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EXECUTIVE MANAGEMENT IN INSURANCE ENTITIES

A COMPARATIVE STUDY OF MUTUAL COMPANIES AND JOINT-STOCK COMPANIES IN SPAIN WITH A VIEW TO THE MARKET OF THE 21ST CENTURY

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2. INTRODUCTION AND AIMS OF THE STUDY

Mutual companies are institutions characteristic of the insurance sector and one of the most significant examples of collective ownership entities¹.

Their implementation in Europe, combined with banking cooperatives, represent 15% of continental insurance premiums and in some countries, like the UK, their share in life insurance reaches 40%². These entities are at the associative-solidary origin which gave rise to insurance, through people or institutions grouping together and contributing to a common fund used for compensating those suffering damage due to the accidents or losses covered.

Whilst trade associations in medieval society played roles involving health insurance (Guilds and Trade Brotherhoods)³, it is recognized that Insurance Mutualism was born in Spain in the 19th. Century with the Mutual Aid Societies, more professional in nature and sponsored by the workers, the Fire Insurance Mutuals and the Agricultural Mutuals⁴.

Current formulas for insurance mutualism in our country are divided into three groups of institutions: "Social Welfare Entities" for covering contingencies supplementary to the State Social Security system, "Occupational Accident Mutuals" as associations of companies for covering risks deriving from occupational accidents and illnesses, and, finally, "General Insurance Mutuals" with freedom to trade in all private insurance branches. Because of the importance of the latter and their management similarity with "Mercantile Societies" (see Art. 122 of the Commercial Code), we shall refer to the management field of this group of companies which, in 1996, totaled 59 entities collecting somewhat more than 428,000 million pesetas.

¹ Garrido y Comas, J.J. El mutualismo privado en la Europe del S. CC. Editorial MAPFRE. Madrid. 1992

² Martínez Martínez, M.A.: "Las Mutualidades de Seguros Generales como entidades de propiedad colectiva: cambios en su gestión directiva". Spanish Insurance Magazine. January'98 issue (pages 51 to 88). Paper submitted at IFSAM management Conference. Shanghai. 1997.

³ Farreres Bochaca, A. "El Mutualismo de Seguros en España". AISAM no. 40. Paris 1997

⁴ Garrido y Comas, J.J. (work cited). 1997.

As Mutual Companies are formed by an "association of persons or institutions who share risks between each other which individually befall each of them⁵" the insured becomes owner and, at once, customer with the differentiating circumstance of being able to participate in electing the management team and in the entity's management.

The alternative to the Mutuals (in view of the almost nil use of other cooperative formulas) is found in Joint-Stock Companies which, whilst playing the same role as described above and attending to their customers, are self-financed and produce a profit for their shareholders. Here, the figure of the owner and customer is clearly differentiated and their regulation is subject to each country's mercantile legislation.

The advent of increasingly more open and competitive markets has strengthened the role of Joint-Stock Companies as providers of a large part of risk coverage generated the world over; and this is to the detriment of the mutual formula whose main weakness lies in their need to grow, in the increase in solvency required and in their financing⁶.

Mutual Companies have reacted by making deep changes in their business structures, even transforming their legal business forms or merging with other groups. The sector resulting has reinforced its structures, changing their methods of management and making their managers more professional; this was studied previously by the authors of this paper in another preceding analysis carried out in 1997⁷.

Mutuals were born as entities offering major benefits to their associate members since, as they have no profit motive, their whole orientation is towards improving the service provided to their members and lowering the cost of their risk coverage. Despite the foregoing, this initial associative character has been changing because

⁵ Castelo Matrán, J. & Guardiola, A.: MAPFRE Insurance Dictionary. Editorial MAPFRE. Madrid. 1992.

⁶ Redler, E.: "European financial sector. Trends. Practices and effects." Financial Times Management Report. London. 1994.

⁷ Martínez Martínez, M.A. & others (work cited 1998, Spanish Insurance Magazine). Paper submitted at IFSAM

of the small local entities closest to the insured disappearing and the necessary adaptation of entities to larger sized markets with a higher level of competitiveness.

The purpose of this investigation is to complete the overview of management and administration in the General Insurance Mutuals sector in Spain with a similar study on the Joint-Stock Companies, as well as to draw conclusions from the pertinent comparison in the sphere of their executive management strategy.

The study's conclusions will centre on a corporative Mutual Company-Joint Stock Company investigation, on the following aspects:

- a. Management perceptions on the insurance environment.
- b. Positions to internal factors regulating the competitiveness of their campaigns.
- c. Management systems as used in the companies.
- d. Entity grouping as to strategies employed.

With this contribution, the authors complete the cycle commenced when researching the role of Insurance Mutualism and the repercussions on the management of such Companies.

3. THE INSURANCE SECTOR IN EUROPE AND SPAIN: Structure and trends

On the threshold of the 21st. Century, the Spanish Insurance Market presents new challenges and opportunities to companies. The economy's globalization, the disappearance of protectionism, the development of communications or information technology⁸ and the rapid evolution of the social structure forces entrepreneurs to improve the competitiveness of their entities and rapidly adapt their organizations to

Management Conference. 1997, Shanghai.

⁸ Information processing systems reach 20% of the Insurance Sector's costs in some countries, seeking for substantial improvements in business productivity. See:

- Begg, I. & Green, D.: "Panorama of key trends in the world Insurance market". South Bank University. London (Given at the World Insurance Conference, Geneva, 4 July, 1996)

these new conditions.

The most significant economic and social characterization of the countries forming the European Union is the guarantee they provide regarding a certain privilege of solidarity⁹ with various forms of protection for citizens such as pensions, health systems, disability treatment, child and senior citizen's care, education, occupational accidents, etc. shaping the mechanisms of what is called the welfare state. In 1992, this system accounted for an average expenditure of 27.3% of the GDP in Europe and 22.5% in Spain (M. A. Martínez, 1998).

Social awareness of the increase in these personal coverage's and the impossibility of fully financing them from State budgets represent new opportunities for the insurance market¹⁰.

Present day society is generating other risks¹¹, the reduction and coverage of which means further opportunities for world insurance: technological risks (such as pollution and genetics), consumer risks (professional liability, use of products and services), risks in the use of information (information technology and data processing), etc. are clear examples of this dynamic sector in the western world.

The European insurance sector, represented in 1996 by 4,877 companies, with premiums of 496,510 million Ecus, has grown from 5.6% of the GDP (average of the 15 European Union countries) in 1991 to 7.2% in 1996.

The Spanish Market represents 4.6% of the European total, with 3.8 billion pesetas in 1996¹² and a penetration of insurance of 5.2% of the GDP in the Spanish economy (**Table 1**).

[Table 1]

⁹ Martínez Martínez, M.A.: "Nuevas necesidades del consumidor de seguros al inicio del siglo XXI: El caso español". Lecture given at the "21s Jornadas Universitarias do Seguro", Santiago de Compostela, 29.4.98.

¹⁰ According to data of the "Comité Européen des Assurances" (CEA). 1996, Life Insurance in Europe has grown to 53.4% of the total market; this same figure just exceeded 48% in 1991.

¹¹ Attali, J. "Geopolítica de los riesgos del siglo XXI". Gerencia de Riesgos no. 8. 1997.

¹² The close of UNESPA estimated for 1997 is included.

Amongst the data shown in Table 1, we compare the actual Spanish situation with the sector's average in Europe, making reference to the volumes of premiums, the proportion of life and non-life insurance as to the total market, the size of the companies and insurance penetration as to the GDP and number of inhabitants.

Table 2 shows only the Spanish Market's general data, subdivided into branches.

[Table 2]

We have taken the following as significant factors to be taken into account in Spain.

By adding this comparison to other relevant Spanish market data, we would hereafter give its most significant characteristics to be borne in mind as factors to be considered for the insurance environment at the turn of the century:

- a) Stagnation of the volume of income from Car Insurance (24.6% of the market in 1997) and moderate growth in Asset Insurance (**Graph 1**).

[Graph 1]

Heavy increases in Life Insurance over the last few years and various market studies¹³ coincide in indicating that the greatest opportunities for the insurance sector lie in products covering personal risks such as life, health, pensions and care of senior citizens and, on a second level, certain types of asset insurance.

- b) Multiplication of distribution channels through which insurance is sold. The main change occurring over the last few years is the entry of financial institutions into insurance marketing where they achieved 19.3% of the total premiums in 1996 and, particularly, with 48.6% in Life Insurance premiums. Other channels explored are represented by sale-by-phone, department stores, credit cards, etc.

¹³ Financial Times Group.: "Los seguros en Europa hasta el año 2010. Enfrentarse al reto de los clientes".

Table 3 (Icea 97) shows this distribution and a comparison of the business share according to 1992 and 1996 figures.

[Table 3]

This transformation has been accompanied on occasions by strategic alliances between different entities, seeking integration of all financial services the clientele needs¹⁴. (Banking-Insurance).

- c) Increase in the foreign share in the Spanish sector which, in 1997, was estimated at 37% of the total capital invested in the sector. As can be seen in graph 5, the ranking of the first 5 major groups includes six entities with a foreign interest in 1997, as against only 3 ten years before (**Table 4**).

[Table 4]

Of Spanish companies working abroad, only the case of MAPFRE is worthy of note (an independent Mutual Company) as the main insurer in Latin America since it is the leader amongst foreign investors in that area of the world.

- d) Low value of premiums issued by each entity. In Spain in 1996, 62 million Ecus, as against the European average of 102 million Ecus per entity (**Graph 2**).

[Graph 2]

A too fragmented sector with 372 companies in 1996 (281 were joint-stock companies, 59 mutuals and 32 branches of foreign entities) and despite the

Newsletter. Recoletos Cía. Ed. Madrid, 1996.

¹⁴ Deregulation to which European markets are subjected to suppresses market access barriers, allowing new players to enter, especially into insurance distribution. This is causing a certain "**dynamizing**" effect on business with the entry of other suppliers and the influence of the business cooperation alliances, See the following study:

- Suiza de Reaseguros: "Desregulación y apertura del mercado: El Seguro Europeo en el umbral de una nueva era de la competencia" (Market deregulation and opening: European Insurance on the threshold of a new era of competition). Sigma no. 7. 1996.

A recent example of a strategic alliance in Spain is that undertaken by MAPFRE & CAJAMADRID, which, in January, 1998, announced cooperation agreements for the insurance business in Spain and Latin America.

restructuring carried out (in 1993, there were 456 companies), it is envisaged that concentration processes will accelerate, turning into merger and take-over operations¹⁵ or clientele portfolio assignments.

- e) Despite the historical and actual importance of the mutualist sector¹⁶ in the world and in Spain, the number of mutual companies is declining (**Graph 3**). The sector has not been alien to the numerous company concentration and transformation processes occurring over the last fifteen years, which has led to a strengthening of competition in the market place and the requirement of higher levels of technical or financial guarantees. In 1988, there were 144 mutual companies in Spain (18.3% of the market's premiums) and, in 1996, there were 59 companies (11.3%). This represents a drop of 59% in mutuals as against a reduction of 20.2 % in the total of Spanish entities (**Graph 3**).

[Graph 3]

Together with the disappearance of some entities, the transformation of mutuals (a phenomenon known as “demutualization”¹⁷) was carried out through merger processes or portfolio assignment to other mutuals and even partial or total transformation into Joint-Stock Companies, seeking more

¹⁵ In order to survive, companies endeavour to have the turnover necessary for improving their competitiveness and this has recently increased merger and take-over operations, as shown by the following table for the period 1995-97, with examples affecting both Europe and Spain:

| THE ACQUIRER | THE ACQUIRED |
|---|--|
| <p>Europe SUN ALLIANCE GROUP (U.K.) MUNCHENER RÜCK (Germany) SWISS RE (Switzerland) LLOYD'S TSB (U.K.) AXA (France) PRUDENTIAL (U.K.) CREDIT SUISSE (Switzerland) GENERALI (Italy) B ALLIANZ (Germany) ZURICH (Switzerland)</p> | <p>ROYAL INSURANCE (U.K.) AMERICAN RE (USA) MERCANTILE AND GENERAL RE (U.K.) LLOYD'S ABBEY LIFE (U.K.) U.A.P. (France) SCOTTISH LA AMICABLE (U.K.) WINTERTHUR (Switzerland) A.G.F. (France) B.A.T. (U.K.).</p> |
| <p>Spain GENERALI EAGLE STAR PELAYO ZURICH</p> | <p>LA ESTRELLA SUIZA Div. VIDA MUNAT SEG. GEN./VIDA A. M. SEG. VIDA</p> |

Source. Sánchez Ramos, J.: "El proceso de fusiones y adquisiciones. Un análisis del sector asegurador". Novedades de seguros. Ernst&Young. Nov. 1997.

¹⁶ An idea of the significance which mutual insurance companies still have is shown by the fact that, in 1996, within the classification of the "largest 500 firms" for the Fortune magazine, 19 Life and Health entities appeared and another two asset insurance entities (USA, Japan, Great Britain and Switzerland) with a total of 503,712 million US dollars. The market share of the mutuals in the European Community in 1993 was 15% and 11.3% in Spain for 1996. See:

*FORTUNE: "Global 5 Hundred". Fortune, Aug. 4, 1997 (pages 21 to 23).-

*MARTÍNEZ MARTÍNEZ, M.A., CAMINO BLASCO, D., ALBARRÁN LOZANO, I.: "Las Mutualidades de seguros generales . Spanish Insurance Magazine no. 92. January 1998. (Pages 51 to 88).

¹⁷ As an example, see:

* GUIN, P. & COLLINS, S. "Having it both ways". Best's Review. Sept. 1997 (pages 66 to 69).

* MARTÍNEZ MARTÍNEZ, M.A. & others: "Las Mutualidades de seg....". (paper cited). Spanish Insurance Magazine no 92. 1998.

flexible management units in the new entity, which could solve the problem of financing their growth.

- f) Deregulation and freedom of establishment and operations caused by applying the Damage and Life Insurance directives to Spanish legislation (Act 30/95 on Private Insurance Regulation and Supervision).

As a summary of this reference framework, we would underline that insurance companies operating in Spain are in a highly competitive market where financial products are mixed with insurance formulas, with the presence of new operators, with gentler growths than in the past and with a more demanding clientele as regards services provided.

It is expected that flexibility in the organizational structures of companies, their quality directed to insurance processes adding value to the customer and the encouragement of factors making him loyal¹⁸ will determine the success of each entity (CAPA, 1996)¹⁹.

We shall be delving into these reasons in this study and into the management modes distinguishing joint-stock companies from insurance mutuals in Spain.

3. MUTUAL COMPANIES AND JOINT-STOCK COMPANIES

Shareholders in a joint-stock company exercise their rights and pressure on the senior executive (the *agent* in the *theory of an agency*, proclaiming the company's

* CINCO DÍAS.: "Prudential reaviva el debate sobre la desmutualización del seguro". Madrid, 16 February, 1998.

¹⁸ LADO COUSTE, N. & MARTÍNEZ MARTÍNEZ, M.A.: "Market orientation and Business performance in the Spanish Insurance Sector". The Geneva Papers on Risk and Insurance. Oct. 1997 (pages 571 to 590).

¹⁹ CAPA: "l'organization et la compétitivité des entreprises". Paris, Feb. 1996.

economy)²⁰, whilst in a mutual company, the figure of the *mutualist* is superimposed on that of the *insurance taker*²¹, with a capacity to exercise his rights of control over the *agent*²².

Mutual companies are organized in the form of an association and are run by boards elected from amongst their members. These mutualists, inasmuch as they are customers, will behave rationally as they will be interested in high quality, low cost insurance products, whilst the shareholder in the joint-stock company will demand the highest possible rate for obtaining a return on his investment.

3.1. INSURANCE ENTITY MANAGEMENT AND ADMINISTRATION

The well known company object of mutual companies²³ leads them to be characterized by the lack of a profit motive whilst in a joint-stock company, the priority object is dominated by the economic nature of the capital investment.

Both institutions are under pressure from market competitors, and must maximize their efficiency and customer attention. The profit obtained by the mutual company, which is not used to lower the cost of the policies sold, will serve to build up financial reserves and improve its solvency or attend to the growth of the business. The Joint-Stock Company has greater opportunities when seeking finance in capital markets, and can thus supplement its own self-financing capability.

²⁰ See:

- Fama, E.F.: "Problemas de agencia y teoría de la empresa". Información Comercial Española. July 1984.(pages 53 to 65)

- Jensen, M. C. & W. H. Meckling: "Theory of the firm". Journal of financial economics". Vol. 3 n1 4 Oct. 1976. (pages 305 to 360).

²¹ The Insurance Taker (MAPFRE Insurance Dictionary 1992) is "the person who takes out the insurance from the insurer and undertakes to pay the premium... and may not be the insured who generally gives rise to payment of compensation"

See: Castelo Matrán, J. & Guardiola, A.: MAPFRE Insurance Dictionary. Editorial MAPFRE, Madrid 1992.

²² Adkins , J.B.: "The policyholder perspective on mutual holding company conversions". Journal of insurance regulation. 16 n1, autumn 1997 (pages 5 to 15)

²³ Maleville, M.H.: "Vers un statut de la mutualité européenne". Revue Générale des Assurances. Paris n1 4 (page 741).

According to current Spanish legislation in force (Act 30/1995 on Private Insurance Regulation and Supervision and Commercial Code and the Companies Act 22/12/1989), both types of entity are characterized by the management peculiarities as shown in the following table.

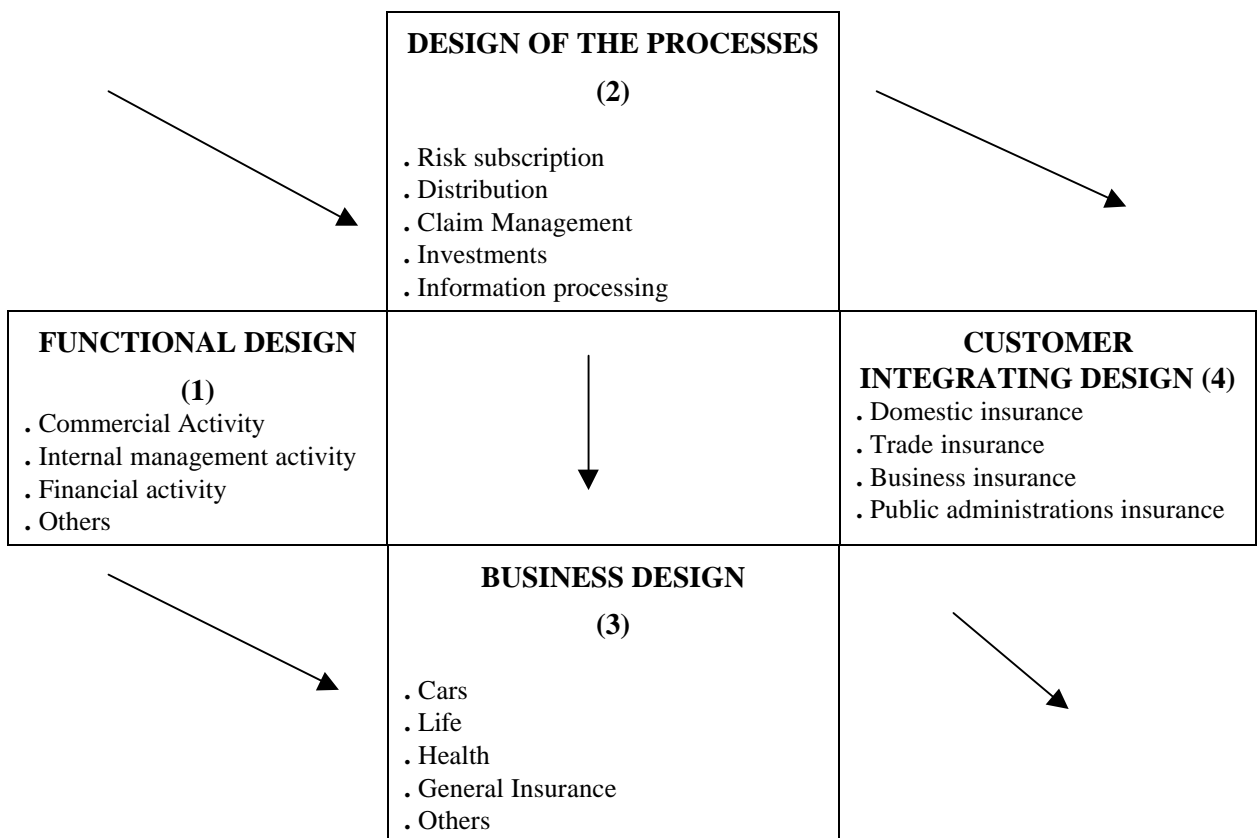
Differences in regulations for managing insurance companies

| MUTUAL COMPANIES | JOINT-STOCK COMPANIES |
|--|---|
| <ul style="list-style-type: none"> - Non profit making institutions. - The mutualist has a dual nature, both as associate member and as insurance taker. - Mutualists are totally equal; no privileges. - They have an economic fund accumulated in management; mutual fund. - Mutualists decide on the destination of each fiscal year's results: an increase in assets or return of the premium surplus. If results are negative, there may be an obligation for mutualists to pay a special levy, even if the fiscal year affected has elapsed. | <ul style="list-style-type: none"> - Mercantile Company, set up to obtain profit. - Shareholder as the owner of an aliquot part of the capital. - The shareholder's rights are linked to the number of shares he owns. There may be different rights. - Own economic fund: Share Capital. - Shareholders participate in the distribution of company profits and assets resulting from liquidation. Shares are transferable. - The shareholder responds for company debts up the amount of his stake. |
| Management Bodies | |
| MUTUAL COMPANIES | JOINT-STOCK COMPANIES |
| <p>(Act 30/1995 and current Regulations in force).</p> <p>General meeting of the Mutual Company... . Senior body which expresses the collective will, makes decisions though does not execute same. Meets by summoning all members; equal voting rights. . They approve annual accounts.</p> <p>Board of Directors. . Appointed by the Meeting, exercises Control, government and management of the mutual company. It lays down strategies, renders accounts, has powers of management and appoints guarantors.</p> <p>Chairman . Legal representative appointed by the Meeting or the Board. Controlled by the Board and may have executive powers delegated.</p> <p>Management . Complies with the entity's day-to-day decisions by delegation.</p> | <p>(Text Ref. Companies Act 1564/1989)</p> <p>General Meeting... . Senior body for decision making. Meets by summons. The Articles of Association may limit the right to attend to a minimum of shares which must group together. Each shareholder holds rights relating to his stake in the company. . Approves annual accounts.</p> <p>Administrators . Are appointed by the General Meeting. They represent the company statutorily. Responsible to the company, creditors and shareholders.</p> <p>Board of Directors . If administration is jointly entrusted too more than two people. The election of its members may proportionately reflect the shares they voluntarily bring together in voting. Appoints its Chairman, the Executive Committee and Managing Directors with the due powers-of-attorney.</p> |

As far as the internal organization of companies is concerned, the law recognizes

that each entity's articles of association may appoint other bodies for their administration. In practice, their organizational business design is undergoing profound transformations²⁴ to adapt to new international competition and to a demand market with greater service requirements. This involves (see Graph) overcoming the functional dimension with a distribution of specialized technical tasks in companies (1) to generate structures able to optimize the specific business processes (2) of each branch (3) and at once integrate the potentials of the institution by segmentating its offer by types of clientele (4).

THE EVOLUTION OF INSURANCE ENTITIES' INTERNAL ORGANIZATION



3.2. BUSINESS AND ASSET STRUCTURE OF MUTUAL COMPANIES AND JOINT-STOCK INSURANCE COMPANIES IN SPAIN

In 1996, Insurance Mutuals represented 11.3% of the market. The ten major entities

²⁴

MARTÍNEZ MARTÍNEZ, M.A.: "Organización y Estrategia en la Empresa Aseguradora en España". Ed. MAPFRE. Madrid 1994.

alone represented 86.7% of mutualist production whilst the ten major Joint-Stock Companies represented 29.3% of its insurance production. This gives an idea of the problem involving the size of the mutuals compared to the remaining entities²⁵.

Table 5 compares (1996) the top ten entities for each form of company, including the absolute market share of each one, out of the Spanish total.

[Table 5]

Except for two mutual entities, the results of the comparison show the difference in size of the businesses and their lesser relative influence in the large entity market.

If we examine the balance sheets of the overall insurance companies, divided according to the entity's nature, the General Insurance Mutuals subsector, with 1996 data²⁶, totaled own funds of somewhat more than 228 thousand million pesetas and had investments in the amount of 850 thousand million pesetas as against Joint-Stock Companies with funds of 951 million pesetas and somewhat more than 7 billion pesetas invested in assets.

In the aggregate sectorial balance sheets represented in the tables in Annexes 1, 2 and 3, we would stress the heavy influence that own funds represent (mutual assets and reserves) in mutual assets with 20.8% of liabilities as against Joint-Stock Companies (share capital and reserves) with 11%; for the latter, this gives greater importance to their technical provisions as set up in the balance sheet liabilities. Another significant detail is how insurance investments are formed; for the Mutuals, as far as their assets of a tangible type are concerned, they triple the Joint-Stock Companies' (16.4% of the assets) in their influence; the latter only earmark 4.9% to this heading; this may be partially explained by the importance which buildings and constructions where they operate their offices have for the small entities, as well as a certain, more conservative trend in placing their assets.

Finally, we shall underline the importance of the Joint-Stock Companies' and

²⁵ With the exception of MAPFRE MUTUALIDAD, which owns 34.9% of the mutuals' issue and is first in Spanish ranking.
²⁶ Source: Balance Sheet Aggregation from the Directorate General of Insurance. 1996 Annual Report.

Mutuals' financial investments, with respectively 6.4 and 0.6 billion pesetas in 1996 on Spanish markets, especially in fixed interest issues. This fact has determined certain recent imbalances since with the drop in return from these issues, entities are forced to improve their technical result²⁷ and productivity even further.

4. RESEARCH ON EXECUTIVE MANAGEMENT IN INSURANCE ENTITIES. COMPARISON BETWEEN MUTUAL COMPANIES AND JOINT-STOCK COMPANIES.

Each entity's management has the responsibility of multiplying potential factors of use to the company²⁸. This involves exercising important aptitudes in their capability as regards leadership (Hay Group, 1995)²⁹, which results in a climate of heavy business commitment and, finally, in high financial return for the company.

To manage in a strategic fashion involves selecting successful strategies when combining the perception of the environment which will affect the entity with the skill to flush out its competitive values (Hax 1984)³⁰.

To examine the business response to these market challenges offered by both Mutual Companies and Joint-Stock Companies in Spain, research carried out was directed to the entities' senior management with the purpose of verifying the factors determining their competitiveness, ascertaining their management systems and making comparisons between the two groups of institutions.

4.1. EXECUTIVE MANAGEMENT ANALYSIS MODEL

²⁷ The technical result of a company is that originating from the insurance activity and not the financial or investment businesses. It is the difference between the premiums collected net of commissions, less expenses for claims, administration, commercial management and reinsurance.

²⁸ Pumpin, C. & García Echevarría, S.: *Dinámica empresarial. Una nueva cultura para el éxito de la empresa*. Díaz de Santos, Madrid 1990.

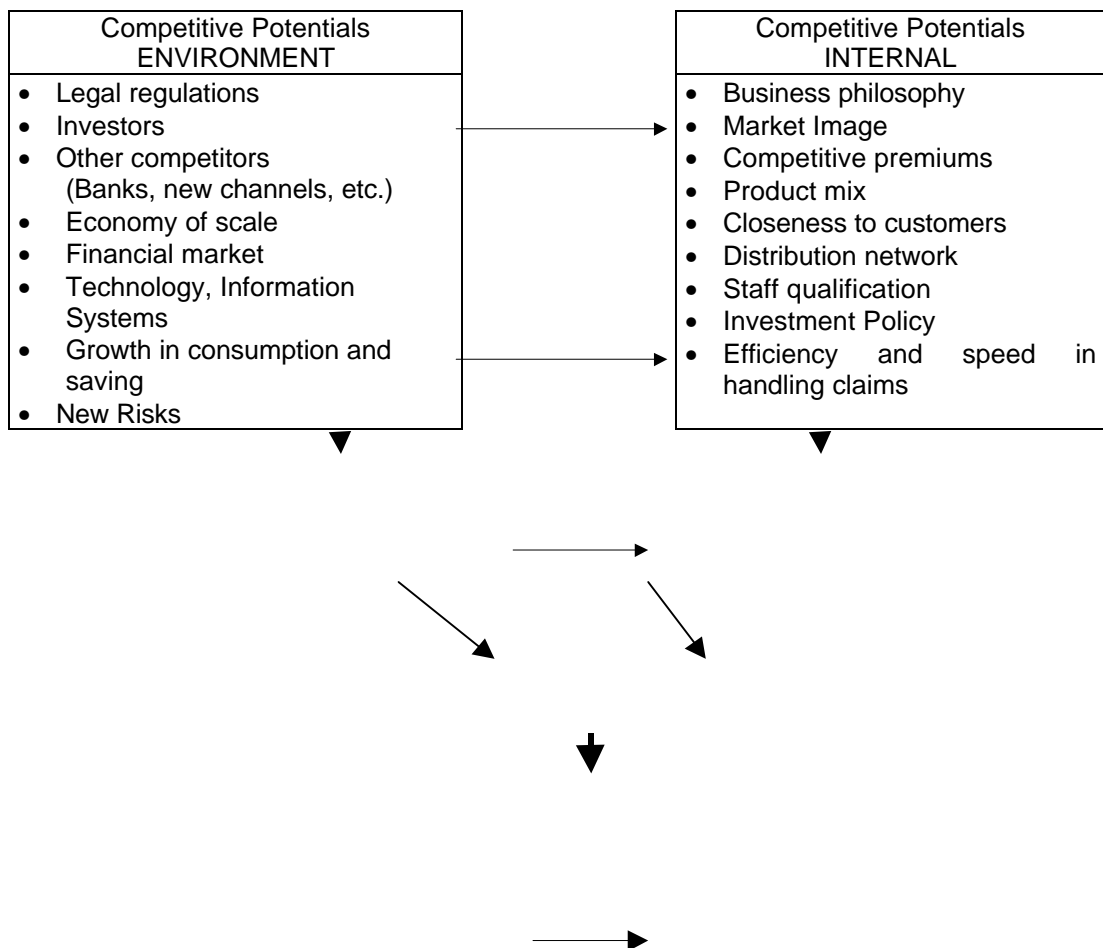
²⁹ Loma-Hay Group.: "Leadership for the 21st Century". Hay Co. 1995 (research work carried out on 28 North American Life insurance entities).

³⁰ Hax, A.C. & Majluf, N.S.: *Strategic Management: an integrative perspective*. Prentice Hall. Inc. Englewood Cliffs, New Jersey, 1984 (page 50).

Based on the work of C. Pümpin, 1993³¹, the working model used was explored in the preceding investigation mentioned earlier (M.A.Martínez & others, 1998)³², in an endeavor to reproduce companies' competitiveness potential, their management systems and view of the future manager for each group of activities.

The model is represented in the following diagram:

EXECUTIVE MANAGEMENT FOR INSURANCE ENTITIES



³¹ Pümpin, C. & García Echevarría, S.: Estrategia Empresarial. Ed. Díaz de Santos. Madrid 1993. (page 182).

³² Martínez Martínez, M.A. & others: "Las Mutualidades de Seguros...". (work cited). 1998. Spanish Insurance Magazine no. 92 (pages 51 to 88).

In order to operate with the model, the authors undertook an empirical analysis, conducting a survey with 16 questions grouped into five blocks and including 73 variables referring to the entities' general data, their management systems (culture, strategy and organization) and the environmental or competition factors which affect and will affect the entity.

In general, for each question, reflection was requested in the form of previously drawn up replies and marks on a scale from 1 (minimum adaptation to the proposal) to 5 (maximum adaptation).

Groupings of entities surveyed in the multivariant statistical analysis with similar behaviour were also considered³³.

4.2. GENERAL SAMPLE DATA

We availed of 14 questionnaires in mutuals and 41 from Joint-Stock Companies to undertake the empirical study. The survey carried out amongst the mutuals was prior to that performed on the joint-stock companies. Despite the difference in timing, the results obtained were not affected since the questions were the same and referred (in both cases) to fiscal 1966.

| MUTUAL COMPANIES | JOINT-STOCK COMPANIES |
|--|--|
| <ul style="list-style-type: none"> - <i>Questionnaire sent to 55 entities March/April 1997.</i> - <i>Replies from 14 Mutuals: 25.4% of the entities with 90.8% of the sector's volume of premiums.</i> | <ul style="list-style-type: none"> - <i>Questionnaire sent to 320 entities in October/Nov. 1997.</i> - <i>Replies from 41 companies: 14 of the entities with 16% of the sector's volume of premiums.</i> |

³³ Processing carried out in the SPSS Program, version 7.5.

| | |
|---|--|
| <ul style="list-style-type: none"> - <i>Entities with a long tradition. 13 have been operating for more than 25 years in Spain (mainly, with 2 exceptions).</i> - <i>86% operate over the whole of Spain. The rest in the regions.</i> - <i>Distribution of the size of the Mutuels:</i> <ul style="list-style-type: none"> - <i>More than 25,000 million pesetas of premiums in 1996, 5 companies.</i> - <i>Less than 25,000 million pesetas of premiums in 1996, 9 companies.</i> - <i>50% have a workforce of less than 500 employees and only one entity exceeds 1000 (8 large Mutuels are between the replies).</i> - <i>Distribution of the business by branches:</i> <ul style="list-style-type: none"> - <i>35.7% of the Mutuels have their business concentrated in Cars (over 70% of the issue).</i> - <i>50% of the Mutuels do not operate in Life and 78.6% do not operate in Pensions.</i> - <i>42% do not operate in General Insurance (non - Car) nor in Industrial Insurance.</i> | <ul style="list-style-type: none"> - <i>16 companies have been operating for over 25 years in Spain (mainly, with 5 exceptions).</i> - <i>78% cover the whole of Spanish territory.</i> - <i>Distribution of the size of the Joint-Stock Companies:</i> <ul style="list-style-type: none"> - <i>Over 25,000 million Ptas., 13 companies.</i> - <i>Less than 25,000 million Ptas., 28 companies.</i> - <i>78% have a workforce of less than 500 employees and three entities exceed 1000 employees.</i> - <i>Distribution of the business by branches:</i> <ul style="list-style-type: none"> - <i>9.8% of the J-SCs have their business concentrated in cars (over 70% of the issue) and 26 companies do not operate in this branch.</i> - <i>51.2% of the J-SCs operate in the Life branch and 8 of them concentrating their activity (over 70%).</i> - <i>48.8% do not operate in General Insurance.</i> - <i>19.5% operate in the Health branch, concentrating their business therein (9 companies).</i> |
|---|--|

With respect to the samples obtained, the following considerations are to be made:

1. The sample of Mutuels offers a slant in that the volume of activity of those analyzed shows that most invoice more than 25,000 million ptas. and there is no representation of small samples.
2. The sample of Joint-Stock Companies analyzed is also slanted: first with regard to the branch of activity (most are engaged in the Health business) and, in addition, as regards turnover, a scarce representation of 'small entities' (invoicing less than 1000 million pesetas) and an excess of companies whose business exceeds 25,000 million pesetas. Four of them are amongst the first 10 and their market share is over 10% of the total.

The relative representativeness as a function of turnover is comparable with the % of representation these entities have in the Spanish sector targeted for study.

Due to the afore-mentioned slants, we cannot consider that the samples behave normally. Despite this, the values obtained from the "t test"³⁴ carried out amongst the groups of entities divided as a function of their production volume show that there

³⁴ COCHRAN, W.G.,: Técnicas de Muestreo. CECSA. México, 1976.

are no large significant differences in the behaviour of mutuals and joint-stock companies as studied (Level of credibility slightly over 93%).

4.3. ENVIRONMENTAL FACTORS

The strategic potentials represented by the environment in the opinion of each entity's senior management are analyzed in two groups: a) main factors determining the future and b) Spanish market opportunities; (see **table 6**).

[Table 6]

With respect to the future, the Mutuals are firstly concerned about new distribution channels and, to a lesser degree, about the specific entry of the banking sector or the increase in requirements as regards their entities' financial capacity. Some of these concerns re-occur with Joint-Stock Companies though somewhat dispersed between the new channels and entry of the bank sector into insurance distribution.

With regard to Spanish market opportunities, both the large Mutuals and, to a lesser extent, Joint-Stock Companies, consider the importance which the Life insurance market will represent. This becomes even more patent when considering the 15 largest sized Joint-Stock Companies since they coincide in its importance in 82.4% of cases.

4.4. INTERNAL COMPETITIVE TYPE FACTORS

A list of essential factors in management is offered, from which we would pinpoint those given in **Table 7**.

[Table 7]

For the overall companies, the most important variables are, for the Mutuals, the speed of response to a claim with 92.8% of replies above 'important', and closeness of the customer with 85.8%, whilst in the Joint-Stock Companies, speed of response

to a claim is recognized by 95.1% of the surveys and, in second place, human resource qualification as a factor of great importance for 87.8% of the total of those surveyed; this importance shows up as even more significant for the largest Joint-Stock Companies which would seem to appreciate this factor more intensely as 94.1% of those surveyed respond with a value higher than important.

With regard to the most important distribution channel for the companies, the survey supports the fact of the breadth of own agents being the most important (71.4% for the Mutuels and 60.9% for the Joint-Stock Companies) as against other options such as direct sale (35.7% for the Mutuels and 48.8%) for the Joint-Stock Companies) or Brokers (14.3% for the Mutuels and 14.7% for the Joint-Stock Companies).

4.5. MANAGEMENT SYSTEMS

This heading has been divided into three sections, **a:** strategic values of the institution, **b:** Management instruments used and **c:** predominant form of organization. **Table 8** lists the most noteworthy variables.

[Table 8]

With regard to the values sought by each institution, mutuels and joint-stock companies coincide in considering the quality of services provided, closeness to the customer and orientation towards results as the most important.

As regards the strategies most characterizing the way companies are run, in the case of the mutuels, the search for improvement in solvency and speed of response to the customer stand out for 100% of the entities (as a value above 'important' for 92.8% of those surveyed) as against the joint-stock companies which do not give such current importance to their strategies, and underline their orientation towards improving quality (90.3%) and reducing costs and computerization (90.3%).

The most common form of organization both in mutuals and smaller joint-stock companies is the functional structure which gives way to the divisional model in the largest companies (although highly dispersed in the sample of mercantile companies).

4.6. KEY FACTORS FOR THE BUSINESS FUTURE

In the last block of information found, both the mutuals and joint-stock companies lay greatest importance (**Table 9**) on the variables deriving from their internal management (technical efficiency for 92.8% of the mutuals and 92.7 of the Joint-Stock Companies) as against other possibilities of regulatory aids (such as fiscal benefits).

[Table 9]

4.7. STRATEGIC GROUPINGS

The analysis of the surveys carried out is completed with a search for analogies in management systems and modes of strategic action in order to characterize the insurance entities studied.

The multivariant processing chosen was the "cluster" method which classes companies (mutuals and joint-stock companies separately) whilst maximizing both the internal homogeneity of each group created and the heterogeneity of their grouped behaviours. The "Beverage" type analysis was used for the hierarchical cluster method and that of the "average Ks" for the non-hierarchical³⁵.

³⁵ The hierarchical method arises from the singular case as a group and uses the lesser averages of its "Euclides" distances whilst the non-hierarchical one calculates the number of groups according to the remoteness of each singular case from the "centroid" thereof.

See:

- Bisquerra Alzina, R.: *Introducción Conceptual al análisis multivariante*. Vol. I & II. Editorial PPU. Barcelona 1989.
- Cuadras, C.M.: *Métodos de análisis multivariante*. Editorial Enniban. Barcelona, 1981

In the case of mutuals, for instrumental and organizational aspects of management at the due time³⁶, clearly defined groups will not be found so, therefore, the analysis was only addressed for the factors defining operative values and strategies.

Table 10 contains the variance analysis of the variables examined. The factors most contributing to reinforcing the differences between groups are worked out in the processing, in order to label their type.

[Table 10]

In the case of mutual entities, 6 differentiated clusters were found, where 4 groups were identified with a labelled orientation, such as:

- 1 Mutual oriented towards "integral competitiveness"
- 7 Mutuals oriented towards "nationwide growth and autonomy"
- 2 Mutuals with a certain preference for "merging"
- 2 Mutuals with greater difference towards considering the strategy of a future "company transformation" as predominant.

A further two groups had mixed strategies without defining the type.

For those entities whose legal form is the Joint-Stock Company's, 9 clusters were found, of which 7 with strategic orientations defined by type were identified:

- 25 Companies oriented towards "company change and external growth"
- 2 Companies with a preference towards generalized "company expansion"
- 2 Companies particularly oriented towards "company change"
- 3 Companies preferably oriented towards the value of "credibility" as differentiation from competitors
- 3 Companies oriented towards "growth outside their traditional sphere" together with another two groups with mixed, unlabelled orientations.

³⁶ - Ruiz Mayo, F. & others: Análisis Estadístico de encuestas. Datos cualitativos. Editorial A. C. Martínez Martínez, M.A. & others: "Las mutualidades de seguros..." (work cited). 1998.

Tables 11 and 12 summarize the characteristics of the groups found:

[Table 11]

[Table 12]

5. CONCLUSIONS

The foregoing paragraphs include the main references as regards the major transformation the Spanish insurance sector is undergoing, which heavily influence their competitiveness.

The mutual company particularly requires management solutions in order to meet these challenges; strategic changes which will take advantage of the value of their spirit to serve the mutualist (customer) to add value to what is offered, even though this change is accompanied by certain company transformations leading the entities to a more competitive size. The small mutual has to modernize its management, as shown when appraising improved technique and information technology as a key to its future success whilst at once having to become used to working in business alliances with other entities.

Joint-stock companies and mutuals are concerned with how the new distribution channels are multiplying, although this variable is more intense in the mutuals.

The strategic value of the human resource qualification would appear patent with greater intensity and preference for the joint-stock companies than for the mutuals. The latter are more concerned with making their competitiveness more expeditive for the customer and offering highly competitive premiums.

The organization of the small companies surveyed, both joint-stock and mutuals, has a predominantly functional approach (making techno-commercial activities specialized) with a trend to grow through dividing their structure whilst at once diversifying their branches. Materializing instruments of management and

coordination, such as strategic plans (only drawn up by 57% of the mutuals surveyed) is more common in the Joint-Stock Companies.

To end, and in accordance with the data analyzed, we would add the importance of the transformations mentioned for the overall insurance sector in Spain, which should seek competitiveness on three complementary fronts: improvement in the efficiency of their management, orientation towards the customer and achieving his/her loyalty and the capacity to combine autonomy with the search for a size of business suited to the European context.

MAM/eg

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Annex 1

**AGGREGATE INSURANCE ENTITY BALANCE SHEETS
MUTUAL COMPANIES**

| INVESTMENTS | 1996 | | 1995 | |
|--|-------------------------|-------------|-------------------------|-------------|
| | IN THOUSANDS OF PTAS. % | | IN THOUSANDS OF PTAS. % | |
| FIXED ASSETS | 179,934,710 | 16.4 | 167,260,757 | 16.6 |
| LAND & CONSTRUCTIONS | 208,163,428 | 19.0 | 187,769,285 | 18.6 |
| PROVISION FOR LAND DEPRECIATION | -6,026,779 | -0.5 | -5,574,804 | -0.6 |
| OTHER FIXED ASSETS | 44,739 | 0.0 | 39,125 | 0.0 |
| PREPAYMENTS & CONSTR. WORK IN PROGRESS | 467,956 | 0.0 | 4,115,932 | 0.4 |
| ACCUMULATED DEPRECIATION | -22,714,634 | -2.1% | -19,088,781 | -1.9 |
| FINANCIAL INVESTMENTS | 581,617,055 | 53.1 | 553,350,213 | 54.9 |
| SHARES AND OTHER INVESTMENTS | 11,147,998 | 1.0 | 10,683,366 | 1.1 |
| DISBURSEMENTS OUTSTANDING | -2,701 | 0.0 | -15,081 | 0.0 |
| FIXED INTEREST SECURITIES | 237,246,375 | 21.6 | 240,517,979 | 23.8 |
| MORTGAGE LOANS | 7,683,265 | 0.7 | 9,172,135 | 0.9 |
| NON-MORTG.LOANS & PREPAY. ON POLICIES | 2,046,846 | 0.2 | 2,141,174 | 0.2 |
| BANK AND CREDIT ENTITY DEPOSITS | 5,794,848 | 0.5 | 5,546,902 | 0.5 |
| OTHER FINANCIAL INVESTMENTS | 319,032,237 | 29.1 | 288,795,075 | 28.6 |
| DEPOSITS FOR REINSURANCE ACCEPTED | 711,002 | 0.1 | 984,855 | 0.1 |
| PROVISIONS FOR DEPRECIATION | -2,042,815 | -0.2 | -4,476,192 | -0.4 |
| INVESTMENTS IN ASSOCIATED FIRMS | 88,684,022 | 8.1 | 75,292,575 | 7.5 |
| GROUP COMPANY SHARES | 98,852,618 | 9.0 | 82,706,170 | 8.2 |
| DISBURSEMENTS OUTSTANDING | -73,000 | 0.0 | -189,771 | 0.0 |
| CREDITS AGAINST GROUP COMPANIES | 299,928 | 0.0 | 792,073 | 0.1 |
| SHARES OF ASSOC. COMPANIES & INVESTMENTS | 2,040,343 | 0.2 | 1,720,762 | 0.2 |
| DISBURSEMENTS OUTSTANDING | -1,040 | 0.0 | -1,040 | 0.0 |
| CREDITS AGST. ASSOC. COMPANIES & INVEST. | 1,709,902 | 0.2 | 621,536 | 0.1 |
| OWN SHARES AND DEBENTURES | 0 | 0.0 | 0 | 0.0 |
| PROVISIONS FOR DEPRECIATION | -14,144,729 | -1.3 | -10,357,155 | -1.0 |
| TOTAL INVESTMENTS | 850,235,787 | 77.6 | 795,903,545 | 78.9 |

| OWN CAPITAL | 1996 | | 1995 | |
|--|--------------------|-------------|--------------------|-------------|
| | IN THOUS. PTAS. | % | IN THOUS. PTAS. | % |
| CAPITAL SUBSCRIBED | 49,544,149 | 4.5 | 32,201,172 | 3.2 |
| ISSUE PREMIUMS | 358,999 | 0.0 | 383,843 | 0.0 |
| DIFFERENCES FOR ASSET UPDATING | 145,666 | 0.0 | 559,502 | 0.1 |
| RESERVES | 129,512,063 | 11.8 | 121,225,281 | 12.0 |
| LEGAL | 861,994 | 0.1 | 8,565,100 | 0.8 |
| STATUTORY | 69,365,151 | 6.3 | 82,623,011 | 8.2 |
| OTHERS | 59,284,918 | 5.4 | 30,037,170 | 3.0 |
| RESULTS, PREVIOUS YEARS | -2,047,830 | -0.2 | -2,317,301 | -0.2 |
| YEAR'S BEFORE TAX PROFIT | 51,760,965 | 4.7 | 44,044,200 | 4.4 |
| LOSSES ON FIXED INTEREST MARKETABLE SECURITIES | -901,230 | -0.1 | -2,949,139 | -0.3 |
| TOTAL, OWN CAPITAL | 228,372,782 | 20.8 | 193,147,558 | 19.2 |

Source: Balance Sheets, D.G.I. Drawn Up: F.M. Estudios

Annex 2

**AGGREGATE INSURANCE ENTITY BALANCE SHEETS
JOINT-STOCK COMPANIES**

| INVESTMENTS | 1996 | | 1995 | |
|--|------------------------|-------------|------------------------|-------------|
| | IN THOUSANDS OF PTAS.% | | IN THOUSANDS OF PTAS.% | |
| FIXED ASSETS | 421,415,868 | 4.9 | 426,636,485 | 5.8 |
| LAND & CONSTRUCTIONS | 466,357,754 | 5.4 | 439,118,117 | 6.0 |
| PROVISION FOR LAND DEPRECIATION | -14,959,496 | -0.2 | -6,761,760 | -0.1 |
| OTHER FIXED ASSETS | 1,827,691 | 0.0 | 1,960,122 | 0.0 |
| PREPAYMENTS & CONSTR. WORK IN PROGRESS | 9,240,128 | 0.1 | 29,673,230 | 0.4 |
| ACCUMULATED DEPRECIATION | -41,059,209 | -0.5% | -37,353,224 | -0.5 |
| FINANCIAL INVESTMENTS | 6,443,543,973 | 74.6 | 5,269,055,131 | 72.2 |
| SHARES AND OTHER INVESTMENTS | 133,889,238 | 1.5 | 148,632,507 | 2.0 |
| DISBURSEMENTS OUTSTANDING | -61,357 | 0.0 | -359,295 | 0.0 |
| FIXED INTEREST SECURITIES | 3,795,662,331 | 43.9 | 3,611,238,245 | 49.5 |
| MORTGAGE LOANS | 63,636,225 | 0.7 | 73,445,008 | 1.0 |
| NON-MORTG. LOANS & PREPAY. ON POLICIES | 64,789,456 | 0.7 | 55,699,629 | 0.8 |
| BANK AND CREDIT ENTITY DEPOSITS | 270,309,558 | 3.1 | 151,846,807 | 2.1 |
| OTHER FINANCIAL INVESTMENTS | 2,106,251,018 | 24.4 | 1,231,346,377 | 16.9 |
| DEPOSITS FOR REINSURANCE ACCEPTED | 17,688,757 | 0.2 | 16,998,763 | 0.2 |
| PROVISIONS FOR DEPRECIATION | -8,621,253 | -0.1 | -19,792,910 | -0.3 |
| INVESTMENTS IN ASSOCIATED FIRMS | 186,444,036 | 2.1 | 151,246,887 | 2.1 |
| GROUP COMPANY SHARES | 159,600,889 | 1.8 | 119,971,892 | 1.6 |
| DISBURSEMENTS OUTSTANDING | -3,502,595 | 0.0 | -5,651,941 | -0.1 |
| CREDITS AGAINST GROUP COMPANIES | 19,250,094 | 0.2 | 14,428,299 | 0.2 |
| SHARES OF ASSOC. COMPANIES & INVESTMENTS | 32,712,962 | 0.4 | 31,968,773 | 0.4 |
| DISBURSEMENTS OUTSTANDING | -827,866 | 0.0 | -828,668 | 0.0 |
| CREDITS AGST. ASSOC. COMPANIES & INVEST. | 1,326,050 | 0.0 | 9,305,457 | 0.1 |
| OWN SHARES AND DEBENTURES | 535781 | 0.0 | 147,539 | 0.0 |
| PROVISIONS FOR DEPRECIATION | -22,651,280 | -0.3 | -18,094,464 | -0.2 |
| TOTAL INVESTMENTS | 7,051,403,876 | 81.6 | 5,846,938,503 | 80.1 |

| OWN CAPITAL | 1996 | | 1995 | |
|--|--------------------|-------------|--------------------|-------------|
| | IN THOUS. PTAS. | % | IN THOUS. PTAS. | % |
| CAPITAL SUBSCRIBED | 498,667,391 | 5.8 | 483,577,551 | 6.6 |
| ISSUE PREMIUMS | 62,735,276 | 0.7 | 62,419,598 | 0.9 |
| DIFFERENCES FOR ASSET UPDATING | 5,781,313 | 0.1 | 3,170,745 | 0.0 |
| RESERVES | 256,216,635 | 3.0 | 205,319,410 | 2.8 |
| LEGAL | 45,891,314 | 0.5 | 38,108,280 | 0.5 |
| STATUTORY | 28,521,599 | 0.3 | 23,056,666 | 0.3 |
| OTHERS | 181,803,722 | 2.1 | 144,154,464 | 2.0 |
| RESULTS, PREVIOUS YEARS | -1,260,202 | 0.0 | -7,733,216 | -0.1 |
| YEAR'S BEFORE TAX PROFIT | 129,124,214 | 1.5 | 75,394,725 | 1.0 |
| LOSSES ON FIXED INTEREST MARKETABLE SECURITIES | -252,410 | -0.1 | -7,311,502 | -0.1 |
| TOTAL, OWN CAPITAL | 951,012,217 | 11.0 | 814,837,311 | 11.2 |

Source: Balance Sheets, D.G.I. Drawn Up: F.M. Estudios

Annex 3

**AGGREGATE INSURANCE ENTITY BALANCE SHEETS
COMPARISON OF THE WEIGHT OF EACH MAGNITUDE**

| INVESTMENTS | 1996 | | 1995 | |
|--|--------------|-------------|--------------|-------------|
| | JT.ST.COMPS. | MUTUALS | JT.ST.COMPS. | MUTUALS |
| FIXED ASSETS | 4.9 | 16.4 | 5.8 | 16.6 |
| LAND & CONSTRUCTIONS | 5.4 | 19.0 | 6.0 | 18.6 |
| PROVISION FOR LAND DEPRECIATION | -0.2 | -0.5 | -0.1 | -0.6 |
| OTHER FIXED ASSETS | 0.0 | 0.0 | 0.0 | 0.0 |
| PREPAYMENTS & CONSTR. WORK IN PROGRESS | 0.1 | 0.0 | 0.4 | 0.4 |
| ACCUMULATED DEPRECIATION | -0.6 | -2.1% | -0.6 | -1.9 |
| FINANCIAL INVESTMENTS | 74.6 | 53.1 | 72.2 | 54.9 |
| SHARES AND OTHER INVESTMENTS | 1.5 | 1.0 | 2.0 | 1.1 |
| DISBURSEMENTS OUTSTANDING | 0.0 | 0.0 | 0.0 | 0.0 |
| FIXED INTEREST SECURITIES | 43.9 | 21.6 | 49.5 | 23.8 |
| MORTGAGE LOANS | 0.7 | 0.7 | 1.0 | 0.9 |
| NON-MORTG.LOANS & PREPAY. ON POLICIES | 0.7 | 0.2 | 0.8 | 0.2 |
| BANK AND CREDIT ENTITY DEPOSITS | 3.1 | 0.5 | 2.1 | 0.5 |
| OTHER FINANCIAL INVESTMENTS | 24.4 | 29.1 | 16.9 | 28.6 |
| DEPOSITS FOR REINSURANCE ACCEPTED | 0.2 | 0.1 | 0.2 | 0.1 |
| PROVISIONS FOR DEPRECIATION | -0.1 | -0.2 | -0.3 | -0.4 |
| INVESTMENTS IN ASSOCIATED FIRMS | 2.2 | 8.1 | 2.1 | 7.5 |
| GROUP COMPANY SHARES | 1.8 | 9.0 | 1.6 | 8.2 |
| DISBURSEMENTS OUTSTANDING | 0.0 | 0.0 | -0.1 | 0.0 |
| CREDITS AGAINST GROUP COMPANIES | 0.2 | 0.0 | 0.2 | 0.1 |
| SHARES OF ASSOC. COMPANIES & INVESTMENTS | 0.4 | 0.2 | 0.4 | 0.2 |
| DISBURSEMENTS OUTSTANDING | 0.0 | 0.0 | 0.0 | 0.0 |
| CREDITS AGST. ASSOC. COMPANIES & INVEST. | 0.0 | 0.2 | 0.1 | 0.1 |
| OWN SHARES AND DEBENTURES | 0.0 | 0.0 | 0.0 | 0.0 |
| PROVISIONS FOR DEPRECIATION | -0.3 | -1.3 | -0.2 | -1.0 |
| TOTAL INVESTMENTS | 81.6 | 77.6 | 80.1 | 78.9 |

| OWN CAPITAL | 1996 | | 1995 | |
|--|--------------|-------------|--------------|-------------|
| | JT-ST COMPS. | MUTUALS | JT-ST COMPS. | MUTUALS |
| CAPITAL SUBSCRIBED | 5.8 | 4.5 | 6.6 | 3.2 |
| ISSUE PREMIUMS | 0.7 | 0.0 | 0.9 | 0.0 |
| DIFFERENCES FOR ASSET UPDATING | 0.1 | 0.0 | 0.0 | 0.1 |
| RESERVES | 3.0 | 11.8 | 2.8 | 12.0 |
| LEGAL | 0.6 | 0.1 | 0.5 | 0.8 |
| STATUTORY | 0.3 | 6.3 | 0.3 | 8.2 |
| OTHERS | 2.1 | 5.4 | 2.0 | 3.0 |
| RESULTS, PREVIOUS YEARS | 0.0 | -0.2 | -0.1 | -0.2 |
| YEAR'S BEFORE TAX PROFIT | 1.5 | 4.7 | 1.0 | 4.4 |
| LOSSES ON FIXED INTEREST MARKETABLE SECURITIES | 0.0 | -0.1 | -0.1 | -0.3 |
| TOTAL, OWN CAPITAL | 11.0 | 20.8 | 11.2 | 19.2 |

Source: Balance Sheets, D.G.I. Drawn Up: F.M. Estudios

TABLES & GRAPHS

Table 1

(Page 5)

| MAGNITUDE | EUROPEAN UNION (15) | | | SPAIN | | |
|--|---------------------|-----------|-----------------|-----------|-----------|-----------------|
| | 1991 | 1996 | % Annual Growth | 1991 | 1996 | % Annual Growth |
| TOTAL PREMIUMS (Mill.Ecus) | 335,246 | 496,516 | 9.62 | 16,170 | 23,161 | 8.6 |
| % PREMIUMS/EU TOTAL | 100 | 100 | --- | 4.8 | 4.6 | -- |
| SHARE (%) LIFE/NON LIFE | 48.1/51.9 | 53.4/46.6 | --- | 31.2/68.8 | 43.5/56.5 | --- |
| NUMBER OF COMPANIES | 4,969 | 4,877 | (1.8) | 446 | 372 | (3.3) |
| AVERAGE VALUE, ANNUAL PREMIUMS PER COMPANY (Millions of Ecus) | 67 | 102 | 10.4 | 36 | 62 | 14.4 |
| TOTAL PREMIUMS/GDP (%) | 5.6 | 7.2 | 5.7 | 3.8 | 5.2 | 7.3 |
| TOTAL PREMIUMS/INHABITANT (Ecus) | 856 | 1,032 | 5.1 | 414 | 590 | 8.5 |
| LIFE PREMIUMS/INHABITANT (Ecus) | 420 | 554 | 6.4 | 129 | 257 | 19.8 |

() Negative values
MAPFRE Estudios

Source: C.E.A. & Fundación

Table 2

(Page 6)

SPANISH INSURANCE MARKET

| Insurance Branches | Premiums 1994 | Premiums 1995 | Premiums 1996 | Premiums 1997 (preview) | % BRANCH |
|-----------------------------|--------------------------|--------------------------|--------------------------|------------------------------------|---------------------|
| Car Insurance | 973.449 | 989.859 | 1.0234.221 | 1.042.749 | 24,6 |
| Miscellaneous Insurance | 942.376 | 1.026.185 | 1.120.972 | 1.222.332 | 28,9 |
| Life Insurance (regular p.) | 560.824 | 676.329 | 710.893 | 809.795 | 19,1 |
| SUBTOTAL | 2.476.649 | 2.692.373 | 2.855.086 | 3.074.876 | 72,7 |
| Life Insurance (regular p.) | 882.158 | 700.411 | 941.492 | 1.150.046 | 27,3 |
| TOTAL | 3.358.807 | 3.392.784 | 3.796.578 | 4.224.922 | 100 |

Source: Unespa (1997, estimates)
 Figures in million pesetas.

GRAPH 1

(Page 6)

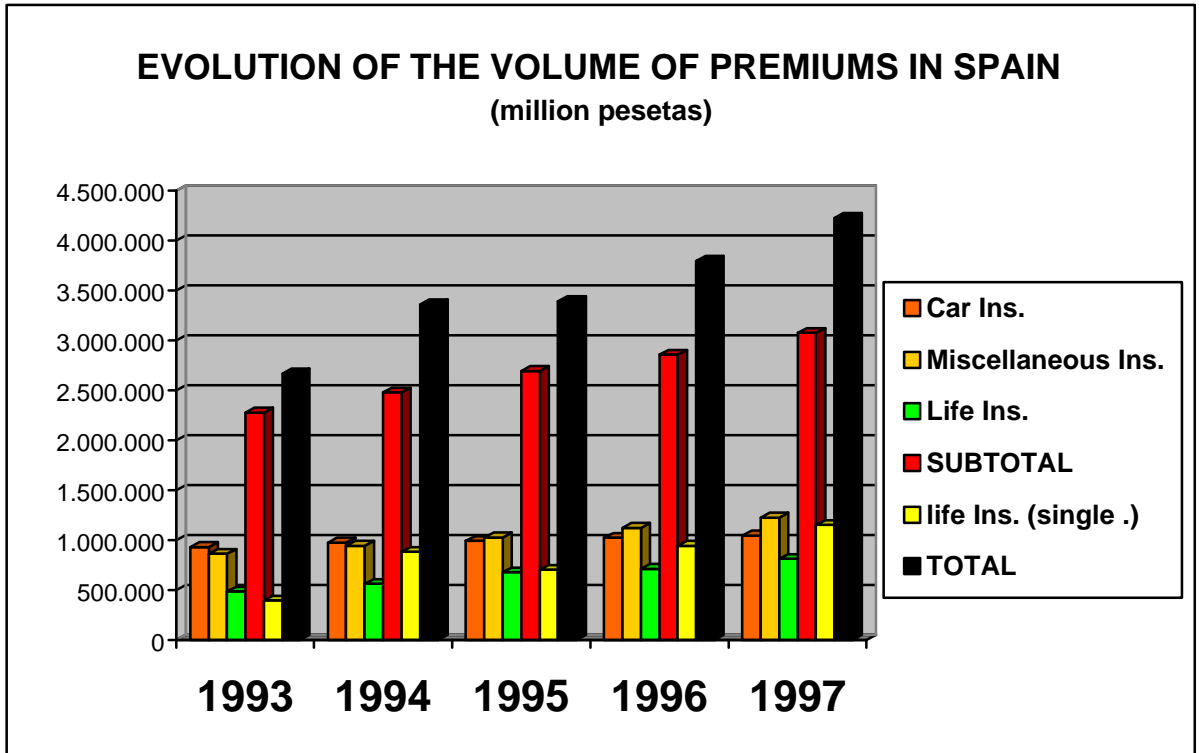


Table 3

(Page 6)

**DISTRIBUTION OF THE BUSINESS PORTFOLIO BY SALES
CHANNELS AND BRANCHES (% PREMIUMS)**

| % Premiums by branch and channel | | Agents | Brokers | Financial Institutions | Own Offices | Other channels |
|----------------------------------|------|--------|---------|------------------------|-------------|----------------|
| LIFE (regular premiums) | 1992 | 35,0 | 5,9 | 31,7 | 6,5 | 20,5 |
| | 1996 | 29,8 | 8,7 | 48,6 | 9,10 | 3,6 |
| CAR | 1992 | 51,2 | 19,4 | 0,6 | 26,5 | 2,1 |
| | 1996 | 48,8 | 19,9 | 0,11 | 24,6 | 6,4 |
| MULTIRISK | 1992 | 63,2 | 20,7 | 5,9 | 6,7 | 3,3 |
| | 1996 | 55,2 | 22,7 | 13,3 | 6,00 | 2,6 |
| HEALTH | 1992 | 28,5 | 10,0 | 0,1 | 58,8 | 2,4 |
| | 1996 | 25,0 | 9,7 | 2,0 | 32,8 | 30,2 |
| OTHER BRANCHES | 1992 | 43,0 | 28,2 | 6,6 | 14,9 | 7,7 |
| | 1996 | 52,8 | 24,6 | 13,4 | 6,9 | 1,7 |
| TOTAL | 1992 | 44,6 | 16,3 | 10,6 | 20,2 | 8,2 |
| | 1996 | 42,3 | 17,6 | 19,3 | 15,3 | 5,2 |

Source: ICEA. Basic Insurance Data guide 93-94; 96-97.

Table 4

(Page 7)

RANKING OF THE FIRST TEN MAJOR DIRECT INSURANCE GROUPS IN SPAIN

| 1987 | | | 1997 | | |
|---------------------------------|---------------|------------------|-----------------------------|----------------|------------------|
| COMPANIES | Total Prmiums | Market Share (%) | COMPANIES | Total Premiums | Market Share (%) |
| EUROSEGUROS | 160.979 | 13,5 | MAPFRE | 305.971 | 8,0 |
| MAPFRE | 65.042 | 5,5 | GENERALI* | 226883 | 5,9 |
| UNION Y EL FENIX ESPAÑOL | 63.920 | 5,4 | AXA* | 162.687 | 4,2 |
| LA ESTRELLA | 62.041 | 5,2 | WINTHERTUR* | 146.436 | 3,8 |
| CORPORACION GENERAL ASEGURADORA | 44.680 | 3,7 | BBV | 145.392 | 3,8 |
| VITALICIO | 34.941 | 2,9 | CAIFOR* | 134.396 | 3,5 |
| MUTUA MADRILEÑA AUTOMOVILISTICA | 32.605 | 2,7 | CASER | 107.875 | 2,8 |
| ZURICH | 30.038 | 2,5 | CAIXA CAT. | 102.378 | 2,7 |
| GENERALI | 26.018 | 2,2 | BARCLAYS* | 101.303 | 2,6 |
| WINTERTHUR | 25.504 | 2,1 | ALLIANZ-RAS* | 98.141 | 2,6 |
| Total, first 10 | | 45,7 | Total, first 10 | | 39,9 |
| Total, foreign groups | | 6,8 | Total, foreign groups | | 19,1 |

Figures in million pesetas

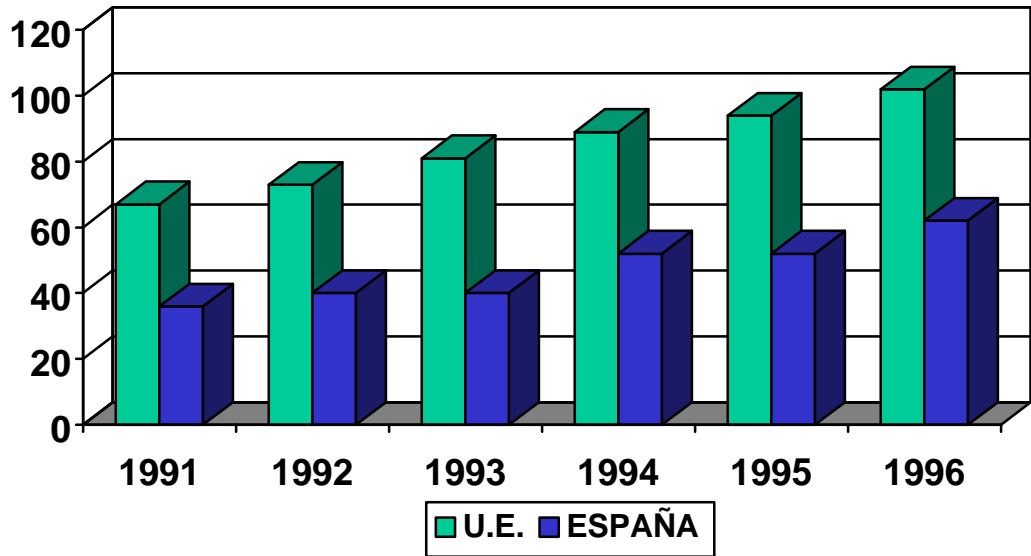
Source: Fundación MAPFRE Estudios Reports.

(*) Groups with a significant foreign company interest.

GRAPH 2

(Page 7)

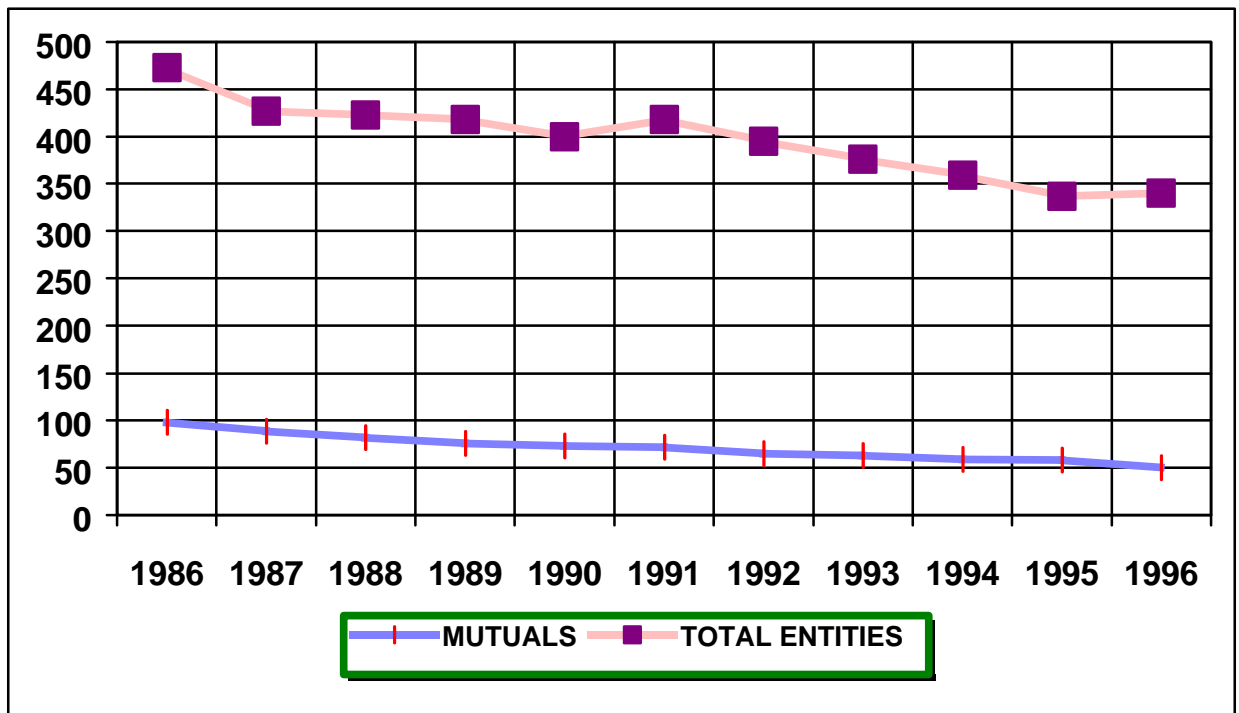
PREMIUMS PER COMPANY IN MILLION OF ECUS



GRAPH 3

(Page 8)

EVOLUTION OF THE NUMBER OF INSURANCE AND MUTUAL ENTITIES IN SPAIN 1996-1996



Source: Directorate General for Insurance, 1997.

TABLE 5

(Page 13)

| COMPARISON, TOP TEN INSURANCE COMPANIES (1996) | | | | | |
|---|-------------------------------------|---------------------------------|--|---|---------------------------------|
| MUTUALS | PREMIUMS (Million ptas.) | Market Share (%) | JOINT-STOCK COMPANIES | PREMIUM S(Million ptas.) | Market Share (%) |
| 1. MAPFRE MUTUALIDAD DE SEG. Y REASEG. A PRIMA FIJA (1) | 149.668 | 3,9 | 1. VIDACAIXA, S.A. SEGUROS Y REASEGUROS | 144.991 | 3,8 |
| 2. MUTUA MADRILEÑA AUTOMOVILÍSTICA | 75.917 | 2,0 | 2. BANCO VITALICIO DE ESPAÑA, CIA. ANÓNIMA | 130.930 | 3,4 |
| 3. FIATC MUTUA SEG. Y REAS. A PRIMA FIJA | 31.300 | 0,8 | 3. EUROSEGUROS, S.A. SEGUROS Y REASEGUROS | 118.344 | 3,1 |
| 4. MUTUA GENERAL DE SEGUROS | 25.329 | 0,7 | 4. WINTERTHUR SEGUROS GENERALES, S.A. | 98.786 | 2,6 |
| 5. PELAYO, MUT. SEG. Y REASEG. A PRIMA FIJA | 24.122 | 0,6 | 5. MAPFRE VIDA, S.A. SEG. Y REASEG. | 82.969 | 2,2 |
| 6. MUSINI, SDAD. MUTUA DE SEGUROS Y REASEG. (2) | 23.327 | 0,6 | 6. AGF UNION-FENIX, SEG. Y REAS., S.A. | 79.798 | 2,1 |
| 7. AGRUPACIÓN MUTUA DEL COMERCIO INDUSTRIA | 15.140 | 0,4 | 7. LA ESTRELLA, S.A. DE SEG. Y REASEG. | 78.127 | 2,1 |
| 8. P.S.N.-AGRUPACIÓN MUTUAL ASEGURADORA | 12.070 | 0,3 | 8. ALLIANZ-RAS SEGUROS Y REASEGUROS, S.A. | 75.735 | 2,0 |
| 9. MAPFRE AGROPECUARIA, MUT. SEG. Y REAS. | 7.777 | 0,2 | 9. MUSINI VIDA, S.A. DE SEGUROS Y REASEG. | 72.685 | 1,9 |
| 10. MESAI-MUTUA SEG. Y REAS. A PRIMA FIJA. | 7.194 | 0,2 | 10. SANTA LUCIA, S.A. CIA DE SEGUROS | 72.481 | 1,9 |
| Total, top 10 MUTUALS | 371.844 | 9,7 | Total, top ten companies | 954.846 | 25,1 |

(1) Head entity of an Insurance Group.

(2) In a "demutualization" process in 1997.

Source. Directorate General of Insurance

Table 6

(Page 17)

| MOST IMPORTANT ITEMS REFERRING TO THE ENVIRONMENT | | | | | | | | | |
|---|------|-------|------|-----------------|---|------|-------|------|-----------------|
| MUTUAL COMPANIES | | | | | JOINT-STOCK COMPANIES | | | | |
| Variables | X | Dstd. | % s | Pos. | Variables | X | Dstd. | % s | Pos. |
| a) Factors determining the future: <input type="checkbox"/> New distribution channels <input type="checkbox"/> The entry of the bank sector <input type="checkbox"/> Financial capacity <input type="checkbox"/> Size of competitors | 3,71 | 1,06 | 78,6 | 1 st | a) Factors determining the future: <input type="checkbox"/> New distribution channels <input type="checkbox"/> The entry of the bank sector <input type="checkbox"/> Financial capacity <input type="checkbox"/> Size of competitors | 3,75 | 1,41 | 65,9 | 1 st |
| | 3,57 | 1,08 | 64,3 | 2 nd | | 3,48 | 1,32 | 65,8 | 2 nd |
| | 3,57 | 1,28 | 64,3 | 2 nd | | 3,53 | 1,20 | 58,5 | 3 rd |
| | 3,28 | 1,43 | 57,1 | 3 rd | | 3,34 | 1,23 | 51,2 | |
| b) Spanish market opportunities: <input type="checkbox"/> Car <input type="checkbox"/> Life <input type="checkbox"/> Pensions | | | 80,0 | | b) Spanish market opportunities: <input type="checkbox"/> Life <input type="checkbox"/> Lifer <input type="checkbox"/> Pensions | | | 56,1 | 1 st |
| | | | 80,0 | | | | | 48,7 | 3 rd |
| | | | 80,0 | | | | | 48,8 | 2 nd |

I) Values for the total of companies. Not significant in differences by size.

II) X: Average scale value; Dstd.: Standard deviation; % s: % replies with mark above 4; Pos.: Relative position.

III) Variables scale: 1 = Very unimportant; 2 = Unimportant; 3 = Some importance; 4 = Important, and 5 = Very important.

Table 7

(Page 18)

| MOST IMPORTANT ITEMS REFERRING TO THE ENVIRONMENT | | | | | | | | | |
|--|------|-------|------|------|---|------|-------|------|------|
| MUTUAL COMPANIES | | | | | JOINT-STOCK COMPANIES | | | | |
| Variables | X | Dstd. | % s | Pos. | Variables | X | Dstd. | % s | Pos. |
| a) Total of companies: | | | | | a) Total of companies: | | | | |
| <input type="checkbox"/> Speed of response to the claim | 4.50 | 0.65 | 92.8 | 1st | <input type="checkbox"/> Speed of response to the claim | 4.51 | 0.77 | 87.8 | 1st |
| <input type="checkbox"/> Closeness to the customer | 4.28 | 0.72 | 85.8 | 2nd | <input type="checkbox"/> Human Resource qualification. | 4.22 | 0.72 | 87.8 | 1st |
| <input type="checkbox"/> Competitive premiums | 4.21 | 0.80 | 78.5 | 3rd | <input type="checkbox"/> Closeness to the customer | 3.97 | 1.12 | 82.9 | 2nd |
| <input type="checkbox"/> Image and tradition | 4.14 | 0.77 | 78.5 | 3rd | <input type="checkbox"/> Image and tradition | 3.80 | 1.16 | 63.4 | 3rd |
| <input type="checkbox"/> Human resource qualification | 4.07 | 0.73 | 78.5 | 3rd | <input type="checkbox"/> Breadth of agent network | 3.22 | 1.76 | 60.9 | 4th |
| <input type="checkbox"/> Breadth of agent network | 3.78 | 1.05 | 71.4 | 4th | | | | | |
| b) Five largest Mutuals: | | | | | b) Seventeen largest companies: | | | | |
| <input type="checkbox"/> Closeness to the customer | 4.4 | 0.89 | 80 | 1st | <input type="checkbox"/> Human Resource qualification | 4.17 | 0.52 | 94.1 | 1st |
| <input type="checkbox"/> Competitive premiums | 4.4 | 0.89 | 80 | 1st | <input type="checkbox"/> Speed of response to the claim | 4.47 | 0.87 | 88.2 | 2nd |
| | | | | | <input type="checkbox"/> Closeness to the customer | 3.94 | 0.96 | 82.3 | 3rd |

I) x: Average scale value; Dstd.: Standard deviation; % s: % replies with mark above 4; Pos.: Relative position.

II) Variables scale: 1 = Very unimportant; 2 = Unimportant; 3 = Some importance; 4 = Important, and 5 = Very important.

Table 8

(Page 19)

| PREDOMINANT MANAGEMENT SYSTEMS | | | | | | | | | |
|---------------------------------------|---|-------|----|-----|------------------------------|---|-------|----|-----|
| MUTUAL COMPANIES | | | | | JOINT-STOCK COMPANIES | | | | |
| Variables | X | Dstd. | %s | Pos | Variables | X | Dstd. | %s | Pos |

EXECUTIVE MANAGEMENT IN INSURANCE ENTITIES. A COMPARATIVE STUDY OF MUTUAL COMPANIES AND JOINT-STOCK COMPANIES IN SPAIN WITH A VIEW TO THE MARKET OF THE 21ST CENTURY

| | | | | | | | | | |
|---|------|------|------|-----------------|---|------|------|-------|-----------------|
| a₁ VALUES OF THE INSTITUTION <ul style="list-style-type: none"> • Quality of services provided • Close customer • Orientation Results | 4,78 | 0,42 | 100 | 1 ^o | a₁) VALUES OF THE Institucion <ul style="list-style-type: none"> • Quality of services provided • Close customer • Orientation Results | 4,39 | 0,99 | 80,05 | 1 st |
| | 4,42 | 0,64 | 92,8 | 2 ^o | | 4,09 | 0,76 | 80,05 | 2 nd |
| | 4,14 | 0,66 | 85,7 | 3 ^o | | 4,07 | 0,68 | 80,05 | 3 rd |
| a₂) INSTITUTION'S STRATEGIES <ul style="list-style-type: none"> • Solventy Improvement • Quickly response to customer • Orientation towards quality • Orientation towards reducing costs and computerization | 4,52 | 0,51 | 100 | 1 st | a₂) INSTITUTION'S STRATEGIES <ul style="list-style-type: none"> • Orientation towards quality • Orientation towards r5educt. Costs and computerization • Quickly response to customer | 4,51 | 0,84 | 90,3 | 1 st |
| | 4,43 | 0,85 | 92,8 | 2 nd | | 4,39 | 0,66 | 90,3 | 2 nd |
| | 4,42 | 0,64 | 92,8 | 3 rd | | 4,48 | 0,77 | 87,8 | 3 rd |
| | 4,28 | 0,72 | 85,7 | 4 th | | | | | 0 |
| b) MANAGEMENT INSTRUMENTS <ul style="list-style-type: none"> • Strategic Plan: drawn up by 57,1% mutuals • Annual Budget: drawn up by 85,7 mutuas | | | | | b) MANAGEMENT INSTRUMENTS <ul style="list-style-type: none"> • Strategic plan: drawn up by 75,6% of joint-stock companies • Annual Budget drawn up by 97,6 of joint-stock companies | | | | |
| b) FORM OF ORGANIZATION LARGEST MUTUALS <ul style="list-style-type: none"> • Divisional model (branches) • Coord. Through senior Management smaller mutuals • Functional model | 4,60 | 0,54 | 100 | | c) FORM OF ORGANIZATION LARGEST Joint-Stock COYS. <ul style="list-style-type: none"> • Divisional model (branches) • Coord. Through serior Management smaller joint-stock companies • Functional model | 3,17 | 1,66 | 41,2 | |
| | 4,80 | 0,44 | 100 | | | 4,11 | 1,11 | 88,3 | |
| | 3,44 | 1,81 | 66,6 | | | 3,50 | 1,40 | 66,0 | |

- I) x: Average scale value; Dstd.: Standard deviation%; % s: % replies with mark above 4; Pos.: Relative position.
- II) Variables scale: 1 = Very unimportant; 2 = Unimportant; 3 = Some importance; 4 = Important, and 5 = Very important.

Table 9

(Page 19)

| PREDOMINANT MANAGEMENT SYSTEMS | | | | | | | | | |
|---------------------------------------|----------|--------------|-----------|-------------|-------------------------------------|----------|--------------|-----------|-----------------|
| MUTUAL COMPANIES | | | | | JOINT-STOCK COMPANIES | | | | |
| Variables | X | Dstd. | %s | Pos. | Variables | X | Dstd. | %s | Pos. |
| •Efficiency, Technical Management | 4.50 | 0.65 | 92.8 | 1st | •Efficiency, Technical Management | 4.36 | 0.76 | 92.7 | 1st |
| •Investment, Information Technology | 4.42 | 0.75 | 89.7 | 2nd | •Investment, Information Technology | 4.24 | 0.88 | 87.8 | 2nd |
| •Sale through intermediaries | 3.78 | 1.25 | 64.3 | 3rd | •Process re-engineering | 3.82 | 1.18 | 63.4 | 3 rd |
| •Fiscal benefits | 3.28 | 1.20 | 50.0 | | •Fiscal benefits | 2.78 | 1.37 | 36.6 | |

Table 10

(Page 20)

| <u>VARIANCE ANALYSIS</u> | MUTUAL COMPANIES | | | JOINT-STOCK COMPANIES | | |
|--|-------------------------|----------|--------------------|------------------------------|----------|--------------------|
| VARIABLES STUDIED | DF | F | PROBABILITY | DF | F | PROBABILITY |
| Values of identification and their corporative culture: | | | | | | |
| Confidence the environment inspires | 8 | 1.6000 | 0.264 | 33 | 5.7085 | 0.000* |
| Quality of services provided | 8 | 1.0400 | 0.458 | 33 | 2.5808 | 10.031** |
| Trade Mark | 8 | 5.4286 | 0.018 | 33 | 8.8324 | 0.000* |
| Closeness of employees and agents to the customer | 8 | 0.9672 | 0.481 | 33 | 3.1102 | 0.012** |
| Orientation towards results and costs | 8 | 5.1368 | 0.021 | 33 | 2.4595 | 0.038** |
| Orientation towards the integration and commitment of the staff themselves | 8 | 8.0582 | 0.005 | 33 | 3.5916 | 0.006* |
| Strategies oriented towards: | | | | | | |
| Growing in their traditional geographical sphere | 8 | 7.4034 | 0.007 | 33 | 2.3144 | 0.049** |
| Growing outside their traditional geographical sphere | 8 | 5.2267 | 0.020 | 33 | 9.4021 | 0.000* |
| Merging with other insurance entities | 8 | 14.3294 | 0.001 | 33 | 7.7536 | 0.000* |
| Transforming the company's legal form | 8 | 7.9111 | 0.006 | 33 | 5.4284 | 0.000* |
| Diversifying branches and insurers | 8 | 2.1938 | 0.155 | 33 | 11.0389 | 0.000* |
| Production with highly competitive prices | 8 | 2.2775 | 0.144 | 33 | 1.8508 | 0.110 |
| Reducing costs and computerizing management | 8 | 1.6681 | 0.248 | 33 | 0.8231 | 0.575 |
| Quality | 8 | 0.3673 | 0.861 | 33 | 4.8476 | 0.001* |
| Speed of response to the customer | 8 | 0.4505 | 0.802 | 33 | 2.7355 | 0.024** |
| Improving solvency | 8 | 0.6588 | 0.665 | 33 | 6.9779 | 0.000* |

Variables contributing towards defining types of groups: (*) P<0.01; (**) P<0.05

Table 11

(Page 21)

| PREDOMINANT VALUES AND STRATEGIES IN MUTUALS | |
|---|---|
| Number of mutuals | GROUP'S PREFERENTIAL ORIENTATIONS |
| CLUSTER 1 | "Integral competitiveness" |
| 1 Mutual | <ul style="list-style-type: none"> - Trade Mark - Orientation towards diversifying branches - Growth outside the traditional geographical sphere - Production with competitive prices |
| CLUSTER 2 | "Growth and autonomy" |
| 7 Mutuals | <ul style="list-style-type: none"> - Orientation towards growth in their traditional geographical sphere - Rejection of merging with other entities. |
| CLUSTER 3 | "Merger" |
| 2 Mutuals | <ul style="list-style-type: none"> - Certain orientation towards growth in their traditional geographical sphere - Clear orientation to merging with other entities |
| CLUSTER 4 | "Transformation" |
| 2 Mutuals | <ul style="list-style-type: none"> - Orientation towards company transformation - Certain orientation towards merging |
| CLUSTER 5 & 6 | "Unidentified Mixed" |
| 1 Mutual and 1 Mutual | |

Table 12

(Page 21)

| PREDOMINANT VALUES AND STRATEGIES IN JOINT-STOCK COMPANIES | |
|---|--|
| Number of companies | GROUP'S PREFERENTIAL ORIENTATIONS |
| CLUSTER 1 | "Company change and external growth" |
| 25 Joint-Stock Companies | <ul style="list-style-type: none"> - Heavy orientation towards growth via mergers - Heavy orientation towards company transformation - Certain trend towards growth outside their traditional sphere |
| CLUSTER 3 | "Company expansion" |
| 2 Joint-Stock Companies | <ul style="list-style-type: none"> - Heavy orientation towards branch diversification - Heavy orientation towards company transformation - Heavy orientation towards growth outside their traditional sphere |
| CLUSTER 5 | "Company change" |
| 2 Joint-Stock Companies | <ul style="list-style-type: none"> - Heavy orientation towards company transformation. - Certain trend towards merging with other entities |
| CLUSTER 6 | "Credibility" |
| 3 Joint-Stock Companies | <ul style="list-style-type: none"> - Orientation towards the value of credibility it inspires - Certain trend towards merging with other entities - Certain trend towards diversification by branches - Very weak orientation towards service quality. |
| CLUSTER 7 | "External growth" |
| 3 Joint-Stock Companies | <ul style="list-style-type: none"> - Heavy orientation towards growth outside their traditional sphere - Very weak orientation towards relations with the customer - Very weak orientation towards improving solvency |
| CLUSTER 8 & 9 | "Unidentified mixed" |

