INTERNATIONAL
ALERT
November 2009 – Issue 37 www.willis.com

LONG-TERM POLICIES ARE BACK IN ITALY

Long-term insurance contracts are once again legal in Italy. Effectively prohibited in 2006 because they could not be cancelled mid-term, which was considered unfair to the insured, long-term policies now are permitted if the insured receives a premium discount and cancellation is possible.

Law 99/2009, published July 31, 2009 and recently approved, allows cancellation on long-term contracts after the fifth year, subject to the insured issuing a 60-day cancellation notice. No repayment of premium discounts is required upon cancellation.

Most insurance experts in Italy do not foresee a sudden move toward long-term policies, but the insurance industry in Italy is driven by agencies representing single insurers and they may well find good reason to propose long-term policies – 10 years is what many expect – that could command premium discounts of 10%.

The new legislation turns back the clock for insurance buyers to mid-2006. Before then, long- term insurance contracts, most often stipulated by agents for their clients, were the norm and usually issued for a 10-year period with a discount applied to the annual premium payments.

The contracts were cancellable *only at expiration* of the 10-year period – subject to cancellation notice being issued by the client at least 60 to 90 days before expiration. There was no possibility for the client to cancel at any time during the 10-year period.

In the event that the insured's company was purchased during the term of the policy, the insurance remained in force under the new ownership. The new owner of the business could only transfer the exposures into a corporate program at the expiration of the 10-year term.

When issuing an endorsement to the policies, agents would often include a clause extending the policy life for 10 years *from the date of the endorsement*, thus prolonging the long-term contracts almost indefinitely.

This often frustrated risk managers whose corporate offices invested in Italian companies. Risk managers could not roll newly bought subsidiaries into global programs but had to wait until the 10-year expiration date. As a result, global programs often needed to include DIC/DIL cover for several years to maintain a group insurance standard.

The legal decree of July 4, 2006, known as the Bersani Law, argued that 10-year contracts were unfair to the buyer and essentially outlawed the practice by making these contracts cancellable by the policyholder with 60 days' notice. The effect of the Bersani Law was that new contracts were only issued for a year with cancellation conditions available to both insurer and the policyholder. At that time, all existing 10-year contracts were deemed cancellable provided they had been in force for at least three years. The annual policy with cancellation clauses became the standard in the Italian market. Now the standard is set to change again.

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