FUNDACIÓN MAPFRE

THE SPANISH INSURANCE MARKET IN 2014

Insurance and Social Protection Area

2014

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Here at the Study Center, we wish to acknowledge the entirely selfless efforts by numerous MAPFRE employees. Once again, this report would have never been possible without their input and suggestions.

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1. Summary

In 2014, the **global economic setting** was characterized by a moderate growth of developed economies and a deceleration of emerging economies. The economic measures implemented to overcome the economic crisis, combined with circumstantial factors such as the extraordinary drop in oil prices, boosted growth in developed countries, though unequally. The United Kingdom and the USA registered good economic results, while the eurozone recovered its growth, due to the good performance of come countries, like Germany and Spain. On another hand, in 2014 the slow deceleration of the Chinese economy continues, while other important emerging countries, like Russia and Brazil, faced the brink of a recession.

In this environment, the premium volume of the **global insurance market** in 2014 grew 3.7 percent in real terms, therefore registering an accelerated growth compared with the previous year, in which growth was 1.4 percent. This growth has occurred in both advanced (2.9 percent) as well as emerging (7.4 percent) markets, in both Life (4.3 percent) and Non-Life (2.9 percent). Western Europe registered growth in both lines, while in the USA contraction of the Life business continued and growth of Non-Life accelerated. Amongst emerging countries, vigorous premium growth continued in China, in both Life and Non-Life.

The **Spanish economy** grew about 1.4 percent in 2014, a year in which a large number of economic indicators improved. Growth resumed the second semester of 2013, due to increased exports of goods and services, and continued during 2014 thanks to the good performance of domestic, private demand, driven by the gradual recovery of trust. Amongst the year's positive economic news is worth mentioning the decrease of the risk premium and the reduction of the unemployment rate by over two points, which, however, continues to exceed 23 percent and which comprises, together with the high debt level, the country's main economic problem.

The premium volume for the **Spanish insurance industry** in 2014 was 55.486 billion euros, which represents a slight contraction of 0.7 percent, much lower than that registered in 2013 (-2.8 percent). By lines, Life has undergone contraction, while Non-Life has grown slightly.

The premium volume for **Life insurance** dropped in 2014 by 2.6 percent to 24.839 billion euros, a slightly lower drop than that registered in 2013 (-3.0 percent). However, not all types have had the same performance. Risk insurance registered a growth of 3.6 percent due to the incipient reactivation of the real estate market, while the Savings/Retirement types decreased 3.6 percent. Within the latter, Insured Benefit Plans, Annuity Insurance and Asset-Linked Insurance registered decreases, though Deferred Capital and Individual Systematic Savings Plans (PIAS) registered increases. On another hand, the volume for technical provisions increased by 1.6 percent, to 164.315 billion euros.

For the third straight year, **Pension Plans** closed out the year quite positively, with a growth of 7.1 percent in managed assets, to reach 99.285 billion euros. This figure establishes a new historic maximum of managed assets by Pension Funds. However, the number of participating accounts only increased by 0.6 percent. The positive performance of the financial markets secured excellent returns across all categories and systems, with an average return of 6.9 percent. Within the Individual System, the Guaranteed Funds and Long Term Fixed-Income Funds were particularly significant, with annual returns of 11.4 percent and 8.9 percent, respectively. The Employment System Plans reached a return of 7.1 percent in 2014.

The premium volume of **Non-Life Insurance** grew 0.9 percent to reach 30.647 billion euros. Growth in 2014 contrasted with the contraction of the previous year, and is evidence that the particularly unfavorable effects of the economic crisis start to be overcome. Limiting ourselves to the two most important lines, Health, Multi-peril and Burial insurance grew, while Automobile insurance dropped, though to a lesser extent than the preceding year.

The premium volume issued in Automobile insurance during 2014 was 9.882 billion euros, representing a contraction of 1.4 percent compared to the previous year. The persistent drop of both premium volumes and average premiums over the last seven years has resulted of the economic crisis and the intense competition in prices between companies of this line. Despite this, the drop in premium volumes in 2014 has been lower than that registered in 2013 (-5.5 percent). **Automobile insurance** continues as the most important Non-Life insurance business, representing 17.8 percent of the total premiums of the insurance market.

In 2014, the premium volume of **Health insurance** increased to 7.181 billion euros, representing an increase of 3.5 percent compared to the previous year. The growth rates of premiums, always positive, accelerated in 2014 for the first time since the start of the economic crisis. Likewise, the number of insured parties grew 1 percent until exceeding 10.5 million insured. The most important type continues being Healthcare Assistance, with continued growth for both insured as well as premiums (2.3 percent and 3.8 percent, respectively). Health insurance is the second most important Non-Life insurance business, with a market share of 12.9 percent.

Multi-peril Insurance overcame the contraction experienced in 2013 and recovered their upward trend, with a small increase of premium volume, by 0.2 percent, until reaching 6.55 billion euros. By types, Home (1.5 percent) and Communities (0.4 percent) grew, while Industries (-3.6 percent) and Trade (-0.3 percent) decreased, as a result of the deteriorating corporate fabric during the years of crisis. Multi-peril insurance occupies third place within Non-Life insurance, with a relative weight of 11.8 percent.

Burial insurance continues to be strongly rooted in Spain, with over 20.9 million insured parties. The premium volume in 2014 grew by 6.5 percent to 2.087 billion euros, 3.8 percent of the total premiums of the insurance market, positioning it as the fourth most important Non-Life insurance. Burial and Health were the only large business lines to achieve uninterrupted growth in recent years.

The **penetration of insurance** in the economy, quotient between premiums and GDP, decreased slightly to 5.2 percent, a value that demonstrates the important contribution of the sector toward the Spanish economy. **Insurance density** or premium per inhabitant remained at 1,191 euros.

During 2014, the insurance industry has maintained its solvency and profitability. The **result** of the technical account increased 1.3 percent to 5.413 billion euros. The result of the Non-Life technical account grew 16.8 percent to 3.167 billion euros, while the result of the Life technical account was of 2.246 billion euros, representing a drop of 14.6 percent compared with 2013. However, the contraction of the Life technical result was less intense than that of 2013 (-19.6 percent).

Profitability of shareholders equity, or the ratio between fiscal year results and the shareholders' equity of the sector (**ROE**), increased to 15.2 percent, about 10.9 percent higher than the value registered for 2013.

The **solvency ratios** of the insurance industry remain at highly solid levels. In 2014, the quotient of the company equity over the minimum liable amount was 2.0 times the minimum required by law (3.0 in 2013).

The volume of **investments** in the insurance industry grew 3.2 percent in 2014 until reaching 226.459 billion euros. 81.7 percent of this figure corresponds to investments in the Life insurance portfolio, 17.9 percent to the Non-Life Insurance portfolio, and 0.4 percent to shareholders' equity. As to the investment portfolio structure, 68.1 percent corresponds to fixed-income assets, with a trend toward a progressive reduction of the weight of private fixed annuity giving way to public fixed annuity. 71.1 percent of these investments were made in Spain, further proof of the insurance industry's firm commitment to the country's financing.

Despite the strong competition recorded in the **reinsurance** sector, the market recorded an increase in premiums for a third straight year, and a reinforcement of shareholders' equity, given the absence of major catastrophes in addition to other factors.

Losses in the global insurance industry in 2014 due to **natural disasters** were estimated at nearly $35 billion, an amount that is significantly less than the recorded loss in 2013 ($44 billion) and also lower than the average for the last ten years ($64 billion). The majority of losses were due to extreme weather conditions, such as typhoons in Asia, tornadoes and hurricanes in the USA, and storms and flooding in Europe.

The **prospects** for growth for the Spanish insurance industry in 2015 are moderately optimist, although they continue depending on numerous uncertainties. The incipient recovery will enable higher levels of consumption and savings by economic agents, with important implications for both Life and Non-Life insurance business. In the Life insurance business, greater economic activity should entail an increase of the demand for products of protection, savings and retirement as a result of the rapid aging of the population and of the greater sensitivity toward supplementary social security systems. However, factors such as the high unemployment rate or low interest rates continue to limit the demand for Life products. ICEA data corresponding to the first quarter of 2015 show that the premiums of the Life insurance business decreased 12.7 percent compared with the same quarter the previous year, given the poor performance of the savings business. On another hand, the volume of savings managed represented by technical provisions grew 0.7 percent (compared with 3 percent in 2014).

The recovery of the economy also favorably impacts the demand for Non-life insurance, within a context of deleveraging of the private sector and credit flow. The data corresponding to the first quarter of 2015 show a growth of 2.1 percent in Non-Life premiums compared with the same quarter in 2014, contrasting with the drop of 0.9 percent registered that same period.

Finally, insurance companies must be scrupulous in complying with the Solvency II requirements which will enter into effect in 2016, in the face of which great efforts must be undertaken to adapt to the new environment.

2. Socioeconomic context

2.1. Economic context

According to the IMF, the global economy grew 3.4 percent in 2014, as a result of the moderate increase in the growth of developed economies and of the deceleration of emerging economies. The economic measures implemented to overcome the economic crisis, amongst which are worth mentioning the expansive monetary policies of the Central Banks, combined with circumstantial factors such as the extraordinary drop in oil prices, have boosted growth in developed countries. The eurozone, in particular, has emerged from the recession in 2014 with a growth of 0.9 percent, mainly due to the good performance of countries like Germany and Spain. China, on another hand, continues immersed in a slow deceleration, while the fall in prices for oil and other raw materials has very negatively impacted the economies of emerging countries like Russia and Brazil, on the brink of recession.

The Spanish economy grew about 1.4 percent in 2014, a year in which a large number of economic indicators improved. Growth resumed the second semester of 2013, due to increased exports of goods and services, which benefited from lower labor costs and increased productivity during the crisis. However, the growth driver in 2014 was not the foreign sector, but rather domestic, private demand, boosted by the gradual recovery of trust resulting of the positive economic figures. Factors that have favored this process include the drop in oil

Table 1. GDP and its components

Year-on-year variation rates in %	2013	2014
DEMAND		
Final consumption expenditure	-2.1	1.8
Final consumption expenditure by households	-2.1	2.4
Final consumption expenditure by NPISH	-0.1	1.0
Final consumption expenditure by PA	-2.3	0.1
Gross Fixed Capital Formation	-5.1	3.4
Tangible fixed assets	-5.5	3.6
Intangible fixed assets	-0.2	2.5
Domestic demand[1]	-2.7	2.2
Exports of goods and services	4.9	4.2
Imports of goods and services	0.4	7.6
Foreign demand	1.5	-0.8
SUPPLY		
Fishing and agricultural lines	1.1	3.3
Industrial lines	-1.2	1.5
Construction	-7.7	-1.2
Services	-0.5	1.6
GDP at market prices	-1.2	1.4
GDP at current market prices[2]	1,023.0	1,058.5

(1) Contribution to GDP growth at market prices
(2) Billions of €
Source: INE (National Statistics Institute) CNTR, first quarter of 2014

prices, low interest rates, depreciation of the euro, and the incipient recovery of credit. Amongst the year's positive economic news is worth mentioning the decrease of the risk premium to values close to 100, and the reduction of the unemployment rate by over two points, which, however, continues to exceed 23 percent.

The outlook of the Spanish economy for 2015 is optimist, with an expected growth of about 3 percent. However, serious imbalances persist which endanger recovery, especially the high levels of unemployment and debt, the reduction of which to values similar to those before the crisis is not probable in the short term.

2.2. Socioeconomic variables

This section presents the progress in 2014 of some socioeconomic variables affecting the insurance business, related to demography, automobiles, housing and business activities.

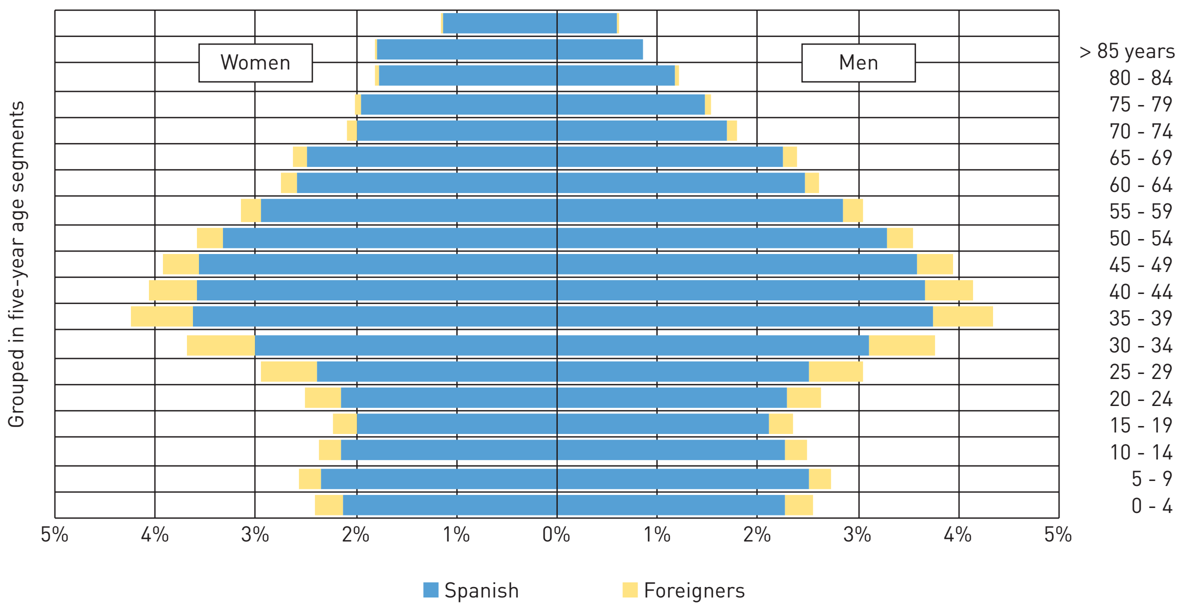
Demographics

For the third straight year, in 2014 the number of residents in Spain has decreased: according to data from the Civil Registry, the population residing in Spain on January 1, 2015 was 46,600,949 persons, 170,392 less than the previous year. As occurred in previous years, this contraction was due to the decrease in the number of foreigners - the number of which dropped for the fourth straight year - due to the economic crisis and, to a lesser extent, to the acquisition of Spanish nationality. In 2014, the number of foreigners residing in Spain dropped by 304,623 persons to a figure of 4,718,864, about 10.1 percent of the total, while the number of Spaniards increased by 134,231. By nationalities, the greatest drops in absolute terms occurred amongst the Romanian, Ecuadorian and Colombian populations.

The decrease of the immigrant population in 2014 was less pronounced than that of 2013 (-545,980), but it is quite likely to continue during upcoming years, having negative effects on the population's aging process.

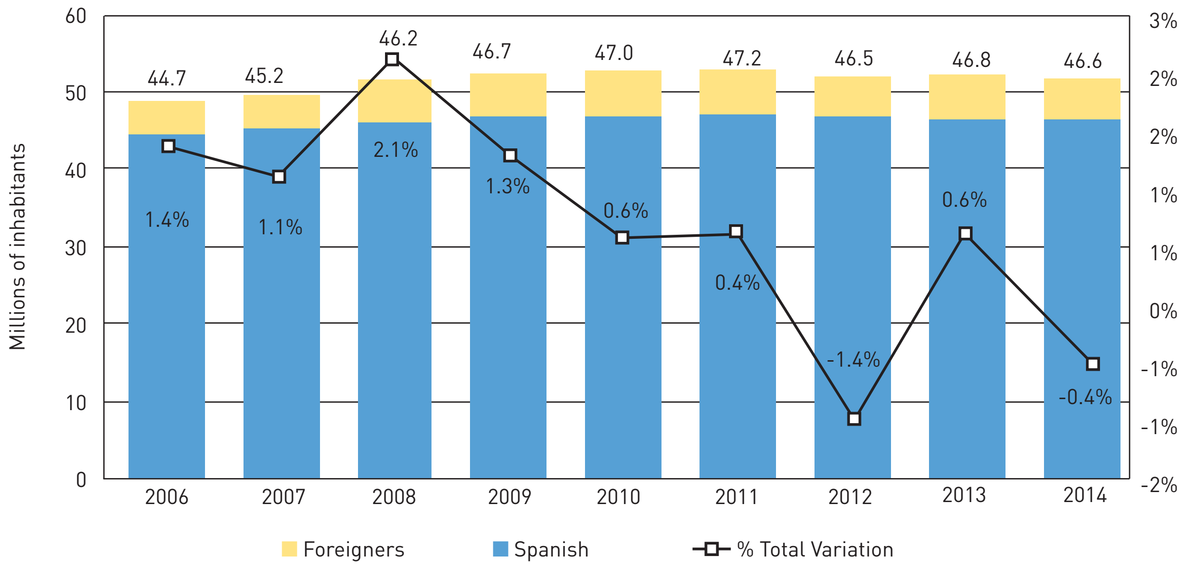
The statistics published by the National Institute of Statistics (INE) regarding the natural movement of the population in the first quarter of 2014 reveal an increase in both birth rate and mortality. The number of births increased 1 percent compared with the same period the previous year, a quarterly growth that had not occurred since 2010. The number of deaths, on another hand, increased by 3.5 percent during this period. Life expectancy at birth continues to exceed the age of 82.

Figure 1. Distribution of the Spanish Population by age and gender. 2014



Source: INE

Figure 2. Change in the Spanish Population



Source: INE

Automobile

The number of automobiles in Spain at the end of 2014 was almost 31 million vehicles, a value similar to the one registered the previous year. Though vehicle registrations increased by 20.6 percent during this period, the age of vehicles is high, currently exceeding 11 years. On another hand, the improvement of the economy has driven a higher use of vehicles, thereby breaking the downward trend since 2007 of deaths due to traffic accidents.

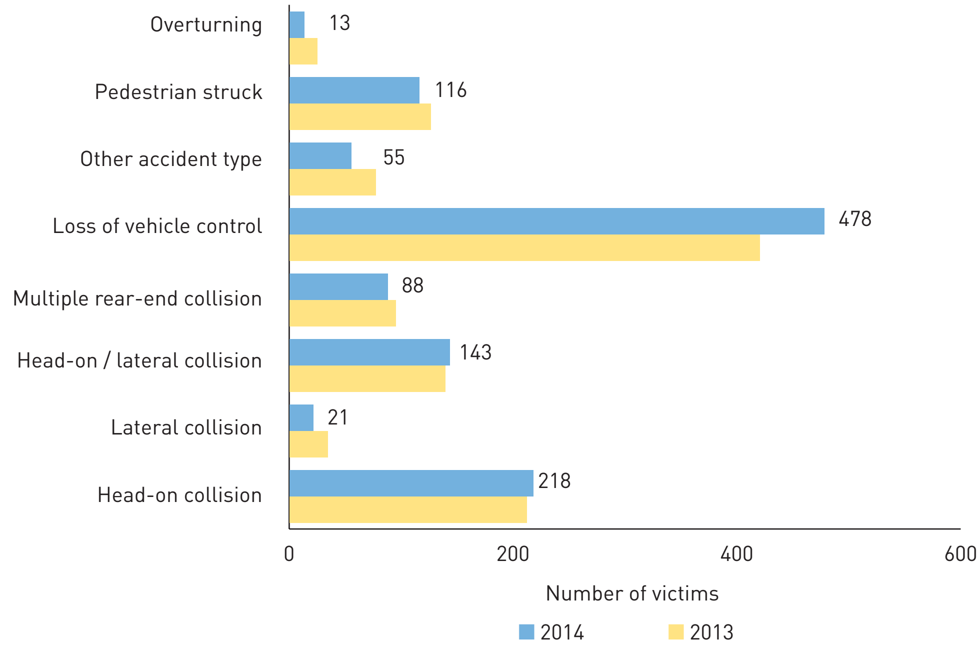
During 2014, fatal accidents increased by 2 percent with regards to both the number of accidents with victims as well as to minor injuries and an increase of 0.4 percent of fatalities. Therefore, 91,570 accidents with victims were registered, in which 1,688 persons died, 8 more than in 2013. This data continues to position Spain as the fifth country in Europe with the lowest traffic accident fatality rate, with 36 fatalities per million resident, much lower than the European rate of 52, ahead of countries like France, Germany, Italy or Finland.

As occurred in previous years, most of the victims were male (76 percent) and most of the accidents continued occurred on conventional highways (79 percent), with the greatest number of deaths occurring at exits. On another hand, mortality on major highways continues a downward trend.

Housing

The incipient reactivation of both the economy and credit has boosted the initial recovery of the real estate market in 2014, a slow recovery that continues to be weighed down by the high unemployment rate and large number of unsold homes. However, after an accumulated drop in the price of homes exceeding 30 percent during the crisis, this decrease apparently halted in 2014. According to the Ministry of Public Works, the general index of prices for homes grew 0.3 percent in the fourth quarter of 2014, contrasting with the maximum descent of 9.8 percent registered in the fourth quarter of 2012. In year-on-year terms, the drop in 2014 was merely of 0.3 percent, and a growth of 0.2 percent was

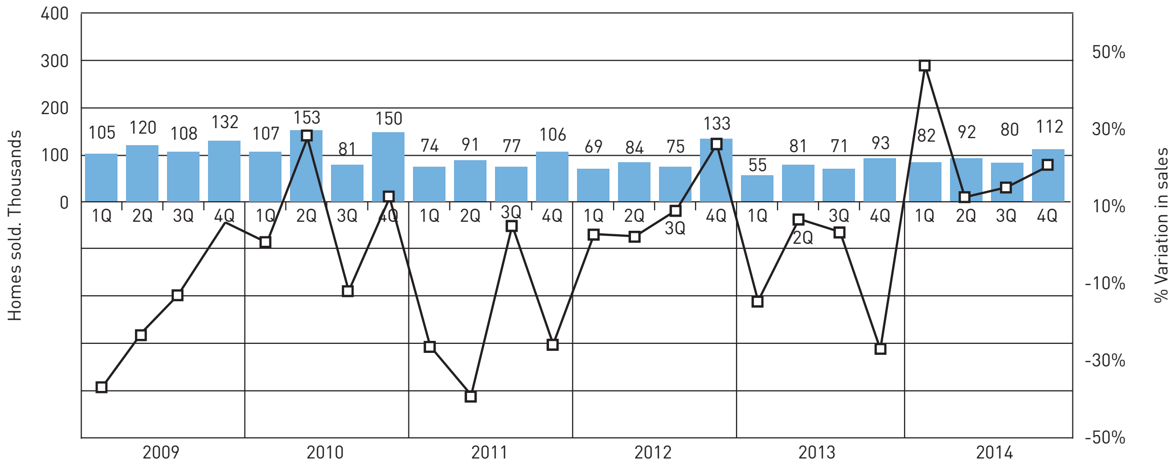
Figure 3. Distribution of fatalities by type of accident



Source: Ministry of the Interior

registered if we discount inflation. Likewise, real estate transactions grew 19.5 percent in the fourth quarter of 2014, and 21.6 percent over the course of the year. These transactions increased in all autonomous communities and in the main cities, led by Madrid and Barcelona. Likewise, purchases of property by foreigners increased, which already represents 15.8 percent of the total.

Figure 4. Home sales. Number of transactions and quarter-on-quarter variation



Source: Ministry of Public Works

Corporate

According to information published in the Central Directory of Companies (DIRCE), the number of companies in operation decreased by 0.9 percent in 2013, leaving a value of 3,119,310 on January 1, 2014. This is the sixth straight year of decreases to this figure, from the maximum (3,422,239 companies) reached in 2008.

The most important sector was "Services, excluding Trade", the activity of which grew 0.2 percent, followed by "Trade", which dropped 0.9 percent. The "Construction" and "Industry" sectors suffered greater contractions (-4.1 and -2.8 percent, respectively).

Most enterprises are small businesses: over half have no employees, and 30 have only one or two; only 4.2 of the companies have over twenty employees.

On another hand, 94,152 trading companies were created in 2014, 0.8 percent more than the previous year, and 21,850 were dissolved, 11.9 percent less than in 2013. The subscribed capital of new businesses grew 10.1 percent, with an average subscribed capital of 9.2 percent. The same as during previous years, the "Trade" and "Construction" sectors led both creation and dissolution of companies. Madrid and Catalonia were the autonomous communities with the highest number of new companies established, while Madrid and Andalusia were the communities with the highest number of dissolutions.

The amount of unpaid bills in 2014 was 3.403 billion euros, 33.4 percent less than the previous year. Likewise, the percentage of unpaid bills against paid bills in 2014 was 2.1 percent, entailing a reduction of 29.2 percent over the figure registered in 2013.

Table 2. Summary of the key variables. 2014

Summary of main variables	2014	% Var
DEMOGRAPHICS		
Population residing in Spain (1)(2)	46,439,864	-0.2%
Spanish population residing in Spain (1)(2)	41,992,012	0.4%
Foreign population residing in Spain (1)(2)	4,447,852	-4.9%
Spanish population residing overseas (1)	78,785	7.4%
Gross birth rate (1)	9,1	0.0%
Gross mortality rate (1)	8,5	2.4%
Average age at which women have first child (1)	31,8	-1.2%
Fertility contextual indicator (1)	1,3	4.8%
Average first maternity age for Spanish women (1)	32,3	-1.2%
Average first maternity age for foreign women (1)	29,3	-1.3%
Life expectancy of population residing in Spain (1)	83,0	0.2%
AUTOMOBILE		
Number of registered vehicles	30,976,047	1.5%
Newly registered vehicles	1,130,069	20.6%
Insured Vehicles FIVA	28,801,437	0.7%
Accidents with victims (total)	91,570	2.3%
Deceased (total)	1,688	0.5%
Injured persons hospitalized (total)	9,574	-5.1%
HOUSING		
Number of real estate transactions (1)	111,921	19.5%
Price of non-subsidized housing	1,463	-0.3%
Number of mortgages on homes (3)	18,857	23.0%
Average value of mortgages undertaken (3)	100,683	0.3%
COMPANIES		
Total number of companies in Spain	3,119,310	-0.9%
Trading companies created	94,152	0.8%

Source: INE, DGT and CCS
(1) Provisional data
(2) Data updated through January 1. 2015
(3) Data updated through April 2015

3. Insurance market performance

3.1. International insurance activity

The total premium volume of the **global insurance market** in 2014 grew 3.7 percent in real terms, attaining a value of $4.8 billion. Therefore, there was an acceleration in growth compared to the previous year, during which the increase was of merely 1.4 percent. This growth has occurred in both advanced and emerging markets. In 2014, advanced markets managed to overcome the standstill of recent years and registered a growth in premiums of 2.9 percent, while emerging markets increased by 7.4 percent. This growth has been registered, likewise, for the Life and Non-Life businesses.

Life insurance grew globally by 4.3 percent in real terms (compared with -1.8 percent in 2013), reaching $2.7 billion. This growth was of 3.8 percent in advanced markets and of 6.9 percent in emerging markets. Growth in advanced markets was driven by the positive results of Western Europe and Japan, compensating for the drop registered in the USA. In emerging markets, growth was especially noteworthy in China, which reached 13 percent.

The global premium volume of **Non-Life Insurance** grew 2.9 percent, slightly above last year's growth, to reach $2.1 billion. Advanced markets grew 1.8 percent due to the good performance of the USA and the recovery in growth of Western Europe (0.6 percent). The premium volume of emerging markets grew 8.0 percent, mainly driven by China (17 percent).

Table 3. Size of the world's largest insurance markets in 2014

Country	Premiums (thousand million $)	Premiums/Inhab. ($)	Premiums/GDP
USA	1,280	4,017	7.3%
Japan	480	3,778	10.8%
Great Britain	351	4,823	10.6%
China	328	235	3.2%
France	271	3,902	9.1%
Germany	255	3,054	6.5%
Italy	195	3,078	8.6%
South Korea	160	3,163	11.3%
Canada	125	3,532	7.0%
Holland	96	5,689	11.0%
Taiwan	96	4,072	18.9%
Australia	88	3,736	6.0%
Brazil	85	422	3.9%
Spain	74	1,584	5.2%
India	70	55	3.3%
Europe	1,698	1,902	6.8%
EU 27	1,104	2,964	7.5%
World	4,778	662	6.2%

Source: Swiss Re

The Swiss Re **forecasts** for 2015 are positive. A solid growth is expected for Life and Non-Life premiums in emerging markets, though forecasts have nuances for advanced markets. Growth is expected to continue in the USA, especially for the Life business, driven by improvements in the economy and the labor market, but forecasts are more moderate in Western Europe due to the slow economic recovery.

The premium volume **for the European insurance industry** increased by $1.7 billion, representing a nominal growth of 3.5 percent and a real growth of 1.4 percent compared to the previous year. The Life business grew in Western Europe by 5.8 percent in 2014, the highest figure since 2007. The Non-Life business regained growth after three straight years of drops or standstill, though at a rate of merely 0.6 percent.

The **Spanish insurance industry** remains in the fourteenth position in the world market ranking, the same as in previous years. Life insurance ranks lower, dropping to the eighteenth position, and Non-life insurance remains in twelfth place. In the classification of premiums per inhabitant, Spain occupies eighteenth place with an average spending of $1,584. The penetration of insurance in 2014 was 5.2 percent, positioned nineteenth in the global ranking.

Losses in the global insurance industry in 2014 due to **natural disasters** were estimated at nearly $35 billion, an amount lower than the recorded loss in 2013 ($44 billion) and also lower than the average for the last ten years ($64 billion). The same as during previous years, the majority of losses were due to extreme weather conditions, such as typhoons in Asia, tornadoes and hurricanes in the USA, and storms and flooding in Europe.

3.2. National insurance activity

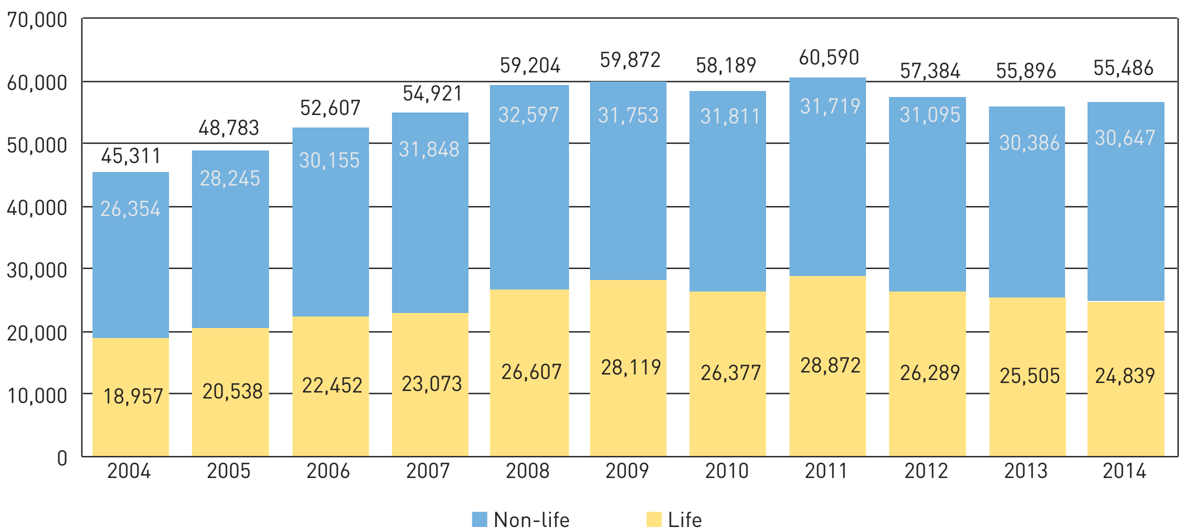
3.2.1. Main indicators

Production

The premium volume of the Spanish insurance market in 2014 was of 55.486 billion Euros, a slight contraction of 0.7 percent compared to the previous year. By lines, Life has undergone contraction, while Non-Life has grown slightly.

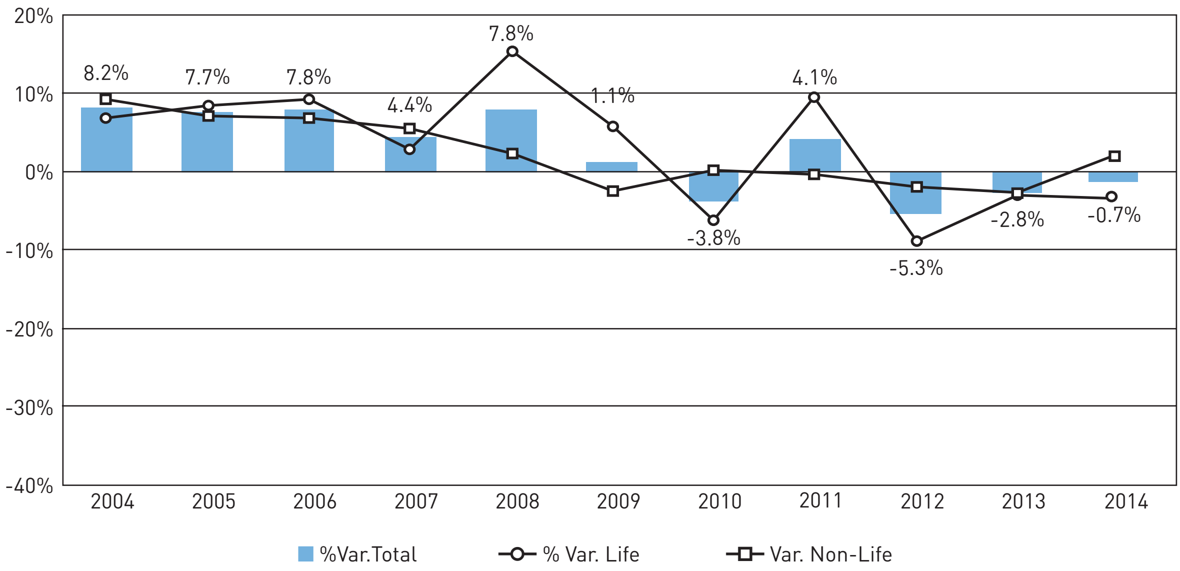
The premium volume for **Life insurance** dropped in 2014 by 2.6 percent to 24.839 billion euros, a slightly lower drop than that registered in 2013 (-3.0 percent). However, not all types have had the same performance. Risk insurance registered a growth of 3.6 percent due to the incipient recovery of the real estate market, while the Savings/Retirement types decreased 3.6 percent. Within the latter, drops occurred in Insured Benefit Plans (-18.7 percent), Annuity Insurance (-21.2 percent) and Asset-Linked Insurance

Figure 5. Insurance market performance in Spain. Premium volume and variation



Source: ICEA

Figure 5. Insurance market performance in Spain. Premium volume and variation (cont.)



Source: ICEA

(-9.1 percent), while growth occurred in Deferred Capital (22 percent) and in Individual Systematic Savings Plans (PIAS) (17,5%). The weight of Life insurance on the insurance industry dropped slightly to 44.8 percent.

The premium volume of **Non-Life Insurance** grew 0.9 percent to reach 30.647 billion euros. Growth in 2014 contrasted with the contraction of the previous year, and is evidence that the particularly unfavorable effects of the economic crisis start to be overcome. Limiting ourselves to the two most important lines, Health, Multi-peril and Burial insurance grew, while Automobile insurance dropped, though to a lesser extent than the preceding year.

Premiums of the automobile insurance business dropped by 1.4 percent to 9.882 billion euros. This is the seventh straight year in which this line undergoes contraction, though this time the drop has been less than in previous years. With a market shared of 17.8 percent, automobile insurance continues to have the greatest relative weight amongst Non-Life lines.

The premium volume of the Health Insurance industry increased 3.5 percent to reach 7.181 billion euros and a relative weight of 12.9 percent. The most important module, Healthcare Assistance, grew 3.8 percent and continues being the growth driver for the line.

Multi-peril Insurance overcame the contraction experienced in 2013 and recovered its upward trend, with a small increase of premium volume, by 0.2 percent, until reaching 6.55 billion euros. By types, Home (1.5 percent) and Communities (0.4 percent) grew, while Industries (-3.6 percent) and Trade (-0.3 percent) decreased, due to the deterioration of the corporate fabric caused by the economic crisis. Multi-peril insurance, with a relative weight of 11.8 percent, occupies third place within Non-Life insurance, after Automobile and Health insurance.

Once again, Burial insurance premiums in decreased 6.5 percent, until reaching 2.087 billion euros, which represents 3.8 percent of total premiums in the insurance market. Burial and Health were the only large business lines to achieve uninterrupted growth in recent years.

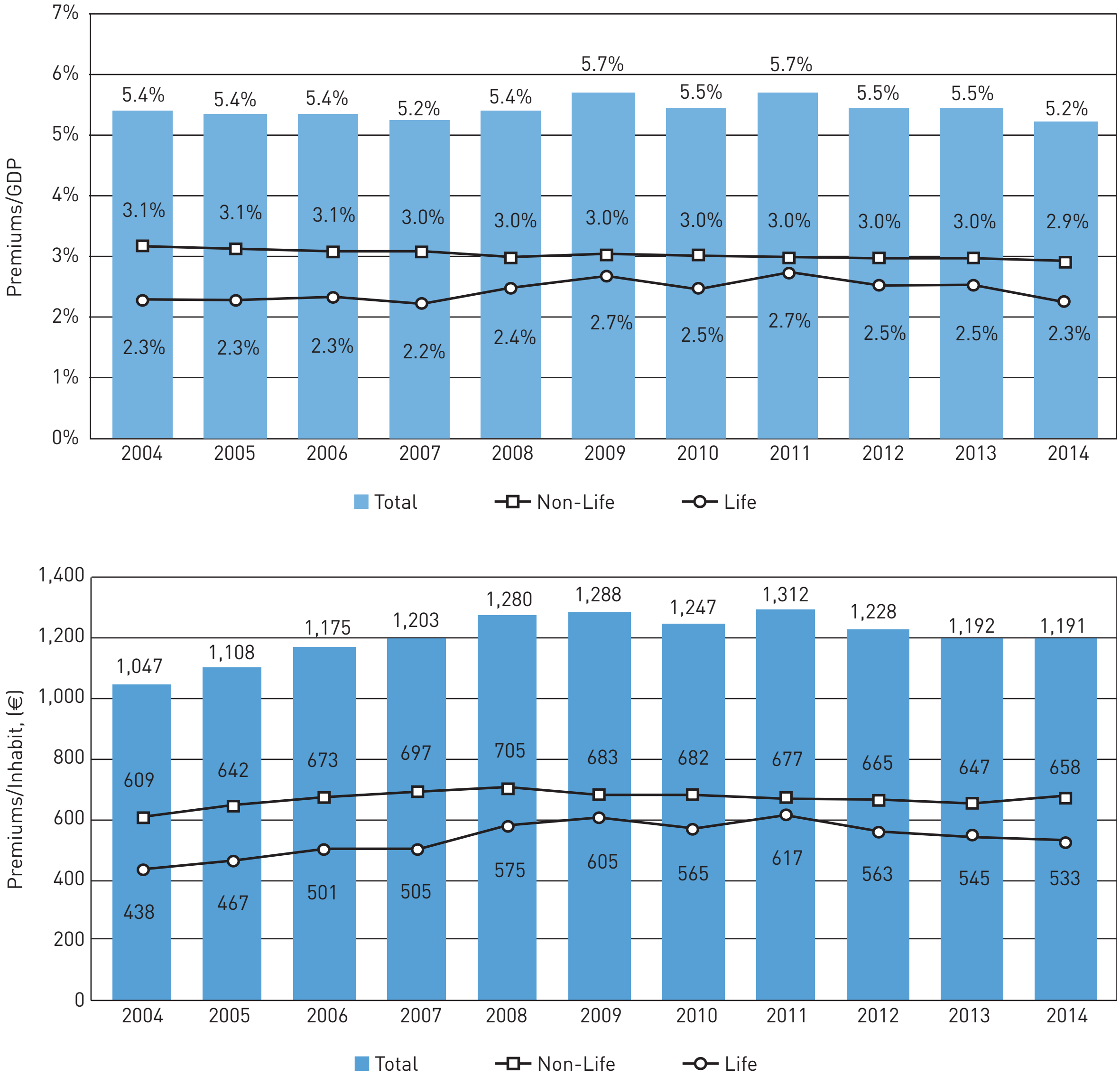
The **penetration of insurance** in the economy, defined as the premium quotient over GDP, decreased three tenths, down to 5.2 percent, 2.9 percent and 2.3 percent for Non-Life and Life lines, respectively. **Insurance density**, or premium per inhabitant, remained at 1,191 euros, of which 658 corresponds to Non-Life and 533 to Life.

Table 4. Distribution of the business by lines. Written premiums. Direct insurance

	2013	2014	% Δ s/2013	% s/Total
Total	55,896	55,486	-0.7%	100%
Life	25,510	24,839	-2.6%	44.8%
Non-Life	30,386	30,647	0.9%	55.2%
Automobile	**10,021**	**9,882**	**-1.4%**	**17.8%**
Third-party liability	5,178	5,030	-2.9%	9.1%
Other guarantees	4,844	4,852	0.2%	8.7%
Health	**6,937**	**7,181**	**3.5%**	**12.9%**
Healthcare assistance	6,192	6,430	3.8%	11.6%
Illness	745	751	0.9%	1.4%
Multi-peril	**6,537**	**6,550**	**0.2%**	**11.8%**
Home	3,779	3,837	1.5%	6.9%
Industries	1,265	1,220	-3.6%	2.2%
Commerce	596	594	-0.3%	1.1%
Communities	823	827	0.4%	1.5%
Other	73	73	-0.6%	0.1%
Death	**1,961**	**2,087**	**6.5%**	**3.8%**
Third-party liability	**1,352**	**1,342**	**-0.8%**	**2.4%**
Other damages to goods	**793**	**816**	**2.9%**	**1.5%**
Accidents	**880**	**886**	**0.6%**	**1.6%**
Credit	**646**	**631**	**-2.4%**	**1.1%**
Transportation	**439**	**417**	**-5.0%**	**0.8%**
Hulls	240	223	-7.2%	0.4%
Goods	198	194	-2.2%	0.3%
Pecuniary losses	**233**	**232**	**-0.4%**	**0.4%**
Assistance	**312**	**335**	**7.4%**	**0.6%**
Fire	**96**	**109**	**13.4%**	**0.2%**
Legal defense	**90**	**92**	**2.9%**	**0.2%**
Surety	**63**	**61**	**-2.8%**	**0.1%**
Theft	**27**	**26**	**-4.8%**	**0.0%**

Millions of euros
Source: ICEA

Figure 6. Progress of insurance penetration and density in Spain



Source: in-house elaboration based on data from ICEA and INE

Results

Despite the complicated economic environment of 2014, the results obtained by the insurance industry continued being positive. The result of the technical account reached 5.413 billion euros, 1.3 percent more than that obtained the previous fiscal year. This improvement is attributable to the results of the Non-Life technical account, which increased 16.8 percent up to 3.167 billion euros, basically motivated by a greater demand for insurance coverage and improved financial results. Analyzing the aggregated sector values for this account, a notable decrease is seen in the net operating expenses as well as a of expenses related to property, plant and equipment and in investments, favoring the financial result.

The result of the Life technical account was 2.246 billion euros, representing a decrease of 14.6 percent compared with the previous year, lower than the 19.6 drop registered in 2013. This lower result is attributable to the increase of the claims ratio and the decrease of income from premiums of this line, accentuated by a greater participation of the insured party, given a lesser recurrence to reinsurance.

This reduction in the results of the Life insurance business manifests the change that is occurring in the preference for taking out products with guaranteed interest rates, thereby motivating an important decrease in the figures of insurance coverage in which the policyholder assumes the risk of the investment. To this we must add the decrease of extraordinary revenue to explain the variation in the financial result of the life insurance business.

As regards the remaining basic indicators of Non-Life insurance, the gross claims ratio increased by three tenths compared with 2013, decreasing the combined ratio by almost half a point due to the increase of net claims ratio to 72.4 percent. Despite the foregoing, the increase by almost one point of the financial result improved the technical-financial result, which was 10.8 percent (9.3 percent in 2013).

On another hand, profitability of shareholders equity, or the ratio between fiscal year results and the shareholders' equity of the sector (ROE), was 15.2 percent, a very positive result that represents an increase of 10.9 percent over that of 2013.

The sector continues to demonstrate a high solvency margin surplus. In 2014, the quotient of the company equity over the minimum liable amount was 2.0 times the minimum required by law (3.0 in 2013). In Life insurance the quotient was 1.2 (2.3 in 2013), and in Non-life, 3.0 (3.9 in 2013).

Table 5. Insurance industry results

Results	2013	2014	% Δ
Technical account	5,341	5,413	1.3%
Life	2,629	2,246	-14.6%
Non-Life	2,712	3,167	16.8%
Non Technical account	4,791	5,110	6.7%
ROE (%)	13.7%	15.2%	10.9%

Source: ICEA

Table 6. Basic indicators. Non-Life

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	30,268	30,647
% Variation in premium volume	-2.3%	0.9%
Withholding	87.6%	87.9%
Gross claims ratio	69.2%	69.5%
Gross expenses	22.3%	22.4%
Net claims ratio	70.7%	71.4%
Net combined ratio	93.5%	93.9%
Financial result	3.9%	4.8%
Technical-Financial result	9.3%	10.8%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: In-house elaboration based on data from ICEA

Investment[1]

In 2014, the Spanish insurance market registered an investment volume of 226.459 billion euros, an increase of 3.2 percent compared to the previous year. Broken down by business type, 81.7 percent corresponds to investments in the Life insurance portfolio, and 17.9 percent in the Non-Life Insurance portfolio. The remaining 0.4 percent affected the shareholders equity portfolio.

As to the structure of the investment portfolio, fixed-income assets are the most relevant, with 68.1 percent (67.2 percent in 2013). The progressive reduction of private Income giving way to public Income continued in 2014. While income from public sources in the fixed-income asset portfolio represented 59.8 percent of Life insurance, it dropped to 45.1 percent in the Non-Life insurance business.

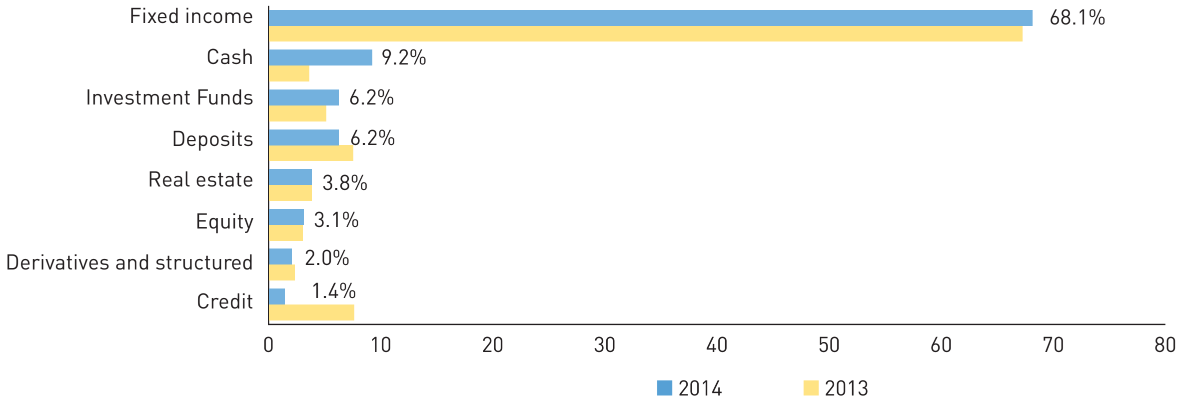
The real estate portfolio remained stable at 3.8 percent. The downward trend between the market value and book value relationship continued between 2010 and 2014, which reveals a drop in appraisal values due to the real estate crisis.

Finally, Derivatives and Structured commodities represented 2 percent of the total investment portfolio (2.3 percent in 2013). The total weight of these products also continue their gradual downturn due to the instability of stock markets.

In 2014, 71.1 percent of investments made by the insurance industry were issued in Spain, a 1.4 percent decrease compared with 2013. Therefore, the extraordinary participation of the insurance

[1] ICEA. Report number 1368. April 2015. Investments of Insurance Companies. 2014.

Figure 7: Distribution of the total sector Investment. 2014



Source: ICEA

industry as financial backer of the national public sector continues. The preferred investment countries by insurance companies were Italy (4.9 percent), Luxembourg (4.2 percent), France (3.6 percent), Germany (2.4 percent) and the USA (2.1 percent).

Portfolio duration, in other words, the time required for insurance entities to recover their investment, was slightly longer than that of 2013. For the Life insurance business the length increased from seven to 7.5 years, while for the Non-Life insurance business, it increased from four to 4.4 years. It is worth mentioning that investments in Life insurance have longer amortization periods than those corresponding to Non-Life. While 42 percent of the investments in Life have a maturity period exceeding 10 years, for Non-Life the percentage of investments with periods lower than 5 years was 60.5 percent.

Outlook for 2015

Growth estimates for the insurance industry for 2015 are moderately optimist. The favorable consequences for the insurance business associated with the reactivation of the economy are conditioned by the markets strong competition, modest returns on investments and the weak recovery, which has not yet achieved a significant reduction of the high unemployment rates. The insurance industry continues to face important challenges, amongst which are worth highlighting exceptionally low interest rates and a particularly demanding regulatory framework, with high levels of capitalization and procurement. Nevertheless, the incipient economic recovery is presented as the starting point for the insurance market relaunch process, which will foreseeably become gradually consolidated during upcoming years.

In the **Life insurance business**, economic growth and the resulting increase of savings capacity in households should entails an increase of the demand for products of protection, savings and retirement as a result of the greater sensitivity toward supplementary social security systems. However, factors such as the high unemployment rate or low interest rates continue to limit the demand for these products. In fact, ICEA data corresponding to the first quarter of 2015 show that the premiums of the Life insurance business decreased 12.7 percent compared with the same quarter the previous year, given the poor performance of the savings business, which represents 79 percent of the Life business and which decreased 16.3 percent. On another hand, the volume of savings managed represented by technical provisions grew 0.7 percent (compared with 3 percent in 2014). In any case, changes in tax-related legislation during 2014 will impact the demand for different savings products, and even new types of products, like Long-Term Savings Plans or PALP, were created.

Another determining factor will be the very low interest rates that affect a major part of the industry's supply: the guaranteed products. Given this scenario, both the design of products as well as the capacity for advising clients will be key for proper risk assumption and financial planning of equity and savings. For this reason, we expect the "resurrection" of unit-linked, as already occurred years ago, as well as other products with life insurance support with structures referenced to variable annuities.

During 2015, **Non-Life insurance** activity will consolidate its path toward growth, based upon improved outlooks for the Spanish economy, particularly as regards factors like higher industrial activity, greater availability of financing, cuts in taxation, and more available household income. Available data points in this direction. Therefore, during the first quarter of 2015, the premiums for the Non-Life insurance business registered a growth of 2.1 percent compared with the same quarter in 2014, contrasting with the drop of 0.9 percent registered that same period.

As to **Automobile insurance**, optimist indicators appear to reveal a change in the trend toward contraction which had characterized this business line since the start of the crisis. In this regard are worth mentioning the increase in vehicle registration, fuel consumption and number of insured vehicles. ICEA data corresponding to the first quarter of 2015 show a small growth in premiums of 0.42 percent compared with the same period the previous year, contrasting with the permanent contraction registered since 2008. During this period, insurance premiums for Health (3.5 percent), Multi-peril (1.7 percent) and Burial (5.2 percent) insurance also grew.

3.2.2. Mutual provident societies

Mutual provident societies are non-profit private insurance institutions that exert a voluntary insurance modality, complementary to the compulsory Social Security system, and can also be alternatives to the Social Security regime for self-employed workers.

At the end of 2014, 371 Mutual Provident Societies that are members of the Spanish Confederation of Mutual Welfare Societies received 3.259 billion Euros in premiums, which represents a growth of 9.01 percent compared to the previous year. The volume of assets managed reached 38.88 billion euros, compared to 37.914 billion euros in 2013.

3.2.3. Market structure

Insurance Industry

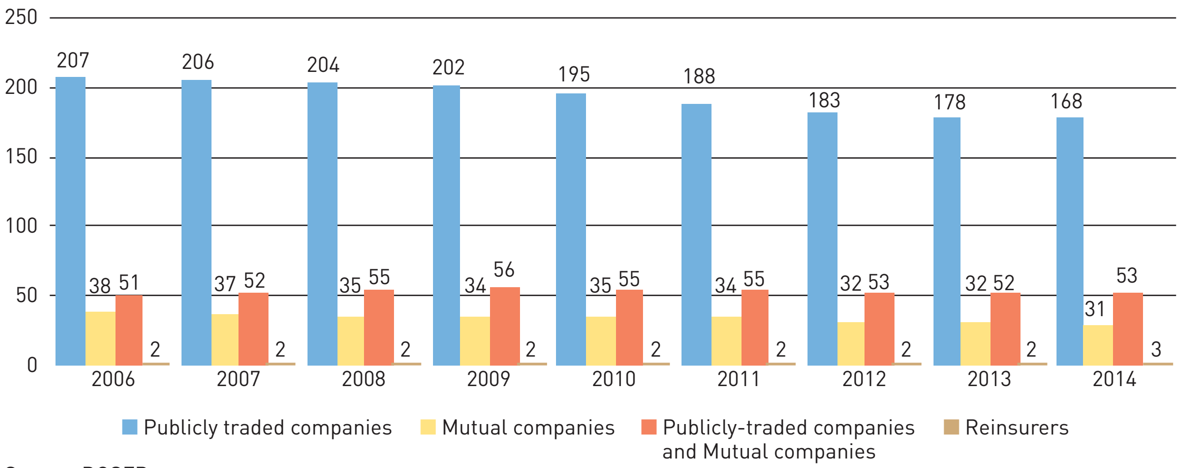
At December 31, 2014, there were 255 entities registered in the Administrative Registry of Insurance Companies, representing a drop of 3.4 percent in the number of entities (nine fewer than in 2013). The breakdown of these Entities is as follows: 168 publicly-traded companies, 31 mutual companies, 53 mutual provident societies and 3 specialized reinsurance companies.

In 2014, there were 2 new authorized entities, one reinsurance company and a mutual provident society that expanded its scope of action to encompass all of Spain. Furthermore, 8 entities have been canceled in the Administrative Registry, 5 of them due to mergers, 1 as a result of a demerger, and 2 liquidated by the Consorcio de Compensación de Seguros.

Insurance distribution

According to the latest data published by the DGSFP, its annual report indicates that in 2014 Spain had 92,493 insurance and reinsurance mediators

Figure 8. Progress of the number of operating entities by type



Source: DGSFP

(90,745 in 2013), itemized as follows: 87,605 exclusive agents and operators; 3,078 brokers; 246 linked banking-insurance agents and operators; 1,504 assistants-assessors, and 60 reinsurance brokers. Of the total, 76,267 are legal persons and 14,470 are legal entities.

As to the premium volume entailing mediators in 2013[2] for each channel, 42.2 percent of the total production of the insurance business was carried out by Agents and Brokers, followed by Bancassurance operations, with 35 percent.

The performance of these channels is quite different depending on the type of business and client targeted, since, when analyzing the Life business, the main insurance sales channel is the banking channel (63 percent), while Non-life insurance is distributed mainly between Agents (33.7 percent) and Brokers (24.4 percent).

The activity carried out by Bancassurance operators in the Non-life line is focused on Home Multiperil, with a total production volume of 44.6 percent. Agents and Brokers focus their activity on the Automobile line and the Life insurance business, distributing primarily individual policies. Insurance company offices and employees accumulate the largest market share in Non-Life lines, especially in Assistance, Healthcare Assistance and Automobile insurances.

The implementation of insurance procurement via web channels entails 1 percent of the total portfolio premiums and 0.8 percent of new production, indicating that it is still not implemented as an alternative to the traditional procurement channel. Its activity focuses mainly on the Automobile line and, to a lesser extent, Assistance.

International presence of the Spanish insurance companies and foreign capital in the Spanish insurance industry

In 2014, the economy registered a trade surplus for the third straight year. The current account balance, in particular, reached a surplus of 0.8 percent of the GDP. The insurance industry is among the sectors of the economy that have contributed to this positive performance of accounts abroad. Exports of insurance-related services have increased considerably in recent years, and this growth continued in 2014. According to data from Banco de España, in this year the revenues for services associated with insurance and pensions grew 2.3 percent until reaching 1.6 billion euros.

As occurred in previous years, in 2014 there were five Spanish groups with direct investments abroad in the insurance industry: these are BBVA, Catalana Occidente, CESCE, MAPFRE and Santander.

The main international business of BBVA is carried out through the company BBVA Bancomer, the leading financial group in Mexico, and the sixth insurance group.

The group Catalana Occidente continues earning a significant percentage of its income from abroad: in 2014, almost 50 percent of the premiums earned in the Non-Life insurance business originated in its international markets. As to credit insurance, the group is the second operator worldwide, present in over 50 countries and with a market share of approximately 28 percent.

The Spanish Export Credit Insurance Agency (CESCE) encompasses a group of companies dedicated to commercial loan management in Europe and Latin America, and likewise manages export credit insurance on behalf of the State. Throughout 2014, the company implemented its adaptation to the new regulatory framework set forth by Law 8/2014 dated April 22, which launches the privatization process of State participation in its shareholders, and this company is the designated Managing Agent for a period of eight years.

As occurred in previous years, MAPFRE continued to increase its revenue earned abroad in 2014. The premiums from Latin American increased 3.8 percent until reaching 9.627 billion euros, while those obtained from the rest of the world grew 4.8 percent to 3.491 billion euros. Especially positive results were obtained from Non-Life insurance in the USA and Turkey, Life insurance in Malta, and MAPFRE Asistencia in Continental Europe, China and Australia.

Banco Santander group continued to promote its international insurance business in 2014 by signing strategic bancassurance agreements. This way, Santander Totta, its subsidiary in Portugal, signed this year an agreement with Aegon for the creation of two insurance companies in this country, one of Life insurance and another of General insurances, where Aegon holds a stake of 51 percent and Santander holds the remaining 49 percent.

[2] Most recent year for which statistical data has been published. Source: DGSFP. 2014 Insurance and Pension Fund Report.

On the other hand, according to data provided by the General Directorate of Insurance and Pension Plans for 2014, Spain had 37 entities with participation of foreign capital, compared with 42 the previous year. The subscribed capital overseas amounted to 1.410 billion euros (compared with 1.468 billion euros in 2013), representing 15.37 percent of the total capital of the sector.

Right of establishment and freedom to provide of services

At the end of 2014, there were 38 branches of Spanish companies operating under the right of establishment in countries of the European Economic Area, corresponding to 30 Spanish insurance entities. As in previous years, the country with the most registered branches was Portugal, with 14 (with 2 cancelled, compared with the previous year). On the other hand, at December 31, 2014, there were 57 Spanish entities with free rendering of services; the United Kingdom was the country in which the most Spanish entities operated under the free rendering of services, followed by Portugal, France and Germany.

The premium volume of accepted and direct insurance performed by Spanish entities in other countries of the European Economic Area increased by 8.5 percent in 2013[3] compared to the previous year. This variation has resulted from two factors: an important decrease (24 percent) of Spanish entities operating under the free rendering of services, and a considerable increase of entities operating under the right of establishment.

[3] Most recent year for which statistical data has been published

For the third straight year, the Life premium volume of the entities operating in the right of establishment decreased, while Non-Life insurances showed positive performance. To the contrary, the descent of Free Rendering of Services is basically explained by the lower premium volume of the Non-Life line (58.2 percent).

The premium volume of accepted and direct insurance performed by the entities of other countries of the European Economic Area in Spain experienced a significant growth by 32.7 percent compared to the previous year, with a value of 5.291 billion euros. The increase has occurred in both the Free Rendering of Services as well as in the Right of Establishment, though the increase of Free Rendering of Services by 64.9 percent is worth mentioning.

In Non-Life, the premium volume business in Spain by companies from the EEE mainly operating under the Free Rendering of Services is prominent, particularly in some countries like Sweden (with a business volume of 499 billion euros) or Norway (with a business volume of 327 billion euros). As regards entities operating under the Right of Establishment, the business volume of branches with entities installed in Ireland amounted to 1.033 billion euros.

In Life, the prominent business volume by Luxembourg companies operating under the Free Rendering of Services amounted to 820 million euros, and Irish companies operating under the Right of Establishment with a premium volume that amounted to 260 million euros, are worth highlighting.

Table 7. Premiums in 2012 and 2013 by activity

Origin of activity	2012	2013	% Δ
Spanish entities in the EEE	**1,660**	**1,801**	**8.5%**
Free rendering of services	208	158	-24.0%
Right of Establishment	1,452	1,643	13.2%
Entities of the EEE in Spain	**3,987**	**5,291**	**32.7%**
Free rendering of services	1,722	2,840	64.9%
Right of Establishment	2,265	2,451	8.2%

Source: DGSFP

Evolution of insurance by Spanish autonomous regions

The data commented in this section has been provided by ICEA and is based on a sample of 88 insurance agencies that together account for 85.1 percent of the total premium volume in the industry.

Another year, Catalonia and Madrid were the two autonomous communities in 2014 with the highest premium volume, together accumulating 41 percent of the total. Premiums increased 3.3 percent in Catalonia until reaching 10.237 billion euros, and decreased 4.2 percent in Madrid to 9.165 billion euros. They were followed by Andalusia and Valencia, with 6.045 and 4.305 billion euros, respectively. The highest premium per capita values were obtained in Madrid (1,420 euros), Catalonia (1,361 euros) and Aragón (1,290 euros).

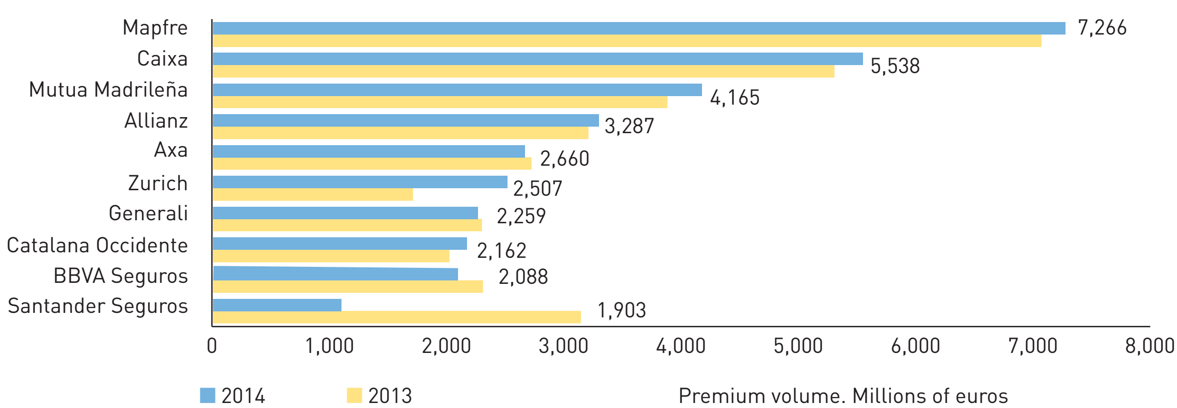
The premium volume grew in nine of the eighteen autonomous communities, led by Navarra (17.4 percent) and Asturias (11.7 percent). On another hand, the greatest drops were registered in La Rioja (-7.2 percent) and Madrid (-4.2 percent).

Tabla 8. Premium volume by Autonomous Community

Autonomous Communities	2014	% var 2014 / 2013	"% share 2014"	"premium per capita"
Catalonia	10,237	3.3%	22%	1,361
Madrid (Community of)	9,165	-4.2%	19%	1,420
Andalusia	6,045	0.8%	13%	719
Valencia	4,305	-3.9%	9%	860
Basque Country	2,352	-0.4%	5%	1,074
Castilla y León	2,275	-0.5%	5%	912
Galicia	2,167	-2.5%	5%	788
Castilla-La Mancha	1,766	6.2%	4%	850
Aragon	1,710	2.2%	4%	1,290
Balearic Islands	1,283	-2.7%	3%	1,163
Total for top 10	41,305	-	87%	-

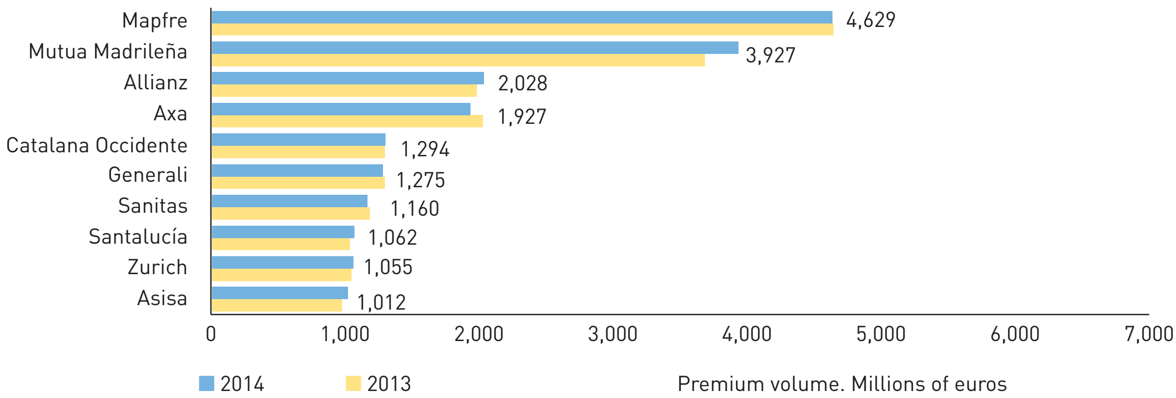
Source: ICEA

Figure 9. Ranking of insurance groups by premium volume. Total



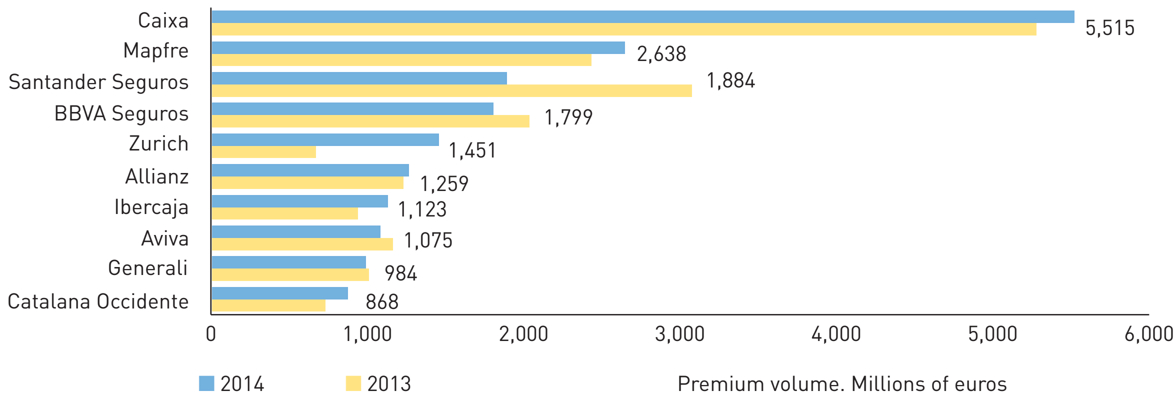
Source: ICEA

Figure 10. Ranking of insurance groups by premium volume. Non-Life



Source: ICEA

Figure 11. Ranking of insurance groups by premium volume. Life



Source: ICEA

Merger and acquisition

MAPFRE once again leads the **Total Ranking** of insurance groups, with a premium volume in 2014 of 7.266 billion euros and a market share that increased to 13.1 percent (12.7 percent in 2013). The next two positions are held by Grupo Caixa (10 percent) and Mutua Madrileña (7.5 percent) due to of their Life and Health businesses, respectively. Allianz ranks fourth, Axa, Generali and Catalana Occidente move up the ranks, and BBVA Seguros and Santander Seguros lose market share until occupying the lowest positions. Zurich ranks sixth, moving Caser from that position.

Once again, MAPFRE leads the **Non-life ranking** in 2014, with a market share of 15.1 percent, followed by Mutua Madrileña (12.8 percent). The same companies as last year occupy the rest of the ranking, though varying in their relative positions. Allianz (which moves to third position), Catalana Occidente and Santalucia move upward, Sanitas and Asisa remain the same, and Axa, Generali and Zurich move downward.

The **Life ranking** continues to be led by Grupo Caixa, with a market share of 22.2 percent, followed by MAPFRE, which moves to second place with a share of 10.6 percent, and Santander Seguros, which falls to third place with 7.6 percent. BBVA Seguros follows in fourth place and Catalana Occidente remains in the last position, Ibercaja moves upward and Allianz, Aviva and Generali move downward. Zurich ranks fifth in the ranking, moving Caser from that position.

3.2.4. Reinsurance

The reinsurance market was characterized for obtaining excellent results for three straight years mainly due to the absence of significant disasters, together below the average of recent years, and an increase in shareholders' equity exceeding 9 percent, driven by the good results retained and the appreciation of its financial assets.

The observed market premium volume showed a marginal growth of 2.7 percent, in line with the scarce economic growth of the eurozone and the dollar, the intense competition in rates and conditions and the greater retention of business by large insurance groups that restructured and centralized their multinational reinsurance programs. This situation also continued during the initial months of 2015, where the impact of the exchange rate of the euro with the $ is appreciated.

In this year, we must also highlight the mergers and acquisitions of well-capitalized reinsurers with scarce business volume centered on coverage of disasters, which have suffered the greatest price decrease. The goal is for the resulting entity to obtain a higher premium volume, wider business dispersion and proper use of capital, returning surplus capital to shareholders through extraordinary dividends or the repurchase of stock. Likewise, the market has continued to receive capital from institutional investors (investment funds and pensions), a flow that will continue will interest rates remain at the currently low levels and the sector is able to produce a positive result above 10 percent, the trend of the last three years.

The situation as described complicates management of traditional reinsurers, in entailing a structural change between the reinsurance supply and demand, to which we must add the upcoming entry into effect of Solvency II, the management of the regulatory framework and the application and management of sophisticated capital models that generate a major consumption of personal resources and time.

In this context, the Spanish reinsurance market has maintained a normal trend with tailored adjustments to conditions and prices, without major changes to its structures or the panel of its reinsurers, though registering a lower ceded premium volume and, therefore, resulting in higher retention.

3.2.5. Consorcio de Compensación de Seguros

Contrary to previous years, in which the basic characteristic was either the number of natural disasters occurred or the manifested economic consequences, 2014 has been marked by a moderate claims ratio in all areas in which the Consorcio de Compensación de Seguros intervenes, in both the areas of extraordinary risk insurance and automobile insurance, as well as in agricultural insurance and reinsurance.

The premiums and surcharges applied have increased slightly in extraordinary risk insurance (0.7 percent) and have decreased by 8.5 percent in Agricultural Activity, due to the readjustment of surcharges for reinsurance of the Combined Agricultural Insurance and the decrease of underwriting. As regards Third-Party Liability for the circulation of motor vehicles, insurance coverage for private

Tabla 9. Activity of the Consorcio de Compensación de Seguros (thousands of euros)

	Net earned premiums		Net claims ratio	
General Activity	**2013**	**2014**	**2013**	**2014**
Extraordinary Risks	**704**	**710**	**208**	**209**
Property	638	649	192	206
Head count	22	17	2	1
Loss of earnings	44	44	14	2
Traffic risks	**114**	**108**	**69**	**56**
SOA Guarantee Fund	103	98	57	47
Private vehicles	2	1	1	1
Official vehicles	10	9	11	8

Source: Annual report of the Consorcio de Compensación de Seguros vehicles that do not obtain coverage through private insurance companies has dropped by approximately 45 percent, close to two thousand vehicles, highlighting the major efforts being made by insurance companies to increase insurance capacity by offering rates adapted to the risk profile of each insured party.

he claims ratio of extraordinary risk insurance was at 24.9 percent of the premiums, manifesting the downward trend of recent years (29.5 percent in 2013 and 40.9 percent in 2012). In automobile insurance, the claims ratio of the activity of the Guarantee fund reached 48 percent, while Third-Party Liability for private vehicles was 57.4 percent, reaching 114.5 percent in the case of official vehicles, due to the effect of the claims ratio of previous years. Lastly, the claims ratio for Agricultural Activity was 72.1 percent of premiums.

In this context, the Consorcio de Compensación de Seguros secured a profit of € 691.5 million in 2014, 30.1 percent more than in 2013.

3.2.6. Solvency II

In January 2011, the European Commission proposed the Omnibus II Directive, to define the technical standards developed by EIOPA as well as its ability to develop binding standards in the implementation of Solvency II. Debates took place in 2012 amongst the European Commission, Council and Parliament, agreeing to entrust EIOPA with the elaboration of a Quantitative Impact Study to evaluate the different solutions proposed; the study was presented in June 2013 and served to reach an agreement with which, finally, the Omnibus II Directive was approved during the plenary session of the European Parliament on March 11, 2014.

In 2014, a Calendar for the adoption of the measures required for implementing Solvency II was developed, with the launch of the preparatory phase on January 1 of that year. One of the most important changes to the structure of the General Insurance and Pension Fund Division in 2014 was the creation of the Directorate-General for Solvency.

These regulations will become effective as of January 1, 2016. Nevertheless, with the goal of achieving a gradual adaptation, on April 1, 2015 a period for requesting authorization to the supervisor of the procedures regulated by Article 308 bis of the Directive was launched. These authorizations encompass, amongst others, those related with ancillary shareholders' equity, internal models, specific parameters, volatility adjustments of the term structure of interest rates, the use of transitional measures of technical provisions and interest rates, as well as a diversity of authorizations applicable to groups.

Finally, to comply with the provisions of Article 308 bis. 2 of the Solvency II Directive, on the definition of the level and scope of application of group supervision, the General Insurance and Pension Fund Division required all insurance entities to notify, before March 31, 2015, whether they belonged to a group subject to supervision in accordance with Article 213.2 of the Directive; if so, if they belonged to the Spanish insurance entities and reinsurers included within the scope of application of group supervision and of the total shareholding structure of the group subject to supervision.

On May 6, 2014 the Advisory Committee of Insurance and Pension Funds was presented the Preliminary Draft project of the Law for transposing the Solvency II Directive and later, on February 20, 2015, the Bill was approved by the Council of Ministers. Since February 25, 2015, this Bill is in the parliamentary processing phase.

The main changes of the Bill include, amongst others, a new methodology for the solvency system -guaranteeing that entities have enough capital to prevent bankruptcy, with a probability of 99.5 percent given a stressed scenario and a series of concurrent risks-, a consolidated corporate government founded upon specific norms of honorability and capacity of those persons assuming management responsibilities, improved reporting and transparency systems, and a reinforced supervisory role of the General Insurance and Pension Fund Division.

In 2014, the Financial Requirements Committee continued to offer support to the Delegated Activity Committee for implementing the tasks entrusted to this group. Likewise, it has contributed toward preparing different guidelines and technical standards, especially those dedicated to procedures for approving ancillary shareholders' equity, volatility adjustments and entity-specific parameters.

On another hand, also in 2014, EIOPA published the results obtained by the Spanish insurance industry during the stress tests carried out by the European Union, confirming the strength of Spanish insurance for meeting the capital-related requirements of the new Solvency II regulations, as 86 percent of the entities analyzed are correctly capitalized. Only 14 percent of the entities, which furthermore represented 3 percent of the total assets, demonstrated a required solvency capital below 100 percent.

During these tests, the Spanish insurance companies maintained solvency ratios higher than those required by Solvency II in two potential scenarios: the first focused on verifying the financial strength of the insurance industry in a context of stress, both in the global market as well as in the insurance industry ("inverse" scenario), and the second was based on observing the resistance capacity over a prolonged period of low interest rates ("Japanese" scenario). These tests have also revealed the main vulnerabilities of the entities in the two analyzed scenarios, basically focusing on the loss of policies, aging of the population and natural disasters. To improve this possible, adverse scenario, EIOPA as part of monitoring, issued a series of recommendations for national supervisors on facing the identified weaknesses in a coordinated way, amongst which are worth highlighting the collaboration of the supervisors with the insurance companies to guarantee their clear understanding of their exposures to risk, their vulnerability in the scenarios analyzed and that they have available the capacity to implement actions for recovery, in the event that these vulnerabilities materialize.

In conclusion, though it is worth mentioning that Solvency II will fully enter into effect next January 1, 2016, major efforts continue to be made both by insurance companies as well as by supervisory bodies to achieve the gradual adaptation of insurance entities, reinsurers and their groups to the new legislation. All of this given the Preliminary Draft Project for the Planning, Monitoring and Solvency Act for Insurance and Reinsurance Institutions and the Royal Decree that implements this Act, transposing the new Solvency II system to the Spanish legal system.

4. Insurance market performance by brands

4.1. Life

During 2014, Life insurance reached a premium volume of 24.839 billion euros, which means a significant decrease similar to the previous year (-2.6 percent compared with -3 percent in 2013). Despite this, the volume for technical provisions increased by 1.6 percent, to 164.315 billion euros.

In the savings-previsions industry as a whole, investment funds were again the solution with the best performance in 2014 with a growth of 27 percent, noticeably higher than that obtained by pension funds (with a 7 percent increase of managed assets) and the already mentioned life insurance provisions.

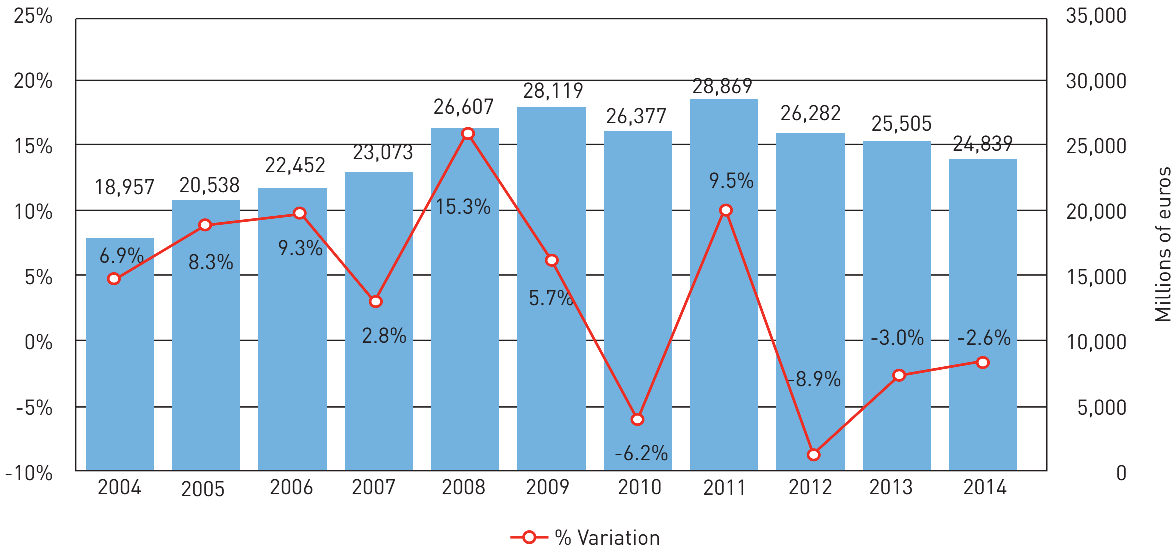
As regards the penetration of Life insurance, the number of policyholders continued its somewhat downward trend to 29.9 million, with a regression of 1.3 percent, motivate by life-risk insurance.

Categories

By modules, insurances with exclusive coverage for death continued representing over two thirds of the total insured, with a total of 20.6 million policies, despite the decrease by 1.4 percent over the last 12 months. As regards the amount of premiums issued for these types of products, in 2014 the trend of recent years changed and it grew 3.6 percent to reach 3.467 billion euros.

The group of Savings/Retirement modules further decreased compared with the previous year, as issued premiums underwent a contraction of 3.6 percent. On this occasion, the Deferred Capital and Individual Systematic Savings Plan (PIAS) insurance types registered the most positive progress during the analyzed period, increasing 19.3 percent and 6.9 percent, respectively, entailing business growth through these products of 1.392 billion euros.

Figure 12. Progress of Life. Written premiums. Direct insurance



Source: ICEA

Table 10. Distribution of Life insurance by category. Written premiums. Direct insurance

	Insured parties. 2014	
Type	Number	% Variation.
Risk	20,614,577	-1.4%
Long term insurance	35,040	5.4%
Savings / Retirement	9,281,198	-1.1%
Total	29,930,815	-1.3%

Source: ICEA

Table 11. Distribution of Life policy holders by category

	Premiums		Provisions	
Type	2014	% Variation	2014	% Variation
Individual	19,255	0.3%	109,532	6.9%
Collective	2,796	-13.9%	38,348	-4.7%
Unit Linked	2,788	-9.1%	16,435	-9.1%
Total	**24,839**	**-2.6%**	**164,315**	**1.7%**
Risk	3,467	3.6%	5,094	3.2%
Long term insurance	5	10.8%	12	64.6%
Savings / Retirement	21,368	-3.6%	159,209	1.6%
Insured Pension Plans	2,390	-18.7%	13,058	1.9%
Deferred Capital	7,717	22.0%	43,339	2.7%
Annuity	6,255	-21.2%	80,640	2.1%
Individual Systematic Savings Plans (PIAS)	2,217	17.5%	5,737	24.0%
Linked assets	2,788	-9.1%	16,435	-9.1%
Total	**24,839**	**-2.6%**	**164,315**	**1.7%**

Millions of euros
Source: ICEA

On another hand, the performance of Insured Benefit Plans (PPA) was hardly satisfactory with a premium volume decreased by 19.2 percent, resulting of the good performance in 2014 of equity markets and of pension plans with risk profiles in their portfolios. Despite the foregoing, the managed savings for this product regained a growth of 2 percent, exceeding 13 billion euros.

Despite a premium decrease of 20.2 percent in Annuity Insurance, it should be noted that the technical provisions increased by 2 percent, consolidating itself as the most settled insurance formula of the line, with 80.64 billion euros, half the total savings managed by sector.

As regards the section on Redemption, progress has been hardly favorable in increasing its volume by 2 billion euros compared with 2013, especially motivated by the poor performance of the PPAs and asset-linked insurance.

On another hand, to differentiate the Life business by individual and group modes, we must mention than both experienced decreased premiums, the most pronounced descent corresponding to group insurance (-13.9 percent), motivated in particular by the poor progress of annuity insurance with pension obligations, compared with the regression of 0.9 percent of individual insurance. To the contrary, the managed savings of the latter grew 2.8 percent while the group volume recoiled 1.8 percent.

Pension plans and funds

For the third straight year, Pension Plans closed out the year very positively, with a growth of 7.1 percent, raising the managed equity to close to 100 billion euros (precisely 99.285 billion euros). This achievement sets a new historic level of equity managed by Pension Funds. However, the number of participating accounts continued below 10 million with a slight increase of 0.6 percent, on this occasion with positive performance in all systems, thanks to the boost of the Employment System Plans (2.8 percent).

The good performance of financial markets enabled Pension Plans to offer excellent yields in all their categories and systems, where 6.9 percent was the average obtained by the plans overall. Within the Individual System, the Guaranteed Funds and Equity and Long Term Fixed-Income Funds were particularly significant, with annual returns of 11.4 percent and 8.9 percent, respectively. Employment System Plans reached a yield of 7.1 percent in 2014.

Accumulated net contributions in the year (1.161 billion euros) multiplied last year's figures by five, mainly thanks to the contributions to the funds from the individual system. To the contrary, these were negative in the Employment System by 39 million euros.

Within the Pension Plans of the Individual System, only the equity of Guaranteed Plans decreased, while the increases in Long Term Fixed Income Funds (30 percent) and Mixed Equity (24 percent) were particularly noteworthy.

Investment funds

Activity of Investment Funds in 2014 highlighted the turning point as regards the negative trend of recent years. The industry closed out the year with assets boosted by 27 percent, as occurred with participants, placing its managed equity at 194.844 billion euros and raising the number of investors in this type of product to almost 6.5 million participants.

The average yearly yield for the total funds was 3.7 percent, with highly satisfactory values for all categories, particularly the International Equity Portfolio Funds referenced to the North American economy (18.3 percent). Likewise worthy of mention for their weight in the total are the yields attained by Passively-Managed Funds (7.9 percent) and Long Term Fixed-Income Funds (6.1 percent).

The positive underwritings entailed the entrance of 35.5 billion, mostly concentrated in the Fixed Income types.

Of all Investment Funds categories, all of these except for Monetary Funds and Fixed-Yield Guaranteed Funds managed to increase their business volume. Amongst those with the best performance we must highlight Mixed Equity Funds and Long Term Funds, as well as Partial Guarantee Funds, with increases of 208 percent, 96 percent and 77 percent. Amongst the abovementioned two families with the worst performance, Guaranteed Funds lost 11 billion during the year, 35 percent of their equity.

Preview 2015

If it's true that the crisis is finally coming to an end, this would result in more available household income. It is expected and would be desirable that private savings be favored by the reactivation of the economy if it reaches families. In this case, Pension Plans, Insured Benefit Plans and Savings-Retirement insurance would also contribute in this regards, as a result of greater awareness amongst the population of the difficulties inherent to the sustainability of pension systems and the resulting need for long term savings.

Likewise, worth mentioning are the appearance of the generically called Long-Term Savings Plans or PALP (in their types CIALP and SIALP, depending on whether they are articulated through Accounts or Insurance, respectively), which arise from the new Law Ley 26/2014, dated November 27, amending Law 35/2006 on income tax. These new instruments, targeted at small investors, contemplate the exemption of income generated as long as amounts lower than 5,000 euros annually are contributed and at least five years elapse as of the initial contribution. Savers may only be titleholders of one PALP, only capital may be withdrawn and the product may be marketed with different investment strategies, in any case with guaranteed maturity premiums of at least 85 percent. Given the profile of savers in Spain, it is expected that the industry will design products seeking a higher, guaranteed percentage, to the detriment of higher profitability.

On another hand, this same tax reform should favor life annuity insurance, given that the capital gains generated by the sale of any type of asset with a value of up to 240,000 euros that is part of the assets of an individual over the age of 65 would be exempt, as long as the value is reinvested in a guaranteed life annuity.

To the contrary, the new legislative framework will have a negative impact on contributions to Pension Plans and PPAs due to the reduction of the maximum annual limit, which will change from 12,500/10,000 euros currently, depending on one's age, to 8,000 euros under the new law, though being realistic, great impact is not expected, given that the average contribution does not exceed this amount.

Another determining factor will be the very low interest rates that affect a major part of the industry's supply, like the guaranteed products. Given this scenario, both the design of products as well as the capacity for advising clients will be key for proper risk assumption and financial planning of equity and savings. For this reason, we expect the "resurrection" of unit-linked, as already occurred years ago, as well as other products with life insurance support with structures referenced to variable annuities.

As regards Investment Funds and Pensions, the recovery of the Spanish economy is expected in 2015, with the growth rate forecasted to exceed 2 percent. The worsening of the scenario abroad, especially within the EMU, might be compensated for by a greater strength of domestic demand as the job market speeds up employment creation. In addition, improved financing conditions as a result of the most recent interventions of the ECB, the depreciation of the euro and the drop in oil prices, are positive factors that will help to drive the economy positively.

In this context, the savings capacity of Spanish families continues a significant recovery, reflected in net contributions to investment funds, like Pension Funds. The continuity of this process will depend, to a great extent, on the capacity for supporting a continued improvement of the labor market over upcoming years. In addition, the raised awareness of the need to save for retirement is a driving force for the Pension Fund and Investment sectors. In the last report on Spanish Families' Savings drafted by Inverco, only 5.5 percent of savings are destined to Pension Funds, compared to 43 percent destined to other more liquid assets, such as banking deposits. Likewise, Investment Funds represented only 9 percent of savings, figures that fall way below the average of the other European countries.

As concerns regulatory changes, we must mention the measures adopted in 2014 to promote and relaunch savings for retirement. The most relevant are the lowering of the maximum limits for administration and deposit commissions of Pension funds and the new liquidity option for Pension Plans, for those contributions with a length exceeding ten years. However, these measures have limited effects. In the first case, we must bear in mind that the average commissions of Pension Funds were already below the current maximums. As to the ten year liquidity period, given that it will enter into effect as of 2015, one must wait until 2025 to apply this new liquidity option. In any case, it will be positive for the industry as long as it does not, in the future, be to the detriment of the actual Pension Plan conditions, especially with regards to currently applicable tax-related conditions.

The delay of the Social Security Administration's sending individualized information that will include an estimate regarding their future right to ordinary retirement in addition to the rights derived from other complementary instruments contemplated in pension obligations, does not favor greater awareness about supplementary social security systems.

ICEA data corresponding to the first quarter of 2015 show that the premiums of the Life insurance business decreased 12.7 percent compared with the same quarter the previous year, given the poor performance of the Savings business, which represents 79 percent of the Life business and which decreased 16.3 percent. The Risk business, however, registered a growth of 4.3 percent. Finally, the volume of savings managed represented by technical provisions grew 0.7 percent (compared with 3 percent in 2014).

Table 12. Progress of average premium of Automobile Insurance

Year	Insured vehicles (1) Millions	% Var.	Direct insurance premiums (2) Millions of €	% Var.	Average premium €	% Variation Nominal	Actual
2000	21.7	3.0%	7,996	17.9%	368	14.4%	10.0%
2001	22.0	1.1%	9,034	13.0%	411	11.7%	8.8%
2002	22.4	2.0%	9,990	10.6%	446	8.4%	4.2%
2003	23.3	4.2%	10,669	6.8%	457	2.5%	-0.1%
2004	24.6	5.4%	11,288	5.8%	459	0.4%	-2.7%
2005	25.7	4.7%	11,703	3.7%	455	-1.0%	-4.5%
2006	27.1	5.2%	12,261	4.8%	453	-0.4%	-3.0%
2007	28.3	4.7%	12,593	2.7%	444	-1.9%	-5.8%
2008	28.8	1.7%	12,356	-1.9%	428	-3.6%	-4.9%
2009	28.8	-0.2%	11,662	-5.6%	405	-5.5%	-6.2%
2010	28.7	-0.3%	11,554	-0.9%	403	-0.6%	-2.4%
2011	28.9	0.7%	11,285	-2.3%	390	-3.0%	-6.1%
2012	28.7	-0.7%	10,622	-5.9%	370	-5.3%	-7.5%
2013	28.6	-0.4%	10,033	-5.5%	351	-5.1%	-5.1%
2014	28.8	0.7%	9,884	-1.5%	343	-2.2%	-1.2%

(1) FIVA
(2) Direct insurance premium from insurance companies. plus premiums from the Consorcio
Source: FIVA. ICEA. Consorcio de Compensación de Seguros and in-house research

4.2. Automobiles

The premium volume issued in Automobile insurance during 2014 was 9.882 billion euros, representing a contraction of 1.4 percent compared to the previous year. The persistent drop of both premium volumes and average premiums over recent years has resulted of the economic crisis and the intense competition between companies of this line. Despite this, the decrease of premium volume in 2014 was lower than that registered in 2013 (-5.5 percent) and, in any case, Automobile insurance continues to be the most important Non-Life line, with 32.2 percent of the total volume of Non-Life premiums.

Some positive signs have been observed in relation to the start of the recovery of the economy, which without a doubt will result in an improvement of the values for these variables, like the increase of vehicle registration (24.3 percent compared with 2013) and a growth exceeding 0.7 percent in the number of insured vehicles. On another hand, after seven years of drops in the consumption of automotive fuel, 2014 registered a growth of 1.4 percent compared with 2013. The strong competition in premiums continues to provoke a nominal decrease of average premium per vehicle, down to 343 euros.

Table 13. Basic indicators of Automobile insurance

Basic Indicators (% of premiums)*	2013	2014
Vol. Premiums Issued (1)	10,021	9,882
% Variation in premium volume	-5.5%	-1.4%
Withholding	92.3%	92.5%
Gross claims ratio	77.2%	77.1%
Gross expenses	20.0%	20.1%
Net claims ratio	78.1%	77.6%
Net combined ratio	98.4%	97.9%
Financial result	4.5%	5.6%
Technical-Financial result	6.1%	7.6%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

Table 14. Average frequencies and costs by coverage class

	Frequency (%)			Average cost (euros)		
Guarantees	2013	2014	% Dif.	2013	2014	% Var.
Third-party liability	8.5%	8.4%	-0.11%	1,888	1,867	-1.1%
Bodily injury	2.0%	2.0%	0.01%	4,928	4,750	-3.6%
Material	7.2%	7.3%	0.08%	887	871	-1.9%
Own damage	39.6%	36.3%	-3.27%	731	728	-0.4%
Broken Windows	6.7%	6.6%	-0.14%	290	290	0.0%
Theft	1.2%	1.0%	-0.16%	896	882	-1.6%
Legal defense	1.8%	1.8%	-0.01%	310	302	-2.4%
Occupants	0.3%	0.3%	0.01%	1,252	1,241	-0.9%
Fire	0.06%	0.05%	-0.01%	2,854	2,794	-2.1%
Revocation of driving license	0.04%	0.03%	-0.01%	1,314	1,210	-7.9%

Source: ICEA

The combined ratio improved half a percentage point in 2014 and registered a value of 97.9 percent as a result of the slight drop in the claims ratio, in the same amount. The financial result improved by over one point up to 5.6 percent, and the technical-financial result increased by one and a half points to 7.6 percent.

Another year, no significant increases are observed in the frequency of claims for any guarantee, and some even experienced drops, like Own damage (-3.27 percent), associated with the increase of insurance with deductibles.

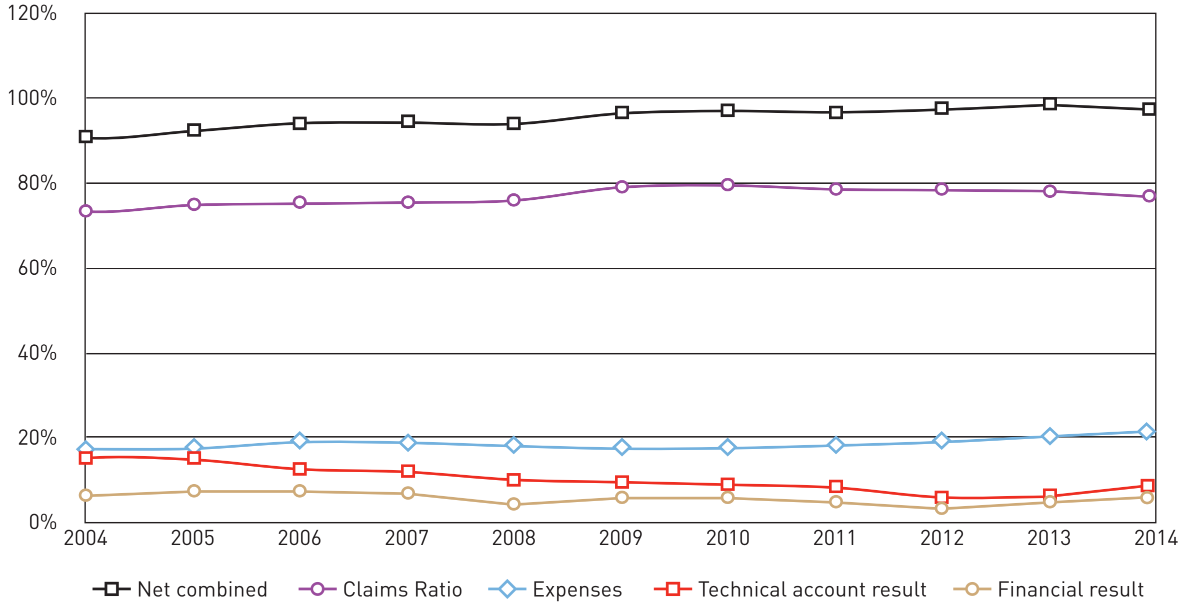
It is necessary to point out that despite the fact that there were no major variations compared with last year, the economic recovery entails increased activity and the consumption associated with greater use of the vehicle, causing, for the first time since 2007, an increase of 0.4 percent in the number of fatalities, up to 1,688 deaths. There has also been an increase of 1.6 percent in long-distance travel, after continuous drops since 2009. To this we must add the aging of automobiles in Spain, with over half of automobiles in circulation are over 11 years old.

Regarding average cost, there were drops in all guarantees, with the exception of window breakage, which remained the same. Especially noteworthy is the decrease by 7.9 percent of the revoked driver's license guarantee.

The claims with the highest average cost continue to be third-party liability for bodily injury, with a value of 4,750 euros though, with the exception of the revoked driver's license guarantee, these are the highest decreases in percentage compared with 2013 (-3.6 percent).

In general, the progress of the results for automobile insurance are quite stable across all of its variables. It is worth mentioning that it had remained at the same levels until 2009, the year in which the collateral effects of the economic crisis started to become evident, causing clients to shift toward lower more inexpensive products and coverages, and increasing the net claims ratio. The cost ratio has also gradually deteriorated, resulting in a deteriorated combined ratio. The financial result has partially compensated the downturn of the technical result. This trend has been stopped in 2014 and the combined ratio has managed to improve by one point.

Figure 13. Progress of the result in the Automobiles line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

Preview 2015

According to ICEA data, the premium volume registered during the first quarter of 2015 was 2.597 billion euros, which represents a 0.42 percent growth compared with the same period last year. Broken down by types, the third-party liability premiums remained on the same levels as in 2014, and Others slightly increased, by 0.9 percent. For the first time since 2008, the automobile line registered an increase in premium volume, which may suppose for the short-mid term a change in the trend toward certain stability or recovery in the progress of rates and average premium for the line.

It is expected that the data on positive growth of premiums issued the first quarter will be consolidated and increase at the closing of 2015. The improvement in the global economy and consumption is reflected in an important increase in the sale of new high-end vehicles and in the number of insured vehicles.

The second effect of the improvement to the economy is the increased use of vehicles, already reflected in the consumption of fuel the first months of the year and its direct relationship with the increased frequency of use. With the current data on the industry's combined ratio, an increase of premiums would be normal to face this increased frequency and claims ratio.

The reform of the Automobile Rate is in the parliamentary processing phase and everything seems to indicate that it will enter into force in January 2016 after its approval during the actual legislature. It if foreseeable that the sector will update its premiums to adjust for the increase in claims, mainly effective in 2016, though it is possible that some entities will do this sooner by including these measures in contracts signed in 2015 that will provide coverage in 2016.

Table 15. Basic indicators of Multi-peril insurance

Basic Indicators (% of premiums)*	2013	2014
Vol. Premiums Issued (1)	6.537	6.550
% Variation in premium volume	-1.4%	0.2%
Withholding	79.6%	79.7%
Gross claims ratio	58.9%	60.4%
Gross expenses	28.4%	28.2%
Net claims ratio	61.3%	60.6%
Net combined ratio	92.2%	90.7%
Financial result	3.5%	4.4%
Technical-Financial result	11.3%	13.7%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

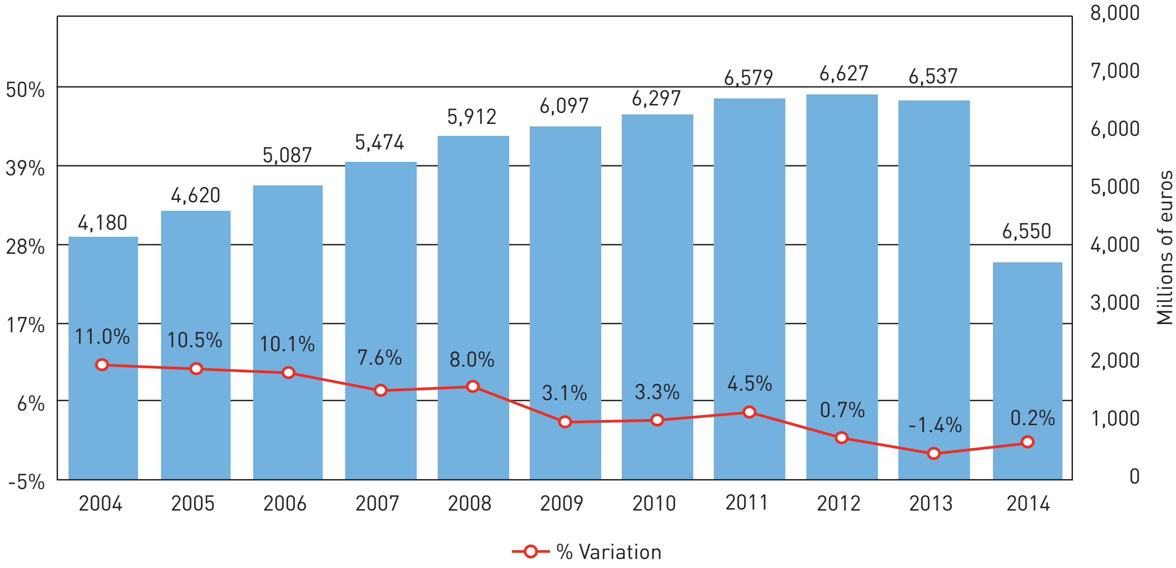
4.3 Multi-peril

In 2014, the Multi-peril line premium volume registered 6.55 billion euros, with a growth of 0.2 percent compared with the previous year. This paltry growth, nevertheless, may be interpreted positively if compared with the contraction of the previous year, in which premiums decreased by 1.4 percent. Likewise, the number of policies increased by 1.6 percent in 2014 compared with 0.4 percent in 2013.

Multi-peril insurance continues as the third most important line in Non-Life insurance, with a market share of 21.4 percent, only behind Automobiles and Health. Insurance agents and brokers continue being the most important distribution channel with a share of 72.9 percent, still a great distance away from the Bancassurance channel (23 percent).

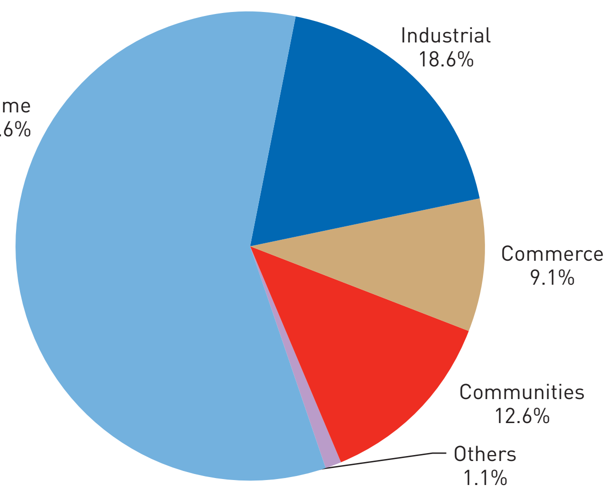
Broken down by types, revenue from premiums registered variations of 1.5 percent for Home (0.4 percent in 2013), dropped 3.6 percent for Industrial (compared with -5.9 percent in 2013), dropped

Figure 14. Multi-peril performance. Written premiums. Direct insurance



Source: ICEA

Figure 15. Distribution of Multi-peril premiums by module



Source: ICEA

0.3 percent for Commerce (-4.7 percent in 2013), while Communities grew 0.4 percent (1.1 percent in 2013).

Another year, Home continued as the type that concentrated the highest premium volume (58.6 percent), followed by Industrial (18.6 percent), Communities (12.6 percent) and Commerce (9.1 percent).

The technical financial results of the line increased almost two points and a half, up to 13.7 percent compared with the previous year. This was due to higher financial results of almost one point, up to 4.4 percent and an improvement of the combined ratio, which decreased just over one point and a half to a value of 90.7 percent, due to an improvement in the claims ratio and cost ratio. By types, the improvement of almost 4 points of Industrial claims ratio stands out, positioning its combined ratio at 99.4 percent (103.4 percent in 2013).

Preview 2015

The Multi-peril Insurance premium volume registered during the first quarter of 2015 was 1.781 billion euros, a growth of 1.7 percent compared with the same period the previous year. All of the types except for Commerce (which decreased 0.1 percent) registered increases: Home (2 percent), Communities (1 percent), Industrial (2 percent) and Other Multi-peril (3.5 percent).

Without a doubt, we can state that the economic cycle is changing, as proven by significant indicators: growth of the GDP, reduction of unemployment, more available household income, construction of new homes, and improvement of industrial activity. The growth rate of the insurance industry is not isolated from this reactivation, wherefore this line is expected to improve next year.

The major competition of this line will continue, as well as the difficulties companies face in retaining clients, all of this motivated by new purchasing habits, where the client constantly receives new offers that are sent using numerous channels: when reading the newspaper, filling the gas tank, on the supermarket purchase ticket, etc., without prejudice to the offers also received over more traditional channels (banks, agents and brokers).

4.3.1. Home Multi-peril

The Multi-peril Home Insurance premium volume registered in 2014 was 3.837 billion euros, with an increase of 1.5 percent compared with the previous year. Despite the intense competition of the insurance industry, this is the type of Multi-peril insurance with the best performance in 2014.

As regards the integration of new products, insurance companies continuously gather data on the needs of society in relation to new risks. Worth highlighting for this year are the new coverages for virtual risks arising from the appearance of digital violence against minors, erasing the digital footprint and identity protection, all of this due to the proliferation of cell phones and permanent Internet connectivity demanded by society.

Though the growth rates of the Agents and Brokers channel continue to be positive, the banking channel is awakening with regards to the increase of transactions for the purchase of homes, both new and second-hand construction.

To the contrary, public housing insurance is a business undergoing a slower recovery, and for now no reactivation has been noticed. Public housing plans continue to be scarce, with tight economic resources or limited coverage periods.

The combined ratio improved just over two percentage points until reaching a value of 90.1 percent due to a descent of the claims ratio and costs. The financial result increases a slight three tenths, to 3.3 percent. The foregoing increased the technical-financial result by over two percentage points, until reaching the value of 13.1 percent.

Table 16. Basic indicators of Home Multi-peril insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	3,779	3,837
% Variation in premium volume	0.4%	1.5%
Withholding	90.4%	89.9%
Gross claims ratio	59.0%	58.6%
Gross expenses	32.0%	31.2%
Net claims ratio	60.0%	59.3%
Net combined ratio	92.2%	90.1%
Financial result	3.0%	3.3%
Technical-Financial result	10.8%	13.1%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

4.3.2. Industrial Multi-peril

The Multi-peril Industrial Insurance premium volume registered in 2014 increased to 1.22 billion euros, representing a regression of 3.6 percent compared with the previous year. However, the contraction is less than the one of 2013 (-5.9 percent).

The guarantees for Loss of Earnings and Theft have experienced a greater claims frequency, while Fire had the highest average cost per claim.

The indicators reveal an improvement of the combined ratio by four percentage points as a result of the drop in the net claims ratio. The financial result improved by over four points up to 9.0 percent, and the technical-financial result increased by over eight points, to 9.6 percent.

Table 17. Basic indicators of industrial Multi-peril insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	1,265	1,220
% Variation in premium volume	-5.9%	-3.6%
Withholding	50.8%	52.2%
Gross claims ratio	62.4%	68.8%
Gross expenses	19.8%	20.5%
Net claims ratio	74.7%	70.8%
Net combined ratio	103.4%	99.4%
Financial result	4.8%	9.0%
Technical-Financial result	1.4%	9.6%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

This improvement of the claims ratio mainly results of a greater demand for implementing remedies for risks of the portfolio with poor results and for reducing peak claims notified during the annuity.

Optimizations of Reinsurance programs have boosted an improved claims ratio, which together with the maintenance of a cost ratio and an increase of the results of investments, yield a major improvement for the technical-financial ratio.

In 2014, pressure on prices of the Industrial Multi-peril lines was relieved with a slight improvement in the taking out of new policies, which has caused the sector to react positively by including new services and/or benefits. Amongst these new services are worth highlighting everything associated with cyber risk (digital protection) as regards protection unto piracy of data threatening companies: legal/forensic computing, localization and anti-theft protection for mobile devices, or the classification of the corporate brand in the Internet. The taking out of traditional coverage for Loss of Earnings is also promoted, given the very important number of companies protected from material damages, but without protection unto the business continuity contingency.

4.3.3. Commerce Multi-peril

The premium volume for Commerce Multi-peril in 2014 was of 594 million euros, a slight contraction of 0.3 percent compared to the previous year. As is the case with the Industrial Multi-peril type, the contraction is lower than that of 2013 (-4.7 percent).

Water damage guarantee in 2014 yielded a greater claims frequency, while Fire had a higher claim amount. From the point of view of economic activity, bars and restaurants continue showing a greater number of claims and loss amount, as well as stationery stores, tobacco shops and lottery establishments, which showed the worst indexes of claims frequency and average costs.

The technical-financial result suffered a fall of almost four points, to 15.8 percent, mainly because of an increase in net claims ratio of almost 4 points, which has increased the combined ratio to 88.4 percent.

Table 18. Basic indicators of Commercial Multi-peril insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	596	594
% Variation in premium volume	-4.7%	-0.3%
Withholding	85.5%	84.2%
Gross claims ratio	53.7%	56.3%
Gross expenses	30.1%	30.7%
Net claims ratio	54.3%	58.1%
Net combined ratio	84.2%	88.4%
Financial result	3.8%	4.2%
Technical-Financial result	19.7%	15.8%

((*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

The Commerce industry, which has especially suffered the crisis, starts to reap the benefits of the reactivation of the economy. In 2014, the drop in premiums compared with previous years is reduced, though the market continues to have a high level of competitiveness, directly affecting the reduction of average premiums for new production and portfolio, resulting in an increase of the industry's claims ratio, which may become more apparent with the mentioned increase of activity.

4.3.4. Communities Multi-peril

The premium volume for Communities Multi-peril insurance increased by 0.4 percent in 2014 until reaching a value of 827 million euros. The increase was lower than that registered in 2013 (1.1 percent).

As regards new coverage, companies are deploying guarantees of the types Blockages and claims for unpaid fees, which respond to very frequent needs of Owners' Associations.

Communities insurances have withstood relentless competition among the companies insofar as new production and portfolio readjustments. Underwriting requirements have also become more flexible for this type of risks, to the extent that the average premium has increased because companies are now entering into risk segments that were previously blocked.

Table 19. Basic indicators of Communities Multi-peril insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	823	827
% Variation in premium volume	1.1%	0.4%
Withholding	86.4%	85.8%
Gross claims ratio	54.5%	54.3%
Gross expenses	28.2%	28.1%
Net claims ratio	55.2%	55.2%
Net combined ratio	83.3%	83.2%
Financial result	3.8%	4.1%
Technical-Financial result	20.5%	20.9%

((*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

The water damage guarantee continues to have the highest number of presented claims, a greater claims frequency and average cost per policy, especially for buildings between 31 and 40 years old.

The combined ratio remains at approximately the same level as the previous year (83.2 percent) and the technical-financial result increases by four tenths until reaching a value of 20.9 percent, due to the increase of the financial ratio by half a net point.

Historical results series

Figure 16. Progress of the result in the Multi-peril line. % over net earned premiums

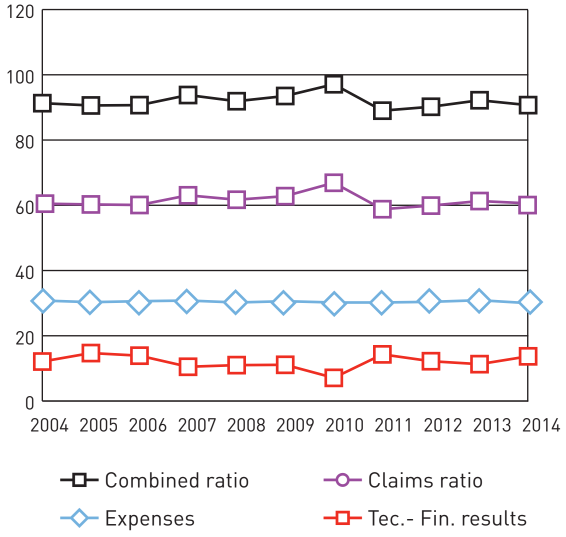
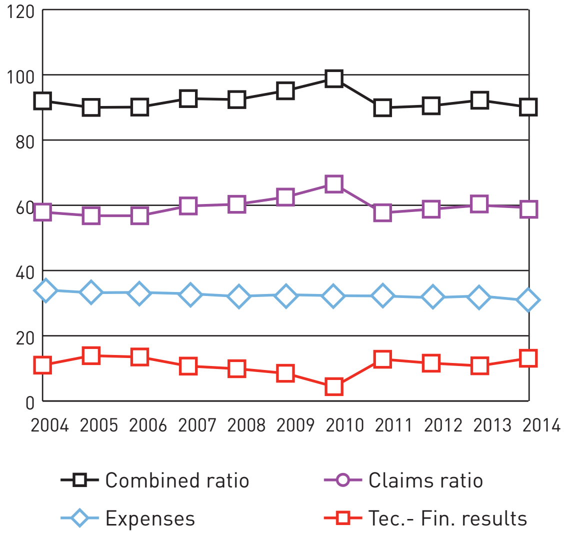


Figure 17. Progress of the result of the Home Multi-peril line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

Figure 18. Progress of the result of the Industrial Multi-peril line. % over net earned premiums

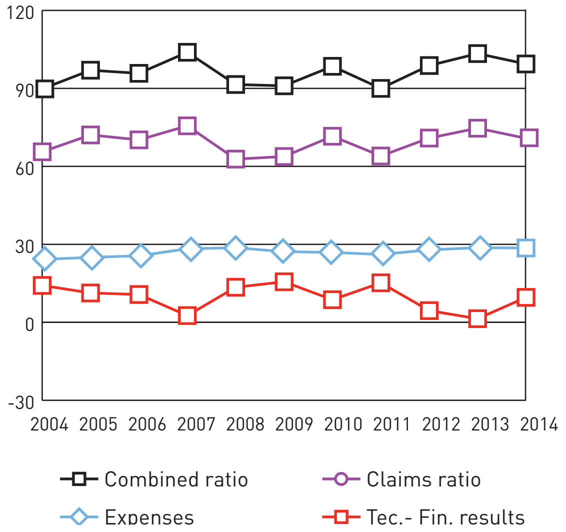
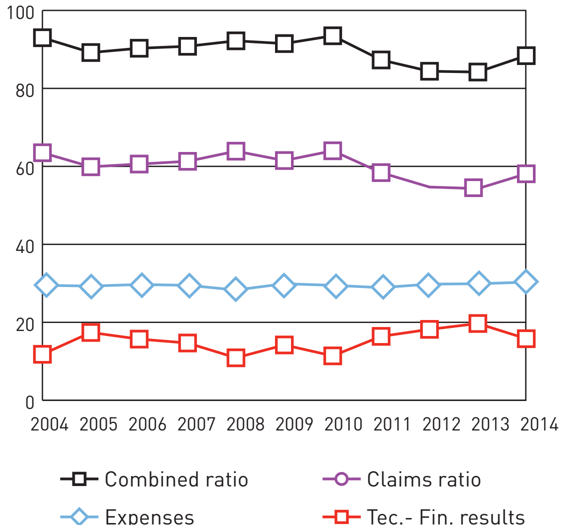


Figure 19. Progress of the result of the Commerce Multi-peril line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

Figure 20. Progress of the result of the Communities Multi-peril line. % over net earned premiums

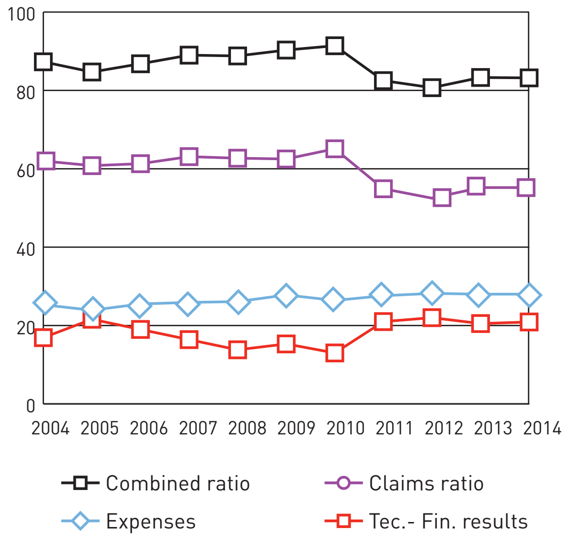
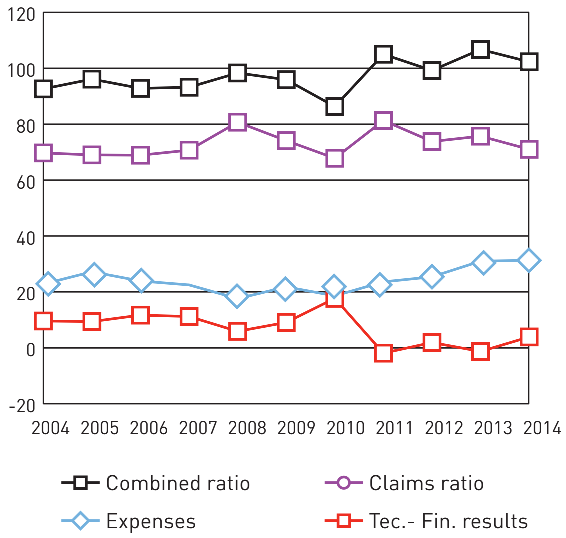


Figure 21. Progress of the result in the Other Multi-peril line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

4.4. Health

In 2014, the premium volume of Health Insurance increased to 7.181 billion euros, representing an increase of 3.5 percent compared to the previous year. The growth rates of premiums, though always positive, accelerated in 2014 for the first time since the start of the economic crisis. Likewise, the number of insured parties grew 1 percent until exceeding 10.5 million clients.

As in previous years, the most important type continues to be Healthcare Assistance, accumulating 79.1 percent of the total insured parties and 89.5 percent of premiums, and which continues growing in terms of both insured parties as well as premiums (2.3 and 3.8 percent, respectively); the Subsidies and Compensations type, with 14.5 percent of the total insured parties, decreased by 3.7 percent in premiums and by 4.4 percent in insured parties; finally, the Reimbursement of Expenses type, with 6.4 percent of insured parties, increased in premiums (3 percent) and decreased in insured parties (-2.6 percent). On another hand, the global growth of premiums has occurred in individual insurance (2.4 percent) as well as in groups (5.6 percent); however, the number of insured parties grew 5.4 percent for the latter, but decreased 1 percent for the former.

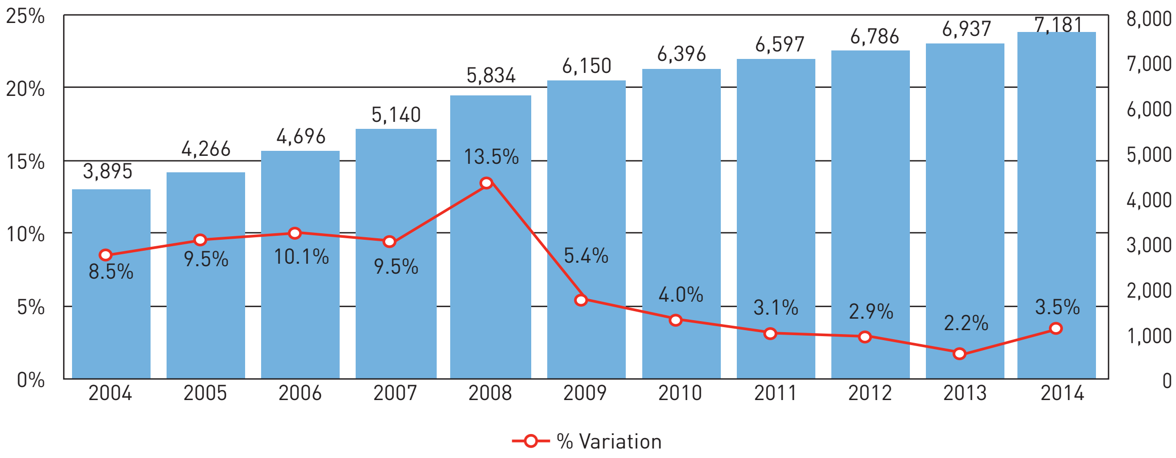
The table of indicators shows a slight improvement of the combined ratio, basically due to a drop of almost one point of the claims ratio. The cost ratio and the financial result maintain levels similar to those of last year (11.8 and 1 percent, respectively). Consequently, the technical-financial result increased by seven tenths, up to 5.6 percent.

Table 20. Basic indicators of Health insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	6,937	7,181
% Variation in premium volume	2.2%	3.5%
Withholding	97.6%	97.5%
Gross claims ratio	83.1%	82.2%
Gross expenses	11.7%	11.8%
Net claims ratio	84.5%	83.6%
Net combined ratio	96.2%	95.5%
Financial result	1.1%	1.0%
Technical-Financial result	4.9%	5.6%

((*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

Figure 22. Health performance. Written premiums. Direct insurance



Source: ICEA

Figure 23. Progress of the result in the Health line. % over net earned premiums

Source: in-house elaboration based on data from ICEA

Preview 2015

The recently approved Preliminary Draft Project for the Planning, Monitoring and Solvency Act also affects the Health line, a line in which most policy renewals are concentrated at a single time (January 1 each year). This new Project contemplates the possibility that the policyholder may notify the non-renewal of the policy one month in advance prior to its expiration date, instead of the currently mandatory two-months period.

The premium volume registered for Health insurance during the first three months of 2015 grew 3.5 percent compared with the same period the previous year. By modules, there was growth in

Healthcare Assistance (3.6 percent) and Expense Reimbursement (5 percent) while Subsidies and Compensations shrunk 2.6 percent.

4.5. Burial insurance

The Burial insurance premium volume increased in 2014 by 6.5 percent to 2.087 billion euros and 20.9 insured parties. The penetration index is of 44.9 percent on a national level, though with high regional variation, even exceeding 60 percent in Extremadura and Asturias. The level premium type continues to have the highest number of insured parties (72.7 percent) while the single premium is the type that has experimented the greatest growth (55.4 percent).

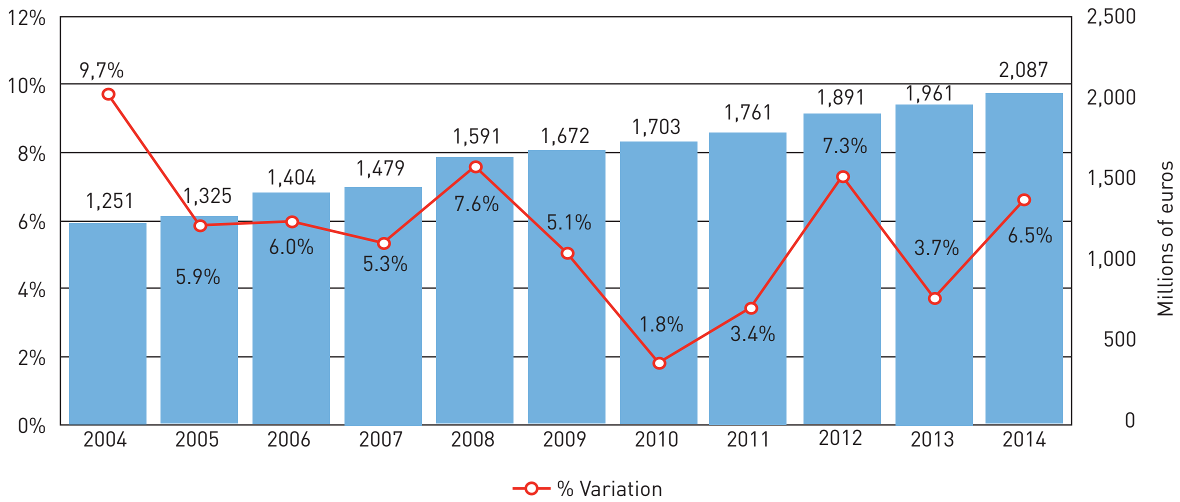
The combined ratio has increased two points in 2014 to 95.5 percent, caused by a rise in the claims ratio of over three points, partially offset by lower costs. Despite the improvement experienced in recent years, these continue to have high levels (34.8 percent) due to the high acquisition expenses associated with this type of insurance. On another hand, the financial result increased slightly to 6.5 percent, and the technical-financial result decreased 1.7 percentage points to 11 percent.

Table 21. Basic indicators of Funeral insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	1,961	2,087
% Variation in premium volume	3.7%	6.5%
Withholding	99.0%	98.4%
Gross claims ratio	56.9%	60.3%
Gross expenses	36.4%	34.8%
Net claims ratio	57.2%	60.9%
Net combined ratio	93.5%	95.5%
Financial result	6.2%	6.5%
Technical-Financial result	12.7%	11.0%

((*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

Figure 24. Funeral performance. Written premiums. Direct insurance

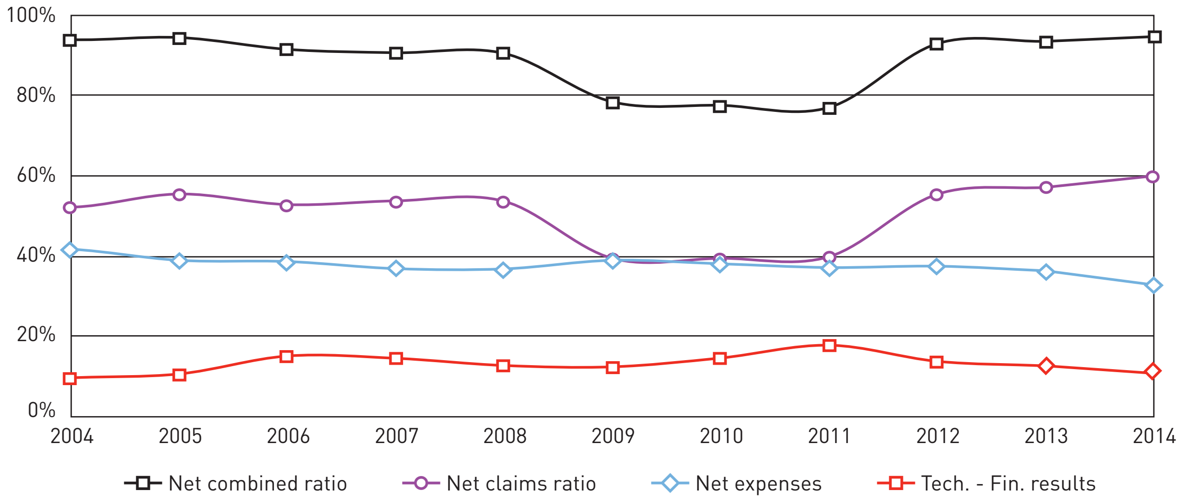


Source: ICEA

Preview 2015

According to data published by the ICEA, the premium volume registered for Burial Insurance during the first quarter of 2015 grew 5.2 percent compared with the same period the previous year.

Figure 25. Progress of the result in the Funeral line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

4.6. Third-party liability

In 2014, the premium volume of the Third-party Liability line increased to 1.342 billion euros, representing a decrease of 0.8 percent compared to the previous year. The downward trend of premium volume observed since 2009 continues, though much lighter (in 2013 premiums decreased 6.6. percent). Though there is a slight upturn of the economic activity compared with previous years, the descent in the volume of corporate billing continues to negatively affect premiums.

Both the claims ratio and cost ratio slightly decreased in 2014, entailing an improvement of fourth tenths in the combined ratio until reaching a value of 77.8 percent. The financial result improved by almost three percentage points up to 15.2 percent, and the technical-financial result increased by over three points to 37.4 percent.

Preview 2015

The data for the first quarter of 2015 show a year-on-year variation of -0.67 percent, compared to the decrease of -3.7 percent the same period the previous year. For the first time since the start of the economic crisis, there is a growth of premium volume motivated by a slight increase of new production, a decrease of portfolio premium cancellations and a lower adjustment to premiums in renewals. Despite these positive indicators, recovery is slow.

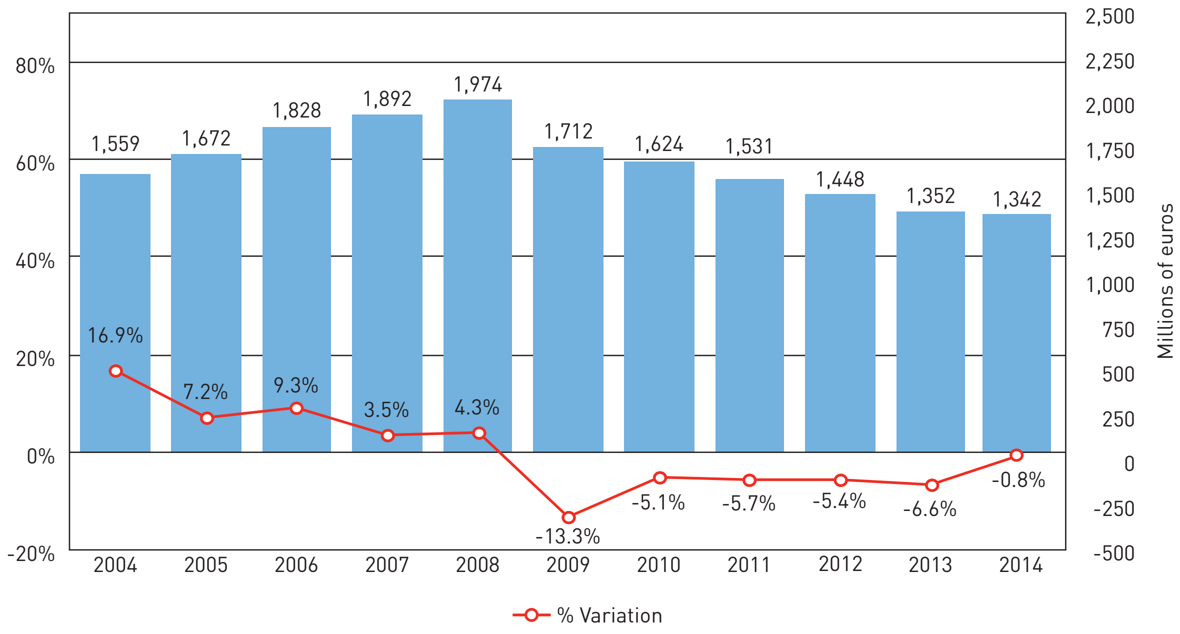
In 2015, an increase is expected in the taking out of Professional Third-party Liability Insurance, especially D&O, motivated by the growing interest by companies in this type of insurance due to recent legislative amendments: the Capital Companies Law for improving corporate governance and the Criminal Code, which in practice entails stricter liability responsibilities for Administrators and Directors. SMEs are the protagonists of the growth of the D&O market. An increase of the claims ratio

Table 22. Basic indicators of Third-party Liability insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	1,352	1,342
% Variation in premium volume	-6.6%	-0.8%
Withholding	71.8%	72.1%
Gross claims ratio	51.5%	51.0%
Gross expenses	25.6%	25.4%
Net claims ratio	50.8%	50.6%
Net combined ratio	78.2%	77.8%
Financial result	12.4%	15.2%
Technical-Financial result	34.2%	37.4%

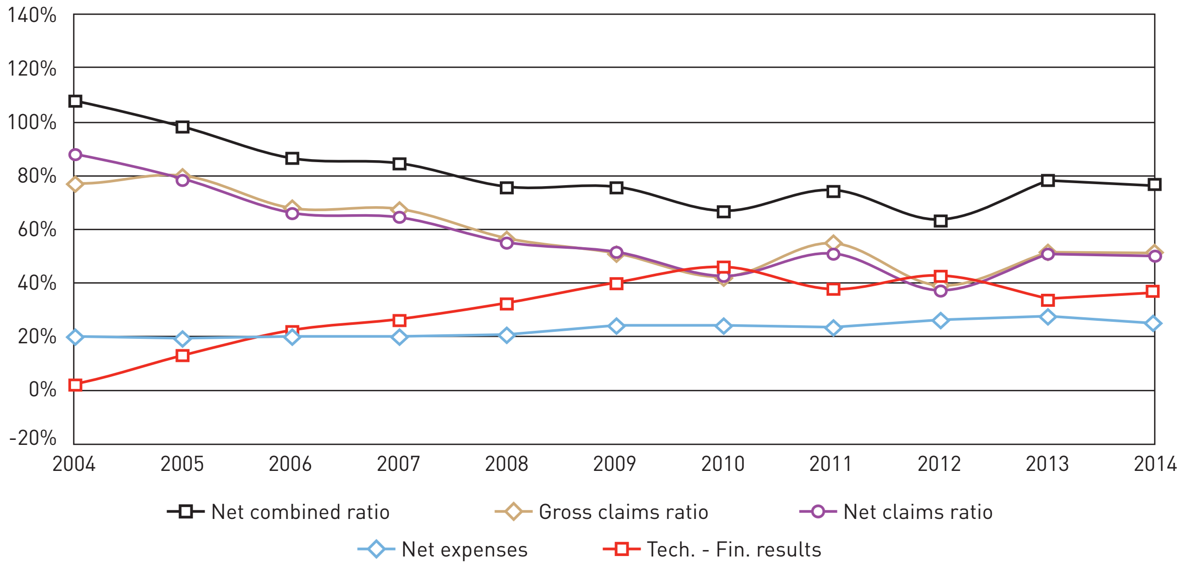
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

Figure 26. Third-Party Liability Performance. Written premiums. Direct insurance



Source: ICEA

Figure 27. Progress of the result of the Third-Party Liability line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

is also expected, which should be transferred to the premiums, though this will be difficult to apply, given the fierce competition of the market.

Continuing with legislative reforms, over the long term the claims ratio of the new Automobile Rate will have a highly relevant impact, to be applied, by analogy, for appraising bodily injury from workplace accidents and of professional third-party liability for doctors, which will entail a notable increase in the quantification of compensation, especially for cases of death and major injuries.

4.7 Personal accidents

In 2014, the premium volume of the Accidents line increased to 886 million euros, representing an increase of 0.6 percent compared to the previous year. Though small, this increase is significant as it interrupts the trend of the previous five years, which registered continuous drops in premium volume.

The combined ratio worsened by three percentage points until reaching a value of 79.0 percent due to an increase of both the claims ratio and costs ratio. The good financial result that increased by over seven percentage points up to 18.7 percent, increased the technical-financial result by almost four and a half points to 39.7 percent.

Table 23. Basic indicators of Accidents insurance

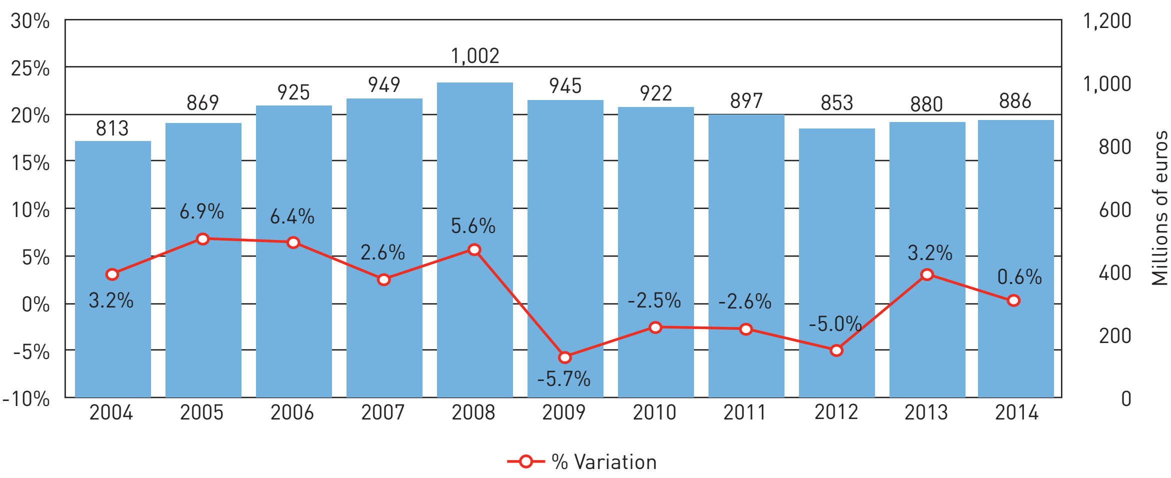
Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	880	886
% Variation in premium volume	-3.2%	0.6%
Withholding	90.1%	89.0%
Gross claims ratio	40.3%	39.4%
Gross expenses	36.3%	38.2%
Net claims ratio	39.3%	40.1%
Net combined ratio	76.0%	79.0%
Financial result	11.3%	18.7%
Technical-Financial result	35.3%	39.7%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

Preview 2015

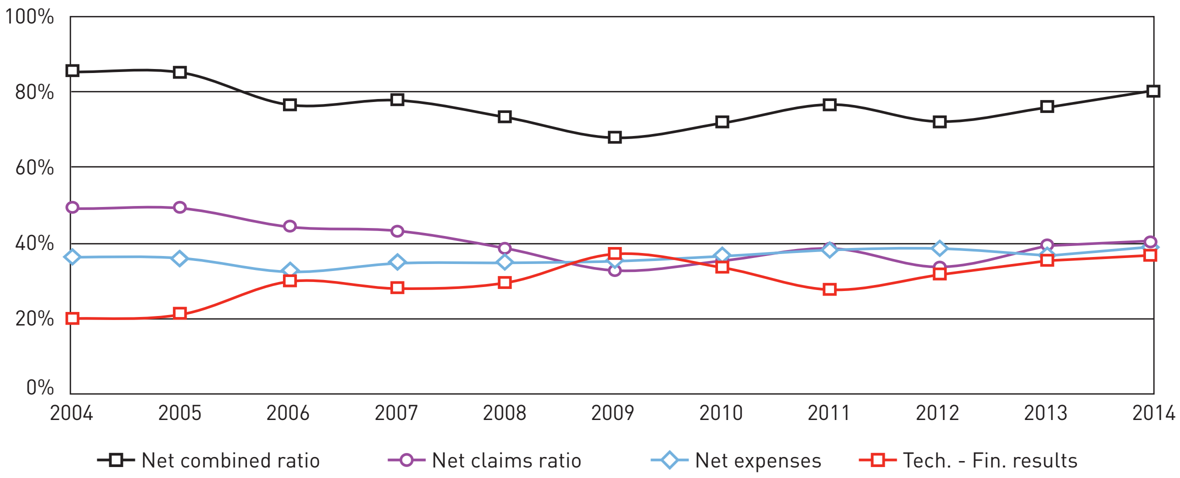
According to data published by the ICEA, the premium volume registered for Accident Insurance during the first quarter of 2014 grew 6.2 percent compared with the same period the previous year.

Figure 28. Accidents performance. Written premiums. Direct insurance



Source: ICEA

Figure 29. Progress of the result in the Accidents line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

4.8. Credit

The premium volume of Credit insurance in 2014 was of 631 million euros, a slight contraction of 2.4 percent compared to the previous year. This is the sixth straight year of reductions in the premiums for this line, due to the weak economy. This drop is framed within a context of a strong correction to the industry's claims ratio, already launched in 2013, which at the closing of 2014 had achieved historically low levels for the Spanish market, therefore substantially improving the technical result and the combined ratio. As a result, the combined ratio improved about 30 percentage points until reaching 61.4 percent, and the technical-financial result reached 43.1 percent (compared with 15.1 the previous year).

Table 24. Basic indicators of Credit insurance

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	646	631
% Variation in premium volume	-4.7%	-24%
Withholding	46.3 %	44.4%
Gross claims ratio	70.5%	39.3%
Gross expenses	21.8%	24.3%
Net claims ratio	68.8%	41.6%
Net combined ratio	90.9 %	61.4%
Financial result	6.0%	4.5%
Technical-Financial result	15.1%	43.1%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

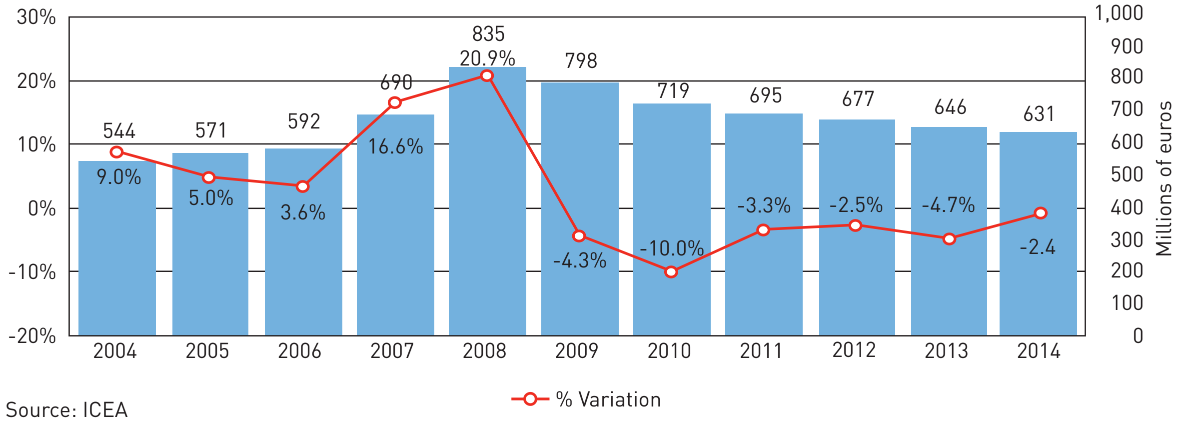
In 2014, the levels of corporate insolvency decreased significantly in our country, in turn motivating a decrease of the perception of the risk of default, therefore generating a downward pressure on premium rates. This pressure in prices is not being compensated for by a higher volume of guaranteed sales and makes it difficult for the market to return to a path of growth.

Preview 2015

Data of ICEA at the close of April confirm the abovementioned trend for Credit insurance, with a decrease in premiums of 7.5 percent between January and April as a result of the downward pressure on premium rates, which could continue over upcoming months this year.

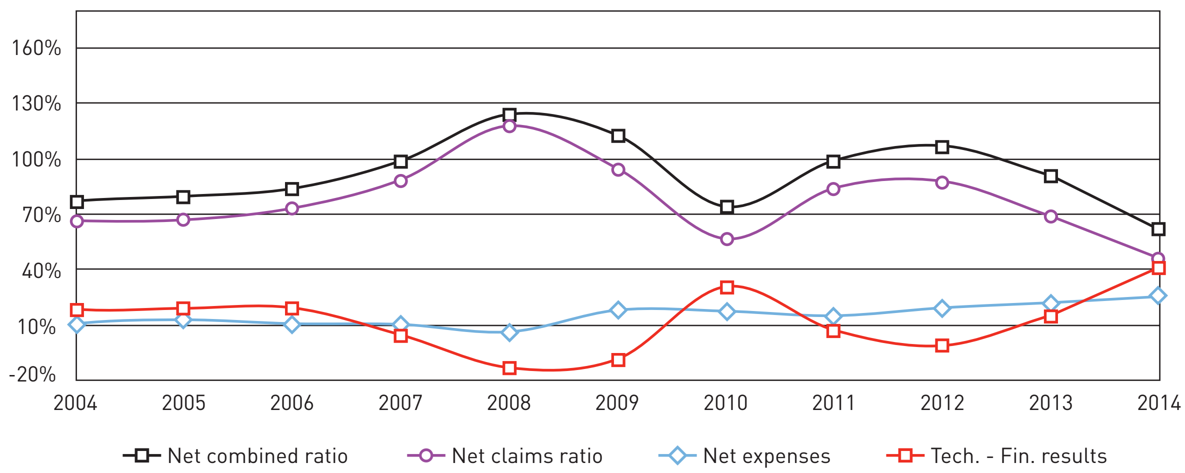
On another hand, the frequency of claims ratio is reserved and significant upturns in the short term are not expected.

Figure 30. Surety performance. Written premiums. Direct insurance



Source: ICEA

Figure 31. Progress of the result in the Surety line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

4.9. Surety

The issue of premiums for the Surety line has reached a figure of 61 million euros, a contraction of 2.8 percent compared to the previous year. This is the fourth straight year in which the premium volume is reduced, though this time the drop has been less than in previous years.

Analyzing the causes of this situation, one has repeated itself over recent years: the weak economic situation with its impact on the reduction of public spending and on real estate activity; another cause that could account for this reduction is the greater prudence that some operators are applying as regards underwriting, given the poor performance of 2013.

Claims during 2014 were again high, with the gross claims ratio at 160.3 percent and the net claims ratio at 73.2 percent, though this represents a considerable improvement compared with disastrous records of the two previous years. That the Surety business has linked three straight years of such poor results is atypical and has few precedents. The causes must be sought in some occasional events that have been intense and in the recent adjustments to claims originated by the "Section I" policies for cooperatives, which are responsible for the greatest losses known in the history of this line, and which are the root of the poor performance of both 2013 and 2012.

Table 25. Basic indicators of Surety insurance

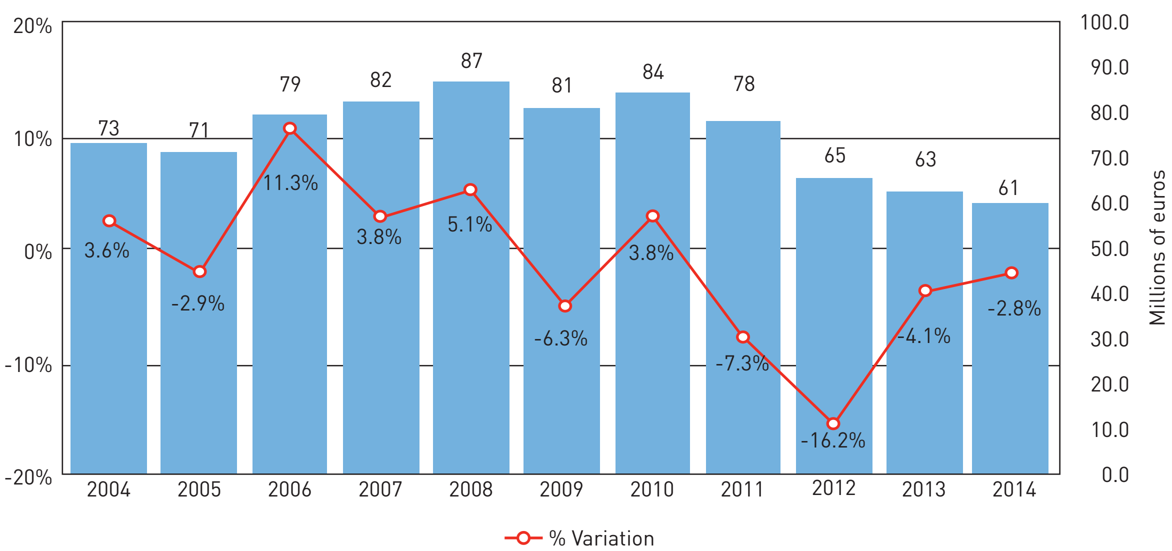
Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	63	61
% Variation in premium volume	-4.1%	-2.8%
Withholding	44.5%	48.7%
Gross claims ratio	535.3%	160.3%
Gross expenses	28.5%	27.3%
Net claims ratio	233.0%	73.2%
Net combined ratio	267.8%	110.0%
Financial result	3.1%	5.0%
Technical-Financial result	-164.7%	-5.1%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

Preview 2015

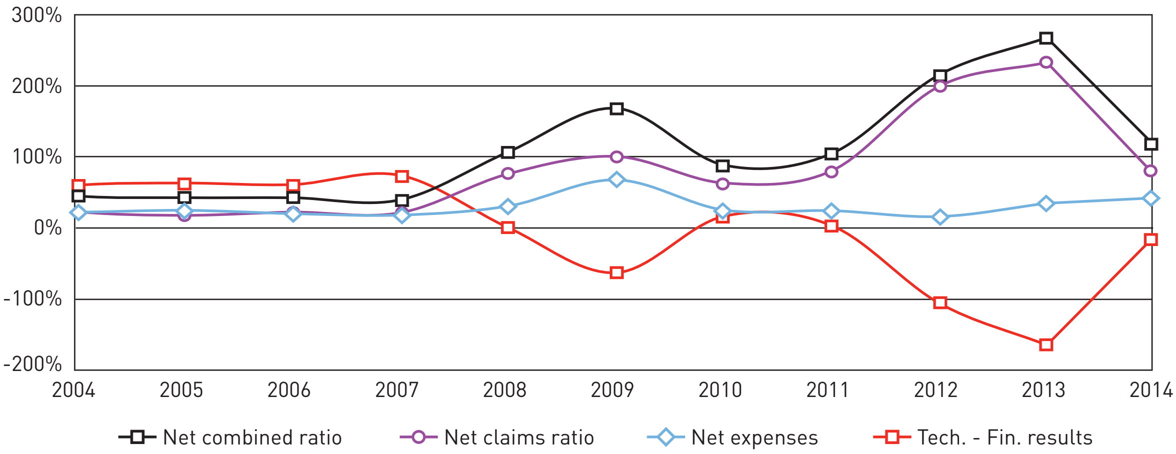
ICEA data for March 2015 reveal a change in the trend of recent years, showing a 16.1 percent growth in premiums compared with the same period the previous year. The slight improvement in real estate activity currently observed and a certain increase of public calls for tenders boost moderate optimism for forecasts. Nevertheless, this data must be interpreted with caution, as normally the

Figure 32. Credit Performance. Written premiums. Direct insurance



Source: ICEA

Figure 33. Progress of the result in the Credit line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

highest contribution of premiums for the Surety business are concentrated in the second half of the year.

As regards the claims ratio, 2015 should again have positive results after the complicated situations of previous years.

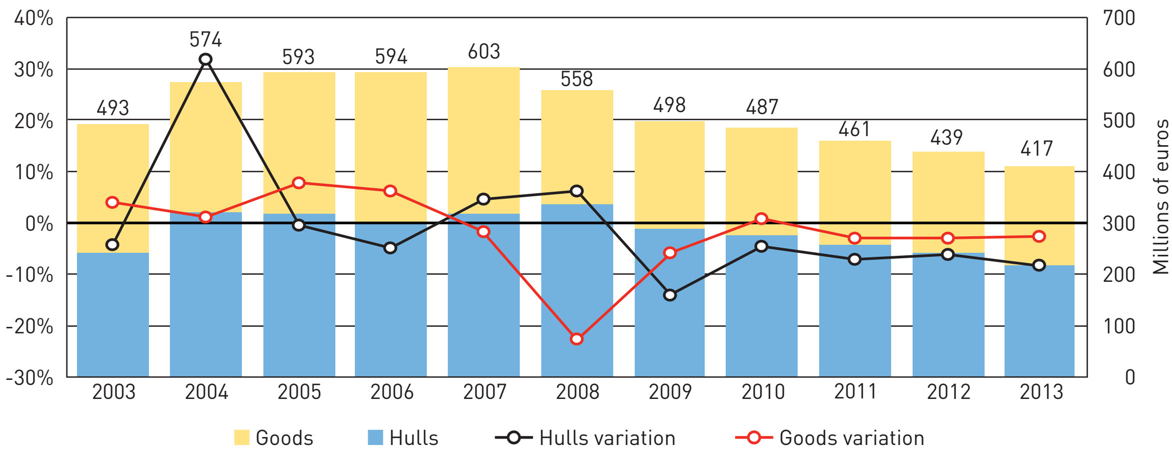
4.10. Transport

The premium volume issued in the Transport line during 2014 was 417 million euros, down 5 percent compared to the previous year. This is the fifth straight year of a decrease in premiums, with the contraction of 2014 slightly higher than that of 2013 (4.7 percent). By types, again the decrease in premiums is higher for Hull Insurance than for Goods.

4.10.1. Hulls

The premium volume issued in Hull insurance during 2014 was 223 million euros, representing a contraction of 7.2 percent compared to the previous year. The increase of the claims ratio by almost 24

Figure 34. Distribution of Engineering premiums by module



Source: ICEA

Table 26. Basic indicators for Transport Insurance. Hulls

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	241	223
% Variation in premium volume	-6.1	-7.2%
Withholding	53.4	55.1%
Gross claims ratio	55.3	79.0%
Gross expenses	19.8	20.3%
Net claims ratio	67.1	90.0%
Net combined ratio	94.8	117.0%
Financial result	4.1	14.9%
Technical-Financial result	9.2	-2.1%

(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

percentage points is notable, as it grew from 55.3 percent in 2013 to 79 percent in 2014, therefore increasing the combined ratio to 117 percent. Despite excellent financial results (14.9 percent), the technical-financial result was negative, -2.1 percent.

4.10.2. Goods

The premium volume issued in Goods insurance during 2014 was 194 million euros, a contraction of 2.2 percent compared to the previous year. The claims ratio also increased here, though less than that of Hull insurance, causing an increase of the combined ratio by over two percentage points, up to 103.8 percent. The financial result improved by one point and a half up to 6.5 percent, and the technical-financial result was 2.8 percent, slightly worse than that of the previous year.

Preview 2015

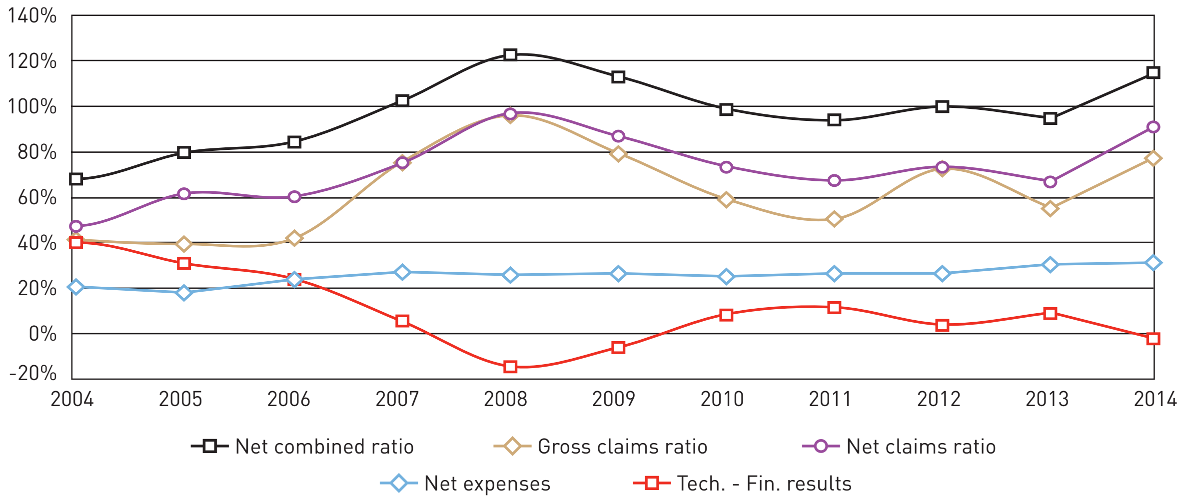
The performance of the first three months of 2015 (ICEA) shows a variation of -0.46 percent. Broken down by types, Aviation dropped 28.3 percent,

Table 27. Basic indicators for Transport Insurance. Goods

Basic Indicators (% of premiums) *	2013	2014
Vol. Premiums Issued (1)	198	194
% Variation in premium volume	-2.9	-2.2%
Withholding	63.7	66.4%
Gross claims ratio	61.7	65.0%
Gross expenses	25.8	25.6%
Net claims ratio	69.8	71.4%
Net combined ratio	101.5	103.8%
Financial result	4.9	6.5%
Technical-Financial result	3.4	2.8%

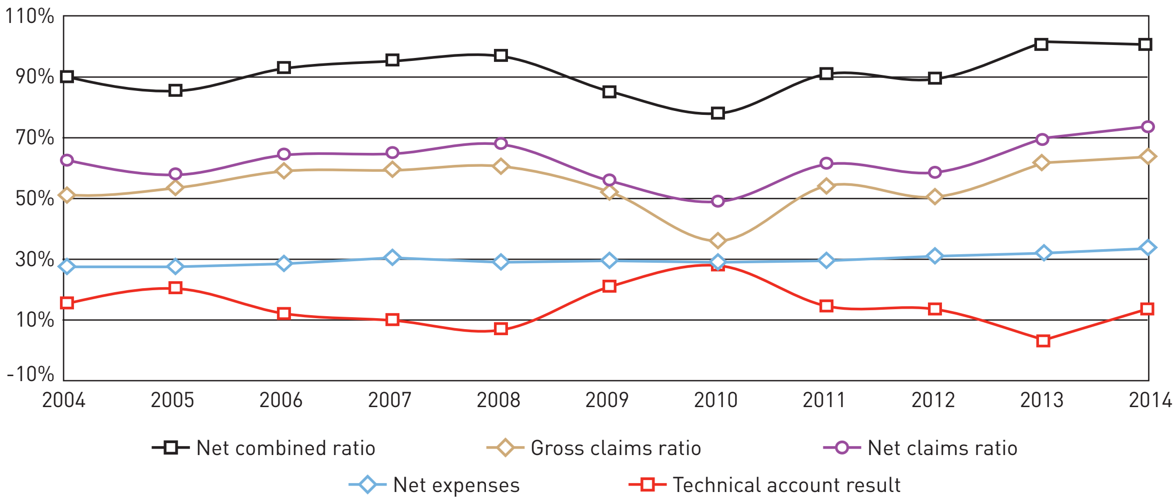
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of euros
Source: in-house elaboration based on data from ICEA

Figure 35. Transport Performance. Written premiums. Direct insurance



Source: in-house elaboration based on data from ICEA

Figure 36. Progress of the result in the Goods Transport line. % over net earned premiums



Source: in-house elaboration based on data from ICEA

Goods decreased be 2.3 percent, and Maritime increased by 4.4 percent.

A diversity of factors are affecting both the claims ratio and the decrease of premium volume: the age of the Spanish fleet, the fierce competition of the sector that has been historically affected by poor results, all of this combined with a lower demand for insurance, resulting in a worsening of this line, in general.

No growth is expected in 2015 for any of the lines of the maritime sector. Only the nautical sector seems to have slowed down its decease of recent years, perhaps as a result of the slight improvement of the economic situation.

4.11. Engineering

The Engineering line is comprised of Machinery breakdown, Electronic equipment, Construction, Damages to Construction (Decennial) and Assembly. Therefore, these are highly disparate types, with different characteristics and results, but all of them share in common their association with important productive sectors like construction and industry. In 2014, the premium volume of the line was 237 million euros, representing a contraction of 3.6 percent compared to the previous year. The drop in premiums of 2014 has been, therefore, much less than that of previous years (-15.4 percent in 1013 and -21.2 percent in 2012) and might be the prelude to future growth, if the positive economic forecasts become a reality next year.

Table 28. Distribution of Engineering insurance by categories

	Premiums	
Type	2014	% Variation
Decennial	17	-9.7%
Construction	50	-15.1%
Machinery breakdown	97	-5.0%
Assembly	14	48.8%
Electronic equipment	59	4.2%
Total engineering	237	-3.6%

Millions of euros
Source: ICEA

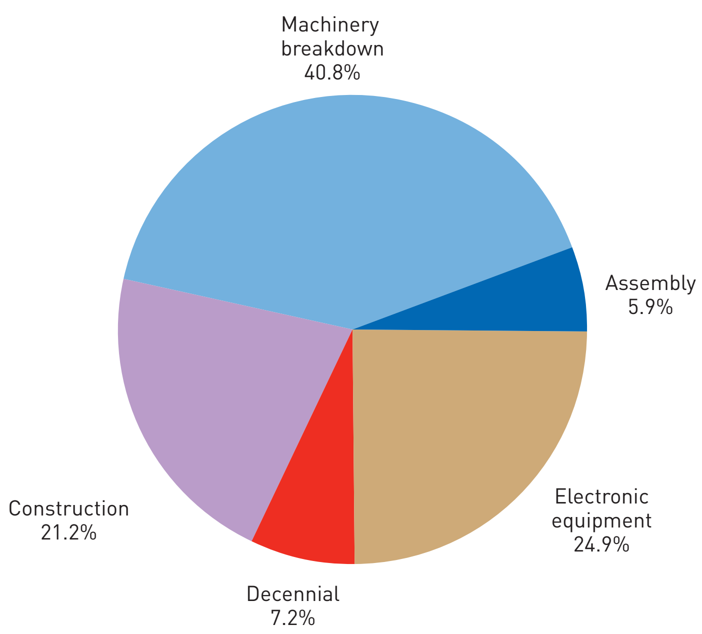
The results of the different types have varied greatly. Those linked to Construction have continued to drop, Decennial 9.7 percent and Construction 15.1 percent, though the contraction has been less than in previous years (-15.3 percent and -20.7 percent, respectively, in 2013). The same occurs with the most important type, Machinery breakdown, which falls 5 percent in 2014 compared with -18.2 percent in 2013. However, Electronic equipment (4.2 percent) and Assembly (48.8 percent) increase.

The distribution of premiums by types reveals that those associated with construction lose weight in favor of those associate with industry. Machinery breakdown continues to have the greatest percentage of premiums (40.8 percent), followed by Electronic equipment (24.9 percent), Construction (21.2 percent), Decennial (7.2 percent) and Assembly (5.9 percent).

Preview 2015

According to data published by the ICEA during the first quarter of 2015, though contraction continues for Electronic equipment (-14.4 percent) and Decennial (-8.9 percent), we must highlight that it is lower than that during 2014. To the contrary,

Figure 37. Progress of the result in the Goods Transport line. % over net earned premiums



Source: ICEA

Assembly increases 63.9 percent and Machinery breakdown increases by 10.5 percent.

The situation of the construction sector does not forecast significant changes in the performance of the Engineering market in 2015. In 2014 and 2015, the lack of new construction is combined with fierce competition, wherefore revenues from premiums is lower than expected from the new production. It is expected that the sector will gradually improve, but this will neither occur in the short term, nor will return to levels obtained in the past.

4.12. Multi-peril agricultural insurance

The Spanish System of Combined Agricultural Insurance provides coverage for damage to agricultural crops, livestock, aquaculture and forestry. This is an institution comprised of public and private entities, grouped in a coinsurance group called "AGROSEGURO", in which the Public Administrations subsidize part of the premiums and the Consorcio de Compensación de Seguros acts as direct insurer and non exclusive and compulsory reinsurer.

The premium volume earned by agricultural insurance during 2014 decreased by 4.6 percent to 565.8 million euros. This is a lower drop than that suffered in 2013 (-12.6 percent) and which has not been uniform across all business lines: while premiums for experimental lines grew 2.4 percent, those of viable lines and for the removal and destruction of dead animals decreased 6.9 percent and 24 percent, respectively. We must highlight, nevertheless, that the poor performance of the latter line is partially due to the reduction in removal prices.

On another hand, in 2014 both the number of policies taken out (-8.6 percent) and the value of the insured production (-4 percent) decreased, due to the drop of agricultural income (-7.5 percent) and the poor harvests of some crops. As regards the claims ratio, its value in 2014 was 511 million euros. By business lines, the claims ratio only worsened in experimental lines, reaching a value of 314 million euros.

In 2014, no extreme weather phenomena occurred. Amongst the most unfavorable weather episodes are worth mentioning the high temperatures recorded across the entire country, as well as some periods of drought and hailstorms.

5. New Legislation

A summary is given below of the status of legislative projects of significant relevance to the insurance industry and the news which took place during 2014 and 2015.

Royal Decree 681/2014, dated August 1, amending Regulations on pension plans and funds, Regulations on instrumenting pension obligations for company pensions with workers and beneficiaries, Regulations on organization and supervision of private insurance, and Royal Decree 764/2010 on private insurance mediation.

This Royal Decree implements the following amendments:

- Changes to Regulations on pension plans and funds on the mobilization of economic rights of parties insured by Insured Benefit Plans and Company Social Retirement Plans.

- Concerning Regulations on instrumenting pension obligations for company pensions with workers and beneficiaries, changes affect the regulation of group insurance with pension fund obligations as regards the quantification of the right of redemption and its mobilization to other supplementary social security instruments upon termination of the employment relationship.

- Different aspects of the Regulations on organization and supervision of private insurance are changed as regards the new "Tax Lease" system for financing construction and purchase of ships, with the goal of enabling a higher diversification of investments of insurance entities while considering it suitable to include the investments in these assets within the list of assets subject to coverage of technical provisions.

- Finally, Royal Decree 764/2010 on private insurance mediation is modified as to statistical-accounting data for the business and professional competence, in advance of the date of delivering statistical-accounting documentation to the DGSFP.

Law 22/2014, dated November 12, regulating venture capital companies, private investment entity groups and the management companies of private investment entity groups.

This Law makes it possible for management companies of alternate investment funds to be designated for managing pension fund investments. It also introduces investment criteria than tends to avoid excessive dependence on credit ratings in pension fund investment policies.

Law 26/2014, dated November 27, amending Law 35/2006, dated November 28, on Personal Income Tax and other tax-related regulations.

This law sets 8,000 euros as the maximum annual limit for contributions to pension plans (applicable as of January 1, 2015), and introduces a new liquidity option for plans, consisting of the possibility of an advance provision of the consolidated rights corresponding to contributions and corporate contributions at least 10 years old, according to the conditions, terms and limits set forth by legislation.

Law 8/2014, dated April 22, on coverage by the State of risks of internationalization of the Spanish economy

This Law revokes Law 10/1970, dated July 4, and sets forth a new scheme for coverage by the State of risks of internationalization of the Spanish economy. From now on, coverage for these risks will be provided through a Managing Agent for the purpose of providing adequate service to Spanish exporters so that they will be able to compete in international markets under the same conditions as their competitors from other countries with similar risk coverage schemes. The State also establishes a Risk Committee for controlling insurance management by the Managing Agent. Furthermore, the State establishes a Reserve Fund for risks of internationalization, managed by the Consorcio de Compensación de Seguros, to facilitate the management of resources made available to the Managing Agent.

The new Law contemplates a period of eight years, during which CESCE will act as the Managing Agent.

Law 14/2014, dated July 24, on Shipping.

The Law on Shipping implements a broad reform of Spanish shipping law, in all of its aspects, as to both public and private law. This law regulates the framework in which the activities of maritime traffic take place, comprised of the geographic means and physical spaces that make it possible, guaranteeing the required coherence of Spanish Law with the different international agreements on Maritime Law.

Shipping insurance is addressed in Title VIII, and we highlight the following provisions: the risks insured are to be defined by means of an agreement. Unless specified otherwise, coverage does not include extraordinary risks (war and the like), inherent vices (with some particularities for shipping insurance), wear caused by use and gross negligence of the Policyholder. The Policyholder is responsible for presenting an accurate statement, while the insurer is liable for providing compensation for damages that arise, settling the claim through either of two options: the breakdown procedure or the abandonment system permitted by law, by agreeing to the non-transfer of the insured object or of its parts to the insurance company. The settlement may be liquidated out-of-court through breakdown liquidators.

In response to the unique lines of maritime insurance, the law includes a change in the insurance coverage of third-party liability of the ship owner, following the Law on Insurance Contract. Finally, the law sanctions the direct action of the claimant against the insurance company as non-distributable, to require compliance with the obligation to provide compensation.

Commercial Code Preliminary Draft Project

The main objective of the Preliminary Draft Project is to adapt insurance contract regulations to a new social reality, associating some rules, acknowledging lines and products that are part of habitual practice in the industry, as well as to simplify and unify legal terms and make its content more understandable, altogether with the purpose of reinforcing protection of policyholders and insured parties.

Legislation on insurance contracts is integrated in the fifth book, title IX, likewise incorporating the regulation of insurance contract mediation (insurance agent and broker contracts).

The processing of this Preliminary Draft Project continued in 2014. It has already been remitted to the State Council which has issued its opinion on January 29, 2015. Processing is currently underway.

Act 20/2015 of 14 June on the organization and solvency of insurers and reinsurers

The inclusion within our legislation of the Solvency II Directive entails a review of the existing regulations with regard to supervision. Given the magnitude of all of the upcoming changes, it has been recommended that the consolidated version of the text currently in effect be replaced by a new Act that includes these effective provisions, the new solvency system, and other regulations that it has been deemed necessary to introduce in light of the development of the insurance market.

This new Act is made up of a preliminary section and eight sections, twenty additional provisions, thirteen transitory provisions, one repeal provision, twenty-one final provisions, and one appendix.

This Act will come into force on January 1, 2016. Nevertheless, the thirteenth transitory provision (Transitory regime for modifications introduced in the Insurance Contract Act via the first final provision of this Act) and the sixteenth additional provision (Progressive introduction of authorizations established by the Act and other means of adaptation to Solvency II) will come into force on the day following their publication.

The fourth transitory provision (Transitory regime on the conditions governing mutual provident societies that have not received administrative authorization to extend benefits) and the tenth transitory provision (Scope of application of the special solvency regime) will come into force on September 1, 2015.

The ninth final provision (Amendment to Royal Legislative Decree 8/2004 of October 29, approving the consolidated text of the Act governing third-party liability and insurance in the circulation of motor vehicles) will come into force on July 1, 2016.

The main changes introduced by the Act include, among others, a new methodology for the solvency system -guaranteeing that entities have sufficient capital to prevent bankruptcy, with a probability of 99.5 percent given a stressed scenario and a series of concurrent risks - reinforced corporate governance establishing specific standards on the honorability and capacity of those with management responsibilities, enhanced reporting and transparency systems, and a stronger supervisory role for the General Insurance and Pension Fund Division.

6. Methodology

Sources of information

Official or highly recognized sources have been consulted to prepare this study. Most of the text is based on the reports published by ICEA, as the main source of information.

Calculation criteria

Most of the descriptive ratios presented in the study, especially the ones referring to Non-life Insurance, were calculated over earned premiums, gross or net reinsurance, as appropriate. The earned premiums include the written premiums plus the provision variation for premiums pending collection and the technical provision variation for unearned premiums and for ongoing risks.

The calculation of the aforesaid ratios is detailed below:

- Withholding: Net earned premium / Gross earned premiums (Direct + Accepted)

- Gross claims ratio: Claims ratio (Direct + Accepted) + Variation of other technical provisions / Gross earned premiums (Direct + Accepted)

- Net claims ratio: Claims ratio (Direct + Accepted - Transferred) + Variation of Other technical provisions / Net earned premiums (Direct + Accepted - Transferred)

- Gross expenses: Operating Expenses (Direct + Accepted) + Profit sharing and Rebates + Other technical expenses - Other technical Incomes / Gross earned premiums

- Operating expenses: Acquisition expenses + administrative expenses (Direct +Accepted) / Gross earned premiums (Direct + Accepted)

- Net expenses: Operating Expenses (Direct + Accepted- Transferred) + Profit sharing and returned premiums + Other technical expenses - Other technical income / Net earned premiums

- Net combined ratio: Net claims ratio + Net expenses

- Financial result: Investment Incomes - investment expenses / Earned premiums premiums

- Technical-Financial result: Technical account result / Net earned premiums

Basic indicators per insurance line 2014

	Vol. of issued premiums	% Variation in premium volume	Withholding	Gross claims ratio	Gross expenses	Siniestralidad neta	Net claims ratio	Financial result	Technical - Financial result
Non-Life	30.647	0.9%	87.9%	69.5%	22.4%	71.4%	93.9%	4.8%	10.8%
Automobile	9.882	-1.4%	92.5%	77.1%	20.1%	77.6%	97.9%	5.6%	7.6%
Multi-peril	6.550	9.0%	41859*%	60.4%	28.2%	60.6%	90.7%	4.4%	13.7%
Home Multi-peril	3.837	1.5%	89.9%	58.6%	31.2%	59.3%	90.1%	3.3%	13.1%
Industrial Multi-peril	1.220	-3.6%	52.2%	68.8%	20.5%	70.8%	99.4%	9.0%	9.6%
Commerce Multi-peril	594	-0.3%	84.2%	56.3%	30.7%	58.1%	88.4%	4.2%	15.8%
Communities Multi-peril	827	0.4%	85.8%	54.3%	28.1%	55.2%	83.2%	4.1%	20.9%
Other Multi-peril	73	-0.6%	86.1%	71.0%	30.8%	71.0%	102.3%	6.2%	3.9%
Health	7.181	3.5%	97.5%	82.2%	11.8%	83.6%	95.5%	1.0%	5.6%
Third-party liability	1.342	-0.8%	72.1%	51.0%	25.4%	50.6%	77.8%	15.2%	37.4%
Hull transport	223	-7.2%	55.1%	79.0%	20.3%	90.0%	117.0%	14.9%	-2.1%
Goods Transport	194	-2.2%	66.4%	65.0%	25.6%	71.4%	103.8%	6.5%	2.8%
Death	2.087	6.5%	98.4%	60.3%	34.8%	60.9%	95.5%	6.5%	11.0%
Credit	631	-2.4%	44.4%	39.3%	24.3%	41.6%	61.4%	4.5%	43.1%
Surety	61	-2.8%	48.7%	160.3%	27.3%	73.2%	110.0%	5.0%	-5.1%
Accidents	886	0.6%	89.0%	39.4%	38.2%	40.1%	79.0%	18.7%	39.7%

Source: in-house elaboration based on data from ICEA

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