

GENEVA ASSOCIATION

Strategic Planning Seminar 21 - 23 October - London

Property-Casualty (Non Motor) Strategic Planning in the Spanish Insurance Market

This short paper tries to collect my experience of fifteen years in this specific topic, *as General Manager of a Property Casualty Co. in Spain!* As an acquired rule I only try to speak on what I have lived ~~and~~ ^{and} known and ^{so} I intend to project this to the future from this unique base *on this concern of strategic planning.*

The Frame:

Spain is still ~~an underdeveloped~~ ^{a developing} country in the insurance business as you can realize comparing our premium income with another countries in Europe or North America. Nevertheless, we have an old tradition in the insurance business and some expertises can be often found ^{the management of} in Spanish companies. ~~So~~ ^{When} you face strategic planning in Spain you can, in a theoretical point of view, look outside ~~the~~ ^{the} country as, of instance, EEC countries USA, Australia as ~~a~~ ^d reported in the previous seminar in this matter, ^{and} in this way you can, define your goals and objectives, mainly:

- Growth or ~~Market Share~~ ^{profit} Market Share .
- Profits
- Expenses
- Efficiency
- Financial Scope, and others.

in my opinion,

and then, you can select your priorities or alternatives and establish the right steps. In fact, you can copy strategies followed ^{those} by other companies in more developed countries, which lets you close to the same mistakes they make ^{de} or, facing new conditions they didn't have. Changes in our world (social, economic and environment) make frequently unuseful strategic ^{and} ~~the~~ plans in another time useful. So this way of strategic planning has most time weakness and problems of adaptations, *though is always a good reference point to start a future action.*

Actually, most companies in Spain don't do that, as they are self regarding their own concern. But others do, and in fact were responsible in the last fifteen years of some important changes in ~~the~~ ^{our} property liability market:

- a.- New organization in the distribution methods, emphasizing geographical structure and specific training for their agents and the sale force. This strategy was very cheap in the 60s, more expensive ^{nsive} in the 70s and prohibitive ^{ive} in the 80s as the economical situation of the country was rapidly changing.
 - b.- New products in the 70s specially multiperils policies as never were concided ^{eived} in the presiding ^{ceding} years.
 - c.- Expenses control in the 80s when the economical situation was harder and the profits started to be reduced.
 - d.- Computarization of the administrative works to face the growth and the internal expenses increase.
 - e.- Financial focusing and merge ^{ns} considerations to solve problems of small size and to defend against multinational and the next entrance ^{of Spain} in the economic market.
- European } themselves*

aspects

Along with this general ~~lines~~ I can also distinguish some specific hits which were more interesting and relevant in the property casualty lines. Trying to make the history of these fifteen years, I would point out the following items:

- a.- Break ^{era} of the classic market with new products and tariffs which were responsible of the death of ~~the~~ ^{old} bible tariffs and the eternal products or policies.
- b.- Maturity in front of the continental ^{reinsurers} insurance which have been helping the market for many decades.
- c.- Dialog and discussion on the catastrophic perils which were ruled and monopolized for the "Consortio de Compensación de Seguros", an official body dependant of the Finance Ministry.
- d.- Shift from a tariff market to an underwriting market, and in many cases with specific tariff for every company.
- e.- Technification of industrial business, mainly applying ~~the~~ inspection methods, risk management activities and fire prevention programs.
- f.- Deepening competition among companies with a more modern style and using advertising campaigns emphasizing new products and new marketing orientation towards the customers in a completely different way ^{from} ~~of~~ old concepts of insurance.

Today, some companies in Spain can be considered among the top companies in Europe and they do effectively planning for the future of their activity in property liability as well as in life business. In my opinion, planning in a serious way is

in management

struggle

a non-sense activity as many economists point out when they try to analyze the uncertainty of the future. But it is important to ~~have~~ a strategy for the future having in mind the necessary flexibility to adapt it frequently and immediately when required.

My general orientation in ~~the~~ property liability lines when planning, recent ~~years~~ *in this* years should consider the following aspects:

Underwriting:

- a.- Over specialization of manager by lines being aware and conscious with new risks and technical advances.
- b.- Choosing carefully branches of business to be developed especifically. Small companies should not devote to all lines.
- c.- Early warning system for analyzing technical deviations in mass products by cover, area and other ~~aspects~~ *aspects*.
- d.- Special considerations for high risks including special assessment, analysis, prevention and engineering services.
- e.- Special consideration for controlling and reducing losses including investigation and salvage.

Distribution and Services:

- a.- Enlarging portfolio thru new customers not covered today.
- b.- Reaching the market thru a new image, advertising campains and broader network of own branch offices.
- c.- Emphazising in the spot services for clients as a way to compete with strong multinational companies. These would

include local issuance of policies, easy premium collections, rapid indemnization of losses and specific prevention services.

Expenses:

- a.- Simplification of forms, tariffs and procedures previously to computerization which in fact will follow afterwards.
- b.- Reduction of bureaucracy with small head offices, no papers agencies and branch offices, and ^{over} ~~the~~ productive employees devoted to service and not to administration.

Organization:

from committed to

- a.- Changing the concept of branch offices ~~to~~ profit centers with a whole underwriting and production management.
- b.- Flexible structure of products by regions according to their necessities.
- c.- More time devoted to promoting and train ^{ing} people even for underwriting ^{and} management ~~areas~~ ^{areas}.

As a final consideration, let me tell you which were our main ^{break} ~~break~~ throughs in ^{the} ~~the~~ property liability strategy in the last years, and which are being considered for the next future:

of my company

Our accomplished ^{break} ~~break~~ throughs

- a.- New products and originals policies set at the beginning of the 70s.
- b.- Shifting from industrial lines to simple lines to avoid strong competition and international pressures and big losses

which could be very negative for the growth of the company.

c.- Killing ^{old tariffs} all ~~ties~~ which were changed by special schedules and tables to be used, even for children ~~etc.~~.

d.- Creating underwriting management for every line with specific control. ~~etc.~~

e.- A big work of simplification before computerization, ~~etc.~~

f.- Irradiating management control to branch offices as the only way to have good and sound underwriting results.

g.- Safety, prevention and protection services for non insured industrial customers instead of providing insurance cover.

h.- Reducing very agresively external costs thru new products which were more competitive but with low commissions ~~matchings~~ ^{MARGINS} for agents.

i.- Creating of salvage and investigation activities for industrial losses.

Our Future Strategies:

a.- Splitting up the company into six regional ^{and} ~~autonom~~ ^{our} companies to get a bigger ~~quota~~ share in the market with mass products easy to be sold and managed.

b.- Reducing total expenses by five points, both administrative and external costs.

c.- Increasing retention up to 75% allowing stronger financial activity and as a consequence of the shifting to simple lines.

e.- Developing special services for home owners both in losses and prevention systems (fire, water damage, assistance, theft).

I don't know if you consider all these goals as specific planning and strategy for our property-liability company. But I know, if I do that, growth, profit and efficiency of my company will be bigger. Can you imagine a better future?

Thanks for your attention.

FILOMENO MIRA

General Manager

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The Frame:

Spain is still a developing country in the insurance business as you can realize comparing our premium income with another countries in Europe or North America. Nevertheless, we have an old tradition in the insurance business and some expertises can be often found in the management of Spanish Companies.

When you face strategic planning in Spain you can, in a theoretical point of view, look outside the country as, for instance, EEC countries, USA, Australia, as reported in the previous seminar in this matter, and in this way you can ~~not~~ define your goals and objectives, mainly:

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- Growth or Market Share
- Profits
- Expenses
- Efficiency
- Financial Scope, and others,

and then, you can select your priorities or alternatives and establish the right steps. In fact, you can copy strategies, followed by those other companies in more developed countries, which in my opinion, lets you close to the same mistakes they made or facing new conditions they didn't have. Changes in our world (social, economic and environment), make frequently un-useful strategic and plans in another time useful. So this way of strategic planning has most time weakness and problems of adaptations, though is always a good reference point to start a future action.

Actually, most companies in Spain don't do that, as they are self regarding their own concern. But others do, and in fact were responsible in the last fifteen years of some important changes in our property liability market:

- a. New organization in the distribution methods, emphasizing geographical structure and specific training for their agents and the sale force. This strategy was very cheap in the 60s, more expensive in the 70s and prohibitive in the 80s as the economical situation of the country was rapidly changing.
- b. New products in the 70s, specially multiperils policies as they never were conceived in the preceding years.
- c. Expenses control in the 80s when the economical situation was harder and the profits started to be reduced.
- d. Computarization of the administrative works to face the growth and the internal expenses increase.
- e. Financial focusing and mergers considerations to solve problems of small size and to defend themselves against multi-

national and the next entrance of Spain in the european economic market.

Along with these general aspects, I can also distinguish some specific hits which were more interesting and relevant in the property casualty lines. Trying to make the history of these fifteen years, I would point out the following items:

- a. Break of the classic market with new products and tariffs which were responsible of the death of old bible tariffs and the eternal products or policies.
- b. Maturity in front of the continental reinsurers which have been helping the market for many decades.
- c. Dialog and discussion on the cathastrophic perils which were ruled and monopolized for the "Consorcio de Compensación de Seguros", an official body dependant of the Finance Ministry.
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- f. Deepening competition among companies with a more modern style and using advertising campaigns emphasizing new products and new marketing orientation towards the customers in a completely different way from old concepts of insurance.

Today, some companies in Spain can be considered among the top companies in Europe in management and they do effectively planning for the future of their activity in property liability as

well as in life business. In my opinion, planning in a serious way is non-sense activity as many economists point out when they try to analyze the uncertainty of the future. But it is important to struggle a strategy for the future, having in mind the necessary flexibility to adapt it frequently and immediately when required.

My general orientation in property liability lines when planning in this recent years should consider the following aspects:

Underwriting:

- a. Overspecialization of managers by lines being aware and conscious with new risks and technical advances.
- b. Choosing carefully branches of business to be developed specifically. Small companies should not devote to all lines.
- c. Early warning system for analyzing technical deviations in mass products by cover, area and other aspects.
- d. Special considerations for high risks including special assessment, analysis, prevention and engineering services.
- e. Special consideration for controlling and reducing losses including investigation and salvage.

Distribution and Services

- a. Enlarging portfolio thru new customers not covered today.
- b. Reaching the market thru a new image, advertising campaigns and broader network of own branch offices.
- c. Emphazising in the spot services for clients as a way to compete with strong multinational companies. These would

include local issuance of policies, easy premium collections, rapid indemnization of losses and specific prevention services.

Expenses:

- a. Simplification of forms, tariffs and procedures previously to computerization which in fact will follow afterwards.
- b. Reduction of bureaucracy with small head offices, no paper agencies and branch offices, and over productive employees devoted to services and not to administration.

Organization:

- a. Changing the concept of branch offices from commercial to profit centers with a whole underwriting and production management.
- b. Flexible structure of products by regions according to their necessities.
- c. More time devoted to promoting and training people even for underwriting and management areas.

As a final consideration, let me tell you which were our main breakthroughs in the property liability strategy in the last years, and which are being considered for the next future:

Our accomplished breakthroughs:

- a. New products and original policies set at the beginning of the 70s.
- b. Shifting from industrial line to simple lines to avoid strong competition and international pressures and big losses which

could be very negative for the growth of the company.

- c. Killing old tariffs which were changed by special schedules and tables to be used, even ~~for~~ ^{by} children.
- d. Creating underwriting management for every line with specific control.
- e. A big work of simplification before computerization.
- f. Irradiating management control to branch offices as the only way to have good and sound underwriting results.
- g. Safety, prevention and protection services for non insured industrial customers instead of providing insurance cover.
- h. Reducing very agresively external costs thru new products which were more competitive but with low commission margins for agents.
- i. Creating of salvage and investigation activities for industrial losses.

Our Future Strategies:

- a. Splitting up the company into six regional and autonomous companies to get a bigger share in the market with mass products easy to be sold and managed.
- b. Reducing total expenses by five points, both administrative and external costs.
- c. Increasing retention up to 75% allowing stronger financial activity and as a consequence of the shifting to simple lines.

- d. Developing special services for homeowners, both in losses and prevention systems (fire, water, damage, assistance, theft).

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