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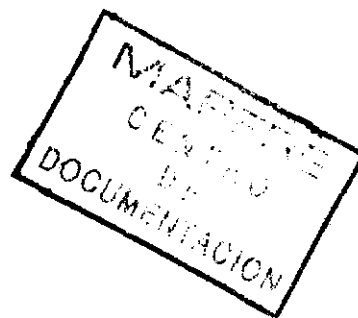
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- Domingo Sugranyes -

MAPFRE . New strategies in Spanish Insurance

(SUMMARY)



## 1. THE HISTORY OF MAPFRE

MAPFRE was created in 1933 by a group of agricultural land owners.

Using distribution channels different from traditional insurance is a result of those agricultural origins.

History also means stronger presence in agricultural regions than large cities.

From the original links with an agricultural union MAPFRE inherited the structure of a service organization, as close as possible to the client/member.

All this determined a network based on principles different from other insurance groups in Spain and which during many years was judged by our competitors as too costly and too heavy to manage.

Rather than choosing a formal and restrictive definition (brokers, exclusive agents, employees) MAPFRE built a mixed organization with one basic law: to maintain the network under the company's own control.

In 1966 all workmen's compensation operations had to be separated by law in a distinct entity which came under control of the official social security system. This threatened the existence of many Spanish smaller mutuals. For MAPFRE the crisis was useful and helped to discover the advantages of specialization.

## 2. MAPFRE'S PRESENT STRENGTHS

MAPFRE's growth is impressive when looking at the figures of encl. 1 (which have been translated into US dollars, thus avoiding at least partially the effect of monetary erosion).

Since 1980 total revenues increased 21 times, equity 35 times, the number of employees 10 times.

At the beginning of 1980, MAPFRE was still a medium sized Spanish insurance group, although it was already well known for its growth rates (and widely criticized). The group occupied the first place in the Spanish insurance ranking in 1984.

MAPFRE's success is based in the first place on the marketing power of its network.

Although for many years MAPFRE management used to say proudly that there was no marketing manager in the company, a true account would show that the whole organizing and motivating efforts channeled to the network were orientated towards growth.

However a basic link was never abandoned between marketing and technical results: the same people are ultimately responsible for both, at headquarters and in each geographical area. This is reflected in the bonus system.

The marketing style of our network has some substantial differences from one region to the other due to the personality of the people in charge; e.g. broker business in Northern industrial Basque Country; family agencies in Catalonia.

MAPFRE has close to 2.000 selling points in Spain (encl. 2).

A typical full service branch would include a manager, who is normally an employee of the parent company, MAPFRE MUTUAL; a few specialized salesmen for each line of business and a small administrative team.

Village offices have typically one or two permanent persons, normally exclusive agents.

The administrative and claims handling work is now being regrouped into regional centers to leave the organization all its time for the sales effort.

The whole market is growing strongly as indicated on the figures of encl. 3. MAPFRE's total growth has been stronger than average (encl. 4).

Market share growth is shown in the enclosed figures, in a still very atomized insurance market (encl. 5).

The present company structure of MAPFRE is now shown (encl. 6).

This structure was invented as a means for MAPFRE MUTUAL to keep control of the group, while allowing external investors to participate directly in CORPORACION MAPFRE, the listed holding company in the Group.

Specialization by product line was an old idea; the best example being MAPFRE VIDA and the Mutual itself, specialized in Automobile insurance.

After creating many specialized companies they were grouped around 1990 to form units of sufficient autonomous weight.

### 3. MAPFRE's DRIVING IDEAS TRANSLATED INTO REALITY

The main ideas behind MAPFRE's growth since 1970's are

- the creation of specialized companies by areas of business
- decentralized marketing styles and structure
- industrial approach to automobile insurance
- marketing success in life insurance (through door-to-door sales).

I have already illustrated the ideas of specialization by areas of business and decentralized structure.

I will now go into some details on Automobile insurance and Life insurance.

### 3.1 Automobile insurance

The viability of Automobile insurance depends on many factors, and in the first place on sufficient premiums.

However, our main differentiating factor lies in the level of total cost: 20 percent against 28 percent market average. Thus MAPFRE MUTUAL can be competitive in price, and still maintain a very profitable Automobile insurance operation.

Specialization has led to a flexible and quick management, specially in claims transactions. For many years MAPFRE MUTUAL have been using their own exclusive adjusters and medical doctors. The cost of Material Damage is limited thanks to research on repair time and quality in our own technical center CESVIMAP (Avila) and our model repair shop in Majadahonda, and also thanks to around 100 drive-in adjustment and quick payment centers around Spain.

Among other aspects of service which differentiate MAPFRE MUTUAL from competitors, we have: MAPFRE's own ombudsman, free car safety checks, a free telephone information center, a specialized reeducation center for accident victims...



The most recent innovations in service include a "silver card", which entitles policyholders to zero kilometer car assistance and can be used to pay gasoline, and a magazine called "Kilometro MAPFRE" which will be sent directly to more than 2 million policyholders.

Some of these services are just good for the client; others, like the technical research center or medical services, also mean substantial cost reductions.

These are some of the factors which, together with risk selection and general administrative efficiency, have given MAPFRE MUTUAL a clear advantage on competitors.

### 3.2 Life insurance sales

MAPFRE VIDA was created in 1970. The case here is different from Motor insurance: technically and from the accounting point of view MAPFRE VIDA is a very traditional, conservative company.

However enormous creativity and effort has been put into marketing and motivation.

The two keys are:

- \* Extensive television advertising, selling just on one idea: reliability
  
- \* Intensive and permanent training of sales force.

There is probably nothing in MAPFRE VIDA which you could not find in other larger companies in Europe, and perhaps there are many technical innovations we don't use.

However the perseverance of the MAPFRE Vida salesmen -we call them "advisors"- is unique, still today, and tremendously effective.

#### 4. NEW STRATEGIES

On the basis of the existing MAPFRE we have developed five new strategies which we hope will continue differentiating our group from competitors.

##### 4.1 Technological services

MAPFRE's clients are mostly individuals and families. However we are also active of course in commercial insurance, which in Spain has been much more competitive than personal lines in terms of rates.

Therefore we are trying to approach Industrial Risks with a specific offer based on advanced prevention technology.

The idea of linking prevention and insurance was started in MAPFRE in the workmen's compensation sector and then introduced progressively to property insurance.

After many years of development, we recently inaugurated the Technological Center in San Agustín de Guadalix, near Madrid, with 11.000 square meters of construction where all the technological services are grouped.

The most spectacular Unit is a huge fire lab, which has an empty space of 25 m. long, 45 m. wide and 20 m. high, where real fire experiments can be made on e.g. a small house or a train car. It is one out of 10 largest fire labs in the world; in Europe the only similar installations are in the UK, Finland, Sweden and Norway. The hydraulic part of the lab is the largest and the only privately owned in Europe.

This first class industrial site is equipped with the latest gas and water cleaning systems and has a cogenerating machine which produces electricity and heat/cold. The lab is used by ITSEMAP FUEGO, a company which has subsidiaries in 5 Spanish cities, in Portugal and in several Latin American countries, and which is a leader in the fields of fire research, fire testing and engineering for safety systems and consulting. ITSEMAP sells directly to industry and State departments.

Just as an example of ITSEMAP's operations, I would like to read a list of projects completed in 1993:

#### CONSULTING

- Engineering and installation of Fire Protection systems for the MAGNETI MARELLI plant in Madrid

- Setting up of the LINCE computer programme for Emergency plans in the ports of Málaga, Alicante, Ceuta and in the PEMEX plants at Ciudad del Carmen
- Risk analysis for DISA, SHELL and PETROGAL
- Assistance to the Andalucía Regional Government for emergency plans in 14 cities
- 19 courses for Fire Brigades
- Training plan for Barcelona province authorities
- Service to several MAPFRE industrial policyholders.

#### TESTING AND RESEARCH

- Testing of 54 models of fire extinguishers, 10 fire hydrants, 3 automatic sprinklers, 5 hydraulic valves and 3 control and alarm valves, 7 models of hose, 4 foam agents and several anti-freeze products and hydraulic oils

- 87 tests on building materials, to investigate their reaction to fire and flamability properties
- 34 large fire claims investigations
- Several research projects, including one on Water Spray Nozzels financed by the European Communities, in collaboration with a French engineering firm
- Participation in European Strandardization meetings on Portable Extinguishers and Hand driven fire fighting equipment
- Member of EGOLF (European Group of Fire Labs) and chairman of Spanish Association of Fire Labs, with international recognition of tests carried out in our premises.

The Testing, Engineering and Consulting activities of ITSEMAP are self-supporting. The R+D activities are supported mainly by MAPFRE, at a cost which is still of limited dimension.

Other areas included in the Center are:

- **ITSEMAP AMBIENTAL**, a pioneer in the environment protection research, which also sells services to industry and state organizations
  
- **SINAE**, a company dedicated to energy saving systems, and
  
- **RELECMAP**, which helps insurance companies in the handling of claims, especially of hightech plants. To give you an idea, in the year 1992 RELECMAP worked on 1.523 cases, including 1.050 salvage operations on electronic equipment.

Another service company based in Bilbao, with offices in all Spanish ports, is **SERMAP**, a marine surveyor, which is a correspondant for all major P&I Clubs and European marine insurance companies.

## 4.2 Assistance

Clients today more and more expect insurance companies and banks to give additional service.

Thus, to the old concept (for MAPFRE: (1) Prevention - (2) Damage - Indemnity and (3) Repair) one has to add now a (4): Service. This philosophy is applied to industrial risks through ITSEMAP. A similar approach is needed for personal lines.

After the accident, what? The insured needs help.

This is not something peripheral. It belongs to the heart of the business and must be part of the strategy.

MAPFRE started its own Travel Assistance company in 1985, offering automatic cover to all automobile policy-holders.

Now MAPFRE ASISTENCIA has 24-hour assistance centers in 12 different countries, working for 89 insurance companies and several other groupings, with a total of 10 million persons insured and about 1/2 million cases a year.



The same concept, but a different organization is being applied to homeowners Assistance in Spain. This service includes one nation-wide 24-hour center near Madrid and 6 regional subcenters. It offers our policyholders quick help after a claim with a network of several hundred professionals like plumbers, bricklayers, painters, locksmiths, carpenters, etc, etc!

The service also includes the possibility of calling one of these professionals for any kind of jobs in your home: in that case MAPFRE guarantees that the worker will go and submit a budget, but not of course the cost of the job itself.

Assistance is now a basic element of MAPFRE's strategy.

### 4.3 Financial products

MAPFRE INVERSION, until recently named MAPFRE INDOSUEZ (the new name is being officially registered only now), was created in the late 80's as a stockbroker and fund manager group.

It was originally a joint venture with BANQUE INDOSUEZ. The bank later decided to go their way with other partners in Spain, and thus had to reduce their share in MAPFRE INVERSION.

In any case MAPFRE INVERSION's marketing success was due to the MAPFRE network, basically that of MAPFRE VIDA.

In 3 years, more than 650 M US \$ in investment funds were placed among MAPFRE clients.

This was a first successful step in financial products for MAPFRE, and a strong strategic asset for the future, with little risk involved.

Another area of quasi-banking which had been touched upon in the past was consumer credit. Experience was good in the past, but very bad in the last 3 years. Strategic errors are made, sometimes !

#### 4.4 Banking

This is MAPFRE's new and foremost challenge in Spain.

Why a retail bank, when there are so many in Spain ?

- MAPFRE has a name
- MAPFRE's network is comparable to that of the large Spanish banks
- We offered all services to the client, including loans and investment products, but had to rely on other banks for the most basic services of all: bank account, payments, cheques.

After due consideration of alternatives (like alliances or acquisitions), we decided to start from scratch.

Banco MAPFRE now has 70 branches, and offers all normal banking services to private customers and small/medium-sized businesses. Very successful in terms of deposits from individuals. Very cautious in terms of investment. A balance sheet of around 800 million US \$, and little bad debt for the time being.

The real challenge is whether we shall be able to sell banking services and insurance in the same premises. For the time being, insurance and banking offices are close together, but separate. Experiment with a few "capillar offices": local small offices with insurance + banking. It is not bancassurance, it is "insurbanking".

This will shape MAPFRE's future in Spain.

#### 4.5 International

The other big challenge, "the new MAPFRE", is our international development.

We have foreign subsidiaries in MAPFRE RE, our reinsurance Unit (CAJA, HEMISFERICA, CIAR). In total this Unit is already a leading reinsurer in Latin America and a medium sized reinsurer worldwide (no. 35 of world reinsurance 91 ranking, if taking parent and subsidiaries figures together).

In direct insurance, our first investment abroad dates back to 1985 only. We are now in all large countries in Latin America, including Puerto Rico, and initially in Portugal, Italy and Tunisia. Mexico, Chile and Puerto Rico already contribute decisively to our profits. Others are still loosing money. Revenues from abroad represent approximately 30 percent of CORPORACION MAPFRE's direct insurance revenues.

Nothing original in terms of organization, budgets and planning: we are catching up. Consolidation is the great discipline and the base for efficient management information.

The problem with which we are wrestling is: how to make these companies "MAPFRE-like". It can't be pure imitation, markets and countries differ widely. We are trying new ways of transferring technology and culture:

- Managers from Spain: yes, but...
- Training of foreigners in Spain
- Group of "flying consultants" (GATTI).

To find the ways in order to organize in each country a sales network - adapted to that particular country's needs and peculiarities, but under our own control: if we find the ways to do that, we think MAPFRE will be able to benefit from an enormous potential for growth.

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