

REPORT

M

**THE SPANISH INSURANCE
MARKET**

1990



CORPORACION **MAPFRE**

1990 REPORT

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CORPORACION **MAPFRE**

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General economic situation 1989

THE Spanish economy offered an acceptable balance for activity, investment and employment in 1989.

The most outstanding events were the entrance of the peseta into the European Monetary System (EMS), and the surpassing of the 10,000 US\$ per capita income barrier, for the first time.

TABLE 1

Geographic surface area (km ²)	505,000
Total population	39,100,000
Working population	14,930,000

According to the Bank of Spain, the growth of Gross National Product (GNP) was 4.8%, although the research service of Banco Bilbao Vizcaya (BBV) raises this percentage to 5.2%.

This data, which is higher than initial forecasts, puts Spain amongst the countries with the greatest growth in the world, very much above the rate of growth expected for OECD countries as a whole (+ 3.6%).

For the fourth consecutive year a strong rate of investment has been maintained (+ 13.6%), both in capital goods, mainly during the first half of the year, and in the construction sector.

It should be emphasized that in the four years from 1986 to 1989 investment grew by 76.4% in Spain, which implies capitalization at an annual accumulative rate of increase of 15.2%. In this same period, the evolution of gross production of fixed capital for the E.C. as a whole was 22.2%, which represents an annual accumulation of growth of 5.1%.

TABLE 2

	1988	1989	1990 (E)
G.N.P. (billion pesetas)	39.6	44.6	49.5
Growth Rate G.N.P. %	5.2	5.0	4.0
Inflation %	5.8	6.9	6.3
Reserves (million US\$)	37,900	44,400	N. A.

Internal demand increased by 7.3%, a much higher figure than that for GNP. The real increase in consumption, both public and private, was 5.5%, both above initial forecasts.

The economic policy has been to try to moderate the growth of internal demand, essentially by putting into action progressively more restrictive monetary measures,

to the point of limiting the growth of credit to the private sector, which has created difficulties in company financing, a fall in hire purchase agreements, and an increase in rates of interest.

The consumer price index (CPI) increased by 1.1 points with respect to the previous year, rising to 6.9%, much higher than the first government estimates which placed it at 3%.

This figure is higher than that registered by the EC as a whole, but it should be seen within the context of an upward swing in almost all the countries in our geographic and economic environment.

The forecasts for 1990, depending on the sources, place the CPI increase at between 5.1 and 7%, in other words, a similar figure to that for 1989.

TABLE 3

	1987	1988	1989
Average exchange rate US\$	123	116	118
31.12 exchange rate US\$	109	113	109
Average exchange rate ECU	142	137	130

The tourism sector, one of the most sensitive in the Spanish economy, deteriorated in 1989. Spain received 54 million foreign visitors during this year (—0.2% with respect to 1988), which represented an income of 16,172.2 million US\$ (—2.9% with respect to 1988), a very important figure that normally compensated for the trade deficit. It should be pointed out that the Spanish spent more than 3,000 million US\$ as tourists during 1989.

In 1989 imports grew by 20%, to reach 8.4 billion pesetas. Exports grew by 12%, to reach 5.2 billion pesetas, putting the real exchange balance at 62%.

TABLE 4

MADRID STOCK EXCHANGE	INDEX	1989
Initial	274.43	Jan. 1
Low	268.61	March 1
High	318.55	Sept. 13
Final	296.60	Dec. 29

In this way, the trade deficit was 3.2 billion pesetas in 1989, which represents an increase of 36% with respect to the previous year, and 7% of GNP.

This deficit is the consequence of an international market which is becoming more open and more competitive, and domestic demand for products, both for consumption and for investment, undergoing expansion and not being satisfied by domestic production. At the same time, the general increase in prices and the strength of the peseta against other EC currencies, does not favour the export process.

The entrance of foreign capital continued in 1989, an indication of confidence in the development of the Spanish economy. The long-term surplus in the capital balance, US\$ 17.708 million, reflects an increase in foreign investment in the year, rising to 32,830 million dollars. The level of reserves was maintained at 44,500 million US dollars.

This continued expansion of economic activity favours the creation of employment. The working population of Spain is placed at 14,930,000 persons, of whom 12,408,000 are in employment (+2.27%), and 2,521,800 (—13.6%) are unemployed, which implies a reduction of the unemployment rate to 16.8%.

The Spanish unemployment rate continues to be considerably higher than that for EC countries as a whole (6.6%). That which was achieved in 1989 signifies a substantial improvement over 1987 (21.1%) and 1988 (18.8%).

A higher collection of taxes than that initially forecasted puts the tax burden at 21.3% of GNP, which has permitted a policy of expansion in public spending, and a reduction of the state deficit to 1.7% of GNP. For 1990, the tax burden will represent 20.8% of GNP, higher than that initially forecasted for 1988.

The main features of the insurance market in 1989

ACCORDING to preliminary data, direct insurance premiums reached 1,556,675 million pesetas in 1989, 8.9% less than that registered for the previous year.

TABLE 5

TOTAL MARKET

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	1,222,518	1,004,201	82.1	12.7	10.9
88	1,710,386	1,476,761	86.3	10.7	9.8
89	1,556,675	1,264,159	81.2	13.9	12.5

The NON-LIFE branches went from 816,620 million pesetas to 1,089,627 million pesetas in 1989, a growth of 21.5%.

TABLE 6

TOTAL MARKET WITHOUT LIFE

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	765,543	510,825	66.7	17.3	15.6
88	896,620	600,025	66.9	17.1	16.4
89	1,089,627	828,751	75.1	16.9	16.0

This high growth can be explained, amongst other reasons, by the following causes:

- The rise in the number of motor vehicles in Spain has been spectacular in recent years, and especially in 1989. Approximately 1,000,000 new cars were registered in that year. As about 350,000 vehicles were taken off the roads, the number of new units is approximately 650,000, compared with a total number of vehicles estimated at 10,800,000 at the beginning of the year.
- Travel assistance insurance has developed together with Motor insurance. Growth in 1989 with respect to 1988 was 28.3%. Even though the total volume of premiums is of little importance in relation to the sector as a whole, its growth and development is an indication of its important future and the greater role of a combination of insurance and direct assistance.
- Even though there has been a slowing down in the growth of Multirisk insurance, the increase in premiums registered in 1989 is of importance, being placed at 28.6%.

- The classes of Surety, Credit and Engineering registered increases in premiums in 1989 with respect to 1988 of 35%, 24.1% and 15.6%, all noteworthy, and related to the growth of the Spanish economy and the new investment, both public and private.

TABLE 7 **PREMIUMS ISSUED (WITHOUT SURCHARGES)**

NON-LIFE BRANCHES	PREMIUMS 1989	PREMIUMS 1988	% Δ 89/88
Motor	499,706	388,911	28.5
Health	113,865	94,540	20.4
Multirisk	116,428	90,563	28.6
Personal Accident	67,780	59,676	13.6
Travel Assistance	9,004	7,018	28.3
Burrial	56,212	50,682	10.9
Fire	46,660	45,143	3.4
Marine	37,314	37,581	-0.7
General T. P. Liab.	26,710	23,535	13.5
Credit	14,830	11,948	24.1
Surety	7,920	5,865	35.0
Burglary	8,012	7,796	2.8
Engineering	12,101	10,463	15.6
Other Branches	26,766	22,293	20.6
NON-LIFE SUBTOTAL	1,043,308	856,014	21.9
LIFE BRANCHES			
Regular Premiums	266,932	216,174	23.5
Single Premiums	197,531	595,334	-66.8
LIFE SUBTOTAL	464,463	811,508	-42.8
TOTAL MARKET	1,507,771	1,667,521	-9.6
(figures in millions of pesetas)			

With relation to LIFE assurance, there was substantial growth in regular premium policies: these have increased from 216,174 million pesetas in 1988 to 266,932 million pesetas in 1989 (+23.5%).

As opposed to this, single premium life assurance has suffered a fall of such magnitude that it has caused a decrease in the total volume of insurance premiums in Spain.

In 1988 the volume of life single-premiums was 595,334 million pesetas, and in 1989 this figure was reduced to 197,531, in other words, 397,803 million pesetas less (—66.8%). It is probable that the fall in this type of insurance will continue in 1990.

The importance of this class of business in the sector as a whole is reflected in Table 8:

TABLE 8

YEAR	TOTAL SECTOR	LIFE SINGLE PREMIUMS	% SINGLE PREMIUMS
1986	1,066,589	306,496	30.4
1987	1,222,518	346,218	28.3
1988	1,710,350	595,334	34.8
1989	1,556,675	197,532	12.7

For this reason there have been significant changes both in the ranking of insurance groups, and in the growth (decrease) of each one of them with respect to 1988, as a function of single premiums volume.

Table 9 gives the ranking for the main Spanish insurance groups for direct domestic insurance. Tables X and XI chart the evolution of the eight most important groups in the LIFE and NON-LIFE sectors in 88 and 89.

TABLE 9
RANKING OF THE MAIN INSURANCE GROUPS 1989
(DIRECT DOMESTIC INSURANCE)

GROUP/OWNER	PREMIUM VOLUME (MILL.) 1989	COMPANIES
Banco Bilbao-Vizcaya	194,664	Euroseguros, Plus Ultra, Aurora Polar y D.A.P.A.
Mapfre	103,089	M. Mutualidad, M. Industrial y Sociedades Filiales, Maga, M. Vida, M. Caución y Crédito y M. Agropecuaria.
Banco Central	87,060	Banco Vitalicio, Nal. Hispánica y Vasco Navarra.
Banco Español de Crédito	51,992	Unión y Fenix Español, Unión Aseguradora Internacional y Banfénix.
Winterthur	45,231	Winterthur, Winterthur Vida, y Winterthur Protección Jurídica.
Mutua Madrileña Auto	42,461	M.M.A.
Zurich	38,578	Zurich, Hispania, Vita, Caudal y Unión Iberoamericana.
Catalana-Occidente	36,113	Catalana-Occidente y Previsión Nacional.
Allianz-Ras	32,279	Cresa, Ercos, Adriática y Allianz.
B. Hispano-Americano	30,189	La Estrella.
B.U.P.A.	24,535	Sanitas.
Mutua General de Seg.	24,532	Mutua General y Hermes.
Santa Lucia	24,389	Santa Lucia.
Cajas de Ahorro	23,163	Caser e Intercaser.
Multinacional Aseg.	21,317	Multinacional Aseguradora.
A. Sanitaria Interprov.	21,244	A.S.I.S.A.
A.G.F.	21,021	A.G.F. Seguros.
Aegón	19,446	Aegón-Unión Aseguradora.
ENI.	18,938	Musini.
Ocaso	18,327	Ocaso, S. A.

The loss of market share of the largest groups, both in NON-LIFE and in LIFE regular premiums, with respect to the sector as a whole is significant. This is due to the recent entrances of new foreign insurance groups, and also to the great competition which exists in the market.

TABLE 10
RANKING OF DIRECT LIFE ASSURANCE GROUPS
(PREMIUMS ISSUED IN SPAIN)

GROUP	1988	1989	% Δ
B. BILBAO-VIZCAYA			
Regular Premiums	29,126	44,534	52.9
Single Premiums	257,580	109,264	-57.6
TOTAL PREMIUMS	286,706	153,798	-46.4
B. CENTRAL			
Regular Premiums	64,461	55,660	-13.7
Single Premiums	15,088	1,475	-90.2
TOTAL PREMIUMS	79,549	57,135	-28.2
MAPFRE			
Regular Premiums	15,968	20,607	29.0
Single Premiums	10,606	9,924	-6.4
TOTAL PREMIUMS	26,574	30,531	14.9
WINTERHUR			
Regular Premiums	6,774	15,498	128.8
Single Premiums	-	-	-
TOTAL PREMIUMS	6,774	15,498	128.8
CAJA DE AHORROS			
Regular Premiums	2,571	2,308	-10.2
Single Premiums	54,760	11,472	-79.0
TOTAL PREMIUMS	57,331	13,780	-76.0
B. HISPANO-AMERICANO			
Regular Premiums	4,159	8,801	111.6
Single Premiums	34,784	3,199	-90.8
TOTAL PREMIUMS	38,943	12,000	-69.2
NAT. NEDERLANDEN			
Regular Premiums	3,643	6,605	81.3
Single Premiums	16,728	2,655	-84.1
TOTAL PREMIUMS	20,371	9,260	-54.5
CATALANA			
Regular Premiums	7,142	9,002	26.0
Single Premiums	3,750	168	-95.5
TOTAL PREMIUMS	10,892	9,170	-15.8

TABLE 11**RANKING OF NON—LIFE DIRECT INSURANCE GROUPS
(PREMIUMS ISSUED IN SPAIN)**

GROUP	1988	1989	% Δ
MAPFRE			
Motor Premiums	40,789	48,023	17.8
Other NON-LIFE	20,259	24,535	21.1
TOTAL PREMIUMS	61,048	72,558	18.9
B. ESPAÑOL DE CREDITO			
Motor Premiums	20,323	23,978	18.0
Other NON-LIFE	19,522	19,953	2.2
TOTAL PREMIUMS	39,845	43,931	10.3
MUTUA MADRILEÑA AUTO.			
Motor Premiums	33,498	40,504	20.9
Other NON-LIFE	1,200	1,347	12.2
TOTAL PREMIUMS	34,698	41,851	20.6
B. BILBAO-VIZCAYA			
Motor Premiums	16,134	21,865	35.5
Other NON-LIFE	18,382	19,002	3.4
TOTAL PREMIUMS	34,516	40,867	18.4
ZURICH-HISPANIA			
Motor Premiums	17,642	18,712	6.1
Other NON-LIFE	14,855	14,637	-1.5
TOTAL PREMIUMS	32,497	33,349	2.6
BANCO CENTRAL			
Motor Premiums	11,903	15,905	33.6
Other NON-LIFE	13,901	14,020	0.8
TOTAL PREMIUMS	25,804	29,925	16.0
WINTERTHUR			
Motor Premiums	15,669	18,531	18.3
Other NON-LIFE	9,938	11,201	12.7
TOTAL PREMIUMS	25,607	29,732	16.1
ALLIANZ-RAS			
Motor Premiums	12,987	15,128	16.5
Other NON-LIFE	9,908	13,330	34.5
TOTAL PREMIUMS	22,895	28,458	24.3

Sources: UNESPA: Insurance Statistics and Avance 1989 (may 1990).
D.G.S.: Quarterly report.

Most outstanding features of 1989 y class

MOTOR INSURANCE

THE data for 1988 confirms our predictions about the difficulty of the situation in this class, in which, according to information produced by Unespa, premiums issued grew by 13.6%, whilst claims rose by 35% with respect to the previous year.

The underwriting losses for 1988 rose to 71,590 million pesetas, leaving a deficit of approximately 40,000 million pesetas when investment income is deducted.

In 1989, unfortunately, our pessimistic estimates that the losses of the previous year would be exceeded, in relative and absolute terms, came true, and were indeed surpassed. According to preliminary data, underwriting losses will reach 140,000 million pesetas and, deducting investment income, the operating costs will be a loss of 80,000 million pesetas.

TABLE 12

MOTOR INSURANCE

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	353,819	276,881	78.3	17.0	13.2
88	400,413	330,385	82.5	17.5	15.0
89	513,139	480,783	93.7	16.6	14.5

The forecasts for 1990 point towards a relative stabilization of the costs of claims for personal injury, and slight increases in the figures for the rate of accidents. This, together with large increases in premiums, especially those for Third Party Liability cover—which creates the largest losses—, allows one to hope for a certain improvement in the results.

Our estimates for 1990 predict a growth in premiums of about 25% (more a consequence of an increase in tariffs than an increase in the number of vehicles, which are affected by a fall in sales), and underwriting losses in the order of 130,000 million pesetas and, deducting investment income, the operation loss will be approximately 75,000 million pesetas.

The most specialized companies have opted for rapid liquidation of claims and an increase in the claims reserve as efficient and prudent measures to minimize losses.

The possibility is worrying that some motor insurers do not have sufficient provisions for outstanding claims, and therefore when these companies show this deficiency of provisions, the losses of the sector will be even more acute.

LIFE INSURANCE

The upward tendency for regular premiums in life assurance continues, and a very large real increase (25.4%) was registered, many times higher than the average growth of the economy. A slight acceleration in the rate of increase with relation to the last few years can be detected.

In 1989 within a context of greater offer and, in consequence, competition, Retirement insurance cover continues to play a leading part in individual, periodic payment operations.

In 1989 certain national banking networks successfully distributed these types of life-retirement products, which will lead to greater awareness on behalf of the consumers, and less defined frontiers between life assurance products and banking products, and a greater level of competition.

1989 saw the end of the boom of the atypical single premiums, although medium and long-term single payment insurance policies continued to be bought in the search for good financial-fiscal profitability within a totally legal investment alternative with a certain amount of risk coverage.

Thus a trend toward highly financial life products is consolidated, which, as happens in other countries in our environment, generate savings which are clearly favourable for the stability of the economy.

The distribution of private Pension Plans, in their second year of existence, developed at a pace slower than expected. It is confirmed that we are faced with a new type of development, with slack sales in December, more because of tax motivations than as a complement for retirement.

TABLE 13

LIFE

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	456,975	493,377	108.0	5.1	2.9
88	813,766	876,736	107.7	3.6	2.5
89	467,048	445,409	95.4	6.8	4.4

We believe that this period of expansion in Life assurance will continue in 1990, possibly at a faster pace than the previous year, due to a probable reduction in the tendency to consume. The types of life assurance with a large financial component will continue developing, and will constitute a savings alternative with attractive tax advantages.

Within the personal risk sector, the foundations are being laid for strong development in 1990 and successive years with respect to health insurance through policies for the refunding of expenses and medical assistance policies, which will complete the range of covers related to human life which Spanish society is demanding.

THEFT AND BURGLARY INSURANCE

This class is continuing the excellent improvement started in 1985, with good growth of premiums in 1988 with respect to 1987 and above all with an actual decrease in the loss ratio.

TABLE 14

THEFT AND BURGLARY

YEAR	PREMIUMS CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	7,360	4,050	55.0	18.1	15.5
88	8,551	4,019	47.0	17.0	14.6
89	8,785	4,203	47.8	20.0	15.8

It can be said that in 1989 the good results as far as the loss ratio is concerned were maintained, even though the growth of premiums was much lower than that registered in the previous year.

FIRE INSURANCE

Even though only preliminary information about the loss ratio for this class in 1989 is available, a deterioration over the magnificent results obtained in 1988 is to be expected, even after having taken into account the growth in premiums in 1988 with respect to 1987 (+3%).

The main losses in 1989 include those of Cetarsa (Compañía Española de Tabacos en Rama) in some warehouses in Cáceres, to the value of 1,200 million pesetas, and above all the fire in the Vandellós I (Tarragona) nuclear powerstation, to the value of 11,000 million pesetas, covered by the Spanish Atomic Pool.

It can be expected that this reasonable growth will continue in 1990, and that the loss ratio will be bearable, despite the insistent pressure to lower rates and the ever more frequent inclusion of "all risks" cover with insufficient deductibles.

TABLE 15**FIRE**

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	44,583	29,507	66.2	19.3	20.9
88	49,190	18,242	37.1	17.6	19.3
89	50,621	22,539	44.5	20.6	19.6

MULTIRISK INSURANCE

The growth in premiums of the different types of Multirisk policies was 28% in 1989, a slightly lower rate of growth than in 1988. The loss ratio rose by 46% with respect to the previous year, which places it at 62.2% of total premiums. The loss frequency continued to rise in this branch, from 16.2% in 1986 to 20% in 1988.

All this helped to push the underwriting result into negative figures for the first time.

TABLE 16**MULTIRISK**

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	69,536	42,687	61.4	18.5	23.3
88	94,901	51,897	54.7	18.3	23.6
89	121,701	75,741	62.2	17.2	23.6

The forecasts for 1990 are that if running costs are not reduced sufficiently, and if the competitive reduction in premium rates continues, Multirisk insurance as a whole could present acute underwriting losses.

MARINE INSURANCE

Marine insurance reached approximately 38,00 million pesetas in 1989. As a whole, a stagnation in premiums can be seen, and a significant rise in the loss ratio, which, without a doubt, will produce a negative underwriting result for 1989.

The Marine Hull branch in Spain has not differed from international tendencies, and even more so considering that it is a market with clear dependence on international reinsurance.

The position taken by the multinational companies, and the actions of the brokers continued to promote strong competition between the companies in 1989, the effects of which will not take long to make themselves felt in a very negative way.

TABLE 17

MARINE HULL AND CARGO

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	35,214	18,326	52.0	17.0	14.4
88	40,284	20,656	51.3	15.5	13.6
89	40,063	27,547	68.8	18.8	13.7

1989 started with a strong tendency towards a drop in rates (—20% in Merchant vessels and —10% in Fishing vessels) and duties as a result of the overcapacity of the international market, and the strong tensions within the Casmer agreement, which is now no longer operative.

In 1989 the Spanish Merchant fleet saw its number reduced by 37 vessels (—327,000 GRT with respect to 1988). In the five years from 1985 to 1989 there has been a decrease in vessels of 28%, representing 39% of total tonnage.

The deep freezing fishing fleet is facing serious problems due to the scarcity of fishing grounds and also fishing restrictions. The use of fishing grounds which are further and further away poses additional risks for the insurers, which are not compensated for by an adequate level of rates. The only sector which is developing favourably is Shipbuilding which has healthy order books.

The drop in rates has persisted during the first months of 1990, and therefore the prospects are also not favourable for this year.

The Cargo class, which had maintained a good level of results, has also been affected by the fall in rates registered in the international market, which will reduce rates.

ENGINEERING INSURANCE

The Construction sector as a whole grew by 13% in 1989, and growth of around 10% is expected in 1990.

The engineering branch as a whole (including C.A.R., E.A.R., Machinery Breakdown and Electronic Equipment), represents less than a 1% share of the insurance market

despite the permanent increases achieved in the last few years, going from 3,437 million to more than 10,500 million in the five years from 1983 to 1988. Data for the market for 1989 reflect a growth of not less than 15% with respect to the previous year.

The volume of premiums in the Engineering sector is concentrated in few companies (the first 10 take 60% of the premiums and the next 10 around 20%), although there are about 100 companies operating in one or more of the Engineering branches.

TABLE 18

ENGINEERING

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	8,279	4,482	54.1	18.0	14.3
88	11,318	5,126	45.3	17.3	13.6
89	13,103	7,606	58.0	18.0	14.0

The tendency for a fall in rates continued in this class.

The Construction Bill which establishes obligatory decennial third party insurance for the developer, has been drafted various times and has raised high expectations among those involved in construction work and national and international insurers and reinsurers.

Electronic Equipment insurance is developing increasingly well, despite the fact that many operations are being insured through classical branches or combined policies.

The claims arising from the Vandellós I nuclear powerstations, together with the numerous and serious damages caused by the rains of September, November and December, increased the loss ratio of Engineering in 1989.

SURETY INSURANCE

In 1988 was a good year for Surety in Spain. This may be deduced from the volume of premiums (5,865 million pesetas, an increase of 35% with respect to the previous year), and from the loss ratio (1,957 million), slightly lower than the previous year.

The activity of the State in the area of public works has prompted a large rise in the volume of contraction in the Construction sector, which is the most important sector for the Surety insurance companies. It should be pointed out on the other hand that there has been an increase in the number of companies working in Surety. This will undoubtedly have a negative effect on premium rates, which, as in previous years have been subject to pressure to decrease.

According to advance data, 1989 seems to have provided the same success as the previous year, as the circumstances surrounding the Spanish economic environment have not changed.

TABLE 19

SURETY

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	4,630	2,032	43.9	36.3	7.9
88	6,244	1,958	24.4	24.4	7.2
89	8,448	2,937	34.8	21.7	6.8

The outlook for 1990 seems to be equally favourable, although in certain sectors, such as real estate promotion, the situation seems to be worsening, which would have a negative effect on the volume of premiums.

As in the rest of Europe, the solvency ratios to which the banks are subject, may have the effect of reducing the activity of these institutions in guarantees. As is well known, the Spanish banking systems controls a percentage of probably not less than 70% of the total volume of guarantees in Spain.

CREDIT INSURANCE

During the last decade the insurance of domestic credit has maintained a high level of growth, premium volume going from 3,200 million pesetas in 1980 —in approximate figures— to more than 10,000 million pesetas in 1988.

In this same period, the loss ratio has gone down in a spectacular fashion since 1984. Percentages of more than 100% of premiums for the corresponding year have given way to figures which nowadays are around 50/60%, this, in a certain way being a reflection of the general improvement in the national economy during the same period.

For the same reason, this tendency seems to have stopped, or even changed direction in the first months of 1990.

Until well into the 80's this branch was the monopoly of a single insurance company. At the present time there are around ten authorized companies, of which four may be considered operative.

The entrance of new insurers into the market has produced desirable competition, which is shown not in a reduction of rates, which have remained practically unchanged, but in improved service.

In general terms, the aforementioned tendencies for production are followed in 1989 and even though only initial data is available, it can be confirmed that the value of premiums will exceed 12,000 million pesetas with a loss ratio similar to that of recent years.

TABLE 20 **DOMESTIC AND EXPORT CREDIT**

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	9,765	3,934	40.3	37.9	4.7
88	12,744	8,282	65.0	32.0	5.9
89	15,832	11,038	69.7	31.1	6.0

The prospects for 1990 allow for a similar rate of growth, even though the Administration's Measures concerning the limitation of bank credit, and others aimed towards the control of the growth of the economy make a worsening of the risk covered by this insurance seem likely.

PERSONAL ACCIDENT INSURANCE

The Personal Accident sector grew by approximately 14% in 1989, which is substantially lower than the corresponding figure for 1988 (25%). As far as the loss ratio is concerned, in 1989 claims represented 40,7% of income.

TABLE 21 **PERSONAL ACCIDENT**

YEAR	PREMIUMS + CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	52,863	18,020	34.1	18.9	23.3
88	65,357	24,369	37.3	18.0	21.5
89	74,522	30,333	40.7	19.1	19.5

The market is showing a marked tendency towards the commercialization of individual products within this branch, both through direct sales and through mailings directed at specific groups classified by occupational activity.

With respect to 1990, the liberalization of Compulsory Travellers' Insurance should be emphasized. This was managed on a monopoly basis by a state organ (the Consortium for Insurance Compensation), whose premium income for this year will be 1,600 million pesetas.

THIRD PARTY LIABILITY

In 1989, net premium income was estimated at 26,770 million pesetas, an increase of 13.5% over the previous year.

TABLE 22

THIRD PARTY LIABILITY

YEAR	PREMIUMS CHARGES	CLAIMS INCURRED	% CLAIMS	% INTERNAL EXPENSES	% EXTERNAL EXPENSES
87	29,620	11,752	39.7	11.6	12.2
88	25,069	12,961	51.7	17.2	18.0
89	28,453	18,356	64.5	18.2	17.9

According to still provisional figures, the loss ratio rose to 68.7% of net premiums. Despite this, when comparing these figures based on various questionnaires completed by the companies, with posterior information provided by the Dirección General de Seguros (state insurance body), it can be seen that the loss ratio varies quite considerably, to the point where it can be estimated that the real figure should be placed at least 10 points lower than the figure above.

With respect to the general market situation, growing competition in the capture of premiums can be observed, both in direct insurance and reinsurance. This circumstance is resulting in a considerable reduction in the price of the big emblematic policies, according to the ease of placement on the London Market or in international reinsurance.

It is also necessary to mention the legislative movements taking place which will have a determining influence on T.P.L. insurance.

- The announcement of the new Limited Companies Law creates new areas of responsibility applicable to members of Boards.
- There is also the intention to promulgate the Regulation of Construction Law which allots responsibility in construction defects, and foresees the constitution of compulsory decennial insurance for developers.

- As in the previous year, the E.C. directive concerning T.P. Liability for defective products has still not been incorporated into Spanish legislation, and has not even, despite the notorious failure to meet the deadlines imposed, been submitted to Parliament for discussion.
- As a last point, the setting up of the National Plan for Toxic and Dangerous Residues, and the failure on behalf of the insurance companies to give an adequate response in relation to the compulsory insurance instituted, has brought some companies to come together to create, as in other countries, a pool specialized in the cover of environmental risks.

LEGAL MODIFICATIONS WHICH HAVE AFFECTED INSURANCE

The process of adaptation of our laws to the legal norms of the community and the adoption of fiscal and monetary measures aimed fundamentally at the deceleration of the growth of domestic demand, and the progressive evolution of inflation, have been the determining and impelling factors in the legislative movement concerning insurance matters in 1989.

- Concerning the adaptation to Community Directives, Royal Decree 1546/88 was published on December 23, through which the quantitative indemnity limits for *Compulsory Civil Liability Insurance for the Use and Circulation of Motor Vehicles* were raised to the following amounts:
 - 8 million pesetas per vehicle (for personal injury).
 - 2.2 million pesetas per claim (for material damages).

The resolution of the Dirección General de Seguros (DGS) approves the table of indemnities for bodily injury and the Private Medical Assistance for road accidents treaty.

- In accordance with the requirements of the Incorporation of Spain into the E.C. treaty, the regulations of the Community Directive 78/473/CEE concerning Community coinsurance have been incorporated into our legal system: the insurance companies may participate in the following percentages (75% until 31-12-89; 40% until 31.12.90; 20% until 31-12-91) in coinsurance operations for risks located in Spain, even if they are not established (head office, branch office...) in Spanish territory. In the same way, Spanish companies may insure, in coinsurance agreements, risks located in Community territory.
- The E.C. official newspaper of February 15, 1990 published a proposal for a directive concerning the free offering of services in *direct life assurance*.

Its approval will allow clients of any Community country to buy insurance not only from companies established in their own country, but also from any company whose head office lies in any part of E.C. territory.

Insurance companies will not need to be permanently physically established so as to offer or give their services outside the borders of their country of origin.

The State General Budget law for 1989, introduced as its most important new feature a rate of tax of 4% on the reinsurance profits obtained by foreign reinsurers not having permanent establishment in Spain, and residents in countries with which Spain does not have a double tax agreement.

This law maintains the same scheme of deductions for personal income tax as in 1988: 10% for insurance premiums and 15% for pension plans.

- The Royal Decree 5/89 concerning urgent financial and fiscal measures, and the Royal Decree 1203/89 of October 6, published to facilitate its application, prohibit the insurance companies from performing operations which imply the reception of repayable funds and whose usefulness as an insurance operation is impaired due to period length or insufficient cover of the risk in case of death or injury. In this way, it is intended to put an end to short period deferred capital single premium insurance contracts.

Through a resolution of the General Secretariat of the Ministry of Finance, the Administration will make the financial assets fund earnings of certain single premium life assurance operations subject to taxation, and in consequence qualifies the profitability obtained as investment capital profits, subject to appropriate tax retention.

Three judgments of the Supreme Court deserve a brief commentary due to the legislative implications which they carry:

- The first of these recognizes the possibility that any legal entity or person (including insurance and banking companies) may bring about the constitution of an agency or broker company or have a share in its capital, and in this way acquire the status of partner.
- The second, declares that membership of the college is obligatory for non-representative agents, and indirectly affirms the necessity for these professionals to conform to the Special Regime for the Social Security of Self Employed.
- The last, the judgment of February 7, 1989 brought with it the publication of the order of June 2, which declared null and void the order of the Ministry of the Economy, 10-07-86 which regulated loss adjusters, commissioners and average surveyors.

