Gerencia de Riesgos y Seguros

ENGLISH APPENDIX

FUNDACIÓN MAPFRE 110

YEAR XXVIII

MAY/AUGUST 2011

Seeking creative solutions

Summer is the best time of the year, weather and pocket permitting, for enjoying a few days' holiday, each according to his or her own means, during which we can unwind and take stock of our own personal and professional vicissitudes.

It is obvious that we are currently living through difficult times and this affects all of us alike. Four years have now passed since the downturn first struck and the truth is that we as a society refuse to accept the current economic juncture as normal. We are all well aware of the havoc being waged by the downturn in the job market, especially in Spain, and hardships assail us on all sides. We should not give way to pessimism and undue nostalgia for the past, but we do have to admit that the current scenario, if not desperate, is certainly bleak.

It is at times like these when the desire to adapt ourselves to prevailing conditions should override any backward-looking wistfulness for times gone by; we need to seek creative solutions for confronting the unbroken series of bad news. Each of us has to do his or her bit, trying to help not only in managing the operational risks of organisations but also in promoting and maintaining a stable social and economic growth rate, capable of satisfying the interests of all concerned across the board.

The first of the published studies analyses the possibilities of Web 2.0 technologies in Brazil, the country with the world's fifth biggest population. Even though it boasts the highest proportion of Internet users employing social networking sites and blogs in their relationships, its microinsurance market has to tackle challenges such as the target population's low access to computers and broadband.

The second study, also drawn up by the research team of a prestigious university, analyses –from the viewpoint of both EU and Spanish law– the present and future legal system of a fundamental business-risk management arrangement, i.e. the reinsurance companies set up by business groups themselves to manage their own risks, known as captives.

The third and last study of this issue gives the author's opinion on such questions as a company's innovation capacity and fleetfootedness in adapting to ongoing changes, its marketing strategies, staff expertise and experience, intellectual property, customer loyalty or relations further afield, i.e., all the factors we know as intangible resources and assets, which are slowly but surely becoming the most important variables in any company's competitive edge over the rest.

We conclude this edition with the report published by FUNDACIÓN MAPFRE on the 2010 ranking of the ten biggest European non-life insurance groups, of which we here publish an extract, reflects a 5.2% growth in premium revenue and the excellent results driven by 3 main factors: portfolio growth, the firming up of prices and the growing income from business abroad.

Have a good summer in 2011!

Web 2.0 technologies

WWW

CHALLENGES AND POSSIBILITIES

THE BRAZIL CASE

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The development of the microinsurance market poses several challenges to be confronted, one of the most important of which are the management costs. Bearing in mind the high volume and low value, how can the distribution of the premiums and claims handling of a large volume of policies be carried out in the most efficient but cheapest manner? Web 2.0 technologies (blogs, wikis, social networks, Software as a Service…) can cooperate with the financial feasibility of microinsurance supplier companies. But in the case of Brazil, other challenges will have to be faced, such as the access to these technologies by microinsurance target clients and the small insurers. There are also

in the microinsurance market

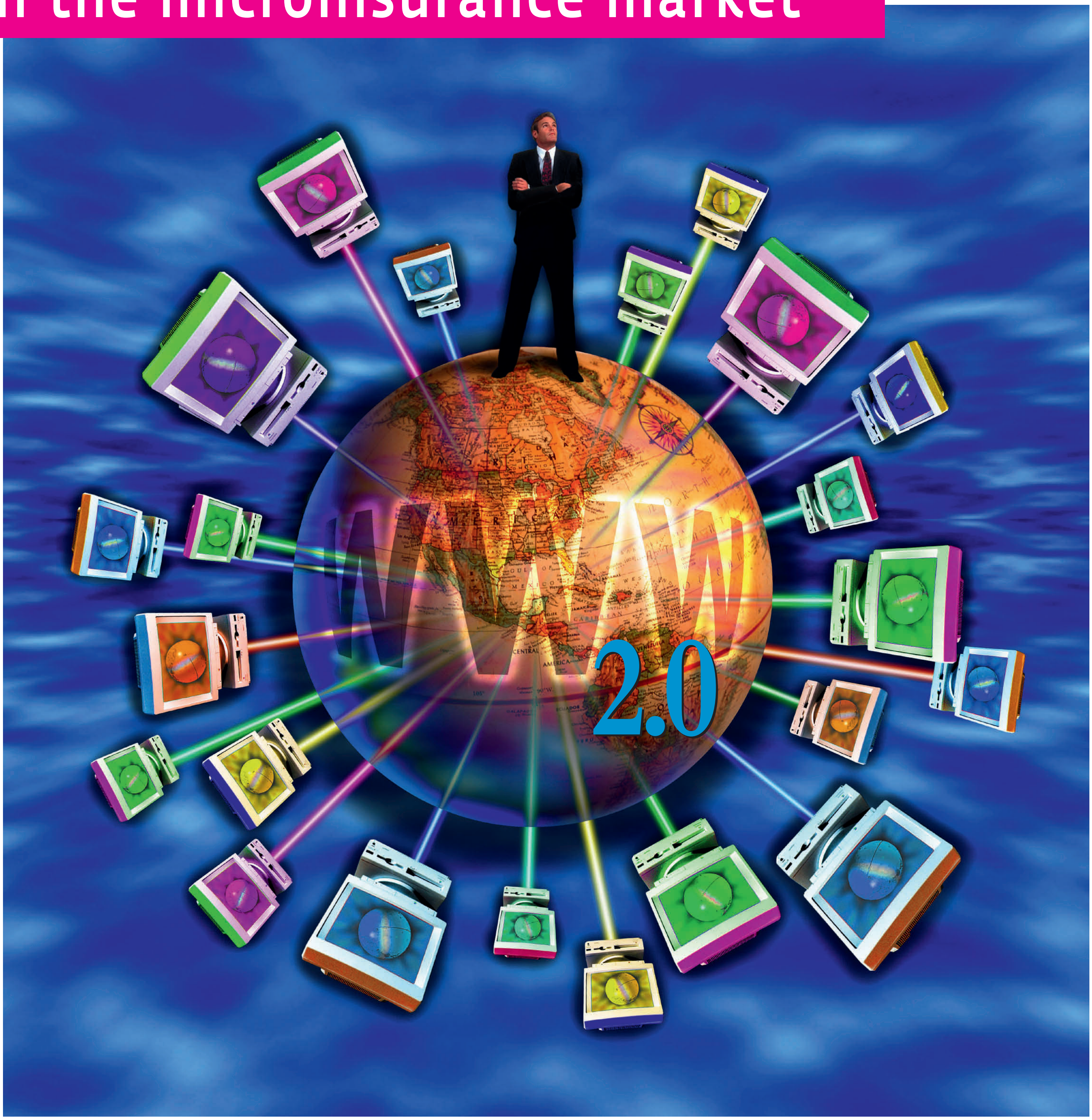

ILLUSTRATION STOCK

opportunities such as the government programme for digital inclusion and the fact that Brazil is the country with the highest proportion of Internet users that use social networks and blogs to keep in touch.

1 Introduction

Projections indicate that the Brazilian insurance market should grow rapidly over the next five years as a result of the economic growth and the social ascent of those with low incomes who are microinsurance potential clients.

The insurance market´s share of Brazil´s Gross Domestic Product (GDP), which is currently 3,2 %, could reach 6% (Brazil, 2010) (Accenture, 2009) thanks mainly to microinsurance, which has an estimated potential consumer market of around 70 million people (Bester, 2010).

The Brazilian Government has specific policies which were set up for micro-finances and which include the provision of insurances for the low income population. Microinsurance is aimed at those low income households that normally cannot be protected by other insurances and/or social security schemes. It should be noted that microinsurance is not an assistance programme, since it contemplates the payment of normal premiums and, in return, provides adequate protection for the insured (Brazil, 2008).

The development of microinsurance presents several challenges. One of the most important is the management cost; how can distribution, premium administration and claims management be carried out in the most efficient and economical manner for a large number of low value policies? Innovation will be vital in finding solutions to these challenges and Information and Communications Technologies (ICT) can contribute to sustainability for microinsurance suppliers (Churchill, 2007).

The insurance sector requires intensive use of Information and Communications Technologies which give rise to cost reductions and increases in productivity. According to the technology consultancy firm Accenture (2010), insurers worldwide will be investing more in web platforms. Most companies consider that, over the next three years, most services for clients and collaborators will be provided via Internet. The study indicates that insurers will focus their investment priorities on mobile technologies and digital marketing, including social networks. Apart from being a lower cost platform, it enables insurers to reach youngsters of the generation Y or digital natives.

In this context, Web 2.0 technologies (blogs, social networks, wikis, Software as a Service…)[1] can contribute to the sustainable development of microinsurance.

This is of special importance for microinsurance since, without technology, it is difficult for a product with an adequate cost to be viable for low income classes.

WEB 2.0 TECHNOLOGIES (BLOGS, SOCIAL NETWORKS, WIKIS, SOFTWARE AS A SERVICE, ETC.) CAN CONTRIBUTE TO SUSTAINABLE DEVELOPMENT OF MICROINSURANCE

The purpose of this article is to evaluate the possibilities, opportunities and challenges for the application of Web 2.0 technologies in the Brazilian microinsurance market. Therefore, in the following section we look at the question of microinsurance in Brazil in the context of the insurance market.

In the third section we present the concept of Web 2.0 technologies, highlighting its application for companies in general and the insurance market in particular.

Subsequently, in the fourth section, we reflect on the possibilities for its application in the Brazilian microinsurance market and, in the last section, we evaluate the opportunities and challenges of Web 2.0 technologies in that same market.

2 Brazil: Economic context

With a population of 191 million inhabitants who live in an area of 8.514.876.599 square kilometres (IBGE, 2011), Brazil is the fifth largest country in the world in terms of population and territorial extension (Nichter, 2002)(United Nations, 2011). It is the eighth largest economy in the world (Banco Mundial, 2009). In 2010, the rate of growth of the Gross Domestic Product (GDP) was 7.5%. In values, the Brazilian GDP amounted to R$ 3.674.964 million reales (1.570.497 million euros) (BACEN, 2011).

The Brazilian financial system is technologically updated and offers sophisticated products and services. In respect of the insurance market, in 2009, insurance and reinsurance written premiums, capitalisation and pension contributions amounted to 95.347 million reales (34.671 million euros)(3.2 % of Brazil´s Gross Domestic Product), thus constituting the most important insurance market in Latin America and the 16th in the world (Brazil, 2010)(Sigma, 2010).

The position of microinsurance in Brazil

It is very important to define the concept of microinsurance and low income population in order to regulate this segment of the market and thereby develop specific products for this social group.

The *Superintendencia de Seguros Privados* (Private Insurance Superintendency) (SUSEP) of the Treasury Department is the body responsible for supervising the Brazilian insurance market. The SUSEP adopted the following wording to define the concept of microinsurance: «Microinsurance is the financial protection against specific risks afforded by authorized providers to the low income population in return for the payment of premiums, proportional to the probabilities and the cost of the risks involved, in accordance with the legislation and internationally accepted principles of insurance»[2].

Another important definition is the concept of low income population which varies according to

[1] The list of Web 2.0 technologies is very wide. We will focus our attention on the more common and useful technologies used in today´s companies.

[2] The International Association of Insurance Supervisors (IAIS) recommends that the Basic Principals of Insurance should be the focal point and future basis for regulation and supervision of microinsurance in all jurisdictions. The International Monetary Fund and the World Bank use them for evaluating the insurance supervisor´s activity. The Basic Insurance Principles provide a globally accepted framework for the regulation and supervision of the insurance sector (IAIS, 2007).

the jurisdiction. In the case of Brazil, amongst the various variables that determine the various concepts of «low income», apart from the average value of the family income, one should take into account the level of schooling, the physical characteristics of the home, the existence of a fixed telephone line and the ownership of durable goods, amongst others. The concept is complex and there is not yet a final definition but, in principle, for an initial estimate of the target audience for microinsurance, it was decided that the low income population, for the purposes of microinsurance in Brazil, is made up of that portion of the inhabitants that have a monthly income of up to three minimum salaries (1,634 reales or 698 euros)[3].

The level of up to 3 minimum salaries includes close to 128[4] million people (Brazil, 2008)(IBGE, 2006) (Bester, 2010).

It is important to emphasize that, in Brazil, there are already other types of insurance that include low income persons (popular insurance), but for them to be considered microinsurance it is indispensable that this product has been developed specifically for this segment of the population. The following are examples of products with microinsurance characteristics already sold in Brazil:

- PASI or *Plano de Amparo Social Imediato* (Immediate Social Protection Plan): A programme developed in 1989 by an insurance broker with the insurer, MAPFRE Insurance. Its main focus is on civil construction workers and, today, there are 2 million insureds. It distributes Group Life and Personal Accident insurances.
- SINAF Insurance: SINAF sells policies that range from R$ 12.50 to R$ 30 (5 to 13 €) per month, which offer different levels of cover. The principal component is that of funeral assistance as well as «income substitution» in the event of death of the insured. SINAF covers over 500.000 lives, all in the low income class (Bester, 2010).

The Law project of Microinsurance (Nr. 3266/2008) is in the process of being approved by the National Congress. Amongst other questions, the document urges the authorization of specialized insurers by means of a special regulation and permits alternative distribution channels. It also refers to the differentiated fiscal treatment for microinsurance operations.

Certain factors that are driving microinsurance in Brazil should be highlighted:

- The Brazilian Government microcredit programme. There are considerable synergies between the microinsurance and microcredit programmes in Brazil. Institutions that began operating solely with micro-credit operations are now also offering some products with microinsurance characteristics.
- The Brazilian financial system is the largest in Latin America. In 2008 the Brazilian banks had more than 9.000 branches, 158.600 automatic cash machines (ATM) and around 3.2 million points of sale (POS) (BACEN, 2008). By Latin American standards, this represents a very high level of penetration for automatic cash machines and point of sale mechanisms (Bester, 2010). In Brazil an important share of insurance sales is via banking (Brazil, 2009).
- Brazil has a wide network of retailers which consists of, at least, 70.000 shops (PWC, 2007) (Abras, 2011). This has facilitated the

[3] 1€ = 2,34 reales as quoted by the Brazilian Central Bank on 2nd.May, 2011.(www.bacen.gov.br)
[4] Extremely poor persons (class E) are not included. This population is already attended by the government social programmes.

appearance of important distribution channels for some insurance lines, such as credit life insurance and extended warranty.

- In Brazil, over 98% of the population has access to the public electricity service (IBGE, 2010). Depending on the extent of this service within the low income population, the Public Service Concessions can act as distribution channels for microinsurance.
- The Brazilian Government income transfer programmes. More than 18 million Brazilians have come out of poverty and 31 million have joined what is known as the new middle class, which already amounts for more than 53% of the population (Cetelen, 2011).
- The bank correspondents. These are alliances between banks and non-banking entities (kiosks, chemists, food stores). They are distribution networks to distribute financial services for banks. Thanks to the development of the bank correspondents, 100% of town halls have cover from the financial services distribution network. Although bank correspondents are not currently authorized to carry out insurance sales, the fact that they have become a popular distribution channel for financial services represents a significant potential for the distribution of micro-insurance (Brazil, 2009a).

3 Web 2.0 technologies

The term Web 2.0 was born in 2004 and became popular as a result of its most representative applications such as wikis[5], blogs[6], syndication of contents (RSS)[7], folksonomy[8], Software as a Servicie[9] and social networks and the excessive offering of tools trying to capture users / generators of contents (Cobo, 2007).

According to O'Reilly, the main promoter of Web 2.0, it is constituted on seven principles (O'Reilly, 2006):

1. The World Wide Web as a work platform to offer services on the Internet thanks to the sum and combination of diverse technologies.

MORE THAN 18 MILLION BRAZILIANS HAVE COME OUT OF POVERTY AND 31 MILLION HAVE JOINED WHAT IS KNOWN AS THE NEW MIDDLE CLASS, WHICH ALREADY AMOUNTS FOR MORE THAN 53% OF THE POPULATION

2. The strengthening of collective intelligence. As users add new content and links, the network connections grow organically as a result of the collective activity of all Web users.
3. Data base management as a basic competency. Amazon has the same original data base as other online bookshops. Today its data base is much more powerful since, from the start, it applied a policy of enriching information from that supplied by its users.
4. The end of the cycle of software version updates. The initial closed software model, with user rights and under the principle of planned obsolescence, is broken and has become the use of software as a service available on the Web itself and in combination with data.
5. Tthe light programming models together with the quest for simplicity.
6. Software not limited to a sole appliance. The use of the Web 2.0 products is not limited to computers. Mobile phones, ipods and iphones start to occupy space reserved only for computers up until now.
7. The users richer experiences. Web sites have evolved and now embrace complete software experiences which facilitate interaction and immersion of new innovative ways.

Blogs are an example. The ease of creation, productivity, possibility of indexation and visibility of search engine justify its success (Cobo, 2007) (Joyanes, 2009b).

Prior to the development of Web 2.0 technologies, people with no technical ability were hardly able to create a web site and now, with the new technological elements, anyone can develop a web page or create a blog and configure a more cooperative and participative interactive Web (Dans, 2009).

For businesses, the new social technologies offer new channels to listen to what their clients have to say about their products. Before, when a

client had a problem, the only resort was to claim against the company responsible. Today, dissatisfied clients are turning to social networks. to complain about poor service (Celaya, 2008). Moreover, the new technologies enable knowledge to be spread

[5] Wiki. Web site, the contents of which can be edited collectively in such a way that it can be created, modified and visualized by any user that has access to the wiki. Wikis are flexible, are easy to use and have a low cost (Joyanes, 2009a). In finance, the banks are using wikis with the objective of improving communications and cooperation with employees. Investment banks have been pioneers in using wikis as a tool to increase internal productivity. Since 2009 Commerzbank has been using wikis in its Information Technology departments. It was then used in the business units to the completion of audit documents by the legally binding dates. Their use made the jobs easier for those teams that had to work together in this respect (Domínguez, 2009).

[6] Blog. Web site in which the user send entries (posts) like a diary which are visualized in inverse chronological order. (Joyanes, 2009a).

[7] Syndication. Contents distribution system which enables text, audio or video content to be sent automatically to other web sites or users´ computers that have requested it, without the need to surf the web (Nafria, 2007).

throughout the company, distribute information about products and improve internal cooperation.

Web 2.0 Technologies or Social Software

Web 2.0 technology or Social Software is an emerging Information Technology that is being used in a range of applications and types of platform designed to facilitate personal interrelations in computer networks. Web 2.0 technology allows individuals to interact in such a way as to combine their intelligence and capabilities.

Web 2.0 technology is a broad and flexible software that encompasses tools such as blogs, wikis, social networks, tags[10] and virtual worlds such as Second Life and instant messaging. The heart of social software is a group or dynamic environment that allows individuals to interact in such a way as to combine their intelligence and capabilities (Joyanes, 2009a).

Enterprise 2.0

The first person to use the term Enterprise 2.0 was the Harvard Business School professor, Andrew Macfee, who valued the potential use that companies could make of the Web 2.0. technologies. His definition is: «Enterprise 2.0 is the use of emergent social software platforms within companies, or between companies and their partners or customers» (Macfee, 2006).

In their last report of 2009 the consultancy firm, Mckinsey, stated that 69% of the 1.770 companies that participated in the survey recognised that they had obtained quantifiable benefits thanks to the adoption of Web 2.0 technologies.

According to the report, the most used Web 2.0 technologies in the last three years are blogs, social networks and wikis (Mckinsey, 2009).

An Orange Foundation report (2009) highlights that Spanish companies apply Web 2.0 technologies internally in processes such as knowledge management, cooperation tools, training and product development and externally in cooperation with clients to improve client servicing, win new clients, distribute product information, receive opinions from users, even encouraging their

[8] Folksonomy. The term was coined by Thomas Vander by combining the words «folks» (persons) and «taxonomy» (classification, which comes from the Greek word *taxis*), to express the impact of the persons in the classification. Taxonomies are normally hierarchical and define relationships *a priori* between terms from above to below. In folksonomy the categories used do not follow a logical hierarchy but rather the tagging decisions of the users (Joyanes, 2009a).

[9] Software as a service (SaaS). The supply, on demand, of applications such as software which do not require users to install it on their computers. It is software as a universal service such as light, water, etc. (Joyanes, 2009a).

[10] Tags. Consisting of marks to describe and put information into context. They allow the user to arrange, classify and share specific content through one or more words. It has become a means of organising information. The tags try to organize the accessible information in the network thanks to the participation of the users (Joyanes, 2009b).

WEB 2.0 TECHNOLOGY IS A BROAD AND FLEXIBLE SOFTWARE THAT ENCOMPASSES TOOLS SUCH AS BLOGS, WIKIS, SOCIAL NETWORKS, TAGS AND VIRTUAL WORLDS SUCH AS SECOND LIFE AND INSTANT MESSAGING

participation in the design of products. Blogs, videos, content syndication (RSS), wikis and social networks are the technologies most used in these processes (Orange Foundation, 2009).

Web Technologies 2.0: Risk and Challenges to be Overcome

It should be borne in mind that, despite the positive aspects of Web 2.0 technologies, there are also risks and challenges to be overcome, such as:

1. Many analysts consider that it is not possible to measure and justify the costs of investment in participative technologies. According to Newman (2008), using the same methodology used to measure the Return on Investment (ROI) for other technologies and with a little innovation, the ROI [11] of the Web 2.0 technologies can be obtained.
2. Control of contents. The main risk with the Web 2.0 technologies is the loss of control of the message and, as a consequence, non-desirable attributes can be attributed to products.
3. Another important risk is the possibility of loss of data.

However, considering the value of information in the business environment, to block access to Web 2.0 technologies could prejudice the competitive advantage of an organisation. The instantaneous character of communication in the Web 2.0 world is an important part of the attraction of these business tools although there are important risks in respect of security and confidentiality.

To create and impose the compliance of the usage policies to ensure safety and confidentiality of all the information is the key and, also, to make sure that employees are fully aware of the risks of using these tools (*Financial Times*, 2010).

Web 2.0 technologies in the Insurance Market

In the United States of America, several insurers already have a presence in the social media with a view to getting closer to their clients, creating and building communities around their brand and products with the objective of creating client loyalty (Fuentes, 2010).

In Spain, companies are now following the trend of the cooperation model and the Web 2.0 technologies are being incorporated more effectively (Capgemini, 2010). Insurers consider that the principal benefits that the Web 2.0 technologies provide are to do with improving the experience of the client (26% of the insurers), differentiation from the competition (18%) and increasing client loyalty (15%). The most used technologies are blogs, social networks, content syndication, wikis and microblogging (Capgemini, 2009).

It should also be pointed out that, in the Brazilian insurance market, the development of the social Web is still timid amongst insurers but, little by little, Web 2.0 technology is being incorporated. Certain pioneer insurers are successfully using wikis, blogs, social networks, Software as a Service (SaaS), microblogging[12] (Apolice, 2010).

Gerelle and Berende (2008) carried out the study «Technology for microinsurance-scoping» with the purpose of compiling an inventory of

IN THE UNITED STATES, SEVERAL INSURERS ALREADY HAVE A PRESENCE IN THE SOCIAL MEDIA WITH A VIEW TO GETTING CLOSER TO THEIR CLIENTS AND CREATING CLIENT LOYALTY. IN SPAIN, COMPANIES ARE INCORPORATING WEB 2.0 TECHNOLOGIES MORE EFFECTIVELY

computer technologies which are or could be applicable for extending insurance services to low income family groups. Of those technologies that have already been developed, the most worthy of mention of those already referred to are Software as a Service (SaaS) and Web applications 2.0[13].

It should be stressed that the technology group of the Consultative Group to Assist the Poor (CGAP)[14] supported the idea of the SaaS models for small microfinancial institutions as a potential way of reducing the barrier for entering the market. SaaS has great potential as a way of administering technology costs –especially for those financial institutions with more standardized processes.

11 Return on Investment (ROI). Ratio between net income and costs.
12 Microblogging. Tool that allows the user to send, free of charge, a text message with a maximum length of 140 characters. The reason for the 140 character limit is that telephone text messages (SMS) limit each message to 160 characters. Twitter is the most famous with more than 90 milion users.
13 Web applications. Programmes that are accesible via Internet.
14 CGAP. Consortium of 33 development agencies (public and private) that work together to extend the access of the poor to financial systems in jurisdictions that are under development.

4 The application possibilities of Web 2.0 technologies in microinsurance supply companies in Brazil

Microinsurance has various peculiarities that distinguish it from conventional insurance:

- For example, having to collect a large number of small premiums results in a high transaction cost which increase the tariffs.
- A fast and efficient claims system is essential for the success of a new microinsurance product. People with low income who are not very familiar with insurance tend to have a negative perception of it, due to the slow speed of claims handling and the rejection of claims due to technical subtleties (Churchill, 2007).

Web 2.0 technologies can cooperate with the financial feasibility of microinsurance supplier companies. There are interesting possibilities of applying these technologies in the client interface area (sales, claims management, client knowledge, client management and monitoring the brand).

In the internal field, there are important applications for knowledge management, product development, training and the administrative / financial management of the company (Salles, 2010).

For example, with the client interface, a Brazilian technological consulting company now offers a system that administers the sale and contracting of insurance by SMS (Short Message Service) through the mobile phone. This platform facilitates the service for brokers and automates the internal work for insurers. The sale of insurance by this method implies several advantages. The use of the mobile phone is widespread in Brazil and the cost of capturing clients is very low compared to other ways (Apólice, 2010).

For claims management, microblogging (Twitter) could be used for fast communication of the claim by the broker to the insurer or between the loss adjuster [15] («regulator») and the insurer and, also, a wiki could be used for the preparation of the claims advice (the document that registers all information / documents on the claim). In general, this document is prepared both in the insurance brokers office and that of the insurer. The objective is to accelerate and reduce the cost of the claims management process.

Blogs and social networks can be used for client knowledge and for managing and monitoring the brand. Content syndication (RSS) can be very useful for providing the latest information, promoting new policies or news of special interest about the insurer.

For example, in the internal field, one of the most successful microinsurance supplier models is the agent partnership model. The main characteristic of this model lies in the association between a traditional insurer and a microfinance institution (IMF) (Arruti, 2009). In this case, a social network could be created, for example, to develop a specific project and it might not be evident how to locate persons with an adequate profile in the two companies who can contribute with their experience in the project.

The use of Software as a Service (SaaS) is preferable with investment in open source software to access software applications for actuarial, statistical and management matters. By using open source tools, the software costs are reduced considerably since licensing rights are not payable (Joyanes, 2009a).

Internally, blogs and wikis could be used for knowledge management and podcasts[16] and videos for personnel training. Since the staff that works in the field has to explain and, perhaps, sell insurance products to their clients, they should have a detailed knowledge of this type of activity.

WEB 2.0 TECHNOLOGIES CAN COOPERATE WITH THE FINANCIAL FEASIBILITY OF MICROINSURANCE SUPPLIER COMPANIES. THERE ARE INTERESTING POSSIBILITIES OF APPLYING THESE TECHNOLOGIES IN THE CLIENT INTERFACE AREA

[15] A loss adjuster («regulator») is the person responsible for the investigation and settlement of claims. It can be an employee of the insurer or a service providing company.

[16] Podcast. Audio or video recorded file which users can download automatically to listen to on their computer or MP3 player. The podcast is becoming an important corporate communication tool.

5 Web 2.0 technologies and microinsurance in Brazil: Challenges and opportunities

Challenges

- In the case of the application of Web 2.0 technologies in the Brazilian microinsurance market, certain challenges will have to be met such as the limited access of the microinsurance target audience to computers and broadband. Hardly 32% of homes in Brazil have computers and, of these, only 27% have Internet access. In rural areas, the percentage of homes with Internet access drops to 6% (GCIT, 2009).
- With regard to broadband, in Brazil, it is expensive, is slow and concentrated in high density population areas. In 2009, the average spend of Brazilians with broadband was 4,58% of the average monthly income per capita. In developed countries, this expense is only 0,5%. Taxation is one of the factors responsible for the high cost of broadband in Brazil. The incidental taxes on broadband, worldwide, are around 17% and, in Brazil, these taxes reach 45% (IPEA, 2010)(CGIT, 2009).
- The result of a survey carried out with over 3.000 executives in 13 countries shows that Brazilian companies are amongst those that most limit the access of their employees to the social networks. According to this study, 44% of Brazilian companies only permit the use of these digital channels with some form of restriction and 26% of them prohibit their employees from accessing these channels (Half, 2011).
- According to the United Nations, the mobile phone in Brazil is considered to be the fourth most expensive service in the world. The rates charged to the Brazilian users are only superseded by the Japanese, the French and the Australians (ITU, 2010).

Opportunities

However, there are opportunities which can change this situation such as the government plans for digital inclusion for the population which will permit the low income classes to purchase computers paying very low interest. The Broad Band National Project should also be mentioned, with prices which are more accessible for the low income population and where the objective is for broadband to reach the whole country in 5 years time. Other opportunities are:

- The Brazilians love of social networks and blogs. Brazil is the country that has the highest percentage of Internet users that use sites to keep in touch and, moreover, spend more time on the social networks and blogs. The most popular social network in Brazil is Orkut (Nielsen, 2009).
- It is also important to point out the participation of those centres that charge (cyber cafés, telephone booths) as a computer or Internet access element. The cyber cafés present opportunities to access the population´s less favourable groups. The Brazilian Government needs to take these Internet access charge centres into account in its digital inclusion policies (CGIT, 2009).
- Brazil has 147 million (75% of the population) mobile phone users (CGIT, 2009). In the insurance field, there are examples in which the mobile phone platforms work as an auxiliary mechanism for the sale of microinsurance and claims management.

Final Considerations

Microinsurance will mean that insurers have to attend to the insured through an efficient model with a reduced cost and which should get to increase the importance of the Internet channel. Moreover, insurers are more and more aware of the fact that the digital natives and future insurance consumers have different ways of communicating and consuming. Web 2.0 technologies can carry out an important role for the business to become feasible and microinsurance providers sustainable, making the products accessible to the low income population with a low level of financial culture and also improving the client relationship.

There are interesting possibilities of applying these technologies principally in the external field in the client interface (sales, claims management, client knowledge and brand monitoring and management). On the internal side, there are important applications for use in knowledge management, product development, training and in the company´s administrative and financial management.

In the case of the future microinsurance market in Brazil, some challenges will have to be faced such as the limited access to computers and Internet of the target population. These challenges will impose limitations on the application of Web 2.0 technologies in the Brazilian microinsurance market, especially in the rural areas of the poorer regions. The elimination of these barriers will depend on the results of the government digital inclusion programmes.

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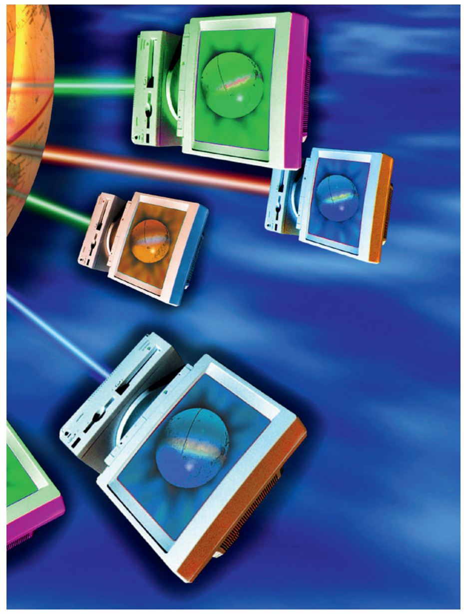

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The *reinsurance* captive company

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Insurance Law is one of the most prolific fields appearing in new business institutions. The reason behind this abundance can be found in the objective, shared by all businessmen and businesswomen, of limiting risks in their company´s activities. One of the novel forms, which has acquired its definitive configuration in the magma which is currently modern insurance Law, is the reinsurance captive company, created to underwrite the risks of its owner and which has recently been legally recognised under European Community Law.

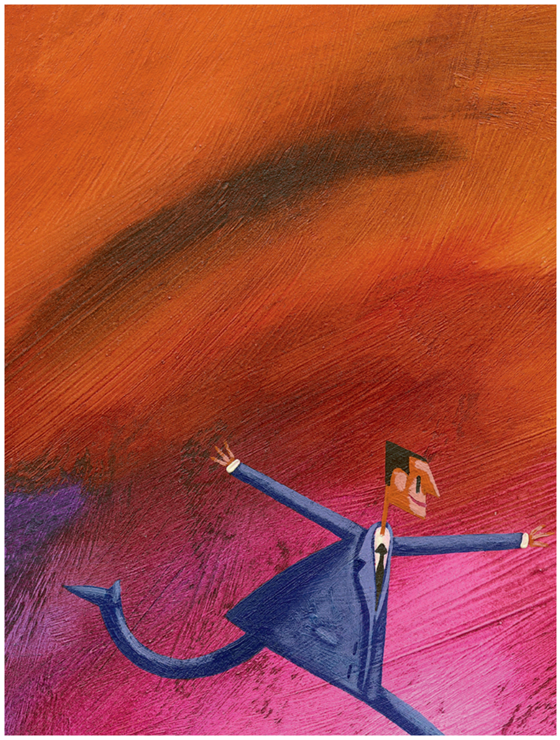
Despite its apparent novelty, this form is not as new as it appears. Since the beginning of the 20th Century there are records of the practice of establishing captive finance companies by manufacturing or industrial companies to finance the purchase of goods that they were producing. However, it would not be until the decade of the fifties and sixties of the 20th Century that the captive company would appear, as such, from the understanding of a company operating outside the actual insurance sector. After the Second World War a new stage began in the evolution of captive insurance companies

Legal regulations


ILLUSTRATION STOCK

and *outlook*

ON A WORLDWIDE BASIS, SUCH AS IN THE PIONEER MARKET OF THE UNITED STATES, THERE IS LARGE MARKET FOR THE CAPTIVE COMPANY



which was to be characterized by its use as yet another instrument in modern business risk management.

This period is characterised by a change in the purpose of captive companies. It is no longer just a question of underwriting those insurance covers that the market is not capable of writing. Now, the purpose of this type of company is to carry out better risk management. During this period, another characteristic process of the phenomenon was to appear, such as the setting up of captive companies in offshore territories; preferably with a view to making the most of the regulatory advantages and, at the same time, there was an increase in the types of risk written.

In general, a series of factors should be mentioned that influenced in the proliferation of the captive company phenomenon at that time, the most significant of which was the practice consisting of writing risks via reinsurance, a technique called fronting. This involves one insurer (called the fronting company) writing the risks of an insured and, then, immediately ceding them, either partially or wholly, to another company (captive reinsurer) by means of a reinsurance contract.

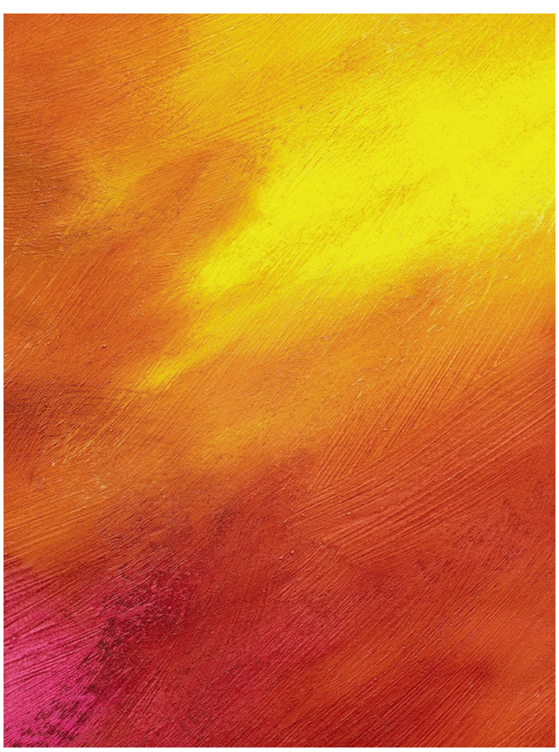
This factor represented another step forward in the evolution of captive companies by facilitating their development as reinsurance companies. The peculiarities of this contract, of which its international nature stands out, made it possible to underwrite all types of risk and, at the same time, widened the territorial scope to almost all countries. To a certain extent, this way of working made it possible to avoid the ever increasing state controls and supervision of direct writing insurers.

The captive company is currently a global phenomenon. It is used by companies throughout the world and constitutes a fundamental instrument in enterprise risk management. Nevertheless, due to the very different concepts and types that exist, as well as the variety of legal systems that contemplate the model, there are no sole international sources or statistics on its evolution and/or current situation. This makes it difficult to acquire exact knowledge of the current position.

However, more important than its current volume, is its projected future growth. According to a recent study, 36% of large global companies still do not use a captive company, whether direct of reinsurance, as a technique for managing risk. In the United States of America, although 77% of the top 500 companies have set up at least one captive company, it is still considered that their margin for growth is significant. This means that, on a worldwide basis, such as in the pioneer market of the United States, there is large market for the captive company. Similarly, a strong expansion of the phenomenon is foreseen in Eastern European companies, as well as in the BRIC group (Brazil, Russia, India and China).

Statistics also show that the use of captive companies is no longer restricted to the large multinational companies but that it is becoming more frequent for medium sized companies to use this risk retention instrument, which is indicative of the increasing accessibility to the model.

In any event, regardless of its future projection, what is true is that these studies show a new phase in the evolution of captive companies, the start of which could be considered to have taken place in the first decade of this century. This is a period in which a step forward was taken with regard to the use of these companies. Their workings and the benefits of using them are well known but the maximisation of their possibilities is being sought in order to achieve better risk management for their supporters.



On the other hand, one cannot ignore that, as a consequence of the expansion experienced by the financial markets and their subsequent systematic crisis, the regulators have placed these companies under the microscope. In this way, the new demands in financial regulation contained under the Solvency II Directive can be understood, as well as the recent publication by the International Association of Insurance Supervisors of a detailed report on the regulation and supervision of captive insurers.

But it is not just the supervisors that are exercising greater pressure on captive companies but also those promoting their use are becoming more demanding. More recently, the creation of these companies are being subject to deeper and more rigorous analysis so that the owners of the captive companies fully understand their characteristics, workings and problems, amongst which the legal department and regulatory implications hold a prominent position.

The lack of regulation on reinsurance and its effect on the captive company

Up until recently, reinsurance has not received excessive attention from the legislator. Traditionally, authorities have preferred to concentrate on the more traditional insurance contract and insurance

WORKINGS AND BENEFITS OF USING CAPTIVE COMPANIES ARE WELL KNOWN, BUT THE MAXIMISATION OF THEIR POSSIBILITIES IS BEING SOUGHT IN ORDER TO ACHIEVE BETTER RISK MANAGEMENT FOR THEIR SUPPORTERS

TODAY MORE THAN EVER, REINSURANCE IS AN INSTITUTION WHICH IS EXPERIENCING PARTICULARLY THE GLOBAL PHENOMENON

companies' activities rather than those undertaken by reinsurers with regard to reinsurance.

However, the limited interest on reinsurance by the legislator changed a little less than thirty years ago. In the eighth decade of the last century, this change of attitude by the authorities could already be appreciated. At the same time, and on an international level, a series of works on the subject came out, of which the more important were those prepared by the International Association of Insurance Supervisors (IAIS), the Organisation for Economic Co-operation and Development (OCED), the International Monetary Fund (IMF), or the Association of Insurance Superintendents in Latin America.

This interest in reinsurance and, more specifically, in the preparation of a new regulatory framework on the subject, are good examples of the trend towards greater supervision of reinsurance which, today more than ever, is an institution which is experiencing particularly the global phenomenon. For this reason, the economic and financial crisis which has been seriously affecting developed capital markets has again put reinsurance in a privileged position on the legislator´s agenda and the captive company with it.

The current captive company system: Spanish and European Community Law

In the European Community, up until very recently, reinsurance did not have harmonized regulations. Each member state had its own rules on the subject which did not happen on direct insurance where, on the contrary, there was a high degree of harmony. This situation was especially surprising in view of the cross border nature of the European project, especially if one takes into account the important economic and eminently international characteristics of international reinsurance and not forgetting that it is a very developed industry in some of the member states.

This divergence implied that reinsurance companies should comply with different requirements depending on the member state in which they operated. The variety of regulations was an impediment for achieving a real internal reinsurance market, an unjustified increase in costs, as well as the existence of different criteria and requirements in the supervision of a same company operating in different states.

Directive 2005/68/EC of the European Parliament and Council, of 16th November, 2005, on reinsurance and which modifies Directives 73/239CEE and 92/49/CEE of the Council and Directives 98/78/EC and 2002/83/EC, corrected this situation.

The passing of the Directive has meant the final recognition of the captive reinsurance company in the European Community culture and is defined as follows: «Captive reinsurance undertaking» means a reinsurance undertaking owned either by a financial undertaking other than an insurance or a reinsurance undertaking or a group of insurance or reinsurance undertakings to which Directive 98/78/CE applies, or by a non-financial undertaking, the purpose of which is to provide reinsurance cover exclusively for the risks of the undertaking or undertakings to which it belongs or of an undertaking or undertakings of the group of which the captive reinsurance undertaking is a member».

The Kingdom of Spain, in compliance with Directive 2005/68/EC, commenced procedures necessary to incorporate it into Spanish Law when the Government sent to Congress on 9th March, 2007, the Proposed Law nº 121/000129, which modified the Revised Text of the Private Insurance Regulation and Supervision Law (hereafter TRLOSSP), approved by Royal Decree 6/2004, on 29th,October, in relation to reinsurance supervision.

The second final legal requirement of the Law came into force on 9th December, 2007, in compliance with the order and timescale stipulated under Directive

2005/68/EC. The Declaration of Intent of the Law states that the incorporation of Directive 2005/68/EC into Spanish Law does not represent a significant change to the existing regulation but rather implies a completion and systemisation of the previous regulations in force. This statement is due to the fact that Spanish legislation on regulation and supervision of direct insurance companies applied *mutatis mutandis* to reinsurers. For this reason, the transposition has not represented a break or the introduction of great changes to the current norms applied in the Spanish insurance sector.

The first mention of a reinsurance captive company can be found in the Declaration of Intent of Law 13/2007, with a very similar meaning to that expressed in

THE PASSING OF DIRECTIVE 2005/68/CE HAS MEANT THE FINAL RECOGNITION OF THE CAPTIVE REINSURANCE COMPANY IN THE EUROPEAN COMMUNITY CULTURE

the preamble of Directive 2005/68/EC: «Directive 2005/68/CE is applicable to reinsurance undertakings which conduct exclusively reinsurance business and should also apply to the so-called 'captive' reinsurance undertakings created or owned by either a financial undertaking other than an insurance or reinsurance undertaking or by one or several non-financial undertakings, the purpose of which is to provide reinsurance cover exclusively for the risks of the undertakings to which they belong».

Apart from mentioning it in the Declaration of Motives, Law 13/2007 modifies TRLOSSP by incorporating into Spanish regulations, amongst other things, the legal concept of a captive reinsurance company. According to the new wording, reinsurance captive companies are defined as: «reinsurance companies owned by either a financial undertaking other than insurance or reinsurance undertaking or by one or several non-financial undertakings, the purpose of which is to provide reinsurance cover exclusively for the risks of the undertakings to which they belong».

The legal definition in the Spanish Law coincides fundamentally with that of Directive 2005/68/EC. A captive reinsurance company is considered to be a reinsurance company owned by a company or various companies, except insurance or reinsurance companies or belonging to a consolidated group of insurers or reinsurers, the aim and objective of which is to offer reinsurance solely to the owners or to the group of companies to which it belongs.

The differences with the definition of Directive 2005/68/CE are minimum. There are only small unimportant terminological variations as the Spanish definition uses «captive reinsurance company» instead of «captive reinsurance undertaking», «reinsurance company» instead of «reinsurance undertaking», as well as «financial company» and «non-financial company» instead of «financial undertaking» and «non-financial undertaking».

Similarly, and of little importance, it should be pointed out that the Spanish definition alters the order of the captive´s owners, so that, under Directive 2005/68/EC, reference is first made to financial companies and, subsequently, to non-financial companies, and in the Spanish version the non-financial companies are mentioned first and then the financial companies.

Lastly, it should be mentioned that, whilst Directive 2005/68/EC makes reference to «reinsurance companies owned by either a financial undertaking other than insurance or reinsurance undertaking to which Directive 98/97/CE is applicable», the Spanish regulation uses the term «reinsurance undertaking owned by a financial undertaking which does not form part of a consolidated group of insurers or reinsurers». In this case, the terms are different but equivalent.

Nevertheless, Directive 98/78/EC has been revoked by Directive 2009/138/CE, Solvency II, so that the said reference should be understood to be that stipulated under article 214 of the latter. As far as the Spanish regulation is concerned, the concept of consolidated group should be understood according to the definition in article 20 of the TRLOSSP, as per the wording provided by Law 5/2005 on the supervision of financial conglomerates and by which other laws of the financial sector are modified.

The immediate future: Solvency II

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on life insurance, the taking-up and pursuit of the business of Insurance and Reinsurance, better known as Solvency II, states under article 310 that, with effect from 1st November, 2012, amongst others, Directives 64/225/EC, 98/79/EC and 2005/68/EC are revoked. At the same time, article 309 establishes that the states must adopt it before 31st October, 2012 and must be fully in force by 1st November, 2012.

The first reference to captive companies is found in the preamble to the regulation when it recognises specifically that: «References in this Directive to insurance or reinsurance undertakings should include captive insurance and captive reinsurance undertakings, except where specific provision is made for those undertakings».

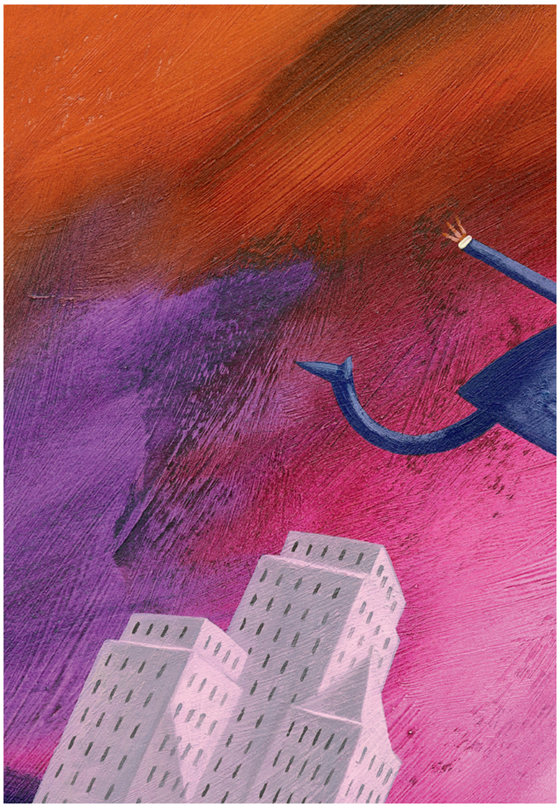
The Directive specifically refers to the special nature of the captive company: «This Directive should also take account of the specific nature of captive insurance and captive reinsurance undertakings. As those undertakings only cover risks associated with the industrial or commercial group to which they belong, appropriate approaches should thus be provided in line with the principle of proportionality to reflect the nature, scale and complexity of their business».

In this way the Solvency II Directive not only announces a regime for the reinsurance captive company but also for direct insurance companies, which are defined as follows: «[An] insurance undertaking' means an insurance undertaking, owned either by a financial undertaking other than an insurance or reinsurance undertaking or a group of insurance or reinsurance undertakings within the meaning of Article 212(1)(c) or by a non-financial undertaking, the purpose of which is to provide insurance cover exclusively for the risks of the undertaking or undertakings to which it belongs or of an undertaking or undertakings of the group of which it is a member».

In the case of the reinsurance captive company, it is the same concept as Directive 2005/68/EC, with small modifications to

SOLVENCY II DIRECTIVE NOT ONLY ANNOUNCES A REGIME FOR THE REINSURANCE CAPTIVE COMPANY BUT ALSO FOR DIRECT INSURANCE COMPANIES

SMALL COMPANIES PLAY AN IMPORTANT PART IN THE EUROPEAN INSURANCE MARKET AND ITS ECONOMY SINCE THEY PROVIDE COMPETITION FOR THE LARGE COMPANIES AND, SOMETIMES, CAN OFFER BETTER PRICES FOR THE SMALLER INSURANCE CONSUMERS



the terms used in the wording. If the latter refers to the fact that the reinsurance captive company can belong to a group of insurance or reinsurance companies to which Directive 98/78/CE is applied, Solvency II refers to a group of insurance or reinsurance companies in accordance with article 212.1.c).

The regulations applicable to direct insurance companies are very different to those of reinsurance. Whilst the reinsurance captive companies fall under the scope of the application of the Solvency II Directive stipulations, it is not the same for direct writing insurance companies. Solvency II requires that insurance companies to have gross annual premium income in excess of 5.000.000 euros, amongst other requirements. This requirement could give rise to the fact that between approximately 40 or 50% of European direct insurance captives fall outside of the Directives prescriptions for not reaching this volume of business.

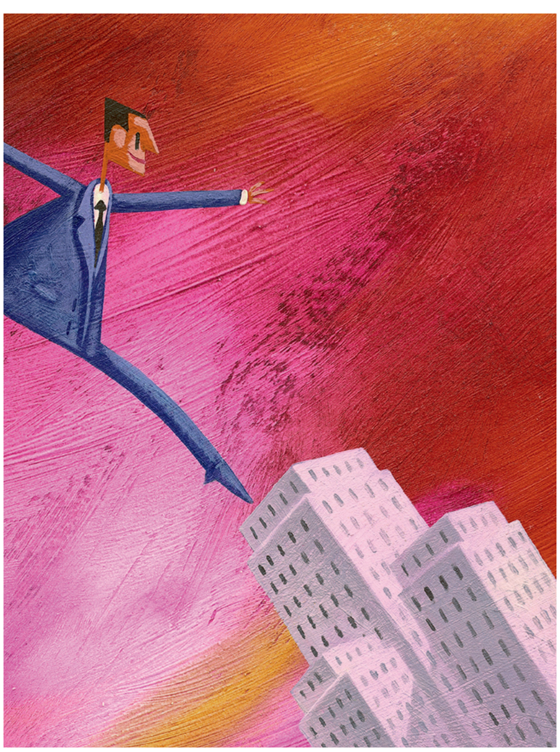
This circumstance started alarm bells ringing in the European Federation of Insurance and Reinsurance (CEA) that argued that the survival of these companies could be threatened since it would limit the number of clients prepared to take out insurance with them as they could be considered to be second class companies, subject to specific regulations and not being harmonized, even though Solvency II also takes into account that those that do not comply with the requisites of the Directive can request an authorization or maintain the one they have.

The differences in the regimes between the two types of captives also affect the minimum capital requirements. The absolute minimum capital for insurance captive companies is set at 2.200.000 euros for those companies that are not life insurers and 3.200.000 euros in the case of life insurance companies, identical to those ordinary insurance companies. However, for a reinsurance captive company, the figure is 1.000.000 euros, which is far lower than the 3.200.000 euros that are demanded of the normal reinsurers. The calculation of this capital is defined as that amount of basic admissible funds below which the policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurers and reinsurers were to continue with their activity. At least quarterly, insurance and reinsurance companies must calculate and communicate their obligatory minimum capital to the supervisory authorities.

The application of the principle of proportionality to captive companies

The European insurance market is shared mainly by the large companies (85%),13% corresponds to medium sized companies, and 2% to small companies. On the other hand, by number of companies, out of a total of 5.000, 79% are small companies, 15% medium sized and only 6% are the large companies.

These figures indicate that the small companies play an important part in the European insurance market and its economy since they provide competition for the large companies and, sometimes, can offer better prices for the smaller insurance consumers. This factor is essential for understanding that the legislator takes into account the final application of the Solvency II regulations through the principle of proportionality.



This principle has been taken into account from the start of the Solvency II legislative process. In the first round of specific calls for advice of the European Committee of Insurance and Pension Fund Supervisors (CEIOPS), in July, 2004, it was mentioned on various occasions. In this way, in the first point of the document, in relation to internal control and risk management, it referred to the fact that some of the principles applicable on the matter could be applied with flexibility for the small insurance companies, always provided that the nature and volume of permitted it. Similarly, in the fifth point of this public consultation, on the question of investment management, mention was made also of certain practical aspects on proportionality that should be taken into account in this regard.

The Solvency II Directive refers to the principle of proportionality throughout the text, both in the preamble and in the different rules.

The first mention is made in the preamble when it states that «in order to ensure the effectiveness of the supervision all actions taken by the supervisory authorities should be proportionate to the nature, scale and complexity of the risks inherent in the business of an insurance or reinsurance undertaking, regardless of the importance of the undertaking concerned for the overall financial stability of the market», to which it adds: «This Directive should not be too burdensome for small and medium-sized insurance undertakings», so that «one of the tools by which to achieve that objective is the proper application of the proportionality principle. That principle should apply both to the requirements imposed on the

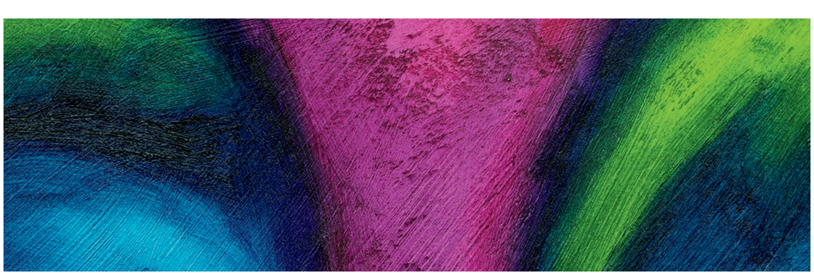
SOLVENCY II EXPRESSLY RECOGNISE THAT SPECIALIZATION IN CLIENTS OR FIELDS OF ACTIVITY MAY BE A VALUABLE INSTRUMENT FOR EFFECTIVE AND EFFICIENT RISK MANAGEMENT

insurance and reinsurance undertakings and to the exercise of supervisory powers».

The Directive also echoes the concern that the cost of compliance with the ruling should not be excessive for the more modest companies. «… this Directive should not be too burdensome for insurance undertakings that specialise in providing specific types of insurance or services to specific customer segments». These types of insurance or reinsurance companies tend to be of a much smaller size and have a more limited scope of action. However, the Directive does expressly recognise that specialization in clients or fields of activity may be a valuable instrument for effective and efficient risk management. It also recognises that the small companies should not be unappreciated or undervalued and, even on occasions, that their small size can be an added value for better risk management.

The principle of proportionality is fundamentally manifest in the compliance with the solvency requirements: «In order to reflect the specific situation of small and medium-sized undertakings, simplified approaches to the calculation of technical provisions should be provided for».

The principle of proportionality, on an imperative basis, is referred in the Directive under the article relating to the supervision of insurers and reinsurers: «The Member States will ensure that all the requirements established under this Directive will be applied in proportion to the nature, scale and complexity of the risks inherent in the business of an insurance or reinsurance undertaking», and with the implementing measures «the Commission shall ensure that implementing measures take into account the principle of proportionality, thus ensuring the proportionate application of this Directive, in particular to small insurance undertakings».



The principle of proportionality is also applicable to the governance system of insurers and reinsurers; to the internal evaluation of the risks and solvency of the companies; to the technical reserving calculations in order to guarantee that the actuarial and statistical methodologies used for calculating the best estimates are in proportion to the nature, volume and complexity of the risks borne by the insurance and reinsurance companies; and to the calculation of the standard formula for calculating the obligatory solvency capital.

In the last two examples, mention is expressly made to the principle of proportionality for captive companies, which does not mean that this principle cannot be more expressly personalized for this type of company. In fact, the preamble states that the Directive should take into account the specific nature of captive insurance or reinsurance companies that only cover risks associated with the commercial or industrial group to which they belong. For this reason, it is foreseen that appropriate measures should be adopted taking into account the principle of proportionality in order to reflect the nature, size and complexity of the commercial activities of these types of companies.

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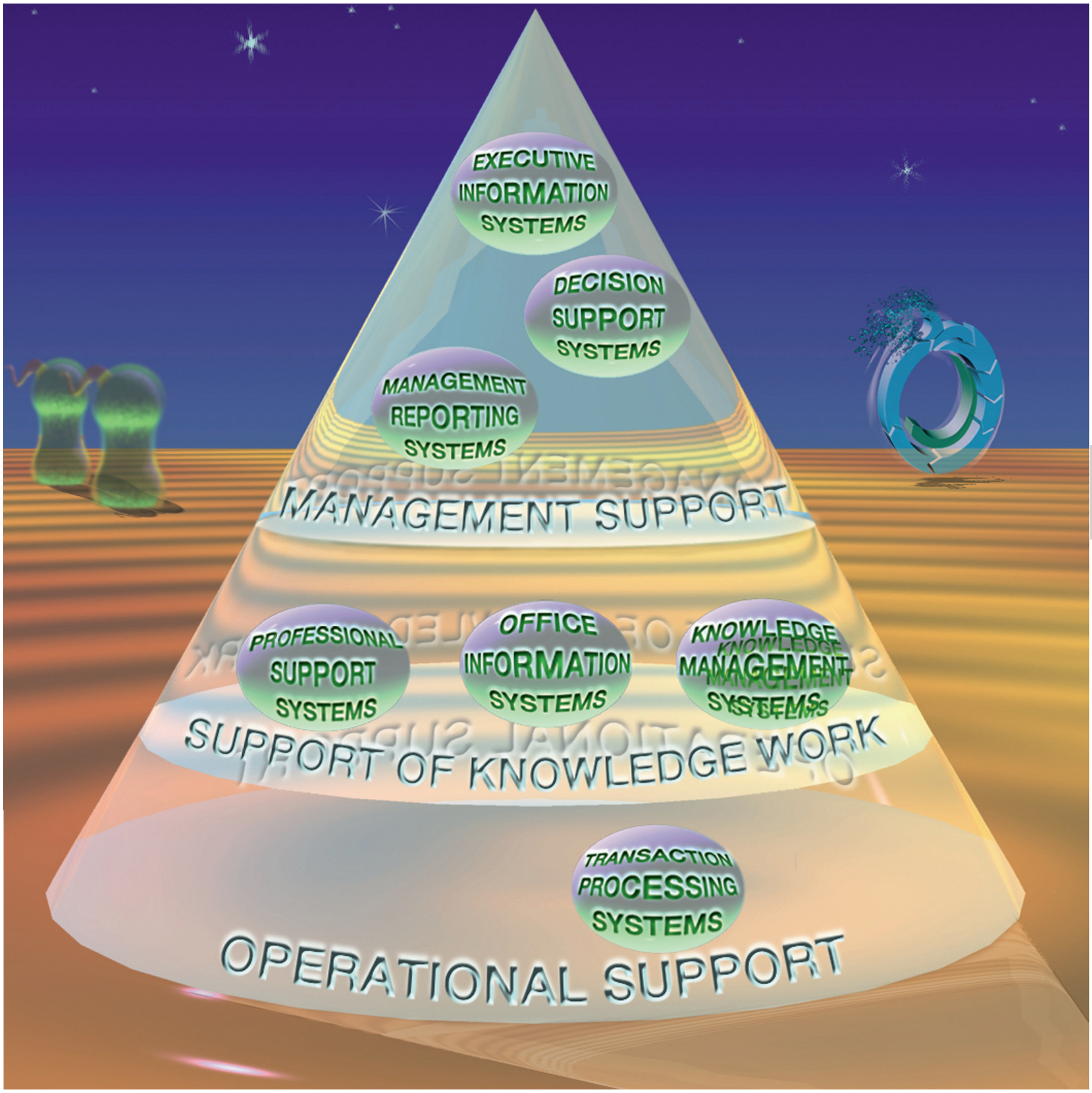

ILLUSTRATION STOCK

The management of intangible assets and resources:

An opportunity for *companies, risk managers* and the *insurance market*

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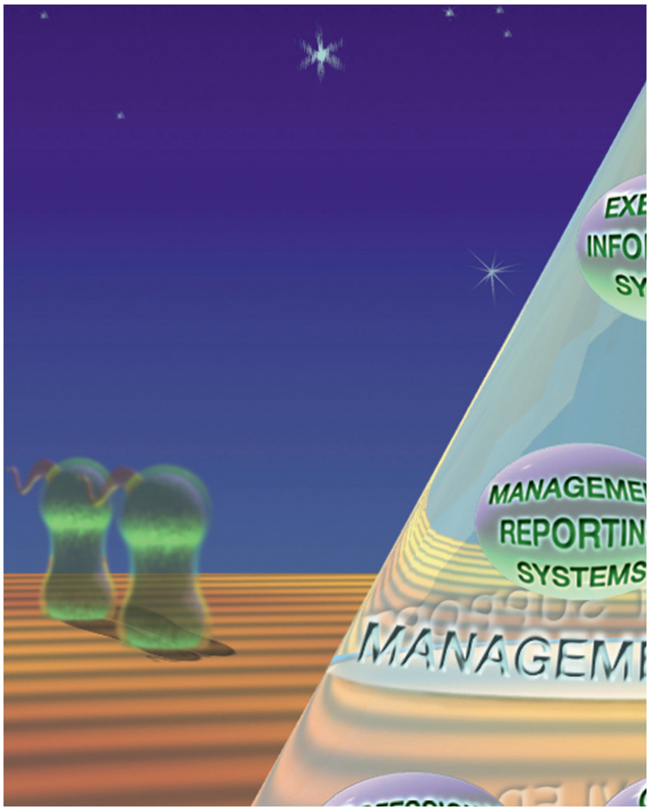
Risk Management and Insurance Consultant

Over the last few years there has without any doubt been an increasing concern and interest given to the management of intangibles (brand, corporate reputation, business ethic, corporate social responsibility, good governance, human capital, organisational capital and technological capital …) as vital and strategic factors in business success.

Most professionals working in this area agree that their influence and work has an ever bigger say in the success of companies and brands. This growing awareness goes hand in hand with increased professional, academic and social recognition. Likewise, major corporations are beginning to set up specialist departments to ensure proper management of these new factors.

Alongside this development, senior company managers, market analysts, auditors, shareholders and



investors need to know how these intangible assets are being managed, how they are being qualified and how much they are worth. Everything seems to suggest that in the near future brand value and other intangible resources and assets will be backed up by more financial support and feature more heavily in company accounts.

At the same time there is also a general cry for more solid arguments and methodology in this new area of knowledge. The work being carried out now needs to be backed up by thoroughgoing methodologies and the input of empirical evidence.

More and more forums are calling for standards on the valuation and management of intangibles and –why not?– possible certification in the future.

It is clear that companies, professionals and markets need independent bodies for analysing, evaluating and certifying intangible resources and assets by methods based on objective criteria.

There is therefore now general agreement on the existence of a company and social demand that has hitherto been fed by pioneer, one-off inputs and now stands in need of standardised, uniform rules backed up by general recognition of the various stakeholders operating in the world of business management.

DEFINITION AND CHARACTERISTICS OF INTANGIBLES

As pointed out by José Emilio Navas, chair-holding professor of the Business Organisation of the Universidad Complutense de Madrid, the identification, measurement and assessment of intangibles is an increasingly important field of study within the world of company management. The Theory of Resources and Capacities offers an interesting explanation of this phenomenon, analysing the role played by intangible resources in building up and maintaining a competitive business advantage.

Intangible resources are based mainly on information and knowledge so they are hard to identify and quantify. Furthermore, intangibles usually gain value as they are used and therefore need to be constantly reappreciated, unlike tangible assets which are known to depreciate from day one.

INTANGIBLE RESOURCES ARE BASED MAINLY ON INFORMATION AND KNOWLEDGE SO THEY ARE HARD TO IDENTIFY AND QUANTIFY

It is also known that the environment can impinge heavily on company results. *Ceteris paribus*, however, the external conditions are the same for every firm trading within that environment, so the different results obtained have to be explained rather in terms of the internal conditions obtaining in each one.

This is where the Theory of Resources and Capacities has come into its own in recent years within the literature on company management, focusing as it does on the tangible resources owned by the companies and the differences between them, and their importance in explaining the results trend. Three basic ideas underpin this approach (Navas and Guerras, 1998):

-Companies differ from each other in terms of the resources and capacities they may possess at any given time. These resources and capacities will vary in their characteristics and will not be available for all the firms in the same conditions.

-Resources and capacities play an increasingly important role in defining the strategy that each firm may wish to pursue, as against variables deriving from an external analysis.

-Any firm's profit is a result of the competitive characteristics of the environment and also the combination and management of the resources it possesses.

Working from this approach the company is considered as a set of assets, technologies, skills, knowledge, etc., which are all generated and applied over time, i.e., as a unique combination of heterogeneous capacities and resources. The Theory of Resources and Capacities distinguishes between resources of a tangible and intangible character, granting more importance to the latter in terms of supporting the company's competitive performance. The criterion for establishing the classification derives from the nature of the resources: the former have a physical existence while the latter are based mainly on information and knowledge. The characteristics of one and the other are the following:

A. Tangible resources

Tangible resources are those company assets that have an actual physical existence and can be touched and grasped in a material sense. They can therefore be easily identified and quantified within the business concerned. Tangible resources are usually broken down into the following types: fixed assets (land, buildings, machinery, plant, computing equipment), stock (raw materials, finished products, semi-finished products) and financial assets (capital, reserves, rights to receivables, shares of other companies).

The aim of their management is to allocate them properly inside or outside the firm (in combination with the resources of other companies or selling them off), thereby ensuring the best possible use thereof. The main problem they pose stems from the fact that their book value (at historical prices) may not be very significant for strategic purposes.

Tangible resources obviously play an important role in business management. Each firm strives to procure them in sufficient quantity and quality. Nonetheless, their rapid depreciation and ease of imitation by competitors mean that they are seldom the basis of any competitive edge for the company for any length of time.

B. Intangible resources

Intangible resources, for their part, are those assets that have no actual physical existence and are based mainly on information and knowledge. They cannot be touched and seen like tangible assets and are therefore harder to pin down and quantify.

These assets are nonetheless acquiring

increasing importance within the firm as the underpinning of its competitive edge, since their specific characteristics can help their possessor to stand out from its competitors. Factors like company image, technological know how, human capital, organisational structure, brand, logotype or relations with suppliers and clients are all variables weighing ever more heavily in business success.

From this perspective information and knowledge are key factors in creating value for the firm. It therefore behoves each firm to find out and analyse the specific characteristics of these resources to be able to use them as the basis for creating its competitive edge.

Unlike tangible resources, intangible resources present a series of specific characteristics and idiosyncrasies that need to be borne firmly in mind to ensure the best management thereof within the firm. The most important of these features are the following:

1. Invisibility. Based as they are on information and knowledge, they have no actual physical existence and this makes them much harder to deal with. Tangible resources are easily identifiable due to their physical appearance whereas intangibles are difficult to observe in real life; this poses problems not only for identifying them but also for classifying them once identified.

2. Difficult to quantify. Precisely because they are based on information and knowledge they are hard to measure and assess; it is therefore difficult to work out their worth and scope. This difficulty is exacerbated because many intangibles are based on knowledge of a tacit type, i.e., knowledge that is intrinsically unformalisable and uncodable. In these cases it is practically impossible to quantify them.

3. Not recorded in accounts. The financial statements provided by accounts record only tangible assets; barring exceptional cases, the worth of intangibles is not included. The principle of prudence advocates against the inclusion of intangibles in balance sheets to avoid giving a false impression of the company's worth, precisely due to the abovementioned problems in quantifying and valuing them. Only at specific moments of a company's life, for example during sale or merger processes, is the worth of intangibles brought into the picture in terms of good-will. The non-recording of intangible assets in accounts statements explains the difference between companies' book value and market value. The book value takes into account only the value of the physical assets while the market value includes the valuation of the firm as a whole by economic agents. This

difference is especially crucial in companies with few physical assets, such as most firms of the so-called New Economy. Furthermore, these differences are coming increasingly to the fore in practically every firm, showing the growing importance attached by the market to intangible resources.

4. Appreciation with use. Tangible resources tend to depreciate with use whereas intangibles appreciate with use. Indeed, by dint of repeated use and experimentation, new information and knowledge can be phased in to certain intangible resources to increase their value. Witness such telling examples as human skills or company brands. This introduces into company management a law of increasing returns in asset use, as opposed to the law of diminishing returns in the use of traditional assets. In the case of the book valuation of intangibles this would imply a new accounting problem in terms of updating the value of intangibles, working in the opposite direction to the traditional depreciation of physical assets.

5. Non-existence of any market. There is not usually any market for the inter-company buying and selling of intangibles; this complicates their acquisition or transferability from one agent to another. True it is that for some of these intangibles, such as human resources, there is a free market for hiring executives and professionals, whereby individuals may move from one company to

another. For most intangibles, however, this is not the case, especially when one or other of the following two circumstances obtains: a) the intangibles are based on tacit, non-codable knowledge and, *ipso facto*, impossible to pass on, b) the resources are complementary with each other so that their utility resides in their combined use and lose all or part of their usefulness if employed singly. Even when the intangible is based on explicit knowledge and can therefore be passed on it may also take on the properties of a public good. The very fact of its being based on information and knowledge means that the possessor thereof does not forfeit its use capacity since the knowledge on which it is based may be shared. This means that the original possessor can maintain its competitive potential intact even if used by other agents.

6. Slow build up. Intangible assets are slow and costly to accumulate, usually based on the firm's particular experience. They generally constitute a single and

FACTORS LIKE COMPANY IMAGE, TECHNOLOGICAL KNOW HOW, HUMAN CAPITAL, ORGANISATIONAL STRUCTURE, BRAND, LOGOTYPE OR RELATIONS WITH SUPPLIERS AND CLIENTS ARE ALL VARIABLES WEIGHING EVER MORE HEAVILY IN BUSINESS SUCESS

unrepeatable process bound up with the firm's own history. Variables such as company image, corporate culture, organisational routines or technological knowledge are built up bit by bit as the firm grows and gains experience, crystallising in a certain potential at some given moment. It is often difficult to unravel the thread of cause and effect within this historical process even for the firm itself, making it much harder for competitors to imitate and reproduce it.

7. Vaguely defined property rights. Since these assets are based on information and knowledge, the property rights are sometimes fuzzy and it becomes quite hard to ascertain who is actually entitled to the exploitation of these rights: the company as a whole or a particular employee. This is particularly important in the case of human resources, where personal skills, aptitudes and experience belong without any doubt to the persons concerned, so the firm in theory has no direct exploitation rights over them. Only if these capacities are explicitly rewarded by a contractually established remuneration may the firm have a right thereto.

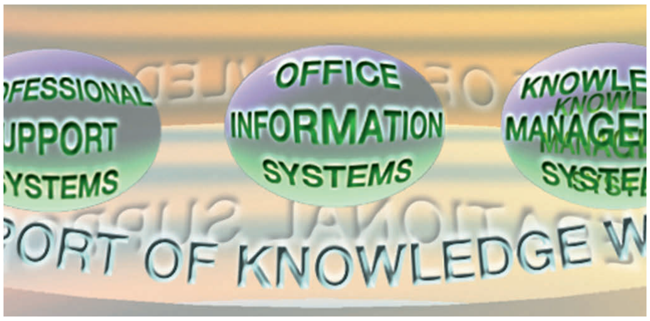
8. Nil sales value. In a fair amount of cases, especially when not tied in with people, intangibles have a nil sales value since they are intrinsically bound up with the business activity itself and could not be sold apart therefrom.

In sum, all these characteristics show the crucial role played by intangible resources from the company management point of view. Management of this type of assets is without doubt difficult and troublesome, precisely due to the abovementioned features. Firms are nonetheless bound to take on this challenge in the future if they wish to gain a competitive edge over the rest.

Classification of intangibles: assets and resources

When speaking of business intangibles, what are we really talking about? Is an intangible resource the same as a an intangible asset? Are they both managed the same way? Is their immateriality the key to the value of business intangibles? Let's try to lay down some conceptual bases.

When speaking of intangibles we are generally speaking of the firm's assets that have no actual physical existence: its goodwill, brands, such operating licences as it may possess... In recent years, however, certain terms have caught on such as corporate reputation, knowledge management, corporate responsibility... and these are also called intangibles. What is the difference between the first and second? Let's put forward a working hypothesis: i.e., the distinction that exists between intangible resources and assets, although both have the common trait of their immateriality. Invoking their immaterial



WHEN SPEAKING OF INTANGIBLES WE ARE GENERALLY SPEAKING OF THE FIRM'S ASSETS THAT HAVE NO PHYSICAL EXISTENCE (GOODWILL, BRANDS...). IN RECENT YEARS, CERTAIN TERMS HAVE CAUGHT ON SUCH AS CORPORATE REPUTATION OT CORPORATE RESPONSIBILITY, WHICH ARE ALSO CALLED INTANGIBLES

nature, however, is not a sufficient condition for defining a business intangible.

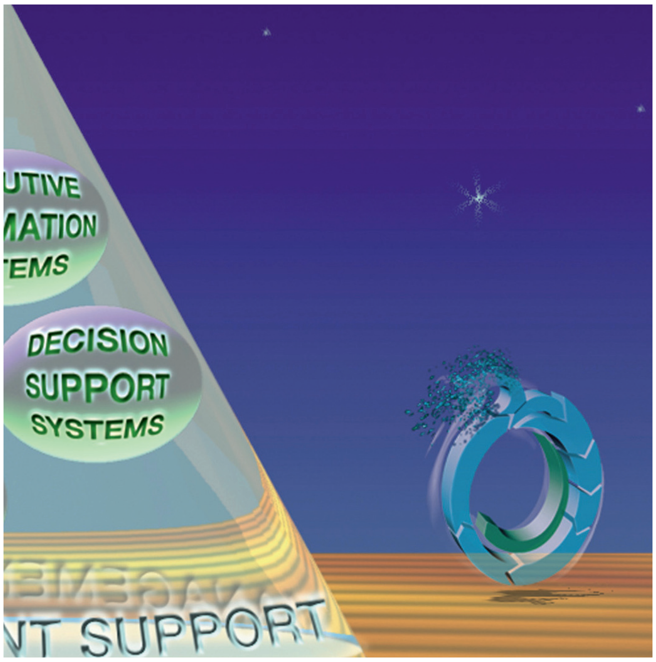
Eusebi Nomen defines an intangible asset as that which has no physical properties (FAS 1422, US financial accounting standard for intangible assets and goodwill) or normative properties (IAS 383, International accounting standard on intangible assets) that might quantitatively delimit the utilities received in said asset. The IASB (International Accounting Standards Board) considers that an intangible asset can be spoken of only when the enterprise concerned expects to obtain future economic benefits therefrom and it is also a resource controlled by said firm; this is crucial, otherwise it is not correct to speak of an intangible asset. This first ring-fencing of the concept seems to make it clear that the term «intangible asset» can be applied to the following: a brand, insofar as this is a registered trademark with restricted use; a manufacturing patent guaranteeing exclusive use; an operating licence regulating the use of the marketed good, etc. But what about a firm's intellectual capital, its reputation, customer loyalty, its skills in liaising with other stakeholders...? Can these also be considered to be intangible assets? On the basis of the criteria sketched out above for defining an intangible asset, taken from the current accounting theory, which in turn underpins the current standards on this matter, neither intellectual capital nor a firm's client relations can be deemed to be intangible assets but rather intangible resources; the same goes for a firm's reputation since the firm can guarantee no control thereover. This does not mean, however, that said resources lack value. Quite on the contrary they might well be a firm's most valuable assets. The only thing the above statement means is that intangible assets can be evaluated with financial-economic criteria (as emanating from accounting theory and standards) but not intangible resources, which, although they may be assessable in economic terms, are not yet assessable with financial accounting criteria.

An intangible asset needs by definition to have the following three features:

1. It is identifiable: If it is separable and future economic benefits from the asset can be individually determined.
2. Control may be wielded thereover: If the firm has the power of obtaining the future economic benefits and can restrict third party access thereto.
3. Future economic benefits are expected to accrue therefrom: If it generates income, savings or returns on use.

An accounts specialist would be interested only in intangible assets, since only these can figure in the company's balance sheet; but a CEO, whose main remit is to increase the firm's value, would be interested in both intangible assets and intangible resources since the firm's total value depends on both.

In sum, intangibles are split into assets and resources. The main difference is that intangible assets can be capitalised and valued in the company's



balance sheet; they are therefore measurable and manageable. Intangible resources are much more difficult to measure objectively although each firm may lay down internal rules for valuing and managing them. The rules of one company, however, would be no good for another one.

The following table breaks down the main intangible assets and resources:

Classification of intangible resources and assets

Intangible assets		Intangible resources	
Art	Art-related intangible assets (books, magazines, literary works, musical works, paintings and photographs...).	**Human capital**	Human capital: this takes in the individual capacities, knowledge, skills and experience of the employees.
Brands and trademarks	Marketing-related intangible assets: registered trademarks, registered tradenames, internet domain names, non-competition agreements.	**Structural capital**	Structural capital: infrastructure that incorporates, forms and sustains the human capital. It is defined as the pool of knowledge that stays with the firm at the end of the working day. It takes in the organisational routines, procedures, systems, cultures, databases, etc. It comprises three types of capital: **1. Organisational capital.** Company outlay in operating philosophy, systems and tools. **2. Innovation capital.** Firm's renewal capacity and innovation results in terms of protected commercial rights, intellectual property and other intangible assets used to create new products and services. **3. Relational capital.** Company relations with customers, measured by indices of satisfaction or loyalty, among others.
Clients and contracts	Intangible assets related to clients/suppliers, contractual and non-contractual, order book. Intangible assets related to contracts: licences, royalties, government concessions.	**Corporate reputation**	Corporate reputation is the set of the stakeholders' perception of the company on the basis of their ongoing relationship with it. It resides in the mind of each stakeholder and may differ from one to another.
Technology	Technology-related intangible assets: patents, computer software, databases.	**Corporate social responsibility**	CSR comprises a company's management commitments. They are real values residing in the firm. CSR is one of the various factors impinging on Corporate Reputation.

The Intangibles Analysis Institute (Instituto de Análisis de Intangibles: IAI), ever since its creation, broke down its working areas as follows, with a committee to cover each one:

a. Brand capital.
b. Human capital.
c. Structural capital (organizational and technological).
d. Corporate social responsibility.
e. Corporate reputation.

The challenge that the IAI sets itself is to find a sufficient consensus for recognising, analysing and valuing intangibles and entering them for accounts purposes and also to provide the market with trustworthy and comparable company information. To do so it builds up models for measuring the contribution of said intangibles to the company's market value, over and above all those values (tangible and intangible) that, under current rules, can be entered in the company's balance sheet.

The Value of Intangibles

Traditionally a company's value stemmed from its working capacity while its competitiveness was associated with all the following: its material resources, its ability to procure raw materials at a reasonable cost, the standardisation of its production, a rational division of labour, transport… On all these skills, mostly bound up with tangible and material factors, depended the value the company was capable of generating.

For some years now this value has increasingly been seen to be based on know how, while competitiveness is fruit of the company's store of knowledge, and not only protected knowledge, as the pundits of the financial-economic evaluation of companies claim, but also the so-called fuzzy knowledge, i.e., the knowledge not protected by patents or operating licences but flowing through the whole organisation and setting up a sort of microclimate that makes innovation possible.

According to J. Kendrick, professor of Washington University and director of a thoroughgoing study into the generation of value in US firms, the ratio between the value of tangible and intangible assets in US companies switched round completely between 1929 and 1999, starting out at a ratio of 70-30 and ending up at 30-70. In many of today's ICT-related firms (information technologies, mainly Internet and telephony firms) the value of the intangibles accounts for over 90% of the total value.

According to *Outlook*, the corporate review of the consultancy Accenture, 94% of senior business executives consider an exhaustive management of business intangibles to be an important task of senior company management and 50% consider that the management of intangibles should be one of the top three issues of today's business managers.

FOR SOME YEARS NOW THE INTANGIBLE VALUE HAS INCREASINGLY BEEN SEEN TO BE BASED ON KNOW HOW, WHILE COMPETITIVENESS IS FRUIT OF THE COMPANY'S STORE OF KNOWLEDGE, AND NOT ONLY PROTECTED KNOWLEDGE, BUT ALSO THE SO CALLED FUZZY KNOWLEDGE

Reasons for valuing intangible resources and assets

Intangible assets	Intangible resources
• Accounting	• Integral company management
• Fiscal	• Strategic planning
• Corporate transactions	• Distribution of resources
• Raising Finance	• Corporate transactions
• Business reorganisation	• Human resources evaluation
• Legal action/disputes	
• Strategic planning	
• Business transactions	

But apart from the ever-increasing references to the value of intangibles, there are two other questions that need to be answered:

1. Why do intangibles create value for companies?

The prime potential of intangibles is their capacity for making a firm stand out from the rest. In almost all mature markets it is by now very difficult to set apart the commercial package on the basis of functional factors. Classical marketing can be said to be dead. Aspects like quality, price or distribution, which were overriding only a few decades ago, no longer differentiate one commercial package from another. Their quality nowadays is much of a muchness; the prices are similar and the goods are sold at the same points of sale. Consumers' purchasing choices have been whittled down to a rump of brands or companies from each consumer sector stored in their minds. Breaking into this three-or-four-brand shortlist is difficult and is rarely achieved nowadays on the basis of functional properties –all very similar– but rather in terms of the standout quality provided by intangible resources or assets in the purchasing decision. Another key factor in the value of intangibles is that they are uncopiable, at least legally, while products of the commercial strategies are routinely copied. An intangible like brand or reputation is an unlimited resource that makes this package unique.

2. How does this value manifest itself?

The main advantage is loyalty. Intangibles help to forge the loyalty not only of customers but also employees and other company stakeholders, generating a sense of empathy and emotional attraction that often turn out to be crucial in these stakeholders' decisions, whether a purchase choice or other option.

Intangibles also have an additional value in times of crisis. In tricky junctures such as we find ourselves in now, in 2011, plunged into a worldwide downturn, it might seem that the management of intangibles or aspects that apparently do not

INTANGIBLES HELP TO FORGE THE LOYALTY NOT ONLY OF CUSTOMERS BUT ALSO EMPLOYEES AND OTHER COMPANY STAKEHOLDERS, GENERATING A SENSE OF EMPATHY AND EMOTIONAL ATTRACTION THAT OFTEN TURN OUT TO BE CRUCIAL IN THESE STAKEHOLDERS' DECISIONS

impinge on the company's day to day reality or presentation of its upcoming results are downplayed in importance or at least slip down the pecking order. But can any firm afford to turn its back, even temporarily, on its intangibles and their management during a crisis? The evidence says no, since another crucial value of some intangibles, such as corporate reputation, is a palliative effect on business crises. There is a stack of evidence showing that a good reputation helps to stave off the effects of the crisis, as proven repeatedly by Charles Fombrun, from the Reputation Institute. Many studies show a strong correlation between reputation and the stockmarket value trend of companies that have suffered some reputation-based problem. Losses are clearly shown to be bigger and more lasting in companies that start out with poor corporate reputation.

The Instituto de Análisis de Intangibles (Intangibles Analysis Institute)

The Instituto de Análisis de Intangibles is a Spanish non-profit-making association set up in 2004 by a group of companies, consultants, business schools and organisations.

The Instituto de Análisis de Intangibles has been set up with the main remit of introducing some certainty into the analysis, management and valuation of intangibles, seeking consensus solutions and inputting contributions from all stakeholders. The idea is to endow this field of knowledge with thoroughgoing tools for measuring and monitoring intangibles and to integrate the various intangible resources into the proposed valuation and management systems.

The Instituto de Análisis de Intangibles was born with the mission of analysing intangibles on the basis of objective criteria, establishing standardised rules that are duly recognised and accepted by all business-management stakeholders across the board.

This new organisation has taken on the challenge of collaborating with all the professionals operating in these areas and complementing the diverse sector-based organisations, companies and institutions who, for some years now, have been carrying out important work to develop this area of knowledge on a scientific and professional basis.

The Institute has been set up with the function of integrating and fomenting relations between companies, institutions and any other intangibles-management organisation, body or group.

The Institute aims to become a benchmark agent, together with the already existing ones, for the public bodies, promoting diverse initiatives and legislating on tangibles management matters.

The Institute works and collaborates with diverse regulatory bodies that have a direct or collateral responsibility in the regulation of aspects affecting the valuation and management of intangibles so that they can all work together on setting up new benchmark frameworks.

The Institute is organised in the form of diverse working groups with representatives from IAI partner organisations.

Organisation of the Instituto de Análisis de Intangibles (IAI)		
Executive Committee	**Methodology and Coordination Committee**	**Working Committees**
This committee is made up by a maximum of seven members of the Management Board. Its coordinator is the President of the Management Board. Its remit is to prepare the matters to be dealt with in the Management Board meetings, issue prior reports on the admission of new associates and expulsion of members, organise economic affairs and see to the internal organisation of the institute.	Its purpose is to monitor the work of the Working Committees. At the same time it studies and vets the methodologies for the analysis and management of intangibles and deals with acceptance by the Institute of new proposals to be implemented.	The formation and operation of these committees are similar to those of the Management Board, and a coordinator is appointed for each one. • Economic Valuation Committee • Brand Committee • Corporate Responsibility Committee • Reputation Committee • Human Capital Committee • Structural Capital Committee: Organisational and Technological

The Instituto de Análisis de Intangibles carries out the following work:

- Inputting information and reflections.
- Proposing principles and standards.
- Creating a favourable climate for phasing intangibles into economic and financial analyses.
- Supporting change as required by circumstances and demanded by the public sector.

To this end the IAI is doing all the following:

- Conducting research in the interests of standardising the evaluation, measurement and certification of intangibles.
- Promoting teaching and training activities in their various fields of action.
- Promoting awareness-raising activities by giving information and publications.

IAI's activity is directed at three target groups:		
Members	**Professional groups and the public sector**	**Public opinion**
• Helping them to take on the challenges of analysing and managing intangibles within their organisations. • Serving as a forum for swapping experiences and initiatives. • Organising encounters and conferences with top experts on the subject.	The Institute is a qualified interlocutor for certain groups related to this matter (auditors, academics, journalists, analysts, etc.) and the government on matters of business policy and economics to propose reforms for analysing intangibles in organisations.	The Institute promotes knowledge and information on the management of intangibles in organisations and brings it to wider notice.

Members of the Instituto de Análisis de Intangibles

Base Level	Consultant Level	Academic Level	Institutional Level
– ACCESOGROUP – BANCAJA – BANKINTER – BBVA – GRUPO FERROVIAL – IBERDROLA – KUTXA – METRO DE MADRID – REPSOL – SANTANDER – TELEFÓNICA	– BBDO CONSULTING – ERNST & YOUNG – HERRERO & ASOCIADOS – KPMG – PRICEWATERHOUSECOOPERS – REPUTATION INSTITUTE – VILLAFAÑE & ASOCIADOS	– EOI – ESADE	– Association of Human Resources and Communication Consultants (ADECEC in Spanish initials) – Spanish Association of Accounts and Business Administration (AECA) – Spanish Standardisation and Certification Association (AENOR) – Association of Renowned Brands (AMRE) – National Brand Defence Association (ANDEMA) – Association of Communication Managers -DIRCOM – Higher Council of Chambers of Commerce C – Corporatre Reputation Forum FORUM (FRC) – State Corporation for the Development and Design of Innovation

Source: www.institutointangibles.com
N.B: The Institute is open to the membership of other institutions and companies that wish to join.

Responsibility for the management of intangibles: Communications Manager vs CRO

The *Study on the Spanish model of managing and reporting intangibles for a communication manager*, conducted in 2010, shows that the management of intangible assets is a recent concept in most firms, while responsibility for the management or coordination of these intangibles tends to be scattered throughout the firm's structure. The study reports that 51,9% of the communication managers surveyed did not include the management of intangibles among their main duties. The remaining 48.1% do mention the management of some intangibles among their main functions laid down by the firm, stressing the management of corporate image, brand and reputation. Only 2.5% of respondents said they managed all the intangibles.

This study shows that the communication manager's role is quickly evolving towards responsibility for a broader clutch of duties. Experts therefore point to *lacunae* in the training of communication managers; these loopholes need to be filled if they are to fulfil their growing remit successfully. The study also points to important shortfalls in the management of intangibles; lines of action therefore need to be established to solve them since this is one of the areas with the greatest potential for future development within the new role of the communication manager. Four lines of work are therefore proposed, based on the data furnished by the quantitative analyses and reinforced by the opinion of the experts consulted:

1) Terminology

Firstly, there is a widespread ignorance of the terminology associated with the management of intangibles. Even in the case of the brand, the tangible asset most important for the communication managers, the study throws up a host of differences. Most communication managers are not familiar with this terminology; this explains why they are sometimes not even aware that they are effectively managing intangibles until they gain a better idea of the associated functions.

2) Measurement of intangibles

The most widely used metrics for measuring intangibles today are those bound up with customer satisfaction surveys and media news trawls. Few other measuring systems are used. It is also significant that reputation risks are seldom measured. In this context experts consider that there is widespread ignorance of intangibles management metrics and call for the establishment of uniform measuring models.

3) Training

As a result of the rapid development of the communication manager's role and the detected ignorance of intangibles management, experts largely agree on the need for creating a discipline that unites the humanistic and business strands of the communication manager's job. Most of them come to the job from two disparate areas: communication and business administration, neither of which, in the experts' opinion, are nearly sufficient for covering the needs of the post in themselves. «Letters»-based education needs to be rounded out by a more financial based and business-management training while the business profile needs to be fleshed out with more communication skills.

4) Intangibles management observatory

Lastly, in terms of analysing the results, and once the abovementioned needs have been met, there is a also a need to continue studying the work carried out by the committees of the Instituto de Análisis de Intangibles and DIRCOM (Association of Communication Managers) to draw up a quantitative map of intangibles management and the reporting thereof, in order to furnish information on the Spanish model of in-company intangibles management and keep track of how it is evolving over time.

In my opinion there is no intrinsic reason why the communications manager's skills should be more conducive to the managing of intangibles than the Chief Risk Officer's. It will therefore depend on each firm and the positioning of these posts in the particular company organization as to which has greater or lesser responsibility for managing the assets and resources that currently weigh most in the company's value. Where there is no doubt at all is that both positions will have to take a much more active role in the management of intangibles. Probably, insofar as the insurance industry is involved in the management and insurance of these intangible resources and assets, the weight of the function will fall more heavily on the Chief Risk Officer and insurance manager rather than the communications manager.

The insurance market's intangibles situation

It is surprising to find that the insurance sector is not represented at any level of the Instituto de Análisis de Intangibles. No insurance company is member of IAI and the insurance industry is not represented in the consultant, academic or institutional sectors of the organisation. In my opinion a sector that represents 5% of the Spanish GDP and manages and insures assets should form part of the Instituto de Análisis de Intangibles, in the interests of inputting its knowledge and experience to the benefit of companies and the economy in general.

Many firms have cottoned on to the importance of their intangible resources and assets and therefore identify, value and manage them in a professional way, placing the intangibles risk at the top of their risk map.

There are also many other firms that systematically measure, assess and analyse the value and trend of their intangibles, serving as criteria for valuation and quantification thereof.

European Non-Life insurance groups' 2010 RANKING

One more year, FUNDACIÓN MAPFRE issues the report «European Non-Life Insurance Groups' Ranking 2010», based on the premium volume of each group, with a complete analysis of economic figures and its comments. The ranking is a very useful tool to monitor the yearly development of this business segment in Europe.

FUNDACIÓN MAPFRE
CENTRO DE ESTUDIOS

For the seventh consecutive year, FUNDACIÓN MAPFRE issues its report «European Non-Life Insurance Groups' Ranking», this time for 2010. It is based on the premium volume that each group achieved in 2010 in this line of business in all of the countries where they operate. The data come from yearly reports published by the companies themselves. The study also provides information on the groups' combined ratio, comments on the year's highlights and a table with the results posted by each group in Non-Life branches.

Methodology

1. The ranking was prepared using gross premium volumes (direct insurance plus accepted reinsurance) in Non-Life branches.

It should be noted that the ranking does not include Health insurance premiums that are assigned to the Life[1] branch, but it does feature those which are classified as part of Non-Life or explicitly differentiated.

2. Due to application of IFRS8, some groups have varied the operating segments about which they provide separate information, causing difficulty in obtaining some of the figures analyzed in earlier editions of this ranking. However, whenever

Millions of euros

EUROPE'S LARGEST NON-LIFE GROUPS IN 2010
Ranking by gross premium volume

Nº	GROUP	COUNTRY	Non-life premiums		% ▲	Combinado Ratio* %		RANK
			2009	2010		2009	2010	2009
1	ALLIANZ	GERMANY	42.523	43.895	3,2	97,4	97,2	1
2	AXA	FRANCE	29.015	30.314	4,5	99,0	99,1	2
3	ZURICH	SWITZERLAND	24.534	25.080	2,2	96,8	97,9	3
4	GENERALI	ITALY	21.636	22.090	2,1	98,3	98,8	4
5	EUREKO	NETHERLANDS	14.647	16.281	11,2	95,9	95,7	5
6	MAPFRE	SPAIN	11.900	12.768	7,3	95,7	95,8	6
7	AVIVA	UK	11.207	12.239	9,2	99,0	96,8	8
8	ERGO	GERMANY	11.182	11.982	7,2	93,5	97,0	9
9	GROUPAMA	FRANCE	10.331	10.756	4,1	105,9	104,9	10
10	RSA	UK	8.706	9.876	13,4	94,6	96,4	-

Total first 5	132.354	137.659	4,0	
Total all 10	185.681	195.280	5,2	

Source: done by FUNDACIÓN MAPFRE with data from consolidated financial reports. (under NIIF criteria).

* *The combined ratio is the one provided by each company in its earnings report. In those cases where the Non-Life ratio and the Health ratio are given separately, we have used the Non-Life ratio.*

possible, the criterion used in previous years has been retained. In the case of Groupama, which has stopped publishing information on the Life and Non-Life segments, premiums from the Property-Casualty segment have been added to those of Health insurance. Also, because of the new configuration of its operating segments, the Talanx group does not publish the total volume of its Non-Life premiums. For this reason the group is not included in this edition of the ranking.

3. Groups whose main line of business is reinsurance are not included in the ranking. We have maintained the criterion of including accepted reinsurance premiums from groups that have reinsurance units but do not rely on them as their main line of business.

4. The earnings figures refer to the Non-Life sector, before taxes and minority interests.

5. The report uses the term «operating result» to refer to earnings from insurance activities, including revenue from investments linked to this line of business. Losses or gains from other investments are included under the heading non-operating result.

6. The information on solvency levels that appears in some tables refers to all of the operations carried out by each group. The figure refers to the number of times the group has met the mandatory solvency requirement.

7. For comparative purposes, we have updated revenue and earnings figures for 2009 that were published by the groups in their annual reports for 2010.

8. Average exchange rates used:

EURO/1 UNIT	2009	2010
Pound sterling (GBP)	1,124	1,169
Dollar (US)	0,718	0,758

[1]In general, in those cases in which Health insurance generates mathematical provisions, this branch is classified as part of Life.

General comments

Highlights of the ranking for 2010:

- From an economic standpoint, the year was characterized by moderate recovery of the more advanced economies and strong growth in emerging ones. In this context, the 10 European insurance groups that make up this ranking consolidated their recovery, with all of them posting growth in premium revenue and excellent results.
- The rise in premium volume was due in general to portfolio growth, higher rates, and increased revenue from international business. As seen in earnings reports from the insurers themselves, the sector involving Personal lines performed better than Commercial lines, which was more affected by a selective underwriting policy. As for international markets, those of Latin America and Asia registered significant growth, which in some cases was double-digit. This was in contrast to more moderate rises in domestic markets and in Europe.
- The Automobile branch of the insurance sector continues to be the one hardest hit by stiff competition and the effects of the economic crisis.
- Bad weather that affected Europe and a large number of natural disasters –especially the earthquakes in Chile and New Zealand, and winter storm Xynthia– were some of the causes of a worsening of the claims ratio and, therefore, of the combined ratio. Here one must note the important work done by the insurance and reinsurance industry, which helped mitigate the effects of natural disasters, which claim more victims and cause more damage each year.

In 2010, premium revenue for the 10 largest European Non-Life insurance groups was 195,280 million euros, an increase of 5.2% from the previous year. The top five groups accounted for 70% of all premiums, and none of them saw their ranking change compared to the 2009 listing. Allianz led the ranking for the seventh year in a row, with premium volume of 43,895 million euros and a 22.5% share of the premium revenue of the top 10 groups.

For this edition of the ranking it was not possible to obtain total Non-Life premium volume of the Talanx group[2] (it was seventh in the ranking in 2009), and for this reason it is not included in the list. So there was movement in the last four spots in the ranking: Aviva, Ergo and Groupama moved up one notch and RSA joined the ranking in the 10th spot. Without this change, the ranking would have remained the same.

All the groups saw their premium volume increase, led by RSA (13.4%) and Eureko (11.2%). In the case of the British group, several factors helped fuel the rise: new acquisitions, an increase in business volume and rates, and the positive effect of exchange rates. As for Eureko, the increase stemmed from Health insurance, due in large part to an increase in contributions from the Dutch Government as it foresaw higher claims in basic Health insurance.

The combined ratio fell for six of the 10 groups, in most cases because of a rise in claims as a result of adverse weather that affected Europe last year and because of natural disasters. In some cases, this effect was offset by a rise in rates or better technical results in international markets. The expense ratio rose for five groups and fell in the other five.

Group	% Claims ratio		% Expense ratio		% Combined ratio	
	2009	2010	2009	2010	2009	2010
EUREKO	67,8	68,1	28,1	27,6	95,9	95,7
MAPFRE	70,8	70,6	24,9	25,2	95,7	95,8
RSA	65,0	68,0	29,6	28,4	94,6	96,4
AVIVA	66,7	64,5	32,3	32,3	99,0	96,8
ERGO	59,8	62,5	33,7	34,5	93,5	97,0
ALLIANZ	69,5	69,1	27,9	28,1	97,4	97,2
ZURICH	70,9	71,1	25,9	26,8	96,8	97,9
GENERALI	71,1	71,3	27,2	27,5	98,3	98,8
AXA	70,9	71,1	28,1	28,0	99,0	99,1
GROUPAMA	n.d.	n.d.	n.d.	n.d.	105,9	104,9

Source: done by FUNDACIÓN MAPFRE with data from yearly reports.
Note: *in ascending order by combined ratio for 2010.*

The year 2010 was the second worst since 1980 in terms of the number of natural disasters, especially earthquakes, such as those in Haiti, Chile, China and New Zealand, which caused huge economic losses and claimed many lives. As for insured losses[3], the single most costly loss event was the quake in Chile (27 February), with damaging totaling $8,000 million, followed by the earthquake in New Zealand (4 September), at a cost of more than $4,000 million. The groups affected by the quake in Chile, be they insurers or reinsurers, were Allianz, Generali, MAPFRE, RSA and Zurich.

In Europe the most costly event for the insurance industry was winter storm Xynthia, which battered France and northwest Europe in February, with damage totaling $2,700 million. Summer floods in France and Central and Eastern Europe caused additional damage. What is more, the cold wave that affected Europe towards the end of the year cost insurers $262 million.

After an across-the-board fall in earnings in 2008, an improvement that began the following year

Millions of euros

Non Life results* 2009-2010			
Group	2009	2010	% Var. 2010/2009
ALLIANZ	4.142	4.320	4,3
AXA	2.692	2.905	7,9
ZURICH	1.878	2.028	8,0
MAPFRE	1.149	1.223	6,4
GENERALI	841	889	5,8
AVIVA	1.078	852	-21,0
EUREKO	601	663	10,3
RSA**	623	554	-11,0
GROUPAMA***	88	96	9,1
TOTAL	**13.092**	**13.531**	**3,4**

Source: done by FUNDACIÓN MAPFRE with data from yearly reports.
**Results before taxes and minority interests.*
***Result of continuing operations.*
****Property Casualty segment result.*

[2] See Methodology.
[3] Source: Swiss Re. Sigma 1/2011.

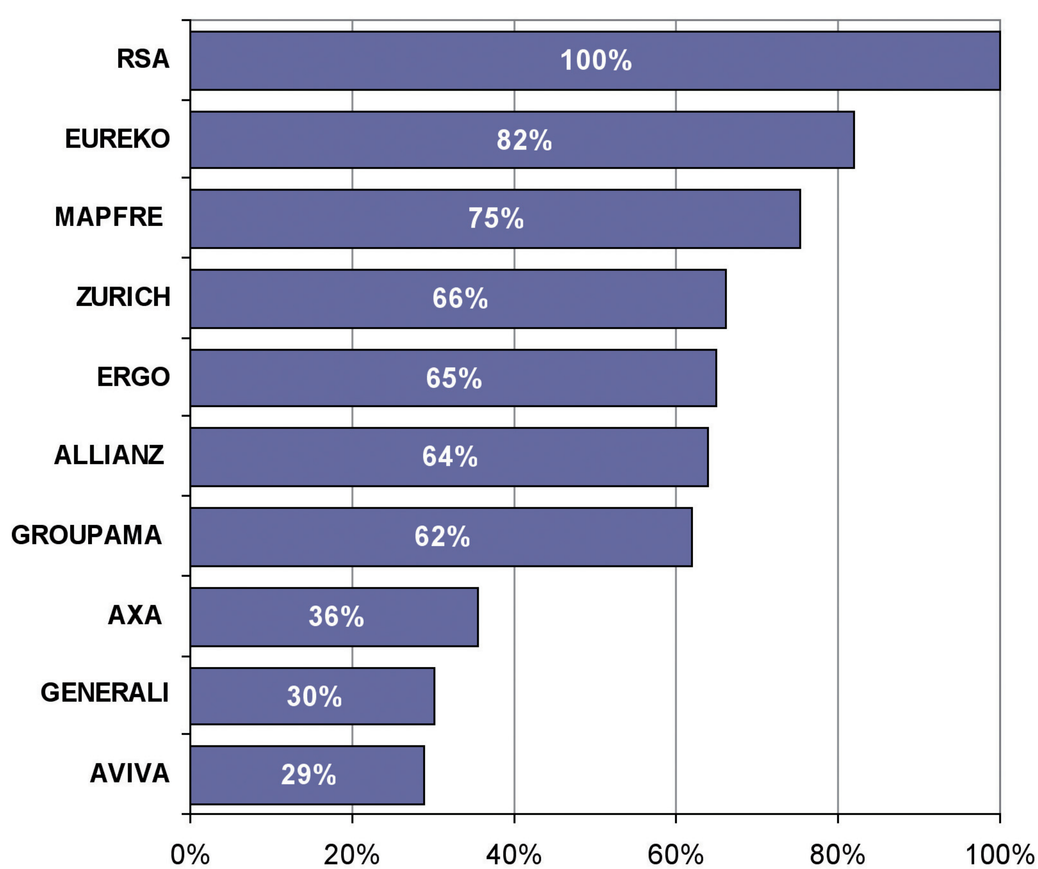
continued in 2010, with growth in almost every group except Aviva and RSA. In the case of Aviva, the cause was a drop in the performance of long-term investments. This reflected a small decline in average asset levels compared to the previous year. RSA's earnings fell because of a worsening of the technical result.

With earnings not available from Ergo[4], the sum of results of the rest of the groups was 13,531 million euros, a rise of 3.4% compared to 2009. This improvement was due mainly to higher investment yields combined with a smaller fall in asset values.

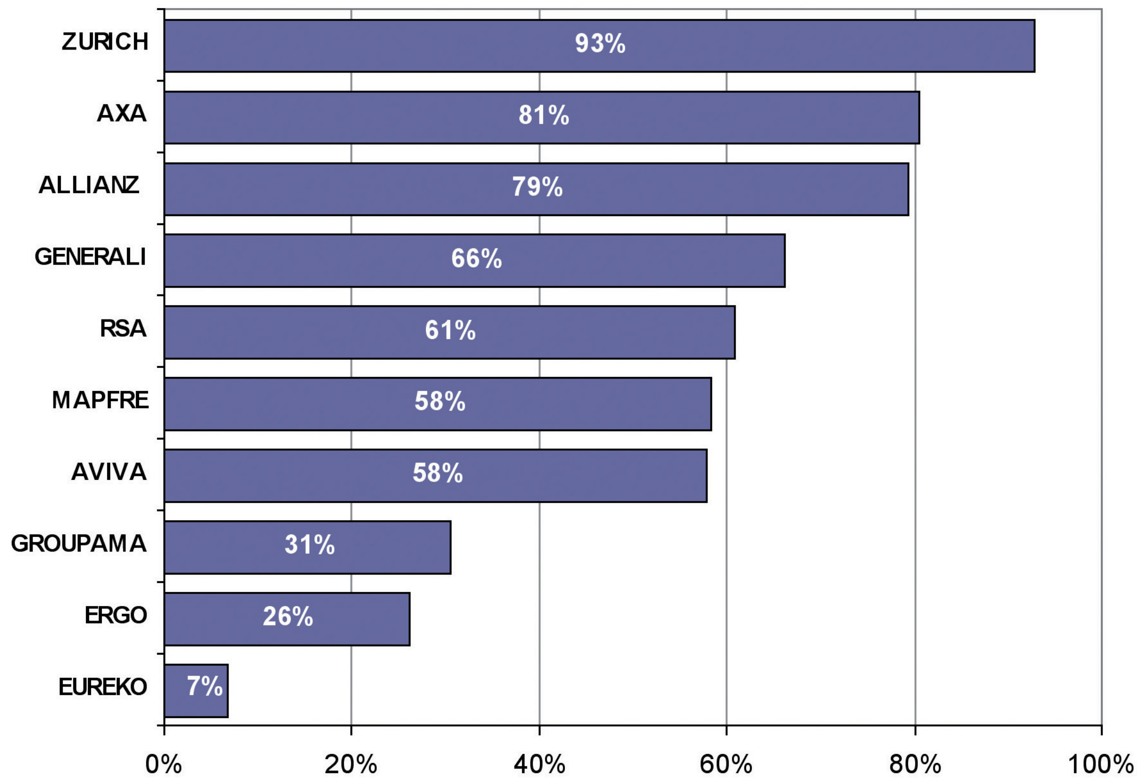
[4] The group's segmentation does not allow for calculation of results in Non-Life branches.

Annex 1. Percentage of Non-Life Insurance

Non-Life business as a percentage of total premiums



Percentage of Non-Life business abroad



Annex 2. Solvency

To complement the figures on Non-Life lines, we have added information on solvency levels. It is important to note:

- It has not been possible to give this figure for all of the insurance companies in the ranking. The information was taken from the insurance groups' annual reports, and this figure is not included in all of them.
- The information refers to the level of solvency for all the operations carried out by each group.
- The information is not homogenous because the specific way of determining mandatory capital depends on the laws in each country.

The figures provided show the number of times the group has attained the mandatory solvency capital. In 2010, the solvency level of all the groups from which it was possible to obtain information improved, confirming for another year the financial soundness of Europe's major insurance groups.

EUROPE'S LARGEST NON-LIFE GROUPS IN 2010
Solvency Level

Group	2009	2010
MAPFRE	2,85	2,86
ZURICH	1,95	2,43
RSA	2,40	2,30
EUREKO	2,16	2,20
AXA	1,71	1,82
ALLIANZ	1,64	1,73
AVIVA	1,70	1,60
GENERALI	1,28	1,32
GROUPAMA	1,80	1,30

FUNDACIÓN MAPFRE

responds to the sense of social responsibility which is a basic principle behind MAPFRE's business activities. It was founded in 1975.

The Insurance Sciences Institute of FUNDACIÓN MAPFRE was created to promote educational and research activities concerned with the world of insurance and risk management.

Gerencia de Riesgos y Seguros

ENGLISH APPENDIX

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PRINT: C.G.A.

LEGAL DEPOSIT: M. 9.903-1983 **ISSN:** 0213-4314