

## SAGA OF THE NORTH-EAST

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**T**HIS year is a landmark for Pohjola (established in 1891) which is not only remembering the past but looking to current reorganization and future expansion eastwards and elsewhere. Finnish insurance companies aim at securing profitability. The vicissitudes of a world troubled by economic recession, political crises and natural disasters affect their business as well. The Finnish economy is going through a period of fundamental change. The competition is stiff on the Finnish insurance market and the companies are also preparing for the free insurance market of an integrated Europe.

Pohjola is the largest insurance grouping in Finland with one-third of the market and its name, which implies the great north, stems from the Finnish saga: *Kalevala*. In fact, its furthest branch is in Sodankylä which is 81 miles (130 kms) beyond Rovaniemi on the Arctic Circle. There are agents all over Lapland, while the group's own employees total 3908. The group's product range includes non-life insurance, life insurance and pension insurance. One out of every four Finns is a Pohjola client. Among other things, its offshoot for travel insurance, Eurooppalainen, has 60% of premiums. With a balance sheet total approaching 40 000 million Finnish marks and (in 1989) premium income of 11 476 million marks for the group, Pohjola is nationally large but internationally medium-sized. The resources of Finnish insurance companies alone are not sufficient to sustain extensive foreign operations. This is a fact which many companies have learned through trial and error. Finland has not been unaffected by the slump in reinsurance and the disasters of the past few years. The enthusiasm for increasing market shares worldwide in the mid-seventies was also an expensive mistake.

Finnish insurance companies have extensive experience of the international reinsurance market. The Pohjola group, which celebrates its centenary this year, has participated in this market ever since it was founded. Its first



foreign partners were the German companies Münchener and Erste Böhmische, the British companies United and Commercial Fire and the Dutch companies Nord-Hollandsche and Nederlandsche Salamander.

In the early years, the managing director of the company spent a considerable part of his time abroad negotiating insurance contracts. This produced good results; at the beginning of this century, half of the company's income came from foreign operations. It was difficult to throw off the

burden of tradition when the lean years in reinsurance began in the eighties. However, the overall profitability of the company was given the highest priority. The strategy devised for international operations was to provide Finnish companies with comprehensive global insurance services.

Insurance companies are national institutions, because the Finnish money market is small. In this low-capital economy, insurance companies have always played a significant role. They are among the largest investors in Finland, and the Pohjola group holds the most extensive stock portfolio. One foreign Pohjola shareholder declared that he was "buying a slice of Finland". At the same time, Pohjola itself ranks sixth for capitalization on Helsinki's stock exchange where its shares account for more than 3% of turnover — putting it eighth in this respect. Pohjola is also quoted in London.

This is a far cry from a century ago, when Finland was but a province of the vast tsarist empire. Russian was therefore the language of administration, while the educated classes spoke Swedish. Most Finns lived in modest conditions amid the lakes and forests of the countryside which is where Finnish was spoken.

The strength of Finnish culture and the patriotic spirit of the times sparked unprecedented national fervor, in the wake of which Finnish banks, publishing houses, newspapers, industrial companies and insurance companies were founded. Among these were the parent companies of the Pohjola group: Pohjola In-

urance Company Ltd (*Vakuutusosakehtiö Pohjola*) and Finland Mutual Life Assurance Company (*Keskinäinen Henkivakuutusyhtiö Suomi*). Throughout their respective histories, they have dedicated themselves to social and economic progress in Finland.



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*Lapps buy insurance north of Rovaniemi*

The concept of financial supermarkets formed by banks and insurance companies has been discussed in Finland as well, but the insurance companies have not warmed to the thought. There is a fair amount of cooperation, and a combination of a bank and an insurance company can be found behind many an investment plan. Such connections usually exist for historical reasons. For example, both Pohjola and National Bank (*Kansallispankki*) were founded by the same Fennophiles.

Finnish taxation is a problem for the insurance companies. Finnish legislation favours bank savings, leaving savings through life insurance at a less productive level. It is hoped that taxation of different forms of saving will be equalized, so that come European integration, Finnish companies will be able to compete in the domestic market on equal terms with foreign competitors.

In the past decade, Finnish companies have been moving into the international market. Insurance companies have taken the role of active owner in the internationalization of business operations and structural change in the economy. Can a Finnish insurance company achieve worldwide success? Can insurance companies which are medium-sized internationally preserve their status in an integrated Europe? Can they thrive on the reinsurance market?

Answers have been sought to these questions in Finland for many years now. Finnish companies have become accustomed to viewing their operations as part of an integrated European insurance market. With uniform EC legislation, only social security will be left for each country to determine separately. Only insurance companies in superb competitive shape can survive on such a market. The fundamental considerations are top-quality service fulfilling the client's needs, an efficient and cost-conscious organization, skilful risk selection, finding productive market sectors and having partners who complement the company's operations.

There is practically no broker dealing in Finland. The insurance business has traditionally consisted of a service chain extending from marketing to payment of indemnities. It includes all the requisite expert services. Both private households and corporate clients have come to expect this sort of service. A similar comprehensive service is offered to internationally active Finnish companies all over the world. A global network of partners and experts is utilized to this end.

In Finland, special attention has been given to increasing the efficiency of the organization. A current idea is to convert the organizational structure into a holding company system so that other business operations besides insurance will be possible. This would improve the response speed and competitiveness of the group.

Developing service channels is a means for reducing business costs. Pohjola insurance is sold in several different banks, both over the counter and at 200 automats. A nationwide insurance sales contract was recently signed with the Finnish postal service, providing access to an additional 1000 sales points. Pohjola's own full-service offices number 100 and are located throughout Finland.

Like many other companies, Pohjola has taken a close look at its potential for success on the reinsurance market. The necessary restructuring has been undertaken. Life reinsurance and a part of non-life reinsurance has been redirected to Skandia, with whom Pohjola has extensive cooperation; there is also cross ownership between them. Moreover, the two groups equally own Standard Union Réassurance SA, based in Luxemburg. Pohjola also has 50% of United Reinsurance Corporation of

New York which was established in 1977.

Despite restructuring, the Pohjola group intends to stay in the international reinsurance market. The aim is to make use of the company's 100-year history, an AAA rating for claims-paying ability from Standard & Poor, flexible use of the latest computer technology, and the response speed of a company of reasonable size.

Europe is not the only geographical market sector being considered; the development of the Soviet economy is being followed with interest, since the country is a market area of great and totally new opportunities. Finns have long had trading relations with their eastern neighbour. Providing insurance for constructional projects in the Soviet Union is routine. Other kinds of bilateral ventures have also evolved; the Pohjola group has had numerous reinsurance and direct business contracts with Ingosstrakh, for example. This relationship goes back two decades, but a new link was forged in 1989 for Finno-Russian joint ventures and management of risk. Soviet society is going through a period of flux. People feel that everything has to be started anew. Finns are involved in many joint ventures, and cooperation is increasing in insurance as well.

The first international Estonian insurance company, A/S Seesam, will open for business

next autumn. Pohjola holds 35% of its shares, while American Insurance Group owns 20% and Estonian banks, organizations and companies have 45%. The company, based in Tallinn, will initially concentrate on life, pension and personal accident insurance as well as on risk management and insurance policies for the property, operations and personnel of joint venture companies already active or about to begin operations in Estonia. Seesam aims to become an insurer in the western style actively supporting the Estonian economy which is already the most developed in the Soviet Union. The local language is quite similar to Finnish, providing a further basis for Pohjola's activities in the east with 100 years of experience behind the group. ■

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