

"INSURANCE THROUGH THE CHANGE: MAPFRE STRATEGY"

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I

Before addressing you, if not exactly on strategy, decidedly on the principles which have permitted MAPFRE to develop in a positive manner within the Spanish insurance framework, I would like to say something about change itself since this is the basic subject of this Seminar and I have always tried to be respectful to ICEA, its great Presidente Jesús Serra and its most efficient Manager, José Jurado.

The change brought about in last few years has become a subject which can be thrown about, one of those so expertly used by Marxist dialectics with key words such as projectiles to disqualify its enemies. Thus, the change has been and still is somewhat, a "coinage" which could be classified as the "objective of the smart ones to put an end once and for all to the empire of the fools and incompetents". Thus they have made many believe. But I am positive this has not been the aim of ICEA in this Seminar, among other reasons, because all its members are smart.

A lot has been said, now seriously, on change, and none of us doubts that we are undergoing changes in moral, sociological, technological and political trends. I believe, and so I have declared for many years, that an outstanding feature of the times is precisely the "swiftness of its changes", which accelerates in a permanent manner and we know not exactly where these are heading or when they will stop. Undoubtedly the answer lies in

that during the past century, Man has acquired the "technique to change", to provoke changes. I am referring to technological changes, but in one way or another, the remaining changes emerge as their consequence.

- * Competitive transparency.
- * Facility to cross national borders.
- * Pressure for good service and cost reduction.
- * Demand for industrial and family covers.
- * Need of self-financing the personal future.
- * New informatics and communications technology.

In any case, this is the change I am going to deal with, the change which has fostered an insurance structure quite different from that of 1945. Everyone thinks that underwriters who do not prepare for the next forty years will disappear in not too long a term, absorbed either by international competition, by other institutional sectors, or by underwriters with successful management and strategy, who will set the standards and cut out of the market those who stray afar.

My company has surmounted well these four decades, going from number sixty eight in the business to number one, and I certainly hope it will be useful to see how it has evolved in its activity and the principles upon which it has based its growth strategy, but most of all regarding its economic strength, since I believe nobody in Spanish insurance offers a figure for total "own funds" above 16,000 million pesetas, without non realized free surplus, mostly the result of self-financing.

Forty years ago, the ten top underwriters in the market enjoyed a joint market share of 43.28% while in 1984 it was only 31.91%, a development contrary to the general trends of concentration of companies in almost all the world markets, and I suppose this will also change in the future.

| <u>1 9 4 5 (*)</u> | | | | <u>1 9 8 4 (**)</u> | |
|--------------------------|-------|---------------------------------|-------|--------------------------|-------|
| <u>Property/Casualty</u> | | <u>Property/Casualty,</u> | | <u>Property/Casualty</u> | |
| <u>and Life</u> | | <u>Life and Workmen's Comp.</u> | | | |
| UNION Y FENIX | 9.95 | UNION Y FENIX | 9.08 | MAPFRE | 5.18 |
| B. VITALICIO | 6.94 | B. VITALICIO | 5.19 | UNION Y FENIX | 4.70 |
| CHASYR | 6.76 | CHASYR | 5.17 | CTALANA/C.GRAL.AS. | 4.31 |
| EQUITATIVA | 5.06 | EQUITATIVA | 4.38 | BANCO VITALICIO | 3.28 |
| PREVISION ESP. | 3.02 | MUTUA GENERAL | 3.60 | MUTUA MADRILEÑA | 3.09 |
| PLUS ULTRA | 2.69 | PREVISION ESP. | 2.79 | OMNIA/MARE NOSTR. | 2.44 |
| OCASO | 2.54 | PLUS ULTRA | 2.42 | MUSINI | 2.29 |
| BILBAO | 2.30 | BILBAO | 2.11 | SANTA LUCIA | 2.25 |
| CATALANA | 2.12 | GENERAL ESP. | 2.03 | ZURICH | 2.21 |
| ADRIATICA | 1.90 | OCASO | 1.90 | CASER | 2.16 |
| | | | | | |
| | 43.28 | | 38.67 | | 31.91 |
| | ===== | | ===== | | ===== |

These charts are interesting, specially those comparing homogeneous amounts eliminating Workmen's Compensation, although I have also used the list which includes it, since it was really significant in the 1945 market, even though comparison is not possible with the present situation.

It is interesting to point out how only four companies are present in both years. In 1945 there was no Mutual Insurance Company among the main ones without Workmen's Compensation, and several of the top companies in 1984 either did not exist or were practically unknown in 1945. At the time, the market was almost exclusively composed of domestic and independent companies. Undoubtedly there were internal links among insurance companies which I do not know in detail, and foreign insurance companies had interests in independent companies, but were not taken into consideration jointly as they are now. LA CATALANA I believe still had a relationship with Banco Vitalicio and Caja de Previsión y Socorro, within the institutional influence of GENERALI.

(*) "Anuario Español de Seguros" (1945-1946 data)

(**) "Avance Estadística Seguros Privados de UNESPA" (1984)

Another aspect, as compared to the 1945 market, the respective percentage of insurance classes have changed, as you will see also in figures for the United States and France:

| | <u>Spain</u> | | <u>United States</u> | <u>France</u> |
|---------------------|--------------|-------------|----------------------|---------------|
| | <u>1945</u> | <u>1984</u> | <u>1984</u> | <u>1983</u> |
| Liability | 0.3 | 2.0 | 5.6 | 5.8 |
| Fire | 18.4 | 8.3 | 1.4 | 11.8 |
| Combined policies . | ---- | 4.9 | 12.5 | 5.6 |
| Marine | 23.6 | 6.7 | 2.7 | 2.9 |
| Automobiles | 5.1 | 31.8 | 26.5 | 31.6 |
| Life | 33.5 | 12.5 | 47.1 | 28.1 |
| Others | 19.1 | 33.8 | 4.2 | 14.2 |

These are significant changes, some a consequence of technological evolution, such as Automobile Insurance. The decrease of Life Insurance should make us think, although I expect in the next few years it will draw nearer to the 1945 share. Naturally, between 1945 and 1985 there have been many changes, and the sole comparison of both extremes is not enough. I hope someone will accept the challenge of completing it with a study by stages showing the evolution of our market, and try to obtain some conclusions. Comparison with area distribution in the United States and France is useful since it can be used to estimate the development of Spanish Insurance for the next years.

What I have shown you is clearly enough to show the change we have undergone and to be used as orientation for our colleagues of the year 2025. This year is rapidly nearing, the same as the past forty years are elapsed, which coincide with my professional life in insurance which started in 1945, exactly the period we are discussing.

II

It is always difficult to decide which presentation method is most useful for the purpose of one Meeting; each has its problems and limitations. In this case, it seems adequate to stress the main points in the evolution of MAPFRE's organization, then point

out our management guidelines and make a brief comment on their influence on MAPFRE. The "description" of our evolution has made me become aware that, even without any formal planning, there have been permanent targets which have indeed been reached, because they have never changed. Occasionally, I have been termed, worse still, by my collaborators, as "erratic" and as you will see, it is rather the contrary.

I will describe now how the MAPFRE organization and management has evolved in each of its stages, from 1955 to the present. I shall not comment on the period 1933/55 which although interesting in many aspects is not interesting as to business strategy. We were then a company exclusively composed of farmers and landowners, established by them and for them, an aspect which makes us similar to another company present here today, STATE FARM, the first non-life insurance company in the world.

STAGES AT MAPFRE SINCE 1955

1 9 5 5

| (*) | |
|-------------|-------|
| Premiums | 9.3 m |
| Mark.share | 0.3 % |
| Assets | 2.1 m |
| Assets/prem | 23 % |

Decentralized organization, due to its activity in the agricultural Workmen's Compensation and the need to pay accidents locally. Several provincial direct branches with excessive expenses. Sharp reduction of managers and employees at Headquarters, having lost 70% of the business share upon ceasing operations on "National Health Insurance". Measures to balance the company: transformation of some branches into agencies, giving general agents and branch managers a 5% share in the results.

In 1956 mecanization starts with a Remington Rand key punch machine. In 1957 technical balance is achieved.

In 1957, a technical manager with ample experience joins the company, plus a young marketing man with absolutely no experience, to start internal reconstruction of operations.

- (*) The figures shown represent MAPFRE companies' without Workmen's Compensation, in the year corresponding to each stage. "Assets" is the sum of the "realizable assets" similar to the "admitted assets" used in the United States.

1 9 6 0

| | |
|-------------|--------|
| Premiums | 31.6 m |
| Mark.share | 0.5 % |
| Assets | 11.8 m |
| Assets/prem | 37 % |

Expansion through the creation of provincial branches, almost unknown in Spain, gradually reducing the number of provinces with general agents. Preoccupation due to the possible loss of Workmen's Compensation, 63% of the MAPFRE's income. Promotion of Automobile insurance is intensified so as to substitute Workmen's Compensation. 1960 starts recruitment of students through press advertisements, mostly from Law School. A Bull punch card equipment is purchased. Creation of Regional Offices which will administratively group several provinces.

The Life and Marine Branches are created in 1961. In 1963, authorization is requested to create the "Industrial Safety Services", which today is the Rehabilitation Center of MAPFRE MUTUA PATRONAL. So as to increase Automobile production, the Company CENTRAL DE OBRAS Y CREDITOS (C.O.C.) with Head Offices in Barcelona, is acquired in 1962 for financing vehicles. In 1965, together with REDDIS and MUTUA GUANARTEME, the Company GRAM, anagram for GRUPO ASEGURADOR MUTUO, is created, which tried with no success to become an instrument of a group of Spanish Mutual Insurance companies. GRAM started dedicated exclusively to insurance coming out of financing operations, although it was soon decided not to accept such operations due to poor results.

In 1962 MAPFRE starts its activity in the Stock Investment area by promoting the Investment Company MUINSA, with an "Investment Studies Service".

In 1965, Compulsory Automobile insurance starts.

1 9 6 6

| | |
|-------------|---------|
| Premiums | 292 m |
| Mark.share | 1.0 % |
| Assets | 169.5 m |
| Assets/prem | 58 % |

The awaited "crisis" around Workmen's Compensation appears in 1966, and MAPFRE is forced to split into two: "MUTUA PATRONAL DE ACCIDENTES DE TRABAJO", part of Social Security which operated in this area, with premiums for that year of 221 million pesetas, 43% of the total; and "MUTUALIDAD DE SEGUROS" with 292 million pesetas in premiums for 1967 and 57% of the total, to operate in the remaining areas. Both with radical separation of assets and Central Services.

MUTUA PATRONAL, whose previous operations had management costs of 40%, could not go over 12.5% in the future, which would either seriously harm the agents' network, or they would have to receive compensation under MAPFRE's General Insurance for loss of commissions, although not for their efforts regarding Workmen's Compensation. This created new problems for the MUTUALIDAD which for several years could hardly balance results.

Compulsory Automobile insurance accelerated development in this area. It is decided to increase territorial expansion through the opening of new direct offices foreseeing future expansion in this area of insurance, although it clearly affected immediate technical balance. This bold decision was the base for later expansion and growth.

Duplicity of administration is observed in regional and provincial offices. These last ones receive autonomy under the "Provincial Plan". University students recruitment continues, as well as "messenger" boys from 14 years of age, age limit at that time. In 1968, the first computer is purchased, an IBM 360/30.

In 1967 the credit institution CREDITO Y PREVISION is promoted and in 1969 the Investment Studies Service becomes the Company AGECO, which reached a high level of prestige among the Spanish Financial Analysts.

1 9 7 0

| | |
|-------------|-------|
| Premiums | 732 m |
| Mark.share | 1.9 % |
| Assets | 569 m |
| Assets/prem | 78 % |

The success of Workmen's Compensation after the 1966 reform, with a more effective service and much lower costs, leads us to start a "specialization" policy, creating the "GRUPO MAPFRE". The MUTUALIDAD goes mainly into operations involving Automobiles. MAPFRE VIDA created in December 1970, goes into Life Insurance and MAPFRE INDUSTRIAL (transformation of GRAM), into General Insurance, although in principle only regarding Industrial Risks and Marine. All of these are coordinated in a set of "common central bodies".

Some small provinces seem to have problems and cannot easily receive help from Madrid. The Subcentrals are created, whose Manager was to be the head of the most important Provincial Office in the area, and special delegate from Head Office with policy decision power as to recruitment of employees, important claims, changes in the commercial network. etc.

The Company CIC (previously COC), initially dedicated to the Financing area, operating quite autonomously from MAPFRE and listed in the Stock Exchange, expands in an important manner in its industrial and real estate promotion areas.

In 1971 a movement starts for drawing nearer our sister countries in America through EDITORIAL MAPFRE which offers service in insurance books, and prepares at the same time the way for offering reinsurance operations. Also in 1971, reinsurance acceptance starts in MAPFRE INDUSTRIAL and "MAPFRE SERVICIOS DE REASEGURO" is established in 1976 as a service management company. Activity in professional reinsurance for Latin America was started and in 1976, MAPFRE INDUSTRIAL starts Bonding operations, later establishing the "MAPFRE SERVICIOS DE CAUCION" service management company.

In 1975 CREDITO Y PREVISION is sold and with the collected amount the FUNDACION MAPFRE is jointly created by MAPFRE MUTUALIDAD DE SEGUROS and MAPFRE MUTUA PATRONAL, being its exclusive objective to promote the prevention and the safety.

1 9 7 7

| | |
|-------------|---------|
| Premiums | 5.275 m |
| Mark.share | 3.5 % |
| Assets | 6.821 m |
| Assets/prem | 129% |

A serious crisis arises in CIC, consequence of the general national crisis, specially in the industrial and real estate areas. MAPFRE, a minority shareholder, restructures the company eliminating all activities which are not strictly consumer loans. When a balance is re-established in 1981, the name is changed to "CORPORACION MAPFRE" (CORMAP), with some institutional investors (PRUDENTIAL RE, S.A.F.R. and CAJA DE AHORROS DE MADRID) as minority shareholders; CORMAP is set up as a holding of the financing companies MAPFRE FINANZAS and of the MAPFRE chartered insurance companies. Now

MAPFRE has available a company listed in the Stock Exchange, an aspect which is basic to its policy of strong capitalization, a must towards an effective international expansion.

In 1979 a great success is achieved in the provincial offices with the installation of ICL off-line mini-computers. 1981 saw the start of the "capillary network" plan for the increase of territorial insurance offices on ground floor premises staffed with expert professional employees and delegates. The budget for this plan was 5,000 million pesetas for a period of five years.

In 1977, PREVENCIÓN INDUSTRIAL MAPFRE (PRIMAP) is created, which initiates in a formal manner the work that MAPFRE INDUSTRIAL was undertaking in the area of prevention. In 1979 the first Training and Fire Testing Laboratory is established at the MAPFRE MUTUALIDAD premises in Majadahonda. SERMAP (SERVICIOS MARÍTIMOS MAPFRE) was also established in 1977 to offer Marine Surveyor services and to achieve technical specialization in the realm of marine transportation.

In 1981, the first issue of the magazine "MAPFRE SEGURIDAD" is published for spreading information on the activities of the FUNDACIÓN MAPFRE towards the promotion and defense of safety.

In 1982, MAPFRE REASEGURO and MAPFRE CAUCIÓN are established as autonomous specialized insurance companies, property of CORMAP's.

1 9 8 3

| |
|------------------|
| Premiums 23.453m |
| Mark.share 4.8 % |
| Assets 37.522m |
| Assets/prem 160% |

Coinciding with the 50th anniversary of MAPFRE MUTUALIDAD DE SEGUROS which was celebrated with the slogan "MAPFRE TOWARDS THE FUTURE", a plan starts to take shape under the name of "MAPFRE SYSTEM/85". This plan contains important operational modifications for up to the year 2000, including my own retirement from the executive area in 1986.

It is decided that CORMAP, which brought together the share capital of the MAPFRE stock companies but which lacked its own direct

activity, merge with MAPFRE REASEGURO, thus incorporating all its assets as "security" to back assumed reinsurance from international clients.

A plan is drawn up to create "Autonomous Units" extending the autonomy of the main insurance areas: Automobiles operated from the MUTUALIDAD, owner of CORMAP and "mother" of the System; Reinsurance coordinated with General Insurance within CORMAP, with six Territorial Companies as continuation of MAPFRE INDUSTRIAL; Life in MAPFRE VIDA, which we hope to make the head of a financial complex and Financing which continues the former CIC through the MAPFRE FINANZAS' network made up of five companies: one national and four territorial ones, in ever increasing cooperation with MAPFRE CAUCION.

The "System" lacks central bodies common to all autonomous units except for Supervision from three Commissions: "Control", "Personnel" and "Tax and Finance". These are made up by Senior Board Members who, including myself, will turn 65 in this year. From 1987, this Supervision Unit will only have a staff of twelve, among them five internal auditors, with an approximate total cost of one per thousand of the premiums from each company in the System.

The concept "structural office" is started, supervised by the Subcentrals of the System and dependent on the Autonomous Units. These are the ones with an on-line mini-computer to the central data base, operating with full autonomy and generally also with a "Center for Vehicle Estimate and Diagnosis". This last feature allows in Automobile Insurance immediate payment of claims both to policyholders and third parties. The concept "capillary office" also starts to take shape with some 800 offices already in operation. Some have employees, while generally most have agents. "Capillary offices" depend on a "structural office" and offer the public professional services regarding insurance of all kinds, financing and financial products.

The process of "independent premises" of the Regional Offices is started for Automobile Life, Financing and General Insurance, which relate directly to their respective Autonomous Units but coordinated through the Subcentral Manager.

1985 sees the start in Mexico City of a network of international offices. In 1986 additional ones will be inaugurated with different characteristics in Buenos Aires (coordinated with the Aconcagua Company), Rio de Janeiro and Manila.

FUNDACION MAPFRE creates in 1983 the MAPFRE TECHNOLOGICAL SAFETY INSTITUTE (ITSEMAP) with six different centers specialized in "Traffic Safety", "Fire Research", "Industrial and Environmental Hygiene", "Industrial Safety", "Labor Accident Prevention", and "Safety Training". MAPFRE VIDA starts a health diagnosis service. The magazine "Gerencia de Riesgos" starts being published. 1984 sees the beginning of the organization by FUNDACION MAPFRE of important Seminars in Latin-American countries (Sao Paulo, Buenos Aires, Santiago de Chile, Caracas, Valencia (Venezuela) and Bogota) and the granting of scholarships to experts of those countries to study in Spain.

1984 starts the creation of an integral data base network with inter-active teleprocessing and mini-computer terminals coordinated with a full network of internal links, which will allow integrated computerization of operations with an approximate cost of 2 to 2.5% of the premiums. This network is already into 65% of the operations and will be completed in 1986. An Accounting and Budgetary System is being drawn up on a data base, common to all Autonomous Units and their subsidiaries. Its start of operations should coincide with that of the Territorial Companies for General Insurance. Such computerization will be deemed indispensable for the success of the MAPFRE SYSTEM/85.

In 1985 the Committee for the Defense of the Insured is created, chaired by an "Ombudsman" ("Defensor del Asegurado") which will play an important role in MAPFRE's institutional future.

III

Forty years of intense professional activity, together with a continued analysis of what is going on in the business world and the development of insurance in many countries in addition to the principles of collective and institutional action, product of a family tradition, have made me act in my position as chief executive of MAPFRE according to criteria which have had a direct effect in MAPFRE's evolution and which in a certain manner have been the main reason for the present situation. I want to present this almost like a professional declaration, both useful for analyzing the business, human and social aspects of today's MAPFRE SYSTEM.

I have chosen to present each principle with its antonym, in a kind of In-Out relationship, popular both in a certain Spanish news paper and in the whole world.

I N

O U T

1. PRAGMATISM

DOGMATISM

It is indispensable to be able to adapt to any change in situation, either policy or strategy, even contrary to previous decisions or principles, accepting all types of reality, specially so as to be able to face a period of change. Organizational charts and planning bodies hamper pragmatic action.

2. HUMANISM

RIGIDITY

The worth of a company is the worth of its men, their support and integration into it. Thus, even without ethical and spiritual reasons, maintaining a human relationship is indispensable, even paternalism is commendable that provide security, respect, dignity and freedom of those collaborating with the company. As far

as possible, the company should foster a family spirit, a relationship between men who understand and forgive each other, and who maintain among them a spirit of charity. Without this, it would be difficult to be successful in a climate of competition, since its higher cost is more than adequately compensated with the advantages of internal support and enthusiasm.

3. SPECIALIZATION

GENERALIZATION

Management of an insurance company, in all its technical and commercial aspects, becomes more efficient with specialization, allowing its senior managers to concentrate their efforts in only one area, extending this feature to its decentralized territorial bodies when there is enough volume. This specialization is indispensable to reach a high level of technification in each operative area.

4. DECENTRALIZATION

CENTRALIZATION

Management, technical, and commercial decisions regarding the acceptance of risks as well as the settlement of claims, should be made in areas near the customer and providing the service the customer requires. Decision autonomy stimulates creativity in a greater number of persons and contributes to manager training.

5. COMPETITION

PROTECTIONISM

Growth of an insurance company is only satisfactory and on the long run balanced when it arises from a fully competitive market. This implies that each entity may apply its own rates and it answers with its results for the mistakes it makes, which are judged by the auditors, and which cannot be concealed with creative accounting formulas nor with accounting cosmetics.

6. INDEPENDENCESUBORDINATION

The insurance services should not be dominated by interests outside insurance, neither private nor public. It is convenient for the balance of market and the services to the insured, that the insurance company decide its own policy and strategy with objectives centered in its own activity.

7. FLEXIBILITYPLANNING

An insurance company, so as to face the continuous changes of a dynamic and fluctuating society, needs structures which allow maximum operational flexibility, without restraints to prevent quick modifications in unexpected situations. A well organized company benefits from every general change, even if harmful to the market, for it ends up in better relative situation than its competitors.

8. SOCIAL RESPONSIBILITYBUSINESS EGOTISM

The institutional company, which has a high percentage of the gross national product and goes beyond speculative short term operations, should feel responsible for the effect of its national influence, with commitments in excess of contractual performance, and it is ethically under obligation not only to a long term investment policy to balance the national socio-economic structure, but also to become, proportionally to its means, a social benefactor, in one way or another, and to promote initiatives of general interest. This is most important for the insurer, who accumulates other people's funds and administers investments not strictly operative, proportionally superior to that of an other activity, including financial activity.

9. LAWFULNESSLAWBREAKING

Respect for the in-force legislation and strict compliance, even excessive compliance, with the legal and fiscal regulations plus integration in the socio-political life are basic needs of the institutionalized company, without which it

cannot develop a climate of reciprocal trust between employees and customers. This should go together, except in the very special cases of "confessional" companies, with independence from political forces and government action.

10. TRANSPARENCY

OPAQUENESS

The highest degree of ample and frequent transparency in administration and operations, very detailed, is an instrument of "coercion for good practice", which inspires trust among employees, collaborators and customers, and facilitates self-correction of results.

11. INTERNATIONALISM

TERRITORIAL RESTRICTIONS

Insurance demands splitting and spreading risks. Some insurance companies achieve this with reinsurance or reciprocal agreements. But those aspiring to a situation of institutional influence in the market need to develop formulas for international action without which they would not become professionally of age, even though it offers risks on which it is necessary to think and act with care. Any national market should have at least two insurance companies with international vocation.

12. NACIONALISM

EXTERIOR DEPENDENCE

Except for very special circumstances, which are not the case in Spain, insurance should be eminently a national activity, with decisions arising in the same country, adapted to its needs and peculiarities. A market with its most influential insurers being nationals, reinforces the sovereignty of the country.

13. AMBITION

CONFORMISM

Ambition is to exploit to the maximum degree the possibilities for action, considering each success as a starting point rather than a goal, using each step forward to enter into new areas. To believe that the business units

should search for growth and logical expansion in the realm of activity is a management frame of mind with very positive consequences, which considers each change in situation as a field for new opportunities, originating creative growth.

14. FULL PROTECTION

STRICT COMPENSATION

Insurance sells safety to its customers and this should be interpreted in the broad sense: economic compensation for repair of damages in case of accident, positive action to avoid accidents, reduction of its consequences. Insurance should aspire to offer integral safety in the conviction that insurance is in better situation as to techniques, costs, and structure to achieve this objective, as long as it contributes to its goal of maximum technification.

15. MINIMUM COSTS

INDIFFERENCE TO COSTS

The permanent success of a company is proportional to its relative position in the market as to management costs, including profit. In a transparent market, cost is the main vehicle towards a balanced growth. Insurance needs to reduce its real management costs and to increase the share of income it dedicates to services, with the aim that the relationship "management cost/claims cost", in some cases 50/50, may decrease to 20/80, as it happens to the benefit of the public in some mature and well structured markets.

16. RADICAL COMPUTERIZATION

COMPUTERIZATION FEAR

A company, so as to guarantee its future, must aspire to the highest degree of computerization even if excessive, without the delay of feasibility studies, although naturally with success in the selection of equipment, systems, and programs. Success in this area is the main instrument to reduce costs and promote sales and there is hardly any risk of failure involved.

17. SELECTIONINDISCRIMINATION

Insurance implies selection of risks and classification of rates. The art of insuring is the art of selection. Upon equal costs, the success and the future of an insurance company depends on its success of selection. Selection is ethical as it contributes for the insured party to be aware of the dangers of its actions: to their own interests, to the interests of others, and to other human lives.

18. SPECIALIZATION IN INVESTMENTS-INVESTMENTS AS ACCESSORY ACTION

Insurance needs to pay a very special attention to its investments, on whose high yields will mainly depend the success of insurance companies in a time of strong competition. Besides, insurance as a whole may represent the most important financing area of a country, independent of specific industrial or banking interests, and it may carry out an important function of national balance in this aspect. This has nothing to do with the erroneous "cash-flow underwriting" policy of some markets that has so much damaged insurance results.

19. INSTITUTIONALISMSPECULATION

The funds of the insured parties should be safe from speculative business operations which would inevitably reduce competitiveness and effectivity and can be the cause of unexpected losses. The role of insurance in the social protection of citizens demands that the benefits obtained from the assets of the insured parties be optimized to their benefit.

20. INVESTMENT IN REAL ESTATEINVESTMENT IN STOCK AND BONDS

With the limitations set by the need for liquidity, insurance should have most of its investment in real estate, with a reserve for abnormal fiscal situations, as the ideal means to protect from monetary deterioration, to protect its assets and the assets of the insured, as world insurance experience has demonstrated in the last fifty years.

21. CAPITALIZATIONMINIMUM FUNDS

An institution which offers security and aims for low management costs, needs a large amount of its own funds to eliminate the risk of insolvency or problems in payments. The aim should be for a proportion, at least for institutional companies, of not less than 50%. This demands a high degree of reinvestment and makes it obligatory to have wisdom in salaries and austerity in expenditures and compensations to managers, and growth proportional to capacity.

IV

I would have liked to classify the above principles according to their degree of influence in MAPFRE's growth, or to classify them according to logical criteria: the general character common to all companies, the ones proper to insurance and those specific to the alternative strategy of an insurance company. I haven't felt up to it. They are all important, all are cross coordinated and whoever is interested in analyzing them may evaluate them according to his own criteria. However, I should like to comment on some of their aspects:

- * MAPFRE has been and is highly pragmatic, specialized, technified, decentralized and human, and with it it has achieved a business culture which facilitates autonomous and individual activity, and promotes a warm feeling for the company.
- * A consequence of MAPFRE's specialization is that it allows the ultra-technification, so that each operative area reaches a deep knowledge of the business and of the claims and losses handling techniques. Medical check-ups have been highly sophisticated in Life Insurance and even some health prevention techniques have been promoted, particularly infarct ones. In the Automobile branch, the improvement of some motor car safety techniques has been promoted as well as reduction of repair costs, and, obviously, in Fire and other related areas, some substantial progress have been achieved. Only specialization allows technification and MAPFRE has based its activity, and will base it even more in the future, on this concern.

- * As specific example of the application of the principle of transparency, MAPFRE has had available for many years an excellent system of distributed information. This action is not an improvisation. In my participation in a CAPA Seminar in Perpignan in October 1979, I handed out one of our compared reports on premiums collected by territorial offices during the previous month. Such data is usually considered internal and secret, although for us it is only one of the 20 or 30 we have been distributing regularly and which any of our employees may examine. I am going to include in this presentation our report on total collected premiums as to 28th February. We also have these for Life, Automobiles, General Insurance and Bonding.
- * This compared information is going to increase dramatically and it would not be possible to prepare it without a special data base on which a staff of programmers is already working, nor without the acquisition of the latest laser printer of about 20,000 lines per minute which composes each model simultaneously with incoming data. This information, immediate, multiple and regular, will allow us to continue the balanced and uninterrupted growth we have enjoyed for 25 years, and which could take us to the year 2000 with a market share of 15%.
- * At some point I have spoken of unlimited ambition as necessary for business progress. This has been a personal attitude of mine. I like to "reach beyond" and I feel that each target achieved is the starting point. I do not conceal that in MAPFRE this creates a serious stress which on many occasions overwhelms my collaborators. But still based on their efforts, I would almost say on their blood, results are obtained which would prove impossible in any other manner. The future of our country depends largely on the number of businessmen with this type of ambition, not economic but rather the maximum exploitation of the talents granted both to companies and individuals. Maybe this may come to be considered, at least I believe it, as a demonstration of Christian sense in business management.
- * To make this ambition effective, MAPFRE acts with precise targets in mind, within principles and strategy whose main factor is to be prepared at any time to adapt to new circumstances and opportunities, searching for the exploitation of each possibility to obtain a sufficient dimension and a favourable and independent position in the Spanish insurance market, and gradually in an international market. It has also acted with continuity and coherence, without opportunism nor influenced by management fashions and with "radicalism in the execution" though sometimes it may seem arrogant, without the so-called "after-dinner chat strategies" only based on words and not in facts.

- * Unbalanced growth by itself only interests the conceited, and in a short period of time paralyzes the companies. The past thirty years have been characterized by spectacularly swift growths in Automobile insurance in many companies, and their fall has always been painful. At MAPFRE, for the same period, we have maintained a low keyed but constant growth from which the present situation has emerged.
- * Some of my collaborators feel the principles of "international action" are contradictory with a "national character". Apparently that is so, but insurance must be based on brutal free competitiveness, and this demands free access to the markets. The ambitious institutional insurer needs international projection, even if a "balanced country" needs a large insurance market where the leaders do not depend on outside decisions even though these be positive.
- * At MAPFRE we have strived to reach a privileged position in Spanish insurance as well as international expansion, without believing this to be contradictory. My words must reach not only you, my Spanish colleagues, but others abroad, specially in Latin American countries where we are undertaking reinsurance and direct insurance actions. I do not believe this will be a brake to our policy, as in all countries we will have exactly the same constructive social objective that we have in Spain, without aspiring to operational centralization nor to the creation of centers of power outside the national ones.
- * I wish to stress the importance of self-financing, naturally easier to obtain in a Mutual company than in a stock company. This has been our case and that of Mutua Madrileña. The existence of leader companies is a positive factor for the market, it favours national roots for insurance and besides, Mutual Companies are not subject to offers of acquisition for higher prices from third parties which later create stress in the excessive demand for dividends or results. Mutual insurance is healthy for a country and can be considered as a national and social safeguard against politization of insurance and those who would use it as a tool for financial speculation. This way I feel since 1955, and in some initial occasion I opposed the transformation of MAPFRE into a stock company.
- * Management costs are of fundamental importance to the development of a company and the insurance market, although in very few instances it is bestowed its real importance. In 1981, at an ICEA meeting in Santiago de Compostela like this one in Zaragoza, I pointed out my fears regarding this aspect of Spanish insurance and practically none of my colleagues commented on my lecture. Maybe they felt these were "Ignacio's

idiosyncrasies". But the only strong insurers in the future will be those capable of carrying out a policy of management costs. I have tried to do this permanently in my company, although I do recognize, with varying degrees of success.

- * The management costs of an insurance company depend on the elimination of bureaucracy and this is achieved mainly through a high degree of decentralization, reducing at the same time the size of central services. At MAPFRE MUTUALIDAD we have a ratio of headquarter employees/total employees of 14% and in two years I believe we will reach 10%, although this is still not enough. This is also a future aim of the other MAPFRE companies and one of the reasons of the creation of independent Territorial Companies, that few understand, and that will undoubtedly be one of the most important steps for our positive future evolution.
- * I have spoken of the antagonism between "insurance/strict compensation" and "insurance/services". This last one has been implacably MAPFRE's line. I have been asked since when has this been going on and I think it started in 1959 when I was introduced by my friend the great American insurance professor Ralph Blanchard to Ambrose Kelly, Legal Director of Factory Mutual and to the philosophy of action of these companies. This example helped me reach the conclusion that insurance needed to provide complementary services so as to take advantage of the opportunities of its own structure and that it is not satisfactory for insurers to transfer these services to third parties.

V

To finish, I could tell you:

MAPFRE has achieved its high and permanent rhythm of balanced growth thanks to the action which has eliminated bureaucracy, maintaining the principles of ethics and of social responsibility, always ready to adapt to changes and to take advantage of the opportunities at hand. But I do not hide the fact that several factors have contributed to this end, and here I uncover our tricks, since in short, I will retire soon (from the executive day to day toil of course) and I wish to leave the most difficult tasks to my collaborators.

1. We do not employ MBA, although recently we have become aware that one of our directors was secretly an ICADE graduate, but our pragmatism and generosity has lead us not to take it into consideration.
2. We have never had a marketing department, which has allowed us to grow without difficulties.
3. We have never had a planning department, which has made us avoid many mistakes.
4. We have had no more regular committees that those institutionally indispensable: quarterly Board Meetings and Executive Commission Meetings for important investments, and this has made our managers learn to make decisions and take business risks.
5. And, maybe most important yet, we have almost converted our companies in travel agencies, competing against each other, for thousands of our collaborators. In 1986, over one thousand persons will travel abroad in incentive trips for their achievements: over seven hundred to Russia, two hundred to Cuba, two hundred to Yugoslavia (the Eastern countries are cheaper) and many others through Spain, without including personal trips of which I am a good example. As an anecdote, two MAPFRE managers were surprised to run into each other at Anchorage airport on different flights, since we feel it's in bad taste to coordinate trips for one and another and to have someone control all trips made. Such trips have allowed us to get to know each other, to be friends without difference of categories, and to obtain a business support and culture which may be envied for a lot of reasons.

Thank you for your presence here today, and please forgive us if our change strategy is not completely orthodox, but it more or less serves its purpose.

IHL/eb
March 1986

Enc. 1

ECONOMIC EVOLUTION BY STAGES

| | <u>Market</u> <u>shares</u> | <u>% assets/</u> <u>premiums</u> | <u>Premiums</u> |
|------|--------------------------------|-------------------------------------|-----------------|
| 1955 | 0,3 | 23 | 9,3 mill. |
| 1960 | 0,5 | 37 | 31,6 " |
| 1966 | 1,0 | 58 | 292 " |
| 1970 | 1,9 | 78 | 732 " |
| 1977 | 3,5 | 129 | 5.275 " |
| 1983 | 4,8 | 160 | 23.453 " |

A basic aspect of MAPFRE's strategy during the latest twenty years was the permanent transparency of internal and external information.

In 1979 the participants in an ICEA/CAPA meeting in Perpignan were provided with full information about collected premiums and claims as to the previous month (at that time, it was prepared manually).

Now in Zaragoza, I also provide the information about total collected premiums of all the structural offices as to February 28th 1986.

At present, the information prepared by means of a micro-computer is much larger and the 1979 report corresponds to 7 homogeneous 1986 reports.

At the present time, and aiming at starting in 1987, a plan is being prepared of over one hundred technical and informative budgetary reports on an IDMS data base and with an ultra-rapid laser printer, with similar characteristics to the 1986 report enclosed herewith, and that will be the axis of MAPFRE's growth strategy up to year 2000.

The analysis of these two reports, with a 7 year difference, allows to follow MAPFRE's evolution with regard to offices and territorial penetration.

AVANCE DE COBROS Y SINIESTRALIDAD AL MES DE SEPTIEMBRE DE 1.979

| Subcentral. | Oficinas | A. C O B R O S | | | | | | | | | | B. SINIESTRALIDAD | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| | | A.1-GRUPO | | | | | A.2-AUTOMOVILES | | | | | A.3-DIVERSOS | | | | | A.4-VIDA | | | | | A.5-AUTOMOVILES | | | | | A.6-DIVERSOS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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