

Reinsurance in the aftermath of 2011 Japan Earthquake
(Tadashi Baba)

Solvency II and Government system (E. Agúndez and J. Pablo)

Carlos Espinosa de los Monteros: "Marca España"

Luis María Sáez de Jáuregui: "The role of actuaries"





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editorial

Three years have passed since the Great Earthquake hit eastern Japan. Then we witnessed the Japanese people's outstanding serenity in the face of tragedy. Now we discover how the insurance, reinsurance and governance challenges created by the disaster were managed extraordinarily well, as revealed by Tadashi Baba of Japan Earthquake Reinsurance. Speaking to **trébol**, Mr Baba describes how the most pressing organisational and financial issues were immediately addressed, and how the event was later reviewed to identify plausible future scenarios and plan measures to mitigate their impact on people and property.

The intricacy of designing and implementing Solvency II, the supervisory system for insurance companies, has caused several delays in the schedule for its entry into force. Elena Agúndez and Juan Pablo from MAPFRE's Compliance department bring us up to date with the progress made over the last few months and the moment when the directive is expected to finally materialise. The insurance industry's credibility has remained untarnished even during the financial crisis. The importance of keeping it that way has made it necessary to specify the roles of all the parties involved in detail, including insurers and regulators.

Carlos Espinosa de los Monteros was appointed Government High Commissioner for Marca España -literally the "Spain brand"- in 2012. Devised as an instrument State policy touching on all levels of government as well as the private sector and civil society, the role's stated mission is to improve Spain's image both inside and outside the country. And Mr Espinosa de los Monteros certainly has the best ingredients to go about it. In essence, his job is to identify, coordinate and combine strengths in order to change a country's image -something that is by definition intangible and also highly vulnerable. The project has already reached cruising speed but it is down to all of us together to make sure it continues to be successful.

The actuarial profession is hardly known outside of the insurance world. Yet it is an exciting career to pursue on a number of counts, which the president of the Spanish Actuaries Institute, Luis María Sáez de Jáuregui, details in this issue. He also explains the differences in actuary training across several European countries, stressing the prowess of Spanish professionals and their reputation in Latin America. It is worth highlighting that actuaries play a key role in underpinning three basic pillars for the continuity of society as we know it: insurance, pensions and social security.

The Great East Japan Earthquake: March 11 and Beyond



Floating house in the Pacific Ocean after the tsunami, March 2011, Japan. ©McCord / U.S. Navy

Tadashi Baba
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Introduction

On March 11, 2011, a massive 9.0-magnitude earthquake struck off the coast of northeast Japan, approximately 130 km east of Sendai and 373 km northeast of Tokyo. The earthquake, the largest ever recorded in Japan, triggered powerful tsunami waves that reached heights of up to 10 meters in the hardest-hit Miyagi prefecture. A total of 15,883 people lost their lives in the enormous earthquake and ensuing tsunami. Even now, 2,654 people

are unaccounted for, 286,006 people remain displaced, most of them staying with relatives or in public or temporary housing (as of September 12, 2013).

Three years have passed since then. In this document we review the way in which the Japanese Non-Life insurance industry has handled this catastrophe and take a closer look at Japan's future earthquake insurance system.

Providing monetary support for victims of earthquakes and other disasters was the reason that moved the Japanese Government to establish earthquake insurance for dwelling risks on May 18, 1966, as part of the Law on earthquake insurance.

Japan's Earthquake Insurance System

Providing monetary support for victims of earthquakes and other disasters was the reason that moved the Japanese Government to establish earthquake insurance for dwelling risks on May 18, 1966, as part of the Law on earthquake insurance.

Homeowners' exposure to earthquake risks falls under this earthquake insurance system. Risks are shared by the Government, Non-Life insurance companies and Japan Earthquake Reinsurance (JER), which is jointly owned by 11 private insurers. The system has a total claims limit of 6,200 billion yen, fully retained within Japan and not ceded overseas. The reinsurance scheme is reviewed every year and its revision is subject to the approval of the National Diet.

The industry's management of the situation

In response to this devastating disaster, the Non-Life insurance industry and the Government joined forces to take measures aimed at ensuring the prompt, steady payment of insurance claims, so that policyholders in the affected areas would receive the necessary support to rebuild their lives.

Initiatives taken by GIAJ and its member insurers

Following the established master plan, the General Insurance Association of Japan (GIAJ) set up an "Earthquake Insurance Central Command" in Tokyo and an "Earthquake Insurance Local Headquarters" in Sendai on March 11, 2011. Claims processing proved much more efficient on this occasion than

during the Great Hanshin-Awaji Earthquake in 1995, particularly in terms of the smoothness of operations.

As the tsunami and fires caused losses across large areas of the coastal region in Iwate, Miyagi and Fukushima prefectures, all the insurers carried out a joint loss survey and used the same claim form, in what amounted to an industry first. Preset standard guidelines for the classification of tsunami and liquefaction damage were also used, with the necessary adjustments to enable prompt assessment of the situation. Further efforts included sharing contract lists among all insurers and identifying "total loss areas" -i.e. areas that had been completely wiped out by earthquake and tsunami- with the aid of aerial and satellite pictures.

GIAJ set up a free telephone hotline and a website where policyholders could ask which insurer they had bought earthquake insurance from. Insurers also made regular visits to evacuation centers to deliver more information on earthquake insurance claim procedures and provide advice services. A grace period for policy renewal and premium payment was also granted.

GIAJ has conducted several campaigns to inform policyholders on how to make their earthquake insurance claims. These include television, radio and newspaper advertisements

Figure 2: Aerial and satellite pictures taken before and after the tsunami Rikuzentakata city, Iwate prefecture KOKUSAI KOGYO Co., Ltd.

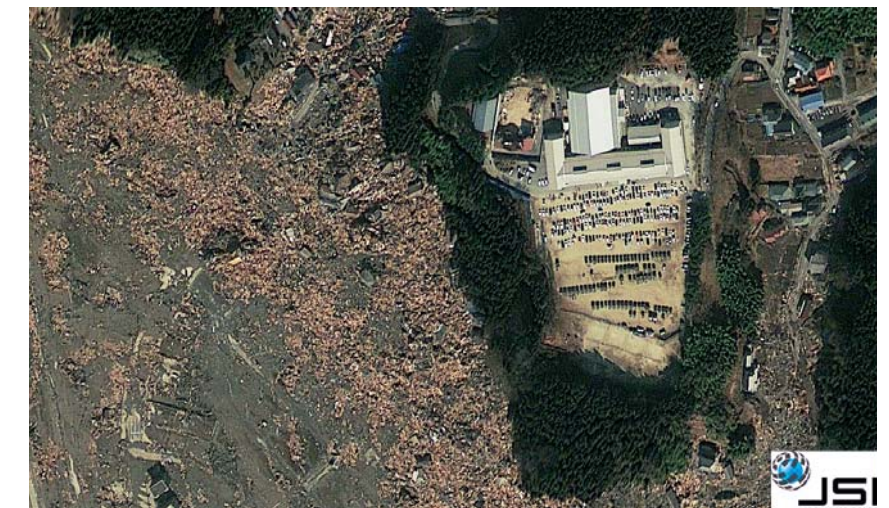
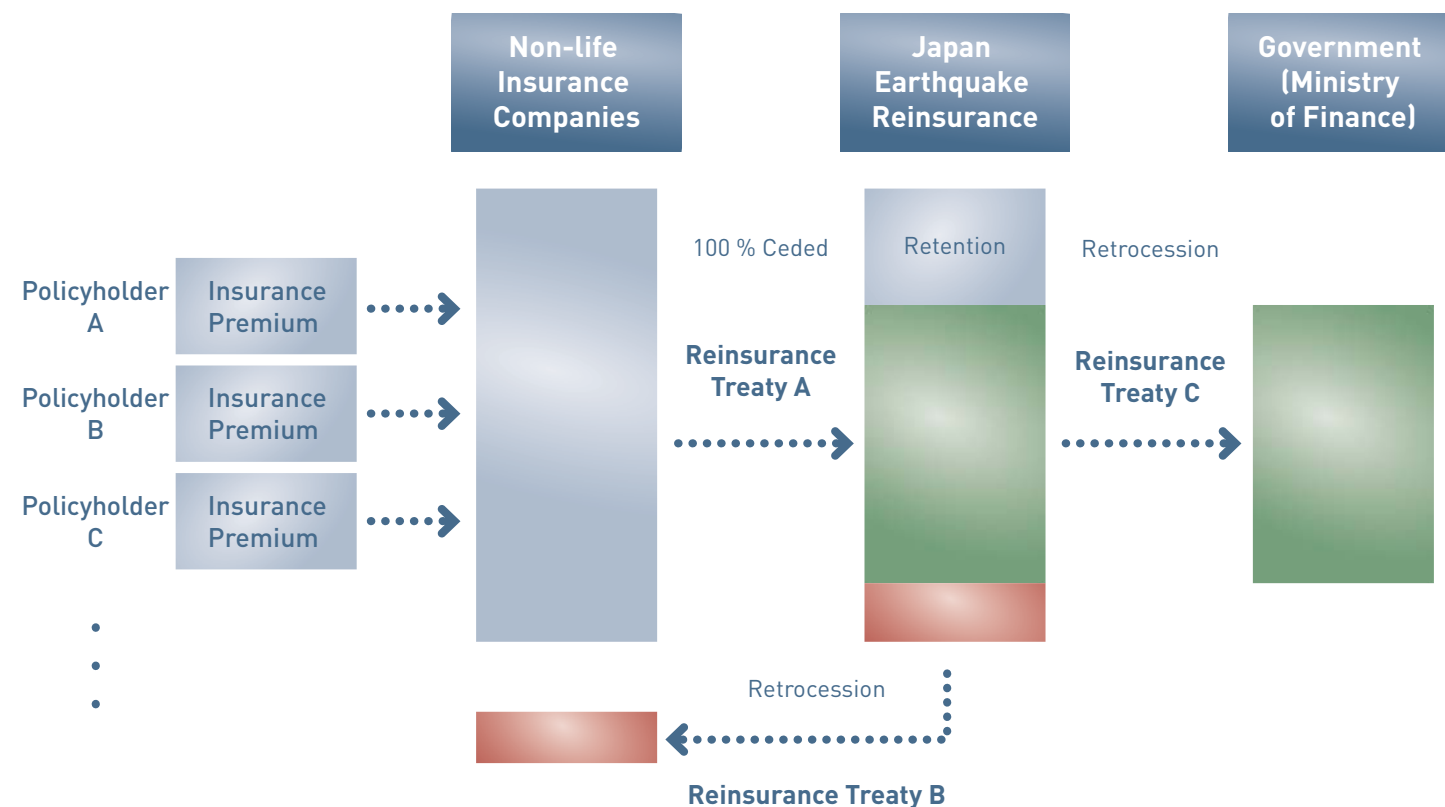


Figure 1: Structure of Flows in Earthquake Reinsurance.



JER's mission in the face of major disaster is to financially facilitate the prompt payment of insurance claims by Non-Life insurance companies by providing reinsurance payments



Arrival of humanitarian aid in Atsugi (March 2011). Japan ©Jonathan Kulp / U.S. Navy



Aerial view of the tsunami-affected area in Kamaishi (March 2011). Japan ©Kevin B. Gray / U.S. Navy

and internet announcements, as well as posters and brochures distributed throughout the affected areas.

Special care was taken to simplify procedures in insurance claims made on behalf of people who were deceased or physically unable to deal with the formalities. Signature and seal requirements for claim payments were also waived off, and copies of family register certificates were obtained directly from the Government.

Initiatives taken by JER

JER's mission in the face of major disaster is to financially facilitate the prompt payment of insurance claims by Non-Life insurance companies by providing reinsurance payments, with the ultimate aim of enabling policyholders

in the affected areas to rebuild their lives in the shortest possible time.

Following this disaster, JER made reinsurance payments based on approximate projections, for the first time since the establishment of Japan's earthquake insurance system. This is a system in which estimated reinsurance payments are based on rough projections of the amount of damage caused by the earthquake. The system is designed to make it possible to provide the funds necessary for reinsurance payment to Non-Life insurance companies in advance, before they pay insurance claims to policyholders affected by an earthquake. Thus, JER set about liquidating assets as necessary to meet these estimated payments. We secured approximately 322.4 billion yen in cash by selling assets within 20 days of the occurrence of the earthquake (March 31, 2011), and received a reinsurance payment

of approximately 426.8 billion yen based on approximate Government projections within 73 days of the occurrence of the earthquake (May 23, 2011). A total of four series of payments to Non-Life insurance companies were eventually made by JER starting on April 20, 2011 amounting to a total of 968.6 billion yen, with the last payment being made on May 25, 2011.

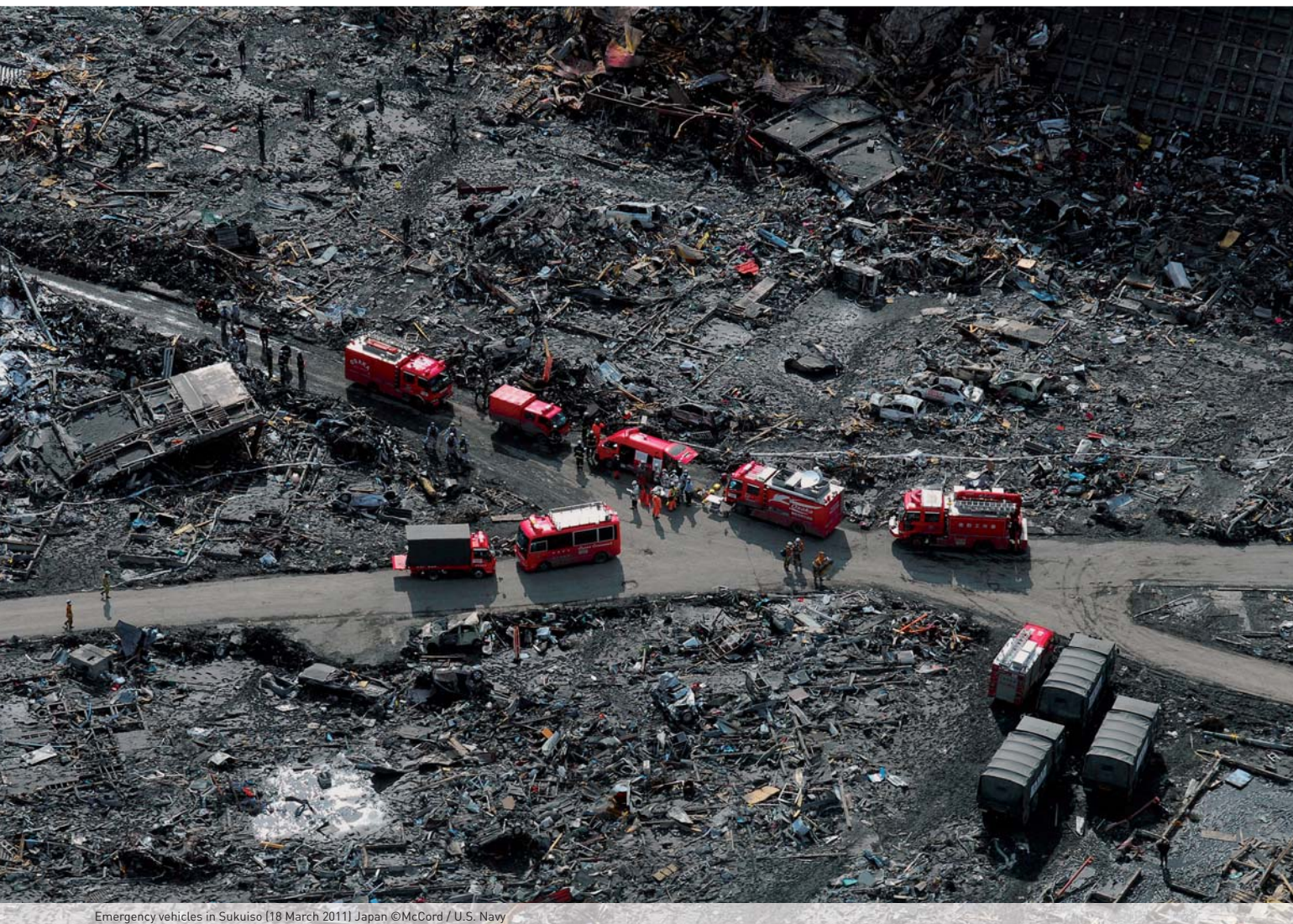
Reviewing the System

By the end of May 2012, the Japanese Non-Life insurance industry had made insurance claim payments of 1,234.6 billion yen in respect of 783,648 cases. Thus, the earthquake insurance risk reserve had almost halved from 2,381.9 billion yen to 1,280.8 billion yen at the end of March 2012.

In these circumstances, the Ministry of Finance created a task force on April 23, 2012 to review the current earthquake insurance system. The group was comprised of 13 members, who were mainly chosen from the academic community. Based on its discussions in twelve meetings, the task force published a report on the future earthquake insurance system on November 30, 2012. This report grouped the system's shortcomings into three types: "Urgent Issues", "Issues that should be promptly addressed (Medium-term Issues)" and "Issues that should be discussed continuously (Long-term issues)". The system's strength, to which the Non-Life insurance industry was the most closely related, was considered an urgent issue.

The Great East Japan Earthquake prompted a review of the reinsurance layer scheme with effect from May 2, 2011, and a significant

Further efforts included sharing contract lists among all insurers and identifying "total loss areas" -i.e. areas that had been completely wiped out by earthquake and tsunami- with the aid of aerial and satellite pictures



reduction in the amount of private insurers' liability by means of a supplementary budget which took into consideration the substantial fall in the private risk reserve. However, it took about one and a half months for the supplementary budget bill to pass through the Diet. In view of this, to prevent private insurers from bearing excessive liability in the event of more than one earthquake occurring in succession, the report proposed introducing a layer revision bridge measure for the period between the occurrence of a massive earthquake and the early adoption of a supplementary budget. Specifically, the report recommended either reducing private liability automatically without the Diet approval in cases where the private risk reserve has shrunk substantially as a result of the first earthquake (an automatic layer revision plan), or setting private liability lower than the initial

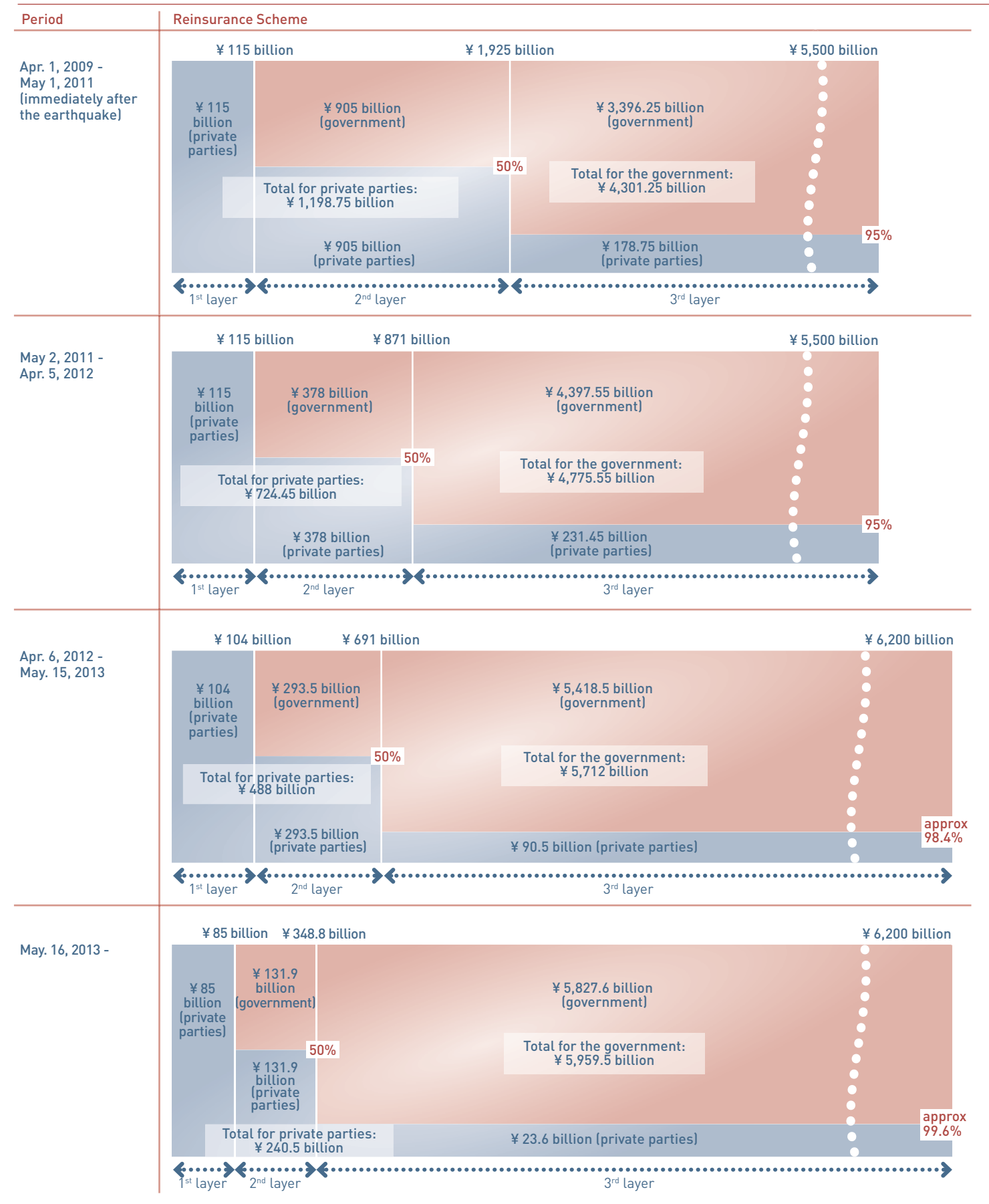
level of the risk reserve and giving Non-Life insurance companies and JER the additional resources necessary to deal with the second earthquake (a buffer plan). After consideration of the above two proposals, the Government adopted the buffer plan in its 2013 fiscal budget bill (which passed through the Diet on May 15, 2013) and took steps to significantly reduce the amount of private liability.

Related Response

The Great East Japan Earthquake also made a great impact on other parties related to the earthquake insurance system.

The Great Hanshin-Awaji Earthquake disaster of January 17, 1995 killed 6,434 people and

Figure 3: Changes in the Reinsurance Scheme.





Origami cranes to pay tribute to the 2011 earthquake victims

Following the lessons learned from this disaster, the Government founded the Headquarters for Earthquake Research Promotion in July 1995 as part of the Special Measures Law on Earthquake Disaster Prevention

destroyed over 100,000 buildings, laying bare a number of problems in our national earthquake disaster prevention system. Following the lessons learned from this disaster, the Government founded the Headquarters for Earthquake Research Promotion in July 1995 as part of the Special Measures Law on Earthquake Disaster Prevention. Its fundamental objective is to promote research into earthquakes with the aim of strengthening disaster prevention, particularly for the reduction of earthquake damage and casualties.

One of its main activities is to publish the Probabilistic Seismic Hazard Map. Unfortunately, the Hazard Map failed to foresee that the oceanic vicinity of the Japan Trench extending from off Eastern Chiba to Sanriku could be struck by a large-scale

earthquake such as the Great East Japan Earthquake. Consequently, the Headquarters partly reviewed the then latest edition of the Hazard Map in December 2012. It has also undertaken a revision of its long-term evaluation methodology. The new Hazard Map is still being updated to reflect the reassessment of three predicted large-scale earthquakes -Tokai, Tonankai and Nankai-in Nankai Trough. Its publication has been postponed from the end of 2013 to the first half of 2014.

The General Insurance Rating Organization of Japan (GIROJ) calculates premium rate according to the Earthquake Risk Assessment Model, which is based on the same source model the Headquarters used to create the Probabilistic Seismic Hazard Map. Following a review of the Hazard Map in December 2012, GIROJ filed an application for a revision of the earthquake insurance premium rate with the Financial Service Agency in March 2013. The revised premium, which will become effective on July 1, 2014, will introduce some significant changes, including:

- ▶ Basic rates are affected by the review of the source model, resulting in a 15% average increase.
- ▶ The number of classes is reduced from four to three to reduce the disparity in premium rate among locations.
- ▶ Discounts for Seismic isolated buildings and Earthquake-resistance "Class 3" are increased from 30% to 50% according to earthquake-resistance performance, and reinstated as incentives for making residential buildings earthquake-resistant.

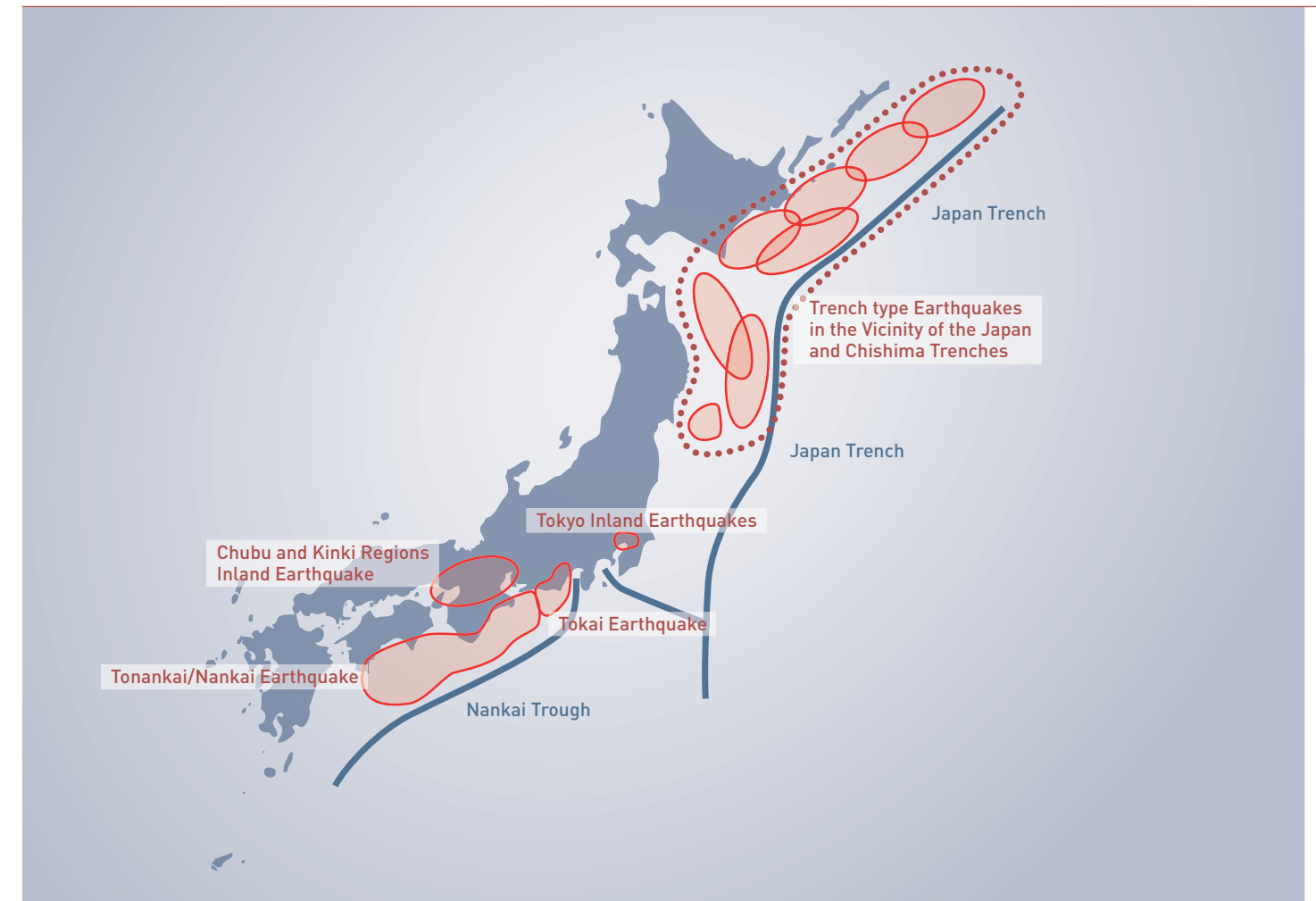
Preparing for the Future Earthquake

Outline of Countermeasures against Large-scale Earthquakes

It has been pointed out with a great sense of urgency that Japan may be struck by large-scale earthquakes in the next few decades in areas including Tokai, Tonankai, Nankai, the

Figure 4: Expected large-scale earthquakes.

Source: Modified from Disaster Management in Japan. Cabinet Office, Government of Japan. February 2011 (in English and Japanese). Page 25. <http://www.cao.go.jp/en/disaster.html>



Japan and Chishima Trenches, and the areas directly below Tokyo, Chubu (Nagoya City) and Kinki (Osaka City) regions.

The Cabinet Office released a damage estimate last May 2013 after examining the possible epicenter zone, the strength of the tremors and the distribution of tsunami wave height. The potential death toll was estimated at approximately 320,000, with a maximum economic loss of 220 trillion yen as a result of three large-scale earthquakes occurring in the Nankai Trough and affecting Tokai, Tonankai and Nankai.

Measures are already being taken in connection with trench-type earthquakes, based on the Disaster Countermeasures Basic Law, including the designation of

areas where countermeasure plans need to be strengthened, the reinforcement of observation systems, and the formulation of action plans by the relevant government organizations and private corporations. In addition, preparations such as improvements in evacuation sites and firefighting facilities are being promoted based on laws specifying special financial measures.

With regard to the different large-scale earthquakes, including the Tokyo Inland Earthquake, the Central Disaster Management Council has conducted studies to determine the characteristics of the earthquake estimate its damage and identify the necessary countermeasures. The following plans and strategies for each large-scale earthquake are now being developed: the "Policy

It has been pointed out with a great sense of urgency that Japan may be struck by large-scale earthquakes in the next few decades in areas including Tokai, Tonankai, Nankai, the Japan and Chishima Trenches, and the areas directly below Tokyo, Chubu (Nagoya City) and Kinki (Osaka City) regions



It is believed that in the capital area (Tokyo), massive trench-type earthquakes with a magnitude of 8 or greater, such as the Great Kanto Earthquake (1923), will occur at intervals of 200–300 years

Framework”, a master plan that includes a range of activities from preventive measures to post-disaster response and recovery; the “Earthquake Disaster Reduction Strategy”, to set an overarching goal of damage mitigation and strategic targets based on the damage estimation; and the “Guidelines for Emergency Response Activities”, which describes the actions to be taken by related organizations.

Countermeasures against the Tokyo Inland Earthquake

It is believed that in the capital area (Tokyo), massive trench-type earthquakes with a magnitude of 8 or greater, such as the Great Kanto Earthquake (1923), will occur at intervals of 200–300 years. Additionally, it is presumed that several Tokyo Inland Earthquakes of M7 scale will occur before an M8 scale earthquake, and

the imminent possibility of such an event in the first half of this century has been pointed out.

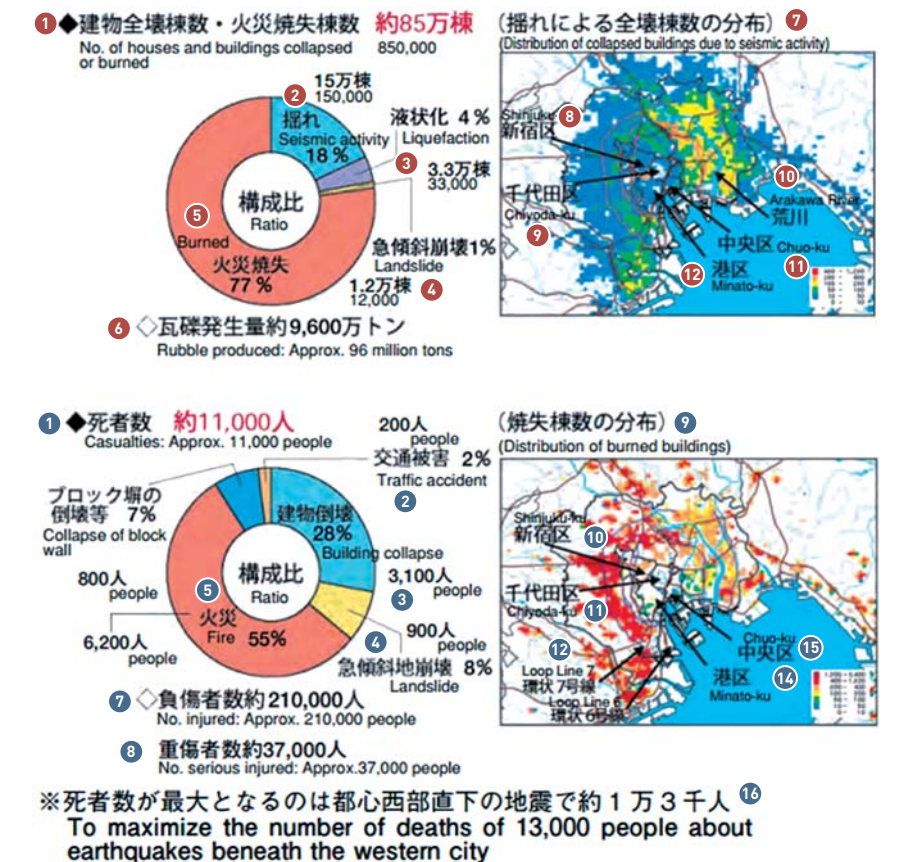
Many types of Tokyo Inland Earthquakes are assumed due to the diversity of possible epicenters and the complex mechanism of the earthquake itself. The Central Disaster Management Council has carried out damage estimations for 18 types of Tokyo Inland Earthquakes, and assumed extensive damage including a death toll of approximately 11,000 people, total collapse of 850,000 buildings and a maximum economic loss of 112 trillion yen in an earthquake with an epicenter in the northern part of Tokyo Bay (assumed scale of M7.3).

In 2005, the Council established the Policy Framework for Tokyo Continental Earthquakes, with the main priorities being to secure the continuity of the capital’s functions and

countermeasures to reduce massive damage. In 2010, this policy framework was revised to include specific measures to handle large numbers of evacuees or travelers unable to return to their homes. Additionally, in 2006, the Council drafted the Tokyo Continental Earthquake Disaster Reduction Strategy, which set the general goals of halving the death toll and reducing the economic loss by 40%, as well as strategic goals including increasing the proportion of earthquake-resistant houses and buildings to 90% of total housing stock and increasing the fixed furniture rate to 60% within 10 years.

That same year, the Council also drafted the Guidelines for Tokyo Inland Earthquake Emergency Response Activities. Plans setting out specific activities were then drawn up on the basis of these guidelines.

Figure 5: Estimated Damage Due to a Tokyo Continental Earthquake. Winter, 6:00 p.m., wind speed 15 m/s. Source: Modified from Disaster Management in Japan. Cabinet Office, Government of Japan. February 2011 (in English and Japanese). Page 29. <http://www.cao.go.jp/en/disaster.html>



- 1 Number of collapsed or burned houses and buildings: 850,000
- 2 Casualties: approx. 11,000 people
- 2 Seismic activity, 18%: 150,000 buildings
- 2 Traffic accidents, 2%: 200 people
- 3 Liquefaction, 4%: 33,000 buildings
- 3 Building collapse, 28%: 3,100 people
- 4 Landslide, 1%: 12,000 buildings
- 4 Landslides, 8%: 900 people
- 5 Burned: 77%
- 5 Fire, 55%: 6,200 people
- 6 Rubble produced: approx. 96 million tons
- 6 Collapse of retaining, 7%: 800 people
- 7 Distribution of collapsed buildings due to seismic activity
- 7 No. injured: approx. 210,000 people
- 8 No. seriously injured: approx. 37,000 people
- 8 Shinjuku-ku
- 9 Distribution of burned buildings
- 9 Chiyoda-ku
- 10 Shinjuku-ku
- 10 Arakawa River
- 11 Chuo-ku
- 11 Chiyoda-ku
- 12 Loop Line 7
- 12 Loop Line 6
- 14 Minato-ku
- 15 Chuo-ku
- 16 Maximum estimated deaths caused by earthquakes beneath the western part of the city are 13,000 people

Figure 6: Outline of Tokyo Continental Earthquake Disaster Reduction.

Source: Modified from Disaster Management in Japan. Cabinet Office, Government of Japan. February 2011 (in English and Japanese). Page 29. <http://www.cao.go.jp/en/disaster.html>



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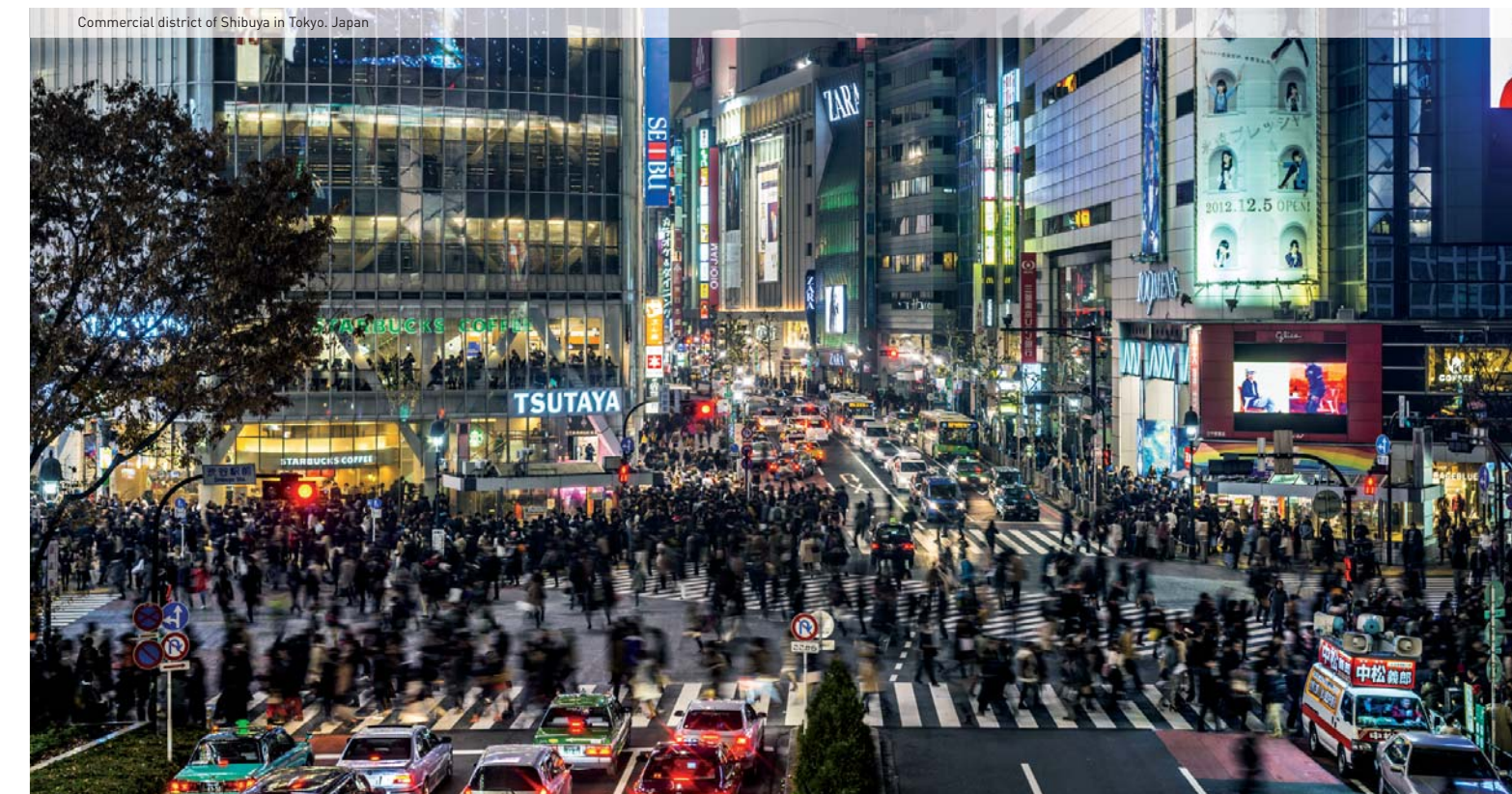
About the author: Tadashi Baba

Mr. Tadashi Baba has been Managing Director of Japan Earthquake Reinsurance Co. Ltd. since July 2011.

Prior to his current position, he started his career with Sampo Japan Insurance Inc. (formerly The Yasuda Fire & Marine Insurance Co., Ltd.) in 1977 and has over 30 years' experience in the Non-Life insurance field, having strong working knowledge of business development, underwriting and strategic planning.

Mr. Baba has also had extensive international experience at Sampo Japan Group for over 15 years, having held prominent positions as Managing Director of Sampo Japan Insurance Company of Europe in London and Managing Director of Sampo Japan Asia Holdings in Singapore.

He graduated from Kobe University in 1977 with a Bachelor of Commerce and completed an MBA with high distinction at Kwansai Gakuin University, Japan, in 1995.





The system of governance designed by Solvency II

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Introduction

Coming in the wake of previous reforms of financial market supervision, Solvency II has become the solution/threat in recent years with which the European regulator and supervisor intends to carry out a comprehensive reform of insurance undertakings' solvency and supervisory regime.

Beneath the worthy objective of improving protection for insurance consumers, the new regime involves a profound reworking of the current framework in terms of business management, risk control, supervisory procedures and transparency of information. This will be followed by a reappraisal of the own funds needed for solvent operation in the insurance business, all with the ultimate aim of setting minimum own-fund levels that will prove more risk-sensitive than those currently in place.

Solvency II will establish a broad range of qualitative and quantitative indicators to determine firms' capacity to maintain their solvency not only at the present time but also in a dynamic environment



We can say that, while the industry is to a large extent aware of the consequences that will ensue due to the application of Pillar I (quantification of the necessary financial capital) and possibly Pillar III (public disclosure and disclosure to the supervisor), there is still some way to go with regards to awareness of the requirements under Pillar II

The novelty of the reform lies in the change of outlook it entails, with a strong regulation-based conception of the supervisor's role replaced by a system in which more trust is placed on insurers' capacity to manage their own risks. Solvency II will establish a broad range of qualitative and quantitative indicators to determine firms' capacity to maintain their solvency not only at the present time but also in a dynamic environment.

Current situation of Solvency II

The Solvency II Directive¹ is currently in its implementation stage. Initially scheduled to enter into force in October 2012 but postponed to 1 January 2014, its full applicability is envisaged for 1 January 2016. Until that time, the European insurance industry will be

undergoing a process -which this time finally seems definitive- of progressive adaptation to the Solvency II regime. This will require gradual compliance with the Guidelines² issued last September by the European Insurance and Occupational Pensions Authority (EIOPA), the EU supervisory agency, covering four areas:

- ▶ System of Governance.
- ▶ Prospective analyses of own risks (based on the Own Risk and Solvency Assessment principles, known as ORSA).
- ▶ Pre-Application of Internal Models.
- ▶ Submission of Information to National Competent Authorities.

The European supervisor itself points out that the Guidelines are to be understood

as part of supervisors' preparation for the implementation of Solvency II. Thus, national supervisors should highlight certain aspects of prospective analyses and risk-based supervision, which are set out in the Guidelines in place from 1 January 2014.

The Spanish Directorate-General for Insurance and Pension Funds (DGSFP) had to inform EIOPA on their intention to implement the Guidelines, with the requirement to explain the reasons if it does not by 31 December 2013. There seemed to be no uncertainty surrounding this point: last September, the DGSFP presented a draft Ministerial Order at the Insurance Consultative Board with measures for insurance and reinsurance undertakings' progressive adaptation to the new system of governance established by the Solvency II Directive.

Although the EIOPA Guidelines are aimed at national supervisors, their acceptance by these authorities will obviously mean the insurance sector will become subject to certain requirements. At the same time, national supervisors will be required to send a report to EIOPA by the end of February for 2015 and 2016 on the application of these Guidelines in their respective markets for the previous year. This means the DGSFP's first report will be issued in February 2015.

Therefore, it seems clear that the definitive and supervised process of adaptation to the new regulatory framework will begin on 1 January 2014.

At this point, we can say that, while the industry is to a large extent aware of the consequences that will ensue due to the application of Pillar I (quantification of the necessary financial

¹ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance.

² https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/guidelines/System_of_Governance/Final_EN_SoG_Clean.pdf



capital) and possibly Pillar III (public disclosure and disclosure to the supervisor), there is still some way to go with regards to awareness of the requirements under Pillar II (system of governance). Nonetheless, Pillar II is the essence of the Solvency II Directive and embodies the fundamental advancement it brings with respect to the current Solvency I regulation.

Solvency II and system of governance

Should we had to explain the crises that have hit the Spanish insurance industry in recent years, we would most likely conclude that their causes were related to the system of governance, rather than quantitative regulatory requirements or shortcomings in regulation or supervision.

Here, if only to clearly set out the terminology surrounding this concept, it is worth calling attention to the following articles on the system of governance from the Solvency II Directive:

Article 41. General governance requirements

1. Member States shall require all insurance and reinsurance undertakings to have in place an effective system of governance which provides for sound and prudent management of the business.

That system shall at least include an adequate transparent organisational structure with a clear allocation and appropriate segregation of responsibilities and an effective system for ensuring the transmission of information.

Article 44. Risk management

1. Insurance and reinsurance undertakings shall have in place an effective risk-management system. (...)

Article 46. Internal control

1. Insurance and reinsurance undertakings shall have in place an effective internal control system.

In 2006, the International Monetary Fund's Assessment of Spain's Financial System Stability³ already highlighted the need for



Concepts such as propriety, professionalism, risk management, regulatory compliance and internal control, which are sparingly touched upon -or not at all- in the current legislation, will be regulated exhaustively and specifically, creating new functions and establishing new requirements in Solvency II

improvements in the country's insurance sector in terms of internal control, risk management and corporate governance in general. Articles 110 and 110b of the Regulations on the Administration and Supervision of Private Insurance were included as a result of those recommendations, as enacted by Royal Decree 239/2007 of 16 February, and in industry self-regulation documents. The ground that was left uncovered by these regulatory texts is now being addressed by Pillar II of Solvency II.

Concepts such as propriety, professionalism, risk management, regulatory compliance and internal control, which are sparingly touched upon -or not at all- in the current legislation, will be regulated exhaustively and specifically, creating new functions and establishing new requirements in Solvency II.

The recitals of the Solvency II Directive already point out that some risks can only be properly addressed through governance requirements rather than through the

quantitative requirements reflected in the Solvency Capital Requirement. Thus, as stated above, insurance companies will be required to have effective systems in place for risk management and internal control, as well as a clear allocation and appropriate segregation of responsibilities.

The Solvency II Directive defines "function" as the administrative capacity to undertake particular governance tasks. Certain functions are considered to be important and critical, with a smaller set within this group designated as "key functions".

For a broader reference -though not a definition- of what constitutes a critical or important function, we must turn to the explanatory text of EIOPA Guideline 44 on the system of governance. This Guideline states that, in determining whether an outsourced function or activity is critical or important, the undertaking has to take into account any definition or list of such functions or activities

³ <http://www.imf.org/external/pubs/ft/scr/2006/cr06212.pdf>

provided by the national authority. The explanation then gives examples of functions considered critical or important (design and pricing of insurance products, claims handling, portfolio management) and functions or activities that should not be considered to have this status (legal advice, training of personnel).

Key functions

The functions included in the system of governance are considered key functions, and therefore also critical or important:

- ▶ Risk management function.
- ▶ Compliance function.
- ▶ Internal audit function.
- ▶ Actuarial function.

The regulations on key functions are contained in articles 41 to 49 of the Solvency II Directive and in the EIOPA Guidelines on System of Governance mentioned above. Further, more detailed rules will be introduced by the Commission Delegated Regulation. The most recent draft, dated 31 October 2011, provides regulation of key functions in articles 249 to 264.

The priorities of this regulation are:

- ▶ Undertakings must include key functions in their organisational structure and ensure they are free of any influence that may compromise their independence.
- ▶ Key functions must operate under the ultimate responsibility of the Board of Directors. The Board of Directors must be informed generally, and immediately upon occurrence of any material problems.
- ▶ People who perform key functions must be able to communicate with any person in the organisation and have access to any information that is relevant. They must also have the authority, resources, experience and qualifications needed to perform their duties.

- ▶ It is the responsibility of the individual undertakings to organise and put these functions in place within their organisation, although no strict rules are laid down in this regard. Thus, they may be performed in-house or outsourced to affiliate or non-affiliate providers.
- ▶ The functions will be organised on the basis of the nature, scale and complexity of the undertaking's operations, and in smaller or less complex companies, one single person or organisational unit may be responsible for

more than one function - with the exception of the internal audit function.

- ▶ Insurance undertakings must have written policies in relation to at least risk management, compliance and internal audit (with no specific mention of the actuarial policy) and these policies must be approved by the Board of Directors. If important or critical functions are outsourced, the undertaking must have a written policy on the outsourcing of the functions concerned.

- ▶ People who perform key functions must comply with fit (qualifications and experience) and proper requirements. All appointments in this respect must be notified to the supervising authority.

- ▶ Article 35 of the Solvency II Directive and Article 297 of the draft Commission Delegated Regulation regulate the information to be provided to the supervisor in relation to the system of governance in general and key functions specifically. Article 51 of the Directive and Article 285 of the draft Regulation set out the information that undertakings must include on their financial and solvency position for release to the general public in the annual report.

- ▶ Lastly, Article 246 of the Directive states that its provisions on system of governance in relation to individual undertakings apply mutatis mutandis at the level of the group.

In light of this brief review of the current regulations, it may be asserted that the introduction of key functions will bring about a new system where the existing sequence of controls on undertakings' activities -internal audit, external audit and the DGSFP in this order- will be supplemented with three new functions (commonly known as the second line of defence). These three new functions will operate between business management (the first line of defence) and the internal audit function (the third line of defence). The responsibilities of these new functions involve controlling and advising the Board of Directors on risk management, regulatory compliance and actuarial matters.

It should be noted, however, that -leaving internal audit to one side, as it was made mandatory by the 2007 reform of the Regulation on Management and Supervision of Private Insurance- the absence of a formal requirement in Spanish legislation to establish key functions should not lead to the conclusion that all the responsibilities are newly created. A large proportion of them were already present in insurers' organisational structures one way or another. Hence, in most cases it will be a matter of coordinating, integrating and utilising the structural units already in place, modifying and trying to optimize any internal operational processes.

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interview with

Carlos Espinosa de los Monteros

Government High Commissioner for Marca España
Madrid - Spain



“Marca España should help to get Spain back on track to growth and job creation”

Born in 1944, Carlos Espinosa de los Monteros holds a degree in law and business administration and is a permanent trade and economic official for the Spanish central government. He is married and has five children.

In his long career he has been vice-president and chief business officer of the National Institute for Industry (INI), commercial attaché in Chicago, chairman of Iberia, Aviaco, González Byass, Mercedes Benz, Fraternidad Muprespa, the Spanish car manufacturers' association ANFAC and the Spanish Entrepreneurs Society, and has sat on the boards of Acciona, Schindler and Inditex (where he was also vice-president).

He is a regular contributor to the press and delivers talks and lectures on a variety of subjects. His book *Cosas que me enseñó la vida a través de la empresa* (Things life taught me through business) was released last year by the Spanish publisher Deusto.

On 2 July 2012, Espinosa de los Monteros was appointed Government High Commissioner for Marca España (which translates literally as the “Spain brand”), a position created by Royal Decree 998/2012 of 28 June. His responsibilities include “planning, stimulating and coordinating the activities of government, government bodies and agencies, and any other public or private entities that play a leading part or are involved in promoting Spain’s economic, cultural, social, scientific and technology-related image abroad”.

The High Commissioner considers his position to be “the most rewarding in all of government,” adding that “there is nothing more thrilling than to promote and champion what I love most - Spain. And I would like to invite all Spanish citizens and anyone who loves Spain to join us in this sometimes challenging task.”

“A good country image bolsters a state’s political, economic, cultural and social position in the international sphere,” says Espinosa de los Monteros. Spain possesses great assets that need to be “shown” to the world and “known” by Spanish people themselves, as “we will be poor advocates of our own worth if we do not believe in what we are and what we have.”

What is Marca España and what role does it play in the current crisis?

Marca España has been formulated as a state policy in the broadest sense -a national project- taking in all levels of government, the private sector and civil society. It is inclusive and integrating, and encompasses all the parties -institutions and other organisations, both public and private- who play a part in projecting Spain’s image whether within or beyond our borders. Marca España should combine and coordinate all their efforts in an efficient way.

Its purpose is to improve Spain’s image both inside the country and abroad, and it is predicated on the idea that a good country image bolsters a state’s political, economic, cultural and social position in the international sphere.

Marca España aims to help Spain get back on track to growth and job creation. Improving our country’s image both here and abroad

Fernando Alonso, Formula One World Champion in 2005 and 2006 and Honorary Ambassador for Marca España in 2013





International terminal T4 at Barajas airport, an architectural *avant-garde*. Madrid. Spain



The training ship Juan Sebastian de Elcano entering the river Hudson in 2012. Honorary Ambassador for Marca España in 2009. Since 1927, it has completed 84 education and research cruises around the world

Marca España's objective for 2020 is to cement an image of Spain as an economic and political power, a country that is traditional and at the same time modern and innovative, robust and reliable, caring, diverse, flexible and open to change

will contribute to drive exports, attract foreign investment, support the international expansion of Spanish businesses (by strengthening the drag-along effect of large companies on SMEs looking for a niche in the foreign market), improve our access to the financial markets, encourage tourism and generally, help towards economic recovery.

Can you tell us about the action plan and objectives that have been established?

We have now drawn up the first Marca España action plan, the 2013 Programme. This is a preliminary, general plan which basically delineates the nature and characteristics of the Marca España project, lays down the core policy areas and methodological principles and sets the objectives, priorities and guidelines that will serve as the basis for all annual plans, which will be drawn up from this year on. The 2013 Programme's priority areas are,

first and foremost, to contribute to improve Spain's international image using the instruments at its disposal. Additionally, to further develop economic diplomacy and contribute to the international expansion of Spanish businesses, promote the Spanish language, education and universities, and help to internationalise Spanish culture and cultural industries.

Other priorities include supporting promotion initiatives in the areas of tourism, gastronomy, fashion, sport, artistic heritage and their related industries; stimulating activities that drive R&D; fostering public diplomacy through the network of official exchange institutions, which includes the Casas (Casa África, Casa América, Casa Árabe, Casa Asia and Casa Sefarad-Israel) and Council Foundations (with the US, Mexico, Brazil, India, China, Japan, Russia and Australia); supporting visiting and/or training programmes for

opinion leaders, i.e. journalists and other prominent professionals from selected countries, and encouraging the government's participation in programmes connected with governance, institutional cooperation and technical training; highlighting our national security forces' participation in international peacekeeping missions; stepping up civil society involvement in communication and promotion campaigns for Marca España; and focusing particularly on major events. The 2013 Programme also designates 15 priority countries and markets for the purposes of Marca España, which jointly account for 80% of our exports, visiting tourists and mutual investment. We have established specific programmes for these countries which envisage combined action by different public bodies, the object being to leverage synergies and aid towards a more efficient use of their individual resources.

How are Marca España's activities structured and what instruments can it deploy to achieve its aims?

Marca España's has established a working structure based on:

- a. The Marca España Board, which comprises the presidents/directors of the leading stakeholders involved in the project. The Board's mission is to review and discuss key policy issues.
- b. Six task groups: Public Diplomacy, Economic Diplomacy, Institutional Stakeholders, Culture, Science and Sport Action, Media, and Civil Society. These are responsible for preparing, reviewing and evaluating our annual action plans and generally all activities related to Marca España. They meet regularly according to an established schedule.

In addition to these, the High Commissioner and his Office have been working on a number of other initiatives and directions:

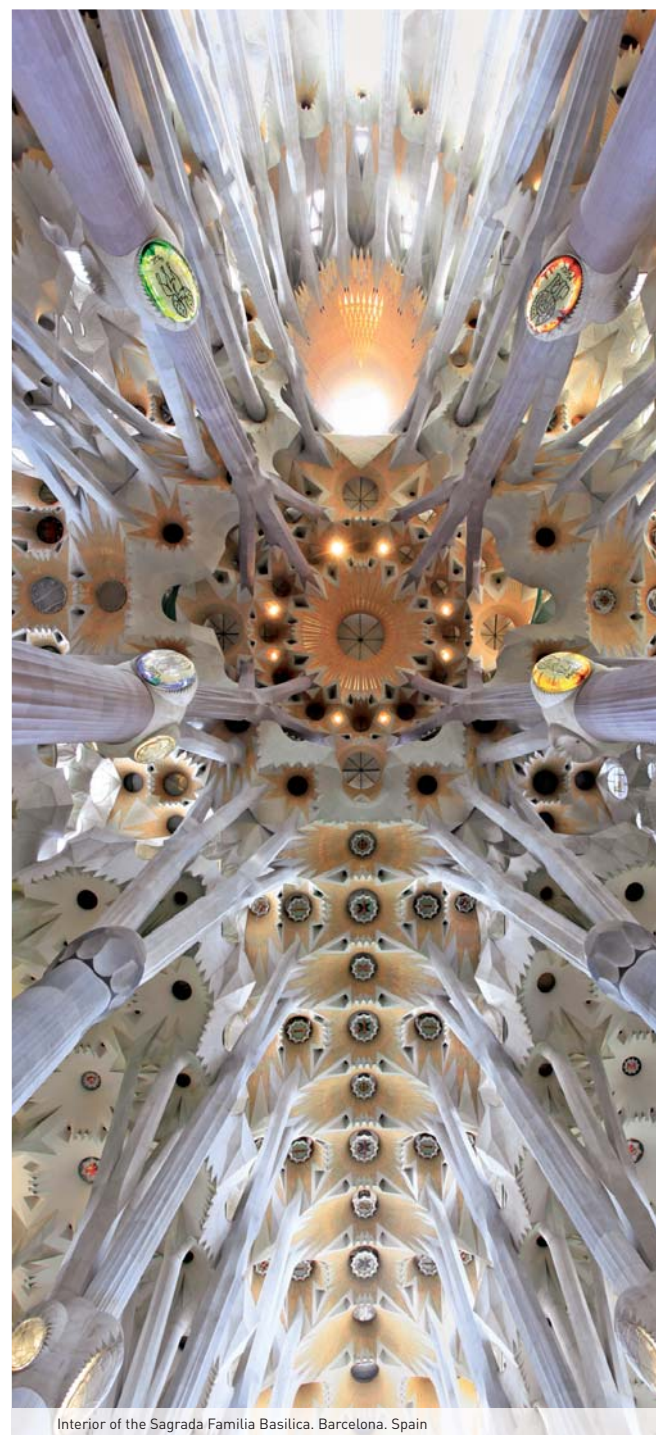
Our sports figures embody values that greatly enhance our image: hard work, self-betterment, solidarity, setting an example for the new generations

1. The Marca España website (www.marcaespana.es), which has been in operation since December 2012 in Spanish and English. It aims to be an inclusive site, a "site of sites" with more than 1,500 links to other institutional websites that are already active in their own areas. Its contents are reviewed and updated on an ongoing basis, so it is a living site. An Editorial Committee has been set up to oversee these activities, with representatives from the different departments and public bodies that contribute content.
2. Spanish expatriates and foreign friends of Spain. Bringing on board the members of the "Spanish diaspora" to promote and champion our country image is another key objective. The idea is to create a network, with the assistance of our embassies and consulates, taking in Spanish expatriates and foreign nationals who have family, sentimental or economic ties with Spain and who have a prominent status in their societies and professions, so that they can defend and support our image. The programme is being piloted in Germany and will later be rolled out to France, the US and the UK.
3. Volunteers and civil society. A good number of volunteers from the ranks of civil society are already involved in Marca España, ready to collaborate in a completely altruistic spirit. The aim here is to provide backing for this wholly spontaneous movement of support for the principles on which the project's philosophy is based, which are encapsulated in four messages: integrity, leadership, exportable innovation and superior quality. An association has already been created, last January: the Friends of Marca España Association (www.amigosmarcaespana.com). This is a civil society initiative where people become involved by spreading information through social networks, such as Facebook and Twitter, and blogs, both within Spain and in selected countries. They act as expounders for Spain's brand and assets.

A good number of volunteers from civil society are already involved in Marca España, ready to collaborate in a completely altruistic spirit

Are there any similar programmes in other European countries?

All our peers (EU and G20 countries) have been pursuing similar policies for years. We are closely observing the programmes and best practices these countries are following with a view to using them for Marca España.



Interior of the Sagrada Família Basilica, Barcelona, Spain

Spain's image abroad

What is the perception of Spain outside? What kind of image do we want to convey?

Spain's image abroad is better than we think. Admittedly, we excel in the "soft aspects" of our brand (quality of living, culture, sport, artistic heritage and so on) but we are not seen to perform as well in areas related to technology, innovation, productivity and the like. These

The Crown: a key asset for Marca España

"While it ultimately falls on the central government to set the policy for Marca España, there is a broad range of other players who also take part in the process," says Espinosa de los Monteros. Along with the High Commissioner and his Office, Marca España "works closely with all departments, public bodies and private organisations that have had and continue to have a strong influence on Spain's image, coordinating and guiding their efforts. This also includes autonomous regional governments and local governments," he adds.

Espinosa de los Monteros acknowledges the Crown's valuable support for Marca España: "The Crown is a key asset for the project. They have been actively involved right from the start." He also highlights the help provided by all the public bodies that have a bearing on Spain's image (ICEX, TURESPAÑA, Instituto Cervantes) and the network of Casas and Council Foundations.

Embassies, consulates and government offices abroad play a particularly important role in the High Commissioner's opinion. "They report on how Spain is perceived in their respective territorial areas, enhance our country image through a variety of means -including the Ministry of Foreign Affairs and Cooperation's efficient communication policy- and coordinate various Marca España activities."

Spanish businesses also play a part in the project. For Espinosa de los Monteros, "businesses are both key players and potential beneficiaries of Marca España. One organisation we have worked with in this field is the Spanish Renowned Trade Marks Forum (FMR), which has also given us financial support. We signed a collaboration agreement with them on 20 December of last year."

Naturally, Marca España is also supported by "private trusts and associations (sport- and culture-related, think tanks) and civil society as a whole". Another institution worthy of note is the Elcano Royal Institute, a think tank that has set up its own Marca España Observatory "to gauge Spain's image in the world, including both its strengths and its weaknesses, across the different regions and over time."

Lastly, the Marca España project acknowledges the power of the media to spread its values and messages. "We have concluded agreements with the public radio and television corporation RTVE and the news agencies EFE (public) and Europa Press (private). Numerous media groups and agencies have covered Marca España contents: ABC-Vocento, El País/Prisa, El Mundo/Unidad Editorial, and many other Spanish and international media outlets. We will continue to work hard to make sure the Marca España message and philosophy and Spain's image abroad are conveyed appropriately."

aspects must be the focus of much of our work. The results of Marca España will become apparent in the medium and long term. The objective for 2020 is to cement an image of Spain as an economic and political power, a country that is traditional and at the same time modern and innovative, robust and reliable, caring, diverse, flexible and open to change. This reduced group of values are synthesised into three key attributes: ingenuity/innovation,

diversity/plurality, reliability/trustworthiness. Several branding agencies including Interbrand and the Reputation Institute are advising us in this respect.

Which stereotypes should and should we not feel proud of?

We should not cast off stereotypes -they are difficult to change, anyway- that portray us as a friendly country of good-food-loving people,

Spain's image abroad is better than we think

Getting to know Spain's strengths

Espinosa de los Monteros believes Spain has great strengths, some of them hidden, which the world should know about:

- ▶ "We have shown the world that we are a dynamic, courageous, energetic people with an undeniable talent for artistic and literary creation, as well as for team and individual sports."
- ▶ "We are creative, innovative and, at the same time, respectful of our heritage and traditions."
- ▶ "We are still a major economy at the European and global levels. We are leaders in many productive and technology industries."
- ▶ "We have highly dynamic companies, many of which are at the cutting edge of their respective industries."
- ▶ "We are world leaders in some areas of R&D."
- ▶ "We use the second most widely spoken language in the world by number of speakers (native speakers, limited-proficiency speakers and speakers of Spanish as a foreign language) behind Mandarin Chinese, and the second language of international communication."
- ▶ "We are a world power in arts and culture (second in the UNESCO list of world artistic and historical heritage sites) and in the area of the environment and the biosphere (second in the world by the number of UNESCO Biosphere Reserves)."
- ▶ In the area of tourism, Spain is the "world's first holiday destination, the fourth tourist destination by number of visitors (after the US, France and, recently China), the second-largest receiver of tourism revenues (after the US and ahead of France, Italy, China and Germany) and the third destination by number of international congresses."
- ▶ "We are world leaders in food and gastronomy."
- ▶ "A sports global power."
- ▶ And lastly, "we are a caring country at the family, community and global levels (world leaders for transplants, for instance)." "Despite the retrenchment of our international cooperation prompted by the prevailing economic situation, the Spanish International Cooperation Agency (AECID), which has reached its 25th anniversary in 2013, continues to carry out an outstanding job, as do other institutions such as the Blind People's Organisation (ONCE), the Catholic Church charity Caritas, the Red Cross and the Food Bank Federation (FESBAL)."

Ferrán Adriá is considered by many to be the best chef in the world. Honorary Ambassador for Marca España in 2005



We still fall prey to a certain inferiority complex when it comes to focusing attention on our own strengths, often because people simply do not know about them. This is not the case in other countries

the birthplace of flamenco music - incidentally, flamenco is recognised by UNESCO as part of the world intangible cultural heritage and enjoys huge success outside of Spain; a country with stunning beaches and a fantastic climate, to name just a few examples. But we do need to use these stereotypes to our advantage in order to show another side of Spain that is also real but less well known: a country that is at the leading edge of numerous technology and productive industries. People who are as hard-working as our peers or even more. A caring, reliable country.

Sport is a key element of Marca España. How are our sport stars helping to strengthen Spain's image abroad?

In a very positive way indeed. Some of them, like Rafa Nadal and the Spanish national football team, are honorary ambassadors for Marca España. Our sports figures embody values that tremendously enhance our image: hard work, self-betterment, solidarity, setting an example for the new generations. In addition to this, we have sizeable sports industries. We are one of the largest destinations in the world for sports tourism.

The enemy is in-house

Spain has great virtues and opportunities. Why do we hold ourselves in such low esteem? Are Spanish people the biggest enemies of the Spain brand?

Without intending to gloss over our shortcomings -which, by the way, are not exclusive to Spain- we still fall prey to a certain inferiority complex when it comes to focusing attention on our own strengths, often because people simply do not know about them. This is not the case in other countries.

We have recently published a brochure entitled *Spain's Positioning. Leadership Key Factors*, which has been translated into English, French and Chinese, and will soon be translated into Japanese. It is available for download on the Marca España website (www.marcaespana.es). I strongly recommend everyone to read it because it is surprising to see how many Spanish companies are world and regional leaders (in Europe and Latin America) in their respective industries. People are probably more aware of our other fortes, such as sport, artistic heritage, food, tourism.

Marca España's primary mission is to uphold and strengthen its inspiring principles and values within Spain. We will hardly be able to stand up for them if we do not believe in what we are and what we have



Marqués de Riscal winery designed by Frank Gehry in Elciego, Alava, Spain

But Marca España's primary mission is to uphold and strengthen its inspiring principles and values within Spain. We will hardly be able to stand up for them if we do not believe in what we are and what we have.

How do ordinary men and women in the street contribute to create the Spain brand?

The Spain brand cannot be built without everyone's effort and contribution. Civil society has been involved in the project from the outset. A significant number of people have offered to collaborate with Marca España in a completely altruistic spirit by spreading information, particularly via the social networks. They have set up the Friends of Marca España Association (www.amigosmarcaespana.com) and other networks in Spain and in selected countries. They act as expounders for Spain's brand and assets.

The results of the Reputation Institute's 2013 Country RepTrak report indicate that Spain's reputation has lost two positions. What are the reasons for this drop?

There is no doubt that the economic crisis is not helping our international image. Added to this, some nationalist sentiments have become radicalised. This is having a greater effect than other internal problems which, despite appearances, do not have such a significant effect on our image abroad. Having said this, I believe we will recover the lost ground.

Marca España will be releasing a detailed map of Spain's strengths and weaknesses in 2014, based on a comprehensive study of the leading general and sector-specific international rankings and indexes, which we have been working on with Deloitte for some months.

Challenging stereotypes

Going back to the subject of stereotypes, one of them bears particularly heavily on our economy, namely that Spanish are not competitive. To what extent is there any truth in this?

We have achieved great improvement in this area over the last few years. Today, our companies are on a par with those of our main partners in terms of competitiveness.

Are we getting better at "selling" Spain abroad?

Yes, most definitely. Many businesses have been able to maintain sales and profits at adequate levels by going international. This has enabled them to keep their employees and survive in these difficult times. Many of our leading companies have succeeded in conquering the international markets. Today they are standard-bearers for Marca España. Some SMEs have benefited from this international expansion process -through an interesting drag-along effect- but the same cannot be said for most. This is another aspect where we are making progress. The latest figures for Spanish exports show excellent growth - we are currently leading the eurozone.

Lastly, is it easier to manage a business or to change a country's image?



The role of insurance

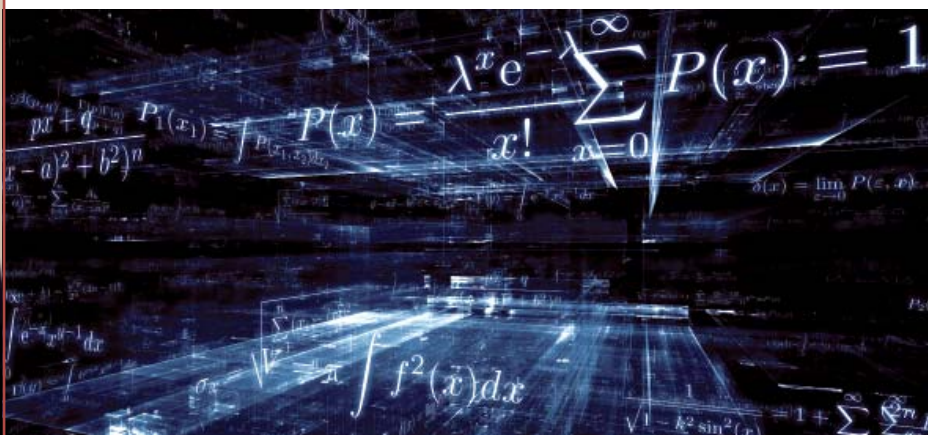
"We have a modern, competitive industry," says Espinosa de los Monteros about the Spanish insurance business and its role in the current situation. According to the Government High Commissioner for Marca España, "some companies, like MAPFRE, which is very strong internationally, are contributing to enhance Spain's image a great deal."

Neither is an easy task. Changing a country's image, which is intangible by definition, depends on many variables and involves many different players. This means they must be particularly efficient at interacting with one another and acting in a coordinated manner. Obviously, the results are not always immediately forthcoming.

interview with

Luis María Sáez de Jáuregui

Chairman
Institute of Spanish Actuaries (IAE)
Madrid - Spain



“It is becoming clear that actuaries can help manage a range of financial risks.”

Luis María Sáez de Jáuregui was born in Madrid on 16 September 1969. He graduated in Economics and Business Studies, specialising in Actuarial Science, from the Complutense University of Madrid, and in Law from the Spanish Distance-Learning University (UNED). He is a practising lawyer and a qualified insurance broker. He began his professional career in January of 1991, when he joined Prudential Insurance Company of America as an actuary. In January of 1994, he moved to ING Nationale Nederlanden, also as an actuary, where he worked until July of 1996. After that, he joined Allianz in Spain to manage the group's bancassurance subsidiaries (*Eurovida* and *Europensiones*), a period he ended as director of the Technical, Actuarial and Legal division. In April of 2008 he took up his current position as director of Life, Pensions and Financial Services at AXA Group in Spain.

In addition to being chairman of the Institute of Spanish Actuaries and a member of its Governing Board, Mr Sáez de Jáuregui is a member of UNESPA's Life and Pensions Standing Committee and of INVERCO's Pension Funds Committee. He is also a member of the Spanish Ministry of Finance's Insurance

Advisory Board and of the Ministry of Justice's Expert Committee responsible for the Road Accident Injury Scale. At the international level, he is a member of the Board of Directors of the International Actuarial Association and of its Financial Risk Committee, Social Security Committee, and Subcommittee on Actuarial Standards. Additionally, he is a member of the Board of Directors of the European Actuarial Advisory Group and of its Standards and Freedoms Committee.

Turning to his teaching activities, he is an associate lecturer at the Carlos III University in Madrid both on the degree and the masters' Actuarial and Financial Sciences degree programmes. He also teaches on the University of Zaragoza's MA in Finance, on the Stock Market Studies Institute MA in Risk Management, on PWC's MA in Actuarial Practice, on UNED's MA in Financial Advice and Portfolio Management, and on the Savings Banks' University School's MA in Insurance. He is a member of the editorial board of the journals *Actuarios* and *Índice*. He has written several books and articles in the areas of actuarial science, finance and insurance.

Despite playing a key role in the insurance business, the actuarial profession is largely unknown. This interview contains information, opinions and insight into actuaries and their resilience in the face of the challenges currently arising in the areas of risk, pensions and insurance. According to the IAE chairman, professional actuaries who are passionate about their job have a superb future before them, in Spain and beyond, and regardless of whether their activity is reserved.

When was the Institute of Spanish Actuaries (IAE) created and how many members does it have?

Officially, in 1942. However, the need for accredited actuaries arose earlier, in 1908, when two key statutes were passed in the area of social security and insurance: the law establishing the National Institute of Social Welfare (INP) and the first Law on Insurance. There were no actuaries in Spain at the time, so they were brought in from abroad. Currently, we are one of the four largest institutions in Europe, after the UK's, which has 7,500 members, Germany's with 3,500 and France's with 1,600. We follow with 1,550 members, and next comes the Italian institute with 850 members. Spanish insurance ranks sixth in Europe by premiums, so the size of our membership reflects the industry.

Is access to the actuarial profession the same in every country?

No, there are two large categories of countries. One, which includes Spain, is university-centred. Things are changing in this group as a result of the Bologna process. Any four-year degree plus a supplementary entrance course allows access to the Actuarial and Financial Sciences master's programme. The first institution to offer this programme was the Carlos III University in Madrid, and more universities are now joining in. Some European countries have a system based on professional rather than university qualifications. For instance, the actuaries' institutes in the UK and France organise examinations, assess candidates' eligibility and issue the required qualifications.

One principle is undisputed at the present time: the actuarial profession is a reserved activity. In other words, the law specifies certain functions that can only be performed by an actuary



The actuarial profession today is based on three pillars, which are insurance, pensions and Social Security. In Spain, the Directorate-General for Insurance and Pension Funds constitutes an additional pillar

Our policy is designed to cover liability of up to 1.5 billion euros, and we are currently considering increasing this amount

Are Spanish actuaries on a par with those of other European countries in terms of training and performance?

There is always some aspect that Spanish actuaries need to build on. Universities are already working on a number of issues that actuaries will have to address in the near future. The fact of the matter is that Spanish actuaries are, as a rule, on a par with those of any European country. In terms of training, we see this with students moving between different countries under the Erasmus programme. And it is also creating job opportunities. With regard to insurance methods, we also set the standard in some respects. Another example is the fact that some international groups use Spain as an entry platform into Latin America or southern Europe because Spanish actuaries' profiles favour this.

What does an actuary's job involve today? What is the situation of the profession now and how is it expected to change?

One principle is undisputed at the present time: the actuarial profession is a reserved activity. This status has not only been preserved over time but has actually been strengthened. In other words, the law specifies certain functions that can only be performed by an actuary. The two main reserved areas are insurance and pension funds and schemes. An actuary's job involves, for instance, calculating mathematical reserves and technical provisions, which have to bear the actuary's seal and signature. The form we call 5 GS has to be signed by an actuary.

Does the IAE have a civil liability policy?

Yes, it does. The IAE arranges a policy because, in contrast to other professions, we have unlimited liability. This is a matter we have discussed with the Directorate-General for Insurance and Pension Funds because very few things are unlimited in this world. Our policy is designed to cover liability of

up to 1.5 billion euros, and we are currently considering increasing this amount. In a case concerning a pension fund, an actuary was ordered at first instance to pay an exorbitant amount in compensation. At the second instance he was exonerated from paying that sum because it was disproportionate to the remuneration he had received. The Spanish Civil Code requires any damage caused to be compensated, and it is very difficult to establish what the damage will amount to in advance. An actuary acting negligently can cause a huge amount of damage.

Most actuaries work for insurance companies, in the public sector or as risk managers. Businesses are increasingly risk-aware. Does this mean the demand for actuaries has grown?

The actuarial profession today is based on three pillars, which are insurance, pensions and Social Security. But actuaries' competencies go beyond these fields.

Obviously, they are trained to assess financial risks, not just in the insurance sector. In Spain, these three pillars I have mentioned, along with the Directorate-General for Insurance and Pension Funds, take up virtually all actuaries, but this is also the case internationally. For the moment, it is becoming clear that actuaries can help manage a range of financial risks, for instance in banks.

The number of actuaries remains small in some Latin American countries. How is this changing? Which qualifications carry more weight in the profession: European or American?

Indeed, in some Latin American countries the number of actuaries is still quite small, but this is changing. The lack of local professionals often draws actuaries in from Spain and other countries. Many Latin American actuaries were trained in the US and others went to European universities,

Could pensions be harmonised across Europe?

The EU must first of all continue to make progress towards its own integration and building a solid European Bank. We have seen big failures in monetary union and we have no Eurobonds. There has been talk of tax harmonisation in Europe since 1986 but no headway has been made. Given that this is a key aspect of monetary and banking policy, there is no tax standardisation. Obviously, neither can consensus be reached on retirement because people retire at different ages in each country. The reality is that, as far as state pension systems are concerned, Europe leans more towards divergence than convergence. This includes the actuarial profession. The European directives that are shaping the Solvency II framework do not establish the actuarial profession as a reserved activity, as is now the case in Spanish legislation. Although this is a minor problem, because EU legislation has to be implemented into Spanish statutory law, where these restrictions will continue to apply.

Why is there no coordination at the European level?

Europe is essentially a mishmash. Each country holds on to its customs and traditions. The EU has the power to issue regulations, which apply to everyone equally, but these are more conspicuous by their absence than their presence. We are all familiar with directives, but not regulations. Then we have another important area, namely pension schemes and funds, which are not included in the Solvency Directive but treated as an independent issue. So what is my view on the future of the actuarial role? I think actuaries will continue to exist in Spain. They are one of the reasons why there have not been any great scandals in the insurance business, like we have seen in banking. We have a bad bank but no bad insurer. When I was appointed head of the IAE in February 2012, the IMF representatives came and published a very significant report in June 2012, which took our views on board.

What is your view of the future of the state pension system?

This is an important matter where two words have to be kept very much in mind: pension and supplementary. I will begin with the first one. The word pension comes from Latin and it means a periodical payment, so it cannot be anything else. We have repeatedly heard high-ranking politicians say that pensions are in property.

Absolutely not! Savings invested in property should not be mistaken with pensions, which provide periodical payment. The second word is supplementary. If something is supplementary, it is not the main part but an extra that completes the total. The Spanish pension system is structured in such a way that the first and main pillar, which is managed by the Social Security, operates under a pay-as-you-go scheme. Then there are

other supplementary pillars. The key point is that the system comprises a main element and supplements and is therefore a mixed pension system. Note I say pensions, periodical payments to cover the contingency of old age. What we are dealing with is either a life annuity or an actuarial annuity - that is the core of the debate.

What is the current situation in Spain, which has seen the most far reaching reforms to the state pension system in Europe over the last five years?

The situation is easy to gauge on the basis of one crucial piece of information: according to the National Statistical Institute (INE), with every day that passes, life expectancy increased by 4.8 hours. Furthermore, the birth ratio is two to one, which means that for every two people, one person is born. The Spanish population is therefore getting one year older every year that passes. The average age in Spain is 43, but in the region of Asturias it is 47. So pensions are beset by two risks: longevity and low birth rate. Added to this, we have bilateral agreements with many countries for pension recognition, so people who came to work in Spain will have their pensions recognised provided they have contributed to the social security for at least one year. The population pyramid is no longer a pyramid. It is becoming a truncated icosahedron. All of this needs to be addressed by providing solutions, by changing the system's parameters rather than its structure. Sweden, for instance, replaced its traditional pay-as-you-go pension system with a notional accounts model.

What are your views on the supplementary part of pensions?

Compared with other countries, everything remains to be done. Spanish people do save, but 80% of savings are property. Almost half of the other 20% is in current accounts and the rest is in mutual funds, equities, insurance and direct investment. Typically, people in Spain believe the state pension will suffice to provide for old age. This outlook clearly does not encourage supplementary saving. So I think that the initiative of informing the population over the age of 50 about their expected pension, which will begin to be implemented in 2014, will prove a real wake-up call.

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The Institute of Spanish Actuaries (IAE)

The Institute of Spanish Actuaries was created by a decree issued on 15 December 1942, following in the tradition of association in the liberal professions. Its membership was comprised of graduates from commercial studies schools until the Law on University Reform of 17 July 1953 conferred the power to issue professional actuarial qualifications to the Economics and Commerce division of the School of Political, Economic and Commercial Science. The regulations governing actuaries' professional activities and their supervision were introduced by a decree on 25 April 1953. Article 1 establishes that the Institute of Spanish Actuaries, as an official scientific and professional body governed by public law, shall be formed by insurance actuaries holding official qualifications. The following articles, in addition to setting membership as a necessary requirement to engage in the profession, establish that the Institute will be under the supervision of the Ministry of Finance, via the Directorate-General for Banking, the Stock Market and Investment.

such as Madrid or Malaga. Ties with Spain are strong, for the simple reason that our common language makes it easier to form relationships. However, each country is different. In Mexico, for instance, many actuaries study in the US on account of its proximity. In any event, we know that the IAE is recognised as an important player. We have many agreements with universities to help them introduce actuarial studies.

Would you encourage young people to choose a profession that, at first sight, seems rather unexciting?

Actuarial science schools produce actuaries, who are keen to work as such when they join the job market. At first, the answer to this question is easy: of course I would encourage them to go for it! But I would also warn

them that this is not art school. This is about studying mathematics and statistics. If they can enjoy these two subjects, they will be happy in the actuarial profession.

Regarding the future of this profession, are there not concerns that specialist computer applications will gradually take over the actuary's role?

We believe there is no way professional actuaries can be replaced. Having said this, technology -which should serve people and not the other way around- must surely help to make tasks easier. Actuarial software has seen far-reaching development in the UK, but not so much in Spain, and where it has been deployed, it is usually for internal use only. In the UK, actuaries leverage new technologies, but the important thing is to see the bigger picture.

What is your opinion of the role of actuarial consultancy companies?

Clearly, during big work peaks it is sometimes inevitable to turn to a consultancy for help with developments. Consultancies are used to dealing with a range of markets and situations, sometimes highly complex. The vision they have makes them helpful in putting certain issues into focus that perhaps cannot be handled from the strict perspective of an actuary within an insurance company. Their business certainly makes sense, which is why it is there and will continue to be there. Even more so now, given all the implications of Solvency II.

As an actuary, can you share your thoughts on private pension schemes and their tax problems?

We have not seen any progress in this regard. In fact, quite the opposite. The tax system introduced by the new Law on Pension Schemes and Funds in 1987 was effective until 2005. That was a high point because the limits on personal and company scheme contributions were independent of each other, among other things, and all were determined on an actuarial basis. Quite suddenly, in 2006, when the crisis had not yet hit, it was decided that retirement savings had to go into property. A tax system was put in place that disincentivised saving into pension schemes, and it has not been changed since.

agenda

COURSE ORGANISED BY FUNDACIÓN MAPFRE

Course	Method	Beginning	End
V Advanced specialization course on Life, Health insurance and Welfare Estimate 2014	E-learning	10 February 2014	13 June 2014

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