IMIA - NATIONAL REPORT 2021 – ITALY

A - Premium Development

During 2020 the construction sector in Italy did not recover as per expectations. Investments in construction activities grew in 2019 by 2.3%. It was seen as a rebound compared with the trend of recent years but still quite modest. 2020 started in a similar fashion with an 8% increase in January. But the pandemic crisis slowed down construction activities. The new stalemate reflected on the Italian economy, far away from the pre-economic crisis conditions. The number of new initiatives in 2020 was modest but there are several tenders at the moment and there are good expectations for a more dynamic construction market in 2021 and following years. The boost will come also from the PNRR/#NextGenerationItalia, the national recovery plan following the COVID pandemic, with significant investments in infrastructure projects in the next 5 years.

Engineering GWP decreased to Euro 350.5 million (- 2,21%) in Y2020.

While EAR premium increased a further 4% confirming the trend of the previous years, CAR premium decreased to Euro 110.000 (-3.6%), the lowest over the last 5 years. 2020 proved to be an interesting year for gas turbines (power generation) and for power cable sectors. Italian firms were quite active also on industrial/chemical/petrochemical plants and pipelines, mostly abroad.

CAR premium reduction - the sixth year in a row - is the picture of the slow recovery of domestic construction market and of the softness of the insurance environment that did not follow the rebound of Engineering international market. IDI premium increased further due to activation of Decennial Liability policies following the completion of medium and some sizable construction projects.

MB premium volume decreased further (-6%) being linked to Property market dynamics. In Italy MB is often covered under combined PD+MB policies.

EE premium volume also decreased (-6.4%) after the rebound of Y2019.

Premium (Euro x 1.000)

Type of Insurance	2016	2017	2018	2019	2020	Var.20vs19 %
MB & BE	59,742	60,467	58,395	56,032	52,645	-6.04%
EAR + ALOP	43,666	50,388	52,621	59,195	61,594	4.05%
CAR + ALOP	137,227	126,057	117,020	114,029	109,909	-3.61%
EE + EELoP	70,443	69,408	70,969	78,090	73,083	-6.41%
IDI	48,264	51,040	48,865	51,146	53,347	4.30%
Total (Euro x 1.000)	**359,342**	**357,360**	**347,870**	**358,492**	**350,578**	-2.21%

B - Claims Development & Underwriting Profitability

Paid and Reserved claims decreased further in 2020 reconfirming the trend started in 2017.

The overall amount of claims paid and reserved in Y2020 is Eur 200.828, with a decrease of 8.32% if compared with Y2019. Such amount is the lowest in the last 10 years and more.

CAR sector shown claims volume reduction around 23%, while EAR claims increased by almost 37%. As a consequence the loss ratios improved dramatically for CAR sectors (44% vs 55% in 2019) while EAR loss ratio increased from 61% to 80% despite the slight premium increase.

Natural events affected CAR portfolio also in Y2020 (mostly flooding following heavy rain) but there were less events than previous years. However storm and flood severity is constantly increasing.

Regarding EAR portfolio some major faulty operation and faulty material claims are reported, some of them also severe.

IDI portfolio remains by far the best performer with a decrease in loss ratio from 17% to 12%. Considering that several IDI (Decennial Liability Policy) are now mature risks and/or are close to expiry date the portfolio performance looks excellent. The premium volume generated is slightly increasing and is expecting to increase further in the next years.

MB portfolio loss ratio improved to 101% in Y2020 despite the further decrease in premium volume.

EE claims decreased almost 9% but the simultaneous decrease of premium volume set the loss ratio at around 60%, 1.5% better than 2019.

Claims (Euro x 1.000)

Type of Insurance	2016	2017	2018	2019	2020	Var.20vs19 %
MB & BE	67,679	108,118	66,153	63,364	52,969	-16.41%
EAR + ALOP	44,327	38,779	48,804	35,990	49,283	36.94%
CAR + ALOP	82,651	75,196	78,526	62,634	48,114	-23.18%
EE + EELoP	51,981	54,580	41,033	48,311	44,067	-8.78%
IDI	16,348	10,430	8,097	8,749	6,395	-26.91%
Total (Euro x 1.000)	**262,986**	**287,103**	**242,612**	**219,048**	**200,828**	-8.32%

Loss Ratio

Type of Insurance	2016	2017	2018	2019	2020
MB & BE	113.29%	178.80%	113.29%	113.09%	100.62%
EAR + ALOP	101.51%	76.96%	92.75%	60.80%	80.01%
CAR + ALOP	60.23%	59.65%	67.10%	54.93%	43.78%
EE + EELoP	73.79%	78.64%	57.82%	61.87%	60.30%
IDI	33.87%	20.43%	16.57%	17.11%	11.99%
Total (Euro x 1.000)	73.19%	80.34%	69.74%	61.10%	57.28%

C - Business Outlook

The construction trend foresees an important growth in 2021, an expansion phase, fueled by redevelopment, public works, residential real estate. The data relating to the first months of 2021 show a growth capable of recovering the decline recorded in 2020. According to the forecasts released by CRESME on 22 June last, construction investment spending is expected to increase sharply (+ 12.7% in 2021, + 5.7% in 2022 and + 4.1% in 2023).

In particular, public works and residential redevelopment supported by tax incentives are the sectors of extraordinary thrust in this phase. Public works already from 2019, and until at least 2023, are absorbing increases in spending never seen in the last forty years, reaching a foreseeable peak in 2023 (51.6 billion euros at 2020 prices).

While there are comforting signs for the next three to five years, there are also some risks associated with the inflationary pressures underway. The recovery of the world market and the trend in commodity prices, the speed of growth and the size of the internal demand for construction in relation to the production capacity of the supply chain, are determining, at the sectoral level, an important inflationary phase.

At the same time as the growth of the sector, the crisis generated by the pandemic has caused the closure or bankruptcy of many small companies already in difficulty in the previous period and, moreover, many small companies do not have the capacity to cope with a wave of works and contracts so massive and sudden. The consequence of this is an increasing concentration of operators structured to manage medium-large contracts: large projects need strong groups both in the management and control of contracts and for the supply of raw materials that tend to be scarce in this post-pandemic period and restart of works.