FINANCIAL INCLUSION – PRODUCTS AND INITIATIVES TAILORED TO VULNERABLE CONSUMERS

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Pensions reform across the European Union are in study since 2010, when the European Commission's Green Paper entitled "European pension Schemes adequate, sustainable and safe" launched a debate about the main challenges faced by EU pension systems. This paper also discussed how the European Commission can support the efforts of Member States to provide adequate and sustainable pensions. In 2012 the Commission produced a White Paper, "A schedule for appropriate, safe and sustainable pensions" that reflects the results of the broad consultation launched by the Green Paper. The White Paper defined an agenda aiming to (i) introduce adequate and sustainable pension systems in the long term, (ii) create conditions for both women and men participate heavily in the workforce throughout your life and (iii) to enhance opportunities to build additional retirement savings safe.

The current pension challenges identified in this White book are:

- Ensuring the financial sustainability of pension systems;
- Keep the adequacy of retirement benefits;
- Increase labor market participation of women and older workers;
- Role played by the Member States and the European Union in the field of pensions.

Guaranteeing the financial sustainability of pension systems is a challenge because currently pensions represent a very large – and growing – part of public spending. On average throughout the European Union they represent more than 10% of GDP, and are still raising. In addition, the economic crisis of 2008 and the adverse demographic trend in Europe has hampered the management and evidenced shortcomings in many of the EU pension schemes.

All across the Union, many governments reacted to these recommendations by increasingly transferring the responsibility to save for retirement to individuals. Reforms in the state-supported pension systems across many countries mean that individuals must save in order to provide for their own financial security after retirement. This in turn requires a high planning ability, especially for young people who need to accumulate during their active life a substantial amount of savings to cover longer retirement periods due to increasing life expectancy. Unfortunately, several studies point to a generalized lack of planning among the population (see for example Lusardi (2003), which reports that in the U.S. one-third of adults in their 50s have not developed any kind of retirement planning). Individuals who lack the ability to make financial plans over sufficiently long horizons potentially represent the "vulnerable consumers" which are the focus of this study.

1. Characteristics of vulnerable consumers and EU regulation

In this Section we first identify these vulnerable consumers, reviewing the academic research on the subject. In the second part, we describe the EU regulation framework for investors' protection, highlighting its strengths and weaknesses.

1.1 Propensity to plan, financial knowledge and potentially vulnerable consumers

Several academic studies find that individuals with a low degree of financial knowledge are less likely to plan and to succeed in their planning (Bernheim, D. (1998), Clark and D'Ambrosio (2002), Lusardi and Mitchell (2011a) and (2011b) among others). In particular, Lusardi and Mitchell (2011a) show that the planning ability is linked to the degree of financial literacy above and beyond the effect of education, and it is correlated with the use of formal planning means, such as calculators, retirement seminars, or financial experts. In Lusardi and Mitchell (2011a) and (2011b) the degree of households' financial literacy is measured using three questions on compound interest, inflation and understanding of riskiness of stocks and diversification, the so called “Big 3” questions.[1] Approximately 56 percent of the sample gets the two first questions right, while only 34 percent correctly answer all three questions, suggesting a systematic degree of financial illiteracy among older workers in the U.S., who are the subject of this survey.

Even more worryingly, Lusardi and Mitchell (2011b) find that financial illiteracy is widespread around the world: the same three questions were asked in surveys in Germany, the Netherlands, Sweden, Italy, Japan, New Zealand, and in Russia, obtaining similarly low scores as in the U.S., although one notices important differences across the different countries.[2]

Many studies also highlight that financial literacy varies across different population subgroups. Women are less financially knowledgeable than men;[3] financial literacy is higher among those who are working than those who do not work; one can notice an age pattern, with financial knowledge following an inverted-U shape being the lowest for the younger and the older groups. If we look more closely at the age pattern, Lusardi and Mitchell (2011b) report that, while younger people acknowledge their low financial skills, older people consistently rate themselves as very knowledgeable (similar findings are reported in other surveys; for Germany and the Netherlands see van Roij et al. (2011) and Bucher-Koenen and Lusardi (2011)) . Focusing on the countries relevant for this report, only Italy is covered by Lusardi and Mitchell (2011b) which shows, on top of previous patterns, also large geographical differences, with Southerners having a lower degree of financial knowledge than people in the North and the Center of the country. In particular, for Italy these results are confirmed also by the CONSOB (2016), a study on financial investments of Italian households.

Overall, the literature identifies some categories which lack financial education in a worrying extent, hence are less likely to plan for retirement: younger and older people, unemployed and

[1] We report here the text of the three questions:

1- Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than $102, exactly $102, less than $102?
2- Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?
3- Do you think that the following statement is true or false? “Buying a single company stock usually provides a safer return than a stock mutual fund.”

[2] For example, countries in which people score well in mathematics and scientific tests also tend to score better in numeracy questions (e.g. Sweden and the Netherlands). See Lusardi and Mitchell (2011b) for more detailed results.

[3] Interestingly, women are only slightly (and often not significantly) less likely to answer the “Big 3” financial literacy questions correctly, but they are more likely to state that they do not know the answers, compared to men.

self-employed, women, and special groups characterized either by geographic areas (e.g. in Italy) or by religion (e.g. in the Netherlands) or by other cultural elements (e.g. minorities in the U.S.). We refer to these categories as the "vulnerable consumers" of financial services. Throughout this report we consider financial services in a very large sense including investment products, financial advice, and any other financial intermediation service an individual may need in order to invest.

1.2 The main cognitive weaknesses among potentially vulnerable consumers

What are the financial concepts that individual investors, and in particular the most vulnerable ones, understand less? And what are the main behavioral biases suffered by these investors? These questions are of paramount importance if our goal is to encourage a "correct" saving behavior among vulnerable consumers and to protect their rights as individual investors.

If we refer to the "Big 3" questions exposed above, we see that respondents with high numeracy ability perform well in the answer concerning interest rates (Lusardi (2011a); in particular, for Italy see CONSOB (2016)); the question on which respondents perform worse is by far the third one, concerning the risk-diversification relation; while individuals who have experienced high inflation perform better in the question that relates to this concept (Lusardi and Mitchell (2011b)). While the knowledge of compound interest rate is probably related to basic numeracy knowledge and the understanding of inflation is often related to having experienced it, most problems arise when investors are confronted with concepts specific to the financial world. Approximately half of Italian individual investors recognize the relation between risk and return prevalent on the financial markets, but very few grasp the risk characteristics of the most common securities (CONSOB (2016)). Only one third of the respondents in the CONSOB (2016) study are able to correctly spot the differences between stocks and bonds in terms of risk, and only 20% of them can rank different financial products according to their riskiness in a correct way. A survey conducted by Unicredit in 2007 over a representative sample of their clients (UCS, 2007) confirms these results. In particular, less than 40% of the respondents understand the concept of portfolio diversification, while approximately only 13% knows that well-diversified mutual funds are less risky than a sample of two-three stocks (see Guiso and Jappelli (2008), and Calcagno and

Monticone (2015)). Overall, Italian individual investors have a sufficient knowledge of inflation, interest compounding and risk-return tradeoff, but do not know the relative degree of riskiness of financial products, even for very common ones such as stocks and bonds; have a very poor knowledge of the risk characteristics of slightly more complex ones such as mutual funds; and are quite confused concerning the concept of assets diversification. The concept of "risk" proves to be the least understood among the basic financial concepts, often being associated simply to capital losses.

But even abstract knowledge sometimes does not prevent individual investors to have wrong perceptions of a problem (a "cognitive bias") or to take a poor decision. The above surveys on Italian households (CONSOB (2016)) and on the clients of a major bank (UCS, 2007) both report a high degree of investors' self-confidence in their financial knowledge. Younger and wealthier households rank their own financial capabilities better-than-average more frequently than older groups and non-investing households. Overall, both studies suggest a certain degree of overconfidence in own financial knowledge, which is extremely dangerous if it goes together with a low degree of objective understanding.

Apart from cognitive biases, many studies have documented a clear link between poor financial literacy and several economic incorrect behaviors. Bernheim (1995, 1998) was among the first to emphasize that most of the U.S. households with poor financial knowledge use crude rules of thumbs engaging in saving behavior. Elderly with low financial literacy often fall prey of financial scams: again in the U.S. FINRA (2006) reports than approximately 20% of respondents felt they were misled or defrauded. French (2008) calculates that investors have foregone equity returns for an amount of around $100 billion due to fees, expenses and active investment trading costs. He also reports that the least financially literate investors are the least sensitive to fees, and they probably bear such costs disproportionately. Cocco, Gomes and Maenhout (2005) refer that many of the financial illiterate underestimate costs in active and complex investments, thus suffer losses amounting to 4% of their wealth 'trying to beat' the market.

Financially illiterate investors also pay excessive costs in the way they manage their liabilities.[4] Lusardi and Tufano (2009) report that less knowledgeable individuals excessively pay fees and interest charges related to paying bills late, going over the credit limit, using cash advances and

[4] Scholars often refer to this behaviour as "debt illiteracy".

paying only the minimum amount due. The average fees paid by those with low financial knowledge are 50% higher than those paid by the average cardholder. Campbell (2006) report that the least financially savvy use a suboptimal refinancing strategy for their mortgages. There are also serious worries that the expansion of the credit markets, coupled with a sharp drop in households' disposable income after the 2007 financial crisis has generated high areas of over-indebtedness, especially among the most vulnerable consumers (Bouyon and Musmeci (2016)). All these suboptimal economic behaviors call for explicit regulation protection.

Finally, to conclude our review of cognitive weaknesses and incorrect decisions by vulnerable investors we emphasize the fact that investors with poor financial knowledge make use more frequently of informal sources of advice, such as family and friends and non-specialized media (CONSOB (2016)). The correlation between the level of financial knowledge and trust in financial advisors, or more generally into financial institutions, is less clear.

We summarize in Table 1 the main characteristics of investors who are likely not to have sufficient planning abilities (which we will refer to as "vulnerable consumers"); their main deficits in term of financial knowledge; and their most common financial mistakes.

Table 1: Financial knowledge and main behavioral weaknesses among vulnerable consumers

Most "vulnerable" groups	**Least known concepts**	**Most common economic mistakes**
Youngsters / Elderly	What is "risk" in finance	Overconfidence in own financial abilities
Unemployed (Self-Employed)	Riskiness of financial products (absolute and relative)	Use of rules of thumbs
Women	Portfolio diversification	Prey for financial frauds
Geographic areas	Products knowledge (e.g. mutual funds, pension funds, hedge funds; derivatives)	Underestimation of fees
Religious groups	Fundamental functioning of financial markets (e.g.: interest rate and bond prices relationship)	Inefficient management of liabilities
Cultural minorities		Over-indebtedness
		Excessively active trading

1.3 A brief description and a critical assessment of the European regulation MiFID

In this section we review some of the most relevant principles concerning consumers' protection contained in the EU Directive 2004/39/EC (MiFID).[5] At the same time, we try to assess whether MiFID rules and principles are adequate given the cognitive weaknesses and behavioural biases of vulnerable consumers illustrated in the previous section.

In the Directive,[6] we have identified three main axis of intervention that we believe are particularly relevant for consumers' protection and for long-term investment products: (i) the way information should be provided to clients by investment firms[7]; (ii) the assessment of products suitability and the rules concerning the relation with retail clients; (iii) the regulation of professional advice and of the conflict of interests between advisor and client.

1.3.1 How to provide information to clients

We start discussing the requirements that MiFID imposes on the fees related to an investment product. Given that less knowledgeable investors show a little comprehension of the characteristics of financial products, and that they often overlook the costs inherent in the investment, an effective disclosure of fees is extremely important in order to both protect them and tilt them towards the choice of the most adequate financial products.

The Directive allows the payment of fees or commissions as long as they:

- are clearly disclosed to the client "in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant investment or ancillary service";
- enhance the quality of the relevant service to the client;
- do not "impair compliance with the firm's duty to act in the best interests of the client".

However, the Directive does not specify further the criteria that, for example, make the disclosure of fees "clear, comprehensive, accurate and understandable". In order to communicate the fees in

[5] The Directive is defined as "the EU Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments". We refer to the official documents as in their English version. They can be found at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32004L0039

[6] In the following we often refer to MiFID as "the Directive".

[7] "Investment firms" is the way the Directive defines financial intermediaries which commercialize financial products and provide financial services.

a more transparent and clear way, various solutions could be proposed, such as, for example: showing standard investment profiles including the explicit computation of the fees; indicating clearly the past returns earned by the product net of fees; in case the structure of the fee is particularly complex, presenting investment scenarios tailored on the needs of the client that include explicitly the amount of fees due. Unless the national regulations in the EU countries have implemented more stringent requirements, on the basis of the MiFID principles we expect that many consumers may not be able to correctly assess the actual costs due to fees and commissions when making a financial investment. We will provide some examples of the heavy impact of fees on products returns in Section 2.

Also in terms of the information requirements that investment firms have to provide to clients, the Directive at first contains mostly general principles. It states that: "[it] does not cover requirements as to the form, content and performance of contracts for the provision of investment services"; "The conditions with which information addressed by investment firms to clients and potential clients must comply in order to be fair, clear and not misleading should apply to communications intended for retail clients in a way that is appropriate and proportionate…"; and finally, "Nothing in this Directive obliges investment firms to provide all required information about the investment firm, financial instruments, costs and associated charges, or concerning the safeguarding of client financial instruments or client funds…".

However, on this subject the Directive overall is more stringent since it enlists the "conditions with which information must comply in order to be fair, clear and not misleading". First of all, it states that the information should be provided to the client in a way that "[he/she] needs sufficient time to read and understand it before taking an investment decision". It also explicitly mentions that the time necessary to review information about a product/service depends on the complexity of the product/service.

The Directive is more detailed not only in terms of time between the information provision and the investment decision is taken, but also on the content the information should provide. Information should adequately describe "the nature of financial instruments and the risks associated with investing in them so that […] clients can take each investment decision on a properly informed basis". In particular, the Directive lists clear requirements for the indications of past performance, and for the description of risks that the financial instrument implies. Notably, when enlisting the criteria that information about risk should contain, the Directive says that information should take into account "the client's classification as either a retail client or a professional client" and "the status and level of knowledge of the client". Concerning the communication about risk the Directive distinguishes between retail and professional investors. As we have shown in the previous Sections, the understanding of the concept of "financial risk" is quite low among the general population, and extremely scarce among vulnerable groups of retail investors. Hence, in our opinion the Directive principles should be implemented in a very conservative way, i.e. assuming that the investor has no experience with the concept of risk inherent in a financial investment, otherwise explicitly stated. Presenting clear scenarios tailored on the specific investment that is being proposed may be one of the most effective ways to convey information about risk.

Table 2 MiFID inducement and information requirements

STRONG POINTS	WEAK POINTS
Time needed to understand the information	Communication about fees and commissions
Information about risk should take into account the client's status (retail or professional)	Information concerning risk does not take into account the degree of knowledge of the clients
Explicit list of elements that must be contained in the explanation of risk	
Caveat on communication of past performance	

1.3.2 The assessment of suitability of products for the client's needs and the rules concerning the relation with retail clients

This section reviews probably the most well-known innovation introduced by the MiFID, the so-called "MiFID questionnaire". The Directive requires that "the information regarding a client's […] knowledge and experience in the investment field in terms of […]

(a) The types of service, transaction and financial instrument with which the client is familiar;
(b) The nature, volume, frequency of the client's transactions in financial instruments […];
(c) The level of education, profession […]

have to be known by the investment firm prior to a transaction". It also states that "…a transaction may be unsuitable for the client or potential client because of the risks of the financial instruments involved the type of transaction, the characteristics of the order or the frequency of the trading." The Directive then explicitly asks to verify that the transactions proposed to the clients match with (a) the investment objectives of the client, (b) the financial situation of the client and (c) that "the client has the necessary experience and knowledge in order to understand the risks involved in the transaction". Finally, it does not allow the investment firm to recommend investment services or financial instruments which do not fulfil the above requirements. De Palma A. and Picard N. (2011) found that no more than one third of a sample of MiFID questionnaires in France endeavour to quantify clients' risk aversion. Moreover, risk profile questionnaires do not take into account the market conditions at the time clients answer the questionnaire. A quantitative measurement of the clients' risk profile should not only measure their risk tolerance, but also their loss tolerance and their tendency to distort probabilities. Experience and financial literacy should not only be self-assessed by the clients. Objective indicators such as past investment decisions and the number of years of investment should also be taken into account.

MiFID is quite explicit in terms of general principles concerning the suitability of products and services. Problems may arise in the way some of the requirements mentioned in the Directive are assessed, especially when we keep in mind that many investors have a very confused notion of finance "risk" and are often overconfident concerning their actual financial knowledge (see Table 1).

The text of the Directive is much less stringent about the way products suitability should be assessed.[8] While investment firms can assume that "a professional client has the necessary experience and knowledge in order to understand the risks involved in the transaction", nothing is said about the level of knowledge of retail clients. In our opinion, national regulations implementing MiFID should be very rigorous in assessing the knowledge of investors concerning financial risk. Also, such an assessment should not be organized through tests carried over at the investment firms, because when the client meets the provider of the financial product both have a strong incentive to conclude the transaction.[9]

Once the transaction has been agreed, the investment firm has the obligation to execute it and often to manage the client's portfolio originated from it. The Directive specifies clear principles ruling these aspects. It fixes the principle of best execution, stating that "the firm should take into consideration all factors that will allow it to deliver the best possible result […]".

Concerning the management of a retail client's portfolio, the Directive specifies the information that has to be provided to the investor: (1) the "method and frequency of valuation of the financial instruments in the client portfolio"; (2) "the specification of any benchmark against which the performance of the client portfolio will be compared"; (3) "the types of financial instrument that may be included in the client portfolio"; (4) "the management objectives, the level of risk to be reflected in the manager's exercise of discretion […]"; and (5) "…the costs and associated charges that includes […] (a) the total price to be paid by the client […] including all related fees, commissions, charges and expenses, and all taxes […]." The client receives then a large amount of information from which he/she potentially can carefully determine the expected return and risk of the financial product. However, all this information may be difficult to process for an individual investors with little knowledge about the different financial assets composing the portfolio. And, again, all the costs and fees associated to the investment may be lost in such a detailed information package. While the MiFID is certainly exhaustive in terms of requirements,

[8] «[…] investment firms, when assessing whether an investment service is appropriate for a client, [are required to] determine whether that client has the necessary experience and knowledge in order to understand the risks involved in relation to the specific type of product or service offered or demanded."

[9] In informal speeches, some scholars advocate the introduction of an "investment license" that, as a driving license, allows an investor to take a certain investment action or not. Investors who do not understand the risk inherent in a certain class of products should not be allowed to invest in them.

its implementation is not easy, especially with respect to investors with a low degree of financial knowledge.

Table 3: MiFID suitability of products, assessment of suitability and information concerning the management of client's portfolio

STRONG POINTS	WEAK POINTS
Suitability of products (MiFID questionnaire)	Assessment of suitability (esp. the concept of "risk")
Information related to products in the client's portfolio	Information may require a high degree of financial capabilities to be processed adequately
Best execution practices	

1.3.3 Regulation concerning investment advice and its inherent conflict of interests

A study commissioned by the EU Commission DG Financial Stability, Financial Services and Capital Markets in 2016 [10] shows considerable evidence that individuals need financial guidance, especially with regard to choosing the appropriate financial products. About a quarter of the population in both France and the United Kingdom said that they would be likely to use a financial guidance service (ESCP Europe Conseil, 2015; HM Treausry 2007, 2008 and Citizens Advice, 2015). However, the same studies pointed out that the need for financial guidance may not necessarily translate into demand for professional financial advice. Some frictions clearly do not allow individuals to satisfy their need for guidance. Either these are individual frictions such as inertia, lack of knowledge, or a very low level of financial literacy which in turn stops the investor to ask for advice fearing not to understand it (Calcagno and Monticone (2015)); or the

[10] EU Commission, (2016), "Study on access to comprehensive financial guidance for consumers", by OEE in partnership with The Personal Finance Research Centre, The Institute for Financial Services, The National Institute for Family Finance Information, RMIT University, Aarhus University.

frictions may originate from the conflict of interests between the investor and the professional advisor (see for example Inderst and Ottaviani (20012a)). [11]

Results change when we consider individual investors with a bank account. A substantial amount of bank clients seek advice when taking a financial investment. Concerning Italian data, in the UCS (2007) survey 45.5% of the total sample of bank clients seek some form of professional advice, while CONSOB (2016) reports that this percentage equals 38% in the general population. However, survey data from France highlight that a significant proportion of individuals are reluctant to request any financial guidance because either they do not like talking about their personal finance or they believe they know this matter sufficiently well. Anyway, only a small minority say that advice from their bank is sufficient (ESCP, 2015). Since the provision of professional advice is inherently affected by a conflict of interests, the regulation of advice is extremely important.[12] [13] The Directive distinguishes between generic advice and personal recommendation. While "a personal recommendation is a recommendation that is made to a person in his capacity as an investor […]" and "must be suitable for that person", investment advice is defined as "advice restricted on particular financial instruments". The Directive also specifies that a firm which gives advice to a client "would act honestly, fairly and professionally in accordance with the best interests of its clients". However, the Directive does not specify more detailed rules nor it defines good or bad practices, leaving open the question of the meaning of "advice suitable for a client". It also defines explicitly "investment research", as "research or other information recommending or suggesting an investment strategy". Also on this topic it presents mostly principles of "best practice" and objectivity which are difficult to enforce.

[11] A research subject relevant at this point is whether individual investors are aware of the conflict of interests with the professional advisors and, if so, how they react to it. Gennaioli, Shleifer and Vishny (2015) emphasize the role of "trust" in the advisor. Inderst and Ottaviani (2012b) study the optimal provision of kickbacks in the two cases investors are aware of the conflict of interest or not. Bhattacharya et al. (2012) show that very few investors (about 5%) of the largest brokerage firm in Germany seek advice even when this is certified to be unbiased, and few among these ones follow it, casting doubt over the investors' feeling towards professional advice.

[12] The presence of adequate public initiatives providing guidance services is probably as important as regulation. We will discuss some public, not-for-profit and cosumers' initiatives for financial guidance in Section 3.

[13] Various studies investigate whether financial advice is complement or substitute to the degree of investors' financial education (Hung and Yoong (2010), Hackethal et al. (2012), Collins (2012), Calcagno and Monticone (2015) among others). Even if conclusions are not totally univocal, it seems that very often only relatively knowledgeable investors seek professional advice. The academic literature in general suggests that we cannot take the provision of professional advice as a simple substitute for individual knowledge.

When addressing the conflict of interests inherent in the provision of professional advice, the Directive calls for specific regulation by the Member States sanctioning the fact that “the firm […] is likely to make a financial gain […] at the expense of the client”, or other analogous, fraudulent situations. It also calls for national regulation establishing “Chinese walls” between persons involved in different business activities in the firm, and sanctioning insider trading. But nothing is added on the practices of giving professional advice to retail clients, apart from the information requirements about the recommended products exposed in the previous section. It is not surprising then that clients with a low knowledge of financial concepts who are not able to process such an amount of information either do not seek advice fearing the conflict of interests, or, if they do, sometimes may feel pray of frauds or they do not follow the advice they have received (see for example Bhattacharya et al. (2012), and Stolper and Walter (2015)). Unfortunately, not asking for professional advice may not lead to a more efficient allocation of saving. Investors with low level of financial literacy are more likely to consult informal sources of advice such as family, friends and co-workers when taking their decision (Lusardi and Mitchell (2011a); overall, they are less likely to participate to the stock market, an inefficient behaviour for young investors (see a.o. van Roij et al. (2011)).

Table 4: MiFID on investment advice and the conflict of interests between advisors and clients

STRONG POINTS	WEAK POINTS
Information related to products in the client’s portfolio	Information may require a high degree of financial capabilities to be processed adequately
Calls for “Chinese walls” and “insider trading” regulation	Conflict of interests regulated by principles without an explicit demand of national regulations

2. *Existing financial products enhancing long-term savings: life insurances and saving plans in the Italian market*

In this Section we describe some products suitable for long-term investments existing in the Italian market. Our aim is to see whether these products are really accessible to fragile consumers who have a low planning ability, a low degree of financial knowledge, and often incur in various behavioral mistakes, as we discussed in the previous section. In the annex B we present a brief overview of the life insurance market in Italy and its evolution across time.

2.1 Italy

The two families of products most commonly used for long-term savings are life insurance contracts (and Long-Term care insurance policies) and retirement plans (or long-term saving plans).[14]

While there exist many different types of saving plans, life insurances can be categorized into five main contracts: whole life, variable life, universal life, variable universal life and term life insurance. These contracts mostly vary along two dimensions: the different amount of time they provide protection for (the entire life of the insured or a fixed period, usually up to 30 years) and the underlying features of the investment policies connected to the contract. Long-term care (LTC) is an insurance policy which aims to meet both the medical and non-medical needs of people with a chronic illness or disability who cannot take care for themselves for long periods of time.[15]

The supply of life insurance contracts and long-term saving/retirement plans has grown dramatically in these last years.[16] At the same time, intermediaries have pursued a strong path of product innovation that does not seem to go along with a simplification of the products. On the

[14] At the end of this section we also present some examples of Italian "Reverse Mortgages".

[15] It is common for long-term care insurance to provide custodial and non-skilled care, such as assisting with normal daily tasks like dressing, feeding, using the bathroom. This kind of insurance can be provided at home, in the community, in assisted living facilities or in nursing homes. Moreover, long-term care may be needed by people of any age, although it is a more common need among senior citizens.

[16] See Annex A for a description of the evolution of the Italian life insurance market.

contrary, the innovation aims to offer a wider choice especially in terms of flexibility, which often goes together with complexity (Carlin and Manso (2011)).
We identify five key elements characterizing both life insurance (and LTC) contracts and long-term saving plans: (i) the fees, (ii) the (expected or guaranteed) returns, (iii) the payment features, (iv) the time lapse of the contract and the constraints related to it, and (v) the tax treatment. In Tables 5 and 6 we present a list of the most diffuse products existing nowadays in the Italian market, presenting their specificities along these five key characteristics.

The range of existing products is wide, but sometimes it is difficult to pinpoint the crucial differences between some of them. Choosing one specific product proves to be a difficult task for any individual investor, let apart for the most fragile ones. To show a concrete example of this, we now look more in details at two of these products.

Let us start with the set of life insurance contracts offered by Gruppo Zurich Italia (Zurich Investments Life) "Futuro Conto Vita, Gestione separate Zurich Trend**".**
On their website one can find the various options offered by this company. The investor needs to spend quite some time to spot the differences between the various offers. Few offers are actually hybrid products since they include both a plan of savings accumulation and a life insurance component, but they are presented under different categories ("Life protection insurance" or "Savings accumulation needs", or still "Savings and protection"). The overall choice is wide and this may discourage a sceptical investors who is not sure to grasp the differences between all these options. Once you select one particular contract, it is simple to see (i) the premium, (ii) the age bracket allowed, (iii) the main fiscal advantage related to the choice. However, to obtain more details (concerning for example the kind of investment strategy chosen by the provider; all the fees; the conditions and constraints in terms of liquidation), one has to read the document with all terms and conditions. In particular, at this stage both (past and expected) returns and costs are not illustrated transparently.
Once the product has been selected, a table presents the (gross) past returns earned by the specific portfolio, which are compared to the inflation, and to the return of Government bonds and

corporate bonds (not specifying which ones). There is also a clear disclaimer stating that past returns are not necessarily related to the future ones.

Gestione Separata "Zurich Trend"

Anno	Rendimento realizzato dalla gestione separata	Rendimento minimo riconosciuto agli Assicurati	Rendimento medio dei titoli di Stato e delle obbligazioni	Inflazione
2011	4,41%	3,52%	4,89%	2,73%
2012	3,47%	2,77%	4,64%	2,97%
2013	4,00%	3,20%	3,35%	1,17%
2014	3,85%	3,08%	2,08%	0,21%
2015	3,53%	2,82%	1,19%	-0,17%

Attenzione: i rendimenti passati non sono indicativi di quelli futuri.

The prospectus also shows the average annual percentage cost (CPMA) for a particular choice (premium paid equal to 1500 €, length of the contract equal to 15, 20 and 25 years respectively, for an investor 45 y.o., for a gross return of the portfolio equal to 2.00%):

Gestione separata "Zurich Trend"

Ipotesi adottate

Premio annuo: euro 1.500,00
Durata del periodo di pagamento premi: 15, 20 e 25 anni
Sesso ed età dell'Assicurato: qualsiasi; 45 anni di età in corrispondenza delle durate sopra definite
Tasso di rendimento degli attivi: 2,00%

Durata 15

Anno	CPM
5	7,805%
10	2,869%
15	1,755%

Durata 20

Anno	CPMA
5	9,082%
10	3,507%
15	2,171%
20	1,614%

Durata 25

Anno	CPMA
5	10,397%
10	4,167%
15	2,604%
20	1,932%
25	1,566%

This prospectus has the advantage to show in a clear manner that the product offers a return able to cover the overall fees only if the investment period is at least of 20 years, at least under the assumptions considered in this example. However, to fully understand the composition of charges, the investor needs to read carefully all the terms and conditions.

As a second illustrative example, we consider a pension fund offering a long-term saving plan specifically sold as an instrument to earn additional retirement income, the **Fondo pensione aperto Teseo** offered by the insurance company **Reale Mutua.**

The set of choices offered by this company is much lower than in the previous example, and two costs (50€ entry commission plus 0.65% of annual management fee) are clearly stated already in the first screenshot. In order to find the different options in terms of portfolio one has to look at the leaflet containing the detailed description of the product. In particular, the past returns of the four investment profiles are clearly exposed:

Investment profile	Past returns (%)					Average annual return (gross) (%)
	2011	2012	2013	2014	2015	
linea Garantita Etica	0.24	4.73	2.27	3.37	1.23	2.53
linea pruudenziale Etica	2.02	8.21	1.03	9.64	1.33	4.38
linea Bilanciata Etica	-3.11	10.61	7.34	7.73	4.50	5.31
linea sviluppo Etica	-10.67	14.38	15.96	3.30	7.87	5.71

Also the full range of costs is presented in a table that can be found in this prospectus, under the assumption of a premium equal to 2,500.00€ per year and a gross return equal to 4%:

Individual subscriptions				
	Length of the contract (years)			
Investment profiles	**2 years**	**5 years**	**10 years**	**35 years**
linea Garantita Etica	1.37%	0.81%	0.71%	0.67%
linea pruudenziale Etica	1.37%	0.81%	0.71%	0.67%
linea Bilanciata Etica	1.37%	0.81%	0.71%	0.67%
linea sviluppo Etica	1.37%	0.81%	0.71%	0.67%
Collective subscriptions (for self-employed)				
Length of the contract (years)				
Investment profiles	2 years	5 years	10 years	35 years
linea Garantita Etica	0.67%	0.67%	0.67%	0.67%
linea pruudenziale Etica	0.67%	0.67%	0.67%	0.67%
linea Bilanciata Etica	0.67%	0.67%	0.67%	0.67%
linea sviluppo Etica	0.67%	0.67%	0.67%	0.67%

Nowhere is specified whether these costs depend on the premium or on the gross return. Only at the end of the prospectus one can find a disclaimer concerning the past returns and a calculation of the TER (Total Expenses Ratio), with a full comparison of the gross returns earned by the product with various benchmarks.

Among LTC policies, we show the main characteristics of Lungavita LTC, a long-term insurance policy issued by Generali which aims to meet both the medical and non-medical needs of people with a chronic illness or disability and who cannot take care of themselves for long periods of time.

From the public information sheet of this contract we find that the contracting party, in order to subscribe the contract must have a minimum age of 40 and a maximum age of 70 years old.

The contractor will not be able to choose among Annuity, Assistance and Lump Sum as liquidation methods, even if these three methods are claimed as existing policy settlements. Only the former liquidation method is allowed under the Generali LTC policy.

When we consider payment features, Generali website establishes a minimum and a maximum of years during which premia must be paid. In case the contractor fails to comply with these payments, the contract must be considered concluded.

Fees components, which are shown in below, should be split into two categories, the first one (basic fees) includes all commissions to be considered compulsory and strictly related to the contract nature whereas all those costs which can be listed as discretionary and pertaining to additional services are included into the additional fees.

FEES		ADDITIONAL FEES	
Emission	10 Euros	Semi-annual payment	2%
Receipt	1 Euro	Four-monthly payment	2.5%
Fixed	30 Euros	Quarterly payment	3%
Percentage basic fee	15% of annual prize	Two-monthly payment	3.5%
Minimum interest	0.50%	Monthly payment	4.5%

It is important to underline that all the medical costs related to doctors' consultations are always up to the subscriber together with all subsequent costs not specified by the contract.

To give the potential subscriber a perception of the economic nature of the product, the prospectus published on the general site shows two performance examples project. The first one, that we report in the table below, shows the payoffs and the returns based on a minimum guaranteed rate whereas the second one (in the successive table) is a simulation based on the financial performance of deposits.

- Tasso di interesse tecnico	0,5%
- Età dell'assicurato	50 anni
- Durata pagamento premi:	15 anni
- Primo premio annuo al netto dei diritti	1.432,50
- Diritti di emissione	10,00 euro
- Diritti di quietanza	1,00 euro
- Rendita annua iniziale in caso di perdita autosufficienza permanente	15.000,00 euro

Anni trascorsi	Premio annuo	Cumulo premi	Rendita in caso di perdita di autosufficienza permanente (*)	Interruzione del pagamento dei premi	
				Prestazione ridotta (*)	Prestazione ridotta al termine del piano versamento premi (*)
1	1.442,50	1.442,50	15.000,00	-	-
2	1.433,50	2.876,00	15.000,00	-	-
3	1.433,50	4.309,50	15.000,00	3.000,00	3.000,00
4	1.433,50	5.743,00	15.000,00	4.000,00	4.000,00
5	1.433,50	7.176,50	15.000,00	5.000,00	5.000,00
6	1.433,50	8.610,00	15.000,00	6.000,00	6.000,00
7	1.433,50	10.040,50	15.000,00	7.000,00	7.000,00
8	1.433,50	11.477,00	15.000,00	8.000,00	8.000,00
9	1.433,50	12.910,50	15.000,00	9.000,00	9.000,00
10	1.433,50	14.344,00	15.000,00	10.000,00	10.000,00
11	1.433,50	15.777,50	15.000,00	11.000,00	11.000,00
12	1.433,50	17.211,00	15.000,00	12.000,00	12.000,00
13	1.433,50	18.644,50	15.000,00	13.000,00	13.000,00
14	1.433,50	20.078,00	15.000,00	14.000,00	14.000,00
15	1.433,50	21.511,50	15.000,00	-	-
16	-	21.511,50	15.000,00	-	-
17	-	21.511,50	15.000,00	-	-
18	-	21.511,50	15.000,00	-	-
19	-	21.511,50	15.000,00	-	-
20	-	21.511,50	15.000,00	-	-
21	-	21.511,50	15.000,00	-	-
22	-	21.511,50	15.000,00	-	-
23	-	21.511,50	15.000,00	-	-
24	-	21.511,50	15.000,00	-	-
25	-	21.511,50	15.000,00	-	-

- Tasso d'interesse tecnico	0,5%
- Valore trattenuto iniziale	1,4%
- Età dell'assicurato	50 anni
- Durata pagamento premi:	15 anni
- Primo premio annuo al netto dei diritti	1432,50
- Diritti di emissione	10,00 euro
- Diritti di quietanza	1,00 euro
- Rendita annua iniziale in caso di perdita autosufficienza permanente	15.000 euro

				Interruzione del pagamento dei premi	
Anni trascorsi	Premio annuo	Cumulo premi	Rendita in caso di perdita di autosufficienza permanente (*)	Prestazione ridotta (*)	Prestazione ridotta al termine del piano versamento premi (*)
1	1.442,50	1.442,50	15.015,00	-	-
2	1.434.93	2.877.43	15.030.02	-	-
3	1.436,37	4.313,80	15.045,05	3.009,01	3.045,32
4	1.437,80	5.751,60	15.060,09	4.016,02	4.060,42
5	1.439,24	7.190,84	15.075,15	5.025,05	5.075,53
6	1.440,68	8.631,52	15.090,23	6.036,09	6.090,63
7	1.442.12	10.073.63	15.120.41	7.056.19	7.169.88
8	1.445,00	11.518,63	15.150,65	8.080,34	8.194,15
9	1.447,89	12.966,52	15.180,95	9.108,57	9.218,42
10	1.450,78	14.417,30	15.211,31	10.140,87	10.242,69
11	1.453,68	15.870,98	15.241,73	11.177,27	11.266,96
12	1.456.59	17.327.56	15.272.22	12.217.77	12.291.23
13	1.459,50	18.787,06	15.302,76	13.262,39	13.315,49
14	1.462,41	20.249,47	15.348,67	14.325,42	14.368,40
15	1.466,80	21.716,27	15.394,71	-	-
16	-	21.716,27	15.440,90	-	-
17	-	21.716.27	15.487.22	-	-
18	-	21.716,27	15.533,68	-	-
19	-	21.716,27	15.580,28	-	-
20	-	21.716,27	15.627,02	-	-
21	-	21.716,27	15.673,91	-	-
22	-	21.716,27	15.720,93	-	-
23	-	21.716,27	15.768,09	-	-
24	-	21.716,27	15.815,39	-	-
25	-	21.716,27	15.862,84	-	-

These few illustrative examples show that the richness of options offered by many intermediaries may at first be confusing for an investor with quite standard needs: to regularly save for retirement, probably requiring that his funds are invested in low risk securities in such a way to earn a relatively low, but safe return, and finally to insurance himself against the biggest like risk, i.e. death. While different websites and prospectus are more or less transparent, we have noticed that many products have a complex fees structure. To summarize all the fees related to the investment contract, providers often compute the CPMA (Annual Average Percentage Cost). This cost however is not always visible at first when a specific contract is examined.

We have collected the CPMA for some existing products. The "Year" column denotes the years since the beginning of the contract.

1) *INTESA SANPAOLO – "Metto da parte"*

Assumptions: contribution of 1,800.00 € per year; annual rate of return = 2%

Year – CPMA
5 2.00%
10 1.65%
15 1.55%
20 1.51%
25 1.48%

Source: https://www.intesasanpaolovita.it/c/document_library/get_file?&uuid=10bc8b0a-a9b1-4458-822c-c14b29ffd8e5&title=Fascicolo+Informativo&groupId=14502&version=1.10

2) *GENERALI – "Generali Premium"*[17]

Assumptions: initial down payment equal to 15,500.00€, plus yearly payment of 1,500.00EUR; age and annual rate of return not specified

Caveat: the CPMA in this case does not include costs deriving from a complementary insurance term that can be included in some contracts

2.1) First simulation: 10-years contract

Year – CPMA
5 1,77%
10 1,49%

2.2) Second simulation: 15-years contract

Year – CPMA
5 – 1,77%
10 – 1,55%
15 – 1,35%

[17] The same website also presents other simulations for products with a medium and a higher profile of risk, but the differences in the CPMA between these other simulations and the one reported here are minimal.

2.3) Third simulation: 20-years contract

Year – CPMA

5	1,77%
10	1,49%
15	1,42%
20	1,24%

Source: https://www.generali.it/generaliit/media/show/247736

The CPMA is not negligible, especially in cases the investor liquidates the contract before its expiration. While the second product does not provide information about the return earned, one can see that in the first example the CPMA is always equal to more than 2/3 of the annual return. This information should clearly be stated at the very beginning of any prospectus marketing all these products.

To conclude this brief overview of Italian products, we present a simulation of the cash-flows generated by **Futuro Conto Vita, Gestione separate Zurich Trend** under a set of specific assumptions: a 40 years old investor who chooses a 20-years contract paying a premium equal to 600€ per year.

Year	Premium	Value of the contract	Value in case of exit
1	€ 600,00	€ 524,50	
2	€ 600,00	€ 1 065,15	
3	€ 600,00	€ 1 622,44	€ 1 239,05
4	€ 600,00	€ 2 196,88	€ 1 834,83
5	€ 600,00	€ 2 789,00	€ 2 448,46
6	€ 600,00	€ 3 399,35	€ 3 080,49
7	€ 600,00	€ 4 028,48	€ 3 731,18
8	€ 600,00	€ 4 676,98	€ 4 401,50
9	€ 600,00	€ 5 345,44	€ 5 092,06
10	€	€ 6 034,47	€ 5 803,35

	600,00		
11	€ 600,00	€ 6 744,71	€ 6 536,30
12	€ 600,00	€ 7 476,82	€ 7 290,65
13	€ 600,00	€ 8 231,46	€ 8 067,65
14	€ 600,00	€ 9 009,32	€ 8 868,78
15	€ 600,00	€ 9 811,13	€ 9 693,40
16	€ 600,00	€ 10 637,62	€ 10 542,95
17	€ 600,00	€ 11 489,55	€ 11 418,31
18	€ 600,00	€ 12 367,70	€ 12 320,70
19	€ 600,00	€ 13 272,88	€ 13 248,99
20	€ 600,00	€ 14 205,92	€ 14 205,92

The yearly return net of fee is lower than 1% even if the investor keeps the contract until its expiration. However, in case of earlier liquidation, the investor has to pay additional fees that we have not included in this simulation. These fees are mentioned only in the document containing all terms and conditions of the contract.

To conclude, these examples show that the complexity of the supply and the high costs associated to the existing products are not suitable for consumers with very low financial knowledge and low experience of this market.

2.1.1 Reverse Mortgages in Italy

We conclude this brief overview of Italian financial products for long-term saving describing existing reverse mortgages. A reverse mortgage is a loan available for old homeowners that allows them to convert part of the equity of their homes into cash. The definition "Reverse Mortgage" is because, instead of having fixed monthly payment to a lender, in this case it is the lender who makes the payments to the borrower, who in turn, commits to transfer the home property to the lender. During all the contract period the borrower is responsible for property taxes and homeowners' insurance.

The product was designed to help retirees with limited income but with a real estate property. The aim was to encourage them to cover their monthly living expenses by transforming in cash an illiquid asset.[18]

Reverse mortgages are financial products designed to help retirees with limited income but with a real estate property with the aim of encouraging them to cover their monthly living expenses by transforming an illiquid asset into cash.

As an example, we analyze now in depth an existing reverse mortgage contract.

"Patrimonio Casa" is a reverse mortgage issued by Deutsche Bank. As for all reverse mortgages it defines specific criteria in terms of:

(i) Age requirements
(ii) Method of capitalization
(iii) Liquidation solutions
(iv) Costs

Concerning the age requirement, "Patrimonio Casa" requires an eligible subscriber to be at least 65 years old.

[18] The product was launched in Great Britain in 1999 as *lifetime mortgage* or *equity release* and since its inception has rapidly spread throughout the Anglo-Saxon world where is known as Reverse Mortgage. Since December 2005, reverse mortgage has also been introduced in Italy with Art. 11-quaterdecies of Decree-Law no. 203/2005 which provides that: "The mortgage loan is intended to be granted by companies and lenders and by financial intermediaries, as of medium and long-term financing instrument with annual capitalization of interest and expense, and full repayment at maturity, with first-rate mortgage on residential property, reserved for natural persons older than 65 years old. On May 6, 2015, the Law no. 44 of 2 April 2015, implemented by Decree-Law No. 226 of 22 December 2015, entered into force. This law governs the mortgage lending by replacing existing parts of Article 11-quaterdecies of Decree-Law no. 203/2005. Among the changes introduced by the 2015 law, it reduces the minimum age from 65 to the current 60 years. On December 23, 2015, the Minister of Economic Development signed the regulation defining the guidelines for the mortgage lending. The implementing regulation refers to the law of 2 April 2015, no. 44 and specifies the methods and the criteria for granting the loan, the methods of payment, the amount of the loan, the expenses and the capitalized interest each year. It also disciplines cases and formalities that result in a reduction in the value of the property market. The measure entered into force on 2 March 2016.

In terms of method of capitalization, Patrimonio Casa is a financial product using continuous capitalization. This feature gives rise to the so called "*anatocismo*", namely the maturing of interests on interests already expired which in practice involves that the interests earned on the loan also produces other interests. The subsequent exponential debt growth together with both the high level and the high number of costs make this type of mortgage very expensive.

In terms of costs, in addition to all the fees enlisted in the table below, it is important to highlight the entity of the fixed interest rate applied to this specific contract: this contract required a fixed interest rate of 7.95%.

Investigation Costs	500 Eur
Management Costs	50 Eur
Expertise Costs	282 Eur
Notary Costs	At the expense of the subscriber
Policies Costs	At the expense of the subscriber
Substitutive Tax	0.25% of the loan

To give a perception of the payoffs of this contract, Deutsche Bank "Patrimonio Casa" prospectus contains a simulation of a potential loan plan together with a simulation of a TAEG calculation (in Italian):

CASO: erogazione ad un cliente di **79 anni di sesso maschile**
VALORE IMMOBILE concesso in garanzia: **€ 387.798**
TAN: **7,95%**
IMPORTO MASSIMO CONCEDIBILE: € **150.000** (38,68% di € **387.798**)

Anno	età del mutuatario	capitale	interessi	spese	montante di fine periodo
1°	80	161.925,00	12.873,04	50,00	174.848,04
2°	81	174.848,04	13.900,42	50,00	188.798,46
3°	82	188.798,46	15.009,48	50,00	203.857,93
4°	83	203.857,93	16.206,71	50,00	220.114,64
5°	84	220.114,64	17.499,11	50,00	237.663,75
6°	85	237.663,75	18.894,27	50,00	256.608,02
7°	86	256.608,02	20.400,34	50,00	277.058,36
8°	87	277.058,36	22.026,14	50,00	299.134,50
9°	88	299.134,50	23.781,19	50,00	322.965,69
10°	89	322.965,69	25.675,77	50,00	348.691,46
11°	90	348.691,46	27.720,97	50,00	376.462,44
12°	91	376.462,44	29.928,76	50,00	406.441,20
13°	92	406.441,20	32.312,08	50,00	438.803,27
14°	93	438.803,27	34.884,86	50,00	473.738,13
15°	94	473.738,13	37.662,18	50,00	511.450,32
16°	95	511.450,32	40.660,30	50,00	552.160,62

QUANTO PUO' COSTARE PRESTITO VITALIZIO IPOTECARIO

Tasso Annuo Effettivo Globale (TAEG): **8,689%**

TAEG su importo del finanziamento di 150.000 euro, calcolato su cliente singolo di sesso maschile di 79 anni con durata 10 anni, ipotizzando la restituzione da parte degli eredi dopo 10 anni.

Il TAEG viene calcolato assumendo una durata del finanziamento convenzionalmente equiparata alla aspettativa di vita media della popolazione di pari età e sesso dell'intestatario o del più giovane degli intestatari, in caso di finanziamento intestato a una coppia.

Il TAEG tiene conto delle spese, ove previste, di istruttoria, di perizia e della polizze assicurative obbligatorie.

Oltre al TAEG vanno considerati altri costi, quali le spese e le imposte per la stipula del contratto e l'iscrizione ipotecaria, nonché le spese di assicurazione dell'immobile ipotecato.

Patrimonio Casa is clearly a very expensive product. Moreover, by analyzing all existing reverse mortgage contracts, one realizes that their prospectuses do not fully describe the complexity of the products in terms of costs, and charges still pending on the borrower. The high cost of these products also has severe repercussions on the welfare of the future generations since after the subscriber's death the heirs have to repay in a maximum of twelve months the entire amount of the loan together with interests and expenses which, due to the continuous capitalization, are extremely high.

2.2 France

In France, life insurance is the main vehicle for long-term savings. 37% of population hold at least one life insurance contract. Life insurance represents 31% of total value of household financial assets. There are two categories of contract: guaranteed contracts ("contrats en euros") and unit-linked contracts where the saver bears the risk of investment. Every year, the insurer decides the return of its "contrats en euros". Such performance can be smoothed over years. A driver of life insurance attractiveness is the good return (2,3% in 2016 for instance) savers can benefit without risk. Unit-linked contracts are more risky and complex. The second driver of life insurance is the broad tax exemption this product allows: Life insurance benefits from tax exemptions when withdrawals are obtained if the withdrawal occurs at least five years after the initial date of the contract. This contract also represents a bequest vehicle which enables to transmit financial wealth to heirs without taxation, subject to certain conditions.

Holding rates of assets by the French population, beginning of 2015 (in percentage of the number of households)	
Real estate	**63**
Principal residence	59
Other dwellings	18
Financial assets	**90**
Savings accounts	86
Housing Savings Plan	25
Life insurance	37
Securities	17
Occupational Savings Plans	15
Professional assets	**15**
Source:INSEE	

Composition of French household, end of 2015 (in % of total assets)		
	En billion i	**In % of total assets**
Non financial assets	**7 225**	60%
Dwellings	3 478	29%
Valuable objects	136	1%
Land	3 396	28%
Financial assets	**4 759**	**40%**
Cash and deposits	1 315	11%
Debt instruments	66	1%
Listed shares	220	2%
Investment funds	326	3%
Life insurance	1 469	12%
Private pension savings	196	2%
Non-listed shares	791	7%
Source: Banque de France		

Average entry fees were around 2.6% in 2015[19], according to BetterFinance (2016). However, high net wealth individuals can negotiate lower entry fees, or even avoid them, depending on the amount of their investment. Average management fees are estimated at around 0.6% of the value of invested assets. Unit-linked contracts cumulate the units' (investment funds) charges and the contract's ones. Total fees for unit-linked contracts invested in equity are estimated to be around 2.75% on average. The performance of unit-linked contracts over 15 years (2000-2014) was negative (-0.80%) while guaranteed contracts delivered an average annual return of 1.32%.

A new type of life insurance contracts, named "*Eurocroissance*", was created in 2014. These contracts guarantee the invested capital subject to a holding period of at least 8 years.

In July 2016, the government also announced a reform enabling life insurers to offer contracts invested in venture capital funds.

[19] Average of 165 contracts available for sale.

Life insurance contracts are more and more distributed by banks controlling their own insurance company (“*bancassureurs*”).

Apart from life insurance, two categories of products should be considered as medium/long term investment vehicles: The “*Plans d'Epargne Logement*” (PEL: “Housing saving scheme”) and pension products. The PEL is a savings vehicle intended to finance future investment in a household own dwelling. Interest paid to the saver is tax-exempted if there is no withdrawal during an initial period of 4 years after opening the PEL. During the credit phase, the State pays a bonus that reduces the interest paid by the borrower. Received and paid interest is regulated to newly opened PEL and currently equals 1%, well above market rates. At end of September 2016, total outstanding PELs amounted to 252 billion euros. One in five French household holds a PEL.

2.3 Portugal

Before presenting some financial products currently available on the Portuguese market, we report some key figures characterizing the Portuguese population:

- Life expectancy at age 65 years (2015): +18 years for men and +22 years for women;
- Age of exit from the labor market (2009): 62.9 (Men) and 62.3 (Women);
- Age of retirement (2016): 66 years and 3 months (for both Men and Women);
- Retirement Age in 2050: 68 years and 9 months (both Men and Women);
- Pension Funds Assets (2009): 13.4% of GDP

Specific Recommendations:

The Memorandum of Understanding (MU) does not provide specific actions to be taken with regard to the reform of the pension system in its entirety, given the important reforms already carried out by the Portuguese government in 2007.

Latest reforms:

Portugal has undertaken a major reform of the pension system in 2007, which came into force in 2007. The retirement age was set to 65 years. The main measures included in this reform where: (i) extending the period considered for the calculation of the pension to the whole contributory career, (ii) the introduction of disincentives to early retirement, (iii) the reduction of the transitional period, and (iv) the introduction of a "sustainability factor" that automatically adjusts the retirement age to changes in life expectancy at age 65 years.

Due to the changes in the Social Security System, the supply of private products for long-term saving purposes has increased. This because after the reform came in place, the importance of maintaining the standard of living after retirement age became crucial.

In this new context, unlike other financial products, retirement savings plans have proved as an option of private savings in the medium and long term, playing an important role in the creation of Add-Ons for reform:

The future pensioners now have to adjust their savings evaluating two main elements:

1. The accumulated wealth at retirement date, composed namely by three pillars:
    a. The public social security benefits after reform;
    b. Their employer's Pension Fund;
    c. Their individual PPR's or other individual retirement supplements.

2. The perspective of spending to maintain your current standard of living, during the 20 or more years of your retirement.

Below we show some of the financial products actually available on the Portuguese market.

Bank/Insurance Company	Name of the Product	1 - Fees	2 - Constraints	3 - Returns	4 – Tax Treatment
IMGA	PPR-Stock Investment	Initial subscription: 250 € or $25 investment-plan Management fees: 1.44% Commission of Depositary: 0.06%	Commission: -0.5% rescue until 1 year -over 1 year is 0%	2016: 1,81%	Reduced Taxation:-21.5% in the case of repayment before the fifth year; -17.2%, between 5th and 8th year; -8.6% after 8 year.
IMGA	IRA Savings	Initial subscription: 500 € or 25 € in Investment Management	Commission:-0.5% rescue until 180 days -more than 180 days is 0%	2016: 2,1%	As above

		Management fees: 1% Commission of Depositary: 0.06%			
Fidelidade Seguros	Saving and investing PPR 2nd Series	Initial subscription: \$25 or \$25 in investment plan	Commission:- 0.5% rescue until 5 years -more than 5 years is 0%	2016: 1,7%	As above
Fidelidade Seguros	Savings Goal	Initial subscription: 100 € or 25 € in Investment Management fees: 1.5% Commission of Depositary: 0.89%	Rescue Committee: 1 year: 1% 0.5% of 2 to 5 year 0% from the sixth year	2016: 1,5%	As in the previous table
Tranquilidade Seguros	Global Invest Prudently	Initial subscription: 250 € or 25 € in Investment Management fees: 1% Commission of Depositary: 0.06%	Rescue Committee: 1 year: 1% more than 1 year is 0%	2016: 1,36%	As in the previous table
Tranquilidade Seguros	Global Invest Dynamic	Initial subscription: 250 € or 25 € in Investment Management fees: 1% Commission of Depositary: 0.06%	Rescue Committee: 1 year: 1% more than 1 year: 0%	2015: 6,12%	As in the previous table

3. *The initiatives to promote a more sustainable behavior among vulnerable consumers: the case of Italy*

The cognitive weaknesses of a large part of the population together with the complexity of existing products definitely require interventions to help investors to better plan their financial future. Naturally we are thinking of public initiatives organized at the EU, at the State and at local governmental level, or by not-for-profit organizations and consumers associations. However, we believe that also private commercial institutions have an interest in promoting similar initiatives. Financial intermediaries in the end can have an interest in spreading financial knowledge across population as long as enhanced knowledge induces more investors to buy financial products.

Among the most relevant not-for-profit organizations that provide financial guidance we mention the Nibud in the Netherlands[20], which has the mission to promote knowledge about family financial matters among households. This independent institute provides free, unbiased and certified advice over many financial decisions that a typical household has to take. The Nibud advice, for example, covers tax issues, loans, savings and investment decisions, health insurance and students' credit. In Germany, a similar role is played by Consumers Associations, supported by a national organisation, the Federation of the German consumer associations, "VZBV". They provide advice over a large range of issues, such as insurance and pension provisions, investments and long-term savings for retirement and pension provisions, real estate investment and over-indebtedness. The advisors are expressly forbidden to recommend specific products. They put a large emphasis over clear and comprehensive explanations that take into account the level of financial education of advisees.

The countries covered in this report largely lack of similar nation-wide initiatives. Only France presents some organization that have a similar, although reduced scope, as for example the Nibud, and a national presence. We start reviewing the then French initiatives.

[20] Nationaal Instituut voor Budgetvoorlichting, translated as National Institute for Information over Family Finance. See https://www.nibud.nl/

France

In France, notaries are in charge of financial advice, because they are the only authorised to translate financial operations into “actes authentiques”, something required by law. This is true for important financial decisions, such as for example real estate transactions and inheritances, but it leaves out many key financial choices that have a large impact on the households well-being.

Two main initiatives are present, tough. The first is the “Institut pour l’Education Financière du Public” (IEFP), funded jointly by the Banque de France, the French market regulator (AMF) and the French banking association (FBF). This non-profit institute uses a website, “La Finance pour tous”, as main vehicle to improve financial literacy of the public, and it also provides tools for managing personal finance. Second, in February 2016 the French government launched a network open places (the “Points Conseil budget”) dedicated to budgeting advice and personal finance matters. The PCBs are implemented only in few French regions for the moment.

In terms of financial education, this is very limited at school. A “national strategy for financial education” was approved in December 2016 by the government following the recommendation of a Group of experts chaired by Emmanuel Constans, president of the CCSF. The CCSF is a Council where representatives of stakeholders in the financial sector aim to find consensus on various topics between the industry, consumers and the government. The Group made three strategic recommendations:

- Implementing financial and budgetary education for all pupils
- Supporting the citizens’ budgetary and financial skills throughout life
- Helping financially fragile people.

The Banque de France was designated by the government as the national operator of the national strategy of financial education. The Ministry of National Education is fully committed to this national strategy. Its contribution is expected to raise pupils’ awareness of the principles of budgeting and to acquire economic knowledge and skills.

Italy

In Italy there is no nationwide strategy to promote financial education. The scholastic curriculum does not develop adequate economic knowledge during its primary and the secondary cycles (i.e. the compulsory ones) so that young pupils do not acquire at school specific competences in terms of economic and finance. Looking outside public education, we have found few initiatives, scattered across the country and covering a very limited portion of the population.

In terms of organizing partners, we found one initiative (the *ABACO* project) financed by the EU that collects a network of international partners in Spain, Greece, Portugal, the Netherlands and Sweden; one public initiative ("*Welfare finanziario comunitario*", WFC in the following) organized by the municipality of Milan; one (the *FEDUF* project) set up by the Italian Banking Association (ABI); and finally a couple of private initiatives with very limited geographical extent (organized respectively by a local bank and a professional broker).

Concerning the target groups, the different initiatives address different categories of vulnerable consumers: ABACO is meant for elderly people, small entrepreneurs and unemployed; the WFC initiative targets social card owners, but it is open to all individuals living in the municipality of Milan; the FEDUF project is an educational program addressed to schools (primary and secondary ones), school teachers and school directors that participate on voluntary basis.

The limited amount of initiatives does not allow us to draw strong conclusions on the most effective way to inform and educate individual investors. However, traditional courses and lessons based on books and guides addressed to adults, such as in ABACO, showed a quite high dropout ratio. A more effective method to address an adults population proved to be the one proposed in the WFC initiative, where few collective seminars about financial planning in general where followed by individual meetings with financial educators. These meetings were targeted on the specific needs of the participant and produced a concrete output, an individual life-time plan that afterwards could be discussed with a professional advisor.[21] For kids, the

[21] The program also establishes a service of «second opinion" which allows the participant to check how the solution offered by the professional advisors attains the plan designed before.

FEDUF project shows how important it is the design of the pedagogical content and the overall support accompanying it.

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Table 5: the main life insurance contracts currently offered in Italy

BANK / INSURANCE COMPANY	Name of the product	1 - Fees	2 - Constraints	3 - Returns	4 - Tax treatment
INTESA SANPAOLO	"Metto da parte"	CPMA (Costo Percentuale Medio Annuo)*: es. 1800 € importo rata versamenti prefissati; rateazione annuale e rendimento 2%. Anno 5: 2%; anno 10: 1,65% ecc. No costi ingresso e uscita. Costi dimezzati ogni 5 anni.	Cliente con età compresa fra 18 e 90 anni (compresi). Il riscatto totale o parziale si può avere dopo almeno un anno dalla decorrenza del contratto.	I rendimenti sono collegati ai risultati della Gestione Separata "Fondo Base Sicura" di Intesa Sanpaolo Vita. Tasso di rendimento minimo garantito dell'1% annuo composto in caso di decesso del cliente.	Le somme liquidate dal contratto sono soggette a tassazione come previsto dalla Legge. No imposta di bollo e imposta di successione sulla prestazione pagata (in caso di decesso del cliente).
UNICREDIT	"Vita protetta smart/premium" (capitale assicurato smart tra 25000 e 75000€, premium minimo 100.000€).	Prezzo bloccato per la durata della tariffa.	Capitale da assicurare tra 25000 e 75000€ se smart, minimo 100.000€ se premium; età del cliente fra i 18 e i 60 anni; durata fra i 10 e i 20 anni, ma l'eà dell'assicurato non deve superare i 70 al momento della scadenza.	La tariffa è in funzione dell'età dell'assicurato alla sottoscrizione, del capiale assicurato, della durata e della garanzia opzionale se prescelta.	Possibilità di portare in detrazione i premi pagati dal contraente persona fisica, in base della normativa fiscale vigente.

GENERALI	"Lungavita" (varie formule: basic, basic non fumatori, special non fumatori top, long term care).	Costi gravanti sul premio: costi di emissione, di quietanza, cifra fissa e costi percentuali + Addizionali di frazionamento + Caricamenti della eventuale copertura complementare.	Durata minima e massima in base alla tariffa scelta (es. tariffa basic 5: min. 2 anni, max. 25).	Premio determinato in relazione alle prestazioni, alla loro durata ed ammontare, all'età dell'assicurato, al suo stato di salute ecc.; le diverse tariffe prevedono un versamento di premi annui o di un premio unico.	Contratto soggetto alle imposte vigenti in Italia. Trattamento fiscale: imposta sui premi relativi alle assicurazioni complementari infortuni; detrazione fiscale dei premi; tassazione delle prestazioni assicurate.
AXA	"Semplicemente vita"	Costi gravanti sui premi: costo percentuale (30%) e costo fisso (25€); su ciascuna rata di premio vengono applicati i diritti fissi, pari a 1,55€.	Durata minima di 1 anno e massima di 30 anni. L'età dell'assicurato alla scadenza non deve superare i 75 anni. Età minima/massima alla sottoscrizione di 18/74 anni.	A fronte della garanzia del pagamento del Capitale Assicuato del Contratto è previsto un PremioAnnuo anticipato, e comunque non oltre la morte dell'assicurato. Entità del premio in relazione ad età, salute, ecc.	Regime fiscale: tassazione dei premi (2,5%), detraibilità dei premi pagati dalle imposte sul reddito, prestazioni non soggete a tassazione. Contratto soggetto alle leggi italiane sulle assicurazioni.

Table 6: the main long-term saving plans currently offered in Italy

BANK / INSURANCE COMPANY	**Name of the product**	**1 - Fees**	**2 - Constraints**	**3 - Returns**	**4 - Tax treatment**
UNICREDIT	UniBonus Mix	Costi di caricamento (3,5% per ogni premio), commissione di gestione annua, costi per gli switch (12€), costi per riscatto parziale (12€).	Durata minima 10 anni; età del contraente: min. 18, max. 74.	Premio minimo 50 euro mensili, oppure 600 euro all'anno se scelto pagamento annuale.	Assenza di tassazione sulla maggiorazione caso morte (liquidazione aggiuntiva in caso di decesso del contraente); esenzione dalla tassa di successione.
UNICREDIT	UniBonus Strategy	/	Durata minima 10 anni; età del contraente: min. 18, max. 74. Investimento minimo di 150€ il primo anno e 100€ i successivi (rispettivamente 1200€ e 1800€ all'anno se premi versati annualmente)	Facoltà di convertire il riscatto totale in rendita rivalutabile vitalizia, oppure certa per 5 o 10 anni e poi vitalizia. Bonus 2% sul primo versamento e 5% sul premio ricorrente alla fine del sesto anno.	Esenzione dalla tassa di successione.
INTESA SANPAOLO	Piani di Accumulo (PAC)	/	/	/	Contributi versati per i piani di integrazione pensionistica deducibili dal reddito fino a 5164€. Redimenti tassati al 20% (quota estera o titoli di stato al 12,5%). La tassazione dei contributi dedotti è pari al 15% e si riduce al 0,30% ogni anno fino al 9%.
GENERALI	Generali premium	Costo percentuale medio annuo (CPMA)* è calcolato	Durata minima 10 anni, durata massima 20 anni.	Premio ricorrente minimo 1200 euro, rata minima di	Esenzione dalla tassa di successione.

		rispetto al premio della prestazione percentuale. Nella simulazione è 3,75%		premio 150 euro.	

Annex A: A brief description of the life insurance market in Europe: some key figures for France, Italy, Portugal and the UK.

Total direct life premiums written on domestic market

Premiums collected by insurance companies with registered office in Italy equaled € 110,518 million in 2014. Life premiums increased by 29.9% compared to 2013 and overall by 50.4% from 2005 to 2013. France and Portugal show a growth in direct life premiums written on domestic market by 128,948 million euro and 10,183 million euro respectively at the end of 2014.

Total direct life premiums written on domestic market by

domestic companies (million euro)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	% 2013/2014	% 2005/2014
IT	65,627	73,471	69,377	61,439	54,565	81,116	90,114	73,869	69,715	85,100	110,518	29.90%	50.40%
FR	105,116	120,247	139,594	136,472	121,919	137,582	143,420	124,109	113,251	118,834	128,948	8.50%	7.20%
PT	6,250	9,136	8,762	9,098	10,822	9,969	11,728	7,118	6,649	8,991	10,183	13.30%	11.50%
UK	153,838	170,295	195,109	259,406	190,469	170,669	159,495	166,663	173,096	184,433	175,784	-4.70%	3.20%

Density

The measures of insurance penetration and density reflect the level of development of the sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density measures the per capita premium.

Density

(Premiums to population €)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	% 2013/2014	% 2005/2014
FR	1,687	1,916	2,208	2,144	1,905	2,138	2,218	1,910	1,735	1,813	1,959	8.10%	16.10%
IT	1,141	1,269	1,195	1,055	930	1,375	1,522	1,244	1,174	1,426	1,818	27.50%	59.30%
PT	597	871	833	864	1,025	944	1,109	673	631	857	977	13.90%	63.60%
UK	2,573	2,830	3,219	4,247	3,093	2,751	2,552	2,644	2,726	2,886	2,733	-5.30%	6.20%
Ins. Europe	970	1,076	1,157	1,272	1,119	1,160	1,181	1,108	1,084	1,141	1,200	5.10%	23.70%

Penetration

In Italy and Portugal the life insurance penetration has increased slightly since 2004 to 2014. The percentage penetration grew by 1.9% in Italy and 1% in Portugal in this period. However life insurance penetration declined in the UK and France by -0.8% and -0.7% respectively during the same 10 years.

Penetration

(Premiums to GDP)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	% 2013/2014	% 2005/2014
FR	6.30%	6.80%	7.50%	7.00%	6.10%	7.10%	7.20%	6.00%	5.40%	5.60%	6.00%	0.4 p.p	-0.7 p.p
IT	4.70%	4.90%	4.50%	3.80%	3.30%	5.20%	5.60%	4.50%	4.30%	5.30%	6.80%	1.5 p.p	1.9 p.p
PT	4.20%	5.80%	5.30%	5.20%	6.10%	5.70%	6.50%	4.00%	3.90%	5.30%	5.90%	0.5 p.p	0.1 p.p
UK	8.60%	8.80%	9.50%	12.00%	10.00%	10.30%	8.80%	8.90%	8.50%	9.10%	7.90%	-1.2 p.p	-0.8 p.p
Ins. Europe	4.80%	5.00%	5.10%	5.20%	4.60%	5.10%	4.90%	4.50%	4.30%	4.50%	4.50%	0 p.p	-0.4 p.p

Insurers' total investment

The insurance sector ability and need to invest long-term makes insurance companies important providers of stable funding for governments, businesses and, to a lesser extent, households. (European insurance, 2014)

France and the UK registered increases in their assets under management of 67.8% and 38.0% respectively between 2004 to 2014. German insurers' assets grew steadily and it increased 5.3% in 2014. In Italy and Portugal the total investment portfolio boosted to 38% and 37% respectively and the end of 2014.

Total investment portfolio

(Million euro)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FR	1,125,652	1,277,666	1,402,201	1,491,236	1,406,552	1,585,896	1,685,626	1,666,258	1,856,272	1,938,100	2,143,900
GR	7,963	9,267	10,460	11,843	11,327	12,539	11,276	10,432	11,024	11,399	12,000
IT	410,678	459,464	477,545	466,397	434,676	489,479	517,015	511,384	526,975	562,960	629,566
PT	32,853	40,228	45,452	49,446	51,037	57,434	58,496	51,473	52,751	53,020	55,499
UK	1,301,168	1,509,005	1,626,525	1,763,455	1,525,166	1,671,102	1,744,360	1,737,860	1,776,219	1,914,325	2,026,766
Ins. Europe	**5,686,871**	**6,383,594**	**6,829,536**	**7,174,629**	**6,730,272**	**7,343,127**	**7,757,385**	**7,795,497**	**8,378,686**	**8,720,816**	**9,573,718**

Life insurance investment

By considering the increment in the total value of the of investment portfolio in the above European countries we can see that the bigger part of this investment takes place in the life insurance sector.

Life insurance investment

(Million euro)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FR	989,294	1,120,441	1,230,039	1,311,114	1,242,297	1,406,344	1,503,441	1,486,998	1,667,749	1,743,600	1,935,100
it	338,812	383,676	398,711	388,507	358,205	410,827	442,574	437,347	451,255	483,901	549,861
PT	26,846	33,664	38,697	42,242	42,923	48,955	50,306	44,006	44,982	45,443	47,889
UK	1,196,293	1,405,648	1,515,683	1,644,250	1,415,497	1,563,681	1,639,427	1,636,617	1,652,269	1,778,598	1,888,438
Ins. Europe	**4,582,671**	**5,193,274**	**5,537,365**	**5,819,969**	**5,392,456**	**5,979,959**	**6,375,209**	**6,388,199**	**6,855,146**	**7,155,863**	**7,873,012**

Portfolio allocation

Concerning the portfolio allocation of insurance companies, the most favored investment strategy continued to be investment in bonds. In 2014, Italy, France, Portugal, Spain, allocated more than 75% of their investment into bonds.

The share of investment allocated to shares is less than 20% in all these four countries. The "Other" category mainly includes loans and mutual fund investments. This last type of investment was significantly higher in Portugal and Spain than in the two other counties.

Investment portfolio allocation in 2014: Domestic life insurers (as a % of total investments)

		Life		Non-life	Composite		
		2013	2014	2013	2014	2013	2014
France	*Bonds*	75.9	83.0	60.1	60.7	73.0	80.3
	Shares	19.5	11.9	25.8	24.6	21.2	12.6
	Other	4.6	5.0	14.1	14.6	5.8	7.1
Italy	*Bonds*	89.6	89.8	77.7	77.2	75.3	76.1
	Shares	4.0	3.2	6.8	6.9	14.4	12.9
	Other	6.4	7.0	15.5	15.9	10.2	11.0
Portugal	*Bonds*	76.1	82.6	59.9	59.4	76.5	70.6
	Shares	1.7	1.4	2.6	7.0	3.7	10.8
	Other	22.2	16.0	37.5	33.6	19.8	18.6
Spain	*Bonds*	75.1	77.8	50.9	49.9	66.5	67.6
	Shares	3.4	3.3	12.0	11.9	7.3	6.8
	Other	21.5	18.9	37.1	38.2	26.2	25.6

(Source: OECD Global Insurance Statistics, 2015)

Notes: 1. The “Other” category mainly comprises loans and mutual fund investments for which no look-through was available.

Annex B: the different classes of life insurance in Italy.

Class I (Ramo I**) – Life insurance**

It is the traditional and most important group of insurance products. According to the data of COVIP in 2016, the assets in Class (I) were mainly invested in debt securities. Most of the debt securities are government bonds, accounting for 62.6 percent of the total, slightly less than in 2014; debt securities of other issuers represented 30.3 percent of the total assets.

The composition of the management in business Class I.

(Million Euros)

	2014	2015
Deposit	3.8	2.1
Government securities (bonds)	64.7	62.6
Other debt securities	27.6	30.3
Equities	1.9	2.1
Mutual funds	1.8	1.6

(Source: Covip, 2016)

The significantly low returns of government bonds in 2013-14 explain the move towards other asset types.

Class III (Ramo III) **– Life policies linked to investment funds or indices**

These contracts were popular in the late 1990s but their market share has dropped since then because they have lost their fiscal advantage and because of financial market volatility. They are either unit or index-linked. The vast majority of unit-linked sales are in the form of single-premium payments, although agents and advisors also sell regular premium products.

The composition of the in Class management business Class III (Source: COVIP, 2016)

	2014	2015
Deposit	6.3	6.7
Government securities(bonds)	24.7	21.3
other debt securities	4	7.1
Equities	36.7	34.9
Mutual fund	27.9	29.4

Class IV – Long term care (LTC) and permanent health insurance

This class has a negligible market share, but has been growing strongly in the past decade. Premiums from direct domestic business of the 33 insurance companies operating in Class IV increased by 19.0% to Euro 52 million. (Ania, 2015)

Class V (Ramo V**) – Capital redemption policies (**capitalization**)**

Ramo V consists of investment products that bear no life risks. This class is more similar to products in Ramo I and also offers a minimum guaranteed return for a given contract duration.

LONG TERM CARE

Definition and Objectives

Long-term care (LTC) is an insurance policy which aims to meet both the medical and non-medical needs of people with a chronic illness or disability who cannot take care for themselves for long periods of time. It is common for long-term care insurance to provide custodial and non-skilled care, such as assisting with normal daily tasks like dressing, feeding, using the bathroom. This kind of insurance can be provided at home, in the community, in assisted living facilities or in nursing homes. Moreover, long-term care may be needed by people of any age, although it is a more common need among senior citizens.

As far as the Italian framework is concerned, if we look at the private sector, the LTC regards the third pillar of the Italian pension system, that is the one relying on a voluntary basis of the individual. If we look instead at the public sector, the services related to LTC involve both money transfer and material services. The first ones are provided by the INPS in the majority of cases whereas the second ones are realized thanks to healthcare centers depending on the so called ASL (Local Health Authorities). This kind of distribution in the provision of LTC services creates a displacement in terms of resources as the national ones are prevalent with respect to the private ones.

Legislation

In Italy LTC insurances are regulated by the Ministry of Treasury Decree established on the 22nd December 2000, whose art.2 points out that this kind of insurance policies can be subscribed either as life or damage insurance. In particular the decree clearly defines that in the first case the contract can be entitled under the first sector of the Italian insurance system, insurances on lifetime length, or under the fourth sector regarding long term diseases. As for the case of damage insurance, the contract will be included in illness sector of the system.

A part from this Decree which regulates the matter at national level, there is still a deep heterogeneity in terms of infra - sectorial regulation, for instance there are many safeguarded professional categories each one with a different regulation in terms of general conditions and costs.

Criticisms

The criticisms of LTC insurance policies, which are strictly related to their inadequate development especially for what concerns Italy, can be lead back mainly to Adverse selection, Moral hazard and Demographic risk:

1. Since the population is not heterogeneous, long term care policies have to deal with adverse selection which is an issue deriving from the fact that people who think to be more exposed to future weaknesses will attribute a greater value to LTC contract and they are more likely to be underwriters of this kind of insurance. Conversely, individuals who think they are unlikely to claim will be more unwilling to buy LTC products. This issue has a clear impact on insurance company premium rates since when adverse selection occurs, the average risk of policy holders increases and the consequences on premium value are negative for the subscribers.
2. The Moral hazard, although it maintains similarities with adverse selection, is characterized by a pool of critical issues which are, in this particular case, related within the phase in which the contract is already concluded. In fact, it occurs when LTC contract is already in force and it is defined both with a behavioral change of the LTC policy holder, encouraged by the presence of an insurance coverage, or with no risk discouraging actions guaranteed by the presence of an insurance able to cover potential losses.
3. Demographic risks can be further decomposed into longevity and disability risks which both yield to a systematic deviation from the expected value, mainly ascribable to the uncertainty on which mortality and disability rely on. As for the longevity risk, statistical forecasts indicate that there will be an increasing ageing trend in the Italian population in the next future.

As far as specific risks are concerned, focusing on Italian Long Term Care market, we can observe the presence of additional peculiar criticism such as the lack of LTC issue awareness the lack of statistical basis and the heterogeneity of sectoral legislation as above mentioned.

Furthermore, Italian system involves two main categories of LTC policies, the first one is addressed to individual policy holders while the second one concerns category insurance policy. In particular the most frequently highlighted criticism when individual LTC policies are taken into account is the high cost of insurance premium which must be added to the uncertainty of long term annuities performances. The latter in fact may be insufficient to cover future welfare spending.

These problems seem to be overcome as far as collective LTC contracts are concerned since by spreading the risk among a large number of people they allow to reach a decrease in insurance premiums even if they provide same performance features.

Collective policies however exhibit some limits, indeed accumulation plans represent a contractual burden which relies especially on those people which become subscribers to a higher age of 50.

Ideal Solutions

Given all the described risks and criticism related to this topic, there are two main solutions that can be proposed in order to solve them.

1. The first one envisages the introduction of a compulsory coverage insurance against the non-self-sufficiency risk recalling the German model adopted in 1994 relying on the fundamental principle of solidarity. It is a solution which involves the provision of services depending on the basis of three different levels of non-self-sufficiency such that it will be possible for the entire population to be included into a minimum basic coverage.
2. The second alternative instead could be to split the pension into two components, the first one related to old age and the second one regarding the LTC service which will be available only in case of a loss of self-sufficiency. In this scenario the LTC service will be only assigned only those ones in a serious situation of non-self-sufficiency through an amount which will be freely fixed between the counterparts.

To conclude, the first alternative presented would involve the first pillar of our pension system with the supply of a compulsory basic coverage, whereas the second one would refer to the second pillar with the supply of a compulsory supplementary guarantee.