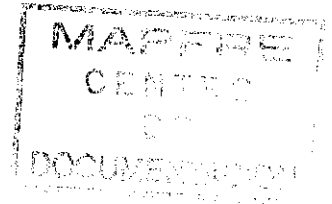


## 24th GENERAL ASSEMBLY OF THE GENEVA ASSOCIATION

R. 24578

BRUSSELS, SATURDAY, JUNE 21, 1997

**THE EFFECTS OF THE UTILISATION OF EURO  
ON INSURANCE****Contribution from Filomeno MIRA (MAPFRE)**

Much has been written in the last months on the implementation of Euro itself and on the effects of its utilisation on insurance, in particular. Moreover, the last news concerning the political agreements and disagreements on the European Union, the future new members and their political influence, as well as the new share of power inside the Union, the social policy in connection with the financial restrictions imposed by the Euro...and many more topics make this panel today very current and up to date. But perhaps it is not easy to make a real or original contribution from my part. Nevertheless, I have made a personal reflection on this subject, and would like to let you know my views, specially those which have been more surprising to me or less mentioned by the studies, reports or articles I have read.

- First, I am convinced that the Euro will become a reality by January 1, 1999, and most European countries will join the new "club", in spite of the conflicts, rumours and other troubles we are living these days and in the next months.
- Second, the Euro will not be a currency as strong as many financial people should desire, due to the financial weakness of some members and the social influence of some political attitudes, but it will be strong enough and so important to mean a real revolution in Europe and world-wide in financial, social, economic and cultural fields.

In insurance, as in other economic sectors, the Euro revolution will mean a lot of advantages as well as some initial troubles and mainly will positively influence the future developments. Let me underline some aspects of what I guess in our sector:

- Nobody doubts on the favourable influence (more growth) from the new macro-economic framework.
- Also a rising transparent market will come, which will drive to a real single market, more competitive, where more or less productivity, prices, covers will be more and more evident to consumers and to local and foreign competitors.
- As a consequence, insurance products will tend to be more similar and global insurers will have an advantage, against local insurers. The small operators, less efficient and now with more evidence, could disappear or be absorbed by the large ones.
- In industrial risk, borders could finally be broken and this will become a local market all through Europe, where small or local insurers will have less and less opportunities.
- The different tax and regulation systems will be more evident, and a political pressure from consumers and operators will force a growing European movement towards tax and legal

unification and harmonisation, which is really a pending problem for the politicians and could be the great and expected second revolution for the next decade.

- Small or less developed countries in Europe will benefit from the stability and strength of the new currency - in comparison with their original currencies - in the way of being more attractive from an investor's point of view. Their assets and portfolios will also be more valuable.
- On the opposite, the reduction of interest rates in these countries (Spain is an example) will reduce the investments' income and will have three dramatic effects: less profits, the necessity of premium increases, and insufficient mathematical reserves to match the commitments with the insureds on the basis of the past high technical interests agreed in the policies. These effects have been, in my opinion, too much enhanced and magnified by some people who advise of terrible troubles for the local companies after the Euro introduction. In any case, these concerns will affect the companies at the beginning of the implementation. In the long run, the interest rates' reduction will have a very positive effect on the macro- and micro-economy of all countries.
- Other initial problems concern the costs of adapting the accounting, management and information systems, including the obliged communication to the clients. Much has been written on the difficulties and cost of changing the computer programs with coincidence of the new millennium. I can figure out that there might be a little exaggeration due to the interest of consultants and computer service firms.
- Other concerns remarked in some countries (at least in Spain) relate to the legal and fiscal problems derived from the entrance of the Euro. Frankly, I think that mechanisms will be found by authorities and legislators to avoid all these theoretical troubles.
- Less has been written on the effect of commercial changes derived from the possible aggressive activity of banks and savings- and financial institutions which will benefit from the stability and confidence of the new currency to offer products related to the classic insurance products. This could be a "cannibalism" process against the insurance industry and its intermediaries. Also, a similar situation could happen in industrial risks and other "niches" where some big operators can take profit of the weakness of local and small insurers. Personally, I understand that these and other possible market alterations should be good for the consumers and it is our responsibility to be prepared to improve our products and image and get our part of the new situation.

My opinions might be somewhat optimistic. Of course, my analysis has not been made on the general and political problems that the introduction of the Euro can bring. I have rather reflected on the insurance itself, should the Euro be introduced. In that case, I can finally summarise that, in the long run, the effects should be so positive that someone could ask in the future why we had not made it before. And, of course, as in a revolution, some can take more advantages than others, and some could be lost in the turmoil. That's the risk!