Swiss Re Institute

Issue 17/2019

Economic Insights

Italy: making more use of insurance to build national resilience

Key takeaways

- Italy faces prolonged economic stagnation, a shrinking population and large protection gaps.
- At 131% of GDP, Italy's public debt is the second highest in Europe. With public finances under severe strain, the state is increasingly shifting the burden of financial protection to individuals.
- This has led to a 10% increase in private insurance pension funds annually over the last decade.
- Recent public-sector incentives have also sparked greater uptake of private natural catastrophe covers.
- Even so, the public and private sectors need to do more to improve national resilience against still large pension, healthcare and natural catastrophe protection gaps.

About Economic Insights
Analysis of key economic developments and their implications for the global re/insurance industry.

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In a nutshell

Italy faces fundamental challenges: economic stagnation, weak public finances, adverse demographic developments and vulnerability to natural catastrophes. Together with the state, the insurance industry is and can do more to build nation resilience.

Italy remains vulnerable in many ways: a weak economy, demographic challenges, unaddressed infrastructure needs, stretched public finances and a fragile political backdrop. According to the latest *sigma* study, Italy ranks second lowest in a sample of 31 countries in terms of macroeconomic resilience.[1] With low resilience, the capacity of the economy to withstand shock events is weak and this environment, the utility of insurance can come to the fore, in three core areas: retirement provisions, and the narrowing of healthcare and natural catastrophe protection gaps. With respect to retirement financing, we estimate that there has been a 10% annual increase in uptake of insurance pension funds over the last decade.[2] Equally encouraging is an estimated 7-percentage-point increase in uptake of private natural catastrophe insurance since the beginning of 2018,[3] sparked by public policy inspired incentives. These are positive outcomes but large exposures remain, and the public and private sectors can do more to strengthen societal resilience.

The Italian economy contracted in the second half of 2018 before returning to slow growth in the first half of this year. Survey indicators point to continued stagnation. Real incomes per capita are currently no higher than two decades ago. Net immigration has more than halved over the last 10 years as emigration nears a five-decade high[4] (see Figure 1-1), aggravating the challenge of a rapidly ageing society. At the same time, the population aged between 15 and 64 started to shrink in 2015, and this trend is expected to continue over the next few decades (see Figure 1-2). This demographic shift will weigh on the country's growth potential and challenge the sustainability of the pension system, in particular.[5] In addition, Italy faces an infrastructure investment gap of about USD 133 billion over the next 10 years.[6]

Already today, Italy's public finances are pushing the boundaries of fiscal sustainability: at 131% of GDP, public debt is the second highest in Europe (behind Greece). With public finances under strain, state pensions (first pillar) have been reduced significantly, with the government -- since the 1990s already -- shifting the burden of financing retirement to individuals. However, second-pillar cover is still low (a third of the working population), and

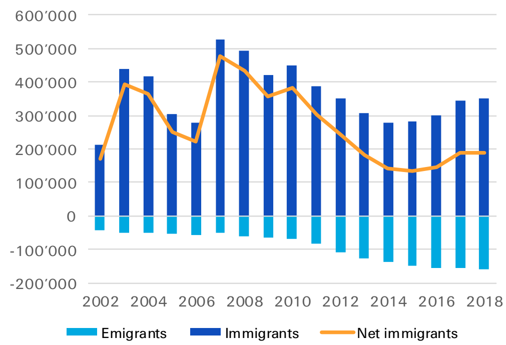
[1] *sigma* No 5/2019, Indexing resilience: a primer for insurance markets and economies, Swiss Re Institute.
[2] Swiss Re Institute estimates, based on data from the local regulator, Institute for Insurance Supervision (IVASS).
[3] *L'assicurazione in Italia, 2018-2019*, ANIA, 2019.
[4] *Italy Staff Report for the Article IV Consultation*, IMF, 18 December 2018.
[5] According to the EU Commission's *The 2018 Ageing Report*, Italy's public pension expenditures ranked second highest in the EU in 2016 and will increase further to 18.7% of GDP by 2040.
[6] According to estimates by the Global Infrastructure Hub. The gap refers to the shortfall of actual investment trends vs investments needed.

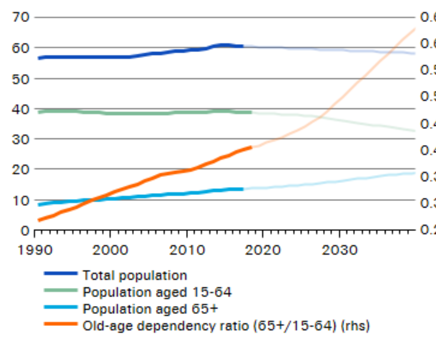
03 October 2019

includes underrepresentation of women (coverage is 26.9% for women compared with 32.7% for men) and young people (only 20.4% of under 35s have cover). With the levels of the first-pillar payouts expected to decrease significantly, the spectre of a widening pension protection gap for the younger generations looms.[7] Encouragingly, third-pillar insurance pensions funds (PIP) have increased by more than 10% annually in the last decade, but we believe the industry can do more to fill in the gap, especially if supported by higher fiscal benefits and national campaigns to improve financial literacy.

Figure 1-1 (LHS)
Immigration to and emigration from Italy

Figure 1-2 (RHS)
Population in Italy (million) and old-age dependency ratio





Source: Datastream, Oxford Economics, ISTAT, Swiss Re Institute

With respect to natural catastrophes, Italy has the largest protection gap in Europe given high exposure to seismic risks and low insurance penetration. A positive development came in 2017, when the government introduced tax incentives to encourage purchase of natural catastrophe covers and to retrofit buildings to be more quake resistant. The incentives are a first: a catalyst for voluntary mitigation actions to help foster a national culture of efficient disaster risk management. The number of policies with an extension to natural catastrophe risk has risen notably from a low base: an estimated 3.2% of private dwellings are now covered, up from 2.5% at the start of 2018.[8]

Private solutions are also needed to address the health protection gap. With an ageing society, the nation's health system will come under increasing pressure. Out-of-pocket expenditure on healthcare has increased by 2.2% each year since 2012, well in excess of public spending on health (up 0.7% during the same period).[9] Here private insurance, where the premiums of many pays for the claims of a few, can facilitate affordable and sustainable healthcare spending for many more Italians.

[7] *COVIP: The glass is half full*, IPE, July-August 2019
[8] ANIA, op. cit.
[9] According to ISTAT, see http://dati.istat.it/Index.aspx?DataSetCode=DCCN_SHA