

CHRONICLE FOR "BEST" MAGAZINE

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1983 has been particularly catastrophic for Spanish Insurance. On one hand, the important floods in the Basque Country, Valencia and Cataluña, whose losses have been satisfied thanks to the very efficient mechanism of the Consorcio de Compensación de Seguros (Compensation Consortium of the Insurance Department); a tragic week, with three planes lost at Madrid Airport; and, last but not least, the greatest claim of our history with the sinking of the ship "Castillo de Bellver" which cost has reached approximately 70 million US dollars. The market has been particularly affected by this last one, but some companies have also suffered losses due to the floods of the north of the country in risks not covered by the Consortium. This fact has contributed to worsen reinsurance results, at a particularly difficult moment, and has created difficulties to some companies for treaties renewal.

Now in 1984, with remarkable calmness in losses, the famous new Insurance Law is at the very moment of being passed at the Parliament, after almost 20 years of procedure with many vicissitudes that I have already commented in some previous chronicles. In an anecdotal way, I may say that in 1964 the Mutual Insurance Company I manage promoted for the first time in its history a new insurance company, today MAPFRE INDUSTRIAL, and in order to fasten the Board's decision, I said that an increase of the capital required (then 12,5 million paid up pesetas, approximately 90.000 US\$ today) was very probable; in 1970 we incorporated MAPFRE VIDA and I repeated the same argument; but today, in 1984, it is still possible, at least in a theoretical way, to incorporate an insurance company with the same capital. Some of the market problems to which I am referring in this chronicle, come from the simplicity of obtaining authorisation to create insurance companies without enough capital.

The three most important points of the new Law that, if there is not a catastrophe in the meantime, will have finished with this unusual situation when this chronicle is published, are the following:

- Substantial increase - although it may seem insufficient in other markets - of the minimum capital required to insurance companies, up to 300 million pesetas to operate Life insurance, 200 million for Property and Casualty and 500 million for Reinsurance, 50% paid up in all the cases. A relatively short term of three years is given to the Companies that at present operate without reaching these figures of capital.
- Granting of faculties to the Insurance Department to act with agility, energy and quickness against the companies that behave in an irregular way or do not have its solvency margin covered.
- Submission to the control of the Insurance Department of some "Social Security" private companies so far excluded from this control and that occasionally have incurred in abuses and irresponsible competition.

With this new Law, together with the problems created by some generally small companies in a difficult situation that are being liquidated by the Insurance Department, a true "turn around" is starting at Spanish Insurance. So far there had been practically no concentrations - the biggest group does not reach 5% of the market share - but this situation will change in a fast way, not only due to the Insurance Law and the possible entrance of Spain in the Common Market (in which I personally do not believe) but also to the own internal evolution of the market and to the losses suffered by some insureds due to the liquidation of insurance companies considered as solvent.

Lately, the Insurance Department is discussing with the main insurance companies a plan to carry out a "market clearing" with the smallest possible loss for honest insureds; this fact will undoubtedly originate a concentration process, even speedy.

I can mention three significant examples of this new situation:

- * CASER, a relatively small company linked to Savings Banks, has absorbed the three insurance companies of RUMASA (big financial group subject of a worldwide scandal): Unión Condal, Minerva and Atlas. The resulting company after the merger may reach in 1984 the third position at the Spanish insurance ranking.
- * Another important Company, METROPOLIS, that in 1984 occupied position number three in the ranking and that concentrated its activity in two big collective Life policies (one of them with the biggest Spanish society, the Telefonica), has decreased its relationship with this company and consequently lost its preeminent position, falling to the 14th in 1983. It is said that this company, of great solvency, may be interested in the purchase of other insurance companies.
- * Finally, MAPFRE Insurance Group has reached position number one in the domestic market, according to the criterion followed for this record by specialized publications, although LA UNION Y EL FENIX is still the most important company if we bear in mind its activities in France, where it is one of the foreign insurers of bigger volume and most satisfactory public image.

This change in the market is only the "iceberg point" of what it may happen in the coming years, in which it is thought that more than a hundred companies, generally small, will disappear by virtue of liquidations, mergers and absorptions, and in which Spanish insurance will start a concentration process that will make possible, as in many other European countries, that the five main companies reach nearly 50% of the whole market. Precisely, this situation is quite similar to the United States', where the market share of the five first insurance companies is also low and whose present situation of losses may originate a concentration process parallel to that of our country's.