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**SUMITOMO EXECUTIVE SIMPOSIUM**

**THE CHANGING ENVIRONMENT  
SURROUNDING  
THE FINANCIAL AND INSURANCE  
INDUSTRIES  
IN SPAIN**

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Chairman  
MAPFRE INDUSTRIAL**

**Tokyo, November 2nd, 1990**

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**SUMITOMO EXECUTIVE SYMPOSIUM**

**Filomeno Mira**

**Chairman**

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**Tokyo, November 2nd, 1990**

Dear Friends,

Our world is changing in a very fast way, nowadays. So rapidly that recently a historian wrote an article in which he announced the end of the XXth Century and the beginning of the XXIst Century just at the end of this year. The death of communism, the political reorganization of Europe and the generalization of quasi-democratic systems in Latin America are perhaps three of the major issues for this consideration but there is also a permanent Damocles sword: rapid changes and technological risks. The tremendous economic and political influence amongst the different world regions is perhaps the key to this new global village in which we live, as the possible war in the Middle East is showing these days. Financial and insurance industries are, on the one hand, deeply affected by this crisis and, on the other, one of the most important agents to "smooth" the future and its problems.

Spain, one of the oldest countries in the world, has been living these changes in a special way. In 1975 there was a dramatic political change from a dictatorship into a democratic system; we underwent with some years of delay the oil and economic crisis of the 70's and finally joined the E.C. in 83 with a stable political system which led to the spectacular economic boom of recent years with one of the world highest G.D.P. increases. The insurance industry has been one of the most affected activities because of its strong

potential for the future in respect to other markets, as can be seen in the Tables that follow. This interest in the Spanish insurance market led to massive buyings of medium sized local companies by foreign insurance groups (most times, very expensive), big investments (capital increases) on the part of foreign companies already present in Spain (in order to create a quick distribution network), financial alliances with banking groups which are the owners of most of the Spanish insurance companies (as a way to have a presence in this exploding market) and finally the setting up of other groups (perhaps too late and unnecessary according to the EC regulations). Today, 25% of the Spanish insurance market is in the hands of Spanish banking groups, 40% in foreign insurance groups, 25% in independent large or medium size companies and the rest in small mutual or local companies (see enclosed Table).

The EC directives and liberal philosophy were very soon put into practice by the authorities even before joining the Community. So, we have not undergone a special crisis because of them. Free tariffs and covers have been common practice in Spain since the late 70's and investment facilities were given at the beginning of the 80's. Freedom of Establishment and of Services are two of the most remarkable Directives concerning insurance activities. In fact, the first is no longer a problem as most of the insurance groups are already present in most countries and the second will be only effective for industrial risks. The coinsurance directive is now applicable on different levels in most of the countries but very few new developments have been achieved as the strong insurance groups don't like to share risks except with their usual reinsurers.

In my opinion, Europe is really becoming a "common house" as Mr. Gorbachov recently said and this philosophy is moving fast ahead so that we must think only within this frame where nationalities are losing their economic and political sense of identity. Price, service, flexibility and local understanding are already today the keys of the competition wide Europe.

This means, of course, a serious problem for local small and weak companies which will be absorbed (or will disappear) in the near future. To be frank, this can be good for saving jobs and companies which are not well managed. As far as large industrial risks go, it would be fanciful to think of a national market when brokers, the multinationals themselves and the international reinsurers have always managed and controlled this sector

independently of local markets. For simple risks, the advantages enjoyed by Spanish companies have been, and are, clear thanks to their geographic distribution and their networks of agents and local delegates. The foreign groups which are now setting up in Spain will need time and many resources.

There are also offensive strategies, involving movement to other countries and alliances with other European groups and, above all, specialization and an improvement in the quality of management and services, in other words the same weapons used in business at an international level. I sincerely believe that some Spanish groups are perfectly ready for this strategy. In summary, Spain, in the same way as any other E.C. country, will be in insurance economics a field of competition with the same rules, and just as tough as any other. In this battle there is only one objective: the best service at the best price for the consumer. I, as a Spaniard, as a European and as a consumer can only be happy about this.

Very few Spanish insurance groups are moving outward. Ours is perhaps the most remarkable exception as we have made some acquisitions, buy outs and installations in Belgium, Italy, Portugal and mainly American countries (Florida, Puerto Rico, Mexico, Argentina and Chile amongst others). Spain has very strong links with Latin American countries and this has been considered a true challenge for us in order to create an international network of insurance and reinsurance companies with local investors on the base of mutual understanding and friendly relations. In some way, we feel that we are in advance of the next decades, when Latin American countries will be searched out for new development, resources and international expansion. 1992, five hundred years after Columbus' arrival in America, is going to be a symbolic year for this region of the world and new changes can be foreseen in the future from a political and economic viewpoint. The rapid and large-scale privatization of public companies and industries in Argentina, Brasil and Mexico (where Spanish financial groups are playing a key role) is perhaps only a token of those future concerns.

Changes in Eastern Europe and the unification of the two Germanies have meant a strong upheaval in the rest of the European countries but they must be considered as very positive events for our future. In some decades Europe will probably face a single political and economic Unit which will open new markets, possibilities and mutual-enrichment. Spain can be at first negatively affected by the shift of strong investments towards those countries instead of towards Spain, especially from the former F.R. of Germany but on the other hand we can gain responsibilities as a bridge from Europe to Latinamerica and North Africa.

The end of communism and of class struggle have emphasized the importance of company culture and institutionalization. This can be a new challenge for big Groups which will be obliged to provide more and more services for their employees and to Society through Foundations. Let me tell you which are the ones we have created in the last decade and their field of activities: safety promotion, insurance and safety education, medical research, culture and art, and research on American History.

One of the most clear tendencies in the last year concerning financial industries was the globalization of services. Big financial groups have become involved in all classes of financial services: insurance, loans, mortgages, leasing, financing, investment, real estate and so on. Mixing activities is not a good way of doing things perfectly but you get the advantages of the customers, your brand and extended sales network. Separating and specializing people for better and more competitive activity in all branches and using the aforementioned advantages have been a new challenge for my Company itself to defend from the big financial organizations, Spanish and international, which itself have got into the insurance field. Perhaps the most significant action in connection with this is the creation of a retail Bank, the first one owned in Spain by an Insurance Group.

The Economy of Services is perhaps the only way of providing full employment for our human resources in developed countries. This means also a new interpretation of social activities in our world. In the insurance field new fronts of approaches must be designed in order to furnish a full service to the customers, such as home and industrial assistance, salvage and restoration after loss, loss control, health improvement, etc. This can only be achieved through a group of specialized organizations providing these kinds of services included in the policy covers or on a fee basis. So, economic compensation should not be enough for our institutions. This path can also be accompanied by the analysis of new technological risks which affect our lives and our industries more and more. New illnesses such as AIDS, and pollution, contamination and waste risks amongst others are challenges that must be faced by insurance industries in one way or another. Closing our eyes to these realities will not favour the image of future generations towards insurance institutions.

Natural hazards or catastrophic risks will have a greater impact in our future society. Weather and climatic changes can be responsible for an increased number of events such as hurricanes, floods, droughts and storms. Our industry should devote more attention to these phenomena, especially research activities and funds, and an open attitude to worldwide cooperation with other institutions and governments, especially in the third world where their weaker economies can be severely affected by these risks.

In Spain, an exclusive and compulsory Governmental Institution (the Consorcio) for these kinds of risks is going to allow private insurance companies to share this field according to the EC prohibition of Monopolies. I am sure that collaboration between international reinsurers, the Consorcio and local insurance companies will be the key word for this new era, more fruitful and productive.

New technologies, especially in computer and information systems should be of maximum interest in financial organizations that provide a pure bureaucratic service to clients. Improving service means, first of all, reducing premium and service price and time spent on claims handling and loss repairing. Introduction of new techniques is difficult as they break the organizational patterns but unavoidable to improve services and prices.

Social and demographic changes are of utmost interest also for us. I am thinking in the case of Spain of aspects such as african immigration, consumer maturity, the dramatic decrease of the birth rate and the aging of the population. New and more up-dated products will be needed especially for old people with a large medical services component. The responsibility for managing funds and reserves will be of a great concern as the aged group will prevail on the young one. Economic troubles will be a heavy burden for that purpose. Conservative policy in investments will be needed to preserve those funds against currency changes, periodical crises and occasional financial crashes.

All of the these environmental changes should be faced with a flexible organization in which the human element shall have to be able to cope with permanent alteration of activities and jobs. Small units and non-pyramidal organization will have more oportunities to deal with this struggling but challenging future. These should be our commitments.

Thanks for your kind attention.

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November, 1990.

Appendix 1. Qualitative analysis of the Spanish insurance market.

Table 1: Real Growth GDP (%).

Table 2: Inflation Rate.

Table 3: Premium Ratios.

Table 4: Non-life annual Growth Rate.

Table 5: 20 Largest Insurance Groups in Spain.

## QUALITATIVE ANALYSIS OF THE SPANISH INSURANCE MARKET

Here are some general comments about the present and future aspects, which, in my opinion, characterize the insurance market in Spain.

- \* First of all, it should be emphasized that insurance will be of growing importance in Spanish economic activity, as a result of its growth at a rate much higher than the country's general average and its obvious potential in comparison with European standards.
  
- \* Improvement of its public image and greater social acceptance, with a progressive institutional connotation which makes it more attractive to professionals, institutional investors and to consumers.
  
- \* Strong dependence on the banking sector, but that together they may lose market share because of the progressive and definite entrance of foreign groups and because of the dynamic strength state of the independent groups.
  
- \* Progressive concentration for reasons which even include survival. The large losses in Motor insurance in the last few years, and those which may possibly be registered in 1990 will oblige many companies to have a serious rethink with respect to their independence.
  
- \* This scattering of the market will therefore have to disappear, although the entrance of foreign groups will compensate for the elimination, absorption or incorporation into large groups, of the small regional companies or those of medium size.
  
- \* The growing foreign presence, which has always been fully accepted by the Spanish consumer, will become more and more acute because of the special characteristics of the market which will have to become just one more corner in a Europe without economic frontiers within a few years.

- \* The most fundamental aspect must be the distribution networks which are basic to the commercialization of most of the products. Until now, these could be considered as nothing out of the ordinary and in most companies were underdeveloped. These are now being developed through heavy investment and human resources, preparing for the big battle which must come in the next few years in the small towns and villages in a geography which is as extense and varied as Spain is.
  
- \* The new law regulating the production of insurance will facilitate access to the banking networks, now already a reality. However, it would be absurd to think that commercialization only depended on facilities and not on people. The increasing professionalization of agents must be a cornerstone of the future.
  
- \* International brokers and large companies, are progressively drawing towards to Spain for the battle of the big industrial risks. Alliances are multiplying at the same time as services are being diversified through complementary risk prevention companies.
  
- \* One field which is still relatively underexploited by companies and institutions is that of services complementary to insurance activity. Actuarial, organizational, management and computing consultancy companies will be possible fields of interest, whose services are already being offered by the large international auditing firms. The presence and participation of consulting companies from other countries is, however, missed.
  
- \* In relation to this, it can be said that the Spanish market's two main problems (management deficiencies and excessive costs) should give a boost to these consultancy service companies. There are large gaps in computing systems and few real possibilities for assessment and software packages which permit more productive management.
  
- \* In life assurance, although this is not the primary object of this conference, I would like to say that the development of pension funds has been slow, due to legislation



which is unattractive for the big companies and even for private individuals, and due to the time needed for the consumer to get used to the product. The other life assurance products, especially those which include savings and retirement covers, will have to continue growing at a fast pace as has happened until this date.

In general, life assurance is advancing, here as in other countries, towards complementary formulas and global services by both banking institutions and companies specializing in life and savings.

Competition within the market is becoming more acute. This can be deduced from the previous comments. It is enough to say that in the first months of this year more than 15 insurance groups have advertised on a regular basis at peak viewing times on the major T.V. channels. The insurance sector is becoming one of the big consumers of television advertising.

- \* The progressive development of services related to prevention and safety, both technical, and assistance orientated, this may increase client loyalty. The home assistance plans are doing very well in this country and this will require foreign competitors to produce imaginative formulas which they quite possibly don't have in their own countries of origin. This field is also favourable towards the development of service companies, in this case assistance companies.
- \* Freedom of Services must, fundamentally, affect the insurance of industrial risks, the level of competition of which will rise substantially in the next few years. It is to be understood that this sector is already very influenced by the presence of large brokers and the participations, often not out of choice, of the big international insurers.
- \* One important challenge will be the internationalization of the big Spanish groups. This internationalization may be achieved directly or through alliances in Europe or in other countries with a weaker economy than Spain. Whatever the case, of need is greater size, and above all a high level of quality in the management or the specialization in a determined sector. It does not seem that this process of internationalization will be very common in the future, but without doubt it will form part of a strategic offence of some groups.

- \* Another of the great challenges is the health sector. The many problems of the public health system have forced the consumer to look with hope towards the possibilities of private health insurance. I believe that this is an important sector for many other countries, but would give as an example the tensions occurring in markets with a large degree of freedom, such as the U.S. Here there would have to be great future development with an improvement in management levels and a greater range of possibilities of cover, combining service with financial covers.
  
- \* Regrettably the field of reinsurance does not excite Spanish insurance groups very much. The large European insurance institutions have not favoured the excessive development of this field in the Spanish market where the attempts have been of little importance and, other than the odd exception, had little success.
  
- \* Spanish companies still have some way to go in the financial field. The clear differences in investment returns achieved by foreign groups with respect to Spanish groups indicate differences in strategy. The development of mortgages, the diversification of investments, including international stock exchanges, futures markets and much more complex formulas will probably mean a new stage for Spanish insurance.

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November, 1990

TABLE 1**REAL GROWTH GDP (%)**

COUNTRY OR ECONOMIC AREA	1987	1988	1989
F.R. GERMANY	1.8	3.8	3.8
ITALY	3.1	3.8	3.5
JAPAN	4.3	5.7	4.9
UK	4.0	4.2	3.0
USA	3.4	3.8	2.7
EEC	2.3	3.5	3.5
OECD	3.3	4.0	3.5
SPAIN	5.2	5.3	4.9

TABLE 2

INFLATION RATE (%)

COUNTRY OR ECONOMIC AREA	1988	1989	1990 (*)
F.R. GERMANY	1.6	3.2	3.0
ITALY	5.4	6.5	6.5
JAPAN	1.1	2.3	2.5
UK	6.4	7.7	7.5
USA	4.2	4.7	4.5
EEC	3.7	5.2	5.0
OECD	4.2	5.2	4.5
SPAIN	4.8	6.9	6.5

(\*) ESTIMATED RATES

**PREMIUM RATIOS - 1988**

(EEC = 100)

COUNTRY	GDP/ PER CAPITA	PREMIUMS/ PER CAPITA
BELGIUM	101	85
DENMARK	110	133
FRANCE	110	129
F.R. GERMANY	113	139
GREECE	55	8
IRELAND	64	61
ITALY	105	42
NETHERLANDS	103	135
PORTUGAL	53	22
U. KINGDOM	106	164
SPAIN	75	47
EEC	100	100

SOURCE: INFORME ANUAL BANCO ESPAÑA 1988

**TABLE 4****NON-LIFE ANNUAL GROWTH RATE (%)**

	1987	1988	1989	1990 (*)
PREMIUMS GROWTH (%)	30.4	17.6	21.8	20.5
INFLATION (%)	5.3	4.8	6.9	6.5
REAL GROWTH (%)	23.8	12.2	13.9	13.1

(\*) ESTIMATED RATES

**20 LARGEST INSURANCE GROUPS - 1989**

(Thousands of millions ptas.) (1 USA\$ = 103 Pts.)

GROUP	LIFE (*)	MOTOR	GENERAL	TOTAL
MAPFRE	20.6	50.0	22.5	93.1
B. CENTRAL	55.6	16.3	13.5	85.4
B.B.V.	44.5	22.1	18.7	85.3
BANESTO	5.4	24.7	19.1	49.2
WINTERTHUR	15.4	19.3	10.3	45.0
MUTUA MADRIL.	0.6	40.5	1.3	42.4
ZURICH	4.7	18.7	14.5	37.9
CATALANA/OCC.	8.7	13.0	14.1	35.8
RAS-ALLIANZ	2.5	15.1	13.2	30.8
B.HISP.AMERIC.	8.8	6.7	11.4	26.9
SANITAS	-	-	24.5	24.5
SANTA LUCIA	1.5	-	22.7	24.2
MUT. GENERAL	3.5	12.1	7.7	23.3
MULT. ASEGUR.	-	20.1	1.1	21.2
ASISA	-	-	21.2	21.2
AGF	5.3	8.8	6.7	20.8
AEGON	1.5	10.0	7.7	19.2
OCASO	0.6	-	17.7	18.3
SCHWEIZ	0.1	14.3	3.2	17.6
UAP	3.5	9.5	4.6	17.6
TOTAL MARKET	266.9	508.7	534.5	1310.1

(\*) Excluding Life Single Premiums