



FOCUS/CORPORATE SOCIAL RESPONSIBILITY

CSR starts with being commercially minded

The first step to real CSR is building a great business

The ripple effect is the correlation between a boost in economic activity and improved living standards

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Concern for the environment and community is intrinsic to Corporate Social Responsibility (CSR) but, at Mapfre, it all starts with a firm belief in the power of commercial continuity and growth

It is high time to revisit the historical interpretation of the scope of CSR, which, for most people, starts and ends with some form of company-level commitment to being green, charitable-giving or ethical business practices.

These are very noble activities, of course, but to my mind, real CSR starts with commercial continuity and growth. If we agree, as is now almost universally accepted, that the key to raising people's living standards is boosting economic activity, then the mere fact of their existence means that the majority of medium and large socially-minded, sustainable companies leave a significant CSR footprint from the get-go. How so?

Because rising levels of economic prosperity impact directly on both more children staying in school until they graduate and more school leavers enter-

ing third level education, all of which drives continued economic growth and social well-being.

Three levels

We can analyse this primary CSR contribution on three levels: the first relates to the taxation and social insurance payments made by companies to the state, which supports continued investment in public services.

The second level refers to the regular salaries they pay to their employees, allowing them to take care of their families' present and future needs.

And the third concerns the prior costs incurred by companies in creating and commercialising their product or service, which ensures the survival of vast supplier and provider networks, in turn, sustaining employment for countless millions of people.

In accounting terminology, a company's direct labour and material costs are called the cost of goods sold (COGS), and this percentage varies widely across different business sectors.

A successful SaaS (software as a service) company could have a COGS as low as 20%, narrowly distributed among a limited number of parties, while a mid-priced restaurant may have a COGS of 60%. Of course, insurance is a service, and not a good per se, but applying the COGS principle

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to our business is very illuminating, nonetheless.

To understand how this is so, we need to dismantle the insurance business model, which works (or at least used to work), more or less, as follows: for every £10 in premiums you take in, you pay out £7-8 in claims and it costs you about £2 to run your operations, so after all is said and done, you're left with less than £1 in profit for your efforts. (That's on a good day. On bad days, you have to hope that the returns produced from investing your float will offset excessively high loss ratios.)

This breakdown gives insurance companies an effective COGS of anything from 75% to 90%, and very broadly distributed across a whole host of providers.

In Mapfre's case, last year, we paid out well over £20bn (£22.33bn) in claims, provider payments and salaries worldwide. We also contributed more

than £650m (€725.70 million) to public administrations in the form of taxes and social insurance, and paid out over £900m (£1.00bn) in dividends to our shareholders. That £20bn, our COGS if you will, wends its way through our vast operations network around the world, bringing much needed economic stability to not just our 27 million clients and 36,000 employees, but also to more than 139,000 providers, many of whom are small and medium-sized enterprises (SMEs) and independent contractors.

Ripple effect

But things don't stop there: economic spending produces an almost endless ripple effect that can be more fully, and quantitatively, appreciated by examining the economic phenomenon known as the multiplier effect. At its core, the multiplier effect refers to increases in final income as a result of additional spending

injections into the economy.

So, the £20bn we spent last year produced a swirl of activity that helped sustain thousands of economic ecosystems in each of the 45 countries where Mapfre operates, from the UK to Uruguay. But how big is the swirl exactly? Well, assuming a global MPC (marginal propensity to consume: the proportion of extra income that is spent on consumption, being a value of between 0 and 1) of 0.8, we can calculate the multiplier using the formula $1/(1-MPC)$, giving us a multiplier effect of 5, swelling our £20 billion outlay to £100 billion in final economic activity. That's what I call real CSR.

Furthermore, Fundación Mapfre works tirelessly to improve people's quality of life, especially for the most underprivileged in society.

In 2017, we carried out more than 300 programmes improving education, health, road safety and culture in 34 countries. Even though Mapfre's total investment portfolio exceeds £45bn (€50.23bn), Fundación Mapfre has, over the past ten years alone, invested more than £440m (€491.24m) in making our world a better place to live. We like to think of it as our best investment ever. ■

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