



Interview to António Reis, Chairman of the Associação Portuguesa de Seguradores

«The sector is performing well.»

The Portuguese insurance sector followed its own development path until the country joined the European Union in 1986. The fact that the sector was nationalised and then later privatised gave it its own particular characteristics; it now faces the same challenges as the other European countries. Mr. Reis is a highly experienced manager, and the Chairman of the “Associação Portuguesa de Seguradores” (APS) - the insurance employers’ association - and here gives his views on the past, present and future of insurance in this market.



António Reis was born in Lisbon in September 1945, and has a degree in law awarded by the University of Lisbon. He has been Chairman of the Portuguese Insurers’ Association since April 1997 after a career involving various positions of responsibility in a variety of important companies and institutions within the insurance sector.

Question: Portugal joined the European Union (previously the EEC) on January 1, 1986, thus starting a new era for insurance. From the business association viewpoint, what have been the results of the privatisation and liberalisation process?

Answer: Throughout its history the insurance sector has been strictly regulated, with compulsory rates, with policy wordings which have had to be approved by the supervisory body before being launched onto the market. These were all common practices in 1973 or 1974. Another characteristic is that there had been foreign insurers, mainly European, present in the Portuguese market for many years.

These companies were not nationalised however, only those with 100% Portuguese capital, some 25 companies in total. The foreign insurers felt the need to set up an association, and founded ASEP (Agrupamento de Seguradoras Extranheiras em Portugal) –the association of foreign insurers in Portugal– which served to defend their interests exclusively. The public insurers also felt the need to set up an association, thus bringing about the creation of APS in 1982, this was something in which I actively participated. The beginnings of the APS lay in the National Insurance Institute which, between 1976 and 1983, carried out the functions of the regulatory body, and also represented the public

insurance companies. At that time the APS was more a business association than a real employers’ association.

Question: Who took control of the public companies when the privatisation started?

Answer: First of all it is necessary to clarify the fact that when these 25 insurance companies were nationalised they went through a concentration process which resulted in the creation of six public groups: Imperio, Mundial Confiança, Alianza Seguradora, Felicidade, Tranquilidade, and Bonança. These companies accounted for 73% of the insurance market. The first to become privatised –in two stages–



was Alianza Seguradora; its acquisition by the French group UAP was not completed until 1990. Later everything came to a halt with the Gulf War. When the process started again the next one to be privatised was Tranquilidade, and its previous owner, Banco del Espirito Santo, took control. It was then the turn of Mundial Confiança, which was also returned to its previous owner. In addition to the privatisations, the market saw the appearance of new private insurers, the first to be set up was Lusitania, towards 1994, then Ocidental and a number of others.

Question: The question of Mundial Confiança and the Champalimaud group brings with it some interesting questions, because you were closely associated with the dispute between the Portuguese authorities and the Spanish bank BSCH.

Answer: The question is that two of the vice-chairmanships are occupied by Mundial Confiança and the group Banco Comercial Português (BCP).

Question: Does this situation cause difficulties for you when giving your views?

Answer: No, absolutely not, because I simply do not talk about it.

Question: Moving on to another matter, how did APS come to its present position, and what part of the market does it represent?

Answer: APS is now a not for profit employers' association, bringing together the insurers and reinsurers operating in Portugal. As I said, it was set up at the end of the 80s, and its creation was to a certain extent related to the disappearance of the National Insurance Institute, given the fact that the body which followed it –the Portuguese Insurance Institute– did not immediately take over the duties which correspond to

FIRST-RATE REINSURANCE

Question: What is the position of the Portuguese market with respect to reinsurance?

Answer: All insurers are permitted to act as reinsurers, but the only pure reinsurer is the Companhia Portuguesa de Resseguros, which was initially owned by the top six companies in the market when they were publicly owned, and which has a low trading volume of some Esc1 billion in premiums. Studies are presently being carried out as to what to do with it. There are suggestions with regard to transforming it into a catastrophe fund company.

Question: What is the effect of the market's high level of competition with respect to rates, and which was brought about by an excess in capacity. Will this cause additional complications in the natural disasters which are occurring?

Answer: The fact that rates are able to continue low is of benefit to insurers and policyholders, of course. This is however a temporary situation, reinsurance programs are formulated with the long term in mind, and if you transfer losses to reinsurance every year, then in the end they will not offer any more capacity, because no one wants to lose money - and if there is no capacity then there will be problems. An example of this is seismic hazards, which affect us greatly because part of Portugal is in a seismic area, and the money we spend on traditional reinsurance could actually be capitalised in some way. In the short and medium term however this is difficult to put into practice, and there would have to be some kind of state guarantee involved. If we were to study the frequency cycles, in theory Lisbon may be affected by an earthquake once in 200 years. This means statistically that one could occur at any moment, and that it would be necessary to set up a system similar to that in California, and create a catastrophe fund, with all the financial engineering that this involves.

Question: What will Portuguese insurers lose to traditional reinsurance?

Answer: The insurance and reinsurance market is fairly complicated. Insurers are very traditional, and have for years worked with first rate professional reinsurers with whom they share a similar way of thinking. Their first requirement is solvency, it does not matter whether they have a physical base in Portugal, but it is important that they be solvent. They are relationships based on mutual trust.

an association of insurers. The APS arose as a logical response to the situation at that time, but in order to carry out all its functions it had to arrive at a negotiated solution with the ASEP, which later disappeared. When it was set up, the APS was made up of 20 insurance companies, now this number is 78, which accounts for 98% of the Portuguese insurance market, although there are also compa-

nies trading outside its jurisdiction.

Question: What are its functions, and how is it structured?

Answer: It is carrying out very important duties, I will give an example: from the beginning the APS has maintained an active presence in the European Insurance Committee, and its work was especially important in the preparatory moves towards Portugal joining the EEC , on Janu-



ary 1, 1986, or its entrance into the euro. Apart from these things, the APS promotes co-operation between its associate members, represents and defends the interests of the private insurance sector with respect to government institutions, manages the Portuguese green card department and also various accords related to motor insurance. It contributes to the development of the sector's image and prestige, training etc. These activities are carried out through committees and technical studies. Like any employers' association, it negotiates workers' agreements and it also carries out studies in order to adopt the recommendations made by Brussels. Our structure is determined by a General Meeting of members who elect an Executive Board, which in turn presents its accounts and program

of activities to the General Meeting. The Board occupies itself with institutional relations and manages the various departments.

Question: Now that 1999 is coming to a close, what is your assessment of the year?

Answer: At the end of 1998 premium income in our market was Esc1,100 billion. Life and financial products account for something like 53% of the market, and the rest corresponds to non-life business. Motor insurance accounts for 50% of the non-life portfolio, and a little less than 25% of the total insurance portfolio. In terms of importance, these are followed by accidents in the workplace, with something like 15% of the total portfolio, and then multi-line policies. The market's level of concentration is important: the

market's top five companies account for 50% of the market's premiums, and the top 15 account for 80%. Insurance companies which are stock corporations control 90% of the market.

Question: What are the market's future prospects?

Answer: There are positive growth prospects, at least for the next five years, because we will continue to grow from the 5.5% of GDP which is taken by insurance at present. Retirement schemes will strengthen considerably. The market is awaiting a planned Social Security reform with respect to this, and also in health, which should be completed in the year 2000. We want to be proactive, and have asked those drafting the white book on the reform to consider our proposals.

Question: What is the current state of Portuguese insurance and how are its relations with Brazil and its old colonies, and also with Spain?

Answer: Like any other European market it is affected by internationalisation and the Brussels directives, because it experiences their consequences. With regard to our international presence, there are Portuguese insurance companies which trade in other markets, such as France, with notable success. Relations with Brazil are very cordial, but there are no great ties. Other old colonies of Portugal such as Angola, Mozambique or Cape Verde occasionally ask for our help. We have been training the Insurance Superintendent of Angola for a year, since the Portuguese insurers have an interest in the progress of the insurance sector in Angola. Relations with Spain are good, but there is room for improvement. Our associations are full members of the European Insurance Committee and there is an agreement that one of our two countries should always be present in the Chairmanship Committee. ■