

Authorization is hereby given to reproduce the information contained in this study, provided the source is cited.

©2011, FUNDACIÓN MAPFRE
Centro de Estudios
Recoletos, 23
28004 Madrid
www.fundacionmapfre.com/cienciasdelseguro
Tel.: 91 581 23 39
Fax: 91 581 23 55

Table of contents

1. SUMMARY.....	4
2. ECONOMIC CONTEXT	8
2.1. The world economy.....	9
2.2. The spanish economy	10
3. SOCIAL AND ECONOMIC VARIABLES RELATED TO INSURANCE	12
4. PRINCIPLE CHARACTERISTICS OF THE INSURANCE MARKET	17
4.1. International markets.....	18
4.2. The spanish insurance market.....	20
4.2.1. Main indicators.....	20
4.2.2. Mutual provident societies.....	24
4.2.3. Structure of the market	24
4.2.4. Reinsurance	29
4.2.5. Consorcio de compensación de seguros.....	30
4.2.6. Solvency ii.....	31
5. EVOLUTION OF THE INSURANCE MARKET BY BRANCH	33
5.1. Life.....	34
5.2. Motor.....	37
5.3. Multiperil.....	40
5.3.1. Home multiperil.....	42
5.3.2. Industrial multiperil.....	42
5.3.3. Commercial premises multiperil	43
5.3.4. Condominium multiperil.....	43
5.4. Health.....	45
5.5. Third-party liability.....	46
5.6. Burial insurance.....	48
5.7. Personal accident	49
5.8. Credit.....	51
5.9. Surety	52
5.10. Transport.....	53
5.10.1. Hulls	54
5.10.2. Goods.....	54
5.11. Engineering.....	56
5.12. Multi-peril agricultural insurance.....	57
6. NEW LEGISLATION	59
7. METHODOLOGY.....	64
INDEX OF CHARTS AND TABLES.....	66

1. Summary

1. SUMMARY

The economy kept making strides to overcome the crisis in 2010, although at a slower pace in the second half of the year. A major rise in manufacturing and global trade were the driving forces behind this recovery, while a low level of consumer confidence, along with a drop in household income and wealth, curbed consumption in advanced economies. However, household spending rose at a good rate in many emerging regions, where investment encouraged job creation. The prospects for 2011 point to a gradual, uneven consolidation of the recovery of advanced economies. Emerging economies, which were less affected by the crisis, have a more solid outlook.

The Spanish economy finished 2010 with a contraction of 0.1%, compared to a decline of 3.7% the previous year. Despite the improvement from 2009, the Spanish number stands in contrast to that of the rest of the euro zone, where GDP increased 1.7%. The bottom line for 2010 showed a stagnation of activity and a major deterioration in the job market. Prospects for 2011 are for growth of about 1% in a context of gradual toughening of monetary conditions and a probable rise in interest rates.

After falling for two years in a row, premium volume from direct insurance in the **global insurance market** rose 2.7% in 2010 to \$4.3 trillion (3.3 trillion euros). Life insurance saw premium revenue of \$2.5 trillion (1.9 trillion euros), which made for an increase of 3.2%. In two of the world's largest Life insurance markets, the United States and the United Kingdom, premiums fell, while in several major European markets growth rates were significant, thanks to sales of single-premium products with appealing guarantees. Emerging markets, mainly in Asia, posted another year of strong rises. Volume of Non-Life premiums was \$1.8 trillion (1.4 trillion euros), for an increase of 2.1% compared to 2009. Growth was solid in the emerging economies of Asia and Latin America and moderate in industrialized countries. One of the things holding back the Non-Life sector in the more developed markets was the soft market conditions seen in several countries and lines of business. Forecasts for 2011 are for improvement, both in Life and Non-Life insurance, with larger growth in emerging markets in better prospects than in previous years for the Non-Life segment in industrialized countries.

The year 2010 had the second highest number of **natural disasters** since 1980, especially earthquakes, such as those in Haiti, Chile, China and New Zealand, which took a heavy toll in damage and human lives. As for insured losses, the most costly disaster was the earthquake in Chile (27 February) at \$8,000 million (6,000 million euros), followed by the quake in New Zealand (4 September), with a cost of more than \$4,000 million (3,000 million euros). In Europe, the most costly loss event for the insurance industry was the winter storm known as Xynthia, which hit France and the northeast of Europe in February and caused \$2,700 million (2,000 million euros) in damage.

The **Spanish insurance market in 2010** registered direct insurance premiums of 57,588 million euros, a decline of 3.8% compared to 2009. If one adds the production of **Mutual Provident Societies, or 2,535 million euros, to that of Public Limited Companies and Mutual Insurers**, total premium volume in the sector was 60,122 million euros, which decreases the decline to 2.3%.

Life insurance had production of 25,768 million euros, down 8.4% from the previous year. The products which accumulate a greater volume of provisions – Lifetime annuities and de-

ferred capital, saw the biggest declines in premiums. However, in a context of financial instability like the current one, people looking to save preferred guaranteed products such as Insured Pension Plans (PPAs in Spanish), which posted major rises in premiums and provisions – 25.2% and 32.8%, respectively. Despite the decline in premiums, the volume of technical provisions rose 2% to 146,633 million euros.

Pension Plans closed the year with assets under management of 84,757 million euros, a slight decline of 0.2% with respect to 2009, again highlighting the strong performance of plans linked to the employment system (with asset growth of 12.7%).

After falling in 2009, **Non-Life insurance** chalked up a slight increase of 0.2% in premiums to reach 31,820 million euros. The effects of the economic crisis on production and consumption, as well as stiff competition in most branches, prevented greater growth in this segment. Three of the five branches with the largest relative weight in the Non-Life sector (Multi-Peril, Health and Burial insurance) managed to post increases in premiums.

The performance of the different branches was as follows: slacker demand for Motor insurance caused a 0.9% drop in premium revenue. Health insurance posted premium growth of 4.2%, well above the average in Non-Life branches, and retained an 11.1% share of the overall market. Multi-Peril insurance rose 3% thanks to growth in Homeowner's and Condominium insurance. Burial insurance grew 2%, surpassing in premium volume the Third Party Liability segment, which declined 5.2%. as for other branches, the only ones that grew were Fire, Pecuniary Losses, Surety and Theft.

Despite the fall in revenue, **results in the insurance sector were very good**. The result of the non-technical account reached 4,225 million euros, up 12.2% from the previous year. The improvement stemmed from growth in the technical account of the Life insurance line, which expanded 7.1% thanks to a significant drop in net operation expenses and to a fall high in costs involving tangible assets and investments. This had a positive effect on the financial result.

The sector's return on equity rose from 14.8% to 15.7%.

The sector continues to boast a high deficit in the **solvency level**. Specifically, the ratio of non-committed equity over the minimum amount that can be required was in 2010 2.6 times that required by insurance regulators. In Life insurance, the co-efficient was 1.8 (compared to 2.1 in 2009), while in Non-Life the proportion was 3.4, similar to that of 2009.

A rise in catastrophic loss events in 2010, highlighted by the earthquakes in Chile and New Zealand, had a negative effect on technical results of the **re-insurance market**, which was offset by a rise in the financial result. Altogether, positive results are expected for 2011. As a result of the excess in capital produced, among other things, by the positive results of 2009 and 2010, it is expected that the reinsurance market in general will reduce its technical margins in 2011 due to stiff competition. The overall result will depend therefore on the financial result in a context that continues to be volatile and on whether there are more, major catastrophic loss events through the end of 2011.

Growth **prospects** for the Spanish insurance sector in 2011 will again be subject to the country's weak economic recovery, modest returns on investment and strong competition on the market. In **Life** insurance there are factors that will continue to have a positive effect: reforms of the public retirement pension system, normalization of the interest rate curve, high

solvency in the sector, strong capacity for innovation in products, and the demographic evolution of the Spanish population. Despite a contraction of credit, Life Risk insurance continues to be one of the priorities of the distribution policy of insurance companies. In savings-retirement products, insurers will continue to focus on products that provide a good yield and tax benefits, such as Lifetime Annuities. At the same time investor preferences will still be geared towards products with guaranteed interest such as single-premium savings-investment insurance, Individual Systematic Savings Plans (PIAS in Spanish), and other types of structured solutions with an attractive yield.

In **Non-Life** insurance, companies will have to keep grappling with slacker demand for insurance and the fall in consumption. Prospects for growth in this sector are tied to stiff competition present in most branches, which exerts downward pressure on rates. However, there are factors which could change this trend: the slow deterioration of companies' technical margins, the increase in capital requirements stemming from Solvency II and the elimination of the policy of charging different rates depending on a person's gender.

2. Economic context

2. ECONOMIC CONTEXT

2.1. THE WORLD ECONOMY

The year **2010** was marked by consolidation of the economic recovery at the global level, the financial crisis stemming from massive sales of sovereign debt of the most vulnerable countries of the euro zone, instability on currency markets, and approval of the new Basel III rules that will govern the banking sector starting in 2013.

Recovery from one of the worst recessions since World War II continued to take root, although at a slower pace in the second half of the year. A strong increase in manufacturing production and world trade were the driving forces behind the recovery. Meanwhile, both the low level of consumer confidence, along with a drop in household income and wealth, curbed consumption in advanced economies. Still, household spending picked up at a good pace in many emerging regions, where investment encouraged job-creation. This greater economic dynamism attracted investment flows to those countries and put upward pressure on their currencies, which had been artificially depreciated in order to achieve high rates of economic growth in the overseas sector.

At the same time, the central banks of the main developed economies persevered with very lax monetary policies to avoid a shaky exit from the crisis as fiscal stimulus measures are withdrawn. As they have scant maneuvering room because of benchmark interest rates that are close to zero, the monetary authorities of the United Kingdom, the United States and Japan have resorted to non-conventional measures as signs of weakness in their economies re-emerged. The U.S. Federal Reserve's second round of bond purchases triggered a severe drop in the dollar and acute international tensions. In Europe, on the other hand, one highlight has been the European Central Bank's lesser sensitivity to additional monetary flexibility.

Financial stability has suffered various setbacks over the course of the year. In the first half of 2010, doubts regarding the sustainability of the recovery in the face of signs of cooling in the United States and China, along with the simultaneous introduction of fiscal reform plans in many European countries, raised uncertainty concerning the strength of the global cycle. In this context, growing wariness of the solvency of the most vulnerable economies of the **euro zone** has unleashed massive sales of sovereign debt of these countries. This ended up causing a systemic crisis, as it became harder and harder for banks and debt-laden governments to gain access to financial markets. While at first it was Greece which endured this situation in the most severe form, later the turbulence hit Ireland and in both cases contagion hit other countries of southern Europe.

The results of stress tests carried out on European banks in mid-year went a long way toward lowering tension in the markets, as the tests showed only a limited need for bank recapitalization. Spain, the only country that subjected practically all of its financial system to these tests, is the one that has needed to make the fewest injections of public money since the onset of the crisis. The release of these stress test results, the fiscal consolidation plan, structural reforms and the restructuring of savings banks known in Spanish as *cajas* have marked a turning point toward an improvement in Spanish debt issuers' access to capital markets. However, forecasts for a slow recovery and the lack of cohesion among the coun-

tries of the euro zone have touched off new episodes of crisis in sovereign bond markets in the peripheral countries of this area.

Meanwhile, approval of the new Basel III rules, which will govern the banking sector starting in 2013, will require banks to have more capital and higher levels of liquidity so as to better withstand periods of crisis.

In this context, financial assets evolved in different ways. Stock markets showed mixed behavior, with a more positive performance by markets in countries with healthier economies, greater prospects for growth or whose monetary authorities followed more active stimulus policies. Fixed-yield markets were characterized by a fall in interest rates in the main geographic areas (the United States, the euro zone and the United Kingdom), measured by no-risk assets.

Despite the achievements made over the course of the year, most advanced economies and some emerging ones still face considerable challenges before they will be able to post solid and sustained growth. These include the need to strengthen the economic bottom line at the household level, stabilize and reduce high levels of public debt, and shore up and reform the financial sector.

The prospects for 2011 point to a gradual, uneven consolidation of the recovery of advanced economies. Emerging economies, which were less affected by the crisis, show more solid prospects and will contribute to the growth of international trade. As for jobs, little growth is foreseen and unemployment rates will decline in only a moderate fashion. Inflation is expected to rise in the first half of the year, but it should go down again in the second half if no new pressures emerge. The reduction of budget deficits is expected to be gradual and in general accompanied by an increase in debt loads. Monetary conditions will tend to be less lax.

The latest forecasts from the IMF say real global GDP growth for 2011 will be 4.4%: 2.5% in developed economies and 6.5% for emerging and developing ones.

2.2. THE SPANISH ECONOMY ¹

The Spanish economy contracted 0.1 percent on the year, compared to a drop of 3.7% the previous year, as a 1.2% fall in domestic demand was offset by positive contribution of 1.1% from the overseas sector. Although these results are better than the numbers of 2009, they still contrast with those of the broader euro zone, where GDP rose 1.7%.

Within the category of domestic demand, private consumption and equipment increased 1.3% and 1.8% respectively, while construction fell 11.1%. Consumption by governments slipped 0.7%, in line with the policy of austerity established by the Spanish government and cuts in civil servants' salaries.

Household spending was hit by a context that did not lend itself well to making decisions on purchases, by a decline in the job market, a fall in real estate values, restrictive credit terms and tax increases.

¹ Source: Spanish Private Banking Association: Economic-Financial Report. March 2011.

On the supply side, construction shrank 6.3% in a fall similar to that of 2009, and the services sector (which accounts for approximately 65% of total activity) rose 0.5%, compared to a 1.0% decline the previous year.

Over the course of the year, economic activity was hit by the conclusion of certain stimulus measures and other tax measures (like the rise in VAT tax as of 1 July, the ending of subsidies to buy certain goods, and the partial elimination of tax breaks for people paying off mortgages). These measures had prompted people to buy some things earlier than they would have otherwise, including homes.

The inflation rate rose as a result of higher prices for energy and to a lesser extent, food, and the VAT increase in July. The average increase in the CPI was 3% and that of core inflation, 1.5%.

As for trade, exports and imports of goods and services rose 10.3% and 5.4%, respectively. The recovery of foreign demand helped boost exports of goods, while imports reflected slacker domestic demand.

In summation, the bottom line is that 2010 was marked by a stagnant economy and major worsening of the labor market. The year ended with some progress in correcting basic imbalances and relieving tension, through economic measures introduced in May 2010: moderation of labor costs, reducing the trade deficit, restructuring the financial system, adjustments in the housing market and cuts in government spending.

For 2011 growth prospects hover round 1% in a context characterized by a gradual toughening of monetary conditions and a foreseeable rise in interest rates.

<i>Interannual variation rates in %</i>	2009	2010
DEMAND		
Final consumption expenditure	-2.3	0.7
Final consumption expenditure by households	-4.3	1.3
Final consumption expenditure by the NPISH	1.0	0.5
Final consumption expenditure by the Pub. Admin.	3.2	-0.7
Gross Fixed Capital Formation	-16.0	-7.6
Equipment	-24.8	1.8
Construction	-11.9	-11.1
Other products	-16.2	-8.2
Domestic demand ¹	-6.4	-1.2
Exports of goods and services	-11.6	10.3
Imports of goods and services	-17.8	5.4
Foreign demand	2.8	1.1
SUPPLY		
Fishing and agricultural classes	1.0	-1.3
Energy classes	-6.4	3.0
Industrial classes	-13.6	0.9
Construction	-6.2	-6.3
Services	-1.0	0.5
GDP at market prices	-3.7	-0.1
GDP at current market prices²	1,051.2	1,062.6

(1) Contribution to GDP growth

(2) Billions of €

Table1. GDP and its components

Source: INE. CNTR, first quarter of 2011

3. Social and economic variables related to insurance

3. SOCIAL AND ECONOMIC VARIABLES RELATED TO INSURANCE

Population

The resident population of Spain as of 1 January, 2010 was 47.0 million people, 275,000 more than in 2009, for an annual increase of 0.6%². Of this total, 50.6% are women. Since 2002, the population has grown by 12.3%, with the male population (12.9), expanding more than that of females (11.7%).

As has been common in recent years, population growth was due mainly to foreigners, whose numbers in 2010 rose 0.9% (the non-foreign population rose 0.1%) to 5.7 million people. In 2010, net entry of immigrants into Spain continued to slow, perhaps due at least in part to the economic crisis.

By age brackets 14.8% of the population was under 15, 68.4% was between 16 and 65 and 16.9% was over 65. The proportion of people 65 or older has risen significantly among both sexes over the past decade. Among men, it has gone from 11.6% to 14.5% and among women from 15.9 to 19.0%.

In 2010, a total of 84.1% of the registered foreign population was under the age of 50 (63.2% of the Spanish population). This brings down the average age of the overall resident population.

Data on natural movement of the population show that the gross birth rate (number of births per 1,000 inhabitants) went down again in 2010 because of the combined effect of a gradual decline in the number of women of child-bearing age and lower fertility. Specifically, the number of births fell 3.2%, and the birth rate fell to 10.57 per thousand inhabitants.

This lower fertility was observed both among Spanish women (whose rate fell to 1.32 in June 2010), and foreigners (1.65). The latter tend to have children at younger ages (28.5 years on average than Spanish women (31.8).

In the first half of 2010, the death rate (number of deaths per thousand inhabitants) stayed at the same levels as in the same period of 2009, or 8.35 per 1,000 in-

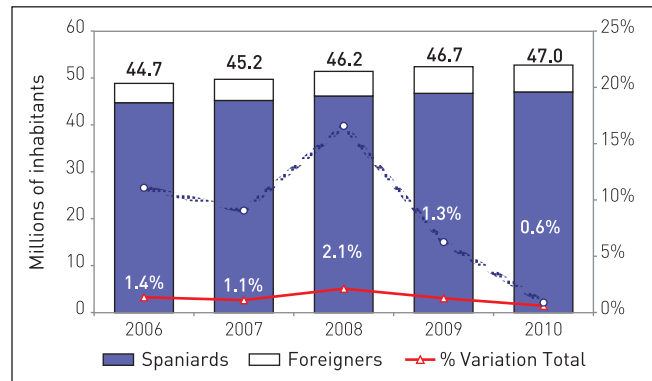


Chart 1. Evolution of Spanish Population

Source: INE

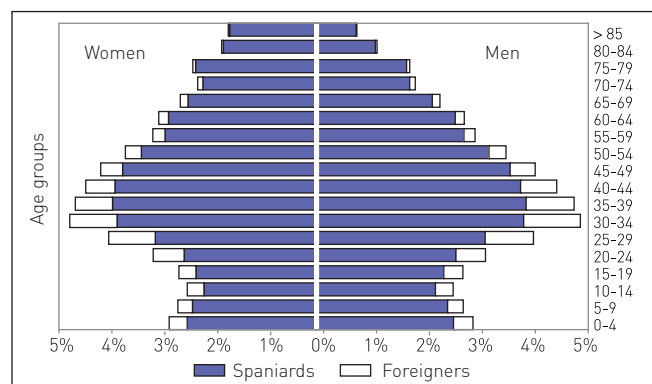


Chart 2. Distribution of the Spanish Population by age group and sex. Year 2010

Source: INE

² Provisional numbers from preliminary municipal census. National Statistics Institute.

habitants. Some 2.3% of the deaths corresponded to foreigners, mainly elderly people from other EU countries. The largest numbers were among Britons and Germans, who accounted for 27.2% and 16% of the total, respectively.

In the first six months of 2010, the decline in the birth rate reduced the vegetative growth of the population to 36,000 people, as opposed to 44,000 in the same stretch of 2009.

Spain continues to have one of the world's oldest populations. The National Statistics Institute estimates life expectancy at birth in 2009 was 78 years for men and 84.4 for women.

Motor

As of the end of 2010, there were 31.1 million registered vehicles, an increase of 0.8% compared to 2009³. Sales of new vehicles rose slightly by 3.2% over the previous year, and the year ended with 1.3 new vehicles registered. Broken down by kind of vehicle, registrations increased among Industrial Tractors (24.9%), Trucks and Vans (6.2%) and Cars (3.0%). The only decline was among registrations of Buses and Mini-buses (-12.4%).

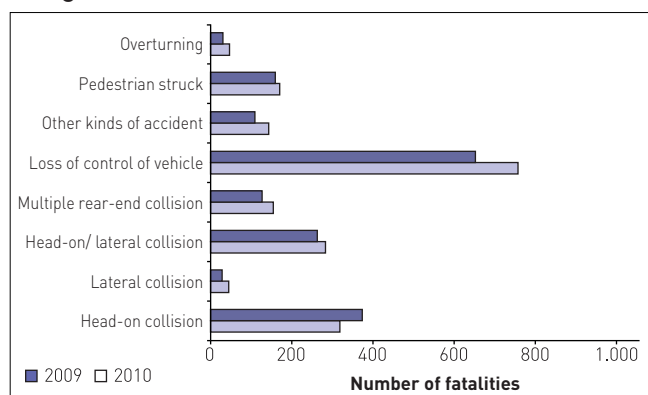


Chart 3. Distribution of fatalities by type of accident

Source: Interior Ministry

The year 2010 was characterized by two clearly distinct periods: cumulative data from the first six months of the year show a 35% increase compared to the same period of the previous year, before direct subsidies to encourage car purchases expired (Plan 2000E). But in the second half of the year, sales dropped 23% compared to the same period of 2009 as the economy remained weak and there was no more Plan 2000E aid.

Throughout 2010, the amount of driving residents of Spain did dropped again, as deduced from figures on consumption of gasoline and diesel fuel, which fell 1.9%, or a 2.0% fall in traffic on toll roads.

As for **road accidents**, in 2010 there were 1,548 involving fatalities⁴, down 8.7% from 2009. The number of victims also fell considerably from the previous year, with 1,730 people killed and 7,954 seriously injured, which marked decreases of 9.1% and 11.4%, respectively. The number of fatalities per million inhabitants was 56, one third the figure corresponding to 2001.

The following data are also worth noting:

- Accidents involving fatalities declined in 13 of Spain's 17 semi-autonomous regions compared to 2009.

³ The Insured Vehicles Informative File (Fichero Informativo de Vehículos Asegurados, in Spanish) registered 28.7 million vehicles with mandatory insurance in 2010, a drop of 0.3% from the previous year.

⁴ Road accidents with fatalities recorded within 24 hours.

- The most frequent fatal accident still entailed vehicles driving off the road, with 648 dead, 37% of all highway fatalities.
- By kind of road, conventional ones still account for the highest number of fatalities at, 1,194 (77% of the total).
- The number of fatalities among motorcycle riders, which had been rising since 2004, and shot up in particular in 2007, dropped back down in 2010 by 14%, to 244.

Housing

In 2010, the housing market in Spain continued with the downward trend that began in mid-2007, and indicators that measure the sector again dropped:

- Housing prices posted a year-on-year decline of 3.5% in the fourth quarter of 2010 (compared to a fall of 6.3 % in 2009).
- As for home purchases, in 2010 there were 491,000 real estate transactions, compared to 464,000 in 2009. In the first half of the year the number of transactions rose considerably because VAT taxes were set to go up in July. But the third quarter of the year saw a 25% fall, which was however offset by sales in the last three months of the year, making for a year-on-year rise of 6%. This increase in the final quarter came because as of 1 January, 2011 income tax breaks for homeowners were partially eliminated.

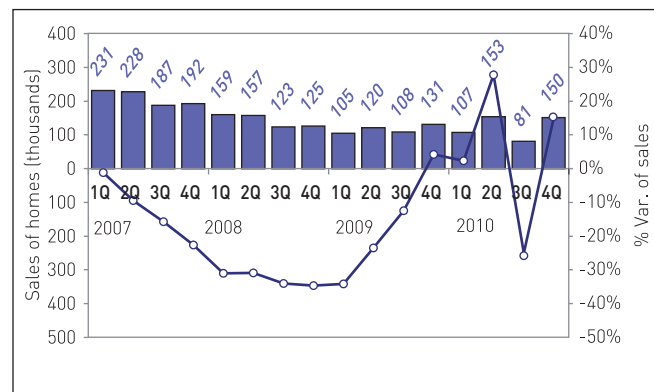


Chart 4. Home sales. Number of transactions and quarterly variation

Source: Housing Ministry

- Residential investment fell again in the final months of 2010, although by less than in previous quarters. The Development Ministry estimates that the residential investment fell declined by nearly 18% in 2010.
- The price of non-subsidized housing fell for the third year in a row, dropping to 1,825 euros per square meter in the final quarter of the year, compared to 1,892 euros per square meter in the previous quarter. In the first quarter of 2011, prices kept falling, to 1,778 euros per square meter.
- In 2010, 956,000 mortgages on rural and urban properties were registered, a drop of 11.7% compared to 2009. The total capital of new mortgages taken out dropped by 18.2%. The average home mortgage was 127,000 euros, down 7.3% from the previous year. The average interest rate on home loans was 3.9% (4.6% in 2009), and the average repayment term was 22 years, one more than in 2009.

Creation of companies

The latest data published by the National Statistics Institute and collected in the Central Business Directory (DIRCE, in Spanish, for 2009), show the total number of businesses in Spain in 2009 was 3.3 million. Of these, micro-companies (ones having up to nine employees) accounted for 94.5% of the total, small businesses (from 10 to 49 employees) represented 4.7%, medium-size ones (50 to 199 employees) 0.7% and large companies (200 or more employees) 0.2%.

In 2010 80,000 businesses were created, 2.2% more than in 2009, and 18,500 folded, up 6% from the previous year. Of the latter, 75.7% dissolved voluntarily, 11.1% through mergers and the remaining 13.2% for other reasons.

Capital underwritten for creation of companies totaled 8,000 million euros, an increase of 66.9% from the previous year, while the average capital underwritten was 100,000 euros, up 63.2% from 2009.

By region, Madrid, Catalonia and Andalusia saw the most companies created, at 17,229, 14,384 and 12,481, respectively.

The number of late payments involving commercial debt fell 24.9% in 2010, with the total coming in at 7,415 million euros and the average amount at 1,745€. Furthermore, 4.1% of commercial debt that matured went unpaid, a drop of one point from 2009.

4. Principle characteristics of the insurance market

4. EVOLUTION OF THE INSURANCE MARKET

4.1. INTERNATIONAL MARKETS⁵

After two straight years of declines, **premium volume in the global insurance market** grew by 2.7% in 2010 to \$4.3 trillion (3.3 trillion euros). Emerging markets, especially those in Asia, once again posted significant increases, and industrialized countries began to show signs of recovery, with premiums increasing in most markets, although less than in emerging nations.

Life Insurance took in \$2.5 trillion (1.9 trillion euros) in premiums, a rise of 3.2%. Some European countries saw major increases, thanks to sales of single-premium products with appealing terms. In the United States and the United Kingdom, premium volume fell although at a slower rate than in the previous year. For yet another year the emerging regions saw strong increases, although there were differences among regions: in Southeast Asia premiums rose 18%, highlighted by a 26% jump in China, its largest market. In Latin America and the Caribbean the rise was 12.2%, and in the countries of Central and Eastern Europe premiums expanded 5.7% thanks to sales of unit-linked products, after a steep fall in 2009.

Premium volume in **Non-Life insurance** totaled \$1.8 trillion (1.4 trillion euros), up 2.1% from 2009. Growth was solid in the emerging economies of Asia and Latin America and moderate in industrialized countries. One of the things keeping the Non-Life sector from flourishing in the more developed countries is a soft market found in some of them and in some business lines.

The technical result in the Non-Life branch worsened in eight of the world's largest markets, with a two-point increase in the average combined ratio, which was 103% compared to 101% in 2009. This figure confirms the insufficiency of premiums in some markets as a result of the fall in rates in recent years.

The **European insurance sector** grew 1.8% in 2010 as some countries posted a slow economic recovery. The increase came in both sectors, although Life expanded 2.8% compared to 0.3% in Non-Life. Single-premium products with attractive guarantees and unit-linked products drove sales of Life insurance, while a soft market continued to slow growth of Non-Life insurance.

Swiss Re's **forecasts** for 2011 are for improvement in both Life and Non-Life, with more robust growth in emerging markets and better prospects for the Non-Life segment in industrialized countries. As possible negative effects these forecasts point out the rise in interest rates, which would make Life insurance policies less attractive and could slow their growth, and the decline in rates in business insurance. While costs are still not known for the insurers hit by the earthquakes in Japan and New Zealand, these loss events could lead to higher rates down the road.

The **Spanish insurance market** has dropped two rungs to 13th position in the world ranking, behind those of India and Taiwan. In Life insurance it is in 15th place compared to (12th in 2009) and in Non-Life it is 11th (10th in 2009). In both cases it also lost market share.

⁵ Source: Swiss Re. Sigma n°2/2011. Rates of variation expressed in real terms, adjusted for inflation.

Country	Premiums (thousand million USD)	Premiums/inhabitant (USD)	Premiums/GDP
United States	1,166	3,759	8.0%
Japan	557	4,390	10.1%
Great Britain	310	4,497	12.4%
France	280	4,187	10.5%
Germany	240	2,904	7.2%
China	215	158	3.8%
Italy	174	2,766	8.1%
Canada	116	3,409	7.3%
South Korea	114	2,339	11.2%
Netherlands	97	5,845	12.4%
India	78	64	5.1%
Taiwan	76	3,296	18.4%
Spain	76	1,650	5.4%
Europe	1,620	1,850	7.5%
UE 27	1,482	2,736	8.4%
World	4,339	627	6.9%

Table 2. Size of the world's largest insurance markets in 2010

Source: Swiss Re

With an average insurance expenditure of \$1,650 (1.209 €) per inhabitant, Spain is 27th in the world ranking of premiums for inhabitant, slipping one rung from 2009. In Non-Life the average outlay per capita was \$752 USD (566 €) while in Life it was \$898 USD (643 €).

As for insurance penetration in the economy (premiums/GDP), Spain holds 27th place in the global ranking, with a rate of 5.4%.

The year 2010 was the second worst since 1980 in terms of number of **natural disasters**, especially earthquakes, such as those in Haiti, Chile, China and New Zealand, which caused huge economic losses and loss of human lives. As for insured damage, the single most costly loss event was the earthquake in Chile (27 February) at \$8,000 million, followed by the quake in New Zealand (4 September), at a cost of more than \$4,000 million.

In Europe, the most costly event for the insurance industry was the winter storm Xynthia, which struck France and the northwest of Europe in February. Damage stood at \$2,700 million. The winter floods in France and Central and Eastern Europe caused additional damage. What is more, the cold wave that affected Europe late in the year cost insurers \$262 million.

4.2. THE SPANISH INSURANCE MARKET

4.2.1. MAIN INDICATORS

Production

In 2010 the Spanish market had direct insurance premium volume of 57,588 million euros, which marked a drop of 3.8% from 2009.

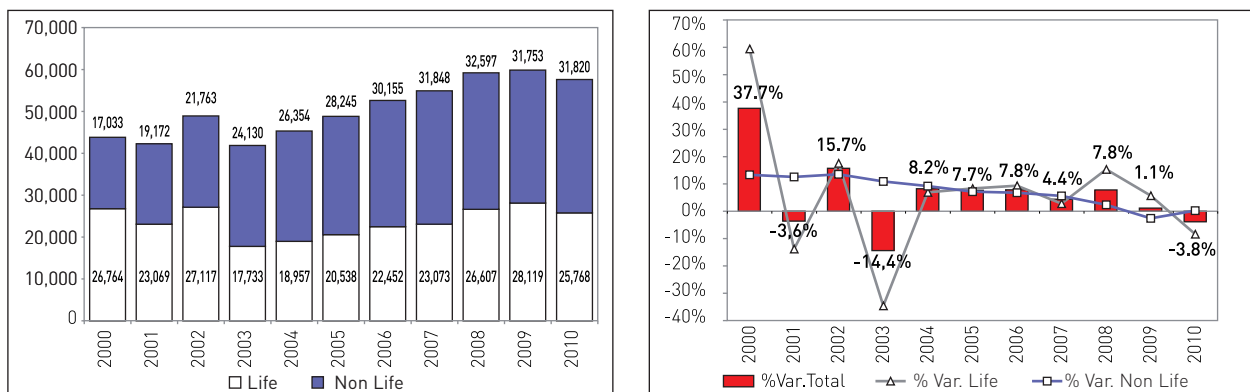


Chart 5. Evolution of the insurance market in Spain. Premium volume and variation.

Source: DGSFP

Life insurance, which accounts for 44.7% of the entire market, saw premiums fall 8.4% to 25,768 million euros. This branch of the insurance industry was caught up in the battle to lure money through deposits and that made it harder for the sector to improve. The fall in premiums was concentrated in products that represent a larger volume of provisions, Lifetime Annuities and deferred capital, while products that did best were those focused on retirement: Insured Investment Plans (PPAs) and Individual Systematic Savings Plans (PIAS). What is more, it is worth noting that Risk insurance posted a 2.8% rise in premium volume, even though credit is harder to come by.

Non-Life insurance, which has a market share of 55.3%, snapped the downward trend it began in 2009 and posted a premiums rise of 0.2% to 31,820 million euros. The effects of the economic crisis on production and consumption, and intense competition in the market in most branches due to the maturity of the market, had a negative effect on this result.

Of the five branches with the highest relative weight in Non-Life insurance (Motor, Multi-Peril, Health, Third-Party Liability and Burial insurance) only three (Multi-Peril, Health and Burial) posted increases in premium volume.

In absolute terms Motor insurance had the highest volume, with a market share of 20.0% of the total. Slacker demand for this kind of insurance, heavily affected by purchases of less coverage and a rise in the cancellation rate, brought premium volume down by 0.9% in 2010.

Millions of euros

	2009	2010	%Δ s/2009	% s/Total
Total	59,872	57,588	-3.8%	100%
Life	28,119	25,768	-8.4%	44.7%
Non Life	31,753	31,820	0.2%	55.3%
Motor	11,640	11,535	-0.9%	20.0%
Third party liability	6,037	6,020	-0.3%	10.5%
Other guarantees	5,604	5,515	-1.6%	9.6%
Health	6,150	6,407	4.2%	11.1%
Healthcare Assistance	5,168	5,400	4.5%	9.4%
Illness	981	1,006	2.5%	1.7%
Multi-Risk	6,097	6,281	3.0%	10.9%
Househol	3,337	3,505	5.0%	6.1%
Industrial	1,321	1,310	-0.9%	2.3%
Commercial Premises	655	653	-0.3%	10.8%
Condominiums	714	755	5.8%	1.3%
Others	70	59	-16.0%	0.9%
Burial expenses	1,672	1,705	2.0%	3.0%
Third party liability	1,712	1,623	-5.2%	2.8%
Other lines os business	1,162	1,079	-7.1%	1.9%
Personal accidents	945	918	-2.9%	1.6%
Credit	798	718	-10.0%	1.2%
Transport	558	494	-11.5%	0.9%
Hulls	337	290	-13.9%	0.5%
Goods	222	204	-8.1%	0.4%
Pecuniary losses	319	352	10.3%	0.6%
Assistance	316	315	-0.3%	0.5%
Fire	168	179	6.5%	0.3%
Legal defence	107	99	-7.5%	0.2%
Surety	81	84	3.7%	0.1%
Theft	28	30	7.1%	0.1%

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

Source: ICEA

Health insurance had premium growth of 4.2%, well above the average for Non-Life branches, and maintained a market share of 11.1%. The Health-care Assistance category accounted for 84.3% of premiums. Given the current economic situation, this kind of insurance is seen as important in families' budgets, as 9.3 million Spaniards are covered by private Health insurance — one of every five⁶.

Multi-Peril insurance rose 3%, an increase which was in line with that of the previous year. By category, Industrial, Commercial Premises and Other Multi-Peril saw revenue decline by 0.9%, 0.3% and 16.0%, respectively, due to lesser industrial and commercial activity. Homeowner's and Condominium insurance each grew around 5%, which offset the falls in the other classes of insurance.

⁶ ICEA Report N° 1192-Health Insurance.

Burial insurance rose 2% to 1,705 million euros, surpassing Third-Party Liability in premium volume.

For the third straight year, Third-Party Liability insurance took in less in premiums, with a decline of 5.2% this time. This was due mainly to the slowing of economic activity, the collapse of the construction sector and stiffer competition to land or keep major accounts.

As for other branches, the only ones that posted increases compared to the previous year were Fire (6.5%), Pecuniary Losses (10.3%), Surety (3.7%), and Theft (7.1%).

Insurance penetration in the economy (premiums as a percentage of GDP) went down three-tenths of a point to 5.4%. But insurance activity grew at a faster pace than the economy did. Insurance density (premiums per inhabitant) fell 4% due to the combined effect of a decline in the average Life (548€) and Non-Life premiums (677€).

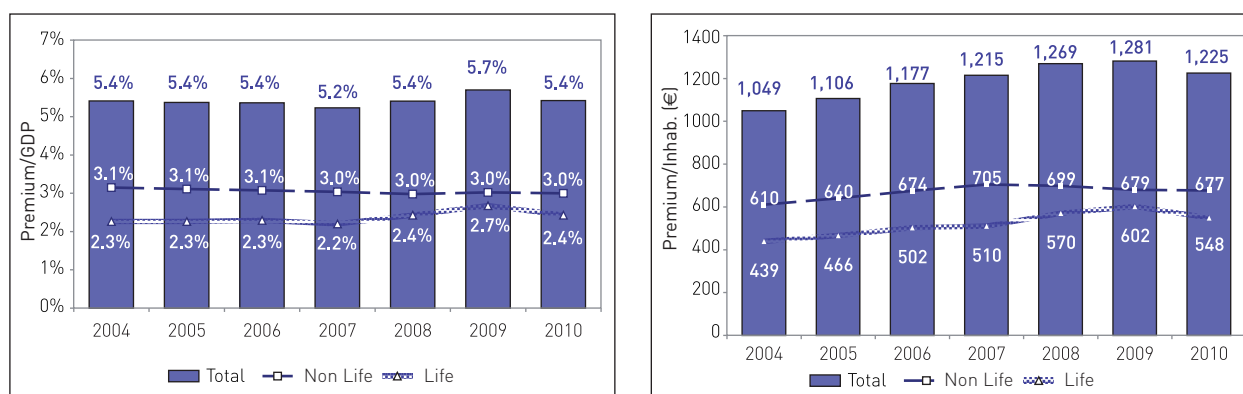


Chart 6. Penetration and Density

Source: FUNDACIÓN MAPFRE with data from ICEA and INE

Results

Despite 2010's challenging economic context, the insurance sector performed quite well. The result of the non-technical account reached 4,225 million euros, up 12.2% from the previous year.

The improved result stemmed from growth in the Life insurance technical account result, which rose 7.1%. Analyzing the aggregate result of this account by sectors, one sees a significant drop in net operating expenses, as well as a fall in tangible fixed asset and investment costs, all of which had a very favorable effect on the financial result.

The result of the Non-Life technical account fell 2.0% to account for 10.9% of earned premiums, down a tenth of a point from 2009. The decline of the result is due mainly to slacker demand for insurance and a slight worsening of the financial result.

As for the rest of the indicators, the gross claims ratio rose two-tenths of a point compared to 2009. Still, the combined ratio improved considerably thanks to a fall in the net claims

	Millions of euros		
Results	2009	2010	% Δ
Technical account	4,721	4,769	1.0%
Life	1,555	1,666	7.1%
Non Life	3,166	3,103	-2.0%
Non Technical account	3,765	4,225	12.2%
ROE (%)	14.8%	15.7%	6.1%

Table 4. Insurance sector results

Source: ICEA

ratio to 72.1%. As a result of all this, the technical-financial result of the Non-Life sector was 10.9% (11% in 2009).

Return on equity in the sector rose to 15.7%.

The sector continues to show a high surplus in its level of solvency. Specifically, the ratio of uncommitted assets reached in 2010 a value 2.6 times the minimum required by regulators. In Life insurance, the figure was 1.8 (2.1 in 2009), while in Non-Life it was 3.4, similar to that of 2009.

Prospects for 2011

Data from the first quarter of 2011 (ICEA) show premium volume growth of 7.2% compared to the same period of 2010. Growth prospects for the insurance sector in 2011 will once again be limited by Spain's weak economic recovery, modest returns on investments and the stiff competition in the market.

For **Life insurance**, 2011 is shaping up as another challenging year. Factors such as the high unemployment rate, the recession in the property market, the over-indebtedness of the private sector, lower domestic consumption, the restructuring

of the financial sector and the high government deficit all make for a scenario in which it is too difficult to maintain this branch's pace of growth. However, other factors will have a positive effect on the challenges that the sector must address in order to keep improving its positioning with respect to other markets: the reform of the public retirement pension system, normalization of the yield curve, the high level of solvency in the sector, a strong capacity for product innovation, and the evolution of the Spanish population. Data from the first quarter of 2011 show premium growth of 16.4%, which confirms the anti-cyclical behavior of this branch of the insurance industry. Managed savings showed a more modest rise of 1.3%.

In **Non-Life insurance**, insurance companies will have to keep confronting slacker demand for coverage as a result of weaker business activity and the fall in consumption. Prospects for growth are tied to the stiff competition that exists in most Non-Life segments and downward pressure on rates. But there is a series of factors which could change this trend: the slow deteriorating of companies' technical margins, the increase in capital requirements as a result of Solvency II, and the Directive on equal treatment of men and women in access to goods and services, which eliminates the practice of charging different rates depending on a person's gender.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	31,753	31,820
% Variation in premium volume	-2.6%	0.2%
Retention	85.9%	85.2%
Gross claims ratio	70.7%	70.9%
Gross expenses ratio	21.5%	21.6%
Net claims ratio	72.8%	72.1%
Net combined ratio	93.9%	93.8%
Financial result	4.9%	4.6%
Technical -Financial result	11.0%	10.9%

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

(1) Millions of euros

Table 5. Basic indicators. Non life

Source: FUNDACION MAPFRE with data from ICEA

Solvency margin	2009	2010
Life		
Minimum required	5,900	6,007
Margin	12,257	10,834
Result	207.8%	180.37%
Non Life		
Minimum required	5,012	5,147
Margin	16,926	17,705
Result	337.7%	344.0%
Total		
Minimum required	10,912	11,153
Margin	29,184	28,539
Result	267.5%	255.9%

Table 6. Insurance sector solvency margin

Source: FUNDACION MAPFRE with data from ICEA

Figures from the first quarter of 2011 in the Non-Life sector show a decline of 0.3% in premiums. By category, Motor insurance is down 2.6%. Multi-Peril insurance is up 2.6%, while the only one that has fallen is Commercial Premises, down 7.8%. Health insurance saw its growth rate slow by half a point to 3.9%. As for other branches, 10-year Construction insurance and Comprehensive Construction insurance are the ones with the biggest declines, at -29.5% and -45.1%, respectively, because of the effects of the crisis in the real estate sector.

4.2.2. MUTUAL PROVIDENT SOCIETIES

These are private, not-for-profit insurers which act voluntarily and in a way that complements the mandatory social security system. They can also be an alternative to the social security system that exists for all self-employed persons.

As of the end of 2010, the 403 Mutual Provident Societies that belong to the Spanish Confederation of Mutual Provident Societies took in 2,535 million euros in premiums, a rise of 3.8% compared to the previous year. The volume of managed assets rose to 31,000 million euros, up from 30,000 million in 2009.

4.2.3. STRUCTURE OF THE MARKET

Insurance sector

As of 31 December, 2010, there were 287 companies registered in the Administrative Registry of Insurance Entities: 195 Public Limited Companies, 35 Mutual Insurers, 55 Mutual Provident Societies⁷ and 2 specialized reinsurance companies. Over the course of the year 12 public limited companies and one mutual provident society ceased operating, while and five public limited companies and one new mutual insurer signed up in the Administrative Registry.

Last year, foreign capital in the Spanish insurance sector accounted for 21.7% of total capital. The number of companies with foreign capital remained at 48, with gross premium volume of 15,000 million euros.

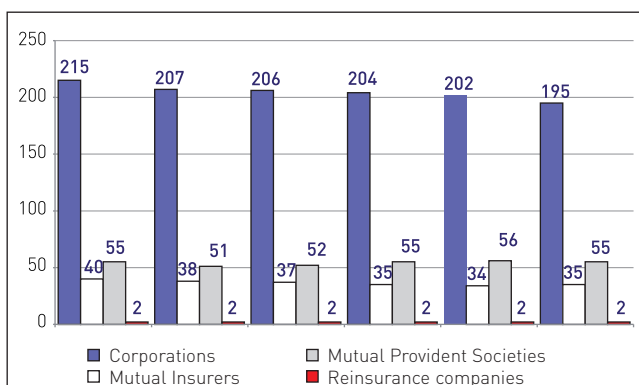


Chart 7. Evolution of the number of private insurance companies according to their legal structure

Source: Spanish Insurance and Pension Funds General Directorate

⁷ It should be noted that the Administrative Registry of Insurance Entities features only companies that operate at the national level. The rest fall under the supervision of the corresponding regional government. The Spanish Confederation of Mutual Provident Societies includes practically all of these companies and has 403 members.

In 2009, the volume of premiums from direct and accepted insurance involving Spanish companies operating in other states of the European Economic Area was double that of 2008 and totaled 1,756 million euros. One should note the 128% increase in premiums from branch offices operating under the Right of Establishment regime, mainly in the Life sector. Revenue was 1,143 million euros, compared to 297 million euros the previous year.

Origin of activity	Millions of euros		
	2008	2009	% Δ
Spanish companies in other EEA states	868	1,756	102%
Free rendering of services	157	129	-17.8%
Right of establishment	711	1,627	128.8%
Companies from other EEA states in Spain	2,377	4,080	72%
Free rendering of services	1,289	2,746	113.0%
Right of establishment	1,087	1,334	22.7%

Table 7. Premiums in 2008 and 2009 by activity

Source: General Directorate of Insurance

The volume of premiums from direct and accepted insurance involving companies from other states of the European Economic Area in Spain also grew considerably to 4,080 million euros, which was 72% more than in 2008. In this case it was the Free Rendering of Services regime that showed the most robust performance, with growth of 113%. The Non-Life segment accounted for 81% of premiums, led by Italian branch offices that operated under this regime, with revenue of close to 1,400 million euros in premiums. Life insurance accounted for 19% of premiums and branch offices of companies in Luxembourg and Ireland posted the most revenue.

Insurance distribution

According to the latest data from the DGSFP in its annual report, last year in Spain there were 97,411 insurance and reinsurance mediators in Spain (compared to 97,180 in 2009), with the following breakdown: 4,584 brokers, 384 linked bancassurance agents and operators, 92,405 exclusive agents and operators, and 38 reinsurance operators. Of the total, 81,153 are persons and 16,258 are companies.

The data in that report show that bancassurance operators were the main distribution channel in Spain in 2009, followed by Agents and Brokers. This leading position is due to the undisputed dominance of Life insurance sales via banks, with a market share of 66.2%. But Non-Life insurance is sold mainly through Agents and Brokers, with market shares of 36.3% and 26.7%, respectively.

Meanwhile, the activity of bancassurance operators in Non-Life branches is centered on Home Multi-Peril. Agents and Brokers focus on Motor insurance, and in Life insurance they mainly sell individual policies. Branches and employees of insurance companies account for a larger share of Non-Life products, specifically in Healthcare Assistance and Motor.

As for new production, one should note the rise in Other Channels⁸, both in Life and Non-Life insurance. Distribution carried out by companies themselves their increased market share in new production of Non-Life insurance, but declined in Life insurance.

Sales of Life insurance over the Internet were insignificant, but they continued their upward trend in Non-Life with a market share of 0.9% and a rise of two tenths of a point in new production. Here, activity focused mainly on Motor insurance.

Direct sales⁹ and Rate checkers

Although direct sales continue to be a minor distribution channel in Spain, as their roles have been growing in recent years we thought it a good idea to include in this report a specific section on them, adding a brief explanation of rate checkers (*comparadores de precios* in Spanish).

With an estimated premium volume of 2,100 million euros in 2010, Spain held fourth place in direct sales of insurance in the European Union, behind the UK, the undisputed leader, then the Netherlands and Germany, and was ahead of countries like Italy and France.

The economic situation, new technologies and the simplification of insurance products is allowing this kind of distribution outlet to increase gradually its market share, reaching as much as 18% in the case of privately owned automobiles. Unlike other countries, direct sales of insurance other than that involving Automobiles or Motorcycles is practically non-existent in Spain, although in 2010 one saw that companies that specialize in this kind of distribution also opted for **Home Multi-Peril insurance**.

Within this kind of sales there are two kinds of companies. On one hand there are those which use it to complement their traditional work as an insurance intermediary, normally using the same brand, the same products and the same rates. Then there are specialized companies, which replace commissions charged for purchase and management of portfolios with direct and centralized management of their customers and advertising campaigns to lure business. The latter, as they have long concentrated on a single product, have been known for low prices and a greater selection of customers. Success has come from mandatory and more simplified products such as Motor insurance. Until not long ago, telephone call centers were their main sales and service tool. Today Internet is beginning to play a much more important role, due mainly to the fact that customers are using the Web more and more to look for the best prices and products.

With the use of the Internet, also growing in use is that of rate checkers, sometimes also called aggregators. Their appearance is not new, and follows that of rate-checkers for air fares and travel packages. They are easy to operate: the customer types in the data on the

Market share by channel (% premiums). Year 2009			
Business volume			
	Life	Non-Life	Total
Agents	14.56	39.56	27.82
Brokers	5.63	26.47	16.68
Banks/Building Societies	73.92	10.23	40.15
E-commerce	0.01	0.95	0.51
Offices and employees	4.67	18.19	11.84
Telephone sales	0.02	4.10	2.19
Other channels	1.18	0.49	0.81

Table 8. Statistics on distribution channels

Source: ICEA. Statistics on distribution channels.

⁸ Sales through other channels that do not involve intermediaries (by telephone, telemarketing, mailing...) and other channel not included in the other categories.

⁹ Sale of insurance products without the intervention of an insurance intermediary or a bank.

risk that is to be insured (age of driver, kind of cars, driving area, etc.) on certain web pages and these companies go to insurers in real time to make the client an offer. The aggregator passes on the offers to the client, listing either by premium rate or policy quality. If the client wants to make a purchase, the insurer pays a commission the first year, and the customer can buy directly from the web page of the insurer, from its telephone call center or one of its branch offices.

This new kind of sales operates in an area that is still not regulated, with some operators having the status of insurance intermediary and others do not. The border between price aggregation, price comparison and client consulting is quite vague. In Spain, these aggregators still hold a small portion of the market, whereas in the UK more than half of all new policies in Motor insurance are purchases with this tool. The benefit for the insurer is the ease with which it can lure new business, although there are doubts about the latter's quality in terms of volatility and adverse selection of risks. That said, as the tool is very convenient for future generations, its growth prospects in Spain are high.

Mergers and acquisitions

Highlights of the mergers and acquisitions which took place in 2010 include the following:

- In June 2010, Criteria CaixaCorp formalized a transaction it announced jointly with Suez Environment on 22 October, 2009, in which SegurCaixa, the insurance group of "la Caixa" and part of Criteria CaixaCorp, acquired 99.77% of Adeslas. La Caixa's insurance group announced late in the year that starting in 2011 it would be called VidaCaixa Grupo and comprise a range of brands for the different areas in which it operates: VidaCaixa Adeslas (health), Vida Caixa ahorro (life-savings and pension plans), VidaCaixa vida (life-risk and accidents), VidaCaixa motor, VidaCaixa home and VidaCaixa business.
- In September, Generali Seguros said it had completed the merger of its units Estrella and Vitalicio, a year after the boards of the two insurance companies approved the operation.
- In 2010, AXA España finished taking over of Winterthur. Late in the year, the Economy Ministry gave its approval for AXA Seguros Generales to merge with AXA Winterthur Salud via absorption. Another transaction involving the AXA group was the Dutch company Inter Partner Assistance S.A.'s merger with Inter Partner Assistance via absorption. This is a merger in which contracts will be underwritten using the right of establishment regime.
- The Spanish company Génesis Seguros Generales sold the insurance portfolio of its branch in Portugal to the Portuguese company Liberty Seguros.
- Allianz Seguros ceded part of its insurance portfolio to the German company Allianz Global Corporate & Specialty, a company within the Allianz Group that specializes in serving major corporate clients and opened an office in Madrid in September 2010.
- As a result of alliances and agreements reached since 2008 between the CASER group and several savings banks, in 2010 parts of CASER's portfolio were ceded to Caixanova

Vida y Pensiones, Banco Gallego Vida y Pensiones, Cajacanarias Aseguradora de Vida y Pensiones, and Cajasol Vida y Pensiones. CASER has stakes in all of these companies.

- At the end of the year MAPFRE launched VERTI, a new direct sales insurance company that specializes in Motor and Homeowner’s insurance. It will basically operate over the Internet and by telephone. This new company began to operate in January 2011.

Ranking of insurance groups

In 2010 MAPFRE led the ranking of the top 10 insurance groups. Its premium volume grew 8.6%. As a result of this its market share rose 1.7 points to 14.7%, thanks mainly to expansion of its Life insurance business following a bancassurance agreement with CATALUNYACAIXA. The acquisition of Adeslas and strong sales of Life insurance put LA CAIXA in second place, sending ZURICH down to third place. The SANTANDER group dropped from third to eighth place, which prompted the rise of AXA, ALLIANZ, GENERALI and CASER. Thanks to agreements signed with different savings Banks, the CASER group posted premium growth of 7.7% in 2010 and it rose two spots in the overall ranking.

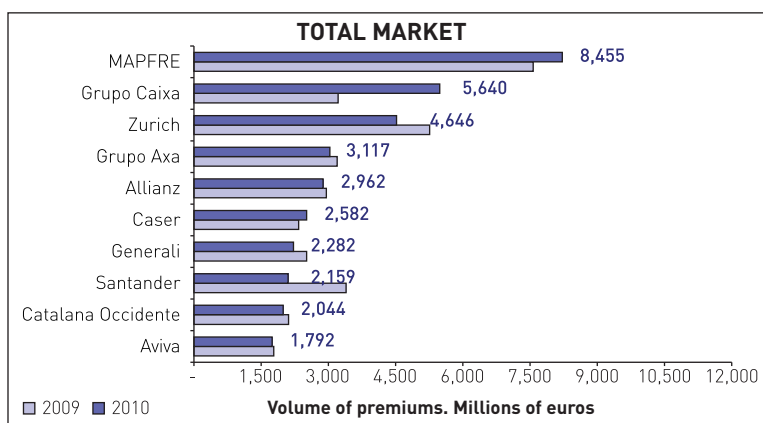


Chart 8. Ranking of insurance groups by volume of premiums.

Source: ICEA

The ranking in Life insurance was led by LA CAIXA group, which climbed two rungs compared to the 2009 list thanks to premium growth of 25.5%. Zurich held on to second place, MAPFRE rose to third place and the SANTANDER group went from second to fourth place. The LA CAIXA group also led the ranking of Provisions, with total volume of managed savings of 21,174 million euros.

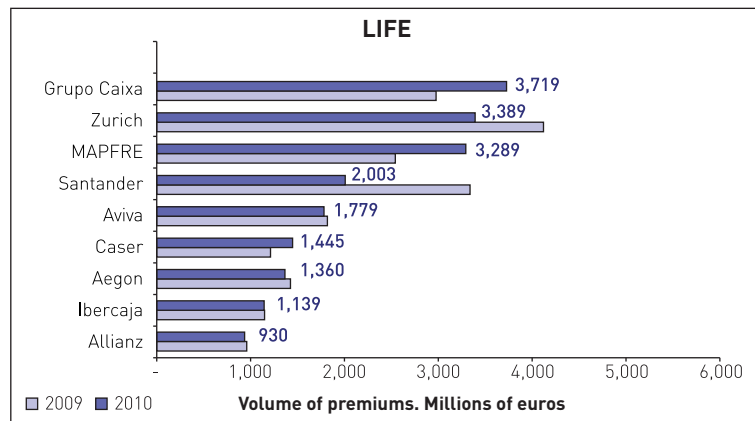


Chart 9. Ranking of insurance groups by volume of premiums. Life

Source: ICEA

For yet another year MAPFRE topped the Non-Life ranking, with a market share of 16.2%, followed by AXA and ALLIANZ. The LA CAIXA group, which includes ADESLAS, was in third place, taking the spot that CATALANA OCCIDENTE had in 2009.

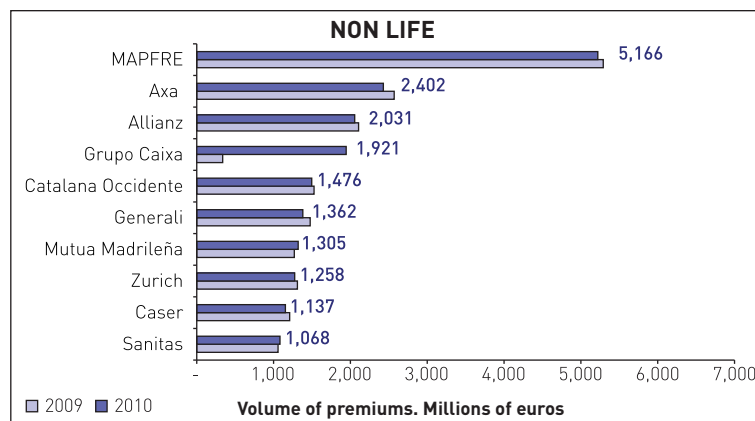


Chart 10. Ranking of insurance groups by volume of premiums. Non-Life

Source: ICEA

4.2.4. REINSURANCE

The year 2010 saw an increase in natural disasters, highlighted by the earthquakes in Chile and New Zealand. These and other catastrophic events had a negative effect on the technical results of the reinsurance market. The effect was alleviated somewhat by a rise in financial results due to improvement in economic activity following the collapse suffered in 2008. Altogether, positive results are expected.

Prospects for 2011

As a result of excess capital that was produced by, among other things, positive results in 2009 and 2010, the reinsurance market is expected to reduce its technical margins in 2011 because of stiff competition. The result will therefore depend on the financial result in a context that continues to be volatile and on whether there are new catastrophic loss events through the end of this year.

What we have said so far should be completed with data from the first quarter of 2011, which was marked by the disasters suffered in Australia, New Zealand and Japan. Altogether these caused major losses for reinsurers. Along with the disasters which can be expected to happen over the course of the year, one cannot expect 2011 to be a good year for the reinsurance industry as a whole. This could lead to changes in rates and coverage terms.

The excess capital in the reinsurance market—in those companies which have high ratios of capital to premium— will lead to a return of idle capital to shareholders, through capital reductions or payment of extraordinary dividends. Indeed, in the first quarter of 2011 one has observed a return of capital of more than \$1,600 million.

One can expect more mergers or acquisitions of reinsurance companies with the goal of diversifying portfolios by branches, customers or geographic areas. At the same time, the process of companies transferring their headquarters from Bermuda to other countries will continue (because of regulatory risk and tax reasons), mainly to Switzerland and to Lloyd's of London, taking advantage of the umbrella provided by the Central Fund and the flow of business that goes through that market. In the first quarter of 2011, specialized reinsurance companies were also created (they are known as sidecars) and they will absorb part of the business, mainly disaster coverage. They will also allow some companies to cash in on the foreseeable rise in rates stemming from the disasters in Australia, New Zealand and Japan.

No significant increase in business volume from application of the new rules in Solvency II is expected until 2012, although it is expected that the volume of premiums retained by ceding companies will not grow in 2011.

4.2.5. CONSORCIO DE COMPENSACIÓN DE SEGUROS¹⁰

In 2010 the Consorcio de Compensación de Seguros endured a high claims rate in extraordinary risks due to a string of highly destructive loss events, the highlights of which include the storms Floora and Xynthia (which cost the Consorcio more than 103 million euros) and flooding in Asturias and western Andalusia (at a cost of more than 85 million euros).

Earned premiums and surcharges from General Activity fell 10.2% because of a downward revision of the rate for extraordinary risks and the surcharge for mandatory motor insurance. We should also note the decline in premium revenue from direct third-party-liability motor insurance, because of a 37% fall in the portfolio of insured vehicles. The decline is justified because the role of the Consorcio is not to compete with insurance companies. Rather, it serves as a complement to the insurance sector so that all motor vehicle owners comply with their obligation to hold insurance.

The claims ratio for coverage of extraordinary risks was 100.4%, and that of the motor guarantee fund was 112.3%, due to the effect of the cost of the liquidation of the company Mercurio in March 2010.

As for claims in the category of extraordinary risks, 2010 can be considered the worst year of the past two decades: there were nearly 200,000 claims filed, of which 39% stemmed from the storms Floora and Xynthia, and 24% from flooding. Although these took place all

¹⁰ Yearly report for 2010. Consorcio de Compensación de Seguros.

over Spain, they were most intense in the Andalusia and Asturias regions and the Canary Islands.

General activity	Net earned premium		Net losses	
	2009	2010	2009	2010
Extraordinary risks	692	656	678	659
Property	625	591	671	645
Persons	23	24	2	3
Loss of benefits	44	41	4	10
Traffic risks	203	148	132	169
Guarantee Fund	178	129	97	145
Private vehicles	25	19	34	24
Official vehicles	1	0	0	0

Table 9 . General Activity of the Consorcio de Compensación de Seguros

Source: Consorcio de Compensación de Seguros

In 2011 one should note the strong earthquake that hit in May with a magnitude of 5.2 on the Richter scale and ravaged mainly the town of Lorca in the Murcia region. The Consorcio estimates that this quake will have an approximate cost of 70 million euros and involve the processing of more than 30,000 claims.

As for the Consorcio's activity as a reinsurer in the Credit line, revenue fell almost 60%, as only one company was covered from among the four insurers that initially signed up for the Reinsurance Agreement reached with UNESPA in June 2009.

In July 2011, the Spanish Parliament approved the Law on Electronic Money, which introduced important changes in coverage provided by the Consorcio de Compensación de Seguros. The goal was to bring Spanish rules into line with the interpretation which European Commission makes of cases of stolen vehicles. This law stipulates that the Consorcio will pay compensation for damage caused to persons or property in another state of the European Union by vehicles that are usually parked Spain, are insured and have been stolen, in those cases where the national guarantee fund of that state does not perform this function. At the same time, coverage is extended to any accident caused in Spain by a vehicle that is insured and has been stolen, regardless of whether it is normally parked in Spain.

4.2.6. SOLVENCY II

In 2010, the European Commission worked to complete measures to carry out the Solvency II Directive, relying on technical support from the CEIOPS (which has come to be called the European Insurance and Occupational Pensions Authority – EIOPA - as of 1 January, 2011) and the support of the Solvency working group, created within the framework of the European Insurance and Occupational Pensions Committee (EIOPC), or Level 2 Committee. It is expected that the Commission will be able to propose rules toward the end of 2011, once the "Omnibus 2 Directive"¹¹ has been adopted.

¹¹ So-called "Omnibus" directives are the regulatory tools used to introduce changes required by EU legislation governing financial services to adapt them to the new European System of Financial Supervisors.

In November 2010 the “Omnibus 1” Directive was approved, modifying many financial directives affecting stocks, credit entities and pension funds. Its goal is to determine the areas in which Binding Technical Standards that future European authorities will devise are to be applied, and which cases will call for binding arbitration when there is a conflict between national authorities.

The “Omnibus 2” directive was proposed in January 2011 and aims to introduce the changes needed in the Solvency II Directive in order to adapt it to the new European regulatory framework. It also defines the new powers of the EIOPA, and changes the date on which the Solvency II framework will come into effect. It will now be 1 January, 2013. Member States will have to incorporate it into their national legislation by 1 November, 2012.

Adoption of the “Omnibus 2” directive by the European Council and the European Parliament was a necessary legal step for the European Commission to be able to propose Level 2 measures. Therefore, this adoption is key for complying with the schedule for Solvency II to come into effect.

In 2010, Quantitative Impact Studies were also carried out with regard to the future regulatory proposal of the European Commission on the Level 2 measures. Once the results of “QIS5” have been analyzed, the European Commission will evaluate if new, partial quantitative tests are needed on areas it deems appropriate so as to fine-tune the future Level 2 rules. The European Commission working group is well along in its efforts on the Level 2 measures. It now has a second draft of these measures prepared. They will be adapted to suit whatever comes out of the QIS and other possible tests of a limited nature.

5. Evolution of the insurance market by branch

5. EVOLUTION OF THE INSURANCE MARKET BY BRANCH

5.1. LIFE

Life insurance posted premium volume of 25,768 million euros in 2010, an increase of 8.4% over 2009. This negative result is all the more important given the volume of surrenders (13,834 million euros), which increased 6.4% compared to the previous year. Despite this, and to a lesser extent than in 2009, the volume of technical provisions climbed 2%, reaching 146,633 million euros.

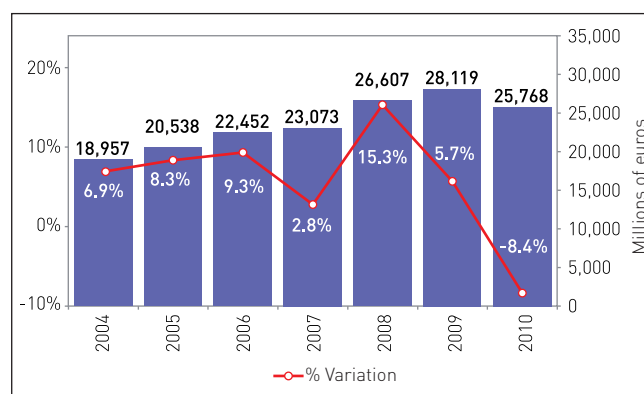


Chart 11. Evolution of Life. Written premiums. Direct insurance.

Source: ICEA

The year 2010 was a hard one for all of the savings-retirement industry in our country, as none of its main components posted growth. Along with the decline posted by Life insurance, Pension Fund (-0.2%) and Mutual Fund (-15.4%) assets under management also declined.

As for Life insurance penetration, the number of policyholders at the end of the year surpassed 32.7 million, up 0.2% from the previous year.

Class	Insured persons 2010	
	Number	% Variac.
Risk	23,293,845	-0.4%
Long term insurance	17,453	10.7%
Savings/ Retirement	9,442,514	2.0%
Total	32,753,812	0.2%

Table 10. Composition of Life insurance by class.

Source: ICEA

Categories

By category, insurance with strictly death coverage continued to account for more than two-thirds of all policies, with 23.3 million policy-holders. This was thanks to the performance of Individual insurance, which almost completely offset the decline in group policies. In 2010, individual policies once again increased their rate of growth, with an increase of 2.8% compared to 0.6% the previous year or 2.5% in 2008. This stems from the performance of individual policies, especially non-Renewable classes of insurance (up 21%).

Class	Millions of euros			
	Premium		Provisions	
	2010	% Variac.	2010	% Variac.
Individual	18,278	-10.5%	85,422	4.1%
Group	3,074	-13.0%	43,546	-1.2%
Unit Linked	4,416	6.3%	17,665	0.2%
Total	25,768	-8.4%	146,633	2.0%
Risk	3,692	2.8%	4,867	-2%
Long term insurance	2	9.5%	4	31.3%
Savings/ Retirement	22,074	-10.0%	141,761	2.1%
Insured Pension Plans	2,350	25.2%	6,266	32.8%
Deferred capital	7,374	-18.3%	42,572	-5.3%
Annuity	6,752	-20.3%	73,130	4.3%
Individual Systematic Savings Plans	1,182	2.6%	2,128	24.6%
Unit Linked	4,416	9.8%	17,665	1.7%
Total	25,768	-8.4%	146,633	2.0%

Table 11. Composition of Life insurance by class. Written premiums. Direct insurance.

Source: ICEA

Altogether, savings-retirement insurance lines saw a 10% drop in premiums issued. As was the case in the preceding two years, Insured Pension Plans (PPA's in Spanish) were the products that did best, with 25% growth, this time along with Asset-linked Insurance (up 10%).

Individual Systematic Savings Plans saw their rate of growth slow but their provision volume expanded 25% to 2,128 million euros.

PPA plans showed growth of nearly 33% in managed savings, reaching 6,266 million euros, thanks to the premium increase mentioned earlier.

Despite a premium decline of 20% in Annuities insurance, here technical provision rose 4.3% to more than 73,000 million euros in savings, which half of what the sector manages and confirms its status as the most deeply rooted in this line of business.

Meanwhile, differentiating between individual and group Life insurance, one should note that the former rose (4.1%) while the latter declined more than 1% in volume, and its revenue figures included a fall in issuance (-13%). As for early dispositions, those in individual policies rose 9.6% to more than 13,000 million euros, while in the group class they fell 27.3%, alleviating the overall increase of 6.4%.

Pension plans and funds

Pension plans ended the year with a volume of managed assets of 84,757 million euros, which was down 0.2% compared to 2009. The number of pension plan members rose to nearly 10.9 million, for a 3.0% rise that was significantly above that of the previous year. Again, employment system plans performed particularly well (with asset growth of 12.7%).

The volume of net contributions was positive in three of the year's four quarters, closing the year with an increase of 1,477 million euros. The performance of contributions to employment system plans was particularly strong, rising 24% compared to the previous year, while Individual plans fell 15%.

Among the different kinds of individual plans, there was parity among those which rose and those which fell. As for those which declined, the weight of products involving Short-term fixed yield, Mixed fixed-yield and Mixed (fixed yield and equities) determined the overall negative result of the System (-1.3%).

With regard to Mutual Funds, 2010 saw a renewal of the fall that began in 2007 and steepened in 2008 as a result of the liability battle among banks, ups and downs on stock markets and the lack of consumer confidence. The sector ended the year at levels not seen since before 1997, with a 15.4 drop in assets, a decline fall of almost 300,000 investors. Managed assets stood at 138,080 million euros as a result of negative net subscriptions to the tune of 23,900 million euros.

Of the different categories of Mutual Funds, only a third managed to increase their business volume, while the rest saw their assets fall between 10% and 38%. Among the best-performing were fixed-yield guaranteed funds and international annuities, with rises of 17% and 14%, respectively. The worst performers were led by short-term fixed yield (-38%) and monetary funds (-37%).

Prospects for 2011

The prospects for 2011 again point to a tough year for Life insurance in Spain.

The adverse context of the Spanish economy and the troubles that markets continue to endure because of the financial crisis will probably be a determining factor for the future of the insurance sector, despite its proven level of solvency.

Factors like the high level of unemployment, the recession in the real estate market, the over-indebtedness of the private sector, the drop in domestic spending, the restructuring of the financial sector and the high government deficit make for a scenario too challenging to keep up the pace of growth of an industry that, although it is characterized by its anti-cyclical nature, is in fact exposed to the effects that a prolonged economic crisis can carry with it.

However, other factors will continue to have a positive effect on the challenges that the sector must face in order to keep improving its positioning with respect to other markets: reform of the public retirement pension system, normalization of the interest rate curve, a high solvency level, a strong capacity for product innovation, and the demographic evolution of the Spanish population.

Despite tighter credit conditions, life-risk insurance will continue to be one of the priorities for the sales policy of insurance companies. They will offer competitive and appealing products with complementary value-added services among their guarantees that will set them apart from the shrinking of loans and credit that will characterize banking activity.

In the rest of their savings-retirement products, insurers will continue to focus on high-yield products with good tax benefits such as Lifetime Annuities. At the same time, investor preferences will continue to seek out products with guaranteed interest such as single-premium savings-investment insurance, the so-called PIA's, and to other kinds of structured solutions with attractive yields.

As for Pension Plans, assets under management will probably remain at levels similar to those that existed as 2010 ended. One will have to wait and see if, as a result of the hard economic situation, the growing volume of benefits can be overcome by contributions generated over the course of the year.

Within the different kinds of plans, all signs are that those based on the employment system and Individual Guaranteed Plans will do best in terms of growth.

As for Mutual Funds, one will have to keep waiting for financial markets to return to normal for this kind of product to begin to regain their much longed-for recovery.

Levels of net subscription – that is, excluding repayments, will probably remain negative for most categories of funds. Only fixed-yield, guaranteed funds, and some others (with a partial guarantee or overall) will grow in 2011.

5.2. MOTOR

According to data from the ICEA, Motor insurance posted premium volume of 11,535 million euros in 2010. For the third straight year this branch declined, this time by 0.9%, a fall which was much smaller than the one seen in 2009.

The main causes of this decline continue to be the economic crisis, its effects on shrinking consumption and ever stiffer competition in terms of rates:

- Data from the FIVA show that the number of insured vehicles fell for the second straight year, by 0.3% (compared to 0.2% in 2009).
- Sales of vehicles declined slightly by 3.2% in 2010, although the year was characterized by two clearly distinct phases: figures from the first six months show a 35% increase compared to the same period of 2009, before direct government aid for vehicle purchases ran out (Plan 2000E). But in the second half of the year sales dropped 23% compared to the last six months of 2009, as a result of the weak economic situation and the expiration of the Plan 2000E. These factors caused growth in the total number of registered vehicles to slow to 8%.
- Throughout 2010, people again drove less in Spain, as deduced by a 1.9% drop in gasoline and diesel fuel consumption and 2.0% decline in traffic on toll roads. This suggests that the level of exposure to risk went down.
- The decline in households' disposable income continued to cause policyholders to seek out cheaper products and coverage.
- Stiff competition on rates continued, which was reflected in fall in the average premium per vehicle to 403€.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	11,640	11,535
% Variation in premium volume	-5.5%	-0.9%
Retention	90.1%	87.5%
Gross claims ratio	77.8%	77.4%
Gross expenses ratio	17.5%	17.7%
Net claims ratio	79.0%	79.5%
Net combined ratio	96.4%	97.0%
Financial result	5.9%	5.9%
Technical -Financial result	9.5%	8.9%

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

(1) Millions of euros

Table 12. Basic indicators for Motor insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

Año	Insured vehicles (1)		Premiums. Direct insurance (2)		Average premium		
	Million	% Var.	Million €	% Var.	€	% Variation	
						Nominal	Real
2000	21.7	3.0%	7,996	17.9%	368	14.4%	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%

(1) FIVA

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

Table 13 . Evolution of average Motor premium

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

Despite all of these figures, the technical-financial result was positive, although it did slip just over half a point due to an increase in the net combined ratio, which was 97% compared to 96.4% in 2009. The financial ratio stood at 5.9%, unchanged from the previous year.

Guaranty	Frequency (%)			Average cost (euros)		
	2009	2010	% Dif.	2009	2010	% Var.
Third-party liability	10.0%	10.5%	0.51%	1,857	1,780	-4.1%
Bodily injury	2.1%	2.1%	0.04%	5,275	5,002	-5.2%
Property	8.8%	8.7%	-0.08%	844	832	-1.4%
Own damage	47.1%	43.8%	-3.24%	748	739	-1.2%
Broken Windows	7.9%	8.4%	0.50%	282	282	0.3%
Theft	1.6%	1.5%	-0.08%	1,064	967	-9.1%
Legal defense	2.2%	2.1%	-0.08%	288	282	-2.1%
Ocupants	0.4%	0.4%	-0.01%	1,090	971	-10.9%
Fire	0.07%	0.08%	0.01%	4,158	3,201	-23.0%
Revocation of driven license	0.03%	0.02%	-0.01%	1,389	1,928	38.9%

Table 14 . Average frequencies and costs by coverage class

Source: ICEA

Claims activity has been favored in recent years by road safety improvement and lesser use of vehicles, which are causing an overall reduction in claims frequency. Own Damage is still the figure with the highest rate of frequency at 43.8%, although in 2010 it went down by three points. Other guarantees were below 10%, except Third Party Liability, which had a rate of 10.5%.

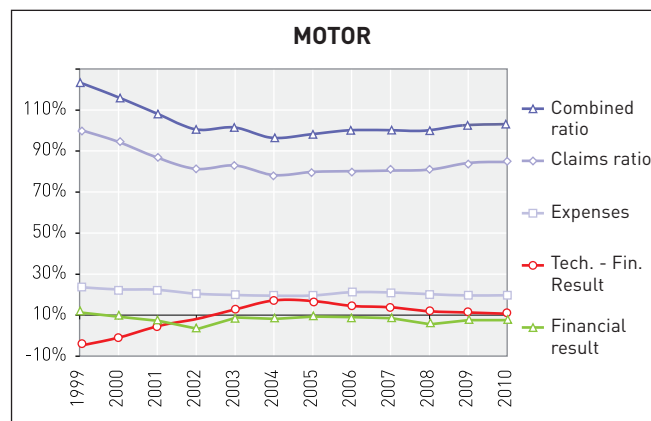


Chart 12. Evolution of results of Motor Insurance. % of net earned premiums

Source: FUNDACION MAPFRE with data from ICEA

As for average claim cost, there were declines in most categories, especially in Fire (-23%), Occupants (-10.9%), Theft (-9.1%) and Third Party Liability for personal injury (-5.2%). The only kinds of coverage in which costs rose were Revocation of Driver's License and Broken Windows (0.3%). It should be noted that the declines in the claims frequency for personal injury, both in Third Party Liability and Occupants, are consistent with lesser risk exposure. But the variations in Fire and Revocation of driver's license claims are related to the lower frequency of both, with greater volatility in average costs because of peak claims.

Although it is down from the level seen in 2009, Third Party Liability for personal injury is still the class of coverage with the highest average cost per claim, at 5,002€, followed by Fire at 3,201€, where minority vehicles (farm, industrial) had the highest ratios because of peak losses.. As for claims incurred, Own Damage is the class with the highest rate at 96.6%, although this is down significantly from 2009 (99.6%) due to a higher component of deductibles in Comprehensive policies.

The impact of the increase in VAT tax is estimated to be a 1.0% increase in claims cost for all classes of coverage considered as a whole. The greatest impact came from coverage for Own Damage and Broken Windows, in which the rise was estimated at 1.6%.

Prospects for 2011

All signs are that the trend which began three years ago is not going to change: a gradual decline in premium volume as a result of customers moving to cheaper products and coverage and a slow and constant decline in results. In this context, the average premium is expected to keep falling, although less and less, as the remaining stretch is very short. Comprehensive coverage, with or without deductibles, will continue to decline as third party or expanded third party coverage increases. This is because 3- or 4-year-old vehicles will no longer retain Comprehensive insurance, as they did until now, and because the proportion of new vehicles as part of the total number of vehicles will fall and with it the proportion of Comprehensive policies.

As a result of lower exposure, claims frequencies will continue to go down but average costs will do so to a lesser extent because of inflation.

The big question mark as to the result for this line of insurance is whether the lower claims frequency will offset, totally or partially, the decline in premiums, especially in new production. But another issue is whether they will compensate for renewals and the contagion effect of recent years, as seen in the lower average retention rate, in other words, the increase in policyholders shifting their coverage from one company to another. In light of all this, the price war now under way will become unsustainable, since in the first quarter of the year the combined ratio was above 100%.

Data from the first quarter of 2011 (ICEA) show a year-on-year variation in premium volume of -2.2%, compared to -1.7% the previous year. Breaking it down by category, Third-Party Liability was down 1.4%, compared to a fall of 3.0% in Other categories. The technical-financial result fell 5.5 points compared to the figure corresponding to the end of March 2010, coming in at 6.3%. The claims ratio worsened by two points, going from 81.1% to 83.1%.

The sector is still awaiting major legal changes, such as the Solvency II directive, a possible reform of the amounts of damages to be paid out for personal injury and the new Law on Insurance Contracts, which will bar rate differences based on gender.

This latter change will mean higher rates for woman and lower ones for men so as to make them equal. The decrease for males will be smaller because most show up on policies as policyholders and as drivers.

Due to the significant tightening of margins and increases in capital needs because of Solvency II, tension will rise and this could cause companies to band together in order to face these difficulties. Motor insurance traditionally has posted very short or slightly negative result in cyclical terms. So it is highly likely that over the short term a cycle change might begin so as to avoid losses in the sector.

5.3. MULTI-PERIL

Multi-Peril insurance posted premium volume 6,281 million euros in 2010, a rise of 3% compared to the previous year.

The highest volume of premiums corresponded to Home Multi-Peril (55.8%), followed by Industrial (20.9%), Condominium (12.0%), Commercial Premises (10.4%), and Other Multi-Peril (0.9%). Last year premium revenue saw variations of 5.0% in Home, -0.9% in Industrial, -0.3% in Commercial Premises, 5.8% in Condominium and -16.0% in Other Multi-Peril.

According to figures published by ICEA, the number of policies in this insurance branch grew by 1.8% thanks to Home and Condominium, while the cancellation rate was down slightly, at around 20% for Commercial Premises Multi-Peril, Industrial and Other Multi-Peril and 10% for Home and Condominium.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	6,097	6,281
% Variation in premium volume	3.1%	3.0%
Retention	81.6%	79.1%
Gross claims ratio	63.7%	71.4%
Gross expenses ratio	28.9%	28.7%
Net claims ratio	62.8%	66.9%
Net combined ratio	93.5%	97.1%
Financial result	4.6%	4.2%
Technical -Financial result	11.1%	7.1%

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

(1) Millions of euros

Table 15. Basic indicator for Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

The technical-financial result fell because of a smaller financial result and a deterioration of the technical result. The combined ratio rose almost four points to 97.1% as a result of a rise in the claims ratio. By category, one highlight is the significant worsening of Industrial claims, which caused the combined ratio in that class of insurance to rise to 98.5%.

The Consumer Price Index rose steadily in 2010, from 1% in January to 3.0% at year's end (the highest rate since October 2008). This increase contributed to the increase in billing as a result of contractual changes in insured sums and premiums. At the same time, along with the increase in VAT taxes it led to higher costs.

Prospects for 2011

Data from the ICEA from the first quarter of 2011 show premiums rose 2.7%, compared to the same period of the previous year. This was due to increases in Home (5.2%) and Condominium (4.2%), and a net result of 11.4% (0.1% in 2009).

This branch is forecast as improving slightly in 2011, thanks to Home and Condominium insurance, in a challenging economic context characterized by stagnation in housing construction, tough restrictions on the granting of mortgages and the elimination of tax deductions for first-time home buyers. In Industrial and Commercial Premises, hit by the slowing of the economy and the business closures, the forecast is for a decline.

In light of all this, the panorama is one of intense competition with downward pressure on rates, clients less prone to staying with their current insurer and a fall in margins. For yet another year, companies will have to come up with strategies that set themselves apart in terms of quality and range of services.

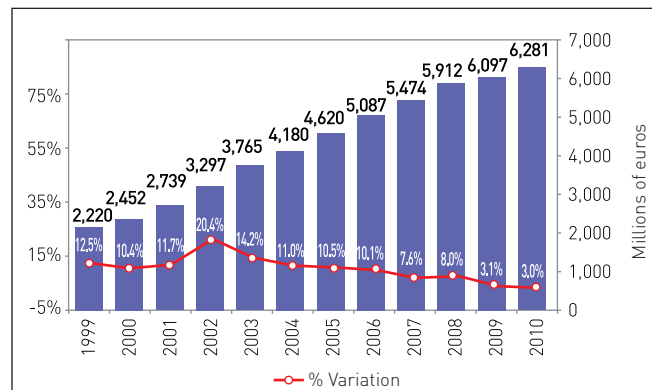


Chart 13. Evolution of Multi -Peril insurance. Written premiums. Direct insurance

Source: ICEA

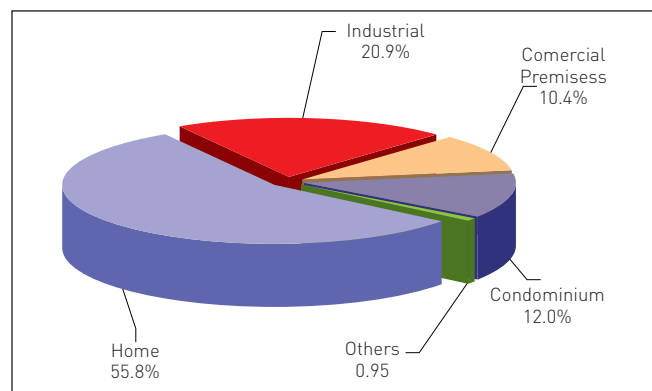


Chart 14. Distribution of Multi - Peril premiums by class of insurance

Source: ICEA

5.3.1. HOME MULTI-PERIL

Home Multi-Peril had premium volume of 3,505 million euros, which marked growth of 5%. The number of policies rose by 1.9% and the cancellation rate was about 12%.

As in the previous year, the level of home insurance was estimated at 66% of registered homes.

In terms of the different kinds of coverage, there was a consolidation of the trend toward incorporating assistance guarantees, such as computer tele-assistance, medical telephone assistance or home repair service.

As for sales channels, the dominant one continued to agents and brokers. The bancassurance channel kept falling because of the decline in mortgages granted and fewer sales of homeowner's insurance stemming from such loans.

The technical-financial result dropped considerably to 4.4% because of a deterioration in the financial ratio (by half a point) and in the combined ratio (around 3.5 points). The latter was due to a raise in the net claims ratio. The kind of coverage with the highest claims frequency and average cost per policy continued to be Water Damage.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	3,337	3,505
% Variation in premium volume	6.0%	5.0%
Retention	92.1%	88.8%
Gross claims ratio	64.1%	65.1%
Gross expenses ratio	32.4%	32.2%
Net claims ratio	62.5%	66.5%
Net combined ratio	95.1%	98.8%
Financial result	3.6%	3.1%
Technical -Financial result	8.5%	4.4%

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

(1) Millions of euros

Table 16. Basic indicator for Home Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

5.3.2. INDUSTRIAL MULTI-PERIL

Industrial Multi-Peril insurance posted premium volume of 1,310 million euros, a decrease of 0.9%. Spain's difficult economic situation had a significant effect on these results. The number of policies fell 0.9% and the cancellation rate was 19%.

The kind of coverage with the highest frequency claim and average cost per policy was Fire insurance. However, Business Interruption had a higher average cost per claim.

The technical-financial result suffered a major decline, as it went from 15.6% to 8.7%. The main cause of this was a rise of nearly eight points in the claims ratio, which pushed the combined ratio up to 98.5%. The financial result improved just over half a point, which partially offset the deterioration of the technical result.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	1,321	1,310
% Variation in premium volume	-1.7%	-0.9%
Retention	55.5%	56.0%
Gross claims ratio	63.4%	94.4%
Gross expenses ratio	22.2%	21.6%
Net claims ratio	63.7%	71.6%
Net combined ratio	90.9%	98.5%
Financial result	6.5%	7.2%
Technical -Financial result	15.6%	8.7%

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

(1) Millions of euros

Table 17. Basic indicator for Industrial Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

5.3.3. COMMERCIAL PREMISES MULTI-PERIL

This line of insurance had premium volume of 653 million euros, for a decline of 0.3% compared to the previous year. The number of policies rose 0.6%, and the cancellation rate was 21%.

Water damage was the kind of coverage with the highest claims frequency, and Theft accounted for the largest overall cost in claims and average cost per policy. From an economic standpoint, bars and restaurants continued to account for the highest number of claims and overall claims cost, while tobacco shops had worse rates of claims frequency and average cost.

As for new kinds of coverage, the trend is toward introducing new services and strengthening existing ones which are useful to customers in the current period of crisis, in which commercial activity has been hurt by the lack of liquidity and late payments have been on the rise (claims for unpaid bills, consulting on security systems, legal and workplace-issue defense, etc.). This situation has also required greater flexibility in new issuance of insurance and adaptation of existing policies to the economic circumstances of customers and the increasingly volatile situation of commercial activity.

The combined ratio rose a bit more than two points to 93.5% due to an increase in the claims ratio, which went up 2.5 points in net terms. A slight rise in the expense ratio offset this result somewhat. As a result of this, the technical-financial result went down three points to 11.4%. Another contributing factor was a decline in the financial result.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	655	653
% Variation in premium volume	-3.4%	-0.3%
Retention	85.3%	81.2%
Gross claims ratio	60.8%	62.2%
Gross expenses ratio	30.1%	29.7%
Net claims ratio	61.5%	64.0%
Net combined ratio	91.5%	93.5%
Financial result	5.7%	4.8%
Technical -Financial result	14.2%	11.4%

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

(1) Millions of euros

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

Source: FUNDACIÓN MAPFRE with data from ICEA

5.3.4. CONDOMINIUM MULTI-PERIL

This line had premium volume of 755 million euros for a rise of 5.8%, the highest of any class of Multi-Peril insurance. The number of policies increased by 3% and the cancellation rate was 10%.

Although Condominium insurance has also suffered because of the economic crisis, its performance has been more stable than that of Commercial Premises and Industrial Multi-Peril coverage.

As for new kinds of coverage, innovation stems from the offering of value-added services for condominium communities, such as coverage for pest control, leisure-time and sports activities, security systems, etc., and coverage related to management of condominium facilities, such as third party liability for members of the boards that oversee them.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	714	755
% Variation in premium volume	6.7%	5.8%
Retention	86.4%	80.5%
Gross claims ratio	64.4%	62.0%
Gross expenses ratio	27.6%	27.8%
Net claims ratio	62.5%	65.1%
Net combined ratio	90.3%	91.4%
Financial result	5.6%	4.4%
Technical -Financial result	15.3%	13.0%

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

(1) Millions of euros

Table 19. Basic indicator for Condominium Premises Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

Because of the real estate crisis, new products have emerged that are geared toward providing insurance solutions for construction companies, real estate promoters and financial entities – all of which have become owners of a growing number of buildings that are going begging for want of buyers.

Water damage coverage still has a high claims frequency and average cost per policy, especially in buildings that are between 31 and 40 years old.

The technical-financial result fell slightly to 13.0% as a result of fall in both the financial result and the combined ratio.

Historical series results

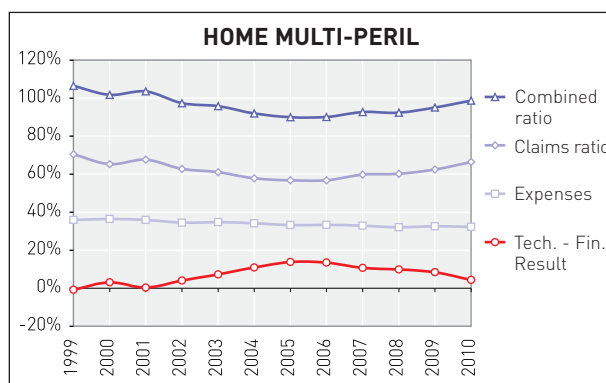
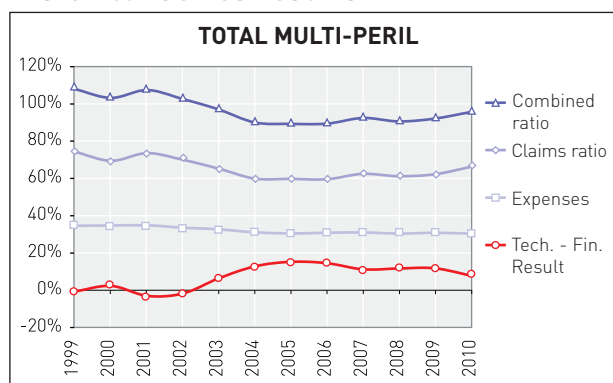


Chart 15. Evolution of results in Multi -Peril insurance. % of net earned premiums.
Chart 16. Evolution of results in Home Multi -Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

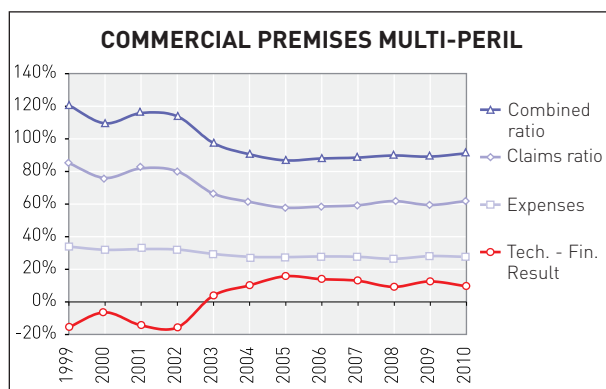
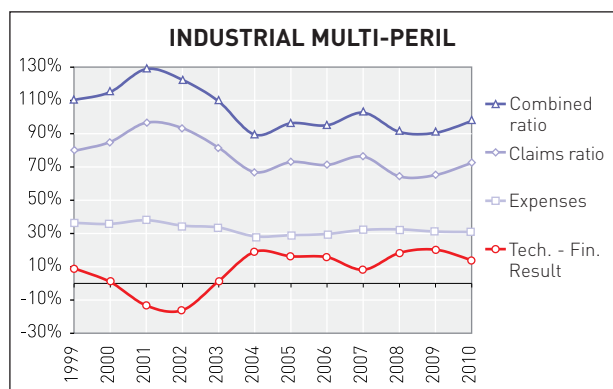


Chart 17. Evolution of results in Industrial Multi -Peril insurance. % of net earned premiums
Chart 18. Evolution of results in Commercial premises Multi -Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

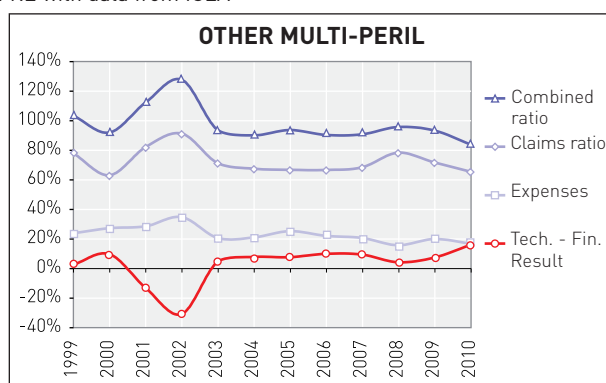
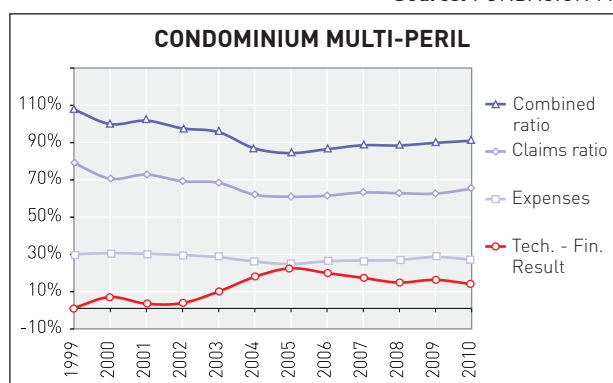


Chart 19. Evolution of results in Condominium Multi -Peril insurance. % of net earned premiums
Chart 20. Evolution of results in Others class of Multi -Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

5.4. HEALTH

Health insurance posted 6,407 million euros in premiums in 2010, an increase of 4.2% compared to the previous year.

By class, Health-care assistance and Reimbursement of Expenses saw similar rises of around 4.5%, while Benefits declined 2.1%. The decline may have occurred because this kind of insurance is aimed mainly at self-employed persons, who have been particularly hard hit by the crisis, with many small businesses shutting down and thus cancelling their insurance.

Health insurance posted one of the highest growth rates among Non-Life insurance lines in 2010, and was one of few that had positive growth (along with Surety, Burial, Fire, Multi-Peril and Pecuniary Losses). This performance was due mainly to premium growth in the annual renewal of their portfolios, as the number of policy-holders is growing less than premiums are.

In 2010 the Providing of Services accounted for 96% of premiums and 85% of policies¹², with a slight decline in the number of insured persons who are civil servants and in Reimbursement of Expenses. However, in both cases premium volume rose. Benefits insurance represented 4% of premiums and 15% of policy-holders.

Group policies, which offer tax advantages and lower rates, continued to attract a higher number of policy-holders, rising 15.3% (groups that do not belong to Mutual Insurers). The number of individual policy-holders fell by 1.2%.

In June 2010, Criteria CaixaCorp formalized a transaction it announced jointly with Suez Environment on 22 October, 2009, in which SegurCaixa, the insurance group of “la Caixa” and part of Criteria CaixaCorp, acquired 99.77% of Adeslas. This major operation put Grupo Caixa at the top of the Health ranking and raised the market share held by the top five groups by 2.5 points to 67.3%.

As for new benefits, almost all companies introduced new ones. But the most relevant factor is the introduction of value-added services related to health, such

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	6,150	6,407
% Variation in premium volume	5.4%	4.2%
Retention	98.5%	98.1%
Gross claims ratio	85.7%	84.5%
Gross expenses ratio	10.3%	10.4%
Net claims ratio	86.3%	85.7%
Net combined ratio	96.6%	96.1%
Financial result	1.1%	1.1%
Technical -Financial result	4.5%	5.0%

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

(1) Millions of euros

Table 20. Basic indicators for Health insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

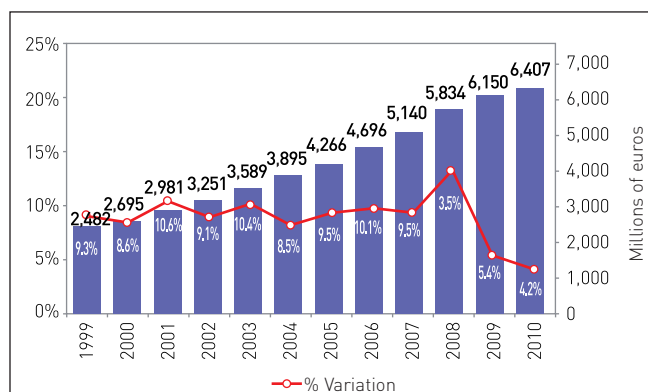


Chart 21. Evolution of Health insurance. Written premiums. Direct insurance

Source: ICEA

¹² Source: ICEA. Health Insurance. Statistical year 2010.

as discounts at spas, alternative medical procedures such as acupuncture and access to cosmetic medicine at subsidized prices.

The result of the technical account in the Health branch improved by half a point to 5%. This rise stemmed from the combined ratio, which ended the upward trend that started in 2008 and came down six-tenths of a point to 96%, thanks to a lower claims ratio. The financial result was stable.

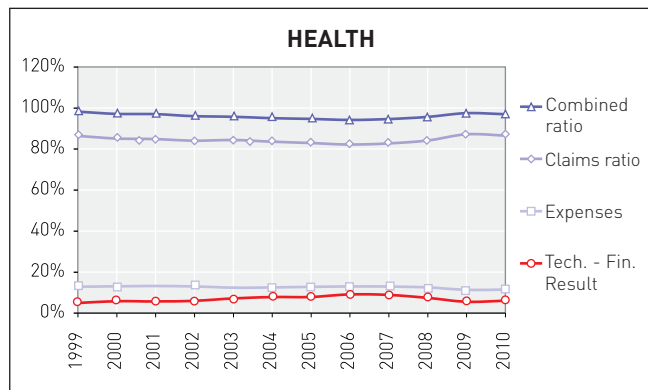


Chart 22. Evolution of results of Health insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

The improvement in the technical account result was due mainly to the Health-care Assistance line, which rose from 4.2% to 5.8%. But Sickness insurance posted a negative result in the technical account as a result of the worsening of the combined ratio. It climbed 104.1% because of a six-point increase in the claims ratio and a 2.5 point rise in the expense ratio. This negative technical result was not offset sufficiently by the financial result, which was 3.5%.

Prospects for 2011

Data from the first quarter of 2011 (ICEA) show premium growth of 3.9%, the same increase seen in that period of 2010. Such data suggest that premium growth in 2011 will be the same or slightly less than that of in 2010, with no sign of stronger increases until Spain's economic recovery consolidates.

5.5. THIRD-PARTY LIABILITY

Premium volume in Third-Party Liability was 1,623 million euros in 2010. For the third straight year since the economic crisis began, this line of insurance declined, this time by 5.2%. As the economy has not improved, nor have claims ratios deteriorated, the downward tendency in premiums has continued for the same reasons as in previous years:

- Economic growth is almost zero, which has caused many businesses to close and discouraged the creation of new ones.
- The construction sector continues to decline because of stagnation in public works projects and building. This sector accounts for 22% of premiums in this line of insurance.
- Austerity policies introduced by the government to curb spending in its ministries and agencies have caused a significant drop in public tenders for its third party liability policies.
- The market continues to be soft, with very stiff competition for lure clients and downward pressure on rates.

All of the above, aside from difficulties in receiving premium payments, have led to an increase in policy cancellations.

While production has fallen, the branch did post a very good technical-financial result despite the decline in the financial result, which plays a major role in this line of insurance because of the large volume of provisions that it generates. The combined ratio fell nearly nine points to 66.9%, due mainly to a fall in the claims ratio, which finished out the year at 42.6%. But one must be careful with this figure, as the claims ratio depends on the economic assessment of the long-tail claims that are a characteristic of this line of insurance, especially when it comes to personal injuries. The improvement in the claims ratio has meant the trend involving a drop in premiums has been maintained.

As for expenses, the ratio rose by two points due to the lower amount of premiums and greater pressure from intermediaries to raise the percentage of their commissions and not see their revenue fall in absolute terms. In order to alleviate the rise in external expenses, companies are reducing transfers to reinsurance and taking on greater retention of risk. This policy of greater retention will see its effects when the claims ratio rises.

The penal code reform introduced by Organic Law 5/2010 of 22 June, which came into force on 23 December, incorporates a new scenario of *ex delicto* third-party liability via new offenses which can be attributed to legal entities. It ushers in important changes in the area of direct, criminal and third-party liability for companies. The reform has made it necessary to amend the conditions of existing third-party liability policies so as to adapt them to new legal changes and provide customers with sufficient coverage.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	1,712	1,623
% Variation in premium volume	-13.3%	-5.2%
Retention	67.9%	73.5%
Gross claims ratio	51.1%	42.3%
Gross expenses ratio	21.3%	23.3%
Net claims ratio	51.6%	42.6%
Net combined ratio	75.8%	66.9%
Financial result	16.0%	12.9%
Technical -Financial result	40.2%	46.0%

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

(1) Millions of euros

Table 21. Basic indicators for Third - Party Liability insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

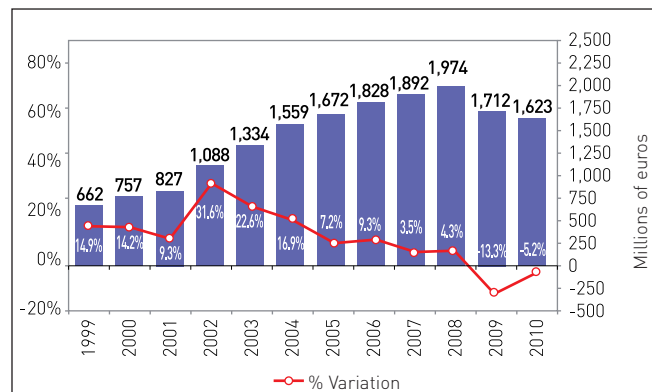


Chart 23. Evolution of Third - Party Liability insurance. Written premiums. Direct insurance

Source: ICEA

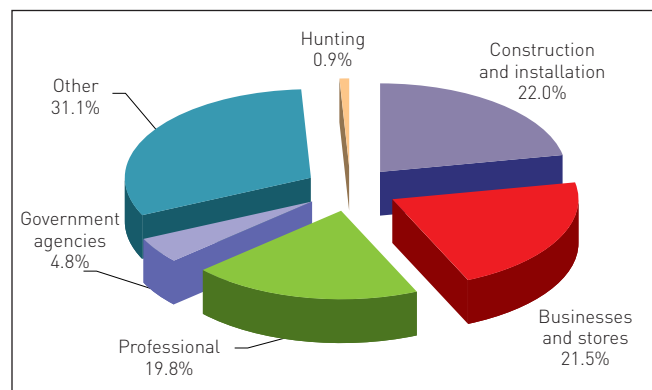


Chart 24. Distribution of Third Party Liability by Category

Source: ICEA

Prospects for 2011

The year 2011 will continue to see a soft market because of stagnation in this line of insurance. The latter is expecting a toughening of conditions because of the impact of serious loss events in recent months, such as the earthquake in Japan and flooding in Australia. Although these took place outside Spain, they affect the reinsurance sector, which in turn spreads the cost throughout the insurance industry. For this reason, reinsurers will probably impose tougher terms in all of their lines of coverage to make up for the impact of these disasters on their results.

Results from the first quarter of 2011 show a larger result than that of 2010, to 53.1% on premiums, mainly because of a negative variation in the technical provision for benefits.

5.6. BURIAL INSURANCE

Burial insurance in 2010 saw premium revenue of 1,705 million euros for growth of 2.0%, which was smaller than in recent years.

Burial insurance continues to adapt to new needs brought about by social, demographic, economic and cultural changes. In this new scenario, companies are trying to include new guarantees adapted to younger people, with health and well-being coverage that offers alternative medicine and other health-related treatment.

But providing excellent service continues to be the key in order for this kind of insurance to remain one of the most important in terms of its penetration in Spanish society.

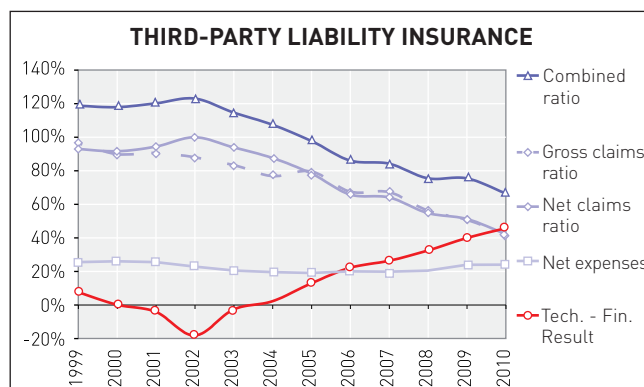


Chart 25. Evolution of results of Third - Party Liability insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

Basic indicators [% of premiums] *	2009	2010
Increase in premiums (1)	1,672	1,705
% Variation in premium volume	5.1%	2.0%
Retention	99.4%	99.2%
Gross claims ratio	53.0%	52.5%
Gross expenses ratio	39.0%	38.1%
Net claims ratio	53.3%	52.8%
Net combined ratio	92.3%	90.9%
Financial result	4.7%	5.6%
Technical -Financial result	12.4%	14.6%

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

(1) Millions of euros

Table 22. Basic indicator for Burial insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

This branch of insurance is undergoing a major review of its solvency in light of the future requirements that will be introduced under Solvency II. The timeframe and actuarial methodology used in the past are being reassessed to guarantee that incorporating the European rules into Spanish law will not have an adverse effect on this sector of the insurance business.

The financial-technical result rose nearly three points to 14.6% due to a fall in the net claims ratio to 52.8% (one of the lowest, along with Personal Accident and Third-Party Liability), and a slight decline in expenses (in which the weight of acquisition costs is important due to the administrative work done by agent networks, and for this reason the expense ratio is so high in this line of business). The financial result rose nearly a point, which improved the overall result even more.).

Prospects for 2011

Figures from the first quarter of 2011 (ICEA) show year-on-year premium growth of 5% and improvement in the technical account result, thanks to a lower claims ratio. This stems both from the volume of benefits and funds assigned to the branch's technical provisions.

5.7. PERSONAL ACCIDENT

In 2010 Personal Accident insurance had premium volume of 918 million euros. For the second straight year the branch suffered a decline, this time one of 2.9%, although this was lower than in 2009.

The cause of this change in direction is found mainly in the impact the economic crisis has had on families in terms of Individual Accident insurance and in lower demand for capital, coverage and premiums in the area of Group Accident insurance.

This situation continues to trigger stiff competition in the sector, with aggressive underwriting policies and downward pressure on rates. Under these circumstances, companies try to hold on to their market share with more marketing campaigns and by offering products

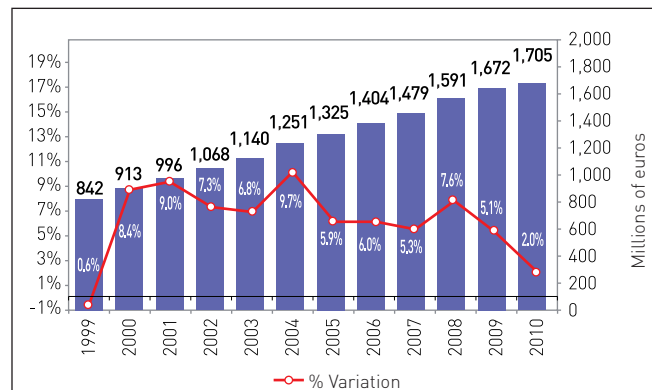


Chart 26. Evolution of Burial insurance. Written premiums. Direct insurance

Source: ICEA

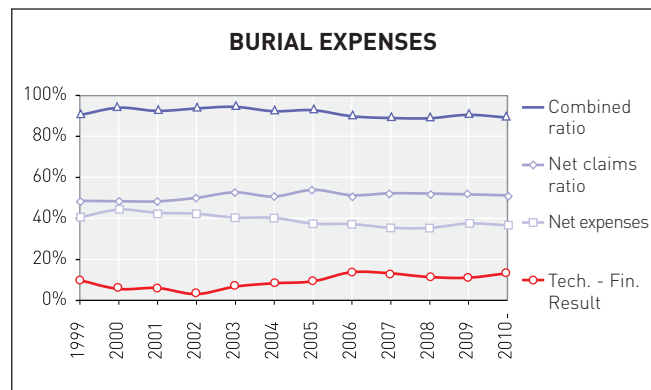


Chart 27. Evolution of results of Burial insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

better suited to families' needs (Individual Accident) and with a premium reduction favored by a scenario with a low claims ratio (Group Accident).

In 2010, claims broke with the downward trend that began in 2000. This stems from the soft market, which has a direct effect on the economic terms of underwriting, both for new production and existing policies. In particular, it affected Group Accident insurance. Thus, the claims ratio rose just over two points to 35.3%. In general terms, the rise in the claims ratio is due not so much to the rise in the number of claims as to lower revenue from premiums.

The technical-financial result was again extraordinarily favorable and rose to 33.4%, a result surpassed only by that of Third Party Liability.

In 2011 there were signs of a slight increase in sales, which, along with a fall in cancellations, allows one to forecast a timid recovery of overall figures. But numbers from further on in the year will be needed in order to determine if there is in fact a real change in direction in this line of insurance.

Results from the first quarter of 2011 (ICEA) show a technical account result of 30.32%, which is lower than the 33.2% posted in the first quarter of 2010, and a fall in premiums of 0.2% compared to the same period of last year.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	945	918
% Variation in premium volume	-5.7%	-2.9%
Retention	89.0%	89.5%
Gross claims ratio	32.3%	34.2%
Gross expenses ratio	34.0%	35.4%
Net claims ratio	32.7%	35.3%
Net combined ratio	67.9%	71.8%
Financial result	5.0%	5.3%
Technical -Financial result	37.1%	33.4%

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

(1) Millions of euros

Table 23. Basic indicator for Personal Accident insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

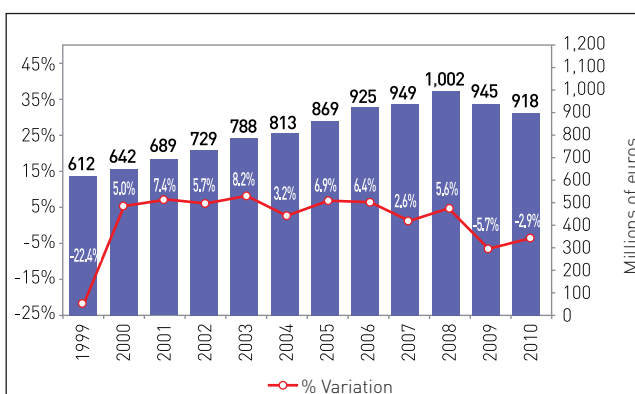


Chart 28. Evolution of Personal Accident insurance. Written premiums. Direct insurance

Source: ICEA

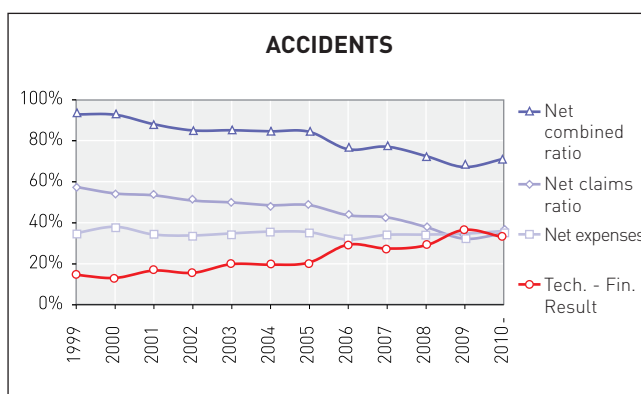


Chart 29. Evolution of results of Personal Accident insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

5.8. CREDIT

Premium volume fell 10.1% to 718 million de euros, the second straight year of contraction. This was due mainly to the tough economic situation. It should be noted that premiums in credit insurance are closely linked to the revenue of insured companies, and such sales have been falling for the past two years.

As for results, the gross claims rate fell sharply compared to 2009, coming in at 50.9% last year. The combined ratio went down to 74.1% because of a major fall of nearly 40 points in the net claims ratio. Stabilization and control in the frequency of late payments by businesses was key to this drop in claims, which allowed the sector to post technical results that were very positive. (30,7%).

Prospects for 2011

Based on provisional data as of the end of April, this branch grew 0.3%. Looking ahead to the rest of 2011, this does not make expect major variations from the level of premiums seen last year.

In terms of claims, all signs are that it will not be possible to keep up the excellent ratios achieved in 2010, due to a combination of these factors: the occurrence of major loss events, a slight rise in claims frequency and a smaller recovery of unpaid debts compared to the previous year.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	798	718
% Variation in premium volume	-4.3%	-10.1%
Retention	53.9%	54.3%
Gross claims ratio	103.5%	50.9%
Gross expenses ratio	17.6%	19.3%
Net claims ratio	96.2%	56.6%
Net combined ratio	114.3%	74.1%
Financial result	5.8%	4.8%
Technical -Financial result	-8.5%	30.7%

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

(1) Millions of euros

Table 24. Basic indicator for Credit insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

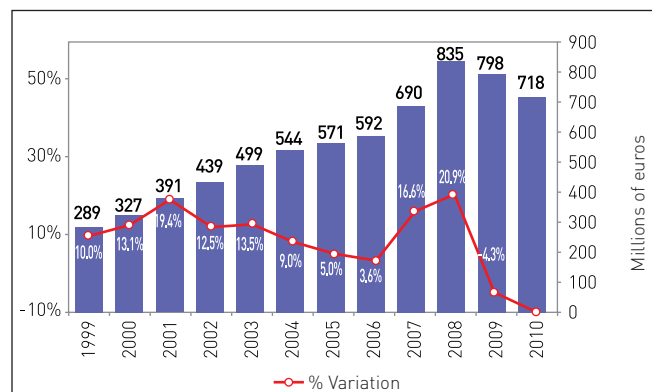


Chart 30. Evolution of Credit insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

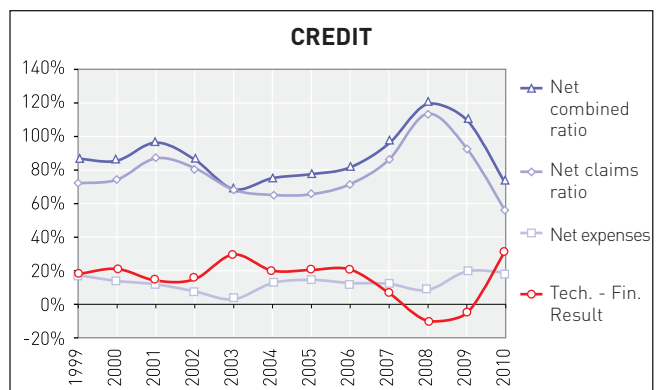


Chart 31. Evolution of results of Credit insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

5.9. SURETY

Premium volume in the Surety branch rose 3.8% in 2010 to 84 million euros. The increase can be considered highly positive given the stagnation of the real estate sector and the fall in investment in infrastructure. What is more, the renewable energy sector, in which many policies had been taken out in previous years, has also undergone a severe contraction because of a decline in subsidies. That means fewer surety policies linked to such projects.

The gross claims rate rose considerably compared to 2009 (probably as a result of the real estate sector, for the most part), reaching 123.3%. However, the net claims ratio improved by about 37 points to 63.3%. This, along with a fall of 15 points in the expense ratio, made for a net combined ratio of 88.7% and a return to a positive technical-financial result (16.4%).

Prospects for 2011

The first few months of 2011 were characterized by a sharp drop in demand for insurance for public works projects. The real estate market continues to very stagnant even though some new subsidized housing projects are being launched. The renewable energy sector is not turning around either, and other lines of business linked to this kind of insurance, such as Customs, do not carry enough weight to offset the fall of the former.

This scenario probably means that, at most, the sector will operate at the same premium levels as in 2010. And it will do so only if the sector manages to take advantage of the business opportunities that emerge in sporadic operations, ones that in some cases are not readily associated with the traditional kind of business done in this part of the insurance industry.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	81	84
% Variation in premium volume	-6.3%	3.8%
Retention	41.6%	44.4%
Gross claims ratio	113.2%	123.3%
Gross expenses ratio	39.9%	24.9%
Net claims ratio	100.7%	63.3%
Net combined ratio	168.4%	88.7%
Financial result	5.5%	5.1%
Technical -Financial result	-62.9%	16.4%

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

(1) Millions of euros

Table 25. Basic indicator for Surety insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

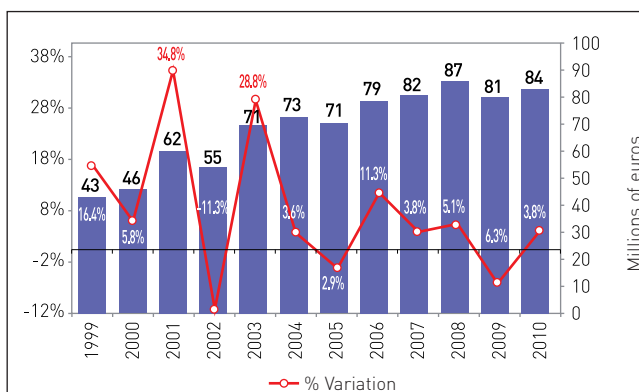


Chart 32. Evolution of Surety insurance. Written premiums. Direct insurance

Source: ICEA



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

Source: FUNDACIÓN MAPFRE with data from ICEA

The only positive note is that the banking industry, a big competitor in Surety insurance, is no longer as aggressive in terms of rates and risk coverage as it was before the economic crisis set in.

The claims ratio will probably end 2011 with satisfactory numbers better than those of 2010, although with attaining the levels seen in 2009.

According to figures from ICEA as of the close of the first quarter, the technical-financial result improved considerably (61,5%) due to very large drop in the combined ratio. But premiums fell around 11%.

5.10. TRANSPORT

The Transport insurance branch finished the year with the same trend seen in recent years: a significant decline in premium volume. In 2010 they totaled 494 million euros, a fall of 11.5% compared to 2009. The easing of the market, companies' sufficient capacity and excellent claims figures made for a situation in which policies were renewed with significant discounts.

Premiums from Hull insurance fell 13.8% due to a decline of 26.2% in premiums for Aviation insurance. Insurance for Goods also fell, by 7.9% (although this was much less than the 22.6 drop seen in 2009), due to the overall slowing of the Spanish economy, which continues to cause a fall in road transport activity.¹³

As for results, one must note the significant improvement in the net claims ratio (nine points), thanks to an across-the-board drop in frequency and average cost of claims in Hulls and Goods insurance. When added to a drop of nearly a point in gross expenses, this caused the combined ratio to go down nearly 10 points to 89.1%. As a result of all this, the technical-financial result was 17.6%.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	558	494
% Variation in premium volume	-7.5%	-11.5%
Retention	53.1%	53.2%
Gross claims ratio	68.6%	44.2%
Gross expenses ratio	19.8%	19.0%
Net claims ratio	71.6%	62.6%
Net combined ratio	98.8%	89.1%
Financial result	6.6%	6.7%
Technical -Financial result	7.8%	17.6%

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

Table 26. Basic indicators for Transport insurance, Total

Source: FUNDACIÓN MAPFRE with data from ICEA

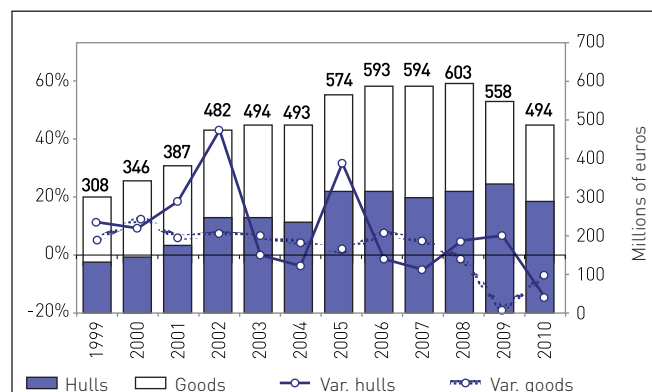


Chart 34. Evolution of Transport insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from ICEA

¹³ According to a survey by the Spanish Development Ministry, in 2010 transport of freight by road fell 8,2%, compared to 17,9% the previous year.

5.10.1. HULLS

Premiums in this category, which account for 59% of the total in Transport insurance, fell 13.8% to 290 million euros. The decline was seen in all categories of this sector (merchant, fishing and leisure vessels, etc.).

Maritime insurance premiums fell 7.1% because of abundant market capacity, which led to stiff competition and cuts in premium rates. The Aviation branch, which tends to be quite volatile, saw its premiums fall by 26.2%.

The combined ratio fell 14 points because of a major drop in claims, which were stable for merchant vessels and fell significantly for fishing and leisure vessels. The technical-financial result went from being negative in 2009 (-6.0%), to 8.6% in 2010.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	317	290
% Variation in premium volume	6.1%	-13.8%
Retention	42.8%	44.0%
Gross claims ratio	79.3%	59.1%
Gross expenses ratio	16.1%	16.1%
Net claims ratio	86.9%	73.6%
Net combined ratio	113.1%	98.9%
Financial result	7.1%	7.5%
Technical -Financial result	-6.0%	8.6%

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

(1) Millions of euros

Table 27. Basic indicators for Transport insurance, Hulls category

Source: FUNDACIÓN MAPFRE with data from ICEA

5.10.2. GOODS

Insurance for transport of goods had premium volume 204 million euros, a drop of 7.9% compared to the previous year. This was a consequence of the soft market in this line of insurance, which is pushing premium rates down. Ample market capacity, a low level of claims and the slowing of world trade is going to cause rates to keep falling in 2011.

The technical-financial result rose significantly to 27.8% thanks to an increase of nearly eight points in the combined ratio. This stemmed from a fall in the net claims ratio, which went from 56.6% to 48.9%.

Basic indicators (% of premiums) *	2009	2010
Increase in premiums (1)	222	204
% Variation in premium volume	-22.6%	-7.9%
Retention	69.9%	69.6%
Gross claims ratio	52.0%	36.0%
Gross expenses ratio	26.0%	25.3%
Net claims ratio	55.6%	48.9%
Net combined ratio	85.0%	77.9%
Financial result	6.0%	5.7%
Technical -Financial result	21.0%	27.8%

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

(1) Millions of euros

Table 28. Basic indicators for Transport insurance, Goods category

Source: FUNDACIÓN MAPFRE with data from ICEA

Prospects for 2011

In light of the vast dimensions of the risks that are insured and the policies take out, it is very hard to establish how the Transport branch overall will evolve in 2011. If the current trend continues and the claims ratio continues to improve or stays at the same level as last year, premiums will continue to go down because of the posting of such good results. These will depend on what insurance companies and other players involved in this market are willing to sacrifice in terms of profitability, in exchange for gaining market share.

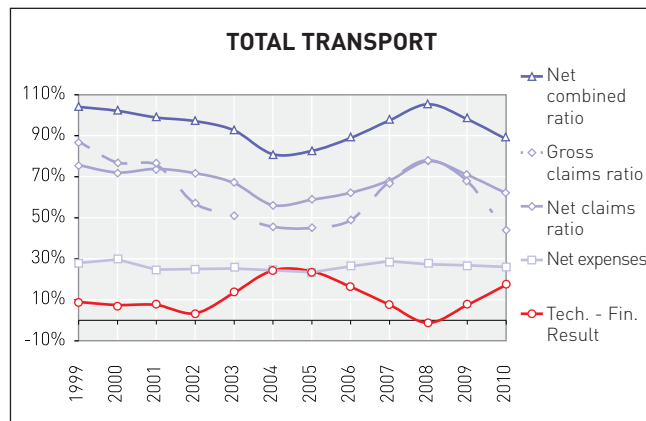


Chart 35. Evolution of results of Total Transport insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

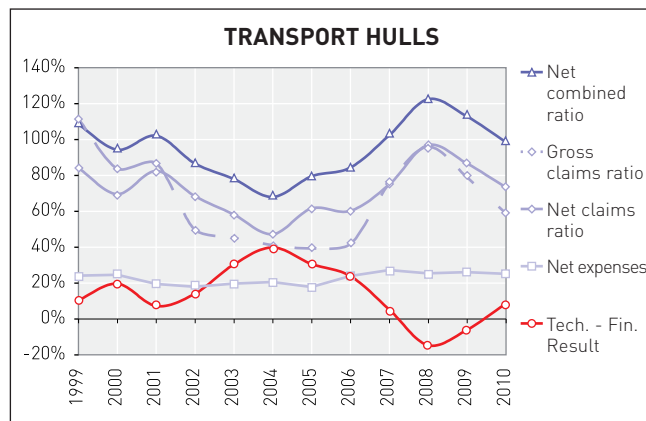


Chart 36. Evolution of results of Total Transport insurance, Hulls category. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

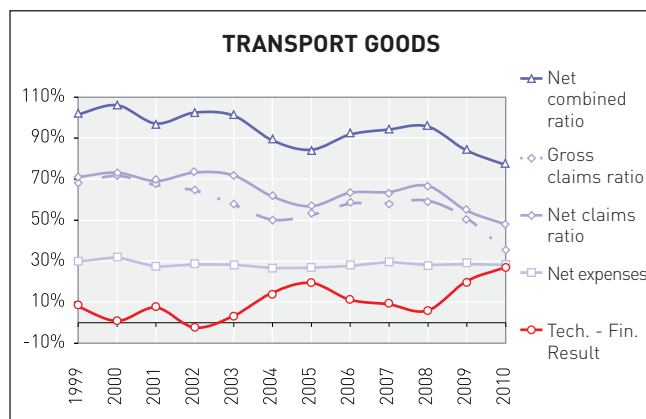


Chart 37. Evolution of results of Total Transport insurance, Goods category. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from ICEA

5.11. ENGINEERING

The Engineering sector (Machinery Breakdown, Construction Multi-Peril, 10-Year Construction Insurance, Electronic Equipment and Product Warrantee) posted premium volume of 420 million euros, a fall of 18.7% from the previous year.

The economic crisis in general, and that of the real estate sector in particular, continued to have a severe impact on growth in this line of insurance, especially in Construction Multi-Peril, 10-year Construction insurance and Machinery Breakdown, which again registered major drops this time of 15.3%, 27% and 18.6%, respectively.

The backlog of unsold homes, and the major drop in the number of building permits, does not help resurrect the construction sector, and this drags down prospects for the aforementioned kinds of insurance returning to paths of growth. What is more, the scarce volume of new business continues to make for a soft market with premium reductions that aggravate the existing situation even more. The decline in this sector is offset somewhat by the overseas activity of Spanish construction companies.

Erection insurance, which accounts for a small part of the sector, fell 26%. This line of insurance has declined significantly in the energy sector, which in previous years had major premium volume.

Finally, **Electronic Equipment** insurance is the only line that rose, doing so by 10%, although its proportion of the sector is very small.

The technical-financial result, while it was very positive, was down 13 points from 2009 at 42%, due mainly to a rise in claims in all of its categories.

Class	Millions of euros	
	Premium	% Variac.
10-year construction	97	-27.0%
Construction Multi-Peril	158	-15.3%
Machinery breakdown	127	-18.6%
Erection	16	-26.0%
Electronic equipment	22	10.3%
Total Engineering	420	-18.7%

Table 29. Distribution of Engineering insurance by class

Source: ICEA

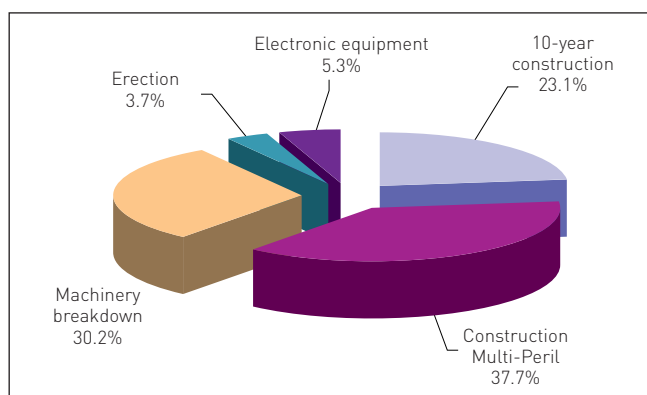


Chart 38. Distribution of Engineering by category

Source: ICEA

Prospects for 2011

The outlook for 2011 is just as discouraging for the reasons outlined earlier, so the sector is expected to post declines. At the same time the soft market is expected to continue, which will presumably have a negative effect on the combined ratio over the next few years.

5.12. MULTI-PERIL AGRICULTURAL INSURANCE

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

In 2010, Spanish agricultural insurance was also affected by the overall performance of the economy, which was hit by the deep crisis that began in 2008. But the branch managed to curb the downward trend it experienced in 2009 and posted premium volume 650.5 million euros, which marked a slight decline of 0.1% compared to the previous year.

Premium revenue in the various lines of this business was the following: experimental lines, 316 million euros, a rise of 1%. viable lines 184 million euros and volume growth of 2.1%. and finally, removal and destruction of animals that die on farms,, 151 million euros, for a fall of 4.6%, caused mainly by a decline in insurance rates.

As for underwriting, insured production in the farm sector totaled about 30 million tons, an increase of 5.9% from the previous year. The value of insured production was 11,000 million euros, or 2.5% more than in 2009.

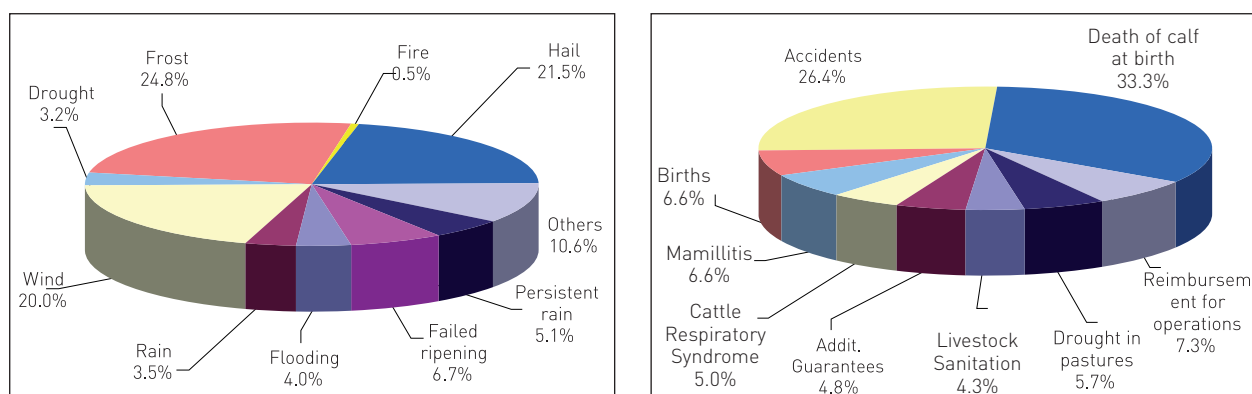


Chart 39. Agricultural and Livestock insurance. Distribution of losses by risk in 2008.

Source: Agroseguro

The agrometeorological year was warm and complicated. Average precipitation in the first three months of the year was double the average figure, making this period the third most rainy since 1997. But the April-June quarter was warmer than usual, making it the second hottest since 1960. Low temperatures in December caused major damage to production of citrus crops and winter vegetables along the Mediterranean coast.

With regard to crops, the value of farm production rose 1.9% due to a 7.6% increase in the value of production, thanks mainly to higher prices. Livestock production fell 2.3%, due to a decline in production of cattle, sheep and goats and a fall in all sub-sectors (except pork).

In 2010 more than 1.1 million claims were filed (1% more than 2009), of which 80% corresponded to withdrawal and destruction of dead farm animals. Claims incurred (payments plus reserves) totaled 554 million euros, a figure very close to the 557 million euros of 2009. In the farm sector, damaged surface area totaled 920,000 hectares, with a total of 581,000 plots of land affected. All told, the Spanish System of Multi-Peril Agricultural Insurance had an overall claims ratio in 2010 of 85.2%, three-tenths of a point less than in 2009.

6. New legislation

6. NEW LEGISLATION

Spanish legislation

Royal Decree 1159/2010, of 17 September, which approved rules for the Formulation of Consolidated Annual Accounting and modified the General Accounting Plan, approved by Royal Decree 1514/2007 of 16 November and the General Accounting Plan for Small- and Medium-size Businesses, approved by Royal Decree 1515/2007 of 16 November.

The entry into force of **Regulation (EC) 494/2009 and 495/2009, which** introduce changes in **IAS 27 on “Consolidated and Separate Financial Statements” and IFRS 3 “on Business Combinations”**, has in effect established a new set of principles applicable to listed companies in the formulation of their consolidated results for years starting as of 1 January, 2010. For this reason, a review has been undertaken of the Rules for Formulation of Consolidated Annual Results. The goal is to make available to other companies an accounting framework that is line with EU law.

Royal Decree 1736/2010 of 23 December, which modifies the Accounting Plan for Insurance Companies, approved by Royal Decree 1317/2008 of 24 July.

The approval of this rule made it necessary to change regulations applicable to insurance companies. Meanwhile, the content of the Accounting Plan for Insurance Companies was adapted to **Regulation (EC) 1994/2008** which adopted certain international accounting standards and in particular the changes included in NIC 39 and NIIF 7. This adaptation consisted of a partial revision of the 8th registry and assessment rule in the area of reclassification of financial assets, including in this regard additional and complementary information in yearly earnings reports.

At the same time, an additional clause is incorporated to allow insurance companies to use actuarial tables GKM95 and GKF95 and mortality tables GRM95 and GRF95 until 31 December, 2011. These actuarial tables have an observation period running through 1990 and according to the Rules on Management and Supervision of Private Insurance, could not be used in 2011 because as of then more than 20 years had gone by since the end of their observation period. The insurance sector is addressing the creation of specific tables for the insured Spanish population that replace the GKM95 tables. But they will not be finished in the time span specified in the Rules, so a one-year extension was necessary.

Order EHA/1803/2010, of 5 May, establishing obligations with regard to the turning in via electronic media of statistical and accounting documentation of insurance companies and those which manage pension funds. The Order also modifies order EHA/1 928/2009, of 10 July, approving annual, quarterly and consolidated statistical and accounting documentation models to be presented by insurance companies. It also modifies Order EHA/339/2007 of 16 February, developing certain clauses of regulatory rules for private insurance.

On one hand the new order makes it mandatory to remit via electronic media a series of documents by insurance and reinsurance brokers, insurance companies and pension fund managers. It also approves new models for documentation of accounting statistics.

In the first case, the goal is that all communications between the Government and the entities to which the rule applies, in either direction in which the communication is carried out, be done by electronic means, complying with all the terms established under current law.

Royal Decree 764/2010 of 11 June, which develops Law 26/2006 of 17 July, governing Mediation of Private Insurance and Reinsurance in the area of statistical-accounting and business information and professional jurisdiction.

It regulates two important aspects for the exercise and control of the activity of insurance intermediaries:

- The registry books and statistical-accounting information duty of insurance and reinsurance brokers, and the accounting and business information duty of linked insurance agents and linked operators of bancassurance.
- The information duty of insurance intermediaries, reinsurance brokers and other persons who participate directly as intermediaries in private insurance and reinsurance.

As for the second clause, which has to do with the training of intermediaries, this Royal Decree regulates the requirements for participation in training course and qualification tests. the content and duration of these depending on responsibility and activity that such persons carry out. the recognition of previous knowledge. continuing education. and finally, the adaptation regime.

This rule validates, for residents based in other member states, the effective exercise of insurance and reinsurance intermediation activity, if they pass training courses and regulated aptitude tests.

Law 2/2011 governing the Sustainable Economy

This Law includes changes in the regulatory framework for economic activity, the encouragement of environmental sustainability, the normalization and rationalization of the housing sector, and the stimulation of innovation and research. With regard to private insurance pension funds, it introduces the following changes:

- It enhances protection of users of financial services, increasing transparency through the advertising of expected yields by life insurance policy-holders who do not assume the risk of the investment.
- It Modifies the Law on Mediation of Insurance and Reinsurance to provide an operational and responsibility framework for underwriting agencies and recognizes the figure of auxiliary adviser within the category of external auxiliaries.
- In the area of Pension Plans and Funds, it modifies the the text of the Law on Regulation of Pension Plans and Funds, introducing measures to reduce red administrative red tape. To this end, it eliminates companies' obligation to present a report on its financial plans and simplifies procedures for modifying pension plans.

At the same time, the law fills out the regime for loosening up rights among pension plans, Insured Pension Plans and Company Benefit Retirement Benefit Plans, equity requirements of managing entities are reduced so as to boost their efficiency, rules are introduced for regulating the marketing of individual pension plan systems, and the administrative oversight regime is strengthened.

Projects under way

Bill on Private Insurance Oversight

On 8 July, 2011 the Council of Ministers approved and sent to Parliament the Bill on Private Insurance Oversight. Its goal is to enhance control of and achieve adequate measurement of the risks that insurance companies are exposed to, and introduce certain improvements in the existing internal rules. Fast-track proceedings have been requested for its processing through Parliament.

The bill transfers to Spanish law the EU directive on life insurance, access to insurance and reinsurance activity and its exercise (Solvency Directive II). It goes deeper in the elimination of the most important differences among the legislation of the Member states and therefore makes it possible to establish a homogenous legal framework in which European insurance and reinsurance companies do business in the entire internal market.

The bill embraces as a guiding principle that of the convergence of European oversight activity with regard to the tools and practices of supervision, and the role the European Insurance and Occupational Pensions Authority has in that convergence.

The main changes that it introduces are:

- A requirement of minimum equity in line with a model based on the risk assumed by entities, taking as a basis the information they provide and the structure of assets and liabilities seen in the financial reports. Also, it establishes the possibility that companies determine their own minimum capital levels through the use of internal models of scenarios and probabilities.
- Reform of the oversight system that is currently in force, tending toward a continuous and overall supervision of companies.
- Broad regulation of groups of companies, featuring specific mechanisms as to the rules to follow for the supervision carried out of said companies and keeping mind their specialties and extraterritorial nature.
- A modification of the system of infractions and sanctions, enhancing their consistency with those which exist for the rest of the companies in the financial system.

Preliminary Bill on Insurance Contracts

The Justice Ministry is working on preliminary bill in this area..

EU Legislation

Reform of Financial Oversight

On 24 November, 2010, the European Council and the European Parliament approved the package of rules that established the new European System of Financial Supervisors, which went into force in January 2011. These rules create a series of supranational financial oversight bodies: Regulation 1092/2010/EC created by the European Systemic Risk Board (ESRB) Regulation 1093/2010/EC, created by the European Banking Authority (EBA), Regulation 1094/2010/EC, created by the European Insurance and Occupational Pensions Author-

ity (EIOPA), and Regulation 1095/2010/EC, created by the European Securities and Markets Authority (ESMA).

The European Insurance and Occupational Pensions Authority replaces and broadens two of the functions of the CEIOPS Committee, and will exercise its jurisdiction in the framework defined by the Directives on the insurance sector. It will be governed by a Panel of Supervisors, where there will be representatives of all the national supervisors, and will have a Managing Board.

7. Methodology

7. METHODOLOGY

Sources of information

In the preparation of this study, we have relied on official and other reputable sources of information. The main one, on which much of the report is based, is the reports published by the ICEA.

Calculation

The calculation of most of the descriptive ratios in this study, especially those related to Non-Life insurance, was done with earned premiums, gross premiums or premiums net of reinsurance, depending on the case. Earned premiums comprise written premiums plus the variation of the provision for premiums receivable and the variation of the technical provision for unearned premiums and for unexpired risks. The following is an outline of how the ratios are calculated:

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



INDEX OF TABLES AND CHARTS

CHARTS

Chart 1.	Evolution of Spanish population.....	13
Chart 2.	Distribution of the Spanish Population by age group and sex. Year 2010	13
Chart 3.	Distribution of fatalities by type of accidents	14
Chart 4.	Home sales. Number of transactions and quarterly variation.....	15
Chart 5.	Evolution of the insurance market in Spain. Premium volume and variation	20
Chart 6.	Penetration and Density	22
Chart 7.	Evolution of the number of private insurance companies according to their legal structure.....	24
Chart 8.	Ranking of insurance groups by volume of premiums. Total.....	28
Chart 9.	Ranking of insurance groups by volume of premiums. Life.....	29
Chart 10.	Ranking of insurance groups by volume of premiums. Non-Life.....	29
Chart 11.	Evolution of Life. Written premiums. Direct insurance.....	34
Chart 12.	Evolution of results of Motor Insurance. % of net earned premiums	39
Chart 13.	Evolution of Multi-Peril insurance. Written premiums. Direct insurance	41
Chart 14.	Distribution of Multi-Peril premiums by class of insurance	41
Chart 15.	Evolution of results in Multi-Peril insurance. % of net earned premiums	44
Chart 16.	Evolution of results in Home Multi-Peril insurance. % of net earned premiums.....	44
Chart 17.	Evolution of results in Industrial Multi-Peril insurance. % of net earned premiums.....	44
Chart 18.	Evolution of results in Commercial Premises Multi-Peril Insurance. % of net earned premiums.....	44
Chart 19.	Evolution of results in Condominium Multi-Peril Insurance. % of net earned premiums.....	44
Chart 20.	Evolution of results in Others class of Multi-Peril Insurance. % of net earned premiums.....	44
Chart 21.	Evolution of Health insurance. Written premiums. Direct insurance.....	45
Chart 22.	Evolution of results of Health insurance. % of net earned premiums	46
Chart 23.	Evolution of Third-Party Liability insurance. Written premiums. Direct insurance	47
Chart 24.	Distribution of Third Party Liability by Category.....	47
Chart 25.	Evolution of results of Third-Party Liability insurance. % of net earned premiums.....	48
Chart 26.	Evolution of Burial insurance. Written premiums. Direct insurance	49
Chart 27.	Evolution of results of Burial insurance. % of net earned premiums	49
Chart 28.	Evolution of Personal Accident insurance. Written premiums. Direct insurance.....	50
Chart 29.	Evolution of results of Personal Accident insurance. % of net earned premiums.....	50
Chart 30.	Evolution of Credit insurance. Written premiums. Direct insurance.....	51
Chart 31.	Evolution of results of Credit insurance. % of net earned premiums	51
Chart 32.	Evolution of Surety insurance. Written premiums. Direct insurance.....	52
Chart 33.	Evolution of results of Surety insurance. % of net earned premiums.....	52
Chart 34.	Evolution of Transport insurance. Written premiums. Direct insurance	53
Chart 35.	Evolution of results of Total Transport insurance. % of net earned premiums.....	55
Chart 36.	Evolution of results of Transport insurance, Hulls category. % of net earned premiums	55
Chart 37.	Evolution of results of Transport insurance, Goods category. % of net earned premiums.....	55
Chart 38.	Distribution of Engineering by category	56
Chart 39.	Agricultural and Livestock insurance. Distribution of losses by risk in 2008	57

TABLES

Table 1.	GDP and its components	11
Table 2.	Size of the world's largest insurance markets	19
Table 3.	Distribution of premium volume by classes. Written premiums, direct insurance	21
Table 4.	Insurance sector results	22
Table 5.	Basic indicators. Non Life	23
Table 6.	Solvency Margin for insurance sector	23
Table 7.	2009 premiums by activity regime	25
Table 8.	Statistics on distribution channels	26
Table 9.	General Activity of the Consorcio de Compensación de Seguros	31
Table 10.	Composition of Life insurance by class. Written premiums. Direct insurance	34
Table 11.	Composition of Life insurance by class	35
Table 12.	Basic indicators for Motor insurance	37
Table 13.	Evolution of average Motor premium	38
Table 14.	Average frequencies and costs by coverage class	38
Table 15.	Basic indicator for Multi-Peril insurance	40
Table 16.	Basic indicators for Home Multi-Peril insurance	42
Table 17.	Basic indicators for Industrial Multi-Peril insurance.....	42
Table 18.	Basic indicators for Commercial Premises Multi-Peril Insurance	43
Table 19.	Basic indicators for Condominium Multi-Peril Insurance.	43
Table 20.	Basic indicators for Health insurance	45
Table 21.	Basic indicators for Third-Party Liability insurance.....	47
Table 22.	Basic indicators for Burial insurance	48
Table 23.	Basic indicators for Personal Accident insurance	50
Table 24.	Basic indicators for Credit insurance	51
Table 25.	Basic indicators for Surety insurance	52
Table 26.	Basic indicators for Transport insurance, Total	53
Table 27.	Basic indicators for Transport insurance, Hulls category	54
Table 28.	Basic indicators for Transport insurance, Goods category	54
Table 29.	Distribution of Engineering insurance by class.....	56

FUNDACIÓN **MAPFRE**

www.fundacionmapfre.com
Pº Recoletos, 23
28004 Madrid