

FOSUN'S #1 INVESTMENT IN INSURANCE

Fidelidade: going from strength to strength

Jorge Magalhães Correia is Chief Executive Officer of Fidelidade, Multicare and Fidelidade Assistance insurance companies and President of the Board of Directors of Universal Seguros (Angola) insurance company. He is also Vice-President of the Portuguese Association of Insurers (APS) and a member of The Geneva Association. He spoke to **FULLCOVER** about Fidelidade, its strategy for growth, its work in the Chinese capital market and relationship with MDS.



JORGE MAGALHÃES CORREIA

→ Jorge Magalhães Correia began his career as a lecturer at the Lisbon Faculty of Law. He also practised law and held management positions at the General Inspectorate of Finance (IGF) and the Portuguese Securities Market Commission (CMVM).

→ He has held various positions in companies in the finance and insurance sectors, including Administrator and/or President of the Board of Directors of Mundial-Confiança, Fidelidade Mundial, Império Bonança and Via Direta the insurance companies.

→ In the hospital sector, he was Administrator of USP Hospitales (Barcelona) and Administrator and subsequently President of the Board of Directors of HPP – Hospitais Privados de Portugal SGPS.

In a newspaper interview you once said: "What is expected of us to do in a year would normally take three years to achieve." Have you been able to keep up with this pressure in terms of results?

My quote was intended to demonstrate the level of enthusiasm coming from our shareholders. The entire organisation has adapted quickly, post-privatisation, based on two strong shareholders who complement one another. We have taken advantage of the additional opportunities this new context has brought; not only do we have a more comprehensive view of the insurance business but we are also participating in transnational projects, bringing added value and knowledge to the Company. Apart from this, there has not been any particular pressure from the shareholders in connection with profits, and earnings have actually been retained in the Company to enhance its growth capacity.

Have there been any changes to the Organisation's culture?

Other than the international dimension I mentioned, no. Of course, some things do change, for example, 150 more employees have opted to study Mandarin and we have a China Business Unit operating in Portugal, Angola, Mozambique, Spain and France. But the Company's culture and management model have not changed - Fidelidade has always supported businesses in the private sector and will continue to be dynamic and innovative. We were responsible for introducing transport insurance in Portugal, were the first to sell life insurance and the first to issue a policy covering industrial accidents. And we will continue to be the main driving force behind innovation and progress in Portuguese insurance.

The latest figures show Fidelidade has boosted its market share to around 30%. Is this growth an early reflection of the new management philosophy?

As I said before, there is no new management philosophy. On the contrary, the team is continuing with the groundwork it began prior to privatisation. What has changed is the competitive market, which was unable to cope with the downward spiral of prices and results. In practically every non-life sector, Fidelidade's management indicators are better than the market average; higher average premiums, fewer new and ongoing claims, more technical reserves and proven better levels of service. If we add to that the strength of the brand and the highly professional broker network, it is no surprise we've increased our non-life market share in a new underwriting cycle.

In the life insurance sector, however, things are going to be different. In 2016, we will be introducing some

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FIDELIDADE

SEGUROS DESDE 1808

Fidelidade is the leading insurer in Portugal, currently holding a market share of 29.8%. The company operates in all lines of business, having the largest network of agencies in Portugal and being present in several countries, including Angola, Cape Verde, Mozambique, Spain and Macau.

FIDELIDADE IN NUMBERS (2015)

PORTUGAL

TOTAL PREMIUMS

€3,768M

MARKET SHARE

29.8%

changes in terms of strategy and positioning because we have come to the conclusion the new European Solvency II regulations penalise this line of business, making growth difficult in its current format.

Today, Fidelidade operates in the Chinese capital market. What could this mean for the future of the insurance Company and its stakeholders?

A number of international insurance companies operating in Portugal have obtained this authorisation. What few people realise is that the Chinese authorities scrutinise every application in minute detail and this process can take months or even years. The fact that Fidelidade has been authorised to operate in the Chinese capital market is further proof of our financial and management capacity and this should be a source of pride for Portugal. We should not forget that China is the world's second-largest economy and the number of middle class citizens equates to that of the European Union. Although we have the authorisation to operate on the Chinese capital market, we are not yet doing so because the investment opportunities so far, have not justified this.

We have seen the Portuguese insurance market become increasingly concentrated. What is your take on this development?

A decade of not-so-prudent pricing practices, a climate of interest rates close to zero and an economy with poor growth perspectives make the process of concentration inevitable. And if we add the challenges of Solvency II into the mix, it's not surprising the market has contracted quickly. We are very pleased Fidelidade prepared for such issues early on and we are now of a size where we play an important role in the Iberian market.

2016 will also be marked by the Solvency II directive coming into force. How do you view the regulator's increased stringency?

Above all, Solvency II represents higher capitals for the same level of risk; in other words, more protection for policyholders and greater demands on shareholders. Solvency II brings significant improvements in terms of risk management and reporting and management obligations. However, it also introduces new concepts that may have a negative impact on certain areas of the business, such as life insurance, where the essence of the business model may be compromised. When Solvency 1 was in place, life insurers were a stabilising influence in the market; they provided support for economies and overcame the 2008 financial crisis without requiring support from taxpayers.

How is Fidelidade preparing for this new challenge?

Fidelidade began preparing for Solvency II in 2006, almost 10 years ago, by creating its Risk Management Department. Today we have a highly-specialised full-time team for this purpose.

In 2014, prior to privatisation, we distributed almost €600 million in accumulated dividends and capital, and in 2015, as planned, our equity capital increased by €520 million. But the structural volatility of the markets in practically every sector and geography, coupled with the market-to-market asset valuation rule (which makes no sense for long-term activity), will bring permanent and unsustainable pressure to bear on the capital of every life insurance company. And this is changing the face of insurance in Europe.

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Our aim is to be a driving force for innovation and progress in the insurance sector in Angola and Mozambique and to offer insurance options that will be attractive to the new middle classes.

Fidelidade has a significant presence in the Angolan and Mozambican markets. What is the Group's strategy here?

To serve families and companies in the same way we do in Portugal, by offering products appropriate to their needs at competitive prices and with excellent levels of service. Our aim is to be a driving force for innovation and progress in the insurance sector in these countries and to offer insurance options that will be attractive to the new middle classes. We are currently planning how to achieve this and will certainly consider opportunities for growth.

As market leader, Fidelidade has pioneered the development of innovative products and services. Is there anything particular you'd like to highlight?

Oncology insurance, since it is our most recently launched product, and because of the joint effort it requires from two of the Group companies, Multicare and Luz Saúde. This type of insurance responds to the challenge of cancer and is innovative in every respect, from the attention given to preventing the disease, to the sums insured and personal attention given to every case.

What are your main strategies for growth in the future?

We are hoping to grow in every non-life sector, benefiting from the ongoing rate recovery and our increasing competitiveness. Health insurance will continue to gain weight in Fidelidade's portfolio, as will our activities connected to assistance and service provision in the insurance sector. And we will be increasingly multinational, with 20% - 25% of our premiums coming from other markets.

We are making a concerted effort to ensure our technology adapts to the OECD's predicted fourth Industrial Revolution and are experimenting in big data, digitisation and online platforms. Innovation is certainly in the pipeline.

How do you envisage your relationship with insurance brokers in the future?

Our relationship with brokers is currently good but I believe there is still room for improvement, hopefully to be more focused and efficient, creating more value for both sides.

How would you describe Fidelidade's relationship with MDS?

We have a long-standing relationship that goes back to the early days of MDS, in the 1980s. Over these three decades, a true spirit of partnership has been nurtured and strengthened and, in our opinion, this has made it possible to bring value to a considerable number of customers, not just through our unrivalled cover solutions but in our risk and claims management. Our relationship goes beyond the bounds of insurance intermediation, extending into other areas of collaboration such as training and reinsurance, and is cemented in a personal relationship of trust and mutual appreciation at all levels.

Such loyalty on both sides has helped our portfolio remain stable during this time, and naturally, the Sonae Group carries considerable weight for Fidelidade; we've provided Workers' Compensation and Health insurance cover for the Group since it was founded. The partnership with MDS however, has made it possible for us to work with a wide range of leading Portuguese firms.

The improvements we've made to our organisation, processes and products will strengthen our relationship with and benefit our business partners, not only in Portugal but in other external markets where we are increasing our presence; we know this type of collaboration makes sense. •