



**THE SPANISH INSURANCE
MARKET IN 2004**



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The Spanish Economy in 2004

As stated in the Quarterly Spanish National Accounts for the fourth quarter of 2004, GDP rose by 2.7% year-on-year, on the back of an increase in internal demand and a high negative contribution of external demand. Both the growth in the quarter-on-quarter GDP —+0.8%— and the year-on-year figure compare most favourably with those of the Eurozone countries (+0.2% and +1.6%, respectively), with an expanding positive differential in activity growth.

Throughout the year, a boost in fixed capital investment was evidenced, whilst private consumption held a steady rate of growth of nearly 3.5% from the second quarter onwards. The growth in employment and the moderate public deficit were other positive elements against a high inflation rate and the hefty current account deficit, which came close to 5% of GDP.

The change of the Spanish National Accounts (CNE) base year to CNE-2000 data led to an upward revision of the growth figures for the last four years, with the result that, for 2004, the true growth rate actually was 3.1%, compared to 2.7% estimated according to CNE-1995, reaching a total value of 837 billion euros at current prices.

For another year, the growth in the Spanish economy was driven by domestic demand, both on the consumption and investment fronts, with an increase of 4.8%, compared to 3.7% for 2003 (CNE 2000). However, net foreign demand has contributed negatively to the growth in GDP, due to the slow recovery of exports and rising imports, as a result of growing competitiveness of foreign products. As far as exportations of services —especially tourism— are concerned, their performance was negative, continuing the trend observed in 2003.

The rate of family spending on consumer goods and home investing rose further in 2004, encouraged by the healthy results of the labour market and the



pervading low interest rates. Improved financial results, optimistic prospects regarding the evolution of the economy, favourable credit conditions and the need to enhance competitiveness constitute the principal reasons underlying the heavy investment in business equipment by Spanish companies.

The average annual inflation rate remained stable throughout 2004 with an increase of 3%, the same as the previous year, attributable —among other reasons— to rising oil prices. The inflation differential with the Eurozone remained at the same level as in 2003, 1 percentage point on average over the year.

MACROECONOMIC TABLE		
Annual variation in % unless indicated otherwise		
	2003	2004
Final consumption expenditure	3.1	4.8
– Final consumption expenditure by households	2.6	4.4
– Final consumption expenditure by NPISH	1.9	5.0
– Final consumption expenditure by Pub. Admin.	4.8	6.0
Gross Fixed Capital Formation	5.6	4.9
– Investment goods	2.5	3.7
– Construction	6.3	5.5
– Other products	7.7	4.4
Internal Demand	3.7	4.8
Exportation of goods & services	3.6	3.3
Importation of goods & services	6.0	9.3
GDP (market prices)	3.0	3.1
GDP at current prices (billion euros)	780.5	837.3
CPI (Dec./Dec.)	2.6	3.2
GDP Deflator	4.0	4.1
Total employment	2.5	2.6
Unemployment rate (% active pop.)	11.5	10.9
Public Deficit (% GDP)	0.4	–0.1
ECB Intervention rate	2.00	2.00

Source: INE, Economics Ministry and Bank of Spain. Spanish National Accounts, base 2000.

In addition, the employment rate rose from 2.5% in 2003 to 2.6% in 2004 (CNE 2000). At the close of the fourth quarter of 2004, the labour force exceeded 20 million, of which 18.3 million were employed. Throughout the year, unemployment decreased by 120,000. Nonetheless, this sharp rise in job creation did not go hand-in-hand with increased productivity.



In 2004, the rate of employment was mainly boosted by construction and services, whilst the sectors of industry and agriculture decreased their indices.

Interest rates applied to operations of lending and credit remained stable throughout 2004, although administration costs dropped slightly, particularly in companies. Moreover, towards the end of the year, the long-term return on Spanish public debt was at an all-time low, with the ten-year bond standing at 3.6%.

As regards the financial sector, the recovery of the main stock markets was confirmed, this leading to increases in the value of assets managed in investment and pension funds; in turn, this led to record figures for investing in Equities and Corporate Debt securities, with Equities now as an increasingly attractive investment option. The IBEX 35 —the most important Spanish index, which brings together the securities with largest traded volumes in the country— rose by 17.3%, approaching the levels recorded in the middle of 2001, with a total return for shareholders of 21.1%.

More recent data, corresponding to the second quarter of 2005, indicate that investment continues its upward trend, whilst consumer spending appears to be gaining greater stability. The upturn in prices and the negative balance in the foreign sector continue causing the greatest imbalances. Among the activity indicators, those related to industry revealed moderate progress at the start of the year. As for employment-related data, all the signs point to high rates of growth: until June, the number of unemployed registered with the INEM over the last twelve months dropped by 3.9%, reaching the lowest level of the last two years. As regards the latest private consumption indicators, the consumer confidence indicator rose in May, household consumer spending was up 6.8% in the first quarter and retail sales figures (+2.2% in real terms in May) largely corrected the moderation registered in the previous months.

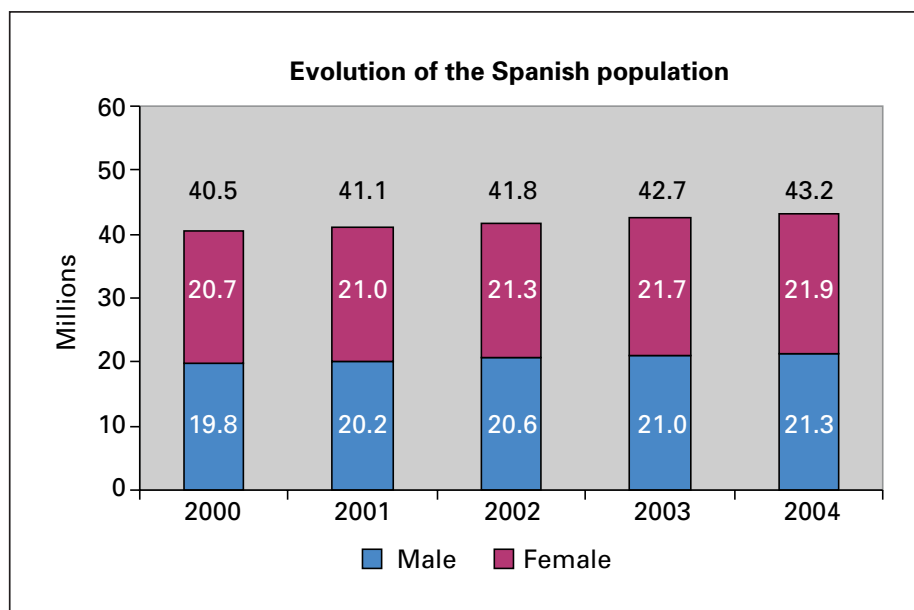
As regards future prospects, it is likely that the Spanish economy will progressively correct the main imbalances it suffers —inflation and external deficit— as consumption is moderated, investment levels are maintained and foreign sales are boosted. The latest predictions from multilateral bodies and the consensus have revised upwards their forecasts for Spain. The Bank of Spain estimates a growth of 3.2%.



Economic and social variables related to insurance

Population

Spain's resident population as of January 1st 2004 came to 43.2 million inhabitants, according to data furnished by the Spanish National Statistics Institute (INE), 3 million of which are foreigners, thus accounting for 7% of the total. The population grew 1.1% with respect to the previous year, i.e. an increase of 480,620 people. As was the case in previous years, this growth was influenced by the influx of immigrants to our country. By gender, the percentage of males grew 1.2% with respect to the previous year (250,921) and the percentage of females increased by 1.1% (229,699).



Source: INE. Review of the Municipal Registers.



The «2004 Statistics on Residential Variations» indicate that 684,561 entries correspond to citizens from abroad, compared to 470,010 in 2003, a 45.6% increase with respect to the previous year. Of this figure, 38,717 are Spaniards returning to Spain and 645,844 are foreigners.

Of the foreign citizens who settled in Spain, 33.2% came from America, compared to 43.6% in 2003, although, in absolute terms, the numbers were 187,162 in 2003 and 214,213 in 2004. As regards nationalities, there were changes with respect to 2003, with Romania becoming the main country of origin (in 2003 it was Ecuador), followed by Morocco. However, the Ecuadoreans are the most numerous foreign nationality group in Spain (15.7%), followed by the Moroccans (13.9%). The zones with the greatest concentration of foreign residents are the Mediterranean coastline, the archipelagos and the centre of the peninsula.

The number of births rose in 2004 totalling 453,278, an increase of 13,415 over the number recorded in 2003. The gross birth rate—the number of births per 1,000 inhabitants—increased to 10.6 from 10.5 in 2003. As it happened in previous years, the main reason of rising number of births was the fertility of foreign mothers.

There were 370,698 deaths in 2004, 13,031 fewer than in 2003. The gross mortality rate dropped to 8.58, compared to 9.14 recorded in the previous year.

As a result of the abovementioned situation, the vegetative growth rose to 82,580 compared to the 2003 figure of 56,134 inhabitants.

Automobile

The number of new registered vehicles in 2004 was 2,149,706 compared to 1,903,801 registered in the previous year, a 12.9% increase. The main raise was recorded in motorcycles, up 58.9% over the previous year. One of the factors that could well have favoured this significant increase is the modification to Spanish Driving Regulations, which now permits those drivers who have held a class B (car) driving licence for over three years to ride motorcycles with a maximum capacity of 125cc, without having to take any additional assessment test. Private cars, including 4x4s, constitute the largest segment and closed the year 2004 with a total of 1,653,811 registered vehicles.

On deducting the million vehicles struck off the vehicle register, the number of licensed vehicles in circulation in 2004 came to 26.4 million, a 5% increase with respect to the previous year. If we include mopeds, the total number would be 28.3 million, with 19.5 million of these being private cars. Over the last decade,

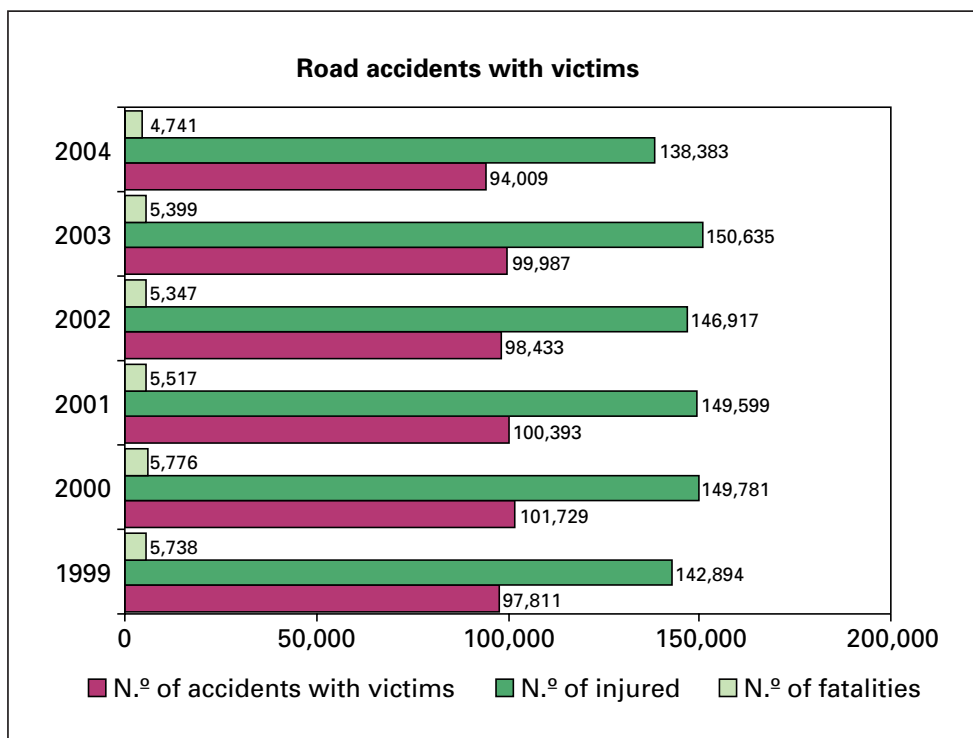


the number of licensed vehicles in Spain rose by 40%, with significant increases in the last five years.

Other data of interest furnished by the Spanish General Traffic Directorate referring to 2004 reveal that the number of vehicles per thousand inhabitants was 659. On the other hand, the number of drivers shows an average annual growth rate of around 2% in recent years: over 60% of the Spanish population old enough to be able to drive possesses a driving licence and 50% of drivers are under 40 years of age.

Road Accidents

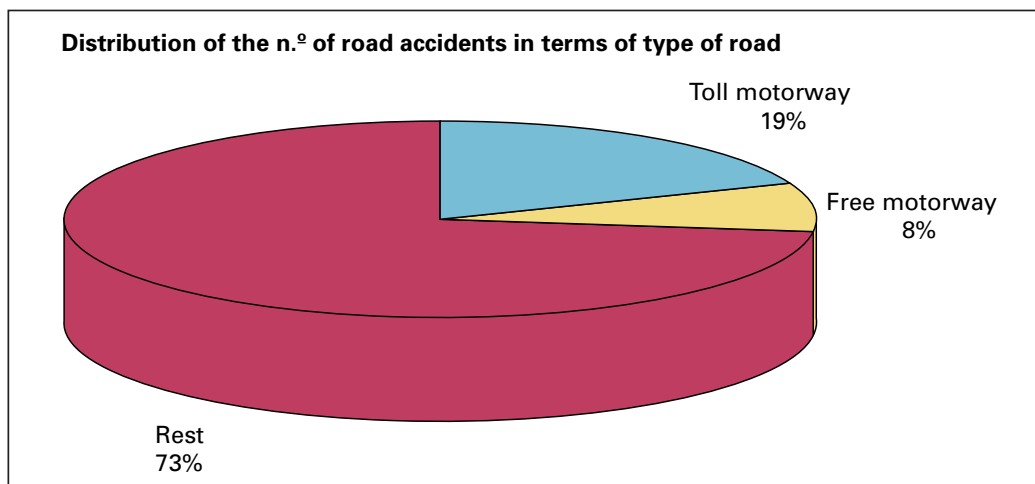
In 2004, there were 94,009 road accidents with victims, 6% fewer than in 2003. Fatalities decreased by 12% to 4,741. The total number of wounded was 138,383, representing 12,252 less than the previous year.



Source: General Traffic Directorate and In-House.

On the road, the number of accidents fell by 8%, whilst in cities dropped 4%. As regards the fatality figures, decreases were registered in both areas with respect to 2003, specifically a 14% decrease on the road and 2% in urban areas.





Source: General Traffic.

According to the General Traffic Directorate data, over the last ten years the number of deaths has fallen by 18% and the seriously injured by 39%. On the contrary, the number of accidents increased by 12% and minor injuries by 36%, resulting in a decrease in the gravity index (deaths per 100 accidents with victims) from 6.8 in 1995 to 5.0 in 2004.

As regards the relationship between the wounded in road accidents and the number of licensed vehicles in Spain, there has been continuous improvement over the last fifteen years, dropping from 409 deaths per million vehicles in 1989 to 167 deaths in 2004. Young people aged 18-20 are those who account for the higher mortality rate: 230 deaths per million inhabitants.

If we add to these data those provided by UNESPA (Spanish Union of Insurance Companies) in relation to the CICOS System (a multilateral agreement on dealing with minor accidents, through speedy indemnity payments), we obtain a more comprehensive overview of the situation including less serious accidents. According to this source, the number of minor traffic accidents handled by the CICOS System in 2004 came to 1,840,398, 2.2% more than in 2003.

Housing

As was clearly evident in the section on the economy, construction has been one of the driving forces behind the growth in the Spanish economy in recent years. 2004 once again saw significant growth in the housing sector, both in the number of dwellings constructed and in their average prices.

Housebuilding has once again exceeded the already heady figures witnessed in previous years, with a total of 761,471 dwellings approved by the official Architects Associations in 2004, up 11.8% on 2003. This figure corresponds to

the construction of free-market homes, given that state-protected housing only accounts for 7.6% of the total.

By region, a significant increase can be observed in the Balearics (65.4%), in stark contrast to the previous year's drop (-29.6%), as well as in Castilla La Mancha (45.4%), Murcia (42.1%) and Cantabria (35.5%). The only significant drops were registered in the Architects' Associations of Basque-Navarre (-18.1%), Canaries (-6.5%), Galicia (-5.4%) and Extremadura (-2%).

The number of property mortgages in 2004 grew 17.6%, reaching a total of 1.6 million. The volume of capital loaned increased by 36.5% exceeding 192,063 million euros, with the average mortgage standing at 121,116 euros. Home mortgage loans represented 69.9% of the total number (1,108,235) and the amount loaned came to 122,156 million euros, 26.6% more than in 2003.

By financial entities, savings banks are clearly in the lead, having granted 49.2% of the capital loaned, with banks in second place with 42.3% and others accounting for the remaining 8.6%.

MORTGAGED HOMES IN SPAIN

	2000	2001	2002	2003	2004
Number	612,852	615,703	69,023	989,439	1,108,235
Amount (million euros)	42,326	46,574	58,985	96,176	122,156

Source: INE.

N.B. in 2003 the Mortgage Statistics base was modified.

Business Creation

According to provisional data published by the National Statistics Institute, the number of companies incorporated in 2004 rose by 5.7% with respect to the previous year, whilst the number of companies wound up increased by 26.6%. In 2004, the average share capital for incorporating new companies increased by nearly 3%.

The number of new corporations incorporated throughout 2004 was to 129,797 and a total of 11,915 companies were dissolved.

Health

In 2004, the Ministry of Health and Consumption undertook several different initiatives aimed at prevention measures and health protection. Specifically, several studies were carried out in relation to controlling smoking in Spanish



society and different programmes were launched for prevention and dealing with nicotine addiction.

Moreover, a series of plans were started up with a view to overseeing nutritional issues, encouraging physical activity and preventing obesity. In this sense, various agreements have been signed with the Federations of Municipalities, in order to boost the Spanish network of healthy cities.

Another important issue is the Health Ministry's focus on studying dependency and the systems that might be of most help when it comes to looking after the elderly. On the other hand, turning to the younger population, several different programmes were launched to prevent the consumption of alcohol and drugs.



Principal Characteristics of the Insurance Market in 2004

Volume of premiums written

The volume of premiums written by Spanish insurers in 2004 amounted to 45,224 million euros, an increase of 8%, this reflecting a change of direction with respect to the previous year, when the sector experienced a fall of 14.9%. Non-Life insurance totalled 26,251 million euros in premiums, an 8.8% increase and ahead of Life insurance, which grew 7% with a volume of premiums of 18,972 million euros. This situation continues the change of trend detected in 2003, when Non-Life exceeded more than 50% of the premiums volume written in the sector.

If we compare the growth experienced by Non-Life insurance lines of business with the evolution of certain economic indicators, we can discern certain relationships. The growth of Motor insurance, which accounts for the greatest volume within Non-Life insurance, clearly corresponds to the increased number of vehicle registrations, whilst the rise in Multi-Risk policies runs in parallel to the significant increase in the real estate sector. Health policies maintained the growth rate observed in recent years, driven by the favourable fiscal treatment, as well as by the improvement and diversity of the guaranteed benefits added to these products year after year.

Taken all together, the three lines of business account for nearly 66% of the total growth in Non-Life insurance; if we take into account the premiums for Third-Party Liability, one of the lines of business that has risen most in 2004, they account for 77.5%. Moreover, 80.5% of Non-Life insurance premiums are concentrated in these four lines of business.

The growth in Life insurance reversed the negative trend witnessed last year, mainly as a result of the completion of the externalisation process, despite the fact that group policies have not managed to address their problematic situation and thus did not contribute to the growth of this business line. While it is true



PREMIUMS BY LINE				
Lines	Premiums 2003 (million euros)	Premiums 2004 (million euros)	% Δ 2004/2003	% of Total
Non-Life Lines				
Motor	10,621	11,239	5.8	24.9
Multi-Peril	3,742	4,159	11.1	9.2
Health	3,737	4,097	9.6	9.1
Civil Liability	1,379	1,628	18.1	3.6
Other damage to assets	1,058	1,252	18.3	2.8
Burial Expenses	1,148	1,228	7.0	2.7
Accident	714	762	6.7	1.7
Credit & Surety	562	609	8.3	1.3
Transport	563	586	4.1	1.3
Fire	264	260	-1.4	0.6
Assistance	177	227	28.4	0.5
Pecuniary Losses	74	110	47.9	0.2
Legal Expenses	90	93	3.3	0.2
Total Non-Life	24,130	26,251	8.8	58.0
Life Lines				
Individual	13,758	15,280	11.1	33.8
Group	3,975	3,692	-7.1	8.2
Total Life	17,734	18,972	7.0	42.0
Market Total	41,864	45,224	8,0	100

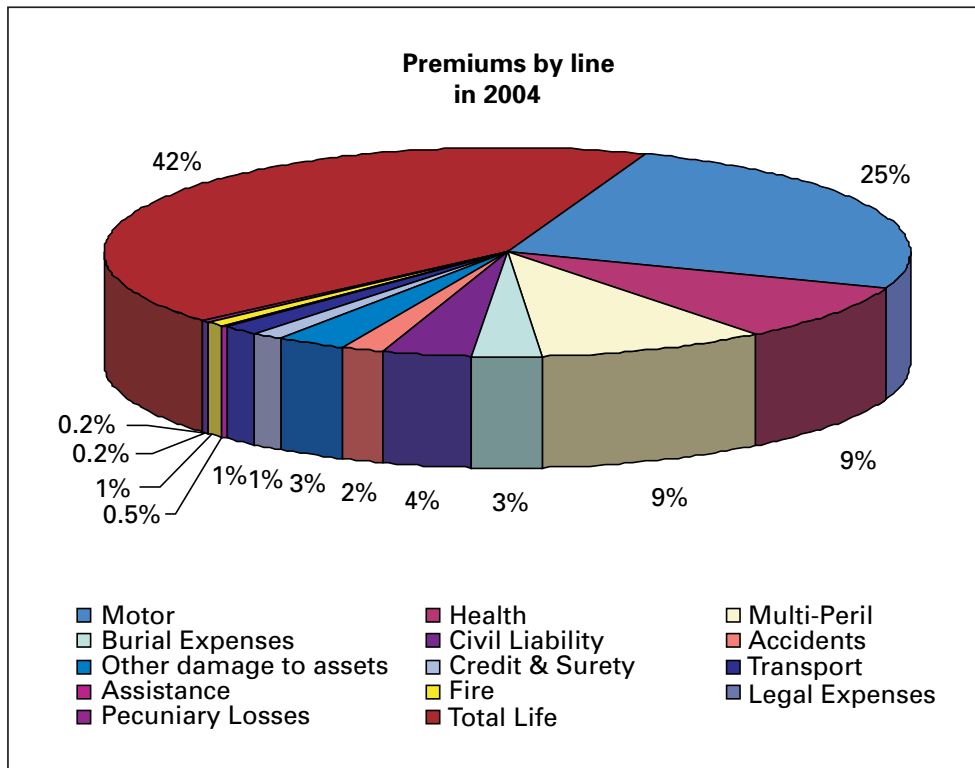
Source: «Evolution of insurance market». ICEA. Issued premiums.

that companies, associations and other collective groups have covered many of their Life insurance needs in the last five years, taking advantage of the excess of supply on the marketplace and highly attractive conditions as a consequence of lower interest rates, and it is expected this trend in group insurance to continue in the coming years, despite the externalisation still outstanding at this moment in time.

As for Individual policies, they developed favourably, growing by 11.1% exceeding the figures obtained two fiscal years ago. This increase is significant if we take into account the fact that Life insurance savings modalities face ever-increasing competition from products distributed by financial entities.



Graphically, the breakdown of premiums by line of business is as follows:



Source: General Traffic Directorate and In-House.

Competitive structure of the sector

2004 continued the trend towards concentration in the sector, with a fall in the number of companies: 330 companies were in competition, compared to the 350 operating in December 2003. Classified by their legal structure, there were a total of 225 public limited companies, 59 social insurance mutual companies and 49 mutual insurance companies. To these we must add two reinsurance companies.

Moreover, as of December 31st 2004, there were 49 branches of foreign companies in operation, and 418 European companies authorised to freely provide services in Spain; yet not all the companies duly registered and authorised to operate here actually do so.

MAPFRE still heads the ranking of the top insurance groups in 2004 —indeed it increased its market share from 13.8% in 2003 to 14.2% in 2004. ALLIANZ overtook GENERALI to move into second place with a market share of 5.4%, while the GENERALI group, with a market share of 4.5%, had to make do with third. As regards the members of this exclusive club of the ten major insurance groups, the novelty this year was the entry of the CATALANA OCCIDENTE group, taking ninth place in the ranking, mainly due to the integration of the volume of premiums from SEGUROS BILBAO, which it acquired in 2003.



In 2004, these top ten insurance groups accounted for 49.8% of premiums written, 22,528 million euros —a 9% increase with respect to 2003, slightly above the growth of the market as a whole.

TOP 10 DIRECT INSURANCE GROUPS IN 2004

N.º	Group	2003		2004	
		Premiums (million euros)	% of Total	Premiums (million euros)	% of Total
1	MAPFRE	5,779	13.8	6,428	14.2
2	ALLIANZ	2,284	5.5	2,434	5.4
3	GENERALI	2,361	5.6	2,020	4.5
4	AXA	1,618	3.9	1,996	4.4
5	CAIFOR	1,687	4.0	1,971	4.4
6	AVIVA	1,776	4.2	1,801	4.0
7	ZURICH	1,475	3.5	1,535	3.4
8	BBVA SEGUROS	1,340	3.2	1,504	3.3
9	CATALANA OCCIDENTE	986	2.4	1,428	3.2
10	CASER	1,356	3.2	1,412	3.1
Total for top 10		20,662	49.4	22,528	49.8
Total for sector		41,864	100	45,224	100

Source: ICEA.

In Life insurance, the top ten groups accounted for 59.6% of the premiums. The level of concentration in this segment is still high, although it has been gradually decreasing in recent years, as a result of the fading of the externalisation effect. The market share of the top 10 Life insurance groups in 2002 was 65.1% and 60.8 % in 2003.

TOP 10 DIRECT INSURANCE GROUPS IN 2004-LIFE

N.º	Group	2003		2004	
		Premiums (million euros)	% of Total	Premiums (million euros)	% of Total
1	MAPFRE	1,683	9.5	1,882	9.9
2	CAIFOR	1,596	9.0	1,864	9.8
3	AVIVA	1,769	10.0	1,792	9.4
4	BBVA	1,237	7.0	1,383	7.3
5	IBERCAJA	718	4.0	960	5.1
6	GENERALI	1,199	6.8	771	4.1
7	BANSABADELL VIDA	740	4.2	728	3.8
8	ASCAT VIDA	704	4.0	699	3.7
9	ALLIANZ	617	3.5	682	3.6
10	BANESTO GRUPOS	269	1.5	549	2.9
Total for top 10		10,532	59.4	11,309	59.6
Total for sector		17,734	100	18,972	100

Source: ICEA & own calculations.

In 2004 saw variations in the leading positions of the Life insurance ranking, with MAPFRE taking first place with a market share of 9.9%, followed by the CAIFOR group with 9.8% and AVIVA in third place with 9.4% (in 2003, it was at the top with a market share of 10%). It is worth noting the appearance of BANESTO SEGUROS, coming at number 10 in the ranking with an increase in volume of premiums of over 100% and a market share of 2.9%, compared to 1.5% in 2003.

As for Non-Life insurance, the top ten insurance groups achieved a volume of premiums of 14,767 million euros, more than a 12% increase, and a market share of 56.3%, nearly two percentage points above the 2003 figure. The groups that make up the ranking have not changed with respect to 2003, with MAPFRE once again holding the top spot, with a market share of 17.3%, followed by ALLIANZ with 6.7%. The AXA group moved up to third place in the ranking. On the contrary, GENERALI dropped one place to fourth, while maintaining its market share from 2003 of 4.8%.

The CATALANA OCCIDENTE group achieved the greatest growth of the top ten, basically due to the integration of SEGUROS BILBAO's business, followed by the AXA group and MUTUA MADRILEÑA.

TOP 10 DIRECT INSURANCE GROUPS IN 2004-NON-LIFE

N.º	Group	2003		2004	
		Premiums (million euros)	% of Total	Premiums (million euros)	% of Total
1	MAPFRE	4,096	17.0	4,546	17.3
2	ALLIANZ	1,666	6.9	1,752	6.7
3	AXA	1,153	4.8	1,448	5.5
4	GENERALI	1,162	4.8	1,248	4.8
5	ZURICH	1,058	4.4	1,159	4.4
6	WINTERTHUR	986	4.1	1,020	3.9
7	CATALANA OCCIDENTE	713	3.0	1,000	3.8
8	MUTUA MADRILEÑA	761	3.2	893	3.4
9	CASER	827	3.4	888	3.4
10	ADESLAS	715	3.0	813	3.1
Total for top 10		13,136	54.4	14,767	56.3
Total for sector		24,130	100	26,252	100

Source: ICEA & own calculations.



The top ten Motor insurance groups reached 8,037 million euros in premiums, which represents 71.5% of the total Motor insurance market and 30.6% of the total Non-Life insurance market.

TOP 10 DIRECT INSURANCE GROUPS IN 2004-MOTOR

N.º	Group	2003		2004	
		Premiums (million euros)	% of Total	Premiums (million euros)	% of Total
1	MAPFRE	2,086	19.6	2,265	20.2
2	ALLIANZ	1,135	10.7	1,155	10.3
3	MUTUA MADRILEÑA	761	7.2	893	7.9
4	AXA	692	6.5	761	6.8
5	ZURICH	579	5.5	627	5.6
6	WINTERTHUR	528	5.0	553	4.9
7	GENERALI	463	4.4	499	4.4
8	LINEA DIRECTA	394	3.7	488	4.3
9	PELAYO	400	3.8	418	3.7
10	CASER	391	3.7	377	3.4
Total for top 10		7,429	70.0	8,037	71.5
Total for sector		10,617	100	11,239	100

Source: ICEA & own calculations.

The ranking is headed by MAPFRE, with a market share of 20.2%, followed by ALLIANZ in second place with a share of 10.3%, and MUTUA MADRILEÑA in third place with a market share of 7.9%. LÍNEA DIRECTA and MUTUA MADRILEÑA were the companies in the ranking that experienced the greatest growth in premiums.

Most noteworthy is the fact that the three mutual insurance companies within this ranking account for a volume of premiums of 3,576 million euros, which represents 31.8% of the Motor insurance sector.

As a consequence of the business movements that took place in 2003, the following insurance companies had to handle the integration of the companies they acquired:



- BANSABADELL integrated the business of ATLÁNTICO VIDA, following the acquisition of Banco Atlántico.
- BARCLAYS VIDA Y PENSIONES integrated the business of ZARAGOZANO VIDA, following the acquisition of Banco Zaragozano.
- The CAIFOR group undertook the integration of the companies SWISS LIFE (Spain) and VIDACAIXA COLECTIVOS (formerly SCH PREVISIÓN).
- The CATALANA OCCIDENTE group integrated the company Seguros Bilbao.

Other business movements:

- MAPFRE and CAJA MADRID reached an agreement on the joint development of the elderly-related business. To this end, in 2004 CORPORACIÓN MAPFRE acquired the participations held by CORPORACIÓN FINANCIERA ALBA and JPMORGAN PARTNERS in QUAVITAE, thus raising its stake in this company to 57%. CORPORACIÓN CAJA MADRID will continue to control the remaining 43 per cent.
- Towards the end of 2004, CASER closed the operation to purchase the Promoces/Metroces group, owner and management company, respectively, of residencies for the elderly.

Distribution channels

According to data furnished by ICEA in its report on distribution channels in 2004, intermediaries channelled 47.9% of premiums, the banks and savings banks accounted for 33.4% and direct sales for 18.8%.

As regards new premium production, banks and savings banks channelled 47.1% of premiums, intermediaries accounted for 41% and direct sales for 12%. This situation confirms the sound positioning of the bank within the insurance sector, maintaining a significant market share and growth rate in certain kinds of insurance products.

Channel	Volume of business (% premiums)	New production (% premiums)
Intermediaries	47.9	41.0
Banks/Savings Banks	33.4	47.1
W/o Intermediaries	18.8	12.0

Source: ICEA.



In Life insurance, the bancassurance channel stands out as the main distributor, acting as intermediary for 68.9% of premiums by volume of business and 71.9% in new premium production; meanwhile, in the case of Non-Life insurance, agents and brokers are still the major distribution channel, with a share of 67.9% and 72.9% in terms of volume of business and new production, respectively.

Channel	Life		Non-Life	
	Volume of business (% premiums)	New production (% premiums)	Volume of business (% premiums)	New production (% premiums)
Intermediaries	21.7	20.0	67.9	72.9
Banks/Savings Banks	68.9	71.9	6.1	9.1
W/o Intermediaries	9.4	8.1	26.0	18.0

Source: ICEA.

Lastly, the other channels —among which we could consider telephone sales and e-commerce— have experienced highly significant growth rates in 2004, although they began from very low levels.

Although the volume of business these channels manage is somewhat limited, compared to traditional channels, the business projects underpinning this kind of business have breakeven in the profit and loss account, thus guaranteeing their maintenance in the market.

A large part of the growth in the channels we call alternative is due to the fact that the public has much greater access to technological tools and the Internet, which allows people to seek out the offer that best suits their needs, at the very moment that they need it.

It is very likely that, over the next five years, the distribution of insurance via these alternative channels will continue outperforming the others; this will be because —apart from the reasons mentioned above— this kind of channel develops its activity with lower-cost structures than the traditional channels, which makes it possible to present better product offers, tailored to the customer needs.

Economic/financial evolution

The year 2004 closed with an improvement in the result of the technical account for the insurance sector as a whole, achieving a 10.1% over premiums earned. This is undoubtedly the best result achieved in recent years at a sector level and



is the result of the sector returning to a profitable path, by applying new control and risk management tools and adapting balance sheets to international economic schemes.

The technical-financial result improved for in Life and Non-Life insurance, turning out positive in both cases, although the growth rate in Non-Life is much greater than that for Life insurance.

TECHNICAL ACCOUNT RESULT. TOTAL

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	40,766	68.2	9.3	2.1	11.3	2.9
2002	46,030	65.9	8.8	1.9	10.7	4.2
2003	39,861	78.4	11.2	2.3	13.6	8.3
2004	43,361	75.2	11.4	2.2	13.8	10.1

Source: ICEA. Economic report on the insurance sector.

In Non-Life there was a reduction in the claims ratio of a little over 3 points, now standing at 68.5%. Operating expenses dropped by 0.3 percentage points to 19.3%, producing a technical account result of 14.5%. These good results are a direct consequence of the application of increasingly advanced tools in the control and financial management of risk, as well as of policies designed to control and reduce administration expenses.

TECHNICAL ACCOUNT RESULT. NON-LIFE

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	17,856	78.2	17.4	3.6	21.0	3.1
2002	20,083	72.7	16.8	3.3	20.1	6.4
2003	22,448	71.6	16.5	3.1	19.6	11.5
2004	26,251	68.5	16.4	3.0	19.3	14.5

Source: ICEA. Economic report on the insurance sector.



In Life insurance, the claims ratio represented 84.1% of premiums earned, 3.1 percentage points below 2003. On the contrary, operating expenses rose by nearly one percentage point. Despite this, the result on the technical account —4.2%— is positive, due to financial and extraordinary revenues.

TECHNICAL ACCOUNT RESULT. LIFE

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	22,910	60.4	2.9	0.9	3.8	2.8
2002	25,947	60.7	2.7	0.8	3.5	2.5
2003	17,413	87.2	4.4	1.2	6.0	4.1
2004	18,972	84.1	4.8	1.5	6.9	4.2

Source: ICEA. Economic report on the insurance sector.

Insurance penetration —the percentage of premiums over GDP— reached 5.4% in 2004, a slightly higher figure than that of the previous year, although somewhat lower than those recorded a little over three years ago, due to the externalisation process and the extraordinary growth in Life insurance. This fact also affects insurance density —premiums per capita— which was 1,047 euros in 2004, thus standing at the levels recorded in 2001.

As regards the European Union countries, Spain ranks fifteenth in terms of insurance revenue per capita, which gives an idea of the tremendous potential for development of the Spanish insurance sector.

INSURANCE PENETRATION AND DENSITY

		2000	2001	2002	2003	2004
Premiums/ GDP %	Life	3.8%	3.4%	3.7%	2.3%	2.3%
	Non-Life	2.7%	2.8%	3.0%	3.1%	3.1%
	<i>Total</i>	6.5%	6.2%	6.7%	5.4%	5.4%
Premium per capita in Euros	Life	587	561	648	415	439
	Non-Life	421	466	520	565	608
	<i>Total</i>	1,008	1,027	1,168	980	1,047

Source: INE, ICEA & own calculations.
GDP data taken from Spanish National Accounting (base 2000).

International aspects of the Spanish insurance sector

In 2004, the countries of the European Union collected a total of 875,355 million euros in premiums, 7.8% more than in 2003. Life insurance rose by 9.1%, well ahead of Non-Life insurance which had an increase of 5.7%. The country with the greatest volume of premiums is the United Kingdom, followed by France, Germany and Italy. The leadership of these four countries is common to both Life and Non-Life insurance. Spain ranks sixth by premiums volume, with a share of 5.1% (in Life, ranks eighth and in Non-Life insurance ranks fifth).

Volume of Direct Insurance Premiums in European Union. Year 2004

Country	Life		Non-Life		Total		% Life Premiums of Total
	Premiums (million euros)	% of Total Life	Premiums (million euros)	% of Total Non-Life	Premiums (million euros)	% of Total	
Austria	6,188	1.2	7,801	2.3	13,989	1.6	0.7
Belgium	19,772	3.7	8,710	2.5	28,482	3.3	2.3
Cyprus	266	0.1	310	0.1	576	0.1	0.0
Czech Republic	1,411	0.3	2,150	0.6	3,561	0.4	0.2
Denmark	10,363	2.0	5,572	1.6	15,935	1.8	1.2
Estonia	50	0.0	139	0.0	189	0.0	0.0
Finland	10,401	2.0	2,817	0.8	13,218	1.5	1.2
France	104,200	19.7	52,600	15.2	156,800	17.9	11.9
Germany	68,200	12.9	82,200	23.8	150,400	17.2	7.8
Greece	1,729	0.3	1,891	0.5	3,620	0.4	0.2
Holland	25,900	4.9	22,630	6.5	48,530	5.5	3.0
Hungary	980	0.2	1,431	0.4	2,411	0.3	0.1
Ireland	8,179	1.5	4,570	1.3	12,749	1.5	0.9
Italy	65,627	12.4	35,411	10.2	101,038	11.5	7.5
Latvia	11	0.0	204	0.1	215	0.0	0.0
Lithuania	62	0.0	174	0.1	236	0.0	0.0
Luxembourg	7,875	1.5	1,129	0.3	9,004	1.0	0.9
Malta	120	0.0	109	0.0	229	0.0	0.0
Poland	3,046	0.6	3,633	1.1	6,679	0.8	0.3
Portugal	6,250	1.2	4,182	1.2	10,432	1.2	0.7
Slovakia	462	0.1	678	0.2	1,140	0.1	0.1
Slovenia	435	0.1	1,051	0.3	1,486	0.2	0.0
Spain	18,706	3.5	26,136	7.6	44,842	5.1	2.1
Sweden	12,585	2.4	6,680	1.9	19,265	2.2	1.4
United Kingdom	156,707	29.6	73,622	21.3	230,329	26.3	17.9
EU Total	529,525	100	345,830	100	875,355	100	60.5

Source: European Insurance Committee (CEA).

Worldwide, according to the Swiss Re Sigma report, Spain ranks tenth by volume of premiums, behind the following countries:

Countries	Premiums 2004 (million USD)	Worldwide market share (%)
United States	1,098	33.8
Japan	492	15.2
United Kingdom	295	9.1
France	195	6.0
Germany	191	5.9
Italy	129	4.0
Canada	70	2.2
South Korea	69	2.1
Holland	59	1.8
Spain	56	1.7

In 2004, the presence of foreign capital in the Spanish insurance market represented 27.3% and, as in previous years, was basically from the European Union. This participation represents 32.9% of premiums (33% in Life and 32.9% in Non-Life). In monetary terms, the capacity for control of the companies with foreign capital in Spain over the sector's volume of business has remained steady, with respect to the previous year (15,191 million euros in 2004 compared to 15,290 million euros in 2003).

Just as in other years, there are few Spanish firms with a significant volume of business in other countries. Thus, as of December 31st 2004, there were 45 branches of Spanish companies operating within the European Economic Area, mainly distributed around Portugal (27 of those 45 branches) and France (6 branches). Outside Europe, MAPFRE ranks second in the Latin-American Non-Life insurance market.

As a final consideration in this chapter, it is worthwhile to mention that the insurance sector is changing significantly for some years now: consumers are demanding a higher quality of service, the channels are striving to enhance their portfolios and seek sustainability in their business by involving the entities, the alternative distribution channels are increasing their market share, the technological tools at a sector level are improving, there is a new generation of professionals taking over the development of activity in this sector, etc. In order to be in a position to successfully tackle these new situations, the



insurance companies must be flexible and open to changes, with a view to being ready to take advantage of every market opportunity and able to achieve their strategic goals.

The Spanish Law on Insurance Intermediation is still pending, although the government sent the bill to parliament in July 2005. Solvency II is still a major challenge facing the sector and will undoubtedly require tremendous human and economic effort to complete the transformation.



Most notable features of the year 2004 by branch of business

LIFE INSURANCE

Once again, Life insurance developed favourable during 2004, growing at rates similar to those of previous years, insofar as volume of managed savings is concerned, as well as a parallel increase in the premiums written by the whole of the sector. Indeed, written premiums in 2004 reached the figure of 18,972 million euros, an increase of 7% over 2003.

In this sense, the volume of managed savings in Life insurance, represented by the technical provisions, rose to 116,254 million euros—an increase of 6.3% with respect to the previous year— thus consolidating the prominent position Life insurance holds as a medium and long term savings/retirement instrument in our country.

Moreover, it is worth noting the considerable progress made in terms of the number of insured, given that the increase of over 1,300,000 means that there are now over 26 million policyholders; this clearly shows the significant level of penetration this business has attained within the Spanish economy as a whole.

The greatest growth corresponds to the Individual Life insurance modalities (10.3%), which, as was the case in 2003, have been the true driving force behind the growth of this class, overshadowing the slight increase registered in Group Life insurance policies.

As expected, results confirmed the favourable evolution and growing trend evidenced in Risk-Life insurance, particularly for individual policies, with premiums increasing in 2004 at a rate of nearly 30%, bringing the number of insured in this modality to over 17.3 million people. Without a shadow of a doubt, the significant influx of Risk-Life insurance premiums has been conditioned—apart from by the rising popularity of the attractive features of this retirement formula— by the tremendous growth in mortgages.



Modality	Reserves (million euros)		Premiums (million euros)	
	2004	% Δ 2004/2003	2004	% Δ 2004/2003
Death insurance	2,592	19.1	2,495	23.0
Retirement insurance	80,686	4.8	9,275	1.8
Insured Pension Plans	261	164.9	157	59.3
Other savings insurance	32,715	9.2	7,044	9.5
Total Life	116,254	6.3	18,972	7.0

Source: ICEA. Life insurance statistics.

Within Individual Life policies, the products offering guaranteed rates (33% of managed savings), deferred —mainly to retirement— capital policies (28.8%) and the annuity modalities (21.8%) have been the leading options in this sector, with nearly 7.9 million policyholders.

On the contrary, asset-linked Life insurance policies —such as the unit-linked and index-linked products— ended the year at a level similar to that of 2003, with a slight decrease in their volume of provisions and number of policies, a consequence of the results for this kind of products in the bank distribution channel.

With regard to the evolution in 2004 of the Insured Pension Plans (so-called PPAs), two years after they were launched on the Spanish market, it must be said that they are gradually gaining ground in the sector for savings products designed to complement the state retirement benefits, having reached a volume of 261 million euros —an increase of 165%— from the contributions of almost 88,000 policyholders.

In the case of Group Life Insurance policies, they are principally made up of those modalities offering immediate and deferred income, representing as they do 88% of the savings managed.

As regards the penetration of the different distribution channels, the bancassurance channel is clearly gaining ground (57%) in the savings managed from the individual business, with a similar picture in the group sector too (48% bancassurance, 46% intermediaries).

Another notable aspect is the positive growth experienced in 2004 by the two predominant channels (7.5% for bancassurance and 6.2% for intermediaries) compared to the considerable decrease in direct sales —a 6.9% fall.



Although, from a strictly insurance perspective, Investment Funds and Pension Plans should not be included in this report, their consolidated, ever-increasing role within the savings options for household economies in Spain justifies referring to their progress.

SAVINGS/RETIREMENT INSTRUMENTS		
Instruments	Assets 2004 (million euros)	% Δ 2004/2003
Investment Funds	219,730	12.1
Life Insurance	116,254	6.3
Individual	72,393	10.3
<i>Insured Pension Plans</i>	261	164.9
Group	43,862	0.4
Pension Plans	62,845	12.4
Individual's Plan	36,946	17.1
Employer's Plan	25,063	6.6
Associated System	836	-0.8
Social Insurance Mutualities	15,800	8.2

Sources: ICEA, INVERCO & Spanish Confederation of Social Insurance Entities.

The Investment Fund sector has clearly performed favourably in 2004, achieving substantial growth in both the figures for managed assets and the number of participants. The factors that facilitated this significant progress were largely determined by the maintenance of its fiscal regulatory framework, the significant recovery of the stock markets and the effect of heavy advertising of certain products —guaranteed investment funds— by the major financial entities.

At the close of 2004, the total assets corresponding to Investment Funds reached 219,730 million euros, an increase of 12.1% with respect to 2003, exceeding the maximum volume of assets recorded for this kind of instrument in April 1999.

In addition, the growth in Pension Plans continued to prove highly satisfactory: at the close of the year, their volume of assets stood at 62,845 million euros, which represents an increase of 6,933 million euros, i.e. 12.4%.



The prospects for 2005 once again augur a favourable evolution for Life insurance, duly consolidating its importance within the Spanish economy as a whole.

In principle, there is no reason to expect any evolution notably different from that of 2004, so far as the different products that go to make up the catalogue of savings and retirement solutions are concerned. In this sense, it can be expected that Risk-Life insurance will continue to reap high rates of growth, linked to the expansion of the mortgage sector, as well as that those single-contribution Savings plans —especially of a duration in excess of five years— will maintain their favourable progress, as a consequence of their beneficial fiscal treatment and guaranteed yield, although it seems that the expected upward trend of interest rates in the medium and long term will have no immediate effect, thus continuing the demand for investment funds to the detriment of savings plans.

On the other hand, Retirement Plans must duly confirm and consolidate the expectations held of them, something that is somewhat conditional upon an increase in interest rates in the long term.

Prospects are very good for the Investment Fund sector, with expectations pointing to new record figures for the volume of managed assets and most of them achieving positive returns. Rising economic activity, the continued moderate interest rate levels, appreciation prospects for variable income and the low yield on deposits lead us to believe that private savings will continue favouring group investment schemes. We must wait for the final approval of the regulations, expected before the end of the year, but it must be pointed out that there may be increased investment possibilities for collective institutions, something that would have a positive effect on the sector.

As regards Pension Plans, forecasts point to growth rates similar to those of recent years, with a larger proportion of younger participants, but we shall have to wait until 2007 to see to what extent the current fiscal benefits may eventually be modified.

MOTOR INSURANCE

Motor insurance still accounts for the largest volume within Non-Life, representing 42.8% of premiums written, although this leading position is being eroded by the increased growth of other Non-Life insurance line of business.

Written premiums in 2004 rose to 11,239 million euros, a 5.8% increase over the previous year. The said increase is principally due to the healthy number of new vehicle registrations, given that the increase in tariffs has been minimal (around 1%).



MOTOR

	Premiums 2003 (million euros)	Premiums 2004 (million euros)	% Δ 2004/2003	% of Total
Third-Party Liability	6,259	6,544	4.6	58.2
Other guarantees	4,362	4,695	7.6	41.8
Total Motor	10,621	11,239	5.8	100,0

Source: «Evolution of insurance market». ICEA.

Premiums written to cover Third-Party Liability still account for the greatest proportion, with a volume of 6,544 million euros in premiums in 2004, a 4.6% increase over 2003.

Premiums written offering cover other than Third-Party Liability amounted to 4,695 million euros, with an annual growth rate of 7.6%.

According to ICEA data for 2004, 98% of the Motor insurance policies included cover options for legal defence, 90% for passengers and 85% for travel assistance. Following Third-Party Liability, these are the most common guaranteed benefits taken out with Motor insurance policies.

Approximately 14% of all vehicles circulating on Spanish roads have no compulsory Motor insurance cover, according to UNESPA data. The number of vehicles with an insurance policy in effect at the end of the year rose to 24.6 million, compared to 28.3 million licensed vehicles in Spain. A large portion of the uninsured vehicles are motorcycles and mopeds, given that there are approximately 3.8 million registered in Spain, but only 2 million were insured at the close of 2004.

TECHNICAL ACCOUNT RESULT. MOTOR

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	8,312	80.4	14.5	2.9	17.3	5.5
2002	9,236	74.6	13.7	2.6	16.3	8.7
2003	9,940	75.9	13.6	2.5	16.1	13.1
2004	10,750	71.7	13.5	2.4	15.9	17.0

Source: ICEA. Economic report on the insurance sector.



On analysing the technical account for Motor insurance, it can be seen that the claims ratio over premiums earned dropped by 4.2 points to 71.7%, thus turning around the rise in the claims ratio experienced in 2003. Third-Party Liability and Own Damage, with rates of 78.6% and 77.3% respectively, are the guarantees with the highest claims ratio.

Operating expenses dropped slightly to 15.9% from a 16.1% of the previous year. Acquisition expenses are still the most important of all the expense categories.

The technical account result rose considerably and finally reached 17% over premiums earned, 3.9 points above the figures for 2003. The said results were achieved thanks to a series of factors, among which the most notable were the reduced number of Personal Injuries claims and the effectiveness of internal cost control measures.

As we have commented above, during 2004 there was a continued trend towards greater concentration of the business among fewer companies, with the top ten insurance groups accounting for 71.5% of market share, compared to 70% the previous year.

As regards the distribution structure within this line of business, according to ICEA data, agents were responsible for 42.5% of the volume of business, followed by brokers with 28.5%. The agents were also the principal channel for new premium production, with a market share of 39.9%, followed by the brokers with 33.6%. Moreover, there has been a continued sharp increase in the issue of premiums through the direct sales entities, with rises in excess of 15%.

In 2005, a very slight increase is likely in premiums and a worsening of the profit and loss account, particularly if —given the profits reaped in this branch of business in 2004— there is a relaxation in the technical rigour applied to underwriting and tariffs are set without due technical rigour and below cost.

As for innovations on the legislative front, it has been proposed that the points system for driving licences should come into force in 2006 and this may help to reinforce the downward trend in claims.

Moreover, progress continues on Solvency II and the Fifth Directive on Motor Insurance, which, apart from the improvements they will introduce in modernising management techniques and enhancing attention to road victims, they will entail a tremendous effort on the part of the companies operating in this sector.

HEALTH INSURANCE

Following the innovations introduced in 2003 when Spanish Law 46/2002 on the Partial Reform of Personal Income Tax came into effect, such as the fiscal



benefits for Health insurance policies, 2004 was marked by a continuance of the premium growth figures with respect to previous years. In this sense, the expectations for growth as a result of the tax changes did not translate into a significant rise in the volumes of policies taken out.

From a quantitative perspective, Health insurance in 2004 achieved a volume of premiums of 4,097 million euros, a 9.6% increase with respect to the previous year. These growth rates, in the 9-10% range, have been repeated in this sector in the last few years. If we consider the year-on-year variation in the prices of the medical policies, which was 3.8% in 2004, we obtain a net growth figure stemming from new business of some 5.8%.

Such significant growth as that experienced by this product over the last few years holds a clear correlation with an expansive phase within the economy, where families have devoted part of their income to this kind of products, seeking a series of services that they often perceive as offering greater quality and speed.

HEALTH				
	Premiums 2003 (million euros)	Premiums 2004 (million euros)	% Δ 2004/2003	% of Total
Medical Care	3,209	3,527	9.9	86.1
Sickness	529	570	7.9	13.9
Reimbursement of expenses	326	357	9.4	8.7
Benefits & Compensation	202	213	5.4	5.2
Total Health	3,737	4,097	9.6	100

Source: «Evolution of the insurance market». ICEA.

On analysing growth by type of product, it can be observed that it is the Health Assistance policies that have grown most —9.9%— followed by mixed Reimbursement of Expenses and Benefits & Compensation policies. Within the Health Assistance modalities, group and dental policies have experienced the greatest rates of growth, with a net increase in the number of insured of 16% and 18%, respectively. During the year 2004, the group policy sector witnessed:

- A price war with severely reduced technical margins.
- Generalisation of «tailor-made policies». In many cases, it is the company that designs the product, which is later quoted by the insurers.
- Growing tendency for companies to incorporate Health Insurance as an additional social benefit within wage packets and as a way of fostering employee loyalty.



By type of business, Health Assistance accounts for 86.1% of total business, followed by Reimbursement of Expenses and Benefits & Compensation. The Health Assistance business increases its share year on year, to the detriment of the other two modalities.

Comparing this to the other Non-Life insurance line of business, Health constitutes the third in terms of volume of premiums, behind Motor and Multi-Risk.

TECHNICAL ACCOUNT RESULT. HEALTH

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	2,773	83.7	7.8	3.0	17.3	4.8
2002	2,942	82.6	7.9	3.0	11.0	5.2
2003	3,419	83.0	7.4	2.7	10.1	6.7
2004	3,734	82.3	7.3	2.7	10.0	7.4

Source: ICEA. Economic report on the insurance sector.

As for the evolution of the technical account, there was an improvement in 2004 with respect to 2003 of 0.7 percentage points in the claims ratio, having obtained this year the best result for claims over premiums earned of the last four years. This fact, together with the containment of operating costs, means that the 0.7 point increase is transferred over to the result of the technical account over premiums earned.

In December 2004, the draft directive on non-discrimination on gender grounds in personal insurance was approved. This will significantly affect the system for calculating health insurance policies in Spain —due to the fact that it currently discriminates tariffs in a generalised manner by applying the gender risk factor— and it is now obliged to adapt to conform to EU regulations.

The greater percentage of Health insurance premiums are distributed through the company's offices, mainly in the Health Assistance modality. As for Sickness, the agents constitute the main distribution channel.

In January 2005, the White Paper on Dependency in Spain, prepared by the Ministry of Work and Social Services, was published. This report is being used for the preparation of the Draft Bill on Dependency in Spain. This Draft Bill is scheduled to be presented before the Spanish Parliament at the end of the year and passed during 2006. The Health Companies are preparing to take



advantage of the business opportunities that may arise in the insurance market once the aforesaid Law defines the scope of action of public provision and the possible fiscal incentives for taking out private insurance policies.

MULTI-PERIL INSURANCE

The premiums written for Multi-Peril insurance policies in 2004 reached the figure of 4,159 million euros, this being an increase of 11.1%, four points below the growth figure achieved the previous year.

Within Non-Life insurance, Multi-Peril once again ranks second in premiums with a share of 15.6%. Ranking first, by far, is Motor insurance (42.8%).

MULTI-PERIL				
	Premiums 2003 (million euros)	Premiums 2004 (million euros)	% Δ 2004/2003	% of Total
Household	1,899	2,129	12.1	51.2
Industrial	912	998	9.4	24.0
Commercial	464	511	10.0	12.3
Condominium	404	455	12.6	10.9
Others	62	67	7.1	1.6
Total Multi-Peril	3,742	4,159	11.1	100

Source: «Evolution of the insurance market». ICEA.

The greatest growth with respect to 2003 corresponds to Condominium insurance —12.6%— above Household insurance, which dropped to second place, although it still accounts for over half of the premiums for the whole Multi-Peril branch of business.

As regards the claims ratio, it is still enjoying a downward trend compared to previous years, reaching 57.9% in 2004. Operating expenses are also following this downward trend, specifically half a point, accounting for 29% of premiums earned. The considerable decrease in the claims ratio and the reduction of operating expenses have produced a significant improvement in the technical result for this line of business, now standing at 14.6% of premiums earned, with a highly significant increase with respect to the previous year (6.4 points).

Such a positive result is mainly due to the significant growth of recent years, together with close monitoring of cost control and the selection of risks.



TECHNICAL ACCOUNT RESULT. MULTI-PERIL

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	2,669	76.6	28.1	3.7	31.8	-6.3
2002	3,049	68.6	27.2	3.3	30.5	0.2
2003	3,537	63.9	26.6	2.9	29.5	8.2
2004	4,011	57.9	26.1	2.9	29.0	14.6

Source: ICEA. Economic report on the insurance sector.

As regards Industrial Multi-Peril insurance, its development has been positive, with a volume of premiums of 998 million euros, i.e. an increase of 9.4% over the previous year. This growth premiums volume, together with moderate claims ratios, led to a positive technical result; to a large extent, this is explained by the previous years' updating of tariffs to resolve the well-known problem of accumulated losses. Moreover, we are starting to notice a certain degree of relaxation or trend to adjust premiums, above all due to the increased underwriting capacity (competitors).

PERSONAL ACCIDENT INSURANCE

The volume of premiums written in this line of business in 2004 reached 762 million euros, representing a rise of 6.7% with respect to the previous year.

In Non-Life insurance as a whole, Accident insurance represents 2.9% of written premiums, practically the same as in 2002.

TECHNICAL ACCOUNT RESULT. ACCIDENTS

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	656	53.8	25.2	4.5	29.7	18.1
2002	670	52.1	25.4	4.2	29.6	16.6
2003	719	49.8	24.9	4.3	29.2	21.4
2004	765	48.0	24.5	4.1	28.6	22.2

Source: ICEA. Economic report on the insurance sector.



The claims ratio in this class was 48%, a drop of 1.8 points with respect to 2003, maintaining the healthy evolution of the last three years. Operating expenses were also reduced by 0.6 points.

As a result of the foregoing, the technical result improved by almost one point with respect to the previous year, reaching 22.2% of premiums earned.

BURIAL EXPENSES INSURANCE

The premiums written in Burial insurance in 2004 reached the figure of 1,228 million euros, a 7% increase with respect to the previous year, greater than the growth rate of 2003.

Burial Expenses represents 4.7% of all Non-Life premiums, maintaining the same share as the year before.

TECHNICAL ACCOUNT RESULT. BURIAL EXPENSES

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	850	41.1	35.2	6.1	41.3	7.6
2002	998	40.7	34.8	6.3	41.1	4.8
2003	1,052	42.1	33.7	5.9	39.6	8.4
2004	1,176	39.5	33.5	6.2	39.7	10.6

Source: ICEA. Economic report on the insurance sector.

The claims ratio changed the direction from the previous year, decreasing by nearly three points and representing 39.5 % over earned premiums. On the contrary, total expenses rose by 0.1 %.

The technical result was 10.6%, improving by over two points on the 2003 result and producing the best result of the last four years, mainly due to the reduced claims ratio and the downward trend of the investment expenses.

In this line, according to ICEA data, the main —and almost exclusive— distribution channel are agents, with an 82% share of the volume of business and 93% of new production.



THIRD-PARTY LIABILITY INSURANCE

Premiums written for Third-Party Liability insurance in 2004 rose to 1,628 million euros, an 18.1% increase with respect to the previous year and sets Third-Party Liability ranking fourth by volume of premiums among Non-Life insurance, with a share of 6.20%.

The year 2004 appears to have confirmed the improved results anticipated the year before and, at the same time, undoubtedly a product of this bonanza, we can detect a certain fissure in the behaviour of the market, with several cracks appearing in the tough scenario it had become in the previous years. Indeed, the economic conditions of the renewals of the major accounts are being forced downwards, a tendency already confirmed in the policies written in 2005.

TECHNICAL ACCOUNT RESULT. THIRD-PARTY LIABILITY INSURANCE

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	692	89.2	19.3	3.3	22.5	-2.2
2002	985	85.7	15.5	2.2	17.7	-2.3
2003	1,270	83.5	15.4	2.2	17.6	4.85
2004	1,507	77.6	15.2	1.8	17.0	11.0

Source: ICEA. Economic report on the insurance sector.

The considerable premium increase has also been accompanied by a substantial improvement in the claims ratio, which now stands at 77.6% over premiums earned, a factor that —with a slight, yet constant reduction in expenses— has led to a positive technical result of 11 points, something inconceivable for this line some years ago.

Nonetheless, given that the lifespan of this line of business is a long and winding road, the evolution of the provisions for benefits and accurate accounting of the incurred but not reported unfortunately often ruin the initial forecasts, especially in a branch that is subjected like no other to the risks of change.

The relief experienced by the accounts in this line of business has in no way implied an increase in the offer of insurance for certain risk segments that, as in previous years, remain restrictive. We are referring to professional liabilities,



those of the Public Administrations, medical risks and certain other activities under the obligation to take out insurance. New insurers willing to operate in these segments could introduce greater flexibility in a sector that offers no alternative when it comes to seeking insurance.

The predominant channel for distributing this kind of insurance are brokers, with just over half of the premiums by volume of business and new production, followed in importance by agents, with a share of 31%.

CREDIT AND SURETY INSURANCE

There was a modest increase in the premiums written for Surety insurance in 2004 —5.3%, with a closing figure of 67.7 million euros, falling far short of the increases achieved in recent years. The reason for this slowdown in the growth rate may possibly be the lack of reinsurance capacity for the major constructors and promoters, major clients of the Surety insurance companies.

TECHNICAL ACCOUNT RESULT. SURETY

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	38	-1.6	11.5	6.7	18.2	84.9
2002	44	20.5	20.1	5.9	26.0	54.0
2003	64	25.7	20.6	5.2	25.7	49.7
2004	64	19.4	22.2	5.8	28.0	54.5

Source: ICEA. Economic report on insurance sector.

Once again, the claims ratio was very reasonable, with figures close to 0% in several companies, something that should not surprise anyone in this sector. Moreover, acquisition and administration expenses underwent moderate increases and the technical result could be considered excellent.

The outlook for 2005 is rather similar, with moderate growth and a healthy claims ratio. The real estate promotion sector continues to be the most important for the Surety class and, although a very slight moderation in growth can be seen, it will enable an increase in the volume of business to be achieved for the eighth year running.



Premium rates have not undergone a substantial variation and no change is forecast for 2005 in this regard.

With regard to Credit Insurance, premiums written in 2004 reached the figure of 541 million euros, up 8.7% from the 2003 figure and continuing down the deceleration route initiated the previous year.

The greater degree of penetration in the market, which is maintaining a high level of maturity, and the aggressive reduction of premium rates are producing a marked trend towards decelerated growth, encouraged by an improvement in the national economic situation and by the fierce competition that exists in this market where, apart from the three traditional local operators, all the major international groups have now joined the fray.

This clear application to the task of lowering rates, which makes a break from the upward move that started in the second half of 2001, has encountered technical support in the improvement of the national economy, although we should not forget the uncertainties of the international market, both as a result of relocation phenomena and of the loss of competitiveness of Spanish companies abroad.

The claims ratio fell yet again this year to 60.3% of premiums earned, although this represents only a 3.5 point drop, compared to 8.6 in the previous year.

Operating expenses barely moved at all, representing 31.2% of premiums earned. The technical result continues along its upward path, now reaching 15.9%.

TECHNICAL ACCOUNT RESULT. CREDIT

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	380	76.3	18.9	16.3	35.1	3.9
2002	428	72.4	17.6	14.3	31.9	6.3
2003	478	63.8	17.7	13.6	31.3	14.2
2004	525	60.3	17.7	13.4	31.2	15.9

Source: ICEA. Economic report on the insurance sector.

The claims ratio and technical result are —and will continue to be— highly influenced by the evolution of the tariffs and cover conditions applied, given that the aforementioned downward trend could offset the positive effect of the economic development on the default and insolvency rates.



The operators continue adapting to the new market realities and demands by resizing, expansion and geographical positioning tactics and the adaptation of their products, incorporating technological and operational improvements, ever seeking to provide greater flexibility in their offer of solutions and services.

As regards the near future, the factors outlined above paint a less favourable picture, with expectations pointing to growth percentages lower than at present and more in line with neighbouring countries. We shall have to be very careful, both as regards cost containment and the application of policies of the maximum effectiveness, with respect to the recovery of unpaid credits.

OTHER INDUSTRIAL INSURANCE

In this section dedicated to «Other Industrial Insurance», we shall analyse the Engineering and Transport classes, as Third-Party Liability and Multi-Risk were commented on earlier in the report.

Engineering (Machinery Breakdown, Construction Multi-Risk, Ten-Year Construction Insurance, Erection, Electronic Equipment and Product Warranty) maintained a high rate of growth this year, continuing the trend of previous years. This steady growth is headed by the Ten-Year Construction insurance, with a volume of premiums of 288 million Euros, which represents an increase of 41.3% over the previous year, followed by Machinery Breakdown and Construction Multi-Risk, which rose by 23.4% and 14.1%, respectively.

OTHER INDUSTRIAL INSURANCE				
	Premiums 2003 (million euros)	Premiums 2004 (million euros)	% Δ 2004/2003	% of Total
Engineering	526	669	27.1	53.3
Transport	563	586	4.1	46.7
Total	1,145	1,255	9.6	100

Source: ICEA.

As regards Construction Multi-Risk, the sharp rates of growth are a result of the huge rise in construction we have been experiencing for some years now, both in the public and private sector. Small risks insurance growth rates have dropped, due to the fierce competition among the largest insurance groups.



Machinery Breakdown is closely linked to Construction Multi-Risk, due to the increase in the fleet of machines providing services to construction. Industrial Machinery insurance has remained at the same levels.

As for Electronic Equipment, the trend observed in 2003 has continued apace, with a linear growth.

Assembly insurance has remained at the level of 2003, although it must be borne in mind that premiums volumes fluctuate a lot, depending on the assembly of industrial plants.

With respect to the Ten-Year Construction Insurance, there has been a sharp rise in the market, once again due to the real estate boom. The claims ratio is low, although we must be prudent, given that, as this is a long-term policy, we shall have to wait a few years to see its true impact. Rates have stayed steady—and even dropped—due to the fierce competition that forces us to apply very few technical surcharges.

Transport insurance is characterised by the fact that it has to operate in a highly saturated marketplace, where heady rates of growth are unthinkable. Nonetheless, the downward trend of the last year has been halted and, on the contrary, there are positive signs of growth in 2004. Transport business increased by 4.1%, a rise of 23 million euros in revenue.

The volume of premiums in every line of business within this sector has increased. The most modest rise was in Marine insurance—0.5%—and the evolution of (Marine) Hull insurance was the same as the previous year. Rates have followed a downward course, mainly as a result of the competition arisen in recent years. This drop in premiums has been somewhat offset by the increase in premiums for recreational vessels insurance (included in Marine), with the result that the sector has maintained the same volume of business as the year before.

TECHNICAL ACCOUNT RESULT. TRANSPORT-GOODS

Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	210	67.8	22.4	2.8	25.2	8.6
2002	220	65.0	22.8	2.5	25.3	8.9
2003	228	58.8	23.3	2.3	25.6	18.1
2004	249	50.8	23.2	1.9	25.1	25.7

Source: ICEA. Economic report on insurance sector.



As has recently been the case, Goods insurance maintained a moderate growth of 5.1% with respect to 2003, confirming the slowdown premiums in the market last year.

On the contrary, Aviation insurance regained some ground, mainly influenced by the launch of the Amazonas satellite and the increases that continue to occur in war cover contracts.

Analysing the Goods insurance technical account, the most noteworthy change in 2004 was the 8-point drop in the claims ratio, which contributed to achieve a technical result of 25.7% on premiums earned.

TECHNICAL ACCOUNT RESULT. TRANSPORT-HULL						
Year	Earned premiums (million euros)	% Claims Ratio	Operating Expenses			% Technical account result
			% Acquisition Expenses	% Administration Expenses	% Total Expenses	
2001	154	87.8	12.7	1.7	14.4	0.2
2002	221	47.9	9.3	1.3	10.6	41.0
2003	229	42.3	10.4	1.4	11.8	47.4
2004	231	38.1	11.3	1.3	12.6	50.6

Source: ICEA. Economic report on the insurance sector.

As for Hull insurance, the claims ratio fell 4.2 points to 38.1 %, while acquisition expenses rose 0.9 points to 11.3%. The technical result increased by 3.2 points, producing a final ratio of 50.6 on premiums earned.



Legal changes in 2004

Legislative Royal Decree 6/2004, of 29th October, which approved the revised text of the Spanish Law on Private Insurance Regulation and Supervision. Published in BOE (Official State Gazette) No. 267 on November 5th 2004.

The revised text aims to achieve regulatory unification in the legislation governing the regulation and supervision of private insurance in force in our country and offer those concerned a unified, comprehensive set of rules that incorporates all the reforms and modifications introduced throughout the effective period of Spanish Law 30/95.

The mandate conferred on the Government in Spanish Law 44/2002 on Financial System Reform Measures is thus fulfilled, given that it laid down a period of one year from its effective date for the drafting of a revised text of the Law on Private Insurance Regulation and Supervision, empowering it to regulate, clarify and harmonise the legal texts in this field that require revision. Moreover, Spanish Law 34/2003 on the Modification and Adaptation of Private Insurance Legislation to meet EU Regulations stipulated that the Government's authorisation to draft a revised text should include the incorporation of the modifications contained in Spanish Law 44/2002, as well as those stemming from the provisions of the Bankruptcy Law of 2003.

Of the reforms and modifications carried out following the enactment of the Law on Private Insurance Regulation and Supervision, the following are worth highlighting:

- The Law on Financial System Reform Measures introduced reforms to the Law on Private Insurance Regulation and Supervision, given the need to meet the requirements of internal community law and to foster the efficiency of the insurance market and the protection of financial services customers.
- The Law on the Modification and Adaptation of Private Insurance Legislation to meet EU Regulations introduces modifications related to the



restructuring and liquidation of insurance companies, as well as solvency margin requirements.

- The modifications introduced by the Bankruptcy Law have the goal of adapting the wording of certain requirements of Spanish Law 30/1995 to the new regulation governing bankruptcy matters.

The revised text also incorporates the modifications introduced by the various Laws on Fiscal, Administrative and Social Order Measures, as well as the Organic Law on the Protection of Personal Data of 1999.

Legislative Royal Decree 7/2004, of 29th October, which approved the revised text of the Legal Statutes of the Insurance Compensation Consortium. Published in BOE No. 267 on November 5th 2004.

Spanish Law 34/2003 on the Modification and Adaptation of Private Insurance Legislation to meet EU Regulations authorises the Government to draft and approve, within a period of one year from coming into force, a revised text of the Legal Statutes of the Insurance Compensation Consortium, contained in article four of Spanish Law 21/1990. The delegation includes empowerment to regulate, clarify and harmonise the legal texts that require revision.

Since its approval in 1990, the Legal Statutes of the Insurance Compensation Consortium have undergone several reforms and modifications, some of which are summarised below:

- The Law on Private Insurance Regulation and Supervision modified the provisions relating to the definition of its goals and powers, the delimitation of its private functions, in relation to insuring extraordinary risks and compulsory motor insurance, and its public functions.
- The Law on Financial System Reform Measures defines the new functions of the Consortium as a liquidator of insurance entities, following the abolition of the CLEA (Insurance Company Liquidator Commission), and also modifies certain aspects of its asset regime.

This same Law empowered the Consortium to assume third-part liability cover related to the circulation of motor vehicles, exceeding the limits of the compulsory insurance with respect to the risks not accepted by the insurance companies.

- Law 34/2003 on the Modification and Adaptation of Private Insurance Legislation to meet EU Regulations modified the Statutes with a view to allowing the Consortium to indemnify for personal damages produced as a consequence of extraordinary events occurring abroad, where the policyholder's habitual residence is in Spain.



Legislative Royal Decree 8/2004, of 29th October, which approved the revised text of the Spanish Law on Third-Party Liability and Insurance in the Circulation of Motor Vehicles. Published in BOE No. 267 on November 5th 2004.

Spanish Law 34/2003 on the Modification and Adaptation of Private Insurance Legislation to meet EU Regulations authorises the Government to draft and approve, within a period of one year from coming into force, a revised text of the Law on Third-Party Liability and Insurance in the Circulation of Motor Vehicles, to replace that approved by Decree 632/1968 and include the subsequent modifications thereto.

There now follows a summary of the modifications to the said text throughout its effective period, which are duly incorporated into the new revised text:

- Adaptation of the cover provided by the compulsory motor insurance to the territorial scope of the member States and the requirement to take out a compulsory Third-Party Liability insurance that covers both bodily and material damages.
- Elimination of the existing legal loopholes regarding the settlement of losses involving road accidents that occur within a member State other than that where the injured party resides, establishing three mechanisms to fulfil this goal:
 - Creation of the concept of the representative for handling and settling claims in the country of residence of the injured party,
 - Creation of the concept of the reporting bodies
 - Creation of the concept of the indemnity bodies
- Modification of table VI of the system for assessing damages and injuries caused to people in road accidents.
- The references and the contents of the articles have been duly adapted to the legal system currently in force. Such is the case of the references to the 1995 Penal Code and the modifications to the Code of Criminal Procedure and the Organic Law on the Judiciary of 1985.

Royal Decree 297/2004, of 20th February, which duly modified the Regulation on Private Insurance Regulation and Supervision, approved by Royal Decree 2486/1998, of 20th November. Published in BOE No. 45 on February 21st 2004.

Designed to introduce the modifications necessary in the Regulation on Private Insurance Regulation and Supervision in order to adapt it to the EU rulings that regulate demands and requirements in relation to the solvency margin of insurance companies.



The EU regulations on solvency reinforce the current quantitative demands, both as regards the guarantee fund and the obligatory solvency margin, and, at the same time, they establish a mechanism that envisages its periodical, automatic updating, according to the European consumer price index.

It is also envisaged that, in certain circumstances where the rights of the insured are challenged, the competent authorities shall be empowered to intervene sufficiently in advance, although, in the exercise of these powers, the authorities must inform the insurance companies of the reasons behind such supervisory action, in keeping with the principles of efficacy and legality. The measures envisaged under the EU regulations to guarantee future solvency may be summarised in three basic points:

- the demand for a financial recovery plan;
- oblige insurance companies to maintain a higher obligatory solvency margin, with a view to ensuring they will be able to comply with the solvency requirements in the near future;
- revise downwards the elements that make up the available solvency margin, particularly when there has been a significant change in the market value of such elements since the close of the previous year.

Some of these measures have been incorporated into the Law on Private Insurance Regulation and Supervision by Spanish Law 34/2003 on the Modification and Adaptation of Private Insurance Legislation to meet EU Regulations. With the modifications reflected in this Royal Decree, the transposition of EU directives on solvency margins is duly completed.

In addition, certain adaptations are introduced to Third-Party Liability insurance in relation to the circulation of motor vehicles, as well as the incorporation to the current regulations of cession, merger or spin-off processes, of aspects not envisaged therein, but which, nevertheless, are being demanded by the market.

Finally, among other aspects, modifications are made to the requirements for obtaining administrative authorisation for branch offices in Spain from countries that do not belong to the EEA (European Economic Area).

Royal Decree 298/2004, of 20th February, which duly modified the Accounting Plan for Insurance Companies and guidelines for drafting the accounts of insurance company groups, approved by Royal Decree 2014/1997, of 26th December. Published in BOE No. 45 on February 21st 2004.

This Royal Decree introduced certain modifications to the valuation rules, in relation to material investments, goodwill amortisation and the calculation of the provision for premiums pending collection in the case of payment by instalments.



In addition, in keeping with the correlative modification of the Regulation on Private Insurance Regulation and Supervision, it proved necessary to eliminate the exemption on consolidation, in the case of insurance companies with a Spanish parent company, which are, in turn, controlled by an insurance company with registered offices in a country within the European Economic Area.

In short, this Royal Decree introduced the following modifications:

- It sets forth that, for performing the valuation corrections and the calculation of the solvency margin of the properties for own use, the market value must be used, as calculated by an evaluation expert.
- It modifies valuation rule 2, adapting the sectorial criteria for goodwill amortisation to the provisions of general mercantile legislation. It extends the period of amortisation envisaged for goodwill to acquisition expenses also.
- A final paragraph is added to section 2 of valuation rule 6, with a view to clarifying and simplifying the calculation of the provision for outstanding premiums, in the case of payment by instalments.
- It modifies the second paragraph of section 3 of rule 3, accounting rules, of the rules on drafting the accounts of insurance company groups that may be consolidated, with a view to ensuring that the insurance companies with a Spanish parent company within a group of companies are bound by the duty to consolidate, even where they are, in turn, controlled by an insurance company with registered offices in a country within the European Economic Area.

Royal Decree 299/2004, of 20th February, which duly modifies the Regulation on Third-Party Liability and Insurance in the Circulation of Motor Vehicles, approved by Royal Decree 7/2001, of 12th January. Published in BOE No. 47 on February 24th 2004.

The purpose of this Royal Decree is the introduction of certain adaptations stemming from the Fourth Directive on Motor Insurance into the Regulation on Third-Party Liability and Insurance in the Circulation of Motor Vehicles.

The Regulation incorporates the new duties of OFESAUTO, as an indemnity body within the framework of the Fourth Directive on Motor Insurance, as well as the necessary modifications arising from the appointment of the Insurance Compensation Consortium as a reporting body, in relation to the representatives, for processing and settling claims designated by the insurance companies in each of the member states.

Article seven of the Fourth Directive envisages that, in those case where it is not possible to identify the vehicle that caused the accident or its insurance



company, the injured party may seek indemnity from the indemnity body in their country of residence, with the latter, once the indemnity has been paid, becoming a creditor of the corresponding guarantee fund; it is therefore necessary to include within the duties fulfilled by the Insurance Compensation Consortium —as a guarantee fund provider— that of reimbursing the said indemnity bodies.

Finally, the necessary adaptations are to be made to the Computerised Insured Vehicles File (FIVA) to allow for an exchange of data between the Spanish indemnity body and the indemnity and reporting bodies of the other member states within the European Economic Area.

Royal Decree 300/2004, of 20th February, which duly approved the Regulation on Extraordinary Risk Insurance. Published in BOE No. 47 on February 24th 2004.

This responds to the need to draft a new regulatory text that envisages the development of new cover options and updates and revises those rules that already exist, thus avoiding excessive dispersion of the guidelines governing a field of such technical complexity.

One notable change is the broadening of the concept of an «atypical cyclonic storm», which did not consider damages exclusively caused by extraordinary winds or tornados, and that of «flooding», which excluded damages due to battering sea waves; another is the revision of the exclusion and waiting periods, which —to the benefit of the insured— are eliminated in many cases and reduced in the others.

Royal Decree 301/2004, of 20th February, which duly regulates the books of record and the duty to furnish statistical accounting data corresponding to insurance brokers and insurance brokerage companies. Published in BOE No. 47 on February 24th 2004.

A basic instrument for the analysis and diagnosis of the evolution of the insurance market is the information available on the activity carried out by the insurance brokers and brokerage companies. Obtaining and using this information is relevant for both the economic policy authorities and for the exercise of the administrative competences related to the control and supervision of the insurance brokerage activity. In this sense, article 24 of Spanish Law 9/1992, of 30th April, established the obligation on insurance brokers and brokerage companies to make available to the Spanish Insurance and Pension Funds General Directorate (DGS) detailed information, as of the close of the previous fiscal year, on the portfolio of insurance policies for which they acted as intermediaries.



As regards the information relating to insurance agents, this is obtained through the insurance companies to which they are bound by an agency contract. With respect to the insurance brokers and brokerage companies, it proves necessary to seek statistical accounting data directly from them, in relation to the exercise of their activity as independent insurance intermediaries.

Spanish Law 9/1992, of 30th April, on Private Insurance Intermediation set aside, among other rulings, Royal Decree 690/1988, of 24th June, which had duly approved the Regulation on private insurance production, whose Article 21 laid down the books of record that insurance agents and brokers had to keep.

This Royal Decree thus regulates the accounting books of record that insurance brokers and brokerage companies must keep in relation to the exercise of this insurance intermediation activity, maintaining certain specific aspects of repealed Royal Decree 690/1988, of 24th June, and incorporating modifications and requirements advocated by experience in the administrative control of this activity.

It should be pointed out that, so far as the requirement for statistical accounting data on insurance brokers and brokerage companies is concerned, the Decree takes into consideration the fourth additional provision of Spanish Law 9/1992, of 30th April, which established, as suppletory legislation, Spanish Law 30/1995, of 8th November, on Private Insurance Regulation and Supervision.

Royal Decree 304/2004, of 20th February, which duly approved the Regulation on Pension Plans and Funds. Published in BOE No. 48 on February 25th 2004.

This Royal Decree updates, sistematizes and completes the adaptation of the regulatory framework governing pension plans and funds, on the basis of the experience accumulated in this field and taking as a reference the developments within the European Union.

This text provides guidelines for the new regulation governing investments in pension funds, establishing greater legal security for those intervening in the investment process and increasing the level of transparency and information to participants. The idea is to adapt the regulation of investments to a financial market situation that is rather different from that which existed in 1988, the date the current regulation was passed.

At the same time, stipulations are incorporated with regard to the free provision of financial services, thus granting greater regulatory relevance to the services provided in this sector, something which, in turn, results in an improvement in the services provided and an increase in the specialisation within this activity.



Order ECO/3721/2003, of 23rd December, which duly approved the code of conduct for mutual insurance companies and social insurance mutualities in the field of temporary financial investments. Published in BOE No. 7 on January 8th 2004.

The third additional provision of Law 44/2002, of 22nd November, on Financial System Reform Measures, provides that the Spanish Securities and Exchange Commission, the Bank of Spain and the Economics Ministry —each within their own sphere of supervision— shall approve codes of conduct that contain the specific rules to be adhered to in the event of temporary financial investments made, amongst others, by mutual insurance companies and social insurance mutualities, with a view to optimising the yield on the funds they possess and which they may dedicate to reaping benefits in accordance with their operating rules.

In addition, the said additional provision imposes on the governing, administrative or management bodies of the said entities the obligation of presenting an annual report on the degree of compliance with the aforesaid codes of conduct, so as to duly inform their associates or mutualists thereon.

Royal Decree 303/2004, of 20th February, which duly approved the Regulation on the Commissioners for the defence of financial services clients. Published in BOE No. 54 on March 3rd 2004.

The rising complexity of the world of financial operations and the constant — and necessary— improvement in the quality of the services provided by the financial sector demands that the system be provided the legal and operational instruments it requires, so as to facilitate a speedy, efficient way for the clients of financial services to channel their queries, claims or complaints to the supervisory authority of each market. It therefore proves essential to provide mechanisms that enhance transparency and the protection of clients in this segment of the economy, which constitutes one of the sectors of greatest importance and future prospects with the Spanish economy.

In accordance with the provisions of the Regulation, whenever the users of financial services turn to these ombudsmen with their claims or complaints, it is understood that this does not preclude the possible use of other protection systems envisaged in current Spanish legislation, specifically the arbitration and consumer protection services, and that in no case shall the report that brings to a close such claims or complaints procedures be binding on the claimant nor on the entity to which it refers, without prejudice to the possibility of forwarding to the corresponding supervision services those files in which there appear to be signs of the rules on transparency and protection of the client being breached or broken.



It is expected that such an appointment will fall upon someone of recognised prestige in the economic or financial sector, with the corresponding, necessary professional experience. These Commissioners for the defence of financial services clients shall give an account of their work in an annual report, to be published after sending a copy to the supervisory body to which they are attached.

Order ECO/734/2005, of 11th March on the customer service departments and ombudsman for the clients of financial entities. Published in BOE No. 72 on March 24th 2004.

Spanish Law 44/2002, of 22nd November, on Financial System Reform Measures established the obligation on financial entities to receive and resolve the claims and complaints their clients might lodge, in relation to their legally recognised interests and rights. In this sense, it set forth that the credit institutions, investment services firms and insurance companies should possess a customer service department; in addition, they may appoint an ombudsman to receive and resolve those kinds of claims determined in each case by their rules of operation.

The aim of this Order is to develop the requirements and procedures to be fulfilled by such customer service departments, as well as the aforementioned ombudsman.

In order to complete this analysis of new legislative measures affecting the insurance sector and pension plans and funds introduced in 2004, there now follow some brief comments on the most important bills still going through the Spanish parliament in the first few months of 2005.

The Draft Bill on **Intermediation in Private Insurance and Reinsurance** incorporates Directive 2002/92/EC on insurance intermediation into Spanish domestic legislation, with the triple objective of contributing towards achieving a single market for financial services, adapting said activity to the reality of the market and offering greater transparency in the information provided and enhanced consumer protection.

One of the pillars of this Draft Bill is to increase the protection of consumers and users of insurance and reinsurance services. The three basic principles are:

1. Regulation of new forms of intermediation, with a view to adapting it to the reality of the intermediation market.
2. The principle of equality of treatment between the different intermediaries, demanding equivalent professional requirements of all of them.
3. The incorporation of transparency guidelines that can guarantee the protection of consumers and users of insurance and reinsurance services.



The Draft Bill on **Adaptation to the Cross-Border Activities Regime, regulated in the EU Directive on the Activities and Supervision of Employment Pension Funds** introduces modifications to the revised text of the Law on the Regulation of Pension Plans and Funds, approved by Legislative Royal Decree 1/2002, with a view to adapting Spanish domestic legislation to the aforesaid directive.

It is worth underscoring the demand that pension funds and, where appropriate, their fund managers should be subjected to the control and supervision of a competent national authority of the member state where they are based and to the fulfilment of certain requirements in order to exercise this activity.

Another noteworthy aspect of the directive is the demand that the member states must ensure compliance with the obligations regarding information to the participants and beneficiaries; the institutions must provide them with access to all information relating to financial solvency, the contractual rules, the benefits and the financing of the accrued rights, as well as to the investment policy and to risk and cost management strategies. Member states are allowed to set detailed rules designed to adequately protect the interests of participants and beneficiaries or justified by the principle of prudence.

It is also important to mention the White Paper on **The creation of a life insurance computer file** that envisages the creation of an instrument that could enable prospective beneficiaries to be aware of the existence of the insurance contract and, where applicable, oblige the insurance company to disburse the benefit.

