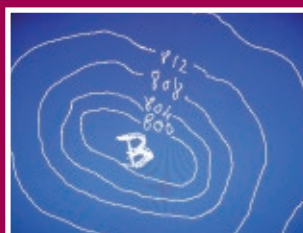


CONSORCIO
DE COMPENSACIÓN
DE SEGUROS (CCS)

THE SPANISH
EXTRAORDINARY RISK
COVERAGE SYSTEM





Consortio de Compensación de Seguros (CCS) is a tool at the service of the Spanish insurance sector in which it is fully integrated. CCS is a highly specialized public business institution with a long experience in performing its legally entrusted functions.



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1. Introduction

Spain is not one of the countries most affected by natural disasters. Still, our country is not free from the threat of adverse natural events and has sometimes suffered devastating effects.

The Spanish experience with natural disasters in the not too distant past – in the extended time frame in which natural catastrophes need to be viewed – includes events that are certainly worthy of mention. In 1755 the earthquake that destroyed Lisbon also caused a tsunami that struck the south-western coast of the Iberian Peninsula, with a heavy impact on the provinces of Huelva and Cadiz and a death toll of over a thousand. In 1884 a magnitude 6.7, intensity IX earthquake caused substantial damage to the town of Arenas de Rey near Granada and other small villages in the surrounding area in the provinces of Granada and Malaga, killing some 900 people. Much more recently, the magnitude 5.1 (Mw) intensity VII (Mercalli scale) earthquake in Lorca on 11 May 2011 left nine dead, over 300 injured, and major material damage to homes, businesses, and historic buildings. As a result of this event the Consorcio de Compensación de Seguros (hereinafter CCS) filed 28,045 claims for damages, for which CCS had paid out over EUR 503 million.

While seismic events (earthquakes and tsunamis) are the most serious potential peril, flood accounts for most of the losses produced by natural disasters in Spain by far, both in terms of lives and in terms of material damage. According to historical records, catastrophic flood occurs virtually everywhere within the country and is more or less frequent and more or less severe depending on the region. Thus, of all the extraordinary risks covered by CCS, flood accounts for most of the claims paid out (69.2 % of property damage claims in the period 1987–2015). The August 1983 Basque Country flood still holds the record for insured losses paid out by CCS for a single event, with a total of 24,802 claims amounting to some EUR 800 million (adjusted to 31 December 2015).

Cyclone Klaus, which swept over the northern third of the Peninsula in January 2009, ranks second by volume of indemnities for losses paid out by the CCS, in the amount of near EUR 541 million (adjusted to 31 December 2015), and holds the record for the most claims filed with the CCS (over 265,000). Other windstorm events have also caused serious losses in the past, for instance the storm that struck Madrid in May 1886, with winds of 140 km/h, leaving 24 dead; and the strong winds that fanned and spread the terrible fire that ravaged the historic centre of Santander in February 1941. In recent times, apart from Cyclone Klaus,



Cyclone Flora in January 2010 and Cyclone Xynthia in February 2010 are also worthy of mention based on the levels of insured losses.

In addition, the violent acts, mainly from terrorist activity, also cause heavy losses in many countries. This kind of events has not spared our country.

Insurance coverage is one of the main financial instruments designed to help recover from and compensate for the damage caused by these types of catastrophic loss. Because of the special nature of these perils, coverage requires targeted, highly specialized instruments and procedures, basically as regards their technical and actuarial, financial, and management facets. Coverage schemes expressly designed to deal with natural perils exist in a number of countries, and public participation is a salient feature of many such schemes. Chief among these is the Spanish extraordinary risk coverage system, in which CCS has played a leading role since its inception.

2. Origins and history of the Consorcio de Compensación de Seguros

Originally set up on a provisional basis at the outset in 1941 as the Compensation Consortium for Riot Risks in response to the need for indemnities resulting from the Spanish Civil War (1936–1939) and by happenstance used to handle other major losses¹, it was made permanent in 1954, constituting what today is CCS. From that year onwards CCS has been closely bound up with coverage of the so-called Extraordinary Risks, and is the lynchpin of this compensation scheme. Over the course of its extended lifespan, CCS has taken on other tasks in different areas of the insurance sector: agricultural insurance², export credit insurance, compulsory passenger insurance, compulsory hunting insurance compulsory automobile insurance, and so forth. Additionally, the winding-up of insurance companies has been one of CCS's mandated tasks since 2002. All this without neglecting other duties, e.g., the management of resources in the scope of the export credit insurance on behalf of the State or the promotion of preventive measures to counter natural perils, along with others which address special, transitory circumstances in the insurance market in Spain, mainly in the field of reinsurance, such as taking over credit reinsurance in 2009 and 2010 in response to supply issues in the international reinsurance market. Lastly, CCS has joined the Spanish Environmental Risk Pool as a co-reinsurer.

While there have been a number of highly eventful moments in CCS's history, here we will be focusing mainly on those that have taken place since the mid-1980s.

In 1986 the extraordinary risk coverage system changed from a compensation scheme that first required an official declaration as a disaster area on the basis of the geographical extent of the event and the volume of losses it caused – all this in the framework of a long decision-making process – to an automatic compensation scheme whose only prerequisite for entitlement was for the policies, damage, and causal events to meet certain legal definitions. This represented a fundamental change in the underlying approach to the system and one that resulted in an indemnification process that was speedier, more objective, and more transparent.

A qualitative change in the nature of the surcharge that supplied CCS's funds for indemnifying extraordinary risks also took place in 1986. From a percentage rate applied to the insurance premiums for the policies that underpinned the cover, the surcharge was converted to a system of special rates on the sums insured by the policies.

Spain also joined the European Community in 1986, which had broad repercussions for the country's domestic system of laws and obviously was to affect the insurance sector

generally and CCS in particular. Thus began a process which, in the case of CCS, culminated in the adoption of its Legal Status in 1990 (approved by Act No. 21/1990 of 19 December 1990), which took effect in 1991 and has since been amended by various subsequent Acts. This brought with it fundamental changes to the legal nature, operating procedures, and internal structure of CCS.

The terrorist attacks of 11 September 2001 in New York and Washington had major repercussions for insurance and reinsurance worldwide, and the effects were also felt by the Spanish market and by extension by our extraordinary risk coverage system. Specifically, the inclusion of Business Interruption into the scheme was ascribable to the worldwide chain reaction by the insurance sector in response to 9/11. The same can be said about the inclusion into the scheme of the coverage for personal injury resulting from extraordinary risks occurring abroad for policy holders whose usual place of residence was Spain.

Finally, the most recent changes to the extraordinary risk coverage system have been adding tornadoes and winds higher than 135 km/h (now 120 km/h) to the risks covered as of 2004 and adding life insurance (in 2006) and motor car third party liability insurance (in July 2016) as types of insurance whose policies have to compulsorily include the coverage of this type of risk (see below).



1. Cadiz in 1947, and the explosion of an ammunition depot in Alcalá de Henares in 1948.

2. CCS is no longer involved in the compulsory passenger insurance and compulsory hunting insurance schemes.

3. Legal nature and legal framework of the CCS

CCS is a public business institution that has its own legal personality and enjoys full capacity to act. It is endowed with its own assets separate from those of the State, and is attached to the Ministry of the Economy, Industry and Competitiveness under the Directorate-General for Insurance and Pension Funds. It is regulated under private law and does not exercise any administrative powers.

In its insurance activity CCS, apart from adhering to the precepts of its own Legal Status, is, like any other private insurer, subject to the provisions of law stipulated in the Insurer and Reinsurer Management, Supervision, and Solvency Act [Ley de ordenación, supervisión y solvencia de las entidades aseguradoras y reaseguradoras] and the Implementing Regulations thereto and the Insurance Contract Act [Ley de Contrato de Seguro].

The highest decision-making body of CCS is its Board of Directors, chaired by the Director-General for Insurance and Pension Funds, consisting of 14 members, 7 of whom are Government representatives and 7 are representatives of private companies in the Spanish insurance sector.

4. The extraordinary risk coverage

The purpose of CCS in this respect is to indemnify, by way of compensation and on the basis of a policy taken out with any private insurer, for losses resulting from extraordinary events (detailed in Section 6 below) that occur in Spain and cause personal injury and/or damage to property within Spanish territory. Personal injury caused by events that take place outside Spain is also covered, provided that the insured has his/her usual residence in Spain.

CCS takes charge of compensation in either of the following circumstances:

a) Where the extraordinary risk is not specifically and explicitly covered by the insurance policy taken out with the insurer.

b) Even in cases in which the damage caused by an extraordinary event is covered by the insurance policy, where the insurer that issued the policy, taking on its own the extraordinary risks, cannot meet its obligations due to bankruptcy or other form of insolvency.

It is to be noted that the system, according to its relevant legal framework, determines the minimum protection the insured should have against the types of risks that concern us here. In the case of coverage of extraordinary risks by a private insurer, this means that in the face of any stipulation in the policy that lowers these minimum conditions or in any case where the policy does not expressly and clearly provide for the minimum legal coverage, the insurer that issued the policy will be deemed not to be covering the extraordinary risks, and CCS will then automatically step in to assume the coverage. And this does not concern the types



Flood, Ecija 2010

of extraordinary risk that an insurer is prepared to cover on its own; for instance, it is perfectly feasible that an insurer is only willing to cover flooding, in which case the other risks will be covered by CCS.

Since what is covered are minimums (the compulsory legal coverage), any improvements to the terms in the insurer's policy (for instance, no deductible, no waiting period) will have no bearing on coverage provided by CCS if it has to take over the policy due to insolvency of the insurer. However, it should be noted that to date coverage of extraordinary risks by policies issued by private insurers has been the exception rather than the rule.

The Spanish extraordinary risk coverage system rests on two basic principles:

- The principle of compensation, that is, compensation among risks (all risks covered receive the same consideration and treatment), geographical compensation (all areas of the country receive the same consideration and treatment, irrespective of the type of risks to which they might be more exposed), and compensation in time (the time frame considered is broad so that years with low or only moderate numbers of claims allow resources to be built up for peak years with large numbers of claims and losses).
- The principle of cooperation with the Spanish insurance market as the basis for managing the scheme.

Major Events (1)

Ordinal number	Month and year of occurrence	Place of occurrence	Cause of the event*	Number of clames	Indemnified losses
1º	June 1977	Basque Country	Flood	3,889	57,356,417
2º	January 1980	Valencian Country	Flood	390	35,055,284
3º	April 1982	Madrid Region	Terrorism	46	54,129,888
4º	October 1982	Valencian Country	Flood	9,136	217,656,239
5º	November 1982	Catalonia	Flood	1,587	57,469,504
6º	August 1983	Basque Country	Flood	24,802	799,781,894
		Cantabria	Flood	761	7,061,639
		Navarra	Flood	101	821,425
		TOTAL		25,664	807,664,958
7º	November 1983	Catalonia	Flood	3,899	26,486,378
		Valencian Country	Flood	2,947	26,050,343
		TOTAL		6,846	52,536,721
8º	October 1984	Galicia	Flood	4,207	42,630,047
9º	July 1986	Valencian Country	Flood	4,327	27,284,374
10º	October 1987	Catalonia	Flood	3,243	31,863,721
11º	November 1987	Valencian Country	Flood	17,277	277,648,107
		Region of Murcia	Flood	1,523	7,389,548
		TOTAL		18,800	285,037,655
12º	July 1988	Basque Country	Flood	2,322	51,829,273
13º	September 1989	Valencian Country	Flood	4,163	38,683,195
		Region of Murcia	Flood	984	9,878,092
		Balearic Is.	Flood	421	7,918,741
		E Andalusia	Flood	431	7,373,550
		TOTAL		5,999	63,853,578
14º	November 1989	E Andalusia	Flood	7,266	149,705,107
		W Andalusia	Flood	170	6,939,257
		Valencian Country	Flood	112	2,862,480
		TOTAL		7,548	159,506,844
15º	December 1989	Madrid Region	Flood	97	33,516,688
16º	October 1991	Valencian Country	Flood	5,116	30,548,292
17º	June 1992	Basque Country	Flood	3,103	37,629,092
18º	October 1994	Catalonia	Flood	4,631	77,129,042
19º	September 1995	Catalonia	Flood	3,664	31,903,101
20º	January 1996	W Andalusia	Flood	1,660	22,546,636
21º	September 1996	Valencian Country	Flood	3,112	19,344,230
		Catalonia	Flood	1,593	8,725,220
		Balearic Is.	Flood	322	2,800,750
		TOTAL		5,027	30,870,200
22º	December 1996	W Andalusia	Flood	1,156	33,225,590
23º	June 1997	Basque Country	Flood	5,701	108,915,959
24º	September 1997	Valencian Country	Flood	7,489	56,902,989
25º	November 1997	Extremadura	Flood & Windstorm	3,003	27,489,110
26º	February 1998	E Andalusia	Flood	985	33,593,379
27º	September 1999	Catalonia	Flood	6,531	49,150,966
28º	June 2000	Catalonia	Flood	2,936	37,914,285
29º	October 2000	Valencian Country	Flood	6,897	87,797,195
		Region of Murcia	Flood	2,042	11,532,766
		TOTAL		8,939	99,329,961
30º	September 2001	Valencian Country	Flood	3,425	40,347,728
31º	November 2001	Balearic Is.	Windstorm & Coastal Flood	7,029	36,831,363
32º	March 2002	Canary Is.	Flood	1,899	40,964,898
33º	August 2002	Basque Country	Flood	4,599	25,028,932
34º	March & April 2004	Madrid Region	Terrorism (11M)	1,264	50,136,070
35º	March 2004	E Andalusia	Flood	2,903	22,284,981
36º	September 2004	Valencian Country	Flood & Windstorm	8,795	38,474,532
37º	October 2005	Catalonia	Flood & Windstorm	5,383	51,708,337
38º	November 2005	Canary Is.	Flood & Windstorm	15,482	96,714,200
39º	September 2006	Catalonia	Flood	3,875	65,463,911
40º	November 2006	Galicia	Flood	4,066	33,047,167
41º	December 2006	Madrid Region	Terrorism (T4)	899	48,569,704
42º	September 2007	Valencian Country	Flood	4,486	33,885,473
43º	October 2007	Balearic Is.	Windstorm	9,516	47,001,038
44º	October 2007	Valencian Country	Flood	10,780	94,009,291
45º	June 2008	Basque Country	Flood	5,829	64,567,694
46º	January 2009	Various	Windstorm (Klaus)	265,238	540,958,283
47º	September 2009	Valencian Country	Flood	10,419	58,136,648
48º	December 2009	W Andalusia	Flood	2,754	39,419,728
49º	January 2010	Various	Windstorm (Floora)	39,348	46,891,855
50º	February 2010	Various	Windstorm (Xynthia)	39,259	61,399,959
51º	February 2010	W Andalusia	Flood	1,844	36,202,985
52º	June 2010	Asturias	Flood	2,740	44,959,242
53º	December 2010	W Andalusia	Flood	3,438	54,083,607
54º	May 2011	Region of Murcia	Earthquake (Lorca)	28,045	503,461,756
55º	November 2011	Basque Country	Flood	4,134	54,351,748
56º	September 2012	South-East Iberia	Flood & Windstorm	25,632	214,311,492
57º	January 2013	Various	Windstorm (Gong) & Flood	17,806	21,066,492**
58º	December 2013	Various	Windstorm (Dirk) & Flood	23,660	30,623,376
59º	Jan & Feb 2014	Northern Iberia	Flood & Coastal Flood	1,332	22,935,731
60º	December 2014	Catalonia	Windstorm	16,277	24,822,717
61º	Feb & March 2015	Saragossa	Flood	2,563	26,459,777
TOTAL				728,761	5,223,660,510

(1) Includes events for which CCS has paid losses exceeding 22,300,000 euros as of 31 Dec 15.

* Losses paid before 1987 include direct damaged caused by rain, hail and snow.

** Windstorm Gong is included because of its significance.

5. Coverage: necessary condition and mandatory nature

The necessary condition and its mandatory nature are two sides of the same coin. On the one hand, entitlement to compensation for one of the extraordinary events covered by the scheme (see Section 6) arises only where the injured party has already taken out an insurance policy in one of the branches mentioned in this section with a private insurer operating in the marketplace. In other words, taking out an insurance policy in one of the branches in question automatically carries with it coverage against extraordinary risks. This coverage encompasses the same property or persons for the same amounts insured under the policy. That is to say, since CCS does not itself issue any policy covering extraordinary risks of its own, coverage is necessarily paired with an ordinary policy with any insurer operating in the marketplace. Then, taking out the policy is optional¹ but is a prerequisite for entitlement to compensation in the event of an extraordinary loss.

In addition, the insured or policy holder has to be up to date in his or her payment of the premium receipt, which includes the surcharge for coverage of extraordinary risks by CCS.

Policies bound to include this coverage are those falling under the following branches or combinations of branches:

★ For **PERSONAL INJURY** insurance, the branches are life and accident insurance, even where these covers are taken out as a complement to another type of insurance or as part of a pension plan.

★ For **PROPERTY** insurance, the branches are:

- Fire and natural events
- Motor car third party liability (compulsory insurance)
- Railway vehicles
- Other property damage (theft, glass breakage, damage to machinery, electronic equipment, and computers)
- Sundry pecuniary losses

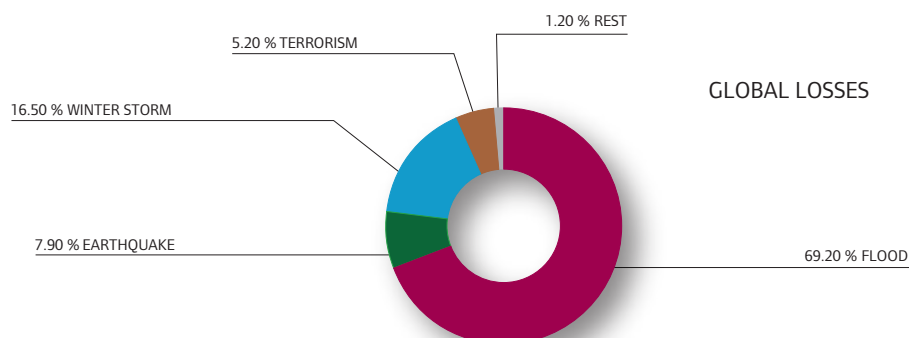
In order to be entitled to compensation for acts of nature covered by the scheme, seven days must have elapsed between the date of issue of the policy (or from its effective date, if later) and occurrence of the extraordinary loss. There is no waiting period in the case of replacement or change of the policy without interruption in coverage or for that part of the insured sum produced by automatic appreciation under the policy. Similarly, the waiting period does not apply where it can be shown that no policy could be taken out earlier due to an absence of insurable interest. For all covered events other than natural events, the effects of coverage commence on the date of issue of the policy (or from its effective date, if later).

1. Except for the compulsory motor car third party liability insurance.

Causal distribution of losses (global losses)
1987 – 2015 Series

Cause	Number of claims	Paid and provided losses	% Paid and provided losses	Mean costs
Flood	521,166	4,564,415,564	69.20%	8,758
Earthquake	40,225	523,255,027	7.90%	13,008
Winter Storm (Strong winds)	505,350	1,088,534,999	16.50%	2,154
Falling of astral bodies and meteorites	3	99,423	0.00%	33,141
Terrorism	20,125	345,209,761	5.20%	17,153
Mutiny	154	1,115,975	0.00%	7,247
Riot	6,118	75,315,221	1.10%	12,310
Acts of the Armed Forces in times of peace	1,499	2,986,705	0.10%	1,992
TOTAL	1,094,640	6,600,932,673	100.00%	6,030

Amounts in euros as of 31 Dec 2015



6. Risks covered:

Qualitative approach and legal definition

All the perils included in the Spanish extraordinary risk coverage system have been defined by law, on the basis not of any quantitative considerations (amount of damage) or geographical extent (size of the affected area) but rather of qualitative considerations, i.e., the intrinsic nature of the risks covered, generally characterized by its low frequency and high intensity. This means that while these events may very well be the source of major losses, causing large amounts of damage is not a condition for entitlement to compensation by any insured party who is affected – indeed, even just a single party qualifies. It thus follows that an official declaration of a “disaster” or “disaster area” is no longer needed for the indemnification process to begin. This increases the legal certainty, objectivity, and speed of the procedure, reducing both uncertainty and delays in processing claims.

Accordingly, when one of the risks guaranteed under the scheme materializes, coverage is automatic. These risks can be broken down into three categories:

- a) Natural hazards
 - Earthquake
 - Tsunami
 - Flood (riverine and coastal)
 - Volcanic eruption
 - Wind storms (gusts exceeding 120 Km/h and tornadoes)
 - Falling of sidereal bodies or meteorites

b) Violent events as a consequence of:

- Terrorism
- Rebellion
- Sedition
- Riot
- Civil commotion

c) Events caused by acts of the Armed Forces or Law Enforcement Agencies in time of peace

As already mentioned, flood is the risk that accounts for most of the claims in Spain and thus merits special attention. For purposes of CCS’s cover, flood is defined as an inundation of land due to the accumulation or runoff of rainwater, meltwater, or waters from lakes, rivers, or inlets through overflow of their natural beds or channels. As for coastal flood, it also encompasses the damages caused by coastal battering, even without inundation.

Damage produced by the following does not come under the definition:

- Rain falling directly on the insured property or collected by its roof or cover, drainage network, or patios.
- Water from dams, canals, sewers, collectors, and other underground channels built by man except in case of rupture or malfunction caused by an extraordinary event covered by CCS.



Earthquake, Lorca May 2011

7. Extent of indemnification:

Damage covered, insured sum, and deductibles

In the case of property damage the indemnity covers direct material damage, defined as destruction or deterioration of the insured property as a direct result of the causal event, as well as pecuniary losses ensuing from that direct damage where the latter is covered under the ordinary policy. In its turn, loss due to personal injury (life, accident) encompasses death, temporary disability, and permanent disability.

Additionally, it should be noted that the protection against extraordinary risks is afforded completely independently of the protection of other risks that may be provided for under the policy, except insofar as it refers to the property and persons covered and the insured sum. That is to say, the extraordinary risk cover protects the same property and persons as under the ordinary guarantee for the other risks covered by the policy and in the same amount as the insured sum. The coverage of extraordinary risks also extends

its guarantee to the clauses of optional inclusion incorporated into the ordinary policy and related to the following types of insurance: first risk insurance, (including partial value insurance, insurance with compensations limits, insurance with agreed value, and other types of insurance rescinding the proportional rule); replacement value insurance; floating capital insurance; insurance with automatic capital sums appreciation; insurance with margin clauses and insurance with capital compensation clauses between different sections of the same policy or between buildings and contents. In the event of underinsurance, the rule of proportional insurance applies.

Indemnification for supplementary expenses (mud removal, sludge extraction, demolition, debris removal, transport to dump) is limited to 4 percent of the insured sum.

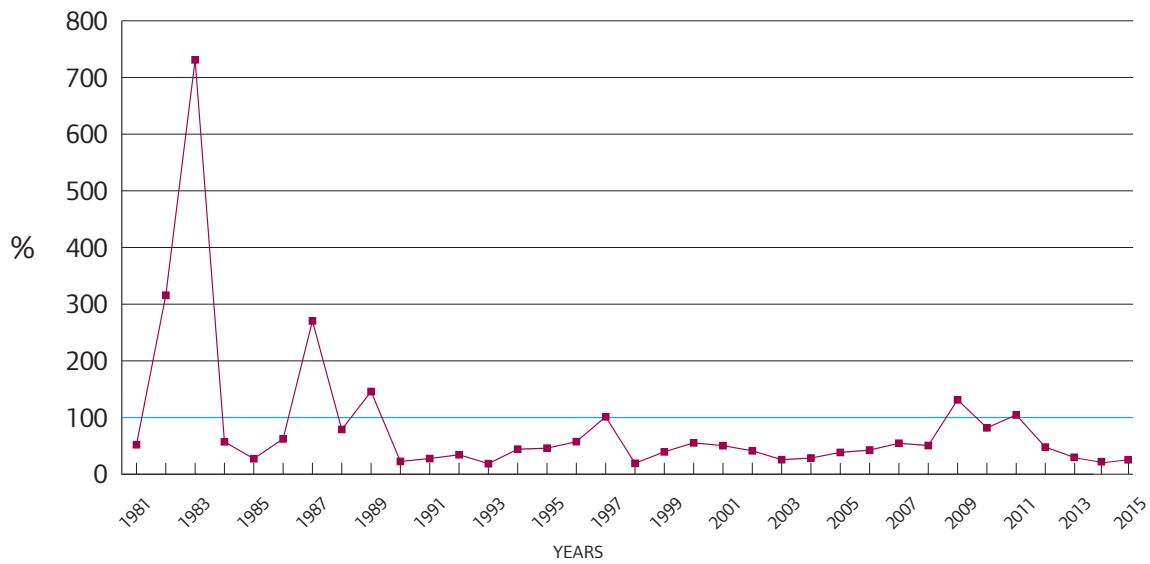
Surcharges and losses for property damage.
Time series 1971 – 2015

Amounts in euros as of 31 Dec 2015

Year of occurrence	Income (surcharges) without collection charge	Paid and provided losses chargeable expenditure includ	Loss ratio (%)
1971	79,109,934	592,432,887	748.9
1972	83,830,165	23,700,967	28.3
1973	88,972,359	2,861,418	3.2
1974	92,634,901	549,969	0.6
1975	104,203,230	3,335,623	3.2
1976	104,767,762	20,943,236	20.0
1977	102,344,237	113,850,681	111.2
1978	106,092,789	51,947,269	49.0
1979	114,719,711	43,416,928	37.8
1980	119,795,757	92,865,618	77.5
1981	121,467,458	64,278,418	52.9
1982	128,116,385	410,942,612	320.8
1983	129,047,528	954,577,024	739.7
1984	133,899,989	76,954,324	57.5
1985	143,075,439	39,176,335	27.4
1986	146,730,229	91,713,857	62.5
1987	141,795,976	381,297,288	268.9
1988	148,233,072	116,673,058	78.7
1989	211,469,230	308,306,881	145.8
1990	228,977,963	51,501,686	22.5
1991	247,689,745	68,135,872	27.5
1992	264,710,433	90,527,228	34.2
1993	277,260,552	51,498,480	18.6
1994	286,289,084	125,487,976	43.8
1995	296,851,382	135,528,611	45.7
1996	312,500,124	177,980,058	57.0
1997	343,529,083	343,694,101	100.0
1998	365,010,193	69,284,740	19.0
1999	386,573,425	151,218,576	39.1
2000	416,238,151	228,877,597	55.0
2001	437,817,561	218,003,513	49.8
2002	441,892,452	181,508,021	41.1
2003	488,090,094	124,473,869	25.5
2004	517,108,560	146,433,057	28.3
2005	550,289,865	212,058,902	38.5
2006	587,742,743	248,552,502	42.3
2007	610,274,755	326,860,647	53.6
2008	644,815,070	317,053,275	49.2
2009	609,405,235	796,748,002	130.7
2010	585,513,702	482,470,409	82.4
2011	590,758,931	694,961,856	117.6
2012	583,582,523	280,883,280	48.1
2013	597,868,697	185,069,176	31.0
2014	614,799,274	176,362,001	28.7
2015	628,265,817	186,721,185	29.7
TOTAL	14,214,161,564	9,461,719,011	66.6
TOTAL*	13,936,803,409	9,461,719,011	67.9

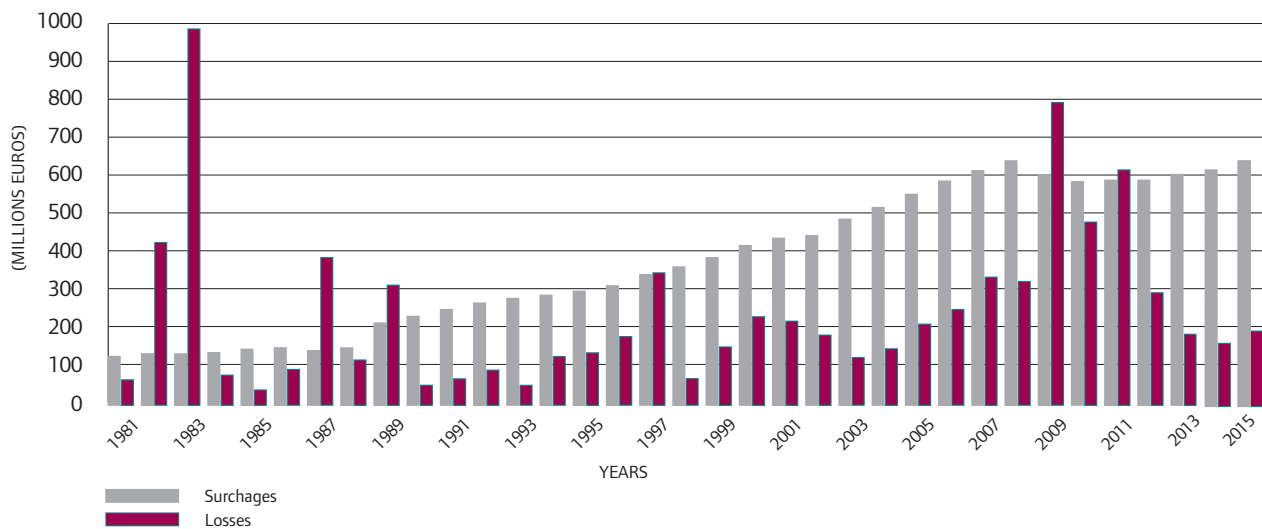
* Provision for unearned premiums discounted.

Loss ratio (%).
Time series 1981 - 2015



Flood. San Sebastian March 2008

Surcharges and losses for property damage (1981-2015)



For direct property damage there is a deductible of 7 percent of the amount of indemnifiable damage payable by the insured, except for automobiles, homes, and apartment houses. There is no deductible whatsoever in the case of personal injury insurance, and in the case of covers for sundry pecuniary losses the deductible payable by the insured is the same as that set out in the policy. However, there is no deductible of any amount for home-related pecuniary losses (loss of use of the home, forced eviction, and loss of rental income). Furthermore, the insurer that issued the ordinary policy may take responsibility for the deductible (in full or in part), and this doesn't mean that the said insurer is covering the extraordinary risks nor that CCS' operation is excluded.

Assessment of the damage by the claims adjusters appointed by CCS is a prerequisite for indemnification.

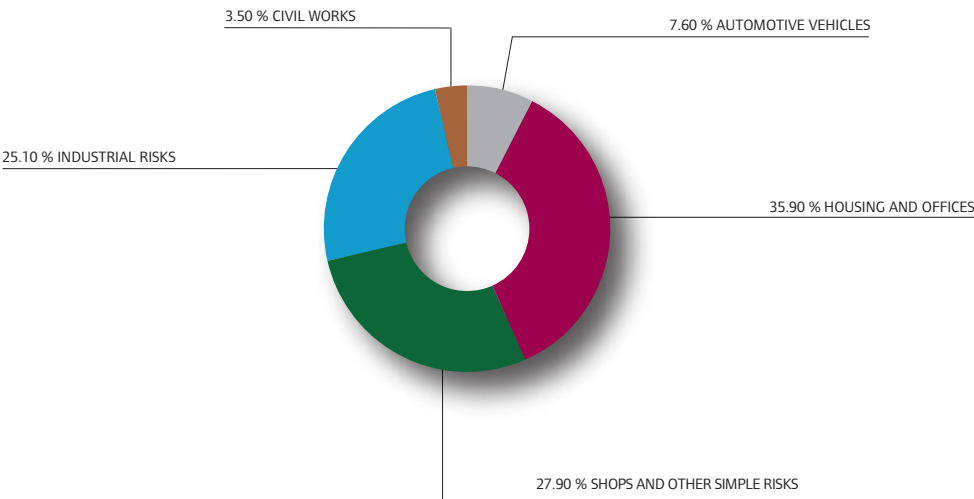


Earthquake. Lorca May 2011

Breakdown of gross property damage claims by risk category.
Amounts paid out in 1987 - 2015

Amounts in euros as of 31 Dec 2015

RISK CATEGORY	87-09 SERIES	2010	2011	2012	2013	2014	2015	TOTAL	%
Automotive vehicles	387,097,952	28,944,721	18,615,591	28,508,276	8,769,891	15,182,339	16,717,536	503,836,306	7.6
Housing and offices	1,372,774,972	183,145,487	469,478,197	127,759,506	68,461,685	65,229,353	82,063,919	2,368,913,119	35.9
Shops and other simple risks	1,395,440,222	98,022,067	128,980,849	66,094,265	45,476,653	51,700,384	51,378,056	1,837,092,496	27.9
Industrial risks	1,350,802,250	133,675,349	46,467,979	38,800,598	43,052,595	19,718,022	24,914,455	1,657,431,248	25.1
Civil works	169,224,277	19,235,801	3,407,342	8,399,044	11,848,750	17,423,262	4,121,028	233,659,505	3.5
TOTAL	4,675,339,673	463,023,425	666,949,958	269,561,689	177,609,574	169,253,360	179,194,995	6,600,932,673	100.0





Terrorist attack, Barajas, December 2006

8. Exclusions from coverage

In the following cases there is no entitlement to compensation under the scope of this scheme:

a) **In respect of the insurance taken out:** where the damaged property is uninsured or, where being insured, the cover belongs to branches of insurance not covered by the scheme, such as aircrafts, ship hulls, carriage of goods, civil liability, credit and surety, illness, legal defence, and travel assistance covers, as well as all other covers where the obligation of the insurer consists of performance of a service rather than a monetary indemnity. Combined agricultural insurance and construction and installation insurance likewise do not fall within the scope of this scheme.

b) **Regarding the direct cause of the damage:** where the losses are caused by other events than those listed as covered risks. Accordingly, the following damages are not covered: those directly caused by rain or hail, by the weight of ice or snow, by rising groundwater levels, by slope motions, by landslides and ground settling, by rock slides and similar events (except where these are produced by the action of rainwater and flooding occurred in the area concomitantly with those events), by armed conflict, or by acts of civil unrest in the course of demonstrations and strikes organized in conformity with the law currently in force. Similarly, damage from nuclear power is not covered

except for direct damage to an insured nuclear power facility where the damage has been caused by an extraordinary event affecting the installation as such. Likewise, damage resulting from flaws or defects in the property in question or merely from the passage of time is not covered.

c) **In terms of the disproportionate extent of damage:** losses which, due to their size and extreme severity, have been declared to be a “national disaster or calamity” by the Government of Spain are not covered. No such case has ever arisen in the history of CCS, notwithstanding the large losses caused by certain catastrophic events.

d) **In relation to the type of damage:** indirect damage and losses ensuing from direct or indirect damage other than loss of profits are not covered. For instance, claims resulting from alterations in any type of power supply are not covered

e) **In terms of when the damage occurs:** claims for losses that occur before the premium has been paid are not entitled to compensation.

9. The CCS surcharge: Compulsory nature, rate, and collection

Inclusion of CCS surcharge on the invoices for all insurance policies of the lines of insurance referred to above is compulsory both where the policy provides for extraordinary risk cover by the insurer that issued the ordinary policy and where the policy excludes such cover (in which case CCS takes charge of the cover).

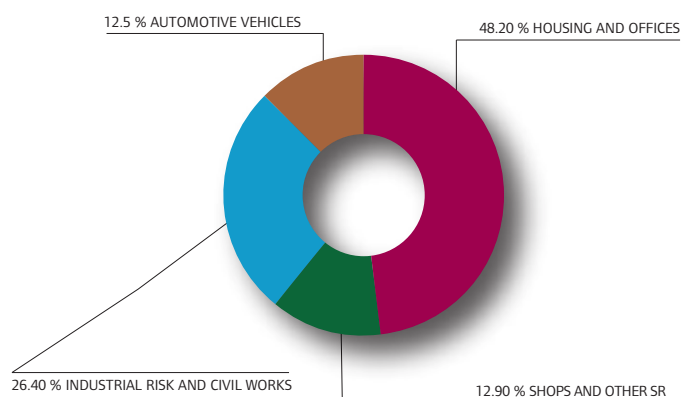
The mandatory nature of the cover (see Section 5) and of the corresponding surcharge arises from two of the principles already mentioned above: compensation and solidarity, without which the natural adverse selection of these types of risk would be untenable. Limiting collection of the surcharge only to those exposed values that voluntarily opted for coverage against extraordinary events would cause the scheme to be unfeasible, because only those with the highest degree of exposure would opt in.

The CCS surcharge is the result of applying a specified rate to the sum insured under the policy. The rate differs according to the type of value covered but is applied

generally for the whole of Spain and for all risks included under the scheme without distinction and is independent of the degree of exposure. Aside from certain special cases, the general annual rates are:

- a) For property damage:
 - ★ Residential homes and condominiums: 0.08 per mille.
 - ★ Offices: 0.12 per mille.
 - ★ Shops, shopping centres, department stores, and other similar establishments 0.18 per mille.
 - ★ Industry: 0.21 per mille.
 - ★ Automobiles: a fixed amount according to vehicle type (i.e., for motor cars, 2.10 euros per vehicle).
 - ★ Civil engineering works: various rates according to the type, ranging from 0.28 per mille for motorways to 1.63 per mille for marinas.
- b) For personal injury (life and accident insurance):
 - ★ The general rate is 0.005 per mille, special cases excepted.
- c) For sundry pecuniary losses:
 - ★ Residential homes and condominiums: an additional rate of 0.005 per mille applied to the sum insured against material damage.
 - ★ Remaining risks: a rate of 0.25 per mille applied to the sum insured against sundry pecuniary losses.

Insurers are tasked with collecting the surcharges along with their premiums and with depositing the surcharges with CCS monthly minus a collection fee of 5 percent.



Surcharges on property insurance policies by risk category and year.
Time series 1990 – 2015

Amounts in Euros as of 31 Dec 2015

SURCHARGES	RISK CATEGORY				TOTAL PROPERTY
	HOUSING AND OFFICES	SHOPS AND OTHER SIMPLE RISKS	INDUSTRIAL RISKS AND CIVIL WORKS	AUTOMOTIVE VEHICLES	
1990	92.616.322	26.348.369	71.838.407	51.758.303	242.561.401
1991	105.179.081	29.946.901	75.779.572	51.477.651	262.383.205
1992	113.877.538	32.349.235	80.185.382	54.150.042	280.562.197
1993	118.293.838	33.739.244	85.359.875	56.782.694	294.175.652
1994	127.591.550	36.644.214	83.038.442	56.480.790	303.754.996
1995	141.369.054	34.184.434	85.508.538	54.066.830	315.128.856
1996	148.958.875	35.956.859	89.754.206	57.071.168	331.741.108
1997	150.500.940	46.215.049	92.195.687	75.768.879	364.680.556
1998	160.035.098	46.110.452	97.644.616	83.694.115	387.484.281
1999	166.204.845	48.016.653	104.233.379	91.920.309	410.375.186
2000	177.630.294	53.023.968	114.885.265	96.326.876	441.866.403
2001	186.839.341	56.237.712	120.841.366	100.856.062	464.774.481
2002	198.992.456	43.286.149	126.160.358	100.661.305	469.100.268
2003	213.992.791	62.177.082	137.825.865	104.146.612	518.142.351
2004	224.251.494	66.213.670	145.554.254	112.928.098	548.947.516
2005	244.320.114	75.462.741	147.830.289	116.558.686	584.171.831
2006	262.050.905	79.863.133	160.974.127	121.042.561	623.930.725
2007	273.479.452	82.971.282	167.562.451	123.836.874	647.850.058
2008	285.800.454	84.393.155	191.535.673	122.787.777	684.517.060
2009	277.520.590	77.534.560	193.909.778	97.962.072	646.927.001
2010	286.799.306	78.893.081	171.525.385	85.007.203	622.224.976
2011	294.487.557	75.235.266	175.123.962	82.952.291	627.799.077
2012	296.915.358	74.528.311	169.287.320	80.431.888	621.162.876
2013	303.818.458	76.283.453	176.086.531	80.180.581	636.369.023
2014	315.817.912	81.282.625	175.366.763	81.922.561	654.389.860
2015	321.748.655	86.523.440	176.816.235	83.635.264	668.723.594
	48,2%	12,9%	26,4%	12,5%	100%

10. Funding of CCS coverage

The surcharges referred to above are the main source of funding enabling CCS to fulfil its commitments relating to the coverage of extraordinary risks. As a result, CCS does not depend on any public funding in order to be able to meet its responsibilities re paying indemnities for the covers it provides. At the same time, just like any other insurer, CCS has to comply with the legislation in force as regards solvency margins and setting aside technical provisions.

Additionally, the special behaviour of the risks that have to be covered, in terms of their frequency and intensity – resulting in irregularity and high destructive potential – requires special funding capabilities based on a suitable and sufficient build-up of resources and a broad compensation time window. In the case of CCS, this takes the form of an equalization reserve. This is similar to a provision for loss fluctuation rates, common in the disaster insurance schemes of many countries and is built up, ordinarily to certain ceilings and time limits, generally receiving favourable tax treatment.

In terms of the Spanish scheme, this reserve is tax deductible until a specific, legally stipulated ceiling is reached. However, it is to be noted that the point here is not in fact to offset unexpected deviations but rather to prepare for the certainty of cyclical peaks in claim incidence that occur randomly over time, which makes it necessary to distribute the financing of the cost over time by means of a constant premium.

Given the special characteristics of this type of cover and the public nature of the CCS itself, the ability of the

scheme to meet its indemnification obligations is backed by the guarantee of the State in the event that one or more extremely serious catastrophes were to exceed its financial capabilities. Nevertheless, proper planning of its provisions and diligent financial management have enabled the CCS to meet its indemnification commitments, even in the worst gross claims incurred situations on record over the course of the scheme's existence of more than 70 years, without ever having had to rely on the said State guarantee.

11. Management of CCS: Specialization and decentralization

The highest governing body of CCS is its Board of Directors, chaired by the Director General of Insurance and Pension Funds. Its members are split evenly between representatives of the public sector and representatives of the private insurance sector. On the other hand CCS' management is carried out by professionals highly skilled and with ample experience in the scope of their activity.

Along these same lines, CCS has a decentralized, rational organizational structure, its headquarters in Madrid and its 18 delegations spread across 15 territorial divisions all being suitably sized.

CCS is also equipped with highly sophisticated technical means, and all its processes are fully integrated, enabling it to attain extremely good operational efficacy benchmarks and very low administrative costs compared with the most efficient entities in the insurance sector.





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• DE SEGUROS •**

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