10 The Structure, Conduct, and Performance of the Spanish Insurance Industry

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10.1 INTRODUCTION

The Spanish insurance industry experienced a dramatic restructuring during the 1980s and 1990s. In the 1980s, under a 1984 law and a 1985 royal decree, the government began tightening solvency standards and encouraging mergers and acquisitions in the insurance industry to create insurers that would be financially stronger, more efficient, and more competitive both nationally and internationally. The Spanish insurance market also has been affected by the overall deregulation of European insurance markets, particularly through the European Union’s (EU) Third Generation Directives, implemented in July 1994. The Third Generation Directives effectively deregulated the EU insurance market, with the exception of solvency regulation, which was carried out by the insurer's home country. As a result of these regulatory changes, the number of insurers operating in the Spanish market declined dramatically during the 1980s and 1990s.²⁰⁹

In addition, the Spanish insurance industry has not been detached from important developments in the financial services markets, such as the integration of financial services. Financial conglomerates, both Spanish and foreign, have an active presence in the Spanish insurance market, and the bank distribution channel stands out as the predominant system for selling life insurance products.

As a consequence of deregulation, the integration of financial services, technological changes, and other economic changes, some of the more dynamic developments of the Spanish insurance industry have taken place in the last 20 years.

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²⁰⁹ For further analysis on the effects of deregulation and consolidation in the efficiency of the Spanish insurance industry, see Cummins and Rubio-Misas (2006).
This chapter presents a study of the structure, conduct, and performance of the Spanish insurance industry over the period 1990 to 2003. The objective is to provide an overview and analysis of trends in the market, covering the basics of the industrial organization and providing descriptive statistics and analysis of important developments in the Spanish insurance market.

The chapter begins with a discussion of the history of insurance in Spain in the context of its regulation, including sections on life insurance and taxation. The next section evaluates the industry market structure by focusing on the number and types of firms, the distribution of premiums, life insurance managed savings, total assets in the industry, international activities, market concentration, organizational structure, distribution systems, and leading firms in the industry. The subsequent section analyses technical results, combined ratios, profits, and financial conditions of the Spanish insurance industry.

10.2 REGULATION

10.2.1 History and Regulation

The history of insurance in Spain is joined to the history of its regulation. As a preview to this discussion, the laws on the arrangement and supervision of insurance firms in Spain have been a 1908 law, a 1954 law, a 1984 law, and a 1995 law; the current legislation is contained in the revised text on the private insurance supervision and arrangement law (TRLOSSP) approved by Royal Decree 6 in October 2004, which is comprised of some articles on the 1995 law along with ulterior modifications.

The Spanish insurance contract law originated in the fifteenth century with a set of regulations by Barcelona magistrates (Ordenanzas de Magistrados de Barcelona) published in 1435. This set of regulations and subsequent sets of regulations by Burgos (1537), Sevilla (1555), and Bilbao (1737) deal with forming the insurance contract separately from other traditional contracts (Benitez de Lugo 1930; Tirado-Suárez 1984). These regulations were in force until the Spanish commercial code of 1829 came into force.

With the protection of this legislation, the Spanish pioneer insurance firms were created. These firms were mutual societies (montepíos) of disability or old age (precedent of life insurance), and other mutuals covered several risks such as fire or work-related accidents (Martínez-Martínez 1994).

The modern insurance contract was regulated in Spain by the 1885 commerce code, and the law that established the arrangement of private insurance firms in Spain was the Ley de Registro e Inspección de Empresas de Seguros de 1908 (or the registration and inspection of insurance firms law of 1908). This law created the Spanish supervisory authority—Comisaría de Seguros, the predecessor of the current Dirección General de Seguros y Fondos de Pensiones.

Before the 1908 law came into force, insurance firms entered and exited the Spanish market very frequently. Forty percent of the insurance firms that were in the Spanish market in the nineteenth century exited the market during the first five years of their activity. The principal reason for their failure was that they were created with