interview with **Pilar González de Frutos**

President of UNESPA business association and Vice-President of the CEOE
Madrid - Spain

Pilar González de Frutos got a Degree in Law from *Universidad Autónoma* of Madrid in 1979. In 1980, after passing the relevant competitive examination for the Inspectorate of the Directorate-General for Insurance and Pension Funds, she worked for that body supervising insurance companies. In 1983 she was appointed Deputy Technical Operations Manager at the *Consorcio de Compensación de Seguros* (Insurance Compensation Pool). In 1988 she was appointed Operations Manager of the *Consorcio*, a position she held until January 1997. She was then appointed General-Director of Insurance, a position she held until November 2002. In June 2003 she was appointed President of the UNESPA business association. Since 2006 she has also been Vice-President of the Spanish Federation of Business Organisations, CEOE[1].

"The outlook for life insurance is very positive"

In the medium to long term, the latest reform of Spain's public pension system to be approved provides an opportunity for life insurance as a tool for harnessing savings to expand its role of supplementing State pensions. Almost half of all insurance premiums collected in Spain are in respect of life insurance, which also amasses managed assets of some 150 billion euros, not counting the assets of pension and mutual funds.

What is the Spanish Union of Insurance and Reinsurance Companies, UNESPA[2], and who does it represent?

UNESPA is an association, set up in 1977 by companies working in the field of insurance and reinsurance, with the basic mission of managing, representing and defending the interests of Spain's insurance sector. At least one organisation of this kind is to be found in every market. Some markets with special features may even have more than one. UNESPA is also involved in supranational partnerships. It belongs to FIDES[3], the Inter-American Federation of Insurance Companies, and in Europe we are members of the European Insurance Committee (CEA[4]). Still in its early stages, but with a global vocation, a permanent network representing the interests of the sector, INIA, is now also being established, which may be seen as a counterpart to the IAIS (International Association of Insurance Supervisors). At the moment, the International Network of Insurance Associations, INIA, is not formal but just a network of contacts on the Internet. However, its importance lies in the fact that some US and Canadian partnership organisations are not in FIDES. A network via the Internet was therefore necessary. It will not have a formal structure for the time being, but this allows us to distribute the roles and interests that we take to the forums we hold with IAIS insurance supervisors.

What are UNESPA's priorities in all kinds of areas and specifically in life insurance? Solvency II is presumably one of them?

Solvency II takes up a lot of our working time and requires considerable effort and human and material resources. We are at quite a critical point, because all the requirements are

The basic mission of UNESPA is managing, representing and defending the interests of Spain's insurance sector

[1] *Confederación Española de Organizaciones Empresariales.*

[2] *Unión Española de Entidades Aseguradoras y Reaseguradoras*.

[3] *Federación Interamericana de Empresas de Seguros.*

[4] *Comité Européen des Assurances*.

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going to be further specified in the level 2 measures. We have to continue to work very hard on this project, but we cannot devote ourselves to just one single issue. The intense regulatory pressure we are under means that we have to spread our attention among important projects like the amendment of the Private Insurance Regulation and Supervision Act (LOSSP[5]) in order to incorporate the Directive, with specific deadlines. Reform of our Insurance Contract Act and our legal system for assessing personal injury is also under way. We are continuing to implement international accounting standards. Some time ago, the European Commission held a public hearing in relation to possible changes to the Insurance Mediation Directive. There are also some other initiatives, such as the work being done to achieve better regulation of guarantee funds. And finally, the Green Paper on pensions in Europe is still open.

What is happening in relation to pensions?

In Europe, EU institutions have no competence where pensions are concerned. The competencies lie with the governments. The Commission has, however, launched a Green Paper making recommendations. This was no surprise to anyone, as it explains that we are witnessing a demographic trend towards very high longevity throughout Europe, and that must be considered. And even more so at times of difficulties for public finances like those we are going through today. We have to think that social care benefits –not just pensions– should adapt to changes in the systems in order to support their maintenance and funding. There are no big surprises. Its conclusions are those we expected. The Green Paper highlights the differences between those countries that have made reforms and those that are lagging behind, together with an outline of complementary systems. But it cannot go further because, under the Treaty of Lisbon, the Commission has no further competencies.

How do you think all this will end?

Given the way that changes are speeding up, I think we will have more of Europe. We have a single currency, the Euro, and it is impossible to keep going without a single economic policy. The larger countries are in better condition financially and, moreover, are creditors of the remaining countries, are betting on more of Europe. I am convinced that, over time, we will end up having a single economic policy that will provide support to a single currency. I would not be surprised if they ended up issuing Eurobonds and, little by little, this will also generate social convergence. I have always placed great trust in Europe.

In the context of the Spanish insurance sector, what does life insurance represent and what is it expected to represent eventually?

Right now, premiums from the Spanish insurance sector are divided almost equally –50% each– between life insurance and non-life insurance. This is not the most common

[5] *Ley de Ordenación y Supervisión de los Seguros Privados.*

business distribution model in mature markets, where life insurance business often accounts for a larger share. The reason is that there are probably two development dynamics in the insurance industry which differ for many reasons, be they sociological, historical, cultural, or any other. But rather than justifying why our growth in life insurance has been less than we see in other markets around us, it seems to me much more interesting to analyse how much we can continue to grow in the future. Consequently, the outlook here is very positive.

The future of life insurance in Spain looks promising, but were you not somewhat disappointed with the last reform of the public pension system? The government continues to consider insurance in a complementary role. Were not insurers aspiring to something more?

The Spanish insurance sector has never wanted to manage pensions that are substitutes. We want to manage supplementary pensions. The second pillar of social security is complementary, not a replacement. Spanish insurers have never asked for a pension model in which the Pillar 1 pension is not public. We will never go there. We are therefore expectant about the public pensions reform that is under way, but we do not want to be the managers of Pillar 1 pensions. We want to manage and have an increasingly predominant role in Pillars 2 and 3 which, under the Spanish Constitution, are currently supplementary pensions. According to experts, the old argument that there is only one pension system in Spain, and it is pay-as-you-go (unfunded), is now closed. Today, we all know that the system is broader in that it has a fully-funded system attached to the unfunded public one.

The reform of our public pensions system is derived, firstly, from a report approved by Parliament and originating from the Toledo Pact. This attaches some importance to private systems and calls for them to be stimulated. That document, which had the unanimous support of the Chamber, was followed by another one, signed by the government and representatives of social and economic players that also attached special importance to the need to boost Pillar 2 systems, which in our country are underdeveloped, and the need for creating earmarked savings through Pillar 3. These are two quite important bases for continuing with our demands, and we hope that they will provide a strong impetus to help develop the supplementary pension industry, for the management of which insurance is essential.

Why has this issue already been resolved in many other countries? In France, for example, most workers have a supplementary pension.

There are a number of reasons for this. One is historical, because the larger European countries were in total ruin after two World Wars –basically, after World War II. Countries did not have the resources available to meet their citizens' needs, and so there was a very immediate response from the insurance industry. That was a basis on which important decisions have continued to be taken to boost the industry– and not just important ones but permanent ones. Support has been constant and continues to be. There are no pension funds in France. There is insurance managed by insurers and mutual companies that have special recognition and support, but subject to certain conditions. For example, for a long time pension insurance was identified as a product with special status in return for directing investments to certain assets and certain sectors. We are dealing with a policy change, at European level, with regard to our financial requirements, and we have to make certain adaptations. Governments are also willing to help in these cases. That is one of the soundest reasons justifying the supplementary pensions model and the role of insurance companies in their management.

It is assumed that the amounts of public pensions will be limited or tend to be reduced, making it necessary to save with supplementary instruments. What would you highlight about pension plans and life insurance? Will there be a clear winner?

No, there does not have to be. They are two different products, and in the insurance industry, we arrange one or the other without preference. The great thing is precisely that they are different, because this provides more opportunities when it comes to decision-making by savers. The advantage for pension schemes and funds is in the pure financial accumulation. Life insurance responds to different customer profiles – usually those looking for an investment with guarantees, not only for maintaining their capital but also with a certain rate of return. It also has the flexibility to adapt to

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the different phases of the risk profile without the need to take decisions on changes in management.

What has been the contribution of the new life insurances designed to amass savings, such as the Insured Retirement Plans (IRPs[6]), Company Pension Schemes (CPSs[7]) or Systematic Savings Plans (SSPs[8]), all with different tax advantages?
In a time of global financial crisis in which customers' perception of risk is more immediate, the growth figures for this type of product in the last two years have been considerable, which shows that they have served as a refuge for the savings of many people who wanted to escape from certain volatility in the financial markets.

In short, has the crisis given insurance an opportunity to show that, as well as being anticyclical, it is a solvent sector with profitable products?
Clearly it has. But the thing is that we still have the challenge of getting savers to continue to consider us as part of their options for harnessing their savings.

Should not the tax regulations in respect of life insurance savings be improved, especially considering that these are long-term savings?
It is very difficult to get people to give up liquidity and consumption if there is no tax incentive. We now have a single rate for all savings. In the last 30 years, there have been different alternating models for the taxation of life insurance savings. Sometimes it has meant a few steps forward, other times a step back, but there has not been any single continuous model of genuine fiscal support for earmarked savings managed by the insurance sector, and that is what we are still demanding from governments.

This is somewhat unlikely in Spain, but it has happened in the USA on more than one occasion. If a pension fund were to go bust, could the *Consorcio de Compensación de Seguros* (Insurance Compensation Pool) play a role in winding it up and protecting scheme members' assets?
Right now, legislation does not allow that possibility. Secondly, our pension funds are generally of the defined-contribution type –there are only a few cases of the defined-benefit type in the employment system. Given that all the product does is accumulate funds– the risk is not transferred to another party, but is borne by the scheme member – the development of financial markets is what scheme members must assume. There are mechanisms that allow the risk to be adapted by changing the characteristics of the package of assets being invested. The main guarantee in the case of pension funds is the cross-checking that is always performed between the fund manager and the depository, which, in line with legal requirements, must be two different legal entities. One of them manages it, but the deposit is held by the other. Situations have arisen in which the fund manager was having problems but the scheme members did not even learn of it, because the depository had perfect control of the assets in which the vested rights of the scheme members were invested. The only thing that happens is a search for and a move to a new fund manager.

Based on the fact that in 2010 Spain's GDP was EUR 1,062,591 million[9], what level of supplementary pension savings should we have in order to be in the same league as other countries in Europe, bearing in mind that the total amount of assets managed by

[6] In Spanish: PPA *(Planes de Previsión Asegurados)*.

[7] In Spanish: PPE (*Planes de Previsión Empresarial)*.

[8] In Spanish: PIAS (*Planes Individuales de Ahorro Sistemático)*.

Premium volume at the Spanish Market (Source: ICEA - www.icea.es)

Estimated premium volume for the entire sector			
Non-Life lines	**january to june 2010**	**january to june 2011**	**% growth**
Motor	5,956	5,853	-1.73%
Health	3,218	3,353	4.20%
Multiperil	3,304	3,413	3.32%
Other non-life	3,915	3,845	-1.77%
Total Non-Life lines	**16,392**	**16,465**	**0.44%**

Figures in million euros

[9] National Statistics Institute http://www.ine.es/prodyser/pubweb/espcif/cuen11.pdf

pension, life insurance and mutual insurance funds stands at around 250 billion euros?
It is not a matter of stating a magic figure. This is an issue that should be part of a deeper social debate reflecting what we want to have and how much we ought to pay. In the near future we are going to have a very high percentage of old population and we will need them to keep consuming if the Spanish economy is to continue to grow. Obviously, that level of income should be related to pre-existing wages. At present, our working population has public pensions that amount to about 80% of their average working salaries. It is true that the latest reform will mean a certain cut in that replacement rate, which should be covered by private savings. We would then have at least 40% of average working salaries that should be providing for future private pensions. We have been concerned that the elderly should not lose purchasing power, and we have therefore had pensions reviewed on the basis of the Consumer Price Index. Where our economic growth is not sufficient, however, the elderly will probably also end up losing purchasing power. Other countries have said that they want pensions for their elderly that are sustainable, so that they can continue to be paid by the working population. This means that pensions are reviewed on the basis of the country's economy. All this raises thousands of questions and debates that need to be seriously considered in order to provide answers.

Can we think about how to guarantee the pensions for our seniors when –as has been pointed out on several occasions– there is a moral hazard that our young people will not have access to work, or their wage levels will be low, meaning that their contributions to the Social Security system will also be low?
This situation is probably temporary, and I hope it does not take hold in our country's labour and social structure. It would be a disaster if we could not incorporate into the job market what is probably this country's best educated generation in all its history. This is a process of evolution. We would of course prefer for the Spanish economy not to be experiencing the current situation. There is plenty to do from many points of view, such as productivity, flexibility and efficiency – so many things.

The role of banks

What has the distribution of life insurance through banking networks contributed to the industry? Has it made it more popular or has it detracted from its image?
It has been a very good contribution, as it has contributed greatly to the growth and popularisation of insurance. In many cases, it has even given access to customers who have subsequently been used through other channels. I do not think that it has contributed to a bad image, because insurance does not have a bad image.

Will the consolidation and reform processes that are taking place in the savings bank sector benefit life insurance, for which they are major distributors?
When a financial structure is strengthened, it is beneficial to absolutely everything that it affects. I would assume that it will also be good for insurance. The most likely effect will probably be relocation of the exclusive distribution agreements currently in force, and that will have some effect on altering positions in the ranking of companies, especially the ranking of life insurance companies. Insurance is increasingly accounting for more in the balance sheets and accounts of financial institutions, and I do not think I am mistaken when I say that its commitment will be firm and permanent.

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Is Spanish life insurance a reference in Latin America? Is it a bridge between the practices of the European Union and other markets?
Of course it is. The presence of insurance groups in Latin America is a true reference for the activity taking place in different markets. We are more active and we represent more in the non-life sector. The example of MAPFRE is well known, but we have insurance subsidiaries of our major financial institutions that work there, and all we receive are positive reviews for their contribution with new products or their management in the markets where they are located.

What is your opinion on the microinsurance being marketed in Latin America for both life and personal accident or health?
It is essential to facilitate access to insurance services by all sections of the population, even in developing countries. This is an admirable project and goal, and this demonstrates its importance and shows that it deserves the support of global financial institutions. The microinsurance projects that are currently being developed, some of which I know from FIDES, deserve financial support from the IMF, the Inter-American Development Bank and the Microinsurance Development Fund.

How do you see the role of reinsurance in life insurance?
I consider it essential. Insurance would not have been able to develop in general without the contribution of reinsurance. In more mature markets, the support required tends to be minor, except in the area of new risks, which are a challenge and an opportunity. This is the case with ageing, which is an opportunity for reinsurance. I am sure that they will know how to manage it, as they have done with many other things.

Basic features of the Spain insurance sector (Source: UNESPA - www.unespa.es)

Insurance's share of GDP	**5.42%**

Average annual per capita insurance expenditure	
Life	548.01 €
Motor	245.31 €
Health	136.25 €
Multiperil	133.58 €

Average daily activity of insurance in Spain		
	Nº of claims each day	**Daily cost**
Life insurance benefits		72,176,989 €
Motor claims dealt with	31,809	23,496,824 €
Health insurance claims dealt with	53,599	11,372,363 €
Multiperil insurance claims dealt with	16,709	9,095,922 €
Legal expenses claims dealt with	755	108,662 €
Travel assistance claims dealt with	2,432	418,993 €
Other property insurance claims dealt with	14	174,528 €
Pecuniary loss claims dealt with	262	275,379 €
Public liability claims dealt with	321	1,959,969 €
Credit and bond claims dealt with	523	3,547,775 €
Funeral plan claims dealt with	643	1,569,088 €
Marine insurance claims dealt with	189	720,945 €
Personal accident claims dealt with	486	603,136 €
Fire claims dealt with	14	174,528 €