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THE SPANISH INSURANCE MARKET IN 1996

FUNDACION MAPFRE ESTUDIOS

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THE ECONOMIC SITUATION IN 1996

AFTER overcoming the recession in 1993, the Spanish economy started a growth cycle which reached its peak in the second quarter of 1995. It then started a gentle slow-down period which it continued until the first half of 1996.

Despite this, the Spanish economy showed a growth of 2.2% in GDP in this year, compared with 2.8% in 1995. The reasons for this growth, higher than the European Union average, were different than those initially forecast, since it was expected that growth would be entirely due to home demand, with almost no contribution from the foreign sector, domestic demand however only grew by 1.5% whilst net foreign demand contributed 0.6 points to the growth in GDP. National economic figures show the following changes in the principal macro-economic indicators for 1996:

– Private consumption grew by an annual rate of 1.9%. This modest increase - which coincides with the general trend for the majority of continental European countries - is due to the situation prevailing in the labor market which is characterized by high levels of unemployment, an excessive proportion of temporary contracts (in the order of 34%) and a high turnover of employment contracts.
The above situation, together with uncertainty over the future of the social welfare systems, has kept consumer confidence indicators at a very low level, and has deterred families from making spending decisions.

– There was no change in Public consumption with respect to the previous year. This cap on public consumption may be attributed to the measures which have been adopted so as to comply with the Maastricht agreements.

– Gross fixed capital formation, which in 1995 grew by 8.2%, progressively slowed down during 1996 to reach an average annual growth of 0.7%. Whilst investment in capital goods maintained a reasonable rate of growth (6.1%), investment in construction entered negative figures after the second quarter, with an average annual rate of -2.3%.

TABLE OF MACROECONOMIC INDICATORS — TABLE 1

	1995	1996	1997(F)
Private consumption	1.5	1.9	2.7
Public consumption	1.3	0.0	-0.3
Gross formation of fixed capital	8.2	0.7	6.9
– Capital goods	11.0	6.1	12.0
– Construction	6.8	-2.3	3.2
Home demand	3.1	1.5	3.2
Exports - goods and services	8.2	10.3	8.5
Imports - goods and services	8.8	7.5	8.7
GDP (Market V.)	2.8	2.2	3.0
CPI (Dec/Dec)	4.3	3.2	2.2
GDP deflator	4.9	3.3	2.5
Total ULCs	1.2	3.3	1.8
Total employment (% var.)	1.7	1.4	2.0
Rate of unemployment (% working population)	23.3	22.8	21.5
Current account deficit (% GDP)	1.3	1.5	1.1
Government deficit (% GDP)	6.6	4.4	3.0
Short-term interest rates	9.4	7.5	5.2
Long-term interest rates	11.5	8.9	6.9

Note: Real variation rates in %.
Source: Instituto Nacional de Estadística and Ministerio de Economía y Hacienda.

– Until the third quarter of 1996 home demand continued the slow-down which it had started in the second half of the previous year. The growth figure, which had been 3.1% in 1995, fell to an annual average of 1.5% in 1996, although the last quarter showed a slight recovery.

– The contribution of net foreign demand to the growth of GDP was 0.6 points (in 1995 this same figure was a negative contribution of 0.4 points). This positive balance is due to a relative containment of imports (7.5%) set against an increase in exports (10.3%) brought about by the favorable rate of exchange of the peseta and an excellent crop yield.

With reference to other economic indicators, it should be noted that employment grew by an average rate of 1.4%, despite this, the rate of unemployment only decreased by 0.5 points with respect to the previous year, and was placed at 22.8%.

The consumer price index ended the year with an inter-annual increase of 3.2%, a decrease of 1.1 points in twelve months. Its annual decrease was of a similar magnitude (3.6% as opposed to 4.7% in 1995). The underlying rate of inflation improved in an even more significant manner, decreasing from 4.8% to 3.0% and an annual rate of 4.9% to 3.6%.

In 1996 the state deficit fell to 3.3% of GDP from 5.5% in the previous year, bettering the targets laid out in the convergence program by two tenths. This situation allowed the increase in the Social Security deficit to be compensated for, and allowed the targets for overall government deficit (4.4% of GDP) to be met.

In 1996 the balance of payments increased its surplus due to current account and capital operations and due to the investment of foreign capital in domestic financial markets, this produced an increase in foreign currency reserves in the order of Ptas3 million million.

Of special importance amongst the achievements of the Spanish economy is the significant reduction in the rate of inflation and in the government deficit.

The prospects for the Spanish economy in 1997 are influenced by the above mentioned factors and should be seen within a European context in which a modest increase of growth is expected, it is foreseen that this will increase from 1.6% in 1996 to 2.4% in 1997. Government forecasts for the principal economic indicators are shown in the macro-economic table.

As can be seen, it is expected that 1997 will see a significant increase in private consumption, this, together with the doubling of the rate of growth of investment in capital goods and the beginning of a moderate growth cycle in construction investment, will lead to an increase in home demand of 3.2%, more than double that in 1996. This increase in home demand will lead to higher imports, consequently the net balance for foreign demand will be slightly negative, the growth in GDP will be placed at around 3%.

According to the indicators which were known when the national accounting figures for the first quarter of 1997 were published, the GDP has grown by 2.9%, three tenths more than in the previous three months. The most important factors in this situation at this date are:

– Private consumption went up from 2.4% in the fourth quarter of 1996 to 2.8%.

– Public consumption has increased its rate of decrease from -1.1% in the fourth quarter of 1996 to -1.5% as a consequence of the budgetary consolidation based on the reduction of public expenditure.

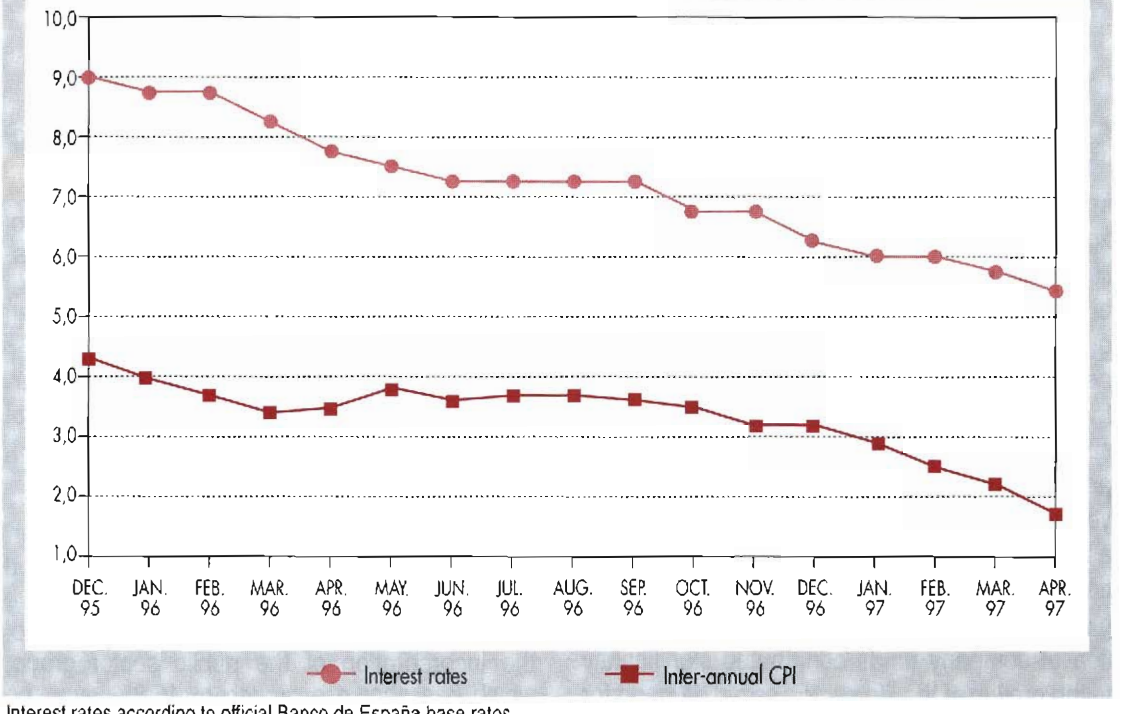
– Gross formation of capital grew by 1.4% after having stayed at the same rate in the previous quarter. Investment in capital goods continued its positive trend (7.8%) and it seems that the downward trend in investment in construction has come to an end.

– The increase in home demand has accelerated from 1.3% in the two previous quarters to 1.6%.

– As a result of the vigorous rate of growth of exports, the Foreign sector made a net contribution to the growth of GDP of 1.3 points, much higher than imports, although both these figures show a relative decline.

The above mentioned data notably exceed expectations for compliance with forecasts made for 1997 due to an improvement in private consumption based on recent increases in consumer confidence which will be consolidated as a consequence of greater employment stability which is expected from the recent labor market reforms which have been agreed. Prospects for investment in construction have also improved, at the same time that the vigor in investment in capital goods and exports is confirmed. It would seem that these factors indicate that the official target for GDP growth will be reached or even slightly exceeded this year, and also that compliance with the convergence criteria set out in the Maastricht treaty will be achieved, which will allow Spain to form part of the European monetary union.

CHANGES IN CONSUMER PRICES AND INTEREST RATES (%) TABLE 2



Interest rates according to official Banco de España base rates.
Consumer prices set by inter-annual CPI.
Source: Banco de España.

KEY FEATURES OF THE INSURANCE MARKET IN 1996

THE Spanish insurance market attained a premium volume of Ptas3.8 million million in 1996, this is 11.9% higher than 1995. Of this figure, Ptas2.1 million million correspond to non-life business and Ptas1.7 million million to life business, these two sectors show rates of growth of 6.3% and 20.0% respectively. It may be said that, in general terms, it was a good year for the insurance sector, as the sector has shown positive progress in its levels of growth and market penetration with respect to previous years. The moderate growth of the non-life lines as a whole is due to the freezing or even reduction in motor insurance rates. The volume of single premium operations due to the externalization of company funds contributed significantly to the growth of the life sector, as did demand for life-savings policies as a result of new fiscal legislation.

The lines which showed the highest rates of growth are: agricultural (30.1%), travel assistance (22.0%), engineering (20.6%), life (20.0%) - especially as a consequence of the growth experienced by single premium policies (34.4%) -, third party liability (14.9%) and personal accident (12.0%). Negative rates of growth were recorded by guarantee (-11.1%), theft (-1.6%) and fire (-0.4%).

With reference to the companies which operate in the insurance sector, it should be noted that the top positions in the market ranking have not changed substantially, with the exception of the incorporation of the public sector group, which has shown a growth of 45.8% over the

TOTAL MARKET — **TABLE 3**

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	3,358,808	25.9	86.3	11.9	10.1	-8.7
1995	3,392,784	1.0	85.8	12.5	10.3	-8.9
1996	3,796,578	11.9	90.4	11.8	10.3	-12.7

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

TOTAL NON-LIFE — **TABLE 4**

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	1,915,825	7.0	72.6	17.1	14.9	-5.3
1995	2,016,044	5.2	73.7	16.8	14.5	-5.6
1996	2,144,193	6.3	73.3	16.7	15.0	-5.7

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

PREMIUMS PLUS SURCHARGES				TABLE 5
NON LIFE	1995	1996	% Δ 96/95	%MARKET SHARE
Motor	989,859	1,023,221	3.4	23.2 (*)
Health	293,565	317,829	8.2	8.4
Property and Casualty	258,920	285,899	10.4	7.5
Personal Accident	128,704	144,236	12.0	3.8
Funeral	115,483	127,496	10.4	3.4
Third Party Liability	80,787	92,886	14.9	2.5
Marine	53,005	54,728	3.2	1.5
Legal Defense	48,167	49,460	2.6	1.3
Travel Assistance	37,929	46,306	22.0	1.2
Credit	36,162	38,875	7.5	1.0
Fire	30,823	30,722	-0.4	0.8
Engineering	19,385	23,381	20.6	0.6
Theft and Burglary	8,004	7,876	-1.6	0.2
Guarantee	5,289	4,702	-11.1	0.1
Agricultural and other	36,003	39,215	8.9	1.0
TOTAL NON-LIFE	**2,016,044**	**2,144,193**	**6.3**	**56.5**
LIFE				
Regular premiums	676,329	710,893	5.1	18.7
Single premiums	700,411	941,492	34.4	24.8
TOTAL LIFE	**1,376,740**	**1,652,385**	**20.0**	**43.5**
TOTAL MARKET	**3,392,784**	**3,796,578**	**11.9**	**100.0**

Premiums for the business lines of Vehicle Occupants, Travel Assistance (Motor) and Legal Defense (Motor) have been included in the Motor line as well as in their respective lines; they have however been included only once in the totals.
(*) Without including the business lines of Vehicle Occupants, Travel Assistance (Motor) and Legal Defense (Motor).
Source: UNESPA. Figures in Ptas millions.

previous year and whose main company, MUSINI, is included in the privatization program recently formulated by the government. The German company Allianz-Ras has gone down a few places, in 1995 it registered growth of 83.7% thanks to a large single premium operation, which in 1996 decreased by 25.2%. Total premiums of the top ten insurance groups totaled Ptas1.4 million million, showing an average increase of 10.9% with respect to 1995. These groups have a market share of 38.0%, and 57.4% of this is controlled by foreign companies.

For all the non-life lines taken as a whole, the top ten positions are occupied by the same insurance groups as in 1995, their premiums totaled Ptas930,393 million in 1996 - showing an age increase of 36.8% over the previous year, and, taken together, these groups occupied a market share of 50.9%.

Gross pre-tax profit for the sector increased by Ptas52,513 million to total Ptas182,933 million, to which the life sector contributed 40% and the non-life sector the other 60%. Given that, as a whole, negative technical results have decreased by 33.9%, returns on investment, whose increase was 10.8% as against 28.7% in 1995, allowed the technical-financial result to show a growth of 63.9%.

As has already been mentioned, the large decrease in interest rates has increased the importance of the technical results in helping the companies to reach sustained equilibrium. The decrease in financial yield derived from the sec-

RESULTS OF THE INSURANCE SECTOR IN 1996 — **TABLE 6**

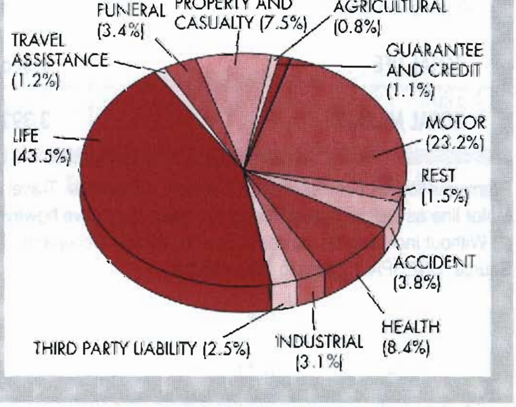
	LIFE	NON-LIFE	TOTAL	% Δ 96/95	% PREMIUMS
Technical result	-29,717	-44,786	-74,503	-33.9	-2.0
Financial result	84,169	145,826	229,995	10.8	6.0
Technical-financial result	54,452	101,040	155,492	63.9	4.1
Gross profit (before tax)	73,303	109,630	182,933	40.3	4.8

Source: Dirección General de Seguros.
Figures in Ptas millions.

average increase of 4.2% over the previous year, and they had a total market share of 43.3%.

There continue to be greater movements concerning the positions of the top ten companies in life business due to the single premium operations which have been carried out over the last few years. It is expected that these oscillations will continue in the next two years as this is the time period established by law for the externalization of pension obligations by the companies. Of special note is the spectacular growth of Banesto Seguros due to the policy which it has underwritten with Banesto to cover its employee pensions. Premiums for the top ten groups in this sector totaled Ptas843,237 million, an aver-

IMPORTANCE OF PRINCIPAL LINES DURING 1996 — **TABLE 7**



Industrial: Fire, Theft, Engineering and Marine.
Source: UNESPA.

tor's traditional investments makes it advisable to adopt measures to achieve technical equilibrium together with a diversification of investments and to make their management as efficient as possible.

With regard to the penetration of insurance into the Spanish economy, total premiums for direct insurance for 1996 represented 5.1% of GDP (4.9% in 1995). Per capita premium levels ran at Ptas86,418 in 1995 and Ptas96,654 in 1996.

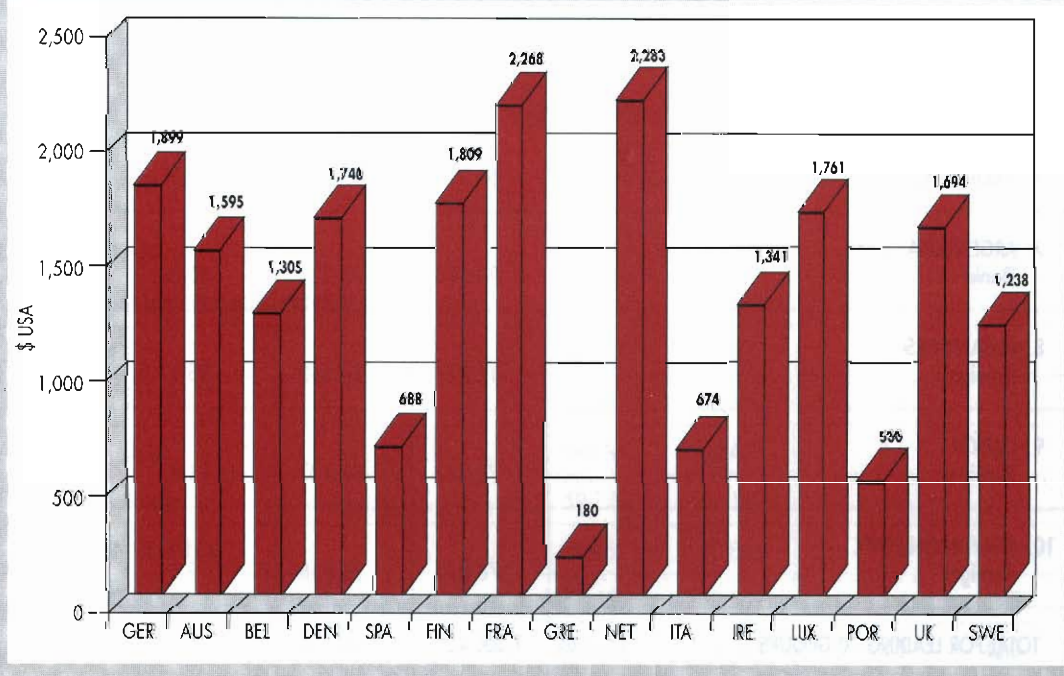
As at December 31, 1996, there were 393 companies operating in direct insurance in the Spanish market, of these 302 were limited companies, 59 were mutuals and 32 were branches of foreign companies. The process of concentration and restructuring which started several years ago (in 1993 there were 456 companies operating) continued in 1996, and it is foreseeable that it will continue in the next few years, especially if Spain joins the European monetary union. This process of concentration will be influenced by the mergers and acquisitions which affect European insurance groups present in the Spanish market.

The Spanish insurance market has been international for many years now due to the strong presence of foreign insurers. According to information published by the Dirección General de Seguros, foreign capital represents 37.0% of the sector's total capital (37.4% in 1995), of this 30.4% corresponds to European Union countries and the other 6.4% to other countries (mainly Switzerland and the United States). The premium volume which corresponds to companies with a greater than 50% interest of foreign capital in their share capital amounts to 26.3% of the total direct insurance premiums (29.3% in 1995), of this, 21.7% corresponds to European Union countries and 4.6% to other countries (mainly Switzerland). Spanish insurers however have a low international presence, with the exception of MAPFRE, which has become the largest foreign insurer in Latin America.

Lastly, given the fact that the Spanish economy's key economic figures are approaching the

PER CAPITA PREMIUMS IN THE EU 1995

TABLE 8



Source: Sigma.

convergence criteria set out in the Maastricht treaty, it is possible that Spain will be able to join the first phase of European monetary union in 1998. The Spanish insurance sector has intensified its deliberations into what implications (economic, financial, legal, fiscal, administrative, etc.) a single European currency could have for their activities, and the measures which should be adopted to confront this new situation and the transition process which will lead to the circulation of Euro bills and coins during the first half of 2002, leading to the fact that the domestic currencies of participating countries will lose their value.

LEADING 10 INSURANCE GROUPS IN 1996 - DIRECT INSURANCE
(Premiums obtained in Spain)

TABLE 9

GROUP	Premiums 1995	Premiums 1996	% Δ 96/95	Market share
1. MAPFRE (Independent)	285,172	303,375	6.4	8.0
2. GENERALI (Bank - foreign)	226,422	267,259	18.0	7.0
3. WINTERTHUR (Foreign)	134,383	150,558	12.0	4.0
4. CAIFOR (Savings bank - foreign)	120,069	147,967	23.2	3.9
5. BBV (Bank)	111,006	118,711	6.9	3.1
6. MUSINI (Public sector)	66,792	97,413	45.8	2.6
7. ARGENTARIA (Bank)	82,594	95,223	15.3	2.5
8. ALLIANZ-RAS (Foreign)	116,818	87,462	-25.2	2.3
9. ZURICH (Foreign)	78,272	87,407	11.6	2.3
10. AGF/UNIÓN FÉNIX (Foreign)	78,892	86,658	9.8	2.3
TOTAL FOR LEADING 10 GROUPS	**1,300,420**	**1,442,033**	**10.9**	**38.0**

Source: UNESPA. Figures in Ptas millions.

LEADING 10 INSURANCE GROUPS IN 1996, DIRECT INSURANCE - LIFE
(Premiums obtained in Spain)

TABLE 10

GROUP/COMPANY	Premiums 1995	Premiums 1996	% Δ 96/95	Market share
1. CAIFOR	118,099	145,119	22.9	8.8
2. GENERALI	90,883	140,247	54.3	8.5
3. BBV	107,978	114,818	6.3	6.9
4. MAPFRE	70,823	78,187	10.4	4.7
5. ARGENTARIA	65,061	78,035	19.9	4.7
6. MUSINI	46,418	77,683	67.3	4.7
7. BANESTO SEGUROS	1,073	56,802	5,193.7	3.4
8. CASER	26,620	54,918	106.3	3.3
9. SKANDIA	53,271	52,799	-0.9	3.2
10. CAIXA CATALUÑA	36,055	44,629	23.8	2.7
TOTAL FOR LEADING 10 GROUPS	**616,281**	**843,237**	**36.8**	**50.9**

Source: UNESPA. Figures in Ptas millions.

LEADING 10 INSURANCE GROUPS IN 1996, DIRECT INSURANCE - NON LIFE
(Premiums obtained in Spain)

TABLE 11

GROUP/COMPANY	Premiums 1995	Premiums 1996	% Δ 96/95	Market share
1. MAPFRE	214,351	225,189	5.0	10.5
2. GENERALI	135,673	127,008	-6.4	5.9
3. WINTERTHUR	110,988	115,782	4.3	5.4
4. MUTUA MADRILEÑA AUTOMOVILISTA	70,579	74,183	5.1	3.5
5. ZURICH	66,667	73,827	10.7	3.4
6. ASISA	63,492	68,339	7.6	3.2
7. SANTA LUCÍA	56,988	62,442	9.6	2.9
8. AXA/AURORA	59,778	62,189	4.0	2.9
9. AGF/UNIÓN FÉNIX	56,662	60,865	7.4	2.8
10. ALLIANZ-RAS	57,450	60,569	5.4	2.8
TOTAL FOR LEADING 10 GROUPS	**892,628**	**930,393**	**4.2**	**43.3**

Source: UNESPA. Figures in Ptas millions.

LEADING 10 INSURANCE GROUPS IN 1996, MOTOR INSURANCE
(Premiums obtained in Spain)

TABLE 12

GROUP/COMPANY	Premiums 1995	Premiums 1996	% Δ 96/95	Market share
1. MAPFRE	159,406	161,114	1.1	15.7
2. WINTERTHUR	78,148	78,036	-0.2	7.6
3. MUTUA MADRILEÑA AUTOMOVILISTA	70,579	74,183	5.1	7.2
4. GENERALI	68,259	61,935	-9.3	6.0
5. ALLIANZ-RAS	43,746	45,499	4.0	4.4
6. ZURICH	40,610	45,433	11.9	4.4
7. AXA/AURORA	36,373	38,373	5.5	3.7
8. UAP	29,453	33,091	12.3	3.2
9. CAIXA CATALUÑA	35,088	32,188	-8.3	3.1
10. AGF/UNIÓN FÉNIX	23,337	25,021	7.2	2.4
TOTAL FOR LEADING 10 GROUPS	**584,999**	**594,873**	**1.7**	**57.7**

Source: UNESPA. Figures in Ptas millions.

MAIN CHARACTERISTICS IN 1996, BY TYPE OF BUSINESS

LIFE

In 1996 premiums written for life business amounted to Ptas1.7 million million, this represents an increase of 20% over the previous year.

This significant improvement is principally due to growth in single premium business (34.4%), which, after decreasing in 1995, is now placed at close to one million million pesetas.

Although the performance of regular premiums was less buoyant than in previous years, they did show positive performance, reaching a volume of Ptas710,893 million, showing an increase of 5.1% over the previous year. Individual policies recorded a growth of 8.2%, whilst the premium volume for group policies was practically the same as the previous year.

The most significant event, due to its favorable effect on the sector, was the fiscal measures introduced by Act 7/1996 which establish new taxation regulations with regard to capital gains and losses , as a result of which there was a significant increase in demand for single premium life-savings insurance products.

In December the BOE (the official gazette) published Act number 14/1996 which, under

TOTAL LIFE — TABLE 13

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	1,442,982	64.7	104.1	5.1	3.9	-13.1
1995	1,376,740	-4.6	103.2	6.1	4.3	-13.6
1996	1,652,385	20.0	112.1	5.5	4.1	-21.7

Source: UNESPA. Figures in Ptas millions. Loss ratio and results on earned premiums.

TOTAL REGULAR PREMIUMS — TABLE 14

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	560,824	15.8	138.8	10.4	7.4	-56.6
1995	676,329	20.6	97.8	10.4	7.0	-15.2
1996	710,893	5.1	117.5	10.2	7.1	-34.8

Source: UNESPA. Figures in Ptas millions. Loss ratio and results on earned premiums.

SINGLE PREMIUMS — **TABLE 15**

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	882,158	125.1	82.0	1.7	1.7	14.6
1995	700,411	-20.6	108.5	1.8	1.6	-11.9
1996	941,492	34.4	108.1	1.9	1.8	-11.8

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

certain circumstances and beginning in 1997, provides for the extension of an income tax write-off of 10% of paid premiums to mixed and deferred policies, it also extended reductions applicable to life insurance to estate and gift tax.

1996 was a waiting year concerning the ordinance affecting the Ordination and Supervision of Private Insurance Act, but it was also a step forward concerning improving the prospects for financially balancing the public system of social services due to the Pension Reform Act, and the role which should be taken by complementary solutions such as life-retirement insurance.

Special note should be taken of the high level of mathematical reserves which have been built up by the sector as a whole, at the end of the year these reserves were running at over Ptas6 million million, showing the importance of life insurance in the Spanish economy.

The bank-insurance phenomenon is playing a very important role as a distribution channel for new policies, and new types of distribution such as direct marketing are becoming increasingly important.

Although it is not technically correct to include pension and investment funds in this section, it is worth providing a brief overview of these products due to the fact that they are complementary or alternative products to life-savings insurance, and the fact that they have achieved appreciable growth over the last few years.

Pension funds closed the year with assets of Ptas2.9 million million, showing an increase of 36% over 1995. 2,178,647 people put savings into this type of investment for the future.

Investment funds (whose assets at the end of 1996 totaled Ptas18.7 million million) increased by Ptas6.5 million million, showing a growth of

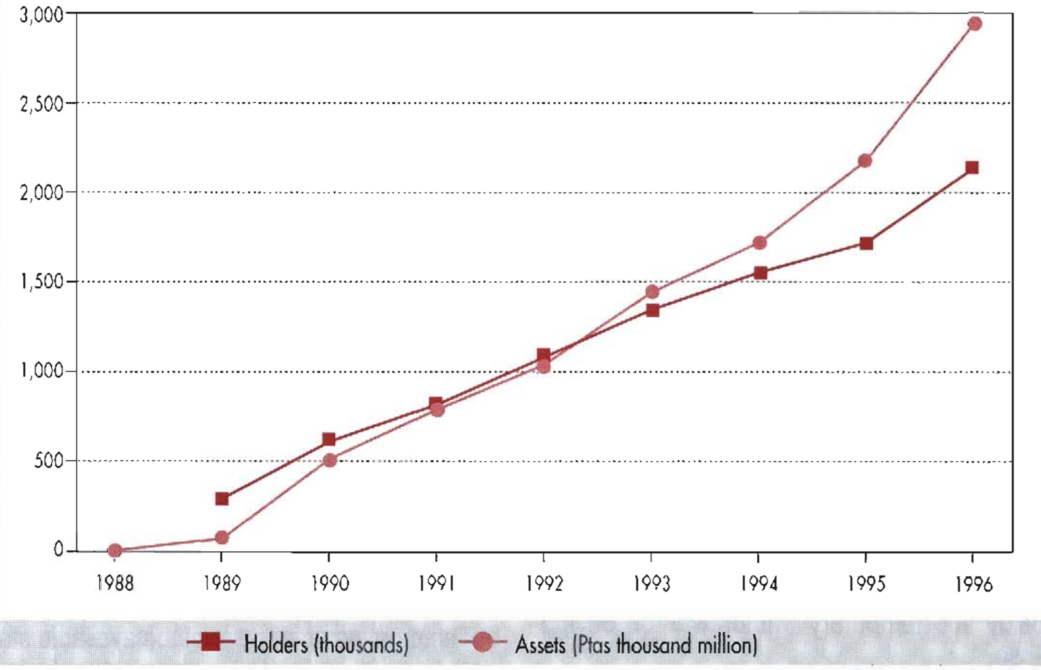
PENSION FUND ASSETS IN 1996 — **TABLE 16**

	1995	1996	% Δ 96/95	% Share
Individual	1,049	1,513	44.2	52.1
Group	63	84	33.3	2.9
Employers'	1,021	1,305	27.8	45.0
Total	**2,133**	**2,902**	**36.0**	**100.0**

Source: INVERCO. Figures in Ptas thousand millions.

PENSION FUNDS

TABLE 17



Source: Dirección General de Seguros.

53.4%. The flow of resources towards this savings instrument is a consequence of, amongst other factors, the higher rate of return of this product compared with other traditional alternatives such as current accounts, fixed-term investments, etc.

The prospects for life insurance for 1997 are very favorable. The satisfactory progress of the economy, the need to complement covers provided by the public welfare system and the new fiscal benefits, provide a truly positive panorama to achieve a high rate of expansion.

1997 will be a decisive year for defining the role which investment, savings and welfare instruments should play in the future. The conclusions of the sub-commission of the Chamber of Deputies which is studying the complementary private systems will be the starting point, and everything points towards the fact that their proposals will result in positive regulatory changes for those instruments which provide for long-term saving.

It is foreseeable that new specific regulations will come into force in the insurance sector to regulate aspects such as the technical interest rate, technical reserves, solvency margins, etc.

All these factors, together with the new attitudes and preferences of the general public concerning the profitability of their savings and investments, lead to expectations for a spectacular year in terms of growth of pension funds and investment funds.

MOTOR

1996 saw premiums written for motor insurance to a value of over 1 million million pesetas (in exact terms they totalled Ptas1,023,221 million), registering a growth of 3.4% as opposed to 1.7% the previous year.

For the first time, the statistical information provided by UNESPA which is used to write this

AVERAGE PREMIUM PER POLICY						TABLE 18
Year	Policies		Premiums issued		Average premium per policy	
	Number	% Δ	Ptas millions	% Δ	Ptas	% Δ
1994	17,501,746	2.4	973,449	4.7	55,620	2.3
1995	17,680,989	1.0	989,859	1.7	55,984	0.7
1996	18,018,242	1.9	1,023,221	3.4	56,788	1.4

Source: UNESPA.

report includes the premiums for all the covers and benefits contracted in a motor insurance policy. In addition to the premiums for covers which are traditionally included, the premiums for the following covers are also included: vehicle occupant accident, travel assistance and subsidy for temporary withdrawal of driving license.

Independently of legal regulations covering branches of insurance, it should be said that including the premiums for all the covers and benefits of motor insurance more accurately reflects the real situation of this large segment of the Spanish insurance market.

According to this same statistical source, the net increase in the number of policies has only been 337,253 which is 1.9% of policies in force at the end of the preceding year, whilst the net growth of the number of vehicles was close to 700,000, an increase of 3.7% with respect to 1995.

Considering these parameters of premiums and number of policies, the average premium per policy totaled to Ptas56,788 in 1996 compared with Ptas55,984 in 1995, which means an increase of only 1.4%, although this figure was even lower in 1995 (0.7%).

The most notable factor of the available statistical information is the increase in loss frequency by 1.7%, whilst the overall average cost of these losses fell slightly by 0.5%, this caused the loss ratio on earned premiums to increase by near to half a point in 1996.

Management expenses on premiums increased from 28.4% in 1995 to 29.6% in 1996.

The forecasts for premium growth were not achieved despite the fact that the number of insured vehicles increased slightly. The forecasts with respect to an increase in loss ratio and technical insufficiency of the premiums were however confirmed, even

MOTOR						TABLE 19
Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	973,449	4.7	76.5	17.0	12.5	-6.1
1995	989,859	1.7	75.1	16.8	11.6	-3.7
1996	1,023,221	3.4	75.5	17.0	12.6	-5.7

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

when covers with better technical results such as vehicle occupants and travel assistance are included.

These aforementioned factors mean that, despite the fact that the covers whose premiums have this year been included in the figures for motor insurance produce satisfactory loss figures and results as a whole, the technical loss for the year with respect to earned premiums totals 5.7% (3.7% in 1995).

As a consequence of the circumstances which have been put forward in this report, the relative weight of motor insurance within non-life lines as a whole has decreased in the last few years, going from 51.2% in 1992 to 47.7% in 1996.

If, as preliminary information available for 1997 indicates, the policy towards reductions in premiums through discounts or other practices which lead to reductions without a technical base continues, to which should be added the fact that the majority of insurers have absorbed, in one way or another, the tax of 4% on premiums which came into force on January 1, the predictions for this year can not be optimistic with respect to the necessary technical equilibrium, especially important when financial yield is appreciably affected by the reduction in interest rates.

With regard to the loss ratio foreseeable for 1997, the increase in consumer spending due to improvements in the Spanish economy and the new PREVER plan which promotes the replacement of older vehicles through subsidies, will lead to an increase in the intensity of circulation of vehicles and an increase in the number of vehicles on the roads, these factors affect loss frequency, even if the average age of vehicles on the road were to fall. The average cost of losses will continue to be contained, mainly as a consequence of the application of a scale of damages for personal injuries.

With regard to the system for the valuation of personal injuries (popularly known as "el Baremo") which is included as an appendix to Act number 30/1995, and whose constitutionality was questioned by the Supreme Court in a ruling on March 26, 1997, it is necessary that the competent jurisdictional body - the Constitutional Court - should make a ruling since this would be of great importance, not only for the insurers, but also for the affected victims, the administration of justice, and civil bodies which are concerned with this problem.

It can therefore be deduced that motor insurance will continue with technical losses in 1997, and that these will not be compensated for by financial income, which is affected by the reduction in interest rates. It is however possible that this year will mark the transition towards a policy of greater prudence with regard to the strategy of reducing premium rates which is practiced by some insurers.

HEALTH

1996 was once again a favorable year for this line. The premium volume totaled Ptas317,829 million, which represents a growth of 8.2% over the previous year.

Of the various types of insurance which make up this branch, of special interest, although its weight with regard to the whole is still small, is the increase of 25.6% in premiums for medical expense reimbursement insurance. The increase in premiums for health assistance was 8%.

The high level of demand and interest for medical insurance has brought with it the progressive entrance into this sector of some credit institutions, which in their distribution strategy, have also included the sale of medical expense reimbursement and assistance insurance products.

The prospects for 1997 continue to be clearly favorable, even more so if the efforts which have been made by the companies with respect to the setting up of complementary services, expansion of sole or joint networks, etc. and the effects which this will have on the demand for these types of products are taken into account.

It is however to be hoped that companies offering these products will make a careful study of losses, since, as has been seen over the last few years, these are following an upward trend.

HEALTH — TABLE 20

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	264,053	9.0	81.8	11.9	4.1	2.3
1995	293,565	11.2	83.8	12.3	4.2	-0.5
1996	317,829	8.2	84.0	12.1	4.5	-0.8

Source: UNESPA. Figures in Ptas millions. Loss ratio and results on earned premiums.

PROPERTY AND CASUALTY

In 1996 premiums written in this sector totaled Ptas285,899 million, showing a growth of 10.4% over the previous year.

Management expenses were maintained at a level of something more than 43% of premiums, the break-even point for the sector being placed at 57%.

The loss ratio continued its worsening trend, which started in this sector at the beginning of the 90's. 1996 again brought with it atypical meteorological conditions, with storms which were possibly more intense than the year before.

Apart from this climactic factor, there was also a gradual deterioration in the performance of the sector, principally in homeowners' insurance, as a consequence of the new benefits which have been incorporated into these combined policies and which have not been adequately reflected in the premium rates. The lines of homeowners', condominiums and commercial policies show significant losses despite the application of specific rationalization policies.

The market is especially sensitive to these negative results, and a certain tendency has being seen towards the inclusion of corrective factors in the calculation of premiums, especially in condominiums insurance and commercial policies.

Criteria which aim to improve risk selection continue to be applied with a certain rigor in condominiums, as is a new rating system which is based on the construction year of the insured building, it is hoped that this will improve the very poor results from the cover of water damage due to aging of buildings.

PROPERTY AND CASUALTY — TABLE 21

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	235,943	12.4	59.6	21.0	24.3	-5.2
1995	258,920	9.7	66.1	19.7	23.6	-11.0
1996	285,899	10.4	67.4	19.6	23.7	-12.6

Source: UNESPA. Figures in Ptas millions. Loss ratio and results on earned premiums.

MAKEUP OF PROPERTY AND CASUALTY LINES				TABLE 22
	Premiums 1995	Premiums 1996	% Δ 96/95	%/total 1996
Homeowners'	127,900	144,002	12.6	50.4
Industrial	35,347	44,325	25.4	15.5
Commercial policies	38,269	41,184	7.6	14.4
Condominiums	28,983	32,236	11.2	11.3
Workshops and small industry	24,372	19,744	-19.0	6.9
Other property and casualty	4,049	4,408	8.9	1.5
TOTAL	**258,920**	**285,899**	**10.4**	**100.0**

Source: UNESPA. Figures in Ptas millions.

PERSONAL ACCIDENT

Premiums for this sector totaled Ptas144,236 million in 1996, an increase of 12%, which is a higher percentage than in previous years.

Internal and external management expenses fell as a whole by almost two points, the break-even point for this sector is 63% of premiums. A general trend towards falling commissions was maintained, and a special effort towards controlling internal management expenses can be seen.

As is usual, the sector's results were very satisfactory and the loss ratio was reduced in 1996.

New products which aim to promote the development of individual policies continue to appear on the market. These products are directed towards "family protection" and have new covers and attractive sales methods directed at the family environment: compensations in the form of monthly sums, double indemnities in case of death of both spouses and study grants.

Group policies show reasonable growth, whilst the vehicle occupants sector continues its stable growth and is showing a profit.

PERSONAL ACCIDENT — TABLE 23

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	116,434	9.5	47.0	18.6	20.8	11.6
1995	128,704	10.5	44.3	19.0	19.9	15.2
1996	144,236	12.0	43.6	18.3	18.8	18.7

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

FUNERAL

In 1996 premiums written in this sector totaled Ptas127,496 million, showing an increase of 10.4% over the previous year. Funeral insurance, which has historically occupied a significant position in the Spanish insurance sector, is in fifth place in terms of non-life insurance premium volume, after motor, health, property and casualty and personal accident.

Management expenses were reduced by somewhat more than 1 point with respect to the previous year, being placed at 53.7% of premiums. This decrease is due to a reduction in external management expenses, which are still very high, as a consequence of the peculiarities of the sector.

The number of insurance companies which operate in this sector continued to fall due to the new regulations. The market structure however has specific characteristics, and more than 70% of the premiums are concentrated in 3 insurance companies.

Results are maintained within positive margins, with a loss ratio of 39.3%.

THIRD PARTY LIABILITY

The slowdown in growth of this line over the last few years was confirmed last year, despite the fact that it continues to show one of the highest rates of growth in the insurance market. Written premiums totaled Ptas92,886 million, showing a growth of 14.9% with respect to the previous year, forecasts have therefore not been fulfilled concerning a certain to stagnation of third party liability insurance along the year.

The loss ratio on written premiums was reduced by something more than two points with respect to 1995, being placed at 90.4%, but with combined ratio of 121.9%, still extremely burdensome. However, the temporal nature of third party liability losses makes it advisable to consider other systems for loss projections which are more suited to the characteristics of such an idiosyncratic line.

The reasons for this moderate growth, when compared with the expectations of the last few years, must be due to the level of competition reached in the last year, and which increased markedly in the 1997 renewals campaign. The fact that Spain has been a liberalized market for a long time does not only imply the active presence of the most representative companies of European insurance, but also of world reinsurance, a circumstance which increases the need for growth, especially in a "soft" period and with excess of capacity.

But, at the same time as premiums are reduced for large policies, the cover which is given in the standard industrial policy is increased, though giving guarantees for the so called "pure financial losses" without sufficient forethought (detriment due to breach of contract:

FUNERAL — TABLE 24

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	104,348	8.9	42.4	16.6	38.1	-0.2
1995	115,483	10.7	37.7	16.1	38.8	7.3
1996	127,496	10.4	39.3	16.2	37.5	6.2

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

THIRD PARTY LIABILITY						TABLE 25
Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	73,375	20.7	95.2	17.6	14.4	-29.3
1995	80,787	10.1	92.5	16.6	14.0	-23.8
1996	92,886	14.9	90.4	16.2	13.8	-21.9

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

work stoppage, supply failure, etc.), with clauses which have not been sufficiently thought through and are not adequately suited to the cover provided, and which may give rise to problems when the contents of these is evaluated.

New operators have appeared in the pollution risks area which are competing with the Spanish Pool for Environmental Risks, until last year this body was the only one to underwrite EIL (environmental impairment liability) policies. A certain slight tendency can be observed towards giving pollution risks a specialized technical treatment, which it is expected may be completed during this year, especially if the law on third party liability arising from activities with environmental impact is finally passed, this sets out an objective liability schedule limited to Ptas15,000 million with compulsory insurance still to be developed.

Responding to an inquiry by an insurance company, the Dirección General de Seguros questioned the practices which are habitually employment when underwriting government patrimonial liability, citing the non-applicability of the Insurance Contract Act and the non-insurability of these risks, and the fact that they are possibly unconstitutional.

With respect to Directors and Officers Insurance, claims are already being received from those affected at the same time as a proliferation of sentences which condemn company directors in a manner distinct from that initially foreseen. Competition and excess of capacity are also more acute in a type of insurance which has been relatively free of claims until this time.

The so called "claims made" problem which seemed to have been channeled through a modification made in article 73 of the Insurance Contracts Act, again came to the forefront with the emergence of certain doubts concerning the final closure of guarantees which are given if claims are not received within the stipulated period of cover. Some expert consider that, in any case, it will always be inexcusable to consider an extended reporting period of less than one year from the maturity date of the policy, to deal with the consequences of acts or omissions incurred during the period in which the insurance was in force.

In the same area however, the Supreme Court admitted the validity of claims made clauses in a sentence passed on November 10, 1995. In this, without prejudicing the accepted opinion that the loss arises with the occurrence of a damaging event, independently of when the affected party makes a claim, it stated: "this does not prevent it being the clauses and conditions contained in each particular policy that are in effect applicable in legal affairs pertaining to this, preference must in each case be given to that which is agreed in the policy."

The first year has passed in which the so called "Baremo" (a system to evaluate physical and moral injuries caused to people in traffic accidents) has been applied. Although this was designed to be applied to road accident victims, it has also been used as a reference point to those affected in other types of accidents. At the moment of compiling this information however, this much discussed scale has again been affected by legal rulings against it, and by its own constitutionality, as three pending appeals have been admitted by the constitutional court.

The regulations contained in the Prevention of Workplace Accidents Act continue in force although up until this time there has been no appreciable decrease in workplace accidents, one of the highest rates in Europe, and without having been able to change one of the main problems of this branch: employers liability.

Unlike the situation in 1995, the year was not very prolific in legislative terms, there were no major new events which affected third party liability or insurance in general. New compulsory insurances of various types have however continued to appear which enrich the panorama coming from preceding years: festivals involving bulls, amateur radio transmitting stations, safety devices and systems for use in explosive atmospheres, health products, telecommunication devices, building rental and used self-propelled tow trucks.

Finally, the Unespa initiative was completed, this is an arbitration system set up to resolve conflicts between insurance companies, and is able to extra judiciously resolve disputes concerning insurance liability or timing.

MARINE

In 1996 the Marine line achieved a premium volume of Ptas54,728 million, showing an increase of 3.2% over the previous year. This is a moderate rate of growth which accurately reflects the real situation in the market.

The value of losses increased by a similar percentage to premiums (3.0%). The number of losses increased by 3.5%, and their frequency increased very slightly (0.2%), the average cost of losses however decreased by 0.5%.

Internal and external management expenses showed a downward trend in 1996, falling by 0.6 and 0.4 points respectively. Even so, the technical equilibrium which was obtained was 111.1%.

The prospects for the future are not exactly encouraging. The most favorable forecast points towards a maintenance of the present situation. The main factors affecting this situation are: the high number of companies which operate in this line, the indiscriminate offer of new reinsurance contracts and competition between companies so as to increase their premium volume.

TRAVEL ASSISTANCE

Premium income in 1996 totaled Ptas46,306 million, showing an increase of 22% over the previous year, with one million more policies

MARINE — **TABLE 26**

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	53,259	9.8	65.7	17.2	13.1	3.2
1995	53,005	-0.5	82.0	16.7	15.2	-15.8
1996	54,728	3.2	79.2	16.1	14.8	-11.1

Source: UNESPA. Figures in Ptas millions. Loss ratio and results on earned premiums.

TRAVEL ASSISTANCE						TABLE 27
Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	33,431	9.6	38.9	21.4	17.2	20.2
1995	37,929	13.4	49.1	19.1	15.1	14.2
1996	46,306	22.0	44.3	20.0	14.3	20.2

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

written. The growth of the line again recovered the pace of the first years of the 90's and exceeds the 1995 growth figure, which was 13.4%, by 8.6 points.

This increase in premiums of Ptas8,377 million is not only due to the normal growth of the business, based fundamentally on new business in individual assistance products, but also on a constant expansion and improvement of products which requires a consequent increase in premiums. The greater diffusion and awareness of assistance services also leads to their greater use.

The weight of losses on premiums decreased with respect to the previous year, falling from 49.1% to 44.3%.

The companies continued to show a special interest in reducing administration costs, although these increased by 0.9 points in 1996. External management expenses however fell by 0.8 points.

The sector continues to offer satisfactory figures in terms of the technical result.

GUARANTEE

Over the last six years the premiums for the guarantee line have decreased by 60%, falling from Ptas11,650 million in 1991 to Ptas4,702 million in 1996. This figure is only Ptas73 million higher than that achieved in 1987, this demonstrates the enormous decline in this line, whose results are also strongly negative after experiencing loss rates which were unknown until 1990.

The loss ratio for 1994 was already 80.8%, extremely bad for the guarantee line, but the ratio for 1995 exceeded 100%, to reach 101.9%, and the percentage for 1996 was 98.2%.

What are the causes of all this? Primarily, the reasons for the fall in premium volume are:

- Strong competition from the banking sector, which offers its clients products which are the same as those offered by insurance companies (bonds), at very low rates.
- A restrictive governmental policy regarding investments in public works, supplies, etc., whose objective is to reach the convergence criteria required by the European Union for incorporation into the single currency.
- The disappearance, by liquidation, of what was the second ranking company in the sector by premium volume.
- A change in the underwriting policy of the leading company of the sector which has voluntarily abandoned various lines, leading to a reduction of more than 60% in its premium volume over the last few years.

It does not seem that 1997 will bring any changes with it regarding the two first mentioned aspects, the premium volume will therefore not change appreciably, and it would not be strange if it were again to decrease.

GUARANTEE						TABLE 28
Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	8,806	8.0	80.8	24.5	7.5	-13.5
1995	5,289	-40.0	101.9	26.0	7.1	-29.3
1996	4,702	-11.1	98.2	24.0	8.8	-31.4

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

The liquidation of a company which received a premium volume of Ptas381 million in 1996 in guarantee insurance will no doubt negatively affect the sector. For various reasons, another three guarantee insurance companies disappeared during the last 10 years, this has affected the sector's image.

With reference to the loss ratio, 1996 was the year in which the largest stoppage of payments in the history of the Spanish construction sector was declared. Although the effects of this situation were not as dramatic as might have been expected, its results were felt in the sector as a whole.

Loss data for some companies known as at March 31, 1997, indicate that the sector's loss ratio is not likely to appreciably improve this year.

CREDIT

The growth in written premiums for commercial credit insurance in 1996 was 7.5% over the previous year, totaling Ptas38,875 million. Without doubt, the greater competition which exists in the sector has led to a reduction in premium rates and, consequently, a decrease in growth, which in 1995 was placed at 13.3%.

It may be seen that, although the number of losses was similar to the previous year (44,500 approximately), the unpaid sum which was covered increased significantly, placing the loss ratio at 75.9% of earned premiums in 1996, this is more than 11 points higher than the loss ratio in 1995.

Some of the factors which contributed to this situation are the following:

- A decrease in premium rates due to greater competition amongst insurance companies.
- Greater exposure to risks on the part of the companies than in previous years as a consequence of the worsening trend concerning defaults, bankruptcies and receiverships.
- High loss ratio in the construction sector, with an important constructor being put into receivership in March 1996.

A similar growth in premiums is foreseen for 1997 as in 1996, as is a continuation of a high level of competition in premium rating amongst the insurance companies, together with possible competition from banking products such as confirming and factoring.

It is possible that the loss ratio percentage for internal credit operations will decrease in 1997, as a decreasing number of losses have been observed over the last few months as a consequence of the lower rates of interest and the growth of the Spanish economy with recovering consumer spending.

The trend in export credit insurance is positive concerning the greater number of operations carried out with the European Union and the countries of the East. An increase in loss ratio was however observed in countries such as Germany, Greece, Austria and Holland.

CREDIT						TABLE 29
Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	31,922	5.8	67.9	24.6	6.6	0.6
1995	36,162	13.3	64.2	23.1	6.4	5.8
1996	38,875	7.5	75.9	22.6	6.5	-6.1

Source: UNESPA. Figures in Ptas millions. Loss ratio and results on earned premiums.

Exports to Brazil may be negatively affected by the recent restrictive measures taken by the Brazilian government in order to contain the imports of more than US$10,000 coming from countries not belonging to Mercosur.

AGRICULTURAL

Combined agricultural insurance premiums for 1996 totaled Ptas33,993 million, an increase of 30.1% over 1995.

This increase in new business was a direct consequence of the good economic performance shown by agricultural production, mainly due to the prolonged and constant rainfall which meant the end of a five year dry cycle, and an increase in cultivated land and yield obtained from the majority of crops. The volume of cereals was somewhat more than double the previous season, the wine grapevine was good in both quality and quantity, fruit trees showed good progress, and olives for oil production increased their yields by more than double. A negative note was provided by the decrease in yield of citric fruits due to deficient flowering and the persistence of a virus.

1996 was a satisfactory year for the cattle sector, except for the beef sector which was affected by the "mad cow" (bovine spongiform encephalopathy) crisis which caused a large reduction in consumption and, as a consequence, in prices, which fell by an average 14%. It was also a difficult year for the dairy sector, affected by an insufficient quota assigned to Spain by the EU. Other cattle production however, such as pork, chicken or lamb increased their prices by 12, 13 and 14% respectively, taking advantage of the decrease in beef sales.

As a consequence of this situation agricultural production increased to Ptas 4.4 million million in 1996, an increase of 15.2% over the previous year.

The good meteorological conditions which were mentioned, together with the absence of intense frosts allowed 1996 to be the year with the lowest loss ratio in the history of this type of insurance.

In 1996 the number of losses were placed at 103,428, a decrease of 37% with respect to the previous year. Losses totalled Ptas17,907 million, which represents 46.6% of that recorded in 1995 (Ptas38,459 million).

In 1996 the loss ratio on premiums was 52.7%. This same ratio was 51.5% for the group of viable lines and 40.2% for experimental lines, it should be mentioned that 1996 was the first year in which this latter group showed a positive technical result.

The Consorcio de Compensación de Seguros, as reinsurer, received premiums to the value of Ptas9,768 million, and no claims were recorded.

The companies which are collected together in Agroseguro have set up reserves for deviations in losses to a value of Ptas2,452 million, given the cyclical nature of these risks, this

AGRICULTURAL						TABLE 30
Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	26,811	14.5	92.9	9.2	11.5	-13.6
1995	26,127	-2.6	147.2	9.2	11.8	-68.2
1996	33,993	30.1	52.7	8.9	11.8	26.5

Source: AGROSEGURO. Figures in Ptas millions. Loss ratio and results on earned premiums.

figure will allow for possible future losses to be cushioned.

FIRE

Fire insurance maintained a premium volume similar to the last few years, in 1996 premiums totalled Ptas30,722 million, a decrease of 0.4% with respect to 1995.

As was already done in last year's report, and in order to facilitate a better vision of the sector, it is advisable to analyse this line together with the property and casualty line, to which the business is being transferred; this grouping is referred to as fire-property and excludes mass risks.

When considered in this way, the premium volume, excluding theft, reaches the approximate figure of Ptas101,000 million in 1996, showing an increase of 3.5% over 1995, this shows that there has been a reactivation of the sector which has coincided with the general recovery of the Spanish economy, principally in the medium and small-sized business sector. The trend in the insurance of large industrial risks is towards reductions and adjustments of the rates, the figures are similar to those of previous years.

The loss ratio in this line is placed at 48.4%, producing a positive result of 12.9%, if the fire-property sector is considered, the loss ratio is placed at 65%, with a negative result of 7%.

The forecasts for 1997 point towards a continuation of the aforementioned trends, with a possible reduction in premium volume but a maintenance of the results.

FIRE						TABLE 31
Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	31,890	-7.4	47.6	19.4	20.7	11.9
1995	30,823	-3.3	45.2	19.3	19.7	16.2
1996	30,722	-0.4	48.4	18.5	20.0	12.9

Source: UNESPA. Figures in Ptas millions. Loss ratio and results on earned premiums.

ENGINEERING

In 1996 the economic areas related to engineering insurance showed the following characteristics:

- The construction sector, which during the first half showed little activity as a consequence of the steep decline in civil works, started its recovery in the second half, ending the year with a decrease of 1% with respect to the previous year. By sub-sectors, residential construction grew by 6%, non-residential construction fell by 2% and rehabilitation and maintenance grew by 5%, civil works experienced a significant fall of 12%.
- The sector of machinery for earth moving saw an increase in sales of 8% over the previous year.
- The electronics and telecommunications sector saw turnover increase by 13% and information technology grew by 10%.

These circumstances and some special situations (transfer to the engineering sector of risks which were previously included in other areas, re-classifications for statistical reasons, etc.) lead to a premium volume in 1996 of Ptas23,381 million, showing a growth which was higher than expected (20.6%).

Of special importance as events relevant to the sector are:

- The ever greater development of decennial insurance for building damage which, despite its voluntary nature, contributed to the growth in the construction line (15.6%), in which this insurance is included. Rates in both types of insurance are continuing their downward trend. The future regulation of building at is again being studied by the present government, it therefore does not seem possible for it to be debated and passed in the short term.
- Alternative energy sources are continuing their development, with the consequent repercussions on the insurance sector.
- Machinery and electronic equipment insurance performed favourably despite low rates and the movement of a significant proportion of these operations towards combined policies.
- The mechanical guaranties for vehicles and electrical appliances continue to boost the growth of the machinery and assembly breakdown line due to their high rate of take-up.
- The higher level of international activity of Spanish companies has allowed engineering insurance products to be offered for risks situated in the European Union, under the principle of free provision of services, and opens interesting expectations for the sector.

Losses for the year increased by 28.8% with respect to the previous year, the loss ratio was placed at 63%, this still allows for a profit margin.

It is foreseeable that in 1997 engineering insurance will return to moderate growth levels, taking into account the growth forecasts for the economic sectors at which this insurance is aimed.

ENGINEERING — TABLE 32

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	17,511	-1.2	67.5	18.4	18.3	-9.4
1995	19,385	10.7	62.9	17.6	20.8	-4.9
1996	23,381	20.6	63.0	15.4	18.8	1.9

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

THEFT AND BURGLARY

The theft line achieved a premium volume of Ptas7,876 million in 1996, showing a slight decrease of 1.6% with respect to 1995, the trend of recent years is therefore maintained as a consequence of the transfer of business to property and casualty lines.

The loss ratio was placed at 55.5% of earned premiums, producing a favourable result of 6.6%.

It is foreseeable that this line will continue in 1997 in a similar way to previous years.

THEFT AND BURGLARY — TABLE 33

Year	Premiums + Surcharges	% Δ	% Loss Ratio	% Internal M. Expenses	% External M. Expenses	% Results
1994	7,978	-7.7	51.2	21.6	18.0	9.7
1995	8,004	0.3	52.2	21.4	17.8	7.8
1996	7,876	-1.6	55.5	20.8	17.3	6.6

Source: UNESPA. Figures in Ptas millions.

Loss ratio and results on earned premiums.

LEGAL MODIFICATIONS AFFECTING INSURANCE IN 1996

The main new legislative feature to affect the insurance sector in 1996 is contained in Act No. 13/1996 of December 30, on fiscal, administrative and social order measures, this introduced the tax on insurance premiums which was applied starting January 1, 1997.

This tax on insurance premiums is configured in the aforementioned Act as an indirect tax on insurance operations carried out in Spain both by Spanish and Foreign insurers which operate in the Spanish market, even under the principle of free provision of services.

The following operations are exempt from this tax:

- Compulsory welfare insurance and group policies providing alternative systems to pension plans and funds.
- Insurance on life, as such, in other words excluding accident, sickness and health assistance.
- Capitalisation operations based on actuarial techniques.
- Reinsurance.
- Guarantee insurance.
- Export credit insurance and combined agricultural insurance.
- Insurance related to international transport of merchandise and passengers, this is not considered to include travel between the Spanish peninsula and the Balearic islands, Canary islands, Ceuta and Melilla.
- Insurance related to aircraft and ships used for international transport, except for recreational boat and plane use.

All other insurance operations are liable to this tax which functions in a similar manner to the other indirect taxes, for example VAT, in that the insurer is liable for payment and should recover these sums from persons taking out policies which are subject to taxation.

The tax is set at a rate of 4% and is applied on the total sum received for insurance operations for policies which are subject to this tax, irrespective of the reason for the insurance and the place or way in which it is charged, the surcharge which is made for the Consorcio de Compensación de Seguros, the surcharge corresponding to the Comisión Liquidadora de Entidades Aseguradoras and any other taxes on the premium are exempt from this tax.

Another important legislative change is the establishment, within the framework of personal income tax, of various taxation measures concerning savings through the creation of a new taxation regime on capital gains and losses, this modification is of great importance for life and savings insurance, and was introduced in the Royal Decree Act No. 7/1996, of June 7.

Of interest also within the area of life insurance, is the wider application of the tax write-off of 10 percent of premiums paid for insurance contracts for life, death or disablement, mixed insurance, deferred capital, annuities or whole life whose duration is 10 or more years, with an annual limit of Ptas50,000, this increase is laid out in Act number 14/1996 of December 30.

Other important modifications are those concerning:

- The revision of the surcharge rates for the Consorcio de Compensación de Seguros for its responsibilities for extraordinary risks laid down by resolution of the Dirección General de Seguros on July 22, 1996, which sets out the cover clause for those risks to be inserted in ordinary insurance policies.
- The approval of new forms for the declaration-settlement of those surcharges for the Consorcio, laid down by resolution of the Dirección General de Seguros on October 4, 1996, in order to modernise their terminology and bring them closer to the terminology introduced by successive modifications of the regulations governing private insurance which have been introduced over the past few years.
- The resolution of the Dirección General de Seguros of March 8, 1996, which lays down the obligation of motor insurers to provide

the Consorcio de Compensación de Seguros with information relating to vehicles insured by them, in compliance with the Ordination and Supervision of Private Insurance Act, with the object of guaranteeing that persons involved in a traffic accident may know the insurer of each one of the vehicles involved in the accident, in compliance with the mandate contained in the European Union Directives.

Other general regulations have been enacted in 1996 which directly affect the insurance sector, of special importance are:

- Royal Decree 390/1996 of March 1, which affects the Public Administration Contracts Act , in which guarantee insurance is regulated as a type of guarantee in public contracts.
- The new Mercantile Register Regulation, which, amongst other new features, provides for the recording of portfolio cessions in the mercantile register

Finally, it should be said that 1996 did not see the expected approval of the Regulation of Private Insurance ordinance which should complete the adaptation of Spanish insurance sector regulations to the EU directives.