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CORPORACION MAPFRE  
PRESENTATION

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MAPFRE  
CENTRO  
DE  
DOCUMENTACION

EDINBURGH  
18th September, 1991

PROSPECTS AND FUTURE STRATEGIES OF MAPFRE

PROSPECTS

I am pleased to have this opportunity to explain to you how we envisage the future of our activities, immersed in the current dynamic financial world which will probably be even more turbulent still in the future, and to indicate our general guidelines for action, always bearing in mind that managerial flexibility governs all our actions and that, therefore, we have the capacity for an immediate change of direction, in the event that internal or external circumstances render this advisable.

In order to make a prospective analysis of the Spanish insurance market, it is initially necessary to reflect on its growth and development possibilities, taking into consideration insurance expenditure per capita and the increase in the number of insured people.

The fundamental influencing factors in the increase of insurance premiums per capita include the growth of the country's economy itself and the correct distribution of wealth, with the result that the population has increasing access to insurance and the existence of a legal framework which promotes private insurance and its development. In addition to this, the increase in consumption of insurance premiums is not proportional to the growth of the GNP, being higher in the measure that the country's development itself increases.

Without going into detail concerning each of the factors mentioned, which is not the purpose of this presentation, we can nevertheless confirm that their foreseeable evolution guarantees several years of stable growth in the insurance market in Spain.

The following facts serve to support this statement:

1. Only 10% of the working population have some type of Life Insurance policy.
2. Less than 50% of this population have an insurance policy commonly known as "Homeowners".
3. Indemnifications in Third Party Liability will continue to increase considerably, particularly those arising in respect of Car insurance, with the corresponding increase in insurance rates.

However, in this assessment it is important to indicate other factors which will influence the Spanish insurance market in an important way:

1. Trend towards concentration, primarily in the Property and Casualty sectors.

This factor will be influenced by the following:

- a) Concentration arising as a consequence of that which is occurring between the large financial groups which own insurance companies. By way of an example, I quote the future merger between the BANCO CENTRAL and the BANCO HISPANO AMERICANO which, in some way, will affect all of its insurance companies: BANCO VITALICIO, NACIONAL HISPANICA, VASCO-NAVARRA and LA ESTRELLA, or of the CORPORACION BANCARIA ESPAÑOLA, a new state group, which

will also include a large number of insurance companies dependent on the **NUEVA CORPORACION FINANCIERA**.

- b) Disappearance of small mutual entities and limited companies whose size does not allow them to survive in face of the competition which is becoming established on the market.
- c) Reduction in the number of acquisitions at astronomical prices made primarily by foreign insurance groups faced with the difficulty of making these acquisitions profitable, whether in the short or medium-term.

Nevertheless, I believe that there will be new purchases of small and medium-sized companies by multinationals already present on the market, in order to obtain higher market shares.

## 2. Changes in distribution systems.

Over the past few years we have experienced a generalised change in distribution systems, moving away from large general agencies, known in Spain as "delegations", to the system of branch offices. In this respect, **MAPFRE** was ahead of the rest of the market, directing its former, long-established distribution system towards what is known as "distribution by direct sale", in other words, introducing branch offices and a majority of exclusive agents.

The future will also bring change relation to distribution channels, promoted by the new Law of Insurance Distribution, whose proposal to the Spanish parliament was approved in the Cabinet Meeting of Friday, September the 6. This Law differentiates the figure of the insurance broker for the

independent distribution of insurance, representing the interests of the clients, from that of the agent associated with the company without the need for an official title, who acts as an agent for the insurance company.

This Law provides for the official entry into insurance distribution channels of other financial market networks: Banks, Savings Banks, etc., and the possibility of agreements with other large distribution channels, such as supermarkets, etc.

### **3. Our integration into the Single Market in 1993**

I have already mentioned my impression in other conferences and seminars that this will affect the Industrial Risks sector to a considerable extent, although bearing in mind that: large European insurance companies have already been present in Spain for the past few years and that the pure competition in Industrial Risks based on price will be decelerated by the general negative results of international reinsurance, a fundamental support to these operations.

In reference to mass risks, with its broad margin for development as we have seen above, the competition will doubtless increase considerably, although the growth possibilities of the market themselves will not allow this to be dramatic in terms of results. Price and quality of service will be determining factors and the challenge will lie in maintaining an extremely strict policy of reducing managerial costs to provide balanced prices without affecting the service.

At all events, in the face of the new circumstances of the Spanish market, those entities who dispose of a large

distribution network and a strong base of mass risks will be better prepared than those entities who rely on a business base of large industrial risks which are obliged to attempt to develop distribution networks, a task which is always difficult and costly.

In respect of all the preceding comments, there is a clear need to differentiate the Life sector, where the sales factor is the primordial one and that of the General Insurance sector, where after-sales service has a considerable specific weight.

## STRATEGY

After an analysis of the above, we are left with what is, in my opinion, a more important aspect. We have defined the playing field but it remains to be seen who plays best. In our case, this is interpreted into a capacity for greater efficiency and quality in the management of our insurance companies.

What do we intend to do?

In the first instance, I would indicate that MAPFRE's share in the Spanish insurance market has been increasing over the past few years and our intention for the future is to continue increasing our market share over the coming years.

I would also say, partly as a result of the market conditions and partly due to our own managerial vocation, that our Corporation is becoming increasingly an international insurance and financial and technological services Corporation, to which I will refer in greater detail later.

With respect to our Companies structural elements, I would like point out that we will maintain, and even strengthen, the following:

- a) Geographical decentralisation. Eighty percent of our company's employees work in the Regional services and 20% in the Head office.
- b) Specialisation. We have specialised companies in the following insurance sectors: Motor, Life, Property & Casualty, Surety, Agriculture, Reinsurance, Banking, Consumer Credit, Mortgages, Leasing, Factoring, Real Estate, Technological Services, Computer Software, etc.
- c) Legal-Structural Independence which will enable the independent growth of our different Operational Units in the System and the managerial strengthening of their senior management teams.
- d) Social Responsibility, an increasingly important factor in institutional companies and one which, in our case, we develop through the **FUNDACION MAPFRE** (Safety and Prevention), **FUNDACION CULTURAL MAPFRE VIDA**, **FUNDACION MAPFRE AMERICA** (publication of a collection of 240 books and computerisation of family historical records), **FUNDACION ESTUDIOS** (1st specialised degree Course in insurance taught in Spain) and **FUNDACION MEDICINA**.

In reference to the operational aspects of each of our Units and, in particular, in reference to the Spanish market, our general idea is to improve still further our capillary network, comprising 1,553 offices for sale to the public, in an attempt to increase points of sale and concentrate technical and administrative services in larger sized offices.

As far as the operational aspects I wish to highlight:

### LIFE INSURANCE

As we mentioned above, considerable growth will be sustained by and encouraged the application of the recently approved Development Plan for Popular Saving which considers life insurance as a savings instrument with fiscal advantages.

Some aspects of our strategy include:

- \* Continued strengthening of the image of **MAPFRE VIDA** as a super-specialised entity in this sector.
- \* Increase our network of payrolled professional consultants from the current number of 420 to that of 1,000 over the coming five years, forming the best mobile sales network in the Spanish financial market, since these "consultants" will be able to sale fiscal products, risk insurance, health and other financial products.
- \* Maintenance of a constant product innovation, in order to enable the identification of **MAPFRE VIDA** products as the most cost effective on the Spanish financial market.

Although this plan may prove costly, we must not forget the considerable intangible reserves held by **MAPFRE VIDA**, whose zillmerisation has not been implemented since its creation, with the result that production costs have been 100% absorbed in the corresponding sales year, without taking into consideration the duration of the policy.

In this sector, I shall briefly mention Pensions which have not shown their expected development in Spain, mainly because the



facilities of the Social Security are excellent for those persons with an income of up to approximately 30,000 U.S. \$, who receive a retirement pension of approximately 85% of their last salary.

We do not believe that increases in Pensions will be able to follow salary increases, which will probably enable the future development of these pension funds, pressurised by the respective union. If this were the case, **MAPFRE PENSIONES** is equipped with the necessary technology and human resources to develop both employment as well as personal plans.

### GENERAL INSURANCE

One of the fundamental aspects of our strategy is the sale of mass insurance. In this respect, we tend to promote the added value of our products by including complementary care services in the policy covers, a factor which we believe will become increasingly valued by our clients.

The challenge to our network will be to obtain integral sale of products to our clients, for which purpose, apart from the professionalised sales network which we feel not only able to maintain but also to improve. We must add a super-specialised and efficient computer system (all our Life consultants already work with portable computers) and a maximum reduction in management costs in order to be able to offer competitive prices, a basic factor in the competition of mass products.

With respect to Commercial lines insurance, we have recently constituted an entity specialising in Industrial Risks with a European outlook and a large component of technological services based on those which the **MAPFRE** System has been developing for many years in connection with Prevention, Risk Management, Environmental Pollution, etc., areas in which **MAPFRE** also disposes

of specialised entities, with the idea of individual autonomous developments.

In the SURETY AND CREDIT Sector, we have recently launched two service lines to companies: one is that of Exportation Credit and the other, that of Internal credit, in order to complement our service to clients.

### CORPORATE STRATEGIES

The most outstanding corporate strategies include the globalisation of our activities with the entry into the banking sector where we would like to create a retail sales network based on the current structural network of **MAPFRE** in Spain, to serve as both a support and a complement to our activities and, simultaneously, as the leader for other related companies, such as consumer credit, factoring, mortgages, leasing, etc.

Our own activity as insurers, with large volumes of real estate investment (we are owners of approximately 500,000 square meters in Spain), has led us to develop an important specialisation in the promotion, construction and maintenance of large buildings. The best illustration of this is the current Olympic Village Tower, the largest building in Catalonia. We want to promote this sector along the lines of high technology, specialisation and caution, which characterise all our investments.

Another essential strategic factor is that of our internationalisation which is characterised fundamentally in that our investments abroad are backed up by human, technical and managerial support, with the result that, excluding as exceptions **LA CAJA REASEGURADORA DE CHILE** and **PRAICO**, we acquire companies at a reduced investment, providing us with a presence on the market, with a view to our subsequent development along similar

lines as those of current **MAPFRE** insurance companies in Spain.

Our international expansion began in the field of reinsurance, an activity started by **MAPFRE** in 1970, likewise by basing ourselves on offering the training and technological services of our own direct insurance. Today we are the leading reinsurer in the Spanish-speaking world and our strategies include expansion by means of specialised reinsurers of a regional nature, an experience which, to date, has proved highly satisfactory, and through the opening of an office in London, the world reinsurance capital, taking advantage of the current circumstances of this market.

After the preceding explanation, it becomes clear that our internationalisation has a primary objective in Latin America and countries in Southern Europe, with whom we share mutually comprehensible languages, without omitting our development in other European Community countries, in the event of finding appropriate niches.

Finally, I shall explain our investment in **LA CAJA REASEGURADORA DE CHILE**, the oldest entity in the Latin American reinsurance market, since I quoted this as an exception, as an opportunity which arose from the unknown due to political changes in Chile and a legislation which rendered it difficult for shareholders to maintain shares, the majority of which were held by Chilean insurance companies. This investment possibility was also based on the acquisition of external debt and resulted in **La Caja** becoming an unrepeatable operational investment, since with the forecast profits for this year, we will have generated a profit over the last three years of more than the cost of the investment.

The case of **PRAICO** in Puerto Rico, quoted as another exception, in direct insurance also arose from an opportunity, through a long-standing relationship with its senior management team,

coinciding with the decision of the multinational to which it belonged to realise all its assets abroad even PRAICO one of the most profitable insurance companies of Latin American, with the added advantage in this case of having made the investment at the time in which the peseta reached a historical record value against the dollar.

I believe that the preceding explanation presents a view of our development policy; and the challenges which we are confident to meet as successfully as we have done to date.

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José Manuel Martínez.  
Chairman of the Executive Committee and CEO

September 1991