SECTION 3 – RISKS OF INSURANCE COMPANIES

INTRODUCTION

The Insurance Division oversees management of the subsidiaries Intesa Sanpaolo Vita (which incorporated Intesa Sanpaolo Life on 1 December 2023), Intesa Sanpaolo Assicura, Fideuram Vita, Intesa Sanpaolo RBM Salute, InSalute Servizi and Intesa Sanpaolo Insurance Agency, with the mission of synergically developing the insurance product mix targeting customers of the Intesa Sanpaolo Group and expanding the concept of Bancassurance.
In managing insurance company risks, the Intesa Sanpaolo Vita Group (hereinafter, also the "Insurance Group") has set up an effective risk management system, proportionate to the nature, scope and complexity of the business conducted by the companies, which helps keep the risks the company is exposed to at an acceptable level, in line with the capital provisions.
The control system of risk management, for the entire scope of the Insurance Group, complies with the provisions of insurance supervisory regulations and is consistent with the corresponding internal regulations of the Intesa Sanpaolo Group on the control system, by setting out the reference principles and defining the responsibilities of the corporate bodies and control functions that contribute to the correct operation of the internal control system.
The Intesa Sanpaolo Vita Group risk management process is governed in line with the own risk profile self-assessment (Own Risk and Solvency Assessment – ORSA) and Risk Appetite Framework (RAF). The first level documentation above is joined by policies and operating guides regarding the processes for managing all the risks to which the Insurance Group is exposed.
There are four macro-stages of the risk management process:
– identifying and assessing risks;
– managing risks;
– monitoring risk exposure;
– reporting.

The specific risk assessment, in the first macro-stage, provides the top management with an immediate overview of risk exposure, making it possible to steer the decision-making processes and to define priorities for action, including at the strategic planning level.
The risk assessment process is composed of four stages to be carried out at least annually (or when specific events occur):
– analysis: includes all the activities of collecting information, identifying and surveying risks, associating them with an owner and involving other specialised functions to identify and assess the risk profiles that they directly oversee;
– assessment: includes the self-assessment of the probability, impact and mitigation of risk by the risk owner. At this stage, the owner identifies any actions to implement or already implemented to mitigate the risk;
– validation: includes the stage in which the risk owner validates the results of the analysis and the risk management function dialogues with the other fundamental functions to verify that the assessment result is in line with their evidence;
– risk map: includes the preparation of a dedicated report on the exposure to risk of each company in the Insurance Group (Intesa Sanpaolo Vita, Fideuram Vita, Intesa Sanpaolo Assicura and Intesa Sanpaolo RBM Salute) and the Insurance Group as a whole.

This process also includes risks that are difficult to quantify but are deemed material for the Insurance Group, and mitigation actions may be proposed to manage them.

Once the risk assessment process is completed, the identified risks are managed according to the operational methods and limits of tolerance shown in the Risk Appetite Framework and in the policies that comprise the risk management framework.
The last stage entails the monitoring and quantification of risks.

The activities in the stage of monitoring risk exposure include performing several stress tests. Stress tests are represented by a set of techniques used by the companies in the Insurance Group to:
– measure their vulnerability in the event of exceptional, but plausible events;
– enable the top management in understanding the relationship between the risk taken and the risk appetite of the company, as well as the adequacy of the available capital.

Where the results of the stress tests show the potential non-compliance with the minimum regulatory requirements and/or the inadequacy of the controls set up for each risk, the Internal Control and Risk Committee of each company in the Intesa Sanpaolo Vita Group shall discuss and propose to Board of Directors any improvement measures to consolidate the company's capital stability, taking into consideration the solvency also at Insurance Group level.
This activity is joined by a structured process of gathering the information needed to calculate the indicators and metrics defined for the risk aspects in the Risk Appetite Framework to control the limits and early warning thresholds.

Under the Risk Appetite Framework, the Insurance Group has set up limits and early warning thresholds on the main risk factors to which it is exposed. Specifically, the main limits and thresholds set out regard risks linked to:
– solvency: Solvency Ratio levels, levels of single risk modules as a ratio to Own Funds, level of Economic Capital (ECAP);
– liquidity: level of highly liquid assets, cash flow matching and insurance liquidity coverage ratio;
– stability of profits: level of IAS/IFRS profits and Combined Ratio for the Non-life business;
– investments;
– operational risks: level of operating losses;
– compliance risks: number of customer complaints compared to the number of policies, by type of insurance product.

The Insurance Group has also set up rules on the concentration of risks which defines the concentrations to deem material and their calculation methods, to mitigate the risk that they could have negative impacts on solvency and the financial situation.
Specifically, the objective is to define risk concentrations that are consistent with the risk management strategy and policy and the investment policies.
Risk concentrations are identified by assessing the impact they may have on company's financial position and solvency, following adverse scenarios on the main risk factors, both financial and technical.

3.1 INSURANCE RISKS

QUALITATIVE AND QUANTITATIVE INFORMATION

The typical risks of the Life insurance portfolio (managed through Intesa Sanpaolo Vita and Fideuram Vita) may be summarized into three main categories: premium risks, actuarial and demographic risks and reserve risks.
Instead, the typical risks of the Non-life insurance portfolio (managed through Intesa Sanpaolo Assicura, Intesa Sanpaolo RBM Salute and Intesa Sanpaolo Vita) are mainly related to premium and reserve risks.

Premium risks are managed initially during definition of the technical features and product pricing, and over time through periodic verification on sustainability and profitability (both at product level and at portfolio level, including liabilities). With specific regard to the Life insurance portfolio, on defining a product, profit testing is used, aimed at measuring profitability and identifying any weaknesses beforehand, by means of specific sensitivity analyses.

Reserve risk is monitored on determining the expected contractual cash flows (Present Value of Future Cash Flows - PVFCF), both by correctly verifying the determination of the value representing the commitments to policyholders and by conducting appropriate checks on the projected cash flows, including performance and consistency checks in relation to any impact analyses/estimates carried out prior to the valuation date or in relation to the movement analysis.
With regard to risk assumption of policies in the Non-life portfolio, policies are checked when acquired through an automatic system aimed at detecting the underwriting parameters associated with the applicable tariff. The check, both formal and substantive, allows the identification of exposures in terms of capital and limits of liability, in order to verify that the portfolio matches the technical and tariff scheme agreed upon with the sales network. Subsequently, also regarding the risk assumption of policies in the Non-life portfolio, statistical checks are carried out to verify potentially anomalous situations (such as concentration by area or by type of risk) and to keep under control accumulation at the individual level (with particular reference to policies covering accident and health risks). This is also carried out in order to provide the Actuarial and Reinsurance Unit with suitable indications of the portfolio characteristics in order to prepare the annual reinsurance plan.

Lastly, actuarial and demographic risks, typical of the Life business, arise when an unfavourable trend in the actual loss ratio is measured compared to the one estimated in the tariff construction and are reflected in the level of "reserves". The loss ratio refers not only to actuarial loss, but also to financial one (guaranteed interest rate risk). The company monitor these risks by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, splitted by risk type, and through simulations of expected profitability of the assets hedging technical reserves.

The Insurance Group companies, pursuant to Article 1, letter r-bis of the Private Insurance Code, adopt the "standard formula" for the calculation of the solvency capital requirement (Articles 45-quinquies to 45-undecies), with the additional use of company specific parameters for premium and reserve risk in the Non-life business. At Insurance Group level, the capital requirement is calculated by consolidating the data of the individual companies.
In carrying out the aforementioned calculation and in line with the reference regulations, the main elements of the requirement are defined as follow:
– underwriting risk, such as the risk of loss or adverse changes in the value of insurance liabilities due to inadequate assumptions regarding price setting (premium risk) or establishment of technical reserves;
– market risk, such as the risk of a loss or adverse change in financial positon resulting directly or indirectly from fluctuations in the level and volatility of market prices of assets, liabilities and financial instruments;
– credit or counterparty risk, such as the risk of loss arising from counterparty default on deposits, derivative instruments and any credit exposures;
– operational risk, such as the risk of loss deriving from the inadequacy or incorrect functioning of internal procedures, human resources or systems, or due to external events. As far as the financial losses component is concerned, the operational risk includes: legal and compliance risk, conduct risk, IT and Cyber risk, physical security risk, business continuity risk, financial crime and financial reporting risk, third-party and model risk. Strategic and reputational risk are not included.

The table below summarises insurance liabilities (for which IFRS 17 principle is thus applied), both for direct and reinsurance business, gross of intercompany netting, broken down by product macro-type.

(millions of euro)

Concentration of underlying risks by product type	**2023**
Life	**118,021**
Multi-line	33,041
Separately managed account	67,300
Pure risk contracts	778
Unit-linked/Pension funds	16,902
Non-life	**1,828**
Motor	171
Non-Motor	1,657
Total	**119,849**

Below are the details of the breakdown by maturity of financial liabilities (measured in accordance with IFRS 9 principle) for the Life segment, before intercompany netting, represented by assets covering commitments arising under unit- and index-linked policies, other insurance products (specifically, the "Risparmio Insurance" product) and subordinated liabilities.

(millions of euro)

Breakdown of financial liabilities by maturity	**Within 12 months**	**Over 12 months**	**Total as at 31.12.2023**	**Total as at 31.12.2022**
Unit linked	24	52,038	52,062	70,583
Index linked	-	-	-	-
Other payables to insured parties	-	-	-	1,562
Subordinated liabilities	-	2,223	2,223	2,222
Total	**24**	**54,261**	**54,285**	**74,367**

The following tables show the results of the sensitivity analysis using the main insurance risk parameters on the main balance sheet items. The impacts on the Contractual Service Margin (CSM) and, as a result, on the financial position and income statement are provided.

The analysis has identified the risk factors that the companies in the Insurance Group are exposed to, identifying the operational assumptions to be stressed, as follows:

- for the Life business:
  - increase of 10% in expense assumptions (Expenses +10%);
  - increase of 10% in lapse assumptions (Lapse +10%).
- for the Non-life business:
  - increase of 5% in assumptions linked to the claims (Loss Ratio +5%);
  - decrease of 5% in assumptions linked to the claims (Loss Ratio -5%).

With regard to the Life business, the impact of the various stressed scenarios was exclusively determined gross of reinsurance, as the effect of this is considered insignificant. Conversely, for the Non-life business, the results are shown gross and net of reinsurance.

(millions of euro)

Sensitivity analysis		**31.12.2023**	
	CSM Change [(a)]	**Net income** [(b)]	**Shareholders' equity** [(b)]
Life			
Expenses + 10%	-168	-21	-21
Lapse + 10%	-449	-22	-22

(a) Gross of tax

(b) Net of tax

(millions of euro)

Sensitivity analysis	**31.12.2023**					
	CSM Change (a)		**Net income (b)**		**Shareholders' equity (b)**	
	Gross (c)	**Net (d)**	**Gross (c)**	**Net (d)**	**Gross (c)**	**Net (d)**
Non-life						
Loss Ratio +5%	-17	-16	-4	-4	-6	-6
Loss Ratio -5%	17	16	4	3	5	5

(a) Gross of tax

(b) Net of tax

(c) Gross of reinsurance

(d) Net of reinsurance

3.2 FINANCIAL RISKS

QUALITATIVE AND QUANTITATIVE INFORMATION

These risks derive from the level or volatility of market prices of financial instruments that impact the balance sheet value of both assets and liabilities. The risk factors identified by the company are as follows:
- interest rate risk: it impacts assets and liabilities whose value is sensitive to changes in the forward structure of interest rates or the volatility of interest rates;
- equity risk: it derives from the level or volatility of market prices of equities and impacts assets and liabilities whose value is sensitive to changes in equity prices;
- real estate risk: it derives from the level or volatility of market prices of real estate properties and impacts assets and liabilities sensitive to such variations;
- foreign exchange risk: it derives from changes in the level or volatility of foreign exchange rates;
- spread risk: it impacts assets and liabilities whose value is sensitive to adverse changes in credit spreads;
- concentration risk: reflects the risk of holding high percentages of financial assets of the same counterparty.

Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Fideuram Vita and Intesa Sanpaolo RBM Salute) are made with shareholders' fund and to cover contractual obligations with customers. The latter refers to traditional adjustable Life insurance policies, index- and unit-linked policies, pension funds and Non-life policies.
As at 31 December 2023, the investment portfolios of Group companies, recorded at book value, amounted to 174,645 million euro. Of these, a part amounting to 89,080 million euro relates to traditional adjustable Life policies (the financial risk of which is shared with policyholders due to the mechanism whereby the returns on assets subject to separately managed account are determined), Non-life policies and shareholder fund. The other component, whose risk is borne solely by the policyholders, consists of investments related to index-linked policies, unit-linked policies and pension funds and amounted to 85,565 million euro.
Considering the different levels of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional adjustable Life policies, Non-life policies and shareholders' fund.

Financial assets under segregated funds and shareholder fund

In terms of breakdown by asset class, net of derivative financial instruments, 84.23% of assets, i.e. 75,062 million euro, were bonds, whereas assets subject to equity risk represented 2.06% of the total and amounted to 1,838 million euro. The remainder (12,218 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.71%).
The carrying value of derivatives came to approximately -39 million euro, almost entirely relating to hedging derivatives, while the portion of effective management derivatives[118] is positive for approximately 20 million euro.
At the end of 2023, investments made with the shareholder fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to around 727 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of around 16 million euro.

[118] ISVAP Regulation 36 of 31 January 2011 on investments defines as "effective management derivatives" all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.

Interest rate risk exposure

The breakdown by maturity of bonds showed 9.16% short-term (under 1 year), 25.62% medium-term and 49.45% long-term (over 5 years).

(millions of euro)

Financial assets	Book value	%	Duration
Fixed-rate bonds	**63,779**	**71.57**	**6.49**
up to 1 year	7,929	8.90	
1 to 5 years	19,976	22.42	
over 5 years	35,874	40.25	
Floating rate/indexed bonds	**11,283**	**12.66**	**6.18**
up to 1 year	236	0.26	
1 to 5 years	2,849	3.20	
over 5 years	8,198	9.20	
TOTAL	**75,062**	**84.23**	**-**
Equities or similar capital securities	**1,838**	**2.06**	
UCI, Private Equity, Hedge Fund	**12,218**	**13.71**	
TOTAL AS AT 31.12.2023	**89,118**	**100.00**	

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements, summarised in the table below, highlights the exposure of the portfolio: for example, a parallel shift in the yield curve of +100 basis points leads to a negative fair value change in the bond portfolios of 4,470 million euro.

(millions of euro)

	Book value	%	Fair value changes due to interest rate fluctuations	
			+100 bp	-100 bp
Fixed-rate bonds	63,780	84.97	3,854	4,367
Floating rate/indexed bonds	11,282	15.03	616	734
Interest rate risk hedging effect	-	-	-	-
TOTAL	**75,062**	**100.00**	**4,470**	**5,101**

In accordance with IFRS 17 principle, the Intesa Sanpaolo Vita Group defined a methodology for calculating discount rates and measure insurance contracts (for details, see the indications in Part A.2 – Main financial statement captions). The table below summarises the discount rates applied by the various companies in the Insurance Group:

Discount rates	2023					2022				
	1 year	5 years	10 years	15 years	20 years	1 year	5 years	10 years	15 years	20 years
	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022
VFA	4.09%	2.90%	2.90%	2.96%	2.89%	4.01%	3.87%	3.84%	3.77%	3.53%
GMM/PAA	3.86%	2.68%	2.68%	2.74%	2.67%	3.72%	3.58%	3.55%	3.48%	3.23%

VFA – Variable Fee Approach
GMM – General Measurement Model
PAA – Premium Allocation Approach

The table below shows the results of the sensitivity analysis of interest rate risk on the CSM (Contractual Service Margin), on the statement of financial position and on the income statement.

The analysis in question identified the risk factors that the companies in the Intesa Sanpaolo Vita Group are exposed to, identifying the financial assumptions to be stressed, as follows:

– for the Life business:
  - parallel increase of the discount curve of 100 basis points (Interest Rate Up +100 basis points);
  - parallel decrease of the discount curve of 100 basis points (Interest Rate Down -100 basis points).

(millions of euro)

Sensitivity analysis	**31.12.2023**		
	CSM Change (a)	**Net income (b)**	**Shareholders' equity (b)**
Life			
Interest Rate Up + 100 bps	-178	-38	-56
Interest Rate Down - 100 bps	36	-10	11

(a) Gross of tax

(b) Net of tax

With regard to the Life business, the impact of the various stressed scenarios was exclusively determined before reinsurance, as the effect of this was deemed insignificant. For the Non-life business, the sensitivity to changes in the discount rate levels is deemed immaterial.

Credit risk exposure

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 4% of total investments and A bonds approximately 9.2%. Low investment grade securities (BBB) were 68.1% of the total, while the portion of speculative grade or unrated was minimal (2.9%).
With regard to exposure to BBB rated securities, the majority of the exposure related to bonds issued by the Republic of Italy.

(millions of euro)

Breakdown of financial assets by issuer rating	**Book value**	**%**
Bonds	**75,062**	**84.23**
AAA	1,395	1.57
AA	2,094	2.35
A	8,220	9.22
BBB	60,713	68.13
Speculative grade	2,426	2.72
Unrated	214	0.24
Equities or similar capital securities	**1,838**	**2.06**
UCI, Private Equity, Hedge Fund	**12,218**	**13.71**
TOTAL	**89,118**	**100.00**

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by governments, central banks and other public entities made up 75.3% of the total investments, whereas the securities of corporate issuers contributed around 24.7%.

The sensitivity values of the fair value of the bonds with respect to a variation in the creditworthiness of the issuers, namely a market credit spread shock of ±100 basis points, as at end of 2023, are shown in the table below.

(millions of euro)

	Book value	**%**	**Fair value changes due to credit spread fluctuations**	
			+100 bp	**-100 bp**
Government bonds	56,555	75.34	-3,948	4,545
Corporate bonds	18,507	24.66	-784	730
TOTAL	**75,062**	**100.00**	**-4,732**	**5,275**

In addition, the amount of receivables arising out of direct insurance operations as at 31 December 2023 came to 427 million euro, which receivables arising from reinsurance operations came to around 41 million euro.

Below is the breakdown of the amount of exposure to credit risk of the companies in the Insurance Group for outstanding reinsurance contracts.

	Insurance Group
Asset for remaining coverage	79
Asset for incurred claims	157
Receivables arising from reinsurance contracts (Non-Life)	41
Total	**277**

Reinsurance coverage was finalised with leading market operators, who meet the requirements on capital and financial position outlined in the guidelines of each company, and in compliance with IVASS Regulation No. 38 of 3 July 2018 on corporate governance systems.

Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in equity prices of 10% amounts to -184 million euro, as shown in the table below.

(millions of euro)

	Book value	%	Fair value changes due to stock price fluctuations
			-10%
Equities - Financial institutions	310	16.87	-31
Equities - Non-financial companies and other counterparties	1,528	83.13	-153
TOTAL	**1,838**	**100.00**	**-184**

Foreign exchange risk exposure

Approximately 97.9% of investments is made up of assets denominated in the EU currency. The residual exposure to foreign exchange risk was hedged by positions in derivative financial instruments, particularly domestic currency swaps, in the same currency.

Derivative financial instruments

Financial derivative instruments are used to hedge the financial risks of the investment portfolio or for effective management. The table below shows the book values of the financial derivative instruments as at 31 December 2023.

(millions of euro)

Type of underlying	DEBT SECURITIES/ INTEREST RATES		EQUITIES, EQUITY INDICES, COMMODITIES, EXCHANGE RATES		TOTAL	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
Hedging derivatives	-	-59	-	-	-	-59
Effective management derivatives	-	-	22	-2	22	-2
TOTAL	**-**	**-59**	**22**	**-2**	**22**	**-61**

3.3 LIQUIDITY RISK

Liquidity risk is the risk of not being able to fulfil obligations to the insured and to other creditors, due to the impossibility of transforming investments into liquidity, or the difficulty in carrying out that transformation without depressing future profits or incurring significant economic losses. Therefore, the Intesa Sanpaolo Vita Group conducts its assessments and steers its management so that they are capable of reflecting the characteristics of its insurance obligations, favouring the diversification of assets and sound management.

Firstly, the run-off of future cash flows as at 31 December 2023, both discounted and undiscounted, is shown below, broken down into the Life and the Non-life business. For the Non-life business, this includes both the Liability for Remaining Coverage (LRC) and the Liability for Incurred Claims (LIC). For the Life business, instead, this includes the LRC, as the LIC is a certain amount waiting to be paid to the insured.

(millions of euro)

Analysis of maturities	Release of non-discounted cash flows					
	31.12.2023					
	up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years
Insurance contracts						
Life	13,453	9,111	8,733	8,317	8,645	97,410
Non-life	460	151	83	53	40	175

(millions of euro)

Analysis of maturities	Release of discounted cash flows					
	31.12.2023					
	up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years
Insurance contracts						
Life	13,152	8,633	8,068	7,492	7,594	63,542
Non-life	457	145	78	49	36	134

The Insurance Group considers the forecasts of the maturities of liability flows in the process of investing in assets, assessing coverage of maturities and opportunities for returns.

The Risk Appetite Framework and the ALM management process consider prudential limits both on observing the cash flow matching and using liquidity coverage ratio type indicators. Those controls and monitoring are carried out in line with the Solvency II supervisory framework.

To manage specific conditions of stress and lack of liquidity, a Contingency Funding Plan has been defined. The plan requires an Extraordinary Investment Committee meeting be called which, based on the type (e.g. turbulence on the markets in relation to an inefficient composition of assets) and the expected duration of the situation of tension (e.g. temporary vs. structural), will directly take action on the asset portfolio or propose additional possible actions.