

MAPFRE: TOWARD PROFITABLE GROWTH ¹

"I trust Mapfre's future results; they will grow again thanks to a strong strategic plan. Based on a sustained and profitable growth, we are strengthening Mapfre and promoting a transformation that will place us at the forefront of technology, operations, and service."

Antonio Huertas, Chairman and CEO of Mapfre

Mapfre had consolidated as a group of insurance companies with business in more than 100 countries (51 of them with subsidiaries). At the 2016 General Meeting, Mapfre's Chairman and CEO Antonio Huertas explained to the shareholders the Group's commitments under the new 2016-2018 strategic plan. The focus was Profitable Growth:

"With a high solvency ratio and a very low leverage compared to other companies in the industry, Mapfre's business model and focus on profitable growth guarantee a very healthy development for the coming years."

There had been extraordinary events which had impacted the results of 2015:

"We did not achieve the goal of revenue growth we had set, 30,000 million EUR. Nevertheless, if we take into account the devaluations in the Latin American countries, and despite the revaluation of the dollar, we would surely have reached that target. However, to make the new strategic plan a reality, we will have to work with determination."

Exhibit 1 shows the evolution of the income and balance sheet accounts while Exhibit 2 presents the evolution of the main economic and financial indicators.

¹ Case published by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by Professors Antonio García de Castro and Jorge Bernal González-Villegas, and research assistant Ms Rocío Reina Paniagua. This case has been developed only as a basis for class discussion. Cases are not intended to illustrate any judgment on the effective or ineffective management of a specific situation.

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BACKGROUND: 1933-2002

Mapfre was born in 1933 as the “Mutualidad de la Agrupación de Propietarios de Fincas Rústicas de España” (Mutual Organization of the Association of Owners of Rural Properties of Spain). In the mid-fifties, Mapfre went through a severe financial crisis that was overcome thanks to a new management team led by Ignacio de Larramendi, and it began to lay the foundations for a leading company that would endure. The creation of specialized subsidiaries started in 1970 as a growth strategy, with Mutualidad keeping the Automobile line. The first subsidiaries to be created were Mapfre Vida and Mapfre Industrial, later followed by others. Corporación Mapfre, a holding company in which the main businesses were integrated, was established in 1980. To do this, the Mutualidad used a firm outside the insurance business, which it had controlled since 1960 and which was listed on the stock exchange.

The company began its international operations in Latin America in 1984 (Colombia). During that decade, direct insurance operations (entry in Colombia as mentioned, in Argentina, Paraguay, Chile, Mexico or Puerto Rico) and reinsurance (Mexico, Philippines, Luxembourg, Italy, Venezuela, Belgium, Chile) are combined. Mapfre Asistencia, the most international company within the System² with subsidiaries or offices in different countries, was established in 1988. Up to 2012, it evolved as follows:

(*) In million EUR

	<u>Revenues</u> (*)	<u>Assets under Management</u> <u>(AUM)</u> (*)	<u>Profit</u> (*)	<u>Employees</u>
1986	434	706	21	2,823
1989	1,214	1,989	49	5,369
1992	2,419	3,769	37	9,028
1995	3,249	6,879	203	11,292
1998	4,546	9,669	178	15,219
2001	8,933	19,276	316	16,756
2003	9,250	25,677	606	18,605
2004	10,756	31,482	847	19,920
2006	13,234	38,988	1,156	28,091
2008	17,711	47,759	1,383	34,603
2010	20,471	56,471	1,431	36,744
2012	25,301	64,632	1,372	35,586

During those years, Spain continued to be Mapfre's primary market, and it became the leading company in the industry. To strengthen this leadership, it signed a business

² Internally, the company talked about the “Mapfre System”, or the “System” to refer to the group formed by the Mutualidad and its subsidiaries.

collaboration agreement with Caja Madrid (today Bankia) in 1998, which led to a strategic alliance in 2000.

In 2006, Mapfre's parent company ceased to be a mutual organization and became a public limited company (although a significant portion of its business was already part of a listed company: the Corporación Mapfre). The demutualization stemmed from the need to acquire a structure that would allow Mapfre to continue growing and developing its business project. There were over 5.2 million members at the time, who were given the option to become shareholders of what was to be Mapfre, S.A. or receive their stake in the new company in cash.

After the corporate restructuring of 2006, all the business activities of the Mapfre S.A. group, a holding company listed on the Madrid and Barcelona Stock Exchanges, were integrated. The majority control of this company was attributed to Fundación Mapfre, a private foundation that carried out nonprofit activities of general interest. Exhibit 3 shows the main milestones in Mapfre's history.

There have been several successful successions of CEOs in Mapfre. Thus, in 2011, it was announced that Antonio Huertas, who was 47 years old and had started working at Mapfre in the mid-1980s, would be appointed as Chairman and CEO of the company in 2012.

During his first year as Chairman and CEO, and before he made any changes, he learned everything possible he did not already know about the company (visiting 18 countries), aiming to grasp what possible lines of action were open. Antonio Huertas said:

"I was faced with the challenge of driving the transformation of a successful company, a company that was great and doing very well. Each country, however, acted independently, with common tasks practically limited to accounting consolidation. I traveled through all the countries and understood it. I asked the key players for a memorandum, which only I would read, with possible ways to organize the business and a few lines on a possible strategic plan."

Mapfre prepared an agenda for change and established the initiatives and indicators that would serve as a guide in that period. The process for developing and systematically reviewing the strategy was also defined. A year and a half later, the company had developed a new strategic and organizational approach.

MAPFRE FROM 2012

Huertas' first plan covered the 2013-2015 period. During those three years, Mapfre worked intensely to define its Vision, Mission, and Values. Antonio Huertas remarked:

"The plan should have a strong emotional component, binding the entire organization. We launched a mission, vision, and values statement that would unite us all. The vision was defined as "Mapfre, the most trusted global insurance