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

Ignacio Machetti (Consorcio de Compensación de Seguros)

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

OECD
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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

- Santander (1941) - fire
- Canfranc (1944) - fire
- El Ferrol (1944) - fire
- Cádiz (1947) – mines explosion
- Alcalá de Henares (1948) – gunpowder arsenal explosion

Severe damages in
2.- Stabilisation and development

Consorcio de Compensación de Seguros (1954)

- Permanent insurance tool
- Flexibility
- Adaptability
- Multi-task
- Collaboration
- Subsidiarity
- Decentralization (18 regional Delegations)

1991: Legal Statute

- New legal nature

Board of Directors

Paritary composition private-public
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

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)
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)
- SUBSIDIARIETY
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
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

Reference point

- The same goods or persons
- The same insured capital
- The same compensation conditions

Established in the ordinary policy

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

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

**EUROS**
<table>
<thead>
<tr>
<th>TYPE OF RISKS</th>
<th>PROPERTY</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and Offices</td>
<td>367,986,707</td>
<td>22.6</td>
</tr>
<tr>
<td>Businesses and shopping centres</td>
<td>567,677,141</td>
<td>34.8</td>
</tr>
<tr>
<td>Industrial Risks</td>
<td>505,395,386</td>
<td>31.0</td>
</tr>
<tr>
<td>Civil works</td>
<td>68,040,203</td>
<td>4.2</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>121,601,013</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,630,700,450</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

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

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

**Years with special payments**

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

**EUROS**
EXTRAORDINARY RISKS – PROPERTY
PREMIUMS AND TOTAL PAYMENTS DISTRIBUTION
6.- Challenges of the future

- Climatic change

- Mega-terrorism
50 years

http://www.consorseguros.es/