

# SPAIN

## Key characteristics of the insurance market



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# 1 Introduction

## 1.1 General

At the end of 2017 (2017 Q4), 161 insurance companies<sup>1</sup> in Spain submitted their Solvency II related reporting package to the Spanish National Supervisory Authority (NSA). These companies accounted for 2,693% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Spain by insurance activities and the importance of the country within the EU, based on Total assets.

**Table 1 - Insurance reporting submissions**

Insurance reporting submissions	#
Life undertakings	31
Non-Life undertakings	88
Reinsurance undertakings	3
Composite undertakings	39
<b>Total</b>	<b>161</b>
<b>Total assets ES / Total assets EU %</b>	<b>2,693%</b>
<b>Ranking ES based on Total assets EU</b>	<b>10</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

## 1.2 Balance sheet

At the end of 2017 (2017 Q4), Spain was the number 10 country in the EU insurance market in terms of assets held with an amount of 304 billion EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Spain ranked number 13 in terms of absolute amount with 17 billion EUR invested in this category. However, with 5,7% of Total assets of this category, Spain was significantly below the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 55,5% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 8,5% represented non-life obligations.

**Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Investments, deposits, cash and cash equivalents	261 866	7	86,1%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	17 392	13	5,7%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	24 830	9	8,2%	8,1%	8,4%	2,1%	19,5%	4,9%
<b>Total assets</b>	<b>304 088</b>	<b>10</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>
Technical provisions - life	168 708	8	55,5%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	25 870	7	8,5%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	16 952	13	5,6%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	38 798	6	12,8%	8,9%	9,0%	4,0%	21,3%	3,9%
<b>Total liabilities</b>	<b>250 329</b>	<b>9</b>	<b>82,3%</b>	<b>86,9%</b>	<b>77,6%</b>	<b>49,1%</b>	<b>92,7%</b>	<b>11,1%</b>
Excess of assets over liabilities	53 759	7	17,7%	13,1%	22,4%	7,3%	50,9%	11,1%
<b>Total liabilities + Excess of assets over liabilities</b>	<b>304 088</b>	<b>10</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

<sup>1</sup> In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.

The balance sheet item Investments, deposits, cash and cash equivalents will be further detailed in section 2, while section 3 will focus on Assets held for index-linked and unit-linked contracts.

### 1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the Spanish insurance market as a whole had available own funds that were more than double the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 242% with long-term guarantee (LTG) and transitional measures, and is approximately at the same level as the one of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Spain is ranked at the 9<sup>th</sup> position in terms of the reported SCR ratios.

**Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)**

in Mio EUR	ES		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	50 995	7	-	-	-	-	-
SCR	20 987	8	-	-	-	-	-
<b>Surplus available own funds</b>	<b>30 008</b>	<b>6</b>	-	-	-	-	-
<b>Ratio of Eligible own funds to SCR</b>	<b>242%</b>	<b>9</b>	<b>237%</b>	<b>225%</b>	<b>135%</b>	<b>361%</b>	<b>52%</b>
Ratio of Eligible own funds to SCR (10th percentile)	147%	7	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	191%	5	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	253%	4	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	349%	4	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	489%	6	457%	396%	173%	643%	99%
<b>Ratio of Eligible own funds to MCR</b>	<b>620%</b>	<b>12</b>	<b>640%</b>	<b>613%</b>	<b>282%</b>	<b>933%</b>	<b>170%</b>

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use of LTG and transitional measures. According to that report, at year-end 2017, Spanish participants reported an SCR ratio of 236% including the application of LTGs and transitionals. Removing the measures caused a significant decrease of the SCR ratio to 197%.<sup>2</sup>

<sup>2</sup> [https://eiopa.europa.eu/Publications/Reports/2018-12-18%20\\_LTG%20AnnualReport2018.pdf](https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf)

## 2 Investments, deposits, cash and cash equivalents

### 2.1 Scope

The asset allocation of Spanish insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification, which can differ, from the exposures reporting.

Based upon the comparative view below, we note that amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) differ<sup>3</sup> slightly with the latter being lower than the former. In terms of allocation in percentage, we note a small shift from Deposits towards Cash and cash equivalents when going from Solvency II Balance Sheet to the Exposure list. Furthermore, we also note a small shift from Holdings in related undertakings (including participations and equities) towards Collective Investment Undertakings, when going from Solvency II Balance sheet to the Exposure list.

**Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison**

in number	Exposure list ES		Solvency II balance sheet ES		Difference
	#	%	#	%	#
Life undertakings	31	19,3%	31	19,3%	0
Non-Life undertakings	88	54,7%	88	54,7%	0
Reinsurance undertakings	3	1,9%	3	1,9%	0
Undertakings pursuing both life and non-life insurance activity	39	24,2%	39	24,2%	0
<b>Total</b>	<b>161</b>	<b>100,0%</b>	<b>161</b>	<b>100,0%</b>	<b>0</b>

in Mio EUR	Exposure list ES		Solvency II balance sheet ES		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	14 384	5,5%	14 679	5,6%	-0,1%
Holdings in related undertakings, including participations	n/a	n/a	10 726	4,1%	n/a
Equities	n/a	n/a	3 953	1,5%	n/a
Equities - listed	n/a	n/a	3 520	1,3%	n/a
Equities - unlisted	n/a	n/a	433	0,2%	n/a
Collective Investments Undertakings	12 516	4,8%	12 195	4,7%	0,1%
Bonds	202 014	77,1%	202 014	77,1%	0,0%
Loans and mortgages	2 044	0,8%	2 044	0,8%	0,0%
Property	9 311	3,6%	9 311	3,6%	0,0%
Deposits	8 648	3,3%	9 243	3,5%	-0,2%
Cash and cash equivalents	12 975	5,0%	12 381	4,7%	0,2%
Other investments	0	0,0%	0	0,0%	0,0%
<b>Total</b>	<b>261 892</b>	<b>100,0%</b>	<b>261 866</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

#### 2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

**Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	3 520	9	89,1%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	433	10	10,9%	16,3%	25,0%	0,4%	87,0%	21,1%
<b>Total equities</b>	<b>3 953</b>	<b>9</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

<sup>3</sup> Some companies reporting under Solvency II are exempted from reporting the Solvency II Exposure List. The decision to exempt certain companies from particular reporting obligations lies with individual National Competent Authorities.

Based upon the quarterly reporting as of Q4 2017, Spanish insurers invested 89,1% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 3 520 million EUR, Spain ranked number 9 in the EU.

With an invested amount of 433 million EUR, unlisted equity constituted a significant portion of the equity investment category of the directly-held equity investments, i.e. 10,9%. This placed Spain as the number 10 in the EU.

## 2.2 Asset exposure

From an asset exposure perspective, the insurance market in Spain was mainly invested in Government bonds and Corporate bonds (in total 75,4% of Total Investments, deposits, cash and cash equivalents), Collective Investment Undertakings (4,8%), and Equity (5,5%).

Within the bond categories, the insurance market was more than twice as much exposed to government securities (54,3%) as to corporate debt (21,1%), categories for which Spain ranked number 5 and number 7 in the EU, respectively. Comparing the different assets classes, we note that the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the fourth most important for the Spanish insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Equity funds, and Asset allocation funds for which Spain ranked respectively number 8, number 8, and number 6 in the EU.

Equity was the third category to which the Spanish insurers had the most exposure. Equity of real estate related corporation constitutes 0,3% within the 5,5% of the total equity exposure.

**Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>14 384</b>	<b>10</b>	<b>5,5%</b>	<b>12,0%</b>	<b>9,5%</b>	<b>1,1%</b>	<b>28,1%</b>	<b>6,5%</b>
Common equity	12 641	8	4,8%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	851	10	0,3%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	892	9	0,3%	0,6%	0,6%	0,0%	2,0%	0,7%
<b>Collective Investment Undertakings</b>	<b>12 516</b>	<b>10</b>	<b>4,8%</b>	<b>19,2%</b>	<b>12,8%</b>	<b>1,5%</b>	<b>41,6%</b>	<b>9,3%</b>
Equity funds	3 368	8	1,3%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	306	11	0,1%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	6 265	8	2,4%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	378	11	0,1%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	1 351	6	0,5%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	172	13	0,1%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	362	8	0,1%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	32	13	0,0%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	280	12	0,1%	2,0%	0,9%	0,0%	7,2%	1,7%
<b>Government bonds</b>	<b>142 165</b>	<b>5</b>	<b>54,3%</b>	<b>28,7%</b>	<b>39,7%</b>	<b>10,0%</b>	<b>77,0%</b>	<b>18,9%</b>
<b>Corporate bonds</b>	<b>55 291</b>	<b>7</b>	<b>21,1%</b>	<b>26,9%</b>	<b>21,6%</b>	<b>1,8%</b>	<b>47,3%</b>	<b>11,2%</b>
<b>Structured notes</b>	<b>3 471</b>	<b>4</b>	<b>1,3%</b>	<b>1,3%</b>	<b>0,5%</b>	<b>0,0%</b>	<b>2,5%</b>	<b>0,6%</b>
<b>Collateralised securities</b>	<b>1 086</b>	<b>8</b>	<b>0,4%</b>	<b>0,6%</b>	<b>0,6%</b>	<b>0,0%</b>	<b>9,3%</b>	<b>1,8%</b>
<b>Mortgages and loans</b>	<b>2 044</b>	<b>12</b>	<b>0,8%</b>	<b>4,8%</b>	<b>3,8%</b>	<b>0,3%</b>	<b>26,3%</b>	<b>5,2%</b>
<b>Property</b>	<b>9 311</b>	<b>4</b>	<b>3,6%</b>	<b>2,0%</b>	<b>3,5%</b>	<b>0,8%</b>	<b>11,6%</b>	<b>2,6%</b>
<b>Deposits</b>	<b>8 648</b>	<b>5</b>	<b>3,3%</b>	<b>2,8%</b>	<b>3,6%</b>	<b>0,2%</b>	<b>16,6%</b>	<b>3,6%</b>
<b>Cash and cash equivalents</b>	<b>12 975</b>	<b>4</b>	<b>5,0%</b>	<b>1,4%</b>	<b>4,3%</b>	<b>0,5%</b>	<b>16,6%</b>	<b>3,5%</b>
<b>Other investments</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,9%</b>	<b>0,3%</b>
<b>Not reported</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,3%</b>	<b>0,1%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>261 892</b>	<b>7</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

## 2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

Table 7, based upon the Asset Exposure reporting (S.06.02) of Q4 2017, gives further insight into the investment behaviour of Life, Non-Life and Composite insurance companies, and reinsurers in Spain.

**Table 7 - Asset exposure based upon Solvency II exposure list (S.06.02) for Life, Non-Life and Composite insurance undertakings, and reinsurers**

in %	ES			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
<b>Equity</b>	<b>1,2%</b>	<b>12,9%</b>	<b>5,6%</b>	<b>6,6%</b>	<b>18,3%</b>	<b>16,5%</b>
Common equity	1,1%	12,1%	4,8%	5,0%	16,2%	14,9%
Equity of real estate related corporation	0,0%	0,3%	0,4%	1,0%	0,8%	1,2%
Other equity	0,1%	0,5%	0,4%	0,6%	1,3%	0,4%
<b>Collective Investment Undertakings</b>	<b>2,7%</b>	<b>14,8%</b>	<b>4,2%</b>	<b>22,4%</b>	<b>22,3%</b>	<b>13,8%</b>
Equity funds	0,3%	3,1%	1,3%	3,7%	2,9%	2,7%
Private equity funds	0,2%	0,7%	0,0%	0,5%	0,5%	0,5%
Debt funds	1,0%	7,1%	2,2%	9,7%	9,7%	4,7%
Money market funds	0,5%	0,3%	0,1%	2,8%	1,4%	2,0%
Asset allocation funds	0,5%	1,2%	0,4%	1,3%	1,2%	0,9%
Real estate funds	0,1%	0,5%	0,0%	1,6%	1,8%	1,4%
Alternative funds	0,1%	1,0%	0,1%	0,3%	0,3%	0,5%
Infrastructure funds	0,0%	0,0%	0,0%	0,2%	0,2%	0,3%
Other	0,1%	0,8%	0,0%	2,3%	4,3%	0,8%
<b>Government bonds</b>	<b>54,8%</b>	<b>24,0%</b>	<b>57,3%</b>	<b>28,1%</b>	<b>19,1%</b>	<b>33,4%</b>
<b>Corporate bonds</b>	<b>31,5%</b>	<b>17,2%</b>	<b>19,4%</b>	<b>29,2%</b>	<b>29,3%</b>	<b>22,9%</b>
<b>Structured notes</b>	<b>2,8%</b>	<b>0,6%</b>	<b>1,1%</b>	<b>1,4%</b>	<b>0,6%</b>	<b>1,5%</b>
<b>Collateralised securities</b>	<b>0,5%</b>	<b>0,7%</b>	<b>0,4%</b>	<b>0,8%</b>	<b>0,6%</b>	<b>0,5%</b>
<b>Mortgages and loans</b>	<b>0,9%</b>	<b>2,2%</b>	<b>0,6%</b>	<b>7,4%</b>	<b>3,2%</b>	<b>2,3%</b>
<b>Property</b>	<b>1,0%</b>	<b>9,3%</b>	<b>3,5%</b>	<b>2,0%</b>	<b>2,5%</b>	<b>1,7%</b>
<b>Deposits</b>	<b>2,0%</b>	<b>4,9%</b>	<b>3,7%</b>	<b>0,8%</b>	<b>1,6%</b>	<b>5,8%</b>
<b>Cash and cash equivalents</b>	<b>2,6%</b>	<b>13,4%</b>	<b>4,3%</b>	<b>1,0%</b>	<b>2,5%</b>	<b>1,4%</b>
<b>Other investments</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,2%</b>	<b>0,0%</b>	<b>0,1%</b>
<b>Not reported</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

At EU level Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,3% equity investments) in comparison to pure Life insurers (6,6% equity investments). In Spain, this difference was not apparent, and we note that Composite insurers invested more of their assets into this category than their Life and Non-Life counterparts.

On the other hand, at EU level, pure Life insurers and also Composite insurers allocated a larger share of their investments to Government bonds as compared to Non-Life insurers. Another observation was the contrast in behaviour between Spanish Non-life insurers and their counterpart at EU level with regard to the corporate bonds: Spanish Non-life insurers reported 17,1% of their investments in this category, which is 10% lower than the EU level which amounted to 28,6%.

## 2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details as to whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;
- Therefore, the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

**Table 8 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>14 384</b>	<b>10</b>	<b>5,5%</b>	<b>12,0%</b>	<b>9,5%</b>	<b>1,1%</b>	<b>28,1%</b>	<b>6,5%</b>
Common equity	12 641	8	4,8%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	851	10	0,3%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	892	9	0,3%	0,6%	0,6%	0,0%	2,0%	0,7%
<b>Collective Investment Undertakings - Equity funds</b>	<b>3 674</b>	<b>10</b>	<b>1,4%</b>	<b>3,8%</b>	<b>3,2%</b>	<b>0,4%</b>	<b>14,7%</b>	<b>3,5%</b>
Equity funds	3 368	8	1,3%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	306	11	0,1%	0,5%	0,5%	0,0%	6,9%	1,3%
<b>Structured notes - Equity risk</b>	<b>157</b>	<b>4</b>	<b>0,1%</b>	<b>0,2%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,6%</b>	<b>0,1%</b>
<b>Total Equity exposure</b>	<b>18 216</b>	<b>10</b>	<b>7,0%</b>	<b>16,0%</b>	<b>12,7%</b>	<b>2,5%</b>	<b>37,4%</b>	<b>8,4%</b>
<b>Equity without Equity of real estate related corporation</b>	<b>13 533</b>	<b>9</b>	<b>5,2%</b>	<b>11,0%</b>	<b>8,4%</b>	<b>1,1%</b>	<b>24,1%</b>	<b>6,1%</b>
<b>Equity exposure without Equity of real estate related corporation</b>	<b>17 364</b>	<b>9</b>	<b>6,6%</b>	<b>15,0%</b>	<b>11,7%</b>	<b>2,4%</b>	<b>33,3%</b>	<b>7,9%</b>
<b>Equities market value balance sheet (rescaled to CIC scope)</b>	<b>3 956</b>	<b>9</b>	<b>1,5%</b>	<b>3,6%</b>	<b>3,2%</b>	<b>0,1%</b>	<b>20,6%</b>	<b>4,0%</b>
Equities - listed (rescaled to CIC scope)	3 523	9	1,3%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	433	10	0,2%	0,6%	0,6%	0,0%	5,2%	1,0%
<b>Equity exposure based upon (Un)Listed equities (rescaled)</b>	<b>7 788</b>	<b>9</b>	<b>3,0%</b>	<b>7,6%</b>	<b>6,5%</b>	<b>1,2%</b>	<b>29,8%</b>	<b>6,7%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In Spain, we note that equity exposures coming from Collective Investment Undertakings amount to 1,4% and are just lower than the listed and unlisted equity exposures which in total amount to 1,5%. Hereby the listed and unlisted equities in Spain are not similar to the asset allocation at EU level.

### 2.3.1 Direct and indirect equity exposure

**Table 9 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Direct equity</b>	<b>14 384</b>	<b>10</b>	<b>79,0%</b>	<b>75,2%</b>	<b>73,4%</b>	<b>39,2%</b>	<b>94,5%</b>	<b>15,9%</b>
Common equity	12 641	8	69,4%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	851	10	4,7%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	892	9	4,9%	3,9%	5,7%	0,0%	35,3%	8,8%
<b>Indirect equity</b>	<b>3 831</b>	<b>9</b>	<b>21,0%</b>	<b>24,8%</b>	<b>26,6%</b>	<b>5,5%</b>	<b>60,8%</b>	<b>15,9%</b>
Collective Investment Undertakings - Equity funds	3 674	9	20,2%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	3 368	8	18,5%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	306	11	1,7%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	157	4	0,9%	1,3%	0,7%	0,0%	4,0%	1,0%
<b>Total Equity exposure</b>	<b>18 216</b>	<b>10</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in Spain was invested as much in Direct equity (79,0% of Total equity) than in Indirect equity (21,0% of Total equity).

In terms of direct equity exposure, Spain ranked number 8 and number 10 in the EU, with regards respectively to the exposure amount to Common equity and Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted the bulk of investments with 18,5% of Total equity, more than 10 times the amount invested in Private equity funds.

### 2.3.2 Equity by location

**Table 10 - Equity exposure by location based upon Solvency II exposure list (S.06.02)**

in Mio EUR	ES			
	EU home	EU other	outside EU (1)	Total
<b>Equity</b>	<b>11 120</b>	<b>1 843</b>	<b>1 422</b>	<b>14 384</b>
Common equity	9 694	1 606	1 342	12 641
Equity of real estate related corporation	804	43	4	851
Other	622	194	76	892
<b>Collective Investment Undertakings - Equity funds</b>	<b>1 061</b>	<b>2 261</b>	<b>352</b>	<b>3 674</b>
Equity funds	940	2 101	327	3 368
Private equity funds	122	160	24	306
<b>Structured notes - Equity risk</b>	<b>82</b>	<b>75</b>	<b>0</b>	<b>157</b>
<b>Total Equity exposure</b>	<b>12 263</b>	<b>4 179</b>	<b>1 773</b>	<b>18 216</b>

in %	ES			
	EU home	EU other	outside EU (1)	Total
<b>Equity</b>	<b>77,3%</b>	<b>12,8%</b>	<b>9,9%</b>	<b>100,0%</b>
Common equity	76,7%	12,7%	10,6%	100,0%
Equity of real estate related corporation	94,4%	5,1%	0,5%	100,0%
Other	69,7%	21,7%	8,5%	100,0%
<b>Collective Investment Undertakings - Equity funds</b>	<b>28,9%</b>	<b>61,5%</b>	<b>9,6%</b>	<b>100,0%</b>
Equity funds	27,9%	62,4%	9,7%	100,0%
Private equity funds	39,7%	52,4%	7,9%	100,0%
<b>Structured notes - Equity risk</b>	<b>52,3%</b>	<b>47,7%</b>	<b>0,0%</b>	<b>100,0%</b>
<b>Total Equity exposure</b>	<b>67,3%</b>	<b>22,9%</b>	<b>9,7%</b>	<b>100,0%</b>

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis



Based upon the Q4 2017 reporting with regards to the location of equity investments, insurers established in Spain favoured domestic investments to a large extent, dedicating to these 77,3% of their direct equity investments, and 28,9% of their indirect investments.

Table 10 also showed that besides the home market, Spanish insurers invested significantly more in equity of other EU Member States than that of non-EU Member States. France, Germany and Portugal were the preferred destinations.

**Table 11 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)**

in Mio EUR	ES	
	Amount	%
<b>Home country</b>	<b>11 120</b>	<b>77,3%</b>
ES	11 120	77,3%
<b>Top 5 countries (outside home country)</b>	<b>2 441</b>	<b>17,0%</b>
Rest of World and unassigned	1 015	7,1%
FR	596	4,1%
DE	328	2,3%
PT	261	1,8%
NL	241	1,7%
<b>Home + Top 5 countries (outside home country)</b>	<b>13 561</b>	<b>94,3%</b>
<b>Total Direct equity exposure (with real estate corporation)</b>	<b>14 384</b>	<b>100,0%</b>

in Mio EUR	ES	
	Amount	%
<b>Home country</b>	<b>10 316</b>	<b>76,2%</b>
ES	10 316	76,2%
<b>Top 5 countries (outside home country)</b>	<b>2 429</b>	<b>18,0%</b>
Rest of World and unassigned	1 010	7,5%
FR	589	4,4%
DE	328	2,4%
PT	261	1,9%
NL	241	1,8%
<b>Home + Top 5 countries (outside home country)</b>	<b>12 745</b>	<b>94,2%</b>
<b>Total Direct equity exposure (without real estate corporation)</b>	<b>13 533</b>	<b>100,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

## 3 Index-linked and unit-linked investments

### 3.1 Scope

Based upon the comparative view below, we note a difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

**Table 12 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison**

in number	Exposure list ES		Solvency II balance sheet ES		Difference
	#	%	#	%	#
Life undertakings	31	19,3%	31	19,3%	0
Non-Life undertakings	88	54,7%	88	54,7%	0
Reinsurance undertakings	3	1,9%	3	1,9%	0
Undertakings pursuing both life and non-life insurance activity	39	24,2%	39	24,2%	0
<b>Total</b>	<b>161</b>	<b>100,0%</b>	<b>161</b>	<b>100,0%</b>	<b>0</b>

in Mio EUR	Exposure list ES		Solvency II balance sheet ES		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	16 030	100,0%	17 392	100,0%	-7,8%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

### 3.2 Asset exposure

Table 13 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

**Table 13 - Asset exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>768</b>	<b>10</b>	<b>4,8%</b>	<b>19,3%</b>	<b>4,5%</b>	<b>0,0%</b>	<b>30,1%</b>	<b>7,1%</b>
Common equity	753	9	4,7%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	7	14	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	7	11	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
<b>Collective Investment Undertakings</b>	<b>8 774</b>	<b>14</b>	<b>54,7%</b>	<b>63,2%</b>	<b>73,1%</b>	<b>30,1%</b>	<b>97,5%</b>	<b>16,3%</b>
Equity funds	4 304	13	26,9%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Debt funds	1 869	14	11,7%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	104	16	0,7%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	1 377	12	8,6%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	18	14	0,1%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	112	11	0,7%	1,6%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	0	-	0,0%	0,0%	0,1%	0,0%	2,4%	0,5%
Other	990	12	6,2%	4,6%	6,9%	0,0%	44,3%	10,0%
<b>Government bonds</b>	<b>1 823</b>	<b>7</b>	<b>11,4%</b>	<b>6,4%</b>	<b>6,9%</b>	<b>0,0%</b>	<b>31,4%</b>	<b>8,4%</b>
<b>Corporate bonds</b>	<b>994</b>	<b>10</b>	<b>6,2%</b>	<b>3,9%</b>	<b>6,0%</b>	<b>0,0%</b>	<b>22,7%</b>	<b>6,9%</b>
<b>Structured notes</b>	<b>1 232</b>	<b>6</b>	<b>7,7%</b>	<b>1,6%</b>	<b>4,1%</b>	<b>0,0%</b>	<b>18,9%</b>	<b>4,9%</b>
<b>Collateralised securities</b>	<b>2</b>	<b>9</b>	<b>0,0%</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,9%</b>	<b>0,2%</b>
<b>Mortgages and loans</b>	<b>403</b>	<b>5</b>	<b>2,5%</b>	<b>0,2%</b>	<b>0,2%</b>	<b>-3,7%</b>	<b>2,5%</b>	<b>1,0%</b>
<b>Property</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>1,3%</b>	<b>0,6%</b>	<b>0,0%</b>	<b>7,6%</b>	<b>1,5%</b>
<b>Deposits</b>	<b>671</b>	<b>9</b>	<b>4,2%</b>	<b>1,2%</b>	<b>2,0%</b>	<b>-0,3%</b>	<b>14,5%</b>	<b>3,3%</b>
<b>Cash and cash equivalents</b>	<b>1 364</b>	<b>6</b>	<b>8,5%</b>	<b>1,2%</b>	<b>2,2%</b>	<b>0,0%</b>	<b>8,5%</b>	<b>2,5%</b>
<b>Other investments</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>0,4%</b>	<b>0,3%</b>	<b>0,0%</b>	<b>8,1%</b>	<b>1,5%</b>
<b>Not reported</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>1,2%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>2,3%</b>	<b>0,4%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>16 030</b>	<b>13</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The Collective Investment Undertakings (54,7%) and the Government bonds (11,4%) represent the most important asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in comparison to the

asset exposure for non index-linked and unit-linked investments. Hereby we refer to section 2 for further details.

Relatively to the EU average, we observe a significant difference between the portion of index-linked and unit-linked related assets that were invested in Collective Investment Undertakings, 54,7% in Spain compared to 73,1% in the EU. Furthermore, we also observe a significant difference between the portion of index-linked and unit-linked related assets that were invested in Cash and cash equivalents, 8,5% in Spain compared to 2,2% in the EU.

### 3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

**Table 14 - Equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>768</b>	<b>10</b>	<b>4,8%</b>	<b>19,3%</b>	<b>4,5%</b>	<b>0,0%</b>	<b>30,1%</b>	<b>7,1%</b>
Common equity	753	9	4,7%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	7	14	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	7	11	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
<b>Collective Investment Undertakings - Equity funds</b>	<b>4 304</b>	<b>13</b>	<b>26,9%</b>	<b>26,5%</b>	<b>29,3%</b>	<b>11,2%</b>	<b>57,5%</b>	<b>10,4%</b>
Equity funds	4 304	13	26,9%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
<b>Structured notes - Equity risk</b>	<b>867</b>	<b>6</b>	<b>5,4%</b>	<b>1,2%</b>	<b>2,7%</b>	<b>0,0%</b>	<b>15,0%</b>	<b>3,5%</b>
<b>Total Equity exposure</b>	<b>5 939</b>	<b>13</b>	<b>37,1%</b>	<b>47,1%</b>	<b>36,5%</b>	<b>11,7%</b>	<b>58,6%</b>	<b>10,9%</b>
<b>Equity without Equity of real estate related corporation</b>	<b>761</b>	<b>9</b>	<b>4,7%</b>	<b>16,0%</b>	<b>4,2%</b>	<b>0,0%</b>	<b>29,2%</b>	<b>6,8%</b>
<b>Equity exposure without Equity of real estate related corporation</b>	<b>5 932</b>	<b>13</b>	<b>37,0%</b>	<b>40,0%</b>	<b>36,2%</b>	<b>11,7%</b>	<b>58,6%</b>	<b>10,8%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Spain, we note that total equity exposures related to index-linked and unit-linked contracts (37,1%) are significantly higher in comparison to non index-linked and unit-linked contracts (7,0%). Equity funds are the main contributors to the total equity exposures.

#### 3.3.1 Direct and indirect equity exposure

**Table 15 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	ES			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Direct equity</b>	<b>768</b>	<b>10</b>	<b>12,9%</b>	<b>38,3%</b>	<b>11,1%</b>	<b>0,0%</b>	<b>54,2%</b>	<b>15,2%</b>
Common equity	753	9	12,7%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	7	14	0,1%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	7	11	0,1%	1,3%	0,8%	0,0%	9,7%	2,2%
<b>Indirect equity</b>	<b>5 171</b>	<b>13</b>	<b>87,1%</b>	<b>61,7%</b>	<b>88,9%</b>	<b>45,8%</b>	<b>100,0%</b>	<b>15,2%</b>
Collective Investment Undertakings - Equity funds	4 304	13	72,5%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	4 304	13	72,5%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	867	6	14,6%	2,6%	7,4%	0,0%	35,8%	9,6%
<b>Total Equity exposure</b>	<b>5 939</b>	<b>13</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Spanish insurers invested the majority of their Assets held for index-linked and unit-linked contracts in Indirect equity (87,1% of Total equity), with Direct equity constituting 12,9% of Total equity.



In terms of direct equity exposure, Spain ranked number 9 and number 14 in the EU, with regards respectively to the exposure amount to Common equity and Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted the bulk of investments, amounting to 72,5% of Total equity whereas allocation to Private equity funds were inexistent.

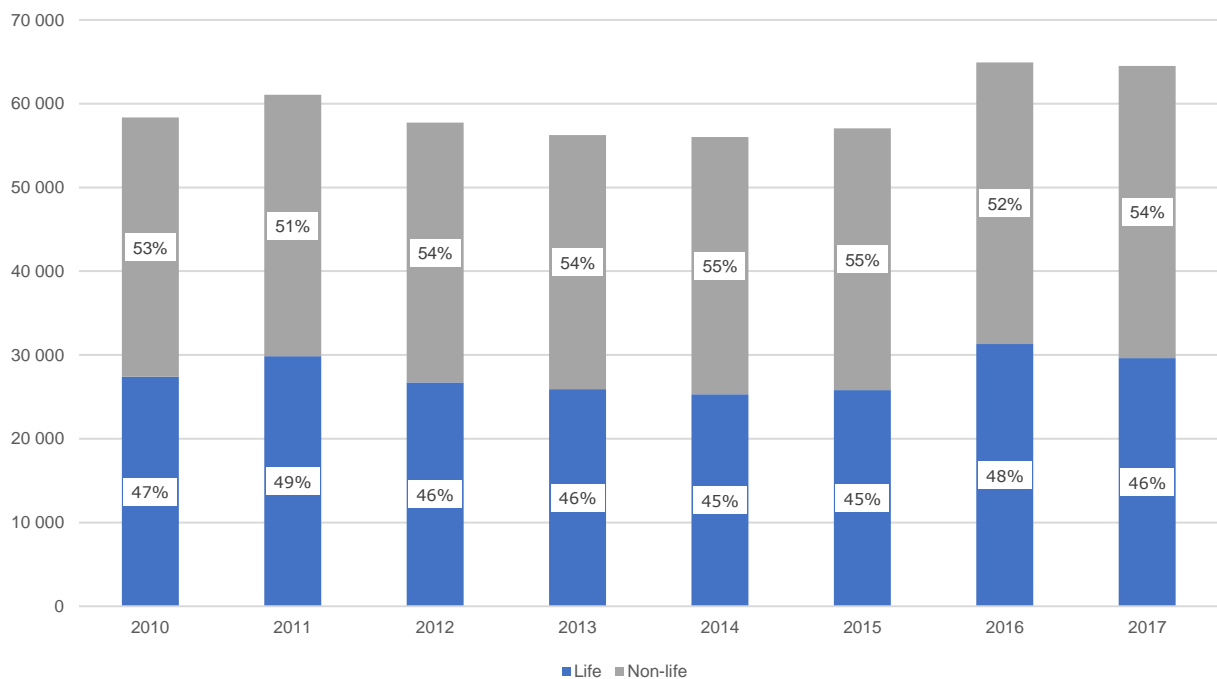
## 4 Insurance products

### 4.1 Overview

This section covers the most important insurance products offered in Spain and the volume of the market. Data reported in this section are obtained from the Directorate General of Insurance and Pension Funds (DGSFP).<sup>4</sup>

Gross written premiums of Spanish insurance companies have remained stable over years. While from 2010 to 2015 premium income fluctuated at around 57 753 million EUR, in 2016 increased by 13,7% before totalling 64 514 million EUR in 2017. The market has also remained balanced as regards the composition between life and non-life insurers. In particular, the non-life segment of the market contributes more (54,1%) towards the total income, compared to the life insurance segment.

**Graph 1 - Gross written premiums (in Mio EUR)**



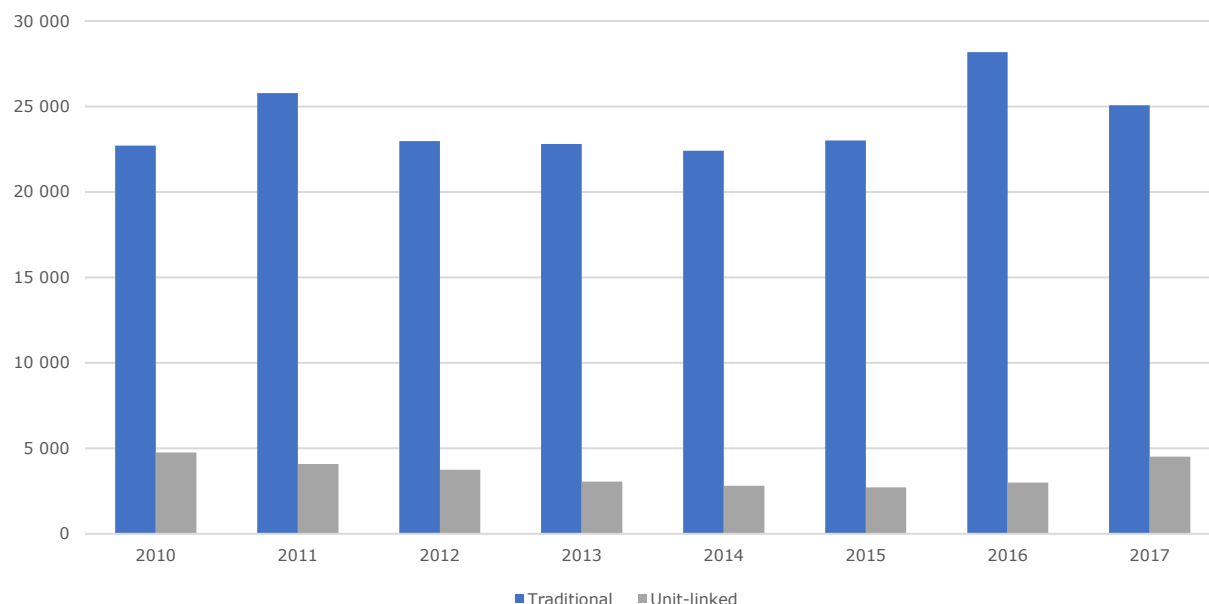
Source: DGSFP

<sup>4</sup> Available at <https://www.dgsfp.mineco.es/sector/informesdelsector.asp>.

## 4.2 Life insurance products

The Life insurance segment, which represents about 45,9% of total premiums, registered a decrease in premium volume of 5,3%, totalling 29 639 million EUR in the course of 2017. The market is heavily dependent on traditional life insurance products – such as participating, non-participating, term and annuities – which account for approximately 84,7% of the life income. On the other hand, premiums from unit-linked insurance products, despite the increase of 50,1% in 2017, represent a small fraction of the life insurance business.

**Graph 2 - Gross written premiums for life insurance products (in Mio EUR)**



Source: DGSFP

### **4.3 Non-Life insurance products**

The non-life segment continued its upward trend in 2017 and recorded a growth rate 3,7% totalling 34 875 million EUR.

#### **4.3.1 Motor insurance**

Automobile insurance is the most important business line of the Spanish non-life insurance. In 2017 motor premiums were at 9 322 million EUR, representing 31,5% of the market. Income was equally balanced between third-party liability policies (53,2%) and automobile insurance policies (46,8%).

#### **4.3.2 Healthcare assistance**

Healthcare assistance insurance ranked second and totalled 7 022 million EUR, accounting for 23,7% of the non-life premiums.

#### **4.3.3 Multi-peril risk**

Multi-peril risk insurance remained the third most important line in non-life insurance, with a market share of 19,5%. In 2017, premium volume totalled 5 784 million EUR, down by 0,5% in 2016. Home is the modality with the highest share of multi-risk business (62,9%) followed by industries (15,6%) and commerce (8,1%).

#### **4.3.4 Funeral**

Following an increase of 0,8% in 2017, funeral liability premium income closed the year at 2 197 million EUR, representing 7,42% of total non-life income.

#### **4.3.5 Accident and illness**

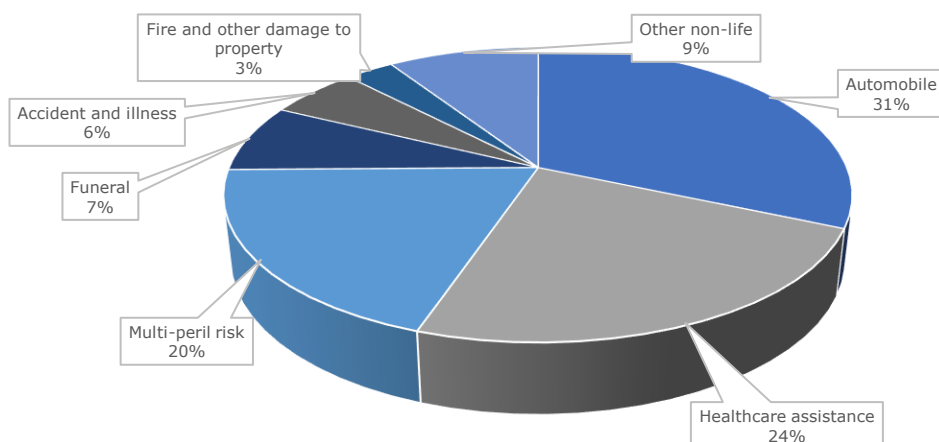
The accident and illness line was accounting for 5,5% of non-life segment, thanks to a decrease in the volume of business of over 0,6%, attaining 1 645 million EUR.

#### **4.3.6 Fire and other damage to property**

Fire and other damage to property totalled 881 million EUR, recording a decline of 3,3% compared to 2016.

#### **4.3.7 Other non-life**

Other classes of non-life business accounted for 2 741 million EUR (9,3%) in written premium in 2017. This was 0,3% lower than a year ago.

**Graph 3 - Allocation of gross written premiums for non-life insurance products (in %)**

Source: DGSFP

#### 4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report<sup>5</sup>, which resulted in the following conclusions for Spain:

- The approximate effective duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 10,89;
- The Macaulay duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 10,10.

In comparison, the approximate effective duration and Macaulay duration for the TP life for all lines of business for the EU/EEA are 8,23 and 13,97, respectively.

<sup>5</sup> EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. <https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf>



## 5 Accounting & Tax framework

### 5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS.<sup>6</sup>

1. Applicable GAAP at consolidated level: IFRS required for all listed companies (or groups if the group includes at least one listed company) and permitted for all non-listed companies<sup>7</sup>;
2. Applicable GAAP at statutory level: Spanish GAAP for all companies<sup>7</sup>;
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

### 5.2 Tax framework

#### 5.2.1 Capital gains on shares

A 100% exemption applies on capital gains on shares subject to the following conditions:

1. A holding requirement: minimum participation of 5% or with a value of at least 20 million EUR;
2. A holding period requirement: full ownership for an uninterrupted period of at least 1 year;
3. An additional requirement for foreign subsidiaries: they need to be subject to an income tax similar to the Spanish corporate income tax at a nominal rate of at least 10% (this condition is met if the resident country of the subsidiary has concluded a tax treaty with Spain).

If one or more of the above conditions is not complied with, this will result in taxation as ordinary business income at the ordinary tax rate of 25%.

Capital gains derived by non-resident companies without a permanent establishment are taxed at the rate of 19%, unless it concerns gains from the sale of shares or participations in investment funds quoted and transferred on a Spanish stock exchange derived by non-residents if the taxpayer is resident in a country with which Spain has an income tax treaty containing an exchange of information clause.

#### 5.2.2 Capital losses on shares

The term “net operating loss” is defined as the excess of net assets at the beginning of a taxable period over the net assets at the end of the same period. Notwithstanding any restricting regimes, net operating losses may be carried forward without time limitation. No carry-back is allowed.

#### 5.2.3 Taxation of dividends

A 100% exemption applies on dividends received subject to the same conditions as the ones that are applicable for the exemption of capital gains.

<sup>6</sup> [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en)

<sup>7</sup> <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/spain-ifrs-profile.pdf>



If one or more of the above conditions is not met, the dividend is taxed at the ordinary rate.

If the dividends are not treated as tax deductible expense in the country of the distributing company, dividends paid to a non-resident are subject to 19% withholding tax (WHT), unless a lower rate applies under a tax treaty or the dividends qualify for an exemption under the EU parent subsidiary directive.

Resident taxpayers are granted a tax credit for foreign direct taxes incurred that are similar to the Spanish corporate income tax. The credit is limited to the lesser of the tax that would have been payable in Spain had the income arisen in Spain, or the actual foreign tax incurred.

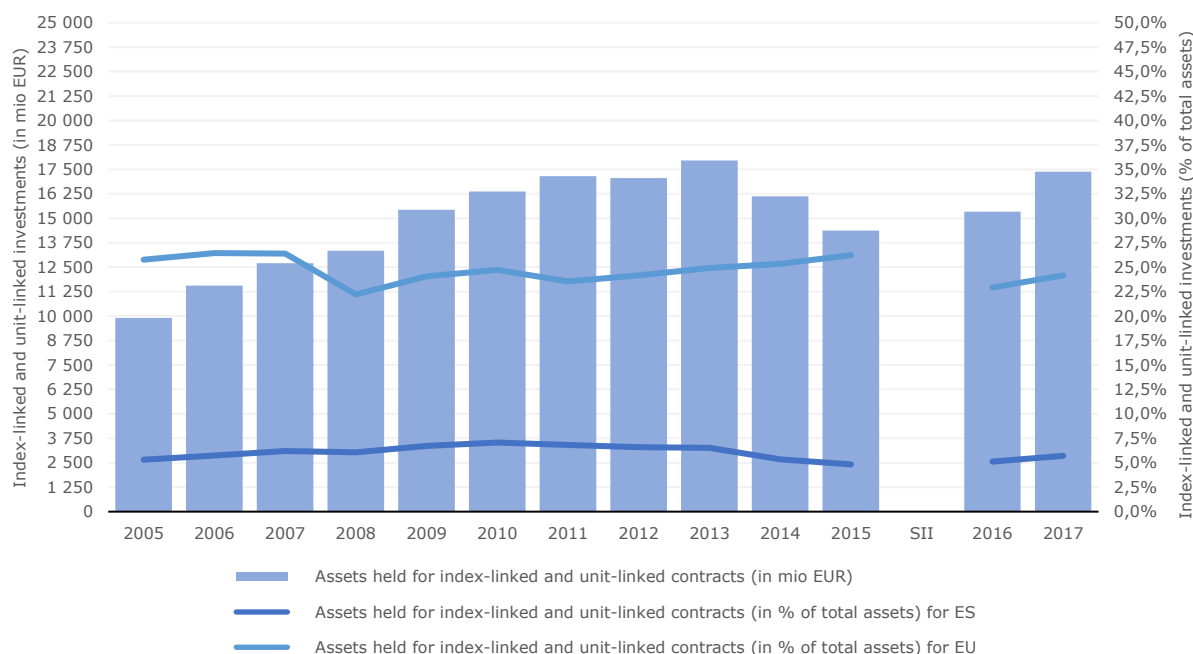
## 6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

### 6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of Spain is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

**Graph 4 - Evolution index-linked and unit-linked investments based upon Solvency I and Solvency II**



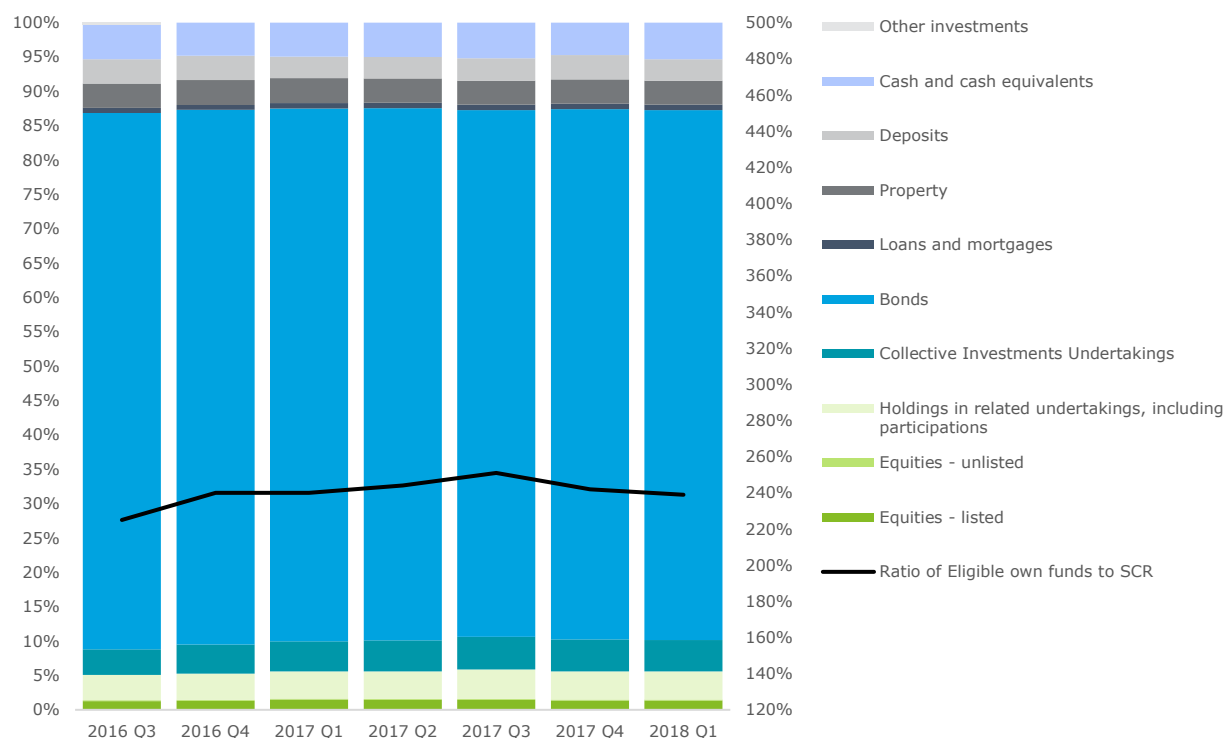
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets in Spain has been very stable. Note that the graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

## 6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

**Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio**



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the Spanish insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016<sup>8</sup>. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Cash and cash equivalents do not suggest a clear trend whether it be downwards or upwards.

Bonds have constituted the major part of the Spanish insurers' balance sheet since the introduction of Solvency II.

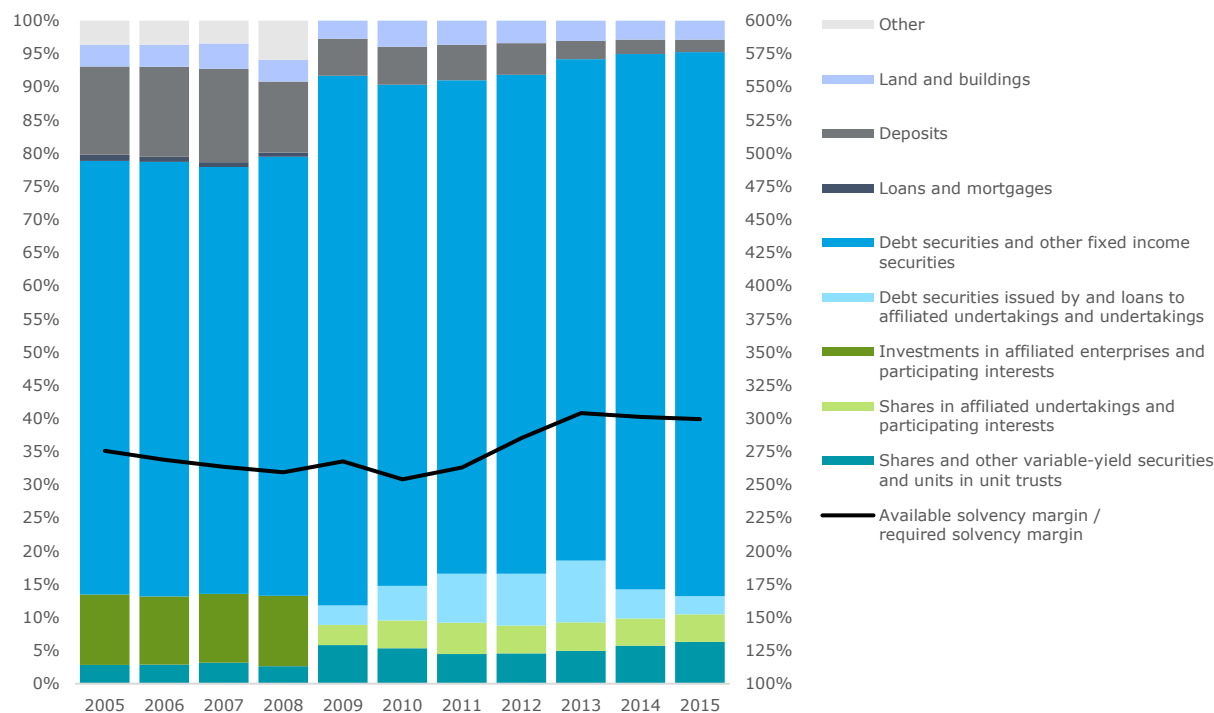
For Spain, the SCR ratio shows a relatively stable behaviour over the period 2016 Q3 until 2018 Q1. Overall, this trend has not resulted into significant changes in the asset allocation of the overall Spanish insurance market.

<sup>8</sup> Day one reporting, 2016 Q1 and Q2 are not publicly available

### 6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

**Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)**

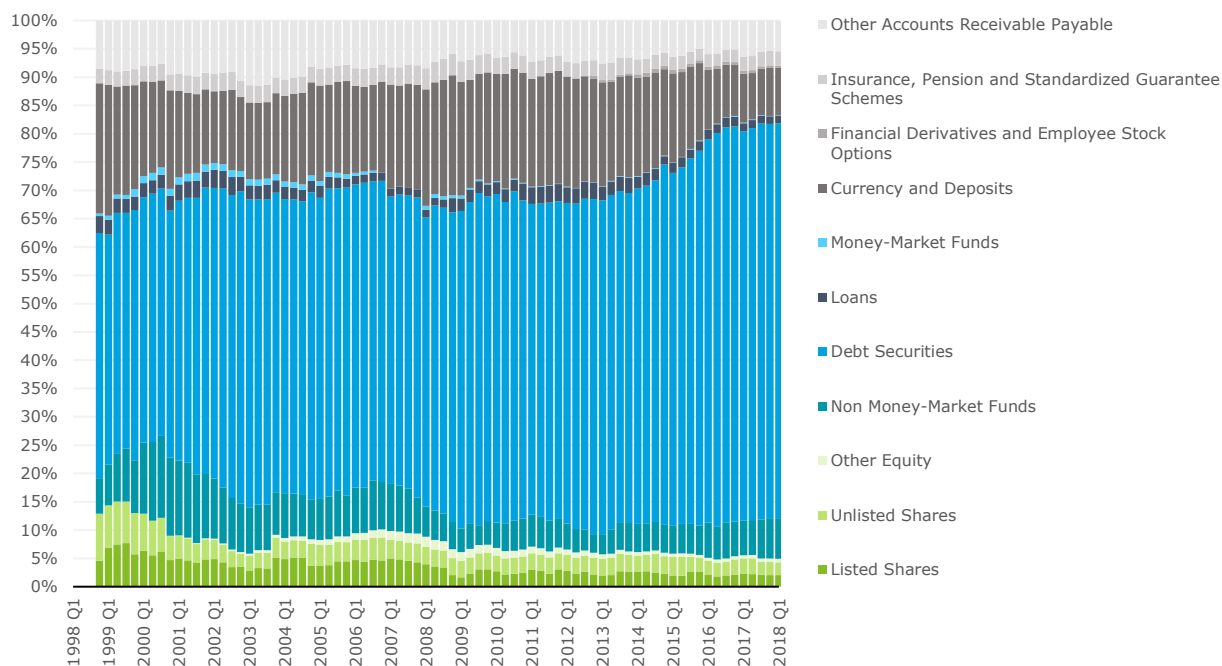


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures, suggests the following observations. The dominance of Bonds that we observed under the rules of Solvency II has been a characteristic of the Spanish insurers' balance sheet for more than a decade. Deposits and Other decreased significantly in 2009 and were replaced mainly by Debt Securities and other fixed income securities. Furthermore, the solvency ratio shows rather stable behaviour.

## 6.4 European Central Bank – including index-linked and unit-linked assets

**Graph 7 - Evolution ECB balance sheet items (asset categories)**



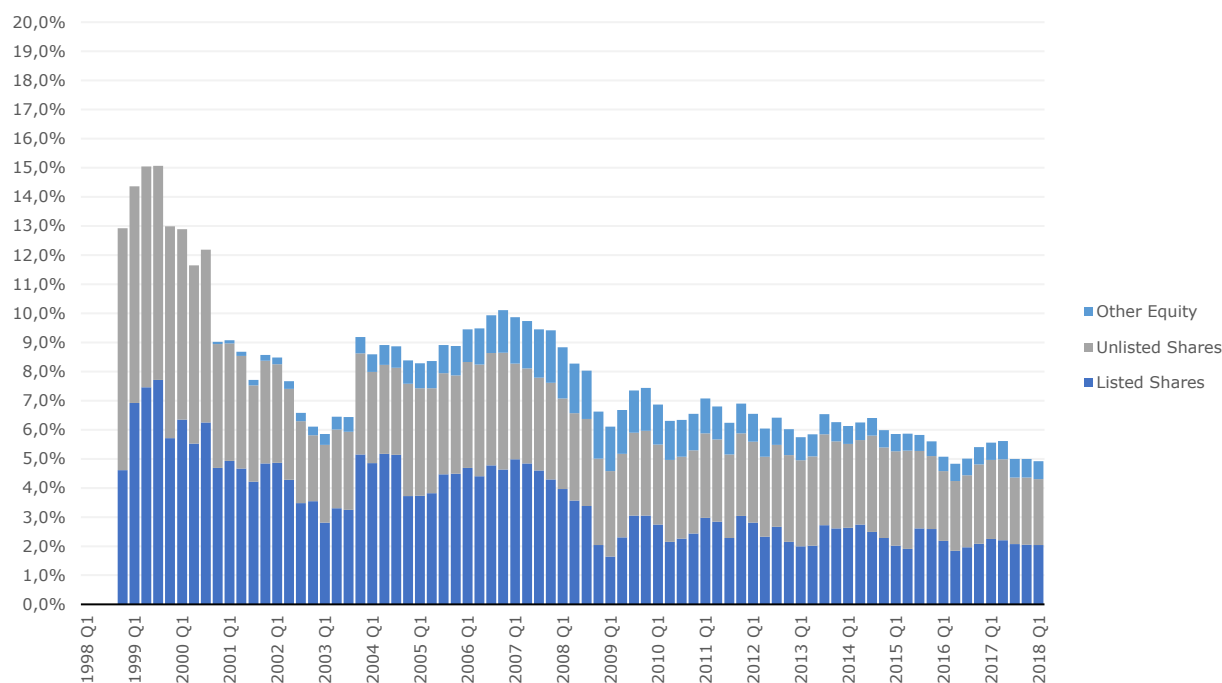
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Spanish insurers since 1998 Q4 as reported by the ECB. It can be observed that the dominance of bonds in the investments, which is observed in Solvency I, and II (see graphs above) has been increasing.

On the next page, the Equity asset classes are presented in a more detailed view. Furthermore, the evolution of the listed shares (normalised to a start value of 100) of Spain is plotted against the aggregated EU data.

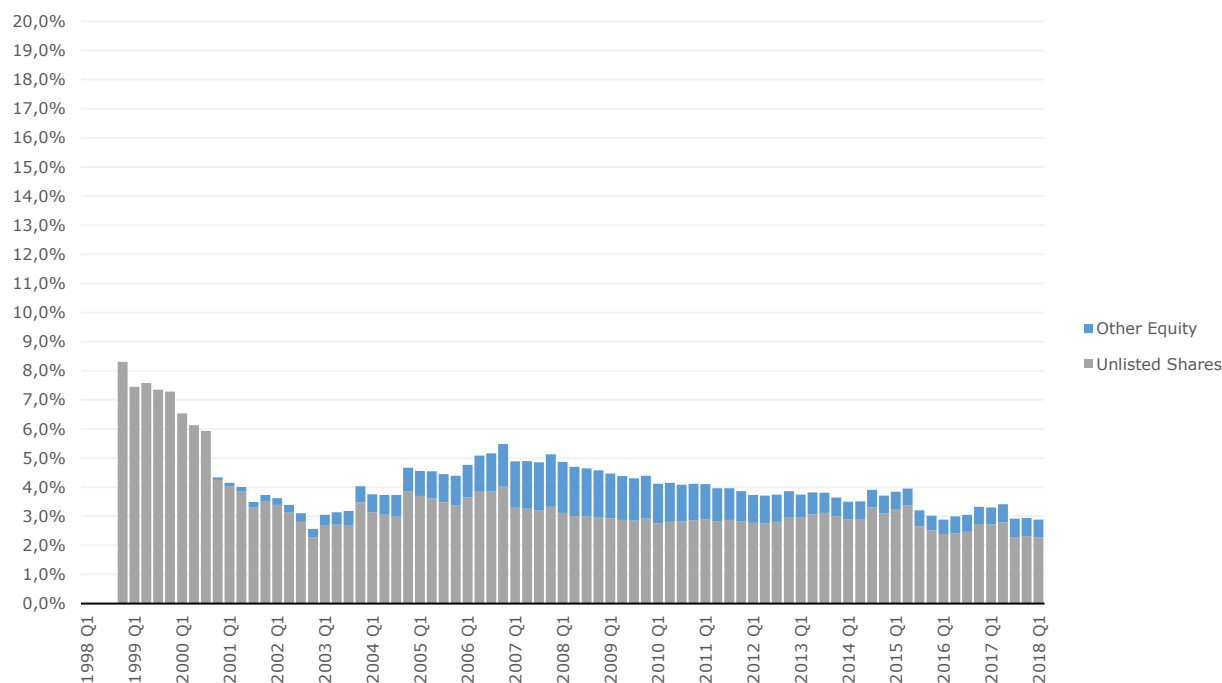
We remark that these graphs include index-linked and unit-linked assets, which cannot be individualised from the figures published by the ECB.

**Graph 8 - Evolution ECB balance sheet items (equity categories)**



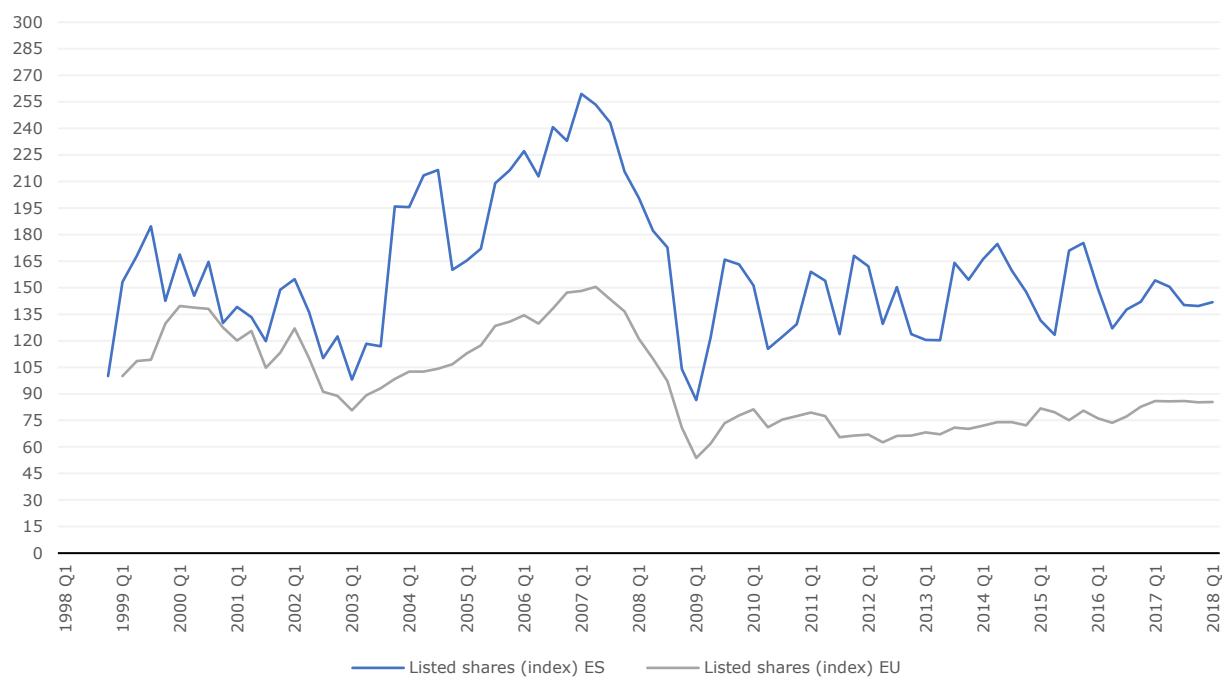
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 9 - Evolution ECB balance sheet items (Unlisted Shares and Other Equity)**



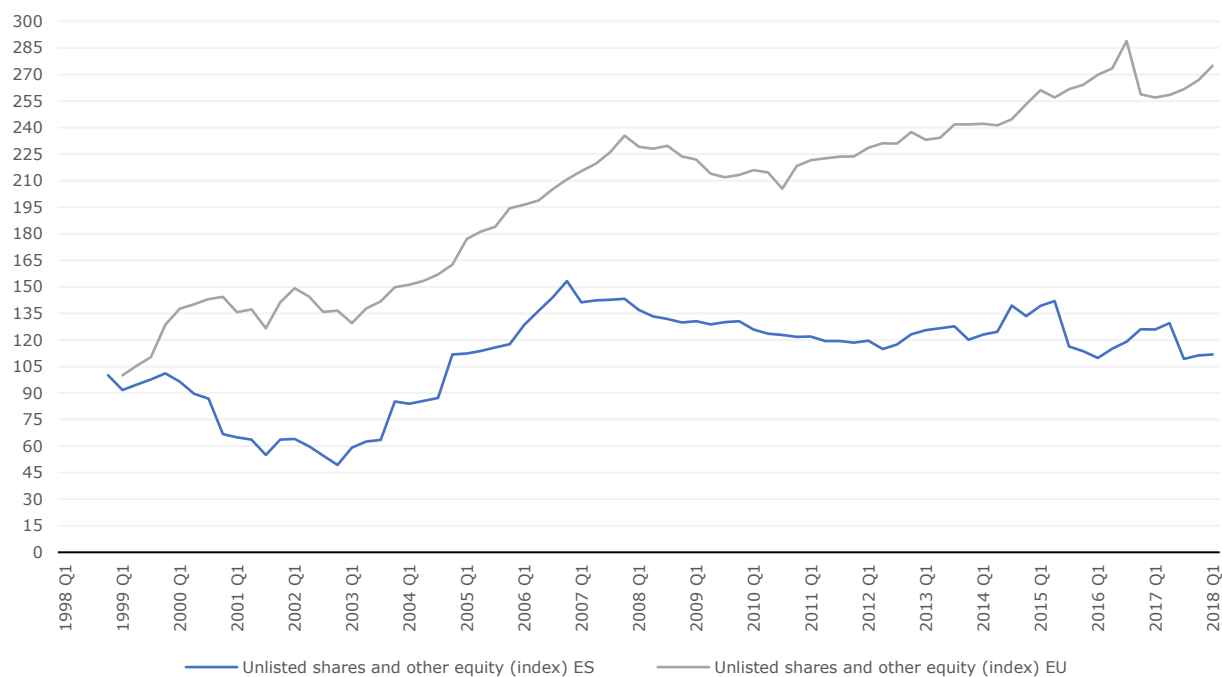
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 10 - Evolution ECB listed shares ES and EU (as index)**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 11 - Evolution ECB unlisted shares ES and EU (as index)**





## 6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of the Spanish insurers using the balance sheet data of the insurance sector from the ECB Statistical Data Warehouse. Given the availability of the equity split in the ECB database, the analysis focuses on investments in listed shares and investments in unlisted shares and other equity.

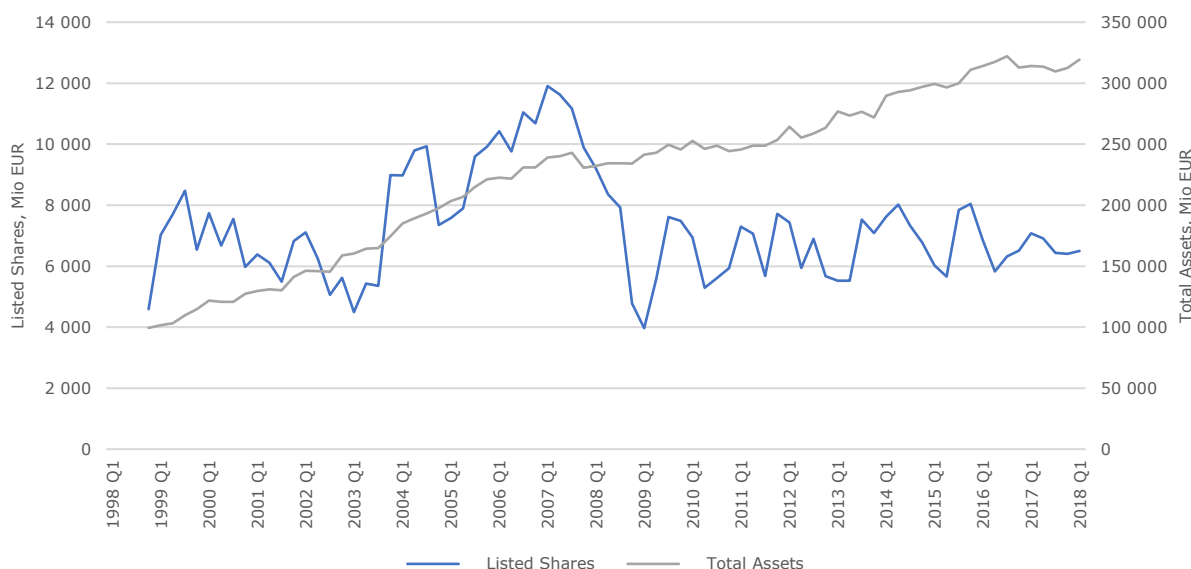
### 6.5.1 Listed Shares

In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent to which the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

In the next step, we focus on the relationship with the listed shares and stock market indices. The ECB QSA balance sheet items are valued at market prices at the end of each quarter. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this “price effect” from the observed amounts of listed shares and approximate the “real” amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a “Weighted Equity Index” similar to the EIOPA Equity Dampener.

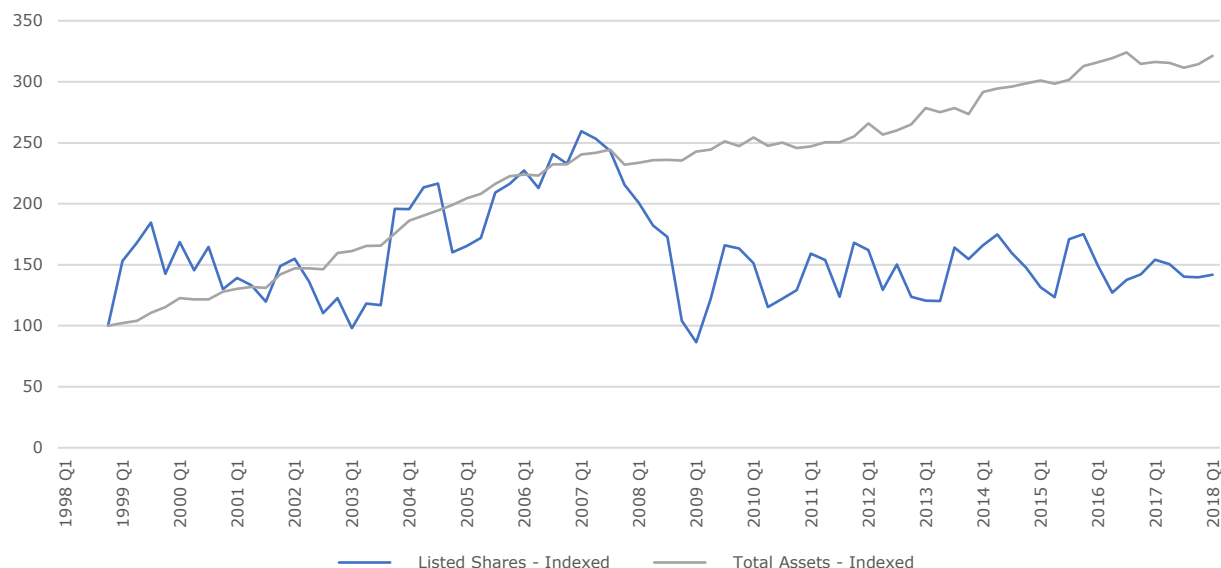
Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 12 while the indexed values of the series are presented in Graph 13. It can be observed that the investments in listed shares are volatile but we can observe two pronounced movements. The first one is an upward trend starting in 2003 and ending in 2007. The second one is a downward trend that starts in 2007 and continues until the beginning of 2009.

**Graph 12 – Evolution of Listed Shares and Total Assets, in Mio EUR**



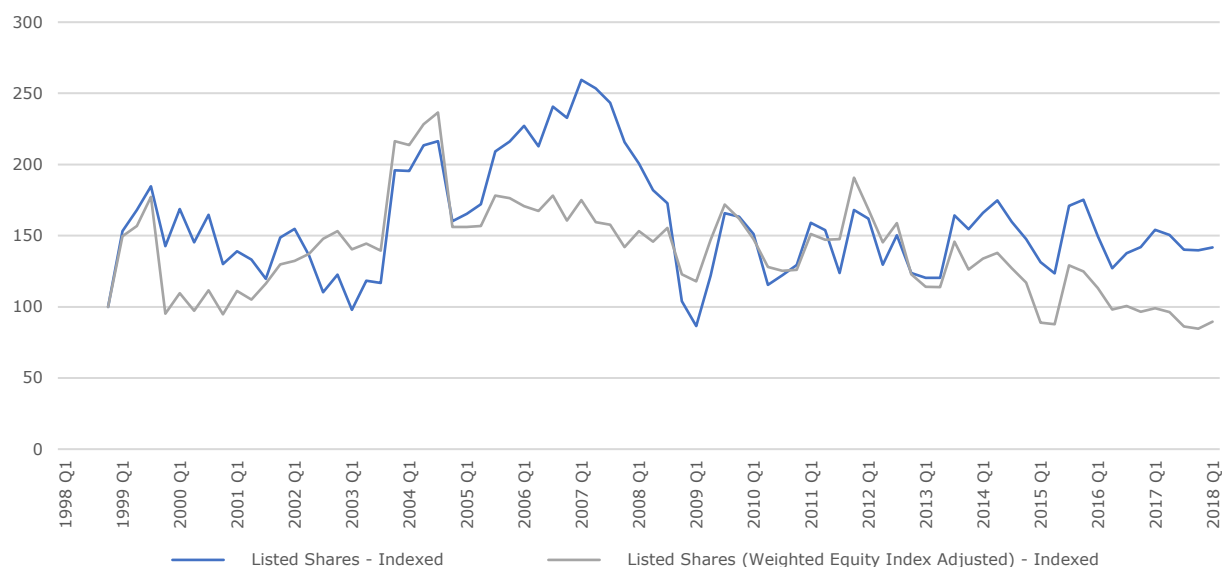
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 13 – Evolution of Listed Shares and Total Assets, Indexed Values**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 14 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. Similar to the unadjusted amounts invested in listed shares, adjusted investments of the Spanish insurers are volatile, which suggests an erratic investment behaviour. The indexed adjusted series reach 236,5 in 2004 Q4, which is the highest indexed amount within the indexed adjusted equity investments of the eight Member States investigated in this section, and then drops to 156 in the next quarter and finally reach to 89,5 at the end of the observation period.

**Graph 14 – Evolution of Listed Shares – Indexed (Weighted Equity Index Adjusted)**

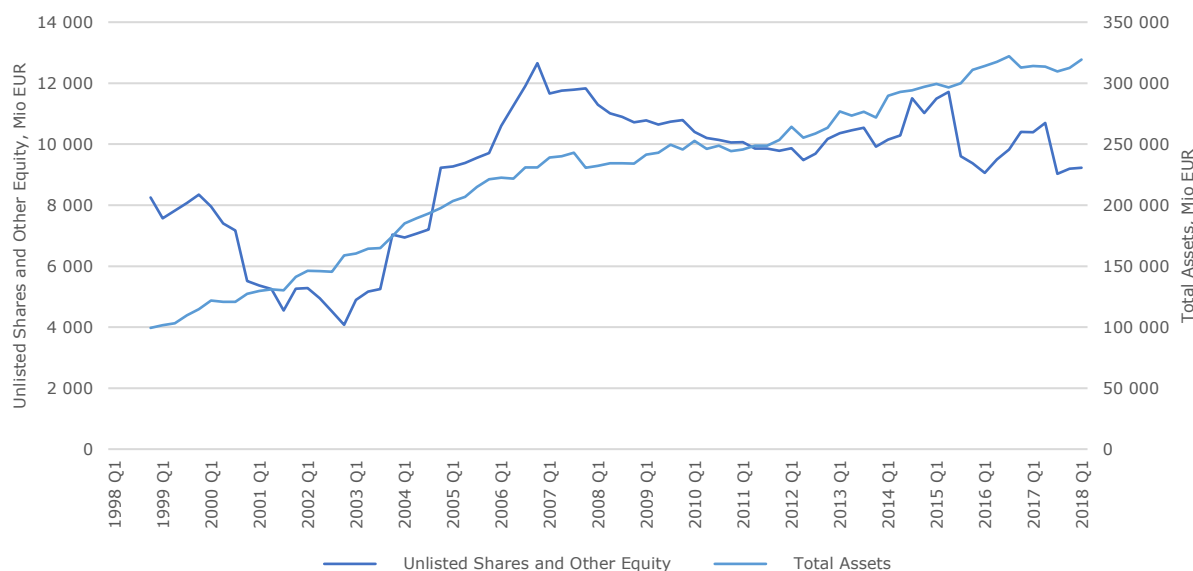
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

### 6.5.2 Unlisted Shares and Other Equity

Graph 15 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series.

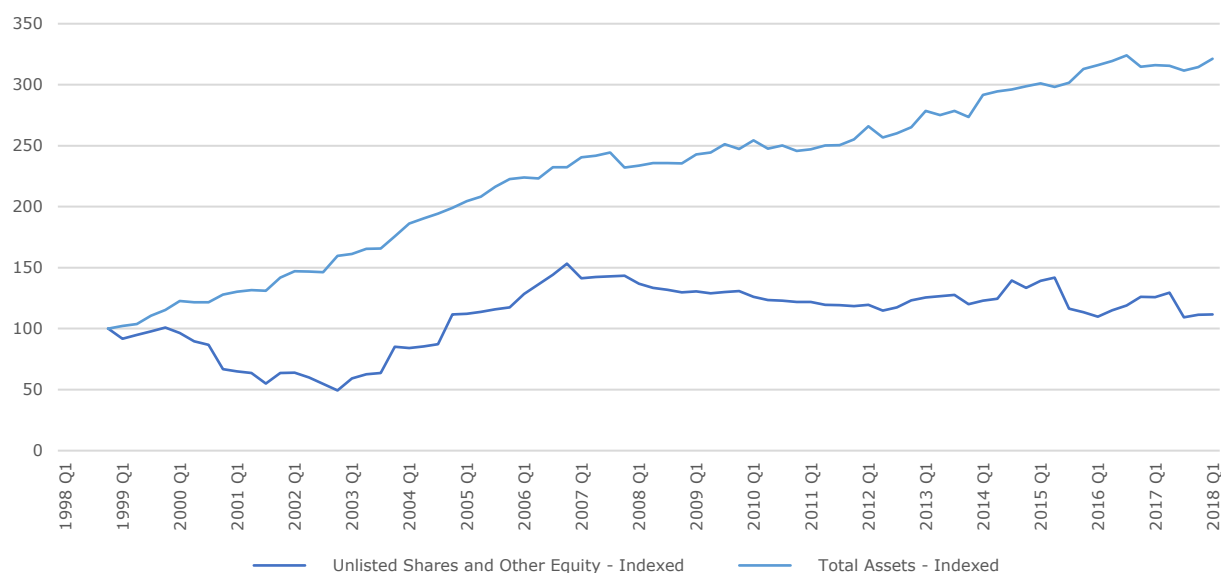
It can be observed on these graphs that the total assets increase steadily over the whole period (1998 – 2018), with a relatively quick increase over the initial period (1998 – 2008) followed by a slower increase over the period 2008 – 2018, finishing the period at 321% of their initial level. In contrast, the unlisted shares initially decrease to around 50% of their initial level by 2002, before increasing to 150% by 2008. From here they decline slowly until 2018, finishing the period at 112%.

**Graph 15 – Evolution of Total Unlisted Shares and Other Equity and Total Assets, Mio EUR**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 16 – Evolution of Unlisted Shares and Other Equity, Indexed Values**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis