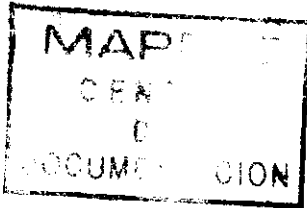


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For the Spanish insurance market the just finished 1981 has been good in the Automobile field, whose results are much better than those of previous years.

Nevertheless, some difficulties have arisen referring to the market growth, which is not expected to be higher than 18%, although it is necessary to bear in mind that the inflation rate has not exceeded the 15%.

In other fields, the situation continues similar to what I have described in previous articles. The Insurance Bill is already at the Parliament. It seems that some 700 amendments have been submitted to the Commission. It seems improbable, though, that the Bill will rectify its basical contents, but it is possible that when the Law is approved, it will be too "weak" to meet the real needs of the market, with many companies under the solvency safe margin.

Due to reasons not related with the insurance market, there has been a delay in its discussion at the Parliament, but it seems that it might be approved during this year in order to start being in force at the beginning of 1983. If, for any circumstance this Bill is not passed at the Parliament, it would be evident that the insurers that have opposed to it (for reasons that I don't arrive to understand) would have made a very unfavourable service to the country.

It is said, and the Head of the Insurance Department of the - Ministry of Finance has recently made it public, that the situation of more than 70 companies is of insolvency and might affect substantially the interest of the insureds, should the occasion arise of liquidation of many of them.

Which is the reason of the precarious situation of these insurance companies, that may represent at least 20% of the premiums of the whole market?. It is usually said that there is a too large number of insurance companies, but this statement is more illusory than true. There are many little companies operating in very limited fields, like the Health Insurance services, which are not necessarily those who are in the most difficult situation.

The problem affects mainly to those insurance companies that have operated very irresponsibly in the Automobile insurance taking profit of the laxity of the requirements they have to fulfill referring to the payment of the losses. Besides, every time that results are slightly improved, as it is now happening they started a campaign of "captation" of new business, paying very high commissions that necessarily produce losses, although the "prudent" insurers obtain a profit from the same situation.

The main reason of this lies in the lack of an external audit to the insurance companies. This negligence enables the companies to offer Annual Reports without any effective control of its authenticity. It has happened, not only in the insurance sector, that companies that have been presenting a situation apparently positive with profits, and even with important profits, were practically bankrupt.

It is clear that Spanish insurance needs a concentration process. There is no reason for a market of an excessive number of companies, although the difficulties come mainly from the 100 companies that effectively operate competitively. But much more than a problem of concentration, it is a problem of fulfillment of the legal requirements and of the apparent weakness of the Insurance Department to ask for it. It is also fair to point out that the Department suffers a lack of means to take care of a market that is becoming quite important: there are only 30 inspectors that, besides visiting companies, and handle the administrative functions of the Department, have to manage some insurance public bodies, recently emerged, that are by themselves - big insurance concerns.

I want to remark another problem, that might be much serious in the future. I am referring to the possible difficulties in Life Insurance companies, where the losses may be quite high in the case of real insufficiency in the reserves. To protect policyholders, the new Law requires a higher paid up capital in Life Insurance. But the new requirements practically do not affect to the companies that are currently operating, that have a six year term in order to adapt to the new Law.

Anyway, this deteriorated process is not so fast, due to the improvement of the Automobile insurance results as a consequence of the lower use of the cars as a result of high petrol prices. The market results already known, are of a loss of 4.500 million pesetas in 1979 and a profit of 5.212 million pesetas in 1980, due fundamentally to the investment income. I do not doubt that the whole market results will improve in 1981, but this will affect mainly to the "prudent" insurers and not too much to the insolvent ones.

Another important news is the possible solution of the problem created by the liquidation of a savings institution, FIDECAYA under the management of the Insurance Department, to which I referred in my previous report. It is possible the absorption of its premises and staff by an important Spanish Banking group, with the remarkable help of the Government through a long term loan. If this situation is confirmed (January 31 is the limit date) an important step would have been done to improve the image of the Insurance Department as an authority capable of solving the problems that may arise in the future.

Anyway, it would not surprise me that our insurance market will need some kind of institution, created with the participation of the main insurance companies, to collaborate in the liquidation or reorganization of the companies with difficulties, in a similar way to what the Banks have organized, a sort of "Intensive Care Unit" with a strong financial help of the "Banco de España" as I suppose that would also happen in the case of the public body related to solve the crisis of some Spanish insurers.

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