



New Swiss Re publication provides insights into the future of Italy's insurance market

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**Zurich, 27 August 2012 – According to Swiss Re's latest expertise study, "The Italian insurance market: opportunities in the land of the Renaissance", Italy stands at the crossroads of economic and social change, and therefore offers interesting opportunities for the insurance industry. The expected scaling down of the government's role in the provision of social benefits will mean that more individuals will have to make their own arrangements for risk protection and retirement financing. The insurance industry must brace itself to help fill the widening protection gap.**

Italy, as the world's eighth largest economy, boasts a large and diversified economy, made up of small and medium enterprises exporting high quality products. Italy houses the world's oldest bank and gave birth to the world's oldest known insurance contract, both of which are a small testimonial to the country's rich economic history.

### **The role of the insurance industry in Italy is expected to grow overall**

In the adverse macroeconomic environment, growth opportunities are expected to emerge for insurers, particularly in underdeveloped, non-motor lines of business. The recent and expected legislative reforms should pave the way for greater involvement from the insurance industry and help it to play a more prominent role in supporting the country's economic and demographic challenges.

According to Kurt Karl, Swiss Re's Chief Economist: "The financial crisis has resulted in fiscal tightening and spending cuts which are accelerating the reduction and rebalancing of the welfare system in Italy, leaving a significant protection gap not only in healthcare and old-age provision, but also in natural catastrophe coverage. The insurance industry must prepare itself to take charge of its new, expanded role in Italy to support the state, private entities, and individuals in addressing some of their greatest economic challenges ever."

### **Italy's pension system is under pressure**

Italy faces severe demographic challenges. It has the second-largest old-age dependency ratio<sup>1</sup> in the world, ranking just behind Japan, and is expected to continue having one of the most aged populations on earth.

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<sup>1</sup> The old-age dependency ratio measures the number of elderly people as a share of those of working age.



Growing fiscal austerity combined with a shrinking working population means that now, more than ever, Italians are in need of pension provisions. However, the state pension system, once one of the most generous in the world, has been heavily trimmed. As the burden of financing retirement increasingly falls to individuals, insurers are being called upon to step in and play a more prominent role to fill the growing gap.

### **In non-life insurance, non-motor lines of business in Italy are underdeveloped compared to the rest of Europe**

Italy's motor insurance sector is well developed but has historically suffered from low profitability. To address this issue, a law was passed in March 2012 aimed at tackling fraud in motor insurance. Carlo Coletta, Swiss Re's Italian Market Head, says: "If the regulatory measures succeed in improving the loss ratio of third-party motor liability sector and stabilise this troubled line of business, an eventual reduction in product prices can be expected, which would be greatly welcomed in the current recessionary environment."

Up until now, non-motor insurance remained underdeveloped for many reasons, including the general public's low inclination to buy insurance coverage unless it is mandatory. Recent regulations are making certain types of non-life insurance mandatory, such as professional liability. In addition, non-motor insurance is likely to receive a boost from the spending cuts and new reforms.

### **Spending cuts will extend to disaster indemnifications**

Italy has the lowest property insurance penetration among advanced markets in Europe. Indeed, one of many areas where protection is needed is property insurance, particularly for natural catastrophe coverage. Traditionally, there was heavy reliance on the state as an insurer of last resort. However, the recent earthquake in Emilia offers a stark reminder that Italy is highly exposed to natural catastrophes and over-reliant on post-disaster government intervention. Given the state's reduced ability to cover costs in the future, non-life insurance will have room to expand and meet Italy's new protection needs.



## Notes to editors:

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