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## Developments in the environment and the sector



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**The volume of life insurance premiums grew by 6% over last year's figure. In contrast, premiums in non-life insurance underwent a contraction of 3%**

2009 was characterised by a greater weakening of the current economic climate on a world wide scale. On a macroeconomic level, the smaller growth in production and company profits brought about a rise in unemployment and a negative rate of inflation. The response by governments and financial institutions boiled down to the development of effusive expenditure policies that led to a hike in the public deficit and falls in interest rates to spur the economy. As far as the behaviour of the markets is concerned, if their evolution was compared to the previous year, they experienced a gradual recovery throughout the year.

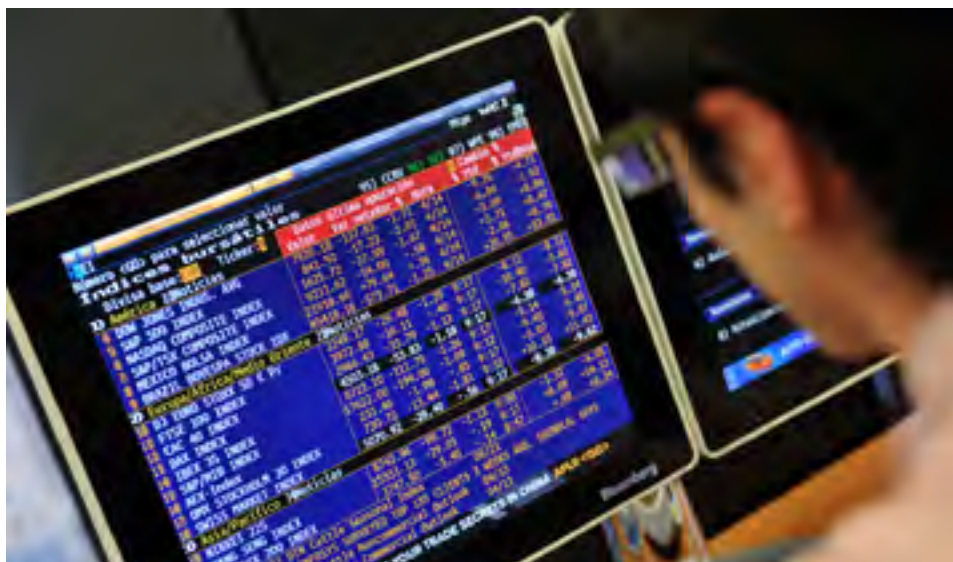
With respect to Spain, the negative impact of the economic climate was greater than in the majority of the OECD countries. The main elements like GDP, unemployment and the fiscal deficit all underwent a worsening compared to 2008.

In spite of negative economic growth, the Spanish insurance sector increased its volume of premiums by just 1% in 2009, reaching a total of 59,884 million Euros. This growth, although positive, clearly showed the impact of the recession, given that the rise in 2008 in the sector was 8%. The behavior between life insurance and the other non-life branches was uneven.

So, the evolution of life insurance showed a growth rate of 6% over the 2008 figure with a total volume of premiums reaching 28,163 million Euros. Similarly, the amount of savings managed in life insurance rose to 143,790 million Euros, which was also 6% more than in 2008.

By contrast, non-life insurance experienced a 3% contraction in premiums with respect to the previous year, reaching the figure of 31,721 million Euros. The behaviour within non-life insurance was different. While health and multi-risk insurance grew by 5% and 7% respectively, motor insurance decreased by 5% and the other non-life insurances fell by 8%.

The volume of funds managed in pension plans witnessed a positive evolution of 8% over that in 2008, in both the individual and group business. The total amount of assets reached 84,789 million Euros. The underlying reason for this growth was mainly the positive increase in value of the managed savings due to the favourable evolution of the financial markets. On the other hand, the total contributions to pension plans fell by 7% over that in 2008.



# Economic climate and family savings

## Stock markets

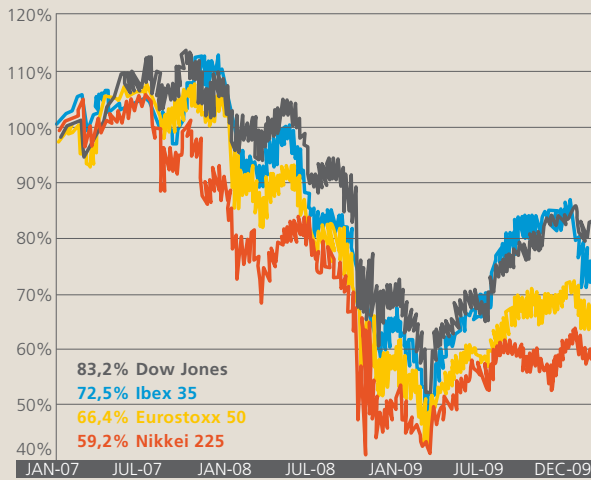
The capital markets partially recovered from the falls that took place throughout 2008. All the indexes, from both the developed and emerging countries, experienced positive revaluations of their stock prices.

This positive behaviour also affected, although to a lesser extent, the banking and insurance sector stocks. In like fashion, the revaluations generated contributed to increasing the value of managed savings in life insurance and pension plans that have stakes in variable income stocks.

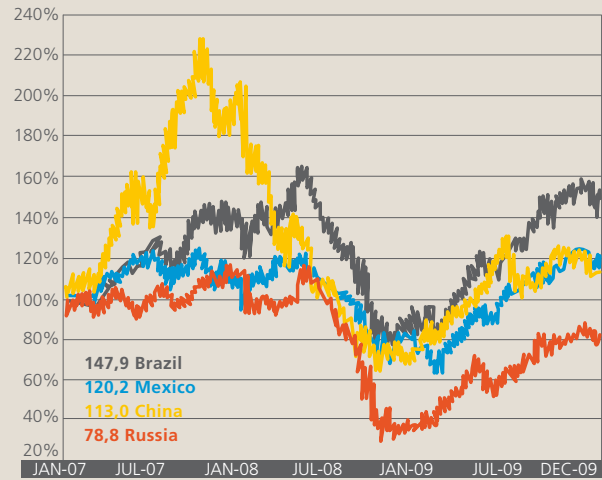
**Stock market indexes partially recovered in 2009 from the falls in 2008**

### INTERNATIONAL STOCK MARKETS

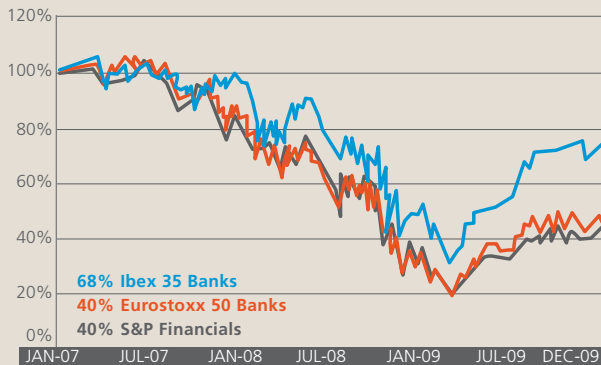
#### Developed countries



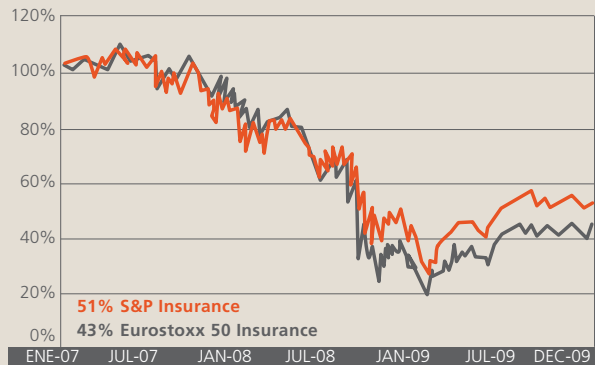
#### Emerging countries



#### Banking sector



#### Insurance sector



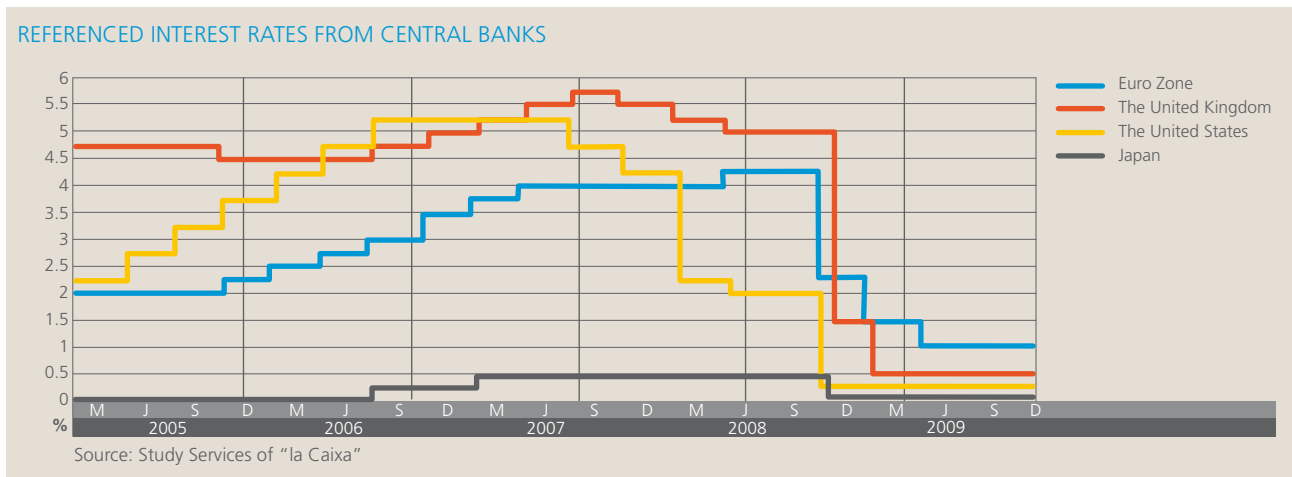
Source: Study Service of "la Caixa". Base 1-1-2007=100

## Interest Rates

### Interest rates were kept low throughout 2009

The European Central Bank reduced the price of money to 1%. For their part, the United States Federal Reserve kept interest rates as low as 0.25%.

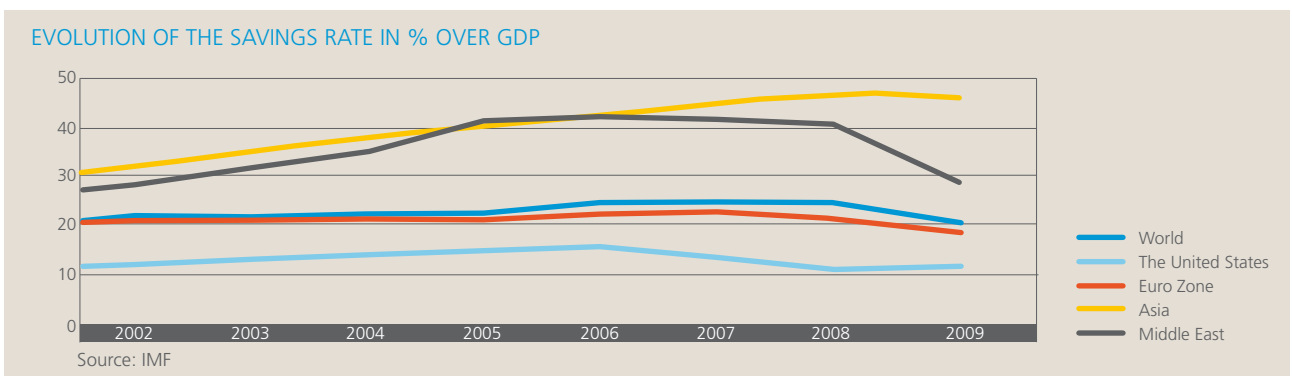
As regards long-term interest rates, their upward trend provides opportunities to offer attractive profitability in long-term investment savings products, such as Life Annuities.



## Family Savings in Spain

In 2009 the amount of Spanish family savings rose to over 1.76 billion Euros, which represents 167% of the GDP and means an average year on year annual growth of 9% since 1990. The increase in the rate of savings in 2009 was largely due to two factors: The change in family behaviour, which prioritised their decisions in favour of savings to the detriment of consumption and investment in housing, and also the recuperation of the

stock markets. The net flow of savings was estimated at 35,000 million Euros, which was an increase of 15% over that in 2008. Therefore, the savings rate of families expressed as a percentage of gross savings over gross income was estimated to be 20% in 2009. This degree of savings brought the Spanish families closer to the standards of other economies in developed countries and placed it slightly above the average in the Euro zone.





FAMILY SAVINGS IN SPAIN						
	1990		2009 (e)		Average Annual Growth 09/90	Growth 09/08
	Millions €	%	Millions €	%		
Deposits	217,891	61%	824,000	47%	7%	2%
Variable income	44,021	12%	340,000	19%	11%	10%
Investment Funds	7,941	2%	148,000	8%	17%	1%
Life insurance	7,095	2%	143,790	8%	17%	6%
Pension Plans	3,215	1%	84,789	5%	19%	8%
Fixed income	25,523	7%	48,500	3%	3%	7%
Others	50,062	15%	173,421	10%	7%	-3%
<b>TOTAL</b>	<b>355,748</b>	<b>100%</b>	<b>1,762,500</b>	<b>100%</b>	<b>9%</b>	<b>4%</b>

Source: Inverco

Life insurance and pension plans kept up their behaviour in line with the previous two years. They represented 13% of all family savings and the year on year accumulated growth since 1990 was 17% and 19% respectively. Therefore, the specific weight of these savings instruments over the total of family savings was on the same level as the previous two years, after growths of 6% and 8% respectively in 2009.

The other savings instruments, with deposits are at their head, channelled almost half of family savings with a growth rate of 2% over the figure in 2008. In second place came variable income, which represented 19% of the total, an increase of 10% over 2008. This solid increase is mostly explained as a result of the recuperation, in general, of stock markets.

**In 2009 the volume of family savings recovered, due to a better evolution of the stock markets and a change in behaviour**

## Evolution of the insurance and pension plan sector

### Life insurance

The total volume of savings deposited in life insurance at the end of 2009 came to 143,790 million Euros, which translated into an increase of 6% over the previous year. An explanation of this rise can be found in the strong growth on the individual business side, which with a 9% increase over the figu-

re in 2008, accumulated two thirds of all savings managed. This vigorous evolution was fundamentally due to a greater tendency of Spanish families to save in 2009. The amount of savings on the group business side had a slight decrease of 1% in 2009 with respect to the previous year.



**There are almost 33 million people in Spain covered by life insurance policies. 72% belong to life-risk insurance while the other 28% have life-savings insurance**

In our country there are 32,645,725 people covered by life insurance of one type or another, which is very like the figure for 2008. Of the 32 million insured, 24.4 millions have individual insurance and 8.2 millions have group and company insurance. Similarly, of all the insured, 72% have life-risk policies (23.3 millions) and 28% have life-savings insurance (9.3 millions). In this field, the average savings managed per insured person is 14,902 Euros, which is an increase of 1,012 Euros over the previous year. This figure is greater in group and company insurance –with an amount of 27,383 Euros– than in individual insurance, which comes to 12,327 Euros.

In 2009, the intrinsic activity of the life-savings insurance business showed a positive result, with an increase of 678 million Euros. To this figure –which corresponds to the positive balance of the premiums having discounted surrenders and paid out claims–, must be added the revaluation of the mathe-

tical reserves, which rose to 6,553 million Euros in 2009. Therefore, the total growth of savings deposited in life insurance came to 7,231 million Euros mainly due to the positive evolution of the stock markets.

Analysing the products, the PIAS (acronym in Spanish for the Individual Plan of Systematic Savings) stands out given that it was set up in 2007 after the last fiscal reform law was brought into force and accumulated a total of 1,710 million Euros coming from 454,000 insured people. Life annuities were also worthy of note. They combined their excellent financial-fiscal conditions with the favourable situation in interest rates. They became an excellent complement to public pensions and therefore, an excellent alternative for investment. This product accumulated the greatest volume of mathematical reserves, which stood at 69,984 million Euros, a 6% rise over 2008 with a total of 2,758,511 insured people or 1% more.

Life-risk insurance remained stable with respect to 2008, with a volume of premiums in excess of 3,600 million Euros and 23 million insured, of which 71% were individual contracts and 29% were group and company insurance. This stabilisation of growth can be explained, at least in part, by the slowdown in the real estate market and the stagnation

in the life-risk insurance linked to mortgages. The number of claims paid out in this area was quite significant and rose to 1,263 million Euros in 2009, a growth of 7% over the previous year. Of that, 58% refer to individual contracts with an overall increase of 13%, while the other 42% respond to group and company contracts, a fall of 2%

## Pension plans

The total volume of savings managed through pension plans in 2009 amounted to 84,789 million Euros, which was an increase of 8%, as against the 9% fall registered in 2008.

The explanation for this rise is essentially due to the positive behaviour of the stock markets world-wide. Let's not forget that at the beginning of 2009 pension funds in our country faced a global exposure to variable income of 17%.

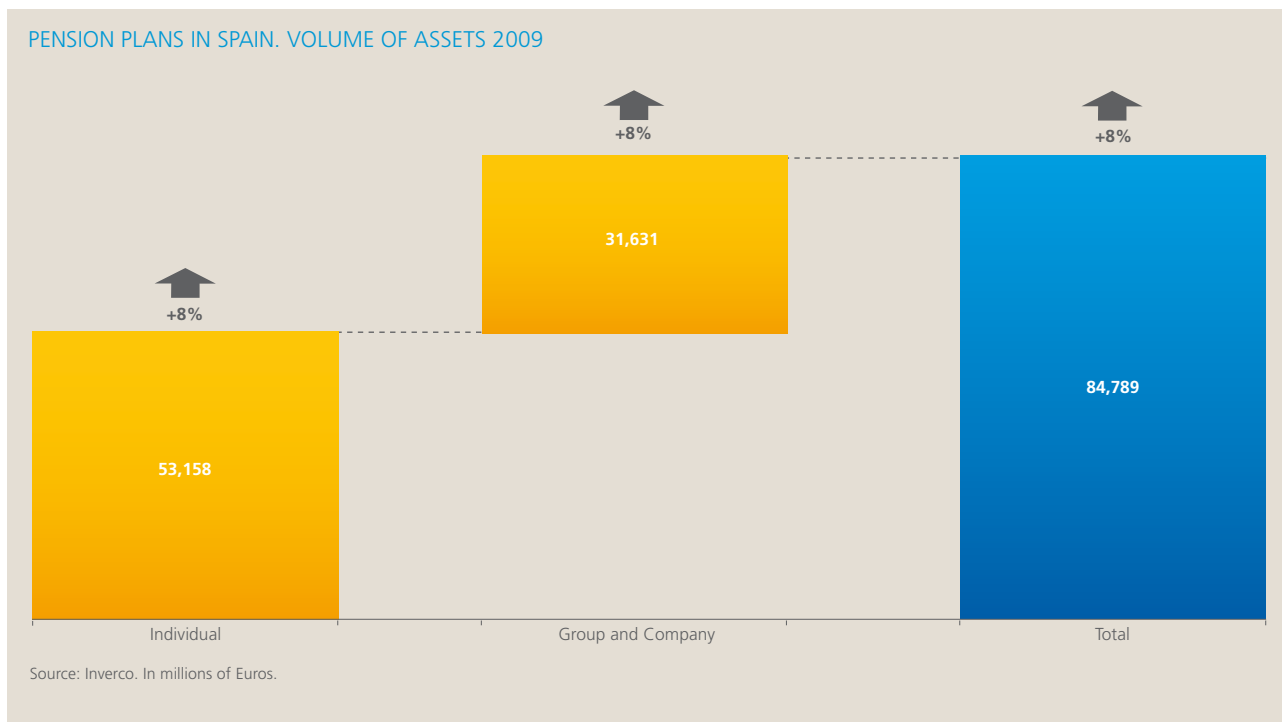
Of all the savings deposited in pension plans, individual plans accounted for 63% and group and company plans the other 37%. The evolution of both systems experienced significant growth. In individual pension plans, the increase in savings was 8% when in 2008 there was a decrease of 9%; in group and company pension plans the rise was 8% against a fall of 7% in 2008. On the other hand, gross contributions of 5,606 million Euros fell 7% below the 6,005 millions contributed in 2008. It should also be said that paid out claims fell by 3%. This meant that the net flow continued to fall with respect to previous years. In 2009 this came to 14% less with a total of 1,597 million Euros differing from the 1,866 million Euros in 2008. The net flow had already fallen considerably in 2008 in comparison to the 3,856 million Euros in 2007, while in the period 2004 to 2006 it remained stable at around 4,900 million Euros.

The structure of the pension fund portfolio remained constant in 2009, stabilising the percen-

tage of fixed income at 59%, slightly increasing variable income from 17% in 2008 to 19% in 2009 and decreasing the treasury from 15% to 11%. This variation was mostly the result of the behaviour of the stock markets. In the 14 years to 2009, the pension fund portfolio underwent some profound changes in its structure. In this sense, there was an increase in the relative weight of variable income, which grew from 4% in 1995 to 19% in 2009. In contrast, fixed income in the same period fell from 74% to 59%. This behaviour was not the case in 2008 when fixed income recovered strongly and grew to 59%, up from 47% in 2007. Another change of note looking back was the rise in assets in international investment, which represented 17% of the portfolio in 2009 while in 1995 it was non-existent. However, there was a fall of 9 percentage points compared to 2008, as a result of the reduction in the international exposure of fixed income assets.

In 2009 the number of Associated and Employee plans stood at over 10.7 millions, which meant a slight rise of 1% over the number in 2008. Eliminating the effect of customers that have more than one plan, the overall number at the close of 2009 was estimated to be eight million people, which means that 42% of the population had a pension plan. Of these 29% were under 40, 31% were between 41 and 50, 28% between 51 and 60 and 12% were over 61, with the average age being 45.

**The growth experienced by pension plans in 2009 was 8% above that in 2008**



## Non-life insurance

In 2009, the non-life areas of insurance accumulated 31,721 million Euros in premiums, a decrease of 3% with respect to the previous year, as against a growth of 2% in 2008 and 5% in 2007. The evolution by area was uneven.

In motor insurance, 2009 witnessed a sizeable decrease of 5% as against the 2% fall in 2008. This fact had a special impact on the overall slowdown of the sector as it is the area with the greatest volume of premiums that represent 37% of all non-life insurance. With regard to the frequency of claims, this was kept stable and in line with the previous year. There were no significant changes in the average cost per claim, although it was the fire guarantee that produced most volatility, mainly in second category vehicles. The rate of claims stood above that in 2008, about 78%, with the guarantee for own damage representing the highest rate at just over 105%.

Health and multi-risk insurances, which each represent 19% of all the premiums in the sector, had positive rates of growth of 5% and 3% respectively over the 2008 figure. It is worth noting that in multi-risk insurance home and community insurance did well with a 6% rise in each case. In home insurance, the banking channel continued dominating with 40% of all premiums sold. In contrast, shop and industrial insurances experienced a fall of 4% and 6% respectively. As far as claims are concerned, rates were stable in comparison to previous years and quarters, reducing the average cost of a claim and the average costs per policy. The agent and broker channel was the one that presented the highest rates of claims.

The other non-life insurances had a joint decrease of 8%.



In millions of Euros	2007	2008	2009	% increase 09/08
Motor Insurance	12,548	12,318	11,657	-5%
Multi-risk Insurance	5,465	5,895	6,077	3%
Health Insurance	5,406	5,838	6,137	5%
Other Non-Life Insurances	8,361	8,529	7,850	-8%
<b>Total</b>	<b>31,780</b>	<b>32,580</b>	<b>31,721</b>	<b>-3%</b>

Source: ICEA

### Health insurance

Insurance premiums directly attributable to the sector in 2009 amounted to over 6,000 million Euros, accumulating a growth of 5% over the figure for the previous year. That is almost 3 percentage points less than in 2008 and although it means that there was a slight slowdown in growth with respect to 2008, the real situation is that the present difficult economic climate does not have a negative repercussion on the business volume.

According to the information of all the insured people in the health area, 2009 ended with almost 11 million people enjoying private cover, which was an increase of 1% over 2008.

To be precise, nearly 8,400,000 people enjoy healthcare, 2% more than in 2008. If this

figure is broken down by type of contract, Public and Private (individual and Group and company), the result shows on the one hand that just more than two million people are linked to State Mutual Societies (MUFACE, Isfas and Mugeju), a figure that did not alter much in 2009. The breakdown is that 1,328,701 people belong to MUFACE, 595,153 to ISFAS and 80,478 to Mugeju. On the other hand, individual private healthcare policyholders number 3,574,430, which is 1% less than in 2008, while the number of customers getting insurance through different groups like companies and business organisations rose by 8% to 2,763,323 people.

Finally dental care also enjoyed a significant increase as 1,760,000 people bought dental care insurance, 9% more than in 2008.

**Health and multi-risk insurances were the ones that achieved greatest percentage growths with respect to 2008, while motor insurance fell by 5%**

**In Spain there are 11 million people who enjoy private healthcare cover**



## New legislature in 2009

Although no substantial new legislature concerning the activity of SegurCaixa Holding came into force, there was, however, the impact of the Law 26/2009 of 23rd December 2009 on the State Budget for 2010.

This contained new taxes and a withholding tax for personal income tax, which directly impacted on income from savings and the-

refore, on the taxation of life and disability insurance that generate profits on investment income.

So, the taxable base on savings, which up to the present modification was taxed at 18% without any distinction made to the different scales of the taxable base, will be taxed in 2010 in the following way:

PART OF THE TAXABLE BASE	RATE OF TAX APPLICABLE
Up to 6,000 €	19%
From 6,000.01 upward	21%

Similarly, the withholding tax rate on services and other derived income from savings products went from 18% to 19% and will be applicable to the payment of capital and income in services of life and disability insurance.

Income from work also underwent a slight variation in the calculation of tax returns and

rate of withholding tax when the 400 Euros was suppressed in the case that the taxable base of the taxpayer is equal to or more than 12,000 Euros. This affects the increase in the rate of withholding tax when getting paid services stemming from Pension Plans and life insurance that pay out pension commitments among others.