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**THE LATIN AMERICAN  
INSURANCE MARKET  
2005-1<sup>ST</sup> HALF 2006**



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## Table of contents

1. Presentation .....	4
2. The Latin American insurance market in 2005 and the first half of 2006.....	5
3. Analysis by regions and countries	
• Mexico .....	13
• Central America, Puerto Rico and the Dominican Republic	
– Central America .....	19
– Puerto Rico.....	26
– Dominican Republic .....	31
• South America	
– Argentina .....	34
– Bolivia .....	39
– Brazil .....	42
– Chile .....	48
– Colombia .....	53
– Ecuador .....	58
– Paraguay .....	60
– Peru .....	63
– Uruguay .....	68
– Venezuela .....	71
4. Statistical annex.....	75

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## 1. PRESENTATION

FUNDACIÓN MAPFRE hereby presents a new edition of its report entitled *The Latin American Insurance Market*, which this time contains information on 2005 and a preview of the first half of 2006.

The goal of the study is to provide an overall view of the current status of the insurance market in the countries of Latin America. In order to achieve this, as in earlier editions, it includes a summary of the economic context in which insurance activity was carried out in each of the countries under study. This new report also analyzes the evolution of insurance through sectorial information related to insurance production by branch, claims ratios, earnings, number of companies and ranking of insurance groups.

The sources of information used to compile this study are publications issued by the insurance supervisory authorities and insurance associations of each country. In order to facilitate comparison among countries, the criterion used in Spain for classifying branches into Life and Non-Life was applied.

With this in mind, it is worth clarifying that Health, Burial Expenses and Workers Compensation Insurance policies, which in some countries are considered branches of Life insurance, are classified as Non-Life in this report. However, when not enough information is available to apply these same criteria in the preparation of the rankings, the system for classifying branches in a country is retained.

One novelty worth pointing out in this edition is a comparative chart showing the distribution of premiums in the main branches of Life and Non-Life insurance in the Latin American insurance market. To prepare this chart it was necessary to keep going further in the homogenization of data, for it was decided to include the Compulsory Insurance for Transit Accidents (SOAT) in the Auto insurance branch (except the Compulsory Insurance for Personal Accidents in Chile, which is considered a kind of accident insurance.) Meanwhile, Earthquake insurance was included in Fire insurance and allied lines.

Another new feature of this study is to expand its content, including commentary on all the insurance markets of Latin America (with the exception of Cuba, where data are not available). Organizing information by regions is also new: in the Northern region we study the insurance market of Mexico; in the Central and Caribbean region an analysis is done of the countries of Central America, Puerto Rico and the Dominican Republic; and the section on the Southern region describes the status of the insurance sector in each of the countries of South America.

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## **2. The Latin American insurance market in 2005 and the first half of 2006**

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## THE LATIN AMERICAN INSURANCE MARKET IN 2005 AND THE FIRST HALF OF 2006

### Macroeconomic context

In a favourable context of sustained growth in the world economy, the GDP of Latin America and the Caribbean grew 4.5%<sup>1</sup> in real terms in 2005, driven both by strong internal demand and good export performance. Favourable exchange rates and an increase in credit encouraged higher investment. At the same time, low interest rates and an increase in the wage sum stimulated private consumption. The volume of exports rose, leading to an improvement in the terms of exchange in Mexico and South America, and the strength of domestic demand contributed to growth in imports. The governments of the region took advantage of this situation to improve their accounts and reduce debt.

Another positive effect of economic growth is its contribution to reactivating the labour market. In this sense, it is worth pointing out that employment in the formal sector of the economy increased and unemployment fell by more than one percentage point, although it remains high.

According to forecasts published by ECLAC<sup>2</sup>, the economy of the countries of Latin America and the Caribbean will grow around 5% in real terms in 2006. The strength of domestic demand continues to be one of the key forces behind this growth. Private investment still shows signs of recovery, thanks to a consolidation of consumer confidence, a fall in interest rates and a rise in bank credit.

Growth in South America will be the highest in the region, at 5.1%, with the Southern Cone<sup>3</sup> standing out at a 7% growth rate. The estimate for Mexico and Central America<sup>4</sup> is a bit lower, at 4.1%. In Mexico the figure expected is 4%, while growth in Central America is forecast at around 4.5%. In this latter region, private consumption will continue to benefit from an expansion in consumer loans and flows of remittances.

The Central America Free Trade Agreement (CAFTA-RD) – legislation to implement it was approved in August 2005 – will have a positive impact on commercial flows and investment levels. Thus the treaty is shaping up as a key element for economic growth in the region, especially after the second half of 2006. It will also help boost development in the insurance market, inasmuch as it strengthens organization and oversight of the sector.

In 2005 the rate of inflation for the region was 6.1%. Venezuela with a rate of 14.4% and Costa Rica (14.1%) ended the year with the highest inflation, while Peru (1.5%) and Ecuador (3.1%) had the lowest rates. Given the favourable evolution of prices in the first six months of the year, inflation for all of 2006 is forecast to be around 5.4%.

1 Economic Commission for Latin America and the Caribbean (ECLAC): "Economic Survey of Latin America and the Caribbean 2005-2006"

2 Report cited previously

3 Argentina, Chile, Paraguay and Uruguay

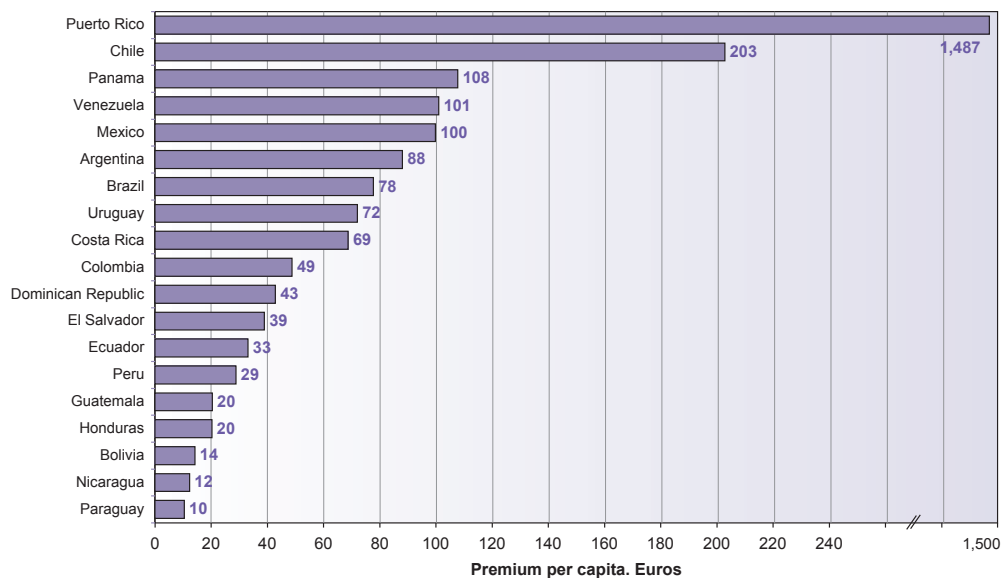
4 Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Dominican Republic.

## Insurance market

All the insurance markets of Latin America, with the exception of Chile and the Dominican Republic, saw increases in premium volume in 2005, in local currency and at current prices. The largest increases were in South America, with Venezuela standing out (40.9%) along with Argentina (20.3%), while Brazil, the country with the largest market share, grew 13.5%. In Chile there was a slight decline of 0.7%, caused by a drop in production of private pension plans.

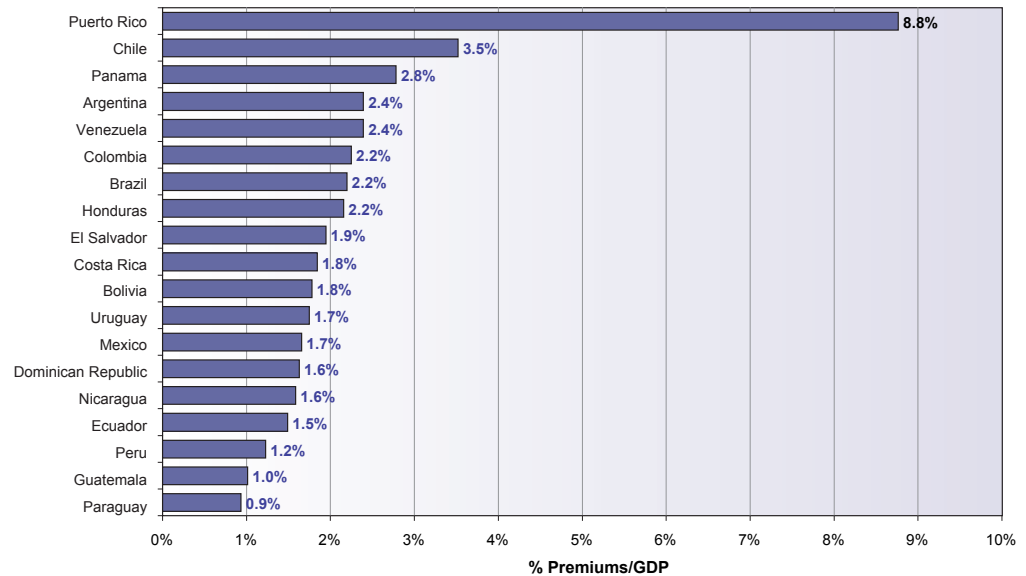
As for the North and Central region, Mexico ended 2005 with a small increase of 0.7% (due among other factors to a loss in momentum in Life insurance) and all the countries of Central America saw increases in their premiums, with the rises ranging from 1.5% in El Salvador to 13.8% in Nicaragua. The sector also grew in Puerto Rico at a rate of 13%, due mainly to Life insurance, while the Dominican Republic reported a 0.8 percent decline.

Puerto Rico registered the highest premium per capita in the region at 1,487 €/inhabitant., followed by Chile (203 €/inhab.), Panama (108 €/inhab.), Venezuela (101 €/inhab.) and Mexico (100 €/inhab.).



**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance regulatory board of each country and ECLAC.

As for insurance penetration (% premiums/GDP)<sup>5</sup>, Puerto Rico again stands out with a rate of 8.8%, followed by Chile (3.5%), Panama (2.8%), Argentina (2.4%), Venezuela (2.4%) and Venezuela (2.4%).



**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority of each country and ECLAC.

As for premium volume converted into euros, the 19 countries studied in this report registered a total of EUR 45,512 million, an increase of 18.9% over the previous year. Besides the buoyant economic situation of many of these countries, the rise in some local currencies against the euro, especially the Brazilian real, had a positive effect on this growth. The rate of increase in the Non-Life business was 19.7 percent, 2.3 percentage points more than that of the Life branch, at 17.4%.

<sup>5</sup> To calculate this figure the current GDP figures and premium volume were taken into account and expressed in the local currency of each country.



Premiums in million euros

**INSURANCE MARKET OF LATIN AMERICA 2005.  
PREMIUMS PER COUNTRY**

COUNTRY	NON-LIFE		LIFE		TOTAL	
	Premiums	%Δ	Premiums	%Δ	Premiums	%Δ
<b>Brazil</b>	8,128	39.4%	6,189	37.6%	14,317	38.6%
<b>Mexico</b>	6,082	8.4%	4,225	1.3%	10,308	5.3%
<b>Puerto Rico</b>	5,209	16.3%	608	-4.3%	5,817	13.7%
<b>Argentina</b>	2,267	5.7%	1,134	27.1%	3,401	12.0%
<b>Chile</b>	1,257	22.1%	2,044	8.0%	3,301	13.0%
<b>Venezuela</b>	2,624	26.7%	63	33.9%	2,687	26.9%
<b>Colombia</b>	1,650	16.7%	594	24.2%	2,244	18.6%
<b>Peru</b>	458	12.8%	329	7.8%	786	10.6%
<b>Ecuador</b>	382	13.4%	57	22.7%	439	14.5%
<b>Dominican Republic</b>	348	27.0%	49	88.1%	396	32.2%
<b>Panama</b>	224	5.1%	123	0.2%	348	3.4%
<b>Costa Rica</b>	287	6.6%	11	5.0%	297	6.5%
<b>El Salvador</b>	157	4.0%	110	-0.2%	267	2.2%
<b>Guatemala</b>	218	9.7%	42	18.5%	260	11.0%
<b>Uruguay</b>	195	19.9%	43	22.0%	238	20.2%
<b>Honduras</b>	114	8.5%	32	8.1%	146	8.4%
<b>Bolivia</b>	119	3.0%	15	27.1%	134	5.3%
<b>Nicaragua</b>	42	2.9%	22	25.6%	64	9.7%
<b>Paraguay</b>	56	11.6%	4	25.9%	61	12.5%
<b>Overall total</b>	<b>29,818</b>	<b>19.7%</b>	<b>15,695</b>	<b>17.4%</b>	<b>45,512</b>	<b>18.9%</b>

Source: done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority of each country.

The seven largest insurance markets of the region<sup>6</sup> accounted for 92% of the premiums, with Brazil having the largest volume at EUR 14,317 million and the strongest growth in this currency (38.6%). Mexico is second in premium volume at EUR 10,308 million, followed at some distance by Puerto Rico with 5,817 million. The four remaining countries together account for a 26% share (EUR 11,633 million).

With regard to Non-Life business, 2005 was marked by stiff competition in prices, although factors related to the strong state of the economy led to premium increases in almost every country. Production in 2005 totaled EUR 29,818 million, 65.5% of the total insurance sector. Automobile insurance, with a premium volume of EUR 11,314 million, had the largest share at 37.9% and its growth (22.1%) was due mainly to an increase in car sales. Premiums actually fell due to robust competition between insurance companies.

<sup>6</sup> Argentina, Brazil, Chile, Colombia, Mexico, Puerto Rico and Venezuela.

Premiums in million euros

<b>INSURANCE MARKET OF LATIN AMERICA 2004-2005 PREMIUMS BY CLASS</b>				
<b>Class</b>	<b>2004</b>	<b>2005</b>	<b>%Δ</b>	<b>Market share</b>
<b>Life</b>	<b>13,371</b>	<b>15,695</b>	<b>17.4%</b>	<b>34.5%</b>
Individual and group life	10,835	12,860	18.7%	28.3%
Private Pension Plans	2,536	2,835	11.8%	6.2%
<b>Non-Life</b>	<b>24,907</b>	<b>29,818</b>	<b>19.7%</b>	<b>65.5%</b>
Automobile	9,264	11,314	22.1%	24.9%
Health	5,305	6,689	26.1%	14.7%
Fire and allied lines	3,416	4,031	18.0%	8.9%
Other guarantees	2,932	2,958	0.9%	6.5%
Transport	1,296	1,498	15.6%	3.3%
Third-party liability	955	1,093	14.5%	2.4%
Personal accident	789	1,049	33.0%	2.3%
Credit and/or Surety	343	432	25.9%	1.0%
Worker compensation insurance	608	752	23.8%	1.7%
<b>Total</b>	<b>38,278</b>	<b>45,512</b>	<b>18.9%</b>	<b>100.0%</b>

**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority of each country.

Health insurance ranks second in premium volume in the Non-Life business, with a production in 2005 of EUR 6,689 million, an increase of 26.1% over 2004. Worth pointing out is the good performance of this branch in countries such as Puerto Rico and Venezuela, where Health insurance had 60.7% and 38.6% shares, respectively. In Puerto Rico, this branch grew 24.7% in 2005, due to a strong development of the *Medicare Advantage Programme*, in which the government pays the private health care premiums of low-income people after age 65. In Venezuela Health insurance posted a strong increase of 53.6%, due among other factors to outsourcing of group policies in the public sector.

The third branch by premium volume is Fire insurance and allied lines<sup>7</sup>, with EUR 4,031 million in premiums issued, up 18% from the previous year. The claims ratio in this branch was affected by major losses as a result of natural disasters in the southeast and southwest of Mexico and Central American countries.

Life insurance production totalled EUR 15,695 million, with a market share of 34.5%. In 2005 there were premium declines in Chile, El Salvador, Mexico, Panama and Puerto Rico, and increases in the rest of the countries. A higher savings rate and greater demand for consumer loans and mortgages had a positive impact on this insurance line.

<sup>7</sup> To harmonize the information from all the countries, Earthquake insurance premiums were included in this branch.

In the first half of 2006, production of private insurance in the main insurance markets of Latin America — with the exception of Puerto Rico— posted a strong increase of 30.9% compared to June 2005, totaling EUR 21,435 million in premiums. As at December 2005, these countries had an 80 percent market share.

The biggest increase was in Life, with a 36.5% rise that was fueled by economic stability and a rise in household confidence. An increase in bank credit continues to drive the development of loan repayment insurance. The Non-Life segment has grown 27.5%, with varying performances in each branch and each country. Automobile insurance, the branch with the largest market share, performed strongly in all markets, reaching a premium volume of EUR 5,451 million, a rise of 25.2% over June 2005.

Premiums in million euros

<b>INSURANCE MARKET OF LATIN AMERICA. JUNE 2006 PREMIUMS PER COUNTRY</b>						
<b>COUNTRY</b>	<b>NON-LIFE</b>		<b>LIFE</b>		<b>TOTAL</b>	
	Premiums	%Δ	Premiums	%Δ	Premiums	%Δ
<b>Brazil</b> <sup>(1)</sup>	5,116	38.9	3,676	55.7	8,792	45.5
<b>Mexico</b>	3,187	10.3	2,614	33.2	5,800	19.5
<b>Argentina</b>	1,476	28.6	603	9.9	2,079	22.6
<b>Chile</b>	670	21.8	1,192	18.5	1,861	19.6
<b>Venezuela</b> <sup>(2)</sup>	1,688	42.9	38	42.9	1,726	42.9
<b>Colombia</b>	853	15.8	322	15.2	1,175	15.6
<b>Total</b>	<b>12,989</b>	<b>27.5</b>	<b>8,445</b>	<b>36.5</b>	<b>21,435</b>	<b>30.9</b>

**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority of each country.

(1) Does not include Health

(2) Estimated distribution of premiums per class

If the evolution of both segments is analyzed in each of the countries<sup>8</sup>, we observe that Life has grown mainly in Brazil and Mexico, the two largest markets, while production of Non-Life business was greater in Argentina, Chile and Colombia. In Argentina and Colombia, Workers Compensation Insurance posted a significant increase, while in Chile, Personal Accident and Health insurance increased the most.

It is important to mention that in December 2006 Brazil's Chamber of Deputies approved the *Projeto de Lei Complementar n° 249/2005*, which regulates the reinsurance market in that country. The law opens up the Brazilian reinsurance market to the national and international private sector.

<sup>8</sup> Information by branch is not available for Venezuela.

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### **3. Analysis by regions and countries**

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**MEXICO**

## MEXICO

### Macroeconomic context

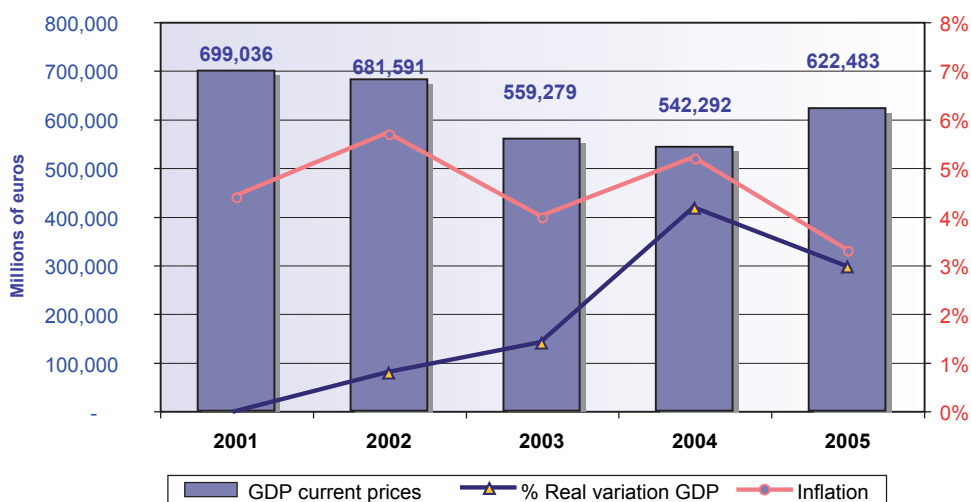
In 2005 Mexico's economy saw its rate of growth fall, after years of increase that began in 2001. Growth in Gross Domestic Product (GDP) slipped 1.2 percentage points compared to 2004, due mainly to a slowdown of external demand. However, despite this change in trend GDP did grow 3%. Inflation and interest rates remained stable and with a tendency to fall, which contributed to a decline in country risk.

Hurricanes Emily, Stan and Wilma, which lashed part of Mexico in the last quarter of 2005, had a serious impact on production in the industrial and agricultural sectors. Estimates are that this environmental disaster may have cost Mexico half a percentage point in its GDP. In the final months of the year, some industries grew stronger, such as the automobile sector.

As export performance weakened, the Mexican economy was positively affected by an increase in remittances sent by emigrants, the strength of consumer credit and a higher employment rate. All this stimulated private consumption, which rose 5.4 percent in 2005.

Capital investment rose for the second year in a row, after three years of declines. Highlights include a rise in credit for housing, greater investment in machinery and equipment and a decline in construction growth.

The Mexican peso appreciated 3% as a result of high flows of remittances, exports of hydrocarbons and direct foreign investment. Inflation fell from 5.2% in 2004 to 3.3% in 2005, the lowest rate in several decades.



Source: done by FUNDACIÓN MAPFRE with information published by ECLAC.

## Insurance market

The Mexican insurance market has posted sustained growth in recent years, mainly because of the country's economic stability and new sectors in which insurance is present. On one hand, reforms of the government pension system in 1997 gave entry to private companies in the Social Security pension system. The result is that insurance companies and banks compete with the government-funded system to attract these pensions. At the same time deregulation of the industry through free-trade agreements with North America and Europe – and the creation of a Health branch in 2002 – have led to an expansion of the market and a constant increase in the number of companies operating in Mexico.

In late 2005 the Mexican insurance industry comprised 86 companies that issued 138,676 million pesos in direct premiums (EUR 10,308 million). These figures amount to nominal growth of 0.7% and a decrease in real terms of 2.6% from the previous year, due in large part to declines in Life insurance.

Premium volume <sup>1</sup> 2005				
Class	Millions of pesos	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>138,676</b>	<b>10,308</b>	<b>0.7</b>	<b>-2.6</b>
<b>Life</b>	<b>56,847</b>	<b>4,225</b>	<b>-2.5</b>	<b>-5.7</b>
Individual Life	26,996	2,007	-7.7	-10.7
Collective Life	18,416	1,369	2.4	-0.9
Group Life	6,931	515	7.2	3.8
Pensions	4,504	335	-10.9	-13.8
<b>Non-Life</b>	<b>81,829</b>	<b>6,082</b>	<b>3.6</b>	<b>0.2</b>
Automobile	35,238	2,619	4.7	1.4
Accident and Illness	20,596	1,531	16.9	13.2
Earthquake and other catastrophic risk	6,502	483	8.0	4.5
Miscellaneous	5,377	400	-22.2	-24.7
Fire	5,001	372	-6.3	-9.3
Transport	4,454	331	2.8	-0.5
Third-party liability	4,098	305	3.1	-0.3
Crop Insurance	331	25	-66.1	-67.2
Credit	232	17	12.6	9.0

**Source:** Done by FUNDACIÓN MAPFRE with data published by the Mexican Association of Insurance Institutions and the National Insurance and Finance Commission

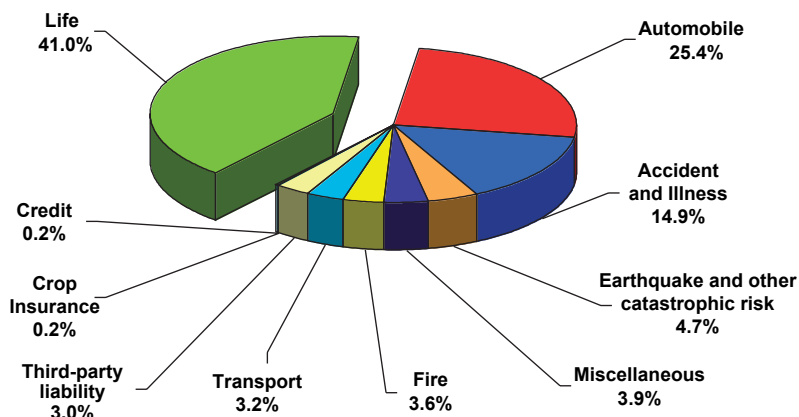
(1) Premiums and surcharges issued

Life insurance (excluding Pension insurance stemming from the Social Security Law) shrank by 5.7% in real terms. This can be explained by Individual Life insurance, which fell 10.7% and more specifically by Flexible Individual Life, which feature an element of protection and an element of savings. These lines did not achieve the increases posted in the same period of 2004. Collective Life fell 0.9% in premium volume, while Group Life grew 3.8%.

Operations in the Non-Life branch, which account for 59% of the volume in the sector, showed a slight increase of 3.6% (0.2% in real terms). In this segment Automobile insurance, which is 25.4 percent of the total with a premium volume of 35,238 million pesos (EUR 2,619 million), maintained a positive direction and grew 1.4% in real terms. Also worth pointing out is a 13.2% rise in the Accident and Illness branch, as well as a decline in Miscellaneous and Fire insurance. It must be said that 2005 was marked by the catastrophic effects of hurricanes Wilma, Emily and Stan, which hit the coasts of southeast and southwest Mexico. The total impact of these three disasters was USD 2.26 million (EUR 1.86 million) for the entire sector.

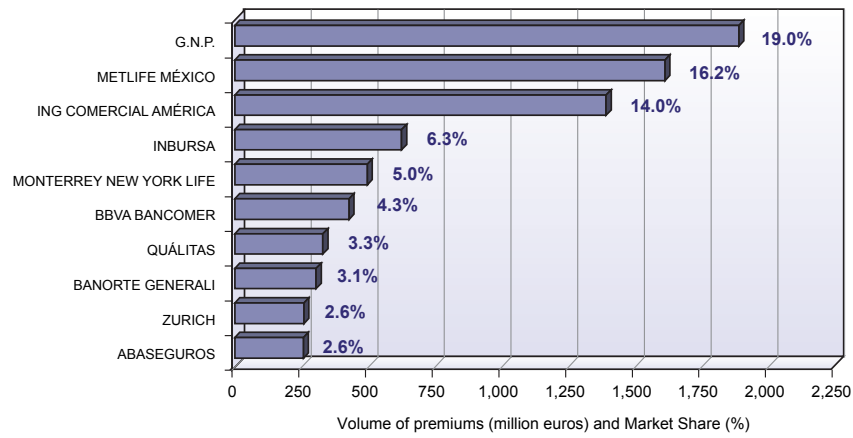
Meanwhile, Pension premium volume totaled 4,504 million pesos (EUR 335 million), which amounted to a 13.8% fall in real terms.

#### Distribution of the market by branches



Of all the companies in the sector, six are linked to some financial group, while 39 have capital that is mainly foreign. At the close of 2005, the 10 largest insurance groups in Mexico accounted for 76.2% of premiums. Grupo Nacional Provincial (GNP) is the one with the largest premium volume, 25,433 million pesos (EUR 1,890 million), for a market share of 19%.

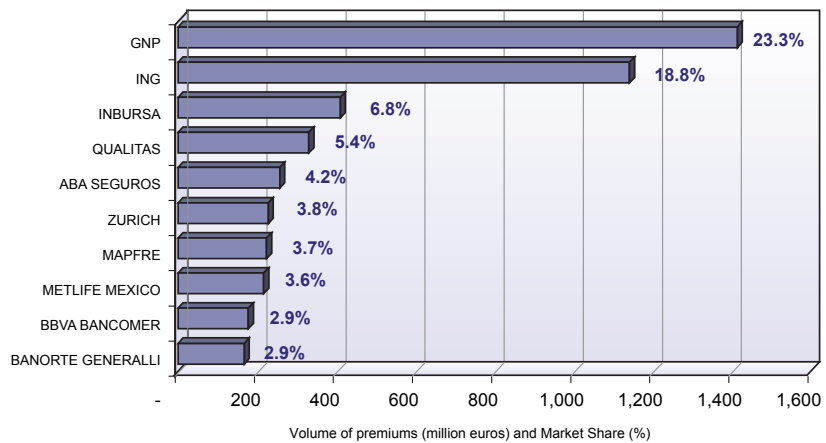
### Ranking. Total sector



**Source:** done by FUNDACIÓN MAPFRE with information published by AMIS and CNSF  
 Note: does not include Pensions

GNP is also top-ranked in Non-Life with a market share of 23.3%, while the U.S. group Metlife leads the Life ranking with a 35.9% share.

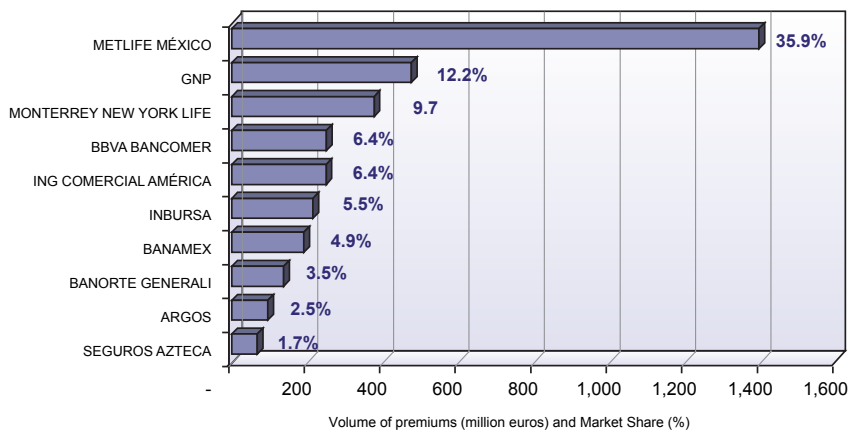
### Ranking. Non-Life



**Source:** done by FUNDACIÓN MAPFRE with information from AMIS and CNSF



## Ranking. Life



**Source:** done by FUNDACIÓN MAPFRE with information published by AMIS and CNSF  
 Note: does not include Pensions

Average claims costs and expenses increased in 2005, so the combined ratio rose four percentage points to 97.7%. Although profits in the sector fell 16.6% in real terms compared to a year earlier, 2005 was a good year with after-tax profits of 7,996 million pesos (EUR 594 million), thanks to the strong performance of investments, which rose 43.8%.

In the first six months of 2006 the sector showed a clear recovery, with nominal increase in premium volume of 14.1%. This was driven by a 28.7% increase in Life premiums, and a positive tendency in the Pension branch, which posted an 8.5 percent increase. Non-Life business posted premium volume of 42,840 million pesos (EUR 3,187 million), rise of 5.3% from the same period of 2005. Total premium volume rose to 77,977 million pesos (EUR 5,800 million).

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### **3. Analysis by regions and countries**

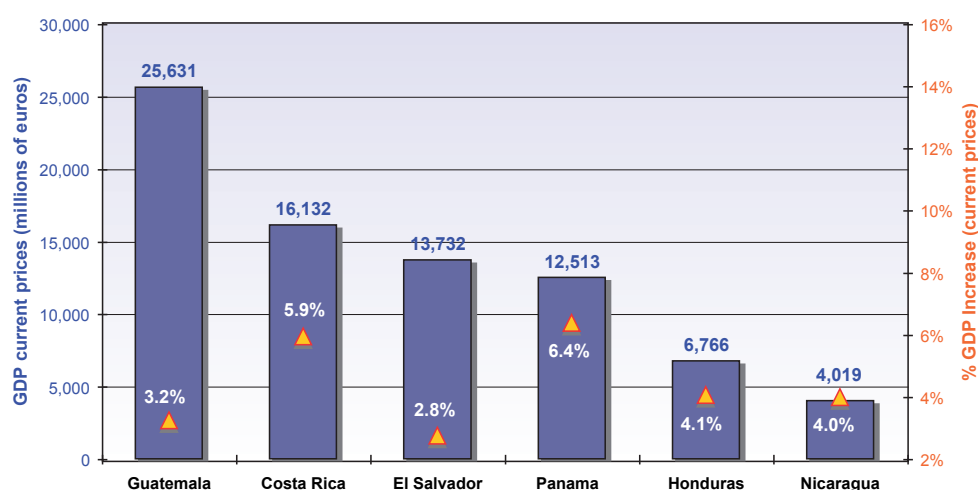
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## **CENTRAL AMERICA, PUERTO RICO AND THE DOMINICAN REPUBLIC**

## CENTRAL AMERICA

### Macroeconomic context

In 2005, the GDP of the Central America region<sup>9</sup> posted growth of 4.4% in real terms, higher than the previous year (4.0%) and in line with the growth rate posted in Latin America in general (4.5). This improvement in the regional average includes different kinds of performances. The economies that grew the most were those of Panama (6.4%) and Costa Rica (5.9%), followed by Honduras (4.1%), Nicaragua (4.0%), Guatemala (3.2%) and El Salvador (2.8%).



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

Domestic demand was stimulated by a sustained rise in remittances sent by Central Americans living abroad. The performance of the export sector was rather closely linked to the economic cycle of the United States, in a context of real-terms appreciation of the currencies of the Central America region. To all this one must add competition from the countries of Asia, especially China, as exporters of manufactured goods to the U.S. market.

Inflation in the region is high. Four of the six countries analyzed have rates higher than 7%, with Costa Rica (14.1%) and Nicaragua (9.7%) standing out. Panama has the lowest inflation (3.4%), although this figure is up compared to 2004 (0.5%).

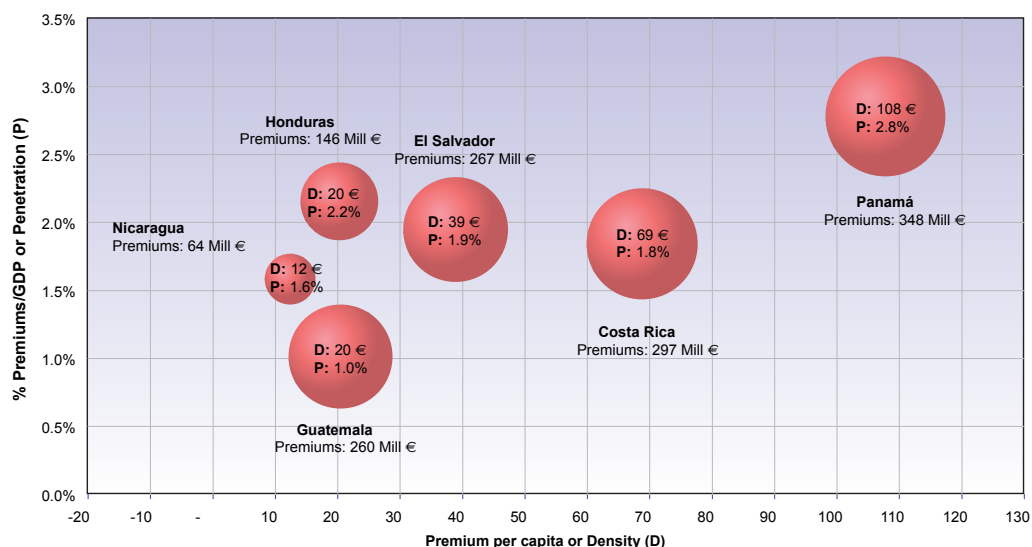
It is important to mention the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-RD), signed by Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, the Dominican Republic and the United States (Nicaragua was the last country to sign, doing so in Sept. 2005).

<sup>9</sup> Taking into account Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama

The accord consolidates and expands Central American producers' access to the U.S. market, and broadens access of U.S. products to the markets of Central America. Legislation to implement the agreement was approved in August 2005, and the signatory countries agreed to set Jan. 1, 2006 as the date for it to come into effect. As of late 2005 almost all of the countries were prepared to implement the treaty<sup>10</sup>, but none of them had finalized all the necessary internal procedures.

### Insurance market

With a premium volume of EUR 1,382 million, the insurance sector of Central America accounts for a small portion of the economy (1.8% of the region's GDP). This stems from a lack of an insurance-minded culture and low per capita income (an average of 2,000 euros per year). So the rate of penetration ranges between 1.0% and 2.8%, and the premium per capita is between 12 €/inhab and 108 €/inhab. Panama, Costa Rica and El Salvador look to be the most developed markets, followed by Guatemala, which despite ranking fourth in premiums has the region's lowest penetration ratio.

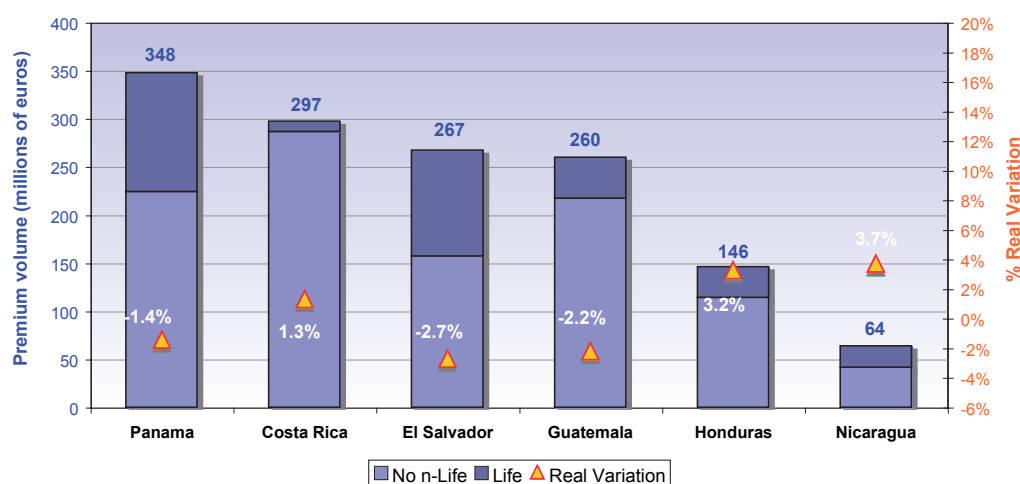


**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority and national statistics institute of each country.

<sup>10</sup> Costa Rica is the only country that will have to enact significant changes in its regulations in order to adapt to its commitments under the CAFTA-DR and allow greater access to its telecommunications and insurance markets. Among other things, the Agreement calls for the abolishment of Costa Rica's insurance monopoly.

Comparing the 2005 figures with those of the previous year, all the countries of the region posted increases in premium volume. That said, if we take inflation into account we observe declines in Guatemala (-5.8%), El Salvador (-2.7%) and Panama (-1.4%).

Life insurance carries very little weight in these markets, with Panama and El Salvador being the countries where the branch is most developed. However in 2005 it suffered somewhat of a drop in these countries, with declines in premium volume of 0.4 % and 0.8%, respectively, and these had an affect on total growth.



**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority of each country and ECLAC.

Among the most noteworthy data we find strong price competition in Damage insurance, as well as an increase in claims frequency in the main markets. In general, the claims ratio was characterized by a rise in theft and accidents involving automobiles and by several natural disasters that caused major economic losses in the region. Such is the case of Hurricane Stan (Oct. 2005), which affected nearly all the countries of Central America, causing insured damage to the tune of EUR 143 million; Hurricane Beta in Honduras and Nicaragua (Oct. 2005); tropical cyclone Gamma in Honduras (Nov. 2005); and the numerous floods caused by heavy rains in June in Guatemala, El Salvador and Honduras. Finally, we must point out a drop in interest rates on local investments, which is hurting company earnings.

**Panama** is the most developed market, both in terms of premium volume, with 430 million balboas (EUR 348 million), penetration (2.8%) and density (108 €/inhab.). However, the 18 companies that make up the sector posted in 2005 lower nominal annual growth of 1.9% (-1.4% in real terms), far below GDP growth, with declines in Life (-3.7%), Automobile (-6.1%), Fire and allied lines (-3.9%) and Technical Risks (-14.2%).

The claims ratio rose three percentage points to 42.6% but remained the lowest in Central America, partly because the natural disasters that hit the region in 2005 did not affect Panama.

The insurance market of **Costa Rica** was founded as a state monopoly in 1924, and it is administered by the National Insurance Institute. The Institute establishes insurance products and their premiums, and distribution is carried out by marketing agencies that take care of policy sales and maintenance. The absence of price competition is largely responsible for the growth of the sector, which in 2005 posted a volume of 176,344 million colones (EUR 297 million), with nominal growth of 15.6% (1.3% real). The largest rises came in the branches of Accident and illness (43.6%), Fire (15.8%) and Life (14 %).

The claims ratio fell to 60% and investment income rose 9% compared to 2004. Profits rose 32% to reach EUR 17.5 million, and the insurance sector reported a return on equity of 29%, the highest in the whole region.

In **Guatemala** the sector grew 6.2% (-2.2% in real terms), the result of a 13.1% increase in issuance of Life policies and a 4.9% climb in Non-Life business, which represent the lion's share of the market (83.7%). Premium volume was 2,448 million quetzales (EUR 260 million), with the lowest rate of penetration in the region (1.0% of GDP). The retention percentage rose nearly three points to 66.6%. Part of the premium growth can be attributed to development of distribution channels that are alternatives to brokers (i.e. bank-insurance companies). This helps explain how the largest growth was in business like Auto and Health, which grew around 15%. We must also point out the 20% decline observed in premiums for Earthquake insurance, probably stemming from a lack of capacity due to the wave of natural disasters that hit the Latin American region during 2005. The Guatemalan insurance market had to cover 30 percent of the damage caused by Hurricane Stan (which caused total damage of EUR 143 million <sup>11</sup>).

The net claims ratio stood at 65.6%, growing in the branches of Fire (because of Hurricane Stan), Automobile and Accident. Acquisition expenses rose due to an increase in competition, but this was offset in part by a fall in administrative costs. The underwriting result was negative (-3,8%), and it was financial income which allowed for a positive profit after taxes (despite the fall in interest rates), which totaled EUR 13.6 million, a decline of 12%.

The insurance sector of **El Salvador** in 2005 posted a premium volume of USD 331 million (EUR 267 million). The premium per capita was 39€ and penetration was 1.9%. Nominal growth in premiums was 1.5% (GDP grew 2.8%), which amounts to a decline in real terms of 2.7%. Despite a price war in the Non-Life business, these drove growth in the sector, especially Automobile (11%) and Accident and illness (11.9%), while Life declined 0.8% due to falls in Individual Life, Collective and Mortgage insurance.

The claims ratio in 2005 rose three points compared to the previous year and reached 53.2%, although it fell near five points in the retained busi-

<sup>11</sup> Data obtained in Report *Sigma* N.º 2/2006. Swiss Re.

ness (59.6%). The branches with the highest claims ratio were Automobile (due to a rise in accidents and theft of vehicles), followed by Accident and illness and Private pension plans. Acquisition costs rose because of competition and access to more costly distribution channels such as banks. As a result, profits totaled EUR 21.1 million, which amounts to a return on equity of 15.9%.

The insurance market of **Honduras** is made up of eight local companies and three foreign ones, and in 2005 they took in 3,397 million lempiras in premiums (EUR 146 million), an increase of 11.3% compared to 2004 (3.2% in real terms). This growth is the result of weak competition in prices and correct marketing policies adopted by insurance companies. Damage insurance was the one that grew the least (10.2%), but it made the largest contribution to overall growth because it accounts for 60.2% of the sector.

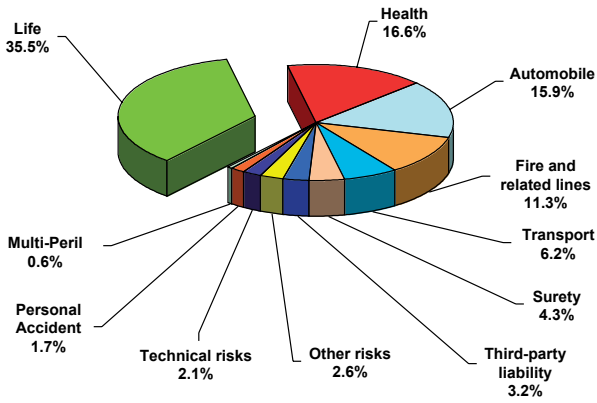
Risk indicators fell, with the retained claims ratio ending December at 46.0% (down 7.3 percentage points) and the direct ratio declining from 44.2% to 42.5%. Return on equity fell two percentage points to 30.7% (the result of assets growing more than profits).

**Nicaragua** has the smallest insurance market of the region, with a premium volume of 1,301 million Cordobas (EUR 64 million), which means a penetration ratio of 1.6% (greater than that of Guatemala). In 2005 the market grew 13.8% (3.7% in real terms). It is made up of 5 companies, four of them privately owned and the last one state-owned (INISER).

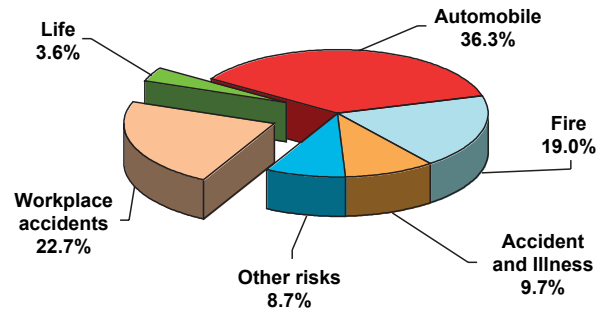
The net claims ratio rose 40% to reach 59.9%, and operating costs fell one point to 37.8% of net premiums. Offsetting this, investment revenue rose 2.8%, so profits before taxes increased 18.7%.

Distribution of premiums by classes

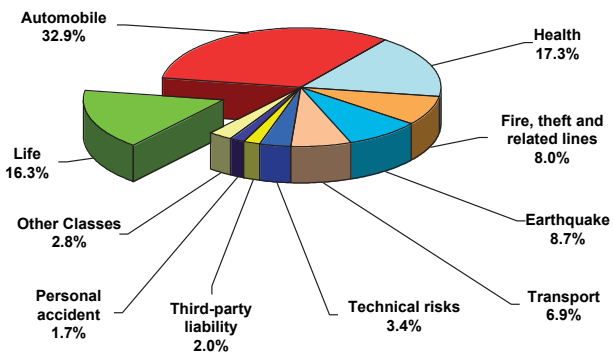
Panama



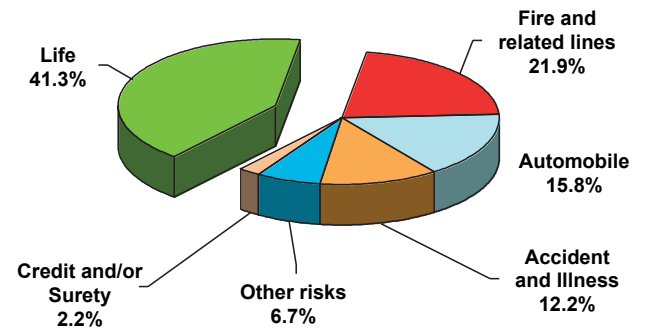
Costa Rica



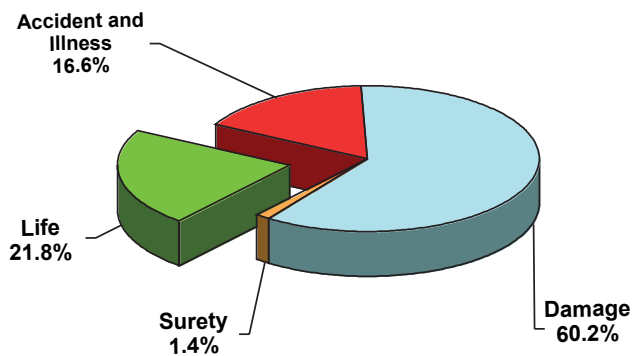
Guatemala



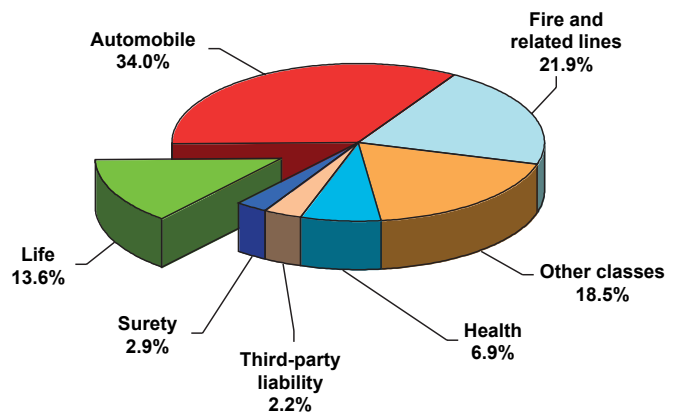
El Salvador



Honduras



Nicaragua





Across these markets we observe a considerable level of concentration. Thus, if we analyze the total market share held by the top three companies in each country we find the smallest is Guatemala's, with 50%. Also noteworthy is the role of state-owned companies, as occurs in Nicaragua, Guatemala and Costa Rica. As we have stated earlier, In Costa Rica the insurance sector is a state-run monopoly administered by the National Insurance Institute.

Country	Number of companies	Market share of top 3 (%)	Leading company	Leading company market share (%)
Costa Rica	1	-	INSTITUTO NACIONAL DE SEGUROS	100%
El Salvador	18	57%	SEGUROS E INVERSIONES	24%
Guatemala	18	50%	SEGUROS G & T	23%
Honduras	11	58%	INTERAMERICANA	22%
Nicaragua	5	81%	INISER	40%
Panama	18	53%	ASEGURADORA MUNDIAL	18%

**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority of each country.

In 2005, increased foreign capital was observed in markets such as that of El Salvador, where 60% of premiums correspond to firms with foreign capital. The only Spanish company with investments in this country is MAPFRE, (MAPFRE LA CENTROAMERICANA is the fourth largest company in premium volume and the third in Non-Life), as BBVA sold the insurance company it had in El Salvador in 2004.

## PUERTO RICO

### Macroeconomic context

Puerto Rico has been an Associated Free State of the United States since 1952, so the high degree of openness of its economy makes the island depend to a large extent on economic conditions in the United States. Gross National Product (GNP) in 2005 grew 2% from a year earlier at constant prices, while domestic demand posted a 1.6% rise. External factors that drove economic growth included the performance of the U.S. economy and stability in interest rates, which have posted gradual increases for the short term since mid-2004. These variables made for a credit market that favored companies and consumers, and allowed the local economy in Puerto Rico to move along at a rate similar to that of previous years.

Private consumption exceeded the 6.5% growth rate. Specifically, it rose because of an increase in purchases of durable goods. Non-durable goods purchases rose 2%. It is worth noting that private consumer spending accounts for 70.1% of real domestic demand.

Gross domestic investment fell 4.7% at constant prices in 2005, after having risen 8.8% the previous year. Gross investment in fixed capital declined 5% in real terms. Noteworthy was the 8% decline in real terms in investment in construction and a 7.45% drop in purchases of machinery and equipment as compared to a year earlier.

A context of high oil prices and their effect on many goods and services led to a 13.6% rise in the Consumer Price Index (CPI), compared to the 8.9% rate of a year earlier. A growing threat of higher inflation moved the Federal Reserve of the United States to raise interest rates.

### Insurance market

The insurance market of Puerto Rico is highly competitive and widely developed. Unlike the countries of Latin America, insurance penetration is high. In fact, with an 8.8% rate of premiums as portion of GDP and premium per capita of 1,487 euros, it is the part of Latin America with the strongest insurance sector. However, one must keep in mind that the volume of premiums in Puerto Rico includes health care policies for low-income people, whose premiums are managed by the private sector and paid by the government.

These days the industry is in a period characterized by a high number of competitors and downward pressure on prices. In this context the local companies<sup>12</sup> have expanded their business to other markets, especially the United States, to offset both the growing entry of foreign firms in the

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<sup>12</sup> These are companies with offices in Puerto Rico, regardless of whether their capital—all or part of it—comes from companies outside the territory. Foreign companies are the insurance firms operate in Puerto Rico from their registered office in the United States.

local industry and the establishment of new health care organizations and service providers.

In Puerto Rico a total of 266 local and foreign insurance companies are operating, in addition to Health Maintenance Organization (HMO) and the Association of Medical and Hospital Services, which provide only Health insurance. The Non-Life branch, excluding Health, accounts for 83.6% of the insurance industry in Puerto Rico. The companies based in Puerto Rico are dominant, controlling a market share of 76.6%. Within this branch, Health and Automobile insurance are the most developed in Puerto Rico. In Life Insurance, the situation is reversed: it is the foreign companies which dominate the market.

In 2005, fierce competition exerted upward pressure on insurance mediators' commissions and led to improved coverage and services from companies. Premium volume in the sector totaled USD 7,190 million, a rise of 13% over the previous year.

<b>Premium Volume<sup>1</sup> 2005</b>				
<b>Class</b>	<b>Million of USD</b>	<b>Millions of euros</b>	<b>% Δ</b>	<b>% Δ real</b>
<b>Total</b>	<b>7,190</b>	<b>5,817</b>	<b>13.0</b>	<b>9.2</b>
<b>Life</b>	<b>751</b>	<b>608</b>	<b>-4.9</b>	<b>-8.0</b>
<b>Non-Life</b>	<b>6,439</b>	<b>5,209</b>	<b>15.5</b>	<b>11.7</b>
Health	4,367	3,533	24.7	20.6
Automobile	851	688	n.d.	n.d.
Third-party liability	210	170	n.d.	n.d.
Fire and allied lines	275	223	n.d.	n.d.
Transport	109	88	n.d.	n.d.
Accident and Illness	31	25	n.d.	n.d.
Other damage	595	482	n.d.	n.d.

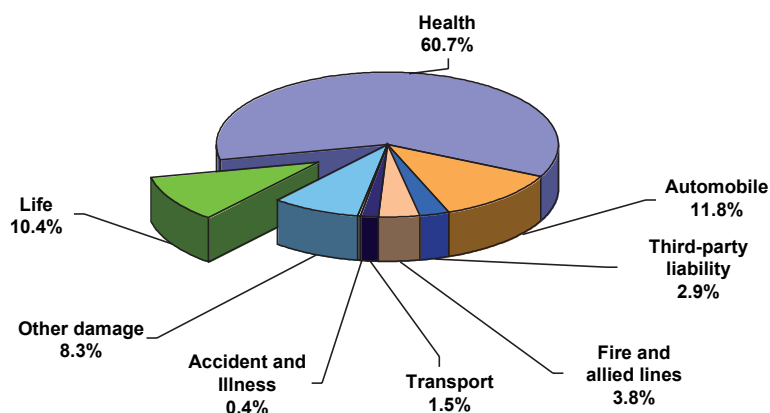
**Source:** done by FUNDACIÓN MAPFRE with industry data

(1) Gross written premiums

Production of Health insurance continued to post important increases, due mainly to the *Medicare Advantage* program. Under this initiative, the government pays for the private health care premiums of low-income people over the age of 65. This measure helps explain the 24.7% increase in premium volume in this branch of the industry. In the private Health insurance sector, growth was restricted due to fierce competition.

The Life branch saw a 4.9% decline in production, mainly because of a fall in volume of net premiums issued by foreign insurance companies that operate in Puerto Rico.

### Distribution of the market by branches

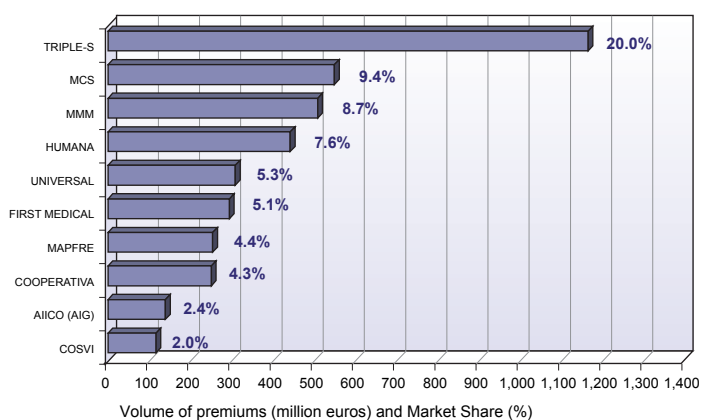


In the Miscellaneous segment, activity declined 0.1% to USD 2,072 million in premiums. The market for Automobile and General insurance in Puerto Rico was characterized in 2005 by being soft, which led to a considerable decline in fees and a very competitive attitude for acquiring business. Meanwhile, almost all companies raised their commissions, mainly in commercial lines of insurance.

One factor worth pointing out is the rise in sales of new cars, which increased 8.5% compared to the previous year. A special mention should also go to the surety branch, which in 2005 was hurt by the government's failure to pass a budget. This halted government-funded construction for much of the year and slowed down privately-financed projects, having a direct impact on the insurance industry.

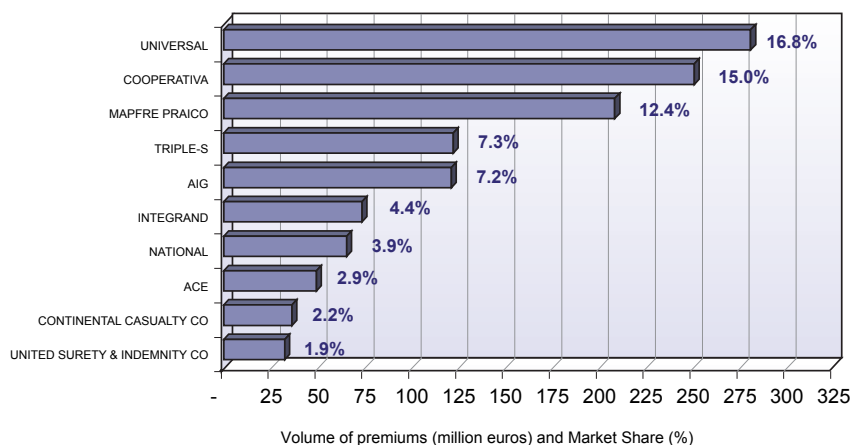
The 10 largest insurance groups together account for a 69.3% share of the market, with a greater concentration in Life and Health, 78.9% share, than in Non-Life (74%).

### Ranking. Total sector



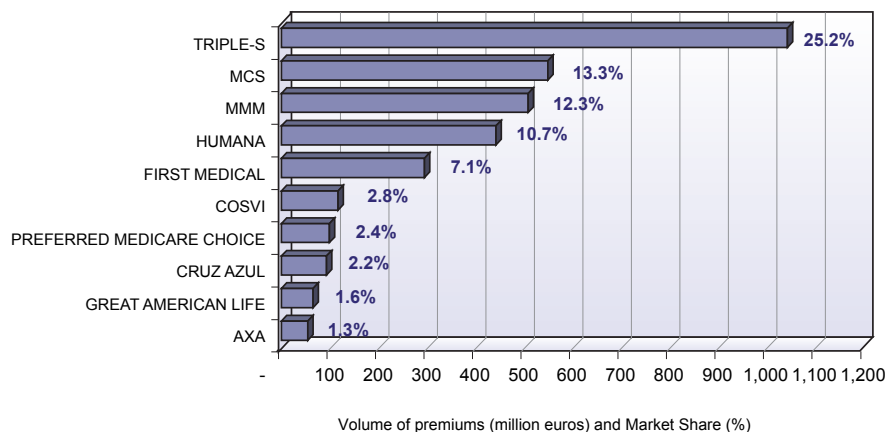
Source: done by FUNDACIÓN MAPFRE with industry data.

### Ranking. Non-Life



Source: done by FUNDACIÓN MAPFRE with industry data.

### Ranking. Life



Source: done by FUNDACIÓN MAPFRE with industry data.

### **Mergers and Acquisitions**

In the third quarter of 2005, the Grupo Triple S announced several agreements that will lead to the purchase of Great American Life Assurance Company of Puerto Rico (GA Life). GA Life is one of the leading companies for individual life insurance policies in Puerto Rico.

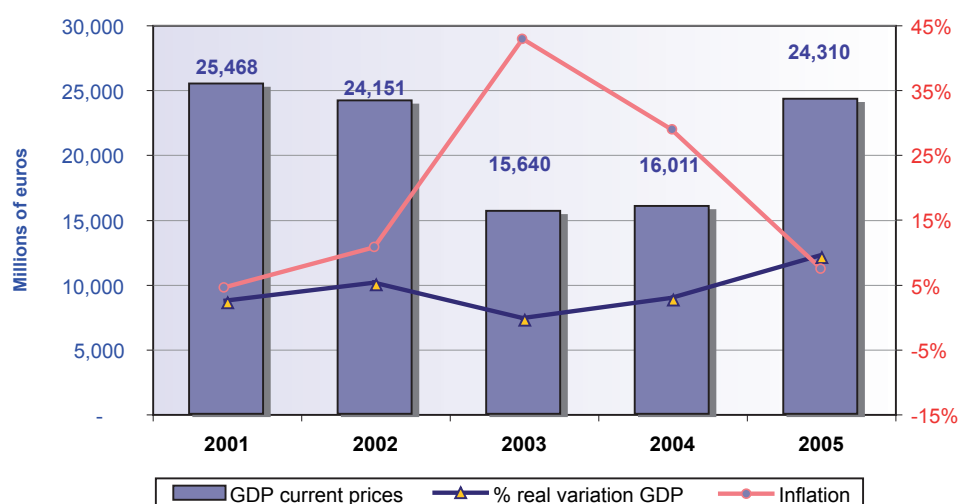
## DOMINICAN REPUBLIC

### Macroeconomic context

The GDP of the Dominican Republic grew 9.2% in 2005 as a result of strong domestic demand. Private consumption expanded 11.7% and gross fixed investment rose 12.2%. The surge in personal consumption prompted a significant rise in imports of consumer goods. As for exports, although these did show some recovery, growth was limited in 2005.

By sectors of the economy, the biggest growth came in communications and in hotels, bars and restaurants. The latter sector owes this expansion to a rise in tourism.

As of December 2005 the rate of inflation stood at 7.4%, far below the 28.7% posted in 2004.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

As of December 2005 the insurance market of the Dominican Republic had posted a premium volume of 14,418 million pesos (EUR 396 million), a decline of 0.8% compared to December 2004. The fall stems mainly from the rise in the Dominican peso against the U.S. dollar. The result of this was a reduction in insured amounts, most of which were stipulated in dollars. The market also saw stiff competition, which contributed to a drop in prices.

Non-Life business accounted for a market share of 87.7% of the sector, and in 2005 they suffered a decline of 4.8% for the reasons stated earlier. However, Life insurance grew 41.1%, driven mainly by “Discapacity and Survival” insurance, a policy regulated by the Social Security Law.

<b>Premium Volume<sup>1</sup> 2005</b>				
<b>Class</b>	<b>Millions of pesos</b>	<b>Millions of euros</b>	<b>% Δ</b>	<b>% Δ real</b>
<b>Total</b>	<b>14,418</b>	<b>396</b>	<b>-0.8</b>	<b>-7.7</b>
<b>Life</b>	<b>1,768</b>	<b>49</b>	<b>41.1</b>	<b>31.4</b>
individual life	104	3	-64.9	-67.3
Group life	1,664	46	74.0	62.0
<b>Non-Life</b>	<b>12,650</b>	<b>348</b>	<b>-4.8</b>	<b>-11.3</b>
Automobile	5,064	139	7.7	0.2
Fire and allied lines	4,721	130	-18.6	-24.2
Other classes	1,027	28	-15.7	-21.5
Health	914	25	45.7	35.6
Transport	396	11	-3.0	-9.7
Surety	353	10	0.1	-6.8
Personal Accident	176	5	0.1	-6.8

**Source:** done by FUNDACIÓN MAPFRE with data published by Insurance Superintendency  
(1) Premiums charged, plus those exonerated

In the Dominican Republic 35 insurance companies have authorization to operate. The five largest ones account for 84.2% of the premiums. Seguros Universal (previously known as Seguros Popular) is the company with the largest market share, 33.1%, followed by Banreservas at 17.4% and Colonial with 13.6%.

In the first six months of 2006 the insurance sector showed clear signs of recovery, posting growth of 13.8% compared to the same period of the previous year. Premium production totaled 7,892 million pesos (EUR 192 million).



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### **3. Analysis by regions and countries**

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## **SOUTH AMERICA**

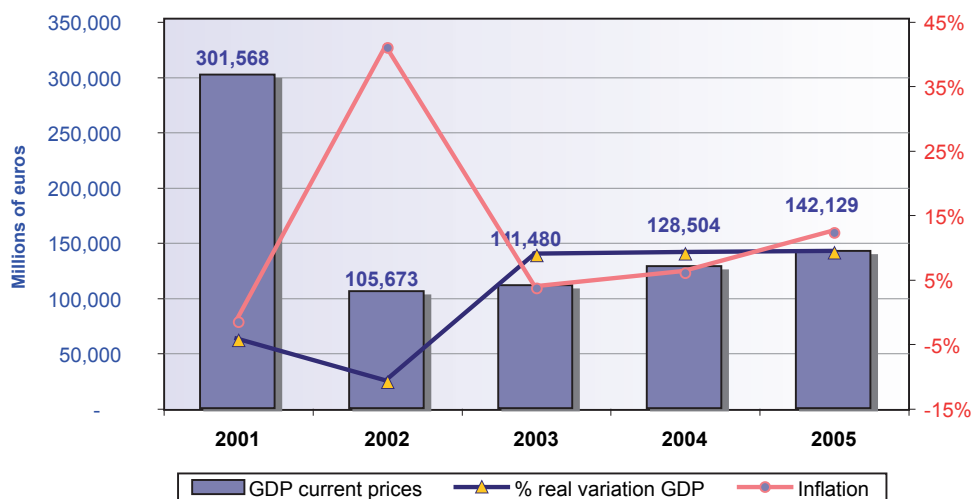
## ARGENTINA

### Macroeconomic context

In 2005 the Argentine economy enjoyed another major expansion, with a real-terms increase in GDP of 9.2%, recovering the maximum levels of seven years earlier. Highlights include exports, which rose 13.8%, and strong investment, which accounted for 21.5% of GDP. The boost in economic activity helped reduce the unemployment rate, while real salaries in the private sector grew 12%, regaining the levels seen at the end of 2001. A higher savings rate allowed for an increase in capital formation to be financed internally.

Controlling inflation was a priority issue for the government in its economic policy. Due to greater domestic demand and a rise in the price of some exportable goods, inflation rose significantly in 2005, finishing the year at 12.3%.

Goods-producing sectors grew at a greater rate than that of services, although the difference in the growth rates of the two fell. In production of goods, strong performers included agricultural production (up 11.9%) and construction (20.4%), while in services, transport and communications and financial services were the sectors that did best.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

The insurance sector finished the year with a volume of premiums issued of 12,728 million pesos (EUR 3,401 million), with growth of 20.3% (7.1% in real terms). The rise was fueled mainly by a strong performance in Life policies. Despite a decline in premiums for Individual and Collective Life,

the branch grew 36.5% (21.6% in real terms), thanks to a strong showing by Retirement insurance, which nearly almost doubled its premiums. A positive evolution on the savings front has favored such growth.

<b>Premium volume<sup>1</sup> 2005</b>				
<b>Class</b>	<b>Millions of pesos</b>	<b>Millions of euros</b>	<b>% Δ</b>	<b>% Δ real</b>
<b>Total</b>	<b>12,728</b>	<b>3,401</b>	<b>20.3</b>	<b>7.1</b>
<b>Life</b>	<b>4,244</b>	<b>1,134</b>	<b>36.5</b>	<b>21.6</b>
Individual Life	312	83	-19.8	-28.6
Group Life	1,048	280	3.0	-8.3
Private Pension Plan	838	224	38.3	23.2
Retirement	2,046	547	86.8	66.3
<b>Non-Life</b>	<b>8,484</b>	<b>2,267</b>	<b>13.6</b>	<b>1.1</b>
Automobile	3,948	1,055	8.6	-3.3
Other damage	780	208	9.2	-3.2
Fire	657	176	2.1	-9.1
Combined Family	443	118	15.5	2.8
Transport	372	99	13.0	0.6
Third-party liability	331	89	17.5	4.6
Credit and Surety	226	60	34.9	20.1
Personal Accident	192	51	22.4	9.0
Workers compensation Ins.	1,535	410	32.7	18.2

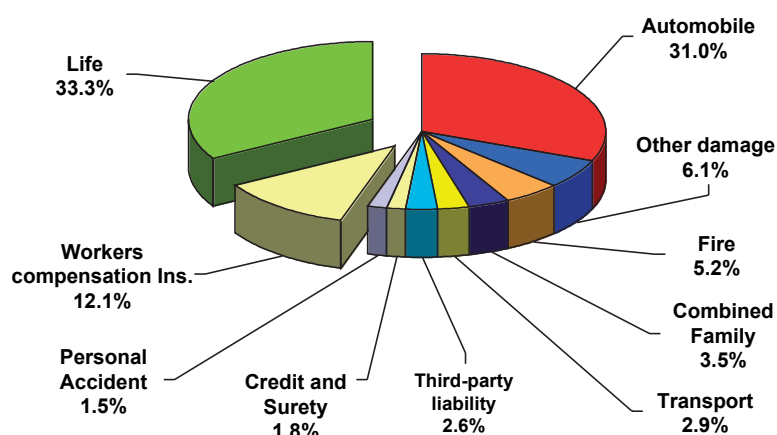
**Source:** done by FUNDACIÓN MAPFRE with data published by the Superintendency of Insurance

(1) Premiums and surcharges issued

The Non- Life branch experienced an increase of 13.6% (1.1% in real terms), with a rise of 32.7% in production of insurance against Workers Compensation Insurance, the second largest line after Automobile. This increase is due in large part to a rise in employment and application of higher contribution rates. However, the claims rate in the branch has increased significantly (value of claims rose 57.3% in the last fiscal year and the claims ratio increased to 72.8%, compared to 67.3% in the previous year), as a result of a higher number of trials. This follows a Supreme Court decision restoring the option of filing a civil case to claim damages for a worker compensation insurance. In 2006 it is expected that the long-awaited Workers' Compensation Law will be approved.

The rest of the classes of property insurance, including Automobile, posted a 10% production increase but ended with a negative underwriting result because of a fall in fees and a rise in the claims rate. However, this was offset by good financial income that totaled 267 million pesos (EUR 71 million) in after-tax profits.

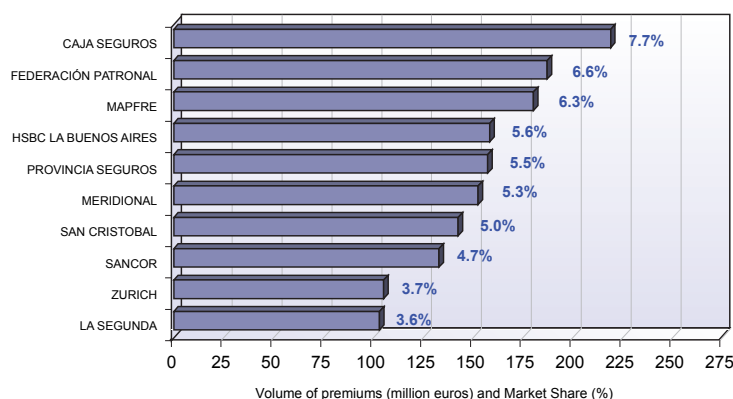
### Distribution of the market by branches



In 2005, a total of 192 insurance companies operated in Argentina, 64 fewer than in 1995, of which 23 worked exclusively in Retirement, 50 in Life and 15 in Workers Compensation. The remaining 104 operated in Property or were Mixed.

Caja Seguros, with a market share of 7.7%, is the largest insurance group in Argentina, followed by Federación Patronal and MAPFRE, with shares of 6.6% and 6.3%, respectively. Production of the 10 largest insurance groups, excluding Retirement, totaled 5,761 million pesos (EUR 1,539 million) and accounted for 54% of premiums.

### Ranking. Total sector

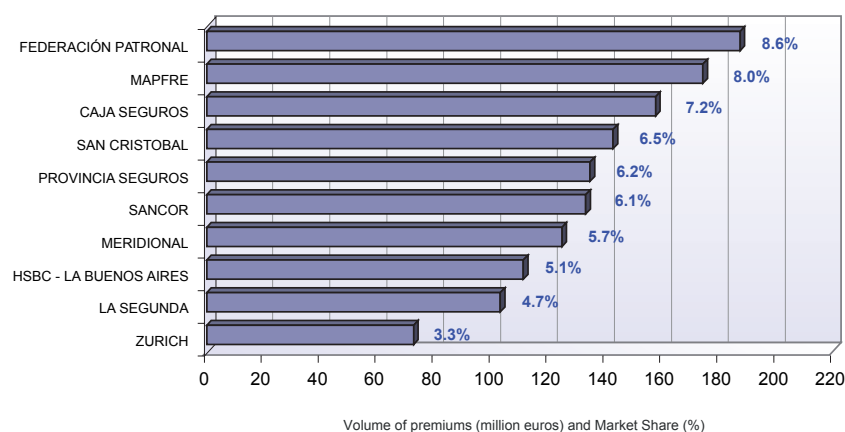


**Source:** done by FUNDACIÓN MAPFRE with information published by the Insurance Superintendency and the magazine Estrategas.  
 Note: does not include Retirement insurance

Federación Patronal and MAPFRE lead the ranking in Non-Vida, with market shares of 8.6% and 8%, respectively, and Caja Seguros leads the ranking in Life, with a 9.2% share. There is greater concentration in the Life branch, where the top 10 groups account for 58.7% of premiums, which

total EUR 393 million. Meanwhile, the top 10 Non-Life groups, with premium volume of EUR 980 million, have a market share of 44.8%.

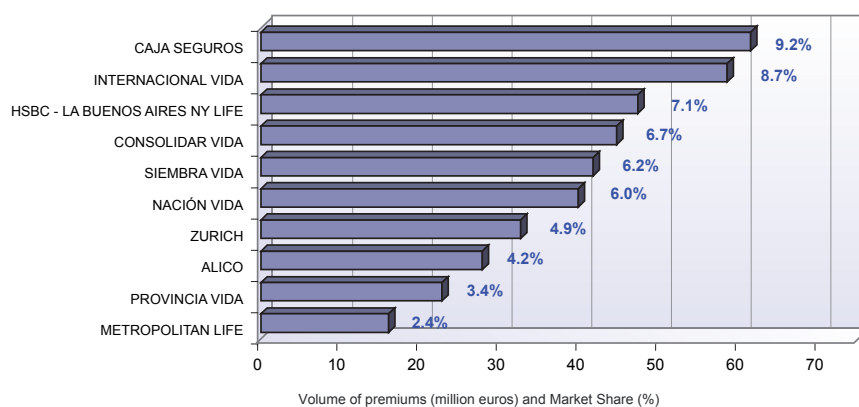
### Ranking. Non-Life



**Source:** done by FUNDACIÓN MAPFRE with information from the State Insurance Superintendency and the magazine Estrategas.

Note: This ranking was compiled on the basis of branch categories used in Argentina.

### Ranking. Life



**Source:** done by FUNDACIÓN MAPFRE with information from the Insurance Superintendency and the magazine Estrategas.

Note: This ranking was compiled on the basis of branch categories used in Argentina

According to data from the Superintendency of insurance, as of June 2006 the Argentine insurance industry had posted premium volume of 15,051 million pesos (EUR 4,157 million), an increase of 18.2%. Unlike in 2005, Non-Life business experienced greater growth – a rate of 24.4% -- while Life grew 6%, due to a significant decline in Retirement premiums. Workers Compensation Insurance continued to expand, posting an increase of 57%.

### **Mergers and Acquisitions**

Following approval by the corresponding agencies, early in the year Zurich completed its acquisition of the Life business portfolio of ING.

In October 2005, the Royal & SunAlliance group reached an agreement with the Chilean group Angelini to acquire the insurance company Generales Cruz del Sur and its affiliate in Argentina, La República.

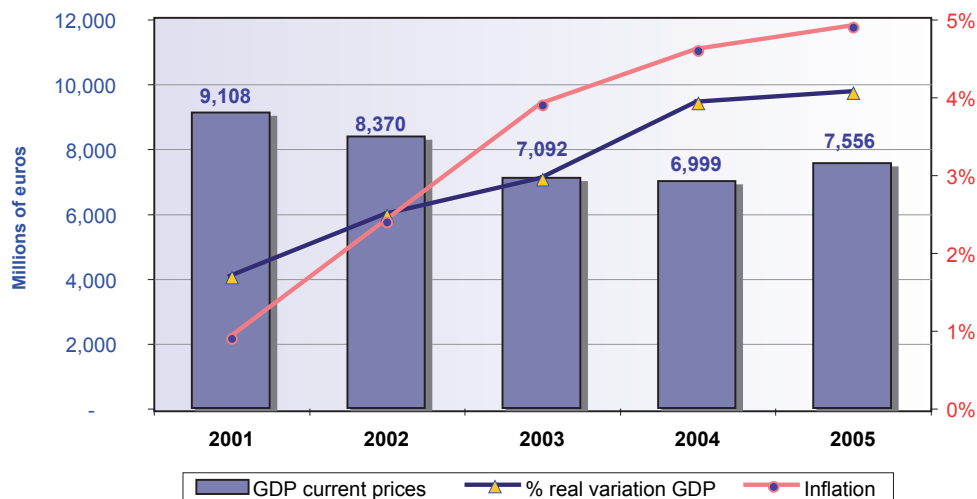
## BOLIVIA

### Macroeconomic context

The Bolivian economy grew 4.1% in 2005, its largest increase in the last six years. The main driving forces behind the growth were a recovery of domestic demand and a strong performance by the export sector. An increase in national revenue associated with better terms of exchange with other countries favored growth in private sector consumption.

By productive sectors, GDP growth was due mainly to a strong performance by the hydrocarbon and mining areas of the economy, which contributed a total of 1.4% to the growth figure. Exports of natural gas rose significantly and the hydrocarbon sector grew 15.1%.

The Consumer Price Index rose 4.9%, a figure slightly higher than the 4.6% registered in 2004 and thus exceeding the goal set by the Central Bank. The rate of inflation was influenced by a rise in fuel prices in late 2004 and this led to a rise in transport costs. Furthermore, road blockages in 2005 as part of social protests led to shortages of goods of basic necessity and thus price increases.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

The Bolivian insurance market posted a premium volume of USD 166 million (EUR 134 million) in 2005, a nominal increase of 4.5% but a real-terms decline of 0.4%. Despite a 26.3% increase in Life insurance, its effect was minor because of its small market share of 13.5% and premium volume of just USD 19 million (EUR 15 million).

Premium Volume <sup>1</sup> 2005				
Class	Millions of USD	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>166</b>	<b>134</b>	<b>4.5</b>	<b>-0.4</b>
<b>Life</b>	<b>19</b>	<b>15</b>	<b>26.3</b>	<b>20.4</b>
Individual Life	6	5	20.9	15.3
Group Life	2	2	-18.4	-22.2
Loan repayment	9	7	28.0	22.0
Private pension	2	1	317.6	298.1
<b>Non-Life</b>	<b>148</b>	<b>119</b>	<b>2.3</b>	<b>-2.5</b>
Personal accident <sup>2</sup>	28	23	1.2	-3.5
Automobile	24	19	0.1	-4.6
Fire and/or allied lines	18	15	-8.4	-12.7
Health	15	12	19.8	14.2
Other damage	9	7	-9.6	-13.9
Technical risks	8	7	16.3	10.9
Third-party liability	7	6	-9.4	-13.6
Transport	11	9	21.5	15.8
Surety	3	3	14.0	8.7
Burial expenses	0	0	-33.9	-36.9
Workers compensation insurance	24	20	2.4	-2.4

**Source:** Done by FUNDACIÓN MAPFRE with data published by the Superintendency of Insurance, Pension and Stock.

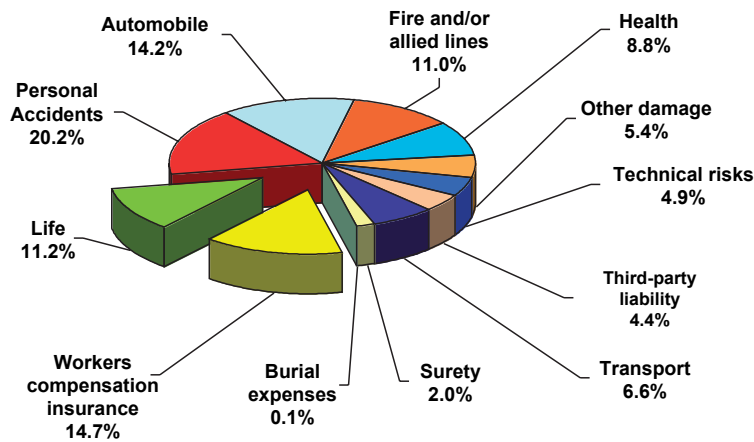
(1) Direct premiums

(2) Includes insurance for Common Risk, an obligatory social Insurance against accidents and illnesses occurred outside the workplace.

Production of Non-Life business was USD 148 million (EUR 119 million), for a slight increase of 2.3%. The insurances branches that contributed most to this growth were Aviation with 53.3%, Health (19.8%), and Technical Risks (breakdowns of machinery, electronic equipment, no-fault construction insurance, etc.) with 16.3%. Fire and allied lines of insurance – which drove growth in General insurance up until 2003, declined 8.4%. Automobile insurance, the largest volume within this branch, has maintained stable growth over the past five years.



### Distribution of the market by branches



The claims ratio fell 2.5 percentage points to settle at 46.6% in 2005. The net result of 2005 was positive for companies selling General insurance and insurance for Persons, yielding profits of USD 10 million (EUR 8 million), a rise of 15.3% over the previous year.

The Bolivian insurance market features six companies offering insurance for Persons and eight more offering General insurance. The Grupo Bisa is the largest, with a market share of 44.8%, followed by La Boliviana Cia-cruz, an affiliate of Grupo Zurich, with a market share of 18.1%.

The Bolivian insurance sector posted revenue of USD 102 million (EUR 82 million) in the first half of 2006, a rise of 12.7% compared to the same period of the previous year. Life insurance continued to register significant rises – to the tune of 26.5% -- although its market share remains very small. Non-Life business grew 11.1%, with significant increases in Automobile, Accident and Liability.

## BRAZIL

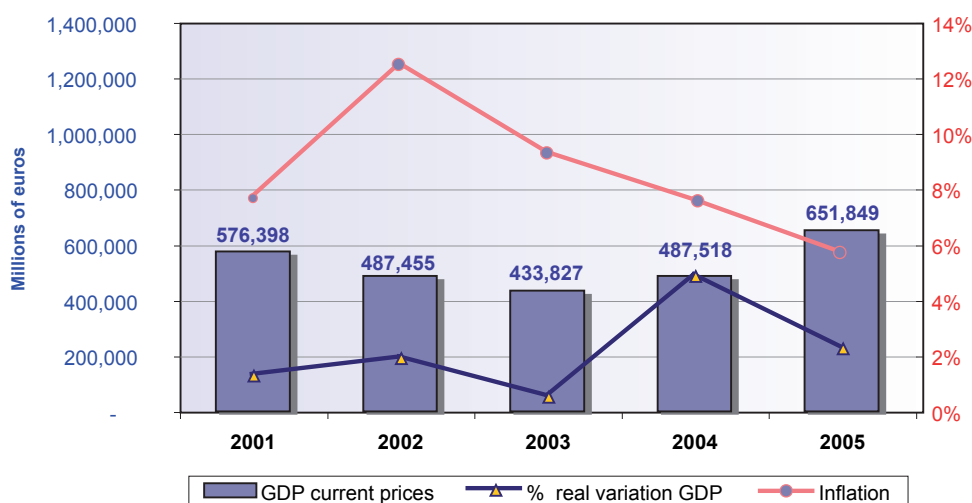
### Macroeconomic context

GDP at market prices rose 2.3% in 2005 as a result of an increase in internal demand, which was favored by improved credit terms, and by a strong performance in overseas commerce. But this growth was lower than the 4.9% posted in 2004. This was because the gross formation of fixed capital expanded at a much slower rate of 1.6% compared to 10.9% in 2004. Stronger domestic demand contributed 1.5 percentage points to the growth in GDP. Household consumption rose 3.1%, exports increased 11.6% and imports expanded 9.5%.

All sectors of the economy grew, although the growth was slower in the agricultural sector, due among other things to a decline in productivity as a result of adverse weather. Industrial activity rose 2.5%, with growth in all sub-sectors, and the services sector rose 2%.

The Broad National Consumer Price Index (IPCA) rose 5.7% compared to 7.6% a year earlier, nearing the 5.1% goal set by the government. As a result of the slowing in the rate of inflation, in September 2005 the government began to lower interest rates gradually. They had been rising since September 2004.

A larger supply of foreign currency due to an external trade surplus fueled a rise in the exchange rate throughout 2005, reaching a nominal appreciation of nearly 12% and placing the rate at the levels seen at the end of 1999.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

## Insurance market

In 2005 the insurance sector saw an expansion in the rate of growth in most branches, with premium volume totaling 42,557 million reales (EUR 14,317 million), an increase of 13.5% (7.4% in real terms).

Automobile insurance has the largest share of the market at 33.1%. Its premium volume rose 16.1% to 14,078 million reales (EUR 4,736 million). The second largest branch by market share is that known as *Vida Gerador de Beneficio Livre* (VGBL), a Life insurance policy with a strong financial component that began to be marketed in 2002. Thanks to a rise in sales in the last months of the year, production in this branch reached 11,759 million reales (EUR 3,956 million), 11.3% more than in 2004. With the branches involving the highest volume, the largest growth came in Property insurance with a 26.5% rise, thanks to a strong performance by Multi-peril, Engineering and Diverse Risk insurance.

Premium volume <sup>1</sup> 2005				
Class	Millions of reales	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>42,557</b>	<b>14,317</b>	<b>13.5</b>	<b>7.4</b>
<b>Total</b>	<b>18,396</b>	<b>6,189</b>	<b>12.7</b>	<b>6.6</b>
Individual and group life	6,637	2,233	15.3	9.0
VGBL (Vida Gerador de Benefício Livre)	11,759	3,956	11.3	5.3
<b>Non-Life</b>	<b>24,161</b>	<b>8,128</b>	<b>14.2</b>	<b>8.0</b>
Automobile	14,078	4,736	16.1	9.9
Property	4,506	1,516	26.5	19.6
Transport	1,472	495	2.1	-3.4
Accident	1,295	436	19.3	12.9
Other damage	720	242	-29.5	-33.3
Credit and surety	684	230	9.8	3.9
Hull	474	160	1.9	-3.6
Third-party liability	453	152	12.2	6.1
Crop insurance	269	91	-3.4	-8.6
Special risks <sup>2</sup>	211	71	30.3	23.3

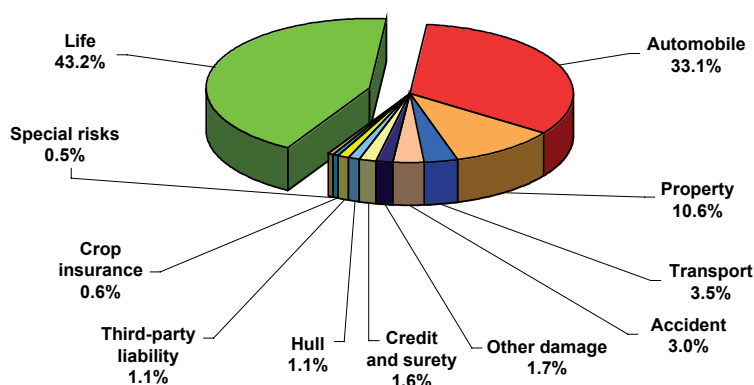
**Source:** done by FUNDACIÓN MAPFRE with data published by the Superintendency of Private Insurance (SUSEP).

(1) Direct premiums.

(2) Oil, nuclear risks and satellites.

However, the best performances came in branches of lower-volume insurance. Policies linked to expansion of internal credit, domestic credit and paying-off of loans grew more than 60%, while the category of Special Risks saw a growth rate of 30%.

### Distribution of the market by branches



In 2005 the sector as a whole posted a net claims rate of 59.2% (59.9% in 2004). Meanwhile, the expense ratio fell slightly to 39.7%, compared to 40.2% in the previous year. The claims rate in the Automobile insurance branch improved four percentage points with respect to the previous year but was still the highest at 69%.

Taking into account revenue in other sectors of the market, such as Health, Private Pension and Capitalization, the private insurance sector in Brazil posted growth of 9%, with premiums rising from 59,956 million reales in 2004 to 65,351 million (EUR 21,986 million) in 2005.

Private insurance premiums and contributions 2005			
Class	Million of reales	Millions of euros	% Δ
Insurance	42,557	14,317	13.5
Pensions plans	7,483	2,517	-0.0
Health	8,430	2,836	10.8
Capitalization	6,882	2,315	3.7
<b>Total</b>	<b>65,351</b>	<b>21,986</b>	<b>9.0</b>

Source: SUSEP and ANS

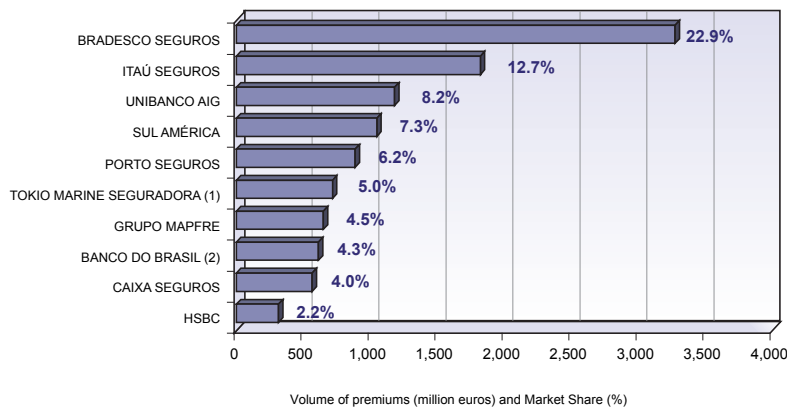
After consecutive years of expansion, the private pension plan sector declined in 2005, with premium volume of 7,483 million reales (EUR 2,517 million), 9% less than in 2004. Specialists say this was triggered by a change in tax laws, which caused many doubts among clients. Meanwhile, the Capitalization sector totaled 6,882 million reales en premiums, a rise of 3.7%.

According to data from the agency in charge of overseeing companies that offer Health insurance, the National Agency of Supplementary Health, premium volume in this sector grew 10.8%, rising to 8,430 million reales (EUR 2,836 million).

The Brazilian insurance market has 130 companies, 13 specialized in Health, 16 in Capitalization and 29 in Private Pension Plans.

Concentration in the market is significant. The top 10 groups account for 77.4% of premiums. Bradesco leads the ranking with a 22.9% market share, holding on to first place in Life with a 34.6% market share, and in the Non-Life branch with a 14% share.

**Ranking. Total sector**



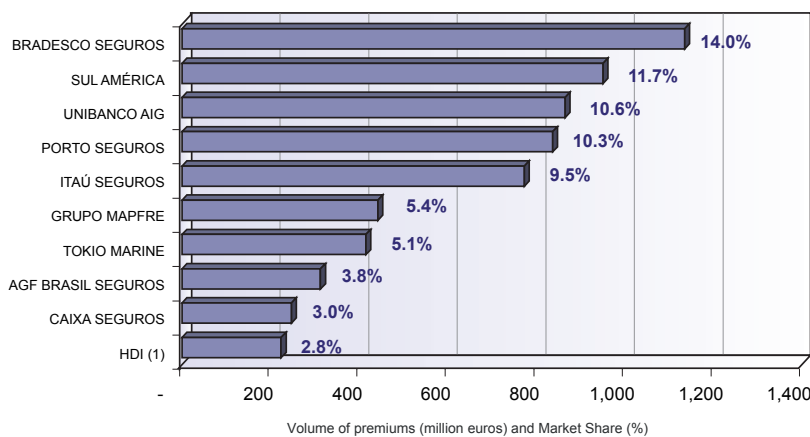
Source: SUSEP.

(1) It bought Real Seguros in 2005

(2) BRAZILPREV and COMPANHIA DE SEGUROS ALIANÇA DO BRASIL

The top 10 groups in the Non-Life line account for 76.3% of the market, and those offering Life insurance, among which bank-insurance companies dominate, account for 88.2% of premiums.

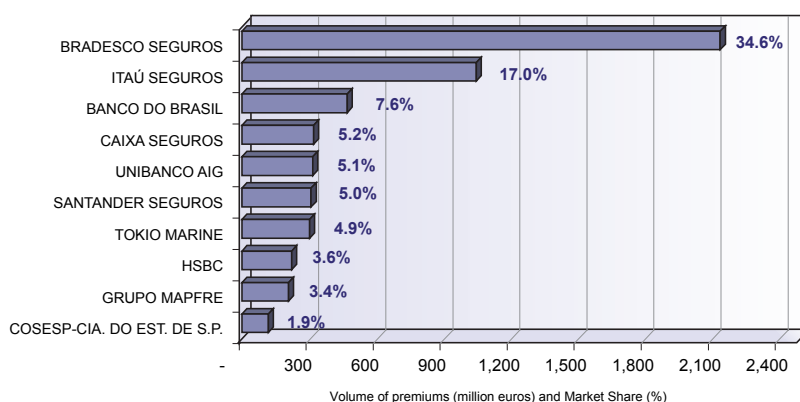
**Ranking. Non-Life**



Source: SUSEP.

(1) It bought HSBC Seguros de Automóveis e Bens in 2005

## Ranking. Life



Source: SUSEP.

Note: includes VGBL and does not include Personal accident insurance

In the first half of 2006 premium volume increased 21.5%, reaching a production level of 23,664 million reales (EUR 8,792 million) compared to 19,480 million in 2005. Again, the ones experiencing the strongest growth were policies linked to internal credit, domestic credit loan pay-offs, along with Diverse Risks. The claims rate for the entire sector was 58%, one point lower than the level seen in June 2005.

The latest forecasts from government insurance regulators for 2006 predict a growth rate of 16.7% in the insurance market, taking premium volume to 49,664 million reales.

It is worth noting that on Dec. 13, 2006 the Brazilian Chamber of Deputies approved *Projeto de Lei Complementar n° 249/2005* which regulates the reinsurance market in that country, as well as operations in co-insurance, purchases of insurance abroad and the corresponding transactions in foreign currency. The law ends the reinsurance monopoly that IRB-Brasil Resseguros S.A. (formerly Instituto de Resseguros do Brasil) effectively held, and opens up this important market to the national and foreign private sector.

The process of ending the monopoly began with the approval of constitutional amendment 13 on August 21, 1996. But the presentation of a suit alleging the measure was unconstitutional held up application of the corresponding legislation. The current *Projeto de Lei Complementar* still needs to be passed by the Senate and signed by the president.

## Mergers and Acquisitions

- The German group HDI Insurance bought HSBC Automobile and Property Insurance, which belongs to the British conglomerate HSBC. The HSBC Bank Brasil will maintain its insurance branch Life, Private Pensions and Capitalization.

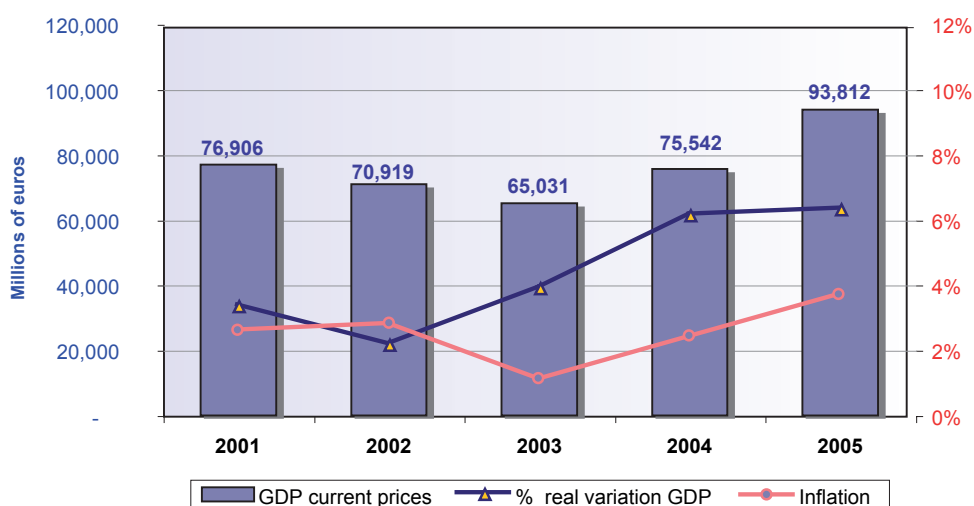
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- The Tokio Marine Nichido group finalized its purchase of the Brazilian affiliates of the Dutch group ABN AMRO. Tokio Marine acquired 100% of the shares of Real Seguros and 50% of Real Vida y Previsión.
  - MAPFRE bought 51% of the life and private pension operations of Banco Nossa Caixa (belonging to the government of the state of Sao Paulo) and will have an exclusive sales over the bank's network for 20 years.

## CHILE

### Macroeconomic context

In 2005 GDP expanded 6.3%, with the main factor being the expansion of internal demand (total consumption and gross formation of fixed capital), which posted real growth of 11.4%. It is worth pointing out there was a 43.6% rise in investment in machinery and equipment, while investment in construction and other sectors rose at a real rate 10.2%. The factors that drove this investment spree were good financial conditions, the recovery of domestic demand, and a decline in the exchange rate which favored imports of capital goods.

At the end of 2005 inflation stood at 3.7%, which fell within the range established by the government as its annual goal.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

At the close of 2005 the Chilean insurance market posted a small decline of 0.7% in direct premiums compared to the previous year, in contrast to the 8% rise seen in 2003 and 2004. That said, if Life and General insurance are considered separately, their behavior is quite different: a 5% drop in premium volume in the Life branch and a rise of 7.3% in General insurance. In December 2005 the direct premiums in the insurance market totaled 129 million Unidades de Fomento (EUR 3,301 million).



Premium volume <sup>1</sup> 2005				
Class	Thousand UF	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>129,263</b>	<b>3,301</b>	<b>-0.7</b>	<b>-4.2</b>
<b>Vida</b>	<b>80,033</b>	<b>2,044</b>	<b>-5.0</b>	<b>-8.4</b>
Individual life	14,291	365	1.4	-2.2
Group life	16,729	427	24.1	19.7
Life annuity	49,013	1,252	-13.6	-16.7
<b>Non-Life</b>	<b>49,230</b>	<b>1,257</b>	<b>7.3</b>	<b>3.5</b>
Fire and/or allied lines	13,975	357	-1.0	-3.9
Automobile	10,823	276	13.4	9.4
Other damage	9,083	232	10.6	6.7
Personal accident <sup>2</sup>	5,629	144	11.0	7.1
Health	5,019	128	16.4	12.2
Transport	1,908	49	9.1	5.2
Third-party liability	1,744	45	-5.8	-9.1
Credit and/or Surety	1,048	27	7.7	3.9

**Source:** Done by FUNDACIÓN MAPFRE with data published by the Association of Chilean Insurers (AACH). Statistical Uniform Encoded Record from the S.V.S.

(1) Direct premiums.

(2) Includes Compulsory Personal Accident Insurance (SOAP).

The drop in premiums in the Life branch occurred because private pension plans, which represent 61% of this branch, fell 13.6%. This result stems from legal changes introduced in Decree-Law 3,500, which gradually increases until 2010 the conditions for taking early retirement, in addition to the fall in rates in the capital market during the year.

Worth pointing out is the performance of the direct premium in loan repayment insurance, which in recent years has developed a positive trend, reaching 10 million Unidades de Fomento (EUR 307 million) and a growth of 34.1% compared to the previous year. An increase in national consumption observed during the year through greater demand for consumer loans and mortgages had a direct effect on the rise in sales of this kind of insurance.

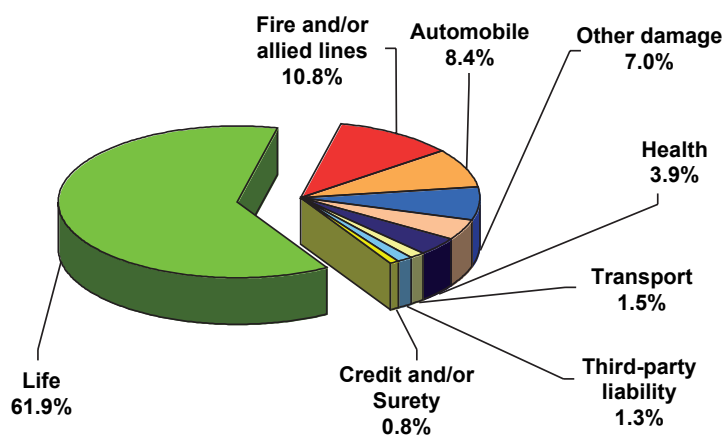
Direct premiums accumulated over the course of 2005 in Non-Life insurance totaled 49.2 million UF, up 7.3% over 2004. The Automobile branch has also been on the rise in recent years, reaching premium volume of 10.8 million UF, which represents an increase of 13.4%. This stems mainly from a rise in the number of policies, both new and existing, which posted increases 13.9% and 10.9%, respectively. Furthermore, the automobile industry ended 2005 as the best year in its history, with a total of 185,000 new cars sold and 485,000 second hand cars sold. The factors that have driven this trend are the low price of the dollar, the great quantity of makes and models available on the market, a variety of financing plans and a favorable interest rate.

After legal changes came into effect that demand greater coverage for the Compulsory Insurance for Personal Accidents, this branch posted an increase of 121.3% in the years 2003 and 2004. But in 2005 a decline of

8.6% is observed, despite a strong increase in the number of cars in the road.

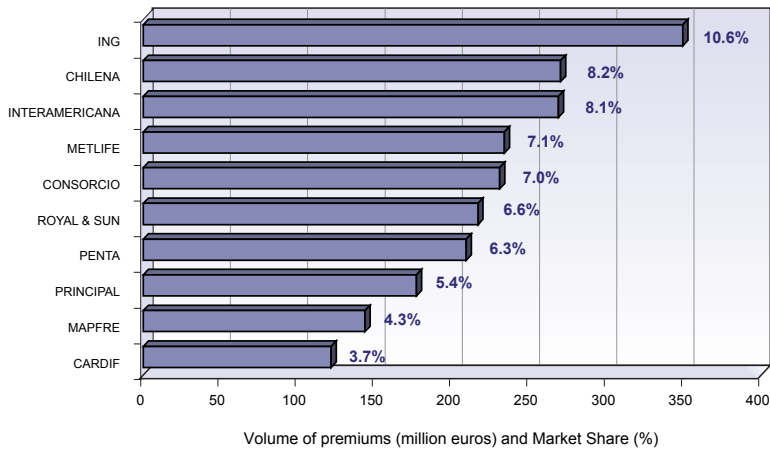
Meanwhile, Fire and allied lines of insurance posted a decline of 1% in 2005 compared to the previous year, reaching premium volume of 13.9 million UF.

#### Distribution of the market by branches



In 2005, a total of 51 insurance companies were operating, 29 specialising in Life and 22 in General insurance. In terms of participation in the market as measured by direct premiums, during this year the Chilean insurance market came to be led by multinational companies. The top 10 insurance companies in Chile accounted for premium volume of EUR 2,218 million and a combined market share of 67.2%. The total ranking of the groups is led by ING.

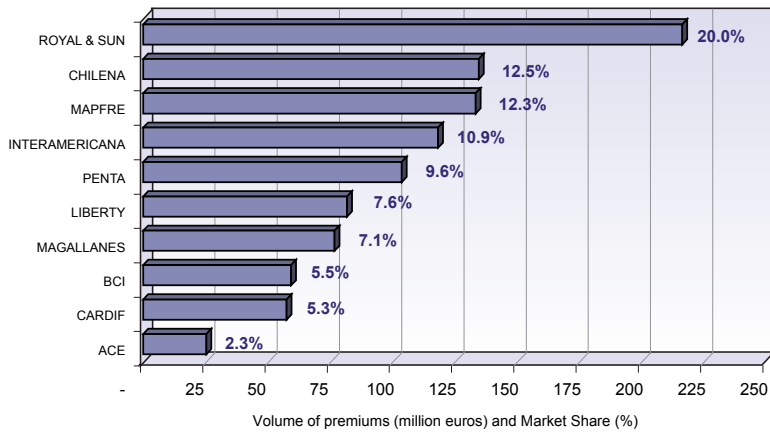
**Ranking. Total sector**



Source: AACH. Unified Codified Statistical Form of S.V.S.

In General Insurance, the top companies are Cruz del Sur (owned by the British group Royal & SunAlliance), Chilena Consolidada (of the Zurich group), MAPFRE (Spain) and Interamericana (AIG).

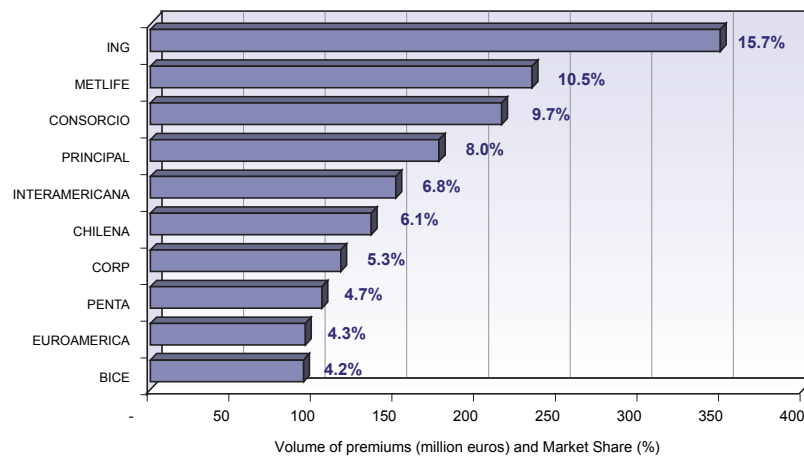
**Ranking. Non-Life**



Source: AACH. Uniform Codified Statistical Form of the S.V.S.

In Life insurance the main companies are ING (Netherlands), Metlife (USA), Consorcio (a Chilean group) and Principal (Principal Financial Group).

### Ranking. Life



Source: AACH. Uniform Codified Statistical Form of S.V.S.

In the first six months of 2006, the insurance sector posted premium volume of 67 million UF (EUR 1,861 million), a rise of 1.2% over the same period of the previous year. The behavior of the various branches was similar to that of 2005, although improvement was observed in the Life business. It posted an increase of 0.2%, despite the decline in premiums that continues to be observed in Life Annuities. Meanwhile, the growth rate in Non-Life business was 3%, somewhat below the figure of 2005. Within this segment, Accident and Health insurance are the ones that rose the most – 21.8% and 14.2%, respectively, while the steepest declines came in Multi-peril insurance (43.8%) and Third-party liability (9.8%).

### Mergers and Acquisitions

- Royal & SunAlliance bought the general insurance company Cruz del Sur.
- In early August ABN AMRO announced it would stop underwriting, both in Life insurance and General. The General insurance portfolio was acquired by Aseguradora Magallanes and the Life portfolio by Euroamerica.
- In April the portfolio of ING Generales was bought by the U.S. group Liberty, which in 2004 had absorbed AGF.
- Merger between Penta and Security in the area of general insurance.
- ACE (Life) is created in March 2005.
- On Aug. 10, 2005 Compañía Bice (Life) acquired all the shares of La Construcción insurance company.
- Vitalis (Life) merged with Consorcio Nacional in Feb. 2005.

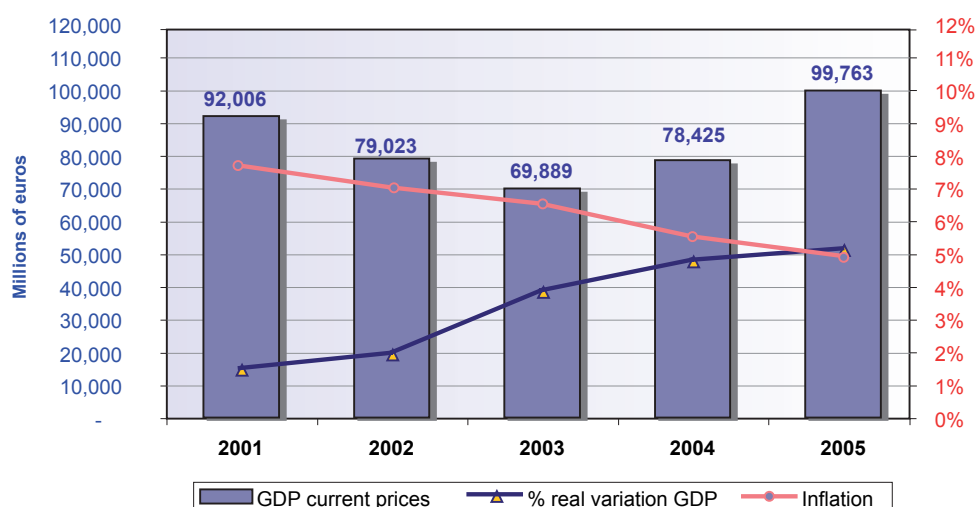
## COLOMBIA

### Macroeconomic context

Macroeconomic figures show a positive evolution of the Colombian economy. This has prompted international monitors to improve the country's risk rating and led to higher demand for purchases of government bonds. The Colombian GDP rose 5.1% in 2005, compared to 4.8% in 2004.

Investment expanded 29%, thanks to tax incentives, an abundance of credit and low interest rates. Household consumption was also encouraged by low inflation, a drop in unemployment and greater consumer confidence. However, the external sector made a negative contribution, as a rise in exports was not large enough to offset an even larger increase in imports.

At 4.9%, the rate of inflation was within the range set as a goal by the central bank. The figure was 0.6 percentage points lower than in 2004. Contributing to this performance was a fall in prices of tradeable goods, which are closely linked to the rise in the peso.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

Premiums issued rose 4.2% on the year to reach 6.4 trillion pesos (EUR 2,244 million), an increase of 0.7% when inflation is taken into account. The branches that posted the biggest increases were Compulsory Transit Accident Insurance (SOAT) with a 19.2% expansion, Private pension plans at 14.3% and Professional Risk (Workers Compensation Insurance) with a rise of 14.2%

Premium Volume <sup>1</sup> 2005				
Class	Millions of pesos	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>6,433,272</b>	<b>2,244</b>	<b>4.2</b>	<b>-0.7</b>
<b>Life</b>	<b>1,704,184</b>	<b>594</b>	<b>3.4</b>	<b>-1.4</b>
Individual life	283,072	99	-16.5	-20.4
Group life	881,060	307	8.9	3.9
Life annuities	152,480	53	-5.1	-9.5
Private pension plans <sup>2</sup>	387,571	135	14.3	9.0
<b>Non-Life</b>	<b>4,729,089</b>	<b>1,650</b>	<b>4.5</b>	<b>-0.4</b>
Automobile	1,135,294	396	7.5	2.4
Other classes	980,858	342	0.2	-4.5
SOAT <sup>3</sup>	458,421	160	19.2	13.7
Health	364,714	127	6.8	1.8
Fire	331,152	116	-6.9	-11.3
Earthquake	297,508	104	-13.1	-17.1
Third-party liability	241,762	84	8.1	3.0
Transport	213,933	75	-4.2	-8.7
Personal accident	167,289	58	12.4	7.2
Workers compensation Ins.	538,158	188	14.2	8.9

Source: done by FUNDACIÓN MAPFRE with data published by the Banking Superintendency and FASECOLDA.

(1) Premiums issued

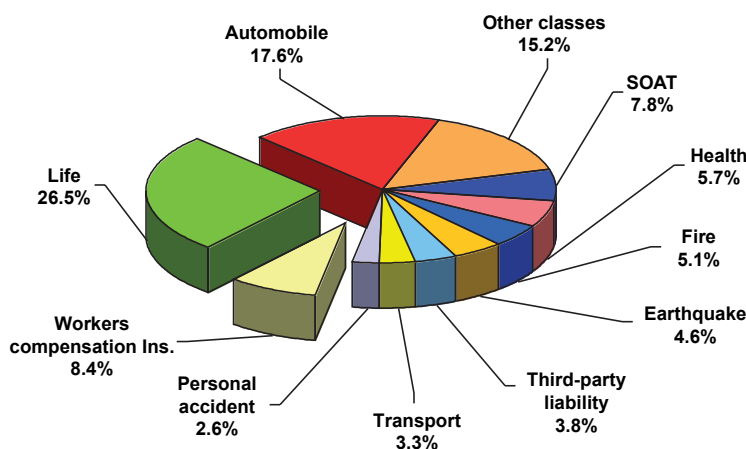
(2) Group life insurance contracted by A.F.P. (Pension Fund Administrators)

(3) Compulsory transit accident insurance

The Life insurance business, with revenue of 1.7 trillion pesos (EUR 594 million), was driven by demand for insurance linked to mortgages, savings plans for university studies and private pension plans.

Non-Life insurance grew 4.5% with a premium volume of 4.7 trillion pesos (EUR 1,650 million). It is worth noting that strong pricing competition was caused by a drop in premium volume for some main classes, such as Fire and Earthquake insurance. Automobile insurance expanded 7.5%, thanks to a big increase in sales of new cars.

### Distribution of the market by branches

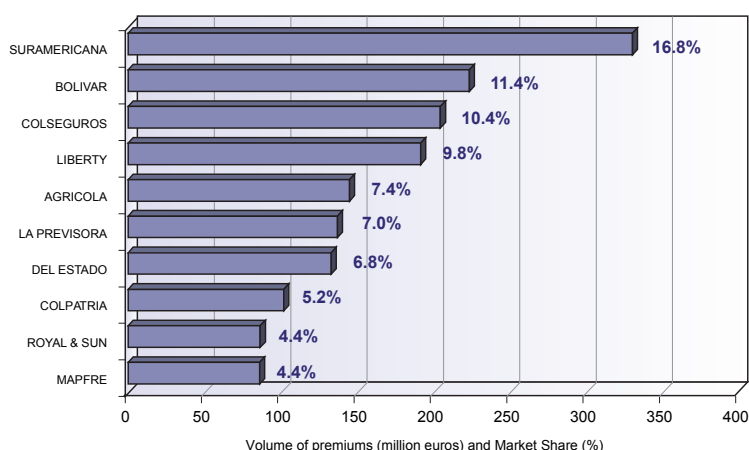


The claims rate grew in the Non-Life sector because of a fall in prices, and was stable in the Life section. Profits soared 205.1% to 1.5 trillion pesos (EUR 557 million) due to a strong increase in revenue from investments.

There was news in the insurance sector in Colombia in 2005, as the Banking Oversight Agency of Colombia was absorbed by the Stock Market Oversight Agency, in line with Decree 4.327 of 2005. This new body was named the Financial Oversight Agency of Colombia.

In December 2005 there were 25 insurance companies authorized to operate in the Damage line of insurance and 25 in branches involving Personal insurance. The level of concentration in the industry is high; the top 10 insurance groups account for 73% of premiums. Suramericana is the largest insurance group in Colombia, with a premium volume of EUR 330 million and a market share of 17%.

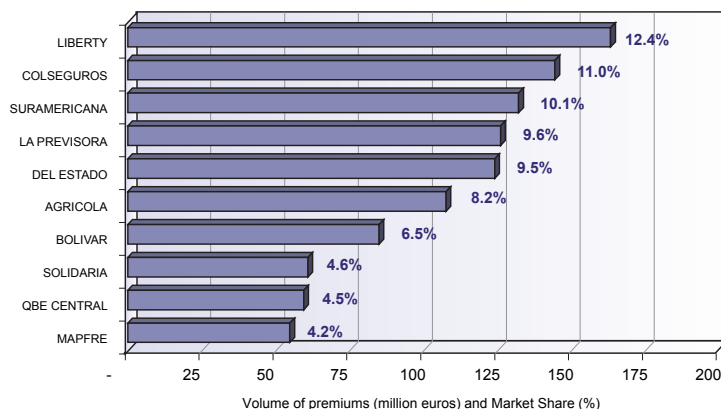
### Ranking. Total sector



Source: done by FUNDACIÓN MAPFRE with information published by FASECOLDA

The ranking of countries that operate in General insurance is led by Liberty, with a market share of 12.4%.

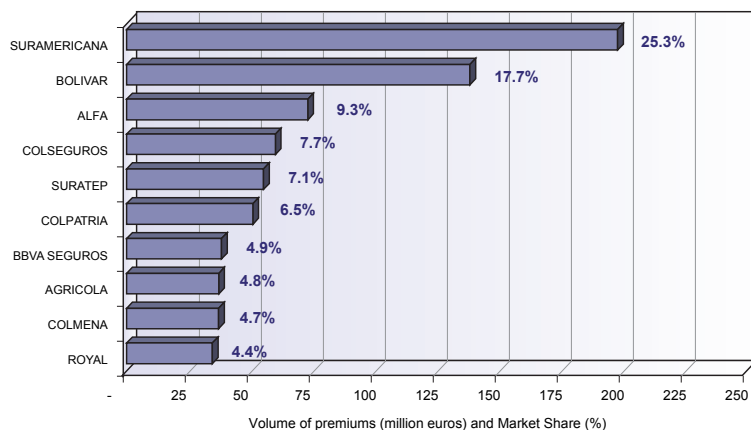
### Ranking. Non-Life



Source: done by FUNDACIÓN MAPFRE with information published by FASECOLDA

Suramericana tops the ranking of insurance companies operating in the Life sector, with a market share of 25%.

### Ranking. Life



Source: done by FUNDACIÓN MAPFRE with information published by FASECOLDA

Through June 2006 the Colombian insurance industry grew 13.4% with respect to the same period of 2005, reaching a premium volume of 3.4 trillion pesos (EUR 1,175 million). Both segments have seen similar growth: Life rose 13% and Non-Life 13.6%. Among the different branches of Non-Life, production of Professional Risk insurance expanded 16.3%.



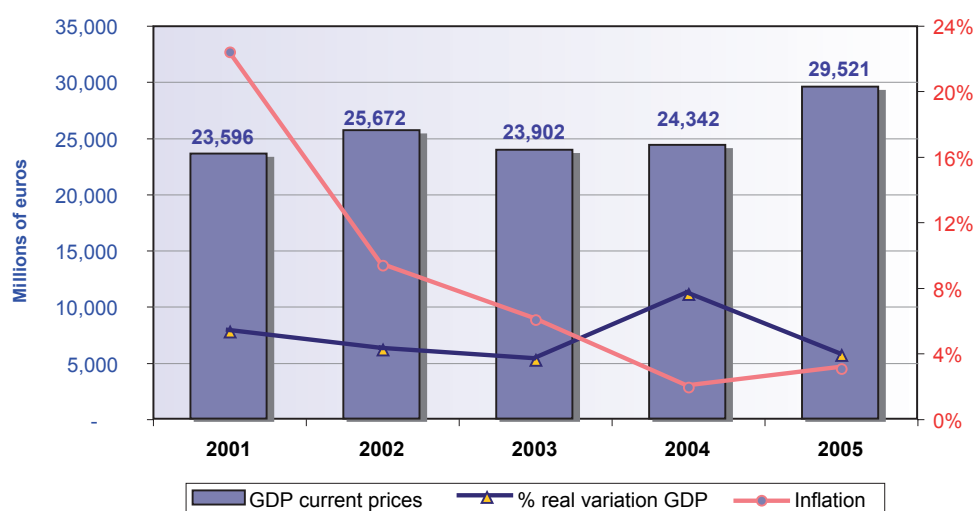
## **Mergers and Acquisitions**

Australia's QBE Insurance Group acquired 96.9% of Central de Seguros and 5.76% of Central de Seguros de Vida. The sale was carried out by Financial Institution Guarantee Fund (Fogafin) at a public hearing.

## ECUADOR

### Macroeconomic context

The economy of Ecuador grew 3.9% in 2005, down from 7.6% in 2004. This increase stems mainly from the manufacturing industry and wholesale and retail trade and other services, since the mining and quarry sector, composed mainly of the petroleum industry, grew just 1%. Inflation stood at 3.1%, up from 1.9% the previous year.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

In 2005 the Ecuadoran insurance sector posted premium volume totaling USD 543 million (EUR 439 million), with growth rates far above that of GDP: 13.8% nominal and 10.3% in real terms. The biggest increase was in the Life class with a 21.9% expansion, but as is the case in other insurance markets of Iberoamerica, this sector has a very small market share, just 13.1%.

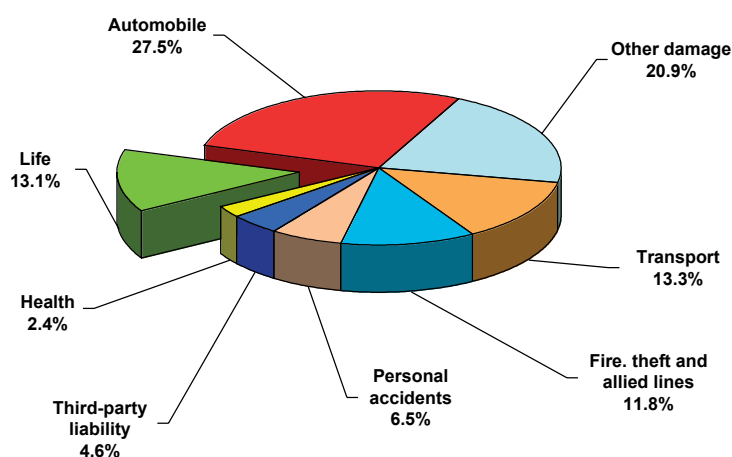
### Premium volume<sup>1</sup> 2005

Class	Millions of USD	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>543</b>	<b>439</b>	<b>13.8</b>	<b>10.3</b>
<b>Life</b>	<b>71</b>	<b>57</b>	<b>21.9</b>	<b>18.3</b>
Individual life	7	6	19.6	16.0
Group life	63	51	22.2	18.5
<b>Non-Life</b>	<b>472</b>	<b>382</b>	<b>12.6</b>	<b>9.2</b>
Automobile	149	121	27.3	23.5
Other damage	113	92	4.5	1.3
Transport	72	59	8.1	4.8
Fire, theft and allied lines	64	52	-1.5	-4.5
Personal accidents	35	28	34.9	30.8
Third-party liability	25	20	53.9	49.2
Health	13	10	-32.3	-34.3

**Source:** done by FUNDACIÓN MAPFRE with data published by the Superintendency of Bank and Insurance

(1) Net premium paid (received)

Production in Non-Life business was USD 472 million (EUR 382 million), an increase of 12.6%. Motor insurance, with a market share of 27.5%, posted one of the biggest increases, 27.3%.



### Distribution of the market by branches

As of December 31, 2005 there were 40 insurance companies registered with the Bank and Insurance Oversight Agency, of which eight sell only Life insurance, 12 General insurance and 20 a combination of the two. The 10 largest companies account for 59.3% of the premiums. Colonial is ranked first with a 10% market share, followed by Equinoccial (7.8%) and ACE Seguros (7.4%).

In the first six months of 2006, insurance premiums totaled USD 323 million, an increase of 18.4% over the same period of the previous year.

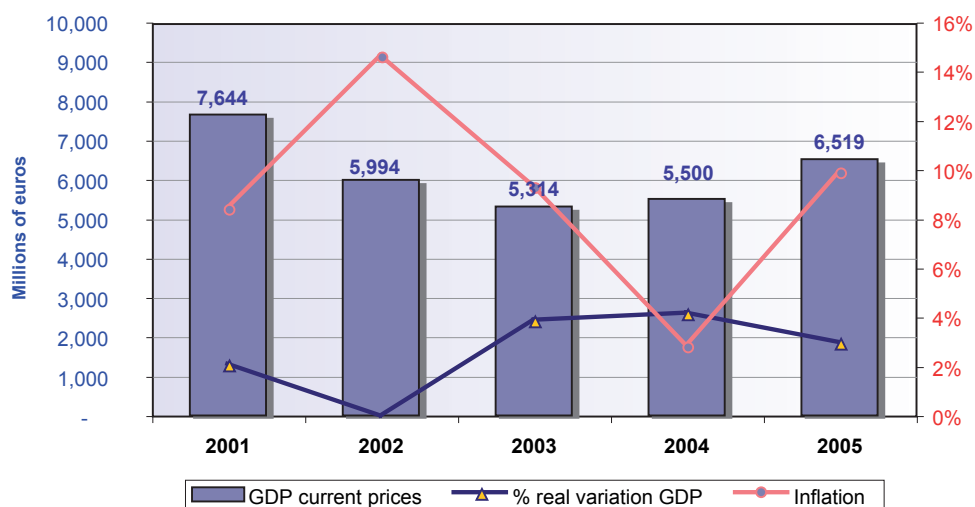
## PARAGUAY

### Macroeconomic context

The economy of Paraguay posted GDP growth of 2.9% in 2005, down from 4.1% the previous year. The sectors that fueled this growth were stock-breeding, commerce and communications, while agricultural activity declined as a result of drought that affected many crops.

Inflation for the year stood at 9.9%, above the range set as a goal. The increase stems from rising oil prices, a real-terms rise in the Brazilian real and an increase in beef prices due to a swift increase in domestic and external demand for this product. Exports of goods and services rose 18.5% while imports increased 26.4%. In 2005, trade terms were not favorable for Paraguay.

Bank credit has recovered, especially that of the Paraguayan currency, growing at rates in excess of 20% a year, in a context of reversion to dollarization and strength in the banking system.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

In the period ended June 2005, direct premiums totaled 442,544 million guaranies (EUR 61 million), with nominal growth of 10.3% compared to 2004 and real growth of 0.4%.

### Premium Volume<sup>1</sup> 2005

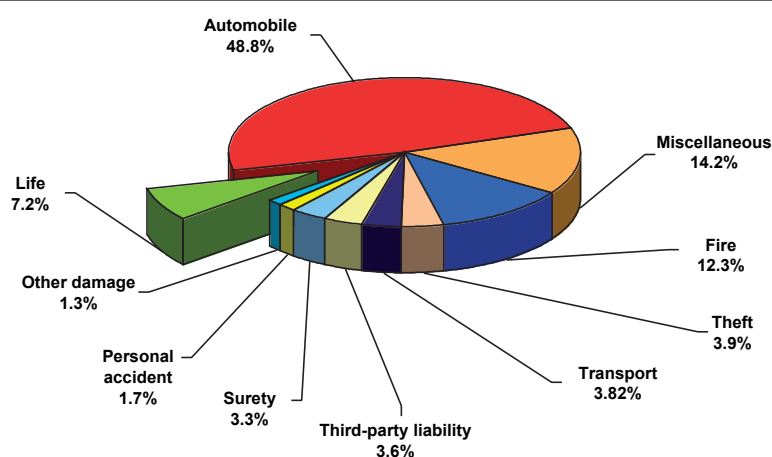
Class	Millions of guaranies	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>442,544</b>	<b>61</b>	<b>10.3</b>	<b>0.4</b>
<b>Life</b>	<b>31,677</b>	<b>4</b>	<b>23.4</b>	<b>12.3</b>
<b>Non-Life</b>	<b>410,867</b>	<b>56</b>	<b>9.4</b>	<b>-0.5</b>
Automobile	215,922	30	n.a.	n.a.
Miscellaneous	62,887	9	n.a.	n.a.
Fire	54,213	7	n.a.	n.a.
Theft	17,260	2	n.a.	n.a.
Transport	16,906	2	n.a.	n.a.
Third-party liability	15,888	2	n.a.	n.a.
Surety	14,604	2	n.a.	n.a.
Personal accident	7,568	1	n.a.	n.a.
Other damage	5,620	1	n.a.	n.a.

**Source:** done by FUNDACIÓN MAPFRE with data published by Insurance Superintendency  
(1) Direct premiums net of cancellations, plus administrative surcharges

Non-Life business increased 9.4%, reaching a premium volume of 410,867 million guaranies (EUR 56 million). Growth in Automobile insurance, with a market share of 48.8%, was driven by a big rise in sales of new cars.

As for Life insurance, premium volume has increased gradually in recent years. In 2005 it increased 23.4%. But it still had a very small market share, just 7.2%.

### Distribution of the market by branches



The average claims ratio as of June 30, 2005 was 44.4%, five percentage points higher than in June 2004. The claims ratio grew in Non-Life business and fell in Life policies.

In 2005 there were 35 companies operating in the Paraguayan insurance market, all of them authorized to work in Property business and two in Life. The 10 largest companies account for 67.6% percent of premiums

and the other 25, the rest. MAPFRE is first in premium volume, with a market share of 13.3%, followed by La Consolidada with 12.4% and Real Paraguaya at 8.5%.

The insurance oversight agency is now acting more strictly, with tougher control measures. Because of this some companies have been forced to make major accounting adjustments.

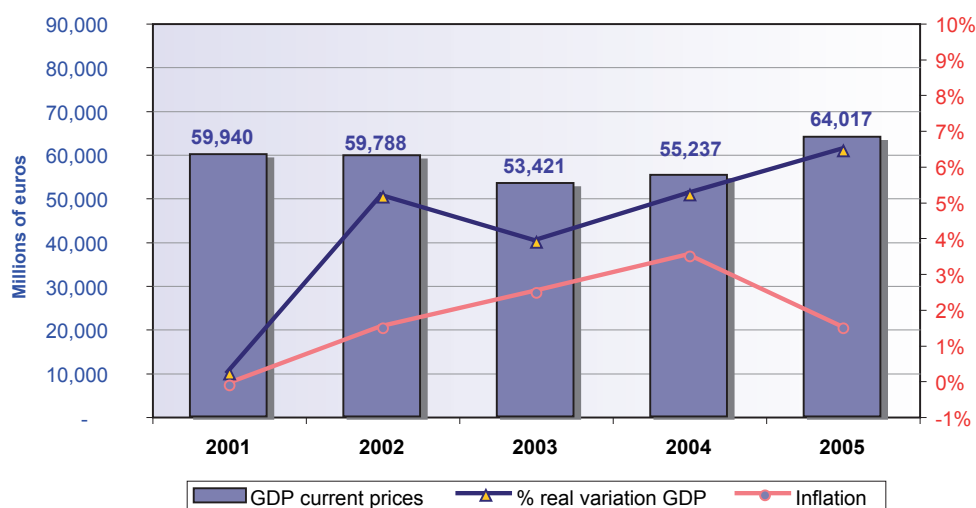
## PERU

### Macroeconomic context

In 2004, the Peruvian economy grew 6.4%, its highest rate of growth since 1997, driven by a rise in internal demand. This growth stemmed mainly from favorable investment results and private sector consumption. These in turn were stimulated by economic stability, a greater expansion of credit and lower interest rates. Furthermore, these factors allowed for greater strength in the labor market, leading to an increase in formal employment.

Exports posted a 14.9% increase thanks to expansion in the economies of Peru's main trading partners -- the United States and China -- and greater access to external markets. Imports grew 10.6%, registering an upward trend in line with the greater level of economic activity.

Although fuel prices continued to rise, the year ended with an inflation rate of 1.5%, two percentage points less than the previous year. This decline was due mainly to a fall in the prices of some farm products which had led to higher inflation in 2004 because of adverse weather conditions.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

In 2005, insurance premiums totaled 3,214 million nuevos soles (EUR 786 million), a nominal increase of 6.6% and a real-terms one of 5%. Non-Life insurance, which rose 8.6%, was the engine behind this growth, accumulating a Premium volume of 1,871 million nuevos soles (EUR 458 million).

Premium volume<sup>1</sup> 2005

Class	Millions of nuevos soles	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>3,214</b>	<b>786</b>	<b>6.6</b>	<b>5.0</b>
<b>Life</b>	<b>1,343</b>	<b>329</b>	<b>3.9</b>	<b>2.3</b>
Individual life	187	46	-10.5	-11.8
Group life	174	43	16.4	14.7
Pensions	982	240	5.1	3.5
<b>Non-Life</b>	<b>1,871</b>	<b>458</b>	<b>8.6</b>	<b>7.0</b>
Fire and/or allied lines	421	103	-1.6	-3.1
Other damage	353	86	7.0	5.4
Personal accident <sup>2</sup>	301	74	13.6	11.9
Health	264	65	10.5	8.8
Automobile	227	56	5.6	4.0
Transport	77	19	8.5	6.8
Third-party liability	69	17	-2.8	-4.3
Burial expenses	51	12	363.6	356.8
Credit and/or Surety	19	5	0.0	-1.5
Multi-peril	14	3	40.0	37.9
Workers compensation Ins.	75	18	20.0	18.3

**Source:** done by FUNDACIÓN MAPFRE with data published by the Banking and Insurance Superintendency (S.B.S.)

(1) Net premiums

(2) Includes Obligatory Transit Accident Insurance (SOAT)

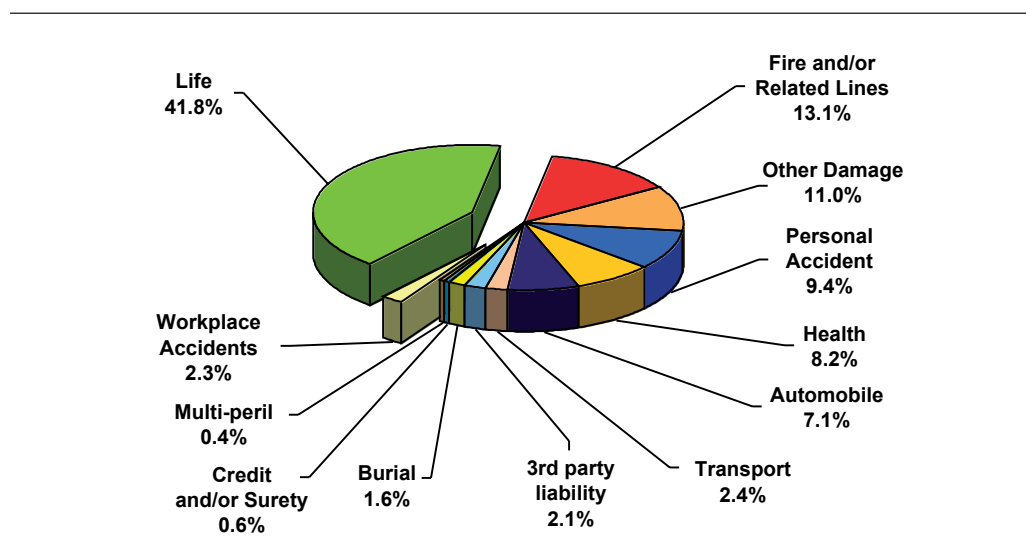
Non-Life insurance performed amid two opposing tendencies: stiff price competition in General<sup>13</sup> insurance branches, which limited growth to less than 2%, and a rise in prices in the branches of Accident and Illness, and Automobiles, which posted rises of 10.5% and 5.6%, respectively.

The rise observed in Life is due mainly to growth in Group Life and Loan Repayment insurance.

<sup>13</sup> Non-Life branches except for Accident and Illness (in the graph Personal Accident and Health), and Workers Compensation Insurance.



### Distribution of the market by branches

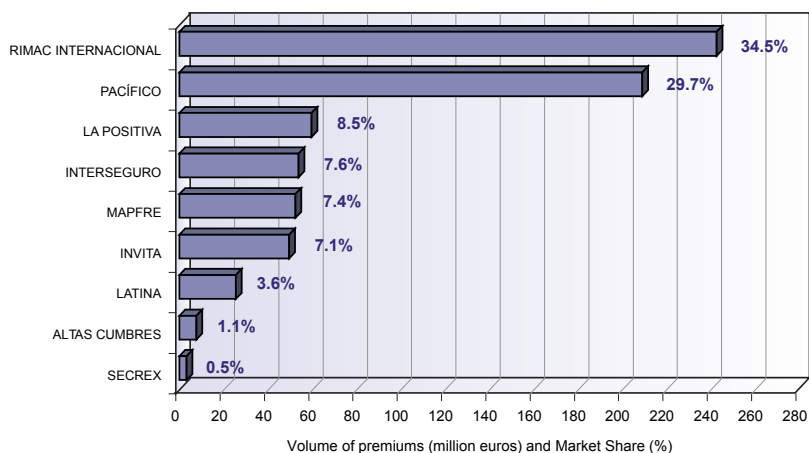


In the fiscal year 2005 the direct claims rate rose 4.9 percentage points and the retained claims rate increased 1.3 points to 51.6%. The claims rate rose significantly in Non-Life insurance, mainly in Fire and Aviation insurance, and was stable in Life insurance.

At the end of 2005, a total of 12 insurance companies operated in the Peruvian market, of which two were dedicated to General and Life insurance, four exclusively to General insurance business and six sold only Life insurance. All but one of the companies, La Positiva, include foreign shareholders.

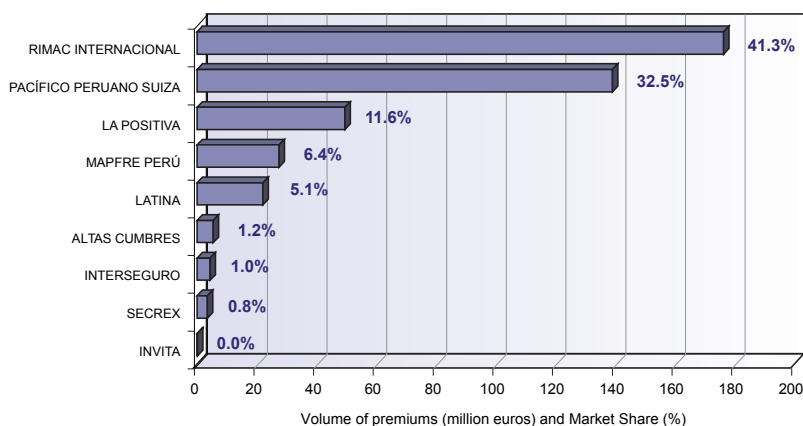
Rimac and Pacifico remained the top-ranked companies, although it must be pointed out that in the final months Rimac achieved a significant advantage over its competitor (Rimac had a 34.5% market share and Pacifico 29.7%), as a result of acquisitions and a more dynamic marketing policy.

### Ranking. Total sector



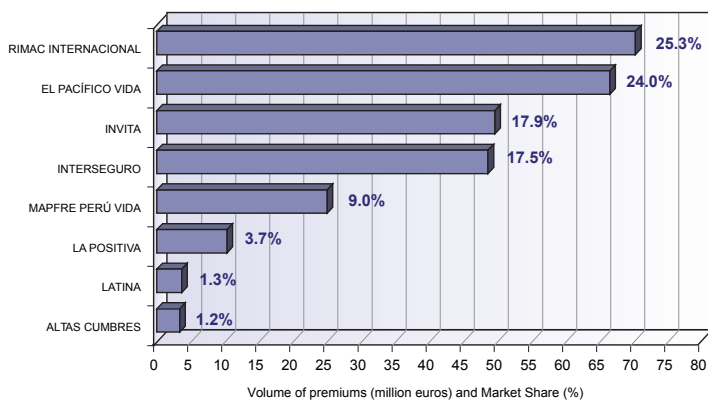
**Source:** done by FUNDACIÓN MAPFRE with information published by S.B.S.  
 Note: Does not include private pension plans

### Ranking. Non-Life



**Source:** done by FUNDACIÓN MAPFRE with information published by S.B.S.  
 Note: does not include burial insurance, included in Life branch

### Ranking. Life



**Source:** done by FUNDACIÓN MAPFRE with information published by S.B.S.  
 Note: does not include private pension plans. Includes burial insurance.

From January to June of 2006, production of insurance rose 20.1%, reaching a Premium volume of 1,881 million nuevos soles (EUR 463 million), with increases in all branches.

Non-Life business rose the most, posting a 21% increase, with production of 1,126 million nuevos soles (EUR 277 million). A context of greater economic stability has encouraged the development of Life insurance, the premium volume of which grew 18.8%, thanks to drive of insurance in the Private Pension System and loan repayment insurance.

### **New legislation**

Under Resolution 510-2005 of the Banking and Insurance Oversight Agency, rules were approved for the marketing of insurance products. The rules regulate the different contract modalities of the promoters or sales points and insurers' responsibility toward them. The Resolution also establishes that insurance companies can offer products through the companies of the financial system, so long as these companies have signed a marketing contract.

### **Mergers and Acquisitions**

Merger and acquisition processes which began in 2002 continued in 2005. In the current year, Latina acquired Generali Perú.

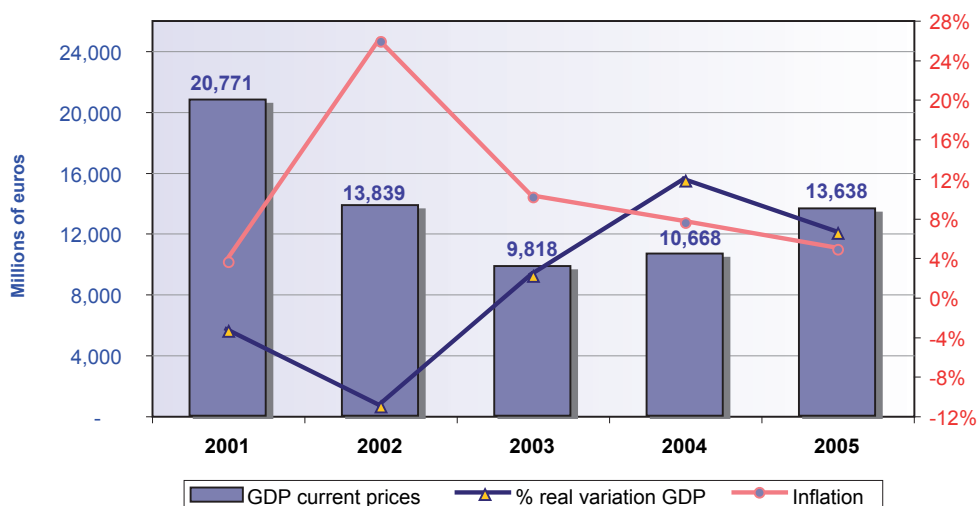
## URUGUAY

### Macroeconomic context

In 2005 the economy of Uruguay grew 6.6%, due mainly to external demand and improved investment. Although the physical volume of exports exceeded that of imports, the trade balance was negative because of a fall in trade terms. As for demand, it is worth pointing out that private consumption grew only 2.5%.

The Consumer Price Index fell within the inflation range set by the government as a goal, ending the year at 4.9%.

With regard to the financial system, the recovery of deposits continued, credit in local currency rose 11.5% while credit in foreign currency was flat, and solvency and liquidity indicators continued to strengthen.



Source: done by FUNDACIÓN MAPFRE with information published ECLAC.

### Insurance market

In 2005 the insurance sector posted nominal growth of 1.9% in premium volume in local currency (7,182 million pesos) and a real-terms decline of 2.8%. General insurance, not including Workers Compensation Insurance, was the largest in the sector with a market share of 61.4%, compared to 18.2% for Life insurance. This class of insurance in 2005 posted a premium volume decline of 4.9% (9.3% real), due among other factors to a drop in the value of the dollar, the currency in which these policies are usually denominated. Production of Life insurance rose 3.4% thanks to private pension plans.

Premium volume<sup>1</sup> 2005

Class	Millions of pesos	Million of euros	% Δ	% Δ real
<b>Total</b>	<b>7,182</b>	<b>238</b>	<b>1.9</b>	<b>-2.8</b>
<b>Life</b>	<b>1,305</b>	<b>43</b>	<b>3.4</b>	<b>-1.4</b>
Private pension plans	393	13	23.6	17.9
Other than private pension plans	913	30	-3.4	-7.9
<b>Non-Life</b>	<b>5,877</b>	<b>195</b>	<b>1.6</b>	<b>-3.1</b>
Automobile	2,398	80	3.5	-1.3
Other classes	563	19	-18.8	-22.6
Fire	511	17	-1.8	-6.4
Theft	340	11	-11.5	-15.6
Transport	301	10	-13.3	-17.4
Third-party liability	207	7	-21.5	-25.2
Surety	90	3	-18.6	-22.4
Workers compensation insurance <sup>2</sup>	1,468	49	27.8	21.8

**Source:** done by FUNDACIÓN MAPFRE with data published by Insurance Superintendency

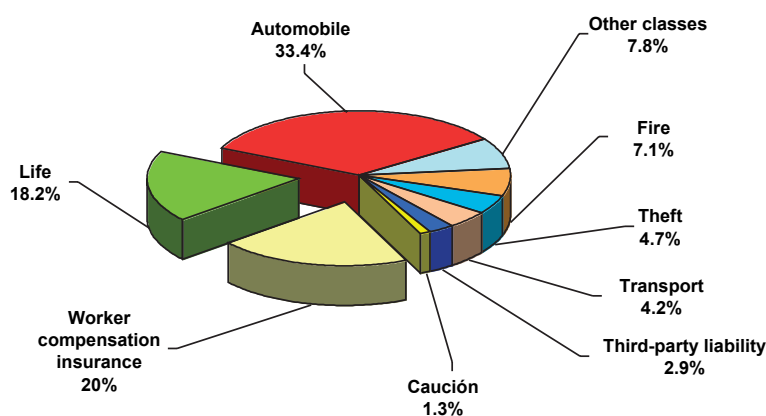
(1) Premiums issued, net of cancellations.

(2) All Workers compensation insurance premium volume corresponds to State Insurance Bank

Automobile insurance has a 33.4% market share and the largest premium volume. In 2005 it posted an increase of 3.5% as a result of a rise in car sales. Parliament continues to debate a bill to introduce mandatory car insurance that would cover damage to other drivers' car in accidents.

Workers Compensation policies continue to be a monopoly of the State, and last year production in this line of insurance rose to 1,468 million pesos (EUR 49 million), an increase of 27.8%.

## Distribution of the market by branches



At the end of 2005 the insurance market of this country was composed of 15 companies, of which three sold Life insurance, eight Non-Life and four operated in both sectors. The State Insurance Bank, run by the state, continues to rank first with a market share of 68.3%. Next comes Royal & SunAlliance, with a market share of 8.1%.

The Non-Life sector had premium volume of 5,887 million pesos (EUR 195 million), and was led by the State Insurance Bank (Banco de Seguros del Estado), with a market share of 68.5%, due mainly to premiums for Workers Compensation Insurance. It is followed by Royal & SunAlliance (9.9%), Porto Seguro (6.4%) and MAPFRE (5.1%). The state-owned company also leads the ranking in Life insurance with a market share of 67.3%.

According to provisional data published by the Superintendency of insurance in June 2006, the insurance sector posted premium volume of 3,445 million pesos (EUR 116 million), a rise of 12.4% compared to the same period of the previous year. The rise in the Non-Life branch was 13.2% while in Life it was 9.1%.

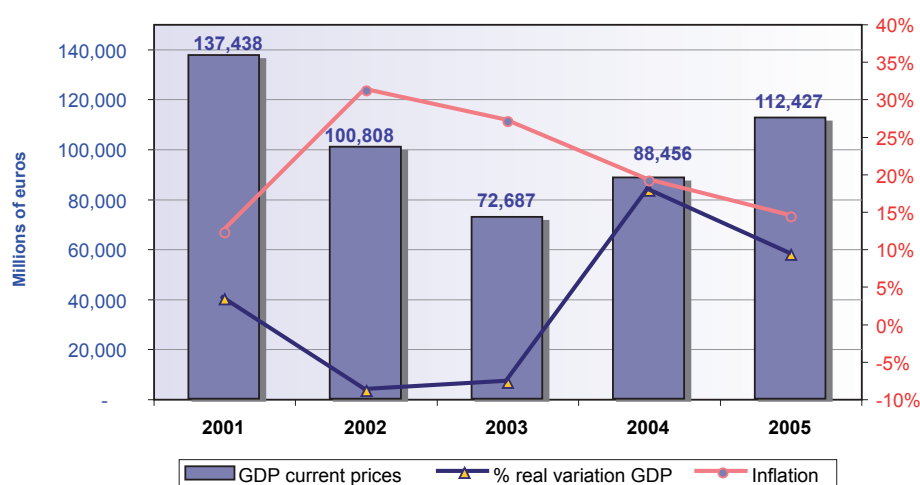
## VENEZUELA

### Macroeconomic context

Although at a slower rate than in 2004, the Venezuelan economy continued to grow in 2005, with GDP rising 9.3% thanks to a surge in non-petroleum-related activity (10.3%) and to a lesser extent to the hydrocarbon sector (1.7%). Every sector of activity showed growth, the most important ones being financial (30.8%), construction (20.1%), trade (19.5%) and communications (19.8%).

With respect to the external sector, despite a 38.3% rise in imports there was a large surplus in the current account of the balance of payments. This was due to a 43.2% increase in exports (50.6% in the case of oil companies) attributable to a large extent to high international prices for oil.

The Consumer Price Index rose 14.4%, 4.8 percentage points less than in 2004 and fulfilling the inflation goal set by the government. However, Venezuela has the highest rate of inflation in all of Latin America.



Source: done by FUNDACIÓN MAPFRE with information published by ECLAC.

### Insurance market

In 2005 the Venezuelan insurance industry had revenue of 7 trillion bolivares (EUR 2,687 million), 40.9% more than in 2004 and around 23.2% if you take away the effect of inflation. Both the Life and Non-Life segments grew in excess of 40%, with Life posting a larger rise at 48.6%.

Premium volumen<sup>1</sup> 2005

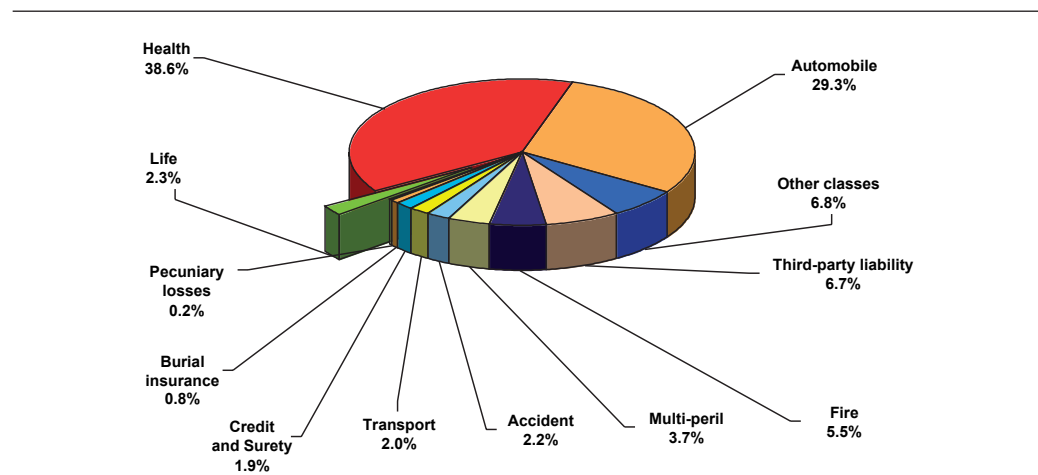
Class	Millions of bolivares	Millions of euros	% Δ	% Δ real
<b>Total</b>	<b>7,003,066</b>	<b>2,687</b>	<b>40.9</b>	<b>23.2</b>
<b>Life</b>	<b>164,342</b>	<b>63</b>	<b>48.6</b>	<b>29.9</b>
Individual life	75,423	29	38.1	20.7
Group life	88,685	34	58.9	38.9
Life annuities	234	0	56.0	36.4
<b>Non-Life</b>	<b>6,838,724</b>	<b>2,624</b>	<b>40.7</b>	<b>23.0</b>
Health	2,704,529	1,038	53.6	34.3
Automobile	2,052,773	788	39.7	22.1
Other classes	476,237	183	19.6	4.6
Third-party liability	469,490	180	43.2	25.1
Fire	384,036	147	12.3	-1.8
Multi-peril	261,029	100	24.7	9.0
Accident	153,232	59	42.8	24.9
Transport	136,580	52	53.2	33.9
Credit and Surety	132,641	51	22.0	6.7
Burial insurance	54,432	21	50.6	31.7
Pecuniary losses	13,745	5	19.7	4.6

Source: done by FUNDACIÓN MAPFRE with data published by Insurance Superintendency  
(1) Net premiums charged. Direct Insurance

Most classes of Non-Life saw large rises in premium volume, mostly Health insurance, the sector with the largest market share. This class expanded 53.6%, accumulating 2.7 trillion bolivares in premiums (EUR 1,038 million). One of the factors that drove such a major rise was the outsourcing of collective policies of the civil service. Meanwhile, an important rise in automobile sales – to the tune of 70% – also contributed to insurance expansion in 2005.

The improvement observed in profits in 2004 led to a pricing war, mainly in the Automobile and Property classes.

## Distribution of the market by branches

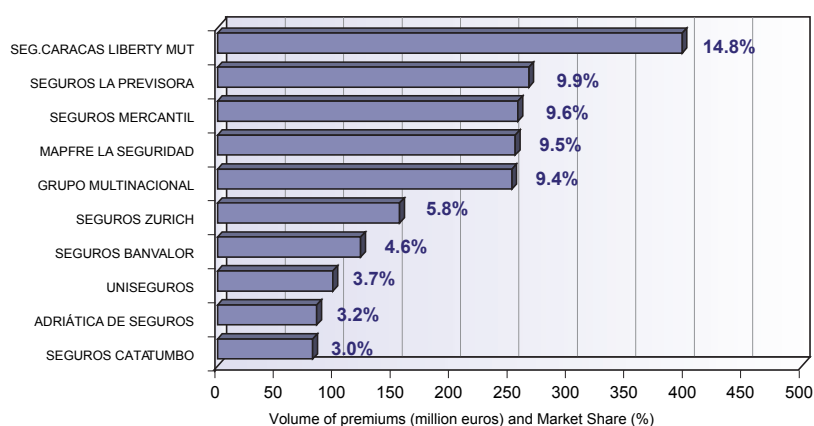




The claims rate was stable in Auto insurance, and rose in Health, mainly because of an increase in medical costs and frequency. Nonetheless, this rise in the claims rate was offset by an increase in premium volume. At the close of fiscal year 2005, the insurance sector had profits of 616,224 million bolivares (EUR 236 million), up 14.6% from the previous year.

The Venezuelan insurance sector is now made up of 38 companies authorized to operate in General and Life, seven authorized to work in General only, three in Life only and one in other classes of insurance. It should be noted that the top 10 groups produce 73.4% of all the premiums, while 39 other companies produce the remaining 26.6%. Seguros Caracas, part of Liberty Mutual, is the largest insurance group in Venezuela with a 14.8% market share, followed by La Previsora (9.9%), Mercantil (9.6%) and MAPFRE (9.5%).

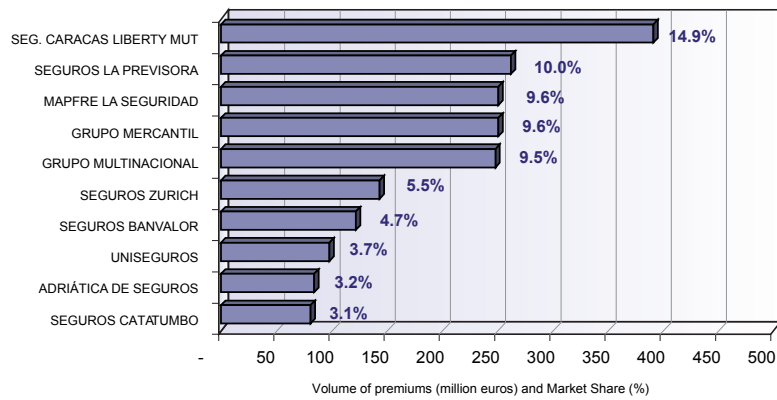
### Ranking. Total sector



**Source:** done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority

The Non-Life segment of the market is also highly concentrated –to the tune of 73.7%– and here, too, it is led by Seguros Caracas, La Previsora and MAPFRE.

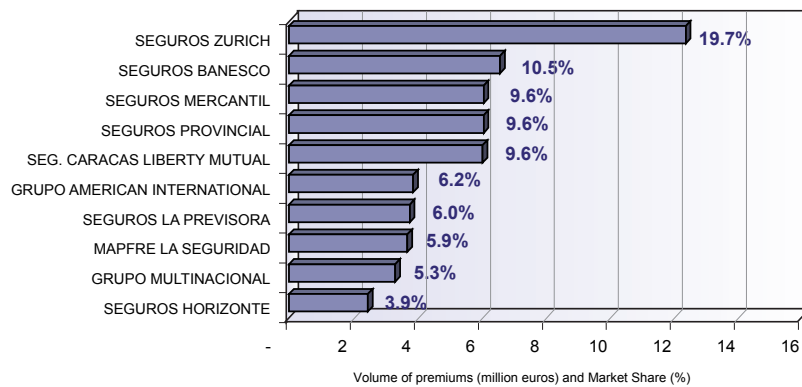
### Ranking. Non-Life



Source: done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority

The ranking of companies that operate in Life is led by Seguros Zurich, with EUR 12 million in premiums and a market share of 19.7%.

### Ranking. Life



Source: done by FUNDACIÓN MAPFRE with information published by insurance supervisory authority

Preliminary data from the Superintendency of Insurance confirm the insurance sector is doing well. In the first six months of 2006 it has taken in 4.5 trillion bolivares in net premiums (EUR 1,726 million), an increase of 43.7% over the same period of the previous year.

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## **4. Statistical annex**

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### Market distribution by class and country

Class	Argentina	Bolivia	Brazil <sup>1</sup>	Chile	Colombia	Costa Rica	Ecuador	El Salvador	Guatemala	Honduras
<b>Life</b>	<b>1,134</b>	<b>15</b>	<b>6,189</b>	<b>2,044</b>	<b>594</b>	<b>11</b>	<b>57</b>	<b>110</b>	<b>42</b>	<b>32</b>
Individual and Collective Life	363	14	6,189	792	406	11	57	76	42	32
Private pension plans	770	1		1,252	188			35		
<b>Non-Life</b>	<b>2,267</b>	<b>119</b>	<b>8,128</b>	<b>1,257</b>	<b>1,650</b>	<b>287</b>	<b>382</b>	<b>157</b>	<b>218</b>	<b>114</b>
Automobile	1,055	19	4,736	276	396	108	121	42	85	n.a.
Health		12	(1)	128	127	29	10	33	45	24
Fire and/or allied lines	176	15	1,516	357	219	57	52	58	43	
Other risks	327	14	404	232	342	26	92	18	16	88
Transport	99	9	655	49	75		59		18	
Third-party liability	89	6	152	45	84		20		5	
Personal Accident	51	23	436	144	218		28		4	
Credit and/or Surety	60	3	230	27				6		2
Worker compensation insurance	410	20			188	68				
<b>Total</b>	<b>3,401</b>	<b>134</b>	<b>14,317</b>	<b>3,301</b>	<b>2,244</b>	<b>297</b>	<b>439</b>	<b>267</b>	<b>260</b>	<b>146</b>
Class	Mexico	Nicaragua	Panama	Paraguay	Peru	Puerto Rico	Dominican Republic	Uruguay	Venezuela	Total
<b>Vida</b>	<b>4,225</b>	<b>22</b>	<b>123</b>	<b>4</b>	<b>329</b>	<b>608</b>	<b>49</b>	<b>43</b>	<b>63</b>	<b>15,695</b>
Individual and Collective life	3,891	22	123	4	88	608	49	30	63	12,860
Private pension plans	335				240			13	0	2,835
<b>Non-Life</b>	<b>6,082</b>	<b>42</b>	<b>224</b>	<b>56</b>	<b>458</b>	<b>5,209</b>	<b>348</b>	<b>195</b>	<b>2,624</b>	<b>29,818</b>
Automobile	2,619	22	55	30	56	688	139	80	788	11,314
Health	1,531	6	58		65	3,558	25		1,038	6,689
Fire and/or allied lines	855		39	10	106	223	130	28	147	4,031
Other risks	424	12	19	9	99	482	28	19	309	2,958
Transport	331		22	2	19	88	11	10	52	1,498
Third-party liability	305		11	2	17	170		7	180	1,093
Personal Accident			6	1	74		5		59	1,049
Credit and/or Surety	17	2	15	2	5		10	3	51	432
Worker compensation insurance					18			49		752
<b>Total</b>	<b>10,308</b>	<b>64</b>	<b>348</b>	<b>61</b>	<b>786</b>	<b>5,817</b>	<b>396</b>	<b>238</b>	<b>2,687</b>	<b>45,512</b>

Source: Done by FUNDACIÓN MAPFRE with information published by the insurance supervisory authority of each country

(1) Does not include Health insurance premiums in Brazil, which are overseen by an agency other than Private Insurance Superintendency

## Exchange rate used

*Annual average exchange rate local/1 euro*

<b>COUNTRY</b>	<b>Local currency</b>	<b>2004</b>	<b>2005</b>
Argentina	Peso	3.484	3.743
Bolivia	Boliviano	9.880	9.964
Brazil	Real	3.629	2.972
Chile	UF	0.045	0.039
Colombia	Peso	3,252.688	2,866.712
Costa Rica	Colon	546.339	592.968
Ecuador	USD	1.244	1.236
El Salvador	USD	1.244	1.236
Guatemala	Quetzal	9.880	9.426
Honduras	Lempira	22.673	23.283
Mexico	Peso	14.079	13.453
Nicaragua	Cordoba	19.717	20.444
Panama	Balboa	1.244	1.236
Paraguay	Guarani	7,429.034	7,282.260
Peru	Nuevo Sol	4.241	4.087
Puerto Rico	USD	1.244	1.236
Dominican Republic	Peso	48.540	36.403
Uruguay	Peso	35.555	30.139
Venezuela	Bolivar	2,346.938	2,605.841

## Population

*Millions of inhabitants*

<b>COUNTRY</b>	<b>2004</b>	<b>2005</b>
Argentina	38.2	38.6
Bolivia	8.8	9.4
Brazil	181.6	184.2
Chile	16.1	16.3
Colombia	45.3	46.0
Costa Rica	4.2	4.3
Ecuador	13.2	13.3
El Salvador	6.8	6.9
Guatemala	12.4	12.7
Honduras	7.0	7.2
Mexico	103.8	103.3
Nicaragua	5.6	5.1
Panama	3.2	3.2
Paraguay	5.7	5.8
Peru	27.5	27.2
Puerto Rico	3.9	3.9
Dominican Republic	8.9	9.2
Uruguay	3.2	3.3
Venezuela	26.1	26.6

Note: The population decrease observed in some countries, like Mexico and Nicaragua, is due to updates in census data.