

"DEREGULATION IN 1992; STRATEGIES AND OPPORTUNITIES"  
Venice, September 1988

R-10522

INSURANCE COMPANY STRATEGIES  
MAPFRE (Spain)

SUG-4

Domingo Sugranyes

It is a great honour for my company and for me to be on this panel, especially considering the relatively small rôle Spanish insurance can claim for itself in Europe, when compared to other European countries and to some of the large international insurance groups based in our continent. Perhaps we owe this honour to the expectations many of you place in the future growth of Spanish insurance, rather than on our present achievements. I shall quickly try to discuss where we stand today, and how the battlefields of insurance in our country might be affected or not by European deregulation; finally I shall try to indicate how MAPFRE's international strategies may fit into this context.

I. Insurance in Spain

Our insurance market still has a large number of players (more than 400), in spite of our regulatory authorities' more demanding controls and the liquidation of a number of smaller companies in the last two years. 66% of the whole premium volume is generated by the first 22 groups, of which

only 6 are independently run (MAPFRE is one of them, the largest in premium volume); 6 of the 22 largest groups are majority owned by a bank, and 10 are under majority control of foreign insurance groups. Spanish insurance premiums are generated to a large extent (approximately 40%) by units under foreign control, be it through the 26 foreign companies established in Spain (some of them since the beginning of this century) or through 45 domestic companies which were at some time acquired by a foreign insurance group. As you know, this form of acquisitions was very frequent in the last two years, whereby a few more of the international insurance heavyweights, specially from the U.K., the Netherlands and Switzerland, gained a (sometimes expensive) place under the Spanish sun.

The market includes three basic areas of business (based on 1987 premium income):

- \* Life : 35% of premiums
- \* Motor : 29%
- \* Other non-life: 36%

The relative weight of life insurance increased sharply in the last two years due to an unforeseen boom in new, mainly financial products (single premium policies) induced by attractive tax incentives. The structure by classes shows on the other hand the primary importance of Motor insurance, and a relatively underdeveloped situation in other non-life insurance classes.

As compared to other European countries, Spanish insurance premiums per head of population were 137 US\$ in 1986, that is about one seventh of Federal Germany's, one fifth of France and half that of Italy. As a percentage of GDP, insurance in Spain represented 2.20% in 1986, against 4.70% in France, but similar to 2.19% in Italy (Source: SIGMA, Swiss Reins. Cy, Zurich). In the enclosed tables you may find some more details.

To summarize the present situation of the Spanish insurance market, one could list the following features:

- \* low level of concentration,
- \* high number of foreign controlled companies, and of companies controlled by banks,
- \* strong growth in life assurance, though irregular and somehow unpredictable,
- \* less developed non-life sector, except Motor insurance.

As far as the presence of Spanish insurance abroad is concerned, there is only one example of a company, Unión y Fénix Español, which has been active for many years and still is in a few other European countries as a direct insurer. MAPFRE started to develop internationally only more recently, and not towards Europe in the first place, but rather towards Latin America and other parts of the "third world".

## II. The impact of deregulation (and other causes of change).

Thus, at first sight, Spanish insurance is not too well equipped to compete in a completely deregulated Europe. It rather looks as a "soft" end, offering little resistance to foreign entrants and showing little capacity to react by itself.

But one should not jump to conclusions too quickly. The insurance directive on freedom of service which will be applied to Spain gradually during the 1990's, will no doubt introduce more competition into Industrial Fire, Marine, as well as Guarantee and Credit Insurance. But these classes, on the whole, are not growing very much now in Spain, a country where the industrial base is still comparatively small. The real battle for insurance market-shares in Spain will not be fought in large industrial risks, but rather in the field of the so called "mass insurance" (small risks and personal lines), where the key is the distribution network.

On the other hand it is important to note that Spain already adapted its insurance legislation (e.g. on solvency margin, minimum capital, technical reserves) to European standards several years ago. As a matter of fact Spain is now more deregulated than several other European countries in insurance matters. As an example, all tariff obligations

have been suppressed, even from compulsory Motor insurance. The Insurance Supervision is operating more and more through "a posteriori" audit in order to protect the insured, rather than by previous authorisation as was usual in the past. The process of "forced liquidation" of insolvent insurance companies may be criticized as it does not fully guarantee the rights of the insured, but at least it is contributing to a more orderly and transparent market place. All this should put our insurance industry in a better shape to compete.

What will be the main battlefields in Spanish insurance in the coming years, and how could these favour one or the other of the three main groups of competitors (foreign-controlled, bank-controlled, independent insurance groups)? I see basically six critical areas:

1. Motor insurance

The prospects for Motor insurance are bad for the next five years in Spain. The number of cars is increasing by more than 25% a year, with our roads only slowly improving and still far from offering adequate safety conditions. This means, sadly enough, a continuous deterioration of the road accidents record. On the other hand the adaptation of the Spanish Motor Third Party Liability insurance scheme to EC standards means

substituting voluntary, free and relatively cheap coverage with more compulsory insurance; this is encouraging a substantial increase in the level of indemnity claimed by victims as well as in the amounts granted by the Courts. It means in fact that companies, which sometimes already were loosing technically on Motor insurance, will now find themselves with large technical losses and heavily insufficient claims reserves. This is already a reality, even if a number of them have not realized yet.

New entrants in our market, who sometimes have acquired ailing companies, may find that they need to put up large amounts of money to cover existing and future losses, and to improve service. They might well do so readily, as part of their initial investment. The owners of longstanding local companies will have to do the same. Everybody will have to, but some will be in a much better position, as we feel we are, with a computer system allowing quick result assessment, a policy of quick claims settlement and a direct distribution service network allowing to reduce acquisition costs.

## 2. Distribution networks

In a recent publication by the "Geneva Association" (1), Prof. Bhagwati of Columbia University mentioned insurance among what he called "long distance services": transactions where, due to new technologies, geographical proximity of providers and consumers is no longer necessary. Therefore, he argues, services like insurance become subject to international trade.

It may well be that mail-marketing or videotex could introduce deep changes in the 1990's in our market place, allowing for example a U.K. company to place large numbers of standardized insurance products directly to the Spanish public without even having an office in Spain.

This is not possible in the short term, at any rate, and it does not appear as a foreseeably substantial development in Spain, where insurance does not sell by itself and needs a lot of personal explanation and persuasion to be sold.

(1) L'Europe face à la nouvelle économie de service, PUF, 1988.

The traditional insurance distribution networks in our country are based on general agents (exclusive representatives of one company for a given territory) and, only for industrial risks, on brokers. It is an expensive distribution system, and its main drawback is a lack of flexibility with regard to changes in the companies' marketing objectives.

We see the real battle here happening among the companies which, like ours, can use their own direct selling network (we have 1.300 MAPFRE offices everywhere in Spain). No other Spanish insurance company has anything comparable, but the banks and, above all, the savings banks have similar or even more extended office networks, through which their insurance subsidiary can reach the same area of consumers.

One might question whether bank branch offices will be the right place for an insurance salesman to put his desk; it might not be very effective for Fire insurance, but should certainly be useful for Life and Pension products. On the other hand, we are asking ourselves how we could offer financial services, in addition to insurance, through our own network. The 1990's deregulation will perhaps accelerate this process, but this is something we would have seen in any case.



### 3. Life assurance and Pension Funds

One of the most typical features of the "MAPFRE System" is specialisation, with separate companies for each of the main classes of business. I am not a Life specialist and my remarks in this area might sound superficial.

Life assurance shows the highest growth figures in our industry in the last few years, with more and more new players on the market place and a strong motivation based on the weakness of official pension schemes. The market is growing strongly, so competition does not appear as a threat for the time being. But already now, banks, savings banks and insurance companies are in fact competing face to face in life assurance. The new law on Pension Funds will come into force later this year and will introduce a new element of growth and competition in an area very close to life assurance. Is deregulation going to change things? Perhaps yes, if Spaniards are finally allowed to freely buy life assurance in any foreign currency. But here again, the key to success is a good, well trained salesforce, and this is something which will take years to anybody to create.

#### 4. Innovation

Another basic area of competition is innovation, new products. We see insurance, more and more, as a combination of financial coverage with practical assistance to the insured, in the form of advice or service. The consumer will see high added value in the fact that his insurance company not only helps him to cover the cost of accidents or losses, but also helps him or her to solve the practical problems of restoring the normal use of things after the accident. We are working in this direction, where we see a critical area for competition: for example, we already have 130 technical centers for immediate adjustment of car damage, which also offer free vehicle diagnosis. A key strength will be the ability to give service not only in your own country, but everywhere in the world. Hence a trend toward acquisitions and/or alliances, very much in the direction of the 1990's European united market.

#### 5. Dimension

Is dimension a basic element of strength in itself, and should it be pursued as such? Some people in Spain would answer yes, and speak for mergers and acquisitions among insurance companies as is happening now among some of the

banks. We are not convinced that acquisition is the best way to grow, and we believe much more in our own strength and marketing edge. It is obvious that you can't be a leading force in a market-place without reaching a certain dimension. But we think concentration and bigness are not always beautiful, and we feel perfectly at ease in our situation as a medium sized European group, with a strong base in our own country of origin, flexible enough to play its part in the European market and overseas.

#### 6. European opportunities

The 1990's will open up a number of opportunities for Spanish insurance in Europe. We are determined to seize some of them for ourselves, and we hope other Spanish groups will do the same. To do so they might consider acquiring a company, or establishing branch offices, or in the end (for industrial risks) competing directly for broker business and co-insurance. We consider the latter as a difficult area, where an "outsider" will always get the worse business at the worse possible terms. Establishing branch offices is a more obvious way, which MAPFRE has already taken in Portugal (a country which for us is much more than just another EC member). Buying existing companies is very expensive in Europe for the time being, and we prefer to look for opportunities e.g.

in Latin America, where we can buy practically at net asset value; but we do not exclude the possibility of acquisitions in Europe in some very specific "niches".

To summarize this part of my short presentation: the 1990's European deregulation trend will influence insurance competition in Spain in the sense that it will accelerate changes and crises which were there in any case. New entrants will not be specially well placed to win these battles, since in all cases the best cards to play will be those prepared during many years of long term investment and knowledge of the market. On the other hand, a European united insurance market will offer Spanish insurance groups new opportunities of which a few will prove able to make use.

### III. MAPFRE's strategies

I have made already a number of references to our group's own strategies. In fact it is rather difficult to speak in theoretical and purely objective terms about things and situations which are part of your daily struggle for life. You will allow me now, I hope, to turn more specifically to our own strategies as an illustration and as a conclusion to my remarks.

MAPFRE has 1.300 offices in Spain, one of Europe's most advanced computer systems for insurance, a completely decentralized structure, and an advanced management information system which allows 175 regional managers to receive every month, 6 days after the end of the month, their own profit and loss account and a contractual bonus based on their result. Thus, MAPFRE is in a unique position in Spanish insurance. We think we have many elements in our hands to continue growing more than the market, as we have done in the past. We also have in our group a network of consumer credit and mortgage credit companies, which are the base for new developments in the area of financial services. All this puts us in a relatively good starting position to meet the difficult challenges I have tried to describe above.

The parent company in the "MAPFRE System" is a Mutual, specialized in Motor Insurance, with 1.450.000 vehicles insured. Its main subsidiary, Corporación MAPFRE, is a company listed on the Stock Exchange, with 175 million US Dollars in shareholders' equity at the end of 1987, and 240 million after the capital issue we are preparing to have before the end of the year. The Mutual has the majority of the shares, and the rest is floating, with a substantial part held by foreign institutional investors. Corporación MAPFRE is a reinsurance company and is at the same time the main "downstream" holding in the group, with full control

of specialized subsidiaries in each area of business. These are being organized into five sub-holdings: Life, General Insurance, Financial Services, Property Development, International.

Each sub-holding will continue to work on its own objectives, with coordination and common services limited to the minimum. Growth in volume and profitability on the Spanish market are the obvious 100% aim of the managers of all MAPFRE companies active on the domestic market.

Our international reinsurance operations and our investments abroad thus do not divert forces or resources from development in Spain. Our reinsurance operations are based on direct contact with ceding companies and the establishment of regional representative office (in Buenos Aires, Caracas, Mexico, Rio de Janeiro, Manila and, more recently, in Milan); we have had satisfactory technical results, and at the same time we have earned an introduction into the insurance markets in all parts of the world. We have invested in insurance companies and/or branch offices in Portugal, Argentina, Chile, Colombia, Venezuela and, with smaller shares, Tunisia and Italy. We have recently acquired a prestigious reinsurance company in Chile, the oldest and largest private reinsurance unit in Latin America, and we also have a share in a European reinsurance unit in Belgium. Finally, we have created a

"bridge-head" in the United States: a holding company in Florida, out of which we hope to slowly develop and insurance company in coming years.

These international developments are long term investments; we see them as absolutely necessary if we want to play a rôle in the world in the 1990's and over.

How does our strategy fit into the European united market? MAPFRE's development is based on two related principles:

- \* strong solvency and profitability in established operations
- \* total flexibility to seize new opportunities as they come up.

This way of "Thriving on Chaos" is what we intend to do also in future. We have our observation posts and friends in other European countries. If opportunities arise where we see a "niche", we shall try to catch them quickly and make good use of them, but without ever loosing sight of what we consider perhaps our first international objective: to establish associated operations and transfer our

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management skills to countries of lesser development, be they in Latin America, around the Mediterranean and North Africa, or in South East Asia.

Thank you.

- Annex :
- 1986 Premium Expenditure.
  - 1987 Ranking of 22 Spanish leading insurance groups.
  - 1987 Premium income of 8 main insurance groups.

RANKING OF THE MAIN INSURANCE GROUPS

(Pesetas in millions)

<u>GROUP</u>	<u>Premiums Volume 1987</u>	<u>Companies</u>
<b>KUROSEGUROS</b> (Banco de Bilbao)	160.979	
<b>MAPFRE</b>	65.042	M. Mutualidad, M. Industrial M. Vida, M. Caución y M. Agrop.
<b>UNION Y EL FENIX ESPAÑOL</b> (Banco Español de Crédito)	63.920	U.F.E, Union A. Internation.
<b>LA ESTRELLA</b> (Banco Hispano Americano)	62.041	
<b>CORPORACION GENERAL ASEGURADORA</b>	44.680	Catalana, Occidente, Previsión Nacional, Aurora Polar
<b>VITALICIO</b> (Banco Central)	34.941	Banco Vitalicio Nacional Hispánica
<b>MUTUA MADRILEÑA AUTOMOVILISTA</b>	32.605	
<b>ZURICH</b>	30.038	Zurich, Hispania, Vita, Caudal, Unión Iberoamericana
<b>GENERALI</b>	26.018	Generali, Caja de Previsión y Socorro, Covadonga
<b>WINTERTHUR</b>	25.504	Winterthur, W. Vida
<b>MUSINI</b>	23.117	
<b>CASER</b>	21.105	
<b>PLUS ULTRA</b> (Banco de Vizcaya)	21.074	
<b>CENIT</b> (Banco de Santander)	20.566	
<b>ALLIANZ-BAS</b>	20.041	Cresa, Adriática, Allianz
<b>SANTA LUCIA</b>	17.684	
<b>AEGON</b>	17.429	Aegon, U. Levantina, U. Previsora
<b>MUTUA GENERAL</b>	17.407	M. General, Hermes
<b>A.G.F.</b>	17.013	AGF, Fénix Peninsular, Omnia
<b>SANTAS</b>	16.342	
<b>ASISA</b>	16.003	
<b>OCASO</b>	15.000	Ocaso, Universal, Eterna

## S P A I N

PREMIUM INCOME OF 8 MAIN INSURANCE GROUPS

	1985	1986	1987
<u>EUROSEGUROS</u>			
Regular	1.058	1.571	8.785
Life single premiums	-	32.240	152.194
TOTAL PREMIUMS	1.058	33.811	160.979
<u>MAPFRE</u>			
Regular	31.437	42.014	60.605
Life single premiums	-	8.220	4.437
TOTAL PREMIUMS	31.437	50.234	65.042
<u>UNION Y EL FENIX ESP.</u>			
Regular	25.286	31.808	41.796
Life single premiums	-	107.112	22.124
TOTAL PREMIUMS	25.286	138.920	63.920
<u>ESTRELLA</u>			
Regular	10.179	12.110	15.853
Life single premiums	-	42.135	46.188
TOTAL PREMIUMS	10.179	54.245	62.041
<u>CORP. GRAL. ASEGUR.</u>			
Regular	23.179	32.743	35.436
Life single premiums	-	157	4.305
TOTAL PREMIUMS	23.179	32.900	39.741
<u>BANCO VITALICIO</u>			
Regular	18.783	28.859	27.260
Life single premiums	-	6.391	7.681
TOTAL PREMIUMS	18.783	35.250	34.941
<u>MUTUA MADRILEÑA AUT.</u>			
Regular	15.785	22.148	32.494
Life single premiums	-	-	111
TOTAL PREMIUMS	15.785	22.148	32.605
<u>ZURICH</u>			
Regular	18.006	24.120	29.173
Life single premiums	-	2.896	865
TOTAL PREMIUMS	18.006	27.016	30.038

(million pesetas)

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## **Salomon Brothers International Limited**

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### **INTERNATIONAL FINANCIAL INSTITUTIONS CONFERENCE DEREGULATION IN 1992: STRATEGIES AND OPPORTUNITES Friday, 9th September — Saturday, 10th September, 1988**

#### **AGENDA**

**FRIDAY, 9TH SEPTEMBER — Chiostro of S. Apollonia, San Marco**

**DRESS CODE:** Informal

Main Hall

- |       |  |   |
|-------|--|---|
| 09.15 | <b>Opening Remarks</b>   | John H Gutfreund<br>Chairman<br>Salomon Brothers Inc                        |
| 09.30 | <b>A Deregulated European Economic Community - Challenges and Opportunites</b>   | Lord Cockfield<br>President of the Commission<br>of the European Community  |
| 10.30 | <b>A Central Bank Regulatory Viewpoint of the Banking and Securities Industry in Europe</b>  | David A Walker<br>Chairman of the Securities<br>Investment Board            |
| 11.30 | Courtyard of Chiostro  | Coffee Break  |
| 11.45 | <b>The European Central Bank of the EMS</b>  | Dr Lamberto Dini<br>Director General of Banca<br>d'Italia (to be confirmed) |
| 13.00 | Courtyard of Chiostro  | Buffet Luncheon   |
| 14.30 | Main Hall  |   |
|       | <b>Banking Strategies in Europe for the 1990s</b><br>Panel Discussion<br>Moderator — David Jarvis,<br>Director, European Financial Institutions Group<br>Salomon Brothers Inc — John H Gutfreund, Chairman<br>Lloyds Bank — Brian I Pitman, Chief Executive<br>Banque Indosuez — Antoine Jeancourt-Galignani, President<br>Banco de Bilbao — Jose Angel S Asiain, Executive Chairman |   |
| 15.45 | Courtyard of Chiostro  | Coffee Break  |
| 16.00 | Main Hall  |   |
|       | <b>Insurance Company Strategies in Europe for the 1990s</b><br>Panel Discussion<br>Moderator — Jim MacNaughton, Managing Director,<br>U.S. Insurance Group<br>Prudential Portfolio Managers — Michael G Newmarch,<br>Chief Executive<br>Mapfre — Domingo Sugranyes, Deputy General Manager<br>Storebrand Finance A/S — Jan E Langangen, President and<br>Chief Executive Officer     |   |
| 17.30 | <b>Session ends</b>  |   |

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**SATURDAY, 10TH SEPTEMBER — Chioistro of S Apollonia, San Marco**

**DRESS CODE:** Informal

**DISCUSSIONS**

09.15	<b>The Future of the Savings Bank Industry in Europe</b>	Roberto Mazzotta Chairman, Cariplo
10.00	<b>The Japanese View of Europe in the 1990's</b>	Takeshi Ohta Deputy Governor for International Relations The Bank of Japan
11.00	Courtyard of Choistro	Coffee Break
11.15	<b>The North American View of Europe in the 1990's</b>	Gerald Corrigan President, Federal Reserve Bank of New York
12.15	<b>Closing Remarks</b>	John H Gutfreund Chairman Salomon Brothers Inc