

THE SPANISH INSURANCE MARKET IN 2008

Instituto de Ciencias del Seguro



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1. SUMMARY

In 2008 the **international economic** and financial context was particularly challenging. It was characterized by severe instability and a sharp economic deceleration that intensified significantly in the second half of the year, with an especially strong effect in developed countries. Against that backdrop, the Spanish economy finished the year with growth of 1.2%, compared to 3.7% in 2007. A drop in private consumption, which was at the same time hit by tighter credit, along with higher interest rates, a decline in expectations and a rise in unemployment, caused a clear decline in domestic demand. The latter was also affected by a fall in gross formation of fixed capital, which was closely linked to the strong decline in residential investment.

Premium volume in the **global insurance market** was USD 4,300 billion (2,900 billion euros) in 2008. For the first time since 1980 the real variation in premium volume was negative, standing at -2%, compared to 1.5% in 2007. Much of the decline occurred in the second half of the year as a result of the financial crisis, which had a particularly pronounced effect on Life insurance. Non-Life insurance suffered a slight decline in premiums due to a drop in demand, which rekindled previously existing pressure on rates. Losses from natural disasters were high, reach \$53,000 million. The United States was the area most affected, because of hurricanes Ike and Gustav, while Europe endured the consequences of the winter storm Emma and the tropical depression Hilal.

The **reinsurance** market followed a similar pattern. The first half of the year saw a decline in underwritten premiums as a result of stiffer competition, although results were acceptable, both technical and in terms of investment. However, in the second half of the year results fell, due to the combination of a greater incidence of catastrophic losses and heavy losses in investment portfolios.

The **Spanish insurance market** performed well, with direct insurance premium volume of 58,570 million euros, which marked an increase of 9% from the previous year and was greater than the annual variation in GDP at current prices, or 4.2%. The effects of the crisis were not reflected evenly in the Life and Non-Life sectors. While revenue from Life insurance grew at a good pace throughout the year, Non-Life continued a downward tendency that began in 2002. If we add production from Mutual Provident Societies to that of Public Limited Companies and Mutual Insurers, total premium volume in the sector in 2008 was 60,930 million euros, up 8.4% from the previous year.

The main engine of growth was the extraordinary rise in **Life insurance**, which, in contrast with the decline seen on international markets, saw its production increase 17.5% (compared to -0.5% in 2007), for total premium volume of 26,764 million euros.

It is important to note that the increase did not correspond to the volume of managed savings, a number which gives a more reliable picture of the Life business. Technical provisions – hit by a lack of savings incentives, competition from products offered by banks and

the high level of surrenders that were carried out – reached 128,686 million euros, 1.2% more than in 2007. Still, this increase stands out with respect to major declines in savings managed by Pension Funds (-8.7%), and in particular Mutual Funds (-29.8%). So, one can say that Life insurance in 2008 strengthened its role in the whole of Spain's savings and pension industry.

The products that performed best in the period analyzed were by far Insured Pension Plans, Systematic Individual Savings Plans and those linked to financial assets. However, traditional deferred-capital and savings-investment insurance products saw their premium volume go down nearly 10%, which amounted to a 5.9% decrease in managed savings. Still, along with annuities, they are the most deeply engrained insurance products, with 45,502 million euros in provision volume.

Pension Plans closed the year with managed asset volume of 78,407 million euros, a decline of 8.7% compared to 2007. The year 2008 was the first in which this sector showed a clear downward trend, triggered by negative profitability and a deceleration in contributions to pensions and in their overall amounts.

Non-Life insurance rose 2.8% (compared to 5% in 2007), continuing a downward trend that began in 2002. This slowdown stems largely from intense competition in most lines, a result of the market's maturity. This competition stiffened in the second half of the year as companies realized the effects of the crisis on demand for coverage: a preference for cheaper products and guarantees and a rise in the cancellation rate. The branches which posted the largest percentage increases over the previous year were Legal Defence (140%), Assistance (23%), Credit (8.1%), Fire (8%), Multi-Peril (7.4) and Health (7.4%). Worth noting are the declines in Pecuniary Losses (-6.3%), Third-Party Liability (-3.0%), Motor (-1.6%), and Surety (-1%).

As opposed to the excellent result posted by the insurance sector in 2007, the **result in 2008** was 3,526 million euros, a fall of 35.8%. This is explained largely by the fact that in 2008 there was no repetition of the atypical financial result posted in Life insurance in 2007 as a consequence of certain profits stemming from financial investments. Leaving this effect aside, there was a drop in the financial margin in most lines. In the Non-Life branch the technical result was stable, with a combined ratio of 92.7%, only three-tenths of a point higher than in 2007. The only weak points were losses seen in Credit insurance (-13.5% on premiums) and margins bordering on zero in Transport and Surety.

The solvency margin also came in at a level similar to that of 2007. The quotient of assets over the minimum that could be required in 2008 was 2.6 for the entire sector. In Non-Life insurance, the ratio was 3.2 (compared to 3.4 in 2007) while in Life it was 2.1 (2 in 2007).

One can conclude that, despite the tough international economic and financial situation and the crisis of confidence among consumers, the Spanish insurance sector turned in a performance that was stable (9% growth in premiums), profitable (ROE of 14.5%), and solvent (2.6 times the required minimum).

As for **2009**, it will be difficult for premium volume to grow, due to the unfavorable economic context. This will be characterized by tendencies to contract, especially in the construction sector, as well as a fall in private consumption, a continued lack of confidence among consumers, high unemployment and a growing public deficit. Data from the first quarter of 2009 (ICEA) show premium growth of 1.2% compared to the first quarter of 2008 (less than the 5.0% posted in the same period of 2008). Meanwhile, the economic context is expected to have an uneven impact on the different segments of the Spanish insurance sector.

The **Life** sector faces a difficult year, due to major instability in fixed-yield and equities markets and, above all, levels of aversion to risk and a lack of confidence among final consumers of financial products. Still, one can expect that the hoped-for normalization of the yield curve, the proven solvency of insurance entities, less competition from bank deposits, a greater propensity to save, and the insurance business's ability to come up with innovative products offering guaranteed yields will turn the market around. First-quarter premium growth in 2009 was 4.9%, while technical provisions increased 1.8%.

In the **Non-Life** sector, companies will continue to confront the effects of the crisis on demand for insurance: a preference for cheaper products and coverage, a rise in the cancellation rate, and increasingly stiff competition that will exert downward pressure on rates. Premium volume fell 1.7% in the first quarter of 2009, and one highlight was a 7.3% drop in Motor insurance. To overcome this scenario, companies will have to design products that meet the needs expressed by customers, concentrate on holding on to existing clients and raise cost efficiency to offset the decline in rates.

A certain deterioration of the **result** is expected in 2009, due to tight financial margins and a worsening of the technical result. The latter stems mainly from the aforementioned pressure on rates, which will hardly be compensated by a possible decline in exposure levels and an improvement in claims. Data from the first quarter of 2009 (ICEA) show a fall in the Life result, which represented 0.3% of provisions, compared to 1.1% in 2008. In Non-Life, the result on net premiums was 9.1%, two points less than at the close of 2008. This last figure reflects the impact of the atypical cyclonic storm Klaus, which hit the Iberian peninsula Jan. 24-25, causing an estimated 670 million euros in losses. The effect was seen mainly in Multi-Peril, where data from the technical account corresponding to the first quarter of 2009 show a gross loss on premiums of 19%, which was transferred largely to reinsurance (the net loss is 1.3%). The definitive effect of that natural disaster will depend to a large extent on the level of coverage assumed finally by the Consorcio de Compensación de Seguros, which is currently estimated at not less than 75%.

Finally, as for **new legislation**, we should note the approval of new rules on mandatory third-party liability insurance for motor vehicles. Among many other measures, it raised compensation limits. Also worth noting is the passage in 2008 of the new Accounting Plan for Insurance Entities, which aims to bring Spain's system into line with International Standards for Financial Information which are applicable in the European Union. In June 2009, UNESPA and the Consorcio signed a reinsurance agreement concerning credit insurance. It is designed to

revitalize and encourage the granting of credit in the Spanish business sector. In the European Union, one significant step was the European Parliament's approval in April 2009 of the Solvency II framework directive.

2. Economic context

2. ECONOMIC CONTEXT

2.1 THE WORLD ECONOMY

In 2008 the **international** economic and financial context was particularly complex, and characterized by severe instability and a sharp economic deceleration that intensified significantly in the second half of the year, with an especially intense effect in developed countries. The United States, the euro zone and Japan entered into technical recessions after suffering declines in economic activity in the final quarters of the year. Emerging economies, which had more or less averted that trend, began to suffer a lack of dynamism in the latter part of the year. They were hit by major declines in the prices of raw materials and forecasts of lower demand for their products. In this context of deceleration, GDP grew around 3% for the year, compared to 5.2% the previous year. In developed economies, growth was close to 1.5%, compared to 2.6% in 2007, while emerging economies slowed their rate of expansion to 6.5%, below the 8% posted the previous year.

The beginning of the year was characterized by a significant fall in share prices on stock markets, stemming from poor results by many multinational banks. However, emerging economies continued to post very high growth rates, ignoring the economic slowdown in developed nations. Furthermore, the first seven months of 2008 saw a significant increase in prices for oil and raw agricultural materials. This led to a rise in inflation, which in turn triggered a toughening of monetary policy in emerging nations and even in the euro zone.

After the summer, the situation changed radically as financial instability deepened. The U.S. government was forced to take over major mortgage lenders and rescue some of the world's largest insurance companies, and allowed the third largest investment bank to fold. This triggered the collapse of the financial system and forced the government to come up with plans to recapitalize the banking system, which were also implemented in Europe to prevent systemic risk. This decline of the banking system also led to extremely tight terms for credit, paving the way for a major fall in economic activity and prices.

In an effort to ease this trend, central banks cut interest rates drastically and injected massive amounts of liquidity into the banking system. Multi-billion dollar plans were enacted to stimulate the economy and shore up banks, both in advanced economies and some emerging ones. The IMF stepped in to help countries that were in trouble. All of this was aimed at heading off an economic depression, which, as was the case in the 1930s, would bring with it price deflation.

In the **euro zone**, the economic situation worsened in the second half of 2008, especially after tensions deepened in financial markets in mid-September. The single-currency zone finished the year with real GDP growth of 0.8%, far below the 2.7% posted in 2007. The data available on a country-by-country basis point to a significant drop in gross formation of fixed capital and net exports.

In the first quarter of 2009 the world economy remained mired in a deep recession. In industrialized countries there has been a major, across-the-board decline in activity, with GDP falling 2.1% compared to the first quarter of 2008 and at a year-on-year rate of 4.2%. Emerging economies, which had initially been quite resistant to the global crisis, were finally affected by it through a drop in their exports, lower prices for raw materials and tighter

conditions for overseas financing. The latest IMF projections suggest the world economy will contract 1.4% in 2009, but recover to post 2.5% growth in 2010.

2.2 THE SPANISH ECONOMY

The Spanish economy finished 2008 with GDP expansion of 1.2%, compared to 3.7 percent the previous year, and with an important change in its pattern of growth. Domestic demand made a smaller contribution as it suffered a major slow-down stemming from a decline in private consumption, which was affected by credit restrictions, a rise in interest rates, a decline in expectations and higher unemployment. Domestic demand was also weakened by a fall in gross formation of fixed capital, basically because of a fall in residential investment. Overseas demand made an important contribution that greatly surpassed domestic demand, thanks to a decline in imports.

On the supply side, the following factors should be noted: a decrease in value-added in the agriculture and fishing sectors (-0.6%), manufacturing (-2.7%), and construction (-3.3%); a slow-down in the service sector, with growth of 3.1% compared to 4.6% the previous year; and a rise in the energy sector (1.9% compared to 0.8%).

The decline in the economy hit employment hard, causing a 0.6% fall for the year, but one of more than 3% in year-on-year terms in the fourth quarter. The increase in the workforce, along with elimination of jobs, made for a significant rise in unemployment, which stood at 13.9% in the fourth quarter of 2008.

Energy prices were one of the main factors behind abrupt variations in prices in 2008, with the consumer price index ending the year 1.4% higher. After reaching its maximum level in July 2008, the CPI experienced a rapid deceleration, dipping into negative figures in 2009. This was triggered in part by movements in oil prices but also by the impact of the recession.

The government's deficit worsened as a result of a lower tax revenues stemming from the economic deceleration, a big rise in outlays for unemployment benefits, fiscal measures to stimulate the economy and maintenance of a dynamic policy of public spending. The result

<i>Interannual variation rates in %</i>		
	2007	2008
DEMAND		
Final consumption expenditure	3.8	1.4
Final consumption expenditure by households	3.4	0.1
Final consumption expenditure by the NPISH	4.6	3.6
Final consumption expenditure by the Pub. Admin.	4.9	5.3
Gross Fixed Capital Formation	5.3	-3.0
Equipment	10.0	-1.1
Construction	3.8	-5.3
Other products	3.9	1.9
Domestic demand ¹	4.4	0.1
Exports of goods and services	4.9	0.7
Imports of goods and services	6.2	-2.5
Foreign demand	-0.7	1.1
SUPPLY		
Fishing and agricultural classes	3.0	-0.6
Energy classes	0.8	1.9
Industrial classes	2.8	-2.7
Construction	3.5	-3.3
Services	4.6	3.1
GDP at market prices	3.7	1.2
GDP at current market prices²	1,050.6	1,095.2

(1) Contribution to GDP growth

(2) Billions of €

Table 1. GDP and its components

Source. INE. CNTR, first quarter of 2009

is that the surplus that existed in 2007 turned in late 2008 into a deficit equivalent to 3.8% of GDP for the entirety of Spain's government coffers.

In this complicated context, 2008 was bad for equities markets, which suffered across-the-board declines of more than 40%, making that year one of the worst ever. Spanish stocks evolved like other markets thanks to the relatively good performance of some blue-chip shares, including those of banks. Contrary to stock markets, public debt markets did extremely well, showing their role as havens in turbulent times, with high liquidity.

The main factors that drove risk premiums and led investors to withdraw their money were these: downward revisions of prospects for economic growth, continuous cuts in earnings forecasts, worries over future earnings given the bad numbers coming out quarter after quarter, a non-stop rise in concern among investors, a deterioration of credit markets and uncertainty over the solvency of financial entities. In a setting dominated by pessimism, neither the measures taken by government to stimulate economic growth, nor persistent cuts in interest rates, nor evaluations that in principle looked positive, seemed to be enough to halt sales of stocks.

Data available so far on the **first quarter of 2009** point to intensified tendencies to contract in an international context that is severely recessionary and in which the degree of financial tension has remained at high levels. The Spanish economy shrank 3% compared to the first quarter of 2008, and 1.9% compared to the last quarter of that year. This was mainly because domestic demand increased its negative contribution to GDP in the first quarter of 2009, going from -3.0 points to -5.3 points, while external demand continued to make a positive contribution – this time, 2.3 points – to aggregate growth.

3. Social and economic variables related to insurance

3. SOCIAL AND ECONOMIC VARIABLES RELATED TO INSURANCE

Population

Spain's resident population at the end of 2008 was 46.6 million people, 500,000 more than in 2007, for an increase of 1.1%¹.

Once again, population growth was due mainly to foreigners, whose numbers increased 6.3% in 2008 (the non-foreign population rose 0.4%) to 5.6 million, or 12% of the total population. Foreign residents from EU countries were the most numerous, and the largest groups among them were Romanians (14.2% of the total number of foreigners), Britons (6.7%) and Germans (3.4%). Among people from outside the EU, the largest groups were Moroccans (12.7%), Ecuadorans (7.4%) and Colombians (5.2%).

By age groups, 15.5 percent of the population is under 15, while 67.8% is between 16 and 65, and 16.7% is older than 65.

Data on natural movement of the population show that the gross birth rate (number of births per 1,000 inhabitants) rose to 11.38, with 20.7% of the births corresponding to foreign mothers. Moroccans had the most babies. The total fertility rate was 1.46 children per woman of child-rearing age, the highest level since 1990.

Meanwhile, the gross mortality rate (number of deaths per 1,000 inhabitants) went down in 2008 to 8.47 compared to 8.59 the previous year. A total of 2.8% of the deaths corresponded to foreigners, mainly people from the EU, who are the oldest of Spain's foreign residents, chief among them Britons and Germans. The population's vegetative growth was 133,000, up from 107,000 the previous year.

Spain continues to have one of the world's oldest populations. The latest figures from the National Statistics Institute show life expectancy at birth to be 80.2 years: 77 for men and

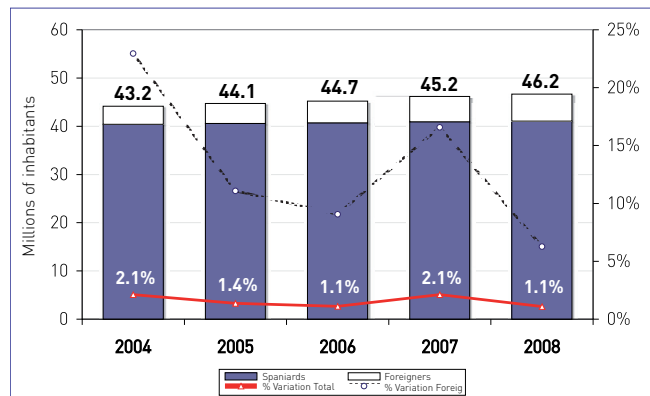


Chart 1. Evolution of Spanish population
Source: INE

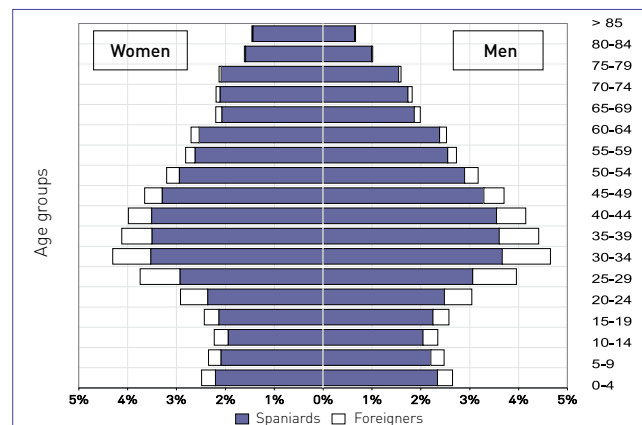


Chart 2. Distribution of the Spanish Population by age group and sex. Year 2008
Source: INE

¹ Provisional figure

83.6 for women. Within the EU, and according to Eurostat, it is Swedish men who live the longest, with a life expectancy of 78.5, and French women at 83.8.

Motor

At the end of 2008 there were 31 million registered vehicles in Spain, an increase of 2.4% from 2007². With the onset of the economic crisis, automobile sales dropped significantly. The year ended with 1.6 million cars newly registered, a decline of 29.8%. The largest decrease was in industrial vehicles, at 43.4%, while registration of passenger vehicles was down 27.5% from 2007. Data from the first six months of 2009 show the decline has been even greater, with a fall of 41.5% compared to the same period of 2008. However, signs of recovery are beginning to emerge after the government started handing out subsidies to encourage car purchases (Plan 2000E).

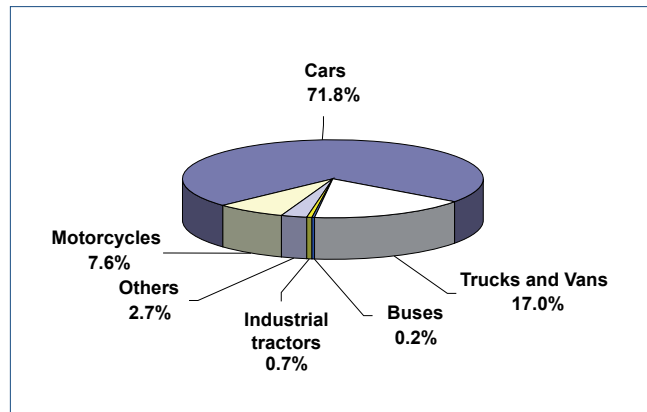


Chart 3. Distribution of total automobiles in Spain by class of vehicle

Source: Interior Ministry

It is important to note that throughout the year, traffic eased, as seen in data on gasoline and diesel fuel consumption, which dropped 3.9%, and 4.6% fall in long-distance road trips.

As for **road accidents**, in 2008 there were 1,929 of them involving fatalities³, a drop of 20.1% from 2007. The number of victims also fell sharply compared to the previous year, with 2,181 fatalities and 866 people seriously injured, marking decreases of 20.4% and 24.7%, respectively. The number of fatalities per million vehicles was 70, compared to 90 in 2007. We can also make the following observations:

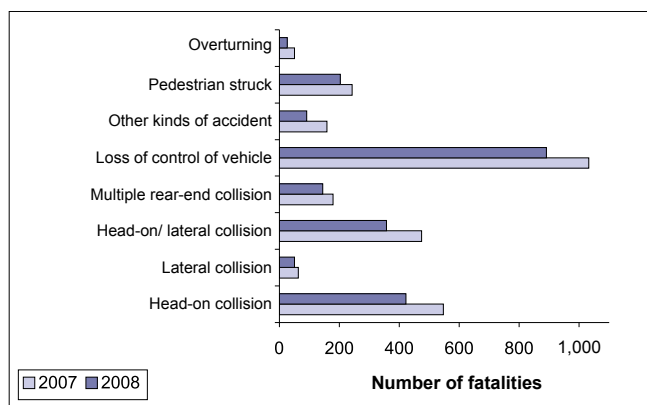


Chart 4. Evolution of the number of accidents and fatalities

Source: General Directorate of Traffic

- The accident rate went down in all of Spain's semi-autonomous regions.
- The number of young drivers between the ages of 15 and 34 who were involved in highway accidents involving fatalities dropped 51%, although this age bracket continues to post the highest figure in this category.

² The Insured Vehicles Informative File (Fichero Informativo de Vehículos Asegurados, in Spanish) registered 28.8 million vehicles with mandatory insurance. The Consorcio de Compensación de Seguros estimates there were 600,000 uninsured vehicles.

³ Road accidents with fatalities recorded within 24 hours.

- The number of fatalities in motorcycle accidents, which had been rising since 2004 and in particular in 2007, declined by 27.7%.
- The most common accident involving fatalities is that in which vehicles drive off the road, although the number of fatalities in such cases has gone down in recent years.

Housing

In 2008 the number of homes in Spain totaled 25 million units⁴, an increase of 2.6% compared to the previous year. Of that total, 66.6% was used as people's main residence (compared to 68.5% in 2007) and 33.4% as a second home or for other purposes.

The changes that began in 2007 in the Spanish housing market sped up in 2008, with clear declines in all indicators that measure the sector:

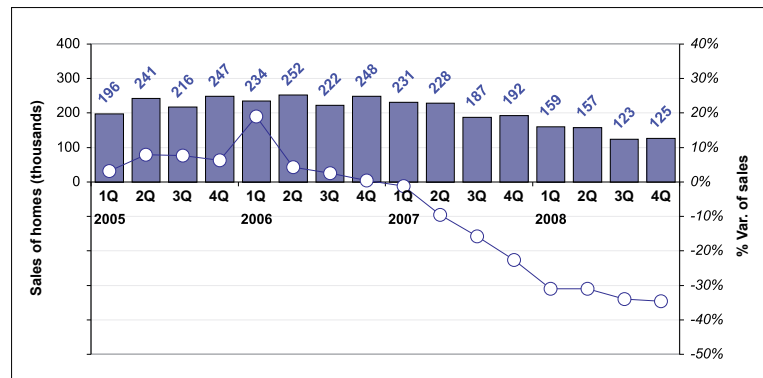


Chart 5. Home sales. Number of transactions and quarterly variation

Source: Housing Ministry

- Town halls granted 284,000 licenses to build or upgrade homes, compared to 654,000 in 2007, for a drop of 56.5%.
- As for sales, in 2008 there were 564,000 real estate transactions, as opposed to 837,000 the previous year. The sharpest drops came in the last two quarters of the year, with year-on-year declines of more than 34%. This percentage continued in the first quarter of 2009.
- Housing prices went down for the first time since 1993, and the average stood at 2,018 euros per square meter of floor space in the final quarter of the year, compared to 2,069 euros in the previous quarter. The price kept falling in the first quarter of 2009, reaching 1,958 euros per square meter.
- In 2008, 1.3 million mortgages were taken out on rural and urban properties, a drop of 27.4% from 2007. The average home mortgage was 140,000 euros, 6.2% less than in 2007. The National Statistics Institute says the average interest rate for a home loan was 5.29%⁵(compared to 4.71% in 2007) and the average term was 24 years, down two from 2007. However, interest rates started to go down in January 2009, and again reached the 4.71% level in April (3.57% according to the Bank of Spain).

⁴ According to estimates by the Housing Ministry for the updating of the 2001 census

⁵ The statistics institute calculates the figure with data from mortgages taken out, as provided by associations of property registrars. According to the Bank of Spain, which calculates the figure on the basis of mortgages granted or renewed by banks, the figure for 2008 was 5.86%.

Creation of companies

According to data from the National Statistics Institute, in 2008 some 102,000 businesses were created, which was 27.8% fewer than in 2007, and 16,000 businesses were dissolved, or 9.9% less than in the previous year. In the first five months of 2009, 36,000 businesses were created, compared to 54,000 in the same period of 2008. This marks a decline of 33.4%.

4. Principle characteristics of the insurance market

4. PRINCIPLE CHARACTERISTICS OF THE INSURANCE MARKET

4.1 INTERNATIONAL MARKETS

Premium volume in the **global insurance market** in 2008 totaled USD 4,300 billion (2,900 billion euros), of which 59.3% corresponded to Life insurance and the remaining 40.7% to Non-Life lines. For the first time since 1980, the real variation in premium volume was negative at -2.0% (compared to 1.5% in 2007). Much of the decline came in the second half of the year as a result of the financial crisis, which had a particularly harsh effect on Life insurance, in which premium volume fell 3.5% (compared to a 5.1% rise in 2007). Production of Non-Life insurance was down 0.8%.

The performance of **Life** insurance was the result of a 5.3% decrease in industrialized countries, which was offset somewhat by strong, 15% growth in emerging economies. The financial crisis and declines on stock markets had a heavy impact on sales of unit-linked products, especially single-premium ones, which are widely accepted in European markets. In the United States, the products most affected were variable annuities (a unit-linked product with guarantees), whose premiums suffered double-digit losses. Traditional Life insurance products posted positive growth, but not enough to offset the falls in asset-linked products.

The **Non-Life** business saw a slight decrease in premiums as a result of a 1.9% decline in industrialized countries, chief among them the North America region (-2.8%), which was not compensated by 7.1% growth in emerging economies. The fall in issuance of premiums was due mainly to slacker demand for insurance, which fueled already existing downward pressure on rates.

Losses from natural disasters were significant, reaching USD 53,000 million. The United States was the country hardest hit, with hurricanes Ike and Gustav causing USD 20,000 million and USD 4,000 million, respectively. Europe endured the consequences of winter storm Emma (in March, \$1,300 million in insured losses) and tropical storm Hilal (in May, USD 1,000 million in insured losses). In China, snow and hail storms early in the year caused USD 1,300 in insured damage.

Despite these natural disasters, **Non-Life** underwriting results remained solid, with combined ratios below 100% in most countries, except the United States (105%) and Australia (104%). However, the financial result and final ROE fell drastically. The adverse results affected the solvency levels of insurance companies, although to a lesser extent than in the banking sector. Capital declined, but in general the sector had enough assets to absorb losses. Proof of this is the fact that very few companies had to seek government assistance.

The **European insurance sector**, according to data from the European Insurance Committee, posted premium volume of 1,060 billion euros in 2008, a fall of 7% in real terms, compared to a 7% increase the previous year. Sixty percent of premiums corresponded to Life insurance and the remaining 40% came from Non-Life branches.

Life insurance premiums declined 11% to 643,000 million euros, due to a fall in sales of unit-linked products, which suffered the effects of financial turmoil, and to competition from banks, which in the second quarter of the year started to offer short-term deposits with high yields.

Unlike the performance of Life insurance, premiums from Non-Life products grew 2%, a rate similar to that seen in 2007. Health insurance is the branch that brought in the most revenue from premiums (128,000 million euros) and recorded the largest growth compared to 2007 (3%), which was only surpassed by growth in Legal Defence (4%). Motor insurance, with revenue of 127,000 million euros and a market share of 31%, is the second most important insurance line in Europe. It saw a decrease of 2.0% due to stiff competition among companies and an 8% fall in registration of vehicles.

The **Spanish insurance sector** is in 11th place in the world insurance ranking by premium volume. It kept the same spot it had in 2007, although it raised its share of the global total to 2% of premium volume, as opposed to 1.8% in 2007. In Life insurance, it rose three spots to 13th place, with a market share of 1.6%. Non-Life stayed in ninth place, with a 2.6% market share.

Country	Premiums (thousand million USD)	Premiums/ inhabitant (USD)	Premiums/GDP
United States	1,241	4,078	8.7%
Great Britain	451	6,858	15.7%
Japan	473	3,699	9.8%
France	273	4,131	9.2%
Germany	243	2,919	6.6%
Italy	141	2,264	5.9%
South Korea	97	1,969	11.8%
Netherlands	113	6,850	12.9%
Canada	105	3,171	7.0%
China	141	105	3.3%
Spain	86	1,838	5.3%
Europe	1,753	2,044	7.5%
EU 27	1,616	3,061	8.3%
World	4,270	634	7.1%

Table 2. Size of the world's largest insurance markets

Source: Swiss Re

Spain remained in 25th place in the world ranking of premiums per capita, with average insurance expenditure per inhabitant of 1,255 euros (USD 1,838). This figure remained below the European average of 1,396 euros (USD 2,044). In Non-Life, average spending per capita in Spain was 682 euros, above the European average of 546 euros. In Life insurance it was the other way round, with average spending of 574 euros in Spain, compared to the European average of 850 euros.

As for insurance penetration in the economy, Spain is 27th in the world ranking at 5.3%, while in Europe it is in sixth place, behind Britain, France, Germany, Italy and the Netherlands.

4.2 THE SPANISH INSURANCE MARKET

4.2.1 MAIN INDICATORS

Production

In 2008 the Spanish insurance market saw direct insurance premium volume of 58,570 million euros, an increase of 9%, compared to a rise of 2.6% in 2007.

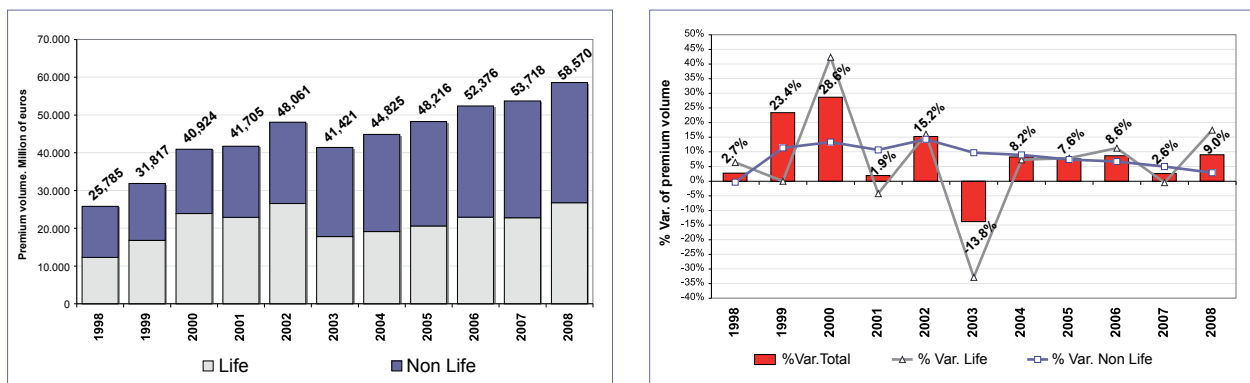


Chart 6. Evolution of the insurance market in Spain. Premium volume and variation

Source: DGSFP

The main cause of the overall growth was the extraordinary performance of the **Life** insurance business, which, in contrast with the fall seen on international markets, increased its production by 17.5% (-0.5% in 2007), with premium volume totaling 26,764 million euros. Sales of unit-linked products not only escaped the punishment they experienced in international markets, but rather increased their premium volume by 32%. Besides these, the products that did the best were by far Insured Pension Plans and Systematic Individual Savings Plans.

It is very important to note that this significant increase did not correspond to the volume of managed savings, a number which gives a more reliable picture of the Life business. Technical provisions – hit by a lack of savings incentives, competition from products offered by banks and the high level of surrenders that were carried out – reached 128,686 million euros, only 1.2% more than in 2007. Still, this modest increase stands out with respect to major declines in savings managed by Pension Funds (-8.7%), and in particular Mutual Funds (-29.8%).

Non-Life insurance, which represents 55% of premium volume, grew 2.8% (down from 5% in 2007), continuing a downward trend that has been observed since 2002. This slowdown stems largely from stiff competition in most lines, a result of the market's maturity. This competition got tougher in the second half of the year as companies realized the effects of the crisis on demand for coverage: deterioration in the coverage level (a preference for more basic guarantees, and higher deductibles) and a rise in the cancellation rate.

Million of euros

	2007	2008	%Δ s/2007	% of Total
Total	53,718	58,570	9.0%	100%
Life	22,787	26,764	17.5%	45.7%
Individual	14,624	16,788	14.8%	28.7%
Group	4,145	4,616	11.3%	7.9%
Unit linked	4,017	5,360	33.4%	9.2%
Non Life	30,931	31,806	2.8%	54.3%
Motor	12,298	12,107	-1.6%	20.7%
Third party liability	6,873	6,604	-3.9%	11.7%
Other guarantees	5,426	5,503	1.4%	9.3%
Multi-Risk	5,474	5,876	7.4%	10.0%
Househol	2,886	3,165	9.7%	5.4%
Industrial	1,219	1,306	7.1%	2.2%
Commercial Premises	625	604	-3.3%	1.0%
Condominiums	599	663	10.6%	1.1%
Others	145	139	-4.5%	0.2%
Health	5,140	5,522	7.4%	9.4%
Health	4,456	4,801	7.7%	8.2%
Care Assistance Illness	684	721	5.4%	1.2%
Third party liability	1,892	1,836	-3.0%	3.1%
Burial expenses	1,479	1,546	4.5%	2.6%
Personal accidents	949	977	3.0%	1.7%
Engineering	844	882	4.5%	1.5%
Credit	690	746	8.1%	1.3%
Trasnport	594	597	0.5%	1.0%
Hulls	303	296	-2.2%	0.5%
Goods	291	301	3.3%	0.5%
Agricultural	543	437	-19.5%	0.7%
Pecuniary losses	370	346	-6.3%	0.6%
Assistance	291	359	23.2%	0.6%
Legal defence	144	346	139.7%	0.6%
Fire	113	122	8.2%	0.2%
Surety	82	82	-1.0%	0.1%
Theft	28	25	-7.5%	0.0%

Table 3. Distribution of premium volume by classes. Written premiums, direct insurance

Source: DGSFP

In absolute terms, the Motor branch is still the one with the largest volume, with a 20.7% share of the total from all lines. The slacker demand for insurance was particularly visible in this branch, which was hard hit by the drop in sales of new vehicles (-30%) and saw its premium volume go down by 1.6%.

Multi-Peril insurance products grew 7.4%, slightly less than in the previous year, and retain a market share of 10%. One which stood out is Condominium Multi-Peril insurance with a 10.6% rise, while Commercial Premises and other Multi-Peril reduced their growth by 3.3% and 4.5%, respectively. The Health insurance line grew 7.4%, well above the average of Non-Life lines, although it was the smallest increase in 10 years. Of particular note is the per-

formance of Third- Party Liability, which, after years of posting the largest expansion in the entire sector, posted less premium volume in 2008 than it did the previous year, falling 3%.

Insurance penetration (premiums as a percentage of GDP), rose one-tenth of a point to 5.3% because insurance activity grew at a faster rate than the economy did. Insurance density (premiums per inhabitant) increased 3% as the result of two factors: the average Non-Life premium (682 euros) fell but the average Life premium rose (574 euros).

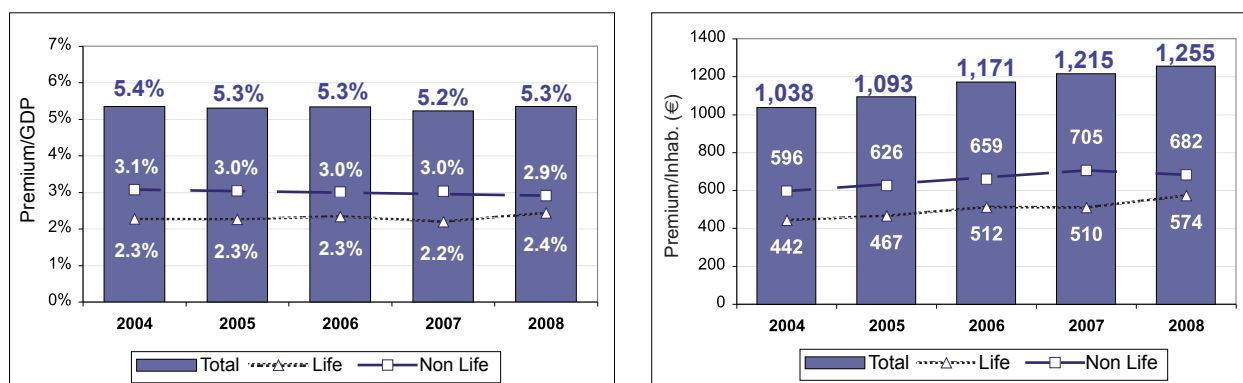


Chart 7. Penetration and Density

Source: FUNDACIÓN MAPFRE with data from DGSFP and INE

Results

While the insurance sector turned in an excellent result in 2007, it contracted 35.8% in 2008 to 3,526 million euros. This stems to a large extent from the fact that in 2008 there was no repetition of the atypical financial result seen in 2007 in the Life branch thanks to certain profits from financial investments. Leaving this effect aside, the insurance sector was not immune to international economic turbulence, which inevitably affected the Spanish financial sector, causing a clear drop in the financial margin in most lines of insurance.

In Non-Life, the result of the technical account dropped 8.2% in absolute terms, to 11% of earned premiums from 12.5% in 2007. This slimmer margin was due to the aforementioned drop in the financial margin, which in aggregate terms declined 2 points to 3.2%. The combined ratio in Non-Life insurance was 92.7%, only three-tenths of a point more than in 2007.

The sector's ROE was reasonably good at 14.5%, down 10 points from the figure corresponding to 2007 but not far from the 18% posted in 2005 and 2006.

The solvency margin was solid, and similar to the 2007 levels. The ratio of uncommitted assets over the minimum required by regulators was 2.6 for the sector as a whole in 2008. In

Results	Million of euros		
	2007	2008	% Δ
Technical account	5,826	4,264	-26.8%
Life	2,493	1,207	-51.6%
Non Life	3,332	3,057	-8.2%
Non Technical account			
Before taxes	7,225	4,717	-34.7%
After taxes	5,491	3,526	-35.8%
ROE (%)	24.7%	14.5%	

Table 4. Insurance sector results

Source: FUNDACIÓN MAPFRE with data from DGSFP

Non-Life, the quotient was 3.2 (compared to 3.4 in 2007), while in Life insurance it was 2.1 (2 in 2007).

Prospects for 2009

Data for the first quarter of 2009 (ICEA) point to growth of 1.2% compared to the first quarter of 2008. The economic context is expected to have an uneven impact on the two main segments of the Spanish insurance industry.

The **Life** insurance sector is facing a tough year due to acute instability in fixed-yield and equities markets, and above all because of aversion to risk and mistrust among final consumers of financial products. Premium growth in the first quarter of 2009 was 4.9%, while technical provisions increased 1.8%.

In the **Non-Life** sector, companies will continue to confront a drop in demand for insurance as a result of the recession in business activity and the decline in consumption. The main consequences of this contraction are stagnation or a fall in the number of insurable risks and a preference for cheaper products and coverage. This triggers a rise in the rate of cancellations, and increasingly stiff competition, with downward pressure on rates. Premium growth in the first quarter of 2009 was -1.7%. By branches, Motor insurance fell 7.3 percent because of the growing decline in vehicle registrations. Multi-Peril insurance rose 4.7%, far below the 7.4% increase posted in 2008. Health insurance also grew at a slower pace, expanding 5.7%.

4.2.2 MUTUAL PROVIDENT SOCIETIES

As with the report corresponding to 2007, we have tried to round out this look at the Spanish insurance sector by including a short summary of the activities of Mutual Provident Societies in 2008, using as a source of information the annual report by the Spanish Confederation of Mutual Insurers.

Mutual insurers handle a large amount of the capital invested in complementary pension plans in Spain, and boast more than 2.4 million members. They are private, not-for-profit insurers that act voluntarily and in a way that complements the mandatory Social Security system. They can also be an alternative to the Social Security regime that exists for self-employed persons. One special feature of Mutual Provident Societies is that oversight of how they work and are structured is up to Spain's regional governments. And it is in the regions that have passed legislation to this effect that they have grown the most, both in number and economic strength.

Mutual Provident Societies took in 2,360 million euros in income in 2008, a fall of 4.8% from the previous year. But the volume of assets under their management rose 0.7% to 28,000 million euros. If we add production from Mutual Provident Societies to that of Public Limited Companies and mutual insurers, total premium volume in the sector in 2008 was 60,930 million euros, up 8.4% from the previous year.

4.2.3 STRUCTURE OF THE MARKET

At the end of 2008, there were 296 fully operational companies in the Administrative Registry of Insurance Entities, one less than the previous year. Of the total, 204 were Public Limited Companies, 35 were Mutual Insurers, 55 were Mutual Provident Societies⁶ and 2 were specialized reinsurance companies.

Nearly 48,000 people were employed by insurance companies as of the end of 2008. Also, according to figures from the General Directorate of Insurance, in 2008 Spain had 99,000 insurance and reinsurance intermediaries, 3,000 brokers, 140 linked banking-insurance agents and operators, nearly 96,000 exclusive agents and operators and 28 reinsurance brokers.

Foreign capital in Spanish insurance companies accounted for 23.04% of the total in 2008, compared to 22.49% the previous year. Among the changes that took place, we can highlight an increase in the stakes held by companies or people from Britain, and a drop in Swedish capital. One transaction that took place in 2008 and is related to this issue was the British group AVIVA's acquisition of 45% of the shares of the insurance company CAJA MURCIA VIDA, in which it already held a 5% stake.

The number of branches of Spanish companies operating in states of the European Economic Area remained at 36, and Portugal was the one with the largest number of them. In 2008 there were 63 Spanish companies operating under the freedom to provide services, 11 more than the previous year. As for branches of foreign companies established in Spain, at the end of 2008 there were 64 from European Economic Area countries operating in Spain and two from third countries. As of that date there were 556 companies from the European Economic Area authorized up to operate in Spain under the freedom to provide services, but not all of them actually do business.

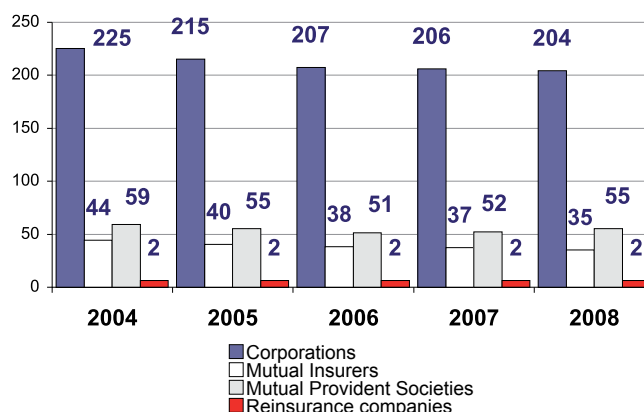


Chart 8. Evolution of the number of private insurance companies according to their legal structure

Source: Spanish Insurance and Pension Funds General Directorate

Origin of activity	Premium
Spanish companies in other EEA states	729
Freedom to Provide Services	11%
Right of establishment	89%
Companies from other EEA states in Spain	2,940
Freedom to Provide Services	57%
Right of establishment	43%

Table 5. Premiums in 2007 by activity

Source: General Directorate of Insurance

⁶ It should be noted that the Administrative Registry of Insurance Entities only features companies that operate at a national level. The rest are under the supervision of their respective regional governments. The Spanish Confederation of Mutual Provident Societies includes practically all of these companies and has 440 members.

Business moves

With regard to mergers and acquisitions in 2008, the following are worth noting:

- In 2008 CATALANA OCCIDENTE finalized the restructuring of its stakes in ATRADIUS and CRÉDITO Y CAUCIÓN. GRUPO CATALANA OCCIDENTE took control of 70.3% of the holding company GRUPO CRÉDITO Y CAUCIÓN, which in turn holds 64.2% of ATRADIUS. With this restructuring, ATRADIUS now controls 100% of CRÉDITO Y CAUCIÓN.
- In late 2008, under an agreement signed in 2007, the Spanish unit of the Dutch group AEGON exercised an option to buy 40% of the shares of CANTABRIA VIDA Y PENSIONES, an insurance company created jointly with CAJA CANTABRIA and in which AEGON already held a 10% stake.
- After SABADELL ASEGURADORA and NUEVA EQUITATIVA held their general shareholders meetings in November 2008, the acquisition of both of them by ASEFA was formalized. The transaction had already been approved by the General Directorate of Insurance.
- Under an agreement signed in 2007 with CAJA DE AHORROS DE MURCIA, in March 2008 the British group AVIVA exercised an option to purchase 45% of the shares of CAJA MURCIA VIDA. AVIVA already owned 5%, so its stake now stands at 50%.
- In May 2008 the General Directorate of Insurance authorized the partial cession of the insurance portfolio of UNICORP VIDA, in which AVIVA holds a 50% stake, to CAJA GRANADA VIDA, in which the British group holds a 25% stake.
- In 2008 ZURICH acquired 50% of the general and life insurance companies owned by CAIXA SABADELL and 50% of the units that make up BANCO SABADELL's insurance group (BANSABADELL VIDA, BANSABADELL PENSIONES and BANSABADELL SEGUROS GENERALES).
- After a process of concentration that began in 2007, FIATC and MUTUA CATALANA received permission from the General Directorate of Insurance to merge, retroactive to January 2008. The two Mutual Provident Societies signed an agreement in November 2007 under which MUTUA CATALANA became part of FIATC.

Ranking of insurance groups

For yet another year, the **total** ranking of insurance groups was led by MAPFRE with a 13.8% market share. SANTANDER rose to second place, edging out AXA, which dropped to fourth. ZURICH climbed six rungs to take third place after acquiring the insurance units of CAIXA SABADELL and BANCO SABADELL. AVIVA fell four spots to 10th place. In this case, transactions carried out in 2008 did not affect the British group's ranking because they began in 2007 and the premiums were already included in that year's accounting.

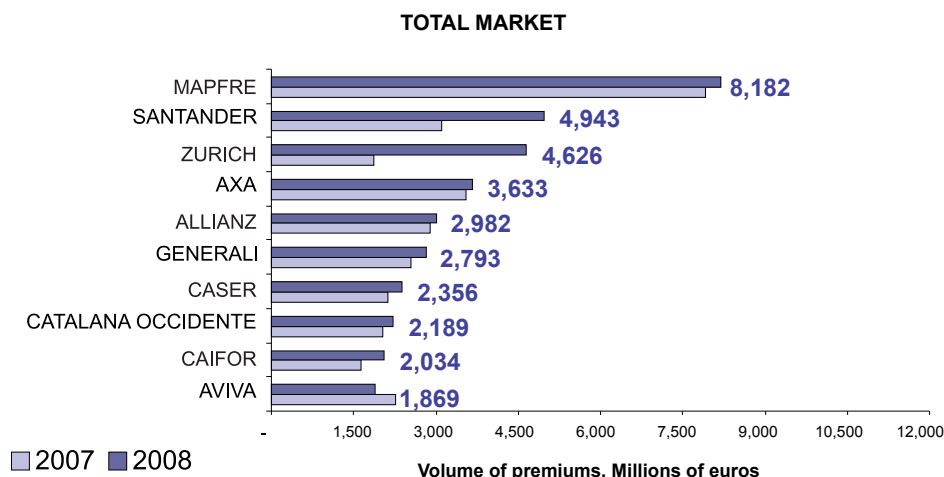


Chart 9. Ranking of insurance groups by volume of premiums

Source: ICEA

The SANTANDER group continues to lead the **Life** insurance ranking, followed by ZURICH, which took over second place from MAPFRE after adding in premiums from companies it acquired in 2008. MAPFRE moved to third place and AVIVA was fourth. BANSABADELL VIDA's joining the ZURICH group, which held fifth place in the ranking in 2007, brought the AXA group into the top 10 Life insurance groups, putting it in 10th place.

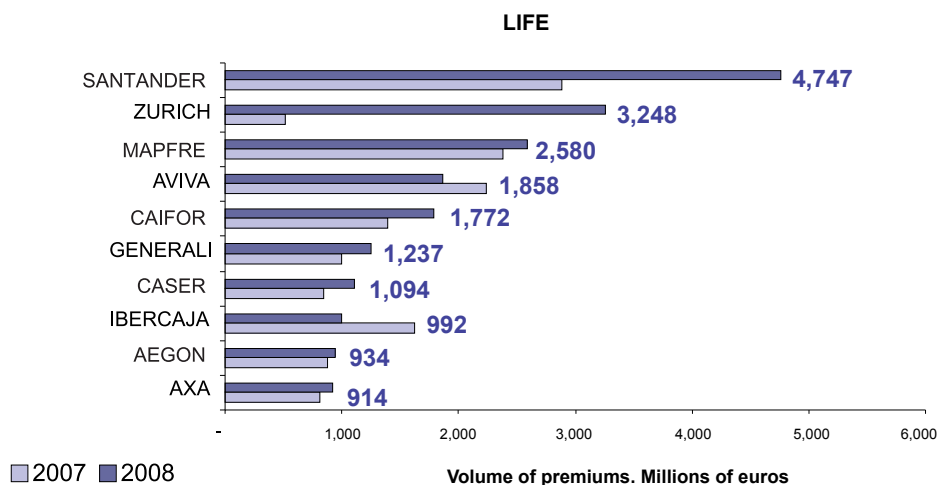


Chart 10. Ranking of insurance groups by volume of premiums. Life

Source: ICEA

Leading the top 10 in **Non-Life** insurance was MAPFRE, followed by AXA and ALLIANZ. CATALANA OCCIDENTE rose one spot to fourth place, sending GENERALI down to fifth. The rest of the positions in the ranking stayed the same as in 2007.

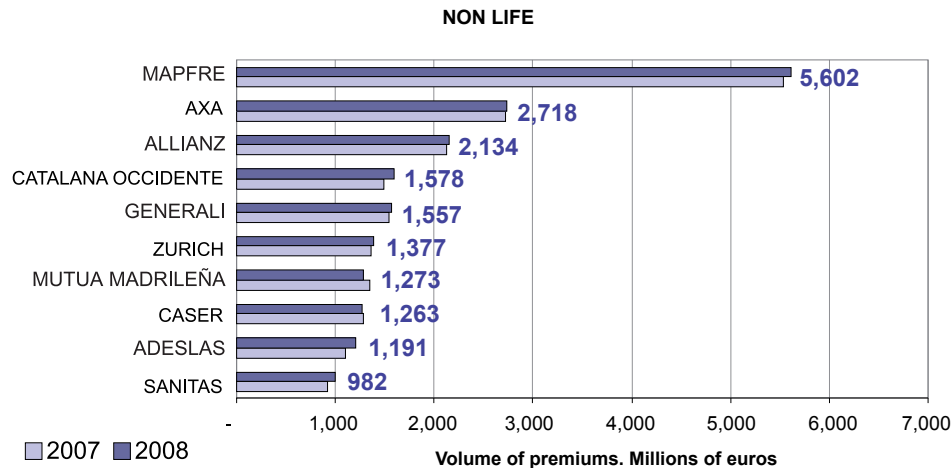


Chart 11. Ranking of insurance groups by volume of premiums. Non-Life

Source: ICEA

The ranking in **Motor** insurance hardly changed at all. MAPFRE remained on top, followed by AXA and ALLIANZ. The only changes in the ranking were in the last four spots: LIBERTY surpassed GENERALI, and REALE overtook PELAYO.

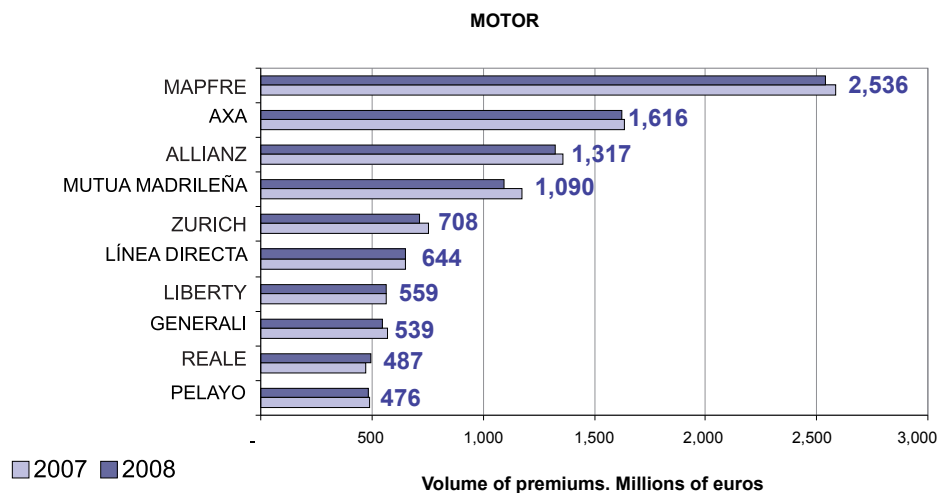


Chart 12. Ranking of insurance groups by volume of premiums. Motor

Source: ICEA

4.2.4 REINSURANCE

Since 2005, the international reinsurance market has posted reasonable underwriting results, which, along with financial results and new inputs of capital, have allowed it to offer a solid asset position. This was recognized by ratings agencies, which said the market's prospects were solid. Furthermore, a series of financial instruments were used very often (cat-bonds and sidecars) and these broadened reinsurance companies' capacity. This situation continued throughout 2006 and 2007, although at the beginning of 2008 signs emerged of stiffer competition, which heralded a decline in technical results.

The first half of 2008 was marked by results that were acceptable, both technical and from investments, as well as a drop in premiums underwritten, because of the more intense competition. However, in the second half of the year results fell off significantly, due to a combination of a greater incidence of catastrophic losses and heavy losses in investment portfolios. As for the former, there was an increase in the number and strength of hurricanes as compared to 2007 (see section 4.1). Chief among them were storms that hit several areas of the United States, causing very serious insured losses to the tune of USD 20,000 million. With regard to financial investments, there were major falls in both equities and fixed-yield products. Among other reasons, these were caused by the severe difficulties faced by some financial institutions and the clear worsening of the economic situation and macroeconomic prospects.

In summation, as 2008 came to a close, there was a change in the reinsurance market characterized by technical results remaining in percentages similar to those of previous years (4%), after the market digested major losses stemming from Hurricane Ike and other major disasters. On the other hand, companies sustained significant losses from investments, which altogether led to a strong decline in the net result (-75%), and losses in some cases, along with a fall in shareholder funds (-18%). In this kind of market, there could be greater strictness in prices and coverage terms, with varying degrees of pressure depending on the line and the geographical area. This would stem from the decline in the amount of capital available to the industry as a whole, and international companies' need to assure themselves a positive technical result that is sufficient to remunerate and strengthen their shareholder funds.

4.2.5 ACTIVITIES OF THE CONSORCIO DE COMPENSACIÓN DE SEGUROS

In this section we will address only two of the Consorcio's main activities: coverage of Extraordinary Risks and, as part of the risks associated with driving, direct insurance of Third-Party Liability for Motor Vehicles, and the Guarantee Fund (Fondo de Garantía, in Spanish).

In 2008, income from coverage of **Extraordinary Risks** rose 6.5% compared to 2007. However, even though net claims incurred fell nearly 11% to 294.2 million euros, the year can be described as adverse, with nearly 53,000 claims for compensation filed. That is the second highest since 1990, and is only surpassed by the 62,000 filed the previous year.

As was the case in 2007, the most frequent claims stemmed from floods and atypical cyclonic storms. Highlights of these were floods in Guipuzcoa in June that caused 58 million euros in losses, in Madrid in September with nearly 20 million euros, floods on the Mediterranean coast in September and October with 37 million euros, and those in western Andalusia (mainly those in Cadiz) that triggered nearly 20 million euros in losses. We must also note property damage from terrorist attacks that killed two people in Spain and two soldiers in Afghanistan, with a total cost of 24.5 million euros.

With regard to **Traffic risks** and insuring privately owned vehicles, the motor portfolio and income from premiums continue to fall. This is because insurance companies have become more flexible in their policies on underwriting risk, granting broader access to insurance for two-wheel vehicles. Sales have continued to focus on two-wheel vehicles driven by people under the age of 25 and/or who have not had their driving license for very long. As for direct insurance of government vehicles, the portfolio remains stable, with a slight increase

of 1.5% in revenue from premiums. As for the guarantee fund, collection of surcharges fell 3.8% in 2008. The loss ratio rose four points to 68.6% due to an increase in claims involving unknown and stolen vehicles.

Thousands euros

	Net earned premium		Net losses	
General activity	2007	2008	2007	2008
Extraordinary risks	632,153	675,947	326,877	294,212
Property	566,481	607,516	306,612	294,103
Persons	25,366	24,590	2,984	1,261
Loss of benefits	40,306	43,841	17,281	-1,152
Traffic risks	237,200	231,712	153,720	159,040
Guarantee Fund	197,617	195,840	104,476	113,304
Private vehicles	25,094	21,172	31,778	27,984
Official vehicles	14,489	14,700	17,466	17,752

Table 6. General activity of the CCS

Source: Consorcio de Compensación de Seguros

As part of its strategic plan, in 2008 the Consorcio continued to apply a policy of downward revision of premiums and surcharges. New surcharges on extraordinary risks went down an average of 15%. In line with this, in 2009 the surcharge designed to finance the guarantee fund for motor insurance was reduced by one-third, going from 3% to 2%. The surcharge for financing settlement activity was cut in half to 1.5 thousandths of a premium's value. Another novelty is that the Consorcio no longer serves as a guarantee fund for mandatory insurance for hunters and travelers.

In 2009, the claims ratio is expected to be much higher than in 2008 as a result of several major events, a highlight of which is cyclone Klaus, which ravaged the Iberian Peninsula Jan. 24-25 as it headed in a northwest to southeast direction. The total cost of insured damage is estimated at 610 million euros, making it the most expensive natural disaster for the Consorcio in the last 25 years.

As this report went to print, there was still disagreement between insurers and the Consorcio as to which areas the Consorcio should cover. The insurers point to the 'single event' thesis as justification for their argument that the Consorcio should accept certain intermediate areas it has not so far assumed, in such a way as to complete the path or trail of the storm as it swept over Spain. The latest criteria established by the Consorcio with regard to what coverage it will assume are summarized here:

- Those municipal areas in which there have been specific measurements of gusts of wind of more than 135 km/hour.
- Other areas in which the wind gusts are very close to that threshold and in which one can presume with reasonably high probability that they were directly affected by the storm.
- Those municipal areas in which, due to their proximity to the area described by the two earlier parameters, it cannot be ruled out that they were affected by the storm.

Finally, it should be noted that in June 2009, UNESPA and the Consorcio signed a reinsurance agreement concerning credit insurance. It is designed to revitalize and encourage the granting of credit in the Spanish business sector. The accord has been endorsed by four of the five main companies in this line of business: CRÉDITO Y CAUCIÓN, CESCE, COFACE and MAPFRE.

4.2.6 SOLVENCY II

Throughout 2008, work continued on the project to reform the rules governing insurance companies, a plan known as Solvency II. The Fourth Quantitative Impact Study, or QIS4, was carried out, with participation from 112 companies (four more than in QIS3) that hold a combined market share of 77%.

The results of QIS4 were presented in November. In general, the figures obtained were more reasonable than in the previous study, although it became clear that it is necessary to keep working in this area. The main conclusions of the study are these:

- Available capital: the main difference in the evaluation of the balance sheet under Solvency II as opposed to Solvency I is the increase seen, on average, in the weight of shareholder funds in the makeup of that bottom line. This can be explained by the reclassification of the equalization provision (it is no longer a technical provision) and by the method used to calculate technical provisions, which involves specifying the margin of risk taken on.
- Capital requirements: the results obtained show a solvency level of 177%, which means that the sector as a whole would have sufficient resources to address changes in regulations. The figure is lower than the one associated with the current system (Solvency I) but significantly better than in the previous study, QIS3 (138%).
- Internal models: 25% of the companies that took part in the study have and use an internal model to improve risk management, although in 70% of these cases it is a partial model. A total of 36.5 percent of the companies said they are considering using such models in the future.

QIS4. Available capital/Capital requirement				
	Life	Non Life	Mixed	Total
Solvency I	148%	251%	343%	261%
QIS3	131%	137%	158%	138%
QIS4	170%	178%	176%	177%

QIS4. SCR breakdown (% over total)				
	Life	Non Life	Mixed	Total
BSCR	109%	97%	99%	
Market	72%	53%	54%	58%
Credit	0,3%	5%	1%	2%
Underwriting				
Life	53%	-	19%	23%
Non Life	-	65%	51%	43%
Health	-	11%	3%	4%
Diversification	-25%	-36%	-28%	-29%
Operational Risk	10%	8%	6%	
Adjustment*	-18%	-6%	-5%	

* Adjustment for profit sharing and deferred taxes

Table 7. QIS4. Solvency level and SCR breakdown

Source: DGSFP

The next impact study, QIS5, is scheduled for 2010. In the meantime, the Spanish insurance sector has decided that over the course of 2009 companies will fill out the QIS4 questionnai-

re again, this time with figures corresponding to the close of 2008 (this initiative is known as "QIS4 BIS").

After being in the works for more than seven years, the proposed Solvency II directive was approved by the European Parliament on 22 April, 2009 and at a meeting of European Union finance ministers (ECOFIN) on 5, May, 2009. It must be incorporated into Spanish law by 31 October, 2012.

5. Most notable features of the year by classes

5. MOST NOTABLE FEATURES OF THE YEAR BY CLASSES

5.1 LIFE

In 2008, Life insurance posted direct insurance premium volume of 26,764 million euros, which marks a big increase of 17.5% over the previous year. However, this apparently positive result was offset by the less favorable performance of managed savings. This was hit hard by a lack of incentives for savings, competition from products offered by banks and the high level of surrenders that were carried out. The volume of managed savings rose just 1.2% to 128,686 million euros.

Still, it must be noted that in 2008 Life insurance enhanced its role in the savings-pension industry in Spain. Its modest growth stands in contrast to significant declines in savings managed by Pension Funds (-8.7%) and in particular by Mutual Funds (-29.8%), which represents an asset decline of more than 71,000 million euros in just one year).

Millions of euros

Class	Premium		Provisions	
	2008	% Var.	2008	% Var.
Individual	16,738	13.8%	68,674	2.7%
Group	4,602	10.4%	46,750	-1.8%
Unit Linked	5,344	32.3%	13,262	4.5%
Risk	4,127	-7.8%	7,486	1.1%
Savings/Retirement	22,557	22.3%	121,200	1.2%
Total	26,684	16.4%	128,686	1.2%

Note: the premium data are slightly lower than those in Table 3 because there is no sector-by-sector breakdown total available for the entire sample.

Table 8. Composition of Life insurance by class. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Without a doubt, 2008 will go down in economic history as one of the toughest ever. The complex scenario brought on by the international financial crisis (uncertainty, a lack of confidence, collapse of equities markets, fluctuation of credit differentials, etc.) led to poor economic performance and discouraging prospects both for the development of many sectors over the short term and companies particularly hard hit by the crisis.

However, it must be noted that in a context of great difficulties, as in the current one, the Spanish insurance sector has not seen its high levels of solvency jeopardized, and at the same time it has held its own against stiff competition from banks and building societies.

As for Life insurance penetration, at the end of 2008 there were more than 32.9 million policyholders, a rise of 3.2%, identical to the increase seen in 2007.

Categories

By category, insurance with strictly death coverage still accounted for more than two-thirds if all policies, with 23.4 million policy-holders. Although the performance here was positive, in 2008 the rate of growth declined again (2.5% compared to 7% the previous year) as a

result of the major drop in the real estate market and the smaller number of transactions stemming from home purchases.

Unlike the previous year, lines involving **savings/retirement** plans posted a major 22.3% increase in the volume of premiums issued. The products that sold best were without a doubt Insured Pension Plans (PPAs in Spanish), Systematic Individual Savings Plans (PIAS in Spanish), and asset-linked plans in which the policy-holder assumes the risk of whether the product will be profitable.

Insured Pension Plans registered growth of nearly 300%, with managed savings in this category rising to 3,355 million euros. The main reasons behind this stellar performance are the significant loss in the profitability of pension plans in the individual system, plus the PPA's lure as a product that can guarantee a determined yield regardless of what the financial markets do.

So we are seeing a consolidation of this sort of option in a context of mistrust toward products offering a variable yield. In fact, at the close of 2008, more than 355,000 had chosen this kind of product to save for retirement.

At the same time, the Systematic Individual Savings Plans – they provide a tax-deductible yield and are conceived to channel savings over the long term – have also become more appealing to investors, with 1,176 million euros in managed savings and growth of more than 101% over the previous year.

Asset-linked insurance policies, mainly unit-linked, saw their premium volume go up 32% (technical provisions grew 4.5%), although their rise was caused by the temporary role played by bancassurance entities.

Traditional deferred-capital and savings-investment policies saw their premium volume fall nearly 10%, with managed savings down 5.9%. Still, along with Annuities, they are Spain's mostly deeply rooted insurance product, as seen in their 45,502 million euros in provision volume (data from ICEA).

Meanwhile, if we break Life insurance down into individual and group, growth in individual policies should be noted, with provisions up 2.7%. Group life insurance fell 1.8%, even though premium volume rose 10.4%. This stems in part from a high number of benefits registered during the year in group products.

Finally, it is worth noting that Spanish insurance companies did not perform in the same way, both in terms of rates of growth and commercial strategy in the various products they offer.

Pension Plans and Funds

Pension plans finished the year with a volume of managed assets of 78,407 million euros, a decline of 8.7% with respect to 2007. The number of pension plan members rose to 10.6 million, which marked an increase of 2.3%, with employment system plans performing best.

Still, 2008 was the first year in which this sector showed a clear downward tendency, with a deceleration in the number and size of contributions. This stems from the funds' negative yield.

With Individual pension plans, we should mention the predominance of those involving funds with a low risk profile. For instance, short- and long-term fixed-yield funds saw their assets grow 83% and 24% respectively, while those that were mixed or involved equities dropped 28% and 50%. Finally, there was a greater concentration of this business among major fund managers.

Mutual Funds had what we might term an *“annus horribilis”*. Stiff competition from high-yield bank deposits, the fall in stock markets and their extreme volatility, and a crisis of confidence among investors made for a discouraging panorama for this industry, which ended the year with an asset decline of 29.8% (equivalent to 71,000 million euros) and a loss of more than 2.1 million participants. Managed assets fell to 167,655 million euros, a figure similar to that which existed at the beginning of this decade.

Of the different kinds of mutual funds, none managed to retain their asset volume, except for Fixed-Income Guaranteed Funds with an increase of 26.8%. The rest all posted a net negative balance, from the 7.5% drop seen in long-term fixed-income funds to the 63-64% plummet of variable-yield or international funds.

Prospects for 2009

2009 is shaping up as a difficult year for the sector due to major instability in fixed-yield and equities markets and, above all, continued high levels of mistrust, aversion to risk and uncertainty among final consumers of financial products. Furthermore, this financial context is accompanied by a challenging economic setting, one that is characterized by an intensification of tendencies to contract, high levels of unemployment, large government deficits and a pronounced downward trend in the mortgage market.

The insurance business is not immune to this situation. However, one can expect that the foreseeable normalization of the yield curve, the proven solvency of insurance companies, weaker competition from bank deposits, a greater propensity to save and the sector's ability to bring in innovative products with guaranteed yields will lead the market to perform in a positive way.

As for risk insurance, tighter credit terms for families will take a toll on insurance associated with such loans. But new business strategies will emerge so companies can benefit from products not linked to loans or credit.

With regard to savings-investment products, uncertainty over which way the economy will go and over financial markets will cause people who are looking to save to opt for products with guaranteed interest and ones that are structured with appealing yield formulas. In line with this, all signs are that Insured Pension Plans will once again post significant increases in issuance volume and managed savings, becoming a clear alternative to pension plans and an important tool for drawing business away from them.

Meanwhile, developing the business related to long-term savings and older people will consolidate the role of Systematic Individual Savings Plans and different kinds of annuity insurance. However, Dependency insurance will probably have to wait for their excellent future prospects to come to fruition.

Pension plans will go through another rough year. Their lack of liquidity, the lure of other products like Insured Pension Plans and their small balance volumes or net contributions mean that 2009 will probably again see zero asset growth. As for the different kinds of plans, as is the case with mutual funds, fixed-income ones will do best.

Finally, as for Mutual Funds, 2009 will remain difficult, although it will not be as bad as 2008, when they touched bottom. The kinds of funds that might perform the best are the fixed-income and guaranteed ones. But mixed funds and those involving equities will have to wait for stock markets to consolidate and recover.

5.2 MOTOR

Premium volume totaled 12,107 million euros, a decline of 1.6% compared to the previous year, when the figure rose 2.3 percent. This fall was due in large part to lower demand for insurance, which is closely linked to the state of the economy.

- The total number of vehicles saw its growth slow 2.4 percent (compared to 4.4% in 2007) as a result of a 30% fall in registrations and a smaller number of cars being withdrawn from use, which causes the average vehicle age to rise. The number of insured vehicles increased 1.7%, according to FIVA (compared to 4.7% in 2007).

- The level of exposure to risk went down. One indication of this is the fact that fuel consumption was off 3.4% in 2008. A lower level of vehicle usage carries with it slacker demand for coverage.

These circumstances, along with a decline in families' disposable income, led consumers to seek out more affordable products and coverage. Purchases of comprehensive policies fell: the percentage of policies with own damage coverage was 32.3% percent (33.8% in 2007); and there was a rise in policies with deductibles: 39.6% of policies with own damage coverage, compared to 35.6% the previous year. The percentage of policy cancellations declined over the course of the year, especially among second- and third-category vehicles, and this decline was even more pronounced in the last quarter of the year. 2008 ended with a cancellation rate of about 20%⁷. All of this caused a decline in the level of protection per policy.

As demand fell, competition became stiffer and this was seen in the following ways:

- The rise in rates leveled off, and this became clear in a nominal fall of 3.4% in the average premium per vehicle, to 420 euros. There was a significant drop in third-party liability coverage, and the explanation for this is mainly a decline in the frequency of claims in TPL personal injury.

Another factor that may have contributed to the fall in the average premium was pressure from companies with fleets of vehicles. Because of the weak economy, they renegotiated their coverage to get cheaper insurance rates.

- A strengthening of marketing campaigns designed to lure a greater volume of business, mainly by lowering rates (with dubious backing from technical parameters in some cases).

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	2.3%	-1.6%
Retention	90.2%	90.3%
Gross claims ratio	73.9%	73.7%
Gross expenses ratio	18.7%	18.3%
Operating costs	17.7%	18.0%
Net claims ratio	75.4%	74.7%
Net combined ratio	94.2%	93.7%
Financial result	6.9%	3.7%
Technical -Financial result	11.9%	10.1%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 9. Basic indicators for Motor insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

⁷ Figure obtained from the quarterly DEC (fourth quarter of 2008), using Model 7, page 4-2, on sufficiency monitoring of the technical provision for benefits.

- More activity by companies that engage in direct sales. Their overall growth was 1.5% (as opposed to a 1.6% decline by the sector in general), and their premium volume in 2008 was just over 1,100 million euros, which represents a market share of 9.1%.

Year	Insured vehicles (1)		Premiums. Direct insurance (2)		Average premium		
	Million	% Var.	Million €	% Var.	€	% Variation	
						Nominal	Real
2000	21.7	3.0%	7,996	17.9%	368	14.5%	10.0%
2001	22.0	1.1%	8,808	10.1%	401	8.9%	6.1%
2002	22.4	2.0%	9,834	11.7%	439	9.4%	5.2%
2003	23.3	4.2%	10,456	6.3%	448	2.1%	-0.5%
2004	24.6	5.4%	11,161	6.7%	454	1.3%	-1.8%
2005	25.7	4.7%	11,558	3.6%	449	-1.1%	-4.6%
2006	27.1	5.2%	12,066	4.4%	445	-0.8%	-3.4%
2007	28.3	4.7%	12,337	2.2%	435	-2.3%	-6.2%
2008	28.8	1.7%	12,127	-1.8%	420	-3.4%	-4.8%

(1) FIVA

(2) Direct insurance premium from insurance companies, plus premiums from the Consorcio

Table 10 . Evolution of average Motor premium

Source: FIVA, DGSFP, Consorcio de Compensación de Seguros and FUNDACIÓN MAPFRE

Despite all of this, the sector's earnings were positive, although slightly off from the previous year. The technical-financial result was 10% (12% in 2007), mainly as a result of the 3-percentage-point fall in the financial result. However, the technical result improved, with a decline of nearly half a point in the combined ratio, which was 93.7%.

The number of claims filed in recent years has been favored by enhanced highway safety measures, which has led to a drop in the frequency of claims (in 2008 they rose only in own damage). This is particularly relevant in TPL personal injury because of its high average cost.

Guaranty	Frequency (%)			Average cost (euros)		
	2007	2008	% Dif.	2007	2008	% Var.
Third-party liability	11.6%	10.6%	-1.0%	1,784.8	1,804.8	1.1%
Bodily injury	2.2%	2.1%	-0.1%	5,605.5	5,337.1	-4.8%
Property	10.3%	9.3%	-1.0%	812.9	841.1	3.5%
Own damage	36.1%	36.9%	0.8%	936.4	959.3	2.4%
Broken Windows	7.6%	7.3%	-0.3%	264.1	269.0	1.9%
Theft	1.7%	1.6%	-0.1%	899.9	1,078.4	19.8%
Legal defense	2.6%	2.3%	-0.3%	288.5	274.1	-5.0%
Ocupants	0.3%	0.3%	0.0%	1,927.8	1,815.3	-5.8%
Fire	0.08%	0.07%	0.0%	4,095.1	5,201.1	2.2%
Revocation of driven license	0.03%	0.04%	0.0%	941.1	1,118.3	2.2%

Table 11 . Average frequencies and costs by coverage class

Source: ICEA

As for average claim cost, the Theft category stands out with a 20% increase, due mainly to a higher frequency of Total Theft. The increase stems from a combination of several factors:

on one hand, commercial pressure, which causes a certain degree of laxness in verifying the risk levels of people buying insurance; also, the economic situation, which leads to more unemployment and thus a higher crime rate, and an increase in fraudulent claims of theft or fire, especially among expensive vehicles.

The average cost of the own damage guarantee rose 2.4%, mainly as a result of an increase in repair costs, which was at the same time affected by higher costs for materials and spare parts derived from oil⁸.

However, average claims costs for TPL personal injury, Legal Defence and Occupants went down about 5%. In the rest of the categories, the increases did not surpass 3.5%.

A stable claims frequency and a moderate rise in average costs led to an increase of nearly three points in the percentage of benefits paid out (on premiums, net of reinsurance). But this increase was offset somewhat by a nearly four-point decline in the technical provision for benefits (which means less expenses), especially in third-party liability. So in the end the loss ratio was 74.7%, seven tenths of a point lower than in 2007.

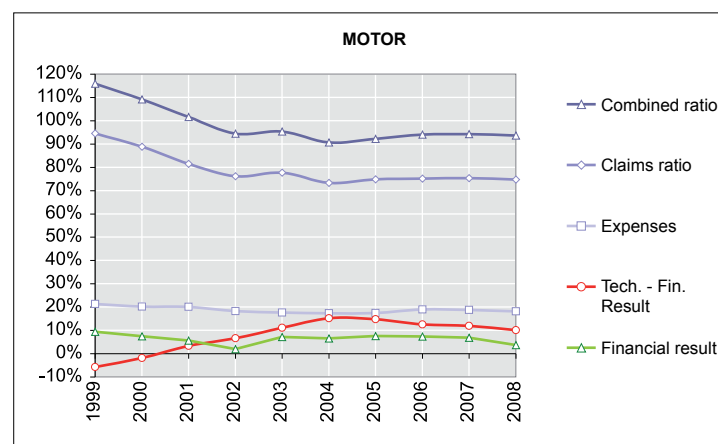


Chart 13. Evolution of results of Motor Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

As far as other indicators are concerned, the gross operating expense ratio rose three tenths of a point to 18%, although the total ratio of expenses net of reinsurance improved half a point, to 18.2%.

Other relevant information

On 1 January, 2008 Law 21/2007 came into effect. It amended the Law on Third-Party Liability and Insurance in the Driving of Motor Vehicles, which introduced important changes in the configuration of third-party liability stemming from driving motor vehicles and the insuring of them.

⁸ According to the National Statistics Institute, the annual rate of inflation for the sub-classes "Spare Parts and Maintenance Accessories" and "Maintenance Services and Repairs" was 4.6% and 4.8%, respectively.

Aspects related to mandatory insurance have been regulated in Decree 1507/2008, which approved the Regulation on Mandatory Third-Party Liability Insurance for Motor Vehicles in Sept. 2008.

In terms of coverage under mandatory insurance, the regulation spells out in greater detail the concepts of “the act of driving” and “motor vehicle”. It also establishes compensation levels in application of the coverage amounts of mandatory insurance that were set in Law 21/2007 (maximum coverage for property damage set at 15 million euros per claim, and 70 million euros per claim in cases with personal injury, regardless of the number of victims). When there are both personal injury and property damage and compensation for them surpasses the established amount, the difference will be compensated by drawing on what would remain after the personal injury damages are paid, up to the established limit.

Prospects for 2009

There are no signs that the current situation is going to change. It is characterized by a drop in rates and thus premium volume, and a gradual worsening of results.

Data for the first quarter of 2009 (ICEA) show a year-on-year variation of in premium volume of -7.3%, as opposed to a 1.4% increase the previous year. However, in the second quarter the measures taken by the Spanish government to stimulate the automobile industry (Plan 2000E, which has been in force since 18 May), along with a generalized policy by manufacturers to offer discounts, seem to be having a positive effect on sales of vehicles and thus on sales of motor insurance policies.

As for first quarter results, the technical-financial result came in at about 10%, a figure similar to that of the close of 2008, but far below the 15% posted in the first quarter of 2008. The combined ratio was 95% (92.3% in the first quarter of 2008). The financial result was 5.2% (compared to 8.2% in the first quarter of 2008).

In the current economic context, one expects a rise in the frequency of theft coverage, both total and partial, and this will lead to a rise in the loss ratio.

Finally, we should note two measures that will lower premiums:

- As of 1 July, 2009, a reduction was made in the surcharge that is paid to the Consorcio de Compensación de Seguros for financing its functioning with regard to mandatory third party liability insurance ⁹. The surcharge was cut by one third, and was set at 2% of the commercial premiums of this mandatory insurance.
- As of 4 August, a reduction was also made in the surcharge designed to finance the settlement activity of insurance companies, taking it from 0.3 percent to 0.015 percent. This measure was approved in Law 21/09 on 3 July.

As for the modification of the system for assessing damage caused to persons in traffic accidents, a change which will be reflected in Mandatory Motor Insurance rates, this is not expected to take place in 2009.

⁹ These activities are to pay for claims stemming from vehicles which are unknown, uninsured, stolen or insured by companies that are in receivership.

5.3 MULTIPERIL

Despite the slowdown in the real estate sector, which began in the second half of 2007, the market posted major growth in 2008. The Multi-Peril line had premium volume of 5,876 million euros, an increase of 7.4%, compared to a 7.6% rise the previous year. The Home, Condominium, and Industrial classes saw growth that was above the average for Non-Life branches as a whole, while Commercial Premises and Other Multi-Peril insurance decreased.

A total of 54% of premiums corresponded to Home products, followed by Industrial (22%), Commercial Premises (10%), Condominium (11%), and Others (2%). The growth figures for 2008 were 9.7% for Home, 7.1% for Industrial, -3.3% for Commercial Premises, 10.6% for Condominiums and -4.5% for Other Multi-Perils.

The technical-financial result remained stable, at about 10%. The financial result fell, as was the case in the rest of the branches. But this was offset by an improvement in the combined ratio, which went down nearly two points to 92%. This was due to improvements in both the loss ratio and the expense ratio. By class, one highlight is the recovery seen in Industrial Multi-Peril insurance, the result of which had gone down significantly in 2007. On the negative side, we should note the fall in results for Commercial Multi-Peril, as a direct consequence of a decline in the average premium. This stemmed from competition and increase in the frequency of theft.

Prospects for 2009

Data from the first quarter of 2009 show year-on-year premium growth of 4.7%, nearly three points below the figure for all of 2008 (7.4%) and also below the 7% expansion seen in the same period of the previous year.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	7.6%	7.4%
Retention	81.6%	81.3%
Gross claims ratio	63.6%	60.6%
Gross expenses ratio	29.5%	28.9%
Operating costs	28.4%	27.8%
Net claims ratio	63.1%	61.8%
Net combined ratio	93.8%	92.0%
Financial result	4.6%	2.8%
Technical -Financial result	10.5%	10.2%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 12. Basic indicator for Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

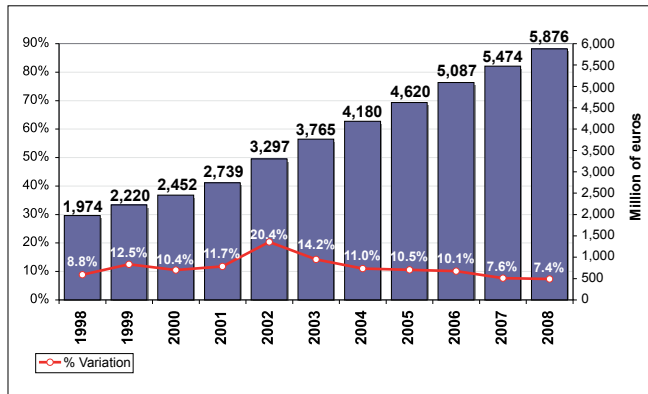


Chart 14. Evolution of Multi-Peril insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

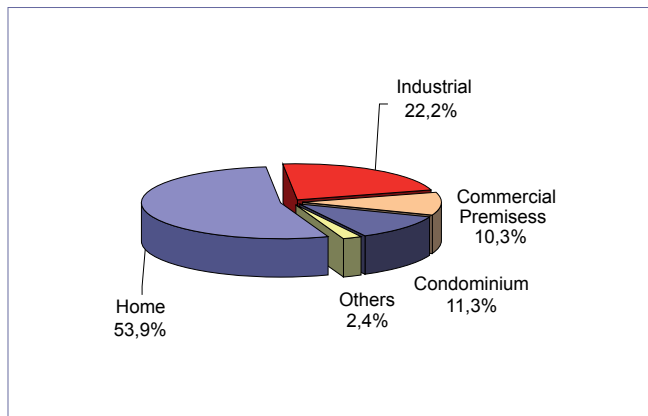


Chart 15. Distribution of Multi-Peril premiums by class of insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

The net result in the first quarter was negative, at -19%, as a result of a rise in claims stemming from Klaus (see section 4.2.5), the atypical cyclonic storm that hit the north of the Iberian peninsula from 23-25 January. It should be noted that much of the damage was transferred to reinsurance, so the net result is -1.3%.

5.3.1 HOME MULTI-PERIL

Home multi-peril insurance posted premium volume of 3,165 million euros, an increase of 9.7 percent. The number of policy-holders grew 2%, and the policy lapse rate was about 13%.

As in the previous year, the level of home insurance was estimated at 68 percent of all homes listed on property registries.

As for coverage, companies continued to offer new services such as assistance via computer, or medical telecare. This is a trend that was observed in the previous year and continues in the current one. As for novelties in 2009, there are new kinds of coverage which guarantee that policies will remain in force even when the holder is unemployed and cannot pay the premiums. Also worth noting is that some companies are incorporating bonus-malus systems of setting rates.

As for sales outlets, there was a significant drop in production by bancassurance. This was a result of a decline in the number of mortgages granted by banks and thus the number of insurance policies associated with such loans.

The technical-financial result slipped one point to 9.6% because of a decline in the financial result, which was offset partially by an improvement in the combined ratio. This was attributable to a fall in expenses.

5.3.2 INDUSTRIAL MULTI-PERIL

Industrial Multi-peril posted premium volume of 3,165 million euros, a rise of 7.1%. The number of policies grew by 9%, and the policy lapse rate was 18%.

The technical-financial result saw a major increase to 14.5% as a result of the recovery of the combined ratio, which in 2007 had gone above 100%. That was rare. So the loss ratio fell 15 points to 60.4%, while the net expense ratio also came down, to 25.3%.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	7.9%	9.7%
Retention	93.1%	91.9%
Gross claims ratio	59.0%	59.2%
Gross expenses ratio	32.7%	32.2%
Operating costs	31.6%	31.1%
Net claims ratio	59.8%	60.3%
Net combined ratio	92.7%	92.4%
Financial result	3.4%	2.0%
Technical -Financial result	10.7%	9.6%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 13. Basic indicators for Home Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	8.0%	7.1%
Retention	54.4%	56.7%
Gross claims ratio	76.5%	59.7%
Gross expenses ratio	24.0%	22.6%
Operating costs	22.9%	21.7%
Net claims ratio	75.6%	60.4%
Net combined ratio	103.9%	87.4%
Financial result	7.5%	5.0%
Technical -Financial result	2.6%	14.5%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 14. Basic indicators for Industrial Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.3.3 COMMERCIAL PREMISES MULTI-PERIL

Premium volume was 604 million euros, a decline of 3.3% ¹⁰from the previous year. The number of policies fell 0.3% and the policy lapse rate was around 22%.

The closure of many businesses because of the economic crisis reduced the amount of insurable risk, causing companies to compete more in a significantly smaller market. The immediate consequence was a drop in rates, either to hold on to existing policies or issue new ones. So rates for both are coming down.

As for new kinds of coverage that are emerging, here the situation is similar to that of Home Multi-Peril insurance.

The technical-financial result plummeted from 14.7% to 2.3%, one of the worst performances of recent years. The main reason was a significant rise in the loss ratio, which increased nine points in net terms. This might stem from the aforementioned rate reduction, along with a major increase in claims frequency, especially in coverage of theft. Another factor in the worsening of this result was a 1.5-point rise in the expense ratio, as well as a fall in the financial result.

The highest number of claims and the highest claim volume continue to come from bars and restaurants.

5.3.4 CONDOMINIUM MULTI-PERIL

Premium volume rose to 663 million euros, which marked growth of 10.6%, the highest of any class of Multi-Peril insurance.

Condominium Multi-Peril insurance was also affected by the economic crisis, but its performance was much more stable than that of Commercial Premises, with no major differences compared to 2007.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	5.8%	-3.3%
Retention	84.6%	83.9%
Gross claims ratio	60.0%	66.8%
Gross expenses ratio	29.9%	31.3%
Operating costs	28.9%	30.4%
Net claims ratio	61.3%	70.0%
Net combined ratio	90.8%	101.0%
Financial result	5.6%	3.4%
Technical -Financial result	14.7%	2.3%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 15. Basic indicators for Commercial Premises Multi-Peril Insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

¹⁰ This figure differs substantially from that provided by the ICEA, which reports growth of 4.5% for 2008.

The technical-financial result came down slightly from the previous year due to a smaller financial result, which fell by one-half. The combined ratio improved three-tenths of a point to 88.7%, which was favored by a half-point improvement in the loss ratio.

The coverage class with the highest claims frequency continued to be water damage. Buildings between 31 and 40 years old are those which cause the largest number of claims and the highest average claim cost.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	8.3%	10.6%
Retention	85.1%	86.6%
Gross claims ratio	61.4%	61.2%
Gross expenses ratio	26.3%	26.3%
Operating costs	25.2%	25.2%
Net claims ratio	63.1%	62.6%
Net combined ratio	89.0%	88.7%
Financial result	5.4%	2.7%
Technical -Financial result	16.4%	13.9%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 16. Basic indicators for Condominium Multi-Peril Insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Historical results series

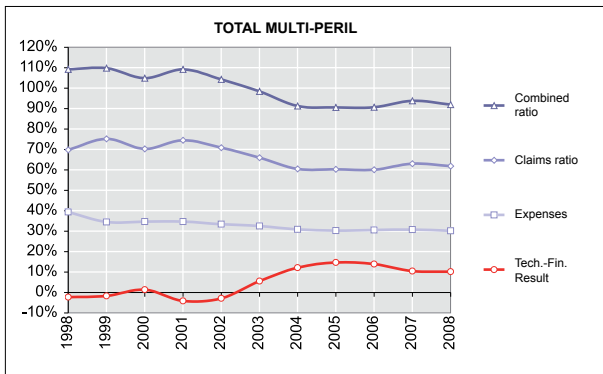


Chart 16. Evolution of results in Multi-Peril insurance. % of net earned premiums

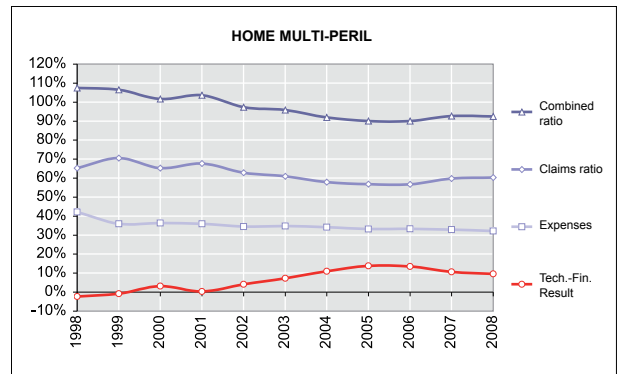


Chart 17. Evolution of results in Home Multi-Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

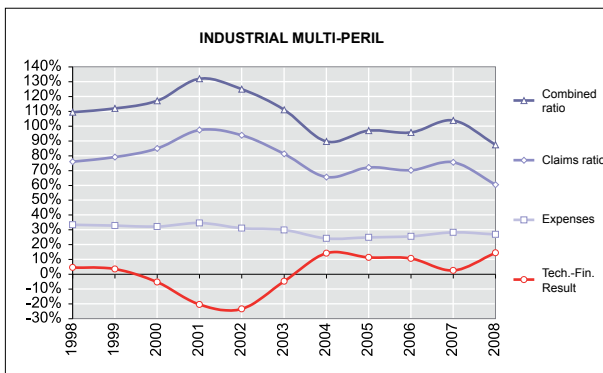


Chart 18. Evolution of results in Industrial Multi-Peril insurance. % of net earned premiums

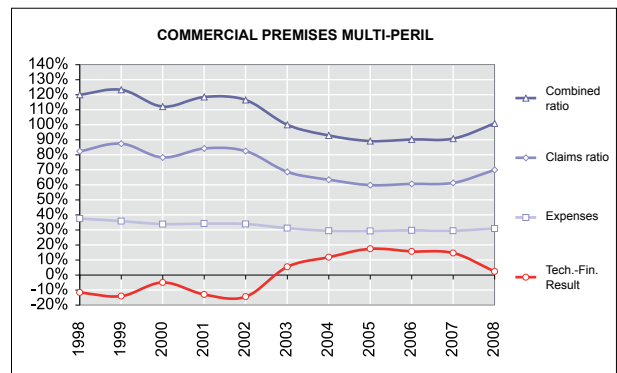


Chart 19. Evolution of results in Commercial Premises Multi-Peril Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

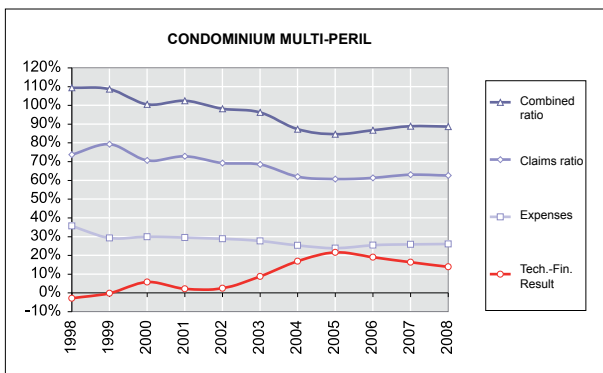


Chart 20. Evolution of results in Condominium Multi-Peril Insurance. % of net earned premiums

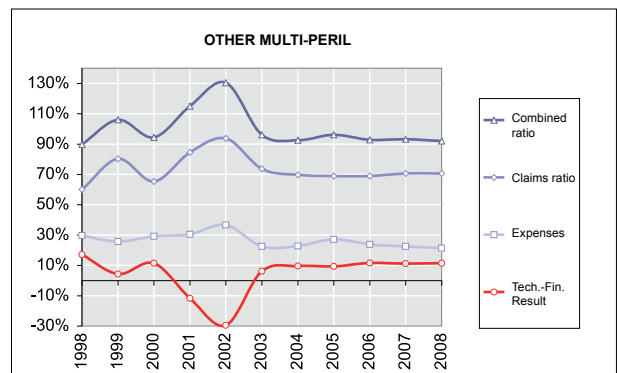


Chart 21. Evolution of results in Others class of Multi-Peril Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.4 HEALTH

In 2008, the Health insurance class registered premium volume of 5,522 million euros, a rise of 7.4%, which was well above the average for Non-Life branches. But it was the lowest growth rate in the past 10 years, during which the average was 9-10%. The number of policies increased 5.9%, and the policy lapse rate was 14%.

The slower growth stems from the joint effects of the following factors:

- A very mature market characterized by the co-existence of private health care insurance along with the National Health Care System, which is universal and free. This double coverage means that in tough economic times like the current ones, families can come to see private health insurance as something they can do without.
- Stagnation in the total number of people insured, which in the case of Health insurance is 8 million (ICEA). That represents 17% of the Spanish population.
- The spread of group policies, which provide tax advantages and are sold at much lower rates. This is causing people to shift from individual to group policies (in 2008 they grew 15% as measured in premiums.)

The sector is highly concentrated, with the top five companies controlling a 64% market share. Coverage is divided mainly among Providing of Services, (95% of premiums), which in turn breaks down into Health-care Assistance (86%) and Reimbursement of Expenses (9%). The rest are Accident or Benefits policies.

Over the course of last year, the supply of insurance products sought to adapt to the needs of specific population groups as companies designed more modular products and ones with deductibles. Furthermore, as is usually the case, products have incorporated new benefits, such as: assisted reproduction, stem cell conservation, reimbursement of adoption costs,

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	9.5%	7.4%
Retention	98.3%	98.5%
Gross claims ratio	81.0%	82.4%
Gross expenses ratio	12.1%	11.5%
Operating costs	10.9%	10.7%
Net claims ratio	81.8%	83.2%
Net combined ratio	93.7%	94.7%
Financial result	1.5%	1.2%
Technical -Financial result	7.8%	6.4%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 17. Basic indicators for Health insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

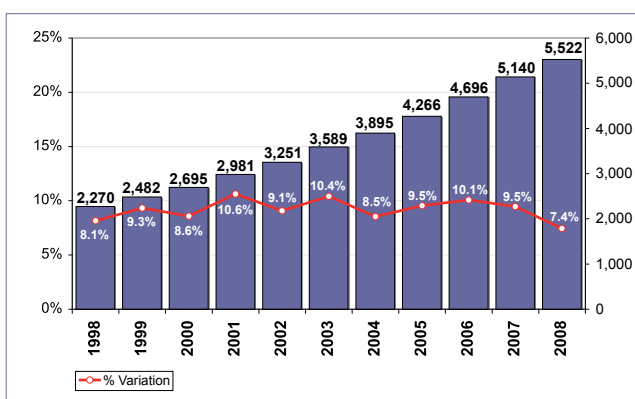


Chart 22. Evolution of Health insurance. Written premiums. Direct insurance.

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

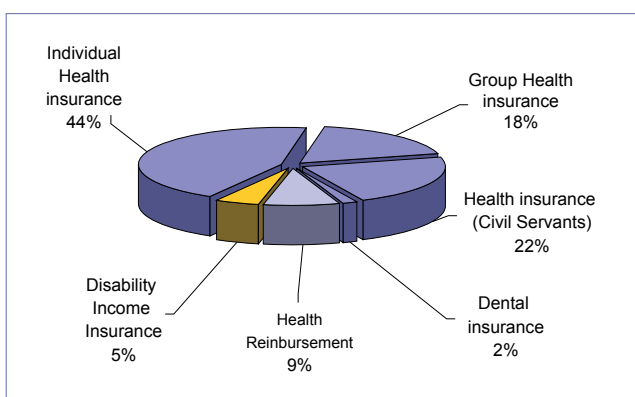


Chart 23. Distribution of Health by class of insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

refractive surgery and complementary therapies (acupuncture, osteopathy, homeopathy, psychological counseling, etc.). High hopes for the development of **dependency insurance** were dampened by the economic slowdown and the limited tax advantages offers by these kinds of insurance.

The average premium for Providing of Services insurance (Health-care Assistance and Reimbursement of Expenses) was 631 euros, up 3.6% from the previous year. The premium for Benefit insurance rose 2.9% to 177.5 euros (one must keep in mind this figure is not entirely representative, given the broad variety of products and rates that are marketed in this category.) The average price of dental insurance went up 3.3% to 58 euros.

As with most Non-Life branches, the Health result suffered in 2008 due to a lower financial result and a worsening of the technical result. The combined ratio continued the trend it began the previous year and rose one point to 94.7%, as a result of two opposing movements: the loss ratio increased 1.5 points, while expenses fell half a point.

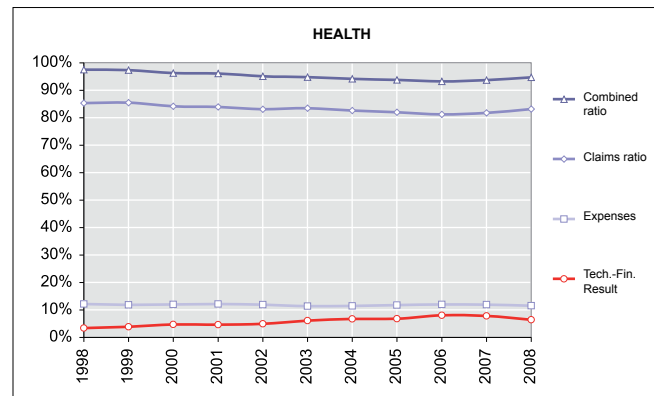


Chart 24. Evolution of results of Health insurance.
% of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Other relevant facts

We should note the entry in force of two features established by Organic Law 3/2007 regarding equality between men and women and which have a specific effect on the health insurance sector:

- As of 21 December, 2007, it is forbidden to use gender as a factor for assessing risk, unless it is shown that it is a decisive factor on the basis of actuarial figures and statistics that are pertinent, reliable and verifiable, depending on the risk assessment done by the company.
- Aside from the restriction mentioned above, as of 31 December, 2008, under no circumstances can the costs and risks associated with pregnancy and child delivery be used to justify differences in premiums and benefits of persons considered individually. As a result of this, in 2009 premiums for women of child-bearing age will not be penalized with the incorporation of obstetric costs. This will lead to the application of allowances in rates, which in turn will distribute the costs of pregnancy and delivery among all policy-holders.

Prospects for 2009

One can expect a major drop in the underwriting of new policies and a substantial increase in the cancellation rate. Data from the first quarter of 2009 (ICEA) point to year-on-year premium volume growth of 5.4%, compared to 9% in March 2008. However, it is foreseen that the effects of the economic crisis will be more pronounced in the second half of the year, due to the special features of the renewal of these policies, which is done by calendar year.

The claims ratio will rise, due in large part to an increase in billing per capita by health-care providers and to greater use of coverage by policy-holders who continue to hold on to their insurance (the moral risk effect).

As for results, the technical-financial result in the first quarter was 6.2%, slightly lower than the figure for 2008 but 1.2 points higher than the figure corresponding to the first quarter of 2008. The combined ratio was 95%, half a point higher than the number for the previous year.

5.5 THIRD-PARTY LIABILITY

Premium volume in this line of insurance was 1,836 million euros in 2008. Production in this class, which in recent years had posted the strongest growth in the entire sector, was 3% lower than in 2007. That marked the first time in the last 10 years that premium volume in this category of insurance declined.

The reasons for this performance are the following:

- A continuation of a soft cycle as far as major risks are concerned, with very stiff competition in seeking out new customers, and premiums under downward pressure.
- The incorporation of new companies into the market (firms working on the basis of LPS and underwriting agencies), which in certain transactions operate in a very aggressive way.
- The decline of the construction industry, the insuring of which accounts for 45.6% of all premiums in this line of insurance.
- A halt in payment of supplementary premiums from policies issued with an updating clause. In this kind of policy, a company's volume of revenue or payroll is used to calculate the final premium, which is modified in the following fiscal year. As companies have seen their revenue fall compared to what was initially forecast, these premiums have not been paid. Companies are even trying to recover advance premiums.

Here we need to address the controversy over 'claims made' clauses, an issue which has come up yet again. In the early 1990s, several verdicts by the Spanish Supreme Court not only questioned the validity of such clauses, but also caused wariness on the part of insurers with regard to Professional Third-Party Liability Insurance. This kind of insurance usually

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	3.5%	-3.0%
Retention	72.6%	70.2%
Gross claims ratio	67.5%	55.0%
Gross expenses ratio	18.8%	20.0%
Operating costs	18.0%	19.4%
Net claims ratio	64.4%	53.9%
Net combined ratio	84.5%	73.8%
Financial result	12.2%	7.6%
Technical -Financial result	26.6%	32.7%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 18. Basic indicators for Third-Party Liability insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

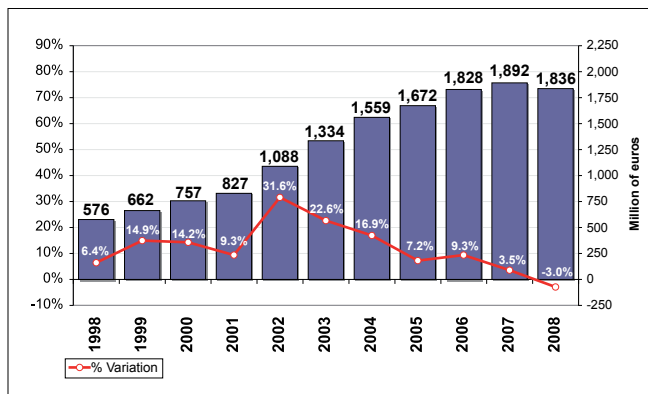


Chart 25. Evolution of Third-Party Liability insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

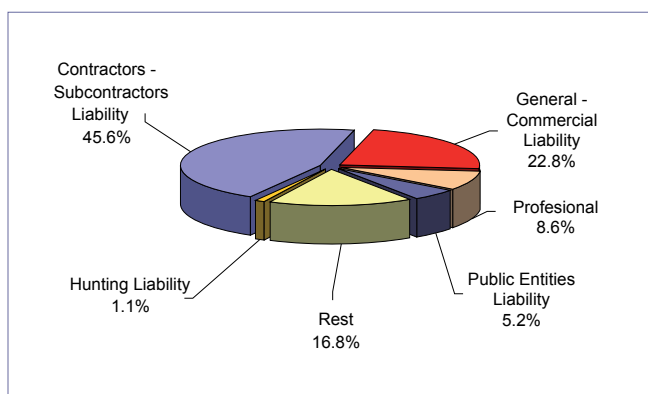


Chart 26. Distribution of Third-Party Liability by class of insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

features such clauses. The need also arose to modify Article 73 of the Law on Insurance Contracts so as to incorporate these mechanisms for establishing coverage timeframes, always with a clause of a limiting nature. For years, the situation seemed peaceful, until the General Directorate of Insurance itself ruled that a policyholder's becoming aware of the filing of a claim, or an incident that will lead to one, does not amount to a formal claim until it is duly made known to the insurer. Under this interpretation, any third-party liability policy remains exposed to receiving claims well after the date of the professional error. So the policy remains open for many years, as is the case with insurance issued on the basis of "damage which occurred while the policy was in effect."

Although the requirement of a mandatory financial guarantee will not be defined until April 2010, the environmental liabilities cited in Law 26/2007 have applied since 30 April of this same year. At the current time, there is sufficient supply to address the consequences of these liabilities through insurance policies, even with capacities far beyond that which can initially be required, which, as we note, is a maximum of 20 million euros.

Although production fell, this branch of insurance saw its **result** rise 33% despite a fall in the financial result, which is important in this category because of the large volume of provisions that it generates. The combined ratio fell more than 10 points to 73.8%, due mainly to a decline in the loss ratio, which ended the year at 53.9% in net terms. This fall stems from a variation in the technical provision for benefits that was much smaller than in 2007 when it was especially high (around 24% on premiums). In any case, a correct analysis of the claims incurred in this branch will take into account how each year's claims develop over the course of time. In D&O insurance in particular, one must analyze over the course of 10 years the impact and the frequency of the bankruptcy proceedings which began during the year. These correspond to some of the largest corporate failures ever posted in this line of insurance and are centered mainly in the construction industry. As for operating expenses, the ratio increased 1.5 points, but the rest of expenses fell. So the ratio of expenses over net earned premiums stayed at roughly the same level as the previous year, at about 19%.

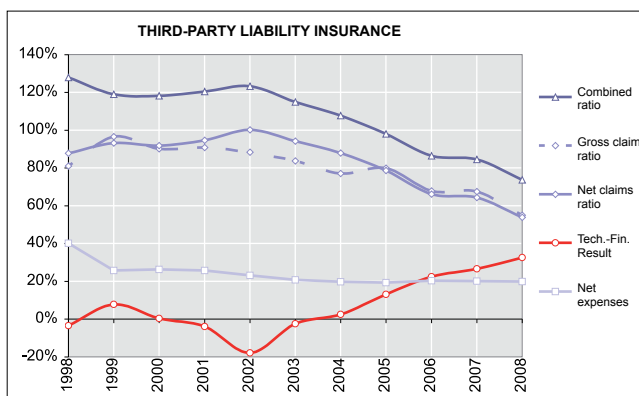


Chart 27. Evolution of results of Third-Party Liability insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Prospects for 2009

The prospects for 2009 are not bright, as most companies operating in this line of insurance are seeing their business volume go down somewhere between 10-15%, and there are no hints of change over the short term.

Figures for the first quarter of 2009 show a result even larger than that of 2008, totaling 52% on premiums, mainly as a result of a negative variation in the technical provision for benefits.

It is possible that the claims ratio will improve substantially this year in policies related to the construction industry. Unemployment in this sector is leading to a considerable drop in the number of workplace accidents. Forty percent of all such accidents involved this kind of insurance (one death per day per workplace accident in the construction sector).

5.6 BURIAL INSURANCE

Burial insurance posted premium volume of 1,546 million euros in 2008 for an increase of 4.5%, slightly smaller than that of the previous year.

With approximately 7.5 million policies, the number of insured persons is estimated at 23.6 million, which amounts to about 53% of Spain's population. In recent years it has been observed that the policy portfolio is going down, so growth in premium volume is due mainly to updating of insured amounts. This feature is essential in this line of insurance, in which there is no uniform growth year after year in the cost of the service, not even growth in line with the rate of inflation. For example, growth in the cost of a funeral niche generally depends on municipal governments, which, after going years without changing prices, might decide to raise them as much as 20% all at once.

Burial insurance is undergoing a major transformation as it adapts to new needs triggered by social, demographic, economic and cultural changes. In this new scenario, companies offer new guarantees and kinds of coverage in line with society's real demands, the main goal being to provide higher-quality services.

The technical-financial result fell just over 1.5 points to 12.9%, mainly as a result of the financial result, which declined a little over 2 points to 3%. This fall was offset by a half-point improvement in the net combined ratio, which came in at 90.1%. This was caused by a slight fall in the loss and expense ratios.

Prospects for 2009

Figures for the first quarter of 2009 (ICEA) show a slight improvement in the result, which rose to 6.3%, up a point from the first quarter of 2008.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	5.3%	4.5%
Retention	99.2%	99.1%
Gross claims ratio	53.4%	53.1%
Gross expenses ratio	36.8%	36.4%
Operating costs	34.3%	34.1%
Net claims ratio	53.8%	53.6%
Net combined ratio	90.7%	90.1%
Financial result	5.3%	3.0%
Technical -Financial result	14.6%	12.9%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 19. Basic indicators for Burial Expenses insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

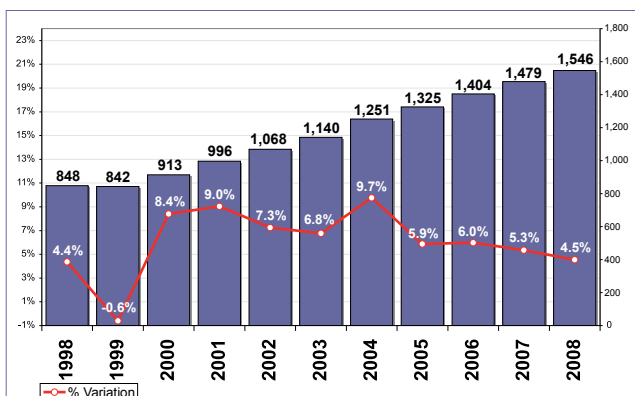


Chart 28. Evolution of Burial expenses insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

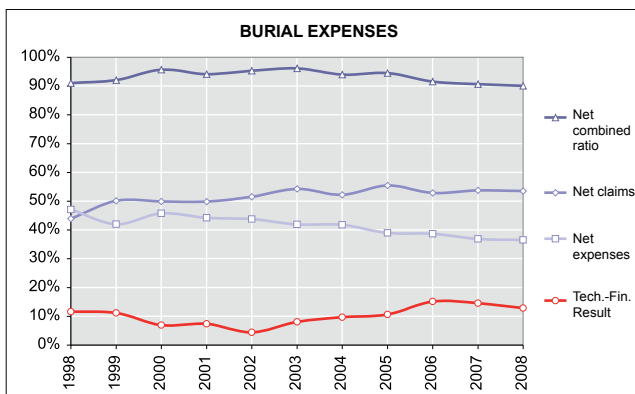


Chart 29. Evolution of results of Burial expenses insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.7 PERSONAL ACCIDENT

The accident branch posted premium volume of 976.8 million euros, which marked a rise of 3% from the previous year.

Moderate growth that began in 2007 continued. In Individual accident insurance, families reduced spending or were more selective about it, while in Group Accident insurance there was demand for smaller capital, coverage levels and premiums. This led to a soft market and in turn aggressive policies for underwriting insurance, downward pressure on rates and higher retention levels.

The technical financial result increased 1.5 points to 29.3 percent, an excellent performance surpassed only by that of third-party liability insurance. The number would have been even better were it not for a 3 point drop in the financial result, which ended the year at 2.6%

This good result stemmed in part from the claims ratio, which continued the downward trend that began in 2000. This was a direct consequence of improvements introduced in workplace safety and a lower rate of highway accidents. Thus, the net loss ratio fell to 38.4%, an improvement of 5 points from the previous year.

Prospects for 2009

Figures for the first quarter of 2009 (ICEA) point to a significant improvement in the result, which rose to 37% compared to 31.5% in the same period of 2008.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	2.6%	3.0%
Retention	87.7%	88.7%
Gross claims ratio	41.4%	40.4%
Gross expenses ratio	33.7%	33.8%
Operating costs	30.6%	31.0%
Net claims ratio	43.2%	38.4%
Net combined ratio	77.8%	73.3%
Financial result	5.8%	2.6%
Technical -Financial result	27.9%	29.3%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 20. Evolution of results in Condominium Multi-Peril Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

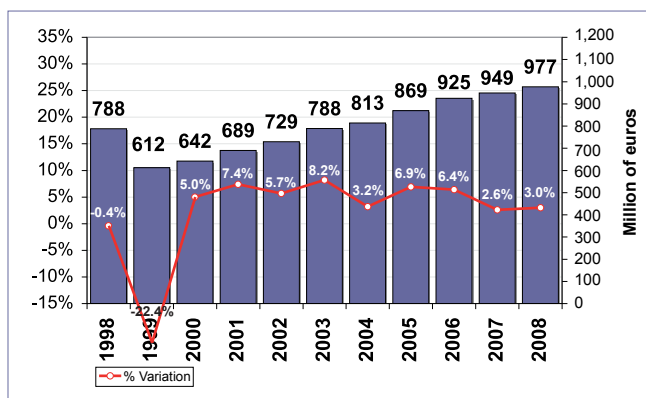


Chart 30. Evolution of Personal Accident insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

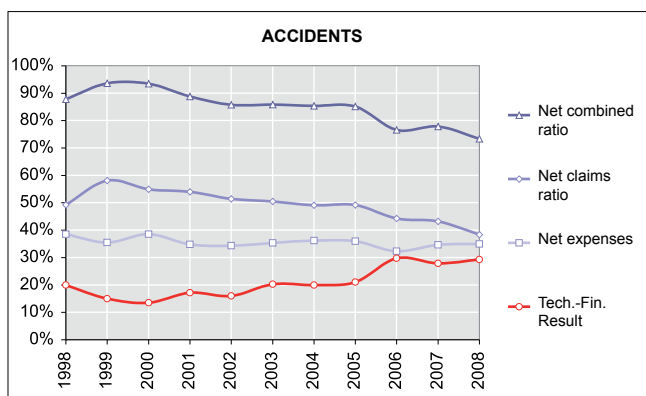


Chart 31. Evolution of results of Personal Accident insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.8 CREDIT

As a result of the economic slowdown in Spain, which coincided with the international financial crisis, the Credit insurance line experienced a change in 2007: after several years of modest growth in premium volume, which was caused by competition that forced rates downward, growth shot up to 16% amid higher risk of falling behind on loan payments and greater demand for this product.

However, over the course of 2008 there was a significant increase in companies falling behind on loan payments¹¹ and this had a significant effect on the results of insurance companies. These were forced to carry out a very strict review of their criteria for underwriting insurance and to restrict significantly the coverage they offered. This limited the market's capacity and in turn slowed down growth in premiums, which totaled 746 million euros, an increase of 8.1%¹² from the previous year.

This is a highly concentrated branch in which three Spanish companies operate along with all the major groups that are present in the sector at the global level. The top three companies control a 90% market share. We should note Grupo Catalana Occidente's gradually growing stake in Grupo Crédito y Caución, with a majority stake in Atradius, which makes it the second largest international company in this sector, with major exposure in various countries.

At the close of 2008, the technical-financial result was negative 51 million euros,

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	16.6%	8.1%
Retention	53.7%	52.8%
Gross claims ratio	80.1%	180.6%
Gross expenses ratio	20.1%	18.4%
Operating costs	30.4%	30.0%
Net claims ratio	88.6%	188.1%
Net combined ratio	98.9%	195.3%
Financial result	10.3%	10.7%
Technical -Financial result	4.6%	-13.5%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 21. Basic indicators for Credit insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

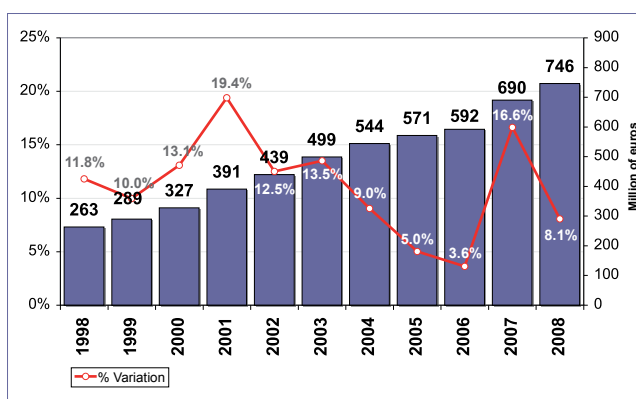


Chart 32. Evolution of Credit insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

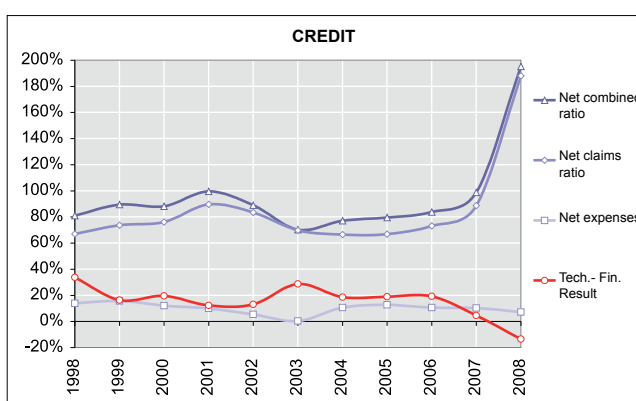


Chart 33. Evolution of results of Credit insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

¹¹ According to sources used by the sector, the rate of non-payment in commercial transactions among companies and involving credit increased 172% in 2008.

¹² In Spain, a significant part of credit risk is underwritten by foreign companies, whose data are not included in the Statistical Accounting Information (DEC in Spanish) which the General Directorate of Insurance publishes quarterly and on which this report is based, in the terms specified in the section on Methodology. Other sources which do include the business of some of these companies (and which represents approximately 10% more than the figure provided by the DEC) estimate growth in the sector in 2008 at 3.8%.

which represented -13.5% of premiums. The explanation for this is found in the dramatic increase in combined ratio, which went from 989.9% to 195.3% in 2008. After a period of aggressively seeking market share, the sector increased its risk exposure, a circumstance which was aggravated by claims incurred through the rise in debt arrears. One should note the variation in the equalization provision, which was -71%, countering to a large extent the worsening of the result. Finally, the net operating expense ratio remained at 29%, while the total expense ratio fell three points to 7%¹³.

Prospects for 2009

Data from the first quarter of 2009 (ICEA) show that the technical financial result continues to worsen, accounting for -86.7% of premiums. The combined ratio was 193%, slightly below the figure for the close of 2008. But there was a certain worsening of the expense ratio and the financial result. The worsening of the result is also explained by the fact that in 2009 the variation in the equalization provision no longer appears in the technical account¹⁴.

As a result of the worsening of the claims ratio, policy rates are tending to rise. And companies are imposing stricter terms with regard to coverage percentages and deductibles.

In June 2009, a reinsurance agreement for credit risk was signed by the Consorcio de Compensación de Seguros and UNESPA. This accord, which companies will sign on to retroactively as of 1 January, 2009, aims to contribute through reinsurance and stimulate transactions involving credit in the Spanish business sector. The agreement was signed under the principle of not disrupting competition with other reinsurance companies, guaranteeing the principle of neutrality.

¹³ In this line of insurance, it is common for companies to provide information services on classification of risk. Due to its considerable size, revenue from this activity (which shows up in the technical account as Other Technical Revenue) is added to the numerator of the expense ratio. This causes the total expense ratio to be smaller than the operating expense ratio.

¹⁴ The new Accounting Plan for Insurance Entities states that this provision is no longer of a technical nature and that its variations should not be reflected in the technical account.

5.9 SURETY

Premium volume in the surety line was 81.5 million euros, 1% less than in 2007, in a clear reflection of the slowdown that the Spanish construction sector experienced starting in the second quarter of 2007.

The technical-financial result of this branch, which is especially volatile, was almost zero because of a clear decline in its main components: the financial result fell by one-half to 7.5%, while the combined ratio went from 40% to 110% because of a major rise in claims incurred, which were largely absorbed by reinsurance.

Prospects for 2009

Data from the first quarter of 2009 (ICEA) show a negative financial-technical result, of -15%, with a very small financial result of around 3% and a combined ratio of 118%, in which one sees very little transfer of losses to reinsurance.

This branch is still feeling the effects of the slump in the construction sector, although it continues to have a stable trend in contracts for public works.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	3.8%	-1.0%
Retention	53.6%	55.4%
Gross claims ratio	18.2%	129.1%
Gross expenses ratio	28.7%	28.5%
Operating costs	27.8%	27.7%
Net claims ratio	21.6%	78.0%
Net combined ratio	39.7%	110.2%
Financial result	14.4%	7.5%
Technical -Financial result	74.0%	0.4%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 22. Basic indicators for Surety insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

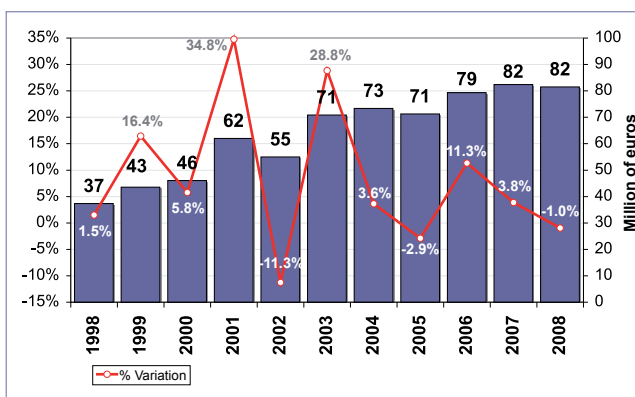


Chart 34. Evolution of Surety insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

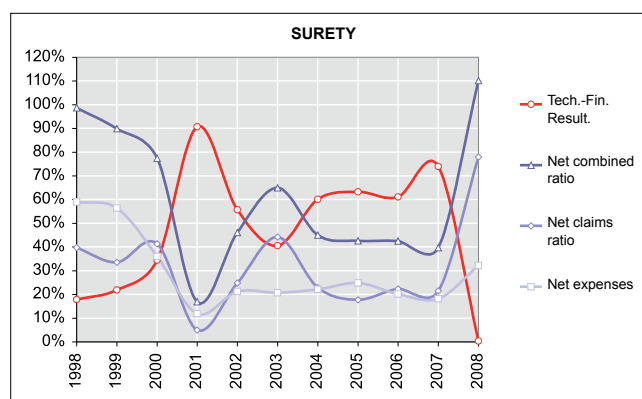


Chart 35. Evolution of results of Surety insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.10 TRANSPORT

Transport insurance posted premium volume of 597 million euros in 2008, which marked an increase of 0.5%. That growth was larger than in the previous year, but is still lower than the total growth posted by Non-Life insurance, which was 2.8%. In order to explain this branch's performance we must look at its two main categories, which are Hulls and Goods. They share the premium volume about equally, but behaved very differently, both in terms of growth and results.

Premiums from Hull insurance fell again in 2008, this time by 2.2% (-4.9% in 2007). Production was down both in Marine (-0.4%) and Aviation (-6.4%) insurance, with a major drop seen in premiums from third party liability coverage. Hull insurance is geared to high-level risks, the number of which does not vary much from year to year. So it was price competition which had a particularly strong effect on growth in this branch. In Goods insurance, premium volume expanded 3.3% in 2008, nearly half the figure of the previous year. This is attributed to a large extent to a decline in insurance rates, but also a fall in activity¹⁵.

The technical-financial result fell more than seven points to 0.8%, due mainly to a rise in the combined ratio, which went from 98% to 104.3%. This was because of the poor performance in the Hulls class, in which there were several major disasters, and because of a rise in the average cost of claims involving loaders within the Goods branch. To a lesser extent, the worsening of the result was also due to the narrowing of the financial result, which went down half a point to 5.1% (even so, it was especially good when compared to the rest of Non-Life branches).

Other relevant facts

In June 2008, Spanish lorry drivers went on strike to protest difficulties in their sector, which has been hard hit by higher fuel prices. As a result of the strike, a series of stimulus measures were agreed, and they took effect in December. They included a 75% cut in the tax on insurance premiums (IPS in Spanish) in 2008 and 2009. In 2009 the measure is being implemented through the issuance of returned premiums and receipts with the tax already discounted.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	0.2%	0.5%
Retention	50.0%	52.5%
Gross claims ratio	68.0%	78.4%
Gross expenses ratio	21.9%	20.7%
Operating costs	20.1%	19.3%
Net claims ratio	68.7%	77.5%
Net combined ratio	98.0%	104.3%
Financial result	6.1%	5.1%
Technical -Financial result	8.1%	0.8%

(*) An explication of how these indicators are calculated is provided in the section on Methodology

Table 23. Basic indicators for Transport insurance, Total

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

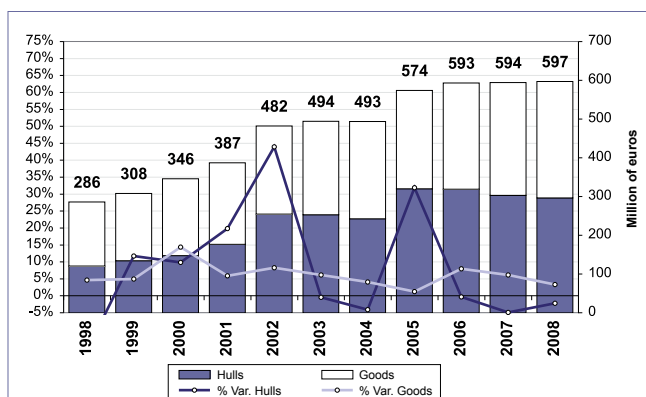


Chart 36. Evolution of Transport insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

¹⁵ In 2008, there was a 12.6% decline in operations to transport goods by highway, a 12% fall in the tonnage carried and a 6.1% drop in ton-kilometers (according to a survey from the Spanish Development Ministry).

5.10.1 HULLS

Premium volume totaled 296 million euros, a fall of 2.2% caused by a drop in production in both the Marine (-0.3%) and Aviation (-6.4%) classes.

The technical-financial result went from 5.4% in 2007 to -9.2% in 2008. The reason for this drop is the worsening of the combined ratio. It was already loss-making in 2007, and in 2008 went to 117.1% due to a rise in the loss ratio, which was 94%, to a large extent because of major losses. During the period analyzed, there were more than 25 total losses of ships of significant importance, while in Aviation one must note the Spanair airliner crash in Madrid (although most of this claim was covered by third-party liability insurance). Also worth pointing out is the financial result, which was high at 8% and did not come down compared to the previous year, as it did in all other Non-Life branches.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	-4.9%	-2.2%
Retention	36.0%	37.9%
Gross claims ratio	75.6%	95.0%
Gross expenses ratio	16.1%	14.9%
Operating costs	13.8%	13.6%
Net claims ratio	75.1%	94.0%
Net combined ratio	102.4%	117.1%
Financial result	7.9%	7.9%
Technical -Financial result	5.4%	-9.2%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 24. Basic indicators for Transport insurance, Hulls category

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.10.2 GOODS

Production in the Goods line was 300 million euros, an increase of 3.3%, nearly half of the rise seen in 2007.

The technical-financial result decreased three points to 6.8%, due jointly to a fall in the financial result and a rise in the combined ratio, which was 96.6%, 1.5 points more than in 2007. The rise in this indicator stems from a worsening of the loss ratio, which rose three points, more from an increase in the average cost of claims than from the frequency, and especially in Loaders. The increase was offset by a decline of 1.5 points in the expense ratio.

Basic indicators (% of premiums) *	2007	2008
Increase in premiums	6.1%	3.3%
Retention	66.3%	68.2%
Gross claims ratio	59.2%	60.5%
Gross expenses ratio	28.6%	26.8%
Operating costs	27.3%	25.5%
Net claims ratio	64.6%	67.7%
Net combined ratio	95.1%	96.6%
Financial result	5.0%	3.4%
Technical -Financial result	9.8%	6.8%

(*) An explication of how these indicators are calculated is provided in the section on Methodology.

Table 25. Basic indicators for Transport insurance, Goods category

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Prospects for 2009

Due to the wide range of risks insured and policies issued, this branch is quite volatile in the performance of its premiums and results, so any forecast must be taken with a degree of caution.

Still, we detect a slacker demand for insurance, which presumably will affect the Transport class: on one hand, the decline in industrial activity has a direct effect on all parts of the transport chain (loaders, logistics, carriers, etc.), reducing the volume of goods that are

transported¹⁶ and thus the volume of revenue. So transport companies look for cheaper insurance costs, focusing on mandatory guarantees and trying to reduce limits and/or increase deductibles. This contraction makes for growth that will probably not exceed that of 2008. The result of the technical account corresponding to the first quarter (ICEA) shows an improvement in gross terms in Goods (16%) and Hulls (30%), although when we take into account coverage ceded to reinsurance the figures drop to 10% and -14%, respectively.

Finally, we should note the proposed Law on contracts governing land transport of merchandise. It is making its way through Parliament and is designed to bridge the gap between the reality and actual rules of transport contracts. The features of this future legislation that are noteworthy are these: the clause that updates the price of a contract in line with rises in diesel fuel costs; compensation for suspension of transport of good by highway; the rule establishing measures to fight against late-payment in commercial transactions; electronically issued consignment notes; multimode transport and specificity in removal contracts.

¹⁶ The volume of tonnage transported in the first quarter of 2009 fell 27.4% compared to the first quarter of 2008 (Permanent Poll on Road Transport of Merchandise. Development Ministry).

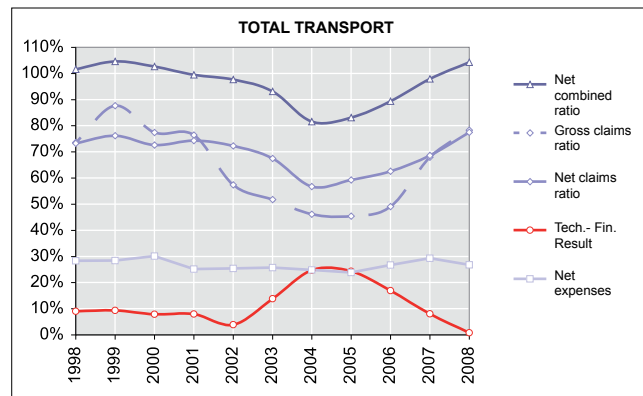


Chart 37. Evolution of results of Total Transport insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

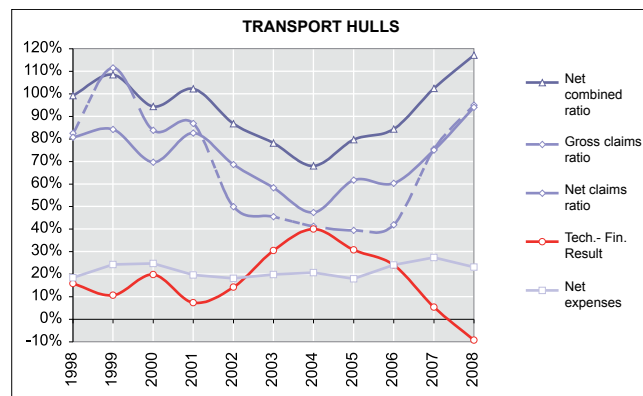


Chart 38. Evolution of results of Transport insurance, Hulls category. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

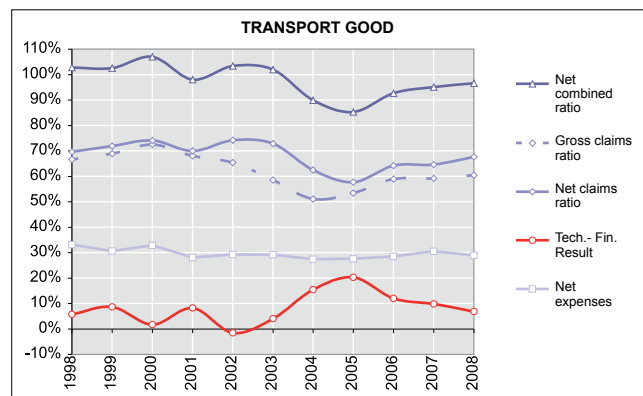


Chart 39. Evolution of results of Transport insurance, Goods category. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.11 ENGINEERING

The Engineering sector (Machinery Breakdown, Construction Multi-Peril, Ten-Year Construction Insurance, Erection, Electronic Equipment and Product Warranty) saw premium volume of 767 million euros in 2008, a decline of 10.7% from the previous year, due to its close link to the economic state of the construction sector (building licenses fell 56.5% in 2008).

The economic crisis, along with that of the construction industry, in which residential building has been particularly hard hit, took a major toll on underwriting of **Construction Multi-Peril** and **10-year Construction Insurance**. Their premium volume fell 9.4% and 29.9%, respectively.

Machinery breakdown insurance grew 17.3% to 239 million euros. **Erection** insurance rose 9.4% over the previous year to reach 37 million euros. This line of insurance continues to post positive growth, especially in the energy sector.

Insurance for Electronic Equipment is recovering slightly from the declines it has suffered in recent years from being purchased as part of multi-peril insurance. It rose 5.4% to 21 million euros.

Prospects for 2009

As with the rest of Non-Life lines of insurance, the forecast is not optimistic. A decline is expected in premium volume and the policy portfolio, mainly because of businesses closing down (most of them small and medium size). Even in Machinery Breakdown insurance, the line that halted its fall in 2008, modest numbers are expected because a fall in renting or leasing operations of construction equipment.

5.12 MULTI-PERIL AGRICULTURAL INSURANCE

The Spanish System of Multi-Peril Agricultural Insurance is a model of coverage for damage caused to agricultural, livestock, aquacultural and forest facilities, in which private and public institutions participate jointly. Insurance companies support the risk of this activity by pooling resources in co-insurance arrangement known as AGROSEGURO. Spain's central government and regional administrations subsidize part of the premiums, and the Consorcio de Compensación de Seguros acts as a direct insurer and a mandatory underwriter of some lines of business, although not in an exclusive way.

In 2008, this system continued to improve existing lines of insurance while also trying to develop new kinds of coverage. The goal was to encourage protection of agricultural and livestock production. One thing worth noting is the elimination of the benefit waiting period in all lines of agricultural insurance for policy-holders who renew policies in the same category of coverage.

Class	Million of euros	
	2008	% Var.
10-year construction	255	-29.9%
Construction Multi-Peril	216	-9.4%
Machinery breakdown	239	17.3%
Erection	37	9.4%
Electronic equipment	21	5.4%
Total Engineering	767	-10.7%

Table 26. Distribution of Engineering insurance by class

Source: ICEA

The most noteworthy events of 2008 were the following:

- Most of Spain's semi-autonomous regions have now included so-called SRM and HRM¹⁷ insurance. In a show of how useful this system is, the central and regional governments are considering the possibility of replacing this insurance with a service financed by the corresponding tax, which would be a source of revenue for them.
- In November, European Union agriculture ministers decided that agricultural insurance can be subsidized and charged to the Common Agricultural Policy budget.
- In December, the sector marked the 30th anniversary of the Law on Multi-Peril Agricultural Insurance, which currently has led to more than 700 million euros in premiums and coverage of nearly 11,000 million euros in production value.

As for **underwriting** of Multi-Peril Agricultural Insurance, premium volume increased 13.6% in 2008 to 681 million euros. But the number of policies underwritten went down 2% from the previous year to 506,336. By lines of business, the results by premium were the following: 191 million euros from viable lines, for a rise of 8.45%, 334.45 million euros from experimental lines, an increase of 23.4%, and 154,87 million euros from SRM and HRM lines of insurance, an increase of 2% from the previous year.

In terms of **claims** incurred, the year went reasonably well, despite the large number of loss events that occurred in major areas of agricultural production. The highlights were these:

- In March and April, frost in several areas which mainly affected production of fruit, citrus fruit, cherries and persimmons.
- Throughout April and May, hail storms that caused damage in crops of fruit, quince, cherries and grapes. In La Mancha, the damage centered on garlic and onions.
- In Murcia and Alicante there were rain and wind storms that affected production of table grapes.
- Vineyard damage in Cuenca, Albacete and Utiel-Requena because of physiological withering, and in Ciudad Real from mildew.
- Summer storms that damaged fruit trees, vineyards, vegetables, tobacco crops and olive groves.

Claims incurred (payments plus reserves) totaled 502 million euros, with 22% of this corresponding to viable lines and the rest to experimental lines. In the agricultural sector, the surface area that suffered some kind of damage was nearly one million hectares, with more than 600,000 insured plots of land affected. In summation, the Spanish System of Multi-Peril Agricultural Insurance had an overall claims ratio of 78%, half a point less than in 2007.

¹⁷ Specific Risk Materials (SRM) for ruminants and High Risk Materials (HRM) for other animals. Essentially, this insurance covers the costs of removing the bodies of animals that die on farms or ranches and transporting them to incinerators.

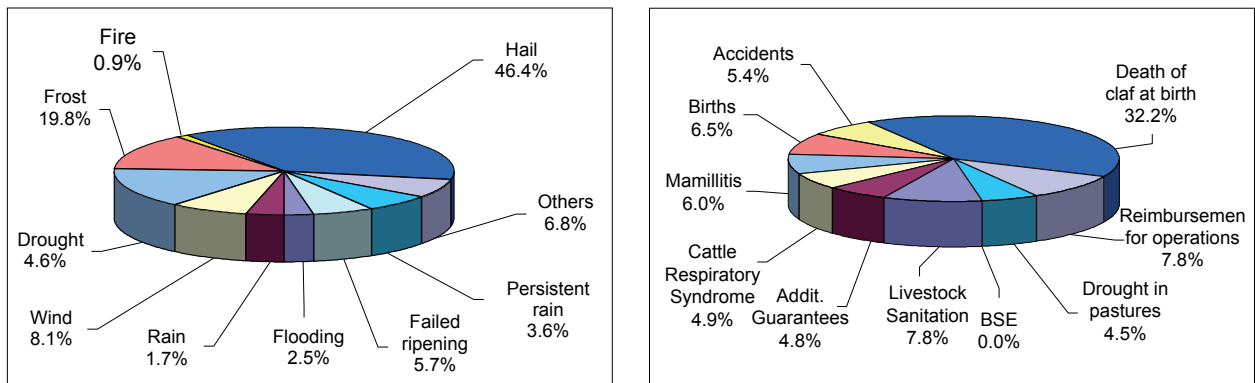


Chart 40. Agricultural and Livestock insurance. Distribution of losses by risk IN 2007

Source: Agroseguro

In 2009 a big effort is being made to develop SRM and HRM insurance in order to lower the cost of removing animals that die on farms or ranches, and this is showing up in the form of lower insurance costs.

6. New legislation

6. NEW LEGISLATION

In this section we summarize the content of several regulations and agreements that were approved in 2008 and 2009, both in Spain and the European Union, and some bills that are making their way through Parliament. They are considered to be of special interest for the insurance sector.

Regulations and Agreements

Royal Decree 1507/2008, passed on 12 September. It approved the Regulation on Mandatory Third-Party Liability Insurance for Motor Vehicles (BOE number 222 of 13, Sept. 2008)

The goals of this legislation are to enhance the monetary protection of people involved in road accidents through mandatory insurance and simplify the processing of claims and the payment of compensation. It does the following:

- Specifies the concepts of “motor vehicle” and “the act of driving”.
- Establishes compensation levels in application of the coverage amounts of mandatory insurance that were set in Law 21/2007 (maximum coverage for property damage set at 15 million euros per claim, and 70 million euros per claim in cases with personal injury, regardless of the number of victims).
- Specifies certain formal aspects of the reasoned offer/reply that insurers are obliged to provide to victims.
- Makes systematic the documentary accreditation of the existence of insurance.
- Unifies the regulations of the Spanish Office of Automobile Insurers
- Updates the Insured Vehicles Informative File (FIVA in Spanish) as the central tool for identifying the insurer covering the third-party liability of each vehicle involved in a traffic accident and for monitoring the obligation to carry insurance.

Royal Decree 1317/2008, passed on 24 July. It approved the new Accounting Plan for Insurance Entities (BOE number 220, 11 Sept., 2008)

The goal of this decree is to bring Spain’s accounting system for insurance companies into line with international standards for financial information which are applicable in the European Union. It replaces the plan that was instituted in 1997 and come into force on 31 Dec., 2008.

Besides changes introduced for some specific kinds of transactions, in general the new plan does the following:

- Adds two new accounting parameters: changes in net assets and cash flow.
- Incorporates the concept of reasonable value in assessing certain transactions, as opposed to the principle of purchase price.
- Introduces the non-depreciation of intangible assets whose useful life is indefinite, requiring they be subjected to an impairment test.

- Requires the presentation and assessment of financial assets and liabilities by category, addressing their features and purpose
- Requires the assessment of financial liabilities by their current value, in general.
- Introduces the possibility of a company using its own statistical methods to determine the provision for premiums receivable.
- Considers equalization provisions as a capital reserve for that purpose. It will no longer be viewed as a technical provision as it does not meet the definition of liability as spelled in the new accounting system's conceptual framework.
- Establishes corrective mechanisms for asymmetrical accounting, so that financial assets and liabilities and liabilities stemming from insurance contracts are not registered with different accounting criteria.

Rules related to the Consorcio de Compensación de Seguros

Surcharges stemming from extraordinary risks (BOE Number 280 of 20 Nov., 2008). Reduction of surcharges paid to the Consorcio for coverage of extraordinary risks involving property. On average the reduction is 15%, although the percentage is much higher for those kinds of risk that historically have a more favorable record. For example, the surcharge for cars is reduced by more than 35%.

- Surcharges for mandatory third-party liability insurance for motor vehicles (BOE number 128, Section 1, of 27 May, 2009). The surcharge is set at 2% of the commercial premiums of said mandatory insurance, and came into effect on 1 July, 2009.
- Surcharges in settlement activity. Law 6/2009 of 3 July (BOE number 161, Section 1.4 of July 2009). The surcharge for financing insurers' settlement activity was cut in half to 1.5 thousandths. At the latest, insurance contracts must adapt to the new surcharge in the first renewal after the law came into force, which was on Aug. 4, 2009.

Resolution approved on 19 May, 2009 by the General Directorate of Insurance and Pension Funds, which announces the updating of the amount of the guarantee fund and the limits for determining the minimum amount of the solvency margin (BOE number 134, Section III, 3 June, 2009.)

- The minimum amount of the guarantee fund for insurers operating in Life, Surety, Credit or any line that covers Third-Party Liability goes from 3.2 million to 3.5 million euros. The amount for insurers operating in other lines of insurance goes from 2.2 million to 2.3 million euros.
- The minimum amount for the guarantee fund is maintained in general at 3.2 million euros. The figure corresponding to captive reinsurers rises from 1 million to 1.1 million euros.
- The limits for applying percentages to determine the minimum amount for the solvency margin in insurance other than Life policies – currently 53.1 million euros depending on the premium, and 37.2 million euros depending on the claim – are increased to 57.5 million euros and 40.3 million euros, respectively.

The new amounts will take effect on 1 January, 2010.

Law 5/2009 passed on 29 June to reform the rules on significant stakes in investment services companies, credit institutions and insurance companies (BOE Number 157, Section I, of 30 June, 2009).

This law addresses the precautionary evaluation of acquisition of stakes that can exercise a significant influence on financial entities. The main new points are these:

- A significant stake is achieved when this reaches 10% of the share capital or voting rights in a company. Under instructions from the European Union, this eliminates the earlier threshold of 5%.
- A new obligation is introduced under which supervisory authorities must be advised when a stake, even if it is not significant, reaches 5% of share capital or voting rights.
- A list of strictly precautionary criteria is incorporated. They are the ones that the Bank of Spain, the National Stock Market Commission and the General Directorate of Insurance and Pension Funds should keep in mind when evaluating a potential buyer that wants to take a significant stake in another company or increase its stake beyond the aforementioned threshold.
- As for the design of the evaluation procedure, which has not been developed by Parliament, it sets clearer, more transparent deadlines for each of the different phases.

Reinsurance Agreement in credit insurance to stimulate and encourage the granting of credit in the Spanish business sector

On 18 June, 2009 a reinsurance agreement concerning credit risk was signed by the Consorcio de Compensación de Seguros and UNESPA. It is designed to revitalize and encourage the granting of credit in the Spanish business sector. The accord came into force on 1 January, 2009 and the insurance companies that operate in this sector will join it.

Legislative bills that are in the works

Proposed reform of the Law on Insurance Contracts

In 2006 and 2007, the working group that is studying a reform of the Law on Insurance Contracts held several meetings. These led to a report containing reform proposals that affect much of the current law. After being presented to the Consultative Board on Insurance and Pension Funds, the report was submitted to the Justice Ministry in February 2008.

Bill on contracts concerning transport of goods by land, 31 Oct., 2008

The goal of this legislation is to update and complete the legal rules that concern contracts for the transport of goods over land (both by highway and train). For the most part, it adapts Spanish law in this realm to the content of international agreements in the area.

In this future law, the following points that concern insurance should be noted: the nature of the law, except for responsibility of the carrier and prescription, goes from being mandatory, as the Commercial Code was, to being dispositive, allowing for the possibility of the two parties agreeing to the terms they deem fit; compensation for loss (Article 52) in which the value of the merchandise that is lost and must be compensated for will be that which it held

initially (the value it had when and where the carrier received it for the purposes of transport); multimode transport (Article 68) in which, when it cannot be determined at what point in the journey goods suffered damage, this law on land transport will be applied; and, finally removals (Article 74.4) in which the service provider is obliged to tell the customer they can purchase property damage insurance, aside from the third party liability insurance the provider might hold.

European Union legislation

Proposal for a Directive of the European Parliament and of the Council concerning life assurance on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). Recast

After more than seven years of work, the proposed framework Directive known as Solvency II was approved 22 April, 2009 by the European Parliament and on 5 May, 2009 by EU finance ministers. The regulations must be incorporated into Spanish law by 31 October, 2012.

Directive 2009/41/Ce from the European Parliament and the European Council, dated 6 May, 2009, concerning the confined use of genetically modified micro-organisms (consolidated version). DOUE Number 125 of 21 May, 2009

The Directive establishes common measures for the confined use of genetically modified micro-organisms in order to protect human health and the environment. It defines what is meant by: micro-organism, genetically modified micro-organisms, confined use, accident, user and notification.

7. Methodology

7. METHODOLOGY

Sources of Information

In the preparation of this study, we have relied on official and other reputable sources of information. The main one, on which much of the report is based, is that which the General Directorate of Insurance and Pension Funds (DGSFP in Spanish) provides, drawing on the Statistical and Accounting Documentation (DEC in Spanish) archives. Up to and including 2007, the data correspond to the Book of Balance Sheets and Accounts (Libro de Balances y Cuentas in Spanish) since 1998, which includes the sector-specific figures from the annual DEC. The data for 2008 come from the aggregate of the quarterly DEC, in this case the fourth quarter (which features cumulative data)¹⁸.

In some cases we have used data from various reports by ICEA, either because there were no official data or because we felt this data would improve the depth and quality of the analysis.

Volume

Premium volumes correspond to direct transactions (written premiums) by

Public Limited Companies, Mutual Insurers and Branch Offices established in Spain (two branches), excluding data from Mutual Provident Societies (supervision of which has mainly been transferred to regional governments) and strictly Reinsurance companies (two reinsurance companies). The study addresses all transactions carried out by insurance companies, including business done outside of Spain.

The growth figures published in this study also refer to written premiums from direct insurance and are nominal, unless it is stated expressly that the numbers refer to growth in real terms, in other words, allowing for inflation.

For some branches we provide indicators on policies, using Model 7 of the quarterly DEC, which concerns monitoring sufficiency of the technical provision for benefits. The figure for annual growth in the number of policies is arrived at by comparing the number of initial policies with the final policies. The latter are understood to be the initial policies minus cancellations, plus new policies. Therefore, the policy lapse rate represents the number of policies cancelled over the course of the year, divided by the number of initial policies. The difference between policy growth rate and the lapse rate reflects the percentage of new policies.

Calculation

The calculation of most of the descriptive ratios in this study, especially those related to Non-Life insurance, was done with earned premiums, gross premiums or premiums net of reinsurance, depending on the case. Earned premiums comprise written premiums plus the variation of the provision for premiums receivable and the variation of the technical provi-

¹⁸ At the time this study was published, the annual DEC for 2008 was not yet available.

sion for unearned premiums and for unexpired risks. The following is an outline of how the ratios are calculated:

- Retention: $\text{Net Earned Premiums} / \text{Gross Earned Premiums (Direct + Assumed)}$.
- Gross Claims Ratio: $\text{Claims Incurred (Direct + Assumed) + Variation from other technical provisions} / \text{Gross Earned Premiums (Direct + Assumed)}$.
- Net Claims Ratio: $\text{Claims Incurred (Direct + assumed-ceded) + Variation from other technical provisions} / \text{Net Earned Premiums (Direct + Assumed-ceded)}$.
- Gross expenses: $\text{Operating costs (Direct + Assumed) + Profit-sharing and returned premiums + Other technical expenses} - \text{Other technical income} / \text{Gross earned premiums}$.
- Operating costs: $\text{acquisition expenses + administrative expenses (Direct + Assumed)} / \text{gross earned premiums (Direct + Assumed)}$.
- Net expenses: $\text{Operating expenses (Direct + Assumed-ceded) + Profit-sharing and returned premiums + Other technical expenses} - \text{Other technical income} / \text{Net earned premiums}$.
- Net Combined Ratio: $\text{Net claims ratio} + \text{net expenses}$.
- Financial result: $\text{income from investments} - \text{expenses on investments} / \text{net earned premiums}$.
- Technical-financial result: $\text{technical account result} / \text{net earned premiums}$.



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