

MARKET BULLETIN

From	Julian James
Date	20 December 2005
Reference	Y3709
Subject	Spain: Consorcio Charges
Subject areas	Cover for 'extraordinary events' in Spain and applicable charges
Attachments	Yes
Action points	Policies subject to the Consorcio charge must insert the official Consorcio clause. Applicable rates are listed.
Deadlines	None

1. Background

This bulletin explains the rules by which the Consorcio de Compensación de Seguros ("the Consorcio") covers extraordinary events in Spain. It also explains applicable charges. Reference is made to the new business interruption cover introduced in 2004.

2. The Consorcio as a catastrophe insurer

The Consorcio is a public corporation that effectively acts as a catastrophe insurer for certain types of insurance and perils in respect of Spanish risks. The role of the Consorcio is to compensate losses arising from a number of natural events and socio-political acts defined as extraordinary events.

Contributions to the Consorcio are compulsory for most property and personal accident insurance policies (see point 4 below).

Terms and conditions concerning the Consorcio cover for extraordinary risks are governed by its Legal Statute, the Regulation of the Extraordinary Risks cover and the Resolution of the Spanish Regulator (*Dirección General de Seguros, DGS*) of May 2004.

According to this regulation, the Consorcio will compensate losses produced by extraordinary events occurring in Spain and impacting upon risks located in Spain. In the case of extraordinary events occurring outside of Spain, the Consorcio will compensate for personal injuries if the policyholder is resident in Spain. Losses are defined as direct damage caused to people or goods as well as business interruption cover.

3. The Consorcio's business interruption cover

Extending the Consorcio's coverage to include business interruption losses is the most important change introduced by the recent regulation. In order to be able to present a business interruption claim to the Consorcio, the following conditions should be met:

- (i) The policy, which should be subject to the Consorcio charge for extraordinary risks, should cover business interruption as a result of the following perils: fire, explosion, theft, machinery breakdown or breakage.
- (ii) There must be direct damage to goods covered by the ordinary policy or a different policy.
- (iii) The goods described at 3 (ii) above must belong to or be at the disposal of the insured. The Consorcio will not indemnify business interruption losses arising as a consequence of damage caused by the extraordinary event to the goods of other persons (natural or legal)

4. The Consorcio charge for extraordinary events

The Consorcio's charge is compulsory for insurance classes covering the following perils:

- a) Property:
 - Accident.
 - Fire and natural perils.
 - Motor Vehicles (physical damage only).
 - Railway rolling stock.
 - Other damage to property (theft, plate glass windows, machinery breakdown, electronic equipment and computers).
 - Other Financial Losses (covering fire, theft, explosion, machinery breakdown or breakage)
 - or a combination of these.

Policies covering the following risks are excluded: farming production insurable through a multi-peril crop insurance system; transport of goods, construction and assembly; and policies falling under other insurance classes.

b) Personal Insurance:

A charge must be paid to the Consorcio in respect of personal accident policies covering death or injuries causing permanent disability (partial, total or absolute), even if the policies were contracted in combination with, or as a complementary insurance of, another policy or pension scheme, and irrespective of the location of the insurer.

This duty does not imply that underwriters have liability for claims arising from the Consorcio perils, though they remain at liberty to provide and charge for such cover. In such circumstances, the Consorcio will only respond if the perils concerned are not included in the underwriter's cover. The Consorcio will automatically become the insurer from the time that the policy comes into force. Therefore if the risk is not expressly covered by the insurer then the Consorcio will provide cover.

It is usual for Spanish insurance companies not to include the Consorcio perils but instead to issue policy documentation clearly drafted in such a way that such losses are not their (the insurers') responsibility, but that of the Consorcio, to whom relevant claims should be addressed.

5 The Consorcio clause

Policies subject to the Consorcio's charge for extraordinary risks must insert the official Consorcio clause. The Consorcio has issued a unified clause to cover both material and personal damage, which Spanish version of which can be viewed at <http://www.conorsegueros.es/index2.cfm?altolframe=383&aprt=clausula&optmnu=100&conten=1>

This clause sets out the extraordinary events which are covered by the Consorcio together with the exclusions and the procedure to be followed in case of loss covered by the Consorcio. Lloyd's Worldwide Market Services (see below) can also provide copies of the Consorcio clause in Spanish and English (the latter being a free translation).

6. Further information

Additional information on rates and procedure for the collection/payment of Consorcio charges is available at:

http://www.lloyds.com/Lloyds_Worldwide/Country_guides/Spain/Spain_-_Premium_Tax_Information/Spain_-_consorcio_de_compensacion_de_seguros_current.htm

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This bulletin is being sent to Underwriters, Lloyd's brokers and Managing agents.

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Appendix 1

Applicable rates

Applicable rates vary depending on the type of cover. Even though there are special rules in some cases, the general rates to be applied to capital insured in annual ordinary policies are as follows:

a. For property insurance:

a.1. Direct damage (rates to be applied to sum insured NOT premium)

Property Type	Sum insured up to 600 million Euros	Sum insured over 600 million Euros
Domestic property (dwellings)	0.009%	0.007%
Offices	0.014%	0.010%
Business, shopping centres, department stores and other simple risks	0.018%	0.014%
Industrial risks	0.025%	0.021%
Public works	Different rates according to type of risk. Please contact Taxation Department for current rates.	
Motor vehicles	Fixed amount according to type of vehicle. Cars €5.41 Lorries €21.04 Industrial vehicles €17.43 Tractors €12.02 Coaches €31.85 Caravans & trailers €10.22 Mopeds €0.72 Motorcycles (more than 75 cc) €2.70	

a.2. Business interruption

- Real property and real property owner communities: rate of € 0.005 per thousand to be applied on the sum insured for material damage.

- Other risks: rate of € 0.25 per thousand to be applied on the sum insured for business interruption.

b. For personal insurance:

Life & personal accident¹ € 0.0096 per each € 1,000 of sum insured.

Accident policies on travel linked to credit cards € 0.00042 per each € 1,000 of sum insured.

Please check the Lloyd's taxation website for latest rates:
http://www.lloyds.com/Lloyds_Market/Taxation/

¹ Life policies as such are not subject to the Consorcio charge. By contrast, policies covering both life and accident risks, as well as those only covering personal accidents are subject to the Consorcio charge.