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THE SPANISH INSURANCE MARKET IN 2002



Fundación **MAPFRE** Estudios



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Economic situation

Throughout the year 2002, the Spanish economy could not avoid the negative effects the geopolitical uncertainty provoked in the macroeconomic outlook, producing sharp drops in confidence indicators, delayed investment programmes and weak labour markets. Consequently, according to the figures of the Quarterly National Accounting (CNTR), the fourth quarter of 2002 saw the Spanish economy's inter-quarterly growth rate drop from 0.8% to 0.3%, although the year-on-year rate still reached 2.1%, three tenths above the previous figure. Even so, the 2002 GDP figure showed an increase of 2% (seven tenths less than the previous year), evidencing much greater dynamism than the other European Union countries: 0.2% GDP growth in Germany, 1.2% in France and 1.8% in the United Kingdom. These data confirm that the moderate deceleration trend observed throughout the year tended to ease towards the end of the year. In the fourth quarter, internal demand increased its contribution towards achieving GDP growth of 2.7 points, while external demand withheld 0.6 possible growth points.

The Spanish economy ended 2002 with a growth rate of 2% in real terms, seven tenths down on 2001. The contribution of internal demand in furthering overall growth fell by half a point (from 2.8 to 2.3), as a result of the loss of dynamism in consumer demand, especially as regards fixed capital investment. External demand's negative trend continued, dropping two tenths from -0.1 points in 2001 to -0.3 points in 2002. Job creation was less intense than the previous year, with the production of 203,000 jobs (+1.3%, one point less than the results for 2001). GDP at current prices rose 6.5% (four tenths less than last year), with the result that the implicit deflator figure settled at 4.4%. Work productivity rose four tenths, reaching 0.7%.

Growth in consumer spending eased over the year, falling from 2.6% to 2.3%, due to the reduced dynamism of household spending (1.9% compared to 2.5% in 2001), a trend that was common to practically all goods, although it was most notable in the case of durable goods, particularly at the start of the year.



| TABLE OF MACROECONOMIC INDICATORS | | | |
|--|-------------|-------------|-------------|
| | 2000 | 2001 | 2002 |
| Final consumption expenditure | 4.2 | 2.6 | 2.3 |
| – Final consumption expenditure by households | 3.9 | 2.5 | 1.9 |
| – Final consumption expenditure by NPISH | 4.6 | 1.2 | 0.0 |
| – Final consumption expenditure by Pub. Admin. | 5.0 | 3.1 | 3.8 |
| Gross Fixed Capital Formation | 5.7 | 3.2 | 1.4 |
| – Equipment | 4.7 | –1.2 | –4.1 |
| – Construction | 6.2 | 5.8 | 4.5 |
| – Other products | 6.0 | 3.4 | 1.5 |
| Internal Demand | 4.4 | 2.8 | 2.3 |
| Exports of G. & S. | 10.1 | 3.4 | 1.4 |
| – Exports of Goods (FOB) | 10.0 | 2.3 | 2.3 |
| – Exports of Services | 10.2 | 6.0 | –0.6 |
| Imports of G. & S. | 10.6 | 3.5 | 2.2 |
| – Imports of Goods (FOB) | 10.5 | 3.0 | 2.2 |
| – Imports of Services | 11.0 | 6.2 | 2.0 |
| GDP (Market Price) | 4.2 | 2.7 | 2.0 |
| CPI (Dec./Dec.) | 4.0 | 2.7 | 4.0 |
| GDP Deflator | 3.5 | 4.2 | 4.4 |
| Total ULCs of the economy | 3.7 | 3.6 | 3.2 |
| Total employment (% Var.) | 3.4 | 2.4 | 1.3 |
| Unemployment rate (% labour force) | 13.9 | 10.5 | 11.4 |
| Public Deficit (% GDP) | –0.60 | –0.14 | –0.07 |
| ECB Intervention rate | 4.75 | 3.25 | 2.75 |

Source: INE, Economics Ministry & Banco de España.

Note: 2000 and 2001 provisional data and 2002 forecast.

On the supply side, the reduced growth figure affects every sector of activity, most noteworthy —given its intensity and negative aspect— being the contraction of the agricultural (–2.1%) and industrial (–0.5%) sectors. On the contrary, construction and services maintained positive growth rates of 4.9% and 2.2%, respectively.

The retail price indexes, which continue demonstrating very high year-on-year variation rates approaching 4%, remain the element that comes out worst in a direct comparison with the other European Union countries, adversely affecting the competitiveness of Spanish products in foreign markets and thus reducing Spain's potential for economic growth.

The moderate reactivation of international trade from the summer onwards led to the recovery of Spain's foreign trade figures, which, for the year as a who-

le, reveal a more dynamic evolution than that of the major players within the European Union. Thus, according to Customs and after including the December figures (year-on-year rise of 10% and 12.3% for exports and imports, respectively), the trade deficit for the whole of 2002 fell by 2.4%, ending the year at 41,974.6 million euros.

With regard to the Balance of Payments, 2002 came to a close with an accumulated current account deficit of 17,771.5 million euros, a figure slightly higher (+0.5%) to that registered last year. The reduction in the trade balance deficit and the increase in the current transfers surplus were not sufficient to compensate for the deteriorating revenue balance and the decreased surplus from services.

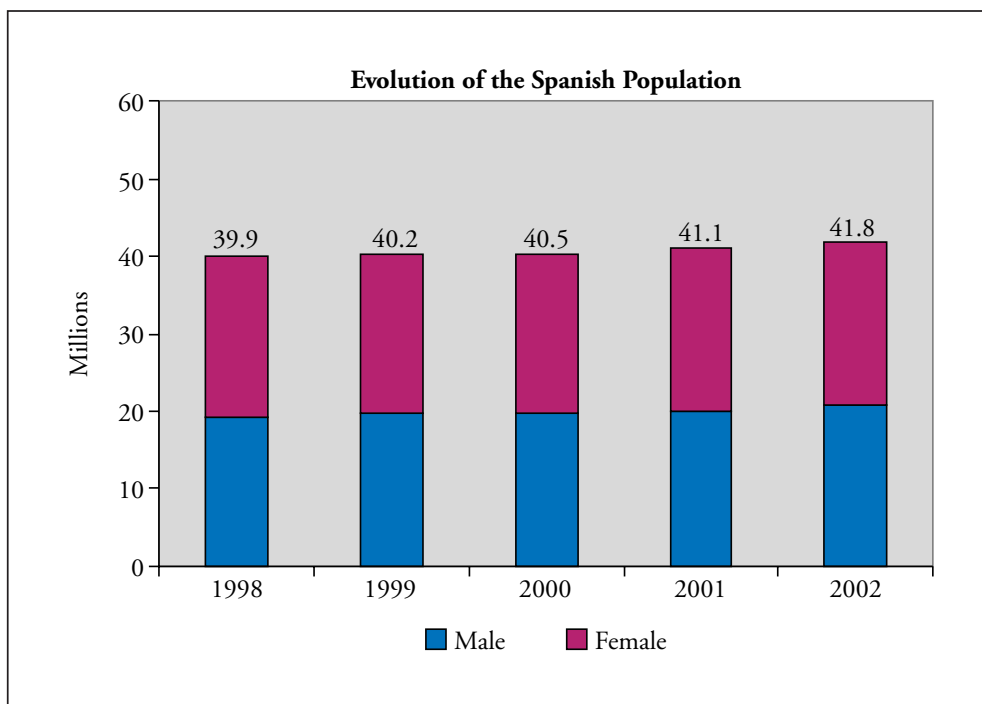
In 2002, the Public Administrations as a whole —measured in National Accounts terms— recorded a deficit of 0.07% of the GDP, a highly positive figure compared with that for the whole of the eurozone (−2.2%).



Economic and social variables related to insurance

Population

The latest data from the municipal registers furnished by the Spanish National Statistics Institute (INE) reveal that the Spanish population grew by 1.75% in 2002, principally as a result of new registrations by foreign citizens. The total Spanish population has thus grown from 41.1 million inhabitants on January 1st 2001 to 41.8 million inhabitants on January 1st 2002. The number of foreigners duly registered represents 4.7% of the total, a rise of 44.3% with respect to those registered in 2001.



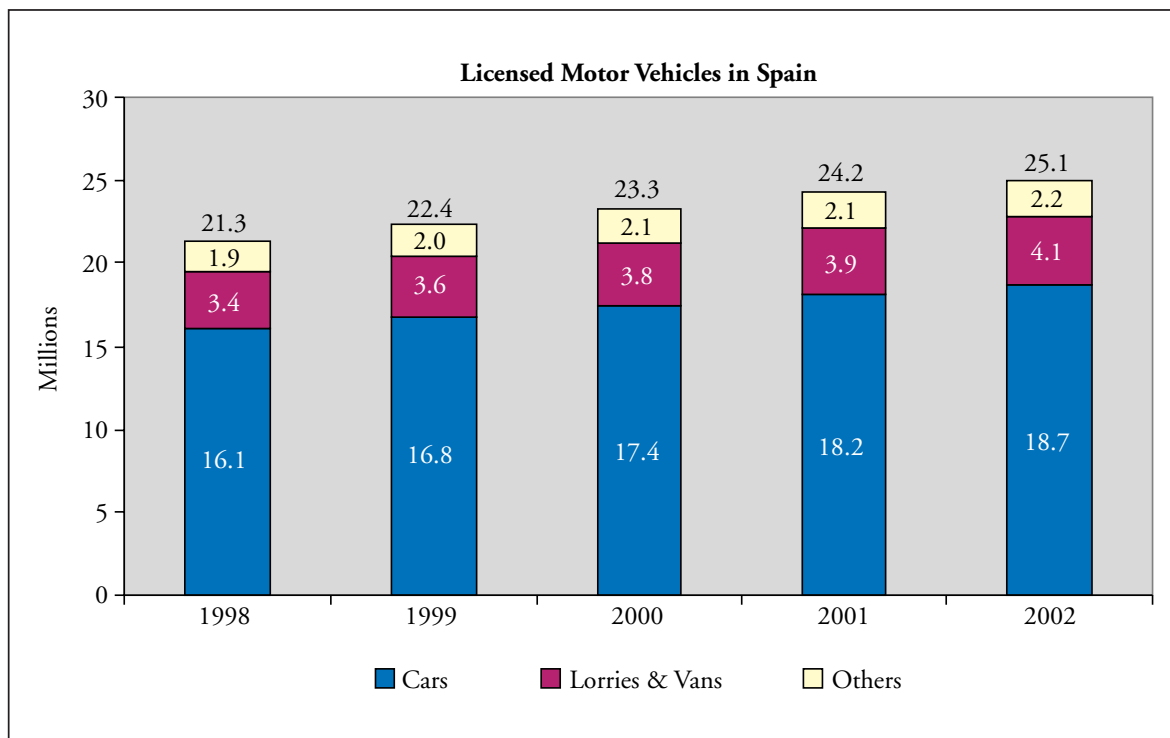
Source: INE. Review of the Municipal Registers.



The fertility rate, i.e. the average number of children per woman of fertile age, continues the recovery detected in recent years and, in 2002, reached 1.26 compared to 1.24 in 2001. To a large degree, the increase in the number of births can be put down to the increased birth rates among foreign residents. As for deaths, the gross mortality rate rose slightly, standing at 8.92 compared to 8.91 in 2001. The net growth of the population in 2002 was 49,980 inhabitants, greater than the figure of 45,003 in 2001.

Automobile

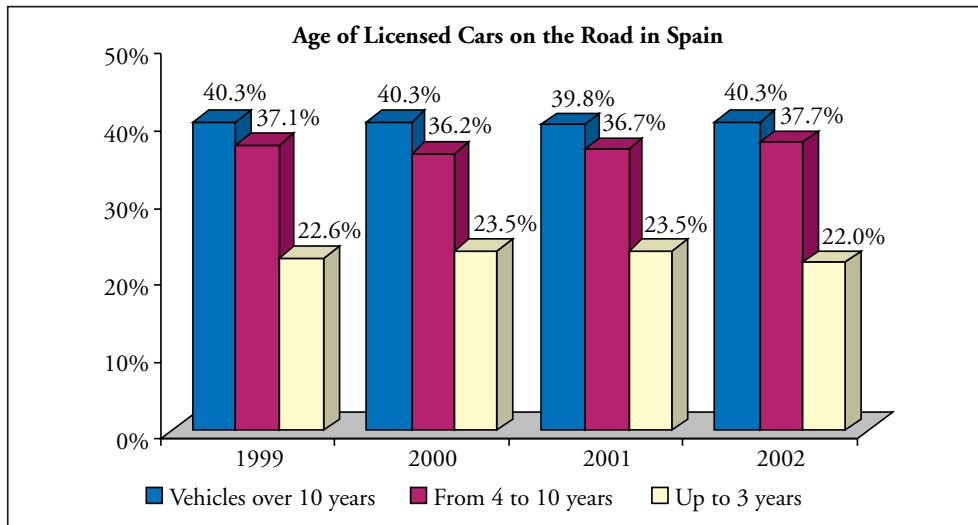
In 2002, there were 1.74 million new vehicle registrations, slightly lower than the figure of 1.87 million vehicles registered in 2001. However, on deducing the million vehicles struck off the road, the number of licensed vehicles in circulation rose 3.4% with respect to the previous year. At the end of 2002, the number of licensed vehicles in Spain reached a total of 25 million vehicles, compared to 24.2 million in 2001. In the last five years, there has been an increase of 17.6% in the total number of cars and, over the last decade, this figure has risen nearly 50%.



Source: Spanish General Traffic Directorate (DGT).

The average age of the vehicles on the road in Spain is one of the highest in the European Union, although things have improved slightly in recent years, as a result of the favourable progress of sales. On analysing the evolution of licen-

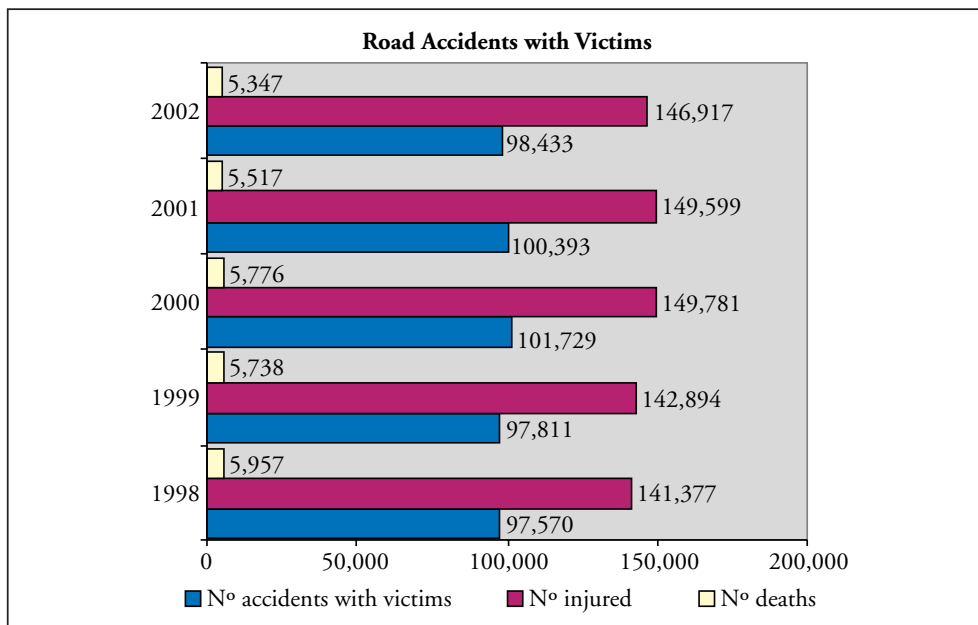
sed cars in Spain over the last four years, it can be seen that the percentage of vehicles over 10 years of age has remained constant at 40%, while those of up to three years old only account for around 23%.



Source: Ecople and DGT.

Road Accidents

For the second year running, the number of road accidents involving victims in Spain dropped 1.9%, with a similar fall of 1.8% in the number of victims. In 2002, the number of deaths as a result of road accidents came to 5,347 compared to 5,517 in 2001, which represents a reduction of 3%.



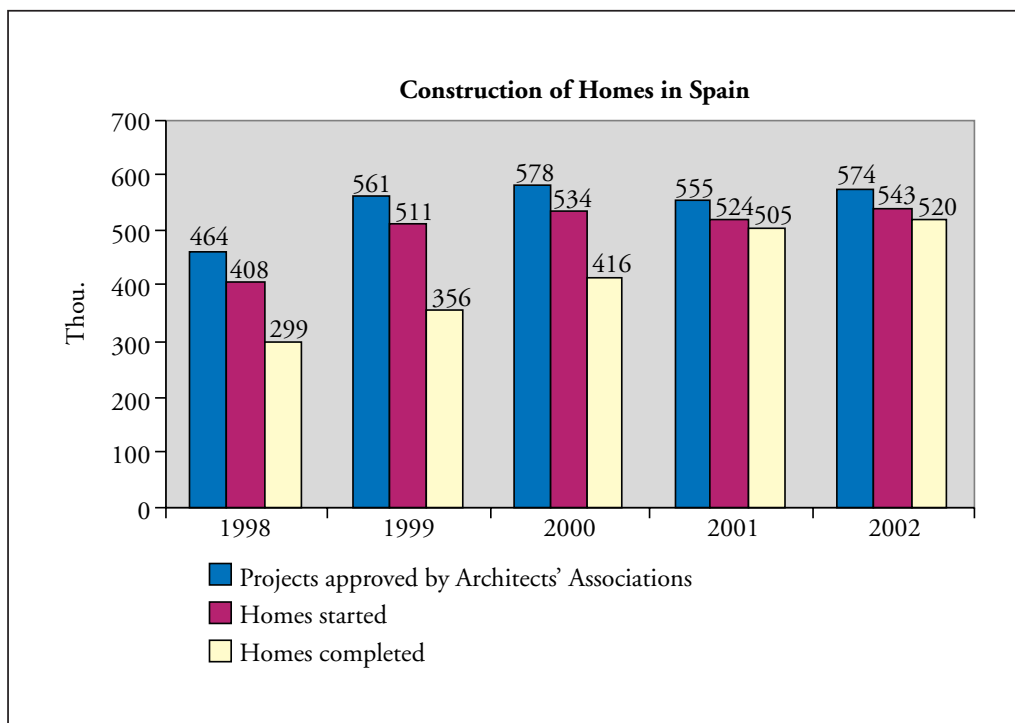
Source: Spanish General Traffic Directorate (DGT).

Housing

In recent years, the construction and purchase of homes has become a significant factor in Spain's economic growth. In 2002, for the fifth consecutive year, construction was the sector of economic activity that registered the greatest rate of growth, increasing yet again its weight within the economy as a whole.

According to data from the 2001 Housing Census, the last 10 years have seen a significant increase in the number of homes, now reaching nearly 21 million, which represents a rise of 21% with respect to the 1991 census. Of the total number, 68.5% are given over to use as the habitual residence and 16% as a second home.

The greatest increase in home building has occurred in the last five years, with a total of 519,800 homes completed in the year 2002 compared to 298,800 homes built in 1998, maintaining a rhythm of over 500,000 dwellings initiated each year. Although the rate of expansion within the construction sector eased in 2002, as regards non-residential building and civil works, the construction of homes has maintained considerable growth rates, even exceeding forecasts. In the year 2002, the Spanish Architects Associations approved 19,000 projects more than in 2001, with a total of 574,000 dwellings approved.



Source: INE and Consejo Superior de Colegios de Arquitectos de España.

Economic analysts point out that the principal driving forces behind the investment in homes in Spain are the healthy state of the economy, job creation, low interest rates and the increased offer of mortgage loans. As a result of the strong demand, house prices have continued their upward spiral.

| MORTGAGED HOMES IN SPAIN | | | | | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Number | 529,565 | 585,782 | 612,852 | 615,703 | 690,230 |
| Amount (million euros) | 29,596 | 36,218 | 42,326 | 46,574 | 58,985 |



Principal characteristics of the insurance market in 2002

The volume of written premiums by Spanish insurers in 2002 reached the figure of 48,224 million euros, a significant increase of 14.2%, this demonstrating a considerable recovery, following the more modest growth rate in 2001 (2.1%). This was largely due to the Life Insurance boost, which soared to 26,627 million euros (55.2% of all the premiums in the sector), with an increase of 15.4% following the slide in 2001.

Non-Life insurance continued the growth trend of recent years, with an increase of 12.6% (10.9% in 2001) and an issue figure of 21,597 million euros, this representing 44.8% of the total insurance business.

Life Insurance was boosted by the final operations in the exteriorisation process for companies' pension commitments, the deadline for which was November 2002. Moreover, this insurance class was influenced by the negative evolution of the stock market and the continued drop in interest rates, which led to insurance-based savings heading for individual policies with guaranteed interest. At the same time, as a result of the aforementioned stock market uncertainty, there was a drop in contracts for unit-linked products.

Within the Non-Life classes, the Motor Insurance class headed its sector with a market share of 45.3%, premiums reaching 9,794 million euros and a growth rate of 8.8%, with respect to the previous year. Non-Life reveals high concentration in the five most significant classes —Motor, Health, Multi-Risk, Burial Expenses and Third-Party Liability— which account for 85.4% of premiums, with an average growth of 11% in 2002 over the 2001 results. Most noteworthy is the increase in Third-Party Liability (23.8%) and Multi-Risk (16.3%), these classes influenced by the adjustment of premiums carried out during the year following the events of September 11th 2001, as well as by increased social awareness of these risks.



| PREMIUMS BY CLASSES | | | | |
|----------------------------|--|---|--------------------------|-------------------|
| Classes | Premiums 2001 (million euros) | Premiums 2002 (millions euros) | % Δ 2002/2001 | % of Total |
| Non-Life Classes | | | | |
| Motor | 9,000 | 9,794 | 8.8 | 20.3 |
| Health | 3,010 | 3,297 | 9.5 | 6.8 |
| Multi-Risk | 2,800 | 3,255 | 16.3 | 6.7 |
| Burial | 980 | 1,054 | 7.6 | 2.2 |
| Third-Party Liability | 840 | 1,040 | 23.8 | 2.2 |
| Accident | 620 | 657 | 6.0 | 1.4 |
| Other damage to proper | 589 | 846 | 43.6 | 1.8 |
| Credit & Surety | 459 | 508 | 10.7 | 1.1 |
| Transport | 420 | 571 | 36.0 | 1.2 |
| Assistance | 170 | 200 | 17.6 | 0.4 |
| Fire | 125 | 195 | 56.0 | 0.4 |
| Legal Expenses | 99 | 105 | 6.1 | 0.2 |
| Pecuniary Losses | 60 | 75 | 25.0 | 0.2 |
| Total Non-life | 19,172 | 21,597 | 12.6 | 44.8 |
| Life Classes | | | | |
| Individual | 13,926 | 14,549 | 4.5 | 30.2 |
| Group | 9,143 | 12,078 | 32.1 | 25.0 |
| Total Life | 23,069 | 26,627 | 15.4 | 55.2 |
| Market Total | 42,241 | 48,224 | 14.2 | 100 |

Source: ICEA.

As regards the ranking of insurance groups in 2002, covering the whole of the Spanish market, MAPFRE is still the clear leader, with 11.6% of market share, followed by CAIFOR (7%) and ANTARES (6.4%), which rose to these positions thanks to their Life Insurance operations. The top ten groups continue increasing their share of the total written premiums, rising from 49.4% in 2001 to 51.8% in 2002, with a figure of 24,993 million euros. In 1997, the top ten insurance groups accounted for 36.9% of premiums.

RANKING OF DIRECT INSURANCE GROUPS. Total

| N.º | Group | 2002 | | 2001 | | % Δ 2001/2000 |
|-------------------------|--------------|--------------------------------|---------------|--------------------------------|---------------|------------------|
| | | Premiums (million euros) | % of Total | Premiums (million euros) | % of Total | |
| 1 | MAPFRE | 5,613 | 11.6 | 5,454 | 12.9 | 2.9 |
| 2 | CAIFOR | 3,383 | 7.0 | 2,023 | 4.8 | 67.2 |
| 3 | ANTARES | 3,069 | 6.4 | 666 | 1.6 | 361.1 |
| 4 | GENERALI | 2,369 | 4.9 | 2,098 | 5.0 | 12.9 |
| 5 | ALLIANZ | 2,029 | 4.2 | 2,186 | 5.2 | -7.2 |
| 6 | AVIVA | 1,918 | 4.0 | 1,950 | 4.6 | -1.7 |
| 7 | AXA | 1,885 | 3.9 | 1,464 | 3.5 | 28.8 |
| 8 | CASER | 1,628 | 3.4 | 1,547 | 3.7 | 5.2 |
| 9 | BBVA SEGUROS | 1,616 | 3.4 | 1,737 | 4.1 | -7.0 |
| 10 | SCH SEGUROS | 1,482 | 3.1 | 1,739 | 4.1 | -14.8 |
| Total of top 10 | | 24,993 | 51.8 | 20,867 | 49.4 | 19.8 |
| Total for sector | | 48,224 | 100 | 42,241 | 100 | 14.2 |

Source: ICEA.

Concentration is greater in the Life Insurance class, partly due to single-premium operations in the last few years. The top ten groups underwrote 65.1% of premiums in 2002. This year, there were significant changes in the Life Insurance ranking, with CAIFOR reaching the top spot, with 12.4% of market share, followed by ANTARES and MAPFRE, with 11% and 8.2%, respectively.

RANKING OF GROUPS BY VOLUME OF PREMIUMS. Life

| N.º | Group | 2002 | | 2001 | | % Δ 2002/2001 |
|-------------------------|--------------|--------------------------------|---------------|--------------------------------|---------------|------------------|
| | | Premiums (million euros) | % of Total | Premiums (million euros) | % of Total | |
| 1 | CAIFOR | 3,290 | 12.4 | 1,943 | 8.4 | 69.35 |
| 2 | ANTARES | 2,917 | 11.0 | 665 | 2.9 | 338.37 |
| 3 | MAPFRE | 2,193 | 8.2 | 2,552 | 11.1 | -14.06 |
| 4 | AVIVA | 1,910 | 7.2 | 1,584 | 6.9 | 20.57 |
| 5 | BBVA SEGUROS | 1,539 | 5.8 | 1,675 | 7.3 | -8.11 |
| 6 | SCH | 1,452 | 5.5 | 1,718 | 7.4 | -15.47 |
| 7 | GENERALI | 1,237 | 4.6 | 1,005 | 4.4 | 23.06 |
| 8 | BANSABADELL | 1,112 | 4.2 | 1,188 | 5.2 | -6.42 |
| 9 | CASER | 847 | 3.2 | 819 | 3.6 | 3.45 |
| 10 | AXA | 845 | 3.2 | 523 | 2.3 | 61.44 |
| Total of top 10 | | 17,342 | 65.1 | 13,673 | 59.3 | 26.84 |
| Total for sector | | 26,627 | 100 | 23,069 | 100 | 15.42 |

Source: Annual reports of the companies.

In all the Non-Life classes taken together, the top ten insurance groups participated with a market share of 55.4%, with the ranking headed by MAPFRE, with a market share of 15.7%, followed by ALLIANZ (6.7%) and Generali (5%).

RANKING OF GROUPS BY VOLUME OF PREMIUMS. Non-Life

| N.º | Group | 2002 | | 2001 | | % Δ 2002/2001 |
|-------------------------|--------------------|--------------------------------|---------------|--------------------------------|---------------|------------------|
| | | Premiums (million euros) | % of Total | Premiums (million euros) | % of Total | |
| 1 | MAPFRE | 3,389 | 15.7 | 2,854 | 14.9 | 18.8 |
| 2 | ALLIANZ | 1,454 | 6.7 | 1,242 | 6.5 | 17.0 |
| 3 | GENERALI | 1,098 | 5.1 | 1,088 | 5.7 | 0.9 |
| 4 | AXA | 1,072 | 5.0 | 937 | 4.9 | 14.4 |
| 5 | ZURICH | 986 | 4.6 | 866 | 4.5 | 13.8 |
| 6 | CATALANA OCCIDENTE | 979 | 4.5 | 874 | 4.6 | 12.0 |
| 7 | WINTERTHUR | 927 | 4.3 | 785 | 4.1 | 18.0 |
| 8 | CASER | 791 | 3.7 | 738 | 3.8 | 7.2 |
| 9 | MUTUA MADRILEÑA | 655 | 3.0 | 579 | 3.0 | 13.1 |
| 10 | ADESLAS | 609 | 2.8 | 569 | 3.0 | 6.9 |
| Total of top 10 | | 11,960 | 55.4 | 10,533 | 54.9 | 13.5 |
| Total for sector | | 21,597 | 100 | 19,172 | 100 | 12.6 |

Source: Annual reports of the companies.

The premiums for the top ten Motor Insurance groups reached the figure of 6,881 million euros (70.3% of the total premiums in this class), with MAPFRE at the head, enjoying a market share of 19.7%, followed by ALLIANZ (9.9%) and AXA (6.9%).

RANKING OF GROUPS VOLUME OF PREMIUMS. Motor

| N.º | Group | 2002 | | 2001 | | % Δ 2002/2001 |
|-------------------------|--------------------|--------------------------------|---------------|--------------------------------|---------------|------------------|
| | | Premiums (million euros) | % of Total | Premiums (million euros) | % of Total | |
| 1 | MAPFRE | 1,926 | 19.7 | 1,710 | 19.0 | 12.4 |
| 2 | ALLIANZ | 971 | 9.9 | 844 | 9.4 | 15.0 |
| 3 | AXA | 680 | 6.9 | 611 | 6.8 | 11.3 |
| 4 | MUTUA MADRILEÑA | 655 | 6.7 | 579 | 6.4 | 13.1 |
| 5 | ZURICH | 565 | 5.8 | 525 | 5.8 | 7.7 |
| 6 | WINTERTHUR | 510 | 5.2 | 469 | 5.2 | 8.9 |
| 7 | GENERALI | 468 | 4.8 | 514 | 5.7 | -8.9 |
| 8 | CASER | 400 | 4.1 | 390 | 4.3 | 2.6 |
| 9 | CATALANA OCCIDENTE | 361 | 3.7 | 355 | 3.9 | 1.7 |
| 10 | PELAYO | 345 | 3.5 | 347 | 3.9 | -0.6 |
| Total of top 10 | | 6,881 | 70.3 | 6,346 | 70.5 | 8.4 |
| Total for sector | | 9,794 | 100 | 9,000 | 100 | 8.8 |

Source: Annual reports of the companies & ICEA.

Throughout 2002, there have been company movements of a diverse nature, although the common denominator reinforced the trend towards concentration in the sector and relations with the banking sector. Some of the most significant were:

- BSCH sold its remaining stake in the US insurer MET LIFE.
- Sale of the Banco Guipuzcoano's stake in UNISEGUROS VIDA Y PENSIONES. In January 2003, the General Insurance Directorate authorised the takeover merger of this company by GROUPAMA.
- GROUPAMA acquired the company PLUS ULTRA GENERALES, subsidiary of the British AVIVA group (formerly CGNU).

- ZURICH acquired the Life Insurance operations that DEUTSCHE BANK possessed in Spain and other European countries. An important part of this transaction included a mutual cooperation agreement on the distribution of products and services. ZURICH became the exclusive provider of insurance operations to the clients of DEUTSCHE BANK and, in addition, will distribute the bank's financial products through a multi-channel infrastructure.
- UNICORP VIDA —a company in which both UNICAJA and AVIVA hold 50% stakes— and Caja de Granada signed an agreement by virtue of which UNICORP acquired 50% of the Caja's life insurance agency, GENERAL VIDA, and the Caja undertook to exclusively sell the insurer's life and pension products.

Finally, another noteworthy point was the start of the process to privatise the public insurance company MUSINI in the second half of 2002, a process that ended in 2003 with the awarding of the Life and Non-Life businesses to the Holding MAPFRE-CAJA MADRID.

In 2002, according to data from the General Insurance Directorate, the number of operating companies came to 331 (339 in 2001), 247 of which were public limited companies, 47 were mutual insurance companies and 37 were branches of foreign companies. To these figures, we must add 3 reinsurance companies and 65 social insurance mutualities.

Over the last five years, 57 companies have ceased to operate, this representing a decrease of 14.7% since 1997 in the number of firms in operation, in a steady process of concentration that has been advancing throughout the last decade.

The structure of the distribution of insurance in Spain, according to the latest data referring to 2002, demonstrate that the networks of the financial institutions (Banks and Savings Banks) have become the principal sales channel, as they are involved in 40.7% of the volume of insurance business in portfolio (five years ago, in 1997, this figure only came to 19.3%).

After that, the business is principally channelled through agents (25.6%), brokers (16.3%) and direct sales (12.4%). Alternative sales channels —telephone and electronic commerce— increased their premium volume slightly, from 1.7% in 2001 to 2.4% in 2002. The sector is multiplying its channels, although with varying degrees of success.



Market share by channels (% premiums). Year 2002
VOLUME OF BUSINESS

| Classes | Channels | | | | | | |
|-----------------------|-------------|-------------|--------------------------|------------------------|-------------------|--------------------|-------------------|
| | Agents | Brokers | Bank/ savings bank | Electronic commerce | Branch offices | Telephone sales | Other channels |
| Life | 13.4 | 9.2 | 66.9 | — | 6.7 | 0.8 | 3.1 |
| Health | 22.2 | 8.5 | 9.8 | 0.2 | 57.4 | 1.4 | 0.5 |
| Personal Accident | 49.5 | 31.2 | 11.4 | — | 7.2 | 0.3 | 0.6 |
| Motor | 43.8 | 25.5 | 2.3 | 0.4 | 17.1 | 8.1 | 2.8 |
| Third-Party Liability | 27.4 | 61.0 | 3.2 | — | 7.5 | 0.3 | 0.6 |
| Fire | 9.0 | 57.9 | 8.4 | — | 23.1 | 1.1 | 0.5 |
| Multi-Risk | 50.9 | 26.7 | 16.4 | — | 4.4 | 0.3 | 1.4 |
| Transport | 14.0 | 53.7 | 1.2 | — | 30.5 | 0.1 | 0.5 |
| Burial | 97.2 | 1.6 | 0.3 | — | 0.9 | — | 0.0 |
| Other Classes | 23.7 | 48.4 | 13.7 | — | 11.2 | 0.1 | 2.8 |
| Total | 25.6 | 16.3 | 40.8 | 0.1 | 12.4 | 2.3 | 2.6 |

Source: ICEA.

Market share by channels (% premiums). Year 2002
NEW PRODUCTION

| Classes | Channels | | | | | | |
|-----------------------|-------------|-------------|--------------------------|------------------------|-------------------|--------------------|-------------------|
| | Agents | Brokers | Bank/ savings bank | Electronic commerce | Branch offices | Telephone sales | Other channels |
| Life | 11.7 | 11.1 | 68.5 | — | 7.5 | — | 1.2 |
| Personal Accident | 47.7 | 31.2 | 14.2 | — | 6.5 | — | 0.4 |
| Motor | 40.5 | 26.7 | 3.6 | 1.4 | 10.1 | 16.0 | 1.8 |
| Third-Party Liability | 22.8 | 65.8 | 3.7 | — | 6.9 | — | 0.9 |
| Fire | 2.5 | 78.7 | 5.2 | — | 13.6 | — | 0.0 |
| Multi-Risk | 42.4 | 33.7 | 19.5 | 0.0 | 3.0 | 0.2 | 1.2 |
| Transport | 9.2 | 52.1 | 0.2 | — | 37.9 | — | 0.7 |
| Burial | 91.7 | 3.2 | 3.9 | — | 1.2 | — | 0.1 |
| Other Classes | 11.9 | 47.2 | 25.6 | — | 6.6 | — | 8.7 |
| Total | 15.8 | 15.3 | 57.4 | 0.1 | 8.4 | 1.5 | 1.4 |

Source: ICEA.

Life insurance sold through Banks and Savings Banks is the principal reason underlying the structural change in the distribution channels, with 66.9% of the portfolio and 68.5% of the new production. The finance company networks handle 16.4% of the Multi-Risk portfolio and this is progressively rising, given that the figure for new production is 19.5%.

The agents channel dominates the following classes: Motor (43.8% of the portfolio and 40.5% of new production), Multi-Risk (50.9% of the portfolio and 42.4% of new production) and Burial Expenses (97.2% of the portfolio and 91.7% of new production) among others, while the brokers channel is still the leader as regards policies for Fire (57.9% of the portfolio and 78.7% of new production), Transport (53.8% of the portfolio and 52.1% of new production) and Third-Party Liability (61% of the portfolio and 65.8% of new production).

This year 2002 has seen a significant improvement in the technical account results for the whole insurance sector, with a 4.2% rise in earned premiums, thanks to the progress of the Non-Life classes, where the claims ratio dropped 5.5 points to 72.7% and operating expenses were reduced 0.9 points to 20.1%.

| TOTAL | | | | | | | |
|-------|------------------------------------|------|----------------|-----------------------|-------------------|------------------|-------------------------------|
| Year | Earned premiums (million of euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Aquisition expenses | % Admin. expenses | % Total expenses | |
| 2000 | 37,375 | 47.2 | 64.6 | 8.5 | 2.0 | 10.5 | 2.3 |
| 2001 | 40,766 | 9.1 | 68.2 | 9.3 | 2.1 | 11.3 | 2.9 |
| 2002 | 46,030 | 12.9 | 65.9 | 8.8 | 1.9 | 10.7 | 4.2 |

Source: ICEA.

| LIFE | | | | | | | |
|------|------------------------------------|------|----------------|-----------------------|-------------------|------------------|-------------------------------|
| Year | Earned premiums (million of euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Aquisition expenses | % Admin. expenses | % Total expenses | |
| 2000 | 22,872 | 61.9 | 54.9 | 2.6 | 0.8 | 3.4 | 2.9 |
| 2001 | 22,910 | 0.2 | 60.4 | 2.9 | 0.9 | 3.8 | 2.8 |
| 2002 | 25,947 | 13.3 | 60.7 | 2.7 | 0.8 | 3.5 | 2.5 |

Source: ICEA.



| NON-LIFE | | | | | | | |
|----------|------------------------------------|------|----------------|------------------------|-------------------|------------------|-------------------------------|
| Year | Earned premiums (million of euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Admin. expenses | % Total expenses | |
| 2000 | 14,503 | 28.7 | 79.9 | 17.9 | 3.9 | 21.8 | 2.1 |
| 2001 | 17,856 | 23.1 | 78.2 | 17.4 | 3.6 | 21.0 | 3.1 |
| 2002 | 20,083 | 12.5 | 72.7 | 16.8 | 3.3 | 20.1 | 6.4 |

Source: ICEA.

Total premiums from Direct Insurance represented 7% of GDP (6.3% in 2001) and a total of 1,170 euros per inhabitant (924 euros in 2001). In recent years, there has been substantial improvement in drawing closer to the figure of other European Union countries, which in 2001 were 8.4% of GDP and 1,763 euros/inhabitant.

In the context of the European Union, in 2003 Spain occupied fifth position in terms of volume of Direct Insurance business, with 6.1% of the total.

| Volume of Direct Insurance Business in the European Union. Year 2002 | | | | | | | |
|--|--------------------------|-----------------|--------------------------|---------------------|--------------------------|------------|--------------------------|
| Country | Life | | Non-Life | | Total | | % Life Premiums of Total |
| | Premiums (million euros) | % of Total Life | Premiums (million euros) | % of Total Non-Life | Premiums (million euros) | % of Total | |
| Austria | 5,719 | 1.1 | 7,012 | 2.3 | 12,731 | 1.6 | 44.9 |
| Belgium | 14,500 | 2.9 | 7,933 | 2.6 | 22,433 | 2.8 | 64.6 |
| Denmark | 9,025 | 1.8 | 4,553 | 1.5 | 13,578 | 1.7 | 66.5 |
| Finland | 9,812 | 2.0 | 2,576 | 0.9 | 12,388 | 1.5 | 79.2 |
| France | 86,300 | 17.3 | 46,250 | 15.4 | 132,550 | 16.6 | 65.1 |
| Germany | 65,700 | 13.1 | 76,100 | 25.3 | 141,800 | 17.7 | 46.3 |
| Great Britain | 182,059 | 36.4 | 71,693 | 23.9 | 253,752 | 31.7 | 71.7 |
| Greece | 1,307 | 0.3 | 1,564 | 0.5 | 2,871 | 0.4 | 45.5 |
| Holland | 27,200 | 5.4 | 19,900 | 6.6 | 47,100 | 5.9 | 57.7 |
| Ireland | n.d. | n.d. | n.d. | n.d. | n.d. | n.d. | n.d. |
| Italy | 55,298 | 11.1 | 32,417 | 10.8 | 87,715 | 11.0 | 63.0 |
| Luxembourg | n.d. | n.d. | n.d. | n.d. | n.d. | n.d. | n.d. |
| Portugal | 4,561 | 0.9 | 3,845 | 1.3 | 8,406 | 1.0 | 54.3 |
| Spain | 27,000 | 5.4 | 21,500 | 7.2 | 48,500 | 6.1 | 55.7 |
| Sweden | 11,614 | 2.3 | 5,243 | 1.7 | 16,857 | 2.1 | 68.9 |
| Total UE | 500,095 | 100 | 300,586 | 100 | 800,681 | 100 | 62.5 |

Source: European Insurance Committee (CEA).

According to data from the General Insurance Directorate, there is a significant proportion of foreign capital in the Spanish insurance market, namely a 26.4% stake (22% proceeding from EU countries). This participation represents 39% of the premiums (43% in Life and 34% in Non-Life), and affects, among other companies, five groups situated among the top ten in the sector by volume of premiums.

On the other hand, there are few Spanish companies with a significant volume of business in other countries. The principal European destination, with right of establishment, for Spanish insurance activity is Portugal, with 29 branches, compared to the 43 branches registered in the whole of the European economic area. Spanish insurance companies are also present in South America, where MAPFRE is the leading foreign Direct Insurance company on the continent and has a highly significant presence in the reinsurance market.

In the year 2002, Spain adopted the euro and the insurance sector assumed this new situation with full normality, smoothly adapting its structures and administrative systems, in this further step down the road to full economic and financial liberalisation within the European Union. This was greatly facilitated by the previous harmonisation of the legal framework within which the continental insurance sector operates.

Finally, although the year 2002 will be remembered world-wide for the difficulties arising from the payment of indemnities for the events on September 11th 2001, for the floods all over Europe in the summer and for the stock market depreciations, we can point to the fact that the Spanish insurance sector shielded itself well from these circumstances and achieved better sectorial results than the average of its neighbouring countries.



Most notable features of the year 2002 by classes

LIFE INSURANCE

Life Insurance in 2002 experienced an evolution that, in general, proved satisfactory, considering the difficulties the financial markets have endured.

The total volume of premiums exceeded 26,600 million euros, which represents an increase of 15.6 % with respect to the year 2001.

| Modality | Reserves (mill. euros) | | | Premiums (mill. euros) | | |
|----------------------|------------------------|----------------|------------------|------------------------|---------------|------------------|
| | 2001 | 2002 | % Δ 2002/2001 | 2001 | 2002 | % Δ 2002/2001 |
| Death insurance | 1,410 | 1,868 | 32.5 | 1,471 | 1,783 | 21.2 |
| Retirement insurance | 62,157 | 73,358 | 18.0 | 14,279 | 18,288 | 28.1 |
| Other savings ins. | 25,956 | 27,161 | 4.6 | 7,278 | 6,556 | -9.9 |
| Total Life | 89,523 | 102,387 | 14.4 | 23,028 | 26,627 | 15.6 |

Source: ICEA.

Most noteworthy is the role Life Insurance has been playing within the overall context of financial and savings/retirement instruments. In this sense, we should underscore the fact that the total volume of technical reserves in 2002 reached 102,387 million euros, with a growth rate of slightly over 14% and a more expansive performance than that of other products such as Investment Funds and Pension Funds.

Within Individual Insurance, the most successful modalities are still those products that offer guaranteed interest rates —especially single premium ones— given that they represent a highly attractive alternative for the small-to-medium investor, within the present context of financial uncertainty.



Looking again at the evolution produced in 2001, those policies linked to assets —such as the Unit-Linked products— experienced a significant drop, both as regards managed savings and the number of contracts; nevertheless, the guaranteed interest rate products registered an increase of over 20%.

Moreover, we must highlight the tremendously positive results achieved by the Life Insurance class, with its fundamentally risk-filled cover. On this question, it should be pointed out that the number of policies at the close of fiscal year 2002 surpassed 10 million contracts, thus revealing an increase of around 20%, both for individual and group products, reinforcing the importance of this type of solution as an instrument of saving for retirement.

| LIFE | | | | | | | |
|------|--------------------------------|------|----------------|------------------------|-----------------------|------------------|-------------------------------|
| Year | Eamed premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 22,872 | 61.9 | 54.9 | 2.6 | 0.8 | 3.4 | 2.9 |
| 2001 | 22,910 | 0.2 | 60.4 | 2.9 | 0.9 | 3.8 | 2.8 |
| 2002 | 25,947 | 13.3 | 60.7 | 2.7 | 0.8 | 3.5 | 2.5 |

Source: ICEA.

In addition, we cannot fail to mention the fact that a large part of the satisfactory evolution of Life Insurance over the last two years can be attributed to the exteriorisation of the pension commitments of the companies towards their employees. Thus, although most of the major firms effected the exteriorisation of these commitments in 2001, a significant volume of business was generated for the sector by the small and medium-sized enterprises during the last few months of 2002, given that the deadline for formalising these operations fell in November 2002. The volume managed reached 23,620 million euros, which represents a little more than half the total savings managed in Group Insurance.

Finally, there has been outstanding progress in the Immediate and Deferred Life Annuity Insurance field.

Although, from a strictly insurance perspective, Investment Funds and Pension Funds should not be included in this section, their important role in commercialising the savings from household economies, and their complementary nature in many cases, mean we should indeed make some reference to them.

In 2002, the Investment Funds industry had to confront yet another unfavourable period. The complicated financial situation and the climate of geopolitical uncertainty clearly shook the confidence of investors and had a bearing on the negative evolution of the stock markets for the third consecutive year.

These circumstances meant that total assets were reduced by 3.9%, now standing at 170,814 million euros, as well as a lesser number of participants than two years ago. Nonetheless, the more conservative Investment Funds increased their assets in a significant fashion, with growth rates of 23% in the short-term Fixed Income Funds and 22% in the FIAMM (money market funds). Logically enough, less favourable performance corresponded to the Variable Income Funds —with a decrease of 31% in volume— as well as the Mixed Funds and Guaranteed Funds, with slumps of 26% and 10%, respectively.

This evolution has led to a reduction in the weight of variable income in the structure of the investment portfolio of the Investment Funds, with the increase in fixed income maintaining, to a large degree, the internationalisation of the portfolios.

| SAVINGS & RETIREMENT INSTRUMENTS | | | |
|-----------------------------------|--------------------------------------|--------------------------------------|------------------|
| Instruments | Assets 2001 (million euros) | Assets 2002 (million euros) | % Δ 2002/2001 |
| Investment Funds | 177,871 | 170,814 | -3.97 |
| Life Insurance | 89,523 | 102,387 | 14.37 |
| Individual | 54,355 | 59,637 | 9.72 |
| Group | 35,169 | 42,750 | 21.56 |
| Exteriorisation | 13,758 | 23,619 | 71.67 |
| Risk | 159 | 236 | 48.47 |
| Savings | 13,599 | 23,383 | 71.94 |
| Pension Plans | 43,829 | 48,110 | 9.77 |
| Individual's Plan | 24,214 | 26,216 | 8.3 |
| Employer's Plan | 18,837 | 21,213 | 12.3 |
| Associated System | 777 | 732 | -7.3 |
| Mutual Insurance Societies | 12,197 | 13,014 | 6.7 |

Sources: ICEA, INVERCO & Confederación Nacional de Entidades de Previsión Social.

The Pension Funds, however, have followed a much more positive course. They closed fiscal year 2002 with a volume of assets of 48,110 million euros, which represents an increase of nearly 10% with respect to the figure reached the previous year. The number of accounts rose 12%, now exceeding 6.5 million participants, with 5.8 million corresponding to the Individual's Contract Pension Plan and 0.7 million to the Employer's Contract Pension Plan.

As a result of the exteriorisation of the companies' pension commitments, the assets managed by the Employer's Contract Pension Plan were those that registered the greatest growth rate—up 12.3% to 21,213 million euros—while those corresponding to the Individual's Contract Pension Plan reached 26,216 million euros and those of the Associated System, 732 million euros.

Fiscal year 2003 started with a climate of extreme uncertainty, as a result of the Irak conflict, the effects of which will have to be assessed according to its repercussion on economic growth, international investment and business results.

After three years of sliding stock markets and in the face of the consequent crisis of confidence, it is expected that 2003 will be a transition period that marks the start of a changing trend on the financial scene, with progressive improvements in the growth rates of different geographical areas, an end to the downward interest rate cycle and upturns in company profit margins.

As regards Life Insurance, in the current context, it is likely that, in the medium and longer-term future, the guaranteed interest products will continue to garner a large portion of the sales in this sector, while the success of the new savings products on offer will depend largely on the performance of the financial markets throughout the year.

An important innovation, given the expectation raised in the sector, are the Insured Pension Plans known as PPA's. Their appearance this year offers an adequate response to the reiterated requests from the Life Insurance companies for a formula that, under the banner of an Individual Life Insurance scheme, constitutes a long-term savings plan that is principally designed for retirement needs, with the same important fiscal benefits that have long characterised other Pension Plans.

Moreover, it must be underscored that the new reform of the Spanish personal income tax law introduced other important fiscal incentives for life insurance.

All these new features, together with the consolidation of this industry—17 million policies in force—constitute a panorama full of optimism that life insurance will further reinforce its already important role in the savings and retirement market in Spain.

As for Investment Funds, the disappearance of the «fiscal toll charge» applied to transfers from one fund to another, as well as the reduction in the tax



rate applicable to capital gains on investments held for more than one year from 18% to 15%, constitute important factors that augur major expansion of this sector in 2003, increasing the level of competitiveness between the different fund managers.

Finally, it is to be hoped that Pension Plans will continue their path of sustained growth, given the low levels of long-term savings and retirement plans in Spain and the fiscal measures in recent years that have increased the maximum contribution limits.

MOTOR INSURANCE

Motor insurance written premiums throughout 2002 amounted to 9,794 million euros, this representing an increase of 8.8% over the previous year. This class still heads the ranking among Non-Life products, with a 45.3% share of written premiums, although it has lost 1.5% to the other Non-Life classes.

| MOTOR | | | | |
|-----------------------|-------------------------------------|-------------------------------------|------------------|--------------|
| | Premiums 2001 (million euros) | Premiums 2002 (million euros) | % Δ 2002/2001 | % of Total |
| Third-party liability | 5,300 | 5,790 | 9.2 | 59.1 |
| Other risks | 3,700 | 4,004 | 8.2 | 40.9 |
| Total motor | 9,000 | 9,794 | 8.8 | 100.0 |

Source: ICEA.

Written premiums to cover Third-Party Liability still account for the greatest number, with 5,790 million euros and a 9.2% rise with respect to 2001.

And written premiums offering cover other than Third-Party Liability came to 4,004 million euros, with an annual growth rate of 8.2%.

| MOTOR | | | | | | | |
|-------|--|------|----------------------|-------------------------|------------------------------|---------------------|--|
| Year | Earned Premiums (million euros) | % Δ | % Claims Ratio | Acquisition | | | % Result of Technical Account |
| | | | | % Operating Expenses | % Expenses Administration | % Total Expenses | |
| 2000 | 6,716 | 27.1 | 87.7 | 14.6 | 3.1 | 17.7 | 0.5 |
| 2001 | 8,312 | 23.8 | 80.4 | 14.5 | 2.9 | 17.3 | 5.5 |
| 2002 | 9,236 | 11.1 | 74.6 | 13.7 | 2.6 | 16.3 | 8.7 |

Source: ICEA.

The claims ratio on earned premiums improved for the second year running, with the 2002 figure standing at 74.6%, compared to 80.4% for 2001. This notable reduction in the claims ratio contributed positively towards improving the technical-financial result for the class.

Operating expenses also experienced a slight reduction, now standing at 16.3%, after the previous year's figure of 17.3%. For all the above, the technical account result has improved 8.7%, compared to 5.5% in 2001. Apart from the containment of costs and the reduction of the claims ratio, another of the factors that contributed positively to achieving the improved technical result was greater rigour as regards underwriting and rating risks.

Throughout 2002, the trend towards greater concentration in the motor insurance class continued accelerating, resulting in fewer companies. This trend has been prevalent for some years now, given that this market was traditionally highly fragmented in Spain.

Mention must be made of the difficulties that have existed since September 11th 2001 when it comes to seeking reinsurance for unlimited Third-Party Liability cover and the consequent trend towards underwriting limited Third-Party Liability cover in the new contracts entered into after that date.

Moreover, uncertainty still reigns with respect to the solution of the appeals regarding the Personal Damages Table, fundamentally with regard to indemnities for future loss of profits for the victims.

HEALTH INSURANCE

In the Health Insurance sector, 2002, just like 2001, was marked by the expectations raised around the development of a Dependency Law which defines the scope of public health service cover for this kind of incapacity and, as a result, the framework for action within which the insurance companies may operate in order to provide private assistance. Following several delays, this long-awaited regulation was finally not adopted, with the result that the sector's expansion, in terms of significant increases in business opportunities, has been considerably stifled.

Health policies in 2002 reached a volume of premiums of 3,296 million euros, which means an increase of 9.5% with respect to the previous year. This growth is very similar to the figure of 9.6% in 2001. Taking into account the fact that the average year-on-year variation in prices for health insurance policies came to around 5%, the result is net growth arising from new business of some 4.5% for fiscal year 2002.

Analysing the growth by cover options, it can be seen that the Medical Care and Reimbursement policies are the ones that have shown greater relative growth —9.6%— while the Benefit policies rose 8.1%.



| HEALTH | | | | |
|---------------------------|-------------------------------------|-------------------------------------|------------------|------------|
| | Premiums 2001 (million euros) | Premiums 2002 (million euros) | % Δ 2002/2001 | % of Total |
| Medical care | 2,558 | 2,803 | 9.6 | 85.0 |
| Sickness | 452 | 493 | 9.1 | 15.0 |
| Reimbursement of expenses | 280 | 307 | 9.6 | 9.3 |
| Benefits & Compensation | 172 | 186 | 8.1 | 5.6 |
| Total health | 3,010 | 3,296 | 9.5 | 100 |

Source: ICEA.

Analysing the figures by type of business, it can be seen that Medical Care accounts for 85% of the total business. As for Sickness, the part corresponding to Reimbursement accounts for 9.3% of the total and Benefits and Compensation policies for 5.6%. The percentages for the different modalities of Health insurance remain stable from one year to the next, although the Reimbursement of Expenses business is progressively gaining ground in premium income, ahead of the compensation policies.

Within Non-Life, Health insurance is still the number two in terms of volume of premiums, with 15.3% of the total, only exceeded by the Motor insurance class. However, it continues gradually losing ground against the Multi-Risk business, which, with an increase of 16.3% over the previous year, has managed to reduce the relative importance of the Health business in 2002, due to its diminished growth.

As regards the evolution of the claims ratio, Health insurance has improved slightly with respect to the previous year. In 2002, the claims ratio was 82.6% compared to 83.7% in 2001, i.e. down 1.1 points. Although there was a small increase in operating expenses, up from 10.7% in 2001 to 11% in 2002, the result of the technical account in this class improved slightly.

| HEALTH | | | | | | | |
|-------------|--|------|----------------------|---------------------------|--------------------------|---------------------|--|
| Year | Earned premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 2,253 | 61.4 | 83.6 | 7.6 | 3.2 | 10.8 | 4.9 |
| 2001 | 2,773 | 23.0 | 83.7 | 7.8 | 3.0 | 10.7 | 4.8 |
| 2002 | 2,942 | 6.1 | 82.6 | 7.9 | 3.0 | 11.0 | 5.2 |

Source: ICEA.

With regard to the concentration levels in this sector, as a result of the mergers that took place in 2002, there is now less fragmentation of the Health business. The top five companies share between them 64% of all premiums, compared to 59.5% in the year 2001.

In the year 2003, a significant factor driving growth will be the recent fiscal legislation that encourages the self-employed to take out Health insurance policies, as well as promoting group company policies. In this sense, Spanish Law 46/2002 for partially reforming the personal income tax regulations introduced two important new features that may favour an increase in the volume of business in this class. On the one hand, there is the notable innovation with respect to no longer considering as income in kind the premiums satisfied to cover Sickness, up to a limit of 500 euros, for the worker, the spouse and any descendents. The second important modification is that the taxpayer may deduct the premiums satisfied for an Sickness policy, both the part that corresponds to the worker's own cover and that corresponding to the spouse and children under twenty-five years of age still living at home. The maximum deductible limit will be 500 euros for each of the aforementioned persons.

MULTI-RISK INSURANCE

The written premiums for Multi-Risk insurance policies came to 3,255 million euros, this representing an increase of 16.3% with respect to the previous year.

Within Non-Life, Multi-Risk continues in third place as regards volume of premiums, with 15.1% of the total. The growth in volume of premiums experienced in 2002 draws it closer to Health insurance, which maintains its second place in the Non-Life ranking.

| MULTI-RISK | | | | |
|-------------------------|-------------------------------------|-------------------------------------|------------------|--------------|
| | Premiums 2001 (million euros) | Premiums 2002 (million euros) | % Δ 2002/2001 | % of Total |
| Household | 1,456 | 1,667 | 14.5 | 51.2 |
| Industrial | 630 | 778 | 23.5 | 23.9 |
| Commercial Premises | 355 | 412 | 16.1 | 12.7 |
| Condominiums | 314 | 356 | 13.4 | 10.9 |
| Others | 45 | 42 | -6.7 | 1.3 |
| Total Multi-Risk | 2,800 | 3,255 | 16.3 | 100.0 |

Source: ICEA.

The growth experienced in Multi-Risk policies for industry has been outstanding, with the rate being 23.5%. However, the major player is still household insurance, accounting for 51% of written premiums.

The claims ratio in the sector, with respect to earned premiums, dropped significantly from 76.6% in 2001 to 68.6% in 2002. Operating expenses account for 30.5% of earned premiums, and the reduction of 1.3 points contributed to the improvement of the result for the technical account in this class, which stands at 0.2% of earned premiums, compared to the negative result in previous years. The Multi-Risk insurance for single households and condominiums produced positive technical account results and compensated for the negative results of the policies for Multi-Risk industrial, commercial premises and others.

| MULTI-RISK | | | | | | | |
|------------|---------------------------------|------|----------------|------------------------|-----------------------|------------------|-------------------------------|
| Year | Earned premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 2,201 | 19.4 | 76.3 | 28.5 | 4.1 | 32.6 | -5.4 |
| 2001 | 2,669 | 21.2 | 76.6 | 28.1 | 3.7 | 31.8 | -6.3 |
| 2002 | 3,049 | 14.3 | 68.6 | 27.2 | 3.3 | 30.5 | 0.2 |

Source: ICEA.

It is to be hoped that 2003 will see continued improvement of the technical account result, thus permitting greater future stability for the tariffs in this sector.

PERSONAL ACCIDENT INSURANCE

In 2002, the volume of earned premiums in this class amounted to 670 million euros, which represents a 2.1% rise with respect to the previous year.

Within Non-Life, accident insurance represented 3% of written premiums, compared to 3.2% in 2001.

The claims ratio in the sector stands at 52.1%, compared to 53.8% in 2001, a highly positive figure that has maintained the trend of recent years. Operating expenses were also reduced by 0.1 points, producing a result in the technical account of 16.6% of earned premiums.

There is a continued expansion of the offer of individual insurance policies directed at and linked to the «Family Protection Plans». Various simple products are appearing on the market, easy to present and sell in large numbers, chiefly through the bank distribution channel.

| ACCIDENT | | | | | | | |
|----------|---------------------------------|------|----------------|------------------------|-----------------------|------------------|-------------------------------|
| Year | Earned premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 542 | 9.9 | 55.2 | 25.3 | 4.7 | 30.0 | 15.5 |
| 2001 | 656 | 21.0 | 53.8 | 25.2 | 4.5 | 29.7 | 18.1 |
| 2002 | 670 | 2.1 | 52.1 | 25.4 | 4.2 | 29.6 | 16.0 |

Source: ICEA.

The group insurances did not produce good results, given the tough competition in this market, which forces prices down below the margins needed.

For the year 2003, no significant changes are expected in relation to the results, which will continue producing significant profits.

BURIAL EXPENSES INSURANCE

The written premiums in this class reached the figure of 1,054 million euros in 2002, which represents an increase of 7.6% with respect to the previous year, somewhat less than the 8.4% growth registered in 2001.

With regard to the Non-Life classes, Burial Expenses insurance represented 4.9% of written premiums, compared to 5.1% in 2001.

The claims ratio was 40.7% of earned premiums, which represents a slight decrease with respect to the previous year. Operating expenses were reduced by 0.2 points.

| BURIAL EXPENSES | | | | | | | |
|-----------------|---------------------------------|------|----------------|------------------------|-----------------------|------------------|-------------------------------|
| Year | Earned premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 745 | 2.7 | 41.8 | 37.9 | 6.3 | 44.2 | 6.3 |
| 2001 | 850 | 14.2 | 41.1 | 35.2 | 6.1 | 41.3 | 7.6 |
| 2002 | 998 | 17.4 | 40.7 | 34.8 | 6.3 | 41.1 | 4.8 |

Source: ICEA.

The result of the technical account came to 4.8% of earned premiums, 2.8 points worse than fiscal year 2001, due to the negative effect produced by the increase in reserves set aside for depreciation of financial investments.

Adapting to the new Private Insurance Regulations has not proved easy, particularly in the commercial aspect, due to the economic repercussion the application of the technical criteria established therein has had on the peculiar distribution network of this sector: rating on the basis of actuarial criteria, updating the mortality tables and constituting mathematical reserves on the basis of an interest rate directly set by the General Insurance Directorate.

THIRD-PARTY INSURANCE

In the year 2002, the premiums written for Third-Party insurance came to 1,040 million euros, this being 23.8% up on the previous year, i.e. around 20 points above the inflation rate (4%).

Within the Non-Life sector, Third-Party insurance represented 4.8% of written premiums, compared to 4.4% in 2001.

The claims ratio was 85.7% of earned premiums, which represents a decrease of 3.5 points with respect to the previous year. Operating expenses were also reduced by 4.8 points, reaching 17.7%.

Despite the improved claims ratio and operating expenses, the result of the technical account remained negative at 2.3% of earned premiums.

| THIRD PARTY INSURANCE | | | | | | | |
|-----------------------|---------------------------------|------|----------------|------------------------|-----------------------|------------------|-------------------------------|
| Year | Earned premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 548 | 30.9 | 89.1 | 20.0 | 3.7 | 23.7 | -0.2 |
| 2001 | 692 | 26.3 | 89.2 | 19.3 | 3.3 | 22.5 | -2.2 |
| 2002 | 985 | 42.3 | 85.7 | 15.5 | 2.2 | 17.7 | -2.3 |

Source: ICEA.

It does not give the impression that the expectations for 2003 are going to be very different from those for 2002:

- The growth in premiums could stand at around 15%-20% (4% inflation rate), if portfolio revision and rationalisation actions are maintained and some insurers continue withdrawing their services in certain modalities.
- Another factor that has contributed to the growth in premiums has been the introduction by the companies of portfolio management instruments, as well as the implementation of systems that enable the adjustment of premiums for those policies stipulated according to variable bases.
- At the same time, the conditions for renewing Major Accounts have been accompanied by upward revisions of the economic conditions, as well as the application of certain restrictions on the scope of some cover, especially in Directors and Officers Insurance (D&O).
- The results could experience a slight improvement, given that this is the year that we should start to see the effects of the corrective measures adopted by the sector (increase of deductibles, cover limitations and increased premiums).
- However, the opening of IBNR claims is one factor that offsets the positive effects of the rationalisation procedures undertaken.

In any case, considering the starting point, the results for the class are still of some concern, for not only is improvement not expected, but we can observe a concentration of the market that can only produce beneficial effects in the medium term, attending to the difficulties involved in managing a class that has to operate in an extraordinarily changeable context where:

- Third-Party insurance reacts slowly to such changes.
- Some insurers have stopped underwriting certain kinds of insurance due to their elevated claims ratio.
- There are difficulties when it comes to providing certain forms of Third-Party Liability cover required by the Insured, due to the asymmetric demand for the same, compared to the offer insurers place on the market. The health sector, professional activities, certain obligatory insurances, the full assets liability of the Public Administrations and certain industrial risks are several examples of this situation.
- In the current situation, characterised by profound, rapid social, legal and jurisprudence transformations, solely those specialised insurers who respond swiftly and efficiently to challenges, as and when they arise, will be



able to perform on an insurance playing field that proves particularly difficult and increasingly complex.

- In the last few years, we have witnessed the underwriting of a significant volume of premiums by Underwriting Agencies and by Companies operating under the Free Provision of Services agreement. This may now account for around 10% of the total Third-Party Insurance business, although this does not appear to have particularly affected results, especially taking into account the fact that their activities are basically focussed on segments of aggravated risk: professionals, D&O and the financial sector.
- Finally, there is a noticeable concentration of Third-Party insurance operators, and not just within the direct insurance field, but also —and to a much greater extent— within the reinsurance sector.

CREDIT AND SURETY INSURANCE

The written premiums for Surety insurance in fiscal year 2002 reached 58 million euros, a figure slightly lower than that for 2001, which stood at 59 million euros. This slight drop of 1.7% is due, we believe, to the commencement of a modest downturn in real estate activity and to the failure to renew several atypical, high-value operations.

| SURETY | | | | | | | |
|--------|---------------------------------|------|----------------|------------------------|-----------------------|------------------|-------------------------------|
| Year | Earned premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 28 | 25.3 | 25.1 | 18.4 | 10.2 | 28.6 | 49.9 |
| 2001 | 38 | 36.6 | -1.6 | 11.5 | 6.7 | 18.2 | 84.9 |
| 2002 | 44 | 15.4 | 20.5 | 20.1 | 5.9 | 26.0 | 54.0 |

Source: ICEA.

The excellence of this class can be seen in the containment of the claims ratio, which amounted to 20.5% in 2002.

If, in addition to these figures, we consider the acquisition and administration expenses, which together represent 26% of earned premiums, the result obtained from the technical account is 54% of earned premiums. This, undoubtedly, places this class at the head of the whole insurance sector; obviously,

this must be taken in the context of the modest premiums for this class, which has to compete directly with the banks, something that does not occur with other fields of insurance.

With regard to Credit Insurance, throughout 2002 the penetration of this class in Spanish industry has continued to grow, with written premiums reaching 450 million euros, an increase over the 2001 figures of 12.4%. This was the result of both the increasingly specialised commercial actions and the recent appearance in Spain of most of the major European groups.

| CREDIT | | | | | | | |
|--------|---------------------------------|------|----------------|------------------------|-----------------------|------------------|-------------------------------|
| Year | Earned premiums (million euros) | % Δ | % Claims ratio | Operating expenses | | | % Result of technical account |
| | | | | % Acquisition expenses | % Administr. expenses | % Total expenses | |
| 2000 | 323 | 43.4 | 68.0 | 19.0 | 16.2 | 35.3 | 11.3 |
| 2001 | 380 | 17.4 | 76.3 | 18.9 | 16.3 | 35.1 | 3.9 |
| 2002 | 428 | 12.8 | 72.4 | 17.6 | 14.3 | 31.9 | 6.3 |

Source: ICEA. Economic report on insurance sector.

From the technical viewpoint, the sector has witnessed an improvement in the claims ratio of around 4 points, something which, together with reduced administration expenses, enabled this class to obtain a technical account result in 2002 of 6.3%, compared to 3.9% in 2001.

In addition, these same circumstances were conducive to maintaining, to a large degree, low rates close to the limit that could be deemed technically acceptable. The result is that, with a moderate increase in the general default rate in Spain, the claims ratio, nevertheless, exceeded 70% for the market as a whole, albeit with a range of figures for the different companies involved.

The available data lead us to believe that the downward trend for rates bottomed out in 2002 and we are now seeing the start of a generalised raising of tariffs.

The conditions being offered for Credit Insurance cover are increasingly specialised and adapted to different types of business and, in general, this makes it more attractive for potential clients. Even more so, taking into account the progressive simplification of the administrative procedures called for in these cases, thanks to the application of instruments provided by the new communication and information technologies.

The prospects we referred to above allow us to forecast considerable future development of this class, with significant rates of growth and an increasingly professional use by companies of the additional risk prevention services —credit analysis of clients and markets— and overdue loan recovery management, especially for the small and medium-sized enterprises, which constitute the most important portion of the Spanish industrial fabric.



Legal modifications 2001-2002

Royal Decree 7/2001, of January 12th, which duly approved the Regulations on Third-Party Insurance and Insurance in the Circulation of Motor Vehicles. It replaces the former Regulation approved by Royal Decree 2641/1986.

The Regulation clarifies certain controversial aspects regarding obligatory Motor Insurance, following the changes introduced by the Spanish Private Insurance Law in its Eighth Additional Provision. The said law, apart from adapting Spanish legislation to European Directive 90/232/EEC —Third Directive on Automobiles— also introduced significant changes in the regulation of motor third-party liability and insurance. Among these, the most noteworthy are the establishment of a special regime for any default on the part of the insurer and the implementation of a system for assessing damages caused to individuals in road accidents.

The new Regulation consists of three titles, the first of which refers to Third-Party Liability, the second to obligatory insurance and the third to the Insurance Compensation Consortium.

We shall now list some of the most important innovations:

- A definition is given of the concepts «motor vehicle» and «traffic incident», which are fundamental when it comes to defining third-party liability and the obligation and effects of insuring the same.
- A maximum amount is set for the cover provided by obligatory insurance.
- The Spanish Office of Automobile Insurers (OFESAUTO) shall be deemed a national insurance office, responsible for monitoring the fulfilment of this obligatory insurance.
- It regulates the obligation of the insurance companies to furnish information to the Spanish Economics Ministry in relation to the vehicles in-



sured by them. In this manner, it develops the regulation sought via the Information File on Insured Vehicles (FIVA), administered by the Insurance Compensation Consortium, by enabling data to be cross referenced with the file on registered vehicles kept by the Spanish General Traffic Directorate.

- Insurers are obliged to issue vehicle owners with a certificate of previous claims.

Spanish Law 24/2001, of December 27th, on Fiscal, Administrative and Social Order Measures.

As has been the norm in recent years, the so-called Laws Accompanying the Spanish National Budget envisage a series of legislative modifications that affect several different sectors, among them the insurance sector:

- It modifies Section 1 of article 65 of the Private Insurance Law, increasing the stipulated limit of the economic benefits guaranteed by Social Insurance Mutualities.
- As regards pension plans and funds, most noteworthy is the elimination of the joint limit on the contributions to individual and employer's contract pension plans, as well as the increased limit on the contributions made by individuals coming up to retirement age and those with disabilities. The incentives as regards social insurance were completed with the establishment of a ten per cent deduction in the corporation tax quota for employers' contributions to contract pension plans for those workers with lower incomes.

Law 19/2001, of December 19th, to reform the parliamentary text of the Law on Traffic, Circulation of Motor Vehicles and Road Safety, approved by legislative Royal Decree 339/1990, of March 2nd.

Reducing the claims ratio and achieving more fluid circulation of traffic are the principal objectives pursued by this Law, as it strives to adapt traffic legislation to modern-day realities. Among the modifications it introduces, the following stand out:

- Prohibition of the use of mobile telephones and the use of radar detectors.
- Immobilisation of the vehicle by the agents charged with monitoring the traffic, whenever its circulation could pose a risk to traffic, persons or property.
- Protection for cyclists.
- New regulation covering infringements and sanctions.



Law 34/2002, of July 11th, on Information Society and Electronic Commerce Services.

This has the goal of transposing to Spanish legislation the EU Directive 2000/31/EC, related to certain aspects of information services, particularly electronic commerce. Moreover, it partially transposes Directive 98/27/EC, related to injunctions for protecting the interests of consumers.

Although it does not regulate specific aspects of insurance contracts, it does principally affect the protection of the policyholder and the insured, as well as offering a guarantee of contractual freedom.

Law 44/2002, of November 22nd, on Reform Measures for the Financial System.

The insurance-related aspects of this Law are:

- Disappearance of the CLEA (insurance company liquidator commission), whose functions have been taken over by the Insurance Compensation Consortium.
- Transposition of important Community Directives:
- Fourth Automobile Directive: regulates the rights of the injured party in accidents occurring outside the European Union country of residence.
- With a view to encouraging the use of the new technologies in the financial sector, the Economics minister is authorised to develop the conditions that must govern the contracting of the various types of financial services by electronic means.
- Directive 2000/64/EC covering the fields of insurance, securities and collective investment institutions is duly transposed, thus permitting agreements to be entered into with regard to the exchange of information between public watchdog bodies.
- New administrative bodies are created for the protection of the clients of financial services: a Savers' Ombudsman, an Investors' Ombudsman and an Ombudsman for the Insured and Pension Plan Participant.

Law 46/2002, of December 18th, on the Partial Reform of Personal Income Tax, which also modifies the laws on Corporation Tax and Taxes on Non-Residents.

- Introduces the Insured Pension Plans (PPA), life insurance policies with the same fiscal treatment as pension funds, but with a guaranteed return.



- Improves fiscal conditions for Life Insurance in the following aspects:
- Simplification of the fiscal system governing individual Life Insurance policies, improving the treatment of the returns on movable capital.
- The taxation procedures governing collective Life Insurance policies — pension commitments— have also been improved, simplifying the fiscal system and modifying the treatment of the labour income produced.
- Increases the annual limit for deductible contributions to pension plans.

