DOCUMENTOS DE TRABALHO

Nº 21

THE PORTUGUESE INSURANCE SECTOR: A STUDY IN POLITICAL ECONOMY AND COMPETITION

Ben Mednick[(*)]

Julho, 2001

(*) Bolseiro da Fundação Fullbright. O presente estudo foi elaborado durante a sua estadia na DGEP em 2000 e 2001.

Abstract

This paper provides a general overview of changes in the Portuguese insurance market since the Portuguese Revolution of April 25, 1974, along with a discussion of the responses that the insurance sector made to accession to the European Union (EU), European Single Market (ESM) and European Monetary Union (EMU). These programs have produced dramatic changes in member-state markets through the adoption of rules and regulations that aim to deregulate, harmonize and unify European economies. Whole economic sectors are restrucuring based on a liberal free-market model that espouses the free movement of factors such as labor, services and capital. Portuguese insurance involvement in the EU reflects both common European experience and particular Portuguese attributes. Foremost among these attributes is the sector consolidation that resulted from the contrarian political economic path that Portugal took in the 1970s and 1980s - a path of centralized state-run economic policies at a time when Portugal's neighbors were moving away from such a model. In the 1990s, however, Portugal's insurance sector found that actions taken in the 1970s and 1980s held some beneficial aspects to a small market engaged in EU liberalization and harmonization. An ironic result of state control in an age of free-market implementation is the rationalization of size and scope for financial service providers and a resulting capacity to defend home markets from competitors. The paper ends with a discussion of the limits to such benefits and the need on the part of Portuguese insurance providers to remain dynamic in their search for clients, their provision of products, and their desire to remain independent in the face of greater European competition.

Sumário

O presente documento fornece uma visão geral das mudanças ocorridas no mercado de seguros em Portugal desde a revolução de 25 de Abril de 1974. São discutidas as respostas do sector segurador à integração na União Europeia (EU), no Mercado Único (ESM) e na União Monetária Europeia (EUM). Esta integração produziu alterações dramáticas no mercados dos estados membros devido à adopção de regras e regulamentos visando a desregulamentação, harmonização e unificação das economias europeias. Sectores económicos no seu conjunto estão a ser reestruturados com base num modelo de mercado aberto que permite a livre circulação dos factores produtivos, tais como o trabalho, a prestação de serviços e o capital. O envolvimento do mercado segurador português na EU reflecte em simultâneo a experiência partilhada com a Europa e atributos específicos do mercado português. Dentro destes atributos tem particular relevância a consolidação do sector que resultou da orientação político-económica adoptada por Portugal nas décadas de 70 e 80 – uma tendência de políticas centralizadas pelo Estado, numa altura em que os países vizinhos se estavam a afastar deste tipo de modelo. Nos anos 90, no entanto, o sector segurador em Portugal veio a reconhecer que políticas adoptadas nas décadas de 70 e 80 trouxeram alguns aspectos positivos a um mercado pequeno e empenhado na liberalização e harmonização com a EU. Um resultado irónico da acção do controle do estado, num enquadramento internacional de liberalização, é a racionalização da dimensão e objectivos dos serviços financeiros fornecidos e a consequente criação de capacidade para defender o mercado interno da concorrência. O documento termina com a discussão dos limites de tais benefícios e a necessidade de as seguradoras portuguesas permaneceram agressivas na procura de clientes, no fornecimento de serviços e o seu desejo de permanecerem independentes num contexto de maior competição europeia.

Many people have been involved, directly or indirectly, in the production of this paper. I must thank first and foremost Mr. Fernando Chau, the Director General of the Direcçao-Geral de Estudos e Previsao of the Portuguese Ministry of Finance, as well as all of my friends and colleagues at DGEP. They have provided me with an intimate space of reflection, resources and friendship which will remain for me a fond memory of the kindness that I received as a visiting scholar in Portugal. I must also thank Mr. Francisco Alves of the Instituto de Seguros de Portugal, who guided portions of my work and provided important resources. I could not have completed my year of research in Portugal without the support of the Fulbright Scholarship and Fulbright Commission of Portugal. Mr. Paulo Zagalo e Melo, head of the Portuguese Fulbright Commission, and Ms. Rita Bacelar have supported my work program enthusiastically, and I cannot thank them enough for this life-altering opportunity. Also, I thank my wife, Stacey Mednick, who joined in this Portuguese adventure and forewent professional opportunity for the chance to write and adopt a new language and culture. I think she is one of the bravest people I know. I also thank my brother Max and my mother Joan for their patience and support of my overseas adventures. Finally, I pay tribute to my Father, Sander, whose undying support for me has been the mortar with which I am building my future. I dedicate this work to my Grandfather, Jacob Mednick, who passed away in Portimao, Portugal on May 6th, 2001.

The Portuguese Insurance Sector: A Study in Political Economy and Competition

Introduction

Over the last several decades, the Portuguese insurance sector has confronted momentous changes in European financial markets. From the creation of a broad *Single European Market* (SEM) to the specific *Single Insurance Market*, and from the easing of goods, labor and capital movement to the creation of a single currency, Portugal's partnership with Europe has led to a variety of repercussions on its insurance sector.

Competition and Innovation

European firms have responded dramatically to the deregulatory and liberalization movements that are shaping European financial governance, integration and practices. Greater competition, deeper capital flows, and broader product ranges have all helped to define a new understanding of the European Union's (EU) markets. Perhaps the strongest corporate reaction has been to increased competition. In European as well as world markets, firms have responded to competition resulting from global liberalization and integration tendencies by achieving critical mass and economies of scale and scope. This eases market placement and dominance. Other challenges such as technology, management, and product innovations have led firms to form strategic alliances with other like-minded domestic and international rivals. Indeed, one could say that the achievement of critical mass in today's global marketplace is a prerequisite for the defense of local and national markets, and an important tool for garnering greater international market share.

It is in this sense that the recent evolution of Portuguese insurance firms presents a particularly interesting scenario. In Portugal's case, the achievement of the critical mass necessary for market defense and market expansion was attained through the political economic actions of governments that were not necessarily pro-integration or pro-free market. Nonetheless, Portugal's swing to the left in the 1970s and 1980s and its internal political struggle for a coherent development strategy coincided with the rapid convergence of Portuguese national interests and those of the European Community (EC, now EU). Despite the ideological divergence between the post-revolution

governments and the prevailing socio-economic models of Portugal's European neighbors, the ultimate integration of the Portuguese insurance market with the Single European Insurance Market in the late 1980s and early 1990s proved remarkably stable. An ironic outcome of the post-revolution achievements was a well-positioned, though inefficient, Portuguese insurance sector that was capable of defending national market share, encouraging efficiency gains and contemplating expansion.

Summary

This paper will review the development of critical mass and firm performance in the Portuguese insurance market from 1974 to 2000. It will describe the changes in Portuguese insurance firms, both explicitly and inadvertently, that have allowed them to successfully defend the national marketplace from other EU competitors. At the same time, much of this success is tied to partnerships and link-ups that these firms have achieved with other financial institutions. Finally, the paper will state that future growth must increasingly be found with foreign partners who show greater proficiency at technological, product and managerial innovation. Merger and Acquisition activity will be reviewed with a particular focus on the future prospects of Portuguese national firms, their competitiveness, and their ability to be successful, yet independent, in the global marketplace.

Part I: A History of Portuguese Insurance Firms and Political Economy

The Revolutionary Rupture

The Portuguese Insurance industry was subject to a dramatic series of events after the Carnation Revolution of April 25, 1974. Unlike those in other EU member-states, Portuguese insurance firms experienced a sudden, short-lived rupture in political economic thought, application and regulation. This rupture was initially molded through the stifled nature of the economy under the 46 year corporatist regime of Antonio de Oliveira Salazar and, later, Marcelo Caetano. Under their rule, most insurance firms were oligarchic in nature, owned by seven families whose banking and insurance interests were often tied to particular areas of their industrial conglomerates. This market, in which many of the family-owned conglomerates had controlling interests in several insurance houses, was highly fractured. Further fragmentation

resulted from the participation of various foreign firms in the national marketplace. When this political regime fell, ideological forces that had been suppressed for fifty years clamored to apply their political economic thought to the entire nation. Revolutionary confusion and a lack of political control allowed for a variety of leftist ideologues to radically reshape the Portuguese economy, most notably through nationalization actions.

Thus, a portion of the Portuguese insurance sector's interaction with the creation of the SEM and the common currency must be viewed within the context of the deep revolutionary changes it experienced just prior to EU accession and in the subsequent decade towards European Monetary Union (EMU). A portion of this paper will emphasize the idea that the current insurance sector confronting the demands of the SEM is wholly different from that which would have confronted these integrationist processes without the revolutionary experiences of nationalization and state control. The position of the Portuguese Insurance sector in the late 1980s and 1990s partially resulted from impulses out of the 1970s that were enforced by a political elite not fully aware of, or actively ignoring, up-to-date and complete political-economic modeling. As Eggertsson would suggest, these leaders simultaneously knew, yet did not know, what they were doing. (1) Nonetheless, their attempt at economic rationalization and state management, most visible through forced mergers, produced an early base of critical mass among firms necessary for future development in the EU.

A Short History of Nationalization and Liberalization

Following the Revolution and the ascension of a series of left-leaning governments, the Portuguese insurance sector, much like the economy in general, was nationalized. This process was characterized not only by the nationalization of the Portuguese insurance houses, but also by their forced merger into relatively few, but large, institutions. Nationalization was enshrined in the Decreto Lei 135A/75, and was further solidified in the *Lei Base dos Sectores da Economia* (1977), which prohibited private insurance firms from entering the market, although some insurance houses under foreign control or under the form of Mutual Societies were allowed to remain.

The nationalization period lasted roughly ten years, through the early 1980s. However, the bulk of nationalizing activity throughout the Portuguese economy was completed by 1977. Many authors view this rapid nationalization process as a sign that a certain uncontrollable impulse from the political field took over shortly after the revolution. Pintado notes that in less than two years the basis of the Portuguese economy went from control by a group of seven private capital conglomerates to a socialized one in which the state was heavily involved, either directly or indirectly. (2) Although the rapid takeover could be viewed in many respects as a coup by a newly radicalized "welfare" state, many authors temper this with the fact that objective political or economic criteria were never utilized during the nationalization process. (3)

Sousa and Cruz state that the nationalization process as a whole was, to a certain extent, a-criteria. That is to say, the tools used in order to enforce the nationalizations (Decreto-Leis) were highly political in nature and did not contain any real economic reorganization goals. Furthermore, the spillover of nationalization actions among firms, sectors and markets represented an absence of limitations to political activity – a sign that there was no overriding goal in the political mindset. Finally, given the broad economic activities associated with the seven conglomerates prior to the revolution, the political focus of the nationalizations led to a situation where relatively few nationalization decrees produced a massive government takeover of economic activity. (3)

The nationalization of Portugal's insurance sector extended to Portuguese firms that were headquartered in Portugal and owned outright by Portuguese capital, along with the capital held by Portuguese owners in conjunction with foreign partners. Thus, of the 40 Portuguese firms in the sector in 1974, the state ended up controlling 37: 34 by outright ownership and three by controlling more than 50% of the enterprise capital in conjunction with foreign partners. This left 35 other firms in the market, all considered foreign. Over the next several years, the state entered upon a consolidation program, in which the 37 firms that it controlled were eventually organized into seven insurance conglomerates by 1978, six offering basic insurance programs and one reinsurance provider. Hence, Portugal's small and medium-sized insurance houses disappeared and were merged to form a small group of large insurance providers. Many of the large insurance houses currently found in the market today were formed in this merger

period: Tranquilidade, Imperio, Bonança, Mundial Confiança, Aliança and Fidelidade (4). Despite the efficiency losses associated with state control of these firms, the nationalized period was an important moment in the evolution of the Portuguese insurance market. The forced merging of institutions created significantly larger firms that, later on, would hold monopolist-like positions in the national market as EU directives made entry and competition more feasible. (3)

The subsequent market reshaping process was visible throughout the nationalization period. Mutual and foreign firms saw their market shares decrease dramatically. The few private foreign firms outside of the nationalization process saw market shares decrease as well, as measured by both numbers of firms and sector weight by premiums. Significantly, the nationalization process did not bring an increase in profitability to the new class of nationalized "super" firms. Private firms remaining in the market continuously outpaced their larger nationalized competitors. Nevertheless, the overarching trend throughout this period showed nationalized Portuguese insurance firms gradually attaining greater individual market share levels and pushing private and foreign firms out of the sector's mainstream and into fringe and niche areas. (5)

Several statistics map this shift in the strategic position of the Portuguese Insurance firms starting from the 1970s. Fragmentation of the market was dramatically higher in the period prior to the nationalizations. Average market share in 1973 for Portuguese Insurance firms was 2.3%. After the nationalizations, their average market share increased to 9.0%. By the time Fidelidade was privatized in the mid-1980s, it alone held a 10.4% market share. (5) Meanwhile, throughout the 1970s and 1980s, private firms saw their market shares decrease from 2.3% to 1.5%, while foreign firms were almost completely unable to make inroads into the Portuguese market, witnessing a tiny growth of their market share from 0.33% to 0.45%.

Nonetheless, a more general historic view of the nationalization period shows its precarious nature in the greater context of global political economic thought. After a long period of global state intervention in industries and sectors deemed important to national security (often including banking and insurance concerns), the 1970s represented a moment in which political economic modeling and theory were shifting away from economic state intervention. Technological innovations, observation and

dissemination of market inefficiencies measured over the course of decades, and ideological movements aimed against broad state intervention in a liberal free market all converged to produce a deregulation and liberalization movement that continues with great force. (1)

In this context, the Portuguese Revolution presents a particularly interesting political economy scenario. The revolutionary actions of newly unleashed political opposition groups (mostly from Communist and left-wing sectors) were running directly into a countermovement among the political economic actors of Portugal's West European neighbors and long-time strategic partners, such as Britain and the United States. It is in this context that Eggertsson's thesis of discontinuity of government control of economic activity becomes relevant. To a certain extent, the idea of instituting centralized national control over a broad range of sectors at a time when the prevailing political economic models were moving away from such activity was bound to create a short-term crisis in the continuity of political action in the Portuguese economy. In short, the Revolution's leaders were either unwilling to accept, or incapable of recognizing, the models and ideological political economy movements that they would confront in regard to convergence with Western Europe. Immediate cross-purposes with their local and regional markets emerged. In essence, the nationalizations of 1974-1977 were political in nature, ignoring political economy models consistent with theories of the time, and lacking in criteria for both limitation and management. (3)

Reversal of Nationalizations

As such, the nationalization process in Portugal was immediately presented with the challenge of reversal. As the idea of a vibrant nationalized economy was not feasible, and the future of Portuguese growth increasingly lay in the EC, this brief period of massive state intervention had to be reversed once the proponents of nationalizations were removed or converted. Hence, with the accession to power of the Social Democrat Party (PSD) in the mid-1980s, a series of deregulations and liberalizations took place throughout the Portuguese economy. Much of this process was in conjunction with the Portuguese attempt to join the EC. For the insurance market, the government began by passing successive laws that allowed for the establishment of private firms (Decreto-Lei 406/83), defined new technical provisions for firm participation in the market (Decreto-Lei 98/82) and broadened the scope of firm activities (Decreto-Lei 188/84). (5)

The deregulation and liberalization process not only reintroduced free-market practices into the insurance sector, but also began the adoption of the EC's *Acquis Communautaire*. This involved fashioning the Portuguese insurance sector to laws and regulations formed by the European Commission and Council and already adopted by member-states of the EC. The adoption would bring Portuguese insurance in line with the Treaty of Rome, the founding document of the EC, which describes the economic goal of EC member-states as a harmonious development of economic activities with a high degree of competition and convergence among the national economies in an area represented by the free movement of goods, services and labor. Member-States achieve this by harmonizing their national legislation with Community directives and mutually recognizing national laws, standards and procedures. (4)

Joining the EC

Portugal joined the European Community in 1986, and the period following its accession can be characterized as one of continual preparation for the SEM and, later, for EMU. For the insurance sector, this meant further deregulation and liberalization as the EC attempted to create a single European Insurance Market. Three steps characterized this process.

First, Community laws concerning *Freedom of Establishment* were adopted. This freedom, based on Article 52 of the Treaty of Rome, granted any citizen or firm of a member-state the right to found a firm, branch or associate in another member-state. In the EC, this process had begun as far back as the early 1960s, when attempts were made to harmonize the Reinsurance sector and, later on, other insurance services and products. In the 1970s, other resolutions aimed at harmonization across member-states were created, covering such criteria as access conditions, minimum guarantees, reserve requirements, and the role of regulatory authorities. The Commission used its construction of *Freedom of Establishment* rights as a base for further Directives and Community Regulations. (6)

Second, Community laws concerning *Freedom of Services* were adopted. This stage of Community action created the right among member-state firms to offer services in other member-states without the need for local representation. For the EU, *Freedom of*

Services was dependant on the successful outcome of the *Freedom of Establishment* period, in which such issues as financial guarantees, solvency margins and exercise of activity were harmonized and reinforced. The EU also pushed for home regulatory supervision of firms, with strict interaction among member-states to bring national regulations in line with each other. (6) EU member-states were somewhat resistant, however, to this second-generation directive, and it was not until after Portugal's accession that a complete directive was promulgated. Much of their resistance had to do with regulation of firms. The Community's resolution in this matter was to acknowledge the need for local control and supervision, as long as that supervision did not repeat or exceed regulatory practices already implemented under the *Freedom of Establishment* phase. Further resolutions accompanied the Second Generation Directive, including definitions dealing with particular insurance products and services. Regulations concerning location and proximity to insured risk, definitions of high risk sectors, and differentiations among consumer protection levels were also issued. (6)

Finally, a third insurance directive established the *Single Insurance License* (1994). This directive allows any EU-based insurance firm to offer products and services, and function freely, in any member-state, with regulatory control and supervision from the home country. This last stage was the logical result of years of harmonization among member-state legislation, supervision, guarantee control mechanisms and product classifications. From 1994 onwards, firms wishing to establish or participate in markets in other member-states simply had to receive authorization via their home regulatory bodies. In Portugal, this body is the *Instituto de Seguros de Portugal*, which acts as the arbiter of firm expansion and maintains supervision of firm solvability and performance. (4)

The main goal of the three insurance directives was to eliminate technical and physical borders in EU insurance markets and establish a truly dynamic single market. The Commission envisioned a market where competition would act as the main tool for enhancing efficiency, productivity and profitability. Competition is, above all, viewed as the best possible regulatory tool in the quest for such market results. (6) Note should be made, however, of the "General Good" clause in the Third Directive, which is a vaguely defined clause allowing for national regulatory authorities to hold some discretion on the entry and activity of foreign firms in national territory. Such

discretion ties into the continued debate on barriers to entry which have helped Portuguese insurance firms maintain market control, but which must not be counted on in the future as the Single Market evolves and expands.

The Portuguese insurance sector witnessed dramatic growth from the time of initial liberalization and accession to the EC to the date at which Portugal joined EMU. After liberalization started, profitability in life insurance firms grew dramatically, exceeding even inflation rates. The life insurance sector in Portugal would maintain greater profitability over other insurance sectors throughout the 1990s. From 1988 to 1997, life insurance growth, as measured in gross premiums, grew 28% faster than GDP, and non-life products grew 5% faster than GDP. This strong growth led to aggressive product development and distribution and the creation of partnerships between insurance firms and banks. These partnerships attempted to provide products and services across a wide portion of the market in more efficient, and significantly cheaper, ways. (5) A look at the Portuguese insurance market's evolution over the 1990s shows the growth in Life Insurance activity explicitly:

Life Insurance activity over the 1990s (percentage of all insurance products)

	1994	1995	1996	1997	1998
Life Insurance	34.5%	43.6%	47.2%	46.1%	51.4%
Accident and Health	17.8%	15.3%	13.9%	14.5%	13.1%
Fire and other Damage	8.7%	7.2%	7.4%	7.8%	7.4%
Automobile	34.8%	30.6%	28.3%	28.4%	25.1%
Marine and Transport	1.5%	1.1%	1.1%	1.0%	1.0%
Aviation	.3%	.3%	.2%	.2%	.2%
General Liability	1.0%	.8%	.8%	.8%	.8%
Other	1.5%	1.1%	1.1%	1.2%	1.1%

Source: O Seguro em Portugal I – Os Mercados, ISP, 1998 Lisbon

Growth in the insurance sector was further marked by the implementation of the Third Community Directive. The period following the publication of the directive saw a veritable erasing of borders in European insurance markets, along with a shift in regulatory focus. This moved from broad market control on the part of the public sector to oversight of financial resource uses and risk-management by firms. The evolving

single insurance market, and the refocus of regulatory activity, produced aggressive growth in product development, marketing and implementation. (7)

With the Third Directive, liberalization and harmonization forces became both the tools of growth and the results of growth. A virtuous cycle was instituted in which systems adopted for implementation of the Euro determined further growth. This cycle fed the encouragement associated with the Euro and SEM. By reducing state control and deregulating the system of state oversight, firms were effectively free to form partnerships and alliances. This responded to, and led to, increased competition, thus liberalizing and harmonizing EU market participants.

Post-Privatization Characteristics

Upon privatization, the Portuguese insurance houses set out on ambitious programs of rationalization and hoped to solidify and deepen their market presence through productivity and efficiency gains. Success in this regard was especially critical in light of the inefficient managerial culture that had been protected for decades by the highly regulated nationalized marketplace. It was only with the release of these firms out of the state's managerial and regulatory grip that they were able to experiment with performance-enhancing modernization techniques. Portugal's step-by-step adoption of the EU's *Acquis Communautaire* temporarily shielded firms, through residual protectionist measures, as they adapted to a more highly competitive marketplace.

Various measurements show the trend among the privatized companies toward greater productivity and efficiency. Perhaps one of the most telling figures is the immediate increase and dramatic growth in the capital base of firms. Starting from 1989, the net asset levels of the top Portuguese privatized firms (Aliança, Bonança, Imperio, Mundial Confiança, and Tranquilidade) roughly tripled over a five-year period. Efficiency gains were found in simultaneously rationalizing the employment levels of private firms while experiencing dramatic growth in premiums and product demand. As will be discussed later, the combination of distribution and marketing networks among banks and insurance houses also contributed to a rationalization of firm behavior and the creation of greater productivity and efficiency gains.

Much of this impulse towards efficiency was also propelled by the entry into the Portuguese marketplace of new Portuguese firms, such as A Lusitania and O Trabalho. The ability of new firms to enter into niche areas of insurance provision allowed for a certain level of market competition that otherwise had been ignored by the national behemoths. These local activities, combined with pressures placed on national firms by the product array and management techniques of other EU firms in the Portuguese market, have provided the spark necessary to create an engine of competitive behavior among the largest Portuguese insurance providers.

Summary: Portuguese Insurance 1974-2000

Eggertsson suggests that government intervention in the economy is often the result of either political ideology or social necessity. For a brief period in the 1970s, Portugal charted a course opposite to prevailing regional thought. Massive nationalization of the insurance sector effectively produced centralized control by the government. The end result was the creation of a small group of large firms. In the late 1980s and early 1990s, as the political atmosphere in Portugal allowed for the nation to realign itself more closely with its EU and other strategic partners, the adoption of market liberalization procedures and the EU's *Acquis Communautaire* resulted in the Portuguese reentry into current political economic thought, including an exit of the public sector from the ownership of broad areas of the economy.

However, the economy from which the Government exited had been significantly shaped by Government intervention itself. That is to say, the Portuguese Government did not enter into the ESM with the same national economy that it adopted. It had fomented a condensed reshaping of the economy, resulting in both efficiency costs and structural benefits. Because the nationalization period remained experimental in nature, occurring relatively late in comparison with Portugal's European neighbors, costs were more easily addressed and benefits were more fortuitously achieved. The experiences of deregulation, liberalization, and implementation of a liberal free-market ideology were not encumbered by a lengthy history of nationalized industries and extensive government ownership practices. Portugal's economy, suffering from a relatively short period of turmoil and public sector interference, avoided ingrained systematic functions that have made liberalization in other European economies painful.

As described above, the nationalization process and its results underscore Eggertsson when he says that Governments often times *do not know what they are doing*. The privatizations and liberalizations of the Portuguese Insurance sector in the 1980s played no role in the political economic thought of the left-leaning revolutionary governments of the 1970s. Nonetheless, their creation – the large, inefficient national insurance firms – became substantial vehicles in the 1990s for the defense of the national market as competitors arrived via the EU. (5)

In the context of financial market development through the nationalization and accession years, the molding of large Portuguese insurance firms eased the transition of the Portuguese insurance and financial markets into the competitive world of the SEM and EMU. Greater scale allowed for greater market control while efficiency gains were sought, competition barriers lowered, and the single market implemented. Greater depth of market control also made the partnership between banks and insurance houses attractive and more efficient than would have been the case with fragmentation. Broad interaction with the consuming public on the retail level, and an intimate cultural knowledge of the local base, made entry by foreign firms more expensive and difficult than was the case in the 1970s. This relative market control allowed the national insurance houses the time and space necessary for creating greater efficiency post-privatization. They responded to competitive market effects by such actions as lowering employment levels, taking advantage of technology, and increasing product advancements. Finally, the ability of these large firms to maintain market dominance in a time of uncertainty (associated with the opening of the Portuguese economy to the European system) may have helped assuage the political unease with which such activity is often accompanied. Paradoxically, the inefficient nationalized firms of the 1970s may have acted as vehicles for the successful integration of the Portuguese and EU economic systems.

Other authors speak of the nationalization legacy in the greater context of the evolution of the Portuguese economy from 1974 through the 1990s. Braga de Macedo notes that one of the results of the Revolution in the Portuguese economy was an essential freezing of the public sector throughout the 1980s, dampening the effects of accession to the EU. He holds that the contrarian path of centralization, nationalization and

relative autarky was a reflection not only of the post-revolution governments, but also of the ambiguity towards Europe that the Portuguese nation exhibited for most of the twentieth century. Braga de Macedo indicates that, despite the monopoly-like position of many nationalized firms in the 1980s, the opening up of Portugal to the European Market still greatly benefited social welfare, as gains to consumer surplus outweighed losses to producers. Furthermore, the nationalized firms needed further competitive pressures to resolve their inefficiencies as the European experiment progressed. This was especially so given the potential, as borders opened up, for customers to find their financial needs in Spain. Indeed, he notes that the M&A phenomenon in Spain had started well before that in Portugal, indicating an earlier understanding of the critical mass and efficiency issues confronting financial institutions in the new European market. (8,9)

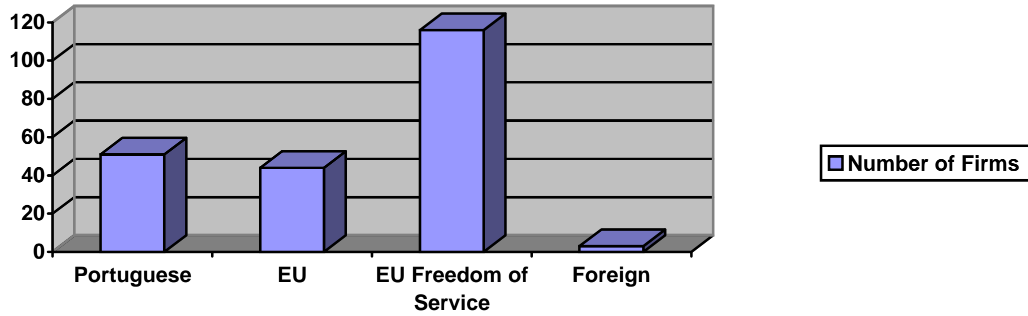
The next section reviews the current state of harmonization among Portuguese and European insurance firms. Competition aspects of these insurance houses as well as an understanding of the entrance of foreign capital during the privatization process will also be reviewed. This will show that the Portuguese insurance houses have successfully confronted the first stages of integration among the EU member-states, most notably by maintaining their independence and avoiding the merger and acquisition feast of the largest EU insurance houses during the 1990s. Contributing foremost to this independence has been the small nature of the local market and the linkages formed between Portuguese insurance providers and banks.

Part II: Harmonization, Competition and the EU

Portuguese Insurance Sector Harmonization

In 1998, there were a total of 214 insurance houses in Portugal. Of these, 51 were firms founded under Portuguese law, 47 were firms owned by foreigners and 116 were operating under the Freedom of Services provision implemented by the EU. Of the 163 foreign firms and firms taking advantage of the Freedom of Services provision, 160 are located in other EU member-states. Thus, in terms of Portuguese and EU firms operating in Portugal, the Portuguese market can be characterized as follows:

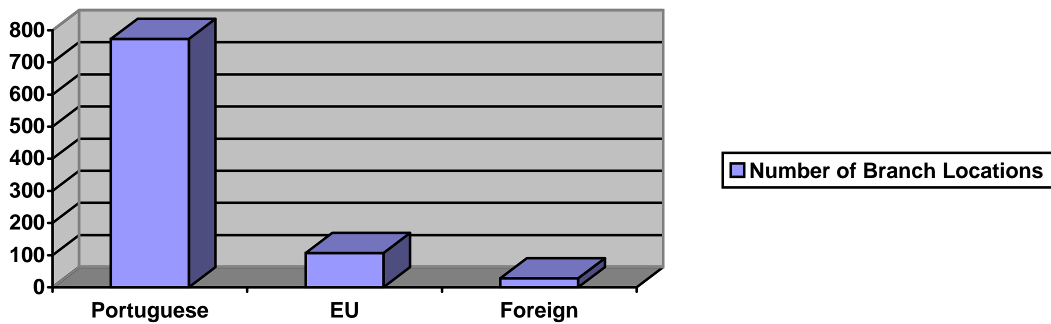
Insurance Firms located in Portugal (1998)



Source: Estatisticas de Seguros, 1998, ISP, Lisbon

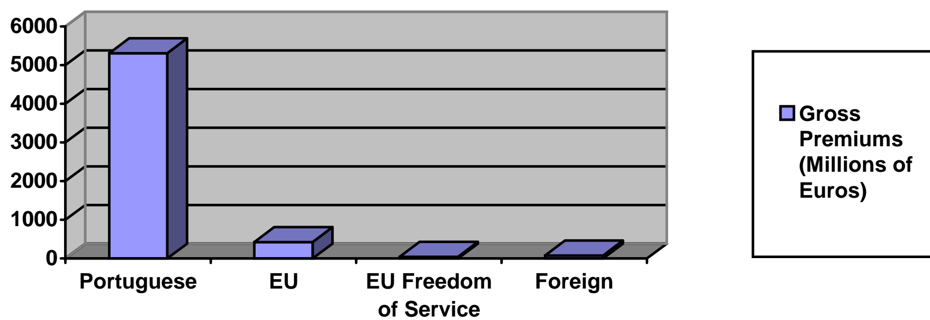
However, this distribution does not reflect the true dominance of Portuguese firms within national territory. A more accurate view of the activity of Portuguese insurance firms in Portugal can be viewed via the branch network of insurance houses in Portuguese national territory, as well as the percentage of total market gross premiums in Portugal in 1998:

Firm Branch Totals in Portugal (1998)



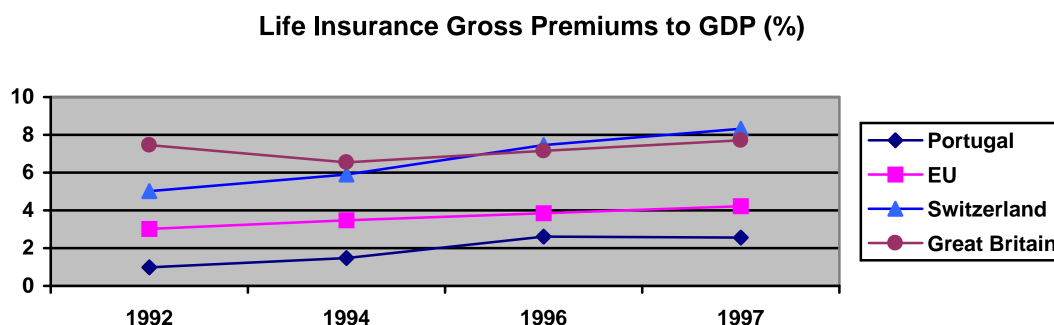
Source: Estatisticas de Seguros, 1998, ISP, Lisbon

Total Gross Premiums in Portuguese Market (1998)



Source: Estatisticas de Seguros, 1998, ISP, Lisbon

On a nominal comparison level, Portuguese firms have a solid hold on the national insurance market, as seen by sales levels, distribution networks and marketing outreach. Nonetheless, Portugal's insurance market is not as mature as either the EU median or the well-developed markets of the UK and Switzerland, as witnessed by share of insurance premiums to GDP, a common indicator of insurance market depth.



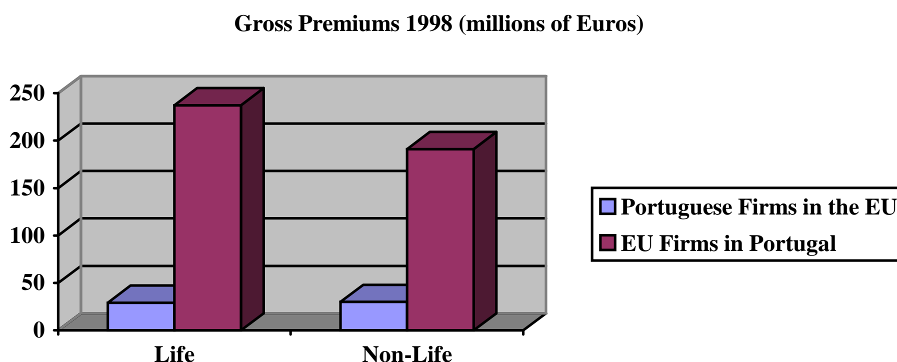
Source: The European Life Insurance Market in 1997, CEA Eco No.7, December 1998

Hence, the Portuguese market can be characterized as effectively controlled by Portuguese national firms. However, the extent of product entry into the marketplace lags well behind the EU median. This may point to some inefficiencies among the largest market participants, lack of sophistication among consumers, or even residual regulatory differences between member-states. It presents the possibility that, with greater harmonization among EU member-states, greater efficiencies and niches may exist in the market over which national and foreign firms will compete.

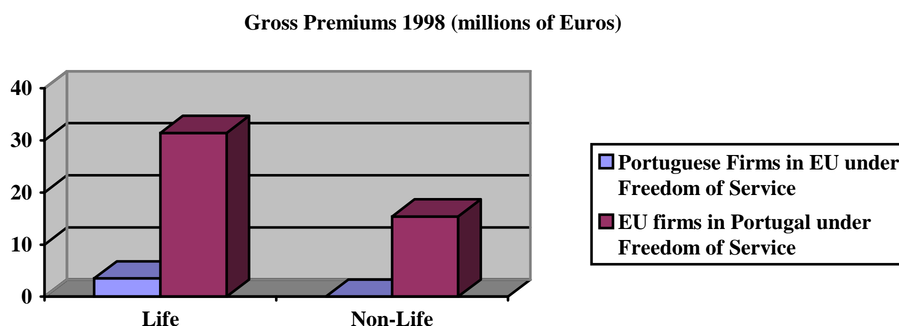
Portuguese-EU Insurance Sector Activity

Portuguese insurance activity outside of the national territory includes 12 firms which are established in other EU member-states, while an additional 33 firms take advantage of the Freedom of Services provision. This compares with the 44 non-Portuguese EU firms established in Portugal, and 116 taking advantage of the Freedom of Services provision within Portuguese territory. Among the EU member-states, Portuguese activity is heavily focused on Spain (11 firms) and France (9), followed by Germany (4), Luxembourg (4) and the United Kingdom (4). Conversely, in Portugal, Germany and the United Kingdom represent by far the most aggressive entrants in the market (31 and 32 firms, respectively), followed by Spain (26), Belgium (19) and France and Italy

(15 each). Portuguese expansion abroad is significantly overshadowed by foreign attempts to enter the Portuguese market. Among market activity criteria, Portuguese firms operating outside of Portugal do not produce the same nominal levels of business that other EU firms produce in Portugal:



Source: Estatisticas de Seguros, 1998, ISP, Lisbon



Source: Estatisticas de Seguros, 1998, ISP, Lisbon

In the EU, Portuguese firms tend to produce the bulk of their business in few areas. For the life industry in 1998, 75% of gross premiums outside of Portugal were produced in France. For the non-life sector, Greece and Spain were the main markets (55% and 25%, respectively, of gross premiums outside of Portugal in 1998; among the non-life products, automobile and fire/other damage insurance products accounted for 82% of these gross premiums). Among EU firms in the Portuguese life insurance market, Spain overwhelmingly dominated with 85% of 1998 gross premiums. In the non-life sector, the United Kingdom was a leading market player (47% of total non-life premiums, including 50% automotive, 55% of fire/other damage and 42% of accident/health insurance), followed by Spain and Italy (22% and 22%, respectively; these non-life

products were predominately automotive (47%), fire/other damage (26%) and sickness/accident (35%) insurances).

Portuguese firms fared poorly in 1998 under the Freedom of Establishment right in the EU. Almost all of this activity, which was minimal, was located in France and Luxembourg. For EU firms using this right in Portugal, Spain again dominated among life insurers (94% of gross premiums in this category), while non-life activity was shared by Spain (31% of total premiums, of which 71% of diverse insurance products), Italy (25% of total premiums, of which 66% of air and maritime transport insurance), Ireland (14% of total premiums, of which 37% of fire/other damage insurance) and Luxembourg (11% of total premiums, of which 22% of air and maritime transport insurance and 8% of fire insurance).

From a more generalized perspective, it can be said that Portuguese firms located in the EU focus on life, automotive and fire insurance products in France, Greece, Spain and Germany, while Portuguese firms taking advantage of Freedom of Services rights in the EU focus on life and fire insurance products in France and Luxembourg, but fare poorly. EU firms located in Portugal include a Spanish dominance among foreign firms of life insurance, and Spanish, Italian and English activity in the automotive, accident, health and fire insurance areas. EU firms taking advantage of the Freedom of Services right in Portugal are predominately Spanish in the life sector, with Spanish, Irish, Italian and Luxembourgeois firms focusing on air and maritime transport, fire and other insurance products. Overall, Portuguese performance in other EU member-state markets does not approach EU member-state firm performance in Portugal.

Portuguese Competition and the EU

Authors such as Walter (1988) view financial services competition as the struggle between firms to offer to the marketplace firm-specific knowledge via their labor and products. Thus, in an efficient market, firms will exhibit the technology, information, and academic resources available to them in their national environment, and will then attempt to compete against other national and international firms exhibiting their own baskets of resources. (15) Clearly, not all countries share equal technology, education and labor capacities. This creates a scenario that encourages the use of protective

barriers to permit the functioning of national firms in a world that outperforms them. Walter anecdotally provides the result of a test performed by Sagari, in which he found that in banking, skilled labor is statistically significant in terms of national competitive advantage. Conversely, large farming endowments, such as land, prove to be statistically significant for national competitive *disadvantage*. Not all nations tend to have a natural competitive capacity for the provision of financial services.

But is this a reflection of a nation and its endowments, or is it a reflection of the national state at a certain moment in time? Furthermore, does it imply that not all nations should have the capacity to provide financial services to their populations, or have the capacity to compete in the international marketplace for such services? These questions in the Portuguese context must be looked at with special regard to consumer provision and protection, especially within the context of greater political and economic cohesion with the EU. A nation that does not outwardly match the competitive advantages of its neighbors in financial services provision should not be discouraged from organizing such services. Nations naturally require both the creation of efficient financial resource distribution systems as well as consumer protection provisions that are familiar and close to the local population and regulated by accountable authorities. Furthermore, the existence of natural competitive capabilities may evolve according to historical, cultural and socio-political inputs.

Therefore, one is led to the question of *timing* in the context of liberalization. Nations that are less developed, recovering from misguided political and economic regimes, or merely refocusing and updating the construct of their economies are not necessarily at a fixed competitive disadvantage because of these transitory circumstances. Furthermore, it is their national prerogative upon entering the international system of trade to insist on competing with their partners on an equitable footing. It is in this context that protection measures must be viewed during transition periods from lower levels of economic and political sophistication to those levels that allow a nation to truly compete, according to their *fixed* natural competitive advantages, in an open system of trade, such as the EU.

In this way, certain protective measures have been used in the past by nations to foster the growth and evolution of national sectors that they deemed important. Protective policies have been offered under a variety of rationales. Walter says:

> First, (nations) can argue that activities to be protected have significant external benefits for the national economy or society…Protectionists can use the adjustment equity argument. Few people can challenge the notion that economic adjustment creates costs that, barring government intervention, those directly affected are forced to pay. At the same time, society as a whole obtains significant static and dynamic gains from economic adjustment…Third, protectionists can use the “infant industry” argument that free trade will, by exposing it to world-class competition prematurely, prevent an industry that is fully capable of competing internationally without government help from ever reaching that stage of development. Fourth, the argument may be raised that the real world is far from the perfectly competitive market – that there are economies of scale and economies of scope that require a certain firm size in order to attain their full potential. (15)

Walter points out that most protectionist arguments do not hold up very well in the face of econometric analysis. Nonetheless, certain arguments hold some validity, and it is in this respect that one must look at the Portuguese insurance market. The third and fourth points made - infant industry and scale and scope issues - may be applicable in this case. Despite the fact that provision of insurance products and services is not new to Portugal, what is new is the political and economic system in which the Portuguese nation has entered. Walter points out that provision of financial services, although ancient, does have an evolving characteristic in the modern world:

> Financial institutions may be able to use the…infant-industry argument(s) in support of their cause…On the one hand, domestic financial institutions are never “infants” in the classic sense, since all countries have had them for decades…On the other hand, since many dimensions of the financial services industry are today knowledge-intensive and technology-intensive, with economies of scale and economies of scope also giving a competitive edge in certain areas, it is possible, even likely, that domestic financial institutions in many countries are economically “retarded” rather than infantile and would indeed have a difficult time competing with outsiders capable of improving know-how at very low marginal cost…Competition from foreign financial institutions, perhaps in partnership with local interests and using primarily local human

> resources, can invigorate such institutions and promote large potential allocation and dynamic gains for the economy as a whole. (15)

It is in this context that the Portuguese insurance sector may be more clearly framed. A highly fragmented and localized sector went through a reshaping process according to an ill-defined and inefficient political economic movement of left-leaning origin throughout the 1970s and 1980s. One result of that reshaping was the consolidation of the market, thus solving some fragmentation concerns when Portugal committed itself to the EU. Subsequently, by using an extended schedule of market adaptation and adoption of the Community's *Acquis Communautaire*, the Portuguese insurance industry was confronted with piecemeal challenges in such a way that it was allowed to overcome market inefficiencies and challenges without necessarily succumbing to the immediate competitive pressures of its EU counterparts.

The Portuguese capacity to provide insurance products to its own population has shown itself sustainable. Market shares for Portuguese-owned and controlled entities have not collapsed when confronted with EU and foreign entry. Despite the progressive openness of the Portuguese insurance market to the Single European Insurance market since accession in 1986 and the progressive diminishment of protective barriers, EU and foreign firms have seen their forays into the Portuguese national market severely limited. This is attributable to the attempt by both the government and the insurance industry to mold the sector such that it could defend its national market shares.

Twelve years after accession (1998), the five largest Portuguese insurance houses still controlled roughly 50% of the entire market. Even more importantly, the five largest financial conglomerates (bank-insurance link-ups) in 1998, including the Champalimaud interests prior to their sale, controlled 64.7% of the Portuguese Insurance market. This was an increase in market share over the prior year of 3.1%. Foreign and EU entry into the Portuguese national marketplace, although increasing with time, did not attain the type of market control that might normally be viewed in the context of a pan-EU firm's entry into a position of local market importance. This result occurred despite ten years of implementing an open insurance market where firms were allowed to first progressively establish themselves on-site, then offer services without a physical presence, and finally, retain oversight by their national regulatory authorities.

The most important trend in the years of EU accession and regulatory harmonization was the growth in average market share for Portuguese firms, deriving from the consolidation of the fragmented Portuguese insurance market in the 1970s and 1980s, along with the subsequent attractive nature of insurance/bank link-ups which promoted broad marketing and distribution networks. These factors proved prohibitory to foreign firms entering the Portuguese market and successfully creating a substantial market space of their own. Further discussion of the importance of insurance/bank link-ups follows.

Below is a table from Rosalia Pedrosa's paper on the Portuguese Insurance industry which gives a closer look at foreign firm market positions throughout this time period.

Bank and Insurance Partnerships

Among financial market activities that have been closely linked with liberalization, harmonization and the impetus for SEM and EMU, one should note the link-up between insurance houses and banks. The combination of banking and insurance practices has been a widely observed phenomenon in many industrialized countries over the past twenty years. In Portugal, liberalization of both of these sectors in the 1980s, combined with dramatic growth rates in the life insurance sector, helped to promote this activity. Historically, the combination of banks and insurance houses has been forbidden by government regulation. Deregulation throughout industrialized countries, especially starting in the late 1980s, radically changed this system. Whereas restrictions on product underwriting are often maintained, implying that only insurance houses may enter into insurance contracts and assume insurance-type liabilities, other restrictions on distribution and marketing have been generally viewed as acceptable for liberalization. Regulation of ownership among banks and insurance houses has diminished in recent years as well, with certain capital linkages now permitted. In the EU, banks are permitted to engage in insurance subsidiaries, and the EC *Second Banking Directive* is quite liberal in terms of such behavior. (12)

There are three functional areas in which insurance and banking houses share attributions that may mutually benefit each other: financial resource management, fund

and investment management, and distribution and marketing networks. (4) There are also public awareness issues that may be addressed by these link-ups, for on the whole banks tend not only to have a higher level of public awareness but also maintain greater public support and confidence than individual insurance houses. (13) Through such linkage activity, banks might take advantage of the growth in demand for insurance products by partnering with prominent insurance houses and offering clients access to insurance products via bank branch networks and other banking locations. Insurance houses could benefit from the established distribution and marketing networks obtainable via bank branches and gain public credibility by the association. The investment in technology pursued by banks over the last several decades, most visible in Automated Telling Machines and bank-by-telephone capabilities, also represents an established network that can benefit insurance houses.

Economic analyses of the rapid growth in bank-insurance combinations are centered upon the search for efficiencies, including lower production costs, higher output, and better products. *Economies of scale* and e*conomies of scope* are two of the main theories used to explain such phenomenon. Although *economies of scale* hypotheses have been thoroughly tested, the evidence concerning their existence has been neutral at best. Some authors feel that if *economies of scale* are indeed an important determinant in the bank-insurance link-up, this only holds true for the largest firms. Neither have *economies of scope* been decisively proven by economists. In this regard, some authors have found that, in certain countries, insurance houses hold a comparative advantage in underwriting product, while banks hold an advantage in distribution and marketing. However, some of this result seems to derive from the essence of regulation that prohibits banks from assuming insurance-type liabilities. Furthermore, a blurring of products occurs on the insurance side, as more consumers turn to insurance products to provide "savings"-like services that could also be found in mainstream banking products. (12) All of these phenomena tend to make the results of *economies of scale* and *economies of scope* testing inconclusive.

Portuguese insurance/bank link-ups have also had important ownership consequences as well, whether directly, via strategic alliances or through mutual shareholder bases. One example can be seen in the evolution of insurance and bank product competition in the 1990s. With gradual permission granted to insurance providers by the government to

provide financial products in their service mix (beginning in 1986), banks found themselves no longer in control of a wide variety of financial offerings. Inflation levels, fiscal incentives and demographic shifts all combined to push the attractiveness of insurance financial products to the fore. Insurance products became not only more substitutable for traditional banking products, but were also proving more popular in the late 1980s and early 1990s. (13)

Thus, the idea of bank-insurance link-ups may partially stem from the necessity of banks to embrace companies that were offering progressively similar products to their own (defense of market share) while at the same time taking advantage of consumer movement towards such products (extension of market share). Indeed, throughout this period, one may observe not only a greater increase in the growth rate of life insurance premiums over bank deposit premiums, but also evidence that such growth was at the expense of bank deposits themselves. (13) This example of tendencies towards bank-insurance link-ups therefore can be seen as one of product defense on the part of banks and marketing/distribution gain on the part of insurance firms.

Furthermore, banks and insurance firms to a certain extent are reflections of each other. Insurance firms assume risk for cash, while banks receive and manage cash and seek investment opportunities. The necessity of insurance firms to create reserves sufficient to their level of risk-assumption also brings an opportunity to profit from the management of such reserves. In this manner, banks offer vehicles by which cash and asset management may be more efficiently achieved, loans may be more thoroughly prepared and financial innovation may be more easily disseminated. This is a particularly important area in the bank-insurance link-up, for financial management innovation is surely one of the keys to success in the competitive EU market. The combination of such management needs on the part of insurance houses and banks leads to production gains and the creation of sophisticated management networks that may better deliver up-to-date and innovative techniques in cash and liability management.

Finally, the idea of critical mass in the marketplace, again, is of great importance. As the EU markets further integrate, it may be necessary for banks and insurance houses to count on each other's survival instincts in order to mutually defend market positions. In other words, with a partnership in place, not only would both be better able to

complement the other in the defense and expansion of their market share, but they would also be able to provide information flows to each other that might arise when technology and management needs shift. Competition derives from the entry of a new firm in the market and/or from the rise of a new and better product that grabs public attention. In both cases, the ability of banks and insurance firms to reciprocally offer technological, managerial and operational know-how will make such market shifts much easier to manage successfully.

From this paper's historical perspective, the current state of bank-insurance link-ups is associated with pressures that have resulted from liberalization, deregulation and integration, not only among EU member-states but around the world. The run-up to SEM and EMU, and the concurrent liberalization that candidates implemented, created a situation in European financial markets where massive competitive forces were released within national borders and across those borders. Despite the touted economies of scale and scope associated with merger, acquisition and link-up activity, very little empirical proof of such economies has been provided for the vast majority of such movements. Large banks and insurance houses may indeed have achieved significant results in this regard, but smaller houses may not have seen expansive results. Thus, the idea of mergers and linkages among banks and insurance houses as defensive strategies becomes relevant. Firms that grow today and create relationships with other firms are better placed to deal with future choices, crises and opportunities in a competitive and global marketplace.

In this sense, two main criteria are apparent in terms of SEM and EMU effects on the bank-insurance linkage phenomenon. One is that concurrent with the liberalization efforts implemented in Portugal in the run-up to both programs, insurance providers and banks held mutual benefits for each other in order to confront the increasingly competitive marketplace. Insurance houses gained established distribution and marketing networks via banking branches. Banks were able to defend and enhance their client services by offering insurance products that became increasingly interchangeable with banking products. Some economies of scale and scope may have been achieved for the largest bank and insurance houses in the country. Second, the linkage of banks and insurance houses in Portugal created a critical mass of financial entities in the national marketplace with a wide variety of products, services and distributional

capacities. This mass of financial entities may have been critical to the maintenance of a strong national Portuguese financial sector once old barriers to competition, such as monetary, regulatory and legal differences, started to be abolished.

The six largest Portuguese insurance firms in 1998 controlled 68% of the Life Insurance market and 54.6% of the Non-Life Insurance market. These firms are all tied into larger financial conglomerates, which hold sway over a variety of financial activity in the national market. The following are the Portuguese groups containing the largest insurance providers (1998): Tranquilidade-Espirito Santo, Occidental and Bonança – BCP-BPA group, Fidelidade-Caixa Geral de Depositos, Mundial Confiança-Champalimaud (including portions of BCP and other banks until its sale to BBVA in 1999), and Imperio-Mello. Competing alongside these large firms are medium and small insurance houses that have found niches and which act as an important source of local competition. These include Axa Portugal, BPA, BPI, Credito Agricola, DB, Eagle Star, Gan Portugal, Global, Lusitania, O Trabalho, Real, and Victoria.

Merger and Acquisition Activity in the EU

Harmonization of the Insurance sector in the EU has resulted principally from market convergence through SEM and EMU. This is especially true with regard to merging firms within and across EU member-states and the subsequent systematizing of products, delivery methods, management techniques, regulatory control and investment practices. Merger and acquisition activity (M&A) in the 1990s has been a major vehicle for sector harmonization. (10)

In the EU, the beneficiaries of the creation of the single insurance market have been those European firms that took early initiative to create critical mass in the marketplace through the acquisition of insurance houses within and across European states. For example, the largest EU based non-life insurance firms increased their total share of the six-largest EU markets from 18% to 39% over the 1990s, largely through M&A activity. New pan-EU firms use their financial power to secure footholds in most member-states, both responding to and providing an impetus for the homogenization of the EU insurance market. These firms include Allianz (Germany), Commercial General

Union (United Kingdom), Generali (Italy), Royal & Sun Alliance (United Kingdom), Winterthur (non-EU Switzerland) and Zurich (non-EU Switzerland). (10)

The growth of the large EU insurance firms across EU member-state markets via M&A activity, however, has not precluded the potential for small- and medium-sized national firms to compete. Despite some evidence of market share decline throughout the 1990s, the competitive positions of small and medium firms have been highly dependant on particular member-state locations, market attributions and firm sizes. Many authors predict a future for these firms based on their ability to maintain niches and/or critical mass in the national market which would make it difficult for large EU firms to enter and dominate. Firms that are headquartered outside of the EU altogether have been the hardest hit in terms of market share during the 1990s. This is attributable to both the emergence of the super EU firms as well as foreign inability to deal with competitive changes in EU member-states. (10)

Thus, Portugal has been presented with the emergence of strong EU insurance firms that have gained significant EU market control through merger activities. Yet, as we have seen, an overwhelming share of the Portuguese national marketplace remains under control of the largest Portuguese firms. What is the assessment of the current construct of the Portuguese insurance market in the face of such pan-EU developments?

One should start by looking at the global rationale of the M&A trend over the 1990s. The initial drive in M&A activity in conjunction with SEM held two aspects. One was the creation of large national firms through dramatic deals within EU member-states in order to create expansion platforms. Another was cross-border acquisition by these large firms in order to create EU-wide systems. Alongside these phenomena was the limited entry of large American and Japanese firms into the EU market through the purchase of secondary national firms, particularly in Great Britain.

Most recently, some authors have noted a decline in the performance of many of the world's top insurance firms, and attribute this to inward-focusing strategies in an increasingly globalized marketplace. In this context, certain American and Japanese firms have placed too much emphasis on local marketplace and face increasing competition from large EU-based firms. In fact, among the largest EU insurance

houses, dependence on local markets has decreased dramatically throughout the 1990s, thus creating a culture of greater international and cross-border competition in the search for profitability. (10) In this sense, such EU firms as Axa-UAP and Allianz have become some of the largest insurance firms in the world. This movement reflects to a certain extent the sheer saturation of many insurance markets worldwide. Hadley shows that 90% of the world insurance market is controlled by firms in 10 countries, and that among reinsurance providers there are 8,975 firms in the world market which compete for just one-third of all reinsurance business. This saturation can in part be blamed for the increase in competition and the plummeting of prices and returns. (11)

In this market, firms are eventually displaced either by their inability to compete or through sales to larger firms that have the capital, knowledge and network capacities to deal with such competitive circumstances. Continued M&A activity among EU firms has come to rest on the saturation of European markets. Many of the largest EU firms have started looking for M&A targets outside of the EU. Current M&A rationale includes the need to diversify away from saturated markets, the achievement of economies of scale and critical mass, and the creation of large distribution platforms. This last rationale is especially germane to the link-up among insurance houses and banks, and has been reflected in the late 1990s by the largest EU firms purchasing diversified financial service firms such as Allianz's 1999 purchase of Pimco Advisors (US), Generali's purchase of INA (Italy) and the diversified position of AXA. (11)

This leads to an interesting global parallel to the fragmentation issue that Portugal faced. EU insurance firms have started to enter the highly fragmented United States market. EU firms have proven particularly well placed to acquire and consolidate a diversified grouping of insurance activities in the US precisely because of the fragmentation of the American market. Bank-Insurance link-ups were prohibited longer than in Europe, and strict regulatory limits to insurance activity and behavior made it difficult for American firms to diversify into broad financial service areas. As a result, EU firms with high capitalization levels, large book values and diminishing investment possibilities at home have easily outbid other competitors for strategically important US firms which may be under increasing financial strain. (11)

In Portugal, as we have seen, fragmentation was also a problem in the market prior to the nationalizations. The forced mergers of the 1970s presented a moment when size rationality was implemented on the market, creating critical mass, hidden defensibility and future value. However, the current market remains full of players that keep the small Portuguese market fragmented to a degree that disallows a core group of large Portuguese firms to break out and successfully engage in the European and global markets. To this extent, even the largest Portuguese firms remain acquisition targets as opposed to purchasers. We can see this acquisition attraction in the current shareholder makeup of some of the largest Portuguese firms today, such as shareholdings on behalf of Axa-UAP and GAN, as well as the attempt to purchase Mundial Confiança on the part of BBVA in 1999.

Clearly, the largest EU firms created through M&A activity have stabilized and are now focusing their attentions on the US and other global markets. Portuguese firms in this respect have successfully created a national critical mass that retains local control and independence (albeit with much foreign participation in their capital base). Nonetheless, the critical mass achieved has not been sufficient for Portuguese firms to dramatically break out of the national market, either into the EU or farther afield. Continued efficiencies to be found in firm performances, along with continued growth in insurance products and services to the EU median level, may continue to provide opportunities to national firms. However, at some point Portuguese firms will achieve a market maturation that falls short of the EU median and which may come to represent a "ceiling". Some of this "ceiling" may be attributable to the limited size of the Portuguese national marketplace.

In this context, growth strategies must be found that simultaneously retain local market control, expand international activity, and promote technology and distribution innovations. These challenges are very similar to those confronting other Portuguese financial institutions, especially banks, to which insurance houses have increasingly tied their operational capacities over the 1990s. For instance, Pinheiro Alves notes that even the largest Portuguese banks fall in the category of smaller sized EU banks. Much of their future potential lay in expanding market shares outside of the EU along with creating specialty niches that add to their competitive potential. This would be especially attainable via the accompaniment of financial service providers with other

Portuguese firms that expand activities outside of Portugal. However, this growth strategy implies a whole series of technology, distribution and product capabilities that may not be easily achieved by Portuguese financial institutions. In this sense, acquisitions, partnerships and link-ups have become, and will continue to be, important ingredients in the evolution and development of financial firms. (11a)

Such activities allow for financial institutions to guarantee the information, distribution and product needs of their clients as these grow increasingly complex and international in scope. Countries such as Portugal with limited international financial capabilities must increasingly concern themselves with providing national firms with such expertise while retaining control of the local market. Link-ups and partnerships among financial firms represent vehicles through which Portuguese insurance houses may obtain such innovations on behalf of their clients without subjecting themselves to the loss of autonomy and control that often accompany the M&A process. Pinheiro Alves lists areas in which such partnerships must focus, inlcuding geographic and service complementarities, technological and systems management exchanges, and the creation of products, software and operations management techniques. Hence, by locating and identifying complementary financial firms within and outside of the national territory, Portuguese financial houses gain better access to the spectrum of products, services and technologies necessary for survival in the market while avoiding loss of local control. (11a) It is in this context that Portuguese insurance houses have attempted to link with financial institutions not only in defense of their national market share but also to better position themselves against their larger EU competitors.

Foreign Capital

Beyond foreign entry and M&A activity, another source of foreign participation in the Portuguese insurance market was the entry of foreign capital into nationalized firms that were in the process of privatization. This aspect of privatization was thoroughly debated by the government during the years of the state's exit from the financial sector, and various Decreto-Leis were approved to address such phenomenon. For example, the first overarching privatization Decreto-Lei (No. 11/90, de 5 de Abril), often called the Lei-Quadro de Privatizaçoes, removed prior limitations on foreign entry (which had been at 10% of total shares and 5% of total firm capital) to a limit to be determined on a case-by-case basis prior to each privatization. In this way, the government would be

able to discriminate among firms in the attempt to equitably distribute firm shares among employees, national financial groups and foreign investors, while protecting both the national interest and encouraging the formation of a stable, non-speculative investor base.

Other Decreto-Leis, such as No. 380/93 (November 15), were passed which allowed further refinement of investor participation categories as well as mechanisms by which the government would be better able to follow and regulate movements of shares and shareholders within privatized groups. With some experience and observation behind it, the Government in 1994 passed another Decreto-Lei (65/94, de 28 de Fevereiro), which set an upper limit of 25% participation for foreign entities, both for firms that had been and were going to be privatized. (3)

These Decreto-Leis and government assessments of the privatization process simply underscored the desire, on the part of the government, to maintain focus on the idea of national firms and national interest. The Portuguese government had to carefully manage two competing phenomena: the freedom of capital movement aspects of the SEM and the problem of championing national investor groups with the levels of capital necessary to gain and maintain control of the newly private firms. Various forms of privatization were therefore introduced, including public offerings and private tender opportunities (in which the government would identify a small group of potential investors for a certain ownership portion of the privatized firm). These, combined with the various decrees concerning foreign investment levels, allowed for some national favoritism to occur while maintaining Portuguese obligations to the single market program. Most importantly, many privatization processes among insurance houses considered of national interest were phased over a period of time. In this way, the state was able to follow the progress of the sale over time, favor or discriminate against core investor groups, and manage the process of the state's exit from the industry while attempting to foster a national management and investment culture. (3)

Below is a chart from Sousa and Cruz that tracks the principal investor groups in some of the largest insurance houses over their privatization period. This chart shows in general the ability of the government over time to direct the firms into national hands and among a small group of investors that would form the core of a stable ownership:

Some Shareholder Groups Among Privatized Portuguese Insurance Firms

	Main Shareholders December 31, 1992	%	Main Shareholders December 31, 1993	%	Main Shareholders December 31, 1994	%
Aliança Seguradora	Cefage-SGPS, SA	19.78	Cefage-SGPS, SA	19.78	Cefage-SGPS, SA	19.78
	Carteira Central, S.A.	17.68	Carteira Central, S.A.	17.68	Carteira Central, S.A.	17.68
	CAPGESTE, S.A.	12.74	CAPGESTE, S.A.	12.74	CAPGESTE, S.A.	12.74
	UAP-Internacional	12.01	UAP-Internacional	12.01	UAP-Internacional	12.01
	Banco de Fomento e Exterior, S.A.	11.67	Banco de Fomento e Exterior, S.A.	11.67	Banco de Fomento e Exterior, S.A.	11.67
					Conte, S.A	5.44
					AGF internacional	4.16
					EDP, S.A.	1.59
					Fpoes - Cimpor	1.04
					Outro	13.87
Bonança	Engenho, SA	50.7	Engenho, SA	50.7	Engenho, SA	50.68
	Tabaqueira, SA	25.0	Tabaqueira, SA	25.0	BCM International Bank (Cayman)	11.2
	Uniao de Bancos Portugueses, SA	16.5	Uniao de Bancos Portugueses, SA	16.5	Uniao de Bancos Portugueses, SA	15.91
	Banco Comercial de Macau, SA	1.5	Banco Comercial de Macau, SA	1.5	Banco Comercial de Macau, SA	7.36
Imperio	FINIMPER-SGPS,SA	50.0	FINIMPER-SGPS,SA	50.0	FINIMPER-SGPS,SA	50.0
	PRIMISA, SA	15.0	PRIMISA, SA	14.27	PRIMISA, SA	14.27
	GAN Internacional	10.0	GAN Internacional	10.0	GAN Internacional	10.0
Mundial Confiança	MUNDAC-SGPS, SA	50.9	MUNDAC-SGPS, SA	43.4	MUNDAC-SGPS, SA	43.4
	Banco CISF, SA	6.5	Antonio Sommer Champalimaud	7.5	Antonio Sommer Champalimaud	7.5
	Banco Pinto & Sotto Mayor, SA	6.0	Banco CISF, SA	6.5	Banco CISF, SA	6.5
	Banco Comercial de Macau, SA	5.3	Banco Pinto & Sotto Mayor, SA	6.0	Banco Pinto & Sotto Mayor, SA	6.0
	Caixa Geral de Depositos, SA	4.8	Banco Comercial de Macau, SA	4.8	Banco Comercial de Macau, SA	4.8
			Caixa Geral de Depositos, SA	4.2	Caixa Geral de Depositos, SA	4.2
					Munfinac-SGPS, SA	0.2
					SOGEB, SA	0.7
Tranquilidade	PARTRAN	49.1	PARTRAN	46.45	PARTRAN	49.17
	BESCL	17.1	BESCL	16.96	BESCL	18.26

Source: (3)

The chart clearly outlines the stable nature of investor entry into the newly privatized national firms, thus underscoring the state's goal of creating stable, national groups of owners and managers that could direct firms as SEM and EMU were implemented. On the other hand, foreign capital did enter into the national insurance market, as can be seen with the case of Aliança. Furthermore, many of the bank interests in Portuguese

insurance houses, either through the privatization process or by the bank-insurance link-ups that were concurrent with this period, contained substantial foreign participation further down the investor pyramid. Thus, Portuguese entities with significant foreign capital that invested in the privatized insurance firms oftentimes hid additional foreign investment that broke the limits set by the government at the time. (3)

It should be kept in mind that the idea of national control of the insurance houses during the privatization process was a two-way street fraught with contradictions. On the one hand, the state had a definite prerogative to foster and encourage national groups of owners and managers in the attempt to modernize and stabilize the private sector. On the other hand, the state was entering into a period where the *Acquis Communautaire* was increasingly in opposition to such discriminatory behavior, especially with regard to the free movement of capital. In terms of the Portuguese Insurance Market, the privatization of the national firms indeed represented a moment in which national groups of owners and managers were created, oftentimes from the same groups from whom the firms had been taken in 1973. A stable core of Portuguese interests was implanted into the national market. At the same time, a certain level of foreign capital, perhaps more than the government wished or allowed for, entered as well. This fell in line with the European freedom of capital movement, providing a more competitive aspect to the pricing of state assets. As with M&A activity, freedom of capital introduces aspects of the Portuguese insurance market that have arisen and which will continue to dominate into the near-future: the role of non-Portuguese EU ownership of Portuguese firms and the idea of national interest.

Foreign Entry Effects on the Insurance Market – An Empirical Model

In 1992, Barros and Cabral published an article entitled “Foreign Entry and Domestic Welfare, with an Application to Portuguese Life Insurance.” This was a simple econometric exercise that attempted to measure the marginal and global effects of the entry into a marketplace of a foreign competitor on domestic welfare. The goal of the paper was relatively straightforward: given a certain number of assumptions, how does foreign entry into a market marginally and globally affect the welfare of that marketplace – both in terms of consumers and producers? In this sense, the effect of foreign entry is measured by both the gains by consumers as competition lowers prices

(increases in the consumer surplus) and the subsequent losses by producers as prices fall (decreases in producer surplus). (14)

The authors' model hypothesizes foreign entry into an imperfectly competitive environment and ignores such classical foreign entry issues as the transfer of technology and political independence. Starting from the hypothesis forwarded by Mankiw and Whinston (1986), in which it was shown that the free entry equilibrium number of firms in a market might be greater than the number under a socially optimal setting, the authors create a world in which entry effects of foreign firms is measured against changes in consumer surplus and domestic firm profits. This difference from the Mankiw and Whinston model shifts the argument from a case promoting some barriers to entry to one in which the barriers should be reversed.

The results of the authors' modeling are:

Proposition 1: At the margin, foreign entry increases domestic welfare if and only if the share of the market controlled by foreign firms exceeds some critical value *X*.

Corollary 1: The optimum number of foreign firms is either zero or infinity.

These results state that the initial entry of the foreign firm into a market of autarky will initially decrease the producer surplus to a greater extent than it will increase the consumer surplus. Conversely, in a market already well developed by foreign entry and firms, any additional firm will increase consumer surplus to a greater extent than its impact on the producer surplus of domestic firms.

Proposition 2: Domestic Welfare improves with foreign entry only if the consumer surplus gains are greater than the producer surplus losses.

This is a straightforward result which can be easily understood. In combination with Proposition One, the authors propose that domestic welfare will not improve with

foreign entry unless the positive gains to consumer surplus outweigh the loss to producers, and that this effect does not occur until some critical level of foreign firms are already established in the market place. Initial and subsequent entry into the domestic marketplace must be viewed as domestic welfare decreasing since domestic producers suffer from increased competition and domestic consumers do not witness commensurate increases in their welfare. After a certain level of foreign entry has been achieved, additional entry starts to benefit the consumer to a greater extent than it harms the domestic producer, and thus foreign entry can be viewed as domestic welfare-improving. (14)

This simple model provides a basic theoretical understanding of the development of the Portuguese insurance market. On the one hand, we have seen that Portuguese firms on the whole dominate over foreign entrants. Yet, significant numbers of foreign firms have established themselves both in the local marketplace and through capital investments in Portuguese firms. Thus, one can say that the national marketplace currently exhibits a moment in which further entry of foreign firms is unlikely to negatively affect, in any dramatic way, the market players. Increased competition produces consumer surplus gains, as the Portuguese market has witnessed, either through the entry of foreign firms or by the founding of new national specialty firms. As shown, authors such as Braga de Macedo feel that the entire integration and harmonization process has significantly contributed more consumer surplus gains than producer surplus losses.

One of the drawbacks from this type of analysis is that it does not properly take into account the mutual effects on competition among insurance houses and banks through their link-ups. That is to say, further analysis of the position of Portuguese insurance houses should keep in mind the competitive attributes associated with banking partnerships, either through alliance or ownership. The future course of competitive insurance provision in Portugal, the EU and the world lay beyond the simple act of insurance production and delivery. Intertwined with competitive capacity is the ability of insurance houses to entice and serve clients across a whole spectrum of financial services, while rationalizing the provision of such services within the firm. The entrance of an insurance competitor itself may not fully reveal the impact on a local

market without an understanding of the wider implication of that entry on the entire spectrum of financial service provision.

Where Now?

As shown earlier, Portuguese insurance firms were well positioned to take advantage of local market dominance once the nationalizing governments of the 1970s had dealt with market fragmentation issues. Once Portuguese commitment to the EU had been made, local insurance firms were in a strong position to use their market dominance and bank link-up activities, along with the gradual reduction of protectionist measures, in order to combat the entry of pan-EU firms and the loss of national oversight of foreign entrants. This occurred despite the questionable political economic rationale of the Revolutionary leaders. By fashioning a market that was not highly fragmented, a residual effect of the consolidation activities was to subsequently make the idea of insurance-bank link-ups attractive. Through these link-ups, insurance houses garnered marketing and distribution networks that effectively prohibited foreign entities from entering the market and significantly challenging market share. Finally, the progressive nature of the Portuguese insurance market liberalization process meant that residual protectionist measures on the part of the government shielded national firms from more efficient competitors in other EU member-states. Portuguese firms were thus given a period of time to address efficiency, technology and management issues before full entry into the *Single European Insurance* market. Indeed, upon privatization of the national firms in the late 1980s and early 1990s, one can see a quick succession of bank link-ups followed by measures to increase firm efficiency and profitability.

Was this enough? Certainly it has been sufficient for Portuguese national firms to defend and maintain substantial shares of their home market. However, it has not been enough for Portuguese national firms to significantly break into other EU member-state markets. Indeed, general statistics from other EU member-states, such as the Premium-to-GDP ratio, show that Portuguese firms do not match up to their peer competitors in the EU and that efficiency questions still nag the home market.

Thus, one must return to the issue of M&A activity in the EU and the future of Portuguese national firms. On the one hand, Portuguese firms have successfully

defended their national market, providing for the bulk of their national insurance needs, and have entered into small pockets of pan-EU activity, especially in Spain, Greece and France. On the other hand, the current state of the Portuguese insurance industry does not present either the most efficient aspects of European insurance provision nor the capacity to aggressively expand into this new open market. Portuguese firms are in a position today where further efficiency gains and market expansion are necessary, but the means to achieve these results are limited. Referring back to Walter's analysis of natural competitive advantages in financial services, a large portion of today's competitive advantages in the insurance market will be associated with technological capacity, management techniques and labor and capital sophistication. It can be said that, on the whole, Portugal in its current state must import a large amount of these needs.

Thus, without a short-term national renaissance allowing Portuguese national firms to achieve these competitive advantages and embark on more aggressive expansionary courses, Portuguese insurance firms should look to M&A, as well as strategic partnership activities, to enhance their competitive capacities. What should this strategy look like? Certainly, Portuguese insurance firms should not enter into this strategy if it will erode the gains that the liberalization process created. Mergers that diminish national employment levels, that remove regulatory oversight of the local consumer from the local authority or that increase foreign profit margins at the expense of local firms and branches are not desirable.

Fynes and Ennis discuss the idea of foreign entry into the national marketplace of peripheral European nations in the context of manufacturing and industrial firms. However, some of the broad results of their discussion are also applicable to the current state of the Portuguese insurance industry. They point out that foreign entry consists of both foreign acquisition of local firms as well as the creation new local firms by foreign capital (Greenfield FDI). In the case of the Portuguese insurance market, we have seen that Greenfield FDI is limited at best, due to the large market dominance of national firms along with their superior marketing and distribution networks within their associated financial conglomerate groups. To a certain extent, this is a shame, for creation of new entities by foreign entrants creates local employment opportunities, although their competitive effects on the national market may alter the total employment

structure later on. On the whole, Fynes and Evans note that literature on the topic generally states that Greenfield FDI has been viewed as more positive than the economic impact associated with M&A activities. (17)

Nonetheless, foreign entry via any activity will bring certain benefits. Fynes and Ennis state:

> External acquisitions may impact on competitive performance by changing the export propensity of the newly-acquired subsidiary. Competitive potential will be affected by any changes in the operational efficiency of the subsidiary after acquisition. The introduction of innovative management practices by the new parent company will impact on competitive processes.

Thus, Portuguese firms must look for those partnerships that explicitly provide them with access to technology, product and management innovations. Without these inflows to the firm, future competitive positioning will be jeopardized. This is especially true not only in the context of freer movement of firms in the EU, but also in terms of future flows of people and capital. Portuguese firms may be currently well entrenched in Portugal, but there are no assurances that Portuguese consumers and Portuguese capital may also be so in the future. More Euro-savvy consumers with fewer qualms about local representation may easily move on to those firms whose pricing and product array result from technological and managerial innovations. This is even truer for Portuguese manufacturing and service firms looking to expand their operations.

But, must these partnerships necessarily have an inherent cost that make them politically unpalatable? In the wake of the Champalimaud episode, must merger and acquisition activity be viewed with suspicion and reticence? To a large extent, this is dependent on the buyer and the seller, along with the form of the proposed merger. Again, Fynes and Ennis discuss the differences among acquirers and their effects on the national marketplace:

> Significant variations emerge(d) in acquisition impact by nationality of ownership. Generally, UK acquisitions by non-EU firms have a more favorable (less negative) effect than acquisitions by EU-based firms. These differences are related to the initial motivations underlying the acquisition. For non-EU based companies, UK

> acquisitions have acted as a major channel for establishing market share in the Single European Market. As argued earlier, such product/market expansion-driven acquisitions may have positive effects if the acquired UK operation is given an important role to play in the overall European strategy of the parent company. This is much less likely in the case of UK acquisitions by EU-based firms which are more cost/efficiency driven. Such acquisitions will have certain negative effects on the UK particularly concerning increased imports and employment losses.

Conclusion

As we have seen, future growth must come not only from cultivation of the national market, but also from growth in foreign markets while enhancing management, investment and technology capacities. This can only be achieved by either creating even greater critical mass, forming strong partnerships with complementary and like-minded financial firms, or via acquisition by foreign firms. Portuguese firms must address the issue of even greater national consolidation while addressing local competition and pricing concerns. They must also identify EU and global markets that present opportunities and in which they can compete with the large EU insurance houses. Some of these strategies might include expansion into underdeveloped EU insurance markets such as Greece and initial forays into Eastern European markets that are currently negotiating for EU accession. Even more importantly, Portuguese firms, if they are interested in growth and survival, must identify partners that will provide competitive *protection* and *potential* when large EU competitors start to circle. For instance, there may be mutual benefits to Portuguese firms as an entry point into the EU market and US insurance firms and banks that are fragmented and thus unable to engage in M&A activity on the scale necessary in other EU member-states. This would especially benefit Portuguese firms that have access to a technologically advanced market with adequate know-how of innovative management techniques and product development. Furthermore, partnership with a non-EU firm would tend to diminish negative merger effects since there would be minimal market overlapping. Finally, Portuguese firms might wish to attain greater mass through entry into niche markets that are culturally challenging for other EU firms, such as the Brazilian market. This could represent a strategy for simultaneously increasing critical mass, creating a niche in which it would be hard for other EU firms to successfully follow, and achieving substantial returns due to entry into a developing market.

Either way, the challenge for Portuguese Insurance houses going forward is to defend the national marketplace by achieving product, management and technology innovations via partnerships and linking activity, while branching into niche and foreign markets that allow for continued growth and greater results. Foreign partners outside of the EU would present Portuguese houses with the ability to retain their local character while acting as the portal for more pan-EU activity. For the Portuguese market, Greenfield FDI by other EU member-state firms would be preferable to the acquisition of existing national firms, as these purchases would tend to be based more on efficiency criteria than market expansion.

Sources

(1) Eggertsson, Thrainn, When the State Changes its Mind: The Puzzle of Discontinuity in Government Control of Economic Activity, from *Privatization at the end of the Century*, Springer, 1997, Berlin Heidelberg New York

(2) Pintado, Miguel Rodriqgues and Mendonça, Alvaro, Os Novos Grupos Economicos, Texto Editora, 1989, Portugal (excerpted from Sousa e Cruz)

(3) Sousa, Fernando and Cruz, Ricardo, O Processo de Privatizaçoes em Portugal, Associaçao Industrial Portuense, 1995, Porto

(4) Fernandes, Paula Maia, O Novo Regime Segurador: Passaporte Comunitario, Texto Editora, 1995, Lisboa

(5) Corte Real, Maria Manuela, Cruz Alves, Francisco Jose, and Farinha Pereira, Eduardo, O Sector Segurador: Evoluçao e Perspectivas, Privatizaçoes e Regulaçao – A Experiencia Portuguesa, Ministerio das Finanças, 1999, Lisboa

(6) Travassos Carvalho, Isabel, Os Seguros e a Concorrencia, Direcçao-Geral de Concorrençia e Preços, 1992, Lisboa

(7) Transiçao Para a Moeda Unica: A Preparaçao do Sistema Financeiro Portugues, Capitulo III: Actividade Seguradora, Ministerio das Finanças, Banco de Portugal, Comissao do Mercado de Valores Mobiliarios, Instituto de Seguros de Portugal, 1999, Lisboa

(8) Braga de Macedo, Jorge, External Liberalization with Ambiguous Public Response: The Experience of Portugal, from *Unity with Diversity in the European Economy: The Community's Southern Frontier*, Centre for Economic Policy Research, Cambridge University Press, 1990, Cambridge/New York

(9) Bliss, Christopher and Braga de Macedo, Jorge, Unity with Diversity in the European Economy: The Community's Southern Frontier, Centre for Economic Policy Research, Cambridge University Press, 1990, Cambridge/New York

(10) L'Europe en Point de Mire: Mutation Strucuturelle de l'Assurance Non-Vie, SIGMA – Swiss RE, No. 3, 2000, Switzerland

(11) Hadley, Barbara, Mergers and Acquisitions in the Global Insurance Industry, Financial Times, 1999, London

(11a) Pinheiro Alves, Ricardo, Os Novos Desafios da Actividade de "Correspondant Banking" Para os Bancos Portugueses, Revista da Banca, No. 43, Julho-Septembro 1997, Lisboa

(12) Borio, Claudio and Filsoa, Renato, The Changing Borders of Banking: Trends and Implications, Bank for International Settlements, 1994 Basle

(13) Esparteiro Barroso, Maria, Las Relaciones Banca-Seguros: Una Perspectiva desde el Sector Segurador, Centro de Estudios del Seguro, S.A., 1994, Madrid

(14) Barros, Pedro and Cabral, Luis, Foreign Entry and Domestic Welfare, with an Application to Portuguese Life Insurance, from The Portuguese Economy Towards 1992, 1992, USA

(15) Walter, Ingo, Global Competition in Financial Services: Market Structure, Protection and Trade Liberalization, American Enterprise Institute/Ballinger, 1988, Cambridge

(16) Pedrosa, Rosalia, Seguros: A Evoluçao dos Seguros Atraves dos Tempos, Relatorio de Estagio no Instituto Superior de Ciencias Sociais e Politicas, Universidade Tecnica de Lisboa, 1999, Portugal

(17) Fynes, Brian and Ennis, Sean, Competing from the Periphery: Core Issues in International Business, Dryden Press, 1997, London

Appendix

Portuguese Insurance Market Share among Foreign Firms

	1972	1982	1986
Alico	0.0	0.0	0.3
Alliance	0.2	0.0	0.0
Alpina	0.0	0.0	0.0
American Home	0.0	0.0	0.1
Assicurazioni Generali	0.1	0.9	1.0
Baloise	0.0	0.1	0.0
British Oak	0.0	0.0	0.0
Caledonian	0.1	0.0	0.0
Commericial Union	0.6	0.4	0.5
Eagle Star	0.0	0.1	0.2
Equitativa - div.	0.1	0.1	0.1
Equitativa – vida	0.1	0.2	0.0
Espana	0.6	0.1	0.2
Gan – Fire/Acid.	0.0	0.0	0.1
Gan – Life	0.0	1.4	0.8
Guardian	0.3	0.4	0.3
Legal and General	0.6	0.6	0.6
Liv. & London & Globe	0.1	0.0	0.0
London Guarantee	0.2	0.0	0.0
Motor Union	0.0	0.0	0.0
Nationale – I.A.R.D.	0.0	0.0	0.0
Nationale – Life	1.1	0.0	0.0
Northern	0.5	0.3	0.0
Norwich	0.2	0.1	0.1
Pearl	0.2	0.2	0.0
Phoenix	1.2	1.0	1.1
Preservatrice	0.7	0.8	1.1
Prudential	0.0	0.1	0.1

Royal Exchange	1.2	1.2	1.1
Royal Insurance	0.4	0.4	0.5
Scottish Union	0.0	0.1	0.1
Sun Alliance	0.2	0.2	0.3
UAP – I.A.R.D.	0.1	0.5	0.6
UAP – Life	1.2	0.9	1.2
Victoria	1.6	1.5	1.1
World Marine	0.0	0.0	0.0
% of Total Market	12.1	11.6	10.5

Source: (16)

Insurance Groups found in Portugal (1998)

Financial Group	Containing:
Allianz – BPI	BPI – Vida Portugal Previdente COSEC Sociedade Portuguesa de Seguros
	Companhia Portuguesa de Resseguros
AXA UAP	AXA Portugal AXA Portugal – Vida
BCP-BPA	Bonança – Vida BPA –Seguros BPA – Vida Bonança Companhia Portuguesa de Seguros de Saude, S.A. Auto Gere Ocidental Seguros Ocidental – Vida Seguro Directo Gere
BANIF	Açoreana, S.A. Oceanica
Portela de Morais	Cares, Seguros de Assistencia
ERGO	Victoria

	Victoria-Vida
Champalimaud	Mundial Confiança Via Directa
Euresa	Euresap Seguros
Espirito Santo	Tranquilidade Tranquilidade – Vida Espirito Santo Seguros
Mapfre	Mapfre Seguros Gerais
Montepio	Lusitania Lusitania – Vida
Mello	Imperio Imperio Arag.
Europ Assistence	Europ Assistencia Seguros Assistencia
CCAM	Rural Seguros
IP Holding	Global Global – Vida
CGD	Fidelidade
Zurich	Zurich Seguros Eagle Star – Vida
Winterthur	Europeia
Deutsche Bank	DB – Vida
Generali	Generali – Vida
Groupama	Gan Gan – Vida
	O Trabalho O Trabalho – Vida
BPN	Real Seguros Real Vida

Source: 16

The Consolidation of the Portuguese Insurance Marketplace during the Nationalization Period

	Included	Mkt % 1972	Mkt % 1982	Mkt % 1998	Combined Value April 1974	Privatized	Privatization Proceeds
Bonança	Bonança Comercio e Industria Ultramarina Uniao	1.3% 4.4% 2.6% 0.3%	9.3%	9.0%	6,474,000 cts	1990	29,700,000 cts
Aliança	Argus Douro Mutual Ourique Tagus	0.4% 2.0% 1.7% 1.6% 1.9%	8.0%		1,890,000 cts	1989	13,900,000 cts
Mundial Confiança	Mundial Confiança Patria	8.2% 4.4% 1.0%	12.4%	9.6%	2,144,000 cts	1990	33,440,000 cts
Fidelidade	Atlas Fidelidade MSA Seguradora Industrial	1.3% 2.9% 3.8% 1.1%	12.3%	12.4%	N/A	1988	N/A
Imperio	Alentejo Imperio	1.1% 15.5%	19.0%	9.2%	5,800,000 cts	1990	25,500,000 cts
Tranquilidade	A Nacional Garantia Funchalense Tranquilidade	1.8% 1.6% 10.7%	11.2%	10.3%	5,620,000 cts	1989	45,000,000 cts

Source: 1, 3, 16