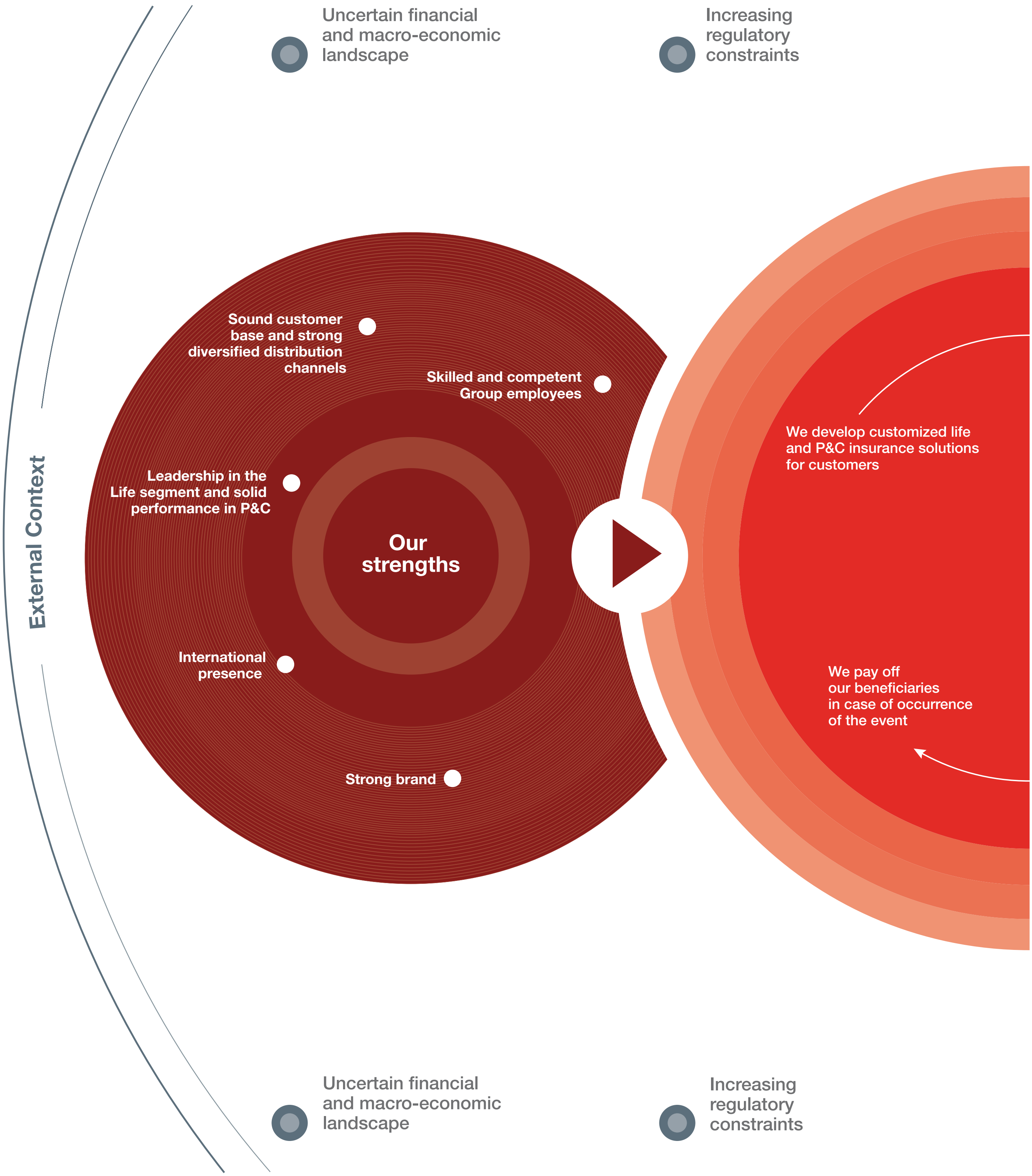
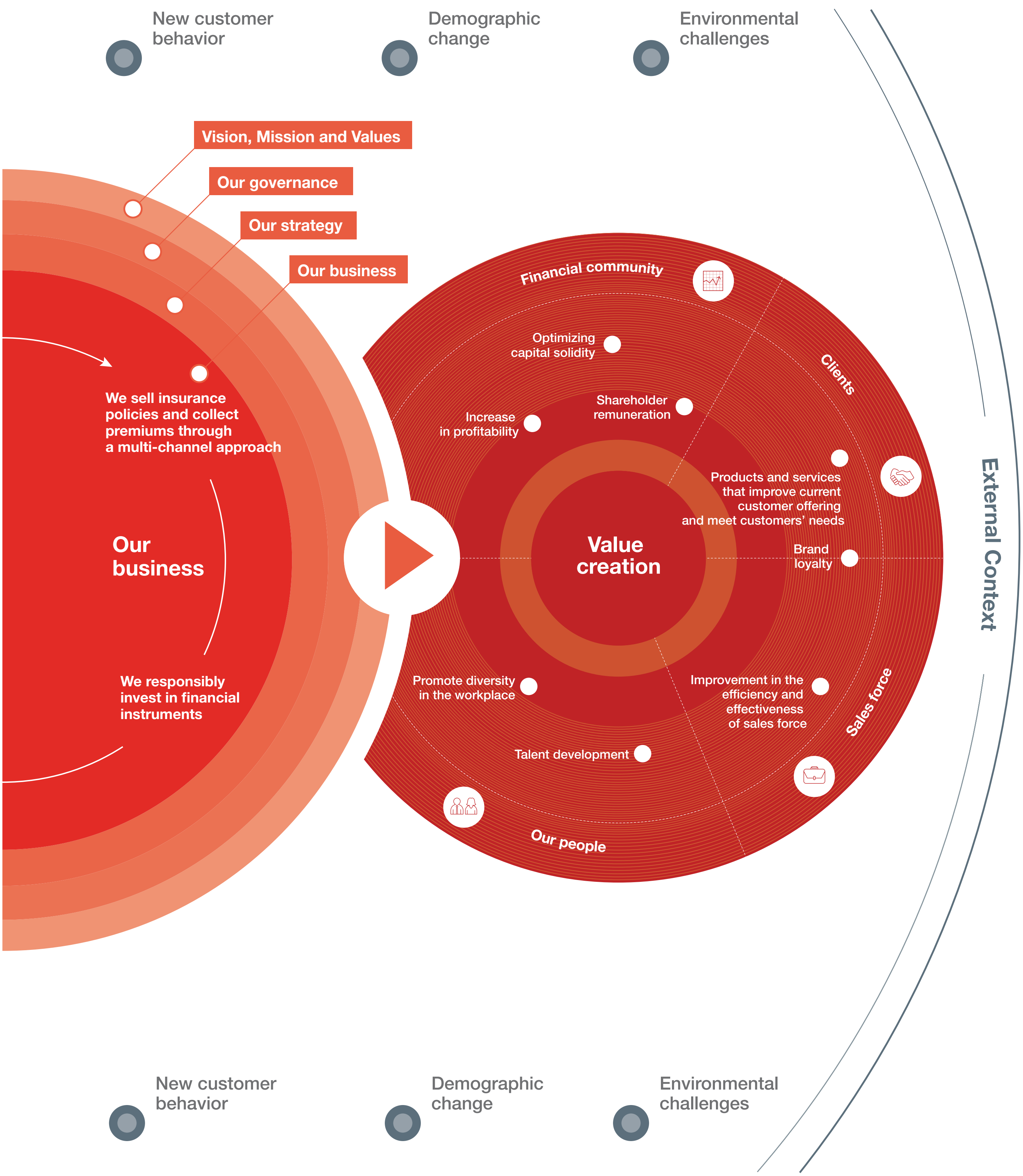
Our business model



For information about stakeholders, please see Appendix to Management Report.



External context

Main long-term factors that may **significantly affect the business** and the **ability to create value** for the Group

Uncertain financial and macro-economic landscape

In 2014, global economic growth remained in line with the previous year, with a growth rate higher than last year in the advanced economies and lower in those developing.
The difficult economic situation of the **Euro Zone** countries and the continuous decrease in inflation have pushed the European Central Bank to announce new stimulus measures, pushing government rates at their historical minimum. USA are showing a growth trend also due to the lowering of the unemployment rate while Russia is facing a tough economic period and China has slowed down its growth.
The **financial markets** are characterized by an environment of **low interest rates** and a **positive trend** although differentiated between the geographical areas of the **equity markets**.
With regards to the insurance sector, the moderate growth in household income together with the low interest rates require companies, especially those in the life business, an accurate analysis of their business model.

▶ The challenging macroeconomic and financial contexts, together with the forthcoming enforcement of Solvency 2, have highlighted the importance of a strategic asset-allocation and asset-liability management process even more structured and integrated at Group level.
The strategic asset-allocation implementation takes into consideration many indicators, such as economic capital requirements, Group targets on results and the expected returns of the insured.
This scenario, characterized by very low interest rates, is dealt with by resorting to greater diversification in terms of asset classes and geographic exposure, reducing liquidity and paying even greater attention to the consistency between assets and liabilities, which would limit the reinvestment risk, especially for the life portfolios characterized by the presence of financial guarantees.

Increasing regulatory constraints

The **regulation of the insurance industry** is extremely dynamic at national, European and international level.
Worthy of note are: Solvency 2, the European project reviewing the prudential supervision of insurance and reinsurance business, and the European directive IMD2 (Insurance Mediation Directive 2) which provides for the introduction of new requirements and stricter rules regarding the distribution of insurance products designed to increase consumer protection, improve information transparency and reduce conflicts of interest, restoring confidence in the sector.

▶ We carefully follow the regulatory developments in order to ensure a proper level of internal preparation and we promote different dedicated initiatives.
In particular, in order to meet the Solvency 2 requirements, we have identified our actions in a proper action plan and have prioritized the formal adoption of internal models for the measurement of capital requirements.
With respect to the European directive IMD2 we have launched an important international and cross-functional initiative aiming at identifying possible actions and implications and better supporting our business units in addressing changes.

We were confirmed as a Global Systemically Important Insurer by the Financial Stability Board (FSB); as a consequence, we have developed the Systemic Risk Management Plan (SRMP), in which we explain how we intend to manage and reduce our systemic risk exposure, the Liquidity Risk Management Plan (LMRP), in which we disclose the level of adequacy of available liquidity and its management in a stress-scenario, and the Recovery Plan, which is the instrument for the evaluation and proper management of critical scenarios.
We actively collaborate with the Supervisor for the drafting of the Resolution Plan as to guarantee an eventual liquidation procedure which does not compromise financial stability and economy.

New customer needs

In a mutating economic environment, consumers are showing different attitudes toward insurance products and services and insurers. These changes have their roots in two global trends: **digitalization**, which has created the possibility of introducing new forms of sale and use of new insurance solutions, and **economic uncertainty**, which has decreased spending on some forms of retirement savings or insurance. These factors have made clients increasingly attentive to the quality of service and also more independent in decision-making, thanks to the many lower cost sources of information available.

We believe that technological development is a crucial element for providing effective and appealing insurance solutions: we are working on the digitalization processes in order to allow our clients to have access to insurance solutions via several tools, in line with new habits and needs.
Our aim is to become an excellent designer of insurance solutions to be distributed through a variety of channels. For this reason, the Technical Excellence program is key to our activities.

Demographic change

Societies are facing dramatic and unprecedented demographic changes: an **aging population** - the main causes for which are longevity, i.e. the greater life expectancy, and falling fertility rates, two drivers that are the result of successes in healthcare, education and increasing affluence but that create a social challenge -, an **altering family structure** and **migration**.
Aging population has many potentially consequences on the economy, including pressure on growth and the labor market, on state budgets (through both pension and health care costs) and on the private savings behavior by individuals.
Life insurance plays a vital role in mitigating the effects of an aging society.

We are aware of both the growing demand for post-retirement income products and of insufficient levels of insurance literacy and lack of information on products that affect the ability of individual to save. We are therefore committed to offering proper solutions and to improve financial awareness in the society by educating the sales force to dialogue with the individuals and facilitate the comparison between pension funds accumulated and projected salary at retirement age. Improving dialogue allows people to become more aware of their needs and us to undertake the right actions.
We offer not only traditional insurance solutions: we have developed innovative solutions, such as "living age solutions", i.e. insurance products based on the life style. They will be developed through Generali Vitality, the start-up launched in partnership with Discovery in 2014. We are also analyzing how to better develop long-term care (LTC) products.

Environmental challenges

The **climate** is changing, becoming even more extreme and unpredictable. This adds to the factors that may influence the risk landscape, especially for insurance protection against events that depend on the weather such as floods, drought and windstorm. The rise in claims tied to catastrophic events is infact reflected in higher expected losses and in an increase in their volatility, thus resulting in greater uncertainty in pricing and in higher risk capital absorption associated to the business being underwritten. Tariff adjustments may therefore be required.
If unmitigated or not well managed, they could eventually make it unaffordable for customers to access insurance or, in extreme cases, even lead to the impossibility of insuring risks.
The climate change also represents a business opportunity that derives from the new needs generated by the changes themselves.

We are actively working on identifying and assessing the significance of the risks, so as to minimize the negative effects that may follow. We constantly monitor the main perils and territories to which we are exposed, using stochastic models for simulating natural phenomena. We are thus in a position to verify the adequacy and enhance the effectiveness of our insurance underwriting and risk mitigation strategy.
We manage our reinsurance cessions centrally to take advantage of economies of scale, improve diversification in our business and to better leverage our "purchasing power" on the international reinsurance markets. We are also committed to investing in research and studies on these topics.
We identify the opportunities arising from catastrophic events in the possibility of better promoting existing products and developing new ones, associated with an appropriate level of services, to satisfy the potential greater need of protection against catastrophes, and of promoting a supportive regulatory context.

For an in-depth description of the risk profile and specific methodologies for risk assessment, please see Risk Report in the Notes to the Consolidated Financial Statements.