IMIA
The International Association of Engineering Insurers

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Italian Market - Highlights

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Italian Market – loss ratios

year / LoB	Loss ratio		
	2008	2009	2010
MB	136,3%	42,7%	56,6%
M – Loss of Profit	112,7%	68,5%	76,8%
EAR	42,9%	48,6%	48,2%
CAR	44,3%	44,7%	42,1%
Guarantee	33,8%	67,3%	12,5%
EEI	51,1%	40,2%	49,0%
IDI/Decennial	14,1%	13,8%	6,3% (*)
TOTAL	**63,5%**	**41,7%**	**43,3% (*)**
ALOP / DSU	7,1%	4,7%	--
Others	73,0%	75,7%	--
Total	**64,8%**	**45,4%**	**--**

6.3%

30.9%

(*) considering the claim mentioned above, the figures are as follow:

- total amount of the claims: 211,502 ml€
- global LR increased from 43,3 % to 46,4 %
- total amount of IDI claims: 17,99 ml€
- LR of the IDI LoB increased from 6,3% to 30,9 %

- **Concerns about IDI:**
  - **single loss - UWY 2006 - with a huge increase of reserve (14,7 ml€)**
  - **uncertainties in the interpretation of the legal requirements for the compulsory coverage regarding private buildings**
  - **uncertainties in the application of the deductibles for the compulsory coverages (public works and private building)**
- **Statistics don’t include important losses which have hit PPs for renewable energy (London market)**

Italy - structure of insurance construction business

Construction market

Public works

Compulsory coverages - CAR
- IDI
according to Merloni Law

Private works

Buildings sold before the completion

Compulsory coverage
- IDI
according to Law 210/2004

Other civil and industrial buildings

No compulsory coverages

Merloni Law – profiles of the insurance coverages

1. **CAR – compulsory for all public works**
   - a specific standard wording must be used
   - additional technical clauses can not be imposed to the principal
     - quite often a DIC additional clauses package is defined between the contractor (policy holder) and the insurer
   - no deductibles can be applied to the principal

2. **IDI – compulsory for the public works having a S.I. over 10 ml€**
   - a specific standard wording must be used
   - additional technical clauses can not be imposed to the principal (the insured)
   - <u>no deductibles can be applied to the principal</u>
   - all typologies of public works (also tunnels, dams, etc) must be covered

Merloni Law - peculiarities of the insurance evaluation

The insurer must

- evaluate
  - the additional covered risk due to the absence of the technical clauses in the wording; and / or
  - the possibility of not having the right of applying the DIC package (direct payment of the claim to the principal)
  - the eventuality of paying the whole indemnity to the principal (sometimes in CAR, <u>always in IDI</u>) without recuperating the deductible from the policy holder (i.e. when the policy holder is failed/disappeared or has not the financial power at the moment of the claim)
- define the specific additional rates/premiums for the issues mentioned in the three bullets listed above

Law 210 - profiles of the insurance coverages
- peculiarities of the insurance evaluation

IDI – compulsory for the all private buildings sold (partially or totally) before the completion

- In the Law 210 and in its linked documents it is clearly defined that the IDI policy must follow the profile of the ten year long responsibility of the constructor (art. 1669 Civil Code) to cover the material damages

Peculiarities of the insurance evaluation

- Unfortunately the legislator (and the insurance market) haven’t so far defined a standard wording which could be shared by the market

- Due to the uncertainties relating the wording, all portfolios might be hit by the tendency coming out from the potential different interpretation of the Law 210

- Furthermore, high deductibles (frequently defined in the policies) might eventually not be possible to be applied

Thank you for your attention