



# ITALY

## DETAILED ASSESSMENT OF IAIS INSURANCE CORE PRINCIPLES

December, 2013

This Detailed Assessment of IAIS Insurance core Principles on Italy was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in January 2013. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Italy or the Executive Board of the IMF.

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# ITALY

## FINANCIAL SECTOR ASSESSMENT PROGRAM

January 2013

### DETAILED ASSESSMENT OF OBSERVANCE IAIS INSURANCE CORE PRINCIPLES

Prepared By  
**Monetary and Capital  
Markets Department**

This Detailed Assessment Report was prepared in the context of an IMF Financial Sector Assessment Program (FSAP) mission in Italy during January, 2013, led by Dimitri Demekas, IMF, and overseen by the Monetary and Capital Markets Department, IMF. Further information on the FSAP program can be found at: <http://www.imf.org/external/np/fsap>

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## Glossary

AIBA	Insurance Brokers Association
ALM	Asset Liability Management
ALMI	Associate of Life Management in Insurance
AML	Anti-Money Laundering
ANIA	National Association of Life and Non-Life Insurers
ASSIREVI	Italy League of Auditors
BOI	Bank of Italy
CONSAP Spa	Concessionaire for Public Insurance Services
CONSOB	National Commission for Listed Companies and the Stock Exchange
CCB	Compliance Commission of Italy
CDD	Customer due diligence
CEO	Chief Executive Officer
CFT	Combating Financing of Terrorism
CIA	Certified Internal Auditors
CFO	Chief Financial Officer
CNA	National Council of Actuaries
CPA	Certified Public Accountant
CPD	Continued Professional Development
COVIP	National Supervisory Authority for Pension Funds
CRA	Credit Rating Agency
EIOPA	European Insurance and Occupational Pensions Authority
EEA	European Union Economic Area
ERM	Enterprise Risk Management
ERSB	European Systemic Risk Board
EU	European Union
DIFP	Department of Insurance and Financial Professional Registration
FATF	Financial Action Task Force
UIF	Financial Intelligence Unit
FITRR	Financial Intelligence Transactions Reporting Regulations
FTRA	Financial Transactions Reporting Act
FSAP	Financial Sector Assessment Program
FSC	Financial Stability Committee
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GFSR	Group Financial Service Regulators
GWP	Gross written premium
IAS	International Accounting Standards
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBNR	Incurred but not reported claims

ICP	Insurance Core Principles
IFRS	International Financial Reporting Standards
IGT	Intra-group transactions
ISA	International Standards on Auditing
IMF	International Monetary Fund
ISVAP	Former Institute for the Supervision of Insurance in Italy
IT	Information Technology
IVASS	Institution for the Supervision of Insurance in Italy
KIRT	Key Insurance Risks and Trends
LAT	Liability Adequacy Test
MBA	Masters of Business Administration
MCR	Minimum Capital Requirement
MOCE	Margin on Current Estimate
MoE	Ministry of Economic Development
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MMoU	Mutual Memorandum of Understanding
MPTL	Mandatory Motor Third Party Liability
OECD	Organization for Economic Cooperation and Development
OIC	Italian Accounting Board
ORSA	Own Risk Solvency Assessment
QRS	Quarterly Reporting System
SOS	IVASS IT Services Division
SPE	Special Purpose Entities
TAR	Lazio Regional Administrative Tribunal
TMG	Maximum Guaranteed Rate
TP	Technical Provision
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom

# ASSESSMENT OF INSURANCE CORE PRINCIPLES (ICPS)<sup>1</sup>

## A. Introduction and Scope

1. **This report is a full assessment of Italy's compliance with the Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS), as adopted in October 2011.** The review was carried out as part of the 2013 Financial Sector Assessment Program (FSAP) assessment of Italy, and was based on the regulatory framework in place, the supervisory practices employed, and other conditions as they existed in January 2013.
2. **Italy has taken steps to address shortcomings identified in the last FSAP from 2005–2006.** The insurance supervisor has enhanced inspection powers and supervisory processes, with increased emphasis on risk-based supervision, onsite inspections, reinsurance activities, enhanced corporate governance and risk management requirements and public disclosure.
3. **Regulation and supervision of the insurance industry in Italy is the responsibility of the newly established Institution for the Supervision of Insurance (IVASS).** IVASS is the supervisory authority of the insurance sector that includes insurers, reinsurers, intermediaries as well as entities and organizations which, in any form, perform functions partly included in the operational cycle of insurance or reinsurance undertakings. The FSAP takes place only after one month of IVASS operation and is an assessment of the currently existing processes and practices that reflect the older agency ISVAP. Since there is a significant change in the governance and structure of the new agency, an update of the assessment in a few years is warranted.
4. **The assessment is based solely on the laws, regulations, and other supervisory requirements and practices that were in place at the time of assessment.** Ongoing regulatory initiatives are noted by way of additional comments. The assessors had access to a complete self-assessment on the ICPs and responses to a detailed questionnaire IVASS provided prior to the commencement of the exercise.
5. **The assessment has been informed by discussions with regulators and market participants.** The assessors met with staff from IVASS, insurers, industry associations, professional bodies and audit firms. The assessors are grateful for the full cooperation extended by all.

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<sup>1</sup> The assessment was carried out by Dr. Rodolfo Wehrhahn, Technical Assistance Advisor in the Financial Supervision and Regulation Division, a part of the Monetary and Capital Markets Department, IMF and Ms. Christina Urias, former Insurance Commissioner, Consultant.

**6. The level of observance for each ICP reflects the assessment of the various standards thereunder.** Each ICP is rated in terms of the level of observance as follows:

- **Observed**—whenever all the standards are considered to be observed or when all the standards are observed except for a number that are considered not applicable.
- **Not Applicable**—when the ICP is considered to be not applicable.
- **Largely Observed**—where only minor shortcomings exist, which do not raise any concerns about the authorities' ability to achieve full observance.
- **Partly Observed**—where, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance.
- **Not Observed**—where no substantive progress toward observance has been achieved.

## B. Executive Summary

**7. IVASS has reached international best practice in several areas of supervision.** IVASS actively exercises group supervision and by 2000, IVASS established the first college of supervisors. Intragroup transactions and related party participations limits are strictly monitored and enforced. Reinsurance reporting is comprehensive and contains details that allow tracking exposures to any given reinsurance, even at an individual risk level. IVASS collection of monthly data in key areas that allow for close monitoring of the liquidity risk in the insurance sector is commendable. IVASS has effectively enhanced its corporate governance and risk management supervision and is actively involved in the internal models pre-approval process in furtherance of preparations for Solvency II implementation. The supervision of conduct of business affords broad consumer protections.

**8. Highly qualified IVASS staff members are each assigned to handle all aspects of supervision for individual companies; however, upgrading the quality and focus of onsite inspections will ensure a full scope analysis of the market.** Whereas, IVASS has a general policy of conducting onsite inspections every four years, there are occasions where the onsite inspections do not occur within that time parameter and this may be problematic, especially for significant insurers. In addition, all supervisory staff perform inspections in all areas of supervision, without specialized training and expertise in particular focus areas of inspection sufficient to ensure the proper level of expertise and sophisticated depth and granularity of analysis to specific areas of supervision.

**9. Supervisory quality controls need attention.** To enhance the quality and consistent application of best practice supervision, IVASS needs to implement quality controls and communication and coordination processes between supervisory divisions to avoid gaps in supervision and to ensure a consistent and effective level of supervision, particularly of significant companies and groups. The creation of a task force of experienced supervisors is recommended. The task force should be charged with

- Sharing best practice within the organization and institutionalizing such procedures.
- Discussing new and complex regulatory issues to develop IVASS position on those matters.
- Providing quality control for the whole supervisory activity.
- Be a source of reference for trouble companies.
- Checks and balances and peer review on the supervision.

**10. A group focused supervisory approach for the national significant insurers and sophisticated offsite monitoring together with ad hoc inspections for smaller entities is recommended.** Individual knowledge, while currently sufficient will be challenged with the introduction of Solvency II and enhanced oversight of nationally significant insurers will become even more critical. Higher standards on risk management and governance, ORSA requirements, internal model use, will all require a higher degree of specialization. Further, the same level of specialization on offsite monitoring will be required for the onsite inspection to achieve a level of intrusiveness and intensity necessary to audit compliance with the extensive and detailed regulatory requirements and uncover potential vulnerabilities. The supervision of smaller insurers could be done through sophisticated offsite monitoring, including market wide comparisons, and complemented with ad hoc on site supervision.

**11. Further clarification of appropriate margins, parameters and technical reserve calculation methodology is necessary to assure adequacy of technical reserves.** The assessors found some evidence of miscommunication with external auditors and actuaries on acceptable technical reserves calculation methodologies, risk margins and parameters that necessitate enhanced communication with insurers and service providers to clarify what is acceptable and to ensure consistent application of acceptable technical reserves calculations will provide uniformity and stability across the market. The use of sophisticated tool to model reserves needs more guidance and direction from IVASS in acceptable level of prudence in the reserving methodology to ensure a consistent framework for determining technical reserve adequacy for all insurers.

**12. Operational and reputational risks to IVASS are high, given the limited transitional time available.** IVASS had been in existence only since January 1, 2013, although some preliminary preparation to implement the transition has been occurring since September, 2012. IVASS is required to provide its new structure in the next four months. Clear assignment of responsibilities and substantial operational delegation will be necessary to guarantee continuity in the duties of supervision. The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge and special attention will be required to address new developments in insurance regulation, particularly with the advent of Solvency II.

**13. The insurance market is suffering from the economic conditions as confirmed by the negative market reaction.** Insurer production has dropped by over 20 percent in the last few years, as the main channels for distribution of insurance products (banks and post offices) have turned to

selling their own products in place of those of insurers. Also the reduced saving capacity of the population has a negative impact on the life business. Unofficial 2012 numbers confirm this negative trend. Share prices of insurers are about half of their value in 2007, or less. The systematic high claims experienced in mandatory motor third party liability (MPTL) together with the sluggish economy have impacted on the profitability of insurers, with negative return on equity of an average of 6 percent in the last two years. Further, the large exposure to sovereign debt, in particular to the national bonds, has created a significant rise in the credit default swaps (CDS) of the insurance sector following a strong correlation with the sovereign debt volatility.

**14. The success of the pending merger of major insurers is critical to the insurance market.**

IVASS is currently supervising a critical merger and acquisition of major insurers in the market place (arising from the insolvency of one of the largest insurers in the market being acquired by another large insurer), the success or failure of which could have a substantial market impact given the size of the transaction. The financial stability and resilience of the newly established merged company will require close monitoring and substantial resources from IVASS.

## C. Institutional and Market Structure—Overview

### Institutional overview

**15. Responsibilities for supervision of the financial sector have been delegated to four independent authorities:** The Insurance Supervisory Institute (ISVAP, now IVASS) supervises the insurance sector; the Bank of Italy supervises the banking sector and collaborates with the National Commission for Listed Companies and the Stock Exchange (CONSOB) in supervising the securities sector; and the Supervisory Authority for Pension Funds (COVIP).

**16. A new supervisory agency for insurance was created in January 2013.** Pursuant to Law 135/2012, ISVAP was transformed into IVASS, which now operates in close cooperation with the Bank of Italy to fully integrate supervision of the insurance sector with banking supervision. IVASS is now in a transition process, assuming all ISVAP powers, functions, objectives and judicial relationships; in particular: regulatory powers; offsite and onsite supervisory powers; and, sanctioning powers. When the IVASS transition began on January 1, 2013, full supervision of loss-adjusters—including the keeping of their Register—as well as the management of the Information Centre for motor insurance liability has been transferred to CONSAP Spa-Concessionaire for public insurance services.

**17. In March 2011, an alternative dispute resolution mechanism was instituted by Legislative Decree no 28/2010 requiring mediation in civil and commercial matters that can complement IVASS's complaints procedure.** According to the above-mentioned law, any legal action concerning insurance, banking and financial contracts had first to go through a conciliation phase before a mediator or a mediation college. Mediators may help the involved parties come to an out-of-court settlement, subject to civil court acknowledgement. Completion of these mediation procedures was a prerequisite for court proceedings. The Italian Constitutional Court, with sentence

no. 272, on December 6, 2012, has declared the unconstitutionality of the above mentioned law, with regard to the compulsory nature of the mediation, rendering the mediation a mere option.

**18. The Lazio Regional Administrative Tribunal (TAR) is the specialized independent court for appeal of ISVAP/IVASS decisions.**

**19. Italy has mechanisms in place to promote coordination among the different regulators. IVASS collaborates by exchanging information with EIOPA and the other European supervisory authorities, the Joint Committee, the ESRB, the institutions of the EU and the supervisory authorities of the individual Member States, in order to facilitate the exercise of their respective functions. IVASS regularly cooperates in regulatory matters with countries outside the EU and is signatory to the IAIS MMoU. IVASS also has a MoU with the Financial Supervisory Authorities, Central Banks, and Finance Ministries of the EU on Cross-border Financial Stability.**

### Market overview

**20. The structure of the Italian financial system has not changed substantially since the 2005-06 FSAP.** Banking remains the most important financial sector (82 percent of total system assets, or 243 percent of GDP) followed by insurance (12 percent and 36 percent respectively). The system expanded by approximately 40 percent in asset size since 2004, with the greatest increase in pension funds and banking foundations as well as finance companies (leasing, factoring).

**21. The insurance sector in Italy is relatively large in a global context.** The Italian insurance industry ranks seventh in the world in terms of premium income with 3.48 percent market share or around EUR 113.5 billion in 2011 of which 67 percent correspond to life and 33 percent to nonlife. The total assets of the insurance sector amounted in 2011 to EUR 585 billion or approximately 36 percent of GDP of which over 80 percent correspond to life. The total technical provisions accounted for EUR 494 billion and the equity for EUR 48.2 billion.

**Table 1. Italy: Insurance Sector Premium and Assets, 2007–2011**  
(EUR millions)

	2007	2008	2009	2010	2011
Gross premium					
Life	63,389	56,450	82,931	92,061	75,767
Nonlife	39,945	38,543	37,796	36,794	37,752
<b>Total</b>	<b>103,334</b>	<b>94,993</b>	<b>120,727</b>	<b>128,855</b>	<b>113,519</b>
Assets					
Life	423,318	397,795	450,095	481,433	480,637
Nonlife	107,520	107,566	110,685	105,382	105,030
<b>Total</b>	<b>530,838</b>	<b>505,361</b>	<b>560,780</b>	<b>586,815</b>	<b>585,667</b>

Source: Authorities

**22. The number of undertakings in the insurance sector remains stable, but with an increased number of foreign branches operating in the jurisdiction.** At the end of the

assessment, 236 insurers and reinsurers serve the market, as compared with 242 in 2007. Currently, of the 236 insurance undertakings only 137 are domiciled in Italy and 99 are foreign insurer and reinsurer branches, whereas in 2007, 162 insurers were domiciled in Italy and only 80 operated as foreign branches.

**23. Banks and post offices in life and agents in nonlife dominate the distribution of insurance.** IVASS maintains and updates a single electronic register of insurance and reinsurance intermediaries having their residence or head office in Italy. Although there is a diverse network of distribution channels, making use of virtually all established forms of insurance sales, life insurance is mainly sold through banks and post offices (55 percent in 2011) and nonlife through agents (84 percent) that can have agreements with one or more companies. Also brokers are active in the market mainly for corporate accounts. The number of agents has not experienced any significant reduction in the last five years and currently there are 37,500 agents and 4,700 brokers active in the market.

**Table 2. Italy: Number of Registered Insurance Undertaking and Intermediaries, 2007–2011**

	2007	2008	2009	2010	2011
Domestic insurers					
Life (long-term)	68	65	64	61	57
Non-life (general)	77	80	78	76	71
Composite	17	17	14	14	14
	162	162	156	151	142
Insurance intermediaries					
Agents	39,460	39,418	38,831	38,363	37,491
Brokers	3,888	3,954	4,204	4,459	4,747
Supplementary information					
Foreign branches *	80	84	85	91	97
Local insurers' branches abroad	N.A.	N.A.	18	19	20
Insurance groups	N.A.	35	39	36	34

\*Includes reinsurers

Source: Authorities

**24. The sector is highly concentrated and home of the third largest global insurance group.** Approximately forty five percent of the life and of the nonlife insurance business is provided by 5 insurers and over 63 percent by 10 insurers. The concentration is even higher if groups are considered. 62.6 percent of the life business and 68.8 percent of non-life business come from the top 5 groups. The consolidated accounts of the top 10 groups domiciled in Italy account for just over hundred percent of the Italian market and approximately 134 percent of the assets.

**25. The life sector is dominated by traditional products.** Over 70 percent of the life net insurance premium is related to traditional life products that include with-profit endowments, whole

life and term life. Only 17 percent of the production is related to unit-linked products that offer simple guarantees. The traditional products cannot guarantee a higher interest rate than the one published by IVASS, which is 60 percent of the 10 years Italian bonds' return.

**Table 3. Italy: Market Share of Top 10 Insurers, 2011**

Life sector—as percentage of total assets		Non-life sector—as percentage of total premiums	
1	12.43	1	10.04
2	10.42	2	9.98
3	10.14	3	9.35
4	8.15	4	8.35
5	4.54	5	7.04
6	3.85	6	4.83
7	3.62	7	4.59
8	3.53	8	3.76
9	3.36	9	3.63
10	2.90	10	3.53
<b>Total</b>	<b>62.95</b>	<b>Total</b>	<b>65.11</b>

Source: Authorities

**Table 4. Italy: Assets and Premium of Top 10 Insurance Groups in Million Euros, 2011**

Group	Assets	Premiums
	Consolidated	Consolidated
1	423,057	65,666
2	83,744	10,850
3	58,611	9,548
4	50,181	9,267
5	41,477	8,836
6	39,578	7,660
7	33,972	6,145
8	23,973	3,753
9	17,922	3,495
10	12,996	1,923
<b>Total</b>	<b>785,510</b>	<b>127,144</b>

Source: Authorities

**Table 5. Italy: Life Insurance Products\***

<b>Life Net Premiums written</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011*</b>
Non linked life assurance	64,175	67,286	56,182	77
Linked life assurance	9,715	15,396	12,481	17
Capital redemption assurance	5,061	5,138	3,117	4
Group pension assurance	1,539	1,679	1,512	2
Other	26	27	32	0
<b>Total</b>	<b>80,516</b>	<b>89,526</b>	<b>73,325</b>	<b>100</b>

\*In percent of premium

Source: Authorities

**26. The nonlife sector is dominated by motor insurance that includes the obligatory MPTL.**

The motor insurance is the dominant line of business in the nonlife sector representing 64 percent of the net premium. Property is significantly lower, accounting for only 13 percent of the premium. Specialized lines of business like medical malpractice and professional liability insurance are mainly served by foreign providers through branches.

**Table 6. Italy: Nonlife Insurance Products\***

<b>Nonlife Net Premiums written</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011*</b>
Motor	19,411	18,926	20,069	64
Fire and other damage to property	4,169	3,865	3,943	13
General Liability	3,050	2,705	2,722	9
Accident & health	5,048	4,852	4,804	15
<b>Total</b>	<b>31,678</b>	<b>30,348</b>	<b>31,539</b>	<b>100</b>

\*In percent of the premium. Residual class is missing but it is negligible

Source: Authorities

**27. Related party investments, reinsurance and other receivables are not significant assets.**

IVASS oversight in this area has been stronger in the last two years and has resulted in a low exposure to these types of assets in the industry. Intra-group investments are closely monitored, underlined with strict limits and reporting requirements. Commission related receivables are settled every 2 weeks and reinsurance receivables are written off after 18 months.

**Table 7. Italy: Assets of the Insurance Sector**  
(in EUR million)

<b>Life</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total assets	423,318	397,795	450,095	481,433	480,637
Receivables	8,349	9,559	9,447	10,836	11,664
Intra-group/related company receivables	362	328	459	84	85
Reinsurance recoverables	12,711	12,533	12,357	12,068	11,333
<b>Non-Life</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total assets	107,520	107,566	110,685	105,382	105,030
Receivables	14,632	16,147	16,116	15,740	15,213
Intra-group/related company receivables	189	262	290	288	239
Reinsurance recoverables	6,838	6,878	6,926	6,669	6,213

Source: Authorities

**28. Asset composition is predominantly in fixed income instruments, in particular in Italian government bonds.** Life insurers prefer this type of investments due to the link between government bond yields and the maximum guarantee rate allowed in life products, as well as the need for long duration assets for liability matching purposes. Holdings in sovereign debts in the life sector are around half of the investment assets and around thirty percent in the nonlife sector. The exposure to equities is higher in the nonlife sector with 36 percent, while in life it accounts for only 6 percent. Exposure to real estate is almost 8 percent in nonlife and is insignificant in life (Table 8).

**Table 8. Italy: Investments of the Insurance Sector**  
(in EUR million)

<b>Life</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Investments	388,507	358,205	410,827	442,574	437,347
<i>of which:</i>					
Government securities	137,225	119,339	150,326	183,063	201,215
Corporate securities	61,305	70,107	84,095	86,656	77,523
Equities	27,750	25,588	29,587	29,095	27,820
Real estate and real-estate related	1,051	1,105	1,186	893	998
Investments supporting unit-linked	137,322	116,980	117,211	112,144	98,911
<b>Non-Life</b>					
Investments	77,890	76,471	78,652	74,441	74,037
<i>of which:</i>					
Government securities	26,509	23,249	24,278	22,881	23,633
Corporate securities	12,173	14,171	15,055	14,297	13,658
Equities	28,435	29,388	30,048	27,656	26,527
Real estate and real-estate related	4,727	5,159	5,340	5,620	5,904

Source: Authorities

**29. The reinsurance market in Italy is served by foreign branches.** Currently there are no Italian domiciled reinsurers; insurers purchase reinsurance from foreign entities. Over 80 percent of the reinsurance exposure is to A- or superior rated reinsurers. The exposure to non-rated reinsurers is minimal and mainly driven by affiliated entities' transactions.

**30. Under Solvency I requirements, as prescribed by IVASS, both life and non-life industries have maintained, on average, an adequate level of capital.** The solvency margins dropped from 198 percent to 175 percent in the life sector between 2009 and 2011 while the nonlife sector experienced a minimal drop from 285 percent to 272 percent. The anti crisis measures applied mainly in 2011 allowed, on average, for an increase in solvency margin of around 10 percent (Table 9).

**Table 9. Italy: Insurers' Solvency Position (in percent)**

Solvency Position of Insurers			
Available Capital over Min. Capital Requirement	(End-period, in percentage)		
	2009	2010	2011
Life (long-term)	594	560	525
Non-life (general)	889	893	839
Available capital resources over Prescribed Capital Requirement			
	(End-period, in percentage)		
	2009	2010	2011
Life (long-term)	198	187	175
Non-life (general)	285	288	272

Source: Authorities

### Preconditions for effective insurance supervision

**31. The legal system of Italy is based on the foundations of Roman Law, the Napoleonic Code and later enacted codes and statutes.** Under the Constitution of January 1, 1948, Italy was declared a democratic republic with a President as Head of State; a bicameral Parliament consisting of a lower house, the Chamber of Deputies, and an upper house or Senate; a Prime Minister as head of the Council of Ministers and head of government; and an independent Judiciary consisting of a series of courts and a body of judges who are civil servants with lifetime appointments. The Constitution contains: (i) the general principles which are considered to be essential values of the life of the State; (ii) dictates the principles which must be abided by in the legislation produced by Parliament, the regions and any other public institution with the power to issue decrees and regulations of general or specific validity; and, (iii) sets out the basis of foreign policy and relations with the legal system of the European Union (EU). As a general principle, EU law overrides domestic law under the Treaty of Rome and Italy, in addition to other member states, must implement EU directives, as agreed by the Council of Ministers and the European Parliament.

**32. The codes constitute bodies of law and statutes integrate the codes and regulate areas of law for which no codes exist, such as public law.** A new Insurance Code was enacted through Law 209/2005, representing a complete overhaul and codification of the existing insurance laws and introduced a number of innovations. Certain aspects of the code required IVASS to adopt separate regulations, which have been developed following public consultation and cost/benefit analysis from 2008 to the present.

**33. The judicial system of Italy is independent and operates with constitutional protections.** Under the Italian legal system, there are different categories of jurisdiction: the Constitutional court, Ordinary courts and Special courts. The Constitutional court handles challenges to the constitutionality of legislation, disputes over the division of powers, procedures against the President of the Republic under the Constitution on the initiative of Parliament. The Ordinary courts are for general civil and criminal matters and include courts of original and general jurisdiction, appellate courts and the highest court of cassation. Special courts include those of administrative, auditing, military and fiscal jurisdiction. The Ministry of the Judiciary handles the administration of courts and judiciary, including paying salaries, constructing new courthouses, receiving and processing applications for presidential pardons and proposing legislation dealing with matters of civil or criminal justice.

**34. A Financial Stability Committee (FSC) chaired by the Minister of Economic Development was established in 2008.** The Ministry of Economic Development, the Bank of Italy, CONSOB, COVIP, and IVASS have a MoU in place since March 2008 to cooperate, exchange information and assessments to strengthen financial stability, as well as to prevent and manage financial crises with potential systemic effects. The FSC analyzes financial stability issues, develops emergency plans, and conducts crisis simulation exercises. The FSC is mandated to meet at least twice a year, but has met more frequently on an ad hoc basis since 2008, particularly during periods of high tension in the financial markets.

**35. The Italian Parliament has introduced a series of laws to safeguard financial stability and reform the regulatory framework.** Although utilized on a limited basis since first established during the financial crisis, the Italian Parliament introduced four categories of reforms: (1) Law 157/2008, converted into Law 190/2008, sustaining banking sector liquidity by introducing government guarantees and swaps for bank liabilities; (2) Law 155/2008, converted into Law 190/2008, strengthening capitalization of distressed banks; (3) Law 185/2008, also introducing the anti-crisis measures in the insurance sector, converted into Law 2/2009, supporting the strength and ability of the banking sector to finance the economy through special equity instruments (“Tremonti bonds”) issued by sound banks, eligible as Tier 1 regulatory capital; and, (4) Law 155/2008, protecting depositors by introducing a state guarantee to protect them against all bank failures until October 2011.

**36. Italy’s accounting and auditing professionals adequately support the regulatory framework and follow EU Directive standards.** The Italian Accounting Board (Organismo Italiano di Contabilità—OIC) is primarily responsible for issuing national accounting and auditing standards and for interfacing with international standard setters. OIC is a registered foundation created to

voice national opinions on accounting matters. OIC actively participates in international accounting debates involving IFRS and IASB, cooperates with the legislature and promotes the national accounting culture of impartiality, transparency, independence and accountability. The OIC governing body consists of a supervisory board and two technical committees: the executive board and the technical scientific committee composed of several specific working groups. There are three advisory groups (legal, international, and insurance) supporting the OIC. OIC discusses the development of national standards with the Bank of Italy, CONSOB, IVASS and the Ministries of Finance and Justice. If IVASS, the Bank of Italy, or CONSOB gives an adverse opinion on an OIC document, then an OIC qualified majority is required for formal approval of the document and the dissenting opinion must be publicly disclosed.

**37. The Ministry of Finance oversees accountants' activity.** There are approximately 50,000–60,000 accountants (including the League of Auditors). The Ministry of Finance oversees accountants activity and registration requirements include: a university degree in accounting/economics, practice with an accounting firm for three years (soon changing to two years) after which, passing a written and oral examination. Since 2003, Italy has harmonized auditing standards with International Standards on Auditing (ISAs). IVASS has the power to supplement or provide guidance on accounting standards used by insurers, to specify the chart of accounts they must adopt and to request supplementary information.

**38. ASSIREVI (Associazione Italiana Revisori Contabili) is the private non-profit auditor association in Italy (established 1980).** ASSIREVI is responsible for the development of auditor standards, following consultation with the Bank of Italy, IVASS, CONSOB and the Ministry Finance. Individual auditors and audit firms must register with the Ministry of Justice and demonstrate a requisite level of education, experience and training. Previously, there were approximately 50,000 auditors registered with the Ministry of Justice and approximately 25 audit firms registered with CONSOB. Pursuant to Law 139/2010, effective November 2012, the Ministry of Economic Development will administer these individuals and entities in one register. There are approximately 400 registered auditors for insurance and intermediaries and 100 auditors for insurance only. The independent auditor report of an insurer must include an actuary report on the sufficiency of the insurer's technical reserves. ASSIREVI members include the four major global auditing firms and 11 medium and small firms in Italy. Rotation of auditor firm engagement is required every nine years, with a seven year limit of service for individuals with a three year cooling off period imposed.

**39. CONSOB is responsible for the supervision of audit firms and auditors on public entities and has the authority to impose discipline, fines and sanctions on auditors.** CONSOB establishes independence requirements, administers disciplinary matters and requires registration of firms auditing listed companies or their subsidiaries, publicly-held companies, insurance companies and investment companies. The major global firms are among the 25 audit firms registered with CONSOB and perform most audits of insurers in Italy. All insurers, whether listed or not, must have an external audit of their financial statements every year that includes actuarial considerations.

**40. The actuarial profession is a protected profession in Italy.** The National Council of Actuaries CNA (Ordine Nazionale degli Attuari) was founded in 1942 to oversee the actuarial

profession, maintain a national code of conduct and professional discipline in accordance with international standards, provide continuous professional development (CPD) training, maintain relationships with supervising authorities and develop actuarial standards of practice, including standards for technical reserves (subject to disciplinary process, appealable to CNA and the courts). As of December 31, 2012, there were approximately 881 registered actuaries in Italy, with approximately 400–500 working in the insurance sector. There is a strong demand for actuaries and CNA is encouraging the actuarial curriculum at university level. New CPD requirements are expected in July 2013 and CNA is currently working to clarify appropriate methodologies for calibrating technical reserves to assure consistency and uniformity throughout the industry.

**41. Well established broker and insurer associations support the regulatory framework.**

The brokers' association (Associazione Italiana Brokers di Assicurazioni e Riassicurazione) AIBA was founded in 1969 to establish professional standards and code of conduct (professionalism, independence, transparency to customers) for brokers in the insurance sector. AIBA currently has approximately 1,100 members, representing approximately 70 percent of the profession and about 90 percent of the insurance market based on commission income. AIBA maintains relationships with IVASS on intermediaries' activities and supervision, CONSAP and operation of the National Guaranty Fund for motor vehicle liability and works with the technical committees of the Ministries involved in insurance matters. The insurance sector is represented by the Italian National Insurance Association, (ANIA). ANIA is the national association for life and non-life insurers in Italy, maintaining industry-wide statistical analysis, including industry trends, particularly in motor vehicle insurance, claim settlements, regulatory requirements, corporate governance and risk management, anti-fraud measures, Solvency II preparations and other matters of interest to the insurance industry.

**42. The money and securities markets available to Italy are considerable and readily accessible.** A variety of instruments and issuers operate in the Italian financial market, in addition to the deep and sophisticated EU markets that serve Italian investors' needs.

## D. Main Findings

### Regulatory and supervisory key findings (See also Executive Summary above)

**43. IVASS supervision is company focused and is carried out by highly qualified professionals.** Every insurance undertaking is assigned to one of the 100 IVASS supervisory staff. The supervisor is then, in general, responsible for all aspects of regulatory supervision. This includes licensing, risk prioritization, offsite financial monitoring, investment portfolio analysis, corporate governance and risk management assessments as well as the onsite inspections. Frequency of the inspections is determined by the risk prioritization analysis but should occur at least once every four years. Technical evaluation of the reserves and other actuarial matters are carried out by staff actuaries. This approach allows for a deep knowledge of each insurer by the staff member assigned to its supervision.

**44. IVASS has reached international best practice in several areas of supervision.** IVASS actively exercises group supervision and by 2000, IVASS established the first college of supervisors.

Intragroup transactions and related party participations limits are strictly monitored and enforced. Reinsurance reporting is comprehensive and contains details that allow tracking exposures to any given reinsurance, even at an individual risk level. IVASS collection of monthly data in key areas that allow for close monitoring of the liquidity risk in the insurance sector is commendable. Maintenance and supervision of licensing requirements are timely, objective, and public. IVASS handling of the licensing of undertakings is complete and comprehensive and assures appropriate considerations pursuant to regulations. IVASS has effectively enhanced its corporate governance and risk management supervision and is actively involved in the internal models pre-approval process in furtherance of preparations for Solvency II implementation. The supervision of conduct of business affords broad consumer protections and market-wide oversight of insurers to ensure the fair treatment of customers.

**45. Enhanced supervision in some areas is required.** The supervision of intermediaries should increase focus on conduct of business activities. IVASS does not have the resources to ensure ongoing supervision of intermediaries' compliance with regulations and focuses its activities on registration. This is insufficient to adequately conduct the necessary supervisory oversight to ensure compliance in all areas of regulation (corporate governance, consumer disclosures, segregated accounts, etc.). Enactment of Law 135/2012 requires moving intermediaries' registration out of IVASS to a private institution to manage the Register under IVASS supervision, this will relieve IVASS of ministerial matters relating to the Register and focus efforts on oversight and conduct of business behaviors of intermediaries. IVASS Antifraud Division's onsite inspections on intermediaries and anti-fraud complaint activity require enhancement. IVASS conducted only 160 onsite inspections of intermediaries over the past three years, from 2010–2012. Created one year ago, the IVASS Antifraud Division (16 members) has handled 50 onsite inspections of the approximately 50,000 intermediaries in sections A, B, C class, which constitutes only 0.1 percent of this segment of intermediaries, which is insufficient to adequately and effectively assure appropriate levels of professional knowledge, experience, integrity and competence. IVASS should adopt a risk-focused approach and prioritize its inspections of intermediaries, focusing on larger and more problematic intermediaries.

**46. Operational and reputational risks to IVASS are high, given the limited transition time available.** IVASS has only been in existence since January 1, 2013, although some preliminary preparations have been occurring since September 2012 to implement the transition and is required to provide its new structure in the next four months. Clear assignment of responsibilities and substantial operational delegation will be necessary to guarantee continuity in the duties of supervision. The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge and special attention will be required to address new developments in insurance regulation, particularly with the advent of Solvency II.

**47. The success of the pending merger of major insurers is critical to the insurance market.** IVASS is currently supervising a critical merger and acquisition of major insurers in the market place, the success or failure of which could have a substantial market impact given the size of the

transaction. The financial stability and resilience of the newly established company will require close monitoring and substantial resources from IVASS.

**48. Upgrading the quality and focus of onsite inspections will ensure a full scope analysis of the market.** Whereas, IVASS has a general policy of conducting onsite inspections every four years, there are occasions where the onsite inspections do not occur within that time parameter. In addition, all supervisory staff perform inspections in all areas of supervision, without specialization of particular staff members in particular focus areas to ensure expertise and a sophisticated depth and granularity of analysis of specific areas of supervision.

**49. A group focused supervisory approach for the national significant insurers and sophisticated offsite monitoring together with ad hoc inspections for smaller entities is recommended.** Individual knowledge, while currently sufficient will be challenged with the introduction of Solvency II. Higher standards on risk management and governance, ORSA requirements, internal model use, will all require a higher degree of specialization. Further, the same level of specialization on offsite monitoring will be required for the onsite inspection to achieve a level of intrusiveness and intensity necessary to audit compliance with the extensive and detailed regulatory requirements and uncover potential vulnerabilities. The supervision of smaller insurers could be done through sophisticated offsite monitoring, including market wide comparisons, and complemented with ad hoc on site supervision.

**50. Supervisory quality controls need attention.** To enhance the quality and consistent application of best practice supervision, the creation of a task force of experienced supervisors is recommended. The task force should be charged with

- Sharing best practice within the organization and institutionalizing such procedures.
- Discussing new and complex regulatory issues to develop IVASS position on those matters.
- Providing quality control for the whole supervisory activity.
- Be a source of reference for trouble companies.
- Checks and balances and peer review on the supervision.

**51. Further clarification of appropriate margins, parameters and technical reserve calculation methodology is necessary to assure adequacy of technical reserves.** Communication with external auditors and actuaries to ensure consistent application of acceptable technical reserves calculations will provide uniformity and stability across the market. Reserve adequacy is critical and the assessors found evidence of concern and uncertainty in the industry and among the professional service providers that indicate a need for IVASS direction and clarification of acceptable level of prudence in the reserving methodology to ensure a consistent framework for determining technical reserve adequacy for all insurers.

## Market key findings

**52. Insurance penetration is high in global terms, but Italy remains underinsured.** With a total insurance penetration of about 7 percent of GDP, Italy is just below the EU insurance penetration average of 7.8 percent, but remains behind The Netherlands and France with insurance penetration of 13.3 percent and 10.61 respectively. Another indicator for the need of developing insurance is the significant amount of motor insurance, making over 50 percent of all nonlife premium, as compared with a 30 percent on more developed insurance markets like Germany, the U.K., and France.

**53. The life insurance market is suffering from the country's economic conditions.** The life insurance industry recovered quickly from the double digit decline in 2008. In 2009 and 2010, production maintained an important growth mainly driven by the perceived value in the guarantees provided by the products. The situation has reversed in the last two years and production has significantly dropped by almost 20 percent in 2011 vis-à-vis 2010, as the main channels, banks and post offices have turned to sell their own products. Also the reduced saving capacity of the population has an impact of the life business demand. Unofficial 2012 numbers confirm this negative trend, even with some signs of recovery.

**Table 10. Italy: Key Figures of the Life Insurance Sector**  
(in EUR million, roe in percent)

Life	2007	2008	2009	2010	2011
Gross premiums	63,389	56,450	82,931	92,061	75,767
Net premiums	61,554	54,829	81,409	90,592	74,368
Investment income	14,523	14,164	16,496	15,853	16,242
Net claims incurred	74,376	65,684	57,342	66,999	74,177
Expenses	4,744	4,111	4,169	4,399	3,961
ROE (after tax)	10	-8	12	1	-9
Total assets	423,318	397,795	450,095	481,433	480,637
Share capital	25,278	21,986	30,040	29,302	28,232
Subordinated loans	3,296	3,468	3,740	4,191	4,142
Technical provisions	374,968	351,753	393,061	426,293	427,751

Source: Authorities

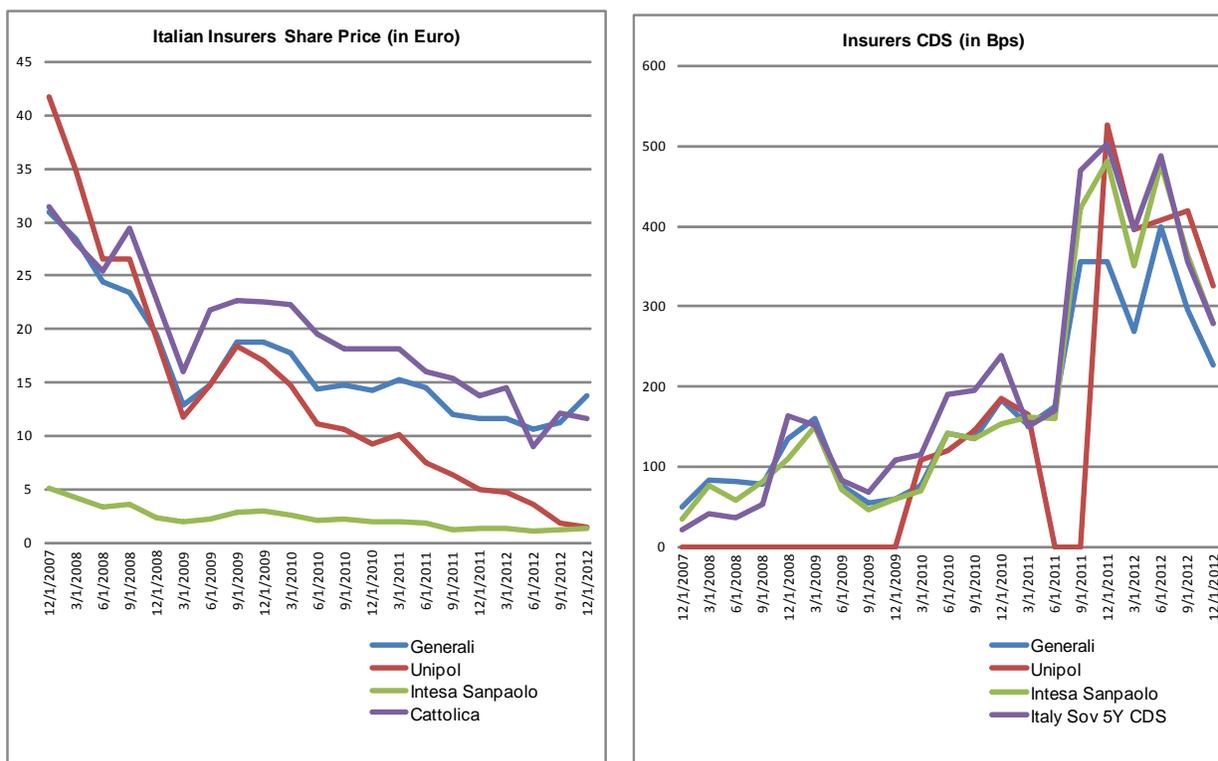
**Table 11. Italy: Key Figures of the Nonlife Insurance Sector**  
(in EUR million, roe in percent)

<b>Non-Life</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Gross premiums	39,945	38,543	37,796	36,794	37,752
Net premiums	34,608	34,063	33,812	32,458	33,590
Investment income	2,131	829	2,439	1,095	640
Net claims incurred	24,634	25,403	26,865	25,106	25,199
Expenses	8,647	8,462	8,465	8,141	8,322
ROE (after tax)	13	-1	0	-5	-5
<b>Total assets</b>	<b>107,520</b>	<b>107,566</b>	<b>110,685</b>	<b>105,382</b>	<b>105,030</b>
Share capital	20,406	18,946	21,763	20,958	20,019
Subordinated loans	2,584	3,456	4,634	4,562	4,609
Technical provisions	68,316	68,194	68,701	65,859	66,697

Source; Authorities

**54. The negative market reaction confirms the stress of the insurance sector.** Share prices of insurers are about half of their value in 2007, or less. The systematic high claims experienced in MPTL together with the sluggish economy have impacted in the profitability of insurers. In the last two years, negative roe of 5 percent resulted in nonlife and after a one percent positive roe in 2010, a significant 9 percent negative roe followed in the life business. Further, the large exposure to sovereign debt, in particular to the national bonds has created a significant rise in the CDS of the insurance sector following a strong correlation with the sovereign debt volatility (Figure 1).

**Figure 1. Italy: Selected Insurers' Share Price and CDs Development, 2007–2012**



Source: Bloomberg

**Table 12. Italy: Summary of Observance of the Insurance Core Principles**

Insurance Core Principle	Level	Overall Comments
1. Objectives, Powers and Responsibilities of the Supervisor	Observed	<p>IVASS is the authority responsible for the supervision of the insurance sector in Italy. The law defines the objectives of supervision as: the prudent management of insurance and reinsurance undertakings, transparency and fairness in the behavior of undertakings, intermediaries and the other insurance market participants, with regard to stability, efficiency, competitiveness and the smooth operation of the insurance system, to the protection of policyholders and of those entitled to insurance benefits and protection.</p> <p>IVASS publishes registrations of undertakings and intermediaries on its website and publishes its regulations in the Official Journal. To maintain fairness for consumers, IVASS requires intermediaries to fulfill a list of basic disclosure</p>

		<p>requirements for the sale of insurance products to consumers.</p> <p>IVASS coordinates regulatory activities with other national regulatory authorities when the nature of insurance products overlaps with other financial products subject to supervision by the Ministry of Finance CONSOB, COVIP and the Antitrust Authority. The authorities developed interlocking directories and a common data platform for the authorities to share data on key persons to avoid duplicative roles and functions that might create conflicts of interest or other regulatory concerns.</p> <p>IVASS has independent power to propose changes in legislation and regulation and, in the past, ISVAP made use of such power and Parliament adopted ISVAP suggested legislative changes in Law 27/2012 (so called "liberalization package") and Law 179/2012 (so called "measures for the growth").</p> <p>The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge and special attention will be required to address new developments in insurance regulation, particularly with the advent of Solvency II. An internal communications strategy is recommended throughout the transition.</p>
2. Supervisor	Partly Observed	<p>IVASS is a newly established authority (formerly ISVAP) for the supervision of insurance, now operating with the Bank of Italy, under the oversight of the President of IVASS (who also serves as the Director General of the Bank of Italy) and Council of IVASS, who serve with banking regulators in a Joint Directorate responsible for strategic financial and insurance supervision.</p> <p>The Council is in charge of IVASS organization, personnel, budget decisions and IVASS internal matters. The currently published list of Joint Directorate, President and Council responsibilities indicate that virtually all supervisory, inspection and anti-fraud decisions, international relations, consumers, intermediaries and loss adjusters must be approved by the President and Council. The list is comprehensive and includes such ministerial functions as writing letters to insurers for routine documentation for supervisory activity, to invitations to consumer associations to schedule meetings with IVASS staff. Once IVASS is fully organized and structured in the</p>

	<p>next 120 days, it is recommended that the President and Council exercise the authority to delegate ministerial matters to appropriate Heads of IVASS Divisions. The necessity of having the President sign off on every single ministerial matter from every single IVASS division is burdensome and adds an additional level of bureaucracy that may detract from the substantive matters that should have the President's and Council's complete attention.</p> <p>Internal audit is performed by one staff member that also has other duties. The scope and audit detail need to be strengthened, which will require additional resources.</p> <p>The supervisory process is informal and quality control over the supervisory process is lacking in formal supervisory processes. The two Supervisory Divisions operate separately overseeing the particular companies assigned to each division. There are no regular effective communications, staff meetings or supervisory task forces to assure accuracy and consistency in application of regulatory requirements between the two divisions. There is no established process for emergency supervisory action. All supervisory matters are routinely channeled up the supervisory chain for sign off approval. There is no supervisory process to segregate troubled companies, or companies in financial difficulty for specified enhanced oversight or emergency action. The absence of internal quality controls creates the danger of regulatory gaps and failure to discover a troubled company far enough in advance to take proper regulatory action to avoid the need for extraordinary administration or liquidation.</p> <p>It is recommended that IVASS develop clear and consistent fundamental procedures for financial analysis supervision that identifies troubled companies and then implement a troubled company task force consisting of employees from both supervisory divisions with significant areas of expertise that would regularly meet and focus on all elements of supervision of nationally significant troubled companies, to ensure the exercise of prompt and efficient supervisory action.</p> <p>The assessors recommend instituting a formal internal quality controls process for supervision and the development of formal supervisory processes that allow for emergency action and cross checking of the activities of each supervisory division to ensure</p>
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	<p>accuracy and consistency in regulatory action. Industry participants need to have clear direction and transparency on proper methodologies for reserve calculations for technical provisions to ensure consistency and compliance.</p> <p>IVASS employees are public servants subject to confidentiality requirements and there is a penalty of imprisonment for 6 months to 3 years for confidentiality violations; IVASS has never had a problem with confidentiality violations.</p> <p>IVASS conducts and encourages staff training in various areas of supervision and provided the assessors with information on all staff training from 2008–2012, which included a number of in-house training seminars, international seminars, EIOPA training and Solvency II implementation training, demonstrating a continuous commitment to staff training in various aspects of supervision.</p> <p>IVASS has the discretion to directly hire up to 5 percent (20 persons) of staff without public competition. This provides IVASS with the availability to have access to specialized skills if needed.</p> <p>IVASS is accountable to the administrative courts for supervisory decisions. ISVAP applied 5,000 administrative sanctions last year, 400 of which were for improper intermediary conduct and 75 of those were challenged. There were 20 other administrative challenges last year involving more complex regulatory issues, so far the administrative justice court has agreed with ISVAP's decisions.</p> <p>While the powers to take immediate action are enacted in regulation, supervisory action suffers delays. There have been a few examples of undue delays requiring several years of ISVAP periodically writing letters, before it finally took action to shut down an unsound operation and notify consumers. While ISVAP's actions were appropriate, the four-year delay was extraordinary and it is recommended that IVASS establish formal procedures and timelines to ensure more expedient regulatory action to protect consumers on timely basis.</p> <p>ISVAP's financial statements are transparent and audited.</p> <p>IVASS management and staff periodically meet with</p>
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		<p>relevant associations and with boards of individual insurers to discuss insurance market and regulatory developments.</p> <p>Parliament has implemented measures requiring IVASS to transfer its budget surplus to support other national authorities, thereby limiting IVASS's financial and human resource capabilities. For 2010, the ISVAP diverted surplus requirement was EUR 2.3 million, for 2011 and 2012 EUR 3.9 million each year and for 2013 EUR 1.7 million surplus will be transferred to fund other authorities. New regulatory requirements and obligations resulting from forthcoming changes in EU legislative frameworks, including Solvency II and implementing measures, will have heavy staffing and budget impacts, thus consideration should be made to limit such cross support practices.</p> <p>Following the financial crisis, Parliament introduced elements of asset evaluation in anti-crisis measures that are not market consistent and deviate from established accounting principles; however, IVASS has maintains regulatory oversight of the insurer's financial position as companies are obliged to disclose all calculations with and without application of the anti-crisis measures and IVASS still has the power to intervene in regulatory solvency situations.</p>
3. Information Exchange and Confidentiality Requirements	Observed	<p>IVASS exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements (Articles 10; 203–207) and has the power to obtain information, documents and perform inspections from regulated entities (Articles 189–190) and groups and financial conglomerates, including the non-regulated entities within groups (Article 213–214; Regulation 25/2008).</p> <p>IVASS coordinates on-site inspection with other EU member states for supplementary supervision activities (Article 214 &amp; 206).</p> <p>IVASS collaborates and exchanges information with other Italian national authorities (Article 10) and provides data only in aggregated form to other regulatory authorities. IVASS has extensive cooperation activities with supervisory authorities both in the EU and with non-EU jurisdictions and currently has MoUs in place with Swiss authorities (FINMA) and the Missouri Department of Insurance, Financial Institutions and Professional Registration in the U.S.</p>

		<p>and is signatory of the IAIS MMoU.</p> <p>IVASS maintains an employee code of conduct that should be extended to all staff to further assure confidentiality. Cases were investigated and no breaches have occurred.</p> <p>IVASS employees must declare conflicts of interest and refrain from action as appropriate; there is no public information on IVASS managers net wealth, only salary information is public. IVASS discloses the names and amounts paid to consultants. IVASS internal procedures also protect confidentiality, as not all persons can access supervisory information; access is limited as appropriate.</p> <p>IVASS proactively and timely exchanges material and relevant information with other supervisors, pursuant to EIOPA guidelines. IVASS has significant participation in supervisory colleges over the past decade and regularly exchanges information with other participating authorities. Some consultations involve branches and internal models reviews.</p> <p>IVASS has experienced some cooperation problems with particular jurisdictions, some dealing with language and permission difficulties for conducting an investigation. EU branches can perform activities in member states and the home authority has the responsibility to conduct financial stability monitoring. After the request for a joint inspection in a home country jurisdiction was declined, IVASS prohibited the company from conducting sales in Italy. The matter is still under investigation.</p> <p>IVASS cooperated and collaborated with the UIF, judicial and criminal authorities in exchanging information to further the investigation.</p> <p>IVASS has the necessary authority and exercises that authority with appropriate confidentiality protections in exchanging information with relevant supervisors, although the Article 10.8 requirement for reciprocity agreements might prevent IVASS from obtaining the necessary supervisory information in a given case. IVASS may consider taking appropriate and recommend to having that requirement removed from the primary law.</p>
4. Licensing	Observed	The Insurance Code defines insurance activities and classes of insurance business subject to licensure

	<p>requirements (Articles 1, 2 &amp; 6), prohibits certain insurance activities (Article 12), prohibits and authorizes sanctions, penalties and fines, for unauthorized insurance activities (Articles 305–312), defines permissible legal forms of domestic insurers (Articles 13 &amp; 14), allows for foreign insurers to conduct insurance activities within the jurisdiction (Articles 23, 24, 28, 60 &amp; 61) and allocates the responsibility for licensure to IVASS.</p> <p>The licensing requirements set forth in the Regulations are clear, objective, and public and provide the documentation and timing for completion, undertakings and branches must submit for licensure (Regulation 10). Applicants must submit a three-year business plan, verify suitability of persons standards for Senior Management and Key Persons (Article 76; Regulation 20/2008; Ministerial Decree 220/2011 overall harmonization of professional independent and good repute requirements for key person functions), and demonstrate sufficient capital to support the business plan and cover “worst case scenarios,” as may be requested.. IVASS application review includes comparison of the proposed plan with existing IVASS data in evaluating the proposed plan. IVASS may request additional information (within 20 days of receipt of application; Regulation 10) and once the application is approved (approval required within 90 days of completed application; Regulation 10), the authorization is published on the IVASS website and in the Public Register. In the event of any uncertainties or conditions, IVASS may issue the license and add supervisory monitoring and request capital infusions during the first three years. In given cases, IVASS instituted particular conditions on the license or merger.</p> <p>IVASS provides the applicant with pre-notice and reasons for refusal (typically because persons are not qualified, business plan is too risky, insufficient capital, etc.), allowing the undertaking to withdraw the application to avoid refusal, if desired. License refusal is an appealable action to the courts.</p> <p>In 2010, ISVAP handled four new authorizations and approximately eight to nine approvals to add new classes or changes of class of insurance business.</p> <p>For non-EU applicants, IVASS applies the same procedures and conditions and also checks with third country regulators to confirm the solvency of the</p>
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		<p>company, fit and proper status of owners, management and key persons and to determine if there are any problems with home authority. IVASS also considers reciprocity for Italian companies in their jurisdiction (Article 208) although the reciprocity requirement is loosely applied, considering situations where comparability is so different or difficult to apply.</p> <p>IVASS maintains follow up on the newly licensed entity (conditions of licensure met, quality of distribution channels, policy pricing, claim settlements, ability to cope with growth, etc.) and the undertaking must submit updates every six months for three years. Inappropriate actions could result in withdrawal or changes to the license as set forth in Regulation 10.</p> <p>IVASS supervision of unauthorized and unlicensed insurance activity relies on fraud complaints from the public. IVASS works with the criminal authorities on cases of abuse and fraud and can intervene when branches act without their proper authority. IVASS provided the assessors with information on a case where IVASS refused to allow the company to initiate new business in Italy due to lack of cooperation and information from the home authority.</p> <p>IVASS also indicated a number of cases of unlicensed activity in Italy, most prevalent in the motor vehicle sector. IVASS refers such cases to the police and criminal authorities and provides public notice on its website. If the police suspect illegal insurance activities, it reports the matter to IVASS for validity verification.</p> <p>Under the EU passport system, the EU member authority advises IVASS of company's intent to pursue insurance activity in Italy and provides specific information on the undertaking. IVASS can ask for more information from the home country, if necessary and IVASS experience has shown the need to do so in third party liability/guarantee and surety situations.</p>
5. Suitability of Persons	Largely Observed	<p>The Insurance Code requires Board of Directors members, Senior Management and Significant Owners of an insurance undertaking to be suitable for the role (Articles 76 &amp; 77; Ministerial Decree 220/2011) and IVASS has the express authority to disqualify and remove these individuals (and effectively prevent them from serving in another insurance undertaking) if the undertaking fails to do so upon finding grounds for disqualification. In addition, Regulation 20/2008 requires for the responsible officers of the key</p>

		<p>functions within the insurance, such as internal auditing and compliance, specific competence and professional skills to perform their activity.</p> <p>IVASS can ask a company to remove the appointed actuary by first notifying the actuary and company of the problem or breach of regulation. If IVASS is not convinced of compliance, it can remove the actuary and Board of Directors, if necessary. Upon receiving IVASS notice, the actuary usually resigns, because if the actuary is removed, he/she cannot work as an actuary for a period of five years; resignation avoids this problem for the actuary and still allows the actuary to work elsewhere. This regulatory gap presents a serious problem for IVASS and the industry. IVASS should take steps to enact regulations to ensure that actuaries and other professionals are prohibited from working in the industry in the event of adverse suitability findings.</p> <p>IVASS works closely with CONSOB and advises of auditor breach, CONSOB conducts the evaluation and has the authority to remove auditors as appropriate.</p>
<p>6. Changes in Control and Portfolio Transfers</p>	<p>Observed</p>	<p>IVASS approval and advance authorization is required for any significant acquisition in ownership, portfolio transfer or merger, or an interest in an insurer or reinsurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurance undertaking. IVASS regulations govern the particular requirements and IVASS has published clear and objective procedures for proposed acquisition or changes in control.</p> <p>IVASS provides two days notice of potential acquisition and must issue approval with 60 days (or otherwise advice the applicant and undertaking of the precise reasons for refusal), then publish the acquisition in the IVASS Bulletin. If company acts without IVASS approval, IVASS has power to freeze the voting rights immediately and impose a short time frame for a required sale. ISVAP has exercised this authority in the past. IVASS consults with the antitrust authority as appropriate.</p> <p>Regulations require assurance of continued sound and prudent management based on specified criteria, including: (i) fit and proper requirements (Article 77; Ministerial Decree 220/2011); (ii) financial statement of purchaser, balance sheet, financial resources, loans, notes, etc. are appropriate and not risky or excessive</p>

		<p>such that costs of financing won't be detrimental to company (independent actuary evaluation of risks involved in transfer); (iii) conflicts of interest do not undermine the sound management of the insurer; (iv) adequacy of legal structure; and (v) adequacy of supervisory regulation over purchaser.</p> <p>IVASS consults with regulators in other member states (or the Bank of Italy) in proposed acquisition circumstances; in case there is no answer within 60 days, or if a negative report is received, IVASS can reject the transaction and has done so in the past. Reciprocity for Italians seeking acquisitions in third countries is also a consideration.</p> <p>Undertakings must give notice to policyholders advising of the change and must publish portfolio transfer information for six months on its website and give policyholders the option to withdraw and cancel their contract. IVASS has posted mergers in its web page in the past.</p>
7. Corporate Governance	Observed	<p>Italy's two-tier system of corporate governance requires undertakings to establish and implement a corporate governance framework, including a Board of Directors and Board of Statutory Auditors with independence requirements for both Boards. Recent enhancements to Regulation 20/2008 include specific instructions for compliance standards and identify the roles and responsibilities related to these Board functions.</p> <p>Regulation 39/2011 governing remuneration policies, includes a "fairness to customers" consideration, to the extent that the regulation requires the undertaking to take into account "maintain(ing) efficiency in the management of services to customers."</p> <p>The new corporate governance framework and enhanced reporting requirements has enabled IVASS to assess the robustness of the insurer's corporate governance structure as well as the effectiveness of the internal control and risk management system on a solo basis and at the group level on an ongoing basis.</p> <p>IVASS requires the insurer's Board of Directors to include an appropriate number and mix of qualified independent persons to set and oversee the implementation of the insurer's business objectives and long-term risk strategies and risk appetite, in accordance with the insurer's long-term interests and</p>

		<p>viability. The enhanced Regulations and reporting requirements, in conjunction with IVASS supervisory inspections, help assure the insurer’s regulatory compliance and protection of policyholders.</p> <p>Fit and proper requirements apply to all Board members. Statutory auditors must be qualified (public examination and specified qualifications) and registered in Registry of Auditors maintained by the Ministry of Justice.</p> <p>Every company must cover function of compliance officer and internal control functions and IVASS imposes Senior Management, internal auditor, risk management requirements considering proportionality principles.</p> <p>The Board of Directors can remove one of its members for cause. IVASS also has the authority to remove Board members as appropriate and has done so in the past. IVASS supervision of corporate governance requirements includes annual review of corporate governance practices and inspections and reviews of the interlocking directory with CONSOB, COVIP and Bank of Italy to assure compliance with antitrust law.</p> <p>IVASS has developed a supervisory review check list tool to verify corporate governance activities and compliance, including such details as the number and amount of Board of Directors meetings, details on items discussed, and information providing a common basis of information collected. IVASS can request additional information and evaluate key drivers in the undertaking’s corporate governance allowing for evaluation of the actual situation and for complete follow up as may be necessary. IVASS started this procedure during its evaluation for internal models in preparation for Solvency II implementation and has thus far completed a check list on 9 groups and 44 undertakings, representing 65 percent of the Italian market. IVASS should regularly evaluate the Board members for quality of performance of their duties.</p>
<p>8. Risk Management and Internal Controls</p>	<p>Observed</p>	<p>Regulation 20/2008 requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management (Article 21), compliance (Article 23), actuarial matters (Regulations 21, 16, 7, 22 and Insurance Code, Articles 31,34,190) and an internal audit function (Article 15). ISVAP began requiring risk</p>

		<p>management functions in 2005 (Article 30) and Regulation 20 /2008 established the standards and implementation requirements. Undertakings must annually report their risk management and internal controls system information to IVASS with sufficient detail to allow IVASS to evaluate the authority, independence and effectiveness of the undertaking's implementation of these systems. IVASS has developed a new corporate governance internal checklist it uses to evaluate the undertaking's systems and implementation during inspections.</p> <p>IVASS conducts annual meetings with undertakings to assess their internal control functions and risk management systems, testing the Board of Director's knowledge of the company, evaluating the corporate culture and the effectiveness and timeliness of the undertaking's activities in this area. IVASS does not have the authority to impose sanctions for the Board's failure to fully implement its responsibilities in this regard. To make the performance checklist effective, the ability to sanction the Board for poor performance in risk oversight is recommended.</p> <p>Additionally, there is no specific IVASS requirement for the Board of Directors to have a specific risk committee; however, IVASS has the authority to require the insurer's risk manager to sign off on a specific company situation (such as an insurer's anti-crisis measure application).</p> <p>IVASS has regulatory oversight of insurer outsourcing activities (Regulation 20, Articles 29-37) and requires the undertaking's Board of Directors to use the same degree of scrutiny to outsourcing activities as it does with other company activities. IVASS conducts regulatory review and oversight of the outsourcing contract and obtain pre-approval from IVASS for outsourcing activities. IVASS does not maintain specific list of outsourcing services, but retains information about outsourcing entities operating in the jurisdiction and has the authority to inspect outsourced service entities (usually claims handling and settlement services) and impose regulatory limits on outsourcing activities.</p>
9. Supervisory Review and Reporting	Partly Observed	<p>IVASS financial supervision utilizes "Fast Track" indicators for preliminary analysis of key areas/ratios of an undertaking's financial position to establish an annual inspection plan. The IT department ("SOS") utilizes Fast Track data to create electronic reports,</p>

	<p>ratios and market comparisons for supervisory staff to evaluate the companies in critical financial areas in an immediate fashion.</p> <p>The supervisory team provided the assessors with details of the Fast Track system and specific files to review the Fast Track analysis and reports. The criteria and financial and actuarial indicators were comprehensive and objective, indicating each undertaking's specific details, reporting figures (revenue on premiums, management expense, revenue to technical accounts, changes in premium, reinsurance, etc.) and financial ratios, demonstrating a preliminary picture of the undertaking's financial status and market position. The supervisory staff regularly reviews the Fast Track indicators to ensure that the system is capturing the necessary detail and information for this stage of the supervisory process.</p> <p>Offsite analysis of the undertaking's annual financial statements and regulatory reporting (corporate governance, risk management and internal controls) assess the overall quality of the business and the company's financial position and IVASS utilizes this information, along with other information (claims, complaints, etc.) to establish priorities for full offsite analysis (Regulation 7/2007).</p> <p>Essentially, the staff members although with particular skills act as generalists; since there is no formal specialization of specific supervisory skills or services, with the most relevant exception of actuarial skills which are mainly devoted to the assessment of technical provisions; other specializations (e.g., investments) are informally taken into account in carrying out specific tasks. In addition even though from the organizational point of view all supervisory staff may perform inspections in all areas of supervision, the specificities are taken in due consideration when the inspection team is set. This is particularly relevant depending on the area under investigation and with specific reference to the actuarial area, both life and non life. The same principles have been considered to organize the specialized teams on internal model pre application.</p> <p>Team leaders and managers in each supervisory division provide oversight of supervisory activities and there is informal communication between staff and supervisors on regulatory matters; however, the absence of specific procedures and formal processes has lead to delays</p>
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	<p>and failure to take expeditious regulatory action when appropriate. It is recommended that IVASS establish formal processes that set forth trigger points and specific ladders of intervention to ensure consistent and expedient regulatory action.</p> <p>The two Supervisory Divisions operate independently overseeing the particular companies assigned to each division. This divided unilateral supervision process challenges the ability for IVASS to maintain internal controls on the quality and consistency of supervision between the divisions and between individual staff members. The assessors file reviews demonstrated delays in taking regulatory action and the absence of ladders of intervention procedures assuring consistency and prompt regulatory action when needed; in addition, the insolvency of a major insurer and the fact that there had been no inspection of that insurer for more than four years. There are no regularly scheduled staff meetings between the divisions, or standing task forces or uniform procedures to focus on troubled companies or market-wide issues, such as under-reserving for technical provisions, that might adversely impact the entire sector. The absence of internal quality controls over financial analysis and examination creates the danger of regulatory gaps and failure to discover a troubled company far enough in advance. IVASS should implement internal quality controls and adopt formal communication and peer review processes that ensure accuracy and consistency in offsite analysis and onsite inspections, particularly for nationally significant companies.</p> <p>In some instances, individual staff members have been handling the supervision of particular groups or companies for several years. Although from time to time, there are assignment transfers of companies or groups to different staff members, there is no formal process for doing so.</p> <p>Individual staff members handle asset valuation individually in each division, and there is no centralized asset valuation process to assure accuracy and consistency in asset valuation. IVASS should develop guidelines along with a centralized asset valuation process to ensure that all staff members conduct the same valuation.</p> <p>Hiring and training of new staff involves on-the-job training process where the new staff member works closely with an experienced person as they gradually</p>
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		<p>increase their skills and responsibilities. IVASS does encourage and support staff training and provided the assessors with detailed information on the in-house, international and EIOPA training provided to staff from 2008–2012; however there are no specific national certification programs for financial analysis supervision or onsite inspection certification in the insurance sector.</p> <p>IVASS is in the process of preparing for the implementation of the Solvency II regime that will require a fully risk based proportionate and forward-looking supervision. EIOPA does not yet provide a full scope of training and supervisor coordination services for member jurisdictions to ensure consistent Solvency II supervision. IVASS should consider developing specialized staff expertise in specific supervision areas (financial analysis, inspection expert, governance and enterprise risk management expertise, etc.) to drill down into the specific details of specified areas of supervisory responsibilities.</p> <p>IVASS consumer complaint and the newly established anti-fraud division (last year) aggregate complaint and fraud data, develop complaint trends and reports to the supervisory divisions as necessary. Considering the new establishment of the anti-fraud division, it is recommended IVASS institute a training program, utilizing police and loss control and prevention courses for staff members to gain specialized knowledge and expertise in fraud prevention and detection.</p> <p>Undertakings must report outsourcing activities quarterly and outsourcing of essential activities requires prior IVASS approval.</p> <p>There are no objective formal criteria for requiring an inspection and there is no set requirement for inspection frequency of a supervised entity. IVASS attempts to conduct an inspection of a regulated entity once every four years, but this benchmark is not followed.</p> <p>IVASS publishes inspection results on the website and in the Official Journal which includes a short summary of violations and sanctions paid; the final inspection report itself is not published. The IVASS Annual Report includes details on inspection activities, but is not company specific.</p>
10. Preventive and Corrective	Observed	IVASS has the power under the Insurance Code to take

Measures	<p>timely preventive and corrective measures to assure the prudent and sound management of insurance undertakings for the protection of policyholders (Articles 3 &amp; 5). Implementation of specific measures are authorized dealing with safeguards (Articles 221–224 &amp; 227), reorganization (Articles 229–231), lapse and withdrawal of authorization (Articles 240–242), administrative compulsory winding up measures (Articles 245 &amp; 265), provisions on reorganization and winding up of groups and the exercise extraordinary administration of insurance holding companies (Articles 275–277).</p> <p>IVASS must submit proposals for these regulatory actions to the President and Council for approval by the Joint Directorate. A list of supervisory actions requiring Joint Directorate approval is posted on the IVASS website, indicating activities which are delegated to the Council for approval. The list is subject to future modification, as the Joint Directorate deems appropriate.</p> <p>IVASS has the power to take regulatory action against individuals or entities acting without authorization and has the authority to void unlicensed insurance contracts (Article 167) and refer such transactions to the court and public prosecutor for criminal action (Article 305). In addition, IVASS may impose fines and sanctions if a company acts beyond its authorization or if an entity uses an insurance name without authorization (Article 309). As a consumer protection measure, IVASS maintains updated lists of fraudulent insurance activity on its website. From 2010–2012, IVASS handled 25 cases of counterfeit policies and 74 unauthorized insurance cases and published 41 press releases in 2011 notifying the public of fraudulent insurance activity.</p> <p>IVASS has the authority under the Insurance Code to take timely preventive and corrective measures to require undertakings to maintain and restore regulatory compliance with sufficient discretion commensurate with the severity of the problem (Articles 221–282). The options include ladder of intervention tools (new business restrictions, freezing assets, imposing liquidity requirements, reducing exposure limits, increased solvency margin, and recovery plans with specified timelines (Article 223; Regulation 2/2006).</p> <p>IVASS provided the assessors with several examples of</p>
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		<p>specific cases in which IVASS utilized these regulatory intervention tools and processes in 2010 and 2011. The cases demonstrated a variety of regulatory actions including appointment of an administrator, lapse of authorization, compulsory winding up actions, new business restrictions.</p> <p>To enhance supervision, it is recommended IVASS considers drafting regulations to add specificity to the ladder of intervention tools (new business restrictions, freezing assets, imposing liquidity requirements, reducing exposure limits, increased solvency margin, and recovery plans with specified timelines.</p>
11. Enforcement	Largely Observed	<p>IVASS has the power to timely impose and enforce corrective action when problems are identified and uses letters to insurers/intermediaries to provide notice of critical findings and establish timeframe for requested corrective action. IVASS maintains a monitoring calendar system to ensure timely corrective action.</p> <p>In 2011, ISVAP issued 23 letters requesting insurers to enhance their control/risk functions, 25 letters regarding inadequate assets covering technical provisions, 32 letters on solvency margin issues; 9 letters to actuaries to remove certain identified findings.</p> <p>IVASS regulations provide the necessary range of regulatory enforcement options, however, it should be noted that IVASS must obtain Joint Directorate approval on several enforcement activities.</p> <p>In the event a parent holding company does not infuse capital into the insurance entity as requested, IVASS can only order a ring fencing of the insurance entity. IVASS has the power to limit dividend distribution only in cases involving breach of the group solvency margin when the parent undertaking is an insurance holding company, but may require the undertaking to set aside distributions in an ad hoc reserve net of assets (Article 228). It is recommended that legislation be amended to explicitly enable IVASS to restrict or suspend dividends or other payments to shareholders, when such payments would jeopardize the undertaking's solvency.</p> <p>IVASS has the power to directly address management and corporate governance problems, including the power to directly communicate with the Board of Directors, Board of Statutory Auditors, Senior Management, auditors, and appointed actuaries and can also order Board of Directors and shareholder</p>

		<p>meetings to address specific regulatory matters (Article 188). IVASS can remove or restrict Board members, but does not have the power to impose sanctions on Board members individually; sanctions are only imposed against the undertaking. It is recommended to allow for individual pecuniary sanctions in the Insurance Code.</p> <p>The segregated Sanctions Department within IVASS (Regulation 1/2006; Presidential Decree 602/1973; Law 46/1999) maintains historical records to ensure consistency and fairness in the imposition of sanctions and IVASS publishes sanctions in the monthly Bulletin. In 2011, IVASS held 4,867 sanction procedures involving EUR 49.6 million in imposed sanctions, 83.6 percent of which was in the motor vehicle business, which represented 71 percent of total sanctions imposed. Ongoing sanction procedures do not interfere with or delay other IVASS corrective measures or regulatory activity.</p> <p>The IVASS fine and penalty structure include different levels for different situations and may not be sufficient to deter improper actions. IVASS indicated that fines and penalties are capped in certain situations and considering the size and financial status of the undertaking, may not have the desired preventive impact. IVASS should consider legislative proposals to increase and restructure the fine and penalties for certain offenses.</p> <p>Failure to timely provide information to IVASS or to obstruct or delay supervisory activity is a criminal offense punishable by fines ranging from EUR 10–100 thousand euro (Article 306).</p>
12. Winding-up and Exit from the Market	Observed	<p>The Insurance Code defines insolvency and provides for a range of options for insurers to exit the market according to IVASS procedure and EU Directive 2001/17 EC (Article 245–265). In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders. The Insurance Code also provides triggers for the withdrawal of authorization and winding up of undertakings.</p> <p>Since 1964, ISVAP has supervised 146 winding up procedures; 81 were licensed insurers and 65 were entities operating without authorization. Eighty-five procedures out of 142 are now closed; IVASS recently opened four additional winding up matters. For the closed cases, policyholders received 80 percent of amounts owed; although motor vehicle policyholders</p>

		<p>received 100 percent pursuant to National Guaranty Fund payments to policyholders. The National Guaranty Fund has right to collect payment for all claims paid from winding up procedures and must resolve all claims before the winding up procedure can conclude.</p> <p>Composite companies with life and non-life classes of assets are segregated for each class and the liquidator cannot use assets from one class for the other until all creditors in the class have been expended.</p> <p>The first step in the winding up process is for IVASS to get winding up approval from the Minister of Economic Development, IVASS then appoints the liquidator and proceeds with the process. Liquidators must take timely action to preserve assets (Article 257) and assume insurer’s administrative and control functions; assisted by supervisory committee (usually creditors, not IVASS staff) (Article 250). IVASS appoints a liquidator to assume the insurer’s administrative and control functions, assisted by a supervisory committee. IVASS can confirm a liquidator every three years and remove a liquidator if appropriate, which has happened on one occasion. IVASS staff cannot serve as a liquidator.</p> <p>A company can appeal to the court and has done so in one case and TAR supported the IVASS decision. IVASS has handled one instance of voluntary winding up in the last 10 years; in that case, the company handled the process without a liquidator and controlled the dissolution.</p> <p>Legal proceedings for winding up are lengthy and complicated and there is a risk of loss for policyholders and beneficiaries. Legal proceedings on claims, particularly can delay final resolution for many years. IVASS recognizes a need for improvement regarding timely provision of benefits payments to policyholders. Apart from motor vehicle liability situations, policyholders are partly paid within three years. The assessors recommend instituting procedures to expedite payments to policyholders during the resolution process, either by partial distributions or setting timeframe deadlines for payments to policyholders.</p>
<p>13. Reinsurance and Other Forms of Risk Transfer</p>	<p>Observed</p>	<p>Reinsurance regulation has developed constantly and with the latest changes in August 2012, IVASS is in observance with the IAIS reinsurance principle.</p> <p>Circular 574/2005 in its current updated version of August 2012 requires insurance undertakings to</p>

	<p>incorporate reinsurance as a capital and risk management tool determined and under the responsibility of the Board. Senior Management monitors and implements the reinsurance policy. The reinsurance policy regulatory requirements are comprehensive and include the target level of net risk retention, the characteristics of the reinsurance instruments the undertaking intends to underwrite, their objectives and adequacy for the coverage of the risks taken and the criteria used in the selection of reinsurers.</p> <p>Regulation requires undertakings to provide the supervisor with detailed information, including an annual plan of reinsurance cessions that allows supervisors to understand and monitor the economic impact of the reinsurance agreements. IVASS uses an in-house developed IT tool to manage detailed information on all reinsurance transactions. This tool allows for proper monitoring of the market exposure to any reinsurer. Currently, IVASS carries out concentration monitoring by type of reinsurer, including rating and geographic origin. The assessors recommend IVASS to also monitor exposure to single reinsurer on critical single catastrophic risks.</p> <p>Regulation also requires the disclosure of finite reinsurance, but it does not specify actuarial rules on risk transfer. IVASS should develop explicit technical parameters that determine proper reinsurance risk transfer.</p> <p>Regulation 33/2010 recognizes the different reinsurance business model and sets tailored rules in the main areas: technical reserves, assets eligible for technical reserve purposes, solvency margins, recovery financial plan and extraordinary management and transactions.</p> <p>Regulation further requires that undertakings have adequate documents available on the agreed terms and conditions of reinsurance contracts that are formalized with four to six months. Reinsurance claims are updated and after 18 months written down. Further, liquidity considerations when designing the reinsurance policy need to be considered and addressed. These regulations are new and the assessors recommend proper monitoring.</p> <p>While the Insurance Code allows for risk transfer to the capital markets, pending regulation has not been issued. IVASS should evaluate the market need for securitization of insurance risk and if necessary draft</p>
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		<p>appropriate regulation.</p> <p>To enhance transparency of reinsurance treaties, a mandatory treaty clause stating the completeness of the reinsurance treaty is appropriate and avoiding the use of side letters is recommended. To this regard, some specific rules are provided with to finite reinsurance only: Regulation 33 (art. 128) envisages that the contract shall include a clause indicating that it can be modified only with written agreement that shall be included in the contract itself. If the contract refers to side letters/agreement, this shall be indicated clearly in the contract itself and the side agreement shall be attached to it.</p> <p>Reinsurance credit currently follows the static and not risk sensitive Solvency I rules. A more risk sensitive approach is recommended that takes the credit worthiness of reinsurers into account.</p>
14. Valuation	Partly Observed	<p>At a solo level accounting is based on Italian GAAP while at group level consolidated accounts follow IAS/IFRS. In the current Solvency I regime valuation for both, accounting and for regulatory purposes are the same. Current assets are valued at the lower of market value and cost; Fixed assets are valued at cost, net of permanent losses.</p> <p>The valuation of assets and liabilities is undertaken in a reliable manner. However, the fact that accounting (and regulatory) framework is substantially based on amortised cost diminishes severely its usefulness for regulatory purposes, in particular in case of winding up situations. In additions the anti crisis measures allowing insurers to adjust the reported value on sovereign bonds have added a level of complexity that certainly does not increase the transparency or usefulness of the accounting to take regulatory actions.</p> <p>The Solvency I framework, requires to determine technical provisions in a prudent way therefore the technical provisions do not calculate the Current Estimate nor the MOCE explicitly. In the life business, technical assumptions have to be most likely foreseeable and have to include a margin for adverse deviation of the elements considered. However there is no explicit requirement to evaluate the size of the margin.</p> <p>In the nonlife business technical provision are determined in a prudent manner. Also to calculate the provisions for claims outstanding the ultimate claim</p>

		<p>cost is to be used.</p> <p>This approach implies an implicit margin in the determination of the technical provisions. However there is not much transparency on the size nor required sufficiency of the margin.</p> <p>The amortized cost valuation used under Solvency I has deviations from an economic valuation. The valuations of most assets and liabilities would reflect its economic value except in a winding up situation where the amortize cost valuation might not necessarily reflect their economic value. Further, under current in force valuation measures related to the anti-crisis law, certain sovereign bonds are valued at cost.</p> <p>Current valuation methods, excluding the anti-crisis measures appear as a whole to be prudent. However, due to the lack of transparency in the determination of the margins, its regulatory usefulness is doubtful.</p> <p>With the implementation of Solvency II clarity on the resilience assessment of the insurers will be gained. In the mean time for the purpose of transparency and consistency in the market, IVASS should provide guidance on the expected level of prudency that need to be applied. This should be done at a high level by stating for instance confidence levels or requirements on the stochastic models to be used.</p>
15. Investment	Observed	<p>Regulation 36/2011 sets out guidelines on investments and assets covering technical provisions, detailing the general principles established in the Insurance Code (Article 38). The Regulation adopts a combination of principle-based and rules-based requirements. The principle-based requirements include the provision to invest in assets belonging to the undertaking that guarantee the security, yield, liquidity and an adequate diversification. There are concentration limits per type of asset and issuer for assets representing technical provisions.</p> <p>Investment in derivatives is allowed only if they contribute to a reduction of investment risks or facilitate efficient portfolio management. The Board is required to set and review on an annual basis general policies for the use of derivative financial instruments, including structured products.</p> <p>Significant and dominant participations may be held only if the investment does not undermine the undertaking's stability. Those participations include both those considered as assets covering technical provisions and those included in free assets.</p>

		<p>Significant IGTs are supervised by approval or reporting requirements and can be denied.</p> <p>The regulatory requirements on investments are included in the Insurance Code and Regulation 36/2011 (and for unit-linked contracts, Circular 474/2002) and are publicly available to all interested parties.</p> <p>Through Regulation 36/2011, IVASS has implemented a reduced reliance on the rating issued by Credit Rating Agencies (CRA).</p> <p>Asset Liability matching is required to be monitored by the undertaking's internal control functions.</p> <p>The Board's investment policy requires the undertaking to only invest in assets whose risks the undertakings can properly be identified, measured, monitored and managed. Investment risk stemming from more complex instruments, such as derivatives, structured products or funds, or less transparent products, are required to be more carefully assessed. At group level, the parent company is responsible to define the investments' strategy of the group, thus maintaining the overview of the investment activity.</p>
16. Enterprise Risk Management for Solvency Purposes	Observed	<p>IVASS requirements address all standards of this ICP with the only exception of the solvency position aspect of the ORSA. Under current solvency regime the value of the capital position has a minor relevance in risk management compared with the risks that regulation requires to be addressed.</p>
17. Capital Adequacy	Partly Observed	<p>A total balance sheet approach will be in place with the entry into force of Solvency II. For the time being, the current approach is still based on Solvency I and hence does not consider interdependence between assets, liabilities, regulatory capital requirements and capital resources for determining the solvency requirements.</p> <p>The current supervisory system requires that the insurer continuously have a sufficient solvency margin as determined by Solvency I calculations. In the present legislation, two explicit solvency control levels apply: the required solvency margin and the guarantee fund. The levels of intervention in case of breach of solvency margin requirements different from those requested in case of breach of guaranteed fund that are more severe and urgent in nature that can quickly lead to freeze of assets, intervention and winding up.</p> <p>Current Solvency I regime, is not explicit on how,</p>

		<p>where and to what extent each risk is addressed. Hence, the calibration of the required capital for a given risk is not possible or at least is cumbersome.</p> <p>The law allows the supervisor to request a variation to regulatory capital requirements only in emergency situations to protect policyholders.</p> <p>The available solvency margin shall consist of the net assets of the insurance undertaking free of any foreseeable liabilities, less any intangible items. Further, IVASS may require the company to deduct from the elements of the margin available assets where highlighting a trend that can also adversely affect the solvency of the company perspective.</p> <p>The measures adopted in line with the anti-crisis law decree issued in 2008 allow the difference between cost value and market value of certain sovereign bond to be used as capital in the form of a “<i>non-distributable reserve</i>”.</p> <p>Under Solvency I, several quantitative and qualitative limits do apply on different kind of eligible capital resources, substantially mirroring a tiering system. The current guaranteed fund (MCR) can be covered by capital of the highest quality.</p> <p>Under Solvency I, insurers have to calculate their solvency margin according to the formula envisaged by Directives, so they are not allowed to use internal models.</p> <p>Solvency I regulation does not allow to calculate solvency capital requirement using approaches different from the formula defined by law, therefore, internal models are not applicable for undertakings’ solvency requirements. However, in preparation for Solvency II, IVASS has already started analyses on internal model developed by undertakings and is strongly involved in the pre-application process. Approximately 65 percent of the Italian insurance market, based on premium, is considering the use of an internal model. IVASS is recommended to maintain the resources and focus in the approval work of these models to avoid possible deficiencies in the capital determination emanating from the use of internal models.</p> <p>The full ICP is expected to be observed with the implementation of Solvency II.</p>
18. Intermediaries	Partly Observed	The Insurance Code (Article 110) requires intermediaries to be registered in the IVASS Register, demonstrate knowledge and ability in line with

	<p>insurance mediation activity and the products distributed, and complete annual training to update their skills as appropriate (Regulation 5/2006). The five types (A, B, C, D, &amp; E) of intermediaries' registration are all subject to IVASS supervisory review.</p> <p>The IVASS Intermediaries Supervision Department manages the Register and is responsible for intermediaries' supervision. Intermediaries must report material changes to their registration information. Enactment of Law 135/2012 requires moving intermediaries' registration out of IVASS to an ad hoc private institution to manage the Register under IVASS supervision. The assessors agree this is a positive step to establish a separate organization to oversee registration matters and maintain the Register. This will allow IVASS the ability to focus on supervision of intermediaries' conduct and business practices to ensure regulatory compliance. IVASS is recommended to devote sufficient attention to the establishment of this new institution in particular to proper governance, adequate systems and bylaws having due regard to the particularities of the insurance intermediation in Italy.</p> <p>Currently, IVASS has 28 people in the Intermediaries Department, 19 of which handle Register updates and 9 employees handle offsite intermediary monitoring. Offsite monitoring includes consumer complaint investigation on intermediaries and sanctions if necessary. The Department may request onsite inspection if necessary. IVASS does not require reporting of intermediaries' financial statements and does not publish any market-wide notices if the Department discovers problems in certain area of supervision. It is recommended that IVASS initiate a practice of market-wide notification of issues or problems that their supervision and inspections have revealed as a systemic problem</p> <p>IVASS does not have the resources to ensure ongoing supervision of intermediaries' compliance with Regulations and focuses its activities on registration. The majority of staff members (19) handle the registration process and only 9 employees conduct offsite supervisory analysis, oversight and investigation of the activities of the 245,000 registered intermediaries. This is insufficient to adequately conduct the necessary supervisory oversight to ensure compliance in all areas of regulation (corporate governance, consumer disclosures, segregated accounts, etc.) and the assessors recommend diverting the majority of employees to an increased focus on</p>
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		<p>offsite supervision and onsite inspection of intermediaries. The system is currently more reactive than affirmatively proactive and this change will help in this area.</p> <p>IVASS Antifraud Department handles the onsite inspections on fraud complaint activity and on intermediaries, but IVASS conducted only 160 onsite inspections of intermediaries from 2010–2012. The IVASS Antifraud Department handled 50 onsite inspections of the approximately 50,000 intermediaries in sections A, B, C class, which constitutes only 0.1 percent of this segment of intermediaries, which is insufficient to adequately and effectively assure appropriate levels of professional knowledge, experience, integrity and competence. The assessors recommend an increase in onsite examination of intermediaries to ensure regulatory compliance.</p> <p>There is no direct IVASS reporting from intermediaries, they report to their principal undertaking and the undertaking reports to IVASS on intermediary training.</p> <p>Call centers also sell insurance and call center managers must be registered. Call center staff must complete training, insurers must verify training occurs and then annually report to IVASS.</p> <p>Commission disclosures are made in the policy documents for MTPL LoB and for policies related to mortgages or loans; for life policies, disclosures include total charges on life business and average payments made to intermediaries. Payments to A class intermediaries are deemed as payments to the insurer and brokers must give notice to customers of the existence of any such agreement. A consumer guaranty fund protects consumers for improper broker action and covers consumer damages. CONSAP manages the fund and reports to the Ministry of Economic Development. Life policies carry a 30-day cooling off period for consumers to reject and return policies if desired.</p>
19. Conduct of Business	Observed	<p>IVASS has a regulatory and supervisory framework in place that ensures the fair treatment of consumers in the insurance sector and includes requirements for: (i) diligence, fairness and transparency; (ii) assuring product suitability for consumers; (iii) conflicts of interest protections; (iv) fair treatment of consumers in claims handling; (v) advising consumers of their rights and ensuring adequate consumer protection (Article 183; Regulations 5/2006, 20/2008). The Department also has the power to regulate advertising and stop</p>

	<p>misleading advertising; intermediaries must submit prospective advertising to insurers for approval. Although there is no specific Board of Directors requirement to “treat customers fairly,” the corporate governance requirements for internal controls includes consideration for reputational risk for unfair treatment of customers and the Department uses this requirement as a basis for its activities. In addition, Regulation 39 requires consideration of maintaining the fair treatment of customers in remuneration matters. The Insurance Code requires the insurers to maintain a register of claims and uses these registers as a starting point for onsite inspections.</p> <p>IVASS has 50 highly skilled employees in its Consumer Protection department, consisting of a department head, 3 managers supervising 3 units handling 3 areas of consumer protection: selling practices; claims handling; and a consumer contact center handling approximately 50,000 consumer inquiries per year, giving IVASS first notice of what is happening in all aspects of Italy’s insurance market and providing a front line for supervisors to assist in all types of consumer protection matters. The Department uses information received through the call center to require other IVASS Departments to carry out more investigations and report police on suspected criminal activities and the police call the Department to check if a company is valid and licensed. The Department maintains a “black list” on the IVASS website of false or fraudulent insurers.</p> <p>The Department requires insurers to keep complaint registers, and the Department maintains complaint ratios, numbers of complaints on premiums, averages and trends of complaints, increasing or decreasing ratios; number of rejected complaints (roughly 55 percent of consumer complaints to insurers considered invalid by the insurers themselves) and some general complaint details are published on the IVASS website. Insurers are also required to keep a claim register: IVASS uses the register during the onsite inspections as starting point to verify correct and timely claim treatment (Article 101, Regulation 27). In 2011, ISVAP carried out onsite inspections on 16 claims settlement departments of various insurers operating in motor liability sector, applied EUR 24.3 million in fines to 44 insurers in 3,397 cases regarding motor liability claim handling violations representing 49 percent of the total sanctions applied.</p> <p>In 2011, ISVAP conducted inspections on 66</p>
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	<p>intermediaries and found the most frequent violations were failure to provide pre-contractual information, adequacy of the contract for the client's needs, and failure to keep segregated client accounts. In the non-life sector, the complaints against the main distribution channels (one-firm insurance agents (82.4 percent) are handled by their principal undertaking. IVASS requires undertakings to handle all complaints including those addressed to their sales network.</p> <p>IVASS Consumer Protection Department handled approximately 30,000 complaints in 2012, 74 percent of which were for motor vehicle cases and 50 percent of those involved claims handling procedures. The Consumer Protection staff enforces strict terms on claims handling practices in the law; most complaints involve delay and claims payment disputes. Thirty five of the 50 staff members handle all types of complaint cases in all aspects of insurance transactions, scanning information into the department's data base, conducts searches on the name of company, number and nature of complaints, codes the complaints and promptly responds to consumers electronically. As cases become more complex, the matters escalate to managers for more complex actions and decisions.</p> <p>Current regulations in place since 2008 allow 90 days for IVASS complaint handling, but the department resolves cases more quickly. Complaint handling time periods for insurers is also too long at 45 days (but insurers actually manage them in 23 days on average) and the head of the department, a lawyer, is working with its staff (2 resources of the same department, both lawyers) on regulatory changes to reduce these timeframes. Some of the 20 lawyers in the department are involved in drafting legislation proposals on consumer protection issues. To ensure proper policy considerations that might impact other IVASS departments, it is recommended that IVASS develop a comprehensive policy and procedures for new legislative proposals that include, where necessary, checks and balances and consultation with all relevant experts within IVASS.</p> <p>The Consumer Protection Department has a very strong relationship with Italy's consumer associations and last year began a practice of holding monthly meetings with consumer groups and met six times to discuss main issues and current consumer topics ("liberalization package") legislation, alternative dispute resolutions, new EU directive regarding intermediaries, the mediation directive; "mystery</p>
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	<p>shopping” survey results, problems with insurance sales commissions and rates related to bank loans that, due to the Consumer Department’s efforts, now require commission and beneficiary disclosures and conflict of interest as seller and beneficiaries. Following court proceedings affirming ISVAP actions, banks must now show at least three estimates to its client and publish company names and products on its website, making the fair treatment of customers part of their business culture.</p> <p>The Department has requested an onsite inspection of an insurer with approximately 300 claim delay complaints where it was impossible to reach claim department. The inspection showed the insurer outsourced claim handling and there were serious problems; the Department ordered corrections and is still monitoring the situation to ensure that the new claims outsourcing services are appropriate.</p> <p>IVASS requires insurers to quarterly report the number of complaints, the main causes of complaints, the company’s internal analysis of their complaint handling and their report to their Board of Directors on that issue. The Board of Directors must also report proposed corrective measures and the Consumer Protection Department assesses the Board’s effectiveness in complaint situations.</p> <p>IVASS sends letters to Boards of Directors on root complaints seeking to modify practices to assure fair treatment of consumers. In 2012, the Consumer Protection Department sent five letters to specific companies to rectify specific matters to assure fair treatment for consumers. The Department also sent two letters to the entire market and posted the letters on the IVASS website, first to assure that insurers: (i) apply the premiums as quoted on the IVASS free service quotation service on the IVASS website, set up in 2009, where all companies must participate and must sell at quoted price; and, (ii) fraud in insurance sector involving “ghost” claims in which insurers failed to fully investigate and improperly paid phony claims and then charged policyholder higher premiums as a result. Another case involved a foreign insurer and misleading website information on website, the Department sent a letter to a foreign insurer to come and discuss the matter and followed up to ensure proper changes.</p> <p>The Consumer Protection Department oversees telemarketing activities (Regulation 34/2010) implementing disclosure requirements and special</p>
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		<p>information must be on the insurer's website; whereas, there is no requirement to record the telephone conversation, insurers generally do so. IVASS has a consumer price comparison tool for motor vehicle insurance on its website that provides cost estimates for motor vehicle insurance. In 2011, approximately 61.500 consumers signed up and insurers issued approximately 126.000 estimates. IVASS monitored the process and imposed sanctions when insurers failed to honor the prices quoted in the estimates.</p> <p>EIOPA is considering guidelines on complaint handling and IVASS participates in these and other EIOPA activities, contributing approximately a dozen employees to EIOPA support activities.</p> <p>Currently there is no ombudsman requirement for the industry and although the Department can investigate and fine a company for violations, it cannot require a company to pay a claim of any amount. IVASS can use the opportunity under the current transition to consider introducing alternative dispute resolutions schemes for insurance.</p>
20. Public Disclosure	Largely Observed	<p>IVASS requires the timely disclosure of significant financial and business activities and performance information to assess the undertaking's financial position, performance (by underwriting/investment activities and line of business), business activities and risks, together with a description of the valuation principles applied at the solo and group level. Solo entities use Italian GAAP with regulatory reporting enhancements and IFRS consolidated financial statement reporting is required for group entities.</p> <p>IVASS is preparing for Solvency II implementation and recognizes the additional public disclosures that will be required; however, IVASS anticipates a good alignment with current disclosure requirements on market consistent valuation and narrative reporting.</p> <p>IVASS Regulations 7/2007 and 22/2008 adequately set for the requirements for disclosure of notes on accounts, management report, report of statutory auditors, report of external auditors, assets covering technical provisions, with-profit contracts (IVASS Regulation 38/2011) and other further disclosures as required.</p> <p>Considering the anti-crisis measures, IVASS requires 3 main disclosures of the special reserve due to the financial crisis. Undertakings must disclose: (i) the criteria used to value the government bond; (ii) provide templates to compare book value and market value to</p>

	<p>demonstrate potential losses; and, (iii) the amount of reserve that is unavailable for distribution to shareholders and finally, undertakings must also show the benefit from utilizing this measure. Undertakings are required to report on asset and liability matching/management and must report expected returns. IVASS publishes the effects of the anti-crisis measures on its website and in its annual report on an aggregate basis.</p> <p>The undertaking’s annual publications include general purpose financial statements, the external auditor report and the report of appointed actuary and the corporate governance, risk management and internal controls reports are summarized in the management report to IVASS but not are published. IVASS does not verify the accuracy of those statements against reported data; however, the undertaking must verify the accuracy of those statements and is otherwise subject to criminal penalties for false statements</p> <p>Disclosure of technical provisions and methodologies, future cash flow assumptions, the rationale for the choice of discount rates, and risk adjustment methodology where used, are described in narrative way in notes at both the solo and group level. Undertakings use IVASS templates for reporting and publish disclosure of technical provisions by line of business (including IBNR reporting in notes on accounts), which are updated annually and semi-annually as appropriate, and are available in the statistical data section of the IVASS website. Following Italy proposal, claim development disclosures will be included under Solvency II requirements.</p> <p>IVASS requires annual publication of detailed capital adequacy and solvency margin disclosures at the solo and group level (with some semi-annual reporting required for listed companies) and, as a consumer protection measure, undertakings must provide consumers with an adequate explanation of solvency margin calculations. IVASS publishes a solvency index, by life and non-life companies on aggregate basis, on its website and in its annual report.</p> <p>IVASS utilizes templates for solo and group level reporting of financial instruments and investments by class that are IFRS compliant and include qualitative and quantitative information with sufficient detail and granularity to assess asset composition and net investment income.</p> <p>Disclosures on capital and risk management/objectives</p>
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		<p>are more extensive at the group level and are included in the required corporate governance, risk management and internal controls reporting (Law 58/1998, Article 123; Regulation 20/2008).</p> <p>IVASS has developed over 40 templates for reporting total and segmented financial performance at the solo and group level that include general, technical and investment performance indicators for life and non-life business. Individual IVASS staff members utilize Bloomberg reports and perform all analysis and asset valuations for the undertakings assigned to that particular staff analyst for review; however, there is no cross-checking or centralized methodology or repository for asset valuation to assure consistency and accuracy of asset valuations for all undertakings. To ensure that particular assets are valued in the same way for all insurers, it is recommended that IVASS implement a centralized system of asset valuation to assure consistency and accuracy of asset valuations.</p> <p>Management reports at the solo and group level include reporting on business performance, material risk exposures and the undertaking's view of business development, portfolio changes, claims frequency and reinsurance arrangements. It is recommended that IVASS require the disclosure of stress testing results and other sensitivity analysis that insurers perform also at solo level, following IFRS7. The solvency position of the undertaking is disclosed at the point of sale. This practice is commendable.</p>
21. Countering Fraud in Insurance	Largely Observed	<p>The Insurance Code and Regulations, particularly those enacted last year, provide the authority for IVASS to take action to deter and prevent fraud in the insurance sector. IVASS regulations imposing good repute requirements on insurers and intermediaries (Article 68, 76, 110; Regulations 5/2006 &amp; 10/2008). Insurers' Board of Directors has ultimate responsibility to ensure internal controls that include fraud prevention (Regulation 20/2008). IVASS established a Claims Data Bank requiring insurers to report all fraudulent claim activity (Article 135; Regulation 31/2009). The Regulation imposes reporting parameters and allows insurers to delay claim payments 30 days to investigate potential fraud. Motor vehicle liability constitutes approximately 75 percent of the non-life market and the Anti-Fraud Division focuses on this area.</p> <p>Penal Code 642 imposes criminal penalties for insurance fraud and fraudulent insurance contracts can be declared void and annulled. (Civil Code 1892).</p>

	<p>IVASS created an Anti-Fraud Division last year and expects to issue its first report on 2012 data in early 2013. The industry has published general fraud information in the past and, with the enhanced Claims Data Bank reporting, more information will now be available to enhance anti-fraud activity. Because the antifraud reporting requirements were only recently enacted in 2012 (Regulation 44), the effectiveness of these measures is not yet known. The Division keeps records on who accesses the Claims Data Bank (insurers and authorities— intermediaries cannot access the Data Bank) and verifies insurer reporting to the Data Bank. The Division has conducted onsite inspections to ensure that companies have internal controls in place and that they are monitoring suspicious claims and to review the nature and frequency of companies' anti-fraud activities and claim settlement practices. The Anti-Fraud Division checks the Claims Data Bank every two months to ensure companies are accurately using the Data Bank as required under the new Regulation 44/2012. At this stage, the Anti-Fraud Division activities appear focused on monitoring the quality of the data in the Claims Data Bank and insurer's anti-fraud activities rather than proactively engaged in combating fraud and active fraud prevention. IVASS should implement specialized training for fraud division staff members to enhance the quality of fraud prevention activities. A proactive approach with increased inspections is recommended.</p> <p>The Anti-Fraud Division has not received any inquiries or investigation referrals from the Supervision Division during the past year.</p> <p>IVASS exchanges information with other police, national &amp; judicial authorities and those authorities can have access to Claims Data Bank information. Law 179/2012 and 221/2012 expanded motor vehicle liability anti-fraud activity and enlarged the IVASS Data Bank to include other databanks and works with judicial authorities, which also provide information to IVASS. Italy's Motor Vehicle Registration Division is not required to check with IVASS to verify insurance before issuing a motor vehicle registration.</p> <p>Internal fraud against insurers by their own employees is part of IVASS's internal controls inspections and the insurer's annual report includes an obligation to report anti-fraud activities which should alert the Anti-Fraud Division to irregularities and suspected fraudulent activities in an insurer's operations</p> <p>The enhanced web accessibility of the Claims Data</p>
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<p>22. Anti-Money Laundering and Combating the Financing of Terrorism</p>	<p>Largely Observed</p>	<p>Regulation 41/2012 requires insurers to implement explicit anti-money laundering and counter terrorist financing controls. Delay in establishing this new IVASS regulation following the 2005 FSAP (Italian legislation foresaw, in 2007, that ISVAP enact regulation on these matters) was due in part to working with Bank of Italy to ensure regulatory alignment with Bank of Italy legislation. The IVASS Inspection and Anti-Fraud Division is responsible for AML/CTF oversight and enforcement.</p> <p>The IVASS Inspection and Anti-Fraud Division has only conducted one AML/CTF inspection since enactment of Regulation 41/2012. In the past, it has used existing regulatory authority (Regulation 20/2008) in prior inspections of internal control system. Enactment of Regulation 41/2012 clarified the Anti-Fraud Division practices that were already in effect before the enactment. Companies must now have a designated AML function and designate the person in charge of AML activities. However the implementation of this requirement has not been supervised yet. It is recommended that the anti-fraud division provide specific AML/CTF training for its staff and promptly initiate focused AML/CTF inspections. Communication with industry on expectations and requirements under the new regulation is recommended.</p> <p>Required intermediary recording procedures would provide records for transactions, thereby providing IVASS with the opportunity for greater oversight over improper transactions although IVASS cannot directly receive and collect suspicious transaction reports (Law 231/2007 (art. 41). With the enactment of Regulation 41/2012, IVASS has the authority over intermediaries in this regard, but IVASS has not conducted any onsite inspections of intermediaries in this area.</p> <p>The IVASS Inspection and Anti-Fraud Divisions has 16 staff members; 10 staff members normally handle inspections, but those 10 staff members also handle other inspections (claim settlements, anti-fraud, etc.). There are no AML/CTF certifications, but some employees (6) have more experience in AML than others, yet there is no special training of these 6 persons by Bank of Italy or other entities. The Inspection Anti-Fraud Division works with Italy's joint</p>

		<p>financial security committee.</p> <p>Under the EU Directive, AML only applies to life insurers. The assessors recommend applying these requirements to non-life companies because those engaged in AML try to find channel that is less controlled and regulated. Even applying these standards only to the life companies doing business in Italy, the Anti-Fraud Division currently can only do 5 inspections a year, it would take at least 10 years to inspect all companies to whom the law was applicable.</p> <p>The lower number of inspections and followed actions is probably not sufficient for proper supervision of the AML regulation. The assessors recommend IVASS to implement a risk-based approach to prioritize exposures and conduct inspections.</p> <p>Insurers report aggregated AML data to UIF monthly and UIF can order inspections as appropriate. IVASS does not have information on Bank of Italy and UIF activities and IVASS does not get individual company information, but only obtains UIF general data, of the inspections performed and criminal investigation information. IVASS maintains an onsite tool for internal operations data in AML, including indicators for suspicious transactions. The Inspection and Anti-Fraud Division also reviews insurers' intermediary report, but does not maintain specific records on individual companies.</p> <p>On a quarterly basis and on aggregate form insurers and intermediaries should inform IVASS on all suspicious transactions reported and under Protocol 2011, IVASS can request UIF for information on aggregated data reported by each company. (This input will help IVASS to create a risk based approach to AML supervision.</p>
23. Group-wide Supervision	Observed	<p>In addition to legal entity supervision, IVASS has supervisory powers to carry out group-wide supervision through both offsite analysis and onsite inspections (Insurance Code, Articles 213-214), utilizing the common framework of the EU Directive and includes all entities in the group, including non-insurers.</p> <p>IVASS group supervision is flexible to the extent that it includes cooperation with other national authorities (BI, CONSOB, MEF) pursuant to a 2008 collaboration agreement and has a general duty to cooperate with COVIP on pension matters available on the IVASS website. IVASS cooperates with cross-border groups with other involved authorities on group supervision</p>

	<p>matters, formally reviewed annually at a minimum.</p> <p>The Insurance Code (Article 210–211) identifies the scope of group-wide supervision and IVASS activities supplement supervisory activities performed at the solo level, in accordance with the EU Directive.</p> <p>Pursuant to Article 82 of the Insurance Code, IVASS can conduct supervisory review of the parent company of the insurer, holding company of the insurer, insurer subsidiaries and ancillary service entities. IVASS focuses on regulated entities and cooperates with other supervisors to decide the scope of supervision and also uses supervisory colleges to determine the scope of the group supervision. IVASS requires groups to report group structure descriptions on a quarterly basis and accounts for material changes of group structure. IVASS has the authority to order a group to restructure, but has not exercised that power.</p> <p>Currently, there are 33 insurance groups operating in Italy and IVASS has direct supervisory powers over these groups. The scope of group supervision also includes natural persons, but group supervision does not include capital adequacy assessment of natural persons. Insurance groups are listed and regularly updated in the public register and Italian cross-border groups are identified in the EIOPA list.</p> <p>IVASS supervision includes all relevant group entities by considering interconnectedness and appropriate material risk factors.</p> <p>IVASS currently uses the capital requirement from the capital assessment of the group’s home jurisdiction if deemed “comparable” and intends to continue to use the home jurisdiction group capital calculation if the home jurisdiction is deemed “equivalent” under Solvency II. IVASS considers the group’s consolidated balance sheet—using the sum of the capital of the solo entities within the group, without a diversification benefit. In the event of a deficiency, IVASS requests the insurance parent to infuse capital into the insurance entity and if the parent undertaking refuses, IVASS can then prohibit dividend payments up to parent entity. In addition, if assets are held in a country that does not provide transparent information, the group should exclude those assets from solvency calculations.</p> <p>IVASS determination to narrow the scope of the group when there are “legal impediments to obtaining necessary information” from a third country could be problematic if IVASS cannot get information necessary for proper group supervision. It is recommended that</p>
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		<p>IVASS eliminate this exception and take all available steps to obtain the necessary information.</p> <p>IVASS has an effective and efficient group-wide supervision framework to supplement its solo supervision, including the power to conduct offsite analysis and onsite inspections. IVASS cooperates with cross border supervisors and has conducted joint group inspections with other relevant supervisors, including branches and subsidiaries operating in Italy. EIOPA participates in joint inspections and acts as mediator as necessary. IVASS does not currently have any joint inspections plans through a supervisory college.</p> <p>IVASS considers all of the requirements explicitly listed in ICP 23.7 in its group inspections and incorporates those requirements in its group supervision framework, requiring group reporting on capital adequacy, intra-group transactions and risk concentrations, including risk concentrations on reinsurance and shares these considerations with other supervisors in supervisory colleges.</p> <p>Regulations 15/2008 and 20/2008 set forth the appropriate requirements and considerations for IVASS group supervisory activities.</p>
<p>24. Macroprudential Surveillance and Insurance Supervision</p>	<p>Largely Observed</p>	<p>IVASS has access and published a large amount of statistics and market information.</p> <p>The amount of data received and the level of granularity allows IVASS to gain a fair picture of the market and also to analyze trends, and eventually develop or recommend the appropriate macroprudential measures should they be necessary.</p> <p>IVASS vulnerability tool enhancing EIOPA's equivalent tool is praiseworthy. The section on qualitative assessments has been useful to exclude certain type of systemic vulnerabilities in the market.</p> <p>IVASS is recommended to develop an early warning system leveraging from tools recently used by EIOPA/ESRB, like the Risk Dashboard identification by calibrating the different indicators to reflect the current situation of the Italian market.</p> <p>The EIOPA stress test should not be seen as a substitute for the industry wide stress test developed to analyze the resilience of the Italian market as a whole to extreme but plausible macro scenarios. Also reverse stress testing is recommended as further macroprudential surveillance tools.</p>

		<p>IVASS collects monthly data in key areas that allow for close monitoring of the liquidity risk in the insurance sector is commendable. The further development of tools to address systemic risk that could result from the current anti-crisis measures is necessary and a public communications strategy on the anti crisis measures is recommended. Also to be prepared for an acute situation, the development of extreme measures tools, like delayed payment of surrenders or payments in sovereign instruments should be considered.</p> <p>IVASS should remain actively engaged in the international discussions, on the determination of G-SII and start developing the framework to determine and supervise domestic systemic insurers. Not only consideration to the size of the insurers but also connectivity, substitutability should be considered.</p> <p>The new structure of IVASS having a close tie to BoI will benefit IVASS in the development of macroprudential surveillance tools by taking advantage of the long standing experience of BoI in this area. An integrated approach is recommended but with due regard to maintaining the relevance of the insurance sector in the systemic risk discussions.</p>
25. Supervisory Cooperation and Coordination	Observed	<p>IVASS has vast experience in the supervision of crossborder groups and applies international best practice in the setting up and running of supervisory colleges. The first supervisory college was established in 2000. IVASS follows the Helsinki Protocol as well as CEIOPS/EIOPA guidelines that IVASS itself has contributed to develop through its constant and active participation in the CEIOPS/EIOPA works. Current collaboration agreements are in place with countries where over 95 percent of the insurance premium emanates.</p> <p>For all Italian cross-border insurance groups, a college of supervisors was set up and IVASS was appointed as group supervisor. IVASS, in its role of group supervisor, establishes—in cooperation with the other supervisors—the key functions of the colleges and indicates them in the annual work plan. The working plan covers the key supervisory issues like solvency of the group, risk management quality, governance, etc. Combining both a top down and bottom-up approach in particular in some areas, like the supervision of the IGT, IVASS can duly assess the whole group.</p> <p>IVASS has developed and implemented a communication platform that is commended for allowing efficient confidential supervisory relevant</p>

		<p>information sharing among supervisors in a timely manner.</p> <p>Colleges where the members belong to the EU including Switzerland run smoothly. The presence of a non EU participant (excluding Switzerland) in a college has generated operational difficulties related to confidentiality requirements at the EU national level. As the Italian insurers expand into third countries these difficulties need to be overcome.</p> <p>IVASS is recommended to take a leadership role in implementing the required measures to allow for a similar approach to the crossborder supervision that applies to the EU colleges for colleges with the participation of third countries' authorities.</p>
<p>26. Cross-border Cooperation and Coordination on Crisis Management</p>	<p>Largely Observed</p>	<p>Activities on cross-border cooperation is carried out by IVASS mainly within the EIOPA framework and the MoU signed in 2008 for the effective cross-border financial stability cooperation between Ministries of Finance, central banks and other financial sector supervisors.</p> <p>IVASS meets regularly with other relevant supervisors and authorities as part of the CoS (Colleges of Supervisors). These meetings provide the platform for the gathering and dissemination of relevant or essential information in going concern and emergency situations, developing a common understanding of the risk profile of the cross-border insurers, achieving coordination of supervisory review and risk assessment at a Group level as well as establishing supervisory plans for the mitigation of risks. Specific and flexible emergency plans are adopted during the CoS meetings in order to manage the particular issues of a cross-border crisis as well as single insurers.</p> <p>IVASS proactive sharing within the colleges of its detail analysis on the exposure and concentration risk of the Italian insurance groups to sovereign assets is commendable.</p> <p>IVASS together with the other EU supervisors performed a few simulation exercises to assess the ability of prompt reaction in case of emergency of crisis situation mainly by testing the efficiency of the contact points.</p> <p>Italian groups are basically exclusively active in EU based on premium volume, and as such the cross-border cooperation as well as coordination on crisis management are well developed and present less difficulties due to the implementation of the EU</p>

	<p>directives and EIOPA's efforts in this area. For groups that include third countries not much has been done with respect to crisis preparedness. Colleges have not tested crisis simulations beyond EU and there are no resolution plans among cross-border supervisors that involve third countries.</p> <p>IVASS is recommended to develop for relevant third countries similar agreements and procedures currently available for the crossborder crisis preparedness among EU members.</p> <p>IVASS does not require insurers to regularly test their contingency plans nor have they been inspected. It is advised that IVASS should require an annual test of the contingency plans and supervise compliance.</p>
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### Summary of Observance Level

Observed (O)	14
Largely observed (LO)	7
Partly observed (PO)	5
Not Observed (NO)	0
Total	26

## E. Recommendations and the Authorities' Responses

**Table 13. Italy: Recommendations to Improve Observance of ICPs**

Insurance Core Principle	Recommendations
1. Objectives, Powers and Responsibilities of the Supervisor	The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge. Change management and effective Internal communications strategy is recommended.
2. Supervisor	<p>It is recommended that the President and Council exercise the authority to delegate ministerial matters to appropriate Heads of IVASS Divisions to ensure quick efficient operability.</p> <p>The scope and audit detail need to be strengthened, proper resourcing is recommended.</p> <p>The assessors recommend instituting a formal internal quality controls process for supervision and the development of formal supervisory processes that allow for emergency action and cross checking of the activities of each supervisory division to ensure accuracy and consistency in regulatory action.</p>

	<p>IVASS should establish formal procedures and timelines to ensure more expedient regulatory action to protect consumers on timely basis.</p> <p>It is recommended that IVASS develop clear and consistent fundamental procedures for financial analysis supervision that identifies troubled companies and then implement a troubled company task force consisting of employees with significant areas of expertise that would regularly meet and focus on all elements of supervision of nationally significant troubled companies, to ensure the exercise of prompt and efficient regulatory action.</p> <p>New regulatory requirements and obligations resulting from forthcoming changes in EU legislative frameworks, including Solvency II and implementing measures, will have heavy staffing and budget impacts, thus consideration should be made to limit cross budget support practices.</p>
3. Information Exchange and Confidentiality Requirements	Article 10.8 requirement for reciprocity agreements might prevent IVASS from obtaining the necessary supervisory information in a given case and IVASS may consider taking appropriate action to recommend modify that requirement from primary law.
4. Licensing	None
5. Suitability of Persons	IVASS should take steps to enact regulations to ensure that actuaries and other professionals are prohibited from working in the industry in the event of adverse suitability findings.
6. Changes in Control and Portfolio Transfers	None
7. Corporate Governance	IVASS should regularly evaluate the Board Members for quality of performance of their duties.
8. Risk Management and Internal Controls	To make the performance checklist effective, the ability to sanction the board for poor performance in the risk oversight is recommended.
9. Supervisory Review and Reporting	<p>IVASS should consider developing specialized staff expertise in specific supervision areas (financial analysis, inspection expert, governance and enterprise risk management expertise, etc.) to drill down into the specific details of specified areas of supervisory responsibilities.</p> <p>It is recommended that IVASS establish formal processes across both divisions that set forth trigger points and specific ladders of intervention to ensure consistent and expedient regulatory action.</p> <p>IVASS should implement internal quality controls and adopt formal communication and peer review processes that ensure accuracy and consistency in offsite analysis and onsite inspections, particularly for nationally significant companies.</p> <p>IVASS should develop guidelines along with a centralized asset valuation process to ensure that all staff members conduct the</p>

	same valuation.
10. Preventive and Corrective Measures	It is recommended IVASS consider enhancing the regulations to add specificity to the ladder of intervention tools (new business restrictions, freezing assets, imposing liquidity requirements, reducing exposure limits, increased solvency margin, and recovery plans with specified timelines.
11. Enforcement	<p>It is recommended that legislation be amended to explicitly enable IVASS to restrict or suspend dividends or other payments to shareholders, when such payments would jeopardize the undertaking's solvency</p> <p>IVASS should consider legislative proposals to increase and restructure the fine and penalties for certain offenses.</p> <p>IVASS can remove or restrict Board members, but does not have the power to impose sanctions on Board members individually, sanctions are only imposed against the undertaking. It is recommended to allow for individual pecuniary sanctions in the Insurance Code.</p>
12. Winding-up and Exit from the Market	The assessors recommend instituting procedures to expedite payments to policyholders during the resolution process, either by partial distributions or setting timeframe deadlines for payments to policyholders.
13. Reinsurance and Other Forms of Risk Transfer	<p>IVASS should evaluate the market need for securitization of insurance risk and if necessary draft appropriate regulation.</p> <p>To enhance transparency of reinsurance treaties, a mandatory treaty clause stating the completeness of the reinsurance treaty and thus avoiding the use of side letters is recommended.</p> <p>Reinsurance credit currently follows the static and not risk sensitive Solvency I rules. A more risk sensitive approach is recommended that takes the credit worthiness of reinsurers into account.</p> <p>Consider monitoring the total exposure to individual reinsures of major risks.</p>
14. Valuation	<p>Current valuation methods, excluding the anti-crisis measures appear, as a whole, to be prudent. However, due to the lack of transparency in the determination of the margins, its regulatory usefulness is doubtful. The implementation of Solvency II is recommended to gain clarity on the resilience assessment of the insurers.</p> <p>In the mean time for the purpose of transparency and consistency in the market, IVASS should provide guidance on the expected level of prudence that need to be applied. This should be done at a high level by stating for instance confidence levels or requirements on the stochastic models to be used.</p>
15. Investment	None
16. Enterprise Risk Management for	None

Solvency Purposes	
17. Capital Adequacy	<p>Implementation of Solvency II framework will allow the observance of this principle. The swift implementation of Solvency II is recommended.</p> <p>IVASS is recommended to maintain the resources and focus in the approval work of internal models to avoid possible deficiencies in the capital determination emanating from the use of internal models under Solvency II.</p>
18. Intermediaries	<p>IVASS is recommended to devote sufficient attention to the establishment of this new institution in particular to proper governance, adequate systems and bylaws having due regard to the particularities of the insurance intermediation in Italy.</p> <p>IVASS should consider publishing any market-wide notices to intermediaries if the Department discovers problems in certain areas of activity.</p> <p>It is recommended that IVASS re-direct its focus on intermediaries from maintaining the Register to proactive supervision of intermediaries' conduct of business.</p> <p>IVASS should adopt a risk-focused approach and prioritize its inspections of intermediaries, focusing on larger and more problematic intermediaries.</p>
19. Conduct of Business	The creation of alternative resolution scheme is recommended.
20. Public Disclosure	It is recommended that IVASS requires the disclosure of stress testing results and other sensitivity analysis that insurers perform also at solo level following IFRS7.
21. Countering Fraud in Insurance	Considering the new establishment of the anti-fraud division, it is recommended IVASS institute a training program, utilizing police and loss control and prevention courses for staff members to gain specialized knowledge and expertise in fraud prevention and detection.
22. Anti-Money Laundering and Combating the Financing of Terrorism	<p>On a quarterly basis and on aggregate form insurers and intermediaries should inform IVASS on all suspicious transactions reported.</p> <p>AML/CTF training for IVASS staff working in this area is recommended.</p>
23. Group-Wide Supervision	None
24. Macroprudential Surveillance and Insurance Supervision	<p>IVASS is recommended to develop an early warning system leveraging from tools recently used by EIOPA/ESRB, like the Risk Dashboard identification by calibrating the different indicators to reflect the current situation of the Italian market.</p> <p>The EIOPA stress test should not be seen as a substitute for the industry wide stress test developed to analyse the resilience of the Italian market as a whole to extreme but plausible macro scenarios.</p>

	<p>Also reverse stress testing is recommended as further macroprudential surveillance tools.</p> <p>The further development of tools to address systemic risk that could result from the current anti-crisis measures need to be developed, like delayed payment of surrenders or payments in sovereign instruments should be considered and a public communications strategy on the anti crisis measures is recommended.</p> <p>IVASS should remain actively engaged in the international discussions, on the determination of G-SII and start developing the framework to determine and supervise domestic systemic insurers. Not only giving consideration to the size of the insurers but also connectivity, substitutability should be considered.</p> <p>IVASS participation in national stability board should continue with a strong voice on insurance risks.</p>
25. Supervisory Cooperation and Coordination	IVASS is recommended to take a leadership role in implementing the required measures to allow for a similar approach to the crossborder supervision that applies to the EU colleges for colleges with the participation of third countries' authorities.
26. Cross-Border Cooperation and Coordination on Crisis Management	<p>IVASS is recommended to develop for relevant third countries similar agreements and procedures currently available for the crossborder crisis preparedness among EU members.</p> <p>It is advised that IVASS should require an annual test of the contingency plans and supervise compliance.</p>

**55. IVASS acknowledges issues highlighted by FSAP as well as recommendations thereto and is firmly committed to take necessary actions to improve quality and quantity of its own activity.** These results will be sought by exploiting synergies with the consolidated experience in supervisory activity and with technical structures of Bank of Italy, as envisaged in IVASS's establishing law 135/2012. Synergies with Bank of Italy will be sought at first in main areas of on-site inspections, procedural settings and support for IT handle of data and analysis. Moreover, we would like to underline a couple of points: i) notwithstanding our generalist organizational setting, specialization of resources is taken into account in practice when carrying out supervisory activity, both on-site and off-site, in order to involve knowledge and skills appropriate to issues under scrutiny; ii) concerning the need for more detailed procedures underpinning supervisory actions as highlighted by the FSAP, it is to be noted that, where the Italian insurance framework is more principle-based, IVASS has developed internal procedures and tools in order to ensure consistency of approach towards supervised entities; this will also be developed for other areas, in order to further improve consistency.

**56. Nevertheless, IVASS wishes to underline that the point in time in which the Assessment took place significantly influenced its results.** The FSAP was carried out in early

January 2013, in the very first days of IVASS, so that the activity and forthcoming organization of the new Authority could not be subject to assessment. Moreover, in 2012 ISVAP had undertaken an internal reorganization meant to rationalize processes and resources in the view of the forthcoming Solvency II regime; however, this reorganization could not fully deploy its intended benefits due to the transformation into IVASS as announced in summer 2012.

## DETAILED ASSESSMENTS

Table 14. Italy: Detailed Assessment of Observance of the Insurance Core Principles	
ICP 1	<p>Objectives, Powers and Responsibilities of the Supervisor</p> <p>The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.</p>
Description	<p>Law 576/1982 originally established ISVAP as the authority responsible for supervising insurance and reinsurance undertakings and intermediaries. Pursuant to Law 135/2012 IVASS took over all the ISVAP powers, functions, objectives and judicial relationships effective January 1, 2013, including regulatory powers, offsite and onsite supervisory powers and sanctioning powers over the insurance sector in Italy.</p> <p>The Insurance Code (Law 209/2005) defines the objectives of supervision, consistent with other Italian corporate law and with various EU laws, including intermediation, reinsurance and international accounting standards directives (Article 8). In particular, the Insurance Code (Article 3) states the purpose of supervision is: the sound and prudent management of insurance and reinsurance undertakings and transparency and fairness in the behavior of undertakings, intermediaries and the other insurance market participants with regard to stability, efficiency, competitiveness and the smooth operation of the insurance system, to the protection of policyholders and of those entitled to insurance benefits as well as to consumer information and protection.</p> <p>Under the Insurance Code, IVASS is responsible for the supervision of:</p> <ul style="list-style-type: none"> <li>• undertakings, however named and established, that exercise in the Italian territory insurance or reinsurance activity in any class and in any form, or capital redemption operations and management of group pension funds that effect payments on death or survival or in the event of discontinuance or curtailment of activity;</li> <li>• insurance groups and financial conglomerates, which include insurance and reinsurance undertakings, in compliance with the specific applicable rules;</li> <li>• subjects, entities and organizations which, in any form, perform functions partly included in the operational cycle of insurance or reinsurance undertakings, limited to insurance and reinsurance profiles;</li> <li>• insurance and reinsurance intermediaries, insurance loss adjusters and any other insurance market participant.</li> </ul> <p>The Insurance Code (Article 5) provides IVASS with the power to carry out functions of supervision over the insurance sector by exercising its powers of:</p> <ul style="list-style-type: none"> <li>• Enabling—such as granting authorization to undertakings, to proposed owners of undertakings and licensing of intermediaries through registration of insurance and reinsurance intermediaries;</li> <li>• Prescriptive—such as requiring data and information, or ordering some actions to make supervised entities comply with laws and regulations;</li> <li>• Investigative—conducting offsite analysis, including market analysis, and onsite inspections;</li> <li>• Protective—such as requests for reorganization or recovery plans or adoption of policyholder protection measures;</li> <li>• Repressive—such as adoption of sanctions, cancellation of intermediaries from register,</li> </ul>

	<p>making proposals for extraordinary administration or winding up procedures.</p> <p>IVASS has the power to implement regulations deemed necessary for the sound and prudent management of undertakings and to maintain transparency and fairness in the behavior of supervised entities. IVASS must review regulations every 3 years and provide for public consultation, cost benefit analysis and publication in the Official Journal (Article 191; Law 229/2003). IVASS is required to perform activities necessary to promote an appropriate degree of consumer protection and insurance market development, including complaint handling, statistical and economic surveys and obtaining information on insurance policy lines.</p> <p>IVASS has the power to make proposals to Parliament and the Government for modification of laws, regulations and general administrative acts regarding the pursuit of insurance activity (Law 576/1982).</p> <p>IVASS has the powers to enforce the Insurance Code provisions, take regulatory action and impose fines and penalties against insurance entities and intermediaries as may be appropriate (Articles 305-331).</p> <p>When IVASS became applicable January 1, 2013, full supervision on loss adjusters, including the keeping of their Register, as well as the management of the Information Centre for motor insurance liability was transferred to CONSAP Spa—Concessionaire for public insurance services.</p> <p>When IVASS determines the need for extraordinary administration, dissolution, or the withdrawal of authorization to carry out insurance activity of an undertaking, IVASS makes a proposal for such action and refers the matter to the Ministry of Economic Development (Production Activities) for further handling and supervision pursuant to Articles 231 and 242 of the Insurance Code.</p>
<p>Assessment</p>	<p>Observed</p>
<p>Comments</p>	<p>IVASS is the authority responsible for the supervision of the insurance sector in Italy. The law defines the objectives of supervision as: the prudent management of insurance and reinsurance undertakings, transparency and fairness in the behavior of undertakings, intermediaries and the other insurance market participants, with regard to stability, efficiency, competitiveness and the smooth operation of the insurance system, to the protection of policyholders and of those entitled to insurance benefits and protection.</p> <p>IVASS publishes registrations of undertakings and intermediaries on its website and publishes its regulations in the Official Journal. To maintain fairness for consumers, IVASS requires intermediaries to fulfill a list of basic disclosure requirements for the sale of insurance products to consumers.</p> <p>IVASS coordinates regulatory activities with other national regulatory authorities when the nature of insurance products overlaps with other financial products subject to supervision by the Ministry of Finance CONSOB, COVIP and the Antitrust Authority. The authorities developed interlocking directories and a common data platform for the authorities to share data on key persons to avoid duplicative roles and functions that might create conflicts of interest or other regulatory concerns.</p> <p>IVASS has independent power to propose changes in legislation and regulation and, in the past, ISVAP made use of such power and Parliament adopted ISVAP suggested legislative changes in Law 27/2012 (so called “liberalization package”) and Law 179/2012 (so called “measures for the growth”).</p>

	<p>The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge and special attention will be required to address new developments in insurance regulation, particularly with the advent of Solvency II. An internal communications strategy is recommended throughout the transition.</p>
ICP 2	<p>Supervisor</p> <p>The supervisor, in the exercise of its functions and powers: is operationally independent, accountable and transparent; protects confidential information; has appropriate legal protection; has adequate resources; and meets high professional standards.</p>
Description	<p>IVASS took over the supervision of the insurance sector from ISVAP effective January 1, 2013. The President of IVASS also serves as the Director General of the Bank of Italy and is the legal representative of IVASS and Chair of the three person Council (two other Council members appointed for six year terms) responsible for overall IVASS authority and administration. The President and Council members are subject to appointment and removal by the Ministry of Economic Development.</p> <p>The President and Council represent three of the seven members of the Joint Directorate that oversee IVASS and the Bank of Italy. IVASS has 120 days under the new law to adopt a new organizational system under IVASS and is working with Bank of Italy to achieve more cooperation in developing new supervisory processes and structures.</p> <p>The IVASS website identifies the particular responsibilities of the Joint Directorate, the President and Council. The Joint Directorate must approve all IVASS regulations. The President of IVASS approves all IVASS internal activities, supervisory processes and regulatory actions, including licensure, onsite inspections, and sanctions.</p> <p>The organizational chart for IVASS/ISVAP staff currently consists of the President, with six Presidential staff members, four external relations officials, and three legal counselors and Secretary General. The primary IVASS Divisions include 100 Supervisory Division employees divided into two Divisions with 50 employees each. There are 16 staff members in the Anti-Fraud Division, 28 in the Intermediaries Supervisory Division, 39 in the Consumer Protection Division, 23 in the International Division, 26 in Human Resources, 28 in Administrative Services, 16 in IT Services (SOS) and 26 employees in the Coordination Division. With the establishment of IVASS over the next 120 days, these figures and the structure are expected to change.</p> <p>IVASS implements the Insurance Code and Regulations for the insurance sector in line with EU Directives and operates independently from other authorities but is accountable to the Joint Directorate.</p> <p>IVASS employees are public servants and have a duty under the Insurance Code to maintain confidentiality of supervisory information and data regarding its supervisory activity (Article 10) and employees, consultants and experts are bound by professional secrecy obligations. IVASS does not outsource supervisory functions to third parties.</p> <p>The law grants IVASS legal protection and provides coverage for defense for actions taken in good faith and limits liability for damages caused with the performance of their functions only to gross negligence and intentional acts. In particular, Law 262/2005 as amended by Law 303/2006 provides for legal protection of all independent supervisory authorities (including IVASS), their staff and members of their governing bodies. IVASS has legal recourse against individuals in the event of fraud.</p> <p>IVASS has an annual operating budget of approximately EUR 50 million, which is subject to</p>

	<p>national court of auditors review in the manner established for the Bank of Italy. The Council must approve the IVASS proposed budget, after which, IVASS proposes supervisory fees to undertakings and intermediaries to cover budget expenses, based upon premiums, size and costs of supervision considerations.</p> <p>Law 576/1982 originally established an upper limit of 400 staff to ISVAP, which now applies to IVASS. The provisions allow for hiring up to 20 staff members through direct contract, while all other hiring is through a public competition process. IVASS now has the same staff as the former ISVAP, but the new law includes the potential to increase staff resources for insurance supervision by utilizing Bank of Italy resources and personnel.</p> <p>IVASS staff includes skilled professionals with degrees in economics, law and actuarial science and, in many cases, post degree specialist courses. Internal regulations pre-define specific skill requirements for hiring new staff. Staff salaries are generally higher than those of public administration employees, but the salaries are lower than those of other financial supervisory authorities and Law 135/2012 (spending review) placed limitations on IVASS for hiring consultants for specific tasks.</p> <p>In 2008, ISVAP issued a code of conduct establishing rules and ethical standards that apply to decision-making staff and external advisers, including requirements operate with objectivity, transparency and to avoid any situation that could give rise to any conflict of interest.</p> <p>The President directs and oversees the IVASS internal auditing function which verifies: (i) legal and administrative compliance with procedures in achieving regulatory objectives; (ii) efficiency, effectiveness and cost-effectiveness of the various regulatory structures; and, (iii) accounting and administrative reports.</p> <p>The supervisory process is shared between two Supervision Divisions, which are subdivided into four Sections, each with a Section Head, Manager and Team Leader and staff. The supervisory staff member assigned to a particular undertaking handles all aspects of supervision for that undertaking (licensing, monitoring, financial, governance, risk management analysis, etc.). There are no formal processes for periodic and continuing cross communication between the two supervisory divisions on regulatory matters.</p> <p>Each staff member reports to a supervisor up the line and communications are typically handled via email. There are no IVASS manuals or procedural handbooks identifying specific supervisory processes and procedural rules for specific or emergency regulatory action.</p> <p>All aspects of the regulatory process, including all proposed communication to undertakings, requests for information and recommendations for supervisory action are communicated up the chain of command for signature approvals at every management step up to the office of the President before action is taken.</p> <p>There is no internal quality control process, program or task force in the Supervision Division to assure accuracy and consistency in application of regulatory requirements across the two divisions.</p> <p>All regulations are published on the IVASS website; however, there are no IVASS publications of specific supervisory criteria for calibrating the adequacy of technical reserves and permissible parameters for determining reserve technical reserve adequacy. IVASS reviews its regulations at least every three years and issues new regulations as appropriate following public consultation and cost benefit analysis. Supervisory processes for offsite financial reviews and supervisory guidelines for reserves on technical provisions are not specifically disclosed or published.</p> <p>IVASS must annually report its activities to the Government and the Parliament and publishes</p>
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	<p>quarterly Bulletins disclosing the regulations and the circulars issued, sanctions imposed and Antitrust Authority opinions on competition matters. Regulations and general recommendations are published in the Italian Official Journal and other general information is available on the IVASS website.</p> <p>IVASS supervisory actions may be challenged before Italy's administrative justice courts in a two-part process, Lazio Regional Administrative Tribunal (TAR) in the first instance, then Consiglio di Stato, in the event of appeal.</p> <p>IVASS collaborates and exchanges confidential information with the Bank of Italy, CONSOB, the Antitrust Authority, the Communications Authority, COVIP and the Italian Foreign Exchange Office. Confidential information exchanges are also authorized with Minister of Economic Development (Production Activities) and to the two branches of Parliament as appropriate.</p>
Assessment	Partly Observed
Comments	<p>IVASS is a newly established authority (formerly ISVAP) for the supervision of insurance, now operating with the Bank of Italy, under the oversight of the President of IVASS (who also serves as the Director General of the Bank of Italy) and Council of IVASS, who serve with banking regulators in a Joint Directorate responsible for strategic financial and insurance supervision.</p> <p>The Council is in charge of IVASS organization, personnel, budget decisions and IVASS internal matters. The currently published list of Joint Directorate, President and Council responsibilities indicate that virtually all supervisory, inspection and anti-fraud decisions, international relations, consumers, intermediaries and loss adjusters must be approved by the President and Council. The list is comprehensive and includes such ministerial functions as writing letters to insurers for routine documentation for supervisory activity, to invitations to consumer associations to schedule meetings with IVASS staff. Once IVASS is fully organized and structured in the next 120 days, it is recommended that the President and Council exercise the authority to delegate ministerial matters to appropriate Heads of IVASS Divisions. The necessity of having the President sign off on every single ministerial matter from every single IVASS division is burdensome and adds an additional level of bureaucracy that may detract from the substantive matters that should have the President's and Council's complete attention.</p> <p>Internal audit is performed by one staff member that also has other duties. The scope and audit detail need to be strengthened, which will require additional resources.</p> <p>The supervisory process is informal and quality control over the supervisory process is lacking in formal supervisory processes. The two Supervisory Divisions operate separately overseeing the particular companies assigned to each division. There are no regular effective communications, staff meetings or supervisory task forces to assure accuracy and consistency in application of regulatory requirements between the two divisions. There is no established process for emergency supervisory action. All supervisory matters are routinely channeled up the supervisory chain for sign off approval. There is no supervisory process to segregate troubled companies, or companies in financial difficulty for specified enhanced oversight or emergency action. The absence of internal quality controls creates the danger of regulatory gaps and failure to discover a troubled company far enough in advance to take proper regulatory action to avoid the need for extraordinary administration or liquidation.</p> <p>It is recommended that IVASS develop clear and consistent fundamental procedures for financial analysis supervision that identifies troubled companies and then implement a troubled company task force consisting of employees from both supervisory divisions with significant areas of expertise that would regularly meet and focus on all elements of supervision of</p>

	<p>nationally significant troubled companies, to ensure the exercise of prompt and efficient supervisory action.</p> <p>The assessors recommend instituting a formal internal quality controls process for supervision and the development of formal supervisory processes that allow for emergency action and cross checking of the activities of each supervisory division to ensure accuracy and consistency in regulatory action. Industry participants need to have clear direction and transparency on proper methodologies for reserve calculations for technical provisions to ensure consistency and compliance.</p> <p>IVASS employees are public servants subject to confidentiality requirements and there is a penalty of imprisonment for six months to three years for confidentiality violations; IVASS has never had a problem with confidentiality violations.</p> <p>IVASS conducts and encourages staff training in various areas of supervision and provided the assessors with information on all staff training from 2008–2012, which included a number of in-house training seminars, international seminars, EIOPA training and Solvency II implementation training, demonstrating a continuous commitment to staff training in various aspects of supervision.</p> <p>IVASS has the discretion to directly hire up to 5 percent (20 persons) of staff without public competition. This provides IVASS with the availability to have access to specialized skills if needed.</p> <p>IVASS is accountable to the administrative courts for supervisory decisions. ISVAP applied 5,000 administrative sanctions last year, 400 of which were for improper intermediary conduct and 75 of those were challenged. There were 20 other administrative challenges last year involving more complex regulatory issues, so far the administrative justice court has agreed with ISVAP's decisions.</p> <p>While the powers to take immediate action are enacted in regulation, supervisory action suffers delays. There have been a few examples of undue delays requiring several years of ISVAP periodically writing letters, before it finally took action to shut down an unsound operation and notify consumers. While ISVAP's actions were appropriate, the four-year delay was extraordinary and it is recommended that IVASS establish formal procedures and timelines to ensure more expedient regulatory action to protect consumers on timely basis.</p> <p>ISVAP's financial statements are transparent and audited.</p> <p>IVASS management and staff periodically meet with relevant associations and with boards of individual insurers to discuss insurance market and regulatory developments.</p> <p>Parliament has implemented measures requiring IVASS to transfer its budget surplus to support other national authorities, thereby limiting IVASS's financial and human resource capabilities. For 2010, the ISVAP diverted surplus requirement was EUR 2.3 million, for 2011 and 2012 EUR 3.9 million each year and for 2013 EUR 1.7 million surplus will be transferred to fund other authorities. New regulatory requirements and obligations resulting from forthcoming changes in EU legislative frameworks, including Solvency II and implementing measures, will have heavy staffing and budget impacts, thus consideration should be made to limit such cross support practices.</p> <p>Following the financial crisis, Parliament introduced elements of asset evaluation in anti-crisis measures that are not market consistent and deviate from established accounting principles; however, IVASS has maintains regulatory oversight of the insurer's financial position as companies are obliged to disclose all calculations with and without application of the anti-crisis</p>
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	measures and IVASS still has the power to intervene in regulatory solvency situations.
ICP 3	<p>Information Exchange and Confidentiality Requirements</p> <p>The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.</p>
Description	<p>The Insurance Code requires IVASS to maintain strict confidentiality of all information and data relevant to its supervisory activities and collaborates with other relevant supervisors and authorities, subject to confidentiality, purpose and use requirements and reciprocal and equivalent confidentiality obligations (Article 10). IVASS employees, consultants and experts are bound by professional secrecy obligations. IVASS requests for confidential information between supervisors are limited to essential information for the exercise of its statutory duties and are accompanied by a statement of the purpose for the request.</p> <p>IVASS collaborates through the exchange of information with the Bank of Italy, CONSOB (the National Commission for Listed Companies and the Stock Exchange), the Antitrust Authority, the Communications Authority, COVIP (the Supervisory Commission for Pension Funds) and Ufficio italiano dei cambi (the Italian Foreign Exchange Office), and the Financial Intelligence Unit (UIF) and each are required to collaborate with IVASS in order to facilitate the exercise of their respective functions. They may not refuse a request from each other on the grounds of confidentiality.</p> <p>IVASS complies with EU reporting requirements and collaborates with EU authorities by exchanging information with EIOPA and the other European supervisory authorities, the Joint Committee, the ESRB, the institutions of the EU and the supervisory authorities of the individual Member States, in order to facilitate the exercise of their respective functions (Articles 203-207). The information IVASS receives cannot be forwarded to other Italian authorities and third parties without the prior consent of the authority furnishing the information.</p> <p>Within the cooperation agreements and subject to reciprocal and equivalent confidentiality obligations (Article 10.8), IVASS confirms proper purpose on requests from foreign supervisors before releasing information and timely produces the requested information. IVASS may also exchange information with competent non-EU authorities and with administrative or judicial authorities in the framework of winding up or bankruptcy proceedings involving supervised entities in Italy or abroad. IVASS exchanges of information also include appropriate considerations regarding criminal investigations.</p> <p>IVASS cooperation with the supervisory authorities of the other EU Member States and the European Commission include: (i) supervised insurance and reinsurance undertakings and their related financial conglomerates and subsidiaries (Law 142/2005, supplementary supervision of credit institutions, insurance undertakings and investment firms as part of a financial conglomerate); (ii) onsite inspections of insurance or reinsurance branches carrying on business in another EU member state; and, (iii) requests to competent authorities of another EU member state to make inspections or agree upon other arrangements necessary for the exercise of supplementary supervision (Articles 203–207).</p> <p>IVASS may request information, order the production of documents on a regular and ad hoc basis, require actions, perform checks and verifications, and conduct inspections of undertakings (Article 189–190, 214).</p> <p>IVASS conducts offsite and onsite supervision of insurance groups, including inspection of intragroup transactions according to regulation 25/2008. Insurance undertakings transmit data and information required for IVASS supplementary supervision of the undertaking or other</p>

	<p>regulated and unregulated entities that are part of the insurance group (Article 213–214). IVASS may also request competent authorities of another EU member state to make inspections or agree upon other arrangements necessary for the exercise of supplementary supervision (Article 206).</p> <p>IVASS may ask assistance from the competent authorities of another member State to make inspections or agree upon other arrangements to obtain solvency margin information (Articles 205–207).</p> <p>IVASS regularly cooperates with extra-EEA countries and joined other EIOPA members in signing a multilateral MoU with FINMA (Swiss Financial Market Supervisory Authority). IVASS also signed a bilateral MoU on mutual assistance and exchange of information with the Department of Insurance, Financial Institutions &amp; Professional Registration (DIFP) of Missouri, U.S.A. IVASS also has a MoU with the Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU on Cross-border Financial Stability. The MoUs provide a list of contact points to which information or requests for information or assistance should be directed. IVASS is signatory of the IAIS MMoU.</p> <p>IVASS has participated in supervisory colleges since 2000 and has served as Group Supervisor in eight colleges. Before the college meets, IVASS requires advance reporting of relevant information by supervised entities utilizing a Collecting Information Template to collect important information (key business or strategic issues, significant intragroup transactions/exposures, control/risk management/compliance issues and key figures) and group information on several topics (annual results/updates, capital adequacy, intragroup transactions, risk concentration, corporate governance, internal control system and risk management). IVASS utilizes EIOPA action plans (including emergency planning, operational functions, coordination arrangements, etc.) for colleges and other related guidelines for confidential information exchange within colleges and takes part in 22 colleges.</p>
<p>Assessment</p>	<p>Observed</p>
<p>Comments</p>	<p>IVASS exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements (Articles 10; 203–207) and has the power to obtain information, documents and perform inspections from regulated entities (Articles 189–190) and groups and financial conglomerates, including the non-regulated entities within groups (Article 213–214; Regulation 25/2008).</p> <p>IVASS coordinates on-site inspection with other EU member states for supplementary supervision activities (Article 214 &amp; 206).</p> <p>IVASS collaborates and exchanges information with other Italian national authorities (Article 10) and provides data only in aggregated form to other regulatory authorities. IVASS has extensive cooperation activities with supervisory authorities both in the EU and with non-EU jurisdictions and currently has MoUs in place with Swiss authorities (FINMA) and the Missouri Department of Insurance, Financial Institutions and Professional Registration in the U.S. and is signatory of the IAIS MMoU.</p> <p>IVASS maintains an employee code of conduct that should be extended to all staff to further assure confidentiality. Cases were investigated and no breaches have occurred.</p> <p>IVASS employees must declare conflicts of interest and refrain from action as appropriate; there is no public information on IVASS managers net wealth, only salary information is public. IVASS discloses the names and amounts paid to consultants. IVASS internal procedures also protect</p>

	<p>confidentiality, as not all persons can access supervisory information; access is limited as appropriate.</p> <p>IVASS proactively and timely exchanges material and relevant information with other supervisors, pursuant to EIOPA guidelines. IVASS has significant participation in supervisory colleges over the past decade and regularly exchanges information with other participating authorities. Some consultations involve branches and internal models reviews.</p> <p>IVASS has experienced some cooperation problems with particular jurisdictions, some dealing with language and permission difficulties for conducting an investigation. EU branches can perform activities in member states and the home authority has the responsibility to conduct financial stability monitoring. After the request for a joint inspection in a home country jurisdiction was declined, IVASS prohibited the company from conducting sales in Italy. The matter is still under investigation.</p> <p>IVASS cooperated and collaborated with the UIF, judicial and criminal authorities in exchanging information to further the investigation.</p> <p>IVASS has the necessary authority and exercises that authority with appropriate confidentiality protections in exchanging information with relevant supervisors, although the Article 10.8 requirement for reciprocity agreements might prevent IVASS from obtaining the necessary supervisory information in a given case. IVASS may consider taking appropriate and recommend to having that requirement removed from the primary law.</p>
ICP 4	<p>Licensing</p> <p>A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.</p>
Description	<p>The Insurance Code Articles 13–29 (insurance) and Articles 58–61 (reinsurance)) set forth the conditions governing the formal approval requirements for licensing of insurers and reinsurers and specifies the classes of insurance authorized under the Code. The licensing criteria focus on evidence of adequate capital to support a three-year business plan, fit and proper and experienced key personnel, and the existence of proper distribution channels (Regulations 10/2008 and 33/2010).</p> <p>The Insurance Code sets forth the specific licensing requirements, criteria for information and documentation for licensure, permissible forms of corporate structure for domestic insurers (Article 14, stock, mutual, cooperatives), minimum capital requirements (Regulation 10, Articles 5 &amp; 6), residency, scheme of operations (Regulation 10, Article 7), organization and operational and management structure (Regulation 10, Article 10), technical actuarial reports, management and control functions by qualified professionals (suitability provisions for Board, Senior Management and Key Personnel) and other necessary information as required by Regulation. Entities already authorized for one or more life or non-life insurance classes may apply to extend their license to other classes of business and must satisfy those additional requirements and regulations as may be appropriate (Article 15).</p> <p>For undertakings with head offices in Italy, licensed entities intending to sell life, non-life, or both, and accident and health insurance are published in the IVASS Bulletin. IVASS grants authorization for one or more life or non-life classes, covering all the activities falling within those classes. IVASS has separate compliance provisions for insurance and reinsurance undertakings with head office in another EU Member State (Articles 23 &amp; 24, 60 &amp; 61) and for</p>

	<p>insurance and reinsurance undertakings with head offices in a non-EU Member State (Articles 28 &amp; 60), which are subject to reciprocity and equality of treatment provisions for Italian branches operating in those jurisdictions.</p> <p>Undertakings in Italy wishing to establish branches in another EU Member State or third country, must provide IVASS with proper notice and comply with scheme of operations requirements, proof of a qualified authorized agent and distribution channels, and other appropriate documentation, following which, IVASS communicates with the supervisory authority in the other EU Member State as appropriate (Articles 16–19, 22).</p> <p>Undertakings with head office in another EU Member State wishing to set up a branch office in Italy, must comply with the Insurance Code rules (Article 23 for insurers, Article 60 for reinsurers). IVASS must consult with the home supervisor in the case of an EU insurance/banking group or conglomerate wishing to set up a subsidiary in Italy (Article 203) and must provide the European Commission with notice (Article 208).</p> <p>Regulation 10 (insurance) and Regulation 33 (reinsurance) establish procedures for authorization and licensing to conduct insurance and reinsurance business and for the establishment of a Public Register for insurance entities in Italy. Upon application, Regulation 2 establishes the response period in which IVASS must formally inform the undertaking that the procedure has started (for reinsurance undertakings Article 59 and Regulation 33). In the event of an incomplete application (IVASS may require additional information, clarification and documentation), IVASS must inform the undertaking of the deficiencies within 20 days and suspends the authorization process until the information is received. In the event the application is refused, IVASS notifies the undertaking of the reasons for refusal and allows them the opportunity to provide any data or documents necessary to avoid the rejection (Regulation 10, Article 17). IVASS must issue or reject the authorization and provide the undertaking with precise and adequate grounds for the rejection and, within ninety days of submission of the application for authorization along with the documents required (Articles 14.2, 28.7 and 59.2; and Regulations 10 and 33). The undertaking must then send IVASS a certificate attesting its enrolment in the register of companies (Company Law), thereafter IVASS registers the undertaking in the Public Register of insurance undertakings, informs the undertaking thereof and publishes the authorization in its Bulletin and website.</p> <p>EU insurers and reinsurers are allowed to open branches and provide insurance services across borders through a passport system requiring the EU Member State to provide prior notification to IVASS. (Articles 16, 18, 21, 22, 23, 24, 59, 60, 61; Regulations 10 &amp; 3). In order to protect Italian policyholders' interest, IVASS may respond to this prior notification by giving input and recommended conditions for pursuing business in Italy and publish the information on the IVASS website (Article 27).</p>
Assessment	Observed
Comments	<p>The Insurance Code defines insurance activities and classes of insurance business subject to licensure requirements (Articles 1, 2 &amp; 6), prohibits certain insurance activities (Article 12), prohibits and authorizes sanctions, penalties and fines, for unauthorized insurance activities (Articles 305–312), defines permissible legal forms of domestic insurers (Articles 13 &amp; 14), allows for foreign insurers to conduct insurance activities within the jurisdiction (Articles 23, 24, 28, 60 &amp; 61) and allocates the responsibility for licensure to IVASS.</p> <p>The licensing requirements set forth in the Regulations are clear, objective, and public and provide the documentation and timing for completion, undertakings and branches must submit</p>

	<p>for licensure (Regulation 10). Applicants must submit a three-year business plan, verify suitability of persons standards for Senior Management and Key Persons (Article 76; Regulation 20/2008; Ministerial Decree 220/2011 overall harmonization of professional independent and good repute requirements for key person functions), and demonstrate sufficient capital to support the business plan and cover “worst case scenarios,” as may be requested. IVASS application review includes comparison of the proposed plan with existing IVASS data in evaluating the proposed plan. IVASS may request additional information (within 20 days of receipt of application; Regulation 10) and once the application is approved (approval required within 90 days of completed application; Regulation 10), the authorization is published on the IVASS website and in the Public Register. In the event of any uncertainties or conditions, IVASS may issue the license and add supervisory monitoring and request capital infusions during the first three years. In given cases, IVASS instituted particular conditions on the license or merger.</p> <p>IVASS provides the applicant with pre-notice and reasons for refusal (typically because persons are not qualified, business plan is too risky, insufficient capital, etc.), allowing the undertaking to withdraw the application to avoid refusal, if desired. License refusal is an appealable action to the courts.</p> <p>In 2010, ISVAP handled four new authorizations and approximately eight to nine approvals to add new classes or changes of class of insurance business.</p> <p>For non-EU applicants, IVASS applies the same procedures and conditions and also checks with third country regulators to confirm the solvency of the company, fit and proper status of owners, management and key persons and to determine if there are any problems with home authority. IVASS also considers reciprocity for Italian companies in their jurisdiction (Article 208) although the reciprocity requirement is loosely applied, considering situations where comparability is so different or difficult to apply.</p> <p>IVASS maintains follow up on the newly licensed entity (conditions of licensure met, quality of distribution channels, policy pricing, claim settlements, ability to cope with growth, etc.) and the undertaking must submit updates every six months for three years. Inappropriate actions could result in withdrawal or changes to the license as set forth in Regulation 10.</p> <p>IVASS supervision of unauthorized and unlicensed insurance activity relies on fraud complaints from the public. IVASS works with the criminal authorities on cases of abuse and fraud and can intervene when branches act without their proper authority. IVASS provided the assessors with information on a case where IVASS refused to allow the company to initiate new business in Italy due to lack of cooperation and information from the home authority.</p> <p>IVASS also indicated a number of cases of unlicensed activity in Italy, most prevalent in the motor vehicle sector. IVASS refers such cases to the police and criminal authorities and provides public notice on its website. If the police suspect illegal insurance activities, it reports the matter to IVASS for validity verification.</p> <p>Under the EU passport system, the EU member authority advises IVASS of company’s intent to pursue insurance activity in Italy and provides specific information on the undertaking. IVASS can ask for more information from the home country, if necessary and IVASS experience has shown the need to do so in third party liability/guarantee and surety situations.</p>
ICP 5	<p>Suitability of Persons</p> <p>The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfill their respective roles.</p>

<p>Description</p>	<p>The Insurance Code requires Management and Supervisory Board Members, Senior Management (Article 76), and Significant Owners (Article 77) of an insurance undertaking to be suitable for their roles. Persons charged with administration, management and control functions in the insurance and reinsurance undertakings must meet the professional, good repute and independence requirements established with Ministerial Decree 220/2011. Regulation 20/2008 lists the requirements for the responsible officers of the key functions within the insurance undertaking, such as internal auditing and compliance, specific competence and professional skills to perform their activity. Recent updates to Regulation 20 require undertakings to confirm continued suitability in their annual reporting to IVASS.</p> <p>The insurer’s Board of Directors, supervisory committee or management board must declare disqualification within thirty days of the appointment, or of the date when it has become aware of disqualification. If said boards fail to act, IVASS can declare the disqualification and order the removal (Regulation 42).</p> <p>The professional, good repute, independence requirements also apply also to the general representative of non-EU branches operating in Italy and to the general representatives of Italian undertakings in other EU Member States and to those who hold directly or indirectly significant participations in reinsurance undertakings. A criminal history, as specified in the Regulations, may be a disqualifying factor and undertakings have a duty to report any changes or findings in this regard.</p> <p>IVASS verifies the suitability of Board members, Senior management, control functions and significant owners that are not Italian citizens through exchange of information with other authorities. Moreover, IVASS carries out exchange of information with other authorities with reference to the undertakings belonging to a financial conglomerate (inside its jurisdiction, e.g. the Bank of Italy) and exchange of information with foreign authorities to assess the suitability of a Significant Owner that is a legal person, or a corporate entity regulated in another jurisdiction.</p> <p>Fit and proper requirements are harmonized for the whole financial sector.</p>
<p>Assessment</p>	<p>Largely Observed</p>
<p>Comments</p>	<p>The Insurance Code requires Board of Directors members, Senior Management and Significant Owners of an insurance undertaking to be suitable for the role (Articles 76 &amp; 77; Ministerial Decree 220/2011) and IVASS has the express authority to disqualify and remove these individuals (and effectively prevent them from serving in another insurance undertaking) if the undertaking fails to do so upon finding grounds for disqualification. In addition, Regulation 20/2008 requires for the responsible officers of the key functions within the insurance, such as internal auditing and compliance, specific competence and professional skills to perform their activity.</p> <p>IVASS can ask a company to remove the appointed actuary by first notifying the actuary and company of the problem or breach of regulation. If IVASS is not convinced of compliance, it can remove the actuary and Board of Directors, if necessary. Upon receiving IVASS notice, the actuary usually resigns, because if the actuary is removed, he/she cannot work as an actuary for a period of five years; resignation avoids this problem for the actuary and still allows the actuary to work elsewhere. This regulatory gap presents a serious problem for IVASS and the industry. IVASS should take steps to enact regulations to ensure that actuaries and other professionals are prohibited from working in the industry in the event of adverse suitability findings.</p> <p>IVASS works closely with CONSOB and advises of auditor breach, CONSOB conducts the</p>

	evaluation and has the authority to remove auditors as appropriate.
ICP 6	<p>Changes in Control and Portfolio Transfers</p> <p>Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.</p>
Description	<p>The Insurance Code (Articles 68–70, 72–73, as amended by Law 21/2010 which implemented EU rules) requires IVASS prior approval and advance authorization for any acquisition, on any basis whatsoever, of controlling interest, beneficial ownership, or significant influence in an insurance or reinsurance undertaking, or conferring a proportion of the voting rights, or acquisition of capital at least equal to 10 percent, after taking into account the shares already owned. Undertakings must obtain prior authorization for changes in holdings whenever the proportion of the voting rights, or of the capital, reaches or exceeds 20, 30, or 50 percent and, at any time, when such changes transfer or convey control of the insurance or reinsurance undertaking (Article 168, 198-202; Regulation 14).</p> <p>Prior approval is also required for holdings proposing to act in concert, pursuant to agreement, when the participation taken together exceeds these specified parameters. The Insurance Code requires appropriate ex-post IVASS notification from insurers in the case of a significant increase/decrease below the predetermined control levels (Article 69). Circular letter 251/1995 also applies and requires notice to IVASS of increasing or decreasing ownership participation of 5 percent. IVASS may require conditions that ensure the sound and prudent management of undertakings without undue prejudice to policyholders (Articles 68 &amp; 75).</p> <p>IVASS may suspend or withdraw authorization based upon material changes or events (undue prejudice, conflicts of interest) and must provide the applicant and undertaking with the precise grounds for doing so and then publish the findings in the IVASS Bulletin (Article 68).</p> <p>IVASS procedures are also published in its Bulletin and IVASS applies the requirements of Regulation 14 (portfolio transfers and extraordinary operations), Regulation 35, Article 20 (agency transfer and extraordinary operation), and Regulation 33, Articles 105–115 (portfolio transfers for reinsurers) and Regulation 33, Articles 116–126 (mergers for reinsurers). IVASS may request information and require production of documents from undertakings, managers and directors to verify all financial interrelationships between insurance and reinsurance undertakings and their parent companies, subsidiaries and affiliated companies. IVASS looks for assurance that: (i) sound and prudent management of the insurance or reinsurance undertaking is met; (ii) the potential purchaser and those persons involved in the administration, management and control functions meet fit and proper requirements (Articles 76 &amp; 77; EU Directive 44/2007); (iii) the financial soundness of the proposed acquisition and the possible impact on policyholder protection is appropriate; (iv) the undertaking's ability, after the acquisition, to comply with the provisions regulating its activity; and, (v) the suitability of the group structure of the potential purchaser to allow for effective exercise of supervision, in case there are reasonable grounds for suspecting that the acquisition is connected with activities related to money laundering and/or the financing of terrorism.</p> <p>The Insurance Code (Article 72) broadly defines the term “control” over an insurer and specifies a list of conditions, the existence of any of which establishes “control” over an undertaking. Article 2359 (1 and 2) of the Italian Civil Code also defines control in cases of contracts or provisions in the company’s memorandum or articles of association whose object or effect is</p>

	<p>the power to perform management and coordination activities.</p> <p>IVASS cooperates with foreign competent authorities regarding acquisition or changes of control, specifically for the assessment of the requirements of (foreign) significant owners. The Insurance Code (Article 68) requires full cross-sector consultation with other competent authorities (following EU cross-sector guidelines) where the potential purchaser is a bank, an investment firm or a management company authorized in Italy, or one of the subjects referred to in Article 204 and applies the same rules to a proposed acquisition from a non-EU country. In instances where a non-EU country does not ensure reciprocity, IVASS informs the Ministry of Economic Development of the application for acquisition and upon the Ministry's recommendation, the President of the Council has 30 days from the date of the communication to prohibit granting the authorization. Regulation 14/2008 specifies procedures (verifications, capital adequacy, financial sustainability, coordination with supervisory authorities, etc.) for portfolio transfers for undertakings with a head office in Italy to undertakings in another EU Member State and third country. Authorized portfolio transfers do not terminate policyholder's insurance contracts in the event of a transfer, but policyholders have the option to terminate their contracts within sixty days of IVASS publication of the transfer (Article 168).</p> <p>IVASS utilizes the same evaluation criteria for control acquisitions (Article 68) as used for new license applications (i.e., suitability of the purchaser, directors, managers, etc. and financial soundness and financial needs of the purchaser) and assures that the proposed owners have the financial resources to provide the minimum capital required as well as the ability to provide additional capital as needed (Articles 68, 76 &amp; 77).</p> <p>IVASS has the authority to request insurance and reinsurance undertakings (as well as companies and bodies of any nature) that own significant participations in such undertakings, to indicate the names of shareholders in the share register, or otherwise indicated in communications received or inferred from other data (Article 71). IVASS may also: (i) request managers and directors of companies and bodies, holding ownership in insurance and reinsurance undertakings to indicate the identity of controlling subjects; (ii) verify all financial interrelationships between insurance and reinsurance undertakings and their parent companies, subsidiaries and affiliated companies and require that such companies produce information and records and make checks; (iii) request information about the acquisition of ownership and control interest in insurance and reinsurance undertakings from trust companies, stock brokerage companies and others, as necessary.</p> <p>A change of a mutual company to a stock company (or vice versa) requires IVASS approval under the conditions that the changes do not undermine the prudent and sound management of the insurance undertaking (Article 96 and Regulation 14/2008). Notably, there are only three mutual companies currently operating in Italy.</p>
Assessment	Observed
Comments	<p>IVASS approval and advance authorization is required for any significant acquisition in ownership, portfolio transfer or merger, or an interest in an insurer or reinsurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurance undertaking. IVASS regulations govern the particular requirements and IVASS has published clear and objective procedures for proposed acquisition or changes in control.</p> <p>IVASS provides two days notice of potential acquisition and must issue approval with 60 days (or otherwise advice the applicant and undertaking of the precise reasons for refusal), then</p>

	<p>publish the acquisition in the IVASS Bulletin. If company acts without IVASS approval, IVASS has power to freeze the voting rights immediately and impose a short time frame for a required sale. ISVAP has exercised this authority in the past. IVASS consults with the antitrust authority as appropriate.</p> <p>Regulations require assurance of continued sound and prudent management based on specified criteria, including: (i) fit and proper requirements (Article 77; Ministerial Decree 220/2011); (ii) financial statement of purchaser, balance sheet, financial resources, loans, notes, etc. are appropriate and not risky or excessive such that costs of financing won't be detrimental to company (independent actuary evaluation of risks involved in transfer); (iii) conflicts of interest do not undermine the sound management of the insurer; (iv) adequacy of legal structure; and (v) adequacy of supervisory regulation over purchaser.</p> <p>IVASS consults with regulators in other member states (or the Bank of Italy) in proposed acquisition circumstances; in case there is no answer within 60 days, or if a negative report is received, IVASS can reject the transaction and has done so in the past. Reciprocity for Italians seeking acquisitions in third countries is also a consideration.</p> <p>Undertakings must give notice to policyholders advising of the change and must publish portfolio transfer information for 6 months on its website and give policyholders the option to withdraw and cancel their contract. IVASS has posted mergers in its web page in the past.</p>
ICP 7	<p>Corporate Governance</p> <p>The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.</p>
Description	<p>The Italian system of corporate governance is traditionally a two-tier system with a Board of Directors (also defined as "administrative body") and a Board of Statutory Auditors (the "control body"). Regulation 20/2008 imposes specific requirements for an undertaking to annually report on its corporate governance framework and internal control system, risk management and internal auditing procedures with regard both to listed and unlisted insurers, including specific instructions for insurer compliance functions and outsourcing arrangements.</p> <p>Italy's two-tier system requires separation between management functions and control functions (Regulation 20/2008), identifying specific tasks for the Board of Directors (Article 5), for the Board of Statutory Auditors (Article 8), for Senior Management (Article 7), for the internal audit function (Article 15), for the risk management function (Article 21) and for the compliance function (Article 23), considering proportionality principles, and ensuring adequate separation and independence between the company's operational and control functions.</p> <p>Regulation 20/2008 includes specific provisions regarding the roles and responsibilities of the Board of Directors (enhanced monitoring, contingency arrangements and self-assessment activities) and Senior Management and the effectiveness of the internal control system and the control functions (internal audit, risk management and compliance). According to TUF (Consolidated Financial Law), the Board of Directors of listed companies must include independent members (although owners can serve on the Board). Regulation 20/2008 ensures that the insurer's risk management system identifies, assesses and controls the insurer's risk management system identifies, assesses and controls the insurer's most significant risks, including non-compliance risks, by conducting annual reviews of their risk management and internal controls systems, all in accordance with appropriate proportionality principles</p>

	<p>(Regulation 20/2008, Articles 5, 15–20).</p> <p>Regulation 39/2011 requires monitoring on remuneration policies regarding members of the Board of Directors, Senior Management and key persons in control functions and to all personnel involved in risk taking, to ensure that such practices promote sound risk management and prevent conflicts of interests. The Board’s remuneration policies require approval from the insurer’s general meeting upon report from the Board to allow for an informed decision and insurers are required to conduct a self-assessment of the undertaking’s compliance with Regulation 39/2011.</p> <p>The Regulation added annual reporting requirements on the composition and functioning of the Board of Directors and its committees and conflicts of interest handling. Under the Italian Civil Code, members of the Board must ensure independence and disclose any situation from which a conflict of interest could arise and refrain from any action that might create a conflict of interest (Ministerial Decree 220/2011). Moreover, Law 201/2011 (Article 36) prohibits Board members from anticipating on Boards of competitors in order to further eliminate conflicts of antitrust law violations. The authorities maintain an interlocking directory of key persons and their board and management positions to allow for authorities’ anti-trust law possible infringements.</p> <p>The Board of Directors is responsible for matters delegated to committees and Senior Management and must ensure the existence and adequacy of a formal decision-making process, along with a system of delegation of powers and responsibilities that avoids excessive concentration in any person or persons within the undertaking (Regulation 20/2008).</p> <p>The Board of Statutory Auditors consists of three to five members, who must satisfy professional requirements and are prohibited from participating in conflict of interest situations. General Italian law defines professional independence requirements and restrictions for statutory auditor board members. A least one-third of the statutory auditors must be qualified (public examination and specified qualifications) and registered in Registry of Auditors maintained by the Ministry of Finance. The Board of Statutory Authority is required to advise the Board of Directors on any organizational faults or weaknesses and system of internal controls, and urges appropriate corrective measures.</p> <p>Regulation 20/2008 (Article 12.3) also requires reporting to third parties, authorities, policyholders and the market. Undertakings must possess accounting and management information that guarantees adequate decision-making processes and allows evaluation and assessment on whether the insurer has achieved its strategic objectives. Senior management is required to ensure that the Board of Directors has all factual and relevant company information through a thorough and adequate reporting system. For groups, the parent undertaking must provide sufficient integrated accounting information to assure reliability of the registered items on a consolidated basis (Article 27.2 b).</p> <p>The Consolidated Act on Finance (Article 123) requires listed companies to report and publish information on corporate governance and ownership structure, including independent auditor verification. ISVAP’s November 2012 Regulation 20/2008 amendments extend the requirement to draft the report to non-listed companies as well, however, the report is not public for non-listed companies.</p> <p>The Insurance Code requires annual corporate governance reporting and conducts onsite inspections to verify corporate governance activities and periodically, in accordance with an IVASS operational guide, requires production of data, information and documentation necessary for the supervisor to assess the undertakings’ internal governance activities (Articles</p>
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	189–190).
Assessment	Observed
Comments	<p>Italy's two-tier system of corporate governance requires undertakings to establish and implement a corporate governance framework, including a Board of Directors and Board of Statutory Auditors with independence requirements for both Boards. Recent enhancements to Regulation 20/2008 include specific instructions for compliance standards and identify the roles and responsibilities related to these Board functions.</p> <p>Regulation 39/2011 governing remuneration policies, includes a "fairness to customers" consideration, to the extent that the regulation requires the undertaking to take into account "maintain(ing) efficiency in the management of services to customers."</p> <p>The new corporate governance framework and enhanced reporting requirements has enabled IVASS to assess the robustness of the insurer's corporate governance structure as well as the effectiveness of the internal control and risk management system on a solo basis and at the group level on an ongoing basis.</p> <p>IVASS requires the insurer's Board of Directors to include an appropriate number and mix of qualified independent persons to set and oversee the implementation of the insurer's business objectives and long-term risk strategies and risk appetite, in accordance with the insurer's long-term interests and viability. The enhanced Regulations and reporting requirements, in conjunction with IVASS supervisory inspections, help assure the insurer's regulatory compliance and protection of policyholders.</p> <p>Fit and proper requirements apply to all Board members. Statutory auditors must be qualified (public examination and specified qualifications) and registered in Registry of Auditors maintained by the Ministry of Justice.</p> <p>Every company must cover function of compliance officer and internal control functions and IVASS imposes Senior Management, internal auditor, risk management requirements considering proportionality principles.</p> <p>The Board of Directors can remove one of its members for cause. IVASS also has the authority to remove Board members as appropriate and has done so in the past. IVASS supervision of corporate governance requirements includes annual review of corporate governance practices and inspections and reviews of the interlocking directory with CONSOB, COVIP and Bank of Italy to assure compliance with antitrust law.</p> <p>IVASS has developed a supervisory review check list tool to verify corporate governance activities and compliance, including such details as the number and amount of Board of Directors meetings, details on items discussed, and information providing a common basis of information collected. IVASS can request additional information and evaluate key drivers in the undertaking's corporate governance allowing for evaluation of the actual situation and for complete follow up as may be necessary. IVASS started this procedure during its evaluation for internal models in preparation for Solvency II implementation and has thus far completed a check list on 9 groups and 44 undertakings, representing 65 percent of the Italian market. IVASS should regularly evaluate the Board members for quality of performance of their duties.</p>
ICP 8	<p>Risk Management and Internal Controls</p> <p>The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective</p>

	<p>functions for risk management, compliance, actuarial matters, and internal audit.</p>
<p>Description</p>	<p>The Insurance Code (Articles 82–87) and Regulation 20/2008 (Articles 26–27) require undertakings to have a framework to establish internal control and risk management systems (at both the solo and group levels) that include provisions for internal auditing, risk management and compliance matters. The Board of Directors is required to enact an ethical code and promote a high level of integrity and an internal control culture for all personnel and to assure that the reinsurer also has in place internal control and risk management systems proportionate to the nature, scale and complexity of the business (Article 10). Senior Management is responsible for the implementation, maintenance and monitoring the internal control system and risk management activities, including risks arising from non-compliance with regulations (Article 7).</p> <p>The Insurance Code also requires undertakings to have a qualified independent appointed actuary as regards to life assurance (Article 31) and compulsory motor liability (Article 34) to assure compliance with requirements and regulations (Regulations 16 &amp; 21) and for the audit of financial statements at individual and group level (Article 103; Regulations 22/2008 and 7/2007).</p> <p>The insurer’s risk management system must be proportionate to the size, nature and complexity of their business, which allows the company to identify, assess and control their most significant risks. Undertakings must collect and document information on a continual basis about their internal, external, current and future risks (singularly and on an aggregate basis) in all the operational processes and functional areas, including providing a qualitative assessment, methodologies for measurement of quantifiable risks, and systems for determining the maximum potential losses. The undertakings must consider changes in the nature and size of the business, market context and the appearance of new risks, or changes in existing risks, and risks that may arise from offering new products or entering into new markets. Undertakings must define the procedures to promptly highlight the appearance of risks that might damage financial and economic status, or exceed the established tolerance thresholds, and identify emergency plans as may be appropriate.</p> <p>Undertakings must report annual stress testing and prospective analysis of significant risks to the Board of Directors for review and recommendations for potential improvements.</p> <p>The system of required internal controls (Regulation 20/2008) must ensure that the internal information complies with principles of accuracy, completeness, promptness, consistency, openness and pertinence. Internal control activities include requirements for double signatures, authorizations, checks, and comparisons, control lists and reconciliation of accounts, as well as the limited access to transactions only to the persons assigned to them and the recording and periodical checks of the transactions performed.</p> <p>Regulation 20/2008 (Article 15) requires internal control functions to operate without constraints and with sufficient independence, authority and resources. The Regulation defines requirements for the risk management (Article 21) and compliance functions (Articles 23-31), requiring adequate independence, free access to all company activities and pertinent information and have sufficient and adequately professional resources. The appointed compliance officer must be independent and report annually to Board of Directors on adequacy of safeguards relating to compliance matters.</p> <p>Regulation 20/2008 (Article 15) enhanced existing internal audit function requirements by increasing monitoring and assessment of the efficiency and effectiveness of the internal controls system.</p> <p>Regulation 20/2008 requires the Board of Directors to establish a framework for outsourcing</p>

	(Article 31) subject to specified limits (Article 21, i.e. prohibits risk underwriting) and identify one or more persons to assume oversight responsibility over outsourcing activities. Outsourcing may not compromise the undertaking's governance system, financial results and stability and compromise claims handling, or create unjustified operational risks (Articles 30, 32-37). IVASS retains supervisory authority over outsourcing activities in terms of prior approvals and the ability to modify outsourcing contracts and agreements as may be appropriate.
Assessment	Observed
Comments	<p>Regulation 20/2008 requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management (Article 21), compliance (Article 23), actuarial matters (Regulations 21, 16, 7, 22 and Insurance Code, Articles 31,34,190) and an internal audit function (Article 15). ISVAP began requiring risk management functions in 2005 (Article 30) and Regulation 20 /2008 established the standards and implementation requirements. Undertakings must annually report their risk management and internal controls system information to IVASS with sufficient detail to allow IVASS to evaluate the authority, independence and effectiveness of the undertaking's implementation of these systems. IVASS has developed a new corporate governance internal checklist it uses to evaluate the undertaking's systems and implementation during inspections.</p> <p>IVASS conducts annual meetings with undertakings to assess their internal control functions and risk management systems, testing the Board of Director's knowledge of the company, evaluating the corporate culture and the effectiveness and timeliness of the undertaking's activities in this area. IVASS does not have the authority to impose sanctions for the Board's failure to fully implement its responsibilities in this regard. To make the performance checklist effective, the ability to sanction the Board for poor performance in risk oversight is recommended.</p> <p>Additionally, there is no specific IVASS requirement for the Board of Directors to have a specific risk committee; however, IVASS has the authority to require the insurer's risk manager to sign off on a specific company situation (such as an insurer's anti-crisis measure application).</p> <p>IVASS has regulatory oversight of insurer outsourcing activities (Regulation 20, Articles 29-37) and requires the undertaking's Board of Directors to use the same degree of scrutiny to outsourcing activities as it does with other company activities. IVASS conducts regulatory review and oversight of the outsourcing contract and obtain pre-approval from IVASS for outsourcing activities. IVASS does not maintain specific list of outsourcing services, but retains information about outsourcing entities operating in the jurisdiction and has the authority to inspect outsourced service entities (usually claims handling and settlement services) and impose regulatory limits on outsourcing activities.</p>
ICP 9	<p>Supervisory Review and Reporting</p> <p>The supervisor has an integrated, risk-based system of supervision that uses both offsite monitoring and onsite inspections to examine the business of each insurer, evaluate its condition, the quality and effectiveness of its Board and Senior Management and compliance with legislation and requirements. The supervisor obtains the necessary supervisory information to conduct effective supervision of insurers and evaluate the insurance market.</p>
Description	The Insurance Code (Articles 188-191) grants IVASS the power to: (i) supervise, intervene,

	<p>investigate and inspect the technical, financial and capital management of insurance and reinsurance undertakings; and, (ii) assess compliance with laws and regulations; and, (iii) adopt regulations relating to different areas of insurance supervision (Article 191, e.g. internal control and risk management systems, capital adequacy, valuation of technical provision, accounting, etc.).</p> <p>IVASS powers also extend to intermediaries, loss adjusters, auditing firms and appointed actuaries. The Insurance Code (Article 6) gives IVASS supervisory power over subjects, entities and organizations that in any way perform functions for insurance or reinsurance undertakings, including outsourcing entities (Regulation 20/2008).</p> <p>IVASS may inform the Board of Directors or call for a meeting to immediately discuss problems discovered during the supervisory process. Undertakings must report off balance sheet exposures on a standard template using Italian GAAP (Regulation 22) and must promptly report any material changes that would affect its condition. Certain reports are subject to audit and actuarial review and undertakings must provide an audit opinion on its annual financial statements.</p> <p>In addition to solo entity supervision, IVASS also supervises insurance groups (Article 86) and has supplementary supervision authority over a parent of an insurer or reinsurer, insurers and reinsurers with head offices in third countries, and financial conglomerates (Articles 212–214). IVASS follows EU supervision principles and reviews its regulations at least every three years.</p> <p>IVASS prioritizes supervisory activities for an annual inspection plan based on early warning “Fast Track” financial indicators and offsite analysis from the supervisory information each company/group must submit on a regular basis. Onsite annual inspection plans are submitted to the President and Council for approval and used to evaluate the overall conduct of the business, the quality and effectiveness of its Board and Senior Management and regulatory compliance.</p> <p>IVASS regulations require all undertakings/groups to provide supervisory information on a regular basis, forming the general basis for supervisory offsite analysis. IVASS utilizes early warning “Fast Track” risk indicators to develop its annual inspection plan, which is submitted to the President and Council for approval.</p> <p>Upon receipt of annual financial statements and full regulatory reporting materials utilizing mandatory electronic reporting templates, the supervisory staff assigned to each company/group evaluates the submissions to prioritize the companies for a full assessment of all companies/groups (including, accounting, financial statements, supervisory data and actuarial reports). The offsite analysis prioritization plan is then submitted to the President and Council for approval.</p> <p>The supervisory staff is divided into two divisions, each division handles all aspects of supervision (licensing, monitoring, financial, governance, risk management analysis, etc.) for the companies and groups assigned to its division and individual staff members are assigned to specific undertakings for supervision. IVASS management considers market share details to equally balance the workload of all undertakings split between the two divisions; each division is then subdivided into sections, each with a section manager who oversees a team leader and the 4-5 employees assigned to each team within the section.</p> <p>IVASS staff assigned to each company conducts a semi-annual analysis (semi-annual solo/groups financial statements), quarterly analysis (investments, technical provision and derivatives) and monthly analysis (investment monitoring, aggregated by asset classes, trend of surrenders vs. premiums, etc.).</p>
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IVASS staff assigned to each company conducts monthly market-wide investment analysis (excluding unit/index linked) and premiums/surrender analysis and analysis of specific risks as necessary. IVASS requires undertakings to provide data for statistical and economic surveys (monitoring of life and non-life premiums, monitoring of motor vehicle sector disputes, pricing, claims settlements, fraudulent claims, actuarial gender analysis for use in premium calculations, etc.).

The Insurance Code establishes accounting and solvency requirements at the solo and group levels (Articles 88–100; Regulations 7/2007 & 22/2008 for financial statements; Articles 44–47; Regulations 18–19 for solvency margin) and grants IVASS the power to obtain information from all members of an insurance group (Article 213). Regulations 7 & 22 include specific valuation guidance at the solo (Italian GAAP) and group levels (IAS/IFRS) and contain mandatory electronic reporting templates for the presentation of financial statements that include specific reporting requirements for off-balance sheet items.

Undertakings must report any material changes affecting their financial position, regulatory violations, or facts and circumstances undermining the undertaking's going concern status (Article 190). The undertaking's legal representative must sign off on the financial statements and supervisory information submitted and insurance and reinsurance undertakings must provide external independent audits of their financial statements, including an audit opinion and actuarial report on sufficiency of technical provisions (Articles 93 & 102).

IVASS has the power to conduct onsite inspections of undertakings, insurance groups, financial conglomerates, including all non-insurance entities within the group and intermediaries, and to gather any information necessary for the purpose of supervision (Articles 5, 71, 86, 104, 188, 189, 214). IVASS has the authority to conduct two types of onsite inspections: those with prior notice, following requests for information and documentation in advance of the inspection, and those conducted without prior notice to the insurer.

IVASS has developed a handbook/tool for onsite inspection guidance on the different risk areas for examination during inspections. The inspection handbook/tool requires systematic analysis by risk area and qualitative analysis, including what to look at in evaluating assets, asset liability matching, reporting verification, and auditor reviews. IVASS actuaries annually review valuation and adequacy of technical provisions reserves and can request capital infusions, if necessary.

IVASS conducted 22 onsite inspections in 2011 and 29 inspections in 2012, plus 7 additional onsite inspections to evaluate internal models in preparation for Solvency II. IVASS management maintains records of actions and calendars activities to assure proper follow-up and compliance. The number of IVASS staff that go on inspections and the length of inspections depends on the size of the company and the nature of the examination, but a minimum of two staff members go on inspections, sometimes including IT personnel as well. IVASS does not use outside contract inspectors and only IVASS staff members perform inspection activities and now, with the onsite inspectors combined into the supervisory divisions, all staff members handle onsite inspections.

Staff members assigned to particular companies generally handle the onsite inspections for that company, with additional staffing depending on the focus and scope of the inspection, prepare the inspection report affording the company the opportunity for comment, thereafter, upon approval of the President, proposing sanctions to the Sanctions Department for implementation.

IVASS has the power to examine the technical, financial and capital management of insurance and reinsurance undertakings (persons/firms who perform functions on behalf of insurance and reinsurance operations, intermediaries, loss adjusters as well as auditing firms responsible for the external audit and the appointed actuary) and for the assessment of their compliance with

	<p>the laws and regulations and may request external valuation as appropriate (Articles 188–191).</p> <p>The Insurance Code grants IVASS powers of supervisory intervention over insurance groups (Article 86), supplementary supervision over a parent of an insurer or reinsurer, participating entities one of which one is an insurer or reinsurer, insurers and reinsurers with head offices in third countries and financial conglomerates (Articles 212–214).</p>
Assessment	Partly Observed
Comments	<p>IVASS financial supervision utilizes “Fast Track” indicators for preliminary analysis of key areas/ratios of an undertaking’s financial position to establish an annual inspection plan. The IT department (“SOS”) utilizes Fast Track data to create electronic reports, ratios and market comparisons for supervisory staff to evaluate the companies in critical financial areas in an immediate fashion.</p> <p>The supervisory team provided the assessors with details of the Fast Track system and specific files to review the Fast Track analysis and reports. The criteria and financial and actuarial indicators were comprehensive and objective, indicating each undertaking’s specific details, reporting figures (revenue on premiums, management expense, revenue to technical accounts, changes in premium, reinsurance, etc.) and financial ratios, demonstrating a preliminary picture of the undertaking’s financial status and market position. The supervisory staff regularly reviews the Fast Track indicators to ensure that the system is capturing the necessary detail and information for this stage of the supervisory process.</p> <p>Offsite analysis of the undertaking’s annual financial statements and regulatory reporting (corporate governance, risk management and internal controls) assess the overall quality of the business and the company’s financial position and IVASS utilizes this information, along with other information (claims, complaints, etc.) to establish priorities for full offsite analysis (Regulation 7/2007).</p> <p>Essentially, the staff members although with particular skills act as generalists; since there is no formal specialization of specific supervisory skills or services, with the most relevant exception of actuarial skills which are mainly devoted to the assessment of technical provisions; other specializations (e.g., investments) are informally taken into account in carrying out specific tasks. In addition even though from the organizational point of view all supervisory staff may perform inspections in all areas of supervision, the specificities are taken in due consideration when the inspection team is set. This is particularly relevant depending on the area under investigation and with specific reference to the actuarial area, both life and non life. The same principles have been considered to organize the specialized teams on internal model preapplication.</p> <p>Team leaders and managers in each supervisory division provide oversight of supervisory activities and there is informal communication between staff and supervisors on regulatory matters; however, the absence of specific procedures and formal processes has led to delays and failure to take expeditious regulatory action when appropriate. It is recommended that IVASS establish formal processes that set forth trigger points and specific ladders of intervention to ensure consistent and expedient regulatory action.</p> <p>The two Supervisory Divisions operate independently overseeing the particular companies assigned to each division. This divided unilateral supervision process challenges the ability for IVASS to maintain internal controls on the quality and consistency of supervision between the divisions and between individual staff members. The assessors file reviews demonstrated delays in taking regulatory action and the absence of ladders of intervention procedures assuring consistency and prompt regulatory action when needed; in addition, the insolvency of a major</p>

insurer and the fact that there had been no inspection of that insurer for more than four years. There are no regularly scheduled staff meetings between the divisions, or standing task forces or uniform procedures to focus on troubled companies or market-wide issues, such as under-reserving for technical provisions, that might adversely impact the entire sector. The absence of internal quality controls over financial analysis and examination creates the danger of regulatory gaps and failure to discover a troubled company far enough in advance. IVASS should implement internal quality controls and adopt formal communication and peer review processes that ensure accuracy and consistency in offsite analysis and onsite inspections, particularly for nationally significant companies.

In some instances, individual staff members have been handling the supervision of particular groups or companies for several years. Although from time to time, there are assignment transfers of companies or groups to different staff members, there is no formal process for doing so.

Individual staff members handle asset valuation individually in each division, and there is no centralized asset valuation process to assure accuracy and consistency in asset valuation. IVASS should develop guidelines along with a centralized asset valuation process to ensure that all staff members conduct the same valuation.

Hiring and training of new staff involves on-the-job training process where the new staff member works closely with an experienced person as they gradually increase their skills and responsibilities. IVASS does encourage and support staff training and provided the assessors with detailed information on the in-house, international and EIOPA training provided to staff from 2008–2012; however there are no specific national certification programs for financial analysis supervision or onsite inspection certification in the insurance sector.

IVASS is in the process of preparing for the implementation of the Solvency II regime that will require a fully risk based proportionate and forward-looking supervision. EIOPA does not yet provide a full scope of training and supervisor coordination services for member jurisdictions to ensure consistent Solvency II supervision. IVASS should consider developing specialized staff expertise in specific supervision areas (financial analysis, inspection expert, governance and enterprise risk management expertise, etc.) to drill down into the specific details of specified areas of supervisory responsibilities.

IVASS consumer complaint and the newly established anti-fraud division (last year) aggregate complaint and fraud data, develop complaint trends and reports to the supervisory divisions as necessary. Considering the new establishment of the anti-fraud division, it is recommended IVASS institute a training program, utilizing police and loss control and prevention courses for staff members to gain specialized knowledge and expertise in fraud prevention and detection.

Undertakings must report outsourcing activities quarterly and outsourcing of essential activities requires prior IVASS approval.

There are no objective formal criteria for requiring an inspection and there is no set requirement for inspection frequency of a supervised entity. IVASS attempts to conduct an inspection of a regulated entity once every four years, but this benchmark is not followed.

IVASS publishes inspection results on the website and in the Official Journal which includes a short summary of violations and sanctions paid; the final inspection report itself is not published. The IVASS Annual Report includes details on inspection activities, but is not company specific.

ICP 10	<p>Preventive and Corrective Measures</p> <p>The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
Description	<p>Pursuant to Articles 3 &amp; 5 of the Insurance Code, IVASS has the power to take preventive and corrective measures concerning supervised individuals and entities, with the goal of achieving sound and prudent management of the insurance undertakings and the protection of policyholders. IVASS has authority under the Insurance Code to impose safeguards (Articles 221–224, 227), order reorganization (Articles 229–231), handle lapse and withdrawal of authorization (Articles 240–242) and winding up measures (Articles 245, 265, 275–277), and impose sanctions and establish sanctioning procedures for violations (Articles 305–331). Imposition of extraordinary administration and withdrawal of authorization to transact insurance business requires Joint Directorate and Ministry of Economic Development approval.</p> <p>IVASS has the authority under the Insurance Code to void an insurance contract entered into without the necessary license (Article 167) and to impose imprisonment and financial penalty for those who conduct insurance business without the necessary authorization (Article 305). In the event there are reasonable grounds for suspecting that an individual or entity is conducting insurance or reinsurance business in breach of authorizations, IVASS reports the situation to the court or public prosecutor for prosecution (Article 305).</p> <p>The Insurance Code (Article 309) authorizes IVASS to impose pecuniary sanctions upon undertakings conducting insurance business beyond the limits of their authorization and for those who illegally use the name of an insurance undertaking, or insurance intermediary operating without authorization (Article 309; Regulation 9 /2007). IVASS has the authority and ability to take a variety of measures as appropriate to rectify regulatory issues (restrictions on the insurer's business activities, require increased capital and measures to improve solvency, freeze insurer assets, introduce liquidity requirements or exposure limits).</p> <p>ISVAP utilizes an escalating ladder of intervention if problems worsen, or the individual or insurance entities fail to take preventive and corrective action, which allows IVASS to intervene and implement a wide range of measures (restrict business activity, require capital infusion, freeze assets, impose liquidity requirements and exposure limits) and exercise powers as supervisory concerns arise (Article 222).</p> <p>IVASS has the authority to appoint a qualified (fit and proper) provisional administrator for a two-month period and did so in the past</p> <p>When the insurer breaches the required solvency margin, IVASS requires the undertaking to provide a restoration plan for approval, indicating the actions the undertaking plans to take to restore compliance with the solvency margin within an appropriate timeframe (Article 223; Regulation 2/2006). Once IVASS approves the corrective action plan, IVASS utilizes onsite monitoring to assure the undertaking timely acts on the plan, rectifies the deficiencies and confirms within 30 days thereafter, that the undertaking has correctly implemented the required measures.</p> <p>Under the Insurance Code, IVASS has the power to communicate with the Board and Senior Management and Key persons in the control function, to advise on any material concerns and ensure proper resolution of outstanding regulatory issues (Article 188). Undertakings must obtain prior IVASS approval for certain intragroup transactions and subsequent reporting requirements for other activities. If IVASS determines a transaction subject to prior notification (i.e., intragroup transactions) might have a negative impact on the solvency position of the undertaking, or may undermine the interests of policyholders and beneficiaries, IVASS has the authority to prevent the undertaking from going forward with the transaction; as for transactions subject to subsequent reporting, IVASS may require the undertaking to take measures to eliminate negative or detrimental</p>

	<p>consequences by an appropriate deadline (Articles 215-216; Regulation 25/2008).</p> <p>Transactions entered into without the necessary license are subject to fines and penalties and regulatory intervention (warning letters, onsite inspection, ring fencing of assets, short-term financial schemes, provisional administration for two months).</p>
Assessment	Observed
Comments	<p>IVASS has the power under the Insurance Code to take timely preventive and corrective measures to assure the prudent and sound management of insurance undertakings for the protection of policyholders (Articles 3 &amp; 5). Implementation of specific measures are authorized dealing with safeguards (Articles 221-224 &amp; 227), reorganization (Articles 229-231), lapse and withdrawal of authorization (Articles 240-242), administrative compulsory winding up measures (Articles 245 &amp; 265), provisions on reorganization and winding up of groups and the exercise extraordinary administration of insurance holding companies (Articles 275-277).</p> <p>IVASS must submit proposals for these regulatory actions to the President and Council for approval by the Joint Directorate. A list of supervisory actions requiring Joint Directorate approval is posted on the IVASS website, indicating activities which are delegated to the Council for approval. The list is subject to future modification, as the Joint Directorate deems appropriate.</p> <p>IVASS has the power to take regulatory action against individuals or entities acting without authorization and has the authority to void unlicensed insurance contracts (Article 167) and refer such transactions to the court and public prosecutor for criminal action (Article 305). In addition, IVASS may impose fines and sanctions if a company acts beyond its authorization or if an entity uses an insurance name without authorization (Article 309). As a consumer protection measure, IVASS maintains updated lists of fraudulent insurance activity on its website. From 2010-2012, IVASS handled 25 cases of counterfeit policies and 74 unauthorized insurance cases and published 41 press releases in 2011 notifying the public of fraudulent insurance activity.</p> <p>IVASS has the authority under the Insurance Code to take timely preventive and corrective measures to require undertakings to maintain and restore regulatory compliance with sufficient discretion commensurate with the severity of the problem (Articles 221-282). The options include ladder of intervention tools (new business restrictions, freezing assets, imposing liquidity requirements, reducing exposure limits, increased solvency margin, and recovery plans with specified timelines (Article 223; Regulation 2/2006).</p> <p>IVASS provided the assessors with several examples of specific cases in which IVASS utilized these regulatory intervention tools and processes in 2010 and 2011. The cases demonstrated a variety of regulatory actions including appointment of an administrator, lapse of authorization, compulsory winding up actions, new business restrictions.</p> <p>To enhance supervision, it is recommended IVASS considers drafting regulations to add specificity to the ladder of intervention tools (new business restrictions, freezing assets, imposing liquidity requirements, reducing exposure limits, increased solvency margin, and recovery plans with specified timelines.</p>
ICP 11	<p>Enforcement</p> <p>The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p>

Description	<p>Under the Insurance Code, IVASS has the power to timely enforce corrective measures and impose sanctions dealing with safeguards, reorganization and winding up measures (Articles 221–282). IVASS has a dedicated Sanctions Department that handles sanctions and sanctioning procedures to ensure consistency (Articles 305–331; Regulations 1 &amp; 2/2006), and maintains an internal monitoring system to ensure and verify corrective action, compliance, measures taken and sanctions imposed.</p> <p>IVASS issues letters to insurers/intermediaries to provide notice of critical findings identified during the offsite analysis or onsite inspections and identifies specific action within a defined timeframe the entity must take to remedy critical findings, or to provide formal notice of sanctions. IVASS has a range of enforcement actions available, including restrictions on business activities, measures to reinforce an insurer’s financial position, capital infusions, appointment of commissioners for a specific purpose (Article 229), restricting new business, freeze assets (Article 221–222), or withdraw the undertaking’s authorization to conduct insurance business (Article 242).</p> <p>In the event the insurer does not comply with solvency margin requirements, the undertaking must submit a restoration plan for approval, or if the solvency margin falls below the guarantee fund, IVASS requires the undertaking to submit a short-term finance scheme for approval and, if necessary, may prohibit any disposal of the undertaking’s assets located within Italy (Article 222).</p> <p>The Insurance Code grants IVASS the power to limit dividend distribution as a corrective measure only in case of breach of the group solvency margin when the parent undertaking is a holding company. IVASS may require the undertaking to set aside the profits that might be distributed by the insurance subsidiary to the parent undertaking as an ad hoc reserve of net assets (Article 228).</p> <p>IVASS has the power to convene shareholders and the Board of Directors and Board of Statutory Auditors, Senior Management, legal representatives of the auditing firm, auditing actuary, the appointed actuary for life assurance and the appointed actuary for compulsory insurance against civil liability in respect of the use of motor vehicles and craft (Article 188) to discuss certain issues and adopt certain measures to ensure the compliance with the law.</p> <p>On the basis of events following authorization, IVASS may suspend or withdraw authorization previously given for holding beneficial ownership above ten percent in an insurance company (Article 68).</p> <p>In cases of serious non-compliance with law or regulations (Article 229), IVASS has the power to appoint commissioners for a limited period of time in order to carry out specific acts on behalf of the insurer and for the protection of policyholders and suspend the administration and control functions assigned to the Boards in relation to those specific acts. In extreme cases, IVASS may fully suspend administration and control functions and arrange for one or more commissioners to assume administrative powers in the insurance undertaking (Article 230).</p> <p>IVASS can impose disciplinary sanctions, fines and penalties on insurers or intermediaries for breach of the law or obstructing the supervisory process (Articles 305–331), some of which may involve criminal offenses and prosecution by the proper authorities.</p> <p>Regulation 1/2006 establishes the overall procedure to impose sanctions on insurers and intermediaries, initiated by a formal letter of notice (based on offsite and onsite findings it is issued to the insurer/intermediary normally within 120 days). Within 60 days, the notified insurer or intermediary has the opportunity to respond and offer evidence to support their position. A dedicated Sanction Department within IVASS maintains historical data to ensure that sanctions</p>
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	are within legal classifications, proportionate to the gravity of the breach (Article 329), and applied in accordance with past sanctions for similar violations. IVASS publishes a monthly Bulletin indicating the name and major details of the sanctions imposed.
Assessment	Largely Observed
Comments	<p>IVASS has the power to timely impose and enforce corrective action when problems are identified and uses letters to insurers/intermediaries to provide notice of critical findings and establish timeframe for requested corrective action. IVASS maintains a monitoring calendar system to ensure timely corrective action.</p> <p>In 2011, ISVAP issued 23 letters requesting insurers to enhance their control/risk functions, 25 letters regarding inadequate assets covering technical provisions, 32 letters on solvency margin issues; 9 letters to actuaries to remove certain identified findings.</p> <p>IVASS regulations provide the necessary range of regulatory enforcement options, however, it should be noted that IVASS must obtain Joint Directorate approval on several enforcement activities.</p> <p>In the event a parent holding company does not infuse capital into the insurance entity as requested, IVASS can only order a ring fencing of the insurance entity. IVASS has the power to limit dividend distribution only in cases involving breach of the group solvency margin when the parent undertaking is an insurance holding company, but may require the undertaking to set aside distributions in an ad hoc reserve net of assets (Article 228). It is recommended that legislation be amended to explicitly enable IVASS to restrict or suspend dividends or other payments to shareholders, when such payments would jeopardize the undertaking's solvency.</p> <p>IVASS has the power to directly address management and corporate governance problems, including the power to directly communicate with the Board of Directors, Board of Statutory Auditors, Senior Management, auditors, and appointed actuaries and can also order Board of Directors and shareholder meetings to address specific regulatory matters (Article 188). IVASS can remove or restrict Board members, but does not have the power to impose sanctions on Board members individually, sanctions are only imposed against the undertaking. It is recommended to allow for individual pecuniary sanctions in the Insurance Code.</p> <p>The segregated Sanctions Department within IVASS (Regulation 1/2006; Presidential Decree 602/1973; Law 46/1999) maintains historical records to ensure consistency and fairness in the imposition of sanctions and IVASS publishes sanctions in the monthly Bulletin. In 2011, IVASS held 4,867 sanction procedures involving EUR 49.6 million in imposed sanctions, 83.6 percent of which was in the motor vehicle business, which represented 71 percent of total sanctions imposed. Ongoing sanction procedures do not interfere with or delay other IVASS corrective measures or regulatory activity.</p> <p>The IVASS fine and penalty structure include different levels for different situations and may not be sufficient to deter improper actions. IVASS indicated that fines and penalties are capped in certain situations and considering the size and financial status of the undertaking, may not have the desired preventive impact. IVASS should consider legislative proposals to increase and restructure the fine and penalties for certain offenses.</p> <p>Failure to timely provide information to IVASS or to obstruct or delay supervisory activity is a criminal offense punishable by fines ranging from EUR 10–100 thousand euro (Article 306).</p>

ICP 12	<p><b>Winding-up and Exit from the Market</b></p> <p>The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to provision of benefits to policyholders.</p>
Description	<p>Consistent with EU Directive 2001/17/EC, the Insurance Code defines a range of options for the exit of insurers and insurance legal entities from the market, including lapse or withdrawal of authorization and several winding-up proceedings for insurance companies belonging to an insurance group (Articles 245–265; 276–282).</p> <p>The Insurance Code requires a declaration of insolvency (and/or extraordinary administration) by the judicial authority pursuant to court proceedings. An insurance or reinsurance undertaking is deemed insolvent not only when it falls within the provisions of Bankruptcy Law (Article 5), but also when its financial condition indicates permanent insufficiency of assets necessary to cover claim commitments (Article 248).</p> <p>The law protects those entitled to insurance benefits in the event of a winding up procedure and assets held for technical provisions constitute an exclusive guarantee for the policyholders, beneficiaries and third parties in accordance with priority liabilities arising out of insurance contracts (Article 258). Insurance contracts in force on the date the winding-up decree is published in the Official Journal continue to cover risks for 60 days thereafter, and policyholders have the right to terminate their contracts after publication of the decree (Article 169). Compulsory motor liability insurance contracts continue to cover risks within the limits of the mandatory minimum amounts until the contract expiration date, or the time period for which the premium has been paid.</p> <p>The Insurance Code provides for the lapse of an undertaking’s authorization to conduct insurance business when the undertaking: (i) does not start business within 12 months; (ii) expressly renounces its business; (iii) does not conduct business for 6 months; (iv) transfers its entire portfolio to another insurance undertaking; and, (v) a reason for the company’s dissolution arises (Article 240).</p> <p>Undertakings must immediately notify IVASS of any reasons for dissolving the company and, upon verification, IVASS must approve the lapse of authorization or the appointment of liquidators, before registering the company’s dissolution in the register (Article 241). IVASS must withdraw authorization to conduct insurance business in the event: (i) the undertaking does not comply with restrictions on its scheme of operations and authorization; (ii) no longer fulfills the conditions required for conducting insurance business; (iii) of failure to comply with material provisions of the Insurance Code; (iv) the undertaking is unable to take the measures specified in the financial restoration plan within the time allowed; and, (v) the undertaking is subject to compulsory winding up or has been declared insolvent by the judicial authorities.</p> <p>Upon IVASS proposal, the Minister of Economic Development may order administrative compulsory winding up when the undertaking is undergoing an extraordinary administration, or an ordinary winding up, and in cases of serious irregularities in administration or violations of rules of law, administrative provisions or articles of association, or of exceptional expected losses. The Board of Directors may request compulsory winding up by extraordinary meeting, extraordinary commissioners or the liquidators may also request winding up when the above conditions are met. IVASS must then publish the compulsory winding up of the undertaking in the Italian Official Journal. IVASS supervises the entire procedure, appoints one or more</p>

	<p>liquidators and a supervisory committee with its own decree, also published in the Official Journal. In the same form, IVASS may order the removal or substitution of the liquidators and members of the supervisory committee (Article 245).</p> <p>Regulation 8/2007 enlarges the autonomy of the liquidators and the members of the supervisory committee and reduces the need for prior IVASS authorization for certain liquidator actions.</p> <p>IVASS provides for winding up proceedings within an insurance group when there is a prominent role of the parent undertaking of the group, including conditions for declaration of the winding up of the parent undertaking, as well as conditions and proceedings for companies included in the group, including non-insurance entities (article 276).</p> <p>The Insurance Code establishes high priority treatment for policyholders in the winding up procedures and sets forth priority of payments among different kinds of creditors during the winding up process (Article 258).</p> <p>CONSAP manages a National Guaranty Fund (Fondo di garanzia per le vittime della strada) managed by CONSAP under the supervision of the Ministry of Economic Development (Article 285). If assets representing technical provisions pertaining to motor vehicles and craft are insufficient to pay all claims, CONSAP's National Guaranty is applied and for hunting activities claims the Fondo di Garanzia per le vittime della caccia applies.</p>
Assessment	Observed
Comments	<ul style="list-style-type: none"> <li>• The Insurance Code defines insolvency and provides for a range of options for insurers to exit the market according to IVASS procedure and EU Directive 2001/17 EC (Article 245–265). In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders. The Insurance Code also provides triggers for the withdrawal of authorization and winding up of undertakings.</li> <li>• Since 1964, ISVAP has supervised 146 winding up procedures; 81 were licensed insurers and 65 were entities operating without authorization. Eighty-five procedures out of 142 are now closed; IVASS recently opened four additional winding up matters. For the closed cases, policyholders received 80 percent of amounts owed; although motor vehicle policyholders received 100 percent pursuant to National Guaranty Fund payments to policyholders. The National Guaranty Fund has right to collect payment for all claims paid from winding up procedures and must resolve all claims before the winding up procedure can conclude.</li> <li>• Composite companies with life and non-life classes of assets are segregated for each class and the liquidator cannot use assets from one class for the other until all creditors in the class have been expended.</li> <li>• The first step in the winding up process is for IVASS to get winding up approval from the Minister of Economic Development, IVASS then appoints the liquidator and proceeds with the process. Liquidators must take timely action to preserve assets (Article 257) and assume insurer's administrative and control functions; assisted by supervisory committee (usually creditors, not IVASS staff) (Article 250). IVASS appoints a liquidator to assume the insurer's administrative and control functions, assisted by a supervisory committee. IVASS can confirm a liquidator every three years and remove a liquidator if appropriate, which has happened on one occasion. IVASS staff cannot serve as a liquidator.</li> <li>• A company can appeal to the court and has done so in one case and TAR supported the</li> </ul>

	<p>IVASS decision. IVASS has handled one instance of voluntary winding up in the last 10 years; in that case, the company handled the process without a liquidator and controlled the dissolution.</p> <ul style="list-style-type: none"> <li>• Legal proceedings for winding up are lengthy and complicated and there is a risk of loss for policyholders and beneficiaries. Legal proceedings on claims, particularly can delay final resolution for many years. IVASS recognizes a need for improvement regarding timely provision of benefits payments to policyholders. Apart from motor vehicle liability situations, policyholders are partly paid within three years. The assessors recommend instituting procedures to expedite payments to policyholders during the resolution process, either by partial distributions or setting timeframe deadlines for payments to policyholders.</li> </ul>
ICP 13	<ul style="list-style-type: none"> <li>• Reinsurance and Other Forms of Risk Transfer</li> <li>• The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.</li> </ul>
Description	<p>Regulation 20/2008 (Article 19) requires insurance companies to include underwriting and reserving risks in the internal control and risk management system. Undertakings are specifically required to identify, measure, monitor and assess business related risks, to establish the levels of risk tolerance and to review them at least once a year. Senior management is responsible to implement the policies relating to the adoption, assessment and management of risks as established by the Board of Directors, ensuring the definition and prompt checks of operational limits, as well as monitoring exposures to risks and compliance with the levels of risk tolerance.</p> <p>Circular letter 574/D (2005, as modified August 2012) defines the set of rules applied to outward reinsurance. The Circular requires undertakings to provide the supervisor with detailed data on a plan of reinsurance cession annually (eventual semi-annual communication is requested in case of variations). Specifically on reinsurance, Circular 574/2005 envisages that the Board of Directors establish reinsurance guidelines, risk containment strategies and portfolio balance, implemented through the appropriate reinsurance policies, and verifies their application by the Top Management.</p> <p>The reinsurance policy has the minimum requirements to indicate the target level of net risk retention, the characteristics of the reinsurance instruments the undertaking intends to underwrite, their objectives and adequacy for the coverage of the risks taken and the criteria used in the selection of reinsurers.</p> <p>Circular letter 574/D requires that:</p> <ul style="list-style-type: none"> <li>• Reinsurers are selected on account of transactions' significance and of their creditworthiness (art.2).</li> <li>• The Top Management (CEO, General Manager and Top Executives) is responsible for the drafting and realization of the Plan of reinsurance cessions for the financial year and submits it for ratification by the Board of Directors (art.3).</li> <li>• Verification of the consistency between the plan of reinsurance cession and the strategy and of the criteria used for reinsurers' selection shall be an integral part of the undertakings' internal control system. More specifically, the internal control system shall guarantee that the undertaking has in place adequate systems and procedures to provide</li> </ul>

the Top Management with the updated situation of the existing reinsurance treaties in an exhaustive and timely manner (with respect to the moment when the undertaking has collected the information), with special regard to the claims against reinsurers, that the management choices are consistent with the outline resolution adopted and that any departures from the resolution or the Plan of cessions are promptly reported to the undertaking's Board of Directors (art.4).

Further, Regulation 20/2008 provides that:

- the Board of Directors defines and, at least once a year, assesses in view of a possible revision the strategies and policies relating to the adoption, assessment and management of the most significant risks in line with the level of the undertaking's asset adequacy; on the basis of the results of the processes to identify and assess risks, it establishes the levels of risk tolerance and reviews them at least once a year (art. 5(2)(e));
- senior management ensures that the Board of Directors has full knowledge of the most important company facts, also through the preparation of an adequate reporting system (art 12);
- the Board of Directors receives, at least once a year, a report, by the compliance responsible officer, on the adequacy and effectiveness of the safeguards adopted by the undertaking in managing the risk of non-compliance with standards (art. 24);
- the annual reporting to IVASS will represent another instrument for the Board of Directors to assess the undertaking's system of governance (art. 28, as modified November 2012).

Circular letter 574/D (art. 3) requires annual submission of: (i) the reinsurance cession plan; and, (ii) supervisory modules. The reinsurance cession plan relates to all reinsurance treaties and the eventual use of facultative cessions (10 most important in term of exposure) and includes detailed information such as percentage of premiums, net retention, list of reinsurers and reinsurance intermediaries, any recourse to non-traditional reinsurance treaties (such as financial reinsurance or finite risk reinsurance treaties). However, there are no requirements on the demonstration of risk transfer for the reinsurance treaties classified as non-finite.

As for inward reinsurance, Regulation 33/2010 defines Finite Reinsurance (art. 1(1)(ee) and set specific rules to deal with it (arts. 127–132).

With regard to outward reinsurance, Circular letter 574/D (attachment n.1) requires exclusive use of the IVASS id-code to identify the list of reinsurers and reinsurance intermediaries submitted for the annual and semiannual report the last ultimate risk carrier for each reinsurance treaty. The updated list of reinsurers is checked with an external provider (AM Best). The updated list of reinsurers and reinsurance intermediaries (identified via IVASS id-codes) is published twice a year in a restricted area of IVASS website. The list considers Italian and foreign reinsurers, who provide reinsurance to Italian undertakings.

Reporting is required on gross of reinsurance and reinsurance credit is then explicitly indicated. Reinsurance credit for the purpose of solvency margin calculation is limited to maximum 50 percent in nonlife and to maximum 85 percent in life, according to EU directives (Solvency I) provisions.

Circular letter 574/D (art. 4, as modified August 2012) requires undertakings to: (i) have adequate documents available on the agreed terms and conditions of reinsurance contracts; (ii) formalize the contract relations (at the latest) four months after the agreements have been concluded, or after the effective date of the coverage. For facultative reinsurance insurers must

	<p>have—under the same terms—supporting evidence showing reinsurers' shares signed by each reinsurer for its share. For reinsurance regarding classes with peculiar features (e.g., hail, which is normally finalized after February) the above deadline is six months.</p> <p>Circular letter 574/D (art 4 as modified August 2012) specifically requires that undertakings:</p> <ul style="list-style-type: none"> <li>• update the age of current account claims due from reinsurers every six months, and have evidence of the complete name and address of the reinsurers to which the risks were transferred;</li> <li>• implement a reinsurance policy that also takes into account their liquidity position by possibly equipping themselves with suitable contractual provisions.</li> </ul> <p>The Insurance Code (Article 57) allows for Special Purpose Vehicles (SPE), but it requires the Economic Development Minister to define rules of access and exercise of such activities. At present, in absence of the required regulation, these entities are not operating. Also currently there are no Italian domiciled professional reinsurers. Insurers purchase reinsurance from foreign entities and in some case from Italian insurance companies authorized also to transact reinsurance business.</p>
<p>Assessment</p>	<p>Observed</p>
<p>Comments</p>	<p>Reinsurance regulation has developed constantly and with the latest changes in August 2012, IVASS is in observance with the IAIS reinsurance principle.</p> <p>Circular 574/2005 in its current updated version of August 2012 requires insurance undertakings to incorporate reinsurance as a capital and risk management tool determined and under the responsibility of the Board. Senior Management monitors and implements the reinsurance policy. The reinsurance policy regulatory requirements are comprehensive and include the target level of net risk retention, the characteristics of the reinsurance instruments the undertaking intends to underwrite, their objectives and adequacy for the coverage of the risks taken and the criteria used in the selection of reinsurers.</p> <p>Regulation requires undertakings to provide the supervisor with detailed information, including an annual plan of reinsurance cessions that allows supervisors to understand and monitor the economic impact of the reinsurance agreements. IVASS uses an in-house developed IT tool to manage detailed information on all reinsurance transactions. This tool allows for proper monitoring of the market exposure to any reinsurer. Currently, IVASS carries out concentration monitoring by type of reinsurer, including rating and geographic origin. The assessors recommend IVASS to also monitor exposure to single reinsurer on critical single catastrophic risks.</p> <p>Regulation also requires the disclosure of finite reinsurance, but it does not specify actuarial rules on risk transfer. IVASS should develop explicit technical parameters that determine proper reinsurance risk transfer.</p> <p>Regulation 33/2010 recognizes the different reinsurance business model and sets tailored rules in the main areas: technical reserves, assets eligible for technical reserve purposes, solvency margins, recovery financial plan and extraordinary management and transactions.</p> <p>Regulation further requires that undertakings have adequate documents available on the agreed terms and conditions of reinsurance contracts that are formalized with four to six months. Reinsurance claims are updated and after 18 months written down. Further, liquidity considerations when designing the reinsurance policy need to be considered and addressed.</p>

	<p>These regulations are new and the assessors recommend proper monitoring.</p> <p>While the Insurance Code allows for risk transfer to the capital markets, pending regulation has not been issued. IVASS should evaluate the market need for securitization of insurance risk and if necessary draft appropriate regulation.</p> <p>To enhance transparency of reinsurance treaties, a mandatory treaty clause stating the completeness of the reinsurance treaty is appropriate and avoiding the use of side letters is recommended. To this regard, some specific rules are provided with to finite reinsurance only: Regulation 33 (art. 128) envisages that the contract shall include a clause indicating that it can be modified only with written agreement that shall be included in the contract itself. If the contract refers to side letters/agreement, this shall be indicated clearly in the contract itself and the side agreement shall be attached to it.</p> <p>Reinsurance credit currently follows the static and not risk sensitive Solvency I rules. A more risk sensitive approach is recommended that takes the credit worthiness of reinsurers into account.</p>
ICP 14	<p>Valuation</p> <p>The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.</p>
Description	<p>At a solo level accounting is based on Italian GAAP while at group level consolidated accounts follow IAS/IFRS. The current Solvency I regime is based on the total alignment between the general-purpose financial reports and the regulatory-purpose reporting for solo financial statements; IVASS set the same valuation criteria currently in force, both for accounting and for regulatory purposes. Briefly, according to Italian GAAP:</p> <ul style="list-style-type: none"> <li>• current assets are valued at the lower of market value and cost;</li> <li>• fixed assets are valued at cost, net of permanent losses;</li> <li>• technical provisions related to index/unit linked products are valued at market value, as well as related assets;</li> <li>• other technical provisions are valued in a prudent way.</li> </ul> <p>The anti-crisis Law 185/2008 introduced some derogations to valuation criteria as a temporary option available to insurers under specific conditions. These measures have been renewed on an annual basis and remain currently in force.</p> <p>Rules on recognition, de-recognition, and measurements of assets and liabilities are set in general accounting rules as set by Civil Code and by the Italian GAAP principles, applicable to all kinds of undertakings. The Insurance Code regulates specific insurance posts and where the insurance framework is silent, general accounting rules apply. Regulation 22/2008 sets forth the basic insurance framework; specific provisions on technical provisions are set in Regulation 16/2008 sets forth provisions governing life and non-life technical provisions. Those Regulations include several provisions stemming from EU Directives 91/674 (insurance accounting) and in life and nonlife Solvency I Directives, implemented in the Italian framework by Law 173/97, 174/95 and 175/95 for accounting, life and nonlife respectively – now recast into Insurance Code) as well as Circulars which are now recast into Regulations 16/2008 &amp; 21–22/2008.</p> <p>Annex 9 to Regulation 22/2008 details the “plan of accounts”, i.e., detailed instructions on when and how to measure and classify posts in the general-purpose financial reports, which is the</p>

	<p>same for the regulatory-purpose reporting.</p> <p>Recognition is at inception and de-recognition takes place when the liability is extinguished; recognition of reinsurance follows recognition of mitigated risks.</p> <p>As per consolidated accounts at group level, IFRS rules apply for recognition, de-recognition and measurement.</p> <p>The valuation of assets and liabilities are consistent. For example, if assets are valued at cost but are used for covering technical provisions, additional requirements on the technical provisions are needed. Regulation 21/2008 rules (Article 33 and following) how to calculate life technical provisions when assets representing those technical provisions are valued at cost and, in this case, how those technical provision should be integrated to account for additional financial risks.</p> <p>Prudential filters are applied at group level for solvency purposes, since accounting framework applicable at the group level (IAS/IFRS) is not fully consistent with the regulatory framework. Main filters (Regulation 18/2008) are applied to valuation of assets and technical provisions, in an attempt to restore Solvency I valuation following a simplified approach. The approach is however, meant to be asymmetric/prudent (i.e., amounts which are more prudently calculated under IFRS than in Solvency I framework are taken into account and not restored via filters).</p> <p>General principles on recognition are set forth in the Civil Code (art. 2423bis), including clearly and publicly stating the reliability of accounting (and regulatory) data. Regulation 20/2008 on internal control and risk management sets specific rules on reliability of data to be used for supervisory and accounting purposes (Art. 12). Specifically on technical provisions, Regulations 16/2008 and 21/2008 set requirements for internal controls and procedures insurers must establish in order to ensure quality, completeness and reliability of data to be used in the calculation of technical provisions.</p> <p>Valuation policies are illustrated in the public financial statements of insurers (Regulation 22/2008 Annex 2).</p> <p>As per groups, the valuation is undertaken in a reliable and transparent manner, according to IFRS requirements. Regulatory decisions are not made on the basis of the IFRS data.</p> <p>The valuation is mainly based on a cost approach, which needs correction, in the case of technical provisions, by setting additional market fluctuation provisions. Market value of almost all data valued at cost is shown in public financial statements, and submitted electronically to IVASS, as required by Regulation 22/2008 templates. As for technical provisions, at least in life business, several provisions require additional provision to consider market fluctuations or to complement cost valuation (Regulation 21/2008).</p> <p>IVASS collects data on market value of several items in order to complement the Solvency I amortised cost valuation. IVASS considers those additional data in the supervisory review of the insurer's solvency and financial position.</p> <p>As for group consolidated accounts, IFRS follows an economic approach via a market value approach.</p> <p>Liability asset test (LAT) is performed and reported at a group level, there is no requirement at the solo level.</p> <p>The Insurance Code (Articles 36 &amp; 37 and Regulations 16/2008 and 21/2008) does not allow reflection of the insurer's own credit standing in determining the amount of technical provisions or for liabilities other than technical provisions (Regulation 22/2008).</p>
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In the non-life sector, Regulation 16/2008 requires calculation of technical provisions by using prudent valuation methods, taking into account the characteristics of the risks accepted and of claims presented (art 4). Regulation 16/2008 requires undertakings to assess, for each insurance class, that the provision for unearned premiums and the provision for outstanding claims, set aside at the end of the previous financial year, have been sufficient (art. 6 and 25).

Insurers must perform claims modeling and check the sufficiency of unearned premium to cover unexpired risks.

Under Solvency I framework, insurers are required to calculate technical provision based on rights, deriving from current and previous contracts, at the valuation date. Valuation of technical provisions doesn't consider future new business not that business related to explicit options available to policyholder under current contracts. Also future cash flows arising from events beyond the valuation date are not considered.

In the nonlife sector technical provisions are regulated by Article 37 of the Insurance Code and by Regulation 16/2008. Technical provisions must at all times be such that they can meet any liabilities arising out of insurance contracts as far as can reasonably be foreseen (art.4). Undertakings have to identify: provisions for unearned premiums (art. 5–23); provisions for claims outstanding (art. 24–29); provisions for claims incurred but not reported at the closing of the financial year (artt. 30–32); equalisation provisions (art.40–44); senescence provisions (artt. 44–47) and provisions for bonuses and rebates (art.48).

Provisions for unearned premiums include the total amount of the sums needed to cover the future cost of claims regarding risks not expired at the date of valuation (art. 5), and consist in provision for unearned premiums, related to the accrual-based temporal division of the premium, and of the provision for unexpired risks, in case costs of those risks is expected to be more than that of the provision for unearned premiums. The total provision has to be calculated using an adequate model, based on prudent transition parameters (art. 10). As an alternative, undertakings can use an empirical method (art. 10–11) to estimate prospective value of the ratio between claims and earned net premiums of the current generation based on the retrospective observation. Timeframe has to be related to the peculiarity of the single insurance classes or of the single types of risks for which the assessments are made.

Supplementary provisions of the provision for unearned premiums have to be set up in presence of catastrophe, nuclear energy or surety risks (art. 12–23).

Provisions for claims outstanding have to be based on ultimate cost of each claim whose settlement process is not yet finished, or for which the compensation, direct expenses and settlement costs have not been paid up.

In the life sector technical provisions are regulated by Article 36 of the Insurance Code and by Regulation 21/2008. Undertakings are requested to calculate their technical provisions using a sufficiently prudent prospective actuarial method that considers all future obligations deriving from contracts. Regulation 21/2008 also requires life contracts technical provisions to be at least equal to the surrender values payable. Valuations have to be made on the basis of technical assumptions deemed most likely and a margin for adverse deviation of the elements considered. Regulation 21/2008 requires life contracts technical provisions subjected to a value floor equal to the surrender values payable.

Financial assumptions to be used cannot exceed the maximum guaranteed rate (TMG) (Regulation 21/2008 art. 28).

Non financial assumptions have to be based on undertaking's and external retrospective observation. Undertakings, each year, have to assess, that technical assumptions, other than

	<p>financial, are consistent with their portfolio's experience.</p> <p>For each assumption (interest rate/guarantees, mortality/longevity, costs, etc.) that would result providing an underestimate of the updated trend, undertakings need to set up specifically related additional provisions (Regulation 21/2008, arts. 36, 37, 49 and 50 of ISVAP Regulation 21/2008). In particular, undertakings (Regulation 21/2008 arts. 35–37) are requested to assess the eventual need of an additional interest rate provisions if guarantees provided by the contract exceed the TMG or the expected return on assets.</p> <p>Regulation 21/2008 (arts. 38–45) set criteria and methods to define the expected return of assets. The time horizon (art. 41) cannot be less than four years. Undertakings are requested to make a report, signed also by the appointed actuary, on methods and results of expected returns on assets assessments (art 46). In case of need of an accrual, Regulation 21/2008 (art 47, 48 and Annex 2) set criteria and methods to determine "Additional interest rate provisions."</p> <p>With regard to nonfinancial assumptions (including expenses) additional technical provisions need to be set in case of unfavorable variance of the technical assumptions (art 49). For life annuities contracts, additional demographic provisions need to be set up if undertaking's experience showed an unfavorable variance of demographic assumptions used for the calculation of provisions compared to the results experiences by its portfolio. Regulation 21/2008 (arts. 51–52) set criteria and methods to determine "Additional demographic provisions".</p> <p>Certain technical provisions are assessed by the appointed actuary:</p> <ul style="list-style-type: none"> <li>• art. 34 of Insurance Code requires that an appointed actuary provides an assessment on the correctness of the procedures and methods used by the undertaking in calculating technical its motor vehicle liability and liability for ships classes of insurance provisions (these are compulsory insurance and results to be the most important class of business for non-life insurance undertakings);</li> <li>• art. 31 of Insurance Code requires that an appointed actuary provides an assessment on the correctness of the procedures and methods used by the undertaking in calculating its life technical provisions and on methods used in defining expected returns on assets;</li> <li>• appointed actuaries have to do reports on technical provisions set up in annual and semi-annual statements, related to life and motor vehicle liability and liability for ships classes of insurance (Regulation 21/2008 arts. 50 &amp; 57 and Regulation 16 art. 50.).</li> </ul> <p>Technical provisions have to cope with all obligations arising from contracts (art. 25 of Regulation 21 for life sector and art 4 of Regulation 16 for non-life sector).</p>
<p>Assessment</p>	<p>Partly Observed</p>
<p>Comments</p>	<p>At a solo level accounting is based on Italian GAAP while at group level consolidated accounts follow IAS/IFRS. In the current Solvency I regime valuation for both, accounting and for regulatory purposes are the same. Current assets are valued at the lower of market value and cost; Fixed assets are valued at cost, net of permanent losses.</p> <p>The valuation of assets and liabilities is undertaken in a reliable manner. However, the fact that accounting (and regulatory) framework is substantially based on amortised cost diminishes severely its usefulness for regulatory purposes, in particular in case of winding up situations. In additions the anti crisis measures allowing insurers to adjust the reported value on sovereign bonds have added a level of complexity that certainly does not increase the transparency or</p>

	<p>usefulness of the accounting to take regulatory actions.</p> <p>The Solvency I framework, requires to determine technical provisions in a prudent way therefore the technical provisions do not calculate the Current Estimate nor the MOCE explicitly. In the life business, technical assumptions have to be most likely foreseeable and have to include a margin for adverse deviation of the elements considered. However there is no explicit requirement to evaluate the size of the margin.</p> <p>In the nonlife business technical provision are determined in a prudent manner. Also to calculate the provisions for claims outstanding the ultimate claim cost is to be used.</p> <p>This approach implies an implicit margin in the determination of the technical provisions. However there is not much transparency on the size nor required sufficiency of the margin.</p> <p>The amortized cost valuation used under Solvency I has deviations from an economic valuation. The valuations of most assets and liabilities would reflect its economic value except in a winding up situation where the amortize cost valuation might not necessarily reflect their economic value. Further, under current in force valuation measures related to the anti-crisis law, certain sovereign bonds are valued at cost.</p> <p>Current valuation methods, excluding the anti-crisis measures appear as a whole to be prudent. However, due to the lack of transparency in the determination of the margins, its regulatory usefulness is doubtful.</p> <p>With the implementation of Solvency II clarity on the resilience assessment of the insurers will be gained. In the mean time for the purpose of transparency and consistency in the market, IVASS should provide guidance on the expected level of prudence that need to be applied. This should be done at a high level by stating for instance confidence levels or requirements on the stochastic models to be used.</p>
ICP 15	<p>Investment</p> <p>The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.</p>
Description	<p>Regulation 36/2011 establishes guidelines on investments and assets covering technical provisions, detailing the general principles laid down in the Insurance Code (Article 38). The Regulation adopts a combination of principle-based and rules-based requirements to balance the need to have a prudent investment portfolio and at the same time allow for flexibility. The principle-based requirements include the provision to invest in assets belonging to the undertaking that guarantee the security, yield, liquidity and an adequate diversification.</p> <p>Governance requirements for all internal bodies include:</p> <ul style="list-style-type: none"> <li>• the Board is responsible for the approval of the investment policy considering the nature, scale and complexity of the business. The Board is also requested to assess the investment policy at least annually, with updates including appropriate and frequent internal reporting about the investment situation and the main risks (above all, with regards to derivatives and the large exposures);</li> <li>• Senior Management is responsible for the implementation and monitoring of the investment policy (e.g., the selection of investments, the definition of limits, the limits per business units, etc.);</li> </ul>

- the Control Body is responsible for the general oversight of the investment policy with the regulatory requirements and the internal decisions.

As to the rules-based requirements, the Regulation specifies, in detail, the limits in terms of both eligible instruments and quantitative limits. In particular, concerning the coverage of technical provisions (i.e., other than unit and index linked where the policyholders bear the investment risks, which account for almost 75 percent of TP) Regulation 36/2011, art. 16–21 for life TP and art. 22–27 for non-life TP requires that assets are invested in the following categories: Investments (category A), Claims (category B), Other Assets (category C), Deposits (category D), each of which is subdivided into different macro-classes with specific quantitative limits. For instance:

A1.1a) Securities issued or guaranteed by EU member States or OECD States or issued by member States' local authorities or public entities or by international organizations of which one or more of said member States are members, dealt in on a regulated market.

A1.2a) Bonds or other securities equivalent to bonds dealt in on a regulated market. That class shall also include structured products and the debt securities relating to securitisation operations, dealt in on a regulated market.

A1.4) Units of harmonised UCITS. That class shall include units of harmonised UCITS which invest mainly on the bonds market. The units of harmonised UCITS for which the prevailing investment cannot be determined with certainty shall be included in class A3.

A2) Loans:

Loans and interest-bearing loans secured by mortgages or by bank or insurance guarantees, or by other suitable guarantees given by local authorities.

A3) Equity securities and other securities equivalent to equity securities.

A4) Real estate:

That macro-class shall include investments in land and buildings and in values equivalent to investments in land and buildings.

Those assets shall be eligible to represent up to 40 percent of technical provisions.

The value of a single parcel of land or building, or of several parcels of land and buildings, which can be considered as a single investment, even if they are held through real estate companies, shall be eligible to represent up to 10 percent of technical provisions.

A5) Alternative investments:

That macro-class includes investments in shares or units of open nonharmonised UCITS, in shares or units in closed-end securities funds not dealt in on a regulated market and in reserved funds and hedge funds. Said UCITS, including closed-end securities funds not dealt in on a regulated market and reserved and hedge funds may be accepted if:

1) they are Italian funds, if issued in compliance with the consolidated law on financial mediation;

2) they are foreign funds, provided that their marketing on the Italian market has been authorised by the Bank of Italy;

3) they are foreign funds and not authorised to be marketed in Italy, if they are established in EU countries and otherwise comply with the provisions for the issuing of the authorisation established by the Bank of Italy as per Article 42 of the consolidated law on financial mediation.

**(Category B—Debts and Claims)**

B1) Debts owed by reinsurers net of debt items, including reinsurers' share of technical provisions, duly supported by evidence, up to 90 percent of their amount. That macro-class shall include debts owed by reinsurers deriving from reinsurance operations resulting in the actual transfer of the insurance risk, outstanding for less than 18 months.

B2) Deposits with and amounts owed by ceding undertakings, net of debt items and with supporting evidence, up to 90 percent of their amount.

B3.1) Amounts owed by policyholders, net of debt items, deriving from direct insurance operations, to the extent that they are actually outstanding for less than three months. That class shall include solely pending premiums and premium instalments which have expired no longer than three months from the date of the periodic notifications referred to under Article 42 (3) of the decree.

B3.2) Amounts owed by intermediaries, net of debt items, deriving from direct insurance and reinsurance operations, to the extent that they are actually outstanding for less than three months. That class includes amounts owed by intermediaries actually outstanding for less than three months from the date of the periodic notifications referred to under Article 42 (3) of the decree.

B4) Advances against policies.

B5) Tax recoveries, definitively assessed or for which the date established for the assessment has elapsed.

**(Category C—Other Assets)**

The category is made up for instance of:

C1) Tangible fixed assets, instrumental to the undertaking's activity, other than land and buildings, up to 30 percent of the balance-sheet value. Those assets, along with those included in macro-class C2), shall be eligible to represent up to a total 5 percent of technical provisions.

**(Category D—Deposits)**

This category includes deposits with banks and deposits with other credit institutions or any other institution authorized by the competent supervisory authority to receive deposits, net of debt items. Those assets shall be admitted up to 15 percent of the technical provisions to be covered. Only bank deposits at sight and those locked up for at least five days shall be accepted.

There are concentration limits in total. It is prohibited for undertakings to invest assets representing technical provisions for amounts exceeding the following limits:

a) 5 percent of their total gross amount in the following assets taken together:

- shares, bonds, other securities equivalent to them and other money market instruments referred to under Article 17, classes A1.2a), A1.2b), locked up bank deposits excluded, A1.3), A1.5), A3.1a) and A3.1b) regarding the same undertaking, provided that the value of the investment does not exceed 20 percent of the issuer's corporate capital. The value of the investment shall mean its nominal value; - loans as referred to under Article 17, macro-class A2), granted to the same borrower, taken together, other than those granted to a State, regional or local authority or to an international organization of which one or more member States are members. This limit may be raised to 10 percent if the undertaking invests not more than 40 percent of its technical provisions in the loans or securities of issuing bodies and borrowers

	<p>in each of which it invests more than 5 percent of its assets.</p> <p>b) 10 percent of their total gross amount in shares, other securities equivalent to shares or bonds referred to under Article 17, classes A1.1b), A1.2b), locked up bank deposits excluded, A1.3), A3.1b), A5.2a) and A5.2b).</p> <p>Additionally, for participations used to cover technical provisions two kinds of limits apply. One limit is the quantitative one that depends on the type of participation held (usually non listed shares), according to the Regulation 36/2011. Another limit is the qualitative one, due to the valuation rule at the nominal value that limits the value available for the coverage.</p> <p>For unit/index linked business where the policyholders bear the risks different limits apply; in particular, for unit-linked contracts the purpose of the investment limits (Circular 474/2002) is meant:</p> <ul style="list-style-type: none"> <li>• to ensure diversification among counterparties (e.g., investments issued by the same counterparties up to ten percent);</li> <li>• to avoid to pass to policyholders some high risks (for example it is forbidden the short sale, the investment on commodities, not listed assets are allowed up to ten percent,);</li> <li>• to assure an active management of internal funds (as an aside issue, it is to be noted that insurance undertakings can't charge investment fees to policyholders);</li> <li>• to avoid conflict interests (e.g., limits to investment in funds of the same group).</li> </ul> <p>Concerning index-linked contracts, IVASS regularly reviews its regulation in order to cope with the financial innovations of those contracts; in particular, since 2003 it was forbidden to hold investments in some risky assets (e.g., products linked to credit derivatives and securitization are forbidden, commodities, weather derivatives) (Regulation 32, art. 5.5) and from 2009—after the failure of some large investment banks (i.e., Bear Stearns, Lehman Brothers, Island Banks)—it is no longer possible to pass the “default risk” to the policyholders and some concentration limits also apply.</p> <p>Finally, the investment in derivatives is allowed only if they contribute to a reduction of investment risks or facilitate efficient portfolio management (Regulation 36/2011, arts. 13, 33–34).</p> <p>Concerning the risk arising from participation, Italian regulations (Insurance Code, Articles 79–81: Regulation 26/2008) require insurers to conduct a careful evaluation of the participation they hold or intend to acquire. Significant and dominant participations may be held only if the investment does not undermine the undertaking’s stability, particularly regarding the nature and performance of the business pursued by the related undertaking, the size of the investment in relation to the undertaking’s assets as well as the need to ensure that investments are diversified and spread to ensure an adequate level of security, quality, liquidity and profitability of such investments. Those participations include both those considered as assets covering technical provisions and those included in free assets.</p> <p>Moreover, the legislative framework gives IVASS an ex-ante power, before the acquisition of the control or significant participation by an insurer; in particular, it is required that Italian insurance undertakings which intend to acquire the control of other companies (i.e., carrying out activity other than insurance or ancillary) must obtain a formal authorization by IVASS; the legislation also requires a prior notification (before the operation is completed) but without a formal approval in the case of acquisition of significant participation (representing at least 5 percent of the related undertaking’s capital, or 5 percent of the participating undertaking’s net assets); quarterly supervisory report is also envisaged, as well as full detailed information in the annual</p>
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financial statements.

The Insurance Code (Articles 215–216) and Regulation 25/2008 envisage an ad hoc monitoring regime on significant IGTs, consisting of the following requirements:

- ex-ante reporting for those intra-group transactions considered economically significant whose value exceeds the thresholds indicated in Annex 1 of Regulation 25/2008 and for all intra-group transactions not carried out at arm's length;
- ex-post reporting on annual basis for relevant transactions, i.e. whose value exceeds one per cent of the required solvency margin of an undertaking on an individual basis (Regulation 25/2008, Article 14.2).

Among other considerations, the intra-group transactions concern investments, in particular transactions concerning securities not traded on regulated markets that are deep and liquid, transactions relating to control participations, agreements for the centralized management of liquid assets, agreements for the centralized management of investments.

Regulation 20/2008 includes some specific requirements on the parent undertakings, namely the strategic control over the development of the business and the related risks in order to maintain balanced conditions in the economic and financial situations of the individual undertakings and for the group as a whole. The parent undertakings are also responsible for the definition of common criteria used to identify measure, manage and control all risks and the accounting system.

In accordance with Financial Conglomerates Directive 2002/87/EC, as implemented by Law 142/2005, the coordinator, in cooperation with other supervisors involved may decide which (and how) intragroup transactions and risk concentration shall be reported by each conglomerate to the supervisors: for this purpose a set of data is required quarterly to the main Financial Conglomerates to value the financial risks, in particular the concentration risk, and, as ad hoc request, a set of data related to intra-group transactions over a specific threshold.

The regulatory requirements on investments are included in the Insurance Code and Regulation 36 (and for unit-linked contracts Circular 474/2002) and then publicly available to all interested parties.

With regard to additional guidance for groups, regulatory requirements on participations are included in Regulation 26/2008 that deals with participations held or intended to be acquired by insurance, reinsurance undertakings and insurance holding companies with head office in Italy and heads of insurance-led financial conglomerates. In Regulation 26/2008, it's clearly stated that the undertakings, when acquiring controlling interests or significant participations shall assess the impact of such participations on their stability, having special regard to the verification of solvency and of capital adequacy. Those requirements then apply, both on a group-wide basis, as well as to insurance legal entities within the group, and address issues specific to groups, such as requirements for liquidity, transferability of assets and fungibility of capital within the group.

A recent amendment to Regulation 36/2011 (Article 11) has reduced reliance on the rating issued by Credit Rating Agencies (CRA) in line with ongoing discussions at the EU level on some legislative proposals on this matter.

The need to match the investment strategy with the risk and the obligations expected from the technical provisions are foreseen by the Insurance Code (Articles 38-43) and Regulation 36/2011 (arts 8, 16/22, 28.6, 31-32) requiring insurers to consider the risk profile of the liabilities held with a view to guaranteeing the integrated management of assets and liabilities (Regulation

	<p>36/2011, art. 8).</p> <p>Undertakings shall only invest in assets whose risks the undertakings concerned can properly identify, measure, monitor and manage (Regulation 36, art. 11.5).</p> <p>At the group level, the parent company itself defines the investments' strategy of the group; and the centralized management of the group's investments is expressly defined, annually, within the guidelines for the operation of intra-group transactions (Regulation 25/2008, art. 6.4).</p> <p>Undertakings shall properly consider the investment risk stemming from more complex instruments, such as derivatives, structured products or funds, or less transparent products requiring also the look-through assessment of the embedded risks by using specific procedures of quantitative prospective analyses (Regulation 36/2011, Ar. 11.4). Among all the quantitative limits, Regulation 36/2011 imposes quantitative limits on investments in complex instruments such as derivatives, structured products or funds when allocated to the technical provision coverage. Board resolution must separately include general policies for the use of derivative financial instruments, including structured products (Regulation 36/2011, art. 8).</p>
Assessment	Observed
Comments	<p>Regulation 36/2011 sets out guidelines on investments and assets covering technical provisions, detailing the general principles established in the Insurance Code (Article 38). The Regulation adopts a combination of principle-based and rules-based requirements. The principle-based requirements include the provision to invest in assets belonging to the undertaking that guarantee the security, yield, liquidity and an adequate diversification. There are concentration limits per type of asset and issuer for assets representing technical provisions.</p> <p>Investment in derivatives is allowed only if they contribute to a reduction of investment risks or facilitate efficient portfolio management. The Board is required to set and review on an annual basis general policies for the use of derivative financial instruments, including structured products.</p> <p>Significant and dominant participations may be held only if the investment does not undermine the undertaking's stability. Those participations include both those considered as assets covering technical provisions and those included in free assets.</p> <p>Significant IGTs are supervised by approval or reporting requirements and can be denied.</p> <p>The regulatory requirements on investments are included in the Insurance Code and Regulation 36/2011 (and for unit-linked contracts, Circular 474/2002) and are publicly available to all interested parties.</p> <p>Through Regulation 36/2011, IVASS has implemented a reduced reliance on the rating issued by Credit Rating Agencies (CRA).</p> <p>Asset Liability matching is required to be monitored by the undertaking's internal control functions.</p> <p>The Board's investment policy requires the undertaking to only invest in assets whose risks the undertakings can properly be identified, measured, monitored and managed. Investment risk stemming from more complex instruments, such as derivatives, structured products or funds, or less transparent products, are required to be more carefully assessed. At group level, the parent company is responsible to define the investments' strategy of the group, thus maintaining the overview of the investment activity.</p>

ICP 16	<p>Enterprise Risk Management for Solvency Purposes</p> <p>The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.</p>
Description	<p>Regulation 20/2008 covers requirements on risk management systems; in particular, Article 18.1 envisages that in order to maintain the exposure risks at a reasonable level, consistent with undertaking's available assets, undertakings must establish an adequate system of risk management, which is proportionate to their size, nature and complexity of their business, which allows them to identify, assess and control their most significant risks.</p> <p>Significant risks are defined as those whose consequences could compromise the undertaking's solvency, or create a serious obstacle to the achievement of the company's objectives.</p> <p>Moreover, Regulation 20/2008, Article 20 states that the undertakings themselves should carry out some prospective stress tests analyses. The stress tests should be according to the complexity and nature of their business. They need to be repeated according to the frequency required by the type of risk, the development in the size and nature of the undertaking's business and the market context, and should be done at least once a year. The results of the stress test, together with the underlying hypotheses, should be brought to the attention of the Board of Directors, so as to make a contribution towards the review and improvements to the policies on risk management, and the operational guidelines and exposure limits established by the Board itself. Any identified vulnerability towards a given series of circumstances, should be addressed by the undertakings by adopting appropriate measures for adequately managing the relative risks.</p> <p>Regulation 20/2008 further delineates the internal control and risk management in the insurance group. Mainly, the parent undertaking sets up a system of internal controls for the insurance group, which is adequate for carrying out effective control over the group's overall strategic choices and the management balance of each individual component. In particular, it provides for:</p> <ul style="list-style-type: none"> <li>a) formalized procedures of coordination and linking (also as regards information) between the companies belonging to the insurance group and the parent undertaking for all the areas of business;</li> <li>b) mechanisms for integrating the accounting systems, also with the aim of ensuring the reliability of the registered items on a consolidated basis;</li> <li>c) periodical information flows which allow the achievement of strategic objectives and the compliance with regulations to be verified;</li> <li>d) highlighting and accounting procedures which allow the transactions between entities in the insurance group to be checked, quantified, monitored and controlled;</li> <li>e) procedures which ensure the consistency between the data and information produced for the purposes of supplementary supervision and those produced for the purposes of supervising the insurance group;</li> <li>f) the definition of tasks and responsibilities of the various units assigned with the control of risks within the insurance group and the mechanisms for coordination;</li> <li>g) procedures that are appropriate for ensuring, in a centralized form, the identification, measuring, management and control of risks at insurance group level.</li> </ul> <p>The parent undertaking formalizes and informs all the companies in the insurance group about</p>

	<p>the criteria used to identify measure, manage and control all risks. In addition, it validates the control systems and procedures within the insurance group.</p> <p>In order to verify that the undertakings belonging to the insurance group behave in a way that complies with the parent undertaking's guidelines and that the internal control systems are effective, the parent undertaking makes sure that periodical inspections are performed inside the companies that make up the insurance group, also using the Internal audit functions of the companies themselves.</p> <p>The parent undertaking promptly informs IVASS of any specific legal provisions, which are in force in the countries where the foreign companies in the insurance group have their head offices, and that are an obstacle to the compliance with these provisions.</p> <p>Regulation 20/2008 (Article 19.1) illustrates the principles related to documentation that undertakings need to keep on an on-going basis. In particular, Article 19.1 envisages that undertakings collect information on a continual basis about internal and external, current and future risks, to which they are exposed and which could involve all the operational processes and functional areas. The procedure relating to risk census and its related results are adequately documented. Moreover, Article 19(4) requires documentation the methods of evaluation and measuring risks, and the related results, are adequately documented. Regulation 20/2008 defines also the notifications to IVASS. In particular, art. 28 states that the undertakings shall notify IVASS of the appointment or revocation of the responsible officers of Internal audit, Risk management and Compliance functions within thirty days of the adoption of the related act.</p> <p>Regulation 20/2008 (Article 19.5) states the principles that undertakings should take into account related to risk management policies. Moreover, Regulation 20/2008 (Article 18.2) states that an undertaking makes a catalogue of risks in line with the nature and size of the business, nevertheless the catalogue should includes at least the following risks:</p> <ul style="list-style-type: none"> <li>a) underwriting risk: the risk arising from the underwriting of insurance contracts, associated with the events covered and processes followed due to the pricing and selection of risks, with unfavorable trends in actual claims compared to those forecast;</li> <li>b) reserving risk: the risk linked to the quantification of technical reserves that are not sufficient compared to the commitments assumed in favor of those policyholders or those who have suffered damages;</li> <li>c) market risk: the risk of making losses due to variations in interest rates, share prices, exchange rates and real estate prices;</li> <li>d) credit risk: the risk linked to breaches of contract by issuers of financial instruments, reinsurers, brokers and other counter-parties;</li> <li>e) liquidity risk: the risk of not being able to fulfill one's obligations to policyholders and other creditors due to difficulties in transforming investments into liquid cash without suffering losses;</li> <li>f) operational risk: the risk of losses arising from inefficiency of people, processes and systems, including those used for distance selling, or external events, such as fraud or the activities of service suppliers;</li> <li>g) group risk: risk of " contagion", i.e., a risk which occurs, subsequent to the relationships that take place between an undertaking and the other entities in the group: difficult situations can arise in one entity within the same group and can spread with negative effects on the solvency of the undertaking itself; risk of conflict of interests;</li> <li>h) risk of non-compliance with regulations: the risk of incurring judicial or administrative</li> </ul>
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sanctions, suffering losses or damage to reputation as a consequence of the failure to comply with laws, regulations or provisions issued by the supervisory Authority or self-regulatory rules, such as articles, codes of conduct or self-disciplinary codes; risk arising from unfavorable changes in the law or judicial orientation;

i) reputational risk: the risk of deterioration in the company's image and an increase in conflict with insurance customers, due to the poor quality of services offered, the placement of inadequate policies or the behavior of the sales network.

Furthermore, with specific reference to the provisions relating to insurance groups, Regulation 20/2008 (Article 26) states that within the scope of its activities of corporate governance of the insurance group, the parent undertaking exercises:

a) strategic control over the development of the various areas of business in which the insurance group operates and the risks related to them. The control focus both on the expansion of the business carried out by the companies belonging to the insurance group and on the policies relating to acquisition or alienation of companies in the insurance group;

b) management control aimed at ensuring the maintenance of balanced conditions in the economic and financial situations of the individual undertakings and of the insurance group as a whole;

c) a technical, operational control aimed at assessing the risk profiles brought to the group by its subsidiaries.

Regulation 20/2008 (Article 19.7) envisages that undertakings define the procedures which can promptly highlight the appearance of risks that might damage their financial and economic situation or exceed the established tolerance thresholds. The undertaking prepares adequate emergency plans in respect of the major risk sources it has identified.

Furthermore, Regulation 20/2008 (Article 19.2) states that the processes for identifying and evaluating risks should include a qualitative assessment and, for quantifiable risks, the adoption of methods to measure the exposure to risk, including, where appropriate, systems for determining the maximum potential loss.

Regulation n. 20/2008 (Article 5.2h) states that the administrative body should periodically be informed about the effectiveness and adequacy of the system of internal control and risk management and that the most significant, critical situations are promptly brought to its attention, whether they are identified by senior management, the internal audit function or personnel, promptly issuing the directives for the adoption of corrective measures.

The Risk Management function must check the adequacy of the risk measuring models with the operations carried out by the undertaking (Regulation 20/2008 (Article 21)).

Regulation 20/2008 (Articles 18.2e, 19.5) addresses the ALM policy and its appropriateness to the nature, scale and complexity of those risks to set out. It is also required that policies relating to the assumption, measuring and management of risks are defined and implemented, taking as a reference point the overall view of the balance sheet assets and liabilities, considering that the development in techniques and models of asset-liability management is fundamental for a correct understanding and management of exposures to risks, which can occur due to inter-relationships and imbalance between assets and liabilities.

Regulation 36/2011 states the general principles related to investment management. In particular, Article 4(1) envisages that undertakings shall define, by reason of the dimension, nature and complexity of the activity pursued, investment policies regarding all their assets consistent with the risk profile of their liabilities, so that they continuously have suitable and

	<p>sufficient assets available to cover liabilities. The investment policy shall assess, at least every year, its suitability in relation to all the business pursued by the undertaking, its risk tolerance and capitalization level. Moreover, the investment policy shall be subject to a specific framework resolution adopted by the administrative body and reviewed at least once a year; the resolution shall set the guidelines on investments according to the size, nature and complexity of the activity performed, taking account of the requirements and limits set by the Insurance Code and by the Regulation 36/2011.</p> <p>The resolution on investment policy, which must consider the risk profile of the liabilities held, with a view to guaranteeing the integrated management of assets and liabilities, must contain at least the following elements:</p> <ul style="list-style-type: none"> <li>a) establishment of the investment policy in terms of composition of the medium-long term investment portfolio;</li> <li>b) definition of the categories of investment and their limits in relation to geographical area, markets, sectors, counterparties and currencies of denomination;</li> <li>c) tolerance limits in case of deviation from the limits set under b);</li> <li>d) definition of the concentration limits per single issuer or group;</li> <li>e) definition of the criteria for selecting investments and of the limits and terms of allowed transactions in securities in the portfolio;</li> <li>f) limits and terms of the investment in categories of assets which are less liquid or for which no reliable and independent assessments are available;</li> <li>g) indications on the methods of valuation and measurement of investment risks as defined within the risk-management process;</li> <li>h) timings of the analyses of investments' performance and timings of the reports to the administrative body;</li> <li>i) identifying the main features, in quantitative and qualitative terms, of fixed and current assets, with a view to the classification of securities as fixed or current assets. In particular the guidelines for the classification of securities as fixed or current assets shall be specified in accordance with Article 14;</li> <li>j) general policies for the use of derivative financial instruments, including structured products, which take account of the overall current and future economic, assets/liabilities and financial situation of the undertaking. Going into details: the objectives, operating arrangements and limits for use shall be specified, including the level of risk tolerance on the positions taken and on the total portfolio managed, taking account of the existing correlations between those instruments and the assets/liabilities held.</li> </ul> <p>The above paragraph j) addresses the situations where more complex and less transparent classes of asset and investment are used.</p> <p>Regulation 20/2008 (Article 5(1)) requires the Board of Directors to ensure that the system of risk management allows the most significant risks to be identified, assessed and controlled, including those risks arising from non-compliance with regulations.</p> <p>In particular, the Board defines and, at least once a year, assesses in the view of a possible revision the strategies and policies relating to the adoption, assessment and management of the most significant risks in line with the level of the undertaking's asset adequacy; on the basis of the results of the processes to identify and assess risks, it establishes the levels of risk</p>
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tolerance and reviews them at least once a year (Regulation 20/2008, Article 5(1)(e)).

Particularly, the policies relating to the adoption, assessment and management of the most significant risks specifically include the underwriting risks (see the catalogue of risks listed above).

Moreover, Circular 574/2005 relates to the provisions relating to outward reinsurance. In particular, IVASS established (art. 1) that the undertakings' reinsurance strategies verify the actual insurance risk transfer when assessing reinsurance treaties' suitability to have an impact on the solvency margin, on assets representing technical provisions and—more in general—undertakings' technical and financial balance.

Furthermore (art. 2), the strategy of risk containment and portfolio balance, implemented through the underwriting of reinsurance policies, shall be the object of a specific outline resolution passed by the undertaking's Board of Directors, which shall set out the reinsurance guidelines and verify their application by the Top Management. More specifically, the outline resolution shall indicate the target level of net risk retention, the characteristics of the reinsurance instruments the undertaking intends to underwrite, their objectives and adequacy for the coverage of the risks taken and the criteria used in the selection of reinsurers. The internal procedures for carrying out the strategy shall also be indicated in the resolution.

Regulation 20/2008 (Art. 5(1) requires the Board of Directors to ensure that the system of risk management allows the most significant risks to be identified, assessed and controlled.

The Board establishes (art. 5(2.e)), on the basis of the results of the processes to identify and assess risks, the levels of risk tolerance and reviews them at least once a year.

Furthermore art. 7 (2.b) establishes that the Senior management shall implement the policies relating to the adoption, assessment and management of risks as established by the administrative body, ensuring the definition of operational limits and prompt checks on those same limits, as well as the monitoring of exposures to risks and compliance with the levels of risk tolerance.

When measuring risk and where appropriate, undertakings shall consider (art. 19 (3)) the interrelations between risks, assessing them singularly and on an aggregate basis.

Regulation 20/2008 (Art. 19.6) requires the Board to carry out the processes for identifying and evaluating risks on a continual basis so as to take into account the changes in the nature and size of the business and the market context and also the appearance of new risks or changes in those that exist already.

Moreover, where the activities of the risk management functions are grouped together within an insurance group—adequate procedures should be adopted to ensure that the activities of the risk management function, as defined at insurance group level, are adequately calibrated to the risk profile of each company (Regulation 20/2008, art. 21.3).

Regulation 20/2008 (art. 19.2) envisages that the processes for identifying and evaluating risks should include a qualitative assessment and, for quantifiable risks, the adoption of methods to measure the exposure to risk, including, where appropriate, systems for determining the maximum potential loss. However, IVASS does not require a full ORSA and forward-looking analysis is missing.

IVASS assesses the adequacy and soundness of the undertakings' framework and processes, through the offsite assessment of the report on the system of internal controls and risk management (Regulation 20/2008, art. 28.2(a)) and other relevant information, which IVASS may request according to its informative power (Insurance Code, Article 189) and IVASS may

	consider conducting onsite inspections on this item.
Assessment	Observed
Comments	IVASS requirements address all standards of this ICP with the only exception of the solvency position aspect of the ORSA. Under current solvency regime the value of the capital position has a minor relevance in risk management compared with the risks that regulation requires to be addressed.
ICP 17	<p>Capital Adequacy</p> <p>The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.</p>
Description	<p>The Solvency regime in Italy is Solvency I. According to Regulation 19/2008, capital requirement at the entity level is calculated following the European directive formula that uses a percentage of the technical provisions and premiums for non-life business. The group solvency requirement is calculated as the sum of solvency requirement applicable to regulated entities belonging to the group (i.e., insurers, banks), so that no diversification benefits arise. A total balance sheet approach for the determination of solvency requirements is currently not followed.</p> <p>The current supervisory system requires that the insurer continuously maintain a sufficient solvency margin as determined by Solvency I calculations. In addition to the annual calculation, IVASS requires a half year information (with the semi-annual financial statement) on the expected amount of the solvency margin to be set up at the end of the year and its constituent elements, based on the economic and financial performance in the first half.</p> <p>In the present legislation two explicit solvency control levels apply: the required solvency margin and the guarantee fund, as defined by the Insurance Code (arts. 44-46) and Regulation 19/2008. The guarantee fund is equal to one third of the required solvency margin (art. 46 of Insurance Code). Insurance Code defines levels of intervention in case of breach of solvency margin requirements different from those requested in case of breach of guaranteed fund (art. 222). (See 17.4 for details).</p> <p>In case the insurance or reinsurance undertaking does not possess the necessary solvency margin, IVASS shall require that a restoration plan be submitted, for its approval, within a deadline which shall be appropriate but however not detrimental to the interests of insured persons and of those entitled to insurance benefits (Insurance Code, art. 221). If the solvency margin falls below the guarantee fund, or if the guarantee fund is no longer set up in compliance with the relevant laws or the implementing measures, IVASS shall require that a short-term finance scheme indicating the measures which the undertaking proposes to take in order to restore its financial situation be submitted for its approval, within an appropriate deadline (Insurance Code, art. 222). In the abovementioned cases, IVASS may prohibit the disposal of the undertaking's assets located within the territory of the Italian Republic and may allow, based on specific authorisations, restrictions on the free disposal of such assets, while giving anyhow prior notification to the host supervisory authorities of the other member States in which undertaking is active. Furthermore, IVASS may ask the supervisory authorities of the other member States in which the undertaking owns assets to take the same measures and indicate the assets to be included in such measure. In the cases of breach of guarantee fund IVASS may also order that individual assets recorded in the register of assets representing technical provisions be frozen in compliance with the procedures of freezing assets (Insurance</p>

Code, art. 222).

In the case of the group capital requirements, given that group available capital is calculated through consolidated accounts and multiple gearing and intra-group creation of capital is addressed, it may happen that a group solvency deficit arises at group level even though all single entities appears to be in line with their requirements: in that case the highest insurance entity in the group is requested by IVASS to ensure sufficient capital resources to be in place at group level. There is no other solvency related trigger level given that group supervision is supplementary.

The approach to be followed to determine regulatory capital requirements is defined by Regulations 18/2008 and 19/2008. Undertakings are not allowed under Solvency I to use other approaches.

Solvency II will set a Solvency Capital Requirement, fully risk based, with explicit determination on how a risk is addressed. The current Solvency I regime is not explicit on how, where and to what extent each risks is addressed.

While waiting for Solvency II, Regulation 20/2008 already requires undertakings' administrative body to define and, at least once a year, assess whether the strategies and policies relating to the adoption, assessment and management of the most significant risks are in line with the level of the undertaking's asset adequacy. On the basis of the results of the processes to identify and assess risks, it establishes the levels of risk tolerance and reviews them at least once a year. However, the calibration of the required capital for a given risk is not required. Cross sector double counting for participations higher than 20 percent is dealt with at solo level if conditions for group supervision are not in place. If group supervision is in place, double counting is dealt at group level. Participations are limited to a nominal value of 20 percent.

The law allows the supervisor to request a variation to regulatory capital requirements in case the rights of insured persons and of those entitled to insurance benefits are threatened because the financial position of the insurance undertaking is deteriorating, or if the rights of ceding insurance undertakings are threatened because the financial position of the reinsurance undertaking is deteriorating (Insurance Code, art. 223). Those requests are made on a case by case basis.

The available solvency margin shall consist of the net assets of the insurance undertaking free of any foreseeable liabilities, less any intangible items (Insurance Code, art. 44-45; Regulation 19/2008). It includes:

- the paid-in share capital or, in the case of a mutual insurance undertaking, the paid-up initial fund;
- statutory and free reserves neither corresponding to particular underwriting liabilities or to adjustments of asset items nor classified as equalisation provisions;
- profit for the current financial year and for the previous financial years brought forward after deduction of dividends to be paid;
- (minus) loss for the current financial year and for the previous financial years brought forward.

Other listed items, subject to limitation, may be included (i.e., cumulative preferential share capital, subordinated loan capital). IVASS can authorize the transitory inclusion in the available solvency margin of additional elements as well (Insurance Code, Art. 44).

Regulation 19/2008, section II, defines all items subject to limitation and those subject to IVASS

	<p>prior approval.</p> <p>Subordinated loans can be considered among available solvency capital only if fully paid-in and there is a binding agreement under which, in the event of ordinary or compulsory liquidation of the undertaking, it has a sufficient level of subordination (Insurance Code, Art. 45).</p> <p>The issuance of subordinated loans is subject to prior communication to IVASS (Regulation 19/2008, art. 22).</p> <p>The value of any own shares and shares of the controlling undertaking, any profits that have been, or are to be distributed to the shareholders have to be deducted from the available margin.</p> <p>IVASS may require the company to deduct from the elements of the margin available assets where highlighting a trend that can also adversely affect the solvency of the company perspective (Regulation 19/2008, art. 12).</p> <p>Further to the anti-crisis law decree issued in 2008 and subsequently renewed year by year by the Government, IVASS issued technical details for its application (Regulation 43/2012 which updated and recast previous similar Regulations). Anti-crisis law decree 185/2008 allows insurance undertakings not to align the balance-sheet values of non durable financial assets (in particular, government bonds) to the market value, but to keep them at the most recent book value. The derogation may be applied by insurers provided that:</p> <ul style="list-style-type: none"> <li>• the valuation is coherent with the future cash outflow of the undertaking;</li> <li>• the difference between such a value and the market value at each year end date is classified into a "<i>non-distributable reserve</i>". The non distributable reserve is admitted as available capital. In case an insurance undertakings will make use of the non distributable reserve in order to meet the solvency criteria requirements, a quarterly update on solvency margin is requested (art. 7);</li> <li>• the use of such option is made public by the insurers together with its effect on the solvency position;</li> <li>• the Board of the insurer is aware and explicitly approves the use of the option.</li> </ul> <p>Various anti-crisis measures have been in place since 2008, and renewed on an annual basis with some modifications. Recent Regulation 43/2012, restricting the measures to EU sovereign bonds will be in place starting from exercise 2012 and until the Solvency II Directive comes into force.</p> <p>As per group solvency calculation, the abovementioned requirements apply mutatis mutandis. It is to be noted however an additional application of prudential filters set by Regulation 18/2008 when using consolidated accounts in the calculation: since group available capital is calculated on the basis of IFRS consolidated accounts while groups solvency requirements are calculated on the basis of (local GAAP) solo solvency requirements, some filters are required in order to avoid a misleading comparison between requirements and available capital giving rise to a meaningless deficit/surplus. Main filters apply in the field of assets and technical provisions.</p> <p>Under Solvency I, several quantitative and qualitative limits do apply on different kind of eligible capital resources, substantially mirroring a tiering system. Current guaranteed fund (MCR) can be covered by capital of the highest quality. The guarantee fund is covered exclusively by the asset items listed in Article 44 (2), less any intangible items listed in the regulation mentioned in paragraph 5 of the same article:</p> <p>a) the paid-up share capital or, in the case of a mutual insurance undertaking, the paid-up initial</p>
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	<p>fund;</p> <p>b) statutory and free reserves neither corresponding to particular underwriting liabilities or to adjustments of asset items nor classified as equalization provisions 57;</p> <p>c) the profit for the current financial year and for the previous financial years brought forward after deduction of dividends to be paid;</p> <p>d) the loss for the current financial year and for the previous financial years brought forward.</p> <p>For the solvency margin qualitative requirements apply to subordinated loans and preferential shares to be considered eligible for the coverage of solvency margin. Quantitative limits apply to capital resources, e.g., for capital elements eligible under IVASS authorization: for example, unrealised gains on assets should be calculated according to criteria set out in ISVAP regulation 19/2008 and would be eligible under IVASS authorization up to 10 percent or 20 percent of the lower between required and available minimum margin (percent depending on life or non-life business respectively). Moreover, subordinated loans cannot exceed 50 percent or 25 percent (depending on the basic features of the loans) of the lower between required and available minimum margin. (Art. 44 and 45 of Insurance Code and Chapter II and III of Regulation 19/2008).</p> <p>Under Solvency I, insurers have to calculate their solvency margin according to the formula envisaged by Directives, so they are not allowed to use internal models. However, under Solvency II, the use of internal models to determine capital requirements will be allowed. IVASS has been very active in the pre-application process as a large number of insurers have expressed interest in the use on of internal models. In particular in 2010, IVASS issued two letters to the insurers (January 26 and May 19 2010, available on IVASS's website) to highlight the main topics of the Solvency II regime, which undertakings already need to carefully consider. All undertakings that intend to apply for a pre-application process had to provide IVASS with a "pre-application package" (see 17.13). Furthermore, informal meetings of teams dedicated to the pre-application process are taking place, to share on a continuous basis information, experiences, etc.</p>
Assessment	Partly Observed
Comments	<p>A total balance sheet approach will be in place with the entry into force of Solvency II. For the time being, the current approach is still based on Solvency I and hence does not consider interdependence between assets, liabilities, regulatory capital requirements and capital resources for determining the solvency requirements.</p> <p>The current supervisory system requires that the insurer continuously have a sufficient solvency margin as determined by Solvency I calculations. In the present legislation, two explicit solvency control levels apply: the required solvency margin and the guarantee fund. The levels of intervention in case of breach of solvency margin requirements different from those requested in case of breach of guaranteed fund that are more severe and urgent in nature that can quickly lead to freeze of assets, intervention and winding up.</p> <p>Current Solvency I regime, is not explicit on how, where and to what extent each risk is addressed. Hence, the calibration of the required capital for a given risk is not possible or at least is cumbersome.</p> <p>The law allows the supervisor to request a variation to regulatory capital requirements only in emergency situations to protect policyholders.</p>

	<p>The available solvency margin shall consist of the net assets of the insurance undertaking free of any foreseeable liabilities, less any intangible items. Further, IVASS may require the company to deduct from the elements of the margin available assets where highlighting a trend that can also adversely affect the solvency of the company perspective.</p> <p>The measures adopted in line with the anti-crisis law decree issued in 2008 allow the difference between cost value and market value of certain sovereign bond to be used as capital in the form of a "<i>non-distributable reserve</i>".</p> <p>Under Solvency I, several quantitative and qualitative limits do apply on different kind of eligible capital resources, substantially mirroring a tiering system. The current guaranteed fund (MCR) can be covered by capital of the highest quality.</p> <p>Under Solvency I, insurers have to calculate their solvency margin according to the formula envisaged by Directives, so they are not allowed to use internal models.</p> <p>Solvency I regulation does not allow to calculate solvency capital requirement using approaches different from the formula defined by law, therefore, internal models are not applicable for undertakings' solvency requirements. However, in preparation for Solvency II, IVASS has already started analyses on internal model developed by undertakings and is strongly involved in the pre-application process. Approximately 65 percent of the Italian insurance market, based on premium, is considering the use of an internal model. IVASS is recommended to maintain the resources and focus in the approval work of these models to avoid possible deficiencies in the capital determination emanating from the use of internal models.</p> <p>The full ICP is expected to be observed with the implementation of Solvency II.</p>
ICP 18	<p>Intermediaries</p> <p>The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.</p>
Description	<p>The Insurance Code (Articles 106-116) sets forth the requirements for the licensure and registration of intermediaries. The Insurance Code (Article 183) and Regulation 5/2006 establish rules of conduct for intermediaries, implementing directive 2002/92/EC, which defines the diligence, professionalism and transparency requirements for insurance intermediaries while carrying on their activity. IVASS has the authority to assess the ethical and professional qualifications of intermediaries and may revoke the registration and remove the subject from the Public Register of Intermediaries and impose pecuniary administrative and disciplinary sanctions in the event of violations (Article 324). IVASS primarily bases its supervision on consumer complaints and onsite inspections and applies sanctions for breaches in accordance with established sanction criteria.</p> <p>In 2012, IVASS received 866 complaints on intermediaries and there were 295 intermediary license revocations, 349 disciplinary procedures, of which, there were 63 reproaches, 117 censures and 115 striking off orders, revoking the intermediary's registration for 5 years, after which the individual must reapply for registration.</p> <p>IVASS maintains and updates a single electronic Register of insurance and reinsurance intermediaries having their residence or head office in Italy (Article 109). The Register has 5 sections (A-E) including different types of intermediaries: A=Agents; B=Brokers; C=Direct Canvassers; D=Banks and Assimilated Entities; E=Employees of subjects enrolled under A, B, &amp; D who conduct their activity outside the premises of A, B, &amp; D. As a whole, the Register includes approximately 245,000 intermediaries, 225,000 as natural persons, 175,000 of which are enrolled</p>

in section E as employees. Intermediaries must pass a qualifying examination administered by IVASS in order to be registered in sections A and B. Registration in sections C or E must pass a test after attendance in a professional training course and persons dealing inside the premises must follow professional training courses as well (Articles 110–111).

IVASS organizes and administers the annual licensing examination for sections A & B class intermediaries. Approximately 5,000 applicants usually apply and about 300 pass the written and oral parts of examination. D class intermediaries can sell standard and non-standard insurance contracts and no examination is required. E class intermediaries constitute the vast majority of registered intermediaries (approximately 200,000) and training requirements apply to them.

Intermediaries must confirm fit and proper requirements and must submit an affidavit of no criminal history at the time of registration; if IVASS later discovers non-compliance, it reports the matter to the proper authorities and withdraws the registration. IVASS requires periodic training for products sold and some intermediaries (class D) can only sell non-complex standardized products.

As part of the reorganization of IVASS under the new law, the intermediary registration and management of the Register will be moved out of IVASS into a new organization that will assume responsibility for registration oversight and management. The change is anticipated and IVASS expects completion over the next two years.

Intermediaries and their staff must attend annual professional training courses to improve knowledge, technical and operating skills commiserate with the products offered, with additional training required every time a new product is offered (Regulation 5/2006, Article 17.2). IVASS has additional limitations for issuance of non-standardized insurance contracts and intermediaries must avoid direct or indirect conflicts of interest. (Insurance Code, Article 183; Regulation 5/2006, Article 48).

The Insurance Code (Article 110) and Regulation 5/2006 establish the essential requirements for the registration of insurance intermediaries, including: (i) full rights as a citizen; (ii) no previous bankruptcy; (iii) not registered in the register of loss adjusters; (iv) professional indemnity insurance; and (v) appropriate professional knowledge and ability.

Conducting insurance business as an intermediary without being registered in the Single Register of insurance and reinsurance intermediaries is a criminal offence subject to criminal penalties (Law 209/2005, Article 305). EEA intermediaries conducting business in Italy do not need separate authorization or new verification of IVASS requirements, but non-EEA intermediaries must register upon proof of fulfillment of Italy's intermediary requirements.

The Insurance Code (Article 183) requires all intermediaries to maintain independent, sound and prudent financial management and take adequate measures to safeguard the rights of policyholders and insured persons. The Regulations require remuneration, governance and pre-approval processes for advertising (Regulations 39/2011 and 35/2010, Article 42). Intermediaries who are legal entities are also subject to corporate governance requirements stemming from company law and section D intermediaries (banks and similar entities) are also subject to specific sectoral rules.

IVASS has implemented EU Directive 2002/92 (Article 12) regarding an intermediary's pre-contractual disclosure obligations in the sale of insurance products (Insurance Code, Articles 49, 51, 60 and 120; Regulation 5/2006). Intermediaries must deliver to the policyholder "Models 7A and 7B" information, disclosing the intermediary's obligations to policyholders, identification data, policyholder protection tools, the names and their relationship with the undertakings they

	<p>represent (corporate names, holdings, percentage of ownership/capital interest in undertaking, remuneration, etc.) and the main characteristics of the product offered (Regulation 23/2008).</p> <p>The Insurance Code (Article 117) requires intermediaries to maintain segregated accounts for premiums paid and for claims payments, separate from the independent assets of the intermediary and protected from creditors, other than policyholders and insurance undertakings. Regulations require the intermediary to pay the premiums from the segregated account no later than 10 days after collection (Regulation 5/2006, Article 54). Intermediaries operating for various undertakings must adopt procedures designed to guarantee the attribution of monies to each principal undertaking and the respective insured persons.</p> <p>Intermediaries are prohibited from receiving cash payments for life assurance premiums and for non-life insurance contracts exceeding EUR 750 per year for each contract (Regulation 5/2006, Article 47(3)); however, this prohibition does not apply to motor vehicle liability insurance and the relevant ancillary coverage.</p> <p>The Insurance Code (Article 324) authorizes IVASS to impose pecuniary and disciplinary sanctions in case of infringement of: behavioral rules, the obligation to provide pre-contractual information, conflict of interest violations, transparency and advertising violations, failure to provide information to IVASS, and violations of the obligation to keep separate accounts, etc. (Specifically, non-compliance with the provisions of Articles 109 (4 &amp; 6), 117 (1), 119 (2, last sentence), 120, 121, 131, 170, 182 (2 &amp; 3), 183, 185 (1) and 191, or with the relevant implementing provisions by intermediaries recorded in the register).</p> <p>The Insurance Code (Article 305) affords intermediaries the right to appeal any injunction or payment/disciplinary sanctions to the Tribunale Amministrativo Regionale del Lazio (TAR) and imprisonment from six months to two years with a fee varying from EUR 10,000 to EUR 100,000 for conducting insurance or reinsurance activity without registration.</p> <p>IVASS provided the assessors with detailed information on the CONSAP Broker Guaranty Fund, including data from 2010–2012, indicating the number and amounts of claims made, entities making the claims, claims paid and rejected to companies, intermediaries and private entities for each year. There were 58 claims made in 2010, 62 claims in 2011 and 25 claims in 2012. Payments ranged from a high of EUR 2,979,272.25 paid to companies in 2010 to a low of EUR 36,772,79 to private entities in 2010.</p>
Assessment	Partly Observed
Comments	<p>The Insurance Code (Article 110) requires intermediaries to be registered in the IVASS Register, demonstrate knowledge and ability in line with insurance mediation activity and the products distributed, and complete annual training to update their skills as appropriate (Regulation 5/2006). The five types (A, B, C, D, &amp; E) of intermediaries' registration are all subject to IVASS supervisory review.</p> <p>The IVASS Intermediaries Supervision Department manages the Register and is responsible for intermediaries' supervision. Intermediaries must report material changes to their registration information. Enactment of Law 135/2012 requires moving intermediaries' registration out of IVASS to an ad hoc private institution to manage the Register under IVASS supervision. The assessors agree this is a positive step to establish a separate organization to oversee registration matters and maintain the Register. This will allow IVASS the ability to focus on supervision of intermediaries' conduct and business practices to ensure regulatory compliance. IVASS is recommended to devote sufficient attention to the establishment of this new institution in particular to proper governance, adequate systems and bylaws having due regard</p>

	<p>to the particularities of the insurance intermediation in Italy.</p> <p>Currently, IVASS has 28 people in the Intermediaries Department, 19 of which handle Register updates and 9 employees handle offsite intermediary monitoring. Offsite monitoring includes consumer complaint investigation on intermediaries and sanctions if necessary. The Department may request onsite inspection if necessary. IVASS does not require reporting of intermediaries' financial statements and does not publish any market-wide notices if the Department discovers problems in certain area of supervision. It is recommended that IVASS initiate a practice of market-wide notification of issues or problems that their supervision and inspections have revealed as a systemic problem</p> <p>IVASS does not have the resources to ensure ongoing supervision of intermediaries' compliance with Regulations and focuses its activities on registration. The majority of staff members (19) handle the registration process and only 9 employees conduct offsite supervisory analysis, oversight and investigation of the activities of the 245,000 registered intermediaries. This is insufficient to adequately conduct the necessary supervisory oversight to ensure compliance in all areas of regulation (corporate governance, consumer disclosures, segregated accounts, etc.) and the assessors recommend diverting the majority of employees to an increased focus on offsite supervision and onsite inspection of intermediaries. The system is currently more reactive than affirmatively proactive and this change will help in this area.</p> <p>IVASS Antifraud Department handles the onsite inspections on fraud complaint activity and on intermediaries, but IVASS conducted only 160 onsite inspections of intermediaries from 2010–2012. The IVASS Antifraud Department handled 50 onsite inspections of the approximately 50,000 intermediaries in sections A, B, C class, which constitutes only 0.1 percent of this segment of intermediaries, which is insufficient to adequately and effectively assure appropriate levels of professional knowledge, experience, integrity and competence. The assessors recommend an increase in onsite examination of intermediaries to ensure regulatory compliance.</p> <p>There is no direct IVASS reporting from intermediaries, they report to their principal undertaking and the undertaking reports to IVASS on intermediary training.</p> <p>Call centers also sell insurance and call center managers must be registered. Call center staff must complete training, insurers must verify training occurs and then annually report to IVASS.</p> <p>Commission disclosures are made in the policy documents for MTPL LoB and for policies related to mortgages or loans; for life policies, disclosures include total charges on life business and average payments made to intermediaries. Payments to A class intermediaries are deemed as payments to the insurer and brokers must give notice to customers of the existence of any such agreement. A consumer guaranty fund protects consumers for improper broker action and covers consumer damages. CONSAP manages the fund and reports to the Ministry of Economic Development. Life policies carry a 30-day cooling off period for consumers to reject and return policies if desired.</p>
ICP 19	<p>Conduct of Business</p> <p>The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.</p>
Description	<p>IVASS has a regulatory and supervisory framework in place that ensures the fair treatment of consumers in the insurance sector and includes requirements for: (i) diligence, fairness and</p>

transparency; (ii) providing consumers with information to ensure the appropriateness of the product being purchased; (iii) conflicts of interest protections; (iv) fair treatment of consumers in claims handling; (v) advising consumers of all options available in event of any controversy to ensure an adequate system of consumer protection (Articles 3, 183; Regulation 5/2006).

CONSOB also performs supervisory activities in the conduct of business related to insurance: (i) on pre-contractual information for insurance products with investment features (unit/index linked products) sold by insurance undertakings; and, (ii) on selling practices for these products adopted by specific intermediaries (banks and financial firms). COVIP also performs supervisory services on the transparency of supplementary pension schemes, including offers of individual life insurance products (Law 252/2005, Article 23).

IVASS supervises the conduct of business on the basis of consumer complaints and through onsite inspections. In life insurance, with reference to with-profit contracts, an undertaking must ensure equality of treatment between all policyholders with reference to the financial management of the segregated fund. To this end, the undertaking must pursue management and investment policies which guarantee policyholders fairly share the financial performance of the segregated fund over time. (Regulation 38).

Insurers are required to include policies and procedures on the fair treatment of customers in their business organizations and culture. The insurer's Board of Directors is responsible for defining a system of internal controls and risk management for the most significant risks, including the risk of non-compliance, reputational risk arising from poor quality of services, improper or inadequate policy placement, improper behavior of the insurer's sales network, or other activity that might deteriorate the insurer's image and increase customer conflicts. It is the responsibility of Senior Management to implement and monitor the directives issued by the Board of Directors in this regard (Regulation 20/2008).

Insurers must consider fairness to customer outcomes in setting the performance criteria for the variable component of compensation, in addition, the remuneration policy should appropriately consider non-financial criteria, such as efficiency in the treatment of customers (Regulation 39/2011).

Insurers must have a complaint handling function and keep a complaint register and report quarterly to IVASS on complaints trends and root causes. IVASS conducts offsite and onsite inspections to ensure compliance and can impose sanctions for noncompliance. Undertakings must register all the complaints received in an electronic databank by established classes and department and by main cause of the complaint. Insurers reply to the complainant within 45 days and file quarterly complaint data reports to IVASS. IVASS analyzes the complaint trends for the whole market and for the single insurer or group, assesses the most frequent causes of complaints and insurer complaint handling and requires insurers to take appropriate corrective measures. IVASS publishes periodical statistics on complaints on its website.

As to complaints against intermediaries, the main distribution channels in the life insurance sector are banks and financial promoters, which must handle complaints according to a Joint Regulation issued by the Bank of Italy and CONSOB. In the non-life sector, the principle undertaking handles complaints against the main distribution channels and IVASS requires undertakings to handle all complaints about their sales network. The Insurance Code (Article 183) requires insurers and intermediaries to identify and prevent (where reasonably possible) adverse effects, conflicts of interests and detrimental consequences to policyholders before and during the term of the insurance contact. Regulation 5/2006 (Articles 48–50) requires intermediaries to avoid actions that prejudice policyholder interests, or directly or indirectly lead to conflicts of interest, including those deriving from group or business relations or from

relations with companies within the group. Intermediaries must disclose to policyholders their relationship with the companies they represent and are prohibited from being the intermediary and beneficiary on the same policy.

According to EU rules, IVASS does not have the power of prior approval on insurance products or prices; however, for life assurance, the insurer must inform (ex post) IVASS of the essential elements used for calculating premiums and technical provisions of each assurance rate and, in the case of systematic and permanent use of resources other than premiums and relevant income, IVASS may prohibit the further marketing of the assurance products which cause financial imbalance. IVASS has adopted specific measures for the whole market to limit the sale of life "index linked" contracts with benefits linked to asset-backed securities or credit derivatives, in which the policyholder bears the investment risk (Circular Letter 507/D).

Regulation 40/2012 regulates life insurance contracts linked to loans, fixing the minimum content of such as contracts to reinforce consumer protection (i.e., prohibiting certain benefit exclusions/limitations; required return of premium in cases of loan transfers or cancellation etc.).

Regulation 35/2010 requires undertakings to publish the pre-contractual and contractual documents according to specific standards ("Information Dossiers") on their websites immediately after the launch of a new product and to provide prospective policyholders with a Summary Profile and Information Note to assure that consumers get adequate information before purchasing a product. IVASS conducts random reviews and responds to consumer complaints to verify the correctness and transparency of the documents published and requires undertakings to amend their publications where necessary.

IVASS requires insurers to identify, evaluate and manage risks on a continual basis, considering the nature and size of the business, market context, new risks, change in existing risks, and requires particular attention to evaluating potential risks from offering new products or from entering into new markets (Regulation 20/2008). In addition, intermediaries must evaluate the adequacy of the contract to the policyholders' needs and demands (Regulation 5/2006). For life insurance contracts, intermediaries must request policyholder information on age, employment, family, financial and insurance position, risk propensity and expectations from the contract in terms of coverage, duration and any financial risks related to the contract.

IVASS regulates insurance product advertising (Article 182), requiring clear, fair and transparent advertising of the contractual terms of the product. Regulation 35/2010 requires the advertising material to: (i) be clear and not misleading with respect to the characteristics, nature, guarantees and risks of the product offered; (ii) contain the warning "Read the Information Dossier before signing the contract" and the Information Dossier must contain all the pre-contractual and contractual documents to be delivered to the policyholder: Summary Profile, Information Note, Terms of insurance, Glossary, together with the relative benefits or insurance covers offered, the guarantees and financial risk, highlighting any obligations to which the policyholder may be liable as well as exclusions, limitations and coverage suspension periods; (iii) expressions such as "guarantees" or similar can be used only if the guarantee is issued by the insurance undertaking (and not by a third provider); (iv) life insurance products must include the warning: "Attention: past performance is not indicative of future performance"; and, (v) be approved by insurance undertakings before used by agents. Upon reasonable grounds for violation or suspecting violation of the disclosure and fairness provisions, IVASS can suspend or prohibit the advertising and the marketing of products.

For distance marketing of insurance contracts, Regulation 34/2010 requires disclosure and market conduct requirements equivalent to those for insurance activities through traditional means; in addition, insurers are required to give specified identification and registration

	<p>information on their website so potential consumers can assure the company's registration and authorization to conduct insurance business.</p> <p>Undertakings must communicate to the policyholder, during the life of the contract, of any change in the information contained in the pre-contractual documents also as a result of changes in the law after the conclusion of the contract. In addition, undertakings must inform the policyholder in case of transfer of agency and extraordinary operations (portfolio transfers, mergers and spin-off) within 10 days (Regulation 35/2010). Undertakings must also provide, within 20 days, a written reply to each inquiry submitted by the policyholder on the insurance contract, on its evolution and the value of the insurance benefit accumulated. In the case of life insurance products, insurers must provide annual statements on premiums paid, policy values, financial details on guaranteed benefits and notices on changes in values in excess of specified percentages. Sales or exchanges of existing contracts require specific product comparison disclosures (Regulation 35/2010). Insurers must publish on their website the list of the claims settlement departments for motor liability sector, their addresses and the days and hours of operation and information on the consumer's ability to send a complaint to ISVAP, if the answer of the insurer is unsatisfactory.</p> <p>In February 2012, ISVAP established a new Consumer Contact Center that provides, via toll-free phone, information and assistance to consumers on insurance matters. When the Contact Center receives a report of possible violation of law or improper conduct, it transfers the information to the appropriate IVASS office for the necessary supervisory action. IVASS also has a consumer information section on its website that provides information to the public about: registered undertakings and intermediaries, new laws and press releases, frequently asked questions, a guide on how to file a complaint, the list of the insurers complaints-handling functions and their contact details, a list of tips to help consumers to buy insurance contracts via internet and guaranty fund information. The IVASS website also has an interactive insurance education feature and contains warning notices to assist consumers in avoiding transactions with unauthorized insurers.</p> <p>In 2009, ISVAP developed an online information service to allow for motor liability premium comparisons to promote competition and provide policyholders with premium estimates that are valid and binding for 60 days.</p> <p>The undertaking's compliance function must confirm the adequacy of the insurer's organizational and internal procedures for claims management from the time of first reporting to settlement, requiring undertakings to provide a written reply to each policyholder claim status inquiry within twenty days of receipt (Articles 141–150).</p> <p>Since January 2013 with the establishment of IVASS, the supervision on loss adjusters, including maintaining their Register, as well as the management of the motor insurance liability information center, has been transferred to CONSAP (Spa Concessionaire for public insurance services).</p> <p>Insurers and intermediaries must comply with Italy's Personal Data Protection Code (Law 196/2003) for the protection of customer's private information and adopted privacy policies and procedures and must acquire express consent from the customer to process their personal data under a specified consent form.</p>
Assessment	Observed
Comments	IVASS has a regulatory and supervisory framework in place that ensures the fair treatment of consumers in the insurance sector and includes requirements for: (i) diligence, fairness and transparency; (ii) assuring product suitability for consumers; (iii) conflicts of interest protections; (iv) fair treatment of consumers in claims handling; (v) advising consumers of their rights and

ensuring adequate consumer protection (Article 183; Regulations 5/2006, 20/2008). The Department also has the power to regulate advertising and stop misleading advertising; intermediaries must submit prospective advertising to insurers for approval. Although there is no specific Board of Directors requirement to “treat customers fairly,” the corporate governance requirements for internal controls includes consideration for reputational risk for unfair treatment of customers and the Department uses this requirement as a basis for its activities. In addition, Regulation 39 requires consideration of maintaining the fair treatment of customers in remuneration matters. The Insurance Code requires the insurers to maintain a register of claims and uses these registers as a starting point for onsite inspections.

IVASS has 50 highly skilled employees in its Consumer Protection department, consisting of a department head, 3 managers supervising 3 units handling 3 areas of consumer protection: selling practices; claims handling; and a consumer contact center handling approximately 50,000 consumer inquiries per year, giving IVASS first notice of what is happening in all aspects of Italy’s insurance market and providing a front line for supervisors to assist in all types of consumer protection matters. The Department uses information received through the call center to require other IVASS Departments to carry out more investigations and report police on suspected criminal activities and the police call the Department to check if a company is valid and licensed. The Department maintains a “black list” on the IVASS website of false or fraudulent insurers.

The Department requires insurers to keep complaint registers, and the Department maintains complaint ratios, numbers of complaints on premiums, averages and trends of complaints, increasing or decreasing ratios; number of rejected complaints (roughly 55 percent of consumer complaints to insurers considered invalid by the insurers themselves) and some general complaint details are published on the IVASS website. Insurers are also required to keep a claim register: IVASS uses the register during the onsite inspections as starting point to verify correct and timely claim treatment (Article 101, Regulation 27). In 2011, ISVAP carried out onsite inspections on 16 claims settlement departments of various insurers operating in motor liability sector, applied EUR 24.3 million in fines to 44 insurers in 3,397 cases regarding motor liability claim handling violations representing 49 percent of the total sanctions applied.

In 2011, ISVAP conducted inspections on 66 intermediaries and found the most frequent violations were failure to provide pre-contractual information, adequacy of the contract for the client’s needs, and failure to keep segregated client accounts. In the non-life sector, the complaints against the main distribution channels (one-firm insurance agents (82.4 percent) are handled by their principal undertaking. IVASS requires undertakings to handle all complaints including those addressed to their sales network.

IVASS Consumer Protection Department handled approximately 30,000 complaints in 2012, 74 percent of which were for motor vehicle cases and 50 percent of those involved claims handling procedures. The Consumer Protection staff enforces strict terms on claims handling practices in the law; most complaints involve delay and claims payment disputes. Thirty five of the 50 staff members handle all types of complaint cases in all aspects of insurance transactions, scanning information into the department’s data base, conducts searches on the name of company, number and nature of complaints, codes the complaints and promptly responds to consumers electronically. As cases become more complex, the matters escalate to managers for more complex actions and decisions.

Current regulations in place since 2008 allow 90 days for IVASS complaint handling, but the department resolves cases more quickly. Complaint handling time periods for insurers is also too long at 45 days (but insurers actually manage them in 23 days on average) and the head of the department, a lawyer, is working with its staff (2 resources of the same department, both

lawyers) on regulatory changes to reduce these timeframes. Some of the 20 lawyers in the department are involved in drafting legislation proposals on consumer protection issues. To ensure proper policy considerations that might impact other IVASS departments, it is recommended that IVASS develop a comprehensive policy and procedures for new legislative proposals that include, where necessary, checks and balances and consultation with all relevant experts within IVASS.

The Consumer Protection Department has a very strong relationship with Italy's consumer associations and last year began a practice of holding monthly meetings with consumer groups and met six times to discuss main issues and current consumer topics ("liberalization package") legislation, alternative dispute resolutions, new EU directive regarding intermediaries, the mediation directive; "mystery shopping" survey results, problems with insurance sales commissions and rates related to bank loans that, due to the Consumer Department's efforts, now require commission and beneficiary disclosures and conflict of interest as seller and beneficiaries. Following court proceedings affirming ISVAP actions, banks must now show at least three estimates to its client and publish company names and products on its website, making the fair treatment of customers part of their business culture.

The Department has requested an onsite inspection of an insurer with approximately 300 claim delay complaints where it was impossible to reach claim department. The inspection showed the insurer outsourced claim handling and there were serious problems; the Department ordered corrections and is still monitoring the situation to ensure that the new claims outsourcing services are appropriate.

IVASS requires insurers to quarterly report the number of complaints, the main causes of complaints, the company's internal analysis of their complaint handling and their report to their Board of Directors on that issue. The Board of Directors must also report proposed corrective measures and the Consumer Protection Department assesses the Board's effectiveness in complaint situations.

IVASS sends letters to Boards of Directors on root complaints seeking to modify practices to assure fair treatment of consumers. In 2012, the Consumer Protection Department sent five letters to specific companies to rectify specific matters to assure fair treatment for consumers. The Department also sent two letters to the entire market and posted the letters on the IVASS website, first to assure that insurers: (i) apply the premiums as quoted on the IVASS free service quotation service on the IVASS website, set up in 2009, where all companies must participate and must sell at quoted price; and (ii) fraud in insurance sector involving "ghost" claims in which insurers failed to fully investigate and improperly paid phony claims and then charged policyholder higher premiums as a result. Another case involved a foreign insurer and misleading website information on website, the Department sent a letter to a foreign insurer to come and discuss the matter and followed up to ensure proper changes.

The Consumer Protection Department oversees telemarketing activities (Regulation 34/2010) implementing disclosure requirements and special information must be on the insurer's website; whereas, there is no requirement to record the telephone conversation, insurers generally do so. IVASS has a consumer price comparison tool for motor vehicle insurance on its website that provides cost estimates for motor vehicle insurance. In 2011, approximately 61.500 consumers signed up and insurers issued approximately 126.000 estimates. IVASS monitored the process and imposed sanctions when insurers failed to honor the prices quoted in the estimates.

EIOPA is considering guidelines on complaint handling and IVASS participates in these and other EIOPA activities, contributing approximately a dozen employees to EIOPA support activities.

	<p>Currently there is no ombudsman requirement for the industry and although the Department can investigate and fine a company for violations, it cannot require a company to pay a claim of any amount. IVASS can use the opportunity under the current transition to consider introducing alternative dispute resolutions schemes for insurance.</p>
ICP 20	<p>Public Disclosure</p> <p>The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.</p>
Description	<p>The Insurance Code (Articles 93 &amp; 102) requires all Italian insurance/reinsurance undertakings and Italian branches of third-country undertakings to publish annually general-purpose financial statements, an external independent auditor report on the financial statements, and the report and opinion of the appointed actuary on the sufficiency of the undertaking's technical provisions. Articles 93, 95, 97 and 98 and Regulations 7/2007 and 18/2008 add additional requirements for the disclosure of consolidated financial statements (e.g., cash flow statements) and solvency margin calculations.</p> <p>Recent amendments to Regulation 20/2008 require undertakings to provide specified information to third parties, such as authorities, policyholders and the market, including information about the undertaking's corporate governance, risk management and internal control systems.</p> <p>The current Solvency I regime aligns general-purpose financial reporting and supplemental regulatory reporting, utilizing Italian GAAP for solo entities and IFRS for group level reporting (IFRS 4 for insurance contracts and IFRS 7 for financial instruments). Specified disclosures required in the solo and group level annual management reports include information and analysis about the position of the undertaking and about the development and performance achieved on the management side as a whole, together with a description of the undertaking's principal risks and uncertainties, changes in the insurance portfolio, claims frequency and reinsurance arrangements (Articles 94 &amp; 100; Regulations 7/2007, 18/2008, 19/2008 &amp; 22/2008). However, the disclosure of the governance structure is not required under IFRS, this requirement will be enacted when Solvency II is implemented.</p> <p>The notes on accounts in insurer's solo and group level annual financial statements require: (i) information on financial instruments; (ii) the valuation principle used (fair value disclosures for all financial investments); (iii) the net investment income, supplemented with quantitative information included in the attachments to the notes; and, (iv) description of the undertaking's primary risk exposures and risk management system. IVASS requires additional disclosures beyond the public disclosures that include detailed investment policy reporting beyond the management report summaries included in the insurer's financial statements (Regulation 20/2008).</p> <p>Further, the insurer's notes on accounts (and relative attachments/quantitative data, including the amount and structure of capital, fund detail and changes in equity for the period) include a description of the main methods/assumptions used to calculate technical provisions (separately for life/non-life and gross/reinsurance business) at the solo and group level. There are no disclosures of the rationale for the choice of discount rates (non-life technical provisions are not discounted, while life technical provisions are discounted at the technical rate) and the risk</p>

	<p>adjustment (it is not calculated separately). The run off result and claims development for non-life technical provisions are disclosed at the group level (IFRS 4) but not at solo level, but are available to supervisors.</p> <p>Legislative Decree 58/1998 (Article 123bis) requires all listed companies to annually publish a “Corporate Governance Report” with additional detailed risk management and internal controls information (describing the roles and responsibilities of different bodies/committees and risk management policies) and the financial and insurance risks. Regulation 20/2008 extends these corporate governance reporting requirements to all insurers, although for non-listed companies the report is not public..</p> <p>IVASS reporting requirements for groups requires IFRS 7 compliance, requiring entities to disclose qualitative and quantitative information for each type of risk (with particular focus to credit risk, liquidity risk and market risk, including a sensitivity analysis).</p> <p>IVASS requires disclosure on the financial performance by business, segmented at the solo level (attachments to the notes requiring: breakdown of non-life and life results, detail of non-life technical account by main line of business, detailed investment performance by life and non-life business) and group level (income statement by operating segments as defined by IFRS 8). The disclosures include also key ratios for measuring technical and investment performance.</p>
<p>Assessment</p>	<p>Largely Observed</p>
<p>Comments</p>	<p>IVASS requires the timely disclosure of significant financial and business activities and performance information to assess the undertaking’s financial position, performance (by underwriting/investment activities and line of business), business activities and risks, together with a description of the valuation principles applied at the solo and group level. Solo entities use Italian GAAP with regulatory reporting enhancements and IFRS consolidated financial statement reporting is required for group entities.</p> <p>IVASS is preparing for Solvency II implementation and recognizes the additional public disclosures that will be required; however, IVASS anticipates a good alignment with current disclosure requirements on market consistent valuation and narrative reporting.</p> <p>IVASS Regulations 7/2007 and 22/2008 adequately set for the requirements for disclosure of notes on accounts, management report, report of statutory auditors, report of external auditors, assets covering technical provisions, with-profit contracts (IVASS Regulation 38/2011) and other further disclosures as required.</p> <p>Considering the anti-crisis measures, IVASS requires three main disclosures of the special reserve due to the financial crisis. Undertakings must disclose: (i) the criteria used to value the government bond; (ii) provide templates to compare book value and market value to demonstrate potential losses; and, (iii) the amount of reserve that is unavailable for distribution to shareholders and finally, undertakings must also show the benefit from utilizing this measure. Undertakings are required to report on asset and liability matching/management and must report expected returns. IVASS publishes the effects of the anti-crisis measures on its website and in its annual report on an aggregate basis.</p> <p>The undertaking’s annual publications include general purpose financial statements, the external auditor report and the report of appointed actuary and the corporate governance, risk management and internal controls reports are summarized in the management report to IVASS but not are published. IVASS does not verify the accuracy of those statements against reported data; however, the undertaking must verify the accuracy of those statements and is otherwise</p>

	<p>subject to criminal penalties for false statements</p> <p>Disclosure of technical provisions and methodologies, future cash flow assumptions, the rationale for the choice of discount rates, and risk adjustment methodology where used, are described in narrative way in notes at both the solo and group level. Undertakings use IVASS templates for reporting and publish disclosure of technical provisions by line of business (including IBNR reporting in notes on accounts), which are updated annually and semi-annually as appropriate, and are available in the statistical data section of the IVASS website. Following Italy proposal, claim development disclosures will be included under Solvency II requirements.</p> <p>IVASS requires annual publication of detailed capital adequacy and solvency margin disclosures at the solo and group level (with some semi-annual reporting required for listed companies) and, as a consumer protection measure, undertakings must provide consumers with an adequate explanation of solvency margin calculations. IVASS publishes a solvency index, by life and non-life companies on aggregate basis, on its website and in its annual report.</p> <p>IVASS utilizes templates for solo and group level reporting of financial instruments and investments by class that are IFRS compliant and include qualitative and quantitative information with sufficient detail and granularity to assess asset composition and net investment income.</p> <p>Disclosures on capital and risk management/objectives are more extensive at the group level and are included in the required corporate governance, risk management and internal controls reporting (Law 58/1998, Article 123; Regulation 20/2008).</p> <p>IVASS has developed over 40 templates for reporting total and segmented financial performance at the solo and group level that include general, technical and investment performance indicators for life and non-life business. Individual IVASS staff members utilize Bloomberg reports and perform all analysis and asset valuations for the undertakings assigned to that particular staff analyst for review; however, there is no cross-checking or centralized methodology or repository for asset valuation to assure consistency and accuracy of asset valuations for all undertakings. To ensure that particular assets are valued in the same way for all insurers, it is recommended that IVASS implement a centralized system of asset valuation to assure consistency and accuracy of asset valuations.</p> <p>Management reports at the solo and group level include reporting on business performance, material risk exposures and the undertaking's view of business development, portfolio changes, claims frequency and reinsurance arrangements. It is recommended that IVASS require the disclosure of stress testing results and other sensitivity analysis that insurers perform also at solo level, following IFRS7. The solvency position of the undertaking is disclosed at the point of sale. This practice is commendable.</p>
ICP 21	<p>Countering Fraud in Insurance</p> <p>The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.</p>
Description	<p>IVASS is the responsible authority to deter, prevent, detect, report and remedy fraud in the insurance sector. ISVAP established an Anti-fraud Division last year and insurers must annually submit a report containing detailed information on the number of potential fraud claims, the number of complaints or charges brought before the courts, the outcome of the consequent criminal proceedings as well as on the internal organizational measures adopted or promoted to prevent fraud (Law 27/2012, Article 30; Regulation 44/2012). There are several regulatory</p>

	<p>enactments that support IVASS authority to take anti-fraud measures.</p> <p>Undertakings must comply with the good reputations requirements of the persons who directly or indirectly have controlling interests in the undertaking and exercise the undertaking's administration, management and control functions (Article 68, 72; Regulation 10; Minister's Decree 220/2011). Intermediaries must also fulfill good reputation requirements (Article 110; Regulation 5/2006). Undertakings must implement a risk management and internal controls system to identify, assess, and control risks, including operational risk, which includes fraud risk (Regulation 20/2008).</p> <p>IVASS maintains a Claims Data Bank and insurers are required to report accident details to the Claims Data Bank (Article 135; Regulation 31/2009; Law 137/2000). The law grants Claims Data Bank access to public administrations, the judiciary, police, insurance undertakings and other third parties, pursuant to IVASS terms and conditions. The Claims Data Bank contains a "register of witnesses" and "register of injured parties" to assist in fraud prevention in compulsory motor vehicle insurance matters. In suspected fraud cases, undertakings may delay claim payment a maximum of 30 days to conduct further fraud investigation.</p> <p>IVASS examines the company's strategy and activity of preventing and combating fraud, the Board of Directors and Senior Management's degree of involvement in business processes, the use of the Claims Data Bank, and the completeness and reliability of the information in the insurer's anti-fraud activity annual report to IVASS. The Anti-Fraud Division monitors the Data Bank information and verifies the data and imposes pecuniary administrative sanctions in case of erroneous or incomplete data disclosures.</p> <p>The Penal Code (Article 642) prohibits several kinds of fraud in claim settlements or underwriting, counterfeiting or alteration of insurance documents (imprisonment from one to five years). Article 1892 of the Italian Civil Code provides for the annulment of an insurance contract in the event of fraud or gross negligence or incorrect or incomplete declarations that adversely impact the insurer's decision to underwrite the contract, or cause the insurer to underwrite it under different conditions.</p> <p>IVASS has specific procedures to assist foreign authorities to combat fraud and have agreements with Guardia di Finanza (The Financial Police), to work together on onsite inspections and mutually exchange information, and with the Ministero dell'Interno (Italian Ministry of Interior), in order to permit Forze dell'ordine (Law Enforcement) a direct access to the Claim Data Bank. The IVASS Anti-Fraud Division conducts onsite inspections of undertakings and intermediaries to assure compliance with anti-fraud regulations.</p>
<p>Assessment</p>	<p>Largely Observed</p>
<p>Comments</p>	<p>The Insurance Code and Regulations, particularly those enacted last year, provide the authority for IVASS to take action to deter and prevent fraud in the insurance sector. IVASS regulations imposing good reputation requirements on insurers and intermediaries (Article 68, 76, 110; Regulations 5/2006 &amp; 10/2008). Insurers' Board of Directors has ultimate responsibility to ensure internal controls that include fraud prevention (Regulation 20/2008). IVASS established a Claims Data Bank requiring insurers to report all fraudulent claim activity (Article 135; Regulation 31/2009). The Regulation imposes reporting parameters and allows insurers to delay claim payments 30 days to investigate potential fraud. Motor vehicle liability constitutes approximately 75 percent of the non-life market and the Anti-Fraud Division focuses on this area.</p> <p>Penal Code 642 imposes criminal penalties for insurance fraud and fraudulent insurance</p>

	<p>contracts can be declared void and annulled. (Civil Code 1892).</p> <p>IVASS created an Anti-Fraud Division last year and expects to issue its first report on 2012 data in early 2013. The industry has published general fraud information in the past and, with the enhanced Claims Data Bank reporting, more information will now be available to enhance anti-fraud activity. Because the antifraud reporting requirements were only recently enacted in 2012 (Regulation 44), the effectiveness of these measures is not yet known. The Division keeps records on who accesses the Claims Data Bank (insurers and authorities—intermediaries cannot access the Data Bank) and verifies insurer reporting to the Data Bank. The Division has conducted onsite inspections to ensure that companies have internal controls in place and that they monitoring suspicious claims and to review the nature and frequency of companies' anti-fraud activities and claim settlement practices. The Anti-Fraud Division checks the Claims Data Bank every two months to ensure companies are accurately using the Data Bank as required under the new Regulation 44/2012. At this stage, the Anti-Fraud Division activities appear focused on monitoring the quality of the data in the Claims Data Bank and insurer's anti-fraud activities rather than proactively engaged in combating fraud and active fraud prevention. IVASS should implement specialized training for fraud division staff members to enhance the quality of fraud prevention activities. A proactive approach with increased inspections is recommended.</p> <p>The Anti-Fraud Division has not received any inquiries or investigation referrals from the Supervision Division during the past year.</p> <p>IVASS exchanges information with other police, national and judicial authorities and those authorities can have access to Claims Data Bank information. Law 179/2012 and 221/2012 expanded motor vehicle liability anti-fraud activity and enlarged the IVASS Data Bank to include other databanks and works with judicial authorities, which also provide information to IVASS. Italy's Motor Vehicle Registration Division is not required to check with IVASS to verify insurance before issuing a motor vehicle registration.</p> <p>Internal fraud against insurers by their own employees is part of IVASS's internal controls inspections and the insurer's annual report includes an obligation to report anti-fraud activities which should alert the Anti-Fraud Division to irregularities and suspected fraudulent activities in an insurer's operations</p> <p>The enhanced web accessibility of the Claims Data Bank and the requirement for faster submission of industry data, and the ability of insurers to obtain information out of the system give Italian insurers an enhanced ability to detect fraudulent claims.</p>
ICP 22	<p>Anti-Money Laundering and Combating the Financing of Terrorism</p> <p>The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism.</p>
Description	<p>Italian law includes several anti-money laundering and counter terrorism financing (AML/CTF) measures, including Law 109/2007 and 231/2007, IVASS Regulations 41/2012 and 5/2008 and Bank of Italy Regulations 895/2009 &amp; 616/2010. IVASS's Anti-Fraud Division collaborates with the Financial Intelligence Unit (UIF), the financial sector supervisory authorities, professional associations and others in enforcing AML/CTF measures. All undertakings and intermediaries are subject to regulation against the financing of terrorism (Law 109/2007), life insurance undertakings and intermediaries operating on behalf of life insurers are subject to money laundering regulation (Law 231/2007).</p>

	<p>Bank of Italy Regulation 895/2009 and 616/2010 (only regarding recording procedures and criteria of suspicious transactions) are applicable to all financial institutions, including insurers and IVASS relies on this authority absent formal adoption of particular AML/CFT requirements in the Insurance Code. Intermediaries must have internal controls and are required to report suspicious information to insurers.</p> <p>Under Law 231/2007 (Article 5), the Minister for the Economy and Finance is responsible for Italy's policies to prevent use of the financial system and the economy for the purpose of money laundering and terrorist financing. The Ministry collaborates with the UIF established at the Bank of Italy, the national structure charged with obtaining, analyzing and transmitting suspected money laundering or terrorist financing information to the competent authorities, financial sector supervisory authorities, professional associations and other authorized entities.</p> <p>IVASS has an established a protocol, published on the IVASS website, for these matters and coordinates with these authorities to collect updated information. IVASS may require the supervised entities to communicate data and information, even on a systematic basis, and order onsite inspections and specific anti-money laundering investigations in collaboration with the Guardia di Finanza (the Financial Police) and UIF.</p> <p>IVASS'S Inspection and Anti-Fraud Division is responsible for enforcement of AML/CFT regulation, also including Regulation 41/2012 that establishes the organizational, procedural and internal control activities required for insurer's anti money-laundering and counter terrorist financing operations. Regulation 5/2008 (Article 47.3) prohibits cash payment of life insurance premiums to intermediaries.</p> <p>In 2010, the Anti-Fraud Division conducted 20 inspections (5 companies 15 intermediaries) and entered 5 observations, issued 1 notice, and no court referrals. In 2011, there were 10 inspections (5 each for companies and intermediaries), and entered 2 observations, issued 2 notice of violations, and 3 cases were referred to court for further proceedings. In 2012, there were six inspections (three each for companies and intermediaries), and entered two observations, issued one notice of violations, and reported two cases to the court.</p> <p>Law 231/2007 provides not only for criminal sanctions (Article 55), but also for the pecuniary administrative sanctions that IVASS has authority to impose. The Ministry of Economy and Finance impose sanctions for all other administrative violations (Articles 57–58). Under Law 231/2007, the relevant supervisory authorities must issue procedural provisions for undertakings to fulfill obligations concerning adequate customer verification, internal organization, recording, procedures and controls intended to prevent the use of intermediaries and others performing financial activities for the purpose of money laundering and terrorist financing.</p> <p>Under Law 231/2007, financial sector supervisory authorities must cooperate with each other and with the UIF, exchanging information in order to facilitate the performance of their respective functions. IVASS cooperates with these authorities and also exchanges information with designated competent authorities and supervisors in other jurisdictions relating to AML/CFT by insurers and insurance intermediaries.</p>
<p>Assessment</p>	<p>Largely Observed</p>
<p>Comments</p>	<p>Regulation 41/2012 requires insurers to implement explicit anti-money laundering and counter terrorist financing controls. Delay in establishing this new IVASS regulation following the 2005 FSAP (Italian legislation foresaw, in 2007, that ISVAP enact regulation on these matters) was due in part to working with Bank of Italy to ensure regulatory alignment with Bank of Italy legislation. The IVASS Inspection and Anti-Fraud Division is responsible for AML/CTF oversight</p>

	<p>and enforcement.</p> <p>The IVASS Inspection and Anti-Fraud Division has only conducted one AML/CTF inspection since enactment of Regulation 41/2012. In the past, it has used existing regulatory authority (Regulation 20/2008) in prior inspections of internal control system. Enactment of Regulation 41/2012 clarified the Anti-Fraud Division practices that were already in effect before the enactment. Companies must now have a designated AML function and designate the person in charge of AML activities. However the implementation of this requirement has not been supervised yet. It is recommended that the anti-fraud division provide specific AML/CTF training for its staff and promptly initiate focused AML/CTF inspections. Communication with industry on expectations and requirements under the new regulation is recommended.</p> <p>Required intermediary recording procedures would provide records for transactions, thereby providing IVASS with the opportunity for greater oversight over improper transactions although IVASS cannot directly receive and collect suspicious transaction reports (Law 231/2007 (art. 41). With the enactment of Regulation 41/2012, IVASS has the authority over intermediaries in this regard, but IVASS has not conducted any onsite inspections of intermediaries in this area.</p> <p>The IVASS Inspection and Anti-Fraud Divisions has 16 staff members; 10 staff members normally handle inspections, but those 10 staff members also handle other inspections (claim settlements, anti-fraud, etc.). There are no AML/CTF certifications, but some employees (six) have more experience in AML than others, yet there is no special training of these six employees by Bank of Italy or other entities. The Inspection Anti-Fraud Division works with Italy's joint financial security committee.</p> <p>Under the EU Directive, AML only applies to life insurers. The assessors recommend applying these requirements to non-life companies because those engaged in AML try to find channel that is less controlled and regulated. Even applying these standards only to the life companies doing business in Italy, the Anti-Fraud Division currently can only do 5 inspections a year, it would take at least 10 years to inspect all companies to whom the law was applicable.</p> <p>The lower number of inspections and followed actions is probably not sufficient for proper supervision of the AML regulation. The assessors recommend IVASS to implement a risk-based approach to prioritize exposures and conduct inspections.</p> <p>Insurers report aggregated AML data to UIF monthly and UIF can order inspections as appropriate. IVASS does not have information on Bank of Italy and UIF activities and IVASS does not get individual company information, but only obtains UIF general data, of the inspections performed and criminal investigation information. IVASS maintains an onsite tool for internal operations data in AML, including indicators for suspicious transactions. The Inspection and Anti-Fraud Division also reviews insurers' intermediary report, but does not maintain specific records on individual companies.</p> <p>On a quarterly basis and on aggregate form insurers and intermediaries should inform IVASS on all suspicious transactions reported and under Protocol 2011, IVASS can request UIF for information on aggregated data reported by each company. This input will help IVASS to create a risk based approach to AML supervision.</p>
ICP 23	<p>Group-wide Supervision</p> <p>The supervisor supervises insurers on a legal entity and group-wide basis.</p>
Description	<p>IVASS supervises insurers on a legal entity and group-wide basis and has a group-wide supervision framework to supplement its legal entity supervision of insurers. The Insurance</p>

	<p>Code (Articles 210–215) and Regulations 18/2008 (adjusted solvency calculation for insurance groups) and Regulation 25/2008 (intragroup transactions) establish the legal framework for group supervision and supervision of cross-border and cross-sectoral insurance groups.</p> <p>IVASS cooperates with the other relevant supervisory and financial authorities and has coordination agreements (available on IVASS website) in place with the Bank of Italy and CONSOB on the identification and capital adequacy of Italian financial conglomerates. ISVAP has signed a specific MoU (October 12, 2011) of mutual assistance and exchange of information with the U.S. state of Missouri Department of Insurance, Financial &amp; Professional Registration, with the objective, amongst others, to ensure efficient and effective supplementary supervision of insurance groups and financial conglomerates.</p> <p>IVASS conducts group-wide supervision in accordance with the EU Directive 98/78 and uses the common framework utilized by the other EU supervisors. IVASS cooperates with other supervisors involved in group-wide supervision to define the scope of group-wide supervision through supervisory colleges and shares main supervisory considerations with the college of EU supervisors, as established according to the 2000 Helsinki Protocol and EIOPA Guidelines (December 2011) on supervisory college operation and function.</p> <p>In addition to following the EU framework, IVASS applies the definition of insurance groups as defined in Article 82 of the Insurance Code (insurer's parent undertakings, its subsidiaries and entities controlled by the insurance and entities in the group), and focuses on activities specified in Regulations 15/2008 and 20/2008. A regularly updated Public Register of insurance groups operating in Italy is available on IVASS website.</p> <p>IVASS evaluates relevant entities for inclusion in group-wide supervision by considering material risks, direct and indirect participations, interconnectedness, indirect influence or contractual obligations, risk concentration, risk exposure, risk transfer, intragroup transactions and exposures. As identified in EU Directive 98/78, IVASS narrows the identified scope of the group in exceptional cases when the undertaking is in a third country where there are legal impediments to the transfer of necessary information from a third country, in cases where the undertaking has negligible interests, or where the inclusion of the undertaking would be inappropriate or misleading.</p> <p>Regulation 15/2008 sets forth the parameters for group supervision and defines the scope and entities subject to IVASS group supervision, in accordance with the Insurance Code, Articles 5, 85, 87 and 190, with particular regard to the insurance holding company parent undertaking and its duty to report capital adequacy, intra-group transactions, risk concentrations, and financial statements to IVASS. In addition, the insurance parent holding undertaking must provide IVASS with information on: (i) the instructions given to the group's subsidiaries in the performance of the management and coordination activities; (ii) internal controls and risk management processes, including those of subsidiaries; (iii) measures taken to ensure safe and efficient group management in accordance with IVASS requirements; and (iv) the group's findings on its subsidiary's performance and compliance with IVASS requirements.</p> <p>Regulation 20/2008 requires the parent undertaking to create Enterprise Risk Management (ERM) processes for the whole group and provide its subsidiaries and require their compliance with the parent's ERM requirements.</p>
Assessment	Observed
Comments	In addition to legal entity supervision, IVASS has supervisory powers to carry out group-wide supervision through both offsite analysis and onsite inspections (Insurance Code, Articles 213–

214), utilizing the common framework of the EU Directive and includes all entities in the group, including non-insurers.

IVASS group supervision is flexible to the extent that it includes cooperation with other national authorities (BI, CONSOB, MEF) pursuant to a 2008 collaboration agreement and has a general duty to cooperate with COVIP on pension matters available on the IVASS website. IVASS cooperates with cross-border groups with other involved authorities on group supervision matters, formally reviewed annually at a minimum.

The Insurance Code (Article 210–211) identifies the scope of group-wide supervision and IVASS activities supplement supervisory activities performed at the solo level, in accordance with the EU Directive. Pursuant to Article 82 of the Insurance Code, IVASS can conduct supervisory review of the parent company of the insurer, holding company of the insurer, insurer subsidiaries and ancillary service entities. IVASS focuses on regulated entities and cooperates with other supervisors to decide the scope of supervision and also uses supervisory colleges to determine the scope of the group supervision. IVASS requires groups to report group structure descriptions on a quarterly basis and accounts for material changes of group structure. IVASS has the authority to order a group to restructure, but has not exercised that power.

Currently, there are 33 insurance groups operating in Italy and IVASS has direct supervisory powers over these groups. The scope of group supervision also includes natural persons, but group supervision does not include capital adequacy assessment of natural persons. Insurance groups are listed and regularly updated in the public register and Italian cross-border groups are identified in the EIOPA list.

IVASS supervision includes all relevant group entities by considering interconnectedness and appropriate material risk factors.

IVASS currently uses the capital requirement from the capital assessment of the group's home jurisdiction if deemed "comparable" and intends to continue to use the home jurisdiction group capital calculation if the home jurisdiction is deemed "equivalent" under Solvency II. IVASS considers the group's consolidated balance sheet—using the sum of the capital of the solo entities within the group, without a diversification benefit. In the event of a deficiency, IVASS requests the insurance parent to infuse capital into the insurance entity and if the parent undertaking refuses, IVASS can then prohibit dividend payments up to parent entity. In addition, if assets are held in a country that does not provide transparent information, the group should exclude those assets from solvency calculations.

IVASS determination to narrow the scope of the group when there are "legal impediments to obtaining necessary information" from a third country could be problematic if IVASS cannot get information necessary for proper group supervision. It is recommended that IVASS eliminate this exception and take all available steps to obtain the necessary information.

IVASS has an effective and efficient group-wide supervision framework to supplement its solo supervision, including the power to conduct offsite analysis and onsite inspections. IVASS cooperates with cross border supervisors and has conducted joint group inspections with other relevant supervisors, including branches and subsidiaries operating in Italy. EIOPA participates in joint inspections and acts as mediator as necessary. IVASS does not currently have any joint inspections plans through a supervisory college.

IVASS considers all of the requirements explicitly listed in ICP 23.7 in its group inspections and incorporates those requirements in its group supervision framework, requiring group reporting on capital adequacy, intra-group transactions and risk concentrations, including risk concentrations on reinsurance and shares these considerations with other supervisors in

	<p>supervisory colleges.</p> <p>Regulations 15/2008 and 20/2008 set forth the appropriate requirements and considerations for IVASS group supervisory activities.</p>
ICP 24	<p>Macroprudential Surveillance and Insurance Supervision</p> <p>The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities.</p>
Description	<p>With respect to macroprudential surveillance IVASS has a series of agreements in place. IVASS signed a MoU with the Financial Supervisory Authorities, Central Banks and Finance Ministries of the European Union on Cross-border Financial Stability. At national level cooperation and coordination among BoI, Consob and IVASS is carried out by the Domestic Standing Group (Committee for the Safeguard of Financial Stability–CSFS) chaired by the MoE that was established in 2008 to facilitate a macro perspective assessment for the whole financial sector.</p> <p>The identification and assessment of market and financial developments which could potentially impact insurers and insurance markets is carried out by the analysis of quantitative and qualitative information that IVASS collects during its regular functions as well as through the collaboration with other agencies. Information is also collected from other authorities entrusted with the micro/macro mandate such as the Bank of Italy, CONSOB, the Antitrust Authority and the Communications Authority.</p> <p>IVASS is actively involved supporting EIOPA’s efforts in obtaining EU macro relevant information. IVASS is required by ESRB/EIOPA and provides on quarterly/semiannual basis macro relevant information pertaining to the insurance sector, i.e. the ESRB/Bottom-up questionnaire, EIOPA risk and challenges survey and at an international level by the IAIS to produce its KIRT. The information thus gathered becomes a valuable tool in order to analyze in advance possible macro scenarios and the impact on the insurance sector.</p> <p>IVASS requests insurance companies to systematically communicate (monthly, quarterly, semi-annually, annually) a series of documents, financial statements and several kind of supervisory templates necessary for supervisory purposes as well as information necessary to produce statistical circulars. Information on investments, on life premiums written, data on lapses and surrender are received monthly, this data is currently considered of utmost importance to monitor systemic risk associated with the liquidity risk. Data related to investments has the granularity at the ISIN code level. However, only qualitative data is collected on derivatives, and other (innovative) financial products.</p> <p>IVASS has adopted a national vulnerability analysis that coincides with the EIOPA’s vulnerability analysis, but has included a larger qualitative section. This qualitative section allows companies to disclose areas that are not directly addressed by the quantitative request.</p> <p>Balance sheet indicators are in place in order to analyse data and detect anomalies. Work is ongoing so to make this set of indicators a standardised tool to be run on a regular basis and thus develop an early warning system.</p> <p>On a regular basis IVASS carries out statistical surveys on the insurance market that include quarterly composition and distribution of the premium portfolio, foreign premiums, regional distribution of premiums, trends in motor liability insurance, motor liability insurance litigation, peripheral motor liability insurance structures, separate life assurance management structures,</p>

	<p>crime rates. All these information are included in the IVASS's statistical circulars which are publicly available as they are uploaded regularly on the web site of the Authority. Additionally, IVASS publishes aggregate market data in its annual report, the report and tables summarize the main information on the Authority's web page. However, horizontal reviews of insurers and relevant data aggregation is currently not carried out on a standardized manner, including proper selection of peer groups.</p> <p>IVASS annual industry wide stress test has been replaced by the EIOPA stress test and hence relies heavily on the shocks proposed at EU level.</p> <p>Occasionally, IVASS also prepares reports for general release on specific topics concerning matters that are important for the industry. The recent topics covered analysis of MTPL.</p> <p>IVASS contributes to the Financial Stability Report issued by the Bank of Italy on a semi-annual basis.</p> <p>As a response to the crisis the government has issued a series of anti-crisis measures. The national anti-crisis measures have also been implemented in the insurance sector in the form of a macroprudential tool. These measures allow insurers, under special conditions, to hold EU sovereign bonds at cost value, thus deviating from a fair value valuation for this type of assets. This measure, while protecting insurers from current high volatility of sovereign bonds and allowing them to maintain their high concentration of this asset class of around 50 percent of the investment assets without additional capital, it creates vulnerabilities for the insurance sector to liquidity risk; a risk that under normal situations is not important for insurers. As a response, IVASS has introduced monthly monitoring of the key parameters affecting liquidity of insurers. However, a tool kit of further tools to manage systemic risk that could evolve from this measure has not been developed.</p> <p>IVASS does not specifically identify systemically important insurers. However, its supervision for the largest insurance groups is enhanced. Further, IVASS is actively involved in the FSB/IAIS work related to the identification of the G-SIIs and different steps in terms of methods and policy measures are carefully evaluated in terms of translation into the national legislation.</p>
Assessment	Largely Observed
Comments	<p>IVASS has access and published a large amount of statistics and market information.</p> <p>The amount of data received and the level of granularity allows IVASS to gain a fair picture of the market and also to analyze trends, and eventually develop or recommend the appropriate macro-prudential measures should they be necessary.</p> <p>IVASS vulnerability tool enhancing EIOPA's equivalent tool is praiseworthy. The section on qualitative assessments has been useful to exclude certain type of systemic vulnerabilities in the market.</p> <p>IVASS is recommended to develop an early warning system leveraging from tools recently used by EIOPA/ESRB, like the Risk Dashboard identification by calibrating the different indicators to reflect the current situation of the Italian market.</p> <p>The EIOPA stress test should not be seen as a substitute for the industry wide stress test developed to analyze the resilience of the Italian market as a whole to extreme but plausible macro scenarios. Also reverse stress testing is recommended as further macroprudential surveillance tools.</p> <p>IVASS collects monthly data in key areas that allow for close monitoring of the liquidity risk in</p>

	<p>the insurance sector is commendable. The further development of tools to address systemic risk that could result from the current anti-crisis measures is necessary and a public communications strategy on the anti crisis measures is recommended. Also to be prepared for an acute situation, the development of extreme measures tools, like delayed payment of surrenders or payments in sovereign instruments should be considered.</p> <p>IVASS should remain actively engaged in the international discussions, on the determination of G-SII and start developing the framework to determine and supervise domestic systemic insurers. Not only consideration to the size of the insurers but also connectivity, substitutability should be considered.</p> <p>The new structure of IVASS having a close tie to BoI will benefit IVASS in the development of macroprudential surveillance tools by taking advantage of the long standing experience of BoI in this area. An integrated approach is recommended but with due regard to maintaining the relevance of the insurance sector in the systemic risk discussions.</p>
ICP 25	<p>Supervisory Cooperation and Coordination</p> <p>The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.</p>
Description	<p>IVASS is signatory to the Helsinki Protocol that allows the cooperation with other insurance supervisors for the supervision of cross-border EU insurance groups through the colleges of supervisors. The first college was set up in 2000 for Generali. Currently, IVASS takes part in 30 colleges of supervisors. It is Group Supervisor for 8 of them and Competent Authority for the other 22. There are since 2006 agreements with CONSOB and BoI on cooperation for the supervision of Italian conglomerates. IVASS also signed a MoU with the Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU on Cross-border Financial Stability. Outside the EU IVASS has signed cooperation agreements with Switzerland and the DIFP of Missouri. IVASS is signatory to the IAIS MMoU since November 2012. IVASS has approached China with the intention to sign a MoU without much success.</p> <p>For all the Italian cross-border insurance groups, a college of supervisors was set up and IVASS was appointed as group supervisor. The appointment of the group supervisor was made by following the indications established in the Helsinki Protocol (i.e. the group supervisor is the supervisor of the Member State where the dominant insurance undertaking of the insurance group is established and one measure of dominance is the premium income). For the other cross-border groups operating in Italy—where IVASS is not the Group Supervisor—a Group Supervisor has been identified and appointed.</p> <p>The criteria for the appointment of the group supervision are now established in EU Directive 2009/138/EC (art. 247) and those for the appointment of the coordinator for the financial conglomerates in EU Directive 2002/87/EC (art. 10) (implemented in Italy with Law 142/2005, art. 5). They depend on the structure of the group/conglomerate and on the size and localization of the entities of the group/conglomerate itself. More precisely, if the group is headed by an insurance or reinsurance undertaking (or a regulated entity in the case of a financial conglomerate) the group supervisor (or the coordinator in the case of a financial conglomerate) is the supervisory authority which has authorized that undertaking, if the group is not headed by an insurance or reinsurance undertaking (or a regulated undertaking in the case of a financial conglomerate) following criteria based on the localization and the size of the subsidiaries. There is also a certain degree of flexibility in the application of the above-mentioned criteria because both the directives state that, in particular cases, the supervisory authorities concerned may take</p>

	<p>a joint decision to derogate from such criteria where their application would be inappropriate (art. 247.3 of the EU Directive 2009/138/EC (art 247.3) and EU Directive 2002/87/EC (art. 10.3).</p> <p>According to the Helsinki Protocol and as further specified in the other CEIOPS/EIOPA guidelines and statements, the authority appointed as group supervisor chairs the supervisory college. The chair coordinates the activities necessary to carry out the supplementary supervision, gather the relevant information, analyse it and disseminate the conclusions to the other supervisors in the colleges, assess the IGT and risk concentration, the capital adequacy, the internal control and risk management system of the group, define the agenda of the meetings.</p> <p>The organization and the complexity of the colleges of supervisors vary according to the complexity of the group. Currently the most complex and comprehensive college corresponds to Generali.</p> <p>The colleges of supervisors of all the Italian groups meet regularly, at least once a year. In addition to the general meeting to which all the members are invited to participate, the Italian largest college organized restricted meetings between some of the supervisors involved for dealing with specific issues related, for example, to particular geographical areas or to specific technical aspects.</p> <p>Starting from 2010, EIOPA annually approves an action plan for colleges for improving the functioning of the colleges. The colleges for which IVASS is the group supervisor comply with the targets foreseen in the EIOPA's action plans.</p> <p>The EIOPA action plan 2012 foresees that colleges have to:</p> <ul style="list-style-type: none"> <li>• agree on a set of quantitative and qualitative information (such as governance and risk management) which covers the most important risks within the group and that have to be exchanged within the college;</li> <li>• define a work plan for the internal model pre-application, for groups that intend to adopt an internal model;</li> <li>• start the discussion on the main objectives of the colleges and the relevant structure.</li> </ul> <p>To enhance the exchange of information, IVASS has developed a collaboration tool (website) that provides a platform for efficient information sharing among supervisors and for contributions of involved supervisors to group-wide decisions on the group supervision as well as in crisis situation on a timely and secure manner. The tool is already in operation for Generali.</p> <p>In order to guarantee the confidentiality in the treatment of the information exchanged in the colleges, all participants (that is, EU countries and third country participants) are required to sign confidentiality agreements with IVASS in which they agreed to maintain and protect the confidentiality information shared in connection with the college meeting. The signature of such confidentiality agreements has proven to be difficult, in some cases requiring an assessment of the confidentiality conditions of the third country by the national authority directly.</p>
Assessment	Observed
Comments	<p>IVASS has vast experience in the supervision of cross border groups and applies international best practice in the setting up and running of supervisory colleges. The first supervisory college was established in 2000. IVASS follows the Helsinki Protocol as well as CEIOPS/EIOPA guidelines that IVASS itself has contributed to develop through its constant and active participation in the</p>

	<p>CEIOPS/EIOPA works. Current collaboration agreements are in place with countries where over 95 percent of the insurance premium emanates.</p> <p>For all Italian cross-border insurance groups, a college of supervisors was set up and IVASS was appointed as group supervisor. IVASS, in its role of group supervisor, establishes—in cooperation with the other supervisors—the key functions of the colleges and indicates them in the annual work plan. The working plan covers the key supervisory issues like solvency of the group, risk management quality, governance, etc. Combining both a top down and bottom-up approach in particular in some areas, like the supervision of the IGT, IVASS can duly assess the whole group.</p> <p>IVASS has developed and implemented a communication platform that is commended for allowing efficient confidential supervisory relevant information sharing among supervisors in a timely manner.</p> <p>Colleges where the members belong to the EU including Switzerland run smoothly. The presence of a non EU participant (excluding Switzerland) in a college has generated operational difficulties related to confidentiality requirements at the EU national level. As the Italian insurers expand into third countries these difficulties need to be overcome.</p> <p>IVASS is recommended to take a leadership role in implementing the required measures to allow for a similar approach to the cross border supervision that applies to the EU colleges for colleges with the participation of third countries' authorities.</p>
ICP 26	<p>Cross-border Cooperation and Coordination on Crisis Management</p> <p>The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.</p>
Description	<p>Within the colleges, the involved supervisors exchange information on the group structure and on intra-group transactions as foreseen by EIOPA guidelines (see ICP 25) and, where relevant (such as in presence of financial conglomerates), they exchange data on undertakings of other financial sector and on inter-linkages among those entities.</p> <p>Italian insurers are required to develop and maintain effective and consistent recovery and resolution plans and procedures in emergency situations, and furthermore preventive measures to minimize the systemic impact of any failure. Also on this topic, Regulation 20/2008 (art. 19.7) set out a specific ruling, stating that the undertaking prepares adequate emergency plans in respect of the major risk sources it has identified.</p> <p>In 1Q-2012, an EU survey was carried out on contingency plans developed by insurance undertakings to deal with adverse developments in asset values and in their capital positions. Results of this survey were shared within the college of supervisors, where relevant. IVASS conducted this survey for a significant sample of Italian industry: all respondents had a contingency plan in place. In addition, major insurance companies declared to have processes for managing crisis situations.</p> <p>Reference is made to art. 6 of the MoU of 2008—Supervisors in a crisis situation coordinate public communications relating to the specific circumstances and avoid making announcements to the public on their own. Furthermore they commit to share with each other, before releasing, any written statement to the public and agree to discuss the challenges and propose solutions, in advance, related to the communication strategies.</p> <p>Specific rules of procedure regarding clearance of messages, use of agreed messages and</p>

	<p>guidance for public comments have been agreed within EIOPA. EIOPA's role relates to co-ordination of external communications where there is a non-institution specific, EU-wide aspect to any supervisory actions that are being taken. Otherwise, institution specific statements are developed under the leadership of the Group Supervisor with full involvement of solo supervisors and EIOPA or solely by solo supervisors, as appropriate. There may also be situations where EIOPA may be asked to comment on actions that are being taken by National Supervisory Authorities. Any external communication in such a context would need to be coordinated with the relevant authorities to ensure that consistent messages are given.</p> <p>IVASS in response to the sovereign crisis has taken the lead in preparing a detail analysis of the exposure and concentration risk of the Italian insurance groups and shared within the colleges. The continued monitoring is also accessible to the college members.</p>
Assessment	Largely observed
Comments	<p>Activities on cross-border cooperation is carried out by IVASS mainly within the EIOPA framework and the MoU signed in 2008 for the effective cross-border financial stability cooperation between Ministries of Finance, central banks and other financial sector supervisors.</p> <p>IVASS meets regularly with other relevant supervisors and authorities as part of the CoS (Colleges of Supervisors). These meetings provide the platform for the gathering and dissemination of relevant or essential information in going concern and emergency situations, developing a common understanding of the risk profile of the cross-border insurers, achieving coordination of supervisory review and risk assessment at a Group level as well as establishing supervisory plans for the mitigation of risks. Specific and flexible emergency plans are adopted during the CoS meetings in order to manage the particular issues of a cross-border crisis as well as single insurers.</p> <p>IVASS proactive sharing within the colleges of its detail analysis on the exposure and concentration risk of the Italian insurance groups to sovereign assets is commendable.</p> <p>IVASS together with the other EU supervisors performed a few simulation exercises to assess the ability of prompt reaction in case of emergency of crisis situation mainly by testing the efficiency of the contact points.</p> <p>Italian groups are basically exclusively active in EU based on premium volume, and as such the cross-border cooperation as well as coordination on crisis management are well developed and present less difficulties due to the implementation of the EU directives and EIOPA's efforts in this area. For groups that include third countries not much has been done with respect to crisis preparedness. Colleges have not tested crisis simulations beyond EU and there are no resolution plans among cross-border supervisors that involve third countries.</p> <p>IVASS is recommended to develop for relevant third countries similar agreements and procedures currently available for the cross border crisis preparedness among EU members.</p> <p>IVASS does not require insurers to regularly test their contingency plans nor have they been inspected. It is advised that IVASS should require an annual test of the contingency plans and supervise compliance.</p>