

**Italy: Financial Sector Assessment Program—  
Detailed Assessment of Observance of the Insurance Core Principles**

This Detailed Assessment of Observance of the Insurance Core Principles for **Italy** was prepared by a staff team of the International Monetary Fund as background documentation to the Financial Sector Assessment Program with the member country. It is based on the information available at the time it was completed in February 2006. 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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# FINANCIAL SECTOR ASSESSMENT PROGRAM

## **DETAILED ASSESSMENT OF OBSERVANCE OF THE INSURANCE CORE PRINCIPLES**

ITALY

FEBRUARY 2006

INTERNATIONAL MONETARY FUND  
MONETARY AND FINANCIAL SYSTEMS DEPARTMENT

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## **OBSERVANCE OF THE INSURANCE CORE PRINCIPLES**

### **I. INTRODUCTION**

#### **A. General**

1. This is an assessment of the observance of the core principles of the International Association of Insurance Supervisors (IAIS) in Italy. Insurance is supervised in Italy by the Supervisory Authority for Private Insurance Undertakings and Insurance Undertakings of Public Interest (Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo – ISVAP). ISVAP is responsible for prudential and market conduct supervision of insurance companies and intermediaries. This assessment was done in the context of the IMF and World Bank Financial Sector Assessment Program (FSAP). It includes recommendations for strengthening the supervision of insurance in Italy.
2. This assessment was conducted during a mission to Italy July 5 – July 20, 2005 and is based on the circumstances in place and the practices used at that time. Italy is undergoing significant changes in its insurance supervisory processes and Parliament is considering changes in legislation relevant to insurance supervision. However, while some of these changes are mentioned below, prospective changes have not been considered in the assessment.
3. This assessment was conducted by Michael Hafeman, a consultant formerly with the Office of the Superintendent of Financial Institutions Canada.

#### **B. Information and methodology used for assessment**

4. This assessment has been based on the Insurance core principles (ICP) of the IAIS dated October 2003. Given the developed nature of the Italian insurance market and its exposure to international financial activities, this assessment comments on both the essential and advanced criteria underpinning each core principle. However, in accordance with Annex 2 of the ICP, only essential criteria have been taken into account in assessing the overall level of observance of a core principle.
5. Major sources of information used for the assessment included ISVAP's answers to the questionnaire submitted by the IMF prior to the mission, a comprehensive self assessment carried out by ISVAP, ISVAP's annual report, translations of various circulars issued by ISVAP, supplemented by publications of industry associations and ratings agencies. Extensive meetings were held with management and staff of ISVAP to discuss each of the criteria within the ICP. In addition, meetings were held with representatives of a wide range of organizations: the Association of Insurance Companies (Associazione Nazionale fra le Imprese Assicuratrici – ANIA); the National Register of Actuaries (Ordine Nazionale Degli Attuari – Ordine); the National Council of Actuaries; the Italian Association of Auditors (Associazione Italiana Revisori Contabili – Assirevi); the Federation of Adjusters (Federperiti); the European Insurance Intermediaries Association (Unione Europea Assicuratori – UEA); the Italian Association of Insurance and Reinsurance Brokers

(Associazione Italiana Brokers di Assicurazioni e Riassicurazioni – AIBA); the Italian Exchange (Borsa Italiana); three ratings agencies; and senior executives of several insurance companies and fund management companies. All concerned gave willingly of their time and were cooperative, and this added significantly to the effectiveness of the assessor.

### **C. Institutional and macroprudential setting—overview**

6. While the insurance sector in Italy experienced strong growth in 2003 and 2004, with premium increases of about 12% in both years, Italy remains relatively under-insured. Market penetration is low, with gross domestic premium income accounting for 7.5 percent of GDP in 2004, compared to the EU average of close to 9 percent. Life insurance accounts for about 65 percent of the premiums, compared to the EU average about 70 percent. The total assets of the insurance companies amount to 34.6 percent of GDP in 2004 (27.3 percent life and 7.3 percent non-life). Insurers employ approximately 40,200 people, and over 200,000 people work as intermediaries, loss adjusters and in other functions related to the industry.

7. At year-end 2004, licensed domestic insurance companies included 76 life insurance companies, 81 non-life insurance companies, 19 companies licensed for both life and non-life insurance (composite companies) and 3 reinsurers. In addition, 67 branches of foreign companies were licensed to operate, primarily in the non-life sector. The industry is relatively concentrated, with the largest five and the largest ten life companies, respectively, accounting for 47 percent and 65 percent of the sector's total insurance premiums in 2004. The largest five and the largest ten non-life companies, respectively, wrote 41 percent and 61 percent of the premiums in the same year. Insurers are frequently members of groups, with the five largest groups accounting for 53 percent of life premiums and 67 percent of non-life premiums in 2003.

8. In terms of asset mix, the insurance sector invests 12 percent of its assets in equities, 30 percent in unit trusts, 57 percent in fixed-income products, and 1 percent in real estate.

9. Banks and post offices are the predominant life insurance distribution channel, accounting for 59 percent of sales in 2004. The agency distribution channel also remains important, accounting for about 30 percent of life insurance sales and 88 percent of non-life insurance sales in 2004. Financial advisors account for most of the remaining life insurance sales, with brokers handling the balance of the non-life sales, focusing on the medium to large commercial risks.

10. Life insurance products are predominantly savings-oriented, and include traditional and unit-linked policies. The products sometimes incorporate guaranteed rates of return, but the exposure of insurers to the risks of such guarantees does not appear excessive. Legislation currently under consideration is expected to expand the opportunities for the sale of the life insurance to fund supplemental individual pensions. Life insurance premium growth slowed to 3.6 percent in 2004 (from 18.8 percent in 2002 and 13.8 percent in 2003).

The life insurance business has been profitable, with an overall return on equity of 10.5 percent in 2004.

11. Motor insurance is the predominant non-life product, accounting for almost 60 percent of the non-life premiums written. Motor insurance claims costs have been increasing rapidly, but premiums have kept pace. Non-life insurance premium growth slowed to 3.4 percent in 2004 (from 14.8 percent in 2002 and 10.6 percent in 2003). Both motor insurance and other non-life products have been profitable in recent years, with the overall combined ratio having declined steadily from 109 percent in 1999 to 96 percent in 2004. Return on equity was 13.4 percent in 2004.

12. The supervisor for the insurance sector is ISVAP, an independent supervisory authority with a Board of Directors, funded by a levy on premiums.

## **II. PRINCIPLE-BY-PRINCIPLE ASSESSMENT**

13. Insurance supervision in Italy occurs within a legal framework that incorporates the relevant EU Directives. In recent years, ISVAP has moved toward a more forward-looking approach to supervision, working toward the full implementation of a risk-based supervisory methodology and promoting better risk management practices by insurers. This change in approach has clearly been noticed by the industry and, for the most part, appears to have its support (in principle, although not always on the specifics). Further changes are ahead, such as the implementation of Solvency II, which ISVAP has been actively involved in developing.

14. More than two-thirds of the principles have been assessed as being observed or largely observed. Furthermore, the authorities in Italy are actively pursuing a number of legislative and supervisory initiatives that hold the potential to materially improve the level of observance in the coming months or years.

15. The remaining principles were assessed as partly observed. Legal protection does not exist for those involved in the supervisory process, including ISVAP staff and third parties charged with reporting concerns to ISVAP. Governance requirements and disclosure requirements for insurers that are not subject to the requirements applicable to listed companies should be strengthened. Improvements in the level of observance in these areas would be facilitated by changes in legislation, although ISVAP can also take steps, such as publishing entity-specific financial information on its website.

16. The ability of ISVAP to assess the risks that exist in the insurance sector could be improved by increasing the frequency and scope of on-site inspections of both insurers and intermediaries. Greater sharing of information with other supervisors, particularly those responsible for other parts of the Italian financial sector and insurance supervisors outside the European Union, would also add to ISVAP's understanding. Improvements in the level of observance in these areas can be achieved through the application of staff resources.

17. A wide variety of systems are employed in the distribution of insurance in Italy, and only some of the individuals involved are under the direct supervision of ISVAP. Achieving full observance with the principle on intermediaries would require changes in the law (currently under consideration), collaboration with other supervisory authorities and considerable discussion with industry.

18. The level of observance for each principle reflects the assessments of the essential criteria established by the IAIS. A principle is considered **‘observed’** whenever all the essential criteria are considered to be observed or when all the essential criteria are observed except for a number that are considered not applicable. For a criterion to be considered **‘observed’**, it is usually necessary that the authority has the legal authority to perform its tasks and that it exercises this authority to a satisfactory standard and ensures that requirements are implemented. The existence of a power in the law is insufficient for full observance to be recorded against a criterion except where the criterion is specifically limited in this respect. In the event that the supervisor has a history of using a practice for which it has no explicit legal authority, the assessment may be considered as **‘observed’** if the practice is substantiated as common and undisputed.

19. A principle is considered to be **‘not applicable’** when the essential criteria are considered to be ‘not applicable’. A criterion would be considered ‘not applicable’ whenever the criterion does not apply given the structural, legal and institutional features of a jurisdiction.

20. For a principle to be considered **‘largely observed’**, it is necessary that only minor shortcomings exist which do not raise any concerns about the authority’s ability to achieve full observance with the principle. A principle will be considered **‘partly observed’** whenever, despite progress, the shortcomings are sufficient to raise doubts about the authority’s ability to achieve observance. A principle will be considered **‘not observed’** whenever no substantive progress toward observance has been achieved.

21. While it is generally expected that full observance of a principle is achieved through the observance of the essential criteria, there can be instances where observance with a principle has been achieved through different means. Conversely, due to specific conditions in a jurisdiction, meeting the essential criteria may not be sufficient to achieve observance of the objective of a principle. In these cases, additional measures are needed in order for observance of the particular principle to be considered effective. In the judgment of the assessor, no such cases exist in Italy.

Table 1. Detailed Assessment of Observance of the IAIS Insurance Core Principles

<b>Principle 1.</b>	<b>Conditions for effective insurance supervision</b> Insurance supervision relies upon <ul style="list-style-type: none"> <li>• a policy, institutional and legal framework for financial sector supervision</li> <li>• a well developed and effective financial market infrastructure</li> <li>• efficient financial markets.</li> </ul>
Description	The government issues an economic and policy statement annually, setting priorities that



are subsequently implemented through its budget and program of legislation, including matters directly relevant to the financial sector. Responsibilities for supervision of the financial sector have been delegated to four independent authorities: ISVAP 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) supervises pension funds.

Italy is a republic with a legal and court system which is in line with the western democracies. The legal system is based on civil law and domestic and EU legislation. Parliament is the domestic law making body; however, as a general principle, EU law overrides domestic law under the Treaty of Rome. EU directives agreed by the Council of Ministers and the European Parliament must usually be implemented into national law by member states.

An extensive body of laws and regulations exists with respect to insurance matters. Many of these have been incorporated into a draft consolidated insurance code, which will improve the structure and clarity of the law. Final adoption of the new insurance code is expected in September 2005, with effect from January 2006.

Italy has a well developed judicial system, which includes civil, criminal, and administrative courts, as well as courts of appeal. The courts are generally well-regarded, although many of those interviewed noted that the time required to fully resolve issues in the courts can often be very long – for example, the winding-up of an insurance company often takes more than ten years – and awards for damages such as pain and suffering, under similar circumstances, can vary significantly. ISVAP assists consumers in the resolution of complaints on insurance matters, and there is also an alternative dispute resolution mechanism available to consumers.

Accounting and auditing standards are based on the adoption of EU Directives. The Italian Accounting Board (OIC) is primarily responsible for issuing accounting and auditing standards and for interfacing with international standard setters. If ISVAP, the Bank of Italy or CONSOB give an adverse opinion on a document that is to be issued by OIC, then a qualified majority of OIC is required for formal approval of the document and the dissenting opinion must be publicly disclosed. Since 2003, auditing standards have been harmonized with International Standards on Auditing (ISAs). Insurers will in 2005 begin reporting consolidated accounts to shareholders under International Financial Reporting Standards (IFRS). Reporting to the insurance supervisor on consolidated accounts will be based on IFRS, and adjustments for solvency assessment purposes are currently being considered. Reporting at the individual entity level will continue to be based on Italian GAAP, which includes accounting rules specifically for insurers and, with respect to some items, differs significantly from IFRS. ISVAP 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.

Individual auditors and audit firms must register with the Ministry of Justice. Current registration requirements for individuals include a university degree in economics, three years of experience and completion of an examination. There are approximately 100,000 individuals registered with the Ministry of Justice. Firms auditing listed companies or their subsidiaries, widely-held companies, insurance companies or investment companies must also be registered with CONSOB. CONSOB establishes independence requirements for such auditors and administers the discipline process. The major global firms are among the 25 audit firms registered with CONSOB and perform most audits of insurers.

	<p>The actuarial profession has been regulated by law since 1942. Actuaries serving in official roles, such as Appointed Actuary or Auditing Actuary, must be registered with the Ordine and must meet additional experience requirements established by ISVAP. Registration requirements include a university degree in statistics and actuarial science, passage of written and oral examinations administered by a public commission, continuing education, and adherence to ethical standards. The Ordine establishes standards of practice, subject to the approval of ISVAP and administers the discipline process. Disciplinary actions can be appealed to the National Council of Actuaries, with the courts constituting a final level of appeal.</p> <p>There are approximately 800 registered actuaries. The number of actuaries has been growing and is viewed by the profession as generally adequate, although the recent requirement to have an Appointed Actuary for motor insurance has created some pressure for more practitioners in that area.</p> <p>Extensive socio-economic data is available from the National Institute of Statistics (ISTAT), the Bank of Italy, the authority responsible for workers' compensation coverage, the financial industry and others. Internationally, Eurostat, IMF, OECD and others make information readily available. Considerable information is now available via the internet.</p> <p>Laws and regulations are updated in response to EU Directives and to respond to industry conditions and international developments.</p> <p>Financial markets in Italy are developed and largely support the availability of both long-term and short-term investment for insurers, which are also participants in international financial markets. Increasing the use of the equity market by Italian companies to raise funds was cited as a desirable objective by several market participants, in order to provide more investment opportunities for insurers and others.</p>
Assessment	Largely observed.
Comments	<p>The responsibilities with respect to the supervision of pension products sold by life insurers are currently under discussion. It is recommended that the responsibilities for the supervision of pension products be clearly defined in a manner that supports the ability of ISVAP to conduct prudential supervision of insurers selling such products, while avoiding the duplication or conflict of supervisory requirements applicable to the insurers.</p> <p>ISVAP is currently working with industry and other European supervisors to address the implications of the adoption of IFRS on the financial reporting of insurers. It is recommended that the accounting and supervisory reporting requirements applicable to insurers under Italian GAAP be harmonized with IFRS as far as possible. This will provide both ISVAP and other stakeholders with a consistent basis for the evaluation of insurers and minimize the reporting burden.</p> <p>It is recommended that a specialized alternative dispute resolution mechanism, such as an independent ombudsman, be established to deal with complaints of insurance consumers (or all financial sector consumers). This could hasten the resolution of some problems and lessen the burden on the courts and on ISVAP.</p> <p>It is recommended that steps be taken to improve the timeliness and consistency of the legal process. This will assist consumers both directly, in the resolution of insurance claims and disputes, and indirectly, by aiding in the efficient winding-up of failed insurers. Both ISVAP and ANIA are currently working on these issues.</p>

<b>Principle 2.</b>	<b>Supervisory objectives</b> The principal objectives of insurance supervision are clearly defined.
Description	<p>Legislation gives ISVAP various responsibilities for supervising both the solvency and market conduct of insurers, and for the supervision of intermediaries. The objectives of insurance supervision are to promote the sound and prudent management of insurers, disclosure and fair behavior of insurers and intermediaries. ISVAP is to give special regard to the stability and efficiency of the insurance sector, the solvency of each insurer, consumer information, and protecting the interests of policyholders and beneficiaries.</p> <p>ISVAP communicates its plans and activities through its annual report and in other ways. However, such communication does not explicitly describe ISVAP's objectives or explain how its activities relate to these objectives.</p>
Assessment	Largely observed.
Comments	It is recommended that ISVAP explicitly communicate the principal objectives of insurance supervision and explain how its plans and activities support these objectives.
<b>Principle 3.</b>	<b>Supervisory authority</b> The supervisory authority: <ul style="list-style-type: none"> <li>• has adequate powers, legal protection and financial resources to exercise its functions and powers</li> <li>• is operationally independent and accountable in the exercise of its functions and powers</li> <li>• hires, trains and maintains sufficient staff with high professional standards</li> <li>• treats confidential information appropriately.</li> </ul>
Description	<p>The supervision of insurers is based on the implementation of EU Insurance Directives, which have been incorporated into law 576/1982 (the law setting up ISVAP), and various other laws and decrees in Italy.</p> <p>Legislation gives ISVAP the power to issue and enforce rules, including legally-binding orders and circulars. ISVAP's powers are generally sufficient for the effective discharge of its supervisory responsibilities, although it is seeking to strengthen its ability to access documents and to increase the amounts of monetary penalties (see ICP 15). ISVAP's decisions can be appealed to the administrative courts.</p> <p>ISVAP is an independent agency that reports directly to Parliament on its activities, although it works through the Minister of Production Activities (MoPA) on legislative initiatives and to revoke the license of an insurer. ISVAP has a board of directors with seven members, including the President of ISVAP, who serves as chair. Directors other than the President are appointed by a decree of the president of the Council of Ministers based on the proposal of the MoPA. They are required to have expertise regarding insurance and financial activities and must not be connected with entities supervised by ISVAP. They are appointed for four year terms and may be reappointed once. The board has responsibilities in the approval of certain regulatory applications, in the imposition of serious sanctions, and for advising the President on organizational matters.</p> <p>The President is required to have expertise in insurance matters and is appointed by presidential decree, upon resolution of the Council of Ministers based on the proposal of the MoPA. The President is appointed for a five year term and may be reappointed once. Dismissal of the President would require a presidential decree, based on the proposal of the MoPA and the reasons for dismissal must be explained. The President can appeal the dismissal to the administrative court.</p>

	<p>ISVAP consults regularly with industry participants on a variety of policy issues and publishes the comments received and its responses to these comments on its website. Such consultation does not appear to interfere with the performance of its supervisory responsibilities.</p> <p>ISVAP controls the consistency of supervisory decisions through the use of documented internal procedures, peer discussion and management review. It has an internal audit function that assesses compliance with the required procedures.</p> <p>Official supervisory actions, such as the granting or revocation of an insurer's license, are published in the national gazette. ISVAP communicates on its plans and activities through its annual report, its website and the media.</p> <p>ISVAP can take immediate action to achieve its objectives. The effect of such action could be postponed by a decision of the court, pending the final resolution of an appeal, but in practice the court has never done so.</p> <p>ISVAP is financed by assessments on the insurance industry. It establishes a budget annually and proposes an assessment formula, which is set forth in a decree issued each year by the Minister of Finance (MoF). Although the MoF has the power to vary the assessment from the amount corresponding to the budget prepared by ISVAP, this has never occurred. Once the budget has been established, ISVAP has flexibility to reallocate resources within the overall total. If ISVAP were to determine during the year that it would need additional funds, an additional ministerial decree would be required, but this situation has not yet arisen. The budget of ISVAP has been sufficient to meet its needs.</p> <p>The budget and financial statements of ISVAP are published annually in the national gazette. The financial statements are subject to annual review by the Audit Court (Corte dei Conti), an autonomous agency charged with monitoring the financial administration of public institutions. ISVAP must respond to any remarks made by the Audit Court.</p> <p>ISVAP currently has 340 staff, including 328 regular employees and 12 persons hired under employment contracts. Compensation of the regular employees is subject to a national bargaining process for the insurance industry. Although compensation is generally competitive, ISVAP has sometimes encountered difficulty in hiring specialist staff, such as actuaries, lawyers and information technology experts. The ability to use of employment contracts is helpful in addressing this problem, but the number of staff that ISVAP may hire on such a basis is constrained by law to 20. ISVAP is able to retain outside experts, as necessary, e.g., administrators for the winding-up of failed insurers and consultants on the development of its new supervisory approach. The staff of ISVAP appears to be capable and well respected by those they supervise.</p> <p>ISVAP is liable for damages in the event a court overrules an ISVAP decision. Individual employees of ISVAP have no legal protection against lawsuits for actions taken while discharging their duties and have not been promised indemnification by ISVAP against the cost of defending themselves against lawsuits. Liability insurance has been secured by ISVAP's President and other members of its board of directors, at their personal expense.</p> <p>Individuals are subject to the general responsibilities contained in the code for civil servants and to the Financial Consolidation Act, which prohibits insider trading. However, ISVAP does not have a general code of conduct or specific prohibitions on investing in the supervised companies.</p> <p>Confidentiality provisions are set out in legislation. Confidentiality is required of external</p>
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	specialists hired by ISVAP as one of the terms of their contracts.
Assessment	Partly observed.
Comments	<p>It is essential that a supervisory authority be able to take good-faith actions without fear of lawsuits. Therefore, it is recommended that both the board of directors and staff of ISVAP be protected against lawsuits for actions taken in good faith while discharging their duties, if not through formal protection under the law then at least through liability insurance or a written promise of indemnification for costs.</p> <p>It is also essential that those working for a supervisory authority be able to be completely objective in the exercise of their duties. It is recommended that ISVAP establish and enforce a code of conduct that includes a prohibition on dealing in shares and investing in companies subject to ISVAP's supervision, and that it impose the same requirements on external specialists that it retains.</p> <p>ISVAP has been able, in practice, to obtain the financial resources necessary for supervision. However, ISVAP's independence from government, assurance of access to funding and accountability could be enhanced by making changes to the cost assessment and financial reporting processes. It is recommended that ISVAP's assessment formula be subject to the approval only of its board of directors, rather than requiring a decree by the MoF, and that its audited financial statements be published in its annual report. It is also recommended that ISVAP's meetings with industry representatives to discuss its priorities and their budgetary impact include an annual explanation of the main items of expenditure for the most recent year and the budget for the coming year.</p>
<b>Principle 4.</b>	<p><b>Supervisory process</b> The supervisory authority conducts its functions in a transparent and accountable manner.</p>
Description	<p>Legislation includes detailed requirements that drive certain supervisory processes, such as licensing and the review of solvency and ISVAP publishes information on some of these processes on its website to assist industry in its understanding. ISVAP has that define the main working procedures and processes used in on-site inspections and off-site analyses, in order to promote consistency of treatment. Software is used that provides detailed guidance supporting the inspection of each of the risk areas identified under the new risk-based supervision system.</p> <p>ISVAP's supervisory processes are largely focused on assessing the compliance of insurers and intermediaries with financial and non-financial requirements. Supervisory responses are based on the nature of any noncompliance and the relevant remedies described in the legislation. ISVAP does not rate the overall risk of each insurer and, accordingly, has not defined the nature of supervisory actions that would occur in response to various risk profiles.</p> <p>Any decision of ISVAP can be appealed to the administrative court. The effect of supervisory action could be postponed by a decision of the court, pending the final resolution of an appeal, but in practice the court has never done so. The vast majority of appeals are decided in favor of ISVAP. However, the equivalent of about five full-time staff at ISVAP is involved in dealing with appeals.</p> <p>ISVAP's organization structure is straightforward, with short management lines that should support prompt decision making. Significant supervisory actions are all approved by the President of ISVAP.</p> <p>ISVAP publishes an annual report, which includes financial and statistical information about the industry, describes major developments in the market and discusses the ISVAP's activities. The President's report comments on trends in the industry. These reports, and</p>

	significant additional information, are available on ISVAP's website.
Assessment	Largely observed.
Comments	<p>ISVAP is moving toward a more risk-based supervisory approach. Such an approach involves an increase in the need for the supervisory to exercise judgment and the criteria supporting supervisory judgments should be transparent to those supervised. It is recommended that ISVAP develop criteria for assessing the overall risk of an insurer and define the nature of supervisory action corresponding to various levels of risk, and communicate this information to the industry. It is recommended that once ISVAP is confident of its ability to perform overall risk assessments, it inform each insurer of its particular risk rating.</p> <p>It is recommended that consideration be given to establishing a specialized independent tribunal as the first level of appeal against decisions of ISVAP. This could improve both the speed with which appeals are resolved and the consistency of decisions, while reducing the workload of both ISVAP and the courts.</p>
<b>Principle 5.</b>	<p><b>Supervisory cooperation and information sharing</b> The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.</p>
Description	<p>Generally, within the EU/EEA, protocols between the supervisory authorities exist, underpinned by EU Directives, which allow for a timely and adequate flow of information among the supervisors. These arrangements work in practice.</p> <p>ISVAP is able to conclude an agreement to exchange information with another supervisor. However, such agreements are not a prerequisite to exchanging information. When information is being exchanged, legislation requires that certain conditions have to be fulfilled, including that the other supervisor must treat the information confidentially.</p> <p>In the case where ISVAP is the home member state supervisor, the host member state supervisor is taken into its confidence, to the extent necessary for the proper execution of the home member state supervision. This system, however, is only applicable in the EU/EEA.</p> <p>While legislation does not require systematic feedback from ISVAP to the original provider of the information, the protocols clearly indicate the intention to have a free flow of information in both directions.</p> <p>Legislation provides ISVAP with the power to obtain information for the benefit of other supervisors in the framework of insurance groups.</p> <p>Legislation (law 576/1982, based on EU directives) also enables ISVAP to share information with supervisors in non-EU/EEA countries and to cooperate with them on supervisory issues, on the condition of reciprocity. No formal agreements for information sharing are in place with such supervisors and ISVAP seldom exchanges information with them.</p>
Assessment	Partly observed.
Comments	<p>This principle is fully observed with respect to information regarding the operations of insurers in the EU/EEA. However, several insurance and financial groups of which insurers licensed in Italy are members are either based outside of the EU/EEA or are based in Italy and operate outside of the EU/EEA. It is recommended that ISVAP take steps to exchange information with relevant supervisors outside of the EU/EEA. This will help to ensure that ISVAP is adequately informed of developments that may affect all supervised entities.</p> <p>This recommendation is also relevant in the context of other principles, such as 6</p>

	(licensing) and 7 (suitability of persons). Those principles have been assessed as if ISVAP were dealing with non-EU/EEA supervisors in a manner consistent with its exchanges of information with EU/EEA supervisors.
<b>Principle 6.</b>	<p><b>Licensing</b></p> <p>An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.</p>
Description	<p>Subject to one exception, the legislation prohibits the conduct of insurance business in Italy without a license. The exception is EU insurers that wish to provide services to Italy or open a branch in Italy, which are supervised by the home member state supervisor and do not need a license from ISVAP, although ISVAP must be notified by that supervisor of the insurer's intentions. Licensing of insurers is governed primarily by legislative decrees 174/1995 and 175/1995. Professional reinsurers must register in accordance with presidential decree 449/1959 and are subject to some of the regulations applicable to other insurers.</p> <p>To obtain admission to the insurance business, the insurer has to apply for a license from ISVAP. If ISVAP assesses an insurer as having met the licensing criteria, the application is approved and a license is issued by ISVAP with an order published in the national gazette. Insurers operating without authorization are subject to compulsory administrative winding-up. ISVAP takes action against insurers that attempt to operate in Italy without authorization.</p> <p>Insurers must have the legal form of a public limited company, a mutual insurance company or a limited liability cooperative; almost all are public limited companies. Since 1979, legislation has provided that no new licenses would be granted permitting an insurer to conduct non-life business and life business within the same legal entity, except for accident and sickness classes, which can be written by life insurers, provided they manage the business separately. However, insurers that were operating on a composite basis at March 15, 1979 were permitted to continue to do so, and some of the larger insurers in Italy operate on this basis. Composite insurers are required to account for the income, expenses, assets and liabilities of their life and non-life businesses separately. No activities of any kind may be conducted within the legal entity of an insurer, other than insurance and functions ancillary to insurance.</p> <p>Licenses are issued per class of insurance. Licenses cannot be issued subject to restrictions, for example, on the volume of business or the size of risks within a class of insurance that may be written by an insurer. However, such factors are considered in evaluating the business plan of an insurer and in monitoring its subsequent adherence to the business plan.</p> <p>Licensing criteria are set out in various laws and regulations. When dealing with an application for a license, ISVAP assesses the following:</p> <ul style="list-style-type: none"> <li>• The suitability of significant owners, directors, and senior managers;</li> <li>• Whether the auditor and actuary are registered to practice;</li> <li>• Capital available compared to the minimum required;</li> <li>• The organization structure and the nature of controls, including those relating to anti-money laundering;</li> <li>• The business plan for the next three years, including forecasts of start-up costs, earnings, liquidity and solvency;</li> <li>• Information on the conditions of the life insurance or motor third-party liability products to be offered by the insurer;</li> <li>• Audited annual accounts; and</li> <li>• Any other information ISVAP deems necessary.</li> </ul>

	<p>ISVAP routinely requests input from the applicant’s home supervisory authority, with respect to applicants based in the EU/EEA (see ICP 5).</p> <p>If the insurer will be part of a group of companies, ISVAP also assesses the risks arising from the group relationship. The applicant’s sources of capital are assessed and ISVAP requires that the group structure be transparent.</p> <p>Legislation provides that refusal of a license must be communicated not later than six months from the date that complete documentation of the application is received. If the timeframe is not met, a license would not be granted automatically.</p> <p>During the first three years, an insurer must report to ISVAP every six months regarding its financial situation and progress in implementing its business plan.</p>
Assessment	Observed.
Comments	It is recommended that ISVAP contact the home supervisor of any non-EU/EEA insurer applying for a license, as a regular part of the assessment process.
<b>Principle 7.</b>	<b>Suitability of persons</b> The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfill their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.
Description	<p>Ministerial decree 186/1997 requires that significant owners, members of the board of directors, members of the board of statutory auditors and the chief executive meet fit and proper requirements and sets out the criteria that must be met. Insurers must inform ISVAP about such appointments and ISVAP may object to an appointment on a timely basis, in which case the company must replace the person.</p> <p>In cases where significant owners no longer meet suitability requirements, ISVAP may suspend or revoke the authorization to hold such participation. In these cases, disposal of the shares is not required, but the voting rights of the shares held cannot be exercised.</p> <p>Legislation does not explicitly require that an external auditor, auditing actuary or appointed actuary who is registered to practice and meets the necessary experience requirements (see ICP 1 for more information regarding qualification requirements) be fit and proper. However, ISVAP could report concerns to the relevant disciplinary body and request or order the company to replace individuals who have performed unsatisfactorily.</p> <p>In making its assessments of suitability, ISVAP seeks information from local agencies regarding criminal activities and from other supervisory authorities.</p> <p>Legislation explicitly prohibits external auditors, auditing actuaries and appointed actuaries from simultaneously holding two positions which could result in a material conflict, such as serving as a member of the board of directors or the board of statutory auditors.</p> <p>There is an explicit requirement that an insurer notify ISVAP if circumstances relevant to the fitness and propriety of its key functionaries arise.</p>
Assessment	Largely observed.
Comments	<p>It is recommended that the legislation be amended to require that all senior management of an insurer, not just the chief executive, meet fit and proper requirements.</p> <p>The new insurance code is expected to enable ISVAP to require the disposal of shares, if a significant owner no longer meets fit and proper requirements. This will strengthen ISVAP’s ability to protect insurers and their policyholders from the influence of inappropriate owners.</p>



	<p>It is recommended that the fit and proper requirements be defined and applied broadly enough to consider an individual's competence and soundness of judgment for fulfilling the responsibilities of the particular position, the diligence with which the person is fulfilling or is likely to fulfill those responsibilities and whether the interests of policyholders or potential policyholders of the insurer are, or are likely to be, in any way threatened by the person holding that position. This will enable the supervisory authority to take action to address serious problems in the direction or management of an insurer.</p> <p>It is recommended that ISVAP contact the home supervisor of any non-EU/EEA insurer, as a regular part of the process of assessing the fitness and propriety of its key functionaries.</p>
<p><b>Principle 8.</b></p>	<p><b>Changes in control and portfolio transfers</b></p> <p>The supervisory authority approves or rejects proposals to acquire significant ownership or any other interest in an insurer that results in that person, directly or indirectly, alone or with an associate, exercising control over the insurer.</p> <p>The supervisory authority approves the portfolio transfer or merger of insurance business.</p>
<p>Description</p>	<p>Legislation requires every natural or legal person to obtain the approval of ISVAP in order to acquire a qualifying holding in an insurance company with its registered office in Italy. A qualifying holding is defined as a direct or indirect holding of at least ten percent of the capital or of the voting rights of an insurance company, or a holding which makes it possible to exercise a significant influence over the management.</p> <p>Those with a qualifying holding in the company have to fulfill the propriety requirements. In forming its opinion, ISVAP focuses on undesirable situations which could arise as a result of acquiring the qualifying holding in the insurer. These include, for instance, a conflict with the interests of the policyholders or an unclear control structure. ISVAP has not established specific requirements for financial and non-financial resources.</p> <p>ISVAP must be notified of increases or decreases in qualifying holdings, when such changes are five percent or more of the capital. ISVAP must be provided with a listing of the ten largest shareholders and their holdings, within two days of the recording in the register of shareholders of any changes in their shareholdings of two percent or more of the capital. However, ISVAP does not have the power to object to increases or decreases in the shareholdings of a previously-approved qualifying shareholder.</p> <p>If an insurer wishes to transfer all or part of its portfolio, the prior permission of ISVAP is required (legislative decrees 174/95 for life insurance and 175/95 for non-life insurance). The request for the transfer must be made in writing to ISVAP and provide insight into the financial position of both the insurer making the transfer and the insurer which will receive it.</p> <p>In assessing the application, ISVAP considers both the interests of the policyholders of the insurer making the transfer and the interests of the policyholders of the insurer which will receive the transfer. Circular 551/D/2005 sets out specific requirements to ensure that the merger of segregated asset portfolios does not result in changes in the investment policies or risk profiles of the existing products sold by either insurer. The ability to satisfy the solvency requirements not just at the moment of the transfer but also in the future and possible changes in the risk profile of the insurer as a result of combining portfolios are also considered.</p> <p>If ISVAP does not have any objections to the proposed transfer, this decision must be publicized in order to inform policyholders. The policyholders of a non-life insurer may elect to cancel the insurance if contracts have been transferred to a foreign company or a</p>

	foreign branch of an Italian company.
Assessment	Largely observed.
Comments	<p>The new insurance code is expected to require the approval of ISVAP for significant increases or decreases, such as five percent or more of capital or voting rights, in the holdings of qualified shareholders. This will strengthen ISVAP's ability to ensure that the control of insurers rests with those having adequate resources.</p> <p>It is recommended that ISVAP document and publish the specific criteria that it will apply in assessing proposed changes in control and portfolio transfers. It is recommended that consideration be given to including a requirement, either in the legislation or among the assessment criteria, that a report be prepared by an independent actuary regarding the risks that a proposed change in control or portfolio transfer may pose to the interests of the policyholders of both the transferee and transferor.</p>
<b>Principle 9.</b>	<p><b>Corporate governance</b> The corporate governance framework recognizes and protects rights of all interested parties. The supervisory authority requires compliance with all applicable corporate governance standards.</p>
Description	<p>Most requirements concerning corporate governance are established by the Civil Code, although insurance law establishes additional requirements, e.g., regarding internal audits and the use of derivatives. Listed companies are subject to further governance requirements.</p> <p>The traditional Italian model of corporate governance provides for both a board of directors and a board of statutory auditors. Since 2003, companies have been permitted to adopt either the monistic (Anglo-Saxon) or dualistic (Germanic) systems, although no insurers have elected to do so.</p> <p>The board of directors defines policies and strategies and reports at least quarterly to the board of statutory auditors on business performance and major developments. The board of directors is responsible for assessing the suitability of business plans and organization. It also appoints the appointed actuary required for life and motor insurance, who must submit reports to the board of directors. The Civil Code does not require that any of the directors be independent of the controlling shareholders or senior management, although it does set out requirements for dealing with conflicts of interest that may arise. Independence provisions apply to listed companies, which must either comply with such provisions or explain why they have elected not to comply. Although boards of directors may establish committees, few have done so except for the insurers that are listed companies or subsidiaries of local or foreign listed companies.</p> <p>The board of statutory auditors is nominated by a shareholders' meeting and consists of individuals independent of both management and the external auditing firm. The board of statutory auditors is responsible for assessing governance and internal control issues. It proposes the external auditing firm to the shareholders' meeting and meets regularly with the external auditors to share views. Although few insurers have officers responsible for ensuring compliance with relevant legislation and standards of conduct, the assessments of board of statutory auditors should include controls in these areas.</p> <p>The external auditing firm is appointed by resolution of a shareholders' meeting, for a term of three years. It is responsible for assessing compliance with financial reporting requirements. The auditing actuary, who is appointed by the external auditing firm, must be independent of the insurer and may be a member of the auditing firm, although in practice all are independent consultants. The auditing actuary is responsible for assessing the compliance of the appointed actuary with actuarial requirements and provides an opinion on the adequacy of technical provisions.</p>

	<p>ISVAP has the power to set rules on administrative organization and internal controls. Recently, ISVAP has issued a draft circular on internal control and risk management. This circular, which is expected to be finalized in 2005, includes, for example, a requirement that improper incentives must be avoided in compensation programs and annual reporting to ISVAP regarding compensation programs.</p> <p>The board of statutory auditors, external auditors and auditing actuary are required to report any serious concerns to ISVAP. They have no protection against legal action that may be taken against them in connection with their performance of this responsibility.</p> <p>ISVAP regularly reviews the minutes of shareholders' meetings and the reports of irregularities that it receives and, in connection with certain on-site inspections, reviews the minutes of board meetings. ISVAP rarely meets with boards of directors, boards of statutory auditors, external auditors, auditing actuaries or senior management to discuss governance issues.</p>
Assessment	Partly observed.
Comments	<p>Insurance legislation currently requires that all insurers conform to certain requirements that are normally applicable listed companies. It is recommended that consideration be given to requiring that all insurers conform to all of the corporate governance requirements applicable to listed companies. This would help to strengthen the governance of all insurers and the protection of their policyholders.</p> <p>It is recommended that legislation provide for legal protection from liability for those parties required to report concerns to ISVAP, in respect of their fulfillment of this requirement. This would reinforce their ability to communicate freely with ISVAP.</p> <p>It is commendable that ISVAP is taking steps to strengthen governance, controls and risk management through the pending issuance of a circular on these topics. It is recommended that ISVAP strengthen its off-site and on-site assessment of both compliance with corporate governance requirements and the effectiveness of insurers' corporate governance practices. Such assessments could include regular reviews of minutes of the board of directors and board of statutory auditors, materials provided to these boards and business plans. Regular, ongoing contact between supervisory staff and the senior management of insurers, along with periodic meetings with their boards and auditors, would also contribute greatly to the ability to make such evaluations.</p>
<b>Principle 10.</b>	<p><b>Internal control</b></p> <p>The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.</p>
Description	<p>ISVAP has the power to set rules on administrative organization and internal controls and it has done so. Circular 366/1999 sets out requirements with respect to internal control systems and the responsibilities of administrative and controlling bodies (see ICP 9) and various other circulars are also relevant. Recently, ISVAP has issued a draft circular on internal control and risk management. This circular, which is expected to be finalized in 2005 and will replace circular 366, will require insurers to perform an annual self-assessment of internal controls and report the results of this assessment to ISVAP.</p> <p>ISVAP assesses internal controls as part of its on-site inspections, including focused inspections on internal controls and on compliance. The assessments include reviews of internal audit plans and reports and reports prepared by the board of statutory auditors, and extend to outsourced functions.</p>

	<p>Insurers are required to have an internal audit function appropriate to the size and nature of their business. They are not required to have a compliance function.</p> <p>The board of directors receives regular reports on internal controls from the board of statutory auditors, as well as from the internal auditor. Circulars 533/2004 and 518/2003 require that the board of directors receive regular reports on market conduct issues. The new draft circular would strengthen the requirements for the board of directors' oversight of risk management.</p> <p>Appointed actuaries are required with respect to both life insurance and motor insurance. The appointed actuaries report on the appropriateness of the bases used to calculate premiums and technical provisions and the adequacy thereof. Such reports are provided to the chief executive of the insurer or, in his or her absence, to the board of directors. Auditing actuaries review the work of the appointed actuaries with respect to the calculation of technical provisions and ISVAP makes its own analyses, as well.</p>
Assessment	Largely observed.
Comments	<p>It is recommended that the draft circular on internal control and risk management be finalized and implemented with high priority.</p> <p>It is recommended that ISVAP strengthen its off-site assessment of internal controls by routinely reviewing internal audit plans and reports, as well as reports of the board of statutory auditors.</p> <p>It is recommended that ISVAP meet regularly with the head of the internal audit function, the appointed actuary, the external auditor, the auditing actuary and the board of statutory auditors to obtain information from them regarding the effectiveness of internal controls. Such meetings should take place on a confidential basis, without management present, and it is recommended that the persons involved have legal protection from liability for providing information to ISVAP. Currently, ISVAP is not empowered to demand a confidential meeting with the head of internal audit or the auditing actuary. Therefore, it is recommended that legislation be amended, as necessary, to facilitate these changes.</p>
<b>Principle 11.</b>	<p><b>Market analysis</b> Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws the conclusions and takes action as appropriate.</p>
Description	<p>ISVAP regularly assesses the general market circumstances and industry developments and publishes the highlights of this assessment in its annual report. ISVAP also prepares regular and special statistical surveys and qualitative analyses, some of which are published. Both ISVAP and others, such as industry association ANIA, public aggregated statistical information on the industry. ISVAP occasionally collects additional data from industry to prepare special analyses, e.g., regarding distribution costs and credit risk transfers.</p> <p>ISVAP has meetings with industry and professional associations, at which market developments are discussed. It also monitors industry, university and other research, and obtains information from national and international supervisory authorities. ISVAP regularly participates in EU, OECD, IAIS and CEIOPS activities.</p> <p>ISVAP does not have a formal program of monitoring or analysis of factors that may have an impact on insurers and the insurance market.</p>
Assessment	Observed.
Comments	It is recommended that the market analysis process include regular meetings and cooperation in quantitative analyses with the other Italian financial sector supervisors. It is also recommended that the information gathering include regular meetings with various

	<p>industry and professional associations, the agendas of which would include discussion of market developments.</p> <p>It is also recommended that ISVAP ensure that the results of its market analysis are communicated widely within the organization. This will contribute to the ability of staff to assess risks in the insurance sector and to establish supervisory priorities.</p>
<b>Principle 12.</b>	<p><b>Reporting to supervisors and off-site monitoring</b> The supervisory authority receives necessary information to conduct effective off-site monitoring and to evaluate the condition of each insurer as well as the insurance market.</p>
Description	<p>The legislation empowers ISVAP to require the provision of both quantitative and qualitative information and to set the accounting standards they must follow (see ICP 1).</p> <p>Audited financial statements must be submitted annually by insurers. Extensive supervisory returns must also be submitted annually, with more limited returns required quarterly. The same information is required of Italian insurers and branches of non-EU insurers, while less extensive information is required of branches of EU insurers.</p> <p>Fines may be imposed by ISVAP on insurers that do not submit the required information on time, or submit inadequate information. The willing provision of false information is punishable by fines and imprisonment.</p> <p>Information in the returns is provided on a solo basis, with insurers that are members of groups also providing consolidated financial statements and solvency calculations.</p> <p>ISVAP performs extensive reviews analyses of the information it receives from insurers and follows up with them on questions and concerns.</p> <p>ISVAP revises its reporting requirements from time to time and changes are currently being considered in connection with the implementation of International Financial Reporting Standards (IFRS) and the new supervisory methodology.</p> <p>Insurers are required to report promptly material changes that affect the evaluation of their financial condition. This is reinforced by the reporting requirement applicable to external auditors, auditing actuaries and the board of statutory auditors.</p>
Assessment	Observed.
Comments	<p>The annual financial statements and supervisory returns must be submitted to ISVAP within one month after their approval, but not later than the end of May, while quarterly filings are due within 45 days.. Many jurisdictions have established shorter deadlines for the annual filings, e.g., two or three months. It is recommended that the deadline for the submission of annual supervisory returns be shortened. This recognizes both the need for timely analysis in light of potentially rapid changes in the financial markets and the growing capabilities of insurers to prepare financial information more quickly.</p>
<b>Principle 13.</b>	<p><b>On-site inspection</b> The supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.</p>
Description	<p>Legislation provides ISVAP the power to conduct on-site inspections and to request the information it deems necessary to perform its duties.</p> <p>ISVAP conducts inspections both as determined through its business planning, e.g., considering the results of its off-site analysis and previous on-site inspections, and on an as-needed basis, e.g., in response to consumer complaints. Some inspections are “full-scale”, in which case they address all aspects of a particular risk area, such as investments or internal controls. “Focused” inspections address only sub-risks of a risk area. Roughly one-</p>

	<p>quarter of the inspections address more than one major risk area. Software is used that provides detailed guidance supporting the inspection of each of the risk areas identified under the new risk-based supervision system.</p> <p>In 2004, 105 inspections were performed, covering 122 risk areas. 42 of these inspections were performed at insurers' head offices, 9 at claims settlement divisions, and 54 at intermediaries. ISVAP can inspect the providers of outsourced services.</p> <p>ISVAP discusses its findings with an insurer and has a formal process for providing its recommendations and receiving the insurer's response. Where necessary, ISVAP requires that a plan of action be developed and agreed upon. If the inspection identified violations, sanctions would be imposed.</p>
Assessment	Partly observed.
Comments	<p>It is recommended that ISVAP significantly increase both the number and scope of its on-site inspections. At the current level of activity, each insurer would, on average, be inspected only once every four or five years, and even the "full-scale" inspections generally cover only one risk area. Most intermediaries would never be subject to inspection.</p> <p>The current inspections focus primarily on compliance with requirements. In fact, all inspections are performed without prior notice to the entity being inspected, in order to ensure that problems are not disguised in anticipation of the inspection. While surprise inspections are appropriate in response to specific compliance concerns, they may be counterproductive in other circumstances. Advance notice would enable an insurer to make the relevant staff available for discussions with the inspectors, would be less disruptive to the insurer's operations, and promote a more cooperative relationship that should increase the flow of information to ISVAP. It is recommended that ISVAP provide advance notice of its inspections, except in cases of specific compliance concerns.</p> <p>ISVAP is working toward a more forward-looking assessment of risk. While financial analyses, such as reviewing the results of stress testing performed by insurers, can be an important part of risk-based supervisory approach, so can on-site inspections. It is recommended that ISVAP's on-site inspections seek to assess not only compliance with requirements but the effectiveness of an insurer in identifying and managing its risks.</p>
<b>Principle 14.</b>	<p><b>Preventive and Corrective Measures</b></p> <p>The supervisory authority takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
Description	<p>Legislation provides ISVAP with a range of preventive and corrective measures that it can and does exercise to achieve its supervisory objectives. They include:</p> <ul style="list-style-type: none"> <li>• Moral suasion;</li> <li>• Requiring a solvency restoration plan;</li> <li>• Issuing an administrative order;</li> <li>• Imposing fines or penalties;</li> <li>• Restricting the activities of the company, such as the disposal of assets;</li> <li>• Withholding approval of new activities;</li> <li>• Appointing an administrator; and</li> <li>• Withdrawing the license, through a decree of the MoPA.</li> </ul> <p>All formal decisions of ISVAP, including sanctions, must be communicated to insurers in writing. However, ISVAP commands sufficient respect in the industry that many issues can be resolved without resorting to formal sanctions. ISVAP has developed internal guidelines regarding the escalation of supervisory measures in accordance with the nature of its concerns.</p>

	<p>If necessary, ISVAP requires an insurer to develop an acceptable plan for the correction of problems and monitors compliance with the plan.</p> <p>ISVAP requires a solvency restoration plan if the solvency margin is breached or is currently satisfied but policyholders nevertheless appear to be at risk. If the guarantee fund requirement (one-third of the solvency margin) is breached, a short-term financing plan is required. If satisfactory plans are not prepared or implemented, ISVAP may appoint a representative to meet with the board of directors, the board of statutory auditors and the shareholders to seek resolution.</p> <p>ISVAP does not require insurers to take specific measures designed to prevent a breach of the legislation from occurring. However, the risk of non-compliance is identified separately in ISVAP's risk framework. Should such risk be of concern, ISVAP can require that internal controls be strengthened by the insurer.</p>
Assessment	Observed.
Comments	See ICP 4 for a related recommendation on risk-ratings.
<b>Principle 15.</b>	<b>Enforcement or sanctions</b> The supervisory authority enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.
Description	<p>ISVAP may, through an administrative order, impose a wide range of sanctions against an insurer that does not comply with the legal requirements. These sanctions include, but are not limited to, imposing monetary penalties, preventing the issuance of new policies, requiring a solvency restoration plan (see ICP 14), forbidding the disposal of part or all of the assets of the insurer and appointing an administrator.</p> <p>ISVAP does not have the power to arrange for compulsory transfer of an insurer's portfolio, except for motor liability insurance or – for other classes of business – during the winding-up process. However, it could use moral suasion to encourage a portfolio transfer by a failing insurer, under threat of the withdrawal of its license.</p> <p>ISVAP does not have the power to restrict or suspend dividend payments to shareholders, although it could appeal a decision of the shareholders' meeting regarding dividends to the court. ISVAP could also require a solvency restoration plan, where the payment of dividends would jeopardize the insurer's solvency. ISVAP can order an insurer to dispose of controlling interest in a subsidiary, if it engages in unauthorized activities or jeopardizes the insurer's financial situation.</p> <p>ISVAP follows up to determine whether an insurer is complying with remedial measures. It takes action to enforce the sanctions it has imposed, involving the courts, if necessary. While appeals of sanctions are possible, corrective actions can generally continue to be taken by ISVAP.</p> <p>Legislation enables ISVAP to impose fines against those that do not comply with certain provisions of the legislation. Insurance companies and their directors and managers, brokers, agents and those operating without authorization can be punished by fines and, for some offences, imprisonment through decisions of the court. Fines are imposed by the MoPA on the recommendation of ISVAP. The amounts of monetary penalties are to be significantly increased with the pending adoption of the new insurance code.</p> <p>Individuals can be permanently barred from acting in responsible capacities in the future, under the fit and proper provisions of the legislation, for issues of propriety such as criminal convictions. However, disqualification for reasons such as involvement in the management or direction of an insolvent insurer is limited to three years.</p>

	<p>The basis for insurance legislation and supervision is the individual licensed insurer. Supplementary supervision of insurers that are part of a group, including a review of the solvency position more broadly, provides some protection against financial difficulties in other parts of the group. Any intra-group transactions involving an insurer that exceed a specified threshold must be approved by ISVAP.</p> <p>Internal procedures are designed to promote consistency in treatment. ISVAP has a sanctions section within its organization. It also uses an internal committee to ensure consistency in its recommendations of fines, which have always been accepted by the MoPA.</p> <p>ISVAP takes action against insurers and intermediaries operating without the required license.</p>
Assessment	Largely observed.
Comments	<p>It is recommended that legislation be amended to explicitly enable ISVAP to restrict or suspend dividends or other payments to shareholders, when such payments would jeopardize the insurer's solvency.</p> <p>It is recommended that legislation be amended to provide that no breach of fitness or propriety requirements will be automatically disregarded after three years have passed, but that certain breaches may be disregarded by ISVAP after such period. This will help to protect insurers and their policyholders from individuals who have committed serious or recurrent adverse actions.</p> <p>ISVAP is able to request any information that it needs from an insurer and to impose sanctions if such information is withheld. However, ISVAP is not able to access documents directly, e.g., through a search of the insurer's premises. Consistent with the situation in some other jurisdictions, ISVAP is able to obtain documents directly, through the execution of a search warrant by police. It is anticipated that the new insurance code will strengthen ISVAP's ability to use the Fiscal Police to obtain relevant documents, in the event that a request for information has not been complied with.</p>
<b>Principle 16.</b>	<p><b>Winding-up and exit from the market</b></p> <p>The legal and regulatory framework defines a range of options for the orderly exit of insurers from the marketplace. It defines insolvency and establishes the criteria and procedure for dealing with insolvency. In the event of winding-up proceedings, the legal framework gives priority to the protection of policyholders.</p>
Description	<p>Legislation provides for the voluntary and involuntary winding-up of an insurer. The reorganization or winding-up of an insurer is supervised by ISVAP, in accordance with legislative decree 93/2003.</p> <p>Involuntary winding-up may be triggered by a formal declaration of insolvency by a court, based on ISVAP's opinion. Formal insolvency has specific implications under the law, such as serving as a precondition for legal action against the board of directors. Involuntary winding-up would also be triggered by the withdrawal of an insurer's license. ISVAP would take action to withdraw the license if an insurer breaches the guarantee fund requirement and is unable to implement a satisfactory short-term financing plan.</p> <p>Legislation establishes the priorities of rights of various parties to the assets of the insurer. The assets held by an insurer to cover technical provisions must first be used to meet obligations to insured, policyholders, beneficiaries and claimants.</p> <p>A guarantee fund exists to protect motor insurance policyholders and claimants in the case</p>



	of the insolvency of an insurer and liability claims arising from uninsured motorists.
Assessment	Observed.
Comments	
<b>Principle 17.</b>	<b>Group-wide supervision</b> The supervisory authority supervises its insurers on a solo and a group-wide basis.
Description	<p>Legislation clearly defines when an insurer would be considered to be part of a group and describes the supplementary (“solo plus”) supervision to which a group is subject. This includes the requirement that adjusted solvency calculations be prepared in order to eliminate double gearing and the ability to review intra-group transactions involving the insurer. Where more than one licensed insurer is part of the same group, each such insurer is supervised by the same team within ISVAP.</p> <p>Generally, within the EU/EEA, protocols between the supervisory authorities exist, underpinned by EU Directives, which allow for a swift and good flow of information between the supervisors in the supervision of groups. Legislation implementing the EU Financial Conglomerates Directive in Italy has recently been approved and its official publication is expected soon.</p> <p>While legislation enables ISVAP to cooperate with non-EU/EEA supervisors in the supervision of groups, ISVAP has no such arrangements in place.</p> <p>Although many insurers are members of groups that include Italian banks or securities firms, ISVAP does not systematically exchange information with the Italian authorities responsible for supervision of the banking and securities sectors.</p> <p>ISVAP requires insurers that are members of a group to submit consolidated accounts in a specified format. ISVAP can also require that an insurer provide it with other relevant information regarding the group of which it is a member.</p> <p>ISVAP has the power to deny or withdraw an insurer’s license if its organizational or group structure hinders effective supervision.</p>
Assessment	Largely observed.
Comments	<p>It is recommended that ISVAP systematically exchange quantitative and qualitative information with its Italian counterparts responsible for supervision of the banking, securities and pension sectors, where a supervised insurer is a member of a group that includes companies operating in the other sectors. This will assist ISVAP and the other supervisors in assessing the overall risk profile of a group, as well as possible implications to the individual supervised entities.</p> <p>It is recommended that ISVAP contact the home supervisor of any non-EU/EEA insurer operating in Italy, as a regular part of the process of assessing the potential impact of group activities on such insurer.</p>
<b>Principle 18.</b>	<b>Risk assessment and management</b> The supervisory authority requires insurers to recognize the range of risks that they face and to assess and manage them effectively.
Description	<p>Insurers are required, for example, under circular 366/1999, to have sound administration and adequate internal controls. ISVAP has also established requirements for the management of specific risks, such as those arising from the use of derivatives. However, there are currently no explicit requirements regarding the overall assessment and management of risk by insurers.</p> <p>ISVAP has issued a draft circular, which is expected to be finalized in 2005 and will replace circular 366, that will require insurers to establish comprehensive risk management</p>

	<p>policies and systems appropriate to the nature of their business. They will be required to regularly review the market environment, to perform stress tests at least annually and report the results to their board of directors, and to perform an annual self-assessment of risk management and report the results of this assessment their board of directors and to ISVAP.</p> <p>Some of the larger insurers and groups in Italy have risk management functions and committees, both at the group and operating levels.</p>
Assessment	Partly observed.
Comments	As noted above (see ICP 10), it is recommended that the draft circular on internal control and risk management be finalized and implemented with high priority. Full implementation of these proposals by insurers, along with regular assessment of the overall effectiveness of insurers' risk management by ISVAP, should significantly increase the level of observance of this principle.
<b>Principle 19.</b>	<p><b>Insurance activity</b>          Since insurance is a risk taking activity, the supervisory authority requires insurers to evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums.</p>
Description	<p>ISVAP evaluates the underwriting and pricing policies of as part of the licensing process and through ongoing off-site and on-site analyses. The draft circular on internal control and risk management will strengthen requirements in these areas.</p> <p>Legislation provides that each insurer is free to set the premiums it will charge. However, the premiums for life insurance are required to be adequate and the premiums for motor insurance must be consistent with the level of underlying risk. Insurers must appoint actuaries in respect of the life and motor insurance classes and the appointed actuaries must certify that the premiums meet these criteria in technical reports to the board of directors. ISVAP selectively reviews these reports and also collects information about the pricing of life insurance products in a standard format.</p> <p>ISVAP reviews an insurer's reinsurance program, during the licensing process. The ongoing assessment of reinsurance currently focuses primarily on the historical accounting and financial impact of an insurer's reinsurance program. However, specific reinsurance arrangements are sometimes reviewed by ISVAP, the security of reinsurance is assessed by monitoring the assessments of reinsurers by ratings agencies, and some on-site inspections of reinsurance are conducted.</p> <p>A draft circular has also been issued recently on reinsurance, which sets out proposed requirements with respect to the development and implementation of a reinsurance strategy and for additional reporting to ISVAP on reinsurance matters. ISVAP has also recently added to its reinsurance expertise by hiring an individual with significant industry experience in this field.</p>
Assessment	Largely observed.
Comments	<p>It is recommended that the draft circular on reinsurance be finalized and implemented with high priority.</p> <p>It is also recommended that ISVAP implement its plans to increase the depth and breadth of its off-site and on-site assessments of reinsurance. Taken together, these recommendations should help to ensure that insurers have appropriate reinsurance programs in place, commensurate with the levels of risk determined by their boards of directors and acceptable to ISVAP.</p>

<p><b>Principle 20.</b></p>	<p><b>Liabilities</b>  The supervisory authority requires insurers to comply with standards for establishing adequate technical provisions and other liabilities, and making allowance for reinsurance recoverables. The supervisory authority has both the authority and the ability to assess the adequacy of the technical provisions and to require that these provisions be increased, if necessary.</p>
<p>Description</p>	<p>Legislation requires insurers to establish adequate technical provisions and legislative decrees 174/1995, 175/1995 and 173/1997 set out specific requirements for the calculation of technical provisions. These requirements are supplemented by guidance issued by the actuarial profession and approved by ISVAP (see ICP 1). The requirements are comprehensive, e.g., dealing with provisions for interest rate, mortality and expense deficiencies and for guarantees under unit-linked and index-linked policies.</p> <p>Appointed actuaries are required with respect to both life insurance and motor insurance. The appointed actuaries report on the appropriateness of the bases used to calculate premiums and technical provisions and the adequacy thereof. Auditing actuaries review the work of the appointed actuaries with respect to the calculation of technical provisions.</p> <p>ISVAP reviews the reports of the appointed actuaries and the auditing actuaries. It also analyses the development and sufficiency of technical provisions using models that it has developed. Areas of concern are followed up with the actuaries in writing and through on-site inspections.</p> <p>ISVAP can require that technical provisions be increased if they are not sufficient. This is usually done in the balance sheet of the next reporting period, but if the insufficiency is significant, the insurer may be required to develop a solvency restoration plan based on the revised solvency position.</p> <p>When calculating the solvency margin, the reduction of technical provisions in respect of reinsurance is limited to 85 percent of the technical provisions for life insurance and 50 percent of the technical provisions for non-life insurance, or to 50 percent of the capital at risk.</p> <p>Insurers are required to provide financial information both gross and net of reinsurance in the supervisory returns.</p> <p>Insurers are not currently required to undertake regular stress tests, although some insurers in Italy do so. Stress testing will be required with the implementation of the draft circular on internal control and risk management.</p>
<p>Assessment</p>	<p>Observed.</p>
<p>Comments</p>	<p>International standards for the valuation of insurance contracts are currently under development by both the International Actuarial Association and the International Accounting Standards Board, in connection with the development of IFRS. It is recommended that consideration be given to adopting international actuarial standards when they become available.</p> <p>It is also recommended that legislation be amended to extend the requirement for an appointed actuary to all non-life classes of business. This will strengthen the ability of ISVAP to rely on the adequacy of the reported technical provisions for these classes of business.</p> <p>It is recommended that ISVAP regularly review the results of the stress testing of liabilities, for those insurers that already undertake such testing and for others, once such testing is</p>

	required in accordance with the circular on internal control and risk management.
<b>Principle 21.</b>	<b>Investments</b> The supervisory authority requires insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching, and risk management.
Description	<p>In accordance with the EU Insurance Directives, the categories of assets that an insurance company may hold to cover its technical provisions are defined by legislation, including legislative decrees 174/1995 and 175/1995 and orders 147/1996 and 148/1996. These assets must be held within the EEA, unless ISVAP authorizes their location in other states. Requirements include quantitative limits designed to ensure the quality and diversification of assets, and their appropriateness to the nature of an insurer's liabilities. Such requirements do not apply to the assets of an insurer that are not being used to support technical provisions.</p> <p>Insurers are not required to have in place an investment policy that has been approved by the board of directors, either with respect to the investment of assets supporting technical provisions or other assets. Some insurers do have such policies in place.</p> <p>The methods to be used for the valuation of investments are prescribed by ISVAP. Most investments are valued at the lower of purchase cost and market price, although assets related to unit-linked and index-linked policies are valued at market price and assets related to segregated funds (guaranteed interest policies) are valued at purchase cost.</p> <p>ISVAP conducts extensive off-site reviews of investments, as well as on-site inspections. On-site inspections cover issues such as the structure of investment operations, the quality of staff, directions from the board of directors, reporting of results to the board of directors, internal controls, and the activities of external fund managers.</p> <p>Requirements on asset/liability management with respect to life insurance policies with interest guarantees are set out in circular 364/1999 and order 1801/2001.</p> <p>Insurers are not currently required to perform stress testing of their investments or adopt contingency plans to mitigate the effects of deteriorating conditions. Stress testing and contingency plans will be required with the implementation of the draft circular on internal control and risk management.</p>
Assessment	Partly observed.
Comments	<p>The investment requirements are focused on ensuring the quality of assets supporting the technical provisions. It is important that the board of directors take overall responsibility for both the quality and suitability of all of an insurer's assets. Therefore, it is recommended that ISVAP require each insurer to have an overall strategic investment policy and that such policy be approved and reviewed annually by the board of directors. It is also recommended that ISVAP provide guidance regarding the main elements to be addressed by an insurer's investment policy.</p> <p>It is recommended that ISVAP regularly review the results of the stress testing of assets, for those insurers that already undertake such testing and for others, once such testing is required in accordance with the circular on internal control and risk management. ISVAP should also review the contingency plans that will developed by insurers in accordance with that circular.</p>

<b>Principle 22.</b>	<p><b>Derivatives and similar commitments</b> The supervisory authority requires insurers to comply with standards on the use of derivatives and similar commitments. These standards address restrictions in their use and disclosure requirements, as well as internal controls and monitoring of the related positions.</p>
Description	<p>The EU Insurance Directives permit the use of derivatives for risk mitigation or efficient portfolio management. In Italy, requirements on the use of derivatives by insurers are set out in orders 297/1996 and 981/1998, and circular 451/2001.</p> <p>Requirements include the adoption of a comprehensive policy on the use of derivatives by the board of directors, appropriate transactional and risk management expertise, adequate internal controls, the capability to independently verify pricing, and internal audit.</p> <p>The derivatives policy and relevant board resolution must be provided to ISVAP, along with detailed information on open positions and results on a quarterly basis. ISVAP requires the disclosure of derivatives activities in the notes to an insurer's financial statements.</p> <p>ISVAP performs on-site inspections of derivatives activities, using staff with special expertise in this field.</p>
Assessment	Observed.
Comments	Insurers in Italy are using derivatives principally to manage interest rate risk related to their segregated funds and to match the indices under index-linked policies.
<b>Principle 23.</b>	<p><b>Capital adequacy and solvency</b> The supervisory authority requires insurers to comply with the prescribed solvency regime. This regime includes capital adequacy requirements and requires suitable forms of capital that enable the insurer to absorb significant unforeseen losses.</p>
Description	<p>The solvency regime is described in legislative decrees 173/1997, 174/1995 and 175/1995, and is based on the EU solvency approach and margins. It includes the key components expected of a solvency regime.</p> <p>Although reinsurers are supervised by ISVAP, they are not subject to the solvency margin requirements. ISVAP assesses the security of reinsurers through the review of information both provided by reinsurers in the regulatory returns, including their technical provisions, and produced by ratings agencies. It reviews certain types of reinsurance arrangements to assess the effectiveness of the risk transfer. When calculating the solvency margin, the reduction of technical provisions in respect of reinsurance is limited to 85 percent of the technical provisions for life insurance and 50 percent of the technical provisions for non-life insurance, or to 50 percent of the capital at risk.</p> <p>Suitable forms of capital are defined in the legislation.</p> <p>The calculation of the required solvency margin is to a certain extent based on the size (premium income for non-life and technical provisions for life), complexity and business risk (class differentiation). However, this system is not particularly sensitive to the risk profile of the business, which is one of the reasons that the EU Solvency II project is underway.</p> <p>The current system prescribes a level of technical provisions plus solvency margin which empirically has been able to absorb a range of unforeseen losses, assuming that both the technical provisions and the assets are valued properly.</p> <p>ISVAP has not established a solvency control level above the required solvency margin, but it does closely monitor the development of the solvency level. ISVAP can require a</p>

	<p>solvency restoration plan even if the solvency margin is currently satisfied but policyholders nevertheless appear to be at risk.</p> <p>Legislation clearly defines when an insurer would be considered to be part of a group and requires that adjusted solvency calculations be prepared in order to eliminate double gearing.</p> <p>The solvency of an insurer that is based in another EU/EEA country or in Switzerland and operates in Italy through a branch is supervised by the home country supervisor. Legislation requires that an insurer that is based outside the EU/EEA and operates in Italy through a branch satisfy the minimum solvency margin for its Italian portfolio and that the amount representing the guarantee fund be held in Italy, while the remaining portion of the minimum solvency margin may be held anywhere within the EU.</p> <p>The current solvency regime does not provide for periodic, forward-looking analysis, although stress testing is required under the draft circular on internal control and risk management and is a key component of the proposed EU Solvency II framework.</p>
Assessment	Largely observed.
Comments	<p>The EU is currently undertaking the Solvency II project. The result should be a more dynamic, risk-sensitive approach to capital adequacy and solvency that is consistent with international best practices. Italy will be required to implement the results of the Solvency II project, once they are finalized.</p> <p>Since the ICPs apply to the supervision of both insurers and reinsurers, it is recommended that Italy take action to extend relevant prudential requirements to reinsurers. This might be accomplished through implementation of the EU Directive on reinsurance.</p> <p>Under the current solvency margin approach, some EU insurance supervisors have provided guidance to insurers that a higher level of capital adequacy is expected of them. Another point of reference is the risk-based capital systems in use in jurisdictions such as the United States, Canada and Australia, which typically produce much higher minimum requirements than the EU solvency margin for a comparable portfolio of insurance. It is recommended that ISVAP establish and communicate a solvency control level in excess of the minimum solvency margin.</p> <p>It is recommended that ISVAP regularly review the results of the stress testing of solvency, once such testing is required in accordance with the circular on internal control and risk management.</p>
<b>Principle 24.</b>	<p><b>Intermediaries</b></p> <p>The supervisory authority sets requirements, directly or through the supervision of insurers, for the conduct of intermediaries.</p>
Description	<p>The supervision of insurance agents and brokers is governed by laws 48/1979 and 792/1984, and circular 533/D/2004; motor insurance claims adjusters are subject to law 166/1992; and distribution of insurance through banks by circular 241/1995. The EU Directive on Insurance Intermediation is being implemented as part of the new insurance code.</p> <p>Agents, brokers and motor insurance claims adjusters are required to register with ISVAP. Registration requires passing an examination or possessing equivalent experience, and being of good repute. Brokers must also have professional liability insurance and participate in a guarantee fund. Intermediaries from other EU countries who wish to provide services in Italy must inform both their home supervisor and ISVAP before doing so. ISVAP publishes a listing of registered intermediaries on its website.</p>

	<p>There are many individuals involved in insurance intermediation who are not required to register with ISVAP. Sub-agents sell insurance under the direction of agents. Sub-agents are not required to register with ISVAP, although some choose to do so, and the agents and the insurers they represent are expected to supervise their activities. Financial promoters sell a variety of financial products, often including insurance. Financial promoters must register with CONSOB, but registration does not require the passing of an examination regarding insurance. Insurance is sold through bank and post office branches and those involved in the sales process are not registered with ISVAP, although they are restricted to selling simple, standardized products. Insurers are expected to ensure that those selling their products are adequately trained and to monitor their activities.</p> <p>ISVAP performs on-site inspections of insurance intermediaries, both in conjunction with inspections of insurers and independently.</p> <p>ISVAP can take corrective action against registered intermediaries, including imposing fines, reproaching or censuring them, or withdrawing their registration. Individuals or entities that are carrying on insurance intermediation activities without registration, other than as described above, are subject to fines and imprisonment.</p> <p>Protection of clients' money is provided by restrictions on cash payments, and the guarantee fund and liability insurance required of brokers. Under the new insurance code, intermediaries will also be required to keep clients' funds separate from their own funds, agents will also be required to have professional liability insurance, and amounts paid by clients to intermediaries will be legally considered to have been paid to the insurer.</p> <p>Insurance intermediaries are not currently required to give customers information on their status, but will be required to do so under the new insurance code.</p>
Assessment	Partly observed.
Comments	<p>The present laws provide an inadequate basis for supervisory control over the conduct of insurance intermediaries. The implementation of the EU Directive on Insurance Intermediation, through the new insurance code, will strengthen the legal framework with respect to those intermediaries who are required to register with ISVAP. It is recommended that the new insurance code be adopted and that its provisions on insurance intermediation be implemented with high priority.</p> <p>The new insurance code is expected to include provisions that would address the significant number of individuals dealing with the public in the sale of insurance that are currently outside the scope of registration, i.e., sub-agents, financial promoters, and bank and post office employees. It is recommended that legislation be adopted to require that all insurance intermediaries operating in Italy be subject to registration and direct supervision, and that the conditions of registration include demonstration, through examination, of adequate insurance expertise.</p> <p>It is recommended that ISVAP cooperate with CONSOB and the Bank of Italy, as appropriate, to ensure that all insurance intermediation activities are subject to periodic on-site inspection.</p> <p>It is recommended that claims adjusters dealing with any class of insurance be required to register with ISVAP.</p> <p>These recommendations should help to ensure that consumers are being adequately served and advised in their insurance dealings.</p>

<p><b>Principle 25.</b></p>	<p><b>Consumer protection</b>  The supervisory authority sets minimum requirements for insurers and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross-border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been satisfied.</p>
<p>Description</p>	<p>Circular 533/D/2004 establishes guidelines for advertising, ethical behavior, training and various other matters relating to dealings with consumers on insurance. Circular 551/D/2005 prescribes additional disclosure requirements for life insurance products. Circular 518/2003 deals with complaints management. Law 675/1996 addresses the protection of private information of consumers.</p> <p>Insurers and intermediaries are required by these laws to act with due skill, care and diligence and to treat consumers fairly. They are explicitly required, in the case of life insurance, to seek information from consumers that is appropriate in order to assess their insurance needs and risk tolerance, before giving advice.</p> <p>Consumers must be provided with a summary information sheet about the insurance being proposed, before entering into the contract. Additional information, such as a cost index, is required for life insurance products. Specific information must also be provided periodically during the term of the contract. ISVAP monitors compliance with these requirements. Except in the case of life insurance, there is no requirement that potential conflicts of interest be disclosed, although ethical rules exist which seek to protect against such conflicts.</p> <p>Insurers must have systems in place for dealing with complaints. ISVAP assists consumers in dealing with complaints on insurance matters. ISVAP contacts the insurer and seeks a satisfactory resolution of the complaint, but has no power to force a resolution.</p> <p>Rules on the handling of customer information and the protection of privacy are established and overseen by the independent Authority for the Protection of Personal Data.</p> <p>Requirements exist regarding the cross-border offering of insurance, consistent with the EU Directive on E-commerce. Particular emphasis is given to the consumer before concluding an insurance contract. ISVAP publishes on its website a list of authorized companies, branches, and companies registered to operate under the free provision of services. Warning notices are issued by ISVAP in order to avoid transactions with unsupervised entities. The eventual implementation of an EU Directive on Cross-border Financial Services should further strengthen consumer protection in this area.</p> <p>ISVAP publishes information for consumers on its website, including a guide to motor liability, life, and social security insurance. This guide was also widely distributed through a national newspaper and is available in printed form from ISVAP.</p>
<p>Assessment</p>	<p>Largely observed.</p>
<p>Comments</p>	<p>It is recommended that insurers and intermediaries be required to seek information from consumers that is appropriate in order to assess their insurance needs, with respect to all classes of insurance, before giving advice or concluding a contract.</p> <p>It is also recommended that insurers and intermediaries be required to disclose possible conflicts of interest to existing or potential policyholders, with respect to all classes of insurance.</p> <p>Several industry participants commented on the use of multi-year non-life insurance</p>



	contracts in Italy, expressing concern regarding their suitability for consumers. It is recommended that ISVAP perform an analysis of the use of multi-year non-life insurance contracts and take action in response to deal with any potential abuses posed by the use such contracts.
<b>Principle 26.</b>	<b>Information, disclosure &amp; transparency towards the market</b> The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.
Description	<p>Insurers subject to the Italian Civil Code are required to prepare audited annual accounts and submit them to a register maintained by the national Chamber of Commerce. The information in the register is accessible to the public over the Internet, for a fee, and is also available from private data services. From 2005, companies preparing consolidated accounts and other listed companies must report in accordance with IFRS, which contain extensive disclosure requirements.</p> <p>Insurers are not required to publish their accounts in a newspaper or to make them available to policyholders who may request them. The larger companies or groups publish more elaborate annual reports and provide information on their websites.</p> <p>Information on the financial position and performance is disclosed, as is a description of the basis upon which it has been prepared. Descriptions of risk exposures, risk management practices, management and corporate governance are often quite limited. Quantitative information on risk exposures is sometimes provided.</p> <p>Insurers are required to provide extensive quantitative and qualitative information to ISVAP. Currently, none of this information is published by ISVAP, except on an aggregated basis, although ISVAP is considering whether to expand the scope of its publication.</p> <p>ISVAP monitors compliance with the disclosure requirements.</p>
Assessment	Partly observed.
Comments	<p>The implementation of IFRS should considerably improve the extent and comparability of information disclosed by listed insurers and other insurers required to apply IFRS. It is recommended that legislation be amended to clarify ISVAP's power to require insurers to disclose information on their financial situation and the risks to which they are subject. It is also recommended that ISVAP establish disclosure which, to the extent practical, is consistent with the disclosures required of listed companies.</p> <p>It is recommended that legislation require all insurers operating in Italy to make their annual audited financial statements easily available to stakeholders.</p> <p>It is recommended that ISVAP publish, on an entity-specific basis, some of the information provided to it by insurers in the supervisory returns. It is recommended that the information: include the balance sheet, income statement and solvency margin; include both year-end and interim data; be made available as soon as possible after the end of each reporting period; and be accessible over the Internet. It is recommended that legislation be amended, as necessary, to facilitate such publication.</p> <p>These recommendations should contribute significantly to the ability of consumers to easily obtain consistent and reliable information about the insurers with which they are dealing.</p>

<b>Principle 27.</b>	<p><b>Fraud</b> The supervisory authority requires that insurers and intermediaries take the necessary measures to prevent, detect and remedy insurance fraud.</p>
Description	<p>ISVAP has set rules concerning the administrative organization and internal controls of insurers and the ethical standards of insurers and intermediaries. ISVAP has adequate powers to enforce these rules.</p> <p>ISVAP is authorized to co-operate with law enforcement officials and other supervisory authorities, including those in other jurisdictions, with respect to fraud. It regularly co-operates with law enforcement authorities.</p> <p>Fraud perpetrated by insurers would generally be prosecuted under the Criminal Code as fraud or misappropriation of assets.</p> <p>Insurance fraud, including claims fraud, is an offence under the Criminal Code, which has recently been updated to broaden the definition of insurance fraud. ISVAP encourages insurers to seek prosecution of suspected fraud.</p> <p>There is no explicit requirement that insurers and intermediaries allocate appropriate resources and implement effective procedures and controls to deal with fraud, although this is addressed implicitly through the requirement that there be adequate internal controls. ISVAP assesses an insurer's fraud control measures in connection with on-site inspections of internal controls.</p> <p>In accordance with law 137/2000 and circular 505/2003, ISVAP collects detailed information on all motor vehicle insurance claims. The database is accessible to insurers and law enforcement authorities, in the interest of preventing and prosecuting fraud.</p>
Assessment	Largely observed.
Comments	<p>While no statistics exist, industry participants believe the level of insurance fraud in Italy to be relatively high. If so, its financial impact on the industry and ultimately on insurance consumers is material and efforts to combat insurance fraud should be strengthened.</p> <p>It is recommended that ISVAP explicitly require that insurers and intermediaries implement procedures and controls against fraud and that it assess their effectiveness periodically.</p>
<b>Principle 28.</b>	<p><b>Anti-money laundering, combating the financing of terrorism (AML/CFT)</b> The supervisory authority requires insurers and intermediaries to take effective measures to deter, detect and report money laundering and the financing of terrorism.</p>
Description	<p>Laws 197/1991 and 431/2001 deal with AML/CFT in Italy. The Italian Foreign Exchange Office (Ufficio Italiano dei Cambi – UIC) is the central anti-money laundering authority. The Financial Security Committee (FSC) is the lead authority in the fight against terrorist financing. The FSC includes representatives of various ministries, agencies and law-enforcement bodies; ISVAP is not represented.</p> <p>AML/CFT regulations are primarily issued by UIC, although ISVAP has provided supplementary guidance to the insurance sector since 1992 through various circulars. ISVAP has also collaborated in the development of guidance on customer due diligence and the identification of suspicious transactions that has been issued by the Bank of Italy and with which the insurance sector is required to comply.</p> <p>Since 1994, a memorandum of understanding has been in place between ISVAP and UIC. It deals with the coordination of their activities, the exchange of information, the involvement of other authorities in the imposition of sanctions, and the possibility of joint inspections.</p>

	<p>ISVAP reviews AML/CFT controls as part of its licensing process. It conducts focused on-site inspections of AML/CFT controls of insurers and has begun to inspect their intermediaries as part of these inspections. Approximately ten such inspections are performed annually. ISVAP also reviews the AML/CFT controls of both insurers and intermediaries in connection with other types of inspections.</p> <p>ISVAP require insurers and intermediaries to: have adequate procedures for performing customer due diligence, including taking enhanced measures with respect to higher risk customers; monitor for unusual transactions; and develop internal programs, procedures and controls. AML legislation requires the maintenance of full business and transaction records for at least ten years and the reporting of suspicious transactions to UIC. Legislation does not deal specifically with the need for foreign branches and subsidiaries to observe AML/CFT measures consistent with the requirements in Italy.</p>
Assessment	Largely observed.
Comments	<p>It is recommended that ISVAP significantly increase the frequency of its on-site inspections of both insurers and intermediaries regarding AML/CFT. ISVAP's inspections have often identified weaknesses in AML/CFT controls, which highlights the need for more significant coverage of the insurance sector in the inspection process.</p> <p>It is recommended that additional guidance be provided to emphasize the need for foreign branches and subsidiaries of Italian insurers to observe AML/CFT measures consistent with the requirements in Italy.</p> <p>It is recommended that legislation be amended to make ISVAP a member of the FSC. This should help to strengthen ISVAP's ability to meet its responsibilities – and to ensure that insurers and intermediaries meet theirs – in combating the financing of terrorism.</p>

Table 2. Summary Observance of IAIS Insurance Core Principles

Assessment Grade	Principles Grouped by Assessment Grade	
	Count	List
Observed	7	CP 6, 11, 12, 14, 16, 20, 22
Largely observed	13	CP 1, 2, 4, 7, 8, 10, 15, 17, 19, 23, 25, 27, 28
Partly observed	8	CP 3, 5, 9, 13, 18, 21, 24, 26
Not observed	0	
Not applicable	0	

**III. ACTION PLAN TO IMPROVE OBSERVANCE OF THE IAIS INSURANCE CORE PRINCIPLES**

22. The recommendations of actions that will improve observance of IAIS Insurance Core Principles are incorporated in the comments provided within the detailed assessment above and have been summarized in the following table.

Table 3. Recommended Action Plan to Improve Observance of IAIS Insurance Core Principles

Reference Principle	Recommended Action
<p><b>Conditions for effective insurance supervision</b> i.e., CP 1</p>	<p>It is recommended that the responsibilities for the supervision of pension products be clearly defined in a manner that supports the ability of ISVAP to conduct prudential supervision of insurers selling such products, while avoiding the duplication or conflict of supervisory requirements applicable to the insurers.</p> <p>It is recommended that the accounting and supervisory reporting requirements applicable to insurers under Italian GAAP be harmonized with IFRS as far as possible. This will provide both ISVAP and other stakeholders with a consistent basis for the evaluation of insurers and minimize the reporting burden.</p> <p>It is recommended that a specialized alternative dispute resolution mechanism, such as an independent ombudsman, be established to deal with complaints of insurance consumers (or all financial sector consumers). This could hasten the resolution of some problems and lessen the burden on the courts and on ISVAP.</p> <p>It is recommended that steps be taken to improve the timeliness and consistency of the legal process. This will assist consumers both directly, in the resolution of insurance claims and disputes, and indirectly, by aiding in the efficient winding-up of failed insurers.</p>
<p><b>Supervisory objectives</b> i.e., CP 2</p>	<p>It is recommended that ISVAP explicitly communicate the principal objectives of insurance supervision and explain how its plans and activities support these objectives.</p>
<p><b>Supervisory authority</b> i.e., CP 3</p>	<p>It is essential that a supervisory authority be able to take good-faith actions without fear of lawsuits. Therefore, it is recommended that both the board of directors and staff of ISVAP be protected against lawsuits for actions taken in good faith while discharging their duties, if not through formal protection under the law then at least through liability insurance or a written promise of indemnification for costs.</p> <p>It is also essential that those working for a supervisory authority be able to be completely objective in the exercise of their duties. It is recommended that ISVAP establish and enforce a code of conduct that includes a prohibition on dealing in shares and investing in companies subject to ISVAP's supervision, and that it impose the same requirements on external specialists that it retains.</p> <p>ISVAP's independence from government, assurance of access to funding and accountability could be enhanced by making changes to the cost assessment and financial reporting processes. It is recommended that ISVAP's budget and assessment formula be subject to the approval only of its board of directors, rather than requiring a decree by the MoF, and that its audited financial statements be published in its annual report. It is also recommended that ISVAP's meetings with industry representatives to discuss its priorities and their budgetary impact include an annual explanation of the main items of expenditure for the most recent year and the budget for the coming year.</p>

Reference Principle	Recommended Action
<p><b>Supervisory process</b> i.e., CP 4</p>	<p>It is recommended that ISVAP develop criteria for assessing the overall risk of an insurer and define the nature of supervisory action corresponding to various levels of risk, and communicate this information to the industry. It is recommended that once ISVAP is confident of its ability to perform overall risk assessments, it inform each insurer of its particular risk rating.</p> <p>It is recommended that consideration be given to establishing a specialized independent tribunal as the first level of appeal against decisions of ISVAP. This could improve both the speed with which appeals are resolved and the consistency of decisions, while reducing the workload of both ISVAP and the courts.</p>
<p><b>Supervisory cooperation and information sharing</b> i.e., CP 5</p>	<p>It is recommended that ISVAP take steps to exchange information with relevant supervisors outside of the EU/EEA. It is also recommended that legislation be amended to remove the requirement of reciprocity as a condition of such exchanges. These actions will help to ensure that ISVAP is adequately informed of developments that may affect all supervised entities.</p>
<p><b>Licensing</b> i.e., CP 6</p>	<p>It is recommended that ISVAP contact the home supervisor of any non-EU/EEA insurer applying for a license, as a regular part of the assessment process.</p>
<p><b>Suitability of persons</b> i.e., CP 7</p>	<p>It is recommended that the legislation be amended to require that all senior management of an insurer, not just the chief executive, meet fit and proper requirements.</p> <p>It is recommended that the fit and proper requirements be defined and applied broadly enough to consider an individual's competence and soundness of judgment for fulfilling the responsibilities of the particular position, the diligence with which the person is fulfilling or is likely to fulfill those responsibilities and whether the interests of policyholders or potential policyholders of the insurer are, or are likely to be, in any way threatened by the person holding that position. This will enable the supervisory authority to take action to address serious problems in the direction or management of an insurer.</p> <p>It is recommended that ISVAP contact the home supervisor of any non-EU/EEA insurer, as a regular part of the process of assessing the fitness and propriety of its key functionaries.</p>
<p><b>Changes in control and portfolio transfers</b> i.e., CP 8</p>	<p>It is recommended that ISVAP document and publish the specific criteria that it will apply in assessing proposed changes in control and portfolio transfers. It is recommended that consideration be given to including a requirement, either in the legislation or among the assessment criteria, that a report be prepared by an independent actuary regarding the risks that a proposed change in control or portfolio transfer may pose to the interests of the policyholders of both the transferee and transferor.</p>

Reference Principle	Recommended Action
<p><b>Corporate governance</b> i.e., CP 9</p>	<p>It is recommended that consideration be given to requiring that all insurers conform to all of the corporate governance requirements applicable to listed companies. This would help to strengthen the governance of all insurers and the protection of their policyholders.</p> <p>It is recommended that legislation provide for legal protection from liability for those parties required to report concerns to ISVAP, in respect of their fulfillment of this requirement. This would reinforce their ability to communicate freely with ISVAP.</p> <p>It is recommended that ISVAP strengthen its off-site and on-site assessment of both compliance with corporate governance requirements and the effectiveness of insurers' corporate governance practices. Such assessments could include regular reviews of minutes of the board of directors and board of statutory auditors, materials provided to these boards and business plans. Regular, ongoing contact between supervisory staff and the senior management of insurers, along with periodic meetings with their boards and auditors, would also contribute greatly to the ability to make such evaluations.</p>
<p><b>Internal control</b> i.e., CP 10</p>	<p>It is recommended that the draft circular on internal control and risk management be finalized and implemented with high priority.</p> <p>It is recommended that ISVAP strengthen its off-site assessment of internal controls by routinely reviewing internal audit plans and reports, as well as reports of the board of statutory auditors.</p> <p>It is recommended that ISVAP meet regularly with the head of the internal audit function, the appointed actuary, the external auditor, the auditing actuary and the board of statutory auditors to obtain information from them regarding the effectiveness of internal controls. Such meetings should take place on a confidential basis, without management present, and it is recommended that the persons involved have legal protection from liability for providing information to ISVAP. It is recommended that legislation be amended, as necessary, to facilitate these changes.</p>
<p><b>Market analysis</b> i.e., CP 11</p>	<p>It is recommended that the market analysis process include regular meetings and cooperation in quantitative analyses with the other Italian financial sector supervisors. It is also recommended that the information gathering include regular meetings with various industry and professional associations, the agendas of which would include discussion of market developments.</p> <p>It is also recommended that ISVAP ensure that the results of its market analysis are communicated widely within the organization. This will contribute to the ability of staff to assess risks in the insurance sector and to establish supervisory priorities.</p>
<p><b>Reporting to supervisors and off-site monitoring</b> i.e., CP 12</p>	<p>It is recommended that the deadline for the submission of annual supervisory returns be shortened. This recognizes both the need for timely analysis in light of potentially rapid changes in the financial markets and the growing capabilities of insurers to prepare financial information more quickly.</p>

Reference Principle	Recommended Action
<p><b>On-site inspection</b> i.e., CP 13</p>	<p>It is recommended that ISVAP significantly increase both the number and scope of its on-site inspections.</p> <p>It is recommended that ISVAP provide advance notice of its inspections, except in cases of specific compliance concerns. Advance notice would enable an insurer to make the relevant staff available for discussions with the inspectors, would be less disruptive to the insurer's operations, and promote a more cooperative relationship that should increase the flow of information to ISVAP.</p> <p>It is recommended that ISVAP's on-site inspections seek to assess not only compliance with requirements but the effectiveness of an insurer in identifying and managing its risks.</p>
<p><b>Preventive and corrective measures</b> i.e., CP 14</p>	<p>See ICP 4 for a related recommendation on risk-ratings.</p>
<p><b>Enforcement or sanctions</b> i.e., CP 15</p>	<p>It is recommended that legislation be amended to explicitly enable ISVAP to restrict or suspend dividends or other payments to shareholders, when such payments would jeopardize the insurer's solvency.</p> <p>It is recommended that legislation be amended to provide that no breach of fitness or propriety requirements will be automatically disregarded after three years have passed, but that certain breaches may be disregarded by ISVAP after such period. This will help to protect insurers and their policyholders from individuals who have committed serious or recurrent adverse actions.</p>
<p><b>Winding-up and exit from the market</b> i.e., CP 16</p>	
<p><b>Group-wide supervision</b> i.e., CP 17</p>	<p>It is recommended that ISVAP systematically exchange quantitative and qualitative information with its Italian counterparts responsible for supervision of the banking, securities and pension sectors, where a supervised insurer is a member of a group that includes companies operating in the other sectors. This will assist ISVAP and the other supervisors in assessing the overall risk profile of a group, as well as possible implications to the individual supervised entities.</p> <p>It is recommended that ISVAP contact the home supervisor of any non-EU/EEA insurer operating in Italy, as a regular part of the process of assessing the potential impact of group activities on such insurer.</p>
<p><b>Risk assessment and management</b> i.e., CP 18</p>	<p>As noted above (see ICP 10), it is recommended that the draft circular on internal control and risk management be finalized and implemented with high priority. Full implementation of these proposals by insurers, along with regular assessment of the overall effectiveness of insurers' risk management by ISVAP, should significantly increase the level of observance of this principle.</p>



Reference Principle	Recommended Action
<p><b>Insurance activity</b> i.e., CP 19</p>	<p>It is recommended that the draft circular on reinsurance be finalized and implemented with high priority.</p> <p>It is also recommended that ISVAP implement its plans to increase the depth and breadth of its off-site and on-site assessments of reinsurance. Taken together, these recommendations should help to ensure that insurers have appropriate reinsurance programs in place, commensurate with the levels of risk determined by their boards of directors and acceptable to ISVAP.</p>
<p><b>Liabilities</b> i.e., CP 20</p>	<p>International standards for the valuation of insurance contracts are currently under development by both the International Actuarial Association and the International Accounting Standards Board, in connection with the development of IFRS. It is recommended that consideration be given to adopting international actuarial standards when they become available.</p> <p>It is also recommended that legislation be amended to extend the requirement for an appointed actuary to all non-life classes of business. This will strengthen the ability of ISVAP to rely on the adequacy of the reported technical provisions for these classes of business.</p> <p>It is recommended that ISVAP regularly review the results of the stress testing of liabilities, for those insurers that already undertake such testing and for others, once such testing is required in accordance with the circular on internal control and risk management.</p>
<p><b>Investments</b> i.e., CP 21</p>	<p>The investment requirements are focused on ensuring the quality of assets supporting the technical provisions. It is important that the board of directors take overall responsibility for both the quality and suitability of all of an insurer's assets. Therefore, it is recommended that ISVAP require each insurer to have an overall strategic investment policy and that such policy be approved and reviewed annually by the board of directors. It is also recommended that ISVAP provide guidance regarding the main elements to be addressed by an insurer's investment policy.</p> <p>It is recommended that ISVAP regularly review the results of the stress testing of assets, for those insurers that already undertake such testing and for others, once such testing is required in accordance with the circular on internal control and risk management. ISVAP should also review the contingency plans that will developed by insurers in accordance with that circular.</p>
<p><b>Derivatives and similar commitments</b> i.e., CP 22</p>	

Reference Principle	Recommended Action
<p><b>Capital adequacy and solvency</b> i.e., CP 23</p>	<p>Although reinsurers are supervised by ISVAP, they are not subject to the solvency margin requirements. Since the ICPs apply to the supervision of both insurers and reinsurers, it is recommended that Italy take action to extend relevant prudential requirements to reinsurers. This might be accomplished through implementation of the EU Directive on reinsurance.</p> <p>Under the current solvency margin approach, some EU insurance supervisors have provided guidance to insurers that a higher level of capital adequacy is expected of them. It is recommended that ISVAP establish and communicate a solvency control level in excess of the minimum solvency margin.</p> <p>It is recommended that ISVAP regularly review the results of the stress testing of solvency, once such testing is required in accordance with the circular on internal control and risk management.</p>
<p><b>Intermediaries</b> i.e., CP 24</p>	<p>The implementation of the EU Directive on Insurance Intermediation, through the new insurance code, will strengthen the legal framework with respect to those intermediaries who are required to register with ISVAP. It is recommended that the new insurance code be adopted and that its provisions on insurance intermediation be implemented with high priority.</p> <p>The new insurance code is expected to include provisions that would address the significant number of individuals dealing with the public in the sale of insurance that are currently outside the scope of registration, i.e., sub-agents, financial promoters, and bank and post office employees. It is recommended that legislation be adopted to require that all insurance intermediaries operating in Italy be subject to registration and direct supervision, and that the conditions of registration include demonstration, through examination, of adequate insurance expertise.</p> <p>It is recommended that ISVAP cooperate with CONSOB and the Bank of Italy, as appropriate, to ensure that all insurance intermediation activities are subject to periodic on-site inspection.</p> <p>It is recommended that claims adjusters dealing with any class of insurance be required to register with ISVAP.</p> <p>These recommendations should help to ensure that consumers are being adequately served and advised in their insurance dealings.</p>

Reference Principle	Recommended Action
<p><b>Consumer protection</b> i.e., CP 25</p>	<p>It is recommended that insurers and intermediaries be required to seek information from consumers that is appropriate in order to assess their insurance needs, with respect to all classes of insurance, before giving advice or concluding a contract.</p> <p>It is also recommended that insurers and intermediaries be required to disclose possible conflicts of interest to existing or potential policyholders, with respect to all classes of insurance.</p> <p>Several industry participants commented on the use of multi-year non-life insurance contracts in Italy, expressing concern regarding their suitability for consumers. It is recommended that ISVAP perform an analysis of the use of multi-year non-life insurance contracts and take action in response to deal with any potential abuses posed by the use such contracts.</p>
<p><b>Information, disclosure &amp; transparency towards the market</b> i.e., CP 26</p>	<p>The implementation of IFRS should considerably improve the extent and comparability of information disclosed by listed insurers and other insurers required to apply IFRS. It is recommended that legislation be amended to clarify ISVAP's power to require insurers to disclose information on their financial situation and the risks to which they are subject. It is also recommended that ISVAP establish disclosure which, to the extent practical, is consistent with the disclosures required of listed companies.</p> <p>It is recommended that legislation require all insurers operating in Italy to make their annual audited financial statements easily available to stakeholders.</p> <p>It is recommended that ISVAP publish, on an entity-specific basis, some of the information provided to it by insurers in the supervisory returns. It is recommended that the information: include the balance sheet, income statement and solvency margin; include both year-end and interim data; be made available as soon as possible after the end of each reporting period; and be accessible over the Internet. It is recommended that legislation be amended, as necessary, to facilitate such publication.</p> <p>These recommendations should contribute significantly to the ability of consumers to easily obtain consistent and reliable information about the insurers with which they are dealing.</p>
<p><b>Fraud</b> i.e., CP 27</p>	<p>It is recommended that ISVAP explicitly require that insurers and intermediaries implement procedures and controls against fraud and that it assess their effectiveness periodically.</p>

Reference Principle	Recommended Action
<b>Anti-money laundering</b> i.e., CP 28	<p>It is recommended that ISVAP significantly increase the frequency of its on-site inspections of both insurers and intermediaries regarding AML/CFT. ISVAP's inspections have often identified weaknesses in AML/CFT controls, which highlights the need for more significant coverage of the insurance sector in the inspection process.</p> <p>It is recommended that additional guidance be provided to emphasize the need for foreign branches and subsidiaries of Italian insurers to observe AML/CFT measures consistent with the requirements in Italy.</p> <p>It is recommended that legislation be amended to make ISVAP a member of the FSC. This should help to strengthen ISVAP's ability to meet its responsibilities – and to ensure that insurers and intermediaries meet theirs – in combating the financing of terrorism.</p>