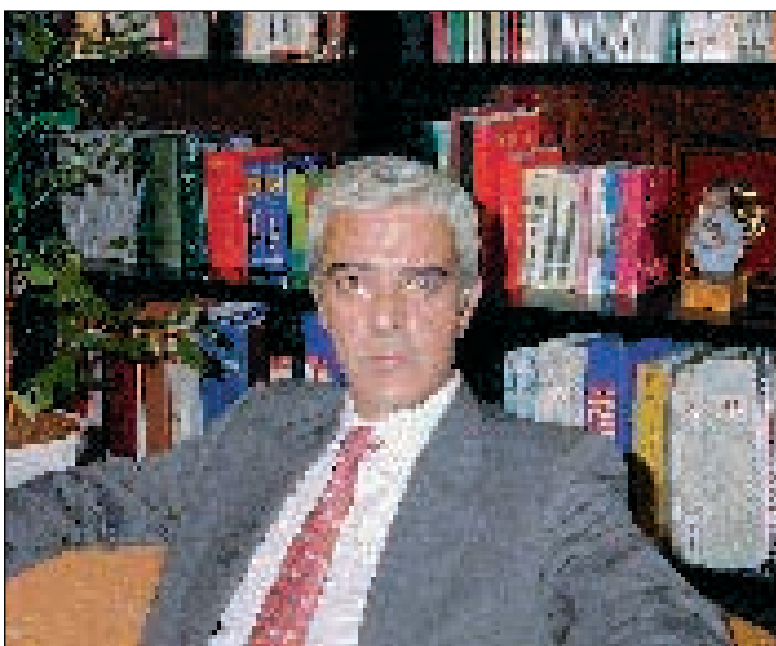


Interview with Ignacio Machetti, general manager of the Consorcio de Compensación de Seguros

«Our role is to support the market»

Set up in 1941, after the Spanish Civil War, the first task of the Consorcio de Compensación de Seguros was to deal with the large number losses which arose from that tragedy. The Consorcio acquired its legal status in 1990 and its function today is to provide compensation for losses arising from extraordinary risks. In this interview, Ignacio Machetti, general manager of the Consorcio, gives an overview of the functions and aims of this important institution – which has unique characteristics in the international insurance environment – within the sphere of Spanish insurance.



Ignacio Machetti was born in Barcelona on December the 21st, 1959. After graduating as an economist and actuary he joined the technical inspection team of the Directorate General for Insurance where he had various responsibilities in the areas of technical service and pensions. He worked for a period of time of in the Consorcio de Compensación de Seguros, «11 years ago now» he says. For the last four years he has held the position of deputy general manager of the inspection service in the Directorate General for Insurance until he was appointed general manager of the Consorcio de Compensación de Seguros on January the 29th.

Question: What are the main functions of the Consorcio de Compensación de Seguros (CCS)?

Answer: To explain this quickly I would say that there are two types of functions: insurance and non-insurance. The non-insurance functions include the management of the funds which the state apportions to export credit insurance; the management of funds which will be used to subsidise the Comisión Liquidadora de Entidades Asegu-

radoras (CLEA) and the management of the computer database of insured vehicles (FIVA). With regard to the insurance functions, all these are complementary and are of two types: direct insurance when this is not provided by the private sector, including extraordinary risks, and a guarantee fund for policies written by the private sector. In order of quantitative importance, the first place is taken by the extraordinary risks, the second function is reinsurance and

co-insurance in combined agricultural insurance and the third is the guarantee fund - especially in motor insurance.

Q: What role does property and casualty insurance play?

A: We provide cover for extraordinary risks such as flooding, earthquake, terrorism etc. This is publicly managed in that the private sector does not give a hundred percent cover. We cover private individuals and companies under equal conditions.



Our most notable clients, by size and loss frequency, are public and private companies. In order to act we do not need the area to be declared as a catastrophe area when one of these losses classed as «extraordinary» takes place. We also keep a record of statistics. These constitute our most important activities, but they are not the only ones.

Q: In Europe, a large part of what the Consorcio carries out is handled by the private sector.

A: That statement should be clarified. Because certain aid is given, it is not true to say that this management is totally private in all European countries. Examples are Switzerland or France where there is a central reinsurance fund which is behind the private sector and acts as reinsurer. But in any case, neither is there centralised management nor can it be said that the private sector completely handles these risks, because this market is always at the mercy of circumstances; as an example of this look what has just happened to aviation third party liability - this disappeared from one-day to the next after the attacks in the USA. And this was not the first time. After hurricane **Andrew**, covers decreased and became more expensive for the catastrophe markets, and likewise after the earthquake in Kobe, and after **Mitch** and so on.

Q: What volume of business does the Consorcio handle?

A: At the last board meeting which was held in July, it was stated that for the first time we had exceeded half a billion pesetas (EUR 3.010 millions) in funds under management. Premium income for the year 2000 totalled Pts 76,500 million (EUR 459,77 millions).

Q: With your appointment, and the latest regulations with respect to motor insurance and the Financial Act Bill, might we be able to say that the Consorcio is starting a new stage?



A: Yes, we can talk about a new stage, but not a recent one. I would place it as starting in the Nineties with the ratification of the CCS statute. We should continually foresee changes. Everything can be improved and new needs appear.

Q: But you are now working on making changes, isn't that right?

A: Taking it step-by-step, if we concentrate on extraordinary risks, the Directive of August 29, 1986 is our policy and to change it is not as easy as changing an ordinary policy, because it has generalised repercussions, it has to be published in the State Gazette (BOE), etc. It is true that improvements should be made in the covers, but without questioning the principles, which are very clear. Before joining the Directorate General for Insurance we worked on a new Directive which never came out because the matters it dealt with were not of fundamental importance. It was not completely new in the sense that the current Directive's policy basically works, but it is already 15 years old and it is necessary to make changes, such as the exclusion periods or admissible clauses. There are covers which are of no use such as the atypical cyclonic storm cover, which should disappear or be replaced. We will have a new Directive in the medium-term because this is worth working at, and we will do it together with the insurance sector.

Q: Perhaps it is true that we are not really at the dawn of a new stage of the Consorcio, but lately there have been many regulations which greatly affect it.

A: This is true, a new Directive has not been published, but recent times have seen a regulation of the functions carried out by the Consorcio. Examples of these are the tasks which are assigned to it by the Motor Vehicle Circulation Regulation; the Financial Act Bill, etc. We have made headway in many things. We were entrusted with the management of the computer database of insured vehicles (FIVA), and, at the beginning of this year, at last, there was a joint resolution which allowed the transmission of information from FIVA to the Directorate General for traffic. We are aware that it does not work one hundred percent at the moment and efforts must continue to be made.

Q: What practical effects has the setting up of FIVA had? Has the number of vehicles on the roads without insurance decreased?

A: It cannot be said that the number of vehicles on the roads without insurance has decreased as a direct consequence, what is decisive however is the transfer of information with the Directorate General for Traffic (DGT) and the controls which this body exercises. When people realise that the DGT systematically checks on the lack of insurance these things may change. For the first time this summer checks were made during a certain period of time, this allowed conclusions to be drawn with respect to vehicles on the roads without insurance, because for a long time now in Spain there has been talk of the existence of between one million and one million and a half of vehicles on the roads without insurance, and nobody knew where these figures came from. Now, the results of the DGT's information show that this figure should be reduced by half,



and that 90% of vehicles without insurance are mopeds and motorcycles. 90% of the people who are unable to take out insurance with the private sector- and thus come to the Consorcio - are moped drivers. This year we will have 70,000 vehicles insured, but it is not our desire to increase this number exponentially. The market should not permit the Consorcio to ensure large numbers of vehicles. We are not here in order to be the largest motor insurance company; rather our function is to provide support to the market.

Q: Where are the greatest losses concentrated?

A: At this time the worst results are being shown by motor insurance, and ordinarily attention tends to be given to extraordinary risks, although fortunate-

ly we have had a number of months without large losses. In the historical chain of events concerning our loss experience we are just below full expenditure of total premiums; although in reality some years are very good and another years we use various times the premium income for that year. Efficient management - particularly financial - and a very low expense level have been the factors which have allowed us to reach our present reserves.

Q: Does motor insurance pose any special concern to you?

A: Not from a financial or equity point of view, because it is not the line which uses the most resources, but it is of concern to us from an institutional point of view because what we cannot

do is to set up an insurance company with its respective departments for underwriting and handling for a large portfolio - that is not our function. Fortunately we have been able to solve the bureaucratic problems through outsourcing, but this is not the only point, we do not want to have a leading role in motor insurance, we just want to be present when there is no other possibility for coverage from the other insurers.

Q: What functions are missing or which are superfluous in the Consorcio de Compensación de Seguros?

A: Atypical cyclonic storm coverage is superfluous, and as far as what is missing is concerned, there are things that we do not do, such as loss of profits, because this functions in the pri-

A MODEL TO FOLLOW

Q: As the public insurer of extraordinary risks, do you consider that the Consorcio serves as an example for other countries, especially Latin America?

A: Judging by the number of countries which are interested in our system and the number of visits which we receive, there is no doubt that we act as an example when it comes to setting up similar initiatives. We are much appreciated by the international reinsurance sector which deals with catastrophes. We do not seek to be in the limelight, but it is clear that our way of solving problems stands out. The combined agricultural insurance system which the Consorcio reinsures is also internationally appreciated. There is widespread awareness that a private agricultural insurance system cannot work without the support of state financing or cover. The problem is that this is very expensive at the beginning.

Q: Have you ever thought of internationalising your activity?

A: To start with, we do not have legal framework to do so, and apart from this the Consorcio's size is designed for the risks and their corresponding intensities which are most important in Spain, fundamentally flooding. We have dealt with the potential for losses arising from terrorism, but we have less experience in other risks such as earthquakes. It is true that all extraordinary risks are potentially catastrophic, and if you consider the volume of funds which we manage for the amount of risk which may arise then it is easy to calculate the amount of funds which would be necessary in order to handle earthquake risks such as those which occur in other countries. But technically, if our principles are accepted and the market works, anything is possible.

Q: Will the rates which private insurers collect for the extraordinary risks which are handled by the Consorcio ever decrease?

A: We have over 40 years of experience, and it is true that a system which simply continually accumulates resources makes no sense. It does make sense however to do this until the resources are considered sufficient. After this moment rates should be decreased and cover allowed to be cheaper.

Q: What would be the optimum level of resources bearing in mind that they should be sufficient to deal with a possible catastrophe situation.

A: It is very difficult to talk about amounts. The figure would be related to our maximum reserves which is fiscally deductible, this was calculated at 600% of premiums, and we have not yet reached this. We are however sure that this might not be enough in the case of earthquake. When we have doubled in our present reserves, the moment will have come to think about a reduction in rates, and this will be done step-by-step. Whilst nothing of importance happens our job is to continue giving services to the market.



vate sector. And personally - this is not an official view - I would like to be able to offer unlimited cover for motor insurance which has not been accepted by other companies. But overall there is nothing very important missing or superfluous.

Q: What roll do you play in agricultural insurance?

A: With regard to agricultural insurance, represented by Agroseguro (see TREBOL no. 13, October 1999), we are primarily reinsurers, but also co-insurers. We can say that this is a relatively new type of insurance, it has been around for 20 years, almost always with very bad results, but with the reinsurance management of the Consorcio, and, let us be honest about it, a few years with a low loss ratio, there are sufficient provisions in order to deal with any eventuality in this field, this is our case.

Q: What role does export credit insurance have?

A: We do not have any direct activity, this is taken by the company CESCE. We solely manage the funds. It is also known that we are the leading shareholder in the company Crédito y Caución, but this is only an investment question without any further ramifications.

Q: Where are the Consorcio's most immediate priorities concentrated?

A: The first is the incorporation of the Comisión Liquidadora de Entidades Aseguradoras (CLEA), as is laid down in the Financial Act Bill. This will take us a lot of time and resources. The problems will be similar to any merger process, even up to the point of deciding where we will be physically located. But there is no doubt that it will be profitable and efficient.

Q: Why it was it decided to carry out this process?

A: For many reasons, the first is operational: CLEA is an autonomous body and has some

relatively marked functional limitations. It would have been better if it had been a public business institution as is the case with the Consorcio. In the second place, because CLEA has one business objective, which is the winding up of insurance companies, the need for which has started to decrease following the rationalisation of the market. No small organisation can withstand such fluctuations in its volume of activity, it is easier within a large organisation such as ours, we would even save on management expenses. What sense does it make to co-ordinate with the CLEA handlers when this is being done by the Consorcio? The only thing which the Consorcio does not do with respect to the CLEA is the liquidation activity, in other words, the sale of assets in order to pay liabilities. We could also perfectly well do this whilst saving costs. In summary, there are two reasons to carry out the merger process: operating simplicity and cost cutting.

Q: What other priorities does the Consorcio have?

A: To again take-up the Extraordinary Risks Directive on the one hand, and on the other, to do whatever we have to do concerning motor insurance if the rate of increase of the number of insured vehicles which we have to take on continues. We are also concerned with the fact that the Consorcio should have a greater institutional presence both in the market in general and in society. From an internal point of view, we have to achieve the collaboration of all companies so that FIVA is 100% effective. There are also a few other things, for example we have created a policyholder assistance service which did not exist previously, and will be directly under my control. I do not wish to say that this task was not done before, just that now we have systematised it, and, much to my surprise, the number of complaints is ab-

solutely minimal. Another matter would be the appointment of a policyholder ombudsman, because it is not right that the Directorate General for Insurance should promote this concept and that the only company that works under it does not have one.

Q: In the light of the events of September 11 in the USA, and given the fact that cover against terrorism is given by the CCS in its property and casualty section, have you got any specific comments on the matter?

A: I feel I should make a comment. The magnitude of the economic losses arising from the attack, not to mention the personal ones which require no more comment than a profound sorrow for all those affected, shows the enormous potential for losses which terrorism has, as I have always warned, despite the fact that our greatest losses are due to flooding. One should not forget that the largest individual loss compensated by the Consorcio was a terrorist act, that of Rios Rosas Street in Madrid.

Due to the size of the economy which was affected, the present reserves of the Consorcio would have been overwhelmed in New York, but I think I can state that this would not have happened if a similar event had taken place in our country. And there is no doubt that if the American market had had a similar tool then the insurance and reinsurance sectors worldwide would not be suffering the consequences so severely. The Consorcio is also not immune to these consequences because since September 24 it has been the instrument which the Spanish government is using in order to comply with the Ecofin agreements with regard to the disappearance of worldwide reinsurance capacity for the cover of third-party liability in aircraft and airports for losses to non-passenger third parties. ■