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Reinsurance Offices Association

London

The Spanish Market

**An approach to
Non-Life Insurance Business**

Filomeno Mira Candel

Chairman

MAPFRE INDUSTRIAL, S.A.

29th May, 1990

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Dear Friends,

I would like to start by apologizing for all the mistakes I may make during the course of the day whilst expressing myself in English. I hope you will be indulgent with me and that you will, as far as possible, understand me. I can count on the support of my colleague, Chris Lawrence, who can give me hand if it is necessary. Thank you for being so understanding.

Also, before starting, I would like to thank ROA for their kindness in inviting me to this internationally prestigious forum and thus giving me the opportunity to tell you about the situation in the insurance market in Spain, especially in the non-life sector. It is for me an honour to represent here, not only my Company, but also in some ways, the whole Spanish Market. I will try to tell you my personal opinion with the utmost truthfulness and objectivity.

I would also like to congratulate ROA on the timing of this Meeting, at a moment when insurance activity is undergoing a high level of expansion in all countries and, especially, amongst others, in my country, target of continual attention of institutional investors, international insurers, reinsurers and brokers. A close look at this market must be, therefore, of use to all.

I am going to begin by performing a macroeconomic analysis of Spain for the last three years with a projection for the present year, comparing it with other countries of the E.C. and O.E.C.D. Afterwards I will analyse the legal and associated context of insurance activity in Spain, with a brief resume of the regulations in force and the prospective insurance legislation with general comments with respect to this situation. From there, I will analyse Spanish insurance market economic information for the last three years by sectors, and compare this analysis with other countries in our economic environment. Using this information, I will present a qualitative analysis of the insurance market, contemplating strategies, main concerns and peculiarities of the sector.

As the non-life sector could be considered a large melting pot, I have considered it wise to include special information for each of the most characteristic branches, or groups of branches, whose behaviour has been different and without an analysis of which we could be left with non-significant averages. In this way I will analyse the branches of: Motor, Homeowners and Commercial Multirisk, Industrial Fire, General Liability, Marine, Engineering and Health fundamentally. I will end with a review of the perspectives and challenges which will exist in the Europe of '93. I hope I don't disappoint you. I would also like to tell you before starting my analysis that a large part of the information has been taken from reports produced by UNESPA, ICEA, the Bank of Spain the Institute of Economic Studies and the National Institute of Statistics.

MACROECONOMIC INFORMATION FOR SPAIN

The world economy in 1989 exceeded forecasts made at the beginning of the year, unexpectedly lengthening the present cycle of expansion, which has no precedents since the end of the war, without having brought with it an acceleration in inflation to the high rates which many foresaw.

In this way, the Spanish economy has remained steady within the upward economic cycle started in 1985. There have been adequate results in investments, the evolution of employment, and the increase in the level of activity, although both inflation and the current account deficit have increased. The growth of G.D.P reached 4.9% despite the monetary and fiscal measures which had a notable effect in the second semester of 1989.

These measures, still in force, are intended, fundamentally to reduce demand, and due to this it does not seem likely that in 1990 the growth of G.D.P will exceed 4%. I have included a table of the comparative rates of growth of G.D.P of various countries in our economic environment (TABLE 1).

In the growth of activity in the country, investment in fixed capital stands out, with a real growth of 13.6%. This is good news which implies growth directed towards an improvement in the Spanish production capability which needs to be equipped in competition with other countries so as to reduce one of its big economic problems, its large foreign deficit.

Internal demand has grown for various reasons, but fundamentally because of the growth of employment, the increase in disposable income and because of the events foreseen for Spain in 1992, one of the big forces today behind the economy, and which is responsible for the growth in construction activity which has exceeded, in real terms, 13% (TABLE 2).

The main problem, as I have said before, is the current account deficit, which in 1989 was placed at 3% of G.D.P. To this should be added the reduction of the positive balance for the services account due to the decrease in income from tourism, together with a substantial increase in payments for the same concept, although this imbalance has been financed with ease thanks to the inflow of foreign capital, to a point where the reserves of foreign currency have reached an all time high. This receipt of foreign currency is consolidating the investment process which is indispensable for the development of production within the country. In other words, we are financing our investment with foreign savings, and the process is increasing our reserves of foreign currencies (more than 44,000 million U.S. dollars at the end of the year).

The evolution of employment has been positive, with the creation of around 500,000 jobs in the financial year, the rate of unemployment falling to 16.9%, still very high in comparison to other European countries, although it would be difficult to define the importance of the black economy in the various countries. This increase has mainly been channeled through temporary work contracts, which today is the cause of friction between the unions and the government, which, together with inflationary tensions due to salary settlements is leading to a new focus on the relationship between government, company and workers: productivity as the determining factor in the increase of salaries.

The large growth in internal demand has provoked a rebound in the rate of inflation. The retail price index reached 6.9% in 1989, against 4.8% in the previous year, and was far above the official forecasts. You can see the relatively large differences with respect to other European countries (TABLE 3).

Another of the big problems of our economy is the public deficit, produced, to a great extent, by a large public debt which again grew last year from 13.0 to 14.5 billion (million million) pesetas, although with respect to G.D.P. this fell from 32 to 31.4%.

The non-financial income of the State was higher than that forecasted by the Public Administration, due to a higher tax income and greater growth of the economy with respect to that expected.

The tax burden has risen from 19.5 to 20.6%. With respect to the financial markets, an important aspect from the point of view of insurance company investment returns, this has shown very peculiar behaviour. The stock exchange has greatly increased its dealing volume (56% more than in the previous year), but with reduced revaluation, 8.1%. Uncertainty in foreign markets and high growth in the rates of interest are prompting investors to move to fixed rate of return investment. These criteria are shared by foreign investors, and already in 1990 this behaviour has shown a downward trend even though in these last few weeks there has appeared a still nervous technical reaction.

Foreign investment in the stock exchange rose to around, 2,000 million U.S. dollars, a notable aspect of the financial year being the introduction in July of the stock exchange reform law, which aims for a more transparent, uniform and modern stock exchange. More important for the Spanish insurance companies, less given to stock exchange investment than to real estate and, above all, fixed rate of return investments, is the high rate of interest in monetary investments. At the end of the year, the main investments had the rates indicated in TABLE 4. In 1990 these rates have grown even more, to the point where they produce an attractive range even for foreign investors (up to 15% in current accounts).

THE LEGAL FRAMEWORK AND ASSOCIATIONS OF THE INSURANCE SECTOR

Until the 80's the insurance sector in Spain was regulated by laws which dated from the turn of the century, which produced a grave discrepancy between the reality of the sector and the legal norms applied to it. From 1980 the Spanish legislator started a complete updating of the legislation applicable to insurance activity and, even though Spain was still not a full member of the E.C., this reform was carried out bearing in mind the community Directives.

(a) **Regulations in Force**

The legal regulation of the Spanish insurance sector is at the present time supervised by three fundamental legislative bodies:

- a) Regulation and discipline of the sector.
- b) Regulation of the production of private insurance.
- c) Insurance contract.

We will begin by briefly analysing the legislation, from the oldest to the most recent.

The first modernization undertaken in Spain, perhaps because it was the most urgent, was the law regulating the relations between the parties in an insurance contract. The Law of 1980 did not come into force until six months after its publication, and was not applicable to all contracts of insurance, whatever their date of inception, until April 1983. In the formulation of this law the community regulations were very much taken into account and the law was a great improvement on the obsolete legislation which it replaced. The Spanish insurance contract law has its sights set on the task of protecting the rights of the insured, as they are taken to be the weakest part of the contract, and therefore most in need of judicial protection. Its principal defect, in our opinion, is the excessive formalism (not always followed in practice) which is demanded of the insurer.

The second reform carried out by the Spanish legislator was the regulation of discipline and monitoring of insurance activity. The Law of 1984 concerning the regulation of private insurance has as its object the protection of the interests of the insured and the beneficiaries of the contracts through modern, agile and efficient monitoring of Solvency, using new monitoring concepts and adopting a series of measures which rationalize the insurance market, aiming to give it greater competitiveness and transparency.

The Law of 1984 was designed to achieve the following:

- * To normalize the market giving all entities the possibility to participate in free competition with absolute equality and without discriminatory legal treatment.
- * To promote the concentration of companies and the restructuring of the sector in the sense of giving way to groups of companies which are more competitive on a national and international level and have lower running costs. At this time, 6 years on from the formulation of the law, it can be said that it has failed in this aspect and that the Spanish insurance market continues to be excessively scattered.
- * To strengthen the national reinsurance market, through which business should be retained on a national level as far as possible. We may also say from the perspective given to us by time that the success of this objective is doubtful.
- * To achieve greater specialization within the entities, especially in the life branch, in accordance with international tendencies.

On a secondary level, the monitoring of insurance companies performed by the administration is based on the following guidelines:

- * Regulating the conditions of access and practice in insurance activity, raising the financial guarantees of the companies and stressing the solvency principle in all its aspects, technical and financial.
- * To rehabilitate the sector preventing the bankrupt of companies creating the intervention mechanisms necessary for the adoption of corrective measures which do the least possible harm to the insured and employees of the companies.
- * To provide the maximum protection of the interests of the insured and the beneficiaries protected by the insurance.
- * As a last point, insurance distributors (agents, brokers...) were made subject to the law, and figures, not until now officially recognized such as loss adjusters and marine surveyors have been regulated.

This law was adapted to community Directives through legal regulations published in 1986 in the way to allow member states of the E.C. freedom to establish themselves in Spain, subject to the same conditions required of Spanish Companies.

As to the regulation of the production of private insurance, the two fundamental norms are the law and the regulation, published in 1985 and 1988 respectively. The law was adapted to community Directives in 1986, with the aim of allowing people from other member countries of the European Community to practice this activity under the same conditions and requisites required of the Spanish.

In addition to these norms, also should be mentioned those which exist for the Motor Insurance, with identical regulations to those in other E.C. Countries and only different maximum indemnity limits, in a phase of adaptation which should end in 1992. Worthy of note also is the regulation (1954) for extraordinary risks through the Consortium for Insurance Compensation, modified by various regulations in the last years with respect to procedures, cover and premium tariffs.

Recently compulsory travellers insurance has been liberalized, until now a State monopoly through the Consortium for Insurance Compensation. Private companies are already offering accident covers for the large public and private transport companies.

(b) Imminent regulations

The majority of the regulations to which I have referred will be reformed in the near future. In general, the reformed regulations provide for freedom of services in non-life insurance as stipulated by the corresponding Community Directive.

The implantation on this directive makes the modification of the Law of 1984 necessary, and this is the regulation most affected. Various types of modifications are

necessary in this law, for example, concerning the freedom of establishment in community countries other than that where the mother company is situated and the regulations applicable to the transfer of portfolios between establishments situated in different countries.

The concept of so called "large risks" is introduced, which are governed by the new regulation with less official control and more freedom to specific conditions agreed between the parties.

Administrative control, until now limited to insurers permanently established in Spanish territory, is extended to those insurers which operate from third community countries, without establishment in Spain.

Freedom of services and community coinsurance operations are also regulated. These operations were already the object of a norm which is now integrated into the law.

The currency in which the obligations of the insurer are set is also regulated for policies written under the freedom of services principles.

The modification of the Insurance Contract Law of 1980 is also required so as to take account of the freedom of choice of the country for the submission of the insurance policies. A new chapter is incorporated with the norms of International Laws which are indispensable in the new legal framework.

Also the Insurance Contract Law will be altered as far as "large risks" are concerned, the new regulation gives priority to private agreements between the parties against the legal rigidity of the small and simple risks.

The new regulation will eliminate the monopoly of the consortium for insurance compensation in the insuring of extraordinary risks, allowing the free competition of the insurance companies in covering this type of risk. The new legislation foresees that in the future the Government may order the elimination of the Consortium, depending on the experience which is obtained in the new situation.

All these new norms have been considered and accepted by the consultative organs of the Spanish government, which have given their approval and it is foreseen that they will come into force on July 1st 1990, although it would not be at all strange if there were a delay.

(c) Association framework

From the old National Insurance Syndicate, constituted in the previous political regime, was created an Employers' Association denominated UNESPA, which now brings together the last majority of companies, mutuels and foreign entities, although with some notable exceptions. UNESPA is integrated within the large Spanish employers' organization CEOE and also belongs to the European Insurance Committee.

ICEA, Cooperative Research of Insurance Companies, was created in 1965, this brings together the most important companies in the sector and efficiently and speedily researches market analysis, it also promotes better management of companies through seminars, specialization meetings, and work groups from which arise very complete studies concerning the reality of the different areas of the market. With other foreign

institutions also offer insurance company management and administration seminars and training courses.

Other market institutions are the Institute of Spanish Actuaries, the Colleges of Agents, Brokers' Associations, and also the Centre for Insurance Information which efficiently works to bring insurance institutions closer to the general public.

ECONOMIC INFORMATION ON THE INSURANCE MARKET

In 1989, direct insurance premiums reached 1.5 million million pesetas (14.6 billion U.S. dollars), against 1.7 in 1988 (16.5 billion U.S. dollars). This decrease can be attributed exclusively to the fall in business in life single premiums, which went down from 0.6 to 0.2 million million pesetas, fundamentally because of the circumstances surrounding this type of operation and the special fiscal concerns.

Despite this, the volume of periodic life premiums grew by 23.4% and non-life by 21.8% (TABLE 5).

At the macroeconomic level, this volume of premiums represents 3.4% over G.D.P., somewhat less than the previous year (4.2%), and at a level very much below that of the average of other countries in our economic environment (TABLE 6). In the same way, the per capita expenditure has gone from 43,861 pesetas (400 U.S. dollars) to 39,752 (370 U.S. dollars), but if we eliminate the influence of single premium policies, there is a substantial increase in both life and non-life business. All in all, there is a future margin for us to reach the levels of other European countries.

Concentrating on non-life insurance, it should be said that a high rate of growth is being maintained (21.8%), although there has been a certain deceleration with respect to 1987 which was a real record (30.4%).

Real growth, after taking into account inflation, is certainly substantial, although with a certain tendency to slow down, 13% growth is estimated for 1990 (TABLE 7).

By sectors, Motor insurance represents almost half of this sector, with a very strong rate of growth of premiums due to, on the one hand, the increase in the number of vehicles, a net increase of almost 1 million, and also a substantial increase in premiums caused by large technical losses due to the adaptation of guarantees to E.C. norms. In 1990 Motor insurance will again rise (although the rate of net increase of vehicles is slowing), due to the increases imposed by companies which in this way try to reduce the large technical deficit which exists in this branch.

In the corresponding TABLES (8, 9, 10, 11 and 12) can be seen the share taken in this sector by the various branches, amongst which stands out the strong position of Homeowners insurance with 28.2% growth.

Health insurance is another sector with a high rate of growth (20.4%) due, fundamentally, to the increase in the technically insufficient premiums.

Concerning the loss ratio, a dangerous increase can be observed both in life and non-life business, caused by higher competition in the market and the special circumstances which surround Motor insurance (TABLES 13 and 14).

Homeowners insurance is losing its high margin and is approaching underwriting break even due to the reduction in premiums and increases in guarantees and cover.

Health insurance has brought with it an underwriting loss which is producing serious consequences in the market, as will later be analyzed.

On the whole, the majority of the branches, with the exceptions of Motor and Health basically, may still be considered profitable from an underwriting point of view.

Concerning expenses, one of the serious problems of Spanish insurance, there is a slight drop in both general and acquisition rates, still insufficient for the approaching competition with the European giants, if general coefficients are applied and not those of their operations in Spain (which normally suffer from the same structural defects as Spanish companies) (TABLES 15 and 16).

The point underwriting break-even has been slowly worsening, to the stage where it has reached a notable imbalance in non-life insurance, especially in Motor insurance (TABLE 17).

Nevertheless, this average should not be considered the only aspect in the non-life insurance situation, given that, as can be seen, in other sectors there is still a sufficient profit margin thanks to investment income.

In general, it can be said that in non-life insurance, the market still offers a relatively positive panorama, although with a growing tendency to a reduced margin and with the clear possibility of loss if a serious policy for selective underwriting is not established.

One of the determining factors concerning competitiveness in Spain is the scattering and low concentration of the market. The number of companies, despite the efforts of the public administration to reduce the number and restructure or liquidate those that are insolvent, is greater than 400. A breakdown can be seen on the corresponding tables (18 and 19).

By groups, the presence of the foreign sector is, without a doubt, important, (around 20% of the total market) as can be seen in TABLE 20, although in the general insurance sector (non-Life and non-Motor) its presence is even higher (around 25%).

These underwritings results are complemented by a not especially high investment income if we compare it with other countries where insurance activity has historically had better results. In TABLE 21 can be seen the percentages of investment income for the last three years, greatly influenced by the particular monetary circumstances at each moment. It may be estimated that the figure for 1989 will be higher than for the previous year and will be higher still in the present year due to the particular circumstances of the monetary market which may allviate the growing underwriting deficit and, in some cases, provoke a still greater reduction in premiums.

One of the characteristics of the investment portfolio of insurance companies is its conservatism, with the greater part being channelled towards fixed return investments and monetary instruments with a low presence in stock exchanges and without using mortgages. There has also existed a great eagerness to invest in real estate, due to the boom in this sector in the last decades (TABLE 22).

With respect to premiums ceded to reinsurance, as is to be expected in non-life insurance, Spain occupies a relatively weak position in Europe as a whole (20% of premiums ceded).

Details of retained premiums and losses appear in the corresponding TABLES (23 and 24).

ANALYSIS OF SPECIFIC BRANCHES

The great melting-pot of non-Life branches requires independent analysis of each sector so as to reach reliable conclusions. I will indicate the most characteristic aspects of the principal sectors of these branches:

MOTOR

- * The pessimistic estimates which foretold large losses in the sector were surpassed in 1989. Technical losses may have reached 159 thousand million pesetas, which, after deducting investment income, leaves a result (deficit) of over 115 thousand Million pesetas.
- * The forecasts for 1990 point towards a relative stabilization of the costs of the claims from personal injury and slight increases in the frequency rates. This, together with the large increases in premiums, allows us to expect a less pessimistic result, in any case more than 75,000 Million ptas. after investment income.
- * The most worrying thing is the generalized belief within the sector that many vehicle insurers do not have sufficient reserves for outstanding claims. This, together with an evident lack of reserves for current risks, could provoke an explosive situation in the branch.

One cause of this deterioration is the inconceivable commercial policy, promoted generally by small and medium sized companies with a greed for premiums without worrying about results, of continually lowering premiums. Sadly, these companies will still take some time before they eliminate themselves, and, on the other hand, there are others appearing with the same policy.

- * There have been large and unjustified increases in compensations awarded to victims by the courts, generously applying the new guarantee limits. This deterioration may continue until 1993 when these compensations may stabilize by reaching the guarantee ceiling set by the E.C. directive.
- * The frequency of claims has risen, in part influenced by the increase in the number of vehicles and the higher standard of living of the Spanish. On the other hand it is hoped that the new highways under construction will reduce this figure.
- * There has been a large increase in repair costs of vehicles, much higher than inflation, which has produced tension between some insurers and the Association of Garages.

- * Inconceivably acquisition expenses remain at 15% of premiums, despite the fact that the two large insurers, MAPFRE and MUTUA MADRILEÑA reduce this average substantially.

HOMEOWNERS

- * There has been a small deceleration of growth in this sector which still has great potential.
- * Strong commercialization so as to obtain market share and new clients.
- * The loss ratio continues to be favourable although with a tendency towards increase as a consequence of greater claims awareness amongst the insured and the progressive reduction in rates imposed by growing competition amongst large insurers.
- * Distribution using banking networks has been started, but still with unspectacular results.
- * Progressively, home assistance cover is being introduced, the services of which are being provided by specialized companies or by the insurance companies themselves. An important field for future business and competition is being opened up here.

COMMERCIAL

- * This sector includes various policies for simple and medium sized risks, showing as a whole acceptable growth, although the results are difficult to interpret (homeowners' associations, workshops, offices, hotels, etc).
- * The loss ratio is high and the sector shows a notable technical loss. Owners' associations have an especially negative effect as a consequence of the cover of water damage and, progressively, for general liability.
- * Despite this, some companies are mounting aggressive campaigns and increasing cover.
- * In commercial premises there has been a certain stability in the market, (especially due to the decrease in burglaries) and many companies are again thinking about taking on this business or making changes in the selection of risks.
- * Products are also being produced specifically for small and medium sized businesses, restaurants, pharmacies, etc, and other establishments of a commercial nature and with a defined sphere of action.

INDUSTRIAL FIRE

- * This sector is suffering from a large degree of stagnation in its growth as a consequence of the transfer of operations to multirisk and because of the gradual reduction in rates.
- * The loss ratio for the cover of simple damages, which was excellent in 1988 (37%) has deteriorated somewhat in 1989 although it is still favourable (44%).

In 1989 there were some large claims, such as that of CETERSA (tobacco), for 1,200 million pesetas, SCOTT (paper), 1,000 million pesetas, LA SEDA (plastics), in the Alcalá warehouse, 2,500 million pesetas.

The big fire claim of the year was that of the nuclear powerstation Vandellós I, for 11,000 million pesetas, although it has been accounted as nuclear insurance and, therefore, does not appear in the information corresponding to this branch.

- * The medium and large risks are being aggressively absorbed by international brokers and by new independent agencies formed by Spanish professionals. In general they offer All Risk cover with very low rates, very wide cover and insufficient deductibles.
- * Prevention and Risk Management services are offered by some insurance companies and broking firms, although competition in the market is leading to a greater generosity in the acceptance of risks, which must lead to a progressive deterioration of this market.
- * Reinsurers, even though stubborn to accept All Risk cover in obligatory treaties, are also acting with generosity in the acceptance of these risks in facultative reinsurance, although with a reduction in commission, 20-22.5%, which is causing a drastic reduction in intermediary commissions (7.5 - 15%).
- * The new norms of the "Consortium" will open the way to substantial changes in the cover of catastrophic risks. The cover of the consortium will be obligatory, but not exclusive, which will open an until now unknown market for brokers and reinsurers.

GENERAL LIABILITY

- * Despite the optimistic perspectives for growth in this branch, in 1989 it only grew by 13.5%, which indicates, amongst other factors, a tendency towards the reduction of premiums in general.
- * The policies of professional colleges of architects and engineers are being transferred from one company to another, producing important changes in the ranking of this branch.

- * Advance data indicates a loss ratio of 69% of net premiums, although it is estimated that the final data will increase this figure, independent of the reserves for unknown claims which are not always well evaluated.
- * The publishing of the new "stock companies Law" has created new areas of responsibility applicable to administrators, for which specific D & O cover is being prepared.

There is also an intention to publish a law regulating quality and responsibility in building and construction which will impose new responsibilities for faults and construction defects and foresees the constitution of decennial compulsory insurance for promoters and constructors of buildings. Here is the possibility of the opening up of an enormous field of commercial possibilities, though with undeniable risks.

- * Spanish legislation regulating civil liability for defective products, in accordance with the E.C. directive, has still not appeared, thereby failing to meet the established time limits.
- * The starting up of the National Plan for Toxic and Dangerous Wastes, and the failure of the insurance companies to respond in relation to the established obligatory insurance, may cause the appearance, as in other countries, of a pool specialized in the cover of environmental risks.

MARINE

- * This sector continues with a clear external dependence on reinsurance and with a low level of retention, with high presence of multinationals and brokers.
- * The good results of previous years has meant an increase in competition, leading to a worsening of the loss ratio (74%) with a decrease in premiums.
- * In hulls, the Spanish merchant fleet has continued to decrease, with the loss of 37 units and 10% of tonnage. The deep freezing fishing fleet is going through serious problems due to the scarcity of fishing grounds and legal limitations, which implies additional risks for the insurers.
- * The practical disappearance of the CASMER Agreement has also produced a reduction in rates and deductibles, which has accelerated with the 1990 renewal.
- * The cargo branch, which had maintained a good record of results, has suffered from strong competition in recent years with a reduction in rates which is reducing the results.
- * "Through-put" operations have appeared on the market, though they are not widespread, whilst "nail to nail" operations are feeling the impact of the international market and rates are continually dropping.

PERSONAL ACCIDENT

- * This sector grew by 14% in 1989, a figure much lower than that of 1988 (25%).
- * The loss ratio was still favourable (45%), though this figure is not significant as data for passenger insurance together with individual and group insurance are all included in this branch.
- * The sales of individual insurance have increased, both directly and through direct marketing, competing in some ways with life assurance.
- * Covers with temporary annuity indemnities are gaining wide acceptance in the market.
- * Compulsory travelers' insurance, the premiums of which may exceed 1,600 million pesetas, has been liberalized in 1990.

ENGINEERING

- * The investment in infrastructure (highways, railroads, etc), together with the construction work involved in the international events of 1992 (the world fair in Sevilla, the olympic games in Barcelona and Madrid European cultural capital) and the potential market itself, promise sustained growth in the next few years, also stimulating European construction multinationals to establish themselves in Spain.
- * Although the engineering sector carries relatively little weight amongst the branches as a whole, its potential for growth and profit continues to be of importance.
- * This sector is strongly concentrated (the 20 largest insurers take almost 80% of the premiums).
- * As in other sectors, the tendency for a fall in premiums continues.
- * The future Construction Law for quality and responsibility has raised high expectations in the branches of Engineering and General Liability.
- * The Electronic Equipment sector is developing strongly, although many operations are being channelled through classical branches or combined policies.
- * The frequent rains and floods at various times during 1989 have played the most important role in this branch, and have been the cause of the higher loss ratio in 1989.

HEALTH

- * This is a sector with strong private growth and high demand on behalf of the man in the street as it is the only alternative to a deficient public health system.
- * The technical results are negative, though official information shows a positive balance. There may be accounting defects or insufficient reserves, which has been clearly shown when external groups have entered into classical companies with apparent profits.
- * It is a strongly concentrated sector, in which the large Spanish insurance groups show some strategic uncertainty, without clearly opting for commercial options.
- * There is some disorientation with respect to the most suitable ways of development (via reimbursement of expenses or direct medical assistance). In the second case, large investments, and a degree of specialization in hospital management which is insufficient at the moment, will be required.
- * There is a large inflow of specialized exterior groups which wish to stake their claims, faced with a large number of possible clients and the impassiveness of the Spanish groups.

OTHER BRANCHES

- * Bonds and Surety continue to be a sector with good growth and low loss ratio, which is causing the permanent entrance of new specialized companies in competition with the banks which control more than 70% of the volume of bonds. Growing state and private construction activity promises excellent perspectives for this branch in the next few years.
- * The insurance of domestic and foreign Credit is also developing well, with positive results, although at the beginning of 1990 a notable deterioration can be seen as a consequence of the deceleration of the national economy. The appearance of new companies is growing, which permit desirable competition as the market is strongly professionalized.

QUALITATIVE ANALYSIS OF THE SPANISH MARKET

After the previous economic information and detailed analysis of the various branches which compromise the non-life sector, I am going to make some general comments about the present and future aspects, which, in my opinion, characterize the insurance market in Spain.

- * First of all, it should be emphasized that insurance will be of growing importance in Spanish economic activity, as a result of its growth at a rate much higher than the country's general average and its obvious potential in comparison with European standards, as has already be said.
- * Improvement of its public image and greater social acceptance, with a progressive institutional connotation which makes it more attractive to professionals, institutional investors and to consumers.
- * Strong dependence on the banking sector, but that together they may lose market share because of the progressive and definite entrance of foreign groups and because of the dynamic strength state of the independent groups.
- * Progressive concentration for reasons which even include survival. The large losses in Motor insurance in the last few years, and those which may possibly be registered in 1990 will oblige many companies to have a serious rethink with respect to their independence.
- * This scattering of the market will therefore have to disappear, although the entrance of foreign groups will compensate for the elimination, absorbtion or incorporation into large groups, of the small regional companies or those of medium size.
- * The growing foreign presence, which has always been fully accepted by the Spanish consumer, will become more and more acute because of the special characteristics of the market which will have to become just one more corner in a Europe without economic frontiers within a few years.
- * The most fundamental aspect must be the distribution networks which are basic to the commercialization of most of the products. Until now, these could be considered as nothing out of the ordinary and in most companies were underdeveloped. These are now being developed through heavy investment and human resources, preparing for the big battle which must come in the next few years in the small towns and villages in a geography which is as extense and varied as Spain is.
- * The new law regulating the production of insurance will facilitate access to the banking networks, now already a reality. However, it would be absurd to think that commercialization only depended on facilities and not on people. The increasing professionalization of agents must be a cornerstone of the future.
- * International brokers and large companies, are progressively drawing towards to Spain for the battle of the big industrial risks. Alliances are multiplying at the same time as services are being diversified through complementary risk prevention companies.
- * One field which is still relatively underexploited by companies and institutions is that of services complementary to insurance activity. Actuarial, organizational, management and

computing consultancy companies will be possible fields of interest, whose services are already being offered by the large international auditing firms. The presence and participation of consulting companies from other countries is, however, missed.

- * In relation to this, it can be said that the Spanish market's two main problems (management deficiencies and excessive costs) should give a boost to these consultancy service companies. There are large gaps in computing systems and few real possibilities for assessment and software packages which permit more productive management.
- * In life assurance, although this is not the primary object of this conference, I would like to say that the development of pension funds has been slow, due to legislation which is unattractive for the big companies and even for private individuals, and due to the time needed for the consumer to get used to the product. The other life assurance products, especially those which include savings and retirement covers, will have to continue growing at a fast pace as has happened until this date.

In general, life assurance is advancing, here as in other countries, towards complementary formulas and global services by both banking institutions and companies specializing in life and savings.

Competition within the market is becoming more acute. This can be deduced from the previous comments. It is enough to say that in the first months of this year more than 15 insurance groups have advertised on a regular basis at peak viewing times on the major T.V. channels. The insurance sector is becoming one of the big consumers of television advertising.

- * The progressive development of services related to prevention and safety, both technical, and assistance orientated, this may increase client loyalty. The home assistance plans are doing very well in this country and this will require foreign competitors to produce imaginative formulas which they quite possibly don't have in their own countries of origin. This field is also favourable towards the development of service companies, in this case assistance companies.
- * Freedom of Services must, fundamentally, affect the insurance of industrial risks, the level of competition of which will rise substantially in the next few years. It is to be understood that this sector is already very influenced by the presence of large brokers and the participations, often not out of choice, of the big international insurers.
- * One important challenge will be the internationalization of the big Spanish groups. This internationalization may be achieved directly or through alliances in Europe or in other countries with a weaker economy than Spain. Whatever the case, of need is greater size, and above all a high level of quality in the management or the specialization in a determined sector. It does not seem that this process of internationalization will be very common in the future, but without doubt it will form part of a strategic offence of some groups.
- * Another of the great challenges is the health sector. The many problems of the public health system have forced the consumer to look with hope towards the possibilities of

private health insurance. I believe that this is an important sector for many other countries, but would give as an example the tensions occurring in markets with a large degree of freedom, such as the U.S. Here there would have to be great future development with an improvement in management levels and a greater range of possibilities of cover, combining service with financial covers.

- * Regrettably the field of reinsurance does not excite Spanish insurance groups very much. The large European insurance institutions have not favoured the excessive development of this field in the Spanish market where the attempts have been of little importance and, other than the odd exception, had little success.
- * Spanish companies still have some way to go in the financial field. The clear differences in investment returns achieved by foreign groups with respect to Spanish groups indicate differences in strategy. The development of mortgages, the diversification of investments, including international stock exchanges, futures markets and much more complex formulas will probably mean a new stage for Spanish insurance.

Finally, I would like to express my opinion with respect to the so called 92 Syndrome. According to some observers, the prospects for the Spanish market are highly negative as it will have to face a high level of competition from more powerful groups, which, in some cases, have more lenient national legislation (in tax matters, for example). I, on the other hand, have a slightly different view of things.

First of all, 1992 is already here, in other words the large groups of companies are already here in Spain, (some have already been here for many years) and the continual advance of new investments serves, in many cases, to save companies or businesses which are not very well managed, in this way saving jobs and companies which otherwise might disappear.

As far as large industrial risks go, it would be fanciful to think of a national market when brokers, the multinationals themselves and the international reinsurers have always managed and controlled this sector independently of local markets.

For simple risks, the advantages enjoyed by Spanish companies have been, and are, clear, thanks to their geographic distribution and their networks of agents and local delegates. The foreign groups which are now setting up in Spain will need time and many resources.

There are also offensive strategies, involving movement to other countries and alliance with other European groups and, above all, specialization and an improvement in the quality of management and services, in other words the same weapons used in business at an international level. I sincerely believe that some Spanish groups are perfectly ready for this strategy.

In summary, Spain, in the same way as any other E.C. country, will be a field of competition with the same rules, and just as tough as any other. In this battle there is only one objective: the best service at the best price for the consumer. I, as a Spaniard, as a European and as a consumer can only be happy about this. And, I hope you are too.

TABLE 1**REAL GROWTH GDP (%)**

COUNTRY OR ECONOMIC AREA	1987	1988	1989
F.R. GERMANY	1.8	3.8	3.8
ITALY	3.1	3.8	3.5
JAPAN	4.3	5.7	4.9
UK	4.0	4.2	3.0
USA	3.4	3.8	2.7
EEC	2.3	3.5	3.5
OECD	3.3	4.0	3.5
SPAIN	5.2	5.3	4.9

SPANISH 1989 MACROECONOMY

(% real growth)

DOMESTIC PRIVATE DEMAND	5.5
PUBLIC DEMAND	5.5
GROSS CAPITAL	13.6
GOODS AND SERVICES EXPORT	4.4
GOODS AND SERVICES IMPORT	17.5
GDP	4.9
AGRICULTURAL	(4.0)
INDUSTRIAL	4.0
CONSTRUCTION	13.0
SERVICES	5.5

TABLE 3**INFLATION RATE (%)**

COUNTRY OR ECONOMIC AREA	1988	1989	1990 (*)
F.R. GERMANY	1.6	3.2	3.0
ITALY	5.4	6.5	6.5
JAPAN	1.1	2.3	2.5
UK	6.4	7.7	7.5
USA	4.2	4.7	4.5
EEC	3.7	5.2	5.0
OECD	4.2	5.2	4.5
SPAIN	4.8	6.9	6.5

(*) ESTIMATED RATES

INTEREST RATES (%)

DECEMBER '89

STOCKS	16.7
PUBLIC BONDS	12.8
PRIVATE NOTES	14.9
PRIVATE BONDS	11.0

GROSS PREMIUMS AND GROWTH RATES**SPANISH MARKET**

(thousands of millions ptas.)

BRANCH	1987		1988		1989	
	PTAS.	%	PTAS.	%	PTAS.	%
SINGLE PREM.	349	14	595	70	197	(66)
PERIOD. PREM.	106	11	216	104	267	23
LIFE	455	13	811	78	464	(42)
NON - LIFE	728	30	856	18	1043	22
OVERALL BUSINESS	1183	23	1667	41	1507	(10)

SOURCE: AVANCE ESTADISTICA SEGUROS PRIVADOS 1989. UNESPA

PREMIUMS RATIOS - 1988

(EEC = 100)

COUNTRY	GDP/ PER CAPITA	PREMIUMS/ PER CAPITA
BELGIUM	101	85
DENMARK	110	133
FRANCE	110	129
F.R. GERMANY	113	139
GREECE	55	8
IRELAND	64	61
ITALY	105	42
NETHERLANDS	103	135
PORTUGAL	53	22
U. KINGDOM	106	164
SPAIN	75	47
EEC	100	100

SOURCE: INFORME ANUAL BANCO ESPAÑA 1988

TABLE 7**NON-LIFE ANNUAL GROWTH RATE (%)**

	1987	1988	1989	1990 (*)
PREMIUMS GROWTH (%)	30.4	17.6	21.8	20.5
INFLATION (%)	5.3	4.8	6.9	6.5
REAL GROWTH (%)	23.8	12.2	13.9	13.1

(*) ESTIMATED RATES

TABLE 8**PREMIUMS AND GROWTH****(thousands of millions ptas.)****1 USA \$ = 103 PTAS.**

BRANCH	1987		1988		1989	
	PREMIUMS	GROWTH %	PREMIUMS	GROWTH %	PREMIUMS	GROWTH %
LIFE (*)	105.8	11	216.2	104	266.9	33
NON - LIFE	728.2	30	856.0	18	1043.3	22
MOTOR	342.3	62	388.9	14	499.7	28
HOMEOWNERS	28.7	28	36.7	28	47.2	29
COMMERCIAL FIRE	26.2	33	36.4	39	46.7	29
INDUSTRIAL FIRE	61.1	11	73.7	21	80.6	9
GENERAL LIABILITY	28.3	17	23.5	(17)	26.7	13
MARINE	32.7	2	37.6	15	37.3	(1)
PERS. ACCIDENT	47.6	5	59.7	25	67.7	14
ENGINEERING	7.6	24	10.5	38	12.1	16
HEALTH	84.8	16	97.8	15	118.2	21
OTHER BRANCHES	68.8	9	91.2	33	106.9	17
OVERALL BUSINESS	834.1	19	1072.2	29	1310.2	22

(*) WITHOUT SINGLE PREMIUMS

TABLE 9

SHARE OF DIFFERENT BRANCHES (%)

BRANCH	1987		1988		1989	
	(1)	(2)	(1)	(2)	(1)	(2)
LIFE	12.7	38.4	20.2	48.7	20.4	30.8
NON - LIFE	87.3	61.6	79.8	51.3	79.6	69.2
MOTOR	41.0	29.0	36.3	23.3	38.1	33.1
HOMEOWNERS	3.4	2.5	3.4	2.3	3.6	3.1
COMMERCIAL FIRE	3.2	2.3	3.4	2.2	3.6	3.1
INDUSTRIAL FIRE	7.3	5.2	6.9	4.3	6.2	5.3
GENERAL LIABILITY	3.4	2.5	2.2	1.4	2.0	1.8
MARINE	3.9	2.8	3.5	2.3	2.9	2.5
PERS. ACCIDENT	5.7	4.1	5.6	3.6	5.2	4.5
ENGINEERING	0.9	0.7	1.0	0.6	0.9	0.8
HEALTH	10.2	7.2	9.1	6.0	9.0	7.8
OTHER BRANCHES	8.3	5.3	8.4	5.3	8.1	7.2
OVERALL BUSINESS	100	100	100	100	100	100

(1) WITHOUT SINGLE PREMIUMS

(2) WITH SINGLE PREMIUMS

TABLE 10**SHARE OF DIFFERENT BRANCHES (%)**

BRANCH	1987	1988	1989
LIFE (*)	13	20	20
MOTOR	41	36	38
GENERAL BRANCHES	38	35	34
OTHERS	8	9	8
TOTAL	100	100	100

(*) WITHOUT SINGLE PREMIUMS

LIFE/NON-LIFE MARKET SHARE - 1987

COUNTRY	% NON-LIFE	% LIFE
BELGIUM	71	29
DENMARK	61	39
FRANCE	58	42
F.R. GERMANY	55	45
GREECE	67	33
IRELAND	38	62
ITALY	78	22
LUXEMBOURG	75	25
NETHERLANDS	56	44
PORTUGAL	87	13
U. KINGDOM	37	63
SPAIN	62	38

SOURCE: SIGMA / SWISS RE

GROWTH TRENDS OF DIFFERENT BRANCHES

(on average)

<u>BRANCH</u>	<u>TREND</u>
MOTOR	UP
HOMEOWNERS	UP
COMMERCIAL	=
INDUSTRIAL	DOWN
GEN. LIABILITY	=
MARINE	DOWN
PERSONAL ACC.	DOWN
ENGINEERING	=
HEALTH	UP
OTHER BRANCHES	=

SPANISH MARKET LOSS RATIO**(Losses + Reserves in % of Premiums)**

BRANCH	1986	1987	1988	1989
LIFE	87.3	107.9	107.7	95.9
NON - LIFE	63.3	66.7	66.9	75.2
OVERALL BUSINESS	72.9	82.1	86.3	82.5

SOURCE: AVANCE ESTADISTICA SEGUROS PRIVADOS 1989. UNESPA

LOSS RATIO BY BRANCH**(Losses + Reserves in % of Premiums)**

BRANCH	1986	1987	1988	1989
MOTOR	87	81	85	96
HOMEOWNERS	44	45	41	41
COMMERCIAL F.	67	67	66	65
INDUSTRIAL F.	44	73	42	40
GEN. LIABILITY	43	41	55	69
MARINE	76	56	55	74
PERS. ACCIDENT	35	38	41	45
ENGINEERING	49	59	49	63
HEALTH	81	83	92	79
OTHER BRANCHES	60	56	55	56
OVERALL BUSINESS	63	67	67	75

GENERAL AND ACQUISITION EXPENSES**(% of premiums)**

BUSINESS	1986	1987	1988	1989
LIFE	G. 5.4 A. <u>3.1</u> 8.5	G. 5.1 A. <u>2.9</u> 8.0	G. 3.6 A. <u>2.5</u> 6.1	G. 4.0 A. <u>4.4</u> 8.4
NON - LIFE	G. 18.6 A. <u>15.4</u> 34.0	G. 17.3 A. <u>15.7</u> 33.0	G. 17.2 A. <u>15.2</u> 32.4	G. 17.0 A. <u>15.7</u> 32.7

NON-LIFE UNDERWRITING RESULTS**(% of premiums)**

ITEMS	1986	1987	1988	1989
GENERAL EXPENSES	18.6	17.3	17.2	17.0
ACQUISITION EXPENSES	15.4	15.7	15.2	15.7
LOSSES	63.3	66.7	66.9	75.2
TOTAL	97.3	99.7	99.3	107.9

NON-LIFE UNDERWRITING RESULTS - 1989**(% of premiums)**

BRANCH	PREM.	PREM. RES.	GENER. EXPEN.	ADQ. EXP.	LOSSES	TECHN. RESULT.
MOTOR	100	(8)	(18)	(15)	(96)	(37)
HOMEOWNERS	100	(5)	(20)	(29)	(41)	5
COMMERCIAL FIRE	100	(13)	(18)	(23)	(65)	(19)
INDUSTRIAL FIRE	100	(-)	(19)	(21)	(40)	20
GENERAL LIABILITY	100	(1)	(18)	(19)	(69)	(7)
MARINE	100	1	(16)	(15)	(74)	(4)
PERS. ACCIDENT	100	(2)	(20)	(21)	(45)	12
ENGINEERING	100	(5)	(19)	(15)	(63)	(2)
HEALTH	100	(-)	(11)	(5)	(79)	5
OTHER BRANCHES	100	(2)	(19)	(18)	(56)	5
OVERALL BUSINESS	100	(5)	(17)	(16)	(75)	(13)

NUMBER OF NON-LIFE INSURANCE COMPANIES - 1985

<u>Country</u>	<u>No. of companies</u>
BELGIUM	93
DENMARK	154
FRANCE	245
F.R. GERMANY	306
GREECE	38
IRELAND	15
ITALY	109
LUXEMBOURG	4
NETHERLANDS	224
PORTUGAL	6
U. KINGDOM	381
SPAIN	429 (1989)

SOURCE: SIGMA / SWISS RE

NON-LIFE MARKET CONCENTRATION - 1987

<u>The 10 largest insurers</u>	<u>Market share</u> <u>%</u>
SWITZERLAND	76
U. KINGDOM	73
FRANCE	48
ITALY	48
F.R. GERMANY	37
SPAIN	32

SOURCE: SIGMA / SWISS RE

10 LARGEST INSURANCE GROUPS - 1989**(Thousands of millions ptas.) (1 USA\$ = 103 Pts.)**

GROUP	SINGLE PREMIUMS	PERIOD. PREM.	TOTAL
BBV	109.2	85.3	194.5
NAPFRE	9.9	93.1	103.0
BANCO CENTRAL	1.4	85.4	86.8
BANESTO	2.6	49.2	51.8
WINTERTHUR	-	45.0	45.0
MUTUA MADRILEÑA	-	42.4	42.4
ZURICH	0.4	37.9	38.3
CATALANA-OCCIDENTE	0.1	35.8	36.9
RAS ALLIANZ	1.2	30.8	32.0
B.HISPANO AMERICANO	3.1	26.9	30.0

20 LARGEST INSURANCE GROUPS - 1989**(Thousands of millions ptas.) (1 USA\$ = 103 Pts.)**

GROUP	LIFE (*)	MOTOR	GENERAL	TOTAL
MAPFRE	20.6	50.0	22.5	93.1
B. CENTRAL	55.6	16.3	13.5	85.4
B.B.V.	44.5	22.1	18.7	85.3
BANESTO	5.4	24.7	19.1	49.2
WINTERTHUR	15.4	19.3	10.3	45.0
MUTUA MADRIL.	0.6	40.5	1.3	42.4
ZURICH	4.7	18.7	14.5	37.9
CATALANA/OCC.	8.7	13.0	14.1	35.8
RAS-ALLIANZ	2.5	15.1	13.2	30.8
B.HISP.AMERIC.	8.8	6.7	11.4	26.9
SANITAS	-	-	24.5	24.5
SANTA LUCIA	1.5	-	22.7	24.2
MUT. GENERAL	3.5	12.1	7.7	23.3
MULT. ASEGUR.	-	20.1	1.1	21.2
ASISA	-	-	21.2	21.2
AGF	5.3	8.8	6.7	20.8
AEGON	1.5	10.0	7.7	19.2
OCASO	0.6	-	17.7	18.3
SCHWEIZ	0.1	14.3	3.2	17.6
UAP	3.5	9.5	4.6	17.6
TOTAL MARKET	266.9	508.7	534.5	1310.1

(*) Excluding Life Single Premiums

TABLE 21

INVESTMENT INCOME

(% of premiums)

BUSINESS	1986	1987	1988
LIFE	7.3	4.3	5.1
NON - LIFE	7.1	6.5	8.8

F.R. GERMANY 8.8% (1987)

FRANCE 14.0% (1987)

SWITZERLAND 10.4% (1987)

INVESTMENT BREAKDOWN

	EUROPEAN COMPANIES	SPANISH COMPANIES
CASH AND BONDS	47%	70%
STOCKS	36%	10%
BUILDINGS	7%	20%
MORTGAGES	10%	-

RETAINED PREMIUMS/LOSSES - 1988

BRANCH	% OF LOSSES RETAINED	% OF PREMIUM RETAINED
MOTOR	92	92
HOMEOWNERS+COMM.	60	59
INDUST. FIRE	45	50
GEN. LIABILITY	55	57
MARINE	21	30
PERS. ACCIDENTS	80	88
HEALTH	100	100
OTHER BRANCHES	70	78
OVERALL BUSINESS	80	80

NON-LIFE RETAINED PREMIUMS - 1987

<u>Country</u>	<u>%</u>
F.R. GERMANY	76
SPAIN	80
FRANCE	86
U. KINGDOM	86
NETHERLANDS	86
ITALY	94

SOURCE: SIGMA / SWISS RE