

Jerònia Pons Pons

Multinational Enterprises and Institutional Regulation in the Life-Insurance Market in Spain, 1880–1935

The number of multinationals in the life-insurance sector expanded during the first era of globalization. Many of these firms gravitated to Spain, attracted by factors such as the country's small number of national companies and minimal regulatory requirements. Toward the end of the nineteenth century, however, the Spanish government began to impose more institutional regulations, increasing the guarantees, deposits, and reserves required of insurance companies. In response, American and British multinationals began to leave the Spanish market, propelled both by the new requirements and by a series of external factors that obliged American companies to reduce their international business. Finally, the economic disruption that accompanied the outbreak of World War I convinced American and British multinationals to withdraw from the Spanish insurance business.

The scale of operations conducted by life-insurance companies, particularly in the United States and Europe, increased between 1870 and the World War I as the world economy was becoming globalized. American firms expanded into Europe and Latin America, and European firms spread into their colonial territories and the United States. The rapid development of the life-insurance business resulted from a series of factors. Among the most critical was the growth in population and per capita income in developed countries, leading to changes in social attitudes that accompanied a more urbanized culture and a decline in religious influence and increasing the demand for life

JERÒNIA PONS PONS is lecturer in economic history at the University of Seville.

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insurance.¹ The emergence of new products, such as tontine dividend policies, was also significant, as was the development of actuarial techniques.² The appearance of the agency system further helped to promote insurance.³ This system spread as a result of the new communication systems, the telegraph and the telephone, that enabled greater managerial control over agents.⁴ An institutional factor also favored the expansion of multinational enterprises (MNEs) in the insurance sector: the fact that, in the majority of countries, there were no laws to regulate and oversee insurance activity, especially life-insurance policies, before the last decade of the nineteenth century.⁵

The history of this sector's expansion can be followed through both the numerous company histories that have been published and the vari-

¹The development of the life-insurance market in Britain is described in various works, including Hartley Withers, *Pioneers of British Life Assurance* (London, 1951); Robin Pearson, "Thrift or Dissipation? The Business of Life Insurance in the Early Nineteenth Century," *Economic History Review* 43, no. 2 (1990): 379-414; Geoffrey Clark, *Betting on Lives: The Culture of Life Insurance in England, 1695-1775* (Manchester, U.K., 1999). For the evolution of life insurance in the United States, see Charles Kelley Knight, *The History of Life Insurance in the United States to 1870* (Philadelphia, 1920).

²Roger L. Ransom and Richard Sutch explain the novelty of this new product in "Tontine Insurance and the Armstrong Investigation: A Case of Stifled Innovation, 1868-1905," *Journal of Economic History* 47, no.2 (1987): 379. Tontine insurance, introduced in 1868, combined the features of life insurance with an unusual old-age savings plan. Douglass C. North, "Life Insurance and Investment Banking at the Time of the Armstrong Investigation of 1905-1906," *Journal of Economic History* 14, no. 3 (1954): 209-28.

A portion of the annual premium was accumulated in a fund that was divided among the surviving policyholders after twenty years. Although many authors use the concept of "tontine insurance" in referring to this kind of policy, the concept of "deferred dividend policies" more clearly differentiates this type of policy from the old tontine policies invented by Lorenzo Tonti in the seventeenth century. For the development of mortality tables and actuarial techniques in the United States, see Knight, *The History of Life Insurance*. For Europe, and Italy in particular, see Tomaso Fanfani, "L'assurance-vie en Italia entre initiative privée et monopole (XIX siècle-début XXe siècle)," in *Insurance in Industrial Societies: Economic Role, Agents and Market from the Eighteenth Century to Today*, ed. Clara E. Nuñez (Seville, 1998).

³This system afforded advantages to multinationals, especially American companies. According to Robert E. Wright and George David Smith, "American sales methods, especially the commission agency system, were aggressive in comparison to European practices." *Mutually Beneficial: The Guardian and Life Insurance in America* (New York, 2004), 39. Equitable Life prior to 1900, for example, allowed its agents a 75 percent commission in the first year. Cited in William H. Price, "Life Insurance Reform in New York," *American Economic Association Quarterly* 10, no. 4 (1909): 49.

⁴The electric telegraph enabled written communications between executives at the insurance companies' home offices and their agents on both sides of the Atlantic. Robin Pearson, "Growth, Crisis and Change in the Insurance Industry: A Retrospect," *Accounting, Business & Financial History* 12, no. 3 (2002): 490. For its role in the control of agents, see J. Owen Stalson, *Marketing Life Insurance: Its History in America* (Cambridge, Mass., 1942).

⁵The MNEs of the insurance sector engaged in the strategies common to other multinationals. See, for example, Mira Wilkins, "European and North American Multinationals, 1870-1914: Comparisons and Contrasts," *Business History* 30, no.1 (1988): 8-10; Geoffrey Jones, ed., *Banks as Multinationals* (London, 1990); and Geoffrey Jones and Harm G. Schröter, eds., *The Rise of Multinationals in Continental Europe* (Aldershot, 1993).

ous references in general studies of MNEs.⁶ The expansion strategies of the main American life-insurance companies have been well documented. The specific conditions that favored the expansion of the three big American life-insurance companies in Europe have been covered extensively by Morton Keller.⁷ Similarly, Anita Rapone has described the consolidation of Germania Life in the European market.⁸ This American company's European business, which comprised 6 percent of its overall activity in 1870, expanded until it reached 46 percent in 1910. According to Rapone, beginning in 1880 companies such as New York Life, Equitable Life, and Mutual Life of New York increased their proportion of foreign business after they followed Germania into Europe.⁹

Whereas the expansion of these MNEs has been well documented, the perspective of the host countries toward their entry has received little coverage.¹⁰ What features did these countries offer that attracted the attention of the multinationals? Did the MNEs' eventual shift in strategy and the liquidation of their foreign business ventures come about only in response to external factors, such as certain developments in their countries of origin or changes in international conditions? What was the impact of the MNEs' entry, and their subsequent exit, on the host countries' markets? These questions will be addressed in my analysis of the case of the Spanish market, which lagged behind the times in the 1870s but was transformed by the arrival of the insurance-sector MNEs.¹¹ The withdrawal of the foreign firms, which began in World War I and continued after it ended, brought about another round of major changes to the Spanish market, which I will analyze as well.

⁶Shepard B. Clough, *A Century of American Life Insurance: A History of the Mutual Life Insurance Company of New York* (New York, 1946); R. Carlyle Buley, *The Equitable Life Assurance Society of the United States, 1959-1964*, 2 vols. (New York, 1967); Anita Rapone, *The Guardian Life Insurance Company, 1860-1920: A History of a German-American Enterprise* (New York, 1987); and Mira Wilkins's more general study, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge, Mass., 1970).

⁷Morton Keller, *The Life Insurance Enterprise, 1885-1910: A Study in the Limits of Corporate Power* (Cambridge, Mass., 1963). The big three at the end of the nineteenth century were the New York Life Insurance Company, the Equitable Life Assurance Society of the United States, and the Mutual Life Insurance Company of New York.

⁸*The Guardian Life Insurance Company, 1860-1920*, esp. ch. 7, about the firm's consolidation in Europe that came about as a result of the agency system and the new types of policies.

⁹The history of this company can also be consulted in the excellent work by Wright and Smith, *Mutually Beneficial*.

¹⁰For the case of Russia, see Paul J. Best, "Insurance in Imperial Russia," *Journal of European Economic History* 18 (Spring 1989): 139-69.

¹¹For an overall view of foreign investment in Spain in the nineteenth century, see D. C. M. Platt, "Las Finanzas extranjeras en España," *Revista de Historia Económica* 1, no.1 (1983): 121-50.

First, I will examine the factors that drove foreign companies to enter the life-insurance sector in Spain, starting in the 1870s, before exploring how some of these (mainly American) firms became leaders in the field during the last decade of the nineteenth century. Second, I will explain the causes for the gradual withdrawal of the most important foreign enterprises from the Spanish market, beginning in 1916. I will look at the effect of government regulation, which began in 1893, along with other internal factors, such as the increase in bureaucracy, which may have forced the multinationals to conclude that it would no longer be profitable to conduct business in Spain. The impact of external factors on the decision by the principal MNEs to depart from the country will be assessed as well. One factor was the instability generated by World War I. Another entailed legislative changes in the multinationals' countries of origin. For example, the investigation by the Armstrong committee of the New York state legislature in 1905 into abuses by life-insurance companies operating in that state resulted in the passage of new laws. Finally, I will survey the effect of the foreign MNEs' departure on the Spanish market, including the benefits that some Spanish companies reaped from their withdrawal.

Life Insurance in Spain, 1870–1908

In the 1870s, the Spanish economy offered few incentives to a life-insurance market. The Spanish population was growing slowly, mortality rates were high, and the nation's level of income was low.¹² Spain did, however, present some attractive features to the insurance industry: the small number of national companies operating in this field, and, what was perhaps most appealing, the minimal amount of government regulation.

Legislative obstacles to the creation of stock companies were among the main reasons for the paucity of stock insurance companies with national capital. The law regarding public limited companies, which allowed stock companies to be created without state authorization, was not passed until 1869. According to the *Anuario Estadístico de España* (Annual Statistics of Spain), only three Spanish public limited companies were operating in the life-insurance sector in 1866. Between 1856

¹² Average life expectancy in Spain during the period 1863–70 was 29.8 years, in contrast to 43.1 years in the more advanced Western countries (Denmark, France, England and Wales, Norway, the Low Countries, Sweden, and the United States). Data are from Fausto Dopico and David-Sven Reher, *El declive de la mortalidad en España, 1860–1930* (Zaragoza, 1998), 29. According to Leandro Prados, the growth in the GDP per capita in Spain in 1880 was 0.564. Spain occupied fourteenth place in the growth ranking among the more developed countries. Leandro Prados, "International comparisons of Real Product, 1820–1990: An Alternative Data Set," *Explorations in Economic History* 37, no. 1 (2000): 25.

and 1865, mutuals that operated the old system of tontines had proliferated, but the Spanish financial crisis of 1866–67 and the stock-market crash of that same year led to the liquidation and disappearance of this type of company, largely owing to the depreciation of the public debt that made up the greater part of their investments.¹³

Twenty years later, the situation was substantially the same. Of the eleven stock-insurance companies existing in Spain in 1884, only four operated in the field of life. These were located in Spain's two main cities: La Unión had been founded in 1853, and El Fénix in 1864, both in Madrid; and La Previsión and Banco Vitalicio de Cataluña were launched in Barcelona in 1880 and 1881, respectively. The slow emergence of professional life-insurance enterprises in Spain was partly attributable to the tardy development of actuarial techniques in the country.

Spain lagged behind other countries in actuarial science; no actuarial work was published there until 1866.¹⁴ In that year, Miguel Aguilar published one of the first attempts at computing mortality tables, under the title *El ensayo de tabla de mortalidad española* (Experimental Spanish Mortality Table).¹⁵ Formal study of actuarial science, however, was not introduced in Spain until 1915, when it began to be taught in business schools, leading to certification as an "intendente mercantil sección actuarial" (mercantile intendant actuarial section) Spain's first fully trained actuaries graduated in 1917. However, the shortage of actuaries or technicians skilled in the kind of mathematical calculations required to operate in the field of life insurance only partly explains the lack of interest by national companies in becoming involved with it. The Spanish population's loss of confidence in this type of insurance following the failure of the companies operating the old system of tontines was another factor.

The life-insurance MNEs established themselves in Spain mainly during the 1880s, when American companies entered the market,

¹³For the development of tontines, see A. Bahamonde Magro, *El Horizonte Económico de la Burguesía Isabelina: Madrid, 1856–1866* (Madrid, 1981), 138–71.

¹⁴In England, the Londoner Institute of Actuaries of Great Britain had been created in 1848, and similar institutions were created in France in 1872 and in Italy in 1889. Fanfani, "Assurance-vie en Italie entre initiative," 107.

¹⁵One of the first mortality tables in Spain was prepared by Miguel Merino in 1866, but it contained a number of errors due to the unreliability of the data. The Geographical and Statistical Institute subsequently prepared mortality tables for the periods 1861–70 and 1878–92, using the same system as Merino. Dopico and Reher, *El declive de la mortalidad en España*, 12. The real problem, however, arose from the dearth of actuaries in Spain who were capable of carrying out the necessary calculations on the basis of this information. These first attempts were followed by others in the 1880s: J. A. Sorbias's "Ensayo de tabla de mortalidad y exposición del seguro de vida técnico" in 1882; and an essay on the topic of life insurance, entitled "Memoria dilucidando un tema de seguros sobre la vida," in 1886. References from Ester Arencibia Urien in *Actuarios* 17 (June 1999).

Table 1
Foreign Life-Insurance Companies Operating in Spain, 1884

<i>Company</i>	<i>Nationality</i>	<i>Subsidiary in Spain</i>	<i>Date of Constitution</i>	<i>Date of Authorization in Spain</i>	<i>Other Branches</i>
Le Monde	French	Barcelona	Apr. 27, 1864	Apr. 27, 1864	Fire
Guardian	British	Málaga	Dec. 17, 1821	Mar. 4, 1876	Fire
Le Phénix	French	Madrid	June 9, 1844	July 28, 1877	—
Northern	British	Málaga	June 2, 1836	Dec. 27, 1877	Fire
New York Life Commercial	American	Madrid	Apr. 5, 1849	July 19, 1881	—
Union	British	Barcelona	Sept. 28, 1861	Oct. 12, 1881	Fire
L'Urbaine	French	Madrid	Mar. 24, 1866	Oct. 15, 1881	—
Equitable	American	Madrid	May 9, 1859	Oct. 10, 1882	—
Le Temps	French	Madrid	Dec. 26, 1878	Aug. 24, 1883	—
La Foncière	French	Madrid	Aug. 18, 1880	Oct. 05, 1883	—

Source: *Anuario estadístico de España, 1888.*

although some French and British companies had been operating in the Spanish market since 1864.¹⁶ (See Table 1.) The New York Life Insurance Company established a branch in Madrid in 1881; its rival, the Equitable Life Assurance Society of the United States, followed in 1882.¹⁷ The MNEs found a potential growth market in Spain, which had not established compulsory reserves or deposits or any requirement for Spanish state securities. The foreign companies also had a clear technical advantage in the areas of marketing and management, as well as in actuarial skills.¹⁸ New York Life made its way into Spain through Cuba,

¹⁶ For the foreign companies' different strategies and points of entry in Spain before 1914, see Robin Pearson, "Foreign Insurance Companies in Spain before 1914," VIII Congreso de la Asociación Española de Historia Económica, 13–16 September 2005, Santiago de Compostela. For more information about the American insurance companies in Spain, see Jerònia Pons Pons, "Large American Corporations in the Spanish Life Insurance Market (1880–1922)," *Journal of European Economic History* 34, no. 2 (2005): 467–81.

¹⁷ Royal order of 19 July 1881.

¹⁸ When New York Life established itself in Spain in 1881, it carried a list of all its reserves in its advertising as a guarantee to policyholders. All these reserves were in the United States. They were composed of external debt of the United States; bonds of cities in the states of New York, Virginia, and Tennessee; American railroad bonds; and bank mortgage bonds. *Generalidades acerca del seguro sobre la vida y de La New-York (The New-York Life Insurance Company)* (Madrid, 1881). The divergent development of life-insurance companies in Great Britain and the United States came about, according to Henry Moir, as a result of a number of advantages: the introduction of the agency system; the payment of generous commissions for new policies from very early on; and the contracting of agents totally dedicated to the insurance business. Henry Moir, "Divergent Developments of Life Insurance," *Transactions of the Actuarial Society of America* 29, pt. 1, no. 79 (1928): 58–59.

where it already had policyholders in the main cities.¹⁹ Juan Angel Rosillo, who became Equitable Life's general manager for Spain and Portugal and remained in this position until his death in 1911, was behind the firm's establishment in Spain.²⁰ The American MNEs soon dominated the Spanish market. Although no national statistics exist for this period, Esperanza Frax and María Jesús Matilla point out that, in 1895, just one mutual company, Equitable Life, took 48 percent of all the premiums collected by foreign companies in Spain.²¹

Meanwhile, the presence of international capital pushed the few existing Spanish companies to form mergers in order to survive. In 1879, the Madrid-based firms La Unión and El Fénix joined to form La Unión y El Fénix Español, which eventually became the principal Spanish general insurance company in the first half of the twentieth century. La Unión y El Fénix was always considered a Spanish company, despite the fact that over half of its shares were in foreign hands (supported by French capital) in 1864. Later, in 1897, La Previsión and the Banco Vitalicio de Cataluña also merged, becoming Banco Vitalicio de España. Because it was difficult for the Spanish companies to compete with the scale of the MNEs' operations, they resorted to mergers to counter the foreign firms' aggressive competition.

In the 1890s, the institutional framework governing the insurance business in Spain started to change. In 1893, the state introduced taxes specifically on insurance companies into its budget and, for the first time, demanded deposits as a guarantee of solvency. Prior to this regulation, the only requirement placed on insurance companies was payment of an industrial tax. The introduction of the first regulations specifically designed for insurance companies did not stem from a desire to penalize foreign companies but, rather, grew out of the pressures of a constant budget deficit, forcing the government to come up with more ways to collect revenues. Nevertheless, the new law indirectly modified previously existing conditions, obliging insurance companies to furnish the government with up-to-date information about the policies they had written, and allowing the government to supervise the amount of their earned premiums. The companies also had to permit the government to oversee the technical reserves set aside to cover claims in Spain. The MNEs usually kept their reserves in their countries of origin. Until that time, the absence of government demands had constituted one of the main attractions of the Spanish market.

¹⁹ *Generalidades acerca del seguro*.

²⁰ Buley, *Equitable Life*, 1: 89, 289, 451-55.

²¹ Esperanza Frax and María Jesús Matilla, "Los seguros en España: 1830-1934," *Revista de Historia Económica* 14, no. 1 (1994): 183-203.

The new obligations went into effect on April 11, 1893, when a tax of 2 percent was imposed on the premiums the firms received annually from policyholders. The companies' agents were also required to pay a 2 percent tax on the commissions they charged. In addition, the requirements for guarantees were made more stringent. All companies, national and foreign, had to invest one million pesetas in Spanish state securities, or in debenture bonds or mortgage bonds from Spanish banks, railroad companies, or in other industries or urban real estate, and deposit them in the *Caja Central de Depósitos* (Central Deposit Bank). This deposit would be considered part of their technical reserves. When the reserves did not amount to a million pesetas, companies could limit deposits to 75 percent of their reserves. Finally, the companies were required to submit quarterly reports containing information on the policies they had written and on their premiums, as well as listing their agents.

The agents and companies rejected the tax, prompting the Ministry of Finance to publish new orders and to clarify its directives.²² The firms' complaints were various, and they concerned the quantity and scope of the tax, the number of documents they had to supply, and the guaranteed-deposit requirement.²³ In response, the royal order of November 19, 1893, was passed, simplifying the calculation of reserves. This order specified that if neither technical reserves nor provisions to cover outstanding risks were established in the insurance companies' statutes, their deposits had to amount to 20 percent of the premiums collected during the year, a figure that was declared equivalent to three-fourths of the reserves or provisions.

This change in the institutional environment affected the American companies most directly. According to Keller, the American MNEs began facing difficulties, which were the result of the high mortality rates, hostile public opinion, the increase in fiscal regulations, and, above all, the Spanish-American war.²⁴ R. Carlyle Buley writes that Equitable Life first considered abandoning Spain during this decade, specifically in 1895, when foreign companies had to deposit 20 percent of the premiums they received in stocks and bonds, not counting real estate, in order to mitigate the nation's public debt.²⁵ Thus, in the last decade of the

²² Royal decree of 11 Aug. 1893 (published in *Gaceta de Madrid*, 13 Aug. 1893) and royal order of 18 Nov. 1893 (*Gaceta de Madrid*, 19 Nov. 1893).

²³ Pearson, "Foreign Insurance Companies in Spain before 1914," 16, records the discontent of the British insurers who decided to pass on the cost of the tax to their Spanish policyholders. In contrast, the Spanish and French companies decided to absorb the taxes in order to make their policies more competitive.

²⁴ Keller, *The Life Insurance Enterprise*, 106.

²⁵ Buley, *Equitable Life*, vol. 1: 454. Rapone in *The Guardian Life Insurance* comments that other companies had abandoned markets as a result of similar demands. For example, Germania abandoned Canada in 1868 and Mexico in 1902.

century, the Spanish government, whether driven by internal needs or by outside influences, started passing legislation that went against the interests of the MNEs.²⁶

Certainly, no minimum capital stock, deposits, or reserves had been required of the MNEs arriving in Spain before the 1890s. Public-debt reserves appeared on the companies' balance sheets, but they were held almost exclusively in the debt of their countries of origin and were not meant to be applied to Spanish debt.²⁷ The firms' strategy was to guarantee all their insured clients in numerous foreign, mainly European, countries, based on the reserves and deposits they maintained in their respective home countries. Undoubtedly, the scale of their operations allowed them to set advantageous premiums for their products, which the Spanish companies, operating only in the national market, could not compete with. With their superior actuarial, marketing, and management techniques, the MNEs, especially the American firms, were assured of control over the life-insurance business in Spain. In a Spanish advertisement that ran in 1881, New York Life compared its premiums with those of the principal French companies operating in Spain, which constituted its main competitors. As an example, it cited the premium amount, about sixteen pesetas, that a twenty-five-year-old person would be charged for a New York Life policy with no dividend participation. A corresponding policy in a French company would cost about twenty pesetas. The premium for a policy with dividend participation would cost about three pesetas less in the American company.²⁸ In the same ad, New York Life implied that its status as a mutual company gave it an advantage over the French companies, since this meant it did not have to pay dividends to shareholders and thus could distribute higher dividends among its insured.

MNEs and the Spanish Market in the Early Twentieth Century

In the last decade of the nineteenth century, numerous European governments, including the Swiss, Austro-Hungarian, German, and Russian authorities, modified the regulatory framework of the insurance

²⁶ Wilkins, *Emergence of Multinational Enterprise*, 105-6.

²⁷ In 1911, Equitable Life had its reserves invested in the public debt of New York State and of American railroad companies. Only about 18 percent of its reserves were in Spain, invested in the building it used as its headquarters in Madrid. The reserves of other companies had a similar composition. For example, the French L'Abeille and Le Phenix invested in French state funds, and the British Gresham and Standard Life invested in British national debt, or in the national debts of India and other British colonies.

²⁸ *Generalidades acerca del Seguro sobre la Vida y de la New York*.

sector with respect to deposits, reserves, and taxation.²⁹ These changes were detrimental to foreign insurance companies, as they required investment in national state securities and obliged them to keep part of their reserves inside the country.³⁰ In Prussia, for example, in 1894, half of the premiums collected had to be invested in local bonds as a deposit. Legislation in Austria in 1897, meanwhile, required full deposits. In most cases the American companies operating in these countries preferred to cease doing business rather than comply with these demands.³¹ In 1908, Spain followed the example of other European countries and began adopting the same kind of interventionist legislation. According to R. Roig Armengual, general delegate of the Italian insurance company Riunione Adriatica di Sicurtà in Spain, the original intent of this legislation was to favor national companies over the MNEs, although, in its final form, the law imposed certain criteria of equality between them.³² The problems that the American MNEs were experiencing in their own country may have also influenced Spanish lawmakers. Although state intervention began toward the end of the nineteenth century, according to Keller, the American companies' difficulties with foreign governments started in 1905, after the Armstrong investigation was concluded in the United States.³³ This investigation instilled a mistrust of American companies that led European states to regulate the insurance sector, especially life.

The private-insurance law of 1908 introduced regulations concerning the share capital, deposits, and reserves that were needed to operate in the Spanish insurance market:

1. *Capital stock.* Section 4 of article 2 of the law required stock companies to document the amount of share capital that was subscribed and to vouch for a minimum paid-up capital of 25 percent. A temporary provision exempted preexisting companies that

²⁹ For a review of the effects of regulation in the insurance business at this time, see Robin Pearson and Mikael Lönnborg, "Regulatory Regimes and the Globalisation of Insurance," paper presented at the 2003 Business and Economic History Annual Meeting.

³⁰ The new obligations governments imposed on the insurance companies initiated changes in the composition of their investments. State securities would become increasingly important, in contrast to private industrial and commercial securities. See Mae Baker and Michael Collins, "The Asset Portfolio Composition of British Life Insurance Firms, 1900-1965," *Financial History Review* 10, no. 2 (2003): 137-64.

³¹ Wilkins, in *Emergence of Multinational Enterprise*, 105-6, considers that both the withdrawal of New York Life from Prussia in 1894 and the withdrawal of Equitable from Switzerland in 1891 started this tendency toward regulation of the sector.

³² R. Roig Armengol, "La intervención del Estado en los Seguros," *Anuario Español de Seguros* (1914): 75-77.

³³ "Everywhere, for all the companies, the post-Armstrong years were a time of difficulty. With foreign governments hostile, regulatory activity took on new or renewed life from the 1905 revelations," Keller, *The Life Insurance Enterprise*, 277.

did not have this percentage available, if the sum of their legal reserve and their actual outlay exceeded 25 percent. Companies already operating in Spain were given a five-year period to adapt to the law.

2. *Deposits.* An obligatory deposit was established, which varied according to the type of insurance. Spanish life-insurance firms were required to make an initial deposit of 200,000 pesetas. Foreign companies were granted the right to deposit this amount as well, but only as long as Spanish firms were accorded the same treatment as the outsiders were given in their own countries. If their treatment was not the same, the deposit requirement was increased to 500,000 pesetas.
3. *Reserves.* A list of securities in which the insurance companies could invest their actuarial and unexpired risk reserves would be approved on a regular basis. Articles 17 and 19 of the law created an important obstacle for foreign companies, prohibiting them from depositing 50 percent of their actuarial reserves and 50 percent of their unexpired risk reserves outside Spain.

That the Spanish insurance law of 1908 was not explicitly hostile toward the MNEs was largely due to the influence of lobbies, such as the *Círculo de Aseguradores de Barcelona* (Barcelona Insurers' Circle), which promoted a policy of nondiscrimination while the law was in its preliminary stages.³⁴ Nevertheless, the requirement to increase the amount of deposits and reserves in the country certainly affected the firms adversely. MNEs operating in life insurance were the most directly affected, especially those conducting business exclusively in this sector. In addition to maintaining the required deposits, they had to keep part of the actuarial and unexpired risk reserves in Spain in securities officially stipulated by the government. Another onerous factor was the significant increase in bureaucratic requirements: they had to present documents to the authorities at regular intervals, and they had to submit to more inspections. Furthermore, they were required to make a detailed presentation of the reserves, premiums, balance sheets, and profit-and-loss accounts specifically for the business they conducted in Spain. Until that point, the MNEs had been asked only to document their overall business dealings. Notwithstanding the MNEs' opposition to presenting a partial balance representing their Spanish operations, a

³⁴This was the first and most important lobby of insurance professionals of the time. It was founded in Barcelona in 1905 and was declared an official corporation in 1914. Its members were directors and representatives of the insurance companies operating in Barcelona. The representatives of the foreign insurance companies exerted a good deal of influence at the time the lobby was founded.

royal order issued on April 1, 1913, confirmed that they had to present these balance sheets to the *Comisaría General de Seguros* (General Insurance Office).³⁵ The MNEs' earlier practice of presenting general balance sheets had made it difficult, if not impossible, for the authorities to ascertain the amount of the profits that their business generated in Spain. Ultimately, the obligation to maintain part of their reserves immobilized in the host country, along with the increase in administration costs, tipped the scales, leading the life-insurance MNEs to conclude that the costs of doing business in Spain had begun to outweigh the advantages.

During the following years, the regulatory legislation was modified in ways that would favor national companies over foreign ones, gradually reducing the possibility of maintaining reserves outside Spain and in foreign securities. In response, the foreign insurance companies formed an association in order to defend their interests, which they considered to have been placed at risk by the new regulations. In 1911, representatives and agents of British insurance companies operating in Spain, many of whom were Spanish, created a committee in Barcelona. A year later, the French companies operating in Catalonia and the Balearics united with the same goal of countering the new legislation. The law of 1908 and the amendments in the *reglamento* (regulation) of 1912 were only the beginning of government intervention through decisions that favored certain national companies. During the following years, the interpretation of this legislation by the General Insurance Office and by the *Junta Consultiva de Seguros* (Insurance Consultation Board) led to further rules and regulations, which created more obstacles for foreign companies. A royal order of February 10, 1913 (published in the *Gaceta de Madrid* on February 14, 1913) obliged all foreign companies to present supporting documents from the inspection bodies of their countries of origin, along with the memoranda and balances of the companies' general business as announced in their leaflets and advertising. Further regulatory measures were passed in 1913 concerning various issues: the types of rebate and the surrender value of foreign companies' life-insurance policies; the separate accounts that their legal representatives had to keep when the companies did other business; and the extent of their judicial and extrajudicial powers in Spain. A single address had to be registered for any foreign insurance company's agency.³⁶

Thus, the MNEs were faced with the impossible task of continuing to guarantee their reserves outside Spain and in the securities of their

³⁵ *Anuario Legislativo de Seguros* (1913-1916): 61-65.

³⁶ Royal order of 3 Feb. 1913 (*Gaceta de Madrid*, 21 Feb. 1913); royal order of 6 Mar. 1913 (*Gaceta de Madrid*, 14 Mar. 1913); and royal order of 3 July 1913 (*Gaceta de Madrid*, 14 July 1913).

choice, and they were confronted with a sharp increase in bureaucracy. The American companies also had to deal with the reforms passed in the aftermath of the Armstrong investigation. After this investigation was concluded, the American companies modified their own conduct: they limited their activity strictly to insurance business, they followed a conservative policy, and they imposed a new ethical code.³⁷ The Armstrong committee had recommended that companies limit their new business to \$150,000,000 a year, and the New York state legislature imposed this ceiling on January 1, 1907. Equitable, Mutual, and New York Life responded by starting to cut back their domestic business and selling their insurance abroad. Equitable actually decided to end foreign business as early as 1912, but it did so in a gradual fashion.³⁸ Thus, whether as a result of the reforms spurred by the Armstrong investigation, which led to a change of strategy by these companies, a response to the hostile regulations initiated by the Spanish government, or a combination of both, life-insurance companies, starting with the Americans, began to withdraw their capital from Spain.

What effects did their decision have on the Spanish insurance market? In order to measure the impact of the foreigners' withdrawal, it is necessary to establish how much of the market share was controlled by the MNEs when the new legislation was implemented in Spain. The official statistics show that foreign companies controlled 65 percent of the market share and accounted for 65 percent of the companies operating in this sector in 1912. (See Figure 1.) These percentages were more or less maintained until World War I, when the MNEs' share began to decline; by 1935, one year before the Spanish civil war, they amounted to only 35 percent of premiums.

There were foreign companies from eight different countries in Spain during the period under consideration: the United States, Great Britain, France, Germany, Italy, Brazil, Austria, and Switzerland (see Appendix). In 1912, the controlling share was clearly in the hands of the American and British MNEs. The American companies held a market share of 40 percent. (See Table 2.) The British companies followed far behind, at 12.5 percent. Just seven firms (three American and four British) accounted for more than half of the premiums in this sector.³⁹

³⁷ Clough, *A Century of American Life Insurance*, 228–29. An extensive analysis of life insurance reform in New York can be found in Price, "Life Insurance Reform in New York," 1–95.

³⁸ Wilkins, *Emergence of Multinational Enterprise*, 106.

³⁹ The American companies were the Equitable Life Assurance Society of the United States, the New York Life Insurance Company, and the Germania Life Insurance Company of New York, known as the Guardian Life Insurance Company from 1917. The British companies were the Consolidated Assurance Company Limited, the Gresham, the Norwich Union Life Insurance Society, and the Standard Life Assurance Company.

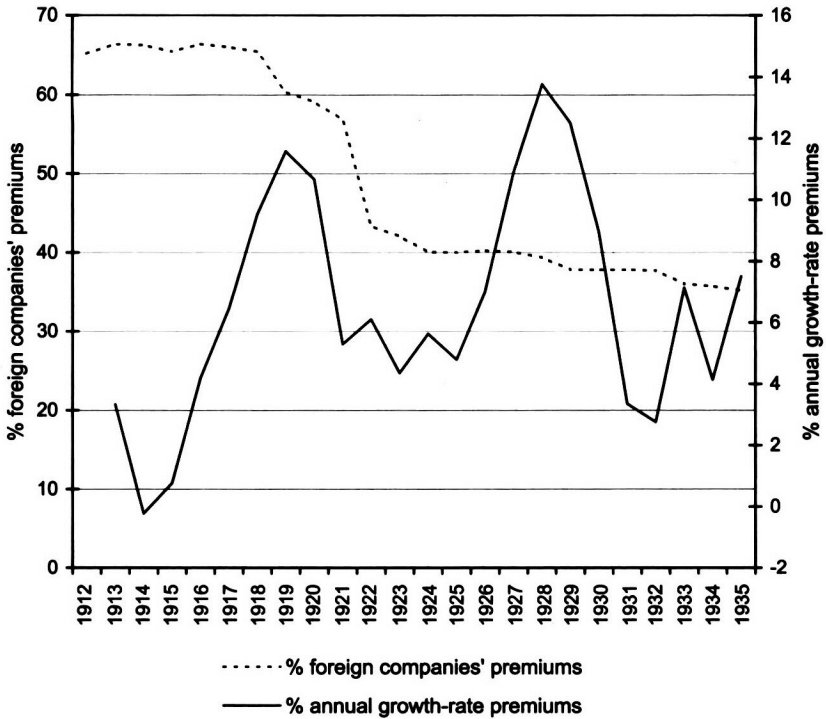


Figure 1. Percentage of foreign companies' market share and the annual growth rate of the life-insurance premiums. (Sources: *Boletín Oficial de Seguros* [1913–1926]; *Boletín Oficial de la Inspección Mercantil y de Seguros* [1927–1928]; *Revista de Previsión* [1929–1934]; *Boletín Oficial de Seguros y Ahorro* [1934–1941]; *Anuario Estadístico de España* [1919].)

The MNEs' clear domination was a result of these firms' earlier establishment in Spain and their supremacy in international markets.⁴⁰

The foreign companies dominated life insurance in Spain until 1921, when they held 56 percent of premiums. However, in just one year their share fell thirteen points, a result of the final departure by one of the American MNEs, which had begun to withdraw its operations in 1916. Although the three American companies conducting business in Spain had been signing 40 percent of premiums since 1912, they suspended operations in the country in 1916 while still conserving the client portfolios they had acquired there.⁴¹

⁴⁰J. H. Treble has analyzed the causes of the expansion of the Standard Life Assurance Company between 1875 and 1914 in "The Pattern of Investment of the Standard Life Assurance Company, 1875–1914," *Business History* 22, no. 2 (1980): 170. According to Treble, the leadership of this company was based on its professional executive structure, the increase in the scope of its activities abroad, and the variety of services it offered to clients.

⁴¹*Anuario Español de Seguros* (1917): 62–63.

Table 2
Evolution of American Life-Insurance Companies in Spain^a

Year	Equitable Life	Market share (%)	Ranking Life Branch	New York Life	Market share (%)	Ranking Life Branch	Germania Life (Guardian)	Market Share %	Ranking Life Branch
1912	9,208,482	21.28	2	7,551,997	17.45	3	597,062	1.37	11
1917	6,779,707	17.20	2	5,895,769	14.96	3	410,313	1.04	13
1921	3,215,190	7.36	5	5,033,101	11.52	2	241,140	0.55	18
1926	1,736,523	3.24	10	—	—	—	178,670	0.33	19
1931	1,024,876	1.13	16	—	—	—	87,030	0.09	28
1935	511,272	0.44	27	—	—	—	41,809	0.03	39
1940	131,147	0.15	35	—	—	—	14,037	0.01	41

Sources: *Boletín Oficial de Seguros*, 1913–1926; *Boletín de la Inspección Mercantil*, 1927–1928; *Revista de Previsión*, 1929–1934; *Boletín Oficial de Seguros y Ahorro*, 1934–1941; *Anuario Estadístico de España*, 1919.

^aIn 1928 pesetas.

New York Life had considered pulling out of Spain ever since passage of the 1908 law. The directors of the parent company had entertained doubts about their activities in Spain and did not make the required deposit until 1911.⁴² Equitable Life's board of directors decided to stop issuing new policies in December 1916. This step affected not only Spain, but also France and Russia. Equitable's directors justified this decision in a number of ways, citing the country's high mortality rates, the cost of conducting business abroad, Spain's newly restrictive legislation and high taxation, administrative difficulties, and the disruptive impact the war was having on European countries.⁴³

Another factor that may have contributed to their decision was the death of Juan Angel Rosillo, Equitable Life's director in Spain since 1881, and his replacement as head of the Spanish delegation to Equitable by his sons in 1911. Rosillo's sons did not maintain their father's level of good relations with the home office. Business in Spain underwent a downturn from 1912 through 1916. In 1912, the debit balance was about 1,054,000 pesetas; in 1913, there was a profit of a mere 13,668 pesetas. In the following years, the losses continued until 1916. By 1914, the losses had increased to 791,485 pesetas; by 1915, they had grown further, to 1,472,000 pesetas, although by 1916 the losses had dropped to 289,787 pesetas.

This period marked the beginning of the exit by the Americans and, later, by some British companies. Equitable Life's resolution to stop

⁴² Buley, *Equitable Life*, 2: 865–66.

⁴³ The MNEs were affected by the World War I, and especially by the monetary chaos that ensued. Guardian Life was one of the most affected because of the concentration of its business in Germany. Wright and Smith, *Mutually Beneficial*, 60–62.

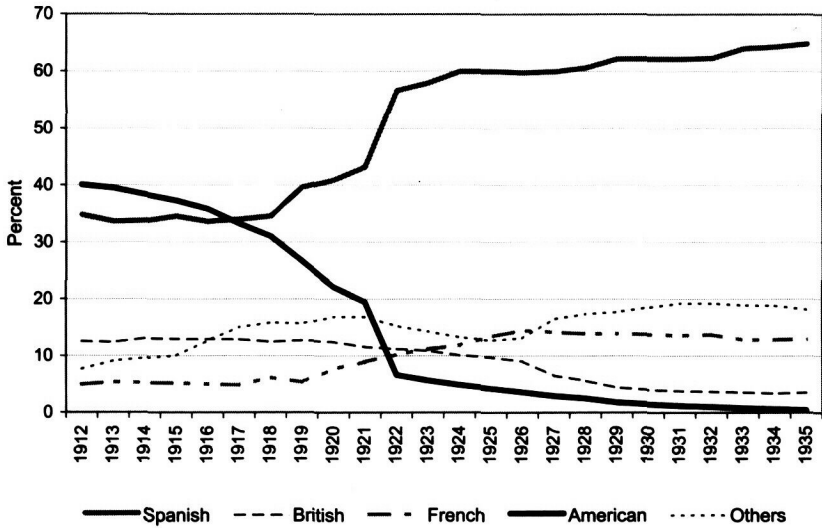


Figure 2. Percentage of premiums according to company nationality, 1912-1935. (Sources: See Figure 1.)

writing new policies was soon adopted by New York Life as well. The American companies' decision not to undertake new operations took place gradually, as they still conserved their client portfolios. (See Figure 2.) In 1916, Equitable, New York Life, and Guardian still accounted for about 36 percent of the market share, which dropped to 31 percent in 1918, 22 percent in 1920, and 19 percent in 1921. The big drop, to a little over 7 percent, took place in 1922 after the sale of New York Life's client portfolio to La Equitativa/Fundación Rosillo, a Spanish company that had been founded in 1916 by the former managers of Equitable Life's Spanish agency. This firm subsequently spearheaded a protectionist policy in the insurance sector.

The withdrawal of the American companies was followed just a few years later by the departure of two British firms, the Consolidated Assurance Company Limited and the Standard Life Assurance Company.⁴⁴ These companies abandoned the Spanish market definitively in 1926 and 1929, respectively.⁴⁵ In the latter case, La Equitativa/Fundación Rosillo

⁴⁴William Schooling affirms, in *The Standard Life Assurance Company* (Edinburgh, 1925), 78, that the company had established itself in Barcelona in 1904. It remained in the Spanish market until 1929. Its investment policies can be seen in Treble, "The Pattern of Investment of the Standard Life," 170-88.

⁴⁵During the 1920s, this company abandoned certain international markets, transferred its clients to other companies or to its agents, and limited its activities to the renewal of policies. In the case of Spain, it decided to withdraw when its agent in Barcelona, Ernest Noble,

once again was the beneficiary, as it acquired Standard Life's client portfolio in 1929. The Spanish market underwent a major restructuring after the withdrawal of the principal American and British MNEs. (See Figure 2.) For the first time, in 1922, the companies with Spanish capital exceeded 50 percent of the market share. This figure rose to 64 percent in 1935, on the eve of the Spanish civil war. The French companies also profited from the withdrawal of the American and British companies, as they managed to reach 13 percent of market share that same year.

In 1912, a ranking of the companies according to their percentage of subscribed premiums would demonstrate that three of the leading companies in the life sector were foreign: two were American (Equitable and New York Life), and one was British (Gresham). (See Table 3.) This hierarchy still held in 1920. However, by 1930 it was clear that the situation had changed radically. Both the American and the British companies had disappeared from the ranking. Gresham, which had stayed between third and fourth place until 1925, had started to reduce its operations in Spain, and by 1935 it had dropped to ninth position. In 1930, the national companies had assumed a more dominant role in the market, a shift that was accelerated by the international economic crisis. By this time, four Spanish companies and one French firm (l'Union) occupied the first five positions.

Were the reasons for this reversal to be found outside the Spanish market, and were the Spanish companies content just to fill the spaces that were left? Or did the government's economic policy and the pressure applied by the national companies become vital factors in the decision of the American and British MNEs to pull out? It appears that the post-Armstrong reform of life insurance in New York, which prohibited deferred dividend policies, limited new business, and imposed more government control over life insurers' investments, triggered the reduction of the American companies' business activities in Europe.⁴⁶ In fact, most of these companies scaled back their presence abroad soon afterward. The Guardian, for instance, one of the companies that had been most active in Europe in 1900, when its business in Europe almost equaled its domestic share, reduced the level of its European operations to about half the level of its domestic business.⁴⁷ On the other hand, the

died in 1920. John Butt, "Life Assurance in War and Depression: The Standard Life Assurance Company and Its Environment, 1914-1939," in *The Historian and the Business of Insurance*, ed. Oliver M. Westall (Manchester, U.K., 1984), 168-69.

⁴⁶The sale of "tontine policies" was prohibited in 1906 following the Armstrong investigation. The commission related tontine policies to corruption and extravagance. Ransom and Sutch, "Tontine Insurance and the Armstrong Investigation," 388-90, argue that this prohibition was unnecessary and that, despite some cases of corruption that were detected by the committee, this kind of policy fulfilled an important function at a time when private pension plans and social insurance did not exist.

⁴⁷Wright and Smith, *Mutually Beneficial*, 63.

Table 3
**Ranking of Life-Insurance Companies according to
 Premiums Collected, 1912–1940**

Rank	1912		1920		1930		1940	
	Company	%	Company	%	Company	%	Company	%
1	Banco Vitalicio de España (S)	22	Banco Vitalicio de España (S)	25	Banco Vitalicio de España (S)	22	Banco Vitalicio de España (S)	22
2	Equitable Life Assurance Society of the United States (A)	21	New York Life Insurance (A)	13	La Equitativa/ Fundación Rosillo (S)	18	La Equitativa/ Fundación Rosillo (S)	15
3	New-York Life Insurance (A)	17	Gresham (B)	9	La Unión y El Fénix Español (S)	11	La Unión y El Fénix Español (S)	10
4	Gresham (B)	10	La Unión y El Fénix Español (S)	9	L'Union (F)	7	Victoria of Berlin (G)	6
5	La Unión y El Fénix Español (S)	8	Equitable Life Assurance Society of the United States (A)	8	España, S.A (S)	5	L'Union (F)	6

Sources: *Boletín Oficial de Seguros*, 1913–1926; *Boletín de la Inspección Mercantil*, 1927–1928; *Revista de Previsión*, 1929–1934; *Boletín Oficial de Seguros y Ahorro*, 1934–1941; *Anuario Estadístico de España*, 1919.

G = German; S = Spanish; A = American; F = French; B = British.

growing regulatory trend in Europe undoubtedly influenced the American firms' decision to pull out and became a factor in the timing of their departure. In the case of Spain, the law of 1908 and the regulations of 1912 did not directly discriminate against the MNEs. Nevertheless, this legislation was prejudicial, as it obliged them to immobilize their reserves in Spain in public securities, which they placed partly in Spanish government securities and partly in industrial securities. Moreover, the supervisory bodies created by this legislation, the General Insurance Office and the Insurance Consultation Board, began issuing endless directives and making demands, increasing the level of bureaucracy that the foreign companies had to deal with. Finally, the difficulties caused by the war effectively shut down the foreign firms' operations.⁴⁸

⁴⁸Schooling, *The Standard Life Assurance Company*, 79, looks to the problems created by the war in order to explain why the company decided to withdraw from business on the Continent. Its business in Hungary, Norway, and Denmark was transferred to local companies, and it no longer accepted new risks in Brussels, Barcelona, and Stockholm.

Why did some of the foreign companies, such as the French, Brazilian, and Italian, as well as some of the British firms, decide to stay? While it seems clear that the American companies made their initial decision to pull out after passage of the "Armstrong laws," a decision that was then consolidated by the legislative developments in the host countries, it is possible that some British companies were influenced by the Americans' withdrawal and by the economic climate of the 1920s. Perhaps the explanation for the decision to stay by MNEs from other countries can be found in the nature of the different enterprises. Whereas the American and British companies specialized in life insurance, the French and Italian firms operated in other areas of insurance as well. As general insurance companies, therefore, they could take advantage of the process of diversification that was taking place among the insurance companies operating in the Spanish market.⁴⁹ In the French case, there was also a link with the French banks and commercial enterprises (especially railroad companies) located in Spain. The annual lists of securities permitted for the investment of reserves published by the General Insurance Office included railroad-company bonds, which largely involved French capital, as well as bonds of utilities, such as streetcar companies and electricity and gas companies.⁵⁰ Since part of their deposits could be made with the bonds of related companies, the French companies encountered no obstacles to investing their reserves in the industrial bonds of the companies with which they had links. The American and British companies did not have these connections. Additionally, the Spanish legislation had been inspired by laws passed in France, which made it easier for French companies to adapt to Spanish bureaucratic requirements.⁵¹

Robin Pearson proposes some explanations for the decision by European companies to remain in the U.S. market at the end of the nineteenth century that can be applied to the Spanish case.⁵² One explanation is that the networks had been expensive to construct and had required considerable effort to put in place. The fact that these companies also

⁴⁹ Jerònia Pons Pons, "Diversificación y cartelización en el seguro español, 1914-1935," *Revista de Historia Económica* vol. XXI, no. 3 (2003): 567-92.

⁵⁰ French capital was the most important foreign investment in Spain in the nineteenth century, especially French investment in two of the most important companies: the railroad companies Ferrocarriles del Norte (linked to Crédit Mobilier) and M.Z.A. See D. C. M. Platt, "Las finanzas extranjeras en España," *Revista de Historia Económica* 1, no. 1 (1983): 121-49. For more detail on investments, see Jerònia Pons Pons, "Las entidades aseguradoras y la canalización del ahorro en España," *Revista Española de Seguros* 115 (2003): 337-58.

⁵¹ Esperanza Frax and María Jesús Matilla, "La evolución del sector seguros en Francia y España, 1800-1936," in *Insurance in Industrial Societies: Economic Role, Agents and Market from the Eighteenth Century to Today*, ed. Clara E. Nuñez (Seville, 1998).

⁵² Robin Pearson, "British and European Insurance Enterprise in American Markets, 1850-1914," *Business and Economic History* 26, no. 2 (Winter 1997): 450.

operated in other areas of insurance might have compensated for some of the increases in taxes, reserves, and deposits, as well as for the high costs of administering life insurance.

Effects of the Principal Multinationals' Withdrawal on the Spanish Market

The gradual withdrawal of first the American and then the British companies from the Spanish market led to important changes in the life-insurance sector. Their departure principally benefited Spanish and French companies. Their decision to leave coincided with the growth of economic nationalism in the insurance sector, which was heavily promoted by the Primo de Rivera dictatorship, beginning in 1923. The obstacles placed before foreign companies in Spain increased in the 1920s.⁵³ The Spanish senate approved a bill, on February 26, 1919, that reduced the proportion of securities insurance companies could keep outside the country to 25 percent, adding further restrictions to the 1908 law, although this legislation was subsequently postponed until 1925.⁵⁴ A royal order, published on April 6, 1925, restricted the possibilities of investing reserves abroad and introduced two fundamental changes to the 1908 law. First, it obliged companies to deposit half their reserves in the Bank of Spain or in the Central Deposit Bank, and a quarter of this amount had to be in Spanish securities. The remaining half of the total reserves could be invested in other securities, which, however, also had to be in Spain. Second, only 25 percent of the total actuarial and unexpired risk reserves could be in foreign securities. These new regulations primarily affected the companies operating in life insurance, since they had the greatest quantity of reserves, particularly actuarial reserves.

The legislation continued to be amended, and eventually it regulated formal aspects that had never before been subject to oversight. The currency in which the insurance companies' balance sheets appeared was such a case. Until 1922, foreign companies had published their balances in the currency of their country of origin, without clarifying their value in pesetas. As general balances were kept, not specific to their Spanish portfolio, they were published in dollars, pounds, francs, or lira, according to the company's land of origin. A royal order of Octo-

⁵³This phenomenon was duplicated in many countries where the native firms were favored by the increase in the obligatory deposits to be held in the country and by a rise in taxes. Butt, "Life Assurance in War and Depression," 156.

⁵⁴R. Huerta Huerta, *Inversiones extranjeras en España: Estudio multidisciplinar* (Madrid, 1992), 90.

ber 27, 1922, obliged foreign companies to include their prices in pesetas as well, just as they were registered on the official Madrid Stock Exchange.⁵⁵ This increasing government intervention favoring the national insurance companies prompted the foreign companies to mobilize, and they formed the *Agrupación Española de Compañías Extranjeras de Seguros* (Spanish Association of Foreign Insurance Companies), whose aim was to defend their interests, which they described as being "seriously threatened by the Public Authorities." In February 1926, this association comprised twenty-six fire-insurance companies (thirteen British, ten French, one Italian, one Swiss, and one Swedish) and twelve in the transportation sector.⁵⁶ The life-insurance companies did not join the association, since the main American and British companies had already begun to withdraw from the Spanish market. This association faced more challenges at the end of the decade as rumors began to spread that insurance would be nationalized. The rumors started after the minister of finance made a speech on January 20, 1928, hinting that Spain would move toward nationalizing its economy, including the insurance sector.⁵⁷ A new decree issued on December 10, 1928, insisted on greater control of foreign companies' reserves.

The idea of a progressive expulsion of the MNEs was promoted by the Federation of Spanish Insurance Companies, which was formed in 1928 with the backing of both *La Equitativa/Fundación Rosillo* and *La Unión y El Fénix*. Representatives of the two companies lobbied their government representatives and helped to foster the growing spirit of nationalism. Both companies had their home offices in Madrid; firms that were in Barcelona, such as *La Catalana* and the *Banco Vitalicio de España*, did not join this association. Alignments varied according to geographic location: the Catalan and Basque companies identified their interests with those of the foreign companies and lined up against the Madrid companies. Barcelona hosted the first cartels in fire and transportation, as well as the first associations made up of agents and foreign companies. Nevertheless, during the 1920s, the companies based in Madrid strengthened their market position, largely because of the institutional support received due to their political contacts in the Spanish capital.

⁵⁵ *Gaceta de Madrid*, 12 Nov. 1922.

⁵⁶ Information from *El Eco del Seguro*, a magazine of the insurance sector, Feb. 1926 issue, p. 12.

⁵⁷ The nationalization projects for the insurance business, or some part of it, appeared in various European countries, with different results. Nationalization of life insurance took place in Italy. See Fanfani, "L'assurance-vie en Italie entre initiative," 31-55. For the case of Portugal, see J. Romero Malgalhaes, "Les premiers projets de municipalisation et nationalisation des assurances au Portugal au debut du XX^e siècle," in *Insurance in Industrial Societies: Economic Role, Agents and Market from the Eighteenth Century to Today*, ed. Clara E. Nuñez (Seville, 1998), 45-55.

One of the decrees that most angered the foreign companies' representatives was passed on February 18, 1927; it modified section 4 of article 2 of the law passed on May 14, 1908. This new rule demanded a minimum amount of capital for running an insurance business and required a deposit prior to inscription in order to guarantee the first years of operation. In the case of life insurance, apart from increasing the initial deposit to 500,000 pesetas, the new regulation established a minimum requirement of two million pesetas in capital stock, or an outlay of 25 percent when the subscribed capital was at least one million pesetas. A further decree, issued on November 27, 1927, required foreign companies wishing to operate in Spain to make additional deposits if they had not paid up to 25 percent of the subscribed capital, regardless of the amount of their legal reserves, which did not count to this end. The foreign companies opposed this measure. In response to an appeal by the Northern Assurance Company Limited, the Insurance Consultation Board presented a report by three members, expressing a dissenting opinion that concurred with Northern's view. The royal order of December 21, 1929, ruled that companies registered prior to the decree of February 18, 1927, would not have to make the additional deposits. On March 15, 1930, the Committee of British Companies in Spain held a special dinner for these committee members as a sign of gratitude.⁵⁸

The growth of economic nationalism in the sector and the policy of favoring native companies expedited the decision by the American and British insurance MNEs to sell their portfolios and leave Spain. The Spanish government facilitated the acquisition of foreign MNEs' client portfolios by national firms. La Equitativa/Fundación Rosillo, whose shareholders included King Alfonso XIII, encouraged this strategy. This company was the most glaring example of the coinciding interests of certain businessmen and government policy. When the Rosillo family showed an interest in acquiring New York Life's portfolio, the necessary legislation, which detailed the exact requirements for this particular operation, was passed in record time.

At a meeting of the Insurance Consultation Board on January 10, 1922, a proposal was made to create a committee to study the problem of portfolio transfer. Coincidentally, a member who favored the establishment of such a committee was one of the Rosillo brothers. The committee drafted a proposal in less than thirty days. A barely modified form of the original draft became a royal decree on March 17, 1922. The only slight variation was the insertion of a clause requiring that the pol-

⁵⁸The dinner was held on 15 Mar. 1930 for the following members of the *Junta Consultiva de Seguros*: José Ma Delás (La Catalana), Domingo Aldomá (La Nationale), Vicente Muntados (Banco Vitalicio de España, Assicurazioni Generali), and Salvio Masoliver (Mutua General de Seguros). All were representatives of Catalan insurance firms and, in some cases, representatives of foreign companies.

icyholders of the ceding company receive direct prior notification in the event of any transfer. Within almost two months, a law had been created that perfectly fit the Rosillo family's interest in acquiring New York Life's portfolio. A royal order authorized this transfer on June 12, 1922.

This divestiture was not well received by the policyholders, however, and they initiated legal proceedings in the Spanish courts on September 16, 1922.⁵⁹ In the document that launched the proceedings, they asserted that the royal order regulating the transfer of the client portfolio had been designed to conform to the interests of La Equitativa. The policyholders were concerned that they would not be guaranteed the same levels of dividends they had received through their original policies with New York Life.⁶⁰ In fact, the few available data confirm that their fears were well founded. A comparison of the dividends distributed by New York Life in 1918 with those paid to policyholders by La Equitativa in 1930 reveals that the dividends paid by the Spanish company were lower. (See Table 4.) After accounting for the difference in time periods, a comparison reveals that policyholders received lower dividends for similar premiums. In 1918, Spanish policyholders with New York Life paid premiums up to the value of about 5,325,000 pesetas and received dividends of 964,000 pesetas, whereas in 1930 clients insured with La Equitativa bought premiums worth about 5,972,000 pesetas and received dividends of 632,411 pesetas.⁶¹

In the lawsuit, the insured group also complained that the procedures established by the royal decree had not been respected, and they pointed out that the Spanish government had allowed a portfolio transfer to take place without any guarantee. In contrast, under similar circumstances in Belgium, New York Life had transferred its client portfolio to La Compagnie Belge d'Assurances Générales sur la Vie, and, in Holland, the firm had turned its portfolio over to the Nationale Levensverzekering-Bank. In both cases, the transfers had been authorized only on condition of the policyholders' acceptance and the guarantee that they would be paid the same dividends out of profits that they would have received had they continued with New York Life. According to their lawsuit, the Spanish policyholders, for their part, were

⁵⁹The information comes from the brief of the lawsuit published under the title *La cesión de carteras de las compañías de seguro* (Madrid, 1923). Biblioteca Nacional de España, VC/12790/13.

⁶⁰New York Life had been founded seventy-four years previously; in 1918 it issued 145,000 policies for a capital of 763 million gold pesetas in all the countries in which it operated. The Spanish company, however, had only been started six years before, with a capital outlay of 1.2 million pesetas and with policies insured in 1919 for a value of about 25 million pesetas. *La cesión de carteras de las compañías de seguros*, 23.

⁶¹Figures published in *Gaceta de Madrid*. Figures for 1913 were published on 27 June 1914, app. 1, p. 847; those for 1914 were published on 29 June 1915, app. 1, p. 1002; for 1915, on 28 June 1916, app. 1, p. 1097; and for 1916, 28 June 1917, app. 1, p. 791.

Table 4
Development of La Equitativa Vida/Fundación Rosillo,
1917–1940^a

Year	Assured Capital	Actuarial Reserves	Premiums	Ranking Life Branch	Paid to Insured	Dividends Paid to Insured	
						Paid	Reserves
1917	4,891	196	230	16	2	—	—
1918	11,245	488	534	12	67	—	—
1919	24,983	1,337	1,317	9	81	—	—
1920	41,551	2,620	2,145	7	182	—	112
1925	215,999	40,040	9,859	2	7,313	2,427 ^b	2,928
1930	356,101	64,209	14,806	2	5,972	632	10,083
1935	387,961	92,393	17,895	2	7,877	731	14,070
1936–39	369,782	113,278	61,110	2	33,398	857	18,315
1940	416,306	120,388	19,877	3	15,858	282	19,089

Source: *Anuario Financiero y de Sociedades Anónimas de España*, 1950, p. 1439.

^aIn 1,000 pesetas.

^bAccumulated from previous years.

not consulted; moreover, La Equitativa did not undertake to respect the dividends established by the American company but, rather, announced that payouts would be determined according to future profits.

The plaintiffs claimed as well that New York Life had not presented any proof either that the company's Spanish policyholders had been notified or that the *Asamblea de Mutualistas Españoles* (Assembly of Spanish Mutualists) had given its approval to the project. The plaintiffs argued in their appeal that the assembly's authorization could not possibly be substituted for that of New York Life's board of directors, which was attended by "seventeen American gentlemen . . . without the intervention, presence, invitation or knowledge of any Spaniards."⁶²

In the lawsuit, the insured filed for nullification of the royal decree of March 17, 1922, and consequently for voiding the portfolio transfer of June 12. Although, because of the lack of documentation we do not know the outcome of the ruling, apparently the situation remained unchanged. In fact, in 1922 the Spanish company's market share went from 8 percent to over 20 percent, and the firm's ranking among life-insurance companies rose from sixth to second place.

The acquisition of New York Life's portfolio, combined with the policies they had been able to conserve from Equitable Life's Spanish branch in 1916, paved the way for the spectacular growth of the Rosillo

⁶² *La cesión de carteras de las compañías de seguros*, 4.

family's recently created company in just six years. La Equitativa's success would not have been possible without the collusion that took place between the government and some of the national insurance companies represented in government bodies, such as the Insurance Consultative Board. This close relation continued during the dictatorship of Primo de Rivera (1923–30), when the Rosillos were singled out as representatives of a spirit of "patriotism" that was symbolized by the acquisition or the recovery of sectors of the Spanish economy for national capital. A few years later, in 1929, La Equitativa acquired the client portfolio of the British firm Standard Life Assurance Company Limited, thereby consolidating its position in Spanish life insurance.

Although Spanish companies in general, and La Equitativa/Fundación Rosillo in particular, benefited greatly from the acquisition of insurance portfolios, this strategy was also one that was adopted by foreign companies. For example, when the Consolidated Assurance Company Limited decided to abandon Spain in 1926, it bequeathed its Spanish client portfolio to Phoenix of Vienna, announcing the transaction to the policyholders on March 25, 1927.⁶³

In this way, utilizing the available institutional elements, a sector of the economy that had emerged late, and under the sponsorship of the MNEs, was progressively "rescued" for the national companies, which were diversifying and becoming general companies. Did this represent a conquest? Or was it instead the occupation of a territory that the international leaders were no longer interested in? The latter explanation is probably closer to the truth.

Conclusion

In the 1880s, the American and British MNEs did not encounter any obstacles to entering the Spanish market. Insurance was largely unregulated, and there were very few native Spanish companies operating in the field of life insurance, in part because actuarial science barely existed in the country. The MNEs' expectations of profit outweighed other, less attractive, aspects of the market, such as Spain's economic backwardness or its high mortality rate. These companies consolidated their client portfolios during the first decade of the twentieth century and held more than half of the premiums for this type of insurance.

However, the twentieth century brought a significant change in the American home market, which caused American companies to modify their expansion strategies. The reforms following the Armstrong investigation imposed a number of changes on the American life-insurance

⁶³ *Gaceta de Madrid*, 9 Apr. 1927.

MNEs, including the necessity of liquidating a good part of their foreign business. Revelations from this investigation increased European governments' concerns about these MNEs.

The European states stepped up their regulatory activities in the insurance sector, particularly in life. The Spanish government, out of financial necessity, had started to demand higher taxes from insurance companies in the last decade of the nineteenth century. The first law, which established deposits and reserves, was passed in 1908. Perhaps the most important aspect of this legislation was that it made it more difficult to keep reserves outside the country in foreign securities, undermining the formula that had been, to a large extent, the basis of the American and British MNEs' successful international expansion. Their strategy had been to accumulate reserves in industrial and public securities of their countries of origin and then to deposit the securities in their home market, with the goal of using these reserves to guarantee all their insured members in the countries where they operated.

In sum, the MNEs' decision to wind down their foreign business was the result of several factors. In the case of the American multinationals, the decisive event seems to have been the Armstrong investigation, which led to the reform of life insurance in New York and other states. Nevertheless, the timing of the American companies' withdrawal from each country depended on other factors, above all increases in regulatory measures. In the case of Spain, the supervisory institutions originating from the 1908 law created bureaucratic obstacles and red tape for foreign insurance companies, especially those in the life sector. The difficulties created by World War I finally convinced the directors in the home offices to abandon their business in Spain. Some British companies may have just been following the lead of the larger companies, and they were also undoubtedly influenced by the economic and financial consequences of the war and the rise of Spanish economic nationalism.

The Spanish market ceased to interest the American and British MNEs specializing in life insurance, and their withdrawal led to a restructuring of the market itself. The greatest beneficiaries were the Spanish and French companies. Some Spanish companies benefited from the economic nationalism of successive Spanish governments, which consented to the purchase by Spanish firms of American and British MNEs' client portfolios, even when the sales went against the policyholders' interests. In fact, the legislative changes concerning the sale of insurance portfolios were not initiated in order to favor Spanish companies in general but, instead, were designed to benefit one company in particular that had strong government ties. The multinational companies that continued operating in life insurance in Spain had diversified their operations. The French, in particular, had an important network of affilia-

tions with other French companies in different sectors, such as banks and railroads. These connections made it easier for them to accept the requirement to invest part of their deposits and reserves in Spanish industrial and commercial securities. Hence, the specialized companies that had based their expansion strategy on the scale of their operations abandoned the Spanish market, while the general insurance companies that had opted for diversification of their businesses remained.

Appendix
**Foreign Companies' Period of Activity in the Spanish
 Life-Insurance Industry, 1912-1940^a**

<i>Company</i>	<i>Registered Address</i>	<i>Life Branch</i>
German		
Victoria zu Berlin, Allg Vers. Ges. (Victoria of Berlin)	Madrid	1914-40
Austrian		
Phoenix in Wien (Phoenix of Vienna)	Málaga	1926, 1931-38
Brazilian		
Equitativa dos Estados Unidos do Brazil	Madrid	1912-25, 1927-36, 1939-40
La Sud América	Madrid	1918, 1922-27, 1929-40
American		
Equitable Life Assurance Society of the United States	Madrid	1912-35, 1939-40
Germania Life Insurance Company of New York	Madrid	1912-18, 1926-30
Guardian Life Insurance Co. of America (1929-31), Guardian Assurance Co. Ltd. (1932), Guardian (1938)	Madrid	1919-35, 1938-40
New York Life Insurance Company	Madrid	1912-21, 1926-30
French		
L'Abeille	Barcelona/ Madrid (fire)	1912-40
Compagnie d'Assurances Générales	Madrid	1932-40
Mutuelle Generale Francaise	San Sebastián	1934-40
Nationale	Barcelona/Madrid from 1919	1912-40
La Paternelle (Vie)	Madrid	1932-40
Le Phénix	Madrid	1912-40
L'Union	Madrid/Barcelona (fire)	1919-25, 1930-40
La Urbana-Vida	Madrid	1931-40

(continued)

Appendix (continued)

<i>Company</i>	<i>Registered Address</i>	<i>Life Branch</i>
British		
Consolidated Assurance Company Limited	Málaga	1912-25, 1929-30
Gresham	Madrid	1912-40
Norwich Union Life Insurance Society	Barcelona/Madrid from 1929	1912-25, 1927-40
Standard Life Assurance Company	Barcelona	1912-30
Italian		
La Alleanza de Genova	Madrid	1912-13, 1926-30
Assicurazioni Generali de Trieste/ Assicurazioni Generali	Madrid/Barcelona from 1919	1912-40
Riunione Adriatica di Sicurtà/ Compañía Adriática de Seguros	Barcelona/Madrid from 1919	1912-40
Swiss		
Vita	Madrid	1931-40

Sources: *Boletín Oficial de Seguros* (1913-26); *Boletín de la Inspección Mercantil* (1927-28); *Revista de Previsión* (1929-34); *Boletín Oficial de Seguros y Ahorro* (1934-41); *Anuario Estadístico de España* (1919).

^aThe dates of the companies' periods of activity are somewhat misleading. A company may have already ceased operating while continuing to deal with unfinished business, especially in the case of life policies. The periods given here include any such residual activity and thus do not accurately reflect the moment of effective withdrawal by the companies from the Spanish market.

Jerònia Pons Pons is lecturer in economic history at the University of Seville. Her articles on the Spanish insurance market have been published in Spanish journals, including *Revista de Historia Económica*. The findings of her research on industrial accident insurance and the creation of a system of social security in Spain were published in *Investigaciones en Historia Económica*. Most recently, she has been examining the influence of multinationals, especially American corporations, on the Spanish insurance sector. The results have been published in the *Journal of European Economic History* and in *Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries*, edited by Peter Borscheid and Robin Pearson (2007).