

AAC/MIS XVII Annual Conference Report

30 Years of Trust Earned: Taking Advantage of the Cooperative/Mutual Model São Paulo, Brazil



Celebrating its 30th Anniversary as an inter-American cooperative and mutual insurance movement network, The Americas Association of Cooperative and Mutual Insurance Societies (AAC/MIS) held its XVII Annual Conference in São Paulo, Brazil from November 11-13, 2009, hosted by Seguros Unimed. The theme of this year's conference was *30 Years of Trust Earned: Taking Advantage of the Cooperative/Mutual Model* and focused around four half day session

themes on *Leadership, Regulation and Advocacy, Governance, and Reinsurance*. In response to member feedback, the entire conference format was redesigned to provide more in-depth exploration of key issues, greater networking opportunities through small group work and discussion forums, and interactive electronic voting. Over 110 delegates from 15 countries gathered in South America's largest city, welcomed by Seguros Unimed President Dalmo Claro de Oliveira.

Many delegates arrived early in order to take advantage of a pre-conference seminar entitled *Dimensions of 21st Century Leadership for Cooperative/Mutual Insurers*. César Souza, President of EMPREENDA: Consulting Enterprise in Strategy, Leader Development and Clientivity in São Paulo, Brazil, spoke on *Leadership 2.0: The Future Has Already Arrived*. Souza argues that the predominating leadership paradigm (which he calls "Leader 1.0" - being the "top dog," leading by charisma, being "born ready" and male-oriented, and creating followers rather than leaders) is no longer relevant due to major shifts in business world realities. Among these changes include shifts from an industrial to services economy; from products to clients; from physical to virtual; from fixed to mobile; from analogue to digital; from standardization to diversity; from predictable to volatile; from institutional to personal; from indifference to social responsibility; from tangible to the intangible. Today management of the

When asked if they have identified their successor and already begun to train this person for the job, 46% of delegates said "yes", 28% said "no", 25% said they were "thinking about it" and only 2% said it was "not necessary."

The Americas Association
of Cooperative/Mutual
Insurance Societies

Asociación de
Cooperativas y Mutuales
de Seguros de las
Américas

Association des
Coopératives et
Mutuelles d'Assurances
des Amériques

Associação de
Cooperativas e Mutuais
de Seguros das Américas

Mailing address:
8201 Greensboro Drive
Suite 300
McLean, Virginia
22102-3810
United States of America

Tel: +1 703 245-8077
Fax: +1 703 610-9005
E-mail: info@aacmis.org
www.aacmis.org

AAC/MIS is The Americas
Regional Association of

tangibles (i.e. capital, technology, equipment, stocks, processes, products) is only one aspect of leadership. The new leadership paradigm (Leader 2.0) must also manage intangibles such as corporate culture, innovation, branding, reputation, and relationship development. A 2.0 Leader offers causes their employees can believe in, does more than expected, inspires by their values and leads from the “outside” rather from top-down, and actively develops leaders within the organization.

Dr. Miguel Arrieta, President of the Instituto para de Desarrollo Humano and MBA in Leadership and Managerial Ethics in San Juan, Puerto Rico, spoke on the theme of *Crisis And Opportunity: Metamorphosis From Managers To Leaders*. Defining crisis as “A state demanding action during certain events which one does not believe one has much space to maneuver,” leaders must overcome this perception by focusing on opportunities created by crisis, including reviewing insights to inherent strengths, assessing all available opportunities, avoiding denial of weaknesses and the misperception of having no control over threats. Dr. Arrieta expounded on this theme by reviewing 5 main principles and related duties of leaders, who must do more than merely manage things but lead people. An example of one principle is “Using Power as a Bridge,” where every goal and its purpose should be valued though other involved people’s interests. Another is “Life is a risk: no one gets out of here alive” – in short, avoiding risk is not an option for leaders; one success will justify the costs of many unsuccessful ones.



Cesar Souza, President of EMPREENDA: Consulting Enterprise in Strategy, Leader Development and Clientivity, São Paulo, Brazil



Dalmo de Oliveira (Seguros Unimed, Brazil), Julio Medrano (La Equidad, Colombia) Juan Carlos Godoy (AACMS, Argentina), Alfredo González Moledo, AACMS, Argentina)

Crowning a successful afternoon seminar, delegates were treated to a *Welcome Reception and Tribute to AAC/MIS Founders* with Brazilian hors d’oeuvres, sugar cane rum caipirinhas, and live music. AAC/MIS honoured founders Alfredo González Moledo (President of Stoploss Bureau de Reaseguros and Executive Director of the Argentinean Association of Cooperative and Mutual Insurers) and Julio Enrique Medrano (former Executive President of La Equidad Seguros Sociedad Cooperativa in

Bogotá, Colombia). In a later session entitled *30 Years of Trust Earned: The History of AAC/MIS as Told by Its Founders*, through a letter from Harvey Siegelbaum (former President of Multiplan, New York, USA) and recollections from Moledo and Medrano, AAC/MIS founders recounted the creation of the North American International Cooperative Insurance Federation in 1979, the development of the Hemispheric Association of Latin American cooperative and mutual insurers in the 1980's, and the merger of these two entities leading to the creation of AAC/MIS in 1992. A 30th Anniversary birthday cake was served as "Happy Birthday" was sung in Spanish, Portuguese and English over the coffee break.

On Thursday morning, the first half-day theme focused on *Regulation, Supervision and Advocacy*, Moderated by Andrés Elola Curuchaga, General Manager, SURCO Cia. Cooperativa de Seguros, in Montevideo, Uruguay. Elola provided an overview of key insurance regulation issues affecting cooperative and mutual insurers, among them solvency and minimum capital requirements, as well as regulators' perspectives on protecting financial markets, consumers and the public interest.

Alexandre Penner, Substitute Superintendent the Brazilian Superintendence of Private Sector Insurance (SUSEP), spoke on *Perspectives from an Insurance Regulator*. In his overview of the Brazilian insurance market, Penner noted Brazil's increased economic stability has stimulated a greater demand for insurance, particularly among middle and lower income populations. A key strategy of the government is to diminish poverty through access to microcredit and microinsurance to low income populations.



Dalmo de Oliveira, Seguros Unimed (Brasil), Alexandre Penner, SUSEP (Brasil), Andrés Elola, SURCO (Uruguay)

SUSEP is promoting guidelines and regulations for life microinsurance (including basic life, accident, funeral, and household staples) and is also expanding to home and auto microinsurance lines as well.

With regards to future trends, Penner said the focus on the insurance business will change from products to clients, where the consumer will determine the price, services and products; brokers will become financial services consultants; globalization and technology will reduce the entry barriers of new providers and clients; the diversity of aggregated products will increase, as will customization of products and meeting different profiles of consumers; implementation of new regulations for capital for retirement plans (respecting characteristics and peculiarities of for-profit and non-profit insurers); regulation of operational risks;

adoption of IFRS4 accounting norms and the inclusion of microinsurance segment in regulation of the insurance sector.

In his presentation *The Impact and Implications of the Adoption of Solvency II Code in Europe*, Shaun Tarbuck, Chief Executive of the International Cooperative and Mutual Insurance Federation provided an overview of international insurance regulation trends and key decision makers, including the International Accounting Standards Board (IASB) for IFRS4 standards and the Solvency II framework recently adopted by European Union authorities for all European insurance regulators. Among the implications of Solvency II for cooperative and mutual insurers include: increased capital requirements depending on risk portfolios; greater understanding of risk among both senior management and boards of directors; better risk modelling (e.g. disaster recovery, business continuity, succession planning, strategic changes); greater business efficiency and more efficient use of capital; greater transparency and accountability; all which will also result in increased costs for insurers.

When asked how they think insurance regulators in their country will react to the current global financial crisis, 55% of delegates said regulators would create more demands; 41% said they would have the same level of demands and 4% thought they would have fewer



The afternoon session theme focused on *Raising the Bar for Cooperative and Mutual Insurance Governance*. The first session focused on *Developing Best Practices in Governance: Leveraging Your Past, Shaping Your Future*, and was led by Alexandra R. Lajoux, Chief Knowledge Officer of the National Association of Corporate Directors (NACD) in Washington, DC, USA, and Shaun Tarbuck of the

International Cooperative and Mutual Insurance Federation. Using a framework for mutual insurance governance developed by the Association of Mutual Insurers in the UK, presenters conducted debate on contrasting points of view, then facilitated small group discussions and asked delegates vote their opinions on the following governance issues: 1) The Board's Role and Responsibilities; 2) Division of responsibilities between Chairman and CEO; 3) Board balance and independence; 4) Board appointments; 5) Information and professional development of board members ; 6) Board performance evaluation; 7) Remuneration; 8) Accountability and audit; 9) Relations with members; 10) Board Role as institutional shareholders. Sparking lively discussion and debate, the session revealed several interesting strengths and challenges of Latin American member companies. For example, 68% of delegates reported they had a

member relations function and 71% had independent audit committees – which are high percentages compared to most cooperative and mutual insurers in other regions in Europe, Asia and North America. In terms of whether they have an independent nominating committee, 27% reported that they did and another 8% were planning to do so, however 45% of delegates reported they do not. Regarding whether their company had a professional development program for their board, 43% said they did and another 8% said they were planning to, although 48% said they do not. In terms of board evaluation, among the 20% that reported they implement board evaluations, they focused on board, committees and individual board members (12%), board and committees (6%), and just the board (3%) – however 80% reported they do not evaluate their boards.



Another session presented a case study from the Dominican Republic entitled *Lessons Learned from a Work in Progress: Creation of a Good Governance Manual and Exploration of Governance Models*. Focusing on the experience of Cooperativa Nacional de Seguros (Coop-Seguros), Chairman Ignacio Valenzuela and General Manager Pedro Abreu shared their experiences over the past two years in

developing a cooperative insurer governance model, which was supported by a grant from the Cooperative Development Program of U.S. Agency for International Development. Coop-Seguros decided to create a good governance structure in response to needs for clear rules and public knowledge that would generate more confidence, transparency and credibility among their member owners and insureds. Among the objectives and purposes of the Good Governance project are to formalize Coop-Seguros' transparency, professional conduct and ethics policies; establish the competencies and decision making bodies; identify the type of information relevant to members; cultivate a culture of transparency and ethics among different interest groups; generate confidence in all interest groups, internal as well as external; and establish a mechanism that generates confidence and transparency for cooperative owners as well as other interest groups that interact with the insurance cooperative.

Coop-Seguros began the first phase of the project with an initial diagnostic contracted through PriceWaterHouseCoopers to help identify current gaps in governance, develop improvements to close those gaps, create governance manual, and meet with Coop-Seguros board to embed their vision and apply the code internally. A Corporate Governance Committee was created by the board to help guide the process. The second phase focuses on sustainability (currently in

progress) includes explaining and sharing the new governance code with cooperative owners, implanting the vision among cooperative owners, and continued evaluation follow up and effectiveness of the code. While a still a work in progress, among the expected future benefits to member owners include: better coordination and ease in putting the cooperative's policies into practice; optimization of administrative and control bodies efficiency; transparency in information and cooperative performance – the right to information among member owners; promote changes in the cooperative regulatory framework to show efficiency and transparency in their operations; Improvements in communication channels with members. For various related interest groups expected benefits are: better perception in the market as an attractive cooperative for investment; attract capital support, national as well as international; create confidence through broadcasting the importance of good practice in corporate governance; promote a better image and reputation of the management team and control of the organization.



In the final presentation, *Good Cooperative Governance*, Clemente Jaimes, Executive President of La Equidad Seguros Sociedad Cooperativa in Bogotá, Colombia made an important distinction between a code of good corporate governance and a code of good cooperative governance. He argues that the difference is not with ethical values, which essentially are the same as

corporate models, but in cooperative principles and the related values that corporate organizations do not share. This difference is rooted in the cooperative identity - which La Equidad has accepted and observed the cooperative ideology from its beginning in 1970. One of the determining factors is cooperatives and their members, the social base, who are the insurance cooperatives essence and reason for being. They are linked through the economic participation of members, who are rewarded with competitive rates, discounts, or dividends in proportion to results; indivisible social reserves – an expression of economic solidarity and important part of shared wealth, which protects their capacity to provide ongoing service, social support and counteract eventual volatility, as well as provide access to services and activities in education, integration and commitment to their community.

The final day focused on the fourth major theme of **Reinsurance**. The first session provided series of presentations intended to provide *A Reinsurance Primer for Board of Directors*, which was moderated by Vanessa Smith, Assistant Vice President for Latin America at International Cooperative and Mutual Federation.

In the first presentation, *Reinsurance: Cost or Investment?*, Kevin Scarlett, Underwriting Manager at American Agricultural Insurance Company Columbus, Ohio, USA, reviewed reasons for purchasing reinsurance, the costs vs. benefits of reinsurance, and capital requirements from both a mutual's perspective and a reinsurer's perspective. The second presentation, *References to Determine the Retention and Renewal of Reinsurance Contracts*, Martha Julia de Marroquín, Coordinator of the Latin American Reinsurance Group in Guatemala, reviewed key concepts in retention as well as the essentials of different reinsurance contracts, including proportional and excessive loss (nonproportional) as well as different types of retention. She ended the session with a review of the essentials, basic requirements and preparation needed for renewals of reinsurance contracts. The final presentation, *Good Practices in Reinsurer Selection* was given by Juan Enrique Bustamante, General Manager of Coopseguros del Ecuador, Quito, Ecuador. Bustamante outlined a series of six steps in the process of selecting reinsurers, which included 1) a basic checklist of what is to be negotiated (does one know the product, the market, one's capacity to retain risk; the competition, company aspirations?) 2) verification 3) "Animus *negotiar*" or negotiation leadership ability, the ability to negotiate directly with a reinsurer or through a broker; 4) know who you're negotiating with, 5) Requirements; and 6) Decide with solid reasoning.

When asked whether reinsurance is being used in their company as a strategy for growth, 86% said yes, 11% said no and 3% had no opinion.



The final session of the conference was a panel discussion entitled *The Future of the Reinsurance Industry: A Debate*, moderated by Alfredo González Moledo, President, StopLoss Bureau de Reaseguros in Buenos Aires, Argentina. Among the panellists included representatives of reinsurers (David Preti, Operational Director, PartnerRe, São Paulo, Brazil; Rockne P. Corbin, International Business Development, Shelter Re, Columbia, Missouri, USA; brokers (Margo Black, Willis Corretora de Resseguros Ltda, Rio de Janeiro, Brasil, Robert Wildbore, Executive Director, Caribbean and Latin America, Willis Ltd., Willis Re, London, United Kingdom; Black, Willis Co, Oscar Jesus Prieto, Manager, Stoploss Bureau de Reaseguros, Buenos Aires, Argentina); rating agencies (Rodolfo Nobrega, Vicepresidente, Moodys América Latina, São Paulo, Brasil), and small cooperative/mutual insurers (Martha Julia de Marroquín, Coordinator, Latin American Reinsurance Group, Guatemala City, Guatemala). Among questions discussed and debated were:

- As companies gain access to advanced technology and are more able to deal directly with reinsurers will there be a need for brokers in the market place?
- Has the financial crisis changed your opinion on the value of rating agencies?
- There have been some high profile mergers in the reinsurance sector recently. Do the panel see this as a future trend and if so will this be good or bad for cedants?
- What are the implications for small companies, which due to high costs, do not have access to reinsurance?

When asked whether reinsurance costs for their cooperative/mutual insurer were competitive enough to face the competition in the market, 47% said "yes", 27% said "no" and 26% said they didn't know.

There was time for socializing as well, and the conference's farewell dinner included Fogo de Chão churrascaria (a variety rotisserie grilled meats), sugar cane rum caipirinhas, and a lively champion samba band and Carnaval dancers Rosas de Ouro. The Saturday tour featured a trek on the high seas on a double masted schooner sailing ship which including a visit to the famous Port of Santos (the busiest container port in Latin America), natural mangrove swamps, and local beaches and sites of interest.

The next AAC/MIS Annual Conference will take place in Cartagena, Colombia from November 17-20, 2010 and be hosted by La Equidad Seguros.



Night view of Cartagena de las Indias, Colombia