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THE SPANISH INSURANCE MARKET IN 2003



Fundación

MAPFRE

ESTUDIOS



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Economic environment

The Spanish economy has performed well throughout the year 2003, as most of the indicators reflect. There has been a healthy rate of growth, despite the economic deceleration worldwide, particularly in Europe. This performance was supported by a policy of budgetary stability, together with favourable financial conditions.

According to data from the Spanish National Accounts with regard to the Gross Domestic Product, the forecasts for fiscal year 2003 have been exceeded, achieving a growth rate of 2.5% and, in market price terms, a value of 570,556 million euros (current value of 744,754 million euros). This behaviour can be explained, above all, from the internal demand perspective, thanks to greater dynamism in both consumption and investment.

As regards consumption, final consumption expenditure rose 3.1%. This has been attributed to the low interest rates, the moderate inflation figure and increased employment, all of which have led to greater disposable income for Spanish families, who, without reducing savings, are spending more. As for public consumption, the variation rate dropped two tenths to 3.9%, continuing the moderate tendency observed in the last few years.

As for investment, notable progress was also experienced. Particularly noteworthy was the investment in capital equipment, the most closely tied to the production factor, with a spectacular upturn that shot from the negative figure of 5.4% in 2002 to plus 1%. Investment in construction displayed a nine tenths drop in its rate of growth, falling to 4.3% and thus continuing the ongoing deceleration trend.

The growth of the Spanish economy is even more remarkable when one takes into account the fact that, within the eurozone, GDP is only rising by 0.4% (deemed the lowest rate since 1993). Eurostat puts this low figure down to falling consumer demand and the appreciation of the euro against the dollar, which is clearly a conditioning factor for the foreign sector. Nonetheless, in the final quarter of 2003, symptoms of recovery were already appearing, especially



on the investment front, with an increase in this period of 0.6% providing a stark contrast to the continuous falls in the first nine months.

MACROECONOMIC TABLE		
	Variacion rate	
	2002	2003
Final consumption expenditure	3.1	3.1
– Final consumption expenditure by households	2.8	2.9
– Final consumption expenditure by the Non-Profit Institutions Serving Households	4.3	4.6
– Final consumption expenditure by the Pub. Admin.	4.1	3.9
Gross Fixed Capital Formation	1.7	3.2
– Equipment	–5.4	1.0
– Construction	5.2	4.3
– Other products	3.0	3.0
Internal Demand	2.9	3.3
Exports of G. & S.	1.2	2.6
– Exports of goods (FOB)	3.0	3.9
– Exports of services	–2.6	–0.4
Imports of G. & S.	3.1	4.8
– Imports of goods (FOB)	3.4	5.2
– Imports of services	1.6	2.8
GDP (Market Price)	2.2	2.5
CPI (Dec./Dec.)	3.5	3.0
Spain/Eurozone Differential	1.3	1.0
Total Employment (% Var.)	2.0	2.7
Unemployment rate (% labour force)	11.4	11.3
Public Deficit (% GDP)	–0.5	–0.3
Tipo de Intervención del BCE	2.75	2.0

Source: INE, Quarterly National Accounting (1995 Basis). (2nd quarter 2004). Inter-annual variation rates. Spanish Economics Ministry.

The weakness of the European economy and the appreciation of the euro against the dollar have not helped the foreign sector. The Spanish commercial deficit increased with respect to the previous year, reaching 20,149 million euros. For the whole year, exports and imports recovered after two successive years of weak performance. Exports rose by 1.4 points, while imports increased by up to 4.8%.



The foreign trade imbalance is partly the result of the positive growth of the economy, but also reflects the difficulties faced when striving to gain an increased share of foreign and domestic markets. Yet productivity is practically standing still: Further effort is needed to foster investment in physical and human resources, as well as in technology, these being elements that boost productivity and raise the potential for growth in the medium and long term.

Consumer prices have kept on the deceleration track throughout 2003, with a CPI of 3% being recorded for the year, five tenths less than that of the previous year. The principal factor contributing to this reduction in the interannual CPI figure, according to the Spanish Economics Ministry, is the role of energy products, with the revaluation of the euro against the dollar also playing a fundamental part.

The inflation differential with the eurozone decreased by three tenths during 2003 to just 1%.

As for employment, the indicators reveal the dynamism on this front, which led to the drop in the unemployment rate (one tenth less with respect to 2002). By sectors, job creation was principally centred on services and construction, although jobs were lost in the industry sector. The labour force at the end of 2003, according to EPA figures, came to 18,989,100; with an interannual increase of 2.7%, this represents 493,600 additional people in work. It must be noted that there is a significant disparity in the rate of new jobs, split along gender lines: of the above increase, 66.9% corresponds to female workers. The job market has established itself as one of the most important positive factors on the current economic stage.

The public deficit figure for 2003 came to -0,3% of the GDP, i.e. a budgetary surplus. This proves particularly favourable when compared with the eurozone (with a deficit of 2.8% of GDP).

Interest rates reached an all-time low, a situation that clearly benefited consumer spending. Indebtedness figures for the economic agents are high and this could be considered a risk factor for the future.

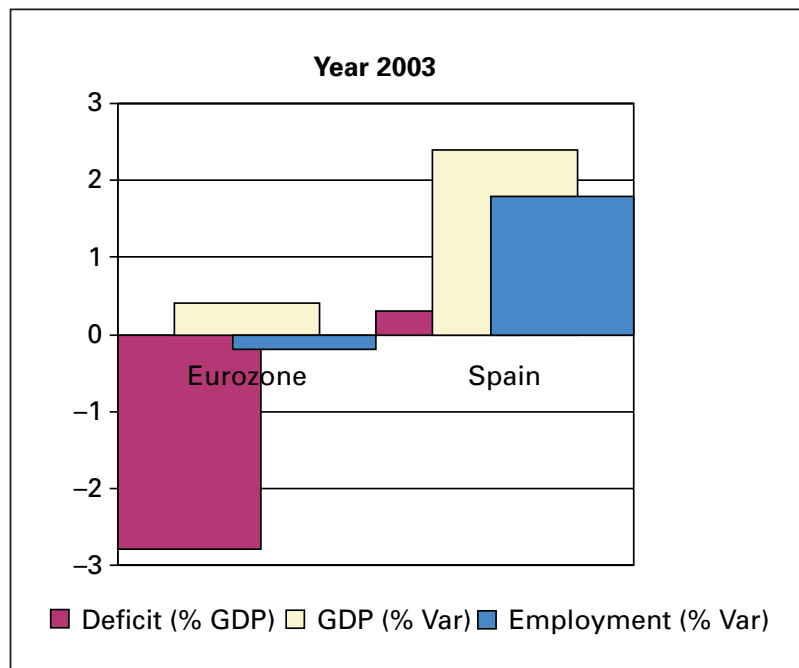
In 2003, significant revaluations were experienced on the stock markets, partly explained by the progressive recovery of confidence on the part of the economic agents following the Iraq war, the gradual improvement of the global economic situation, the increased stability of the emerging countries, the low interest rates, as well as the positive evolution of company profit figures. The Dow Jones, Standard&Poor and Ibex 35 indexes thus displayed bullish trends throughout 2003.

As a whole, therefore, 2003 finished on a positive note for the Spanish economy, despite a start plagued by difficulties, determined by the reigning international geopolitical uncertainty. In global economy terms, given the evolution of the economic indicators in 2003, we are now in a position to state that the period of slowdown has come to a close. Having now resolved the grave uncertainties that



affected the world economic stage in recent years, the major industrialised economies – following the lead of the United States – appear immersed in the dynamics of economic recovery, with the steady growth of the Chinese economy still a prominent feature. A host of factors reflect the global recovery of commercial activity: elevated growth rates for the economies of the United States and Japan, as well as their investments and productivity levels; positive growth rates for the European economy in the final quarter of 2003; progress on the business restructuring front; absence of inflationary pressures; increased confidence on the part of business leaders; rising stock prices and the reduction in the differentials for corporate bonds.

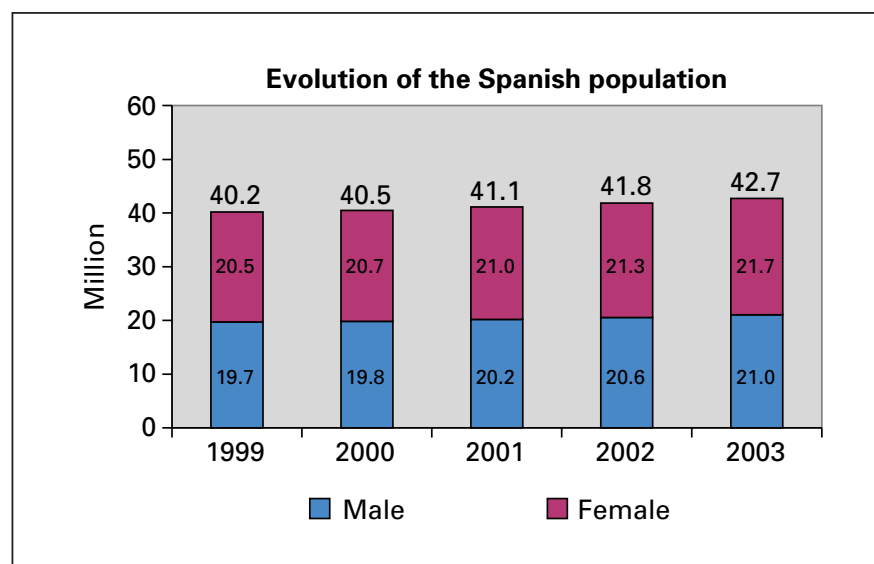
It is an interesting exercise to compare the 2003 GDP, deficit and employment macrofigures between Spain and the Eurozone.



Economic and social variables related to insurance

Population

Data furnished by the Spanish National Statistics Institute (INE) indicate that the population residing in Spain as of January 1st 2003 came to 42.7 million inhabitants. This figure represents a rise of 2.1% with respect to the previous year, i.e. an increase of 870,170 people (greater than that registered in 2002 over 2001, 1.7%). Overall, the percentage of males grew nearly 2.3% with respect to the previous year.



Source: INE. Review of the Municipal Registers.

The most significant figure for 2003 is the increase in the number of registered foreigners. The «2003 Statistics on Residential Variations» indicate that 470,010 entries correspond to citizens from abroad, the vast majority being non-Spanish citizens (only 40,486 correspond to Spaniards returning to live again in Spain,



compared to 429,524 foreigners). Of the foreign citizens who settled in Spain during 2003, 44.6% were from the American continent. In a breakdown by countries, it can be seen that the greatest numbers were from Ecuador (72,581), Romania (54,998), Morocco (40,865), United Kingdom (32,148) and Argentina (24,759).

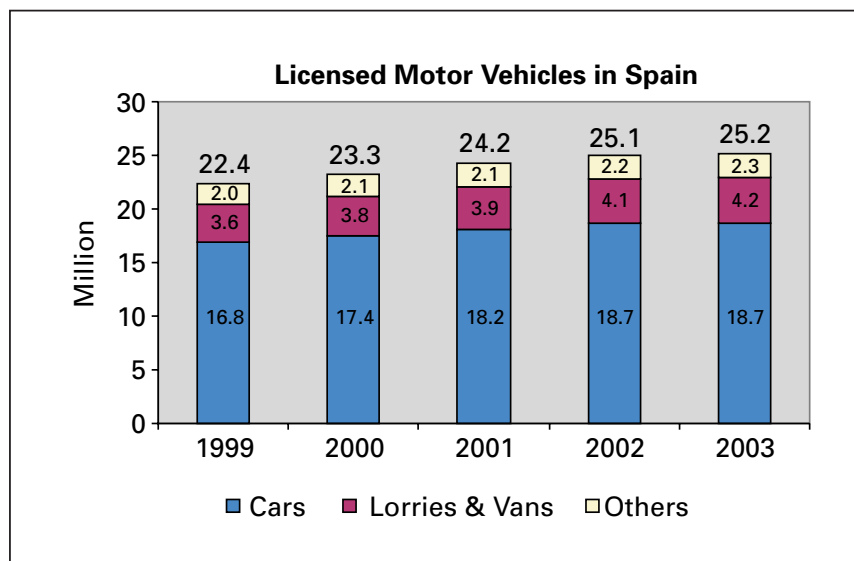
There were 439,863 births in 2003, 23,345 more than those registered the previous year (an increase of 5.6%). As a result, the gross birth rate reached 10.5 and the fertility rate indicator (the average number of children per woman of fertile age) hit 1.3 (the highest value registered since 1993). The total increase in the number of births was partly due to the fertility of the foreign mothers, which is rising and represents 12.2% of the total.

As for deaths, the gross mortality rate rose slightly in 2003, reaching the figure of 9.2 (compared to 8.9 the previous year). 73.7% of the deaths of foreigners corresponded to Europeans (6,416), these being the foreign residents in Spain with the highest average ages.

As a result of the situation outlined above, the vegetative growth in 2003 was greater than in the previous year, partly due to the difference between the births and deaths among foreign residents (they account for 79.5% of the total vegetative growth registered for the population in Spain during 2003).

Automobile

There were 1.9 million new vehicle registrations in 2003, a greater number than the 1.7 million vehicles registered in 2002 (a rise of 7.6%). However, on deducting the million vehicles struck off the vehicle register, the number of licensed vehicles in circulation rose 3.4% with respect to the previous year. At

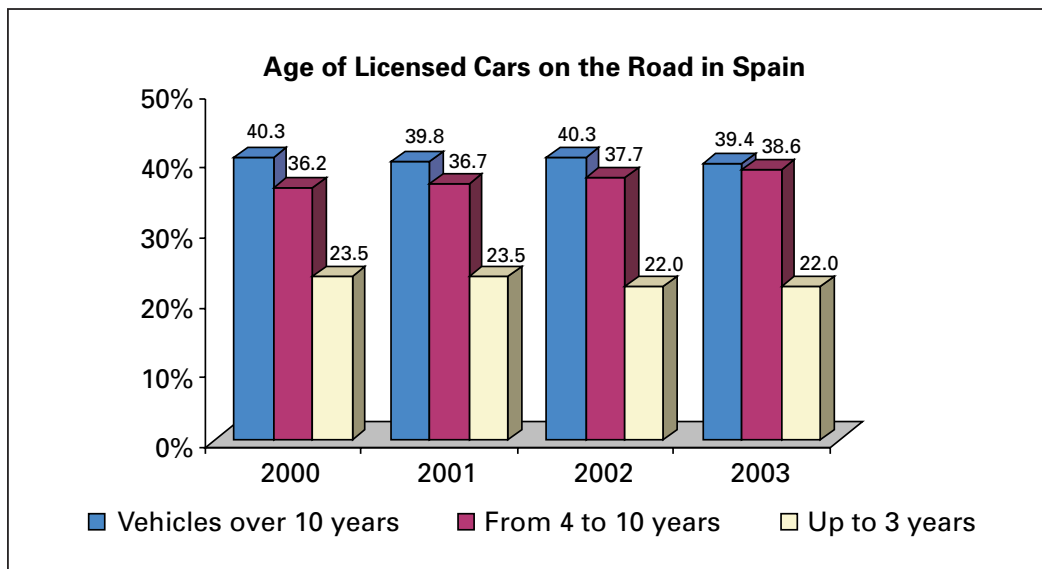


Source: Spanish General Traffic Directorate (DGT).

the end of 2003, the number of cars on Spanish roads reached the figure of 25.9 million vehicles, compared to 25.1 million in 2002. Over the last seven years, Spain has experienced a steady annual growth of around 900,000 vehicles a year.

The 2003 figure, modified according to the new methodology of the traffic authorities, which excludes vehicles temporarily declared off the road, would give a total number of 25.2 million vehicles (74.3% of which are cars).

The average age of the vehicles on the roads in Spain is still one of the highest in the European Union, although, as a result of increased sales, this situation is improving very slowly. On analysing the evolution of licensed cars in Spain over the last four years, it can be seen that the percentage of vehicles over 10 years of age has dropped slightly, now accounting for 39.4%. The figures are not fully compatible (there exists a slight distortion in the comparison), given the aforementioned new methodology introduced as from the year 2003.

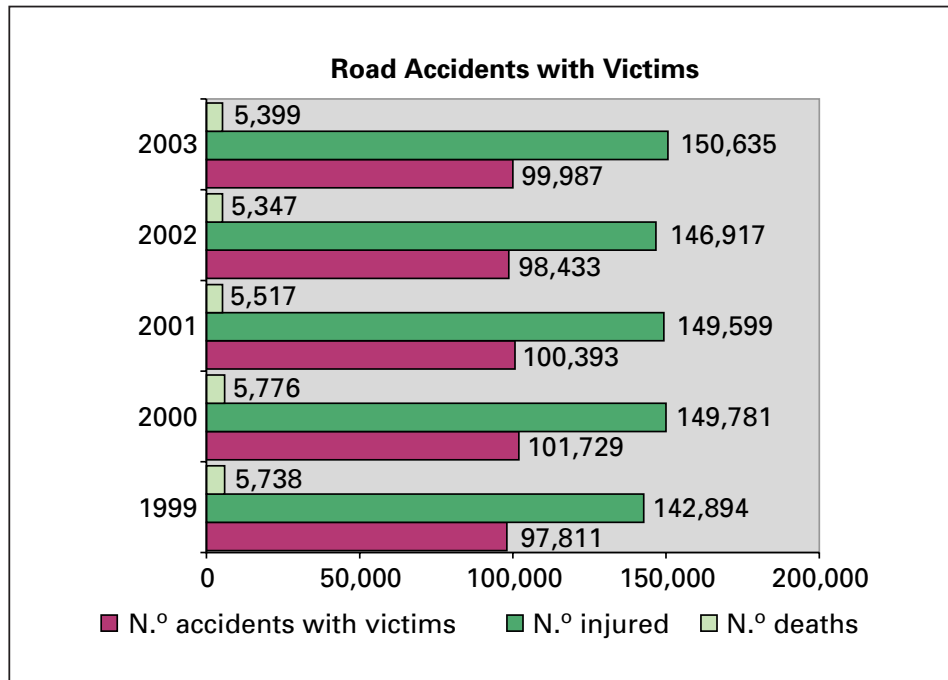


Source: Spanish General Traffic Directorate (DGT).

The number of mopeds, which are not included in the above figures, has increased and has been subjected to greater controls ever since, in July 1999, the General Vehicle Regulations introduced the requirement to register these vehicles. The number of mopeds at the end of 2003 was 2.1 million, a significant figure that represents nearly 8% of all vehicles. Thus, the number of vehicles on Spanish roads, including this category, came to 27 million in 2003.

Road Accidents

In 2003, the number of accidents involving victims rose by 1.6% to a total of 99,987. The number of dead and injured rose by 2.5% and 1% respectively, with a total of 156,034 victims.



Source: Spanish General Traffic Directorate (DGT).

The greatest proportion of accidents corresponds to driving on urban streets, given that the results for accidents on the open road are very similar to those for 2002, as regards both the number of accidents and the dead and injured.

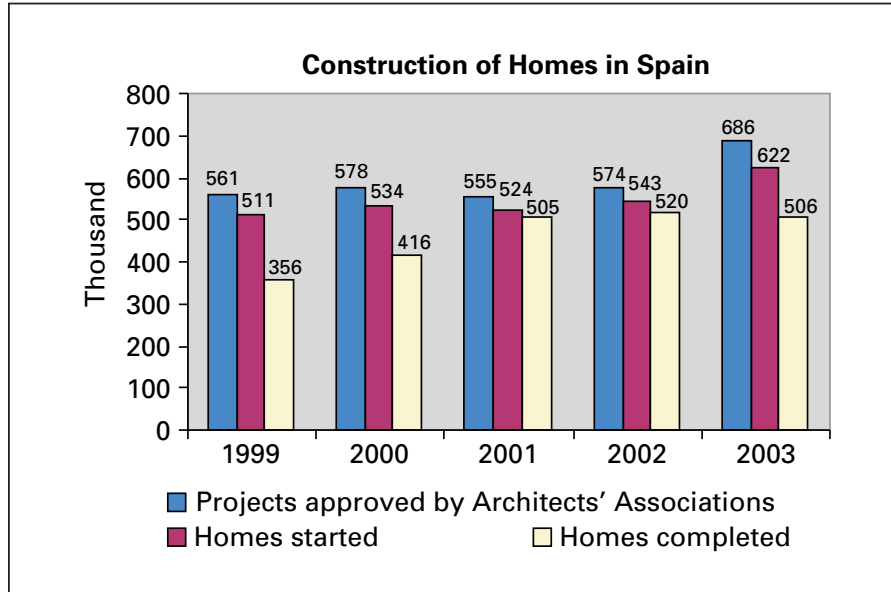
In the evolution of the relationship between road accident victims and the number of licensed vehicles in Spain, it can be observed that there has been continuous improvement over the last fifteen years, dropping from 409 deaths per million vehicles in 1989 to 155 deaths in 2003.

Housing

The construction and purchase of homes continues to be a significant factor in Spain's economic growth. The boom of the residential construction sector is reaching unheard-of heights, with around 690,000 dwellings approved throughout 2003. This growth is based on the behaviour of free-market housing, given that state-protected housing only accounts for 8% of the total.

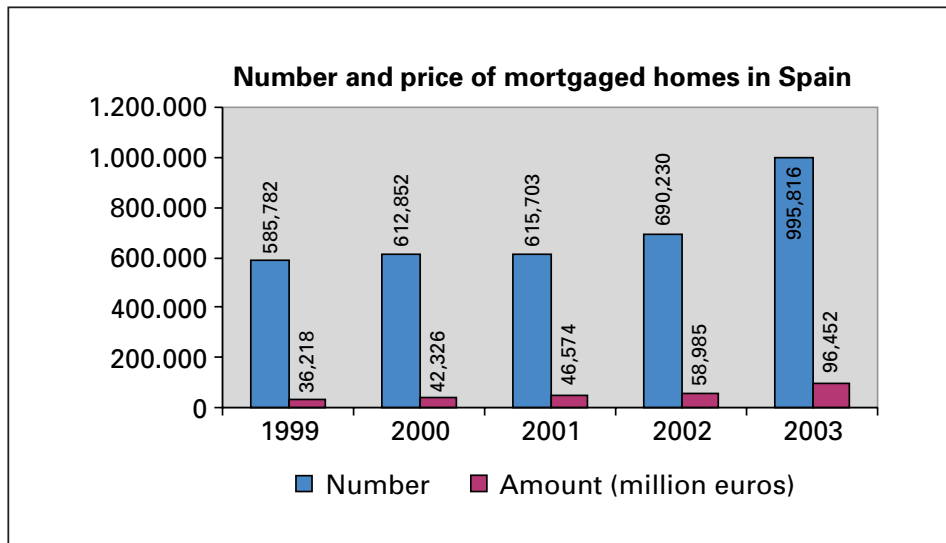
In an analysis of the data by regional communities, a significant drop is only observed in the Balearics (-29.6%) and Madrid (-27.8%). All the other regions experienced growth, the most relevant being Navarre (66.3%), Asturias (26.8%) and the Basque Country (23.5%).

Overall, it is worth highlighting the increase in the number of constructions initiated, insofar as this could offer us a good indicator of the trend in the short-term. The interannual increase is 14.6%.



Source: INE and Superior Council of Architects' Associations in Spain.

The healthy performance of the real estate loans for construction and mortgage loans for homeowners is a further indicator that confirms the dynamism of this sector. Indeed, it is felt that the evolution of the interest rates continues boosting the housing demand and forcing prices upwards.



Source: INE. Monthly Statistical Bulletin.

There has been a huge increase in the total volume of mortgage loans in 2003 with respect to the previous year, totalling 63%. The first factor to bear in mind is the increase in the number of mortgaged homes, a consequence of the increase in new homes and the increase in purchase operations involving second-hand homes.



The second factor to be analysed, which affects the overall mortgage figure, is the increase in the amount of each individual mortgage loan, a direct consequence of the rising prices of both new and second-hand homes. The average amount for a mortgaged urban property reached 107,837 euros during 2003, almost 12% more than in 2002.

It is expected that 2004 will see a continued increase in the number of mortgaged urban properties and in the average amount for each such mortgage. The most conservative estimates for the sector indicate that, even if there were to be a reasonable drop in the number of approved dwellings after reaching maximum heights in 2004, the effective supply of homes (residential production) would remain above the level of 500,000 homes completed until 2009.



Principal characteristics of the insurance market in 2003

Volume of written premiums

The volume of premiums written by Spanish insurers in 2003 reached the figure of 41,600 million euros, which represents a decrease of 14.9% compared to the previous year and is in stark contrast to the 14.2% growth achieved in 2002 with respect to 2001. The explanation for this setback is to be found in the Life Insurance class, particularly in the externalisation process for companies' pension commitments, given that, setting this aside, the sector grew by 3.2%. The data can be further qualified by taking into account the sharp drop in unit-linked premiums since 2001.

Non-Life insurance continued the growth trend of recent years, albeit at a lower rate, with an increase of 9.6% (compared to 12.6% in 2002) and an issuance figure of 23,857 million euros, this representing 57.3% of the total insurance business. The latter represents a new trend as regards the relative weight of Non-Life versus Life in the last few fiscal years: Non-Life exceeded 50% in volume of written premiums of the total market.

Non-Life reveals a high degree of concentration in the Motor, Health and Multi-Peril lines, which account for 75.4% of premiums. Motor insurance grew 6.7% (two points less than in 2002), Health achieved a 10% growth rate (the same as in 2002) and Multi-Peril grew 14.1% (two points less than in 2002). Of the other Non-Life lines, most noteworthy is the 26.8% growth in Third-Party Liability, partly explained – as in the previous year – by increased social awareness of these risks.

The figures for Life insurance must be analysed taking into account the effect of the externalisation operations in recent years, particularly in 2002. During the period 1999-2002, a significant volume of resources has been generated exceptionally through this process and so it would appear logical to analyse the evolution of the class by excluding this effect. Thus, as a whole, Life experienced decrease of 34.6%, but if we ignore the externalisation of the year 2002, this figure would be a decrease of 4.3%.



Modalidad	Premiums with externalisation (million euros)			Premiums w/o externalisation (million euros)		
	2002	2003	% Δ 2003/2002	2002	2003	% Δ 2003/2002
Life Premiums	27,117	17,743	-34.6	18,536	17,743	-4.3

Source: ICEA. Life Insurance Statistics.

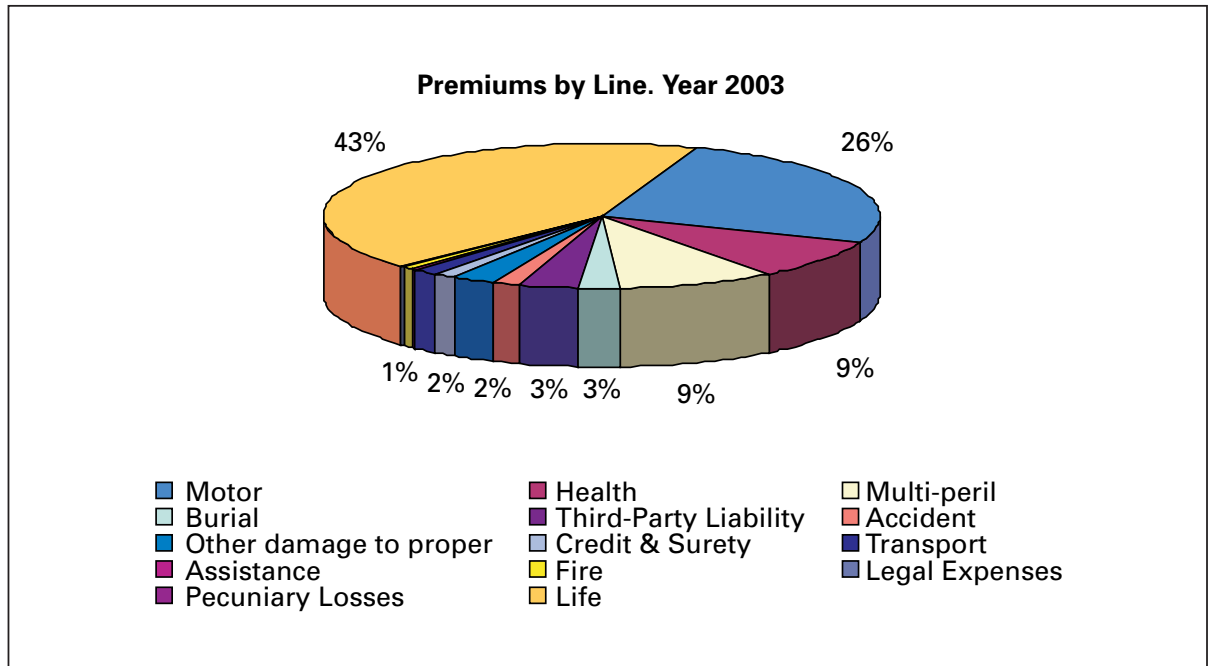
The following table shows the volume of written premiums by line:

PREMIUMS BY LINE				
Lines	Premiums 2002 (million euros)	Premiums 2003 (million euros)	% Δ 2003/2002	% of/Total
Non-Life Lines				
Motor	9,950	10,617	6.7	25.5
Health	3,296	3,624	10.0	8.7
Multi-Peril	3,276	3,738	14.1	9.0
Burial Expenses	1,054	1,122	6.5	2.7
Third-Party Liability	1,050	1,330	26.8	3.2
Accident	657	699	6.5	1.7
Other damage to property	866	1,040	20.0	2.5
Credit & Surety	508	570	12.2	1.4
Transport	580	551	-5.1	1.3
Assistance	170	185	9.0	0,4
Fire	212	223	5.3	0.5
Legal Expenses	85	90	6.2	0,2
Pecuniary Losses	60	68	12.5	0.2
Total Non-Life	21,763	23,857	9.6	57.3
Life Lines				
Individual	14,817	13,768	-7.1	33.1
Group	12,300	3,975	-67.7	9.6
Total Life	27,117	17,743	-34.6	42.7
Market Total	48.880	41.600	-14.9	100

Source: «Evolution of the insurance market». ICEA. Written premiums ¹.

¹ The figures from the ICEA report «Evolution of the insurance market», used throughout this document, refer to an estimation of 100% of the Sector on the basis of a sample of 219 companies with a market share of 98.6%.

Graphically, the distribution of premiums by line is:



Competitive structure of the sector

The insurance sector is characterised by the intense concentration of the volume of business within a limited number of companies that operate in highly competitive classes.

In 2003, according to data from the Spanish Insurance and Pension Funds General Directorate, the trend witnessed in previous years continued apace, with a decrease in the number of companies operating in the sector, dropping to 391 from the figure of 399 in the year 2002.

As regards classifying companies according to their legal structure, of the 391 mentioned above, 240 were public limited companies, 45 were mutual insurance companies, 41 were branches of foreign companies and 63 were social insurance mutualities. To these we must add two reinsurance companies.

As regards the ranking of insurance groups in 2003, covering the whole of the Spanish market, MAPFRE still holds the top spot, with 13.9% of market share, followed by GENERALI (5.7%) and ALLIANZ (5.5%) which, once completed the externalisation process, have recovered positions with respect to 2002. There has been a decrease in the participation of the top ten insurance groups in the total of written premiums, dropping from 51.1% in 2002 to 50.3% in 2003, with an issue figure of 20,941 million euros.

TOP 10 DIRECT INSURANCE GROUPS IN 2003

N.º	Group	2003		2002		% Δ 2003/2002
		Premiums (million euros)	% of Total	Premiums (million euros)	% of Total	
1	MAPFRE	5,779	13.9	5,613	11.5	3.0
2	GENERALI	2,361	5.7	2,369	4.8	-0.3
3	ALLIANZ	2,284	5.5	2,029	4.2	12.6
4	AVIVA	1,776	4.3	1,918	3.9	-7.4
5	AXA	1,618	3.9	1,885	3.9	-14.2
6	CAIFOR	1,687	4.1	3,383	6.9	-50.1
7	ZURICH	1,475	3.5	1,371	2.8	7.5
8	CASER	1,356	3.3	1,628	3.3	-16.7
9	BBVA SEGUROS	1,340	3.2	1,616	3.3	-17.1
10	WINTERTHUR	1,264	3.0	1,314	2.7	-3.8
Total for top 10		20,941	50.3	24,993	51.1	-16.2
Total for sector		41,600	100	48,880	100	-14.9

Source: ICEA.

In Life Insurance, the top ten groups accounted for 60.8% of the premiums written in 2003. The concentration in this market is still high, although lower than the one represented by the top ten in 2002 (65.1%). There have been significant variations in the Life Insurance ranking this year, with AVIVA climbing to the top spot, with a 10% market share, followed by MAPFRE with 9.5% and CAIFOR, which had topped the ranking in 2002.

TOP 10 DIRECT INSURANCE GROUPS IN 2003-LIFE

N.º	Group	2003		2002		% Δ 2003/2002
		Premiums (million euros)	% of Total	Premiums (million euros)	% of Total	
1	AVIVA	1,769	10.0	1,910	7.0	-7.4
2	MAPFRE	1,683	9.5	2,225	8.2	-24.3
3	CAIFOR	1,596	9.0	3,313	12.2	-51.8
4	BBVA SEGUROS	1,237	7.0	1,539	5.7	-19.6
5	GENERALI	1,199	6.8	1,265	4.7	-5.2
6	BANSABADELL V.	740	4.2	1,113	4.1	-33.5
7	IBERCAJA	718	4.0	691	2.5	3.8
8	ASCAT VIDA	704	4.0	641	2.4	9.8
9	ALLIANZ	617	3.5	558	2.1	10.6
10	CASER	529	3.0	840	3.1	-37.0
Total for top 10		10,792	60.8	14,096	52.0	-23.4
Total for sector		17,743	100	27,117	100	-34.6

Source: ICEA and own calculations.

Taking into account all branches of the Non-Life insurance business, the top ten insurance groups participated with a market share of 55.1%, with MAPFRE in first place, with a market share of 17.2%, followed by ALLIANZ (7%) and Generali (4.9%). There are therefore no variations in the top positions compared to 2002.

TOP 10 DIRECT INSURANCE GROUPS IN 2003-NON-LIFE

N.º	Group	2003		2002		% Δ 2003/2002
		Premiums (million euros)	% of Total	Premiums (million euros)	% of Total	
1	MAPFRE	4,096	17.2	3,389	15.6	20.9
2	ALLIANZ	1,666	7.0	1,471	6.8	13.3
3	GENERALI	1,162	4.9	1,104	5.1	5.2
4	AXA	1,153	4.8	1,044	4.8	10.4
5	ZURICH	1,058	4.4	971	4.5	8.9
6	WINTERTHUR	986	4.1	925	4.3	6.6
7	CASER	826	3.5	787	3.6	5.0
8	MUT. MADRILEÑA	761	3.2	655	3.0	16.2
9	ADESLAS	715	3.0	609	2.8	17.4
10	CATALANA OCCID.	713	3.0	692	3.2	3.0
Total for top 10		13,136	55.1	11,647	53.5	12.8
Total for sector		23,857	100	21,763	100	9.6

Source: ICEA. and own calculations.

The premiums for the top ten Motor insurance groups reached the figure of 7,429 million euros (70% of the total premiums in this class), headed by MAPFRE with a market share of 19.6%, followed by ALLIANZ (10.7%) and MUTUA MADRILEÑA (7.2%).

TOP 10 INSURANCE GROUPS IN 2003-MOTOR

N.º	Group	2003		2002		% Δ 2003/2002
		Premium (million euros)	% of Total	Premium (million euros)	% of Total	
1	MAPFRE	2,086	19.6	1,926	19.4	8.3
2	ALLIANZ	1,135	10.7	1,006	10.1	12.8
3	MUT. MADRILEÑA	761	7.2	655	6.6	16.2
4	AXA	692	6.5	676	6.8	2.4
5	ZURICH	579	5.5	565	5.7	2.4
6	WINTERTHUR	528	5.0	510	5.1	3.4
7	GENERALI	463	4.4	468	4.7	-1.1
8	PELAYO	400	3.8	398	4.0	0.5
9	LÍNEA DIRECTA	394	3.7	290	2.9	35.9
10	CASER	391	3.7	406	4.1	-3.7
Total for top 10		7,429	70,0	6,901	69.4	7.7
Total for sector		10,617	100	9,950	100	6.7

Source: ICEA and own calculations.

Some of the most significant business movements in 2003 were the following:

- Completion of the process to privatise State-owned insurance company MUSINI, whose Life and Non-Life businesses were awarded to the MAPFRE-CAJA MADRID Holding.
- CATALANA OCCIDENTE reached an agreement to acquire SEGUROS BILBAO from the Belgian insurance group FORTIS.
- Santander Central Hispano (SCH) repurchased 20% of its insurance subsidiary SCH SEGUROS from METLIFE IBERIA. In the same operation, SCH sold METLIFE International Holdings the 20% stake it held in METLIFE IBERIA.
- METLIFE sold GENESIS to the US group LIBERTY MUTUAL. Following this operation, METLIFE ceased all activity in Spain.
- VIDACAIXA, a subsidiary of the CAIFOR group, agreed the purchase of SCH PREVISIÓN from SCH. Following its acquisition of SWISS LIFE ESPAÑA in this same fiscal year, VIDACAIXA is now the largest Spanish insurer in the pensions field.

Distribution channels

According to ICEA estimates for the whole sector, in 2003 intermediaries channelled 48% of premiums, the banks and savings banks accounted for 34% and direct sales 18%.

It is worth noting that the market behaves differently in the case of Life and Non-Life businesses: in the former case, the bancassurance channel appears as the principal distributor; and in the latter, agents and brokers account for practically 70% of distribution.

Telephone sales and e-commerce channels showed a slight increase in the volume of premiums. However, it should be noted that these distribution channels are not fulfilling expectations as regards the volume of business forecast.



Economic/financial evolution

The year 2003 closed with an improvement in the technical account results for the whole of the insurance sector, with a figure of 8.3% over earned premiums. The technical/financial results improved in both the Life and Non-Life classes. However, the greater growth in the Non-Life results should be highlighted.

TECHNICAL ACCOUNT RESULT. TOTAL							
Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	40,766	9.1	68.2	9.3	2.1	11.3	2.9
2002	46,030	12.9	65.9	8.8	1.9	10.7	4.2
2003	39,861	-13.4	78.4	11.2	2.3	13.6	8.3

Source: ICEA. Economic report on the insurance sector.

In Non-Life there was a decrease in the claims ratio of a little over one point (now standing at 71.6%) and a decrease of 0.5 points in operating expenses (19.6%). The technical account result for Non-Life as a whole rose to 11.5%.

TECHNICAL ACCOUNT RESULT. NON-LIFE							
Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	17,856	23.1	78.2	17.4	3.6	21.0	3.1
2002	20,083	12.5	72.7	16.8	3.3	20.1	6.4
2003	22,448	11.8	71.6	16.5	3.1	19.6	11.5

Source: ICEA. Economic report on the insurance sector.

In the case of the Life class, claims remained steady in absolute terms, but, due to the drop in the total earned premium figure, in relative terms they reached 87.2% (a higher percentage than in previous years). Operating expenses increased by 2.5 points. Despite this, the result of the technical account as a whole (due to financial and extraordinary revenue) reached 4.1% of earned premiums.

TECHNICAL ACCOUNT RESULT. LIFE

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	22,910	0.2	60.4	2.9	0.9	3.8	2.8
2002	25,947	13.3	60.7	2.7	0.8	3.5	2.5
2003	17,413	-32.9	87.2	4.4	1.2	6.0	4.1

Source: ICEA. Economic report on the insurance sector.

The total volume of premiums from Direct Insurance represented 5.6% of GDP in 2003 (7% in 2002) and 967 euros per inhabitant (1,159 euros in 2002). The reason for both drops is to be found once again in the Life Insurance class. On analysing the figures by classes, it can be observed that, in Non-Life, the rate of penetration remained unchanged with respect to the previous year (3.2%) and there was an increase in the density rate, from 527 euros per inhabitant in 2002 to 552 euros in 2003. As for the density figure, it must be borne in mind that the population has risen by almost one million inhabitants.

INSURANCE PENETRATION AND DENSITY

		1998	1999	2000	2001	2002	2003
Premiums/ GDP %	Life	2.3	3.0	3.9	3.5	3.8	2.4
	Non-life	2.6	2.7	2.9	3.0	3.2	3.2
	<i>Total</i>	4.9	5.6	6.8	6.5	7.0	5.6
Premium per capita in Euros	Life	310	426	601	559	632	415
	Non-life	341	381	436	470	527	552
	<i>Total</i>	651	808	1,037	1,029	1,159	967

Source: INE, ICEA and own calculations.

Insurance in the European Union and Spain

Within the context of the European Union, Spain took sixth place in 2003 for volume of Direct Insurance business, with 5.2% of the total (6.1% in 2002). It dropped back one place with respect to the previous year (overtaken by Holland).

Volume of Direct Insurance premiums in European Union. Year 2003

Country	Life		Non-Life		Total		% Life Premiums of Total
	Premiums (million euros)	% of Total Life	Premiums (million euros)	% of Total Non-Life	Premiums (million euros)	% of Total	
Germany	68,600	14.5	79,600	24.9	148,200	18.7	46.3
Austria	5,808	1.2	7,419	2.3	13,227	1.7	43.9
Belgium	18,138	3.8	8,378	2.6	26,516	3.3	68.4
Denmark	9,678	2.0	5,190	1.6	14,868	1.9	65.1
Spain	17,675	3.7	23,832	7.5	41,507	5.2	42.6
Finland	9,478	2.0	2,664	0.8	12,142	1.5	78.1
France	93,100	19.6	50,170	15.7	143,270	18.1	65.0
United Kingdom	132,431	27.9	68,067	21.3	200,498	25.3	66.1
Greece	1,435	0.3	1,800	0.6	3,235	0.4	44.4
Holland	24,300	5.1	21,950	6.9	46,250	5.8	52.5
Ireland	7,978	1.7	4,709	1.5	12,687	1.6	62.9
Italy	62,261	13.1	34,373	10.8	96,634	12.2	64.4
Luxembourg	5,483	1.2	962	0.3	6,445	0.8	85.1
Portugal	5,400	1.1	4,062	1.3	9,462	1.2	57.1
Sweden	12,624	2.7	6,085	1.9	18,708	2.4	6.5
EU Total	474,389	100	319,261	100	793,649	100	59.8

Source: European Insurance Committee (CEA).

With regard to the presence of foreign capital in the Spanish insurance market, in 2003 it represented 29.5% (compared to 26.4% in 2002). This participation represents 29.3% of premiums (33.8% in Life and 22.9% in Non-Life). As in previous years, this capital comes mainly from EU countries.

Just as in previous years, there are few Spanish firms with a significant volume of business in other countries. Thus, as of December 31st 2003, there were 43 branches of Spanish companies operating within the European economic space, distributed mainly around Portugal (27 of those 43 branches), followed by 6 in France, 4 in Belgium, 2 in Ireland and the UK and 1 in Greece and Italy. Outside Europe, MAPFRE maintains a leading position in the Latin-American Non-Life market.

The insurance sector is going through a period of change, obliged to adapt itself to greater demands for efficiency, security and transparency called for by the markets. Companies must anticipate themselves to the kind of transformations that are about to take place in fields such as supervision, business and risk management and transparency, promoted by Solvency II and which constitute one of the greatest challenges for the coming years.

Another factor to be taken into account is the forthcoming implementation by the Bank of Spain of the International Accounting Standards (IAS) in 2005 and Basel II in 2006, with important repercussions for the sector, especially for bancassurance companies.

During 2003, major international events such as the Iraq war contributed towards increasing the climate of insecurity generated after September 11th 2001. Despite the pessimistic prospects, the insurance sector worldwide was able to face the difficulties arising from those events. In Spain, this climate intensified following the terrorist attacks on March 11th 2004 in Madrid, although, as the most recent economic-financial indicators reveal, the country has reacted positively. As a result of this situation, there is a clear need for prevention at every level and this is one of the challenges faced by the insurance sector and which, in fact, it is already tackling.



Most notable features of the year 2003 by branch

LIFE INSURANCE

Life insurance achieved results in 2003 that, in general terms, can be considered positive. Technical reserves increased by 6.8% with respect to the previous year, with the total at the close of 2003 reaching 109,355 million euros, a figure that confirms the important position Life insurance holds as one of the principal medium and long-term financial and savings/retirement instruments in our country.

Modality	Reserves (million euros)			Premiums (million euros)		
	2002	2003	% Δ 2003/2002	2002	2003	% Δ 2003/2002
Death insurance	1,868	2,188	17.1	1,796	2,044	13.8
Retirement insurance	73,358	78,488	7.0	18,582	9,716	-47.7
Ins. Pension Plans	-	99	-	-	99	-
Other savings ins.	27,161	28,580	5.2	6,739	5,884	-12.7
Total Life	102,387	109,355	6.8	27,117	17,743	-34.6

Fuente: ICEA. Estadística del ramo de Vida.

Moreover, it is worth highlighting the considerable increase registered in the number of insureds, given that, with an 8% rise over the previous year, the figure is now approaching 25 million policyholders.

The highest growth corresponded to the Individual Life insurance modalities (9.1%), given that, as the externalisation process of pension commitments was practically completed in 2002, the increase in the Group Life insurance policies was lower than in the previous year.



In addition, is the more than favourable evolution of the Term Life insurance, so far as the increased number of policyholders is concerned (1,621,000 more than in 2002), and the growth achieved in reserves and premiums, especially noteworthy being the results for Individual Policies with an increase of 26%, linked to the rising demand for mortgage loans.

Within the Individual Life policies, the products offering a guaranteed interest rate (30%) and the deferred retirement capital insurance option (31%) are the biggest players, as regards the volume of savings managed, with nearly 5.3 million policyholders.

In contrast, in the case of Group Life policies, the clear leaders are the modalities offering immediate and deferred income, representing as they do 89% of the savings managed.

Also worth highlighting, given its innovative nature, is the appearance in the insurance market of the Insured Pension Plans. This product, under the framework of an Individual Life insurance policy, allows policyholders to build up long-term savings, principally for the purpose of complementing the retirement benefits from the public administrations and, at the same time, offers the same fiscal benefits that have long characterised ordinary Pension Plans. In their first year in existence, they have managed to capture a savings volume amounting to nearly 100 million euros and over 48,000 policyholders.

Another notable aspect of this sector is the fact that the relative importance of the different distribution channels remained at levels similar to those of 2002, although the agent channel, representing 41% of total managed savings, revealed a slightly more expansive performance, with 8% growth.

The results of all the companies in 2003, as outlined above, may be considered positive, so long as they are analysed with the effects of the end of the externalisation process and the progressive decrease of the unit-linked products in mind.

LIFE							
Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	22,910	0.2	60.4	2.9	0.9	3.8	2.8
2002	25,947	13.3	60.7	2.7	0.8	3.5	2.5
2003	17,413	-32.9	87.2	4.4	1.2	6.0	4.1

Source: ICEA. Economic report on the insurance sector.



On analysing the results, it can be observed that the percentage of claims to premiums reached 87.2%, a figure that far outstrips that for the previous year as a percentage of premiums, yet claims remained at a similar level in terms of absolute volume. Operating expenses also rose, reaching 6% (compared to 3.5% in 2002).

The principal explanation, once again, stems from the completion of the externalisation process – which has led to a decrease in the volume of earned premiums in 2003 – and from the growth of the new production in Individual Life Risk policies, with comparatively higher operating expenses. Nevertheless, the result of the technical account improved, reaching 4.1%, boosted by the financial results that were better than the previous year.

Although, from a strict insurance perspective, Investment Funds and Pension Funds should not be included in this section, their important, ever-increasing role within the savings industry for household economies justifies referring to their progress.

SAVINGS & RETIREMENT INSTRUMENTS			
Instruments	Assets 2002 (million euros)	Assets 2003 (million euros)	% Δ 2003/2002
Investment Funds	170,814	198,056	15.9
Life Insurance	102,387	109,355	6.8
Individual	59,637	64,284	7.8
Group	42,750	44,972	5.2
Insured Pension Plans	–	99	–
Pension Plans	48,322	55,765	15.4
Individual's Plan	26,284	31,330	19.2
Employer's Plan	21,278	23,598	10.9
Associated System	760	838	10.2
Social Insurance Mutualities	13,014	14,598	12.2

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

The Investment Fund sector has performed much more favourably in 2003 than in previous years, achieving substantial growth in both the figures for the managed assets and the number of participants. Following on from three years of consecutive falls, it can be pointed out that 2003 was the year of a new



recovery for this sector, with every month producing a net positive result for plans taken out; this is a direct consequence of various factors, such as the disappearance of fiscal charges on the transfer of participations from one fund to another, the reduction in the tax rate applicable to capital gains on this instrument, once the investment has been maintained for over a year, and the healthier performance of the stock markets.

At the close of 2003, the total assets corresponding to Investment Funds reached the figure of 198,056 million euros, an increase of nearly 16%, while the total number of participants increased by 8.4%, now standing at 7.7 million.

As regards the different types of funds, according to the net subscriptions corresponding to the period referred to above, the most demanded products were the equity Guaranteed Funds, which represented nearly 50% of the total, followed by the short-term Fixed-Income Funds and the FIAMM (money market funds).

In addition, the growth in Pension Funds continued to prove highly satisfactory: their volume of assets reached 55,765 million euros, some 15% up on the 2002 figures. The investment of these assets in 2003 remained largely concentrated in fixed income, practically 51%, but it represented a decrease of more than 10 points with respect to the previous year.

The total assets for the individual Pension Plans at the end of the year amounted to 31,330 million euros, which represents an outstanding growth rate of 19.2% with respect to 2002, appreciably greater than that obtained by the Employers' Plans (10.9%), as well as the associated system (10.2%).

The number of participants in all the Pension Plans taken together rose by 12%, reaching nearly 7.3 million. Of these participants, almost 89% have taken out individual plans (more numerous, yet of lesser individual amount, given that the percentage of associated assets is just over 56%).

The prospects for 2004 augur a favourable evolution for Life insurance, consolidating its importance within the Spanish economy. However, it must be pointed out that the initial optimistic expectations – regarding the absence of extraordinary events in the financial markets – have been somewhat thwarted, due to the increased instability (rising oil prices, insufficient job creation and elevation of the risk premium), although it is to be hoped that, in certain geographical areas, greater economic growth rates may be achieved and that business results will continue their positive trend, with a progressive recovery of the variable income markets, despite the changing cycle of interest rates.

Within this context, it is likely that Life insurance progresses positively as the year goes on, with single-premium products (particularly those with guaranteed



interest in the medium and long term) experiencing greatest growth, so long as the interest rates continue their upward trend.

Moreover, there is hope of greater development of the Insured Pension Plans, after overcoming the initial launch and once the regulations governing them have been clarified. In keeping with the increased supply on the part of the distribution networks, it is likely that the public will show greater interest in taking out one of these new plans, which constitute a worthwhile formula for complementing the retirement benefits offered by the public system.

In addition, continuing the progressive rise detected in recent years, it is quite probable that the Individual Term Life insurance – and the Life and Temporary Annuity modalities – will display significant rates of growth.

Likewise, prospects for the Investment Fund sector are also encouraging. In this sense, although conditioned by the evolution of the financial markets, there will be an increase in managed assets with the entry of new money; this leads us to believe that a large part of the short-and medium-term savings from private individuals will continue to be channelled through this kind of group investment instruments.

As for types of funds, monetary funds will continue to be a vehicle for liquidity until such time as other kinds of investment decisions are made, the guaranteed funds (especially variable income) will continue their clearly positive evolution and, as risk levels descend, it is likely that the mixed and variable income funds will recover and prove more popular.

As for Pension Plans, they will certainly consolidate their elevated levels of growth, both in terms of managed assets and number of participants, given their favourable fiscal treatment and the low level of savings for retirement age in Spain.

MOTOR INSURANCE

The Motor insurance class still heads the ranking for Non-Life insurance, with 44.5% of written premiums. While the rise in prices has been moderate, around 4%, the healthy number of new vehicles registered explains – at least partly – the increased volume of premiums.

Written premiums in 2003 rose to 10,617 million euros, which represents an increase of 6.7% over the previous year. It is worth analysing the distribution of these premiums by categories of vehicles: 89.5% cars and vans, 6.4% lorries and buses and 4.1% motorcycles and mopeds. The huge importance of cars and vans is plainly evident.

Premiums written to cover Third-Party Liability still account for the greatest proportion, with 6,259 million euros and a growth rate of 6.3% with respect to 2002.



MOTOR				
	Premiums 2002 (million euros)	Premiums 2003 (million euros)	% Δ 2003/2002	% of Total
Third-Party Liability	5,890	6,259	6.3	59.0
Other Risks	4,060	4,358	7.3	41.0
Total motor	9,950	10,617	6.7	100.0

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

And written premiums offering cover other than Third-Party Liability came to 4,358 million euros, with an annual growth rate of 7.3%.

It is worth pointing out that 33.5% of the policies with Own Damage cover were taken out with some kind of deductible.

MOTOR							
Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	8,312	23.8	80.4	14.5	2.9	17.3	5.5
2002	9,236	11.1	74.6	13.7	2.6	16.3	8.7
2003	9,940	7.6	75.9	13.6	2.5	16.1	13.1

Source: ICEA. Economic report on the insurance sector.

The claims ratio on earned premiums increased by 1.3 points to 75.9% (still far off the 80.4% achieved in 2001). This figure rounds off a period of three consecutive years (2000, 2001 & 2002) in which notable reductions in the claims ratio have been achieved.

On analysing the claims ratio for each cover, it can be seen that Third-Party Liability and Own Damage exceed the overall claims ratio, at 83.1% and 79.1%, respectively, while the remaining cover options are well below the global claims percentage.

The average cost per claim settlement went from 586 euros in 2002 to 611 euros in 2003 (an increase of 4.2%). The claims frequency ratio (claims occurring for every thousand policies in force) has remained stable: 496 in 2003 compared to 494 in 2002.



As for operating expenses, they dropped slightly to 16.1% from 16.3% the previous year. Acquisition expenses are still the most important of all the expenses categories.

The technical account result rose considerably and finally reached 13.1% over premiums, 4.4 points above the 2002 figures. The fact that the claims ratio increased and that total operating expenses were practically contained means that such a significant improvement in the technical account result must be attributed to other factors, such as the improved financial results.

Throughout 2003, the trend towards great concentration in fewer companies in the sector continued. The top ten groups operating in the Motor class collected 70% of the premiums and the top fifty companies accounted for 98.5%. Nonetheless, the experts feel this does not mean there is less competition, given that we must also consider the increased offer from banks and savings banks in this kind of policy, as well as the development of direct telephone sales.

The difficulties involved in reinsuring unlimited Third-Party Liability cover have been overcome, although there is still a tendency to underwrite limited Third-Party Liability cover in new contracts. In addition, Spanish Law 34/2003 modifies table VI of the bodily injuries assessment system that appears as an annex to the Law on Third-Party Liability and Insurance and lays down the guidelines to seek uniformity of legal criteria in the evaluation of bodily injuries.

In 2004, it is likely that we shall see moderate growth in premiums, with results similar to those of 2003, due to the continued trend towards a reduction of the claims frequency. Among the particular aspects that could affect the evolution of this class, most noteworthy are the legal measures relating to road safety, particularly the following: the points system for driving licences; the possible crosschecking of computer files between the General Traffic Directorate and the Computerised Insured Vehicles File (FIVA) in order to detect uninsured vehicles; and negotiations with the Autonomous Communities regarding the agreements on Medical Assistance to road accident victims.

Taken together, the anticipated legislative innovations (specifically those relating to Solvency II and the Fifth Directive on Motor Insurance) will lead to greater modernisation and harmonisation of the class throughout Europe. For the companies, this will entail a tremendous effort on their part in quantitative terms, such as capital requirements and strengthening of reserves, as well as in qualitative terms, with new control and risk management methods.

HEALTH INSURANCE

The year 2003 was marked by modifications to the fiscal legislation that favoured Health policies taken out by the self-employed and company group



policies. Spanish Law 46/2002 on the Partial Reform of Income Tax introduced two important innovations affecting Health insurance policies. The first is that premiums satisfied for health cover will not be considered income in kind, up to a limit of 500 euros for the worker, spouse and descendants. The second important modification is that Sickness Insurance premiums will be deductible when it comes to determining taxpayers' net taxable income under the direct evaluation method, in the portion corresponding to their own cover and that of their spouse and children under twenty-five years of age living at home, up to a maximum deductible limit of 500 euros for each of the persons outlined above.

The situation of Health insurance is special, principally as a result of the double assurance arising from the obligatory nature of the Public System (other factors include the insufficiency of the fiscal incentives and the level of per capita income in Spain). The differentiating element is sought in the quality of the service (procedures, management, waiting times, choice of practitioner, etc.).

From a quantitative perspective, Health insurance in 2003 achieved a volume of premiums of 3,624 million euros, which represents an increase of 10% with respect to the previous year.

HEALTH				
	Premiums 2002 (million euros)	Premiums 2003 (million euros)	% Δ 2003/2002	% of Total
Medical Care	2,780	3,062	10.2	84.5
Sickness	516	562	9.0	15.5
Reimbursement of expenses	329	363	10.3	10.0
Benefits & Compensation	186	199	6.6	5.5
Total Health	3,296	3,624	10.0	100

Source: ICEA. Evolution of the insurance market.

On analysing the growth of premiums by type of product, it can be seen that the Medical Care and Reimbursement policies experienced relative growth above that of the class as a whole, 10.2% and 10.3%, respectively, in relation to the previous year. If we examine the type of contract or modality of the new production, Medical Care reveals a considerable increase in group contracts compared to the individual policies. In fact, the number of insured under group Health policies rose by around 14%, while that of the individual policies did not reach 5% and the growth rate for insured parties related to the Public Administration has stabilised (not reaching 1%). This is due to the improved



fiscal treatment mentioned above and to the generalisation of health insurance as a social benefit offered by firms to their workers.

By type of business, Medical Care accounts for 84.5% of the total. As for Sickness, the Reimbursement policies continued increasing their quota, reaching 10%, while the quota for Benefits and Compensation policies dropped to 5.5%.

As regards the evolution of the results, although there was a slight worsening of the claims ratio – from 82.6% in 2002 to 83% in 2003 – improvement was achieved in the technical account result, which rose from 5.2% of premiums in 2002 to 6.7% in 2003, motivated by a reduction in the operating expenses. This decrease in costs was most significant in the acquisition expenses, which fell by 0.5 points.

HEALTH							
Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	2,773	23.0	83.7	7.8	3.0	10.7	4.8
2002	2,942	6.1	82.6	7.9	3.0	11.0	5.2
2003	3,419	16.2	83.0	7.4	2.7	10.1	6.7

Source: ICEA. Economic report on the insurance sector.

If we examine Health insurance within the group of Non-Life classes, we observe that it has dropped from second to third position, due to the greater rates of growth of the Multi-Peril policies. In 2003, the market share held steady at around 15% of the Non-Life business. With respect to the concentration within the Health insurance sector, this remained at the same level as the previous year.

As regards future prospects, in the medium term, the group or company policies constitute one of the segments in which there exists potential for business growth. It can be seen that, despite the fiscal incentives, only 20% of Medical Care policyholders belong to the group insurance modality (compared to 48% in individual insurance and 32% in Public Administrations). The insurance companies operating in this field, well aware of this potential, have reduced most significantly the margins incorporated into the group insurance premiums.

A further goal is to increase the efficacy as regards choice of practitioners, ease of use and waiting times in the service provided, as a way of differentiating it

from the Public Health System. In short, the challenge facing Health Insurance policies is to maintain and expand a system, based on the effectiveness and efficiency of the health cover provided, in continuous evolution to adapt to the new needs of users who will base their loyalty on the quality of the contracted services.

MULTI-PERIL INSURANCE

The premiums written for Multi-Peril insurance policies in 2003 reached the figure of 3,738 million euros, this being an increase of 14.1% with respect to the previous year and a drop of two points compared to the growth rate in 2002.

Within Non-Life, Multi-Peril took second place in 2003 as regards volume of premiums, with 15.6% of the total. The growth experienced in recent years has led to it overtaking Health insurance, which has dropped to third place.

MULTI-PERIL				
	Premiums 2002 (million euros)	Premiums 2003 (million euros)	% Δ 2003/2002	% of Total
Household	1,664	1,899	14.1	50.8
Industrial	795	911	14.5	24.4
Commercial Premises	409	463	13.3	12.4
Condominiums	360	403	11.8	10.8
Others	48	62	30.7	1.7
Total Multi-Peril	3,276	3,738	14.1	100.0

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

Practically all Multi-Peril lines are growing at the same rate: Household at 14.1%; Industrial at 14.5%; Commercial Premises at 13.3% and, somewhat slower, Condominiums at 11.8%. Household is still the most important line in the sector, with 50.8% of premiums, followed by Industrial with 24.4%.

As regards the claims ratio, it is still enjoying a downward trend compared to previous years, having reached 63.9% in 2003. Operating expenses are also following this downward tendency, accounting for 29.5% of the earned premiums (one point less than in 2002). The considerable decrease in the claims ratio and the reduction of operating expenses have produced a significant improvement in the technical account result for this line, now standing at 8.2% of earned premiums, with a highly significant increase with

respect to the previous year (8 points), contrasting starkly with the negative result of previous years.

Worthy of note is the improvement in the technical accounts for Condominiums and Commercial Premises, thanks to a considerable drop in the claims ratio (especially in Commercial Premises, which has plummeted 15 points in two years), falling expenses and increased revenue from investments.

MULTI-PERIL							
Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	2,669	21.2	76.6	28.1	3.7	31.8	-6.3
2002	3,049	14.3	68.6	27.2	3.3	30.5	0.2
2003	3,537	16.0	63.9	26.6	2.9	29.5	8.2

Source: ICEA. Economic report on the insurance sector.

Having broken the negative trend in the technical account result, it is likely that 2004 should follow the same pattern, something that will be favoured by the enhanced selection of risks and improved rating systems.

The healthy evolution of the Multi-Peril policies is a reflection of the actions taken by the insurance companies in the selection of risks, rationalisation of portfolios and cost control, granting due importance not merely to commercial actions, but also to achieving positive results in order to ensure the business is profitable.

PERSONAL ACCIDENT INSURANCE

The volume of premiums written in this class in 2003 came to 699 million euros, which represents a rise of 6.5% with respect to the previous year.

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

The claims ratio in this class in 2003 was 49.8%, a decrease of 2.3 points, maintaining the healthy evolution of the last three years. Operating expenses were also reduced by 0.4 points.

There was thus a significant rise in the technical account result, which reached 21.4% of earned premiums, an increase of nearly 5 points with respect to the previous year, among other reasons due to the reduced claims ratio and expenses figures.

ACCIDENTS

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	656	21.0	53.8	25.2	4.5	29.7	18.1
2002	670	2.1	52.1	25.4	4.2	29.6	16.6
2003	719	7.3	49.8	24.9	4.3	29.2	21.4

Source: ICEA. Economic report on the insurance sector.

By modalities, that related to non-professional activities is achieving the greatest rate of growth, due to the increased disposable income of the population and the leisure activities undertaken in their free time. The possibility of covering the risk associated with certain increasingly common activities such as sports, DIY, etc. has led to an increase in the number of policies taken out for this kind of insurance, through the offer of simple products.

The modality related to professional activities practically remained steady and, in addition, produced worse results due to the fierce competition that exists.

In the Individual Accident class, new products are appearing that are targeted at self-employed workers, due to the increased number of work accidents among this group in recent years, which call for specific cover options adapted to their particular situation.

A positive evolution is expected for this class, in terms of premium collection, due to growing awareness of the issue of such accidents, both at a professional level and outside work.

BURIAL EXPENSES INSURANCE

The premiums written in this class reached the figure of 1,122 million euros in 2003, which corresponds to a 6.5% rise with respect to the previous year, somewhat less than the 7.6% figure in 2001. It is worth underscoring the fact that, in recent years, growth is slowing down in this class.

Within Non-Life, Burial Expenses Insurance represented 4.7% of written premiums, practically the same as in 2002, when the figure was 4.9%.

The claims ratio was slightly higher than the previous year at 42.1%, breaking the trend of the last few years. Operating expenses, on the other hand, were reduced by 1.5 points.

BURIAL EXPENSES

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	850	14.2	41.1	35.2	6.1	41.3	7.6
2002	998	17.4	40.7	34.8	6.3	41.1	4.8
2003	1,052	5.4	42.1	33.7	5.9	39.6	8.4

Source: ICEA. Economic report on the insurance sector.

The technical account result came to 8.4% of earned premiums, improving notably with respect to 2002, thanks to the recovery of revenue from investments.

Since the new Private Insurance Regulations came into force, introducing the need to constitute reserves for future obligations of the insurance companies, the latter have been taking measures to update the insured sums and premiums. Moreover, the sector is completing its range of products with other kinds of cover (accidents, assistance, etc.).

THIRD-PARTY LIABILITY INSURANCE

In 2003, the premiums written for Third-Party Liability insurance rose to 1,330 million euros, a spectacular growth rate of 26.8% over the 2002 figures, thus continuing the trend observed in recent years.

The Third-Party Liability class represented 5.5% of the Non-Life classes, seven tenths above the 2002 percentage figure.

This increase was due to the implementation of «rationalisation plans» by a large number of companies, with a view to turning around the poor results of a traditionally loss-making class. Thus, although the claims ratio dropped a couple of points (83.5% of earned premiums, compared to 85.7% in 2002) and operating expenses practically remained the same (representing 17.6% of earned premiums), some time will have to pass yet before the results of these actions can be fully appreciated.

The improved claims ratio and the containment of operating expenses helped to achieve a significant improvement in the technical account result, which, after several years of negative figures, reached 4.8% of earned premiums. These enhanced results are the direct result of the corrective measures adopted by the companies, relating to increased deductibles, limitations on cover, increased premium rates and, in general, a certain toughening of the insurance contract terms.

THIRD-PARTY LIABILITY INSURANCE

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	692	26.3	89.2	19.3	3.3	22.5	-2.2
2002	985	42.3	85.7	15.5	2.2	17.7	-2.3
2003	1,270	29.0	83.5	15.4	2.2	17.6	4.8

Source: ICEA. Economic report on the insurance sector.

On a qualitative level, most noteworthy are the numerous legal provisions enacted throughout the year that affect Third-Party Liability insurance. It is precisely in the field of compulsory insurance that innumerable regulations of a diverse nature have continued appearing – duly stipulating the obligation of such insurance – and some of them prove difficult for the insurers to accept and for the affected sectors to fully comply with.

Despite the fact that the experience of this year has been somewhat better than in previous years (progress is slowly being observed in terms of policy renewals), there are still certain risk segments in which the policy offer is highly restrictive. In this respect, it can sometimes be difficult to obtain cover for professional liabilities, medical risks, liabilities related to the Public Administrations – particularly Health – and certain other types of compulsory insurance.

Some reflection is required on the need to constantly maintain a close watch on the technical control of a class subjected to far too many vicissitudes, in which a slight improvement, like that observed this year, may be overturned by the simple passing of time, once the real claims ratio becomes apparent; this is particularly true if the conditions for underwriting the different categories of serious risks are relaxed, as it would seem is already starting to be detected in 2004.

CREDIT AND SURETY INSURANCE

2003 saw a significant increase in the premiums written for Surety insurance – 12.4% – with the final figure reaching 65.5 million euros.

The Surety class grew significantly for the fifth year running and, once again, the reason for this increase lies with the *Surety for home purchase advance payments* type. In fact, the only company in this class that does not offer this modality has experienced a drop in its premiums.

Lately, it is believed that the rate of construction of new homes could be slowing down and, if this is so, the premium figures for this concept will stagnate in the medium term.

SURETY							
Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	38	36.6	-1.6	11.5	6.7	18.2	84.9
2002	44	15.4	20.5	20.1	5.9	26.0	54.0
2003	64	44.3	25.7	20.6	5.2	25.7	49.7

Source: ICEA. Economic report on the insurance sector.

On the negative side, there has been a 5.2 point increase in the claims ratio, now standing at 25.7% (i.e. 20% above the previous year's figure). Despite this increase, the claims rate remains low, at a reasonable level, but in a line such as Surety it cannot be considered excellent.

The total operation expenses figure dropped slightly compared to the previous year, reaching 25.7% of earned premiums. The combination of a low claims ratio and low acquisition and administration expenses produced a technical account result of 49.7% of the earned premiums; although this is lower than the previous year, it can be considered a very good figure.

All in all, it can be said that Surety insurance is still growing in terms of premiums and that the claims ratio, as in previous years, continues producing low percentage figures.

With regard to Credit Insurance, premiums written in 2003 reached the figure of 504 million euros, up 12.2% from the 2002 figure and similar to the previous year.

Although growth is still high, we have observed that it is keeping to a deceleration path for two reasons: on the one hand, the greater degree of penetration in the market, which has reached a high level of maturity, and, on the other hand, the return to the policies of reducing premium rates, encouraged by an improvement in the economic situation and by the fierce competition that exists in this market where, apart from the three traditional local operators, all the major international groups have now joined the fray.

This new rating tendency, which breaks away from the increases that commenced in the second half of 2001, has encountered technical support in the incipient improvement of the economies, although we must wait until this new growth pattern is consolidated before confirming the strength of this support.

The claims ratio dropped 8.6 points in 2003, reaching 63.8% of earned premiums. Operating expenses were reduced slightly, by 0.6 points, representing 31.3% of the earned premiums. These two factors enabled the technical account

CREDIT

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	380	17.4	76.3	18.9	16.3	35.1	3.9
2002	428	12.8	72.4	17.6	14.3	31.9	6.3
2003	478	11.8	63.8	17.7	13.6	31.3	14.2

Source: ICEA. Economic report on the insurance sector.

result to rise by 8.1 points to 14.2%. The claims ratios and technical account result are, and will be, highly influenced by the evolution of the tariffs and cover conditions applied; the new trend that has been observed could cancel out the positive effect of the economic evolution on the default and insolvency rates, as it has possibly already been discounted in the application of the technical policies.

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

As for the near future, the factors outlined above paint a favourable picture, although not without some shadows cast upon it. In principle, it could be said that there is still room for growth in the sector, albeit more moderate than in the previous fiscal year, maintaining the path of decelerated growth that has been observed lately.

OTHER INDUSTRIAL INSURANCE

In this section dedicated to «Other Industrial Insurance», we shall analyse the

OTHER INDUSTRIAL INSURANCE

	Premiums 2002 (million euros)	Premiums 2003 (million euros)	% Δ 2003/2002	% of Total
Engineering	464	594	28.0	51.9
Transport	580	551	-5.1	48.1
Total	1,044	1,145	9.7	100

Source: ICEA and in-house.



Engineering and Transport classes, as Third-Party Liability and Multi-Peril were commented on earlier in the report.

The premiums of the Engineering branch (Machinery Breakdown, Construction Multiperil, Ten-Year Insurance construction, Electronic Equipment and Product Warranty) rose 28% in 2003, coming close to 600 million euros. This increase is on top of the previous year's, when the rise was even greater, practically 40%.

The rapid growth of Engineering Insurance is due to the strength of the construction sector – which contributed nearly 355 million euros in premiums in 2003, given the huge demand for homes in recent years (Construction Multiperil rose by more than 41% between 2002 and 2003) and the obligation to take out a policy to protect against building defects (Ten-Year Insurance) – and amounted to over 68% between 2002 and 2003.

Transport Insurance fell by 5.1% in terms of written premiums. The reason must be sought in the Aviation premiums: they fell from 180.1 million euros in 2002 to 127.4 million euros in 2003. This decrease of almost 30% is not offset by the modest increases in Goods Insurance (7.8%, now standing at 250.7 million euros) and Marine Insurance (3.1% up to 172.7 million euros). The fall in premiums in Aviation Insurance is a consequence of the relaxation in the market of the effects of Sept 11th and the fluctuation of the dollar exchange rate.

Hull Insurance (including recreational vessels) experienced an increase of 3% in premiums, caused, to a large degree, by the rationalisation of portfolios ongoing for several years now within the insurance companies. As for Goods, it achieved a rise of approximately 8% with respect to 2002 and it is expected that this trend will continue; this contributed towards improving the claims ratio results for both loaders and carriers.

In recent years, significant improvements have been achieved in the results for the Engineering branch. The improvement in operating expenses was particularly noted in 2002 with respect to 2001 (with a drop of 4.6 points).

Control of the claims ratio improved in a most significant fashion in 2003. The percentages of earned premiums of over 100% in 2001 and 2002 (109.5% and

ENGINEERING

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	221	–	109.5	19.3	3.9	23.2	–32.5
2002	256	15.8	107.2	15.9	2.7	18.6	–23.5
2003	347	35.5	73.9	16.5	2.3	18.8	8.6

Source: ICEA. Economic report on the insurance sector.

107.2%, respectively) have moved to rates that enable positive results to be achieved; to be specific, in 2003 the claims ratio came to 73.9%.

As a result of the improved operating expenses and the control of the claims ratio, positive results were obtained in 2003 in the technical account – 8.6% of earned premiums. This result is also due to the increase and improvement of the policies related to construction (Construction Multiperil and Ten-Year Insurance).

The most noteworthy change in 2003 in the Goods Insurance is the 7-point drop in the claims ratio, which, together with the improvements in investments, contributed towards achieving an increase in the technical account result of over 18% of earned premiums.

TRANSPORT: GOODS

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	210	28.3	67.8	22.4	2.8	25.2	8.6
2002	220	4.9	65.0	22.8	2.5	25.3	8.9
2003	228	3.5	58.0	23.3	2.3	25.6	18.1

Source: ICEA. Economic report on the insurance sector.

In the Hull Insurance modality, the volume of earned premiums in 2003 increased slightly with respect to the previous year. The claims ratio fell 5.6 points to 42.3%, while the acquisition expenses rose 1.1 points to 10.4%. The most notable change in 2003 was the increase in the technical account result: a rise of 6.4 points that produced a result of 47.4% of earned premiums. As in the case of Goods, the improved results are due to the decreased claims ratio and the enhanced performance of the investments.

TRANSPORT: HULL

Year	Earned premiums (million euros)	% Δ	% Claims ratio	Operating expenses			% Technical account result
				% Acquisition expenses	% Admin. expenses	% Total expenses	
2001	154	20.6	87.8	12.7	1.7	14.4	0.2
2002	221	43.7	47.9	9.3	1.3	10.6	41.0
2003	229	3.6	42.3	10.4	1.4	11.8	47.4

Source: ICEA. Economic report on the insurance sector.



Legal changes in 2003

Royal Decree 1430/2002, of December 27th, which duly approved the Social Insurance Mutualities Regulations. Published in the BOE (Official State Gazette) No. 15 on January 17th 2003.

Spanish Law 30/1995 on Private Insurance Regulation and Supervision marked the full application to the social insurance mutualities of the insurance companies' regime. The same Law envisages the need to develop rules in a regulatory manner to govern the specific case of the social insurance mutualities.

The Regulations have the goal of considering specific aspects of the social insurance mutualities, where it is deemed necessary to introduce some singularity arising from the very characteristics of this kind of entity, with all common aspects being referred directly to the Private Insurance Regulation and Supervision provisions. The Regulations also refer to certain requirements of the general mercantile rules deemed applicable to the same.

The following is a summary of several requirements of the Regulations:

- They define the nature of this social insurance instrument, namely that it is voluntary, independent and complementary to the compulsory Social Security system.
- They regulate the founding requirements of the social insurance mutualities, in particular the processes involved and the minimum contents of the articles of association.
- They lay down the same solvency guarantees as for the other insurance companies.
- They regulate the rights and obligations of the mutualists.
- They regulate the supervision powers.
- A mechanism is duly established for adapting the social insurance mutualities to the system of individual capitalisation and the amount of the



financial guarantees, setting an appropriate period for completing this process.

Royal Decree 27/2003, of January 10th, which duly amended the Personal Income Tax Regulations.

It develops the new regulations that Spanish Law 46/2002 introduced into Law 40/1998 on Personal Income Tax and other Tax Rules, and effects the adaptation of the text of the Tax Regulations to the legal changes enacted.

As regards the Insured Pension Plans, it specifies when the requirement to have retirement as the principal cover is deemed duly fulfilled, as well as the requirements and conditions for the transfer of the mathematical reserve to another Insured Pension Plan. It also regulates the information that, for fiscal purposes, must be furnished by the insurance companies that distribute Insured Pension Plans.

In addition, the Resolution of March 5th 2003 from the Spanish Insurance and Pension Funds General Directorate, duly fulfilling the mandate of the sole additional provision of this Royal Decree, establishes the obligations on the insurance companies that distribute the Insured Pension Plans regarding the information they have to offer the policyholders.

Spanish Bankruptcy Law 22/2003, of July 9th.

The so-called Bankruptcy Law, enacted in July 2003, introduced certain reforms into the Legal Statute of the Insurance Compensation Consortium, the Law on Private Insurance Regulation and Supervision and the Insurance Contract Law, providing a new regulation for those situations of insolvency in insurance companies, adapting them to the new general bankruptcy system within the Spanish legal system.

Spanish Law 34/2003, of November 4th, on the modification and adaptation of the private insurance legislation to the EU regulatory framework.

This Law introduced important reforms into the private insurance legislation that arose from the need to adapt Spanish Law 30/1995 on Private Insurance Regulation and Supervision to the new EU insurance directives:

- Directive 2001/17/EC on the reorganisation and winding-up of insurance undertakings.
- Directive 2002/13/EC amending Directive 73/239/EEC as regards the solvency margin requirements for Non-Life insurance undertakings.



- Directive 2002/83/EC concerning Life insurance. This Directive revises the EU rules on Life insurance, including Directive 2002/12/EC, which amends Directive 79/267/EEC as regards the solvency margin requirements of Life insurance companies.
- Directive 2002/65/EC concerning the distance marketing of consumer financial services.

The adoption of the first of the Directives into the Spanish legal system entailed the amendment of the Spanish regulations designed to regulate the liquidation of insurance companies and certain aspects of the special control measures that might be adopted with respect to such entities.

The adoption of the solvency directives, apart from the modifications of Spanish Law 30/1995, has called for the necessary adaptations to be made in the regulatory framework, such as provisions relating to the quantification and composition of the solvency margin.

In addition, it has proved necessary to amend Spanish Law 50/1980 on Insurance Contracts in order to include the innovations introduced by EU regulations, in relation to the distance marketing of financial services.

Apart from the adaptation to EU regulations, Spanish Law 34/2003 introduces several amendments to the Law on Third-Party Liability and Insurance in the Circulation of Motor Vehicles, revised text approved by Decree 632/1968. One of these amendments relates to table VI of the assessment system for the damages and injuries caused to people in road accidents, in order to adapt it to the current classifications of ailments, improve its methodology and evaluation system and introduce specific rules for its utilisation.

Spanish Law 62/2003, of December 30th, on Fiscal, Administrative and Social Order Measures.

The so-called «Law Accompanying the National Budget» for 2004 includes different measures that affect the field of insurance and pension funds on issues relating to taxes, economic planning, accounting, etc.

Specifically, it modifies the Law on Third-Party Liability and Insurance in the Circulation of Motor Vehicles, establishing that, in the event that evidence of having taken out an compulsory insurance policy cannot be provided, the vehicle will be impounded for a period of one month; for a recurrence of the offence, the period will be three months and, in the event of failure to comply with the order, the period will be one year, with the obligation to demonstrate at the end of the said period that the corresponding policy has been taken out.

It also amends several requirements of the revised text of the Law on Pension Plans and Funds (Legislative Royal Decree 1/2002, of November 29th). It raises to 8,000 euros the maximum annual contribution to Pension Plans

regulated under this Law. In the case of participants over fifty-two years of age, the above limit is raised by an additional 1,250 euros for each year over and above the said age, with a ceiling of 24,250 euros for participants aged sixty-five or over. These amounts will be applied as the limit for all company contributions made by the promoters of employers' pension plans on behalf of their employees and attributed to the same.

