The Latin American INSURANCE market in 2010–2011

CENTRO DE ESTUDIOS
FUNDACIÓN MAPFRE

MACROECONOMIC ENVIRONMENT[1]

The GDP of Latin America and the Caribbean region grew 5.9% in 2010, thanks to robust domestic demand and a rise in overseas demand. This expansion followed a fall of 1.9% in output in 2009 as a result of the financial crisis, although internal factors –counter-cyclical policies– and external ones –such as a rise in exports– helped launch a recovery in the second half of the year.

The increase in private consumption (5.9%) stemmed from an improvement in labor indices, better expectations for how the economy will perform, more credit in the private sector and in some countries a recovery in remittances sent by emigrants. Public-sector consumption grew more moderately (3.9%) and investment rose 14.5%. As for the overseas sector, there was a significant increase in exports, mainly to the countries of the

[1] Basic observations from «Economic survey of Latin America and the Caribbean, 2010-2011», by the Economic Commission for Latin America and the Caribbean (ECLAC).

ILLUSTRATION STOCK

MERCOSUR bloc, and in imports and goods and services. This was a reflection of the strength of internal demand.

The highest rates of growth were seen in Paraguay (15.0%), Argentina (9.2%), Peru (8.8%), Uruguay (8.5%), the Dominican Republic (7.8%), Brazil and Panama (7,5%). But Venezuela saw output fall 1.4%, mainly because of a decline in exports, final private consumption and gross fixed-capital formation.

In 2010 there was an across-the-board rise in inflation, with the exception of Ecuador and Puerto Rico, because of an increase in the prices of basic goods, in particular foodstuffs and fuel. Venezuela and Argentina posted the highest rates of price increases, at 27.4% and 10.9%, respectively. The trend continued in 2011, and the yearly inflation rate is expected to come in at around 7.5%.

Another point to highlight is a significant rise in exchange rates in the region, due to several factors. These include a high level of international liquidity and the strength of some economies in Latin America, along with the massive influx into some countries of foreign currency because of high prices for basic export goods and a rise in foreign investment.

Data available for the first half of 2011 indicate that economic activity has remained strong, although growth is slowing somewhat as a result of the slowing of the international economy and in some cases the gradual removal in some countries of polities that were implemented to confront the crisis. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the economies of Latin America and the Caribbean grew 4.3% in 2011.

INSURANCE MARKET

The Latin American insurance sector, which accounts for 3% of world premiums, again posted in 2010 nominal average growth of 14.2% as measured in local currency, with increases in premium volume in all regions. Average real growth was 7.5%, compared to 7.3% in 2009, with all countries posting increases, except Honduras, Mexico and Venezuela.

In real terms South America registered a larger increase than Central America, at 9.7% compared to 1.9%. Puerto Rico and the Dominican Republic grew 5.7% and 0.6%, respectively, and the Mexican market experienced a 0.5% decline in premiums.

Puerto Rico has the highest premium per capita in the region, at 1,958 euros/inhabitant, followed by Chile

Nominal growth in local currency

% VARIATION IN PREMIUM VOLUME 2010

COUNTRY	NON-LIFE	LIFE	TOTAL
ARGENTINA	25.4	2.5	20.5
BOLIVIA	10.4	17.9	11.9
BRAZIL	14.3	20.0	17.3
CHILE	15.9	19.8	18.2
COLOMBIA	9.3	2.5	7.2
COSTA RICA	7.3	1.1	6.8
ECUADOR	16.9	15.6	16.7
EL SALVADOR	2.3	3.8	2.8
GUATEMALA	6.4	11.6	7.4
HONDURAS	7.0	4.4	6.3
MEXICO	-0.5	2.7	3.9
NICARAGUA	11.3	2.4	9.9
PANAMA	12.9	-2.7	8.5
PARAGUAY	13.6	27.6	14.8
PERU	8.1	60.4	26.2
PUERTO RICO	7.1	-2.6	6.2
DOMINICAN REP.	7.4	3.8	6.9
URUGUAY	11.4	27.7	14.9
VENEZUELA	22.7	23.3	22.7
TOTAL	**12.7**	**15.8**	**14.2**

Figure 1. Variation in premium volume in 2010 in Latin America.
Source: own statistics from the information published by each country's insurance oversight authority.

[2]The insurance density and penetration have been calculated taking into account the earnings of all the segments of Brazilian private insurance: Insurance, Health, Private pensions and Capitalization.

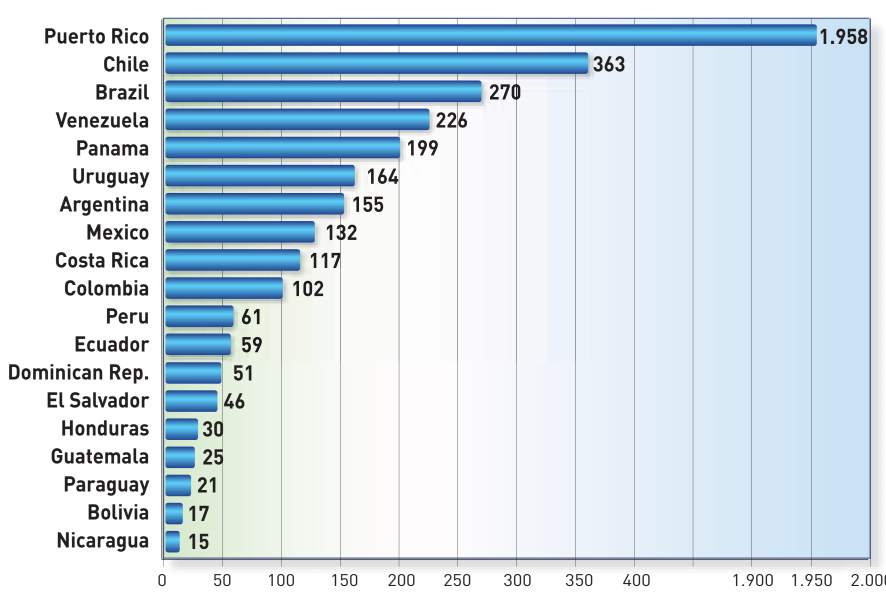


Figure 2. Latin America. Premiums per capita 2010.
Source: own statistics from the information published by each country's insurance oversight authority and by ECLAC.

(363 € /inhab.). Next come Brazil[2] (270 € /inhab.), Venezuela (226 €/inhab), Panama (199 €/inhab.), Uruguay (164 €/inhab.), Argentina (155 €/inhab.) and Mexico (132 €/inhab.). Bolivia and Nicaragua are the countries with the lowest per capita premiums.

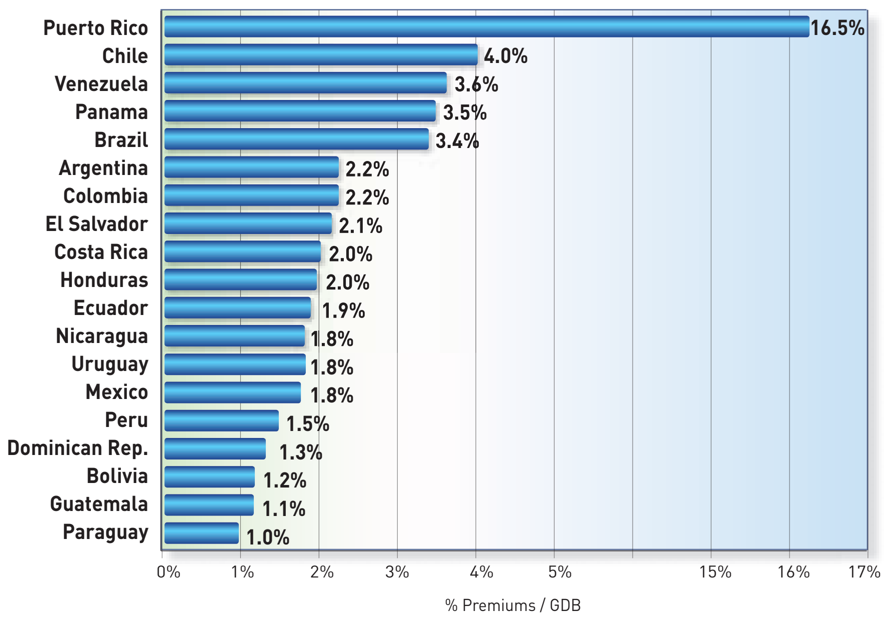


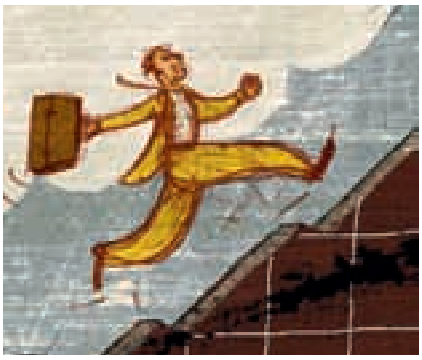
Figure 3. Latin America.Insurance penetration 2010.
Source: own statistics from the information published by each country's insurance oversight authority and by ECLAC.

As for insurance penetration (% premiums/GDP), Puerto Rico's[3] figure again stands out at 16.5%, followed by Chile (4.0%), Venezuela (3.6%), Panama (3.5%), Brazil (3.4%) and Argentina (2.2%).

Premium volume in Latin America totaled 91,370 million euros in 2010, for a nominal rise of 19.3%, compared to 10.5% in 2009. As stated earlier, the average growth as measured in local currency was 14.2%, which shows that the growth in euros was favored by the appreciation of most local currencies against the single European currency, mainly the Brazilian real and the Colombian peso. On the other hand, the devaluation of the bolivar in January 2010 caused a 35% drop in premium volume as measured in euros in the Venezuelan market, in contrast with a 23% rise in local currency.

The region's eight largest insurers accounted for 95.1% of premiums, and of them the three biggest accounted for 67.1%. Brazil, with a 42.5% share (36.4% in 2009), continued to have the largest market in the region, followed by Mexico and Puerto Rico, which regained third place after being overtaken in premium volume by Venezuela in 2008.

[3] Premium volume in Puerto Rico includes Health insurance for low-income people. Their premiums are managed by private insurers and paid by the government of Puerto Rico.



PREMIUM VOLUME IN LATIN AMERICA TOTALED 91,370 MILLION EUROS IN 2010, FOR A NOMINAL RISE OF 19.3%, COMPARED TO 10.5% IN 2009

Data in millions of euros. Nominal growth expressed in euros.

PREMIUM VOLUME 2010						
COUNTRY	NON- LIFE	% ▲	LIFE	% ▲	TOTAL	% ▲
BRAZIL	17,682	35.8	21,177	42.5	38,859	39.4
MEXICO	7,721	12.6	6,772	23.6	14,493	17.5
PUERTO RICO	7,313	13.1	629	2.8	7,943	12.2
VENEZUELA	6,358	-35.2	155	-34.9	6,513	-35.2
ARGENTINA	5,245	10.6	1,019	-9.5	6,264	6.7
CHILE	2,448	33.9	3,752	38.4	6,200	36.6
COLOMBIA	3,434	31.3	1,440	23.2	4,874	28.8
PERU	982	21.6	773	80.5	1,755	42.0
ECUADOR	697	23.4	138	22.1	834	23.2
PANAMA	521	19.1	176	2.7	697	14.5
URUGUAY	420	31.0	131	50.2	551	35.1
COSTA RICA	502	23.6	48	16.4	550	23.0
DOMINICAN REP.	441	11.3	73	7.6	514	10.8
GUATEMALA	287	13.5	70	19.0	357	14.5
EL SALVADOR	223	8.0	120	9.6	344	8.6
HONDURAS	168	12.8	60	10.1	228	12.1
BOLIVIA	135	16.6	37	24.5	172	18.2
PARAGUAY	122	9.7	13	23.2	135	10.8
NICARAGUA	75	10.7	13	1.9	88	9.3
TOTAL	**54,774**	**11.4**	**36,597**	**33,6**	**91,370**	**19.3**

Figure 4. Latin America. Premium volume 2010 by country.
Source: own statistics from the information published by each country's insurance oversight authority and by ECLAC.

Life insurance represented 40% of all premiums and did better than non-Life, with a rise of 33.6% thanks to a very strong performance by this kind of insurance in the region's largest markets: Brazil, Mexico and Chile. In Brazil, the product known as *Vida Gerador de Benefício Livre* (VGBL) was once again the main engine of growth, bringing in nearly 16,000 million euros in revenue, for market share of 43% of all Life insurance sold in Latin America. In Mexico there was a 9.3% rise as measured in local currency and 23.6% in euros, thanks mainly to Pension insurance stemming from Social Security Laws and group life insurance, which have greater premium volume. After declining the previous year, Life Annuities recovered in Chile. This made for a

LIFE INSURANCE REPRESENTED 40% OF ALL PREMIUMS, WITH A RISE OF 33.6% THANKS TO A VERY STRONG PERFORMANCE BY THIS KIND OF INSURANCE IN THE REGION'S LARGEST MARKETS: BRAZIL, MEXICO AND CHILE

fine performance by the Life insurance sector, with rises of 19.8% in local currency and 38.4% in euros.

Non-Life branches maintained a growth rate of around 11%, with a slight increase of two-tenths of a percentage point to 11.4% in 2010. Brazil, Mexico and Puerto Rico boast the largest markets, followed by those of Venezuela, Argentina, Colombia and Chile. These seven countries account for 91.7% of the total, and the main sources of growth were Automobile (13.9%), thanks to Its larger role in the market, Personal Accident (28,3%), Worker Compensation (20.8%), and Transport (18.3%). The only branch to decline in 2010 was Health insurance.

Automobile insurance again posted double-digit growth of 13.9%, after the slow-down of 2009. Revenue totaled 20,643 million euros, and the countries with the highest premium volumes were, in this order, Brazil, Mexico, Venezuela and Argentina. Together they accounted for 85.2% of all premiums. Except for Guatemala and Puerto Rico, all the countries of the region saw their revenue rise.

The Health branch contracted 3.3% in 2010, in large part due to the devaluation of the bolivar and the resulting decline in premiums as measured in euros for the Venezuelan insurance market. Venezuela has the second-largest Health insurance market in Latin America and in 2009 it accounted for 38% of all premiums. That share has now gone down to 24%. Puerto Rico features the largest health insurance market in the region, representing half of the premium volume. In Puerto Rico, health care plans for retirees (the Medicare program) continued to decline in 2010 thanks to the spread of the product called Medicare Advantage. All markets posted growth in local currency, except Paraguay. Mexico's, the third-largest, took in 21.9% more than in the previous year.

Figure 5. Latin America. Premium volume by branch 2010.
Source: own statistics from the information published by each country's insurance oversight authority.

Premiums in millions of euros

LATIN AMERICAN INSURANCE MARKET 2009-2010
PREMIUMS BY BRANCH

LINE OF BUSINESS	2009	2010	% ▲	% SHARE
Life	**27,383**	**36,597**	**33.6**	**40.1**
Individual and group plans	24,265	32,090	32.3	35.1
Private pension plans	3,119	4,506	44.5	4.9
Non-Life	**49,185**	**54,774**	**11.4**	**59.9**
Automobile	18,129	20,643	13.9	22.6
Health	12,197	11,796	-3.3	12.9
Other lines of business	5,986	7,321	22.3	8.0
Fire and allied lines	4,576	5,054	10.4	5.5
Personal accident	2,193	2,813	28.3	3.1
Transport	1,954	2,312	18.3	2.5
Third-party liability	1,226	1,417	15.6	1.6
Credit and/or Surety	1,025	1,122	9.4	1.2
Worker compensation	1,901	2,297	20.8	2.5
TOTAL	**76,569**	**91,370**	**19.3**	**100.0**

The third largest insurance branch by premium volume is Fire and allied lines, which had revenue of 5,054 million euros in 2010, a rise of 10.4%, down more than 7 points from the previous year. A major factor contributing to this decline was the multi-year renewal of the comprehensive policy held by Petróleos Mexicanos (it was done in 2009 and in 2010 there was no issuance) as Fire insurance premiums fell 30.4% in Mexico. The largest market in 2010 was that of Brazil, with a market share of 25%, followed by Mexico's at 22%, whereas the previous year the order was reversed. Next comes Chile with a 14% share and growth of 21.1%.

The following are highlights from the region's main insurance markets:

- In Argentina Non-Life insurance was again the main driving force in the market, thanks mainly to growth in Automobiles and Worker Compensation.
- The Life insurance product known as VGBL (*Vida Gerador de Beneficio Livre*) has consolidated its status as one of the main sources of growth in the Brazilian market. Sold mainly through banks, this product continues to enjoy tax incentives that have lured money from mutual and pension funds.
- The Chilean market posted growth of 18.2% (compared to -1.7% in 2009) as both the Life and Non-Life insurance branches expanded. The rise in Life stems mainly from an increase in sales of Life Annuities. In Non-Life, Automobile insurance did well because of a strong increase in the number of registered vehicles, as did Earthquake insurance thanks to increases in rates charged to foreign reinsurers.
- In Colombia, the largest growth came in Non-Life, especially Automobile and Third-Party Liability.
- In Mexico, premium volume rose slightly (3.9%) thanks to the renewal of the multi-year comprehensive policy held by Petróleos Mexicanos (PEMEX). This was done in 2009 and renewed in 2011.

- For yet another year, the insurance market in Puerto Rico was driven by Health insurance, more specifically the Medicare program.
- Premium revenue in the Venezuelan market achieved nominal growth of 22.7% but a drop of 3.5% in real terms due to high inflation in that country. The Health and Automobile lines, which account for 80% of the sector, expanded 16.0% and 20.8%, respectively. Growth in Automobile insurance stemmed mainly from changes made in premiums and insured capital. The major increase in Health was caused mainly by greater purchases of private policies by the State.

Corporate transactions in 2010 were not numerous, but the ones that did take place were significant:

- The Superintendency of Private Insurance in Brazil approved the sale of a 60% stake that SulAmérica held in BrasilVeículos to Banco do Brasil.
- MAPFRE and Banco do Brasil reached full agreement on implementing their strategic alliance in the insurance business. The alliance was formed by creating two holding companies (BB-MAPFRE, for Life and Crop insurance,

and MAPFRE-BB, for Automobile and General Insurance) that incorporate the insurance units that both companies have in Brazil. Thanks mainly to this agreement, the MAPFRE group rose in the overall ranking of largest insurance groups in Latin America, taking second place behind Bradesco.

- In November 2010, the U.S. company MetLife concluded the purchase of American Life Insurance Company (ALICO), the Life insurance unit of American International Group (AIG). ALICO had units in several countries of Latin America. This acquisition has not modified MetLife's position in the ranking of the region's insurance groups, but it did boost its market share by seven-tenths of a point.

One of the most important events of 2010 was the powerful earthquake that hit Chile early in the year. It was the sixth-largest quake recorded in the world and the second most intense one ever recorded in Chile. A total of 225,000 insurance claims were filed, 80% of them for damage to homes. Ten months after the catastrophe, the insurance industry had paid out nearly all the claims for household damage (99%), and what remained pending was part of the claims related to industry and businesses. It is estimated that the cost of the disaster will approach $30,000 million, of which the insurance industry will cover $8,500 million once all business claims have been settled. These are more complex due to the difficulty of calculating how much a business loses when it is closed.

According to an ECLAC publication[4], 2010 was particularly tough for the region in terms of natural disasters: there were 98 major ones that caused more than 223,000 deaths and affected nearly 14 million people. The estimated cost of these events is in excess of $49,400 million. Although events of a geophysical nature (earthquakes, tsunamis and volcanic eruptions)[5] caused the greatest number of deaths and involve a great economic cost, most disasters had to with the weather: tropical storms and large-scale flooding over broad swaths of territory stretching from Mexico to South America[6].

Despite a slight fall in the financial result in some countries, results were quite positive. The technical result improved in 13 of the 18 markets that were analyzed[7], thanks to an across-the-board decline in the claims ratio.

In the first half of 2011, the insurance sector of Latin America took in premium volume of 50,414 million euros, which marks nominal growth of 18.1% compared to the same period of the previous year. Non-Life branches expanded two percentage points more than Life insurance, to 19%. Accident

[4] Preliminary results of economies of Latin America and the Caribbean 2010.
[5] Earthquakes in Chile (February), Baja California (Mexico, April) and Ecuador (August). Eruption of the Pacaya volcano in Guatemala (May).
[6] Hurricanes Alex (June) and Karl (September) in Mexico, tropical storm Agatha in Guatemala, Honduras and El Salvador (May), heavy rain and flooding in Peru (January) and Brazil (April).
[7] No information is available on results in the Dominican Republic and Puerto Rico.

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insurance (both personal and in worker compensation) and Transport continued to post a higher rate of growth than other lines did. Automobile and Health, which have the highest volume, grew around 10%.

As for business transactions, the following are worth noting:

- In February, Zurich and Grupo Santander announced the signing of an agreement aimed at forming a strategic alliance to distribute bancassurance in Latin America over the next 25 years. Under this accord, the Swiss group would acquire a 51% stake in the Pension, Life and General insurance operations of Santander in Brazil, Mexico, Chile, Argentina and Uruguay and would take on the running of the companies. The Spanish bank would retain the remaining 49% and sign a distribution agreement for the sale of insurance products in each country.
- ING sold its Pension and Life insurance business to Colombia's Grupo de Inversiones Suramericana (Grupo Sura). The sale does not include a 36% stake held in Brazilian insurer SulAmérica.

Data in millions of euros. Nominal growth in euros.

PREMIUMS BY LINE OF BUSINESS. First half of 2011

LINE OF BUSINESS	June 2010	June 2011	%▲
TOTAL	**42,696**	**50,414**	**18.1**
Life	**16,479**	**19,244**	**16.8**
Non-Life	**26,217**	**31,169**	**18.9**
Automobile	8,733	9,685	10.9
Health	5,587	6,093	9.1
Other lines of business	4,577	6,592	44.0
Transport	2,512	2,988	18.9
Fire and/or allied lines	2,234	2,618	17.2
Personal accident	1,315	1,668	26.9
Worker compensation	1,260	1,525	21.1

Figure 6. Latin America. Premium volume by line of business, first half of 2011.
Source: own statistics from the information published by each country's insurance oversight authority.

- As part of its strategy of global expansion and broadening of its presence in Latin America, the German group Talanx announced in April it had acquired the Argentine and Uruguayan units of L'Union de Paris, and in July it announced the purchase of Mexican insurance company Metropolitana.

Finally, we comment on the most relevant legislative changes made during the two years being analyzed:

- In February 2011, the Argentine insurance oversight authority issued Resolution 35.615, which made major changes to the regulatory

THANKS MAINLY TO THE AGREEMENT WITH BANCO DO BRASIL, THE SPANISH MAPFRE GROUP ROSE IN THE OVERALL RANKING OF LARGEST INSURANCE GROUPS IN LATIN AMERICA, TAKING SECOND PLACE BEHIND BRADESCO

framework for reinsurance. The resolution went into force in September 2011. As of that date, Argentine insurance companies can reach reinsurance contracts only with Argentine reinsurance companies; in other words, with companies based in that country or with the Argentine units of foreign companies, with a local capital of at least 20 million pesos (approximately $5 million). Foreign reinsurers that do not set up Argentine units may only accept risks from Argentine insurers when, due to the size and characteristics of the ceded risks, they cannot be covered by the Argentine reinsurance market.

● The National Council of Private Insurance approved in December 2011 rules for micro-insurance in Brazil. Under this resolution micro-insurance can be sold over media such as cell phones and the Internet. It also establishes the maximum limit for the insured sums. This will serve as a parameter for determining whether a particular product can be classified as micro-insurance.

● In Colombia, Decree 2281 of 2010 was published, regulating the institution and functions of the Financial Consumer Ombudsman. Also, Decree 2555 of the same year brings together all the rules concerning insurance, insurance entities, ARP and special insurance. Until now these were spread out in several different decrees.

● In June 2011, after a second round of debate in Costa Rica, the Law on Regulation of Insurance Contracts was approved.

● In Ecuador, in October 2011, the organic law on Regulating and Controlling Market Power was passed. It is also called the «Anti-Monopoly Law». The goal is to correct, prohibit, regulate and sanction four basic infractions: abuse by economic operators with market power, agreements that go against the principle of competition, restrictive practices and disloyal practices. The rule gives banks one year to break ties with stock brokers, insurance companies, fund administrators and trust funds.

● In April 2010 in Peru, the regulations stemming from the Law on Universal Health Insurance were approved, with the goal of establishing dispositions that allow implementation of universal health insurance in that country.

● The new Law on Insurance in Venezuela went into force 29 July, 2010. This law, which repeals the Law on Insurance and Reinsurance that had been in effect since 1994, sets up rules for the control, oversight, supervision, authorization, regulation and functioning of insurance in Venezuela.