

## Miscellanea

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### From enforcement to dissolution. The unexpected final chapter of “the life” of “a life” insurance company

#### Abstract

The purpose of this article is to argue and discuss the reasons and the context of Eurovita 2023 enforcement and final expected dissolution, the pros and cons of the solution scheme designed and implemented, potential alternatives in similar situations as well as – finally and, as usual, most important – lessons learned from the whole story. The interest and the approach of the analysis are essentially presented from the economic, financial and business perspective. The deep cause of the crisis was the combination of a financial turmoil – a fast and sudden increase in interest rates in a situation of unbalanced asset and liability management – plus the governance of Eurovita. The selected solution has been ad hoc, overall fit to the situation, tailor-made, and even creative. The Italian taxpayer – at last – has not been hit at all by the implemented solution and this was not to be taken for granted.

**Keywords:** insurance, crisis, Eurovita, failure, life insurance, crisis management, resolution

**JEL Codes:** G22, H12

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## Od egzekucji do rozwiązania. Nieoczekiwany ostatni rozdział „życia” firmy ubezpieczeniowej „na życie”

### Streszczenie

Celem tego artykułu jest przedstawienie argumentów i omówienie przyczyn i kontekstu upadłości Eurovita w 2023, a także ostatecznego oczekiwanego rozwiązania sytuacji kryzysowej, zalet i wad opracowanego i wdrożonego rozwiązania, potencjalnych alternatyw w podobnych sytuacjach, a także – na koniec, choć być może jest to kwestia najistotniejsza – wniosków wyciągniętych z całej historii. Zainteresowanie i podejście do analizy są zasadniczo przedstawione z perspektywy ekonomicznej, finansowej i biznesowej. Głęboką przyczyną kryzysu było połączenie zawirowań finansowych – szybkiego i nagłego wzrostu stóp procentowych w sytuacji niezrównoważonego zarządzania aktywami i pasywami – oraz sposobu zarządzania Eurovita. Wybrane rozwiązanie było doraźne, ogólnie dopasowane do sytuacji, dostosowane do indywidualnych potrzeb, a nawet kreatywne. Włoski podatnik – nareszcie – w ogóle nie został dotknięty wdrożonym rozwiązaniem i nie można tego było brać za pewnik.

**Słowa kluczowe:** ubezpieczenie, kryzys, Eurovita, porażka, ubezpieczenie na życie, zarządzanie kryzysowe, rozwiązanie

**Kody JEL:** G22, H12

### Introduction

Eurovita was an insurer founded in 1989 and based in Milan, Italy. It was an important player on the Italian life and medical insurance market providing life insurance policies, index-linked and unit-linked insurance policies, multi-branch products, pension products and products for companies (Preqin 2024). On December 31<sup>st</sup>, 2017, Eurovita, as an insurer selling its products through bank channels, merged with two other companies acquired by Cinven (its final owner) in 2016 and 2017. These two entities were OMWI (main field of activity was selling life insurance through financial advisors) and ERGO Previdenza (mostly acting through insurance agencies as distributor).

The purpose of this article is to argue and discuss the reasons and the context of Eurovita 2023 enforcement and final expected dissolution, the pros and cons of the solution scheme designed and implemented, potential alternatives in similar situations as well as – finally and, as usual, most important – lessons learned from the whole story. The interests and the approach of the analysis are essentially presented from the **economic, financial and business perspective**.

The source of data and information has mainly been public documents, journals and even market information. The analysis is prepared by the active and involved observer of the Eurovita's events – what brings additional value to the research. This privileged viewpoint enables the understanding of the dynamics of the crisis of this company.

The structure of the article is the following. The starting point is a brief, high-level description of the trigger moment and dynamics of the enforcement. Then the article goes back to a synthetic description of the main moments in the history of Eurovita and of the business model of the company, providing the background for the descriptions of triggers and dynamics.

Then the story moves to the peculiar situation of 2022 for life insurance companies, after the very rapid, sudden but (only partially, to be fair) unexpected increase of interest rates in the European Union, including in the eurozone. The change in interest rates regime can be considered as the trigger of the path towards the dissolution of the company.

Then the article investigates, identifies and discusses the real deep causes of the Eurovita's problems, which – in this specific context – have created the dynamics towards the end of the life of the company.

The following step is to illustrate the relevant features of the solution found, also in comparison to the identified alternatives.

Then the conclusion was presented, including some evidence and lessons learned from the story and from the analysis performed, arguing about the Guarantee Fund for life insurance companies and the role it could have in the future.

## 1. The trigger moment

It was January 31<sup>st</sup>, 2023, and for the first time in the history of Italian insurance market, a fully licensed life insurance company was enforced. It was obviously the first time this dissolution happened under Solvency II regime (SII). This must be clearly remarked, because several features of SII regime are relevant in the determination of the outcome, including the calculation of capital (e.g., mass lapse in the standard formula model) and the role of the Board of directors<sup>1</sup>. In particular, the total balance sheet full mark-to-market mechanism of SII showed clearly the potential insolvency of the company in case of a strong – and maybe expected, in the given situation – increase of the surrender rate.

On the other hand, in non-life businesses this kind of crisis situations is not abnormal and has happened a few times in Italy, but it is obvious that life business is a completely different matter. **Life business deals also with savings of the people.** Transformation of the way how the life insurance business is performed has been relevant in the last decade, also for technological reasons (Swiss Re 2015). In Italy, in the last 30 years with the birth of bancassurance, it has become an important and popular way to save money with medium term horizon and at the same time with low/very low risk appetite.

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<sup>1</sup> On the topic of life insurance under Solvency 2, more information can be found in P. Marano and M. Siri (2018), in particular in the contributions of Van Hulle and Battista, Paltrinieri.

From some points of view, a life insurance company is not completely different from a commercial bank. In fact, savings of the customers are on the liability side both of the bank and of life insurance company. Both liabilities are liquid, although certainly to a different extent. Above all, liabilities are dependent on the behaviour of the customer, because shifts in the dynamics of surrender or in the withdrawal of deposit changes the economic value of these liabilities.

Customer behaviour in terms of surrender changes across time and sometimes suddenly, being a function of shocks and policies. Even when applying the most sophisticated models – e.g., stochastic ones – it is difficult to figure out the concrete evolution of liabilities in any scenario, particularly when there is a change in the regime or policy. This point will be articulated more.

When there is a potentially huge problem of financial stability of the life insurance company (even only perceived, what matters in a context of asymmetric information), the incentive to withdraw own money – at value not in line with marking to market, in particular at higher value – is huge for the average customer. If the contract was signed indirectly, using an intermediate company in the retail market like a bank (in this case working as a distributor and consultant of the customer, and offering also other financial products), under given financial conditions the probability that the customers will decide to surrender is higher and, in any case, high in absolute terms.

With the enforcement action implemented towards Eurovita (at the beginning communicated as only temporary), the top management and the board of the company were pushed out of their duties. At the same time, a commissioner was nominated by the national competent authority (the supervisor, IVASS). The enforcement was regularly prolonged. The first periods of enforcements were very short, then extended to one year when the solution was found and had “only” to be implemented.

On the one hand, this situation was the result of the missing capitalization of the shareholder. On the other hand, the prolongation of the enforcement was due to the failure to sell the company to a new shareholder, credible enough to be approved by the relevant authority.

“Big Ben” – the supervisor in this case – declared time to solve the critical issues found and contested to the company, which had been assessed to be enough. After a few days, another very important decision was taken. That was to stop for several months any surrender options for any policyholder, considering that surrenders would accelerate in a disruptive way if nothing was decided.

Such a decision was taken for the first time in the history. Transforming capital losses (resulting from the accounting valuations) into real (realized) ones would have potentially destroyed the company and in principle not 100% of liabilities could be honoured, considering the market value of the assets of the company and the great financial uncertainty in terms of interest rates' dynamics. This decision – which is believed to be unavoidable – did not come without cost, as obvious. Uncertainty was

growing and trust in the final successful solution was not complete and taken for granted by observers and players, until the final agreement was signed off.

This circumstances opened a complex phase of several months when the solution was searched for, with a main unavoidable target: **saving 100% of the current and forecasted liabilities in front of the customer**. Nobody had to lose his money (capital and interests), neither small nor big clients. This was important also for the distributors and for their reputation in the eyes of the customer. But this was considered essential for the good reputation of the whole insurance industry and to avoid surrenders in the whole insurance system, involving also other companies.

The coordinator and arranger of the solution was the Commissioner – in this case a well-known and respected executive coming from the industry (not a lawyer), who was nominated by IVASS according to the Italian and European insurance law (IVASS, 2023). **Reputation risk – and its potentially catastrophic implications – and trust is clearly the intangible asset at the core of the full event.**

## 2. Going back – brief history of the company and its business model

Eurovita was a pure life insurance company, created as independent platform for medium and small distributors like regional and local banks – at the beginning only for Casse di Risparmio, a typical old Italian banking institution. In brief, the business model of Eurovita can be described as an independent and open platform of life insurance products for medium and small distributors. This is one of the three macro business models in bancassurance – much more about those models in Battista (2013). The other models are joint ventures and captives. Joint ventures and captives are equity-based agreements and therefore, in principle, have a longer-term view, which is usually connected with a more stable outlook.

Like any other models, distribution agreements and open platform models are applicable in specific situations and do not make sense to others. Overall, it is the only solution for small distributors which cannot invest equity in insurance companies.

The specific feature of Eurovita was the specialization in the model of distribution agreements. For a small bank, the choice is between the engagement with an open platform or the brand of a big insurance company for which bancassurance is one of the businesses, not the most relevant and without any specific focus.

Essentially ex-post, this model was widely criticized as one of the main drivers of the failure. Some of the most important Italian insurance top executives – at the beginning of the crisis – argued against the inherent risk for the bank of working with small players.

Ex ante, the main point of weakness of the model was the instability of the relationship between partners (insurance company from one side and banks from the other side).

This model has several advantages for the bank, which are believed not to be problematic per se, if (and only if):

- distribution network is diversified, and relationships are long-term and well-managed,
- the product mix is well balanced and specific products well designed,
- asset and liability management (ALM) strategies are properly managed,
- finally, the behaviour of the shareholders respects industry standards and fully understands the reputational risks of letting a retail life insurance company alone in the difficult moments.

Otherwise, we should conclude that only an equity-linked distribution platform or big players can manage the surrender risk in stressful situation. This however is pricey and limits the offering of “with profit” products on the market. Also, the absence of surrender penalties in many Eurovita products (like in the case of similar products on the whole market) is not a key element in this case. When there is a strong crisis of trust or the difference between returns on various financial products is high, a small penalty cannot make the difference in the behaviour of the customers or in the financial impact for the company. For sure, small penalties can make sense in case of profit products, at least for some years. It seems that nobody can argue in favor of going back to ‘80s and products with big penalties, which are reduced and would reduce so much the value for money for the customers. The conclusion is not that products or business models are the relevant part of the crisis.

Let’s consider ALM, which is a critical topic in life insurance (for wider analysis, Alfonsi, Chercali, Infante 2019; Paci 2017). In terms of nominal unrealized capital losses, several other insurance companies had a situation not so different from Eurovita – this is the view of the market observers but also numbers coming from 2022 and 2023 financial statements. This situation did not trigger any serious stability problem and was managed with their own network.

Shareholders’ structure and behaviour are key in these cases and this is the real difference between Eurovita and situation of other companies in the life insurance industry. Established in 1990, Eurovita experienced different change of governance along his history and the tensions experienced during the financial crisis 2009–2012 were relevant, both in economic terms and for the stress to the governance. Shareholders were not engaged with the future of the company anymore.

After the financial crisis, the appetite for pure life insurance capital from industrial players was fairly limited at least in Italy, in the moment where demand of customers for guaranteed product became more and more relevant. The role of private equity (PE) was key for several years, providing the capital not available through the traditional industrial channels.

Only several years later – when interest rates suddenly went up after Covid and its inflationary wave – industrial players went back to have appetite for capital invested in life insurance. This was the reason for which PE had the concrete possibility to take ownership of the Eurovita company in 2014, following the idea to create a platform for life insurance, what had already happened in the similar world of asset management.

The company was sold to a second PE fund, managed by Cinven, in 2017, as part of the consolidation of the life industry. No industrial players showed any appetite for the capital of the company. The PE fund tried to exit from the investment in 2021, when the consolidation process was perceived as finished. However, the value of the offer was not in line with expectations and therefore the sale was postponed. Still in 2021 the company appeared to be a potentially profitable investment. This suggests that **the trigger of the crisis should be linked to the financial regime's change, i.e. the change of interest rates**. The rush up of the interest rates created a lot of volatility and the capital deficit (resulting from changes in the valuations of assets in balance sheets).

**The increase in interest rates was partially unexpected, but the ALM was extremely poor.** On the one hand, the problematic low return on German and French bonds, on the other the matching of ex ante synthetic duration but not of flows turned out to be main contributors to the situation.

In fact, the weight of long-term bonds with low rates created a situation of capital losses (like for higher return with similar duration) and – at the same time – low current and expected return. The return on the low-risk assets, like BTPs (it. *Buoni del Tesoro Poliennali*<sup>2</sup>), was higher.

**In any case, ALM could have been much better, but it will never be a magic mechanism, because liabilities change also when financial or policy regime changes.** Pure exact matching is a myth in life insurance, particularly under stressful situations. Even if there is matching ex ante, ex post it is very difficult to maintain.

Several players in the market had a similar financial position to Eurovita, even though its capital losses were higher and, most importantly, expected financial rewards were lower, also essentially lower compared to the market.

**The real structural difference between Eurovita and the other market players was the reputation and commitment of the shareholder.** Cinven, the only shareholder of the company since 2017, decided not to inject money at all and in any case, in spite of the fact that this money was relevant in relation to the equity invested in the company but not so huge in comparison to the private equity fund size. The idea behind this decision was to put a “stop-loss mechanism” to the investment in the equity of Eurovita, so that it would have not caused other costs – implicit assumption was that no reputation risk was emerging.

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<sup>2</sup> Bonds issued by the Italian government.

But the mediatic impact has been huge and at least partially unexpected, not only in Italy but also in other countries. Even both the Economist and Financial Times (FT) pointed out this event as a key moment for the retail financial services industry. The event which was in principle small and had happened “in the periphery” of Europe.

Financial Times, more than others, dedicated more than just one article to the evolution of the story and to the role of PE in life insurance (FT, March 2024). Also, IMF has investigated the role of PE fund in the life insurance industry (IMF, 2023).

Other European regulators reacted. For example, an ongoing Cinven transaction in Germany was blocked. Finally, the person who managed the deal was pushed out of the fund, according to press news which ultimately was confirmed. **Valuation of the emerging reputational risk proved to be completely wrong.** The effects of the decision have gone well beyond the specific deal and transaction.

When people’s savings are at risk, the only way to sustain the company is selling in a proper way to reasonably respected shareholders. **Walking away is neither acceptable nor possible.**

**Reputation risk has proved to be one of the most tricky (and, at the same time, holistic or global) features of the insurance industry.** It is not embedded in the models, at least not completely, and it is a typical qualitative and intangible risk. However, it can be catastrophic.

Media coverage, but particularly flows of information among regulators – in Europe and beyond – have been the drivers of the mounting tensions. It is not necessary to create an insurance union (similar to, e.g., banking union) to create this reputation effect. The current integration of the world is enough and is here.

### 3. The crisis solution’s framework

First, we must underline that the process of enforcement is still managed completely at national level in the insurance industry, in a context where supervision is not unique/integrated, as in the banking sector where Italy is part of the banking union (what results that some supervisory and crisis resolution functions are transferred to the pan-European level).

After the temporary period of enforcement and of surrender freezing, long period of discussion and negotiations, the final solution was found – the ultimate agreement is a complex document full of details. The solution entails the following, most important key features:

- closure to new business of Eurovita brand “forever”,
- involvement of all major Italian financial groups (biggest companies participate in the final solution, the other invited to join for minor part refused),
- creation of the new legal entity (name chosen Cronos, implying time is key and limited) and transfer of the whole portfolio of contract from Eurovita to Cronos,

- breakup of the company and destination of the portfolios to the major Italian insurers involved (Assuming quick reopening of the surrenders after the transfer),
- liquidity impact of the surrenders guaranteed “and paid” by the bank,
- immediate injection of capital to keep the solvency ratio up during the whole liquidation process.

The assessment must be done in a holistic way, because the elements of the deal are obviously interconnected. In the following lines, the framework is presented and analyzed step by step.

Eurovita will never open to new business anymore. This looks obvious and new business would be impossible to be continued. Nobody had the appetite to save the company by itself. There was, however, the interest for the whole market to resolve the whole crisis situation. The inclusion of new shareholders could have been as large as possible, without making the negotiation table unmanageable.

The injection of capital to restore solvency from one side and the change of governance to restore the trust from the other also could not happen within Eurovita. This is due to existence of some undesired and unfair liabilities (like sanctions or also to a certain extent subordinated loan) and due to the potential responsibility in case of default. Therefore, it was impossible for the most important group in the country to inject money into Eurovita. Therefore, a new company was created and authorized by IVASS (obviously in a very quick time). A clear example can show an *ad hoc* nature of the solutions in this field. One hundred per cent of the portfolio was transferred to Cronos, in the “Eurovita shell company” remained “undesired liabilities” and responsibilities’ charges for the previous governance activities – more than 8 million euros of overall sanctions. Subordinated loans were bought back by Cinven, at the pricing on average well below one hundred percent of its face value, but well above zero – according to market information.

IVASS sanctions were the biggest ever imposed on an insurance company. The reason of these sanctions – rather high and unprecedented in the history of Italian insurance – were “... serious deficiencies in the governance, management and control of financial risks, as well as, until the 2020 financial year, in the calculation of the Best Estimate Liabilities; deficiencies in the assessment of current and prospective solvency risk and in the definition of the Risk Appetite Framework and late implementation of the remediation plan, launched following a previous inspection by the same supervisory institution.” (it. “... *gravi carenze nel governo, gestione e controllo dei rischi finanziari, nonché, sino all’esercizio 2020, nel calcolo delle Best Estimate Liabilities; carenze nella valutazione del rischio di solvibilità attuale e prospettica e nella definizione del Risk Appetite Framework e tardiva implementazione del piano dei rimedi, varato a seguito di precedente ispezione dello stesso istituto di vigilanza.*”).

The justification refers to a mix of governance and ALM deficiencies, essentially and in other words, in line with what was argued in this article.

Moving to the first pillar of the rescue plan, any new shareholders – the “white knight” – should have taken a part of the portfolio of insurance contracts and related assets. Obviously, equal to the others. Equal in terms of what? Considering that shareholders have injected their own funds, equal in terms of own funds seems the most appropriate answer. But other criteria are also relevant in the breakup. First, it is easier to move portfolios of homogeneous products and not portfolios of mixed products. This scope of the transfer changes essentially the “one off” cost of migration.

On the other hand, distributors want absolutely their policy with the same company, and this impacts the cost of managing across the residual life of the portfolio. In any case, it is obvious that five IT migrations involving complex IT machines are not a simple and easy game. They are expected to be finalized in 2025, and Cronos will therefore finish his life. The shortest the life, the more successful the project of resolution.

One fundamental consequence of passing the insurance portfolios to Cronos was the reopening of surrenders, which overall were suspended by IVASS for several months. In Eurovita, this would have been impossible without an immediate run, materializing the unrealized loss (hundreds of millions). The reopening was successful, surrenders were in line with expectations and only a bit higher than the counterfactual (that is in the absence of any policy intervention).

**The liquidity impact of the surrenders guaranteed by the bank is the key innovative pillar of the agreement.** There was no appetite for surrender risk on the reinsurance side, nor availability to give own balance sheet to save Eurovita. In addition to this, as a distributor bank could influence the pace of surrenders, therefore an incentive to slow surrenders was essential.

The agreement on this point is complex and, obviously, not fully public. But the key essence is simple: bank being the distributor of the product finances the surrenders, and this avoids the necessity to sell bonds to pay surrenders realizing losses which will be absorbed in the years with a probability close to 1 – due to the nature of government bonds of the depreciated assets.

The overall agreement turns out to be expensive for the bank, as much as surrenders are relevant and fast. According to several bankers, this makes a relevant part of the cost of Eurovita bail out in charge to the banks. However, it should be assessed that this cannot be regarded as a penalty, according to the wrong view of the responsibility of the distributor. It is the price of interest in the deal and even the result of harsh negotiations, where the interest of the banks was much more sensitive than the interest of the insurance industry. That is sure, liquidation would have been a huge reputational problem for distribution as much as for the life insurance industry, in particular without any certainty for years to recover at least the capital invested. It would be also very difficult to manage in a local context, i.e., in the context of the national market dominated by the banks.

For life insurance industry the Eurovita crisis was for sure not an easy event to manage, but the main players are very different “animals” from Eurovita and would leverage on that without huge problems.

The following step was the injection of capital to keep the solvency ratio of Cronos at the appropriate level during the liquidation. This is the upfront cash cost of this rescue deal for the shareholders of Cronos.

Biggest companies take the piece and according to rumours other players were also invited to join for minor part of the deal, but all refused. One of these companies decided to join, but its share in the deal should be limited to only ten percent. The only solution found has been to divide the residual 10% among the other four players. This is further evidence that the appetite for not sending the Eurovita in liquidation was (much) bigger for the banks than for the insurance companies and the cost of this is reflected – as natural – in the final equilibrium price of the deal. This proves also that the details and mechanics of the negotiations were not strongly influenced by the supervisor.

Final step was the dissolution of the “Eurovita shell company”, quasi empty after the whole process, through the declaration by IVASS of “Liquidazione coatta amministrativa”, which is the typical default procedure for banks and insurance company in the Italian law.

#### 4. Alternative theoretical paths to solve the Eurovita crisis

What were the alternatives? Were there the alternatives to the pure liquidation? Was it possible to make liabilities safe at least in principle, also keeping – which was unfeasible – surrenders blocked for some years – considering the existing huge capital loss and the liabilities unmatching?

**The first one** is obvious and is the bail out from the Italian State, having in mind that 100% of the Eurovita’s customers were Italian savers and citizens. This would be complicated by European State aid regime. This problem could be overcome, but the other two drivers would have made bailouts impossible. From one side Italian public finance condition and the resolution law at European level for banks.

How can you save a life insurance company when the resolution of banks is going in a completely opposite direction and when political pressure could make it difficult to inject public money into private companies? For these reasons, bailout was never on the table and under the discussion, neither as a last resort option.

**The second alternative solution** was the acquisition by an industrial player, i.e., the competitor. Price would simply mirror also the capital increase needed to restore the proper solvency ratio (with the buffer in line with the volatility of the ratio itself).

The appetite of insurance players was close to zero at that moment, due to huge surrender risk and also relevant capital requirements of the company on a standalone basis. The change in ownership would have been possible with the bank guarantee, but the bank guarantee was conceivable only within the breakup solution, otherwise it would have been an advantage/subsidy for a specific insurance group.

**The third solution** was the acquisition from another PE fund. According to the market information, there was an intense negotiation between Cinven and another important PE fund, obviously in the weeks before the enforcement. But the solution was not found for the same reason: surrender risk was huge, and this made the price highly negative for a fund and not acceptable for the seller.

The traditional solutions were therefore not available: saving by State from one side, acquisition by any player from the other side. The surrender risk was not manageable per se at that moment for Eurovita. And for a life insurance companies with a lot of profit scheme – Italian style but also others – it is very difficult to make a fair valuation in a volatile interest rate environment.

In addition, when there is any exogeneous intervention or structural change of rules, this is the typical situation which in economic literature is known as Lucas critique (Lucas 1983).

This concept was developed by Nobel Laureate Robert Lucas in relation to policymaking actions, but its application may be much wider, including any structural change of the current dynamics.

**When a fundamental exogenous shift occurs, behaviour of rational actors' changes, based on their (rational) expectations, in very different ways than models founded on historical data could suggest.**

Therefore, applying this model in the Eurovita context, we could not know the ending point on the surrender dynamics of any change of governance through external acquisition, particularly in an unprecedented situation like this one.

## 5. The Guaranteed Fund framework

Any scheme must be tailored to the specific situation to be a sustainable solution. Therefore, the Guaranteed Fund is certainly not the magic solution to an idiosyncratic crisis.

The Fund scheme has been established by Italian Parliament at the end of 2023, still not working (as of the end of 2024). The process of the constitution is still at the beginning. It will be funded by life insurance companies with an injection of money proportional to their amount of premiums collected.

Let's assume that the Fund was active at the time of Eurovita crisis. Confidence could be restored immediately. A solution had to be found and resolution with insolvency would be out of possibilities.

It is never only and purely a matter of injecting money into the company. What happens next, after the capital increase?

A set of comprehensive actions has been prepared in the remediation plan, as required by IVASS.

Therefore, **a Guaranteed Fund makes sense if and only if it is a transaction cost reduction mechanism and a trust enabler**. This makes things easier and increases confidence that a solution will be found, because it is in the mission of the Fund established by the law and financed by life insurance companies, based on the amount and mechanism defined by the Law.

We could then assume that there is one negotiator at the table – which represents all the companies – instead of several players, each of them in general represented by more than one person (typically CFO, chief legal officer and so on). Time has been quite long. The process was not easy in the Eurovita case but the observers never had the perception that a solution would not be found, activating the liquidation of the company.

In any case, the Guaranteed Fund would have probably split the company afterwards, no big change in the aftermath of the solution. Maybe shareholders structure would have been different, but it is very hard to say. Possibly, there would have been a change in the process and in the confidence that a solution would have arrived, sooner or later. But it is believed that the solution to break up with the financial guarantee of the intermediaries would have been some of the same.

Simply reopen surrenders – reestablished the proper solvency ratio but within Eurovita – without a final change of control and structural solution could trigger the run of the customers in any case. Bearing all the losses would have been unnecessary and unreasonable for the Fund.

## Conclusions and lessons for the future

After the analysis performed in this paper, **we could conclude that the deep cause of the crisis is the combination of financial turmoil – fast and sudden increase in interest rates in a situation of unbalanced ALM – plus the governance of Eurovita**, i.e. PE ownership, not per se but without any strong commitment and with a complete misperception of regulatory and reputational risk.

The liquidity crisis was avoided by the procedure started by the supervisor.

The reason for the sudden and unexpected situation was therefore structural, not contingent on a random event. The crisis was simply triggered by the well-known

dynamics of interest rates – which was possible but not to be given for granted – which have impacted the described asset and liabilities profile of the company.

**At the end, the solution found has been ad hoc, overall fit to the situation, tailor-made, even creative**, turning out to become an example to look at in similar undesired situation in other relevant markets. The Guaranteed Fund scheme per se is the facilitator of a successful process, but not sufficient. It covers only some elements which proved to be necessary to solve the crisis.

We can also argue that the result of the procedure should be in line with the current IRRD draft, European directive on resolution in insurance. Public interest in the sense of the draft of Insurance and Reinsurance Resolution Directive (IRRD) and resolution objectives, i.e., collective interest of policyholders, maintaining financial stability and protecting public funds<sup>3</sup>, has been widely considered in the liquidation process and overall reached.

Transaction costs have been rather high in terms of effort, long timing and opportunity cost – completely missed new business for several of the banks involved. An established Fund could decrease them, even though the cost of keeping reserves unallocated and unexploited for an indefinite long time must not be underestimated.

**Banks that had distributed the Eurovita's products had the biggest interest in solving the problem, but no specific fault can be put on them.** The opinion that the choice of selling Eurovita product was wrong is complete nonsense. Distributors cannot be blamed, on the basis of the law and also of business common sense, for choosing a – at that time – successful company in the market.

Credibility of life insurance sector has been protected and this has been in the interest of companies which have created the solution scheme named Cronos. After a complex 2023, 2024 evidence looks like again a good year with positive net flows and increasing premiums.

Any systemic crisis – in any case unlikely, due to the limited size of Eurovita – has been certainly avoided.

**The Italian taxpayer – at last – has not been hit at all by the solution found.** Not a standard and obvious outcome, even though fully in line with the spirit of European bail-in policy. It has not been remarked enough.

From another point of view, it goes too far concluding that PE is never a good owner for insurance companies. There are a lot of different examples in the world and, also in Italy, of successful PEs' shareholdings in insurance companies. Also, the previous PE adventure with Eurovita was more than successful, in terms of the business and of the standard of governance.

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<sup>3</sup> On this see the BFG document (2024).

The position of the International Monetary Fund implies that the topic is interesting and not trivial. It will definitely be analysed again in the future and in different economic contexts.

The Guaranteed scheme therefore could work in terms of transaction costs, even though it would create some opportunity costs – as always money could be used for alternative needs.

Overall, in this moment of the resolution process, we can reaffirm that the scheme has been a success for the Italian insurance system, even though with the costs and the limitations described and analysed in the article.

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