

April 1985

CAR-122-

WORLD INSURANCE FORUM



Madrid

IGNACIO HERNANDO de LARRAMENDI
Chairman
Corporacion Mapfre

For many years, Spanish insurance was "waiting for Godot," as personified in the new insurance law. The delay seemed to interrupt all the reorganization, merger or coordination decisions companies had to make. As I mentioned in my previous report, the law was enacted on August 2, 1984 and came into force at the end of the year.

Though it is not a "revolutionary" law at all, it seems to have "pushed" decisions; changes have occurred more frequently in the last few months than they did during the last 20 years. In my previous report, I mentioned the merger of Minerva, Caser and Union Condal; I now consider more important the merger of Catalana/Occidente (third in the Spanish 1983 ranking) and 20th-ranked Aurora/Polar (sponsored by Banco de Bilbao, its main shareholder). A new group thereby is created that could become first or second in the Spanish market in several ways, surpassing, in 1983 figures, La Union y el Fenix and Mapfre.

These two groups, with high solvency and quality levels, undoubtedly will become very important in Spanish insurance in the next few years. In addition, the Banco de Bilbao is the first

KAILIN TUAN, professor, Department of Insurance and Risk, School of Business Administration, Temple University, serves as the advisory editor of World Insurance Forum.

financial institution to offer the public some new savings products for retirement that compete with similar products offered by the life insurance industry.

The Mutua General de Seguros (23rd in the 1983 ranking), a traditional company that has had limited growth in recent years, has acquired all the shares of Hermes (38th), a small company; taken together they probably will hold eighth position from now on. The Seguros Banco Vitalicio (specializing in marine insurance and ranked ninth in 1983) is another large company with a high solvency level but little growth in recent years. It absorbed the Compania Nacional Hispanica Aseguradora (25th), the first Spanish specialist in marine insurance. This company, created and owned until now by a shipowner family, the Aznar Group (whose other companies practically have disappeared), together with Banco Vitalicio, probably will hold fourth position in the future.

It also has been rumoured that all the French state-owned companies (U.A.P., A.G.F. and G.A.N.) were envisaging the creation of a single group. More important news is that the first French insurance group, which recently incorporated after the merger of Mutuelles Unies and Groupe Druot under the most outstanding insurance personality in France at present, M. Claude Bebear, has achieved absolute control of Mare Nostrum. It seems that its principal shareholder up until now, the Banco Popular, is going to reduce its commitment in the insurance field.

The purchase by the AIU Group of a specialized motor insurance company owned by the Spanish manufacturer, Seat, also seems decided. And there still is other news of possible

"movements" that are likely to alter the market in the coming years, giving way to the necessary institutional reorganization in order to strengthen Spanish insurance and to enable it to face up to the new situation that the possible, though not yet certain, entry in the European Common Market will produce.

I believe that this entry will have no direct repercussions in insurance operations, since the most important European companies already are working in Spain, but it will open a new phase in our country in which our market will have to become more like our neighbours'. Also, a larger concentration of the market is foreseeable, in order to reach a level I consider satisfactory; although this is very far away from that in America, where 40% of the market share is with the five first insurers of the country.

It is worth mentioning my recent comments in a paper I read in London; I said that when I occasionally am asked if I fear the "market opening" that our country's entry into the Common Market will bring, my answer is "no." For many years, the main European insurance companies have been operating in Spain with a great deal of freedom and with no discrimination. I am afraid that many of them are losing money, which is to say that to some extent dumping is taking place. This has not, for example, kept those insurance companies that are entirely Spanish from developing quite satisfactorily and from substantially widening their share of the market.

Should Spain be admitted next year into the European Community, are Royal, Commercial Union, Zurich, Winterthur, UAP, Allianz, Generali and RAS—who now operate in our

country—going to function any differently? I assume this will not happen; as of now, their share of the market is shrinking. The four leading Spanish insurance companies (La Union y el Fenix, Catalana, Mutua Madrileña and Mapfre) have gone from a market share of 14.6% in 1977 to 15.6% in 1983; the non-Spanish ones cited have gone from 11.5% to 10.9% during the same period.

But although national, institutionalised insurance companies are making advances against foreign companies, substantial changes can take place in the future, at least in Spain, since modifications in the structure of insurance will not come from the evolution of policyholders' wishes, but rather from the acquisition of national companies by foreign companies or other institutions, as is happening lately. A consequence of this is the fast growth of Winterthur, over 30% in 1983 and 1984, which has become the leader of the foreign insurers in Spain with neither mergers nor absorptions.

The 1984 results have not yet been published, but it seems that the loss ratio has been quite satisfactory, with no fire or marine claims as significant as those suffered in previous years, and with reasonable results in motor insurance, where a tariff increase has been approved. In this regard, it is worth mentioning that the most important fire loss in Spanish insurance history occurred at the "Las Copas" plant of the Gonzalez Byass cave, probably the largest European wine cave. The claim amounted to 4 billion pesetas (about \$24 million), but it has not affected the Spanish insurance market at all because it had been placed by an American broker at Hartford (AFLA-CIGNA), 25%; Allianz, 25%; and at a Spanish company, 50%, that fully reinsured it with normal reinsurance treaties in the London market, through some important brokers. Incidentally, the American broker's offer was so satisfactory that my company could not match it, in spite of a history of excellent relations between Gonzalez

Byass and Mapfre and in spite of the fact that Gonzalez Byass' chairman is a member of the board of our company.

With regard to growth, figures still are not available. Mapfre has grown 25.6% and Mutua Madrileña Automovilista (the largest Spanish motor insurance company) has grown more than Mapfre. A first estimate reveals that the average growth will be about 18%.

Zurich

K.G. FLETCHER
Assistant Manager
International Division
Zurich Insurance Group

On October 2, 1984 the Swiss Parliament elected the first woman to the seven-member federal government. Elizabeth Kopp succeeded Rudolf Friedrich, who retired because of ill health, as justice and police minister. Considering that women have been able to vote only for a relatively short time—and in a few isolated areas they still are excluded from local voting rights—the election of Mrs. Kopp is all the more dramatic by Swiss standards.

As for financial news, the largest takeover bid ever made by a Swiss company received official approval by the U.S. federal trade commissioner. Nestlé now will be able to acquire the Carnation Corp. in Los Angeles for an acquisition cost exceeding U.S. \$3 billion. Nestlé's reputation in the U.S. has improved considerably since it agreed to abide by the World Health Organisation guidelines for baby foods and to submit to supervision by an independent commission headed by Edmund Muskie. In January, Nestlé acquired another California-based company, Hills Brothers Coffee, San Francisco.

Another case of "insider trading" involving a Swiss company is being investigated by the SEC. The Ellis Co. in Zurich, which has specialised in takeover transactions and arbitrage for more than 30 years, is alleged to have traded in shares of more than 40 U.S. companies which were later either taken over by, or merged with, another company. Trading involved such companies as Marathon Oil, Dean Witter,

WINS for **IBM** System/38
Wheatley Insurance Systems

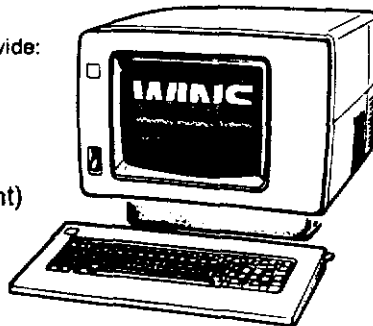
A Commitment to Quality.

WINS Meeting the special needs of
EXCESS and **SURPLUS** processing

The integrated solution for
Property and Casualty Insurance Companies
and Managing General Agents.

WINS applications provide:

- Policy Management
- Claim Processing
- Premium Accounting
(direct bill, account current)
- Reinsurance Accounting
- Financial/Management
Reporting



WINS ...all personal, commercial, specialty
lines...some with automatic rating.

The Wheatley Group, LTD.

One Huntington Quadrangle, Melville, New York 11747 (516)-293-0144