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task, most of them cannot compete with the government reinsurance office in terms of either capacity or prestige.

Correspondent

## Madrid

The last quarter of 1975 was a crucial period for Spain in many respects, chief among them the death of General Francisco Franco and the end of 36 years of his rule, and the beginning of the transition toward a new kind of government.

The insurance industry too is experiencing changes; in November the government proposed a new law to replace the 1954 insurance law, which is totally inadequate for the needs of a market which in 1973 had premium volume exceeding \$1.5 billion and in 1976 may reach \$2.5 billion to become the 10th largest Western insurance market, or the ninth if life insurance is excluded.

The new law, which has been well received by the insurance community, increases the initial capital for a new company to \$2.5 million, 50% paid up; companies already in operation are required to have one-third of their capital paid up. The law also requires both new and established companies to make a minimum deposit by type of coverage of 5 million pesetas in public bonds with a very low yield. This could represent an investment of \$400,000 to a company that is trying to provide comprehensive coverage to industrial clients. With the exception of some very small but well-run mutual companies, no serious professional insurer, either new or established, will be hurt by these provisions.

The new law apparently introduces some liberalization of investment restrictions and in the official approval of policy conditions and rates. This could be an important step toward making Spain's insurance market more like those of its neighbors in the EEC.

It is interesting to note that this proposed law is not discriminatory toward foreign insurers, but does establish a 15% limit on foreign investment in Spanish insurance companies.

Another important feature of the new law is that it gives the insurance department the power to control reinsurance intermediaries. Intermediaries could be considered as brokers—a significant fact because in Spain brokers must be individuals; corporations are allowed only if they were established before a certain year.

But the dominant issue in Spain today is the transition from 36 years of Franco's rule to a new and yet unknown kind of government.

It is clear that the changes effected in the country in recent years have resulted in greatly improved conditions, and that the geographical position of Spain, with a virtual monopoly of winter resort beaches and a prominent position in the market for summer vacations, gives it a significant advantage over some other European countries—if it is combined with a good amount of hard work, as it is today,

and with an accelerated degree of industrialization and capital equipment spending.

But it is also clear that difficulties must be foreseen in the next two or three years as a consequence of the natural reaction against a very long rule, the geographical position of Spain as a key area in the world power strategy, and the need to correct the social injustices and excessive capitalistic power accumulated during Franco's regime.

A final note about insurance: 1975 was good in both growth and operating results, and insurers in general have not felt severely the effects of the recession. One reason is that the Spanish economy is much healthier than is believed abroad, not even taking into account a probable oil bonanza with the strike of "Casablanca," an oil well and probably a large oil field off the shore of the Mediterranean not far from Tarragona.

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## Frankfurt

### Political

Lower Saxony State politics are filling the news headlines practically every day following a political upset in election of the state prime minister. The state government is controlled by the SPD/FDP coalition, but ruling Prime Minister Kubel (SPD) decided to resign. Everyone raised their eyebrows when the CDU, with its minority opposition party (although the largest single party) succeeded in having its candidate Albrecht appointed. The SPD/FDP coalition went into a huddle and fielded another candidate—Ravens, the SPD Housing Cabinet Minister from the federal government in Bonn—but he also was defeated by Albrecht. A second secret ballot was necessary, because after the first ballot Albrecht could not put together a majority government. After winning the second ballot he will rule with a minority government, comfortable in the knowledge that (secretly) he is supported by a couple of members of the coalition opposition. All this activity in Lower Saxony points to a possible rift between the SPD and FDP coalition partners. If so, the CDU will be delighted and only too ready to welcome the FDP in a coalition government against the SPD. The next few weeks and months promise much political excitement in Germany to culminate in the autumn general elections.

### Economic

A favorable trade balance of "only" DM 37 billion was recorded at the end of 1975. This is down on the record amount of DM 52 billion the year before. In addition, the government deficit did not reach the projected DM 35 billion but was instead only DM 27 billion. The number of unemployed at the end of December reached 1.2 million and has risen in the meantime to 1.3 million—300,000 less than expected. These facts indicate that most predictions