

An Italian perspective

Presented by
Paola Luraschi
Principal

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Agenda

- Statistics, product & sales channel trends
- New (key) authority rules
 - Law 122/2010 (Legge “Finanziaria”)
 - ISVAP regulation n 35 dated 26 May 2010
 - ISVAP regulation n 32 dated 11 June 2009
- Hot topics



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Agenda

➔ Statistics, product & sales channel trends



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Statistics, product & sales channel trends

▪ Life new business September 2010:

Annualised new business (€millions)

Premium type	Nr of policies	Agents	Banks and post	Financial promoters	Others (brokers etc..)	Total cross border		Total
						Total Italian		
Annual/regular	86,129	98	70	7	1	176	3	179
Single	130,692	427	2,674	365	4	3,470	296	3,766
Total	216,821	525	2,744	372	4	3,646	300	3,945

Annualised new business (% sales channel)

Premium type	Agents	Banks and post	Financial promoters	Others (brokers etc..)	Total Italian	Total cross border
Annual/regular	56%	40%	4%	0%	98%	2%
Single	12%	77%	11%	0%	92%	8%
Total	14%	75%	10%	0%	92%	8%

Source Ania: www.ania.it

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Statistics, product & sales channel trends

Annualised new business (€millions)

Product type	Nr of policies	Agents	Banks and post	Financial promoters	Others (brokers etc.)	Total Italian	Total cross border	Total
Class I	185,102	431.98	2,191.91	307.21	3.77	2,934.87	0.04	2,934.91
Class III	27,910	7.85	475.31	63.17	0.39	546.72	299.47	846.19
- Unit (no guarantee)	14,148	7.52	371.11	62.22	0.39	441.24	181.73	622.97
- Unit (guarantee)	13,755	0.29	104.20	0.95	-	105.43	0.68	106.12
- Index linked (e.g. Tracker bonds)	7	0.05	-	-	-	0.05	117.05	117.10
Class IV	93	0.02	0.03	-	-	0.04	-	0.04
Class V	2,719	83.59	73.64	1.69	0.15	159.07	-	159.07
Class VI	997	1.47	3.44	0.12	-	5.03	-	5.03
Total	216,821	524.92	2,744.33	372.19	4.30	3,645.73	299.51	3,945.24
Pension products	21,541	24.90	13.71	2.19	0.14	40.93	-	40.93
Risks	47,748	7.00	25.12	0.15	0.11	32.37	0.97	33.35
Others	147,532	493.02	2,705.50	369.85	4.06	3,572.42	298.54	3,870.96
Total	216,821	524.92	2,744.33	372.19	4.30	3,645.73	299.51	3,945.24

Source Ania: www.ania.it

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Statistics, product & sales channel trends

Annualised new business (% sales channel and product type)

Product type	Nr of policies	Agents	Banks and post	Financial promoters	Others (brokers etc.)	Total Italian	Total cross border
Class I	85%	15%	75%	10%	0%	100%	0%
Class III	13%	1%	87%	12%	0%	65%	35%
- Unit (no guarantee)	7%	2%	84%	14%	0%	71%	29%
- Unit (guarantee)	6%	0%	99%	1%	0%	99%	1%
- Index linked (e.g. Tracker bonds)	0%	100%	0%	0%	0%	0%	100%
Class IV	0%	43%	57%	0%	0%	100%	0%
Class V	1%	53%	46%	1%	0%	100%	0%
Class VI	0%	29%	68%	2%	0%	100%	0%
Total	100%	14%	75%	10%	0%	92%	8%
Pension products	10%	61%	34%	5%	0%	100%	0%
Risks	22%	22%	78%	0%	0%	97%	3%
Others	68%	14%	76%	10%	0%	92%	8%
Total	100%	14%	75%	10%	0%	92%	8%

Source Ania: www.ania.it

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Statistics, product & sales channel trends

Annualised new business (% change September 2010/2009)

Premium type	Nr of policies	Total Italian	Total cross border	Total
Annual	20%	10%	11%	10%
Single	-36%	-32%	-60%	-35%
Regular	5%	-8%	129%	-6%
Total	-23%	-31%	-60%	-34%

Annualised new business (% change January - September 2010/2009)

Premium type	Nr of policies	Total Italian	Total cross border	Total
Annual	19%	2%	-41%	1%
Single	7%	22%	-1%	19%
Regular	36%	35%	(...)	38%
Total	14%	22%	0%	20%

(*) not significant

Source Ania: www.ania.it

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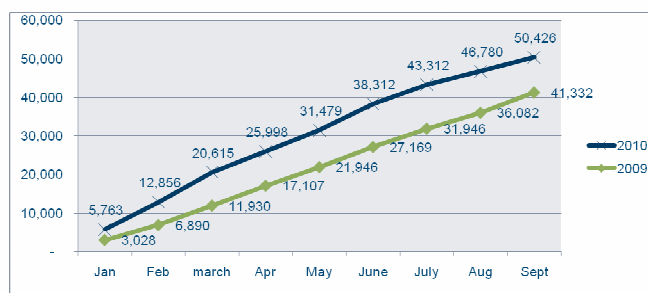


Statistics, product & sales channel trends

Third quarter 2010:

- + 22 % with respect to 2009
- consistent with the annual positive trend

Cumulated new business volumes Italian companies (Million €)



Source Ania: www.ania.it

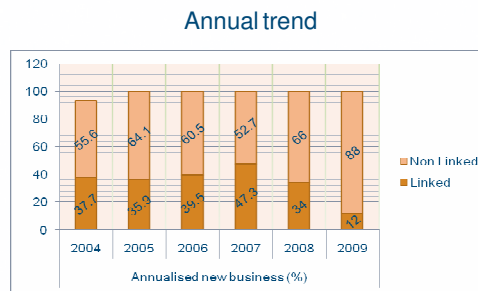
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Statistics, product & sales channel trends

- 'Linked' products: increasing trend until August and decreasing in September
 - caused by Index Linked ('tracker bonds') product contraction
 - doubled with respect to September 2009
 - since January increase in linked volumes with respect to 2009
- September breakdown

Product type	% nr policies	% premiums
Class I	85.4%	74.4%
Class III	12.9%	21.4%
Class IV	0.0%	0.0%
Class V	1.3%	4.0%
Class VI	0.4%	0.2%
Pension products	9.9%	1.0%
Risks	22.0%	0.8%
Others	68.0%	98.2%



Source Ania: www.ania.it

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Statistics, product & sales channel trends

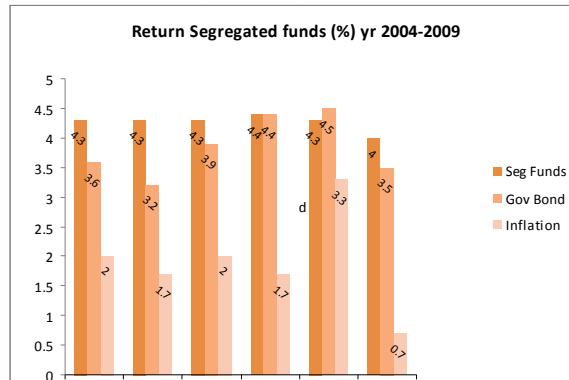
Rebirth of traditional with-profit business (since 2008)

- minimum annual return guarantee
- guarantee used to be provided for the whole duration of the policy (in some cases now provided only for a set period - for example 8 years - and can be reviewed afterwards)
- quite often cliquet guarantee
- the guaranteed annual return cannot exceed the maximum set by ISVAP based on 60% of the average State bond return (TMO) over the policy duration
- the total annual return is based on the performance of the segregated fund in which the policy is invested
- segregated funds are mainly invested in bond (e.g. typically 80%-90%)
- segregated funds must value their assets at book value (e.g. capital gains/losses are only taken into account when they are realised through the sale of assets).

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Statistics, product & sales channel trends



Source Ania: www.ania.it

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Statistics, product & sales channel trends

Decline of index-linked products (e.g. Tracker bonds)

- in the Italian insurance market index-linked products have sometimes been ironically renamed "Lehman policies"
- bankruptcy of Lehman Brothers impacted heavily on the Italian index-linked market:
 - ISVAP estimated (Oct 2008) that 111,000 life insurance policies with a total value of €1.9 bn were affected and 23 companies involved
 - most exposed: CNP Unicredit (29,000 policies, €576m), Popolare Vita (17,000 policies, €290m), Unipol (13,000 policies, €206m), Poste Vita (35,000 policies, €183m), Zurich Life and Mediolanum.
- structured bonds underlying index-linked products have in most cases been provided as a package by investment banks to insurance companies.
- guarantees are generally not directly supplied by insurers, but by the investment bank which is the issuer of the underlying structured bond.
- counterparty risk passed on to customers (to minimise the solvency capital requirements).

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Agenda

- Statistics, product & sales channel trends



New (key) authority rules

- Law 122/2010 (Legge "Finanziaria")



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New (key) authority rules

- Law 122/2010 (Legge "Finanziaria")

- Passed by the Italian Parliament on July 30th 2010
 - Various fiscal and economy issues
 - Among others impact on the taxation of mathematical reserves of life companies
 - In short:

"a % of the variation of life compulsory technical reserves should be considered part of the income of the Company. The % depends on the ratio between two types of income amount (e.g. roughly speaking the quotient between the income due to the company insurance activity and the total income of the company): the law defines a minimum and a maximum for such a quotient which are, respectively, 95% and 98,5%."

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New (key) authority rules

Controversial because:

- The wording of the Law **is not consistent with the estimation of the income** (for the Italian Government) prepared by the Italian Government and published on various financial newspapers, nor with the current interpretations/estimations given by various newspapers and specialized magazines.
- It seems evident that there is a **misspelling** in the wording of the Laws: the actual **% of the variation which is not deductible seems to be (1- Law's %s)**. This means that the variation will not be deductible in a range of 1,5% -5%.
- Ambiguous wording:
 - a) what does 'compulsory technical reserves' mean?
 - b) no indication on the treatment of negative variation
 - c) no explicit indication of the level of aggregation of reserves (e.g. implicit compensation effect between lines of business?)

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Agenda

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- Law 122/2010 (Legge "Finanziaria")
- ISVAP regulation n 35 dated 26 May 2010



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New (key) authority rules

▪ Regulation n 35 dated 26 May 2010

- mainly focused on transparency: policy publicity, pre and post contractual information, etc...
- Article 49 is quite interesting which requires insurance companies to pay a surrender value for **credit protection risk single premium policies**:
 - 1) pure premiums in proportion to sum assured and to year to maturity (at surrender)
 - 2) loadings in proportion to year to maturity (at surrender)

It allows companies the possibility of deducting:

- 1) administration costs effectively spent to manage the contract
- 2) surrender payment costs

if:

- A) the above costs are explicitly indicated in the policy documentation
- B) the above costs are not a barrier to the transfer of mortgages from one bank to the other (e.g. they should not be material)

→ The commercial agreement with distributors becomes crucial

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New (key) authority rules

- Article 52 is also interesting, which states that it's not possible to be at the same time the distributor and the beneficiary of a contract

- quite strong impact on credit protection insurance sold mainly by banks
- cancelled by an Italian court (based in Lazio) on 27 October 2010, for reasons including:
 - No conflict of interest for a bank
 - The article was not included in the consultation document

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New (key) authority rules

- **Regulation n 32 dated 11 June 2009**
 - Preliminary consultation process by ISVAP
 - Tighter rules on index-linked (tracker bond) products:
 - counterparty risk now has to be borne fully by the insurer
 - equity indices have to be negotiated in regulated and liquid markets, be commonly used by the financial community and be replicable, be adequately diversified, be calculated in an objective and pre-defined way and be priced daily
 - indexation formula must be simple and understandable for policyholders
 - insurance companies have to provide a guarantee in case of death (eg linked to the premium paid)
 - Quite an impact on profitability

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 **Hot Topics**



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Hot topics

- **New products:**
 - How will Solvency II impact traditional products?
 - Will the financial crisis confirm the negative trend of linked products?
 - What about Variable Annuity business?
 - Other form of guaranteed products?
- **Solvency II:**
 - QIS 5: ISVAP letter to Company in January 2010
 - Pillar I on the road for some insurers
 - Pillar II and III still at preliminary analysis stage for most insurers
 - ERM and governance related issues are becoming hot topics

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 Milliman

Contact

Paola Luraschi
Life Practice – *Principal*

Tel. +39 02 76260524
Mobile +39 335 59 35 003
paola.luraschi@milliman.com

Milliman S.r.l.
Corso Europa, 5
20122 Milano - Italy

