

Life Assurance and Pension Funds in SpainJuan Fernandez-Layos Rubio

I am grateful for the opportunity to address such a distinguished audience, although I fear that when you have put up with my bad English for a while, some of you may regret having invited me to speak to you on the subject of Life Assurance and Pensions in my country.

Life Assurance in Spain is comparatively undeveloped, the total premiums written during the year 1982 being 45,969 million Pesetas (£202.5 million), which represents approximately 12% of the total premiums written throughout the insurance market. This figure means that the Life assurance premiums written are 0.26% of the gross national product and that each Spaniard spends 1,213 Pesetas (£500) on Life assurance each year. This figure is below many other countries, including some with a similar level of development, since in Spain the per capita income in 1982 was 4,233 Dollars. In Table No. 1 you can see the volume of premiums written in each of the branches in Spain.

With regard to the distribution of Life business between the types of company in Spain, according to figures for 1981 there were 162 limited companies, of which 150 were national and 12 were foreign, together with 23 mutual societies. In Table No. 2 you can see the distribution of business in force in 1981 according to the type of Life Office.

In the last ten years for which statistical data is available, the years of greatest development and growth of Life assurance were 1972, 1973 and 1974, basically due to economic development and due to the important tax advantages which Life assurance gave at that time with regard to personal income tax. During the period following the years that I have mentioned, growth has stagnated to percentages similar, or even lower, than the rate of inflation and we estimate that the real growth of Life assurance during the year 1982, if one discounts special single premium business that was written in that year by some companies belonging to banks, did not reach 10%. This figure is likely to have been repeated during 1983, that is to say, growth will be below the figure of inflation, in fact negative growth.



Assurance companies. This dates from August 1981. At the present moment a new Insurance Law is before Parliament and this has the aim of regulating completely all branches of insurance, including Life. One particularly important provision of this law is the requirement for higher capitals before insurance business can be transacted. These are higher for the Life branch and the current figure proposed is 320 million Pesetas (nearly £1 1/2 million). However it does seem that before this law will be enacted this figure for capital requirement will be reduced. The law also requires that Life companies be specialised and that they cannot also work in other branches, although companies would have some time in order to adapt to this requirement. It is hoped that this new draft law will be enacted during the first few months of the current year although it has already suffered many delays, so it is quite possible that it could be delayed yet further. In either case however, both in the current law and in the new, the following regulations are established.

Offices which transact insurance may be in the form of a limited company or a mutual society. They can also be the branch of a foreign company. Companies which operate in the insurance field cannot carry out any other commercial activity and in order to operate in the Life branch they must be registered for this particular branch with the Supervisory Authority. In order to be approved the company must comply with the technical requirements which are normal in most countries, that is to say, presenting their policy documents, technical bases, etc. A financial statement has to be presented annually to the Supervisory Authority in addition to other statistical and accounting data.

At present the minimum capital required is 25 million Pesetas (£110,000). This must be paid up to the extent of at least 50% and, with effect from 1983, a guarantee fund is also required, which may not be less than 80 million Pesetas for limited companies and 60 million Pesetas for mutuals. In addition to this a solvency margin is required on mathematical reserves and sums assured.

With regard to investments, insurance companies have to invest the first 30% of their reserves in Government Bonds, the second 30% in a restricted list of approved investments and the remaining 40% is called free but in

continues to be sold quite well in the Spanish market and it has also been copied by a number of other companies.

In the last few years savings policies and pensions products have hardly been sold in our market. However our company three years ago launched an individual pensions contract. This has been quite successful and at the present time forms 60% of our sales, showing that there is a market for this type of product in Spain. Recently, other companies have started to promote similar products and there is even a bank, the Banco de Bilbao, which has launched a pension contract in December 1983.

Our company have devised another new product which we launched on television last month and which is called the 'Systematic Pensions Plan'. This is already having considerable success. Basically it consists of what we call a mixed insurance which in its most basic form you call an Endowment Assurance. The greater part of our contract is a savings policy devised so that on the policyholder's retirement date an important sum has been accumulated. On the other hand, if he dies before retirement, both the premiums paid and the premiums which would have been paid to the end of the term are paid as a death benefit to the policyholder's family. This policy also participates in profits.

In the last three years our company has achieved a yield in With Profits policies similar to these of over 14%. To be exact the figure is 14.54% in 1983 including the technical rate of interest.

Whole Life Assurances are hardly sold in our market and private pension funds have also had almost no market, partly because so far there are no specific regulations for this type of activity.

Sales and Distribution Methods

The distribution or sale of Life assurance policies in Spain is fundamentally carried out by nearly all companies through a network of tied agents, that is to say, agents which only work for the one company. In Spain, and most particularly in the Life branch, brokers and general agents do not have the importance that they have in other countries although insurance is also sold through this means.

The situation as I said, is in a grave crisis due particularly to the ageing of the population, so that all the time more and more people are receiving benefits and less are paying contributions. Other factors which increase expenses include unemployment benefits, the decrease in the retirement age, the increase and widening of the benefits on retirements on widowhood, etc.

Nearly 50% of the total of the budget of the Social Security is concerned with pensions. The global cost of social security represents 15% of the gross industrial product, this having tripled in the last 15 years.

In order to have the right retirement benefit, which is that which interests us most, the pensioner must be over 65 years old and have contributed for at least ten years, the amount of pension varying between 50% and 100% of a base figure, depending upon the period of contribution. This base figure is the result of dividing by 28 the total amounts contributed during an uninterrupted period of 24 months. To be more precise, and to understand it in a practical manner, this would amount to 90% of the base figure, which at the current moment, at its highest level, is Pesetas 214,000 per month (that is, just under £1,000) for those workers who have reached the maximum contribution. In Table 4 you can see the base figures relating to various categories of professional people.

The Government is inevitably studying a reform of Social Security. This will certainly lead to a reduction of pension benefits. It has even been said recently that these will be reduced from 90% of the base figure to 65%, although later this was denied, although not totally, by the Minister of Employment. We also have to expect a gradual reduction in the indexation of pensions which workers are receiving. This year pensions for the lowest categories have increased by 11%, that is to say, slightly above the rate of inflation, but only by 5% for pensions greater than 70,000 Pesetas (about £300) per month.

As I said earlier, perhaps one of the reasons for the slow development of Life assurances in Spain has been the high level of cover granted by the Social Security, and the reforms which have been put forward could signify one of the greatest possibilities for Life assurance. It is certainly the

little field for private pension funds since although the covers of the Social Security will be reduced, undoubtedly a second echelon will be established, such as exist in some other countries, but whose benefits will have to be granted by companies or institutions such as the Montepios and Mutualidades that I have mentioned, that is to say, along lines which will be prohibited to commercial companies. On the other hand, if new and important tax advantages are not conceded to pension funds, then for this reason also I would think that its future development will not be particularly great. Anyhow, there will certainly be a market once the law on pension funds has been established.

Common Market

We have already seen from the chart that there are 12 foreign companies which work in the Spanish Life assurance market, that is to say that there is already a certain amount of foreign competition for us, although this could be increased with our entry into the Common Market, due to the freedom of establishment and the freedom of services. However, in our opinion this increase in competition would be beneficial to the Life assurance market in Spain and on the other hand, there already exist in our market companies which are sufficiently large and have adequate products to enable them to compete with foreign companies which enter the market.

Consumer Organisations, Methods of Communication

In Spain there is a national consumer organisation (OCU). It is fairly active, but until the present has not dealt specifically with insurance. Two or three magazines dedicated to this subject have also been established recently and in these there have occasionally appeared some specific but not always satisfactory information regarding a particular insurance company. I do not regard this however as especially important. There also is a television programme which is called 'Consumo' (Consumption) and on one occasion this dealt with Motor insurance, without giving this branch a very good image. In any case I can confirm that the consumer organisations do not have the importance or strength in Spain that they have in other developed countries.

you add to this the inevitable reforms of our Social Security system, which should leave a greater field for insured pensions, the future appears fairly hopeful.

- In any case, insurance companies must proceed in a serious manner and with continuity. In order to develop this market it is essential that a number of insurance companies deal seriously with the Life branch and that they carry on their work over a long term, since this is a branch in which one cannot work in a sporadic, imprecise or short-term manner. I also think, and within the context of the Common Market, that there will be opportunities in Spain for foreign insurance companies to work in the area of Life Assurance, Pension Funds, and insured pensions.

Ladies and Gentlemen, thank you very much for your kind attention. I will be pleased to answer any questions you may care to put to me.

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Table No. 2SPAINDistribution of Life Assurance Business by Type of Officeat 31.12.1981

Type of Office	Number of Offices	Sums Assured Millions of Pesetas	Number of Policies	P R E M I U M S	
				Millions of Pesetas	Percentage
National	127	2,589,271	1,114,334	30,100,81	80.80
Foreign	12	484,486	109,092	4,476,80	12.01
Mutuals	23	271,027	100,408	2,674,66	7.17
TOTALS	162	3,344,784	1,323,834	37,252,27	100.00

Table No. 4SPAINSocial Security Pensions

Group	Professional Categories	Minimum Basis Ptas/Month	Maximum Basis Ptas/Month
1	Professionally qualified staff	63,150	214,260
2	Technical engineers, semi-professional staff and skilled workers	52,380	177,800
3	Administrative and Shopfloor supervisors	45,540	154,530
4	Semi-skilled workers	40,530	136,580
5	White collar workers	40,530	126,390
6	Unskilled workers	40,530	115,710
7	Service/House staff	40,530	115,710