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22nd GENERAL ASSEMBLY OF THE GENEVA ASSOCIATION

Lisbon, May 1995

Session 3: NEW MARKET DIMENSIONS FOR INSURANCE

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INSURANCE DEVELOPMENTS IN LATIN AMERICA
(Main Topics to be discussed)

1. Economic and Political situation

- . Macroeconomic Figures and Trends.
- . International Trade Agreements.
- . Monetary Instability

2. Insurance Market Dimension

- . Premium Income and Growth.
- . Profits / Losses.
- . Leading Groups and Foreign Presence.

3. Legal Frame

- . Insurance Requirements (solvency, tariffs, others)
- . Distribution Practices (brokers, banks).
- . Foreign Investment.
- . Reinsurance restrictions.

4. Key Issues for Foreign Insurers

- . Joint vs. Single Venture.
- . Minor/Major Share.
- . Human Resources (Local vs. international).
- . Management Information Systems.
- . Support and Technological Transfer vs. Pure Investment.
- . Computer Systems and Processes.
- . Auditing and Loss Reserves.
- . Catastrophic Risk and Reinsurance.
- . Mass Risks vs. Commercial Risk.
- . New Areas (Life, Assistance, others).
- . Where, when and how to invest?

INSURANCE DEVELOPMENT IN LATIN AMERICA

Mr. Chairman, gentlemen:

Let me explain shortly which is my impression on the development of the insurance activity in Latin America countries. as an emerging region of the world.

First, a quick look on the most significant figures::

- . (1) There you have in the slide some macroeconomic figures of the year 93 for the 6 most significant countries.
- . Population, more than 350 millions inhabitants which is more than in the USA and more than E.U countries, as well, with a strong potential growth for the next decades.
- . GDP growth which is in most cases close to 5%, except Venezuela and Mexico and with a strong potential increase for the next decades as well.
- . The GDP per capita is not negligible, ranging from 1,500 US \$ to more than 8,000 US \$.
- . The external debt is not substantial in comparison with the GDP and in accordance with the Maastricht conditions, for example. .

In this other slide (2) we can realize the international trade agreements in force today:

- . NAFTA
- . PACTO ANDINO
- . G-3
- . MERCOSUR
- . CENTROAMERICAN
- . COMMON MARKET.

and an increasing activity of commercial relation with the E.U for both political and economical reasons.

These Agreements have a very positive effect on the trade development and also in the dinamization of the local Economies and regional investments, specially in Mexico with the NAFTA A. and in South America with the MERCOSUR between the two giants Brazil and Argentina.

Monetary instability (4) is, of course, the real problem but in the last years an important effort has been done by local and international authorities (3). Brazil is now in a new economic program from 1994 and with very good results, for the moment; Venezuela is, unfortunately, in a delicate situation though apparently controlled by the government.

With this picture, let us introduce now in the insurance dimension of these markets. In 94 the premium income of these 6 countries reached the volume of 25 billions US \$ not very significant in a world wide bases but still with a strong growth potential and an adequate level of profits except the situation of Argentina.

Clearly, these are markets with a very high possibilities in the near future.

Which is the presence of Foreign Groups in these countries?

Not very significant in Argentina (5), nor Brazil (6).

Chile (7), by the contrary, is well international market, very competitive.

Colombia is (8) still a local market with a strong potential..

Mexico (9) is increasingly participated by foreign Groups.

and, finally, Venezuela (10) is in a big turmoil where you can buy all insurance companies and there will be important changes and presence of European and American Groups.

The insurance legal frame (11) has changed very rapidly in the last years as a consequence of the:

- . Privatization trends.
- . International trade Agreements.
- . Economic Policies of the Government and International Monetary Institutions.

There are still some restrictions in the limits of Foreign investment. Brazil and Mexico (49%, maximum).

Venezuela has changed very recently. and Reinsurance Monopoly in Brazil which will be changed, apparently, very soon.

So, the conclusions should be that this region is most viable for international insurance Groups as a target for the near future as other markets are going to be more and more saturated and competitive and others, as the eastern countries of Europe, are not and North Africa.

Nature yet.

In my company we have been involved in this challenge for the past 6 years and our experience in this region has been different in every country, very positive - general speaking- but with some lessons we have learnt.

The key issues -in my opinion- to be considered in this kind of entrepreneur activities are: (12)

- . Joint vs. single venture ... we prefer joint, but be careful with the local partenaire.
- . Minor/major share. The majority of the shares is, clearly, preferable.
- . The human resources specially managers and Ceos should be local but it has not been possible in most cases. With the excellent exception of Chile whose Human Resources we are "exporting" to other countries in the region even to Europe.
- . The Management Information Systems have been a Hot Point in developing the companies. With new software programmes which need more than 3 years to be implemented. Without that the companies can be out of control and it takes time to adapt yourself to the local markets before developing the new M.I.S.

We have preferred to transfer insurance technology and our common know-how to the local companies. And so we have required a Group of Experts devoted full-time to this activity. It takes a lot of time but at the end, for us, is the key to the success. But, to tell the truth we have paid a high toll in Human Resources in our Head-Office.

Must be changed. Computer Systems it's another key point. It takes time and money.

Loss Reserves are -generally- under estimated.

Catastrophic Risks are a reinsurance problem in some areas.

Mass risks are still to be developed.

This is a challenge and new areas like life, assistance and others open new possibilities.

So, this is perhaps a very optimistic view of this region of the world for insurance activities. The question is, as always, where, when and how to invest?

No doubt, insurance could have a positive effect for these countries:

- . in the economic development.
- . social and political stability.

In some way it should be a moral must for the institutional Groups to invest there in order to accelerate the development and to transfer technology and so to help our world to be more mutually binded.

May 1995
FM/mfv