprises in recover credits.

As a result of the difficult situation of companies and the labour market, the Health and General Liability lines fell (-0.6% and -3.1% respectively). The latter line of business is also suffering from growing competition by the Italian branches of foreign players.

Agencies are by far the most important distribution channel, handling 81.6% of premiums. They are followed by brokers (8.0%) specialised in commercial

risks. As stated in past editions of the Insurance Dossier, this figure tends to underestimate the brokers' weight, because the ISVAP 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, which features much lower administrative costs, continued to improve its performance, rising from 4.1% to 4.7% and reaching almost 7% of total business if

we consider compulsory third party vehicle insurance (5% in 2010).

The share of the banking channel, which mainly deals with non-motor insurance products, also continued to grow, albeit very slowly (3.5% against 3.4% in 2010).

ISVAP data show that Italian Branches of EU Companies were responsible for 9.5% of the overall premium income in the non life sectors, after the 9% posted in 2010.

MARKET SHARE PER DISTRIBUTION CHANNEL					
NON LIFE BUSINESS					
(Percentage)					
Channel	2007	2008	2009	2010	2011
Tied Agents	84,2	84,1	82,3	82,4	81,6
Brokers	7,5	7,5	8,4	8,0	8,0
Company Staff	3,7	3,3	3,0	2,0	2,1
Direct selling (phone-Internet)	2,8	2,8	3,0	4,1	4,7
*					
Banks	1,7	2,2	2,6	3,4	3,5
Financial Adv.	0,1	0,1	0,1	0,1	0,1
Total	100	100	100	100	100

Source: Isvap and Ania, data processed by R&D

* Main Channel data

Ranking of Groups – all segments

During 2011 no major merger/acquisition operations were undertaken by the largest operators, except for the sale of BNL VITA by Unipol to Cardif. Another significant operation involved Euler Hermes SIAC, a company of Allianz, which transferred the whole insurance portfolio to Euler Hermes Credit Insurance Belgium SA, a Belgian insurance company, and it is therefore no longer subject to the supervision of the Italian Insurance Control Authority (ISVAP).

Internal reorganisation within the main insurance groups continued, in order to streamline company structures and reduce their management costs. On top of that, a number of takeovers were completed: within the Generali Group, Augusta Vita and Augusta Assicurazioni first merged and then were taken over by Alleanza Toro in July 2011, whereas as by 1 January 2012 Fata Vita was merged into Genertelife. Moreover San Miniato Previdenza was merged into Cattolica Assicurazioni and Gan Eurocourtage merged with Groupama Transport.

LIST OF THE TEN LEADING GROUPS								
Italian direct premiums in 2011 (million Euro)								
Rank 2011	Rank 2010	Group	TOTAL	Share %	LIFE	Share %	NON LIFE	Share %
1	1	Generali	20.105	17,4	12.381	16,4	7.724	19,2
2	2	Intesa San Paolo	11.231	9,7	11.008	14,6	222	0,6
3	3	Allianz	10.235	8,8	5.866	7,8	4.369	10,9
4	5	Poste Italiane	9.557	8,3	9.509	12,6	48	0,1
5	7	Mediolanum	9.451	8,2	9.426	12,5	25	0,1
		FIRST FIVE GROUPS	60.579	52,4	48.191	63,9	12.388	30,8
6	4	Fondiarria - Sai	8.884	7,7	1.914	2,5	6.970	17,3
7	6	Unipol	6.713	5,8	2.380	3,2	4.333	10,8
8	9	Aviva	4.255	3,7	3.704	4,9	551	1,4
9	8	AXA-UAP	3.798	3,3	2.084	2,8	1.714	4,3
10	10	Cattolica	3.758	3,2	2.131	2,8	1.627	4,0
		SECOND FIVE GROUPS	27.408	23,7	12.213	16,2	15.195	37,8
		TOTAL	115.664	100	75.473	100	40.191	100

Generali confirmed its market leadership in terms of global business, with a premium income of € 20,105 million and a 17.4 % market share. In second place came Intesa San Paolo, with a 9.7% market share. Allianz was ranked third with a premium income amounting to € 10,325 million.

Thanks to strong marketing efforts, Poste Italiane rose to fourth place with a premium income of 9,557 million, followed by Mediolanum (8.2%) which overtook Fondiarria-SAI, falling to sixth place with 7.7%. The Unipol Group fell to seventh place, with a 5.8% market share followed by Aviva, Axa-UAP and Cattolica. The market share of the top five groups rose from 51.7% in 2010 to 52.4%, However, if the first ten groups are considered, the concentration fell from 78.7% to 76.1%.

Liberalisation of the insurance market

The decree introduced by the Government on the 24 of January, 2012 for the "liberalisation" of the Italian economy foresees a series of measures regarding the insurance market and in particular compulsory Motor Third Party Liability insurance, aiming at stimulating competition and enhancing transparency.

What follows tries to sum up the most significant provisions:

Article 28, dealing with insurance linked to the provision of a mortgage, prescribes to banks and financial intermediaries to provide at least two quotes from different insurances groups when offering this kind compulsory cover.

With respect to direct compensation for motor third party liability claims, Article 29 stipulates that the values of the average costs and excesses payable by companies for personal injury be calculated annually on the basis of criteria aimed at increasing productivity, to limit costs and counter frauds.

To increase public awareness about the phenomenon of insurance fraud, article 30 requires each insurance company to report each year to ISVAP the number of fraudulent claims, declarations submitted to the judicial authorities, and the internal organizational measures taken to counter fraud. The penalties for insurance fraud have been increased; body injuries related to minor accidents will be indemnified by the insurer only after a certified physician's signed document attesting the injury visually or instrumentally. To avoid frauds a witnesses' database will be created, containing all the information related to claimants and witnesses.

Article 31 deals with the counterfeiting of insurance certificates. An electronic system linked to databases will replace the paper certificate; any violation will be also detected by traffic control devices, and will be documented with photo camera systems and video recordings. This system is to be introduced within two years. .

Moreover, article 32 foresees discounts to be introduced for policyholders who agree to submit to a vehicle inspection by the insurance company after having filed a claim. Discounts will be offered to those who agree to install an electronic device, known as a "black box", which can record the activity of the vehicle. The full cost of the device will be borne by the insurance company.

To allow direct inspection and to assess the extent of the damages, vehicles must be made available to the insurance company's loss adjuster or surveyor five working days from the filing of the claim. If, after a car insurance claim has been assessed, an insurance company has ascertained fraudulent actions by the claimant, it can refuse to settle the claim and take legal action within 60 days from the reception of the claim (reduced to 30 days when the claims' form is signed by the drivers involved in the road accident). Light and minor injuries, if not specifically measured and verified by the Medical Report or by a forensic expert, cannot lead to a compensation for permanent biological damage.

Article 34 compels companies and agents selling car insurance to provide prospective customers with at least three different quotes from three companies belonging to different groups. Intermediaries must inform their clients correctly, thoroughly and comprehensively on the prices, terms and conditions of the three different insurance quotes. Upon signing the policy the clients must also sign a declaration stating that they have received the three quotes and the relevant information.

Although these measures can be considered as an important milestone in reducing insurance costs and prices, the Italian consumer associations argue that they have not fully addressed underlying problems such as the failure to reduce of motor insurance premiums or the lack of measures to establish both pre-contractual and contractual provision and information to consumers.

ANIA, the association of Italian Insurers, reiterated its criticism on the failure to reduce the costs of compensation for damage this could be offset by the implementation of a single national price table for the evaluation of serious injury claims.

As for the "black box", starting from 2015 it might become mandatory for all new cars sold in Europe, as a result of a decision made by the EU.

Ranking of groups: Life Segments

Assicurazioni Generali overtook Intesa San Paolo as market leader in 2011 with a premium income of € 12,381 million and a 16.4% market share (14.6% in 2010).

LIST OF THE TEN LEADING GROUPS IN LIFE SECTOR					
Rank 2011	Rank 2010	Group	TOTAL	Share %	Change %
1	2	Generali	12,381	16.4	-8.4
2	1	Intesa San Paolo	11,008	14.6	-19.7
3	3	Poste Italiane	9,509	12.6	0.2
4	4	Mediolanum	9,426	12.5	4.5
5	5	Allianz	5,866	7.8	-22.4
		FIRST FIVE	48,191	63.9	-9.6
6	6	Aviva	3,704	4.9	-33.5
7	24	Cardif/BNP	3,156	4.2	618.9
8	7	Unipol	2,380	3.2	-53.4
9	10	Cattolica	2,131	2.8	-31.0
10	8	AXA-UAP	2,084	2.8	-54.9
		SECOND FIVE	13,455	17.8	-41.4
		OTHERS	13,827	18.3	-14.4
		TOTAL	75,473	100	-18.3

Poste Italiane took the third place, with a 12.6% market share and a premium income of € 9,509 million, followed by Mediolanum and Allianz which recorded premium income of €9,4 and € 5,9 billion and a market share of 12,5% and 7,8% respectively. Following the acquisition of BNL Vita, Cardif/BNP Paribas rose from twenty-fourth to seventh place, Unipol fell by one place to become the eight largest group in Italy, followed by Cattolica and AXA UAP. The top five groups have a combined market share of 63.9%, as against 57.7% in 2010; on the contrary, if the premium income of the top ten companies is taken into consideration, concentration has fallen from 82.5% to the current 81.7%.

Ranking of groups: Non-life Segments

In 2011 Generali kept its leadership in the non life segments with a premium income amounting to €7,724 million and a 19.2% market share, followed by Fondiaria Sai (17.3%). Allianz reached the third position with a premium income of € 4,369 and a market share of 10.9%, and overtook Unipol which fell to fourth place, ahead of Reale Mutua (5.1%) and Axa Uap (4.3%). In 2011 market concentration decreased: the combined market share of the

LIST OF THE TEN LEADING GROUPS IN NON LIFE SECTOR					
Rank 2011	Rank 2010	Group	TOTAL	Share %	Change %
1	1	Generali	7,724	19.2	0.5
2	2	Fondiaria - Sai	6,970	17.3	-1.9
3	4	Allianz	4,369	10.9	1.3
4	3	Unipol	4,333	10.8	-0.7
5	5	Reale Mutua	2,054	5.1	3.2
		FIRST FIVE	25,450	63.3	0.0
6	7	AXA-UAP	1,714	4.3	2.7
7	8	Cattolica	1,627	4.0	2.1
8	6	Zurigo	1,580	3.9	-6.5
9	9	GAN/Groupama	1,348	3.4	11.7
10	11	Vittoria (Acutis)	810	2.0	20.1
		SECOND FIVE	7,078	17.6	3.3
		OTHERS	7,662	19.1	19.1
		TOTAL	40,191	100	3.7

top five groups dropped to 63.3% (64.5% in 2010); if the premium income of the top ten companies is taken into consideration, concentration has fallen from 81.9% to the current 80.9%.

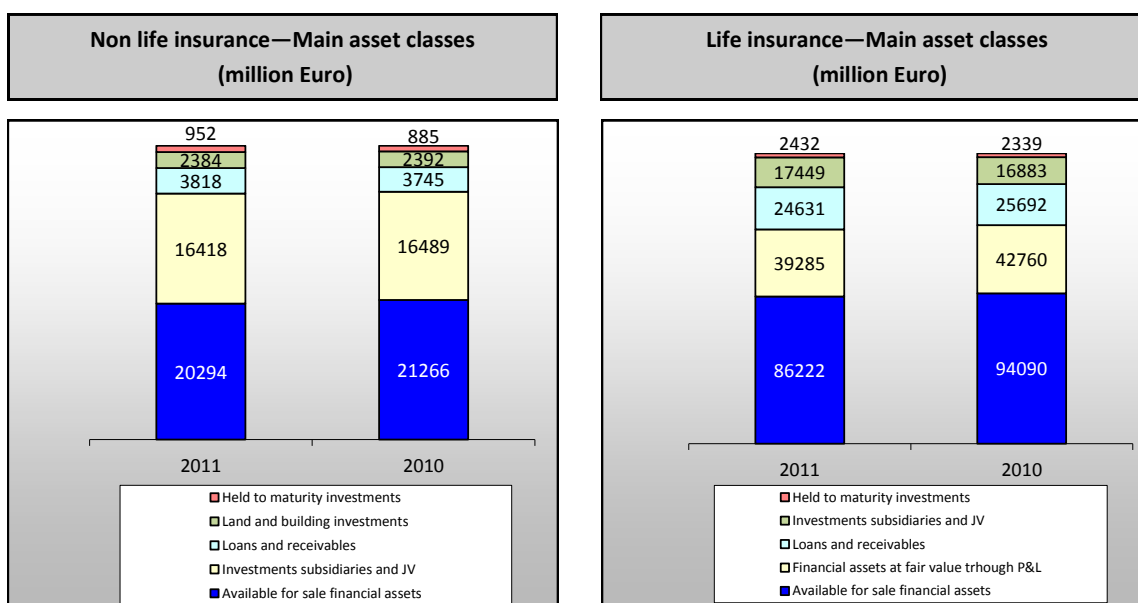
Assets held by insurance companies

According to the data taken from the financial statements of the main Insurance groups listed on the Italian Stock Exchange (Generali, Fondiaria Sai, Unipol, Cattolica, RealeMutua, Mediolanum and Vittoria), the total assets of insurance companies fell by 7.2% in 2011 as a result of the fall in bond and stock prices.

It must be stressed that 81.1% of assets are linked to financial investments (against 79.7% in 2010).

Of the remaining categories, 8.8% is related to accounts receivable (including reserves held by reinsurers), 4.7% is split between tangible / intangible and liquid assets, and the remaining 5.4 % consists of "other assets".

In the non-life sectors, assets under management dropped slightly (-0.1%) as compared to 2010. Financial investments accounted for 64.7% of total assets, broken down as follows: 46.0% is represented by financial assets available for sale (47.1% in 2010), 37.2% by shareholdings in controlled and associated companies and joint ventures (36.5% last year), 0.6% by financial as-



sets accounted at fair value in the Profit and Loss Account, 8.6% by loans and accounts receivable, and the remaining 7.6% by real estate investments and investments held to maturity.

As far as the life business is concerned, managed assets fell by 9.5%, as compared to 2010.

Financial investments accounted for 86.9% of total assets (84.1% last year), broken down as follows: 51.7% is represented by financial assets available for sale, 23.5% by financial assets with a fair value recorded in the Profit and Loss Account, 9.3% by shareholdings in controlled and associated companies and joint ventures, 14.1% by loans, and the remaining 1.5% by real estate investments and investments held to maturity.

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 financial statements of the main groups listed on the Stock Exchange which - in terms of premiums - account for 60% of the non-life insurance market and 40% of the life market. Data referring to some important bancassurers are not included in the life business since their full financial statements are unavailable.

Many companies have therefore been forced to post further impairments in the 2011 financial year following the drop in stock and bond prices, with unfavourable repercussions on profits; on the contrary, technical results were encouraging and were driven by the non life segments and notably by motor.

Profit and Loss Accounts of listed groups : Life

Although the sample of listed companies in the life business is not as representative of the whole market as the one in the non-life business, analysis of the data published by the operators so far provides some useful information.

Due to the considerable decline in the premium income in 2011, the ratio of costs to premiums reached 6.0% (as against 5.6% in 2010).

Administrative costs and acquisition costs grew slightly (1.5% as against 1.3% in 2011 and 4.5% as against 4.2% in 2011, respectively).

Claims paid, including variations in technical reserves fell by 20.3%, from 43

RECLASSIFIED PROFIT AND LOSS ACCOUNT		
LIFE BUSINESS		
Italian portfolio (million Euro)		
	2011	2010
Gross written premiums	34.397	39.971
Net earned premiums	33.481	39.039
Income from financial instruments at fair value entered in P&L account	-593	1.907
Income from other financial instruments	6.723	7.418
Income from subsidiaries	771	506
Claims paid and change in insurance provisions	34.502	42.988
Charges deriving from other financial instruments	2.626	1.918
Net operating expenses	2.056	2.225
Earning before tax	1.022	1.503

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

billion Euro in 2010 to 34.5 billion in 2011. Pre-tax profits fell by 32.2% as compared with the previous year; the return on investment (ROI) fell slightly from 0.7% in 2010 to 0.5%, and return on equity (ROE) from 9.2% to 7.4%.

New life business, as well as premium income, fell abruptly in 2011 (-24.8%). Then, if we take

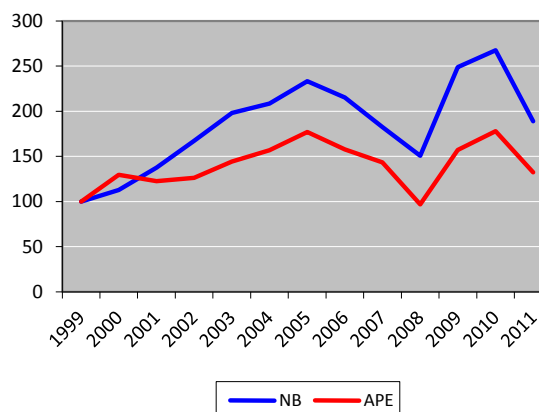
into account the business mix, data show that single-premium products fell by 25.4%, and recurrent premiums by 13%.

Finally, if we take into consideration how much value was created by the life insurance business we see that the 2011 financial year, like 2010, was af-

ected by impairments of some financial activities that many companies were obliged to compute in their profit and loss accounts.

Indeed, in terms of embedded value trend of the groups releasing it, it can be observed that the value of Italian life insurance companies, including dividends paid and variations in net equity, fell by 6.4% if compared with 2010 .

LIFE New Business and APE
(1999=100) Source: ISVAP data processed by R&D



Profit and Loss Accounts of listed groups : Non-life

The sample of listed companies ended the 2011 financial year with a pre tax

RECLASSIFIED PROFIT AND LOSS ACCOUNT NON LIFE BUSINESS Italian portfolio (million Euro)		
	2011	2010
Gross earned premiums	25.460	24.947
Assigned premiums	2.420	2.225
Net earned premiums	23.040	22.722
Income from financial instruments at fair value entered in P&L account	-7	-57
Income from other financial instruments	1.365	1.547
Income from subsidiaries	1.114	802
Claims paid and change in insurance provisions	17.967	18.079
Charges deriving from other financial instruments	1.384	1.358
Net operating expenses	5.495	5.442
Other costs	2.142	2.362
Earning before tax	-257	-957

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

loss of € 256.6 million, a substantial improvement if compared to the € 957.1 million loss recorded in the previous year.

All technical ratios significantly improved during 2011. The combined ratio fell by nearly two percentage points, from 102.9% to 100.6%.

The motor lines recorded a 2 percentage point improvement in motor claims as a result of a drop in the claims' frequency (-11.7% if com-

pared with the previous year) and of the further development of direct compensation aimed at avoiding premium increase when renewing policies. The ratio of costs to premiums and acquisition costs to premiums declined slightly (23.8% and 19.3% respectively), whereas the administration costs premiums ratio remained substantially stable at 4.5%.

The profitability of the non life lines improved in 2011, as shown by all ratios. The “profit for year to total assets” ratio (ROI) improved to -0.4% from -1.4% in the prior year. Moreover, the “return on equity” (ROE) increased to -3.0% from -10.2% in 2010.

The 2011 Italian Pension Reform

In December 2011 a comprehensive reform of the pension system was enacted, with the aim to curb public pension expenditure in the medium/long term, and help reduce public deficit and debt. The main changes, mostly structural, can be summarised as follows:

- ◆ *effective January 1st, 2012 the pension shall be calculated only according to the rules of the “defined contribution” system for all workers. This means that pension rights will be calculated on the basis of the contributions accrued by the person in the course of his/her working life. The new rules will apply to workers who have not reached, by December 31st 2011, the necessary age and level of contributions needed in order to be eligible for the “seniority” or “old age” pension schemes disciplined by the preceding regulation, or to those workers who have paid contributions for at least 18 years as of 31.12.1995;*
- ◆ *Under the reform, the mandatory retirement age will be raised for both women and men, with both retiring at 66 year and 7 months by 2018. However, the Decree has also provided that the minimum retirement ages will be adjusted in line with changes in life expectancy every two years on the basis of ISTAT statistics. In any case, starting from 2021 the minimum retirement age will be at least 67 year. Before the reform, the retirement age envisaged by the state pension system was 65 for men, while women’s retirement age differed according to the sector in which they were employed;*
- ◆ *Individuals who started working after June 1st 1996 must have paid in at least 20 years of contributions. Moreover, the amount of the pension must be no less than 1.5 times the minimum pension;*
- ◆ *Important changes are made to the “Early retirement” pension scheme which is nowadays the only possible way to obtain the right to pensions treatment without having achieved the required minimum age: employees can be eligible for an “early retirement” pension scheme at lower ages only if they have contributed for 42 years and 1 month for men and 41 years and 1 month for women. Penalties are anyway foreseen for early retirement before 62 years of age. It must also be observed that the minimum number of years of contributions will be revised according to the evolution in life expectancy. The reform does not contemplate any more the quota system based on a combination of “seniority” or “old age” pension schemes, as well as the previous “seniority” treatment according to which a worker, having paid a minimum amount of years of contributions, could receive a pension, regardless of the age;*
- ◆ *It has to be finally stressed that contribution rates paid by self-employed workers will gradually increase up to 24%.*

The pension system reform aims at ensuring the financial sustainability of the public pension system for future generations while reinforcing the link between contribution and payments. Moreover, the reform intends to remove unjustified differences between workers in the computation of pensions. The Monti Decree has established that two different systems (“old age” pension scheme and “seniority” pension schemes) be replaced by only one (the “old age pension scheme”), with the only exception of the “early retirement pension” scheme.

Impact of the reform

It is important to assess the impact of the Italian pension reform and in particular how it can ensure an adequate and sustainable retirement income over the next decades. A commonly used measure of pension adequacy is the replacement ratio, i.e., the ratio of the pension income to labour income in the final years of employment. Here below we look at two examples of different gross (gross pension over gross wage) replacement ratios referring to a salary employed and a self-employed who have similar characteristics such as same age (40) and same contributions record (15 years). Replacement ratios have been calculated using the Ministry of Finance, freely available Epheso calculator. The table takes into account six different levels of gross annual wage: .

	Employee			Self - employed		
	40 years old worker with 15 years of contribution					
	Gross yearly wage (thousand of euro)					
	35	75	150	35	75	150
pension age						
66	58.4%	56.0%	33.8%	39.8%	38.1%	22.7%
67	61.5%	58.6%	35.3%	42.1%	40.0%	23.7%
68	65.4%	62.0%	37.2%	44.8%	42.3%	25.0%
69	69.0%	64.9%	38.8%	47.3%	44.4%	26.2%
70	73.4%	68.7%	41.0%	50.4%	47.0%	27.6%

Source: elaborations using the simulator Epheso/Mefop

Data in the table highlight the tight link between years of contribution and pension income adequacy and the impact of the different contributions rates paid by employees and self employed. It is interesting to compare these values with a measure of people’s expectations of their future pension income. To this end we have used data from the 2010 release of the Bank’ of Italy’s Survey of Household Income and Wealth. It emerges that 36% of employees expected a replacement ratio equal to 70% and as much as 31% of the sample reported a higher expected replacement ratio. As far as self-employed workers are concerned, data indicate that 53% of them expected a ratio equal to 50%, while only 19% a higher one. As for the expected retirement age, some 46% of employees hoped to retire at 60 at the latest, while only 17% of the self-employed expected that they would begin receiving retirement benefits before age 65.

It must be stressed that these data refer to 2010, before the reform, but anyway they show that people’s expectations of future replacement rates are fairly optimistic, reflecting possibly a lack of information.



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