

The Latin American insurance market

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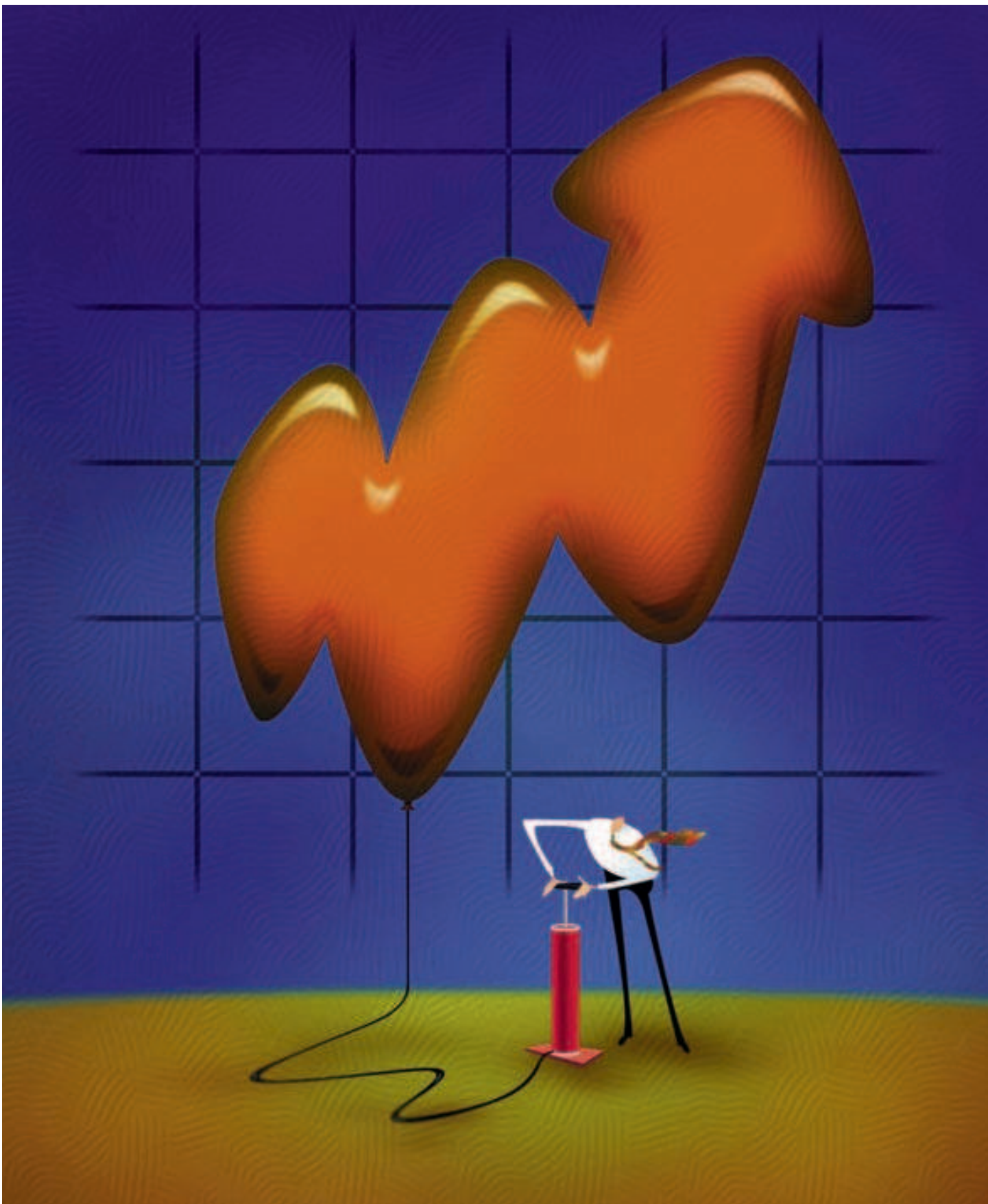
In 2008 and the first half of 2009 the insurance markets of Latin America continued to show signs of strength, with nominal and real-terms increases in local currency in premiums issued in all countries, except for Puerto Rico in the first period analysed and Chile in the second. Premium revenue showed an average increase of 16,9% in 2008 and of 7,4% in the first half of 2009.

CENTRO DE ESTUDIOS
FUNDACIÓN MAPFRE

MACROECONOMIC CONTEXT

2008 was a good year for the economy of Latin America, although the effects of the international financial crisis led to more moderate growth, especially in the latter part of the year. According to figures from ECLAC, the GDP of Latin America and the Caribbean expanded 4.2% in 2008, compared to 5.8% the previous year.

It is worth noting that after six straight years of economic expansion, important structural progress has been made in the region, such as fiscal discipline, with primary surpluses and a declining level of public debt; inflation that is low and stable, with an orthodox



monetary policy and a flexible exchange rate regime; and reforms which have allowed the region's institutions and markets to lure capital from developed countries with low risk-premiums. Thanks to this progress, one can state that Latin America is in a better position than in the past to confront an economic crisis like the current one.

Besides the international financial crisis, there were other factors more difficult to quantify that led to a slowing of growth in 2008, such as the destruction of wealth through a fall in asset prices and deterioration of expectations as to investment and private consumption. On the other hand, state-sector consumption did go up, a circumstance which stems from government fiscal policies designed to ease the effects of the crisis. In some cases, a decline in remittances sent by emigrants took a significant toll on private consumption.

The macroeconomic impact of the crisis is seen in a fall in exports, a decline in investment and a deceleration of private consumption. One factor in the drop in investment was an easing of foreign direct investment flows.

In most countries of the region, and in a reflection of the state of the economy, the level of job creation was steady until the last quarter of 2008, when a considerable worsening in the labour market was observed. It continued through the first quarter of 2009. A decline in the employment rate in these two quarters contrasted with an improvement in workplace indicators in the period 2004–2008, during which the regional jobless rate fell from 11% to 7.4%.

The inflation rate in 2008 increased to 8.4%, from 6.4% in 2007, affecting all the countries of the region. Inflation began to decelerate significantly in Sept. 2008 after a sharp fall in international prices for foodstuffs and fuel; also contributing to this deceleration was the negative impact that the international crisis has on domestic demand in the countries of the region.

As for the balance of goods and services, in 2008 one can observe two clearly differentiated phases; in the first three quarters, trade in goods rose significantly in exports and imports. Exports rose in value at an average rate of 26.5%, although in volume the pace of increase

Nominal growth in local currencies

% Variation in premium volume. 2008

COUNTRY	NON LIFE	LIFE	TOTAL
Argentina	31,7	12,8	26,2
Bolivia	23,1	32,8	24,9
Brazil	16,7	15,2	16,0
Chile	13,5	5,8	8,8
Colombia	10,4	43,5	19,4
Costa Rica	31,9	52,6	32,6
Ecuador	29,9	32,1	30,3
El Salvador	6,5	22,8	11,4
Guatemala	8,4	14,6	9,5
Honduras	12,5	20,1	14,3
Mexico	6,4	10,0	8,4
Nicaragua	11,9	25,9	14,0
Panama	30,0	21,7	27,5
Paraguay	22,6	40,8	24,0
Peru	6,7	1,8	16,7
Puerto Rico	1,7	-9,4	0,6
Dominican Republic	10,3	20,0	11,3
Uruguay	17,8	29,5	20,0
Venezuela	45,0	44,9	45,0
Overall total	18,5	13,9	16,9

Figure 1. Variation in premium volume in 2008 in Latin America.

Source: Done by FUNDACIÓN MAPFRE with information published by the insurance oversight authorities of each country.

¹ Remarks based on the publication «Economic survey of Latin America and the Caribbean, 2008-2009», by the Economic Commission for Latin America and the Caribbean (ECLAC).

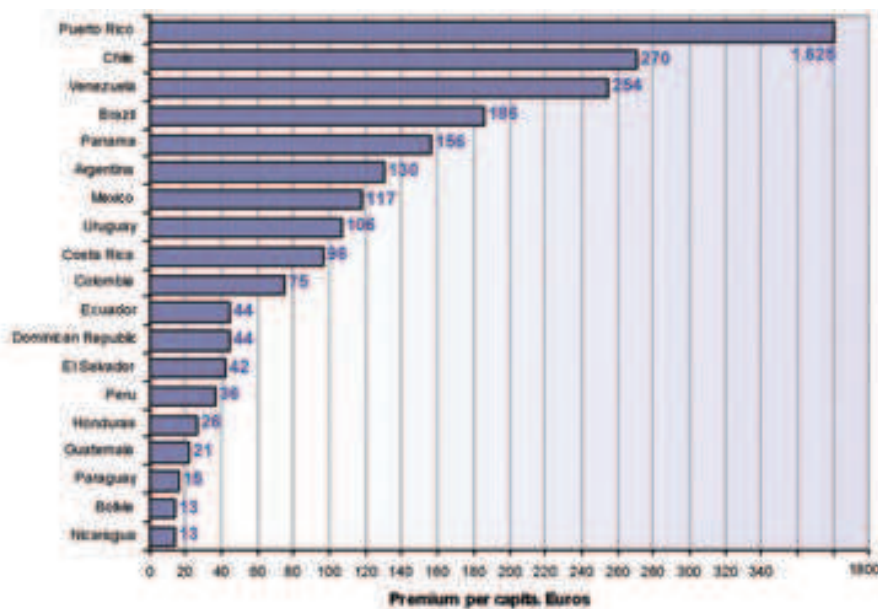


Figure 2. Latin America. Premium per capita in 2008.

Source: Done by FUNDACIÓN MAPFRE with information published by the insurance oversight authorities of each country and by ECLAC.

was lower. The performance by quarterly imports was similar, as they increased an average of 28.5%. However, starting in the fourth quarter, the effects of the international economic crisis started to take their toll, as exports fell 10.4% as a result of the decline in external demand, which affected both volume and prices. As expected, the effect of the contraction in external demand was greater in Central America and Mexico, the economies of which are relatively more open and export many of their goods to the United States.

According to ECLAC's forecasts, the GDP of the countries of Latin America and the Caribbean will contract 1.8% in 2009, ending six straight years of economic growth. This behaviour by the economy has to be seen in the context of the global crisis, which hit the region harder in the last quarter of 2008 and in early 2009. The repercussions of the crisis have manifested themselves mainly in a sharp drop in exports, a fall in prices for basic goods and in terms of trade, and a decline in revenue from remittances sent by emigrants and from tourism. However, in the second quarter of 2009, the first hint of recovery emerged and it spread in the second half of the year.

INSURANCE MARKET

In 2008 the insurance markets of Latin America continued to show signs of strength, with nominal and real-terms increases in local currency in premiums issued in all countries, except for Puerto Rico. This made for an average rise of 16.9%, two-tenths of a point less than in 2007. Average real growth in local currency was 6.8%, compared to 11.4% the previous year. Unlike what happened in 2007, the growth figure for Central America, 10.8%, was slightly higher than the one for South America (9.8%).

Puerto Rico posted the highest premium *per capita* in the region, at 1,625 €/inhabitant, followed by Chile (270 €/inhab.), Venezuela (254 €/inhab.), Brazil (186 €/inhab.), Panama (156 €/inhab.), Argentina (130 €/inhab.) and Mexico (117 €/inhab.). Bolivia and Nicaragua, with 13 €/inhab., are the countries with the lowest premium per capita.

As for insurance penetration (% premiums/GDP), again the figure for Puerto Rico stands out, with 15.5%, followed by Chile (3.9%), Panama, Brazil and Venezuela (3.3%), and Argentina (2.3%).

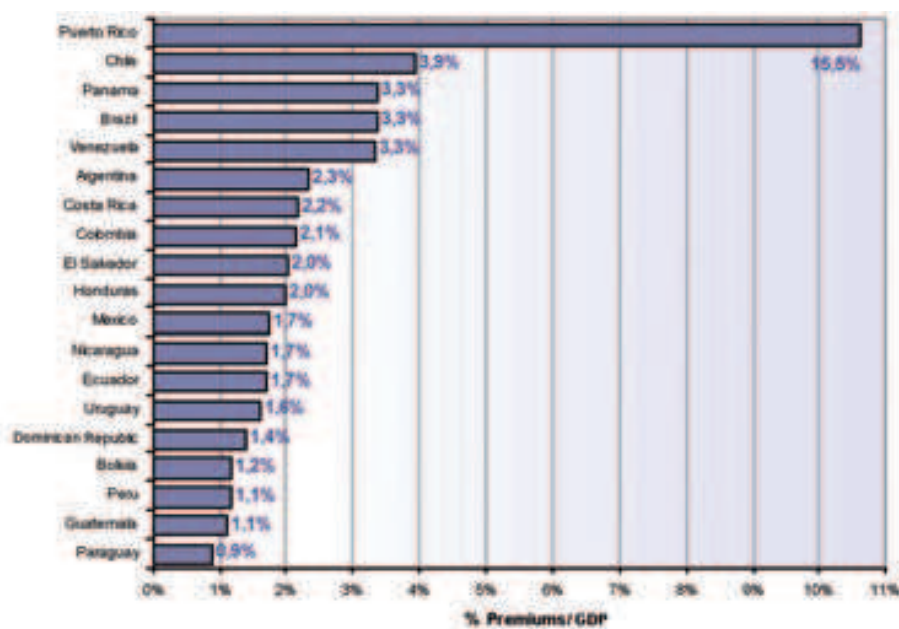


Figure 3. Latin America. Insurance penetration in 2008.

Source: Done by FUNDACIÓN MAPFRE with information published by the insurance oversight authorities of each country and by ECLAC.

Premium volume in Latin America in euros surpassed 69,000 million in 2008, for a nominal increase of 11% compared to 2007. The Non-Life class did better than Life, although a slower expansion of the economy and stiff competition on prices led to more moderate growth; the increase was 11.6%, a rate very similar to that of 2007 (12%). Meanwhile, Life insurance premiums issued in euros totalled 25,000 million, an increase of 10% compared to the previous year. The countries that saw the largest increases in premium volume in euros were Venezuela (36.3%), Paraguay (33.4%) and Uruguay (26.9%).

As happened the previous year, the rise in the euro against most local currencies did not favour converting the region's premium revenue into euros. However, the currencies of Bolivia, Paraguay and Uruguay rose.

Market concentration fell two-tenths of a point in 2008, with the seven largest insurance markets in the region accounting for 93.6% of premiums. Brazil and Mexico continue to be the two biggest markets by premium volume, while Venezuela rose to third place,

ahead of Puerto Rico. Argentina, Chile and Colombia stayed in fifth, sixth and seventh place, respectively.

The performance of the region's main insurance markets can be summed up in the following points:

In **Argentina** there was a significant drop in the private pension plan line because Disability and Burial Expenses insurance were transferred to the State. Non-Life insurance continues to drive the market's development. The largest increases were in Automobile and Worker Compensation insurance.

The product known as Vida Gerador de Beneficio Livre (VGBL) remained the main source of growth in Life insurance in **Brazil**. Non-Life branches posted a higher growth rate, which came mainly from Automobile insurance, thanks to a big increase in vehicle sales, and insurance policies extending warranties on electronic gear and household appliances.

In **Chile**, growth in Life insurance slowed, mainly because of a fall in demand for Life Annuities. This stemmed from uncertainty over how financial markets would perform and a relative saturation of the market

for group insurance policies. Except for Personal Accident insurance, all branches of Non-Life posted growth in premium volume.

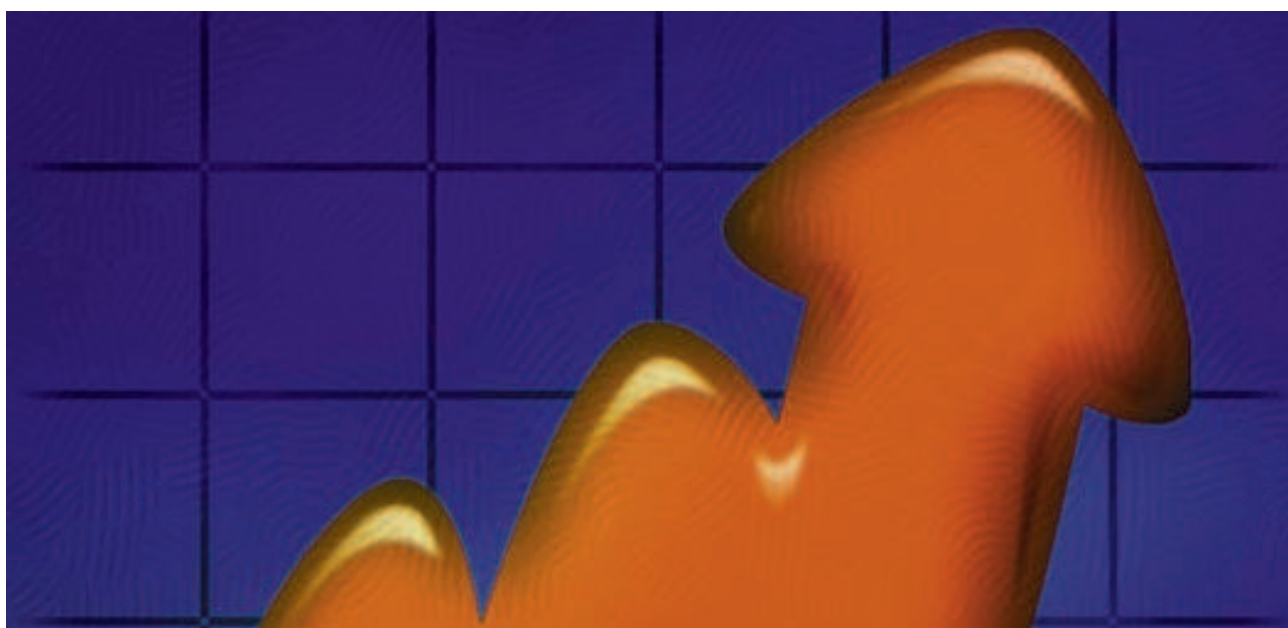
For yet another year, Life insurance companies were the main engine of growth in the insurance sector in **Colombia**. This was seen especially in the group policy line, due to an increase in the number of people paying into them and the growing massification in this class of insurance, and in Life Annuities, because of growing demand from retired people. Growth in Non-Life insurance came mainly from Automobile insurance, thanks to a higher number of insured vehicles and higher rates, and from Worker Compensation insurance.

In **Mexico**, Life insurance grew 10% (in local currency), thanks to favourable tax terms and development of the bancassurance sector. Pensions kept up the growth trend of the previous year, rising 21.2%. The Non-Life sector was affected by low growth in Automobile insurance, which stemmed from a fall in vehicle sales, and a decline in damage insurance, due to the fact that policies that one large company issued in 2007 were not to be renewed until 2009.

The economic slowdown that began in 2005 ended up hitting the insurance industry in **Puerto Rico**. Life branches posted a nominal decline of 9.4% and 16% in real terms. This resulted from a reduction in benefits that companies offered their employees and fall in the savings capacity and confidence level of consumers, as a result of the economic crisis. Property/Casualty policies fell because of price competition and the weakness of the economy. Health insurance, which accounts for more than three-quarters of premiums in the Non-Life sector, posted the largest increase of any in the market, thanks to sales of Medicare.

Revenue in the insurance sector of **Venezuela** came mainly from the purchase of policies in the state-run sector and the adjustment of rates to reflect the rate of inflation, which reached 31%. Life insurance accounts for just 2.5% of premiums. Health and Automobile insurance are the main sectors fuelling the insurance market.

Among other relevant events that took place in 2008, the following should be noted:





■ In December 2007, the agency that regulates insurance in Brazil released new rules for reinsurance. This replaced the monopoly held by IRB Brasil Re with a new free-market model. As scheduled, the opening of the reinsurance market took place on 17 April, 2008. In the first nine months of the year, IRB Brasil Re continued to account for 92% of the reinsurance premiums in that country.

■ In Costa Rica, the Law Regulating the Insurance Market was published in July 2008. It eliminated the monopoly held for 84 years by the National Insurance Institute (INS) and opened the way for local and foreign companies to offer their products in Costa Rica.

The law established a General Superintendent of Insurance, tasked with overseeing compliance with the legislation and regulations issued by the National Council for Supervision of the Financial System

² Costa Rica is not included because of a lack of data.

(CONASSIF in Spanish). The INS remains as a government-owned insurance provider, but has to meet the same pre-requisites and comply with the same rules as any other insurer in Costa Rica.

The companies that have obtained permission to operate in the Costa Rican market include Aseguradora Mundial, which is Panamanian, Alico, the U.S. firm Pan American Life, and Seguros del Magisterio, which is Costa Rican.

● In November 2008, the Argentine Congress approved a Social Security Reform law. It eliminated the system of individual capitalization, which was run by private administrators, and transferred it to a single, integrated, pay-as-you-go system that is managed by the State.

● Some countries of Latin America focused on micro-insurance as a tool to improve the living standards of the poorest sectors of their populations. There were some legislative initiatives designed to introduce this product onto the market and encourage its development.

● As for corporate activity carried out in 2008, special mention should go to –because of the size of the deal– the merger of Itaú and Unibanco in Brazil, giving rise to the largest privately owned financial group in Latin America, and the acquisition of ING Seguros, Mexico's third-largest insurance company, by the Axa group.

In the first half of 2009 the insurance markets of Latin America continued to show signs of strength, posting nominal increases in premium volume in local currency in all countries except Chile (-12.3%). Chile and El Salvador saw decreases in Non-Life branches, while Argentina, Chile and Puerto Rico did so in Life insurance.

Premium revenue as expressed in euros totalled 35,774 million, for a nominal increase of 7.4% compared to the same period of the previous year. By sub-regions, Central America posted the highest nominal rise at 19.4%, as opposed to 7.3% growth in South America. The insurance sector in Mexico rose 0.5% in nominal

terms, Puerto Rico's by 20.2% and in the Dominican Republic the increase was 13.2%. The rise in the U.S. dollar and other local currencies against the euro favoured converting premium revenue in some countries into the single European currency. However, the currencies of Argentina, Brazil, Chile, Colombia, Honduras, Mexico, Paraguay and Uruguay fell against the euro.

The biggest increase –13.2%– came in Non-Life insurance, thanks to good performances in Health, Fire and Worker Compensation branches. Automobile insurance varied greatly from country to country, and grew 0.7% for the region as a whole. Life insurance fell 2.4% as a result of lower revenue in the insurance markets of Argentina, Chile, Mexico and Puerto Rico and slower growth in the rest of the countries of the region. In the case of Argentina, the fall stemmed in part from the transfer of private pension plans from the private sector to the state; in Chile, life annuities fell 29.5%; in Puerto Rico, the decline in Life insurance is linked to the economic situation on the island; Life insurance in Mexico expanded 9.6% in local currency, so its overall decline is due to the peso's fall against the euro.

In 2009 there were two major business deals involving two of the region's largest insurance groups, the holding company Itaú Unibanco and MAPFRE:

■ In late August, Itaú Unibanco Holding and Porto Seguro announced they had signed an accord to merge their operation in Automobile and Homeowner's insurance. The deal will be implemented through a business restructuring.

■ Late in the year, MAPFRE and Banco do Brasil announced they had signed a letter of intentions to negotiate a strategic alliance to develop jointly both groups' business in insurance for Persons, General Insurance and Automobile. ■

