

INSURANCE AND INVESTMENT CONTRACTS

13 Insurance provisions

Insurance provisions

(€ million)	Direct insurance		Accepted reinsurance		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-life insurance provisions	31,279	31,676	1,623	1,673	32,902	33,349
Provisions for unearned premiums	5,082	5,132	210	228	5,292	5,360
Provisions for outstanding claims	25,900	26,074	1,406	1,437	27,305	27,511
Other insurance provisions	297	471	7	8	304	478
of which provisions for liability adequacy test	0	0	0	0	0	0
Life insurance provisions	395,783	386,202	1,805	1,926	397,588	388,128
Provisions for outstanding claims	5,897	5,740	1,085	1,139	6,982	6,879
Mathematical provisions	278,521	274,077	577	636	279,097	274,713
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension funds	67,989	60,790	8	9	67,997	60,799
Other insurance provisions	43,376	45,595	135	142	43,511	45,737
of which provisions for liability adequacy test	842	1,289	0	0	842	1,289
of which deferred policyholder liabilities	21,231	23,882	0	0	21,231	23,882
Total	427,062	417,878	3,428	3,599	430,489	421,477

In the Non-life segment insurance provisions slightly decreased (-1.3% compared to 31 December 2016).

In the Life segment insurance provisions increase by 2.4%, mainly attributable to the financial revaluation of the period and to inflows deriving from linked products.

The overall total of other life insurance provisions included both the provision for profit sharing and premium refunds, which amounts to € 6,762 million (€ 6,799 million in 2016) and the ageing provisions for life segment, which amount to € 13,784 million (€ 12,960 million in 2016).

As part of the technical provisions of the life segment, subject to liability adequacy test, are also included the reservations made in accordance with applicable locally regulations related to the risk of interest rates change.

14 Amounts ceded to reinsurers from insurance provisions

Insurance provisions ceded to reinsurers

(€ million)	Direct insurance		Accepted reinsurance		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-life amounts ceded to reinsurers from insurance provisions	2,113	1,897	1,102	808	3,215	2,704
Life amounts ceded to reinsurers from insurance provisions	469	484	610	745	1,079	1,229
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension funds	3	4	0	138	3	142
Mathematical provisions and other insurance provisions	466	480	610	607	1,076	1,087
Total	2,582	2,381	1,713	1,552	4,294	3,933

15 Deferred acquisition costs

Deferred acquisition costs

(€ million)	Segment Life		Segment Non Life		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Carrying amount as at 31 December previous year	1,806	1,722	277	278	2,083	2,000
Acquisition costs deferred	342	388	47	53	389	441
Changes in consolidation scope	0	0	0	0	0	0
Amortization of the period	-305	-304	-50	-54	-355	-358
Other movements	0	0	2	0	2	0
Carrying amount as at 31 December current year	1,843	1,806	276	277	2,119	2,083

The deferred acquisition costs amounted to € 2,119 million, slightly increased compared to the previous year.

DETAILS ON INSURANCE AND INVESTMENT CONTRACTS

Insurance provisions and financial liabilities related to policies of the life segment

Insurance provisions and financial liabilities related to the life segment

(€ million)	Net amount	
	31/12/2017	
Insurance contracts	209,570	
Investment contracts with discretionary participation feature	150,930	
Total insurance provisions	360,499	
Investments contracts fair valued	7,454	
Investments contracts at amortised cost	5,928	
Total financial liabilities	13,382	
Total	373,881	

Total insurance provisions, net of reinsurance, include the mathematical provisions and provisions for policies where the investment risk is borne by policyholders and for pension funds (which amounted to € 278,740 million and € 67,994 million respectively), and net ageing provisions for life segment, which amounted to € 13,766 million (accounted for in other insurance provisions of the life segment). In the Life portfolio the policies with significant insurance risk amounted to 56.0% (57.6% at 31 December 2016), whereas investment contracts with discretionary participation feature amounted to 40.4% (36.2% at 31 December 2016).

The investment contracts contribute 3.6% to Life portfolio and the 56% consist of unit/index linked policies without significant insurance risk.

Mathematical provisions and ageing for life segment

(€ million)	Gross direct amount	
	31/12/2017	31/12/2016
Carrying amount as at 31 December previous year	287,034	275,338
Foreign currency translation effects	-761	-258
Premiums and payments	-1,517	2,916
Interests and bonuses credited to policyholders	9,843	9,843
Transfer to Non-current assets or disposal group classified as held for sale	-1,804	-102
Acquisitions, disinvestments and other movements	-492	-702
Carrying amount as at the end of the period	292,303	287,034

The increase in mathematical provisions and ageing for life segment shows the financial revaluation of the period, which more than offsets the diminutive effect deriving from the change in premiums and payments that follows the development of net inflow.

Provisions for policies where the investment risk is borne by policyholders and for pension funds

(€ million)	Gross direct amount	
	31/12/2017	31/12/2016
Carrying amount as at 31 December previous year	60,790	57,783
Foreign currency translation effects	-608	109
Premiums and claims	4,513	1,741
Interests and bonuses credited to policyholders	4,045	1,688
Acquisitions, disinvestments and other	403	-86
Transfer to Non-current assets or disposal group classified as held for sale	-1,154	-443
Carrying amount as at the end of the period	67,989	60,790

The development of provisions for policies where the investment risk is borne by policyholders and for pension funds highlights the trend of net inflow, and the development in the value of assets backing unit/index linked policies, due to financial market movements.

The item 'Transfer to Non-current assets or disposal group classified as held for sale' includes the technical reserves of the Netherlands and Lichtenstein, companies held for sale.

Group's financial guarantee of life insurance provisions and financial liabilities of gross direct insurance is reported in the following table.

Life insurance provisions and financial liabilities: financial guarantees

(€ million)	Gross direct insurance	
	31/12/2017	31/12/2016
Liabilities with guaranteed interest (*)	283,464	278,448
lesser than 1%	102,090	89,712
between 1% and 3%	113,774	115,835
between 3% and 4%	43,544	46,208
more than 4%	24,057	26,693
Provisions without guaranteed interest	81,786	84,251
Provisions matched by specific assets	8,423	8,059
Total	373,674	370,758

(*) The upper bound of each range is excluded

The total insurance provisions include the gross direct amount of mathematical provisions, which amount to € 278,521 million (€274,077 million at 31 December 2016), the provisions for policies where the investment risk is borne by the policyholders and for pension fund, which amount to € 67,989 million (€ 60,790 million at 31 December 2016), the ageing provision for life segment, which amount to € 13,782 million (€ 12,957 million at 31 December 2016), and financial liabilities related to investment contracts, which amount to € 13,382 million (€ 22,934 million at 31 December 2016). It should be noted that the significant decline in financial liabilities from investment contracts is mainly attributable to the classification, in application of IFRS5, of the Irish companies being classified as held for sale.

The table above shows a shift of the exposures towards 'less than 1%' guarantee classes, due to the inflow of new business with a guarantee of less than or equal to zero. With reference to liabilities without guaranteed interest, it should be noted that the 2016 amount includes € 10,600 million for the contribution deriving from the Irish and Dutch companies, classified in 2017 as held for sale. Normalizing this effect, liabilities without guaranteed interest, which amounted to € 81,786 million in 2017, show an increase compared to the previous year (€ 73,651 million at December 31, 2016 on a like-for-like basis), driven by the increase in new unit-linked production.

The table below shows the amount of the life gross direct insurance provisions broken down by expected contractual residual duration.

Life insurance provisions and financial liabilities related to investment contracts: contractual term to maturity

(€ million)	Gross direct insurance	
	31/12/2017	
Up to 1 year		31,535
Between 1 and 5 years		79,879
Between 5 and 10 years		59,960
Between 11 and 20 years		85,933
More than 20 years		116,366
Total		373,674

Deferred policyholders liabilities

(€ million)	31/12/2017	31/12/2016
Carrying amount as at the beginning of the period	23,882	22,642
Foreign currency translation effects	-31	6
Change of the period	-2,620	1,234
Acquisitions and disinvestments	0	0
Carrying amount as at the end of the period	21,231	23,882

Deferred policyholders liabilities recorded a decrease which mainly reflects the trend of the policyholders' share recognized on the fair value of the investment available for sale, with particular reference to the bonds component.

Provisions for outstanding claims

Provisions for outstanding claims

(€ million)	Gross direct insurance	
	31/12/2017	31/12/2016
Motor	11,798	11,893
Non motor	14,101	14,180
Personal and commercial lines	11,416	11,461
Accident/Health (*)	2,685	2,720
Total	25,900	26,074

(*) Life segment includes health insurance with life features

With reference to the gross direct claims provisions 45.6% was referred to the motor business in line with the prior year (45.6%). In the non-motor business, the personal and commercial lines weighted 81%.

With reference to non-life segment, the table below shows the amount of gross direct claims and unearned premiums reserves split by remaining maturity. The total liability is broken down by remaining duration in proportion to the cash flows expected to arise during each duration band.

Non-life insurance provisions: maturity

(€ million)	Gross direct insurance	
	31/12/2017	31/12/2016
Up to 1 year	9,213	9,289
Between 1 and 5 years	14,108	13,748
Between 5 and 10 years	3,842	3,959
Between 11 and 20 years	2,615	2,982
More than 20 years	1,203	1,228
Total	30,981	31,205

The following table shows the cumulative claim payments and the ultimate cost of claims by accident year and their development from 2008 to 2017. The ultimate cost includes paid losses, outstanding reserves on reported losses, estimated reserves for IBNR claims and ULAE.

The amount refers to direct business gross of reinsurance and recoveries.

The difference between the ultimate cost of claims and the cumulative paid losses for calendar year 2017 constitutes the claim reserve for accident years 2008 to 2017. The reserve reported in the balance sheet also includes a residual claim reserve that is composed almost exclusively by the accident years not reported in the development triangle.

The observed trend in the ultimate cost for generations 2008-2017 indicates the adequate level of prudence adopted by the Generali Group in its reserving policy.

Reinsurance policy of the Group

With reference to the reinsurance policy, the table proves that the careful criteria for the selection of reinsurers adopted by the Group over the past allowed Generali to have a significant presence of counterparties in rating classes of high quality.

The table shows consistency and continuity in the exposure to reliable third-party reinsurers and the significant increase in reinsurers in class AA is basically due to the upgrading of some of the main reinsurers used. This further highlights the careful selection of counterparties that are more important in the Group's reinsurance.

Insurance provisions ceded to reinsurers: breakdown by rating

(€ million)	31/12/2017	31/12/2016
AAA	0	3
AA	2,111	1,739
A	712	894
BBB	11	8
Non investment grade	1	3
No Rating	1,459	1,286
Total	4,294	3,933

In some circumstances, local regulations, market practice or specific types of business allow the Group to benefit from mitigation of the related reinsurance credit risk through deposits from reinsurers and/or letters of credit as a guarantee on ceded reserves

"No Rating" counterparties still remain; as in the past, they also include a considerable amount of captive insurance companies of large industrial Groups that do not qualify for any rating while showing a good financial strength, companies that are no longer active in the reinsurance market and not valued by the rating agencies, but not necessarily less financially sound, companies that are part of major insurance groups which benefit from high rating but who have abandoned their reinsurance activities, or, finally, of mutual and reinsurance pools.

"No Rating" is partially mitigated by the presence of forms of guarantee such as cut through clause, parental guarantee or other collateral.

Sensitivity analysis of life underwriting risk

The Generali Group makes its own analysis of sensitivity to insurance, not market, risks following the logic of Solvency II. For further information and the relevant numerical evidence please refer to the Risk Report in the Management Report.