

IMIA - NATIONAL REPORT 2019 – ITALY

A - Premium Development

In early 2018 there was the expectation of a modest rebound of Italian construction performance, but this has not materialized. The sector faced one of the most challenging periods since the beginning of the economic crisis with subdued demand and deterioration of profit margins. Public construction investment remains far below the pre-crisis level. The number of public tenders rose 30% driven by investments in railway infrastructure but financial coverage remains an issue due to increased uncertainty about future spending capacity.

Non-payment notifications were at a very high level and some of the top 50 Italian construction firms went insolvent or faced liquidity crisis. The reason behind it was devaluation of trade receivables, order backlog in some projects abroad, high financial leverage to finance the working capital requirements and capital expenditure, and - last but not least - slow payments from public clients.

The total Engineering GWP decreased further to Euro 348 million from Y2017 Euro 357 million, with the negative trend over five years persisting. The shortfall being due to the lack of premium from construction sector (-7.2%) and from IDI portfolio (-4.3%). Like in Y2017 the lack of new sizable infrastructure projects and the extremely soft market were the two factors influencing the most CAR result.

The EAR sector shown an increase in GWP (+4.4%) but the claims experience undermined the overall result. Most of EAR premium are coming from business abroad.

The increase in EE premium (+2.3%) partly balanced the shortfall in MB premium (-3.4%). The MB performance was due to soft market but also to coverages rearrangement on a combined (Property+MB) basis.

Premium (Euro x 1.000)

Type of Insurance	2013	2014	2015	2016	2017	2018	Var.18vs17 %
MB & BE	94,005	102,406	93,282	59,742	60,467	58,395	-3.43%
Loss of Profits	14,057						
EAR + ALOP	42,058	52,677	43,399	43,666	50,388	52,621	4.43%
CAR + ALOP	139,669	144,251	146,908	137,227	126,057	117,020	-7.17%
EE + EELoP	78,025	82,781	78,040	70,443	69,408	70,969	2.25%
IDI	39,801	45,393	44,786	48,264	51,040	48,865	-4.26%
Total (Euro x 1.000)	407,613	427,562	406,414	359,342	357,360	347,870	-2.66%

B - Claims Development & Underwriting Profitability

Y2018 is showing an improvement under claims perspective, with a decrease in the overall amount of claims (paid + reserved) of 15.5%. But the performance of products (type of business) are very different from one another. While renewable classes of business are showing significant improvement, long tail coverages portfolio are worsening with the exception of IDI (Decennial Liability).

In Y2018 the majority of top Engineering claims hit the EAR portfolio; some of them affecting non-domestic submarine cable laying contracts and related works. The overall EAR claims increase was +25.9% with the loss ratio jumping from 77% in Y2017 to almost 93% of Y2018.

Also CAR portfolio is showing an increase in overall claim amount of 4.4% with loss ratio reaching 67%: the highest L/R over the last 5 years. Most of top CAR claims are related to civil works and resulting from natural events (flood & inundation) or men made (faulty operation and faulty design). In general the crisis affecting the construction sector reflected on risk management quality (and - in turn - on claims frequency) and on insureds attitudes in claims handling.

IDI portfolio remains by far the best performer with a further reduction of Euro 2 million in overall claims (that followed the Euro 6 million reduction in Y2017) with loss ratio improving from 20% to less than 17%. Considering that several IDI (Decennial Liability Policy) are now mature risks and/or close to expiry date the portfolio performance looks good. Unfortunately the lack of major new infrastructure projects in the past two to three years will reflect on premium: a Decennial Liability market premium contraction is expected in the near future.

MB portfolio loss ratio improved a lot in 2018 and is back to 2016 level. MB is still not performing well (113%) however it is showing a significant improvement (-39% in overall paid + reserved claims).

Reduction of EE claims (almost 25% decrease in overall amount) combined with the slightly increased of premium volume set the EE loss ratio at approx. 58%: a significant improvement considering Y2017 loss ratio around 79%.

Claims Amount (Euro x 1.000)

Type of Insurance	2013	2014	2015	2016	2017	2018	Var. 18vs17 %
MB & BE	53,432	54,836	57,394	67,679	108,118	66,153	-38.81%
EAR	33,794	12,541	42,937	44,327	38,779	48,804	25.85%
CAR	57,486	71,111	75,784	82,651	75,196	78,526	4.43%
EE	48,656	45,048	40,794	51,981	54,580	41,033	-24.82%
IDI	14,108	19,367	5,699	16,348	10,430	8,097	-22.37%
Total (Euro x 1.000)	207,476	202,903	222,608	262,986	287,103	242,612	-15.50%

Loss Ratio (%) – indicative only (see Premium / Claims Sheet notes)

Type of Insurance	2013	2014	2015	2016	2017	2018
MB & BE	49.45%	53.55%	61.53%	113.29%	178.80%	113.29%
EAR	80.35%	23.81%	98.94%	101.51%	76.96%	92.75%
CAR	41.16%	49.30%	51.59%	60.23%	59.65%	67.10%
EE	62.36%	54.42%	52.27%	73.79%	78.64%	57.82%
IDI	35.45%	42.67%	12.72%	33.87%	20.43%	16.57%
Total (All LoBs)	50.90%	47.46%	54.77%	73.19%	80.34%	69.74%

C - Business Outlook

Y2019 started with some mild signals of improvement on the domestic market. Italian contractors were awarded of projects abroad however, due to the crisis touching the sector, there are few top Italian contractors in 2019 able to compete with international players on overseas business. After months of uncertainty about Italian government stance on major infrastructure projects some of them got the green light to proceed from the public authority.

In Y2018 private sector were more dynamic than public sector, and it is still active in Y2019 but the volume of business is lower than pre-crisis years.

Insurance market is quite soft. The hardening of international market (in some specific sectors) is not reflecting on Italian market due to overcapacity. International business placements follows instead the new international market trends.