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The General Insurance Market in Italy and the actuarial challenges

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AGENDA

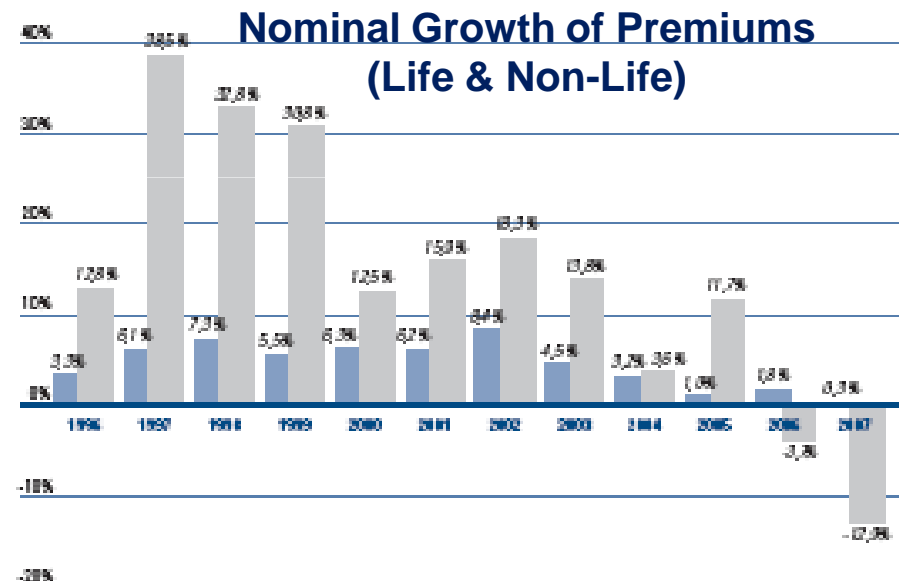
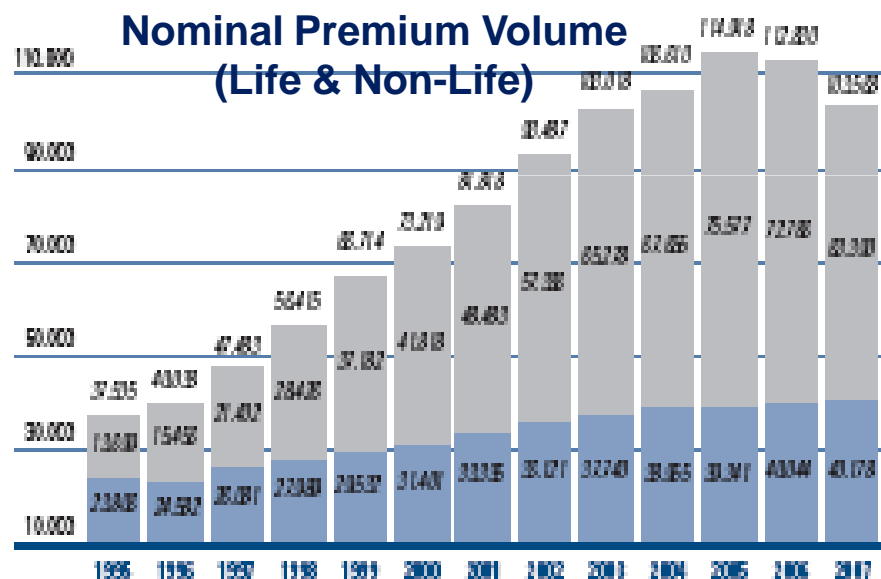
- A brief overview of the Italian non-life insurance market
- The recent changes in local insurance legislation:
 1. The new Indemnity system for MTPL
 2. The Bersani Law
- Actuarial challenges

A brief overview of the Italian non-life insurance market

(source ANIA – Association of Italian Insurers)

Premium Volume in the Italian Market

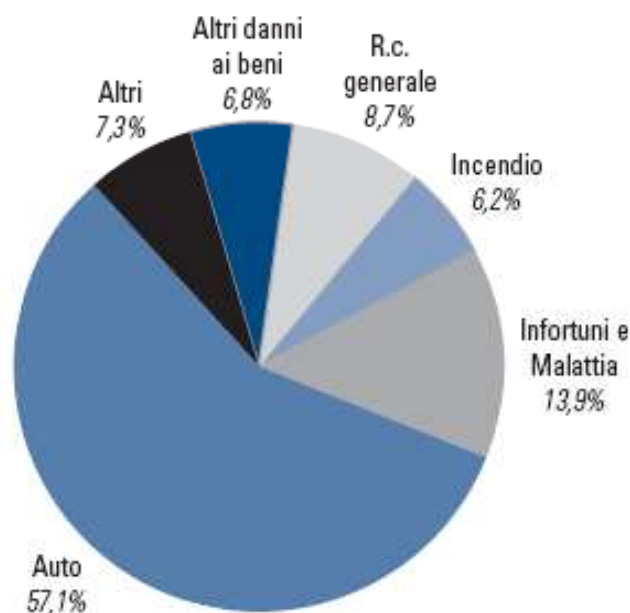
- In the Italian market are operating **n. 246** insurance companies
- Among these, n. **133** are **non-life** companies (53 are representatives of either EU and extra-UE countries) and n. **22** composite
- In 2007 the volume of non-life premiums has been **€ 40,2 billions**(in life € 63,4 bn)



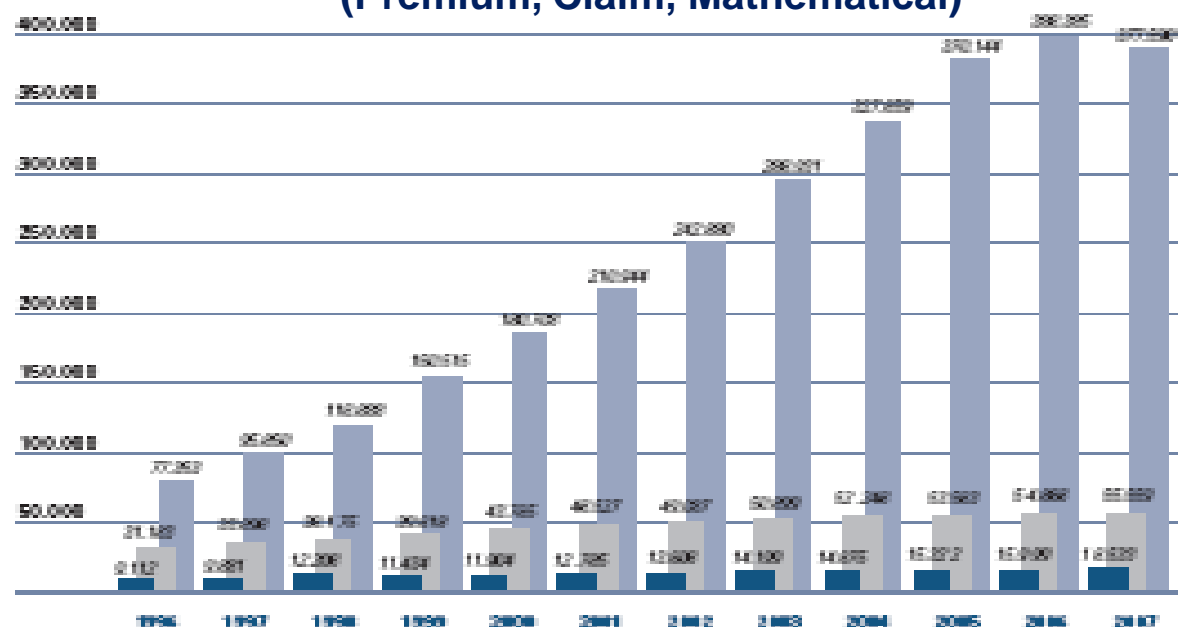
Technical Reserve

- Non-Life Claim Reserves €**55,6 bn** and Premium reserve **16,5 bn** (in Life 377,6 bn)

- The **premium mix** in non-life is concentrated in Motor Insurance (57% - MTPL by far) and Accidents&Health (14%)



Technical Reserves
(Premium, Claim, Mathematical)

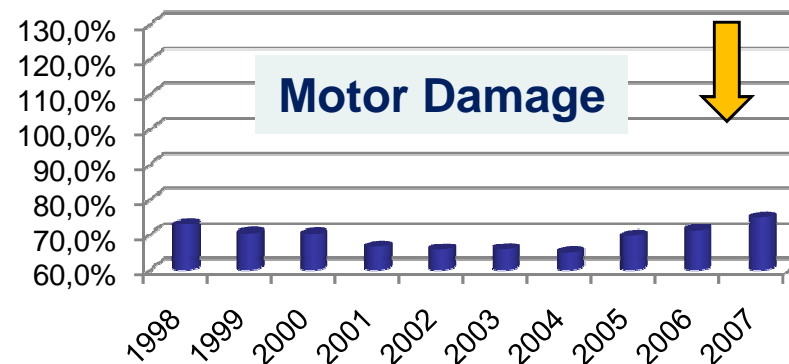
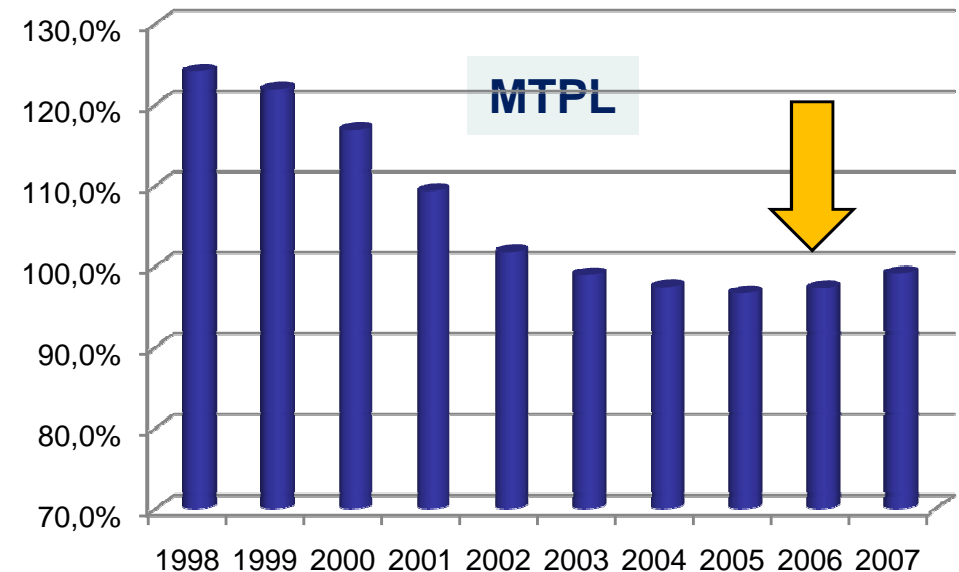
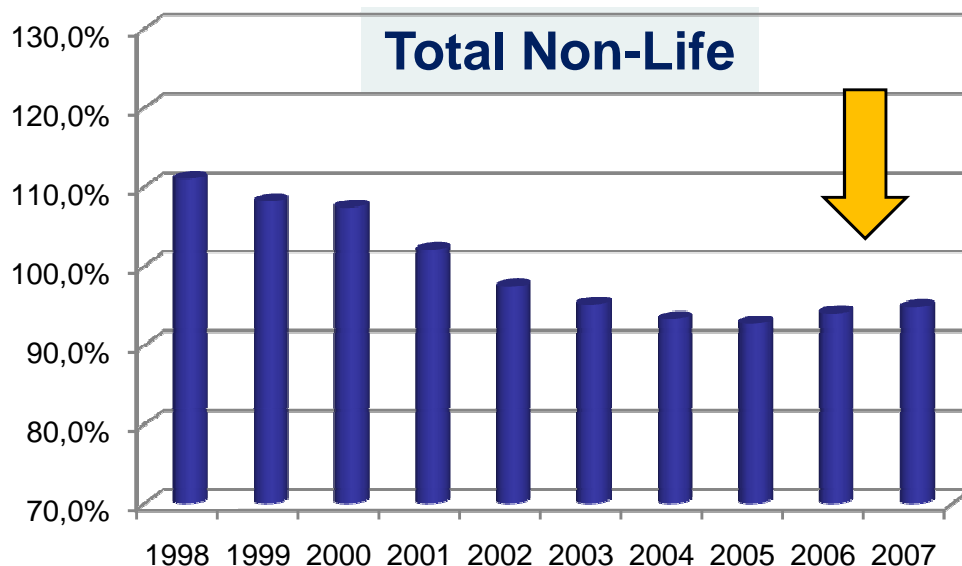


- Since 2000 Non-Life Claim Reserves in Italy are valued according to **undiscounted value**;
- **Reserve deficiency** has been the **main source of risk** as to the failure of many Italian companies in '80s.

Combined ratios

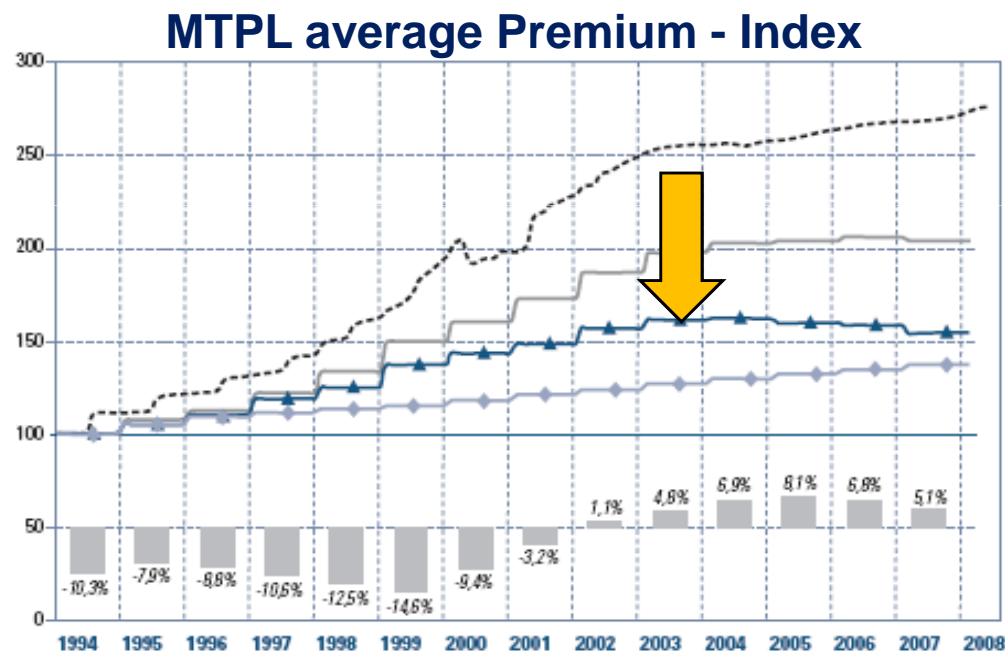
(years 1998-2007)

The Total LoB CR serie is strongly affected by MTPL technical profitability, with a ratio 100% only since 2003. Note the slight increase of the last 2 years



Frequency and Average claim size in MTPL

- A significant decrease of **claim frequency** (from 11.0% in 2000 to 8.6% in 2007)
- An increase larger than economic inflation in the **average claim size** (either for small damages € 1,700 and bodily injuries € 13,000), from € 2,800 to 3,900.



PER MEMORIA PANEL B: Inclusi sinistri IBNR, il contributo al Fondo Garanzia Vittime della Strada e altre partite residuali		
ANNO	FREQUENZA SINISTRI	COSTO MEDIO SINISTRI
2000	10,95%	2.825
2001	9,55%	3.207
2002	8,78%	3.503
2003	8,63%	3.771
2004	8,58%	3.964
2005	8,51%	4.038
2006	8,47%	4.080
2007*	8,65%	3.927

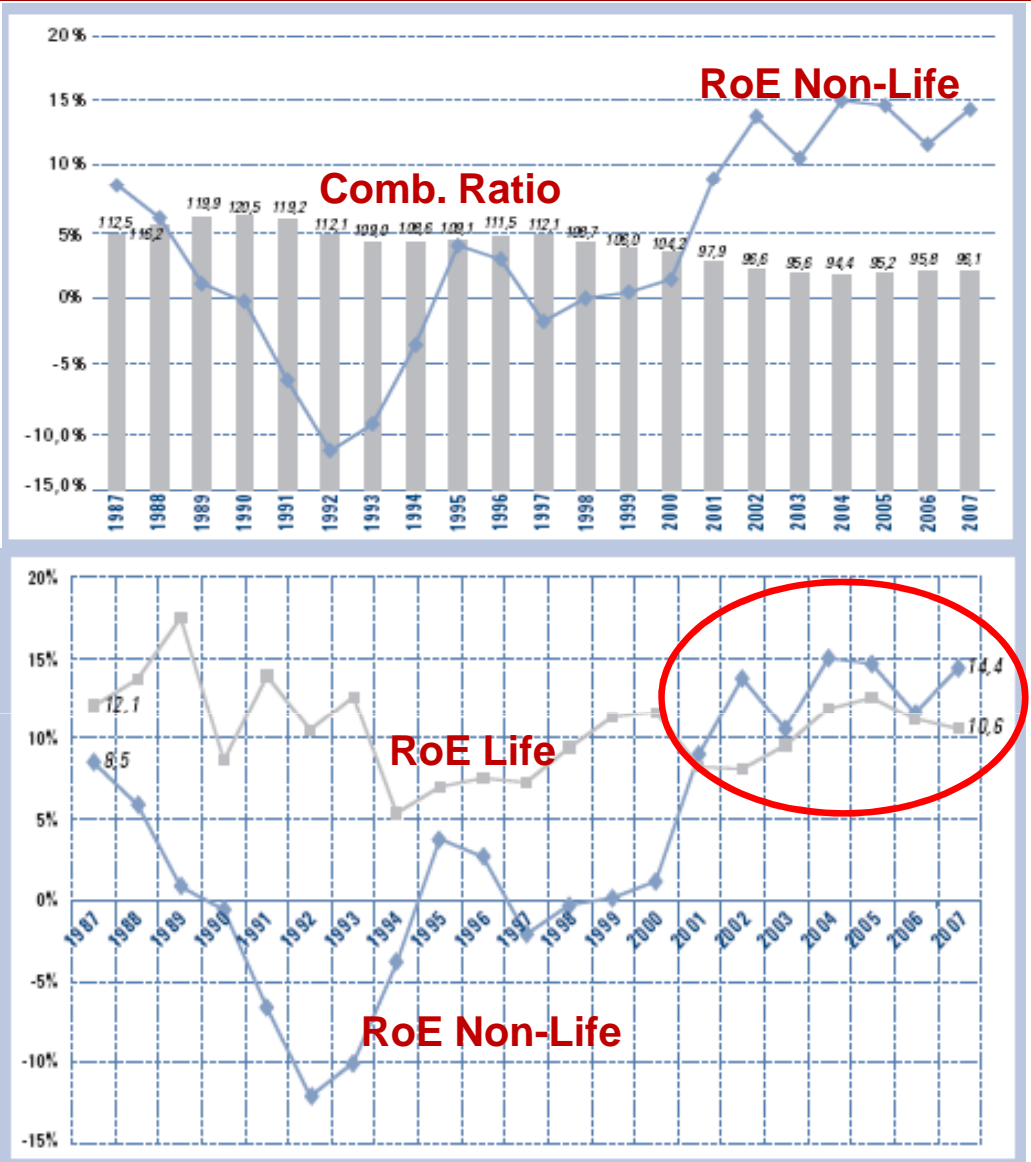
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ROE and Combined ratio

- As usual in non-life, the **RoE is strongly correlated to Combined ratio**
- Note a better behaviour after 2000

- Only in the recent years the Non-Life **RoE** has reached the level of the Life indicator **10-15%**;
- Also due to the positive effect of MTPL technical profitability
- **Large losses** for NL were recorded in the **first part of '90s**



An international comparison

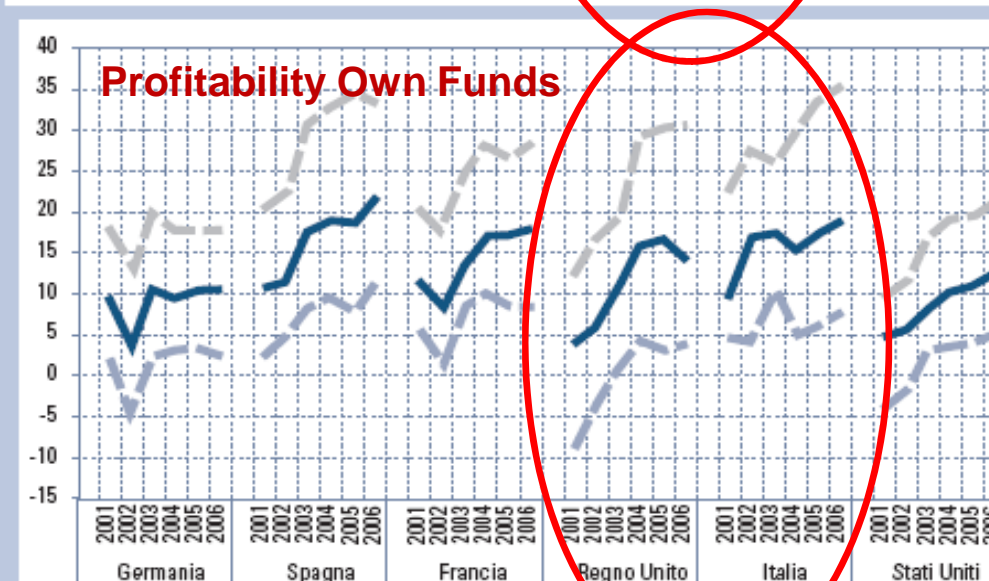
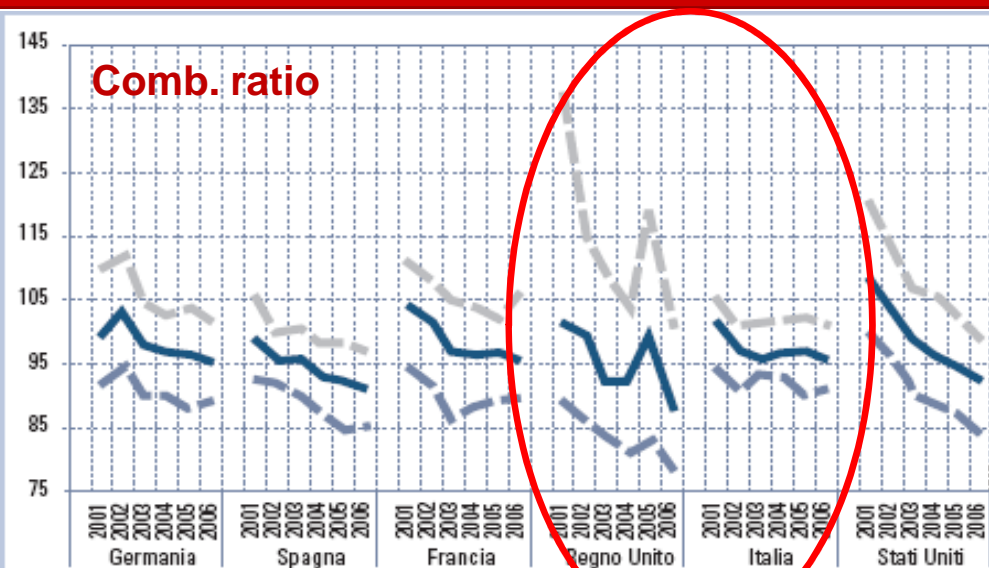
- In these pictures are figured out median and 25%/75% percentiles of Combined ratio and profitability registered in some prominent non-life insurance markets:

- Germany
- Spain
- France
- UK
- Italy
- US

--- 75%-ile
 — Mediana
 --- 25%-ile

- Italy and France are presenting the higher behaviour of CR; Spain and UK the lowest.

- as to profitability Spanish market has the better trend, over 20%



The recent changes in local insurance legislation

The recent changes in local insurance legislation

1. **Direct Indemnity** (CARD) for MTPL only: this will have a large impact either on **premium rating and in claim reserving**;
2. **Bersani law**: for Italian companies it should give rise to some **changes in MTPL risk factors** and a **large variability in agents' commissions** for all LoBs.

Direct Indemnity in MTPL

- Approved in July 2006 and **in force since February 2007**, this new law has changed the settlement process for claims arising from MTPL insurance.
- CARD is **mandatory but not applied retroactively** and therefore affects only accidents claim generations from 2007 onwards.
- CARD is applied for knock-for-knock damages with only two vehicles involved, either with **material damage** (no threshold or limit applies) or with **bodily injuries up to max 9%** permanent disability (equivalent to ca. € 20- 25,000 based on a central table combining the various regional court reference tables). The market expectation is the new system will involve 70% of all claims.
- Insurance companies settle claims for the first party regardless who caused the accident; claims amount paid are **reimbursed by the responsible party's insurance** company through a **clearance house** (Consap).
- **Reimbursement amounts are flat**, i.e. neither based on actual payments nor calculated taking individual criteria (e.g. type of vehicle) into account. The so called forfeits vary geographically by relatively small local districts with typical amounts of **€ 1,800/2,000/2,300 per claim for 2007** (for 2008 they have been changed).
- The forfeit amounts were based on a market study and do not vary by type of claim (**all the same for cars, trucks, motorcycles, etc.**).

“Bersani” Law

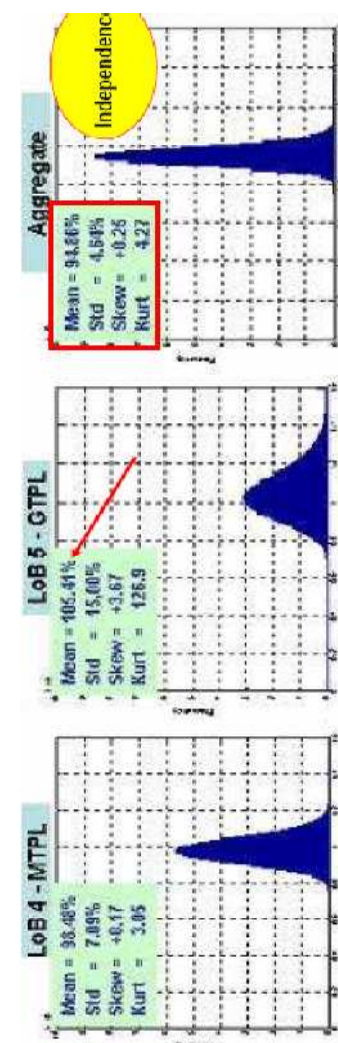
This Law came in force 2007 and introduced several changes to the Italian system, among these:

- Additional vehicles or **vehicles from relatives are insured with identical entry-class in the Bonus/Malus** (“B/M”) system, aggravating sliding rate levels from portfolio shifts in the B/M system. A rough estimate of premium reduction is expected to be 3% per year approximately, with an effect for other at least 5 years;
- Going forward, **clients are allowed to cancel policies every year** (even for multiyear policies).
- **Agents** are allowed to work **not anymore only exclusively** with one insurance company, causing a huge swing in commission system compensating agents in a more competitive environment.
- Besides, **changed step back rules** in the B/M system apply for insureds with an own **share in liability of 40% or more**
- The Italian market is going **to limit the impact on profitability by adjusting rating factors**, but it is rather complicated when new data referred to new direct indemnity system are regarded in the new premium rating.

The actuarial challenges

The actuarial challenges in GI

- Loss distribution estimate for **UWR Non-Life Risk** and **Operational Risk** to be implemented in Solvency II-Internal Models:
 - modelling claim distribution
 - Appropriate estimation of parameter uncertainty
 - Aggregation and dependance estimate
 - To link theoretical model with real data/statistics
- Improvements in **Stochastic Reserving methods** for a consistent evaluation of either Reserve Risk and Risk Margin
- New developments in **Premium rating techniques**, in particular for MTPL (after **CARD** introduction)
- **Extreme Risk estimation**
- **Underwriting cycles** analysis, for a better comprehension of fluctuation in U/W profitability



Thank you for your attention !