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A spur to improvement and innovation

Anniversaries are a good time for taking stock of the past and girding loins for the future. Three decades ago *Gerencia de Riesgos y Seguros* first saw the light of day. If we now measure our success against the original project, we can be proud of progress so far.

Back in the early eighties a group of MAPFRE executives agreed to launch a specialist publication dealing with the then incipient discipline of risk management to develop their own knowledge and bring it to a wider audience. Right from the word go we were driven on by a growing fold of specialist readers whose loyalty has never flagged, underpinning this review's success story. To them we owe a large part of what we are today.

After these thirty years the truth is that dire economic prospects and all-time high unemployment levels, especially amongst the young, have fuelled an increasing number of articles and studies on the never-ending economic downturn. This stream of disheartening news often seems to engender bookend responses of nostalgia for the past and fatalism towards the future.

It is true that the economic crisis is dragging on so long that our strength and faith are both waning. We see no light at the end of the tunnel.

It is no less true, however, that pessimism is often adopted as the most profound stance, supposedly a more knowing approach than naïve trust in the much-vaunted «green shoots» of the recovery. But the most profound reason for not giving in to despair is that a given political situation or social event might be a spur to improvement and innovation, even if things do not always turn out exactly as we want. We should never stop thinking that the best is just around the corner.

The first of this issue's articles looks at the Designated Person Ashore (DPA) as the party responsible for overseeing certain operational aspects of ships, serving as the link between onboard and shore teams, with the remit of ensuring operational safety.

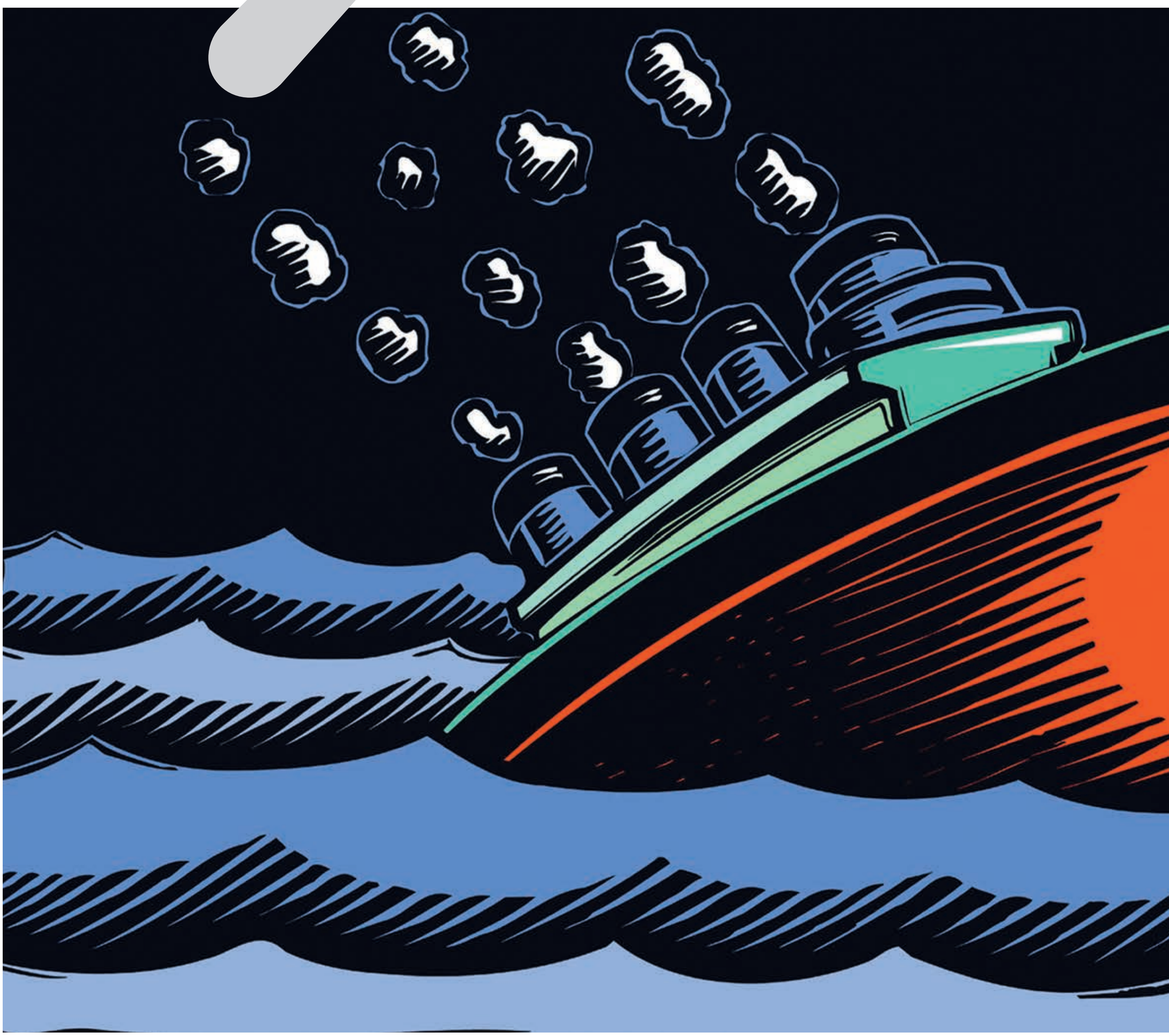
In the second article the author, a professor of FUNDACIÓN MAPFRE's Instituto de Ciencias del Seguro (Insurance Sciences Institute), puts forward an interesting model for classifying strategy risks – i.e., those bound up with companies' strategy plans – arguing that «it no longer suffices to manage only 'what' is to be done but also 'how'».

The third and last article of this issue, written by a professor of the Economics Department and Business School of the Universidad Católica Argentina, weighs up the current situation of corporate governance among Latin American insurers, recording current initiatives and sketching out the scenario in this region by calculating an *Índice de Transparencia y Difusión* (an index measuring compliance with corporate governance practices and the transparency in bringing this to wider notice).

The report published in this issue gives information on the European Non-Life Insurance Groups' Ranking, 2012, based on the anual reports with premium income of each of the companies.

This article closes this current issue, which, as usual, we trust and hope will be to your liking.

The risks of the Designated Per



son Ashore (DPA)

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In this study we will attempt to provide an insight, from the point of view of analysis, of the functions and responsibilities of the DPA, i.e., the person designated onshore to supervise certain operational aspects of ships, including support to vessels on land, and the insurance of this risk. After that, we will analyze what risks are borne by the DPA, and the company[1], and then we will determine the extent of their transfer and under what parameters.

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1 In this article, when using the word «company», we are not referring to the insurer but «to the shipowner or any other organization or person, for example the naval agent or the bear bottom charter that, on receiving the responsibility for operating the ship from the owner, has accepted the obligations and responsibilities stipulated in this one Code» (rule IX/1.2 of the SOLAS Agreement 74/78 and art. 1.1.2 of the ISM Code). In the legal framework in this country, the word «shipping company (*empresa naviera*)» is used (vide. Art.10 *RD Legislativo* 2/2011).

The reason for the DPA

Whilst it is true that the first sinking of an oil super tanker was the *Torrey Canyon* in the south of England, back in 67, there were several accidents to vessels during the 80's and 90's that involved the loss of a large number of human lives and «collateral» damage of enormous economic impact to the damaged areas, as well as social relevance due to the damage caused to the environment[2].

As happened with the antinuclear movement that arose after the Three Mile Island disaster and, more recently, after the 2011 tsunami in Japan and the damage to the Fukushima nuclear power plant, maritime accidents have created public opinion that is, to a lesser degree, against this method of transporting certain types of goods, or that measures should be taken using the currently available technology. This is due to the fact that it is not infrequent that the cause of the disaster[3] is due to the human factor.

On the other hand, even despite the current crisis, marine commerce is experiencing a constant increase on a global scale[4]. In this sector, shipping companies such as the U.S. company MAERSK and the French company CMA CGM have put in orders for the construction of mega vessels such as the *Marco Polo* that has a capacity for fifteen thousand five hundred 33 cubic meters containers[5], with all that this implies in the event of a disaster, environmental damage, financial loss, let alone human life. Therefore, far more demanding and dynamic international regulation is required.

However, the scope for improvement is not only applicable to the use of non-human resources, i.e., technological developments, the application of new materials, knowledge of the ocean's currents, development of telecommunications, etc., but, from the experiences of the disasters referred to earlier, it has become apparent that there was a lack of assigned staff on land and a need to improve the coordination between the organizations in the port and those at sea.

This situation became clear with the Formal Court of Investigation in 1990, where the disaster involving the British ferry *Herald of Free Enterprise* on the 6th. March, 1.987 (operated by Townsend Thoresen) was analysed and started operational safety management being included not only on board but at the heart of the shipping company, that is to say, on shore.

This judgment gave rise to a change in the regulations that, initially, were only applicable to

2 The *Herald of Free Enterprise* sank in Belgium in 1987; *Exxon Valdez* sank on the coasts of Alaska in 1989; the *Aegean Sea* off the coast of Galicia in 1992 and *Erika* sank off the south-west of France in 1999.

3 Although it seems that this was the key element in the case of the *Prestige*, as it is sub judice, we cannot state this categorically; nevertheless, yes it was the key factor in case of the sinking of the *Herald of Free Enterprise* on 6th. March 1987 which, in principle, was caused by the fact that the ferry set sail with the bow doors open (both the inner and outer ones).

4 Wally Mandryk *et al.*; «Review of Maritime Transport 2012», Report by UNCTAD Secretariat, Geneva, 2012. Page. 5.

5 The US company Maersk has ordered 20 ships of over 18 thousand tons. Vide Landauro, I.; The Cargo «super ships» reduce the speed [web Consultation on April 1, 2013 http://online.wsj.com/article/SB10001424127887323936804578230022208424336.html]

MARITIME ACCIDENTS HAVE CREATED PUBLIC OPINION THAT IS, TO A LESSER DEGREE, AGAINST THIS METHOD OF TRANSPORTING CERTAIN TYPES OF GOODS, OR THAT MEASURES SHOULD BE TAKEN USING THE CURRENT AVAILABLE TECHNOLOGY

ferries with a British flag, until there was another disaster, the sinking of *Scandinavian Star*. This led to the Guidelines on Management for the safe operation of ships and for prevention of pollution[6].

As a result of the latter came the International Safety Management Code (ISM)[7], which brings together a whole collection of regulations and requirements to be complied with in order to avoid death to passengers and damage to the maritime environment.

And therefore, since safety involves all hierarchical levels of the company, the shore staff is included.

Amongst the safety measures to be adopted, the ISM Code establishes the need to identify one or several persons on shore, directly linked to management, who have the responsibility and authority to supervise those operational aspects of the ship that can affect safety and the prevention of pollution and must also guarantee that there are sufficient resources and support available onshore.

This designated person is the link between the ships and shore staff, coordinates communications between the different parts of the company, issues reports in this respect and is also in charge of operational safety management.

The operational safety system should be understood as a documentary structure that enables the company staff to implement the safety and environmental protection policy in an effective way; i.e. what used to be known as «good marine practice», with the addition of environmental protection.

So, the DPA is an additional guarantee that not only will be carried out in accordance with international regulations during the shipment and for the ship's maintenance, but also with regard to possible injured parties or victims. In these cases, not only is the shipping company required to have its headquarters or a company in Spain[8], or in any other EU[9] country, but now they must also designate a person on shore to respond for certain aspects.

Legal Framework

Having mentioned the social disapproval for certain types of maritime transport and its consequences in the event of a disaster, the international regulation in this sector seeks a balance between the human development and

6 Resolution 680 of Sixteenth Assembly of the International Maritime Organization.

7 In English, International Safety Management Code (ISM Code). Passed by Resolution A.741 at the Eighteenth Assembly of the International Maritime Organization.

8 STAP Barcelona, 4th Section, nº Resource 589/1989, of May 13.

9 Art. 3.1 of Regulation (CEE) 3577/92, of the Committee, on 7th. December, by which the principle of freedom of services is applicable to marine transport within the Member states (marine cabotage).

environmental sustainability, through rules for the implementation of energy efficiency[10] measures.

At the same time, they have sought obligatory norms for limiting the liability of operators in the international maritime transportation trade, laying down the principles applicable to each party[11] and the amounts they have pay[12].

The DPA is regulated initially under the International Safety Management Code for the safe management of ships and for pollution prevention. It was approved by the International Maritime Organization (IMO) on 4th. November, 1993, as an Appendix to Resolution A.741 (18), and came into force on 1st.July, 1998.

Nevertheless there have been addenda and exceptions in its application, ending with Regulation (CE) 336/2006 of the European Parliament and Council of February 15, 2006 on the implementation of the International Safety Management Code within the Community and repealing Council Regulation (EC) No 3051/95. The regulation is of obligatory compliance within the EC[13].

Article 4 of Part A of the Regulation of the ISM Code, defines the objective and purpose of the designated person ashore: «To ensure the safe operation of each ship and to provide a link between the company and those on board, every company, as appropriate, should designate a person or persons ashore having direct access to the highest level of management. The responsibility and authority of the designated person or persons should include monitoring the safety and pollution prevention aspects of the operation of each ship and to ensure that adequate resources and shore-based support are applied, as required».

In our opinion, the introduction of this figure in accordance with the Regulation should have given rise to a modification of the Code of Commerce in relation to marine insurance, specifically – and as a minimum – the duty to record information on the «domicile» of the captain of the ship[14], since, logically, details of the DPA must be recorded[15].

The figure of the DPA is established as the link between the staff on board the vessel and those on shore, in order to guarantee the operational safety of the ship, and is empowered to coordinate the provision of equipment and support on shore. He/she must also supervise all operational aspects of the ship in respect of safety and environmental pollution.

10 Mahin Faghfouri et Stochniol, A.; «Review of Maritime Transport 2012», Report by UNCTAD Secretariat, Geneva, 2012. Page.96 and thereafter.

11 To analyse the liability of shipowners in greater depth, see Reynolds, BWB et Tsimplis MN; «Shipowners Limitation of liability»"; Wolters Kluver, Volume II, London, 2012.

12 We refer, amongst others to the Convention on Limitation of Liability for Maritime Claims (LLMC) of 1996, which is an amendment to the one signed in 1976. In this sense, the limitation to amounts is clearly shown under art. 6 and 7 of the 1976 Convention, in accordance with the wording of article 3 of the '96 amendment. A similar case, but referring to the passengers' air transport, can be found in the Montreal Agreement.

13 The existence of this community Regulation does not mean that Resolution A.71 is not applicable in the remainder of IMO member countries, but that the legal instrument under which it is articulated in the EU is via the Regulation.

14 Art. 738.5 CCo.

15 Art. 6.7 Code ISM of Part A of the Regulation (CE) 336/2006.

This designated person must comply with certain requirements with regard to qualifications, training and experience which are stipulated in resolution MSC-MEPC.7/Circular 6[16].

However, one of the specific functions of the DPA is to examine the ship to ascertain whether it complies with the regulations depending on the type of ship and, therefore, in order to carry out his/her duties, the DPA must know and demonstrate that he/she is knowledgeable on the following:

- The ISM Code.
- The obligatory navigation rules and norms.
- The parameters that companies must take into account in accordance with the ISM Code stipulations.
- Examination, questioning, evaluation and reporting skills.
- Technical and operational aspects of safety management.
- Basic knowledge of marine transport and of the operations on board.

Moreover, the designated person must participate in, at least, one audit of a management system of management related to the marine sector[17].

But this person designated ashore must also verify whether the «management safety system» of the company complies with the ISM Code[18] and to what degree.

It is the company, either on its own behalf or through a legal representative in each port, that should notify the port authorities annually as to who is the DPA for each ship, indicating the way in which they can be contacted[19].

The DPA Risk

There has been a certain amount of controversy as to whether our regulations[20] include marine liability insurance.

It is our understanding, and limiting ourselves to the DPA, that it is true that the current regulations on marine insurance do not expressly include the risk of the DPA as insurable[21], but it seems obvious that the DPA risks can be included within insurances for damages, even though there

16 We refer to «Guidance on the qualifications, training, and experience necessary for undertaking the role of the designated person under the provisions of the international safety management (ISM) Code».

17 Art. 4.1 of Appendix II Part B of the Regulation of the European Parliament and Council 336/2006.

18 Art. 4.2 of the Appendix II Part B of the Regulation of the European Parliament and Council 336/2006.

19 Art. 3.3 of the Regulation of the European Parliament and Council 336/2006.

20 Linseed Lacalle, J.; «The direct action in Protection and Indemnity Insurance in the Judgment of the 1st Courtroom of the Supreme Court of July 2, 2003», Law Bulletin, Nº 5890, Year XXIV, 2003.

21 Art.743 CCo.

THE FIGURE OF THE DPA IS ESTABLISHED AS THE LINK BETWEEN THE STAFF ON BOARD THE VESSEL AND THOSE ON SHORE, IN ORDER TO GUARANTEE THE OPERATIONAL SAFETY OF THE SHIP. HE/SHE MUST ALSO SUPERVISE ALL OPERATIONAL ASPECTS OF THE SHIP REGARDING SAFETY AND ENVIRONMENTAL POLLUTION.

must be a financial liability towards possible victims and/or beneficiaries[22].

In the same way, we understand that due to the nature of the risk in itself and the policyholder, it will be considered a large risk[23].

Since it is those risks borne by the DPA that will determine any obligation to indemnify[24], in what case can they be liable?

The ISM Code limits the functions of this figure to three main aspects, namely:

- Environmental management.
- Management of ships maintenance.
- Safety management .

It will not inappropriate to contemplate the possibility of providing surety and bonds.

Therefore, we understand that the specific risk of the DPA should be limited to these aspects, either in the realm of liability or the field of criminal liability.

We would emphasize that, whilst in the United Kingdom the DPA[25] can incur criminal liabilities, neither the ISM Code nor the EC Regulations specify the nature of the liabilities.

Nevertheless, we must understand that we will never be confronted with a case of strict liability and, hence, we are talking about cases of personal liability[26].

In Spain, the captain of a ship can be he held criminally liable when there is damage to the cargo as a result of gross negligence[27]. Therefore, we could apply this principle in the same way to the DPA when the damage is produced following negligence attributable to him/her in respect of their functions, whether for environmental management, ships maintenance or safety operations.

Of course, the DPA has to respond for non-contractual negligence or fault. That is to say, when decisions have unexpected results, such as in non-performance or inadequate supervision or audit work. For these reasons, it is important to register the periodic checks in accordance with the *ad hoc* certificates approved by the EC Regulation and the specifically required training certificates.

However, the liability of the DPA will be always be subsidiary as the shipping company and the shipowner will be directly liable, unless the DPA exceeds its functions[28]. This is quite difficult since, being responsible on shore for what can happen at sea, their functions are critical for the life of the ship.

22 Martínez Sanz, F., «*El contrato de Seguro (II): Los seguros de Daños*», en Manual de Derecho Mercantil Volumen II, Tecnos, Madrid, decimocuarta edición, 2008, Pág. 351. («The Insurance contract (II): Property Insurance», Mercantile law Volume II, Tecnos, Madrid, Fourteenth Edition, 2008, Page 351).

23 Art. 107.2 LCS. In the proposed modifications to the LCS the framework would be the same. (LCS = Insurance Contract Law)

24 STS 700/03, Civil Section, dated 14th. July. See STS 872/2003, Civil, dated 19th. September.

25 Regulation 8 (2) of Statutory Instrument 1998/51. The sanctions will be those stipulated under art. 19, 4th Section of Statutory Instrument 1998/1561.

26 Art.8 Law On December 22, 1949, marine transportation of goods with a bill of lading.

27 Art. 618.1 CCo..

28 We understand to be applicable that reflected under Arts.586 and thereafter of the CCo. With regard to the analogy of different figures in marine commerce we have the precedent of the consignee agent as «ship-owner» of the cargo. Cif. González - Lebredo, R.A.; «*El agente consignatario de buques*/The ship's consignee agent»; Law Bulletin, Volume, 1993. Pp 842 and thereafter.

THE LIABILITY OF THE DPA WILL ALWAYS BE SUBSIDIARY AS THE SHIPPING COMPANY AND THE SHIPOWNER WILL BE DIRECTLY LIABLE, UNLESS THE DPA EXCEEDS ITS FUNCTIONS

Since the function of the DPA is the link between the staff at sea and those on shore, it is logical that one of their functions is to notify the insurer of any circumstances that might arise or give rise to any liability[29], whether during navigation or otherwise.

That said, although it is not clear what is the regulatory framework for Liability in marine transport[30], we understand that it can be said that the liability of the shipping company and the shipowner will be always be subsidiary to that of the insurer, and hence, that of the DPA.

This is because, within the scope of the Liability Insurance «(…) the insurer agrees, subject to the limits established in Law and in the Policy, to cover the risk arising from the obligation to indemnify a third party for loss and damage caused by an event included under the policy and for the consequences of which the insured is liable, at Law»[31], regardless of the policyholder's activity and of the nature of their activity.

What should be taken into account are the nature of the risk and the activity of the Policyholder for the intrinsic risks of maritime commerce with the proviso of the specific exclusions under the special insurance regulations[32].

In respect of environmental management, and the risk accepted by the DPA, we have already indicated that the international organizations lean towards the conservation of the environment and energy efficiency for all routes and, for this reason, shipbuilders are constructing megaships. If they are able to develop greater speeds, they will contribute to both environmental sustainability and to transport[33] cost savings, which will have an impact on the shipowners P&L accounts and provide competition in the cost of carriage for clients.

Logically, in order to minimize the cost of the premiums, the shipping companies can introduce management systems endorsed by international standards, such as ISO 14.000 or the EU EMAS Regulation for the environmental risk, as well as

29 Art. 756 CCo. Nevertheless for a change of route, if it is to save lives or goods, the carrier will not be liable for any loss or damage that arises therefrom (art. 9. Law On December 22, 1949, marine transportation of goods with a bill of lading).

30 STS 1st Court Room, 688/2003, of July 3.

31 Art. 73 LCS.(Insurance Contract Law)

32 Vgr. Legal Protection Insurance. Art. 2.2 of the Council Directive 87/344/CEE, of June 22, 1987. Cf. García, C.; *Origen, situación actual y futuro del Seguro de Protección Jurídica. Colección Cuadernos de FUNDACIÓN MAPFRE*, Madrid, 2012. Pág.8.

33 Landauro, I.; Cargo «superships»reduce the speed [web consultation on April 1, 2013 http://online.wsj.com/article/SB10001424127887323936804578230022208424336.html [Consultation March, 2013]

quality certifications (those corresponding to the ISO 9,000 series).

If the DPA were to choose to insure via a Protection and Indemnity Club (P&I) rather than covering its risks with a conventional insurer, they will only be covered if the financial loss that the member of the club faces is included in the Club's rules[34]. Otherwise, it will be the rest of members that will decide if they will cover the DPA on an exceptional basis[35].

Conclusions

The current regulation in respect of the DPA follows EC Regulation 336/2006 and this is integrated into national law without any need for transposition.

Nevertheless, we understand that not only the Code of Commerce should be reformed but also the regulations on maritime transport and, more specifically, the 1949 Law for Maritime Transport of goods involving Bills of Lading.

With regard to risk, even though in the case of P & I, the nature of the Policyholder prevails over the nature of the branch as per the Supreme Court, it is our understanding that, at least now with the new figure, it should not be like that.

In this case, it is difficult to know which is the general law and which is the special one and, therefore, whether to apply the principle that a special law prevails over the general law.

Having said that and in our opinion, in support of the application of the LCS (Insurance Contract Law), we can use the actual definition of legal liability already referred to and this is applicable regardless of the judicial nature of the Policyholder.

In any event, the rules that the parties accept can be applied, as a result of article 107.2 of the LCS with regard to 1.091CC (Code of Commerce) and, therefore, the concept and scope of Liability can be defined in the policies.

Therefore, the Code of Commerce will only be applicable for intrinsic navigational risks[36], namely:

34 Albors, E. and Portals, J.; «*La acción directa en el seguro de Protección e Indemnización (P&I). Comentario a la Sentencia del Tribunal Supremo de 3 de Julio de 2003*».*Diario la Ley*. Nº 5850, *Año* XXIV. 2003./«The direct action in the insurance of Protection and Indemnity(P&I). Comment on the Judgment by the Supreme Court of July 3, 2003».The Law Bulletin. Nº 5850, Year XXIV. 2003.

35 García, C.; Origin, current situation and future of Legal Protection Insurance. Foundation Mapfre Notebook Collection, Madrid, 2012. Page 35./ García, C.; *Origen, situación actual y futuro del Seguro de Protección Jurídica. Colección Cuadernos de FUNDACIÓN MAPFRE*, Madrid, 2012. Pág.35.

36 Art. 743 CCo (Code of Commerce).

THIS FIGURE HAS CERTAIN GAPS THAT ARISE FROM THE NEEDS FOLLOWING DISASTERS INVOLVING THE SINKING OF SHIPS ATTIBUTABLE TO THE HUMAN FACTOR. THE IDEA IS TO REINFORCE SAFETY IN MARITIME TRANSPORT.

- The hull of the ship, in ballast or loaded, at port or on a voyage.
- The equipment.
- The machinery, when it is a steam ship.
- The equipment and objects that constitute the fittings.
- Supplies and fuel.
- The quantities subject to loans.
- The amount of freight and estimated profit.
- All commercial objects subject to the navigation risk, the value of which can be fixed as a specified amount.

For the remaining risks, such as the DPA's liability, we might very well follow Insurance Contract Law unless the Code of Commerce is updated.

With regard to the variables to be considered when determining the premium, we should bear in mind that the most important factor will be the «sum insured»; that is to say, the limit of the economic liability that we wish the insurer to accept on behalf of the DPA company.

This sum insured or liability limit for the company will depend mainly on the type of goods to be transported[37], as well as of the degree of compliance with the safety and operational management regulations in respect of both environmental matters and ships maintenance[38].

We are, therefore, looking at a figure that has certain gaps that arise from the needs following disasters involving the sinking of ships attributable to the human factor. The idea is to reinforce safety in maritime transport which is fundamental for the development of international trade and of our productive model.

37 The type of transported goods will determine the type of ship (gas carrier, oil tanker, bulk-carrier, passage, passage big speed, ferry of rolled load; cargo ship of big speed; outside broadcast unit of perforation sea to inside).

38 Other elements to be born in mind are the frequency of navigation (charters and expectation of useful life of the craft); flag; basic ports, transit and destination; formation and experience of the DPA, etc.

New RISK-MANAGEMENT Challenges: A Strategy-Risk Management Model

Companies are doing business in a scenario driven along at breakneck speed by communication technologies. The new situation generates new strategy risks that companies now have to tackle in order to survive. This study sets out a detailed and enlarged strategy risk management model, the risks broken down by origin.

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MAPFRE TECH.

Introduction

CHARACTERISTICS OF TODAY'S WORLD

We are living today in a helter-skelter world of breakneck changes; no economic unit is immune to them. Any company, organisation, family or individual is an economic unit, handling an income stream to defray expenses in pursuit of its particular goals.

We are currently facing a paradigm shift. Just as in past eras, the changes underway are going to trigger new scenarios: new products, new markets, new power cliques. In short, there is one word that sums up this new situation: «new». The mainstays underpinning the era that began in the eighties of the twentieth century have changed; 30 years on yet another great economic and social change is underway.

If everything is changing, how should economic units react? By evolving is how, by adapting to the new operational framework and the new variables defining the next stage. But there is one salient factor that is defining this new stage: technology is the multiplier that is accelerating the changes. Telecommunications, IT, information, knowledge; the new

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combinations of all these factors usher in new models.

Risk Management

AIRMIC ALARM, IRM's 2002 Risk Management Standard put forward a magnificent proposal of unified risk-management definitions. Risk management as a discipline is beginning to generate a great deal of information and awaken interest among many economic sectors; in this process many different definitions have tended to cluster round key concepts, so this conceptual clarification was very timely.

One of the very first concepts defined was: «Risk management is a central part of any organisation's strategic management». Within the overarching concept of risk management the standard defines a set of «risks facing an organisation and its operations, which can result from factors both external to and internal to the organisation». We should remember here that the concept of organisation is a broad one taking in public and private enterprises, corporations, institutions and any economic unit.

Lastly this standard puts forward some risk-classifying categories: operational, financial and strategic. Within strategic risks

PROFESSOR ROBERT S. KAPLAN ARGUES THAT RISKS FALL INTO THREE MAIN CATEGORIES: PREVENTABLE RISKS, STRATEGY RISKS AND EXTERNAL RISKS

some examples are given, such as skills, changes in clients, changes in the industry, client demands.

New risk management approaches

In a 2012 Harvard Business Review article Professor Robert S. Kaplan argues that risks fall into three main categories:

- Preventable risks, mainly internal risks that can be identified and managed.
- Strategy risks, which can be identified but cannot be managed.
- External risks, which are beyond the company's influence or control and can neither be identified nor managed.

In view of this categorisation, managers are obviously bound to incorporate risk management into the strategic decision-taking process, classifying the risks in terms of the company's capacity of influencing them.

Study Objective

The objective of this study is to put forward a broad and detailed model of strategic risk management, classified in terms of the origin of the risk.

Strategy risks

What are strategy risks? They are the risks that might balk achievement of strategic objectives. From this simple answer we can draw an important conclusion: Fulfil strategic objectives.

Strategic objectives: These are the lodestones guiding a company's activity. They are intrinsically long term and can never be set on a short term basis.

Companies frequently set objectives bound up with:

- Size (turnover, profit).
- Leadership (market share, market positioning).
- Prestige (recognition, respect).

In the current juncture of western economies many economic units are having to shelve these objectives and concentrate almost exclusively on mere survival.

In pursuit of these objectives the firm can draw on the following resources:

- Material resources (machinery, buildings, technology).
- Financial resources (liquidity, creditworthiness).
- Human resources (aptitudes and skills).

But is all this sufficient? Long term activities also call for:

- Ideas (Solutions, innovation, adaptation).
- Identity (brand, character, attitude).
- Values (working principles).

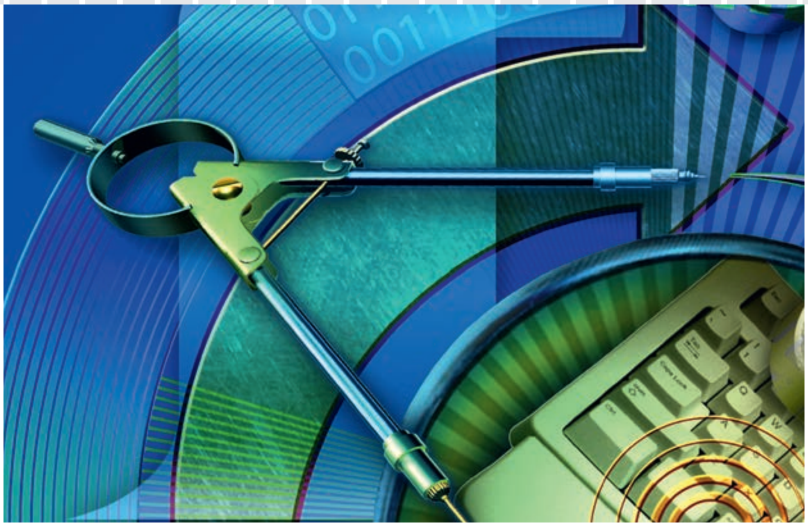
Once a company has secured all this wherewithal, we believe it is ready to compete, but there are still some factors that are not under its control and may impinge to a lesser or greater degree on fulfilment of its objectives.

Types of strategies

«Strategic» has recently become a buzzword in business parlance. In the original Greek *stratos* means 'army' and *ago* means 'to guide', lead armies. Several words from military jargon have been taken up in the business world: strategy, tactic, logistics. As in other fields of human endeavour overkill of this word has diluted its force. Nowadays any random affair is dubbed strategic to stress its importance and achieve a short term result.

A company's strategy can be broken down into the following classes:

- **Corporate strategy.** According to Grant this involves designing the framework of action of the company, corporation or group of companies in one or several activity sectors in which there are profit-generating competitive advantages over other sectors with much lower profit prospects.
This strategy has to enable the firm to take very long-term decisions, since none of the investments to be made, the resources to be input or the specialised personnel needed can be turned round easily. The cost of breaking into a new sector is high and the decision has to be taken by senior management, involving as it does all the corporation's business units or divisions across the board.
Some examples of corporate strategy are diversification of activities, vertical integration, takeovers and the creation of new firms, allocation of resources among the firm's various activities, disinvestments when any activity becomes unprofitable.
- **Competitive strategy.** According to Kotler and Singh there are four forms of competitive market strategies:
—Leader strategy: The leader is the firm occupying the dominant market position as recognised by the rest of the companies in the market.
—Challenger strategy: This consists in wishing to replace the leader, who no longer dominates the market.
—Follower strategy: The follower is that competitor who has a smaller market share than the leader. Its strategy consists in lining up its decisions with those of the leader. It does not attack but coexists with the leader to share out the market.
—Niche player strategy: This strategy involves seeking a market niche where it might build up a dominant position without being attacked by the competition. This sort of firm concentrates on a particular market segment, dominating it and obtaining sufficient profit by serving it with great specialisation.



STRATEGIC OBJECTIVES ARE THE LODESTONES GUIDING A COMPANY'S ACTIVITY. THEY ARE INTRINSICALLY LONG TERM AND CAN NEVER BE SET ON A SHORT TERM BASIS.

Depending on the firm's current position and its long-term objectives, the chosen competitive strategy will entail a different set of decisions and approach.

We have thus seen that the company has a corporate approach and a competitive approach. Both coexist, and the identification and management process is crucial for the firm's future due to the different decision-taking scenarios.

Classification of strategy risks

The difficulty of classifying any element often resides in identifying the classifying criterion. In risk management theory it is a generally accepted principle that risks should be classified by their probability of occurrence and the

THE COMPANY HAS A CORPORATE APPROACH AND A COMPETITIVE APPROACH. BOTH COEXIST.

consequences they would have on any economic unit. Matrices are drawn up cross-referencing both factors.

In this particular study the difficulty stems from the sheer variety and diversity of events that might affect any company. Although many of them are unlikely ever to occur or might have a zero impact even if they did, it is still thought best to include them in the management procedure.

RISKS OF THE COMPANY'S GENERAL SETTING

The social and political setting

Companies and institutions form part of a higher set, the scenario with which they interact, which in turn has a given set of characteristics and behavioural rules. Individuals come together voluntarily to create a group in quest of supra-individual objectives. These groups use codes and behavioural rules that are binding on all individuals and are systematically enforced. These behavioural rules are not set in stone; they vary over time. These variations may harm or benefit companies.

Risks of the social and political sphere might stem from:

—The degree of social stability.

—The degree of political stability.

—The maturity of the social model.

—The frequency and impact of changes in legislation and pertinent standards.

—Identification of the society's components with the existing model.

The firm's operational sphere: regional, national, international

The broader is the firm's operational range, the more likely it is to be affected by the various social and political spheres in which it operates. An analysis has to be made of each and every one of the social groups, their standards, culture, models, etc, to ascertain how far they might impinge on competitive activities.

There are also supranational organizations that impose standards on their members; this also has to be factored into the equation. In Europe, for example, the European Union is a scenario in which member countries are bound to implement its legislation into their own bodies of law, on the understanding that they are beneficial to the whole set.

The risks of diversification of the operational sphere increase in direct proportion to the number of social groups in which the firm operates. Dispersion also tends to diversify the risk in the whole set of investments.

Global risks

In recent years a big effort has been made to study certain risks that might affect the whole set of stakeholder groups, regardless of where these might be in the world.

The 2013 Global Risk Report of the World Economic Forum analyses scores of events and their possible impact, broken down into economic, environmental, geopolitical, societal and technological. Of all these we stress here those invoked by the greatest number of interviewees:

—**Economic.** Major systemic financial failure, severe income disparity, chronic fiscal imbalances, extreme volatility in energy and agricultural prices.

—**Environmental.** Failure of climate change adaptation, rising greenhouse gas emissions, land and waterway use mismanagement, persistent extreme weather.

—**Societal.** Water supply crisis, unsustainable population growth, food shortage crises, rising religious fanaticism, mismanagement of population ageing.

—**Geopolitical.** Global governance failure, pervasive entrenched corruption, failure of diplomatic conflict resolution, terrorism.

—**Technological.** Critical system failure, cyber attacks, unforeseen consequences of climate change mitigation, mineral resource supply vulnerability, massive digital misinformation.

All groups and individuals from any country are exposed to these risks. There is no possibility of passing them on but there is a need of dealing with their impacts and possible consequences.

RISKS OF THE COMPANY'S COMPETITIVE SPHERE

The company trades in one or several markets. The competitive sphere, depending on its geographical location and the way in which the company plans to meet consumers' demands, determines many different scenarios.

Clients, markets, products and services

It is here where, *ceteris paribus*, the company has the greatest leeway for action. Nonetheless, some of the main changes currently underway focus on client liaison or, more properly speaking, the way the client chooses to relate to the company.

Today there is a supply glut in most markets. There is also an exponential growth in clients' knowledge of products and services on offer. The combination of these two factors gives clients, either individually or in groups and associations, the upper hand in their relations with the supplier.

Continual market research is now necessary to keep track of the main trends in consumer preferences. Social networking sites have created a new paradigm here in terms of client information, with real time expression of opinions, criticism, recommendations and suggestions. These can all be taken on board by companies when designing the goods and services to meet these ever-changing demands.

The sheer speed of change obliges the company to vet its portfolio of products regularly to decide if they are all still profitable and worth their place and also to reduce the market launch time of new products.

Should it come to light (on the basis of economic and social circumstances) that

THE RISKS OF DIVERSIFICATION OF THE OPERATIONAL SPHERE INCREASE IN DIRECT PROPORTION TO THE NUMBER OF SOCIAL GROUPS IN WHICH THE FIRM OPERATES

CLIENT PREFERENCES HAVE CHANGED OVER THE LAST DECADE, AND THE FIRM HAS TO DECIDE WHETHER THERE IS STILL MARKET FOR THE PORTFOLIO OF PRODUCTTS AND ACT ACCORDINGLY

client preferences have changed over the last decade, the firm has to decide whether there is still a market for the portfolio of products and act accordingly.

Lastly, widespread internet access opens up an almost limitless assortment of goods and services around the world to each consumer. This poses threats and also presents opportunities.

The main risks faced by companies here are:

—Very short product life cycle; the company therefore has to keep pace with new market demands.

—Need of increased outlay in market research, otherwise the wrong decisions might be taken with unwanted consequences.

—Overexposure to the effects of social networking sites and consumer associations. This can have a straightforwardly negative effect in the form of losses but also an overly positive effect by whipping up demand for our products we cannot keep up with.

—Global markets, with the risk of new competitors cropping up anywhere and also the possibility of having to satisfy new clients.

This scenario obliges companies to rethink their whole client-liaison strategy.

Distribution strategies

In the previous point we explained how it is now the client that has the upper hand in relations with the company. The company therefore has to take far-reaching decisions in terms of the distribution outlets to be used for getting its products to consumers.

Internet, technology in general and the tools it furnishes us with are all setting up a brand new distribution outlet, with its own market codes. Although these are not being adopted by all goods and services, they do allow information to be gleaned beforehand and transactions to be carried out accordingly. In some sectors this virtual distribution is now more important than traditional face-to-face client-supplier distribution.

The risks we might pinpoint here are:

—The right choice of outlets for getting the products across to clients.

—Failure to find solid allies among distributors who fall in with the company's strategic customer policies.

—The importance of striking the right balance between the added value provided by a given outlet and the cost it adds to the products, making sure that the dearer product does not give our competitors a crucial edge.

The impact of competition on company strategy

Competition could be defined as 'any stakeholder who is capable of meeting client needs in the same conditions as our own firm'. Thus defined, this competition might come from anywhere: from the same activity sector, from another sector offering potential substitutes for our own product. Geographically too, this competition might come from our own region or anywhere else in the world.

It stands to reason that in a market with excess demand there would be no competition. All suppliers would then have a glut of clients. In a market with excess supply, however, any competitor who fails to find success or meet its objectives is likely to go to the wall.

The competition has the same problems as 'our firm' and will therefore decide which actions will enable it to achieve its goals. All companies should therefore factor into their own strategic planning the impacts of their competitors' actions.

Some of the risks posed by competitors are:

—The impact of an innovation that might quickly place the competitor concerned in an advantageous position.

—Increased sales aggressiveness to win more clients.

—Improvement in sales management processes to make their actions more effective.

INTERNAL COMPANY RISKS

This section deals with risk situations where the company has greater leeway both to prevent them and to act if they in fact occur.

Management of resources and skills

Companies and/or institutions work with a set of resources that power their production and/or service-provision activities. These can be summed up as follows:

Financial resources. Cashflow for buying goods and paying debts. We pinpoint two main risks here:

—Lacking sufficient cash or creditworthiness for carrying out the necessary actions in pursuit of the company's corporate purpose, such as buying in goods, raw materials, human resources, etc.

—Mismanagement of liquidity needs so that the company defaults on accounts payable or banking credits, possibly forcing it into insolvency or bankruptcy.

Material resources. Buildings, machinery, tools and technology in general. The failure to stockpile the right materials in the right quantities might pose the following risk:

—Failure to make goods or supply services with sufficient quality, probably curtailing turnover in the long term.

Human resources. A resource's capacity is its potential yield or performance. Speaking of human resources, therefore, any company or institution's prime asset is its employees and collaborators' capacity of continually coming up with solutions to the various problems and needs that have to be solved and dealt with on the way to achieving the corporate objectives.

The right human resource management policy has to be drawn up. Rather than dwelling on the remuneration cost to the firm, this should concentrate on

INTERNET, TECHNOLOGY IN GENERAL AND THE TOOLS IT FURNISHES US WITH ARE ALL SETTING UP A BRAND NEW DISTRIBUTION OUTLET, WITH ITS OWN MARKET CODES

Risks	What?	How?
Legal	• Review of new legislation and standards and adaptation of the firm's activities thereto	• Ongoing liaison with government and legislative organisations
Financial creditors	• Application for financial services	• Ongoing liaison with financial creditors, capital markets, etc.
Suppliers	• Drawing up requirements and establishing quality standards	• Ongoing liaison with suppliers
Clients	• Study of demand and adaption of goods and services thereto	• Ongoing liaison with clients
Employers and collaborators	• Application for services and remuneration for same	• Ongoing liaison with employees and collaborators

KNOWLEDGE IS A CRUCIAL VALUE TO ANY FIRM. IT NEEDS TO BE MANAGED SO THAT IT DOES NOT DRAIN AWAY AS EMPLOYEES LEAVE.

the way the company is going to relate with its employees and collaborators and the mutual effort required from both. The company's performance will then be solidly based on a consensus among all the company stakeholders.

Knowledge is a crucial value to any firm. It needs to be managed so that it does not drain away as employees leave but is passed on to guarantee continuity.

Here the following risks can be identified:

—Existence of obscure and ill-defined areas in intra-company relations, with a demotivating effect that is likely to reduce employees' skill levels

—Loss of talent, with the concomitant human and economic cost

—Mismanagement of knowledge transfer from generation to generation with crippling breaks for the firm.

The transformation of the firm: change management

One of the features of current-day firms is the need of making continuous changes to keep up with changes in demand. This entails changes in products, in working equipment and in technological tools.

Companies have to spend a lot of effort on organising this change properly, otherwise the loss of efficiency, knowledge and talent could spell the firm's disappearance in the mid term. The detectable risks here are:

—Negative effects of continuous change in processes, people and technology.

—Failure to set up a change management plan known to all the members of the organisation, to prepare the firm for the new situations.

Conclusions

In the introduction we touched on the trademark features of today's world, with breakneck changes impinging ever more tellingly on all economic units. Technology is the multiplier that is speeding up the pace of change in the new scenarios. Telecommunications, IT, information, knowledge are all factors to be taken into account in the continual adaptation process.

We have run through some of the main risks that might affect the firm's strategic objectives. The list is by no means exhaustive; each firm and institution will have its own unique risk profile. One of the common traits of all these risks is that it no longer suffices to manage only 'what' is to be done but also 'how'. Some examples:

These examples show that the competitive difference does not reside in the 'what?' factor, since all competitors act in a similar way. The real difference lies in the 'how?' the company wishes to relate to its surrounding world and component groups. Here lies a veritable challenge and a strategy risk.

Risk management, therefore, continues to loom ever larger since it is becoming increasingly necessary for risks to be managed by companies and institutions. Managed rather than transferred, for risk transfer is not always possible. Risk management is bound to take up an internal leadership within the firm to ensure that the whole organisation across the board takes due cognisance of risks and situations that might, if not properly dealt with, lead to its demise.

COMPANIES HAVE TO SPEND A LOT OF EFFORT ON ORGANISING THIS CHANGE PROPERLY, OTHERWISE THE LOSS OF EFFICIENCY, KNOWLEDGE AND TALENT COULD SPELL THE FIRM'S DISAPPEARANCE IN THE MID TERM

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Corporate Governance and International Standards:

A View of the Situation of INSURERS *in Latin America*

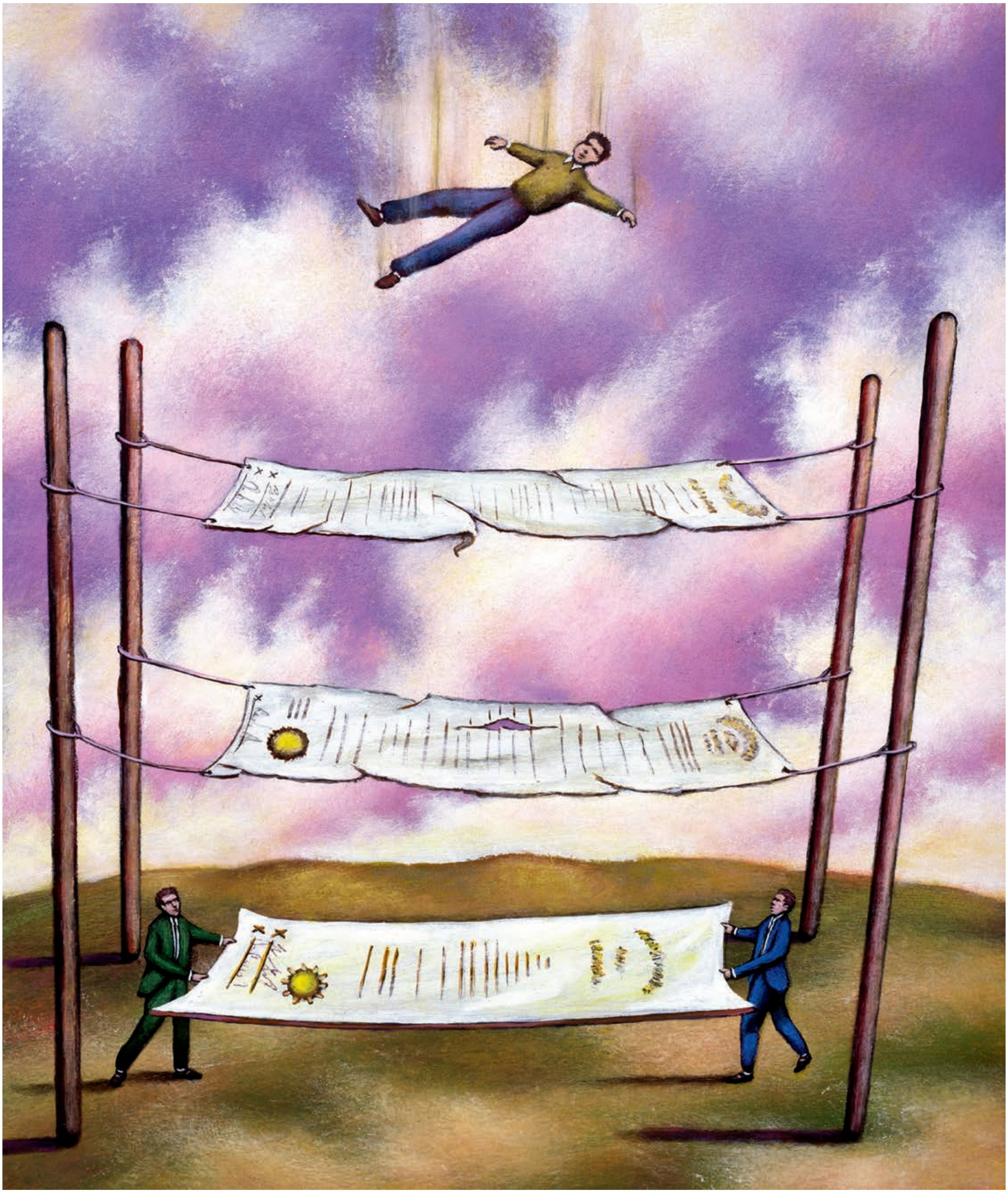
Despite significant breakthroughs, good corporate governance practices are far from widespread as yet in Latin America, especially in the insurance sector. This article describes the existing initiatives in this field and sketches out the current situation at regional level.

PABLO SOUTO
CENTRO PARA LA ESTABILIDAD FINANCIERA (ARGENTINA)

At the end of the decade of the 90´s a combination of financial crises in emerging countries (particularly Asia) and the failure of large corporations in the developed world took place. The causes shared a common factor which was the poor handling of internal conflicts of interest within the companies themselves or with other interested parties, or what is known as a Corporate Governance (CG). Even though the subject of CG dates back a long time (Berle and Means, 1933), it was not until the decade of the 90´s that the question came to the forefront of public debate.

Inefficient methods for resolving conflicts of interest between directors, shareholders and creditors had an adverse effect on the profitability of businesses and on the cost, terms and amount of finance, amongst other things. In a macroeconomic context, these harmful effects at company level were apparent in greater capital costs, inefficient allocation of resources, instability of financial markets, effect on wealth from bankruptcies, etc., threatening national financial stability and economic growth.

This produced global concern on the deficiencies of CG, that gave rise to a series of new regulations at national level which intended to promote good Corporate Governance practices in companies (institutional corporate governance). Moreover, companies themselves recognise the



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importance of affronting better practices and started to introduce them (contractual corporate governance). In both cases, many of the regulations and changes are based on international standards and/or principles created by various multilateral institutions. This triggered corporate governance principles to be set up by the Organisation for the Economic Cooperation and Development (OECD, 1999), the guidelines of good corporate governance for financial institutions created by the Basel Committee on Banking Supervision (BCBS, 1999), the guidelines for insurance entities (2005), for state-owned enterprises (2005) and for pension funds (2002) also prepared by the OECD, the generally accepted principles and practices for sovereign wealth funds published by the IWG in 2008, amongst others.

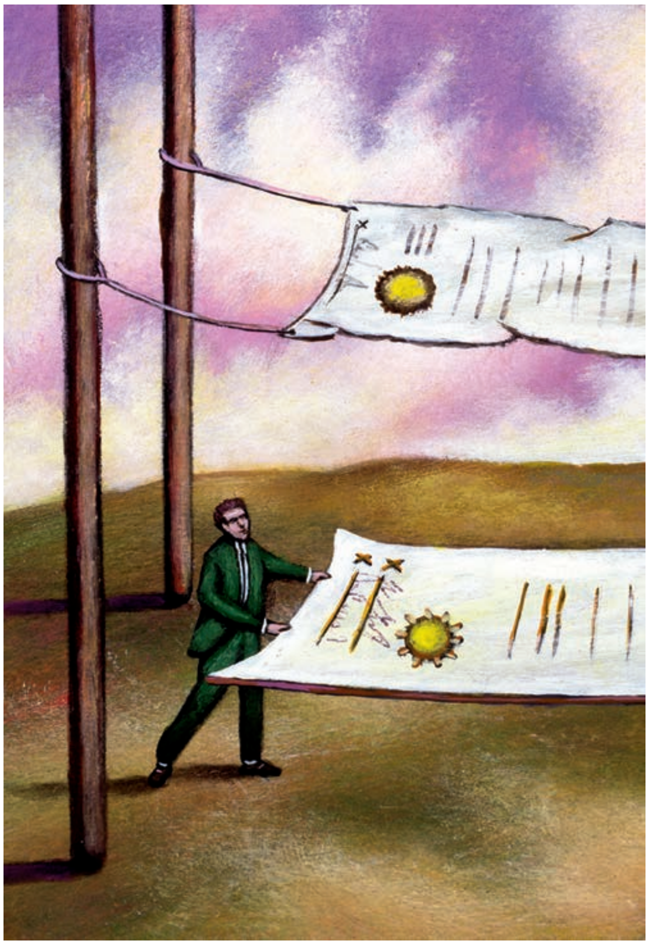
INSURANCE INDUSTRY AND CRISIS

In view of the nature of these crises and the importance of those involved, public and private attention was principally focused on banking institutions and companies in the primary and industrial sectors. In the case of the insurance industry, the evolution has been slower mainly because it has not be affected by the aforementioned crises to the same extent and, in many cases, was due to a certain domino effect due to developments in other areas that spun off into the insurance sector.

The situation changed after the 2008 crisis when a new element was introduced into the scenario. This was the presence of insurance institutions at the heart of the crisis. Inadequate risk handling, lack of transparency in certain operations and processes, transactions with companies within financial conglomerates, ineffective management and regulatory arbitration are some of the elements that the 2008 crisis brought the harsh reality to the insurance industry, as had already happened in other sectors.

Different authors show that flaws in the CG systems were a key element in the outbreak and spread of the crisis (Becht (2009), Mülbert (2010), OECD (2009)). Therefore, CG has particular relevance in the insurance sector and merits a more in-depth analysis in view of its peculiarities. Even if part of the involvement of insurance companies was due to risk activities outside the core insurance business or due to quasi-bank activities (Geneva Association (2010)), one cannot ignore that failures in the CG structures allowed these kinds of strategies.

In the specific case of the insurance industry – apart from the aforementioned guidelines prepared by the OECD in 2005 and revised in 2011 – the Insurance Core Principles (ICPs) prepared by the International Association of Supervisors of



Insurances (IAIS) in the year 2000 and subsequently revised in 2003 and 2011, incorporate CG questions under ICP 7 in particular, but also under ICP 5, ICP 6, ICP 8, ICP 19, and ICP 20. Moreover, the new directives for insurance companies on capital requirements and risk administration issued by the European Union (known as Solvency II) incorporate, as fundamental elements, questions that improve CG; this is seen in Pilar II via specific qualitative requirements in the governance structure and also under Pilar III where practices on information distribution and transparency to be provided by insurers are established.

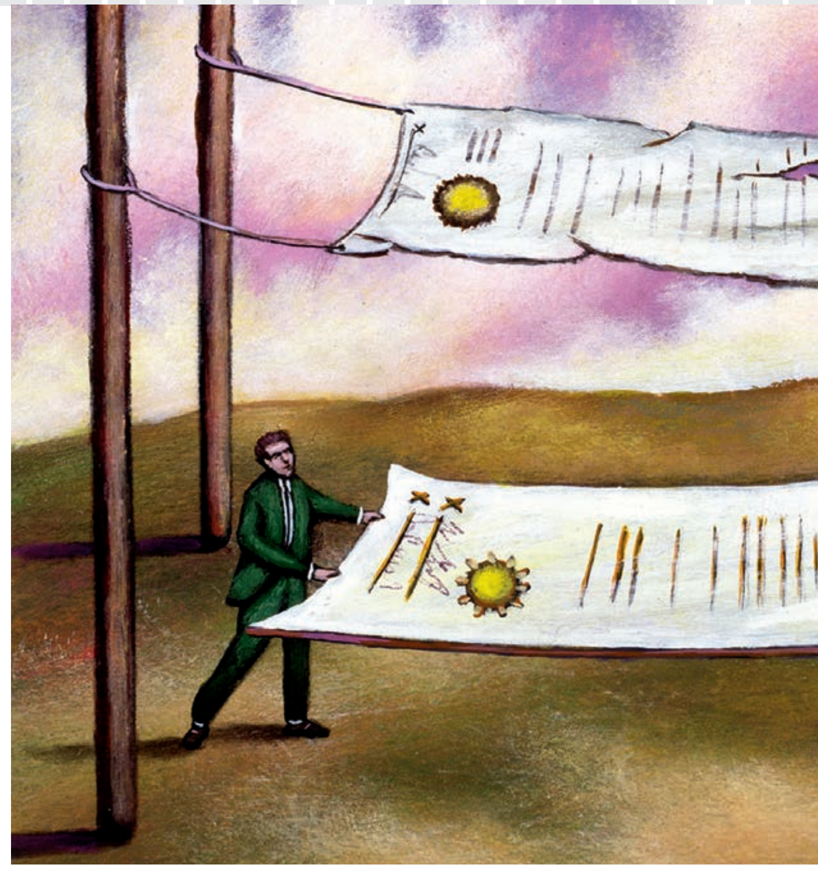
All of these regulatory innovations make the question of corporate governance in the insurance sector a matter of high priority within the companies. And not only for the effect on business derived from these regulations but also for the abundant empirical evidence that shows the positive effects that good corporate governance has on the profitability of companies (particularly on emerging markets, Black (2001)), through improvements in the area of internal control and risk handling, and in improved conditions for acquiring finance (Claessens and Yurtoglu (2012)). Finally, but least important, the financial stability of the system is improved as the units involved develop in an improved environment of corporate governance (Acharya and Volpin (2010)). Therefore, it is also in the interest of the authorities to promote a framework that encourages healthy practices in this field.

In Latin America there have been some advances on this subject, particularly via new regulations, but there is still not a general concern in this regard from the different players in this region´s market to the extent that there is in the banking sector, for example. Proof of this, is the limited number of publications on the subject in Latin America, whether official or from managerial or academic institutions. What is more, we have not been able to acquire studies that tackle the problem empirically at regional level and this is the first study on the matter. For these reasons, it is necessary to increase awareness in our region so that we are better prepared for when new standards or regulations developed in the main markets filter through into our legal frameworks.

On a general level, it is considered that there are principally two conflicts of interest within the company: on the one hand, those that arise in the model with disperse or atomised capital between management and shareholders, and, on the other hand, the conflicts that arise in the model where the equity is concentrated with majority shareholders or those with the control, as opposed to the minority ones. In both cases the conflict is related to the presence of differing information between those that control or handle the company and those that do not participate in the decision making. The maximisation of profits by the groups that benefit from the information imbalance can lead to a poor allocation of resources to the detriment of the less informed groups.

In the specific case of financial intermediaries, there are distinctive characteristics compared to non-financial companies that lead to a serious collision path for certain CG questions. As indicated in CEF (2006), the main differences between the two types of companies stem from: a) Financing structure (greater leverage, around 80 %-90%); b) Atomisation of liabilities (depositors, policyholders);

IN LATIN AMERICA THERE HAVE BEEN SOME ADVANCES IN CORPORATE GOVERNMENT, PARTICULARLY VIA NEW REGULATIONS, BUT THERE IS STILL NOT A GENERAL CONCERN IN THIS REGARD FROM THE DIFFERENT PLAYERS IN THIS REGIONS'S MARKET TO THE EXTENT THAT THERE IS IN THE BANKING SECTOR



c) Complexity of the business and information asymmetries (difficulties in valuing portfolios, opacity, financial conglomerates); d) systems Implications (negative externals, contagion); and e) Focus of the conflicts of interest (greater relevancy of the atomised creditor conflict vs. shareholders).

Within financial intermediaries, an important difference between the banking and insurance companies lies in the availability of liabilities since, in the case of insurers, they depend actuarially on the occurrence of quantifiable factors, whilst banks (even when the demand of savings can be estimated) are subject to unexpected events.

CORPORATE GOVERNANCE STRUCTURE

When tackling the question of the CG in the insurance industry, the IAIS and the OECD (2009) emphasise the importance of defining and monitoring a system that contain certain aspects that encourage good CG practices which facilitate the handling of the more important conflicts of interest. Along these lines, the most relevant elements are the establishment of effective and well-defined directives (with the presence of independent directors and appropriate committees), transparency and information distribution, internal controls, efficient risk management, company social responsibility and independent audits.

This is complemented with a system that defines the roles, responsibilities, and accountabilities in a balanced power framework. A proper CG structure should clarify who has the authority to act on behalf of the company and in what instances. It should establish the necessary requirements for documenting decisions and actions, determining and justifying with arguments and reports for shareholders, it should promote corrective actions for cases of non-compliance or where there are weaknesses in the systems of supervision, control, or administration.

An extremely important aspect within the CG structure of the insurance industry is the presence of an effective framework for risk management (Lester, R. and Reichart, O., 2009). This should go so far as to identify systematically all those risks faced by the organisation, develop strategies to mitigate them and manage them in a permanent manner. In order to be so robust, the risk management framework must have: effective warning mechanisms, qualified and independent board members, actuaries that are legally liable for their actions and internal audit departments that advise the board independently.

The supervisory body and external auditing company (being independent and renewable) are also important to ensure the appropriate level of Corporate Governance. Additionally, and in order to ensure adequate control and accountability, the financial information presented by the company must comply with international regulations.

For the insurance industry, beyond this general conceptual framework, there are important differences which, depending on the class of business that the company operates, determine a suitable and effective CG structure. In synthesis (since it is not the subject of this work), we should mention those

questions relating to the handling of risks amongst life assurance companies and/or pensions that differ from those operating in general insurance; the type of information that is important and its frequency is another differentiating element between the types; in this case, the different time horizons of the contractual relationship for life / pensions or general insurance also create asymmetries with regard to the type of conflict of interest in each case. Also, in many countries the pension insurers have a direct equity relationship with the companies that provide pension fund administration services this creates new conflicts of interest that have not been considered in this work. This is the case, for example, with the private administration, obligatory and defined contribution type of pension scheme with accumulated funds.

THE LATIN AMERICAN CASE STUDY

In general, Latin America is characterised for having a relatively underdeveloped insurance market. Whilst the region accounted for 8.6% of the world GNP in 2011 and has 8.1% of the world´s population, the insurance sector generated only 3% of the world´s written premiums. Even though there are various causes for this phenomenon (institutional, macroeconomic, regulatory), to overcome it represents a challenge for these countries and, at the same time, present a market with great possibilities of expansion and growth.

In this respect, the gap between the countries of the region and developed economies is notorious in the majority of indicators related to financial intermediation, but it is even more noticeable in the insurance sector. Nevertheless, when one considers the degree of relative development of the economies, we can observe a less unfavourable situation. On the one hand, there is a group of countries (Brazil, Chile, Colombia and Venezuela), where the penetration of the insurance sector is greater than one would expect for the per capita income, whilst in another group (Argentina, Mexico, and Peru) exactly the opposite is true. The evolution of this indicator over time for a chosen sample of countries in the region (Argentina, Chile, Colombia, Mexico and Peru) shows a mixed picture since, except in the case of Peru (and Chile to a lesser degree), the ratio of gross written premiums to GNP has stayed relatively stable over the last decade.

In Argentina, regard to ownership structure and operation of Boards, one can observe a high percentage of insurers that have been formed as limited companies although the role of insurers that are established as cooperatives or mutuals in the

THE RISK MANAGEMENT FRAMEWORK MUST HAVE EFFECTIVE WARNING MECHANISMS, QUALIFIED AND INDEPENDENT BOARD MEMBERS, ACTUARIES THAT ARE LEGALLY LIABLE FOR THEIR ACTIONS AND INTERNAL AUDIT DEPARTMENTS THAT ADVISE THE BOARD INDEPENDENTLY

business in Argentina is not small. What is more, even when they represent little more than 10% of the market, some of them are amongst the largest 25 insurers in Argentina. At the same time, this figure is, to a certain extent, on the low side, since some of the insurers set up as limited companies have cooperatives or mutuals as their main shareholder. These types of companies have specific peculiarities in respect of their governance structure and significant conflicts of interest, as recognised by the IAIS in its Basic Principles (PBS 7.0.7).

The ownership structure of insurers in Argentina is extremely concentrated. If, for example, one takes the 30 largest companies (excluding cooperatives or mutuals) that operate in the Argentine market (which represents approximately 70% of total production), the concentration levels - measured with the Herfindahl-Hirschmann (HHI) concentration index – amount to 0.729 of the shareholding structure. Taking the same sample, the size of the Boards was analyzed and, in this case, the results show a remarkable similarity for all of the companies, regardless of the shareholding composition. The average is shown to be 5.5 directors, whilst the median and mode were 5.

In the case of Chile, in terms of shareholding structure, the majority of companies are constituted as limited companies. There are no branches of foreign companies and there are very few cooperatives or mutuals (only three have this structure). In terms of the ownership structure of the companies, a sample was taken of the top 10 companies in each branch (by assets) that account for 88% of the total market in the case of general insurers and for 80% in case of the life insurers. The levels of shareholder concentration were shown to be relatively high with an average HHI of 0.878. As for the boards, the average size was 6.15 directors per company, whilst the median and mode were 6 and 5 respectively.

Finally, the Peruvian case shows a small number of companies (compared with other countries in the region) which are all set up as limited companies and, moreover, with shares quoted on the stock exchange. For the purposes of the analysis, information for a total of 14 companies was used. The results show that there is a greater variance in the concentration of the share ownership although

THE USE OF A DISSEMINATION AND TRANSPARENCY INDEX AS A «PROXY« OF CG QUALITY IS BASED ON THE IDEA THAT TRANSPARENCY AND DISSEMINATION OF INFORMATION IS ONE OF THE PRINCIPAL COMPONENTS OF GOOD CORPORATE GOVERNANCE

the average levels are high; the average HHI is 0.705. The Boards tend to be larger than in the other countries analyzed, showing an average size of 7.07, the median 6 and the mode 5.

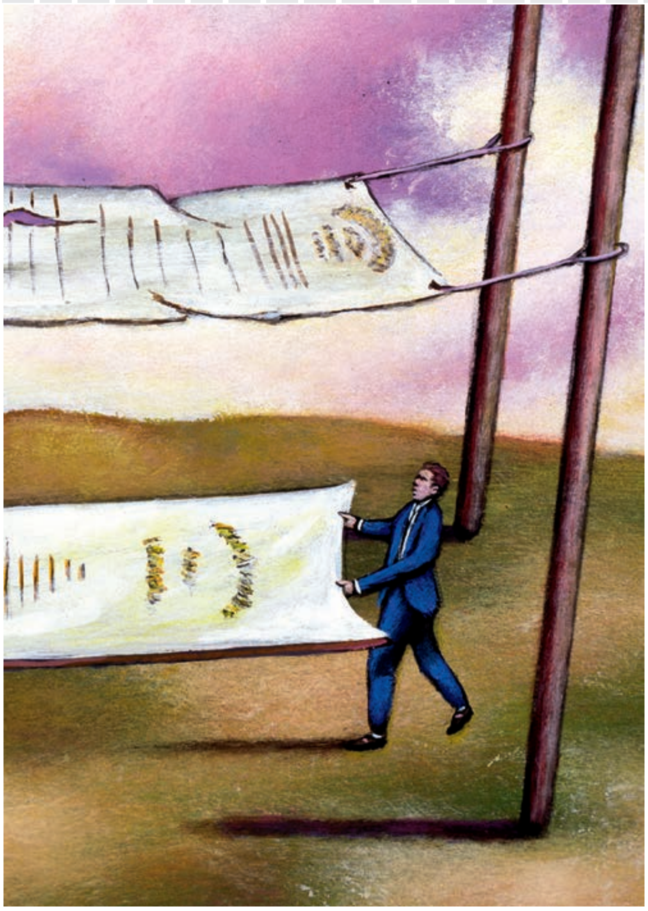
DISSEMINATION AND TRANSPARENCY INDEX

As mentioned, the quality of CG of any company cannot be observed directly and this principle is particularly applicable to financial institutions such as insurance companies. Moreover, in the case of the insurance companies, CG includes different aspects, one of which is the dissemination of information to the market in general and policyholders in particular. This aspect of transparency can be due to both the dissemination of information by the insurers themselves and regulatory requirements. The latter includes both the information distributed publicly by the regulatory body itself and that information that it is not published in the market.

The use of a dissemination and transparency index (DTI) as a «proxy» of CG quality is based on the idea that the transparency and dissemination of information is one of the principal components of good corporate governance since it facilitates a better control and follow-up of the company, of the management and the controlling shareholders by the minority shareholders, parties with legitimate interest and investors in general. In this way, the systematic calculation of the DTI provides the public with a tool that tracks the evolution of transparency practices by the companies over the course of time and, in this way, indentifies the developments that occur and those areas that may require further attention.

The DTI developed and calculated by the Centre for Financial Stability (2005) has the following general characteristics:

- It is based on the release of official and publicly available documentation of companies on internet; this includes corporate web sites, that of the local regulators involved (both in the insurance sector and the stock market) and also that of foreign regulators for those cases where the company is quoted publicly abroad.
- It is a quantitative measurement that makes it possible to follow the development of aspects that form part of companies´ CG.
- It shows information that has been disseminated both voluntarily and obligatorily, thus reflecting greater variability in the companies
- It does not include those processes / policies that help to develop an efficient CG system within the companies and which they have decided not to openly divulge.



Based on the above, and considering the close relationship between the implementation of good CG practices and transparency, an analysis was carried out on the level of transparency and quality of information disseminated by a chosen sample of insurance companies in Latin America, taking into account best practices on the subject and international standards.

A sample of four Latin-American countries was taken, namely: Argentina, Chile, Colombia and Peru. Within this group of countries, the 5 largest insurance companies in the market were chosen for each country, excluding those companies registered as mutuals or cooperatives and seeking a balance in the type of business carried out by the companies in each country. The study consisted of reporting on 30 items corresponding to 3 groups of information that were: the structure of the board and its procedures (13 indicators); the dissemination of information (11 indicators); and information linked to the shareholders (6 indicators). The information used to produce the first Dissemination and Transparency Index (DTI) for the insurance companies was found in documents published between 2011 and 2012.

The response model used for this study was binary, assigning the number 1 where an item in the questionnaire has been omitted and sought from available national sources, for the period mentioned above. In the opposite case, 0 was assigned. In this case, differential weighting factors were not assigned to each of the items for the purposes of calculating the final result. Thus, the final points range from 0 to 30.

The items studied attempt to reflect, as best as possible, those elements that have been identified in the previous sections as the most important for the purpose of divulging the minimum information that would enable a better working of the market discipline and, therefore, a more efficient handling of the different conflicts of interest.

On the one hand, the efficient functioning of the board has been identified as being crucial for the stability of the company and to ensure the correct risk management. In this sense, the presence of independent directors is an element that strengthens the functioning of a board. For this reason, the DTI contains certain information specially dedicated to evaluating the important aspects of boards such as its composition, the committees created and how they function, the presence of independent directors, their years in the position, the nomination processes and one fundamental aspect which is the way in which they are remunerated (fixed or variable) in view of the close relationship between remuneration and the alignment of incentives, and the impact on the company´s exposure to risk.

As mentioned previously, in countries where institutional CG is relatively weak (emerging economies), the adoption of CG codes and/or ethics by company boards acquire more relevance as an internal mechanism to improve the workings of the boards and, for this reason, they have been included in the DTI for this information group.

On the other hand, the market discipline mechanisms rest strongly on the quantity and quality of the information put at the disposal of the incumbents that are not a part of the companies and that are particularly exposed to the problems of information asymmetry (policyholders, minority shareholders). For this reason, a specific chapter has been included to evaluate this aspect of CG. Even if the important information for the various companies is different, and it is also depending on the types of insurance referred to, certain minimum groups of information to be divulged were evaluated in the DTI. Moreover, and to ensure that the information divulged is appropriate, significant and accurate, the DTI has included the findings of the external auditor which, in a way, fulfils this objective.

IF THE GREATER LEVELS OF TRANSPARENCY AND THE BEST CG PRACTICES ARE TO HAVE A GREATER IMPACT ON COMPANIES, IT IS ESSENTIAL THAT THE EXISTING COMPANIES NOT ONLY GAIN ACCESS TO THIS INFORMATION BUT ALSO THAT THEY HAVE THE BASIC ELEMENTS TO BE ABLE TO INTERPRET THEM CORRECTLY

Table 1. ITD results (on aggregate and by country)

Statistic	Overall	Argentina	Chile	Colombia	Peru
Average	11,24	4,60	8,80	11,40	20,15
Maximum	21	7	12	18	21
Minimum	4	4	7	5	19

Table 2. ITD results (% of positive answers by information group -on aggregate and by country)

Information group	Overall	Argentina	Chile	Colombia	Peru
Directory structure	37%	8%	32%	40%	69%
Info. dissemination	36%	22%	24%	35%	63%
Shareholders	41%	20%	33%	40%	70%

Finally, and considering the close relationship between a company´s ownership structure and the cost of capital, it is important that the companies guarantee an adequate protection of the minority shareholders. The third group of the DTI information attempts to analyze this variable by reporting various items relating to this protection. In particular, in respect of ownership structure, the existence of shares with multiple voting rights (not a recommended practice since it enables the undermining of minority shareholders´ rights), and, finally, various aspects related to the policy on dividends.

RESULTS

On a general basis, the results obtained show low levels of transparency and dissemination. Nevertheless, the dispersion obtained on a country level is very noteworthy, with the Peruvian companies clearly showing the best performance. Table 1 shows the information obtained on an overall basis and for each country analyzed. Also, the variability in the results is the most significant in the case of Colombia, which demonstrates a greater role in the voluntary dissemination of the companies as a differentiating element.

With regard to the percentages for the positive point groups of DTI information, it is in the chapter of Shareholders where the best results can be found for each country and, as a result, in the aggregate figures. The results for the latter are shown in Table 2. In addition, the Information Dissemination group is the one that presents the lowest values.

Following the best international practices on the subject, our report shows a considerable degree of development in terms of good practice for transparency in the insurance industry in Peru, followed by Chile and Colombia, and lastly, Argentina. These results show that, in addition to regulatory action, internalization is decisive for the industry in respect of the benefits derived from adopting good practices in CG. Chile has been a pioneer in this sense and the advances registered over the last five years for Colombia and Peru have been significant.

If the greater levels of transparency and the best CG practices are to have a greater impact on companies, industry and the economy, it is essential

that the existing companies not only gain access to this information in a simple fashion but also that they have the basic elements to be able to interpret them correctly. In this way the market disciplinary mechanisms will work more effectively. In this sense, financial education programmes provided by the industry and authorities are of supreme importance and there are already initiatives in the countries involved in this study.

The equity structure of the insurance companies in the region has certain characteristics that are not compatible with CG principles. The high levels of concentration of share ownership and the significant participation of foreign shareholders present opportunities and challenges. On the one hand, the fact that local companies are controlled by companies based in developed markets makes it easier to adopt good practices and the effects will spill over to subsidiaries from the head offices in developed countries; on the other hand, it is precisely concentration that debilitates account reporting to those that are not the majority shareholders. It is this delicate balance that the industry and the regulatory bodies have been changing in the region over the last decade; the Peruvian case is an interesting example, worthy of analysis in greater detail.

The report shows that there is a large presence of financial groups in Latin America and, within these groups, the insurers, whether with local or foreign capital, are one more component. This presence poses important challenges both for the companies themselves and for the regulatory and supervisory authorities. In the first case, to ensure the protection of the interests of the incumbents (e.g. via transactions with related parties carried out at market terms or at «arm's length»), a correct handling of the risks and dissemination of important data on an individual and group basis. In the second case, even when there is not the best structure for dealing with these conflicts through regulation (by unifying the companies or establishing effective mechanisms for cooperation and exchange of information between them), the current asymmetry is noteworthy in this sense for those countries studied in the report. In Colombia, on the one hand, there is already a regulatory authority with unified supervision; in Chile the insurances regulator is the same as for the stock market; in the case of Argentina, the regulator is only for the insurance sector; and in the case of Peru, the regulator is responsible for – in addition to insurers – banks and private pension funds (insurers also come under the public offering sector and, as result, are subject to the regulation and supervision by the stock market regulator).

THE DEVELOPMENT POTENTIAL OF THE INSURANCE SECTOR IN LATIN AMERICA IMPLIES GREATER SCRUTINY BY THE INDUSTRY BY THOSE INVOLVED AND, THUS, THE ADOPTION OF BETTER CG PRACTICES WILL BECOME AN UNAVOIDABLE REQUIREMENT

Closely related to the previous point, globalisation of financial markets and the challenges that international competition brings to the markets in respect of the efficiency and quality of services provided, has led to a market integration process at regional level in recent years. These processes are also strengthened through the presence of financial conglomerates that operate in the various countries. In this way, the adopting of international standards on CG matters, accounting and auditing rules, financial regulation, etc. and codes of good practice with common elements is an efficient mechanism for enabling these convergence and integration processes in the countries in our region. Regional initiatives in this sense will have a positive impact on the aforementioned process.

In synthesis, important progress can be seen in several of the countries studied, which respond to industry initiatives and regulatory action. Therefore, the development potential of the insurance sector in Latin America (that still shows low penetration levels) implies greater scrutiny by the industry by those involved and, thus, the adoption of better CG practices will become an unavoidable requirement.

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European Non-Life insurance groups' RANKING 2012

FUNDACIÓN MAPFRE here presents the ninth yearly «European Non-Life Insurance Groups' Ranking, 2012». The classification has been based on the premium volume of each of the groups in 2012 in this business segment in all the countries where they operate. The information sources used have been the annual reports published by the companies themselves. The study also provides information on the groups' combined ratios, comments on the year's highlights and a table with the results posted by each group in its Non-Life branches.

CENTRO DE ESTUDIOS
FUNDACIÓN MAPFRE

ILLUSTRATION STOCK

EUROPE'S LARGEST NON-LIFE INSURANCE GROUPS IN 2012

Ranking by gross premium volume

Nº	GROUP	COUNTRY	NON-LIFE PREMIUMS 2011	NON-LIFE PREMIUMS 2012	%Δ	COMBINED RATIO[1] % 2011	COMBINED RATIO[1] % 2012	RANKING 2011
1	ALLIANZ	GERMANY	44,772	46,889	4.7	97.8	96.3	1
2	AXA	FRANCE	30,003	31,359	4.5	97.9	97.6	2
3	ZURICH	SWITZERLAND	24,729	27,559	11.4	98.9	98.4	3
4	GENERALI	ITALY	22,765	22,803	0.2	96.5	95.7	4
5	ACHMEA[2]	NETHERLANDS	16,219	17,235	6.3	96.1	99.6	5
6	MAPFRE	SPAIN	14,473	15,479	7.0	96.9	95.4	6
7	AVIVA	UNITED KINGDOM	11,195	11,749	4.9	96.8	97.0	8
8	RSA	UNITED KINGDOM	10,485	11,579	10.4	94.9	95.4	10
9	ERGO	GERMANY	12,402	11,323	-8.7	98.3	97.2	7
10	COVÉA	FRANCE	9,844	10,466	6.3	99.0	99.0	11

Total first 5	138,488	145,845	5.3
Total all 10	196,886	206,441	4.9

Source: *FUNDACIÓN MAPFRE. Own work based on consolidated financial statements (under IFRS control).*

[1] *The combined ratio is the one presented by each company in its annual report. If the Non-Life and Health ratios are given separately, we have used the Non-Life ratio.*

[2] *New name of Eureko. Combined ratio in the non-Life segment in the Netherlands.*

General Comments

2012 was marked by tensions resulting from the crisis in Europe and expectations of weak growth in the economic cycle at global level. The countries with economic difficulties made progress in their restructuring programs for the financial sector and in structural reforms, though these policies brought with them a decline in economic growth.

With respect to the European insurance industry, revenues from Non-Life insurance premiums grew in some of the more mature markets due to rises in the rates in the personal and commercial lines, which offset fewer vehicle registrations and the purchase of less cover. Premiums declined in the markets most affected by an unfavorable economic environment.

With respect to claims, the global insurance industry had substantial losses for the second year in a row due to natural disasters, with costs of around 71 billion US dollars[1]. Although the damage was less than in 2011, it was higher than the average in recent years. North America was the worst affected region. Most of the damage was caused by Hurricane Sandy, which hit the north-east coast of

[1] Source: Sigma No. 2/2013

the United States in October after leaving a trail of devastation in the Caribbean. Other events that led to major insurance losses in the United States were the summer drought affecting the most productive agricultural region in the country and the severe storms in March and April.

In Europe, the natural disasters had insured damage costing approximately 5.5 billion dollars, most of which was the result of the earthquake that hit the region of Emilia Romagna in the north of Italy in May, causing damage in numerous industrial facilities and historical buildings. The continent was also affected again by serious weather phenomena, such as the extremely low temperatures and intense snow that paralyzed a large part of Europe at the start of the year and the torrential rains that led to major losses due to flooding in the United Kingdom.

In this environment, the ten biggest European insurance groups in the Non-Life segment increased their revenues by 4.9% to 206,441 million euros, with increased premium volumes in euros in all the groups, except for the German Ergo, whose premiums fell by 8.7% due to the sale of some of its subsidiaries. To explain some of the increases it is important to take into account the effect of the exchange rate on them. The biggest increases (Zurich and RSA) have been influenced by gains in the US dollar and pound sterling against the euro (their reports are published in these currencies). In dollar and pound terms, the volume of Non-Life premiums in these groups grew by 3.0% and 2.9% respectively. This factor is also what led the Aviva

group to increase its revenue expressed in euros, while in pound sterling the premiums fell by 2.2%.

Allianz increased its premium revenue in 2012 by 4.7%, thanks mainly to the good performance of its subsidiaries in Latin America and Australia and the growth of the Allianz Global Corporate & Specialty business. It continues to head the ranking, more than 15 billion euros ahead of its immediate follower, the Axa group. Next in order come Zurich, Generali, Achmea and MAPFRE. The six groups that top the ranking have not changed their positions with respect to 2011. The British companies Aviva and RSA are in seventh and eighth place, respectively, having improved their classification at the cost of the German Ergo and the French company Groupama. Groupama is now no

THE GLOBAL INSURANCE INDUSTRY HAD SUBSTANTIAL LOSSES FOR THE SECOND YEAR IN A ROW DUE TO NATURAL DISASTERS, WITH COSTS OF AROUND 71 BILLION US DOLLARS

GROUP	% CLAIMS RATIO		% EXPENSE RATIO		% COMBINED RATIO	
	2011	2012	2011	2012	2011	2012
RSA	66.3	65.9	28.6	29.5	94.9	95.4
MAPFRE	69.2	67.4	27.7	28.0	96.9	95.4
GENERALI	69.0	68.2	27.6	27.5	96.5	95.7
ALLIANZ	69.9	68.3	27.9	28.0	97.8	96.3
AVIVA[1]	64.4	64.2	32.4	32.8	96.8	97.0
ERGO	62.9	62.2	35.4	35.0	98.3	97.2
AXA	70.9	70.8	27.0	26.8	97.9	97.6
ZURICH	72.0	70.3	26.9	28.1	98.9	98.4
COVÉA	N/A	N/A	N/A	N/A	99.0	99.0
ACHMEA[2]	69.7	72.9	26.4	26.7	96.1	99.6

Source: *FUNDACIÓN MAPFRE. Own work based on annual reports.*
Nota: *In ascending order by combined ratio for 2012.*

[1]Continuing operations. [2]Non-Life segment Netherlands.

longer in the top ten European insurers in the Non-Life segment. It has been replaced by another French insurer, Covéa, which is in tenth place with a premium volume of 10,466 million euros.

In general terms, revenue growth was due to higher volume (number of policies), higher rates in the developed markets and the boost from emerging markets in the Asian-Pacific region and Latin America. In contrast, the falls in premiums were due to more restrictive underwriting policies, as well as low levels of economic activity in some markets.

The combined ratio improved in six of the ten groups, due above all to lower claims, as in 2011 most had been severely affected by the major catastrophic events. As we mentioned above, the biggest claims were due to the tropical storm Sandy, the earthquakes in Italy and bad weather affecting the European continent. RSA and MAPFRE had the best combined ratio.

This improvement in the technical result led to a major increase in the results before tax of the Non-Life segment, as the financial results were in general lower than in the previous year. The combined earnings of eight of the ten groups that make up this ranking[2] were 14,618 million euros in 2012, a rise of 15.6% compared with 2011.

The three groups topping the ranking, Allianz, Axa and Zurich, are also those with the best results, followed by MAPFRE and Covéa, the sixth and tenth group, respectively, by premium volume. Of particular note are the growth in Covéa (40.8%),

REVENUE GROWTH OF THE LARGEST EUROPEAN INSURANCE GROUPS WAS DUE TO HIGHER VOLUME, HIGHER RATES IN THE DEVELOPED MARKETS AND THE BOOST FROM EMERGING MARKETS IN THE ASIAN-PACIFIC REGION AND LATIN AMERICA

Millions of euros

NON-LIFE RESULTS[1] 2011/2012			
GROUP	2011	2012	% VAR. 2012/11
ALLIANZ	4,017	4,901	22.0
AXA	2,702	3,170	17.3
ZURICH	1,808	2,360	30.5
MAPFRE	1,182	1,247	5.5
COVÉA	583	821	40.8
AVIVA	699	782	11.9
GENERALI	955	747	-21.8
RSA	704	590	-16.1
TOTAL	12,651	14,618	15.6

***Source**: FUNDACIÓN MAPFRE. Own work based on annual reports.*

[1] Result before tax and minority interests.

Zurich (30.5%) and Allianz (22.0%). In the case of Covéa and Zurich, this excellent performance was the result of the performance of its investments; and in the case of Allianz it was mainly due to an improved operating result.

There were falls in the groups Generali and RSA. The fall in Generali was caused by a decline in the non-operating result, due to the increase in impairment losses on financial assets. In the case of RSA, there was a slight increase in the combined ratio of 0.5 pp, as a result of the bad weather in the United Kingdom and the earthquakes in Italy in May, as well as a decline in the financial results.

2 The segmentation of the Ergo and Achmea groups means the results of the Non-Life branches cannot be calculated.

Comments by group

ACHMEA

In 2012, the gross premiums written in the Non-Life segment amounted to 3,764 million euros, 1.4% down on the previous year. The fall was due largely to lower revenue from Income Protection insurance, which was not sufficiently offset by growth in the Fire and Casualty branches.

Gross premiums written in Health insurance were up by 8.6% to 13,471 million euros, due mainly to the merger with De Friesland Zorgverzekaraar (DFZ).

The above figures include the international business, whose premiums fell in 2012 as a result of a stricter underwriting policy, tighter local markets and the negative exchange-rate effects.

The result of the Non-Life segment in Holland fell from 329 million euros in 2011 to 207 million euros. This was mainly due to IT investment, higher claims and lower freeing of provisions compared with 2011. An additional provision of 180 million euros in long-term Disability insurance impacted the result significantly, in addition to the costs related to the sale of Achmea Vitale.

Premiums and results in millons of euros

ACHMEA			
MAIN INDICATORS	2011	2012	CHANGE
Premiums	**16,219**	**17,235**	**6.3%**
Health	12,400	13,471	8.6%
Non-Life	3,819	3,764	-1.4%
Combined ratio[1] (%)	**96.1**	**99.6**	**3.5 p.p.**
Claims ratio (%)	69.7	72.9	3.2 p.p.
Expense ratio (%)	26.4	26.7	0.3 p.p.
Combined ratio[2] (%)	**94.7**	**95.1**	**0.4 p.p.**
Claims ratio (%)	85.2	84.6	-0.6 p.p.
Expense ratio (%)	9.5	10.5	1.0 p.p.

***Note**: p.p. = percentage points.*
[1] Non-Life Netherlands. [2] Health Netherlands.

The result before tax of Health in Holland fell by 5% to 286 million euros, including the contribution from DFZ. This fall was due to the exceptional allocation of expenses related to services provided in previous years.

The result before tax in the International segment, including Life insurance, was a negative 83 million euros (2011: negative 70 million euros), due mainly to a number of exceptional measures.

ALLIANZ

Gross premiums grew by 4.7% to 46,889 million euros, thanks mainly to the good performance of its subsidiaries in Latin America and Australia, and the growth of the Allianz Global Corporate & Specialty business. The exchange rate had a positive effect as a result of the stronger US dollar, Australian dollar and pound sterling against the euro.

The technical result improved thanks to the fall in the claims ratio, lower claims for natural disasters and a favorable price environment. Losses due to natural disasters had had a significant impact on the 2011 accounts as a result of the earthquakes in Japan and New Zealand and the flooding in Thailand. The biggest impact in 2012 was from Hurricane Sandy. However, there were more claims in Crop insurance

in the United States due to the drought, and in Credit insurance. The expense ratio increased slightly by 0.1 pp, due to the effect of new acquisitions.

The financial result fell because of the low interest rates and lower revenue from dividends. Despite this, the result before tax in the Property & Casualty segment increased by 22% to 4,901 million euros.

Premiums and results in millons of euros

ALLIANZ			
MAIN INDICATORS	2011	2012	CHANGE
Premiums	44,772	46,889	4.7%
Combined ratio (%)	97,8	96.3	-1.5 p.p.
Claims ratio (%)	69,9	68.3	-1.6 p.p.
Expense ratio (%)	27,9	28.0	0.1 p.p.
P&C result	4,017	4,901	22.0%
Operating	4,196	4,719	12.5%
Non-operating	-179	182	–

***Note**: p.p. = percentage points.*

AVIVA

A strict underwriting policy and adverse economic conditions influenced the fall in premiums in the United Kingdom, its main market, and Ireland. In Canada premiums increased due to improved levels of customer retention, and higher rates in both personal and commercial lines. Revenue from premiums fell in the markets of France, Italy and Turkey, but rose substantially in Asia, above all in Singapore and Indonesia.

Premiums and results in millons of euros

AVIVA			
MAIN INDICATORS	2011	2012	CHANGE
Premiums (€)	**11,195**	**11,749**	**4.9%**
Premiums (£)	9,750	9,535	-2.2%
Combined ratio (%)	**96.8**	**97.0**	**0.2 p.p.**
Claims ratio (%)	64.4	64.2	-0.2 p.p.
Expense ratio (%)	32.4	32.8	0.4 p.p.
Profit (€)	**699**	**782**	**11.9%**
Profit (£)	**609**	**635**	**4.3%**
Operating result (€)	1,074	1,100	2.5%
Operating result (£)	935	893	-4.5%

Note: *p.p. = percentage points.*

The operating result from continuous operations in General Insurance and Health fell by 4.5% to 893 million pounds. Excluding RAC (the roadside vehicle assistance company that the group sold to Carlyle in 2011), the operating result increased by 4% due to the good performance of its businesses in Canada and in the United Kingdom, together with an improvement in Italy.

The combined ratio of general insurance remained stable at 97.0%, with a slight fall in the claims ratio and a small increase in the expense ratio.

Returns on long-term investment in assets from continuous operations in General and Health insurance fell on the figure for the previous year.

AXA

Gross revenues from the Property & Casualty segment increased by 4.7% to 28,499 million euros as a result of increased rates in mature markets and greater volumes in high-growth markets. The personal lines grew above all in Germany, the United Kingdom and Ireland and in the Mediterranean and Latin America. Commercial lines increased mainly in the Mediterranean region and Latin America, the United Kingdom and Ireland, France and Asia.

In March 2012 AXA and HSBC announced that they had reached an agreement for the French group to buy the HSBC P&C businesses in Hong Kong, Singapore and Mexico. In addition, AXA would benefit from an exclusive 10-year bankassurance agreement with HSBC in these countries and in India, Indonesia and China. In November 2012 AXA announced it had completed the acquisition of the HSBC P&C businesses in Hong Kong and Singapore.

The gross revenues of the International segment increased by 2.5%, mainly as a result of the positive performance of the portfolio and higher rates; this was partially offset by the non-renewal of a major contract for Third-Party Liability and the fall in Aviation rates.

The results of Property & Casualty increased due to two factors: an improved claims ratio as rates increased, with a lower claims rate and a less impact from natural disasters; and by the reduction in the expense ratio. The investment result fell mainly due to lower revenue from fixed-income activity in France and Germany.

The results of International Insurance fell, due mainly to the worse results from AXA Liabilities Managers and AXA Global P&C, and lower earnings in the run-off portfolios of P&C.

Premiums and results in millons of euros

AXA			
MAIN INDICATORS	2011	2012	CHANGE
Premiums	**30,003**	**31,359**	**4.5%**
Property & Casualty	27,212	28,499	4.7%
International insurance	2,791	2,860	2.5%
Combined ratio P&C(%)	**97.9**	**97.6**	**-0.3 p.p.**
Claims ratio (%)	70.9	70.8	-0.1 p.p.
Expense ratio (%)	27.0	26.8	-0.2 p.p.
Profit	**2,702**	**3,170**	**17.3%**
Property-Casualty	2,288	2,858	24.9%
International insurance	414	312	-24.6%

Note: *p.p. = percentage points.*

COVÉA

The Non-Life premiums of the Covéa group amounted to 10,466 million euros in 2012, a rise of 6.3% on the previous year, with a positive performance in the domestic and international businesses. In the case of international business growth was boosted by the consolidation of the British subsidiary, acquired in 2011, in the whole of 2012. In France, Covéa continues to grow in all the Non-Life branches, including Automobile.

The operating result of the Non-Life segment improved significantly thanks to the recovery of the financial result. The combined ratio remained at 99.0%, with a fall in the claims frequency in Autos and the claims ratio in Home deteriorating because of the bad weather at the start of the year.

Premiums and results in millons of euros

COVÉA			
MAIN INDICATORS	2011	2012	CHANGE
Premiums	9,844	10,466	6.3%
Combined ratio (%)	99.0	99.0	0.0 p.p.
Profit	583	821	40.8%

Note: *p.p. = percentage points.*

ERGO

The premiums of the Non-Life branches amounted to 11,323 million euros in 2012, a fall of 8.7% as a result of the performance of the different segments:

Premiums and results in millons of euros

ERGO			
MAIN INDICATORS	2011	2012	CHANGE
Premiums	12,402	11,323	-8.7%
Health	5,795	4,932	-17.4%
Property&Casualty Germany	3,087	3,138	1.6%
International	2,428	2,318	-4.5%
Travel insurance	485	460	-5.2%
Direct insurance	427	475	11.3%
Combined ratio P&C(%)	98.3	97.2	-1.1 p.p.
Claims ratio (%)	62.9	62.2	-0.7 p.p.
Expense ratio (%)	35.4	35.0	-0.4 p.p.

Note: *p.p. = percentage points.*

- Health segment fell by 17.4% in premium volume, because at the end of 2011 Ergo sold its stake in the international Health insurance business to Munich Health Holding, another company in the Munich Re group. The business in Germany rose slightly by 0.5%.

- Revenues from premiums in the Property & Casualty segment in Germany increased by 1.6%. The main boost to growth was once more from the Commercial and Industrial risks business. In contrast, Legal Protection and Accidents fell back slightly.

- Premium volumes in the Travel Assistance insurance fell by 5.2% due to the non-renewal of loss-making contracts.

- The Direct insurance segment grew by 11.3%, boosted above all by the Health branch.

THE PREMIUMS OF THE NON-LIFE BRANCHES OF ERGO AMOUNTED TO 11,323 MILLION EUROS IN 2012, A FALL OF 8,7% AS A RESULT OF THE PERFORMANCE OF THE DIFFERENT SEGMENTS

- Non-Life premiums in the International business fell by 4.5%, due to the sale of its Portuguese subsidiary and of the South Korean company Ergo Daum Direct.

GENERALI

In the Non-Life segment the premium volume rose slightly by 0.2%, thanks above all to Germany (up 7%), where there was a notable improvement in the Accidents and Health line following the launch of a new product in this market. Automobile insurance also performed positively, benefiting from an increase in the average premium and in the portfolio. Central and Eastern European countries also performed outstandingly (up 9.8%), particularly in lines other than Automobiles. The fall in revenues in Italy (down 2%) was influenced by weak domestic demand, particularly in the Automobile branch, while in the rest of the Non-Life branches there was only growth in individual lines (2%). France reported growth (0.2%) in all the lines of the business other than Automobile.

The operating result increased by 6.6% due to the improved technical result, and above all the claims ratio, despite the significant impact of catastrophic events. The investment result fell due to lower revenue from real-estate investments as the weight of these assets in the Non-Life segment declined.

The non-operating result worsened to a negative 916 million euros (a negative 606 million in 2011), due to increased impairment losses on financial assets, mainly in the equity portfolio, and the fall in net gains made. Finally, the overall Non-Life result for 2012 was 747 million, a fall of 21.8% on the figure for the previous year.

Premiums and results in millons of euros

GENERALI			
MAIN INDICATORS	**2011**	**2012**	**CHANGE**
Premiums	22,765	22,803	0.2%
Combined ratio (%)	96.5	95.7	-0.8 p.p.
Claims ratio (%)	69.0	68.2	-0.8 p.p.
Expense ratio (%)	27.6	27.5	-0.1 p.p.
Profit	955	747	-21.8%
Operating	1,561	1,664	6.6%
Non-operating	-606	-916	–

Note: *p.p. = percentage points.*

MAPFRE

The MAPFRE group increased its revenues from premiums by 7.0% to 15,479 million euros, thanks to the good performance of the business abroad, above all in Brazil and the United States. In Spain the Non-Life premiums amounted to over 4,427 million euros, 5% down on the previous year, due to the pronounced fall in domestic demand. There was major growth in the countries of Latin

Premiums and results in millons of euros

MAPFRE			
MAIN INDICATORS	2011	2012	CHANGE
Premiums	14,473	15,479	7.0%
Combined ratio (%)	96.9	95.4	-1.5 p.p.
Claims ratio (%)	69.2	67.4	-1.8 p.p.
Expense ratio (%)	27.7	28.0	0.3 p.p.
Profit	1,182	1,247	5.5%

***Note**: p.p. = percentage points.*

America in all branches, mainly caused by the consolidation of the businesses with Banco do Brasil. Practically all the countries in the zone posted increases. In the other countries where the group has insurance operations there was notable growth in the United States and Turkey.

The combined ratio improved by 1.5 percentage points to 95.4%, reflecting the positive performance of claims in the reinsurance and international businesses, which in 2011 were particularly affected by earthquakes and adverse weather conditions. The increased expense ratio reflects the greater weight of the international business, partly offset by a positive effect in Brazil of the incorporation of some business lines previously included in Life Insurance. As a result, the result of the Non-Life business improved by 5.5% on the previous year to 1,247 million euros.

RSA

The gross premium volume of RSA rose by 2.9% on the previous year to 9,397 million pounds in 2012, thanks to the significant growth of revenues in emerging markets and Canada. Canada posted sound organic growth in the personal and commercial lines, complemented by the consolidation of L'Union Canadienne, whose acquisition was completed in October. Premiums remained stable in the United Kingdom and Western Europe. In Scandinavia net premiums fell due to the exchange-rate effect.

The technical result remained steady at 375 million pounds, with a combined ratio of 95.4%. This amounts to a slight increase in the combined ratio of 0.5 pp, as a result of the bad weather in the United Kingdom and the earthquakes in Italy in May.

The investment result fell by 11%, mainly reflecting lower returns on sovereign and corporate bonds. As a result of the above, the profit before tax was 479 million pounds (590 million euros), 21.9% down on the previous year (down 16.1% in euro terms).

Premiums and results in millons of euros

RSA			
MAIN INDICATORS	2011	2012	CHANGE
Premiums (€)	10,845	11,579	10.4%
Premiums (£)	9,131	9,397	2.9%
Combined ratio (%)	94.9	95.4	0.5 p.p.
Claims ratio (%)	66.3	65.9	-0.4 p.p.
Expense ratio (%)	28.6	29.5	0.9 p.p.
Profit (€)	704	590	-16.1%
Profit (£)	613	479	-21.9%

***Note**: p.p. = percentage points.*

ZURICH

In 2012 gross General insurance premiums increased by 3% to 35,610 million US dollars. The increase in premiums was notable in the international markets due to both organic growth and acquisitions, as well as in North America. In Europe revenues continue to be affected by more sluggish economic activity, above all in some of the biggest markets such as the United Kingdom, Spain and Italy.

The operating result fell by 6.7%. It was affected negatively by two factors: first, for the second year in a row there were above-average

Premiums and results in millons of euros

ZURICH			
MAIN INDICATORS	2011	2012	CHANGE
Premiums (€)	24,729	27,559	11.4%
Premiums (USD)	34,572	35,610	3.0%
Combined ratio (%)	98.9	98.4	-0.5 p.p.
Claims ratio (%)	72.0	70.3	-1.7 p.p.
Expense ratio (%)	26.9	28.1	1.2 p.p.
Profit (€)	1,808	2,360	30.5%
Profit (USD)	2,528	3,049	20.6%
Operating profit (€)	1,607	1,623	1.0%
Operating profit (USD)	2,247	2,097	-6.7%

***Note**: p.p. = percentage points.*

natural disasters and losses related to the weather, including the tropical storm Sandy; and second, the Group revised its business figures in Germany and strengthened provisions against claims corresponding to some long-tail businesses. A better result from investments not included in the operating result of the business offset this decline and gave rise to a net result of 3,049 million dollars, 20.6% up on the figure in 2011.

Percentage of Non-Life insurance

Figure 1. Non-Life business as a percentage of total premiums

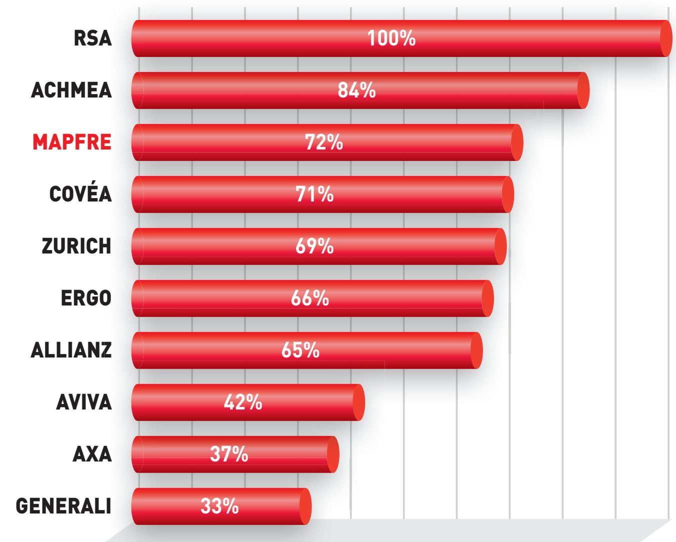
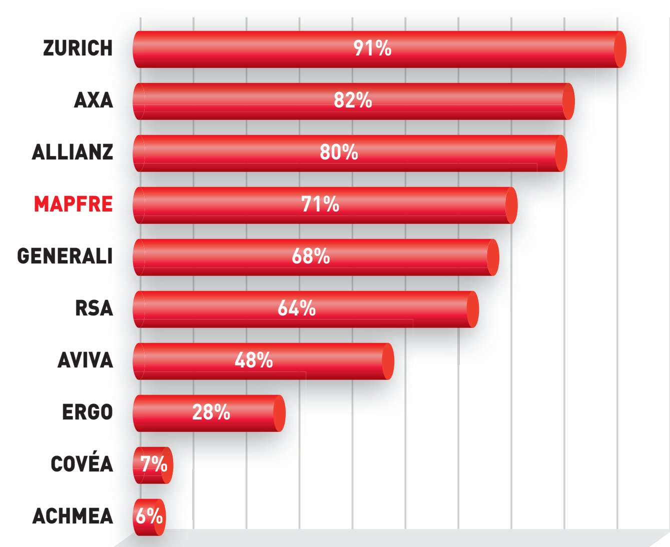


Figure 2. Percentage of Non-Life business abroad



Solvency

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

- Ergo does not publish the group's solvency ratio because, as it is part of the Munich Re group, it is the latter which must present this information at the group level. For this reason, this figure is given for all the companies in the ranking except Ergo.

- The information refers to the solvency level for all the operations carried out by each group.

- The information is not harmonized, because the specific way of determining the regulatory capital depends on the laws in each country.

The figure provided shows the group's ratio of compliance with the mandatory solvency capital level. In 2012, the European insurance groups that are part of this study continued to be well capitalized. The Covéa group has the highest solvency level, with a figure of 3.9 times the minimum required by law.

EUROPE'S LARGEST NON-LIFE INSURANCE GROUPS 2012
Solvency level

GROUP	2011	2012
COVÉA	3,27	3,92
MAPFRE	2,87	2,61
AXA	1,88	2,33
ACHMEA	2,04	2,07
ALLIANZ	1,79	1,97
RSA	2,00	1,90
ZURICH[1]	1,83	1,78
AVIVA	1,30	1,72
GENERALI	1,17	1,50

[1] *January 2012 and July 2012, respectively, acording to the Swiss Solvency Test.*

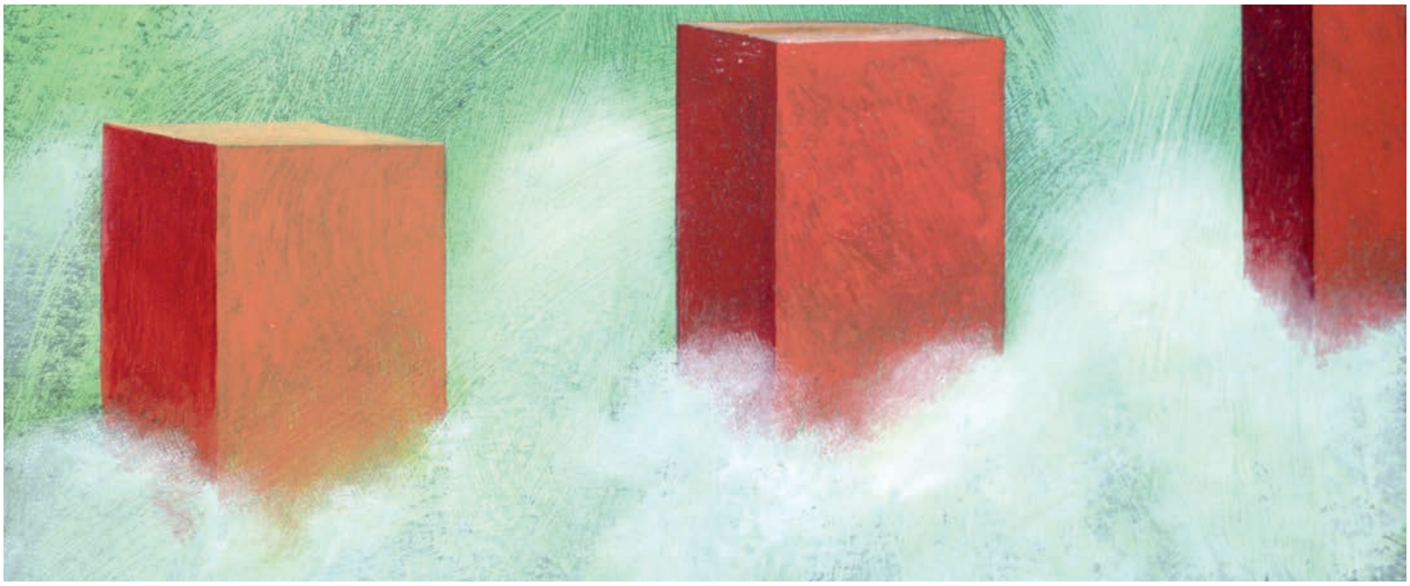
Methodology

- The ranking was prepared using gross premium volumes (direct insurance plus accepted reinsurance) in the Lon-Life branches. It should be noted that the ranking does not include Health insurance premiums that are assigned to the Life branch[3], but it does feature those which are classified as part of Non-Life or explicitly differentiated.

- Due to the application of IFRS 8, 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 possible the criterion used in previous years has been retained.

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

THE MAPFRE GROUP INCREASED ITS REVENUES FROM PREMIUMS BY 7.0% TO 15,479 MILLION EUROS, THANKS TO THE GOOD PERFORMANCE OF THE BUSINESS ABROAD, ABOVE ALL IN BRAZIL AND THE UNITED STATES



- 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.

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

- 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».

- The information on solvency levels refers all of the operations carried out by each group. The figure refers to the group's ratio of compliance with the mandatory solvency requirement.

- For comparative purposes, we have updated revenue and earnings figures for 2011 that were published by the insurance groups in their annual reports for 2012.

AVERAGE EXCHANGE RATE USED*

CURRENCY	2010	2011	2012
Pound sterling (GBP)	1.169	1.148	1.232
Dollar (USD)	0.758	0.715	0.774

* *Spot price.*

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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