FUNDACIÓN MAPFRE

THE SPANISH INSURANCE MARKET IN 2013

Insurance and Retirement Planning Area

2013

The Spanish Insurance Market in 2013

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Table of contents

1. Summary

In 2013, the most relevant characteristics of the **global economic environment** entailed the gradual economic recovery of most developed economies in addition to a slowdown in growth of the emerging economies, which, nevertheless, continued growing at a higher rate than the developed economies. In Europe, doubts were dispelled concerning the Euro's survival, and many economies were able to stabilize, including peripheral countries, heavily affected by relentless fiscal adjustments.

In this environment, the premium volume **of the global insurance market** grew 1.4% in real terms, undergoing a slowdown compared with last year, in which growth was 2.5%. The slowdown was due to the stagnancy in advanced markets, which only grew 0.3% in comparison with 7.4% in emerging markets. By business lines, the slowdown was particularly intense in Life insurance, which only grew 0.7% globally, and even decreased 0.2% in the advanced markets. The primary cause of this stagnation was the 7.7% contraction of the premium volume in the United States. Premiums for Non-Life insurance lines grew 2.3% in 2013, with Western Europe remaining at a standstill (-0.3%), slight growth in the United States (1.9%) and a good rate in emerging markets (8.3%).

Turning to the **Spanish economy,** 2013 closed out with a 1.2% contraction in the GDP, though a timid recovery emerged in the second half driven primarily by exports and tourism. The Spanish economy seems to have pulled out of the recession, though growth remains sparse and insufficient to tackle the serious issues in terms of high unemployment rates and debt.

These initial signs of economic recovery were reflected in the performance of the **Spanish insurance industry,** slowing the drop from the previous year and bringing a premium volume of € 55,773 million, which represents a reduction of 2.8%, less than the -5.2% in 2012. The contraction took place in both the Life and Non-Life insurance business lines, although it was slightly greater in the former.

In fact, the premium volume for **Life insurance** reached € 25,505 million, 3.0% less than in 2012. The actual drop had been more moderate than previous periods and depended on the product type. However, unlike the previous year, Risk insurance policies have fallen more (-4.6%) than Savings/Retirement (-2.7%), and some modules therein have even grown such as Individual Systematic Savings Plans (PIAS) (18.8%) and Annuities (5.3%). On the other hand, expected provisions dropped 25% compared to the previous year, and the volume of technical provisions grew 3.5%, reaching € 161,610 million.

For the second straight year, **Pension Plans** increased the managed equity in 2013, increasing 6.8% compared to the previous year. The value of managed assets reached € 92,413 million, which is the highest value ever attained for Pension Funds. However, the number of participating accounts dropped 3.2% to 10 million. The overall improvement of the financial markets in 2013 enabled Pension Plans to secure high returns across all their categories and systems, with an average return of 8.4%. Particularly prominent are the Individual Plans of Variable Annuity and Mixed Variable Annuity with returns of 22.2% and 12.5%, respectively.

The premium volume for **Non-Life insurance** in 2013 decreased to € 30,268 million, a drop of 2.7% compared with the previous year. Similar to previous years, these insurance areas still endure the unfavorable effects of the economic crisis and intense competition existing in some lines. Only the Healthcare, Funeral, Assistance and Fire lines have been able to increase their premium volume.

An analysis of the primary Non-Life insurance business lines with most weight in the industry (Automobiles, Health, Multi-peril and Funeral) reveals an uneven set of performances. In this regard, Automobile insurance premiums have contracted for the sixth straight year, given the persistence of the unfavorable effects of the crisis on the sale and usage of vehicles, drop in income available to families and the strong competition in pricing that characterizes the industry. The premium volume recorded in 2013 was € 10,022 million, 5.5% less than the previous year. While the relative participation of this business line in the insurance industry slightly dipped to 18%, it nevertheless continues to be the highest among Non-Life insurances.

Health insurance in turn increased the premium volume by 1.7% to € 6,902 million following growth in its most important module, Healthcare Assistance, whose premiums increased by 2.6%. However, the remainder of the modules decreased.

The good performance of Multi-peril insurances during recent years has been interrupted with a contraction of 1.4% in premium volume, which amounts to € 6,537 million. Module performance has nevertheless remained similar to the previous year. Home and Communities grew, though less than in 2012, while Industries and Trade shrunk again, highly affected by the repercussion of the crisis on the Spanish corporate fabric.

Lastly, Funeral insurance remains firmly entrenched in Spain with over 20 million insured, and continues its growth from recent years. In 2013, premiums grew 3.7% to € 1,961 million. A contributing factor to this growth was the performance of the natural-seminatural-mixed premium modules (14%) and the single premium module (25.6%). These modules represent 14.1% of the issuance for the line, up from 12.8% one year earlier.

Regarding **insurance penetration** in the economy, the insurance industry continues evincing strength, significantly contributing to the GDP. In 2013, the percentage of premiums compared to the GDP was 5.5%, the same value as the previous year.

On the other hand, Spain's decreasing population in 2013 has partially offset the drop in sector premiums, causing the **insurance density,** or premium per inhabitant, to slightly decrease to € 1,183 (1,228 in 2012), of which 642 correspond to Life and 541 to Non-Life.

The insurance industry has continued proving in 2013 that it is solvent and profitable notwithstanding the effects of the persistent economic recession on results, particularly those of the technical account. Contrariwise, the **solvency ratios** of the insurance industry improved for both Life as well as Non-Life, reaching highly solid levels. Thus, the solvency margin in 2013 was 3 times higher than the minimum required amount, compared with 2.8 from the previous year.

In fact, while the **results** of the non-technical account increased by 1.9% to € 4,791 million, the technical account contracted 13.5% to € 5,341 million. The contraction of the technical result has affected as much Life (-19.6%) as Non-Life (-6.6%).

Consequently, the return on equity, i.e. the ratio between fiscal year results and the equity funds of the sector (**ROE**), decreased slightly to 13.7% in 2013 compared to 15.3% in the previous year.

In relation to investments, the trend toward a progressive reduction of the weight of private fixed annuity giving way to public fixed annuity continued. The estimated volume for **investments** in the insurance industry for 2013 increased by 3.3% compared with the previous year, reaching a value of € 219,488 million. 81.4% of this figure corresponds to investments in the Life insurance portfolio, 18.1% to the Non-Life Insurance portfolio, and 0.5% to shareholder equity. 72.5% of these investments were made in Spain, 2.5% more than in 2012, which is further proof of the insurance industry's firm commitment with financing in the country. Luxembourg (3.7%), Italy (3.6%), France (3.4%), Germany (2.7%) and the USA (2.1%) are the preferred destinations for investments.

Despite the strong competition recorded in the **reinsurance** sector, the market recorded a slight increase in premiums for a second straight year, and a reinforcement of shareholder equity in the absence of major catastrophes. Net earnings increased by approximately 6% and the ROE assumed a value slightly above 10%.

Losses in the global insurance industry due to **natural disasters** rose to nearly $ 45,000 million in 2013, an amount that is much less than the recorded loss in 2012 and the average over recent years. The largest losses were due to tornadoes and hurricanes in the USA, typhoons in Asia and storms and flooding in Europe. There were also records of windstorms, flooding and numerous hailstorms in Spain, though the claims ratio was significantly less than in 2012.

The **prospects** of growth for the Spanish insurance industry in 2014 remain dependent on numerous uncertainties, although there are reasons to expect moderate optimism: the economy is currently under favorable conditions to be able to put an end to the second recession since the start of the crisis and initiate a recovery stage, as revealed in the improvement of indicators and revision of positive prospects for growth. This recovery context will help continue improving the savings of Spanish families gradually. The greater stability of the financial markets, together with a growing understanding of the need for savings to plan for retirement have been very important supports for the pension fund sector. Yield, particularly in the Life insurance business will continue to be low because of the low interest rates and significant legislative changes that entail larger capital requirements.

The prospects for growth in the **Life insurance business** are linked to the performance of the economy in general, and thus a slow recovery is expected given that the weakness of the economic growth restricts the demand and capacity of household savings. Low interest rates and regulatory pressures are also curbing this growth.

Even though ICEA data corresponding to the first quarter of 2014 show that the premiums of the line decreased 9.4% compared with the same quarter from the previous year, the volume of savings managed by Life insurance, represented by technical provisions, grew by 3.0% (2.2% in 2013).

Turning to the progress of the various modules, the opportunities of Life-Risk insurances should focus on the sale of Life insurance not linked to loans, so long as the credit activity shows no signs of recovery, seeking a more reflexive sale regarding the needs of the clients.

The Savings-Retirement products in turn should benefit from the Spanish population's increased need to insure their retirement with products that provide security and returns, and liquidity for cases in which the situation requires an availability of funds. In this regard, the Individual Systematic Savings Plans (PIAS) may find a gap between the Insured Pension Plans (PPAs) and Pension Funds to be a further retirement alternative. Additionally, lower returns from bank deposits will prompt competition with insurance having medium- or long term investments.

The prospects for the **Non-Life insurance business** are more positive, since they forecast a slight upturn in insurance activity in a more conducive economic context. This greater drive in activity will in turn contribute to contracting a greater number of insurance following the restructuring of public accounts, deleveraging of the private sector and credit flow.

The data corresponding to the first quarter of 2014 show a slight drop of 0.9% in Non-Life premiums compared with the same quarter in 2013 (this drop in 2013 was 2.9%). The best performing line was Health, with a growth of 3%.

Keywords: Insurance market - Insurance companies - International insurance activity - Insurance statistics - Insurance progress - Insurance outlook - Technical insurance analysis - Spain

2. Social and Economic Context

2.1. Economic Context

Throughout 2013, developed economies underwent a smooth economic recovery to leaving the recession that began in 2007 in its wake. Central Banks in the USA and Japan applied new expansive measures that have helped to strengthen the reactivation in the first case and to sidestep deflation in the second. In Europe, steps were taken toward joining the banking sector and concerns were dispelled as to the survival of the Euro. Eurozone activity stabilized and, due to an improvement in domestic demand, attained economic growth (0.3% qoq) for March-June, ending six consecutive quarters of contraction. While remaining positive, growth nevertheless slowed in the third quarter, improving in periphery economies but cooling in the major economies in the European core. Meanwhile, although emerging economies continued to grow more rapidly than advanced economies, they lost some steam, being particularly vulnerable to the backdrop of weak global growth and the slowdown in China.

Table 1. GDP and its components

Interannual variation rates in %	2012	2013
DEMAND		
Final consumption expenditure	-3.3	-2.1
Final consumption expenditure by households	-2.8	-2.1
Final consumption expenditure by NPISH	-0.2	-0.1
Final consumption expenditure by PA	-4.8	-2.3
Gross Fixed Capital Formation	-7.0	-5.1
Tangible fixed assets	-7.8	-5.5
Intangible fixed assets	2.9	-0.2
Domestic demand[1]	-4.1	-2.7
Exports of goods and services	2.1	4.9
Imports of goods and services	-5.7	0.4
Foreign demand	2.5	1.5
SUPPLY		
Fishing and agricultural lines	-10.9	1.1
Industrial lines	-0.5	-1.2
Construction	-8.6	-7.7
Services	-0.4	-0.5
GDP at market prices	-1.6	-1.2
GDP at current market prices[2]	1,029.3	1,023.0

(1) Contribution to GDP growth at market prices
(2) Billions of €
Source: INE (National Statistics Institute) CNTR, fourth quarter of 2013

Spanish GDP contracted by 1.2% in 2013 as a result of the persistent drop in internal demand, partially offset by a notable increase in the export of goods and services. However, economic performance has differed in the two semesters of the year. While the economy continued receiving whiplashes from the recession, a timid recovery began in the third quarter, with a growth of 0.1% that reached 0.3% in the fourth quarter. The driving force behind the recovery comprised exports and tourisms, sectors that have benefited from lower labor costs and the consequential increase in competitiveness during the crisis. These signs of exiting the recession, together with the structural reforms and progress made in restructuring the financial sector (creation of the SAREB, Bankia restructuring, etc.), have returned confidence in the Spanish economy, which has translated into a return of foreign investment, stock market recovery and an easing of tensions in the debt market. In particular, ten-year yields on the Spanish public debt and the spread over German debt fell from 5.3% and 400 bp in December 2012 to around 4% and 220 bp at the close of 2013. Credit risk premiums also fell on the fixed-income instruments of both financial and non-financial entities. Likewise, the IBEX35 recorded an increase of over 20% in 2013.

While the Spanish economy has indeed emerged from the recession, recovery remains fragile and faces serious challenges such as the high unemployment rate (nearly 26%) and debt (dangerously closing in on 100%). International organisms forecast growth of approximately 1% in the coming years, with which substantial reduction of the unemployment rate and debt will not come easily.

2.2. Social and Economic Variables

This section contains comment for the progress in 2013 of some social and economic variables of interest for insurance companies, related to demography, automobiles, housing and business activities.

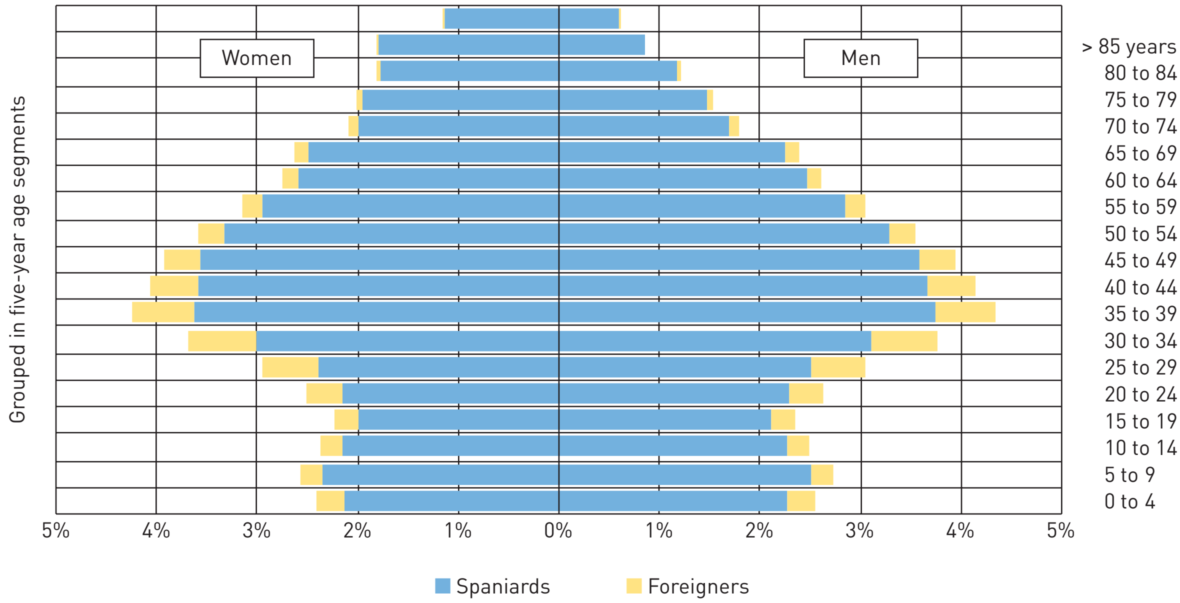
Demographics

According to the data from the Civil Registry, the population residing in Spain as of 1 January 2014 was 46,507,760, slightly less by 0.5% in comparison with the population at 1 January of the previous year. This contraction was primarily due to the decrease in the population of foreigners caused by the combined effect of the economic crisis and acquisition of Spanish nationality. The foreign population as of 1 January 2014 comprised 4,676,022 persons, 7.8 % less than the previous year. By nationalities, the largest drop in absolute terms occurred with the Ecuadorian and Colombian populations.

2013 became the first year of a historic series that began in 1970, in which the Spanish population decreased, and the second straight year in which the number of foreigners decreased. According to highly reliable projections, this trend will most likely continue through the upcoming years, which will consequently accelerate the aging process of the population.

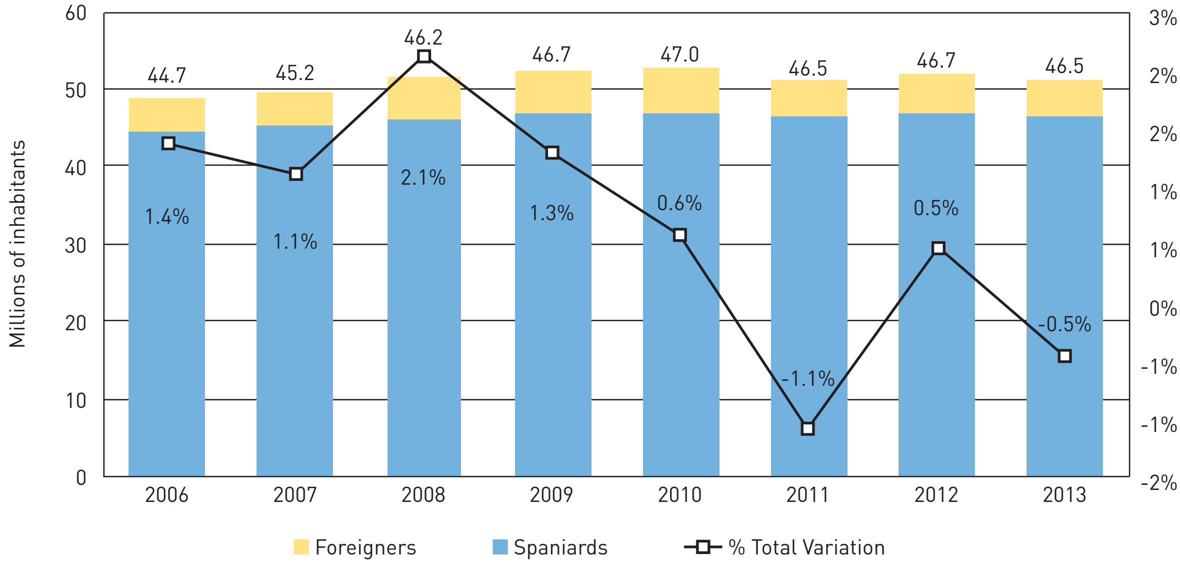
The statistics published by the National Institute of Statistics (INE) regarding the natural movement of the population as of 1 January 2014 reveal a reduction in birth rate and mortality. The number of births dropped by 6.4% compared to the same period last year, thus continuing the downward trend that began in 2009, caused by reduced fertility rates and number of women at a fertile age. The number of deaths also fell by 3.3%. Life expectancy at birth continued to surpass 82 years, nearly 80 for men and 85 for women.

Figure 1. Change in the Spanish Population



Source: INE (National Statistics Institute)

Figure 2. Distribution of the Spanish Population by age and gender. 2013



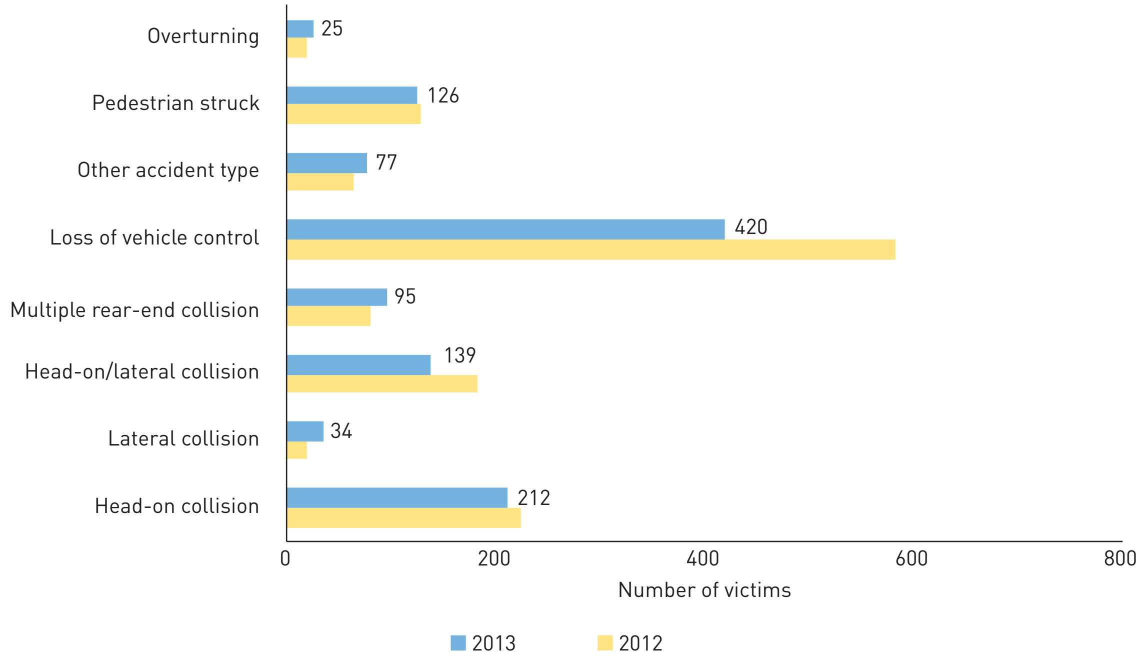
Source: INE (National Statistics Institute)

Automobile

According to the data provided by the National Traffic Division (DGT), the number of motor vehicles in Spain in October 2013 was 31,186,129, virtually the same as toward the close of 2012 (only 17,000 less). Registrations of new cars continued falling, which has contributed to the aging of the motor vehicle fleet as a whole, to a point where over half of the vehicles are currently older than 10 years.

Despite the age of the vehicles, the number of deaths by traffic accident in 2013 hit a record low. In fact, during this year, there were 1,128 deaths in traffic accidents on inter-urban roads, 13.5% lower compared to 2012, a figure that is even lower than the figures for 1960 (1,300 deaths), the first year statistics began to be recorded in this regard, when the number of automobiles was 30 times smaller than at present. Most of the victims in 2013 were male (77%) and most mortal accidents continued occurring on conventional highways, with the highest deaths occurring at exits. 21% of the victims dead in car and van accidents were not wearing seatbelts. Part of the reduction in deaths was due to a decrease in long distance commutes, which dropped 3% compared to 2012.

Figure 3. Distribution of fatalities by type of accident



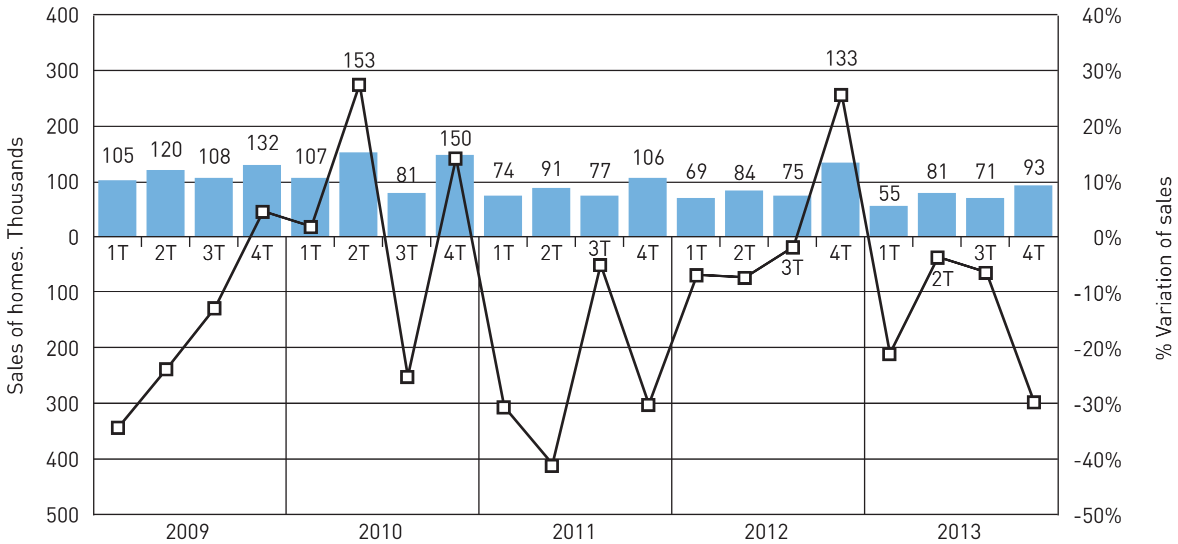
Source: Ministry of the Interior

Housing

The data published by the Ministry of Development reveals that the adjustment process in the real estate market has not yet concluded. During 2013, the number of housing real estate transactions conducted before a notary fell by 17.4% compared with the previous year. Likewise, the average price per square meter of non-subsidized housing fell 1.9% in the fourth quarter of 2013, with an year-on-year drop of 4%.

Notwithstanding the foregoing, it should be borne in mind that the decrease in real estate in 2013 affected two fiscal measures that contributed to contract the housing demand, especially during the first months: the end of the tax relief for the first-time homes and the VAT increase for new housing. On the other hand, some of the data referring to 2013 indicate that the end of the adjustment period cannot be far off. For instance, housing purchases in Madrid and Barcelona increased by 6.8% and 0.8% respectively. Additionally, housing purchased by foreigners continued increasing, reaching 15.8% of the total.

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



Source: Ministry of Housing

Corporate

According to the information published at the Central Companies Directory (CCD), the number of active enterprises as of 1 January 2013 was 3,146,570, 1.7% less than the previous year. This is the fifth straight year in which the number of active enterprises on record reduced. The activities registering the most net creation in enterprises were healthcare, legal and accounting. For another year, the "Services, excluding Trade" sector weighed the most with 55.6% of the total, followed by "Trade" (24.3%), "Construction" (13.5%) and "Industry" (6.6%). Most enterprises are small businesses: over half have no employees and eight out of ten have two or less.

On the other hand, 93,363 trading companies were created in 2013, 7.1% more than 2012, and 24,735 were wound up, 9.1% more than the previous year. The net balance was positive (68,628) and 6.4% higher than the value on record for 2012, while the average subscribed capital for new companies was € 71,934, which is 17.8% less than the previous year. The "Trade" and "Construction" sectors led both creation and winding-up of companies in 2013, and Madrid and Catalonia were the autonomous communities in which the most new companies were created.

The amount of unpaid bills in 2013 was € 5,107 million, 27.8% less than the previous year. In 2013, the percentage of unpaid bills against paid bills was 3.0%, which is 18.6% less than the value on record in 2012.

Figure 5. Summary of the key variables. 2013

Summary of main variables	2013	% Var
DEMOGRAPHICS		
Population residing in Spain (1)	46,507,760	-0.5
Spanish population residing in Spain (1)	41,831,739	0.4
Foreign population residing in Spain (1)	4,676,022	-7.8
Spanish population residing overseas (1)	79,306	38.5
Gross birth rate (2)	9.1	-10.8
Mortality rate (2)	8.3	-3.5
Average age at which women have first child (2)	32.2	1.9
Fertility contextual indicator (2)	1.3	-4.5
Average first maternity age for Spanish women (2)	32.7	1.6
Average first maternity age for foreign women (2)	29.7	2.8
Life expectancy of population residing in Spain (2)	82.8	0.7
AUTOMOBILE		
Number of registered vehicles	31,186,129	-0.7
Newly registered vehicles	936,993	3.1
Insured Vehicles FIVA	28,597,783	-0.4
Highway accidents involving fatalities	994	-15.7
Highway accident fatalities	1,128	-13.5
Serious injuries in highway accidents	5,206	-15.5
HOUSING		
Number of real estate transactions	93,438	-30.6
Price of non-subsidized housing	1,467	-3.8
Number of mortgages on homes	15,326	13.4
Average value of mortgages undertaken	100,394	6.2
ENTERPRISES		
Total number of companies in Spain	3,146,570	-1.7
Trading companies created	93,363	7.1

Source: INE, DGT and CCS

3. Insurance Market Performance

3.1. International Insurance Activity

The premium volume of the **global insurance market** increased by 1.4% in 2013 in real terms, attaining a value of $ 4.64 billion. Growth slowed in comparison with the previous year, in which the increase was 2.5%, primarily due to the stagnation in advanced markets (0.3%). Premiums in emerging markets grew 7.4% in 2013, slightly above last year's figures.

Life insurance decelerated in 2013, and its premium volume only increased by 0.7% compared with the 2.3% from 2012, reaching $ 2.6 billion. Advanced and emerging markets likewise differed in that premiums grew 6.4% in the latter but shrunk 0.2% in the former.

The main cause of global stagnation in the advanced markets was the contraction of the premium volume in the USA (-7.7%), linked to the end of the growth registered in recent years of group life annuities. Premiums in emerging markets grew 6.4% in 2013, exceeding the growth of 2012 (5.2%) yet still a significant distance from pre-crisis values.

Non-Life insurance increased its premium volume by 2.3% in 2013, attaining $ 2.03 billion. This was somewhat less than last year's growth (2.7%) for

Table 2. Size of the world's largest insurance markets in 2013

Country	Premiums (thousand million USD)	Premiums/ Inhab. (USD)	Premiums/GDP
USA	1,259	3,979	7.5%
Japan	532	4,207	11.1%
United Kingdom	330	4,561	11.5%
China	278	201	3.0%
France	255	3,736	9.0%
Germany	247	2,977	6.7%
Italy	169	2,645	7.6%
South Korea	145	2,895	11.9%
Canada	125	3,563	6.9%
Holland	101	6,012	12.6%
Taiwan	91	3,886	17.6%
Australia	78	3,528	5.2%
Brazil	89	443	4.0%
Spain	74	1,595	5.5%
India	66	52	3.9%
Europe	1,632	1,833	6.8%
EU 27	1,494	2,680	7.8%
World	4,641	652	6.3%

Source: Swiss Re

both advanced as well as emerging markets. For the former, growth decelerated slightly to 1.1%, as Western Europe remained stagnant (-0.3%) and the USA grew marginally (1.9%). Growth in emerging markets decelerated but continued at elevated levels (8.3%), particularly in regions such as Latin America, Southeast Asia and China.

The Swiss Re **forecasts** for 2014 are positive. A reactivation of growth in Life insurance is excepted in advanced countries, resulting from the forecasted economic recovery and a greater drive of growth in emerging countries, as improvement fortifies in China and India. The economy's recovery and the progressive increase in premiums likewise prompt optimistic forecasts for the Non-Life lines.

The premium volume of the **European insurance industry in 2013** rose to $ 1.63 billion, with a nominal increase of 5.9% and actual increase of 2.2% compared with 2012. The Life insurance segment grew 3.8% in real terms while the Non-Life segment remained stagnant (0.0%).

The **Spanish insurance industry** remains in the fourteenth spot in the world market ranking, the same as in 2012. Life insurance dropped a spot to seventeenth and Non-Life insurance remained steadfast at twelfth.

In the classification of premiums per inhabitant, Spain descended three notches to the twenty-seventh spot with an average expense per inhabitant of $ 1,595 (729 in Life and 866 in Non-Life). In terms of insurance penetration, the country ranks twenty-sixth, with a rate of 5.5%.

Losses in the global insurance industry due to **natural disasters** in 2013 were estimated at nearly $ 45,000 million, an amount that is significantly less than the recorded loss in 2012 and also lower than the average for recent years. The largest losses were associated with storms and flooding in Europe, tornadoes and hurricanes in the USA, and typhoons in Asia, particularly typhoon Haiyan, which ravaged the Philippines in November 2013 and was the most destructive in history.

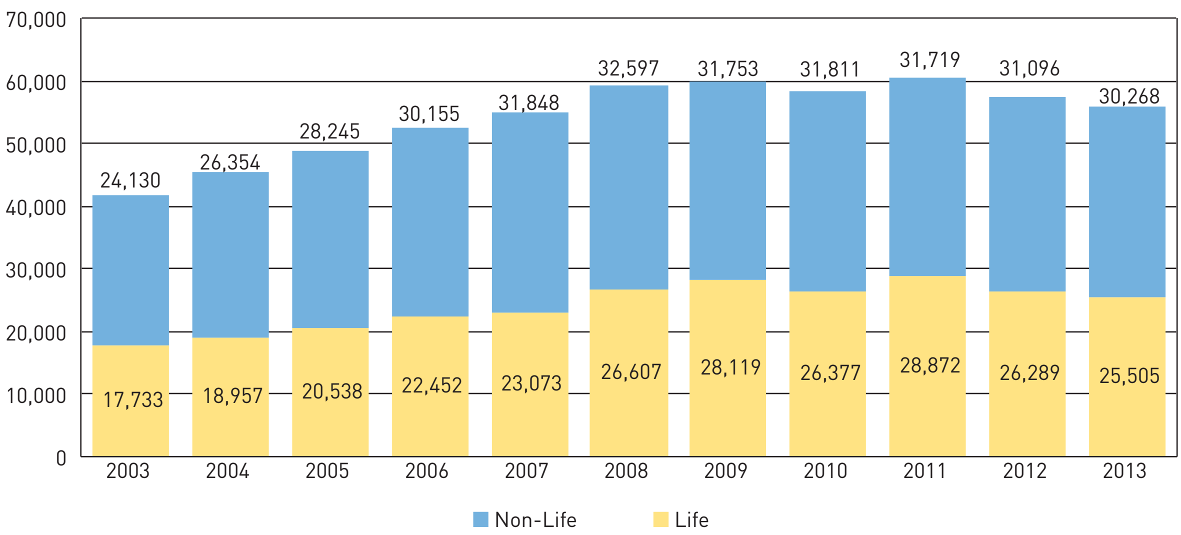
3.2. National Insurance Activity

3.2.1. Main Indicators

Production

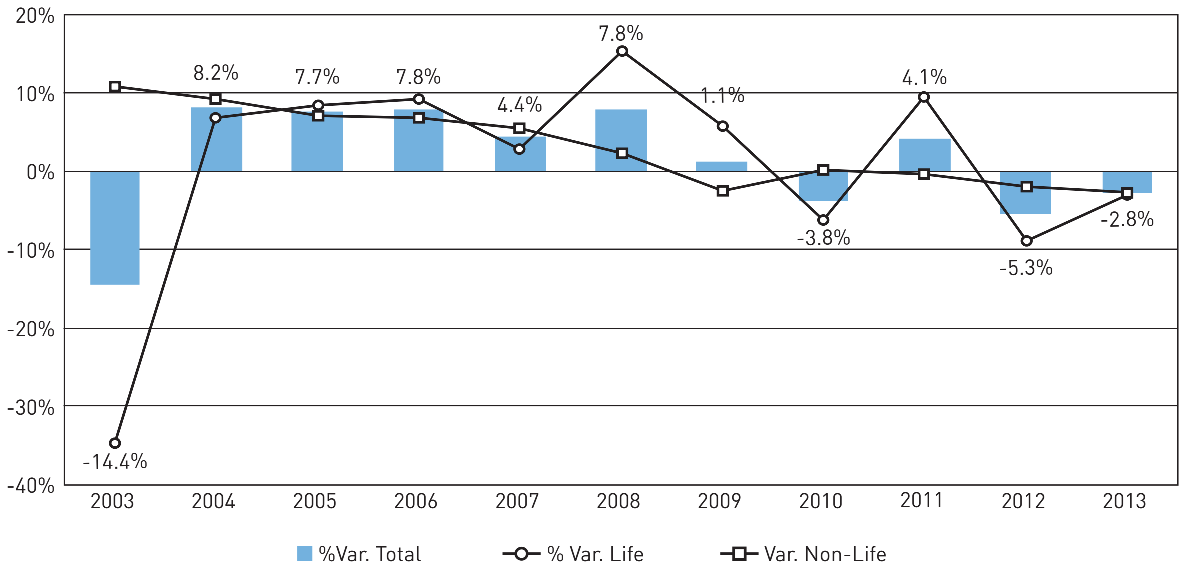
The premium volume of the Spanish insurance market in 2013 was € 55,773 million, a contraction of 2.8% compared to the volume in 2012 which took place in both Life as well as Non-Life business lines.

Figure 6. Insurance Market Performance in Spain. Premium volume and variation



Source: ICEA

Figure 6. Insurance Market Performance in Spain. Premium volume and variation (cont.)



Source: ICEA

The premium volume of the **Life Insurance** industry dropped 3.0% to € 25,505 million. The amount of the decrease has not been the same across all products. Risk insurance contracted 4.6% and continued to be hampered by a poorly performing real estate market. Savings/ Retirement insurance fell 2.7%, significantly lower than the previous year, and some modules grew such as PIAS (18.8%) and Annuities (5.3%). However, others such as Insured Pension Plans (PPA) and Asset-Linked, contracted much more than in 2102 (-16.7% and -17%, respectively). Overall, the weight of Life insurance on the insurance industry was 45.7% in 2013.

The premium volume of **Non-Life insurance** was € 30,268 million, 2.7% less than the previous year. Similar to previous years, these insurance areas still endure the unfavorable effects of the economic crisis and strong competition existing in some lines. The attached table reveals that only Healthcare, Funeral, Assistance and Fire lines have been able to increase their premium volume.

The effects of the economic contraction on the Motor line have remained even in 2013, in addition to the intense competition in prices that has been so prevalent in previous years. The premium volume of this line has fallen in 2013 for the sixth straight year to € 10,022 million, which is 5.5% less than in 2012 (-5.6% in Third-Party Liability and -5.4% in Other Guarantees). The relative participation of this business line in the insurance industry dipped seven tenths to 18%, though it nevertheless continues to be the highest among Non-Life insurance.

The premium volume of the Health Insurance industry increased 1.7% to € 6,902 million. It also increased its weight in the insurance industry by one half point, reaching 12.4% and being thus the second most important line among Non-Life insurance. The growth stemmed from the good performance of its most important module, Healthcare Assistance, whose premiums increased by 2.6%, and continued as the driver of this business line. The remaining modules withstood decreases.

Multi-Peril insurances also withstood a contraction of 1.4% in their premium volume in 2013, which contrasts the growth from previous years. By modules, performance hardly differed from 2012, given the continued growth of Home (0.4%) and Communities (1.1%), albeit less than a year earlier (2.9% and 2.6%, respectively), and the continued reduction of Industries (-5.9%) and Commerce (-4.7%), which fell more than in 2012 (-3.8% and -3.6%, respectively). Difficulties were reported in these latter two modules for yet another year, as they were highly affected by the deteriorating corporate fabric in Spain. Overall, the premium volume of Multi-Peril insurances rose to € 6,537 million, representing 11.7% of the

Table 3. Distribution of the business by lines. Written premiums. Direct insurance

	2012	2013	% Δ of 2012	% of Total
Total	57,384	55,773	-2.8	100
Life	26,289	25,505	-3.0	45.7
Non-Life	31,095	30,268	-2.7	54.3
Automobile	**10,607**	**10,022**	**-5.5**	**18.0**
Third-Party Liability	5,485	5,177	-5.6	9.3
Other guarantees	5,122	4,844	-5.4	8.7
Health	**6,786**	**6,902**	**1.7**	**12.4**
Healthcare Assistance	6,011	6,170	2.6	11.1
Illness	774	731	-5.6	1.3
Multi-peril	**6,627**	**6,537**	**-1.4**	**11.7**
Home	3,764	3,779	0.4	6.8
Industries	1,344	1,265	-5.9	2.3
Commerce	625	596	-4.7	1.1
Communities	815	823	1.1	1.5
Others	79	73	-7.0	0.1
Burial	**1,891**	**1,961**	**3.7**	**3.5**
Third-Party Liability	**1,448**	**1,352**	**-6.6**	**2.4**
Other lines of business	**913**	**774**	**-15.3**	**1.4**
Accidents	**853**	**825**	**-3.2**	**1.5**
Credit	**677**	**646**	**-4.7**	**1.2**
Transportation	**461**	**439**	**-4.7**	**0.8**
Hulls	256	241	-6.1	0.4
Goods	204	198	-2.9	0.4
Pecuniary losses	**249**	**234**	**-6.1**	**0.4**
Assistance	**309**	**312**	**0.8**	**0.6**
Fire	**91**	**96**	**5.9**	**0.2**
Legal defense	**97**	**89**	**-8.0**	**0.2**
Surety	**65**	**63**	**-4.1**	**0.1**
Theft	**22**	**17**	**-20.5**	**0.0**

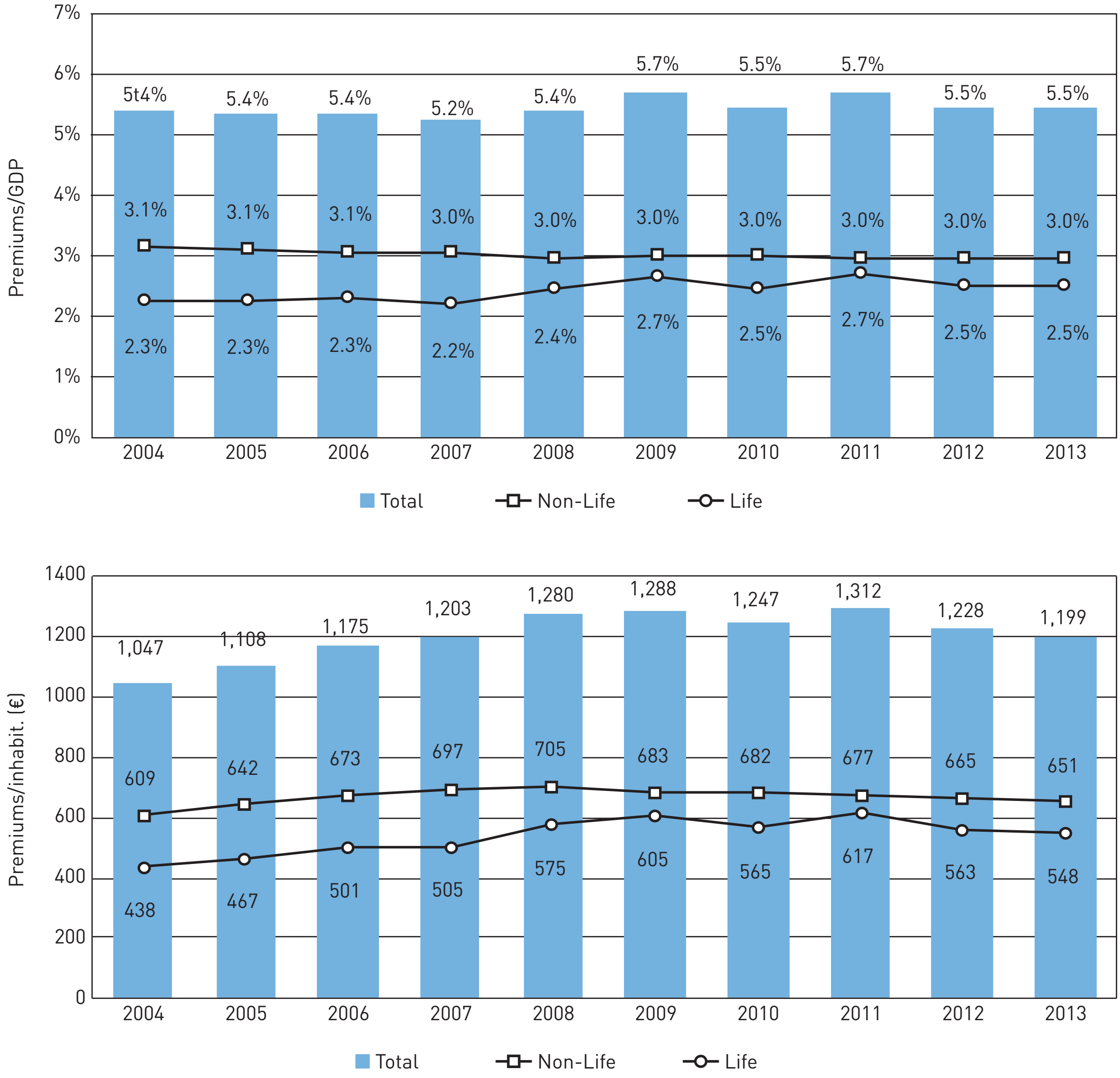
Millions of Euros
Source: ICEA

total, thus putting this line in third place in terms of size within Non-Life insurance.

The Burial line increased its premium volume in 2013 by 3.7% to € 1,961 million, which represents 3.5% of the total. Funeral and Health were the sole large business lines to achieve uninterrupted growth in recent years.

Insurance penetration in the economy, or quotient of premiums over GDP, remained at 5.5% in 2013, the same value as the previous year. Insurance density, or premium per inhabitant, dropped in 2013 to € 1,199, of which 651 corresponds to Non-Life and 548 to Life.

Figure 7. Progress of Insurance Penetration and Density in Spain



Source: prepared with data from ICEA and INE

Results

The insurance industry has continued proving in 2013 that it is solvent and profitable notwithstanding the effects of the persistent economic recession on results, particularly those of the technical account.

While the results of the non-technical account increased by 1.9% to € 4,791 million, the technical account result contracted 13.5% to € 5,341 million. The contraction of the technical result has affected as much Life as Non-Life.

Table 4. Insurance industry results

Results	2012	2013	% Δ
Technical account	6,177	5,341	-13.5
Life	3,271	2,629	-19.6
Non-Life	2,904	2,712	-6.6
Non Technical account	4,701	4,791	1.9
ROE (%)	15.3%	13.7%	-10.2

Source: ICEA

The Life insurance technical account result was € 2,629 million, 19.6% less than 2012. The reduction in the technical result for the life insurance business motivated primarily by a reduction in premiums, and while the claims ratio also fell, it was accompanied by an increased contribution to the life insurance provision denotes a change in the type of product contracted toward others with more guarantees in savings, where capital conservation and guarantee on the interest rate prevail. The financial result likewise improved but was unable to offset the fall of the technical result.

The Non-Life insurance technical account result was € 2,712 million, 6.6% less than 2012. The technical-financial result indicator consequently dropped four-tenths to 9.3%, affected by the drop in premiums and the climbing combined ratio, which could not be offset by the one-point improvement in the financial result.

Return on Equity, or the ratio between fiscal year results and shareholders funds of the sector (ROE), was 13.7%, which is 10.2% less than the previous year given the evident solvency margin improvement. The alignment with the new Solvency II legislation explains this performance.

The solvency margin increased yet another year, reaching very solid levels, and exceeds the minimum amount required by regulations (2.8 in 2012) by threefold. It increased by 3.9 (3.7 in 2012) in Non-Life and 2.3 (2.2 in 2012) in Life.

Table 5. Basic indicators. Non-Life

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	31,095	30,268
% Variation in premium volume	-2.0	-2.7
Retention	88.6	87.6
Gross claims ratio	68.8	69.2
Gross expenses	22.1	22.3
Net claims ratio	70.9	70.7
Net combined ratio	92.3	93.5
Financial result	2.9	3.9
Technical -Financial result	9.7	9.3

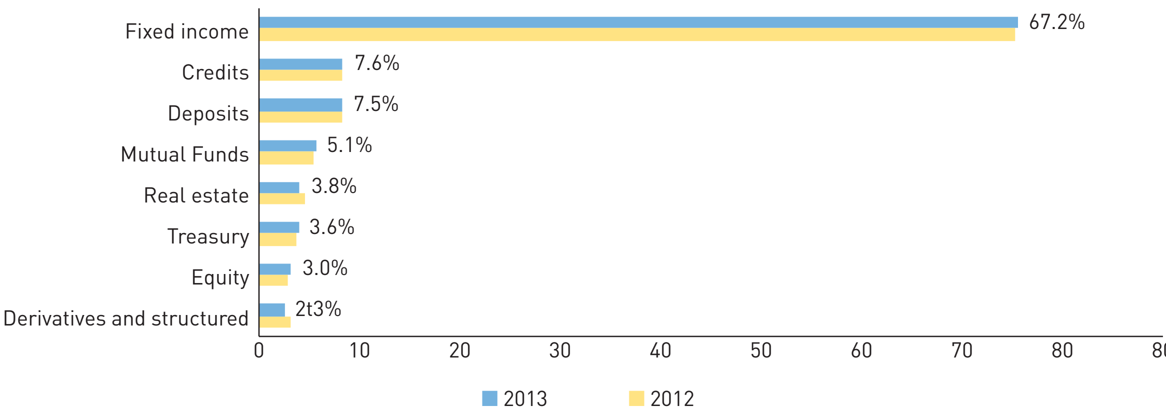
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of Euros
Source: Prepared with data from ICEA

Investment[1]

In 2013, the estimated investment volume in the Spanish insurance industry was € 219,488 million, 3.3% higher than in 2012. When itemized by business types, 81.4% corresponds to investment in the Life portfolio investment and 18.1% to the Non-Life portfolio. The remaining 0.5% affected the shareholders equity portfolio.

[1] ICEA. Report No. 1,325. April 2014. Investments of the Insurance Companies. 2013.

Figure 8. Distribution of the Total Sector Investment. 2013



Source: ICEA

The fixed income assets portfolio remains the most significant category, with a weight of 67.2%, which remains unchanged from 2012. During 2013, the progressive reduction of private income continued giving way to public income, with a pronounced effect on the Life insurance business. While the fixed income portfolio for Life represented 54.5% of the investment portfolio, it dropped to 44.2% in the Non-Life insurance business line. It should be noted that the weight of public fixed income in 2013 was higher than private income (53% versus 47%).

The Mutual Funds portfolio encompasses 5.1% of the total. Within this category, the Security Investment Funds have constituted the largest subcategory with a proportion of 3%.

In turn, the real estate portfolio continues dropping in relative weight to 3.8%, meaning 0.4% less than in 2012. The downward trend between market value and book value relationship from 2010 to 2013 continues, revealing a drop in appraisal values due to the real estate crisis.

Equity grew a half point to 3.0%. Domestic Securities represented 2.4% against 0.6% for Foreign Securities.

Finally, Derivatives and Structured commodities represent 2.3% of the total investment portfolio. These products are also withstanding a gradual downgrade primarily due to the volatility of stock markets.

At the close of 2013, the average accounting yield of financial investments was 4.8% and the average duration of the portfolios was 7 years in the Life portfolio and 4 years in the Non-Life portfolio (6.5 and 3.5 respectively in 2012).

During 2013, 72.5% of investments made by the insurance industry were issued in Spain, a 2.5% increase from 2012, which continues to prove the extraordinary participation of the insurance industry as financial backer of the national public sector. The strong commitment of the insurance industry enables Spain to have financing during times of greatest tension in the bond markets while foreign investment recedes from Spain. The next preferred investment countries by insurance companies were Luxembourg (3.7%), Italy (3.6%), France (3.4%), Germany (2.7%) and the USA (2.1%).

Even though insurance entities maintained their investments in public debt, applying the appropriate criteria to instrumentalize financial immunity processes, the lower rating given by rating agencies for Spain's sovereign debt, dropping from A to BBB, has resulted in a portfolio shifting from AAA for 47.9% of qualified securities toward a BBB rating for 70.7% of the securities over the last 5 years.

The rise in the Spanish sovereign debt given by these agencies, as well as an improvement in the prospects of growth for the Spanish economy will result in a progressive increase in the credit rating of insurance portfolios.

Outlook for 2013

The prospects of growth for the Spanish insurance industry in 2014 remain dependent on numerous uncertainties, although there are reasons to expect moderate optimism: the economy is currently under favorable conditions to be able to put an end to the second recession since the start of the crisis and initiate a recovery stage, as revealed in the improvement of indicators and revision of positive prospects for growth. This recovery context will help continue improving the savings of Spanish families gradually. Moreover, the greater stability of the financial markets, together with a growing understanding of the need for savings to plan for retirement have been very important supports for the pension fund sector. Yield, particularly in the Life insurance business will continue to be low because of the low interest rates and significant legislative changes that entail larger capital requirements.

The prospects for growth in the **Life insurance business** are linked to the performance of the economy in general, and thus a slow recovery is expected given that the weakness of economic growth restricts the demand and capacity of household savings. Low interest rates and regulatory pressures are also curbing this growth.

Turning to Life-Risk Insurance, opportunities should focus on the sale of Life insurance not linked to loans, so long as the credit activity shows no signs of recovery, seeking a more reflexive sale regarding the needs of the clients.

In connection with Savings-Retirement products, Life Insurance should benefit from the Spanish population's increased need to insure retirement with products that provide security and yield, and others that likewise offer liquidity for cases in which the situation requires an availability of funds. In this regard, the Individual Systematic Savings Plans (PIAS) may find a gap between the Insured Pension Plans (PPAs) and Pension Funds to be a further real retirement alternative. Additionally, lower returns from bank deposits will prompt competition with insurances having medium- or long term investments.

In the second half of the year, the Social Security Administration is expected to send individualized information to persons older than 50 that will include an estimate regarding their future right to ordinary retirement in addition to the rights derived from other complementary instruments contemplated in retirement legislation. This information will entail an important awareness-raising mechanism regarding the relation between the current salary and the corresponding future pension and thus create greater understanding of supplementary social prevision systems.

The same context of continuity in the process of improving the country's economy will also contribute to greater stability of financial markets, which would entail solid support for the investment funds sector, though not for all families. Guaranteed and Monetary Funds will become less attractive given their low yield rates.

ICEA data from the first quarter in 2014 show that premiums from the Life insurance business decreased by 9.4% compared with the same quarter in the previous year, largely due to the savings business, which represents 82% of the Life business and has obtained a decrease of 11%, while the volume of managed savings, represented by technical provisions, grew 3.0% (compared to 2.2% in 2013).

The prospects for the **Non-Life insurance business** are more positive, since they forecast a slight upturn in insurance activity in a more conducive economic context. The perspectives for the Spanish economy point toward a progressive consolidation of growth, which will initiate a new expansive cycle to reach a real GDP close to 1% in 2014. This greater drive in activity will in turn contribute to contracting a greater number of insurance following the restructuring of public accounts, deleveraging of the private sector and credit flow.

Notwithstanding the above, the premium volume in the Automobiles line is expected to continue falling, albeit at a rate that is slightly less than the previous year. More positively, the degree of competitiveness among companies should nevertheless begin to temper due to the deterioration of the technical account of the line. In Multi-Peril, the issuance of premiums will continue being highly penalized by the weakness of the retail business and the applied CPIs, which are rounding off at 0% on most maturities. In the long term, the line has full confidence in the measures taken in June 2014 by the Central European Bank to stimulate bank credit and its repercussion in the real estate sector.

The data corresponding to the first quarter of 2014 show a slight drop of 0.9% in Non-Life premiums compared with the same quarter in 2013 (this drop in 2013 was 2.9%). The sole line with positive growth continues being Health, which grew in March 2014 at 3%, the most since March 2013.

3.2.2. Mutual Provident Societies

Mutual Provident Societies are non-profit private insurance societies that operate a voluntary insurance module, complementary to the compulsory Social security system that can also be alternatives to the Social security regime of self-employed workers.

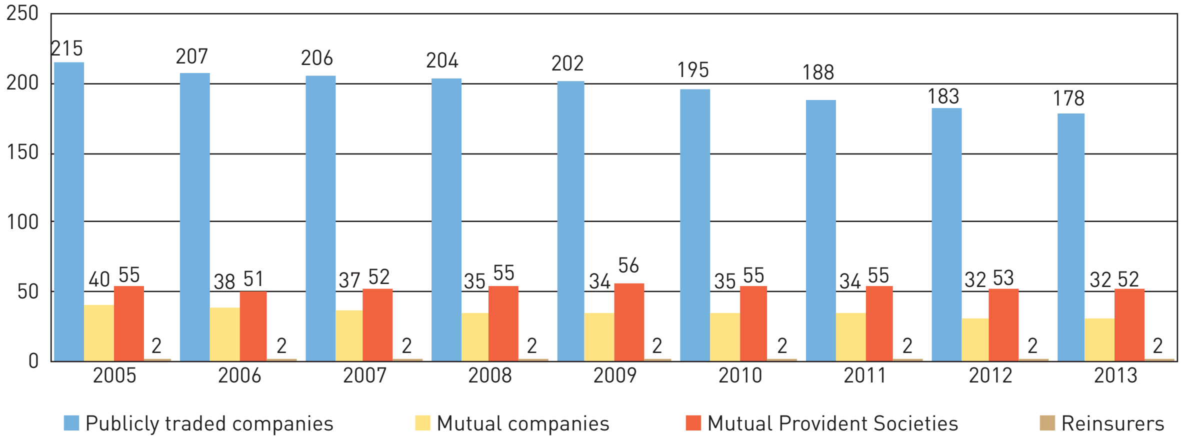
At the end of 2013, the 371 Mutual Provident Societies that are members of the Spanish Confederation of Mutual Societies received € 2,990 million in premiums, representing a growth of 5.6% compared to the previous year. The volume of assets managed reached € 37,914 million, compared to € 34,835 million in the previous year.

3.2.3. Market Structure

Insurance industry

As of 31 December 2013, there were 294 entities registered in the Administrative Registry of Insurance Companies, of which 264 were operating (six less than in 2012): 178 publicly-traded companies, 32 mutual companies, 52 Mutual Provident Societies and 2 specialized reinsurance companies.

Figure 9. Progress of the number of operating entities by type



Source: DGSFP

During 2013, 3 new entities have been authorized, all publicly-traded companies, and 10 entities have been canceled in the Administrative Registry, 5 of them because of merger cases, one following an assignment case, three liquidated by the Consorcio de Compensación de Seguros ("Consortium for Compensation Insurance"), and one because of voluntary winding up.

Insurance distribution

According to the latest data published by the DGSFP, its annual report indicates that in 2013 Spain had 90,737 insurance and reinsurance mediators (92,561 in 2012), itemized as follows: 86,042 exclusive agents and operators; 3,046 brokers; 252 linked banking-insurance agents and operators; 1,346 assistants-assessors, and 51 reinsurance brokers. Of the total, 76,267 are legal persons and 14,470 are legal entities.

The most recent data from the cited report refer to 2012. The data therein state that 40.4% of the total production of the insurance business was carried out by Agents and Brokers, followed by Banking-Insurance operations with 38.5%.

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 (69.7%), while Non-life insurance is distributed mainly between Agents (34.6%) and Brokers (24.8%).

The activity carried out by Banking-Insurance operators in the Non-life line is focused on Home Multi-peril. 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 Healthcare Assistance and Automobile insurances.

The implementation of insurance procurement via web channels entails 0.9% of the total portfolio premiums and 0.8% 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.

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

The Spanish trade deficit has been reducing progressively since the economic crisis began, with significant strides taken in exports while imports fell. In 2013, the current account balance attained a surplus of over € 7,000 million because of the sustained increase in competitiveness of Spanish goods and services. The insurance industry is among the sectors that have contributed to this take-off.

In fact, exports of insurance-related services have considerably increased since the beginning of the crisis. However, this growth did not continue into 2013. An analysis of the Spanish payment balance for 2013 reveals that the income for services connected with insurance rose to € 1,189 million, down 8.0% compared with the previous year. A more detailed analysis shows that the global decrease is due to the 18.8% drop in income coming from countries from outside the European community. On the other hand, income from European Member States grew by 9.6%.

Turning to direct investments abroad, the same five Spanish groups continue in the insurance industry: BBVA, Catalana Occidente, CESCE, MAPFRE and Santander. In recent months, other Spanish companies have shown their interest in seeking to expand into Latin America, though no movement of this sort had been made as of the edition date of this report.

In 2013, BBVA sold its stock in pension fund administrators in various Latin American countries, but continued maintaining its insurance business in the region, with a leading role in the Mexican insurance market, where its company BBVA Bancomer holds the sixth spot in the ranking of insurance groups with a premium volume of € 1,003.

The group Catalana Occidente in turn continues increasing the percentage of income from abroad. Of the € 1,412 million in premiums in 2013 in credit insurance, 1,062 million came from international markets, primarily from countries in the European Union.

The most salient event concerning the Spanish Export Credit Insurance Agency, otherwise known as the CESCE (Compañía Española de Seguro de Crédito a la Exportación) was the approval by the General Courts in April 2013 regarding the Law on State Coverage of Internationalization Risks, which opens the gates to privatization of State holdings in the agency. The new Law contemplates the creation of a Managing Agent for insurance on behalf of the State, a duty that the CESCE will undertake for a period of eight years. In 2013, CESCE took a step toward international expansion with the operating and retail integration of its American subsidiaries.

MAPFRE's international direct insurance premiums increased by 5.4% in 2013 to € 11,419 million because of fair levels of growth of the local currency in the countries where it operates. Global businesses (Reinsurance, Assistance and Global Risks) recorded a premium volume of € 5,291 million with a growth of 12%. Particularly prominent are MAPFRE ASISTENCIA's progress and the positive effect in North America following the development of new distribution networks and contracts with major clients.

MAPFRE is the tenth largest insurance company in Europe in terms of premium volume and sixth for Non-Life Insurance. At the close of 2012, it was the third-ranking insurance group in Latin America and the first for Non-Life Insurance.

Turning to the international insurance business of Banco Santander, the Spanish group continued fortifying strategic banking-insurance alliances in 2013, the year in which it drove home the agreement entered into between Bank Zachodni WBK (Banco Santander is the majority stakeholder) and Aviva to foster the distribution of insurance through the network of branches in Poland. In Europe, the insurance business not linked to credit had a significant growth throughout all networks (Portugal, United Kingdom and Poland) and Irish personal protection insurance companies attained premiums of € 580 million.

In July 2014, Santander announced a bancassurance agreement with CNP Assurances, through which the French group acquires 51% of the Life and Non-Life insurance subsidiaries of Santander Consumer Finance (SCF) with headquarters in Ireland. Insurance companies will sell their products exclusively in the network that the Spanish bank subsidiary has in 10 European companies.

According to data from the General Directorate of Insurance and Pension Funds, Spain had 42 entities holding stock in foreign capital in 2013 with a subscribed amount of € 1,456 million, which is 10.9% more than the previous year, and 15.9% of the total capital in the sector.

Right of establishment and Freedom to provide services

At the end of 2013, there were 40 branch offices 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 branch offices was Portugal, with 16. The United Kingdom was the country with a largest number of Spanish entities operating 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 fell by 21% in 2012 compared to the previous year. For the second straight year, the Life premium volume of the entities operating in right of establishment decreased, while Non-Life insurances showed positive performance. Contrariwise, there has been a considerable increase (35.4%) in the premium volume of the entities of free rendering of services, also due to the significant Life and Non-life growth.

The premium volume of accepted and direct insurance performed by the entities of other countries of the European Economic Area in Spain fell by 3% compared to the previous year, with a value of € 3,987 million. The decrease occurred under the right of establishment regime (-14.6%) and affected both Life and Non-life.

In Non-Life, the prominent business undertaken by entity branches installed in Ireland rose to € 1,063 million. In Life, strong premium volume in Spain by Luxembourg companies operating under free rendering of services rose to € 1,084 million.

Table 6. Premiums in 2011 and 2012 by activity

Origin of activity	2011	2012	% Δ
Spanish companies in other EEA states	**2,110**	**1,660**	**-21.0**
Freedom to provideof services	153	208	35.4
Right of Establishment	1,956	1,452	-25.8
Companies from other EEA states in Spain	**4,114**	**3,987**	**-3.0**
Freedom to provide of services	1,463	1,722	17.7
Right of Establishment	2,651	2,265	-14.6

Millions of Euros
Source: DGSFP

Evolution of Insurance by spanish autonomous region

The data commented below were provided by ICEA and refer to a sample of 88 insurance agencies that together account for 82% of the total business volume in the industry.

For 2013, Catalonia (€ 9,677 million in premiums) and Madrid (€ 9,367 million in premiums) were again the top two autonomous communities with the highest business volume, though they dropped 3.3% and 4.6% respectively regarding the previous year. Together, both communities represent 41.5% of the total for the country. They were followed, albeit a long way behind, by Andalusia (5,824 million) and Valencia (4,373 million). The communities with the lowest premium volume were the autonomous cities of Ceuta y Melilla (97), La Rioja (356) and Cantabria (485).

The premium volume decreased in 13 of the 18 communities, with Aragon (-9.8%) and Extremadura (-8.8%) leading the falls. There was growth in Navarra (35.7%), Balearic Islands (7.0%), Andalusia (2.8%), Valencia (2.4%) and La Rioja (0.7%).

Itemized by business lines, in the Life insurance business, Catalonia was the community with the highest premium volume (€ 4,895 million) followed by Madrid (€ 3,332 million). The order is inverted in the Non-Life line, where Madrid is at the top with € 6,307 million followed by Catalonia with € 4,781 million.

For yet another year, Madrid and Catalonia were the communities with the highest premium per capita with € 1,471 and € 1,306, respectively, followed by the Balearic Islands (€ 1,139), Aragon (€ 1,135) and the Basque Country (€ 1,072). At the opposite end of the spectrum are Andalusia (€ 694), Canary Islands (€ 573) and Extremadura (€ 660).

Table 7. Insurance market by provinces. Statistics for 2013

Autonomous Communities	2013	% var 2013 / 2012	% share 2013	premium per capita
Catalonia	9,677	-3.3	21	1,306
Madrid (Community of)	9,369	-4.6	20	1,471
Andalusia	5,824	2.8	13	694
Valencia	4,373	2.4	10	881
Basque country	2,323	-2.8	5	1,072
Castilla-Leon	2,211	-5.6	5	886
Galicia	2,151	-3.0	5	783
Castilla - La Mancha	1,616	-5.1	4	778
Aragon	1,512	-9.8	3	1,135
Balearic Islands	1,270	7.0	3	1,139
Total for top 10	40,327	-	88	-

Source: ICEA

Mergers and acquisition

In this section, there are corporate movements that were carried out during 2013 and 2014, and have been clearing the panorama of the bancassurance agreements that were pending after the restructuring of the savings banks and the reform of their regulations:

- CaixaBank: the restructuration of the bancassurance alliances from Banca Cívica entailed the resolution of seven *joint ventures* (Caja Burgos, Cajasol, Caja Canarias and Caja Navarra) with three different insurers (Aegon, Caser and Zurich).
    - At the beginning of the year, the bank reached an agreement with Caser to acquire the insurance business that group had with Banca Cívica: Cajasol Vida y Pensiones, Caja Canarias Aseguradora de Vida y Pensiones, Cajasol Seguros Generales and Caja Canarias Seguros Generales.
    - In March 2013, the boards of directors of VidaCaixa and Banca Cívica Vida y Pensiones approved the merger project whereby VidaCaixa integrates the entire insurance business of Banca Cívica. SegurCaixa Adeslas, controlled by Mutua Madrileña, and with a stockholding by CaixaBank, will absorb CAN Seguros de Salud and Cajasol Seguros Generales, the 2 Non-Life insurance entities of Banca Cívica.
    - In March 2014, the Zurich Group reached an agreement with CaixaBank to sell their stock of 50% in CAN Seguros Generales, the jointly-owned company created in 2008 by the insurer and Caja Navarra. With this agreement, CaixaBank closed the restructuring of the bancassurance alliances that it had inherited when acquiring Banca Cívica.
- Toward the end of 2012, Unnim Banc, in the BBVA group, reached an agreement with Reale to acquire 50% of the Non-Life insurer Unnim Protecció. At the outset of 2013, an agreement was also reached with Aegon to purchase 50% of Unnim Vida. The bank thus controlled 100% of both insurers.
- In July 2013, Aegon sold Banco Sabadell 50% of Mediterráneo Vida, the insurance company that the Dutch group created in a *joint venture* with Caja de Ahorros del Mediterráneo (CAM).
- In January 2014, MAPFRE and Bankia reached an agreement in which the insurer becomes the exclusive Bankia bancassurance provider and will distribute the insurer's products throughout its commercial network. Likewise, MAPFRE acquired 51% of Aseval and Laietana Vida. Thus, the bancassurance business is restructured through some new distributions agreements in Life and Non-Life business lines.

Other corporate movements occurring in 2013 were:

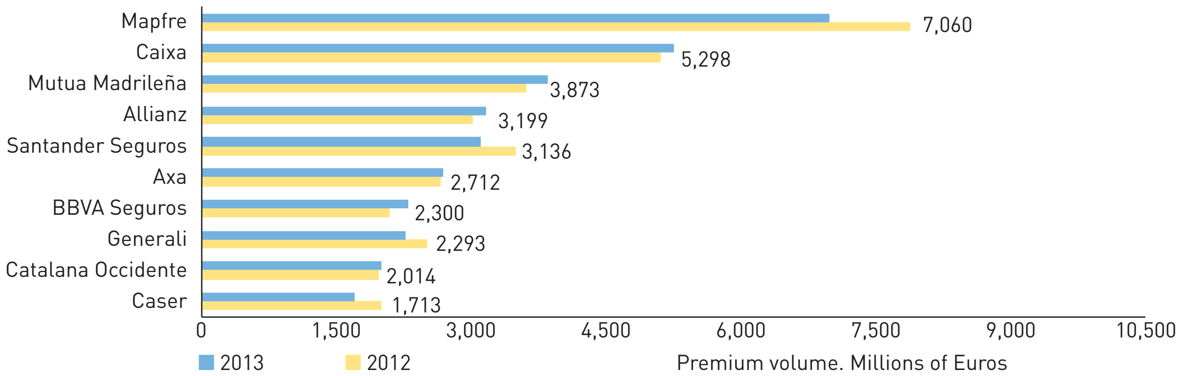
- Liberty Seguros completed its merger by absorption of Génesis, a process that began in 2003 when the US group acquired 100% of the shares in Génesis. After this merger, Liberty Seguros will market its products under three different brands: Liberty, Regal and Génesis.

- At the beginning of 2013, Solunion, the Credit insurance *joint venture* held at 50% by Euler Hermes and MAPFRE, began operations in Spain and Argentina after officially constituting itself as a company by signing the shareholders' agreement and officially naming the members of the Board of Directors.

Insurance group ranking

As in previous years, MAPFRE leads the **total ranking** of insurance groups, with a market share of 12.7%. The next two spots continued to be Grupo Caixa (9.5%) and Mutua Madrileña (6.9%) because of their Life and Health businesses respectively. The rest of the ranking contained the same companies appearing in the ranking last year, but varying in their relative positions. Allianz moved to the fourth position, jumping over Santander Seguros to the fifth spot. BBVA gained a position at the expense of Generali, which slipped to the eighth spot. And Catalana Occidente did the same with Caser, which dropped to last. Axa remained at the sixth spot in the ranking.

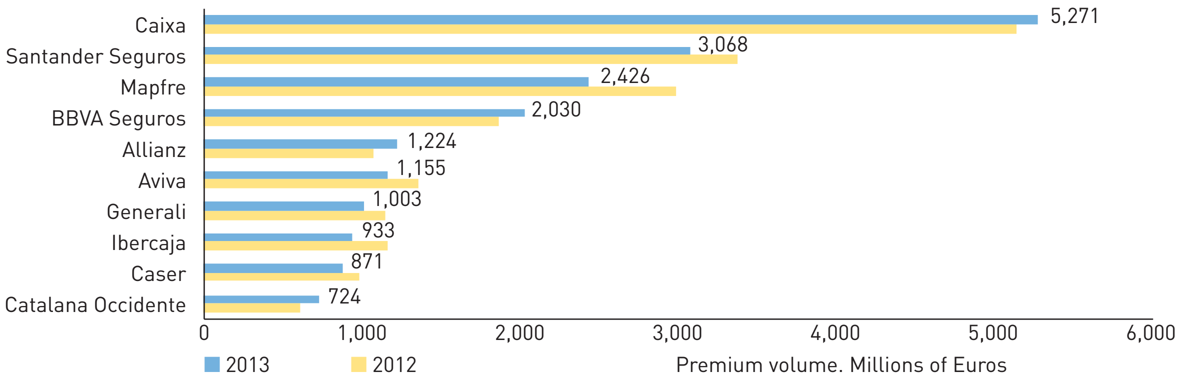
Figure 10. Ranking of insurance groups by premium volume. TOTAL



Source: ICEA

Grupo Caixa led the **Life ranking** with a market share of 20.6%, followed by Santander Seguros (12.0%) and MAPFRE (9.5%). Allianz improved positions, Aviva and Ibercaja worsened; and Catalana Occidente appeared in the tenth spot, edging out Aegón.

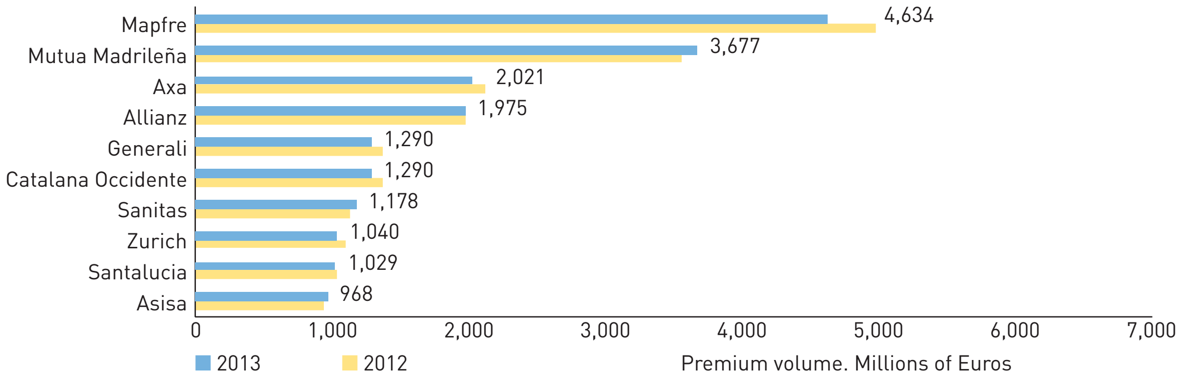
Figure 11. Ranking of insurance groups by premium volume. LIFE



Source: ICEA

For another year, the **Non-life ranking** continues to be led by MAPFRE, with a market share of 15.3%, followed by Mutua Madrileña (12.1%) and Axa (6.7%). Generali and Catalana Occidente occupied the fifth and sixth spots, with equal premium volume; and Asisa joined the ranking in the tenth position, overtaking Caser, which dropped out of the top ten. The remaining positions remained relatively unchanged compared with last year.

Figure 12. Ranking of insurance groups by premium volume. NON-LIFE



Source: ICEA

3.2.4. Reinsurance

Overall, 2013 has been a good year for results, albeit complicated in its management as a structural market change confirms.

The premium volume grew slightly due to the income from new markets and special operations, with some operators recording null or negative growth because of the persistent drop in rates. The absence of major catastrophes has reduced the claims ratio by 1.6 points and the combined ratio by 1.7 points, reductions that indicate that the ordinary claims ratio has increased because of the reduction of fees and improved assignment conditions. Net earnings and shareholders equity both increased by 6% leaving a ROE slightly higher than 10%.

Professional reinsurers have positively weathered these years of generalized crisis, affected primarily by the volatility of the financial and bond markets, which underwent significant losses. The absence of major catastrophes in 2012 and 2013 have enabled shareholders funds to be shored up. This strengthened position has revived competition for a small volume of business, where large insurance groups have been centered on using capital efficiently, which has translated into reinsurance structural changes and a reduction in assignments. In particular, the reinsurance supply has exceeded demand with the consequential drop in prices. In addition to the foregoing, there is a growing presence of large reinsurance investment funds, currently focused on catastrophe coverages, seeking larger yields and diversification on their investments.

The usage by all actors of complex capital models, the centralized purchases of reinsurance by large insurance groups, the necessary control of exposures and the pressure for appropriate returns on capital have forced reinsurers to work more proactively, to be more attentive to their own results and portfolios, thus ending the system of general cycles. Furthermore, some reinsurers have given returns to shareholders via dividends or own share purchases, of capital that would otherwise be difficult to pay out, a clear example of the foregoing being the reduction in the capital to premiums ratio by 20%. Unless there are substantial and sustained catastrophes that consume the excess capital or depress the financial markets, this same mood should be maintained in upcoming years.

3.2.5 Consorcio de Compensación de Seguros

Unlike previous years, 2013 has been characterized not as much by the number of natural disasters but rather the economic consequences arising from these events.

The year has been marked by a moderate claims ratio (nearly 65% of the income), solely altered by the Gong (€ 21.8 million) and Dirk (€ 15.7 million) storms on 18 January and 23 December 2013, respectively, to which the liquidation costs of the insurance companies of the Cahispa group should be added. In global terms, the main cause of damage in 2013 was the generalized flooding throughout national territory, prominently in Catalonia (17 June) and Navarra (15 January and 9 June).

Earned premiums have not showed large variations. They increased 2.4% in the General Activity of Extraordinary Risks, and decreased 13.9% in Agricultural Activity due to adjustments in reinsurance surcharges and premiums of the Combined Agricultural Insurance. They also decreased by 7.4% in the General Activity of Traffic Risks, because of the decrease in the number of vehicles insured by the Consorcio and the progress of premiums in the insurance industry.

Table 8. Activity of the Consorcio de Compensación de Seguros

	Net earned premiums		Net claims ratio	
General Activity	**2012**	**2013**	**2012**	**2013**
Extraordinary Risks	**688**	**704**	**281**	**208**
Property	619	638	294	192
Persons	24	22	1	2
Loss of benefits	45	44	-14	14
Traffic risks	**123**	**114**	**71**	**69**
SOA Guarantee Fund	109	103	55	57
Private vehicles	3	2	2	1
Official vehicles	11	10	14	11

Thousands of Euros
Source: Annual report of the Consorcio de Compensación de Seguros

The claims ratio for Extraordinary Risks dropped considerably compared to the previous year, with 29.5% of the premiums compared with 40.9% in 2012. The claims ratio for the Automobile Guarantee Fund reported 55.4% for premiums (50.8% in 2012) and Third-Party Liability in Private Vehicles was 81.9% (56.5% in 2012), reaching 110.8% for official vehicles because of the claims ratio of previous years. Lastly, the claims ratio for Agricultural Activity was 44.0% on the premiums (228.4% in 2012). This substantial reduction was primarily due to the claims ratio in Agricultural insurance in 2013, which dropped by 83.4% compared with 2012.

In this context, the Consorcio de Compensación de Seguros secured a profit of € 532.4 million in 2013, 34.5% more than in 2012.

3.2.6. Solvency II

Solvency II is an ambitious project that aims at establishing a common regulatory framework for supervising the insurance industry across the European Union based on the control of the global solvency of insurance companies. The monitoring system must be sensitive to the risk and is based on three mutually-reinforced pillars, which provide the quantitative, qualitative and information requirements that insurance companies and their supervisors must consider.

In January 2011, the European Commission proposed the Omnibus II Directive to amend the Solvency II Directive and adapt it to certain legislative changes within the European framework. The Omnibus II Directive specifies matters that shall be regulated by technical standards drawn up by the EIOPA (European Insurance and Occupational Pensions Authority), as well as its ability to develop binding standards in the implementation of Solvency II. There were tripartite debates (trialogues) in 2012 between the European Commission, Council and Parliament with a view to finding a Common Position. While partial agreements were reached for certain matters, there were disagreements in other matters, particularly the discrepancy regarding the curve design for the risk-free interest rates. This is a highly important technical question when using the "market consistency" assessment criterion required by Solvency II to assess insurance products with long term guarantees. Finally, trialogue members reached an agreement insofar as commissioning the EIOPA to draw up a Quantitative Impact Study to analyze the different solutions proposed. The EIOPA technical report was presented in June 2013 and was used as technical support to the debates. An agreement was reached in November 2013 with which the European Parliament finally approved the Omnibus II Directive on 11 March 2014.

Likewise, and after various delays, the dates for transposition and entrance into force of Solvency II were scheduled for 31 March 2015 and 1 January 2016, respectively. To streamline the progressive adaptation of the new Solvency II arrangement, EIOPA published some guidelines in October 2013 for the overseeing authorities, namely the governing system for the insurance agencies, ORSA, the supply of information to the supervisor and the preliminary request of internal models.

On 7 May, Official State Gazette (BOE) published Order ECC/730/2014, which contains the guidelines indicating how to proceed during the preparatory stage before the application of the Solvency II Directive. These measures aim to ensure that insurance and reinsurance agencies, and groups of insurance and reinsurance entities are prepared for when the Solvency II Directive is fully applicable and binding as of 1 January 2016. This likewise seeks to prevent situations in which each Member State might create its own national solutions, hence facilitating coherent and converging criteria regarding preparation for the Solvency II Directive. The temporary measures address the following matters: governance system of insurance entities, internal prospective risk assessment, supply of information to the supervisor and prior request of internal models.

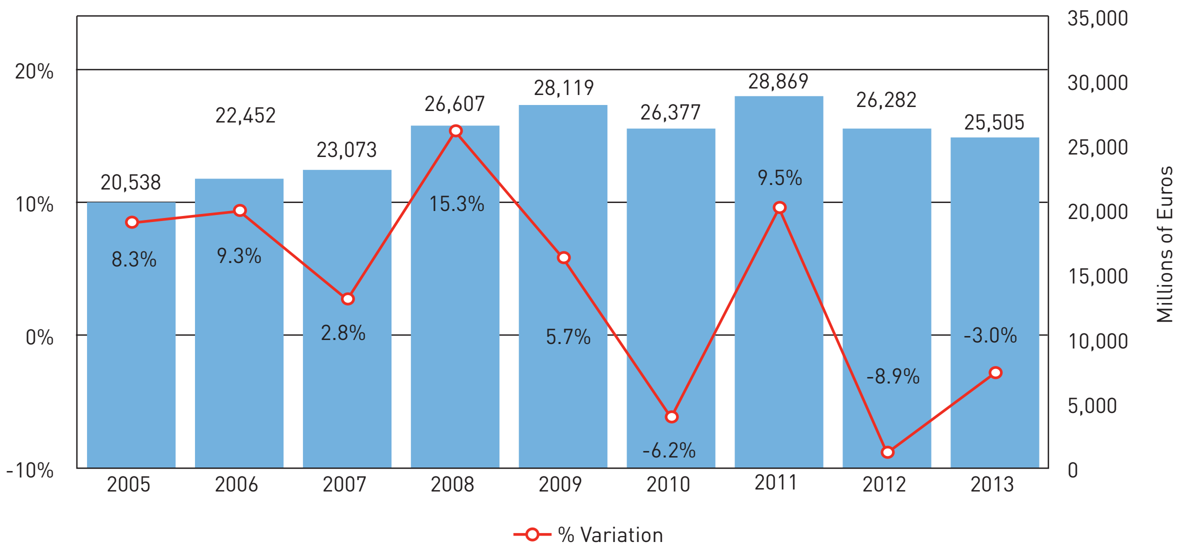
Among the measures affecting the entire Spanish insurance industry, the following are particularly salient: the order establishes that companies must submit a calendar to the General Directorate of Insurance and Pension Funds, as duly approved by their respective boards of directors, permitting a progressive adaptation to Solvency II. The guidelines and recommendations of the European authority must also be followed when requesting internal calculation form on mandatory solvency capital, when not intending to use the standard form, and for submitting a report on the degree of compliance with Solvency II to the European authorities in 2014 (before 30 January 2015) and corresponding to 2015 (before 30 January 2016).

4. Insurance Market Performance by Branch

4.1. Life

During 2013, Life insurance reached a premium volume of € 25,505 million, a decrease of 3.0% against the previous year, moderating the slump in recent years. The data for expected provisions contributed to this improved performance, decreasing 25% compared with 2012 (-3,651 million), with prominent progress in the rescues for the Annuity modules (-41%). Consequently, the volume for technical provisions increased 3.5%, doubling the increase in 2012 and reaching € 161,610 million.

Figure 13. Life Performance. Written premiums. Direct insurance



Source. ICEA

On analysis of the savings-retirement industry as a whole, investment funds have performed the best in 2013, with a growth of nearly 26%, much higher than the figures reported for the other two products: pension funds have grown by nearly 7%, twice the life insurance provisions (3.5%).

Nonetheless, it should be mentioned that the number of Life insurers dropped to 30.5 million at the end of 2013, which represents a 3.3% drop, bringing the figures to levels lower than in 2006.

Table 9. Composition of Life insured parties by class

	Insured parties. 2013	
Module	Number	% Variation
Risk	21,097,679	-4.5
Long term insurance	21,724	10.7
Savings/ Retirement	9,414,774	-0.4
Total	30,534,177	-3.3

Source: ICEA

Categories

By categories, insurances with exclusive coverage for death continued representing over two thirds of the total insured, with 21.1 million policies, despite the decrease by 4.5% in the last 12 months. As regards the amount of premium issuance of this kind of product, it continued decreasing in 2013 (-4.6% compared to -2.7% the previous year) as a consequence of the persistent recession in the Real Estate market and the lack of operations formalized by housing acquisitions.

The group of Savings/Retirement modules slowed down the decrease compared with the previous year, as premium issuance contracted by only 2.7%. This time, the Individual Systematic Savings Plans (PIAS) and Annuities were the sole modules that recorded a positive performance in the analyzed period, with an increase of 18.8% and 5.3%, respectively.

In turn, the Insured Pension Plans (PPA) continued their unsatisfactory performance that began the previous year, as their premium volume dropped 16.7% in 2013, far from -1% in the previous year. This is the result of other formulas with non-guaranteed yields that are more attractive. Despite the foregoing, the managed savings figure returned to grow (14%), reaching € 12,800 million.

Turning to Asset-Linked Insurance, the still attractive guaranteed yields of other products eclipsed their marketing (-17% in issuance), since not all investors sought to assume the risk that these products entail.

On the other hand, differing from the Life business for its individual or group nature, both regressed in premiums, with a sharper drop in group insurances: 12.9% compared to a regression of 1.2% for individuals. Nevertheless, the managed savings of the latter grew 5.3% while the group volume recoiled 1.6%.

Pensions Plans and Funds

For the second straight year, Pension Plans closed out the year positively, with a growth of 6.8%, raising the managed equity to above € 90,000 million (92,413 million). This figure establishes a new historic level of the assets figure for Pension Funds. However, the number of participating

Table 10. Composition of Life insurance by class. Written premiums. Direct insurance

	Premiums		Provisions	
Module	2013	% Variation	2013	% Variation
Individual	19,191	2.5	102,419	5.9
Group	3,246	-14.8	40,253	-2.1
Unit Linked	3,068	-17.0	18,938	3.3
Total	25,505	-3.0	161,610	3.5
Risk	3,346	-4.6	5,250	-3.0
Long term insurance	4	24.2	6	20.8
Savings/ Retirement	22,155	-2.7	156,354	3.7
Insured Pension Plans	2,941	-16.7	12,786	14.1
Deferred Capital	6,324	-1.6	40,124	-0.1
Annuity	7,935	5.3	80,170	2.9
Individual Systematic Savings Plans (PIAS)	1,887	18.8	4,336	36.3
Unit Linked	3,068	-17.0	18,938	3.3
Total	25,505	-3.0	161,610	3.5

Millions of Euros
Source: ICEA

accounts dropped to 10 million, with a decrease of 3.2%, and none of the systems had a positive performance, contrary to the managed equities, which grew without exception.

There was a generalized improvement in financial markets throughout 2013, linked primarily to more expansionary monetary policies in some developed countries. This enabled Pension Plans to offer excellent yields in all their categories and systems, where 8.4% was the average obtained by the plans overall. Within the Individual System, the Equity and Mixed Equity portfolios are particularly significant, with annual returns of 22.2% and 12.5%, respectively. Employment System Plans reached a yield of 7.7% in 2012.

Accumulated net contributions in the year tripled last year's figures, with the funds from the individual system performing especially well.

Within the Pension Plans of the Individual System, only the Short-Term Fixed Income assets recoiled in volume, while increases in Mixed Equity (49.4%) and Equity (24.8%) were particularly noteworthy.

Mutual Funds

Activity in the Mutual Funds industry in 2013 has entailed a turning point of the negative trend during the last six years. The industry closed out the year with an capital boost of 25.8%, and 13.9% in unit holders, placing its managed equity at € 122,328 million and raising the investor figures for this sort of product above five million (5,102,948 unit holders).

The average yearly yield for the total for funds was 6.4%, exceeding the historic record hit the year before, with highly satisfactory values for all categories, particularly the Equity Funds, both International (between 20% and 28%) and National (28.1%). Likewise worthy of mention for their weight on the total are the yields attained by the Guaranteed Funds for Fixed Yield (4.8%) and Variable Yield (5.7%).

The positive underwritings entailed the entrance of 23,000 million, mostly concentrated in two categories: Short-Term Fixed Income and Passive Management.

Among all Investment Funds, three fourths were able to increase their business volume while only three regressed in presence: Mixed Equity and the two Guaranteed modules. Among the best performers were Passively-Managed Funds and National Equity Funds with an increase of 425% and 94%, respectively. Guaranteed Funds modules were among the families with the worst performance, losing 13% of their equity overall (€ 6,430).

Preview 2014

Turning to Life-Risk Insurance, opportunities should focus on the sale of Life insurance not linked to loans, so long as the credit activity shows no signs of recovery, seeking a more reflexive sale regarding the needs of the clients.

In connection with Savings-Retirement products, Life Insurance should benefit from the Spanish population's increased need to insure retirement with products that provide security and yield, and others that likewise offer liquidity for cases in which the situation requires an availability of funds. In this regard, the Individual Systematic Savings Plans (PIAS) may find a gap between the Insured Pension Plans (PPAs) and Pension Funds to be a further real retirement alternative. Additionally, lower returns from bank deposits will prompt competition with insurance having medium or long term investments.

The consensus of financial analysts regarding Spain is that it will emerge from recession in 2014, though growth will be moderate. This recovery context will help continue improving the savings of Spanish families gradually. The greater stability of the financial markets, together with a growing understanding of the need for savings to plan for retirement have been very important supports for the pension fund sector.

In the second half of the year, the Social Security Administration is expected to send individualized information to persons older than 50 that will include an estimate regarding their future right to ordinary retirement in addition to the rights derived from other complementary instruments contemplated in retirement legislation.
This information will entail an important awareness-raising mechanism regarding the relation between the current salary and the corresponding future pension and thus create greater understanding of supplementary social prevision systems.

The same context of continuity in the process of improving the country's economy will also contribute to greater stability of financial markets, which would entail solid support for the investment funds sector, though not for all families. Guaranteed and Monetary Funds will become less attractive given their low yield rates.

The most recent report drawn up by Inverco regarding Spanish Family Savings is a reminder that only 7% of savings are destined to mutual funds, a figure that is particularly low compared with the average in the remaining European countries, compared to 48% destined to other more liquid assets, such as bank deposits.

4.2. Motor

The premium volume issued in Motor insurance during 2013 was € 10,022, representing a decrease of 5.5% compared to the previous year. The attached table reveals that the premium volume for this line has been regressing since the beginning of the economic crisis, which is doubtlessly the source of such persistent contraction. Notwithstanding the above, Automobile insurance remains as the largest Non-Life business line, representing 33.1% of the premiums total.

Among the effects of the economic crisis that negatively affect the performance of Automobile insurance, the drop in employment and available income to families are prominent, as they reduced vehicle usage and increased the demand for cheaper insurances with less coverage. During 2013, the consumption of automotive fuel faltered 3.7%, and the number of insured vehicles decreased 0.4%, the sixth straight year in which both indicators fell (though not all automobile-related indicators were unfavorable: the number of registered vehicles increased by 3.1% in 2013). This situation has contributed to maintaining a firm competition in premiums that has characterized the sector in recent years, consequentially causing yet another drop in the average premium for the ninth straight year, as the 2013 value was € 351, which is 5.1% less than 2012.

The combined ratio rose slightly over one point in 2013 to 98.4%, as a consequence of an increase in gross expenses (increasing slightly more than one point to 20.0%) and a slight increase in the gross claims ratio (which increased one tenth to 77.2%). This worsening of the technical result was offset with an improvement of the financial result, which grew 1.2 points to 4.5%, resulting in a financial-technical result that was slightly more than the figures attained in 2012 (6.1%).

Table 11. Basic indicators of Automobile insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	10.607	10.022
% Variation in premium volume	-5.9	-5.5
Retention	94.9	92.3
Gross claims ratio	77.1	77.2
Gross expenses	18.9	20.0
Net claims ratio	78.3	78.1
Net combined ratio	97.3	98.4
Financial result	3.3	4.5
Technical -Financial result	5.9	6.1

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

Table 12 . Progress of average car premium

Year	Insured vehicles (1) Millions	% Var.	Direct insurance premiums (2) Millions of €	% Var.	Average premium €	% Variation Nominal	Real
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	-6.4

(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

For another year, the claims frequency did not improve in any guarantee and even receded slightly in some of them, since vehicles were used less and road safety was improved (in fact, 2013 set a record for the least number of road deaths since the 1960s, when statistics in this regard were compiled). The largest reduction, of nearly 3%, was in Own Damages, which otherwise continued with the highest frequency of all the guarantees (41.3%). This reduction can be justified due to a larger proportion of insurance with deductibles in the market, with a lesser frequency than Own Damages with no deductibles. The claims rate of the remaining guarantees continues under 10%.

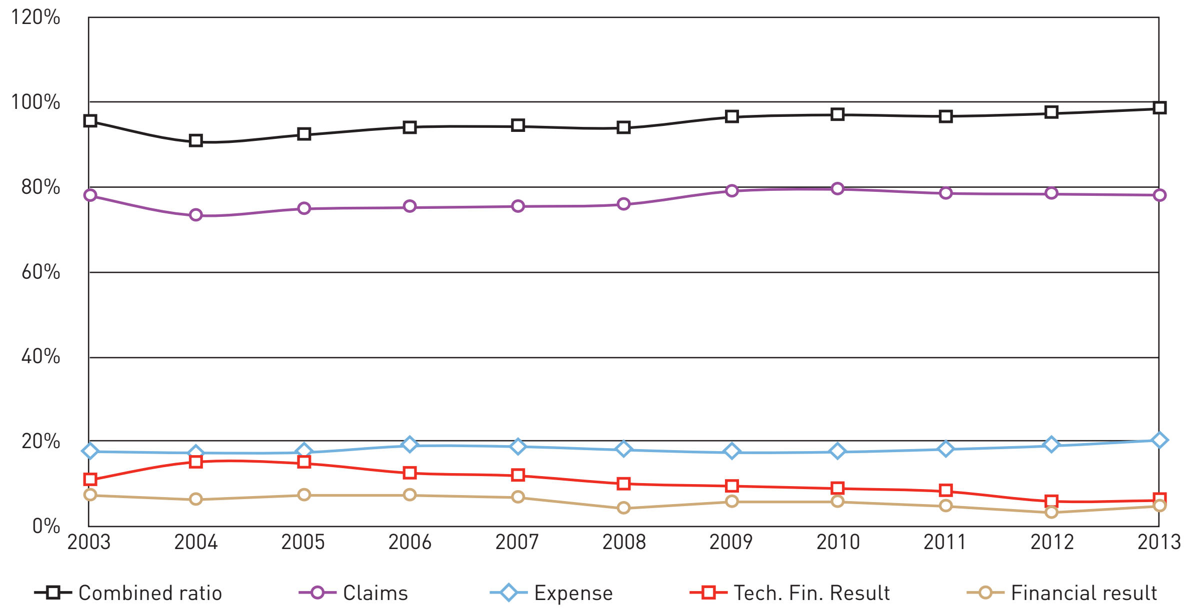
Table 13. Average frequencies and costs by guarantees

Guarantees	Frequency (%) 2012	2013	% Diff.	Average cost (euros) 2012	2013	% Var.
Third-party liability	9.3	8.6	-0.68	1,761	1,850	5.1
Bodily injury	2.0	2.0	0.03	4,939	4,821	-2.4
Property	7.6	7.4	-0.17	868	855	-1.6
Own damage	44.2	41.3	-2.96	713	700	-1.8
Broken Windows	6.7	6.7	0.05	286	290	1.5
Theft	1.3	1.2	-0.11	919	885	-3.8
Legal defense	1.8	1.8	0.00	286	290	1.6
Occupants	0.3	0.3	-0.02	1,259	1,207	-4.1
Fire	0.06	0.06	0.00	3,075	2,832	-7.9
Revocation of driving license	0.03	0.03	0.00	1,627	1,461	-10.2

Source: ICEA

Regarding the average cost, there were drops in almost all guarantees, with Third-Party Liability, Broken Window and Legal Defense as the sole exceptions. The largest average cost attained the value of € 4,821 in the guarantee of Third-Party Bodily Injury Liability. The rise in the average cost of Third-Party Liability was due to the slight upturn of frequency in personal damage with a descent in property damage, which outweighs the proportion of both in the two years.

Figure 14. Progress of the result in the Automobiles line. % over net earned premiums



Source: Based on data from ICEA

Preview 2014

According to ICEA data, the premium volume registered during the first quarter of 2014 was € 2,588 million, which represents a 3.2% drop compared with the same period last year. While the contraction continues, it is nevertheless more subdued than in 2012, which was -6.9%. The ICEA data for April 2014 confirmed the tempering of the descent to -2.6%, compared with -5.6% at the end of 2013.

A gradual improvement is expected from the data for premiums issued throughout the year, also linked to the positive estimate of the variables related with the Automobile premiums:

- Improved GDP estimates
- Improved vehicle registration and relation with the average premium.
- The degree of competitiveness among companies was tempered as the combined ratio deteriorated.

A moderate growth in frequency is expected for 2014, linked to the forecast of an improved GDP and the increase observed in fuel consumption and, therefore, the forecast of greater vehicle use.

The sector continues working to define the new Automobile Rate. It has made significant progress in 2013 and the Group of Experts has submitted their proposal to the General Directorate of Insurance and Pension Funds. The pre-legislative stage has begun and, in 2014, the economic impact on personal damage compensation should be finalized. The expansion of the Extraordinary Risks from Consorcio de Compensación de Seguros (CCS) to SOA (mandatory accident insurance) would be a positive measure.

The CCS, National Traffic Division (DGT) and UNESPA have initiated a project for updating the current Insured Vehicles Database (FIVA). The goal is to improve the quality of the information and have insurance information available in real time.

4.3. Multi-Peril

For the first time since the outset of the economic crisis that affected this business very unfavorably, the Multi-Peril line has registered a contraction in its premium volume (-1.4%) in 2013, attaining € 6,537 million. By modules, the premium volume has a slight rise (0.4%) in the largest module, Home, which concentrated 57.8% of the premiums, and also in the Communities module (1.1%), which has a share of 12.6%. However, premiums decreased in the modules of Industrial Multi-Peril (-5.9%) and Commerce (-4.7%), which accumulate 19.4% and 9.1% in the market, respectively.

According to the data published by the ICEA, the number of policies barely grew by 0.4% in 2013, nearly the same as the previous year. Cancellations grew in all modules, reaching 15% in Home and Communities, and nearly 25% in the rest. Insurance agents and brokers continue being the main distribution channels with a share of 72.8% though alternative channels increased their importance gradually.

Multi-Peril insurance continues as the third largest line in Non-Life insurance, with a market share of 21.6%, only behind Automobiles and Health.

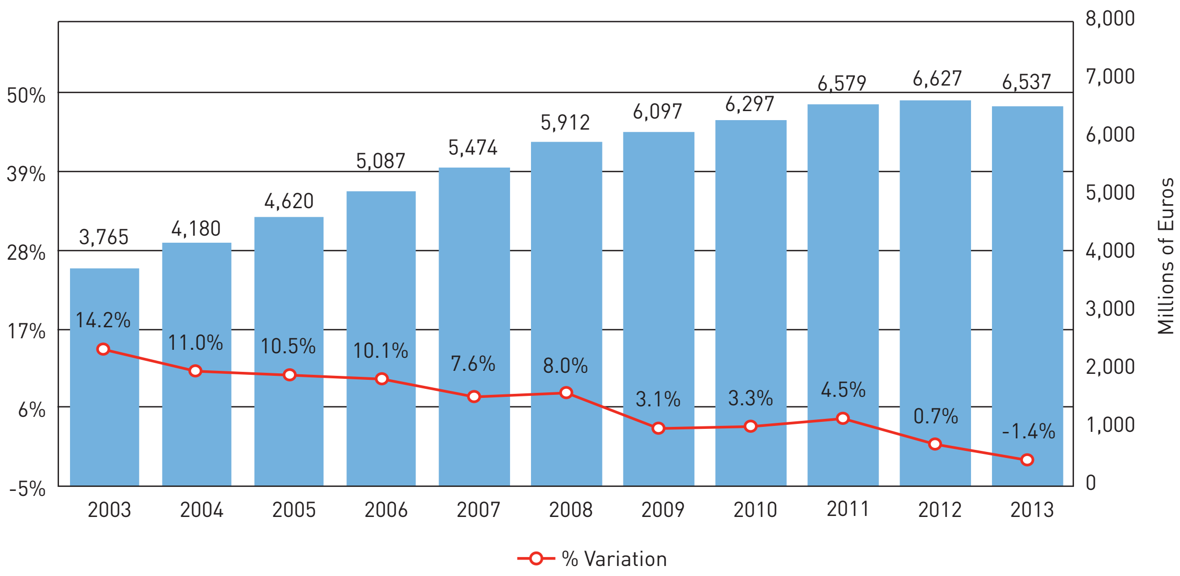
The technical-financial result dropped nearly one point compared to the previous year to 11.3% as a result of the deterioration in the combined ratio, following an increase in the claims ratio that could not be offset by improved financial results.

Table 14. Basic indicators of Multi-peril insurance

Basic Indicators (% of premiums)*"	2012	2013
Vol. Premiums Issued (1)	6,626	6,537
% Variation in premium volume	0.7	-1.4
Retention	79.9	79.6
Gross claims ratio	57.2	58.9
Gross expenses	28.0	28.4
Net claims ratio	59.9	61.3
Net combined ratio	90.2	92.2
Financial result	2.4	3.5
Technical -Financial result	12.2	11.3

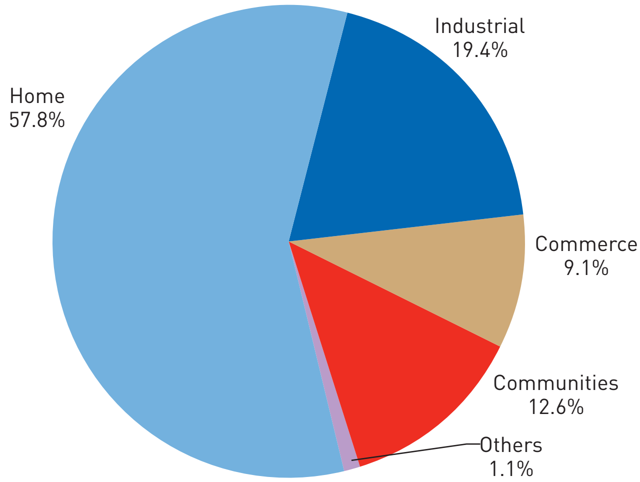
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of Euros
Source: based on data from ICEA

Figure 15. Multi-peril Performance. Written premiums. Direct Insurance



Source: ICEA

Figure 16. Distribution of Multi-peril premiums by module



Source: ICEA

Preview 2014

The Multi-Peril Insurance premium volume registered during the first quarter of 2014 was € 1,760 million, down 1% against the same period of last year. By modules, only Home increased (1.6%), while there were decreases in Industrial (-6.7%), Commerce (-2.4%), Communities (-0.2%) and Other Multi-Peril (-14.8%).

4.3.1. Home Multi-Peril

The Multi-Peril Home Insurance premium volume registered in 2013 was € 3,779 million, with a slight increase of 0.4% compared with last year. The line is immersed in a pricing war, with intense competition between companies and an increase in cancellations.

The slump in the banking channel has negatively marked the performance of the premium issuance for the Home line in 2013, given the credit restrictions affecting the Spanish economy. The Administrative cutbacks in public housing insurance have also influenced the line, where calls for tenders have disappeared or published with downward trending premiums.

The technical-financial result dropped eight tenths to 10.8% as a result of an increase in claims ratio of over one point, partially offset by a slight improvement in the financial result. The downturn in claims ratio and the eroding results in 2013 can be explained from the following reasons:

- 2013 was a year of more intense atmospheric phenomena compared with the previous year.
- A greater use has been made of the services that companies had incorporated into their policies.

Compared with 2014, the issuance of premiums continues to be hit hard by the weakness of the retail business and the applied CPIs, which are around 0% on most maturities.

In the long term, the industry has confidence in the measures taken in June 2014 by the Central European Bank to stimulate bank credit and its repercussion in the real estate sector.

Table 15. Basic indicators of Home Multi-peril insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	3,763	3,779
% Variation in premium volume	3.0	0.4
Retention	91.6	90.4
Gross claims ratio	57.7	59.0
Gross expenses	31.8	32.0
Net claims ratio	58.8	60.0
Net combined ratio	90.5	92.2
Financial result	2.1	3.0
Technical -Financial result	11.6	10.8

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

4.3.2. Industrial Multi-Peril

The premium volume of the Industrial Multi-Peril insurance decreased in 2013 by 5.9%, totaling € 1,265 million. For yet another year, the contraction was linked with the particularly unfavorable effects of the economic crisis on insurance of this sort.

This decrease appeared primarily for three reasons:

- Aggressive adjustments in renewals by insurance companies to maintain the portfolio policies.

- The practice by clients of switching companies in search of lower pricing without considering the service and coverage of the policies.

Technical-financial result dropped over three points 1.4% as a result of an increase in claims ratio, which likewise raised the combined ratio by 4.6 points to 103.4%.

Intense competition and a price war, with an important reduction in the portfolio premium, have brought the sector to an increase in claims ratio, resulting in companies beginning to establish strict remediation measures to correct these results.

Regarding coverages and services, the market situation conditions no incorporation of new services or guarantees, since the premium influences clients' decisions above the overall scope of protection afforded by the insurer.

Table 16. Basic indicators of Industrial Multi-peril insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	1,344	1,265
% Variation in premium volume	-5.4	-5.9
Retention	50.4	50.8
Gross claims ratio	59.1	62.4
Gross expenses	19.7	19.8
Net claims ratio	70.9	74.7
Net combined ratio	98.8	103.4
Financial result	3.4	4.8
Technical -Financial result	4.5	1.4

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

4.3.3. Commerce Multi-Peril

The premium volume for Commerce Multi-Peril insurance category decreased by 4.7% in 2013 to € 596 million. Together with Industrial Multi-Peril, this module has been the most affected by the effects of the crisis in the country's manufacturing and commercial fabric.

The Commerce line diminished its figures compared with the previous year. Despite the foregoing, the increase in new production policies is positive, albeit with a lower average premium on the market that ultimately causes a negative issuance ratio.

The technical-financial result improved by one and a half point to 19.7%, primarily due to an improved financial result. The combined ratio held virtually steady in comparison with the previous year (dropping two tenths).

In view of 2014, no substantial changes are expected in terms of issuance. The approach in products offered by the sector to the self-employed segment is noteworthy.

Regarding claims and results, ratios are likely to take a downturn due to the impact of the reduction in the average premium, commented above.

Table 17. Basic indicators of Commercial Multi-peril insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	625	596
% Variation in premium volume	-3.6	-4.7
Retention	86.1	85.5
Gross claims ratio	53.6	53.7
Gross expenses	30.1	30.1
Net claims ratio	54.7	54.3
Net combined ratio	84.4	84.2
Financial result	2.6	3.8
Technical -Financial result	18.2	19.7

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

4.3.4. Communities Multi-Peril

The premium volume for Communities Multi-Peril insurance category increased by 1.1% in 2013 to € 823 million. Similar to Home insurances, premiums have continued increasing during the crisis, yet with a downward trend.

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 even the average premium has increased because companies are now entering into risk segments that were previously blocked.

Technical-financial result dropped one and a half point to 20.5% as a result of an increase in the claims ratio of approximately three points, partially offset by a slight improvement in financial result.

Similar to the Home sector, the atmospheric phenomena arising in 2013, more active than in 2012, have led to a higher claims ratio and therefore a drop in the results that the financial result could not offset.

Table 18. Basic indicators of Communities Multi-Peril insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	815	823
% Variation in premium volume	2.6	1.1
Retention	86.7	86.4
Gross claims ratio	51.2	54.5
Gross expenses	28.0	28.2
Net claims ratio	52.5	55.2
Net combined ratio	80.7	83.3
Financial result	2.7	3.8
Technical -Financial result	22.0	20.5

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

The forecast for 2014 entails minimum gains in issuances for this line because of progress in the commercial business during the first quarter and the CPIs published to date.

Historical results series

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

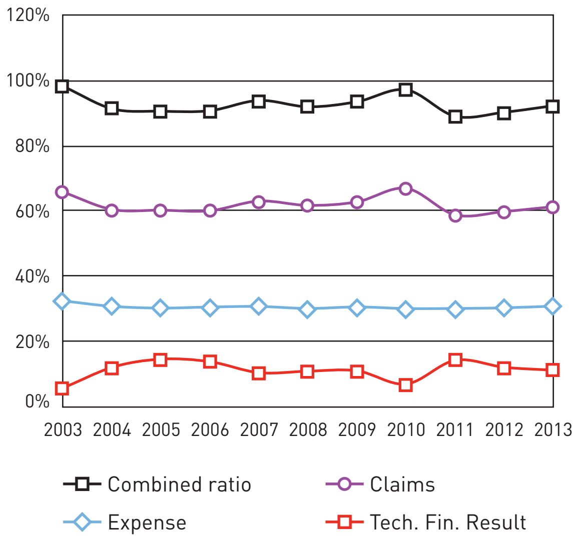
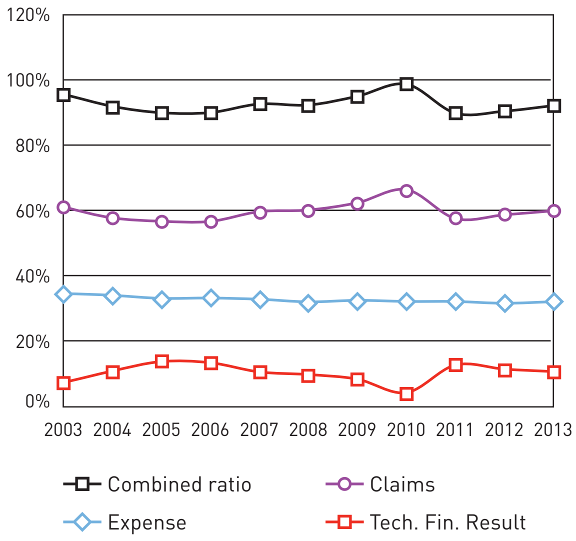
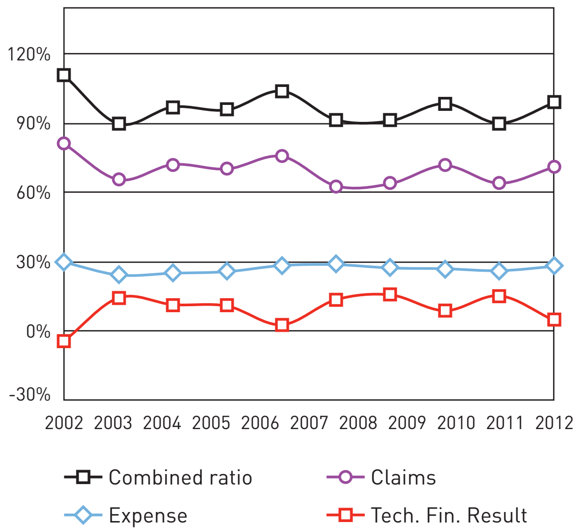


Figure 18. Progress of the result of the Home Multi-Peril line. % over net earned premiums



Source: Based on data from ICEA

Figure 19. Progress of the result of the Industrial Multi-Peril line. % over net earned premiums



Source: Based on data from ICEA

Figure 20. Progress of the result of the Commerce Multi-Peril line. % over net earned premiums

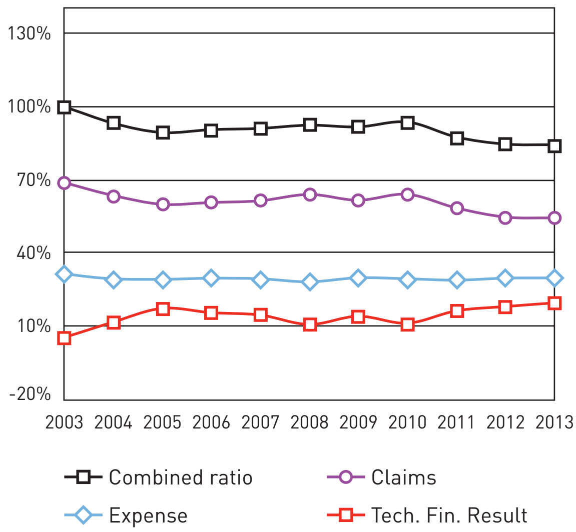
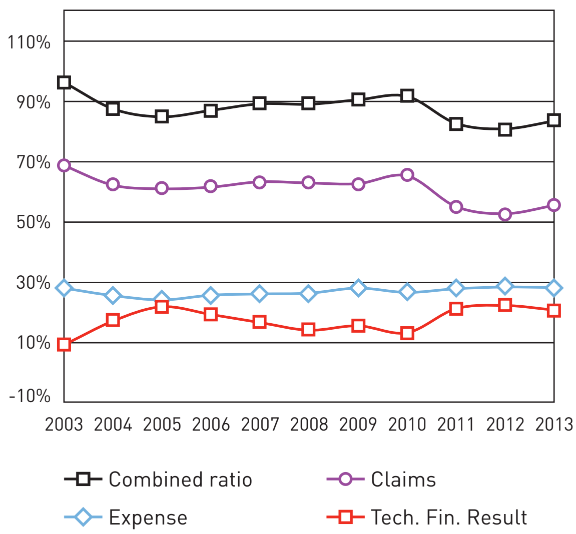
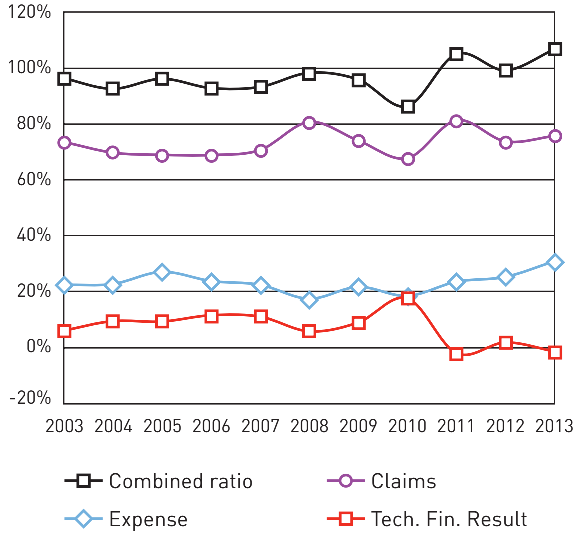


Figure 21. Progress of the result of the Communities Multi-Peril line. % over net earned premiums



Source: Based on data from ICEA

Figure 22. Progress of the result in the Other Multi-peril line. % over net earned premiums



4.4. Health

Health Insurance recorded a premium volume of € 6,902 million in 2013, with a growth of 1.7% from the premium volume attained in 2012. The line continues its positive growth with a slight deceleration compared with the previous year, in which growth was 2.9%. The number of insured parties had a slight upturn of 0.4% to exceed 10.4 million insured.

The largest module continues being Healthcare Assistance, which accounted for 78.9% of the total insured. This module was the sole one to grow in 2013 for premiums (2.9%), number of insured parties (1.7%) and amount of paid services (4.7%). The modules Subsidies and Compensations (14.5% of total insured) and Expense Reimbursement (6.5%) had a drop in premiums (-5.5% and -2.7%, respectively), number of insured parties (-3.1% and -1.3%) and amount of services paid (-7.8% and -0.04%). For yet another year the Healthcare Assistance module continues being the growth driver for the line.

The growth of the line was due to group insurance, in which the number of insured parties (non mutual) increased by 6.2% and the premiums rose by 4.8%. For individual insurance, the number of insured parties decreased by 1.5% and the premiums rose by 1.0%.

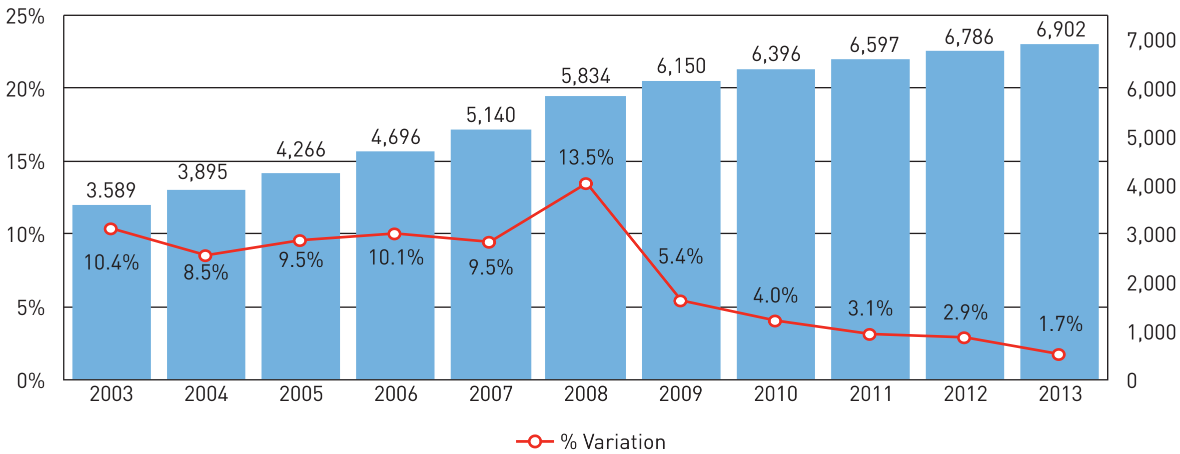
The table of basic indicators shows a small downturn in claims ratio and expenses, causing the combined rate to rise a point. This increase, partially offset by a slightly improved financial result, has made the technical-financial result drop six tenths to 4.9%. One of the main factors behind this fall in results is the generalization of group policies as a means to capture insured parties by companies, which means premiums per insured party that are cheaper than normal even though service costs do not drop (increasing 3.96 % in 2013).

Table 19. Basic indicators of Health insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	6,786	6,902
% Variation in premium volume	2.9	1.7
Retention	97.7	97.6
Gross claims ratio	82.7	83.1
Gross expenses	11.4	11.7
Net claims ratio	83.8	84.5
Net combined ratio	95.2	96.2
Financial result	0.8	1.1
Technical -Financial result	5.5	4.9

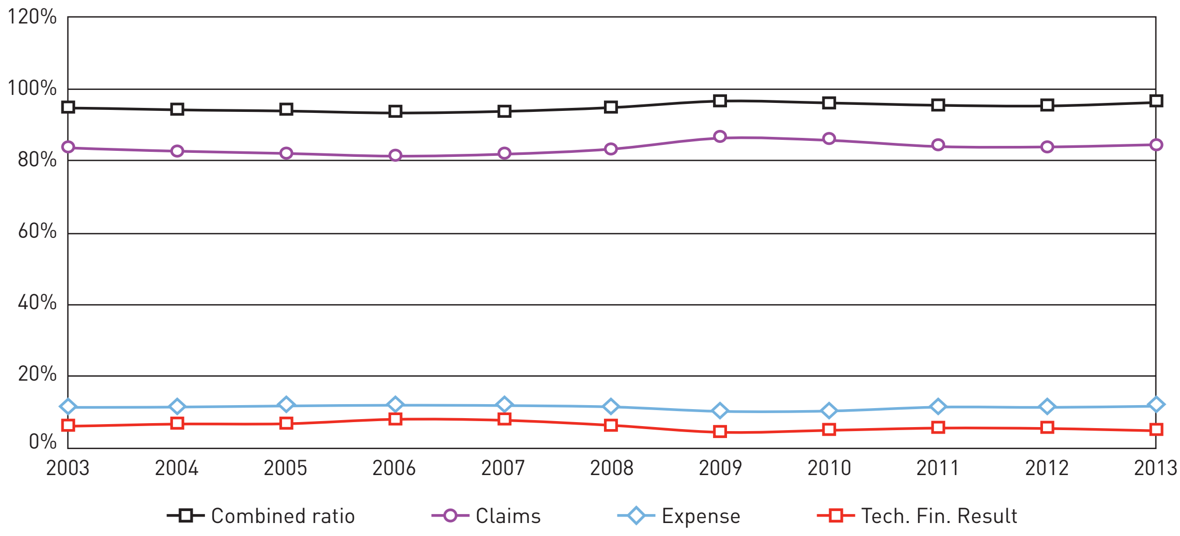
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of Euros
Source: based on data from ICEA

Figure 23. Health Performance. Written premiums. Direct Insurance



Source: ICEA

Figure 24. Progress of the result in the Health line. % over net earned premiums



Source: Based on data from ICEA

Preview 2014

The Health Insurance premium volume registered during the first quarter of 2014 was € 1,902 million, which represents a 3.0% gain compared with the same period last year. By modules, there was growth in Healthcare Assistance (3.4%) and Expense Reimbursement (2.4%) while Subsidies and Compensations shrunk 6.5%.

The combined ratio has risen a half point in 2013 to 93.5%, caused by a rise in the claims ratio of almost two points, partially offset by a drop of more than one point in expenses. They continue being high because of the elevated costs of acquisition in this line. Financial result decreased by seven tenths and the technical-financial result was reported at 12.7%, which is 1.1 points less than the previous year.

4.5. Burial Insurance

The premium volume of Burial insurance increased by 3.7% during 2013, reaching € 1,961 million. This growth was partly due to the rise in VAT of funeral services applied in September 2012, prompting an increase in premiums during the ensuing months. A further contributing factor to this growth was the performance of the natural-seminatural-mixed premium modules (14%) and the single premium module (25.6%). These modules represent 14.1% of the issuance for the line, up from 12.8% one year earlier

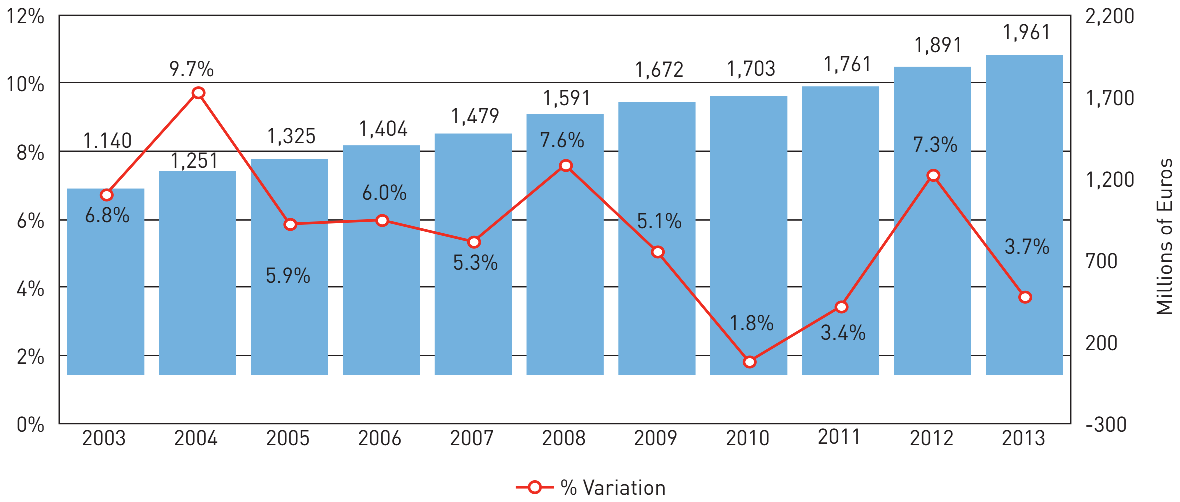
Funeral Insurance continues to be strongly rooted in our country, with over 20 million insured parties. The number of policies has grown by 1.6% in 2013 to 7.5 million. There are, however, significant differences among the regions: while over 60% of the population in Extremadura and Asturias is insured, this figure drops to approximately 20% in Navarra and the Balearic Islands.

Table 20. Basic indicators of Funeral insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	1,891	1,961
% Variation in premium volume	7.3	3.7
Retention	98.9	99.0
Gross claims ratio	55.2	56.9
Gross expenses	37.5	36.4
Net claims ratio	55.4	57.2
Net combined ratio	93.0	93.5
Financial result	6.8	6.2
Technical -Financial result	13.8	12.7

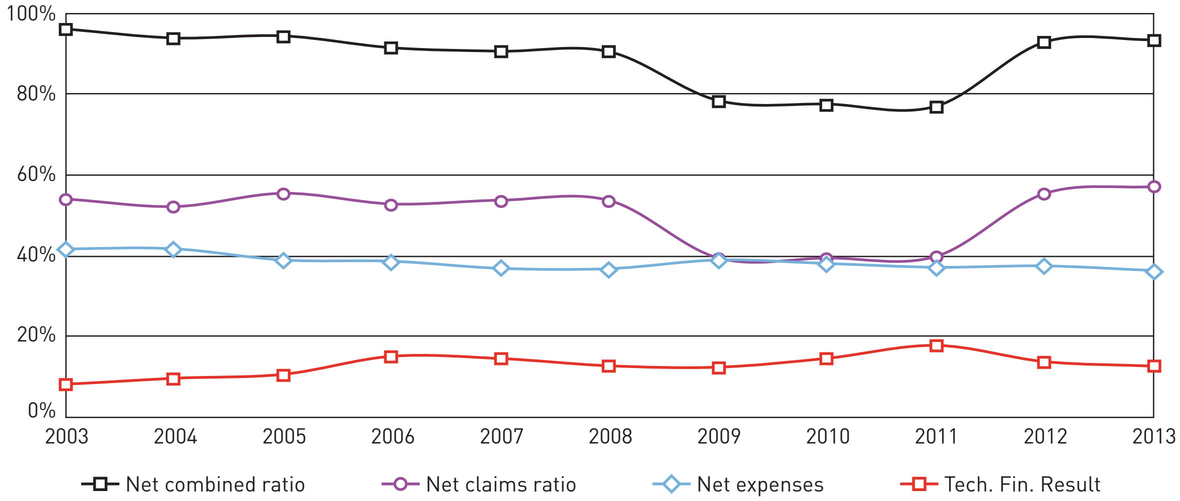
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of Euros
Source: based on data from ICEA

Figure 25. Funeral Performance. Written premiums. Direct Insurance



Source: ICEA

Figure 26. Progress of the result in the Funeral line. % over net earned premiums



Source: Based on data from ICEA

Preview 2014

According to data published by the ICEA, the premium volume registered for Funeral Insurance during the first quarter of 2014 grew 4.8% compared with the same period last year.

4.6. Third-Party Liability

Following the downward trend over the last five years, the premium volume for the Third-Party Liability line is heavily affected by the economic crisis.

The difficult challenges facing Spanish companies, particularly in the real estate and construction sector, have caused a sustained downturn in premiums during recent years. Premiums have also been affected by the drop in invoicing volumes.

Analyzing the results of the line, the most significant figure is the rise in the claims rate,

Table 21. Basic indicators of Third-party Liability insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	1,448	1,352
% Variation in premium volume	-5.4	-6.6
Retention	72.5	71.8
Gross claims ratio	39.1	51.5
Gross expenses	24.8	25.6
Net claims ratio	37.3	50.8
Net combined ratio	63.6	78.2
Financial result	7.1	12.4
Technical -Financial result	42.8	34.2

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

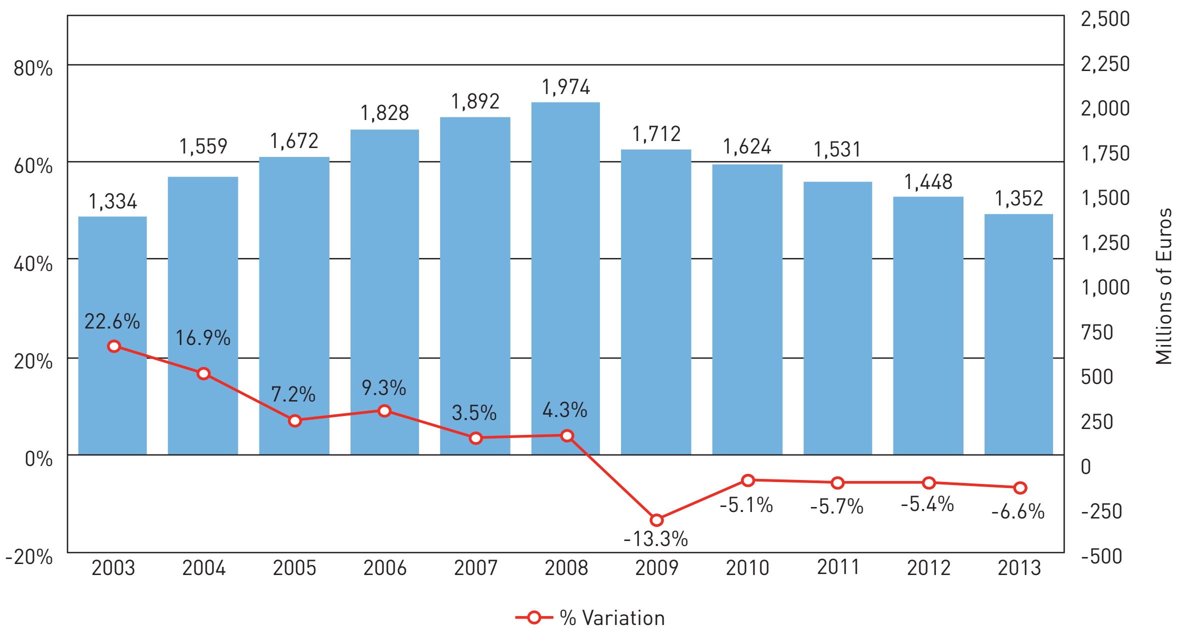
which jumped by over twelve points compared with 2012. Claims, particularly in Profession Third-Party Liability, will make the adoption of corrective measures necessary, since when corporate activities returns to normal levels, the claims ratio will most likely continue withstanding a certain deterioration. It should be borne in mind that the claims ratio data for the previous year was especially benevolent, dropping by fourteen points in comparison with claims ratio in 2011, and this year the line has found itself at a level similar to that of 2011.

The combined ratio increased considerable, chiefly prompted by the increase in the claims ratio, but also by the slight upturn in expenses. As a consequence of the foregoing, the result, while excellent, was nevertheless somewhat affected and settled at 34.2%.

In short, performance in 2013 was similar to recent years, but “corrected and augmented” in a scenario of generalized internal sluggishness, which requires Spanish companies to extend their activities to other markets.

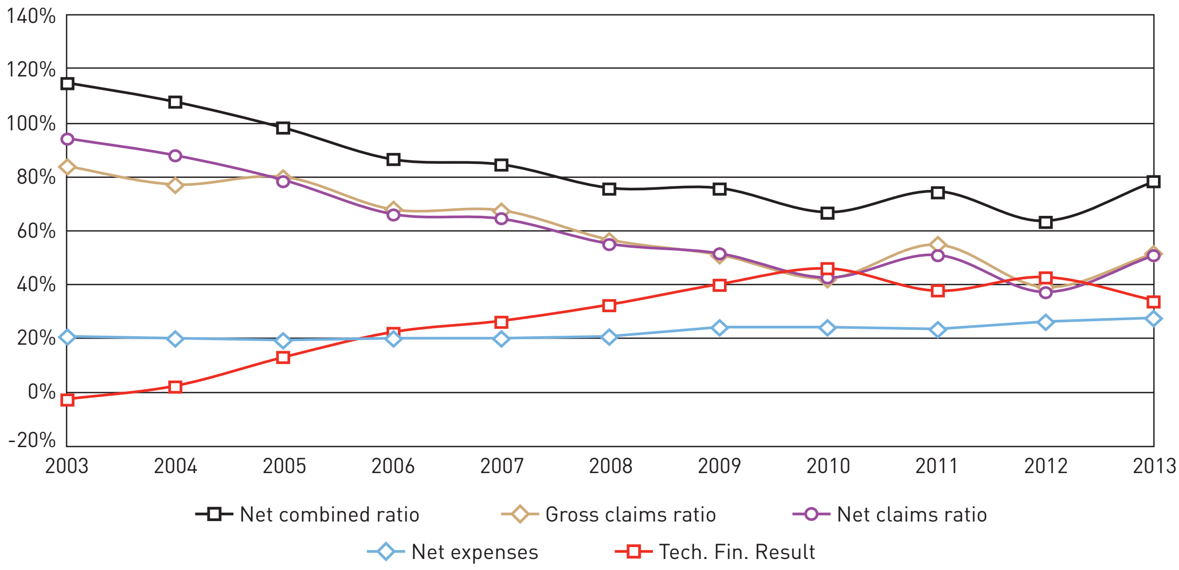
Turning to corresponding legislation, there is no particular news in 2013 affecting insurance besides the project to amend the Environmental Responsibility Act and its Regulations, while postponing the obligation to contract the financial guarantee stipulated in the cited Act.

Figure 27. Third-Party Liability Performance. Written premiums. Direct Insurance



Source: ICEA

Figure 28. Progress of the result of the Third-party Liability line. % over net earned premiums



Source: Based on data from ICEA

Preview 2014

The data for the first quarter of 2014 show a year-on-year variation of -3.7% compared to -8.5% from the previous year. This slight improvement was the result of the increase in Professional Third-Party Liability premiums buttressed by public contracts, causing the accrued premium accumulated in the Third-Party Liability sector to grow in the first quarter.

4.7. Personal Accidents

The premium volume issued in the Accidents line during 2013 was € 825 million, down 3.2% compared to the previous year. This is the fifth straight year of reductions in the premiums for this line.

There was a deterioration in the technical result in 2013, with an increase in the claims ratio that has worsened the combined ratio by nearly four points. However, the technical-financial result grew excellently to 35.3% from an increase of 7.5 points in the financial result.

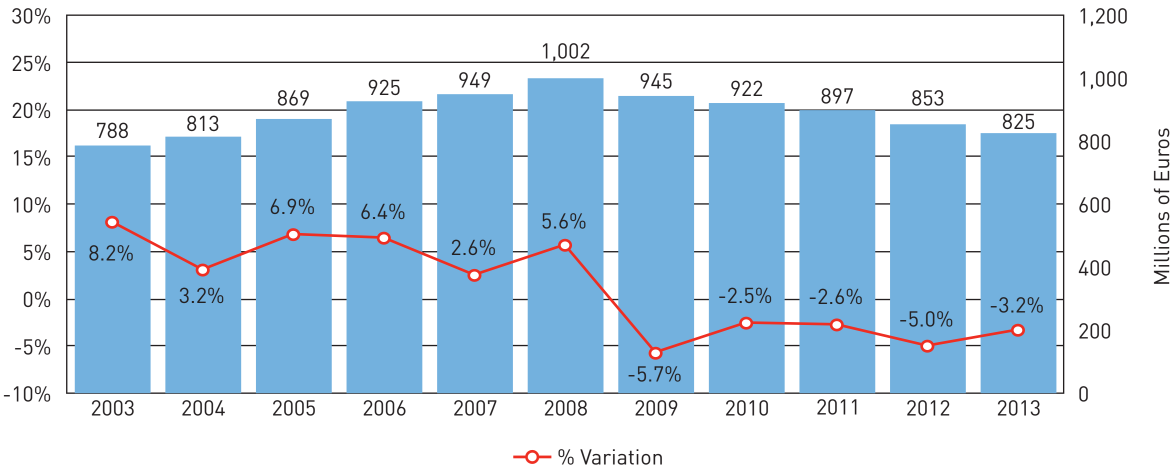
The good technical-financial result and the growing competition in the line has made companies maintain a downward looking review process in renewing portfolios that began in previous years, and thus, together with a still weak demand, explain the continued fall in the issuance figures, although with gradually lower rates.

Table 22. Basic indicators of Accidents insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	853	825
% Variation in premium volume	-5.0	-3.2
Retention	89.7	90.1
Gross claims ratio	32.7	40.3
Gross expenses	37.7	36.3
Net claims ratio	33.7	39.3
Net combined ratio	72.2	76.0
Financial result	3.8	11.3
Technical -Financial result	31.6	35.3

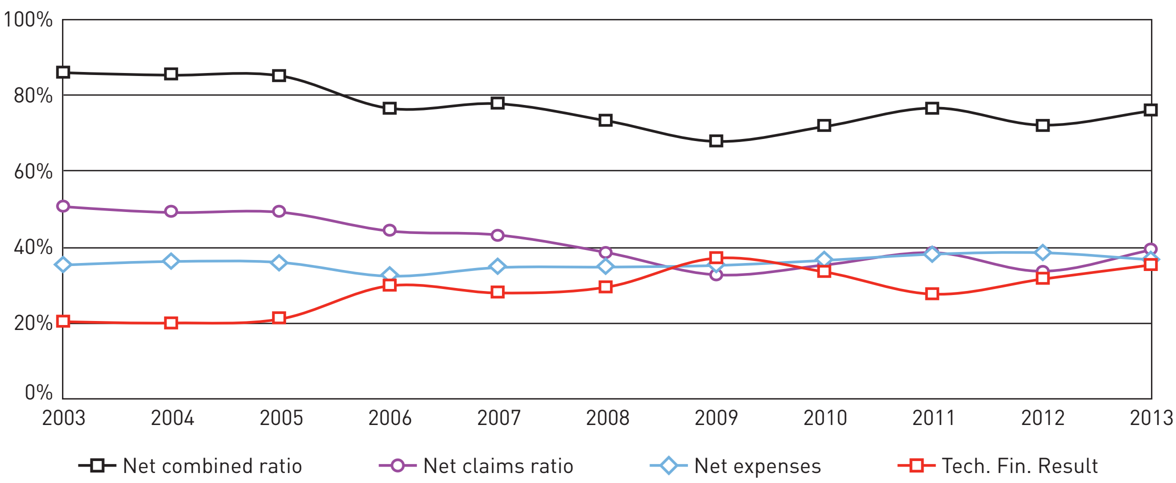
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of Euros
Source: based on data from ICEA

Figure 29. Accidents Performance. Written premiums. Direct Insurance



Source: ICEA

Figure 30. Progress of the result in the Accidents line. % over net earned premiums



Source: Based on data from ICEA

Preview 2014

According to ICEA data, the premium volume registered for the Accidents line during the first quarter of 2014 contracted 1.5% compared with the same quarter last year. The premium volume thus continues declining, though at a more subdued rate (-4.2%) than the first quarter of 2013.

These data confirm a certain process of improvement regarding the issuance of premiums in this line, recovering progressively to pre-crisis demand levels, notwithstanding the highly competitive environment that this causes, which slows down the recovery of the overall issuance figures.

4.8. Credit

For the fifth straight year, Credit insurance premiums have experienced a setback compared to the previous year, amounting to 4.7% in 2013. Data from the fourth quarter of 2013 confirms the expectations of a sustainable recovery notwithstanding the weak economic situation.

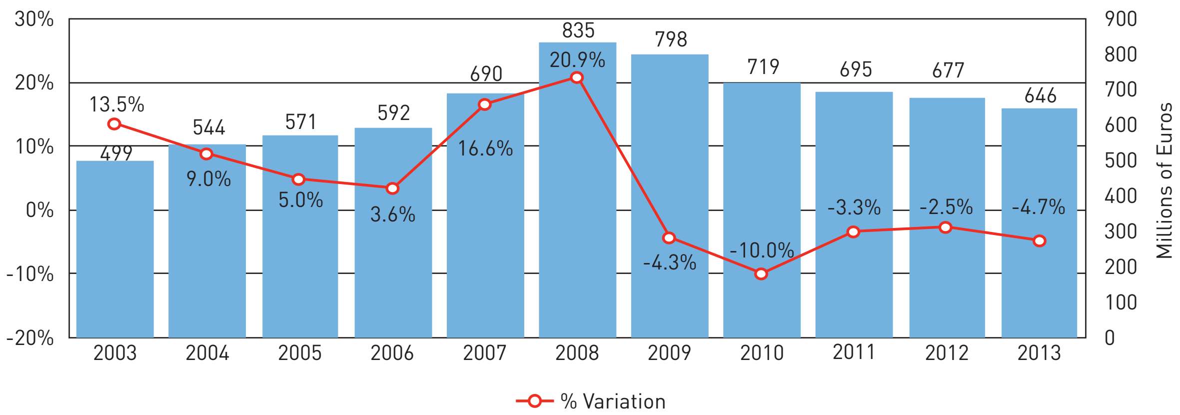
Table 23. Basic indicators of Credit insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	677	646
% Variation in premium volume	-2.5	-4.7
Retention	53.2	46.3
Gross claims ratio	81.4	70.5
Gross expenses	20.9	21.8
Net claims ratio	87.8	68.8
Net combined ratio	107.0	90.9
Financial result	5.8	6.0
Technical -Financial result	-1.2	15.1

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

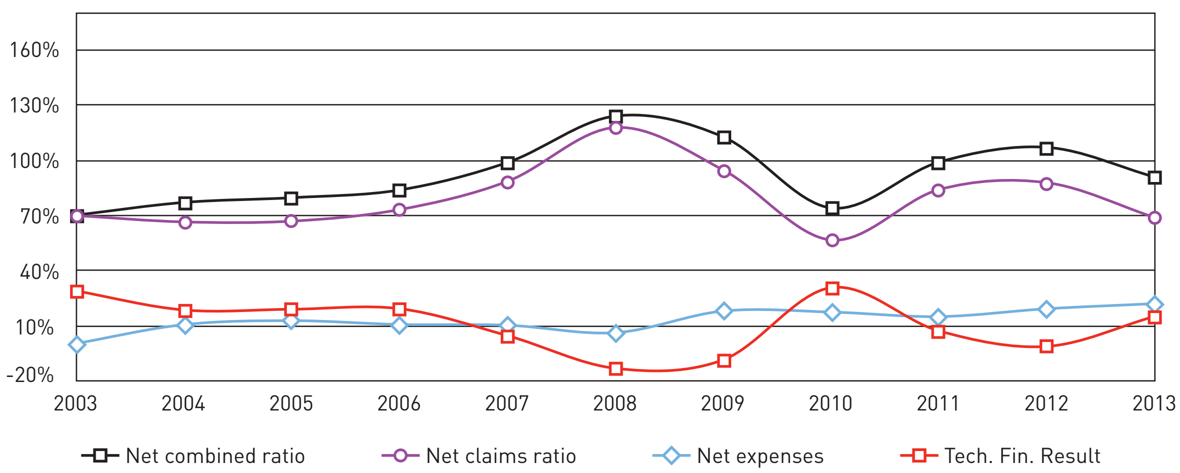
The number of companies declared bankrupt in our country according to the INE has grown by 6.5% in 2013. However, the gross claims ratio in the credit insurance industry dropped 10.9 points to 70.5% in comparison with 2012. The net claims ratio has decreased in equal measure to the gross claims, bringing the combined ratio to 90.9%. 2013 closed with a positive technical result (15.1%) for the industry.

Figure 31. Credit Performance. Written premiums. Direct Insurance



Source: ICEA

Figure 32. Progress of the result in the Credit line. % over net earned premiums



Preview 2014

ICEA data at the end of March reveal a change in the tendencies of recent years, showing a 1.5% growth in premiums, by which a yearly close is expected to fall between 2% and 4%.

Regarding claims, the improved outlook for the economy in 2014 suggests a better gross claims ratio than 2013.

4.9. Surety

With three straight years of decreases, the issuance of premiums in the Surety line has declined by 4.1%. The absolute figure, € 63 million, is the lowest on record in the last 10 years.

There are no news from previous years that would shed light on the causes of this decrease: in Spain, the progress of the Surety line is closely linked to public investment in infrastructure and real estate activity, and none of these two economic sectors has shown signs of recovery in 2013.

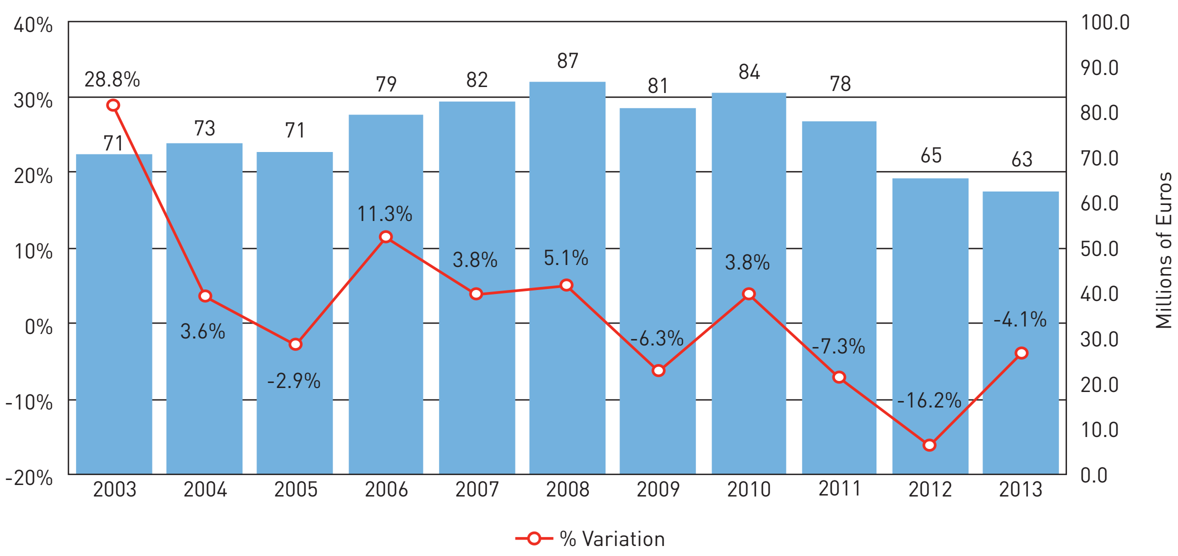
Regarding claims ratio, 2013 has unfortunately outdone the catastrophic figures from the previous years. Gross claims ratio has attained an incredible 535.3% while net claims ratio was 233%. A specific product can be singled out as the fundamental cause, namely targeting housing buyers under a co-op arrangement known in the market as the "Tramo I" (Section I) surety policy. A decision handed down by the Supreme Court regarding the scope of the coverage of this policy has compelled companies marketing it to provide coverage to a number of claims that was much higher than expected with the consequential impact on their accounts.

Table 24. Basic indicators of Surety insurance

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	65	63
% Variation in premium volume	-16.2	-4.1
Retention	47.1	44.5
Gross claims ratio	283.4	535.3
Gross expenses	25.7	28.5
Net claims ratio	199.3	233.0
Net combined ratio	215.4	267.8
Financial result	9.8	3.1
Technical -Financial result	-105.7	-164.7

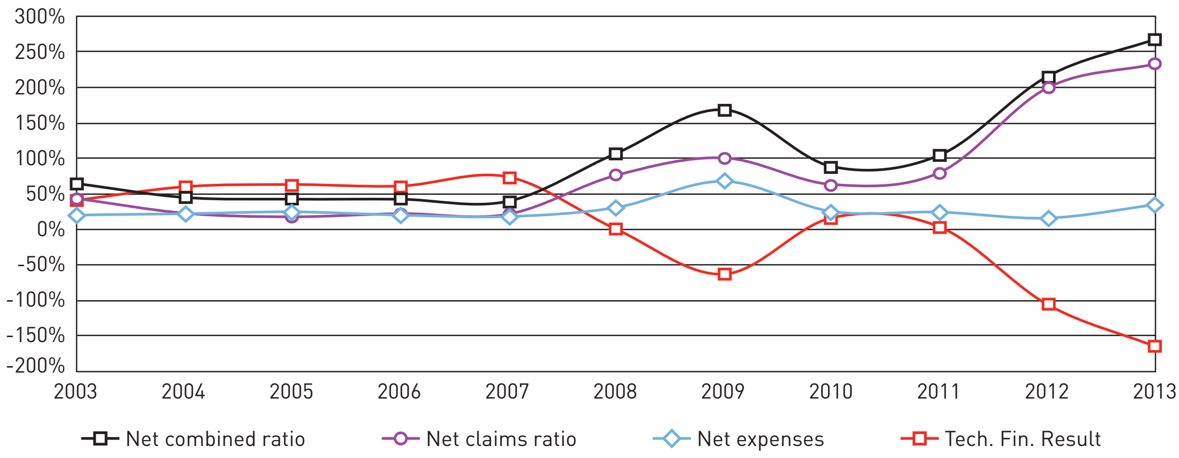
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of Euros
Source: based on data from ICEA

Figure 33. Surety Performance. Written premiums. Direct Insurance



Source: ICEA

Figure 34. Progress of the result in the Surety line. % over net earned premiums



Source: Based on data from ICEA

Preview 2014

The first months in 2014 appear to show a timid recovery in premium levels. For this to become growth, there would need to be signs that the country's economic situation is indeed changing, which would be confirmed at the end of the year.

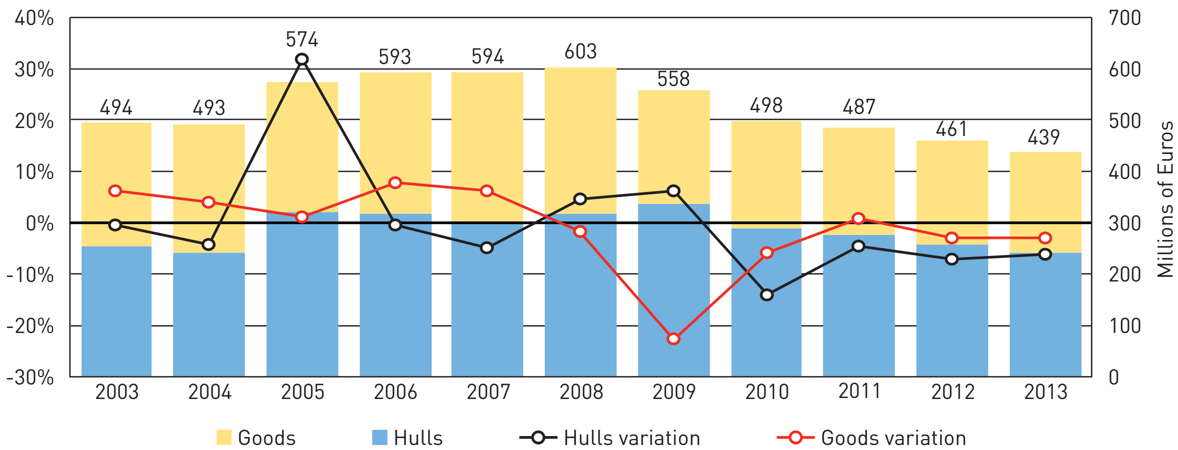
Regarding claims ratio, 2014 should return to figures that are more aligned with the historic yields of the line, since the effects of the real estate crisis and the "Tramo I" product should have mostly been registered in the accounts for 2013.

4.10. Transport

The Transport line ended the year with a trend similar to recent years: a decline in premium volumes collected. This time, the decline was 4.7%, slightly lower than the percentage in 2012, with a premium volume of € 439 million compared to € 461 million in the previous year.

By modules, the descent of premiums in 2013 continued being largest in Hull Insurance (-5.86%), though not with such a notable difference as in 2012, motivated by Aviation Insurance.

Figure 35. Transport Performance. Written premiums. Direct Insurance



Source: ICEA

4.10.1. Hulls

55% of the premiums issued in the Transport sector correspond to the Hull line, which closed out 2013 with a premium volume of € 241 million. For the fourth straight year, the line registered a decrease, 6.1% this time, which is nearly one point less than 2012.

A more detailed analysis of the performance of the line by business sector will confirm that while recreational and fishing vessels dropped 5% on average, this ratio was somewhat larger in Merchant (-6.1%) and Aviation (-10.6%).

The gross expenses remained similar to 2012, a circumstance that, together with an improvement in the claims ratio of slightly over six points, is coupled to a combined ratio of 94.8% (99.9% in 2012).

It is essential to mention that this improvement was highly influenced by the aviation sector, which had a very high claims ratio in 2012 (116%); this ratio was 29.4% in 2013. Nonetheless, the claims ratio in the fishing and recreation boats segment increased substantially.

Table 25. Basic indicators for Transport Insurance. Hulls

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	256	241
% Variation in premium volume	-7.2	-6.1
Retention	54.8	53.4
Gross claims ratio	72.6	55.3
Gross expenses	19.8	19.8
Net claims ratio	73.4	67.1
Net combined ratio	99.9	94.8
Financial result	3.9	4.1
Technical -Financial result	4.0	9.2

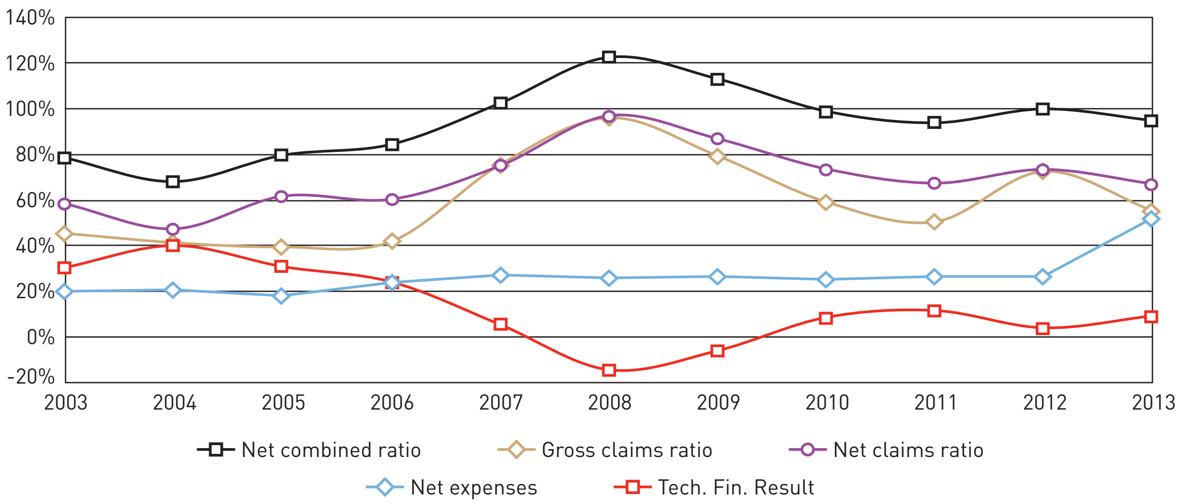
(*) An explication of how these indicators are calculated is provided in the section on Methodology
(1) Millions of Euros
Source: based on data from ICEA

4.10.2. Goods

The premium volume registered in the Goods line ended the year with € 198 million, representing 2.9% less than the previous year and very similar to the figure in 2012.

The gross expenses remained virtually unchanged although the claims ratio jumped significantly from 50% to 61%. This circumstance has a direct reflection in the combined ratio, which was 89.3% in 2012 and 101.5% in 2013. This claims ratio increased primarily in the transport sector.

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



Source: Based on data from ICEA

Table 26. Basic indicators for Transport Insurance. Goods

Basic Indicators (% of premiums)*	2012	2013
Vol. Premiums Issued (1)	204	198
% Variation in premium volume	-3.0	-2.9
Retention	65.4	63.7
Gross claims ratio	50.5	61.7
Gross expenses	25.6	25.8
Net claims ratio	58.5	69.8
Net combined ratio	89.3	101.5
Financial result	2.7	4.9
Technical -Financial result	13.4	3.4

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

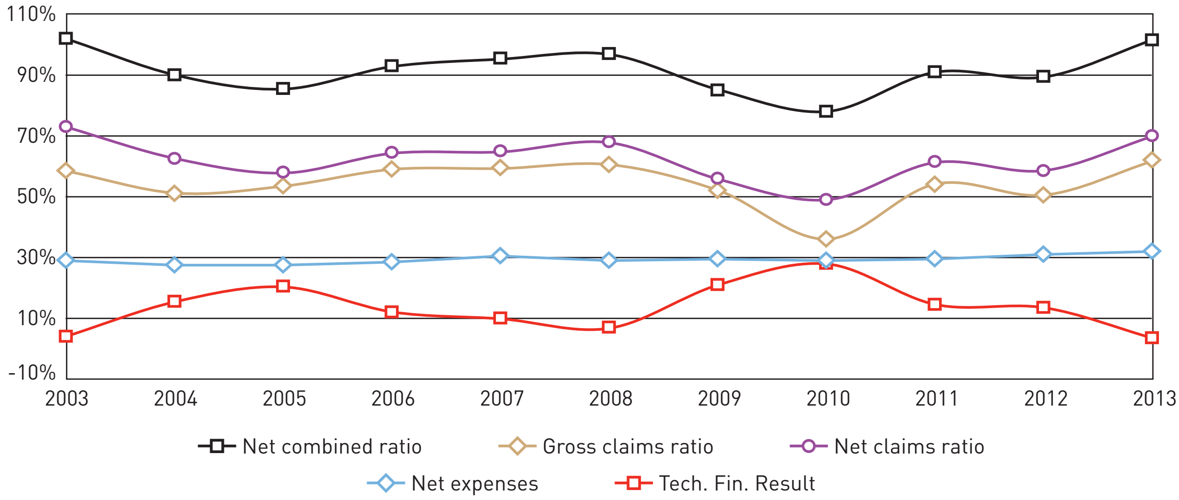
Preview 2014

No significant changes in the trend are expected for 2014. However, there are some naval construction contracts that could boost the Hulls business, though not sufficiently to forecast increases in the overall business volume.

Turning to Goods, there are no signs that would give a glimpse of improvement in the ratios of recent years. While the economic crisis has smoothened, decreases are expected to be less pronounced than in 2013.

The performance of the first three months of 2014 (ICEA) shows a variation of -13.5%. Itemized by modules, there were declines in Aviation (-70.3%), Maritime (-11.1%) and Goods (-2.8%).

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



Source: Based on data from ICEA

4.11. Engineering

The Engineering sector is of course integrated by a variety of lines of varying natures, insurance type, administration and different results. Moreover, their market niches are very different. There are lines handling the construction sector and other for industry. Each line has performances similar to the sector that it handles, but all of them continue presenting very substantial decreases similar to the Spanish economy, except for the electronic equipment line, which presented growth. The premium volume issued in the Engineering sector during 2013 was € 224 million, falling 15.4% compared to the previous year. This is a less pronounced drop as in 2012 (-21.2 %).

However, not all lines have decreased equally. This drop seems to have dampened somewhat in the lines linked to the construction sector: -15.3% in **10-year** (2012 reached -61.9 %) and -20.7% in **Construction** (2012 reached -32.3 %). The largest

Table 27. Distribution of Engineering insurance by category

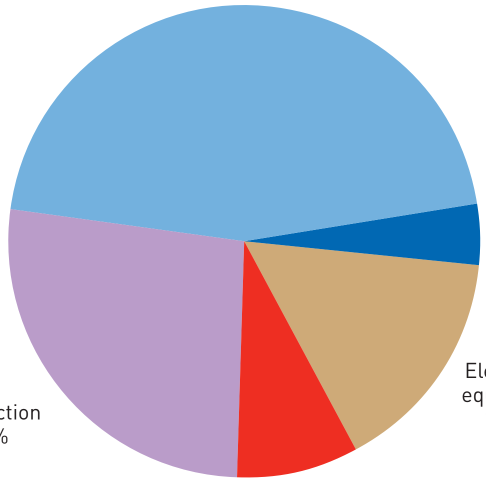
Module	Premiums 2013	% Variation
10-year	19	-15.3
Construction	59	-20.7
Machinery breakdown	102	-18.2
Assembly	9	-17.5
Electronic equipment	34	9.6
Total Engineering	224	-15.4

Millions of Euros
Source: ICEA

line in terms of relative weight of premiums continues to be **Machinery Loss** (47%) despite shrinking 18.2% in 2013, greater than -1.2% in 2012. Contrariwise, the growth in **Electronic Equipment** (9.6%) makes the specific weight of this line the sole with variations compared with the rest (15%).

The distribution of premiums for the different lines within the engineering sector appears to be consolidated and, with the exception of the mentioned increase in electronic equipment, the remaining lines reported percentages that were very similar to 2012.

Figure 38. Distribution of Engineering premiums by category



Source. ICEA

Preview 2014

In the engineering sector, it is more likely for growth to halt than it is to improve. The appearance of a slight rebound in sector activity and, above all, the pronounced descent in recent years, have left the sector with minimum activity that appears to be very difficult to overcome.

The estimate for the premium volume and results for 2014 are very similar to those from 2013.

4.12. Multi-Peril Agricultural Insurance

The Spanish System of Multi-peril Agricultural Insurance is a system of coverage for damage to agricultural crops, livestock, aquaculture and forestry, which jointly involves public and private entities grouped in a co-insurance pool known as “AGROSEGURO”. In this institution, Public Authorities subsidize part of the premium and the Consorcio de Compensación de Seguros acts as direct insurer and non exclusive and compulsory reinsurer.

Despite the contraction of the Spanish GDP in 2013, agricultural income in current terms increased in this period by 7.7% compared to the previous year, with an estimated total of € 24,321 million. The vegetable yield increased by 7.9% as a result of the increase in production; and animal production was up by 0.6% because of the rise in prices.

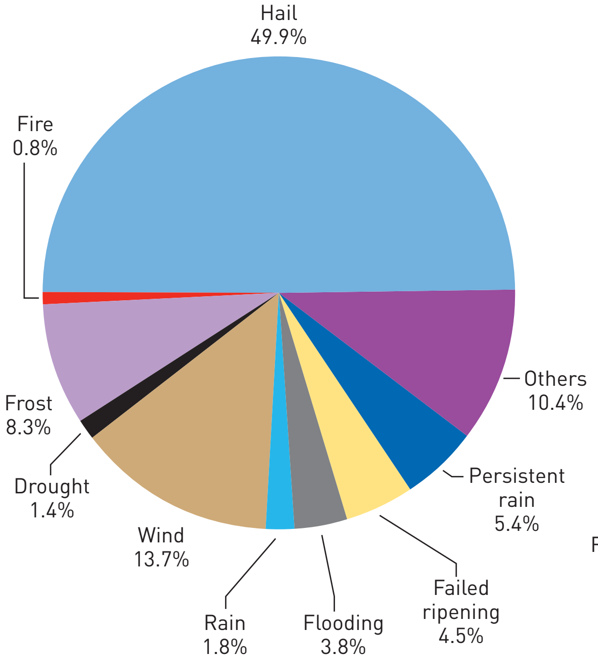
The restrictions proposed by the Public Sector in 2013 have included a reduction in subsidies for agriculture and livestock premiums, resulting in a loss in business volume. In this context, the **premium volume** earned by agricultural insurance during 2013 decreased by 12.6% to € 590 million. Differentiating by business lines, Group A (experimental lines) regressed by 10.15%, to € 332 million, Group B (viable lines) decreased by 12.2% to € 157 million, and Group C (removal and destruction of dead animals in farms) fell 20.1% to € 102 million.

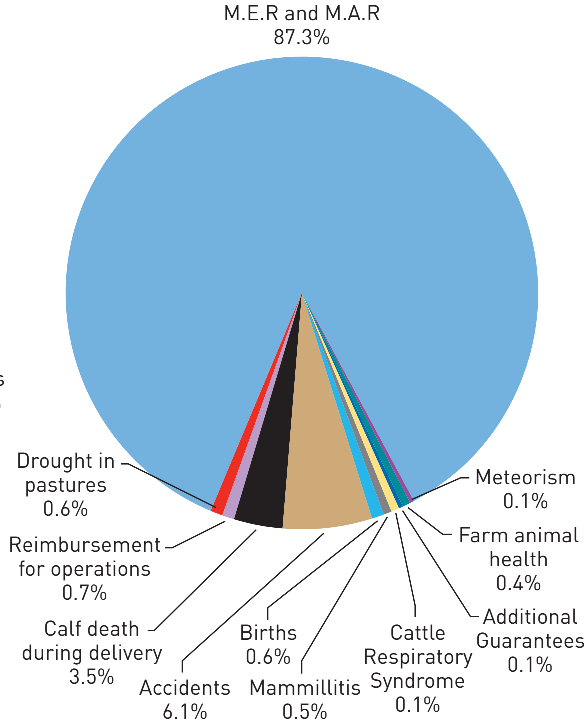
Regarding **contracting**, the number of policies grew slightly by 0.9%, and the value for insured production rose 2.3% to € 11,491 million, which explains the interest from farming and livestock companies in agricultural insurances with cheaper coverages.

The performance of the **claims ratio** in 2013 has been much less unfavorable than the previous year with a figure of € 517 million compared with € 800 million in 2012. By business line, the claims ratio has improved in Groups A and C, and only worsened in Group B.

Adverse weather phenomena in 2013 were not on the same scale as in 2012, though episodes of lesser intensity were registered, namely strong winds, flooding and, above all, numerous hailstorms that affected a large amount of crops, which represented half of the claims registered in agricultural insurances.

Figure 39. Agricultural Insurance. Distribution of claims in 2013. Agricultural Risks (left) and Livestock Risks (right)





Source: Agroseguro

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 2013 and 2014.

Law 1/2013 of 14 May on measures to reinforce the protection of mortgage debtors, debt restructuring and social housing rental.

This Law modifies the Consolidated Text of the Private Insurance Organization and Supervision Act. It stipulates that, for life insurances in which the holder assumes the investment risk, it must be clearly and precisely stated that the amount that will perceived depends on financial market fluctuations, which are out of the control of the insurer and whose historic results are not indicators of future results.

It also establishes that for life insurance modules in which the holder does not assume the risk of the investment, the expected returns on the operation will be stated, considering all the costs.

The Law also introduces a new instrument in the regulation of pension plans and funds, establishing a new exceptional case of liquidity in pension plans: the possibility to make consolidated rights effective in the pension plan if the regular housing of the participant undergoes a foreclosure procedure.

This new case is likewise applicable to other prevision-savings instruments, particularly to the Insured Retirement Plans, Company Social Retirement Plans, mutual provident societies, and, in general, group insurances that handle commitments by pensions in which the deed for the rights derived from the premiums paid by company has been transmitted to the insured with respect of the rights corresponding to the premiums paid by the insured parties per se.

The legislation has a temporary nature, during two years from its entry into force (i.e., until 15 May 2015), though the Government is authorized to extend this term or establish new periods to that effect, considering the needs for available income facing the indebtedness situation derived from circumstances of the economy.

Law 11/2013 of 26 July on measures to support entrepreneurs and stimulate growth and job creation.

This Law introduces various fostering measures for company financing that require urgent adoption given the current juncture of the economy.

The Law modifies the Regulations on Private Insurance Organization and Supervision and the Regulations on Pension Plans and Funds so that they contemplate the possibility of insurance companies and pension funds investing in securities admitted for negotiation in the Alternative Stock Market or other multilateral negotiating system created by royal decree and that these investments are considered to be apt for covering technical provisions.

Lastly, a new additional provision has been added regarding gender equality, incorporating the necessary adjustments within the scope of the Law, derived from the Test-Achats ruling.

Royal Decree-Law 6/2013 of 22 March, on protection for holders of certain savings and investment products and other financial measures

The second final provision in this Royal Decree amends article 86 bis of the Consolidated Text of the Private Insurance Organization and Supervision Act, thus enabling Spanish insurance entities to empower underwriting agencies to underwrite insurances on their behalf and name. This also contains the legislation applicable to underwriting agencies, enabling insurance entities domiciled in Member States of the European Economic Area other than Spain and with activities in Spain under the right of establishment or arrangement of free provision of services to use underwriting agencies. The amendment of this article 86 bis ends the inequality between Spanish entities and entities from other Member States.

Royal Decree 633/2013 of 2 August, amending the Corporate Income Tax Regulations and Royal Decree 764/2010 on the mediation of Private Insurance and Reinsurance in the area of statistical-accounting and business and professional competence.

This Royal Decree eliminates the obligation to remit to the General Directorate of Insurance and Pension Funds with the half-year statistics for insurance and reinsurance brokers, and with the half-year business data for linked insurance agents and bancassurance operators.

Order ECC/730/2014 of 29 April on the temporary measures for progressively adapting insurers and reinsurers to the new Solvency II Directive

These measures indicate the manner to proceed in the preparatory stage before the application of the Solvency II Directive. They have been in force since 1 January 2014 and aim to ensure that insurance and reinsurance agencies, and groups of insurance and reinsurance entities are prepared for when the Solvency II Directive is fully applicable and binding as of 1 January 2016. This likewise seeks to prevent situations in which each Member State creates its own national solutions, hence facilitating coherent and converging criteria regarding preparation for the Solvency II Directive.

The temporary measures address the following matters: governance system of insurance entities, internal prospective risk assessment, supply of information to the supervisor and prior request of internal models.

Preliminary Draft of the Insurance and Reinsurance Entity Organization, Supervision and Solvency Act, and the Royal Decree implementing this Act

In July, 2011, the preliminary draft of the Private Insurance Supervisory Act was approved by the Council of Ministers as a Bill. However, the dissolution of the General Courts as a consequence of the call for general elections caused the project to expire.

During 2012, based on the text passed as a Bill, the transposition process of the Solvency II Directive started again so as to review and clarify the content thereof. Among the changes introduced as regards the previous transposition process, there has been a decision to divide the content of the legislation into a new law, which would include its substantial aspects, and a Royal Decree for partial development, which would in turn incorporate part of the Regulations currently in force on Private Insurance Organization and Supervision with a view to organizing and providing greater clarity to the content of the new legislation.

As a consequence of the negotiations conducted within the framework of the proposal to modify the Solvency II Directive with the Omnibus II Directive, the initial dates for transposition and entry into force of the Solvency II Directive have been set to 31 March 2015 and 1 January 2016, and the work regarding legal and regulatory development to meet the cited calendar is underway.

The preliminary project for the Royal Decree to develop the definition of private insurance and reinsurance brokerage activities and modify certain aspects of the legislation regulating private insurance, brokerage, and pension plans and funds.

This preliminary Royal Decree project seeks to develop the definition of private insurance and reinsurance brokerage activities. It also undertakes different reforms to the Regulations on Private Insurance Organization and Supervision and modifies the following legislation: Regulations on Pension Plans and Funds, Regulations on instrumenting pension commitments for company pensions with workers and beneficiaries, and Royal Decree 764/2010 of private insurance and reinsurance brokerage in the area of statistical-accounting data, business and professional competence.

Commercial Code Preliminary Draft

The main objective of the Preliminary Draft entails adapting the insurance contract regulations to a new social reality, placing some rules within context, recognizing the lines and products renowned in sector practice, in addition to simplifying and unifying legal terms and making their content more understandable; the foregoing with a view to strengthening the protection of the policy holder and the insured party.

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).

Fiscal reform. Preliminary Draft of the Law amending Law 35/2006 on Personal Income Tax, and the Consolidated Text of the Non-Resident Income Tax Act, approved by Royal Legislative Decree 5/2004, and other pertinent tax legislation (June 2014).

Prominent among the changes sought by this Project is the creation of *Planes Ahorro 5* (Savings Plans 5), a new financial instrument that could be adopt the form of a deposit or insurance and whose returns will be exempt if the investment remains for a minimum of five years. This new Savings Plan will be able to compete with other product types such as deposits or Individual Systematic Savings Plans (PIAS).

Another measure included in the tax reform is the reduction of the maximum yearly contributions to social provision systems that can be written off against the income tax base (IRPF) to € 8,000, currently set at € 10,000 in general and € 12,500 for persons older than 50.

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 of 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:

- Retention: 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 Rebates + Other technical expenses - Other technical income / Net earned premiums
- Net combined ratio: Net claims ratio + Net expenses
- Financial result: Investment Incomes- investment expenses / Earned net premiums
- Technical-Financial result: Technical account result / Net earned premiums

Basic Indicators of Insurance by Branches 2013

	Vol. of issued premiums	% Variation in premium volume	Retention	Gross claims ratio	Gross expenses	Net claims ratio	Net combined ratio	Financial result	Technical-Financial result
Non-Life	30,268	-2.7	87.6	69.2	22.3	70.7	93.5	3.9	9.3
Motor	10,022	-5.5	92.3	77.2	20.0	78.1	98.4	4.5	6.1
Multi-peril	6,537	9.0	41859*	58.9	28.4	61.3	92.2	3.5	11.3
Home Multi-Peril	3,779	0.4	90.4	59.0	32.0	60.0	92.2	3.0	10.8
Industrial Multi-Peril	1,265	-5.9	50.8	62.4	19.8	74.7	103.4	4.8	1.4
Commerce Multi-Peril	596	-4.7	85.5	53.7	30.1	54.3	84.2	3.8	19.7
Communities Multi-Peril	823	1.1	86.4	54.5	28.2	55.2	83.3	3.8	20.5
Other Multi-Peril	73	-7.0	82.8	69.1	30.0	75.7	106.7	5.4	-1.3
Health	6,902	1.7	97.6	83.1	11.7	84.5	96.2	1.1	4.9
Third-Party Liability	1,352	-6.6	71.8	51.5	25.6	50.8	78.2	12.4	34.2
Transportation	498	-10.7	53.2	44.2	19.0	62.6	89.1	6.7	17.6
Hull transport	241	-6.1	53.4	55.3	19.8	67.1	94.8	4.1	9.2
Goods Transport	198	-2.9	63.7	61.7	25.8	69.8	101.5	4.9	3.4
Burial	1,961	3.7	99.0	56.9	36.4	57.2	93.5	6.2	12.7
Credit	646	-4.7	46.3	70.5	21.8	68.8	90.9	6.0	15.1
Surety	63	-4.1	44.5	535.3	28.5	233.0	267.8	3.1	-164.7
Accidents	825	-3.2	90.1	40.3	36.3	39.3	76.0	11.3	35.3

Source: Prepared with data from ICEA

Index of Figures and Tables

Figures

Tables

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La internacionalización de la empresa española: riesgos y oportunidades (The Internationalization of the Spanish company: risks and opportunities), with texts by Antonio García Tabuenca and Fernando Crecente Romero

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The Latin American insurance market in 2012-2013

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European Non-Life Insurance Groups' Ranking 2012

Ranking of Latin American insurance groups in 2012

2012

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The Spanish Insurance Market in 2011

The Latin American insurance market in 2011-2012

European Non-Life Insurance Groups' Ranking 2011

Ranking of Latin American insurance groups in 2011

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