

STRATEGIES IN THE INTERNATIONALISATION OF THE SPANISH INSURANCE COMPANIES IN THE TWENTIETH CENTURY, by José L. García-Ruiz (Complutense University of Madrid) and Leonardo Caruana (San Pablo-CEU University)*

Abstract

At the outbreak of the Spanish Civil War (1936-1939) insurance premiums were about 1 percent of GDP, of which life insurance was the largest item. Foreign companies had played a key role in the first stages of the development of insurance in Spain, but they were losing position in the market because Spanish companies were becoming more competitive. In the 1940s and 1950s, Franco's dictatorship was hostile to foreign capital and the nationalization of the sector advanced rapidly. After 1959, Spain evolved gradually towards a market-oriented and open economy. These changes were reflected in the insurance industry. Spanish insurance companies tried to compete in foreign markets but with little success. In 1986, Spain joined the European Economic Community and its insurance industry was completely transformed. In the end, only the leaders of the industry, *La Unión y El Fénix Español*, first, and *Mapfre*, afterwards, have become real global players.

Introduction

At the beginning of the 1990s, a survey of the Transnational Corporations and Management Division of United Nations (United Nations, 1993) reported about the insurance business in 133 countries of the World. According to this survey, only 7 countries allowed total freedom to insurance companies, whereas 35 were extremely restrictive. According to the report, the life insurance branch was less international than the non-life branch. With data of the 1980s, premiums underwritten through branches abroad were roughly 4 per cent of the total business in life and 9 percent in non-life. In addition, only 4 percent of the volume of premiums for direct insurance and reinsurance in non-life was obtained in cross-border operations.

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The United Nations survey pointed out that the low level of international transactions in the insurance business was explained mainly by two factors: 1) the difficulties, specially in life insurance, to operate efficiently in idiosyncratic markets that require taking great care of the client and carrying out very labour-intensive work; 2) the restrictions due to local regulations that defend more the interests of national companies than those of the foreign ones. But these problems were increasingly being solved: innovations in technology that provide faster information and better communication were solving the first problem and progress in bilateral and multilateral agreements were reducing the difficulties associated to the second problem.

Reinsurance has been always the line of business with less international restrictions. Governments early understood that national companies have much to gain if the surplus of risk can be exchanged in the world markets. In the nineteenth century, London was the centre of world reinsurance because the main experts worked there and they developed an efficient network of insurance companies spread in the entire World. After the Second World War, companies of the United States, Germany (e.g. Munich Re) and Switzerland (e.g. Swiss Re) achieved great success in international reinsurance. According to the survey of the United Nations, between 1962 and 1983, the participation of foreign firms in reinsurance, through branches or cross-border operations, increased from 26 to 41 per cent.

Keeping in mind the figures provided by the United Nations and the theory of “intangible assets” on multinational investment (Hymer, 1960; Caves, 1971; Buckley and Casson, 1985; Dunning, 1988), in this paper we will analyse the process of internationalisation and the rise of multinationals in the Spanish insurance industry. Our starting point will be the onset of the Franco dictatorship after the civil war that took place in Spain between 1936 and 1939. We will divide the period into two: the Franco era (1939-1975) and the period of democracy that followed to the death of the dictator, when Spain joined the European Economic Community (EEC) and participated in the current globalisation process.

Insurance and Franco (1939-1975): autarky and slow openness

The autarky period (1939-1958)

In April 1939, the army of General Franco declared its victory in the Spanish Civil War. Since that moment, Franco started the construction of a “New State” under a

dictatorship with nationalist and interventionist aims in economic policy (Tortella, 2000; Barciela *et al.*, 2001). With this economic model, the Franco regime tried to solve the problems of a backward country, changing completely the policy followed since the beginning of the century and ignoring what had been achieved up to that moment. For instance, the progress of the Spanish insurance sector had been evident in the antebellum years: the penetration ratio (premiums/GDP) was 0.30 percent in 1893, 0.37 in 1900, 0.53 in 1914, 0.46 in 1919 and around 1 at the outbreak of the civil war in 1936 (García Ruiz & Caruana, 2006). Thus, the Spanish penetration ratio of insurance was already at the level that many consider the beginning of the “take-off” in the industry (Wasow and Hill, eds, 1986, p. xvi; also Cummins and Bertrand, eds, 2007).

Frax and Matilla (1998) have emphasised the good performance of the Spanish insurance industry after First World War. During the dictatorship of Primo de Rivera (1923-1930), national companies intensified their activity under a protectionist economic policy. At the end of the period, national companies controlled two thirds of the Spanish business of insurance (table 1). The struggle between national and foreign companies becomes obvious when we recall that they created two separate employers’ organisations, the *Agrupación Española de Compañías Extranjeras de Seguros* (1926) and the *Federación de Compañías Españolas de Seguros* (1928) (Pons, 2002 and 2003).

Table 1. Percentage of direct insurance underwritten in Spain by national companies, 1910-1969

	%		%
1910	60.88	1945	81.93
1915	61.63	1950	83.90
1920	61.83	1954	85.35
1925	64.63	1960	88.56
1930	66.07	1965	87.78
1934	65.41	1969	85.40
1942	79.90		

Sources: Calculation is based on data from Frax and Matilla (1996) up to 1934, *Memoria* of the *Dirección General de Seguros* for 1942 to 1954 and *Seguros* for 1960 to 1969.

During the early years of the Franco regime the control by national companies of the insurance industry increased considerably. However, this process happened in a framework that preserved the private ownership of the companies. A very singular case was related to the German companies affected by the “Safehaven” program (1945-1952) approved by the Bretton Woods Conference. The Spanish government used its influence to prevent the falling of those companies under the control of their international rivals as a punishment for their cooperation with Hitler’s government, as was the Allies’

intention (Frax and Matilla, 2006). In the end, the main intervention of the Franco regime was the implementation of new forms of social insurance, such as the National Health Insurance (1942) and several family subsidies (since 1938).

All along the autarky period, Spain was very short of hard currency (Martínez Ruiz, 2003). During the Second World War, the Spanish administration tried to stop the outflow through insurance and reinsurance by establishing in 1942 a *Comité Oficial de Seguros Marítimos*, that in July 1945 was renamed *Comité Oficial de Reaseguros* (COR). One percent of the reinsurance flowed across the border have to be paid to the COR, that also was empowered to intervene in order to avoid negative balances. With the same purpose it was created the *Consejo Superior de Reaseguros* (CSR), which was presided by the Minister of Finance, acting as vicepresidents the head of the *Dirección General de Seguros* (the official regulator and supervisor) and the head of the *Instituto Español de Moneda Extranjera* (the institution devoted to foreign exchange control). Foreign companies had one delegate in the board. This intervention ended with the liberalisation of 1952 when the COR and the CSR were abolished.

Years of development (1959-1975)

In early 1950s, thanks to American support, the Franco regime was accepted in the international organisations and Spain started to normalise its economic situation. The decisive Stabilization Plan of 1959 was the result of the combined efforts of outstanding Spanish economists (e.g. Joan Sardá) and experts of the Bretton Woods institutions. The opening of Spain was gradual, but the authorities and many firms began to consider the convenience of trying to make inroads in the world markets—in parallel, the market share of national companies slightly declined during the 1960s. In the insurance industry, *Catalana Occidente* tried in 1960 to enter the French and the Moroccan markets, but failed (Catalana Occidente, 1989, p. 30). Soon afterwards, Gabriel de Usera, CEO of *La Estrella*, spoke in 1964 about big commercial opportunities in the “fraternal continent”, i.e. Latin America (Usera, 1964). Usera promoted *Goya*, a joint venture between *La Estrella, Mercantile & General* and *Royal Insurance* that was involved in Latin America business until December 1972, when the Managua’s earthquake caused it huge losses (Hernando de Larramendi, 2000, pp. 642, 643 and 716).

Official insurance statistics started to inform about the direct insurance that was underwritten abroad since mid-1960s (table 2). The figures are clear: the

internationalisation of the Spanish companies failed in the 1970s. The world crisis coincided with a severe internal economic and political crisis in Spain and the result was a drastic reduction in the level of internationalisation of the Spanish insurance companies. In mid-1980s the *Dirección General de Seguros* ceased to provide information about the matter because of its low relevance and the concentration of the operations in only one company: *La Unión y El Fénix Español*.

Table 2. The foreign business in direct insurance of the Spanish private insurance firms, 1966-1980 (million pesetas and percentages)

	Life Abroad	As percentage of total life business	Non-life Abroad	As percentage Of total non-life business
1966	182.29	7.54	2,053.60	6.70
1970	308.08	6.77	2,842.91	7.57
1975	393.35	3.01	5,063.79	5.60
1980	815.1	2.39	11,583.49	4.75

Source: *Dirección General de Seguros*. Our elaboration.

Since the promulgation of a new Insurance Law in 1954, the official statistics started to publish information about reinsurance. Table 3 shows that the figures grew very fast, something that can be mainly explained by the increase in the penetration ratio (premiums/GDP): around 1 per cent in the 1950s; 2 per cent in 1960s, 1970s and early 1980s; 4 per cent since mid-1980s to mid-1990s; around 5 per cent in recent years (5 per cent is considered to be the threshold of modernisation) (García Ruiz and Caruana, 2006). In accepted reinsurance, specialised firms lost importance in the first moments, but afterwards they were leading the market. The largest part of the business is in the non-life sector. Accepted reinsurance operations have gradually come from abroad. Ceded and retroceded reinsurance has tended to be well above the accepted, but a considerable proportion remains in Spain.

Table 3. Summary of reinsurance business in Spain, 1955-2005 (million pesetas and percentages)

	1955	1970	1985	2005
Reinsurance accepted	1,418.52	6,118.71	34,310.17	355,899.65
% Specialised firms	49.49	36.32	59.24	68.30
% Life	12.41	8.95	7.33	7.43
% From Spain	n.a.	79.79	71.68	59.00
Reinsurance ceded and retroceded	1,886.00	14,170.06	135,709.31	690,335.51
% Specialised firms	19.00	7.91	7.31	11.23
% Life	14.59	7.78	7.62	9.81
% Destination Spain	n.a.	39.26	24.94	50.06
Retention (%)	89.01	80.87	81.92	91.55

Notes: The retention ratio is calculated in percentage as: (Direct insurance + Reinsurance Accepted – Reinsurance ceded and retroceded) / Direct insurance.

Sources: *Dirección General de Seguros*. Our elaboration.

A “*rara avis*” in Spanish insurance: *La Unión y El Fénix Español*

El Fénix Español was established in Madrid on 8th February 1864. It was a Spanish firm promoted by the French businessman Isaac Pereire (the information of this part is based on *La Unión y El Fénix Español, 1964*). The company started with the backing of an important French financial institution, the *Crédit Mobilier*, also founded by Isaac Pereire in 1850 in Paris, helped by his brother Émile, with the purpose of “democratising” loans, according to the Saint-simonian principles they shared. The affiliates of the *Crédit Mobilier* in the Netherlands and Italy collaborated in the matter. Therefore, the new Spanish insurance company was born well inserted in the process of globalisation that took place in the mid-nineteen century.

The head office of *El Fénix Español* in Madrid and a branch in Paris were opened simultaneously. A commercial network with 25 agents was working in Spain at the end of 1864, which shows the strength of the company. One year later the number of agents had increased up to 38. The main business was fire insurance (it explains the name of the company), a class of insurance much in demand at those times. In the first decades of the twentieth century, *La Unión y El Fénix Español* —the company was renamed in 1879 after a merger with another Franco-Spanish firm; see Tortella, 1977— continued the same policy, but looked for reinsurance with companies from many other countries (*La Unión y El Fénix Español, 1964*, pp. 135-136 and 209).

The first Insurance Law was issued in 1908 and it was quite permissive with foreign capital and cross-border operations. The first important restrictions did not appear until the 1930s. In July 1931, the Spanish government intervened to forbid insurance underwritings in foreign currency, declaring illegal the contracts made abroad by Spanish residents or affecting to goods or properties located in Spain. These measures were adopted as part of a broader policy of exchange rate control. Restrictions on international business affected *La Unión y El Fénix Español*, the only true Spanish multinational in the insurance industry. Its Paris branch was devoted since the beginning to reinsurance of marine, fire, life and accident risks. In 1883, the company started to underwrite direct insurance in France, the Netherlands and Belgium (with a small-scale precedent in Portugal in 1868). The company bought a building to improve the premises in Paris in 1891. Short afterwards, in 1898, the Paris branch started to offer employers’ liability insurance. This class of insurance was so risky that it moved the French state to enact the Insurance Law of 1905. To comply with the new law, *La Unión y El Fénix*

Español created an affiliate specialised in life insurance to operate in France, though its headquarters were located in Madrid. The possibility of creating a similar affiliate for reinsurance was seriously explored, but the final decision was negative (La Unión y El Fénix Español, 1964, p. 210).

After the First World War, *La Unión y El Fénix Español* was completely controlled by the Spanish shareholders, with the *Banco Español de Crédito* at the top. But the international scope of the company did not change. In November 1922, the CEO of the company, Francisco Setuain, stated that *La Unión y El Fénix Español* was ready to expand its activities into the whole Europe and Latin America (La Unión y El Fénix Español, 1964, p. 212). Unfortunately, the great economic and political commotions of the 1930s (International Great Depression, Spanish Civil War between 1936 and 1939, Second World War) frustrated Setuain's plans.

After the Spanish Civil War, the company had to move the reinsurance business from Paris to Madrid. Thus, a new company was set up, *Compañía Española de Reaseguros*, one of the very few Spanish firms specialised in reinsurance. After the war, employers' liability insurance, which accounted for the 40 per cent of the direct insurance of the Paris branch, was nationalised in France (La Unión y El Fénix Español, 1964, pp. 214-215). Despite these problems, in the mid-1960s, *La Unión y El Fénix Español* was the leader of the Spanish market and the leader among the foreign branches in France (with four offices in Paris and a vast network of agents and inspectors scattered around the country). As we have mentioned before, in mid-1980s, *La Unión y El Fénix Español* continued to be the only successful Spanish company in foreign markets (i.e. France).

Democratic Spain (1975-2005): openness in a global era

Opening the Spanish insurance market

In 1962, the Franco's government started to negotiate its admission as member of the EEC. This scared Spanish insurance firms because they considered that they were not prepared to compete with big foreign companies (Sánchez González, 1962). The analyses coincided in stating that a regulation too permissive had brought about an excessive number of firms for so narrow a market (though it was growing). The claims ratios (claims/premiums) were acceptable but the expense ratios (acquisition and operating costs/premiums) were too high. Moreover, there was a deficit in human

capital and technical capabilities —e.g. mortality tables used were French because the Spanish statistical institutions were unable to provide them.

The entrance of Spain into the EEC took 24 years. In the interval, insurance companies prepared themselves to confront the coming foreign competition. The number of firms was reduced from the almost incredible 813 in 1962 to 557 in 1985. The number of foreign branches also declined from 62 in 1962 to 31 in 1985. The effort was not enough to impede the increasing influence of the foreign firms. As shown in table 4, in the years before the accession to the EEC (1986), the proportion of Spanish companies controlled by foreigners moved from 5 to 10 per cent. The trend continued to the mid-1990s, reaching levels close to 20 per cent, but it was reversed afterwards. The same could be said about the volume of premiums: in the mid-1990s, foreign companies controlled one third of the market but then the proportion started to drop.

Table 4. Data about the internationalisation of the insurance market in Spain, 1983-2001.

	% of Spanish firms controlled by foreign investors	% of direct insurance underwritten by foreign-controlled firms	% of net insurance underwritten by foreign-controlled firms	% of direct insurance underwritten abroad out of the total	% of net insurance underwritten abroad out of the total
1983	4.7	21.8	21.6	n.a.	n.a.
1984	5.9	21.5	20.9	3.4	2.9
1985	9.1	26.5	25.9	4.2	3.6
1986	12.9	30.7	29.6	1.8	1.6
1987	12.6	23.8	22.4	1.4	1.3
1988	14.3	20.0	18.6	0.7	0.7
1989	12.5	23.1	20.7	1.0	0.9
1990	14.1	27.3	26.8	0.3	0.3
1991	16.3	32.1	30.0	0.3	0.3
1992	18.1	n.a.	n.a.	0.2	0.2
1993	19.2	37.0	35.4	0.3	0.3
1994	18.2	27.2	25.8	0.5	0.5
1995	19.1	31.0	30.0	0.8	0.8
1996	18.6	26.5	24.6	1.1	1.3
1997	16.2	24.6	23.7	0.0	0.0
1998	17.8	28.1	27.4	1.2	1.3
1999	16.0	20.8	19.9	0.5	0.8
2000	16.9	25.6	25.0	0.3	0.5
2001	14.8	26.5	26.3	0.7	0.9

Note: The source also gives information about foreign risks that have been underwritten in Spain between 1983 y 1987. The figures show a clear decline: e.g. the weight of those risks in net insurance fell from 6.2 per cent to 1.3 per cent.

Source: OECD. Our elaboration.

Table 4 provides data on premiums underwritten abroad by the Spanish branches, which were insignificant since 1986. This might be explained, on the one

hand, by the increase of foreign capital in the industry whose interest was focused on the domestic market. But, on the other hand, we have to keep in mind that only one Spanish company, *Mapfre*, decided to follow the strategy of *La Unión y El Fénix Español* and become multinational. *Mapfre* is alone in this venture because *La Unión y El Fénix Español* was badly damaged by the crisis of the *Banco Español de Crédito*, its main shareholder, in the late 1980s and early 1990s (García Ruiz, 2002). Operations abroad have continued to be centred upon reinsurance and with deficit for Spain, as shown in table 5.

Table 5. The insurance industry in the balance of payments of Spain, 1993-2004 (thousand euros).

	Credit	Debit	Net
1993	607.554	678.219	-70.665
1994	731.416	759.520	-28.104
1995	719.587	804.931	-85.344
1996	694.833	820.896	-126.063
1997	344.066	492.846	-148.780
1998	189.290	346.406	-157.116
1999	204.686	314.854	-110.168
2000	229.052	353.445	-124.393
2001	322.351	390.305	-67.954
2002	385.397	584.642	-199.245
2003	416.228	771.431	-355.203
2004	618.962	966.977	-348.015

Source: Banco de España.

Mapfre when Spain joined the EEC

The general manager of *Corporación Mapfre* (today chairman of *Mapfre, S.A.*), José Manuel Martínez, offered in 1987 some interesting insights about internationalisation of Spanish insurance firms (Martínez, 1987). According to Martínez, there is a “fallacy of size” because the expansion abroad is not necessarily the preserve of the very big firms. Foreign investment is profitable in the long term and must be financed with returns and human resources arisen after many years of solid implantation in the domestic market. But Martínez was convinced that a handful of Spanish companies enjoyed enough “charisma, structure and efficiency” to become multinationals. The coming mergers and acquisitions should look for scale economies but also for the way to “adapt the supply in quality and diversification to the demand of the clients”.

Considering two possible ways of internationalisation, opening branches or buying operating companies, Martínez expressed a preference for the second, except in

the case of a special relationship between the countries involved in the matter. Reinsurance is a good way to know the market and to contact local investors. But economic risk, country risk (monetary and political) and the “risk of the staff”, i.e. the difficulties to integrate new people in the human resources policy of the firm, must never be forgotten. When there is room enough for growing in the internal market, only firms seeking for leadership in the future will be ready to face the challenges of investing in other countries.

The advantages of investing abroad usually compensate for the costs. According to Martínez, the advantages are: 1) it makes possible to reach a “pendular growth”, with growth inside Spain fostering growth abroad, and viceversa, mainly due to image improvement; 2) it offers opportunities to learn new techniques because practically everything has happened previously in another part of the world; 3) it also permits giving service to industrial multinationals of the same nationality that have invested abroad before (as it happened in the case of the Japanese insurance companies); 4) it allows the optimization of the human resources, “the main asset of a service company”; 5) it also contributes to the improvement of the financial results due to diversification of the investment portfolio (despite the difficulties in the initial stages).

Analysing the Spanish situation, the Martínez’s paper distinguished “passive internationalisation” from “active internationalisation”. “Passive internationalisation” refers to those foreign firms that do business in Spain, while “active internationalisation” alludes to Spanish firms that do business abroad. Using Sigma’s data for the mid-1980s, it was clear the little presence of foreign firms in the United States (5 per cent), contrasting with the situation in Asia (40 per cent); the rest of the world was somewhere in between. If we refer to the EEC countries, the data show that in Spain only 5 per cent of firms were foreign, whereas the figure is 11 per cent in the United Kingdom, 22 per cent in West Germany, 24 per cent in Italy and 34 per cent in France. The key factor to explain the reduced proportion of foreign branches in Spain is the great number of insurance companies, the highest after the United Kingdom. If we refer to “active internationalisation”, the leaders were the United Kingdom (608 branches abroad) and the United States (579). There were followed at a considerable distance by France (166), Switzerland (138), West Germany (122) and Canada (100), mentioning only countries with 100 branches or more.

The Martínez’s paper also includes premium data for the mid-1980s. Regarding Spain, these data contradict the results obtained relating to the number of firms. When

considering the number of branches, foreign investment seemed to be less important. But the percentage of premiums underwritten by foreign branches and foreign-controlled national companies was 26 per cent in life insurance and 29 per cent in non-life insurance (similar to the data shown in table 4). These percentages were well above the figures for the United Kingdom (13 and 17 per cent), West Germany (12 in both classes), Italy (13 and 15) and France (3 and 6). Thus, in West Germany, Italy and specially France the first indicator overestimated “passive internationalisation”. As Martínez stated, the second indicator seemed to be more in agreement with the general belief that the role of foreign firms in the insurance market is higher in the less developed countries.

Around 65-75 per cent of the income earned by British big insurance firms came from abroad, a figure very similar to the Swiss one. The most important Dutch firms obtained abroad between 40 and 64 per cent of their income. The corresponding figure for the Italian *Generali* was 55 per cent. In France, the proportion was between 15 and 27 per cent; in West Germany, between 6 and 18. In Spain, meanwhile, there were only two national companies really involved in this line of business: *La Unión y El Fénix Español*, which obtained 40 per cent of its income from direct insurance and accepted reinsurance abroad (95 per cent of the total in direct insurance abroad for Spain), and *Mapfre*, which was already placed at the top of the ranking although only 8 per cent of its income came from abroad (as accepted reinsurance). Martínez added that the situation of *Mapfre*, a leading company in its country with less involvement in international business, was not infrequent in the world insurance industry.

As direct insurance premiums, Spain received from abroad 18,268 million pesetas in 1985, whereas other countries collected in Spain 148,533 million pesetas. If we refer to reinsurance, the acceptances received were 6,000 million pesetas and the cessions were near to 100,000 million pesetas. Martínez was worried about the proliferation in Spain of firms whose headquarters were abroad. Then he added that the reaction of the Spanish firms should not be to ask for protectionist measures, but to be “audacious” and become multinational, even when the internal market was far from the saturation point; probably, said Martínez, there is no alternative in a globalised world.

The amazing multinational investment of Spanish firms

As is well-known, John Dunning has done research about the “Investment Development Path” (IDP), describing the stages of multinational investment in

contemporary history. In Dunning and Narula (eds) (1996), the path has five phases in a process that recently includes non-leading countries such as Spain. This country was a clear net receiver of foreign direct investment (FDI) up to the 1980s, but then a sudden change took place and today Spain exports capital massively.

After the Civil War, the nationalist policies of early Francoism discouraged foreign investment, which contributed to the sluggishness of the recovery of the Spanish economy. Since 1959, the regulation was more permissive and Spain received an increasing flow of foreign investment, first from the United States and then from European countries, which lagged behind because their political reticence towards the Franco's dictatorship. During the 1990s, the inflow decreased at the same time as the outflow was growing very fast. The result was that, at the turn of the century, Spain became a net exporter of capital with a thousand of multinational firms (many of them "pocket multinationals") (Durán Herrera, 2005b, p. 85, graphics).

A law issued on 24th November 1938 considered illegal the acquisition of goods and rights abroad without the permission of the Spanish administration. This and similar measures continued to be in force even after 1959, because the authorities were not ready to permit the capital outflow in a less developed country like Spain. It was necessary to wait till March 1973 to see the first steps in the liberalisation of these flows. After the return to democracy, new measures were adopted in April 1978 and in September-October 1979. Since this moment, the requirements to invest abroad were limited to the observance of the general legal precepts. After Spain joined the EEC, the legal framework of these operations was adapted to the European norms on free circulation of capital.

Between 1959 and 1973, the Spanish FDI amounted to 274.18 million dollars, concentrated in banks (28.3 per cent), commerce (25.4 per cent) and manufactured goods (22.3 per cent). The geographical destination of this investment was mainly Latin America and Europe (basically, France and Portugal), followed by Africa (especially, the Maghreb) and the United States (Moreno Moré, 1975). These patterns did continue during the first liberalisation (1973-1978), although the investment became more industrial and more concentrated in Latin America. The continuing importance of Latin America as a destination probably means that culture matters in the orientation of the investment flows (Durán Herrera, 2005b, p. 91). After total liberalisation was decreed in 1979, the most striking feature was the growing role of services: 62.25 per cent of the Spanish investment abroad in 1986-1990 had this destination (Durán Herrera, 2005b, p.

93). Data available for 1993-2003 show the following distribution: primary sector, 14.2 per cent; secondary sector, 24.7 per cent; tertiary sector, 61.1 per cent, with banking, insurance, transportation and communications the main subsectors (Durán Herrera, 2005b, p. 98).

In the last years, it seems that the trend is to reduce the presence in Latin America and to increase it in Europe and in the United States. But, certainly, Latin America has been crucial for Spanish foreign investment since the 1970s. According to Giráldez Pidal (2002, p. 44), in 1975-1983 that part of the world received the 34.1 per cent of the direct investment, descending in 1984-1995 to the 23.1 per cent, but recovering its importance in 1996-1999 when the figure rose to 58.7 per cent, nearly twice the percentage of all other European countries combined. After the debt crisis in Latin America during the 1980s, Spain decided to invest in the area thus replacing traditional investors such as France, Germany or the United States —a country that had suffered recently substantial losses in its Latin American operations (Giráldez Pidal, 2002, p. 46). Nevertheless, Spanish investment eluded industrial commitments, and this could facilitate rapid disinvestment if necessary.

Four are the key factors influencing the Spanish FDI in Latin America: 1) the search of international expansion as a way to increase share value through the investment in a region where competition is less keen; 2) the opportunity to buy assets in privileged conditions, related in many occasions to privatisation processes; 3) an investment path that can be partially explained by cultural and political affinities; a path that begins in Southern America (Argentina and Chile), continues across other Spanish speaking countries (Peru, Colombia, Venezuela and Mexico) and ends in Brazil; 4) an action developed with many loopholes that could be a source of problems in the near future. It is agreed that Spanish investors has not been yet fully accepted by markets and authorities in the region (Giráldez Pidal, 2002, pp. 195-197).

A recent piece of research about the Spanish FDI is Guillén (2006). This book reminds us that Spanish FDI has progressed amazingly from less than 1 per cent of the GDP in 1980 to 35 per cent in 2004 (Guillén, 2006, p. 11). Guillén, however, does not accept the miraculous nature of this process and devotes the book to demolish three “myths”. First, he says, Spanish firms are not rash “*conquistadores*” because it is difficult to think that nearly one thousand firms behaved in this way. Second, common culture is not enough to explain the course of the events because non-speaking Spanish countries as Brazil have received a lot of investment —though Brazil is a country very

receptive to the Spanish culture. Third, Spanish firms have “intangible assets” in the form of managerial capabilities, that are more important in finance, construction and public services —the main destinations of the Spanish investment— than other typical “intangible assets” such as technology.

The tiny Spanish FDI existing before the 1970s (yearly, about 0.10 per cent of the GDP) could be explained by the search for raw materials, the creation of commercialisation channels for food products, some projects of construction and engineering in less developed countries and a handful of bank offices. Certainly, the industrial investment afforded since 1964 by Catalan companies in the French Rosellon to assure their presence in the markets of the EEC was an exception (Guillén, 2006, p. 18). The admission of Spain to the EEC in 1986 triggered a wave of massive investment into Spain that did not have its immediate equivalent in Spanish investment abroad. But the reaction came around 1993, when Spanish entrepreneurs understood that the only way to survive in the Economic and Monetary Union was by increasing the size of the firms through investment in areas with possibilities of rapid growth such as Latin America. At the turn of the century, hundreds of Spanish firms —many of them family or cooperative firms— became involved in this process, though paying the price of considerable financial leveraging.

Only one Spanish multinational in insurance: Mapfre

Surprisingly, *La Unión y El Fenix Español* was not among the new Spanish multinationals. The crisis of the *Banco Español de Crédito* forced the selling of the insurance company under its control to the French AGF (which subsequently was merged with the German Allianz). Thus, a good opportunity to prove the value of the “intangible assets” was lost. The insurance business is intensive in knowledge (Wasow, 1986, pp. 96-97) and *La Unión y El Fénix Español* had been always considered a model of management to be imitated by the other Spanish insurance companies.

In the mid-1980s, *La Unión y El Fénix Español* was replaced at the top of the ranking by *Mapfre*, a firm that had been founded in 1933 as a mutual company of landlords to provide employers’ liability insurance to their workers, in accordance with the social legislation introduced by the Second Republic (Pons, 2006). After a first stage full of difficulties, the company was very successfully managed since 1955 by Ignacio Hernando de Larramendi. His strategy consisted in diversifying towards car and life insurances, and offering excellent services at good prices. In 30 years, Larramendi

placed *Mapfre* at the top of the ranking thanks to his ability to combine the best of mutual companies with the best of the joint-stock companies (Hernando de Larramendi, 2000).

In the summer of 1969, Larramendi designed a strategy to enter the Latin American markets in the 1970s. As a precondition, *Mapfre* had to gain size to be able to afford an investment of one million dollars, which was thought to be the minimum required. Larramendi visited seven Latin American countries and chose Argentina, Brazil and Colombia as the most suitable places to invest in the short term. But in the 1970s the world crisis associated to the increase in the oil prices frustrated the Larramendi's plan. It was necessary to wait till 1984 to see *Mapfre* taking control of a Colombian company as its first step in Latin America. In the late 1980s investment in the area progressed at a good pace and around 1990 *Mapfre* became the most important foreign insurance company in the region. As table 6 shows, its business was concentrated in Mexico and Puerto Rico, but also the operations in Chile and Argentina were important.

Table 6. Distribution of direct premiums abroad of *Mapfre*, 1990-2005 (percentages and million pesetas)

	1990	1994	2005
Argentina	12.3	9.7	9.8
Brazil	0.0	21.2	31.4
Chile	14.0	11.5	6.9
Colombia	8.9	4.5	4.2
Italia	5.0	2.7	0.0
Mexico	28.7	24.9	12.1
Portugal	0.3	6.4	4.6
P. Rico-USA	29.6	17.4	13.1
Venezuela	0.0	0.0	12.3
TOTAL (million pesetas)	29,045	108,068	344,835
% Foreign business / Total direct premiums in Spain and abroad	19	29	23

Notes: 166,386 pesetas = 1 euro. The maximum participation of foreign business in direct premiums was achieved around 2000, but we do not have detailed information. In 2005, to the 2,072.5 million euros of direct premiums abroad we can add 1,337.4 million euros of accepted reinsurance and 254.5 million euros for assistance. Consolidated premiums, that is, discounting intragroup operations, reached 3,148.4 million euros.

Sources: *Memorias of Mapfre.*

In 1992, *Mapfre* invested extensively in Brazil, a country that since then was very relevant in the international network of the firm. During the 1990s, *Mapfre* created a network of assistance and reinsurance around the world. But its strong preference for America was clear in 1998 when was established *Mapfre América* as a prominent

division in the organisational chart to manage the bulky and changing investments in the region. Around 2000, the contribution of foreign business to total direct premiums reached a maximum and then the trend has been downward. According to the last available data, that fall has been compensated with the increased amount of accepted reinsurance and payments for assistance from abroad.

In the General Assembly that took place on 15th June 2006, the chairman of *Mapfre*, José Manuel Martínez, announced the complete demutualisation of the company. In Martínez (2006) it is explained that this decision was the culmination of a process that started in 1970 with the creation of the *Mapfre Group*, which included specialised joint-stock companies. The group was created to move upwards in the ranking, to obtain efficiency gains in the industry and to facilitate the international expansion in Latin America. Martínez agrees with Larramendi in that the preservation of the “spirit of mutualism” is not incompatible with the promotion of joint-stock companies for some purposes.

According to Martínez (2006, p. 6), the conquest of the European markets is the next target, although this will imply greater investments than the Latin American ventures required—the current position of *Mapfre* in Latin America is shown in table 7, with Mapfre as leader in non-life insurance. The demutualised *Mapfre* is very ambitious. The aim of the new *Mapfre, S.A.* is to be among the ten largest firms in the Spanish stock markets and among the five biggest European insurance companies in non-life. *Mapfre* are trying also to strengthen its control of the affiliates and the commercialisation channels. In these circumstances the complete demutualisation of the group has been required in order to facilitate the raise of the huge funds needed. To keep things under control and preserve the current managerial culture, the *Fundación Mapfre*, a non-lucrative institution devoted to the social activities of the group, will hold the control package of shares.

Table 7. Ranking of insurance groups in the Latin American market, 2005

Group	Country	Total Share (%)	Life Share (%)	Non-Life Share (%)
1 Bradesco	Brasil	7,4	11,4	4,4
2 AIG	United States	4,8	3,1	6,0
3 ING	Holland	4,6	3,0	5,7
4 Mapfre	Spain	4,3	1,9	6,1
5 Grupo Nacional Provincial	Mexico	4,3	2,5	5,5
6 Metlife	United States	4,2	8,8	n.d.
7 Itaú	Brasil	4,1	5,6	3,0
8 Triple-S	Puerto Rico	2,7	5,7	n.d.

9	Sul América	Brasil	2,4	n.d.	3,7
10	Liberty Mutual	United States	2,2	n.d.	3,6

Note: The size of the total market was 44.404 million euros, 18.701 in Life and 25.703 in Non-Life. Source: Fundación Mapfre (2006).

Conclusions

The internationalisation of the world insurance business was substantial in the nineteenth century, but declined in the first half of the twentieth century, with the exception of reinsurance. Non-life insurance has performed better in the international scene than life insurance because this class of insurance has very different characteristics in each country.

Foreign branches played a key role in the first stages of the insurance industry in Spain (Pearson, 2005). In 1910, 40 per cent of the market was controlled by foreign companies. In the following years national companies gained market share, but the Civil War was a real turning point in the issue. The hostility of early Francoism towards foreign capital and the circumstances of the Second World War made that, in 1942, the control of the insurance market by foreign branches was limited to 20 per cent.

Between 1942 and 1952, the authorities imposed restrictions on cross-border operations due to the scarcity of foreign currency. In 1954 was passed a new Insurance Law, which was very liberal with foreign companies, probably because these companies did not represent a threat in that moment —their market share was 15 per cent. In the 1960s, the government promoted the expansion abroad of the national companies, but this was unattainable for most of them because they were not competitive. The exception was *La Unión y El Fénix Español*, the leader of the Spanish market that had kept a strong position in Paris since its foundation.

When Spain joined the EEC, in 1986, the market share of the foreign-controlled firms was about 25-30 per cent. The internal market was far from saturation because the penetration ratio had to double to reach the minimum level in a developed country (5 per cent). Large foreign companies, especially from the rest of Western Europe, invested massively in Spain. The market share of these companies soared in 1993 to 37 per cent in direct insurance premiums and 35 per cent in net insurance premiums. This was a maximum. At that moment there was a competitive reaction among the national companies that were very worried about the consequences of the Economic and Monetary Union launched in 1993. This entrepreneurial reaction spread among all the sectors of the Spanish economy.

In the last years, the most important insurance national firms have been controlled by financial institutions —banks and savings banks— and they are involved in “*bankassurance*” operations. The new owners of the insurance companies have preferred to concentrate their activity in the internal market, which only recently has achieved a penetration ratio of 5 per cent (Montijano, 2001). The exception is *Mapfre*, the leader of the industry —Spanish banks as Santander and BBVA are only relevant in products of life insurance closely related with their banking activity. *Mapfre* was established in 1933 as a mutual company of landlords, but under the strong leadership of Ignacio Hernando de Larramendi was transformed into a large company and placed at the top of the ranking in 1983. At the end of the 1960s, Larramendi was aware of the good opportunities for investment in Latin America, but the oil crisis of the 1970s deterred him. It was in 1984 when the Larramendi’s dreams were accomplished with the entrance in the Colombian market. At the time of Larramendi’s retirement, in 1990, *Mapfre* was the most important insurance foreign company in Latin America. In some way, *Mapfre* was the successor of *La Unión y El Fénix Español*, a company that was badly damaged by the crisis of its main shareholder, the *Banco Español de Crédito*.

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