

**CONFERENCE ON CATASTROPHIC RISKS
AND INSURANCE**

22-23 November 2004

**THE SPANISH EXPERIENCE
IN THE MANAGEMENT OF EXTRAORDINARY RISKS,
INCLUDING TERRORISM**

Ignacio Machetti (Consortio de Compensación de Seguros)

Powerpoint presentation

This document is circulated for Session 3 of the Conference on Catastrophic Risks and Insurance, to be held on 22-23 November 2004 at the OECD Headquarters, 2 rue André Pascal, 75016 Paris, starting at 9:00 a.m.

For further information on this conference, please contact Cécile Vignial, Financial Markets Division (Cecile.Vignial@oecd.org), or Yosuke Kawakami or Morven Alexander, Outreach Unit for Financial Sector Reform (Yosuke.Kawakami@oecd.org or Morven.Alexander@oecd.org)



**The Spanish experience in the
management of Extraordinary Risks:
Consorcio de Compensación de Seguros**

OECD

Paris, 23 November 2004

Ignacio Machetti

General Manager



1.- Short sight to history: the origins

Damages from Civil War (1936-1939)



Riot Risks Compensation Consortium (1941)

Provisional insurance tool

Severe damages in

Santander (1941) - fire

Canfranc (1944) - fire

El Ferrol (1944) - fire

Cádiz (1947) – mines explosion

Alcalá de Henares (1948) – gunpowder
arsenal explosion



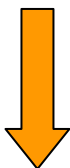
2.- Stabilisation and development

Consortio de Compensación de Seguros (1954)

Permanent insurance tool



1991: Legal Statute



Board of Directors

New legal nature



Paritary composition private-public

Flexibility
Adaptability
Multi-task

Collaboration

Subsidiarity

Decentralization
(18 regional Delegations)



LEGAL NATURE

✦ **Public business institution**

(Ministry of Economy and Finance)

✦ **Own legal personality**

✦ **Own Assets**

(independent from the State's)

✦ **Subject to laws ruling private companies**



3.- Natural disasters and terrorism: reaction capacity

11-September 2001

TERRORISM



Lack of coverage in International markets



Public intervention



- Terrorism risk coverage systems
- Other support measures

SPAIN

- Aviation (TPL for non passengers)

Risk covered by CCS for the State's account (up to 31-10-2002)

- Business interruption



UNESPA-CCS agreement: reinsurance by CCS (up to 2004)

Currently included in Extraordinary Risks Coverage System

(for every risks under the system)



**11 March
2004**

- Deceased persons: 192
- Injured persons: > 1,500

> 1,000 LOSS CLAIMS

950: personal injuries

58: material damages

~ 500 claims finished → **20 mill. €**

**Amount provisioned
for remaining claims** → **15 mill. €**

Total amount to be paid by Consorcio: ~ 35 mill. €



4.- Main features of the Extraordinary Risks System

4.1.- Wide-sense compensation

- ✦ **SOLIDARITY**
- ✦ **ACCOUNTING PERIODS COMPENSATION**
- ✦ **GEOGRAPHICAL COMPENSATION**
- ✦ **RISKS COMPENSATION**
- ✦ **COLLABORATION (with the market)**
- ✦ **SUBSIDIARITY**



4.2.- Compulsory cover

Cover compulsorily attached to ordinary policies in certain Property branches and in personal accidents branch



- ✦ **Fire and natural events**
- ✦ **Land vehicles (vehicle damages, not civil liability)**
- ✦ **Railways vehicles**
- ✦ **Other damages produced to goods (robbery, plate glass, machinery breakdown, electronic equipments and computers)**
- ✦ **Business interruption**



4.3.- Subsidiarity and guarantee fund

- ✦ **Extraordinary risks may be covered by private companies**
- ✦ **If company doesn't assume the risk, the CCS covers it through the policy issued by the company (taking into account the same amount insured and the same compensation conditions)**
 - **The company manages the policy**
 - **CCS manages the loss claims and compensation (adjustment included)**
- ✦ **CCS will also compensate if company having assumed the coverage is unable to pay losses (bankruptcy, winding-up)**



4.4.- Compulsory surcharge

- **To be applied on amount insured in the ordinary policy**
- **Insurance companies collect surcharges together with their premiums.**
- **Companies will credit surcharges to Consorcio on a monthly basis.**
- **Collection commission in favour of the companies: 5 %**



Surcharge rate:

a.- For property insurances

a.1.- Direct damages:

- . **Housing: 0.09 per thousand**
- . **Offices: 0.14 per thousand**
- . **Business, Shopping centres: 0.18 per thousand**
- . **Industrial risks: 0.25 per thousand**
- . **Motor vehicles: rate according to type of vehicle**
- . **Civil works: rate according to type (up to 1.95 per thousand for non-sport ports).**

a.2.- Business interruption:

- . **Real property: 0.005 per thousand on amount insured for material damages.**
- . **Other risks: 0.25 per thousand on amounts insured for business interruption.**

b.- For accidents insurance: 0.0096 per thousand



4.5.- Events covered by the system

a.- Natural perils

Extraordinary flood (not direct rain)

Earthquake

Seaquake

Volcanic eruption

Atypical cyclonic storm (tornadoes and gusts of wind above 135 km/h included)

Fall of meteorites



b.- Socio-political risks

Terrorism

Rebellion

Sedition

Riot

Civil commotion

Actions of Security Forces in peacetime



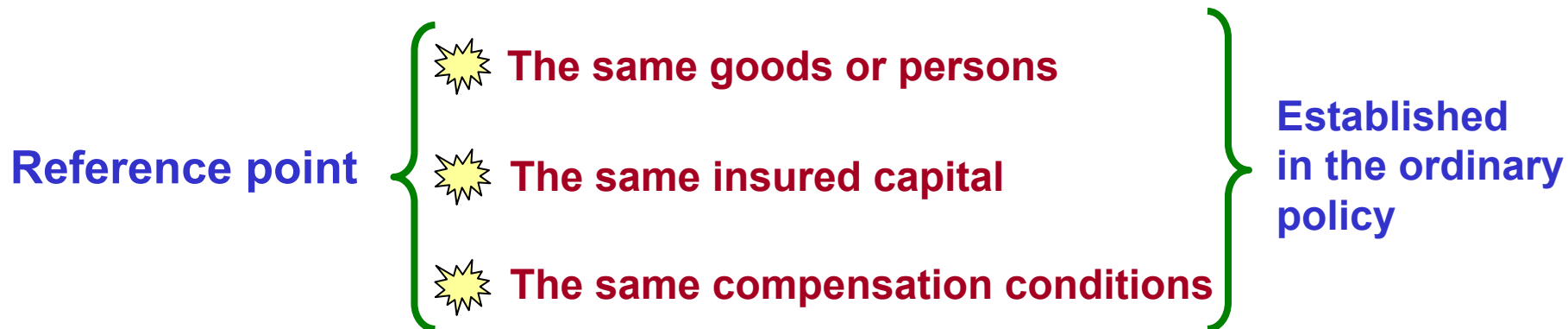
Damages covered

- Property** ✨ **Direct damages** (repair or replacement)
- ✨ **Supplementary expenses** (mud extraction, wrecking rubble disposal or transport to landfill)
- ✨ **Business interruption** (¡New!)
-
- Accidents** ✨ **Death and permanent disability**

For events occurred in Spain (+ personal injuries from events occurred abroad) (¡New!)



Indemnification





Deductibles:

- ☀ For direct material damages (except for cars and housing): 7 % of the indemnification amount.
- ☀ For business interruption: the same deductible established in the ordinary policy



4.6.- Qualitative cover

The system doesn't take into account:

-  **the losses amount**
-  **the number of insured persons affected**
-  **the size of the affected area**

It is not necessary a previous official statement about the catastrophic nature of the event



4.7.- Financial resources

 **Surcharges**

 **Investment returns**

 **Equalization Reserves**

 **State Guarantee (never applied)**



5.- Statistical data

EXTRAORDINARY RISKS PROPERTY AND PERSONAL ACCIDENTS TOTAL PAYMENTS DISTRIBUTION PER CAUSES Period 1987 - 2003

CAUSE	PROPERTY	%	PERSONAL ACCIDENTS	%
Flood	1,385,383,648	85.0	2,496,211	11.9
Earthquake	16,725,642	1.0	0	0.0
Atypical cyclonic storm	40,235,666	2.5	0	0.0
Falling of meteorites	41,470	0.0	0	0.0
Terrorism	144,837,337	8.9	18,328,196	87.1
Riots	681,768	0.0	0	0.0
Civil commotion	41,633,661	2.6	90,812	0.4
Acts of the Armed Forces	1,161,258	0.1	125,611	0.6
TOTAL	1,630,700,450	100	21,040,830	100

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EXTRAORDINARY RISKS – PROPERTY
TOTAL PAYMENTS DISTRIBUTION PER TYPE OF RISK
Period 1987 - 2003

TYPE OF RISKS	PROPERTY	%
Housing and Offices	367,986,707	22.6
Businesses and shopping centres	567,677,141	34.8
Industrial Risks	505,395,386	31.0
Civil works	68,040,203	4.2
Motor Vehicles	121,601,013	7.5
TOTAL	1,630,700,450	100

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**EXTRAORDINARY RISKS – PROPERTY
PREMIUMS AND TOTAL PAYMENTS DISTRIBUTION
Period 1971 - 2003**

YEARS	PREMIUMS UPDATED	TOTAL PAYMENTS UPDATED	LOSS RATIO (%)
1971 - 1980	895,179,115	741,813,652	82.87
1981 - 1990	1,337,527,336	1,944,085,583	145.35
1991 - 2000	2,737,361,338	1,101,063,120	40.22
2001	373,373,688	165,617,611	44.36
2002	379,226,400	132,694,030	34.99
2003	416,043,733	86,041,073	20.68
TOTAL	6,138,711,609	4,171,315,069	67.95

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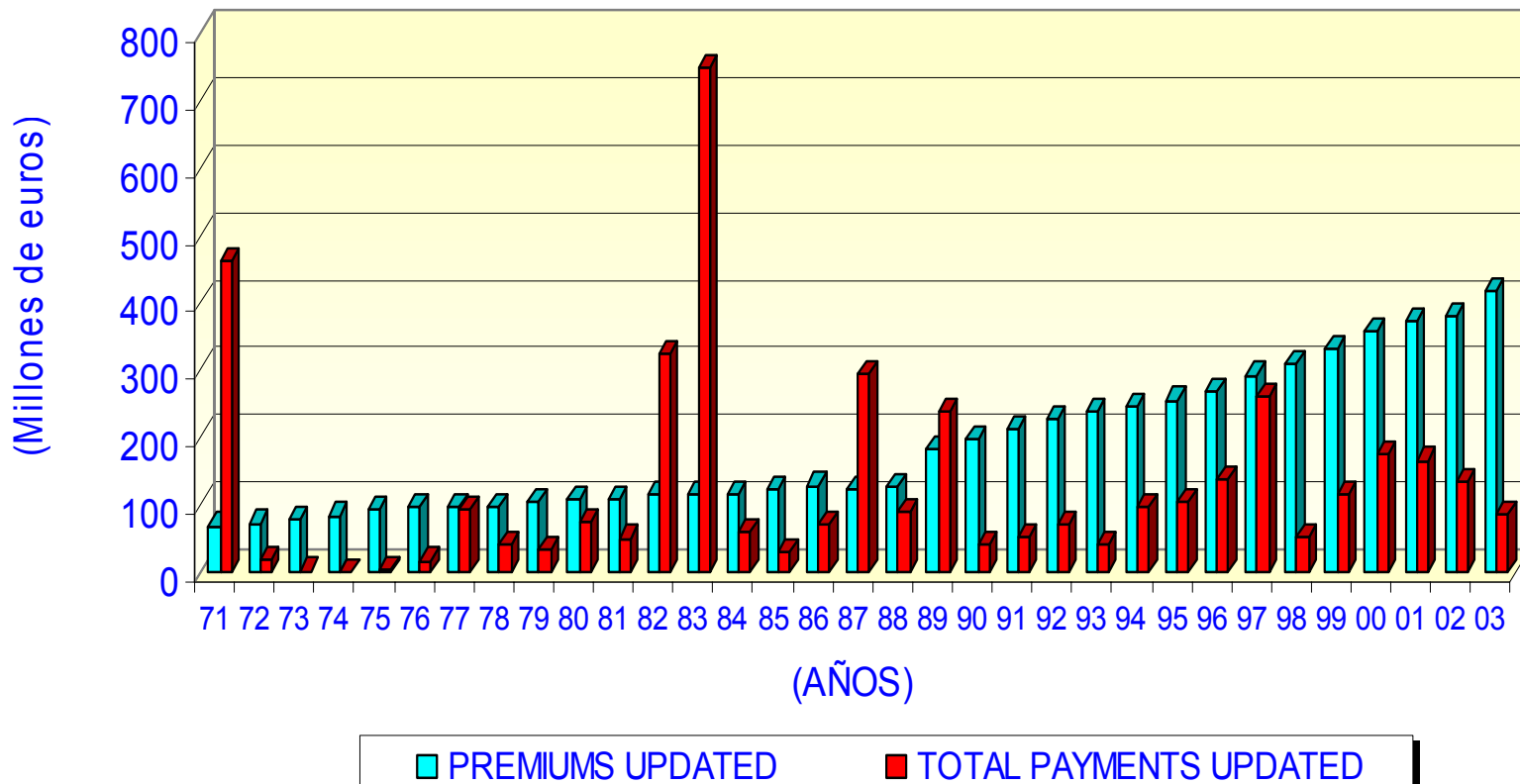
**EXTRAORDINARY RISKS – PROPERTY
PREMIUMS AND TOTAL PAYMENTS DISTRIBUTION**
Years with special payments

YEARS	PREMIUMS UPDATED	TOTAL PAYMENTS UPDATED	LOSS RATIO (%)
1982	114,143,112	323,039,657	283.01
1983	114,061,407	747,407,907	655.27
1987	121,779,438	293,356,125	240.89
1989	183,603,203	238,493,284	129.90

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EXTRAORDINARY RISKS – PROPERTY PREMIUMS AND TOTAL PAYMENTS DISTRIBUTION





6.- Challenges of the future

✦ **Climatic change**

✦ **Mega-terrorism**



50 years



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