



SPAIN — TERRORISM RISK INSURANCE PROGRAMME

Name of programme	Consortio de Compensación de Seguros (CCS)
Date of establishment	1954
Basic structure	In Spain, terrorism is part of a series of risks known as ‘extraordinary risks’, which coverage in many classes of insurance is mandatory (see below). All extraordinary risks can legally be covered by private insurance companies. Otherwise, CCS will automatically take charge of the guarantee. In practice, the private market does not directly cover those risks, thus CCS is the direct insurer. CCS also acts as a guarantee fund when a private insurer, having assumed the coverage of an extraordinary risk (like terrorism), can no longer fulfil its obligations, such as following bankruptcy.

Consortio de Compensación de Seguros (CCS)

History and Purpose

Among OECD countries, Spain was the first to develop an institution providing compensation for terrorism losses, in the form of the State-owned Consortio de Compensación de Seguros (CCS). The CCS was established in 1941 as a provisional tool, with the initial aim of helping the exhausted Spanish insurance market to deal with the large insured losses that had arisen from the Spanish Civil War (1936-1939). Following a series of major catastrophes (both natural and man-made) in the 1940s, CCS gained permanent legal status in 1954 as a State body attached to the Ministry of Finance.

Since 1954 cover has been compulsory for “extraordinary risks” including natural catastrophes (currently: earthquake and seaquake, volcanic eruption, flood, windstorm, falling of meteorites) and socio-political risks (terrorism, riots, civil commotion, rebellion, actions by army and security forces in peacetime), and always linked to a base policy (see below). Terrorism risk was a discrete ‘extraordinary risk’ from the beginning under the CCS. CCS functioned as a State insurance facility guaranteeing such covers.

As a result of the process of the Spanish integration into the European Community, the legal nature and the structure of the CCS were modified. Thus in 1990 its Legal Status was approved by law and CCS became a public institution, entrusted in the Ministry of Economy and Competitiveness (current denomination).



The OECD International Platform on Terrorism Risk Insurance shares information and identifies good practices on terrorism risk financing to contribute to more rapid economic recovery in the event of attacks.

This country profile is regularly updated. It is the product of joint work between national terrorism insurance schemes, the OECD and the World Forum of Catastrophe Programmes.

www.oecd.org/daf/fin/insurance/terrorism-risk-insurance.htm



CCS has its own legal nature and, in order to meet its diverse functions, it has its own resources independent from those of the State. It is headed by a Board of Directors composed of an equal number of members from the civil service and from the insurance market. In the scope of its insurance duties, CCS is subject to the same legal obligations as a private company. CCS has an unlimited State guarantee, although the guarantee has never been called in its whole history.

The “extraordinary risk” coverage (including terrorism risk as well) must be compulsorily included in all the policies issued by private companies in property (some exceptions), life and accidents lines. Depending on these lines of insurance, direct material damages, business interruption, death and permanent or temporary disabilities are compensated by this system. Personal damages are compensated even when the trigger event takes place abroad. CCS assumes the coverage in case the extraordinary risk is not explicitly assumed by the private company which issued the base policy, or when the company, protecting the risk on its own, is not able to meet its payment liabilities because of bankruptcy or insolvency.

To finance the “extraordinary risk” coverage, a compulsory surcharge is applied on the amount insured of every policy in the aforementioned lines of insurance. This surcharge, which tariff only varies depending on the type of exposure (dwellings, offices, shops, factories, docks, cars, etc., as well as persons), is collected by the companies together with their premiums and then reimbursed to the CCS in a monthly bases.

In terms of loss experience, the proportion of total losses paid by the CCS for extraordinary risks in the period 1987-2015 for property insurance is shown below. Terrorism and other political risks represent 6.43 % (€425 million –updated 31 December 2015) of total payments (€6.6 billion).

Percentage of total losses by cause – property insurance (period 1987-2015)

Causes	% Losses
Flood	69.15
Earthquake	7.93
Volcano	0.00
Windstorm	16.49
Meteorite	0.00
Riot	0.02
Terrorism	5.23
Civil Commotion	1.14
Acts by Armed Forces	0.05
Total	100.00

To date, the highest individual loss (€54.1 million -amounts deflated-) paid by the CCS, considering all the extraordinary risks, resulted from a terrorist act committed in 1982 on a building of the Telefonica Company.



Definitions

Terrorism is defined as follows: “every violent act committed with the object of destabilizing the established political order or generating fear or insecurity in the social environment in which it is perpetrated.”

No Spanish government declaration is required for an act to be recognised as a “terrorist act” for the purpose of the scheme.

Operation, Extent, Lines Covered & Perils Covered

The lines of business protected by CCS are:

- Fire & natural perils (alone or when in combined policy);
- Motor car vehicles;
- Railway vehicles;
- Other damage to property (theft, plate glass, machinery breakdown, electronic equipment and computers, civil works);
- Business interruption.
- Compulsory motor car third party liability
- Life and accidents (even if the coverage has been contracted as a complement to another type of insurance or within the scope of a pension plan).

Exclusions

The main exclusions from CCS cover are:

- Marine, aviation, space;
- Cargo;
- Third party liability (other than motor car);
- Credit and surety;
- Health;
- Legal expenses;
- Travel insurance;
- Agricultural insurance;
- Construction and assembly.

State Involvement & Layers of Cover

Given the CCS history and mode of operation as a State company, its establishment does not entail a system of layers backed by a State guarantee.

Non-State Reinsurance/Retrocession

The CCS manages the “extraordinary risk” system without current need of the international reinsurance market.

Extent of Compulsion & Choice

Compulsory Terrorism Insurance: terrorism insurance has been compulsory since 1954, but only if linked to a basic policy that covers the lines protected by the “extraordinary risks” system and is underwritten by a private insurer (not the CCS).



Compulsory Pool Membership: not applicable, as CCS is not a pool.

Period of Operation

CCS has operated in its present form since 1954, with important amendments in 1990, 2002, 2004 and 2006. There is no expiry date.

Main features

Layers of coverage	CCS is supported by an unlimited State guarantee if the losses are above its own ability of payments, but it has never been used so far.
Limitation of exposure of private sector	Not applicable.
Temporary /permanent government participation	Permanent. The CCS resources to meet its duties are independent from the State budget.
Gratuity of government coverage	The extraordinary risks coverage system (terrorism included) is financed through the surcharges paid by policyholders.
Voluntary / mandatory	Coverage for extraordinary risks, including terrorism, is compulsorily included in policies issued by private companies in all lines listed below since 1954 (business interruption for all extraordinary events since 2004 and life since 2006).
Minimum sum insured	No.
Coverage of NBCR terrorist attacks	Yes.
Lines covered	Indemnification by CCS is linked to insurance policies from any company in the market for the following classes: fire and natural events, motor car vehicles, railway vehicles, other damage to property (theft, plate glass, machinery breakdown, electronic equipment and computers, civil works), business interruption, life and accident insurance. In 2016 another line has been included: compulsory motor car third party liability.
Pricing mechanism	The tariff is applied to the sum insured established in the ordinary policy. <ul style="list-style-type: none"> • Houses and condominiums: 0.08‰ • Offices: 0.12‰ • Shopping and commercial centres: 0.18‰ • Industrial risks: 0.21‰ • Cars: fixed amount depending on the class (passenger cars: 2.10 €) • Civil works: different rates (0.28‰ to 1.63‰) • Life and accidents: 0.005‰ • Business interruption: several rates (0.005‰ to 0.25‰).
Other public sector victims compensation schemes	Article 93 of Act 13/1996 and the Regulation on Benefits and Compensation to Victims of Terrorist Crimes (RATV) passed by Royal Decree 288 of 7 March 2003. Act 32/1999 on solidarity with the victims of terrorism (LSVT).