

# SPAIN NON-LIFE INSURANCE MARKET

With over 40 years' experience in researching and delivering insurance industry intelligence, Axco provides business-critical compliance and market data on non-life, life and benefits, personal accident, healthcare, and employee benefits markets across the globe.

The following article contains extracts from Axco's Non-Life (P&C) Insurance Market Report for Spain.

## Insurance Market Overview

### The Market Today

#### Summary and Trends

The key issues now facing insurers and brokers arise from the global recession and the financial problems of the Spanish economy. Business closures and cut-backs have resulted in little new business becoming available in any class.

Meanwhile, good results for insurers over many years up to 2011 led to increased competition: it became market practice to grant wider cover at no additional cost and rate concessions were the norm. Therefore, insured parties now expect a reduction in the price of their policies at renewal. The market is price-driven and all policy terms and conditions are open to negotiation, so that prudent underwriting practices have been abandoned and commercial considerations predominate.

Insurers are taking different approaches to this situation. Some are targeting all new business and renewals aggressively so that risks that would once have been rejected are now accepted at competitive terms while others are concentrating on the retention of existing business, reducing rates to do so; few have decided to maintain their standards and accept a reduction in market share as a result. In addition to falling business levels, wider covers, and rate reductions in many classes, insurers are also facing increased difficulty in collecting premiums, as rising unemployment means that many insured parties are simply unable to pay them. There have also been delays in payments from some municipal authorities.

Despite these underwriting problems, cash flow difficulties, and falling investment levels, insurer solvency is not under threat as the market is well capitalized and successive years of good results should enable insurers to weather the crisis.

Insurers and brokers are pessimistic about the immediate future, however, foreseeing a continued reduction in rates and widening of conditions, and also the deterioration of their results, a fear confirmed by initial figures for 2012. No hardening of the market is expected in 2012 or 2013 unless all the major companies begin to experience trading losses.

#### Market Size

In 2011 the Spanish non-life market was in tenth place in world rankings and in fifth place in Europe.

Premium in USD MM:

Life: 41,401.54

Non-Life: 31,792.15

Personal Accident and Health: 11,482.07

Total: 84,675.76

#### Market Participants

##### Summary and Trends

The majority of insurance companies in Spain are limited liability corporations but mutuals and co-operatives are also common. The market is large enough to justify having specialist insurers such as those which concentrate on professional indemnity business or those writing only funeral expenses. Most of the major foreign insurance groups are present in the market.

In December 2011 the Spanish insurance market comprised 188 limited liability

companies, 73 branches of foreign insurers, 34 mutuals and co-operatives, and two domestic reinsurance companies, for a total of 297 companies in the life and non-life market combined, compared with 362 in 2002. In addition, 534 non-life insurers were registered to write business under freedom of services arrangements. Some insurers are part of broader financial services groups.

#### Market Structure

The Spanish non-life market comprises the major multinational foreign insurers, including ACE, Allianz, AXA, Chartis, Generali Seguros, RSA and Zurich Espana Compania de Seguros y Reaseguros SA, and local insurers including Caser, Catalana Occidente and MAPFRE, which is the largest by far.

#### General Country Information

##### Population

The last census was held in 2001 and recorded a population of 40.85 million. According to the National Statistical Institute the population in January 2011 was estimated to be 47.19 million.

In recent years, an influx of economic migrants has changed the population structure, with immigrants arriving from Latin America, North Africa, Eastern Europe, and elsewhere. In 2011, it was estimated that some 5.75 million residents, 12.2% of the total population, were originally from outside Spain.

##### Largest Cities

###### Capital

**Madrid** - population 232,858 (central). Madrid is both the capital of Spain and of

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# IN TODAY'S TOUGH ECONOMY, SPAIN IS FACING A RANGE OF CHALLENGES. HOW WILL IT EMERGE?

the autonomous Community of Madrid. It is the political and cultural heart of the country. It is the highest capital city in Europe, situated 2,165 ft. (660 m) above sea level on an upland plateau almost exactly in the center of the Iberian Peninsula. The city has expanded considerably during the past 40 years as people have migrated there in search of work. The metropolitan population exceeds three million residents.

## Other Major Areas/Cities

Population estimates shown below are for the city centers in January 2011.

**Barcelona** - population 132,870. Barcelona is the capital of the ancient principality and modern autonomous region of Catalonia. It is one of Spain's principal ports and industrial centers, and is also famous for its architecture, art, and fashion. The city hosted the Olympic Games in 1992. Over five million people live in the metropolitan area.

**Valencia** - population 46,200. Valencia is the capital of the autonomous region of the same name and is Spain's third largest city. It is on the Mediterranean coast a few miles inland from the port of El Grao. The city lies in the midst of a fertile plain, which supports a thriving horticultural industry specializing in the cultivation of oranges and lemons. The metropolitan population is estimated to be over 800,000.

**Seville** - population 27,701. Seville is the capital of Andalucía. It is an ancient city standing largely on the left bank of the Guadalquivir River. Its cathedral is said to be the largest Gothic church in the world. Spain's first high-speed train line was constructed to link the city with Madrid in 1992. Over 700,000 people live in the metropolitan area.

## Economy

### Economic Performance

Historically the Spanish economy was based on agriculture, but the services sector is now the main economic force. Retail, banking, and telecommunications contribute considerably to the sector,

but tourism is the dominant service industry. Foreign direct investment averaged 3.0% of GDP annually between 2007 and 2011.

The outlook for the next few years is poor, as policymakers face a collapsed housing market and construction sector, a fragile banking sector, consumer indebtedness and one of the most stagnant labor markets in Europe. Consumer demand has dropped significantly as households have reduced spending. Unemployment, which tripled in the four years to 2011, has also depressed domestic confidence. Fiscal constraints have required spending cuts and tax increases, as the government has sought to reduce its budget deficit, estimated at 8.9% of GDP in 2011. Labor mobility was expected to improve somewhat with the approval of temporary contracts for up to four years from 2011.

The economy entered recession in late 2011 and a severe contraction is forecast for 2012, which will keep Spain in recession until the end of that year. Real GDP is expected to shrink 2.2% in 2012 and grow by 0.3% in 2013.

In May 2012 Spain was obliged to rescue Bankia, its fourth-largest bank and then, in June, the government was forced to ask its Euro area partners for help, securing a loan of up to EUR 100bn to bail out the country's banking sector. Rather than feeling reassured, the markets feared Spain would become unable to service its

burgeoning debts; these concerns, together with the downgrading of 18 Spanish banks, led to the interest rate on 10-year Spanish bonds being increased to 6.8% shortly afterwards. Inflation is forecast to decline to an average of 1.6% in 2012, as wages are held back and consumer demand remains low. They are then expected to rise to 2.1% in 2013.

Total public debt is much lower than that of Greece, although Spain has high private sector debt, dominated by the banks' exposure to toxic property assets. There are no obvious growth catalysts to revive the economy. Spain's appeal as a business location is expected to improve slightly over the next five years, however, partly due to market opportunities and policies that favor private enterprise, competition, and foreign investment.

Standard and Poor's reported in June 2012 that Spain's sovereign debt was rated BBB+ with a negative outlook.

## Supervision and Control

### A sample of Spanish compulsory insurance is listed below:

- Motor third party liability.
- Workers' compensation (state scheme).
- Passenger liability (personal accident) in respect to public passenger transport.
- Hunters' liability.
- Professional indemnity for insurance and reinsurance intermediaries, ship inspectors, auditors, companies

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It has been reported in the press that the government is preparing to issue a royal decree containing a provision that bankruptcy administrators will be required to carry liability insurance.

*Law No 12/2011 of 23 May 2011 established compulsory liability insurance for operators of nuclear facilities. The entry into force of the law depends on the ratification of the amendments to both the Paris Convention and the Brussels Convention by all signatories.*

*Liability insurance for companies that grant credits or act as credit brokers is now compulsory under the terms of Royal Decree No 106/2011.*

offering investment services, professional companies, and prevention services working in agronomy and occupational health on behalf of some autonomous regions.

- Decennial cover for private dwellings.
- Third party liability for pleasure craft and sports craft owners.
- Third party liability for vehicle testing stations.
- Aircraft third party cover in accordance with EU legislation.

A complete list of compulsory insurance can be found in Axco's Non-Life (P&C) Insurance Market Report for Spain. Please contact [axco@axcoinfo.com](mailto:axco@axcoinfo.com) for further details.

### **Non-Admitted Insurance Regulatory Position**

Non-admitted insurance refers to the placing of insurance outside the regulatory system of the country in which the risk is located. A non-admitted insurance policy is one that may be issued abroad or the risk(s) may be included in a global master policy by an insurer unauthorized in that country. An

authorized insurer is one which is permitted to do business in a country (or region) by the local supervisory authority.

### **Summary**

Non-admitted insurance is not permitted in Spain because the law provides that insurance must be purchased from locally authorized insurers with some exceptions.

Insurers from European Economic Area member states (European Union countries plus Norway, Iceland and Liechtenstein) may provide insurance under freedom of services legislation.

### **Fines/Penalties**

In accordance with Article 41 of the Law on the Regulation and Supervision of Private Insurance, the penalty for operating as an insurer or reinsurer without a license comprises the publication of the offence by the General Directorate of Insurance and Pension Funds and a fine corresponding to 1% of the offending company's capital or between EUR 150,000 (USD 189,270) and EUR 300,000 (USD 378,539) if 1% of the

capital is less than EUR 150,000.

Article 55 of the Insurance Intermediation Law categorizes as "very serious" the acts of operating as an insurance intermediary without the necessary authorization or placing risks with unauthorized insurers. These may give rise to the cancellation or suspension of the license to operate, a fine of between EUR 15,001 (USD 18,927) and EUR 30,000 (USD 37,854) and the publication of the infraction.

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**Axco Insurance Information Services,**  
10 Old Broad Street, London, EC2N 1DW, UK.  
Tel: +44 20 7374 5252  
Email: [axco@axcoinfo.com](mailto:axco@axcoinfo.com)  
Web: [www.axcoinfo.com](http://www.axcoinfo.com)

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