

CRISIS IN SPANISH INSURANCE

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If one considers the term "crisis" as a synonym of change with internal convulsions, one may speak of a crisis in Spanish insurance. This was a none too prosperous institution in an under-developed country which is moving toward immense growth possibilities in a country with a rapid rhythm of industrialization.

The crisis in our insurance has been one of growth and, looking at it from the outside, could be considered fantastic in many of its aspects. For those of us on the "inside" it has created problems of great managerial complexities.

Rapid Growth

In the decade of the sixties the Spanish insurance market experienced one of the most rapid growths in Europe, and possibly in the world. Its volume in dollars increased almost four times, and the closest European country did not reach an increase of three times. In 1971 Spain ranked 13th among the western countries according to figures of the Swiss Reinsurance Company.

In 1972, the volume of the Spanish insurance market was \$1,200 million. In 1973 it will reach \$1,400 million. Spain in 1960 ranked 16th among the western countries as to national income and moved up to 11th in 1971. The latest information of the OECD indicates that with a growth rate of 7.5%, it had the greatest growth rate for a developed country—a situation which may have been repeated in 1973. Considering the growth rate of the last ten years, this would place Spain in 9th place in 1980, right behind India, but ahead of Australia and Brazil.

In 1971, the Spanish insurance market was only 2.3% of the gross national product while the countries ahead of Spain, except for Italy, showed a much higher percentage. It is most likely our percentage will go up, especially due to the growth of life insurance, and one can conceive of it's reaching 3.5%. With that one can foresee that in 1980 our market in this respect could rank eighth among the western countries, not far behind the seventh, which will be Italy, although possibly it will be threatened by Brazil, and even Argentina, if it continues to be plagued by a scarcity of raw materials.

Even though a period of economic crisis might reduce the anticipated rate of growth, it is logical to assume that this would occur on an universal level and that Spain would be less affected than the insurance market immediately ahead at the present moment. Under such optimistic circumstances, what is the present situation of the market? It is precisely there that the dark clouds that worry us make their appearance.

Insufficient Government Attention

For various reasons Spanish insurance has not received sufficient government attention in the last years, having been relegated institutionally to a secondary rank, with a supervisory organism engulfed in an inferior hierarchical scale of the treasury department. The Administration has only taken ill conceived measures which as a rule have been harmful, with one exception: the liberalization of investments of insurance companies applied in 1970, that being the main reason for the present growth of life insurance.



Ignacio Hernando de Larramendi

Need for International Association of Insurance Brokers and Agents

With insurance and reinsurance becoming increasingly international, the need for a vast professional organization, designed to draw together reinsurance and insurance agents and brokers throughout the world is more apparent than ever before.

This observation was made by Alan Teale, assistant general secretary of the Bureau International of Producers of Insurance and Reinsurance (BIPAR), in an address to the recent mid-year meeting of the National Board of State Directors of the National Association of Insurance Agents in London.

Mr. Teale's appearance before the NAIA was twofold: to explain the functions of BIPAR, an international organization, and to request officials of NAIA to consider the merits of membership in the association.

Mr. Teale said that producer associations of sixteen countries have membership in BIPAR which, he added, is the only truly international association of producers. He noted the existence of COPAPROSE which covers South America and is open to membership also by North American associations.

He said that BIPAR is particularly valuable in that it creates a central source of information which can be readily collected from its widespread members and made available to inquiries relating to law on the practice and functions of brokers and agents worldwide.

"BIPAR has already available a considerable reference 'library' on the world's insurance law on taxation and it can provide a forum for discussion by representatives from member countries on matters which commonly affect their interests within their own countries and on which, perhaps, some collective viewpoint would prove to be of real value."

Presently, BIPAR is streamlining its structure and is asking its present members whether they would approve new rules of admission which would encourage associate or correspondent members from around the world who may currently hesitate to join because they feel that they are too remote and could not attend meetings, according to Mr. Teale.

He announced that the BIPAR's annual general meeting will take place in Turin, Italy, in June, when a total survey of the year's activities will be made.

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Automobile insurance, which represents 30% of the total premiums, has probably the lowest comparative rates in all Europe, which a series of circumstances makes it difficult to change. This tariff level is partly compensated for by notoriously low indemnities to third parties, with unfavorable results harmful to the public image of insurance as an institution. On the other hand, insurers are offering a plan of automatic medico-surgical coverage for injuries sustained in traffic accidents including the families of the owners and drivers on an unlimited basis, without any possibility of control by the underwriters. This gives rise to difficulties such as excessive, even abusive, costs and growing changes in the reserves for losses. These are insufficient in the case of many companies, a situation which will probably worsen in the next few years.

Companies Under-capitalized

The above reasons have made Spanish insurance grossly under-capitalized and that this should be tolerated by the government, not too strict in this instance, creates a big institutional problem for Spanish insurance which is difficult to solve. Energetic action would have to be general in order not to produce situations of relative injustice, but this would probably produce:

(a) An "invasion" of foreign capital, which would be seriously harmful for the national control of the insurance market.

(b) An increase in the domination of insurance by banking institutions with an accumulation of financial power, which likewise seems unsatisfactory for the politico-social equilibrium.

Under these conditions there is no doubt that to break away from this vicious circle will require great energy and tact, and probably legislation to protect mergers of corporations in order to create insurance groups eminently national and with a sufficient volume to balance somewhat the financial power of the big banks.

Level of Efficiency

In spite of all these problems and, as a reaction to a situation in the market which is hostile to insurance, many

insurance companies have had to undergo profound internal reconstructions. The level of efficiency reached in their management and in that of "pragmatic" mechanization was resulted in a nucleus of companies with a high level of corporate efficiency which could give rise very rapidly to the changing of Spanish insurance into one of the most dynamic and progressive of Europe.

In the last weeks and, as a new factor in world economy, the energy crisis has appeared which opens unknown possibilities which are impossible to anticipate and could change the optimistic forecasts. But this, as stated before, must affect the whole world, and relatively speaking it is not foreseeable that Spain will suffer, due to its excellent geo-political position, and because in many aspects, it could be, together with Japan, one of the countries which the Arab world would consider more akin and much less dangerous to collaborate with in the utilization of its growing wealth, and in intense activity of industrial development.

On the other hand, the difficulties which Spain has encountered in its incorporation into Europe, due largely to resentment on the part of some old European politicians, might favor her in the future as it would permit her to come closer to the United States along the lines initiated by it and thus to recover its politico-economic power, temporarily weakened, but favored in the end by the energy crisis.

I shall end these brief comments on the Spanish market by repeating my conviction that it will reach a growth which will be far superior to that of other western countries, produced in part by the situation of a geo-political crossroads situation between Latin America, the Mediterranean Arab world, and Europe itself, of which Spain has been one of the most important creators, and which it will rejoin in the near future, possibly in a position completely unforeseeable a few years ago. I trust also that, speaking for the Spanish insurance companies, we will be worthy of the opportunity presented to us and that we shall on our own develop a strong national insurance market, independent of other financial sectors and strongly coordinated with our colleagues of the market as a whole.

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