

40 years after the 1983 floodings

Pilar González de Frutos

Head of Department of Consorcio de Compensación de Seguros in 1983

Description of the event

26 August 1983 is a date that has been burned into the memory of the inhabitants of the Basque Country and elsewhere.

That was the day torrential rains poured down, reaching over 500 l/m² in 24 hours, a level with an estimated return period of 500 years that has not been repeated since that day.

What today is known as a cut-off low is not a common event in northern Spain, but at that time one swept in from the east pulling with it large masses of very cold air aloft that produced extremely heavy rains.

Not only that, but persistent rains had been falling in the preceding days, saturating the ground, which was unable to absorb the water that came down, so the water quickly ran off into the rivers, causing them to overflow.



More than a hundred towns were declared disaster areas, with Llodio, Barakaldo, Arrigorriaga, Basauri, Galdácano and the Old Town and Peña districts of Bilbao being particularly hard hit.



Figure 1. Flooding in the Recalde district of Bilbao (Biscay) on 26 August 1983.
Source: EFE News Agency.

The Nervión River discharged large amounts of water into the Bilbao estuary coinciding with a high tide that prevented the water from flowing out to sea and flooding large areas of the Old Town of Bilbao to depths of up to 3 metres.

The flooded area ran from Cantabria to Navarre and even reached as far as the northern part of Burgos Province.

More than a hundred towns were declared disaster areas, with Llodio, Barakaldo, Arrigorriaga, Basauri, Galdácano and the Old Town and Peña districts of Bilbao being particularly hard hit.

The flood damage is calculated to have reached 200,000 million pesetas of the time, around 1,200 million euros, though the worst was the loss of human life. The death toll came to 34 and 5 missing.

The Consorcio de Compensación de Seguros' response

To get a better idea of the huge scale of the undertaking the Consorcio faced, it will be helpful to stop for a moment and consider the legal framework and the resources available at the time.

The Consorcio was one of the four autonomous bodies operating under the auspices of the Directorate-General for Insurance Affairs, the others being the National Traffic Risk Guarantee Fund, the Compulsory Passenger Insurance Board and the Central Insurance Fund.

Its services were all centralised, and it was staffed by twenty-odd civil servants.

It had no regional offices, instead there were what were known as regional claims adjusters, independent contractors tasked with appraising losses who gathered information on the details of events and their repercussions and sent it in to the Consorcio for a decision to be taken on whether a weather event was to be declared an extraordinary insurance event. The adjusters' own addresses were used as the addresses for reporting damage and claims.

It cannot be omitted that in 1983, under the Consorcio's 1954 Enabling Act [[Ley de 16 de diciembre de 1954](#)] and the 1956 Implementing Regulations to that Act [[Reglamento de 13 de abril de 1956](#)], an event had to have been declared to be an extraordinary event for losses to be covered and entitlement to compensation by the Consorcio. More on this point later.

Furthermore, as an autonomous body, the Consorcio's operations were subject to administrative law, and any payments it issued were subject to prior approval by the General Comptroller of the State Administration.

The aftermath of the event, with such high losses and the large number of claims (some 26,000) to be processed, despite low levels of insurance coverage, made a comprehensive restructuring of resources and processes necessary.

On the resources side, the first step was to set up an office in Bilbao. Good coordination between the central government and the regional government of the Basque Country and their respective administrative services enabled an office to be opened at the office of the Regional Tax Agency at Federico Moyúa Square, headed by Miguel de la Mano Boj, a tax and insurance inspector working in Bilbao seconded to the post by the Finance Ministry. New administrative staff were hired.

Additional technical and administrative personnel were also hired to bolster the central services. This required special approval by the Finance Ministry's Personnel Costs Department. These staff members underwent a specially designed crash training course.

A massive effort to assess losses was also made. Many new loss adjusters had to be hired. They were coordinated and supervised by Consorcio's regional loss adjusters sent to the Basque Country.

All processing of the huge case load was done entirely by hand, without the aid of any computing equipment. The details of every claims application were all entered in ledgers by hand, so accessing records was quite a labour-intensive task subject to inadvertent human error.

Every claim had to include the corresponding policy and the premium payment receipt. The policy was needed so that it did not have to be requested from the insurance companies, some of whose own files of paper documents kept in the basements at their offices in Bilbao had been damaged.

The receipts were used to check that the Consorcio had been paid the right surcharge. The surcharge was calculated on the premium, not on the insured sums, and this made it necessary to check that the proper rate had been used. It should be noted that back then insurance rates were regulated by the government, not set freely. Charging an improper surcharge was considered a serious violation by the insurer resulting in assessment of a penalty and application of the equity rule, reducing the compensation paid to the insured.

Compensation had to be approved either by the Consorcio's Management Board, chaired by the Director-General of Insurance Affairs, or by a delegated Committee. Compensation in amounts greater than 100,000 pesetas had to be approved by the full Board. Smaller amounts were approved by the Committee.

After administrative processing, payment of compensation had to be approved by the General Comptroller of the State Administration, which gave rise to a severe bottleneck. Ultimately, this procedure had to be replaced by postponing review until a later time.

The Consorcio's ordinary procedure for paying compensation to insured parties was to authorise payment by the insurer and then to reimburse the insurer afterwards. As an exception, in this case compensation was paid directly to the insured by cheque drawn on accounts the Consorcio had opened at branches of the Bank of Spain. Each cheque was sent out together with the corresponding receipt, also drawn up by hand and hand delivered to the Bilbao office once a week.

The cash needed for the indemnity payments was obtained by selling off nearly all of the Consorcio's investment holdings in liquid assets. The cash shortfall was covered by a special loan from the Bank of Spain paid back from the surcharges collected in subsequent years. Premium consumption that year stood at 745% of the surcharges collected.

As already pointed out above, an enormous effort was made to manage the incident and adapt processing procedures, and ultimately the Consorcio was able to complete its handling of the greater share of the claims within one year. Total indemnities paid out by the Consorcio came to the equivalent of 948 million euros of today, the average compensation being EUR 36,935, one of the highest in the Consorcio's entire time series as a result of the large number of companies that had been affected. These data have been retrieved from the Consorcio's statistics report.

The distance to watercourse issue

Rule 8 of the 13 April 1956 Implementing Regulations stipulated that:

“The Consorcio shall pay indemnities for flood damage caused by the direct action of water from rivers, canals, watercourses, or streams that overflow their normal banks or from coastal flooding by the ocean or the sea. The indemnity paid will be 100% of the assessed damage to insured property located more than 300 metres distant from or at a height of more than 7 metres above the water; 60% for a distance of less than 300 metres and a height of more than 4 metres; and 40% if that height or that distance is not reached. Distance is to be calculated from the river bank and height from the normal mean water level; in the case of damage caused by the ocean or the sea, it is to be calculated from the equinoctial spring tide water mark”.



Figure 2. Bilbao (Biscay) flood: the *Consulado de Bilbao* washed aground at the Uribitarte wharf on 27 August 1983.
Source: EFE News Agency.

Given the nature of the event and the affected areas, applying the provisions of that Rule would obviously have sharply reduced the compensation paid out, since virtually no-one had paid the additional surcharge that was required to set aside those reductions to indemnities.

There was heated debate early on as to whether or not to apply Rule 8, revolving around such factors as whether the damage had been caused by flood or by the heavy rains, the imprecise nature of the reference points in Rule 8, i.e., the actual meaning of normal mean water level, the actual location of the river bank, etc.

The reductions to the indemnities were applied based on the details reported by the loss adjusters, and this gave rise to a plethora of lawsuits that were taken all the way up to the Spanish Supreme Court. The Supreme Court's rulings greatly decreased the amounts of the Consorcio's initial reductions to the indemnities based on the co-occurrence of two causes, extraordinarily heavy rains and river overflow.

The situation created by this progressive reinterpretation of this rule on compensation for this peril grew so complicated that it eventually led to this provision on heightened flood risk's being eliminated entirely in successive reworkings of the legislation.

Subsequent events

The experience gained had immediate repercussions.

The devastation that took place and the huge losses incurred resulted in a restructuring of industry in the Basque Country and a painstaking reorganisation of the city.

Purchases of insurance rose in the areas where the Consorcio had paid out compensation for losses, since aside from some government assistance, the uninsured had received no compensation for their losses and government pay-outs took a long time.

The events revealed a need to revise and update the cases that were covered by Consorcio under the existing legislation. In consequence, a Ministerial Decree was issued on 30 December 1983 ordering the Directorate-General of Insurance Affairs to set up a working group for that purpose. The upshot of the working group's efforts was new Implementing Regulations [[Reglamento de 29 de agosto de 1986](#)], which set forth objective definitions of the cases entitled to coverage and ended the requirement for a disaster declaration by the administration for payment of indemnities by the Consorcio. The new Implementing Regulations made the cases of entitlement to coverage by the Consorcio much more transparent and objective and expedited claims processing.

The amount of time that has gone by since then makes it advisable to conduct a fresh review of the events that are covered by the Consorcio, notwithstanding a series of advances made over the years.

The difficulties that had been encountered in processing the claims from this event under the administrative legislation governing the Consorcio as an autonomous body would years later lead to the Consorcio's being changed into an independent agency with greater scope of authorised action whose relationship with the insured is governed by private law.

That relationship between the Consorcio and the insurers has been made tighter, since cooperation between the two is essential in the interest of the insured.