

FUNDACIÓN MAPFRE

The Spanish Insurance Market in 2009

July 2010

**Instituto de
Ciencias del Seguro**



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1. SUMMARY

The year 2009 began with forecasts of deep recession, in a scenario with declines in economic production not seen in decades. However, half-way through the year, the world's economy and trade began to recover, thanks to momentum from special stimulus measures taken by the most heavily industrialized countries and contributions from emerging countries. But this recovery has been uneven across different countries and regions, and emerging economies have done better than the more developed ones. In this context, the Spanish economy finished the year with GDP down by 3.6%, compared to the increase of 1.2% it posted in 2008, due to the combination of a 6.4% drop in domestic demand and a positive contribution of 2.8 percentage points from the overseas sector.

Premium volume in the **global insurance market** in 2009 was \$4.0 trillion¹ (2.9 trillion euros). For the second straight year, the real variation in premium volume was negative, coming in this time at -1.1% (compared to -3.5% in 2008), with declines in the Life (-2%) and Non-Life (-1%) segments. The fall in Life insurance reflected the contraction seen in industrialized countries, mainly in the U.S. and British markets. The financial crisis and falls posted by stock markets had a heavy impact on sales of unit-linked products, especially in the first half of the year. Non-Life business saw a slight decline of 0.1% due to a drop in demand for insurance, which increased pressure on rates. Losses from natural disasters came in below the average for recent years, totaling \$22,000 million (15,800 million euros). Europe suffered the most costly disasters: winter storm Klaus, which hit France and Spain in January, and the hail storm Wolfgang in central Europe.

The **Spanish insurance market** posted a slow rate of growth, with premium volume totaling 59,084 million euros for a rise of 1.5% compared to 9% the previous year. If one adds production by Mutual Provident Societies (2,443 million euros) to that of Public Limited Companies and Mutual Insurers, total premium volume in the sector was 61,527 million euros, up 1.6% from the previous year.

The economic crisis affected the Life and Non-Life sectors in different ways. While Life premiums increased 5.8%, Non-Life branches saw a decline of 2.2%. Contributing to this result was a fall in industrial activity, weaker demand and stiff competition in most lines as a result of the degree of maturity reached by the market.

Within **Non-Life insurance**, the branches that saw growth in premiums compared to the previous year were: Multi-peril (4.8%), Health (4.7%), Burial (4.9%), Agricultural (24.8%) and Theft (42.1%). The rest of the branches fell, including Motor (-5.2%), which was hit hard by the drop in sales of new vehicles and demand for products with less coverage; Transport (-11.2%) which was affected by a soft market cycle and excess capacity in Hull insurance; Accident (-10.7%) due to stiff competition in the sector and the impact the crisis has had on families, and Surety (-10.7%) because of the crisis in the property sector.

The main factor fueling growth in the sector was **Life insurance**, which posted premium volume 28,429 million euros in 2009, a rise of 5.8% compared to 2008. This apparently positive result was offset by the less favorable behavior of the surrenders seen by the sector as a whole (13,002 million euros). Despite this, the volume of technical provisions rose almost at the same rate as premiums, or 5.6%, to total 143,790 million euros.

¹ trillion: one million millions

As in 2008, we must note the role that Life insurance played in the **savings-retirement** industry in Spain. Its growth was surpassed only by Pension Funds (8.1%) while Mutual Funds ended 2009 with a 3% drop in managed assets.

Pension Plans closed out the year with managed asset volume of 84,789 million euros, a rise of 8.1% from 2008. The number of policy-holders totaled 10.7 million, up 1.2%, with an especially strong performance by plans linked to the employment system. It should be noted that 2009 saw the recovery of this sector, after the decline caused by negative yields and a slowdown in contributions the previous year. Practically all the volume lost since late 2007 was recouped.

The **reinsurance market** grew in 2009 although with difficulty, because the economic crisis affected every country in the world to one extent or another. In the first half of the year the market was characterized by lower premium volume (1.7%) and a combined ratio similar to that of 2008. But the absence of natural disasters in the last six months of the year allowed for a positive technical result. This, along with a rise in investment yields, led to a significant increase in the net results for the year.

The results posted the insurance sector in 2009 were favorable. The result of the non-technical account was 3,633 million euros, an increase of 2.2%. The improvement in the overall result stemmed mainly from growth in the technical account result in the Life branch, which expanded 29%. In Non-Life insurance, the technical account result fell 4.6% and the combined ratio rose nearly two points to 94%. The only highlights were losses suffered in the Surety (-62.6% on premiums) and Credit (-8.6% on premiums) branches, which were hard hit by the economic crisis.

The **solvency margin** remained at levels similar to those of the previous year, posting in 2009 a margin 2.6 times the minimum required by regulators. In Life the level was 2.1 (2.0 in 2008), while in Non-Life it was 3.4 (the same as in 2008). The sector's ROE was 14.3%.

Although 2009 was not an easy year, because of the hard economic times Spain is enduring, one can say that the aggregate performance of the Spanish insurance sector was positive and profitable: the business's overall growth consolidated and solvency indicators strengthened.

As for **2010**, economic indicators are at particularly low levels, although there are prospects for a positive and moderate recovery. In the first quarter of the year GDP rose 0.1% from the previous quarter and reduced the year-on-year rate of decline to 1.3%. However, the Spanish economy urgently needs to recover the confidence of households and markets in order to cover its financing needs. For this to happen, structural measures need to be reinforced so as to correct basic problems: the bloated public deficit, high levels of private sector debt, unemployment and prospects for a low pace of growth.

In order to address this situation, companies will have to opt for strategies of innovation and differentiation as they design products and try to retain customers, seeking to enhance cost efficiency to offset lower rates, without ignoring the technical margin.

Data from the ICEA for the first quarter of 2010 show a fall in premiums of 3.7% compared to the same period of the previous year, although the impact is different depending on which segment of the Spanish insurance sector we look at.

In **Non-Life** insurance, companies will have to keep battling the effects of the drop in consumption: a preference for cheaper products and guarantees, a rise in the cancellation rate,

stiffer competition and downward pressure on rates. Still, although the downward trend that began the previous year is continuing, data show an overall decline of 2.0%, which is somewhat more moderate than which took place at the end of last year (2.2%). Specifically, Motor insurance has recovered nearly six points compared to the same period of the previous year, reaching -1.7%.

In **Life insurance**, signs are that 2010 will be a tough year. The high volatility that is expected in equity and fixed-yield markets will make for instability in prices, yields and bond spreads. What is more, Spain's economic context will not contribute to growth in the sector, given the high level of unemployment and public deficit and weaker demand in terms of consumption. However, other factors will in fact have a positive effect on the role that Life insurance plays and should continue to play: the sharp increase in savings rates in times of economic difficulty, the high level of solvency of insurance companies, demographic prospects, the proven ability to offer innovative products with guaranteed yields, the foreseeable reform of the public retirement pension system, etc. In the first quarter of 2010, Life insurance saw a 5.9% drop in premiums compared to the same quarter a year ago, while technical provisions rose 1%.

Furthermore, data from the first quarter (ICEA) point to an improvement in the technical result. In Non-Life, the result on net premiums was 10.5%, almost a point and a half better than in the same stretch of 2009. In Life insurance, the result represented 0.34% of provisions, three hundredths of a point more than in March of the previous year.

Finally, as for **new legislation**, one should note the approval of the new Solvency II Directive, which must be incorporated into Spanish law by Oct. 31, 2012. The most important bills that are now making their way through Parliament – the new aspects of which will be analyzed in detail later on in this report – are:

- Bill on Oversight of Private Insurance
- Sustainable Economy Bill
- Proposal for reforming the Insurance Contract Law.

2. Economic context

2. ECONOMIC CONTEXT

2.1. THE WORLD ECONOMY

The year can be considered a turning point that ends the negative trend in the worst economic crisis since World War II. Over the course of the year one can clearly discern two periods: the first quarter, in which the recessionary tendencies of the world economy reached their peak, and the rest of the year, in which the global economy resumed positive growth, thanks to the series of monetary and fiscal measures adopted in various countries.

The year 2009 began with a string of factors pointing to a deep recession: indicators measuring expectations for national economies and corporations were at minimum levels, the effects of systemic lack of trust stemming from the fall of Lehman Brothers left the doors open for any kind of systemic risk event, companies reduced their inventories, global trade suffered a steep drop, and credit became very scarce. All of these elements made for a scenario in which the decline in economic production reached levels of contraction not seen in many decades. Furthermore, the expectations of economic agents pointed to a deep economic depression.

However, in the spring a series of decisions were taken that managed to change the global economic trend: coordinated action by the world's major economies, which adopted fiscal stimulus policies, the framework for an expansionist monetary policy; coordinated action by major world economies grouped together in the G-20; increases in International Monetary Fund resources, and the elimination of isolated protectionist policies.

This unprecedented deployment of expansionist economic policies by major world economies allowed for a certain degree of stability to be reached in the second quarter of 2009, and for global economic activity to achieve positive growth in the second half of the year.

In this context, the world's main stock markets ended the year on a very high note, and mid- and long-term fixed yield markets put in a very active year. This is because big companies preferred to use the bond market as a source of financing, shying from credit restrictions within banking systems that remain in a process of restructuring and trying to balance their books.

Still, the working of monetary and credit markets has not yet normalized. One sign of this is the recent increase in spreads of Greek sovereign debt, the bailout of the debt of Dubai World and the nationalization of a major Austrian company, Hypo Alpe.

The **euro zone**, after working well for a decade, faces a degree of instability caused by the difficulties some countries are having in complying with the Stability and Growth Pact and markets' negative reaction to the possible implications (the Greek debt crisis).

In 2009, the euro zone improved gradually, with positive growth in some countries, due to the contribution from the overseas sector and small declines in private consumption and gross capital formation. On the supply side, the manufacturing sector grew.

Within the regulatory sector, intense work is being done to design a new international financial framework capable of ensuring adequate functioning of markets and preventing crises in the future.

In 2010 we are seeing the world economy recover as a result of special stimulus measures taken by advanced countries and contributions from emerging ones. Still, the recovery is uneven by region and country, with emerging nations doing better than more developed ones.

Fiscal stimulus measures designed to fight the recession have sapped government coffers in developed countries and, more recently, triggered a deep crisis in the sovereign debt market in the euro zone. Over the short term, fiscal consolidation policies will have a contracting effect that will weigh on growth and job creation. The latest forecasts from the IMF are that real world GDP will grow 4.2% in 2010. Of this, 2.3% will be for advanced economies and 6.3% will come from emerging and developing economies.

2.2. THE SPANISH ECONOMY

The Spanish economy contracted 3.6% in 2009, which was nearly seven percentage points worse than its performance the previous year. This stemmed from a drop of 6.4% in domestic demand and a positive contribution of 2.8 points from the external sector (due to a sharp fall in imports).

Within domestic demand, household consumption fell 5%, investment in equipment plummeted 23.1% and construction dropped 11.2%. On the supply side, all sectors of the economy contracted, led by industry with a fall of 14.7%, construction with 6.3% and market services at 1%.

Throughout 2009 household spending was hit by uncertainty associated with the sharp rise in unemployment and the negative effect of job losses on income from wages. Also making a negative contribution were persistent tight conditions for the granting of credit and a drop in wealth as a result of falling real estate prices, although this eased as the year wore on. All of these factors, along with moderation in interest rates at banks and a push from net transfers by government bodies, caused weak consumption to be reflected in a rise in the household savings rate. In the third quarter of 2009 it stood at a record 18.7% of disposable income.

As for prices, the rate of inflation was marked by the evolution of energy prices (they fell sharply until mid-year, then rose gradually over the course of several months) and by weak-

<i>Interannual variation rates in %</i>	2008	2009
DEMAND		
Final consumption expenditure	0,9	-2,7
Final consumption expenditure by households	-0,6	-5,0
Final consumption expenditure by the NPISH	0,8	3,1
Final consumption expenditure by the Pub. Admin.	5,5	3,8
Gross Fixed Capital Formation	-4,4	-15,3
Equipment	-1,8	-23,1
Construction	-5,5	-11,2
Other products	-4,3	-17,2
Domestic demand ¹	-0,5	-6,4
Exports of goods and services	-1,0	-11,5
Imports of goods and services	-4,9	-17,9
Foreign demand	1,1	2,8
SUPPLY		
Fishing and agricultural classes	-0,8	-2,4
Energy classes	1,9	-8,2
Industrial classes	-2,1	-14,7
Construction	-1,3	-6,3
Services	2,2	-1,0
GDP at market prices	0,9	-3,6
GDP at current market prices²	1.088,5	1.051,2

(1) Contribution to GDP growth

(2) Billions of €

Table1. GDP and its components

Source: INE. CNTR, first quarter of 2010

er demand in almost all of its components. In 2009, the CPI registered an average fall of 0.3% and for the year finished at 0.8%.

As for the **overseas sector**, the huge fall in domestic demand caused a significant decline in imports and a considerable fall in the trade deficit.

To summarize things, the Spanish economy – which initially suffered a milder drop than other countries because it is less dependent on overseas demand – is recovering more slowly than other major countries of the euro zone. The construction sector's large role in GDP in the years before the crisis, heavy job losses and the effect on consumption, and rising public deficits are slowing down Spain's exit from the recession, making for a more gradual rate of recovery.

In Spain, data from the first quarter of 2010 point to slow and gradual improvement. GDP in that three month period rose 0.1 percent compared to the previous quarter (ending the process of contraction that began in the second quarter of 2008) and the rate of year-on-year decline fell to 1.3%. Within domestic demand, all components posted smaller decreases, and some cases even rose, as was the case with household consumption. It was aided by stimulus measures and rose 0.5% compared to the previous quarter, while its year-on-year decline slowed to -0.6%. Domestic demand's negative contribution to aggregate growth fell by 2.8 percentage points (to -2.5 points), while foreign demand saw its contribution to quarterly GDP slip by a point, going from 2.2 points to 1.2.

3. Social and economic variables related to insurance

3. SOCIAL AND ECONOMIC VARIABLES RELATED TO INSURANCE

Population

Spain's resident population as of the end of 2009 was 46.7 million, 83,000 more than in 2008, for an increase of 0.2%². In a breakdown by gender, women represent 50.5% of the total population.

As has been the case in recent years, population growth is due mainly to an increase in the number of foreigners, which in 2009 rose 0.9% (the non-foreign population increased 0.1%). Since 2008 net entries of foreigners in Spain has slowed significantly, and this is possibly due, at least in part, to the economic crisis.

By age, the Spanish population tends to concentrate between 30 and 64 years, while the foreign population concentrates in younger ages (between 16 and 44).

As for the distribution of the foreign population by nationality, the largest proportion comes from Europe (44.2%), followed by South America (28.3%) and Africa (17.9%). Among Europeans the largest single groups are Romanians (14.1%), Britons (6.7%) and Germans (3.4%). Among non-EU residents, Moroccans are the largest group (12.7%), followed by Ecuadoreans (7.5%) and Colombians (5.3%).

Data on natural movement of the population show that the gross birth rate (number of births per 1,000 inhabitants) fell in 2009 after a decade of steady growth. This was because of the combined effect of a gradual decline in the number of women of child-bearing age and lower fertility. Specifically, the number of births went down by 5%, and the birthrate fell to 10.73 births per 1,000 inhabitants.

Births involving foreign women also went down, by 6%, to account for 20.6% of the total. Moroccan women had the most children. The total fertility rate was 1.40 children per woman of child-bearing age (compared to 1.46 in 2008)

Meanwhile, the death rate (number of deaths per 1,000 inhabitants) fell in 2008 to 8.35 compared to 8.47 the previous year. A total of 2.75% of the deaths corresponded to foreigners, mainly from EU countries, who are the older foreign resi-

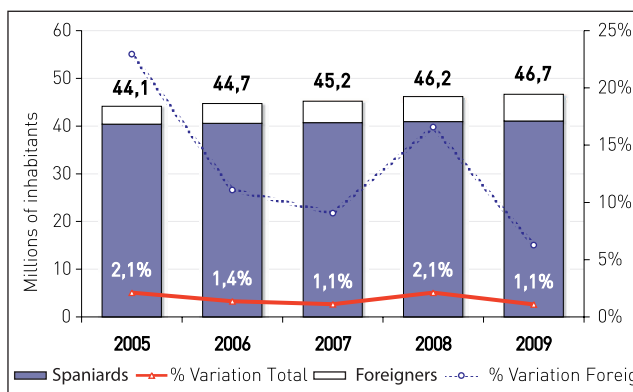


Chart 1. Evolution of Spanish Population

Source: INE

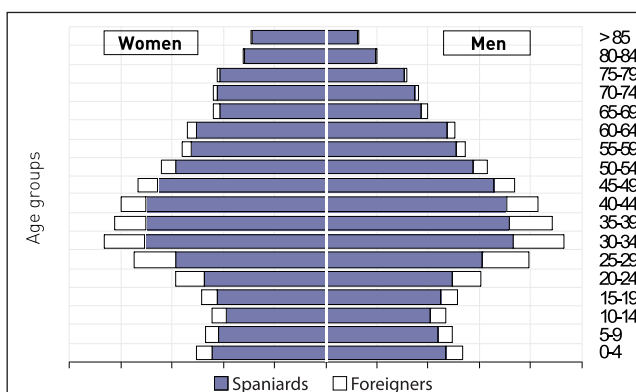


Chart 2. Distribution of the Spanish Population by age group and sex. Year 2009

Source: INE

² Provisional figures

dents of Spain, led by deaths of Britons and Germans. The natural growth of the population was 109,000 people, compared to 133,000 the previous year.

Spain continues to have one of the world's oldest populations. The last update from the National Statistics Agency on life expectancy at birth is 80.9 years. It is 77.8 years for men and 84.1 years for women.

How the Spanish population evolves in the next few years will depend on several factors: the economic situation, the effects of a highly restrictive, shared immigration policy and the results of government measures designed to encourage people to have more children. In this context, one can expect the population to continue rising, although at a slower rate than in previous years.

Motor

As of the end of 2009 there were 31 million registered vehicles³ (181,000 more than in the previous year). For the second straight year, as a result of the economic crisis Spain is enduring, sales of automobiles dropped significantly, by 24.4% from 2008, with 1.3 million cars newly registered. The biggest decline came in registrations of industrial vehicles (65.3%), while registration of passenger vehicles was off 18.6% compared to 2008. Still, signs of recovery are emerging following implementation of a government plan offering aid for car purchases (Plan 2000E).

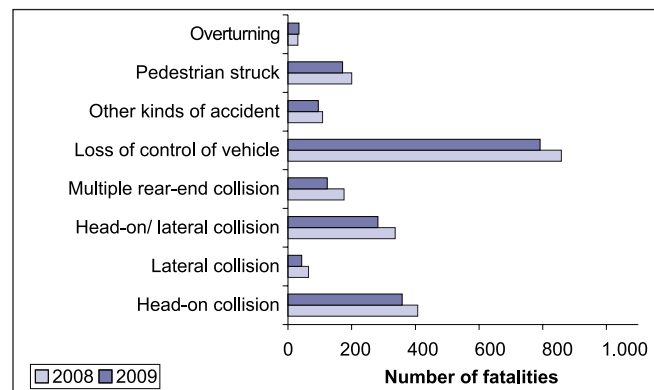


Chart 3. Distribution of fatalities by type of accident

Source: Interior Ministry

We must note that throughout the year traffic eased, as seen in data on fuel consumption, which went down 5.7%, and total traffic on toll roads, which fell 7%.

As for road accidents, for the first time since 1965 the number of fatalities came in under 2,000, at 1,897, for a drop of 13% compared to 2008. The number of accidents involving fatalities⁴ also declined, by 12.3%, to 1,690. The months with the highest numbers of fatalities were August (202), July (177) and June (176) and the one with the lowest was November, with 130.

One thing worth highlighting is that in 2009 there were 5 days with no road fatalities at all; this is important because in the last 16 years there were only four such days.

Also worth noting:

- Accident rates went down in all of Spain's semi-autonomous regions.
- The most common accident involving fatalities is that in which vehicles drive off the road, with 791 dead, or 41.7% of the total.

³ The Insured Vehicles Informative File (Fichero Informativo de Vehículos Asegurados, in Spanish) registered 28.8 million vehicles with mandatory insurance in 2009, a decline of 0.18% from the previous year.

⁴ Road accidents with fatalities recorded within 24 hours.

- By kind of road, conventional motorways had the highest number of fatalities (71% of the total).
- The number of fatalities in motorcycle accidents, which had been on the rise since 2004, and in particular in 2007, went down by 7.8% in 2009.
- Although the number of drivers aged 25-34 and involved in accidents with fatalities dropped by 20%, it still remained quite high, at 653.

Housing

In 2009 the Spanish housing market continued the downward trend that began in mid-2007, and again saw a drop in the main indicators measuring this sector:

- As for sales, in 2009 there were 463,000 real estate transactions, compared to 564,000 the previous year. It should be noted that since the first quarter of the year, in which there was a year-on-year decline of 34%, the market recovered somewhat, closing the final quarter with a yearly decline of 18%.
- Home prices fell for a second straight year, to 1,892 euros per square meter in the final quarter of the year, from 2,018 euros per square meter the previous year.
- In 2009, 1.1 million mortgages were taken out on rural and urban properties, a decline of 15.2% with respect to 2008. The average home mortgage was 118,000 euros, a drop of 15.7% from a year earlier. The average interest rate on a home loan was 4.6% (5.3% in 2008), and the average term was 21 years, down three from 2008.

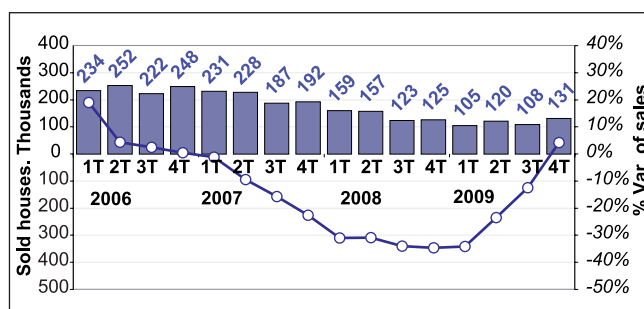


Chart 4. Home sales. Number of transactions and quarterly variation

Source: Housing Ministry

Creation of companies

According to data from the National Statistics Institute, in 2009 the number of businesses created was down by 25% at 78,000. The number of companies that dissolved rose 7%.

In April 2010, a total of 7,268 companies were created, up 14.6% from the same month in 2009 and down 16.7% from March 2009. The regions that saw the most start-ups were Madrid (1,520) and Catalonia (1,374).

The number of companies that dissolved in April 2010 was 1,276, for a year-on-year rise of 14.3%. Of them, 74.7% dissolved voluntarily, 8.9% because of mergers and 16.4% for other reasons.

4. Principle characteristics of the insurance market

4. PRINCIPLE CHARACTERISTICS OF THE INSURANCE MARKET

4.1. INTERNATIONAL MARKETS⁵

Premium volume in the **global insurance market** was \$4 trillion (2.9 trillion euros), of which 57.3% corresponded to Life and the rest to Non-Life branches. For the second straight year, because of the world financial crisis, the real variation in volume was negative, at -1.1% (-3.6% in 2008).

Global premiums from **Life** insurance fell 2% in 2009 (3.5% in 2008) to \$2.3 trillion (1.7 trillion euros). This performance was the result of the contraction seen in industrialized countries, mainly the markets of the United States and the United Kingdom. The financial crisis and declines on stock markets had a strong impact on unit-linked products, especially in the first half of the year. However, the rise in traditional life insurance policies with guarantees offset to a large extent the fall in these products in some markets, such as Italy, Germany and France, which posted premium growth. We should note that some of the growth in these countries came from short-term contracts that allow for the withdrawal of money at low cost or not cost at all. Life insurance grew in emerging markets with a rise of 4.2%, although this was far below the 14% posted in 2008.

Looking ahead, the recovery of financial markets is expected to favor growth in Life insurance premiums over the short term. Over the long term, this growth will be even greater because of the expected impact of demand for Life insurance products as the population ages.

Non-Life insurance premiums registered a slight increase of 0.1%, to \$1.7 trillion (1.2 trillion euros). This stemmed from a fall of 0.6% in industrialized countries, including the United States (-1.8%) and Western Europe (-0.5%). In emerging countries there was positive growth (2.9%), although the performances varied from one region to the next.

Losses from natural disasters came in below average, at \$22,000 million (15,800 million euros). North America was the region with the highest losses, as insurers paid out more than \$12,700 million in claims. Europe has the most costly natural disasters: winter storm Klaus, which hit France and Spain in January, the hail storm known as Wolfgang in Central Europe. These storms caused losses of \$3,400 million and \$1,200 million, respectively.

Even though damage from natural disasters and losses linked to financial guarantee insurance line were less than in the previous year, the average combined ratio worsened and came in at 102%, due mainly to the continuous fall in technical yield as a result of cheaper premium rates.

The **European insurance sector** recorded premium volume of \$1.6 trillion (1.1 billion euros) in 2009, an increase of 1.8% in real terms, compared to a decline of 9.9% in 2008. A total of 59% of premiums involved Life insurance and the remaining 41% were in Non-Life lines.

Although Life insurance saw real growth of 3.5% to \$954 million, premium performance varied greatly from one country to another. In the United Kingdom, which has Europe's largest Life insurance market, premiums fell 12%, in part due to the elimination of tax breaks for unit-linked products. The Netherlands, Belgium and Ireland also suffered single-digit

⁵ Source: Swiss Re. Sigma n° 2/2010

declines as financial turbulence cut into sales of those products. Countries such as Italy, France and Germany saw major rises in premium revenue thanks to attractive, guaranteed interest rates offered by Life insurers. But Life premiums in Central and Eastern Europe fell 20% as a result of the grave economic and financial crisis the region is enduring.

Non-Life insurance went down 1.2% to \$657 million due to the sharp fall in demand and a downward trend in premium rates. The countries with the largest declines in premiums were the United Kingdom (-3.1%), Italy (-2.5%) and especially Sweden (-16%). The largest growth was seen in the Netherlands (2.5%), Germany (1%) and France (1%), thanks to the Health and Damage lines.

Country	Premiums (thousand million USD)	Premiums/ inhabitant (USD)	Premiums/GDP
United States	1.140	3.710	8,0%
Japan	506	3.979	9,9%
Great Britain	309	4.579	12,9%
France	283	4.269	10,3%
Germany	238	2.878	7,0%
Italy	169	2.729	7,8%
China	163	121	3,3%
Netherlands	108	6.555	13,6%
Canada	99	2.944	7,4%
South Korea	92	1.890	10,4%
Spain	83	1.802	5,6%
Europe	1.611	1.861	7,6%
EU 27	1.482	2.775	8,4%
World	4.066	595	7,0%

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

Source: Swiss Re

For yet another year, the **Spanish insurance sector** remained in 11th place in the world ranking, although it did boost its market share slightly to 2.04% of total premium volume, compared to 2% in 2009. In Life it went up one spot to 12th, with a market share of 1.7%, while in Non-Life it dropped one place to 10th, with a market share of 2.5%.

With average expenditure per inhabitant of 1,264 euros, Spain is 26th in the world ranking of premiums per capita, dropping one spot from 2008. This figure remains below the European average, which is 1,337 euros. In Non-Life, the average expenditure per capita in Spain was 656 euros, higher than the European average of 539 euros. In Life it is the other way round: Spain's average spending was 608 euros and Europe's was 798€.

As for insurance penetration in the economy, Spain is in 29th place at 5.6%, while in Europe it is in 14th place.

4.2. THE SPANISH INSURANCE MARKET

4.2.1 MAIN INDICATORS

Production

In 2009 the Spanish market posted direct insurance premium volume 59,084 million euros, an increase of 1.5%, compared to a rise of 9% posted the previous year.

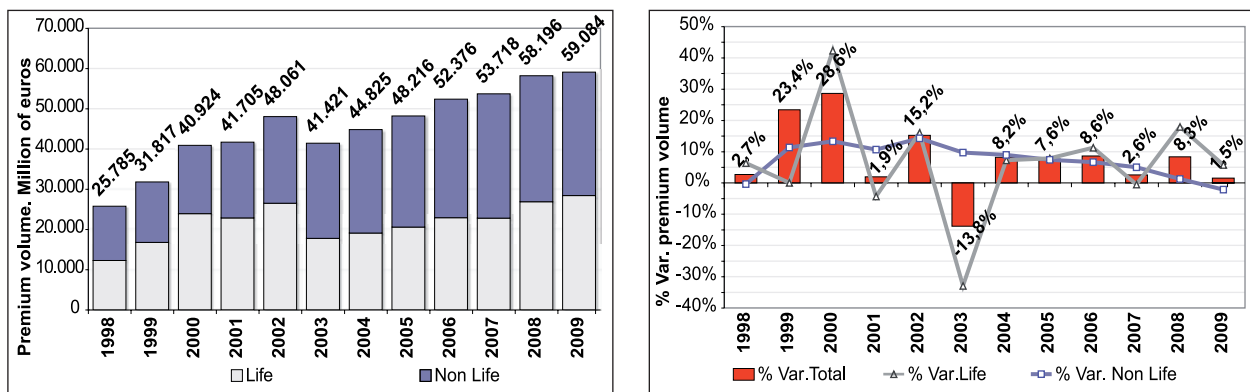


Chart 5. Evolution of the insurance market in Spain. Premium volume and variation.

Source: DGSFP

The main cause of this slow-down is found in **Non-Life insurance**, which accounts for 52% of the market and fell 2.2% to 30,655 million euros. Factors contributing to this result were weaker industrial activity as a consequence of the economic crisis, less demand and stiff competition in most insurance lines because of the degree of maturity of the market.

The Motor branch saw a drop in premiums of 5.2% as a result of a fall in sales of new vehicles (24.4%) and demand for products with less coverage as families had less disposable income. This continues to be the branch with the highest volume, with a market share of 19.3% of the total from all lines.

Multi-Peril insurance grew 4.8%, compared to 7.4% the previous year. Except for Commercial Premises, all branches within this sector posted growth above the average for Non-Life, although the deceleration trend that began in 2003 and gained pace in 2007 with the slowdown in the construction industry continues. Highlights include rises in Home (6.6%) and Condominium Multi-peril insurance (6.4%).

Health insurance also posted growth above the average for Non-Life, rising 4.7%, although this is the lowest growth figures in the past 10 years. Third-Party Liability insurance saw premium volume drop 11.6%, after various years in which it posted the highest growth levels within this sector.

Millions of euros

	2008	2009	%Δ s/2008	% s/Total
Total	58.223	59.084	1,5%	100%
Life	26.878	28.429	5,8%	48,1%
Non Life	31.345	30.655	-2,2%	51,9%
Motor	12.060	11.430	-5,2%	19,3%
Third party liability	6.580	6.123	-6,9%	11,1%
Other guarantees	5.480	5.307	-3,2%	9,3%
Multi-Risk	5.830	6.109	4,8%	10,3%
Househol	3.151	3.358	6,6%	5,7%
Industrial	1.251	1.287	2,8%	2,2%
Commercial Premises	653	638	-2,3%	1,1%
Condominiums	663	705	6,4%	1,2%
Others	112	121	8,0%	0,2%
Health	5.511	5.770	4,7%	9,8%
Healthcare Assistance	4.792	5.073	5,9%	8,6%
Illness	718	697	-2,9%	1,2%
Third party liability	1.773	1.568	-11,6%	2,7%
Burial expenses	1.550	1.626	4,9%	2,8%
Personal accidents	988	882	-10,7%	1,5%
Engineering	876	505	-42,4%	0,9%
Credit	738	719	-2,5%	1,2%
Trasnport	588	522	-11,2%	0,9%
Hulls	287	322	12,1%	0,5%
Goods	300	200	-33,5%	0,3%
Agricultural	437	545	24,8%	0,9%
Pecuniary losses	293	284	-3,0%	0,5%
Assistance	345	340	-1,6%	0,6%
Legal defence	127	125	-1,5%	0,2%
Fire	122	118	-3,6%	0,2%
Surety	82	76	-8,3%	0,1%
Theft	25	36	42,1%	0,1%

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

Source: FUNDACION MAPFRE with data from DGSFP

Life insurance, which had a market share of 48% of the total, registered premium growth of 5.8%, far below the 17.5% of the previous year. This apparently positive result was offset by surrenders seen by this sector (13,002 million euros). Still, the volume of technical provisions rose by the same proportion as premiums, or 5.6%, to 143,790 million euros.

Pension Plans closed the year with 84,789 million euros in assets under management, an increase of 8.1% compared to 2008. The number of policy-holders was 10.7 million, an increase of 1.2%, with a better performance from employment system plans.

Insurance penetration in the economy (premiums as a percentage of GDP) rose three tenths of a point to 5.6% because insurance activity grew more than the economy did. Density (premiums per inhabitant) went up slightly to 1,264 euros, with a 4% fall in the average Non-Life premium (to 656€) compared to a 5% rise in Life premiums (608€).

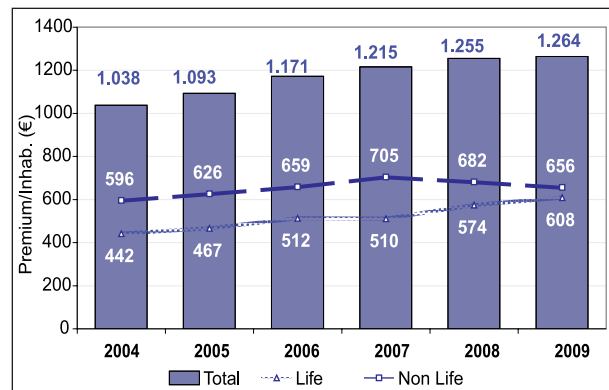
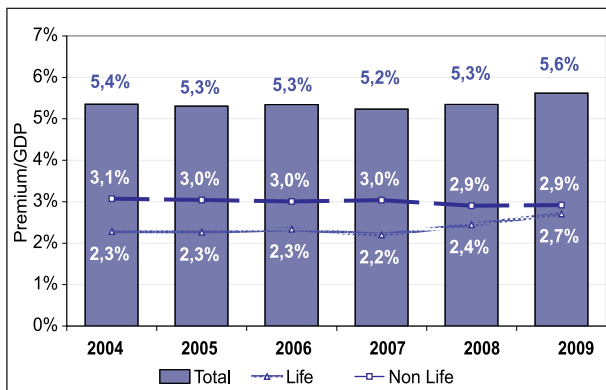


Chart 6. Penetration and Density

Source: FUNDACIÓN MAPFRE with data from DGSFP and INE

Results

Despite the challenging economic context of 2009, the results posted by the sector show a slight increase from the previous year. The non-technical account result rose to 3,633 million euros, an increase of 2.2% compared to the previous year. The sector's ROE fell slightly to 14.3%, but continues to be very good.

The improvement in the overall result is due fundamentally to growth in the technical account in Life insurance, which went up 29%. Analyzing the sectorial aggregate of this account, we see a significant reduction in net operating expenses, as well as a major drop in tangible fixed asset and investment costs, all of which had a favorable effect on the financial result.

The result of the Non-Life technical account fell by 4.6% in absolute terms, accounting for 10.8% of earned premiums (compared to 11.2% in 2008). This decline stems from stiff competition in the sector, in which there continues to be downward pressure on rates and a worsening of net claims ratio, which in aggregate terms increased by 1.3 points. The combined ratio in Non-Life insurance was 94%, 1.8 points more than in 2008.

The sector continues to show solid solvency margins, remaining at levels similar to those of 2008. The ratio of uncommitted assets over the minimum required by regulators was 2.6 in 2009. In Life insurance it was 2.1 (compared to 2 in 2008), while in Non-Life it was 3.4, unchanged from 2008. It should be noted that in 2009 the value of uncommitted assets of Non-Life insurers broke with the downward trend seen in recent years and was up 5.8% compared to 2008.

Millones de euros

Results	2008	2009	% Δ
Technical account	4.328	4.534	4,8%
Life	1.199	1.548	29,1%
Non Life	3.129	2.986	-4,6%
Non Technical account			
Before taxes	4.819	5.011	4,0%
After taxes	3.554	3.633	2,2%
ROE (%)	14,6%	14,3%	-1,6%

Table 4. Insurance sector results

Source: FUNDACION MAPFRE with data from DGSFP

Basic indicators [% of premiums]*	2008	2009
Increase in premiums	1,3%	-2,2%
Retention	86,0%	85,9%
Gross claims ratio	71,3%	69,6%
Gross expenses ratio	20,8%	20,9%
Operating costs	20,3%	20,7%
Net claims ratio	71,6%	72,9%
Net combined ratio	92,2%	94,0%
Financial result	3,5%	4,9%
Technical -Financial result	11,2%	10,8%

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

Table 5. Basic indicators. Non life

Source: FUNDACION MAPFRE with data from DGSFP

Prospects for 2010

Data for the first quarter of 2010 (ICEA) show a 3.7% fall in premium volume compared to the same period of 2009. The sector's growth prospects for 2010 will be limited by the weak economic recovery Spain is experiencing, stiff competition in the market and modest yields from investments.

The **Life insurance** sector faces instability in fixed-yield and equity markets and, above all, wariness of financial products among final consumers. Over the long term, prospects remain favorable because of the important role that Life insurance plays and must continue to play: the significant increase in rates of savings during hard economic times, insurance companies' solid levels of solvency, demographic prospects, the proven ability to offer innovative products with guaranteed yields, and the foreseeable reform of the public pension system, etc. Data for the first quarter of 2010 show premiums to be down 5.9%, while technical provisions rose 1%.

In the **Non-Life sector**, companies will have to keep battling a drop in demand for insurance as a result of the slowdown in business activity and the decline in consumption. Growth in premiums during the first quarter of 2010 was -2%. By branches, Motor insurance registered a more moderate fall than it did in the same period of the previous year (-1.7%). Multi-Peril insurance saw its growth slow by 3.5 percentage points compared to the first quarter of 2009, although it did still rise 1.2%. Industrial Multi-Peril was the branch hardest hit, with a fall of 4.8%. Lines with larger declines included Credit (-28.8%) and 10-year Construction insurance (-35.7%) as a result of the crisis in the real estate sector. Health insurance also posted slow growth at 4.4%.

4.2.2 MUTUAL PROVIDENT SOCIETIES

These are private, not-for-profit insurers which 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 the 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 in economic strength.

These mutual insurers handle a large amount of the capital invested in complementary pension plans in Spain. At the end of 2009 there were 403 of these insurers, which took in 2,443 million euros in premiums in 2009. That marked a 4.1 % increase over the previous year. The volume of assets under their management grew 7.9% to 30,000 million euros. The volume of technical provisions totaled 26,000 million euros.

4.2.3. STRUCTURE OF THE MARKET

Insurance sector

As of 31 December, 2009 there were 294 fully operational companies in the Administrative Registry of Insurance Entities, two fewer than the previous year. Of these, 202 were Public Limited Companies, 34 were Mutual Insurers, 55 were Mutual Provident Societies⁶ and 2 were specialized reinsurance companies.

⁶ It should be noted that the Administrative Registry of Insurance Entities features only companies that operate at the national level. The rest fall under the supervision of the corresponding regional government. The Spanish Confederation of Mutual Provident Societies includes practically all of these companies and has 403 members.

Over the course of the year, 12 companies stopped being operational: 10 public limited companies, one mutual insurer and one mutual provident society. There were also 10 new entries in the Administrative Registry of Insurance Entities: eight public limited companies and two mutual provident societies.

As of the end of 2009, nearly 49,000 people were employed by insurance companies.

The number of Spanish insurers with foreign capital was 48. The proportion of foreign capital was 22.3%, compared to 22.5% the previous year. Among changes that took place we can highlight an increase in stakes held by companies from France and the United Kingdom, and a decline in capital from Italy.

The number of branches of Spanish companies operating in states of the European Economic Area was 34, two fewer than in 2008, and Portugal was the one with the largest number of them. In 2009 there were 62 companies operating in the free-rendering-of-services system, one less than the previous year.

As for branches of foreign companies established in Spain, at the end of 2009 there were 65 from European Economic Area countries operating in this country and two from third countries. As of that date, there were 602 from the European Economic Area authorized to operate in Spain under the free-rendering-of-services system (80 more than in 2008) although not all of them actually do business.

In 2008, the last year for which information is available, the premium volume of Spanish companies operating in other countries of the European Economic Area was 868 million euros, a rise of 19% compared to 2007. One highlight is the 90.5% surge in free-rendering-of-services activity.

However, there was a 19% fall in premium volume among companies from other states of the European Economic Area in Spain, to 2,377 million euros. The decline affected both free-rendering-of-services activity (-23.7%), and right of establishment (-13%). A total of 39% of premiums were from Life insurance, led by companies from Luxembourg (59% of the Life business). The other 61% came from Non-Life insurance, with firms from France and the United Kingdom doing the most business.

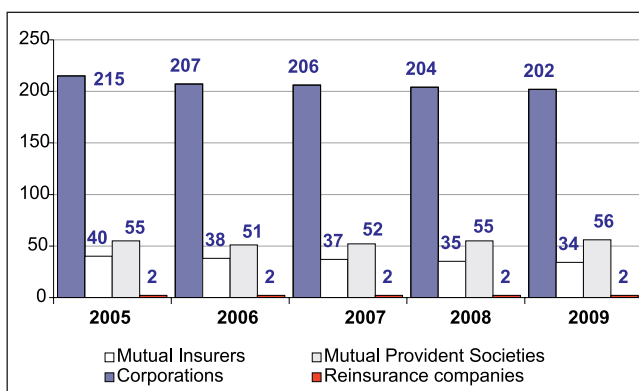


Chart 7. Evolution of the number of private insurance companies according to their legal structure

Source: Spanish Insurance and Pension Funds General Directorate

Origin of activity	Millones de euros		
	2007	2008	% Δ
Spanish companies in other EEA states	729	868	19%
Free rendering of services	82	157	90,5%
Right of establishment	647	711	9,9%
Companies from other EEA states in Spain	2.940	2.377	-19%
Free rendering of services	1.691	1.289	-23,7%
Right of establishment	1.250	1.087	-13,0%

Table 6. Premiums in 2007 and 2008 by activity

Source: General Directorate of Insurance

Intermediaries

According to data from the DGSFP, in 2009 there were 97,000 insurance and reinsurance intermediaries in Spain, with the following breakdown: 3,000 brokers, 170 linked bancassurance agents and operators, nearly 94,000 exclusive agents and operators, and 33 reinsurance brokers.

The structure of insurance distribution in Spain in 2008, according to the latest data published by the ICEA, shows that bancassurance operators comprise the main sales outlet, as they serve as intermediaries in 40.2% of insurance business volume.

Next come agents (27.8%), brokers (16.7%) and sales at company offices (11.8%). Sales over the telephone and via Internet continue to play a small role, with a market share of 2.7%.

This same applies to Life insurance, albeit with different market shares. But the breakdown changes significantly in Non-Life, where agents are the main sales channel, followed by brokers and sales at company offices.

Market share by channel (% premiums). Year 2008			
Business volume			
	Life	Non-Life	Total
Agents	14,6	39,6	27,8
Brokers	5,6	26,4	16,7
Banks/Building Societies	73,9	10,2	40,2
E-commerce	0,0	0,9	0,5
Offices and employees	4,7	18,2	11,8
Telephone sales	0,0	4,1	2,2
Other channels	1,2	0,5	0,8

Table 7. Statistics on distribution channels

Source: ICEA. Statistics on distribution channels

Business moves

The following business news in 2009 should be noted:

- Bankinter acquired 100% of Línea Directa Aseguradora, after purchasing the 50% stake it did not already own, from Direct Line Insurance Group Limited, which is part of the Royal Bank of Scotland Group.
- In May, Generali and Cajamar Caja Rural formed the new company Cajamar Seguros Generales de Seguros y Reaseguros, with each holding a 50% stake. In late 2009, Grupo Generali also decided to merge its Spanish units Vitalicio and Estrella Seguros.
- CNP Assurances and Barclays Bank launched a joint venture to offer Life insurance in Spain, Portugal and Italy. Also, CNP Assurances acquired 50% of BARCLAYS Vida y Pensiones.
- In October, ASEFA formalized the merger through absorption of Sabadell Aseguradora and Nueva Equitativa, companies which the French group had bought in 2008. That same year it purchased 100% of the shares of La Boreal Médica (which operates mainly in Health insurance).
- Late in the year Spain's Economy Ministry authorized the merger-by-absorption of Euromutua by Mutua General de Seguros. The new company is called Mutua General de Seguros - Euromutua, Sociedad Mutua a Prima Fija de Seguros y Reaseguros.
- In early 2010 CASER carried out a partial assignment of its insurance portfolio to Cajacanarias Aseguradora de Vida y Pensiones. The assignment includes all Life Risk policies, except the collective bargaining agreement implemented through group insurance policies. These two companies channel their bancassurance activity through a Life and Pension company in which each group holds a 50% stake.

Ranking of insurance groups

For yet another year, the **total ranking** of insurance groups is led by MAPFRE with a market share of 13%. In second place is the ZURICH group, which went up one spot to overtake SANTANDER. GRUPO CAIXA rose five rungs to take fourth place following excellent results posted by its unit VIDACAIXA, due to strong growth in life-savings insurance, and in particular life annuity products for individuals and Individual Systematic Savings Plans, known as PIAS in Spanish. The rest of the groups went down one place, except for AVIVA, which remained in the 10th spot.

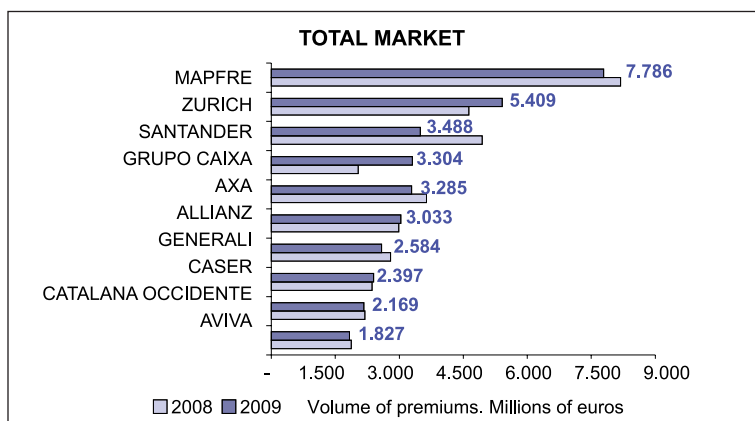


Chart 8. Ranking of insurance groups by volume of premiums. TOTAL

Source: ICEA

In 2009 the ZURICH became the new leader of the Life ranking. SANTANDER dropped to second, followed by GRUPO CAIXA which climbed two spots. That caused MAPFRE and AVIVA to go down one. AEGON rose three to take sixth place. BBVA SEGUROS took tenth place in the ranking, just behind GENERALI and overtaking AXA, which fell to 13th. The top 10 companies in the ranking control 74% of the market.

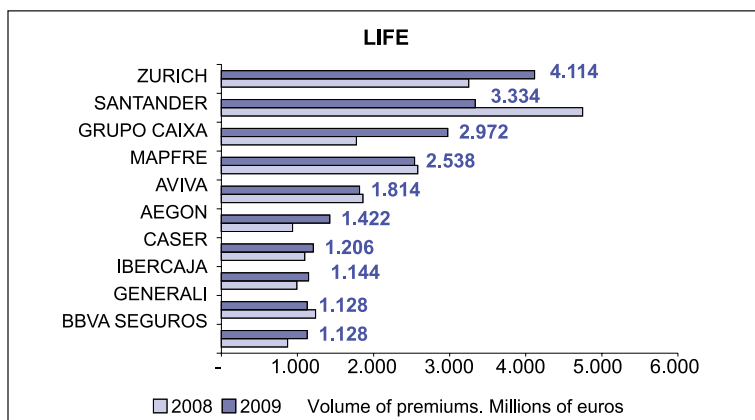


Chart 9. Ranking of insurance groups by volume of premiums. LIFE

Source: ICEA

For yet another year the **Non-Life ranking** was led by MAPFRE with a 16.5% market share. Next come AXA, ALLIANZ and CATALANA OCCIDENTE. The only change in the list was the rise of ADESLAS to seventh place and the consequent drop of MUTUA MADRILEÑA and CASER by one position each.

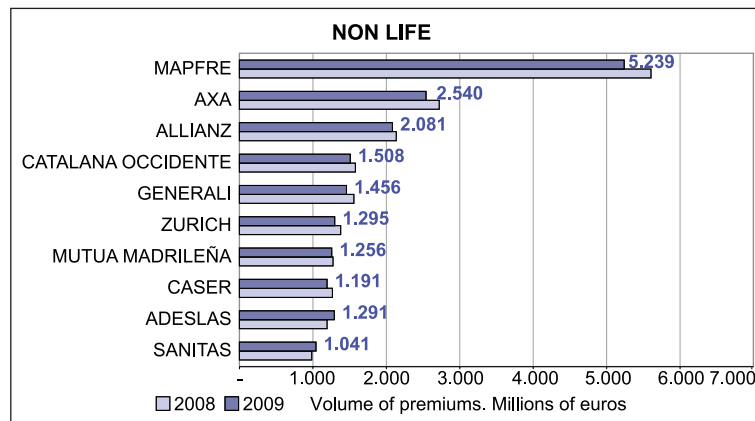


Chart 10. Ranking of insurance groups by volume of premiums. NON-LIFE

Source: ICEA

In the **Motor ranking**, MAPFRE stayed out front, followed by AXA and ALLIANZ. The first changes in the ranking start at the fourth rung: LINEA DIRECTA moved up one and sent ZURICH down to fifth place. REALE rose by one spot to overtake GENERALI, which was ninth, one lower than in 2008.

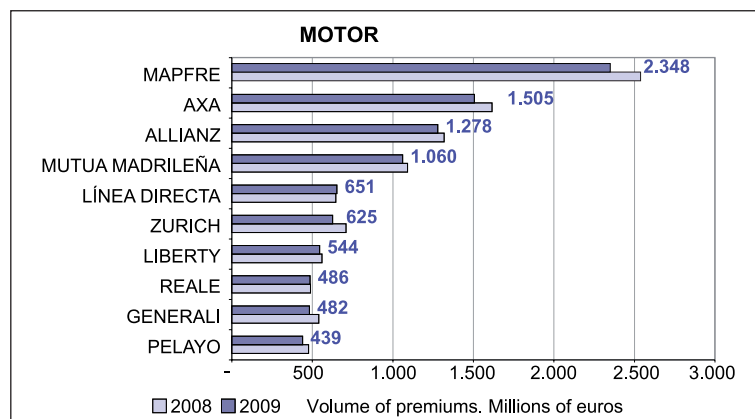


Chart 11. Ranking of insurance groups by volume of premiums. MOTOR

Source: ICEA

4.2.4. REINSURANCE

In 2009 the international reinsurance market did well, although it struggled in a context marked by a deep economic and financial crisis that affected the whole world, to one extent or another.

In the first half of the year, the reinsurance market posted reduced premium growth of 1.7%, and a combined ratio similar to that of the previous year. But in the second half of the year, the absence of natural disasters allowed it to reach a positive technical result. This, along with a recovery in investment yields, caused the net results for the year to show a significant improvement compared to the numbers from 2008. In the first quarter 2010 there have been major individual loss events and natural disasters (such as the earthquake that hit Chile) that affected the results of the market in general. Still, unless there are major natural disasters or the instability affecting the financial markets worsens, the year 2010 is expected to yield positive results, although it will be hard for them to better those of 2009.

The good results obtained in 2009 have allowed for a strengthening of reinsurance companies' shareholder funds, which eases their difficulty in obtaining new capital on the market and at the same time sharpens competition over rates and terms of coverage. This circumstance was clear in the renewals carried out in 2010, and forces reinsurers to be extra careful in their underwriting and minimize volatility and investment risk. With an eye to mitigating this difficulty, mergers or acquisitions are being carried out to achieve greater financial muscle.

The financial reinsurance market continues to carry out catastrophe bond transactions, although neither the number nor the total value is significant. There have also been changes in the legal address of reinsurers, with some of them moving from Bermuda to Switzerland or Ireland or forming a syndicate within Lloyds, as a way to ease possible regulatory risk and high costs of doing business in Bermuda. This migration could increase even more in coming years.

The two main ratings agencies assign stable prospects to the reinsurance sector for 2009 and 2010, and no change is foreseen in this outlook, unless the financial market deteriorates significantly.

4.2.5. CONSORCIO DE COMPENSACIÓN DE SEGUROS

Two events in 2009 stand out in the Consorcio's annual report: the very heavy storms that struck in January (the storm known as Klaus) and the Consorcio's intervention as a reinsurer in credit insurance.

Earned premiums in the Consorcio's general activities declined 1.4% in 2009 compared to the previous year, due mainly to the Automobile Guarantee Fund's lowering of premium rates and surcharges.

Claims incurred rose 78% as a result of a significant increase in claims in coverage of extraordinary risks. These claims were the highest in two decades. In 2009 a total of 252,661 damage claims were filed, most of them due to the storm Klaus in January, and secondly because of flooding that occurred in 2009.

Storm Klaus hit all of northern Spain and part of the central part of the country from 23-25 January, causing the heaviest losses addressed by the Consorcio since flooding that ravaged the Basque region in 1983. As of the end of the year, nearly 280 million euros in claims had been paid, and another 114 million euros were being processed.

	<i>Thousands euros</i>			
	Net earned premium		Net losses	
General activity	2008	2009	2008	2009
Extraordinary risks	676	692	294	678
Property	608	625	294	671
Persons	25	23	1	2
Loss of benefits	44	44	-1	4
Traffic risks	232	203	159	132
Guarantee Fund	196	178	113	97
Private vehicles	36	25	46	34
Official vehicles	1	1	0	0

Table 8 . General Activity of the Consorcio de Compensación de Seguros

Source: Consorcio de Compensación de Seguros

The Consorcio's reinsurance activity emerged in 2009 as a result of requests from the sector as it confronted a shortage of international reinsurance in the credit and surety lines. This in turn stemmed from a rise in non-performing loans because of the economic crisis. In June 2009, the Consorcio and UNESPA signed a Credit Reinsurance Agreement, which was joined by the four main companies in the sector and called for two kinds of arrangements: a quota-share mechanism and another with a stop-loss clause.

As expected, claims incurred were very high in 2009, especially in stop-loss coverage, because losses pending from 2008 and previous years were included.

4.2.6. SOLVENCY II

In 2009, the European Council and the European Parliament adopted the framework directive known as Solvency II⁷ (Level 1 Directive in "Lamfalussy" terminology), completing the first regulatory stage of the process. The rules must be incorporated into Spanish law by 31 October, 2012.

Over the course of 2010 the fifth Quantitative Impact Study, or QIS5, will be carried out, and the results will be released in the first quarter of 2011. The CEIOPS expects around 60% of all of Europe's insurers and reinsurers to take part.

The changes introduced by QIS5 will mainly affect the calibration of the different modules and sub-modules that make up the standard risk formula for calculating the Solvency Capital Requirement (SCR); the elements that constitute shareholder funds and their integration in the different tiers depending on their characteristics, as well as the calculation of capital requirements at the group level.

⁷ Directive 2009/138/CE of 25 November 2009, on life insurance, access to insurance and reinsurance activity and its exercise (Solvency II).

With this study, the European Commission's goal is to obtain data that will allow it to make decisions with regard to the proposal on rules for execution measures, which are scheduled for the spring of 2011. In order to do this, the companies taking part in the QIS5 study need to carry out the various alternative approaches that are proposed. At the same time, the fact that they reflect the impact of the financial crisis makes one think that the results will differ substantially from those of QIS4.

In Spain, the Insurance Oversight Law is making its way through Parliament. This bill will incorporate the Solvency II directive into Spanish law. It will incorporate regulatory aspects of level 2 and 3 measures in the framework of the Lamfalussy procedure which have yet to be developed, and the reform of the Solvency II directive through the Omnibus 2 directive, which will adapt the Solvency II directive to the new financial oversight architecture of the European Union, which is now being processed.

In April 2010, the first three chapters of the Insurance Oversight Law were presented to the Consultative Board, or Junta Consultiva. Highlights of the changes it introduces with respect to current law on private insurance include: those related to general authorization requirements, figures on share capital/mutual funds for newly created companies, the disappearance of Variable-Premium Mutual Insurers and Cooperatives, the elimination of the distinction between mutual insurers with or without supplementary contributions with regard to financial guarantees, the regime for applying the results of mutual insurers and mutual provident societies, limitations on the list of features offered by mutual provident societies, the new regime of financial guarantees and the special regime of smaller companies and mutual provident societies.

In October 2011 this bill will be presented to the Council of Ministers for its approval and then sent on to work its way through Parliament.

5. Evolution of the insurance market by branch

5. EVOLUTION OF THE INSURANCE MARKET BY BRANCH

5.1. LIFE

In 2009 Life insurance saw premium volume of 28,119 million euros⁸, up 5.7% compared to 2008. But this apparently positive result was offset by surrenders that the sector underwent (13,002 million euros). Nonetheless, the volume of technical provisions rose in the same proportion as premiums, or 5.6%, to reach 143,790 million euros.

Modalidad	Premium		Provisions	
	2009	% Variac.	2009	% Variac.
Individual	20.432	18,6%	82.094	7,4%
Group	3.534	-4,9%	44.062	-1,4%
Unit Linked	4.154	-26,6%	17.634	17,6%
Total	28.119	5,7%	143.790	5,6%
Risk	3.611	-0,1%	5.316	9%
Long term insurance	2	5.100,4%	3	21.511,6%
Savings/ Retirement	24.505	6,6%	138.471	5,5%
Insured Pension Plans	1.825	-26,0%	4.619	34,8%
Deferred Capital	8.909	3,5%	44.524	-2,2%
Annuity	8.467	59,0%	69.984	5,8%
Individual Systematic Savings Plans	1.150	18,1%	1.710	45,1%
Unit Linked	4.154	-26,0%	17.634	17,7%
Total	28.119	5,7%	143.790	5,6%

Table 9. Composition of Life insurance by class. Written premiums. Direct insurance.

Source: ICEA

As was the case last year, we must note the role played by Life insurance in the whole of the savings-retirement industry in Spain. Its growth was surpassed only by that of Pension Funds (8.1%) while Mutual Funds closed out 2009 with a 3% fall in assets under management.

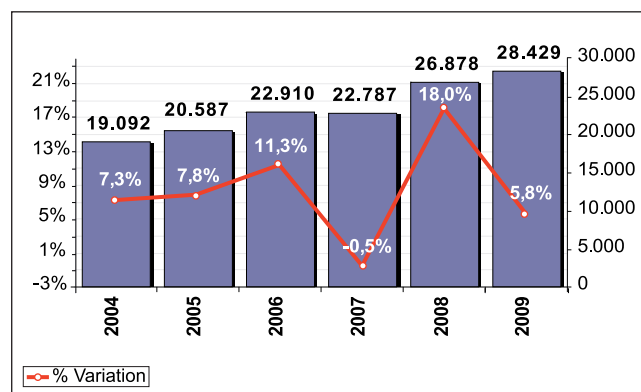


Chart 12. Evolution of Life. Written premiums. Direct insurance.

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

⁸ In discussing data on the Life branch we have used ICEA as a source because it provides more detailed information on each of the categories. The rest of the report uses data released by the General Directorate of Insurance and Pension Funds.

As for Life insurance penetration, the number of policy-holders as of the end of the year was more than 32.6 million, a rise of 1%, which was smaller than the increase posted the previous year.

Categories

By category, insurance with strictly death coverage continued to account for more than two-thirds of all policies, with 23.3 million policy-holders. Although this line of insurance expanded, in 2009 its pace of growth in 2009 slowed again (0.6% compared to 2.5% the previous year) as a result of the continuing recession in the real estate sector and the decline in home sales.

Class	Insured persons	
	Number	% Var.
Risk	23.338.012	0,6%
Long term insurance	15.477	1.857,3%
Savings/ Retirement	9.292.236	2,0%
Total	32.645.725	1,0%

Table 10. Composition of Life insurance by class.

Source: ICEA

Altogether, savings-retirement lines saw premium growth of 6.6%. As was the case in 2008, Individual Systematic Savings Plans (PIAS in Spanish) and Insured Pension Plans (PPAs in Spanish) were the products that performed best.

PIAS continued to enhance their appeal for investors, with provision volume of 1,710 million euros and growth of more than 45% compared to the previous year.

For their part, PPAs grew nearly 35% in managed savings to a total of 4,619 million euros, even though premium volume fell by one-fourth compared to the previous year.

We should note the 59% rise in premiums from Annuities insurance, whose technical provisions rose 5.8%. This class of insurance consolidated its position as the most deeply rooted as it approached 70,000 million in savings, just over half of the total managed by the sector.

Meanwhile, differentiating between individual and group Life insurance, the former expanded 8.9% while the latter slipped 1% in volume due to a drop in issuance (-5%) and a high volume of benefits over the course of the year.

Pension Plans and Funds

Pension plans ended the year with 84,789 million euros in managed assets, a rise of 8.1% compared to 2008. The number of pension plan members increased to nearly 10.7 million, a rise of 1.2%. Employment system plans performed particularly well.

The year 2009 saw the sector recover after the decline sparked by negative yields and the deceleration in contributions from the previous year. Practically all of the asset volume lost since late 2007 was recovered.

Within the category of individual pension plans, if one makes a distinction by kind of fund, one should note the leading role of those involving equities. For instance, pension plans that involved equities or were mixed rose 36% and 9% respectively, while among the rest of the different kinds of plans, none turned in a negative performance.

As for Mutual Funds, 2009 witnessed a slowing of the fall that began the previous year as a result of stiff competition from bank deposits, stock market volatility and the crisis of confidence among investors. The industry closed out the year with an asset decline of 3% and the loss of nearly half a million participants. Managed assets totaled 162,567 million euros, a figure similar to that of 1997.

Of the different categories of Mutual Funds, only half of them managed to retain their asset volume. This parity is not reflected in the assets under management as 75% of it had a negative balance. The best performers included long-term fixed-income funds and mixed fixed-yield funds, which increased 56% and 53%, respectively. Among those that declined, the worst performers were monetary funds and (-27%) and guaranteed equity funds (-18%).

Prospects for 2010

Signs are that 2010 will be a hard year for Life insurance.

Although major international organizations predict a moderate economic recovery at the global level, differences among regions are great and there is much uncertainty over how solid the economic growth will be. Furthermore, the future of the insurance sector in Spain will also depend on the country's economy, which is being subjected to austerity measures and major reforms.

With all of this, there will be curbs linked to the foreseeable high volatility of equity and fixed yield markets. This will mean instability in prices, yields and bond spreads. What is more, the Spanish economic context will not contribute to the sector's growth, given the high levels of unemployment, public deficits and weak demand at the consumer level.

However, other factors will exert a positive effect on the important role that Life insurance plays and must continue to play: the significant increase in savings levels during hard economic times, the high level of solvency shown by insurance companies, demographic prospects, the proven capacity to offer innovative products with guaranteed yields, the foreseeable reform of the public retirement pension system, etc.

Risk insurance will continue to enhance its role as part of insurance companies' business strategies, although credit will probably remain tight in this financial context and that will hinder the development of this kind of insurance.

As for other savings-retirement products, investors will continue to look to insurance with guaranteed interest, lifetime annuities and products linked to assets or structures with attractive yields.

Unlike in 2009, and to the extent that equity-based pension plans can get back on to the path of positive yields for their holders, PPAs will see a slower pace of taking on new clients and capturing consolidated rights. But they will continue to appeal to certain low-risk savers when it comes to choosing retirement products.

Meanwhile, the current recession and the difficulties facing the Spanish business sector will probably lead to a drop in revenue from group life insurance.

Finally, we must not the gradual increase in premiums and provisions of PIAS, a product that complements pension plans as a tool for long-term planning and savings with tax advantages.

As for Pension Plans, in 2010 they will probably recover their usual vigor. The planned reform of the government retirement pension system and measures that might be introduced to strengthen employment system plans would give a boost to this growing industry.

The situation will also be difficult for Mutual Funds. The level of net underwriting (in other words, excluding refunds) might remain negative, and instability on public debt markets could lead to a drop in the number of accounts and the volume of assets managed in Fixed-Income Funds. But prospects are generally good for Guaranteed Funds.

5.2. MOTOR

Automobile insurance posted premium volume of 11,430 million euros, its second straight yearly decline, which in this case was 5.2%. In 2009, the factors involved in the decrease the previous year continued:

- A fall in vehicle sales: registrations dropped 24.4% compared to 2008. As a result of this, the total number of vehicles registered saw its growth slow to 0.4% (2.4% in 2008).
- A reduction in the level of exposure to risk, as deduced from figures on consumption of gasoline and diesel fuel, which went down 5.7% in 2009.
- Demand for products with less coverage as a result of families having less disposable income.
- Stiff competition in premiums, which is seen in the nominal decline in the average premium per vehicle, which was 405 euros.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	-1,9%	-5,2%
Retention	90,3%	90,1%
Gross claims ratio	74,7%	77,9%
Gross expenses ratio	18,2%	17,5%
Operating costs	18,0%	18,1%
Net claims ratio	75,9%	79,2%
Net combined ratio	93,9%	96,6%
Financial result	4,0%	5,9%
Technical -Financial result	10,1%	9,3%

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

Table 11. Basic indicators for Motor insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Year	Insured vehicles (1)		Premiums.		Average premium		
	Million	% Var.	Direct insurance (2)		€	% Variation	
			Million €	% Var.		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	-1,7%	420	-3,4%	-4,7%
2009	28,8	-0,2%	11.665	-3,8%	405	-3,6%	-4,4%

* Estimated

(1) FIVA

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

Table 12 . Evolution of average Motor premium

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

In 2009, losses were down in almost all classes of coverage. This stemmed from highway safety measures and lower exposure to risk as people used their cars less because of higher fuel prices and the effects of the economic crisis. For yet another year, Own Damage is the class of insurance with the highest frequency ratio, at 41%, while the rest remained below 11%.

Guaranty	Frequency[%]			Average cost (euros)		
	2008	2009	% Dif.	2008	2009	% Var.
Third-party liability	11,5%	11,0%	-0,5%	1.663	1.692	1,8%
Bodily injury	2,1%	2,1%	0,0%	5.282	5.245	-0,7%
Property	9,5%	9,0%	-0,5%	807	832	3,1%
Own damage	38,8%	41,0%	2,2%	868	859	-1,0%
Broken Windows	7,4%	7,6%	0,2%	272	284	4,7%
Theft	1,6%	1,7%	0,1%	1.134	1.013	-10,7%
Legal defense	2,7%	2,4%	-0,3%	255	282	11,0%
Ocupants	0,4%	0,4%	0,0%	1.273	1.321	3,7%
Fire	0,07%	0,07%	0,0%	4.912	4.017	2,2%
Revocation of driven license	0,03%	0,03%	0,0%	1.122	1.379	2,2%

Table 13 . Average frequencies and costs by coverage class

Source: ICEA

As for the average cost of claims, there were increases in most classes of Property Damage, especially in Legal Defence (11%), and Broken Windows (4.7%), in addition to Third Party Liability for property damage. The only lines that contracted were Theft (-10.7%), Own Damage and Third Party Liability for personal injury. The increase in the average cost of Property Damage shows that the consumer price index that affects this kind of claim is again higher than the general CPI.

Although it went down slightly compared to the previous year, Third Party Liability for personal injury continued to be the class of insurance with the highest average cost per claim at 5,245 euros, followed by Fire at 4,016.6 euros. Here, minority vehicles (farm, industrial...) are the ones that had the highest ratios due to peak losses. As for claims incurred, the Own Damage line had the highest rate (105%) both because of the frequency of claims and the makeup of coverage with respect to deductibles.

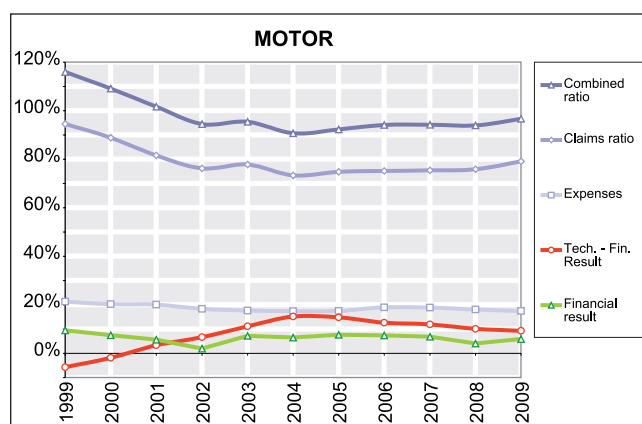


Chart 13. Evolution of results of Motor Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

In terms of results, even though the expense ratio improved by nearly a point, the net loss ratio rose to 79.2%. As a result of this, the combined ratio fell three points to 96.6%. A bet-

ter financial result partly offset the worsening of the technical result. The year ended with a technical-financial result of 9.3%, less than that of 2008 (10.1%).

Finally, in 2009 there were two legislative changes that will cause premiums to be lower.

- As of 1 July, 2009, there was a reduction in the surcharge paid to the Consorcio de Compensación de Seguros for financing its functioning with regard to mandatory Third Party Liability insurance⁹. The surcharge was reduced by one-third and was set at 2% of the commercial premiums of this mandatory insurance.
- In 2008 and 2009 the tax on insurance premiums went down by 75% for transport of goods and passengers.

Prospects for 2010

In 2010 Motor insurance will continue to suffer collateral effects from the economic crisis, which will continue to manifest itself in a movement of customers toward cheaper products and coverage. Comprehensive coverage policies will be replaced with products with deductibles or third party insurance.

As a result of this, premiums are expected to decline throughout the sector as companies are tempted to press on with the strategy of reducing prices in order to lure and hold on to customers. But their hands are tied here because ratios continue to suffer and the technical margin is already very slim.

Data for the first quarter of 2010 (ICEA) show a year-on-year variation of -1.7%, as opposed to -7.3% the previous year.

As for first-quarter results, the technical financial result came in at about 12%, two points higher than the 10% posted in the first quarter of 2009. The combined ratio was 97.1% (95.6% in the first quarter of 2008). The financial result was 8.9% (compared to 5.5% in the first quarter of 2009).

There are two negative factors that must be noted: the rise in VAT in July 2010¹⁰, in which the Motor insurance line will be the hardest hit as its companies will have to assume the extra cost that the higher tax will mean for vehicle repairs; and the Industry Ministry's plans not to extend the so-called Plan 2000E providing direct aid to encourage car purchases, once the 100 million euros budgeted for 2010 run out.

The sector is awaiting important legislative changes such as the Solvency II directive and a possible reform of the scale spelling how much in claims must be paid to persons injured in accidents. This might require greater resources from insurers.

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

¹⁰ It must be noted that insurance premiums do not include VAT and the increase in VAT will not affect claims paid out for injuries or fatalities in traffic accidents, or the services provided by companies' internal professionals. Therefore, the rise in VAT will not mean a direct increase of 2% in companies' loss ratios, but rather a smaller one. Companies can be expected to pass this increase onto clients through higher rates.

5.3. MULTI-PERIL

Multi-Peril insurance posted premium volume of 6,109 million euros in 2009, which made for an increase of 4.8% compared to the 6.5% rise of the previous year. The slowdown in growth that began in 2003 continued, and in 2008 it was fueled by the decline in the real estate sector. The Home, Condominium and Other Multi-Peril categories registered growth that was above the average of Non-Life branches.

According to data published by the ICEA, average policy growth was about 2.2%, with a cancellation rate of 22% for Commercial Premises and Industrial and 11% for Home and Condominium.

For yet another year, the Home Multi-Peril category posted the highest premium volume (55%), followed by Industrial (21.1%), Condominium (11.5%), Commercial Premises (10.4%), and Other Multi-Peril (2%). The growth rates posted in 2009 were 6.6% for Home, 6.4% for Condominium and 2.8% for Industrial. Commercial Premises Multi-Peril suffered a 2.3% decline in premium volume.

Like other Non-Life branches of insurance, Multi-Peril insurance is experiencing stiff competition that exerts downward pressure on rates and prompts companies to offer new kinds of coverage that sets their products apart and enhances their value.

The claims ratio managed to stabilize at the end of the year, following the sharp rise in the first quarter of 2009 because of the storm Klaus (the atypical cyclonic storm that hit the north of the peninsula from 23-25 January). This caused the net loss ratio to rise more than one point to 62.8%. Good financial results and a stable expense ratio gave rise to a technical-financial result of 11.2%.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	6,5%	4,8%
Retention	81,3%	81,5%
Gross claims ratio	60,5%	61,4%
Gross expenses ratio	28,9%	28,9%
Operating costs	27,7%	27,9%
Net claims ratio	61,7%	62,8%
Net combined ratio	91,9%	93,4%
Financial result	2,9%	4,6%
Technical -Financial result	11,0%	11,2%

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

Table 14. Basic indicator for Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

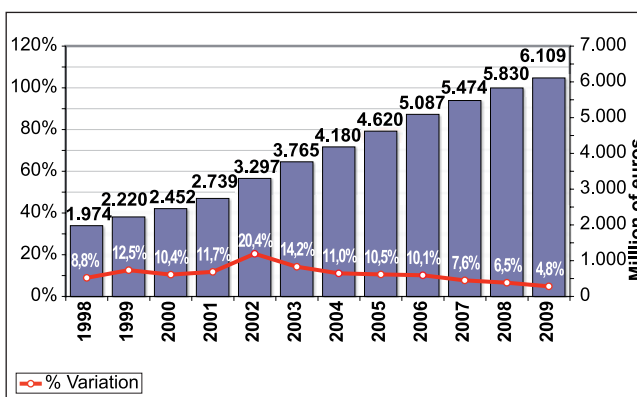


Chart 14. Evolution of Multi -Peril insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

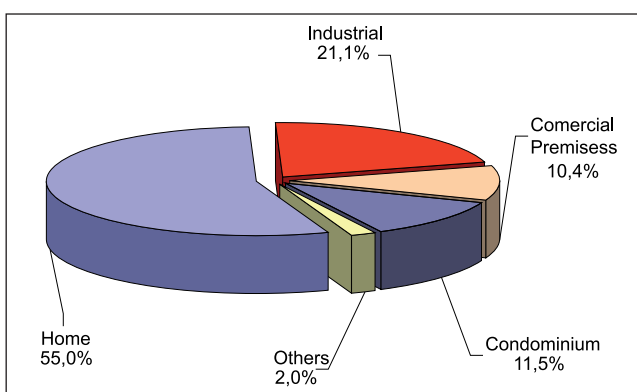


Chart 15. Distribution of Multi - Peril premiums by class of insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Prospects for 2010

Data for the first quarter of 2010 show a net result of 0.1%, more than a point higher than the one this class of insurance posted in the same period of the previous year.

In 2010, more moderate premium growth is expected in the various categories of Multi-Peril insurance than in 2009. This reflects the sharp decline in housing construction, the perennidad of companies and the rise in the number of unemployed as a result of the worsening of the economic crisis.

In conditions like these, the scenario will once again be one of fierce competition (as a result of excess supply), downward pressure on rates, customers who are less loyal and a drop in margins. Companies will respond by stressing quality and standard levels of coverage without forgetting the technical core of the business.

5.3.1 HOME MULTI-PERIL

Home Multi-Peril saw premium volume of 3,358 million euros for an increase of 6.6%. The number of policies rose 2.6% and the cancellation rate was 11%.

The coverage with the greatest frequency of claims and highest average cost per policy was for water damage.

As for the kinds of coverage that companies offer their customers, there was a strengthening of the trend that began last year toward incorporating assistance guarantees (such as computer tele-assistance or medical-telephone assistance. Others have been added, such as home repair service.

Once again, production from bancassurance declined, due to a fall in mortgages and the fall in purchases of homeowner's insurance stemming from such purchases.

In terms of results, one must keep in mind that in recent years weather conditions have been more and more harsh and the scope of the damage has more and more of an effect on company results. The gross loss ratio fell by four points, and the net loss ratio by about two points to 62.5%, causing the combined ratio to worsen. The financial result improved by more than one point, which offset to some extent the worsening of the technical result. The year ended with a technical-financial result of 8.5%.

Another important factor was the fall of the CPI as a premiums re-evaluation ratio in property insurance, specifically in homeowner's insurance. In 2009 the CPI was negative for eight months, which curbed the sector's growth.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	9,2%	6,6%
Retention	91,9%	92,0%
Gross claims ratio	59,2%	63,2%
Gross expenses ratio	32,2%	32,4%
Operating costs	31,0%	31,1%
Net claims ratio	60,3%	62,5%
Net combined ratio	92,4%	95,1%
Financial result	2,3%	3,6%
Technical -Financial result	9,9%	8,5%

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

Tabla 15. Basic indicator for Home Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.3.2 INDUSTRIAL MULTI-PERIL

This line of insurance registered premium volume of 1,287 million euros, an increase of 2.8%. The number of policies grew by 6.6% and the cancellations rate was 22%.

The technical-financial result improved by more than two points to 15.6%, thanks to a rise in the financial result and a 1.5 point decline in the net expense ratio. That fall compensated for the rise in the net loss ratio.

5.3.3 COMMERCIAL PREMISES MULTI-PERIL

This line of insurance had premium volume of 638 million euros, a fall of 2.3%. The number of policies increased 6.7% and the cancellation rate was 22%.

As for coverage, the trend is toward introducing new service features that make it easier for customers to resolve problems, such as extending computer assistance by sending a technician directly to the business establishment.

The technical-financial result rose significantly by 14.3% as a result of an improvement of nearly one point in the combined ratio to 91.4%. This stemmed from a 2.5 point fall in the loss ratio. Another contributing factor was an improvement of more than 3.5 points in the financial result.

Bars and restaurants continue to be the sector that involves the most claims and the highest claims cost.

5.3.4 CONDOMINIUM MULTI-PERIL

Premium volume was 705 million euros, an increase of 6.4%, the highest all of the Multi-peril categories. The number of policies grew by 5.1% and the cancellation rate was 11%.

The range of potential new clients was reduced by stagnation in the construction sector and a toughening of bank's terms for granting mortgages. The context

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	2,6%	2,8%
Retention	55,0%	55,4%
Gross claims ratio	60,9%	56,3%
Gross expenses ratio	23,4%	22,3%
Operating costs	26,2%	25,8%
Net claims ratio	62,8%	63,7%
Net combined ratio	91,5%	90,9%
Financial result	5,0%	6,5%
Technical -Financial result	13,5%	15,6%

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

Table 16. Basic indicator for Industrial Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	4,5%	-2,3%
Retention	85,1%	85,2%
Gross claims ratio	61,8%	60,3%
Gross expenses ratio	29,0%	30,0%
Operating costs	28,1%	29,3%
Net claims ratio	63,9%	61,5%
Net combined ratio	92,2%	91,4%
Financial result	3,0%	5,7%
Technical -Financial result	10,9%	14,3%

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

Table 17. Basic indicator for Commercial Premises Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	10,7%	6,4%
Retention	86,6%	86,4%
Gross claims ratio	61,3%	63,9%
Gross expenses ratio	26,4%	27,6%
Operating costs	25,1%	26,4%
Net claims ratio	62,7%	62,5%
Net combined ratio	88,8%	90,3%
Financial result	2,7%	5,6%
Technical -Financial result	13,8%	15,3%

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

Table 18. Basic indicator for Condominium Premises Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

makes for a soft market, which leads to aggressive underwriting policies and downward pressure on rates.

As for new kinds of coverage, the trend is toward incorporating necessary, value-added services for condominium communities such as new coverage that helps with pest control (cockroaches, pigeons, etc), swimming pool maintenance and water treatment, leisure-time services and sports activities, as well as links with providers of certain services, such as removal of graffiti.

The financial result improved by nearly three points to 5.6%, which offset a 1.5 point worsening of the combined ratio. This made for a technical-financial result of 15.3%, up 1.5 points from the previous year.

Water-damage coverage remained the one with the greatest frequency of claims. Buildings between 31 and 40 years old are those which generated the largest number of claims and the largest average claim cost.

Historical results series

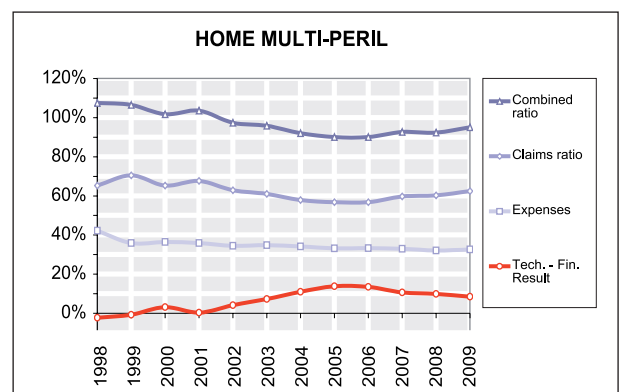
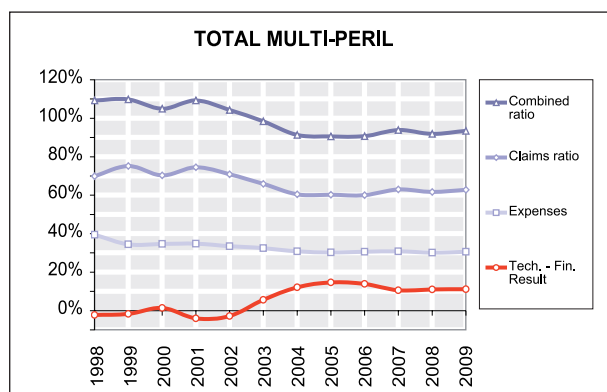


Chart 16. Evolution of results in Multi -Peril insurance. % of net earned premiums.
 Chart 17. Evolution of results in Home Multi -Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

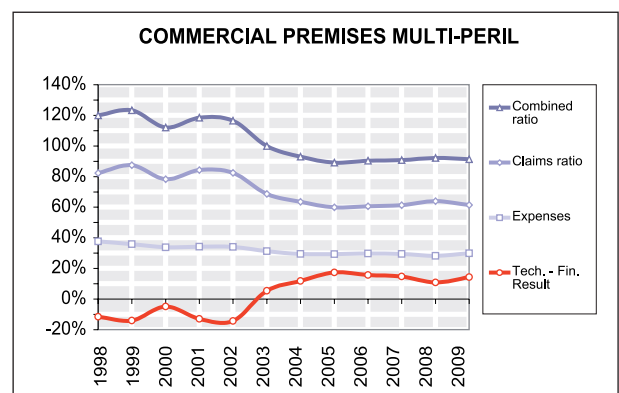
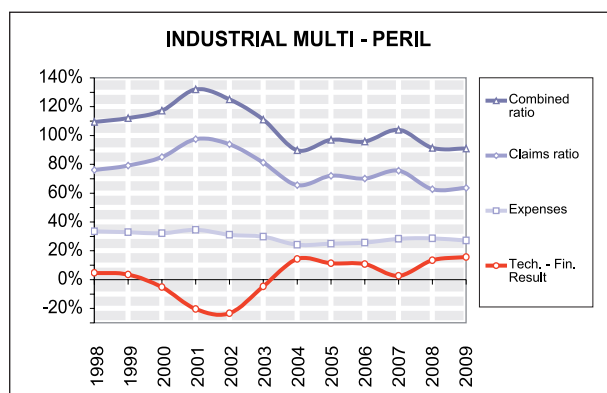


Chart 18. Evolution of results in Industrial Multi -Peril insurance. % of net earned premiums
 Chart 19. Evolution of results in Commercial premises Multi -Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

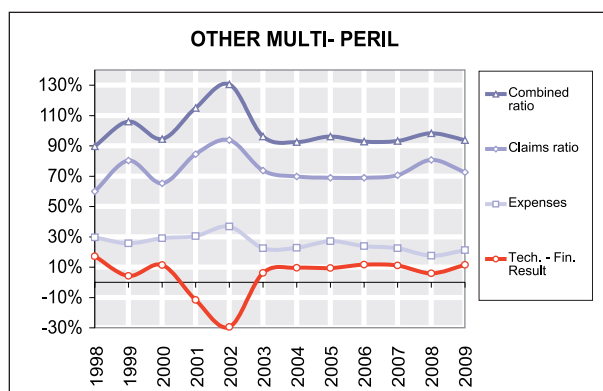
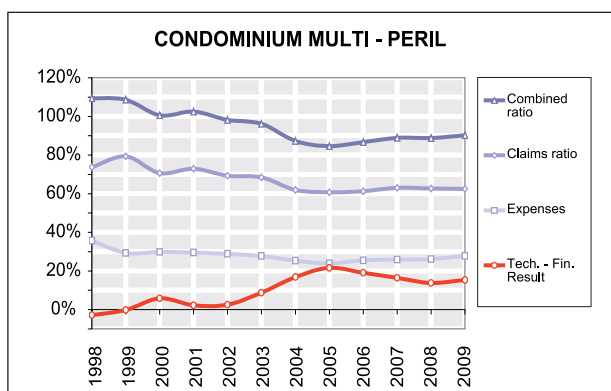


Chart 20. Evolution of results in Condominium Multi -Peril insurance. % of net earned premiums
Chart 21. Evolution of results in Others class of Multi -Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.4. HEALTH

Health insurance had premium volume in 2009 of 5,770 million euros, an increase of 4.7%, well above the average of the rest of Non-Life lines of insurance. Although Health is a very mature class of insurance, it is one of few that keep growing despite the economic crisis.

In 2009 there was yet again a slight slowing in its pace of expansion, due mainly to the joint effect of the following circumstances:

- The co-existence of this insurance alongside the National Health System, which is free and universal. Given the current economic situation, this kind of insurance is something families might deem as non-essential.
- A greater supply of group policies, which offer tax advantages and lower rates. This is causing policy-holders to cancel individual policies and opt for group ones. In 2009, group policies rose by 12.2% and individual ones by 6.8%.
- A crisis in the current system of mutual insurers for civil servants, in which the per capita premium paid by such employees is below that paid by private clients for the same services and does not respond to technical criteria. This circumstance is jeopardizing the public-private system of government employee mutual insurers and making the financing

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	7,2%	4,7%
Retention	98,6%	98,6%
Gross claims ratio	82,5%	84,7%
Gross expenses ratio	11,5%	10,7%
Operating costs	10,8%	10,2%
Net claims ratio	83,2%	86,2%
Net combined ratio	94,8%	96,9%
Financial result	1,2%	1,0%
Technical -Financial result	6,4%	4,2%

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

Table 19. Basic indicators for Health insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

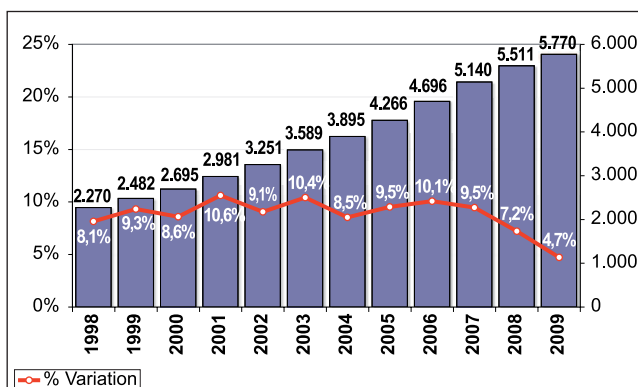


Chart 22. Evolution of Health insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

foreseen by these mutual companies unfeasible for insurers.

- Stagnation in the number of policy-holders at 8.3 million (ICEA) for Health-care Assistance, which represents 18% of the Spanish population.

Production continues to be highly concentrated, with the top five companies accounting for 65% of the market. As for supply, it is distributed mainly among Providing of Services (95.5%) which in turn breaks down into Health-care Assistance (84.5%) and Reimbursement of Expenses (11%). The rest are Accident or Benefits policies.

The average premium for insurance for Providing of Services (Health-care assistance and Reimbursement of Expenses) was 626 euros, slightly below the level of 2008 (631 euros). The premium for Benefits policies fell 6%, to 167 euros. The average premium for dental insurance was stable at 58 euros.

In terms of new benefits, insurance companies are aware of the economic difficulties that some families face and for this reason are incorporating new kinds of coverage that adapt to people's needs, such as suspension of premium payments in case of unemployment, modular insurance and lower-cost deductibles.

Companies also adding new kinds of coverage and expanding existing ones: biomechanical studies of how a person walks, assisted reproduction, crio-preservation of stem cells from the umbilical cord, reimbursement of the costs of adopting a child, refractive surgery, studies of the genetic profile of obesity, implantation of intragastric balloons and complementary therapies, such as osteopathy, homeopathy, acupuncture, psychiatric counseling, etc.

The Health branch suffered in 2009 even though the expense ratio improved nearly a point. The combined ratio continued with the upward trend it began in 2008 and worsened by two points to 96.9%. It was affected by a rise in billing from suppliers to health care providers. The financial result worsened slightly, so the technical-financial result fell 2.2 points to 4.2%.

Prospects for 2010

Data from the first quarter of 2010 (ICEA) show year-on-year premium growth of 3.9% compared to 5.4% in March 2009. The category with most growth was Reimbursement of Expenses at 5%, followed by Health-care Assistance with 4% expansion. A fall in issuance of new insurance is expected to continue, as is a rise in the cancellation rate. Claims incurred will rise in large part because of a per capita increase in billing by health care suppliers and the effect of policy-holders using health care services more often (the effect known as moral hazard).

As for results, the technical-financial result for the first quarter of 2010 was 3.3%, nearly three points below what it was in March of 2009. The combined ratio was around 96%, one point higher than in the same period of 2009.

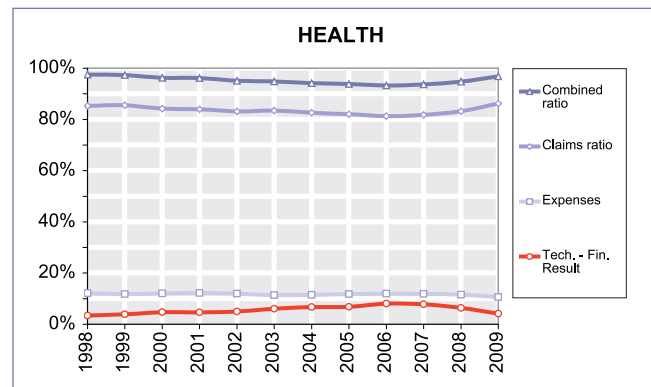


Chart 23. Evolution of results of Health insurance.
% of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.5. THIRD-PARTY LIABILITY

Third-party liability insurance continued the downward trend that began last year, and in 2009 it posted premium volume of 1,568 million euros, a fall of 14.6% compared to 2008.

The reasons for this performance are well-known:

- The economic slowdown, which, although it was already felt in previous years, was even more acute in 2009.
- The decline in the construction sector, which accounts for about 40% of all premiums in this line of insurance.
- Increased competition to obtain or hold onto major accounts.
- Individualized reductions in policies depending on variable factors such as billing volume and payroll, which have seen considerable declines. Here, not only have premiums been reduced, but there have also been frequent requests for reimbursement of a percentage of the anticipated premiums in those policies under regularization clauses when the minimum amounts previously set are not reached.
- The emergence of new insurance companies with large capacity, and broader activity by existing firms that aim to issue kinds of insurance which they had not previously offered.

One could say that 2009 was not a year marked by major events. Environmental insurance is still marketed even though it has not yet been confirmed that it is mandatory; mandatory insurance continues to emerge in a process that appears to have no end; and there have not been major Third-Party Liability claims, if one excluded the uncertain impact that the steady stream of bankruptcies might have on Third Party Liability Insurance for Administrators and Senior Executives, especially in the real estate sector. Finally, one issue which had seemed resolved has re-emerged: time limits for Third Party Liability coverage.

Basic indicators [% of premiums]*	2008	2009
Increase in premiums	-3,0%	-14,6%
Retention	70,2%	67,9%
Gross claims ratio	55,0%	50,5%
Gross expenses ratio	20,0%	21,3%
Operating costs	19,4%	20,4%
Net claims ratio	53,9%	51,7%
Net combined ratio	73,8%	75,8%
Financial result	7,6%	15,9%
Technical -Financial result	32,7%	40,1%

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

Table 20. Basic indicators for Third - Party Liability insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

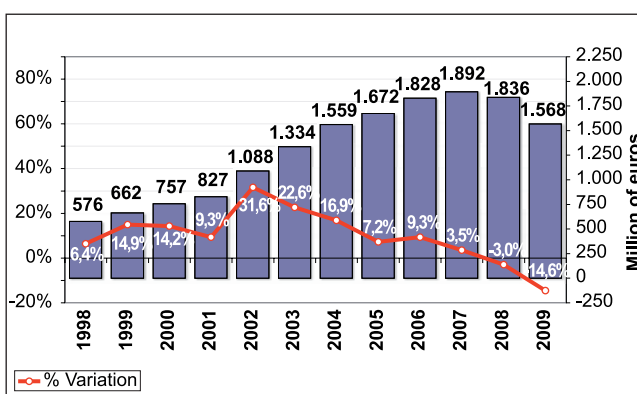


Chart 24. Evolution of Third - Party Liability insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

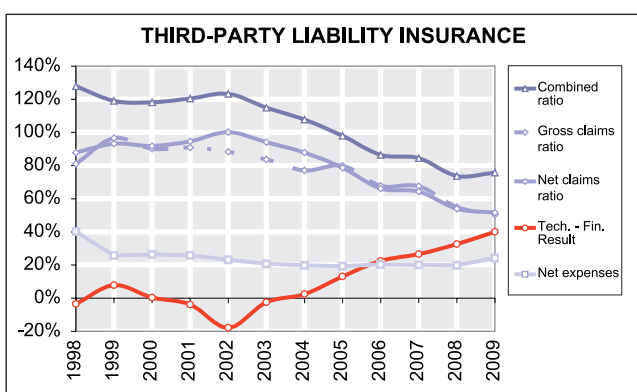


Chart 25. Evolution of results of Third - Party Liability insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Although production was down significantly, this branch posted a 40.1% rise, thanks to a nearly 7.5% increase in the financial result. This exceptional result (given the current economic context) stems from a change in the accounting criteria for assessing provisions. This has gone from considering the acquisition value to taking into account the market value. So this result is a product of re-evaluating investments.

Continuing the trend that began in 2002, the gross loss ratio fell six points to 50.5%, although in net terms the loss ratio went down about 3.5 points to 51.7%. One must take into account that in this line of insurance, claims are of long duration. So studying claims incurred is structured by analyzing over time the development of claims that occur each year. This low rate of claims incurred, the second lowest of any Non-Life branch, helped make the combined ratio the lowest in the Non-Life sector.

Operating expenses rose 1.3 points, as did other expenses, so the expense ratio on gross earned premiums went up nearly 1.5 points to 21.3%.

Prospects for 2010

As for 2010, one can say it is evolving in a way similar to 2009 in a “corrected and increased” fashion. In this regard, the fact that in recent years Third-Party Liability in Spain has reached a certain degree of maturity does not portend major changes, even if the economic cycle changes, so long as claims incurred remain so apparently favorable, as we know this is a kind of insurance that evolves over the long term.

Data from the first quarter of 2010 (ICEA) show a technical-financial result of 48%, down from 52% in 2009 mainly because of a worsening of the combined ratio, in which the net loss ratio rose more than 5.5 points.

5.6. BURIAL INSURANCE

In 2009 Burial insurance posted premium volume of 1,626 million euros, for a rise of 4.9%. Unlike most branches of insurance, Burial coverage was not affected by the economic crisis.

Burial insurance remains in the midst of a major transformation as it adapts to new insurance needs, which stem from social, demographic, economic and cultural changes. In this new scenario, companies are offering new guarantees and kinds of coverage in line with society's real demands. The main goal is to provide higher-quality service. Within this new context, one highlight is the inclusion of health coverage which offers a change of perspective over this branch, in addition to being a way to encourage younger people to take out this kind of insurance. Indeed, one of the challenges for this sector is to persuade young people to purchase this kind of coverage and stop seeing it as something antiquated and far removed from them. It is for this reason that the sector is offering coverage more readily associated with Life insurance.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	4,8%	4,9%
Retention	99,1%	99,5%
Gross claims ratio	53,3%	52,5%
Gross expenses ratio	36,7%	39,4%
Operating costs	34,3%	37,0%
Net claims ratio	53,7%	52,8%
Net combined ratio	90,5%	92,3%
Financial result	3,3%	4,5%
Technical -Financial result	12,8%	12,3%

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

Table 21. Basic indicators for Burial insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

In recent years the number of policies taken out has decreased, so the increase in premium volume is due mainly to an updating of the amounts that are insured.

The combined ratio rose about two points to 92.3%, due to an increase in gross expenses, which came in at 39.4%. The main reason stems from the inclusion of coverage that is complementary to what this line of insurance normally offers. However, the net loss ratio dropped one point to 52.8%. This was one of the lowest rates in all branches of Non-Life, along with Third-Party Liability and Accident insurance. The worsening of the combined ratio was offset by the financial result, which was 1.2 points lower than in 2008, giving rise to a technical-financial result of 12.3%.

Other relevant facts

The degree of maturity of the Burial insurance line, along with the emergence of new insurance categories and products, with characteristic marketing systems, has led regulators to introduce changes:

- *Royal Decree. 1298/2009, of 31 July, which modifies the Regulations on Organization and Supervision of Private Insurance.* With the goal of establishing more transparency in the area of insurance contracts, among other things this decree introduces the obligation of providing the policy-holder – before a burial insurance contract is agreed on – with a document which must contain, among other information: the definition of the kind of insurance being offered, the features and method in which the initial premium is calculated, the objective risk factors and a chart showing how annual premiums will evolve until the policy-holder reaches the age of 90. This requirement is just for burial insurance, not for other lines of Non-Life insurance.
- *Law 25/2009 of 27 December, also called the “Omnibus Law”.* In its annex number 7 it establishes that the government will carry out a study and propose changes necessary to guarantee freedom of choice in funeral services. This study, which has yet to be done, will encourage competition in the funeral industry by letting people choose a funeral home freely, even if they have taken out a private Burial insurance policy.

Prospects for 2010

Figures from the first quarter of 2010 (ICEA) show a significant improvement in the result, which has gone up to 12.9%, compared to 6.3% in the same period of the previous year. Premium volume posted a year-on-year increase of 1.3%.

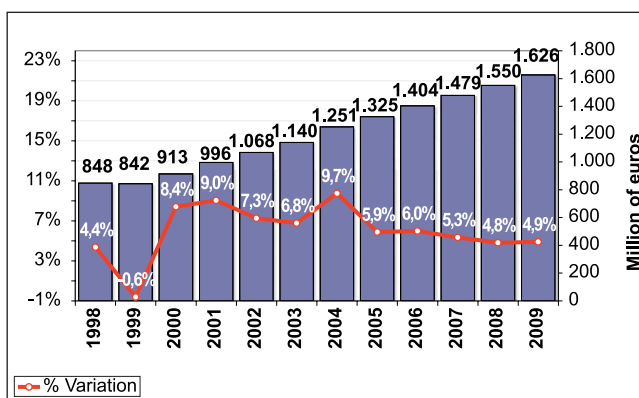


Chart 26 . Evolution of Burial insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

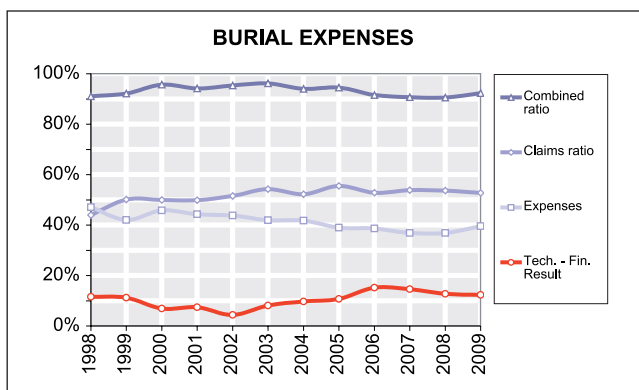


Chart 27. Evolution of results of Burial insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.7. PERSONAL ACCIDENT

In 2009, Accident insurance registered premium volume of 882 million euros, a drop of 10.7% compared to the previous year.

This result reverses the growth trend seen in recent years. The change is due mainly to the impact of the economic crisis on households and stiff competition in the sector, which has led to lower rates and more aggressive underwriting policies.

In this context, insurance companies try to adapt to the new circumstances, offering new products designed to make up for situations of lower purchasing power due to accidents (accidental death or permanent and complete incapacitation), through compensation for monthly mortgage payments and/or outstanding balances on credit cards. There is also a growing demand for new coverage involving assistance, such as psychological counseling in individual and group policies.

In 2009 the downward trend in claims which began in 2000 continued. This was a result of improvements in workplace and highway safety. The gross loss ratio dropped around 7 points to 33.5% and the net loss ratio fell about 4.5 points to 34%. Thus, the combined ratio was 67.8%, posting an improvement of 5.5 points. Thanks to all of these factors, the technical-financial result grew to 37.1%, a result surpassed only by that of the Third-Party Liability class of insurance.

Prospects for 2010

Data from the first quarter of 2010 (ICEA) shows a technical account result of 33.2%, down from 37% in the first quarter of 2009.

Low claims ratios seem to be consolidating thanks in part to structural measures in workplace and road safety. This, along with the limitations imposed by the economic situation, point to a generalized lowering of prices. It will therefore be necessary to pay attention to these to avoid rates that are insufficient.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	4,2%	-10,7%
Retention	88,8%	88,9%
Gross claims ratio	40,6%	33,5%
Gross expenses ratio	33,7%	32,8%
Operating costs	30,9%	30,0%
Net claims ratio	38,5%	34,0%
Net combined ratio	73,3%	67,8%
Financial result	2,8%	4,9%
Technical -Financial result	29,5%	37,1%

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

Table 22. Basic indicators for Personal Accident insurance

Source: FUNDACIÓN MAPFRE wiht data from DEC (DGSFP)

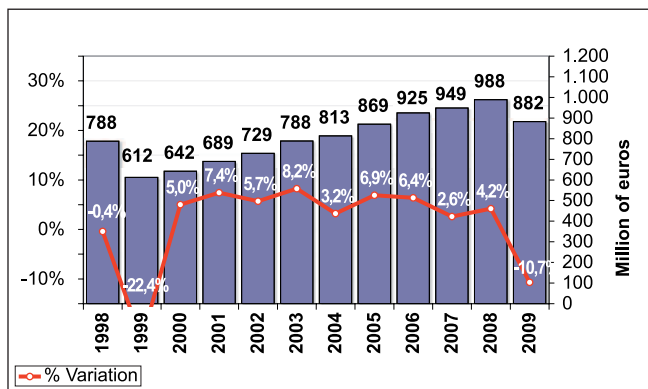


Chart 28. Evolution of Personal Accident insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE wiht data from DEC (DGSFP)

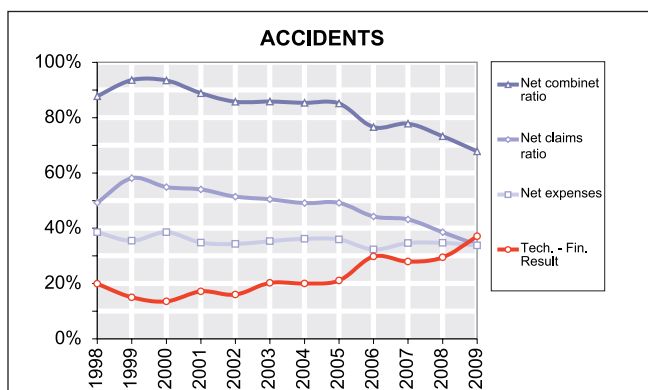


Chart 29. Evolution of results of Personal Accident insurance. % of net earned premiums

Source: elaboración propia a partir de la DEC (DGSFP)

5.8. CREDIT

The credit category of insurance had premium volume of 719 million euros in 2009, a decline of 2.5% from the previous year.

The gradual slowing down of the international economy worsened the already deteriorated conditions for business credit. The bad loan rate among companies rose significantly, as did the number of companies that went into receivership¹¹. For the second straight year, these circumstances ate away at insurance companies' results. These firms were forced to continue analyzing in a very strict fashion their underwriting criteria in relation to coverage percentages and deductibles, limiting the market's capacity.

The drastic rise in claims incurred in 2008 put an end to various years of lower prices and caused premiums to rise. It should be recalled that credit insurance is highly concentrated: in 2009 the top three groups accounted for 86% of the market.

The gross loss ratio fell considerably to 97.6% (96.7% in net terms) as insurance terms were adapted to the economic environment and because of the changing trend in non-payment of premiums by businesses since the second half of 2009. Net operating expenses fell about 1.5 points to 28.5%, while the total expense ratio¹² remained at 17.8%. As a result of this, the combined ratio fell significantly from 124.1% to 115.1%. This result also stems from the fact that in 2009 the technical account no longer featured the variation in the stabilization provision, as it is no longer of a technical nature.

The financial result deteriorated more than more than 4 points to 6.5%, which, along with the high combined ratio, made the technical-financial result negative to the tune of more than 35 million euros, or -8.6% of premiums.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	6,9%	-2,5%
Retention	52,6%	53,7%
Gross claims ratio	143,9%	97,6%
Gross expenses ratio	17,9%	17,8%
Operating costs	29,8%	28,5%
Net claims ratio	117,8%	96,7%
Net combined ratio	124,1%	115,1%
Financial result	10,9%	6,5%
Technical -Financial result	-13,2%	-8,6%

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

Table 23. Basic indicators for Credit insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

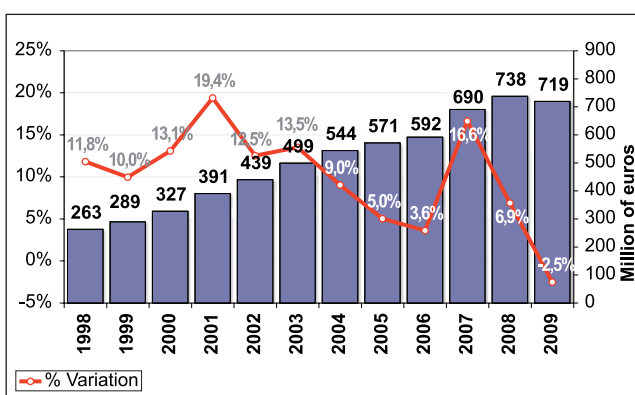


Chart 30. Evolution of Credit insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

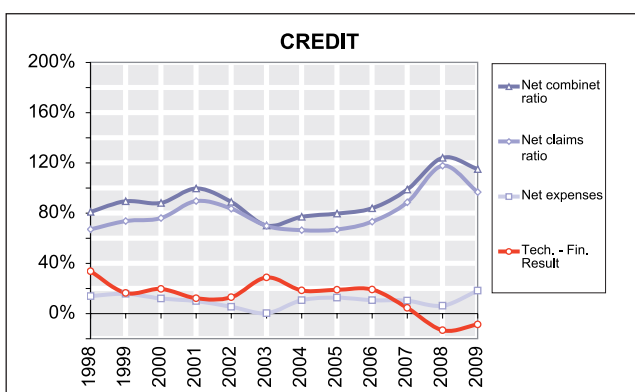


Chart 31. Evolution of results of Credit insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

¹¹ According to data published by the National Statistics Institute, the number of companies that went into receivership in 2009 rose to 6,034, a jump of 182% compared to 2008.

¹² In this line of insurance it is common for companies to provide information on risk classification. Due to their importance, revenue from this activity (which show up in the technical account as Other Technical Income) are added to the numerator of the expense ratio (with a negative sign), causing the total expense ratio to be smaller than the operating expense ratio.

In June 2009 a reinsurance agreement for credit risk was signed by the Consorcio de Compensación de Seguros and UNESPA in order to provide capacity through reinsurance and revitalize credit transactions in the Spanish business sector. This transitional measure has allowed insurance companies to have their own capacity, managing it over the medium term. The agreement has served to add stability to the Spanish credit market at a time of great uncertainty in which several reinsurers operating in this sector were considering whether to stay or get out.

Prospects for 2010

As for premiums in this sector, they are expected to see an even greater decline than that which they ended up posting in 2009. In this sense, the sector will suffer from the steep fall in revenue coming in to insured companies.

In 2010 the claims frequency in this line of insurance is expected to stay at moderate levels and far below the one seen in 2009. In this regard the credit insurance sector could be affected in 2010 by major claims, caused mainly by companies having difficulty completing refinancing processes. Still, prospects looking ahead to the close of 2010 point to a major recovery of technical results.

Data from the first quarter of 2010 (ICEA) show a technical-financial result of 27%, a major improvement from the same period of the previous year (-87%). Improvement in loss ratio and the financial result are the factors behind this result.

In this context of lower income and recovery of technical results, it is likely the market will change the trend toward rising rates and stricter terms which began in 2008.

5.9. SURETY

In 2009 the Surety line of insurance had premium volume of 76.5 million euros, which marked a drop of 10.7% compared to the previous year. The crisis in the real estate sector played a major role in this decline.

The technical-financial result was particularly volatile: -62.6%, due to a drastic worsening of the combined ratio, in which the net loss ratio rose nearly 22.5 points (to 100.6%), and net expenses rose nearly 12 points to 39.8%.

Prospects for 2010

Data from the first quarter (ICEA) show a technical-financial result of 23% compared to -15% the previous year, with a significant improvement in the combined ratio, which was 82.2%, and a financial result of about 5%.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	2,7%	-10,7%
Retention	55,2%	41,6%
Gross claims ratio	128,3%	107,0%
Gross expenses ratio	27,7%	39,8%
Operating costs	27,7%	22,7%
Net claims ratio	76,2%	100,6%
Net combined ratio	107,0%	168,3%
Financial result	7,5%	5,7%
Technical -Financial result	0,5%	-62,6%

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

Table 24. Basic indicators for Surety insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

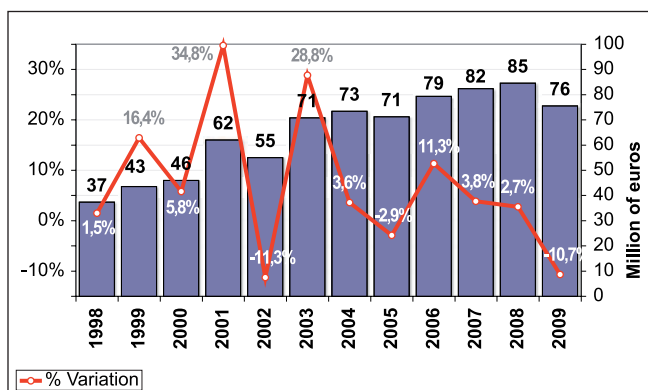


Chart 32. Evolution of Surety insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

This line of insurance will continue to suffer from the real estate crisis, as the volume of unsold homes leads to the virtual non-existence of new real estate developments. Government contracts, which had been stable in recent years, have gone down significantly as a result of government measures to cut public spending.

All of this is going to have a negative effect on the sector, both in premium volume and claims, which although one can assume it will be better than in 2009, will worsen the results obtained in the first quarter.

5.10. TRANSPORT

Transport insurance finished the year 2009 with premium volume of 522 million euros, a decline of 11.2% compared to the previous year. This result stems from the performance of its two main categories, Hulls and Goods, which performed in quite different ways.

Premiums from Hull insurance grew 12.1%, thanks to Aviation insurance which surged 26%. However, insurance for Goods dropped 33.5% compared to 2008, due in large part to the overall slowdown in the Spanish economy. This has caused a fall in road transport of goods.¹³

For yet another year, Transport insurance remained mired in a soft cycle characterized by a lowering of premiums as a result of fierce competition over prices and excess capacity in the Hull insurance market. The economic situation has had a negative effect on the performance of the Transport sector.

As for results, the net loss ratio improved around seven points thanks to strong numbers in insurance for Goods. This, along with a fall in gross expenses (1.4 points), caused a significant improvement in the combined ratio, which went up 7 points, to 98.7%.



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

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Basic indicators [% of premiums]*	2008	2009
Increase in premiums	-1,1%	-11,2%
Retention	51,9%	52,4%
Gross claims ratio	78,6%	65,5%
Gross expenses ratio	21,1%	19,7%
Operating costs	19,5%	18,6%
Net claims ratio	78,1%	71,4%
Net combined ratio	105,9%	98,7%
Financial result	5,1%	6,6%
Technical -Financial result	-0,8%	7,9%

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

Table 25. Basic indicators for Transport insurance, Total

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

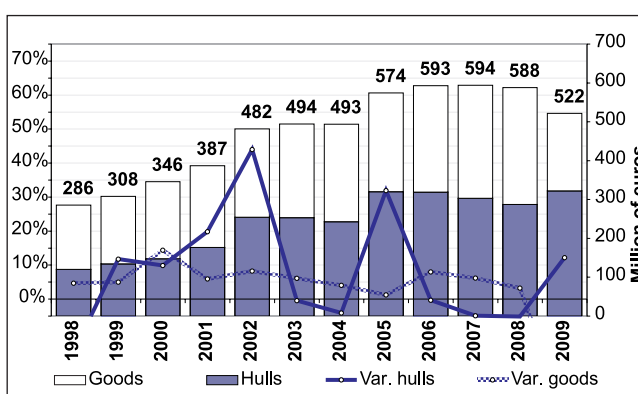


Chart 34. Evolution of Transport insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

¹³ According to a survey by the Spanish Development Ministry, in 2009 transport of freight by road fell by 17.9%. It fell 19.3% in terms of tonnage and 12.8% when measured in ton-kilometers.

Other significant events

With the goal of updating a law that had remained virtually unchanged since the promulgation of the Commercial Code in 1935, Law 15/2009 governing Contracts on Overland Transport of Merchandise was approved in November 2009. This law updates and completes the legal framework surrounding transport of freight over land (both on highways and railroads) and essentially adapts Spanish law in this area to the model that features in international conventions.

The crisis in which the road freight transport sector is mired has prompted the government to adopt a series of measures aimed at helping supply adjust to current market conditions. These measures include:

- Law 4/2008 of 23 December, which was still applied in 2009. This law, enacted in response to the lorry drivers' strike of June 2008, featured several changes in tax rules, such as a 75% reduction in tax on insurance premiums (IPS in Spanish) for 2008 and 2009. Over the course of 2009 the measure was applied through the issuance of returns and receipts with the IPS already discounted.
- Order FOM/3509/2009, which established a transitional system for rehabilitating land road freight transport permits.

5.10.1. HULLS

Premiums in this category, which make up 62% of the total in Transport insurance, grew 12.1% to 322 million euros.

The Aviation branch, which tends to be quite volatile, contributed to this result by posting a rise of 26% in premium volume. A more detailed analysis shows that in 2009 there was a continued drop in rates in the aerospace industry as a result of the market's solid capacity and the introduction of new technologies and initiatives aimed at reducing inherent risk.

Maritime insurance premiums fell 2.4% as a result of renewals at lower rates, more for entire fleets of ships than for individual vessels.

In gross terms of reinsurance, the claims ratio improved significantly, going from 96% to 74,5%. The combined ratio, although it was loss-making, dropped from 122.6% to 112.7%, with help from a fall of nearly 10 points in the loss ratio. A lower frequency of major claims improved this ratio significantly. An excellent financial result of 7.1% failed to offset the technical result, so the technical-financial result was -5.5%.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	-5,2%	12,1%
Retention	36,3%	41,8%
Gross claims ratio	96,0%	74,5%
Gross expenses ratio	15,6%	15,9%
Operating costs	13,7%	14,8%
Net claims ratio	97,0%	87,2%
Net combined ratio	122,6%	112,7%
Financial result	8,2%	7,1%
Technical -Financial result	-14,4%	-5,5%

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

Table 26. Basic indicators for Transport insurance, Hulls category

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

5.10.2. GOODS

Insurance for transport of goods had premium volume of 200 million euros in 2009, marking a decline of 33.5%. This major drop stems from lower demand for insurance as a result of the economic crisis, which reduced the volume of freight transport by 19.3%¹⁴ and therefore the volume of revenue.

The technical-financial result improved considerably, by 20.5%, thanks to an improvement of more than 11 points in the combined ratio and to a rise of nearly three points in the financial ratio. We should also note an improvement in the net loss ratio, going from 67.7% to 56.6%.

Basic indicators (% of premiums)*	2008	2009
Increase in premiums	3,2%	-33,5%
Retention	68,2%	69,1%
Gross claims ratio	60,5%	51,4%
Gross expenses ratio	26,9%	25,6%
Operating costs	25,6%	24,5%
Net claims ratio	67,7%	56,6%
Net combined ratio	96,7%	85,5%
Financial result	3,4%	6,1%
Technical -Financial result	6,7%	20,5%

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

Table 27. Basic indicators for Transport insurance, Goods category

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Prospects 2010

Keeping in mind the vast dimensions of the risks that are insured and the policies taken out, this category's behavior in terms of premiums and results tends to be highly volatile. So any forecast should be addressed with caution.

In the first quarter of 2010, a slow but gradual recovery is being observed in Goods insurance as the economy begins to pick up. This branch of insurance basically depends on levels of exports and imports, and in the first few months of the year there has been more movement than in the past two years. For these reasons, Goods insurance is expected to recover in 2010 and get back on a growth path, although the expansion might be minor.

As for Maritime insurance, there continues to be the problem of a large number of companies working in a branch that offers limited potential, a situation that inevitably drives rates down through stiff competition. The results in this line will show little to no growth, due mainly to the performance of fleets whose policies are being renewed with cheaper premiums or under the same terms as in 2009.

The technical account result for the first quarter (ICEA) shows a significant improvement in gross terms in Goods with a 72% increase and a 12% rise in Hulls. If one takes into account assignments to reinsurance, the figures are 40% and 7%, respectively.

Finally, there are signs of recovery in insurance for recreational vessels following the nationwide drop in sales of them and a drop in insurance taken out over the past two years.

¹⁴ According to data from the Development Ministry.

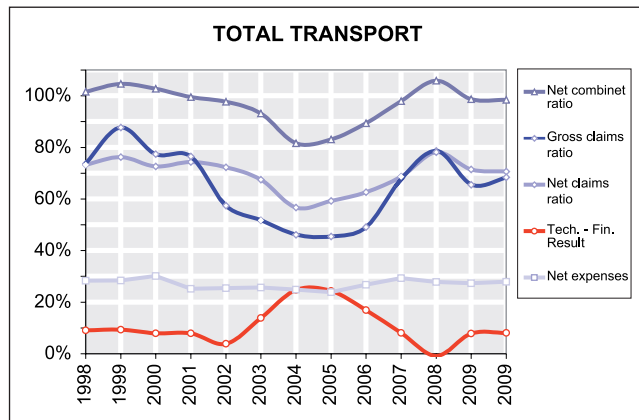


Chart 35. Evolution of results of Total Transport insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE wiht data from DEC (DGSFP)

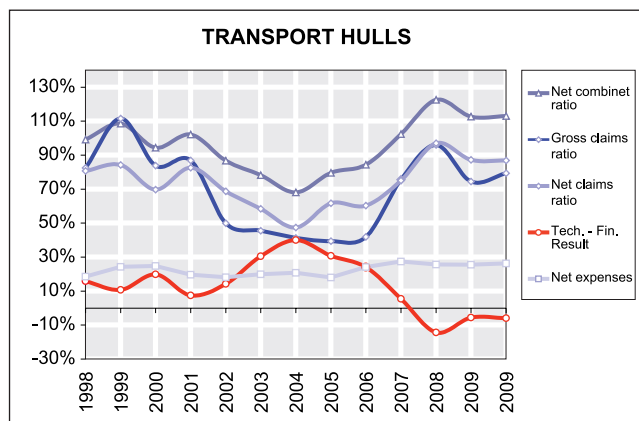


Chart 36. Evolution of results of Total Transport insurance, Hulls category. % of net earned premiums

Source: FUNDACIÓN MAPFRE wiht data from DEC (DGSFP)

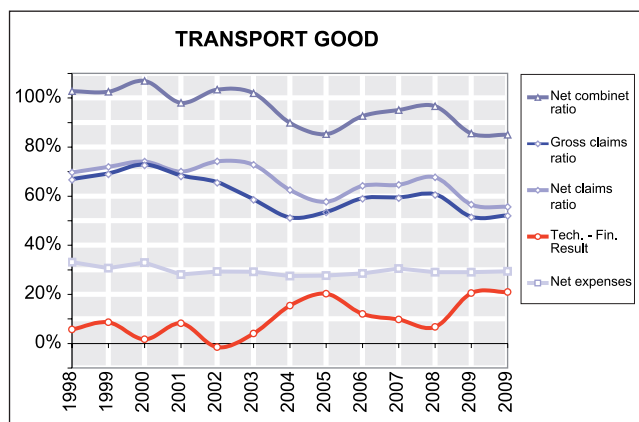


Chart 37. Evolution of results of Total Transport insurance, Goods category. % of net earned premiums

Source: FUNDACIÓN MAPFRE wiht data from DEC (DGSFP)

5.11. ENGINEERING

The Engineering sector (Machinery Breakdown, Construction Multi-Peril, 10-year Construction Insurance, Electronic Equipment and Product Warranty) posted premium volume of 536 million euros, an increase of 31% compared to the previous year.

The process of adjustment in the housing market, which began in 2007, has carried on as a result of the crisis in the real estate sector. For yet another year, there was a major drop in demand for housing¹⁵ and a significant decline in residential construction. This had a considerable impact on the Construction Multi-Peril and 10-year Construction Insurance categories, which saw their premium volume fall 17.8% and 47.7%, respectively. Spanish contractors are more and more international in scope and this is helping ease the impact of the decline in insurance for construction in Spain.

Insurance for Machinery-Breakdown had premium volume of 173 million euros, a drop of 26.9% compared to the previous year. The crisis in which the sector is mired led to a major drop both in premiums and the number of policy-holders. This was caused by the closure of companies linked to construction and a drop in renting or leasing of machinery.

Insurance for Erection, which in recent years had grown thanks to activity in the energy sector, also suffered a major drop of 35.4% in premium volume, to 24 million euros.

Finally, insurance for Electronic Equipment declined 8.6%. It should be noted that this category of insurance is also available under the Multi-peril formula.

Prospects for 2010

In 2010 the engineering sector will continue to suffer as a result of the crisis in the construction industry, with particular impact on 10-year Construction insurance, as many construction projects are halted and new construction falls drastically.

At the same time, a soft market will continue to weigh on the sector this year, and presumably this will hurt the combined ratio over the next few years.

Class	Millones de euros	
	2009	% Var.
10-year construction	133	-47,7%
Construction Multi-Peril	187	-17,8%
Machinery breakdown	173	-26,9%
Erection	24	-35,4%
Electronic equipment	19	-8,6%
Total Engineering	536	-31,0%

Table 28. Distribution of Engineering insurance by class

Source: ICEA

¹⁵ According to data from the Housing Ministry, construction of new homes in 2009 fell 28%.

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 a co-insurance arrangement known as (AGROSEGURO), in which Spain's central and regional governments subsidize part of the premiums and the Consorcio de Compensación de Seguros acts as director insurer and mandatory underwriter of some lines of business, although not in an exclusive way.

In 2009, this system faced a different scenario than it did in previous years: the economic crisis caused crop prices to fall significantly in the main sectors of production, and government subsidies that the central and regional governments provide for payment of insurance premiums were reduced in certain lines compared to 2008. This meant less insurance was taken out. A lack of rain significantly reduced expectations for grain crops, and along with them the purchase of combined insurance for them. As a result of all this, premium volume for the year was 650 million euros, a decline of 4.17% from 2008.

The agrometeorological year was extremely hot, in fact the second hottest since 1961. As for crops, the value of production fell 11.9% as a result of a decline both in prices and production volume. Livestock production dropped 9.4% due to lower production of cattle, sheep, goats, fowl and pigs. As for prices, they went up in beef, fowl and goats and down in the case of dairy products.

As for **underwriting** of Multi-peril Agricultural Insurance, nearly 483,000 policies were taken out, a decline of 4.7% from the previous year. By lines of business, premium revenue was as follows: 313.2 million euros from experimental lines, 180 million euros from viable lines and 157 million euros from SRM and HRM¹⁶ lines of insurance.

In terms of claims incurred, weather conditions were rather negative. Highlights of events causing losses over the course of the year included the following:

- In January, a wind storm in the northern and Mediterranean areas caused heavy damage to production of corn, crops grown in greenhouses and especially citrus fruits in Valencia.
- In the spring there was a major drought in the two Castilla regions, Extremadura and Andalusia. It caused major damage to production of grain and pastureland in Extremadura and Andalusía.
- From April through August there were fierce including hail in Alicante and Murcia, which damaged fruit trees and crops of table grapes. In Castilla-La Mancha, Navarra and La Rioja, the storms damage to grain crops and grapes used to make wine.
- In December there were storms in the Mediterranean area and Andalusia, causing damage to citrus fruits, olive trees and fruit and vegetable production in the River Ebro valley.

¹⁶ Specific Risk Materials (SRM) for ruminants and High Risk Materials 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.

Over the course of the year more than 1.1 million claims were processed (2.91% less than in 2008), of which 899,000 corresponded to insurance for the collection and incineration of animals that died on farms. In the agriculture sector 753,000 plots of land were affected, with a damaged surface area of 1.2 million hectares. Total claims incurred (payments plus reserves) was 557 million euros. All told, the Spanish System of Multi-Peril Agricultural Insurance had an overall claims ratio of 85.7%, 8.5 points more than in 2008.

Finally, in 2009 there were improvements to and extensions of coverage in some lines of insurance, the highlights of which include:

- New coverage against diseases that spread quickly among animals, in insurance lines for fowl.
- Broadening of coverage for grapes used to make wine against damage affecting the quality of the grapes as a result of possible frost in the autumn.
- A new and specific line of coverage against the risk of mussels in the Ebro delta because of exceptional and sustained increases in water temperatures.
- Inclusion of coverage against the risk of heat waves for tropical crops in the Canary Islands.
- New coverage for crops protecting them against temperature drops which, although not dropping to freezing levels, cause damage to production levels.

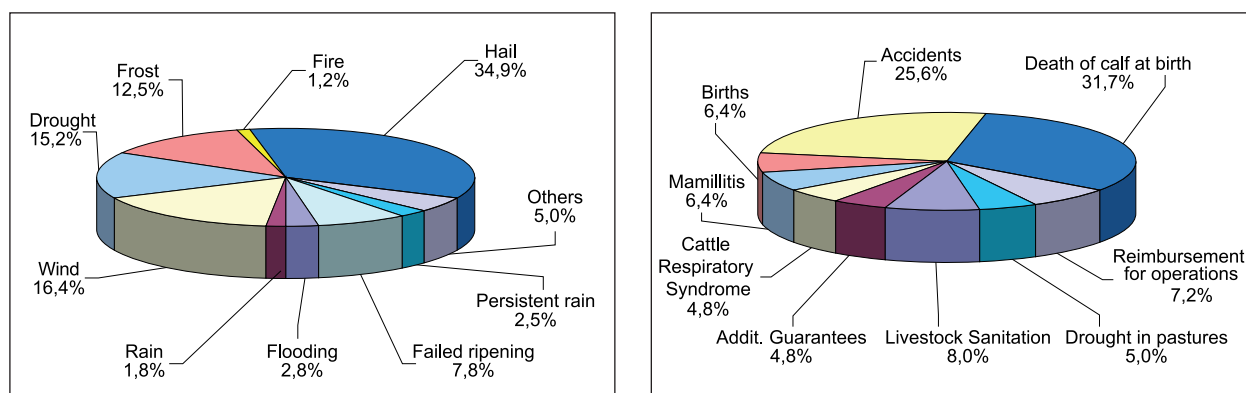


Chart 38. Agricultural and Livestock insurance. Distribution of losses by risk in 2008.

Source: Agroseguro

6. New legislation

6. NEW LEGISLATION

In this section we summarize the content of several regulations and agreements that were approved in 2009 and 2010, both at the national and EU level, and of some legislative bills that are making their way through Parliament. They are considered to be of special interest to the insurance industry.

Regulations and agreements

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, Sec. I of 30 June, 2009).

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

- A significant stake is achieved when this reaches at least 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 which 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 yet been fully developed by Parliament, it sets out clearer, more transparent deadlines for each of the different phases.

Royal Decree 1821/2009, of 27 November, which modifies the Regulation on Organization and Oversight of Private Insurance, approved in Royal Decree 2486/1998, of 20 November, concerning significant stakes. (BOE number 297 Sec. I of 7 December, 2009).

This Royal Decree was issued under Law 5/2009 of 29 June, and completes the transposition of Directive 2007/44/EC in the following ways:

- It regulates what kind of information needs to be provided along with the prior notice of acquisition of a significant stake, at the point when administrative permission is sought and during the functioning of the insurance company.
- It regulates how to calculate stakes in insurance companies in order to determine what is deemed to be a significant stake.
- It empowers the General Directorate of Insurance and Pension Funds to interrupt the evaluation period for up to 30 working days when the potential investor is a company authorized to operate or having its headquarters outside the European Union, or when it is not subject to financial oversight in Spain or the European Union.

- It determines when significant influence is deemed to exist; in other words, having the possibility of naming or dismissing some member of the board of directors of the insurance entity.

Law 15/2009, of 11 November, on contracts concerning transport of goods by land (BOE Number 134 Sec. III, of 3 June, 2009):

The goal of this law is to update and complete the legal rules that concern contracts for transport of goods over land (both by highway and railway). For the most part, it adapts Spanish law in this area to the model observed in international conventions on the same.

Highlights of this law which concern insurance include: 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 purpose of transport); multimode transport (Article 68), in which, when it cannot be determined at which 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.

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 Sec. 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.

These new amounts went into effect 1 January, 2010.

Royal Decree 1298/2009, of 31 July, which modifies the Regulation on Organization and Supervision of private insurance, approved by Royal Decree 2486/1998, of 20 November, and the Regulation on Mutual Provident Societies, approved by Royal Decree 1430/2002, of 27 December. (BOE Number 185 Sec. I of 1 August, 2009).

The Royal Decree addresses modifications aimed at reducing administrative red tape and simplifying mergers and acquisitions among insurance companies. Specifically, it shortens the time that the Finance Ministry and Treasury have to resolve consultations over whether certain operations amount to insurance or not; streamlines the system of communicating to the General Directorate of Insurance and Pension Funds with regard to modifying documentation

provided for the granting of administrative authorization to gain access to insurance activity; it eliminates both the obligation to provide detailed information annually over the carrying out of the program of activities and the need for a ministerial order for the start of the period of public announcement for authorizing mergers and acquisitions among insurance companies. It also simplifies the process of presenting notarial instruments in the Mercantile Registry; it increases the frequency of the sending of a report on how a liquidation is proceeding, deviations observed and the corrective measures that are needed.

This decree also modifies the Regulation on Organization and Supervision of Private Insurance, with the goal of introducing a specific system of giving advanced warning to policyholders with regard to burial insurance.

Royal Decree 1299/2009 of 31 July, which modified the Regulation on pension plans and funds, approved by Royal Decree 304/2004 of 20 February. (BOE number 185 Sec. I of 1 August 2009).

This Royal Decree introduced precise modifications in the Regulation on pension plans and funds, which was approved by Royal Decree 304/2004 of 20 February, with the goal of facilitating liquidity in pension plans in the event of long-term unemployment. Another goal is to simplify the procedure for pension funds to operate as open funds channeling investments from other pension funds.

Law 25/2009 of 22 December, which modified several laws to adapt them to the Law on free access to service activities and the exercising of them (Omnibus Law). (BOE number 308 Sec. I of 23 December, 2009).

This law modifies more than 40 laws in a bid to provide for greater competitiveness and competition in the services sector, eliminating or simplifying administrative obstacles or processes, so as to adapt to Directive 2006/123/EC of the European Parliament and the Council, of 12 December, 2006, relative to services in the internal market.

With regard to insurance, the following aspects stand out: companies specializing in workplace risk prevention must take out an insurance policy that covers their liability to the extent determined in the corresponding regulations (article 8); in Industry, the Regulations on Safety and Oversight Agencies will be obliged to take out insurance policies that cover the risks stemming from liability (article 13); in Telecommunications, installers must have at least minimum insurance coverage under the terms established by the regulations (article 27); finally, the Government will guarantee freedom of choice in selecting funeral services, including cases in which burial insurance has been taken out (Additional Clause No. 7).

Rules related to the Consorcio de Compensación de Seguros:

- Surcharges from mandatory Third-Party Liability automobile insurance (BOE number 128 Sec. I, of 27 May 2009). The surcharge is set at 2% of the office premium of said mandatory insurance and came into effect on 1 Julio, 2009.
- Surcharges from settlement activity: Law 6/2009, of 3 July (BOE number 161 Sec. I, 4 July, 2009). The surcharge aimed at financing insurance companies' settlement function is reduced from 3 per thousand to 1.5 per thousand. Insurance contracts had until 4 August, 2009 to adapt to the new surcharge. Also, the Consorcio de Compensación de Seguros, in relation to mandatory insurance for travelers and hunters, will no longer carry

out the function of providing coverage for risks that insurance companies do not accept, or of paying compensation in some cases, such as an insurance company's failure to comply with an obligation to insure or to pay claims.

Agreement on reinsurance of credit insurance, in order to revitalize and encourage the granting of credit in the Spanish business sector.

On 18 June, 2009 a reinsurance agreement concerning credit risk was signed by Consorcio de Compensación de Seguros and UNESPA. The agreement is designed to revitalize and encourage the granting of credit in the Spanish business sector. This agreement, which is in effect as of 1 January, 2009, will be joined by insurance companies that operate in this sector.

Legislative bills that are in the works

Proposed reform of the Law on Insurance Contracts

In 2006, 2007 and 2008 a working group that is studying a reform of the insurance contract law held several meetings. These culminated in the preparing of a report with reform proposals that concern a good part of the terms of the current law. After being presented to the Insurance and Pension Fund Consultative Board, it was sent to the Justice Ministry in February 2008.

Sustainable Economy Bill

This bill features a series of structural reforms that will make it easier for Spanish companies and economic agents to orient their activities toward sectors with potential for long-term growth, from an economic, social and environmental standpoint.

The following aspects of this bill concern insurance:

- With regard to insurance intermediaries: it introduces the possibility of insurance companies accepting the coverage of risks without the intervention of a private insurance intermediary. It also incorporates major changes in the role of external auxiliaries, because intermediaries will be able to sign mercantile contracts with external auxiliaries to work with them in the distribution of products, and they will be able to work toward landing clients. In order to do this, they must sign up with a specific public registry and receive some degree of training. Insurance contracts that are drawn up by auxiliaries must be checked by professional insurance intermediaries, and will be subject to the same conflict-of-interest rules as any agent or broker (Clause 14).
- As for pension plans and funds, a series of sections are introduced which change the way they are marketed. The goals of these is to improve protection of consumers and legal security of the companies doing the marketing, strengthening the systems of inspection and sanction by financial supervisors in order to guarantee compliance with obligations to make information available and obtain authorization. Finally, within the General Director of Insurance and Pension Funds, the Administrative Registry of Pension Funds and Companies that Manage Pension Funds is created. (Clause 15).

European Union Legislation

Regulation (EC) n° 824/2009 of the Commission, of 9 September, 2009 (OJEU number 239/48 of 10 September, 2009).

This Regulation amends Regulation (EC) No 1126/2008 which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 and International Financial Reporting Standard (IFRS) 7.

Directive 2009/138/EC of the European Parliament and the Council, of 25 November 2009, on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). (OJEU number. 335 of 17 December, 2009).

After more than seven years of work, the Solvency II Directive finally came into existence. These regulations must be incorporated into Spanish law by 31 October, 2012.

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 2008, 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 2009 come from the aggregate of the quarterly DEC, in this case the fourth quarter (which features cumulative data)¹⁷.

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

¹⁷ At the time this study was published, the annual DEC for 2009 was not yet available.

- 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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