



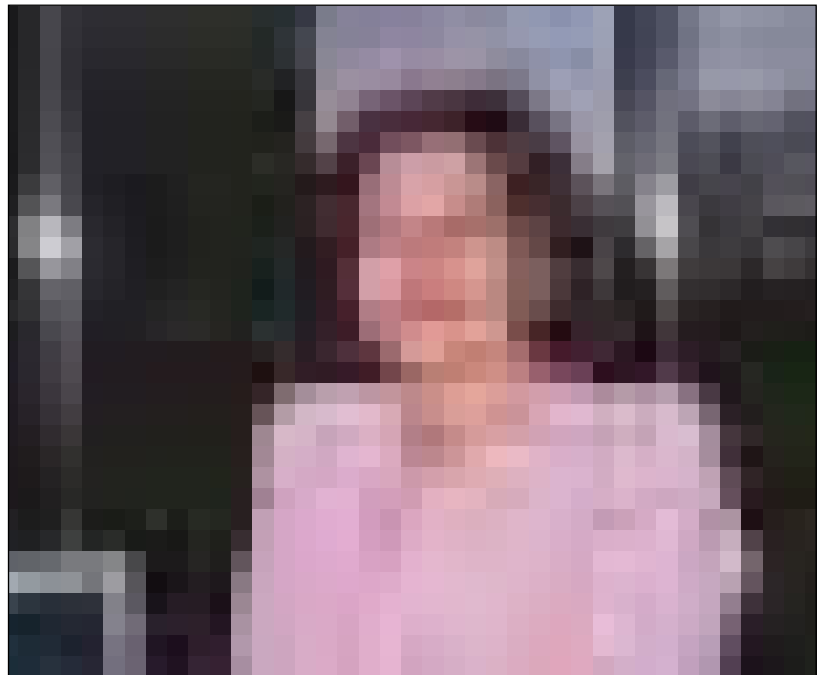
Interview to Pilar González de Frutos, director general for Insurance. Ministry of Finance and Economic Affairs, Spain

Question: From your position of responsibility, and as an analyst of the situation, could you tell us what trends characterise the insurance industry at this time?

Answer: In common with most of the economic sector, insurance all over the world has been affected by trends towards globalisation. There has therefore been a progressive attempt to bring about a rapprochement of the various regimes which have been operating in different countries. There has also been concern about those areas where the control over financial companies has left something to desire, and there therefore exists debate over what controls have been imposed on the financial world and the insurance industry, which is sometimes considered as a subgroup of the financial industry. It is true however that the insurance industry has a large capacity to continue generating business and to respond to the new and incessant social needs which are materialising, whether these be concerning third party liability, catastrophes, environmental pollution or the ageing population. Insurance has a role in all these areas to provide security and solutions.

Q.: In terms of geographical area, we are especially interested in the situation affecting insurance in Europe and Latin America, what are your impressions?

A.: The insurance industry in Latin America is experiencing greater expansion than in the rest of the world, probably because there is still a good way to go. All the legal regulations of the area's countries are in the



Pilar González de Frutos is a law graduate. Since 1980, after passing the appropriate state examination, she joined the Directorate General for Insurance as an inspector. After periods in the Fondo Nacional de Garantía and the Consorcio de Compensación de Seguros, where she was head of operations between 1988 and 1997, in January of this last year she was appointed Director General for insurance.

process of revision and de-regulation. The principles of a free-market are being accepted as a basic instrument in order to guarantee better functioning and to satisfy needs. In this respect we in Spain, and through associations which provide us with links with the supervisory bodies of the area, provide every encouragement to follow this path, because it is a path beset with difficulties. Spain went through this process during the Eighties, and the beneficial effects are more than proven. In the Europe, the level of development is much higher, and the possibilities for natural increase

of the market are more limited - at least in the traditional lines of business. There are certain comparative differences between one country and another, and here Spain still has certain development prospects until it achieves real convergence in the average volume of income which families dedicate to saving.

Q.: Not only savings, but all types of policies, starting with life for example.

A.: Yes, as just another type of insurance. Life insurance is without any doubt one of the best instruments for saving. In this respect, we believe that



Spain has a greater potential for development than the European average; it is essential that we achieve a real convergence between the societies which have formed part of the new European monetary union.

Q.: What effects can be felt with the conversion of a domestic local market, such as the Spanish one, to a more global market such as that of the European Union (EU)?

A.: This situation gives us new opportunities for the development of business initiatives, and this applies to all the economic agents which exist in this market. Competition does not now simply take place between the different markets, but rather within the legal framework which regulates each one of these economic agents, bearing in mind that, after the entrance in force of the single licence, or single passport, the real competition is now between the various legislations. In the context of Spanish insurance, the legislation which is in force at this time is fully competitive with the rest of the European legislations. This should provide insurance companies with sufficient room to manoeuvre in order to do business and open up new areas of development within the framework of the European Union; indeed it will be necessary to advance in this area in order to have a true domestic insurance market.

Q.: With respect to something which is of much concern in many markets - the phenomenon of bankassurance, will the time come when the distinctions between these types of business become confused?

A.: In the financial sector as a whole the international trend is towards giving the client global services, this may lead to a blurring of the divisions between banking and insurance. There is a common area between these two activities which is becoming increasingly broad. Not long ago, with regard to a community di-

rective, the European commission was asked to define what a capitalisation operation was, in contrast to a purely insurance or banking operation. Well, the commission fully accepted that an operation which guarantees the simple fact of the maintenance of capital is a capitalisation operation, and that these types of operations are permitted to both the insurance companies and the banking sector. It is true that there is a grey zone, and the challenge which legislation faces when presented with a new community regulation is to define an insurance operation in order to distinguish it from any other type of financial transaction. This challenge is in the hands of the International Association of Supervisors, and for the time being has no easy answer.

Q.: What are the main concerns of the Spanish insurance sector at this time?

A.: The major problem from the point of view of the supervisory body revolves around the degree of solvency and, therefore, capacity and sufficiency. I would be very pleased of this were also the worry of the majority of insurance sector managers.

Q.: Is the number of operators less important?

A.: This is not the primary concern, the fact that there are many or few operators is not necessarily symptomatic of insolvency, very much the opposite: a market may have many operators and still be fully solvent. Solvency is clearly related to the level of price sufficiency, and in this market there are challenges to be overcome: in life business, the new economic situation brought about by the steep falls in interest rates may bring with it future problems in the medium-term for business development; concern in non-life business is clearly the containment of the loss ratio and new business expenses.

Q.: With regard to motor insurance, could the situation in Spain be extrapolat-

ed to Latin America where compulsory insurance is still not the case in many countries?

A.: Compulsory motor insurance in Europe has one aim: to protect the third parties who may be harmed by an activity with inherent risks such as the driving of motor vehicles. In as much as it has been desired to protect this interest, I would defend the need for its existence. The fact that it is compulsory is not aimed at protecting the interests of the provider of the service, although this is also achieved. I would encourage other countries to become part of this movement because it is a highly valuable social protection measure.

Q.: The protection and support which is offered by reinsurance is fundamental to insurance business, what opinion do you have of the world market's situation at the moment?

A.: It is going through the same turbulent times as the rest of the economic sector. It is heading towards progressive globalisation and concentration. The world's four top reinsurers write 45% of world business. In addition to this, channels are being opened for new types of reinsurance, which are frequently associated with services, as is the case with financial reinsurance. New insurance and reinsurance formulas are being created taking advantage of the new economic needs which have arisen, or the hypothesis of catastrophic problems. However, these new types of activities are not being followed - with the same speed - by regulatory measures, although at least now there is debate about certain practices which it will be necessary to control, at some time, for the sake of the good name of the insurance companies and the health of the market.

Q.: It is well known that insurance legislation in Latin America is relatively modern and, to some extent, is inspired in Spanish legis-



lation which in turn springs from the European Union. What links does the Directorate General for Insurance maintain with the American continent?

A.: Both Spain and Portugal are in rather a special position. We are members of the Asociación Latinoamericana de Superintendentes de Seguros (AISS, Latin American Association of Insurance Superintendents), and through this association, members of the Asociación Internacional de Supervisores de Seguros (International Association of Insurance Supervisors), which was set up in 1997 and has done much work in the design of basic supervisory regulations. In fact there is direct and explicit support of the development of Latin America; together with the AISS it organised training courses for the superintendents for the training of their staff. In Spain we are aiming to increase the level of collaboration, starting by increasing personal contacts between the staff of the Spanish and American supervisory bodies - this is the only way to promote closer collaboration. Within this framework, the Directorate General for Insurance is exploring the possibility of organising training courses using bodies such as the Instituto de Cooperación Iberoamericano.

Q.: There have been Spanish solutions have also served as highly appreciated

examples outside our borders, such as the Agroseguro model for covering agricultural and farming risks, or the Consorcio de Compensación de Seguros for dealing with catastrophe losses.

A.: Beginning with the second



mentioned body, which I know very well, traditionally Latin America has shown a tremendous interest towards this institution, and indeed not only Latin America. With the invaluable help of Mexico, in the next annual meeting of insurance supervisors we will present the Spanish system for catastrophe cover to the whole world. It is

true to say that many social and economic conditions must be met in order to implement a model such as ours, and this is not easy, above all if immediate cover is desired. It should be remembered that in Spain the starting point was the need to give immediate cover after the Civil War, there was therefore a pressing need to find solutions, and conditions existed where the state deficit did not matter as much as it does now.

For the cover of agricultural and farming risks Agroseguro is another model which has been well received. A pool of companies is involved in insurance coverage, in addition to reinsurance capacity provided by the Consorcio de Compensación de Seguros. Here, the Consorcio de Compensación de Seguros has provided very strict technical criteria. In addition to this, the Consorcio carries out retrocessions with the international reinsurance market with the aim of minimising the state's liabilities. It is basically a technical intervention. Latin America's concern with these types of risks has also been demonstrated on various occasions, sometimes on an institutional level, and on others by the Asociación Latinoamericana de Seguros Agrarios (ALASA). I am aware that MAPFRE has already started to assess the interest which exists in this type of agricultural cover in some Mercosur countries. ■